

Hermes International SCA

CORE HOLDING*

Recommended since 25.07.17

06.01.2023



Country	FR	Market capitalization (bn)	EUR	163.5	Perf. since reco. (%)	
Sector	Personal & Household Goods	Free float		24.6%	Hermes International SCA	258.2
Factset	RMS-FR	Closing price	EUR	1548.50	Sector	17.0
ISIN	FR0000052292	ESG Risk score*	9.4	Negligible risk		

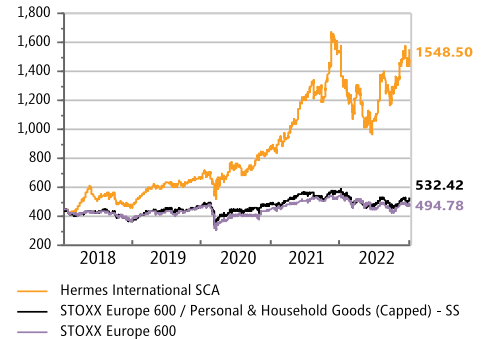
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Originally a harness and saddle maker, French firm Hermès, founded in Paris in 1837, designs, makes and sells luxury products in the fields of leather goods, ready-to-wear clothing, perfumes, watches, lifestyle accessories and tableware. Even today the company is still majority owned by the Hermès heirs (who have a 66.7% stake).

Market - competition - positions - barriers to entry

Hermès is the luxury sector pure play, positioned at the very top of the market, with a predominant share of its business in highly profitable categories: leather goods and silk. In addition to strong international expansion in its traditional businesses, the company has diversified into watchmaking and jewellery, acquiring bootmaker John Lobb, Crystal Saint-Louis and Puiforcat silversmiths.



Source: Factset

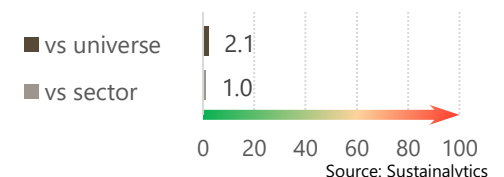
Investment case

- For the past ten years, Hermès has been riding the wave of a surge in luxury in Asia and tourist business in Europe. The luxury goods industry is benefiting from growing wealth, the rise of new middle classes in emerging countries and premiumisation. Hermès plays skilfully on the rarity, exclusivity and high desirability of its products to optimise management of its production and earnings growth. The recent years saw an excellent performance, with increased production capacity, strong volume growth and higher prices all coming fully into play. Hermès is expanding its distribution network (store openings and renovations), increasing the digitalization of its sales and diversifying its activities (Watches, Clothes/Accessories)... all growth drivers for the future. Its momentum is buoyed by strong demand, increased product offerings and new leather goods factories to better satisfy it.
- Hermès' performance in 2021 was remarkable in every respect, with record results (sales, EBIT, margin, EPS) and a contribution from all markets: the Americas (+57%), Asia (+45%) and a rebound in Europe (+37%) thanks to fewer restrictions and the reopening of stores. While Hermès has replenished its inventories at the end of 2021 to better serve high-growth countries with higher profitability this year, the increase in its production capacity is promising: opening of the Louviers leather goods plant (2022), Sormonne (2023) and a new site in (2024).
- The group's commercial momentum has remained strong in 2022 outperforming all its Luxury peers and we understand the confidence of management, which is aiming for an ambitious sales growth target for the year. Moreover, while price increases were only +3.5% this year, management expects a +5/10% level for 2023. In view of the profit growth achieved over the past 9 months, it would be normal to see the group slow down in Q4 (organic growth/sales/margin) in order to better prepare for 2023 (higher marketing expenses/stock replenishment and new product launches), even if Hermès stresses the absence of any significant change in its commercial dynamics in all its business lines, with a solid US market, the recovery in Europe (tourist flows) and the rebound in China despite the Covid. Hermès is heading for a very good year in 2022 and is already preparing for 2023. The visibility offered by a model that allows it to monitor its earnings growth is reflected in our forecasts.

ESG - risks and key points

- Thanks to its moderate exposure and sound management of the relevant issues, the company is at low risk of suffering material financial impacts linked to ESG factors.
- It is subject to a moderate level of controversy (need for a skilled workforce for its unique craftsmanship; transferring income to locations that are fiscally advantageous; human rights violations associated with leather producers and tanneries).

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in EUR

Current price	Value Bordier Scenario
1549	1'648

Our scenario takes into account 10-year interest rates in Europe at 2%, sales which, after the strong rebound in 2021, are aiming to grow by 10% in 2026, and a margin that reaches 40% by that time and then normalizes over the long term.

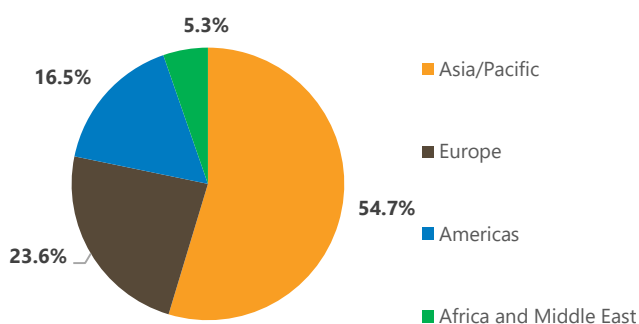
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of EUR	2020	2021	2022e	2023e	2024e
Sales revenue	6'389	8'982	11'320	12'790	14'260
Sales growth %	-7.2%	40.6%	26.0%	13.0%	11.5%
o/w organic	-8.0%	41.2%	21.0%	13.0%	11.0%
o/w perimeter	0.0%	0.0%	0.0%	0.0%	0.0%
o/w forex	-1.0%	-0.6%	5.0%	0.0%	0.0%
EBITDA	2'550	3'850	4'910	5'570	6'210
% of sales	39.9%	42.9%	43.4%	43.5%	43.5%
EBIT	2'263	3'530	4'480	5'080	5'670
% of sales	31.0%	39.3%	39.6%	39.7%	39.8%
Adjusted EPS	12.3	23.2	29.4	33.6	37.6
Adjusted EPS growth	-15.3%	88.8%	27.1%	14.0%	12.0%
FCF/Sales	15.7%	28.7%	27.0%	27.4%	27.5%
Dividend yield	0.3%	0.5%	0.7%	0.7%	0.8%
ROCE - WACC	18.8%	27.0%	27.5%	25.7%	24.0%
ROE (%)	18.8%	26.0%	26.7%	25.1%	23.6%
Net debt/Ebitda	-185.0%	-173.9%	-181.4%	-203.1%	-225.5%

Source: Factset, Bordier estimates

Sales breakdown - 12/2021



Ratios

	Hermes International SCA		Stoxx Europe 600	
		Sector	Market	
PE (x)***		Pers. & Household Goods	Stoxx 600	
2021	66.9	22.4	15.3	
2022e	52.6	20.8	12.6	
2023e	46.1	19.4	12.6	
P/B (x)***				
2021	17.4	4.3	2.0	
2022e	14.0	4.2	1.8	
2023e	11.6	3.8	1.7	
Beta (2Y, daily) vs market:			0.65	

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Governance and ownership structure

Since 2013, CEO Axel Dumas.

Agenda

FY results on 02/17/2023

Key shareholders (if any):

Holdings H51, H2 & other Hermès family hold 66.7% of the capital and 78.5% of voting rights.

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

Hermès is a partnership limited by shares with a supervisory board (Chairman Eric de Seynes) and a CEO (Axel Dumas).

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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