

Luxury Goods - Timely & Priceless

News & Valuation

The week that was

- **The European Luxury Goods sector** was down 4% last week, in line with the market, pulled up by Burberry (+14%) which surprised positively on Oct-Dec 08 Sales. However, Richemont, the first European Luxury name to report calendar Q4 trading, came out worse than expected. Combined with Richemont management comments that they assumed no ST recovery and saw 'no cause for optimism', this weighed on sentiment and triggered cuts to earnings and PT in the sector. **PPR** (-12%) was the worst performer.
- **Richemont** (-2%) reported worse than expected Q3 09 Sales, down 12% in cstt crry with a worsening trend over the quarter (JPME Dec 08 down c17% in cstt crry vs Oct down 2%). All regions reported a decline in u/l sales and deteriorated since Oct 08. Unsurprisingly, Americas deteriorated most, however the negative surprise was the sharp deterioration in Asia ex-Japan, with China notably strongly decelerating since Oct. Europe showed more resilience thanks to growth in the ME while Western Eur deteriorated. Per division, the key Jewellery and Specialist Watches divisions posted much lower than expected cstt crry growth. Alan Grieve, Richemont spokesman, commented on the newswires that the group might be interested in some companies in watchmaking but also in other areas. Norbert Platt, CEO of the group, was interviewed saying the group may resort to temporary layoffs ; jobs have already been suspended at Cartier.
- **Echoes from the Geneva Watch fair (SIHH)**. The attendance level was down c20% according to B Fornas, CEO of Cartier, who commented however that he was 'serene' about orders and that buyers focused notably on higher-priced products (>SF10,000). Mr Fornas added that sales in the ME, China and Russia had continued to do well but the US had remained tough. He anticipates Cartier to gain market share in the crisis, with consumers likely to favour strong brands. Mr Torres, CEO of Vacheron Constantin, said orders were at 2007 levels, which were already record high.
- **Burberry** (+14%) reported better than expected Q3 09 Sales, +9% u/l, +30% reported. The positive surprises stemmed from both Wholesale, with sales +8% u/l, and Retail, with sales +12% u/l. Retail LFL down 3% was a slight improvement on the MSD LFL decline reported over the first 6w of Q309 thanks to improved performance in Dec, boosted by strong promotional activity and tourist spending in Europe. Management also announced £30-35m additional savings in FY March 10, bringing the total to c£50m. However, demand for Wholesale in-season reorders has been lower than expected in the US and Spain and H2 09E u/l sales are expected down HSD. Guidance was also lowered on Licensing, to u/l down HSD in FY09E owing to deterioration in Japan apparel and non-apparel. In the Japanese press, CEO A Ahrendts was interviewed saying that Burberry targeted, through its JV with licensing partners Sanyo Shokai and Mitsui & Co, at least 50 openings within the next five years of shops in Japanese Dpt Stores selling shoes, belts and other non-apparel products.
- **Swatch's** (0%) CEO Nick Hayek commented in the press that the group's

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Luxury Goods

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Forex Watchdog

Forex	Value	Up/Dwn	Week %
\$/€	1.28	▲	3.5%
Yen/€	114.35	▲	4.8%
Yen/\$	88.82	▲	2.0%
SF/€	1.50	▲	0.8%
€/£	1.07	▲	5.6%

Source: Datastream, JPMorgan

presence in the low-price segment would help them vs a pure luxury player. Swatch will also keep expanding in most markets except the US and Japan, benefiting from lower real estate prices. The CEO qualified the reaction to the financial crisis as “hysterical” in the US. While Swatch is not looking for acquisitions, the group would help an “interesting company asking for help”.

- **LVMH's** (+1%) Y Carcelle, CEO of Louis Vuitton, commented on the newswires that the brand had experienced “no bad surprises in Xmas trading, which held up well in the US”. B Arnault, CEO of LVMH, and F-H Pinault, CEO of PPR, reportedly met privately last week to ‘end a decade-long feud’.
- **Roberto Cavalli** confirmed he was in talks to sell 15-20% of his fashion label to private equity firm Clessidra SGR. **Salvatore Ferragamo** plans to reduce store openings by half to c20 stores this year. The brand will keep prices stable except in Japan where prices will be cut 5-10%. Dec sales were better than expected thanks to discounts.
- **In Japan, Miki Corp**, the country’s largest chain of jewellery shops, filed for bankruptcy protection. Exhibitors attending the Intl Jewellery Tokyo fair commented that the focus among buyers was on ranges of “defensive jewellery” rather than highest-end ranges.
- **A survey reveals that Chinese New Year (26th Jan) retail spending may be subdued**, with over 45% of consumers expecting no or a lower bonus this year. The survey, conducted by Data Driven Marketing Asia in the last two weeks of Dec, also shows that 48% of consumers plan to reduce spending on luxury items in 2009, and that 42% plan to reduce or delay leisure travel.
- **In the US, Coach** (-15%) reported Q2 09 EPS down 14% to 67 cents. The group had already announced group sales down 2% in Oct-Dec 08 and North Am SSS -13%. The group also announced it will lower prices by 10-15% in H209 and FY10 through product mix and halve expansion plans in North Am to 20 stores in FY10. On a positive note, traffic in full-priced North Am stores was said to have stabilized in the weeks since the Xmas holidays.
- **Within Sporting goods, adidas** (0%) management reiterated FY08 guidance of cst crry sales up HSD, EBIT margin c10% and net income growth at least 15%. Management added that the group would have limited requirement to refinance debt since only a small part will expire in 2009.

The week ahead

- **Thurs 29th Jan – Swatch FY 08 Sales** – We expect FY 08 Sales up 7% in cst crry and up 3% on a reported basis to SF6100m.
- **Thurs 29th Jan – Bulgari FY 08 Sales** – We expect FY 08 Sales flat in cst crry and up 1% on a reported basis to €1099m.
- **Fri 30th Jan – Tod’s FY 08 Sales**

Quote of the week

“Given the current economic environment climate and the uncertainties facing us, we see no cause for optimism. We must assume that there will be no significant recovery in the foreseeable future and plan accordingly.”

*Richemont Q309 Trading Statement
19th January 2009*

Sector Valuation Tables

Luxury Goods Valuation Table

Company	Target Price	Recommendation	Traded Currency	Reported Price	Reported Currency	FV/Sales					FV/EBITDA					FV/EBITA					P/E					FCF yield				
						2006	2007	2008	2009E	2010E	2006	2007	2008	2009E	2010E	2006	2007	2008	2009E	2010E	2006	2007	2008	2009E	2010E	2006	2007	2008	2009E	2010E
Richemont Luxury	27.0	O/W	CHF	17.2	EUR	2.7	2.9	1.0	0.9	0.8	12.5	12.2	4.5	4.2	3.2	14.6	14.1	5.4	5.3	4.2	18.4	17.4	7.4	8.0	7.4	4%	4%	8%	11%	14%
Richemont Group	N/A	N/A	CHF	17.2	EUR	na	na	na	na	na	12.6	12.7	na	na	na	13.8	13.9	na	na	na	16.8	16.9	na	na	na	4%	3%	na	na	na
LVMH	58.0	O/W	EUR	41.1	EUR	2.8	2.7	1.4	1.4	1.3	11.7	11.1	6.1	6.0	5.5	13.4	12.6	6.9	6.9	6.3	21.3	20.1	9.3	9.5	8.8	4%	4%	8%	9%	12%
PPR	60.0	N	EUR	37.4	EUR	1.0	1.2	0.6	0.5	0.5	12.3	11.0	10.5	11.1	5.3	13.4	13.7	6.5	6.6	6.4	18.1	17.5	5.4	5.7	5.5	6%	7%	11%	14%	14%
Swatch	160.0	O/W	CHF	126.2	CHF	2.2	3.0	0.9	0.9	0.8	9.6	12.2	3.6	3.9	3.3	11.5	14.2	4.5	4.9	4.1	15.3	18.5	7.9	8.0	7.3	4%	2%	11%	13%	12%
Burberry	350.0	O/W	£	239.8	£	2.6	3.0	1.1	1.0	1.0	11.6	13.7	5.7	5.4	4.8	13.5	16.0	6.9	6.6	5.9	17.5	20.6	8.8	8.4	7.7	4%	-1%	-2%	9%	13%
Bulgari	4.2	N	EUR	3.3	EUR	3.0	3.2	1.2	1.1	1.1	15.6	16.6	6.9	7.0	6.4	19.4	21.0	9.6	9.9	8.8	21.8	21.6	8.4	9.7	8.8	3%	0%	-4%	8%	12%
Tiffany	N/A	N	US\$	21.2	US\$	2.1	2.3	1.0	1.0	1.0	9.7	10.2	4.4	5.0	5.5	12.3	12.5	5.4	6.2	6.8	18.5	19.4	7.9	8.7	9.5	1%	3%	7%	6%	8%
Hermes	53.0	U/W	EUR	76.8	EUR	4.7	5.6	4.3	4.0	3.8	15.8	19.4	15.3	14.8	13.7	17.7	22.0	17.6	16.8	15.6	30.0	34.3	27.9	26.7	25.0	2%	2%	1%	2%	3%
Coach	N/A	N	US\$	14.4	US\$	5.5	5.5	1.3	1.3	1.4	13.9	13.3	3.5	4.0	4.6	15.1	14.4	3.8	4.5	5.2	23.9	23.3	7.1	7.2	7.4	3%	3%	10%	9%	7%
Christian Dior	50.0	N	EUR	35.4	EUR	1.8	1.8	1.2	1.1	1.1	7.6	7.4	5.0	5.1	4.7	8.7	8.4	5.8	5.9	5.5	17.9	18.3	6.6	6.7	6.3	11%	9%	24%	29%	34%
Average						3.2	3.5	1.5	1.5	1.4	12.6	13.6	6.2	6.3	5.9	14.7	15.8	7.5	7.6	7.1	20.8	21.9	10.6	10.8	10.3	3%	2%	5%	8%	10%
Average excl Hermes						3.0	3.2	1.1	1.1	1.0	12.1	12.8	4.9	5.1	4.8	14.3	15.0	6.1	6.3	5.9	19.5	20.1	8.1	8.5	8.1	3%	2%	5%	9%	11%
European Average excl Hermes						2.7	3.0	1.1	1.1	1.0	12.2	13.2	5.3	5.3	4.6	14.5	15.6	6.6	6.7	5.9	18.9	19.6	8.4	8.7	8.0	4%	2%	4%	10%	12%

Source: Datastream, JPMorgan, Prices as at close of business 23 January 09.

Luxury Goods Share Price Performance Table

Absolute																
Share price performance	CDI	LVMH	CFR	RMS	BUL	TOD	BRBY	UHR	PPR	Euro avg.	TIF	COH	RL	SAKS	Nordstrom	
last week	-5%	1%	-2%	-11%	-8%	-11%	14%	0%	-12%	-4%	-7%	-15%	-7%	-23%	2%	
last 2 weeks	-13%	-11%	-15%	-19%	-19%	-12%	7%	-12%	-18%	-12%	-5%	-20%	-9%	-35%	-5%	
last month	-11%	-8%	-14%	-24%	-24%	-14%	8%	-12%	-18%	-13%	-6%	-28%	-11%	-34%	15%	
last 3 months	-19%	-19%	-30%	-11%	-42%	-25%	-6%	-29%	-9%	-21%	-11%	-25%	-10%	-54%	-21%	
last 6 months	-48%	-41%	-37%	-21%	-53%	-24%	-50%	-49%	-47%	-40%	-43%	-46%	-37%	-75%	-54%	
last 12 months	-49%	-36%	-33%	22%	-55%	-30%	-37%	-54%	-56%	-35%	-46%	-51%	-38%	-85%	-63%	
Year to date	-12%	-14%	-15%	-23%	-25%	-12%	8%	-13%	-20%	-14%	-10%	-31%	-16%	-87%	-64%	
Relative																
Share price performance	CDI	LVMH	CFR	RMS	BUL	TOD	BRBY	UHR	PPR	Euro avg.	TIF	COH	RL	SAKS	Nordstrom	
last week	-1%	5%	2%	-7%	-4%	-7%	19%	4%	-8%	0%	-5%	-13%	-5%	-21%	5%	
Last 2 weeks	-2%	0%	-4%	-9%	-9%	-1%	20%	-1%	-8%	-2%	1%	-15%	-2%	-31%	2%	
last month	-5%	-2%	-8%	-19%	-19%	-8%	15%	-6%	-13%	-7%	-2%	-25%	-8%	-31%	19%	
last 3 months	-12%	-12%	-24%	-3%	-37%	-19%	3%	-23%	-1%	-14%	-3%	-18%	-2%	-50%	-14%	
last 6 months	-24%	-14%	-8%	17%	-30%	11%	-26%	-25%	-22%	-12%	-14%	-18%	-4%	-63%	-31%	
last 12 months	-20%	0%	5%	91%	-29%	10%	-2%	-28%	-31%	2%	-13%	-21%	0%	-76%	-41%	
Year to date	-3%	-6%	-7%	-16%	-18%	-3%	19%	-5%	-12%	-6%	-3%	-25%	-9%	-86%	-61%	

Source: Datastream * Richemont Luxury on Datastream adjustment.

Sporting Goods Valuation Table

	Price	Rec.	Target Price	P/E					EV/EBITDA				
				2005	2006	2007	2008	2009E	2005	2006	2007	2008	2009E
Nike CY (\$)	46	na	na	16.6	14.8	15.4	12.2	11.5	9.6	8.9	8.5	7.4	6.7
adidas Group (€)	26	N	37.0	15.8	17.2	10.0	8.4	7.4	7.8	10.0	6.3	5.5	4.7
PUMA (€)	143	N	181	11.8	17.5	8.5	8.5	8.0	7.0	10.7	4.5	4.5	4.0
Average				14.4	15.6	11.1	9.5	8.8	8.1	9.9	6.4	5.8	5.1

Source: Datastream, JPMorgan, Prices as at close of business 23 January 09, Nike: Bloomberg consensus for FY08E and FY09E.

Sporting Goods Share Price Performance Table

Absolute			
Share price performance	NIKE	adidas Group	PUMA
last week	-2%	0%	-8%
last 2 weeks	-8%	-7%	-10%
last month	-5%	-1%	1%
last 3 months	-10%	-11%	4%
last 6 months	-20%	-32%	-35%
last 12 months	-21%	-32%	-39%
Year to date	-10%	-4%	-5%
Relative			
Share price performance	NIKE	adidas Group	PUMA
last week	0%	4%	-4%
Last 2 weeks	-1%	5%	1%
last month	-1%	6%	7%
last 3 months	-2%	-4%	14%
last 6 months	18%	-1%	-5%
last 12 months	28%	6%	-4%
Year to date	-3%	5%	4%

Source: Datastream.

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