

## Salvatore Ferragamo **SALVATORE FERRAGAMO (BIT: SFER) 9M16 RESULTS: TOP LINE IN LINE DESPITE WHOLESALE WEAKNESS**

	9M16	9M15	YoY Change
Revenues (EUR Bil.)	€1,014	€1,021	(0.7)%
Gross Margin	67.0%	65.8%	119 bps
SG&A/Sales	51.2%	49.7%	145 bps
Operating Margin	16.8%	17.0%	(23) bps

Source: Company reports/Fung Global Retail & Technology

- **Milan-listed luxury group Salvatore Ferragamo reported a 0.7% slide in revenues in the nine months ended September 30, 2016. Revenues were virtually in line with the consensus estimate.**
- **Operating costs grew by 2.2%, leading to a 2.1% fall in operating profit, which came in marginally behind analysts' expectations.**
- **Wholesale revenues were the weak spot, with a major sequential weakening in 3Q16. US wholesale revenues slumped 26% in 3Q16. This performance in wholesale mirrors that reported by some other luxury firms recently.**

### 9M16 RESULTS

Luxury group Salvatore Ferragamo reported 9M16 revenues of €1,014 million, virtually in line with the consensus estimate of €1,017 million.

Operating costs rose by 2.2%, in part due to managerial charges pushing costs up by 7% in 3Q16. Dwindling sales and higher costs resulted in operating margins slipping by 23 basis points.

Pretax profit fell by 3.9%, coming in at €158 million, below consensus of €165 million. Similarly, net income of €110 million was below the expected €115 million.

The company did not report earnings per share.

### PERFORMANCE BY SEGMENT

All data below are at constant exchange rates.

By region, the company noted the following revenue trends in 9M16:

- Europe fell by 4.8% and the US fell by 3.9%.
- Japan tumbled 9.1% while the rest of the Asia-Pacific region, which is the largest contributor to group sales, dropped 4.1%. The company observed that "business in Hong Kong remained negative, even if less negative than in the past," while Chinese revenues were up 3%, including an acceleration in 3Q16.
- These declines were only partially offset by a 12.8% jump in Central and South America; this region contributed just 5% of group revenues.

By channel, the company reported the following:

- Retail sales fell by 2.1%. Retail sales contributed 63% of group revenues.



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- Wholesale revenues declined by 7.3%, mirroring the weak wholesale performances reported by other luxury firms in recent months, including Burberry last week. Wholesale contributed 35% of group revenue.
- Revenue from licenses and services fell by 4.5%, while rental income grew by 0.1%. These segments each contributed 1% or less of group revenue.

Finally, by product category, Salvatore Ferragamo noted the following revenue performances:

- Footwear sales fell by 2.7%. Footwear is the company's largest category, contributing 43% of revenue.
- Leather goods sales declined by 4.7%, and contributed 36% of total revenue.
- Apparel sales and accessories sales each slid by 7.0%.
- Fragrances declined by 3.0%.

### 3Q16 RESULTS

The company provided only a top-line update for the third quarter:

- Total revenues rose by 1.7%, to €304 million, but at constant exchange rates, revenues fell by 6.2%. Analysts had penciled in revenues of €307 million.
- At constant exchange rates, the retail business grew revenues by 0.1% in 3Q16, a better performance than in 1H16. However, wholesale fell sharply, by 18.6%, and this marked a severe sequential weakening from a 3.0% decline in 1H16.
- Europe saw retail sales fall by 6% and wholesale revenues fall by 12%. Wholesale weakened from 1H16.
- North America posted a total revenue decline of 7% at constant exchange rates, with wholesale plunging 26% and retail up 7%.
- Asia-Pacific ex Japan revenues were down 3% in 3Q16. In Hong Kong, retail declines eased to (15)% from (24)% in 1H16, at constant exchange rates. In China, retail revenue growth accelerated to 11% in 3Q16, at constant exchange rates. No wholesale figures were provided for these regions.
- Japan revenues fell by 17% at constant exchange rates, with the company noting demanding comparatives from 3Q15. No wholesale/retail split was provided.
- Central and South America revenues jumped 15% at constant exchange rates. No wholesale/retail split was provided.

### OUTLOOK

The company offered no guidance. For FY16, analysts expect total revenues to nudge up 0.6%, to €1.44 billion. Consensus calls for EBIT to rise by 2.3% and GAAP EPS to climb by 3.7%, according to S&P Capital IQ.



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