

FLASH REPORT


**(STO: HM-B) 3Q17 Results: Sales Below Expectations**
**Figure 1. H&M 3Q17 Key Metrics**

	3Q17	3Q16	YoY Change
Revenues (SEK Bil.)	51.2	49.0	4.6%
Gross Margin	51.4%	54.0%	(260) bps
SG&A/Sales	41.8%	41.3%	50 bps
Operating Margin	9.6%	12.8%	(320) bps
Diluted EPS (SEK)	2.32	2.91	(20.3)%

*Source: Company reports/FGRT*

- Swedish fashion retailer H&M reported SEK 51.2 billion in net sales in 3Q17, below the consensus estimate of SEK 52.0 billion and up 4.6% year over year. Constant-currency sales increased by 4.0% in 3Q17.
- The company's gross margin contracted by 260 basis points year over year, to 51.4%. Diluted EPS was SEK 2.32, down 20.3% year over year and below the consensus estimate of SEK 2.37.
- Autumn collections were off to a good start, although sales slowed somewhat toward the end of September, which falls within 4Q17. The company stated that sales for the period did not develop in line with group targets.

**3Q17 Results**

Swedish fashion retailer H&M reported SEK 51.2 billion in net sales in 3Q17, below the consensus estimate of SEK 52.0 billion and up 4.6% year over year. Constant-currency sales increased by 4.0% in 3Q17. The company did not provide comparable-store sales growth rates, but new store growth implies ongoing negative comparable-store sales. The company stated that sales for the period did not develop in line with group targets.

The company's gross margin contracted by 260 bps year over year, to 51.4%, and the SG&A margin increased by 50 bps, to 41.8%. The adjusted operating margin contracted by 320 bps year over year, to 9.6%. Diluted EPS was SEK 2.32 for 3Q17, down 20.3% year over year and below the consensus estimate of SEK 2.37.

In 9M17, the company opened a net 202 stores, including 171 H&M stores, 21 COS stores and 11 & Other Stories stores. In 3Q17, H&M successfully launched a new brand called Arket with stores in London, Copenhagen and Brussels, as well as online in 18 markets.

**Outlook**

The company is targeting a 10%–15% increase in group sales in constant currencies going forward. Management estimates that online sales will grow by at least 25% annually going forward and that online sales already account for 25%–30% of total sales in some markets.

For FY17, the company plans to open 385 net new stores. A new Arket store will open in Munich in autumn 2017.



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The company will open online stores in Cyprus and the Philippines in 4Q17. The rollout of online markets will continue during FY18 including India. The company plans to offer e-commerce in all of the markets where it has stores in the future.

New H&M store markets planned for 2018 are Uruguay and Ukraine. New Arket stores will open in Stockholm and Amsterdam in spring 2018.

The consensus estimate for FY17 revenue stands at SEK 205.2 billion, implying year-over-year growth of 6.7%. Consensus expects H&M's operating profit to be SEK 23.1 billion, implying an operating profit margin of 11.2%. The FY17 EPS consensus estimate is SEK 10.83, implying a year-over-year EPS decrease of 3.8%.



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