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Burberry's Stagnating Sales Show End to Luxury Boom

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Burberry Group Plc's (BRBY) flagging sales growth suggests an end to a three-year rally in the luxury-goods industry as wealthy shoppers cut back on past indulgences.

Cie. Financiere Richemont SA, (CFR) Prada SpA (1913) and LVMH Moet Hennessy Louis Vuitton SA (MC) are among companies at the greatest risk of seeing growth shrivel as weakening economies take a toll on demand for expensive apparel and accessories, according to John Guy, an analyst at Berenberg Bank in London.

Burberry, the U.K.'s largest luxury-goods company, said yesterday that full-year profit will disappoint investors after same-store revenue stalled in the last 10 weeks, sending the shares down the most ever and erasing 1.27 billion pounds ($2.04 billion) in market value. Richemont, Prada, LVMH and Gucci-owner PPR SA (PP) also tumbled on concern that the slowdown may not be confined to London-based Burberry as shoppers in China and Korea become more timid about splashing out.

"Asia is carrying the luxury industry today, so any change in the pace of evolution there is going to affect the entire industry," said Uché Okonkwo, executive director of Paris-based consultancy Luxe Corp. The region is "not as easy to crack as it used to be so brands need to adjust."

Luxury companies rebounded after the 2008 collapse of Lehman Brothers Holdings Inc., enjoying a surge in demand for $4,100 green python shoulder bags and Rolex watches among the world's wealthiest shoppers. The Bloomberg European Fashion Index had advanced 22 percent this year before yesterday. The measure was little changed last year after advancing more than 60 percent in 2010 and 2009.

'Not Alone'

"We know we are not alone in terms of what we've seen in the last couple of weeks," Burberry Chief Financial Officer Stacey Cartwright said in a phone interview yesterday, citing conversations with other luxury-goods makers. Burberry's adjusted net income has grown by more than 10 percent each year since 2009, according to Bloomberg data.

Burberry fell 21 percent to 1,088 pence in London yesterday, the steepest drop since the company's 2002 initial public offering. The stock rebounded slightly today, gaining 0.7 percent to 1,096 pence as of 8:54 a.m.

LVMH declined 3.4 percent to 127.8 euros in Paris trading yesterday, Richemont fell 5.1 percent to 60.85 Swiss francs in Zurich and Prada slid 6.3 percent to HK$60 in Hong Kong.

Tiffany & Co. (TIF), the world's second-largest luxury jewelry retailer, reduced its full-year profit forecast on Aug. 27 amid weaker sales growth. Harry Winston, a Canadian diamond-mining company and jewelry retailer, said last week that demand for luxury products has slowed because of economic instability in Europe and lower growth in export-driven emerging markets.

Travel Budget

"If you have companies like Burberry, Tiffany and Harry Winston talking about a slowdown, then it's not company specific," said Patrik Schwendimann, head of consumer-goods research at Zuercher Kantonalbank.

The slowdown at Burberry has been "broad-based in all of the regions," Cartwright said. Burberry got 37 percent of sales from the Asia-Pacific region last year, according to Bloomberg data. Europe accounted for 32 percent and the Americas generated 25 percent. Adjusted pretax profit for the year through March will be at the lower end of analyst estimates ranging from 407 million pounds to 454 million pounds, Cartwright said.

Some of the weakness in Burberry's sales may have been "self-inflicted," according to Guy, who cited the company's attempts to move upscale by cutting some opening-price-point products, particularly in the U.S.

Burberry said it is "taking appropriate actions to protect short-term profitability," including clamping down on discretionary expenses in areas such as hiring and travel.

Euro Boost

Luxury-goods makers with relatively high fixed-cost bases and low operating expenses as a percentage of sales have less room for maneuver if demand softens, Guy said.

Richemont's operating expenses as a percentage of sales is about 41 percent, compared with an industry average of about 45 percent, according to the analyst. Prada has a ratio of about 35 percent, compared with Burberry's 52 percent, he said.

Paul Michon, a spokesman for PPR, declined to comment, as did an external spokesman for LVMH. Alan Grieve, a spokesman for Richemont, also declined to comment.

Richemont said last week that sales increased 13 percent, excluding currency shifts, in the five months through August, unchanged from the rate of the first four months, as a decline in the value of the euro led wealthy Asian visitors to spend more on luxury goods in Europe.

"The story's very different for Richemont," said Rene Weber, analyst at Bank Vontobel in Zurich. "Its organic growth in August was the same as from April to July, so it's not a clear read-across from Burberry."

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