Chinese demand boosts Capri, sneakers, mini bags and totes are key

By Sandra Halliday - 6 November 2020

Total revenue and profits may have slumped at Capri holdings in the latest quarter, but the owner of Michael Kors, Versace and Jimmy Choo was upbeat as Chinese demand recovered strongly.
And in a conference call following the release of its Q2 results, the company had plenty to say.

But first the figures. Total revenue fell to $1.11 billion in the second quarter to September 26 from $1.44 billion a year earlier, due to falling retail demand. Adjusted net income fell to $73 million from $122 million.

For the year, it now expects a 30% revenue drop (better than previously predicted) with Q3 to continue improving and a bigger recovery in Q4. That view also takes into account short-term stores closures in Europe.

Chairman and CEO John D Idol was upbeat and said that “as we look forward, we are increasingly optimistic about the outlook for the fashion luxury industry. Luxury is enduring as it creates an emotional connection with consumers. The industry has proven resilient with sales historically recovering rapidly following economic downturns and global health crises”.

And he stressed that current trends indicate luxury sales are quickly rebounding. It seems that the luxury goods sector is also benefiting from some of the negative effects of the pandemic. “We believe consumers are spending at higher rates on luxury products, as there has been reduced spending on experiences due to travel restrictions,” Idol explained.

He said Q2’s 23% revenue decline “exceeded our expectations [and] was a substantial improvement compared to the first quarter”.

Sales in the retail channel fell 17% but Capri was “particularly pleased with our robust e-commerce growth, which accelerated sequentially and grew 60% compared to prior year. Store performance also improved sequentially, driven by local clientelling initiatives”.

A model wearing a colorful striped outfit walks the runway. The model has a serious expression and is carrying a black purse.
Meanwhile, in the wholesale channel, performance at the point-of-sale also continued to improve, “but tracked lower than our own store performance”.

And by geography, Capri is seeing the fastest recovery in Asia, led by Mainland China with positive sales in its retail channel across all three of its luxury labels.

While Europe and the Americas were weaker in the quarter, Idol added that “revenue in the Americas is recovering faster than we anticipated, with sales in our retail channel increasing double-digits at Versace, low-single-digits at Jimmy Choo and a slower recovery at Michael Kors”.

EMEA also “improved sequentially, but sales across all three brands trailed other regions, given the impact of lower tourism and its importance in this geography”.

THE BRANDS

Looking at the individual brand performances, Versace revenue was $195 million, a 14% drop. But its results are reported on a one month lag so Q2 included June, a month still hurt by store closures.

It saw global e-commerce sales up in “triple-digits, while sales in our retail channel in Mainland China increased in the high-single-digits, and in the Americas, increased by robust double-digits. Revenue in EMEA and the balance of Asia improved sequentially, though trends remained below [the] prior year,” Idol said.

The firm saw strength across the brand, particularly in menswear and fashion athletic footwear. It also continued to see strong consumer response to logo products.

Within women’s ready-to-wear, consumers “responded to Donatella’s fall/winter collection that channelled power and strength by featuring broad shoulders and cinched waists”.

The company’s launch of the Versace Dylan Turquoise scent with a campaign fronted by Hailey Bieber seems to have gone well and the brand’s fragrance sales saw a strong sequential improvement during the quarter.

Versace also excelled on social media during the period and the September 25 SS21 show in Milan saw Versace generating over one million total views through its own channels, and it was “the #1 engaged brand on social media during Milan Fashion Week”.

Meanwhile at Jimmy Choo, revenue was $122 million, a 2% fall, but Idol said he’s “pleased with the sequential revenue improvement in the second quarter”. E-commerce sales increased in triple-digits. Retail sales in Mainland China grew in strong double-digits, and in the Americas, in low-single-digits. Trends in EMEA and the rest of Asia are improving but remain down.

However, the company is encouraged with the performance of Choo’s expanded accessories assortment, with particular strength in totes and mini bags.
It's no surprise that in footwear, trainers continued to outperform. And the company sees a “significant opportunity to expand Jimmy Choo's casual footwear assortment beyond sneakers, as demonstrated by our recent collaboration with Timberland that resulted in almost a 100% sell-through”. The $5,000-plus all over Swarovski crystal-embellished version sold out immediately.

“The success of this collaboration demonstrates the power of the Jimmy Choo brand and the vision of Sandra Choi in the casual footwear arena,” Idol said.

He added that the brand has seen strong sales results in booties, including the Cruz boots, in styles adorned with crystal or pearl detailing to help glam-up casual styles.

The recent launch of the the label’s first luxury beauty line that includes lipstick, nail polishes as well as fragrances at Harrods has also seen sales exceeding expectations.

The group now expects Choo revenues to grow by around $500 million in the next few years.

Over at Michael Kors, revenue of $793 million declined 27% compared to last year. Retail sales improved sequentially and decreased in the high teens. Idol said he’s “pleased with the pace of the recovery” with Q2 revenue improving and higher gross margins.

E-commerce sales increased in "strong" double-digits, and retail sales in Mainland China increased in high-single-digits. Other regions are still down but are improving.

The company said it's encouraged by the initial performance of the fall collection and that signature accessories remain strong “as consumers respond to newness”. It continues to see strength in large handbags, totes and backpacks, and in footwear, it saw strong performance in fashion active. Additionally, the men's business continues to perform well, driven by accessories and outerwear.

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