H&M says current sales are weak, profits devastated by crisis last year

By Sandra Halliday - 29 January 2021

H&M Group’s Q4 report on Friday showed a big profits fall, but one that wasn’t quite as big as analysts had been expected as it managed its way through the tough September-November quarter.

But it said the ongoing effects of the pandemic will continue to hurt it in the current fiscal first quarter with its sales from December up to January 27 being down 23% so far in local currencies.

Pre-tax profits for Q4 fell to SEK3.67 billion ($439 million) from SEK5.4 billion a year earlier. The gross margin fell to 52.1% from 54% and post-tax profit dropped to SEK2.485 billion from SEK4.212 billion.

That came as net sales had dropped 10% in local currencies to SEK52.549 billion as a strong recovery at the start of the quarter was derailed by the imposition of further pandemic restrictions. At most however, only 20% of its roughly 5,000 stores were closed.

The Q4 figures drew a line under a year that was massively challenging as full-year net sales fell 18% in local currencies to SEK187 billion. The rot had set in during Q2 when the pandemic first hit and, at the height of the crisis, 80% of its stores were temporarily shut. Considering it’s the second largest fashion retailer globally, that adds up to thousands of locations with the ‘closed’ sign on the door.

Full-year pretax profit fell to SEK2.05 billion from SEK17.4 billion. Post-tax profit for the year was SEK1.243 billion, down sharply from SEK13.443 billion a year earlier. The gross margin fell to 50% from 52.6%.

The company refocused on digital during the year, although analysts have said it needs to accelerate its digital shift. Emily Salter at GlobalData says it’s continuing “to play catch-up with its digital proposition, [as] online sales accounted for 28% of the group’s total sales in FY2019/20”.

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Though this is a significant improvement versus the last financial year, she says it “faces increasing competition in Europe and the US from players such as ASOS and Zara as they hone their digital offers.”

But she still thinks stores will count. “The group’s previous strategic plan of focusing on online, increasing the efficiency of its supply chain and the fine-tuning of its physical network was the right strategy, but if it had been put in place earlier it could have better mitigated the impacts of Covid-19,” she said.

“Optimising its store estate will be key in FY2020/21, with a net 250 stores expected to close versus only 58 net closures in FY2019/20. The focus needs to be on elevating its remaining stores, as well as more closely associating them with one of H&M’s other priorities: sustainability”.

Yet CEO Helena Helmersson was cautiously upbeat, saying: “With strong, profitable online growth and good cost control we succeeded in ending the year in profit and with a strong financial position. Taking decisive measures quickly, combined with an attractive customer offering, led to a better recovery than expected up until the second wave of the pandemic struck.

"Our measures to mitigate the negative effects of ongoing restrictions and closures are continuing. Although the situation at the time of writing is highly challenging, the H&M group stands strong".

Helmersson added: “The recent years’ transformation initiatives and investments, focusing on digital, have been especially important for managing the crisis and this work is continuing at full speed. Customers are showing us clearly that they appreciate a convenient and inspiring experience in which the channels interact and strengthen each other. We are continuing our initiatives for digital growth, integration of the channels and optimisation of the store portfolio.

"Speed and flexibility will be even more important going forward, particularly in the supply chain, to ensure the best customer offering and increase availability in all channels".

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