Ferragamo aims to double sales mid-term but warns of China hit

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Revenues at Italian luxury group Salvatore Ferragamo beat market forecasts in the first quarter despite a decline in retail sales in China because of new COVID-19 restrictions, and the group said it expected to double sales in the medium term.

The leather goods maker, famous for making shoes for Hollywood stars such as Audrey Hepburn, said sales had risen by 21% at constant exchange rates in the first quarter to 289 million euros ($304.72 million) - above an analyst average estimate of 273 million euros.

That was due to a strong performance in Europe and the United States. However, sales were down by 2% in the Asia Pacific region, and the group said retail sales had fallen from the same period of 2021 in China. Operating profit totalled 24 million euros from 7 million euros a year earlier.

China's zero-Covid policy with heavy restrictions in place in the luxury hub of Shanghai and other cities is set to jeopardise the industry's second quarter performance in a key market, where currently around 50% of luxury stores are closed or operating with reduced traffic, according to a Barclays report.

Analysts say sales in the country could fall by 30 to 50% in the three months to end-June.

Ferragamo CEO Marco Gobbetti said that the group expects to increase revenues this year despite "the rising geopolitical and economic volatility."

Outlining his strategy, Gobbetti - who joined in January from Burberry - said the group aimed to double the marketing and communication spending share of total revenues from 2023, and targeted 400 million euros in investments in 2023-26, focusing on store renovations, technology and supply chain. Ferragamo also aims to lure younger consumers as part of its revamp.
The group has been underperforming rivals due to lower investments, low online penetration and a product offer perceived as old-fashioned, in addition to a high exposure to travel spending particularly hit by the pandemic.

Analysts generally expect the turnaround to be led by Gobbetti to take time before bearing fruit.

Worries that the curbs in China - where Ferragamo made 30% of its sales in 2021 - could last longer than initially hoped for have triggered a sell-off in luxury stocks, with the family-owned Tuscan group among the hardest hit.

Its shares have fallen 40% since the start of the year, compared to a 24% decline for industry leader LVMH, and shed more than 7% before the results on Tuesday.

That has helped rekindle rumours of a possible takeover, which the Ferragamo family categorically denied on Monday. The announcement that Gobbetti would join as CEO had already dampened M&A speculation at the end of last year.