Capri Holdings and Ralph Lauren see strong Q1 demand, but profits are hit

By Sandra Halliday  -  9 August 2022

Results released on August 9 showed Ralph Lauren Corp and Capri Holdings (owner of Michael Kors, Versace and Jimmy Choo) beating earnings estimates in Q1 and emphasising strong demand for luxury goods as affluent shoppers shrugged off inflation.
But profits were still hit by a variety of factors such as supply chain issues and the need to carry higher inventory.

At Ralph Lauren, net revenue rose 8% to $1.5 billion. North America revenue rose 6% to $701 million and in retail, comparable store sales were up 5%.

Europe revenue increased 17% to $416 million and in retail, comparable store sales were up 34%. Asia revenue increased 16% to $334 million and comparable store sales increased 19%.

Gross profit was $1 billion and the gross margin was 67.2%. Operating income was $175 million and the operating margin was 11.8%, but adjusted operating income was $190 million and the operating margin 12.7%, 410 basis points below the prior year. It was affected by “increased freight headwinds to mitigate global supply chain delays”.

Net income was $123 million on a reported basis compared to net income of $165 million a year ago.

At Capri, total revenue of $1.36 billion increased 8.5% compared to last year. Income from operations was $231 million and the operating margin was 17%, compared to $258 million and 20.6% in the prior year. Net income was $201 million, compared to $219 million.

Capri said Versace revenue of $275 million increased 14.6% compared to the prior year. Jimmy Choo revenue of $172 million increased 21.1% and Michael Kors, revenue rose 4.8% to $913 million.

That said, the firms both saw their share prices falling as they also said sales in China were affected by Covid-19 lockdowns.

And what about those inventories? Capri and Ralph Lauren saw respective increases of 66% and 47% by the end of Q1 as they worked to avoid last year’s supply chain delays. They also had to spend more on freight, as mentioned, and this dented profits, despite price hikes in stores.

Yet buoyant sales point to a strong future. The two groups have benefited from the fact that rising prices have had little impact on middle- and high-income households.

"High-income consumers are shopping in a way that is different from other times of inflation," Jane Hali & Associates analyst Jessica Ramirez told Reuters.

"Their priority is to shop for events they are returning to now after coming out of lockdowns and this is putting luxury goods companies in a good place."

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