Gucci's sales growth remains sluggish in Q1

PARIS, France - Gucci's sales growth remained sluggish in the first three months of the year, hit in part by the brand's upmarket repositioning and the clean-up of its wholesale distribution network. The Italian brand, which represents the bulk of valuation for parent Kering, on Thursday posted a 0.3 percent rise in like-for-like sales for the first quarter, broadly in line with analysts' expectations.

In a conference call with journalists, Kering Finance Director Jean-Marc Duplaix said Gucci's sales in China were still declining, without providing figures. But he added that "trends are improving". In southern Europe, a region hit by depressed consumer demand for several years, Kering's deputy CEO Jean-Francois Palus said trading was stabilising.

"We see a stabilisation in Mediterranean countries, particularly in Italy, and significant improvement in Spain and Portugal," he said, adding that he expected France to be one of the most "complicated markets in 2014" due to its poor economy.

Kering said it had noted a drop in demand from Russian and Ukrainian customers due to the crisis in Ukraine but stressed that clients from these countries made up only 4 percent of total sales. However, it later said that Italian tailor Brioni was more exposed, with Russians making up more than 20 percent of its clientele.

The group said its main concern regarding the situation in Ukraine was its impact on the Russian rouble, which was losing value against major currencies. Duplaix said hedging policies for currencies from emerging markets such as the Russian rouble could be "complex" to put in place.

Gucci still makes more than 20 percent of its turnover from wholesale buyers, whose contribution to comparable sales dropped 19 percent in the first quarter after some accounts with department stores were closed. Revenue from directly operated stores was up 6 percent on a like-for-like basis.
"The numbers are broadly in line with expectations but it looks like Louis Vuitton is further down the transformation path than Gucci," one London-based luxury goods analyst said.

Gucci, which already saw its sales stall in the fourth quarter, continued to underperform arch-rival Louis Vuitton, owned by industry leader LVMH, which posted comparable sales growth of close to 9 percent in the first quarter.

Meanwhile, Britain's Burberry posted strong revenue growth for the first few months of the year, driven by solid demand in Asia.

Overall, Kering's total quarterly luxury sales rose 6.3 percent to 1.6 billion euros ($2.21 billion) while revenue from the group's Puma sports brand fell 0.4 percent on a comparative basis and 6.6 percent on a reported basis.

PUMA PAIN

Sales at Kering's sports brand Puma have been falling for several quarters as it is suffering from lacklustre demand in Europe, its biggest market, and its strategy to revamp the brand and introduce new, more technical running shoes is taking time to yield results.

"This is an ongoing process," Palus told a conference call with investors about the group's first quarter sales.

"We are going to launch new products but most of these new products will come next year."

Palus added that Kering would only return to the acquisition trail in the sports and lifestyle sector only once Puma had been turned around.

Kering, which last year changed its name from PPR (Pinault-Printemps-La Redoute) to distance itself from its retail past, also unveiled a reorganisation of its luxury activities with the creation of three divisions to better manage its brands.

The first one, to be called Luxury, Couture & Leather groups would regroup all fashion brands except Gucci, such as Stella McCartney, Balenciaga led by Bottega Veneta CEO Marco Bizzarri who would remain chairman of the brand with Kering appointing soon a new CEO.

Gucci would remain under the stewardship of Patrizio di Marco and direct supervision of Kering Chief Executive Francois-Henri Pinault, son of the group's founder Francois.

The third luxury division would focus on watches and jewellery, headed by LVMH veteran Albert Bensoussan, who spearheaded Louis Vuitton's foray into watch-making and jewellery from 2003 to 2010.

"This will strengthen the monitoring and focus the business expertise and resources that the Group makes available to its brands to accelerate their development," Kering said in a statement. ($1 = 0.7236 Euros)