Mulberry recovery still a work-in-progress, unveils new S Korea deal

By Sandra Halliday - 13 June 2018

Mulberry had plenty of news on Wednesday with the British leathergoods-to-fashion group not only announcing its full-year results but also unveiling a new business deal for South Korea.

On the results front, it saw a surge in comparable pre-tax profit, even though sales only managed to edge up slightly and current trading looks weaker.

Retail like-for-like sales are down 7% for the 10 weeks to June 2 with International up 1% and the UK down a worrying 9%, “due to lower footfall and fewer tourists, as more widely reported.”

That current UK decline is perhaps to be expected for a variety of reasons. The UK market is struggling at present as local consumers stay cautious because of uncertainties about the economy. But sales to tourists are also being hurt. Tourism is still a major boost for UK luxury fashion, but it would be hard to match the surge seen as the pound plunged after the Brexit vote in mid-2016 through to 2017. The pound’s gradual recovery since then means comparisons with that boom year were always going to be difficult.

REASONS TO BE CHEERFUL

But the company also had good news on Wednesday, specifically its new deal in Korea under which it’s working with its long-standing partner, SHK Holdings, forming a new majority-owned entity to operate its business in the country.
Mulberry will own 60% of the new entity with SHK owning the rest. Between them they'll invest £4.6 million in buying the assets and developing the business that currently comprises 18 points of sale including concessions, outlets and duty free. E-commerce websites and an omnichannel platform will form part of the new business with Mulberry Korea expected to start trading by this autumn.

Back with its results announcement, in the year ended March 31, the company said that its "international pace increased" and it saw “product momentum.”

Pre-tax profit from existing businesses (that is, the UK, Europe, North America and wholesale, excluding new entities in Asia) soared 36% to reach £11.3 million. However, that was before start-up costs of £2 million and expenses of £2.4 million relating to new Asia subsidiaries.

Those costs meant its reported pre-tax profit actually fell from £7.5 million down to £6.9 million, although it’s clear that the business is moving in the right direction on some measures. The fact that the gross margin increased 185 basis points to 63.5% during the year underlined that progress.

And while revenue was up only 1% to reach £169.7 million, retail sales rose 3% to £132 million. The UK was “broadly flat”, again, a result that was no surprise given the unique conditions in Britain over the past year.

INTERNATIONAL GROWTH

But there was good news on the international and e-tail fronts as revenue abroad rose 20% to £25.7 million, while digital rose 14% and now comprises 17% of total group revenue, up from 15% a year ago. And the company’s cash reserves have improved too. By the end of the year they were at £25.1 million, compared to £21.1 million 12 months earlier.

The international operations were boosted by new entities being established in China, Hong Kong, Taiwan and Japan and the store network in Asia being enhanced with five new stores and two relocations. The extension of omnichannel services across the network and the launch of a partnership with Toplife in China also helped.
And new products also added to interest in the brand with its Amberley bag becoming a new bestseller during the year. The Amberley family is available across a number of price points and categories and its distinctive Rider's lock has also been introduced across other categories including small leathergoods, footwear and jewellery.

Several other new women's bag silhouettes were launched including the Bayswater Tote and Seaton, while the new Heritage bag family was introduced as part of the men's range.

And the company has also ramped up its focus on more exclusive product. An Artisan Studio producing small runs of special editions for the UK and International markets was opened in Somerset and products introduced to selective locations.

CEO Thierry Andretta stayed cautiously optimistic. “We have made significant progress during the year on our international strategy, creating new Mulberry subsidiaries,” he said. “We are also pleased to announce the formation of a new majority-owned venture to develop the business in South Korea. Our international business is growing and following the completion of this set up phase in Asia, we will focus on omnichannel, digital partnerships and marketing investment in the region.

“Following another period of cash generation, our balance sheet is strong. Although the UK market remains challenging, we will continue to invest in our strategy to develop Mulberry into a global luxury brand to deliver increased shareholder value.”

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