Consumer Discretionary - Luxury Goods

Hermès International SCA (RMS FP)

Bastien Moureau
Equity Research Analyst
bastien.moureau@edhec.com

RATING	PRICE TARGET	PRICE	52-WEEK RANGE
BUY	**€2,366**	**€1,331.50**	**€1,320 - €2,300**

Hermès still trades at a premium to its peers, but we believe the market now undervalues the durability of its advantages.

Indeed, we believe Hermès still has **superior operating margins** and quality compared to its peers. The forecasted growth, even though reduced compared to the last decade, is still at the upper end of peers, while the operating margin is by far the highest, being **2 times** the peer average.

These superior economics justify a **35.3x exit forward P/E**, representing the median since 2002 (Source : Koyfin), and well below the **47.2x median** observed since July 2021.

> At its current price, we forecast Hermès to yield a **15.7% annualized total return** (including dividends).
>
> Even in a spot multiple scenario, where the exit multiple remains at the spot level, the company yields a **10.0% annualized total return**.

Investment Thesis

- **Emotional Connection:** Hermès produces genuine emotions in customers, leading to higher margins, greater pricing power, and increased resilience. The connection to the House is expected to become increasingly important in the future across all luxury players.
- **Price/Desirability:** The emotion the brand inspires creates high desirability that translates into pricing power, provided it remains underpinned by genuine scarcity, iconic status, and quality.
- **Distribution:** The largely proprietary model (more than 92% of revenue comes through its exclusive distribution network) helps protect the brand and better monetize this desirability.
- **Scarcity:** Artisanal production limits the speed at which Hermès can increase volumes. As long as demand exceeds this capacity, scarcity is structural rather than merely a marketing tactic.

Key Estimates

Year	Rev.	EBIT	EPS	FCF
2023A	13,427	5,604	41.2	3,194
2024A	15,170	6,117	44.1	3,764
2025A	16,001	6,532	43.2	3,880
2026E	16,597	6,705	44.2	4,829
2027E	17,664	7,207	50.4	5,265
2028E	18,890	7,802	54.7	5,696

€m, except EPS (€). EBIT and EPS lease-adjusted.

Operating outlook

EBIT margin FY25	**40.8%**
EBIT margin FY30E	**41.7%**
Revenue CAGR 25A–30E	**6.1%**
FCF yield FY26E	**3.5%**

Valuation and return

Base exit P/E	**35.3x**
FY30 annualized return	**15.7%**
Price target upside	**77.7%**

Source: Author

Valuation :

a) Multiple Valuation

Given Hermès' persistent premium compared to its peers, we believe that applying a multiple to earnings per share is the most relevant valuation approach for our base case.

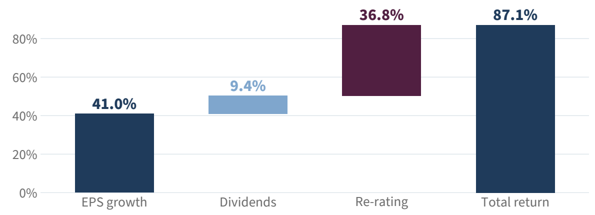
We assume EPS growth moderates from 7.49% in FY30, to 6.0% in FY31. Our 35.3x P/E multiple, representing Hermès' median NTM P/E since 2002, reflects our expectation that Hermès can sustain superior margins and earning growth beyond FY30. The current NTM P/E is ~20% lower than our target multiple. This exit multiple would provide the investor with a 15.7% annualized total return until FY30 (accounting for dividends, 14.4% just on the share price). To show that our thesis does not rely only on the multiple, we chose to build a sensitivity analysis, as well as the graph below that shows the part that the exit multiple plays in the final share price.

> **Our take.** Taking the spot NTM P/E, we arrive at an **10.0% annualized total return**, which is still an honorable performance. Taking the median from 2021 onwards, on the other hand, would yield a **23.5% annualized total return**.

b) Peer Multiple Valuation

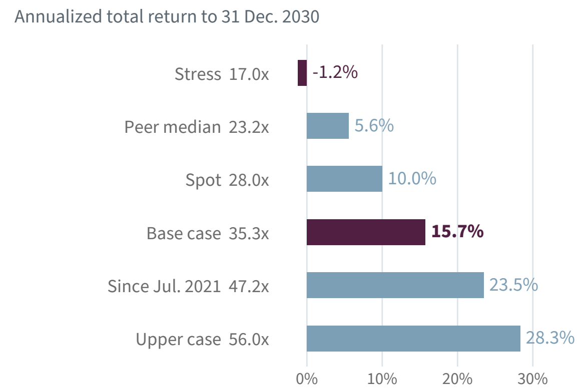
We mentioned Hermès' premium against its peers. Taking the peer median (23.2x on NTM P/E), without any premium associated, would still yield a share price of €1,555 in 2030. Accounting for dividends received, this still yields a 5.6% annualized return, assuming Hermès trades in line with the current peer median and therefore loses its entire valuation premium.

Exhibit 1 | Return decomposition



Source: Author

Exhibit 2 | Exit P/E sensitivity



Source: Author

c) DCF Valuation

We also use a DCF valuation as a cross check to our multiple based approach. Using a WACC of 8.51% and a terminal growth rate of 2.5%, the DCF yields a share price of €930, representing a 30.2% downside from the current share price.

This result represents an important risk to our valuation. Indeed, unlike the multiple approach, the DCF does not assume that investors will continue to assign Hermès its historical premium. Therefore, our base case relies significantly on the ability of Hermès to maintain its superior growth, margins and desirability, and consequently preserve a premium valuation over time.

> **Our take.** The difference between our DCF and multiple valuation is thus an **important part of the investment debate** rather than a reason to disregard the DCF.

Exhibit 3 | Base case and mechanical stress assumptions

	Exit P/E	FY2031 EPS (€)	Exit price (€)	Dividends received (€)	Total return	Annualized return (CAGR)
Base case	35.3x	67.04	2,366.40	124.92	+87.1%	+15.7%
P/E-only stress	17.0x	67.04	1,139.63	124.92	-5.0%	-1.2%
Combined sustained stress	17.0x	53.63	911.70	99.94	-24.0%	-6.2%
Combined exit-only EPS shock	17.0x	53.63	911.70	124.92	-22.1%	-5.7%

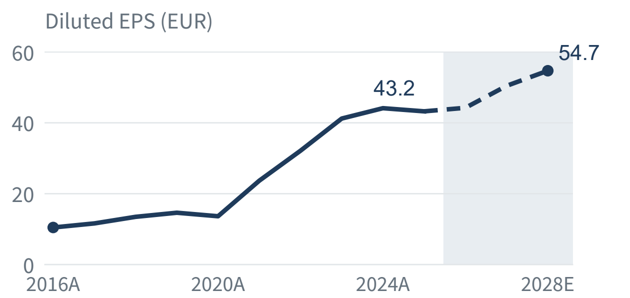
Source: Author
Dividends: FY2026–FY2029 earnings, paid in 2027–2030; 60% payout. CAGR: 18 Sep. 2026–31 Dec. 2030, dividends held in cash.

Financial overview

€m, except EPS	2023A	2024A	2025A	2026E	2027E	2028E
Revenue	**13,427**	**15,170**	**16,001**	**16,597**	**17,664**	**18,890**
Cost of sales	-3,720	-4,511	-4,623	-4,813	-5,069	-5,403
Gross profit	**9,707**	**10,659**	**11,378**	**11,784**	**12,594**	**13,488**
SG&A	-3,169	-3,569	-3,704	-3,900	-4,133	-4,383
Other income and expenses	-889	-942	-1,106	-780	-830	-869
Lease expense / adjustment	-45	-31	-36	-398	-424	-434
Operating income (adjusted)	**5,604**	**6,117**	**6,532**	**6,705**	**7,207**	**7,802**
Net income (adjusted, group share)	**4,320**	**4,630**	**4,542**	**4,643**	**5,294**	**5,741**
Diluted EPS (adjusted, €)	41.2	44.1	43.2	44.2	50.4	54.7
Cash flow from operations	**4,053**	**4,831**	**5,041**	**5,825**	**6,378**	**6,923**
Operating capex	-859	-1,067	-1,161	-996	-1,113	-1,228
Free cash flow	**3,194**	**3,764**	**3,880**	**4,829**	**5,265**	**5,696**

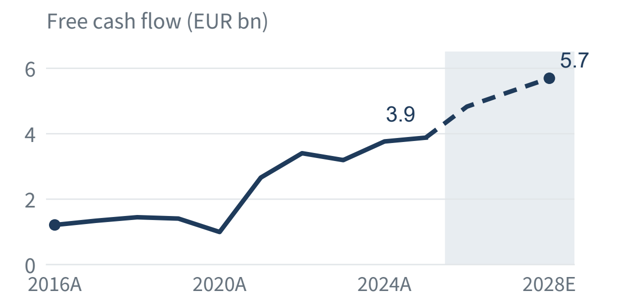
Source: Author

Exhibit 4 | Adjusted earnings per share



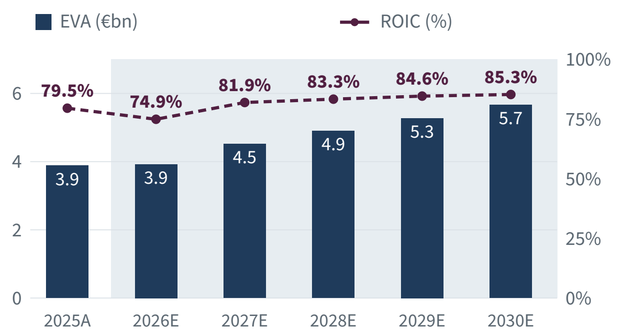
Source: Author

Exhibit 5 | Free cash flow



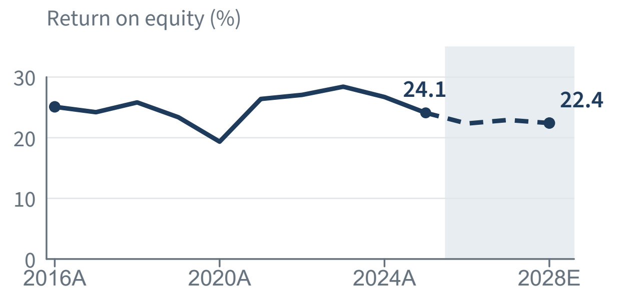
Source: Author

Exhibit 6 | ROIC and economic value added



Source: Author

Exhibit 7 | Return on equity



Source: Author

Industry and positioning :

Clients:

Hermès clients seem resilient, even in difficult times. As Vogue mentioned in its series “Vogue: How to Sell Now in 2026”, 33% of respondents had bought Hermès at a time when the luxury market was struggling. Again, according to Vogue, "In terms of perception, six brands in our analysis — Louis Vuitton, Dior, Chanel, Prada, Gucci, and Hermès — each high-end heritage players, outperformed." This suggests that the house maintained strong consumer appeal during a challenging period for luxury, although it does not establish repeat purchasing or resilience across economic cycles.

Moreover, given the global polarization of wealth, the houses targeting the wealthiest clients are the most resilient ones, as aspirational clients (annual luxury spending below €5,000) are not as resilient. According to BCG, aspirational clients’ share of the revenue mix could decrease from 70% in 2016 to ~50% in the next cycle.

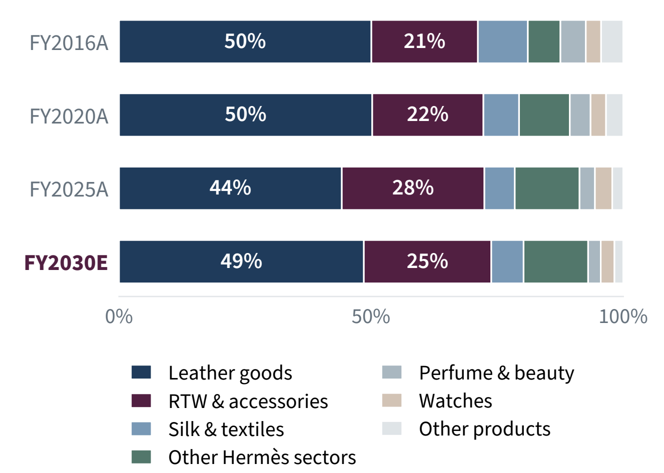
> **Our take.** Hermès is thus **very well positioned** to benefit from the underlying trend of the luxury market.

Categories:

In terms of exposure to categories, Hermès is again well positioned to benefit from the renewed interest in luxury. Indeed, the main activity of the brand, leather goods, is forecasted by McKinsey to grow 5 to 7% a year until 2030, as is jewelry, which also represents a significant share of the Group’s revenue mix (reported within Other Hermès Sectors representing ~13% of revenues).

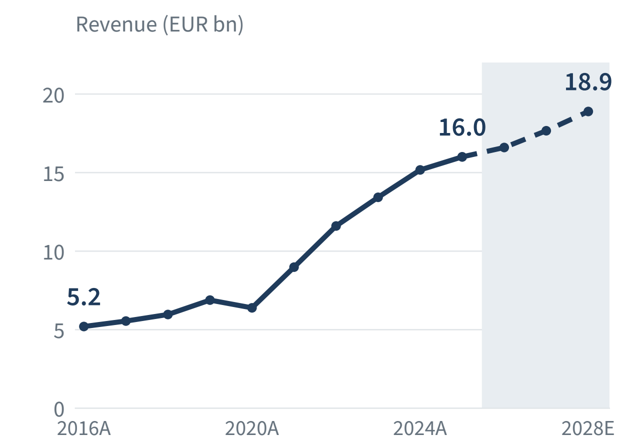
The silk & textile segment is also forecasted to grow quickly, at around 5 to 7% (VPA Research on luxury scarve, 5.9%, Deep Market Insight is forecasting 6.2% CAGR). Thus, the Group is benefiting from multiple tailwinds which provide a solid basis for growth. There is of course the question of whether Hermès can at least avoid losing market share, or maybe gain some, but we do believe that the house is very well placed and benefits from an exceptional reputation to protect its current position, and potentially gain some market share.

Exhibit 8 | Revenue mix by métier



Source: Author

Exhibit 9 | Revenue scale across the cycle



Source: Author

Distribution

There are 2 main types of distribution in the luxury market:

- The Direct-to-Consumer (DTC): this is where the brand directly sells to its customer, through its own boutique or e-commerce. This allows the brand to control its image, benefit from higher margins (since no intermediary is involved), manage clienteling and customer experience.
- Wholesale: this is where the brand sells through third party retailers, such as department stores or other distributors. This can facilitate market access and product discovery, but the brand has less control over pricing and the overall customer experience.

According to Altagamma studies, physical retail is forecasted to grow 5% in 2026, against 1 to 2% for wholesale. Hermès is very well placed in that sector because 92% of its revenue comes from its directly operated distribution network.

> **Our take.** This allows Hermès to **protect its brand**, notably by training employees who reflect the brand, and to **monetize its desirability**.

Directly operated distribution	**92%**
2026 physical retail growth forecast	**5%**
2026 wholesale growth forecast	**1 to 2%**

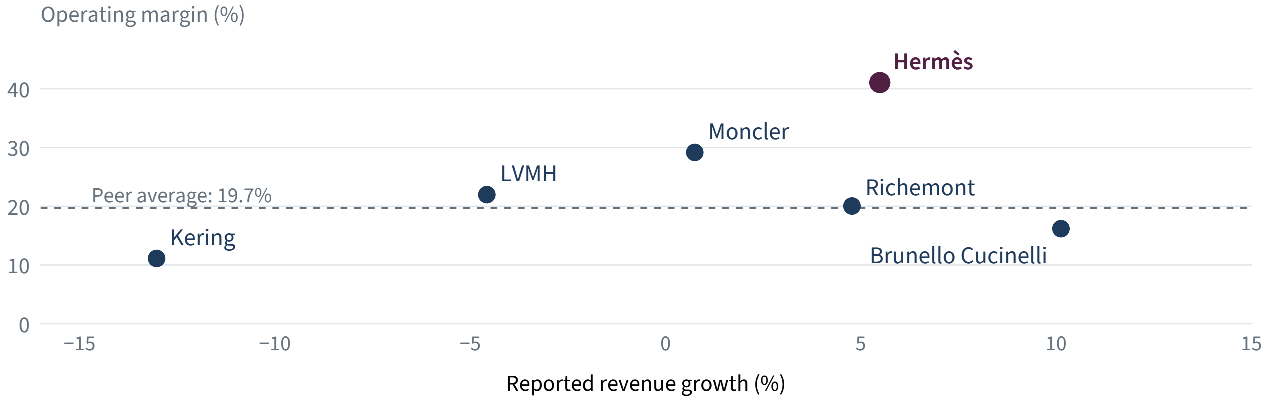
Peers margins and premium

From our peer set, represented by LVMH, Richemont, Kering, Moncler and Brunello Cucinelli, we observe that Hermès has substantially superior margins. Indeed, its operating margin stands at 41.10% (IFRS 16 methodology, to have comparable grounds), against an average of 19.7% across the peer group, meaning that Hermès' operating margin is more than twice the peer average.

This supports a premium valuation on Hermès. This premium has historically been very strong. For example, the historical forward P/E premium of Hermès over LVMH is around 100% ((Reuters, based on LSEG data, 9 February 2024), compared with only 65% today. Based on LVMH, a 100% premium would imply a 34x exit multiple, close to our base case of 35.3x.

Long term NTM EV/EBITDA evidence also shows a persistent premium, closer to ~70% (Elevation Capital, Capital IQ and Refinitiv, May 2022: historical NTM EV/EBITDA chart showing Hermès at 21.75x vs LVMH at 12.57x).

Exhibit 10 | Peer growth and operating margin



Source: Koyfin and Author

NTM P/E	Hermès	LVMH	Richemont	Kering	Moncler	B. Cucinelli
18 Sep. 2026	28.0x	17.0x	23.2x	28.5x	17.5x	32.2x

Source: Author

Desirability and supply discipline :

As mentioned, our thesis is partially based on the fact that Hermès' desirability is sustainable thanks to its quality, iconicity and craftsmanship, which can allow superior pricing power compared to peers.

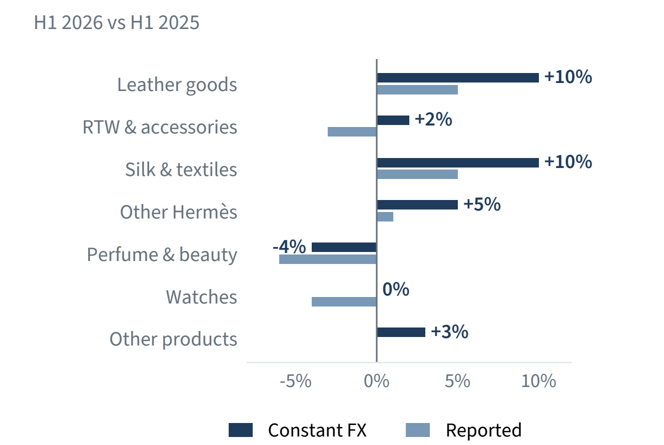
a) Desirability and client relationship:

Hermès invests continuously to maintain its desirability and the relationship with its clients. In H1 2026, the Group spent €301m on communication, representing 3.7% of revenues, and €197m on the renovation and extension of its distribution network, out of €344m of total operating investments.

Hermès also tries to continuously renew the interest around the brand. Each year is built around a specific theme, with "Drawn to craft" in 2025, and the Group develops more than 50,000 references across its different métiers. This investment seems to translate into strong demand for the collections. In H1 2026, Leather Goods and Saddlery grew by around 10% (at constant exchange rates), with management mentioning the "strong desirability of our collections" (H1 2026 Earnings Call). Silk and Textiles also grew by around 10%, while gross margin reached 71.1%, up 40bps, notably supported by an "exceptional sell through rate of our recent collections".

The relationship with clients also goes through the stores. Hermès created the École des Artisans de la Vente to train its sales teams, while employees received on average 23 hours of training in 2025. The "My Hermès Store" programme was also developed to train store managers and transmit the vision of the house in the boutiques.

Exhibit 11 | H1 growth by métier



Source: Hermès

b) Quality and craftsmanship:

Quality is also an important part of Hermès' desirability. The Group keeps a large part of its production under its own control and continues to invest in its manufacturing capabilities and raw material supply, notably leather, in order to protect the quality of its products. The company also trains its own artisans, notably through the Hermès CAP (Certificat d'Aptitude Professionnelle), which allows the Group to increase production while maintaining the craftsmanship associated with the brand.

The durability of the products is also important here. In 2025, more than 96,000 objects were repaired by Hermès, with an after sales service available without time limit across its métiers. This reinforces the idea that the value of the product does not stop after the purchase and supports the long term relationship with clients.

c) Supply discipline and scarcity:

Finally, Hermès does not try to increase production as quickly as possible. The Group plans to continue opening around one leather workshop per year until 2030, while management mentioned that artisanal capacity can grow by around 6% per year. Please note that this does not mechanically translate into 6% more bags or revenues, as production also depends on the product mix, the size of the bags, productivity and the availability of high quality leather.

This constraint is important because demand remains significantly above production. Management has repeatedly indicated that demand for leather goods is much higher than what Hermès can produce, while almost everything produced is sold. As long as this remains the case, scarcity is not only created through marketing but also comes from the production model itself.

> **Our take.** This should help Hermès **maintain its pricing power** and **protect the desirability** of its products over time.

Main assumptions :

Income statements Assumptions

a) Revenue

As we detail in Exhibit 13, we divided each category of Hermès' revenue to forecast it, followed by the FX impact to get total revenue.

The most critical was of course leather goods, because it represents ~44% of FY25 revenues. We keep growth between 10% and 7.5% because Hermès continues to invest in new workshops, with the objective of opening one a year until 2030, all in France. In FY30, we still have 8% revenue growth because of the continuous investments in capacity and the training of new artisans through the Hermès CAP, which leads us to believe that growth in this segment can continue.

~44%
Leather goods share of FY25 revenue

One a year
Workshop opening objective to 2030

8%
FY30 leather goods revenue growth

Exhibit 12 | Announced leather workshop openings

Source: Hermès

Exhibit 13 | Revenue build by métier

€m	2025A	2026E	2027E	2028E	2029E	2030E
Leather Goods & Saddlery	7,070	7,777	8,477	9,240	9,933	10,727
Ready-to-Wear & Accessories	4,525	4,638	4,800	5,016	5,267	5,583
Silk & Textiles	964	1,060	1,135	1,220	1,317	1,416
Other Hermès sectors	2,055	2,158	2,298	2,459	2,643	2,828
Perfume & Beauty	489	484	489	504	529	553
Watches	549	549	554	566	583	600
Other products	349	356	363	370	378	385
FX effect (cumulative)	0	-426	-453	-484	-516	-552
Revenue	**16,001**	**16,597**	**17,664**	**18,890**	**20,134**	**21,541**

Source: Author

Margins and cash-flow assumptions :

b) EBIT Margin

Our assumptions on the EBIT margin come from the four main income statement items: cost of sales, SG&A, other income & expenses, and lease expenses.

Our EBIT margin goes from 40.82% in FY25 to 40.40% in FY26 and 41.70% in FY30.

This is supported by the following main assumptions:

Our cost of sales remains between 29.00% and 28.50% thanks to cost discipline on Hermès' side, strong sell-through as mentioned by management, and good inventory management. Please note that the vertical integration we mentioned earlier is seen more as a guarantee of quality rather than a cost-cutting investment.

On SG&A, Hermès continuously needs to invest in events, communication, client experience, recruitment and the operation of its retail network to maintain its desirability, which does not allow for superior operating leverage. Thus, we keep the levels from 23.50% of revenues in FY26 to 23.00% in FY30.

Balance Sheet and CFS Assumptions

a) Working Capital

The cash conversion cycle goes from 151 days in FY26 to 145 in FY30, driven by a small decrease in inventory days, supported by strong sell-through and normalization to historical levels. Trade receivables stay around 10 days, reflecting Hermès' limited credit exposure and directly operated retail operations. Trade payables normalize around 60 days, consistent with historical levels and Hermès' long term supplier relationships.

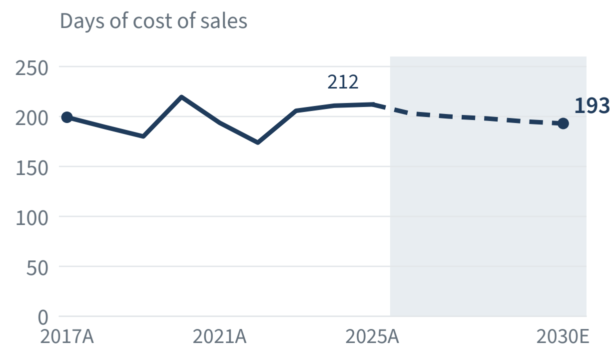
b) Operating CapEx

In FY26, we remain in line with management's guidance of around €1bn of operating investments, representing ~6% of revenues. We then slightly increase it to 6.5% in FY28, driven by continued production capacity expansion through new workshops, alongside ongoing retail, IT and logistics investments. From there, it normalizes at around 6.3% in FY30.

As we saw, our forecast growth requires continuous investment in both production capacity, quality, and retail network. Thus, we also assess Hermès on the return generated by its operating capital as well, and not only on margins. After a small decline to 74.9% in 2026, our model projects ROIC rising from 79.5% in 2025 to 85.3% in 2030. Economic value added increases from €3.9bn to €5.7bn over the same period. This supports our view that Hermès can expand while continuing to create substantial value from the capital invested in its operations.

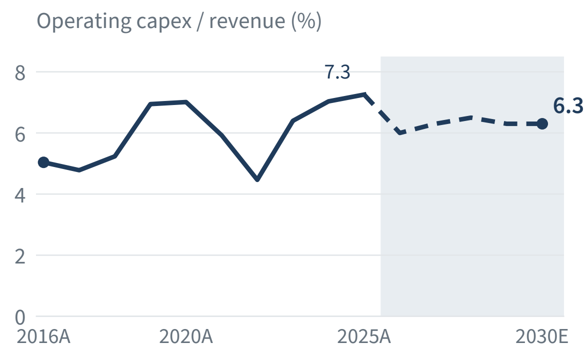
40.82%	40.40%	41.70%
FY25 EBIT margin	FY26 EBIT margin	FY30 EBIT margin

Exhibit 14 | Inventory days



Source: Author

Exhibit 15 | Operating capex intensity



Source: Author

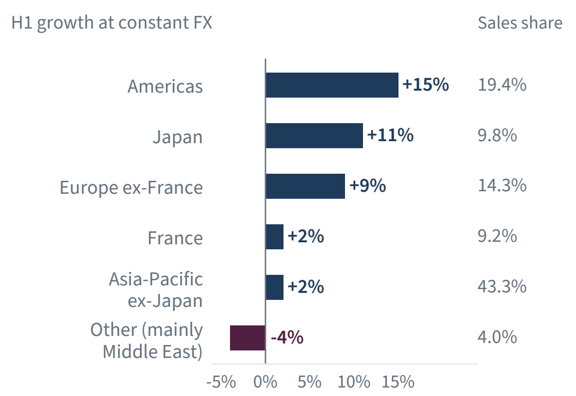
What would make us wrong :

a) Demand is slowing down more than expected

Scarcity and demand are one of the main points of our thesis. However, if demand, and particularly demand from China and the Middle East, does not deliver the expected growth, the additional capacity would not necessarily translate into the expected sales. The ongoing situation in the Middle East is putting pressure on the wealthiest clients, who are spending less than they used to, especially in jewelry. In China, we forecast a 4 to 6% CAGR through FY30 (McKinsey), making the region particularly important for the future growth of luxury brands.

> **Our take.** If demand growth remains structurally below our expectations, we would need to **rethink our revenue assumptions** and therefore **part of the thesis**.

Exhibit 16 | Regional demand and exposure



Source: Hermès

b) Production and network costs rise too fast

If production costs increase too quickly, or if the investments required to maintain the retail network and desirability become too expensive, this would put pressure on Hermès' margins, which could (1) affect earnings per share and cash flows, and (2) lower the multiple if investors no longer see the same reason for the premium. Even though Hermès seems to be very careful with its investments, it remains a reason why the thesis could be wrong.

> **Our take.** A recurrent **deterioration in margins**, particularly if investments remain elevated without translating into stronger growth, would lead us to **reassess the thesis**.

Exhibit 17 | Earnings and premium sensitivity

Annualized total return to 31 Dec. 2030

Exit P/E	-20%	-10%	Base	+10%
17.0x	-6.2%	-3.6%	-1.2%	1.0%
23.2x	0.2%	3.0%	5.6%	7.9%
28.0x	4.4%	7.3%	10.0%	12.5%
35.3x	9.9%	12.9%	**15.7%**	18.3%
47.2x	17.2%	20.5%	23.5%	26.3%

EPS level vs base in every year, FY26-FY31

Dividends vary with the stressed earnings path

Source: Author

c) Valuation premium is compressed

If the valuation multiple does not return towards its historical levels, the expected returns will be lower than in our base case scenario. As we saw in Exhibit 1, around ~42.2% of our gain per share comes from the multiple re rating effect. Thus, even if Hermès delivers the expected earnings growth, the investment return could remain below our base case if the market does not re rate the company.

> **Our take.** If investors start to believe that Hermès no longer deserves its historical premium, the downside could be even stronger as **both earnings expectations and the valuation multiple** could be affected.

Potential catalysts

- **October 22, 2026, Q3 revenue:** demand for leather goods and in Asia and the impact of FX on reported growth.
- **War in Iran:** an easing of tensions could lead to a recovery in travel and luxury spending, particularly in the luxury sector.
- **Growth in China:** growth figures for China, specifically in the luxury sector, will be highly anticipated and could boost the stock if investors believe in a recovery in Chinese luxury demand.

Conclusion

Our investment case relies on **durability and desirability.** As long as Hermès can sustain its exceptional qualities, the margins, growth, and returns on invested capital will follow. The emotional connection with its customers is crucial and supported by craftsmanship, product quality and events. If these advantages persist, our forecast at a 35.3x exit multiple implies a **15.7% annualized return through 2030.** The key risk is continued geopolitical instability, which would lead to a slowdown in demand and put pressure on the premium Hermès commands.