

# Hermès



## What it does

Hermès is the ultimate luxury brand. Whether purchasing a bag, scarf, jewellery, tableware or furniture, consumers recognise the mastery of artisanal skills involved in making each product. Its Birkin and Kelly bags are the epitome of luxury.

## Why we own it

- Family-owned since 1837, the overarching aim is to pass the company in ever better shape from one generation to the next. The investment horizon is thus extremely long term.
- The Hermès brand is above the madding fashion crowd, with supreme and timeless quality at its heart.
- The company controls its rate of growth and will never sacrifice artisanship for faster sales growth.

## How it could be worth many times more

- Hermès continues its remarkably consistent compounding revenue growth of 10% or slightly higher over the next decade.
- At its incredible 55% operating margins and assuming a conservative 30% tax rate, we could see c.40% free cash flow margin.
- With dividends and some buybacks, it could grow several multiples from here over the long term.

## Where we might be wrong

- Resistance to evolve past leather and enhance its digital brand loses its appeal as too stodgy for younger customers.
- The valuation requires an awful lot of growth for a long time – it's not an outlier stock for the future despite its remarkable increase since we first bought it.
- The family succumbs to in-fighting and the culture fades into history.

## Short 10 questions

Can sales double in the next five years?

1

Yes, thanks to rising affluence, iconic brand status, new geographies, and pricing power.

Ten years and beyond?

2

More of the same. 200 years of iteration. New markets, but more of the same.

Competitive advantage?

3

Refusal to chase volume is conducive to brand integrity and longevity. Vertical integration of much of the supply chain means exclusive access too.

Is the business culture different?

4

The family ownership is key. Same owners for 182 years. A truly long-term perspective.

Customers like you? Contribute to society?

5

Product quality is second to none and represents pinnacle of luxury. Hermès is a leader in developing and conserving artisanal skills and heritage.

Are returns worthwhile?

6

Yes, extremely attractive, c.35% margins.

Will they rise or fall?

7

Pricing power is huge and drifting up.

How is capital allocated?

8

Organic growth for over 180 years. 70% of earnings returned and reinvested in growth.

Could it be worth 5x as much?

9

3-5x return is plausible without brand damage, but over a long time. Faster growth could be a worry.

What doesn't the market understand?

10

Power of compounding and a general squeamishness around luxury companies.

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