MORNINGSTAR

Luxury: 2025 Q3

The luxury sector remains attractive.

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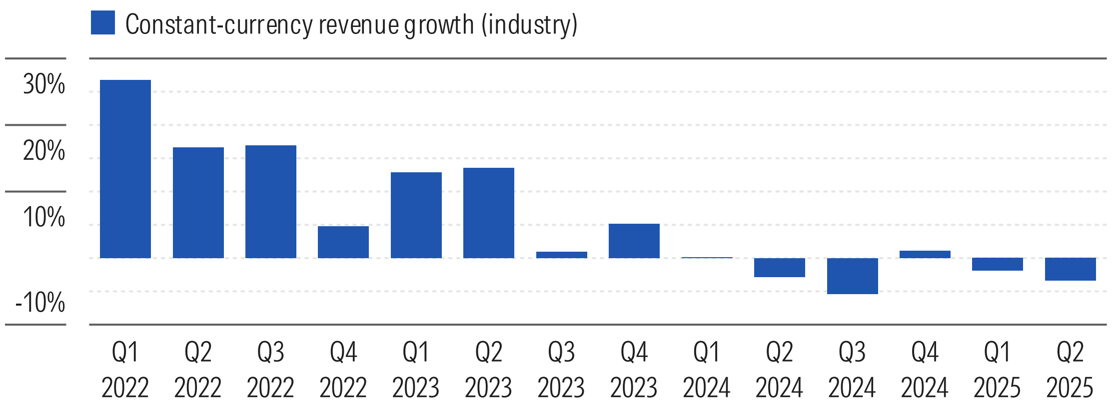

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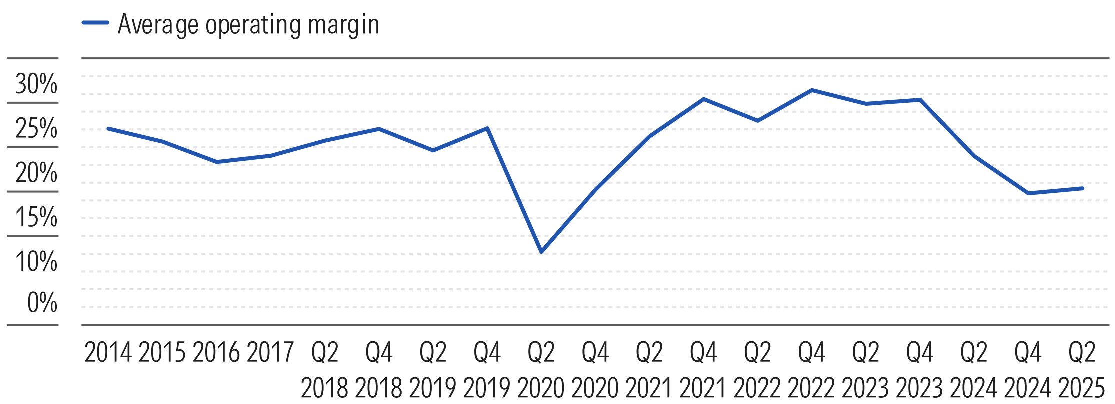

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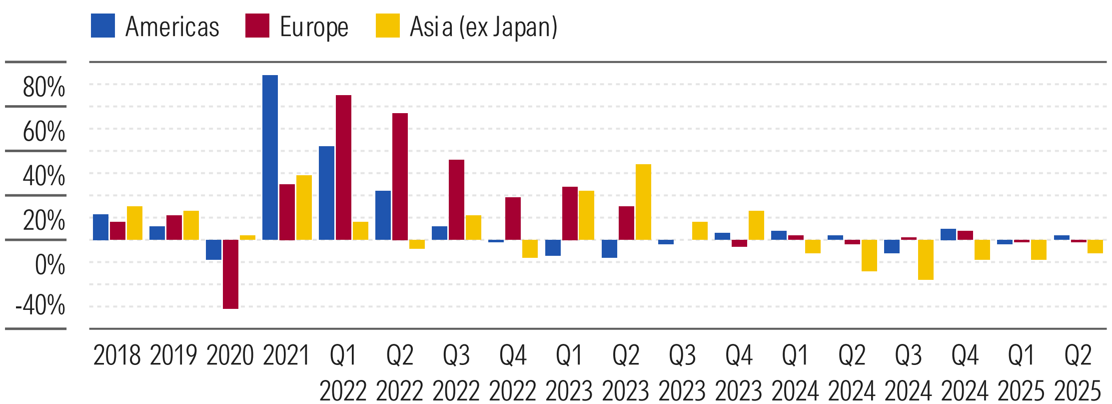

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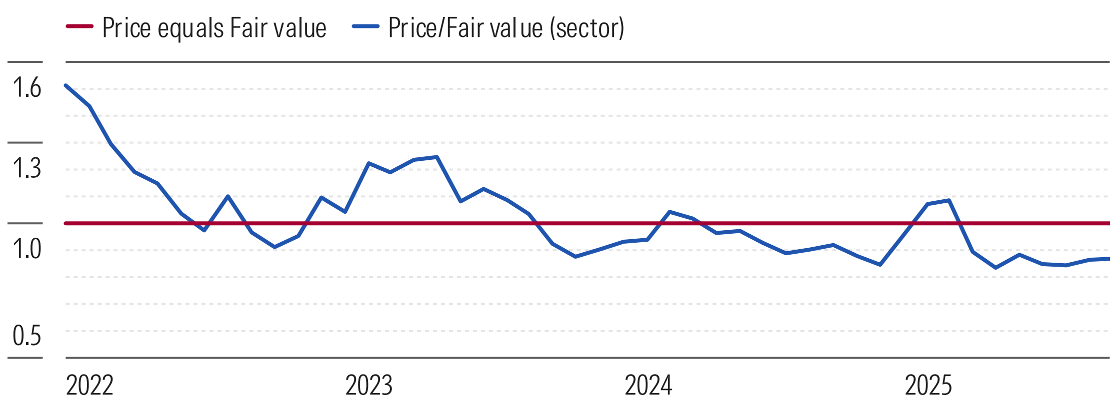
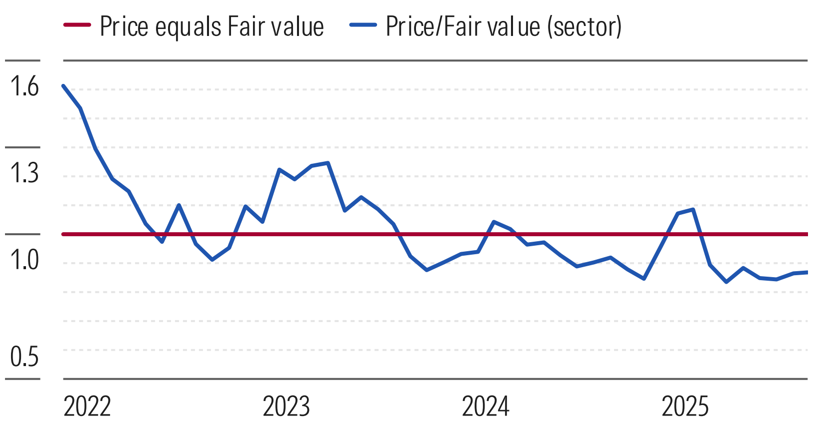
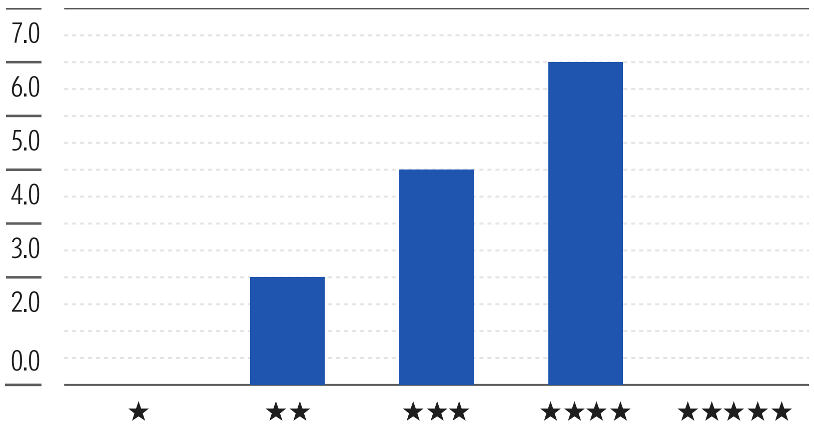


Luxury Valuations Remain Appealing

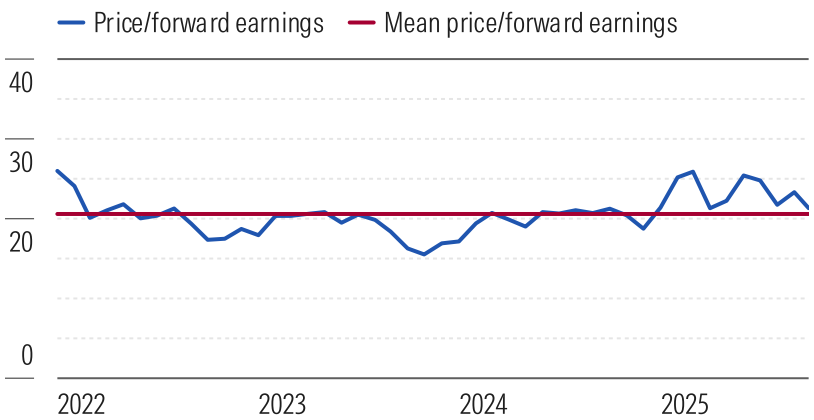
Luxury Is Trading at Increasingly Attractive Discounts



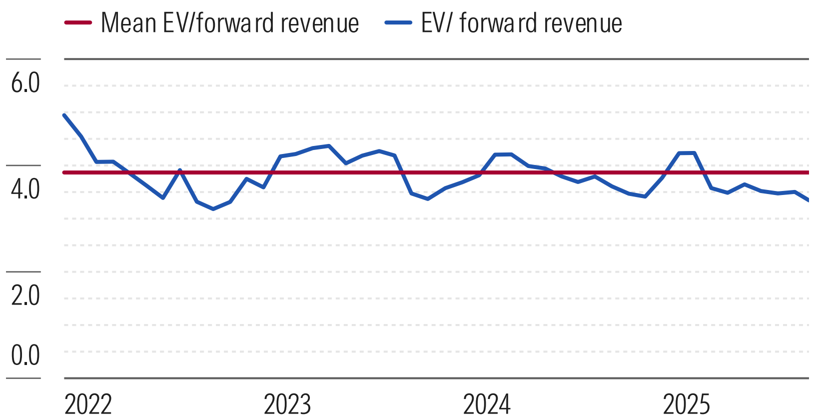
Record Number of Stocks in 4-Star Territory



Earnings Multiples Approaching the Mean



However, Sales Multiples Dip Below Historical Ones



Luxury shares remain attractive as the sector is muddling through the second year of cyclical downturn. A record number of stocks now trade in 4-star territory, while earnings and sales multiples remain at or below their mean values.

We don't see the current cycle of weakening demand as long-lasting. Based on the industry's past 30 years, periods of subdued demand didn't last more than two years. We also believe that the moats in luxury remain intact and that fundamental growth drivers (notably, demand from American and Chinese consumers) remain in place.

Source: Morningstar, PitchBook. Data as of September 2025.

Current State of Luxury

Demand weakens again in Q2, but valuations look appealing.

Luxury Sales Trends Falter Again in Second-Quarter 2025

Constant-Currency Sales Growth of a Select Group of Luxury Companies and Brands Demonstrates Continued Weakness Into 2025

After an improvement in the fourth quarter of 2024, luxury sales mostly dip again in the second quarter of 2025.

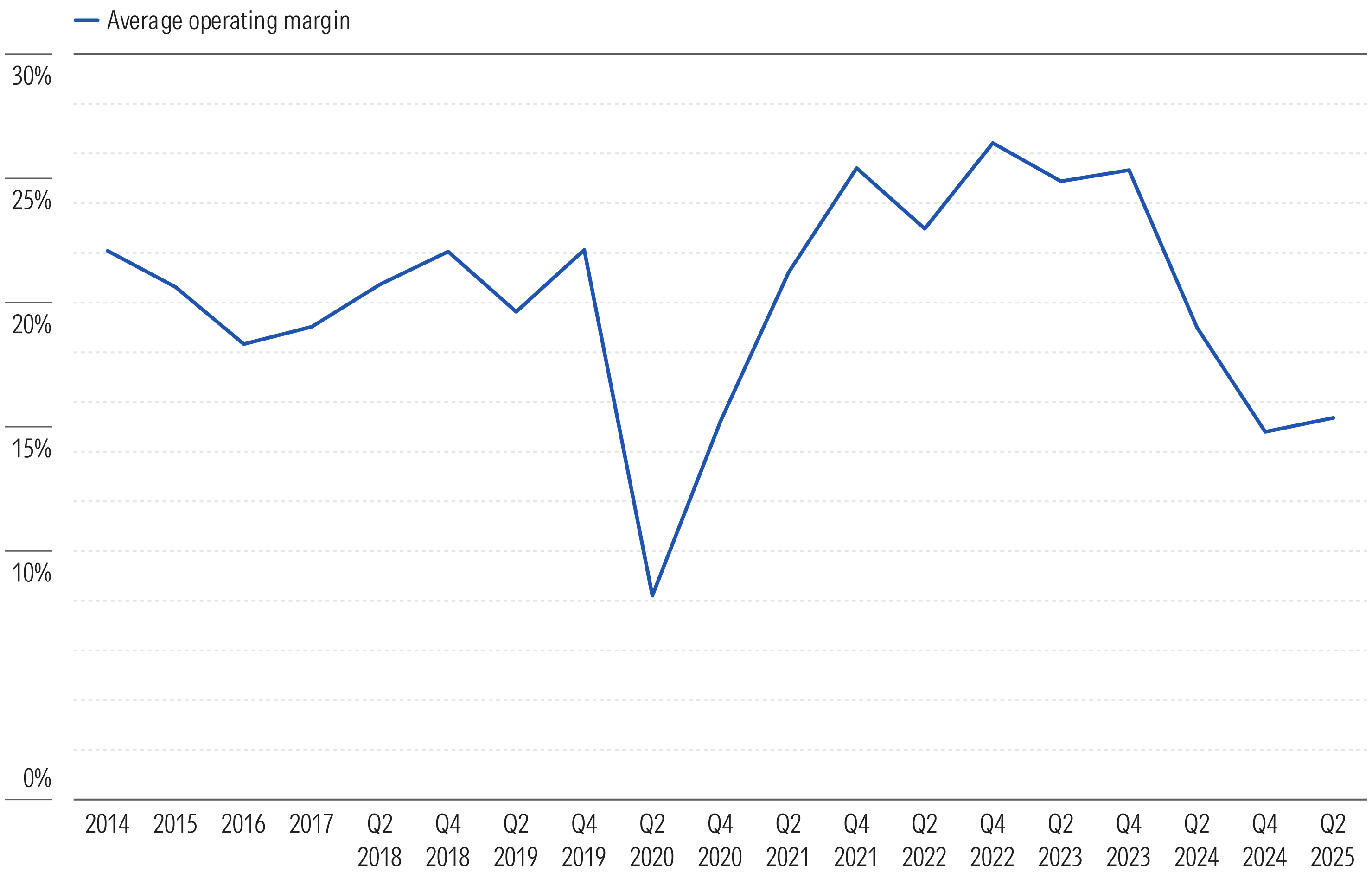
	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025
LVMH	17%	9%	10%	3%	1%	-3%	1%	-3%	-4%
LVMH Fashion & Leather	21%	9%	9%	2%	1%	-5%	-1%	-5%	-9%
Hermes	28%	16%	18%	17%	13%	11%	18%	7%	9%
Kering	3%	-9%	-4%	-10%	-11%	-16%	-12%	-14%	-15%
Gucci	1%	-7%	-4%	-18%	-19%	-25%	-24%	-25%	-25%
Bottega Veneta	3%	-7%	-4%	2%	4%	5%	12%	4%	1%
YSL	7%	-12%	-5%	-6%	-9%	-12%	-8%	-9%	-10%
Other luxury brands	-1%	-15%	-5%	-6%	-5%	-14%	-4%	-11%	-16%
Prada	19%	10%	17%	16%	18%	18%	16%	13%	8%
Burberry	18%	1%	-4%	-12%	-20%	-20%	-4%	-6%	-2%
Hugo Boss	20%	15%	13%	6%	-1%	1%	6%	-2%	1%
Moncler	32%	9%	17%	20%	5%	-3%	8%	2%	-2%
Salvatore Ferragamo	-8%	-14%	-5%	-17%	-6%	-7%	-4%	-1%	-12%
Richemont	19%	5%	8%	2%	1%	-1%	10%	7%	6%
Jewellery Maisons	24%	9%	12%	3%	4%	4%	14%	11%	11%
Specialist watchmakers	10%	-4%	3%	-1%	-13%	-19%	-8%	-11%	-7%
Swatch	18%		12%		-11%		-12%		-7%

Source: Company reports, Morningstar. Data as of Sept. 29, 2025. Annual and half-year data for Swatch due to reporting. Data for Burberry and Richemont correspond to calendar quarters, not fiscal quarters.

Due to High Share of Fixed Costs, Luxury Profitability Tanks as Sales Decline

Operating Margins Remain Significantly Lower in 2025 Due to Fixed-Cost Underabsorption

Still above pandemic troughs.



The luxury industry has a high share of fixed costs, with selling costs like rental and employee expenses being largely fixed. Due to this, and the need for some brands to invest more in marketing to boost brand heat (for example, Kering's Gucci), luxury margins came under intense pressure in 2024 as sales were marginally up or declining. Most companies experienced margin declines in 2024, which continued into 2025.

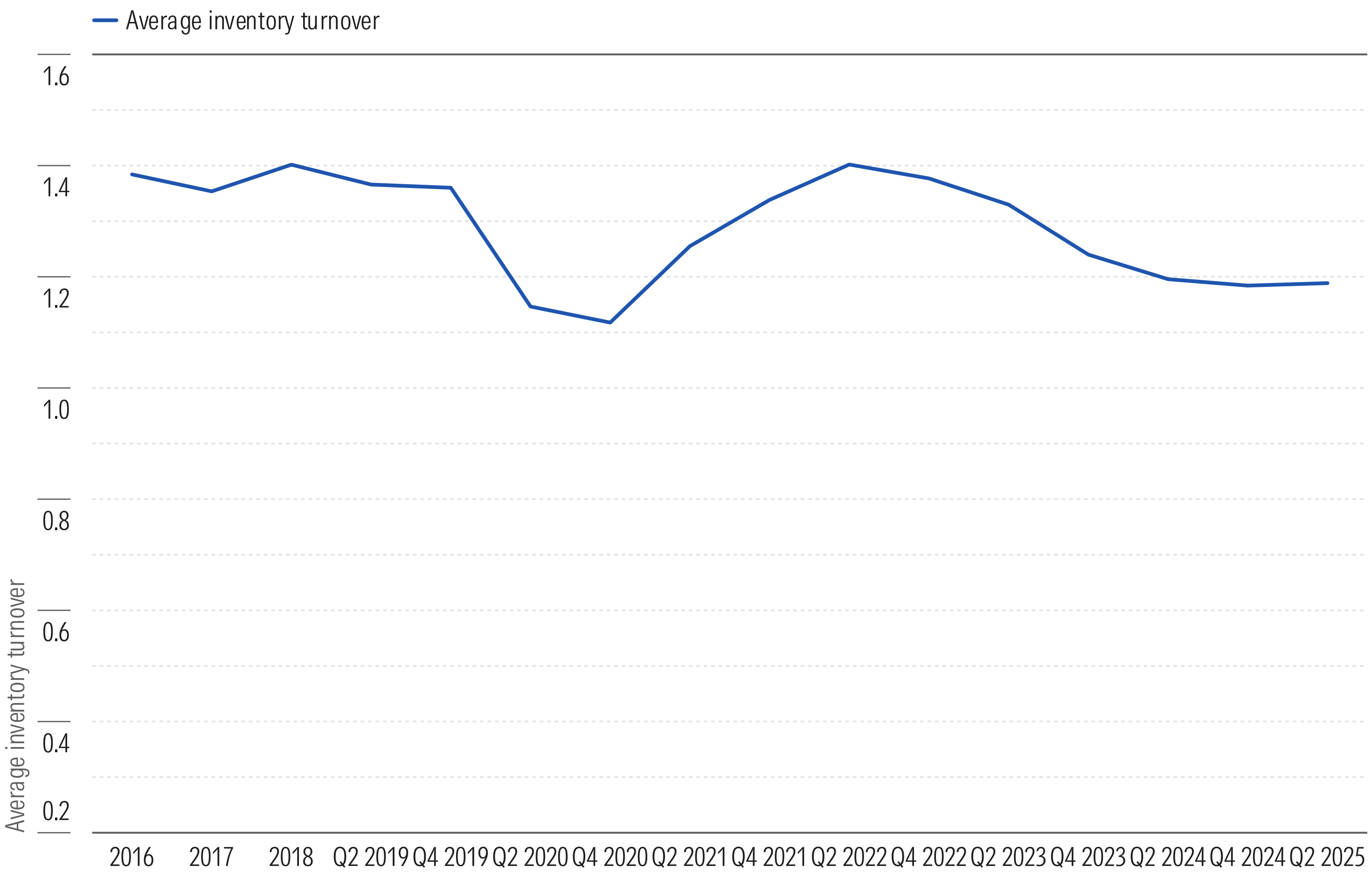
Luxury margins could remain under pressure this year due to likely ongoing cyclical weakness in demand and fewer tailwinds from pricing compared with prior years, not fully offset by cost-control measures.

In the longer term, we believe a cyclical rebound and some margin tailwind from the growing scale are to be expected for most competitively advantaged luxury players.

Source: PitchBook, Morningstar, company reports. Profitability and balance-sheet items are provided semiannually. Latest available data, June 2025.

Inventory Turnover Remains Below Historical Levels

Inventory Slowdown Is a Sign of Potential Overstocking and Could Lead to Discounts



Good inventory management is increasingly essential for luxury players, as excessive discounting and outlet presence can damage brand perception, and destroying unsold goods is frowned upon or even banned from a sustainability perspective.

The downturn in sales in 2024 led to slower inventory turns for most players in the industry. Inventory turns have reached their lowest level since the pandemic, which can be a worrisome trend. Leather goods and apparel players were specifically hit by the slowdown, which can be dangerous if excess inventories are offloaded at a discount.

We believe the companies best positioned to avoid excessive discounting are those with the highest control over distribution, which limits the risk of excess stock in the wholesale channel, and those with strong balance sheets without immediate liquidity needs. Slower-moving carryover items can be managed by limiting production until they are sold, which helps maintain pricing integrity but affects cash generation. Hence, it's not available as a tool to weaker companies, in our view.

Source: PitchBook, Morningstar, company reports. Profitability and balance-sheet items are provided semiannually. Latest available data, June 2025.

Luxury Revenue Drivers

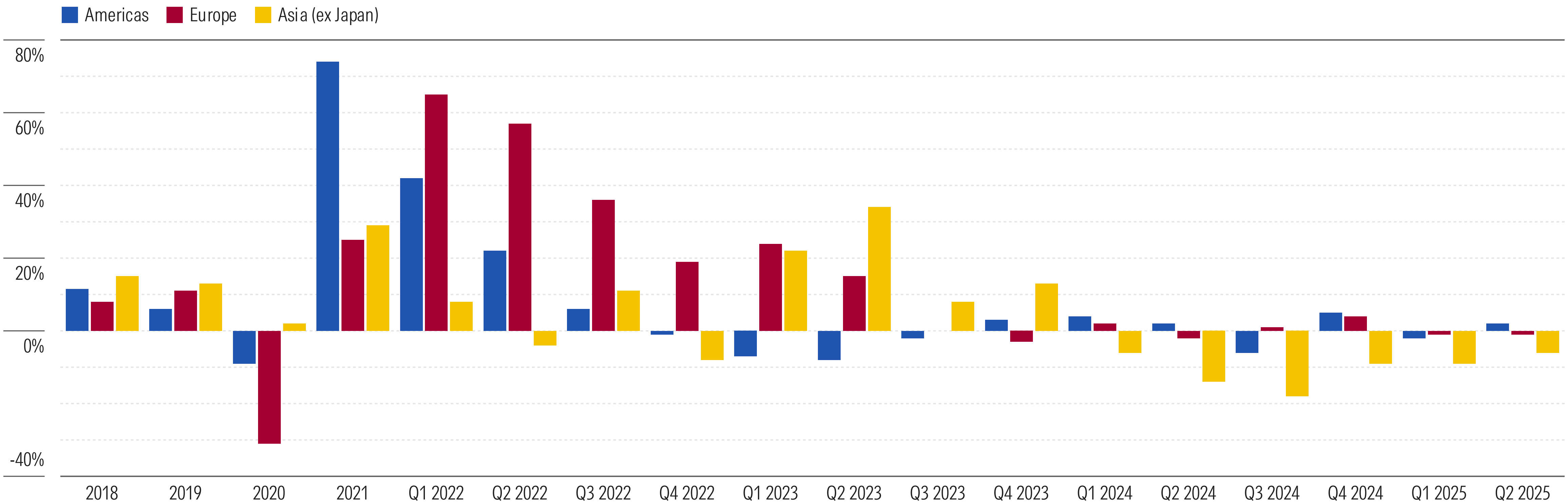
Demand remains weak across regions with Americas slightly positive.

Sales Continue Declining in the Second Quarter in Asia and Europe

In 2024, sales in the Americas and Europe were up slightly, while sales in Asia, excluding Japan and China specifically, came under pressure. Chinese consumer purchases were stronger than sales numbers in China might suggest, as sales to Chinese abroad increased. In the second quarter of 2025 sales in Americas returned to growth, declines in Asia (excluding Japan) moderated and Europe remained steady versus early 2025.

Luxury Sales Dip Again in the Second Quarter of 2025, With Sales in Asia (Excluding Japan) and the Americas Seeing Slight Improvements

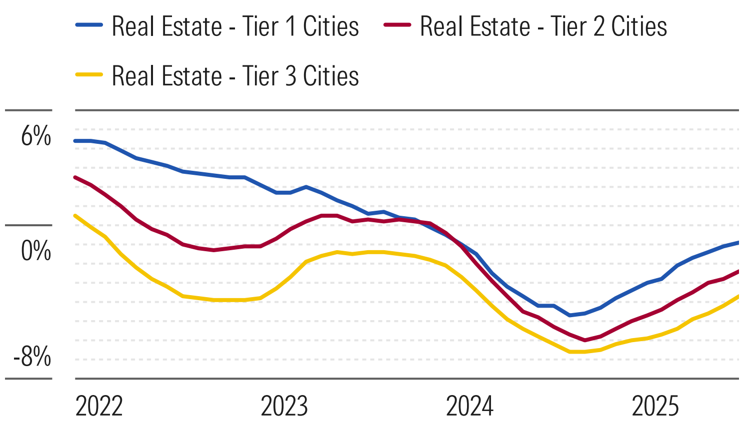
Demand was boosted by strong US consumption and gradual recoveries in select Asian markets, which might not persist.



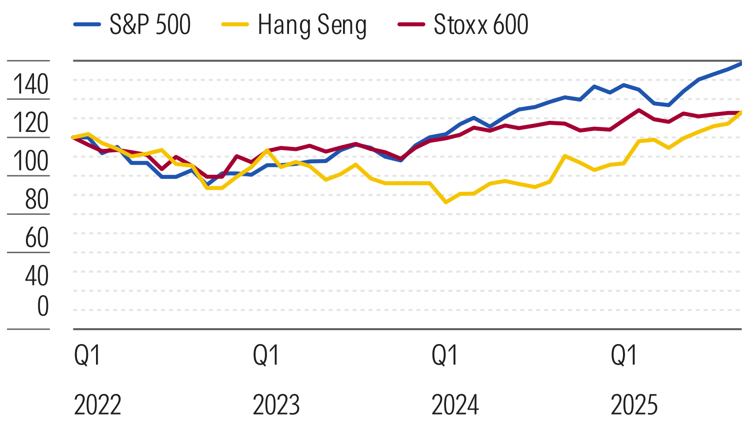
Source: Company reports, Morningstar. Data as of Sept. 29, 2025. Data for Burberry and Richemont correspond to calendar, not fiscal, quarters. Median values for the companies: LVMH, Hermes, and Kering, with its brands, Richemont, Burberry, Moncler, and Hugo Boss.

Asset Market Performance Remains Shaky With Decline in Chinese Real Estate Prices and Stock Price Volatility

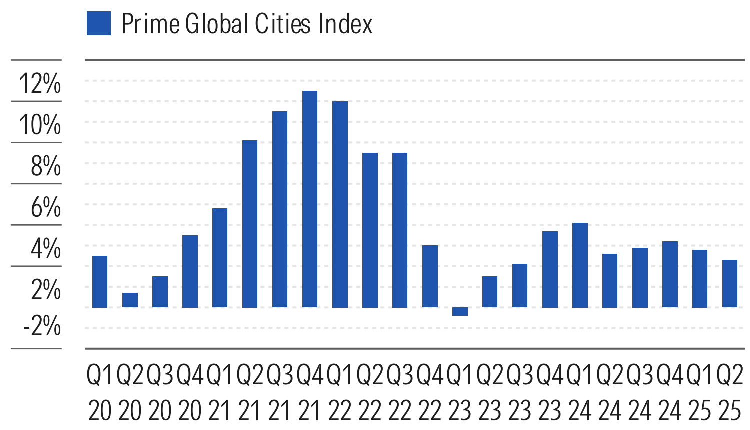
Chinese Real Estate Prices Still Down



US Stocks Up and There Is Recovery in Chinese Stocks



Growth in Prime Real Estate Prices Still Tepid



Chinese real estate prices are an essential driver for consumer savings, given that a high share of Chinese national savings is in real estate (60%-70%). The Chinese property price downturn in 2015 preceded stagnation in global luxury sales in 2016, and we believe this trend is playing out in 2024 and 2025. Our view is that policy easing should gradually help stabilize the price environment. We still see strong potential for Chinese luxury consumption once sentiment improves, given the substantial savings accumulated during the pandemic.

We found that equity prices had significant predictive power of luxury sales before covid-19 (59% lagged correlation of luxury industry growth on S&P 500 returns for 2007-19). In that sense, continued strength in S&P 500 performance could support recovery in luxury consumption in the US.

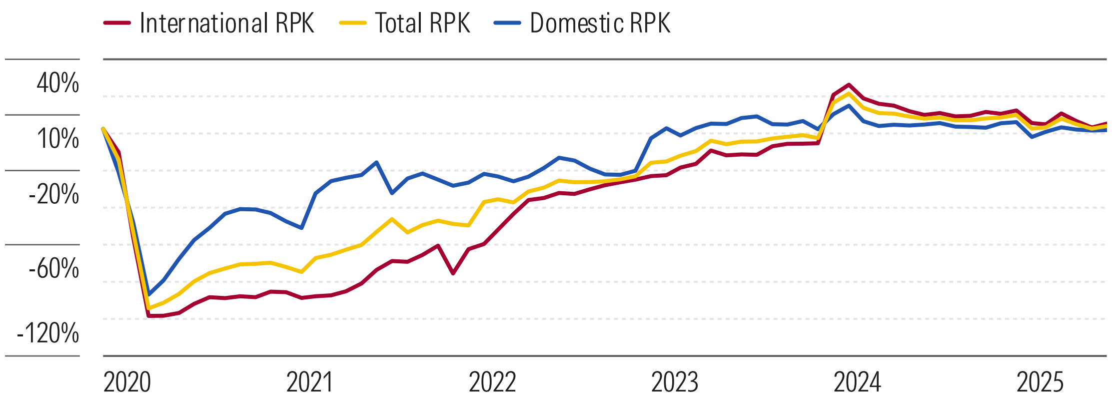
Delays in rate cuts led to a softening in global prime real estate prices, with the second quarter recording the weakest annual growth since the fourth quarter of 2023.

Global prices stand in contrast to weak prices in China, even in Tier 1 cities. Prices for prime real estate in Beijing and Hong Kong were flat/down over the past 12 months.

Sources: Morningstar, Chinese finance ministry, PitchBook, Knight Frank.

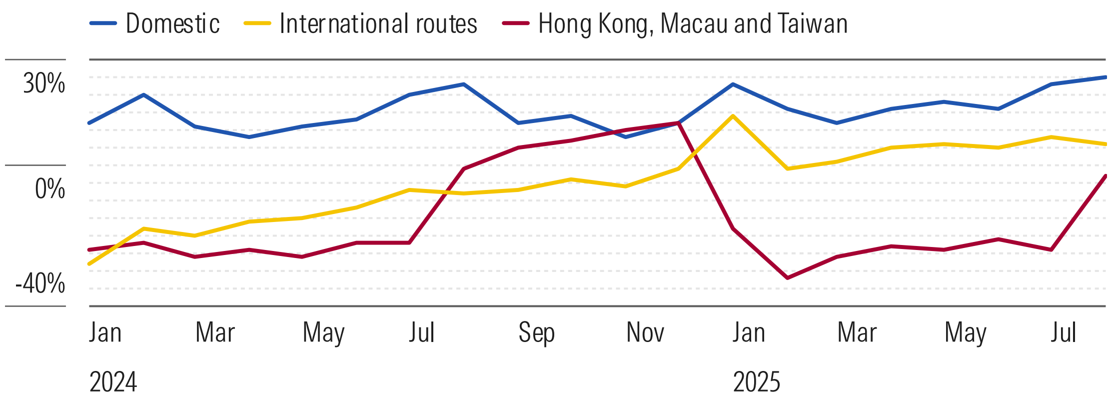
Travel Flows Remain Solid, Supporting Foreign Luxury Purchases

International Travel Flows Remain Strong as Domestic Travel Slows



The recovery in Chinese travel is particularly important for the sector, as Chinese nationals did around two-thirds of their luxury spending abroad before the pandemic. Although the trend toward higher domestic luxury buying was in place before covid, helped by a reduction in taxation, local retail infrastructure development, and brand pricing actions, we expect some of the Chinese travel demand to return, given the psychological propensity of people to self-gift while on vacation and the remaining price differential between China and Europe in a range from 5% (for watches) to 45% (for entry-level luxury bags), according to Bain & Company.

Chinese International Passenger Flows Continue Improving



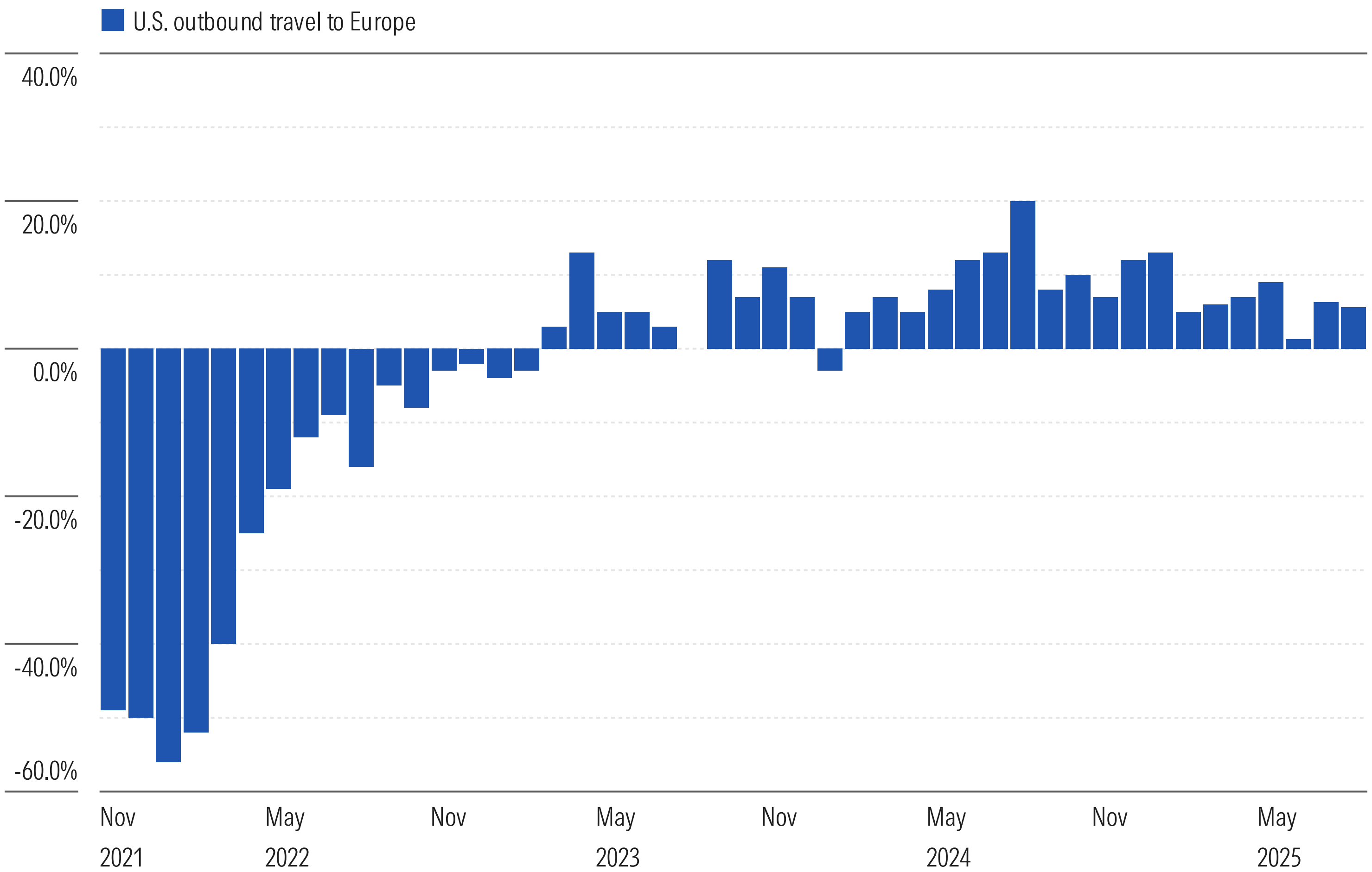
There has been a strong rebound in domestic travel in China since the beginning of 2023 as the government ended its “zero-covid” policy. International trips for mainland Chinese have recently slowed, following strong growth in the first half of 2024, driven by the weakness of the yen, which resulted in fewer trips to Japan.

Share of overseas luxury purchases by Chinese nationals reached 40% in 2024, which is still below 70% of prepandemic levels.

Source: Morningstar, CAAC, International Air Transport Association.

US Travel to Europe Remains on Upward Trajectory

US Travel to Europe Remain Solid



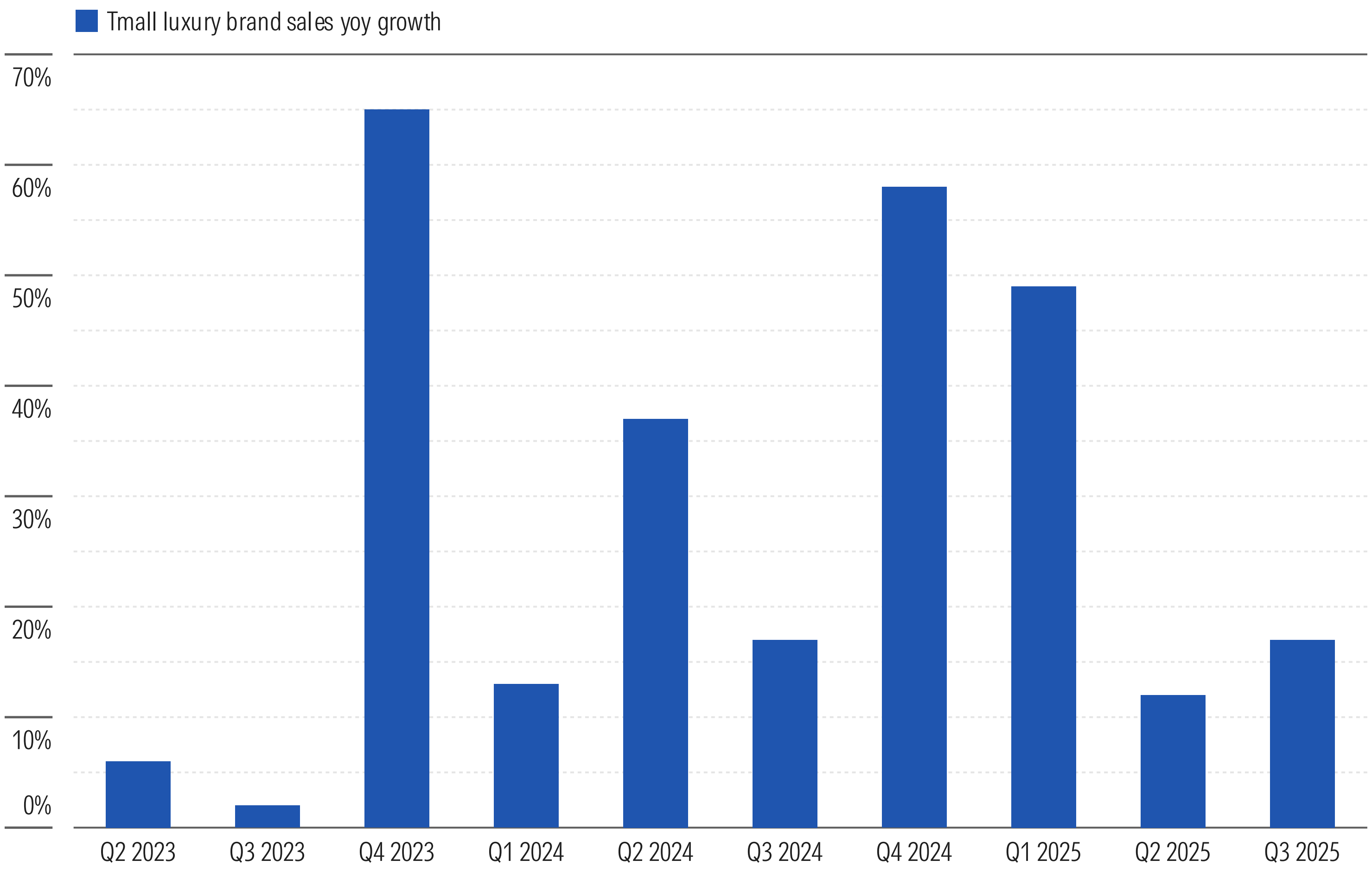
Luxury sales to US consumers have declined since 2023, after very strong growth following covid, supported by one-time payment checks, strong asset markets, and excess savings. We believe there is the potential for US consumer demand to stabilize at lower levels in the current and coming year and grow at a mid-single-digit pace, which aligns with historical trends. We don't expect significant negative fallout from the introduction of tariffs on luxury goods since those have good pricing power and luxury consumers travel more.

In 2025, the number of Americans traveling to Europe maintained momentum compared with the previous year, which should support luxury sales in Europe.

Source: International Trade Administration. From March 31, 2024, growth is year over year; before this date, growth is rebased to 2019 levels.

Tmall Luxury Pavilion Sales Growth Rebounds but Still Trails the First Quarter

Tmall Sales of Luxury Brands Increase in Q3 2025



Alibaba's Tmall, with its Luxury Pavilion platform, is an increasingly important distribution channel for many luxury brands. However, top leather players like Hermes and LVMH brands such as Louis Vuitton and Dior are absent from the platform, relying solely on their own distribution both online and offline.

In 2024 and 2025, sales for the brands and companies we cover have mostly accelerated on the platform. However, performance was very mixed among brands, with the very strong performance of Prada as well as Richemont’s Cartier and Van Cleef & Arpels, but weaker trends for Kering’s brands and Pandora, which continues to struggle in China.

At the beginning of 2025, sales of luxury brands on Tmall accelerated strongly, providing some optimism for performance in the region.

Source: Morningstar, Taosj. Brands included: Gucci, Balenciaga, Saint Laurent (Kering), Longines (Swatch), Salvatore Ferragamo, Prada, Van Cleef & Arpels, Cartier (Richemont), Pandora, and Burberry.

Interest in Luxury Brands Remains Uneven, With Strong Momentum for Cartier, Prada, and Recently, Burberry

Google Trends Suggests Strong Appeal for Cartier, Growing Interest for Louis Vuitton and Prada

	Gucci (Kering)	LV (LVMH)	Prada	Hermes	Moncler	Cartier (Richemont)	Ferragamo	Burberry	Hugo Boss
2023-01	-36%	-11%	6%	-22%	-6%	2%	-2%	-4%	2%
2023-02	-40%	-13%	6%	-9%	8%	-7%	0%	-4%	-10%
2023-03	-35%	-5%	-4%	-6%	5%	12%	-10%	-16%	2%
2023-04	-23%	-10%	-4%	-2%	13%	15%	-5%	-4%	-5%
2023-05	-25%	-7%	-5%	-6%	8%	11%	-10%	-4%	0%
2023-06	-20%	-7%	4%	3%	0%	9%	-8%	-2%	0%
2023-07	-30%	-9%	10%	4%	12%	16%	-2%	-2%	0%
2023-08	-25%	-2%	4%	2%	14%	12%	-4%	11%	2%
2023-09	-20%	-9%	2%	2%	-22%	10%	-13%	-7%	-4%
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2023-12	-13%	-8%	10%	7%	-4%	12%	-1%	3%	-4%
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2024-02	-15%	2%	9%	5%	-6%	29%	0%	6%	2%
2024-03	-5%	-3%	12%	11%	-2%	16%	2%	6%	-2%
2024-04	-10%	-6%	10%	8%	-3%	16%	12%	0%	-2%
2024-05	-8%	-3%	5%	15%	-7%	18%	6%	-4%	-2%
2024-06	-12%	-6%	5%	4%	8%	21%	4%	0%	-5%
2024-07	-10%	-6%	13%	1%	-4%	22%	0%	-2%	-7%
2024-08	-11%	-3%	0%	8%	3%	20%	-2%	0%	-8%
2024-09	-3%	8%	7%	16%	46%	17%	8%	2%	0%
2024-10	-11%	7%	13%	9%	5%	22%	-9%	8%	-2%
2024-11	-8%	6%	3%	1%	7%	21%	-5%	19%	1%
2024-12	-4%	10%	11%	6%	6%	32%	7%	27%	-1%
2025-01	-13%	16%	2%	10%	-5%	14%	-4%	15%	-9%
2025-02	-3%	-3%	-2%	8%	2%	7%	4%	2%	-6%
2025-03	-6%	8%	4%	4%	-2%	12%	4%	14%	-8%
2025-04	-14%	19%	2%	10%	-9%	8%	-10%	4%	-13%
2025-05	-5%	10%	5%	4%	4%	18%	2%	11%	-15%
2025-06	-14%	6%	0%	1%	-4%	7%	-3%	8%	-16%
2025-07	-6%	3%	6%	7%	15%	6%	2%	19%	-11%
2025-08	3%	14%	27%	17%	21%	26%	13%	21%	4%
2025-09	-6%	-5%	10%	-5%	-11%	11%	-2%	19%	-13%

We look at Google Trends to gauge consumer interest in luxury brands. Although this is not a perfect proxy for sales, increased searches often coincide with improving appeal for a particular brand. For instance, searches for the Gucci brand spiked in 2017, driven by the strong popularity of Creative Director Alessandro Michele's collections, but have been on a downward trend since. Meanwhile, search trends for Prada have been upward since 2020, when the brand's performance began to improve.

A current Google search shows continuing strong momentum for Richemont's Cartier (this is also supported by the strong performance of the brand on Tmall) and, surprisingly, Ferragamo. Trends for Kering's Gucci and Hugo Boss remain sluggish. However, interest in Burberry has picked up recently, potentially thanks to new marketing campaigns focused on iconic products. Interest in Prada appears to be regaining traction after months of strong momentum, which was followed by a period of softer consumer interest.

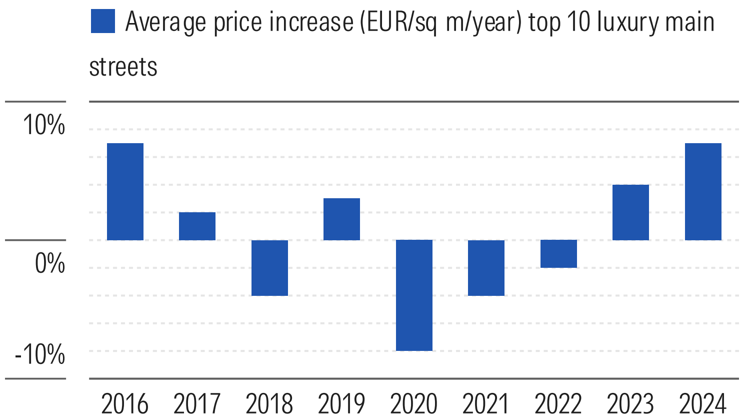
Source Morningstar, Google Trends.

Luxury Cost Drivers

Cost increases accelerate just as a weak top line weighs on margins.

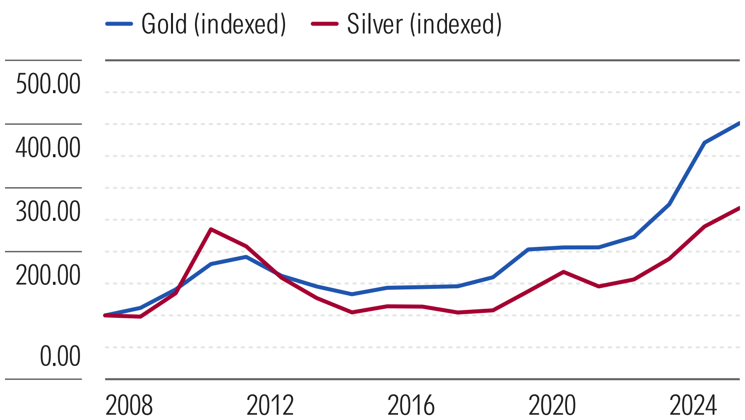
Cost Increases Accelerate Just as Weak Top Line Weighs on Margins

Rental Inflation Accelerates in 2024



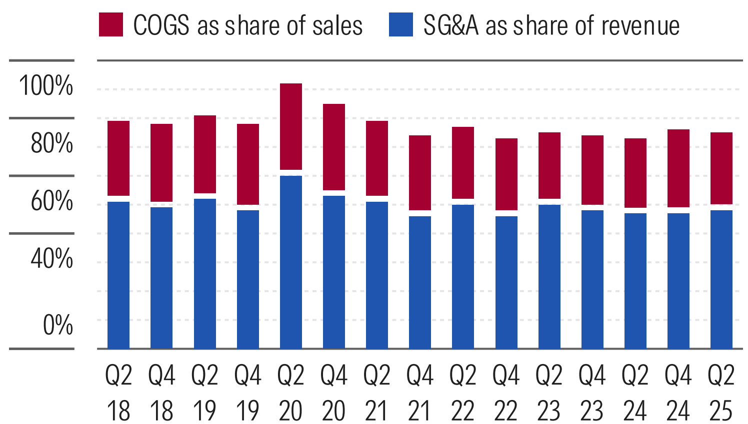
Rental cost inflation unexpectedly accelerated in the top luxury main streets globally, with the most pronounced inflation in European capitals (Milan, Paris, and London) as well as Tokyo (25% local currency increase). The increases come at an unfortunate time, given the industry's top-line pressures, and could weigh on profitability. Further, because a large share of rental and sales personnel costs are fixed (50%-70%), weakness in the top line in 2024 resulted in margin pressures due to underabsorption of fixed costs.

Gold and Silver Prices Rally in 2024



Gold and silver prices rallied recently, potentially weighing on the margins for jewelers like Pandora (silver jewelry), Richemont (gold jewelry), and Tiffany, which is part of LVMH. While we believe that jewelers have the pricing power to offset raw material price increases in the long term, brands are not as responsive to short-term shifts, which can temporarily affect the margin. We see Pandora as the most at risk, given its midprice positioning that limits pricing power.

Operating Costs Weigh on Margins



Both costs of goods sold and operating costs grew in 2024 as a share of revenue for luxury firms. Most luxury firms were more cautious on pricing compared with previous years, on the back of subdued demand. Fixed costs of stores and, in some cases, increased marketing investments (for example, Kering) weighed on the margins due to declining revenue. The luxury industry has high operating leverage. Hence, downturns in demand and revenue weigh on the bottom line disproportionately.

Source: Morningstar, Cushman & Wakefield, Comex, company data. Profitability and balance-sheet items are provided semiannually. Latest available data, June 2025.

Top Picks and Industry Coverage

Increasing number of luxury stocks look attractive.

After a Down Year, an Increasing Number of Luxury Stocks Trade Attractively

Increasing Number of Luxury Stocks Trade Attractively and the Sector Overall Is Fairly Valued

Company (Ticker)	Industry	Market Cap (Billions)	Moat Rating	Uncertainty Rating	Last Close	Fair Value Estimate	Star Rating	P/FVE	P/E	EV/ EBITDA	Yield	1-Year Return
Compagnie Financiere Richemont (SWX: CFR)	Luxury Goods	91 CHF	Wide	Medium	155.60	164.00	★★★	0.95	27.5x	16.4x	1.9%	+29.2%
The Swatch Group (SWX: UHR)	Luxury Goods	8 CHF	Narrow	Medium	152.50	214.00	★★★★	0.71	32.4x	8.8x	3.0%	-7.5%
Pandora (Apparel and Accessories) (CSE: PNDORA)	Luxury Goods	62 DKK	Narrow	High	820.00	1150.00	★★★★	0.71	10.8x	7.0x	2.4%	-15.4%
Brunello Cucinelli (MIL:BC)	Luxury Goods	6 EUR	Narrow	Medium	91.30	68.00	★★	1.34	40.6x	16.2x	1.0%	+4.6%
LVMH Moet Hennessy Louis Vuitton (PAR: MC)	Luxury Goods	275 EUR	Wide	Medium	553.10	620.00	★★★★	0.89	23.2x	11.7x	2.4%	-9.2%
Hermès International (PAR: RMS)	Luxury Goods	227 EUR	Wide	Medium	2161.00	1580.00	★★	1.37	44.3x	28.1x	0.7%	+8.6%
Kering (PAR: KER)	Luxury Goods	35 EUR	Narrow	Medium	297.85	360.00	★★★★	0.80	37.3x	12.6x	2.0%	+35.3%
Prada (HKG: 01913)	Luxury Goods	120 HKD	Narrow	High	46.90	57.00	★★★★	0.82	13.8x	6.6x	3.1%	-13.8%
Burberry (London) (LON: BRBY)	Luxury Goods	4 GBP	Narrow	High	12.14	13.70	★★★	0.89	62.2x	10.9x	0.0%	+93.5%
Hugo Boss (ETR: BOSS)	Apparel Manufacturing	3 EUR	None	Medium	40.78	53.00	★★★★	0.77	10.9x	4.8x	3.4%	+11.7%
Moncler (MIL: MONC)	Apparel Manufacturing	14 EUR	Narrow	Medium	51.00	47.50	★★★	1.07	21.8x	10.9x	2.5%	+3.8%
Salvatore Ferragamo (MIL: SFER)	Luxury Goods	1 EUR	None	High	5.98	6.40	★★★	0.93		7.3x	0.0%	-5.3%
Tapestry (Retail Company) (TPR)	Luxury Goods	24 USD	Narrow	High	115.56	66.00	★	1.75	21.2x	16.3x	1.4%	+155.4%
Capri Holdings (CPRI)	Luxury Goods	3 USD	None	Very High	21.23	45.00	★★★★★	0.47	15.7x	22.3x	0.0%	-49.7%
Luxury Average								**1.07**	**31.19**	**17.55**	**1.7%**	**9.4%**

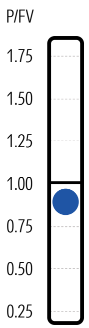
Source: Morningstar. Data as of Oct. 6, 2025.

We Find Some Undervalued Opportunities in Luxury Sector Right Now

Luxury Leather Goods

LVMH Moet Hennessy Louis Vuitton (PAR:MC)

Market Cap	Moat Rating	Last Close	Fair Value Est.	Rating
322b EUR	Wide	553.10	620.00	★★★★

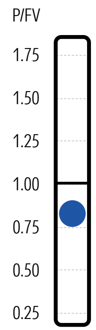


LVMH is the number one luxury group worldwide by revenue, and with its wide moat became attractive in an industrywide tariff-related selloff. Direct impact from tariffs for luxury is limited, given long-term pricing power and high gross margins. Economic fallout from tariffs is more of a danger but over the long term luxury has been resilient despite cyclicality with no technical obsolescence, strong pricing power, and high entry barriers. LVMH has some of the strongest brands in the industry and unmatched scale and financial resources.

Luxury Leather Goods

Kering (PAR:KER)

Market Cap	Moat Rating	Last Close	Fair Value Est.	Rating
41b GBP	Narrow	297.85	360.00	★★★★

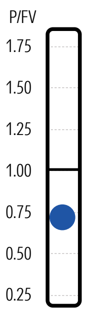


Second-largest luxury group by revenue, trading at 37 times consensus earnings, 23 percent-plus upside to our fair value estimate. Although Kering's flagship Gucci brand is experiencing slowing momentum, with its strong brand recognition, very significant marketing resources, control over distribution (greater than 90%), and access to top managerial and creative talent, Gucci should be in a position to maintain its pricing and desirability in the long run.

Jewelry

Pandora (Apparel and Accessories) (CSE: PNDORA)

Market Cap	Moat Rating	Last Close	Fair Value Est.	Rating
10B CHF	Narrow	820.00	1,150.00	★★★★

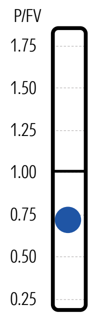


Pandora is a premium jewelry brand and the market leader in the charm bracelet category. Its valuation is very appealing with a 40% upside to the our fair value estimate . Notably, Pandora's scale and strong marketing budget position it well to outperform the broader industry. In addition, its pricing power, supported by its exposure to the gifting segment, positions it well to outperform.

Luxury Watches

The Swatch Group (SWX:UHR)

Market Cap	Moat Rating	Last Close	Fair Value Est.	Rating
10B CHF	Narrow	152.50	214.00	★★★★



Swatch benefits from a narrow moat through brand intangible assets and manufacturing scale. Its valuation is very appealing as tailwinds are not priced in. Notably, Swatch should benefit from high exposure to Chinese consumption that we expect to recover thanks to pent-up postpandemic demand and long-term income growth. Swatch should also benefit from bottoming out of lower-priced watches as smartwatches, a competitive threat, get closer to reaching maturity as well as from operating leverage through cost-cuts and automation implemented in the past.

Source: Morningstar. Data as of Oct. 6, 2025.

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