Global Luxury Goods

Global Luxury Good: The Triple Whammy Rule

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We go back to our research on economics & valuation. We update top line, EBIT, TSR and ROIC correlations.

Luxury stocks trade on top line growth surprises. This reflects the fundamental appeal of the sector: sustained growth. Over the past 20 years, global luxury has delivered c. +8% CAGR, roughly 3x global GDP growth. Investors enter the sector for this growth premium, and valuation frameworks are anchored accordingly. As a result, deviations in top-line growth versus expectations remain the most important near-term driver of share price performance.

This is because luxury is a fixed cost industry… Gross margins are structurally high at 70-80%, as input costs are only a small portion of retail prices, and operating expenses are largely fixed, concentrated in retail store leases, sales associates and communication costs. Scale is a significant competitive advantage: larger brands can spend a smaller portion of sales, while smaller brands compete for similar locations, customers, and talent. This creates a virtuous cycle, where scale drives efficiency and competitive strength (Video - Global Luxury Goods: Charts of the Month – 11. The mega-brand Virtuous Cycle).

...faster top line growth produces operating leverage… As organic sales increase, absolute marketing communication rises, store productivity improves and fixed costs are absorbed across a larger revenue base, driving EBIT margin expansion. In this way, top-line growth becomes the critical transmission mechanism through to profitability. The sector's earnings are therefore highly sensitive to revenue momentum.

...and that is when valuation multiples expand. YoY changes in sector EBIT margin broadly correlate with changes in EV/sales multiples. The relationship holds particularly well in luxury because items below EBIT, such as finance costs and taxes, tend to be relatively stable, allowing EBIT progression to translate cleanly into earnings. ***While the sector ultimately trades on P/E multiples, organic sales growth provides a practical shorthand for forecasting earnings*** through its impact on margins and operating leverage.

ROIC correlates with top line growth too. Sector revenue growth shows a strong correlation with ROIC, which is intuitive given the underlying mechanics. Higher revenue supports margin expansion while also improving invested capital turnover, enhancing both components of the ROIC equation. As a result, periods of stronger growth tend to coincide with higher capital efficiency.

And ROIC and TSR work hand in hand. Changes in ROIC, in turn, are a strong predictor of total shareholder returns over the medium term. This relationship holds consistently in both upcycles and downcycles, as evidenced by longitudinal sector analysis (see Global Luxury Goods: ROIC normalization continues with self-help stories outperforming) as well as broader cross-sector work (See Blackbook - Return on Invested Capital…A Global Quest). Improvements in ROIC typically drive valuation re-rating, which feeds directly into TSR, reinforcing the importance of tracking returns alongside growth and margins.

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Against this framework, the current sector setup appears attractive:

Consensus expectations for FY26E place sector ROIC at around 15.0%, above the 10yr average of 14.6%... Our estimates are modestly higher at 15.9%, supported by slightly stronger constant currency growth assumptions and marginally higher EBIT margins. This suggests that, fundamentally, the sector continues to deliver above-average returns despite recent macro uncertainties.

...but the sector trades at a -9% discount vs. 10yr average multiples. Global luxury sector de-rated significantly in 2026 so far, trading at 3.7x EV/ sales on NTM basis, representing an -18% de-rating from 2025 average. This leaves valuations at a -9% discount to the 10yr average, or a -5% discount when excluding the outlier year of 2021. The combination of resilient ROIC and compressed multiples highlights a growing disconnect between fundamentals and valuation.

The primary reason for this disconnect are doubts on whether luxury growth will continue to sustain similarly to the past. Sector growth has slowed on the back of the Chinese real estate crisis and subsequent consumer confidence collapse. The debate is whether this is transient or structural. We will go back to this. Suffice to say in this context that whenever the sector slowed in the past 30 years, investors have typically wondered if this was the end of luxury. So far, it never was.

BERNSTEIN TICKER TABLE

Ticker	Rating	Cur	28 May 2026 Closing Price	Price Target	TTM Rel. Perf.	Cur	Adjusted EPS 2025A	Adjusted EPS 2026E	Adjusted EPS 2027E	Adjusted P/E (x) 2025A	Adjusted P/E (x) 2026E	Adjusted P/E (x) 2027E
BC.IM (Brunello Cucinelli)	O	EUR	81.64	108.00	(36.8)%	EUR	1.99	2.26	2.65	41.1	36.1	30.8
BRBY.LN (Burberry)	O	GBp	1,182.00	1,300.00	5.1%	GBP	0.24	0.39	0.55	48.4	30.4	21.5
CFR.SW (Richemont)	O	CHF	165.50	200.00	(5.6)%	EUR	5.96	6.89	7.71	30.5	26.4	23.6
ZGN	O	USD	14.92	14.00	61.8%	EUR	0.45	0.42	0.60	28.2	30.3	21.2
RMS.FP (Hermes)	O	EUR	1,634.00	2,150.00	(45.0)%	EUR	43.12	44.33	52.47	37.9	36.9	31.1
KER.FP (Kering)	M	EUR	250.95	220.00	32.8%	EUR	4.35	6.66	10.04	57.7	37.7	25.0
MC.FP (LVMH)	O	EUR	480.95	600.00	(13.6)%	EUR	22.73	22.22	26.71	21.2	21.6	18.0
MONC.IM (Moncler)	M	EUR	55.38	57.50	(12.3)%	EUR	2.31	2.44	2.64	24.0	22.7	21.0
1913.HK (Prada SpA)	O	HKD	36.68	50.00	(77.0)%	EUR	0.33	0.32	0.36	12.1	12.7	11.2
SFER.IM (Ferragamo)	O	EUR	9.55	8.80	50.7%	EUR	(0.30)	0.04	0.15	(32.4)	254.4	65.1
UHR.SW (Swatch)	O	CHF	214.10	180.00	43.0%	CHF	0.03	4.32	8.16	N/M	49.5	26.2
EDME			1,550.34									
EMLSF			6,039.26									
ASIAX			2,010.20									

O - Outperform, M - Market-Perform, U - Underperform, NR - Not Rated, CS - Coverage Suspended

BRBY.LN, CFR.SW base year is 2026;

Source: Bloomberg, Bernstein estimates and analysis.

INVESTMENT IMPLICATIONS

The trajectory of a recovery in global luxury demand remains uncertain. We find two sources of volatility at play: a) underlying demand gyrations, as consumers navigate a fragile macro-economic environment and a tenser and tenser geopolitical environment; and b) short-term investors playing the sector long and short, amplifying upswings and downswings beyond natural news flow. In this context of heightened uncertainty, we would take a more defensive posture with a core exposure to plain vanilla:

1) We would prefer high-quality names "at fair value"... **Richemont** is our top preference due to strong jewellery momentum and leadership, with **Brunello Cucinelli** also favored for their quality and potential mean reversion. It is difficult to be positive on **Hermès** in the short-term, but one weak quarter can be forgiven by the market, if they return to high single digit growth (Hermès: Valuations already discount a 'Ferrari reset').

2) ...as well as the self-help stories with more promising trajectories. **LVMH** sits between high quality and self-help. Lingering concerns around the W&S turnaround and the Arnault family's 'Darwinian' succession process are counter-balanced by Dior's revival, cost efficiencies, and Louis Vuitton's strength; Turnaround at **Burberry** is well on track. One-year anniversary of the Burberry Forward strategy has paid off, in the form of improved brand momentum and stronger full-price sell-through. With a solid foundation in place, the next leg of the turnaround will see focus shifting to driving store productivity, by capitalizing on the extended momentum in other categories from the core outerwear & scarf; **Ferragamo** is at the earlier stage of and trading at the lower end of the trading range. Recent conversation with management suggests a possible turnaround in the making, as a team of "old hands" are tackling key issues around the brand, assortment and retail store network.

We take this opportunity to update our Brunello Cucinelli, Ferragamo and Zegna models post AR publication. Our forecasts remain unchanged.

DETAILS

Luxury stocks trade on top line growth surprises. This reflects the fundamental appeal of the sector: sustained growth. Over the past 20 years, global luxury has delivered c. +8% CAGR, roughly 3x global GDP growth. Investors enter the sector for this growth premium, and valuation frameworks are anchored accordingly. As a result, deviations in top-line growth versus expectations remain the most important near-term driver of share price performance.

EXHIBIT 1: **Luxury stocks trade on top line growth surprises**

Quarterly Organic Revenue Growth Performance vs. Consensus and T+1 Share Price Movements (Calendar Quarter)																		
Company	**Segment**	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**1Q23**	**2Q23**	**3Q23**	**4Q23**	**1Q24**	**2Q24**	**3Q24**	**4Q24**	**1Q25**	**2Q25**	**3Q25**	**4Q25**	**1Q26**
Brunello Cucinelli	Group			↑/ ↑	↑/ ↑	–	–	↑/ ↑	↑/ ↑	–	–	↑/ ↑	↑/ ↑	–	–	–	↓/ ↓	↑/ ↑
Burberry	Retail	–	–	↑/ ↑	–	–	↑/ ↑	↓/ ↓	↓/ ↓	↓/ ↓	↓/ ↓	↑/ ↑	↑/ ↑	↑/ ↑	↑/ ↑	↑/ ↑	↑/ ↑	↓/ ↓
Richemont	JM	–	–	↑/ ↑	–	↑/ ↑	–	↓/ ↓	↑/ ↑	↑/ ↑	–	–	↑/ ↑	↑/ ↑	↑/ ↑	↑/ ↑	–	–
Zegna	Group											↓/ ↓	↑/ ↑	–	–	↓/ ↓	–	↑/ ↑
Hermes	Group	↑/ ↑	↑/ ↑	↑/ ↑	↑/ ↑	↑/ ↑	↑/ ↑	↑/ ↑	↑/ ↑	–	–	↑/ ↑	↑/ ↑	↓/ ↓	–	–	↑/ ↑	↓/ ↓
Kering	Gucci	↓/ ↓	–	↓/ ↓	–	↓/ ↓	–	↓/ ↓	–	–	↓/ ↓	–	–	–	–	↑/ ↑	↑/ ↑	↓/ ↓
LVMH	F&LG	↑/ ↑	–	↑/ ↑	–	↑/ ↑	–	↓/ ↓	–	–	↓/ ↓	↓/ ↓	–	↓/ ↓	–	↑/ ↑	↓/ ↓	↓/ ↓
Moncler	Group	–	↑/ ↑	↓/ ↓	↑/ ↑	–	↑/ ↑	↓/ ↓	↑/ ↑	–	↓/ ↓	↓/ ↓	↑/ ↑	–	↓/ ↓	–	↑/ ↑	–
Prada	Group					↑/ ↑	–	↓/ ↓	↑/ ↑	↑/ ↑	↑/ ↑	↑/ ↑	–	–	↓/ ↓	↑/ ↑	–	–
Salvatore Ferragamo	Group	↑/ ↑	–	↑/ ↑	–	↓/ ↓	↑/ ↑	↓/ ↓	–	–	↓/ ↓	–	↑/ ↑	–	↓/ ↓	↑/ ↑	–	–

Key

↑/ ↑	*Revenue growth beat consensus expectations, and share price moved up in the trading day immediately after*
↓/ ↓	*Revenue growth missed consensus expectations, and share price moved down in the trading day immediately after*
–	*Revenue growth beat/ missed consensus expectations, and share price moved down/ up in the trading day immediately after*

Source: Company reports, Bloomberg, Bernstein analysis

This is because luxury is a fixed cost industry… Gross margins are structurally high at 70-80%, as input costs are only a small portion of retail prices, and operating expenses are largely fixed, concentrated in retail store leases, sales associates and communication costs. Scale is a significant competitive advantage: larger brands can spend a smaller portion of sales, while smaller brands compete for similar locations, customers, and talent. This creates a virtuous cycle, where scale drives efficiency and competitive strength (Video - Global Luxury Goods: Charts of the Month – 11. The mega-brand Virtuous Cycle).

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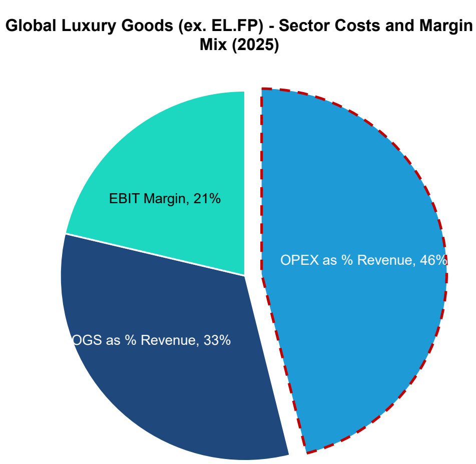
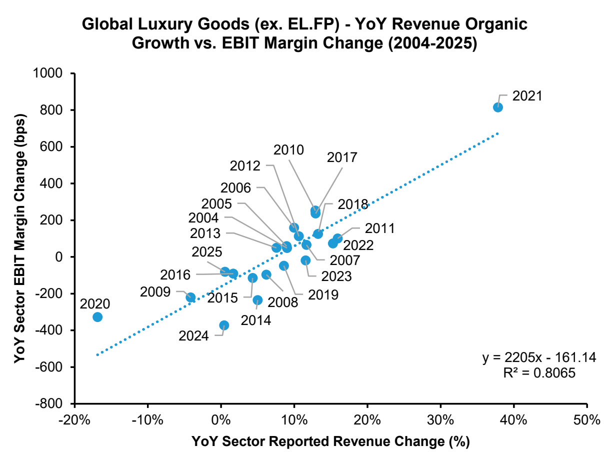
EXHIBIT 2: **Global luxury is a fixed costs industry**



Source: Company reports, Bernstein analysis

EXHIBIT 3: **Faster top line growth produces operating leverage**



Source: Company reports, Bernstein estimates and analysis

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EXHIBIT 4: **EBIT margin expansion correlates with YoY change in sector EV/ sales multiples**

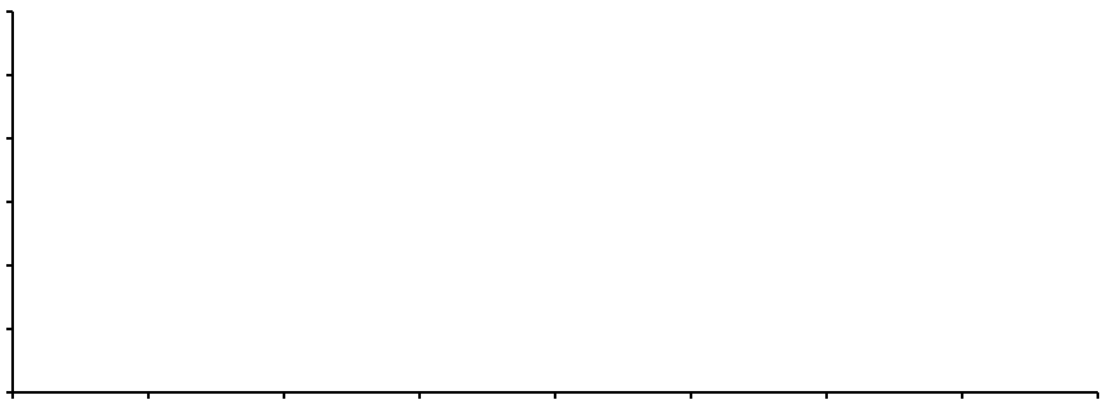
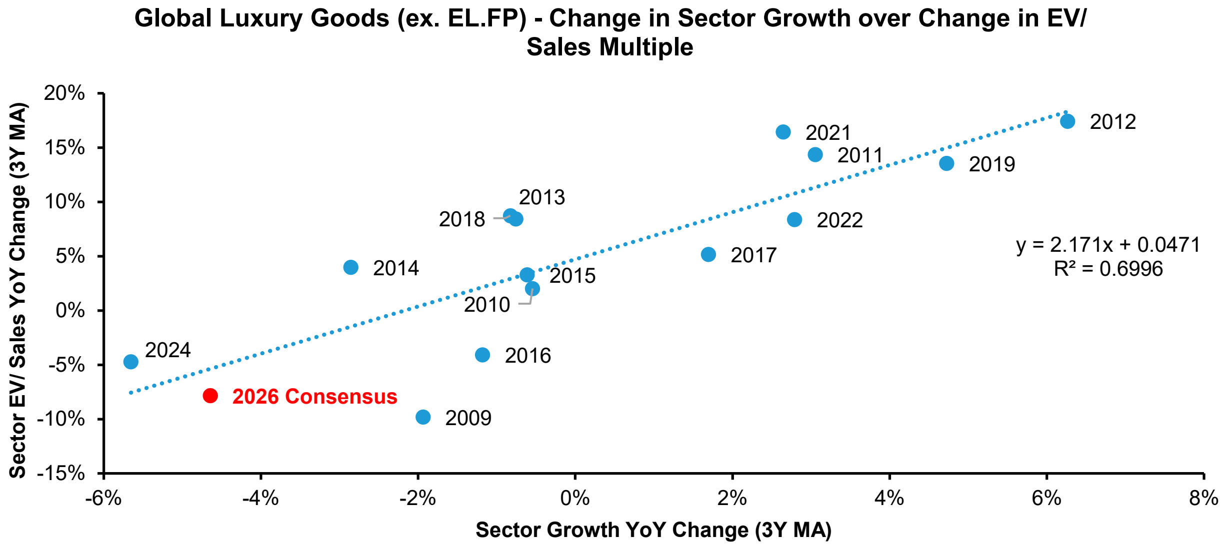


EXHIBIT 6: **Organic sales growth correlates with valuation multiple, as it provides a practical shorthand for forecasting earnings through its impact on margins and operating leverage**



Source: Bloomberg, Bernstein analysis

ROIC correlates with top line growth too. Sector revenue growth shows a strong correlation with ROIC, which is intuitive given the underlying mechanics. Higher revenue supports margin expansion while also improving invested capital turnover, enhancing both components of the ROIC equation. As a result, periods of stronger growth tend to coincide with higher capital efficiency.

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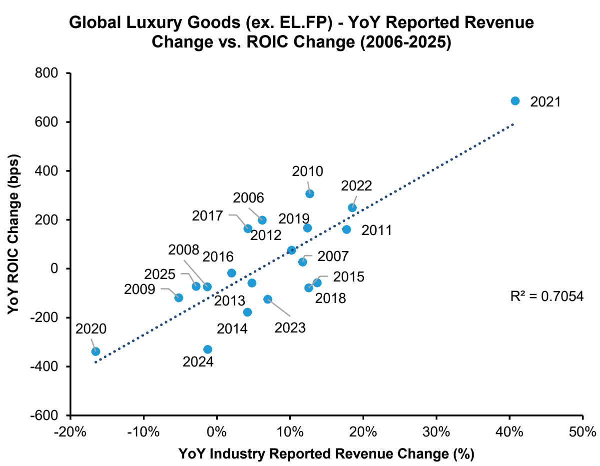
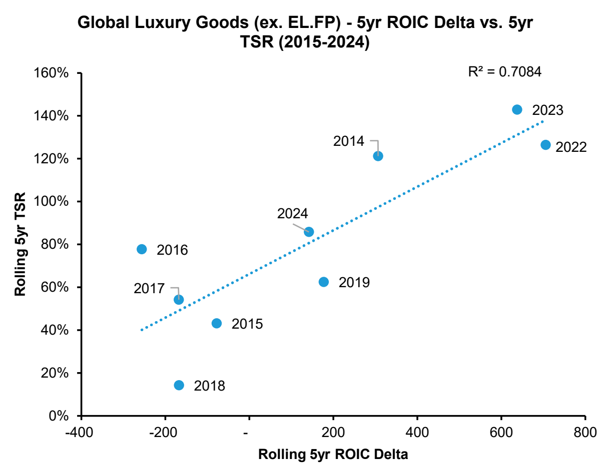
EXHIBIT 7: **Sector sales growth also positively correlates with changes in ROIC**



Source: Company reports, Bloomberg, Bernstein analysis and estimates

EXHIBIT 8: **Change in industry ROIC correlates with TSR in the mid-term**



Source: Company reports, Bloomberg, Bernstein analysis and estimates

Against this framework, the current sector setup appears attractive:

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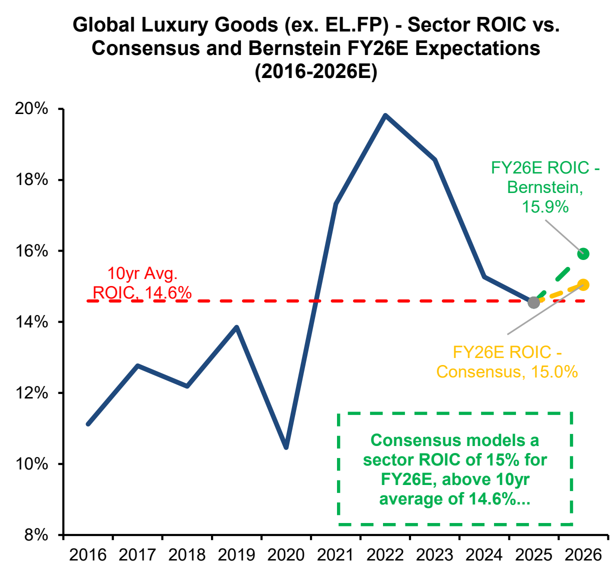
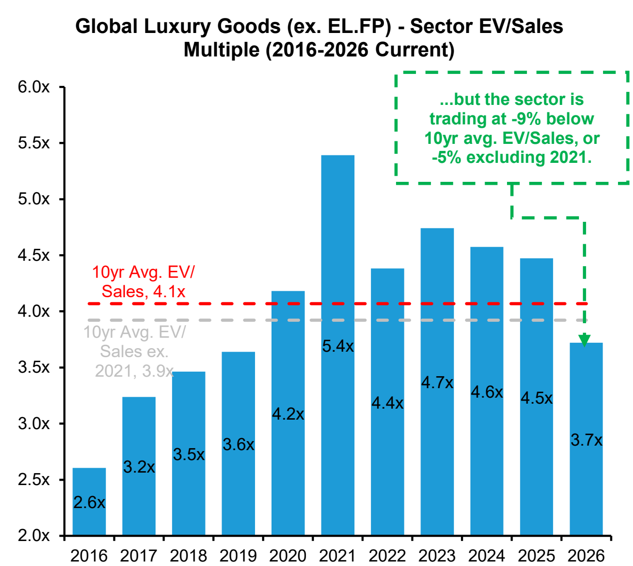
EXHIBIT 9: **Consensus expectations for FY26E place sector ROIC at around 15.0%, above the 10yr average of 14.6%...**



Source: Bloomberg, Company reports, Bernstein analysis

EXHIBIT 10: **...but the sector trades at a -9% discount vs. 10yr average multiples**



Source: Bloomberg, Bernstein analysis

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RATINGS DEFINITIONS, BENCHMARKS AND DISTRIBUTION

EQUITY RATINGS DEFINITIONS

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The Bernstein brand rates stocks based on forecasts of relative performance for the next 12 months versus the S&P 500 for stocks listed on the U.S. and Canadian exchanges, versus the Bloomberg Europe Developed Markets Large and Mid Cap Price Return Index EUR (EDME) for stocks listed on the European exchanges and emerging markets exchanges outside of the Asia Pacific region, versus the Bloomberg Japan Large and Mid Cap Price Return Index USD (JPL) for stocks listed on the Japanese exchanges, and versus the Bloomberg Asia ex-Japan Large and Mid Cap Price Return Index (ASIAX) for stocks listed on the Asian (ex-Japan) exchanges -unless otherwise specified.

The Bernstein brand has three categories of ratings:

- Outperform: Stock will outpace the market index by more than 15 pp
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- Underperform: Stock will trail the performance of the market index by more than 15 pp

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Not Rated: A rating assigned when the stock cannot be accurately valued, or the performance of the company accurately predicted, at the present time. The covering analyst may continue to publish research reports on the company to update investors on events and developments.

Not Covered (NC) denotes companies that are not under coverage.

Bernstein brand stock ratings are based on a 12-month time horizon.

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The Autonomous brand rates common stocks as indicated below. As our benchmarks we use the Bloomberg Europe 500 Banks And Financial Services Index (BEBANKS) and Bloomberg Europe Dev Mkt Financials Large and Mid Cap Price Ret Index EUR (EDMFI) index for developed European banks and Payments, the Bloomberg Europe 500 Insurance Index (BEINSUR) for European insurers, the S&P 500 and S&P Financials for US banks and Payments coverage, S5LIFE for US Insurance, the S&P Insurance Select Industry (SPSIINS) for US Non-Life Insurers coverage, and the Bloomberg Emerging Markets Financials Large, Mid and Small Cap Price Return Index (EMLSF) for emerging market banks and insurers and Payments. Ratings are stated relative to the sector (not the market).

The Autonomous brand has three categories of common stock ratings:

- Outperform (OP): Stock will outpace the relevant index by more than 10 pp
- Neutral (N): Stock will perform in line with the market index to within +/-10 pp
- Underperform (UP): Stock will trail the performance of the relevant index by more than 10 pp

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Not Rated: A rating assigned when the stock cannot be accurately valued, or the performance of the company accurately predicted, at the present time. The covering analyst may continue to publish research reports on the company to update investors on events and developments.

Those denoted as ‘Feature’ (e.g., Feature Outperform FOP, Feature Under Outperform FUP) are our core ideas.

Not Covered (NC) denotes companies that are not under coverage.

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The Autonomous brand has three categories of preferred stock ratings:

- Outperform (OP): The total return of the preferred instrument is expected to outperform preferred securities of other issuers operating in similar sectors or rating categories over the next six months.
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Equity Rating	Market Abuse Regulation (MAR) and FINRA Rating Category	Global Rating Distribution	Investment Banking Relationships*
Outperform	BUY	51.1%	16.5%
Market-Perform (Bernstein Brand) Neutral (Autonomous Brand)	HOLD	36.3%	17.8%
Underperform	SELL	12.6%	14.9%

* These figures represent the percentage of companies within each equity rating category for which affiliates of Bernstein have provided investment banking services within the previous 12 months.
As of March 31, 2026. All figures are updated quarterly.

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