Louvain School of Management

Fundamental analysis of a stock: Hermès International

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Declaration

During the preparation of this master's thesis, the author utilized Grok, Chat GPT and Quillbot for the following purpose:

1. Reformulate sentences

2. Generate references and put them in alphabetical order

3. Generate ideas

After using Grok, Chat GPT and Quillbot, the author diligently reviewed and edited the content produced by the tool. I take full responsibility for the final content presented in this thesis.

By signing this declaration, I affirm that the content of this master's thesis reflects my original work, augmented by the responsible use of AI.

20.05.2025

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INTRODUCTION

Hermès holds a unique place in the luxury market. In contrast to its peers, it has pursued a strategy of deliberate growth, founded on rarity, high-quality craftsmanship, and long-term autonomy. This strategy has, over time, not only built extremely strong brand equity but also delivered exceptional financial results. While the company is currently experiencing slower growth compared to the post-COVID period, this is partly due to political and geopolitical tensions. Additionally, the luxury market has been impacted, notably by a decline in consumer spending in China.

This paper aims to determine whether Hermès' current market valuation is justified by its fundamentals. To answer that, a detailed financial and strategic analysis is conducted, combining historical facts, forward-looking projections, and market-based valuation methods. The first part of the study focuses on the company's structure, governance, competitive standing, and sustainability strategy. The second part looks at the financial trajectory of Hermès between 2018 and 2024, identifying the main drivers of its growth in revenue, profitability, and cash generation. This is then utilized as a foundation for projecting future performance for the 2025–2030 period.

In the final section, we use discounted cash flow valuation analysis with peer comparison to come up with a target price. While the goal of this analysis is to examine not just the potential upside for Hermès but also how much of the valuation is based on rational expectations as opposed to overvaluation driven by speculative sentiment, the conclusion integrates both financial data and strategic positioning to support a recommendation, with appropriate nuance considering the volatile nature of global luxury demand.

CHAPTER 1 – LITERATURE REVIEW

When first starting to invest in specific companies, one of the most crucial factors in generating returns over the long term is the valuation at which you buy your shares. By understanding how to calculate the intrinsic value of a company, an investor can identify market opportunities and build a robust portfolio *(Simply Ethical, 2024)*. The father of valuation, Aswath Damodaran, defines valuation not only as a pricing tool but also as a decision-making support in portfolio management, corporate finance, and M&A *(Damodaran, 2012)*.

There are two main valuation methods for public companies. First there is the intrinsic value, Pinto et al. (2015) define it as the estimation of value based on fundamentals, typically through discounted cash-flow (DCF) models. Damodaran (2012) argues that discounted cash flow models, though sensitive to assumptions, remain the most theoretically grounded way to estimate intrinsic value especially for companies with very predictable cash flow. To find the intrinsic value using the DCF Method we need to predict future cash flow which we then to discount to today's value usually with the Weighted Average Cost of Capital (WACC) *(Investopedia, 2025)*. Damodaran (2012) indicates that the DCF Method is most effective when a company has stable, predictable cash flows as is often the case for companies with a capital light business model. Firms like Hermès are suitable for a DCF due to their stable margins and long-term brand equity.

The Terminal Value represents one of the most critical elements in the Discounted Cash Flow (DCF) methodology, which Aswath Damodaran discussed in *Investment Valuation: Tools and Techniques for Determining the Value of Any Asset (3rd ed., 2012)*. Terminal Value often accounts for 50% of the valuation or sometimes even more, making it a crucial assumption. Damodaran (2012) outlines 3 methods for calculating it. First, there is the Gordon Growth Model which assumes that cash flow grows indefinitely, growth rate needs to be conservative and is usually the long-term growth rate of the economy. Secondly, there is the liquidation value which assumes the business ceases operations at the end of the forecast period, and its assets are sold off. Lastly, there is the exit multiple approach, this means assuming the business is sold at the end of the forecast period, with the terminal value based on a multiple of a financial metric (EV/Sales, EV/EBITDA, EV/FCF, etc.)

Then there is the relative valuation which relies on the pricing of comparable companies using market multiples. Studying these multiples allows analysts to assess if a firm is overvalued, undervalued, or properly priced in comparison to other companies in the industry *(Investopedia, 2025).* This approach is mostly utilized for businesses in rapidly changing industries or where predicting future cash flows is unreliable or impossible due to negative cash flows.

In practice, investment banks and equity research teams often complement DCF valuation with comparable company analysis *(Rosenbaum & Pearl, 2013)*. This triangulation helps account for market sentiment, transaction trends, and investor expectations, factors not captured by purely fundamental models.

Intrinsic and relative valuation both have their limitations. Intrinsic valuation, while being theoretically a very precise method, depends on the hypothesis made, especially for the discount rate and the terminal value. A minor change in the WACC or growth forecasts can change the estimated intrinsic value *(Damodaran, 2012).* Regarding Relative valuation, it relies on market efficiency, if the market is not efficient, the results can be misleading. Also, while it provides a broad perspective, it may overlook the finer points of a company's intrinsic value *(Bizworth, 2023)*.
Pinto et al. (2015) caution that even skilled analysts may arrive at different valuations using the same model, due to subjective inputs.

Regarding Hermès, the DCF method is the most relevant due to its high cash flow generation, high margins and capital light business model. The company's scarcity-driven supply model and long product lifecycle contribute to forecast stability, reducing the margin of error in intrinsic valuation. However, using comparable multiples (relative valuation) can be essential to contextualize valuation relative to luxury sector *(Rosenbaum & Pearl, 2013).*

CHAPTER 2 – STRATEGIC ANALYSIS

1. Presentation of the Company

This section has as goal to introduce Hermes International, its history and activities. We will also introduce the strategy that the company implemented a long time ago and has contributed to its massive success.

1.1 Introduction

French luxury goods firm Hermès International is also known as Hermes or Hermès of Paris. The company is listed on Euronext Paris with a market capitalization of 250 billion euro as of 28th May 2025. In numerous valuation and rating studies released by top consultancies, it has continuously been rated as the most valuable luxury brand in the world. In the world of luxury, Hermès is a brand that is considered iconic. Hermès holds a dominant position in the fiercely competitive and brutal luxury market thanks to its rich history, superb craftsmanship, meticulous attention to detail, and high standards of quality and professionalism throughout the whole manufacturing process.

Interbrand, a global brand value firm, ranked Hermès as the 22nd Best Global Brand of 2024 *(BGB – Interbrand, 2024)*. Hermès brand value was estimated at $34.7 billion, growing 15% compared to 2023. Interbrand values a brand based on three key pillars: financial performance, role of brand in purchase decisions, and brand strength, which measures the brand's ability to create loyalty and sustain future earnings. *(Best Global Brands: Methodology - Interbrand, 2024)*

As of April 2025, Hermès became the most valuable company in the luxury sector, surpassing LVMH. *(Hoey, 2025)*

Unlike its main rivals, LVMH, Richemont, and Kering, Hermès is not a conglomerate in the true meaning of the word and does not possess a portfolio of brands. Leather goods, lifestyle items, furniture, jewelry, watches, ready-to-wear, saddlery, and fragrances are all currently offered under the Hermès brand. *(Martinroll, 2021)*

Figure 1 depicts Hermès' total performance (dividends reinvested) during the last five years in comparison to its main peers (LVMH, Kering, Compagnie financière de Richemont, and Prada). As we can see, Hermès outperformed its counterparts, with a total return of 274.12%. While Compagnie financière de Richemont has a performance of 193.98%, and Kering an underperformance of -54.25%.

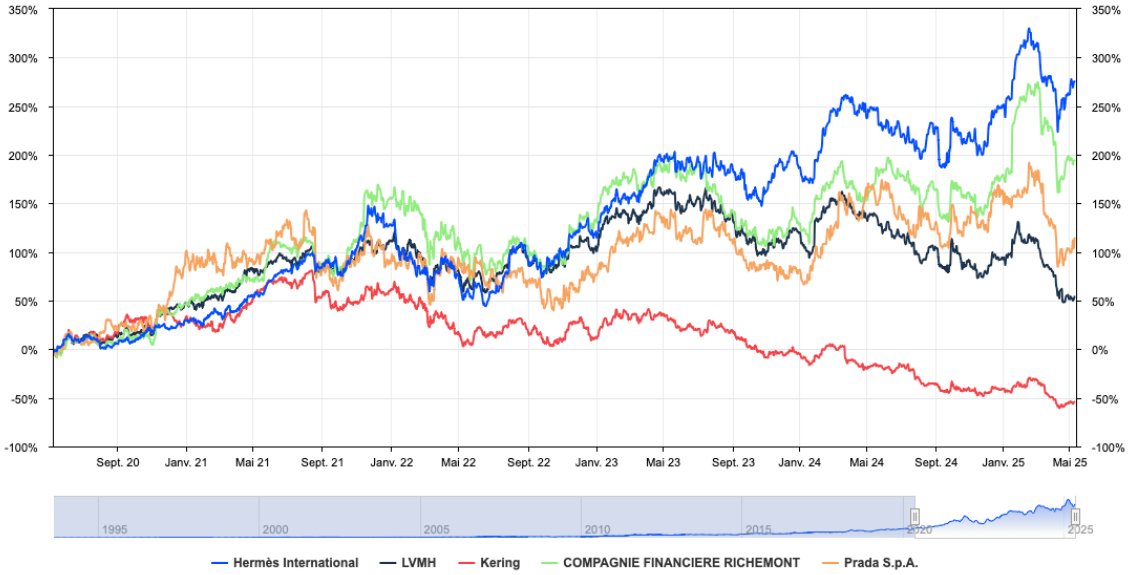


Figure 1: Hermès total return compared to peers – Source: Zonebourse, 2025

Note: This figure illustrates Hermès' total return (dividends reinvested) of approximately 274.12% over the last five years, outperforming peers like Compagnie financière de Richemont (193.98%) and Kering (-54.25%).

1.2 Société en commandite par actions (SCA)

Hermès' corporation status is unusual; it is a "French partnership limited by shares" or, in French, "Société en commandite par actions". This has a significant impact on its governance, ownership structure, and strategic capabilities.

First and foremost, a SCA's organization combines aspects of a partnership and a corporation. Partners are classified into two types: general partners, who have unlimited liability and management authority, and limited partners, who are shareholders with limited liability and no management function. Hermès' general partners are the Hermès family, who govern the Executive Management Board through Emile Hermès SARL. As of 2024, the family owns roughly 66.7% of the shares *(Zonebourse, 2025)*. This arrangement ensures that Hermès remains family owned even after it goes public, safeguarding it from aggressive takeovers.
However, there can also be some issues with this type of company. For example, minority shareholders cannot influence companies' decisions like dividend policies or acquisition, which may prioritize family interests.

According to McKinsey, successful family firms will yield greater long-term returns than non-family run firms. They are less leveraged, invest more conservatively, and aim for stability rather than growth. They will also have better performance during economic downturn due to their long-term view and more conservative operating discipline. *(Asaf et al., 2023)*

To conclude, the organizational form of SCA is not a big concern to minority shareholders due to Hermès' great performance and transparency, although limited voting rights may deter some investors.

1.3 History

The journey began in 1837 when Thierry Hermès, a harness maker by profession, established his shop at rue Basse-du-Rempart in Paris. From the very start, he foresaw what his clients would expect, opting for lightness and refinement amidst the urban disorder. *(Six Generations Of Artisans, n.d.)*

In 1880, Charles-Émile Hermès, his son, moved the workshop to 24 Faubourg Saint-Honoré, where custom-made harnesses and saddles were created for clients across Europe. *(Six Generations Of Artisans, n.d.)*

Under Émile, Charles-Émile's son, Hermès adapted to changing lifestyles of the post-WWI era. On a trip to Canada, Émile was impressed by a military vehicle's "close-all" mechanism and then decided to buy the sole rights on what would later become the zipper. Introduced in 1922, it revolutionized Hermès bags. *(Six Generations Of Artisans, n.d.)*

In 1951, Robert Dumas, Émile's son-in-law, took over and introduced creative milestones such as the first silk scarf, the Kelly bag, and the Chaîne d'ancre bracelet, inspired by Normandy's moored boats. *(Six Generations Of Artisans, n.d.)*

Robert's son, Jean-Louis Dumas, began re-fashioning Hermès in 1978, expanding globally and diversifying into watchmaking (La Montre Hermès), shoemaking (with John Lobb), and later adding Puiforcat silversmiths and Saint-Louis crystal. In 1984, the iconic Birkin bag was born out of a collaboration with actress Jane Birkin (Six Generations Of Artisans, s. d.). According to an article from CNBC, buying a Hermès bag in 1980 would give higher returns than the S&P 500 for the period of 1980 – 2015. Birking bag have returned 14.2% for that period, while the S&P 500 returned an average 10% *(Dickler, 2025)*. But buying Hermès stock at IPO and holding until 2015 would have returned an average of 21% each year.

In June 1993, Hermès went public. It was a huge success, with demand 30 times higher than supply. Hermès offered 4% of its stock, raising a total of 127 million French Francs, which represents approximatively 32 million euro. The rationale behind the IPO was to have access to the financial markets if needed. *(P.S., 1993)*

Since 2013, Hermès international’s expansion has been managed by Jean-Louis' nephew, Axel Dumas. He has launched new stores, including the fifth Maison Hermès in Shanghai in 2014, and entered Poland in 2019. He also created the group's e-commerce strategy, including the 2017 relaunch of hermes.com, propelling the house into a new age of technology and omnichannel growth. *(Six Generations Of Artisans, n.d.)*

1.4 Products and Revenues

Hermes generates revenue from seven main sources: leather goods and saddlery, clothes and accessories, silk and textiles, other Hermès businesses, perfume and beauty, watchmaking, and other products. The overall revenue for the year 2024 was 15.2 billion euro. A 15% rise at constant currency rates.

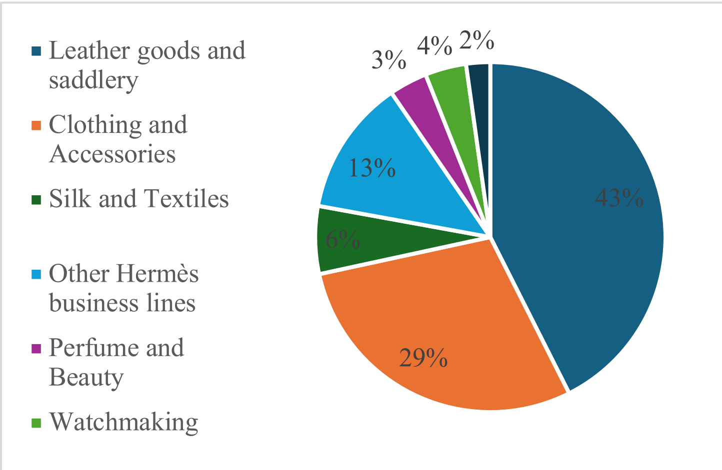


Figure 2: Revenue by segment in 2024 - Source: Hermes 2024 Annual Report

Note: this chart shows Hermès' revenue distribution in 2024, with leather goods and saddlery contributing 6.457 billion euro (43%) and clothing/accessories 4.405 billion euro (29%).

In 2024, the leather goods and saddlery division generated 6.457 billion euro in revenue, accounting for 43% of the company's sales. This segment outperformed the market, growing about 18% on an annual basis. This accomplishment can be explained by the company's increased manufacturing capacity and the fact that demand remains high. *(Hermes Investor Relations Department, 2025)*

Clothing and accessories accounted for 29% of Hermes' income in 2024, amounting to 4.405 billion euro. The category has increased by 15%, exceeding the nominal market. Growth is explained by the success of the ready-to-wear and footwear collections, which combine skill with an abundance of imagination. The spring-summer 2025 collections, which premiered at the Palais d'Iéna in June and the Garde républicaine in September, were well received. *(Hermes Investor Relations Department, 2025)*

In 2024, the silk and textiles segment did not experience double digit growth. Revenue was 0.95 billion euro, representing only a 4% annual growth rate. Perfume and beauty earned 0.535 billion euro in revenue, a 9% increase over 2023. The watchmaking segment had a down year, with revenue down 4% to 0.577 billion euro. Management stated that they were penalized because of a challenging situation, but they are continuing to develop unique inventiveness and great watchmaking knowledge. Other Hermès Businesses earned revenue of 2.246 billion eur in 2024, a 17% increase over the previous year. This area, which includes jewelry and homeware, is expanding rapidly. *(Hermes Investor Relations Department, 2025)*

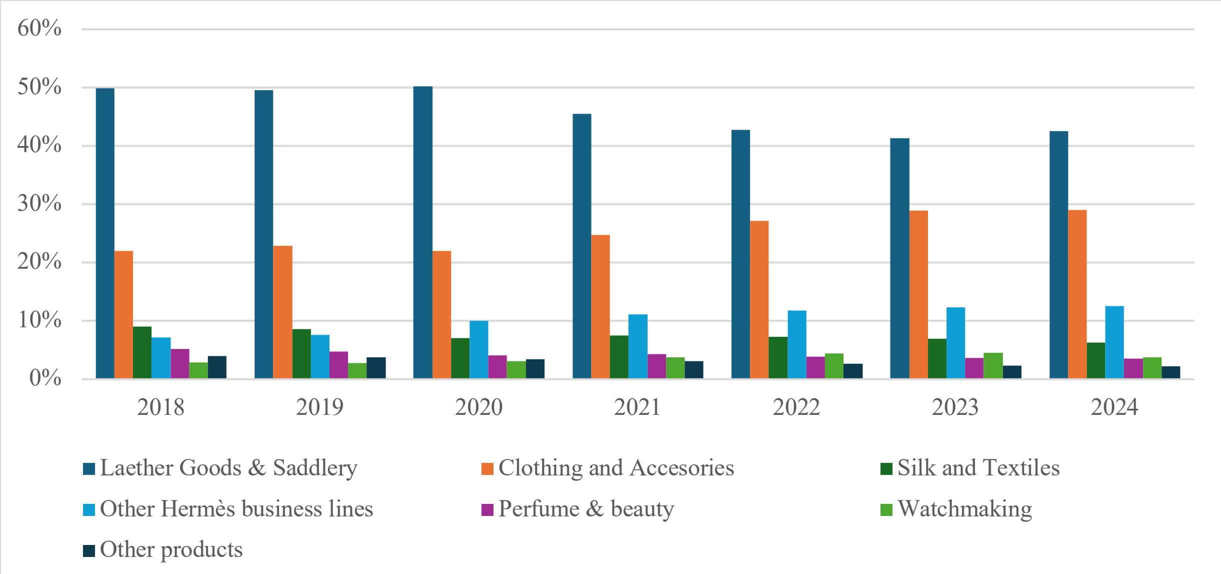


Figure 3: Revenue share by business unit (2018–2024) –Source: Hermès Annual Reports, 2018 – 2024

Note: this chart depicts the evolution of revenue streams, with leather goods/saddlery below 50% since 2020 and clothing/accessories reaching 30% in 2024.

Figure 3 explains the evolution of revenue streams from various business units. We can clearly observe that Leather Goods & Saddlery has contributed less than 50% of sales since 2020. Clothing and accessories have grown steadily, accounting for nearly 30% of total revenue in 2024. Other Hermès business lines have performed well. Hermès' revenue is more diverse than in 2018, which is a positive sign seeing as it creates diversification.

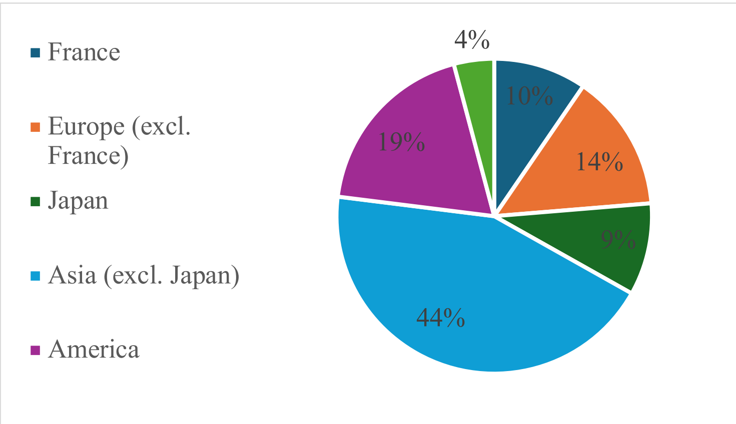


Figure 4: Revenue by geographic zone in 2024 - Source: Hermes 2024 Annual Report

Note: This chart illustrates revenue by region, with Asia generating 8.085 billion euro, Japan 1.437 billion euro (23% growth), and the Middle East 0.627 billion euro (doubled).

Regarding geographical revenue, Figure 4 shows that Asia generated the most income, totaling 8.085 billion euro. Japan alone generated 1.437 billion euro in revenue, a staggering 23% increase year on year. Growth was mostly driven by an increase in loyal consumers, and they also built a new shop in Tokyo. Asia, excluding Japan, experienced a 7% growth rate, which is significant especially given China's complex economic backdrop. *(Hermes Investor Relations Department, 2025)*

In Europe, excluding France, total sales in 2024 were 2.147 billion euro, accounting for 14% of overall revenue. France accounted for 10% of total revenue, totaling 1.447 billion euro. The growth rate in Europe, excluding France, was 19%, while in France it was 13%, thanks to increased tourist traffic contributing to the growth. *(Hermes Investor Relations Department, 2025)*

America represented 2.865 billion eur (19% of total revenue), a 15% increase from the previous year. In the Middle East, revenue was 0.627 billion euro, which had doubled in a year. We believe that in the long run, the Middle East will account for a significantly larger portion of revenue, while it currently accounts for only 4%. *(Hermes Investor Relations Department, 2025)*

1.5 Strategy

Hermès' business model is rooted in maintaining its autonomy and family ownership, which allows it to plan for the long term and maintain continuity of decision-making. The autonomy allows it to maintain its commitment to quality and handcrafting without external pressures.

Hermès employs small-scale artisanal manufacturing with most of its product being handcrafted within France. It is a detail focused process and preserves traditional craftsmanship. Hermès' ability to produce in-house keeps it loyal to its standards and upholds the brand's excellence *(Garnier, 2024)*. Hermès utilizes the selective distribution strategy and limits its products to targeted boutiques as well as a carefully edited website. Such restricted availability makes the brand more attractive and positions its products as a status symbol and luxury position *(Hermès Finance, n.d.)*.

Sustainability is the second critical ingredient to the strategy of Hermès. Hermès invests in environmentally friendly practices such as purchasing renewable materials and implementing the concepts of circular economy. All of them reveal how Hermès implements sustainable development as well as ecological sustainability. *(Hermès Finance, n.d.)*

Hermès' strategy, collectively, mixes autonomy, craft skills, rarity, and sustainability to create a robust as well as outstanding brand in luxury.

1.6 Impact of Trumps' Tariffs

Donald Trump, President of the United States of America, announced in April 2025 a 10% universal tariff for all imports in the US, which could negatively impact the company.

Hermès reacted on April 17th 2025 with an increase in price of 10% on all products sold in the US *(Afp, 2025)*. However, on May 23rd 2025, Mr. Trump announced a new hike in tariffs for products coming from the European Union. Products being imported from the E.U. into the US will now undergo a 50% tariff, that will go into effect June 1st *(Berretta, 2025)*.

Hermès had in 2024, 19% of its revenue from the America's, however, we don't know exactly how much comes from the United Stated. Seeing how unstable Mr. Trump seems, what is certain is uncertainty.

2. Sector Analysis

In this section we will analyze the luxury market, and which important points will be critical for in the future. We will also analyze de different segment where Hermes' revenue comes from.

2.1 Leather Market

In 2023, the market for leather goods was estimated to be worth 443.52 billion USD. According to Future Market Insights (FMI), the market will reach a total size of 764.81 billion USD in 2033, growing at a compound annual growth rate (CAGR) of 5.6% *(Leather Goods Market Demand, Sales, Trends & Forecast 2033 | FMI, 2023).*

Increased demand for high-quality accessories, rising disposable income, and shifting fashion trends all contributed to market growth. Consumers favor durable, trendy, and multipurpose leather products in areas such as footwear, luggage, clothes, and automotive interiors. *(Leather Goods Market Demand, Sales, Trends & Forecast 2033 | FMI, 2023)*

For Hermès, these market trends fall into place with its strategic focus on hand-crafted quality and exclusivity. The firm's focus on quality put it in an optimal position to take advantage of growing demand for luxury goods. Moreover, Hermès' sustainability and responsible growth focus also match growing consumer focus on environmental and ethical issues when making purchases. Continuing to keep the promise of its tradition and commitment to quality, Hermès has the potential to dominate the emerging global market of leather accessories.

2.2 Ready-to-wear & Accessories

The ready-to-wear market is projected to increase at a CAGR of 10.2% from its 2023 value of 123.8 billion USD to 296.6 billion USD in 2032. *(Market.us, 2024)*

Clothing that is mass-produced and offered in conventional sizes is referred to as ready-to-wear. These clothes are made to be worn right away without having to be changed. This market has a very wide audience *(Market.us, 2024)*. The market will expand as consumers' preferences for cost and convenience grow. Because of its sophisticated real infrastructure and high level of disposable income, North America currently has a 38.4% market share. *(Market.us, 2024)*

The trend seen in the market is positive for Hermès since the company creates products of high-quality, timeless ready-to-wear items with current design and tradition. By being able to offer clothing that marries luxury with practicality, Hermès is able to meet the needs of discerning clients who want beauty and responsibility from fashion.

2.3 Other Hermès Business Lines

Other Hermès business lines comprise Jewelry and Home Goods. This business unit performed the best with a CAGR of 28% for the period 2018 – 2024.

Regarding the global jewelry market, it is set to grow from 309.2 billion USD in 2023 to 432.8 billion USD by 2033 at a CAGR of 3.42% *(Statista, 2025)*. Growth is driven by growing income, aspirations for bespoke and ethically made products, and online shopping expansion. This is an opportunity for Hermès to strengthen its standing by marketing its craftsmanship, distinctiveness, and sustainability in its high jewelry ranges. *(Global Jewelry Market Size, Share, Forecast 2022 To 2033, n.d.)*

The global home decor market should be worth around USD 139 billion by 2025, growing at a steady 3.9% annually, driven by the rising aspiration for personalized, sustainable, and aesthetically refined living spaces *(Statista, 2025)*. As consumers seek unique, high-quality, and sustainable products, Hermès is well-placed to grow its luxury home business. Its focus on artisanal know-how and timeless design is perfectly adapted to these market trends, offering consumers home products that blend elegance, heritage, and sustainability.

2.4 Silk & Textiles Market

In 2024, the silk market is projected to grow to a value of $20 billion USD. IMARC projects that the market will expand at a CAGR of 6.2% and reach a size of 35.6 billion USD in 2033. The distinctive qualities, the variety of applications, especially in high-value industries like the medical and cosmetics sectors, and technology advancements will propel growth *(Silk Market Size, Share, Trends, Report & Forecast 2033, n.d.)*.

2.5 Perfume & Beauty Market

The size of the global beauty market increased by 10% from 2022 to 2023 reaching 446 billion USD. The market grew primarily due to price increases rather than volume increases, therefore this growth does not fully reflect the reality. The Middle East, Africa, and Latin America were the main drivers of growth (Weaver et al., 2024). The market is anticipated to reach a size of 829.2 billion USD by 2033, growing at a CAGR of 6.9% according to Spherical Insights (Global Cosmetics Market Size, Share, Forecast To 2023-2033, s. d.).

In 2023, the perfume market was estimated to be worth 48.05 billion USD. The market is expected to reach a total value of 77.52 billion USD by 2032, growing at a 5.5% yearly pace. *(Perfume Market Size, Share, Growth | Industry Analysis [2032], n.d.)*

2.6 Watches Market

Straits Research estimates that the watches market could increase at a CAGR of 4.8%, from its 2024 valuation of 103.1 billion USD to its 2023 forecast of 158.8 billion USD. Rising disposable income, customer affinity for luxury goods, and development in wristwatch technology are all contributing to the notable rise of the worldwide watch market. *(Research, n.d.)*

According to the online boutique, Hermès watch prices range from 2,000€ to 8,000€ for men and women, which is neither inexpensive or expensive for watches. If we compare this to brands like Rolex or Patek Philippe, Hermès can't be considered as a premium watch brand.

3. Positioning

3.1 Hermes' Market Position

Hermès International is a colossus in the luxury space, distinguishing itself from its peers by not being a conglomerate. It is important to note that not every business unit can be considered ultra luxurious. Unlike LVMH, Kering, or Richemont, with brands to deal with, Hermès concentrates all its efforts on the namesake brand, with a brand value of $34.7 billion and a 22nd ranking globally in 2024 *(BGB – Interbrand, 2024)*. This positions it ahead of Kering's Gucci and Richemont's Cartier, a testament to its powerful brand pull *(Best Anchor Stocks, 2024)*.

Where Hermès is unique is in its deliberate scarcity model. Think of the Birkin bag: with approximately 12,000 made every year, clients are presented with six-year waitlists, elevating demand among ultra rich consumers *(The Business of Fashion, 2023)*. This approach builds intense loyalty and repeats business (5% of the customers) accounts for 40% of the sales *(Shelper, 2021)*.

The family retain through the "Société en commandite par actions (SCA)" 66.98% of the shares, which allows them to take decisions without the other shareholders. This shielded it from LVMH's 2010 hostile takeover bid. Hermes continues to focus on quality over speed at the cost of rapid profits, which differs from LVMH's acquisition driven model *(Saxo, 2024; Best Anchor Stocks, 2024)*. With 223 of its 311 stores owned and operated by the company, Hermès has a very tight grip on its brand experience, avoiding the heavy use of wholesale and e-commerce seen in Kering's business model *(Williams, 2024).*

3.2 Hermès position compared to competitors

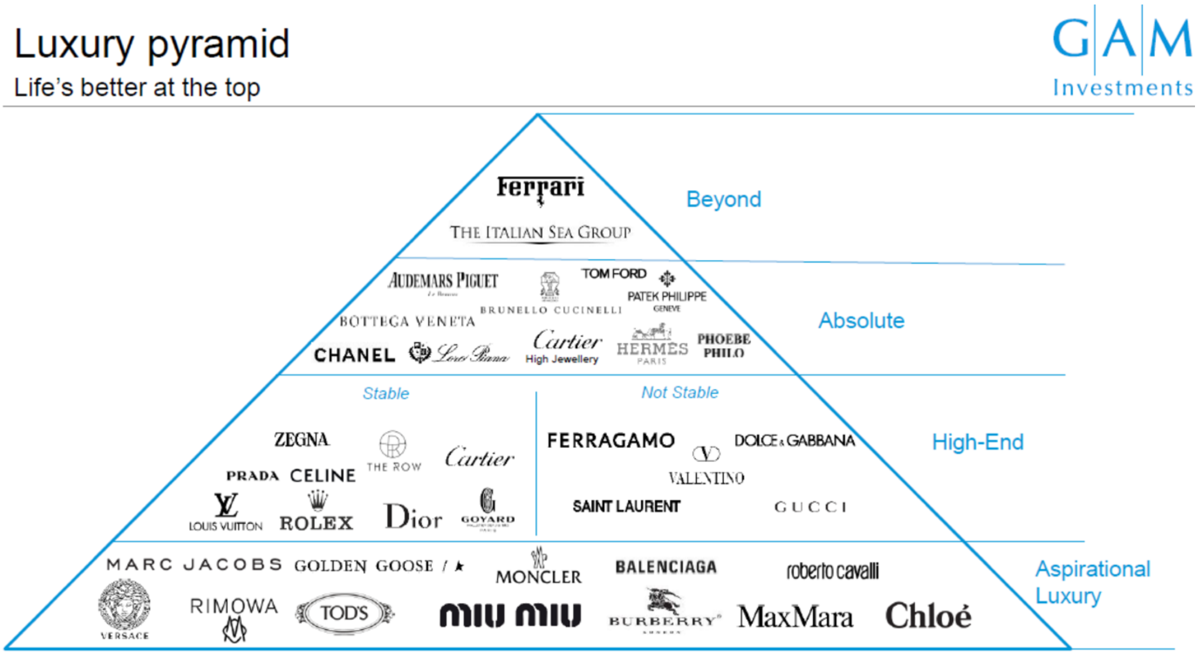


Figure 5: Luxury Pyramid according to GAM Investments – Source: GAM Investments, 2023

Note: this image classifies Hermès as "Absolute" in the luxury pyramid, above competitors like LVMH and Richemont, with Ferrari and The Italian Sea Group in "Beyond."

Figure 5 shows that, according to GAM Investments, Hermès is classified as Absolute in the Luxury Pyramid, while all its competitors are beneath. The only companies in the Beyond category are Ferrari and The Italian Sea Group, one automobile manufacturer and the other a yacht builder. This classification is based on criteria such as pricing power, exclusivity, distribution control, and brand equity *(GAM Investments, 2023)*.

So why is Hermès perceived more Premium? Unlike others, it limits production, avoids celebrity overexposure, and owns its supply chain to ensure quality. This quality can be found also at Ferrari where you can wait 3 years for some models *(Sanchez, 2023)*.

4. Governance

4.1 CEO

Axel Dumas, Hermes' CEO, born in 1970, is a sixth-generation member of the family that started the house, which was started by Thierry Hermès in 1837. He is the great-grandson of Émile Hermès *(Axel Dumas - Executive Chairman Of Hermès International, s. d.),* as well as a graduate of Harvard Business School (AMP) and Sciences Po Paris, he also has a bachelor's degree in philosophy and a master's degree in law. *(Axel Dumas - Executive Chairman Of Hermès International, n.d.)*

He joined the family business in 2003 after working for BNP Paribas in Beijing and New York for eight years. Prior to being named executive chairman of Hermès International in 2013, he held the following positions: managing director of Hermès Bijouterie (2006), managing director of the leather goods-saddlery métier (2008), chief operating officer (2011), auditor within the financial department, and retail director for France. *(Axel Dumas - Executive Chairman Of Hermès International, n.d.)*

The corporation made the decision to raise the CEO's fixed remuneration annually in relation to the growth in revenue, this was done to balance the interests of the CEO and the shareholders *(Assemblée Générale Hermès, 2024)*. The company's board made the decision, and the reasoning is not persuasive. There are other ways to increase sales, including drastically lowering profitability, which is not in the best interests of shareholders. Instead of using sales as an incentive, the Board of Directors could use a rise in EBITDA. However, seeing as the CEO is part of the Hermès Family, we know that he is aligned with the majority shareholders meaning that the fixed remuneration policy is not an issue.

4.2 CEO Remuneration

The fixed remuneration for 2025 was computed by applying the difference in the company's consolidated revenues in 2024 compared to 2023, in accordance with the current remuneration policy. According to the remuneration policy passed by the General Meeting on April 30th 2024, Executive Chairmen's fixed remuneration can only increase by 5% annually.
Émile Hermès SAS's fixed remuneration for 2025 is 948,562€, while Mr. Axel Dumas' is 2,790,386 € (real amounts to be paid). *(Hermès, 2025)*

The NGR-CSR (Nomination, Governance, Remuneration – Corporate, Social, Responsibility) Committee evaluated the CSR requirement for 10% of Executive Chairmen's variable salary on January 9, 2025, and found that all three indices were fully met. The variable remuneration for 2024 was calculated by combining the actual variable remuneration paid in 2024 (for the 2023 financial year) with the recorded change in consolidated profit pre-tax profit for the 2024 financial year compared to the 2023 financial year, resulting in an 8.9% increase. *(Hermès, 2025)*

4.3 Shareholder Structure

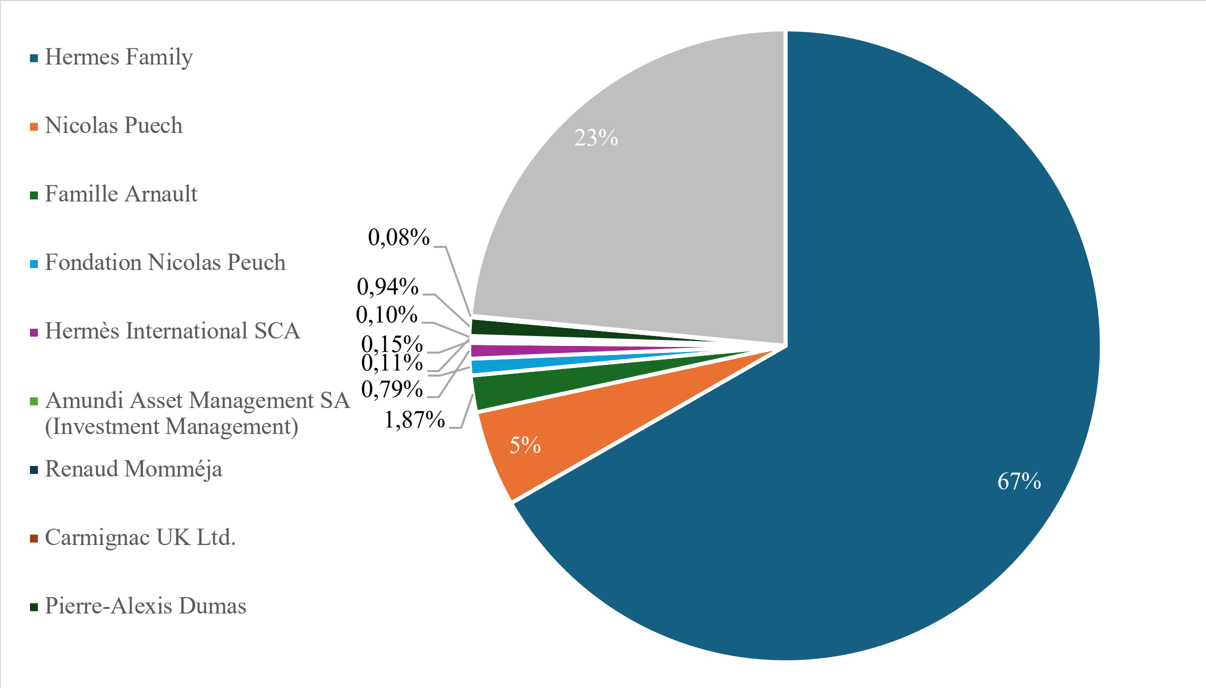


Figure 6: Hermes Shareholder Structure – Source: Zonebourse

Note: This chart shows the Hermès family owning 67% of shares, with Nicolas Puech at ~5%.

The company's shareholder structure is shown in the Figure above. What we can clearly see is that the Hermes family owns 67% of the shares, which is enormous and indicates that there are many insiders who own shares in the company, which is beneficial. *(Hermès International: Actionnaires, Composition de L'Actionnariat - Zonebourse, 2025)*
Nicolas Puech, who was rejected by the family, is the largest individual stakeholder. He owns a little less than 5% of the capital. Recent stories have surfaced about Mr. Puech, claiming that someone took all his Hermes shares. There are three different possibilities to explain what happened to his shares. The first one, his portfolio manager sold the shares to Bernard Arnault, LVMH CEO, without his knowledge. The second possibility is that he transferred all his shares to a "trust" in the Bahamas, where he allegedly established a bank account to avoid fiscal troubles in Switzerland. Third, he had forgotten where they were after stating in his will that he would transfer all his shares to a non-profit. *(Afp, 2025)*

Other major stockholders include the "usual suspects", such as Amundi Asset Management. There are also a few individuals with a minority shareholding, the most well-known of whom is the Arnault family. *(Hermès International: Actionnaires, Composition de L'Actionnariat - Zonebourse, 2025)*

Hermès protects minority shareholders by strong transparency, committing to the AFEP-MEDEF code, which is the code governance reference code for listed companies *(Société Générale, 2025)*, and revealing thorough governance and remuneration practices in its Universal Registration Document. The Supervisory Board, which includes independent members, maintains fairness, while minority shareholders profit from Hermès' stellar stock gain since 1993, aligning interests despite their limited voting power.

5. Sustainability

The company has established a structured and science-based climate transition strategy, outlined in its official report *Plan de transition pour le climat d'Hermès (Hermès, 2025)*. In line with the Paris Agreement and the regulatory expectations of the Corporate Sustainability Reporting Directive (CSRD), this plan reflects the company's commitment to mitigating greenhouse gas (GHG) emissions and adapting to the long-term risks posed by climate change. The strategy also aligns with the Science Based Targets initiative (SBTi), which validated Hermès' targets in 2021.

Although Hermès is a relatively low emitter of GHGs, emitting approximately 750 kTeCO_2 in 2024 with over 25,000 employees and 15 billion euro in revenue, the company has adopted a proactive approach. It aims to reduce absolute Scope 1 and 2 emissions by 50.4% by 2030 (relative to 2018) and to reduce Scope 3 emissions intensity (per million euros of gross margin) by 58.1% over the same period. As of 2024, the Group had already achieved a 63.4% reduction in Scope 1 and 2 emissions and was on track for its Scope 3 target with a 50% intensity reduction *(Hermès, 2025)*.

The governance framework supporting this transition is multi-tiered. It involves the Group's executive management, supervisory board, and a dedicated Sustainable Development Council, ensuring integration of climate considerations into strategic planning and operational execution. Climate related targets are also tied to executive remuneration. *(Hermès, 2025)*

In terms of operational implementation, Hermès has committed to phasing out fossil fuels in new industrial projects, with a goal of sourcing 100% of its electricity from renewable sources by 2025. Broader use of renewable energy across all operations is targeted by 2030. The company is also working on decarbonizing its value chain, focusing on raw material sourcing, supplier engagement, logistics optimization, and responsible construction guided by its internal "Harmonie" sustainable building standard. *(Hermès, 2025)*

Hermès' adaptation strategy includes an assessment of both physical risks (such as extreme weather or water stress) and transition risks (such as regulatory changes and shifts in consumer behavior), based on frameworks developed by the Task Force on Climate related Financial Disclosures (TCFD) and IPCC scenario analysis. *(Hermès, 2025)*

This strategic plan, updated regularly, represents a clear effort by Hermès to embed sustainability into its business model while contributing to the global effort to limit climate change to 1.5°C.

6. SWOT Analysis

6.1 Strengths

The first key aspect to note is that, as stated in the introduction, Hermes has one of the most valuable brands in the world. The company has a very strong brand awareness, which has been built over time. This strength positions the organization as a leader in the luxury sector. To maintain control over the brand experience, the company employs a limited distribution strategy, with most of its products distributed through its own boutiques.

Another significant advantage is its exceptional craftsmanship. All Hermes products are created by artists and highly competent professionals. The famous Birkin bags are handmade and limited in quantity, which raises their value. Hermes, as seen in the Market Chapter, is extremely diversified across sectors. They are all based on the luxury market, which is risky, but they are not dependent on a single product. Being diversified across different products in the luxury sector, is a strength because it reduces your exposure to a decrease in product growth. Another advantage of having a diverse product range is that you can address a larger total market, which increases the company's potential profits.

Lastly, as Hermès is managed by the founding family, management is closely aligned with shareholders, ensuring long-term strategic focus and consistent brand stewardship.

6.2 Weaknesses

Hermes' biggest issue is that the prices of their products are extremely high. Hermes' growth is spectacular, driven primarily by price power rather than volume. Growth will slow once the corporation is unable to continue increasing its prices. This raises a critical question: how long can their consumers sustain the price hikes?

Another flaw to highlight is that the family holds most of the voting rights, which means that minority shareholders have no influence over the corporation. Hermès presently has a considerable amount of cash that has not been reallocated to shareholders; thus, minority investors have no influence over how these reserves are used.

6.3 Opportunities

As previously mentioned, the Middle East is an area where revenue doubled in 2024. I believe this is the best opportunity for Hermes to expand its business. It is well documented that more and more very wealthy people are relocating to that region every year, which currently accounts for only a small portion of revenue. We cannot expect income to double each year, however, a 50% year-on-year increase may be anticipated based on current trends over the next 2-3 years. The second opportunity is to expand its e-commerce business. By enhancing its e-commerce skills, the brand will be able to better respond to changing consumer behavior and the increased demand for online purchasing. This opportunity will be for clients who are familiar with the Hermès brand and for clients with a high purchasing power, first-time Hermès clients often value the exclusive in-store experience. Lastly, as consumer awareness of ecological and ethical manufacturing grows, Hermès may boost its market position by focusing on these concerns. By emphasizing its dedication to sustainable production processes and transparent practices, the brand may appeal to environmentally sensitive consumers. *(Pereira, 2025)*

6.4 Threats

Asia, particularly Japan, accounts for roughly half of Hermes' revenue, demonstrating how heavily the luxury market is influenced by Asian consumer preferences. The Asian economy hasn't been in excellent form in recent years, as we have seen from most luxury corporations such as LVMH or Kering, when the Asian market slows, so does their growth. Hermes has not suffered much from the degrowth in Asia, but we cannot be certain that it will not in the future. The second issue are counterfeits. Walmart just released the "Wirkin" *(Guyot, 2025)*, a bag that bears a striking resemblance to Hermès' original Birkin. The companies' reputation depends on its ability to combat counterfeiting. Strengthening anti-counterfeiting methods, utilizing modern technology such as product authentication (e.g. using blockchain), and increasing customer knowledge can all assist tackle this rising issue while preserving the brand's reputation and market position.

Then, there is a new threat: tariffs. Mr. Trump recently has said that he will put 50% tariffs on products imported from the EU into the US, this will be in effect starting June 1st. This could penalize the company if it does happen.

CHAPTER 2 – FINANCIAL ANALYSIS

In this chapter, we will investigate Hermes' financial performance. For this, we will examine the Income Statement, Balance Sheet, and Cash Flow Statement. We will choose a span of time from 2018 to 2024; so that we can see how the coronavirus impacted the company.

1. Income Statement Analysis

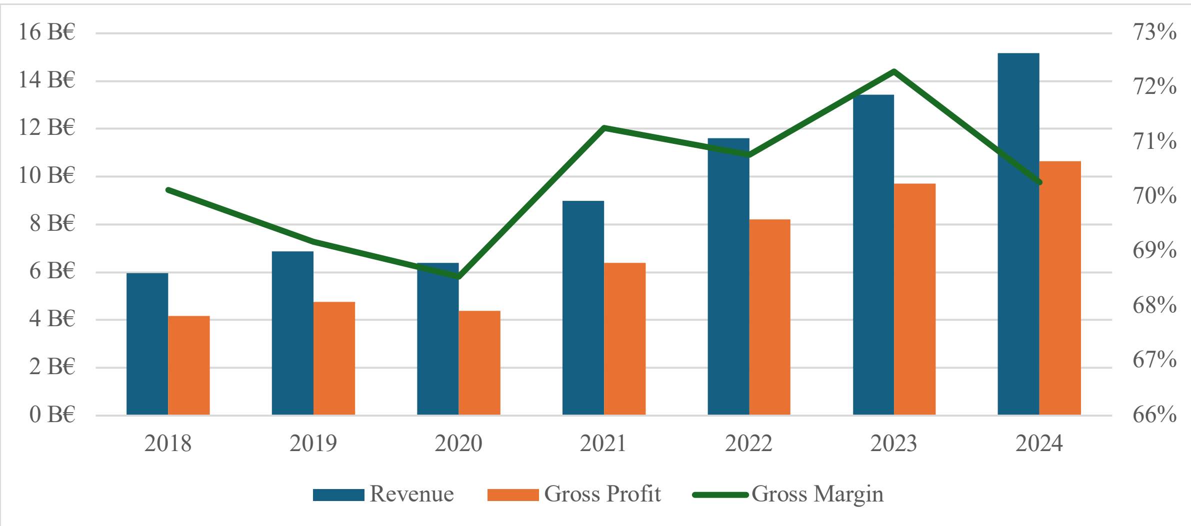


Figure 7: Hermes Revenue & Gross Revenue (in billions) 2018-2024 - Source: Zonebourse

Note : This chart illustrates Hermès' revenue growth (blue bars) from approximately 6 billion euro in 2018 to 15 billion euro in 2024, alongside gross revenue (orange bars) and gross margin (green line, peaking at 73% in 2024).

As shown in Figure 7, revenue was somewhat influenced by Covid. The post-covid period was extremely advantageous to luxury enterprises, with revenue and profits increasing drastically, including Hermes's. The revenue had a CAGR of 17% for the period of 2018 to 2024. The graphic shows that covid was the catalyst for such rapid growth. Before covid, growth was normalized at roughly 10% each year, a sold rate. Additionally, growth was driven by both volume and price increases; as shown in the figure, the gross margin has expanded since covid and was slightly more than 70% in 2024.

What has changed in the company that explains the revenue gain following covid? First of all, they continue to produce in small quantities while maintaining good quality. This exclusivity creates demand and enables the corporation to command higher prices. Second, unlike its competitors, the corporation has raised its prices, therefore strengthening its brand value. This also leads consumers to see Hermes' products as long-term investments, making the company more resilient to economic downturns. Following covid, Hermes' sales increased, as did stock prices. Finally, the corporation continued to expand strategically in Asia, where people are becoming wealthier. *(Guilbault, 2025)*

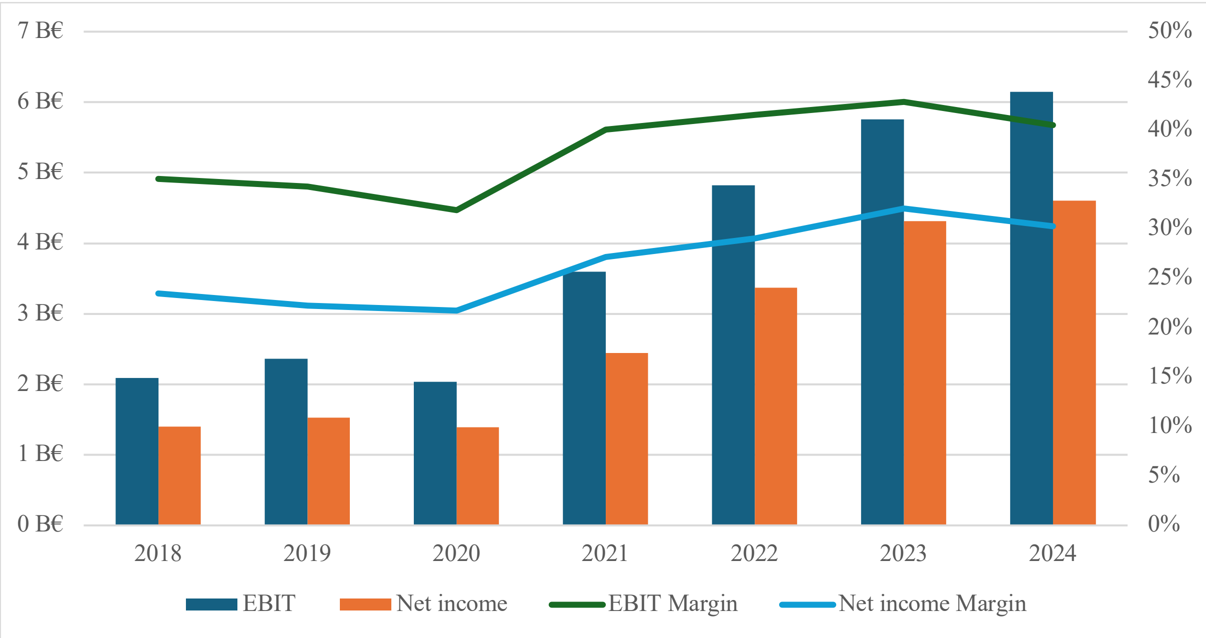


Figure 8: Evolution of EBIT & Net Income (in billions) 2018-2024 - Source: Zonebourse & Hermes Annual Report

Note: this chart shows EBIT (blue bars) and the net income (orange bars), then on the right Y-axis we can see the evolution of the EBIT margin (green line) compared to the net income margin (blue line).

Looking more closely at the company's profitability, we can see that there has been significant margin improvement. In 2018, the EBIT Margin was 35%, and by 2024 it grew to 41%. It reached a peak in 2023 with a margin of 43%, which is excellent and above market. For example, in 2023, LVMH had a 26% EBIT margin. Operating income surged at CAGR of approximately 20%, outpacing revenue. Margin improvement was driven mostly by a reduction in operating expenses, as gross profit remained relatively steady. As for net income, it was 1.4

billion euro in 2018 and 4.6 billion euro in 2024, representing a 22% CAGR. The net income margin was 23% in 2018 and grew to 30% in 2024, peaking at 32% in 2023.

In 2024, we can see that the gross, EBIT, and net income margins have all declined. Management explained that it was due to a currency exchange loss. *(Hermes Annual Report 2024, 2025)*

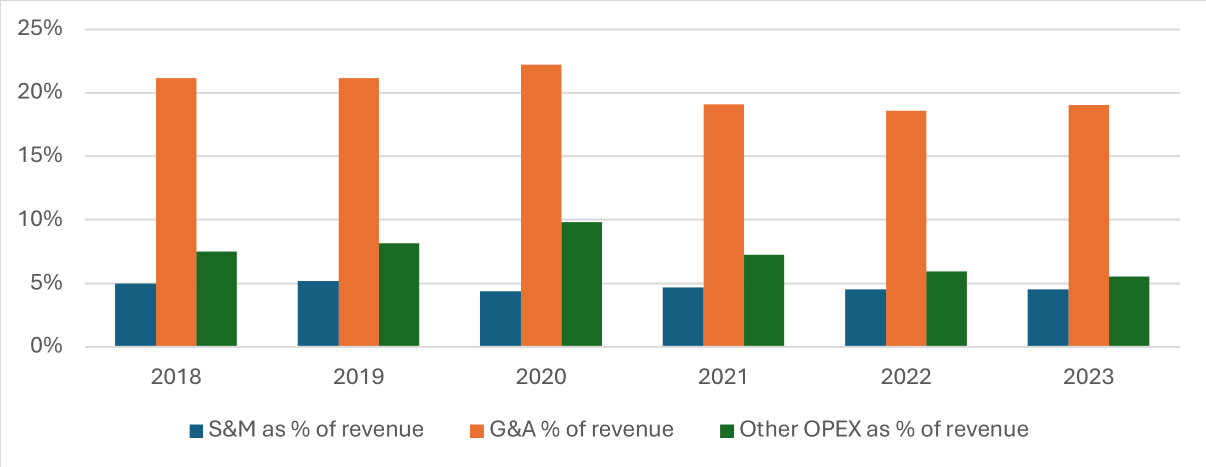


Figure 9 : Evolution of major expenses as percentage of revenue (2018 – 2024) Source: Hox Simon, 2025

Note: This chart depicts operating expenses declining from 34% in 2018 to 30% in 2024, with sales/marketing (blue line) at 4.62% and General & Administrative (orange line) at 19%.

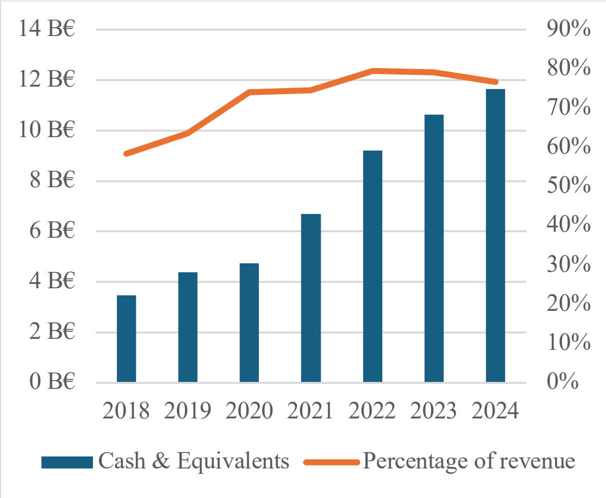
Figure 9 depicts the growth of primary expenses as a proportion of revenue from 2018 to 2023, highlighting the main driver of the increase in EBIT and net margin. Sales and marketing expenses accounted for 5% of revenue in 2018 and declined to 4.62% by 2024. The largest operational expense is General and Administrative, which accounted for 21% of revenue in 2018 and fell to 19% in 2023. Finally, we have the other operating expenses. In 2018, this expense accounted for 7.5% of revenue and declined to almost 5% in 2023. Total operating expenses as percentage of revenue declined from 34% to around 30% of revenue. The decrease in expenses as a percentage of revenue demonstrates how efficient the company is.

2. Balance Sheet Analysis

To evaluate Hermes Balance Sheet, we will investigate its many components. First, we will assess the efficacy of its assets. Then we'll look at the company's obligations. Third, we will discuss capital structure. Finally, we'll compare Hermes' balance sheet to its primary competitors.

2.1 Assets Analysis

2.1.1 Current Assets



Looking at Cash & Equivalents, we can see that the corporation had 3.48 billion EUR in cash in 2018 and 11.64 billion EUR by the end of 2024. The cash position expanded at a CAGR of 22.3%, outpacing revenue. At the end of 2024, the corporation had 77% of its revenue in cash, up from 58% in 2018. This begs the question, is having that much cash advantageous. It can be used for an acquisition or can be returned to shareholders through buybacks and dividends.

Figure 10: Cash and equivalents (in billion euro) 2018-2024 - Source: Zonebourse

Note: this chart illustrates cash & equivalents (blue bars) growing to 11.64 billion euro by 2024. The right Y-axis shows cash & Equivalents as percentage of revenue.

On the right side of the picture, we can see the Inventory Turnover Ratio. This ratio helps us to assess how successfully Hermes controls its inventory. It has several advantages, including improved cash flow, better insight into demand, lower holdings costs, and improved supplier relations *(Stock Turnover Ratios In Fashion - SeeStone, s. d.)*. We can see that over the course of our investigation, Hermes' ratio has improved, making it quite positive. The usual ratio in the industry is between four and six, thus Hermes is doing quite well.

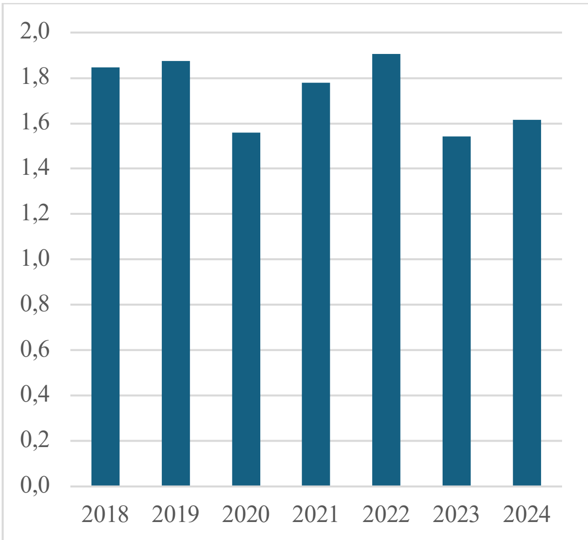


Figure 11: Inventory Turnover Ratio (2018-2024) - Source: Zonebourse

Note: this chart shows the Inventory Turnover Ratio trends, it reflects asset efficiency, key to assets analysis.

2.1.2 Non-Current Assets

Appendix 2 shows Hermes' asset turnover ratio. This ratio measures how effectively a corporation utilizes its assets to create revenue. We can observe that for the period of analysis the ratio ranges from 0.8 to 0.5, which is relatively low. In the retail industry, the ratio is typically about 2, indicating a lesser performance from Hermes, this can partially be explained by the large amount of cash on their balance sheet. *(Asset Turnover Ratio Screening, Rankings Of Best Performing Companies, Sectors, Industries, n.d.)*

Then we look at the graph in Appendix 3, which shows Property, Plant, and Equipment as a percentage of income. The ratio for the period of analysis ranges from 23% to 48% of revenue; by the end of 2024, it was 31%. The larger the ratio, the lower the performance. It is understandable that the percentage is high given the company's large number of physical shops. In 2020, the ratio was the greatest during the analysis period since revenue declined due to covid and the corporation kept shops and other Property, Plant, and Equipment same from the previous year.

2.2 Liability Analysis

2.2.1 Current Liabilities

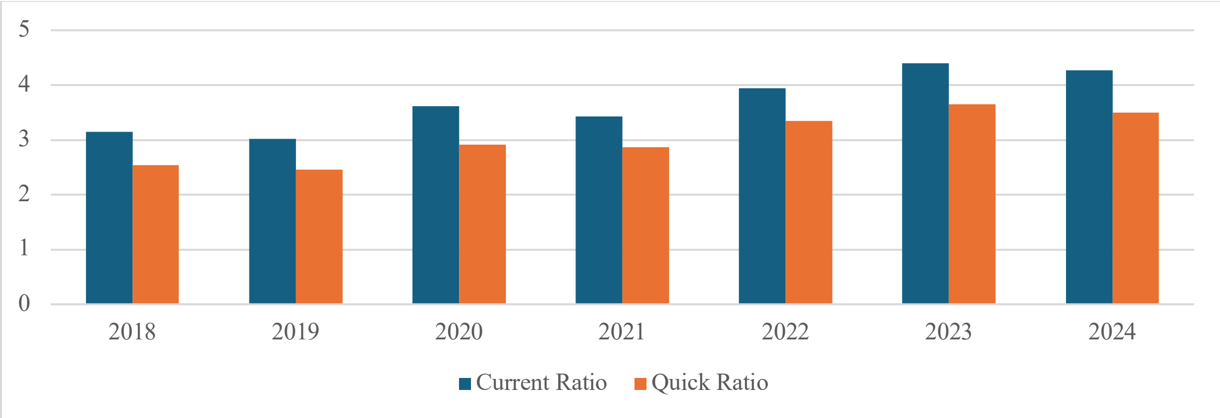


Figure 12 : Current & Quick Ratio (2018-2024) – Source: Hox Simon, 2025

Note: this chart depicts rising current (blue bars) and quick (orange bars) ratios, indicating improved liquidity.

Figure 12 illustrates the progression of the Quick and Current ratios. Both ratios allow us to measure Hermes' liquidity. As we can see, the ratios are increasing with time, indicating that the corporation can easily repay short-term debt and account payables with current assets. Looking at Appendix 4, which presents ratios for companies in the same industry as Hermès, we can see that Hermes is outperforming the industry average, which is 1.3, while Hermès is above 4 in 2024. *(The Complete Toolbox for Investors | Finbox.com, 2025)*

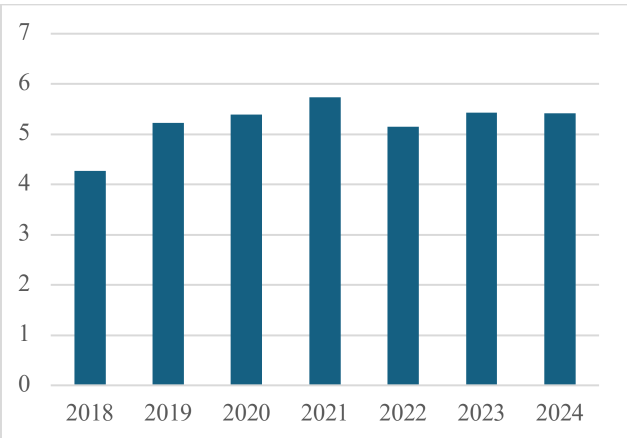


Figure 13 illustrates the accounts payable ratio over time. We can see that the ratio was 4.27 in 2018 and 5.42 at the end of 2024. This ratio represents the average number of times a corporation pays its debtors throughout an accounting period. We can see that this ratio has improved over time, which is good news for the organization, since its working capital is reduced and thus improve cash flow.

Figure 13 : Accounts Payable Turnover (2018-2024) - Source: Hox Simon, 2025

Note: this chart shows the accounts payable ratio being consistent over time.

2.2.2 Long-Term Liabilities

Regarding Hermes' debt-to-equity ratio in Appendix 5, we can see that this ratio is decreasing over time, which is good for the organization since it means that the company is deleveraging. In comparison to its competitors, Hermes has chosen a capital-light business model rather than relying heavily on debt to fund expansion. For example, LVMH, the most immediate competitor, has a debt-to-equity ratio of 0.6, while Hermes has a ratio of 0.1. *(The Complete AI Powered Stock Research Platform, 2025)*

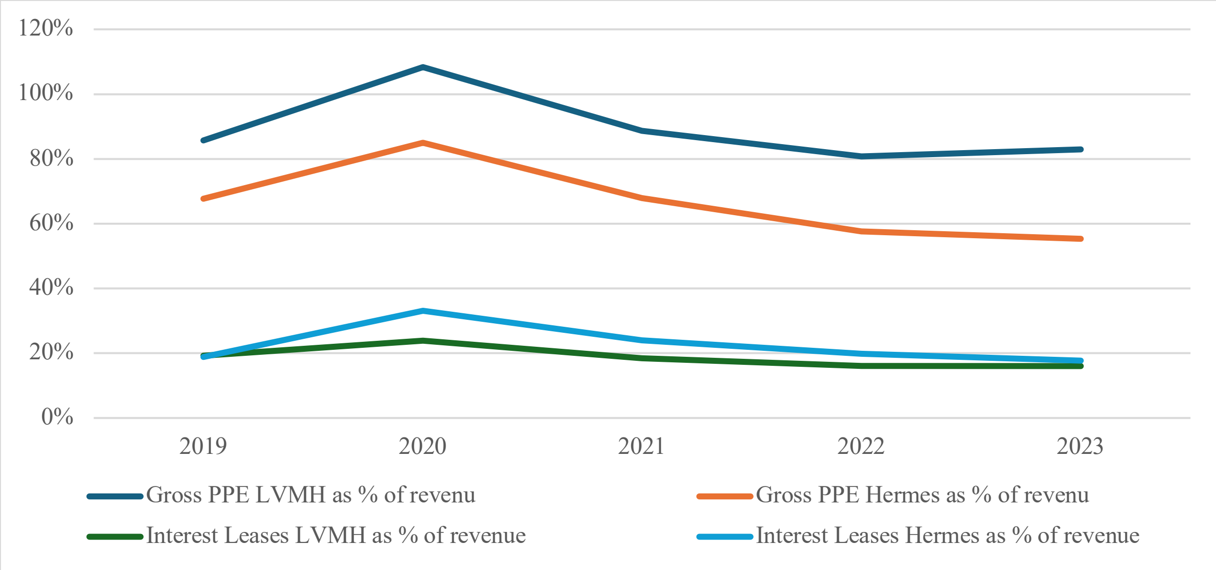


Figure 14: Capital Intensity & Lease Commitment of LVMH vs. Hermes - Source: Hox Simon, 2025

Note: this chart compares PPE and lease interest as a percentage of revenue for Hermès and LVMH (2019–2023), showing Hermès' asset-light model.

Figure 14 compares Gross PPE (Property, Plant, and Equipment) and Interest on Leases as a percentage of revenue for Hermès and LVMH for the period of 2019 to 2023, illustrating differences in capital intensity and financial strategy.

LVMH always has a more elevated PPE-to-revenue ratio than Hermès, which reflects its capital-intensive business model with a vast retail network, large production sites, and value-accretive acquisitions. Hermès, conversely, enjoys a comparatively asset-light model based on exclusivity and controlled distribution, resulting in less PPE burden.
Both companies had a peak of PPE as a revenue percentage in 2020, likely explained by the impact of the pandemic on plans for capital expenditure and revenue. After the peak in 2020, the ratio decreased, indicating rising efficiency or easing in capital expenditures compared to increases in revenue.

Lease interest as a percentage of revenue for both companies is low relative to their revenue but is obviously in decline. This implies that revenue growth has surpassed the need for leases, or that both companies have re-structured leases so costs can be kept in check.
To conclude, we can say that Hermes needs less capital than LVMH to generate revenue. This indicates that Hermes as a big competitive advantage and the possibility to have higher margins compared to LVMH.

2.3 Shareholder Returns

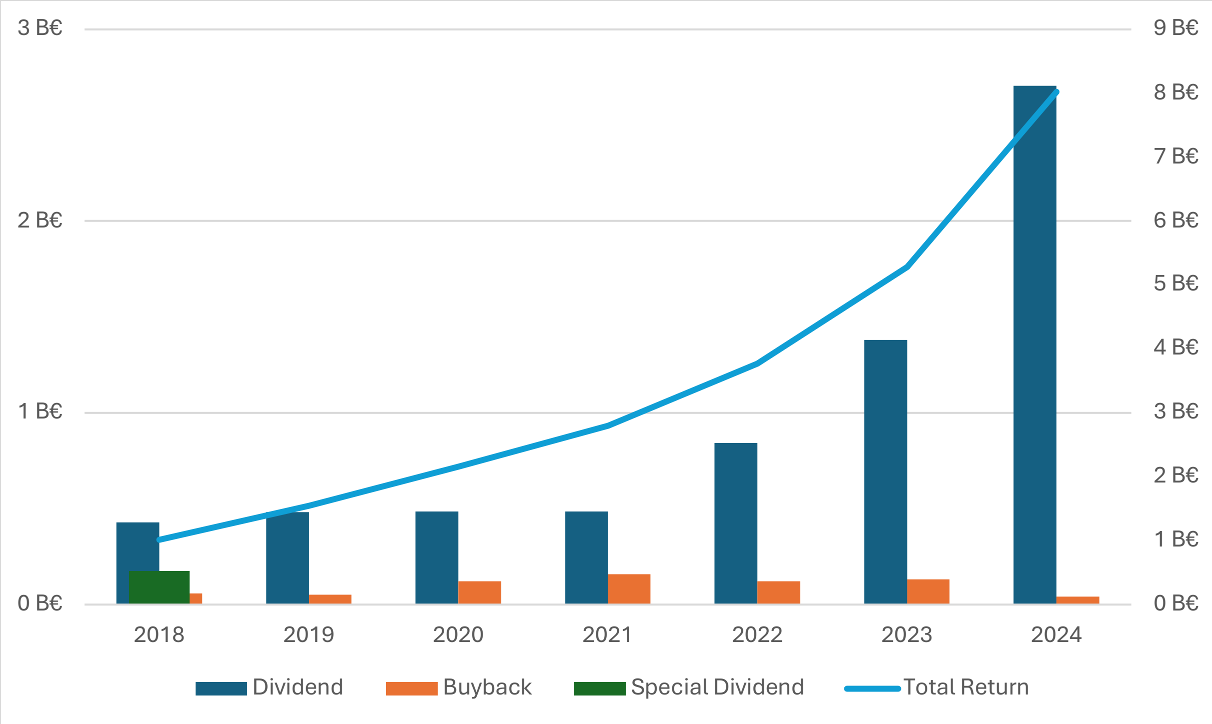


Figure 15 : Shareholders Return trough dividends and buybacks (2018 – 2024) – Source: Zonebourse 2025

Note: this chart indicates the amount of dividend (blue bars), amount of buyback (orange bars) and special dividend (green bars) for each year. On the right Y-axis we can find the total amount given back to shareholders (blue line).

Figure 15 shows that between 2018 and 2024, Hermes gave back little more than $8 billion to its shareholders, or just over 4% of its present valuation as of February 23rd 2025. Hermes' low return to shareholders policy is typical given how quickly the company is growing and the necessity to reinvest in the enterprise. However, the question of why the corporation needs so much cash (11 billion euro by the end of 2024) must be asked. We believe that having that much cash on hand is a poor choice; more money should be distributed to shareholders. The business may choose to pay a dividend or make a strategic purchase to increase shareholder value. Given Hermes' present valuation, we do not advise buybacks because they will not add value and can only purchase 3% of the company's outstanding shares with all available funds.
The business will pay in 2025, a special dividend of 10 euro per share and a dividend of 16 euro per share in 2024, totaling 2.7 billion euro or less than 1% dividend yield.

3. Cash-Flow Statement Analysis

Figure 16 depicts the evolution over time of Free Cash Flow, Capital Expenditure, and the Free Cash Flow margin. In terms of Free Cash Flow, it was 1.7 billion euro in 2018 and has grown to 3.9 billion euro, representing a 15.71% CAGR. It's strange that the Free Cash Flow is expanding slower than the revenue and net income; this could indicate that the Capex has been high. Furthermore, the Free Cash Flow margin has not improved, indicating that Free Cash Flow has not grown faster than revenue. Looking closer at 2024, we observe a significant increase in Capex, which has nearly doubled from 2022. This could mean that Hermès needs to invest more to produce the same amount of revenue.

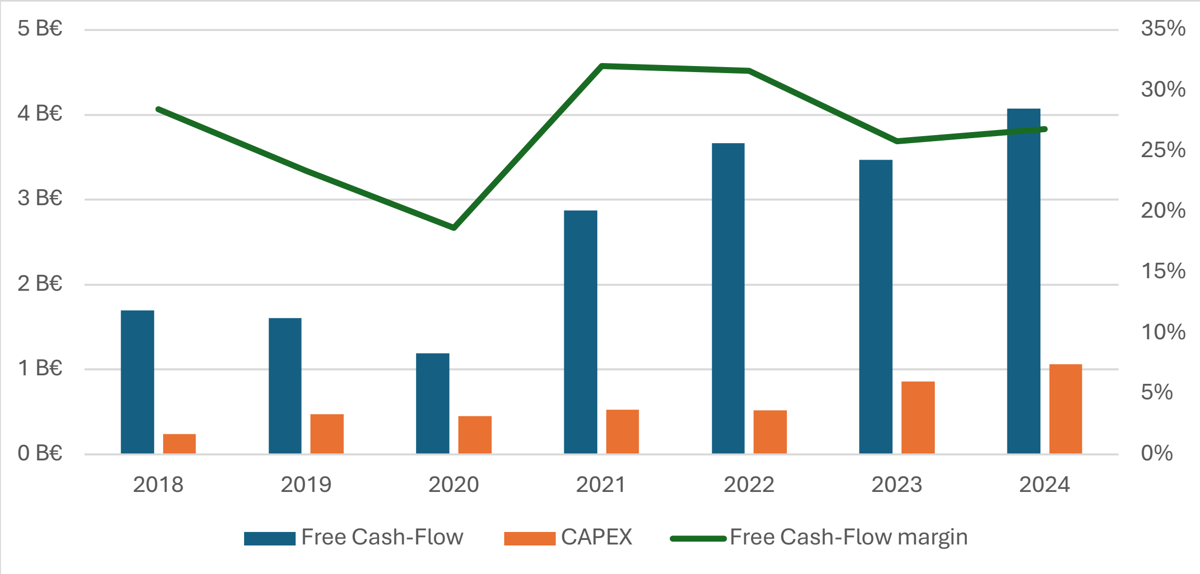


Figure 16: Free Cash-Flow, Capex & Free Cash-Flow margin (2018 - 2024) - Source: Hermes Annual Report, 2018 – 2024

Note: This chart illustrates free cash-flow (blue bars) rising from 1.7 billion euro in 2018 to 3.9 billion euro in 2024 (15.71% CAGR), with rising Capex (green line). Then we can see the evolution of free cash-flow margin (green line) on the right Y-axis.

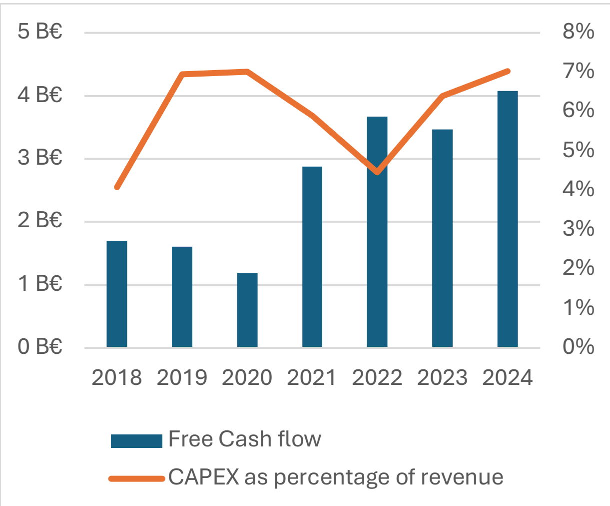


Figure 17 shows Capex as percentage of revenue. We can see that it has been steady over time with some cyclicality, indicating that Capex has grown at the same rate as revenue. This is not what you would expect from a business that profits from economies of scale. Capex as a percentage of revenue has risen over time, which is neither dramatic nor favorable. This hardens our sentiment that maximum efficiency and profitability has been reached in 2022 and 2023 and that it will be difficult to obtain again.

Figure 17 : Evolution of CAPEX as percentage of revenue (2018 – 2024) – Source: Hox Simon, 2025

Note: this chart, on the right Y-axis, shows Capex as percentage of revenue (orange line) rising from 4.08% in 2018 to 7.03% in 2024 and shows Free Cash Flow (blue line).

CHAPTER 3: CASH FLOW PROJECTIONS & VALUATION

1. Projections

Based on our strategic research, historical data, and analyst reports, we were able to create future estimates for Hermès' valuation. Given the obstacles and risks associated with the luxury goods business, the estimates were produced over a 5-year period (2025 to 2030). The forecasts below represent our base scenario.

1.1 Revenue

Hermès' revenue between 2025 and 2030 must be estimated with a strong but realistic approach that accounts for past performance as well as the firm's competitive positioning within the luxury industry. As opposed to projecting from post-pandemic industry wide growth rates, which could overestimate the forecasted future developments, this estimate is based on a CAGR of 10%. This number is equivalent to Hermès' pre-pandemic trajectory from 2016 to 2019 (revenue CAGR of 9.17%), which is more typical for normal conditions preceding the excessive rebound experienced by luxury markets post 2020. Applying this CAGR to the 2024 base of 15 billion euro results in a predicted 24.15 billion euro for 2030.

Three key reasons support the assumption of 10% annual growth projection: Hermès' business model, its elasticity in terms of price, and financial performance indicators seen in previous chapters. Together, they provide a fact-based rationale for the 10% annual growth projection forecast, conservative against global macroeconomic uncertainty but backed by the company's demonstrated resilience and structural advantages *(Guilbault, 2025)*.

Hermès' unique brand approach, focusing on a single, tightly controlled label, facilitates its ability for sustained steady growth. By limiting production and maintaining long waitlists, the company fosters scarcity and preserves desirability among its high-net-worth clients *(The Business of Fashion, 2023)*. The exclusivity model has already shielded Hermès from broader economic recessions; for example, the company recorded only modest revenue decline during the COVID-19 pandemic.

Geographical diversification also supports this theory. Growth in traditional markets such as Japan (+23% in 2024, to 1.437 billion euro) and the Middle East (turnover doubled to 0.627 billion euro) suggests healthy demand in emergent luxury markets *(Hermès Investor Relations Department, 2025)*. Governance structure of the company also facilitates long-term decision-making based on quality over short-term expansion. The governance stability is in line with research focused on the resilience in performance of family-controlled firms *(Asaf et al., 2023)*.

One of the prime contributors of Hermès' growth is its pricing power without sacrificing demand. From 2016 to 2025, flagship products such as the Birkin 30 Togo had average annual price increases of 4% *(Sotheby's, 2025)*. Even the COVID-19 pandemic failed to snap the company's hold on pricing since it maintained a 70% gross margin, which speaks volumes of its pricing resilience.

This price structure allows Hermès to grow revenue independent of huge volume increases. Between 2018 and 2024, company revenue grew at a CAGR of 17%, driven mainly by prices rather than unit sales growth. A 10% CAGR from 2025 to 2030 assumes a less dynamic outcome: continued price increases at approximately 3 to 4% annually, plus low single-digit volume growth, consistent with Hermès' past restraint in balancing supply and demand.

The 10% CAGR growth projection over 2025 – 2030 from 15 billion euro to 24.15 billion euro is a reasonable and rational basis for the overall financial projection. It is founded on Hermès' historical performance, brand value positioning and pricing strategy, and taking account of outside risk drivers such as potential economic slackening in key markets such as Asia. This is a reasonable basis for projecting future cost structures, margins, and cash flow profiles covered in the remainder of this chapter.

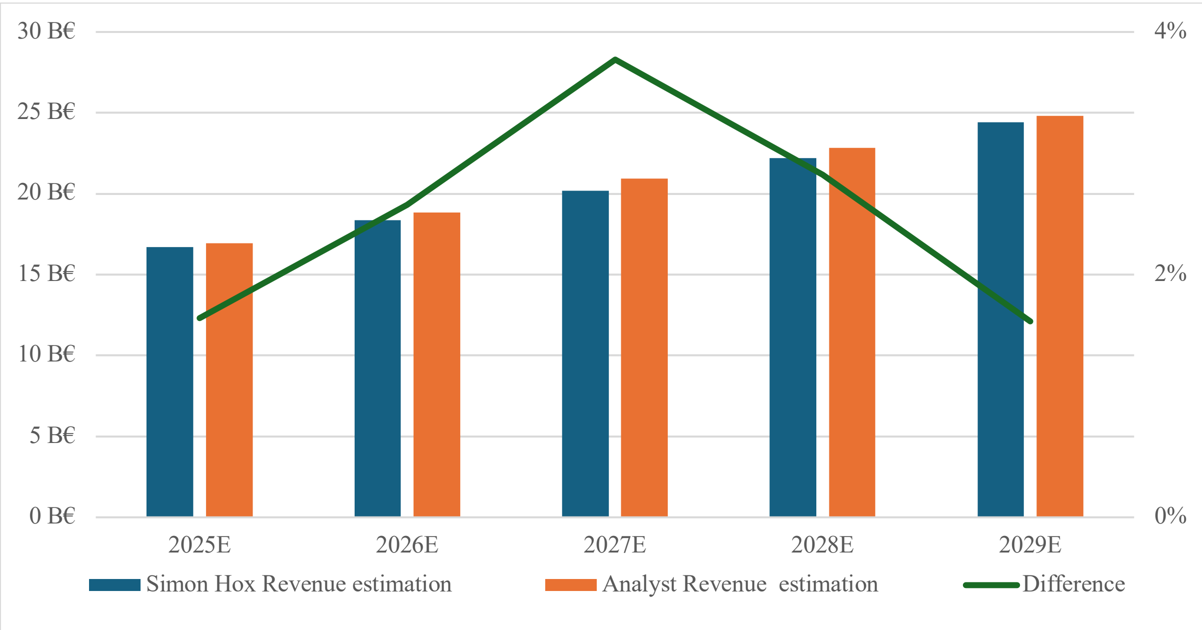


Figure 18: Simon's revenue estimation vs. Analysts (2025-2029) - Source: Hox Simon, 2025

Note: this chart compares analysts (orange bars) revenue estimation compared to our estimation (blue bars). We then have a green line, on the right Y-axis, to show the difference between each year.

Figure 18 depicts the discrepancy between our own revenue estimate and the analysts' mean revenue estimate. We can see that by 2025, we will have 1.5% of difference that will increase until 2027 and then come back to around 1.5% in 2029.

1.2 Cost of Goods Sold (COGS)

As we previously saw in the "income statement analysis" Chapter. Hermès' gross margin has remained quite consistent over time (cf. Appendix 7). Even during economic downturns such as COVID, the company maintained a gross margin of 68%, partially due to 74% of its production being in France *(Hermès, 2025)*. With most of the production in-house, the company has greater cost control and relies less on external suppliers. For these reasons, we have estimated that Hermès will maintain a 70% gross margin, which is the average margin from 2018 to 2024, as shown in Figure 19.

In hundred million €	2025	2026	2027	2028	2029	2030
Revenue	16,687	18,356	20,191	22,210	24,431	26,875
COGS	4,953.36	5,448.69	5,993.56	6,592.92	7,252.21	7,977.43
Gross Profit	**11,734**	**12,907**	**14,198**	**15,617**	**17,179**	**18,897**
Gross Margin	*70%*	*70%*	*70%*	*70%*	*70%*	*70%*

Figure 19: Projections of Cost of Goods Sold – Source: Hox Simon, 2025

Note: This table gives the details about the COGS projections using 70% gross margin.

1.3 Operating Expenses

Management has done an excellent job of controlling operating expenses over time, as seen in the "income statement analysis", whereby main expenses (excluding D&A) as a percentage of sales decreased from 34% in 2018 to 29.74% in 2024. Yet, the all-time high profitability of 47.8% EBITDA margin in 2023 and subsequent decrease to 46.1% in 2024 suggest that 48% is the profit margin limit of Hermès. Although costs as a percentage of sales have been declining, this will not continue indefinitely due to structural cost pressures, such as inflation in artisan labor (rising 1-2% annually) and sustainability investments. We therefore take the long-term operating costs to stabilize at 30% of sales. This gives an EBITDA margin of ~46% long-term, in line with 2024's profitability and evidence of Hermès' preservation of industry leading margins despite growth pains.

1.4 Tax Rate

Hermès' headquarters are in France, which means it pays taxes there. Companies that produce a profit in France are taxed at 25% *(Impôt Sur les Sociétés (IS): Taux, Déclaration, Paiement, 2025),* which was reduced from 33.3% in 2017. This rate can vary; this is referred to as the effective tax rate. In 2018, Hermès paid 32.9% of EBIT in taxes, which is more than the 30% paid in 2024.

The tax rate varies through time for a variety of reasons. Corporations with revenue of more than 19 million euro in France must pay 0.16% of their revenue in taxes *(Contribution Sociale de Solidarité des Sociétés (C3S), 2025)*. For Hermès, this amounted to 24 million more taxes, raising the effective tax rate by 0.5%. Another reason could be that Hermès repatriates' revenues from countries with unfavorable tax treaties, which increases its overall cost.

This is why, for our projections till 2030, we will use a 30% of EBIT as effective tax rate. Details can be found in Figure 20.

In hundred million €	2025	2026	2027	2028	2029	2030
EBIT	6,842	7,526	8,278	9,106	10,017	11,019
Tax Expense	**2,052.5**	**2,257.8**	**2,483.5**	**2,731.9**	**3,005.1**	**3,305.6**
% of EBIT	*30%*	*30%*	*30%*	*30%*	*30%*	*30%*

Figure 20: Hermès projected Tax Expense (2025 - 2030) - Source: Hox Simon, 2025

Note: this table indicates the expected Tax Expense based on a 30% of EBIT effective tax rate.

1.5 Capital Expenditure (CAPEX)

We forecast CAPEX as a percentage of revenue, to remain consistent across our period of analysis, with a ratio of 7% (see Figure 21). This will simply return the ratio to the post-covid period, when the corporation had a CAPEX to sales ratio of roughly 7% (see Appendix 8).

In hundred million €	2025	2026	2027	2028	2029	2030
Revenue	16,687	18,356	20,191	22,210	24,431	26,875
CAPEX	**1,168.1**	**1,284.9**	**1,413.4**	**1,554.7**	**1,710.2**	**1,881.2**
% of revenue	*7%*	*7%*	*7%*	*7%*	*7%*	*7%*

Figure 21: Projected CAPEX (2025 - 2030) – Source: Hox Simon, 2025

Note: this table gives the details of the projected CAPEX budget using 7% of revenue for the period of 2025 – 2030.

Hermès' 7% of revenue Capex guidance to 2030 is supported by historical trends, management guidance, and financial capability. Over the period 2018-2024, Capex expressed as a percentage of revenue averaged 6.0% and ranged from 7.03% in 2024 (1,066 million euro on 15,170 million euro revenue) to 4.08% in 2018, suggesting that 7% falls within the company's operating range during growth periods. This rising trend from 4.08% in 2018 to 7.03% in 2024 is in line with Hermès' aggressive growth plan, e.g., the opening of four new leather workshops: Riom in 2024, L'Isle-d'Espagnac in 2025, Loupes in 2026, and Charleville-Mézières in 2027. *(Garnier, 2024)*

The company has long-term investment as a priority, as elucidated by Axel Dumas in the 2023 Full-Year Results. This not only includes capacity expansion but sustainability as well, with carbon emissions lowered by 63.4% from 2018. This justifies sustained Capex at 7% for meeting demand for high-growing sectors like Leather Goods.

Post-2027, although Capex might decelerate after finishing the workshops, prospective maintenance fees or new projects can justify the 7%, considering continued demand for Birkin and Kelly bags. Even with 30% operating expenses and 41% EBIT margin, gross margin stability of Hermès (~70%) and pricing powers ensure profitability won't be negatively impacted. There are economic hazards, but Hermès' robustness summed up in a 31% EBIT margin during the 2020 pandemic and Asia-Pacific growth (23% in 2024) support this investment level. Thus, a 7% Capex-to-revenue rate is justified for the strategic projection and aligned with Hermès' growth trajectory and business objectives.

1.6 Depreciation & Amortization (D&A)

Appendix 9 shows Hermès' depreciation and amortization (D&A) as a proportion of revenue from 2018 to 2024. We can observe that the percentage of revenue has increased over time. D&A accounted for 3.64% of revenue in 2018, rising to 5.56% by 2024. It can be explained through the fact that Hermès increased its CAPEX during the last years, as explained in the financial analysis Chapter. The rise is consistent with the management plan, which is more focused on long-term investments. As a result, we may anticipate that D&A will remain at 5% of revenue until 2030.

In hundred million €	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Revenue	16,687	18,356	20,191	22,210	24,431	26,875
D&A	**834.4**	**917.8**	**1,009.6**	**1,110.5**	**1,221.6**	**1,343.7**
% of revenue	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*

Figure 22: Projected Depreciation & Amortization (2025 - 2030) – Source: Hox Simon. 2025

Note: this table shows the details of the projected D&A for the period of 2025 – 2030 using 5% of revenue.

1.7 Net Working Capital (NWC)

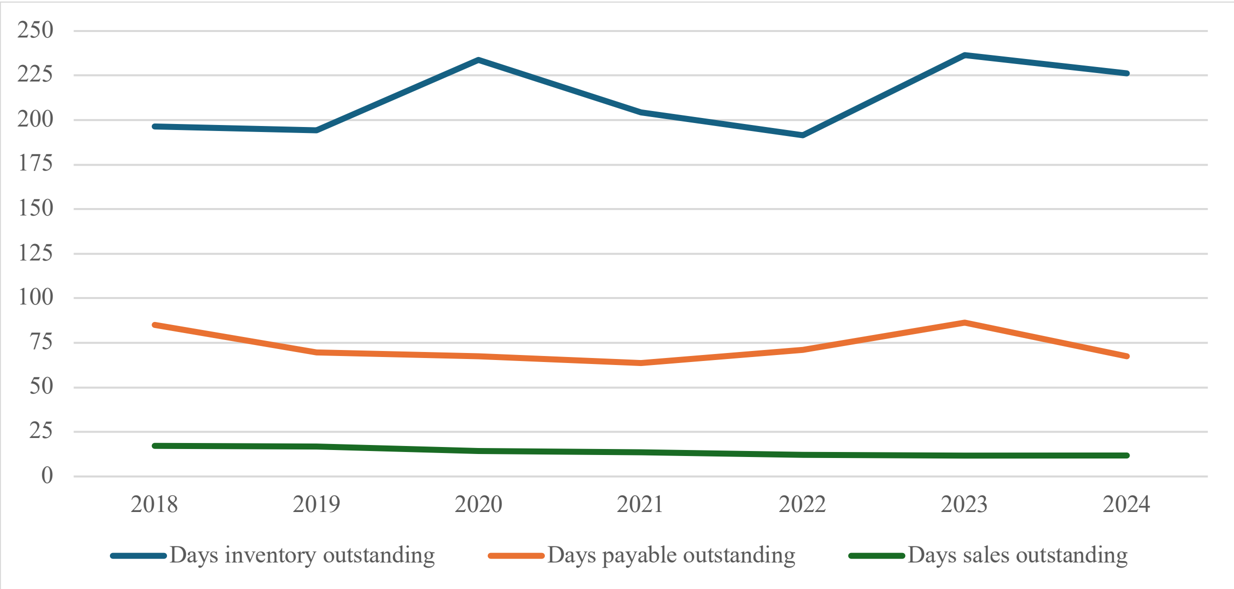


Figure 23: Days payable, inventory & sales (2018 - 2024) - Source: Hox Simon, 2025

Note: this chart depicts days inventory (blue line), payable (orange line) and sales (green line), reflecting working capital trends.

To estimate Hermès' Net Working Capital, we will first look at recent trends which can be seen in Figure 23. First, we have days where inventory is outstanding. Days of inventory have consistently remained between 200 and 225 days. Hermès has built up an inventory over the last two years in response to increased demand. Days of inventory are high, but that is to be expected in this industry. Secondly, the days payable has been dropping before rising again in 2023, with 67 days in 2024. Finally, the accounts receivable days are relatively low, which is reasonable given that the company operates in the B to C sector. The details of the methodology can be found in Appendix 10,11 and 12.

To develop the projections regarding the Net Working Capital, we will make the following estimations concerning the three factors shown in Figure 23:

- We will assume 220 days of inventory outstanding.
- We will estimate 70 days for outstanding payable
- We will assume 12 days of outstanding sales.

These numbers represent the same number of days for 2024. Details of our methodology can be found in Appendix 13, 14 and 15.
After applying these values to our estimate, we can project Hermès' Net Working Capital.

1.8 Net Debt

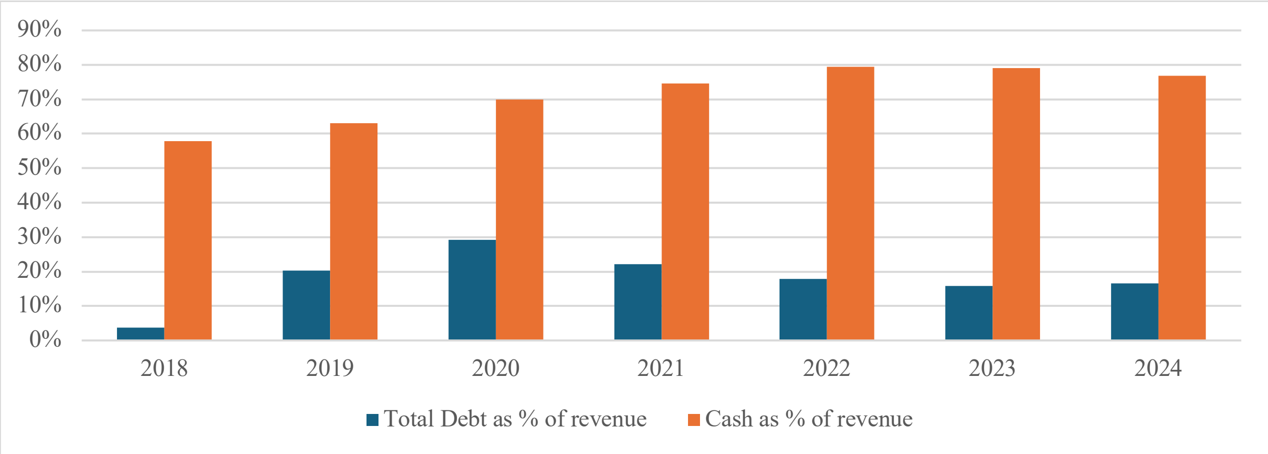


Figure 24: Total Debt & Cash as percentage of revenue (2018 - 2024) - Source: Zoneboourse, 2025

Note: this graph shows the evolution of debt (blue line) and cash (orange line) as percentage of revenue.

Figure 24 illustrates the total debt and cash as a percentage of sales across the analysis period. Total debt as a percentage of revenue increased in 2019 (1,393 million euro versus 223 million euro in 2018). This surge is mainly due to accounting regulations and increases in debt to finance business operations. Starting in 2019, IFRS 16 required corporations to record operating leases (e.g., for retail outlets) as liabilities on their balance sheets, this also means that the debt on Hermès balance sheet is mostly compromised by lease commitments. Though the debt trend from 2020, we can see that it has stabilized at approximately 16% of sales.

In terms of cash as a percentage of revenue, we can see that it has consistently increased until 2022, where it decreased to 76%. We think the company will stay around this level because Capex has increased the last 2 years. However, we cannot exclude the possibility of larger returns to shareholders or an acquisition, but this will not decrease the average proportion of cash.

For our projection period, we will use 16% debt and 76% cash as a percentage of sales. This will reduce our net debt as a percentage of sales to -60%. Figure 25 provides further information.

In hundred million €	2025	2026	2027	2028	2029	2030
Total Debt	2,670	2,937	3,231	3,554	3,909	4,300
% of revenue	*16%*	*16%*	*16%*	*16%*	*16%*	*16%*
Total Cash	12,682	13,950	15,345	16,880	18,568	20,425
% of revenue	*76%*	*76%*	*76%*	*76%*	*76%*	*76%*
Net debt	**(10,012)**	**(11,013)**	**(12,115)**	**(13,326)**	**(14,659)**	**(16,125)**
% of revenue	*-60%*	*-60%*	*-60%*	*-60%*	*-60%*	*-60%*

Figure 25: Details of the net debt projections (2025 - 2030) – Source: Hox Simon, 2025

Note: this table shows the details of our calculation to project net debt for the period of 2025 to 2030.

1.9 Cost of Debt

As we saw in the preceding Chapter, the company has a low debt profile, with the debt consisting primarily of lease commitments (96% of total debt) *(Hermès Annual Report 2024, 2025)*. On these leases, the company pays lower interest rates than traditional long-term debt.

Seeing as the company doesn't report its cost of debt or the credit rating they have from noting agencies like Moody's or S&P, we will then use the cost of debt from Bloomberg, which is, as of May 22nd 2025, 3.07%. Pre-tax cost of debt is 3.13%, which is calculated by multiplying the note rate by the proportion of short-term debt to total debt, adding it to the bond rate multiplied by the proportion of long-term debt to total debt. *(Bloomberg, 2025)*

2. Valuation, the Discounted Cash Flow (DCF) method

In this part, we will calculate the intrinsic value of Hermès. To accomplish this, we will apply the discounted cash flow method. We will predict future cash flows based on the projections made in Chapter 1 for the same period. We will apply as discount factor the Weighted Average Cost of Capital (WACC).

2.1 Weighted Average Cost of Capital (WACC)

We will find the Cost of Equity (CoE) using the Capital Asset Pricing Model (CAPM) methodology. The formula for which is: $r_f + \beta * \text{ERP}$.

The r_f represents the risk-free rate that will be determined by utilizing the 10-year German bond yield, which is 2.562% as of May 20th 2025 *(CNBC, 2025)*. Given Hermès' international presence, with significant revenue from Asia (8.085 billion euro in 2024) and the Americas as well as its French headquarters, the 10-year German Bond yield serves as a suitable risk-free rate, reflecting the Eurozone's benchmark for low-risk investments.

Regarding the ERP, the equity risk premium; Damodaran reports that the ratio in France is 5.19% *(Damodaran, 2025)*. Then, the β represents the share price's response to market swings. We can determine the beta for Hermès using the Yahoo Finance tool, which results in a beta of

0.83, meaning that Hermès is less volatile than the market. After applying our inputs to the formula, we find that Hermès' Cost of Equity is 6.87%.

Then, we can find the Weighted Average Cost of Capital. This is the company's average cost of capital from all sources. It represents the average interest rate that a corporation expects to pay to finance its operations. The WACC calculation is: (% of equity * cost of equity) + (% of debt * cost of debt*(1-Tax Rate)).

The company has 17,327 million euro in equity and 2,506 million euro in total debt, as of December 31st 2024. This represents a division of 87.36% in equity and 12.64% of debt. The tax rate used is 28.4%, which was the effective tax rate for the year 2024.
As figure 26 shows, the calculation produces a WACC of 6.39%.

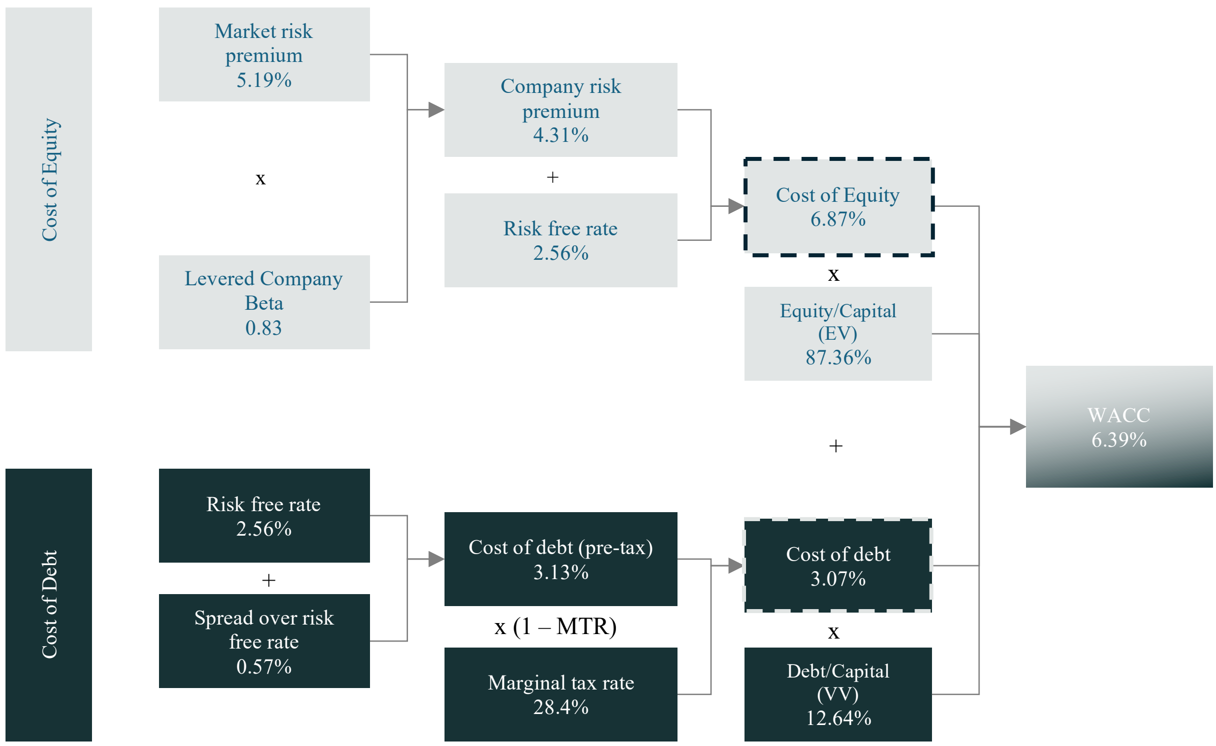


Figure 26: Details of the methodology to find the Weighted Average Cost of Capital – Source: Hox Simon,2025

Note: this image shows in detail how we found the Weighted Average Cost of Capital. In light gray we find the part explaining how we found the Cost of Equity, in dark green we find the cost of debt.

2.2 Free Cash-Flow to Firm (FCFF)

Hundred Million €	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Revenue	16,687	18,356	20,191	22,210	24,431	26,875
EBIT	6,842	7,526	8,278	9,106	10,017	11,019
(-) Tax	2,053	2,258	2,484	2,732	3,005	3,306
NOPAT	**4,789**	**5,268**	**5,795**	**6,374**	**7,012**	**7,713**
(+) D&A	834	918	1,010	1,111	1,222	1,344
(-) Capex	1,168	1,285	1,413	1,555	1,710	1,881
(-) Change in NWC	132	258	284	313	344	378
Free Cash Flow to Firm	**4,323**	**4,643**	**5,107**	**5,617**	**6,179**	**6,797**
Present value of Free Cash Flow	**4,191**	**4,231**	**4,374**	**4,523**	**4,676**	**4,835**

Figure 27: Hermès Free Cash-Flow to Firm (2025 - 2030) – Source: Hox Simon, 2025

Note: this table indicates how we calculated our Free Cash Flow to Firm and then discounted it to the WACC.

Figure 27 depicts the process used to determine the Present Value of Future Cash Flows. We begin the procedure by taking our projections of revenues and calculating the resulting EBIT. After including the projected tax charge, we arrive at NOPAT (Net Operating Profit After Tax), which represents the company's operating profitability after tax.

To arrive at the FCFF, we adjust NOPAT by adding back non-cash items such as depreciation and amortization. We also subtract the capital expenditure the firm spends to maintain or expand its business, and the change in working capital, which holds back trapped cash in ordinary activities.

For example, in 2025, NOPAT would be 4,789 million euro. Adding depreciation and amortization of 834 million euro, capital expenditure of 1,168 million euro, and adding the change in working capital of 132 million euro, the resulting FCFF would be 4,323 million euro.

Once we have the Free Cash Flow to Firm, we must discount it using the discount factor. The discount factor used is the WACC, which has previously been calculated to be 6.39%. We now have the Present Value of Future Cash Flows, which will help us calculate Hermès' intrinsic value using the DCF Method.

2.3 Hermès Intrinsic Value using the DCF Method

From the projected Free Cash Flows to the Firm (FCFF) of 2025 to 2030, we discounted each cash flow to its present value using a Weighted Average Cost of Capital (WACC) of 6.39% and the mid-year convention to account for cash flows occurring evenly throughout the year.
This provided the sum of present value of free cash flows in the forecast period. To value the terminal value after 2030, we employed the Gordon Growth Model with a terminal growth rate (TGR) of 3.5% because we believe that Hermès will sustain higher than inflation long-term growth through brand strength and strong pricing power. Then, it is discounted back to present

value using the same WACC and mid-year convention. The sum of the present value of future cash flows and terminal value gives an Enterprise Value of 200.005 billion euro. To arrive at the Equity Value, we made the following adjustments:

- Added 11.6 billion euro of cash available on the balance sheet
- Subtracted 2.5 billion euro of financial debt

This results in a total Equity Value of 209.14 billion euro. Finally, by dividing the equity value by the number of shares outstanding (104.731 million shares), we obtain a valuation per share of approximately 1,996.94 €, which is 16% lower than the price on May 23rd 2025 (2,373 €).

Sensitivity analysis								
				WACC				
Terminal Growth Rate	1,997	5.00%	6.00%	**6.39%**	**8.00%**	**9.00%**	10.00%	11.00%
	1.50%	1,793	1,409	1,302	996	872	778	703
	2.00%	2,041	1,548	1,416	1,054	914	809	727
	2.50%	2,389	1,726	**1,560**	**1,124**	**962**	844	753
	3.00%	2,910	1,964	**1,746**	**1,207**	**1,019**	884	783
	3.50%	3,778	2,296	**1,997**	**1,309**	**1,085**	931	817
	4.00%	5,515	2,796	2,352	1,437	1,166	985	856

Figure 28: Sensitivity Table – Source: Hox Simon, 2025

Note: this table shows the fluctuation in intrinsic value depending on the TGR and WACC.

Figure 28 illustrates the sensitivity analysis for our DCF method. We can see that depending on the scenarios, Hermès target price fluctuates a lot.

We then decided to also use an exit multiple instead of a TGR. According to TICKR, Hermès's median EV/FCF for the last 5 years is 40. Applying this exit multiple gives us a valuation per share of 2,109.57€, this implies a 11% downside.

3. Comparable Valuation Method

In this Chapter, we will utilize the comparable method to determine the intrinsic value of Hermès. This method allows us to value the company based on valuation multiples from Hermès's peers. As Appendix 17 shows, Hermès performed a lot better on a lot of different key performance indicators compared to peers. This is why based on our knowledge and experience we will apply a 25% premium valuation to Hermès. This adjustment aims to account for qualitative factors that are not fully captured in traditional relative valuation metrics.

3.1 Selection of comparable companies

It is difficult to select comparable companies because Hermès is unique in its field (products, margin, growth, etc.). However, we can select organizations from a variety of sectors. We will select companies with a premium positioning and a presence in the same industry as Hermès (leather goods, ready-to-wear accessories).

The first and obvious choice is LVMH. We've previously made comparisons between the two companies. LVMH is a leading goods company that owns brands such as Louis Vuitton, Dior, and Tiffany & Co. The company focuses on leather items, fashion, and jewelry. The corporation poisoned itself as a luxury brand with great brand equity and pricing power, although more diverse than Hermès. LVMH is a close competitor due to its luxury focus and global prominence, but its diversification renders it less directly like Hermès' narrow focus.

Then we chose Kering, which is positioned as a premium brand with labels such as Gucci, Saint Laurent, and Bottega Veneta. Kering is more fashion forward and cyclical than Hermès' classic offerings.
Kering is an adequate counterpart due to its luxury focus, but its higher cyclicality and weaker growth make it a less ideal fit than LVMH.

The third choice is Richemont (Compagnie Financière Richemont). The company sells luxury items, mostly jewels (Cartier, Van Cleef & Arpels), watches (IWC, Jaeger-LeCoultre), and accessories.
Richemont is a strong peer due to its emphasis on high-end luxury, comparable size, and reduced volatility, albeit its jewelry/watch focus contrasts from Hermès' dominance in leather goods.

Fourth, we chose to include Moncler in our analysis. The company sells premium goods, focusing on high-end outerwear, accessories, and footwear, with a developing fashion presence. Moncler is an excellent peer due to its luxury focus, high profits, and growth, but its smaller size and focus on outerwear make it less relevant than the others.

Finally, we decided to include Prada S.P.A, which sells luxury products, mostly leather goods, fashion, and accessories under names such as Prada and Miu Miu.
Prada is a reasonable competitor because of its leather goods specialization and global visibility, but its smaller size and trend sensitivity make it less similar.

3.2 EV/Sales & EV/FCF

EV/Sales	**2025**
LVMH	3.57
Kering	2.07
Richemont	4.26
Moncler	4.48
Prada S.P.A	3.03
Median	3.57
Premium (25%)	4.5
Sales (million euro)	16,687
Hermès EV	74,466
Cash & Equivalents	*11,642*
Total debt	*2,506*
Total shares	104,731
Price per share	**798.25**

EV/FCF	**2025**
LVMH	23.6
Kering	14.9
Richemont	24.7
Moncler	21.9
Prada S.P.A	20.1
Median	21.9
Premium (25%)	27.4
FCF (million euro)	4,323
Hermès EV	118,347
Cash & Equivalents	*11,642*
Total debt	*2,506*
Total shares	104,731
Price per share	**1,217.25**

Figure 29: Price per Share using the EV/Sales & EV/FCF Multiple – Source: Zonebourse, 2025

Two relative valuation techniques, EV/Sales and EV/FCF, were added to the intrinsic valuation approach while conducting the valuation of Hermès. These methods rely on a peer comparison with leading luxury firms, allowing Hermès to be valued against the market expectations embedded in its closest competitors.

The EV/Sales method is based on 2025 revenue forecasts and a set of sector peers including LVMH, Kering, Richemont, Moncler, and Prada. Among these, Hermès distinguishes itself through higher margins and superior brand positioning, justifying the application of a 25% premium over the sector median multiple. With a premium adjusted multiple of 4.5x and expectations that Hermès will achieve 16.7 billion euro in revenue, the enterprise value of Hermès reaches 74.5 billion euro. Adjusting for net cash and using the outstanding number of shares the implied price per share is 798.25€.

The second method, EV/FCF, is based on 2025 expected free cash flow of 4.32 billion euro. Here too, Hermès is benchmarked against the same peer group, with a median multiple of 21.9x and a premium valuation of 27.4x applied to reflect Hermès' exceptional cash generation and capital efficiency. This results in an enterprise value of 118.3 billion euro. After adjusting for cash and debt, the corresponding equity value leads to an implied price per share of 1,217.25 €. The disparity between the two results is not surprising. EV/Sales, while easy to apply, does not capture the profitability or capital intensity of the business. For a company like Hermès characterized by high margins, limited debt, and strong pricing power EV/FCF offers a more relevant valuation framework. It reflects the company's ability to generate sustainable cash flows and reinvest efficiently, making it a more meaningful indicator of long-term value.

These two valuations can be viewed as complementary. EV/Sales provides a conservative benchmark grounded in performance, while EV/FCF incorporates operational strength and efficiency. Together, they offer a valuation range that reflects both the brand driven nature of the business and its underlying financial robustness.

4. Stock Reputation

To determine Hermès stock reputation, we used the LPE Research Methodology. Its main goal is to determine whether a company deserve a premium or a discount. According to this method, Hermès has a total score of 75/100. This places the company in the Third Decile (70-79 points), which is a "High reputation on the stock market" based on the LPE Research methodology. The score weighs Hermès' strengths in shareholder loyalty, social impact, and communication against lower governance focus due to family control and lower IR intensity.

Share price behavior		**16/20**
Erratic daily share price movements	Probability of 2,003%	7/10
Deviation magnitude of a share price compared to its average trend	Standard deviation of 2,02%	9/10
Quality of the shareholder structure		**19/20**
Proportion of long term and large institutional funds managers within the free float	Institution holds 40,33% of the free float	10/10
Shareholders loyalty	Average quarterly proportion of funds selling out: 3.84%	9/10
Governance and focus on shareholder value		**8/20**
Reference shareholder	Family holds 66,7% of the shares	**2/5**
Board structure		**2/5**
Main shareholders on the Board	Yes	2/2
Separation of CEO and Chairman of the Board roles	No	0/2
Board independence	Moderate	0/1
CEO tenure	0,5 year	**2/5**
Intensity of investor relations		**2/5**
Number of days spent by CEO with investors		2/5
Number of days spent by CFO with investors		-1
Number of analysts covering the company	22 analysts	+1
Social and environmental focus		**16/20**
Social impact reporting and prioritization		**5/5**
Formal priority to social impact	Judgment: First priority	3/3
Reporting on social performance indicators	Annual Reporting	2/2
Impact of operations and products on people		**5/5**
Impact of operations on people (social impact)	Judgment: Positive Impact	2/2
Impact of products/services on people (clients)	Judgment: Positive Impact	3/3
Environmental impact reporting and prioritization		**4/5**
Formal prioirity to environmental impact	Judgment: First priority	3/3
Formal prioirity to environmental performance indicators reporting	Annual Reporting	1/2
Reporting on environmental performance indicators		**2/5**
Impact of operations and products on the environment	Judgment: Neutral impact	1/2
Impact of operations on the environment	Judgment: Neutral impact	1/3
Communication and consistency		**16/20**
Communciation quality		**10/10**
Business model communication	Judgment: very good	2/2
Strategy communication	Judgment: very good	2/2
Capital allocation communication	Judgment: very good	2/2
Communication of results and performance	Judgment: very good	2/2
Coherence of the communication	Judgment: very good	2/2
Consistency		**5/5**
Strategy coherence	No change in the startegy	2/2
Reporting coherence	Consistent in reporting	2/2
Accounting consistency	Last accounting change in 2019	1/1
Guidance orientation	No guidance provided	**1/5**
	TOTAL	**75/100**

Figure 30: Stock reputation according to the LPE Research – Source: Hox Simon, 2025

Note: this figure scores Hermès at 75/100 (Third Decile, "High reputation") using the LPE Research Methodology.

5. Target price determination

In this chapter, we will determine Hermès' target price. We have many discrepancies between the comparable study because peers are struggling to grow revenue, resulting in low multiples. This multiple has a negative influence on Hermès' valuation, making it unreliable. While relative valuation can be useful in homogeneous sectors, its limitations become evident when a company structurally outperforms its peers. We are going to ignore this approach and instead focus only on the DCF method with Terminal Growth Rate and the Exit Multiple.

Indeed, when we look at the comparable value, we can see that the price per share we calculated is far from the actual stock price. This is explained by the peers' comparable multiples, which are significantly lower than Hermès's. As previously mentioned, Hermès does not have the same profitability, brand strength, growth, or other characteristics as its competitors. This renders the relative valuation useless, and it will thus not be used to establish our final share price. Such a deviation highlights the importance of tailoring valuation models to the company's specific fundamentals rather than relying on broad sector averages.

This implies that we will solely utilize the DCF Method to calculate Hermès' price target. To summarize, we employed two separate methods: the Gordon Growth Model and an Exit Multiple. The first provided us an assumed share price of 1,996.94€, while the second was 2,109.57€. Both methodologies indicates that the share price could decline by 16% and 11%. To calculate the final share price, we average these techniques.

Hermès' price target is thus 2,053.26€, implying that the current Hermès share price has a downside potential of 13%.

6. Alternative Scenarios

To identify our target price inside an interval, we will create a bear and optimistic scenario based on our previously developed center scenario.

6.1 Bear Case

The bear scenario envisages Hermès being confronted by adverse externalities and more troublesome execution risks internally. The slowdown in key luxury markets, especially in China, and in the US, will weigh down demand due to tariffs, while an intense regulatory scrutiny and rising protectionism shut down cross-border sales of luxury products. Revenue is expected to slow down to a CAGR of 7%, with softening demand and prices acting competitively.

Margins normalize gradually to 38% EBIT, fully consistent with the pre-COVID level. This decline in EBIT is due to the increased raw material and artisan wages and continued investment in supply chain traceability and sustainability compliance. Even with Hermès' full consideration for craftsmanship, the increased operational costs are not being fully passed on to customers so as not to dilute the brand goodwill.

The Capex remains high at 7% of revenue, driven by ongoing workshop development and environmental initiatives that, alongside weaker top-line growth, could undermine free cash flow expansion. WACC is thus adjusted upward to 8.2%, carrying a higher equity risk premium and tighter credit conditions.

In this cautionary scenario, the implied share price goes down to 1,612 €. While this does not imply structural weakness in the Hermès model, it highlights the sensitivity of luxury valuations to both demand elasticity and operating leverage.

6.2 Optimistic Case

In the optimistic case, Hermès would benefit from a highly favorable market environment dominated by an ever growing global luxury market and continued globalization of its brand as it expands sales networks through Asia and the Middle East. The shares are expected to generate a 12% CAGR between 2025 and 2030 supported by increased demand in key foreign markets, good performance of leather goods, and the scaling up of new categories such as jewelry and homeware.

In such a case, Hermès continues to act with strong pricing discipline without sacrificing volume. Higher sales and operating leverage improve EBIT margin to 43%, while cost control and production efficiencies come from the new set of optimized workshops, maintaining their profitability at a higher level. Capex remains significant but gradually tapers down to 6% of revenues, as major infrastructure investments are concluded. WACC remains unchanged at 6.39%, adhering to the base case.

Based on these assumptions, the implied share price is around 2,372€, which reflects the upside potential of a Hermès operating at the pinnacle of its strategic and operational capabilities.

CONCLUSION

In this study, we performed a fundamental analysis of Hermès International. We began by studying the strategic analysis, which allowed us to assess the company's SWOT and comprehend how it differed from its counterparts. We then proceeded to analyze the three financial statements, concluding that Hermès' financials are highly robust and far better than its competitors. However, one problem was identified during the analysis: the corporation has too much cash. The amount of cash the corporation has is essential, and because the Hermès Family controls the bulk of the voting rights, minority shareholders have no say in what happens with the cash. With the help of the strategic and financial analyses, we create the financial projections needed to estimate the intrinsic value of the business.

Following the estimates, we applied the Discounted Cash Flow Method with the Gordon Growth Model and Exit Multiple. We then used the Relative Valuation Method after deciding which peers to compare Hermès to. We excluded the Relative Valuation method due to skewed comparable multiples; hence we chose to preserve the average of the DCF Method.

Based on these calculations, our final recommendation (as of May 23rd 2025) is to short the stock. The target price for our base case is 2,053.26€ which represents a potential gain of 13%. Our bear case gives us a price target of 1,612.34€ which represents a gain of 32% while the optimistic case has a target price of 2,372.78€ which means that the stock is currently fairly valued.

It is crucial to note that numerous hypotheses were developed in this study based on the facts available at the time of writing. This implies that future events, both internal and external to Hermès International, may have a major impact on the outcomes obtained. However, this study should help us understand the elements that could influence the forecasts.

While this valuation relied primarily on the Discounted Cash-Flow method, it is important to note that relative valuation was considered and ultimately excluded due to distortions in peer multiples. This decision raises a broader question for future analysis: To what extent is relative valuation appropriate for valuing exceptional firms like Hermès?

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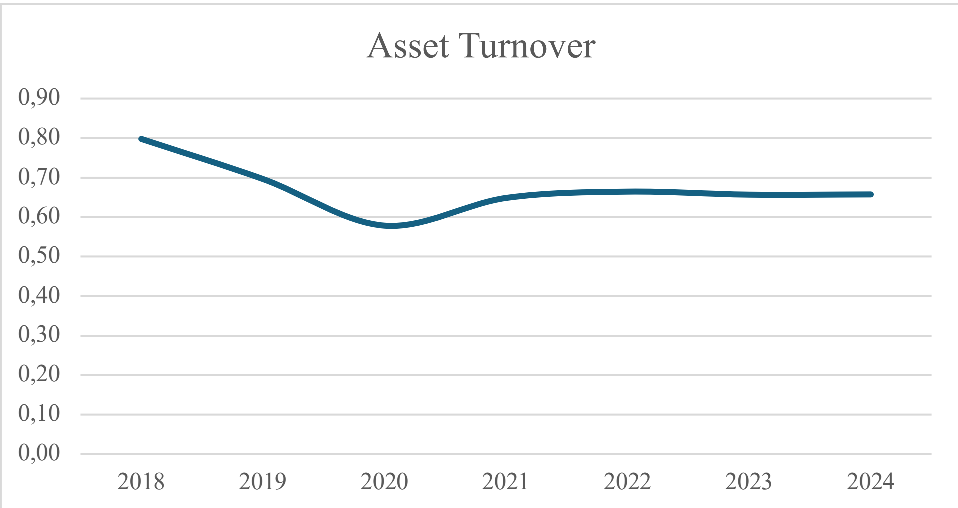
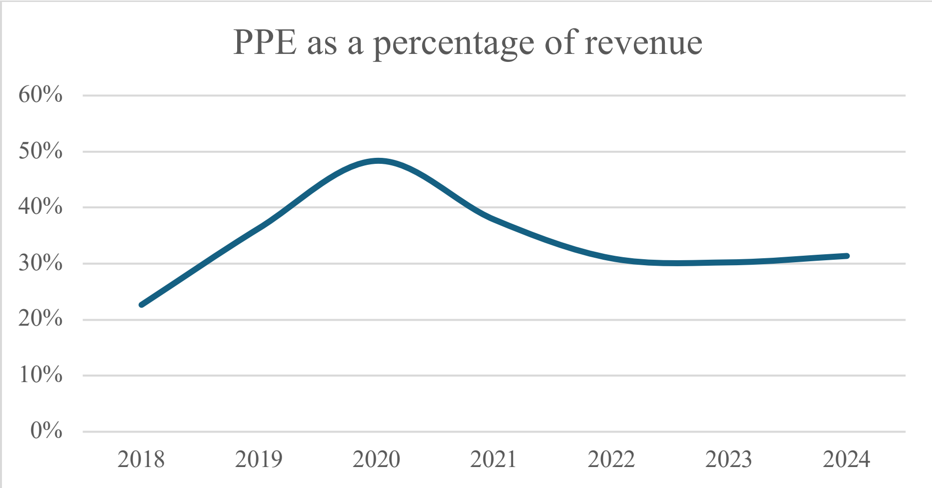
Appendix

Appendix 1: Hermès 6 pillars – Source: SUSTAINABLE DEVELOPMENT STRATEGIC FRAMEWORK, 2021



Appendix 2: Hermès Asset Turnover (2018-2024) – Source: Hox Simon, 2025

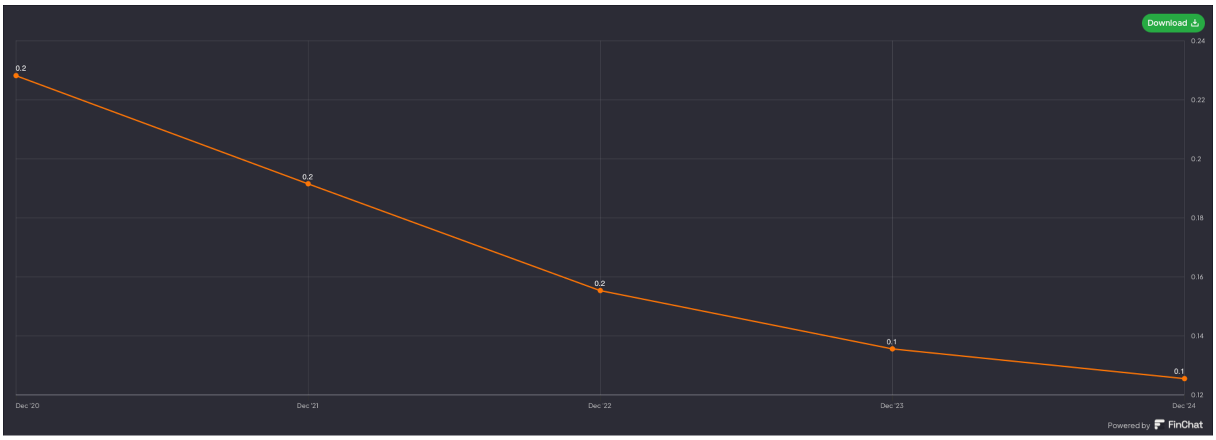


Appendix 3: Property, plant & equipment as a percentage of revenue (2018-2024) – Source: Hox Simon, 2025

Hermes Int SCA Current Ratio Benchmarks

Name	Ticker	Current Ratio
Moncler SpA	BIT:MONC	-
Pandora A/S	DB:3P7	0.9x
Geox SpA	DB:GHH	1.0x
Kering SA	ENXTPA:KER	1.1x
Brunello Cucinelli	BIT:BC	1.3x
Consumer Discretionary	SECTOR:DSCY.FR	1.3x
LVMH Moet Hennessy Louis Vuitt...	ENXTPA:MC	1.4x
Ermenegildo Zegna N.V.	DB:JN0	1.4x
Christian Dior SE	ENXTPA:CDI	1.4x
Hermes International SCA	OTCPK:HESA.F	4.3x
Movado Group, Inc.	DB:MV4	4.3x
Swatch Group AG	SWX:UHR	9.8x

Appendix 4: Hermes Current ratio versus competition (31.12.2024) – Source: (Finbox, 2025)



Appendix 5: Debt/Equity for Hermes (2020-2024) – Source: (The Complete AI Powered Stock Research Platform, 2025)

	2018	2019	2020	2021	2022	2023	2024	CAGR
Laether Goods & Saddlery	2 976	3414,3	3209	4091	4963	5547	6457	**14%**
Growth (%)		*15%*	*-6%*	*27%*	*21%*	*12%*	*16%*	
Clothing and Accesories	1 310	1574,2	1409	2219	3152	3879	4405	**22%**
Growth (%)		*20%*	*-10%*	*57%*	*42%*	*23%*	*14%*	
Silk and Textiles	537	592,5	452	669	842	932	950	**10%**
Growth (%)		*10%*	*-24%*	*48%*	*26%*	*11%*	*2%*	
Other Hermès business lin	425	524,9	643	1001	1371	1653	1909	**28%**
Growth (%)		*24%*	*22%*	*56%*	*37%*	*21%*	*15%*	
Perfume & beauty	312	325,9	263	385	448	492	535	**9%**
Growth (%)		*4%*	*-19%*	*46%*	*16%*	*10%*	*9%*	
Watchmaking	169	193,4	196	337	519	611	577	**23%**
Growth (%)		*14%*	*1%*	*72%*	*54%*	*18%*	*-6%*	
Other products	238	258,2	218	279	306	313	337	**6%**
Growth (%)		*8%*	*-16%*	*28%*	*10%*	*2%*	*8%*	
TOTAL	**5 967**	**6 883**	**6 390**	**8 981**	**11 601**	**13 427**	**15 170**	**17%**
Growth (%)		*15%*	*-7%*	*41%*	*29%*	*16%*	*13%*	

Appendix 6: Historical revenue per business unit (2018 – 2024) – Source: Hermes Annual Report, 2018 - 2024

	2018	2019	2020	2021	2022	2023	2024
Revenue	5,967	6,883	6,390	8,981	11,601	13,427	15,170
COGS	1,791.8	2,124.9	2,013.3	2,580	3,389	3,720	4,511
Gross profit	4,175	4,759	4,377	6,401	8,212	9,707	10,659
Gross Margin	69.97%	69.13%	68.49%	71.27%	70.79%	72.29%	70.26%

Appendix 7: Historical gross margin, gross revenue, COGS & revenue (2018 – 2024) – Source: Hox Simon, 2025

	2018	2019	2020	2021	2022	2023	2024
Revenue	5,967	6,883	6,390	8,981	11,601	13,427	15,170
CAPEX	243.2	477.7	448.2	529	517	859	1,066
% of revenue	4.08%	6.94%	7.01%	5.89%	4.46%	6.40%	7.03%

Appendix 8: Revenue VS CAPEX (2018 - 2024) – Source: Bloomberg, 2025

	2018	2019	2020	2021	2022	2023	2024
Revenue	5,967	6,883	6,390	8,981	11,601	13,427	15,170
D&A	217	236	271	312	607	772	844
% of revenue	*3.64%*	*3.43%*	*4.24%*	*3.47%*	*5.23%*	*5.75%*	*5.56%*
						Mean	**4.48%**

Appendix 9: D&A as percentage of revenue (2018 – 2024) – Source: Zonebourse, 2025

	2018	2019	2020	2021	2022	2023	2024
Inventories	964	1,130	1,290	1,445	1,778	2,410	2,797
COGS	1,791.8	2,124.9	2,013.3	2,580	3,389	3,720	4,511
Days inventory outstanding	196	194	234	204	191	236	226
						Mean	***212***

Appendix 10: Days inventory outstanding (2018 – 2024) Source: Hox Simon, 2025

	2018	2019	2020	2021	2022	2023	2024
Accounts Payable	417	406	373	450	659	880	832
COGS	1,791.8	2,124.9	2,013.3	2,580	3,389	3,720	4,511
Days payable outstanding	85	70	68	64	71	86	67
						Mean	***73***

Appendix 11: Days payable outstanding (2018 – 2024) – Source: Hox Simon, 2025

	2018	2019	2020	2021	2022	2023	2024
Accounts Payable	281	318	250	333	383	431	487
Revenue	5,967	6,883	6,390	8,981	11,601	13,427	15,170
Days sales outstanding	17	17	14	14	12	12	12
						Mean	***14***

Appendix 12: Days sales outstanding (2018 – 2024) – Source: Hox Simon, 2025

	2025	2026	2027	2028	2029	2030
Inventories	3,057.6	3,437.3	3,844.9	4,272.7	4,718.6	5,173.9
COGS	5,072.83	5,702.76	6,379.00	7,088.77	7,828.56	8,583.97
Days inventory outstanding	**220**	**220**	**220**	**220**	**220**	**220**

Appendix 13: Appendix 15: Days inventory outstanding (2025 – 2030) – Source: Hox Simon, 2025

	2025	2026	2027	2028	2029	2030
Accounts Payable	972.9	1,093.7	1,223.4	1,359.5	1,501.4	1,646.2
COGS	5,072.8	5,702.8	6,379.0	7,088.8	7,828.6	8,584.0
Days payable outstanding	**70**	**70**	**70**	**70**	**70**	**70**

Appendix 14: Days payable outstanding (2025 – 2030) – Source: Hox Simon, 2025

	2025	2026	2027	2028	2029	2030
Accounts Payable	561.8	631.6	706.5	785.1	867.1	950.7
Revenue	17,090	19,212	21,490	23,881	26,373	28,918
Days sales outstanding	**12**	**12**	**12**	**12**	**12**	**12**

Appendix 15: Days sales outstanding (2025 – 2030) – Source: Hox Simon, 2025

	2025	2026	2027	2028	2029	2030
Net Working Capital	3,468.6	3899.3	4,361.7	4,847.0	5,352.9	5,869.4

Appendix 16: Net Working Capital requirement (2025 – 2030) – Source: Hox Simon, 2025

	Hermès	LVMH	Kering	Richemont	Moncler	Prada S.P.A
5-year average revenue CAGR	18%	9,55%	1,60%	8,49%	14,96%	10,98%
5-year average Gross Margin	70,62%	67,41%	74,27%	65,24%	76,75%	77,36%
5-year average EBITDA Margin	42,34%	27,95%	28,04%	23,51%	32,38%	22,39%
5-year average EBIT Margin	39,47%	24,28%	23,79%	19,85%	28,95%	17,19%
5-year average ROIC	20,95%	12,40%	10,31%	7%	12,81%	7,47%
5-year average ROE	27,95%	23,23%	19,69%	15,06%	20,17%	12,15%

Appendix 17: Hermès compared to main peers – Source: Zonebourse, 2025