

Stock Story



Disciplined craftsmanship and structural scarcity compound value across generations.

Hermès was founded in Paris in 1837 as a maker of harnesses and saddles for Europe's horse-drawn elite. From the outset, the company was defined by functional excellence and craftsmanship rather than fashion. Its first decisive strategic shift came with the rise of the automobile, which structurally reduced demand for equestrian equipment. Rather than defend a declining end market, Hermès redeployed its leather expertise into luggage and travel goods, applying the same standards of durability and quality to a new era of mobility.

That early pivot is instructive. Hermès adapted to technological change without diluting its identity, a pattern that has repeated over nearly two centuries. Today, the group is one of the most profitable companies in global luxury, with activities spanning leather goods, ready-to-wear, silk, jewellery, watches and homewares. Leather goods remain the economic engine, accounting for the majority of profits, while the broader portfolio reinforces the maison's cultural relevance and desirability. Despite operating more than 300 stores globally and employing over 20,000 people, Hermès continues to behave less like a conglomerate and more like a craft maison, prioritising long-term brand equity over near-term growth.

This mindset underpins why we find Hermès such a compelling business. Its brand equity is built not on seasonal fashion or loud marketing but on function, heritage and longevity. Many of its most recognisable products, including the Birkin and Kelly bags or the silk carré, have remained largely unchanged for decades.

This continuity reduces fashion risk, extends product life cycles and reinforces trust, advantages that are rare at scale in luxury.

Hermès' vertical integration further strengthens this position. The group controls almost every step of its value chain, from sourcing raw materials to tanning, design and manufacturing. This control protects quality, limits the ability to increase supply rapidly and creates barriers that are difficult for competitors to replicate. Importantly, it also allows Hermès to invest steadily in artisanal capacity, even when industry conditions are challenging, without compromising standards or margins.

Over time, this discipline has translated into exceptional pricing power. Hermès has consistently raised prices across cycles without undermining demand, reflecting both brand strength and deliberate supply constraints. The credibility of this pricing power is reinforced by the secondary market. Data consistently shows Hermès products retaining, and in many cases exceeding, their original retail price, with average resale values meaningfully above purchase price for flagship bags. In effect, the resale market validates Hermès' primary pricing strategy and reinforces consumer confidence in the brand as a long-term store of value.



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Crucially, Hermès does not attempt to clear excess demand. Production growth is constrained by artisan training timelines and capacity discipline, not by the level of customer interest. Waiting lists are a feature, not a failure, of the model. This ensures discounting is avoided and that demand consistently exceeds supply, protecting both margins and brand equity.

In a well-known book called *Kapferer on Luxury*, Jean-Noël Kapferer describes the central dilemma facing luxury brands: how to grow while preserving rarity and exclusivity. Many brands resolve this tension poorly, expanding volumes or distribution too aggressively during strong periods and eroding their long-term positioning in the process. Hermès stands out as one of the few large luxury companies that has solved this dilemma strategically. Growth is achieved through incremental capacity additions, selective category expansion and pricing rather than through volume acceleration. The company accepts slower short-term growth in exchange for durability and compounding over decades.

Every enduring investment case has areas of debate, and for Hermès this is valuation. The company trades at a significant premium to global luxury peers on most metrics, despite operating with deliberately constrained volume growth and exposure to discretionary consumer demand. For some investors, this premium appears difficult to justify, particularly when compared with peers that offer higher near-term growth or broader category exposure.

We believe the premium reflects structural characteristics that are both durable and rare. Hermès has delivered exceptional consistency in returns on capital and earnings through cycles, underpinned by disciplined supply, minimal discounting and limited fashion risk. This reduces downside

volatility and supports higher through-cycle multiples. Family ownership and a relatively low free float further reinforce this dynamic, creating a form of scarcity at the equity level. The controlling shareholders' long-term stewardship limits the risk of value-destructive strategic decisions, while the limited availability of comparable assets with similar quality, durability and governance characteristics provides ongoing valuation support.

The benefits of the Hermès model have been particularly evident through the recent challenging period for the luxury sector. Slowing global demand, softer Chinese consumption and inventory pressure have led to revenue declines and margin contraction for many peers. Hermès has stood apart. Growth has moderated but remained positive, margins have proven resilient, and inventory discipline has been maintained. The company's exposure to the highest-income consumers, combined with its scarcity-driven strategy, has insulated the business from the more cyclical elements of aspirational luxury demand.

Ultimately, Hermès is not simply a luxury brand. It is a structurally advantaged business with rare durability, built on craftsmanship, restraint and long-term thinking. That combination has allowed it to protect brand equity, sustain pricing power, and compound value across cycles, supporting its place as a high-quality, long-duration holding within a global equity portfolio.

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