H&M results slammed by strong dollar, weak demand

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Swedish fashion retailer Hennes & Mauritz reported a 17 percent drop in second-quarter profit as weak demand for its spring clothes added to high costs.

Dented by currency translation effects which kept purchasing costs high, and markdowns due to unusually weak sales growth, as well as higher investments in e-commerce, pretax profit in H&M's fiscal second quarter fell to 7.0 billion Swedish crowns ($847.36 million) from 8.4 billion a year earlier. The result was in line with a Reuters poll of analysts.

H&M, the world's second-biggest fashion retailer after Zara owner Inditex, said higher markdowns were mainly due to spring garments not selling as well as planned because of unfavourable weather in many key markets.

The unexpectedly weak demand, mainly in March and April, contributed to higher inventories than expected as the company entered its third quarter.

H&M said sales in June 1-21 were up 7 percent in local currencies.

The company, which sources mainly in Asia in U.S. dollars but has the bulk of sales in euros, said purchasing costs were high in the second quarter and would likely remain so in the third.

The gross margin shrank to 57.6 percent in the second quarter from 59.4 percent.

$1 = 8.2610 Swedish crowns