H&M

Initiation of coverage

9.10.2023 20:20

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Value creation is always in fashion

We believe H&M is on an improving margin trend and will get close to its 10% margin target in 2024, driving a substantial earnings growth y/y during 2023-24. We see solid growth potential for this globally strong fashion brand. The valuation of P/E 16x for 2024 looks moderate and a combination of dividends and earnings growth should give around 10% expected return. We initiate the coverage with Accumulate and 165 SEK target price.

Global fashion retailer with focus on the main brand, H&M

H&M is a Swedish-based global fashion retailer, offering a diverse range of clothing, accessories, footwear, cosmetics, home textiles, and homeware through several brands and business ventures. Despite a wide range of brands, we believe the main brand H&M still contributes the vast majority of sales and earnings. H&M focuses on affordable fashion, where an attractive price/quality-ratio is important. The company does not publish figures by brands (except the number of stores), but we estimate the H&M brand generates some 90% of the turnover. Geographically, the group is present in over 75 markets, while ~60% of its sales are created in Europe.

The past decade has been challenging for H&M

Back in 2010, H&M's position in the global fashion industry was strong, as it was still dominated by physical stores and low-cost production in Asia, which H&M had learned to operate very efficiently on a large scale in its operations. After that, the competition started to intensify, in particular due to the rise of online platforms, which in our view hit both H&M sales development and put pressure on its prices and hence margins. H&M had an EBIT margin of over 20% in 2010 after which it embarked on a downward trend, ending up at 7.5% in 2019. Then in 2020, COVID-19 hit the company and sales declined some 20%, putting further pressure on profitability. Currently, we believe however that the company is in a decent shape regarding its omni-channel capabilities and cost structure and during 2023, the margins have been trending higher.

Heading towards 10% margin in 2024 and robust, sustainable growth after that

H&M has no clear published financial targets, nor does it give any earnings guidance. It aims for a 10% EBIT margin in 2024, which should come through a "normalization" of the gross margin (after the COVID period) as well as an admin restructuring and other efficiency measures to support opex/sales. We are forecasting a 9-10% margin for 2024 and onwards. Regarding growth, the company is aiming to double its sales by 2030 vs. 2021, which would require roughly 7.5% CAGR from 2022 level. The company has not opened this target in detail, but we clearly see more growth potential outside Europe due to H&M's smaller presence allowing market share gains and higher market growth, especially e.g., in Latin America, India or Asia. We expect a 5% sales growth in the mid-term with 2024 being slower due to H&M's focus on margin improvement and a fairly soft economic situation.

Positive risk/return thanks to solid cash flow, dividends and growth outlook

H&M's P/E for 2024 is around 16x, which we believe is in the low-end of the acceptable valuation. We estimate that H&M's free cash flow and dividend yields are around 4-5% in the coming years. As the company is debt-free (excluding lease debt), it can distribute all the earnings and cash flow as dividends. After a big earnings improvement in 2024, driven by the higher margin, we expect a steady 5% sales/earnings growth in the mid-term. This offers around 10% expected return, beating our return requirement of 8%.

Recommendation

Accumulate

165 SEK

Share price:
148

Risk / Recommendation matrix — Buy, Accumulate, Reduce, Sell; High–Low risk axis

Key indicators

	2022	2023e	2024e	2025e
Revenue	223 553	237 615	241 000	252 374
growth-%	12 %	6 %	1 %	5 %
EBIT adj.	9 760	14 905	21 596	23 866
EBIT-% adj.	4,4 %	6,3 %	9,0 %	9,5 %
Net Income	3 566	11 175	15 399	17 265
EPS (adj.)	3,7	6,2	9,4	10,6
P/E (adj.)	30,0	23,7	15,7	14,0
P/B	3,6	4,7	4,3	3,9
Dividend yield-%	5,8 %	4,4 %	4,7 %	5,1 %
EV/EBIT (adj.)	24,1	19,6	13,5	12,2
EV/EBITDA	7,9	7,7	6,9	6,4
EV/S	1,1	1,2	1,2	1,2

Source: Inderes

Guidance

No guidance

Share price

Source: Millistream Market Data AB

Revenue and EBIT-%

	2020	2021	2022	2023e	2024e	2025e
Revenue	187031	198967	223553	237615	241000	252374

Source: Inderes

EPS and dividend / share

	2020	2021	2022	2023e	2024e	2025e
EPS (adjusted)	0,75	6,65	3,74	6,24	9,45	10,59
Dividend / share	0,00	6,50	6,50	6,50	7,00	7,50

Source: Inderes

Value drivers

- Very strong brand and market presence in the fashion retail
- Potential to grow in emerging markets and increase market share
- Margin improvement towards 10% EBIT-margin target
- Portfolio chains / ventures could create value in the mid-/long-term

Risk factors

- Fashion industry is fiercely competed and somewhat cyclical in nature
- H&M's track record from the past decade is poor and a "normal" margin level is uncertain
- Increased regulation could have a negative impact
- Reputational risk for the H&M
- Change in consumer preferences away from fast fashion

Valuation	2023e	2024e	2025e
Share price	148	148	148
Number of shares, m	1629,7	1629,7	1629,7
Market cap	241 326	241 326	241 326
EV	292 806	291 408	291 081
P/E (adj.)	23,7	15,7	14,0
P/E	21,6	15,7	14,0
P/B	4,7	4,3	3,9
P/S	1,0	1,0	1,0
EV/Sales	1,2	1,2	1,2
EV/EBITDA	7,7	6,9	6,4
EV/EBIT (adj.)	19,6	13,5	12,2
Payout ratio (%)	94,8 %	74,1 %	70,8 %
Dividend yield-%	4,4 %	4,7 %	5,1 %

Source: Inderes

Contents

H&M in brief

H&M Group is one of the world's largest fashion retailers measured by net sales and it offers a diverse range of clothing, accessories, footwear, cosmetics, home textiles, and homeware through distinctive brands and ventures.

1947
Year of establishment

1974
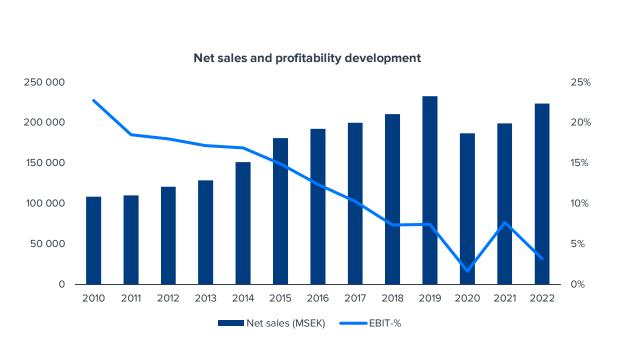Listing on the main list of the Stockholm Stock Exchange

SEK 224 billion (+12% vs. 2021)
Net sales 2022

6%
Average increase in net sales 2012-22 (CAGR)

7,169 MSEK (3.2% of net sales)
Operating profit 2022

~30%
Online sales as a share of the group's net total

106,522 (-1% vs. 2021)
Personnel (FTE) 2022

H&M Group

H&M   COS   WEEKDAY
MONKI   H&M HOME
& Other Stories   ARKET   AFOUND

~4,400 stores

77 store markets

60 online markets

Net sales and profitability development

Net sales (MSEK)　　EBIT-%

Global fashion retail powerhouse

H&M Group was founded in 1947 in Sweden and has since grown into one of the world's largest fashion retailers measured by net sales. The company offers a diverse range of clothing, accessories, footwear, cosmetics, home textiles, and homeware through several brands and business ventures.

H&M Group has a multi-brand matrix organization with the following brands: H&M, COS, Weekday, Monki, H&M HOME, & Other Stories, Arket, and Afound. The Group also has business ventures such as Sellpy, Singular Society and the B2B initiative Creator Studio. Each brand has its own organization and unique identity, but they share some back-office functions, like sourcing, creating synergies in the group.

Globally operating H&M Group has approximately 4,400 stores in 77 markets, and its online sales are available in 60 markets. Last year, H&M Group's net sales amounted to SEK 224 billion, with approximately 70% from stores and 30% from online sales. In 2022, H&M Group's operating profit was SEK 7,169 million, representing 3.2% of the net sales.

The business is divided into six regions

H&M Group divides its operations into six regions, which are The Nordics, Western Europe, Eastern Europe, Southern Europe, North & South America and Asia, Oceania & Africa. Measured by net sales, H&M Group's largest market area is Europe (around 64%). Western Europe is the largest region, representing some 32% of the Group's net sales last year. Southern Europe contributed about

13% of the net sales in 2022, Eastern Europe about 10%, and The Nordics about 9%. North & South America represented around 23% of the Group's net sales the previous year, while Asia, Oceania & Africa accounted for approximately 14%.
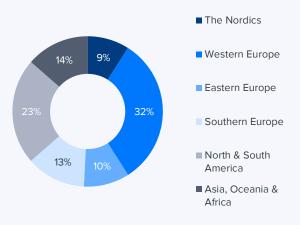
Over half of H&M Group's stores are located in Europe, making it the largest market area in terms of store count as well. As of the end of Q3'23, the regions with the highest number of stores were Asia, Oceania & Africa (25%) and Western Europe (24%). North & South America accounted for approximately 17% of the stores at the end of Q3, while Southern Europe accounted for about 14%. Eastern Europe's share was about 11% as of the end of August, and The Nordics had 9% of the stores.
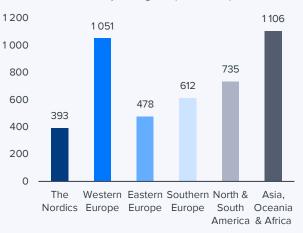
Top 10 markets drive sales

The H&M Group operates in 77 markets, but over half (approximately 60%) of its net sales in 2022 came from its top 10 markets. These major markets are the US, Germany, UK, France, Sweden, Italy, the Netherlands, Canada, Switzerland, and Poland. Additionally, around 50% of the Group's stores were located in these top 10 markets in 2022.

The US is H&M Group's largest market in terms of both net sales and number of stores. They entered the US market in 2000, and since then, it has become one of the company's most significant individual countries. In 2022, net sales from the US accounted for approximately 15% of the total net sales. The average annual growth rate of net sales in the US from 2018 to 2022 has been approximately 8%, solidifying its position as the company's biggest market.

Group net sales by region (2022)

- The Nordics
- Western Europe
- Eastern Europe
- Southern Europe
- North & South America
- Asia, Oceania & Africa

9%, 32%, 10%, 13%, 23%, 14%

Stores per region (Q3'2023)

Region	Stores
The Nordics	393
Western Europe	1 051
Eastern Europe	478
Southern Europe	612
North & South America	735
Asia, Oceania & Africa	1 106

Several other noteworthy individual countries are primarily located within H&M Group's main market area in Europe. The company expanded its operations to **Germany** in the 1980s and 1990s. By 2022, Germany was the second-largest market for the Group in terms of net sales (14% of the total net sales) and number of stores. By net sales, Germany held the top position for H&M Group until 2021 when it was surpassed by the US in 2022. The average annual growth rate of net sales in Germany from 2018 to 2022 has been approximately -1%.

One of H&M Group's first international growth markets was **the UK**. The Group expanded into the UK in the 1960s and 1970s, and nowadays, the market is the company's third-largest measured by net sales and the number of stores. In 2022, 7% of the Group's net sales came from the UK. The average annual growth rate of net sales in the UK from 2018 to 2022 has been around 4%. The fourth-largest market in 2022 was **France**, both in terms of net sales (approximately 5% of total net sales) and the number of stores. In 2018-2022, France experienced a negative average annual growth rate of -2% in terms of net sales.

The fifth-largest markets for the H&M Group in 2022 were **Sweden** and **Poland** in terms of net sales (Sweden) and the number of stores (Poland). Sweden accounted for 4% of the Group's total net sales, but its average annual growth rate from 2018 to 2022 remained stagnant at around 0%. The share of sales of the top 6-10 market areas, and the number of stores in 2022, amounted to 2-4% of H&M Group's total net sales and stores.
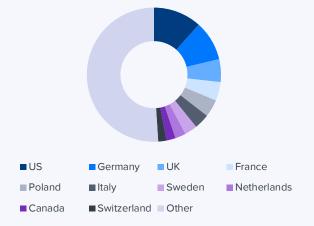
Continuous expansion to new markets

In 2022, around 40% of H&M Group's net sales came from the remaining slightly under 70 markets, and about half of the stores were located in these markets. Over the past few years, the company has closed stores mainly in established markets, with most openings occurring in growing markets.
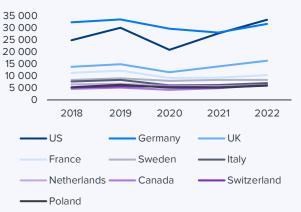
One key growth market for H&M Group has been Asia, where it originally expanded over a decade ago by opening its first stores in China and Hong Kong in 2007. According to the company, H&M Group plans to focus on the Asian market, particularly the market in India. In our assessment, expanding in Asia offers good growth opportunities for the Group, owing to factors such as rapid population growth in Asia and the economic growth experienced by several countries, like India, which has led to a growing middle class and higher incomes. Another significant growth area has been Southeastern Europe, where the company has opened several stores and expanded its online presence in recent years.

One of the Group's notable growth market is Latin America. H&M Group has reported positive market developments and announced plans to expand into Brazil in 2025, citing strong potential. The company intends to continue its Latin American market expansion, which we see as a good strategic decision. H&M Group has already succeeded in achieving a fairly significant market share in the rapidly growing market, and expansion would further strengthen its presence and competitiveness.
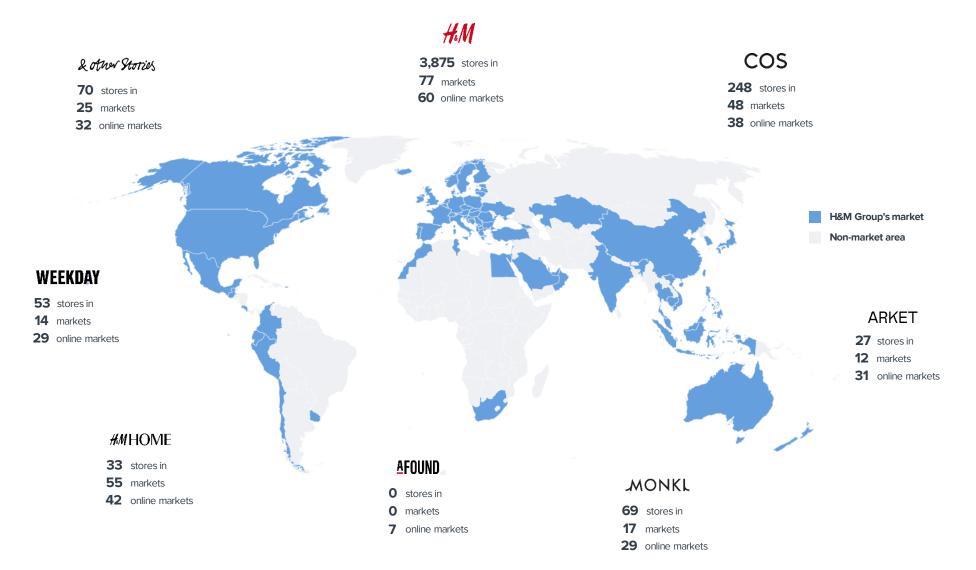
Top 10 markets per stores (2022)

Net sales growth by top 10 markets (MSEK)

Company description and business model 3/9

H&M
3,875 stores in
77 markets
60 online markets

& other Stories
70 stores in
25 markets
32 online markets

COS
248 stores in
48 markets
38 online markets

WEEKDAY
53 stores in
14 markets
29 online markets

ARKET
27 stores in
12 markets
31 online markets

H&M HOME
33 stores in
55 markets
42 online markets

AFOUND
0 stores in
0 markets
7 online markets

MONKI
69 stores in
17 markets
29 online markets

■ H&M Group's market
■ Non-market area

Diverse brand portfolio

H&M Group owns several renowned brands, such as H&M, COS, Weekday, Monki, H&M HOME, & Other Stories, Arket, and Afound. Each of these brands offers distinctive fashion concepts. The company has expanded its brand portfolio over the years both through organic growth by establishing its own brands and inorganic growth via acquisitions. It does not publish brand-specific sales figures but gives out the number of stores.

H&M Group's products are almost entirely its own brands. We feel this is important today when online shopping enables easy price comparison. As the Group's products are entirely its own, there is no direct price pressure from other stores on its products, and it can extend its distribution to third-party online stores as the company has already done.

H&M (89% of stores)

H&M is the most known brand under the H&M Group. The Group was originally founded in 1947 in Sweden based on the Hennes brand, which changed in the 1960s to H&M (Hennes & Mauritz). Over the course of more than 70 years, the brand has grown into a globally recognized fast-fashion retailer. The core of the business revolves around combining fashion, quality, price, and sustainability. The brand's offerings include various fashion pieces, designer collaborations, affordable basics, accessories, and sportswear for women, men, teenagers, children, and babies.

We estimate that the target group of the brand is one of the broadest within H&M Group, as H&M offers the latest styles and trends at affordable prices. As of Q3, H&M had 3,875 stores (89% of the Group's stores) in 77 markets and was available online in 60 markets.

Historically, the Group's growth has been mainly driven by the H&M brand. Its success has led to expansion through new brand launches and acquisitions within H&M Group. We consider leveraging the recognition and strong customer base of the H&M brand in other brands to be beneficial. One of the latest launches is the brand H&M Move, introduced in 2022, with an aim to democratize sportswear. H&M Move offers collections for women, men, and children online and in around 2,400 stores.
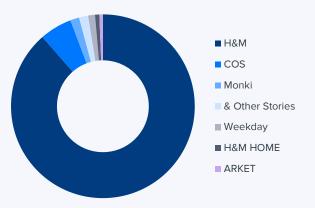
COS (6% of stores)

COS (Collection of Style) is a London-based fashion brand founded by H&M Group in 2007 and it launched its online store in 2011. According to the company, the business idea is built on iconic wardrobe pieces, stylish essentials, and innovative designs. COS' product range is globally available for women, men, and children.

We believe that the brand's target group comprises fashion-conscious and responsible consumers who appreciate sophisticated and minimalist clothing. As of the end of August, COS had 248 stores (6% of the Group's stores) in 48 markets and online sales in 38 markets. Additionally, the brand's assortment is delivered to other markets through global selling and is also available on external platforms.

H&M Group's brands

H&M · COS · WEEKDAY · MONKI · H&M HOME · & Other Stories · ARKET · AFOUND

Store network distribution per brand (Q3'2023)

- H&M
- COS
- Monki
- & Other Stories
- Weekday
- H&M HOME
- ARKET

Company description and business model 5/9

Although H&M does not report sales or profitability by brand, we believe that COS is the most profitable smaller brand. The company did disclose in its 2018 CMD that back then COS was doing roughly similar margins as the H&M brand. We believe that with somewhat higher price points vs. H&M, COS could be even above the average group margin currently.

Other brands (5% of stores in total)

Monki combines Scandinavian cool with creative Asian street style, offering simple everyday clothes as well as accessories. Monki was founded in Sweden in 2006 and became part of H&M Group in 2008, alongside Weekday, through the acquisition of Swedish Fabric Scandinavien. Based on our evaluation, Monki's target group mainly comprises young women. As of Q3, Monki had 69 stores (2% of the Group's stores) in 17 markets across Europe and Asia. Online, Monki delivered products to 29 markets.
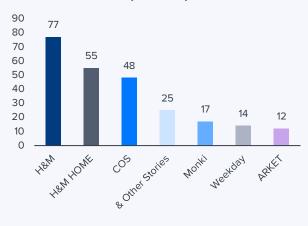
& Other Stories (2% of stores) is a fashion brand established by H&M Group in 2013, offering women a wide range of shoes, bags, accessories, beauty products, stationery, and ready-to-wear clothing. We estimate that the brand's target group includes a broad range of women of different ages. At the end of the third quarter, & Other Stories had 70 stores (2% of the Group's stores) in 25 markets. Additionally, the brand operated in 32 online markets.

H&M HOME is a design-driven interior brand. According to the Group, the brand focuses on design, quality, and sustainability, offering fashion-forward decor and accessories. The brand was

launched online in 2009 and has since expanded to many markets through shop-in-shops and online. In 2018, H&M HOME opened its first standalone concept stores. We estimate that by offering a wide range of products at affordable prices, the brand appeals to a diverse customer base. As of August, H&M HOME had 406 shop-in-shops in selected H&M stores and 33 concept stores (1% of the Group's stores) together in 55 markets and it is available online in 42 markets.
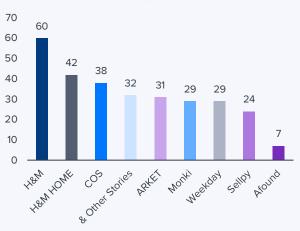
Weekday is a Swedish street fashion and youth culture-based fashion brand. The brand was originally founded in 2000 and became part of H&M Group in 2008, when the Group acquired Fabric Scandinavien, under which Weekday previously operated. Weekday's range includes clothing and accessories for women and men, as well as a small selection of external brands. According to our assessment, Weekday's target group is primarily young adults. As of the end of August, Weekday had 53 stores (1% of the Group's stores) in 14 European markets. Additionally, it shipped to customers in 29 online markets and reached more markets through global selling.

ARKET is a modern-day market founded by H&M Group in 2017, offering essential products for men, women, children, and the home. The brand's mission is to democratize quality by providing widely accessible sustainable products. The brand opened its first store in London and launched its online platform in 2017. In Q3, ARKET had as many as 27 stores (1 % of the Group's stores) in 12 markets, with availability in 31 online markets, and global shipping.

Markets with store presence by brand (Q3'2023)

Bar chart values:
- H&M: 77
- H&M HOME: 55
- COS: 48
- & Other Stories: 25
- Monki: 17
- Weekday: 14
- ARKET: 12

Online markets by brand (Q3'2023)

Bar chart values:
- H&M: 60
- H&M HOME: 42
- COS: 38
- & Other Stories: 32
- ARKET: 31
- Monki: 29
- Weekday: 29
- Sellpy: 24
- Afound: 7

The company has only commented the other brands' (excluding H&M or COS) profitability back in 2017, when as a group they were generating healthy profit, but still below group average. Given the relatively small scale of the brands, we believe this is still the case. Brands founded more recently are likely to have weaker profitability and could even be loss-making. H&M has been able to scale up the brands. Still, given their small scale, the impact for the group from an individual small brand is very limited. In general, we believe the company has a bit too many small brands and we would like to see a more focused approach going forward.

H&M Group had to discontinue the well-known affordable brand Cheap Monday in 2019, as its business was no longer profitable. This shows that there probably are weakly performing brands in the current portfolio as well, but also that H&M can let go of some brands if needed.

Business ventures

In addition to its own brands, H&M Group has several business ventures, such as Afound, Singular Society, Creator Studio, and majority-owned Sellpy. According to the company, the purpose of business ventures for H&M Group is to explore and test various business models through different partnerships. Through these initiatives, the company aims to create new sales streams to support future growth. We believe these are useful to evaluate new business opportunities, but we believe the company should be careful on not invest too much money/resources in ventures

outside its core (H&M brand and affordable fashion). It would require the ventures to develop to a much larger scale before they would make a difference in the group figures.
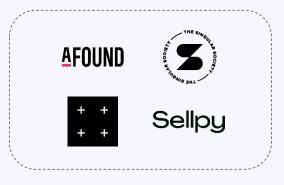
Afound is one of H&M Group's business ventures, launched in 2018. It is a digital marketplace offering deals on fashion, beauty, sports, and interior products from past and present collections for women, men, and children. Afound operates in seven markets, providing products H&M Group's own brands and external labels. The products are sold at outlet prices, offering customers discounted deals.

Another example is **Sellpy**, founded in 2014, which is a digital platform for second-hand fashion and other products. H&M Group has been the majority owner of Sellpy since 2019. Sellpy is one of the largest providers of second-hand fashion in Europe. In 2022, over eight million used items were exchanged through the platform across a total of 24 markets.

Portfolio brands account for about 10% of sales

The share of portfolio brands (i.e., other than the H&M brand) in the Group's total sales was about 7.5% in 2017. The latest information is based on 2018 CMD, and since then, the company has not reported the figure. It has however reported that portfolio brands have grown faster than the group during 2021-23. We estimate that the share of portfolio brands in total net sales is currently about 10%.

Examples of H&M Group's business ventures

Total sales and portfolio brands sales YoY performance

Over the past nearly three years, the sales of portfolio brands has grown faster than the Group's total sales, excluding the Q2'21 recovery quarter following COVID-19. This indicates that portfolio brands have grown faster than the H&M brand. However, it is important to note that historically, the Group's organic growth has been driven by the H&M brand, with portfolio brands still accounting for a relatively small portion of net sales.

Store network and online expansion

The Group's number of stores has grown at an average annual rate of about 3.4% over the past 10 years and reached its peak in 2019 (approximately 5,000 stores). H&M Group has closed stores in the past decade due to changing consumer behaviors, market dynamics (e.g., increasing online sales), and the impact of COVID-19, resulting in a decline of over 13% since 2019. At the end of August, H&M Group had a total of 4,375 stores.

Despite the significant reduction in the number of stores, the company has managed to expand its markets with physical stores at an average annual rate of about 4% over the past 10 years (Q3'23: 77 vs. 2013: 53). The growth in online markets has been even faster, as the company has expanded its online market presence at an average annual rate of about 13% over the past 10 years. In Q3, H&M Group operated in a total of 60 online markets (2013: 18).

Continuous growth in online sales

Online sales have become a significant part of the Group's total sales in recent years. In 2017, online sales accounted for only 13% of the Group's total net sales, while in 2022, this proportion had grown to approximately 30%. Online sales have shown an impressive average annual growth rate of about 21% from 2017 to 2022, whereas in contrast, the in-store net sales has decreased at an average annual rate of around -2%. This suggests that H&M Group has managed to retain customers who previously shopped in physical stores, especially those who transitioned to online shopping due to factors like COVID-19. This trend is encouraging and indicates that the online channel can effectively expand the geographic reach of all brands, particularly benefiting the Group's newer brands with fewer physical stores and a stronger online presence.
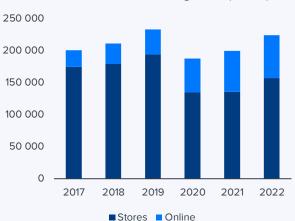
Omni-channel model

H&M Group's omni-channel model is built upon a multi-brand matrix organization. This model empowers all of the Group's brands to benefit from and share a unified global store network, online platforms, materials sourcing, and the overall financial strength of the conglomerate. For H&M Group, this model facilitates achieving operational synergies and streamlining processes.

H&M Group's omni-channel focuses on seamless integration of digital and physical channels. Through this, the company can provide a unified shopping experience across its physical stores and digital services. We believe that the omni-channel model also helps the company adapt and remain agile, e.g., by closing/opening stores in right places, supported by data from digital channels. During the last decade, as the apparel market underwent a digital transformation and assessment suggests that H&M Group did not swiftly adopt the omni-channel model.

Number of stores and markets

- Stores (left)
- Store markets (right)
- Online markets (right)

Store and online net sales growth (MSEK)

- Stores
- Online

The company lost some of its competitive edge, fell behind its competitors, and had to make substantial investments that impacted its profitability. Initially, H&M Group pursued improved customer experience and cost synergies through the omni-channel model. More recently the Group has also started investigating cross-selling options, like launching multi-brand platforms (e.g., Afound), to achieve sales synergies. We believe these will be relatively small in the scale of H&M's total sales, however.

The value chain in brief

H&M Group's value chain begins with product design and development. The foundation of products lies in raw materials, which the company sources from production suppliers manufacturing products in Europe, Asia, and Africa. H&M Group has 15 production offices in key sourcing markets, facilitating close supplier communication. The emphasis is on sustainable materials meeting the Group's quality standards. Once raw materials are procured, they undergo processing and manufacturing stages. Finished products are transported from manufacturing facilities to distribution centers and stores. The marketing and sales phase involves creating campaigns and offers to showcase products, attract customers, and enhance sales.

H&M Group aims to create sustainable and high-quality products to ensure their longevity. The company's focus on sustainability has led to experiments where customers can rent products for a specific time, helping to reduce resource consumption and waste. Additionally, the Group also aims to extend product lifespan through reuse and find new purposes for products. Products that have reached the end of their lifecycle can be collected, sorted, and transformed into new materials to manufacture new products, reducing the need for new resources.

Extensive currency exposure as a global player

Nearly half of H&M Group's sales are made in euros. Additionally, the most significant currencies in sales include the US dollar, the British pound, the Chinese yuan, the Swedish krona, the Canadian dollar, the Polish zloty, the Swiss franc, and the Japanese yen. As the reporting currency of the group is the Swedish krona, translation effects can influence the results. These effects arise from changes in exchange rates between the local currencies of various foreign sales companies and the Swedish krona compared to the same period in the previous year.
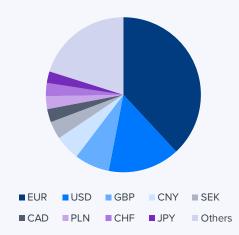
The primary sourcing currency is USD

For the Group's purchases, the most significant currencies are the US dollar and the euro. Large and rapid fluctuations in exchange rates can have a substantial impact on the company's purchasing costs. The most substantial foreign currency transaction exposure for H&M Group stems from fluctuations in the USD to euro exchange rate, as the USD is the primary sourcing currency. To hedge against the effects of future exchange rate fluctuations, H&M Group consistently hedges the exposure to flows of goods in foreign currencies. This helps minimize the impact of purchasing costs by utilizing forward contracts.

H&M Group's value chain

Estimated currency exposure by sales

EUR | USD | GBP | CNY | SEK
CAD | PLN | CHF | JPY | Others

Ownership concentrated within the founder Persson family

H&M Group has two classes of shares: class A and class B. Class A shares carry 10 votes per share, while class B shares carry one vote per share. In 2022, class A shares represented approximately 12% of the total share count and class B shares about 88%. The Group's class A shares are held by the company's largest shareholder and class B shares are listed on the Stockholm Stock Exchange.

H&M Group's largest shareholder, Stefan Persson and family own all class A shares via Ramsbury Invest AB, as well as a significant portion of class B shares. Ramsbury Invest AB is the parent company of H & M Hennes & Mauritz AB, owned by Stefan Persson and family. The Chairman of the Board, Karl-Johan Persson, is also a shareholder in Ramsbury Invest AB. Since the company's initial listing on the stock exchange in 1974, the founding Persson family has retained ownership of all class A shares in H&M.
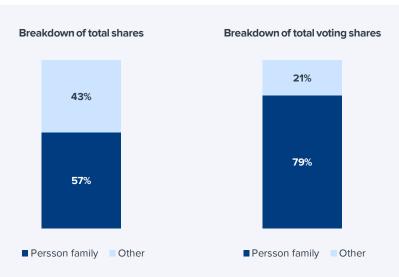
As of the end of August 2023, Stefan Persson and family privately and via Ramsbury Invest AB, represented 79.3% of the voting shares and 57.1% of all shares. Hence, the Persson family holds significant influence over the company's strategic decisions and direction.

Management team has a strong background from H&M

Throughout its history, H&M Group has mainly been led by the Persson family. H&M was originally founded by Erling Persson, and later, his son Stefan Persson became the CEO. Erling Persson's grandchild Karl-Johan Persson served as the CEO from 2009 to 2020. Nowadays, he serves as the Chairman of the Board.

H&M Group's executive management team consists of eight members, including Helena Helmersson, who has been serving as the CEO since 2020. Helmersson has a strong background of over 25 years with the company. Adam Karlsson has been the Group's Chief Financial Officer since 2020, with over 15 years of experience in H&M Group. Other members of the executive management team also have a solid history within the company, which we see as positive.

The executive management team's and board member's short-term and long-term variable remuneration is based on achieving targets related to H&M Group's total sales and total operating profit. This is quite straightforward and justified in our view. Additionally, achieving goals in diverse business plan areas, including sustainability and assessment of leadership and compliance with values.

The largest shareholders (08/2023)	% of total shares	% of voting shares
The Stefan Persson family and related companies	57,1%	79,3%
The Lottie Tham family and related companies	5,4%	2,6%
State Street Bank and Trust CO, W9	3,7%	1,8%
JP Morgan Chase Bank NA, W9	2,0%	1,0%
Swedbank Robur Fonder	1,4%	0,7%
Handelsbanken fonder	1,3%	0,6%
Fjärde AP-fonden	1,3%	0,6%
BNYM RE BNYMCIBC RE INVESCO, W9	1,1%	0,5%
The Bank of New York Mellon SA/NV, W8IMY	1,1%	0,5%
Northern Trust Company, London Branch	0,9%	0,5%
Top 10 total	**75,3%**	**88,1%**

Breakdown of total shares

43% Other
57% Persson family

Breakdown of total voting shares

21% Other
79% Persson family

■ Persson family ■ Other

14

Investment profile 1/2

1. Global footprint with solid growth potential

2. One of the strongest brands in fashion retail

3. EBIT margin recovering towards 10%

4. High return on capital, making growth value creative

5. Intense competition in the industry

Potential

- Market share is still small in the global fashion industry, so there is room to grow especially outside Europe

- Cost efficiency program and more "normal" market circumstances (after COVID-19 and its aftermath) should enable higher margins

- Clear focus on sustainability could support demand/image

- Some of the portfolio chains / ventures could create more value than currently expected

Risks

- The fashion industry is fiercely competed, and some collections might not appeal to customers

- H&M has a poor track record of declining margins from the past decade, which could recur

- Potential regulation regarding durability and recycling of textiles (mostly in EU) could have a negative impact

- Reputational risk especially for H&M brand, including the risk of the whole industry being viewed as negative for the climate

Investment profile 2/2

Investment profile

There is no doubt in our mind that H&M Group's investment profile is that of a growth company. It has shown strong long-term growth throughout its history, which we expect it will continue to deliver going forward as well. However, the challenge has been the margins, which deteriorated through the previous decade from over 20% EBIT margin at best to only mid-single digits more recently. Hence, in some respect the Group is currently also a turnaround company in earnings terms.

Positive drivers and opportunities

Clearly the biggest positive driver for H&M Group is continued sales growth. We believe this can be achieved in all markets, but growth outside Europe should be the main driver, given that in Europe the markets are quite mature and H&M Group's share is also already strong. In addition to sales growth, we expect improving margin levels in the next two years to support earnings growth as well. Over time, we believe the margin is however unlikely to improve further, as the competition is fierce, the company wants to maintain attractive pricing and it also needs to constantly invest (meaning both capex and opex increase) into omni-channel capabilities.

In the longer-term there's clearly possibilities in H&M Group's several portfolio chains and smaller business ventures to grow into major businesses and hence drive earnings and value for the Group. Perhaps currently the most promising ones in this respect is the second-hand fashion platform Sellpy and Afound, both aiming to gain support and benefit from the increasing circular economy needs/trend.

In our view H&M Group is quite strongly committed to reducing its climate impact and contributing to more sustainable fashion. This could be a competitive edge if consumers increasingly take sustainability matters into consideration when making fashion purchases.
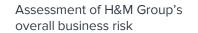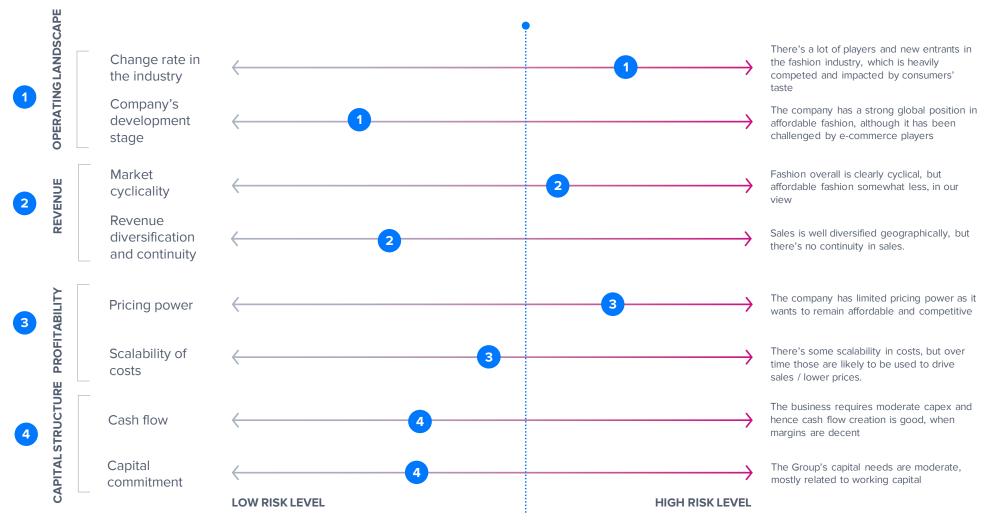
Risks and threats

The fashion industry is inherently dependent on consumer preferences, it's also at risk for changes in those preferences. This means that some collections might not sell that well and even the style of the whole brand might go out of fashion at times. This is clearly a risk for H&M Group, like any player in the industry. The industry is also fiercely competitive and fragmented. Especially online sales has enabled new entrants to enter a global market more easily than before, hence intensifying the competition. This means consumers always have a wide range of choices and price pressure is also likely to remain high in the Group's affordable fashion category.

While we see some possibilities in the circular economy/sustainability for H&M Group, it certainly poses a risk for the company as well. Affordable/fast fashion is seen as somewhat resource-consuming and hence negative for the climate. If such a view strengthens among consumers, it could have negative impact for the Group's business in the longer-term. The brand could also face other reputational risks regarding, e.g., labour conditions of subcontractors or the impacts of sourcing cotton, etc. In the sustainability side we also see a regulation risk

(currently mostly regarding EU), which could somehow limit H&M Group's business or burden them with more costs related to the durability or circularity of the products.

In earnings terms, we note that H&M Group had a weak period in margin development from 2010 to 2020. Despite a somewhat better outlook currently, there's a risk that margins will remain clearly below historic levels and also below our expectations.

Risk profile of the business model

Assessment of H&M Group's overall business risk

OPERATING LANDSCAPE

1

Change rate in the industry — 1 — There's a lot of players and new entrants in the fashion industry, which is heavily competed and impacted by consumers' taste

Company's development stage — 1 — The company has a strong global position in affordable fashion, although it has been challenged by e-commerce players

REVENUE

2

Market cyclicality — 2 — Fashion overall is clearly cyclical, but affordable fashion somewhat less, in our view

Revenue diversification and continuity — 2 — Sales is well diversified geographically, but there's no continuity in sales.

PROFITABILITY

3

Pricing power — 3 — The company has limited pricing power as it wants to remain affordable and competitive

Scalability of costs — 3 — There's some scalability in costs, but over time those are likely to be used to drive sales / lower prices.

CAPITAL STRUCTURE

4

Cash flow — 4 — The business requires moderate capex and hence cash flow creation is good, when margins are decent

Capital commitment — 4 — The Group's capital needs are moderate, mostly related to working capital

LOW RISK LEVEL   **HIGH RISK LEVEL**

Industry and competitive landscape 1/5

Dynamic and constantly changing global apparel market

H&M Group operates in the global apparel market, sized approximately USD 1.5 trillion in 2022. The global apparel market is dynamic and highly competitive, where consumers' tastes and preferences change constantly. The market is diversified, and market shares of individual brands are only fractions. H&M Group is one of the largest players in the market with a market share of about 2%. Other major players in the global market include Nike, SHEIN, UNIQLO, and Zara, also holding around 2% market share each. (Source: Statista).

H&M Group's customers are consumers, and therefore the key market drivers are consumers' purchasing power and consumer confidence, which affect their willingness to spend. In addition, key drivers in the industry include brand differentiation, product innovation, supply chain efficiency, customer engagement, and the ability to respond quickly to market changes.

Consumers' purchasing power and confidence are the main drivers

The global apparel market has averaged 1.4% annual growth over the past 9 years. While the industry has shown consistent growth, the rate can vary in the short term based on economic conditions and consumer behavior. The market is projected to average 3% annual growth from 2023 to 2027 (source: Statista). The growth has been driven by rising incomes, globalization, and expansion into emerging economies with growing middle classes. A significant growth driver has been the rapid expansion of online shopping and digital platforms.

Profitability challenges in the market are primarily related to intense price competition within the industry, where companies balance price, quality, and sustainability. Various factors such as pandemics, natural disasters, or trade tensions can disrupt companies' supply chains, impacting profitability levels. Fashion retail is also sensitive to seasonal fluctuations, leading to variations in sales based on seasons, holidays, weather, and consumer spending patterns. Seasonal variability and rapid changes in fashion trends can lead to higher mark-downs.
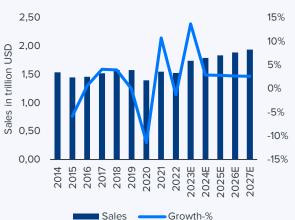
Global players in the apparel market as peers

H&M Group has a strong global market peer group available on the stock exchange. Key peer companies for H&M Group include Zara (Inditex), Bershka (Inditex), NEXT, Primark (Associated British Foods), UNIQLO (Fast Retailing), and Old Navy (Gap Inc.). In the following paragraphs, we will briefly review the peers and H&M Group's long-term development relative to its main competitors.
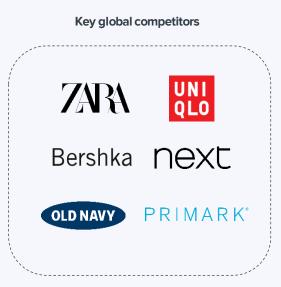
Competitive landscape is extensive

H&M Group's competitive landscape is extensive as the company operates globally. There are also several brands in the market focusing on sportswear, which we do not, however, consider as primary competitors to H&M Group. Moreover, international online retailers such as the Chinese SHEIN and the British ASOS are the Group's competitors, although they don't directly align with the company's counterparts. Additionally, SHEIN is not publicly listed. For this reason, we do not take them into closer consideration when comparing the Group to its competitors.

Global apparel market

Source: Statista Market Insights

Key global competitors

The well-known brand **Zara** under the publicly listed Spanish company Inditex Group, can be seen as the primary competitor for the Group. Zara is a significant player in almost all of H&M Group's markets and is the market leader in many countries. Zara operates over 2,300 stores worldwide. In 2022, Zara accounted for approximately 73% of Inditex's net sales. Another brand under Inditex, **Bershka** (around 7% of Inditex's net sales in 2022), is also a competitor to H&M Group. It operates over 800 stores, with Europe as its primary market, although Bershka has a global presence as well.

The British retail company **NEXT** is one of H&M Group's competitors, especially in the European market. NEXT is publicly listed and operates over 400 stores, with a global online presence. Additionally, a notable competitor for the Group in the European market is **Primark**, an Irish clothing store chain with over 400 stores. Primark is a subsidiary of the publicly listed Associated British Foods and Primark accounted for approximately 45% of its net sales in 2022.

Japanese brand **UNIQLO** is one of H&M Group's competitors, especially in the Asian markets. UNIQLO is part of the publicly listed Fast Retailing (around 84% of Fast Retailing's net sales in 2022) and operates over 2,300 stores. UNIQLO's primary market is Asia, where it holds a market-leading position. In addition to Asia, UNIQLO has expanded its operations to Europe and North America. In North America, particularly in the US market, a significant competitor of H&M Group is the American brand **Old Navy** (around 53% of Gap Inc.'s net sales in 2022). It operates more than 1,200 stores and is owned by the publicly listed Gap Inc.

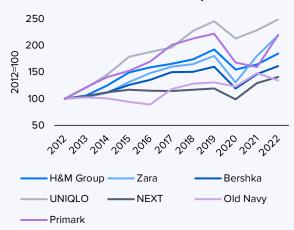## H&M Group's growth has trailed behind peers in the longer term

H&M Group's net sales growth has lagged behind key peers in the longer perspective. Over the past 10 years, H&M Group's net sales has grown at an average annual rate of around 6%, while the average annual net sales growth in the peer group has reached approximately 8% during the same period. The Group managed to grow in line with its peers from 2012 to 2015 (both around 14% p.a.), but over the last six years, growth has significantly slowed down (2.5% p.a. vs. peers ~7% p.a.).

According to our assessment, H&M Group's lackluster growth can primarily be attributed to the fact that most of its business still focuses on Europe, where the market is growing at a slower pace. Additionally, another significant factor has been intense competition from companies operating purely in the online market, which grow from a lower base with a different business model.
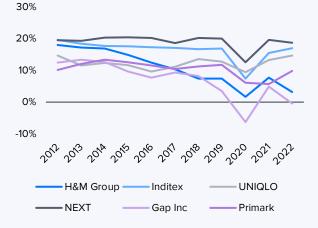
Profitability has dropped well below peers over the years

H&M Group's profitability has trailed slightly behind peers over the past decade (EBIT-%: 10.6% vs. 12.2% on average) and has been on a downward trend, while peers' profitability has remained relatively steady. From 2012 to 2016, H&M Group's operating profit margin was significantly above that of peers (16% vs. 12%), but from 2017 to 2022, profitability notably fell behind peers (EBIT-%: 6% vs. 12%). According to our assessment, H&M Group's profitability has been weighed down by the challenges of transitioning from physical stores to online commerce, along with the associated costs.

Indexed net sales development

EBIT-% development

19

Industry and competitive landscape 3/5

	H&M Group	ZARA	Bershka	UNIQLO	next	OLD NAVY	PRIMARK
Company description	A Swedish fashion industry company that operates globally in nearly 80 markets and is one of the major players in the global apparel market.	A Spanish brand under the publicly listed company Inditex. Zara is a market leader in several countries and is globally well-known.	A Spanish brand under the publicly listed company Inditex with the primary market being Europe but with a global presence as well.	Japanese brand as part of the publicly listed company Fast Retailing. UNIQLO holds a market-leading position in Asia but also operates globally.	A British multinational retail company which is publicly listed and mainly operates in the European market.	An American brand owned by the publicly listed company Gap Inc. Mainly operates in North America and especially in the US.	An Irish clothing store chain and subsidiary of the publicly listed Associated British Foods. Mainly operates in the European market.
Primary market	Europe, Global	Europe, Global	Europe	Asia, Global	Europe	North America	Europe
Stores (2022)	~4,400	~2,300	~800	~2,300	~400	~1,200	~400
Net sales (CAGR 2012-2022)	6%	8%	5%	10%	4%	3%	8%
Gross margin (average 2012-2022)	55%	57%[1]	57%[1]	50%[2]	36%	37%[3]	-
EBIT-% (average 2012-2022)	11%	16%[1]	16%[1]	12%	19%	7%[3]	10%

[1]Zara's and Bershka's gross margin and EBIT-% are Inditex group figures (Zara is 73% of Inditex's net sales, Bershka 7%)
[2]UNIQLO's gross margin is a figure from Fast Retailing (Uniqlo 84% of Fast Retailing's net sales)
[3]Old Navy's gross margin and EBIT-% are figures from Gap Inc. (Old Navy 53% of Gap Inc.'s net sales)
Source: H&M Group, companies, Inderes

European apparel market has been steady

The main market for H&M Group is Europe (64% of net sales), with a market size of approximately USD 397 billion in 2022. Despite fluctuations over the decade, the market has not grown significantly in the past nine years. However, the market is expected to grow at an average annual rate of about 2% in 2023-2027.

Similar to the global market, the European apparel market is highly diversified, and there is intense competition in the market. H&M Group is the second-largest player in the market with a market share of about 4%. The largest player in the market is Zara (5%), and other major players include SHEIN (4%), NEXT (3%), and Adidas (2%).

The US apparel market is growing slightly

H&M Group's second-largest market area is the US (15% of net sales), sized approximately USD 312 billion in 2022. Over the past nine years, the market's average annual growth rate has been about 2%, and it's forecasted to continue growing at a similar annual rate of around 2% in 2023-2027.

In the US, the apparel market is also highly fragmented, with the largest brands being Old Navy (4%), Nike (3%), SHEIN (3%), lululemon (2%), and Under Armour (2%). H&M Group is still a relatively small player in this market, although when looking at individual countries, most of the Group's net sales comes from the US. We believe this indicates growth potential; however, it's

important to consider the intense competitive situation characteristic of the market.
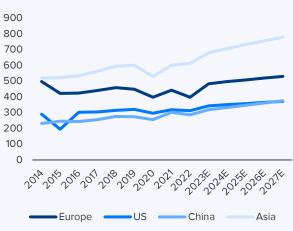
Chinese apparel market showing decent growth

One significant market for H&M Group in Asia is the Chinese market, which accounted for approximately 5% of the net sales in 2020. The company has not reported figures from the Chinese market since then. According to Statista, the Chinese market was around USD 287 billion in 2022. The 9-year CAGR of the market has been about 4%. Over the next four years, the Chinese market is forecasted to grow at a roughly similar rate and hence faster compared to the European and US markets.
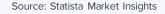
The Chinese market is also widely dispersed among various players. The largest market share belongs to UNIQLO (3%), followed by FILA (2%), Youngor (2%), Adidas (1%), and Anta (1%). Although the market is highly competitive, we believe faster growth compared to the European and US markets could offer potential for the Group's expansion.

Asian apparel market also expected to grow

The Asian market (excluding China) contributed an estimated 12% to Group's net sales in 2022. The Asian market was worth USD 614 billion in 2022 and CAGR over the last nine years has been around 3%. Between 2023 and 2027, the estimated average annual growth rate is around 4%, aligning with China's market growth but surpassing the growth of the European and US markets.

Apparel markets (billion USD)

Source: Statista Market Insights

Online sales development in apparel markets

Source: Statista Market Insights

Although the Asian apparel market is widely dispersed, the leader in the market is UNIQLO, with a market share of 4%. The next largest players, including Adidas, Anta, Balabala, and Bosideng, each holding a 1% market share. Similar to the Chinese market, the growth of the Asian market could present intriguing growth opportunities for H&M Group, in our view.

South American apparel market is showing rapid growth

Among H&M Group's target markets, the smallest but still important growth market is the South American apparel market (2022: USD 6.4 billion). Approximately 5% of H&M Group's net sales from the previous year was generated from South America. Over the past six years, the market has grown annually at an average rate of up to 16%. The market is estimated to continue its rapid growth, with a forecasted CAGR of nearly 17% for 2023-2027.

The South American apparel market distinguishes itself from other markets due to its smaller size and its concentration among key players. The market is led by SHEIN, holding an 11% market share. The other largest brands are Amazon (10%), Dafiti (9%), Adidas (7%) and Lojas Renner (5%). H&M Group ranks ninth with about 3% market share.
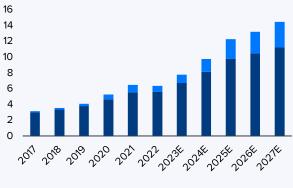
Declining consumer confidence and purchasing power

The swift rise in inflation and interest rates in recent years has significantly squeezed consumers' purchasing power, leading to a sharp decline in consumer confidence. Purchasing power in Europe and US eroded for 2022 and most of H1'23, but is currently turning back to positive growth figures, which should support the apparel market as well, we believe.

The market environment poses challenges for H&M Group, particularly in the demand for higher-priced products within the brand portfolios. According to the company, premium brands have performed well, nonetheless. As for the H&M brand, the company states that product prices have been successfully raised. Despite the brand being known for its low prices, it's important to have a wide range of products at different price points.

During the financial crisis in 2009 the company's sales in local currencies grew by 4%, which was however supported by new store openings. The sales in comparable stores was down 5%. This shows there is some cyclicality in the demand. The expansion continues to support H&M also currently. Even over the longer term, we do not anticipate the Group's developed markets to achieve more than low single-digit growth due to intense pricing pressure and competition within the industry.

South American apparel market (billion USD)

■ Offline sales ■ Online sales

Source: Statista Market Insights

Consumer confidence

— EU — US

Source: Eurostat, Bloomberg

Historical performance 1/2

A brief history of H&M Group's development

H&M Group was originally founded in 1947 when Swedish entrepreneur Erling Persson opened the first womenswear store called Hennes. In the 1960s, following an acquisition, the name changed to Hennes & Mauritz, and the company's range expanded to include men's and children's clothing. In its early days, the company primarily focused on offering affordable clothing to the local Swedish market. In the 1960s and 1970s, H&M expanded into the European market, and in 1974, the company went public on the Stockholm Stock Exchange. The European expansion continued in the following decades, and in 1998, H&M also expanded into the online market.

In the 2000s, H&M Group expanded its business to global markets outside Europe, resulting in a shift in its target audience to serve a broader public. Notable expansions occurred in 2000 into the US market, and in 2007 with the opening of the first stores in China and Hong Kong, marking H&M's entry into the Asian market. During this time, the popularity of fast fashion began to rise, and with its "Fashion for All" approach, the company aimed to cater its products to younger consumers.
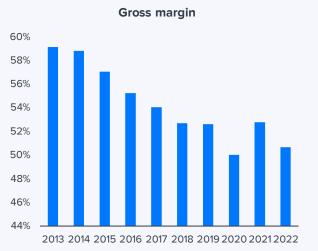
Throughout its history, H&M Group has launched several brands and expanded its brand portfolio through acquisitions. In 2007, COS was launched, followed by the acquisition of Weekday, Monki, and Cheap Monday from Fabric Scandinavien the next year. In 2009, H&M expanded into interior design with the launch of H&M HOME. The same year, founder Erling Persson's grandchild, Karl-Johan Persson, took on the role of CEO and served until 2020.

Awareness of environmental and ethical concerns increased within the fashion industry in the 2010s, leading to changing consumer preferences and growing demand for more sustainable and ecological products. H&M Group responded to this shift by incorporating sustainable solutions and materials into its business model. Over the decade, H&M Group continued its global expansion also into emerging markets. In 2012, H&M Group expanded into Latin America, which remains one of the company's key growth regions. The company also continued to launch new brands, and in 2013, & Other Stories was introduced.

Towards the end of the 2010s and the beginning of the 2020s, the fashion market's focus shifted to digitalization as the popularity of online shopping and digital platforms grew. Millennials and Generation Z, who embraced online shopping, became a significant part of the target audience. As a result, the Group heavily invested in online sales and strengthened its digital presence to serve its global customer base. In 2017, the Group launched a new brand, ARKET, and a year later, Afound. Additionally, the company increased its stake in Sellpy. In 2020, Helena Helmersson took on the role of CEO and Karl-Johan Persson was elected as the chair.
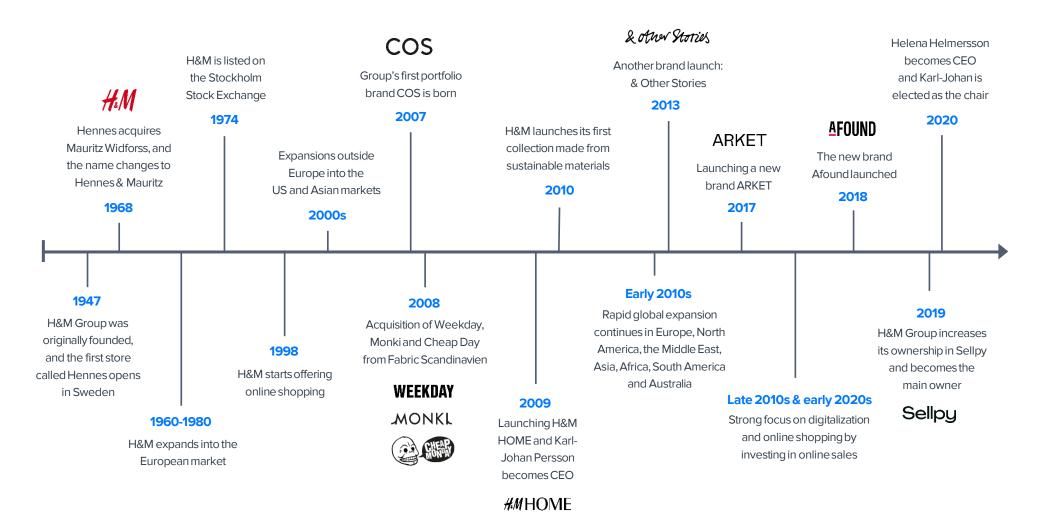
H&M Group has grown from a modest local retail business to a global fashion giant throughout its history. H&M's popularity grew, especially among middle-income families and cost-conscious consumers. Over the years, the company established itself in the market for quality and affordable clothing with the focus on digitalization and diversity.

Net sales development (MSEK)

■ Europe and Africa ■ North and South America
■ Asia and Oceania

Gross margin

H&M Group history in brief

H&M

1974
H&M is listed on the Stockholm Stock Exchange

COS
2007
Group's first portfolio brand COS is born

& Other Stories
2013
Another brand launch: & Other Stories

2020
Helena Helmersson becomes CEO and Karl-Johan is elected as the chair

1968
Hennes acquires Mauritz Widforss, and the name changes to Hennes & Mauritz

2000s
Expansions outside Europe into the US and Asian markets

2010
H&M launches its first collection made from sustainable materials

ARKET
2017
Launching a new brand ARKET

AFOUND
2018
The new brand Afound launched

1947
H&M Group was originally founded, and the first store called Hennes opens in Sweden

1998
H&M starts offering online shopping

2008
Acquisition of Weekday, Monki and Cheap Day from Fabric Scandinavien

WEEKDAY
MONKI
CHEAP MONDAY

2009
Launching H&M HOME and Karl-Johan Persson becomes CEO

H&M HOME

Early 2010s
Rapid global expansion continues in Europe, North America, the Middle East, Asia, Africa, South America and Australia

Late 2010s & early 2020s
Strong focus on digitalization and online shopping by investing in online sales

2019
H&M Group increases its ownership in Sellpy and becomes the main owner

Sellpy

1960-1980
H&M expands into the European market

Historical performance 2/2

Growth has decelerated since 2015

H&M Group's net sales has grown at an average annual rate of 6% between 2013 and 2022, with growth mainly being organic. In the early 2010s, both the apparel market and H&M Group performed well, with a net sales CAGR of 11% from 2010 to 2015. The focus was on international expansion, increasing market share through new store openings worldwide.

In the mid-2010s, H&M Group's sales growth slowed due to shifts in the apparel market, driven by the rise of online platforms and increased competition. Although H&M Group recognized the importance of digital commerce, it clearly lagged behind its competitors, particularly in online sales in our opinion. During COVID-19, the apparel market suffered from store closures, supply chain disruptions, and shifting consumer behavior. This significantly impacted both the industry and the Group's sales. Additionally, H&M's market position in China weakened and Russian sales declined as the war on Ukraine started. H&M Group's net sales grew at an average of 2.5% per year between 2016 and 2022, a noticeable decrease compared to the growth in previous years.

Margins have deteriorated during 2013-22

H&M Group's cost structure consists of three different functions. Cost of goods includes all costs of designing, manufacturing, and transporting products to distribution centers. The proportion of COGS to net sales has averaged around 46% over the past decade. The proportion of COGS to net sales has increased from around 41% in 2013 to about 49% in 2022. This has been reflected in the company's gross margin, which has significantly

decreased due to a combination of declining net sales and the rise in the proportion of COGS (2013: 59% vs. 2022: 51%). We assess that the company failed to adopt the omni-channel model swiftly enough during the 2010s, resulting in substantial investments and declining profitability, which continues to impact the company's operations. Also, the increasing price competition and H&M's focus to maintain "affordable" pricing has likely contributed to the margin decline.

Selling expenses, adjusted for IFRS 16 changes, accounted for 43% of net sales in 2022 (averaging around 41% from 2013 to 2022). The expenses encompass store-related costs such as salaries, rents, marketing expenses, and shipping costs to online customers. Administrative expenses (5% of net sales in 2022) include costs of other centralized support functions (e.g., salaries, rents, and IT costs for administrative systems). Administrative expenses have accounted for around 4% of net sales from 2013 to 2022. The proportion of depreciation and amortization to net sales was 9% in 2022, but adjusted for IFRS 16 items it was 5% vs. historic level of 4%.

Operational profitability has decreased significantly

H&M Group's operating profit margin has averaged around 10% over the past decade. The decline in net sales and increased costs have naturally had a negative impact on H&M Group's operational profitability. The operating profit margin has significantly decreased from 17% in 2013-2022 to around 3%. In 2022 the Group's profitability was well below the level of key competitors (2022: median ~15%) and the company's targeted level of 10%.

Cost structure and EBIT, % of net sales

- COGS
- Selling
- D&A
- Administrative
- EBIT-%

Gross profit and total operating expenses (MSEK)

- Gross profit
- Total operating expenses

Financial position

Assets dominated by stores and inventories

H&M Group's non-current assets are dominated by fixed assets, of which a majority are IFRS 16 right-of-use assets (some 35% of the balance sheet) and the rest are fixed assets related to, e.g., fixtures and fittings in stores (10%+ of the balance sheet). The Group has some capitalised expenditure of IT projects in the intangibles, but it has practically no capital tied up to goodwill or buildings/land as the company operates in leased premises.

In current assets the largest component is inventories, which take up some 25% of the total balance sheet. Cash represents some 10% of the balance sheet, while the rest is made up by several smaller receivable items.

Little financial debt, but lease liabilities depress the equity ratio

One should note that IFRS 16 lease liabilities make up some 35% of the balance sheet, while actual interest-bearings debts are only some 5% (i.e., the company has net cash, excluding lease liabilities). Accounts payable are some 10% of the balance sheet, which means the total net working capital position for H&M Group is some 10-15% of the balance sheet or around 15% of sales.

Overall, we consider the composition of both sides of H&M Group's balance sheet as very solid and there should be no major risks related to the balance sheet.

H&M has historically had a strong balance sheet

H&M Group has historically held a cash position in its balance sheet, but as earnings weakened during the previous decade and then COVID-19 hit

the business they also took on some debt. However, they quickly returned to a net cash position, when examined without the lease liabilities and hence the balance sheet continues to be very strong. While we appreciate a strong balance sheet, we believe the company could also carry some debt (1-2x net debt/EBITDA), which would improve shareholders' returns. Given its track record, we believe H&M will be net debt free going forward as well.
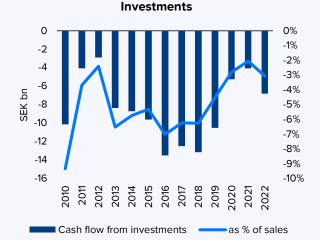
Investments should be moderate

The Group invested fairly heavily during 2013-2019 as it needed to build-up and improve its omni-channel capabilities. During this period, the capex/sales was 5-7%. As COVID-19 hit, the company eased on its investments, but it also now has functional omni-channel set up and hence investment needs going forward should be more moderate. YTD, during 2023, company has invested only some SEK 6 billion. The depreciation & amortisation excluding IFRS 16 is around SEK 10 billion. Hence, we see that as a good long-term proxy for capex, even if in the short-term it could be somewhat lower.

We believe H&M Group's investments will continue to focus on stores and omni-channel capabilities. Regarding new stores, investments are very profitable as the stores typically make profits from day one and hence payback time for investments is short. The company has also earlier commented that a new online market typically pays off the associated investment within a year. Obviously, there are some differences depending on the chain and market in question.

Net debt and leverage excl. IFRS 16

- Net debt, excl. IFRS 16
- Net debt/EBITDA excl. IFRS 16

Investments

- Cash flow from investments
- as % of sales

Strategy and financial targets 1/2

The purpose is to make fashion accessible for all

Since its inception, H&M Group has been dedicated to making fashion accessible for all in sustainable manner. The company's current strategy is quite high-level and mainly emphasizes sustainability. In our assessment, besides that, the strategy relies on profitable growth, which has been the company's strategic focus in previous years. We believe the three key factors of the strategy are: brand development, accelerating key enablers, and pursuing new growth opportunities. These key factors serve as the foundation for utilizing the omni-channel model.

Brand development

H&M Group places a strong emphasis on refining its brand identity through various avenues. This includes attention to product design, quality and pricing. The company seeks to optimize its store and online presence, ensuring that its portfolio is both streamlined and adaptable to changing consumer preferences. Furthermore, H&M Group aims for seamless customer experiences, focusing on swift and flexible deliveries, convenient payment options, and a seamless integration of both physical and online shopping.

Accelerating key enablers

In order to fortify its position, H&M Group is committed to enhancing two vital components. Firstly, the company is investing in a customer-driven supply chain, concentrating on expediting processes, optimizing operations, and integrating automation where possible. Secondly, the Group is embracing a data-driven approach to gain insights into customer behavior and market trends.
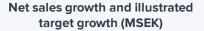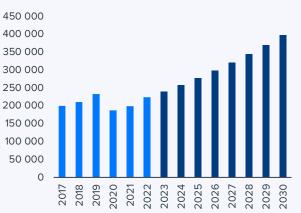
Pursuing new growth opportunities

The company seeks to broaden its online presence by entering new markets, diversifying its product assortment, and forging strategic partnerships. Simultaneously, the Group is poised to open new physical stores, focusing on untapped emerging markets for established brands and established markets for new brands.

Financial targets aim for profitable growth

H&M Group aims to double sales by 2030 (from the 2021 baseline) while halving greenhouse gas emissions (from the 2019 baseline). Concerning sales, this would equate to around SEK 400 billion in net sales by 2030. As a long-term objective, the company aims to increase its sales by 10-15% annually. Over the last decade, H&M Group's net sales has grown at an average annual rate of about 6%, which is why we view these objectives as quite ambitious.

H&M Group aims for a profitability target of over 10% by 2024. The company's historical EBIT-% has averaged 10% over the last decade compared to competitors' 12%. Hence, the target appears achievable. However, recent years have seen a significant decline in H&M Group's profitability (2022: 3.2%) and the cost structure still appears quite burdensome at this point. The headwind in product costs is turning around, however, and the cost efficiency program is progressing well, with measures showing impact in late Q2'23. We believe these will drive the margin towards 10% in 2024, even if we forecast a slightly lower level.
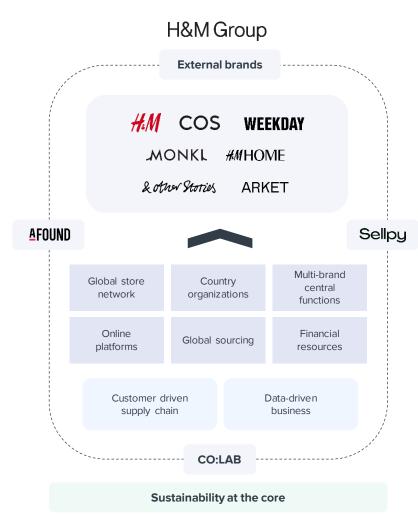
Net sales growth and illustrated target growth (MSEK)

EBIT-% and the profitability target

EBIT-% — Target

Strategy and financial targets 2/2

Omni-channel and sustainability as the foundation

H&M Group

External brands

H&M   COS   WEEKDAY
MONKI   H&M HOME
& Other Stories   ARKET

AFOUND   Sellpy

Global store network	Country organizations	Multi-brand central functions
Online platforms	Global sourcing	Financial resources

Customer driven supply chain	Data-driven business

CO:LAB

Sustainability at the core

Drivers for profitable growth

Brand development

Products and assortment: Focus on design, quality, price, and relevance

Store and online: Portfolio optimization and faster development cycles

Seamless: Faster and more flexible deliveries and payments, as well as omni-capabilities

Accelerate key enablers

Customer driven supply chain: Focus on speed, optimization and automation

Data-driven business: Increasing focus on advanced analytics, AI and tech

New growth

Online growth for existing brands: New markets, wider assortment, partnerships

New stores for existing brands: H&M focus on emerging markets and new brands focus on established markets

New concepts, brands and initiatives

Financial and climate targets

Double
Net sales by 2030 vs. 2021

-56%
Carbon footprint by 2030 vs. 2019

10%
EBIT-% over time
(achieve the target no later than 2024)

Estimates 1/5

We model earnings on group level

H&M reports its sales and EBIT for three geographical segments. However, most of the earnings in the segment split are attributed to group functions, making it impractical for modeling. H&M also reports its sales by six geographical regions and provides sales development data (but not the actual sales figures) for group and portfolio brands (i.e., other than H&M) separately.

We model H&M's sales through the three segments. We model earnings at group level through gross margin and opex, which leads to EBIT.

As shown in the industry section, H&M's markets in Europe and US are growing only slightly, while those in, e.g., Asia or Latin America are growing faster. We believe that H&M is also able to take market share in the areas, where it's not yet very big, meaning mostly outside Europe in general. The company has also mentioned that the net store changes should turn from negative to positive going forward, which will support growth.

Generally speaking, we expect H&M to achieve a solid mid-single-digit sales growth in the coming years. We expect the company to get fairly close to the 10% EBIT margin its targeting for 2024 and then remain around that level going forward. This means that earnings will grow rapidly in 2024 and then settle around the sales growth level.

Margins have been recovering during 2023

As mentioned earlier, H&M's margins declined as a trend throughout the last decade and were low also in 2022. During this year the company has been able to turn the trend around, however, as its
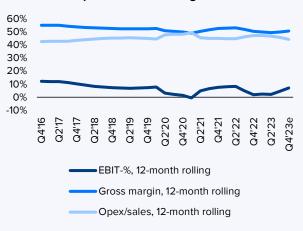
margins have been improving during FY23 (until fiscal Q3/end-August.) The EBIT margin YTD is 5.9%. The improvement has been mostly driven by a lower opex/sales ratio, driven by store closures, the SEK 2 billion admin efficiency program, and other efficiency measures. Gross margin has stabilized at around 50%, which is, however, significantly lower than what H&M used to have, e.g., in 2010-2015 (averaging almost 60%). In sales terms, the development in local currencies has been flattish YTD, while in SEK there has been growth. The development is driven by exiting Russia and focusing more on cash flow and profitability, along with weakish consumer demand.
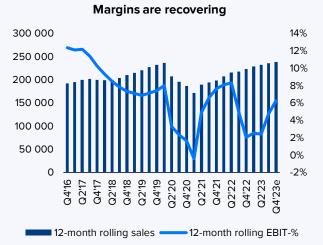
Soft sales expected in Q4, but positive margin trend should continue

H&M estimates that its September sales will decline by 10% in local currencies, of which 4% is due to exiting Russia and negative impact from unusually warm weather. We believe that this will result in an overall negative trend for Q4 local currency sales development, while in SEK, we still expect continued growth.

In terms of margins, the outlook is better, as the company expects a clear tailwind to gross margin from external factors such as cost management and USD exchange rate developments. Furthermore, cost-saving initiatives and other efficiency measures are expected to drive down the opex/sales ratio. We forecast that the gross margin will improve to 52% in Q4 (vs. 49.7% in the comparison period and 50.9% in Q3) and EBIT margin to improve to 8.9% (vs. 1.3% and 7.8% in Q4'22 and Q3'23 respectively).

Opex trend is turning down

- EBIT-%, 12-month rolling
- Gross margin, 12-month rolling
- Opex/sales, 12-month rolling

Margins are recovering

- 12-month rolling sales
- 12-month rolling EBIT-%

This would mean that full-year 2023 sales would reach approximately SEK 237 billion and EBIT margin 6.7%. In absolute terms EBIT would more than double vs. 2022 (partly due to one-off costs in 2022) and be slightly ahead of 2021.

Towards 10% EBIT margin in 2024

H&M's sales growth has recently been significantly inflated by the weakening of the SEK. This effect will continue in 2024, but with a clearly smaller impact assuming current FX rates. We expect that growth in local currencies will remain flattish also in 2024 (as in 2023), as the company continues to drive up profitability, and overall consumer demand remains sluggish. In reported terms, we expect 1% sales growth in 2024 y/y.

H&M's only outspoken profitability goal is to reach 10% EBIT margin in 2020. This should be achievable by reaching a "normalized" gross margin, which H&M eluded to being somewhere in the pre-pandemic levels. During 2018-19, the gross margin was 52.5-53%, which could serve as some kind of benchmark. To reach the 10% margin, it would require maintaining the opex/sales ratio below 43%.

We expect the gross margin to improve from slightly below 51% in 2022-23 to 52% in 2024. This should be supported by cost headwinds turning into tailwinds and H&M's supply chain being more flexible and efficient. This allows having a lower inventory and is hence likely to support a lower level of markdowns. However, attractive pricing remains a key priority for H&M, so there is likely to be a limit

to how much the company wants to utilize the lower costs for higher margins and how much it wants to push through to prices.

On the fixed costs side, H&M has recently taken several measures. It has a SEK 2 billion admin cost savings program ongoing, which should reach a full run-rate in Q4'23 and, as a result, notably support operations in 2024. In addition, H&M continues to see opportunities in negotiating lower rents as the contracts are renewed, and it has also closed poorly performing stores over the past years. These actions should boost the opex/sales ratio. H&M's opex/sales ratio was over 46% in 2022 (excluding one-offs), but it has already improved to around 43% over the last 12 months, where we expect it to roughly be also for 2024.

In total, this means we forecast the EBIT margin to improve to 9.0% in 2024 and absolute EBIT growing by some 35% to SEK 21.6 billion. Since H&M has a net cash position excluding leases, its financials primarily consist of IFRS 16 items. We expect them to remain at around the current level of SEK 400 million per quarter in 2024. For taxes, we assume the 24-25% tax rate which H&M is guiding for. On EPS level, this translates into a clear jump from around SEK 7 in 2023 to ~SEK 9.5 in 2024.

Sales and EBIT margin forecasts

We expect EBIT margin to stabilize to around 10%

Moderate growth in 2025

In 2025, we expect sales growth to pick up as the contribution from new stores is expected to be positive, the company has reached a satisfactory profitability level, and the economic situation should be somewhat better. Growth will be driven more by markets outside of Europe, such as India and Latin America. We believe that the growth of portfolio brands will be higher than the group average given they are still in earlier stages, and also address some current consumer needs like sustainability and circularity. They are, however, only some 10% of total sales, so the impact of higher sales growth for group figures is limited. We expect 5% growth in 2025, both in reported and local currency terms, as we do not forecast FX rates.

We expect the EBIT margin to stabilize at around 9.5%, with gross margin slightly over 52% and opex/sales at ~42.5%. While there is an element of operational leverage from sales growth, we believe the company will prioritize using it to achieve their target of growth and reducing the CO2 footprint rather than aiming for higher margins. Additionally, the omni-channel capabilities and continued expansion are likely to require additional costs also going forward. We expect a slight decrease in financials as the company is likely to repay some debts, considering its already clear net cash position. Our assumed tax rate for 2025 is 25%. This results in EPS of around SEK 10.6 or 12% growth y/y.

2026 and beyond we see steady growth

In 2026 and also through 2030, we estimate the sales growth to be around 5% p.a., driven by

markets outside Europe, where H&M still has significant potential in our view. We continue to see portfolio brands growing above group average. We expect the EBIT margin level to remain just below 10%, and assuming financials and tax rate remain fairly constant, this will drive earnings to grow in line with sales, i.e., around 5% p.a.
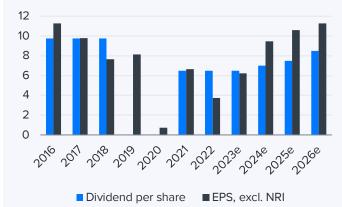
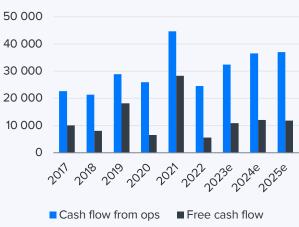## Growth ties up some capital, limiting cash flow

As we forecast continued growth for H&M, we also see that growth will require some capital. During 2023, H&M has been able to release some working capital, and we believe that in 2024 the NWC impact will be neutral despite some growth. From 2025 onwards, we expect working capital to increase in line with sales, hence creating a negative cash flow impact. Additionally, we expect that investments (including lease renewals/additions) will exceed depreciation as the company continues to grow. This means that the company's cash flow will be lower than its earnings. We forecast a free cash flow level of SEK 11-12 billion for 2023-25, which corresponds to a free cash flow yield of 4-4.5%.

Dividends likely to grow with earnings

H&M has historically been a generous dividend payer, with payout ratios often reaching 100% or even above. This has been achievable due to a net cash position and low investment needs. However, in 2019-20, the company did not pay any dividends as the pandemic impacted the business. The dividend for 2022 was SEK 6.50, which remained flat y/y despite notably lower earnings.

Dividend and EPS, SEK

■ Dividend per share   ■ EPS, excl. NRI

Cash flow development, MSEK

■ Cash flow from ops   ■ Free cash flow

Estimates 4/5

We believe that this level will be maintained also for 2023 as earnings improve to a slightly higher level. During 2024-25, we expect the absolute dividend to increase as earnings grow. We are forecasting "only" around 70% payout ratios and hence acknowledge that the company could pay even closer to 100% during these years. Our payout assumptions expect that almost the entire free cash flow is distributed, but as H&M is currently in a net cash position excluding lease liabilities, they could potentially payout even more.

The company announced after its Q323 report that it will initiate a share buyback program amounting to a maximum of SEK 3 billion that will be executed over the next six months. Compared to a total annual dividend of slightly below SEK 11 billion, this is a meaningful additional profit distribution in our view.

High return on capital means business is clearly generating value

H&M's business model has historically tied up capital mostly in working capital, given that it operates in leased premises. Due to IFRS 16, leases are now also reflected as capital in the balance sheet. As the company's earnings were weak, particularly in 2020 and 2022, the returns on capital were poor as well.
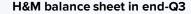
In 2023, we expect ROIC to increase to over 10% and ROE to surpass 20%. During 2024-25, we expect ROIC to be in the range of 15-20%, while ROE is around 30%. This means that the company is clearly generating value as it grows, with returns on
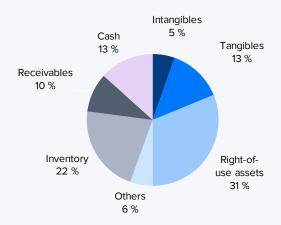
capital exceeding the required return with a wide margin.

More than half of the invested capital in the balance sheet is currently related to leases. By excluding those, returns on capital would more than double, highlighting the very capital-light business model with high returns on capital.

Returns on capital

H&M balance sheet in end-Q3

Estimates 5/5

Group reporting	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Net sales	108 483	109 999	120 799	128 562	151 419	180 861	192 267	200 004	210 400	232 755	187 031	198 967	223 553	237 615	241 000	252 374	264 757
growth	7,0%	1,4%	9,8%	6,4%	17,8%	19,4%	6,3%	4,0%	5,2%	10,6%	-19,6%	6,4%	12,4%	6,3%	1,4%	4,7%	4,9%
growth in local currencies	15,0%	8,0%	11,0%	9,0%	14,0%	11,0%	7,3%	2,8%	2,5%	5,8%	-17,8%	12,3%	6,5%	0,0%	0 %	4,7%	4,9%
COGS	-40 214	-43 852	-48 928	-52 537	-62 367	-77 694	-86 090	-91 914	-99 513	-110 302	-93 487	-93 961	-110 276	-116 976	-115 680	-120 635	-126 289
Gross profit	68 269	66 147	71 871	76 025	89 052	103 167	106 177	108 090	110 887	122 453	93 544	105 006	113 277	120 638	125 320	131 739	138 468
Gross margin-%	62,9%	60,1%	59,5%	59,1%	58,8%	57,0%	55,2%	54,0%	52,7%	52,6%	50,0%	52,8%	50,7%	50,8%	52,0 %	52,2 %	52,3 %
Selling expenses	-40 751	-42 517	-46 608	-49 944	-58 525	-70 292	-75 729	-80 427	-87 512	-96 279	-81 425	-80 535	-94 542	-95 331	-94 378	-98 153	-103 060
Admin expenses	-2 859	-3 251	-3 509	-3 991	-4 944	-5 933	-6 625	-7 094	-7 882	-8 828	-9 020	-9 216	-11 566	-10 385	-9 347	-9 720	-10 109
Associates & JVs	0	0	0	0	0	0	0	0	0	0	0	0	0	982	0	0	0
Operating profit	24 659	20 379	21 754	22 090	25 583	26 942	23 823	20 569	15 493	17 346	3 099	15 255	7 169	15 904	21 596	23 866	25 298
Operating margin-%	22,7%	18,5%	18,0%	17,2%	16,9%	14,9%	12,4%	10,3%	7,4%	7,5%	1,7%	7,7%	3,2%	6,7%	9,0%	9,5%	9,6%
Non-recurring items													2591	999			
Net financials	349	563	531	358	312	300	216	240	146	45	-1 047	-955	-953	-1 511	-1 200	-999	-998
Pre-tax profit	25 008	20 942	22 285	22 448	25 895	27 242	24 039	20 809	15 639	17 391	2 052	14 300	6 216	14 393	20 396	22 867	24 300
Tax	-6 327	-5 121	-5 418	-5 355	-5 919	-6 344	-5 403	-4 625	-2 987	-3 948	-809	-3 290	-2 650	-3 219	-4 997	-5 602	-5 954
Tax rate	-25 %	-24 %	-24 %	-24 %	-23 %	-23 %	-22 %	-22 %	-19 %	-23 %	-39 %	-23 %	-43 %	-22 %	-25 %	-25 %	-25 %
Net profit	18 681	15 821	16 867	17 093	19 976	20 898	18 636	16 184	12 652	13 443	1 243	11 010	3 566	11 175	15 399	17 265	18 347
EPS	11,3	9,6	10,2	10,3	12,1	12,6	11,3	9,8	7,6	8,1	0,8	6,7	2,2	6,9	9,4	10,6	11,3

Valuation and recommendation 1/3

Valuation works well with traditional methods

We believe that in general H&M's valuation can be examined with all traditional valuation methods such as expected return through growth and dividends, earnings and balance sheet multiples, valuation vs. peers, as well as DCF. One thing to consider in the valuation is the company's large lease liabilities, which distort balance sheet and EV-based figures and, on the other hand, without lease liabilities, the company has net cash. Hence, the earnings multiples may be more useful with some adjustments.

Valuation summary - Accumulate

At the current earnings level (2023) H&M's valuation looks somewhat high. However, we forecast strong earnings growth in 2024 as margins continues to improve. With next year's multiples we see H&M as moderately valued both from an absolute perspective and compared to the closest peer Inditex. Hence, we believe the improving earnings will provide some support for the share during 2024.

We expect H&M to distribute most of its earnings and free cash flow as dividends, amounting to a dividend yield of 4-5%. Combining this with an expected 5% mid-term growth, we get an expected return of around 10% in the mid-term. We assign an Accumulate recommendation for the share with a SEK 165 target price.

Absolute multiples on the low side if earnings improve as expected

H&M's valuation multiples for this year are fairly high with P/E close to 25x and EV/EBIT around 20x. Adjusting for lease liabilities (from both net debt and EBIT), the EV/EBIT would be some 17x. Adjusted for net cash (excl. lease liabilities), the P/E would be some 21x. No matter which way one looks at these numbers, they are quite high.

H&M is however showing a solid margin recovery and targeting a 10% EBIT margin in 2024, as discussed before. Hence, we expect a strong earnings improvement in 2024. The 2024 headline multiples are P/E 16x and EV/EBIT 13.5x, which already look moderate and if one adjusts for lease liabilities the EV/EBIT is only some 12x and P/E adjusted for net cash excl. IFRS 16 is around 15x. Given the continued growth potential and high returns on capital, which we see in the company, these look attractive. Obviously, they require that the expected margin improvement is realized.

Looking from 2024 onwards, when we expect stable growth and profitability going forward, we believe H&M's acceptable P/E is 15-20x and EV/EBIT with reported figures 13-15x.

As we said in the estimate section, our estimate of H&M's sustainable free cash flow in 2024-26 is SEK 11-12 billion, which means a free cash flow yield of 4-4.5%. As we see 5% as a potential growth rate for the company in the mid-term, this offers a return slightly above our required return (8%).

TSR drivers 2022-2025

Positive ■ Neutral ■ Negative ■

Profit drivers

| 5% sales CAGR |
| Clear improvement in margin from 2022 low levels | → Some 40% EPS CAGR |
| No major changes to financials or tax rate |

Dividend yield drivers

| Solid operating cash flow and net cash |
| No large investment in sight | → Dividend yield % 4-5% p.a. |
| Payout ratio has been historically very high |

Valuation multiple drivers

| Valuation with 2022 earnings is very high |
| Valuation is above peers for 2023, but below for 2024 | → Multiples to come down vs. 2022 |
| Value of DCF mode above current share price |

| Share's expected total return ~10% p.a. |

Source: Inderes

Valuation 2/3

Valuation compared to the peer group

H&M has several listed peers. We already mentioned the closest ones in the industry & competition part, which we have also included in the peer group: Japanese Fast Retailing (Uniqlo chain), Spanish Inditex (Zara and Bershka chains), British Next, and US Gap (Old Navy chain). We have also added the German online-giant Zalando, US lingerie, clothing and beauty retailer Victoria's Secret, US clothing retailer Abercrombie & Fitch, as well as US-based clothing and lifestyle retailer Urban Outfitters. Many of these companies are, however, smaller than H&M. We would see Inditex as the most relevant peer out of the group.

All retail chains have significant lease liabilities that muddle up the EV-based valuation. Thus, we look mainly at the P/E ratios of the peer group. The peer group's median P/E is 27x for 2023, very close to H&M's 24x and 14x for 2024, also in the same ballpark with H&M's 16x. The values for the peer group vary broadly from single-digits to over 30x. Hence, the peer group median is somewhat dependent on which companies one chooses to include in the group, given that there are also other potential peers in the fashion industry. We note that EV/EBIT valuation is also quite close to our peer group. H&M's closest peer Inditex is valued with P/E 27x for 2023 and 21x for 2024, i.e., clearly higher than H&M for 2024. We would argue that while the peer group valuation doesn't give a strong signal one way or another, it does rather suggest some upside potential for H&M.

Balance sheet-based valuation

As pointed out previously, H&M is a relatively capital-light company, but excluding lease liabilities the amount of equity on the liabilities side is high. The company's P/B is around 4.5-5x for 2023-24, which is obviously high as an isolated figure. This should be seen in light of the 20-30% ROE and continuation of value-creating growth, however. We believe the P/B is acceptable if one believes in H&M's ability to continue growing with good profitability and high returns on capital going forward – as we do.

We adjust IFRS 16 in the DCF model

We presented our mid-term estimates already in the estimates section, expecting a steady growth and margin during 2025-2031. In the terminal period we expect the EBIT margin to remain largely flat around 9.5% while our terminal growth rate assumption is 3%. We use 3% (instead of e.g., 2%) due to H&M's global exposure and very strong track record of growth over several decades, which we believe will continue also in our terminal period.

We adjust the DCF model from IFRS 16 items by adding the IFRS 16 related costs, which are in financials in the P&L, to our DCF model and deducting the lease debt from the net debt amount. Hence, our DCF model roughly excludes the IFRS 16 impact.

We estimate the cost of equity for H&M to be 8.0%, which is fairly low given its strong and wide market presence and a strong global brand. As we assume no debt in the WACC calculation (as the company typically is in net cash excluding lease liabilities) the WACC is equal to the cost of equity.

With these assumptions our DCF model arrives to an EV of SEK 273 billion, which translates into a roughly similar equity value or SEK 168 per share.

Valuation	2023e	2024e	2025e
Share price	148	148	148
Number of shares, m	1629,7	1629,7	1629,7
Market cap	241 326	241 326	241 326
EV	292 806	291 408	291 081
P/E (adj.)	23,7	15,7	14,0
P/E	21,6	15,7	14,0
P/B	4,7	4,3	3,9
P/S	1,0	1,0	1,0
EV/Sales	1,2	1,2	1,2
EV/EBITDA	7,7	6,9	6,4
EV/EBIT (adj.)	19,6	13,5	12,2
Payout ratio (%)	94,8 %	74,1 %	70,8 %
Dividend yield-%	4,4 %	4,7 %	5,1 %

Source: Inderes

H&M's and Inditex's 12-month fwd P/E

H&M — Inditex

Valuation 3/3

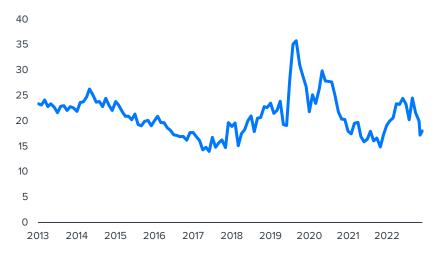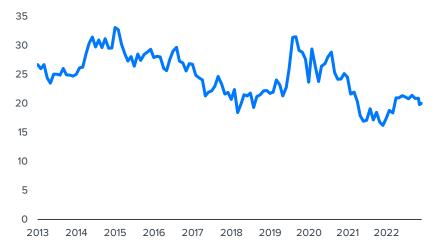### H&M's share price development (SEK)

Inditex's share price development (EUR)

H&M's 12-month fwd P/E

Inditex's 12-month fwd P/E

Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	126	190	172	179	112	148	148	148	148
Number of shares, millions	1655,1	1655,1	1655,1	1655,1	1645,5	1629,7	1629,7	1629,7	1629,7
Market cap	208 572	315 258	284 672	295 927	184 569	241 326	241 326	241 326	241 326
EV	216 763	320 644	348 197	335 147	235 497	292 806	291 408	291 081	290 509
P/E (adj.)	16,5	23,5	>100	26,9	30,0	23,7	15,7	14,0	13,2
P/E	16,5	23,5	>100	26,9	51,8	21,6	15,7	14,0	13,2
P/B	3,6	5,5	5,2	4,9	3,6	4,7	4,3	3,9	3,5
P/S	1,0	1,4	1,5	1,5	0,8	1,0	1,0	1,0	0,9
EV/Sales	1,0	1,4	1,9	1,7	1,1	1,2	1,2	1,2	1,1
EV/EBITDA	8,6	11,3	12,0	8,9	7,9	7,7	6,9	6,4	6,1
EV/EBIT (adj.)	14,0	18,5	>100	22,0	24,1	19,6	13,5	12,2	11,5
Payout ratio (%)	127,5 %	0,0 %	0,0 %	97,7 %	299,8 %	94,8 %	74,1 %	70,8 %	75,5 %
Dividend yield-%	7,7 %	0,0 %	0,0 %	3,6 %	5,8 %	4,4 %	4,7 %	5,1 %	5,7 %

Source: Inderes

P/E (adj.)

EV/EBIT

Dividend yield-%

Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e
Inditex	109675	104603	19,2	15,8	12,4	10,8	3,2	2,9	26,7	20,9	3,3	4,1	6,6
Fast Retailing	63780	59641	29,4	21,4	16,4	14,9	3,4	3,1	36,6	33,7	0,9	0,9	5,7
Next	10580	12511	11,9	11,7	9,8	9,8	2,1	2,0	13,0	13,3	2,7	2,9	7,5
GAP	3598	3870	56,5	12,5	6,8	4,8	0,3	0,3		15,3	5,8	5,8	1,5
Zalando	5816	5608	20,3	13,5	9,7	7,5	0,5	0,5	46,8	25,3			2,4
Victoria's Secret	1069	2170	4,1	6,6	2,8	3,9	0,4	0,4	3,0	7,0			3,2
Abercombie & Fitch	2629	2336	23,9	6,8	9,4	4,7	0,7	0,6	189,7	12,6			3,5
Urban Outfitters	2784	2332	10,4	6,3	6,9	4,9	0,5	0,5	18,3	10,0			1,5
H&M (Inderes)	**20804**	**25242**	**19,6**	**13,5**	**7,7**	**6,9**	**1,2**	**1,2**	**23,7**	**15,7**	**4,4**	**4,7**	**4,7**
Average			**22,0**	**11,8**	**9,3**	**7,7**	**1,4**	**1,3**	**47,7**	**17,3**	**3,2**	**3,4**	**4,0**
Median			**19,8**	**12,1**	**9,6**	**6,2**	**0,6**	**0,6**	**26,7**	**14,3**	**3,0**	**3,5**	**3,4**
Diff-% to median			*-1 %*	*12 %*	*-20 %*	*12 %*	*104 %*	*120 %*	*-11 %*	*10 %*	*47 %*	*36 %*	*40 %*

Source: Refinitiv / Inderes

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	2024e	2025e	2026e
Revenue	198 967	49 166	54 504	57 450	62 433	223 553	54 872	57 616	60 897	64 230	237 615	241 000	252 374	264 757
EBITDA	37 575	5 851	10 197	7 088	6 612	29 748	6 230	10 234	10 466	11 199	38 129	41 973	45 149	47 441
Depreciation	-22 320	-5 393	-5 209	-6 186	-5 791	-22 579	-5 505	-5 493	-5 727	-5 500	-22 225	-20 378	-21 283	-22 142
EBIT (excl. NRI)	15 255	458	4 988	2 653	1 661	9 760	-274	4 741	4 739	5 699	14 905	21 596	23 866	25 298
EBIT	15 255	458	4 988	902	821	7 169	725	4 741	4 739	5 699	15 904	21 596	23 866	25 298
Net financial items	-955	-176	-206	-213	-358	-953	-329	-416	-366	-400	-1 511	-1 200	-999	-998
PTP	14 300	282	4 782	689	463	6 216	396	4 325	4 373	5 299	14 393	20 396	22 867	24 300
Taxes	-3 290	-65	-1 100	-158	-1 327	-2 650	144	-1 037	-1 054	-1 272	-3 219	-4 997	-5 602	-5 954
Minority interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net earnings	11 010	217	3 682	531	-864	3 566	540	3 288	3 319	4 028	11 175	15 399	17 265	18 347
EPS (adj.)	6,7	0,1	2,2	1,4	0,0	3,7	-0,3	2,0	2,0	2,5	6,2	9,4	10,6	11,3
EPS (rep.)	6,7	0,1	2,2	0,3	-0,5	2,2	0,3	2,0	2,0	2,5	6,9	9,4	10,6	11,3

Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	6,4 %	22,7 %	17,2 %	3,4 %	9,9 %	12,4 %	11,6 %	5,7 %	6,0 %	2,9 %	6,3 %	1,4 %	4,7 %	4,9 %
Adjusted EBIT growth-%	392,3 %	-140,6 %	29,5 %	-57,7 %	-73,5 %	-36,0 %	-159,8 %	-5,0 %	78,6 %	243,1 %	52,7 %	44,9 %	10,5 %	6,0 %
EBITDA-%	18,9 %	11,9 %	18,7 %	12,3 %	10,6 %	13,3 %	11,4 %	17,8 %	17,2 %	17,4 %	16,0 %	17,4 %	17,9 %	17,9 %
Adjusted EBIT-%	7,7 %	0,9 %	9,2 %	4,6 %	2,7 %	4,4 %	-0,5 %	8,2 %	7,8 %	8,9 %	6,3 %	9,0 %	9,5 %	9,6 %
Net earnings-%	5,5 %	0,4 %	6,8 %	0,9 %	-1,4 %	1,6 %	1,0 %	5,7 %	5,5 %	6,3 %	4,7 %	6,4 %	6,8 %	6,9 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	**100795**	**102525**	**101800**	**105922**	**109859**
Goodwill	64,0	64,0	64,0	64,0	64,0
Intangible assets	9492	9092	9592	10092	10592
Tangible assets	79662	82736	81511	85133	88570
Associated companies	686	503	503	503	503
Other investments	4405	2654	2654	2654	2654
Other non-current assets	860	939	939	939	939
Deferred tax assets	5626	6537	6537	6537	6537
Current assets	**78986**	**79523**	**79601**	**77120**	**78236**
Inventories	37306	42495	40395	40970	42904
Other current assets	0,0	0,0	0,0	0,0	0,0
Receivables	14209	15321	15445	14460	15142
Cash and equivalents	27471	21707	23761	21690	20190
Balance sheet total	**179781**	**182048**	**181401**	**183042**	**188095**

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	**60018**	**50757**	**51239**	**56045**	**61902**
Share capital	207	207	207	207	207
Retained earnings	57466	44694	45176	49982	55839
Hybrid bonds	0,0	0,0	0,0	0,0	0,0
Revaluation reserve	0,0	0,0	0,0	0,0	0,0
Other equity	2345	5856	5856	5856	5856
Minorities	0,0	0,0	0,0	0,0	0,0
Non-current liabilities	**58766**	**62956**	**50000**	**50000**	**50000**
Deferred tax liabilities	3601	3273	0,0	0,0	0,0
Provisions	428	575	0,0	0,0	0,0
Interest bearing debt	54557	58925	50000	50000	50000
Convertibles	0,0	0,0	0,0	0,0	0,0
Other long term liabilities	180	183	0,0	0,0	0,0
Current liabilities	**60997**	**68335**	**80162**	**76997**	**76193**
Interest bearing debt	12134	13710	25242	21772	19945
Payables	20382	21090	21385	21690	22714
Other current liabilities	28481	33535	33535	33535	33535
Balance sheet total	**179781**	**182048**	**181401**	**183042**	**188095**

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	12,4 %	6,3 %	1,4 %	4,7 %	4,9 %	5,0 %	5,0 %	5,0 %	5,0 %	5,0 %	3,0 %	3,0 %
EBIT-%	3,2 %	6,7 %	9,0 %	9,5 %	9,6 %	9,5 %	9,5 %	9,5 %	9,5 %	9,5 %	9,5 %	9,5 %
EBIT (operating profit)	**7169**	**15904**	**21596**	**23866**	**25298**	**26410**	**27730**	**29116**	**30572**	**32101**	**33064**	
+ Depreciation	22579	22225	20378	21283	22142	22972	23786	24592	25400	26214	27032	
- Paid taxes	-3889	-6492	-4997	-5602	-5954	-6348	-6671	-7011	-7368	-7742	-7978	
- Tax, financial expenses	-229	-338	-294	-245	-245	-123	-123	-123	-123	-123	-123	
+ Tax, financial income	0	0	0	0	0	0	0	0	0	0	0	
- Change in working capital	-539	2272	714	-1592	-1734	-1853	-1946	-2043	-2145	-2253	-1419	
Operating cash flow	**25091**	**33572**	**37397**	**37710**	**39509**	**41058**	**42776**	**44532**	**46336**	**48198**	**50576**	
+ Change in other long-term liabilities	150	-758	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-23581	-21500	-24500	-25220	-25962	-26725	-27512	-28323	-29157	-29573	-30672	
Free operating cash flow	**1660**	**11314**	**12897**	**12490**	**13547**	**14333**	**15264**	**16209**	**17179**	**18625**	**19905**	
+/- Other	0	-1766	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000	-2000	
FCFF	1660	9548	10897	10490	11547	12333	13264	14209	15179	16625	17905	371627
Discounted FCFF		**9381**	**9917**	**8843**	**9016**	**8919**	**8885**	**8817**	**8724**	**8850**	**8828**	**183238**
Sum of FCFF present value		273419	264038	254120	245278	236261	227342	218457	209640	200916	192067	183238
Enterprise value DCF		**273419**										
- Interest bearing debt		-10778										
+ Cash and cash equivalents		21707										
-Minorities		0,0										
-Dividend/capital return		-10692,5										
Equity value DCF		**273655**										
Equity value DCF per share		**168**										

WACC	
Tax-% (WACC)	24,0 %
Target debt ratio (D/(D+E)	0,0 %
Cost of debt	5,0 %
Equity Beta	1,15
Market risk premium	4,75 %
Liquidity premium	0,00 %
Risk free interest rate	2,5 %
Cost of equity	**8,0 %**
Weighted average cost of capital (WACC)	**8,0 %**

Source: Inderes

Cash flow distribution

2023e-2027e 17%

2028e-2032e 16%

TERM 67%

■ 2023e-2027e ■ 2028e-2032e ■ TERM

Summary

Income statement	2020	2021	2022	2023e	2024e
Revenue	187031	198967	223553	**237615**	**241000**
EBITDA	29052	37575	29748	**38129**	**41973**
EBIT	3099	15255	7169	**15904**	**21596**
PTP	2052	14300	6216	**14393**	**20396**
Net Income	1243	11010	3566	**11175**	**15399**
Extraordinary items	0	0	-2591	**999**	**0**

Per share data	2020	2021	2022	2023e	2024e
EPS (reported)	0,8	6,7	2,2	**6,9**	**9,4**
EPS (adj.)	0,8	6,7	3,7	**6,2**	**9,4**
OCF / share	13,1	27,1	15,2	**20,6**	**22,9**
FCF / share	-32,4	18,8	1,0	**5,9**	**6,7**
Book value / share	33,0	36,3	30,8	**31,4**	**34,4**
Dividend / share	0,0	6,5	6,5	**6,5**	**7,0**

Balance sheet	2020	2021	2022	2023e	2024e
Balance sheet total	174371	179781	182048	**181401**	**183042**
Equity capital	54623	60018	50757	**51239**	**56045**
Goodwill	64	64	64	**64**	**64**
Net debt	63525	39220	50928	**51480**	**50082**

Growth and profitability	2020	2021	2022	2023e	2024e
Revenue growth-%	-20 %	6 %	12 %	**6 %**	**1 %**
EBITDA growth-%	2 %	29 %	-21 %	**28 %**	**10 %**
EBIT (adj.) growth-%	-82 %	392 %	-36 %	**53 %**	**45 %**
EPS (adj.) growth-%	-91 %	786 %	-44 %	**67 %**	**51 %**
EBITDA-%	15,5 %	18,9 %	13,3 %	**16,0 %**	**17,4 %**
EBIT (adj.)-%	1,7 %	7,7 %	4,4 %	**6,3 %**	**9,0 %**
EBIT-%	1,7 %	7,7 %	3,2 %	**6,7 %**	**9,0 %**
ROE-%	2,2 %	19,2 %	6,4 %	**21,9 %**	**28,7 %**
ROI-%	3,0 %	11,7 %	5,7 %	**12,7 %**	**17,0 %**
Equity ratio	31,3 %	33,4 %	27,9 %	**28,2 %**	**30,6 %**
Gearing	116,3 %	65,3 %	100,3 %	**100,5 %**	**89,4 %**

Cash flow	2020	2021	2022	2023e	2024e
EBITDA	29052	37575	29748	**38129**	**41973**
Change in working capital	-4560	11083	-539	**2272**	**714**
Operating cash flow	21605	44849	25091	**33572**	**37397**
CAPEX	-75324	-13751	-23581	**-21500**	**-24500**
Free cash flow	-53617	31094	1660	**9548**	**10897**

Valuation multiples	2020	2021	2022	2023e	2024e
EV/S	1,9	1,7	1,1	**1,2**	**1,2**
EV/EBITDA (adj.)	12,0	8,9	7,9	**7,7**	**6,9**
EV/EBIT (adj.)	>100	22,0	24,1	**19,6**	**13,5**
P/E (adj.)	>100	26,9	30,0	**23,7**	**15,7**
P/B	5,2	4,9	3,6	**4,7**	**4,3**
Dividend-%	0,0 %	3,6 %	5,8 %	**4,4 %**	**4,7 %**

Source: Inderes

Disclaimer and recommendation history

Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
10.10.2023	Accumulate	165 SEK	148 SEK

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