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H&M CEO Backs Chinese Manufacturing Despite Yuan Move

By JOHAN ANDERBERG

STOCKHOLM—Hennes & Mauritz AB will be affected by any appreciation in China's currency but has no plans to move its manufacturing, the Swedish fashion retailer's chief executive said.

"Costs there will probably go up," Karl-Johan Persson said in an interview Thursday. Analysts estimate that about a third of H&M's products are made in China, where the government recently signaled that the yuan's exchange rate will become more flexible. The move is seen as an effort to appease U.S. politicians, who have complained that the weak yuan unfairly boosts China's competitiveness.



Bloomberg News

A Hennes & Mauritz sales assistant replenishes stock at an H&M store in London on Wednesday.

"No one knows what is going to happen here," Mr. Persson said, "but bear in mind that this is just one of many factors affecting our costs. So we see no need to take action."

The Stockholm-based company Thursday posted a 24% rise in net profit for its fiscal second quarter to 5.21 billion Swedish kronor (\$670.4 million) from 4.19 billion kronor a year earlier. Revenue for the three months ended May 31 rose 1.9% to 27.03 billion kronor from 26.54 billion kronor. However, sales in stores that had been open for more than a year dropped 2%.

"There is some cannibalism," Mr. Persson said, referring to the ferocious speed at which H&M has been opening stores in the past few years. "I don't know exactly how large that effect is, but

it is clear that our same-store sales numbers would have looked a lot better otherwise."

In the second quarter, the world's third-largest fashion chain by revenue behind U.S.-based Gap Inc. and Spain's Inditex SA opened 86 new stores and closed 12. In the third and fourth quarters, H&M expects to open up 180 new stores, mostly in Germany, the U.S., U.K., France, China and Italy.

Mr. Persson, who is 35 years old and the grandson of H&M's founder and son of the majority owner, took over at the helm of the retailer a year ago.

He said he was very pleased with sales in Asia, and also singled out Russia, where H&M plans to open up a flagship store at St. Petersburg's Nevsky Prospect later this year. Positive numbers from U.S. stores also keep coming in, albeit against weak year-earlier sales, he said.

In Europe, meanwhile, the picture is more patchy. "Ireland and Greece still look bad," said Mr. Persson, but added that there were improvements in Italy and Portugal, two countries that have also been struggling with huge fiscal deficits.

"A lot of countries will have to tighten their budgets, and of course that will affect consumption," Mr. Persson said. But despite overall consumption being lower than it was in 2007, H&M has managed to steadily grow its sales.

"People are shopping less but we sell more," Mr. Persson said. "That's a good combination."

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