Description

LVMH is the world’s largest luxury goods company with activities ranging from wines and spirits to fashion and leather goods, perfumes and cosmetics, watches and jewelry, and selective distribution.

LVMH is home to 75 brands, including some of the most iconic in the world. The Paris-based conglomerate was created in 1987 with the merger of Louis Vuitton and Moet Hennessy. LVMH now has 156,000 staff and 4,910 stores, and reported sales of €53.7 billion in 2019. LVMH is 47.5% owned by Bernard Arnault, the richest man in France, through his holding company.

LVMH divides its sales into five main segments:

- Fashion and Leather Goods (41%)
  - Louis Vuitton (24%)
  - Dior Couture (6%)
  - + Givenchy, Kenzo, Fendi, Berluti...
- Selective Retailing (28%)
  - Sephora (19%)
  - + Le Bon Marché Paris, DFS Group (duty-free shops)...
- Perfumes and Cosmetics (13%)
  - Christian Dior (6%)
  - + Guerlain, Loewe, Aqua di Parma...
- Wines and Spirits (10%)
  - Hennessy (5%)
  - Moet & Chandon (2%)
  - + Dom Perignon, Ruinart, Mercier...
- Watches and Jewelry (8%)
  - Bulgari (5%)
  - + TAG Heuer, Chaumet, Hublot...

And into five regions:

- Asia (37%)
- Europe (28%)
- USA (24%)
- Others (11%)

LVMH’s successful integration of various famous aspirational brands into a single group has inspired other luxury companies to do the same.

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Strong brand culture

As per the previous description of its business, LVMH is highly represented by a few brands in each sector of the market (Louis Vuitton, Christian Dior, Sephora...).

LVMH consists of 75 houses that design and manufacture high-quality products, and is the only luxury-goods peer present in all five major sectors of the market. Its structure and operating model is decentralized, ensuring each House is autonomous and responsive to change. Vertical integration helps foster control over each link in the value chain from sourcing to retailing.

LVMH has successfully preserved a family spirit that places priority on long-term vision. The Group’s vocation is to ensure the development of each of its Houses while respecting their identities and their autonomy, providing the resources needed to create, produce and market their products and services through carefully selected channels. The fundamental values articulated by Bernard Arnault are shared by every member of LVMH. He created this empire on his own, and is always looking at super-talent. This is why all key positions of the company are occupied by well-known people who accumulated expertise in their function.

LVMH’s brands benefitted from their timeless style, in a way that they never suffer from changing behaviors or tastes.

Recent Events

- At the end of 2016, LVMH announced its intention to make a serious investment in the eyewear segment through a partnership with Italian group Marcolin. As a result, the companies created the joint venture Thélios, 51% of which is owned by LVMH and 49% by Marcolin.
- In 2019, LVMH agreed to pay $16.2 billion to buy American jeweler Tiffany to strengthen its presence in the jewelry business and in the US.
- On September 8, LVMH decided to walk out of the deal citing the US-Europe trade war and the impact of the COVID on Tiffany’s sales. Tiffany sued back and on September 21, a Delaware judge set a trial date of early January 2021 over the fate of their merger.
- On July, LVMH’s Q2 revenue, at €18.4 billion, and with organic sales dropping 38%, was hard hit in Europe, Americas and parts of Asia outside of China, as expected. Watches, perfumes and travel (hotels and spending) fell most. Yet major brands, Louis Vuitton, Christian Dior and Moet Hennessy, were resilient and highly profitable, and China recovered well. Profit from recurring operations in the Wine and Spirits division were down 29% in H1. The spread of coronavirus in China from the end of January dented cognac demand most, with Hennessy volume down 15%, and champagne volume down 30% as clubs, restaurants and high-end holiday locations were closed.
LVMH has one of the most enviable business models among peers, demonstrated by a relatively strong demand recovery following the coronavirus in China for key brands, and solid e-commerce gains.

LVMH's No. 1 division, Fashion & Leather Goods, comprising 16 brands, is the fastest driver of sales and profit. With revenue growth over twice the luxury-goods market's average, the unit commands a top-tier 33% operating margin. LVMH's H1 trading was rocked by Covid-19-driven store closures, yet its biggest brands sustained creativity through new products/collections, online sales growth is accelerating and there are solid recovery signs visible in parts of Asia.

Sephora remains a success story in the struggling retail industry. Sephora continues to open stores to better engage with customers and offers an “omnichannel” approach that includes free makeovers, e-commerce and building an online community through social media.

A full recovery in Selective Retailing, home to its DFS duty-free arm and hotels is heavily dependent on global travel restrictions being relaxed. Wines, spirits, perfumes and cosmetics are also exposed to the travel segment. E-commerce has escalated across luxury goods globally during the pandemic lockdowns, and remains advanced as stores reopen, suggesting coexisting consumer habits, with online a higher part of the mix.

Represented by six houses, Watches and Jewelry is the most recently established activity at LVMH and would almost double in case the acquisition of Tiffany would be done. The outcome of the deal won’t change our view regarding LVMH. Even if the acquisition goes through at the $16.2bn price, we believe that LVMH would ultimately manage to increase Tiffany’s presence in Europe and mainland China, where Tiffany has lagged other jewelers.

LVMH will also continue to develop new brands and to consolidate the industry though there are few available targets of significant size beyond Tiffany.

The main risk for LVMH lies in the cyclicality of the industry. More sensitivity to the business cycle would be bad news for luxury goods companies who actually benefit resilience.

Due to its exceptional management and history, as well as the extreme resilience in the Luxury sector, LVMH has all the qualities required to be part of our core Global Leaders portfolio.

<table>
<thead>
<tr>
<th>Bullish Case</th>
<th>Bearish Case</th>
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<tbody>
<tr>
<td>• Continues to expand in volume with emerging brands and acquisitions</td>
<td>• Weak cyclical trend for luxury goods companies, lower growth and margin</td>
</tr>
<tr>
<td>• New brands emergence</td>
<td>• Loss of market share to competition</td>
</tr>
<tr>
<td>○ Marc Jacobs</td>
<td>• Infection resurgence, fewer tourists and extended period of lockdown leads to a slowdown in sales</td>
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<tr>
<td>• Acquisitions</td>
<td>○ Lower demand</td>
</tr>
<tr>
<td>○ Tiffany</td>
<td></td>
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<tr>
<td>• Transition to e-commerce</td>
<td></td>
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</table>
SWOT Analysis

Strengths
- Best-in-class brand management
  - History and culture
- Strong diversified brand portfolio
  - Premium brands (Dior, Vuitton)
  - High variety of brands/products
  - Geographically diversified
- High profitability
  - High margin
- Vertical integration

Weaknesses
- Cyclicality of the industry
  - Increased sensitivity to recession
  - Lower consumption periods
- High dependence on a few names
  - Louis Vuitton, Dior, Sephora, Bulgari

Opportunities
- Global economic recovery
  - Asia recovery
  - Tourism growth
- New brands and acquisitions
  - Sector consolidation
- E-Commerce
  - Social Media to maintain brand visibility
  - New customers
- Innovation
  - Revamping brand image
- Higher prices

Threats
- Weak cyclical environment
  - Extended period of uncertainties
  - Low travel volumes (selective retailing)
  - Stores closure
- Macro issues
  - US-China / US-Europe trade wars
- Brand management issues
  - Lack of success
  - Image impacted by media (scandal...)
- Counterfeiting products
- Increasing price of raw materials
- Increased competition
- FX volatility

Comp Sheet

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<thead>
<tr>
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<tbody>
<tr>
<td>LVMH</td>
<td>241.8</td>
<td>60.1</td>
<td>32.9</td>
<td>16.3</td>
<td>4.0</td>
<td>4.4</td>
<td>16%</td>
<td>65%</td>
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<td>Hermes</td>
<td>91.5</td>
<td>7.7</td>
<td>54.2</td>
<td>28.1</td>
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<td>19%</td>
<td>69%</td>
<td>31%</td>
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<td>Kering</td>
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<td>17.8</td>
<td>26.9</td>
<td>14.7</td>
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<td>5.4</td>
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<td>Richemont</td>
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<td>36.1</td>
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<td>60%</td>
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<td>Tiffany</td>
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<td>4.4</td>
<td>32.6</td>
<td>17.0</td>
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<td>3.9</td>
<td>11%</td>
<td>62%</td>
<td>14%</td>
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<td>Swatch Group AG/The</td>
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<td>8.3</td>
<td>32.4</td>
<td>10.1</td>
<td>1.6</td>
<td>1.5</td>
<td>3%</td>
<td>72%</td>
<td>7%</td>
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<tr>
<td>Moncler</td>
<td>10.9</td>
<td>1.8</td>
<td>31.5</td>
<td>14.0</td>
<td>5.8</td>
<td>5.8</td>
<td>18%</td>
<td>76%</td>
<td>27%</td>
</tr>
<tr>
<td>PRADA SpA</td>
<td>10.4</td>
<td>3.6</td>
<td>78.4</td>
<td>12.5</td>
<td>3.0</td>
<td>3.9</td>
<td>4%</td>
<td>73%</td>
<td>8%</td>
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<tr>
<td>Tapestry Inc</td>
<td>4.8</td>
<td>5.0</td>
<td>9.0</td>
<td>5.3</td>
<td>0.9</td>
<td>1.5</td>
<td>23%</td>
<td>69%</td>
<td>14%</td>
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<tr>
<td>Salvatore Ferragamo SpA</td>
<td>2.4</td>
<td>1.5</td>
<td>4993.2</td>
<td>11.3</td>
<td>1.9</td>
<td>2.4</td>
<td>0%</td>
<td>64%</td>
<td>3%</td>
</tr>
<tr>
<td>Tod’s SpA</td>
<td>1.0</td>
<td>1.0</td>
<td>na</td>
<td>13.4</td>
<td>1.1</td>
<td>1.8</td>
<td>-11%</td>
<td>75%</td>
<td>-7%</td>
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</tbody>
</table>
A few Houses owned by LVMH

- **LOUIS VUITTON**
  - Since 1854

- **CHRISTIAN DIOR**
  - Since 1947

- **GIVENCHY**
  - Since 1952

- **KENZO**
  - Since 1970

- **BERLUTI**
  - Since 1960

- **LOEWE**
  - Since 1840

- **SEPHORA**
  - Since 1969

- **LE BON MARCHÉ RIVE GAUCHE**
  - Since 1832

- **DFS**
  - Since 1960
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