

# Moët Hennessy Louis Vuitton: LVMH

Ala Saidi

**Sector:** Consumer Discretionary  
**Industry:** Textiles, Apparel and Luxury Goods  
**Current Price:** \$249.50  
**Target Price:** \$293.24

**Company Description:** LVMH Moët Hennessy Louis Vuitton SE is a luxury goods company. Its business activities are divided into various business groups, including Wines & Spirits, Fashion & Leather Goods, Perfumes & Cosmetics, Watches & Jewelry, Selective retailing and Other activities. The Company has approximately 70 brands and over 3,950 stores around the world. It produces still and sparkling wines from various wine-growing regions, as well as whiskey. The Fashion & Leather Goods business group includes brands, such as Louis Vuitton, Fendi, Donna Karan, Loewe...It focuses on the perfumes, make-up and skincare business, and offers a range of brands, including Christian Dior, Guerlain and Kenzo. The Watches & Jewelry sector operates in two segments: high-quality watchmaking, and jewelry and high jewelry.

## BUY

**Current Price:** \$249.50  
**Target Price:** \$293.24  
**Market Cap:** 125.308B  
**Average volume:** 648,880K  
**Gross margin:** 66.33%  
**EPS:** 11.92  
**EBT Margin:** 20.08%



## Thesis:

LVMH reported excellent results since their first merger. During the last Quarter LVMH recorded an outstanding financial marks with a double-digit increase in both revenue and profit. Due to the standards of the quality and creativity that LVMH offers, in addition to their strategy of acquiring more brands and expanding their stores throughout the world; the company will indeed keep attesting remarkable performance in the long-term.

## Catalysts:

- Short Term(within the year): Growth in EU, US and Asia
- Long Term (3+): Higher growth in all the segments.
  - Acquiring more luxury brands
  - Expanding more in the Asian market and throughout the world

## Business Overview:



LVMH Moët Hennessy Louis Vuitton is the world's largest luxury goods company, with brands that are bywords for the good life and everything showy.

LVMH makes wines and spirits (Dom PERIGNON, Moët & Chandon, Veuve Clicquot, and Hennessy), perfumes (Christian Dior, Guerlain and Givenchy), cosmetics (Nude, Fresh, and Benefit), fashion and leather goods (Donna Karan, Givenchy, Kenzo, and Louis Vuitton), and watches and jewelry (TAG Hauer, Bulgari). LVMH's selective retail division includes Sephora cosmetics stores, Le Bon Marche Paris department stores, and 61% of DFS Group (duty-free shops). Chairman Bernard Arnault, the richest man in France and his family own about 46% of LVMH through Group Arnault. LVMH acquire Christian ; Dior in a \$12 billion in 2017.

## Mergers and Acquisition:



LVMH started their merger history in year 1987; a \$4 billion merger was effected between Louis Vuitton with Moët-Hennessy, which allowed LV to expand its investments in the luxury business, while saving Moët-Hennessy from the threat of takeover. Later on, in 1988 LVMH acquired Givenchy and Berluti, this acquiring expansion on luxury brands continued until 2017 when the company has acquired Christian Dior \$13.1 Billion deal.

In 2016, LVMH acquired Germany luxury baggage Rimowa for 640 million. The Acquisition increased LVMH's exposure to the growing luxury tourism market.

In 2018 LVMH's investment arm L Catterton acquired US HVAC Airxcel. The company produces heating, ventilation and related appliances for RVs, classrooms, and telecommunications enclosures under brands including Coleman-Mach, MaxxAir, Suburban, Dicor and more.

## Financial Performance:

LVMH Moët Hennessy Louis Vuitton, the world's leading luxury products group, recorded revenue of €42.6 billion in 2017, and an increase of 13% over the previous year. Organic revenue growth was 12%. All business groups recorded double-digit organic growth with the exception of Wines and Spirits, whose growth in the second half was limited by supply constraints. With organic revenue growth of 11%, the trend seen since the beginning of the year continued into the fourth quarter. Profit from recurring operations reached €8 293 million in 2017, an increase of 18%. Operating margin reached 19.5%. Group share of net profit was €5 129 million, representing growth of 29%.

Euro millions	2016	2017	% change
Revenue	37 600	42 636	+ 13 %
Profit from recurring operations	7 026	8 293	+ 18 %
Group share of net profit	3 981	5 129	+ 29 %
Free cash flow*	3 974	4 754	+ 20 %
Net financial debt	3 265	7 178	+ 120 %
Total equity	27 903	30 260	+ 8 %

\* Before available for sale financial assets and investments, transactions relating to equity and financing activities

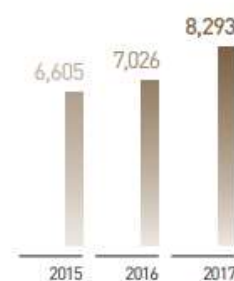
Revenue by geographic region of delivery



Revenue by invoicing currency



Profit from recurring operations  
(EUR millions)



## Ownerships:

Institutions own 68.51% of LVMH Float.

Investment advisors own 26.37% of the float with Capital Group Cos Inc. being the top holder with only 2.02%. BlackRock Inc. come on the second place owning 1.52% of the float. Followed by Vanguard Group Inc. who also own 1.38%.

Holding company own 69.76% of the total float.

Investment advisors have been adding to their positions, there is change in the rate of +0.63

between the past year and the current year. Which mean that they see the stock as a safe haven within the industry.

54) Ownership Type	12/24/17	Curr	Change
41) Holding Company	70.52	69.76	-0.76
42) Investment Advisor	25.74	26.37	+0.63
43) Sovereign Wealth Fund	1.61	1.73	+0.12
44) Government	0.9	0.89	-0.01
45) Pension Fund	0.71	0.56	-0.15
46) Individual	--	0.24	--
47) Insurance Company	0.16	0.19	+0.03
48) Bank	0.08	0.11	+0.03
49) Hedge Fund Manager	0.09	0.05	-0.04

## Performance by segment:

**Fashion and Leather Goods:** the group achieved organic revenue growth of 13% in 2017. On a reported basis, revenue growth was up 21% and profit from recurring operations increased by 27%. Louis Vuitton continued to demonstrate outstanding creativity across all of its businesses, maintaining a good balance between innovations and the strengthening of its iconic product lines. New products arising from the collaborations with the artist Jeff Koons as well as the Supreme brand, the launch of the brand's first smart watch and the inauguration of the Maison Louis Vuitton Vendôme in Paris were among the key events of the year. Christian Dior Couture, whose business became fully consolidated within the Group in the second half, achieved an excellent performance.

**Perfumes & Cosmetic:** the group recorded organic revenue growth of 14%. On a reported basis, revenue growth was 12% and profit from recurring operations increased by 9%. Perfumes Christian Dior grew market share in all regions, driven by the worldwide success of its fragrance *Sauvage* and the vitality of its iconic perfumes *J'adore* and *Miss Dior*. The makeup segment grew strongly too.

**Watches & Jewelry:** the group recorded organic revenue growth of 12%. On a reported basis, revenue growth was 10% and profit from recurring operations increased by 12%. Bvlgari achieved an excellent performance and continued to gain market share thanks to the strength of its iconic lines *Serpenti*, *B.Zero1*, *Diva* and *Octo*. Growth was particularly strong in Asia, the United States and Europe.

**Selective Retailing** business group recorded organic revenue growth of 13%. On a reported basis, revenue growth was 11% and profit from recurring operations was up 17%. Sephora continued to gain market share. Its growth was particularly strong in North America and Asia. A new territory, Germany, was inaugurated, while Sephora expanded its online presence in Scandinavia, Mexico and the Middle East. The year 2017 was a positive turning point for DFS, with better-positioned markets, especially in the second half. The new stores in Cambodia and Italy continued to grow.



### Revenue by business group:

Euro millions	2016	2017	% change 2017/2016	
			Reported	Organic*
Wines & Spirits	4 835	5 084	+ 5 %	+ 7 %
Fashion & Leather Goods	12 775	15 472	+ 21 %	+ 13 %
Perfumes & Cosmetics	4 953	5 560	+ 12 %	+ 14 %
Watches & Jewelry	3 468	3 805	+ 10 %	+ 12 %
Selective Retailing	11 973	13 311	+ 11 %	+ 13 %
Other activities and eliminations	(404)	(596)	–	–
<b>Total LVMH</b>	<b>37 600</b>	<b>42 636</b>	<b>+ 13 %</b>	<b>+ 12 %</b>

### Profit from recurring operations by business group:

Euro millions	2016	2017	% change
Wines & Spirits	1 504	1 558	+ 4 %
Fashion & Leather Goods	3 873	4 905	+ 27 %
Perfumes & Cosmetics	551	600	+ 9 %
Watches & Jewelry	458	512	+ 12 %
Selective Retailing	919	1 075	+ 17 %
Other activities and eliminations	(279)	(357)	–
<b>Total LVMH</b>	<b>7 026</b>	<b>8 293</b>	<b>+ 18 %</b>

### Dividends:

At the Annual Shareholders' Meeting on April 12, 2018, LVMH will propose a dividend of €5 per share, an increase of 25%. An interim dividend of €1.60 per share was paid on December 7 of last year. The balance of €3,40 per share will be paid on April 19, 2018.



## Competition:

Retailers offering products that are unique have a distinct and absolute advantage over their competitors. LVMH have had great results in 2017 especially in Q4. LVMH has a strong image and a high value. However, the fact that the company holds 7 different sectors, cannot really be compared to other companies that operates in a single sector. Yet as seen below, the main competitors of LVMH are Christian Dior, KERING, Hermes International and Prada. LVMH takes the first position comparing a market cap of 126.02B vs 59.64B Christian Dior that comes on the second place, the gap between each of the competitors market cap is huge. YoY revenue growth is 13.39% for LVMH, in addition to a YoY EPS growth of 28.61% that is relatively median in contrast to other competitors.

Segment		Revenue %	Metric	MC	Low	Comp Range	High		
Whole Firm	100%	<div><div></div></div>	P/E	20.86	20.86	<div><div></div></div>	37.97		
Apparel, Footwear & A...	45%	<div><div></div></div>	EPS 1 Yr Gr	28.61	-25.57	<div><div></div></div>	118.02		
Other Spec Retail - DI...	31%	<div><div></div></div>	Rev 1 Yr Gr	13.39	-13.85	<div><div></div></div>	24.97		
Household Products	13%	<div><div></div></div>	ROE	21.29	7.54	<div><div></div></div>	28.13		
Beverages	12%	<div><div></div></div>	Chg Pct 1M	-6.20	-7.02	<div><div></div></div>	1.46		
<div><div></div> MC FP <div></div> Median</div>									
<div>OverviewComp SheetsMarketsEPS PreviewOwnershipCreditCustom</div>									
Name (BICS Best Fit)	Mkt Cap (EUR)	Last Px	Chg Pct 1D	Chg Pct 1M	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y	P/E	ROE	Dvd 12M Yld
Median	50.41B	362.85	0.74%	-1.82%	11.97%	28.85%	29.62	21.09%	2.03%
00LVMH MOET HENNESSY ...	126.02B	249.50	0.65%	-6.20%	13.39%	28.61%	20.86	21.29%	2.16%
01CHRISTIAN DIOR SE	59.64B	330.40	1.51%	-0.99%	10.54%	29.09%	23.34	20.88%	1.63%
02KERING	49.92B	395.30	1.13%	0.53%	24.97%	58.71%	22.91	22.60%	1.52%
03HERMES INTERNATIONAL	50.90B	482.10	0.84%	-2.65%	6.67%	12.86%	37.97	28.13%	1.89%
04PRADA S.P.A.	7.62B	2.97	-0.38%	-7.02%	-13.85%	-25.57%	35.90	7.54%	2.66%
05PUMA SE	6.80B	451.00	-0.66%	1.46%	14.04%	118.02%	37.84	10.69%	2.77%
(Accounting Adjustments: Adjusted for Abnormal Items When Applicable)								10 Analyze List	

## Conclusion:

In conclusion, I recommend LVMH stock as a buy. The company has been having excellent results especially in 2017, these results reflected the strong desirability of LVMH brands and the effectiveness of the company's strategy. LVMH had a double-digit increase in both revenue and profit from their recurring operations. There was a strong growth in Asia and US and an outstanding momentum at LV, the profitability remained at an exceptional level. In addition to an excellence performance at all the sectors. Cash from operations before changed in working capital was 5.5B euros, an increase of 21% and a net to debt ratio of 23% at the end of Q4. LVMH is expected to keep showing a great results on the long term, in reflection to their expansion in Asia and EU and following their strategy of acquiring more luxury brands into their sectors.



LVMH Moët Hennessy Louis

Vuitton S.E. (LVMH)

# CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Ala saidj

12/9/2018

Current Price:

\$253.85

Intrinsic Value

\$277.73

Divident Yield:

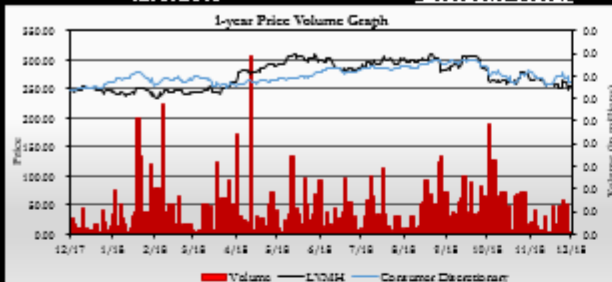
0.0%

Target Price

\$293.24

Target 1 year Return: 15.52%

Probability of Price Increase: 9%



Description	
LVMH Moët Hennessy Louis Vuitton S.E. operator as a luxury products company.	
General Information	
Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	May 8, 2018
Next earnings date	January 25, 2019
Market Assumptions	
Estimated Equity Risk Premium	6.97%
Effective Tax Rate	20%

Market Data	
Market Capitalization	\$125,307.91
Daily volume (mil)	0.00
Shares outstanding (mil)	0.00
Diluted shares outstanding (mil)	504.04
% shares held by institutions	0%
% shares held by investment managers	0%
% shares held by hedge funds	0%
% shares held by insiders	0.00%
Short interest	0.00%
Days to cover short interest	0.00
52-week high	\$313.65
52-week low	\$232.90
Volatility	22.91%

Quarter ending	Part Earnings Surprise
6/30/2017	-3.32%
9/30/2017	-6.70%
12/31/2017	9.00%
3/31/2018	0.63%
6/30/2018	-4.33%
Mean	-0.94%
Standard error	1.0%

EBITDA	
6/30/2017	-738.33%
9/30/2017	N/A
12/31/2017	N/A
3/31/2018	N/A
6/30/2018	N/A
Mean	-738.33%
Standard error	1.0%

Market and Credit Scores	
Recommendation (STARS) Value--0	
Recommendation (STARS) Description--0	
Quality Ranking Value--0	
Quality Ranking Description--0	
Short Score--0	
Market Signal Probability of Default % (Non-Rating)--0.77%	
Credit Model Score (Non-Rating)--a+	

Management	
Arnault, Bernard	Chairman & CEO
Bazire, Nicolas	Senior VP of Development & Acquisitions and
Belloni, Antonio	Group MD & Director
Garcia, Delphine	Director
Guiany, Jean-Jacques	Chief Financial Officer
Guempero, Chantal	Executive Vice President of Human Resource

Total Compensation Growth	
Chairman & CEO	-3.41% per annum over 5y
Senior VP of Development & Acquisitions and	0.69% per annum over 5y
Group MD & Director	72.25% per annum over 5y

Industry and Segment Information	
LTM Revenue by Geographic Segm	LTM Revenue by Business Segments
France--10%	Wines & Spirits--12%
Europe (Excluding France)--19%	Fashion & Leather Goods--36%
United States--25%	Perfumes & Cosmetics--13%
Japan--7%	Watches & Jewelry--9%
Asia (Excluding Japan)--28%	Selective Retailing--31%

Profitability	
Return on Capital (GAAP)	12.7%
Operating Margin	18%
Revenue/Capital (GAAP)	0.70
ROE (GAAP)	22.6%
Net margin	14.1%
Revenue/Book Value (GAAP)	1.606433078

LVMH Historical	
Return on Capital	10.53%
Operating Margin	15.97%
Revenue/Capital	0.66
ROE	21.9%
Net margin	13.6%
Revenue/Book Value	1.61

Peer's 5 forces (Scores are percentiles)	
Bargaining Power of Suppliers--MIDDLE TIER 36	
Bargaining Power of Customers--MIDDLE TIER 64	
Threats of New Competition--LOWEST TIER 29	
Intensity of Existing Rivalry--MIDDLE TIER 42	
Threats of Substitutes--HIGHEST TIER 109	

Invested Funds	
Cash/Capital	-0.3%
NWC/Capital	12.2%
Operating Assets/Capital	62.8%
Goodwill/Capital	25.3%

LVMH Historical	
Cash/Capital	9.2%
NWC/Capital	10.9%
Operating Assets/Capital	58.8%
Goodwill/Capital	22.0%

Peer's 5 forces (Scores are percentiles)	
Bargaining Power of Suppliers--MIDDLE TIER 36	
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Threats of Substitutes--HIGHEST TIER 109	

Capital Structure	
Total Debt/Market Capitalization	0.50
Cost of Debt	0.8%
CGFS Rating (Fixed, Variable, and default Probability)	B
WACC	7.2%

LVMH Historical	
Total Debt/Market Capitalization	0.45
Cost of Debt	1.4%
CGFS Rating (Fixed, Variable, and default Probability)	B
WACC	8.2%

Peer's 5 forces (Scores are percentiles)	
Bargaining Power of Suppliers--MIDDLE TIER 36	
Bargaining Power of Customers--MIDDLE TIER 64	
Threats of New Competition--LOWEST TIER 29	
Intensity of Existing Rivalry--MIDDLE TIER 42	
Threats of Substitutes--HIGHEST TIER 109	

Forecast Assumptions	
Revenue Growth CAGR	8%
Average Operating Margin	33%
Average Net Margin	24%
Growth in Capital CAGR	15%
Growth in Claims CAGR	0%
Average Return on Capital	17%
Average Return on Equity	20%
Average Cost of Capital	7%
Average Cost of Equity	7%

