

Research on the investment value of LVMH - based on multiple valuation method

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Abstract. With the improvement of people's living standards, the luxury industry has attracted more consumers' attention, and then investors think that the luxury industry is profitable to invest in. Among them, LVMH owns more than 50 brands and is the largest luxury group in the world today. However, whether LVMH's current stock price and its value are reasonable still needs further calculation. Therefore, this research aims to study the investment value of LVMH. Thus, the research observes the market performance of LVMH for the fiscal year 2021, identifies the competitors of LVMH by comparing the revenue, profit, net income, etc, and finally collects the P/E Ratio and the EV/EBITDA of LVMH and its competitors to analyze the valuation of LVMH by the Multiples Valuation Method. The study finds that LVMH's stocks are under-valued. This may be due to the limitations of the calculation method used. In the future, more computational methods can be used to enhance the accuracy of the calculation.

Keywords: LVMH; Luxury industry; Multiple valuation; LVMH value.

1. Introduction

Under the economic recession caused by the coronavirus, the tertiary industry expressed a downward trend, among which, however, the luxury industry showed rapid growth during 2021, especially for the Asian market. According to A Year of Contrasts for China's Growing Personal Luxury Market 2021, published by BAIN&COMPANY, after the luxury goods industry achieved 48% growth in 2020, China's personal luxury goods market is expected to achieve 36% growth in 2021, nearly doubling its overall size compared to 2019. The strong market performance caught the attention of investors in this industry [1]. LVMH, the world's biggest luxury goods group, thus becomes the focus. From the Financial Report of LVMH in the Fiscal Year 2021, the group created a 44% of revenue increase up to 64.2 billion euros of yearly revenue and a 156% of net profit increase up to 12.036 billion euros. The successful financial status of LVMH can be attributed to its great strategy schemes, for the current Integration-policy [2]. From author Xin Haolin's point of view in Research on the continuous merger and acquisition behaviour of LVMH Group, Beijing University of Publications and Telecommunications, the vertical integration balances its value chains from production channel to distribution channel by targeting at right competitor company and increasing its monopoly power through malicious acquisitions. In addition, Research on the financial analysis and development strategy of LVMH, Chen Jing, Xiamen University shows that acquisition is an efficient approach for LVMH to reduce external pressures derived from competition, and to use much more long-term profit to offset the short-term financial shortage [3]. Moreover, LVMH also uses digital measures in strategies to drive growth, in Luxury Brand Outsiders: Understanding the Success of British and American Luxury Brands, Stephen A. Doyle & Christopher M. Moore, 06 October 2017, authors expressed a perspective in which the transferred technology, diversity of distribution channels and digitally advanced measures make a luxury brand come to success[4]. LVMH uses a digital risk management system and will provide an online platform for recruitment and e-commerce [5].

Due to the fantastic market performance and financial management, therefore, the financial analysis showed that LVMH had created 64.22 billion euros of revenue in 2021 which was 3.6 times more than its competitor Kering Group's annual revenue, and the profit margin of LVMH was 68.30%. While LVMH received lots of investments and the price of stock fluctuated a lot in 2021, there is no research about whether the investments in LVMH are right or not. Therefore, the question of whether the stock price of LVMH is fair is under debate. This research is carried out through a quantitative approach, multiple valuation method by calculating the P/E Ratio and the EV/EBITDA of LVMH, according to Shenyu Financial Network [6] and the Advantages, disadvantages and applicability of PE valuation method and PEG in Pablo (2991) [7]. And then researchers lead to the estimation of the stock price according to the database base and comparisons with different competitors. Hence the result can contribute to help investors to foster an investment profile over LVMH and its competitors, and further modify the future investment in LVMH.

2. Market Performances of LVMH

LVMH (Moët Hennessy Louis Vuitton) is a French-holding multinational corporation. Since it was formed in 1987, it has conglomerated over 130 luxury-goods brands like Louis Vuitton, Dior, Givenchy, and Tiffany&Co, during which it set branch stores in the word-wide and lied out six main departments: Fashion Group, Wines and Spirits, Perfumes and Cosmetics, Watches and Jewelry, Selective Distribution, and Other Activities. After over a hundred years of development, LVMH has now become the biggest luxury goods group in the world.

2.1 Market Performances of Main Departments

For the fiscal year 2021, firstly, the fashion and leather goods department increased its sales revenue by 46% (organically increased by 47%) to 30.896 billion euros. Secondly, the wine and spirits department increased sales revenue by 26% (organically increased by 26%) to 5.974 billion euros. Thirdly, the perfume and cosmetics department increased sales revenue by 26% (organically increased by 27%) to 6.608 billion euros. Moreover, the watch and jewellery department increased sales revenue by 167% (organically increased by 40%) to 8.964 billion euros. Finally, the boutique retailing department showed a 16% of sales increase (organic increase by 18%) to 11.754 billion euros.

Table 1. The market performances of LVMH's main departments in the fiscal year 2021

Department name	Fashion and leather goods	Wine and spirits	Perfume and cosmetics	Watch and jewellery	Boutique retailing
Nominal sales increase	46%	26%	26%	167%	16%
Organic sales increase	47%	26%	27%	40%	18%
Sales revenue (billion euros)	30.896	5.974	6.608	8.964	11.754

For the fashion and leather goods sector. The sales growth rate was particularly significant in the fourth quarter (Q4, 2021) with a year-on-year organic increase of 28% over 2020 and an organic increase of 51% over the same period in 2019. Moreover, the market share of LVMH Group's fashion and leather goods department had risen to about 21% from 16% before the epidemic, the record level of revenue and profitability was especially driven by the group's two largest brands ----Louis Vuitton and Christian Dior. For the wine and spirit's sector. Profit from recurring operations for Wines and Spirits was 924 million euros with a 68% increase compared to 2020. The annual sales volume of the department increased organically by 26% compared with 2020 and 9% compared with 2019. Especially, sales of champagne and cognac had increased rapidly compared with 2019. Moreover,

demand in the United States and Asia (especially China) was very strong, and Europe showed a rebounding trend due to the reopening of restaurants and the gradual recovery of regional tourism in Europe. For the watch and jewellery sector. The successful integration with Tiffany&Co since it had been taken over by LVMH in the middle of 2020 increased global attraction through innovation and cooperation. Tiffany&Co itself increased LVMH's entire watch and jewellery division to grow sales by 167% throughout the year. For the perfume and cosmetics sector. The sector grew organically by 27% throughout the year, which is relatively flat and stable compared with 2019. However, Profit from recurring operations was 393 million euros, because the perfume business rebounded strongly---Christian Dior's Sauvage perfume had been a great success around the world, and Miss Dior's perfume still performed well.

LVMH Group's main brands adhered to selective distribution strategies and improved online digital-selling platforms through their websites.

2.2 Geographical Market Performance of LVMH in Regionally Local Market

Overview, globally annual sales were 64.2 billion euros, with an increase of 44% and an organic increase of 36% compared with 2020. Sales in the fourth quarter (Q4, 2021) were 20.04 billion euros. The U.S. and Asian markets grew strongly throughout the year. Europe is gradually recovering and returning to the same level in 2019 in the fourth quarter. Outside Asia, LVMH listed the United States as the single country with the best sales performance. In the fiscal year 2021, by the end of December 2021, the United States Market created an organic growth of 44% compared with 2020 and 25% compared with 2019. Asia Market (excluding Japan) had organic growth of 37% compared with 2020 and 31% compared with 2019. Moreover, Japthe anise Market had organic growth of 29% compared with 2020 and organic growth of 5% compared with 2019. Finally, the European Market showed organic growth of 27% compared with 2020, and a decrease of 8% compared with 2019.

As figure 1 illustrates, Asia ranked first which accounted for 45 % of the whole revenue. Japan created 7% of the sales for LVMH which exceeds the value of France. In 2021, U.S. sales accounted for 25% of its total sales. And the European market underperformed, which accounted for 19% of the total sales, and within it, France itself created 5% of the world sales revenue. For the other markets which consisted of countries like Australia and Canada, market shares were about 11% of the world sales after summing up.

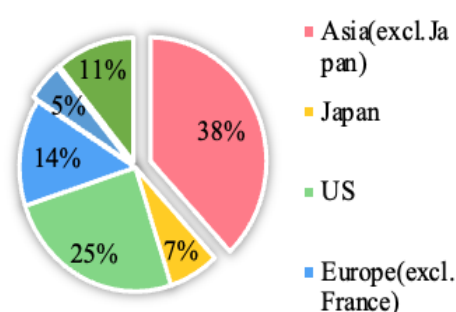


Figure 1. Geographic sales data for different regional markets

2.3 Risk Diversification of LVMH

LVMH has board businesses, so the risk is diversified. The luxury brands in LVMH (LV, Dior, Fendi, etc.) are more likely to be affected by external shocks such as COVID-19. However, the wine and spirit---another part of LVMH, is less likely to be affected when the leather goods and perfumes are sold badly. That is because wine is addictive. The consumers who have already been addicted to Hennessy's product would find it very hard to change their consumption pattern. LVMH also took over Tiffany to increase the business in jewellery.

The biggest competitor——Kering, is more risk-concentrated compared with LVMH. The single brand——Gucci, takes up 60% of revenue and 80% earnings of the whole group.

Even though COVID-19 has caused an undesirable effect on LVMH, the company was resilient to this crisis. The offline stores of LV increased from 4915 to 5003 around the world from 2019 to 2020, the figure then grew to 5559 in 2021.

3. Strategy analysis of LVMH

3.1 Strategy Schemes

With the development of LVMH's global business, the group realizes the importance of its strategy schemes which are lied out in form of the current strategy and future ones. The current strategy in 2021 includes the LIFE 360 program and Health safety & covid policy, which greatly contribute to the successful performance of LVMH in the post-covid period. And the future strategy which has been named Craft the future also shows fundamental work for LVMH to increase its profitability while going to the world market.

Table 2. The basic information about strategy schemes

Classification	Name of the item	Keywords
Current Strategy	LIFE 360 program	-Sustainable raw material -Protecting biodiversity
	Health safety & Covid policy	-Risk management -Free mask supply
	Integration policy	-Vertical Integration -Investment in innovation -A balanced international portfolio
Future Strategy	Craft the future	-Corporate social responsibility -Recruitment scheme -Platform available

3.2 Current Strategy

LIFE 360 is initiated with precise targets designed to forge a new alliance between nature and creativity: products in harmony with nature that respect and preserve biodiversity and the climate, engaging and motivating all stakeholders. The group thus lay down objectives for taking corporate social responsibility like improving the environmental performance of all its products by applying the highest standards for sourcing raw materials or even having ambitious goals for eco-design & engagement with reduction of energy consumption.

Furthermore, the objectives were supported by four strategic priorities: Creative Circularity (Packaging will follow this same trajectory, with a target of zero plastic from virgin fossil oil by 2026), Transparency (By 2030, 100% of the G-Group's strategic supply chains will integrate dedicated trace-ability system), Biodiversity (The Group has begun to introduce regenerative agriculture programs with a target of 5 million hectares of habitat for flora and fauna preserved by 2030) and Climate (By reducing greenhouse gases from energy consumption at its sites and stores by 50% by 2026 (baseline 2019) thanks to a policy of 100% renewable energy. For health safety & covid policy, LVMH group considers itself responsible for providing a safe and fulfilling work environment for all of its employees. And with a shortage of medical materials in France, LVMH contributed to the production of masks. Because of this policy, LVMH harvested a good reputation which intangibly helps it to maintain the stock price during the covid. For the integration policy, LVMH has strategically expanded physically with selective retailing and also via acquisitions of local luxury

brands. This portfolio approach allows the group to stay balanced without depending on a particular market in one area. The group uses vertical integration to control its value chains, including production and distribution brands like the takeover of Tiffany & Co in 2020. And it invests in innovation to foster organic long-term growth, including product innovations, creative teams and designers. For example, it took over innovative start-ups such as Fenty Beauty by Rihanna.

3.3 Future Strategy

Within a difficult economic context for younger generations, LVMH is accelerating its HR and Corporate Social Responsibility (CSR) policy to foster the Craft the future scheme, particularly in terms of training and access to employment. By the end of 2023, the Group plans to employ 25,000 young people. The Group is opening up access to its educational platform, available at INSIDELVMH.com, for all young people around the world, to learn more about the various luxury trades and prepare for roles in the industry.

4. Competitor Analysis of LVMH

LVMH's main competitors are Kering group, Hermes and Ralph Lauren according to their comparable market shares and financial performances as illustrated below.

Firstly, this paper compares the financial indicators of LV with Kering Group. Kering's Comparable sales surged 31.9% to 5.41 billion euros (\$5.89 billion) in the fourth quarter of 2021, helped by strong performances from brands such as Gucci and Yves Saint Laurent. Sales at the Gucci brand rose by 31.6% to 3.07 billion euros, surpassing pre-pandemic levels. Sales of the Saint Laurent brand rose 47%, the fastest growth of any Kering brand. Moreover, the full-year sales reached 17.645 billion euros (about 19.2 billion U.S. dollars), with a year-on-year increase of 34.7%.

Secondly, this paper compares the financial indicators of LV with Hermes. Hermes' Fourth-quarter revenue in 2021 was 2.38 billion euros (about 2.59 billion U.S. dollars), compared with 2.101 billion euros in the same period of 2020. Revenue in 2021 was 8.982 billion euros (about 9.78 billion U.S. dollars), compared with 6.389 billion euros in 2020. And the net profit for the year was 2.445 billion euros, compared to 1.385 billion euros in the previous year. Among them, the total revenue in Europe was 2.141 billion euros, the total revenue in Asia was 5.227 billion euros, and the total revenue in the Americas was 1.458 billion euros.

Lastly, this paper compares the financial indicators of LV with Ralph Lauren, the Quarterly net revenue of Ralph Lauren was \$1.815 billion, compared with \$1.433 billion in the same period last year. And the quarterly net profit was \$218 million, compared to \$120 million in the same period last year.

Table 3. Illustration of LVMH and its competitors' market performances

	LVMH	Kering	Hermes
Revenue (billion€)	64.22	17.64	8.982
Increase rate of revenue	44%	35.2%	40%
Profit (billion €)	171.5	50.17	24.45
Valuation (billion\$)	310.7	65.1	117.9
Net Income (billion €)	12.7	3.2	2.4
Number of Stores	Around 5.4 thousand	Around 1.3 thousand	Around 311

5. Financial analysis of LVMH

5.1 Revenue

The data of revenue change from 2018 to 2019 are collected showing a fluctuation. The figure increased from 46.83 billion euros in 2018 to 53.63 billion euros in 2019. Nevertheless, 2020

witnessed a sharp decline to a low of 44.65 billion euros due to the impact of COVID-19. The revenue then increased to 64.22 billion euros in 2021.

LVMH experienced a high growth rate in sales. From 2020 to 2021, the revenue growth rate ranked at 43.8%. However, to offset the influence of COVID-19, the growth rate from 2019 to 2021 was used. The figure increased by 19.7% which was still impressive.

LVMH has broad businesses, but the main income resource is luxury goods. Thus, Kering and Hermes which take up the highest market share in luxury goods are considered the main competitors of LVMH. However, the revenue gained by Kering was around 15 without significant growth and the revenue gained by Hermes was around 6, which could find large gaps between these companies and LVMH.

5.2 Profit margin

The profitability of LVMH was enhanced from 2018 to 2021. In terms of gross margin, it increased from 64.45% to 68.30% with a growth of 3.85% from 2020 to 2021. The growth rate was 2.07% if started in 2019. In terms of net margin, it grew from 10.53% to 18.74% with a growth rate of 8.21%. The growth rate was 5.38% if started in 2019.

6. Valuation of LVMH

6.1 Multiples Valuation Method

The multiples valuation is applied to estimate the value of LVMH in this research. The main idea of this method is that companies with similar attributes should have similar values. In this case, one company could be valued by its similar peers. The general formula of value is:

$$V_{\text{Firm}} = M_X \cdot X_{\text{Firm}} = \frac{V}{X_{\text{Average}}} \cdot X_{\text{Firm}} \quad (1)$$

Where M_X is multiple in terms of a trait, X is the quantity of a certain characteristic of those companies with similar attributes and $\frac{V}{X_{\text{Average}}}$ is the average of a firm's competitors' value to the amount of characteristic X . Most common firm valuation multiples are price-earnings ratio (P/E) and EV/EBITDA, which would be employed in this study to evaluate the stock price of LVMH.

6.2 Calculation

6.2.1 P/E Ratio as the Multiple

The research selects LVMH's and its competitors' P/E ratios on July 9, 2022, and calculated the average P/E ratio of the competitors as shown in Table 1. In addition, due to the lack of the latest EPS, this research adopts the EPS in 2021, which is 10.69, to estimate LVMH's stock price. The formula is:

$$P = \frac{P}{E_{\text{Average}}} \cdot \text{EPS} = 26.13 \cdot \$10.69 = \$279.33 \quad (2)$$

Table 4. The Data of P/E of LVMH and its Competitors

	LVMH	Kering SA	RL	Hermes International SA	Competitors' Average P/E
P/E ratios	25.38	20.08	11.55	46.76	26.13

6.2.2 EV/EBITDA as the Multiple

The data of EV/EBITDA on July 9, 2022, and the EBITDA of LVMH in 2021 are selected, the average EV/EBITDA of the competitors is calculated as shown in Table 2, and then the EV of LVMH and its stock price could be computed as follows:

$$EV = \frac{EV}{EBITDA_{Average}} \times EBITDA \quad (3)$$

$$= 15.18 \times \$23.70 \text{ Billion} = \$359.77 \text{ Billion}$$

$$P = \frac{EV}{Shares} = \frac{\$359.77 \text{ Billion}}{2,513.52 \text{ Million}} = \$143.13 \quad (4)$$

Table 5. The Data of EV/EBITDA of LVMH and its Competitors

	LVMH	Kering SA	RL	Hermes International SA	Average EV/EBITDA
EV/EBITDA	14.15	11.08	7.02	27.44	15.18

6.3 Result and Discussion

The stock price of LVMH is under-valued regardless of which method of calculation. When P/E is used as the multiple, the calculated price is 279.33 dollars, which is greater than the real stock price on July 9, 2022, at 124.12 dollars. As a result, the stock price is undervalued. Besides, when EV/EBITDA is used as the multiple, the calculated price is 143.13 dollars, which is also greater than the real stock price on July 9, 2022, at 124.12 dollars. As a result, the stock price is still undervalued.

7. Conclusion

The study finds that the stock price of LVMH is under-valued regardless of which method of calculation. This can be explained by the following facts. The price-earnings ratio is used to measure whether the stock price is reasonable has some inherent shortcomings, including: (1) the company's risks are ignored; (2) the P/E ratio cannot take into account the long-term earnings, and it is difficult to evaluate cyclical and loss-making enterprises; (3) P/E valuation ignores the amortization depreciation, capital expenditure and other important capital projects to maintain the operation of the company; (4) The earnings multiplier does not explicitly take into account the cost of future growth [11]. Besides, the EBITDA also has several limitations, including: (1) the changes in the working capital requirements (WCR) are not included; (2) the capital investments are not considered [12].

This study uses Multiples Valuation to calculate the current value of stocks. This helps investors make better decisions when buying and selling stocks. However, only two calculations were included in this study. As shown above, when P/E is used, the data gap between the price calculated and the real price is large. In the future, more calculation methods, such as the EV/EBIT, can be used to value stocks to facilitate the in-depth study of this issue.

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