Business Situation and Evaluation of LVMH

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Abstract. This article contributes to investigating the financial situation and company value of Louis Vuitton Moët Hennessy. Referring to the financial reports of LVMH and its luxury industry competitors Hermès, Kering, and Richemont for 2019-2022, multiples are calculated to make comparisons. There is an analysis of LVMH's business statistics such as earnings, debt ratios, payback periods, etc. Two main methods are used in the evaluation process. The first method, called EBITDA/EV, is also considered a multiple of the business value and is primarily used to assess a company's profitability. The second valuation is based on the price-to-earnings ratio and forecasted future earnings. It is used to see if LVMH's stock price is too high or too low. The results show that LVMH is overrated. The researchers also elaborate on the impact that overvalued prices can have on investors' decision-making, and make recommendations on the future development of LVMH in terms of product manufacturing, brand image maintenance, and sales channels expansion.

Keywords: Louis Vuitton Moët Hennessy; LVMH; EBITDA/ EV; P/E ratio; Multiple evaluations.

1. Introduction

LVMH, known as LVMH Moët Hennessy Louis Vuitton, is a French multinational luxury goods group based in Paris, France, which was formed in 1987 by the merger of Louis Vuitton and Moët Hennessy [1]. In the 1980s Bernard Arnault, a French investor, created a wave of new high-end luxury brands in the same vein as Kering and Richemont. At the end of 2020, LVMH will have the largest market capitalization in France in the luxury sector [1]. LVMH's analysis and research led it to make acquisitions at a time when other companies were experiencing financial crises and negative effects, such as the announcement on 7 January 2021 that Tiffany & Co. had been acquired by LVMH for $16.2 billion, making it the largest acquisition in LVMH's history. LVMH seized this opportunity: due to the epidemic affecting LVMH seized this opportunity: as the epidemic had affected Tiffany's share price and market capitalization, it was able to undercut the price and buy it. At the end of 2020, Louis Vuitton will be the largest company in the French luxury sector by market capitalization. LVMH's analysis and research have led it to make acquisitions at a time when other companies are experiencing financial crises and negative effects, such as 2021 The announcement on 7 January that Tiffany & Co. has been acquired by LVMH for $16.2 billion, making it the largest acquisition in LVMH's history. LVMH seized this opportunity: it was able to acquire Tiffany at a low price due to the epidemic affecting LVMH: it was able to acquire Tiffany at a low price due to the epidemic affecting Tiffany's share price and market capitalization.

We will then compare LVMH with three other companies that were chosen as competitors to LV because of their high brand recognition. LVMH is a very famous international luxury brand, this brand is Louis Vuitton. There are more than 50 brand partners in the LVMH brand, including major brands such as LV, Givenchy, and Dior, in addition to having a high reputation in the wine sector, with a wide range of boutique wines that are favorites of the uppermost classes, better known as wine and champagne. Kering has a range of internationally renowned brands (including luxury, sports, lifestyle, and retail brands) sold in over 120 countries [2]. Hermès is a French luxury goods company whose main products include leather and horse products, women's silk products, and men's silk products. Hermès is ranked 72nd in the World Brand Lab's Top 500 brands of the world for 2020 [2].

Richemont is involved in the following business areas: jewelry, watches, accessories, and fashion, and since 2004 it is the second largest luxury goods company in the world by turnover, ranking between LVMH and PPR. All four luxury companies include high-value products and have a consumer base of high-net-worth individuals.

Following a series of surveys, we have compiled data for these four companies for 2021. I believe that the private equity approach is better because it applies data from the last three years to the valuation, EBITDA only applies to 2021, there is less comparable data and there are opportunities in the process. the data required for the PE calculation is readily available, simple to use and allows for broad reference comparisons; PE directly relates the purchase price of an asset to the current level of earnings on the asset. EBITDA, which reflects the true operating position of the company. It is particularly useful to assess the EBITDA of a loss-making company whose books need to be refinanced to quickly check whether the financing company will be able to repay the interest on that financing.

However, measuring the value of the business investment has the limitations of inflating profits, underestimating valuations, and ignoring changes in working capital and increases in replacement capital, so it is more prudent to use other measures (such as operating cash flow).

2. The balance sheet of LVMH

2.1 Financing channels

It is clear that LVMH issued a lot of shares from 2020 to 2021. There are 2 financing channels, namely the debt capital channel and the equity capital channel. The gearing ratio for 2019, 2020, and 2021 where 0.48,

0.53 and 0.5 respectively. The calculation shows that the ratio of debt capital to the total corporate capital structure is large and the debt risk is too high. This indicates that LVMH prefers the debt capital channel to raise funds. Although the financing risk of LVMH is high, because they need to repay regularly and pay fixed interest, the use of funds is more restricted. But control of the company will not be diffuse. Although there was more common equity financing in 2021, the gearing ratio of 0.5 was still not optimistic. LVMH can issue more ordinary shares, payback loans, and debentures to improve.

2.2 balance sheet

Through the balance sheet, we can see that the company’s intangible assets and goodwill have increased significantly. This is mainly because LVMH has made a lot of acquisitions. Château Galoupet, acquired in 2019, continued its transition to organic wine growing. Château d’Esclans’ range of rosé wines accelerated its development following the takeover of its distribution by the Moët Hennessy network. Inventory is excessive in 2021, which will tie up capital and incur storage costs. Trade receivable has also increased, which means LVMH has given dealers a longer payback period to boost revenue [3]

Bank and cash also declined sharply in 2021, this is mainly because LVMH has invested in a lot of financing activities, and the Purchase and proceeds from sales of consolidated investment account for the majority. This may be because LVMH was affected by the pandemic, and the group decided to diversify its industry, reduce risks and increase profits by acquiring companies in different industries. Cash & cash equivalent of 8.021billion euros is smaller than current liabilities of 27.898 billion euros, the amount of cash that LVMH holds is relatively small, which is not conducive to the development of the LVMH and cannot pay for short-term urgent debt immediately [4].

2.3 Liquidity ratio

Table 1. Liquidity ratio

2019	2020	2021
1.20: 1	1.59:1	1.17:1

A liquidity ratio equal to or lower than 1.2 will be very dangerous for the business, they might be unable to pay their short-term debt immediately. If all current assets are used to repay debts, the company may go bankrupt [5], as shown in Table 1.

Table 2. Gross profit as a percentage of revenue

2019	2020	2021
68%	65%	66%

In general, the gross profit as a percentage of revenue decreased, which means the performance of the business is poorer, it shows that LVMH makes less gross profit for every dollar of sales, and the profitability of the business has decreased. The reason could be the increase in the cost of sales as a result of changing new suppliers or the outbreak of the epidemic has reduced people's income and their ability to buy luxury goods [5], shown in Table 2.

Table 3. Net profit for the year as a percentage of revenue

2019	2020	2021
19%	10.5%	13.4%

In the past three years, LVMH's net profit has declined seriously, this may be because the epidemic has led to a decline in demand for luxury accessories, forcing some stores to close as shown in Table 3. It shows that LVMH makes a less net profit for every dollar of sales [5].

2.4 Outreach prospects

LVMH has five business branches, namely Wine&Spirit, Fashion&leather, Perfums&Cosmetics, and Watch&Jewelry.

With regard to the branches of Wine&spirit, LVMH has been vigilant and responsive in the current volatile and tight supply environment, while the wine and spirits business group has maintained a firm optimistic attitude towards the medium-term development prospects. Moët Hennessy will continue to strengthen and accelerate its product portfolio, accelerate the transformation and selectivity of its distribution, and maintain a close relationship with consumers by providing consumers with expanding services in 2021, the earnings of Wine&Spirit will be relatively good compared with the previous two years.

Fashion&leather goods account for the main turnover of LVMH Group. While maintaining the efforts required to adapt to the economic environment, they will rely on their dedicated employees to consolidate their key advantages, excellent professional knowledge, highly creative collections, and excellent customer experience to maintain customer loyalty, and open more offline flagship stores [6].

In 2021, the branch sales of Perfums&Cosmetics will also be considerable. LVMH expands online sales and pays attention to its distribution selectivity. Its momentum will be driven by the strong growth of skin care products, the expertise of spa care, the development of perfume series, the new energy of cosmetics, and the acceleration of digital plans.

Although the business status in 2020 is not very good, with the arrival of Tiffany, the watch and jewelry branch of LVMH Group has become the world's leading company. In the short term, given the volatility of the current market and the recovery level of different markets, Maison will continue to manage costs and maintain a high degree of selectivity in investment [7].

3. Evaluation

3.1 EV/EBITDA

Enterprise value is an economic index that reflects the overall market value of an enterprise. EV is calculated by adding market value, debt, minority interest, and preferred shares together and removing the total cash and equivalents. Enterprise value varies significantly from market capitalization. It is more comprehensive, and accurate and is able to better represent the precise value of a company. During the process of an acquisition, the acquirer takes over the cash as well as the debt of the original company. EV counts in the factor of debt, which increases its reliability.

EBITDA is the short form of "earnings before interest, taxes, depreciation, and amortization". It is an indicator that is frequently used when evaluating a company's business situation. It is computed by adding interest, taxes, depreciation, and amortization back to net incomes. EBITDA is a referenceable indicator when analyzing and comparing profitability between companies and industries. Moreover, EBITDA is used to eliminate the influence of finance and accounting eliminates the effects of financing and accounting decisions. Institutions and technology companies and institutions are now citing it. EBITDA is a guide for research on enterprises' current ability to earn interest, however, it fails to reflect the companies' cash flow [8].

In the comparison between companies, EBITDA dismisses the taxes, interest payments, depreciation, and amortization, therefore it removes the possible effects of tax policies, different financing ways, assets, and takeovers. If the EBITDA number is negative, the profitability of the business is definitely facing problems. If the number is over 0, it cannot indicate that cash is made in the business for that EBITDA doesn't consider factors like working capital, replacement of old equipment, taxes, and interest.

The enterprise multiple (EV/EBITDA) is one of the core ratios used in the valuation of LVMH. The calculation method is to simply divide the enterprise value by the earnings. This is useful to compute the value of companies. It has an advantage when used for cross-country or industry comparisons in that it ignores the changing effects of tax policies of diverse countries [8]. However, a cross-industry comparison can bring problems, since the multiplier of an enterprise may vary from industry to industry. Therefore, we decided to choose groups that majored in luxury as comparable companies to LVMH. Researchers referred to the latest annual report in 2021 of the four luxury groups (LVMH, Hermes, Kering, and Richemont) and calculated their EV, EBITDA, and EV/EBITDA multiples.

It can be seen in the comparison that LVMH's multiple is 5.85, which is higher than the statistics of Hermes and Kering, which indicates it has better profitability than the two others. However, the EV/EBITDA of Richemont is significantly high, reaching 12.95 in 2021. This increases the industry average multiple, making it higher than that of LVMH, as shown in Table 4.

Table 4. The EV/EBITDA of LVMH, Hermes, Kering, and Richemont for the year 2021

	LVMH	Hermes	Kering	Richemont		
EBITDA (Euro Millions)	22450	14000	6470.4	2730		
Enterprise Value (Euro Millions)	131309.00	13847.00	31067.60	35359.00	Average	Median
Enterprise Value/EBITDA	5.85	0.99	4.80	12.95	6.25	4.80

3.2 P/E Ratio

The price-earnings ratio, also known as "profit yield", is the ratio of the price per share of common stock to the earnings per share. Namely, P/E equals price per share (share price) divided by earnings per share (EPS).

The P/E ratio is linked to the recent performance of the enterprise. If the stock price rises while the profit remains unchanged or even falls, the P/E ratio will rise. Generally, a P/E ratio less than 0 indicates that the company's profit is negative, the value cannot be measured by the data. If it is positive and below 13, the value is possibly undervalued. 14-20 is the common range representing a normal level. When P/E reaches 21, the value is considered to be overvalued. If it is over 28, the company is facing a speculative bubble problem. Nevertheless, the P/E ratio can be influenced by in which industry the firm is located [9].

LVMH group provided earnings per share in its financial report directly, accompanied by a diluted one. This data excludes the influence of diluted securities, but on the whole, the two numbers are consistent and have no apparent influence on the final result in Table 5.

Table 5. Valuation of LVMH depending on industrial P/E ratio for the year 2021

	LVMH	Hermes	Kering	Richemont		
Net Sales (Euro Million)	64200	8982	17645	13140		
Net Income (Euro Million)	12036	3530	3175.7	1289		
Numbers of Shares (Million)	503.6	71.6	125.0	346.1		
Earnings per Share	23.9	49.3	25.4	3.7		
Diluted Earnings per Share	23.9					
Share Price (Euro)	647.5	1271.0	496.1	110.2	Average	Median
Price/Earnings	27.1	25.8	19.5	29.6	25.0	25.8
			Share Price based on 2021 EPS		596.6	615.9

According to the result, the P/E ratio of LVMH is 27.1, which means that there is a possibility that LVMH is overvalued. The theoretical share price of LVMH based on the 2021 EPS and P/E ratio of the industry is 596.6, lower than the recent stock price of 647 (Aug 31, 2022).

Since the stock data is collected in 2022, it is preferred to use the EPS value in 2022 for calculation instead of 2021. Therefore, more sales statistics from semi-annual financial reports of these companies from 2019 to 2022 are gathered to calculate the predicted 2022 LVMH EPS in Table 6.

Table 6. Forecast on LVMH's net income and EPS of 2022 based on historical sales

	2022 1H	2022 2H	2022	2021 1H	2021 2H	2021
Net Income	6532.0	8472.6	15004.6	5576.0	6460.0	6460.0
EPS	12.97	16.82	29.79	11.07	12.83	23.90
	2020 1H	2020 2H	2020	2019 1H	2019 2H	2019
Net Income	1617	3085	4702	3368	3803	7171
EPS	3.21	6.12	9.34	6.69	7.56	14.25

LVMH's business growth in 2022 is gratifying, which is a positive factor. Therefore, the valuation results are respectively 743.7(using average P/E) and 767.8(using median P/E), higher than those in 2021. The prices of shares are higher than the ones in real life, indicating an opposed conclusion that the share price is undervalued (Table 7).

Table 7. Valuation of LVMH depending on industrial P/E ratio for the year 2022

Share Price based on 2022 EPS	
Average	Median
25.0	25.8
743.7	767.8

To further confirm whether the stock price of LVMH is overvalued or undervalued, the time factor is taken into account. Forecasts are made on the expected revenue in the future to predict the future P/E ratio of the industry [10].

Table 8. Forecast on Hermes's P/E ratio of 2022

Hermes	2022 Forecast	2021	2020
Net Income (Euro Million)	4934.18	3530.00	1380.00
Earnings per Share	68.91	49.32	19.27
Price/Earnings	18.44	25.26	38.19

Table 9. Forecast on Kering's P/E ratio of 2022

Kering	2022 Forecast	2021	2020
Net Income (Euro Million)	4001.38	3175.70	2150.40
Earnings per Share	32.01	25.41	17.20
Price/Earnings	15.50	24.57	32.84

Table 10. Forecast on Richemont's P/E ratio of 2022

Richemont	2022 Forecast	2021	2020
Net Income (Euro Million)	2062.40	1289.00	913.00
Earnings per Share	5.96	3.72	2.64
Price/Earnings	18.49	24.49	21.78

Table 11. Share prices of Hermes, Kering, Richemont and LVMH for the year 2020 to 2022

Share Price on Aug,31	2022	2021	2020
Hermes	1271.0	1246.0	736.0
Kering	496.1	624.2	565.0
Richemont	110.2	91.2	57.5
LVMH	647.5	631.9	395.1

The share price of LVMH group continued to grow from below 500 in 2020, once exceeded 700 from around 500 in 2021, and remained at around 650 euros after the rapid growth after the epidemic. The result in Table 11 shows that the price in August 2022(647.5) is higher than the calculated value. This means that it is overvalued. Moreover, the stock price of LVMH is constantly overvalued in recent 3 years.

Table 12. The theoretical share price of LVMH in 2022 considering time and industrial factors

P/E	2022 Forecast	2021	2020
Hermes	18.44	25.26	38.19
Richemont	15.50	24.57	32.84
Kering	18.49	24.49	21.78
Average P/E of comparables	17.48	24.77	30.94
Share Price	520.76	592.09	289.08
Median P/E of comparables	18.44	24.57	32.84
Share Price	549.52	587.24	306.89

However, despite the result that its share price is overvalued, LVMH is a company that investors have a preference for, considering LVMH's increasing profitability and the deviation (shown in Table 13) which does not exceed 50 % of the theoretical share price.

Table 13. The deviation of LVMH's true share price from the theoretical price from 2020 to 2022.

	2022	2021	2020
Average	+24.34%	+6.72%	+36.67%
Median	+17.83%	+7.60%	+28.74%

4. Suggestion

As a result of our research, we have exemplified some suggestions for the future of LVMH. A focus on shop decoration and the number of products produced could boost consumer willingness.

LVMH has been around for a long time and is the world leader in the luxury industry. For example, many LVMH shops are now located in luxury streets and have luxurious décor, and this stimulating décor can influence some consumers to spend on impulse, so we conclude that LVMH needs to focus on packaging and shop selection in the future.

Secondly, when LVMH's limited edition products are launched, the prices are often much higher than other products and some limited-edition products need to continue to be price-controlled to ensure their sales and customer popularity[1].

LVMH needs to identify more potential consumers and find their preferences in order to secure sales in the future.

Firstly, as most of LVMH's consumers are the upper class of society due to the high pricing of its products, we believe that LVMH needs to find potential consumers in order to increase its market share and sales of its products: for example, the middle class of society, as life is becoming more and more stressful nowadays and the middle class in every country does not have enough money to buy luxury products on top of their living expenses. LVMH needs to find the hidden consumers in the market: the middle class, in order to expand its sales and increase its market share.

On how LVMH increased sales and reduced expenses in the epidemic environment.

Although LVMH's net profit of the company did not fall much under the impact of the epidemic, and gross profit as a percentage of revenue decreased, this meant that the business's performance decreased. It was the outbreak that reduced people's incomes and their ability to buy luxury goods led to a decrease in the profitability of the business. In the past few years, LVMH has been expanding its market share by acquiring other brands and gaining access to its shops. While gaining access to shops and profits, LVMH also has a large expense in shop management and maintenance costs. We suggest that LVMH should expand its online merchandising business, for example by live-streaming its merchandise on the major short videos that are popular, so as to reduce the decline in shop sales due to the epidemic and also to reduce shop expenses.

On the cultivation and pricing of LVMH's brands.

As a result of our data collection LVMH's cash flow has declined over the last few years, due to the fact that LVMH has diversified into other companies and industries by acquiring a large number of companies and industries, the fact that LVMH has invested a large amount of money in financing activities and has sold and invested a large percentage of its capital, and the fact that in today's social environment there are many new industries that have emerged and that LVMH needs to invest heavily in advertising and in the sale of its brands in order to maintain its market share. LVMH has many companies under its umbrella, which requires it to spend more money to promote its subsidiaries and maintain its market share [1].

5. Conclusion

Overall, despite the pandemic of COVID-19 in 2020, LVMH Group has maintained good profitability and achieved rapid recovery of growth after the pandemic, with its business now surpassing pre-corona virus levels. LVMH remains the world's largest luxury giant.

Cash flow data shows that LVMH keeps the concept of producing high-quality goods, targeting a high-net-worth customer base, and expanding its business scope by acquiring other companies. The valuation methods of EBITDA/EV and P/E ratio play an important role in the research process. The former mainly focuses on the profits made by the enterprise, while the latter takes time factors and industry factors into account. The findings suggest that LVMH Group's current share price is relatively overvalued and that its share price has been overvalued for nearly three years. Nevertheless, LVMH's actual share price is not seriously overvalued, its innovation ability guarantees its reliability in the area of investment.

LVMH has recently weakened restrictions on online purchase channels and has intensified online advertisement. In order to cope with the current global market and to better maintain its original advantages in the luxury industry, LVMH is recommended to focus on packaging and store decoration, controlling the number and price of products so that their value will not be affected by the possible negative effects brought by online sales. and rationally use the advantages of online business to tap potential consumer groups, expand market share, and reduce management and maintenance costs. The group should take the edge of online business to tap potential consumer groups, expand market share, and reduce the management and maintenance costs of enterprises.

According to the research, the LVMH Group, as a leading enterprise in the luxury industry, has a positive outlook for the future.

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