

McIntire Investment Institute

At the University of Virginia



LVMH
(XPAR:LVMUY)

CAC 40 (Paris DOW Liquidity)

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Presentation Agenda

Company Overview

Luxury Market

Thesis Points

Catalysts

Risks

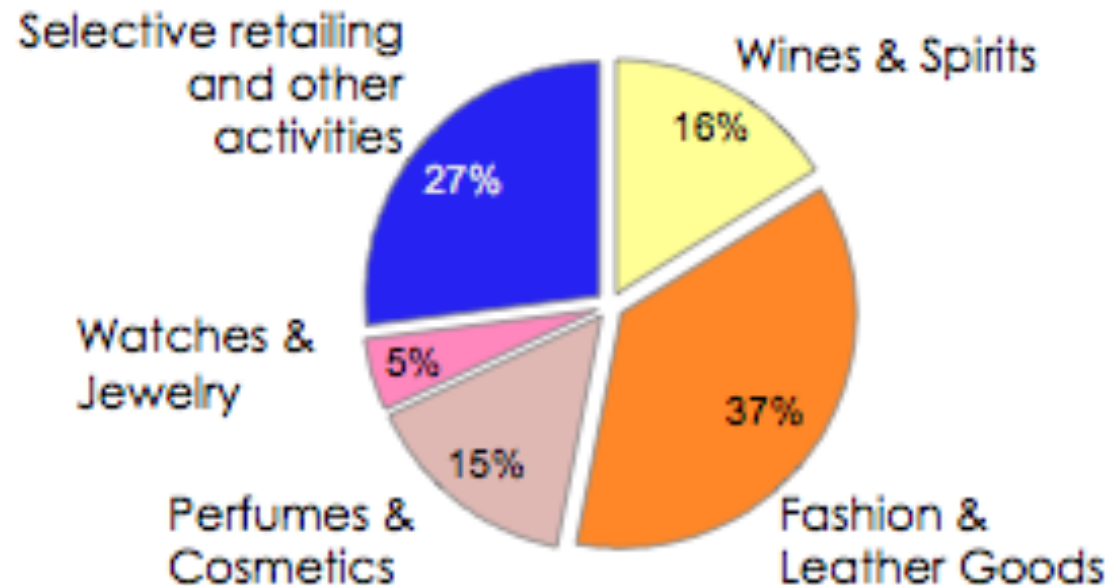
What is LVMH?

- ◆ The company was formed after the **1987** merger of Louis Vuitton with Moët Hennessy, which was formed after the 1971 merger of Moët & Chandon and Hennessy
- ◆ Groupe Arnault, the family holding company of Bernard Arnault, is the majority shareholder controlling 47.64% held through Christian Dior (42.36%) and directly (5.28%)
- ◆ Bernard Arnault is CEO of both companies
- ◆ Over 60 prestigious brands operating in 2,545 stores worldwide



The Conglomerate

2010 Revenue by business group



Company Overview

The Brands



Company Overview



GIVENCHY



LOUIS VUITTON



GALLERIA

PINK
Thomas Pink, Jermyn Street
LONDON

DONNA KARAN
NEW YORK

MARC JACOBS



Celine



F
FENDI



Brief VAR

- TAG was ranked by Forbes.com as one of the best watches
- Belvedere Vodka ranked 4.5 out of 5 Stars in consumer reviews
- Benefit review *“man, I am a beauty product junkie... If it's new, i've probably tried it. I have been religiously using bare essentials for a year before I got roped into trying some benefit products. \$145.00 dollars later, I left with all brand new makeup from this brand!”*
- Moet & Chandon considered to be the number 1 selling champagne
- Fodors Review Le Bon Marche: *Le Bon Marché, founded in 1852, has emerged as the city's chicest department store. Long a hunting ground for linens and other home items, the store got a face-lift that brought fashion to the fore.*



Company Overview

LVMH

- Benefits from bigness while maintaining same basic values
- Avoid duplication ex

- Marketing
- Production
- Distribution
- Pricing/ Inventory Levels
- Human Resources

The Brands

- Maintain own President
- Have control over designs
- Have a say in Marketing

- Ex Louis Vuitton only sold through LV boutiques or other luxury shops

The group's wines and spirits division saw 11 percent organic growth. Its champagne brands, which include Moet & Chandon and Dom Perignon, "benefited from the dual effect of sustained demand and a **favourable product mix**", Mr. Guiony, Finance Director

Industry Overview

Only two other companies that operate similarly to LVMH:

Richemont:

Owns: Chloe and Cartier

Difference: only fashion, leather goods, watches and jewelry; operates mainly in Europe most subsidiaries based in Switzerland, France, Germany

PPR Group

Owns: Gucci, Puma, Yves Saint Laurent, The Golf Warehouse

Difference: much smaller; only high end fashion

The Luxury Market

Finance head Jean-Jacques Guiony told a conference call (10/18/2011). “What we say when we mention confidence is that **we see the environment in which we operate not being meaningfully different from what it’s been since the beginning of the year. And we have no reason to believe this will change materially in the next few months.**”

Burberry ,said (10/18/2011)it had seen "consistent strong brand momentum and business growth", and that there was no evidence of a slowdown.

Consultancy **Bain & Co said** (10/18/2011) the growth outlook for the global luxury goods industry in 2011 was stronger than it was in the spring, despite worries about economic conditions.



Thesis Points

- Superior Business Model
- Continued Growth
- Strong Leadership
- Selective Expansion



Thesis Points

➤ Superior Business Model

Vertical and Horizontal Integration around the World

Owning shops gives LVMH control over:

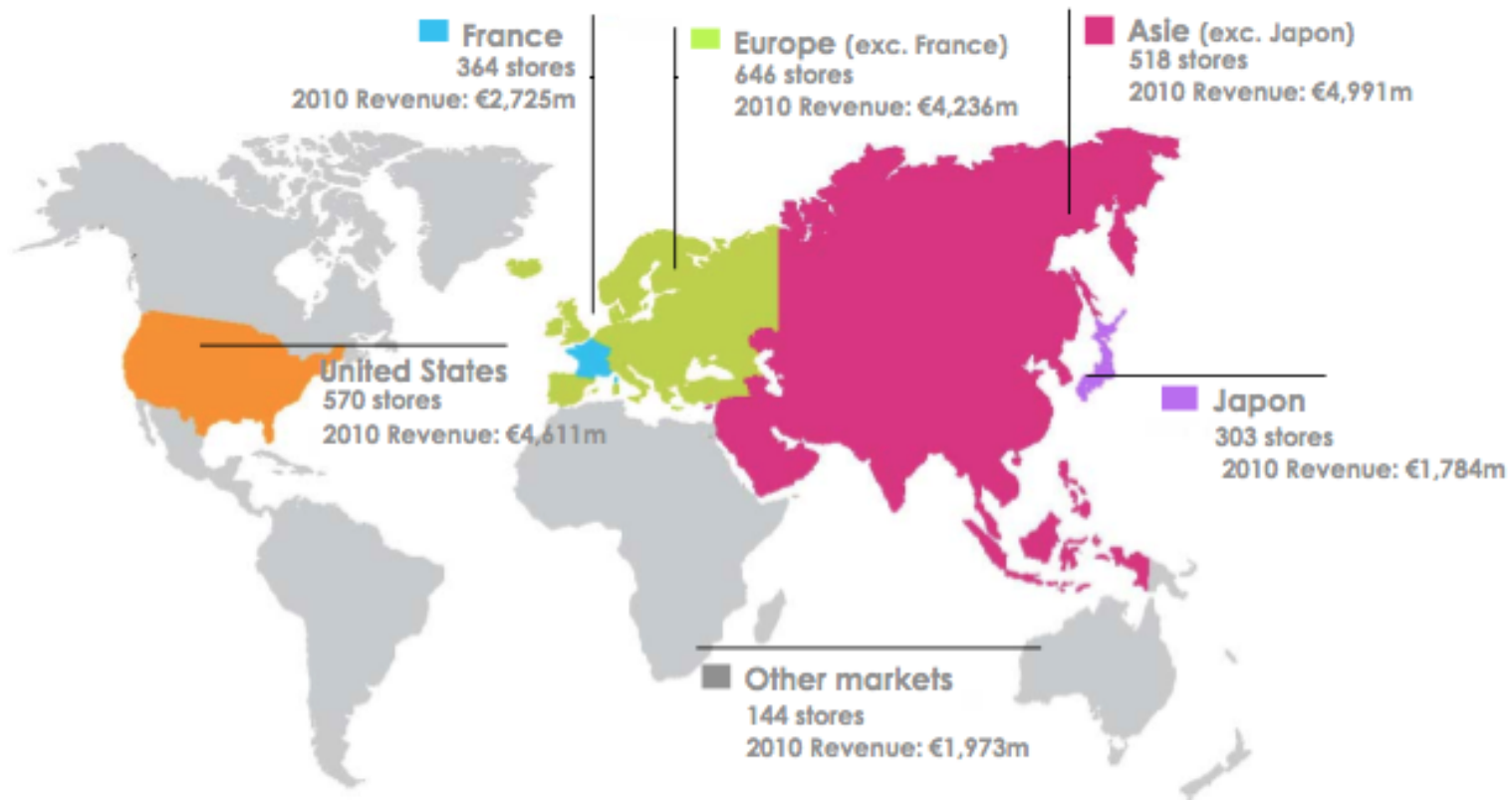
- ◆ Levels of stock
- ◆ Presentation
- ◆ Pricing



Geographic Diversification

LVMH
MOËT HENNESSY · LOUIS VUITTON

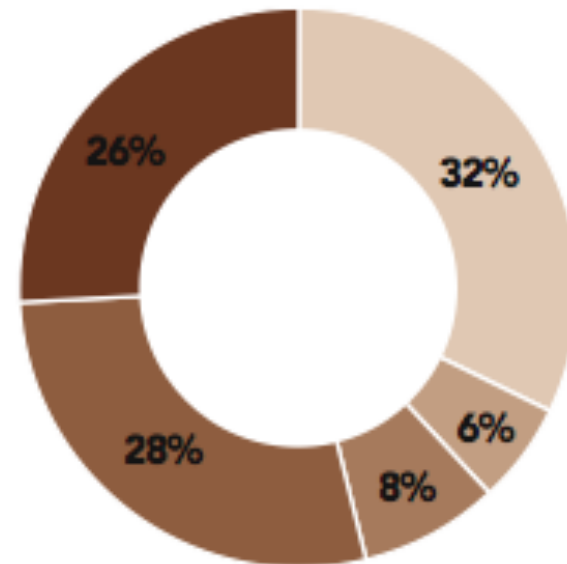
2010 Key figures by geographic region of delivery



Diversification

**Revenue by invoicing currency
as of June 30, 2011 (in %)**

- Euro
- US dollar
- Japanese yen
- Hong Kong dollar
- Other currencies



Strong Q3 Numbers

Double Digit growth for all regions and sectors, exception of Japan

Evolution in local currencies versus same period in 2010
(excluding Bulgari integration)

| LVMH Group | First 9 months 2011 |
|------------|---------------------|
| US* | + 18 % |
| Japan | - 3 % |
| Asia | + 27 % |
| Europe | + 7 % |

* exc. Hawaii

| Sector | Revenue Compared to Q2 |
|-------------------------|------------------------|
| Wines & Spirits | Up 11% |
| Perfumes & Cosmetics | Up 10% |
| Watches & Jewelry | Up 26% |
| Fashion & Leather Goods | Up 15% |
| Selective Retailing | Up 19% |



Growth Within

Sephora success in expanding into Latin America and launched 30 new stores in Q3 from places like NYC meat packing district to Kuala Lumpur, Malaysia

TAG Heuer new jewelry model and Formula 1 Ceramic line

Launch of new **LINK** watch

New **Louis Vuitton** factory to meet demand

Louis Vuitton new Haute maroquinerie line that highlights 5 iconic bags

Hennessey volumes up 8%, mainly in Asia

Benefit launched “They’re Real” mascara

Perfumes **Givenchy** new perfume line Dahlia Noir



image courtesy of 360i



Q3 Growth

[LVMH Moet Hennessy Louis Vuitton SA \(MC\)](#), the world's largest maker of luxury goods, said it was **“proud” to disappoint market bears** and remains confident for the rest of 2011 after third-quarter sales beat analysts' estimates.

“In the current environment, most people are looking for reasons to be worried rather than to be optimistic. We are very proud obviously to disappoint pessimistic as our businesses, by and large, continue to operate in the same environment as they have since the beginning of the year.”- Finance Director Jean-Jacques Guiony

Interview with Bloomberg 10/17/11

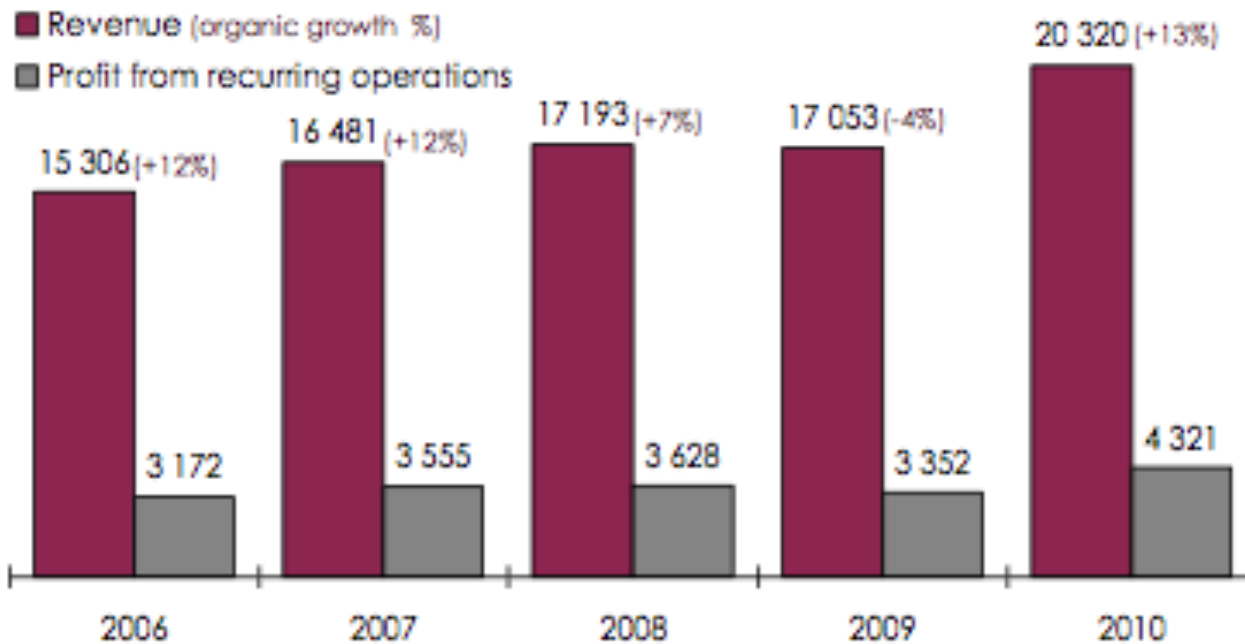


Nothing New

First 9 months revenue: 16,303 M (euros) \$22,137.84 M

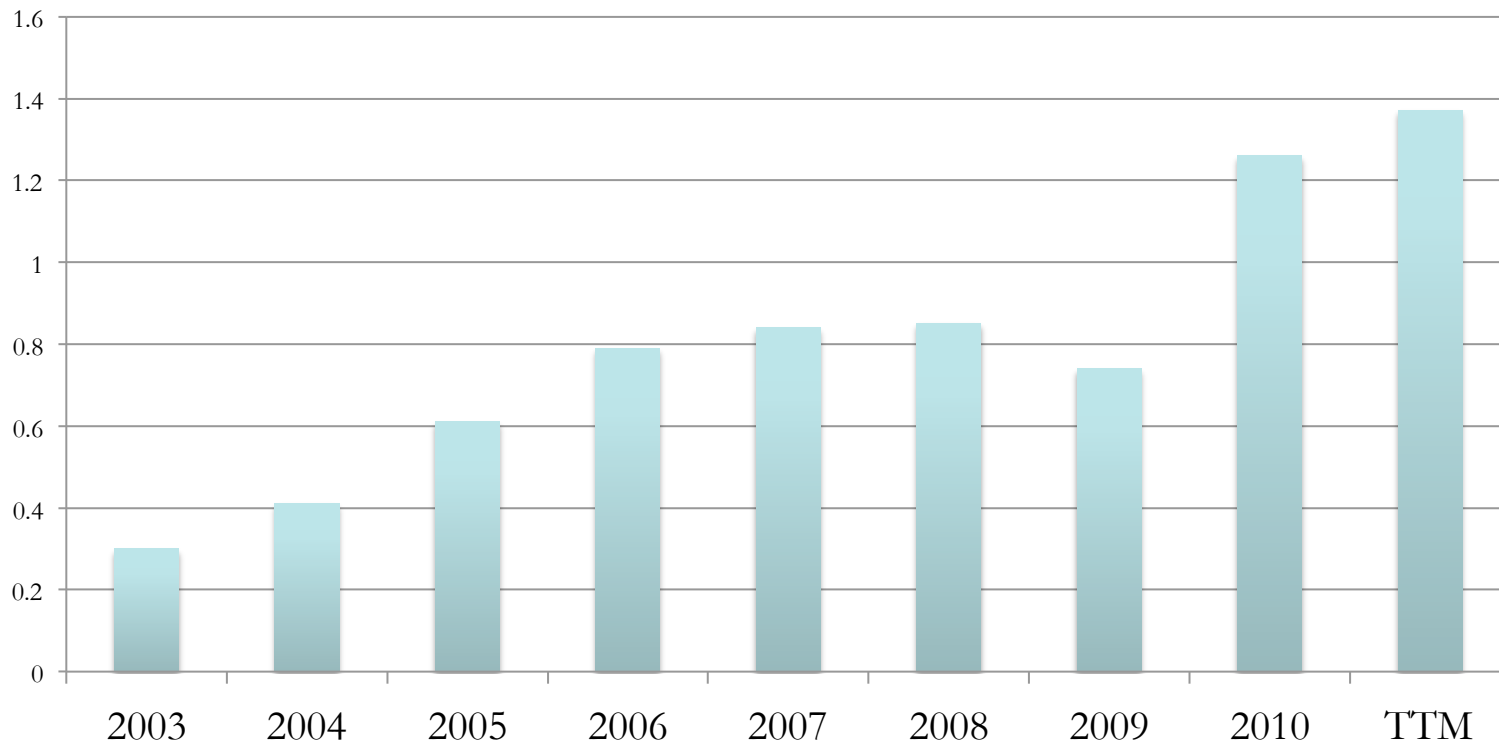
A growing and profitable company

in millions of euros



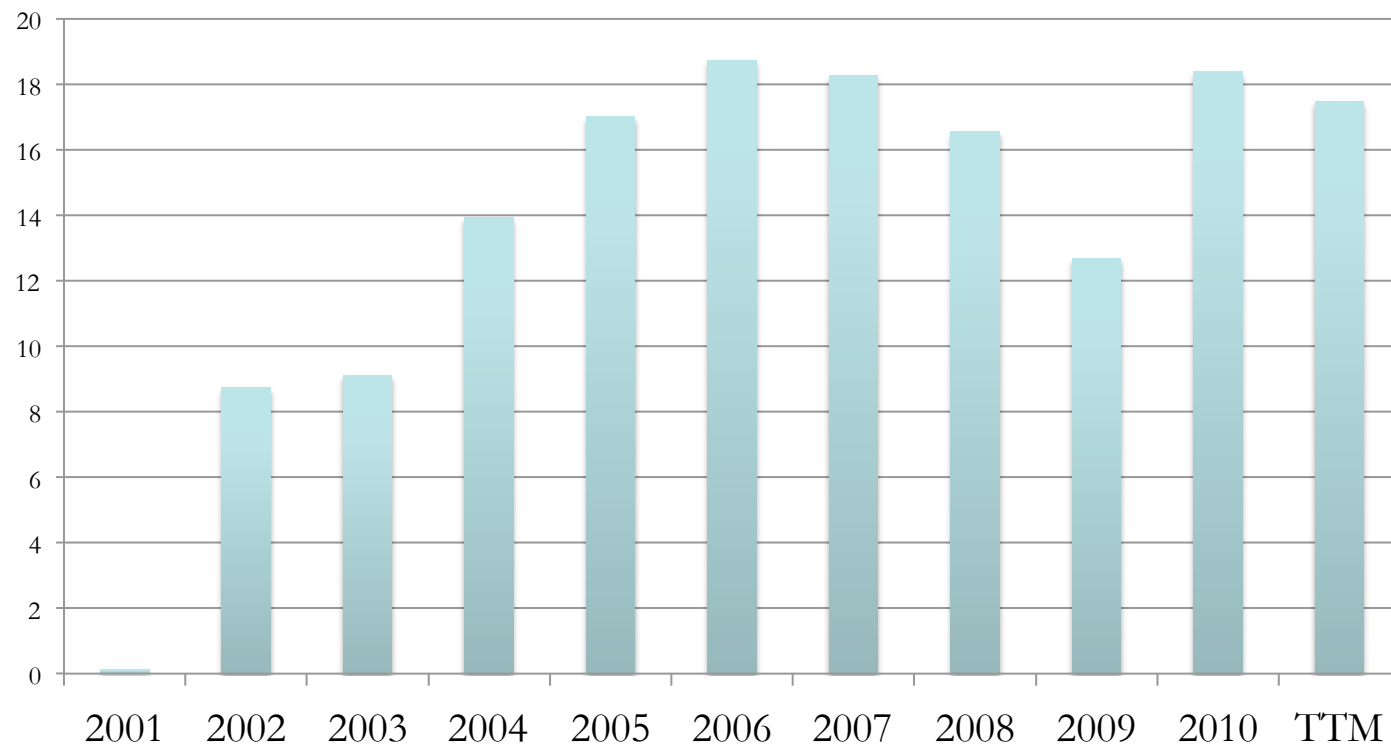
Nothing New

EPS: since 2003 has shown continued growth with exception of 2009 when most companies took a hit



Nothing New

% Return on Equity



Thesis Points

➤ Strong Leadership



“Art de Vivre”

- Be creative and innovate
- Aim for product excellence
- Bolster the image of our brands with passionate determination
- Act as entrepreneurs
- Strive to be the best in all we do



Prudent Expansion

"[This year] has started off well...I'm confident enough. Still, I think it's necessary to be prudent," said LVMH Moët Hennessey Louis Vuitton chairman and chief executive officer Bernard Arnault

Arnault spoke of plans for “targeted expansion”, noting the importance of adopting a long-term approach to keep brands at the height of luxury.

“We don’t want to go too fast.”

Interview with Vogue



Catalysts

- **New Markets:** China, India, Latin America, Middle East
- Integration of Bulgari (Summer 2011), ArteCad (Nov 2011) and Ole Henriksen (Feb 2011)
- Hermes



New Markets for Growth

- ◆ **India**
- ◆ China
- ◆ Latin America

In India, currently, foreign companies can invest only up to 51% FDI in single brand retail firms, forcing them to tie-up and depend on Indian franchises. There have been talks of the government opening up to 100% foreign direct investment.

The size of the Indian luxury market was estimated at \$4.76 billion in 2009 and is expected to triple to **\$14.7 billion by 2015.**



New Markets for Growth

- ◆ India
- ◆ **China**
- ◆ Latin America

A recent article in the WSJ stated that: on Baidu (the largest Chinese search engine) Louis Vuitton was the number 1 search among luxury brands ahead of Chanel, Gucci, Coach, Prada, Chow Tai Fook, Cartier, Tiffany and Rolex.

11/12/2011



New Brands

- Still has yet to integrate **Bulgari**, jewelry line into revenue and has yet to benefit from economy of scale of integration with LVMH
- **Ole Henriksen** included in revenue, but not full integration
- **ArteCad** just acquired Nov. 10 for undisclosed amount. Swiss supplier of watch dials. LVMH watch brands include Tag Heuer, Zenith and Hublot

Hermes

- ◆ LVMH has built up 21.4% stake in Hermes
- ◆ Shows targeted growth

Hermes has established a holding company with the family descendants that own just around 50% of the company. This will make it more difficult for LVMH to gain shares and speculation of LVMH's take-over drove up stock prices to almost triple Hermes's revenue. As of now expansion is on a hold, but is clearly part of the "long-term growth" Arnault speaks of.



Risks Points

- Double- Dip Recession
- Slow-down in China
- Euro-debt Crisis
- Key-man
- Exchange Rates/ Currency Hedging



Stock Summary



Price/ Earnings: 15.2
 Forward Price/ Earnings: 16.4

| | | | |
|---------------|------------------------|-------------|---------------|
| Day's Range: | 112.25 - 114.60 | Market Cap: | 56.31B |
| 52wk Range: | 94.16 - 132.65 | P/E (ttm): | 16.56 |
| Volume: | 787,240 | EPS (ttm): | 6.83 |
| Avg Vol (3m): | 1,297,140 | | |



Summary

- Wide presence in luxury market
- Luxury product line with prestigious reputation
- Named by Seeking Alpha as one of 4 companies with pricing power and were not overpriced
- 2 ways to achieve growth
 - Strong revenue Q3 and increasing from 2010
 - Expanding both internally and by acquiring new companies



Questions?

