

# LVMH

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# Executive Summary

Recommendation: **SELL**

Market Price (Dec.8th, 2021): **€714.70, Dec.8<sup>th</sup>**

Reconciled Price Per Share: **€586.69**

DCF Price Per Share: **€553.75 EUR**

RV Price Per Share: **€663.56 EUR**

- 1.FISCAL YEAR END: **December 31th**
- 2.CURRENCY OF FINANCIAL STATEMENTS: **€ EUR**
- 3.IMPACT OF COVID: **Page 9**
- 4.WACC (%): **Page 22-25**
- 6.LAST 12 MONTHS REVENUE: **Page 31**
- 7.NCWC WORKSHEET: **Page 35**
- 8.TERMINAL GROWTH (%): **Page 39**
- 9.LEASE: **Page 40**
- 10.FUNDED DEBT: **Page 41**
- 11.DCF MATRIX: **Page 36-38**



# PART 01

# Company

# Overview

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LVMH



# Firm Description

## Overview

- The LVMH group comprises 75 exceptional Houses that create high quality products. It presents in all five major sectors of the luxury market: Wines & Spirits, Fashion & Leather Goods, Perfumes & Cosmetics, Watches & Jewelry and Selective Retailing.
- The LVMH group makes revenue by brands like Louis Vuitton, Christian Dior Couture, Fendi, Loro Piana, and many others. LVMH group is a galaxy of luxury brands and Maisons, acquired throughout the years by the development and growth campaign of Bernard Arnault.

## Financial Snapshot

**Market Cap  
Dec 2021**

**€360,055  
MM**

**Revenue  
FY2020**

**€44,651M**

**Net Income  
FY2020**

**€4,702M**

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# Firm Description – Generate Revenue

The portion of total revenue generated by the Group at its own stores, including sales through e-commerce websites, was approximately 70% in 2020 (70% in 2019 and 69% in 2018), i.e. 31,461 million euros in 2020 (37,356 million euros in 2019 and 32,081 million euros in 2018).

(EUR millions)	2020	2019	2018
Revenue generated by brands and trade names	44,421	53,302	46,427
Royalties and license revenue	96	110	114
Income from investment property	14	20	23
Other revenue	119	238	262
<b>Total</b>	<b>44,651</b>	<b>53,670</b>	<b>46,826</b>

## Key Takeaways

LVMH's offline retail stores and online stores support the main business, and product sales determine the revenue performance.

**LVMH**

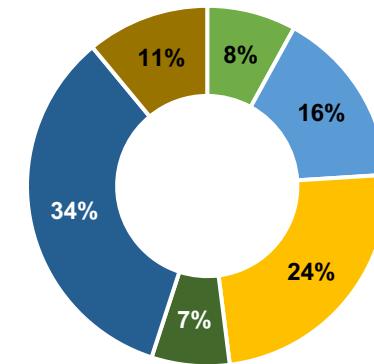
# Revenue By Geography

- Due to the significant reduction in the number of tourists to these areas, after the wide-ranging blockade in the first half of this year and the different effects of partial blockades in some countries in the second half of the year, the relative contribution of Europe (excluding France) to the group's revenue fell from 19 to 16%, while France dropped from 9% to 8%.
- The relative contribution of the United States, Japan, and other markets remained stable at 24%, 7%, and 11%, respectively, while Asia (excluding Japan) was driven by the cancellation of local customers' consumer demand carry-over, and their contribution increased by 4%, reached 34%.

## Historical Segmented Revenue

(EUR millions)	2020	2019	2018
France	3,333	4,725	4,491
Europe (excluding France)	7,337	10,203	8,731
United States	10,647	12,613	11,207
Japan	3,164	3,878	3,351
Asia (excluding Japan)	15,366	16,189	13,723
Other countries	4,804	6,062	5,323
Revenue	44,651	53,670	46,826

## FY2020 Revenue Segmented Per Region



## Key Takeaways

Nearly 70% of revenue comes from China, the United States and France, which are headquartered in the Asia-Pacific region. This trend is expected to remain consistent and account for a greater proportion of projected revenue.

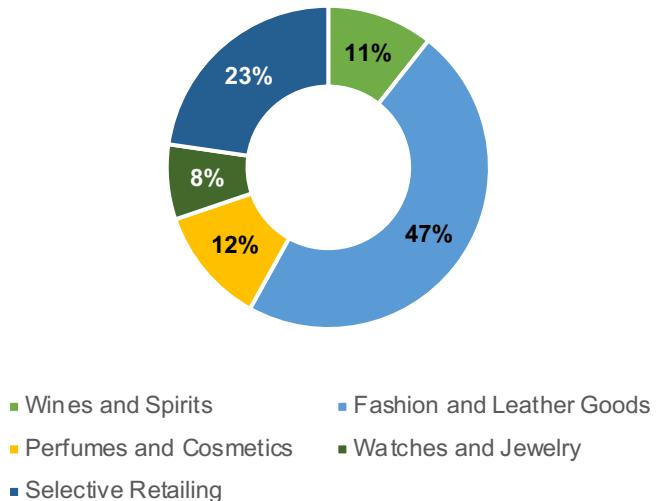
- France
- Japan
- Europe (excl. France)
- Asia (excl. Japan)
- United States
- Other markets

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# Revenue By Product lines

- By business group, the breakdown of Group revenue changed appreciably. The contributions of Wines and Spirits, and Fashion and Leather Goods increased by 1 point and 6 points, respectively, to 11% and 47%, while the contributions of Perfumes and Cosmetics, and Watches and Jewelry decreased by 1 point each to 12% and 7%, respectively, and that of Selective Retailing fell by 5 points to 23%.
- Revenue for Fashion and Leather Goods, which occupies nearly half of the total revenue, was down 3% in terms of organic growth and 5% based on published figures. As online sales grew rapidly, Europe and Japan were the most affected regions, while the United States and Asia recorded positive performances. in this context, Christian Dior Couture achieved an exceptional performance, while Louis Vuitton showed remarkable resilience.

## FY2020 Revenue by Product Line



## Historical Segmented Revenue

(EUR millions)	2020	2019	2018
Wines and Spirits	4,755	5,576	5,143
Fashion and Leather Goods	21,207	22,237	18,455
Perfumes and Cosmetics	5,248	6,835	6,092
Watches and Jewelry	3,356	4,405	4,123
Selective Retailing	10,155	14,791	13,646
Other activities and eliminations	(70)	(174)	(633)
<b>Total</b>	<b>44,651</b>	<b>53,670</b>	<b>46,826</b>

## Key Takeaways

Majority of the revenue comes from Fashion and Leather Goods. Other segments seem smaller but have stable streams.

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## **PART 02**

# **Impact of Covid**

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# Impact of Covid

## Impact on LVMH

- The Covid-19 pandemic severely disrupted production and commercial operations, leading to a substantial decrease in the revenue and profit from recurring operations in 2020. The closure of stores and production facilities in most countries for several months, along with the halt in international travel, were responsible for the reduction in revenue and, consequently, the deterioration in profitability across all the business groups.
- Cash from operations before changes in working capital totaled 13,997 million euros, down 2,108 million euros from 16,105 million euros a year earlier.
- More limited sales prospects for inventories led to the recognition of a non-recurring impairment charge of around 190 million euros.

## Impact on Industry

- Offline retail had already seen massive declines in sales and traffic at the start of the crisis. The United States has almost 24 retail square feet per person, whereas Germany, for instance, has just slightly more than two.
- Consumer spending will continue to decline and may take time to recover.
- Based on current positions for earnings before interest, taxes, depreciation, and amortization (EBITDA), 75 percent of publicly listed apparel and fashion companies in North America could find themselves with negative EBITDA or untenable net debt-to-EBITDA ratios after three-month store closures. Depending on their cash positions, these companies will be in deep financial distress unless they take urgent action.

## Key Takeaways

Covid directly affected the retail stores of the entire fashion industry, leading to large-scale closures of retail stores and a sharp drop in revenue. Many companies face tremendous pressure from financial debt.

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## PART 03

# Firm/Industry Developments

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# Recent Developments

## LVMH Development

- Impact of the crisis on revenue trends around the world, with however, a second half marked by a **strong recovery** in Asia, which saw double-digit growth, and a significant improvement in trends in the United States and Japan,
- Sharp acceleration in **online sales**, partially offsetting the effect on revenue caused by the closure of the Group's stores for several months
- The Wines & Spirits segment shows strong recovery in the United States in the second half of the year and **improvement in trends in China**
- Fashion & Leather Goods segment shows **remarkable resilience**. Louis Vuitton, always driven by exceptional dynamism and creativity, was able very quickly to transform and revitalize its customer relations with a high quality and efficient digital service. Many innovations were unveiled throughout the year, such as the *Pont 9* range and the *1854* canvas.

## Key Takeaways

The above-mentioned measures help drive revenue growth by enhancing the e-commerce experience, increasing investment in the Asia-Pacific region and providing consumers with innovative designs.

## Industry Development

- Many fashion companies have taken time during the crisis to **reshape their business models**, streamline their operations, and sharpen their customer propositions.
- After a year in which the fashion industry posted record-low economic profits, government interventions will partially **offset economic impacts**, and global travel will pick up, alongside the possibility of larger social gatherings.
- The primary driver will continue to be **digital channels**, reflecting the trend established before the COVID-19 crisis and the reluctance of people in many countries to gather in crowded environments. E-commerce players, such as ASOS, FARFETCH UK, Revolve, and Zalando, have consistently outperformed in 2020, as locked-down customers turned to digital devices to shop.
- Many companies have had a strong **Asia-Pacific focus**, reflecting the economic strength of the region and the relatively lower impact of the pandemic there, and many have offered a compelling digital proposition.



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## **PART 04**

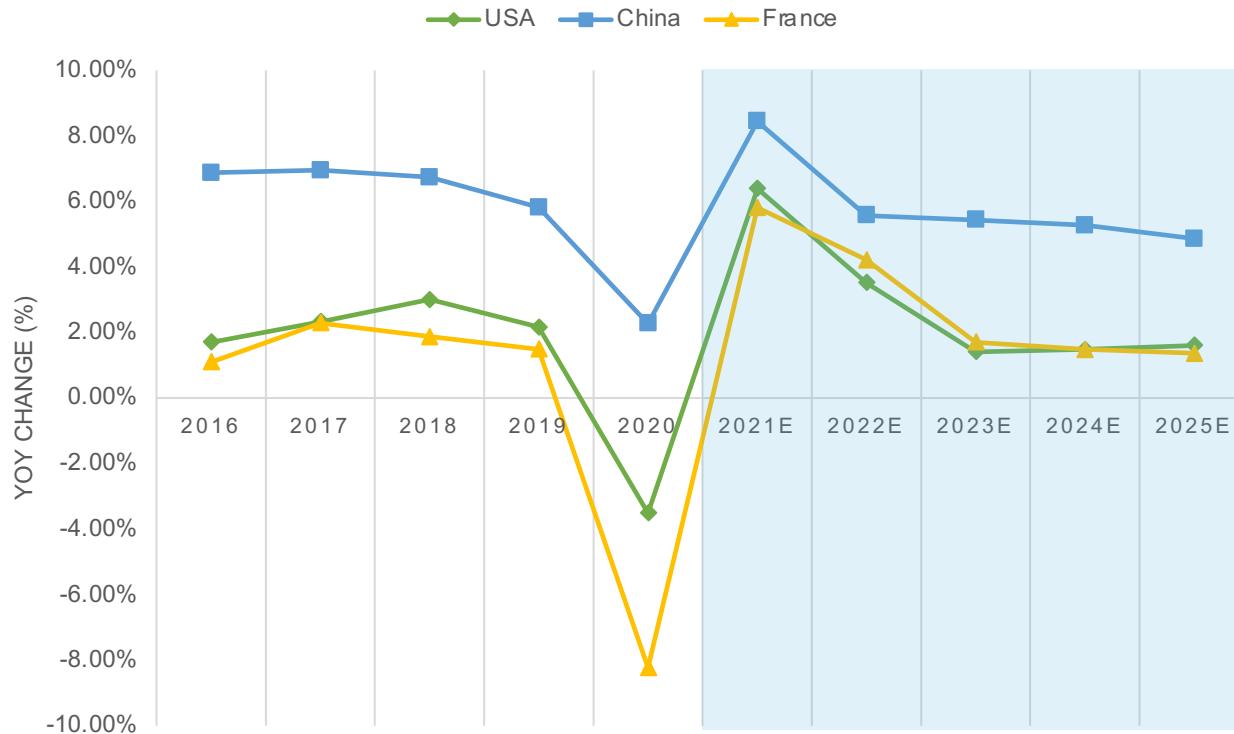
# **Environment**

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# Economic Analysis – GDP Growth

## GDP Growth in USA, China and France



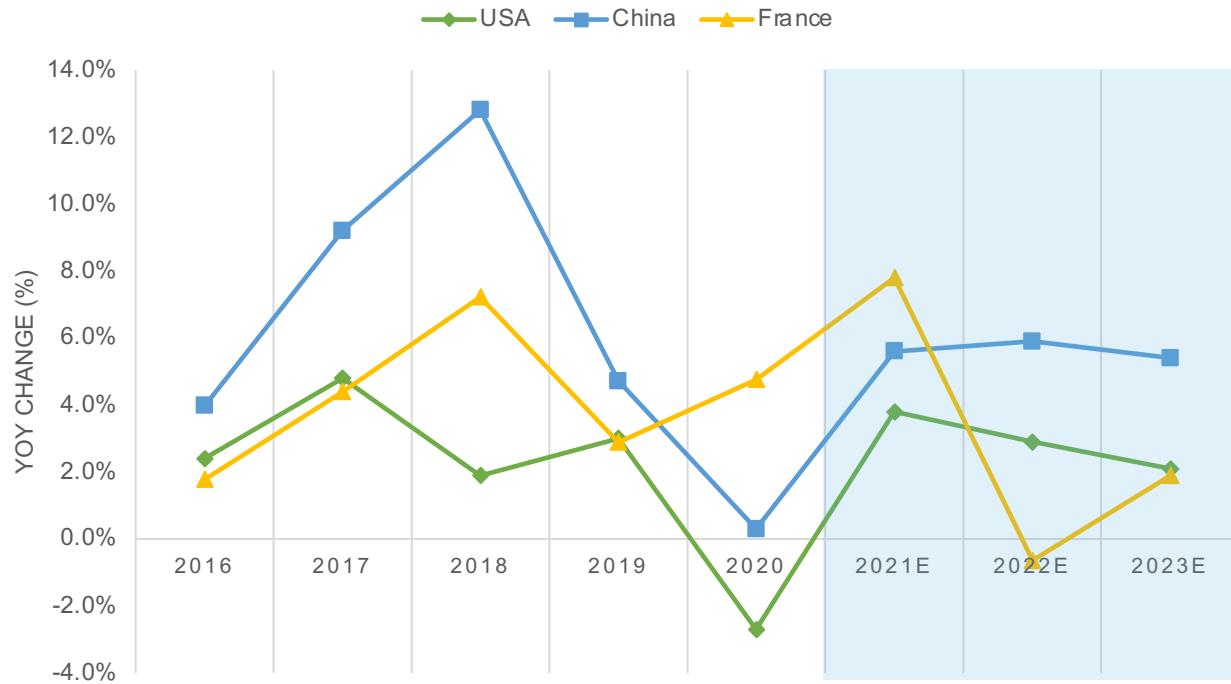
## Key Takeaways

- In recent years, the GDP of all countries in the world has shown a downward trend. Due to COVID-19, GDP has dropped sharply in the first half of 2020 and the unemployment rate has risen sharply. GDP declined drastically due to the economic conditions.
- Governments will stimulate economic growth and try to resume production. The growth rate of each country's GDP will rise in the short term, and then slowly fall to the normal level before the epidemic in the next five years.

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# Economic Analysis – Consumer Spending Growth

## Consumer Spending Growth in USA, China and France



## Key Takeaways

- As people have been vaccinated on a large scale worldwide, consumer spending is expected to recover substantially from 2021 to 2022. The fashion industry will usher in a short-term consumption growth, but in the long run, consumers will be more cautious than before Covid, and consumer spending will be lower.
- The Chinese market has great potential. As China's GDP is still rising and the economy has recovered the fastest after COVID-19, China's consumer spending is expected to remain optimistic in the future.

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# Industry: PEST Analysis

## Political

- Affected by the trade war, imported products may become expensive due to taxes or border duties. In this case, the government usually encourages people to buy clothes from home-made brands and local designers.
- More and more companies refuse to deal with companies that use animal fur. Whether it is a local company or an international company, its purpose is to prevent cruelty to animals.
- Politicians and political figures still have special influence on the fashion industry and brands. Famous examples in history are Princess Diana and the first lady of the United States

## Social

- Young consumers pay more attention to the intrinsic value of the brand and its social influence. The effect of online communication is the most extensive and deepest
- Social media influencers are replacing traditional stars and becoming new generation's fashion icons. Their ability to carry goods is superior through internet

## Economic

- Covid makes people rethink consumerism. People tend to consume rationally, reduce spending on luxury goods, and are no longer willing to spend a premium on brands of fashion products
- People in the middle class or lower-middle class with limited resources prefer to rent clothes or jewelry, which is more cost-effective for them

## Technology

- Covid enriches the way the fashion show is presented. Different from the usual in person mode, the online form of expression is more innovative, which promotes designers and enterprises to tap the deep-seated needs of consumers
- People are more inclined to fast online shopping. This trend is more pronounced during holidays and promotional periods.
- Covid promotes the digital transformation of the industry, and advertisements are accurately pushed onto the screens of target consumers by algorithms.

## Key Takeaways

The development of online business is an inevitable trend in the next decade. LVMH quickly realized this and developed online stores on the platforms of the two largest regions: China and North America, making the relationship between brands and users remain close during the pandemic.

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# Industry: Porters 5 Analysis

Buyer Power High	Supplier Power Low	Competitive Rivalry Medium	Threat of New Entries Low	Threat of Substitution Medium
<ul style="list-style-type: none"><li>Consumers have many retailers to choose from to buy clothing and luxury goods, and they have little incentive to stay in a particular company. This gives them sufficient indirect bargaining power.</li><li>Usually, the price of a single product is very close in different retailers, and the style is easy to copy. Consumers can easily find alternatives in the same budget</li></ul>	<ul style="list-style-type: none"><li>In the fashion retail industry, the power of suppliers is relatively small. Most clothing companies source their products from third-world manufacturers, and they only make a small portion of their profits.</li><li>Input prices in this industry are relatively low and will remain at this level until the global development gap is significantly reduced</li></ul>	<ul style="list-style-type: none"><li>The industry barriers in the fashion industry are strong. The price has a strong relationship with the brand. Brands recognized by higher social classes are more likely to sell luxury goods.</li><li>Competitor companies will launch very similar products, and these products on the market will soon be saturated. In addition to the products themselves, the brand premiums of big brands allow companies, such as LVMH, to sell high-quality garments at very high prices</li></ul>	<ul style="list-style-type: none"><li>The fashion industry is "high risk and high return" for new entrants. The product itself is easy to copy, but the craftsmanship, materials, and brand influence of new entries cannot be compared with the high-end luxury brands that have formed influence.</li><li>LVMH has many brands and a rich product line, including wine, bags, jewelry and other different categories. Consumers naturally recognize more successful brands as a recognition and symbol of their own taste</li></ul>	<ul style="list-style-type: none"><li>The substitutability of the products is very high. But in fact, bands like LVMH's competitors are very limited. They belong to products of the same price and new designers who are causing brand new trends.</li><li>Fashion trends are elusive. Even loyal customers may choose other retailers' products because of the change in taste</li></ul>

## Key Takeaways

The products in the fashion industry are highly substitutable, but the industry barriers are also high. LVMH uses its own brand advantages to differentiate itself and set competitive prices, which can maintain the steady revenue growth.

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# Competition Analysis

	LVMH	Kering	Richemont
			
Offering	Wines & Spirits, Fashion & Leather Goods, Perfumes & Cosmetics, Watches & Jewelry and Selective Retailing.	Fashion, Leather Goods, Jewelry and Watches	Jewellery, watches, leather goods, pens, firearms, clothing and accessories.
Iconic Brands	(75 in total) Louis Vuitton, Christian Dior, Givenchy, Marc Jacobs, Stella McCartney, Loro Piana, Kenzo, Celine, Fenty, Princess Yachts, Tiffany & Co., Bulgari and so on	(15 in total) Gucci, Saint Laurent, Bottega Veneta, Balenciaga, Alexander McQueen, Brioni, Boucheron, Pomellato, Dodo, Qeelin, Ulysse Nardin, Girard-Perregaux, as well as Kering Eyewear.	(11 in total) A. Lange & Söhne, Azzedine Alaïa, Baume & Mercier, Buccellati, Cartier, Chloé, Dunhill, IWC Schaffhausen, Giampiero Bodino

## Key Takeaways

LVMH has more brands than its competitors, which allows it to occupy a certain market share in all product lines.

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# SWOT Analysis

## Strengths

- **Strong brand awareness.** Its brand awareness is unparalleled in the luxury goods industry and gives it an advantage in acquiring other brands. Because of its own popularity, it is easier to launch co-branded and peripheral products
- **Broad product line.** LVMH's extremely diversified brand portfolio and strict quality control have won praise from customers.
- **Multi-brand strategy.** Its brand portfolio consists of approximately 60 different companies, selling a variety of products, such as leather, jewelry, clothing, perfume and alcohol
- **Celebrity endorsement and star marketing.** As a leading French conglomerate in the luxury goods industry, LVMH has established a strong brand awareness, with celebrities from all walks of life endorsing its products.

## Opportunities

- **Large market for luxury goods and positive trends in emerging markets.** LVMH should focus on increasing investment in these emerging economies that can experience high growth rates, such as China and India in the Asia-Pacific region
- **Synergy between brands.** Due to its extremely diversified brand portfolio, LVMH can play a significant synergy effect, such as launching joint models and focusing on the development of cross-border single products
- **The worldwide rise of men's interest in fashion.** For the development of the men's luxury market, LVMH should take a proactive attitude and seize the first mover advantage among men who are accustomed to passively accepting trends.

## Weaknesses

- **High-cost structure, weak price elasticity and low production efficiency.** The group's revenue may be affected by the unaffordable price of luxury goods and lower production efficiency
- **Less invested in jewelry brands versus competitors.** Compared with its two biggest competitors, PPR and Richemont, LVMH invests much less in high-end jewelry and watches. In order to expand the product line of the high-end jewelry category, LVMH did not hesitate to acquire Tiffany at the highest transaction price in history

## Threats

- **Worldwide financial crisis.** Luxury goods are very sensitive to economic fluctuations, and LVMH's business largely depends on the economic situation of its customers. Therefore, the expected sales of the LVMH Group will be largely affected by the global financial crisis caused by COVID-19.
- **Increase market for counterfeit products.** In recent years, counterfeit behavior has risen sharply. These counterfeit products have diluted the market share and damaged the brand integrity of the LVMH Group. This caused intense competition in the industry

## Key Takeaways

LVMH's position strategy is very good, and its online business and trend planning also cater to current opportunities and trends. LVMH can clearly recognize its shortcomings and enrich its product line to cut down its shortcomings in diversity.

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# Fashion Industry Business Cycle

- Fashion industry just experienced the “Recession” phase due to the pandemic, and is going to the next “Recovery ”stage, which will embrace the revolution of brand-new business model.
- **Retail ROI.** The physical retail industry is under historical pressure. In the United States alone, approximately 20,000 to 25,000 stores will close in 2020, more than double the number in 2019. Nevertheless, the physical channel will not decline due to this. On the contrary, starting from 2021, the products will combine the best manual services and automated services to give consumers a better shopping experience and enhance the competitiveness of physical stores.
- **Opportunistic investment.** In the next five years, it will be necessary to actively manage business opportunities and select winning market segments, market and channel combinations. With the downturn in the tourism industry, online shopping will become more important than ever. According to McKinsey’s report, it is expected that as the company takes advantage of low valuations and gains share in the fast-growing market, M&A activities will increase.
- **Deeper partnership.** Fashion companies need to learn to face future supply chain disruptions, such as the massive supply chain paralysis caused by covid. Companies should get rid of transactional supplier relationships and instead establish deeper partnerships, which will bring greater agility and responsibility.

## Key Takeaways

The recovery of the fashion industry after the pandemic will make LVMH's revenue rise rapidly in the short term.

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# How The Firm Competes

- **Decentralized organizational structure.** Most decisions are made by middle or lower-level managers, not by supervisors. Each “Maison” or brand of LVMH operates autonomously across functions, so it can respond quickly. Every fashion brand, such as Dior, has its own creative director, just like every perfume brand has its own marketing director. This greatly improves the practicability of creativity and lays the foundation for the long-term development of LVMH.
- **Brand-Dominant Through Diversity.** Brand diversity covers a wide range of people from low-end-to-high-end fashion. Each brand has the autonomy and power to make decisions related to its brand image, which enables each team to be highly involved and actively serve their unique customers.
- **A balanced international portfolio.** LVMH strategically expands entities through selective retail and acquires local luxury brands. This portfolio approach allows the group to maintain balance without relying on a specific market. LVMH's success can be attributed to strategic acquisitions and the continuous cultivation of its brand through independent creativity. Despite Covid-19, LVMH's sales increased by 12% in the third quarter of 2020.
- **Vertical Integration.** LVMH fully controls its value chain, including production and distribution. LVMH produces top luxury goods in its place of origin, and only transfers the less high-end product lines to factories outside of it. This ensures that the quality, design and cultural heritage of the core product line has always been at a high level, supporting the brand's style and reputation.

**Value Driver: Product Quality and Brand Reputation**

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# PART 05

## DCF Analysis

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# WACC Calculation: Beta

(in Millions)

Comparable Companies	Total Debt	Market Capitalization	Beta	Un-levered Beta
Richemont	€ 14,431.00	€ 82,692.80	1.22	1.08
Burberry	£ 1,421.90	£ 7,501.20	1.23	1.08
Prada	¥ 2,825.10	¥ 135,361.80	1.41	1.39
Kering	€ 9,816.70	€ 91,215.30	0.97	0.90
Average			1.21	1.11
	Debt	Equity	Beta	Un-levered Beta
LVMH	€ 38,548	€ 365,248	1.11	1.20
	Tax Rate			
LVMH	26.50%			

- Beta used in the calculation for the Cost of Equity will be 1.11
- Unlevered Beta =  $5 \text{ Year Beta} / (1 + (1-t) * (D/E))$ , using LVMH's tax rate of 26.50%
- Levered Beta = Unlevered Beta \*  $(1 + (1-t) * D/E)$ . Unlevered Beta used was the average of comparable companies Unlevered Beta (1.11)

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# WACC Calculation: Total Value of Firm

Debt (EUR in Millions)		
Short-term Borrowings	€	8,765
Current Portion of Long Term Debt	€	3,354
Current Portion of Leases	€	2,440
Long Term Debt	€	11,944
Long-Term Leases	€	12,045
<b>Total Debt</b>	€	<b>38,548</b>

Equity (EUR in Millions)		
Share Price (as of Dec 7,2021)	€	725.00
# of Shares outstanding (mm)		503.79
<b>Total Equity</b>	€	<b>365,248</b>

Value of Firm	Amount (EUR)	Weight
Total Debt	€ 38,548	9.55%
Total Equity	€ 365,248	90.45%

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# WACC Calculation: Cost of Equity and Debt

Cost of Debt		
Long Term Debt (EUR in Millions)	From LVMH 2020 Annual Report	€ 11,944
Risk Free Rate	U.S. 10 Year Treasury Note as of Dec 8, 2021	1.51%
Incremental Borrowing Rate	From LVMH 2020 Annual Report	2.00%
Credit Spread	A1 rating in Moody	0.25%
Lease Obligation	From LVMH 2020 Annual Report	€ 14,485
Kd(before tax)	((Rf+Credit Spread)*Long-term Debt+Incremental Borrowing Rate*Lease Obligation)/Total Debt	1.30%
Kd(after tax)	Kd(before tax)*(1-Tax Rate)	0.95%

Cost of Equity		
Beta	As calculated	1.20
Risk Free Rate	U.S. 10 Year Treasury Note as of Dec 8, 2021	1.51%
Risk Premium	Damodaran's Latest Valuation	5.20%
Ke	Rf+Beta*Rp	7.75%

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# Weighted Average Cost of Capital

WACC		
Kd	Kd(before tax)*(1-Tax Rate)	0.95%
Ke	Rf+Beta*Rp	7.75%
Wd	D/(D+E)	9.55%
We	E/(D+E)	90.45%
WACC	Wd*(Kd)*(1-T) + (We)*(Ke)	7.07%

# Historical Analysis

(EUR millions)	Historical						5 Year Average
	2015	2016	2017	2018	2019	2020	
Forecast Year							
Revenue (Dollars in EUR millions)	€ 35,644	€ 37,600	€ 42,636	€ 46,826	€ 53,670	€ 44,651	
% of Growth		5.49%	13.39%	9.83%	14.62%	-16.80%	5.30%
Cost Of Goods Sold	€ 12,553	€ 13,039	€ 14,783	€ 15,625	€ 18,123	€ 15,871	
% of Revenue	35.22%	34.68%	34.67%	33.37%	33.77%	35.54%	34.54%
<b>Gross Profit</b>	<b>€ 23,091</b>	<b>€ 24,561</b>	<b>€ 27,853</b>	<b>€ 31,201</b>	<b>€ 35,547</b>	<b>€ 28,780</b>	
Selling General & Admin Exp.	€ 16,493	€ 17,538	€ 19,557	€ 21,221	€ 24,071	€ 20,433	
% of Revenue	46.27%	46.64%	45.87%	45.32%	44.85%	45.76%	45.79%
<b>EBIT</b>	<b>€ 6,598</b>	<b>€ 7,023</b>	<b>€ 8,296</b>	<b>€ 9,980</b>	<b>€ 11,476</b>	<b>€ 8,347</b>	
Tax	€ 2,177	€ 2,275	€ 2,281	€ 2,625	€ 3,144	€ 2,729	
Tax rate %	33.00%	32.40%	27.50%	26.30%	27.40%	32.70%	29.88%
<b>NOPAT</b>	<b>€ 4,421</b>	<b>€ 4,748</b>	<b>€ 6,015</b>	<b>€ 7,355</b>	<b>€ 8,332</b>	<b>€ 5,618</b>	

- Cost of Goods Sold have remained relatively consistent due to strong supplier power.
- Gross Profit was continuously increasing from 2015 to 2019 with a relatively small downward in 2020. According to the decrease in Revenue, the Gross Profit is expected to be back to the increasing trend after 1 to 2 years' recovery.

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# Historical Analysis

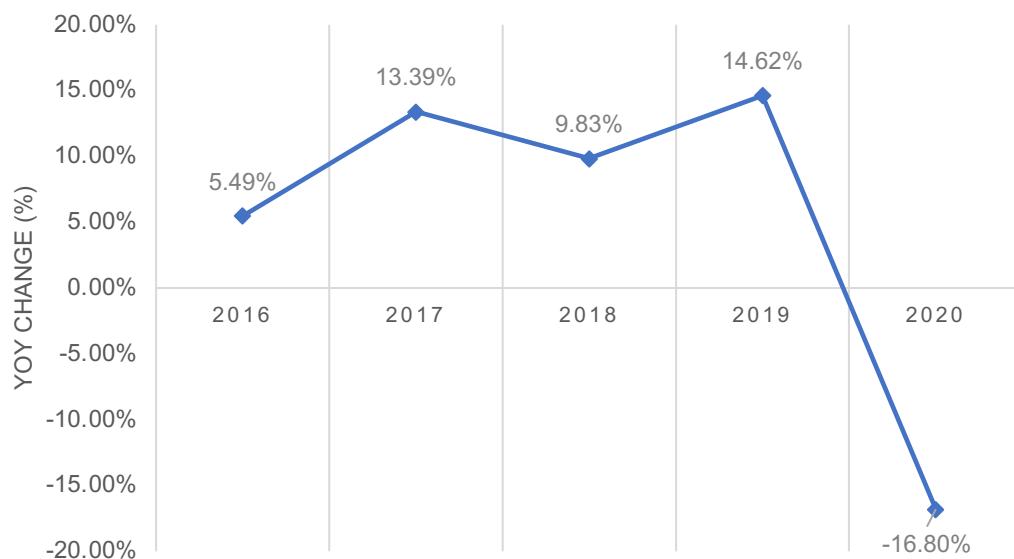
(EUR millions)	Historical						Forecast Year
	2015	2016	2017	2018	2019	2020	
<b>NOPAT</b>	€ 4,421	€ 4,748	€ 6,015	€ 7,355	€ 8,332	€ 5,618	
Depreciation and amortization	€ 1,430	€ 1,467	€ 1,645	€ 1,739	€ 4,219	€ 4,434	
<b>% of Revenue</b>	<b>4.01%</b>	<b>3.90%</b>	<b>3.86%</b>	<b>3.71%</b>	<b>7.86%</b>	<b>9.93%</b>	<b>5.55%</b>
Change on NWC (in millions)	€ 66	€ (229)	€ 613	€ 796	€ (897)		
<b>CAPEX</b>	€ 1,974	€ 2,261	€ 2,299	€ 2,590	€ 2,860	€ 1,983	
<b>% of Revenue</b>	<b>5.54%</b>	<b>6.01%</b>	<b>5.39%</b>	<b>5.53%</b>	<b>5.33%</b>	<b>4.44%</b>	<b>5.37%</b>

- D&A accelerated in 2020 due to the worldwide store closures closed during 2020. Before Covid-19, D&A was a relatively consistent as % of Revenue until 2018, with a sudden increase in 2019.
- Capital Expenditure has remained a consistent % of revenue up until 2019 around 5%. The increase in 2020 is caused by the investment in online stores and IT systems during Covid-19.

# Historical Analysis: Revenue Growth

	2015	2016	2017	2018	2019	2020	Average
Revenue (Dollars in EUR millions)	€ 35,644	€ 37,600	€ 42,636	€ 46,826	€ 53,670	€ 44,651	
% Revenue Growth	5.49%	13.39%	9.83%	14.62%	-16.80%	5.30%	

## Revenue Growth



## Key Takeaways

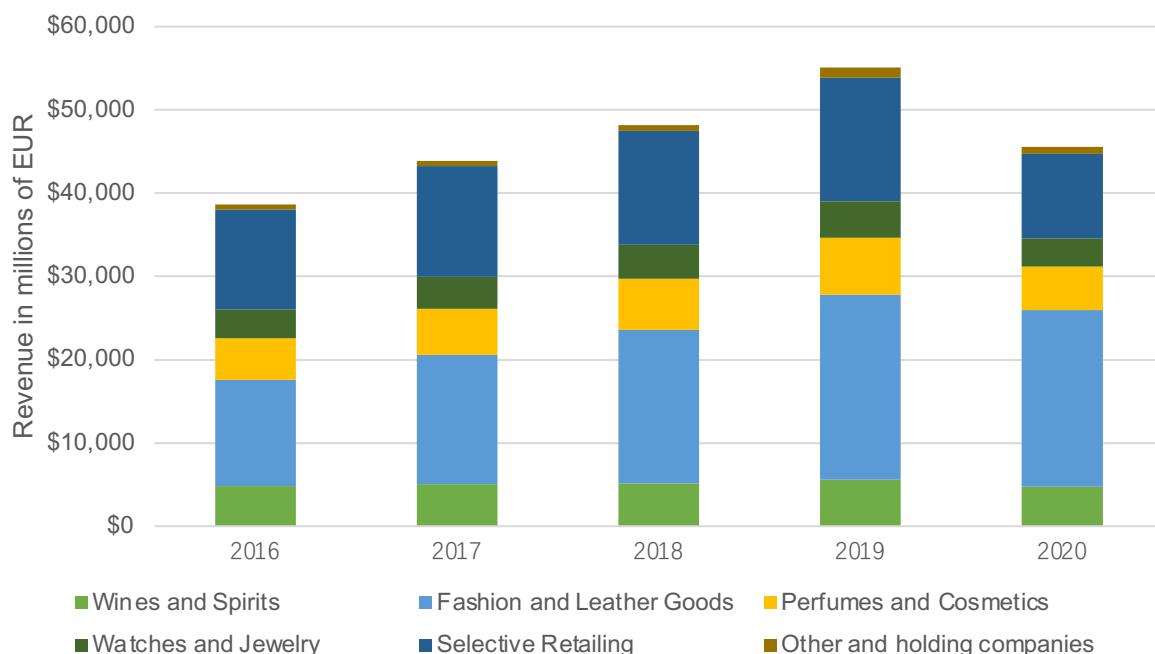
In the past five years, the percentage growth of revenue has shown a steady upward trend. However, due to the impact of COVID-19, revenue dropped dramatically in 2020.

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# Historical Revenue Growth By Product Line

## Revenue Growth Per Product Line

Year	Wines and Spirits	Fashion and Leather Goods	Perfumes and Cosmetics	Watches and Jewelry	Selective Retailing	Other and holding companies
2016	12.86%	33.98%	13.17%	9.22%	31.84%	1.70%
2017	11.92%	36.29%	13.04%	8.92%	31.22%	1.53%
2018	10.98%	39.41%	13.01%	8.80%	29.14%	1.52%
2019	10.39%	41.43%	12.74%	8.21%	27.56%	2.26%
2020	10.65%	47.50%	11.75%	7.52%	22.74%	1.94%



## Key Takeaways

- Proportion of revenue per product line has been consistent over the past 5 years.
- Besides Fashion and Leather Goods segment, all other segments' growth rate were slowing down before 2020.

LVMH

# Historical Revenue Growth By Product Line

(EUR millions)	2015	2016	2017	2018	2019	2020	Average	Average Without 2020
Wines and Spirits	€ 4,603	€ 4,835	€ 5,084	€ 5,143	€ 5,576	€ 4,755		
% Revenue Growth	5.04%	5.15%	1.16%	8.42%	-14.72%	1.01%	4.94%	
Fashion and Leather Goods	€ 12,369	€ 12,775	€ 15,472	€ 18,455	€ 22,237	€ 21,207		
% Revenue Growth	3.28%	21.11%	19.28%	20.49%	-4.63%	11.91%	16.04%	
Perfumes and Cosmetics	€ 4,671	€ 4,953	€ 5,560	€ 6,092	€ 6,835	€ 5,248		
% Revenue Growth	6.04%	12.26%	9.57%	12.20%	-23.22%	3.37%	10.01%	
Watches and Jewelry	€ 3,308	€ 3,468	€ 3,805	€ 4,123	€ 4,405	€ 3,356		
% Revenue Growth	4.84%	9.72%	8.36%	6.84%	-23.81%	1.19%	7.44%	
Selective Retailing	€ 11,193	€ 11,973	€ 13,311	€ 13,646	€ 14,791	€ 10,155		
% Revenue Growth	6.97%	11.18%	2.52%	8.39%	-31.34%	-0.46%	7.26%	
Other and holding companies	€ 448	€ 638	€ 651	€ 714	€ 1,214	€ 868		
% Revenue Growth	42%	2%	10%	70%	-29%	19.13%	31.04%	

## Key Takeaways

- LVMH's revenue growth by product line shows Fashion and Leather Goods & Other and holding companies lines are driving growth rapidly and Wines and Spirits are driving growth slowing
- All product lines saw a decrease in 2020 due to an overall decrease in sales volume caused by Covid
- Revenue has been growing in the past 5 years. Although the consumer spending in 2019 decline rapidly in worldwide, the revenue growth in all segments except for Watches and Jewelry are still increasing
- The average revenue growth rate without 2020 can more truly reflect the revenue growth trend under normal operations.

LVMH

# Historical Revenue Growth: Quarterly Since Covid

(EUR millions)	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	Average
Wines and Spirits	€ 810	€ 1,364	€ 1,406	€ 1,510	€ 1,195	
% Revenue Growth		68.40%	3.08%	7.40%	-20.86%	14.50%
Fashion and Leather Goods	€ 3,346	€ 5,945	€ 7,273	€ 6,738	€ 7,125	
% Revenue Growth		77.67%	22.34%	-7.36%	5.74%	24.60%
Perfumes and Cosmetics	€ 922	€ 1,370	€ 1,574	€ 1,550	€ 1,475	
% Revenue Growth		48.59%	14.89%	-1.52%	-4.84%	14.28%
Watches and Jewelry	€ 527	€ 947	€ 1,090	€ 1,883	€ 2,140	
% Revenue Growth		79.70%	15.10%	72.75%	13.65%	45.30%
Selective Retailing	€ 2,218	€ 2,332	€ 2,979	€ 2,337	€ 2,748	
% Revenue Growth		5.14%	27.74%	-21.55%	17.59%	7.23%
Other and holding companies	€ 153	€ 232	€ 232	€ 215	€ 280	
% Revenue Growth		51.63%	0.00%	-7.33%	30.23%	18.63%
Total	€ 7,797	€ 11,955	€ 14,303	€ 13,959	€ 14,706	
% Revenue Growth		53.33%	19.64%	-2.41%	5.35%	18.98%

## Key Takeaways

According to quarterly data in the past year, the revenue of all product lines has increased significantly. The growth of Watches and Jewelry is the most obvious, because LVMH finally successfully completes the acquisition of Tiffany & Co.

LVMH



# Revenue Forecast Assumptions

Product line	5 Year Average	Year 1-2	Year 3-5	Year 5 and onward	Rationale
Wines and Spirits	1.01%	5%	3%	2.5%	Excluding the revenue in 2020, the average revenue growth of this segment is about 5%, and the revenue growth in the latest four quarters is 14%. In the next two years, this segment is expected to return to its pre-covid growth level as the economy recovers.
Fashion and Leather Goods	11.91%	22%	16%	12%	As the backbone of LVMH, the growth of Fashion and Leather Goods is the most stable and fastest. The brands have benefited from their solid position and extraordinary appeal, and have actively expanded online store channels. The growth rate of this segment will be very fast in the next two years, and then the growth rate will be very stable.
Perfumes and Cosmetics	3.37%	9%	6%	4%	In the process of economic recovery, the "lipstick effect" will increase the sales of low-unit-price products such as perfumes and cosmetics. In the long run, its sales will gradually fall back to normal levels. Due to the strong substitutability of cosmetics, its income growth rate will be relatively stable.
Watches and Jewelry	1.19%	10%	8%	6%	Because LVMH successfully acquired Tiffany this year, it will inevitably drive the revenue growth of Watches and Jewelry segment. This can be seen in the growth of the past four quarters, the category has risen rapidly by 45%.
Selective Retailing	-0.46%	6%	5%	3%	The Covid-19 pandemic has led to a sharp decline in revenue from selective retail operations in 2020, prompting brands to take the necessary measures to adapt to this situation and expand their digital products. According to the latest quarterly growth, the digital strategy has achieved results. The growth of this segment is expected to return to the level of growth before Covid.
Other and holding companies	19.13%	20%	15%	10%	This segment includes the media sector, the Dutch luxury yacht manufacturer Royal Van Lent, hotel operations and holdings or real estate companies. As the economy recovers, the global tourism industry will gradually pick up, driving the income of this segment to increase steadily.

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# Revenue Growth Summary



(EUR millions)	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Wines and Spirits	€ 4,755	€ 4,993	€ 5,242	€ 5,400	€ 5,562	€ 5,728	€ 5,872	€ 6,019	€ 6,169	€ 6,323	€ 6,481
% Revenue Growth	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Fashion and Leather Goods	€ 21,207	€ 25,873	€ 31,564	€ 36,615	€ 42,473	€ 49,269	€ 55,181	€ 61,803	€ 69,219	€ 77,526	€ 86,829
% Revenue Growth	22.0%	22.0%	16.0%	16.0%	16.0%	16.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Perfumes and Cosmetics	€ 5,248	€ 5,720	€ 6,235	€ 6,609	€ 7,006	€ 7,426	€ 7,723	€ 8,032	€ 8,353	€ 8,688	€ 9,035
% Revenue Growth	9.0%	9.0%	6.0%	6.0%	6.0%	6.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Watches and Jewelry	€ 3,356	€ 3,692	€ 4,061	€ 4,386	€ 4,736	€ 5,115	€ 5,422	€ 5,748	€ 6,093	€ 6,458	€ 6,846
% Revenue Growth	10.0%	10.0%	8.0%	8.0%	8.0%	8.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Selective Retailing	€ 10,155	€ 10,764	€ 11,410	€ 11,981	€ 12,580	€ 13,209	€ 13,605	€ 14,013	€ 14,433	€ 14,866	€ 15,312
% Revenue Growth	6.0%	6.0%	5.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Other and holding companies	€ 868	€ 1,042	€ 1,250	€ 1,437	€ 1,653	€ 1,901	€ 2,091	€ 2,300	€ 2,530	€ 2,783	€ 3,062
% Revenue Growth	20.0%	20.0%	15.0%	15.0%	15.0%	15.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Total	€ 44,651	€ 52,083	€ 59,763	€ 66,427	€ 74,010	€ 82,649	€ 89,894	€ 97,914	€ 106,798	€ 116,644	€ 127,565
% Revenue Growth	16.64%	14.75%	11.15%	11.41%	11.67%	8.77%	8.92%	9.07%	9.22%	9.36%	

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# Forecast Assumption: Specific Assumptions

Financial Statement Line Item	5 Year Historical	Forecast Assumptions	Rationale
<b>Cost of Goods Sold</b>	34.54%	34%	<ul style="list-style-type: none"> <li>Cost of Goods Sold has remained relatively constant between 33%-35.5% historically before Covid-19</li> </ul>
<b>SG&amp;A</b>	45.79%	45%	<ul style="list-style-type: none"> <li>Its historical average has been relatively stable, and it is even less affected by Covid-19</li> </ul>
<b>Depreciation/ Amortization</b>	5.55%	7%	<ul style="list-style-type: none"> <li>As LVMH closed offline stores on a large scale in 2020, this will make D&amp;A soar to 9% in 2020. It is expected to return to its previous level after the economic recovery</li> </ul>
<b>Capital Expenditure</b>	5.37%	5%	<ul style="list-style-type: none"> <li>Due to the uncertainty of the pandemic, expected capital expenditures after closing offline stores will decrease. But at the same time online business will be vigorously developed, which will require capital expenditures. Therefore, CAPEX is expected to maintain its pre-Covid-19 level</li> </ul>
<b>Accounts Receivable</b>	6.69%	6.50%	<ul style="list-style-type: none"> <li>Since the economies of all income-generating regions are in a recovery period, the risk of accounts receivable is reduced. Therefore, it will slightly reduced</li> </ul>
<b>Prepaid Exp.</b>	0.93%	0.9%	<ul style="list-style-type: none"> <li>The economy is expected to recover in the next two years, so maintain the five-year historical average</li> </ul>
<b>Inventory</b>	27.21%	25%	<ul style="list-style-type: none"> <li>After the economic recovery, the backlog of inventories will be cleared, accommodated with LVMH's strategy of moving to online services. It is expected that the future inventory will be greatly reduced soon, returning to the level before Covid-19</li> </ul>
<b>Accounts Payable</b>	11.08%	11%	<ul style="list-style-type: none"> <li>The company even has sufficient repayment capacity in 2020, so continue to use the five-year historical average</li> </ul>
<b>Accrued Exp.</b>	5.30%	5.3%	<ul style="list-style-type: none"> <li>Accrued Expense has been relatively stable in the past five years, so the five-year historical average is used</li> </ul>

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# NCWC Analysis



(EUR millions)	Historical										Forecast									
	2015	2016	2017	2018	2019	2020	2021 Year 1	2022 Year 2	2023 Year 3	2024 Year 4	2025 Year 5	2026 Year 6	2027 Year 7	2028 Year 8	2029 Year 9	2030 Year 10				
Forecast Year																				
Revenue (Dollars in EUR millions) €	35,644	37,600	42,636	46,826	53,670	44,651	52,083	59,763	66,427	74,010	82,649	89,894	97,914	106,798	116,644	127,565				
<b>Non-Cash Current Assets</b> €	12,974	13,610	14,020	16,137	17,621	16,159	16,875	19,363	21,522	23,979	26,778	29,126	31,724	34,602	37,793	41,331				
Accounts Receivable % of Revenue	2,521	2,685	2,736	3,222	3,450	2,756	3,385	3,885	4,318	4,811	5,372	5,843	6,364	6,942	7,582	8,292				
	7.07%	7.14%	6.42%	6.88%	6.43%	6.17%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%				
Prepaid Exp. % of Revenue	357	379	396	430	454	387	469	538	598	666	744	809	881	961	1,050	1,148				
	1.00%	1.01%	0.93%	0.92%	0.85%	0.87%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%				
Inventory % of Revenue	10,096	10,546	10,888	12,485	13,717	13,016	13,021	14,941	16,607	18,502	20,662	22,474	24,479	26,699	29,161	31,891				
	28.32%	28.05%	25.54%	26.66%	25.56%	29.15%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%				
<b>Non-Cash Current Liabilities</b> €	7,872	8,442	9,081	10,585	11,273	10,708	11,615	13,327	14,813	16,504	18,431	20,046	21,835	23,816	26,012	28,447				
Accounts Payable % of Revenue	3,960	4,184	4,539	5,314	5,814	5,098	5,729	6,574	7,307	8,141	9,091	9,888	10,771	11,748	12,831	14,032				
	11.11%	11.13%	10.65%	11.35%	10.83%	11.42%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%				
Accrued Exp. % of Revenue	1,915	2,010	2,269	2,465	2,669	2,478	2,760	3,167	3,521	3,923	4,380	4,764	5,189	5,660	6,182	6,761				
	5.37%	5.35%	5.32%	5.26%	4.97%	5.55%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%				
Other Current Liabilities % of Revenue	1,997	2,248	2,273	2,806	2,790	3,132	3,125	3,586	3,986	4,441	4,959	5,394	5,875	6,408	6,999	7,654				
	5.60%	5.98%	5.33%	5.99%	5.20%	7.01%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%				
<b>Non Working Capital</b> €	5,102	5,168	4,939	5,552	6,348	5,451	5,260	6,036	6,709	7,475	8,348	9,079	9,889	10,787	11,781	12,884				
Change on NWC (in millions) €		66	(229)	613	796	(897)	(191)	776	673	766	873	732	810	897	994	1,103				

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# DCF Matrix-NOPAT

(EUR millions)	Historical										Forecast																					
	2015		2016		2017		2018		2019		2020		2021		2022		2023		2024		2025		2026		2027		2028		2029		2030	
Forecast Year											Year 1		Year 2		Year 3		Year 4		Year 5		Year 6		Year 7		Year 8		Year 9		Year 10			
Revenue (Dollars in EUR millions)	€	35,644	€	37,600	€	42,636	€	46,826	€	53,670	€	44,651	€	52,083	€	59,763	€	66,427	€	74,010	€	82,649	€	89,894	€	97,914	€	106,798	€	116,644	€	127,565
Cost Of Goods Sold	€	12,553	€	13,039	€	14,783	€	15,625	€	18,123	€	15,871	€	17,708	€	20,319	€	22,585	€	25,163	€	28,101	€	30,564	€	33,291	€	36,311	€	39,659	€	43,372
% of Revenue		35.22%		34.68%		34.67%		33.37%		33.77%		35.54%		34%		34%		34%		34%		34%		34%		34%		34%		34%		
Gross Profit	€	23,091	€	24,561	€	27,853	€	31,201	€	35,547	€	28,780	€	34,375	€	39,443	€	43,842	€	48,846	€	54,548	€	59,330	€	64,624	€	70,487	€	76,985	€	84,193
Selling General & Admin Exp.	€	16,493	€	17,538	€	19,557	€	21,221	€	24,071	€	20,433	€	23,437	€	26,893	€	29,892	€	33,304	€	37,192	€	40,452	€	44,062	€	48,059	€	52,490	€	57,404
% of Revenue		46.27%		46.64%		45.87%		45.32%		44.85%		45.76%		45%		45%		45%		45%		45%		45%		45%		45%		45%		
EBIT	€	6,598	€	7,023	€	8,296	€	9,980	€	11,476	€	8,347	€	10,937	€	12,550	€	13,950	€	15,542	€	17,356	€	18,878	€	20,562	€	22,428	€	24,495	€	26,789
Tax	€	2,177	€	2,275	€	2,281	€	2,625	€	3,144	€	2,729	€	2,953	€	3,389	€	3,766	€	4,196	€	4,686	€	5,097	€	5,552	€	6,055	€	6,614	€	7,233
Tax rate %		33.00%		32.40%		27.50%		26.30%		27.40%		32.70%		27%		27%		27%		27%		27%		27%		27%		27%		27%		
NOPAT	€	4,421	€	4,748	€	6,015	€	7,355	€	8,332	€	5,618	€	7,984	€	9,162	€	10,183	€	11,346	€	12,670	€	13,781	€	15,010	€	16,372	€	17,882	€	19,556

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# DCF Matrix-FCFF

(EUR millions)

Forecast Year	Historical										Forecast										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030					
NOPAT	€ 4,421	€ 4,748	€ 6,015	€ 7,355	€ 8,332	€ 5,618	€ 7,984	€ 9,162	€ 10,183	€ 11,346	€ 12,670	€ 13,781	€ 15,010	€ 16,372	€ 17,882	€ 19,556					
Depreciation and amortization % of Revenue	€ 1,430 4.01%	€ 1,467 3.90%	€ 1,645 3.86%	€ 1,739 3.71%	€ 4,219 7.86%	€ 4,434 9.93%	€ 3,646 7%	€ 4,183 7%	€ 4,650 7%	€ 5,181 7%	€ 5,785 7%	€ 6,293 7%	€ 6,854 7%	€ 7,476 7%	€ 8,165 7%	€ 8,930 7%					
Change on NWC (in millions)	€ 66	€ (229)	€ 613	€ 796	€ (897)	€ (191)	€ 776	€ 673	€ 766	€ 873	€ 732	€ 810	€ 897	€ 994	€ 1,103						
CAPEX % of Revenue	€ 1,974 5.54%	€ 2,261 6.01%	€ 2,299 5.39%	€ 2,590 5.53%	€ 2,860 5.33%	€ 1,983 4.44%	€ 2,604 5%	€ 2,988 5%	€ 3,321 5%	€ 3,700 5%	€ 4,132 5%	€ 4,495 5%	€ 4,896 5%	€ 5,340 5%	€ 5,832 5%	€ 6,378 5%					
FCFF	€ 3,888	€ 5,590	€ 5,891	€ 8,895	€ 8,966	€ 9,217	€ 9,581	€ 10,839	€ 12,060	€ 13,450	€ 14,847	€ 16,159	€ 17,611	€ 19,220	€ 21,004						
PV of FCFF	WACC 7.07%						€ 8,608	€ 8,357	€ 8,830	€ 9,175	€ 9,557	€ 9,853	€ 10,015	€ 10,194	€ 10,390	€ 10,605					

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# DCF Matrix-Output

PV (2021-2030)	€ 95,583
Terminal Growth Rate	2%
Terminal Value	€ 422,303.11
PV of Terminal Value	\$213,215.46
Enterprise Value	€ 308,798.77
Funded Debt	38,548.00
Cash	8,723.00
Equity Value	€ 278,973.77
Number of Shares Outstanding	503.79
Price Per Share	€ 553.75

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## Terminal Value

Terminal Growth Rate	2%
FCFF(2030)	€ 21,004
WACC	7.07%
TV(2030)	€ 422,303.11
PV of TV	\$213,215.46



# Lease

(EUR millions)	June 30, 2021	Dec. 31, 2020	June 30, 2020
Non-current lease liabilities	12,045	10,665	11,159
Current lease liabilities	2,440	2,163	2,337
<b>Total</b>	<b>14,485</b>	<b>12,828</b>	<b>13,495</b>

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## Funded Debt

<b>Debt (EUR in Millions)</b>		
Short-term Borrowings	€	8,765
Current Portion of Long Term Debt	€	3,354
Current Portion of Leases	€	2,440
Long Term Debt	€	11,944
Long-Term Leases	€	12,045
<b>Total Debt</b>	€	<b>38,548</b>

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# Sensitivity Analysis

		Terminal Growth Rate					
	€ 553.75	0.5%	1.0%	1.5%	2.0%	2.5%	
WACC	5% €	725 €	800 €	896 €	1,024 €	1,203	
	6% €	567 €	612 €	667 €	736 €	824	
	7% €	459 €	488 €	522 €	564 €	614	
	8% €	380 €	400 €	423 €	450 €	481	
	9% €	321 €	335 €	351 €	369 €	390	
		WACC					
1 Year Revenue Growth	€ 553.75	5%	6%	7%	8%	9%	
	14% €	998 €	717 €	549 €	438 €	359	
	15% €	1,007 €	724 €	554 €	442 €	363	
	16% €	1,017 €	731 €	560 €	447 €	366	
	17% €	1,027 €	738 €	566 €	451 €	370	
1 Year Revenue Growth	18% €	1,037 €	745 €	571 €	456 €	374	
		Terminal Growth Rate					
€ 553.75	0.5%	1.0%	1.5%	2.0%	2.5%		
14% €	440 €	468 €	500 €	539 €	587		
15% €	445 €	473 €	505 €	545 €	593		
1 Year Revenue Growth	16% €	449 €	477 €	511 €	550 €	598	
	17% €	454 €	482 €	516 €	556 €	604	
	18% €	459 €	487 €	521 €	561 €	610	

- The stock price is highly sensitive to WACC and Terminal Growth Rate. WACC is an important assumption. A 1% change will cause an increase or decrease of approximately €200
- In contrast, revenue growth is not that sensitive. Changing the revenue growth rate of 5% will only increase or decrease by around €50.



# **PART 06**

# **Relative Value Analysis**

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# Selection of Comparable Firms

Comparable Companies	Rationale
Richemont	Through its various subsidiaries, Richemont produces and sells jewellery, watches, leather goods, pens, firearms, clothing and accessories. The product line is quite similar as LVMH.
Burberry	It currently designs and distributes ready to wear including trench coats, leather goods, footwear, fashion accessories, eyewear, fragrances, and cosmetics. As trench coats and leather goods are both LVMH and Burberry's most profitable and famous departments, they are comparable.
Prada	It specializes in leather handbags, travel accessories, shoes, ready-to-wear, perfumes and other fashion accessories. The leather goods are what LVMH is focused on.
Kering	It is a French-based multinational corporation specializing in luxury goods. It owns the luxury brands Balenciaga, Bottega Veneta, Gucci, Alexander McQueen, Yves Saint Laurent, and formerly owned Puma. LVMH also owns tons of luxury brand that targets the same group of customers.

The criteria for selecting a company also include the target customer group, geographic market, and the company's performance.

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# Selection of Comparable Firms

(in Millions)

Comparable Companies		Revenue	EBIT	Net Income	Debt	Market Capitalization	Cash	Enterprise Value
Richemont	€	17,318	€ 3,094	€ 2,481	€ 15,080	€ 82,961	€ 14,667	€ 83,450
Burberry	£	2,679	£ 560	£ 471	£ 1,422	£ 7,501	£ 1,197	£ 7,729
Prada	¥	26,388	¥ 3,645	¥ 1,975	¥ 24,966	¥ 136,488	¥ 5,397	¥ 156,175
Kering	€	15,769	€ 4,420	€ 3,357	€ 9,817	€ 91,215	€ 4,792	€ 96,489
LVMH	€	54,923	€ 14,251	€ 9,469	€ 38,548	€ 365,244	€ 8,723	€ 396,510

Comparable Companies	Weighting	EV/EBITA	EV/Revenue	PE Ratio
Richemont	0.3	26.97x	4.82x	33.4x
Burberry	0.2	13.81x	2.89x	16x
Prada	0.2	42.84x	5.92x	69.1x
Kering	0.3	21.83x	6.12x	27.5x
Comparable Ratio		25.97x	5.04x	35.29x

LVMH



# RV Price Calculation

EV/REV	
Comparable Ratio	5.04x
LVMH Revenue (Jun,30, 2021)	€ 54,923.00
<b>Enterprise Value (EV)</b>	€ 276,811.92
Cash & Short Term Investments (+)	€ 8,723.00
Funded Debt (-)	€ 38,548.00
<b>Market Value</b>	€ 246,986.92
Outstanding Shares (Millions)	503.8
<b>Estimated Share Price</b>	€ 490.25

EV/EBITA	
Comparable Ratio	25.97x
LVMH EBITA(Jun,30, 2021)	€ 16,040.00
<b>Enterprise Value (EV)</b>	€ 416,558.80
Cash & Short Term Investments (+)	€ 8,723.00
Funded Debt (-)	€ 38,548.00
<b>Market Value</b>	€ 386,733.80
Outstanding Shares (Millions)	503.8
<b>Estimated Share Price</b>	€ 767.63

P/E	
Comparable Ratio	35.29x
LVMH Net Income(Jun,30, 2021)	€ 9,469.00
Outstanding Shares (Millions)	503.8
<b>Estimated Share Price</b>	€ 663.28

LVMH



# RV Metric Price Reconciliation

Metric	Weighting in RV	Rationale	Price Per Share
EV/EBITA	0.5	a measure that takes into account a company's debt and cash levels in addition to its stock price and relates that value to the firm's cash profitability. It is fairly standerized that indeeds a relatively large weight.	€ 767.63
EV/REV	0.3	a measure of the value of a stock that compares a company's enterprise value to its revenue and determine whether a stock is priced fairly.	€ 490.25
PE Ratio	0.2	a popular valuation metric that indicates a company's future growth potential by comparing its current market price to its earnings per share. As it depends on the investor's expectations, it will be given relatively small weight.	€ 663.28
Reconciled RV Price Per Share			€ 663.55

LVMH



# **PART 07**

## **DCF & RV**

## **Reconciliation**

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**LVMH**



# Reconciliation

## Discounted Cash Flow

Price Per Share: €553.75

Weight: 70%

- The Discounted cash flow method is less affected by market fluctuations and better reflects company-specific factors. Considering that the economic recovery after Covid-19 will make the market unstable in the future, the DCF method can avoid the influence of market emotions. Therefore, it will be given a higher weight.

## Relative Valuation

Price Per Share: €663.55

Weight: 30%

- Relative valuation methods are based on investors' optimism or pessimism and real market data. When the market is unstable, this approach may underestimate the company's long-term potential. Therefore, it will be given a lower weight.

**Reconciled Price Per Share Price: €586.69**

LVMH



## **PART 08**

# **Recommendation**

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**LVMH**



# Recommendation

**IMPLIED SHARE PRICE: \$586.69**

**€714.7**

Market Price Per Share  
(Dec 8, 2021)

**€553.75**

DCF Price Per Share

**€663.55**

RV Price Per Share

## SELL RECOMMENDATION

- The reconciliation of DCF and relative valuation stock price shows that LVMH is severely overvalued in the stock market. The higher valuation may come from investors using a lower WACC to value, which makes the market sentiment too optimistic. Although 2021 global economic market is positive, and LVMH is also expected to regain profit growth from recovery, the price per share in both RV and DCF method is still not as high as the current market price per share based on the valuation of the next 10 years. It is expected that the stock price will fall in the future, so the recommendation is to sell.

**LVMH**