

QUALITATIVE AND QUANTITATIVE ANALYSIS OF LVMH

Authors (Universitat de Barcelona):

Martí Nogué Corominas

Roger Masclans Armengol

EDITOR: Jordi Martí Pidelaserra

(Dpt. Comptabilitat, Universitat Barcelona)

LVMH

MOËT HENNESSY ♦ LOUIS VUITTON

Roger Masclans

Martí Nogué

Lecturer: Jordi Martí, Ph.D.

Analysis of Accounting Statements

EUS Group

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LVMH

MOËT HENNESSY ♦ LOUIS VUITTON

Quantitative Analysis

1. Introduction

1.1. Brief presentation of LVMH

LVMH Moët Hennessy • Louis Vuitton, better known as LVMH, is a French multinational group, which owns more than 60 prestigious brands around the globe. The group has its headquarters in Paris, and it is chaired by Bernard Arnault, the tenth wealthiest man in the world.

The activity of LVMH is mainly focused in luxury industry and its spectrum of products is divided into five generic fields:

- Wines & Spirits
- Fashion & Leather Goods
- Perfumes & Cosmetics
- Watches & Jewellery
- Selective retailing

Thanks to its brand development strategy, and the expansion of its international retail network (more than 3,000 stores worldwide), LVMH has had a strong growth dynamic since its creation in 1987. Today, almost

100,000 employees, 79% of whom are based outside France, share the Group's values.

Mission Statement

The mission of the LVMH group is to represent the most refined qualities of Western "Art de Vivre" around the world. LVMH must continue to be synonymous with both elegance and creativity. Our products, and the cultural values they embody, blend tradition and innovation, and kindle dream and fantasy.

In view of this mission, five priorities reflect the fundamental values shared by all Group stakeholders:

- 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

1.2. Corporate history

The LVMH group was founded in 1987 as a result of the merger between Moët Hennessy and Louis Vuitton, which served to create the world leader in luxury goods.

LVMH inherited a long history, and brings together noble professions, with deeply rooted traditions and a unique combination of internationally renowned brands.

The companies that form part of the champagne, spirits and leather goods division are over a century old, and some were established more than two centuries ago. Moët & Chandon dates back to 1743, Veuve Clicquot Ponsardin to 1772, Hennessy to 1765; Johan-Joseph Krug founded his establishment in 1843, while Château d'Yquem and its wines go as far back as 1593. The House of Louis Vuitton was founded in 1854.

In perfumes and cosmetics and in fashions, the companies, sometimes created more recently, have cultivated their international standing over a number of years. Guerlain goes back to 1829, Christian Dior to 1947. Givenchy was founded in 1951, and launched its perfumes in 1957.

So in fact it was a series of successive mergers, motivated by the affinity of their core businesses, which led to the establishment of the LVMH group.

Bernard Arnault's management in front of the group was another key success factor, which led the group to the first position of the industry. He acquired the company through a takeover bid with the help of some investment French banks.

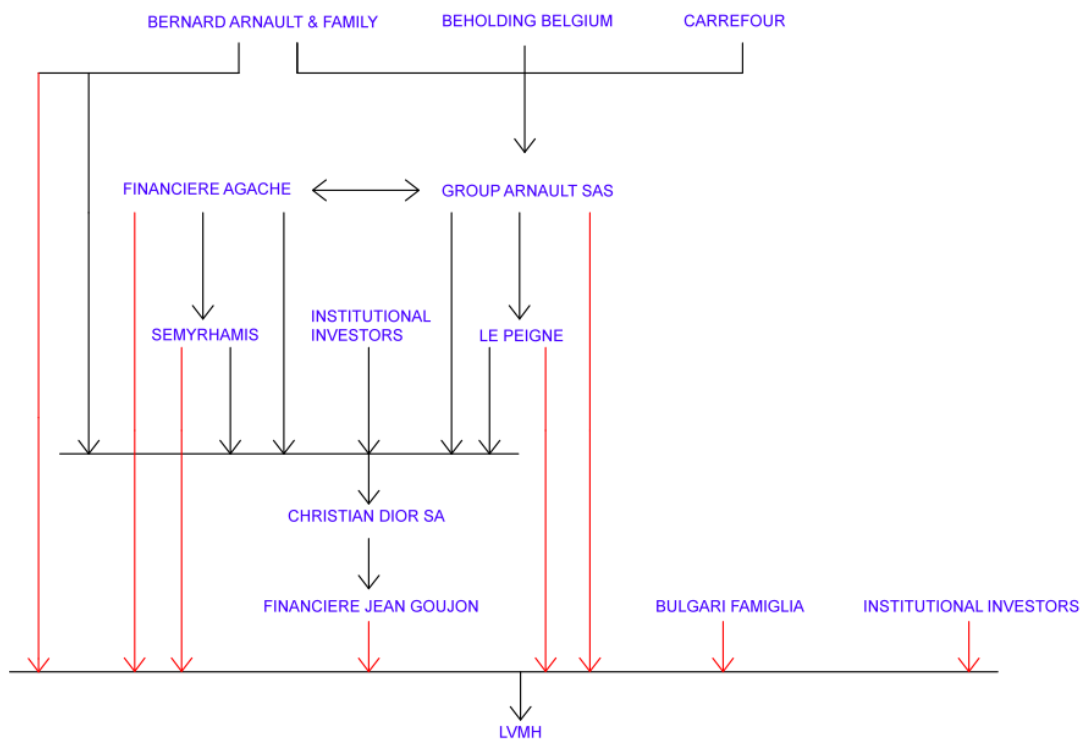
2. Stakeholders

2.1. Shareholders

Directly, LVMH has 42 shareholders, although just one takes the control of the company, BERNARD ARNAULT & FAMILY, with about 65% of voting and property rights. Bernard Arnault & Family is the holding company of Bernard Arnault, which manages LVMH and all the companies linked with the firm. Directly, the holding holds less than 1%

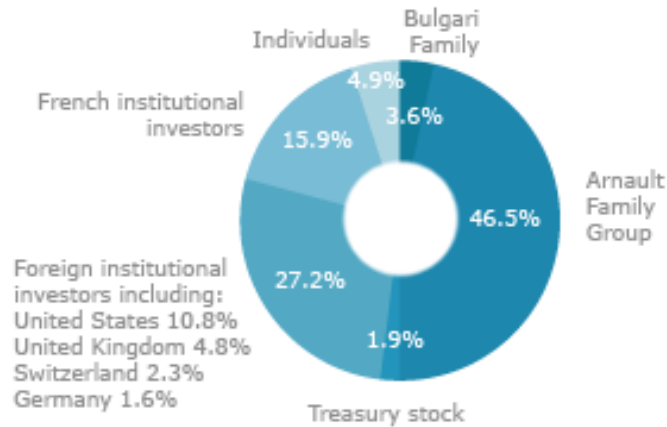
of LVMH, but it takes the control through another companies as financial, patrimonial and holding companies.

Next graph represents the hierarchical relations among companies that control LVMH:



Shareholder structure, Amadeus.

The capital structure according to LVMH Financial Documents of the Exercise 2011 (last available) is as follows:



LVMH's capital structure by holders, LVMH official reports.

Mainly, the shareholders, apart from Bernard Arnault and Bulgari Families or its controlling firms FINANCIER AGACHE and FINANCIERE JEAN GOUJON, are institutional investors, the most important listed below:

GROUPE BPCE is France's second largest bank, formed by the 2009 merger of CNCE (Caisse nationale des caisses d'épargne) and serves nearly 40 million customers. Provides banking, financial, and real estate financing services to individuals, professionals, small and medium enterprises, large enterprises, and institutions in France and internationally.

GOVERNMENT OF NORWAY, with its sovereign investment fund.

INVERSORA DE OLARIZU, Spanish SICAV managed by Credit Suisse.

LE PEIGNE, Belgium SA Company of portfolio management.

SAS RUE LA BOÉTIE is a bank holding company, which through its subsidiaries offers commercial banking services. The company was incorporated in 2001 and is based in Paris, France.

THORNBURG INVESTMENT MANAGEMENT Headquartered in Santa Fe, New Mexico, advises mutual funds, separate portfolios for institutions and high net worth individuals.

SUN LIFE FINANCIAL is an international financial services company known primarily as a life insurance company, but also has a strong presence in investment management with over \$494 billion in assets under management.

BLACKROCK is an American multinational investment management corporation and the world's largest asset manager. Headquartered in New York City, BLACKROCK is a leading provider of investment, advisory, and risk management solution.

LVMH MOET HENNESSY LOUIS VUITTON

Current shareholders				
SHAREHOLDER NAME		Country	OWNERSHIP	
			Direct (%)	Total (%)
1.	BERNARD ARNAULT & FAMILY	n.a.	0.29	62.65
2.	FINANCIERE JEAN GOUJON	FR	56.73	n.a.
3.	FINANCIERE AGACHE	FR	3.05	n.a.
4.	BULGARI, FAMIGLIA	CH	3.00	n.a.
5.	GROUPE ARNAULT SAS	FR	2.14	n.a.
6.	BPCE SA via its funds	FR	-	1.60
7.	GOVERNMENT OF NORWAY via its NO	NO	-	1.39

funds

8.	INVERSORA DE OLARIZU, SICAV, SA	ES	1.31	n.a.
9.	LE PEIGNE	BE	1.30	n.a.
10.	SAS RUE LA BOETIE via its funds	FR	-	1.05
11.	THORNBURG INVESTMENT MANAGEMENT, INC. via its funds	US	-	1.01
12.	PUBLIC	-	1.00	n.a.
13.	SELF OWNED	-	1.00	n.a.
14.	SUN LIFE FINANCIAL INC via its funds	CA	-	0.96
15.	BLACKROCK, INC. via its funds	US	-	0.91
16.	CARMIGNAC GESTION via its funds	FR	-	0.81
17.	FISHER INVESTMENTS, INC. via its funds	US	-	0.77
18.	FMR LLC via its funds	US	-	0.62
19.	VANGUARD GROUP, INC. THE via its funds	US	-	0.50
20.	BNP PARIBAS via its funds	FR	-	0.49
21.	GROUPE CRÉDIT MUTUEL-CIC via its funds	FR	-	0.44
22.	SOCIÉTÉ GÉNÉRALE via its funds	FR	-	0.41
23.	MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY via its funds	US	-	0.40

24.	DEUTSCHE BANK AG via its funds	DE	-	0.33
25.	CAPITAL GROUP COMPANIES, INC., THE via its funds	US	-	0.31
26.	GOVERNMENT OF FRANCE via its funds	FR	-	0.30
27.	ALLIANZ SE via its funds	DE	-	0.29
28.	ALECTA PENSIONSFORESKRING OMSESIDIGT via its funds	SE	-	0.28
29.	UBS AG via its funds	CH	-	0.21
30.	AXA via its funds	FR	-	0.19
31.	CREDIT SUISSE GROUP AG via its funds	CH	-	0.18
32.	UNION ASSET MANAGEMENT HOLDING AG via its funds	DE	-	0.17
33.	ING GROEP NV via its funds	NL	-	0.14
34.	STICHTING PENSIOENFONDS ABP via its funds	NL	-	0.14
35.	UMB FINANCIAL CORPORATION via its funds	US	-	0.14
36.	PICTET ET CIE via its funds	CH	-	0.13
37.	SCHRODERS PLC via its funds	GB	-	0.13
38.	COMGEST via its funds	FR	-	0.12
39.	LLOYDS BANKING GROUP PLC via its funds	GB	-	0.11

40.	REGERINGSKANSLIET via its funds	SE	-	0.11
41.	SEMYRHAMIS	FR	NG	n.a.
42.	FAMILLE ARNAULT	n.a.	-	n.a.

First 42 shareholders listed by stake, Amadeus.

2.2. Executive Committee

The Executive Committee of LVMH is formed by 16 members, the following list show this people and a brief background of each one.



Bernard Arnault, CEO & Chairman

Born to an industrial family in Roubaix, France on March 5, 1949, Mr. Arnault attended the Roubaix lycée and the Faidherbe lycée in Lille. He then went on to study at the Ecole Polytechnique, graduating in 1971.

He began his professional career that year as an engineer with the Ferret-Savinel construction company and successively was

promoted to various executive management positions before becoming Chairman in 1978.

In 1989, Mr. Arnault accomplished his objective of creating the world's leading luxury products group when he assumed control of LVMH Moët Hennessy - Louis Vuitton, vowing to assure French luxury goods brand leadership worldwide. Mr. Arnault has been Chairman and CEO of the company ever since.

Mr. Arnault is also President of the Board of Directors of Groupe Arnault S.A. (his family holding company).



Antonio Belloni, Group Managing Director

After earning a degree in economics from the University of Pavia (Italy), he joined Procter & Gamble in 1978. He held a series of positions of increasing responsibility in the United States, Greece, Belgium and Switzerland before being appointed Chairman of Procter & Gamble Europe in 1999.

He joined LVMH in 2001 with responsibility for strategic and operational management of Group companies. He is a member of the Board of Directors of LVMH and Chairman of the Executive Committee.

Antonio Belloni is also a member of the Colipa Europe (European Cosmetics Association) Chairmen's Committee.



Pierre Godé, Vice Chairman

Pierre Godé is Vice Chairman of LVMH, Vice Chairman of LVMH Italia, Director and member of the Executive Committee of the Group. He is also a Director of Christian Dior SA.

He was appointed head of an IUT (University Institute of Technology) and Professor at the University of Lille and University of Nice.

He is also Member of the College of the "Autorité de la Concurrence" (France's anti-trust highest body) since 2009. This role is a key factor for LVMH because the group is protected against anti-monopoly and anti-trust authorities.



Nicolas Bazire, Development & Acquisitions

He is a graduate of the French Naval Academy (1978), the Institut d'Etudes Politiques de Paris (1984) and studied at the Ecole Nationale d'Administration. He is a magistrate on the French Cour des Comptes (Court of Audit).

He was appointed Managing Director of Groupe Arnault in 1999 and became a member of the LVMH Board of Directors. He is also a member of the Executive Committee.

Nicolas Bazire is a member of the boards of Carrefour and Suez Environnement.



Michael Burke, Louis Vuitton

Michael Burke graduated from EDHEC in 1980. He joined the Arnault Group, taking charge of its real estate operations in the USA before joining the LVMH group.

CEO of Christian Dior USA from 1986 to 1993 he then took charge of Louis Vuitton North America. In 1997, Michael Burke moved to Paris to become Deputy CEO of Christian Dior Couture (Worldwide).

Following the acquisition of Fendi by LVMH in 2003, Michael was appointed CEO, transforming the brand into the success that it is today.

CEO of Bulgari since February 2012, he is appointed Chairman and CEO of Louis Vuitton in December 2012. He is also a member of the LVMH Executive Committee.



Yves Carcelle, Foundation Louis Vuitton

He graduated from the Ecole Polytechnique (1966) and holds an MBA from INSEAD (France).

Yves Carcelle joined LVMH in 1989 as Strategic Director. He was then Chairman and CEO of Louis Vuitton from 1990 to 2012. He is currently Vice-President of the Fondation d'Entreprise Louis Vuitton pour la Création and a member of the LVMH Executive Committee.

Yves Carcelle is also a board member of the Comité Colbert and the Palais de Tokyo in Paris.



Chantal Gaemperle, Human Resources

She holds a Master in Political and Social Sciences and an MBA in Public Administration from the University of Lausanne, and is a graduate of INSEAD (France).

Chantal Gaemperle was Recruitment & Human Resources Development Manager with Philip Morris from 1991 to 1995. She subsequently joined Merrill Lynch International as Head of Human Resources for Switzerland. In 2001 she was named Head of Corporate Management Development and Sourcing and a member of the Management Committee of Nestlé.

She joined LVMH in 2007 as Group Executive Vice President Human Resources and Synergies and is a member of the LVMH Executive Committee.



Jean-Jacques Guiony, Finance

After graduating from HEC business school in 1984, he began his career in 1985 as a Research Analyst with Banque Nationale de Paris in Paris and then with Merrill Lynch in 1988 in London. In 1990 he joined the Mergers & Acquisitions department of Lazard Frères, becoming a Partner in 1997 and then Head of Mergers & Acquisitions in 2000.

He joined LVMH in 2003 as Deputy Finance Director before becoming Chief Financial Officer in 2004. He is also Chairman and Chief Executive Officer of La Samaritaine since 2010. Jean-Jacques Guiony is a member of the LVMH Executive Committee.



Chris de Lapuente, Sephora

He is an economics graduate of the University of Buckingham.

He joined Procter & Gamble in 1983, holding positions of increasing responsibility in many different countries, including the UK, Spain, Turkey, Germany and Switzerland. In 2004 he was appointed the youngest ever president in the history of Procter & Gamble, in charge of the Hair Care division.

Chris de Lapuente joined LVMH in 2011 as Chief executive officer of Sephora. He is also a member of the LVMH Executive Committee.



Christophe Navarre, Wines & Spirits

He earned a degree in Business Administration from Liege University (Belgium). He also completed the INSEAD (France) European Marketing program.

He joined Continental Bank in 1980, then moved to Exxon, where he held marketing and sales positions with the Esso group. In 1989 he joined Interbrew, where he headed several different Italian and French subsidiaries.

Christophe Navarre joined LVMH in 1997 as President and CEO of JAS Hennessy & Co, building the company's world leadership in the cognac industry. In 2001 he was appointed

CEO of Moët Hennessy, the Wines and Spirits division of LVMH.

Christophe Navarre is also a board member of the Comité Colbert and a member of the Heineken Advisory Board.



Daniel Piette, Investment funds

He graduated from the ESSEC Business School (1969) and the Columbia Business School (MBA, 1970).

He began his career with Arthur D. Little in the United States, before joining the Bosch group in 1974, where he held a series of positions of increasing responsibility.

Daniel Piette joined LVMH in 1990 as Executive Vice President. He is currently Chairman of LVMH Investment Funds and a member of the LVMH Executive Committee.



Pierr-Yves Roussel, Fashion

After obtaining an MBA from Wharton Business School, he began his career as an analyst with the bank CCF before joining the consulting firm McKinsey & Cie, where he held a series of executive positions before being named Senior Associate Director worldwide in 2004.

Pierre-Yves Roussel joined LVMH in 2004 as Executive Vice President, Strategy and Operations. In 2006 he was named President of the Fashion business group, which includes numerous prestigious brands (Céline, Givenchy, Kenzo,

Loewe, Marc Jacobs, Pucci and Rossimoda). He is a member of the LVMH Executive Committee.



Philippe Schaus, Travel Retail

A graduate of INSEAD, Philippe Schaus began his career in 1987 at J.P. Morgan Inc. before joining The Boston Consulting Group in 1990. In 1992 he became International Commercial Director of the Porcelain Tableware Division at Villeroy & Boch A.G. before being promoted Managing Director for the Division in 1999 and then Member of the Board.

He joined Louis Vuitton in 2003 as President of the Europe Zone and was appointed Senior Vice President, International, in 2006. Between 2009 and 2011 he was Executive Vice President of Louis Vuitton. Mr. Schaus joined DFS Group in Hong Kong in 2011 as Group President of Merchandising and Marketing. He was named Chairman and Chief Executive Officer of DFS Group in 2012. He has been a member of the Executive Committee of LVMH since 2012.



Francesco Trapani, Jewellery & Watches

After a degree in Economics from the University of Naples he studied Business Administration at New York University.

The great grandson of Sotirio Bulgari, the founder of the eponymous brand, Francesco Trapani became Chief Executive Officer of Bulgari in 1984. He guided the Company's diversification in watches, perfumes, leather goods and

accessories and led its solid international expansion. He also oversaw Bulgari's initial public offering.

Bulgari joined the LVMH group in 2011. Francesco Trapani was appointed President of the LVMH Watches & Jewelry division and also became a member of the Board of Directors and Executive Committee of LVMH.



Jean-Baptiste Voisin, Strategy

He is a graduate of the Ecole Polytechnique and the Ecole des Mines de Paris. He began his career with Danone France in production and then marketing.

In 1996, he joined the McKinsey & Company consulting firm, becoming a partner in 2002. He was co-leader of the retail practice for Europe and then worldwide.

Jean-Baptiste Voisin joined LVMH as Director of Strategy in 2006. He is a member of the Executive Committee.



Mark Weber, Dona Karan & LVMH Inc.

Mark Weber began his career at Phillips-Van Heusen Corporation (PVH), becoming president, board member and CEO.

He joined LVMH in 2006 as Chairman and CEO of Donna Karan International Inc., leading the growth of the Donna Karan and DKNY brands in emerging markets, notably China and India. He also has operational responsibility for the

Thomas Pink brand and is Chief Executive Officer of LVMH Inc.

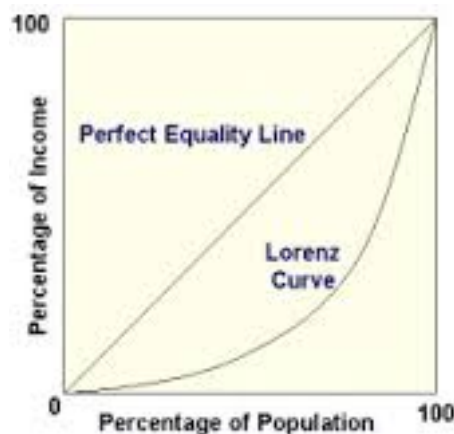
Mark Weber is a member of the LVMH Executive Committee and sits on the Board of Directors of Edun.

2.3. Employees

Nowadays the group LVMH has over 90.000 employees around the world. The 30% of the group's workforce is located in France developing management, design and operations tasks. The remaining 70% is spread all over the globe and they mainly develop selling and retailing tasks.

2.4. Clients

In general, LVMH's products are targeting high-income people. The idea is that those few that are getting high income actually retain a very significant share of the total wealth; it implies an ultra-high purchasing capacity. The Lorentz Curve describes this economic effect.



3. Corporate Structure

LVMH has more than 687 subsidiaries; here we will do a simplified analysis of them. We will just consider the brands but it is important to remark that under each of these brands there are many subsidiaries.

3.1 Wine & Spirits

Champagnes



Moët Chandon is the flagship of the Wine & Spirit division of LVMH. This champagne company was founded in 1743 in the Champagne region on France.

Dom Pérignon is a champagne brand produced by Moët Chandon that received this name by honour to Pierre Pérignon, a monk who invented the formula of champagne.

Veuve Clicquot Ponsardin, better known as Veuve Clicquot, is a French champagne producer established in 1772.



Joseph Krug created Krug champagne brand in 1843 in the French region of Champagne.



Maison Mercier, founded in 1858 by Eugène Mercier, is one of the great champagne names.



Nicolas Ruinart established Ruinart champagne brand in 1729 in the French region of champagne. It is the first established champagne house.



It cannot be considered a champagne brand because its productive points are not in champagne region. However Chandon produces premium quality sparkling wines in Australia, California, and Argentina.

Wines



Chateau d'Yquem was established in 1593, and it has been producing outstanding wine for all these years. It is the oldest brand in the LVMH portfolio.

CHÂTEAU CHEVAL BLANC
1^{er} GRAND CRU CLASSÉ "A"

Jean Laussac founded Chateau Cheval Blanc in 1832. This wine producer was the first to obtain the premium rank of "Grand Cru Classé A".

CLOUDY BAY
NEW ZEALAND

Cloudy Bay is a New Zealand premium wine producer. It was founded in 1985 but it has gained prestige rapidly.

CAPE
MENTELLE
MARGARET RIVER

Cape Mentelle is Australian wine producer located in the virgin region of Margaret River.

NEWTON
—VINEYARD—

Newton is the most prestigious wine producer in the Napa Valley winegrowing region, California.

TERRAZAS
de los Andes

Terrazas de los Andes is Argentinian wine producer. Despit it was just founded in 1999, I has reached a great name among South America's wines.



Cheval des Andes is a wine producer created by Terrazas de los Andes, it is an Argentinian venture as well.



Numanthia is a well-known Spanish wine brand from de Toro appellation.

Other spirits



An Irish Aristocrat founded Hennessy house in 1765. It produces a premium quality cognac. Hennessy is one of the key figures of LVMH as the brand appears in the group name.



Glenmorainge is one of the premium Scotch whisky brand worldwide, and it form part of he LVMH portfolio



Belvedere is a polish vodka brand, it is known around the world because its soft taste. The brand was considered the first premium vodka.



Wenjun is a high quality white spirit from China.

3.2 Fashion & Leather Goods



Louis Vuitton, a trunk-maker in Paris since 1854, became a legend in the art of travel by creating luggage, bags and accessories as innovative as they were elegant and practical. It is one of the brands that give name to the LVMH group and its flagship.

CÉLINE

Céline is a French producer of ready-to-wear clothes, leather goods, shoes and accessories.



LOEWE

Loewe was established in 1846 in Madrid. It is a high quality leather goods producer; its bags and cases are an icon of elegance. Despite Loewe is based in Spain, its founder was a German craftsman specialized in leather.

Berluti

Since 1895 the Berluti French family has been producing top quality shoes for men.

KENZO

Kenzo is a French brand of ready-to-wear clothes, leather goods, shoes and accessories. Nowadays it is recovering its initial success in the fashion scenario.

GIVENCHY

Givenchy is a French brand founded in 1952. Its business is focused in the premium segment; it produces “haute couture”, ready-to-wear clothes, leather goods, shoes and accessories.

MARC JACOBS

Marc Jacobs was founded in New York in 1984 by the mediatic fashion designer who gave name to its own brand.

F FENDI

Fendi is a top quality fashion producer. Edoardo and Adele Fendi established it in Rome in 1925.

EMILIO PUCCI

Emilio Pucci is a fashion brand that produces ready-to-wear clothes, accessories and eyewear. It is based in Florence, Italy.

PINK

THOMAS PINK
JERMYN STREET LONDON

Thomas Pink is the leading British luxury shirt maker, however it also produces suits and accessories.

DONNA KARAN

NEW YORK

Established in 1984 in New York by its main designer who gave name to the brand, and its husband. The house



produces fashion goods.

This young firm was established in 2005, but it has gained success very fast. Its mission is to encourage firms to do more business in Africa. The U2 singer Bono founded it.

3.3 Perfumes & Cosmetics

Dior

Christian Dior was founded in 1947 and nowadays is one of the most luxurious fashion brands. This house is a multiproduct brand, however the subsidiary inside LVMH works just with perfumes, make-up and cosmetics.

GUERLAIN
PARIS

In 1828 Guerlain was established in Paris, the company is focused on premium cosmetics, make-up and perfumes.

PARFUMS
GIVENCHY

Founded five years later than its matrix, it is the cosmetic, perfumes and make-up brand from Givenchy.

benefit
SAN FRANCISCO

Benefit was founded in 1976 in San Francisco with the aim to offer the most adequate make-up and skin care products to each woman.

fresh

Fresh is an American beauty brand that is getting great success by fusing natural ingredients and old-honoured beauty rituals.



Make Up Fore Ever was funded in 1984 in Paris to supply the professional target of make up, cosmetics and beauty products.



Acqua di Parma is a perform and home fragrance producer established in 1916 in Milan.



Nude is a young beauty brand that delivers natural products. Its founders believe that natural ingredients can give better results than conventional skincare.

3.4 Watches & Jewellery



Tag Heuer is a Swiss premium watchmaker founded in 1860.



Zenith is a high quality watchmaker founded in 1865 in Le Locle, Switzerland.



This Swiss watchmaker firm was just founded in 1980 and it has been always a transgressor in mixing materials and creating new concepts and modern premium watches.



Chaumet is a French high quality producer of jewels and watches. It was founded in 1780 in Paris.



Despite Bulgari is focused in the jewellery business, it works with leather goods, fragrances, accessories and resorts as well. A Greek family founded it in 1884 in Rome.



De Beers is a exclusive British jewellery firm that works mainly with diamonds and highr jewels.

3.5 Selective Retailing



DFS Galleria is a luxury retailer chain founded in 1961.



Miami Cruiseline Services is the premiere on-board retailer offering cruise ship passengers world-class brands and exclusive products at tax and duty free savings



Founded in 1969, Sephora cuts through the clutter with a visionary beauty retail concept that creates an entertaining shopping experience and brings high-end beauty care and fragrances



Le Bon Marché is a retail center from Paris. You can find there every kind of consumer product.

4. Corporate Strategy

In general terms it could be said that LVMH is following a diversification strategy with its entire portfolio. The firm's aim is to maintain its premium quality and brand image of all its products, so the way to achieve this objective is to innovate and generate new technologies and projects.

The LVMH group has a strong history in mergers and acquisitions; the last one has been the Bulgari one in 2011. Nowadays the world leading luxury

group is planning to acquire Jimmy Choo and Hermes; in fact there is an opened conflict between the Hermes Family and the LVMH group.

Another important point to take into account when analysing LVMH strategy is the synergies that the group can create.

- Technology transfer among firms of the same division.
- Make aggregate operations planning between firms: logistics, procurement...
- Create mixed marketing actions to increase the sales as a hole.

Lets do a BCG matrix to get some conclusions about the five different divisions inside the group:



BCG matrix by business lines, sildeshare academic documents.

We can see that LVMH has a good balanced portfolio.

- The poor dogs products does not fit in the LVMH global portfolio, so the group should divest on it, actually it is what it have been doing since 2002.
- The portfolio of starts within the company is reasonably diversified and well positioned to capitalize on potential industry growth.
- The cows are unlikely to become poor dogs, because of the timelessness of LVMH's products.

5. Corporate Marketing

5.1. Marketing actions

LVMH take special care to its marketing actions to maintain its brand and corporate image. However the group concentrates its marketing efforts in Fashion & Leather Goods, Wine & Spirits, Perfumes & Cosmetics Jewellery & Watches divisions. Basically they use three main marketing channels: press and television advertisements, catwalk and presence in events.

Press and television advertisement

This four business divisions use press advertising, normally in magazines related with its field of business: Vogue, Elle, Telva, Cosmopolitan, Woman... In the Fashion & Leather Goods and Perfumes & Cosmetics divisions, the grup use to advertise the products by using global celebrities.

Only the Perfum & Cosmetisc division uses the television channel to promote itself, especially in the Christmas season.



Un voyage commence parfois dans les pas d'un géant.
Mohamed Ali et une drôle montame. Phoenix, Arizona.

Ressource: www.louisvuitton.com/fr/paris

LOUIS VUITTON



Catwalk

Most of the Fashion & Leather Goods brands use catwalks around the globe to release its new designs and products. Both haute couture and ready-to-wear products are shown in the most important fashion events.



Events

The Wine & Spirits division have always presence as a sponsor in exclusive events around the world: nightclubs, social clubs, catwalks, cinema awards...



Sometimes the brands of LVMH join with other luxury brand to create image synergies among them:



LVMH Rolls Royce limited edition for Cannes Festival, generalist pink press.

5.2. Distribution channels

LVMH has two principal distribution channels: exclusive-brand boutiques and retail centres such as DFS Galleria, Harrods, El Corte Ingles... In total LVMH has more than 3000 stores around the world.



6. Financial Data

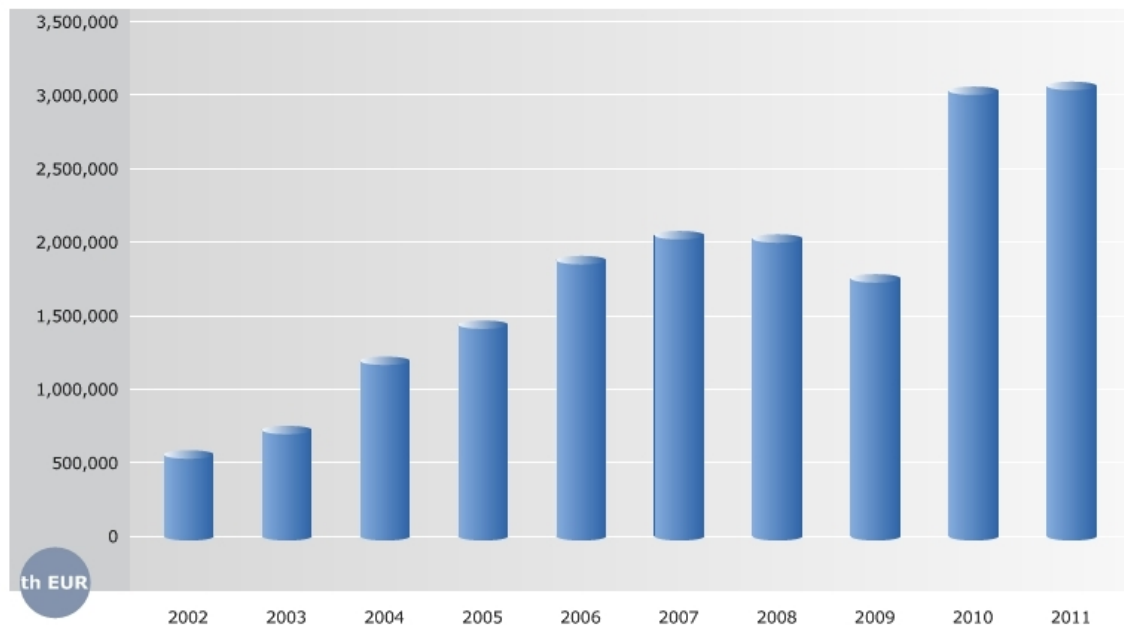
LVMH is the 4th most valued company of EUROSTOXX 50 with about 130\$ per share (March 2013). Since Bernard Arnault is the manager of the group, its value has been increased more than 1000%. At the beginning of Bernard Arnault's acquisition, with 10 years its value increased 15 times and profits and sales progressed by 500%.

It is appropriate to assess some basic financial data to have an initial idea of how the company is:

Operating revenue (2011)	23,659,000 th EUR
P/L for period (2011)	3,065,000 th EUR
Total assets (2011)	47,069,000 th EUR
Employees (2011)	97,559
Main exchange	Euronext Paris
Market cap. (14 Mar 2013)	68,840 mil EUR

Significant data about LVMH, Amadeus.

In the last ten years, net income of LVMH is multiplied six times.



Time evolution of LVMH's Net Income, Amadeus.

LVMH

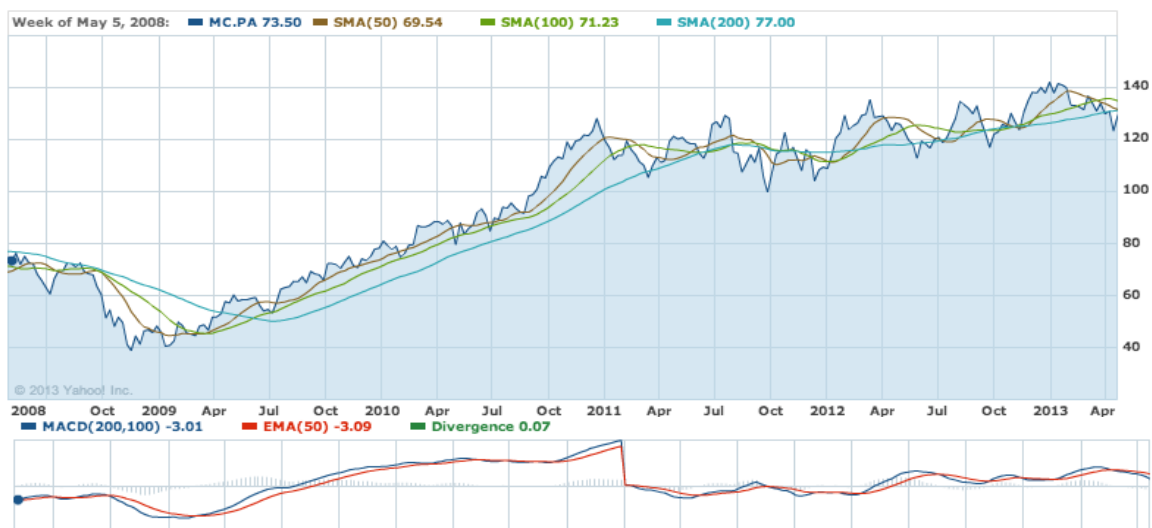
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Risk Analysis

1. Market risk

1.1. Cotization trends

In this point we will try to analyse the trends of the share price in short, mid and long term. To do it properly we will show the moving average forecast; 50 days for the short term, 100 for the mid-term and 200 for the long term curve. The following chart shows the SMA and the real price evolution for the last 5 years.



SME & MACD, yahoo finance

For this last 5 years we can see a general and sustained growth after July 2009, when the three SMA curves are rising simultaneously. This growing of

the share price indicates the end of the 2008 Global Crisis consequences. From that moment we can see a continued growth with any big jump in the share price; we just see little variations due to intrinsic volatility of the markets. In 2011 the growing trend diminishes and from that moment the price remains quite stable.

1.2. Volatility & Quantitative indicators

To work on the quantitative analysis of the markets, firstly we will assess three different periods of time: 6 months, 1 year and 4 years.

6 months



Six-months term trade quotes, yahoo finance

Mean: 133,40 €

Std. Deviation: 5,18 €

Coefficient: 0,0388

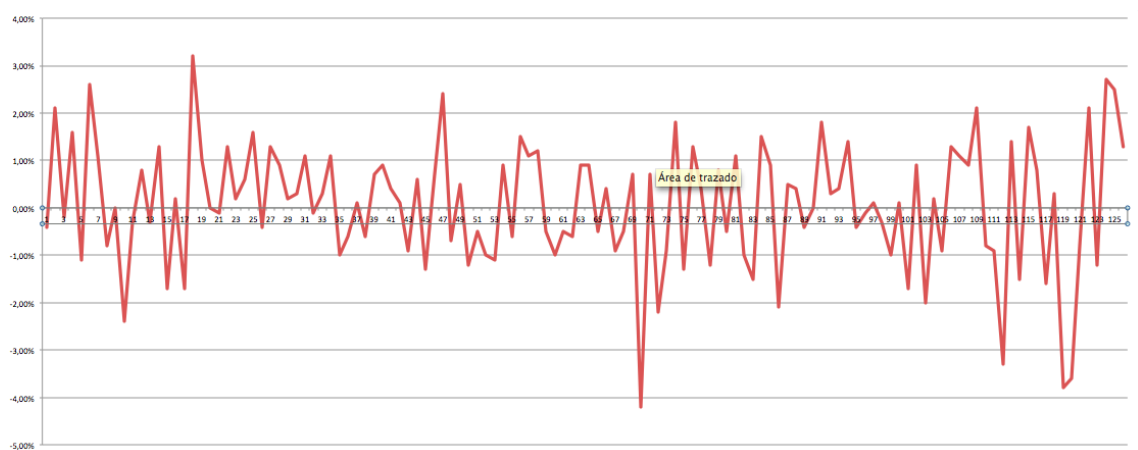
Rank (price): 21,40 €

Average day var.: +0,05 %

Linear regression: $y=0,0034t+ 133,14$

R squared: 0,00057

In the last 6-month period, the price of the LVMH share has been quite stable around 133,40 €; as we can see, the regression is nearly a horizontal line. Furthermore, the coefficient (std. dev./mean) is very low, so it means that the variations of price are quite low in relative terms. If we depict the daily variations of the share price, we see that just a few values are outside the $\pm 2\%$ range, so we can conclude that this period has not been a volatile one.



Daily quote variation 6months, yahoo finance

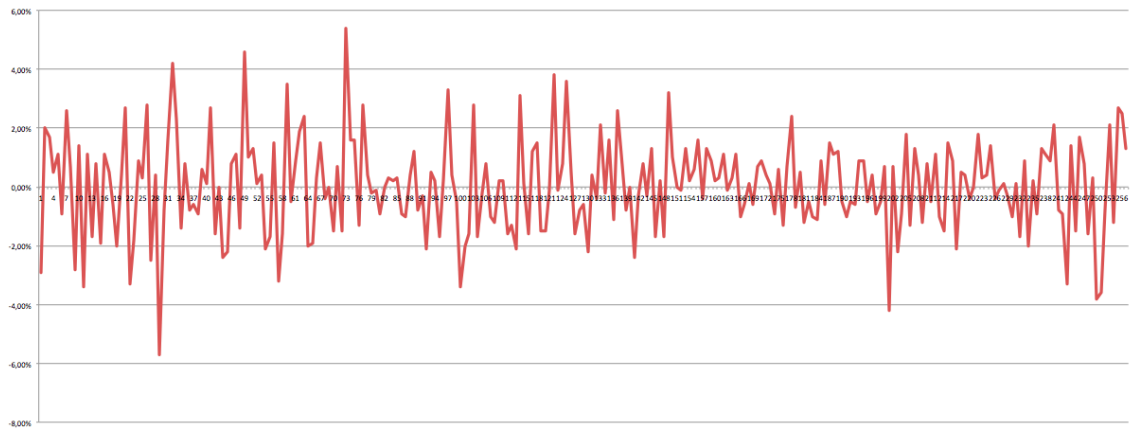
1 year



One-year term trade quotes, yahoo finance

Mean:	128,37 €
Std. Deviation:	7,26 €
Coefficient:	0,0560
Rank:	30,50 €
Average day var.:	+0,0003 %
Linear regression:	$y=0,0634t+120,16$
R squared:	0,4207

In the last year, the LVMH share price has slightly increased as the regression shows. The relative change in prices has maintained in low levels: the coefficient is still low. As we can see in the following graph the volatility is not so high, but we notice that the first half of the year has been quite more volatile than the second half. However, to invest in this period, just taking into account the market behaviour, it wouldn't entail too much risk.



Daily quote variation 1year, yahoo finance

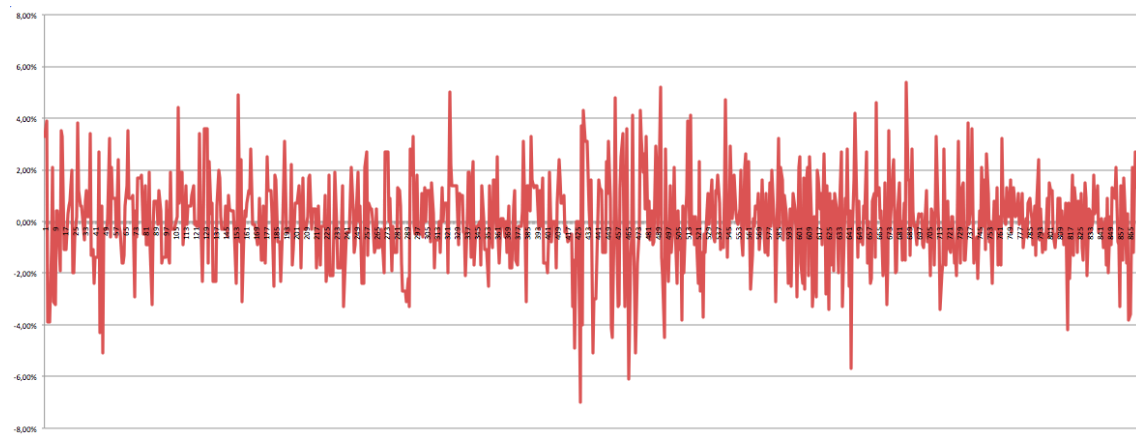
4 years



Four-year term trade quotes, yahoo finance

Mean:	99,95 €
Std. Deviation:	27,08 €
Coefficient:	0,2709
Rank:	102,20 €
Average day var.:	+0,0012 %
Linear regression:	$y=0,0627t+65,37$
R squared:	0,8577

In this case, the last four years, the LVMH share has experimented a continued and sustained growth. This growth has been quite linear because the R squared of the regression is significantly high. Obviously, the higher the period, the larger the std. deviation; therefore, in this case it has no sense to look at the variance because it takes a quite high value. On the other hand we can assess the standard deviation on the daily variation: 0,019%. Considering the trading volatility, and assuming a normal distribution of this variable, we see that the 95% of the trading variations are inside the rank: - 0,056% to 0,058%. Consequently, we see that the overall volatility of the LVMH share has not been so high in the last four years; this argument is supported by the following graph of the time series of daily variation.



Daily quote variation 4years, yahoo finance

1.3. Comparison with EUROSTOXX 50

As LVMH is a traded company and it is on the EUROSTOXX 50 index, to evaluate the risk of this company it would be interesting to compare its evolution with the evolution of the index. The following charts show these evolutions in relative terms the first one for the last year, and the second one for the last 4 years.



One-year term relative comparison with Euro Stoxx 50, yahoo finance



Four-year term relative comparison with Euro Stoxx 50, yahoo finance

In the first case: one-year term, we see that the index and the LVMH share behave in a similar way. In fact the LVMH shares has a Beta of 1.02 (one year), so it is logical that the shape of each graph is similar.

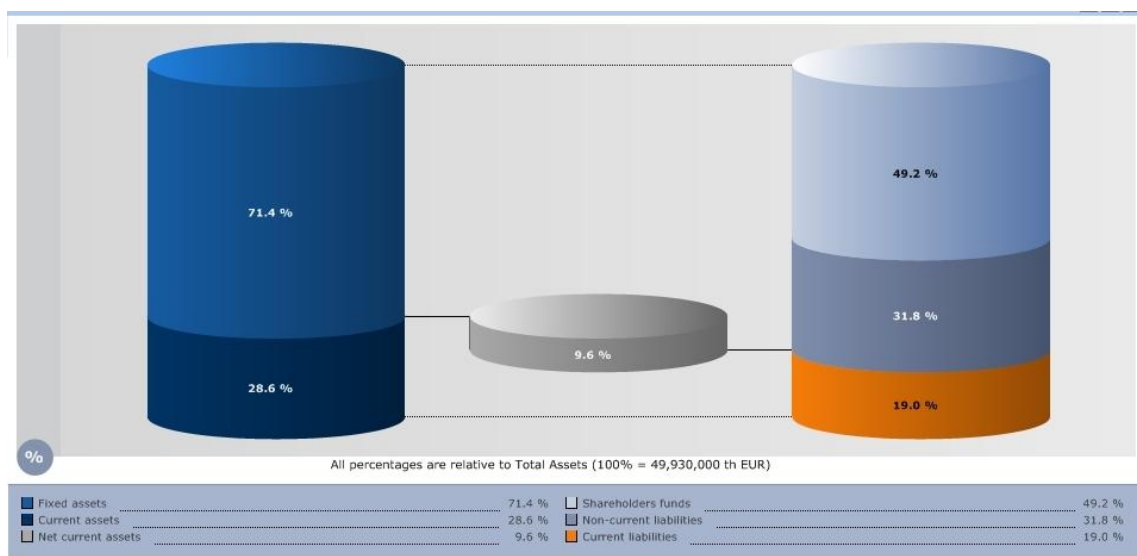
In the second chart: 4-year term, we observe that the evolution of the index trade is nearly horizontal, and the LVMH share is raising in a significant way till achieves the 120% of the index initial comparison.

2. Structural risk

2.1 Financial structure & significant indicators

2.1.1 Balance sheet

Following is going to be analyzed the balance sheet structure of LVMH and its temporary evolution. Also will be analyzed the more significant ratios regarding risk analysis.



Balance sheet structure 2012, AMADEUS.

ASSETS

The fixed assets of the company are about 70% of the economical structure.

ASSETS	Notes	2011
<i>(EUR millions)</i>		
Brands and other intangible assets - net	3	11,482
Goodwill - net	4	6,957
Property, plant and equipment - net	6	8,017
Investments in associates	7	170
Non-current available for sale financial assets	8	5,982
Other non-current assets		478
Deferred tax		716
Non-current assets		33,802

Fixed Assets. LVMH Financial Documents 2011.

That proportion of fixed assets is quite high regarding other companies. It is important to notice that this amount is because of Brands and Goodwill of the firm that are valued too high. Both signify the 55% of Non-current assets and 39% of total assets. It seems that the valuation (taking into account the difficulty of value an intangible asset) is realistic and faces the real value of the brand and the company, which is the first in the sector.

Looking back the balance sheet we also see “Non-current available for sale financial assets” with a high weight in Non-current assets. It must be deeply analyzed that investments and its risk: that amount is mainly shares of Hermes owned by LVMH (concretely 23,6M shares), which are traded in the stock exchange of Paris and its value not seems to be a risk.

Current Assets are about 30% of economical structure. The most interesting risk analyses that can be taken from current assets are the Cash Conversion Cycle and the liquidity of the company (and its temporary evolution), which will be analyzed in the ratio parts.

CONSOLIDATED BALANCE SHEET

ASSETS	Notes	2011	2010	2009
<i>[EUR millions]</i>				
Brands and other intangible assets - net	3	11,482	9,104	8,697
Goodwill - net	4	6,957	5,027	4,270
Property, plant and equipment - net	6	8,017	6,733	6,140
Investments in associates	7	170	223	213
Non-current available for sale financial assets	8	5,982	3,891	540
Other non-current assets		478	319	750
Deferred tax		716	668	521
Non-current assets		33,802	25,965	21,131
Inventories and work in progress	9	7,510	5,991	5,644
Trade accounts receivable	10	1,878	1,565	1,455
Income taxes		121	96	217
Other current assets	11	1,455	1,255	1,213
Cash and cash equivalents	13	2,303	2,292	2,446
Current assets		13,267	11,199	10,975
Total assets		47,069	37,164	32,106

Total Assets of consolidated accounts. LVMH Financial Documents 2011.

LIABILITIES

Non-current liabilities are about 32% of financial structure, and current liabilities about 20%. As a big company, its debt emission will be studied in another point because its given interests are a clear indicator of the risk of the company marked by the markets.

The proportion of debts of the company is not so high compared to equity, as we will see in ratios and equity part, so its not a danger for the company. Neither Non-current nor current liabilities shows any doubtful point, but contrary; there are two items referred to provisions, which says that the company is prepared to risk and it is included in the results of each year. (18: *Provisions for contingencies and losses correspond to the estimate of the impact on assets and liabilities of risks, disputes, or actual or probable litigation arising from the Group's activities; such activities are carried out worldwide, within what is often an imprecise regulatory framework that is*

different for each country, changes over time, and applies to areas ranging from product composition to the tax computation. Source: LVMH Financial Documents 2011.)

Long term borrowings	17	4,132	3,432	4,077
Provisions	18	1,400	1,167	990
Deferred tax		3,925	3,354	3,117
Other non-current liabilities	19	4,506	3,947	3,089
Non-current liabilities		13,963	11,900	11,273
Short term borrowings	17	3,134	1,834	1,708
Trade accounts payable		2,952	2,298	1,911
Income taxes		443	446	221
Provisions	18	349	339	334
Other current liabilities	20	2,716	2,143	1,874
Current liabilities		9,594	7,060	6,048
Total liabilities and equity		47,069	37,164	32,106

Liabilities. LVMH Financial Documents 2011.

EQUITY

Equity of LVMH is a high part of the total financial structure. Items susceptible – indicators of risk in equity are variations in Share capital, Reserves, Net profits and treasury. In 2011 has been the last ten years share capital increase. It is because the acquisition of Bulgari family, which resources where distributed among the LVMH structure. Because of the acquisition increase hugely the Reserves (more than 2 billions), and the Share Capital where Bulgari family takes a little part of control of LVMH. Net profits will be studied in next point (Income statement).

LIABILITIES AND EQUITY	Notes	2011	2010	2009
<i>(EUR millions)</i>				
Share capital		152	147	147
Share premium account		3,801	1,782	1,763
Treasury shares and LVMH-share settled derivatives		(485)	(607)	(929)
Cumulative translation adjustment		431	230	(495)
Revaluation reserves		2,689	1,244	871
Other reserves		12,798	11,370	10,684
Net profit, Group share		3,065	3,032	1,755
Equity, Group share	14	22,451	17,198	13,796
Minority interests	16	1,061	1,006	989
Total equity		23,512	18,204	14,785
Long term borrowings	17	4,132	3,432	4,077
Provisions	18	1,400	1,167	990
Deferred tax		3,925	3,354	3,117
Other non-current liabilities	19	4,506	3,947	3,089
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Current liabilities		9,594	7,060	6,048
Total liabilities and equity		47,069	37,164	32,106

Total Equities & Liabilities of consolidated accounts LVMH Financial Documents 2011.

Total equity amounted to 23.5 billion euros at year-end 2011, representing an increase of 29%. This significant rise is mainly attributable to the following factors: the reserved capital increase by LVMH SA, in the amount of 2.2 billion euros, intended as consideration for the contribution of Bulgari shares by the company's family shareholders; the sharp increase in the value of some assets held by the Group, in particular its investment in Hermès, whose market value rose during the year by 1.7 billion euros; and finally, the strong earnings achieved by companies across the Group, only a portion of which have been distributed. As of December 31, 2011, total equity represented 50% of the balance sheet total, thus remaining stable compared to 2010. Gross borrowings after derivatives totaled 7.1 billion euros at year-end 2011. Bond issues and new borrowings generated 2.7 billion euros. In particular, LVMH carried out a euro denominated public bond issue consisting of two tranches

maturing in 4 and 7 years, with a par value of 500 million euros each. The Group also issued 0.2 billion euros of debt byway of private placements. The amount of commercial paper outstanding also increased by 1.3 billion euros in 2011. Conversely, borrowings of 1 billion euros were repaid in the year, in particular via the redemption of several bonds for a total of 0.8 billion euros. Cash and cash equivalents and current available for sale financial assets totaled 2.3 billion euros at the close of 2011, virtually stable compared to the position as of December 31, 2010.

At year-end 2011, the Group's undrawn confirmed credit lines amounted to 3.4 billion euros, substantially exceeding the outstanding portion of its commercial paper program, which came to 1.6 billion euros as of December 31, 2011. LVMH 2011 ANNUAL REPORT

2.1.2 Ratios

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Working capital	6.931.000	6.436.000	5.258.000	5.188.000	5.122.000	4.312.000	3.945.000	3.772.000	3.381.000	3.151.000
% VAR.	7,69	22,40	1,35	1,29	18,78	9,30	4,59	11,56	11,56	7,30
Enterprise value	73.274.055	58.618.663	62.811.049	41.340.253	26.669.310	42.599.025	42.080.494	n.a.	n.a.	n.a.
% VAR.	25,00	-6,67	51,94	55,01	-37,39	1,23	n.a.			

STRUCTURE RATIOS	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Liquidity ratio	2,03	2,09	2,16	2,32	2,46	2,62	2,67	2,97	3,27	2,93
Shareholders	1,55	1,49	1,33	1,13	1,06	1,02	0,90	0,79	0,67	0,85

liquidity ratio

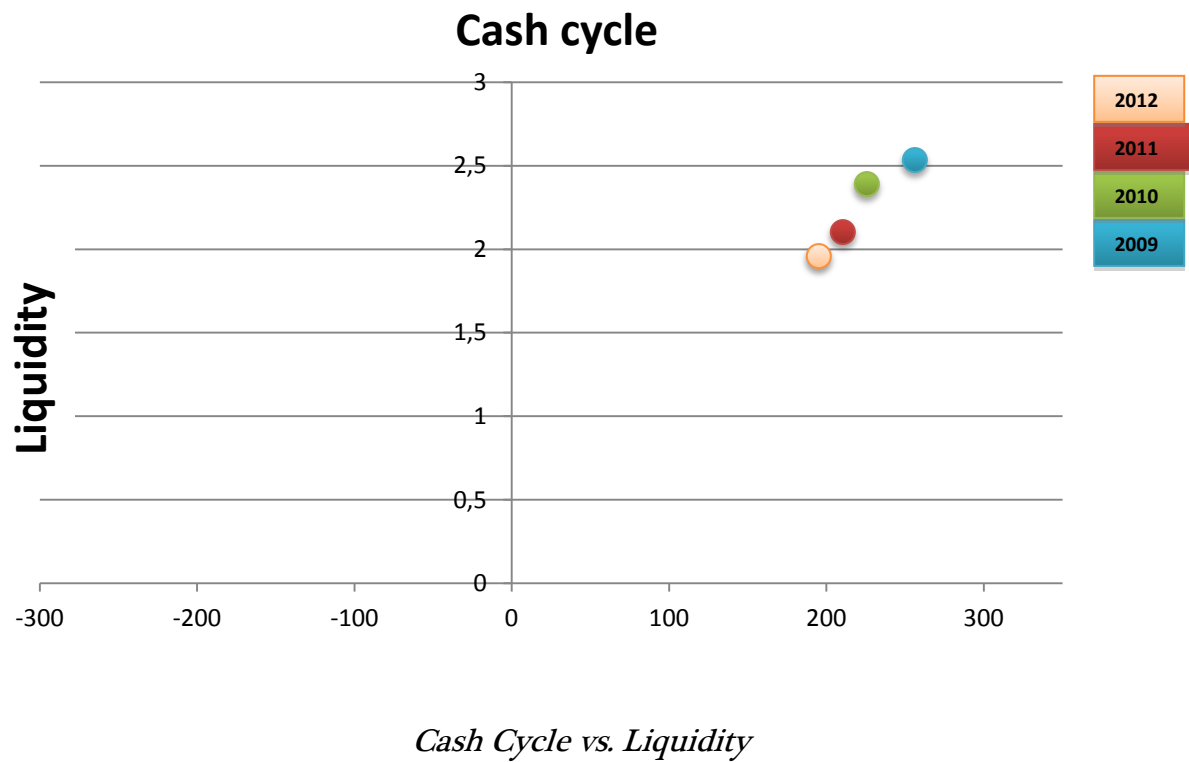
Solvency ratio	1,51	1,38	1,58	1,81	1,56	1,36	1,47	1,29	1,21	1,51
(%)										
Gearing (%)	71,85	73,74	84,13	99,81	103,05	115,90	125,72	150,38	175,73	128,83

OPERATIONAL RATIOS

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Cash Conversion Cycle	199,99	212,64	215,77	246,64	222,41	n.a	n.a	n.a	n.a	n.a

We can see all ratios are so good and give a good image of the company. Furthermore, the variation is always positive so its expected value is to increase the value of the company.

If we draw the CCC-liquidity ratio chart to assess the short-term risk, we see that in the last four years, LVMH is in the first quadrant, therefore it is in the low-risk area. However it is important to notice that there is a trend towards the origin year after year, this means that LVMH is slowly assuming more short-term risk.



2.1.3 Income Statement

Following we are going to analyze the income statement of the firm with the aim to identify potential risky points.

CONSOLIDATED INCOME STATEMENT

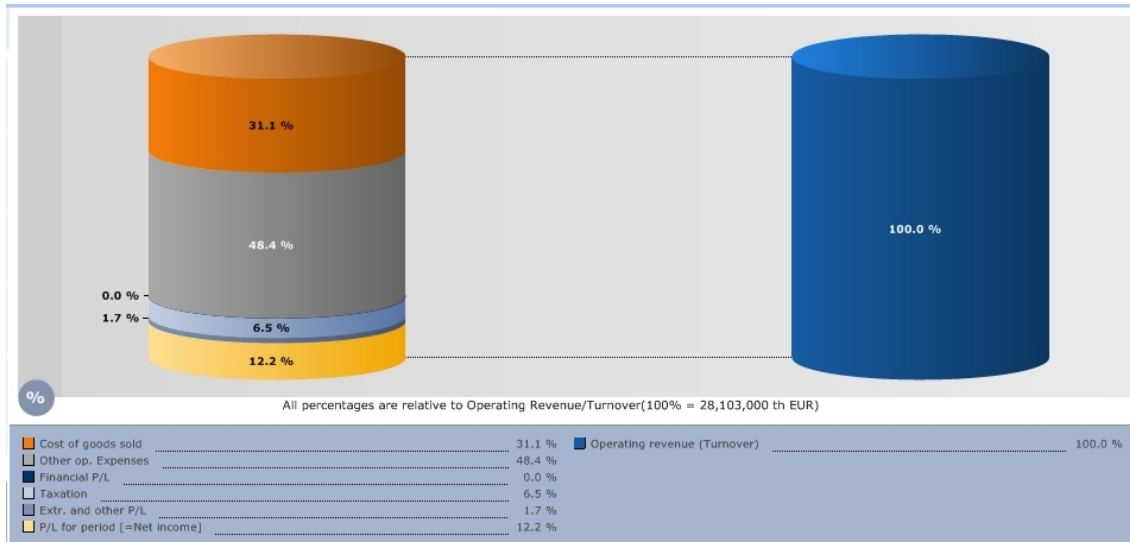
<i>(EUR millions, except for earnings per share)</i>		Notes	2011	2010	2009
Revenue	22		23,659	20,320	17,053
Cost of sales			[8,092]	[7,184]	[6,164]
Gross margin			15,567	13,136	10,889
Marketing and selling expenses			[8,360]	[7,098]	[6,051]
General and administrative expenses			[1,944]	[1,717]	[1,486]
Profit from recurring operations	Nueva pestaña	22-23	5,263	4,321	3,352
Other operating income and expenses		24	[109]	[152]	[191]
Operating profit			5,154	4,169	3,161
Cost of net financial debt			[151]	[151]	[187]
Other financial income and expenses			[91]	763	[155]
Net financial income (expense)		25	[242]	612	[342]
Income taxes		26	[1,453]	[1,469]	[849]
Income (loss) from investments in associates		7	6	7	3
Net profit before minority interests			3,465	3,319	1,973
Minority interests			[400]	[287]	[218]
Net profit, Group share			3,065	3,032	1,755
Basic Group share of net earnings per share <i>(EUR)</i>		27	6.27	6.36	3.71
Number of shares on which the calculation is based			488,769,286	476,870,920	473,597,075
Diluted Group share of net earnings per share <i>(EUR)</i>		27	6.23	6.32	3.70
Number of shares on which the calculation is based			492,207,492	479,739,697	474,838,025

CONSOLIDATED STATEMENT OF COMPREHENSIVE GAINS AND LOSSES

<i>(EUR millions)</i>	2011	2010	2009
Net profit before minority interests	3,465	3,319	1,973
Translation adjustments	190	701	[128]
Tax impact	47	89	[20]
	237	790	[148]
Change in value of available for sale financial assets	1,634	294	114
Amounts transferred to income statement	[38]	38	[11]
Tax impact	[116]	[35]	[26]
	1,480	297	77
Change in value of hedges of future foreign currency cash flows	95	[20]	133
Amounts transferred to income statement	[168]	[30]	[125]
Tax impact	21	14	[2]
	[52]	[36]	6
Change in value of vineyard land	25	206	[53]
Tax impact	[11]	[71]	18
	14	135	[35]
Gains and losses recognized in equity	1,679	1,186	[100]
Comprehensive income	5,144	4,505	1,873
Minority interests	[433]	[375]	[189]
Comprehensive income, Group share	4,711	4,130	1,684

Income statement. LVMH Financial Documents 2011.

Apart from better or worse values of each item, the most significant value is Minority Interests, which are losses from not-controlled investments of the company. They represent a lost of 10% of total incomes.



Operating revenues distribution. AMADEUS.

Following we can see the margin of the company (12.2%) and the margin by industries according to Forbes 2012. It shows us how profitable is the company, which diminishes the risk.

Net Profit Margin	Industry
16.09%	Investment and Portfolio Advisors, etc.
15.92%	Accounting, Tax Preparation, etc.
15.27%	Offices of Dentists
14.31%	Chiropractors, Optometrists, etc.
14.10%	Legal Services
11.78%	Technical and Trade Schools
11.18%	Offices of Physicians
11.15%	Outpatient Care Centers
10.83%	Educational Support Services
10.10%	Photographers, Translators, etc.

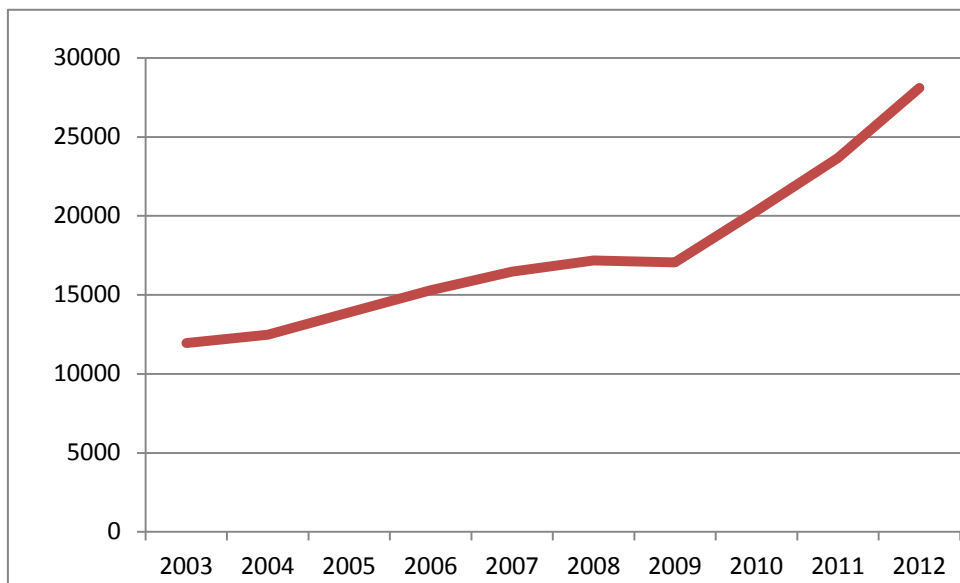
Source- Sageworks, a financial information company

P+L Margins by industry. Forbes 2012

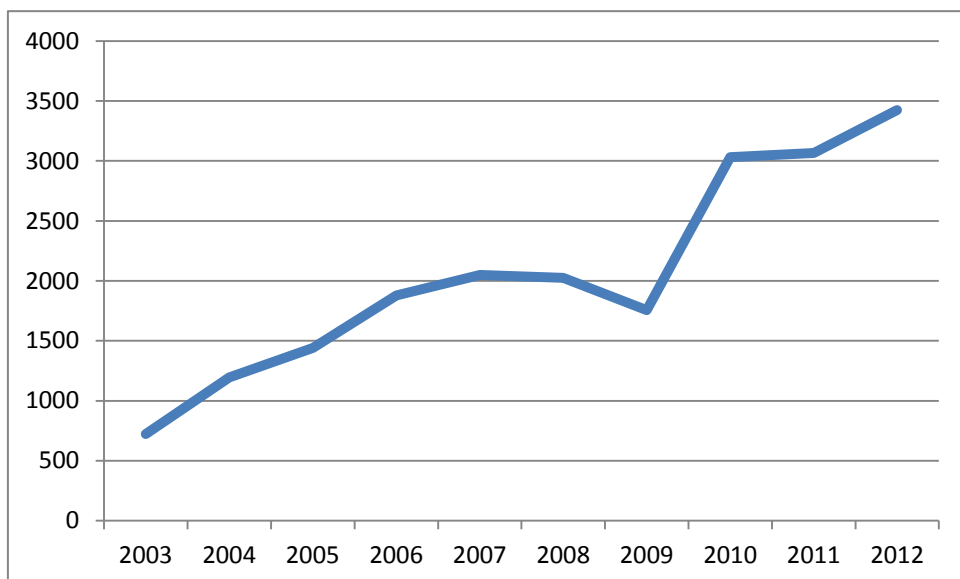
2.1.4 Evolution of net income & sales

Last but not least, is important to analyze the evolution of sales and net incomes to make sure they are always increasing. If they always increase, will means that invest in that company is safe, as in this case.

Sales



Net Income



2.2 Comparison with PPR

PPR, the main competitor of LVMH, seems to be more risky. Solvency ratio of this company is less than 1 so its working capital is negative which can lead to problems of funding.

Comparing the Cash conversion cycle, PPR needs more days than LVMH to recover their investments on products, which is also a liquidity risk problem.

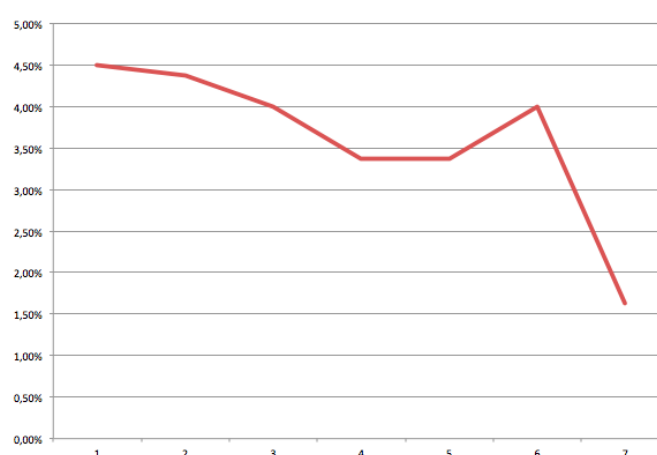
STRUCTURE RATIOS	LVMH	PPR
Liquidity ratio	2,03	2,33
Shareholders liquidity ratio	1,55	1,28
Solvency ratio (%)	1,51	0,96
Gearing (%)	71,85	85,53

	LVMH	PPR
Cash Conversion	199,99	223,59

Cycle		
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2.3 Debt issuance evolution

Like all traded companies, LVMH has done debt issuances to finance its activities. During this last four years, the French group has done a total of seven issuances; it is very interesting to see the evolution of the interest that LVMH has offered to bondholders. The following chart shows it.



Debt interest rate evolution, LVMH official financial statements

As we can see, the interest paid to bondholders is decreasing with time. This means that LVMH is able to sell its bonds at a lower price than before, therefore the risk perception of the market in front of LVMH is decreasing.

3. Hedging Strategies

Assessing the hedging strategies has been one of the most difficult points of this report; LVMH is very hermetic in giving information about its hedging strategies. However we have defined the main three sources of risk that the group has to face:

1. Interest Rate Risk: the risk associated to the fluctuation on interest rate.
2. Share price Risk: the volatility in the market entails a share price risk.
3. Exchange Rate Risk: the risk of devaluations of the currencies.

As we have seen, LVMH has a very controlled volatility so the share risk is not one of its main problems; furthermore, the interest rate risk is neither a problem because we have seen that LVMH is able to issue bonds at a very low interest rate. Nevertheless the exchange rate risk represent a big threat because the company is multinational, therefore the LVMH hedges will be focused on exchange rate risk.

4. Conclusions

With all the analysis, we can conclude that LVMH is risk free. Its market value is continually rising and the volatility is quiet controlled because of the high price of stokes and the Bernard Arnault's control.

Also we have seen that there are not toxic items neither in balance sheet or income statement apart from minority interests, which we consider that should be exhaustively studied.

The balance sheet structure and all the ratios are quite satisfactory therefore its evolution, which is always increasing. Also the sales and net income are increasing constantly in time so the probability to have losses is so low.

Finally we have studied the direct competitors. We have seen that they are weaker than LVMH what is another indicator of no risk for our studied company.

LVMH

MOËT HENNESSY ♦ LOUIS VUITTON

Profitability Analysis

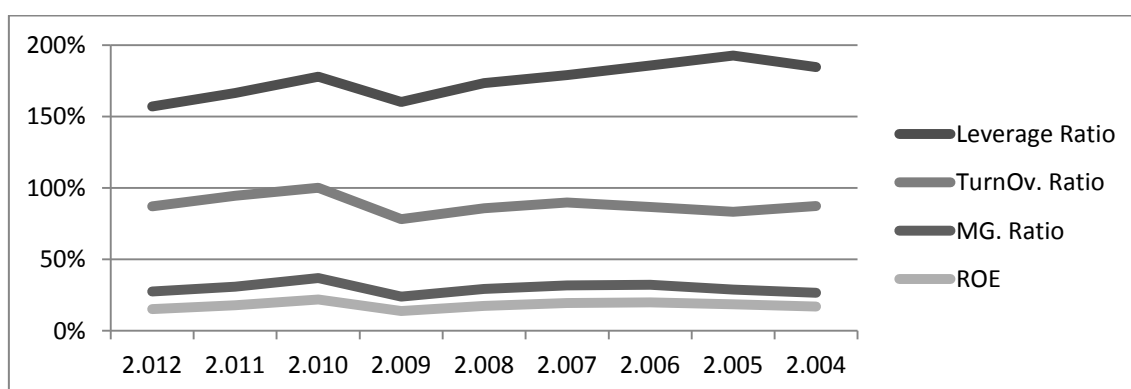
1. Return on Equity (ROE) analysis

1.1 ROE decomposition

In this point we will assess the evolution of the ROE of the last four years. To understand better the fluctuations that it is suffering, we will look at the three rates that define the ROE: margin ratio,

turnover ratio, and leverage ratio. The following table and chart show the evolution of the three rates and the ROE itself. What we can see in this data is that the ROE of LVMH, is quite constant around a 17%, however the leverage ratio has decreased significantly. Therefore the constant behaviour of ROE, is explained by the fact that margin and turnover ratios has increased, thus the combined effect of this increase wit the leverage decrease balances and gives a quite constant ROE. It is important to highlight that a very good task is being performed in he LVMH board because they have been capable to reduce the leverage effect and maintain the profitability for the shareholders.

	2.012	2.011	2.010	2.009
ROE	15%	18%	22%	14%
Mg. Ratio	12%	13%	15%	10%
TurnOv. Ratio	60%	64%	63%	54%
Leverage Ratio	210%	216%	233%	246%



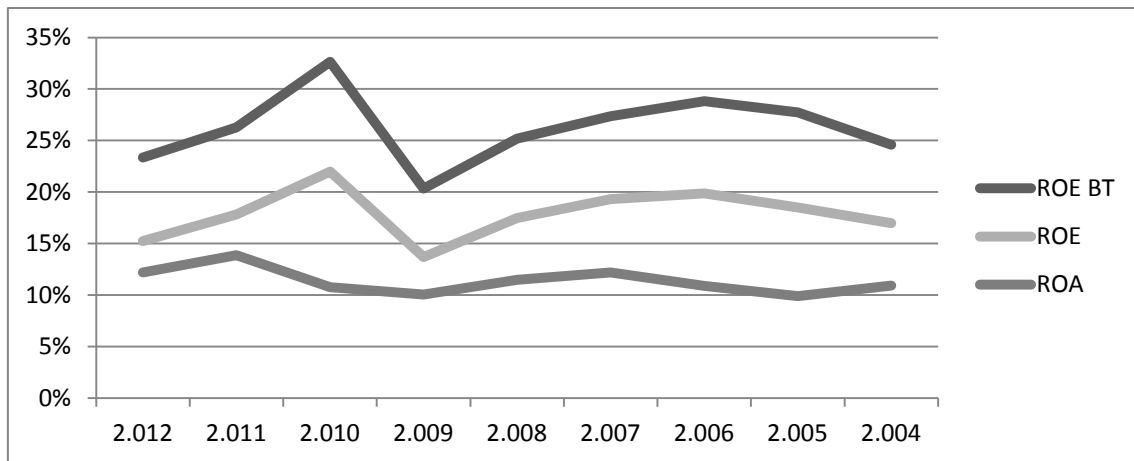
1.2 Fiscal and Debt impact

Here we attempt to evaluate both fiscal and debt impact on LVMH. In order to assess the fiscal impact we will compare the net ROE and the ROE before taxes; logically, the net one has to be lower than the gross one due to the tax effect on income.

Secondly we will analyse the debt impact on the company. It is important to highlight that if the company was totally unlevered, the ROE before taxes would be the same as ROA (return on assets), therefore the total debt impact will be the difference between the ROEbt and the ROA.

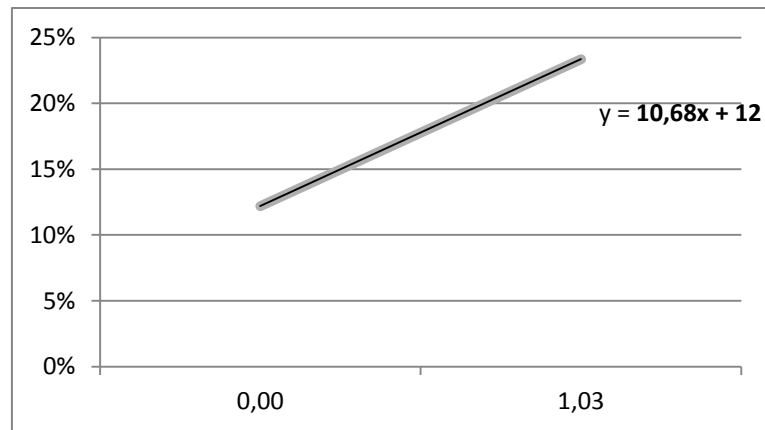
The following table and chart shows the evolution of these two effects of the last 4 years, the main conclusion that we can achieve is that despite the fiscal impact has an important effect on the profitability of the company, the debt impact is higher so the effects are quite balanced.

	2012	2011	2010	2009
ROE	15%	18%	22%	14%
FISCAL IMPACT	8%	8%	11%	7%
ROE BT	23%	26%	33%	20%
DEBT IMPACT	11%	12%	22%	10%
ROA	12%	14%	11%	10%



1.3 Leverage effect

In order to evaluate the leverage effect on LVMH we will use two theoretical models: a linear one and a quadratic one. Firstly we will consider the linear model; it consist in determine the ROEbt with a linear equation, the independent variable is the debt ratio (liab./equity). When this ratio is zero, the ROEbt must be equal to the ROA, as we have commented, therefore the independent term of the equation is ROA. Once defined the variable and the independent term, as it is a linear model, we have to define the slope of this line. Two points are used to define the slope: (0,ROA) and (actual debt ratio, actual equity). If plot of this model applied to our firm would be:



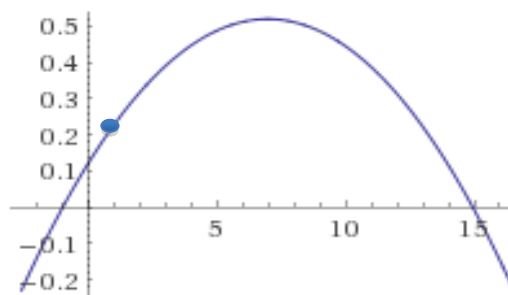
As we can see, this model is quite unrealistic because according to it, if we increase infinitely the debt ratio, the profitability will rise to infinite as well. The empiric behaviours of firms and markets show us that it cannot happen, basically because banks are not willing to lend money to companies with high debt ratios or at least at a reasonable interest rate. Furthermore, the interest rate pressure will drive a decrease in profitability.

Once seen that the linear model is quite limited, we will analyse if LVMH can fit with the quadratic one. Before defining how it works, we will present its generic formula:

$$ROE_{BT} = ROA + (ROA - e) \frac{LIAB}{EQUITIES} - j \left(\frac{LIAB}{EQUITIES} \right)^2$$

$$k = e + \text{risk premium} = e + \left(\frac{LIAB}{EQUITIES} \right) j$$

We will not extend on the demonstration of the mathematic expression but, just to clarify to the reader, this model takes into account the sensibility of the banks to lend money to the firm (j) and the cost of capital K. The following chart and tables show the application of the model to LVMH:

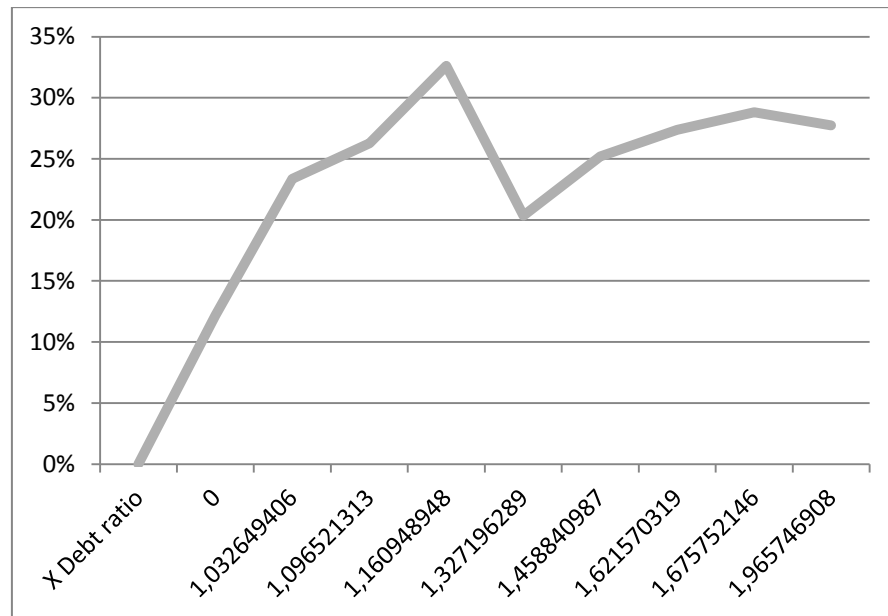


	2012	2011
j	0,81%	0,56%
K	1,4%	2,6%

	2012	2011
Optimum Debt Ratio	7,17	10,5
Maximum ROE	54%	76%

As we can see, this model is quite more feasible because, at least, it takes into account the cost of capital and therefore an infinite profitability cannot be achieved. Nevertheless, if we look which would be the optimal debt ratio according to the model we get 7.17 for 2012, which would imply a ROE of 54%. This numbers are very different form the rest of the luxury retail industry, including LVMH; thus, despite the model is more logical than the linear one, the results of the optimum point of indebttness has no sense.

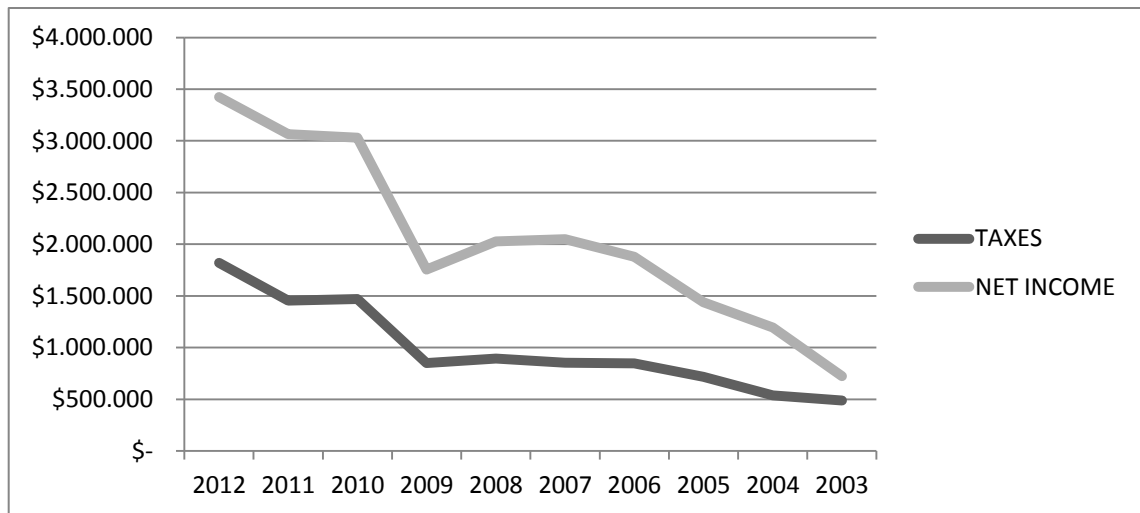
Assuming, that LVMH does not fit at all at the quadratic model, we have plot the ROE and debt ratio of the last 10 years, and this is what we have get:



Regardless the model does not fit in our firm in quantitative terms, if we assess the previous chart we can intuit a parabolic behaviour.

2. Tax Management

Now lets analyse the tax management of LVMH, firstly we will look at the evolution of the taxable income and amount of tax paid:



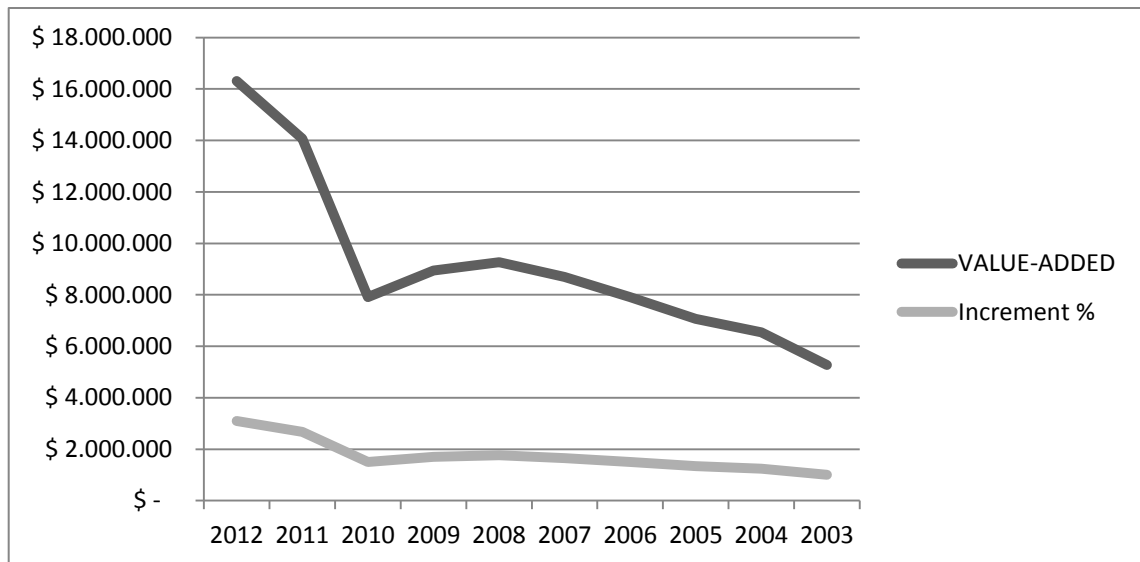
If can see that the shapes of the two curves are quite similar, there fore the effective tax rate is very constant during this last years. In fact as we cans see in the following table, the effective ta rates are above 30%, which is a quite high rate.

LVMH	2012	2011	2010	2009
Tax rate	35%	32%	33%	33%

What se conclude is that LVMH is paying a high amount of taxes comparing to other companies, the average tax rate in the EU is lower than the LVMH rates.

3. Value-Added

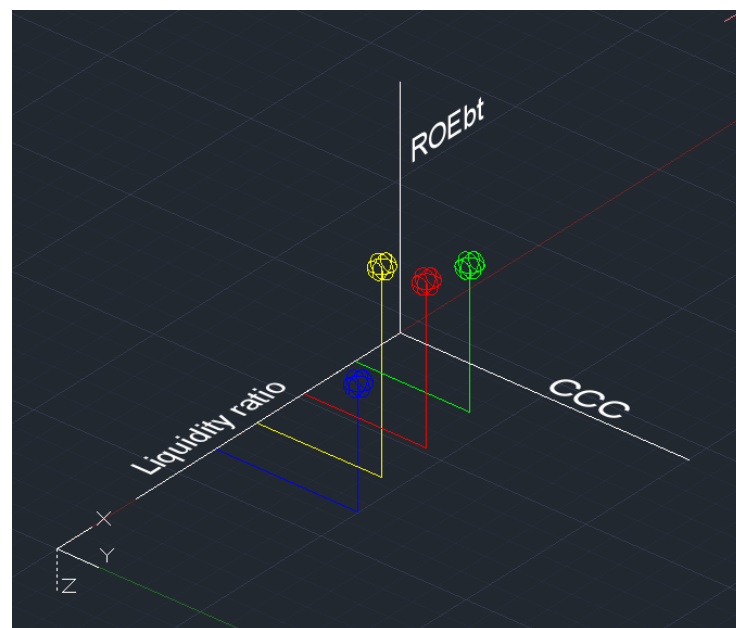
One way to consider the value added is taking the EBITDA and subtracting wages; this represents the GDP of the company. If we plot the evolution of the value-added we see that the general trend is positive, therefore LVMH is creating more value each year.



In the chart we see that there is an important increase from 2010 till now, this boost on the value-added is due to the acquisition of Bulgari in 2011.

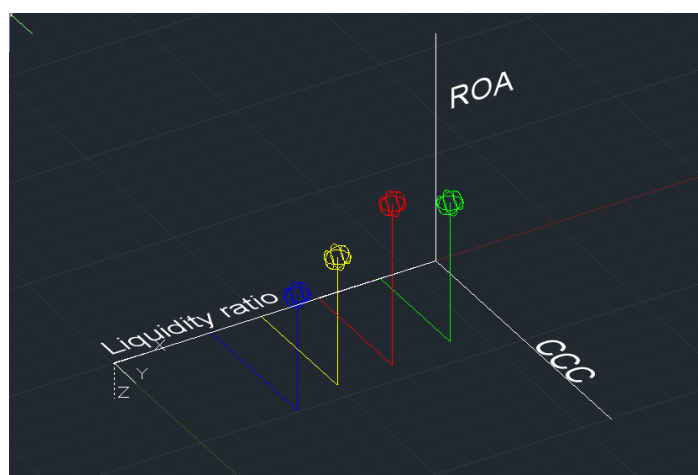
4. Risk vs. Profitability

To evaluate the relation between risk and profitability of our company, we have performed a 3D graph with the variables: cash conversion cycle, liquidity ratio, and ROEbt:



As we can see in the 3D graph is a quite rare behaviour, contrary that we where expecting, as our firm is moving towards the origin the profitability is going downs. This is very illogical because the origin and the other quadrants of the CCC-liq. ratio plane are more risky than the positions where LVMH used to have; so that, the company is assuming more risky position but its profitability is not increasing, just keep constant.

To evaluate if this problem was so important we have done the same graph but this time with the ROA on the vertical axis:

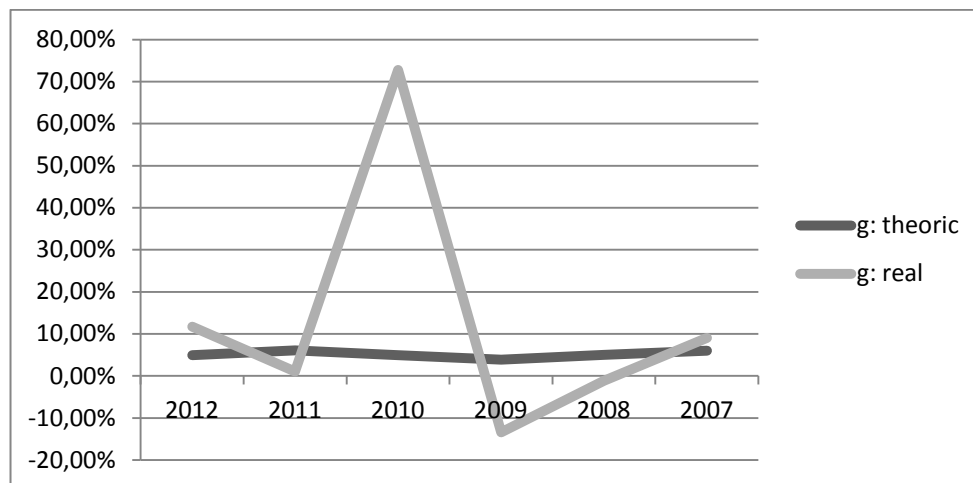


In this case we can see a slightly positive trend of ROA when the company is moving towards the origin. However, the increase is very low, therefore we can conclude that, in this case, the LVMH board is not making a good managing task because the assume more risk and they do not get more profitability.

5. Growth

To assess the growth rate we have compered the real rate using the Net Income as a base variable, and using the theoretical model based on Gordon-Shappiro approach.

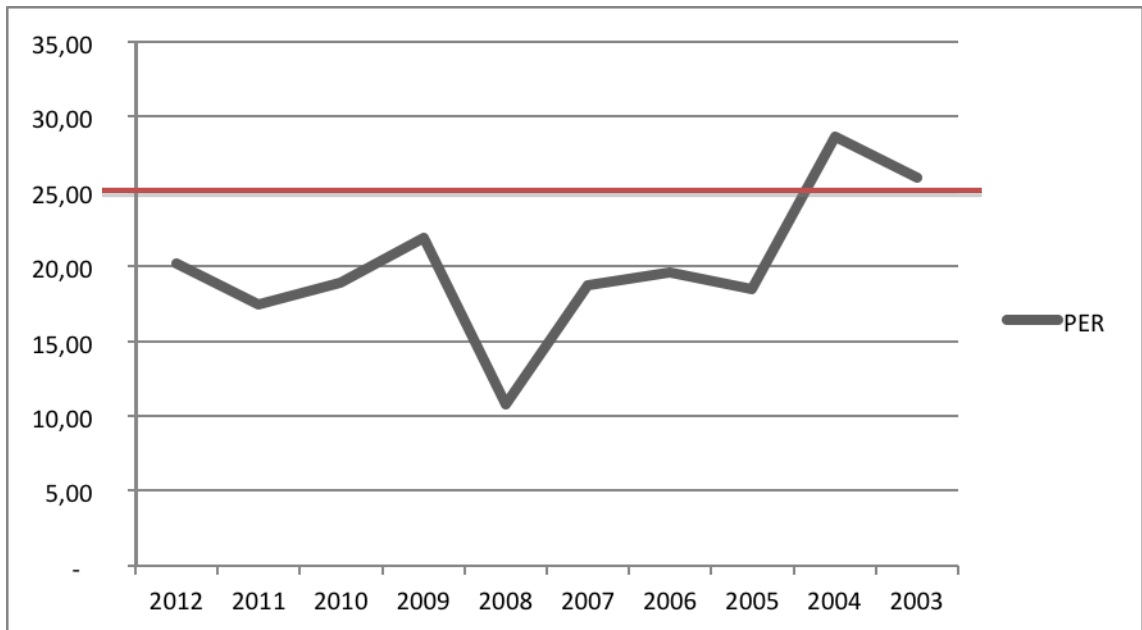
	2012	2011	2010	2009
Payout ratio	38%	35%	32%	43%
Tax rate	35%	32%	33%	33%
ROA	12%	14%	11%	10%
g theoric	4,94%	6,09%	4,95%	3,85%
NET INCOME	€ 3.424.000	€ 3.065.000	€ 3.032.000	€ 1.755.000
g real	12%	1%	73%	-13 %



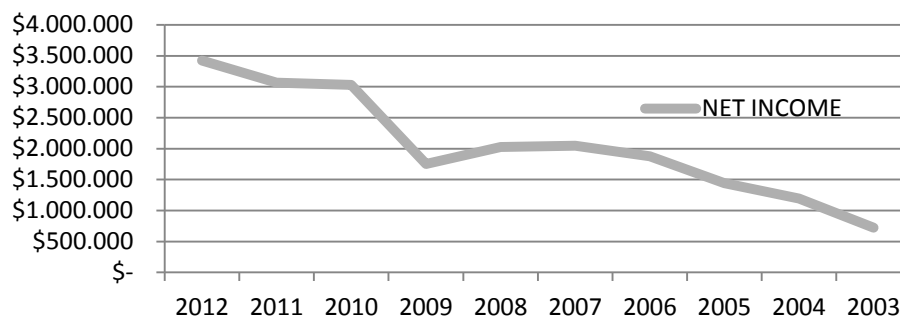
As we see, in this case the model does not fit in the firm, basically because it is based on the Gordon-Shappiro hypothesis and our firm does not accomplish it. Furthermore the difference is even higher in 2010, we attribute this difference to the Bulgari Acquisition.

6. Firm's Value

To analyse the firm's value we have taken into account the PER (price earnings ratio) that tells the investor how many times are included the profits in a price of a share.



As we see the PER is below 25, the boundary limit to be considered as a financial bubble. However, it is still quite high; a high value of per can be driven by two main consequences, an over-valued share due to speculative movements of the market, or a hi price due to investors expect an increase on net income. In, our opinion LVMH has low speculative pressures because it is hold by very big hands and the net income has been increasing year after year. Therefore the investors are willing to pay so much because they expect that LVMH will keep growing, as we can see in the following chart. Even having a quite high PER it is controlled.



7. Conclusions

In terms of profitability, we can conclude some highlights:

- LVMH is a profitable company, and it has been profitable for the last 10 years
- They are keeping the ROE constant and decreasing the leverage ratio, therefore the management is doing a good job in long term.
- The tax effect is very high, they could try to decrease the effective tax rate in order to increase the general profitability (ROE_{bt}).
- The models that we have learned in class, doesn't not fit properly in our firm. It can be because of the distortion on financial statements due to Bulgari acquisition
- LVMH is creating more value each year, so if the equity does not increase the value given to shareholder will be higher.
- In long term, maybe the management is not performing well because they move to more risky position without increasing the profitability.
- Regardless PER is quite high is it controlled and is driven by high incomes, not by speculative pressures.