

A Work Project, presented as part of the requirements for the Award of a Master Degree in Economics / Finance / Management from the NOVA – School of Business and Economics.

The new Luxury era
LVMH confirms its solid position as the market leader

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A Project carried out on the Master in Finance Program, under the supervision of:
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Abstract

LVMH has been in the past and is still today the leading company in the Luxury Market. The company showed over the years great capabilities in producing positive cash flows and rewarding its investors with capital gains and dividends. We believe LVMH has a great potential and prospects of growth in the future. That is why our recommendation is to hold the stock as we foreseen a return on investment of 8.30% from January to December 2022.

Keywords: Valuation, Forecast, Competition, Luxury Market

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This report is part of the Equity Research- LVMH report (annexed) and should be read as an integral part of it.

Table of Contents

**A WORK PROJECT, PRESENTED AS PART OF THE REQUIREMENTS FOR THE
AWARD OF A MASTER DEGREE IN ECONOMICS / FINANCE / MANAGEMENT
FROM THE NOVA – SCHOOL OF BUSINESS AND ECONOMICS.1**

HISTORICAL PERFORMANCE ANALYSIS6

GROWING AT A FAST PACE 6

COVID-19 EFFECT 6

FUTURE CASH FLOWS7

REVENUES 7

OPERATING MARGINS 8

CAPITAL EXPENDITURES 8

NET WORKING CAPITAL 9

FCF 10

DCF VALUATION11

WEIGHTED AVERAGE COST OF CAPITAL 11

▪ *Risk Free rate, Market Risk Premium and Tax rate* 11

▪ *Cost of Equity* 11

▪ *Cost of Debt* 12

▪ *Capital Structure* 12

TERMINAL VALUE 12

ENTERPRISE VALUE 12

▪ *Equity Market Value, share price* 13

SENSITIVITY ANALYSIS13

MULTIPLES VALUATION14

RISKS15

▪ *Rivalries* 15

▪ *COVID-19* 15

▪ *Shift towards digitalisation* 16

FINAL RECOMMENDATION16

Historical Performance analysis

In this chapter, we will examine the group's trends up to the present day, as well as the impact Covid19 had on the activity. These figures and numbers are based on data from the company's reports.

Growing at a fast pace

LVMH has been the leading conglomerate in the Luxury goods Market for the past years. In 2017, total sales were €42,636 million. Operating revenues grew by 10% between 2017 and 2018, and by 15% in 2019. Indeed, sales reached the highest value in 2019 with a figure of €53,670 million. LVMH's market share increased as well.

In that same year, the acquisition of Tiffany & Co. was announced.

Covid-19 Effect

The Global Pandemic represented a severe stop for LVMH's growth as for many other companies worldwide. The first quarter of 2020 was heavily affected by the Covid19 Crisis. Sales decreased by 17% overall, after years of positive growth (Exhibit 20).

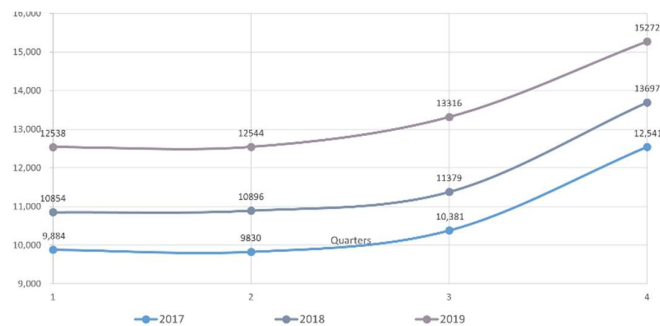


Exhibit 20: Revenues by quarter (2017-2019). **Source:** Own Estimations based on Company Report.

To better understand this data we looked through the results of every quarter. In the first quarter, sales went down by 31% compared to the last quarter of 2019, then decreased even more in the second quarter: 26% less than the first one and 51% less than 2019. In other words, revenues halved within six months. Undoubtably a dramatic outcome linked to the nature of the business, mainly dependent on international travels and in-store shopping.

Despite the severe decline the group showed great resilience and agility in overcoming the crisis, thanks to a strong focus on dynamic innovation, commitment to their clients and the environment. As mentioned in the Revenue Drivers chapter, LVMH could count on its four sources of competitive advantage to maintain and reinforce the leading position. As a demonstration to that, the results from the 3rd quarter of 2020 onwards were astonishing. Revenues increased by 53% in only three months from June to September, and then 20% more until the end of the year. If we compare the 4th quarter of 2019 to 2020, we can see a fall of only 6% in sales which, considering the severity of the crisis on the overall economy, is a signal of how remarkably the group has handled the global emergency.



Following the closing of one of the toughest years for our economy, 2021 started great for LVMH with the completion of the acquisition of Tiffany & Co. We believe the global luxury jeweller could bring even more prestige to the Watches & Jewellery segment and general optimism to the company.

Additionally, the results from the first nine months of 2021 gave even more hopefulness. The new year got off to a good start: the first quarter results confirmed that the group was on track, with an 11% increase in sales compared to the first three months of 2019.

Exhibit 21: Revenues by quarter (2019-2021). **Source:** Own Estimations based on Company Report.

This positive trend continued throughout the year, with the group achieving a nine-month result that was 46 percent higher than the one prior to the pandemic, an extraordinary achievement for the group.

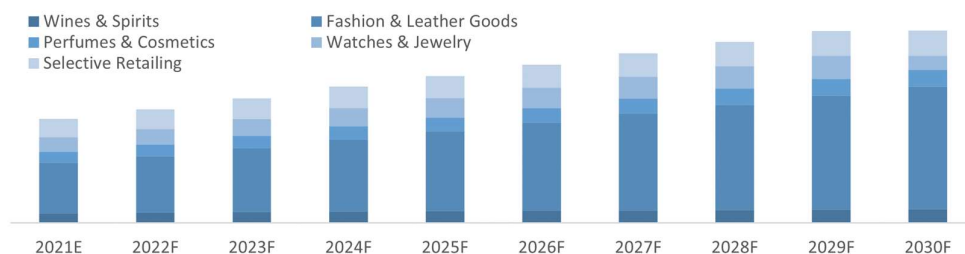
Future Cash Flows

A company's Future Cash Flows are a major component in determining its value. The Discounted Cash Flow method, which is based on the theory that a company's Market Value is equal to the present value of its future cash flows, is one of the methods we used to value LVMH. We began by forecasting LVMH's Consolidated Income Statement and Balance Sheet. This chapter will outline the main steps, assumptions, and outcomes of this process.

Revenues

Previously, we examined which factors we expect will influence LVMH's future revenues. Our idea of LVMH is that its value is a sum of parts, so we analysed each business segment as a singular entity. The expected revenues are indicated in the graph below.

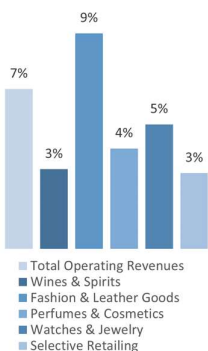
Exhibit 22: Forecasted revenues per business segments (2021-2030). **Source:** Own



Estimations based on Company Report.

On a general note, we anticipate strong growth in all segments. The Compound Annual Growth Rate (CAGR) of total sales is expected to be 7% from 2021 to 2030, as shown in Exhibit 23.

Exhibit 23: Total CAGR and per segment (2021-2030). **Source:** Own Estimations based on Company Report.



In particular, we expect that the Fashion and Leather goods division will continue to be our company's primary source of income. Indeed, its CAGR is the highest among the segments, equal to 10%. In ten years, we estimate that revenues in this area will increase from € 30,409 to € 74,019 million. Wines & Spirits and Selective retailing are expected to grow at a CAGR of 4%, while Perfumes & Cosmetics 5%. Watches and Jewellery will be the second largest income generator, with a predicted CAGR of 6%.

Operating Margins

EBIT and EBITDA margin projections represent a fundamental part when valuing a company. In particular, calculating LVMH's EBITDA margin is useful for determining the effectiveness of cost-cutting policies. The higher a company's EBITDA margin, the lower its operating costs as a percentage of total revenue.

We made the following assumptions based on our expectations of the company's future trends:

- Margin stabilization in the fashion and leather goods, perfumes, and cosmetics segments, albeit with some pressure from sustainability and energy transition costs, as well as some restrictions on manufacturing activity in Asian countries such as China. In the specific case of watches and jewellery, Tiffany's inclusion in the commercial portfolio has placed Revenue at a higher level, although the estimated margin remains stable.
- Wines and spirits, as well as select retail, will benefit from improved macroeconomic conditions in the coming years, as will the Leisure and Travel sector, as the world becomes more prepared to deal with the Covid-19 pandemic.
- The importance of the LVMH Store Chain will grow at a rate of 7% per year, putting some pressure on EBITDA margins, which will be limited to 31% on average.

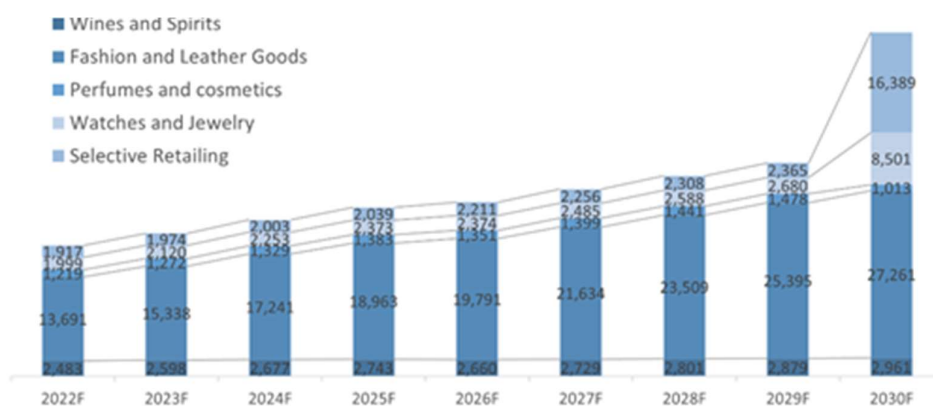


Exhibit 24: Forecasted EBITDA per business segments (2021-2030). **Source:** Own Estimations based on Company Report.

Overall, from 2021 to 2030, we anticipate an EBIT CAGR of 11 percent and an EBITDA CAGR of 9.7 percent, compared to a 8 percent revenue CAGR. Because of this disparity, LVMH's revenues will grow faster than its costs in the future.

A note of clarification, LVMH does not disclose amortizations per segment so we had to make a proxy-based on the network of stores as main fixed assets.

For Depreciation and Amortization, we first observed the historical trends. Because D&A is inextricably related to property, plant, and equipment, we anticipated the future ratio based on the past ratio of the two. We predict D&A to be equal to this ratio times the forecasted value of PPE, assuming the former figure remains constant over time.

Capital Expenditures

Capital Expenditures or Capex, represent a vital information about the investment policy of our company. They are, in other words, the funds LVMH invests to acquire, preserve or improve physical assets such as property, plant and equipment (PPE).

LVMH has always had over the years a high level of investments. Purchases mainly include investments by the Group's brands in their retail networks and production equipment. A high level of investments implies lower cash flows available to investors, therefore is a good sign only if those assets will add value in the future. By analysing the historical return on invested capital we observed that LVMH's investments have always created value for the company's investors. Indeed, even comparing the 2020 ROIC (the lowest due to the Pandemic) with the WACC we computed, it is clear that there is a positive difference and so value creation potential.

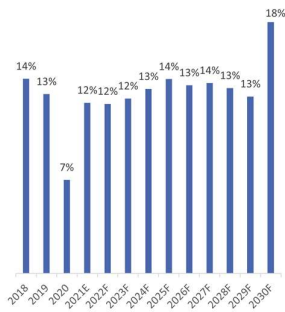


Exhibit 25: Return on Invested Capital (2018-2030). **Source:** Own Estimations based on Company Report.

Looking at the historical Balance Sheet, we observed that the average percentage of investments compared to sales from 2017 to 2020, was 35%. We expect that this ratio will remain constant in the future

e, assuming that capital expenditures are proportional to operating revenues and so, to all the revenue drivers we analysed. As a consequence, we forecast a growing value for property plant and equipment, following the trend of revenues.

Furthermore, we estimate that the return on invested capital will continue to be high in the future, with a projected rate of 12 percent in 2021. As a result of its capital expenditures approach, LVMH will be able to produce value for its investors.

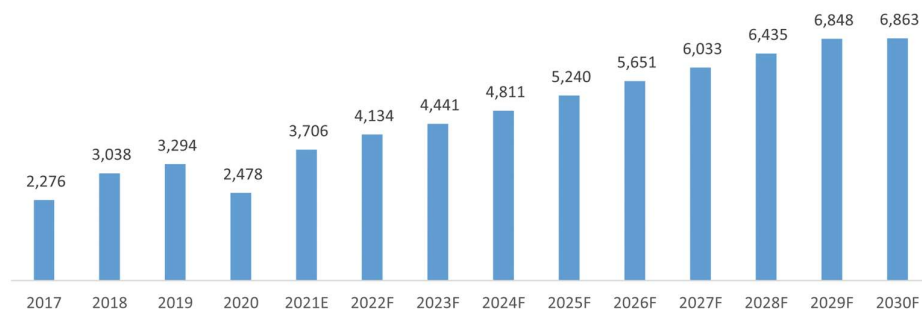


Exhibit 26: Historical and Forecasted Capital Expenditures (2017-2030). **Source:** Own Estimations based on Company Report.

Net Working Capital

Net Working Capital (NWC) displays LVMH's short-term financial health. It is given by the difference between current assets and liabilities. Our company showed over the years a positive NWC, which even doubled from 2017 to 2020.

To forecast the items of the Net working capital in the balance sheet we considered each of them as proportional to sales, since their nature is strictly linked to these variables. As a consequence, we expect that the overall working capital will increase every year in proportion to sales, a trend that agrees with the historical one.

High working capital is a good sign that the group is able to face its short-term liabilities and to make new investments.

To understand LVMH's situation we compared its cash conversion cycle (CCC) to the average

of three peer companies. The CCC is a metric that expresses the number of days it takes for LVMH to convert its working capital, such as inventory, receivables or payables, into inflows or outflows of cash.

Exhibit 27: Cash conversion cycles comparison (days). **Source:** Own Estimations based on

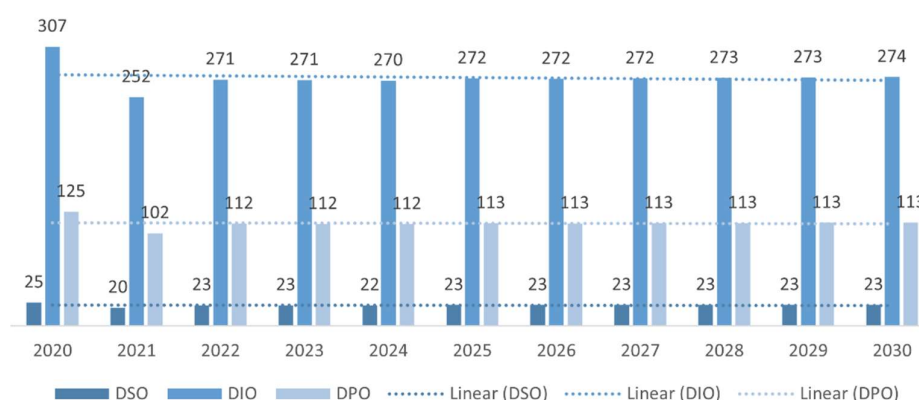
	2018		2019		2020	
Ratio	Peers	LVMH	Peers	LVMH	Peers	LVMH
DSO	22	23	18	23	19	25
DIO	316	273	266	264	311	307
DPO	120	115	79	112	77	125
CCC	218	181	205	174	253	207

Company Report.

By examining the summary table, we observed that for every year our company's CCC is lower than the average of the peers. In particular, the days of inventory outstanding are always lower and, at the same time, the days payables outstanding are, on average, higher. In other words, LVMH converts its investments in inventory into cashflows faster than the comparable companies, and also has more days available to pay its current debts.

Based on our net working capital predictions, we expect these ratios to marginally fall from 2021 onwards, maintaining the cash conversion cycle within a reasonable range.

Exhibit 28: Cash conversion cycles forecasts (days). **Source:** Own Estimations based on



Company Report.

FCF

Finally, after describing the key parts of the process, we come to a conclusion with the projection of Operating Free Cash Flows, which will be employed to calculate the Enterprise Value. The ability of a company to generate positive cash flows or, more specifically, to maximize long-term free cash flow is fundamental to its ability to create value for shareholders.

Our expectations for LVMH are definitely high, as these forecasts illustrate.

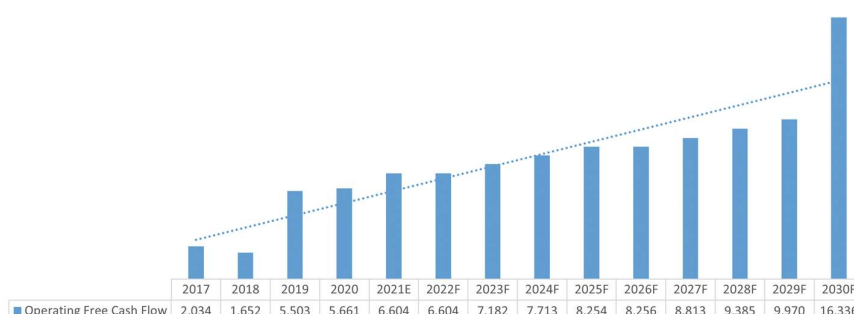


Exhibit 29: Future Cash Flows. Source: Own Estimations based on Company Report.

We believe that, as a result of its potential, our company will be able to continue on this path of expansion and produce, over time, even more value for its investors.

DCF Valuation

The Discounted Cash Flow is one of the valuation methods we chose to value LVMH.

This chapter shows how we arrived to the recommendation.

Weighted Average Cost of Capital

In this chapter we analyse the process of finding the weighted average cost of capital of LVMH.

To determine the share price of the company by using the discounted cash flow method, an essential part is the discount rate used to find the present value of the Future Cash Flows, which is, indeed, the WACC.

The results based on our assumptions and calculations is a weighted average cost of capital of 5.72%. The inputs needed for the computation are the following:

- Risk Free rate, Market Risk Premium and Tax rate

Risk-free rate of return is the hypothetical rate of return of a zero risk investment. For our model we used as a proxy the ten years German Bund equal to -0.12% (as of 25 of October).

The market risk premium is the difference between the expected return of a market portfolio and the above-mentioned, risk-free rate. In our model we used the Equity Market Risk Premium from the KPMG March research, equal to 6.75%.¹

Finally, the tax rate, needed to account for the tax benefit of holding debt directly in the cost of capital. We used the statutory tax rate for French companies of 2020, equal to 32%, assuming this will stay constant.

- Cost of Equity

To find the cost of Equity of the group we started by doing a regression of LVMH historical returns, from January 2017 to October 2021, against the world market index (MXWO), obtaining a significant levered Beta of 0.85. A company's Beta measures the volatility of the stock as opposed to the broader market which Beta is equal to one.

As a consequence, a Beta of 0.85 means that the company is less volatile than the market. To obtain a more accurate measure and a term of comparison we did the same computation for some peer companies, obtaining an average levered Beta of 1.16. The next step was to unlever our company's and the peers' Betas in order to get a value that was not affected by the capital structure, which is peculiar of every company. As a result, LVMH's un-levered Beta was 0.77 while the average of the peers was 0.98. The final Equity Beta was achieved by doing an average of our company and the peers, obtaining a 0.87, and then re-levering it considering our desired capital structure. The result is a levered Beta of 0.97, meaning that LVMH is slightly less volatile than the market.

Lastly, we were able to compute the cost of equity by using the Capital Asset Pricing Model,

¹ https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html

obtaining a result of 6.38%. Cost of Equity is, as a consequence of the small Beta, lower than the market risk premium of 6.75%.

■ Cost of Debt

By opportunity cost of debt we mean the return that debtholders actually expect to receive. For LVMH we calculated this value considering the yield to maturity, probability of default and loss given default.

Let us start by saying that we expect a cost of debt is equal to the yield to maturity, due to the fact that LVMH has a credit rating of A1/A+ (Moody's/S&P500), which can be translated as zero probability of default. First, we analysed the bonds issued by the group and then we computed the weighted average of all the YTM's. The resultant overall yield to maturity and so, cost of debt, is 0.07%. As expected, it is very low.

Exhibit 30: Inputs and Output of WACC. Source: Own estimations.

INPUTS	
Risk Free Rate (rf)	-0.12%
Market Risk Premium	6.75%
Beta Unlevered	0.86
Beta Equity	0.96
Beta Debt	0.01
D/E (%)	12%
D/EV (%)	10%
E/EV (%)	90%
Cost of Debt (rd)	0.07%
Cost of Equity (re)	6.38%
Tax rate (t)	32%
WACC= 5.72%	

■ Capital Structure

Capital structures reveal by which means a company finances its own operations. It is an essential element in the computation of the cost of capital since the company gets a tax benefit when using Debt as a source of financing, in addition to Equity.

When using the Discounted Cash Flows method and so, the WACC, a strong assumption is that the level of Debt is not fixed, but instead changes according to the Enterprise Value.

To forecast the Debt over Enterprise Value ratio for the future years, we first observed the company's choices of leverage policy in the past. The findings allowed us to assume a future percentage of Debt of 10%, which is the average ratio of the previous years.

Exhibit 31: Value of Debt and Enterprise Value (2017-2020). Source: Company Report and Bloomberg.



The assumption of fixed debt would have been too unrealistic for our case. As a matter of fact, LVMH has been increasing its leverage over the years, hence the assumption of debt changing in proportion to the value of the business is the one that approximates best the reality.

Since Enterprise Value is given by the sum of Equity and Debt, the ratio Equity over Enterprise Value will be 10%.

Terminal Value

For our forecasts we assumed two different periods of time, one of accelerated growth (2022-2025) and another one of stabilization and normalization (2025-2030). We discussed the reasoning behind the choice of these growth rates in the previous chapters, and in this section, we introduce the growth rate for perpetuity.

LVMH is a consolidated company, which is still investing and growing, for this reason we believe that it will continue to growth in line with the economy. As a consequence, we believe that the growth rate of the global Gross Domestic Product will be the most realistic option to adopt when using a perpetuity formula. The assumption is that, in the longer term, LVMH will follow the trends of the worldwide economy. The expected growth rate is equal to 2.9%.

Enterprise Value

The conclusion of the DCF model is an Enterprise Value of €425,278 million.

- Equity Market Value, share price

For the end of this year, we expect an Equity Market Value equal to €386,80 million. The components of the enterprise value are shown in exhibit 32.

With 504 million shares outstanding, the resulting share price will be €767.

(Million EUR)	2021	2022
	End of the current year	Projected
Operating Free Cash Flow to the Firm	6,604	6,604
@WACC	5.72%	
@g	2.87%	
Operational Enterprise Value for each y	418,088	435,413
Non Operational Items (book value)	(10,434)	(10,135)
Enterprise Value	407,654	425,278
Minority Interest (book value)	(1,617)	(2,062)
Cash and Cash Equivalents	7,231	6,913
Debt Market Value	(42,225)	(44,050)
Equity Market Value	371,044	386,080

Exhibit 32: Enterprise and Equity Value from DCF (2021). **Source:** Own estimations.

Sensitivity Analysis

As it is impossible to predict the future and ensure that the assumptions used in the DCF model will be met, it is critical to understand and investigate the model's limitations through a sensitivity analysis.

Share Price		WACC				
g	767	6.0%	6.1%	6.2%	6.3%	6.4%
	2.7%	661	640	620	601	583
	2.8%	679	657	636	616	597
	2.9%	699	675	653	632	612
	3.0%	720	694	671	649	628
	3.1%	742	715	690	667	645

EV		WACC				
g	425,278	5.8%	6.0%	6.2%	6.4%	6.6%
	2.5%	370,767	347,219	326,241	307,437	290,489
	2.7%	392,290	366,032	342,800	322,104	303,552
	2.9%	416,781	387,271.93	361,366	338,446	318,027
	3.1%	444,901	411,442	382,328	356,769	334,155
	3.3%	477,520	439,192	406,181	377,457	352,239

Exhibit 33: Sensitivity Analysis for DCF. **Source:** Own estimations.

The Weighted Average Cost of Capital and the terminal growth rate are unquestionably two of the most important variables in DCF valuations (g). Exhibit 33 depicts the impact of potential changes in these two variables on the LVMH share price per share.

This table highlights the impact of a percentage point increase or decrease on the entire group. The scenarios for the LVMH stock price are presented in the table. Lower WACC and higher g

translate in greater EV and so, share price.

We saw when computing the WACC that this figure is likely to remain quite constant for our company. Cost of debt is expected to stay low due to the probability of default equal to zero. Also for cost of equity, we do not expect significant fluctuations, giving that the company has already a Beta close to the market's. Everything else equal, the only thing that might increase or decrease the WACC is a change in capital structure.

On the other hand, the terminal growth rate might change. We saw earlier that we assumed a g equal to the expected global GDP growth, with the intention of not projecting too high expectation for the future. As shown in the tables of exhibit 15, an increase in growth rate of 0.2% is going to increase Enterprise Value more and more as it grows.

Multiples Valuation

In addition to the Discounted Cash Flow valuation we decided to compute a multiple's valuation in order to reach the fair value of LVMH by comparing its main financial indicators with the ones of the key competitors of the conglomerate.

As mentioned in the previous section, when analysing the conglomerate competitors and the different business segments we decided to conduct a sum-of-parts relative valuation. Companies like LVMH compete in several subindustries or product areas, hence every business segment has a different Return On Invested Capital and growth rate.

Exhibit 34: LVMH data per Segment. Source: Own estimations.

Business Segments	ROIC	2019 Growth
Wines and Spirits	9%	8%
Fashion and leather goods	27%	20%
Perfumes and cosmetics	14%	12%
Watches and jewelry	7%	7%
Selective retailing	10%	8%

On a general note, for each business segment we carefully conducted a qualitative analysis by considering the key players in the market based on the alignment of their position in the luxury market, business segment they are specialized, the risks that they share and their operating strategy for the next years. Additionally, we analysed their revenues growth, RONIC, Debt-to-Equity, EBITDA Margin to assess profitability, capital structure and growth.

For the quantitative side of the method, we also considered the most suitable multiples for the valuation of a group like LVMH. Being these the forward EV/EBITDA and the P/E ratios. The usage of forward multiples was considered since there is empirical evidence that shows that forward-looking multiples are indeed more accurate predictors of value than historical multiples are (Koller, 2015). Furthermore, while EV/Sales appears to be a suitable multiple based on the nature of the firm, we believe it is not a viable proxy because revenues and revenue growth are very volatile criteria within these players.

After analysing the median EV/EBITDA and P/E ratio of the players in each business segment we concluded that the price of LVMH will achieve a value of €605 over the EV/EBITDA multiple and a value of €676 over the P/E ratio analysis.

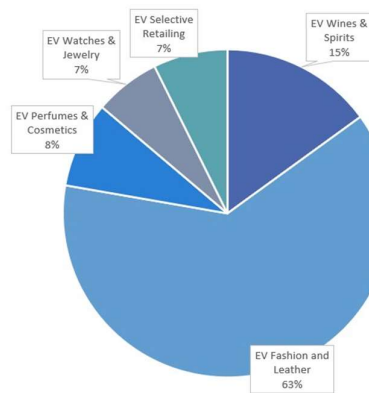


Exhibit 35: LVMH data per Segment. **Source:** Own estimations.

We expect the Fashion and Leather goods segment to be the most valuable, as it is shown in exhibit 35.

The results are shown in exhibit 36 next to the DCF outcome.

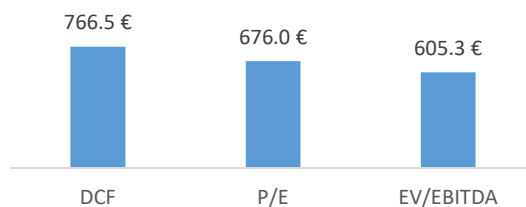


Exhibit 36: Comparison outcomes of DCF and Multiples. **Source:** Own estimations.

Risks

After everything we have discussed in the previous chapters, it is safe to say that LVMH is a true game changer. Nonetheless, it should be noted that even the luxury behemoth could face a variety of threats. In this chapter, we will discuss the main risks that we believe the market leader might face.

▪ Rivalries

As we saw in the previous chapters, LVMH has a strong competitive advantage in the market, and it has been constantly increasing its market share over the years. On the other hand, competitors such as Kering and Richemont also performed well during the pandemic, proving soundness and resilience. Moreover, Kering's CEO allegedly approached Richemont's controlling shareholder about a merger proposal, earlier this year. The two firms' combination might translate in a new risky form of competition for LVMH. Richemont is strong in the watches and jewels side of the market, while Kering is strong in the fashion and leather segment. Combining these firms makes strategic sense in the face of a major competitor like LVMH, especially in this moment where a further growth of the personal luxury market is expected.

▪ COVID-19

We extensively talked about the effect of the pandemic on LVMH's business.

The risks related to COVID-19 are mostly linked to the closure of stores. However, we observed that the group's first response in 2020 has been immediate and effective, allowing the company to take advantage of the situation and to grow even more. Moreover, we also said that the

company has adapted and improved its distribution channels in order to face the closure of its physical stores.

Our expectations are optimistic, in that we feel the company is now capable and prepared to deal with a worsening of the current scenario.

- Shift towards digitalisation

The COVID-19 era revealed that today more than ever online channels are growing and represent a key tool for the future of LVMH.

We saw earlier in this report that our company has been improving its online presence to keep up with the global trends and indulge the new generation's needs. The online luxury market is developing at slower rate than others, due to its own nature. We believe that the main obstacle for the players in the luxury goods market will be to be capable of offering an online experience that is as exclusive and unique as the one in-store. Nonetheless, we see these difficulties more as challenges for LVMH, in a digital market that is still evolving and has great potential.

Final Recommendation

Our study comes to a conclusion with a recommendation to keep the stock on the shelf. In the preceding paragraphs, we discussed our outlook for LVMH's future, as well as the assumptions and beliefs that underpin our findings.

Our expectations for this company are clearly strong, as evidenced by the high Enterprise and Equity values.

	2021	2022F
	End of the current year	Projected
Number of shares in 2020 (Millions)	504	504
Equity Market Value (Millions)	€ 371,044	€ 386,080
Share price	€ 736.67	€ 766.52
Gross Dividend per Share	€ 6	€ 6
Return		8.30%
Recommendation: Hold		

Exhibit 36: Return calculation (2021-2022). **Source:** Own estimations.

The result of the discounted cash flow method gives us a price of €766.52 for 2022. The return for an investor that holds the stock from december 2021 to december 2022 is expected to be 8.3%, as a consequence of the increase in the share price and constant dividend received.

LVMH

LUXURY GOODS

STUDENT: MARTINA MURRU & MARIA TEIXEIRA

COMPANY REPORT

17 DECEMBER 2021

46325@novasbe.pt & 45902@novasbe.pt

A New Luxury Era

The future dynamics of the Luxury Market

- Our report begins with a recommendation to hold. When compared to the current price of €713.30, our predicted goal price of €766.52 represents an 8.3 percent return on investment, which includes a capital gain of 53.22€ and an expected dividend of 6€. LVMH has a solid track record and will continue to be a market leader in the Personal Luxury Goods sector. It currently has a 14 percent market share, and we predict it to grow to 22 percent in the next years.
- Its growth will be driven by increasing in brand portfolio (higher positioning in the market), sustainable growth of current and new opening stores and high exposure to more profitable segments and geographical regions (China and US).
- Additionally, the environment of low historical interest rates, low unemployment levels, and growth in the HNWI segment supports the leveraged growth of the group.
- A DCF was implemented in order to calculate the target price at the end of 2022, according to the business as a whole, with a 5.72% WACC and a terminal growth rate of 2.87%.

Company description

In 1987, Mot Hennessy and Louis Vuitton merged to form the LVMH group, with the goal of making LVMH the world leader in luxury. The group's current leadership position is based on a unique portfolio of 75 excellent Maisons operating in six different business segments around the world.

Recommendation: **HOLD**

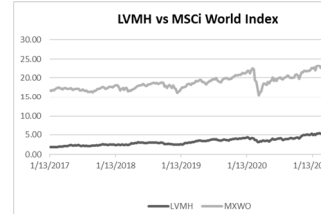
Price Target FY22: **766,52€**

Price (as of 24-Feb-22) **713,30 €**

Bloomberg: MC FP

52-week range (€)	484,40-741,60
Market Cap (€m)	360 043,4
Outstanding Shares (m)	503,7
Share Return	4,86%

Source: Bloomberg, Company data and own estimations



Source: Own elaboration

(Values in € millions)	2020	2021E	2022F
Revenues	44 651	63 043	68 743
EBITDA	14 022	20 110	21 308
EBIT	7 972	14 701	15 629
EBIT Margin	17,9%	23,3%	22,7%
ROIC	7%	12%	12%
FCF	5 736	6 497	6 476
Capex	2 478	3 706	4 134

Source: Bloomberg and Own Estimations

THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY MARTINA MURRU AND MARIA TEIXEIRA, MASTER IN FINANCE STUDENTS OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)

Table of Contents

INTRODUCTION	3
MARKET OVERVIEW	3
THE PERSONAL LUXURY INDUSTRY	3
▪ <i>Regional Highlights</i>	5
▪ <i>Distribution Channels</i>	5
▪ <i>A new generation a new purpose</i>	6
COMPANY OVERVIEW	7
OPERATING MODEL	8
BUSINESS SEGMENTS	9
WINES AND SPIRITS	9
FASHION AND LEATHER GOODS	9
PERFUMES AND COSMETICS	10
LUXURY WATCHES AND JEWELRY	10
SELECTIVE RETAILING	11
OTHER ACTIVITIES	11
REVENUE DRIVERS METHODOLOGY	11
PERFORMANCE OF LVMH IN THE PERSONAL LUXURY GOODS	12
THE COMPETITIVE ADVANTAGES OF LVMH	12
▪ <i>M&A</i>	12
▪ <i>Geographical Focus & Segment Mix</i>	13
▪ <i>Distribution Channels & E-commerce</i>	13
▪ <i>Leading Positioning Analysis</i>	14
MACROECONOMICS OVERVIEW	14
PROJECTION OF PERSONAL LUXURY GOODS CATEGORIES	15
ANALYSING OTHER DRIVERS	16
REVENUE FORECAST APPROACHES	16
HISTORICAL PERFORMANCE ANALYSIS	18
GROWING AT A FAST PACE	18
COVID-19 EFFECT	18
FUTURE CASH FLOWS	20
REVENUES	20
OPERATING MARGINS	21
CAPITAL EXPENDITURES	22
NET WORKING CAPITAL	23
FCF	24
DCF VALUATION	25
WEIGHTED AVERAGE COST OF CAPITAL	25
▪ <i>Risk Free rate, Market Risk Premium and Tax rate</i>	25
▪ <i>Cost of Equity</i>	25
▪ <i>Cost of Debt</i>	26
▪ <i>Capital Structure</i>	26
TERMINAL VALUE	27
ENTERPRISE VALUE	27
▪ <i>Equity Market Value, share price</i>	27
SENSITIVITY ANALYSIS	28
MULTIPLES VALUATION	29
RISKS	31
▪ <i>Rivalries</i>	31
▪ <i>COVID-19</i>	31
▪ <i>Shift towards digitalisation</i>	31
FINAL RECOMMENDATION	32
APPENDIX	33
REPORT RECOMMENDATIONS	36

Introduction

As a preliminary note, we would like to mention that there are no statistics or information organized by independent entities on the Luxury Market, more specifically Personal Luxury goods. In this sense, after a search for the main consulting firms, we were able to find information produced by the specialized team of Bain and Company. Due to the quality of information and the team that produces it, we chose to use this source not only to evaluate past performance and analyse the market itself but also to elaborate on the future projections.

Market Overview

LVMH has been a leader in the worldwide **luxury market** (market share of 14%) which mainly operates in the **Personal Luxury Goods Segment** through the Fashion and Leather, Perfumes and Cosmetics and Watches and Jewellery goods (accounting for 70% of the total sales).

The global luxury market includes both luxury goods and experiences. This market in the post-pandemic scenario is still below the 2019 levels with an expectation to reach a market value of 1,1 trillion € by the end of 2021. This is due to the relevance of drivers such as the tourism flows. Personal Luxury Goods account for 22% of the total market of luxury being a highly relevant segment

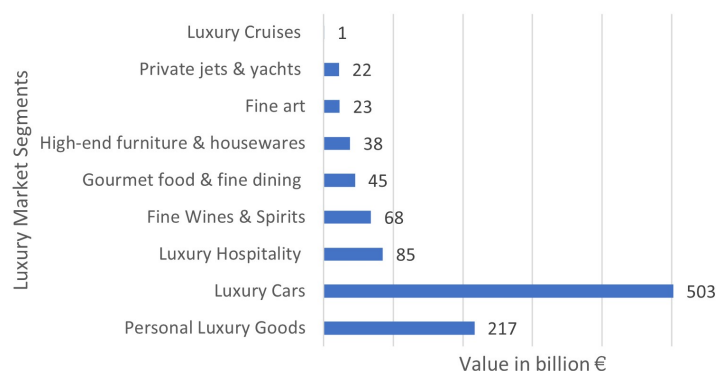


Exhibit 1: Global Luxury Market 2020. Source: Own elaboration based on data from Statista.

The Personal Luxury Industry

The personal luxury goods industry includes categories such as leather goods, shoes, jewellery, watches, beauty, and apparel products. Considering the 2019 values, the most relevant category in this segment was **jewellery** which outperform both with a growth of 9% (at constant exchange rate) followed by **leather goods** and **beauty**. Also, geographically speaking, the market

experienced sustained growth across the **Asia-Pacific region** (mainland China, Southeast Asia, Japan), but growth was more modest in Europe, the Americas, and the rest of the world (Exhibit 2).¹

With the COVID-19 pandemic, the market has been highly affected, impacting both the growth dynamics of each category and the regional distribution of the revenues (Exhibit 3).



Exhibit 2 and 3: Global Personal Luxury Goods Segment by Category (2019-2020). **Source:** Own elaboration based on data from Statista.

In 2021 the personal luxury goods segment has experienced a V-shape recovery scenario. After a contraction of 22% in 2020 concerning the 2019 global segment dimension, the industry is showing recovery signs with an expected **rebound** in 2021 of **283 billion €**. Additionally, according to the Bain & Company study, the market is expected to grow by **360-380 billion €** by 2025, assuming a **sustained growth of 6%-8% annually** (Exhibit 4).²

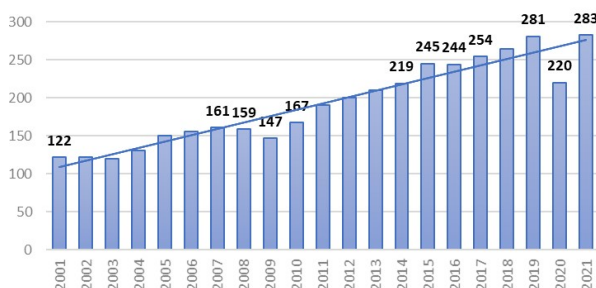


Exhibit 4: Global Personal Luxury Market (2000-2021E). **Source:** Own elaboration based on data from Bain & Company.

This new luxury era has been driven by the resurgence of local consumption, the impactful position of China and US markets, and the power of the online channel. The new generation of customers meaning, **Gen Z (1997 – 2012)** and **Y (1981-1996)** will continue to be the centre of the growth of this market accounting for **70% of the market by 2025**.

¹ <https://www.bain.com/insights/eight-themes-that-are-rewriting-the-future-of-luxury-goods/>

² <https://www.bain.com/insights/personal-luxury-goods-sales-are-set-to-beat-their-pre-covid-levels-snap-chart/>

▪ Regional Highlights

In terms of regions, in the first quarter of this year China was already driving the recovery due to the acceleration of domestic spending on luxury – extraordinary momentum. Chinese customers doubled their consumption of its regional market since pre-covid years. The US has been also leading the recovery. The renewed consumer confidence, financial stimulus, and rapid vaccine deployment have been crucial for the return of luxury consumption in the US.

According to the most recent report from Bain (November 2021), the **US** has definitely a leading position being the largest luxury market with a representation of **31% of the global market** (89 billion€). China is now representing over **21% of the global market** (60 billion €). The Middle East was also a successful region with Dubai and Saudi Arabia being the biggest contributors. The other regions, mainly Europe, Japan, and the Rest of Asia have still not reached pre-covid levels. Their recovery is highly dependent on the reopening of global travel and the normalization of tourism flows.³ Finally, Japan is only expected to achieve pre-crisis results by 2023 and Europe by 2024. Concluding, the Covid-19 pandemic is reshaping the regional distribution of the personal luxury market. In 2019-2020, the main characters were Americas (28%) and Europe (26%), as shown in Exhibit 5. Present-day in 2021, the picture changes with Europe being surpassed by Asia (China). This definitely highlights the importance of tourism shopping for Europe.

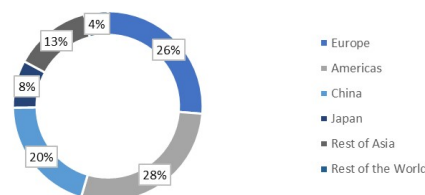


Exhibit 5: Global Luxury Goods Market by Region 2020. Source: Own elaboration based on data from Statista.

▪ Distribution Channels

The online channel will continue to be a fast-growing channel in this market, highly boosted by the new necessity created during lockdown - buying online – which allows for the acquisition of new customers – the online costumers. From 2019 to 2020 there was a 50% increase in online consumption which will continue to grow by 27% from 2020 to 2021, reaching 62 million € in 2021 thanks to these newly acquired customers. Online and mono-brand stores combined

³ <https://www.bain.com/about/media-center/press-releases/2021/luxury-report-2021/>

have been the key channels that are leading the recovery of 2021 and will continue contributing to the midterm growth of the market (Exhibit 6).

According to Statista studies, 80% of the worldwide luxury sales are made offline while 20% of the sales are made online. This is because the e-commerce market is emerging in Luxury -luxury was slow to adapt to digital ways of selling.

The luxury market is not as developed as the retail market, for example. Amazon is already providing excellent service and customers deposit higher expectations for this market as luxury is intrinsically linked with premium and high quality. On the other hand, e-commerce will have a significant role in targeting the attention of the millennial generation (Generation Y) which is looking for the convenience of online shopping aligned with the digital brand experience. Additionally, the pandemic was an enabler to boost the importance of e-commerce business as many of the physical shops had to close during the lockdown.

E-commerce is still underdeveloped in this industry. However, there is a huge potential for the development of this sales channel. E-commerce has fundamentally changed the structure of trading goods. The penetration of internet-enabled devices and the increase of online stores had led to a change within the retail landscape. But also had a major influence on shopping behavior. Luxury companies have now the challenge to adapt to this new reality and highly develop their online channel. However, the growth of this channel has shown that the luxury companies are already adapting and progressing at a fast pace.

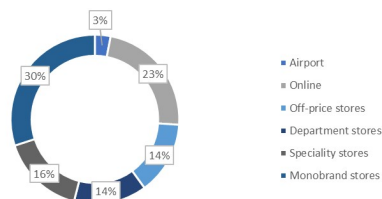


Exhibit 6: Global Personal Luxury Goods Market By Channel in 2020. **Source:** Own elaboration based on data from Statista.

▪ A new generation, a new purpose

More than ever before, the growing universe of luxury clients has high expectations of brands. They want customization and alignment with their values, a strong voice on social problems, and actual action and responsibility when it comes to sustainability, in addition to products.

Company Overview

LVMH, as mentioned before, is a French group that operates in the luxury industry in six main business segments: wines & spirits, fashion & leather goods, perfumes & cosmetics, watches & jewellery, selective retailing, and other activities. From previous acquisitions (Tiffany, 2020) and the historical performance of the business segments, we expect that both fashion & leather goods and watches jewellery will benefit from sustainable revenue growth rates in the next 10 years.

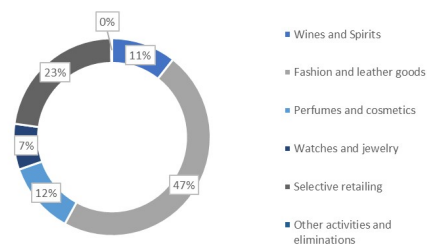


Exhibit 7: LVMH Business Segments 2020. *Source: Own elaboration based on data from Company report 2020.*

The conglomerate counts with a presence in 80 countries worldwide through 75 Maisons and 5003 stores which employed 150479 workers worldwide.

Additionally, it is known as the world-leading luxury group as a combined result of successful alliances among several high-value companies. LVMH has a portfolio of brands of excellence in the market such as Christian Dior, Moët & Chandon, Fendi, Celine, Louis Vuitton, Givenchy, and others.

In their geographical distribution, the main markets are Asia (excluding Japan) and the United States. From the industry analysis made in the previous section and the historical growth analysed we believe that the Asian (excluding Japan) and American markets will surely be leading growth for this luxury conglomerate.

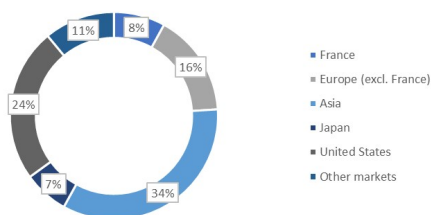


Exhibit 8: LVMH Revenues by Region. *Source: Own elaboration based on data from Company report 2020.*

In terms of competitors, LVMH's main competitors are luxury conglomerates such as Compagnie Financière Richemont SA, Estée Lauder Companies, Kering SA, and PVH Corp. These have much smaller dimensions as well as different operating luxury business segments. For this reason, we considered that the best approach for the comparables analysis would be to conduct a sum-of-parts considering all the relevant players in each business segment (described in the next section).

The group as a whole has been presenting an incredible evolution of their sales until 2020 when the covid-19 had imposed not only, major changes in the operations of the business but also, an impact on sales in the lockdown period. From the last 4 years, the group has registered a compounded annual growth of 8%. The operating profit has also presented a growth from 18% to 21% over these years. During 2020, like many other businesses, the luxury business saw its sales decreasing. LVMH especially had a decrease of 15% concerning 2019 and their operating margin saw a decrease of 14%. However, due to forecasts of both intra-business aspects and macro-aspects, which will be discussed in the following section, LVMH will recover from this unfortunate event and increase its overall revenues by 6% CAGR in the next 10 years.

Operating Model

LVMH has established a six-pillar operational model that contributes to the Group's long-term performance by combining profitable growth, sustainability, and a dedication to excellence.

- **Decentralized organization:** ensure that Maisons are both autonomous and receptive. This allows for building closing relationships with their customers, making effective decisions, and implementing an entrepreneurial approach within their employees.
- **Internal growth:** LVMH boosts the development of the Maisons safeguarding and promoting creativity where staff plays a critical role.
- **Vertical integration:** This ensures control of every stage of the value chain, from sourcing to production facilities. It also guarantees strict control of each Maison's brand image.
- **Creation of synergies:** Sources are shared at a group level. LVMH shared strengths as a group is used to benefit each Maison individually.
- **Securing expertise for the long term:** Maisons have implemented numerous tools to pass on expertise and promote artisanal and creative skills in the next generation.

- **Balance across business segments and geographies:** Group is well-positioned to withstand the impact of changing economic factors.

Business Segments

Wines and Spirits

The operations of LVMH in Wines and Spirits are divided between the Champagne and Wines segments and Cognac and Spirits segments. The Wines & Spirits business segment has gained a position in the market by the strong portfolio of 26 prestigious and powerful brands such as Moët & Chandon or Dom Pérignon. For this business segment's success, it is essential to maintain its robust innovative approach by launching new and novel products and constantly enhancing its customers' experiences. Additionally, LVMH benefits from a strong a powerful international distribution network partially thanks to the joint venture with Diageo spirits group, which allows for their luxury products to be sold in several retailers worldwide. These key drivers – innovation, customer experience, and a powerful distribution network- will continue to drive the growth of this segment.

In 2019, revenue for the Wines and Spirits business group represented 10% of the LVMH group's total revenue. After years of continuous growth, the global pandemic challenged the business on every level. From 2019 to 2020 the segment's revenues decreased by 15%.

LVMH had to contend with the nearly complete elimination of earnings from airports and cruise ship sales, as well as the closure of restaurants, bars, and nightclubs regularly. In this extremely difficult environment, the Wines and Spirits business segment will maintain its pre-covid growth record of 3% compounded annual growth for the next ten years.

Fashion and Leather Goods

For LVMH this business segment has been, over the years, the most fruitful. The fashion and leather goods segments are highly fragmented, and LVMH has established itself as one of the most powerful international groups. This segment is composed of strong brands such as Christian Dior, Loewe, Marc Jacobs, Celine, Emilio Pucci, and others and all these brands compete in several product categories and geographic areas. These brands benefit not only from synergies within the group such as great designers and manufactory facilities but also the freedom to be independent of each other allowing for their unique essence. This business segment has exclusive control of its distribution as most of the stores

are owned by the group. This permits for strict control of the brand image benefits from distribution margins, and close relations with the customers.

The leather and Fashion segment's revenues represented 36% of total revenues in 2017, arriving at 47% in 2020. This segment showed great resilience against the global crisis, being the less affected with respect to the others. Regardless of the closure of stores for several months, the revenues of this segment decreased by only 5%. The developments of digital presence in the online channel were crucial for these results. In the next years, the Fashion and Leather goods growth will be driven by the demand from the next generations for exclusive products made by talented designers and the continuous developments of the online channel.

Perfumes and Cosmetics

The perfumes and cosmetics business segment represented 13% of the total LVMH revenues in 2019. Over time, the segment has kept a steady percentage of revenues, growing at the same rate as the company. Famed by more iconic brands such as Christian Dior Perfumes and Guerlain and young brands such as Benefit, LVMH has built a solid portfolio of 14 brands. The constant investments in R&D are vital for the cosmetics business and have been a key to success. Additionally, they benefit from the group's synergies which permit shared services of design and advertising, essentials for a competitive advantage in this market. In terms of their distribution, the segment benefits from "selective retailing" channels, and certain brands also sell in their own stores.

During covid, the segment was affected by the decrease in international traveling spending. The revenues decline by 23% from 2019 to 2020. However, the development of digital presence, the expansion of the distribution channel, and the continuous investment in innovation and excellence will allow for the good performance of this segment for the next 10 years.

Luxury Watches and Jewelry

The Luxury Watches and Jewellery business segment counts with 7 renowned brands such as TAG Heuer, Bvlgari, Hublot, Chaumet, and others. This is the most recent business segment of the group and presents 8% of the total revenues. The main focuses of this segment are the quality of their product lines and the efficiency of their retail networks. During covid, the closure of their shops and suspension of international traveling enhanced the need for the development of the online channel in the specific segment. Although the segment suffered a contraction of 24% of their revenues, this will recover and achieve the same levels of growth before the health crisis, highly driven by the continued

momentum of the Jewellery Market in China and the further result of the development of the online channel.

Selective Retailing

The Selective Retailing business segment is composed of 5 relevant brands including DFS and Sephora. These brands can be divided into two subsegments: travel retailing and “selective retailing”. The first subsegment is highly dependent on tourism cycles which can definitely explain the drop of 31% of sales in 2020 marked by travel restrictions. The second subsegment includes Sephora, a market leader since 2016 which has shown unstoppable digital progress aligned with their solid track record of in-store shopping.

Selective Retailing is the second biggest segment in terms of revenues, representing 28% of the total revenues in 2019. The next years will be marked by the result of further investment in other points of sale (in-store shopping) in key markets – North America and China- and the solidification of the omnichannel beauty experience through more investment in the online shopping channel.

Other Activities

In addition to all the segments above, LVMH also owns other businesses which include Les Echos group, La Samaritaine, Royal Van Lent, and LVMH Hotel Management (LVMH hotels under Cheval Blanc brand, Belmond and Le Jardin d’Acclimatation). From the group’s point of view, these businesses benefit from vertical integration however, these are not profitable and LVMH does not provide any explanation on this issue. For this reason, we will not consider as relevant the analysis of this segment for the forecast estimations.

Revenue Drivers Methodology

LVMH is unquestionable the market leader in Luxury Personal Goods and has shown a continued trend of strengthening its market share. This has not only contributed to the continued strengthening of its portfolio products through a frequent M&A activity but also more importantly its ability to innovate and surprise its customer base with new products and experiences. This **leading profile** gives us great confidence in the preparation of Revenues projections based on **market share strengthening** and **EBIT margin improvements**. Other players such example, Channel, Gucci, and Hermès are far away in terms of Sales and Stock Market Capitalization.

Performance of LVMH in the Personal Luxury Goods

Our approach began by focusing on analyzing LVMH's competitive position. Based on the information disclosed by Bain and Company for the historical time range of our analysis (2017-2029) on the **Personal Luxury Goods Market**. We analysed the market share of our company, considering only **3 Personal Luxury Segments: Fashion & Leather Goods, Perfumes and Cosmetics, and Watches at Jewellery**.



Exhibit 9: LVMH Market Share in the Global Personal Luxury Market. Source: Own Estimations.

The findings are clear, LVMH is not only an undisputed leader (12% in 2019 and is estimated to achieve 16% in 2021) but has also **consistently increased its share** (1.67 percentage points annual gain on average). Its **sales in these business segments** grew on a compound annual growth rate (CAGR) during 2017-2019 of **10%** versus the **Personal Luxury Goods Market** which grew **3.4%** (CAGR 2017-2019). It should be reported that the year 2020 was materially affected by the Covid-19 pandemic, so we thought it was **better not to consider this year's performance to avoid eventually wrong conclusions**. The **Wine & Spirits** and **Selective Retail segments**, despite having customer interactions, have different dynamics than the Luxury Personal Goods, so go they are **treated in our analysis separately** (were not considered as pure Luxury Personal Goods). Its **performance is more cyclical**, linked with other sectors such as **Travel and Leisure**.

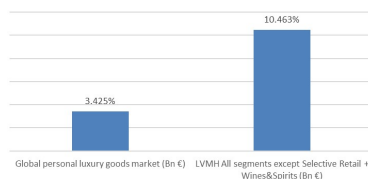


Exhibit 10: Global Personal Luxury Goods VS LVMH Sales. Source: Own Estimations.

The competitive Advantages of LVMH

To better understand LVMH's competitive position in the luxury market we identified the main drivers, and, in this sense, we concluded that there are essentially **four competitive advantages**:

- **M&A**

Over the last 4 years, on average, the Company has engaged in three acquisitions or Joint Ventures with third strategic parties that have improved its competitive position. LVMH's sounding financial position was the pillar for sustainably buying products and customers.

More recently, LVMH invested in two notable luxury companies during the pandemic. Tiffany was purchased by LVMH in January 2021, bolstering the company's jewellery division with the acquisition of one of the world's most legendary jewellery companies. LVMH made a bold move in August 2021 when it acquired a majority share in Off-White, a pioneering streetwear brand. These two companies exemplify LVMH's commitment to diversification, ensuring that its brands appeal to consumers with both traditional and avant-garde preferences.⁴

M&A Activity	Wines and Spirits	Fashion and Leather Goods	Perfumes and cosmetics	Watches and Jewellery	Selective retailing	Total Number of Deals	Impact of Deals
2017	Colgin Cellars (60% Stake); Woodinville Whiskey Company		Christian Dior			3	
2018		Jean Patou	Britain's Designer Parfums Ltd			2	Fashion & Leather = 11% out of the 20% growth of the segment 9M vs 2017
2019	Chateau du Galoupe	Stella McCartney (Join Venture); Gabriela Hearst (Join Venture)	Fenty (Join Venture)			4	
2020	WhistlePig Whiskey (minority stake)			Tiffany & Co.		2	Chateau du Galoupe = 2% increase structure vs 2019; growth structure impact vs 2020; WhistlePig Whiskey = 1% growth structure impact vs 2021
2021 9M	Off-White	Emilio Pucci (acquired the 33% left)	Officine Universelle Buly 1803	Reposit (increased stake by 69%)		4	2022 deals will impact the overall growth of the segments in 2022
2022							
# of Deals	4	4	5	2			

Exhibit 11: LVMH M&A Activities. *Source: Own elaboration based on data from MarketLine.*

■ Geographical Focus & Segment Mix

Total focus on growth geographies such as USA and Asia, in particular China, responsible for 90% of the growth of Luxury Products Market.⁵ Also, the mix of the segments is a quite important driver of its market share, Fashion & Leather Goods (fast-growing segment) accounts for more than 66% of Revenues of Luxury Personal Goods.

■ Distribution Channels & E-commerce

Own channels (store network) with sustained growth (growth of high single digits stores in the USA and China), 70% of sales are made within the group and with a tendency to increase in the years to come.

⁴ <https://www.nasdaq.com/articles/why-lvmhs-future-looks-luxuriously-lush>

⁵ <https://www.bain.com/insights/eight-themes-that-are-rewriting-the-future-of-luxury-goods/>

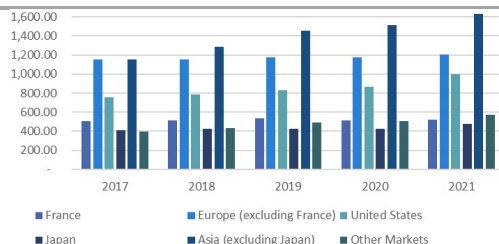


Exhibit 12: Number of Stores per Region (2017-2021E). *Source: Own elaboration with data based on Financial Report 2020 & 2021.*

Increased penetration of e-commerce, which in this sector has no impact on the selling price is even more profitable. Online will become the single biggest channel for personal luxury goods in the coming years, making up 28%–30% of the global market in 2025.

▪ Leading Positioning Analysis

The analysis of LVMH's competitive position in the Luxury Personal Goods Market signals to us that the company will continue to grow faster than other players constantly strengthening their share, given their penetration into the younger generation. They are the primary engine of growth in the coming years as generation Y and Z will be steady buyers of luxury, by 2025 could make up 70% of the market.

Macroeconomic Overview

Next, we focus our attention on the projection of the next decade of the Luxury Personal Goods Market. The starting point was the Bain and Company study that points to a growth of **6-8%** (CAGR) by 2025. This projection is not unrelated to the fact that in the coming years we have the main economic blocs implementing expansionary policies, after a robust recovery of 2021 after Covid locked down. The environment of low historic interest rates, low unemployment levels, and growth in the HNWI segment supports a leveraged growth in the Luxury industry compared to global wealth growth (World GDP); looking backward Luxury Products Market grew by more than 2 times the rate of World GDP's growth. To be more precise, in the last decade GDP grew about 2.5% (2010-2020 negatively influenced by the Financial Crisis), in the same period the Luxury Products Market grew **5.3%** (CAGR) (leveraged growth 2x higher compared to GDP growth). This trend in our outlook will remain with less expression, the 2022-2032 projections point to a CAGR of 2.7% of the World GDP and 4.7% of the Luxury Personal Goods Market (leveraged growth approximately 1,74 x compared to GDP growth).

It should be noted that we consider that there will be 2 relevant periods: **Growth 2022-2025** (as a reflection of expansionary policies in place in the USA and UE) 7.5% and **2025-2032 market consolidation** with a CAGR of 4.4% (lower leverage against GDP). For the purpose of the Revenues forecast and going in line with the data analysed in the Bain and Company study, we used the period of 2022-2032 to forecast revenues. However, for the other captions, we used a shorter period of time 2022-2030 to capture the post covid momentum of LVMH.

Projection of Personal Luxury goods categories

To better understand the growth Luxury Personal Goods Market, we move forward with a projection for the 3 main market segments, supported by the history of each segment. **Leather** and **Jewellery** businesses are the ones that sustainably have **higher growth rates** (high single digits to low double digits), while the **Watches** and **Beauty** grow to **mid-single digits (Exhibit 13)**.

Once again, we are assuming 2 different periods: i) **accelerated growth (2022-2025)** and **stabilization and normalization (2025-2032)**. In fact, after 2025 we understand that we should project a less expressive growth with a tendency towards a normalization. The origin of this approach is a set of the following drivers:

- An economic hard landing in China or relevant changes in growth paradigm (Asia)
- The slowdown in Europe (Post-EU recovery Package)
- Cost of Energy Transition (Global)
- Costs of Sustainability (Global)

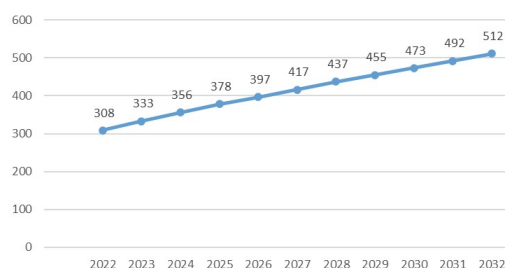


Exhibit 13: Global Personal Luxury Market Forecasted. Source: Own Estimations.

By Product (Sales Gr	2022	+ % (Y)	2023	+ % (Y)	2024	+ % (Y)	2025	+ % (Y)	2026	2027	2028	2029	2030
Leather	9.5%	0.5%	10.0%	0.3%	10.3%	0.3%	10.5%	0.0%	10.5%	10.5%	10.5%	10.5%	10.5%
Jewelry	8.5%	0.5%	9.0%	0.3%	9.3%	0.3%	9.5%	0.0%	9.5%	9.5%	9.5%	9.5%	9.5%
Watches	3.0%	0.0%	3.0%	0.0%	3.0%	0.0%	3.0%	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Beauty	5.0%	0.0%	5.0%	0.0%	5.0%	0.3%	5.3%	0.0%	5.3%	5.3%	5.3%	5.3%	5.3%

Exhibit 14: Sales Growth by Product (Luxury Market). Source: Own Estimations & Bain and Company.

Analysing other drivers

After we projected the evolution of the Personal Luxury Goods Market as a whole and the segments, we analysed the other dimensions such as the evolution of the main geographies, channels, and penetration of e-commerce. These variables are critical for preparing the projection exercise for LVMH. As regards the regions, we can conclude that **the Asian market will be the engine of the consumption of personal luxury products**, however, the **USA will also maintain its attractiveness** with **Europe gradually diluting its importance**. Sales channels will evolve to **50/50 retail and wholesalers**. Although the big event will be the digital transformation of the Luxury business, e-commerce. In 2032 we are anticipating a penetration rate of 45%, with Brands' websites to be prominent channels versus the e' trailers and retailers (Exhibit 15).

	2022	+ % (Y)	2023	+ % (Y)	2024	+ % (Y)	2025	+ % (Y)	2026	2027	2028	2029	2030
By Region (most relevant)													
Europe	27.0%	2.0%	28.0%	1.0%	28.0%	0.0%	28.0%	0.0%	28.0%	28.0%	28.0%	28.0%	28.0%
USA	32.0%	1.0%	33.0%	1.0%	34.0%	1.0%	35.0%	1.0%	36.0%	37.0%	38.0%	39.0%	40.0%
Asia	35.0%	3.0%	38.0%	3.0%	41.0%	3.0%	44.0%	3.0%	47.0%	6.0%	50.0%	9.0%	53.0%
By Channel													
Wholesale	60.0%	-2.0%	58.0%	-1.0%	57.0%	-1.0%	56.0%	-2.0%	54.0%	52.0%	50.0%	48.0%	46.0%
Retail	40.0%	2.0%	42.0%	1.0%	43.0%	1.0%	44.0%	2.0%	46.0%	4.0%	48.0%	6.0%	50.0%
E commerce													
Penetration Share	26.9%	5.0%	31.9%	4.0%	35.9%	4.0%	39.9%	5.0%	44.9%	49.9%	54.9%	59.9%	64.9%
Channel													
Brand websites	21.9%	5.0%	26.9%	5.0%	31.9%	5.0%	36.9%	5.0%	41.9%	10.0%	46.9%	15.0%	51.9%

Exhibit 15: Sales Growth by region and channel. Source: Own Estimations & Bain and Company.

Revenue Forecast Approaches

Focusing attention on LVMH's revenue projection, we chose to take three approaches:

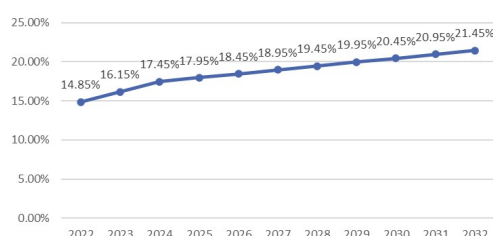
- 1. Empirical Approach** (based on historical growth drivers): Simple analysis assuming that past performance is replicable in the next decade and considering the qualitative exposure of several drivers in the ranges of revenue (Exhibit 16).

	Macroeconomic Drivers				Historic Performance	
	Organic Growth	E-commerce	Mergers and Acquisitions	High Net Individuals Gen Y and Z	Revenue Growth (Low) %	Revenue Growth (High) %
Wines and Spirits	Medium/High	Low	High	Low/Medium	2.0%	5.0%
Fashion and Leather Goods	Medium	High	Medium/High	High	7.0%	12.0%
Perfumes and cosmetics	Low/Medium	Medium	Medium/High	Medium	3.0%	4.0%
Watches and jewelry	Medium	Medium	High	High	3.0%	6.0%
Selective retailing	High	Low	Low	Medium	2.0%	4.0%

	Average 17-20		Contribution per Segment	
	% Revenues	All Segments	Luxury Goods	
			Revenue Growth (Low) %	Revenue Growth (High) %
Wines and Spirits	11%	na	0.2%	0.5%
Fashion and Leather Goods	41%	66%	4.1%	6.1%
Perfumes and cosmetics	13%	20%	0.6%	1.3%
Watches and Jewelry	8%	14%	0.2%	0.5%
Selective Retailing	27%	na	0.5%	1.4%
			5.7%	9.79%
			7.76%	

Exhibit 16: Empirical Approach Matrix and Results. Source: Own Estimations.

- 2. Top Down** (Personal Luxury Goods Sector Performance + GDP): Starting from the total market estimate (2022-2032), we used LVMH's market share performance to achieve Total Revenues projection of the leather, watches and jewellery and perfumes and cosmetics segments, assuming an average share growth of (0.7% per year during 2017-2021 performance) until 2025 and then, in subsequent years a more moderate competitive position for LVMH. For the Wines & Spirits and Selective Retail Segments we assumed that both will growth in line with GDP + a Growth Multiple (Exhibit 17).



	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	CAGR 22-32
Global Personal Luxury Goods market (Mn €)	301,640	327,035	346,657	367,456	385,829	401,262	413,300	425,699	438,470	451,624	465,173	3.892%
LVMH Estimated Market Share (%)	14.85%	16.15%	17.45%	17.95%	18.45%	18.95%	19.45%	19.95%	20.45%	20.95%	21.45%	
Var. %	1.3%	1.3%	1.3%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	
	market share increase = 80% of the last 4 years average											
Forecast Revenue Luxury Goods	45,389	52,818	60,499	65,360	71,187	76,041	80,389	84,539	89,669	94,637	99,782	7.424%
Forecast Revenue Wines & Spirits	6,489	6,853	7,120	7,333	7,553	7,780	8,013	8,254	8,501	8,756	9,019	3.038%
Growth (multiple x GDP Growth multiple)	150.0%	140.0%	130.0%	120.0%	120.0%	120.0%	120.0%	120.0%	120.0%	120.0%	120.0%	
Forecast Revenue Selective Retail	11,780	12,401	12,848	13,233	13,630	14,039	14,460	14,894	15,341	15,793	16,196	2.930%
Growth (multiple x GDP Growth multiple)	130.0%	130.0%	120.0%	120.0%	120.0%	120.0%	120.0%	120.0%	120.0%	120.0%	120.0%	
LVMH Total Revenues Forecast (Mn €)	63,666	72,072	80,461	86,527	92,371	97,860	102,862	108,077	113,512	119,137	124,997	6.325%

Exhibit 17: LVMH Future Market Share & Top-Down Method Result. Source: Own Estimations.

- 3. Bottom-Up** (Segments Performance - Luxury Goods): Using expectations for the market performance of Leather, Watches Jewellery, and Beauty businesses we were able to get estimate LVMH's business portfolio performance (2022-2032) by assuming an average increasing market share of 1% (2022-2032). This exercise is more comprehensive than the other 2 and enables us to present a scenario for EBIT and EBITDA margins future trends more effectively. Being this said, this was the approach used to forecast total revenues from the future period (Exhibit 18).

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	CAGR 22-32
Relative Performance vs Industry	110.0%	110.0%	110.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Fashion and leather goods	34.00%	38.42%	43.54%	48.11%	53.17%	58.55%	63.60%	68.85%	74.01%	79.01%	83.75%	8.540%
Watches and jewelry	12.30%	13.00%	13.33%	10.50%	10.50%	9.75%	9.00%	8.25%	7.50%	6.75%	6.00%	4.968%
Perfumes and cosmetics	7.48%	7.80%	7.96%	6.25%	6.25%	5.50%	4.75%	4.00%	3.50%	3.00%	2.50%	3.846%
Forecast Revenue Luxury Goods (Mn €)	50,466	56,079	62,495	68,175	74,401	80,668	86,882	92,980	99,081	104,893	110,474	7.382%
Implicit Market Share (%)	16.2%	17.1%	18.0%	18.6%	19.3%	20.1%	21.0%	21.8%	22.6%	23.2%	23.7%	
Annual Var. Estimated Market Share (%)	0.3%	0.4%	0.5%	0.3%	0.7%	0.8%	0.9%	0.8%	0.7%	0.6%	0.5%	
LVMH Total Revenues Forecast (Mn €)	68,743	75,383	82,462	88,742	95,585	102,488	109,386	116,128	122,873	129,413	135,690	6.377%

Exhibit 18: LVMH Future Market Share & Top-Down Method Result. Source: Own Estimations

The outcome of the three approaches points to reasonably approximate Revenues CAGR (2022-2032). The first graph represents our market estimations and the second our estimations for LVMH.

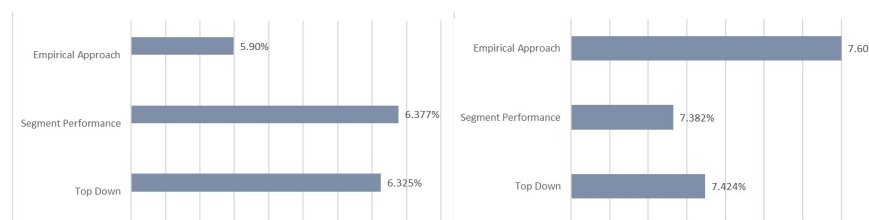


Exhibit 19: Three Methods Variation & Final CAGR Revenues Growth. Source: Own Estimations.

To some extent supports the consistency of revenues projections. Having said this, we would like to highlight that final Revenue projections affirm LVMH's unquestionable leadership in the Luxury Personal Goods Market.

Historical Performance analysis

In this chapter, we will examine the group's trends up to the present day, as well as the impact Covid19 had on the activity. These figures and numbers are based on data from the company's reports.

Growing at a fast pace

LVMH has been the leading conglomerate in the Luxury goods Market for the past years. In 2017, total sales were €42,636 million. Operating revenues grew by 10% between 2017 and 2018, and by 15% in 2019. Indeed, sales reached the highest value in 2019 with a figure of €53,670 million. LVMH's market share increased as well.

In that same year, the acquisition of Tiffany & Co. was announced.

Covid-19 Effect

The Global Pandemic represented a severe stop for LVMH's growth as for many other companies worldwide. The first quarter of 2020 was heavily affected by the

Covid19 Crisis. Sales decreased by 17% overall, after years of positive growth (Exhibit 20).

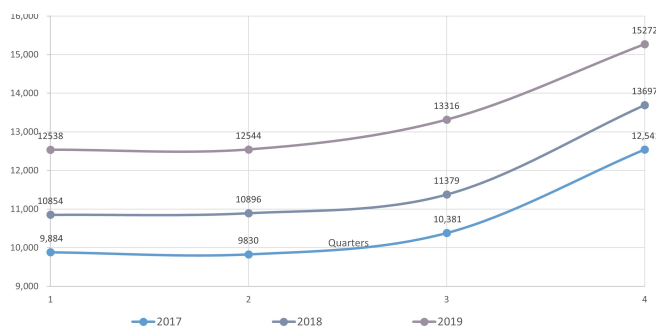


Exhibit 20: Revenues by quarter (2017-2019). *Source: Own Estimations based on Company Report.*

To better understand this data we looked through the results of every quarter. In the first quarter, sales went down by 31% compared to the last quarter of 2019, then decreased even more in the second quarter: 26% less than the first one and 51% less than 2019. In other words, revenues halved within six months. Undoubtably a dramatic outcome linked to the nature of the business, mainly dependent on international travels and in-store shopping.

Despite the severe decline the group showed great resilience and agility in overcoming the crisis, thanks to a strong focus on dynamic innovation, commitment to their clients and the environment. As mentioned in the Revenue Drivers chapter, LVMH could count on its four sources of competitive advantage to maintain and reinforce the leading position. As a demonstration to that, the results from the 3rd quarter of 2020 onwards were astonishing. Revenues increased by 53% in only three months from June to September, and then 20% more until the end of the year. If we compare the 4th quarter of 2019 to 2020, we can see a fall of only 6% in sales which, considering the severity of the crisis on the overall economy, is a signal of how remarkably the group has handled the global emergency.

Following the closing of one of the toughest years for our economy, 2021 started great for LVMH with the completion of the acquisition of Tiffany & Co. We believe the global luxury jeweller could bring even more prestige to the Watches & Jewellery segment and general optimism to the company.

Additionally, the results from the first nine months of 2021 gave even more hopefulness. The new year got off to a good start: the first quarter results confirmed that the group was on track, with an 11% increase in sales compared to the first three months of 2019.

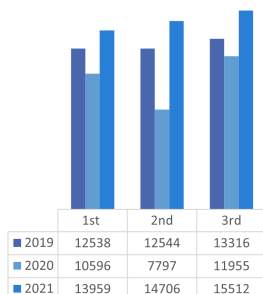


Exhibit 21: Revenues by quarter (2019-2021). *Source: Own Estimations based*

on Company Report.

This positive trend continued throughout the year, with the group achieving a nine-month result that was 46 percent higher than the one prior to the pandemic, an extraordinary achievement for the group.

Future Cash Flows

A company's Future Cash Flows are a major component in determining its value. The Discounted Cash Flow method, which is based on the theory that a company's Market Value is equal to the present value of its future cash flows, is one of the methods we used to value LVMH. We began by forecasting LVMH's Consolidated Income Statement and Balance Sheet. This chapter will outline the main steps, assumptions, and outcomes of this process.

Revenues

Previously, we examined which factors we expect will influence LVMH's future revenues. Our idea of LVMH is that its value is a sum of parts, so we analysed each business segment as a singular entity. The expected revenues are indicated in the graph below.



On a general note, we anticipate strong growth in all segments. The Compound Annual Growth Rate (CAGR) of total sales is expected to be 7% from 2021 to 2030, as shown in Exhibit 23.

Exhibit 23: Total CAGR and per segment (2021-2030). Source: Own Estimations based on Company Report.

In particular, we expect that the Fashion and Leather goods division will continue to be our company's primary source of income. Indeed, its CAGR is the highest among the segments, equal to 10%. In ten years, we estimate that revenues in this area will increase from € 30,409 to € 74,019 million. Wines & Spirits and Selective retailing are expected to grow at a CAGR of 4%, while Perfumes &

Cosmetics 5%. Watches and Jewellery will be the second largest income generator, with a predicted CAGR of 6%.

Operating Margins

EBIT and EBITDA margin projections represent a fundamental part when valuing a company. In particular, calculating LVMH's EBITDA margin is useful for determining the effectiveness of cost-cutting policies. The higher a company's EBITDA margin, the lower its operating costs as a percentage of total revenue.

We made the following assumptions based on our expectations of the company's future trends:

- Margin stabilization in the fashion and leather goods, perfumes, and cosmetics segments, albeit with some pressure from sustainability and energy transition costs, as well as some restrictions on manufacturing activity in Asian countries such as China. In the specific case of watches and jewellery, Tiffany's inclusion in the commercial portfolio has placed Revenue at a higher level, although the estimated margin remains stable.
- Wines and spirits, as well as select retail, will benefit from improved macroeconomic conditions in the coming years, as will the Leisure and Travel sector, as the world becomes more prepared to deal with the Covid-19 pandemic.
- The importance of the LVMH Store Chain will grow at a rate of 7% per year, putting some pressure on EBITDA margins, which will be limited to 31% on average.

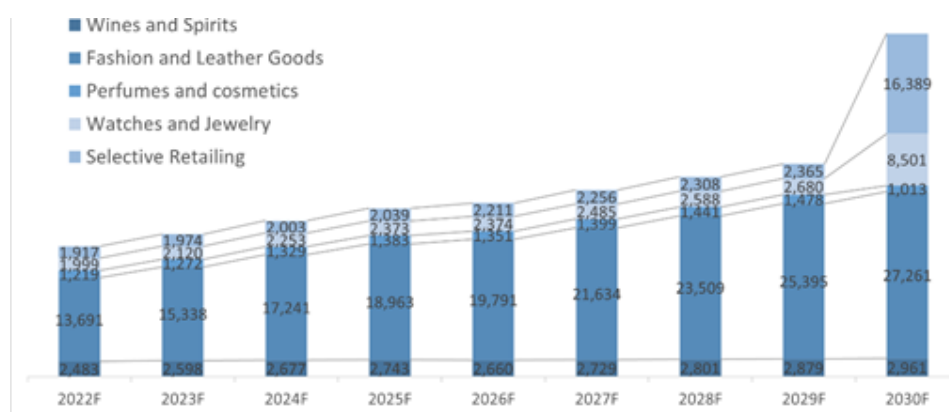


Exhibit 24: Forecasted EBITDA per business segments (2021-2030). **Source:** Own Estimations based on Company Report.

Overall, from 2021 to 2030, we anticipate an EBIT CAGR of 11 percent and an EBITDA CAGR of 9.7 percent, compared to a 8 percent revenue CAGR.

Because of this disparity, LVMH's revenues will grow faster than its costs in the future.

A note of clarification, LVMH does not disclose amortizations per segment so we had to make a proxy-based on the network of stores as main fixed assets.

For Depreciation and Amortization, we first observed the historical trends. Because D&A is inextricably related to property, plant, and equipment, we anticipated the future ratio based on the past ratio of the two. We predict D&A to be equal to this ratio times the forecasted value of PPE, assuming the former figure remains constant over time.

Capital Expenditures

Capital Expenditures or Capex, represent a vital information about the investment policy of our company. They are, in other words, the funds LVMH invests to acquire, preserve or improve physical assets such as property, plant and equipment (PPE).

LVMH has always had over the years a high level of investments. Purchases mainly include investments by the Group's brands in their retail networks and production equipment. A high level of investments implies lower cash flows available to investors, therefore is a good sign only if those assets will add value in the future. By analysing the historical return on invested capital we observed that LVMH's investments have always created value for the company's investors. Indeed, even comparing the 2020 ROIC (the lowest due to the Pandemic) with the WACC we computed, it is clear that there is a positive difference and so value creation potential.

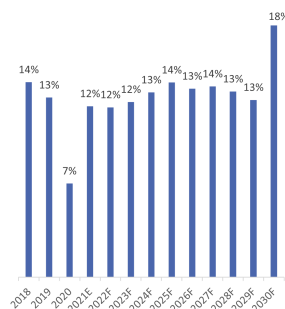


Exhibit 25: Return on Invested Capital (2018-2030). *Source: Own Estimations based on Company Report.*

Looking at the historical Balance Sheet, we observed that the average percentage of investments compared to sales from 2017 to 2020, was 35%. We expect that this ratio will remain constant in the future

e, assuming that capital expenditures are proportional to operating revenues and so, to all the revenue drivers we analysed. As a consequence, we forecast a growing value for property plant and equipment, following the trend of revenues.

Furthermore, we estimate that the return on invested capital will continue to be high in the future, with a projected rate of 12 percent in 2021. As a result of its capital expenditures approach, LVMH will be able to produce value for its investors.

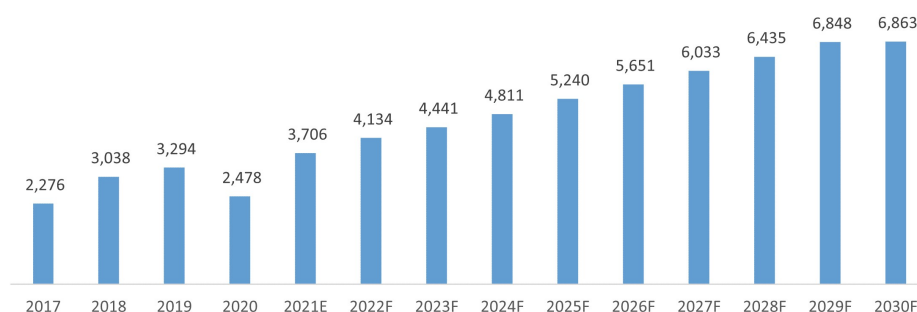


Exhibit 26: Historical and Forecasted Capital Expenditures (2017-2030). **Source:** Own Estimations based on Company Report.

Net Working Capital

Net Working Capital (NWC) displays LVMH's short-term financial health. It is given by the difference between current assets and liabilities. Our company showed over the years a positive NWC, which even doubled from 2017 to 2020.

To forecast the items of the Net working capital in the balance sheet we considered each of them as proportional to sales, since their nature is strictly linked to these variables. As a consequence, we expect that the overall working capital will increase every year in proportion to sales, a trend that agrees with the historical one.

High working capital is a good sign that the group is able to face its short-term liabilities and to make new investments.

To understand LVMH's situation we compared its cash conversion cycle (CCC) to the average of three peer companies. The CCC is a metric that expresses the number of days it takes for LVMH to convert its working capital, such as inventory, receivables or payables, into inflows or outflows of cash.

	2018		2019		2020	
Ratio	Peers	LVMH	Peers	LVMH	Peers	LVMH
DSO	22	23	18	23	19	25
DIO	316	273	266	264	311	307
DPO	120	115	79	112	77	125
CCC	218	181	205	174	253	207

Exhibit 27: Cash conversion cycles comparison (days). **Source:** Own Estimations based on Company Report.

By examining the summary table, we observed that for every year our company's CCC is lower than the average of the peers. In particular, the days of inventory

outstanding are always lower and, at the same time, the days payables outstanding are, on average, higher. In other words, LVMH converts its investments in inventory into cashflows faster than the comparable companies, and also has more days available to pay its current debts.

Based on our net working capital predictions, we expect these ratios to marginally fall from 2021 onwards, maintaining the cash conversion cycle within a reasonable range.



Exhibit 28: Cash conversion cycles forecasts (days). **Source:** Own Estimations based on Company Report.

FCF

Finally, after describing the key parts of the process, we come to a conclusion with the projection of Operating Free Cash Flows, which will be employed to calculate the Enterprise Value. The ability of a company to generate positive cash flows or, more specifically, to maximize long-term free cash flow is fundamental to its ability to create value for shareholders.

Our expectations for LVMH are definitely high, as these forecasts illustrate.

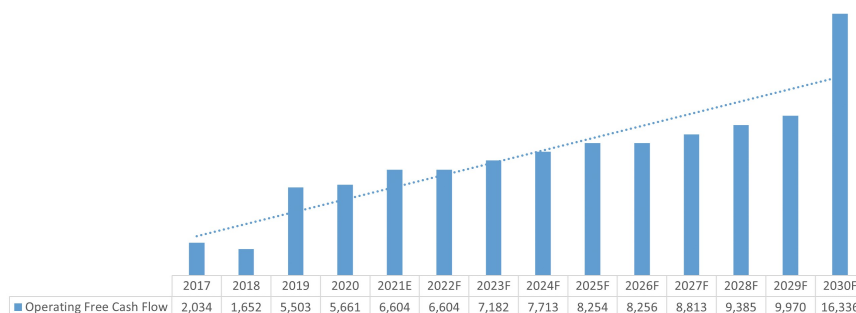


Exhibit 29: Future Cash Flows. **Source:** Own Estimations based on Company Report.

We believe that, as a result of its potential, our company will be able to continue on this path of expansion and produce, over time, even more value for its investors.

DCF Valuation

The Discounted Cash Flow is one of the valuation methods we chose to value LVMH.

This chapter shows how we arrived to the recommendation.

Weighted Average Cost of Capital

In this chapter we analyse the process of finding the weighted average cost of capital of LVMH.

To determine the share price of the company by using the discounted cash flow method, an essential part is the discount rate used to find the present value of the Future Cash Flows, which is, indeed, the WACC.

The results based on our assumptions and calculations is a weighted average cost of capital of 5.72%. The inputs needed for the computation are the following:

- Risk Free rate, Market Risk Premium and Tax rate

Risk-free rate of return is the hypothetical rate of return of a zero risk investment. For our model we used as a proxy the ten years German Bund equal to -0.12% (as of 25 of October).

The market risk premium is the difference between the expected return of a market portfolio and the above-mentioned, risk-free rate. In our model we used the Equity Market Risk Premium from the KPMG March research, equal to 6.75%.⁶

Finally, the tax rate, needed to account for the tax benefit of holding debt directly in the cost of capital. We used the statutory tax rate for French companies of 2020, equal to 32%, assuming this will stay constant.

- Cost of Equity

To find the cost of Equity of the group we started by doing a regression of LVMH historical returns, from January 2017 to October 2021, against the world market index (MXWO), obtaining a significant levered Beta of 0.85. A company's Beta measures the volatility of the stock as opposed to the broader market which Beta is equal to one.

⁶ https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html

As a consequence, a Beta of 0.85 means that the company is less volatile than the market. To obtain a more accurate measure and a term of comparison we did the same computation for some peer companies, obtaining an average levered Beta of 1.16. The next step was to un-lever our company's and the peers' Betas in order to get a value that was not affected by the capital structure, which is peculiar of every company. As a result, LVMH's un-levered Beta was 0.77 while the average of the peers was 0.98. The final Equity Beta was achieved by doing an average of our company and the peers, obtaining a 0.87, and then re-levering it considering our desired capital structure. The result is a levered Beta of 0.97, meaning that LVMH is slightly less volatile than the market.

Lastly, we were able to compute the cost of equity by using the Capital Asset Pricing Model, obtaining a result of 6.38%. Cost of Equity is, as a consequence of the small Beta, lower than the market risk premium of 6.75%.

▪ Cost of Debt

By opportunity cost of debt we mean the return that debtholders actually expect to receive. For LVMH we calculated this value considering the yield to maturity, probability of default and loss given default.

INPUTS	
Risk Free Rate (rf)	-0.12%
Market Risk Premium	6.75%
Beta Unlevered	0.86
Beta Equity	0.96
Beta Debt	0.01
.....	
D/E (%)	12%
D/EV (%)	10%
E/EV (%)	90%
Cost of Debt (rd)	0.07%
Cost of Equity (re)	6.38%
Tax rate (t)	32%
WACC= 5.72%	

Let us start by saying that we expect a cost of debt is equal to the yield to maturity, due to the fact that LVMH has a credit rating of A1/A+ (Moody's/S&P500), which can be translated as zero probability of default. First, we analysed the bonds issued by the group and then we computed the weighted average of all the YTM's. The resultant overall yield to maturity and so, cost of debt, is 0.07%. As expected, it is very low.

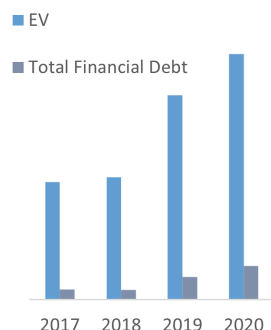
Exhibit 30: Inputs and Output of WACC. Source: Own estimations.

▪ Capital Structure

Capital structures reveal by which means a company finances its own operations. It is an essential element in the computation of the cost of capital since the company gets a tax benefit when using Debt as a source of financing, in addition to Equity.

When using the Discounted Cash Flows method and so, the WACC, a strong assumption is that the level of Debt is not fixed, but instead changes according to the Enterprise Value.

To forecast the Debt over Enterprise Value ratio for the future years, we first observed the company's choices of leverage policy in the past. The findings



allowed us to assume a future percentage of Debt of 10%, which is the average ratio of the previous years.

Exhibit 31: *Value of Debt and Enterprise Value (2017-2020).* **Source:** *Company Report and Bloomberg.*

The assumption of fixed debt would have been too unrealistic for our case. As a matter of fact, LVMH has been increasing its leverage over the years, hence the assumption of debt changing in proportion to the value of the business is the one that approximates best the reality.

Since Enterprise Value is given by the sum of Equity and Debt, the ratio Equity over Enterprise Value will be 10%.

Terminal Value

For our forecasts we assumed two different periods of time, one of accelerated growth (2022-2025) and another one of stabilization and normalization (2025-2030). We discussed the reasoning behind the choice of these growth rates in the previous chapters, and in this section, we introduce the growth rate for perpetuity.

LVMH is a consolidated company, which is still investing and growing, for this reason we believe that it will continue to growth in line with the economy. As a consequence, we believe that the growth rate of the global Gross Domestic Product will be the most realistic option to adopt when using a perpetuity formula. The assumption is that, in the longer term, LVMH will follow the trends of the worldwide economy. The expected growth rate is equal to 2.9%.

Enterprise Value

The conclusion of the DCF model is an Enterprise Value of €425,278 million.

- **Equity Market Value, share price**

For the end of this year, we expect an Equity Market Value equal to €386,80 million. The components of the enterprise value are shown in exhibit 32.

With 504 million shares outstanding, the resulting share price will be €767.

(Million EUR)	2021	2022
	End of the current year	Projected
Operating Free Cash Flow to the Firm	6,604	6,604
@WACC	5.72%	
@g	2.87%	
Operational Enterprise Value for each y	418,088	435,413
Non Operational Items (book value)	(10,434)	(10,135)
Enterprise Value	407,654	425,278
Minority Interest (book value)	(1,617)	(2,062)
Cash and Cash Equivalents	7,231	6,913
Debt Market Value	(42,225)	(44,050)
Equity Market Value	371,044	386,080

Exhibit 32: Enterprise and Equity Value from DCF (2021). **Source:** Own estimations.

Sensitivity Analysis

As it is impossible to predict the future and ensure that the assumptions used in the DCF model will be met, it is critical to understand and investigate the model's limitations through a sensitivity analysis.

Share Price		WACC				
g	767	6.0%	6.1%	6.2%	6.3%	6.4%
	2.7%	661	640	620	601	583
	2.8%	679	657	636	616	597
	2.9%	699	675	653	632	612
	3.0%	720	694	671	649	628
	3.1%	742	715	690	667	645

EV		WACC				
g	425,278	5.8%	6.0%	6.2%	6.4%	6.6%
	2.5%	370,767	347,219	326,241	307,437	290,489
	2.7%	392,290	366,032	342,800	322,104	303,552
	2.9%	416,781	387,271.93	361,366	338,446	318,027
	3.1%	444,901	411,442	382,328	356,769	334,155
	3.3%	477,520	439,192	406,181	377,457	352,239

Exhibit 33: Sensitivity Analysis for DCF. **Source:** Own estimations.

The Weighted Average Cost of Capital and the terminal growth rate are unquestionably two of the most important variables in DCF valuations (g). Exhibit 33 depicts the impact of potential changes in these two variables on the LVMH share price per share.

This table highlights the impact of a percentage point increase or decrease on the entire group. The scenarios for the LVMH stock price are presented in the table. Lower WACC and higher g translate in greater EV and so, share price.

We saw when computing the WACC that this figure is likely to remain quite constant for our company. Cost of debt is expected to stay low due to the probability of default equal to zero. Also for cost of equity, we do not expect significant fluctuations, giving that the company has already a Beta close to the market's. Everything else equal, the only thing that might increase or decrease the WACC is a change in capital structure.

On the other hand, the terminal growth rate might change. We saw earlier that we assumed a g equal to the expected global GDP growth, with the intention of not projecting too high expectation for the future. As shown in the tables of exhibit 15, an increase in growth rate of 0.2% is going to increase Enterprise Value more and more as it grows.

Multiples Valuation

In addition to the Discounted Cash Flow valuation we decided to compute a multiple's valuation in order to reach the fair value of LVMH by comparing its main financial indicators with the ones of the key competitors of the conglomerate.

As mentioned in the previous section, when analysing the conglomerate competitors and the different business segments we decided to conduct a sum-of-parts relative valuation. Companies like LVMH compete in several subindustries or product areas, hence every business segment has a different Return On Invested Capital and growth rate.

Business Segments	ROIC	2019 Growth
Wines and Spirits	9%	8%
Fashion and leather goods	27%	20%
Perfumes and cosmetics	14%	12%
Watches and jewelry	7%	7%
Selective retailing	10%	8%

Exhibit 34: LVMH data per Segment. **Source:** Own estimations.

On a general note, for each business segment we carefully conducted a qualitative analysis by considering the key players in the market based on the alignment of their position in the luxury market, business segment they are

specialized, the risks that they share and their operating strategy for the next years. Additionally, we analysed their revenues growth, RONIC, Debt-to-Equity, EBITDA Margin to access profitability, capital structure and growth.

For the quantitative side of the method, we also considered the most suitable multiples for the valuation of a group like LVMH. Being these the forward EV/EBITDA and the P/E ratios. The usage of forward multiples was considered since there is empirical evidence that shows that forward-looking multiples are indeed more accurate predictors of value than historical multiples are (Koller, 2015). Furthermore, while EV/Sales appears to be a suitable multiple based on the nature of the firm, we believe it is not a viable proxy because revenues and revenue growth are very volatile criteria within these players.

After analysing the median EV/EBITDA and P/E ratio of the players in each business segment we concluded that the price of LVMH will achieve a value of €605 over the EV/EBITDA multiple and a value of €676 over the P/E ratio analysis.

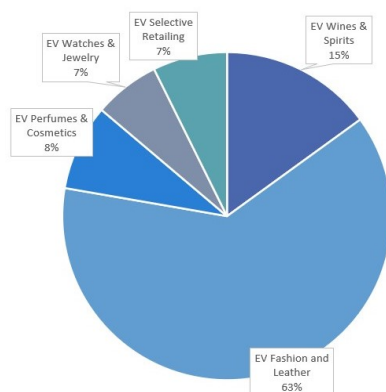


Exhibit 35: LVMH data per Segment. Source: Own estimations.

We expect the Fashion and Leather goods segment to be the most valuable, as it is shown in exhibit 35.

The results are shown in exhibit 36 next to the DCF outcome.



Exhibit 36: Comparison outcomes of DCF and Multiples. Source: Own estimations.

Risks

After everything we have discussed in the previous chapters, it is safe to say that LVMH is a true game changer. Nonetheless, it should be noted that even the luxury behemoth could face a variety of threats. In this chapter, we will discuss the main risks that we believe the market leader might face.

- Rivalries

As we saw in the previous chapters, LVMH has a strong competitive advantage in the market, and it has been constantly increasing its market share over the years. On the other hand, competitors such as Kering and Richemont also performed well during the pandemic, proving soundness and resilience. Moreover, Kering's CEO allegedly approached Richemont's controlling shareholder about a merger proposal, earlier this year. The two firms' combination might translate in a new risky form of competition for LVMH. Richemont is strong in the watches and jewels side of the market, while Kering is strong in the fashion and leather segment. Combining these firms makes strategic sense in the face of a major competitor like LVMH, especially in this moment where a further growth of the personal luxury market is expected.

- COVID-19

We extensively talked about the effect of the pandemic on LVMH's business.

The risks related to COVID-19 are mostly linked to the closure of stores. However, we observed that the group's first response in 2020 has been immediate and effective, allowing the company to take advantage of the situation and to grow even more. Moreover, we also said that the company has adapted and improved its distribution channels in order to face the closure of its physical stores.

Our expectations are optimistic, in that we feel the company is now capable and prepared to deal with a worsening of the current scenario.

- Shift towards digitalisation

The COVID-19 era revealed that today more than ever online channels are growing and represent a key tool for the future of LVMH.

We saw earlier in this report that our company has been improving its online presence to keep up with the global trends and indulge the new generation's needs. The online luxury market is developing at slower rate than others, due to its own nature. We believe that the main obstacle for the players in the luxury goods market will be to be capable of offering an online experience that is as exclusive and unique as the one in-store. Nonetheless, we see these difficulties more as challenges for LVMH, in a digital market that is still evolving and has great potential.

Final Recommendation

Our study comes to a conclusion with a recommendation to keep the stock on the shelf. In the preceding paragraphs, we discussed our outlook for LVMH's future, as well as the assumptions and beliefs that underpin our findings.

Our expectations for this company are clearly strong, as evidenced by the high Enterprise and Equity values.

	2021	2022F
	End of the current year	Projected
Number of shares in 2020 (Millions)	504	504
Equity Market Value (Millions)	€ 371,044	€ 386,080
Share price	€ 736.67	€ 766.52
Gross Dividend per Share	€ 6	€ 6
Return		8.30%
Recommendation: Hold		

Exhibit 36: Return calculation (2021-2022). **Source:** Own estimations.

The result of the discounted cash flow method gives us a price of €766.52 for 2022. The return for an investor that holds the stock from december 2021 to december 2022 is expected to be 8.3%, as a consequence of the increase in the share price and constant dividend received.

Appendix

Financial Statements

Appendix 1 – Balance Sheet

(Million EUR)	2017	2018	2019	2020	2021E	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Invested Capital														
Inventories and work in progress	10888	12485	13717	13016	16850	18373	20134	22040	23718	25547	27392	29230	31037	31118
Trade Accounts receivable	2736	3222	3450	2756	4082	4451	4877	5339	5746	6189	6636	7081	7519	7538
Trade accounts payable	(4539)	(5314)	(5814)	(5098)	(6973)	(7604)	(8333)	(9121)	(9816)	(10573)	(11336)	(12097)	(12845)	(12878)
Other core current assets	1908	2079	2352	2126	2846	3104	3401	3723	4006	4315	4627	4929	5239	5209
Net income taxes	17	(172)	(316)	(329)	(281)	(304)	(347)	(395)	(414)	(428)	(466)	(502)	(535)	(835)
Cash and cash equivalents	3738	4610	5673	19963	7231	6913	6188	5343	4154	2734	1028	(928)	(3131)	(5547)
Working Capital	14748	16910	19062	32434	23754	24933	25922	26929	27395	27784	27880	34052	34029	31405
Brands and other intangible Assets	16957	17254	17212	17012	17214	17214	17214	17214	17214	17214	17214	17214	17214	17214
Goodwill	13837	13727	16034	16042	29928	29928	29928	29928	29928	29928	29928	29928	29928	29928
Property, plant and equipment	13862	15112	18533	18224	16187	24083	26391	28889	31089	33486	35904	38314	40683	40788
Right-of-use assets	0	0	12409	12521	13998	12748	12863	12979	13096	13215	13334	13454	13576	13698
Total core Invested Capital	59404	63003	83250	96233	101091	108906	112310	115939	118722	121627	124260	132962	135429	133034
Investments in joint ventures and associates	639	638	1074	990	1189	1509	1706	2047	2457	2891	3447	4101	4865	5787
Non-current available for sale financial assets	789	100	915	739	747	660	595	554	502	458	420	383	350	320
Provisions	(8334)	(9142)	(10117)	(10020)	(10668)	(11243)	(11652)	(12253)	(12833)	(13411)	(14055)	(14713)	(15399)	(16125)
Other non-core current assets	1011	789	913	1720	2191	3151	4828	6830	9983	14670	21251	31024	45275	65918
Other non-current assets	869	986	1547	845	915	976	877	891	885	858	852	840	825	814
Net Deferred tax Assets (Liabilities)	(3248)	(3104)	(3224)	(3156)	(4809)	(5188)	(5924)	(6743)	(7069)	(7315)	(7967)	(8683)	(9198)	(14265)
Total non-core Invested Capital	(8274)	(8733)	(8892)	(8882)	(10434)	(10135)	(9570)	(8674)	(6075)	(1849)	3948	13052	26777	42448
Total Invested Capital	51130	54270	74358	87351	90657	98771	102748	107265	112647	119777	128208	146014	162206	175482
Financial Assets and Equity														
Lease liabilities	0	0	12545	12828	12828	12828	12828	12828	12828	12828	12828	12828	12828	12828
Borrowings	1576	11032	12711	24703	24703	24703	24703	24703	24703	24703	24703	24703	24703	24703
Purchase commitments for minority interests' share	9177	9281	10735	10591	10591	10591	10591	10591	10591	10591	10591	10591	10591	10591
Net Financial Assets	20753	20313	35991	48522	48522	48522	48522	48522	48522	48522	48522	48522	48522	48522
Net Debt	7838	6422	15683	17568	30300	30618	31343	32188	33377	34797	36503	38459	40662	43078
Excess Cash	0	0	0	0	(318)	(725)	(846)	(1189)	(1420)	(1706)	(1956)	(2203)	(2416)	(2451)
Minority interests	1408	1664	1779	1417	1617	2062	2206	2330	2421	2493	2568	2645	2725	2806
Equity, Group Share	28969	32293	36586	37412	40835	48912	52865	57602	63124	70468	79074	97050	113375	126605

Appendix 2 – Income Statement

(Million EUR)	2017	2018	2019	2020	2021E	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Total Operating Revenues	42,636	46,826	53,670	44,651	63,043	68,743	75,333	82,462	88,742	95,585	102,488	109,366	116,128	116,429
Wines & Spirits	5,084	5,143	5,576	4,755	6,065	6,489	6,853	7,120	7,333	7,553	7,780	8,013	8,254	8,501
Fashion & Leather Goods	15,472	18,455	22,237	21,207	30,409	34,005	38,426	43,546	48,119	53,171	58,355	63,607	68,855	74,019
Perfumes & Cosmetics	5,560	6,092	6,835	5,248	6,660	7,059	7,518	8,007	8,431	8,878	9,282	9,635	9,929	10,177
Watches & Jewelry	3,805	4,123	4,405	3,356	8,788	9,401	10,134	10,941	11,625	12,352	13,031	13,650	14,196	14,891
Selective Retailing	13,311	13,646	14,791	10,155	11,121	11,788	12,401	12,848	13,233	13,630	14,039	14,460	14,894	15,341
Other Activities	(596)	(633)	(174)	(70)	0	0	0	0	0	0	0	0	0	0
EBITDA From Recurring Operations	10,489	12,179	16,381	14,022	20,110	21,308	23,302	25,503	27,501	28,389	30,503	32,647	34,797	36,139
Amortization and Depreciation	(2,376)	(2,302)	(5,109)	(6,050)	(5,409)	(5,679)	(5,963)	(6,262)	(6,575)	(6,903)	(7,249)	(7,611)	(7,992)	(8,391)
EBIT	8,113	9,877	11,272	7,972	14,701	15,629	17,338	19,242	20,927	21,485	23,255	25,036	26,805	27,748
Taxes on operating income	(2,231)	(2,598)	(3,089)	(2,607)	(3,912)	(4,231)	(4,831)	(5,499)	(5,764)	(5,965)	(6,497)	(6,999)	(7,452)	(7,852)
Operating Income After tax	5,882	7,279	8,183	5,365	10,789	11,398	12,508	13,743	15,162	15,520	16,758	18,037	19,354	19,896
Financing														
Total Cost of Financial Debt	(137)	(117)	(397)	(316)	(481)	(483)	(488)	(494)	(503)	(513)	(525)	(539)	(554)	(571)
Other financial income and expenses	78	(271)	(126)	(292)	(153)	(210)	(195)	(213)	(193)	(203)	(201)	(202)	(200)	(201)
Net financial income/(expense)	(59)	(388)	(523)	(608)	(633)	(693)	(683)	(707)	(695)	(715)	(726)	(741)	(754)	(773)
Taxes on financing	16	102	143	199	169	188	190	202	192	199	203	207	210	215
Net financial result after tax	(43)	(286)	(380)	(409)	(465)	(506)	(493)	(505)	(504)	(517)	(523)	(534)	(544)	(557)
Comprehensive Income														
Gains and losses recognized in equity, transferable to income statement	(714)	(1)	340	(1,819)	(549)	(507)	(634)	(877)	(642)	(665)	(704)	(722)	(683)	(694)
Gains and losses recognized in equity, not transferable to income statement	80	29	(97)	(14)	(1)	(21)	(33)	(17)	(18)	(22)	(22)	(20)	(21)	(21)
Total comprehensive gains and losses	(634)	28	243	(1,833)	(549)	(528)	(667)	(894)	(660)	(687)	(727)	(742)	(704)	(715)
Comprehensive Income	5,205	7,021	8,047	3,123	9,766	10,365	11,348	12,344	13,999	14,317	15,509	16,762	18,106	18,843
Minority interests	(341)	(681)	(628)	(162)	(452)	(596)	(571)	(549)	(644)	(654)	(657)	(674)	(708)	(724)
Comprehensive Income, Group share	4,864	6,340	7,419	2,961	9,314	9,769	10,776	11,795	13,356	13,663	14,852	16,088	17,398	18,119

Appendix 3 – FCF

(Million EUR)	2017	2018	2019	2020	2021E	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F
NOPLAT	5,322	6,479	7,394	5,421	9,997	10,628	11,790	13,084	14,230	14,610	15,813	17,025	18,228	28,389
D&A	2,376	2,302	5,108	6,050	5,409	5,679	5,963	6,262	6,575	6,903	7,249	7,611	7,992	8,391
Gross Cash Flow	7,698	8,781	12,502	11,471	15,406	16,307	17,753	19,346	20,805	21,514	23,062	24,636	26,220	36,780
(Income)/loss and dividends received from joint ventures and ass	25	5	(10)	64	21	25	37	28	30	31	30	30	30	30
Other adjustments and computed expenses	(109)	(219)	(266)	(89)	(171)	(175)	(145)	(164)	(161)	(157)	(161)	(160)	(159)	(160)
Tax Paid	(2,790)	(2,790)	(2,275)	(2,940)	(3,922)	(4,231)	(4,831)	(5,499)	(5,764)	(5,965)	(6,497)	(6,999)	(7,452)	(11,632)
Capex - Operating Investments	(2,276)	(3,038)	(3,294)	(2,478)	(3,706)	(4,134)	(4,441)	(4,811)	(5,240)	(5,651)	(6,033)	(6,435)	(6,848)	(6,863)
Change in Working Capital	(514)	(1,087)	(1,154)	(367)	(1,024)	(1,189)	(1,191)	(1,187)	(1,414)	(1,516)	(1,589)	(1,687)	(1,821)	(1,818)
Operating Free Cash Flow	2,034	1,652	5,503	5,661	6,604	6,604	7,182	7,713	8,254	8,256	8,813	9,385	9,970	16,336
Tax paid related to non-current available for sale financial assets -		(2)	(1)	-	1	1	1	0	0	0	0	0	0	0
Purchase and proceeds from sale of non-current available for sale	(38)	(400)	(104)	63	(120)	(140)	(75)	(68)	(101)	(96)	(85)	(87)	(92)	(90)
Dividends received	13	18	8	12	12	12	12	12	12	12	12	12	12	12
Non-Operating Free Cash Flow	(25)	(384)	(97)	75	(107)	(127)	(62)	(56)	(89)	(84)	(73)	(75)	(80)	(78)
Total Free Cash Flow to the Firm	2,009	1,268	5,406	5,736	6,497	6,476	7,120	7,657	8,166	8,173	8,740	9,310	9,890	16,258

Appendix 4 – Business Segment Information

EUR millions	2017	2018	2019	2020	2021E	CAGR 17-21	EUR millions	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
Wines and Spirits						3.59%	Wines and Spirits								
Total Operating Revenues	5,084	5,143	5,576	4,755	6,065	3.59%	Total Operating Revenues	6,489	6,853	7,120	7,333	7,553	7,780	8,013	8,254
EBIT Recurring Operations	1,540	1,626	1,722	1,345	1,880	4.07%	EBIT Recurring Operations	1,947	2,056	2,136	2,200	2,115	2,178	2,244	2,311
EBIT Margin	30%	32%	31%	28%	31%		EBIT Margin	30%	30%	30%	30%	28%	28%	28%	28%
D&A	194	180	216	307	520		D&A	536	542	541	543	546	550	558	568
EBITDA Recurring Operations	1,734	1,806	1,938	1,652	2,400	6.72%	EBITDA Recurring Operations	2,483	2,598	2,677	2,743	2,660	2,729	2,801	2,879
EBITDA Margin	34.1%	35.1%	34.8%	34.7%	39.6%		EBITDA Margin	38.3%	37.9%	37.6%	37.4%	35.2%	35.1%	35.0%	34.9%
Fashion and Leather Goods						14.47%	Fashion and Leather Goods								
Total Operating Revenues	15,472	18,455	22,237	21,207	30,409	14.47%	Total Operating Revenues	34,005	38,426	43,546	48,119	53,171	58,325	63,607	68,855
EBIT Recurring Operations	4,876	5,933	7,324	7,120	10,035	15.53%	EBIT Recurring Operations	10,882	12,296	13,935	15,398	15,951	17,507	19,082	20,656
EBIT Margin	31.5%	32.1%	32.9%	33.6%	33%		EBIT Margin	32%	32%	32%	32%	30%	30%	30%	30%
D&A	823	849	2,098	2,502	2,609		D&A	2,809	3,042	3,307	3,565	3,840	4,127	4,427	4,738
EBITDA Recurring Operations	5,699	6,782	9,422	9,622	12,644	17.28%	EBITDA Recurring Operations	13,691	15,338	17,241	18,963	19,791	21,634	23,509	25,395
EBITDA Margin	36.8%	36.7%	42.4%	45.4%	41.6%		EBITDA Margin	40.3%	39.9%	39.6%	39.4%	37.2%	37.1%	37.0%	36.9%
Perfumes and cosmetics						3.68%	Perfumes and cosmetics								
Total Operating Revenues	5,560	6,092	6,835	5,248	6,660	3.68%	Total Operating Revenues	7,059	7,518	8,007	8,431	8,878	9,282	9,635	9,929
EBIT Recurring Operations	592	660	656	60	666	2.38%	EBIT Recurring Operations	635	677	721	759	710	743	771	794
EBIT Margin	10.6%	10.8%	9.6%	1.1%	10%		EBIT Margin	9%	9%	9%	9%	8%	8%	8%	8%
D&A	313	306	483	556	571		D&A	583	595	608	625	641	656	671	683
EBITDA Recurring Operations	905	966	1,144	616	1,237	6.47%	EBITDA Recurring Operations	1,219	1,272	1,329	1,383	1,351	1,399	1,441	1,478
EBITDA Margin	16.3%	15.8%	16.7%	11.7%	18.6%		EBITDA Margin	17.3%	16.9%	16.6%	16.4%	15.2%	15.1%	15.0%	14.9%
Watches and Jewelry						18.23%	Watches and Jewelry								
Total Operating Revenues	3,805	4,123	4,405	3,356	8,788	18.23%	Total Operating Revenues	9,401	10,134	10,941	11,625	12,352	13,031	13,650	14,196
EBIT Recurring Operations	422	699	705	259	1,230	23.86%	EBIT Recurring Operations	1,222	1,317	1,422	1,511	1,482	1,564	1,638	1,704
EBIT Margin	11.1%	17.0%	16.1%	8.9%	14%		EBIT Margin	13%	13%	13%	13%	12%	12%	12%	12%
D&A	336	266	539	574	754		D&A	777	802	831	861	892	922	950	977
EBITDA Recurring Operations	758	965	1,247	873	1,984	21.23%	EBITDA Recurring Operations	1,999	2,120	2,253	2,373	2,374	2,485	2,588	2,680
EBITDA Margin	19.9%	23.4%	28.3%	26.0%	22.6%		EBITDA Margin	21.3%	20.9%	20.6%	20.4%	19.2%	19.1%	19.0%	18.9%
Selective Retailing						-3.53%	Selective Retailing								
Total Operating Revenues	13,311	13,646	14,791	10,155	11,121	-3.53%	Total Operating Revenues	11,788	12,401	12,848	13,233	13,630	14,039	14,460	14,894
EBIT Recurring Operations	1,033	1,377	1,380	(290)	890	-2.94%	EBIT Recurring Operations	943	992	1,028	1,059	1,227	1,264	1,301	1,340
EBIT Margin	7.8%	10.1%	9.3%	-2.9%	8%		EBIT Margin	8%	8%	8%	8%	9%	9%	9%	9%
D&A	628	514	1,593	1,873	954		D&A	974	982	976	980	984	993	1,006	1,025
EBITDA Recurring Operations	1,661	1,891	2,973	1,583	1,844	2.12%	EBITDA Recurring Operations	1,917	1,974	2,003	2,039	2,211	2,256	2,308	2,365
EBITDA Margin	12.5%	13.9%	20.1%	15.6%	16.6%		EBITDA Margin	16.3%	15.9%	15.6%	15.4%	16.2%	16.1%	16.0%	15.9%
Other holding companies & eliminations not allocated						-									
Total Operating Revenues	(596.00)	(633.00)	(174.00)	(70.00)	-										
EBIT Recurring Operations	(350.00)	(418.00)	(518.00)	(562.00)	-										
EBIT Margin	59%	66%	296%	803%	-										
D&A	82	188	175	237	-										
EBITDA Recurring Operations	(267.56)	(230.24)	(342.80)	(324.98)	-										
EBITDA Margin	45%	36%	197%	464%	-										

Appendix 5 – DCF Valuation

(Million EUR)	2021	2022	2023	2024	2025F	2026F	2027F	2028F	2029F	2030F	Terminal Value
	End of the current year	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected
Operating Free Cash Flow to the Firm @WACC	6,604	6,604	7,182	7,713	8,254	8,256	8,813	9,385	9,970	16,336	16,805
@g	5.72%										
	2.87%										
Operational Enterprise Value for each year	418,090	435,415	453,153	471,375	490,100	509,893	530,264	551,228	572,806	589,254	
Non Operational Items (book value)	(10,434)	(10,135)									
Enterprise Value	407,656	425,280									
Minority Interest (book value)	(1,617)	(2,062)									
Cash and Cash Equivalents	7,231	6,913									
Debt Market Value	(42,225)	(44,050)									
Equity Market Value	371,045	386,081									

Appendix 6 – Multiples Valuation

LVMH Segment	Peers	Forward EV/EBITDA 2021	Peers	Forward P/E ratio 2021
Fashion and Leather Goods	Kering SA	35.08x	Kering SA	27.20x
	Adidas	35.44x	Coty Holdings Limited	28.45x
	Capti Holdings Limited	36.44x	Adidas	34.20x
	Prada	37.91x	Moncler SpA	44.77x
	Ralph Lauren Corporation	37.91x	Ralph Lauren Corporation	47.62x
	Puma	33.65x	Puma	51.85x
	Moncler SpA	23.56x	Prada	63.00x
	Hermes International SCA	41.57x	Hermes International SCA	71.45x
	Median	37.91x	Median	46.20x
	Average	37.94x	Average	45.95x
Selective Retailing	ASDA PLC	37.25x	ASDA PLC	30.33x
	NEXT plc	36.33x	NEXT plc	34.61x
	Median	34.29x	Median	32.46x
	Average	34.29x	Average	32.46x
Perfumes & Cosmetics	Beiersdorf AG	34.71x	Beiersdorf AG	30.50x
	Inter Parfums, Inc.	20.73x	Inter Parfums, Inc.	39.53x
	Shiseido Company Ltd.	24.70x	L'Oréal SA	47.91x
	L'Oréal SA	29.32x	Estée Lauder Companies	48.32x
	Estée Lauder Companies	31.86x	Shiseido Company Ltd.	65.17x
	Median	24.70x	Median	47.97x
	Average	24.26x	Average	46.34x
Wines & Spirits	Constellation Brands, Inc.	36.43x	Constellation Brands, Inc.	24.83x
	Treasury Wine Estates Ltd	36.50x	Diageo PLC	30.43x
	Perrier SA	20.75x	Treasury Wine Estates Ltd	43.66x
	Diageo PLC	34.28x	Perrier SA	37.44x
	Brown-Forman Corporation	29.59x	Brown-Forman Corporation	45.64x
	DaVIDe Campari Milano	30.11x	DaVIDe Campari Milano	47.71x
	Median	27.52x	Median	35.53x
Watches & Jewelry	Swatch Group SA	8.60x	Pandora A/S	19.44x
	Pandora A/S	11.40x	Chow Tai Fook Jewellery	19.79x
	Chow Tai Fook Jewellery	12.17x	Swatch Group SA	21.56x
	Richemont	15.54x	Richemont	35.61x
	Median	11.79x	Median	20.63x
	Average	11.94x	Average	24.08x

EV/EBITDA method

	2021
EV Wines & Spirits	54,046
EV Fashion and Leather	226,457
EV Perfumes & Cosmetics	30,563
EV Watches & Jewelry	23,386
EV Selective Retailing	26,348
Enterprise Value LVMH	360,800
Net Debt	37,531
Value of Minorities	18,375
LVMH Equity Value	304,893
Shares Outstanding	504
Price per Share	605

P/E method

	2021
Net Income	9,314
Average Multiple	37
Equity Value	340,471
Shares Outstanding	504
Price per share	676

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Report Recommendations

Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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