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LVMH EQUITY RESEARCH – MOMENTUM IN THE
LUXURY SECTOR

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Abstract

This Equity Research report evaluates LVMH Moët Hennessy Louis Vuitton, the market leader of the luxury goods industry, through an equity valuation. The industry outlook and trends are analysed, and competitors who directly compete with LVMH are also examined. The company operates in various business segments: Fashion & Leather Goods, Selective Retailing, Wines & Spirits, Perfumes & Cosmetics, Watches & Jewellery, and Other & Holding Companies. The equity valuation was performed with the discounted cash flow methodology (DCF) to derive a target share price for the year-end FY2023. With a target share price (including cash gains) of 894.8€ and an expected return of 1.55%, a HOLD position of stock is recommended based on the current share price of 881.1€ (as at 15.05.2023)

Keywords: LVMH, Valuation, Fashion, Luxury

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This report is part of the Equity Research LVMH report (annexed), developed by Julien Temmerman and Oliver Lee Wittig and should be read as an integral part of it.

Table of Contents

COVER PAGE	1
INTRODUCTION	5
INDUSTRY OVERVIEW	6
COMPETITORS	7
<i>Kering</i>	7
<i>Richemont</i>	7
<i>Other Competitors</i>	7
INDUSTRY OUTLOOK	8
INDUSTRY TRENDS & CHALLENGES.....	9
VALUATION	10
PERPETUITY GROWTH RATE.....	11
COST OF CAPITAL	11
INCOME STATEMENT	12
BALANCE SHEET	13
ROIC	13
MULTIPLES VALUATION.....	13
SENSITIVITY ANALYSIS	14

Introduction

The purpose of this joint report is to evaluate LVMH Moët Hennessy through a financial valuation to derive a target share price and an investment thesis, aiming to recommend a BUY, HOLD or SELL position of the company's stock in comparison to its current share price (as at 15.05.2023). Based on the valuation model that includes our financial forecasts, which embeds the analysis of LVMH's business segments and the luxury goods industry, we determine a HOLD recommendation with an adjusted target share price of 894.8 € for then end of FY2023 and expected return of 1.55%.

The joint report's structure starts with the industry overview of luxury goods, which first analyses the distinguishment of luxury goods (clothing, watches & jewellery) from the global apparel market that include premium and mass brands, and analyses its financial resilience. This is then followed by a market overview, identifying the market leaders and dynamics of the industry. LVMH's main competitors in the various segments are also analysed. The last two parts of the industry overview deals with the industry outlook, focusing on the outlook in the main geographic regions, and the industry trends, that will transform the industry in the future.

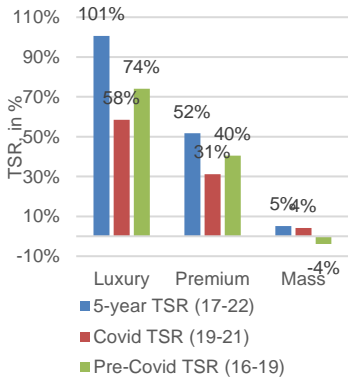
The second part of the report analyses the specific segments of LVMH: Fashion & Leather Goods, Selective Retailing, Perfumes & Cosmetics, Wines & Spirits, Watches & Jewellery, and Other Holding Companies. Each business segment section consists of a segment analysis, as well as an LVMH specific overview, analysing its products, strategies, and financials. All segment financials were forecasted separately and are discussed in the last part of the respective segment section, explaining the revenue drivers, value creation, and profitability. The segment parts are covered in the joint report annexed to this individual report.

The final part of this report discusses the overall valuation and investment thesis, and goes through the valuation method (DCF) and the input parameters, as well as LVMH's consolidated forecasted financial statements. ROIC and value creation are also examined; and lastly, a multiples valuation and a sensitivity analysis were conducted and discussed. The industry overview and valuation are both part of this individual report.

Industry Overview

The luxury goods industry is one of the most rapidly growing and well performing industries, where leading firms have experienced double-digit revenue growth in the past few years. The luxury market consists of various segments, mainly fashion (designer clothing), fine wine & spirits, watches, jewellery, and other luxury goods and services. Notably, the luxury industry and its companies are characterized by not only high product prices targeting high-end consumers, but also exclusive communication, selective distribution and strong brand recognition with a rich heritage going back over 100s of years for various luxury brands. In addition to brand name, identity and reputation, luxury products are attributed to high quality, unique designs, craftsmanship and innovation, which are considered fundamental. These attributes lead to a significant distinguishment from the rest of the global apparel market, where the luxury brands outperform premium and mass segments of the apparel market. The luxury segment delivered a 5-year (2017-2022) shareholder return of 100.6%, while the premium segment delivered 51.7%, and the mass segment 5.1% respectively^{1,2}. During the pandemic (2019-2021), the luxury segment delivered a shareholder return of 58.5% (premium segment: 31.2%, mass segment 4.2%), outperforming the 5-year shareholder return of the premium segment, as well as the mass segment. Within the global apparel market, the luxury segment's outperformance is further highlighted by their profit margins, where the luxury segment experienced an average EBIT margin of 17.1% in 2022 (vs. 13.2% in 2021), while the premium segment experienced an average margin of 9.2% (vs. 4.0% in 2021) and the mass segment 6.5% (vs. 4.6% in 2021)¹. In the financial year of 2021, still marked by adverse effects of the pandemic, the luxury segment was the only component of the global apparel market to improve profit margins compared to its historical 3-year average (2018-2020), showcasing the financial resilience of the luxury goods industry. With an average EBIT margin of 13.2% in 2021, the luxury segment improved its margin by +1.4pp compared to the historic average 3-year (2018-2020) EBIT margin, whilst both the premium and mass segment concluded their year with a drop of -3.6pp¹. Moreover, the leading luxury goods companies have continued to show double-digit revenue growth throughout 2022 with an average revenue growth of 24.6%³, amidst the global economic slowdown highlighted by rising interest rates and high inflation, as well as the war in Ukraine disrupting trade routes and triggering an energy crisis. This performance is often credited to the consumer base of luxury brands, which consists of wealthy shoppers and a growing high-earner class who are more likely to travel and spend more; and are not affected by inflation, which insulates them from economic slowdowns. The industry is also subject to consolidation, where the top market leaders are accumulating market share through consistent organic growth and strategic M&As. In 2022, the top 10 luxury companies increased their combined market share by 2.8%, reaching an aggregate market share of 50.1%¹, showcasing how the luxury goods market is dominated by handful of large conglomerates. With a combined market share of 40.1% in 2018, this results in a CAGR₁₉₋₂₂ of 5.7%, a trend that is likely to continue in the coming years. LVMH, as the global market leader in the luxury goods industry, had a market share of 19.7%¹ in 2022 (vs. 18.3% in 2021), representing a 1.4% increase in market share and a larger market size than its competitors.

Global Apparel Segments - TSR

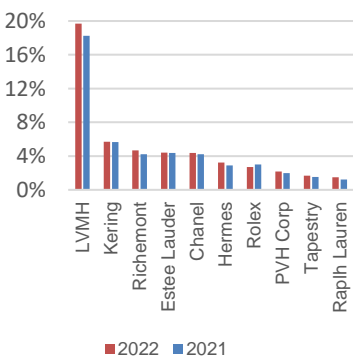


Graph 1 – Source: Bloomberg

EBIT Margin, %	Ø 18-20	2021	2022
Luxury	11.8	13.2	17.2
Premium	7.6	4.0	9.2
Mass	8.2	4.6	6.5

Table 1 – Source: Bloomberg

Market Share - Luxury Segment



Graph 2 – Source: Bloomberg

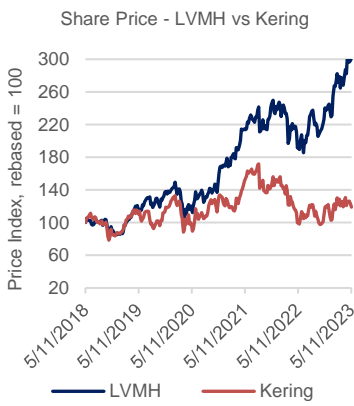
¹ Financial data were retrieved from Bloomberg and calculations were performed by the author of this Equity Research report

² Compositions of the global apparel segments (luxury, premium, mass) were conducted by the author of this Equity Research report

³ Based on data retrieved from Company financial reports and Bloomberg

Competitors

Kering

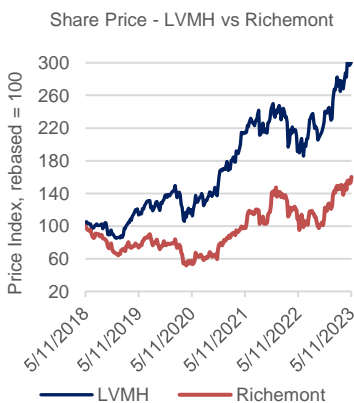


Graph 3 – Source: Bloomberg

Amongst the market leaders, Kering SA (French luxury group) is LVMH's most relevant competitor and directly competes in the fashion & leather goods segment. In 2022, Kering had a market share of 5.7%¹ (vs. 5.6% in 2021), making it the second largest market leader, and experienced revenue growth of 15.3%⁴ (vs. 34.7% in 2021), which is relatively lower than LVMH (23.3% in 2022, 43.8% in 2021). The Gucci fashion house is Kering's most significant revenue source, racking up 51.2%⁴ of total revenues (vs. 55.1% in 2021) and an +8% revenue growth in 2022, followed by Yves Saint Laurent brand with 16.2% of total sales (vs. 14.3% in 2021). In comparison, the Louis Vuitton brand has reached a revenue of around 20 €bn in 2022 and made up approximately 25.3% of total revenue, and with Dior as its second most valuable fashion brand have significantly contributed to a +25.0%⁴ revenue growth in the fashion & leather goods segment. Throughout 2018-2021, Kering consistently reached higher EBIT margins than LVMH, driven by relatively lower cost of sales. However, with an EBIT of 26.5% in 2022 (vs. 27.1% 3-year historic average, 2019-2021) Kering experienced a drop -0.6pp due to higher SG&A, while LVMH improved its margin to 26.5% (vs. 21.9% 3-year historic average, 2019-2021)⁵. As for net profit margin, both Kering and LVMH reached a margin of 17.8% in 2022, an increase of +1.5pp for Kering and +2.6pp for LVMH compared to their respective historic 3-year average. Regarding organic growth, Kering started to lack behind LVMH in 2022, reaching organic growth of 9.0% (vs. 35.3% in 2021) compared to LVMH's 17.0% (vs. 36.0% in 2021)⁵, mainly due to the slowing growth of the Gucci brand. This currently indicates a strong momentum for the Louis Vuitton brand that directly competes with Gucci, with both being one of the most popular fashion brands in the world and having the largest market size.

in %	Ø 19-21	2021	2022
EBITDA Margin			
LVMH	32.6	35.8	34.3
Kering	36.1	35.4	34.7
EBIT Margin			
LVMH	21.9	26.7	26.5
Kering	27.1	27.2	26.5
Net Income Margin			
LVMH	14.2	18.7	17.8
Kering	16.3	18.0	17.8

Table 2 – Source: Bloomberg



Graph 4 – Source: Bloomberg

Richemont

Another main competitor of LVMH is Richemont, who is headquartered in Switzerland. Richemont, or Cie Financière Richemont SA, competes in the jewellery and watches segments, as well as online distribution. In 2022, Richemont had a market share of 4.7%¹ (vs. 4.2% in 2021), making it the third largest market player in the luxury goods industry. Revenues from its jewellery maisons were 11,083€mn in 2022, and 3,435€mn for the watches segment⁴. In comparison, LVMH revenues from the watches & jewellery segment were 10,581€mn. Richemont's total revenue growth in 2022 was 27.4%⁴, one of the highest revenue growths in the luxury goods industry, establishing itself as the market leader in the jewellery and watches segment, with its iconic brands such as Buccellati, Piaget, Cartier and Montblanc among others. In comparison, LVMH's watches & jewellery segment grew by 18.0%. The EBIT margin increased from 11.2% to 22.4%⁵ in 2022, which reflects increased utilisation of manufacturing facilities and efficiency gains that led to lower cost of sales. Regarding Richemont's net profit margin, it increased by 2.5% in 2022, resulting in a margin of 12.4%. Compared to its EBIT/EBITDA margins, it has grown relatively slow, as Richemont's is subject to high financing costs.

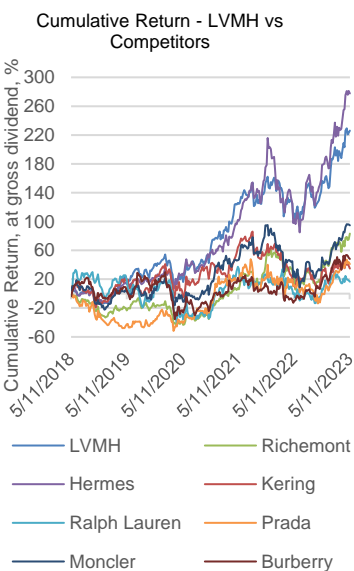
in %	Ø 19-21	2021	2022
EBITDA Margin			
LVMH	32.6	35.8	34.3
Richemont	21.2	22.8	31.7
EBIT Margin			
LVMH	21.9	26.7	26.5
Richemont	11.9	11.2	22.4
Net Income Margin			
LVMH	14.2	18.7	17.8
Richemont	12.1	9.9	12.4

Table 3 – Source: Bloomberg

Other Competitors

⁴ Based on data retrieved from Company financial reports

⁵ Based on data retrieved from Bloomberg

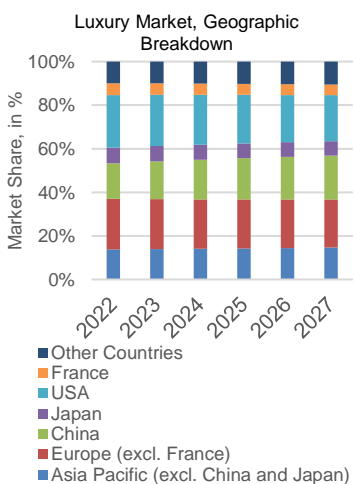


Graph 5 – Source: Bloomberg

Chanel LTD is a privately held company, based in UK, that competes in fashion & leather goods, cosmetics, perfumes, and jewellery & watches. As opposed to the other luxury conglomerates, Chanel’s segments are all operated under one brand name. With a market share of 4.4%¹ (vs. 4.2% in 2021), Chanel is the 5th largest market player in the luxury industry. It is widely known for its perfume, Chanel No.5, and the Chanel 2.55 Handbag. Both products launched over 70 years ago and continue to remain Chanel’s most popular items. While other competitors focus their operations on a specific luxury segment, Chanel competes in most segments, with the exception of fine wine & spirits, comparable to the diversity of LVMH’s business composition.

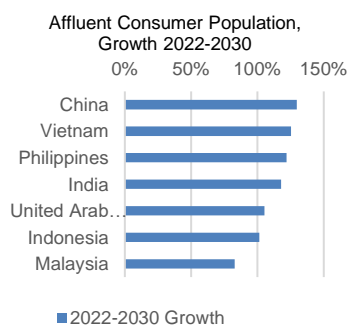
Other competitors of LVMH include highly recognisable luxury groups like Hermès, Prada, Moncler, PVH Corp, Ralph Lauren, and Burberry. As seen in the share price performance, as well as historical cumulative returns, LVMH has continued to strongly outperform its competitors with the exception of Hermès, who has a similar development share price performance. Looking at the 5-year cumulative returns at gross dividend, LVMH has reached a cumulative return of 240% (vs. Hermès at 291%), compared to a range of 21-114% for the other competitors⁵.

Industry Outlook



Graph 6 – Source: Passport – Euromonitor International

A main concern in 2022 were the partial lockdowns in Asia, especially in China. The industry experienced a slowdown in revenue growth and contribution in China and Asia as a consequence. For instance, revenue contribution of Asia Pacific fell by -5.0pp to 30.0% for LVMH, while Kering faced a similar decline in revenue distribution (33% vs. 38% in 2021)⁴. However, luxury good companies have reason to celebrate; after three years of partial lockdowns, China has fully reopened its borders as of 2023⁶, and luxury brands reported revenue rebounds in Asia Pacific for Q1 2023, following the lifting of health restrictions. The Chinese market is a driving force for revenue growth and makes up a significant portion of the total industry revenue. As at 2022, China’s share of the global luxury good market was 16.3%⁷, making it the second largest consumer market. With an expected CAGR₂₃₋₂₇ of 10.8%⁷ and an expansion of 38.6€bn, China is the fastest growing market and will remain an important target for the industry. The US is the largest market of the industry, having a global share of 24.2%⁷ in 2022. With a CAGR₂₃₋₂₇ of 3.4%, the US is expected to grow at a slower rate than other regions, as it is already an established market, but will remain the dominant market for luxury goods in absolute terms with an expected size of 100.7€bn (+15.4€bn expansion) by 2027, attributed to its wealthy population. In 2021, the US was home to 55.3% of global UHNWI, 57.7% of global HNWI, and 44.4% of global affluent consumers, making it the largest wealth market⁸. In terms of size, the US is expected to add more numbers of wealthy consumers than any other country by 2030. Wealth is a key driver of consumption and a particularly important indicator for the luxury industry that has shown optimistic income elasticity⁸. High-Net-Worth individual (HNWI), Ultra-High-Net-Worth individual (UHNWI), and affluent consumers are drivers of the luxury industry, which stood out in the past years of strong financial performance by the industry, albeit the financial uncertainties for regular income earners and lower consumer confidence.



Graph 7 – Source: Passport – Euromonitor International

Subsequent to the US, China is home to the second largest population of wealthy and affluent individuals, and its wealthy population is expected to grow around 130% by 2030 for each wealth

⁶ Financial Times. “China and Hong Kong to reopen border as Beijing drops zero-Covid curbs”. Retrieved on March 12th, 2023

⁷ Forecasted market data retrieved from Passport – Euromonitor International

⁸ Passport – Euromonitor International. “Global Wealth and Luxury Report 2022”. Retrieved on May 2nd, 2023

category (affluent: 129.8%, HNWI: 130.6%, UNWI: 128.9%)⁹. The growth dynamic of wealth and size of new luxury consumers is an important indicator for the industry to identify upside potential in local markets. Markets (aside of China) with a fast-growing wealthy population, as well as considerable luxury market size, include India, Indonesia, Malaysia, Philippines, and United Arab Emirates. An accelerated growth of wealthy consumers is concentrated in the Asia Pacific region and will continue to contribute largely to the luxury market size. As a consequence, Asia Pacific (incl. China and Japan) is the largest regional market with a share of 37.4%⁷ in 2022. Looking at Asia Pacific, excluding China and Japan, the market share is expected to grow to 14.6% by 2027, reflecting a +0.8pp increase. With a CAGR₂₃₋₂₇ of 7.4%⁷, Asia Pacific (excl. China and Japan) is expected to be the fastest growing region in the coming years; and remains a focus for luxury goods companies. Aside from China, significant contribution to Asia Pacific sales came from Japan and also South Korea. Japan has historically been an important consumer market for the luxury industry. With a market size of 25.5€bn and a global share of 7.2% in 2022, Japan is the third largest market for luxury goods and is expected to grow at a CAGR₂₃₋₂₇ of 4.4%⁷ and remains an important contributor to global sales in the foreseeable future.

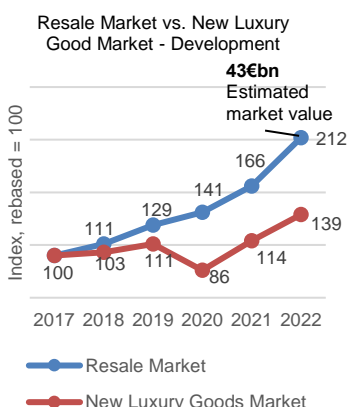
Europe, as an established market, also contributes to a large amount of the global consumption of luxury goods. With a combined share of global sales, the Europe region made up 28.5%⁷ of the geographic distribution of the market, and is expected to grow at a CAGR₂₃₋₂₇ of 5.1%. It is the second largest regional market, followed by North America, and is expected to reach a market size of 128€bn by 2027 (+28€bn expansion). Aside from local demand, the European luxury market also benefits from tourism. In fact, international tourism is an important indicator for the luxury market, and travel restrictions have affected luxury retailers' sales; lack of luxury spending of Chinese tourists were particularly noticeable overseas¹⁰. However, outlook of international tourism is positive. International tourism in 2022 has recovered by 63% in comparison to pre-pandemic levels, and based on forecast scenarios, international tourism could recover by 80%-95% of pre-pandemic levels¹¹.

Industry Trends & Challenges

Sustainability has become a core priority for luxury goods companies, where a global effort towards the green transition and a circular economy has played a particular role in driving the industry to reshape their business models, as the challenges of sustainability, digitalisation and change in consumer patterns will transform the industry in the years ahead¹². 80% of luxury consumers think that luxury brands should be involved in the life cycle of their products and 65% of luxury shoppers base their purchase decisions on whether the luxury brand commits to a sustainable development¹³. Consequently, luxury companies work on adopting new strategies that disrupt their traditional model. The resale market / model is one of the markets that companies target, as consumers show increasingly more interest in the second-hand market, which in turn extends the lifetime of luxury products and involves companies in their product life cycle. With an estimated market value of 43€bn in 2022, the luxury resale market has grown by 27.7% from 2021-2022, growing 1.3x times faster than the new luxury goods market¹⁴.



Graph 8 – Source: Passport – Euromonitor International



Graph 9 – Source: Bain & Company

⁹ Forecasted consumer data retrieved from Passport - Euromonitor

¹⁰ Financial Times. "Loss of Chinese tourists forces Europe's luxury retailers to rethink". Retrieved on April 23rd, 2023

¹¹ UNWTO. World Tourism Organisation. "World Tourism Barometer, Volume 21, January 2023". Retrieved on May 2nd, 2023

¹² Deloitte. "Global Powers of Luxury Goods 2022 – A new wave of enthusiasm". Retrieved on April 23rd, 2023

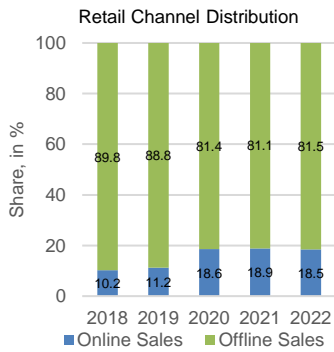
¹³ BCG x Comite Colbert. "Luxury Outlook 2022 – Advancing as a responsible pioneer". Retrieved on April 25th, 2023

¹⁴ Bain & Company. "Renaissance in Uncertainty: Luxury Builds on Its Rebound". Retrieved on April 25th, 2023

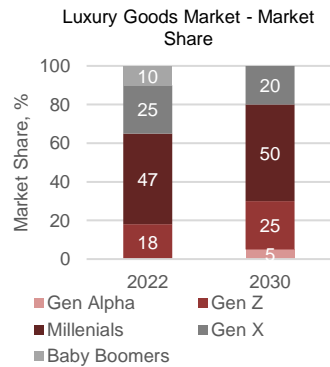
Furthermore, it is projected that the market will continue to grow at a CAGR₂₃₋₂₆ of 9.6%. Some companies have already started investing in resale platforms, as well as join forces with existing second-hand channels as an alternative distribution method. For instance, Kering acquired a 5% stake in French Vestiaire Collective in 2021¹². LVMH has taken a different approach to the resale / second-hand market; launching its own online resale platform, Nona Source, which offers access to quality fabrics and leathers at competitive prices supporting the re-use of materials¹².

Another trend is the emergence of e-commerce platforms as an alternative to traditional retail channels, which facilitates purchase option and extends the reach to the customer base at distant places. The use of online stores has played a key role in maintaining luxury revenue growth amidst the pandemic. In 2020, the share of online sales reached a share of 18.6%, increasing by +7.4pp, and continued to increase throughout 2021¹⁵. As of 2022, share of online sales normalises to 18.5%, accounting the reopening of stores in most of the world. While most customers still make their purchases offline, 50% search for luxury products online before purchasing in store adopting to omnichannel strategies of luxury brands¹³. Omnichannels reach the customer through all touchpoints, with focus on digitalisation, delivering customer experience through all channels. The use of online product searches, as well as outreach through online channels, is predicted to accelerate online sales share to 26.3% by 2025¹⁶.

It is important to note that these trends are particularly driven by the younger generations, Gen Z and Alpha as well as Millennials (Gen Y). By 2030, affluent Gen Z and Alpha consumers will make up 30% of the luxury goods customer base, indicating a 3x faster growth than previous generations in consumer spending¹⁴. Millennials are expected to make up 50% of the customer base by 2030; including the younger generations, this amasses to around 80% of the customer base¹⁴ to which the luxury good companies adhere to. Due to this generational shift, marked by technology trends and new customer expectations in regards to sustainability, the luxury industry will reshape through 2030, transforming a sustainable model¹³.



Graph 10 – Source: Passport – Euromonitor International



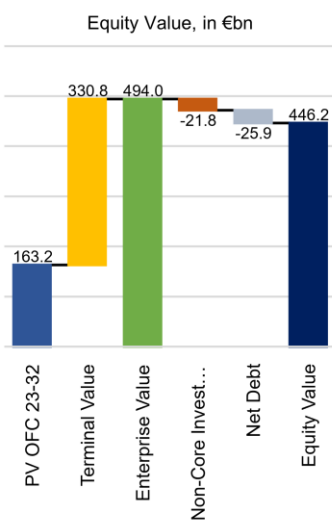
Graph 11 – Source: Bain & Company

Valuation

The purpose of this Equity Research is to derive a target share price for the year end of 2023 (31st Dec. 2023) and give a recommendation based on the expected capital and cash gains with reference to the current share price (as at 15.05.2023). For the LVMH valuation, the discounted cash flow method was applied. We assumed an explicit forecast period of 8 years, in essence 2023-2030, and all financials were further forecasted till 2032 to examine the stabilisation of ROIC and the convergence of the operating free cash flows growth rate towards the perpetuity growth rate. The company thereafter, reaches a steady state where operating free cash flows y-o-y growth converges towards the perpetuity growth rate of 3.42%. Therefore, we assume perpetuity as of 2032 to derive the terminal value (TV), on the basis that ROIC has also stabilised. Free cash flows from operations were calculated for each business segment, as the difference between NOPAT and change in invested capital (investments), adding back non-cash items, for each forecasted year. The sum of the segment free cash flows was then discounted at a WACC of 8.41% to obtain an estimated Enterprise Value of 494.0€bn. To derive the Equity Value (EV), we then added the estimated Non-Core Invested Capital of -21.8€bn (est. FY 2023), forecasted

¹⁵ Retail channel data retrieved from Passport – Euromonitor International

¹⁶ Forecasted sales channels for luxury goods data retrieved from Statista



Graph 12 – Source: Valuation Model

Geographic Segments	% of Revenue	Real GDP Growth
Asia (excl. Japan)	30%	1.75%
United States	27%	1.37%
Europe (excl. France)	16%	1.04%
Other Countries	12%	1.73%
France	8%	1.25%
Japan	7%	0.39%
Revenue-Weighted		1.40%
Long-Term Inflation Rate		2.00%
Perpetuity Growth Rate		3.42%

Table 4 – Source: OECD

WACC	8.41%
Cost of Equity	8.74%
Cost of Debt (After Tax)	2.67%
Market Risk Premium	5.50%
Beta	1.169
Risk-Free Rate	2.31%
Bond Yield (YTM)	3.60%
Tax Rate	25.8%
D/(D+E) Ratio	5.49%

Table 5 – Source: Bloomberg

Peer Group	βL	βL Adjusted	βU
LVMH	1.130	1.086	1.030
Hermes	0.871	0.914	0.947
Ralph Lauren	1.387	1.258	1.189
Prada	1.273	1.182	1.087
Moncler	1.159	1.106	1.105
Burberry	1.339	1.226	1.203
Richemont	1.401	1.268	1.289
Kering	1.166	1.110	1.000
Median Peers	1.273	1.182	1.105

Table 6 – Source: Bloomberg

at book value; and thereafter deducted the book value of Net Debt (est. FY 2023) of 25.9€bn, which has been derived with the premise of a target D/E ratio (Net Debt / EV) of 5.81% implicit in the WACC assumptions. Both the book value of Non-Core Invested Capital and Net Debt have been considered as appropriate proxies for their market values. This leads to an estimated Equity Value of 446.2€bn and a target share price of 888.8€ (vs. 881.1€ as at 15.05.2023) for FY2023 (year-end), considering the current shares outstanding of 502mn (as at 15.05.2023). The adjusted target share price for FY2023 equates to 894.8€, which includes the expected cash gains from the expected interim dividend payment of 6€ (payout ratio of 42%), to be paid out in Dec. 2023. As a result, we predict an expected return of 1.55% for the year-end of 2023, and determine a HOLD recommendation.

Perpetuity Growth Rate

The perpetuity growth rate was derived, using yearly long-term real GDP growth data (2030-2060) for the relevant geographic regions in which LVMH operates. Based on OECD data, we obtain an average (2030-2060) real GDP growth rate of 1.37% for the United States, 1.75% for Asia (excl. Japan), 1.04% for Europe, 1.25% for France, 0.39% for Japan, and 1.73% for Other Countries respectively¹⁷. Using a revenue-weighted approach, accounting LVMH's total geographic exposure in FY2022 (revenue per geographic split), we derive a 1.40% long-term GDP growth rate. To align the real long-term growth rate with the nominal long-term growth rate, we assumed a long-term inflation rate target of 2.0%¹⁷. Following formula was used to compute the nominal growth rate: $((1 + \text{inflation rate}) * (1 + \text{real GDP growth rate}) - 1)$. As a result, we obtained a perpetuity growth rate of 3.42%, which was used for the terminal value (TV) and is consistent with LVMH's geographic exposure.

Cost of Capital

A weighted average cost of capital (WACC) of 8.41% was used to discount the free cash flows from operations, and reflects the target capital structure, represented by the D/E ratio (Net Debt / EV). We assume the D/E ratio to remain constant over time, where the D/E ratio is represented by the latest book value (proxy for market value) of Net Debt (2nd half of 2022) and the Enterprise Value (with Market Cap as at 15.05.2023), resulting in a target D/E ratio of 5.81%¹⁸. The cost of equity (r_e) was calculated using the CAPM method. For the Beta calculation, a peer group was created that most closely resembles LVMH in terms of size, business segments, and geographic split that grasps the risk exposure of operations. A 5-year monthly levered Beta (β_L) was used as a starting point for each peer and then adjusted through the Bloomberg Beta formula, resulting in a median adjusted levered Beta (β_L) of 1.18¹⁸. The peer Betas were then unlevered with their respective current D/E ratio, leading to median unlevered Beta (β_U) of 1.11; the median unlevered Beta (β_U) was then re-levered using LVMH's target capital structure, resulting in an Equity Beta (β_L) of 1.17. As for the Equity Risk Premium (ERP), we used the quarterly updated ERP from KPMG (last update in March 2023) – ERP of 5.5%¹⁹. With regards to the risk-free rate (rfr), we used the yield of the generic 10-year German Government Bond (Deutsche Bundes Bank), serving as an appropriate proxy for a 10-year EUR risk-free rate; as at 15.05.2023 the rate (rfr)

¹⁷ Real GDP long-term forecast data retrieved from OECD dataset

¹⁸ Beta, input data such as net debt and market cap, risk-free rate, and bond yields were retrieved from Bloomberg, and calculations were performed by the author of this Equity Research report

¹⁹ KPMG. "Equity Market Risk Premium – Research Summary". Retrieved on May 8th, 2023

is 2.23%¹⁸. Following those inputs, the cost of equity (r_e) composes to 8.74%. The pre-tax cost of debt (r_d) of 3.55%¹⁸ was obtained, using the 10-year yield to maturity (YTM) retrieved from the EUR Europe Corporate A+ A- BVAL Yield Curve 10-year (as at 15.05.2023). This European Bond Composite index consists of similarly rated bonds as LVMH's Moody's rating of A1 (A), and serves an appropriate cost of debt proxy for an investment grade company like LVMH. With a tax rate of 25.8%, the cost of debt after tax (r_d) equated to 2.67%.

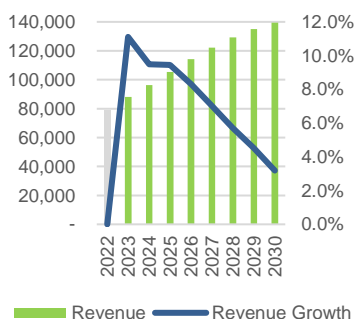
Income Statement

LVMH publishes each of its segment reports in addition to the group's financial statements, consisting of Fashion & Leather Goods, Selective Retailing, Wines & Spirits, Perfumes & Cosmetics, Watches & Jewellery, and Other & Holding Companies. Each of the segment financials were individually forecasted, based on their respective assumptions and drivers, and then consolidated into the group financial statement. Other items not allocated to the segment or not considered to be part of the core business were forecasted separately before being integrated into the consolidated income statement. As a result, the group's revenue is forecasted to reach 88.0€bn in FY2023, which translates into a y-o-y growth of 11.1%. Based on the explicit forecast period, group revenue is estimated to grow at a CAGR₂₄₋₂₀₃₀ of 6.8% thereafter, reaching a total revenue of 139.3€bn in 2030. The Fashion & Leather segment continues to bring most of the revenue, increasing revenue share from 48.8% (FY2022) to a range of 49.1-50.3% in the forecasted years. We expect that LVMH's luxury fashion brands, especially Louis Vuitton, will continue to ride on its momentum in the coming years. Selective Retailing is the second-largest contributor to revenues and is expected to deliver a revenue share of 18.8% in 2023, slightly improving from last year due to the expectation that international tourism will continue to recover. Wines & Spirits is expected to make up more of the revenue share in the long-term.

The EBITDA margin is expected to reach 36.2% in FY2023, reflecting a 1.8% y-o-y increase due to relative lower operating expenses. In 2022, SG&A grew by 42.0% due to larger investments in communications and development of retail networks, as well as higher promotion and advertising costs²⁰. We forecast that SG&A will make up 32.3% in FY2023 (vs. 34.1% in 2022), with the implicit assumption that the larger expenses from advertising costs among other expenses of 2022 will not occur regularly and rather slow down compared to 2022, as these expenses were accelerated due to surging business activity and use of digital channels by consumers. EBITDA margins for the following forecasted years will reach 35.1% on average (2024-2030), improving in comparison to historic years.

Net Income (Group Share) is estimated to reach 16.5€bn in FY2023, a 2.4€bn increase with a margin of 18.7%. With a CAGR₂₄₋₂₆ of 9.20%, net income is expected to reach 21.4€bn in 2026, surpassing the 20€bn mark for the first time. For later years, we expect net income to grow at an average annual growth rate of 5.4% (2027-2030); furthermore, we forecast that LVMH will improve its net income margin to 19.0% by 2029. Regarding dividend payments in 2023, we expect the payout ratio (43%) to remain at the same level of FY2021/2022, resulting in total dividend per share of 14€ (vs. 12€ in 2022) that consist of an interim dividend of 6€ and a final dividend of 8€.

Revenue - Forecast, Growth



Graph 13 – Source: Valuation Model

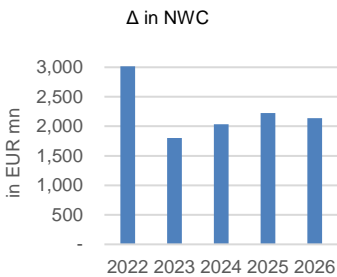
in %	2022	2023	2030
EBITDA Margin	34.3	36.2	34.8
EBIT Margin	26.5	26.9	27.4
Net Income Margin	17.8	18.7	19.0

Table 7 – Source: Valuation Model

²⁰ Retrieved from LVMH company financial report 2022

Balance Sheet

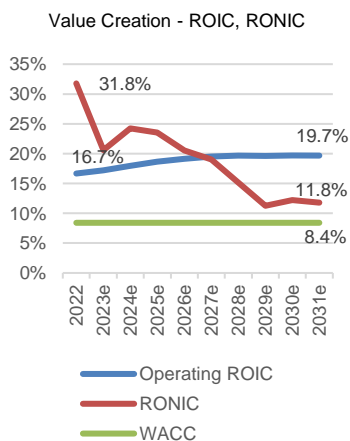
Similar to the forecasted income statement, the balance sheet consists of the sum of the forecasted segment financials and non-operating items. As at FY2023, core invested capital (operating) is estimated to reach 113.4€bn in 2023, translating into a y-o-y growth of 5.5%. In FY2030, core invested capital is estimated to reach 149.5 €bn at a CAGR₂₄₋₃₀ of 4.0%. These changes reflect investments in right-of-use assets, consisting of store leases, and PP&E, consisting of manufacturing facilities and workshops, and changes in net working capital. Due to surges in business activity in 2021 and 2022, driven by the Fashion & Leather Goods segment, as well as from Wines & Spirits, changes in inventory were higher than usual in order to secure supplies²⁰. Relative to revenue growth of 43.8% in 2021 and 23.3% in 2022, we estimate a more modest growth in revenue for future years, and thus expect that inventories will also increase at a slower pace. Consequently, our change in net working capital estimates for the forecasted years of 2023-2030 are expected to be +1.9€bn per year on average, returning to normal levels. Right-of-use assets are forecasted in relation to the estimated increase of number of stores, where revenue per store accounts both online and offline sales in order to account for the effects of omnichannels and digital transformation. This implies that revenue per store will increase at a faster pace than number of stores, which is reflected in our forecast. Similarly, PP&E is forecasted to increase at a slower rate than revenues, as we expect unit price increases in accordance to their dynamic price policy, as well as the implicit assumption that manufacturing facilities and workshops have the capacity to increase utilisation rates. Thus, asset turnover is forecasted to increase with a CAGR₂₃₋₃₀ of 2.5%, suggesting a more efficient use of assets.



Graph 14 – Source: Valuation Model

ROIC

LVMH's group operating ROIC is estimated to be 16.7% in FY2023, a +1.4pp increase compared to FY2022. The strong performance is mainly attributed to the Fashion & Leather Goods segment, which takes up the biggest share of invested capital and contributing to 74.7% of total NOPAT. In addition, the group NOPAT margin increases by 1.0% in 2023 to 20.4% and Asset turnover slightly increases as well, suggesting that both profitability and efficient use of assets will contribute to a healthy ROIC. For the following estimated years, operating ROIC increases by 0.4% per year on average, reaching an operating ROIC of 19.6% by 2030 and stabilises thereafter. NOPAT margins stabilise towards the end of the explicit forecast period reaching a margin of 20.45%. Asset turnover was 78.7% in 2022, translating into a 3.1% decrease compared to FY2021. We expect asset turnover to improve in the following years and to recover to the FY2021 level in 2024. In the subsequent years, asset turnover is expected to increase by 1.4% per year on average (2025-2032) and stabilising at around 96.0% in the steady state. New investments also contributed to a growing ROIC, with RONIC amounting to 31.8% in 2023, and 22.2% on average for the years 2024-2027. In the subsequent years new investments continue to add value but with a diminishing RONIC, where RONIC equates to 11.3% in 2030, still above WACC of 8.4%. With an average ROIC of 18.8% (2023-2032) that is consistently above the WACC, we expect that LVMH continues to add value throughout the years, as it has in the past years with the exception of FY2020, where the whole luxury goods industry was affected by the start of the pandemic.



Graph 15 – Source: Valuation Model

Multiples Valuation

For comparison purposes, we conducted a multiples valuation using the aforementioned peer group to derive the average P/E multiple (current & forward looking), as well as the average EV/EBIT multiple. For the current multiples, the ratios consist of a trailing 12 months (TTM) EPS and a trailing 12 months (TTM) EBIT, retrieved from Bloomberg as at 15.05.2023. As for the forward-looking multiples, the financial metrics are based on Bloomberg estimates²¹ for the FY2023. As at 15.05.2023, we derive a range of 827-863€ for LVMH's share price. LVMH's multiples are slightly higher than the peer group multiples, implying that LVMH is currently trading at a premium.

Multiples Valuation	P/E	P/E	EV/EBIT	EV/EBIT
	Current	Forward 2023	Current	Forward 2023
LVMH	31.3x	26.7x	22.2x	19.3x
Peer Group Multiple	29.5x	26.3x	21.7x	18.9x
<u>Bloomberg Estimates</u>				
EPS	28	33		
EBIT, in EUR (€) mn			20,964	24,109
Net Debt			24,295	24,295
Equity Value, in EUR (€) mn			429,985	432,089
Shares Outstanding, in EUR (€) mn	502	502	502	502
Share Price	827	863	856	861

Table 8 – Source: Bloomberg

Sensitivity Analysis

A sensitivity analysis was conducted with the EBITDA margin as the variable, in order to see how the target share price and respective total expected return would change accordingly. We assumed a change an approximate +/- 0.6% change in EBITDA margin with the forecasted FY2023 as a starting point. According to the analysis, a +0.6% change in the margin would result in target share price increase of 12.5€ and increase total expected return by 1.4%. Conversely, a -0.6% change in share price would decrease the share price by 11.5€. If the EBITDA margin were to change to around 35.5% with 2023 as starting point, the target share price would approximately be equal to the current share price (as at 15.05.2023).

	Sensitivity Analysis - EBITDA Margin				
	35.0%	35.6%	36.2%	36.8%	37.4%
Δ in Margin	-1.2%	-0.6%	0.0%	0.6%	1.2%
Target Share Price	869.7	883.2	894.8	907.3	919.8
Δ in Share Price	-25.1	-11.5	0.0	12.5	25.0
Expected Return	-1.3%	0.2%	1.6%	3.0%	4.4%

Table 9 – Source: Valuation Model

²¹ Estimates retrieved from Bloomberg are based on average analyst consensus

LVMH SE

LUXURY GOODS

STUDENT: JULIEN TEMMERMAN, OLIVER LEE WITTIG

COMPANY REPORT

15 MAY 2023

50867@novasbe.pt, 51178@novasbe.pt

Luxury is forever

Momentum in the luxury goods sector

Given our target price of €894.79 for the end of FY23, we issue a HOLD recommendation for LVMH's common stock. We expect a 1.55% total return versus the current share price of €881.10 (as at May 15th 2023).

LVMH recorded revenues of €21bn in Q1 FY23. Growth was highly driven through Asia which experienced a significant rebound in Q1 following the lifting of health restrictions in Greater China.

FY23 revenues are forecasted to reach €87,981m, growing 11.1% versus the previous year. Revenues are forecasted to grow at a CAGR₂₃₋₃₀ of 7.32% moving forward. EBIT is expected to grow 13.1% in FY23 and reach €23,701m. Net Income is forecasted to be €17,308m in FY23.

Fashion & Leather Goods will continue to be the most significant value driver for LVMH with the highest ROIC out of all segments and is expected to contribute 49.1% of total revenues in FY23. Fashion & Leather Goods growth is driven through its strong brands, extensive retail network, and by elevating the product lines.

Company description

LVMH Moët Hennessy Louis Vuitton SE is the world's largest luxury goods conglomerate. LVMH has over 70 brands under its umbrella spanning across five main segments of the luxury market: Wines & Spirits, Fashion & Leather Goods, Perfumes & Cosmetics, Watches & Jewellery and Selective Retailing. Some of its most iconic brands are Louis Vuitton and Christian Dior.

Recommendation: **HOLD**

Vs Previous Recommendation **HOLD**

Price Target FY23: **894.79 €**

Vs Previous Price Target **883.73€**

Price (as of 15-May-23) **881.10 €**

Bloomberg: MC FP Equity

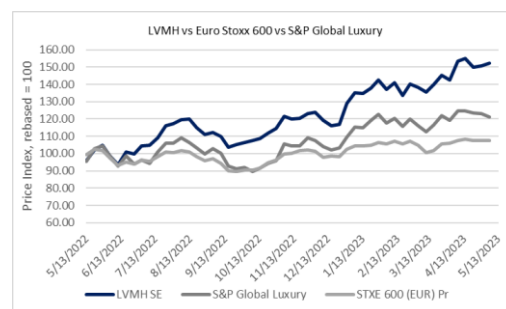
52-week range (€) 544.70-901.10

Market Cap (€m) 442,355.85

Outstanding Shares (m) 502.048

Expected Return (%) 1.55

Source: Bloomberg



Source: Bloomberg

(Values in € millions)	2022	2023E	2024F
Revenues	79,184	87,981	96,334
EBITDA	27,190	31,836	34,437
Net Profit	14,084	16,452	17,909
EPS	28.0€	32.8€	35.7€
EBITDA Margin	34.3%	36.2%	35.7%
Net Profit Margin	17.8%	18.7%	18.6%
ROIC	15.3%	16.7%	17.2%

Source: Equity Research – Valuation Model

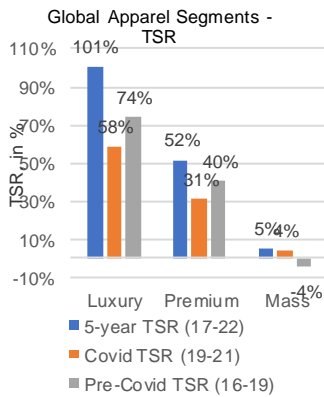
THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY JULIEN TEMMERMAN & OLIVER LEE WITTIG, A MASTER IN FINANCE STUDENT OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)

Table of Contents

INDUSTRY OVERVIEW	3
COMPETITORS	4
<i>Kering</i>	4
<i>Richemont</i>	5
<i>Other Competitors</i>	5
INDUSTRY OUTLOOK.....	6
INDUSTRY TRENDS & CHALLENGES	7
COMPANY OVERVIEW	9
FASHION & LEATHER GOODS.....	10
<i>Segment Analysis</i>	10
<i>Company Analysis</i>	12
<i>Valuation Analysis</i>	12
WINES & SPIRITS.....	13
<i>Segment Analysis</i>	14
<i>Company Analysis</i>	14
<i>Valuation Analysis</i>	15
PERFUMES & COSMETICS	15
<i>Segment Analysis</i>	15
<i>Company Analysis</i>	16
<i>Valuation Analysis</i>	17
WATCHES & JEWELLERY	18
<i>Segment Analysis</i>	18
<i>Company Analysis</i>	19
<i>Valuation Analysis</i>	20
SELECTIVE RETAILING	20
OTHER & HOLDING COMPANIES.....	22
VALUATION.....	22
PERPETUITY GROWTH RATE.....	23
COST OF CAPITAL.....	24
INCOME STATEMENT.....	24
BALANCE SHEET.....	26
ROIC	26
MULTIPLES VALUATION.....	27
SENSITIVITY ANALYSIS	27
APPENDIX	29
FINANCIAL STATEMENTS.....	29
REPORT RECOMMENDATIONS.....	30

Industry Overview

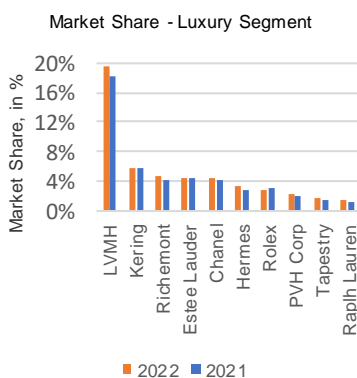
The luxury goods industry is one of the most rapidly growing and well performing industries, where leading firms have experienced double-digit revenue growth in the past few years. The luxury market consists of various segments, mainly fashion (designer clothing), fine wine & spirits, watches, jewellery, and other luxury goods and services. Notably, the luxury industry and its companies are characterized by not only high product prices targeting high-end consumers, but also exclusive communication, selective distribution and strong brand recognition with a rich heritage going back over 100s of years for various luxury brands. In addition to brand name, identity and reputation, luxury products are attributed to high quality, unique designs, craftsmanship and innovation, which are considered fundamental. These attributes lead to a significant distinguishment from the rest of the global apparel market, where the luxury brands outperform premium and mass segments of the apparel market. The luxury segment delivered a 5-year (2017-2022) shareholder return of 100.6%, while the premium segment delivered 51.7%, and the mass segment 5.1% respectively^{1,2}. During the pandemic (2019-2021), the luxury segment delivered a shareholder return of 58.5% (premium segment: 31.2%, mass segment 4.2%), outperforming the 5-year shareholder return of the premium segment, as well as the mass segment. Within the global apparel market, the luxury segment's outperformance is further highlighted by their profit margins, where the luxury segment experienced an average EBIT margin of 17.1% in 2022 (vs. 13.2% in 2021), while the premium segment experienced an average margin of 9.2% (vs. 4.0% in 2021) and the mass segment 6.5% (vs. 4.6% in 2021)¹. In the financial year of 2021, still marked by adverse effects of the pandemic, the luxury segment was the only component of the global apparel market to improve profit margins compared to its historical 3-year average (2018-2020), showcasing the financial resilience of the luxury goods industry. With an average EBIT margin of 13.2% in 2021, the luxury segment improved its margin by +1.4pp compared to the historic average 3-year (2018-2020) EBIT margin, whilst both the premium and mass segment concluded their year with a drop of -3.6pp¹. Moreover, the leading luxury goods companies have continued to show double-digit revenue growth throughout 2022 with an average revenue growth of 24.6%³, amidst the global economic slowdown highlighted by rising interest rates and high inflation, as well as the war in Ukraine



Graph 1 – Source: Bloomberg

EBIT Margin, %	Ø 18-20	2021	2022
Luxury	11.8	13.2	17.2
Premium	7.6	4.0	9.2
Mass	8.2	4.6	6.5

Table 1 – Source: Bloomberg



Graph 2 – Source: Bloomberg

¹ Financial data were retrieved from Bloomberg and calculations were performed by the author of this Equity Research report.

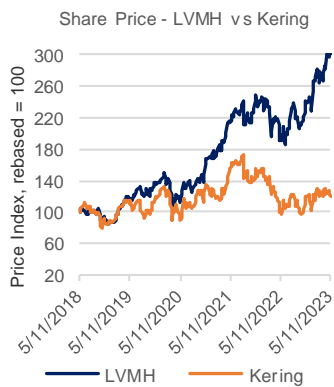
² Compositions of the global apparel segments (luxury, premium, mass) were conducted by the author of this Equity Research report.

³ Based on data retrieved from Company financial reports and Bloomberg.

disrupting trade routes and triggering an energy crisis. This performance is often credited to the consumer base of luxury brands, which consists of wealthy shoppers and a growing high-earner class who are more likely to travel and spend more; and are not affected by inflation, which insulates them from economic slowdowns. The industry is also subject to consolidation, where the top market leaders are accumulating market share through consistent organic growth and strategic M&As. In 2022, the top 10 luxury companies increased their combined market share by 2.8%, reaching an aggregate market share of 50.1%¹, showcasing how the luxury goods market is dominated by handful of large conglomerates. With a combined market share of 40.1% in 2018, this results in a CAGR₁₉₋₂₂ of 5.7%, a trend that is likely to continue in the coming years. LVMH, as the global market leader in the luxury goods industry, had a market share of 19.7%¹ in 2022 (vs. 18.3% in 2021), representing a 1.4% increase in market share and a larger market size than its competitors.

Competitors

Kering



Graph 3 – Source: Bloomberg

in %	Ø 19-21	2021	2022
EBITDA Margin			
LVMH	32.6	35.8	34.3
Kering	36.1	35.4	34.7
EBIT Margin			
LVMH	21.9	26.7	26.5
Kering	27.1	27.2	26.5
Net Income Margin			
LVMH	14.2	18.7	17.8
Kering	16.3	18.0	17.8

Table 2 – Source: Bloomberg

Amongst the market leaders, Kering SA (French luxury group) is LVMH's most relevant competitor and directly competes in the fashion & leather goods segment. In 2022, Kering had a market share of 5.7%¹ (vs. 5.6% in 2021), making it the second largest market leader, and experienced revenue growth of 15.3%⁴ (vs. 34.7% in 2021), which is relatively lower than LVMH (23.3% in 2022, 43.8% in 2021). The Gucci fashion house is Kering's most significant revenue source, racking up 51.2%⁴ of total revenues (vs. 55.1% in 2021) and an +8% revenue growth in 2022, followed by Yves Saint Laurent brand with 16.2% of total sales (vs. 14.3% in 2021). In comparison, the Louis Vuitton brand has reached a revenue of around 20 €bn in 2022 and made up approximately 25.3% of total revenue, and with Dior as its second most valuable fashion brand have significantly contributed to a +25.0%⁴ revenue growth in the fashion & leather goods segment. Throughout 2018-2021, Kering consistently reached higher EBIT margins than LVMH, driven by relatively lower cost of sales. However, with an EBIT of 26.5% in 2022 (vs. 27.1% 3-year historic average, 2019-2021) Kering experienced a drop -0.6pp due to higher SG&A, while LVMH improved its margin to 26.5% (vs. 21.9% 3-year historic average, 2019-2021)⁵. As for net profit margin, both Kering and LVMH reached a margin of 17.8% in 2022, an increase of +1.5pp for Kering and +2.6pp for LVMH compared to their respective historic 3-year average. Regarding organic growth, Kering started to lack behind LVMH

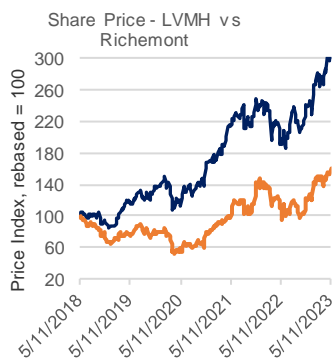
⁴ Based on data retrieved from Company financial reports

⁵ Based on data retrieved from Bloomberg

in 2022, reaching organic growth of 9.0% (vs. 35.3% in 2021) compared to LVMH's 17.0% (vs. 36.0% in 2021)⁵, mainly due to the slowing growth of the Gucci brand. This currently indicates a strong momentum for the Louis Vuitton brand that directly competes with Gucci, with both being one of the most popular fashion brands in the world and having the largest market size.

Richemont

Another main competitor of LVMH is Richemont, who is headquartered in Switzerland. Richemont, or Cie Financière Richemont SA, competes in the jewellery and watches segments, as well as online distribution. In 2022, Richemont had a market share of 4.7%¹ (vs. 4.2% in 2021), making it the third largest market player in the luxury goods industry. Revenues from its jewellery maisons were 11,083€mn in 2022, and 3,435€mn for the watches segment⁴. In comparison, LVMH revenues from the watches & jewellery segment were 10,581€mn. Richemont's total revenue growth in 2022 was 27.4%⁴, one of the highest revenue growths in the luxury goods industry, establishing itself as the market leader in the jewellery and watches segment, with its iconic brands such as Buccellati, Piaget, Cartier and Montblanc among others. In comparison, LVMH's watches & jewellery segment grew by 18.0%. The EBIT margin increased from 11.2% to 22.4%⁵ in 2022, which reflects increased utilisation of manufacturing facilities and efficiency gains that led to lower cost of sales. Regarding Richemont's net profit margin, it increased by 2.5% in 2022, resulting in a margin of 12.4%. Compared to its EBIT/EBITDA margins, it has grown relatively slow, as Richemont's is subject to high financing costs.



Graph 4 – Source: Bloomberg

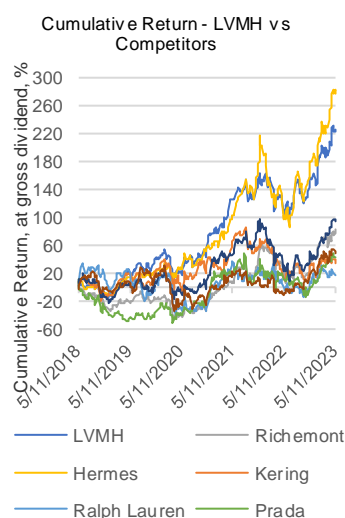
in %	Ø 19-21	2021	2022
EBITDA Margin			
LVMH	32.6	35.8	34.3
Richemont	21.2	22.8	31.7
EBIT Margin			
LVMH	21.9	26.7	26.5
Richemont	11.9	11.2	22.4
Net Income Margin			
LVMH	14.2	18.7	17.8
Richemont	12.1	9.9	12.4

Table 3 – Source: Bloomberg

Other Competitors

Chanel LTD is a privately held company, based in UK, that competes in fashion & leather goods, cosmetics, perfumes, and jewellery & watches. As opposed to the other luxury conglomerates, Chanel's segments are all operated under one brand name. With a market share of 4.4%¹ (vs. 4.2% in 2021), Chanel is the 5th largest market player in the luxury industry. It is widely known for its perfume, Chanel No.5, and the Chanel 2.55 Handbag. Both products launched over 70 years ago and continue to remain Chanel's most popular items. While other competitors focus their operations on a specific luxury segment, Chanel competes in most segments, with the exception of fine wine & spirits, comparable to the diversity of LVMH's business composition.

Other competitors of LVMH include highly recognisable luxury groups like Hermès, Prada, Moncler, PVH Corp, Ralph Lauren, and Burberry. As seen in the share price performance, as well as historical cumulative returns, LVMH has



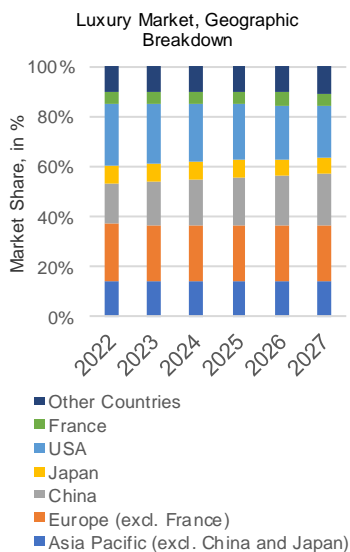
Graph 5 – Source: Bloomberg

continued to strongly outperform its competitors with the exception of Hermès, who has a similar development share price performance. Looking at the 5-year cumulative returns at gross dividend, LVMH has reached a cumulative return of 240% (vs. Hermès at 291%), compared to a range of 21-114% for the other competitors⁵.

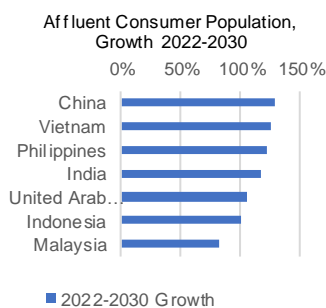
Industry Outlook

A main concern in 2022 were the partial lockdowns in Asia, especially in China. The industry experienced a slowdown in revenue growth and contribution in China and Asia as a consequence. For instance, revenue contribution of Asia Pacific fell by -5.0pp to 30.0% for LVMH, while Kering faced a similar decline in revenue distribution (33% vs. 38% in 2021)⁴. However, luxury good companies have reason to celebrate; after three years of partial lockdowns, China has fully reopened its borders as of 2023⁶, and luxury brands reported revenue rebounds in Asia Pacific for Q1 2023, following the lifting of health restrictions. The Chinese market is a driving force for revenue growth and makes up a significant portion of the total industry revenue. As at 2022, China's share of the global luxury good market was 16.3%⁷, making it the second largest consumer market. With an expected CAGR₂₃₋₂₇ of 10.8%⁷ and an expansion of 38.6€bn, China is the fastest growing market and will remain an important target for the industry.

The US is the largest market of the industry, having a global share of 24.2%⁷ in 2022. With a CAGR₂₃₋₂₇ of 3.4%, the US is expected to grow at a slower rate than other regions, as it is already an established market, but will remain the dominant market for luxury goods in absolute terms with an expected size of 100.7€bn (+15.4€bn expansion) by 2027, attributed to its wealthy population. In 2021, the US was home to 55.3% of global UHNWI, 57.7% of global HNWI, and 44.4% of global affluent consumers, making it the largest wealth market⁸. In terms of size, the US is expected to add more numbers of wealthy consumers than any other country by 2030. Wealth is a key driver of consumption and a particularly important indicator for the luxury industry that has shown optimistic income elasticity⁸. High-Net-Worth individual (HNWI), Ultra-High-Net-Worth individual (UHNWI), and affluent consumers are drivers of the luxury industry, which stood out in the past years of strong financial performance by the industry, albeit the financial uncertainties for regular income earners and lower consumer confidence.



Graph 6 – Source: Passport – Euromonitor International

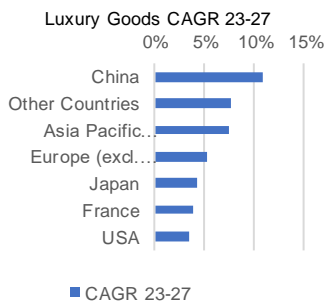


Graph 7 – Source: Passport – Euromonitor International

⁶ Financial Times. “China and Hong Kong to reopen border as Beijing drops zero-Covid curbs”. Retrieved on March 12th, 2023.

⁷ Forecasted market data retrieved from Passport – Euromonitor International.

⁸ Passport – Euromonitor International. “Global Wealth and Luxury Report 2022”. Retrieved on May 2nd, 2023.



Graph 8 – Source: Passport – Euromonitor International

Subsequent to the US, China is home to the second largest population of wealthy and affluent individuals, and its wealthy population is expected to grow around 130% by 2030 for each wealth category (affluent: 129.8%, HNWI: 130.6%, UNWI: 128.9%)⁹. The growth dynamic of wealth and size of new luxury consumers is an important indicator for the industry to identify upside potential in local markets. Markets (aside of China) with a fast-growing wealthy population, as well as considerable luxury market size, include India, Indonesia, Malaysia, Philippines, and United Arab Emirates. An accelerated growth of wealthy consumers is concentrated in the Asia Pacific region and will continue to contribute largely to the luxury market size. As a consequence, Asia Pacific (incl. China and Japan) is the largest regional market with a share of 37.4%⁷ in 2022. Looking at Asia Pacific, excluding China and Japan, the market share is expected to grow to 14.6% by 2027, reflecting a +0.8pp increase. With a CAGR₂₃₋₂₇ of 7.4%⁷, Asia Pacific (excl. China and Japan) is expected to be the fastest growing region in the coming years; and remains a focus for luxury goods companies. Aside from China, significant contribution to Asia Pacific sales came from Japan and also South Korea. Japan has historically been an important consumer market for the luxury industry. With a market size of 25.5€bn and a global share of 7.2% in 2022, Japan is the third largest market for luxury goods and is expected to grow at a CAGR₂₃₋₂₇ of 4.4%⁷ and remains an important contributor to global sales in the foreseeable future.

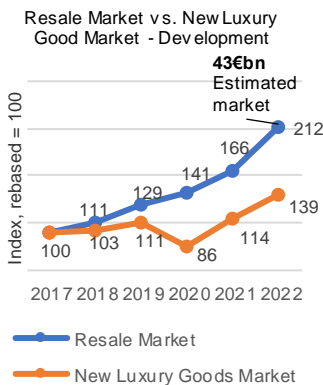
Europe, as an established market, also contributes to a large amount of the global consumption of luxury goods. With a combined share of global sales, the Europe region made up 28.5%⁷ of the geographic distribution of the market, and is expected to grow at a CAGR₂₃₋₂₇ of 5.1%. It is the second largest regional market, followed by North America, and is expected to reach a market size of 128€bn by 2027 (+28€bn expansion). Aside from local demand, the European luxury market also benefits from tourism. In fact, international tourism is an important indicator for the luxury market, and travel restrictions have affected luxury retailers' sales; lack of luxury spending of Chinese tourists were particularly noticeable overseas¹⁰. However, outlook of international tourism is positive. International tourism in 2022 has recovered by 63% in comparison to pre-pandemic levels, and based on forecast scenarios, international tourism could recover by 80%-95% of pre-pandemic levels¹¹.

Industry Trends & Challenges

⁹ Forecasted consumer data retrieved from Passport - Euromonitor

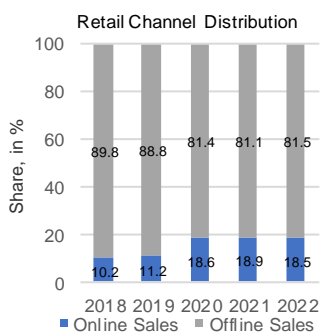
¹⁰ Financial Times. "Loss of Chinese tourists forces Europe's luxury retailers to rethink". Retrieved on April 23rd, 2023.

¹¹ UNWTO. World Tourism Organisation. "World Tourism Barometer, Volume 21, January 2023". Retrieved on May 2nd, 2023.



Graph 9 – Source: Bain & Company

Sustainability has become a core priority for luxury goods companies, where a global effort towards the green transition and a circular economy has played a particular role in driving the industry to reshape their business models, as the challenges of sustainability, digitalisation and change in consumer patterns will transform the industry in the years ahead¹². 80% of luxury consumers think that luxury brands should be involved in the life cycle of their products and 65% of luxury shoppers base their purchase decisions on whether the luxury brand commits to a sustainable development¹³. Consequently, luxury companies work on adopting new strategies that disrupt their traditional model. The resale market / model is one of the markets that companies target, as consumers show increasingly more interest in the second-hand market, which in turn extends the lifetime of luxury products and involves companies in their product life cycle. With an estimated market value of 43€bn in 2022, the luxury resale market has grown by 27.7% from 2021-2022, growing 1.3x times faster than the new luxury goods market¹⁴. Furthermore, it is projected that the market will continue to grow at a CAGR₂₃₋₂₆ of 9.6%. Some companies have already started investing in resale platforms, as well as join forces with existing second-hand channels as an alternative distribution method. For instance, Kering acquired a 5% stake in French Vestiaire Collective in 2021¹². LVMH has taken a different approach to the resale / second-hand market; launching its own online resale platform, Nona Source, which offers access to quality fabrics and leathers at competitive prices supporting the re-use of materials¹².



Graph 10 – Source: Passport – Euromonitor International

Another trend is the emergence of e-commerce platforms as an alternative to traditional retail channels, which facilitates purchase option and extends the reach to the customer base at distant places. The use of online stores has played a key role in maintaining luxury revenue growth amidst the pandemic. In 2020, the share of online sales reached a share of 18.6%, increasing by +7.4pp, and continued to increase throughout 2021¹⁵. As of 2022, share of online sales normalises to 18.5%, accounting the reopening of stores in most of the world. While most customers still make their purchases offline, 50% search for luxury products online before purchasing in store adopting to omnichannel strategies of luxury brands¹³. Omnichannels reaches the customer through all touchpoints, with focus on digitalisation, delivering customer experience through all channels.

¹² Deloitte. "Global Powers of Luxury Goods 2022 – A new wave of enthusiasm". Retrieved on April 23rd, 2023.

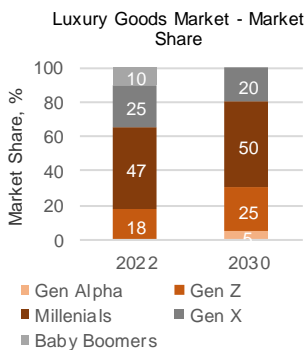
¹³ BCG x Comite Colbert. "Luxury Outlook 2022 – Advancing as a responsible pioneer". Retrieved on April 25th, 2023.

¹⁴ Bain & Company. "Renaissance in Uncertainty: Luxury Builds on Its Rebound". Retrieved on April 25th, 2023.

¹⁵ Retail channel data retrieved from Passport – Euromonitor International

The use of online product searches, as well as outreach through online channels, is predicted to accelerate online sales share to 26.3% by 2025¹⁶.

It is important to note that these trends are particularly driven by the younger generations, Gen Z and Alpha as well as Millennials (Gen Y). By 2030, affluent Gen Z and Alpha consumers will make up 30% of the luxury goods customer base, indicating a 3x faster growth than previous generations in consumer spending¹⁴. Millennials are expected to make up 50% of the customer base by 2030; including the younger generations, this amasses to around 80% of the customer base¹⁴ to which the luxury good companies adhere to. Due to this generational shift, marked by technology trends and new customer expectations in regards to sustainability, the luxury industry will reshape through 2030, transforming a sustainable model¹³.



Graph 11 – Source: Bain & Company

Company Overview

LVMH Moët Hennessy Louis Vuitton SE, commonly known as LVMH, was founded in 1987 through the merger of the fashion house Louis Vuitton with wines & spirits producer Moët Hennessy. Today LVMH has over 70 Maisons under its umbrella spanning across five main segments of the luxury market: Wines & Spirits, Fashion & Leather Goods, Perfumes & Cosmetics, Watches & Jewellery and Selective Retailing. LVMH's Maisons have long-standing heritage and include some of the most iconic and prestigious names in the luxury goods industry such as Louis Vuitton, Christian Dior, Bulgari, Tiffany and more. The company operates a global network of 5664 stores and employs over 170,000 people across the world. In FY22 LVMH reported sales of €79bn and recurring EBIT of €21bn.

LVMH's strategy is based on four important pillars. LVMH has a decentralized organizational structure where every brand is run independently, which allows every brand to quickly respond to changing customer needs. The firm also tightly controls distribution of its products through its own network of stores, so they profit from distribution margins and better control of brand image. LVMH's sheer scale also allows it to invest more than its closest competitors, such as Kering and Richemont, thus allowing it to better develop its brands' value and foster long-term organic growth. Lastly, LVMH's sales are geographically balanced with no region accounting for more than 30% of revenues. This allows it to be more resilient to economic slowdowns in specific countries or regions and allows it to quickly adjust to market conditions.

¹⁶ Forecasted sales channels for luxury goods data retrieved from Statista

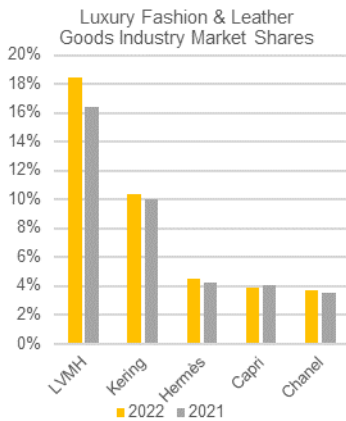
Fashion & Leather Goods

Segment Analysis

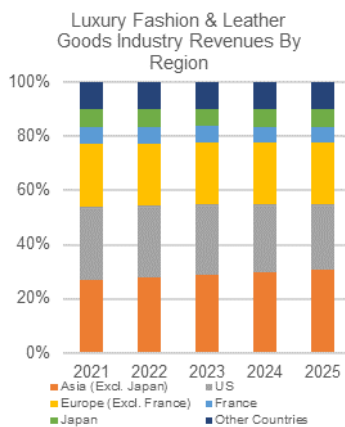
The luxury fashion market includes luxury apparel, footwear and eyewear, while the luxury leather goods market includes items such as handbags, suitcases, wallets. The global personal luxury market grew 11% in FY22 to €353bn, with the luxury fashion industry making up 40% of total revenues (€142.5bn). The luxury leather goods industry made up 20% of the global personal luxury market (€67bn). The luxury fashion market and leather goods market grew 11% and 13% respectively in FY22.¹⁷

The top five companies in the luxury fashion and leather goods market account for around 40% of worldwide revenues in FY22 making it a highly competitive industry. LVMH is the largest player in the market with a market share of 18.5%. Some of its competitors include Kering, which owns brands like Gucci, YSL, Bottega Veneta and Balenciaga, Hermès, Capri Holdings, Chanel and Ralph Lauren. The majority of sales in the luxury fashion and leather goods industry are made through offline channels (79.2%).¹⁸ In terms of wholesale vs. owned retail both channels are evenly split, with owned retail gaining significantly from a 38% market share in 2018 to 50% in 2022. While offline channels still dominate, online channels have grown 20% in FY22 compared to the previous year. Online channels are expected to make up 30% of global luxury fashion and leather goods sales by FY25. The online channel is split into mono-brand sites such as Farfetch which carry multiple brands (45%) and brands' own websites.¹⁹ Owned retail gaining ground is beneficial for firms which have large and extensive store networks, just like LVMH. This allows brands to gather feedback directly from customers on its products. It also allows them to have more control over the presentation of its products, analyse data like foot traffic and quickly adjust their offerings to changing customer preferences and needs.

Asia is the largest luxury fashion and leather goods consumer accounting for 35% of global revenues in FY22, with China and Japan making up nearly 70% of the regional revenues. Europe and the United States (US) are the second and third largest regions with 29% and 27% of global revenues respectively. The regional balance is expected to remain similar in the future with Asia reaching 38% by FY27 and Europe and US maintaining 28% and 23% respectively. The luxury fashion and leather goods market experienced ten years of continuous



Graph 12 – Source: Passport – Euromonitor International



Graph 13 – Source: Passport – Euromonitor International

¹⁷ The following calculations have been performed on historical and forecasted market data retrieved from Passport – Euromonitor International. <https://www.portal.euromonitor.com>.

¹⁸ Based on statistics retrieved from Statista's Luxury Fashion and Luxury Leather Goods market outlooks.

¹⁹ D'Arpizio, Claudia, Federica Levato, Filippo Prete, and Joëlle de Montgolfier. "Renaissance in Uncertainty: Luxury Builds on Its Rebound." Bain & Company, January 17, 2023. <https://www.bain.com/insights/renaissance-in-uncertainty-luxury-builds-on-its-rebound/>.

growth until FY20, when its market size contracted 19% due to the global COVID-19 pandemic. Travel restrictions and lockdowns across the globe led to store closures and affected the industry significantly due its reliance on offline channels. Online sales were able to support the industry and helped it rebound 23% in FY21. They experienced the biggest expansion between 2019 and 2021, where they grew 92%. Looking forward the luxury fashion and leather goods industry is projected to grow at a CAGR₂₃₋₂₇ of 5%. The strongest growing region is expected to be Asia, which will reach a market share of 38% as previously mentioned, and grow at a CAGR₂₃₋₂₇ of 7%.^{20, 21, 22}

In the future we expect to see more disruption in the industry, especially digital, that can potentially lead to higher growth. While interest in the metaverse and NFTs looks to have peaked in early 2022 based on Google trends, they still present an interesting opportunity for firms to enhance customer experience and foster long-term engagement. Potential opportunities also include other digital experiences such as virtual stores and digital shopping assistants powered by AI. As the result of the pandemic, firms have already started leveraging technology to enhance customer experience. This has been mostly focused on augmented reality (AR) so far, which allows customers to interact with, and try-on products at home. This serves as the intersection between the digital and in-store experience and brands like Gucci and Dior have released their own apps for their consumers to use.²³ Another topic that has been gaining in popularity in the luxury fashion & leather goods industry is “quiet luxury.” It has been a hot topic on social media since early 2023 and web searches have exploded since then based on Google trends. LVMH in particular is well equipped for this trend due to its large portfolio of brands that includes those that are more discrete and put more emphasis on quality rather than logos or signatures.

Significant M&A transactions in the luxury fashion and leather goods industry have been: Estée Lauder purchasing the Tom Ford brand in November 2022 for €2.2bn and licensing the men’s and women’s ready-to-wear to Zegna; LVMH increasing their minority stake in Tod’s in April 2021 from 3% to 10% for €1.3bn; LVMH investing a minority stake into the fashion e-commerce site Lyst in May 2021; Alibaba and Richemont jointly investing €550mln in Farfetch in June

²⁰ Scherer, Ellen. “Reinventing Luxury Retail as Brands Back Away from Wholesale.” Lambert + Associates, September 2, 2019. <https://www.lambert.associates/blog/reinvention/reinventing-luxury-retail-as-brands-back-away-from-wholesale/>.

²¹ Amed, Imran, Sarah André, and Felix Rölkens. “The State of Fashion 2023: Holding onto Growth as Global Clouds Gather.” McKinsey & Company, November 29, 2022. <https://www.mckinsey.com/industries/retail/our-insights/state-of-fashion>.

²² The following calculations have been performed on historical and forecasted market data retrieved from Passport – Euromonitor International. <https://www.portal.euromonitor.com>.

²³ D’Arpizio, Claudia, Federica Levato, Filippo Prete, and Joëlle de Montgolfier. “Renaissance in Uncertainty: Luxury Builds on Its Rebound.” Bain & Company, January 17, 2023. <https://www.bain.com/insights/renaissance-in-uncertainty-luxury-builds-on-its-rebound/>.

2021.²⁴

Brand	Acquired
Louis Vuitton	1987
Givenchy	1988
Berluti	1993
Kenzo	1993
Celine	1996
Loewe	1996
Marc Jacobs	1997
Emilio Pucci	2000
Fendi	2001
Moynat	2010
Loro Piana	2013
Rimowa	2016
Christian Dior	2017
Patou	2018

Table 4 – Source: LVMH's Annual Report

Company Analysis

LVMH's fashion & leather goods (F&LG) segment is the firm's largest division by revenues as it makes up nearly 50% of sales and 75% of EBIT in FY22. This segment includes 14 brands owned by LVMH (Table 3), with Louis Vuitton (LV) and Dior making up the most significant share of sales with 60% and 20% respectively. The segment includes a variety of items such as ready-to-wear apparel, footwear and high-end luggage.

Controlling the distribution of its products is one of its core strategic tenets. This is especially important for F&LG because it allows LVMH to benefit from distribution margins and keep control of its brand image. LV and Dior are LVMH's most desirable brands as they consistently rank highly in consumer surveys which gives it a competitive advantage. In Interbrand's (a global brand consultancy) Best Global Brand 2022 ranking LVMH had 3 brands in the top 100 LV, Dior, and Tiffany from its watches & jewellery segment, while its competitors only had one at most present.²⁵ LV was also the most highly ranked at 14th place. In a top 15 list published by Luxe Digital on the most popular luxury brands online in 2022 we again have the same three brands in the top 10 this time.²⁶ Thus, LVMH benefits from its large and extensive network of owned retail stores, which allows it to restrict availability and ensures the desirability and feel-good factor of its products and brands. The high reliance on direct-to-consumer distribution allows it to maintain better visibility on sell-out trends and stock levels, and also analyse in-store data to quickly adjust to changing customer needs. Most of LVMH's production processes are in-house with external manufacturers supplementing its manufacturing capabilities. This allows it to maintain flexibility in its production. For example, LV runs 27 leather goods workshops (20 in France, 3 in Spain, 3 in US and 1 in Italy). In terms of suppliers, LVMH employs a diverse network of suppliers to decrease dependency on any individual supplier and to ensure the stability of its supply chain; no individual supplier accounts for more than 20% of its leather supply.

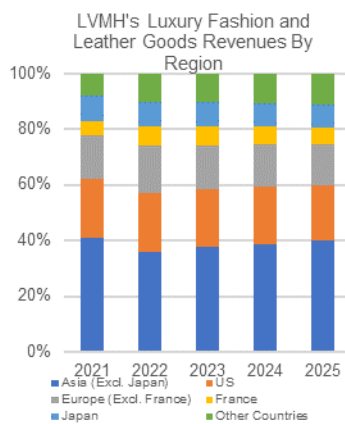
Valuation Analysis

LVMH's diverse supply chain and production flexibility allowed it to even increase its operating margin in FY20 during the pandemic to 33.7% from an average of 32.5% between FY18-19. In FY22 the operating margin slightly dropped to 40.6%

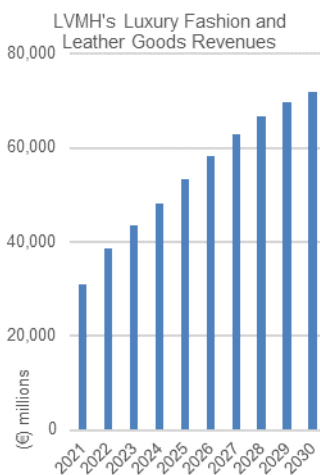
²⁴ Based on information retrieved from Bloomberg's M&A dashboard (Function: MA). Accessed May 1, 2023.

²⁵ Beauloye, Florine Eppe. "The 15 Most Popular Luxury Brands Online." Luxe Digital, March 31, 2023. <https://luxe.digital/business/digital-luxury-ranking/most-popular-luxury-brands/>.

²⁶ "Best Global Brands." Interbrand, November 2022. <https://interbrand.com/best-global-brands/>.



Graph 14 – Source: Valuation Model



Graph 15 – Source: Valuation Model

from 41.4% in FY21. In operating margin terms LVMH outperforms its competitor Kering, who owns brands like Gucci and YSL. Kering's operating margin contracted to 26.6% in FY20 and further contracted to 19.1% in FY21 from an average of 32.2% between FY18-19. It recovered to 35.6% in FY22 but far below LVMH's 40.6%.²⁷ In FY22 F&LG had revenues of €38,648m, a significant increase of 25% compared to FY21 with €30,896m. Asia (excl. Japan) is F&LG largest market by sales (36%) and the US and Europe come behind with 21% and 17% respectively. F&LG grew at a yearly CAGR₁₈₋₂₂ of 20.30%. Revenues are driven by number of stores and revenue per store. Revenues per store will increase as a result of price increases and customers moving their purchases online. LVMH has started climbing the pricing ladder and putting more focus on higher priced collections to insulate itself from entry-level luxury consumers potentially cutting back spending as a result of economic hardships. The elevation of particularly its leather goods offer versus its classic monogram canvas will increase spending by customers and contribute to increasing revenues per store. This will particularly benefit LVMH if the quiet luxury trend is here to stay in upcoming quarters as consumers will more likely purchase higher priced leather goods that are more discrete versus its lower priced entry-level products. Store growth is expected to slow in Asia in the next two years given past pandemic restrictions and is expected to pick-up again in FY25. The number of stores will be slower growing than revenue per store as LVMH feels confident with its current store footprint and its stores are well equipped to handle large touristic flows especially in Asia.

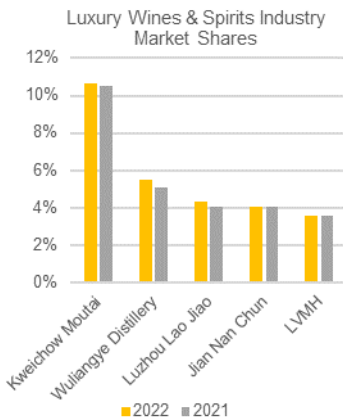
LVMH's NOPAT margin for F&LG reached 31% in FY22 and we expect it to converge to 30.5% at its steady-state. F&LG is predicted to grow at a CAGR₂₃₋₃₀ of 7.70%, a higher rate than the market CAGR₂₃₋₃₀ of 5.12%. Revenues are forecasted to reach €57,157m by FY26 and €69,980m by FY30. Asia (excl. Japan) will be the fastest growing region with a CAGR₂₃₋₃₀ of 10.27%. There will be market share consolidation with LVMH's global market share forecasted to grow from 18% in FY22 to 22% in FY27 and stabilizing there.

The ROIC for the F&LG business unit is expected to increase to 42.4% in FY23, due to increases to both the operating margin and asset turnover. The ROIC is expected to continue growing in the upcoming years and it will reach 51.6% at its steady-state. The ROIC remains far above the WACC for the forecasted period and thus the F&LG segment will continue to generate the most value out of all business units.

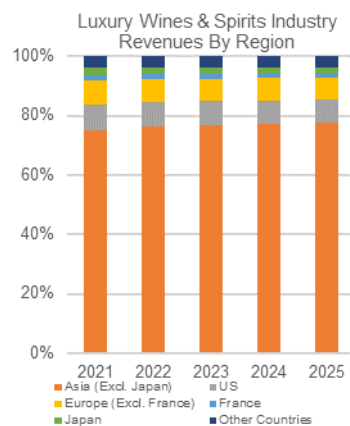
Wines & Spirits

²⁷ Based on information retrieved from Bloomberg. Accessed May 1, 2023.

Segment Analysis



Graph 16 – Source: Passport – Euromonitor International



Graph 17 – Source: Passport – Euromonitor International

The luxury wines and spirits industry include fine wines, champagne and spirits. Spirits includes distilled alcoholic beverages with an ABV of at least 20%, such as whisky, vodka, rum and other spirits. The global luxury wines & spirits market grew by 9% in FY22 to €134.5bn. The industry is dominated by Asia, which makes up nearly 80% of revenues. Competition is strong with the top five companies making up 28% of global revenues in FY22. Kweichow Moutai has the highest market share with 11% followed by three other Chinese distillers with 4% each. LVMH also has 4% market share in FY22 with its brand Hennessy having 2% market share by itself. Other competitors also include Diageo and Pernod Ricard with a market share of 2% each. China being such a significant market that has different consumption patterns to the rest of the world distorts the industry overview. The Chinese distillers produce nearly all their revenues inside of China, while LVMH is more geographically diverse. In the US and Europe LVMH is market leader with 18.7% and 6.5% respectively.²⁸

In terms of revenue channels, nearly 95% stem from offline sales with online sales only increasing from 3% in FY19 to 5% today. By FY25 online sales are still only expected to account for 7% of total revenues. Asia is by far the largest wine and spirits consumer, accounting for nearly 80% of revenues in FY22. US and Europe make up around 8% and 9%. The geographical distribution is expected to remain the same until FY27. The luxury wines and spirits market had sales of €134bn in FY22, growing 9% against the previous year. Moving forward the industry is expected to grow at a CAGR₂₃₋₂₇ of 6.44%.

Company Analysis

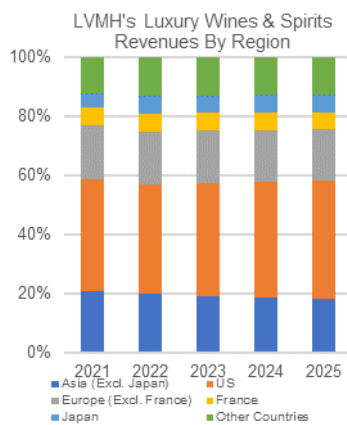
LVMH’s wines & spirits division is only the fifth-largest division by sales but second most profitable division. It makes up around 9% of sales and 10.2% of EBIT in FY22. The US is the largest market in this segment with 37% of revenues. LVMH mostly focuses on the high-end market segment and it owns several high-profile brands including Dom Pérignon, Krug Champagne, Moët & Chandon and especially Hennessy.

Diageo owns a 34% stake in Moët Hennessey, which has been in place since the 1990s after some complex merger agreements. In essence the stake is a put option which allows Diageo to exercise its 34% share in Moët Hennessey for 80% of the fair value at the exercise date of the option, which can be any time subject to a six-month notice period. Dividends paid to Diageo in FY22 amounted to €217mln in respect of fiscal year FY21. Net profit attributable to Diageo for

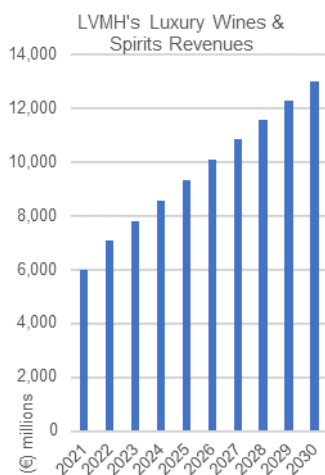
²⁸ The following calculations have been performed on historical and forecasted market data retrieved from Passport – Euromonitor International. <https://www.portal.euromonitor.com>.

FY22 was €480mIn with its share in accumulated minority interest amounting to €4,265mIn. Wines & spirits has very different inventory needs compared to LVMH’s other segments. For example, around 225 million bottles are stored in the firm’s cellars in the Champagne region, which is over 3 years’ worth of sales. LVMH also owns 1,700 hectares of vineyard land in the region, which provides 20% of its annual supply. As mentioned, Hennessy is its most valuable brand and has been world cognac leader since 1890 and has production capacity of up to 10m cases per year. For cognac and spirits, they mostly purchase their cognax eaux de vie from a network of 1,600 independent suppliers.

Valuation Analysis



Graph 18 – Source: Valuation Model



Graph 19 – Source: Valuation Model

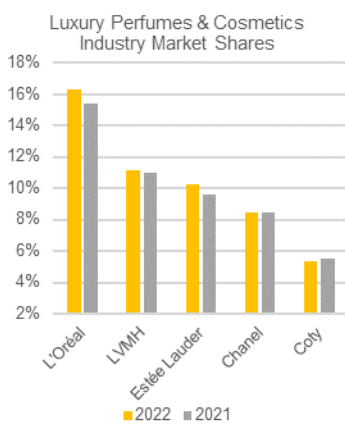
In FY22 wines & spirits achieved revenues of €7,099mIn and it grew 19% against the previous year. Moving forward we expect a CAGR23-27 of 7.88%. Growth is mostly driven by an increase in the average selling price based on LVMH’s firm pricing policy and inflation. The strict pricing policy ensures the premium image of its brands and prevents brand dilution. Volume will also keep increasing but at a slower pace than the average selling price. In Asia LVMH will maintain its market share but there will be no consolidation as it does not operate in the baijiu space, which makes up a significant proportion of sales. Growth is mostly driven in the US and Europe, which will grow at a faster pace than Asia. This will be as a result of its portfolio of strong brands and its market share consolidation through bolt-on acquisitions. For example, it purchased Joseph Phelps Vineyards in FY22, an acclaimed wine estate in Napa Valley, while in the previous year it fully acquired Armand de Brignac, a champagne producer, and Château d’Esclans, a Provence rosé wine. In February 2023 it also purchased another Provence rosé wine brand Château Minuty showcasing its strategy.

The NOPAT margin for wines & spirits fell slightly in FY22 to 22.1% from 22.7%. We predict slight variations in the NOPAT margin until it reaches 22.7% by FY30. The EBIT margin was 30.1% in FY22 and is expected to remain between 30.1% and 30.4% until FY30. The segment’s ROIC for FY22 was 7.4% but its ROIC is expected to increase in FY24 to 8.9%. From there on it is expected to slightly increase every year until it reaches 9.3% in its steady-state and thus from next year onwards the wines & spirits division will generate value for the company.

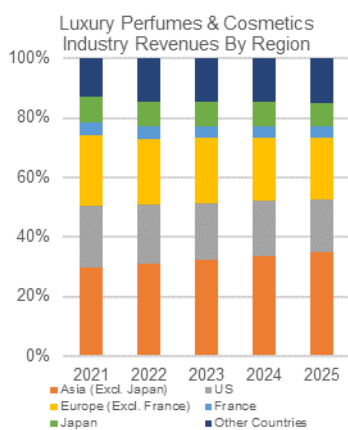
Perfumes & Cosmetics

Segment Analysis

The luxury perfumes and cosmetics market include products such as fragrances, skincare products and make-up. The global luxury perfumes and cosmetics market grew 11% in FY22 to €49.5bn and it makes up around 14% of the global



Graph 20 – Source: Passport – Euromonitor International



Graph 21 – Source: Passport – Euromonitor International

personal luxury market. The top five companies in the luxury perfumes and cosmetics industry make up around 51% of global revenues in FY22. The largest company is L'Oréal with a market share of 16% with LVMH in second place with a market share of 11%. Most important competitors are L'Oréal, which owns brands like YSL Beauty and Lancôme, and Estée Lauder, which owns brands like Tom Ford Beauty and Jo Malone.²⁹

Compared to the other sectors in the personal luxury industry, luxury perfumes and cosmetics have the largest percentage of offline sales with 82% in FY22. The percentage of online sales increased from 11% in FY19 to 18% today.³⁰ Luxury perfumes and cosmetics are most reliant on physical locations as consumers wish to sample the products and see how they look, feel and smell like. Digitalization and technological innovation through things such as, virtual try-ons using AR and personalized product offerings, will further shift the channel split towards online sales, which are expected to account for 23% of total sales by FY25. Asia is the largest luxury perfumes and cosmetics market with 38% of total revenues followed by Europe and US with 27% and 23% respectively. The total industry is expected to grow at a CAGR₂₃₋₂₇ of 6.27% with Asia being the significant growth driver with a CAGR₂₃₋₂₇ of 9.75%. There has also been a shift towards luxury cruelty-free cosmetics,³¹ which are cosmetics that do not contain any animal-related products, and clean beauty, which are products made from ingredients that are safe, non-toxic and have the lowest possible impact on the environment.³² The cruelty-free cosmetics market is expected to grow at a CAGR₂₃₋₃₀ of 4.56%, reaching €14.5bn by FY30. Its market size is expected to be around 20% of the global luxury perfumes & cosmetics industry. While the global clean beauty market is expected to grow at a CAGR₂₃₋₂₈ of 40.1%, reaching €35bn by FY28, which is around 50% of the global luxury perfumes & cosmetics industry.

Company Analysis

Perfumes & cosmetics is LVMH's fourth largest division making up 10% of revenues and 3% of EBIT in FY22. LVMH has the second largest market share in the market with its 15 brands. LVMH maintains its brand image and exclusivity in this sector by not engaging in excessive special offers and parallel sales. LVMH stores typically employ beauty consultants that give consumers feedback and

²⁹ Based on historical and forecasted market data retrieved from Passport – Euromonitor International. <https://www.portal.euromonitor.com>.

³⁰ Based on statistics retrieved from Statista's Prestige Cosmetics & Fragrances market outlooks.

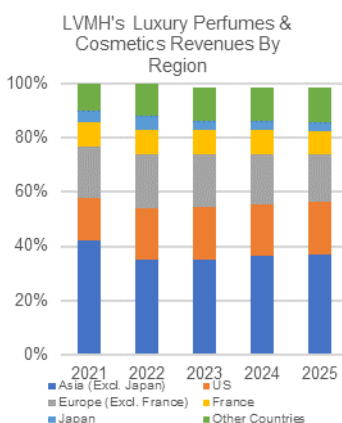
³¹ Market Research Future. "Cruelty-Free Cosmetics Market Valuation to Hit USD 14.23 Billion by 2030 at 4.56% CAGR." GlobeNewswire News Room, February 20, 2023.

³² "Clean beauty and sustainability set to lead the fore in in-cosmetics Global." Premium Beauty News, March 6, 2023. <https://www.premiumbeautynews.com/en/clean-beauty-and-sustainability,21652>.

choose products that fit their needs, this is also done through the online channel. Asia is the largest market by sales accounting for 35% of revenues. Given LVMH's strong presence in Asia, it has three innovation centres across Japan, China and South Korea to ensure it adjusts its products to the regional consumer's needs.

LVMH owns various production centres spread across France that account for most of the manufacturing needs of its French brands like Parfums Christian Dior, LVMH Fragrance Brands and Guerlain. Its brands benefit from synergies as most product formulas are developed at the LVMH Recherche laboratories (R&D) in Saint-Jean de-Braye in France. Sometimes they also enter partnerships with universities to jointly research specific topics and themes for its brands.³³ In LVMH's perfumes & cosmetics segment distribution strategies differ among brands. While some are sold through selective retail channels, brands like Parfums Christian Dior are sold and distributed through its owned retail store networks. Parfums Christian Dior has achieved strong growth in the last few years, increasing its market share from 7% in FY18 to 7.8% in FY22, while market leader Chanel's market share has remained constant at 8.5%.³⁴ Parfums Christian Dior has benefitted from this exclusive distribution strategy combined with its partnerships with celebrities showcasing its products like Dior Sauvage and Miss Dior. Dior Sauvage has been particularly successful and established itself as the world's best-selling fragrance. LVMH has also become more popular with younger generations by introducing new brands such as Fenty Beauty, which launched in 2018. In FY22 Fenty Beauty was able to double its revenues through new product launches and increased distribution.

Valuation Analysis

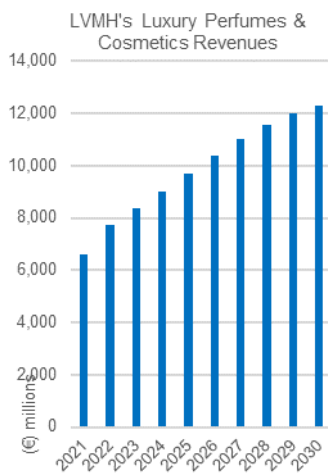


Graph 22 – Source: Valuation Model

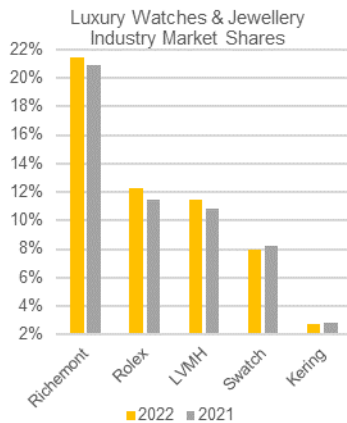
In operating margin terms, the perfumes & cosmetics segment fell to 8.3% in FY22 from 10.1% in the previous year. We expect the operating margin to increase to 9% in FY25 and stabilize there. In the luxury perfumes & cosmetics sector LVMH underperforms against its competitors, L'Oréal and Estée Lauder which have more efficient operations and operating margins of 22.9% and 11.9% respectively in FY22. The segment achieved revenues of €7,722mIn in FY22, an 17% increase compared to the previous year. Asia accounted for 35% of revenues in FY22 and is expected to remain the largest region in the perfumes & cosmetics sector. However, LVMH will consolidate market shares the most in the US where it will increase from 13% in FY22 to 17% in FY30. The segment as a

³³ "LVMH Recherche Teams up with Kyoto University for Research Project on Behalf of Dior." FashionNetwork.com. Accessed May 1, 2023.

³⁴ The following calculations have been performed on historical and forecasted market data retrieved from Passport – Euromonitor International. <https://www.portal.euromonitor.com>.



Graph 23 – Source: Valuation Model



Graph 24 – Source: Passport – Euromonitor International

whole is expected to grow at a CAGR₂₃₋₃₀ of 6%, almost in line with the industry CAGR₂₃₋₃₀ of 6.39%. Revenues are predicted to reach €10,412m in FY26 and €12,312m in FY30. The ROIC for the perfumes & cosmetics segment is expected to fall to 15.6% in FY22 from 16.2% in FY21. We expect the ROIC to slowly converge towards 10.3% in its steady-state. While falling the ROIC will remain above the WACC for the complete forecasted period. The luxury cosmetics & perfume segment has the second highest ROIC out of all business units.

Watches & Jewellery

Segment Analysis

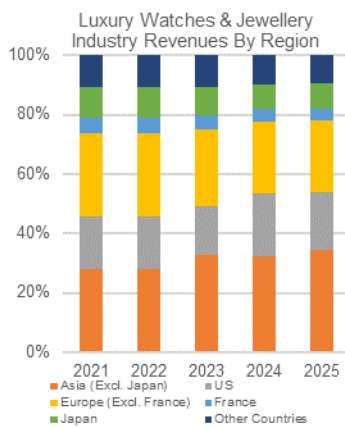
The luxury watches market includes luxury wrist and pocket watches, as well as smartwatches produced by luxury brands, while the luxury jewellery industry includes items such as rings, necklaces, earrings and other luxury jewellery. The industry is often referred to as hard luxury as more durable materials are used in production compared to the other segments in the personal luxury industry. The luxury watches industry made up 12% of total revenues in the personal luxury market (€43bn) and grew 12% in FY22. While the luxury jewellery market made up 14% of total revenues (€50bn) and grew 11% in FY22. The market size of the luxury watches and jewellery market (€93bn) is about 44% compared to fashion & leather goods.³⁵

The luxury watches and jewellery industry are highly competitive with the top five companies accounting for around 56% of global revenues in FY22. The largest player is Richemont with a market share of 21.5% with Rolex as second largest with 12%, while LVMH is third with a market share of 11.5%. LVMH's acquisition of Tiffany allowed it to increase its market share from 5% in FY20 to 11% in FY21. Significant competitors include Richemont, which owns brands like Cartier and Van Cleef & Arpels, Swatch, which owns Omega and Longines, and Rolex. The majority of sales in the luxury watches and jewellery market are made through offline channels (74%). Online sales have increased from 18.5% in FY19 to 26% now. They are expected to reach 30% of total revenues by FY25.³⁶

The geographic distribution in this market is similar to the fashion & leather goods market with Asia being the largest and most important region with 43% of global revenues. Europe and the US account for 28% and 20% of total revenues respectively. The Asian region is expected to grow at a CAGR₂₃₋₂₇ of 8.64%, a faster pace than the global CAGR₂₃₋₂₇ of 6.57%. The regional balance will not

³⁵ The following calculations have been performed on historical and forecasted market data retrieved from Passport – Euromonitor International. <https://www.portal.euromonitor.com>.

³⁶ Based on statistics retrieved from Statista's Luxury Watches and Luxury Jewellery market outlooks.



Graph 25 – Source: Passport – Euromonitor International

change much in the upcoming years with Asia reaching 47% by FY27 and Europe and US accounting for 26% and 17%. The luxury watches and jewellery industry also experienced a big drawback in FY20 with revenues falling 20%, they have since then picked up and increased 12% in FY22 vs. FY19. Online sales in particular assisted the industry's recovery by increasing its share of revenues by 7.5% in absolute terms.³⁷

The luxury watches and jewellery market will also be affected by digital trends as more and more brands expand their online offerings leading to a more seamless omni-channel retail experience. Smartwatches are becoming more popular and are expected to grow faster than the overall luxury watches market (CAGR₂₃₋₂₇ 8.61%). Many luxury brands have started introducing smartwatches, LV introduced their first model already back in 2017. The luxury jewellery industry will also be affected by the increasing popularity of lab-grown diamonds. These are expected to grow at a CAGR₂₃₋₃₁ of 9.8% and reach €55.6bn by FY31 from today's €22.3bn. Purchases are driven by more environmental considerations especially with younger consumers becoming more important. Sustainability also plays an important trend as the resale market grows quicker in the next couple of years. The second-hand luxury goods market is heavily driven by luxury watches which make up around 70% of total revenues in FY22.³⁸

Company Analysis

Brand	Product
Repossi	Jewellery
Fred	Jewellery
Hublot	Watches
Tag Heuer	Watches
Zenith	Watches
Bulgari	Watches & Jewellery
Tiffany	Watches & Jewellery
Chaumet	Watches & Jewellery

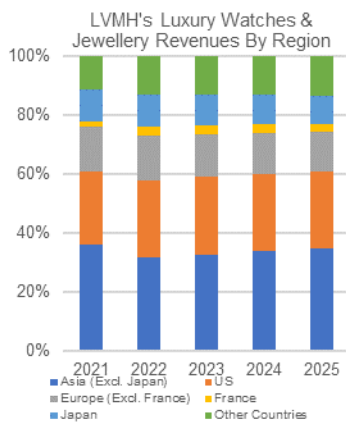
Table 5 – Source: LVMH Annual Report

Watches & jewellery (W&J) is LVMH's third-largest division by revenues (14%) and EBIT (10%) in FY22. Jewellery makes up around 80% of the divisional sales, which are mostly driven by Bulgari and Tiffany. These two brands are strong in the fine jewellery market and contribute to LVMH's international presence with them each having a strong presence in Europe and US respectively. LVMH sees fine jewellery as one of the fastest growing categories in the overall personal luxury market. LVMH's acquisition of Tiffany allowed it to increase its market share from 5% in FY20 to 11% in FY21.³⁹ LVMH benefits from strong brand recognition as previously mentioned Tiffany has strong brand value especially in the US, and its Tiffany blue is highly recognizable. Prior to the acquisition of Tiffany, the W&J division only accounted for around 9% of revenues and 7% of EBIT and was the second smallest division by both measures. LVMH also intends to refocus Tiffany on the higher spectrum of price points as in the last few years it started selling products in a very broad range of prices, diluting Tiffany's

³⁷ The following calculations have been performed on historical and forecasted market data retrieved from Passport – Euromonitor International. <https://www.portal.euromonitor.com>.

³⁸ Becker, Sabine, Achim Berg, Tyler Harris, and Alexander Thiel. "State of Fashion: Watches and Jewellery." McKinsey & Company, June 14, 2021. <https://www.mckinsey.com/industries/retail/our-insights/state-of-fashion-watches-and-jewellery#/>.

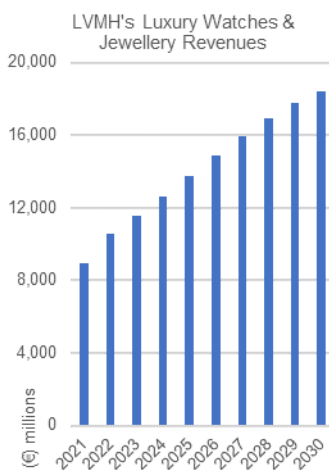
³⁹ The following calculations have been performed on historical and forecasted market data retrieved from Passport – Euromonitor International. <https://www.portal.euromonitor.com>.



Graph 26 – Source: Valuation Model

brand. However, Tiffany benefits from positive channel mix by having a higher exposure to online sales than other brands in the W&J segment. This will be beneficial for its other brands in the shift towards more online sales. LVMH uses a combination of partnerships with its ambassadors to showcase its pieces to the public. It directly operates a store network of 534 stores worldwide with a small network of franchises as well. Most of its watches are assembled at its Swiss workshops and manufacturing facilities which share resources and production capacities. A new manufacturing facility is planned for Hublot, which will help accommodate the brand's growth. Bulgari manufacturing facilities are located in both Italy and Switzerland. Tiffany operates its jewellery manufacturing workshops mainly in the US; however, its diamond polishing workshops are spread across the globe.

Valuation Analysis



Graph 27 – Source: Valuation Model

Comparing the W&J segment's operating margin with its main competitor Richemont we can see that LVMH is overperforming to a degree. W&J's operating margin dropped to 9% in FY20 from an average of 16.5 in FY18-19. It has improved to 18.7% in FY21 and 19% in FY22 and we see it maintaining that level until FY30. Richemont's W&J operating margin was 16.7% in FY21 and 18.6% in FY22.⁴⁰ The W&J segment benefitted from the acquisition of Tiffany with revenues nearly doubling in FY21 to €8,964m and in FY22 revenues increased 18% to €10,581m. In terms of regions, we have Asia as the largest market with 32% of revenues and US and Europe with 26% and 15% respectively. In the US LVMH was able to increase their market share from 3% to 13% due to Tiffany's acquisition. W&J is predicted to grow at a CAGR₂₃₋₃₀ of 7.19%, higher than the market CAGR₂₃₋₃₀ of 5.87%. Revenues are forecasted to reach €14,895m by FY26 and €18,446m by FY30. Asia will be the fastest growing region with a CAGR₂₃₋₃₀ of 9.79%. There will be market share consolidation with LVMH's US market share growing to 20% in FY27 from 15% and stabilizing there, and global market share increasing to 13% in FY27 from 11%. W&J's ROIC is expected to keep increasing from 5.3% in FY22 to 7.8% in its steady-state. However, it remains below the WACC and is thus destroying value at the moment.

Selective Retailing

Selective Retailing is the firm's second largest segment with 19% of sales, and revenues of €14,852m in FY22. However, at the same time is the firm's least profitable segment with only 3% of EBIT in FY22. The division is split into travel

Brand	Product
Sephora	Beauty Retailer
DFS	Travel Retailer
Starboard Cruise Services	Cruise Shopping
Le Bon Marché	Department Store
La Grande Épicerie	Gourmet Grocer

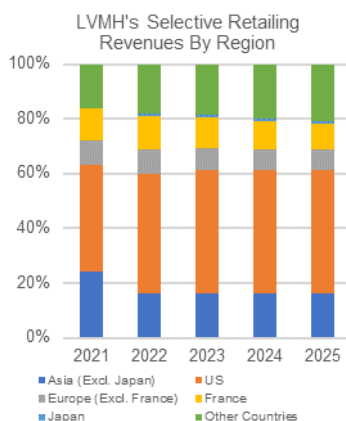
Table 6 – Source: LVMH Annual Report

⁴⁰ Based on information retrieved from Bloomberg. Accessed May 1, 2023.

retail, which includes Duty-Free Shoppers (DFS) and Starboard Cruise Services and selective retail, which includes Sephora, a global beauty retailer. Travel retail makes up approximately 30% of segment sales and selective retail around 70%.

DFS is one of the largest travel retail operators and mainly sells luxury items to travellers. Most of its operations are in the APAC region with 73% of its stores located there and China by itself has 30% of DFS' stores. Due to strict COVID-19 restrictions and lack of tourism across China, Hong Kong and Macau many stores remained closed for a long period of time. International tourist arrivals in Asia dropped 87% in 2020 and in early 2023 remains at only 5% of 2019 levels. Starboard Cruise Services, which provides duty-free luxury items on cruises, also suffered significantly during the pandemic when global cruise passenger numbers fell by 80.6%. Global cruise passenger numbers still remain at only 50% of 2019 numbers. DFS in particular is expected to grow significantly this year since China and Hong Kong have fully reopened its borders and are allowing people in, thus international tourist arrivals are expected to rebound over the course of the year. As a result, Asia is expected to grow 13% to this year to €2,692mIn rebounding from the 16% drop it experienced in FY22, which will support overall growth in the selective retailing segment this year.

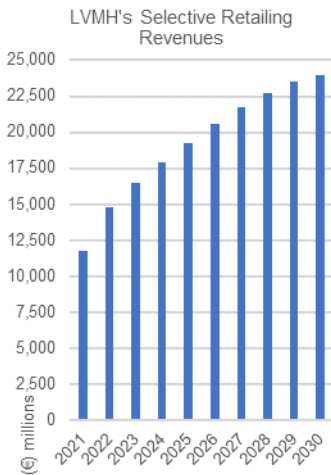
Sephora is the most important brand in the selective retailing segment. Sephora sells a wide array of beauty products and provides an omni channel retail experience to its consumers. Sephora experienced its strongest year yet in FY22 with record sales and profits as sales in Europe and US grew particularly strong. Sephora has also been expanding its business into new geographies such as the UK after its acquisition of Feelunique, an UK online beauty and wellness provider.⁴¹ Sephora's strength lies in its omni channel retail experience and strong digital capabilities. Even online consumers can leverage the expertise of its beauty advisors through chat and it offers flexible shopping from delivery to in-store pickups. Sephora also made inroads into the AR space with their Virtual Artist app, which allows customers to virtually try on products through their phone. This can lead to increased interaction and engagement with consumers, especially those who might not be able to visit their stores. Sephora has also been further strengthening its retail experience by entering into collaborations and partnerships. In the US it entered into a partnership with Kohl's in 2020 which led to the opening of 850 points of sale inside of Kohl's stores and which are all expected to be completed in 2023.⁴²



Graph 28 – Source: Valuation Model

⁴¹ Capon, Laura. "Everything You Need to Know about Sephora Taking over Feel Unique." *Cosmopolitan*, June 30, 2022. <https://www.cosmopolitan.com/uk/beauty-hair/a40472622/sephora-buying-feel-unique-uk/>.

⁴² "Kohl's and Sephora Announce Planned Expansion of Sephora Presence to All Kohl's Stores." Kohl's Investor Relations Dept, August 18, 2022.



Graph 29 – Source: Valuation Model

Selective Retailing has recovered strongly in the last two years with revenue growth of 16% and 26% in FY21 and FY22 respectively. It is expected to grow 11% in FY23 to €16,535m, which will be driven by 13% of growth in Asia. The segment is predicted to grow at a CAGR₂₃₋₂₇ of 6.19%. Revenues are forecasted to reach €20,599m by FY26 and €24,009m by FY30. Selective Retailing's NOPAT margin has dropped from 6.7% in FY18 to 2.8% in FY22. This has mostly been due to the reliance on physical locations, which offers less flexibility in reducing costs and has a higher fixed cost base. Selective retailing's store network is also the most extensive from all segments. Selective retailers like Sephora also carry products from various external brands which is an essential part from their business but which generates less revenues than selling its own brands. The number of stores is expected to grow at a slower pace than revenue per store as online sales is expected to keep increasing which will improve the revenue per store measure. This is driving the minor increase in NOPAT margin which is expected to slightly recover and increase to 3.5% in the upcoming years. The ROIC also fell significantly as a consequence from the pandemic and has not recovered from its FY18 high of 13.1%. In FY22 it was 3.8% and we see it increasing to 5.3% by FY30. In its current state the segment is destroying value for the company (ROIC < WACC).

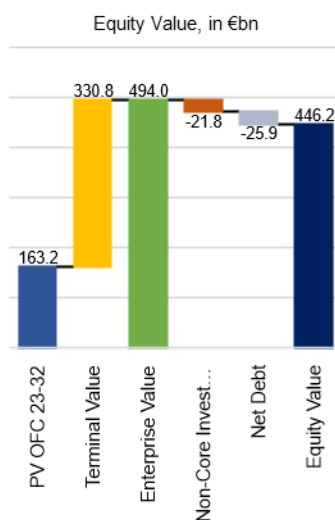
Other & Holding Companies

The other & holding companies segment includes a variety of brands that operate across different industries. The segment accounts for 2% of LVMH's total revenues. Some of the brands that are included this segment are Les Echos and Investir, French financial publications, Belmond and Cheval Blanc, luxury hotels, and more. The segment had negative NOPAT several consecutive years and is not expected to turn a profit anytime soon. Given this, the segment is viewed mainly as a distribution and marketing channel that gives LVMH the opportunity to cross sell its products from its other segments and hence why it has remained the last few years even with its losses. As the segment has accounted for exactly 2% of revenues over the last few years, we decided to use this to forecast future revenues. In FY22 the segment had revenues of €1,586m and it will reach €2,791m by FY30. The ROIC of the segment was -0.6% in FY22 and it is expected to remain at -0.6% the upcoming years.

Valuation

The purpose of this Equity Research is to derive a target share price for the year end of 2023 (31st Dec. 2023) and give a recommendation based on the expected capital and cash gains with reference to the current share price (as at

15.05.2023). For the LVMH valuation, the discounted cash flow method was applied. We assumed an explicit forecast period of 8 years, in essence 2023-2030, and all financials were further forecasted till 2032 to examine the stabilisation of ROIC and the convergence of the operating free cash flows growth rate towards the perpetuity growth rate. The company thereafter, reaches a steady state where operating free cash flows y-o-y growth converges towards the perpetuity growth rate of 3.42%. Therefore, we assume perpetuity as of 2032 to derive the terminal value (TV), on the basis that ROIC has also stabilised. Free cash flows from operations were calculated for each business segment, as the difference between NOPAT and change in invested capital (investments), adding back non-cash items, for each forecasted year. The sum of the segment free cash flows was then discounted at a WACC of 8.41% to obtain an estimated Enterprise Value of 494.0€bn. To derive the Equity Value (EV), we then added the estimated Non-Core Invested Capital of -21.8€bn (est. FY 2023), forecasted at book value; and thereafter deducted the book value of Net Debt (est. FY 2023) of 25.9€bn, which has been derived with the premise of a target D/E ratio (Net Debt / EV) of 5.81% implicit in the WACC assumptions. Both the book value of Non-Core Invested Capital and Net Debt have been considered as appropriate proxies for their market values. This leads to an estimated Equity Value of 446.2€bn and a target share price of 888.8€ (vs. 881.1€ as at 15.05.2023) for FY2023 (year-end), considering the current shares outstanding of 502mn (as at 15.05.2023). The adjusted target share price for FY2023 equates to 894.8€, which includes the expected cash gains from the expected interim dividend payment of 6€ (payout ratio of 42%), to be paid out in Dec. 2023. As a result, we predict an expected return of 1.55% for the year-end of 2023, and determine a HOLD recommendation.



Graph 30 – Source: Valuation Model

Perpetuity Growth Rate

The perpetuity growth rate was derived, using yearly long-term real GDP growth data (2030-2060) for the relevant geographic regions in which LVMH operates. Based on OECD data, we obtain an average (2030-2060) real GDP growth rate of 1.37% for the United States, 1.75% for Asia (excl. Japan), 1.04% for Europe, 1.25% for France, 0.39% for Japan, and 1.73% for Other Countries respectively⁴³. Using a revenue-weighted approach, accounting LVMH's total geographic exposure in FY2022 (revenue per geographic split), we derive a 1.40% long-term GDP growth rate. To align the real long-term growth rate with the nominal long-term growth rate, we assumed a long-term inflation rate target of 2.0%⁴³. Following formula was used to compute the nominal growth rate: $((1 +$

Geographic Segments	% of Revenue	Real GDP Growth
Asia (excl. Japan)	30%	1.75%
United States	27%	1.37%
Europe (excl. France)	16%	1.04%
Other Countries	12%	1.73%
France	8%	1.25%
Japan	7%	0.39%
Revenue-Weighted		1.40%
Long-Term Inflation Rate		2.00%
Perpetuity Growth Rate		3.42%

Table 7 – Source: OECD

⁴³ Real GDP long-term forecast data retrieved from OECD dataset.

inflation rate) * (1 + real GDP growth rate) – 1). As a result, we obtained a perpetuity growth rate of 3.42%, which was used for the terminal value (TV) and is consistent with LVMH's geographic exposure.

Cost of Capital

A weighted average cost of capital (WACC) of 8.41% was used to discount the free cash flows from operations, and reflects the target capital structure, represented by the D/E ratio (Net Debt / EV). We assume the D/E ratio to remain constant over time, where the D/E ratio is represented by the latest book value (proxy for market value) of Net Debt (2nd half of 2022) and the Enterprise Value (with Market Cap as at 15.05.2023), resulting in a target D/E ratio of 5.81%⁴⁴. The cost of equity (r_e) was calculated using the CAPM method. For the Beta calculation, a peer group was created that most closely resembles LVMH in terms of size, business segments, and geographic split that grasps the risk exposure of operations. A 5-year monthly levered Beta (β_L) was used as a starting point for each peer and then adjusted through the Bloomberg Beta formula, resulting in a median adjusted levered Beta (β_L) of 1.18⁴⁴. The peer Betas were then unlevered with their respective current D/E ratio, leading to median unlevered Beta (β_U) of 1.11; the median unlevered Beta (β_U) was then re-levered using LVMH's target capital structure, resulting in an Equity Beta (β_L) of 1.17. As for the Equity Risk Premium (ERP), we used the quarterly updated ERP from KPMG (last update in March 2023) – ERP of 5.5%⁴⁵. With regards to the risk-free rate (rfr), we used the yield of the generic 10-year German Government Bond (Deutsche Bundes Bank), serving as an appropriate proxy for a 10-year EUR risk-free rate; as at 15.05.2023 the rate (rfr) is 2.23%⁴⁴. Following those inputs, the cost of equity (r_e) composes to 8.74%. The pre-tax cost of debt (r_d) of 3.55%⁴⁴ was obtained, using the 10-year yield to maturity (YTM) retrieved from the EUR Europe Corporate A+ A- BVAL Yield Curve 10-year (as at 15.05.2023). This European Bond Composite index consists of similarly rated bonds as LVMH's Moody's rating of A1 (A), and serves an appropriate cost of debt proxy for an investment grade company like LVMH. With a tax rate of 25.8%, the cost of debt after tax (r_d) equated to 2.67%.

WACC	8.41%
Cost of Equity	8.74%
Cost of Debt (After Tax)	2.67%
Market Risk Premium	5.50%
Beta	1.169
Risk-Free Rate	2.31%
Bond Yield (YTM)	3.60%
Tax Rate	25.8%
D/(D+E) Ratio	5.49%

Table 8 – Source: Bloomberg

Peer Group	β_L	β_L Adjusted	β_U
LVMH	1.130	1.086	1.030
Hermes	0.871	0.914	0.947
Ralph Lauren	1.387	1.258	1.189
Prada	1.273	1.182	1.087
Moncler	1.159	1.106	1.105
Burberry	1.339	1.226	1.203
Richemont	1.401	1.268	1.289
Kering	1.166	1.110	1.000
Median Peers	1.273	1.182	1.105

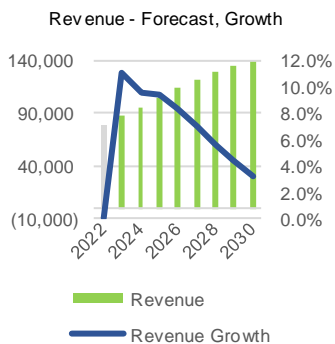
Table 9 – Source: Bloomberg

Income Statement

LVMH publishes each of its segment reports in addition to the group's financial statements, consisting of Fashion & Leather Goods, Selective Retailing, Wines &

⁴⁴ Beta, input data such as net debt and market cap, risk-free rate, and bond yields were retrieved from Bloomberg, and calculations were performed by the author of this Equity Research report.

⁴⁵ KPMG. "Equity Market Risk Premium – Research Summary". Retrieved on May 8th, 2023.



Graph 31 – Source: Valuation Model

in %	2022	2023	2030
EBITDA Margin	34.3	36.2	34.8
EBIT Margin	26.5	26.9	27.4
Net Income Margin	17.8	18.7	19.0

Table 10 – Source: Valuation Model

Spirits, Perfumes & Cosmetics, Watches & Jewellery, and Other & Holding Companies. Each of the segment financials were individually forecasted, based on their respective assumptions and drivers, and then consolidated into the group financial statement. Other items not allocated to the segment or not considered to be part of the core business were forecasted separately before being integrated into the consolidated income statement. As a result, the group's revenue is forecasted to reach 88.0€bn in FY2023, which translates into a y-o-y growth of 11.1%. Based on the explicit forecast period, group revenue is estimated to grow at a CAGR₂₄₋₂₀₃₀ of 6.8% thereafter, reaching a total revenue of 139.3€bn in 2030. The Fashion & Leather segment continues to bring most of the revenue, increasing revenue share from 48.8% (FY2022) to a range of 49.1-50.3% in the forecasted years. We expect that LVMH's luxury fashion brands, especially Louis Vuitton, will continue to ride on its momentum in the coming years. Selective Retailing is the second-largest contributor to revenues and is expected to deliver a revenue share of 18.8% in 2023, slightly improving from last year due to the expectation that international tourism will continue to recover. Wines & Spirits is expected to make up more of the revenue share in the long-term.

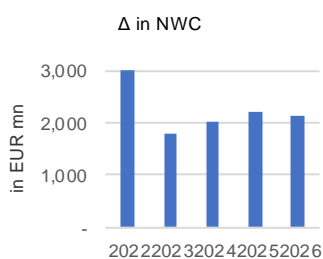
The EBITDA margin is expected to reach 36.2% in FY2023, reflecting a 1.8% y-o-y increase due to relative lower operating expenses. In 2022, SG&A grew by 42.0% due to larger investments in communications and development of retail networks, as well as higher promotion and advertising costs⁴⁶. We forecast that SG&A will make up 32.3% in FY2023 (vs. 34.1% in 2022), with the implicit assumption that the larger expenses from advertising costs among other expenses of 2022 will not occur regularly and rather slow down compared to 2022, as these expenses were accelerated due to surging business activity and use of digital channels by consumers. EBITDA margins for the following forecasted years will reach 35.1% on average (2024-2030), improving in comparison to historic years.

Net Income (Group Share) is estimated to reach 16.5€bn in FY2023, a 2.4€bn increase with a margin of 18.7%. With a CAGR₂₄₋₂₆ of 9.20%, net income is expected to reach 21.4€bn in 2026, surpassing the 20€bn mark for the first time. For later years, we expect net income to grow at an average annual growth rate of 5.4% (2027-2030); furthermore, we forecast that LVMH will improve its net income margin to 19.0% by 2029. Regarding dividend payments in 2023, we expect the payout ratio (43%) to remain at the same level of FY2021/2022, resulting in total dividend per share of 14€ (vs. 12€ in 2022) that consist of an interim dividend of 6€ and a final dividend of 8€.

⁴⁶ Retrieved from LVMH company financial report 2022

Balance Sheet

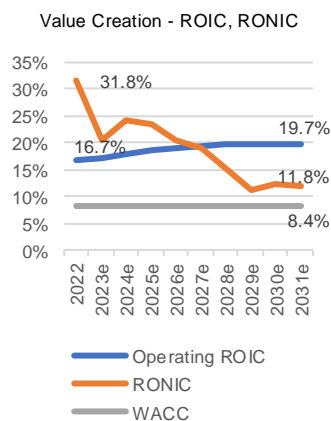
Similar to the forecasted income statement, the balance sheet consists of the sum of the forecasted segment financials and non-operating items. As at FY2023, core invested capital (operating) is estimated to reach 113.4€bn in 2023, translating into a y-o-y growth of 5.5%. In FY2030, core invested capital is estimated to reach 149.5 €bn at a CAGR₂₄₋₃₀ of 4.0%. These changes reflect investments in right-of-use assets, consisting of store leases, and PP&E, consisting of manufacturing facilities and workshops, and changes in net working capital. Due to surges in business activity in 2021 and 2022, driven by the Fashion & Leather Goods segment, as well as from Wines & Spirits, changes in inventory were higher than usual in order to secure supplies⁴⁶. Relative to revenue growth of 43.8% in 2021 and 23.3% in 2022, we estimate a more modest growth in revenue for future years, and thus expect that inventories will also increase at a slower pace. Consequently, our change in net working capital estimates for the forecasted years of 2023-2030 are expected to be +1.9€bn per year on average, returning to normal levels. Right-of-use assets are forecasted in relation to the estimated increase of number of stores, where revenue per store accounts both online and offline sales in order to account for the effects of omnichannels and digital transformation. This implies that revenue per store will increase at a faster pace than number of stores, which is reflected in our forecast. Similarly, PP&E is forecasted to increase at a slower rate than revenues, as we expect unit price increases in accordance to their dynamic price policy, as well as the implicit assumption that manufacturing facilities and workshops have the capacity to increase utilisation rates. Thus, asset turnover is forecasted to increase with a CAGR₂₃₋₃₀ of 2.5%, suggesting a more efficient use of assets.



Graph 32 – Source: Valuation Model

ROIC

LVMH’s group operating ROIC is estimated to be 16.7% in FY2023, a +1.4pp increase compared to FY2022. The strong performance is mainly attributed to the Fashion & Leather Goods segment, which takes up the biggest share of invested capital and contributing to 74.7% of total NOPAT. In addition, the group NOPAT margin increases by 1.0% in 2023 to 20.4% and Asset turnover slightly increases as well, suggesting that both profitability and efficient use of assets will contribute to a healthy ROIC. For the following estimated years, operating ROIC increases by 0.4% per year on average, reaching an operating ROIC of 19.6% by 2030 and stabilises thereafter. NOPAT margins stabilise towards the end of the explicit forecast period reaching a margin of 20.45%. Asset turnover was 78.7% in 2022, translating into a 3.1% decrease compared to FY2021. We expect asset turnover



Graph 33 – Source: Valuation Model

to improve in the following years and to recover to the FY2021 level in 2024. In the subsequent years, asset turnover is expected to increase by 1.4% per year on average (2025-2032) and stabilising at around 96.0% in the steady state. New investments also contributed to a growing ROIC, with RONIC amounting to 31.8% in 2023, and 22.2% on average for the years 2024-2027. In the subsequent years new investments continue to add value but with a diminishing RONIC, where RONIC equates to 11.3% in 2030, still above WACC of 8.4%. With an average ROIC of 18.8% (2023-2032) that is consistently above the WACC, we expect that LVMH continues to add value throughout the years, as it has in the past years with the exception of FY2020, where the whole luxury goods industry was affected by the start of the pandemic.

Multiples Valuation

For comparison purposes, we conducted a multiples valuation using the aforementioned peer group to derive the average P/E multiple (current & forward looking), as well as the average EV/EBIT multiple. For the current multiples, the ratios consist of a trailing 12 months (TTM) EPS and a trailing 12 months (TTM) EBIT, retrieved from Bloomberg as at 15.05.2023. As for the forward-looking multiples, the financial metrics are based on Bloomberg estimates⁴⁷ for the FY2023. As at 15.05.2023, we derive a range of 827-863€ for LVMH's share price. LVMH's multiples are slightly higher than the peer group multiples, implying that LVMH is currently trading at a premium.

Multiples Valuation	P/E	P/E	EV/EBIT	EV/EBIT
	Current	Forward 2023	Current	Forward 2023
LVMH	31.3x	26.7x	22.2x	19.3x
Peer Group Multiple	29.5x	26.3x	21.7x	18.9x
<u>Bloomberg Estimates</u>				
EPS	28	33		
EBIT, in EUR (€) mn			20,964	24,109
Net Debt			24,295	24,295
Equity Value, in EUR (€) mn			429,985	432,089
Shares Outstanding, in EUR (€) mn	502	502	502	502
Share Price	827	863	856	861

Table 11 – Source: Bloomberg

Sensitivity Analysis

A sensitivity analysis was conducted with the EBITDA margin as the variable, in order to see how the target share price and respective total expected return would change accordingly. We assumed a change an approximate +/- 0.6% change in EBITDA margin with the forecasted FY2023 as a starting point.

⁴⁷ Estimates retrieved from Bloomberg are based on average analyst consensus

According to the analysis, a +0.6% change in the margin would result in target share price increase of 12.5€ and increase total expected return by 1.4%. Conversely, a -0.6% change in share price would decrease the share price by 11.5€. If the EBITDA margin were to change to around 35.5% with 2023 as starting point, the target share price would approximately be equal to the current share price (as at 15.05.2023).

	Sensitivity Analysis - EBITDA Margin				
	35.0%	35.6%	36.2%	36.8%	37.4%
Δ in Margin	-1.2%	-0.6%	0.0%	0.6%	1.2%
Target Share Price	869.7	883.2	894.8	907.3	919.8
Δ in Share Price	-25.1	-11.5	0.0	12.5	25.0
Expected Return	-1.3%	0.2%	1.6%	3.0%	4.4%

Table 12 – Source: Valuation Model

Appendix

Financial Statements

Income Statement, in EUR (€) mn	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Revenue	46,826	53,670	44,651	64,215	79,184	87,981	96,334	105,432	114,201	122,215	129,197	135,018	139,334	143,798	148,416
COGS	(15,625)	(18,123)	(15,871)	(20,355)	(24,988)	(27,705)	(30,435)	(33,274)	(35,925)	(38,383)	(40,576)	(42,393)	(43,731)	(45,101)	(46,538)
Gross Profit	31,201	35,547	28,780	43,860	54,196	60,276	65,898	72,158	78,276	83,831	88,622	92,625	95,603	98,696	101,878
SG&A	(19,045)	(19,194)	(14,716)	(20,888)	(27,006)	(28,439)	(31,461)	(34,807)	(38,137)	(41,089)	(43,579)	(45,618)	(47,088)	(48,634)	(50,175)
EBITDA	12,156	16,353	14,064	22,972	27,190	31,836	34,437	37,351	40,138	42,742	45,043	47,007	48,515	50,063	51,703
Depreciation & Amortization	(2,302)	(5,108)	(6,050)	(5,830)	(6,226)	(8,135)	(8,513)	(8,812)	(9,121)	(9,439)	(9,747)	(10,054)	(10,347)	(10,631)	(10,968)
EBIT	9,854	11,245	8,014	17,142	20,964	23,701	25,924	28,539	31,017	33,303	35,296	36,953	38,167	39,432	40,735
Interest Income	44	50	46	40	113	45	45	45	45	45	45	45	45	45	45
Interest Expense	(158)	(446)	(366)	(238)	(382)	(403)	(440)	(453)	(466)	(479)	(491)	(502)	(511)	(518)	(534)
Other Income/Losses	(251)	(135)	(330)	264	(582)	(467)	(485)	(490)	(492)	(504)	(487)	(491)	(493)	(493)	(494)
PBT	9,489	10,714	7,364	17,208	20,113	22,876	25,043	27,641	30,104	32,365	34,362	36,005	37,209	38,465	39,752
Income Taxes	(2,499)	(2,932)	(2,409)	(4,510)	(5,362)	(5,568)	(6,213)	(6,985)	(7,580)	(8,202)	(8,653)	(9,101)	(9,423)	(9,741)	(10,074)
Net Income	6,990	7,782	4,955	12,698	14,751	17,308	18,830	20,656	22,524	24,163	25,710	26,904	27,785	28,724	29,678
Attributable to Minorities	(636)	(611)	(253)	(662)	(667)	(856)	(922)	(989)	(1,098)	(1,173)	(1,244)	(1,306)	(1,347)	(1,393)	(1,440)
Net Income - Group Share	6,354	7,171	4,702	12,036	14,084	16,452	17,909	19,667	21,426	22,991	24,466	25,598	26,438	27,331	28,238
Net Income Margin	13.6%	13.4%	10.5%	18.7%	17.8%	18.7%	18.6%	18.7%	18.8%	18.8%	18.9%	19.0%	19.0%	19.0%	19.0%

Balance Sheet, in EUR (€) mn	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Operating Cash	937	1,073	893	1,284	1,584	1,760	1,927	2,109	2,284	2,444	2,584	2,700	2,787	2,876	2,968
Accounts Receivable	3,222	3,450	2,756	3,787	4,258	5,117	5,602	6,132	6,642	7,108	7,514	7,852	8,103	8,363	8,631
Inventories	12,485	13,717	13,016	16,549	20,319	21,754	23,859	26,106	28,232	30,310	32,092	33,740	35,120	36,551	38,051
Prepaid Expenses and Other Receivables	2,079	2,351	2,126	2,804	3,474	3,851	4,216	4,615	4,998	5,349	5,655	5,910	6,099	6,294	6,496
Accounts Payable	(5,314)	(5,814)	(5,098)	(7,086)	(8,788)	(9,694)	(10,649)	(11,643)	(12,570)	(13,430)	(14,198)	(14,834)	(15,302)	(15,781)	(16,284)
Advances and Payments on Account from Customers	(398)	(559)	(723)	(1,079)	(1,224)	(1,363)	(1,497)	(1,637)	(1,767)	(1,888)	(1,996)	(2,085)	(2,151)	(2,218)	(2,289)
Net Working Capital	13,011	14,218	12,970	16,259	19,623	21,424	23,458	25,682	27,819	29,893	31,652	33,283	34,656	36,084	37,574
Property Plant & Equipment	15,112	18,533	18,224	20,193	23,055	24,223	25,502	26,765	28,034	29,142	30,132	30,951	31,592	32,245	32,919
Right-of-Use Assets	—	12,409	12,521	13,705	14,615	16,058	16,443	16,852	17,248	17,577	17,881	18,082	18,201	18,729	19,094
Intangible Assets and Goodwill	30,981	33,246	33,054	50,455	50,214	51,686	53,252	54,918	56,692	58,583	60,599	62,752	65,051	67,510	70,142
Fixed Assets	46,093	64,188	63,799	84,353	87,884	91,967	95,197	98,535	101,974	105,302	108,612	111,785	114,844	118,484	122,154
Core Invested Capital	59,104	78,406	76,769	100,612	107,507	113,391	118,655	124,217	129,793	135,194	140,263	145,068	149,500	154,568	159,728
Non-Core Invested Capital	(17,788)	(19,385)	(19,479)	(23,926)	(21,472)	(21,826)	(22,681)	(22,798)	(23,158)	(23,496)	(23,618)	(23,702)	(23,646)	(23,534)	(23,402)
Total Invested Capital	41,316	59,021	57,290	76,686	86,035	91,565	95,974	101,419	106,635	111,699	116,646	121,365	125,854	131,035	136,326
Net Debt	(9,023)	(22,435)	(19,878)	(29,567)	(30,924)	(25,931)	(27,045)	(28,200)	(29,325)	(30,441)	(31,552)	(32,675)	(33,825)	(35,033)	(36,284)
Equity	32,293	36,586	37,412	47,119	55,111	65,634	68,929	73,219	77,310	81,258	85,093	88,691	92,029	96,002	100,042

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