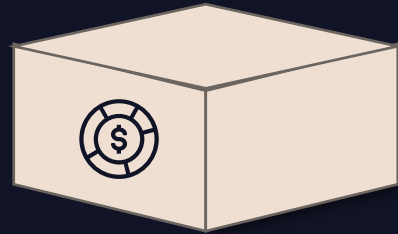


# LVMH

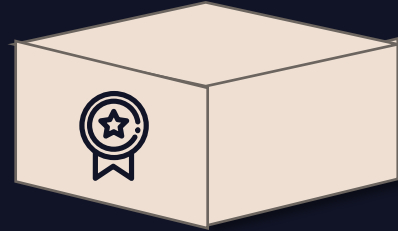
## Investment Thesis

# Investment Thesis: Buy Rating



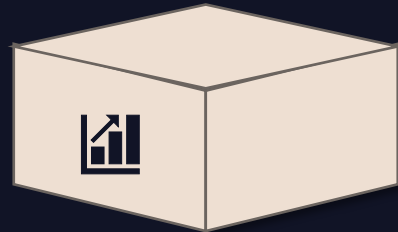
1

**Quality and diversified portfolio:** investing in several brands and being present in more than 80 countries, LVMH has a successful and resistant portfolio.



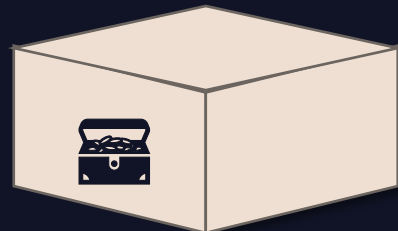
2

**Best in class operation:** first on revenue, better margins and Ceo's taking opportunities at the right time.



3

**Growth perspectives:** prospects for the luxury industry are promising, and LVMH is in the ideal place to enjoy this growth



4

**Valuation and return:** we calculated a 15,7% upside for the company's stock after 5 years, as well as a 7,7x EV/EBITDA multiple, making it a buy rating.

# The Most Diverse Portfolio in Luxury

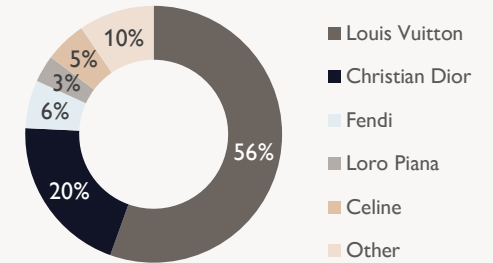
With a portfolio of **more than 70 brands spread across 6 sectors**, LVMH protects itself from internal variations in each sector. However, its greater focus on Fashion and Leather Goods means **the company is more exposed to the more resilient soft luxury**.

2023 First half revenue by business group (%)



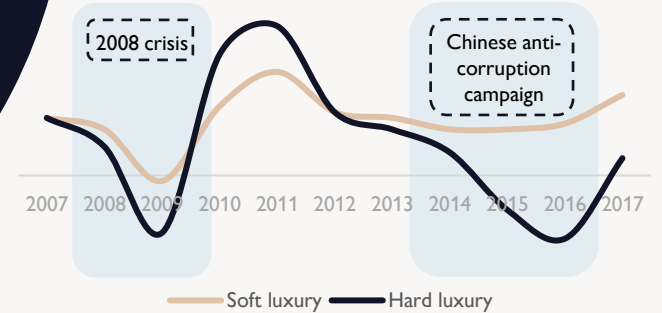
Within the company's main segment, Fashion and Leather Goods, are the company's largest companies in terms of revenue are present, Louis Vuitton and Dior.

2022 Fashion & Leather Goods revenue by business group (%)



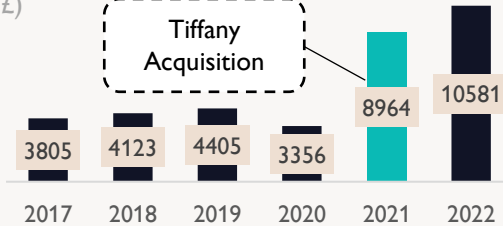
The segment makes it **more exposed to soft luxury**, historically **more resilient** than hard luxury in periods of crisis.

Soft and Hard Luxury Organic Growth



The **acquisition of Tiffany in 2021** increased LVMH's participation in the Watches and Jewelry sector. The **company's revenue from the segment almost doubled** after the acquisition, even considering the pre-pandemic level.

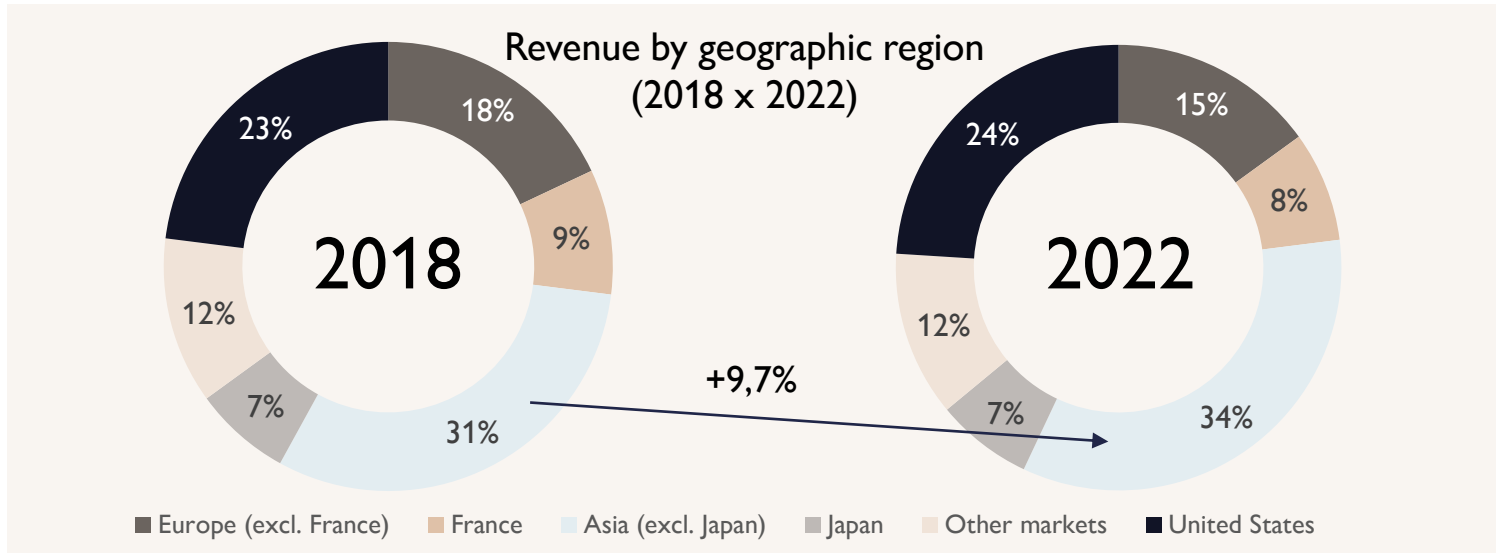
Watches & Jewelry revenue (m€)



Sources: Company data, Credit Suisse research

# Assertively Distributed Across the Globe

The company has a **balanced geographic distribution**, which **mitigates the risk** of being concentrated in one region. Furthermore, the company is **well positioned in the two regions that should represent more revenue** for the sector in the future (**USA and China**).

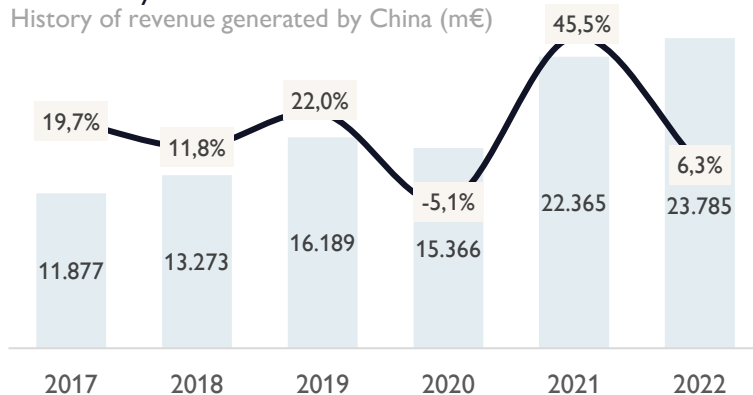


**Jean-Jacques Guiony**  
CFO of LVMH

“Our **geographic balance** and diversification has proven to be a **key asset over the last couple of years**. All this does not mean that we are immune to any external shocks, but it just means that we **have the ability to face more adverse conditions** and to emerge from them stronger than ever.”

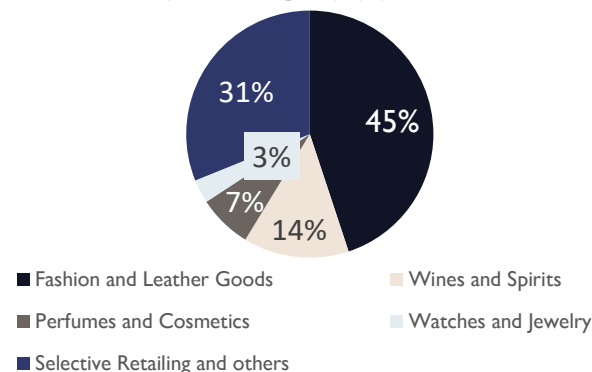
**1** The **Asian market**, driven by China, has seen **significant increases** in the **company's revenue share** and is today LVMH's **main source of revenue**.

History of revenue generated by China (m€)



**2** The **US is the second most important region for LVMH** in terms of revenue and is the geography whose **Selective Retailing segment** has one of its largest shares.

2022 US revenue by business group (%)



**3** The company has been **investing in targeted campaigns**, essential for gaining market share **mainly in LatAm**.



Targeted fashion shows such as those held by Louis Vuitton in Brazil, inspired by Oscar Niemeyer, and in Mexico, inspired by Frida Kahlo, are becoming increasingly frequent in the company's expansion strategy.

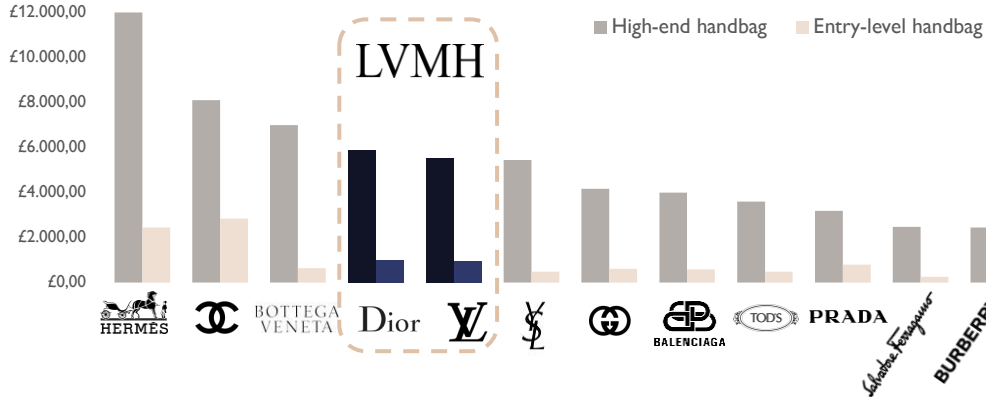
Sources: Companies data, Entrepreneur

# Valuable Brands Equals Valuable Group

Brand equity is one of the most difficult attributes to achieve in the Luxury Goods market, and it is essential for the customer to desire and pay more for the brand. A company's pricing power is a good indicator of this attribute, and LVMH brands stand out in this regard.

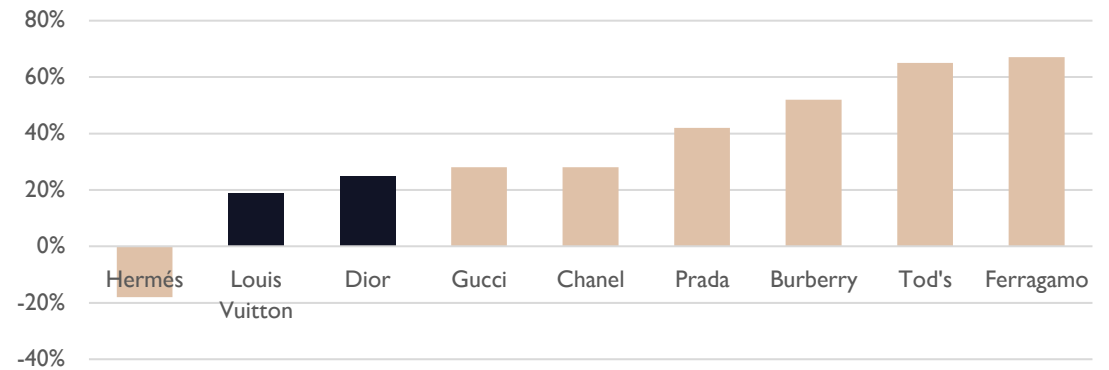
**1** The pricing power of companies is a good representation of their brand equity. LVMH's two main companies are among the top 5 most expensive handbags.

High-end and entry-level handbag average prices (£)



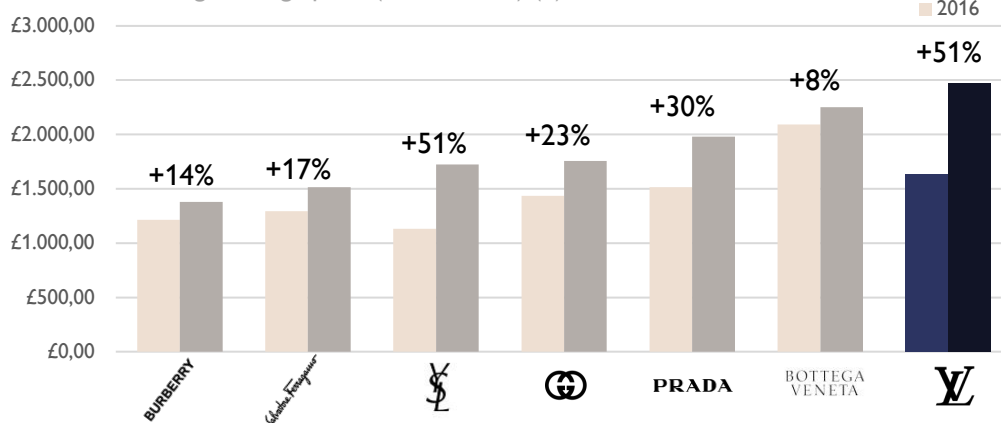
**2** A lower discount rate for a brand's products in the resale market indicates greater pricing power and brand equity for the brand. Louis Vuitton and Dior are among the lowest rates in this regard.

Resale discount/(premium) by brand 2Q22



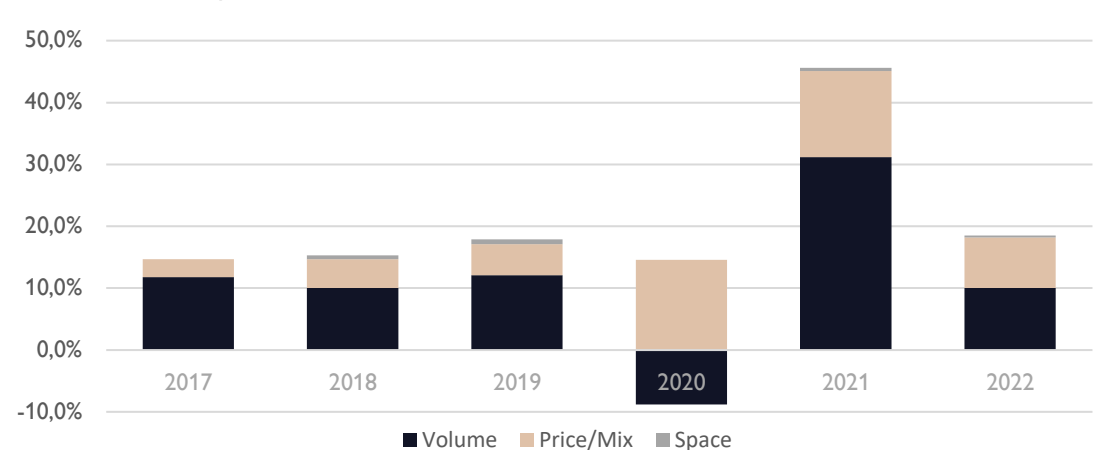
**3** The pricing power of the company's main brand, Louis Vuitton, is such that the company has had the highest elevated brand positioning when it comes to women's handbags since 2016.

Women's handbags average price (2016 x 2022) (£)



**4** When looking at the growth components at Louis Vuitton it is notable that pricing is becoming an increasingly relevant component, indicating the brand's pricing power and mainly its brand equity.

% Growth cFX% by source



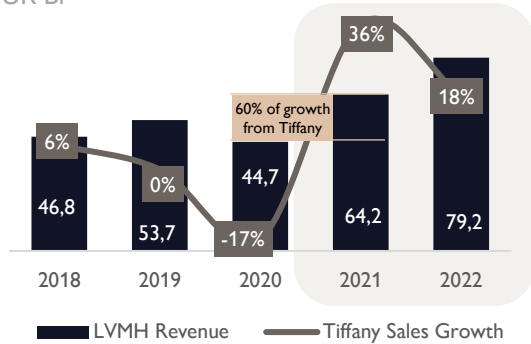
Sources: Companies data, Credit Suisse research, Goldman Sachs research

# Smart acquisitions make a successful company

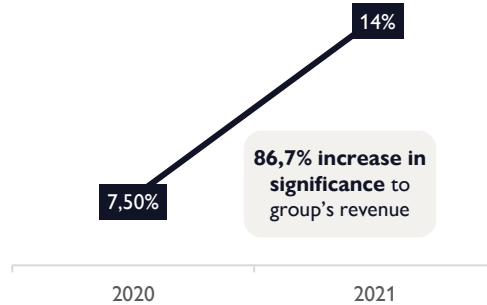
LVMH has a history of **strategic and successful M&As**, which includes the recent **Tiffany** acquisition, increasing hard luxury segment, as well as the acquisition of **key suppliers** to optimize the supply chain.

**1** Their most recent acquisition is **Tiffany & Co.**, part of a strategic plan to **increase their watches and jewelry division** in a way that **appeals to US consumers**, seen as Tiffany is an American company.

LVMH Revenue and Tiffany's Sales Growth  
EUR Bi



Watches and Jewelry as Fraction of LVMH Sales



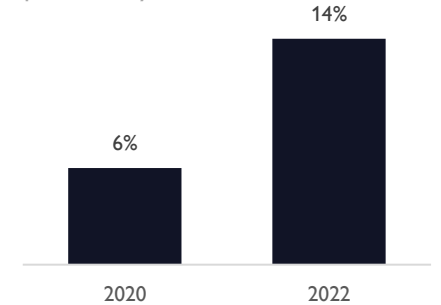
**2** To **consolidate their hard luxury expansion**, LVMH acquired **Pedemonte**, a jewelry producer that will **supply needed resources** to Tiffany and other watch and jewelry brands.



"This acquisition will enable LVMH group to significantly increase its production capabilities, at a time when its existing workshops are already deploying all their resources to support the strong growth of the jewelry division"

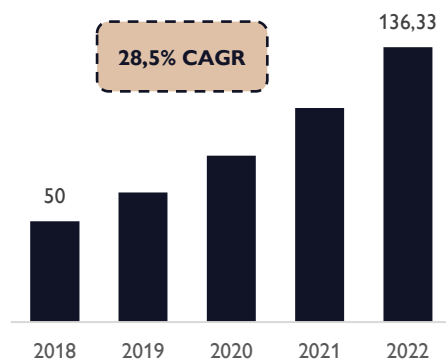
Toni Belloni, LVMH director

Share of the company's employees working in hard Luxury pre and post Tiffany and Pedemonte



**3** To further ensure their investment in hard luxury is sustainable, the group also acquired the **Platinum group**, which includes the companies Orest and Aysse, both **prominent jewelry manufacturers** that were growing exponentially.

Orest's turnover  
EUR Mi



Number of LVMH employees in watches and jewelry division

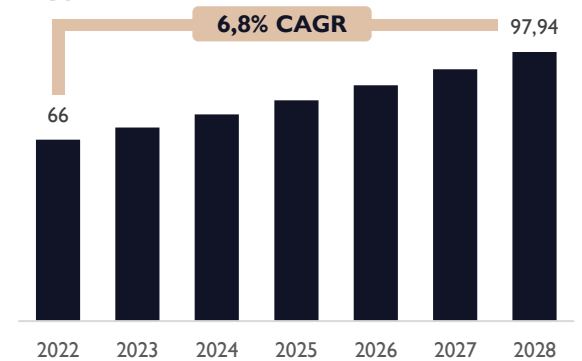


**4** Looking into another growing segment, LVMH acquired leather supplier **Nuti Ivo SpA**, in a time when **leather luxury products are growing fast**. This acquisition secures **lower production costs** and **greater production flexibility** to LVMH brands.

### Nuti Ivo Acquisition

- Four leather production facilities in Italy
- 300 specialized employees
- Exporting 85% of production – supplier to notorious brands

Leather goods market size  
USD Bi



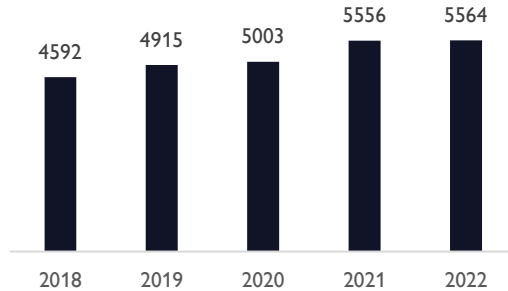
Sources: LVMH IR, Euromonitor, Statista

# An efficient company

Lvmh is showing a **solid growth** and a **good financial** health over the years

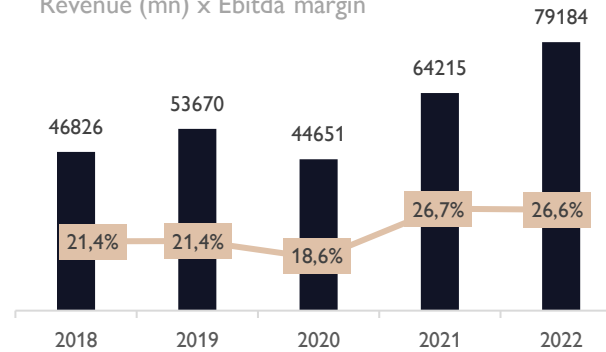
**1** LVMH stores are **increasing** over years, mostly **pushed** by the **fashion** and **leather** segment, prioritizing **large spaces** and shopping malls location.

LVMH's Stores



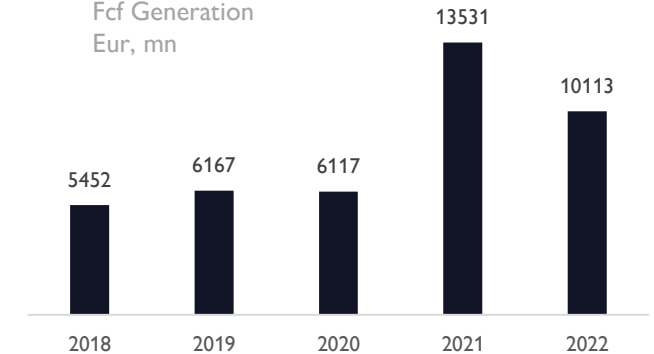
**2** Revenue **increase** is much due to the **rising prices**, that **helps** operation to become more **efficient**.

Revenue (mn) x Ebitda margin



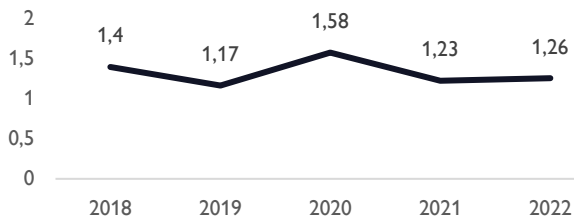
**3** There is an efficient **fcf generation** and **conversion**, showing a financial health of the company

Fcf Generation  
Eur, mn



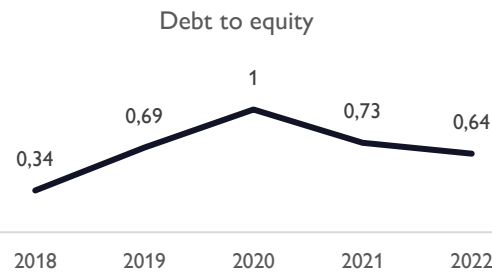
**4** Company's **current ratio** in line with historical average, showing **no problems** on the payment of their short term **debt**.

Current ratio



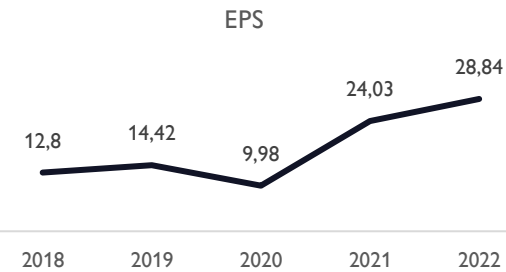
**5** Company's is recovering from pandemics raise in debt, showing **stability**.

Debt to Equity



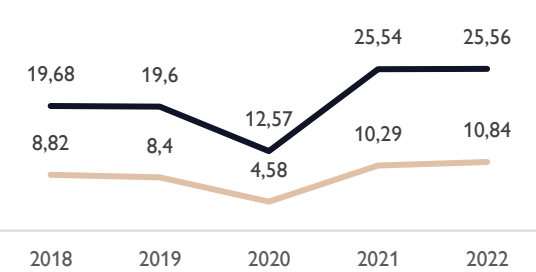
**6** **Return on investments** are **rising** trough the years.

Earnings Per Share



**7** The **performance** of the company is translated as the ability to **convert assets** and **equity** into **profit** more effectively.

ROE x ROA



Sources: LVMH IR, capital iq, Statista

PORTFOLIO

OPERATION

PERSPECTIVES

VALUATION

# After all, a family business

Bernard management fuelled with so many **right decisions** led the company to where it is today, and his Family will **continue his legacy**

**1987**

- ✦ The merger between **Moet Henessy** and **Louis Vuitton** created **LVMH**
- ✦ Owner of Christian Dior and Celine, Bernard Arnault, joins
- ✦ **Givenchy** is aquired and **Bernard becomes the CEO**
- ✦ **Pommery** is acquired and LVMH becomes the largest alcoholic producer

**1999**

- ✦ **TAG, Zenith, Ebel** and Chaument are aquired and the Watches and Jewellery Division is established

**2001**

- ✦ **Fendi, Emilio Pucci** and **DKNY** are acquired
- ✦ **Hublot** is acquired
- ✦ **Moynat** is acquired
- ✦ **Bulgari** is acquired

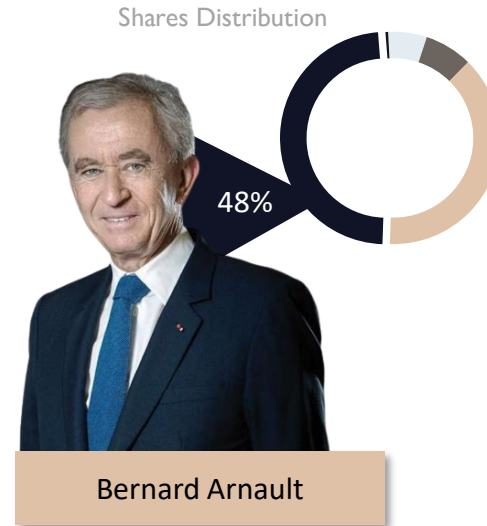
**2011**

**2012**

- ✦ **Loro Piana** is acquired
- ✦ **Rimowa** is acquired
- ✦ **Le Parisien Journal** is acquired
- ✦ **Belmond** hotel chain is acquired

**2022**

- ✦ **Tiffany** is acquired



Fostered **status** and **desire**, now already intrinsic in the company's name

**On tune** with latest trends of **sustainability** and **digitalization**

**Expanded** LVMH empire through **strategic partnerships, acquisitions** and **global presence**.

Maintained **company's control** and effectively **introduced the family** into the business.

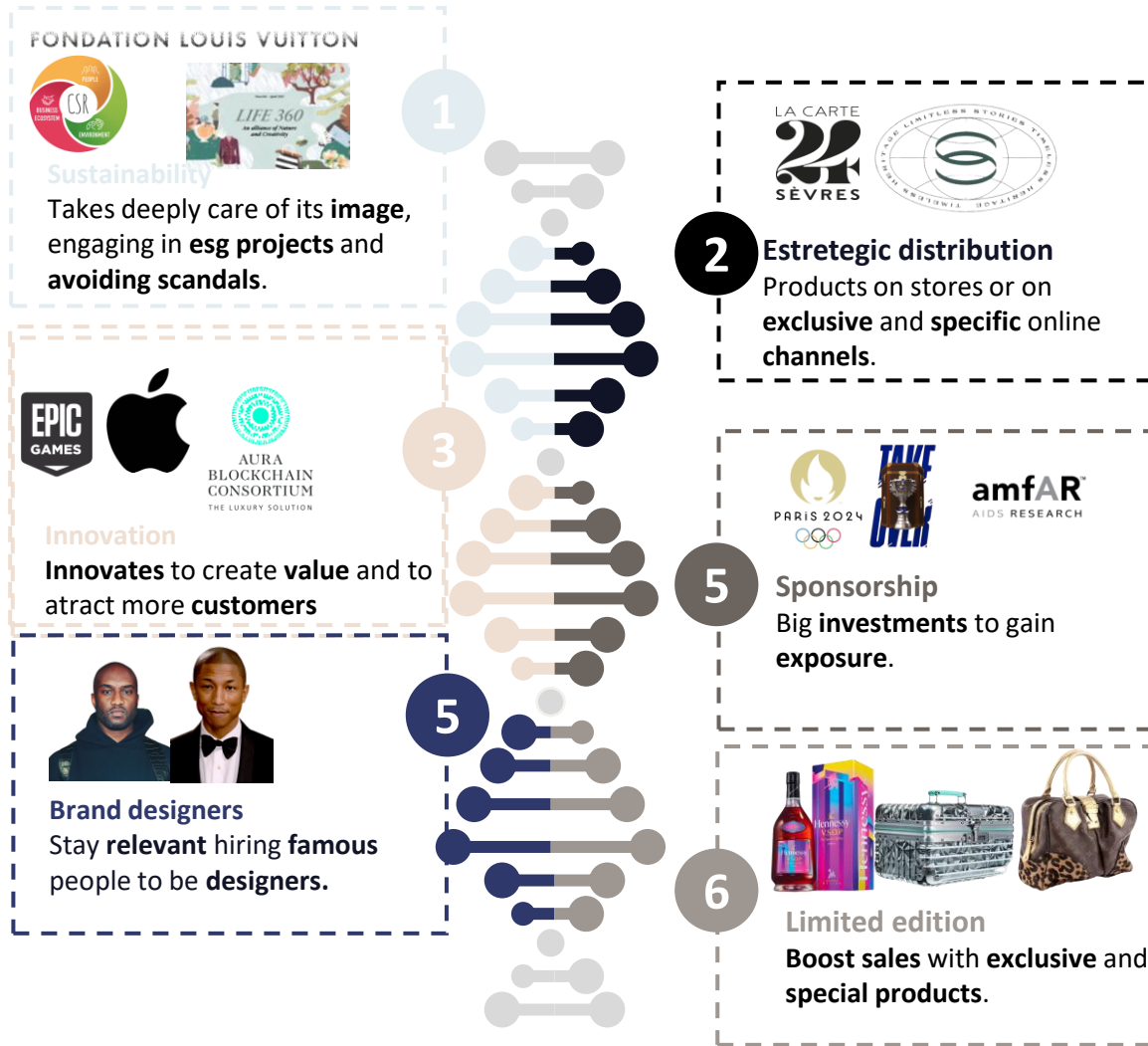


Source: Euromonitor, Statista, BOF, LVMH IR



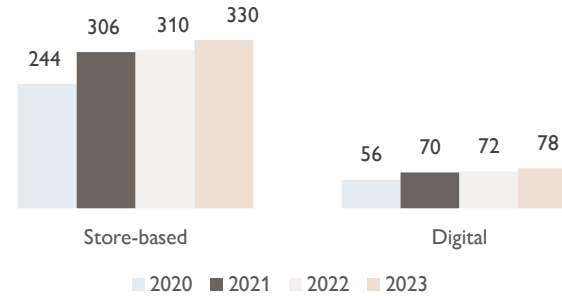
# Staying relevant on trends

The company's specific **marketing dna** shapes itself to **follow tendencies** in order to stay **competitive**, without losing company's principles.

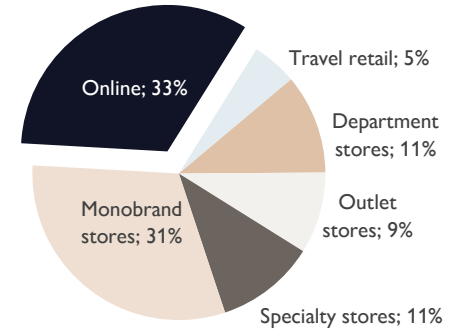


**1 LVMH** sales still occur mostly on physical stores, much cause of the **luxury treatment** the customer receives, but with the pandemic, **e-commerce** has **grown** significantly driven by **convenience**. Following this tendency, **LV** and **Dior** **online sales** are expected to **grow**.

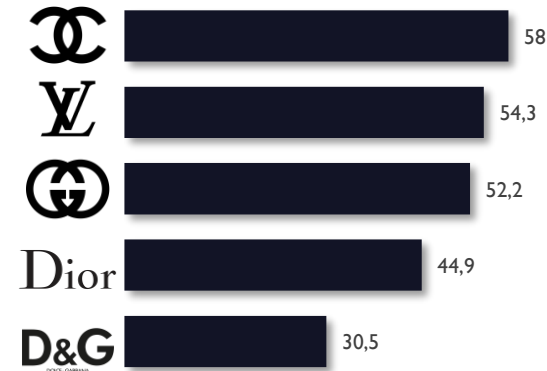
Personal Luxury goods by sales channel (USD billion)



Personal Luxury goods by sales channel in 2030



**2 LVMH** uses their many followers to stay **relevant** in the market, and for **consumers** to **feel** that the product has **value**. To do that, **fashio** shows are shown, **partnerships** are made and **new products** are published.



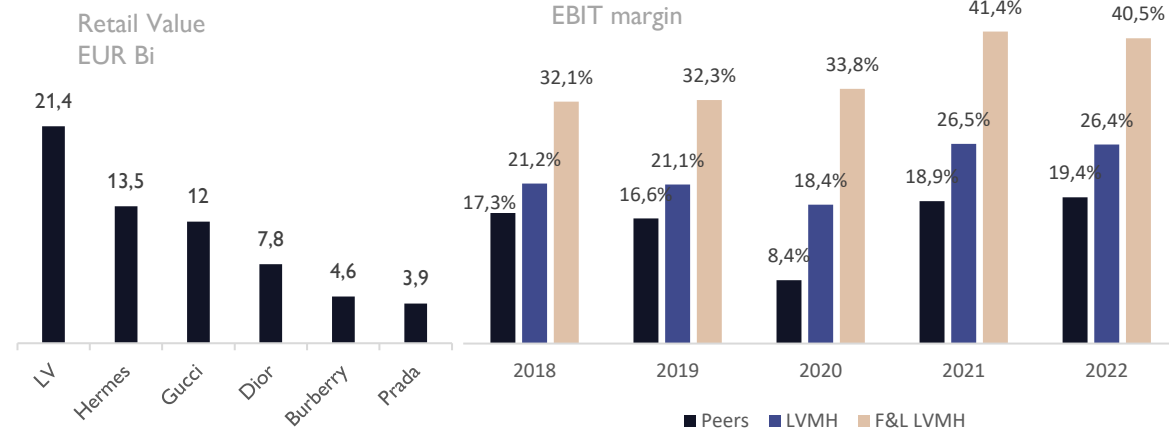
- 58%** Use Instagram to stay up to date on trends
- 49%** follow brands to feel more closely connected
- 51%** follow celebrities to see what they are wearing

Source: Euromonitor, Statista, BOF, Instagram

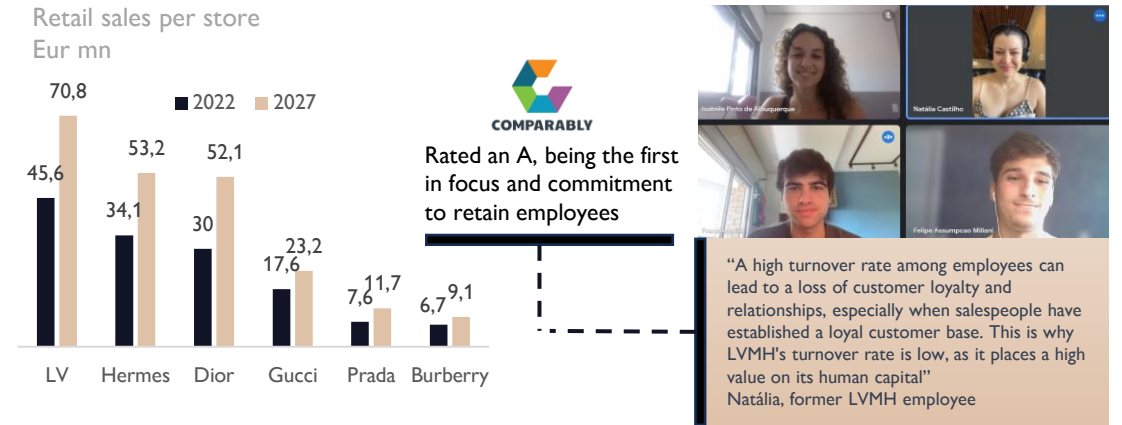
# Go big or go home

The large **size** of LVMH drives **profitability**, especially in **fashion** and **leather** segment and the capacity to maintain its **essence** contributes to **growth**.

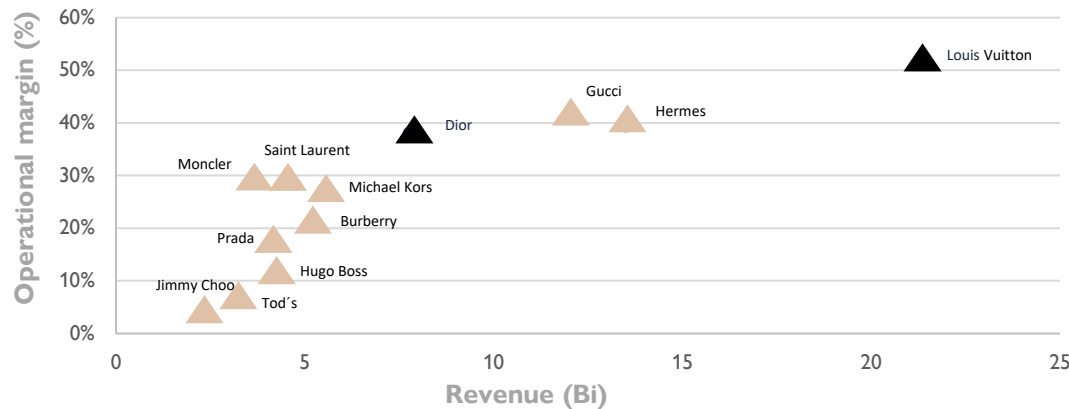
**1** LVMH is more **efficient** than its **peers**, especially in the fashion and leather segment, having the most valuable Luxury brand in the world.



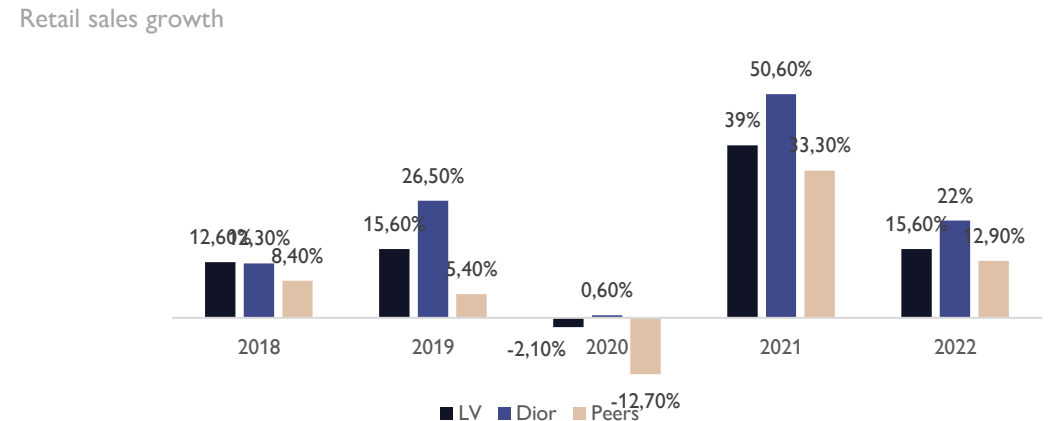
**2** Beyond the pricing power, innovations and brand equity, an important **driver** of **sales** is the capacity to **retain employees**, and LVMH is the top 1 in the sector



**3** There is a strong **correlation** between **scale** and **profitability**. **LV** has the best **operational margin** of the sector and **Dior** has an **above average** multiple considering its lower revenue.



**4** **LV** and **Dior** will continue to **take market** share ahead of Luxury peers considering their long standing reputation for **craftmanship** and **tayloring**, a **diverse** product portfolio and an extensive **distribution** network of **exclusive** retail stores.



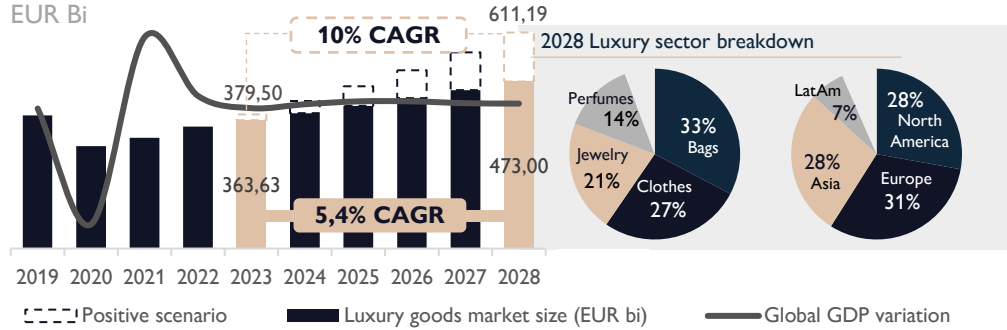
Sources: Credit Suisse research, interviews, LVMH'RI

# A Growing Industry

Prospects for the luxury sector are **positive**, with especial focus on the **USA and China**, as well as **current trends** that can boost profits, as long as companies make the right investments to enjoy the opportunities.

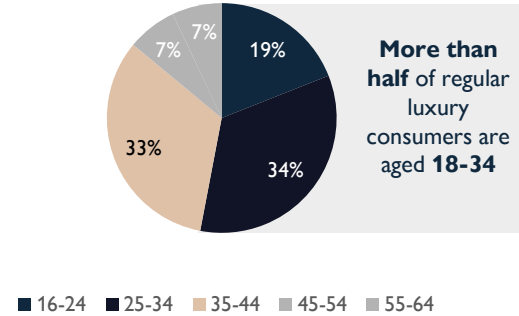
**1** The sector is expected to **continue growing**, aligned with global wealth, especially the segment of bags and purses, with highlight to China and the USA. This means that companies could experience significant growth if they focused on these markets.

Global luxury goods market

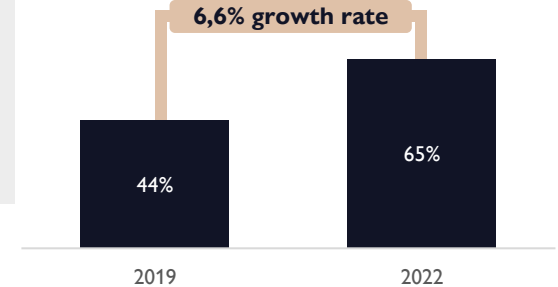


**2** However, companies must beware of changing consumer behavior, with younger audiences contributing more to luxury sales, meaning they must create strategies to appeal to a younger and more online-focused public.

Regular luxury consumers profile by age

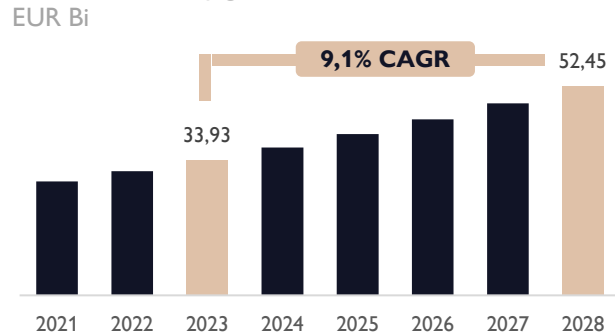


Share of luxury sales represented by Gen Z and Millennials

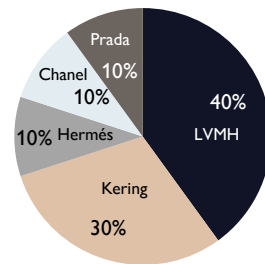


**3** A growing trend within the sector is that of **secondhand luxury**, which attracts customers both for its cheaper prices and more **sustainable** practice. For that reason, LVMH's competitors, like Gucci, have already launched their own resale platforms, and we **recommend the company do the same** as to not fall behind.

Secondhand luxury goods market

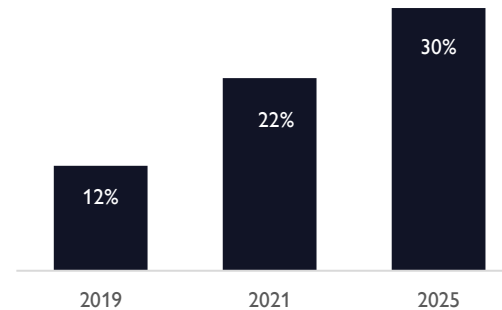


Most popular brands on the RealReal, secondhand items platform

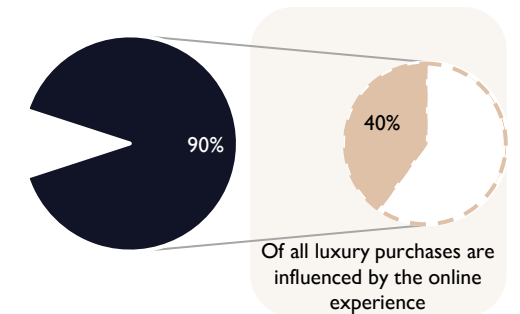


**4** Online presence is also vital for luxury brands, since e-commerce represents a growing fraction of total sales and experiences on store sites influence consumers, even if they do not buy online.

Ecommerce as a fraction of luxury sales



Percentage of consumers that use online platforms before buying

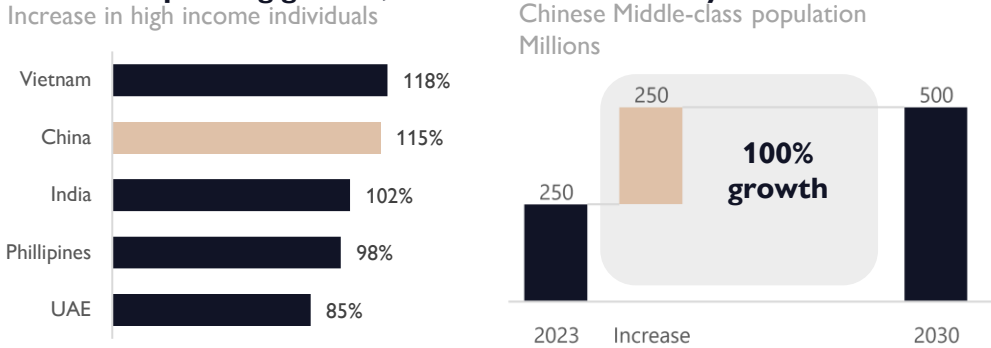


Sources: Euromonitor, Mordor Intelligence, Bain & Company, The RealReal IR, Statista, Skyquest

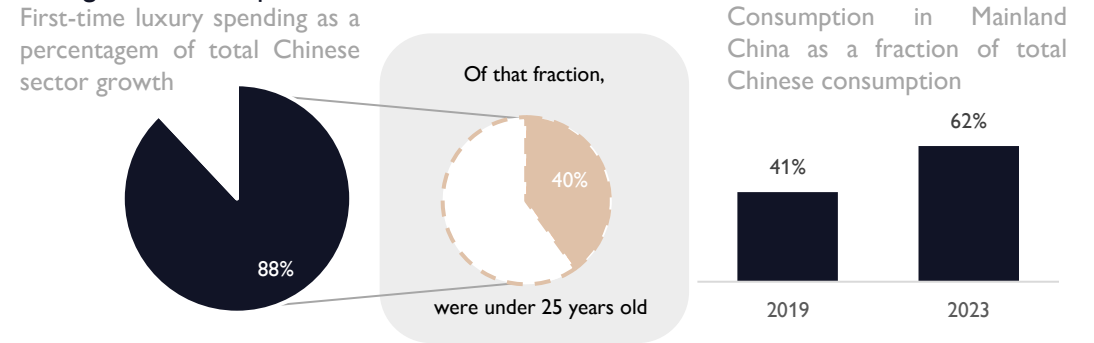
# Where is the Focus?

China, the US and Europe are currently the most significant regions for LVMH's revenue. However, looking to the future, the company must focus on China, though not neglecting the other two.

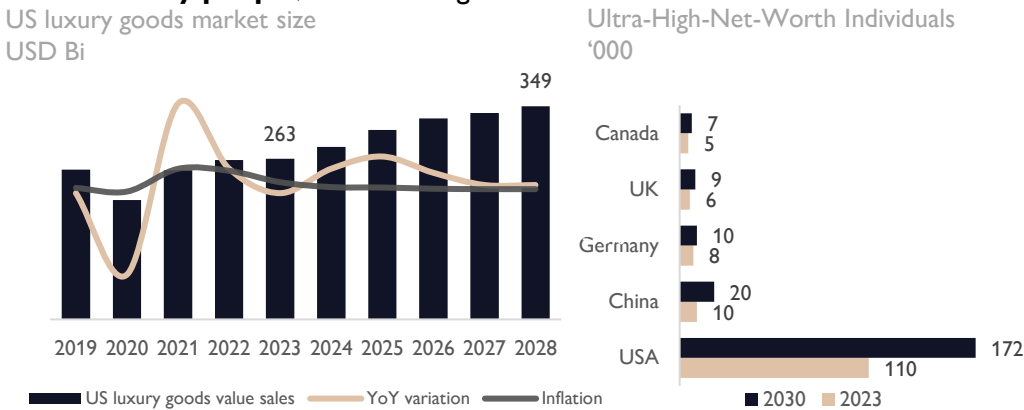
**1** China is the **most promising country** for luxury sales in the coming years, with its **increasingly wealthy population**. It is expected that, in 2030, China will account for **60% of spending growth, and 40% of total luxury sales**.



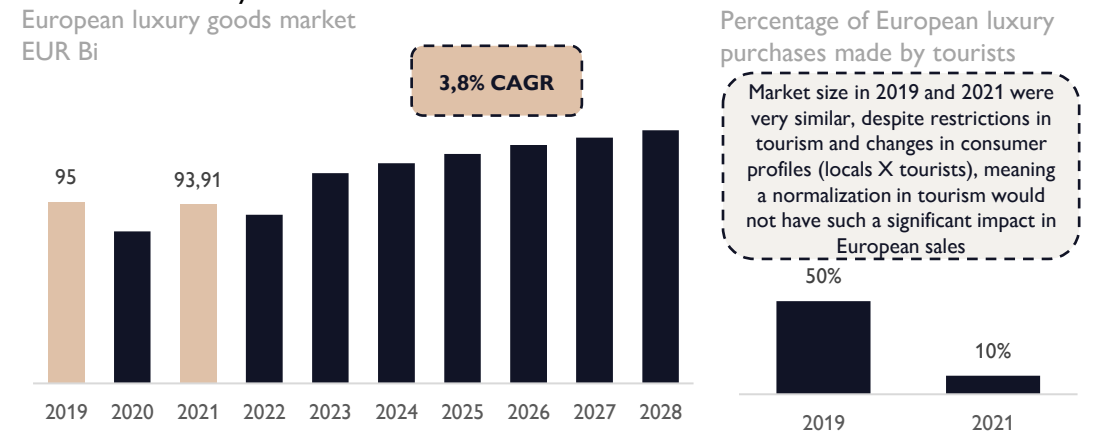
**2** However, **consumption in China is changing**, since a big share of consumers are now **young people** who are buying luxury for the **first time**. Moreover, there is more consumption in **mainland China**, as opposed to Chinese people buying overseas, as a lasting effect of the pandemic



**3** Even though consumption in the US has **slowed in recent times** due to higher inflation rates, it is still the **biggest luxury market**, since it is the country with the **most wealthy people**, so continuing to invest in American consumers is a must.



**4** Europe is an important market for the luxury brands. However, its growth prospects are not great, rather, there is a tendency of normalization of luxury consumption in Europe, which tends to stay somewhat the same in the foreseeable future.

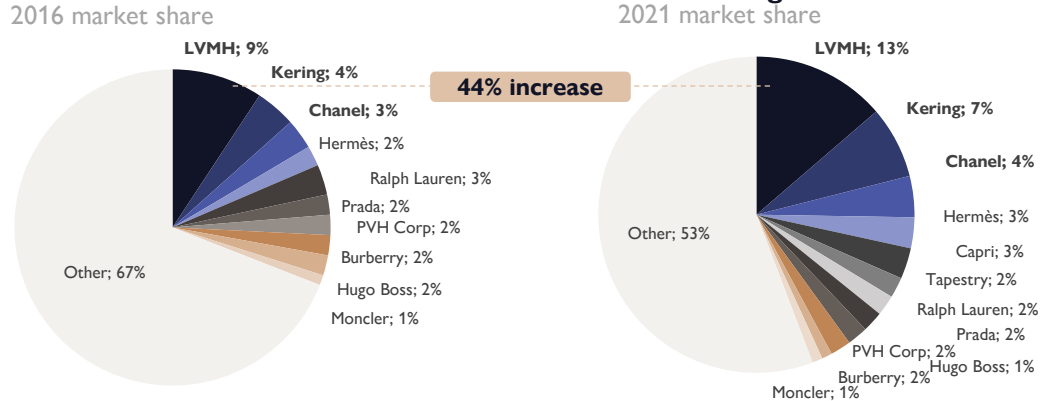


Sources: Euromonitor, Bain & Company, Statista

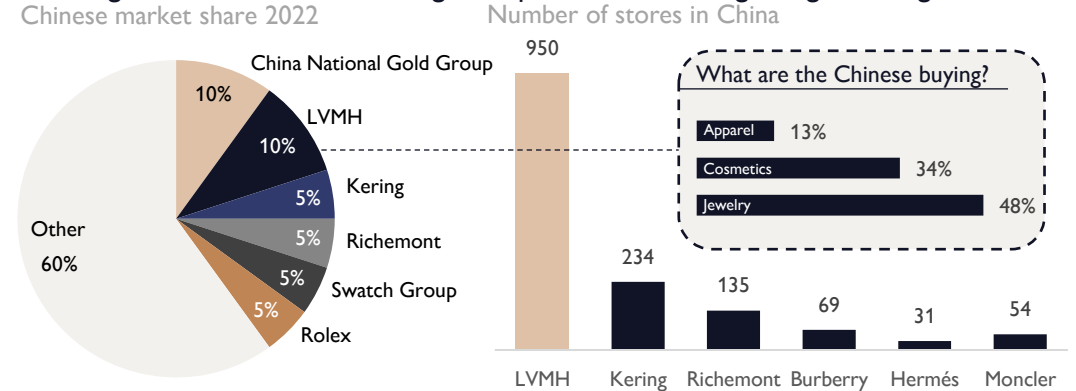
# LVMH's Position

LVMH is very well positioned to enjoy the growing prospects of the industry, being a leader in its sector and standing out in all areas. However, it must keep on gaining market share in order to maximize its profits.

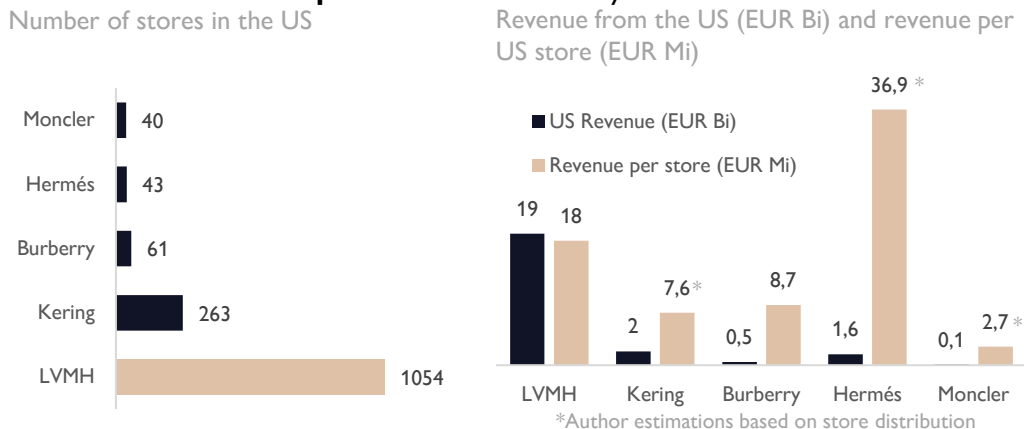
**1** LVMH is the **industry leader** in terms of market share, being 85,7% ahead of its closest competitor. However, the **market is very segmented**, which means there is **still room for brand consolidation and market share gains**.



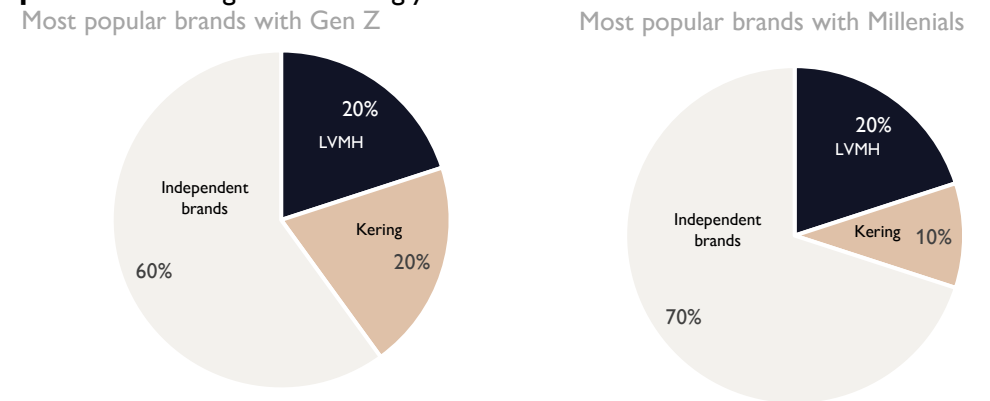
**2** LVMH is in a great position **to take advantage of Chinese growth**; it is the foreign company with the **biggest market share in the country**. Moreover, it is working on increasing its share, since it is moving headquarters from Hong Kong to Shanghai.



**3** LVMH is the **most present conglomerate in the USA** considering number of stores. It is also the one with the **biggest revenue coming from the USA** and the **second in revenue per store** in the country.



**4** Furthermore, LVMH has some of the **most popular brands with young audiences (18-34)**, such as Dior, which means it is **well positioned for the shift in consumer pattern** unveiling in the coming years.

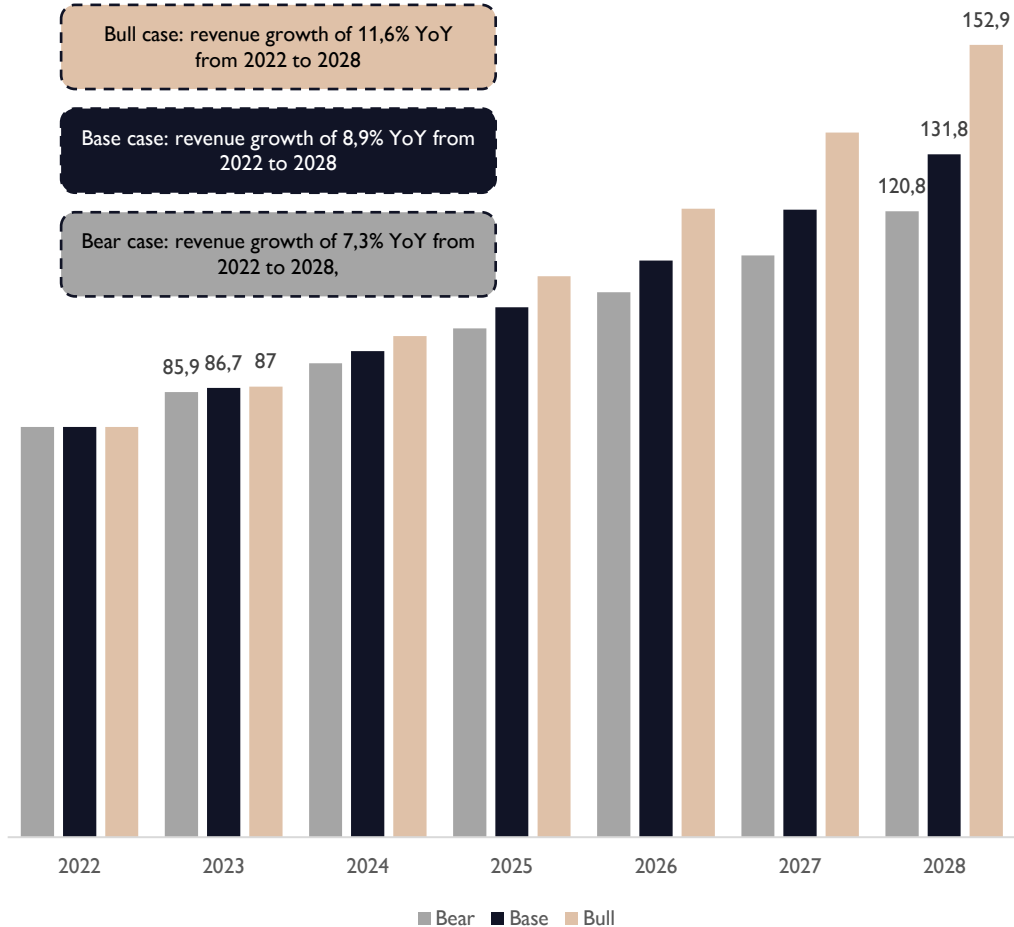


Sources: LVMH IR, Kering IR, Richemont IR, Burberry IR, Hermès IR, Moncler IR, Credit Suisse Research, Bain & Company

# Valuation

Analyzing the most likely scenarios and LVMH's positioning, it is possible to arrive at probable stock prices for the company, as well as its future revenue

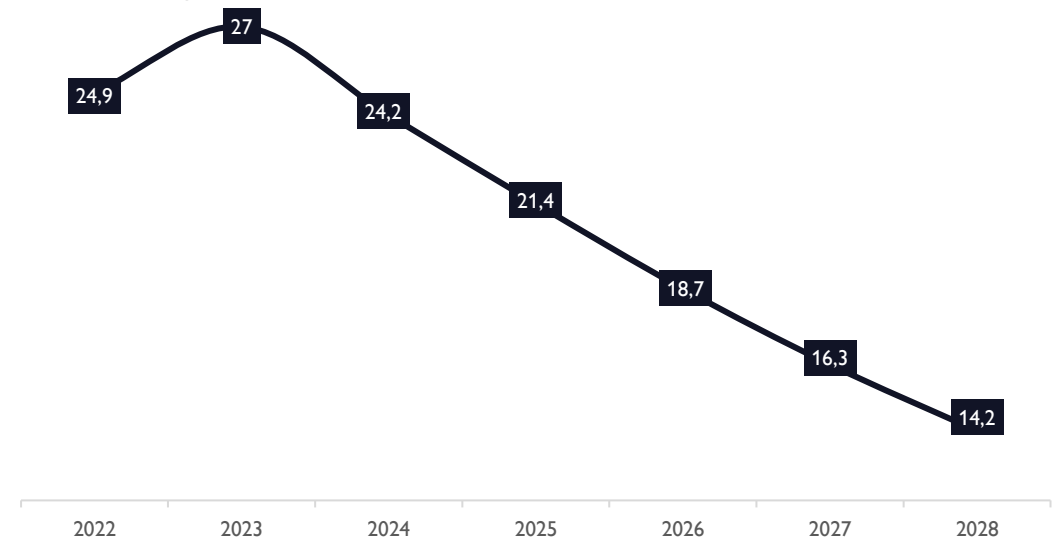
**1** Revenue projection in each scenario reflects the positive prospects of LVMH's growth  
LVMH Revenue  
EUR Bi



**2** Stock price predictions, considering current share price of 716 euros, indicate a buy rating, strengthened by falling P/E multiples.

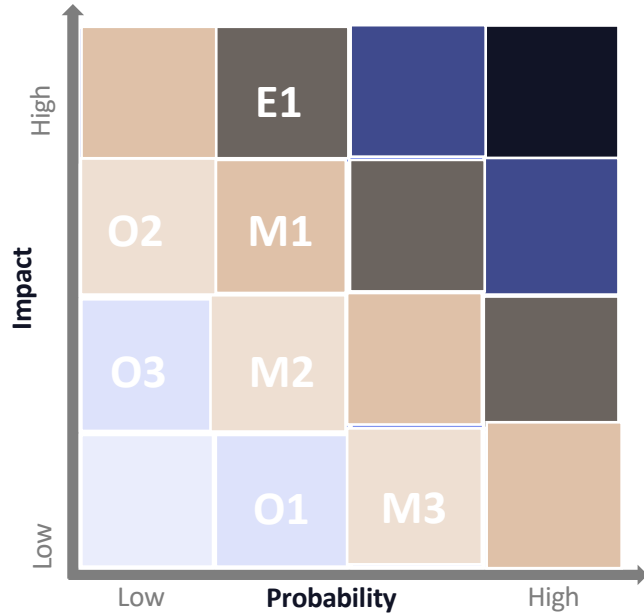
Bear Case	Base Case	Bull Case
Target price=682	Target price=828	Target price=1104
-4,8%	15,7%	54,2%
Downside	Upside	Upside

LVMH's P/E multiple



# Risks and scenarios

Risks and possible outcomes that could affect our forecasts about the company



### Operational Risks


- [O1] Problems in succession
- [O2] Mishandling stores
- [O3] Unsuccessful M&As

### Market Risks


- [M1] Slower Chinese market growth
- [M2] Higher cost inflation
- [M3] Geopolitical risk ( Russia/Ukraine)

### Macro-Economic Risks


- [E1] Global economic recession



- ◆ 2028 Gross Margin: 71%
- ◆ 2028 Adj. EBITDA Margin: 42,6%
- ◆ Enterprise Value (mm): 621.943
- ◆ EV/Revenue: 2,4x

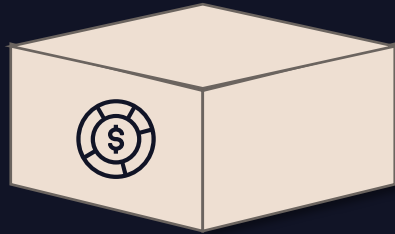


- ◆ 2028 Gross Margin: 70,3%
- ◆ 2028 Adj. EBITDA Margin: 38,5%
- ◆ Enterprise Value (mm): 471.070
- ◆ EV/Revenue: 3x



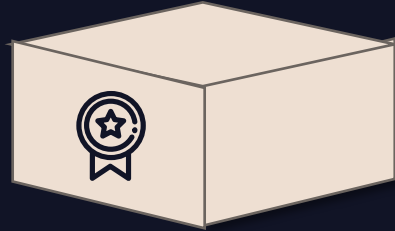
- ◆ 2028 Gross Margin: 69,8%
- ◆ 2028 Adj. EBITDA Margin: 35,7%
- ◆ Enterprise Value(mm): 390.683
- ◆ EV/Revenue: 2,6x

# Buy: Why Now?



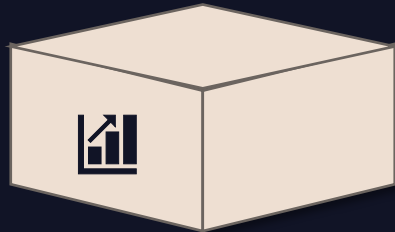
1

**Quality and diversified portfolio:** it makes LVMH resistant to regional troubles and recessions, shielding it from the most likely risks – high inflation rates and receding economies.



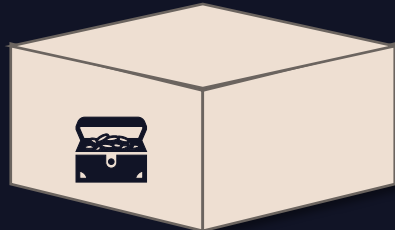
2

**Best in class operation:** ahead of competitors, LVMH is able to enjoy growing trends, and it has better margins thanks to a great and solid management that will certainly last for the next generations.



3

**Growth perspectives:** the sector is expected to grow, especially in regions where LVMH is heavily active, which, aligned with their strategic vision, make for an optimistic scenario.



4

**Valuation and return:** with a 15,7% upside for the company's stock after 5 years, as well as a 7,7x EV/EBITDA multiple, and considering the consolidation of the risks is highly unlikely, we give LVMH a **buy rating**.