

COMPANY PROFILE

LVMH Moët Hennessy Louis Vuitton SA

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TABLE OF CONTENTS

Company Overview 3
Key Facts 3
SWOT Analysis 4

COMPANY OVERVIEW

LVMH Moet Hennessy Louis Vuitton SA (LVMH) produces and markets luxury goods under various product categories and brands. The company offers its products under wines, spirits, fashion and leather goods, perfumes, cosmetics, watches and jewelry categories. The major brands of LVMH include Edun, Emilio Pucci, Loewe, Thomas Pink, Nicolas Kirkwood, Make Up For Ever, Louis Vuitton, Zenith, Christian Dior, Guerlain, Givenchy, Kenzo, Louis Vuitton and Celine. LVMH also carries out selective retailing business under the DFS, Sephora, Le Bon Marche banners. The company primarily operates in Europe, Asia, the Middle East and the US. LVMH is headquartered in Paris, France.

The company reported revenues of (Euro) EUR42,636 million for the fiscal year ended December 2017 (FY2017), an increase of 13.4% over FY2016. In FY2017, the company's operating margin was 19%, compared to an operating margin of 18.4% in FY2016. In FY2017, the company recorded a net margin of 12%, compared to a net margin of 10.6% in FY2016.

KEY FACTS

Head Office	LVMH Moet Hennessy Louis Vuitton SA 22, avenue Montaigne Paris Paris FRA
Phone	33 1 44132222
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Web Address	www.lvmh.fr
Revenue / turnover (EUR Mn)	42,636.0
Revenue (USD Mn)	48,067.6
Financial Year End	December
Employees	128,637
Euronext Paris Ticker	MC

SWOT ANALYSIS

LVMH Moet Hennessy Louis Vuitton SE (LVMH) produces and markets luxury goods under various product categories and brands. A strong brand portfolio, diversified business and strong growth in revenues provides competitive advantage to the company, whereas decline in liquidity position is an area of concern for the company. In future, growing counterfeit products, increasing labor costs in the US and Europe and intense competition could tarnish the company's brand image and in turn its sales growth. However, positive outlook for global fragrances market, growth in global wine market and growing jewelry, watches and accessories market are likely to increase the sales of the company.

<p>Strength</p> <p>Strong brand portfolio Diversified business in terms of business segments and geographic presence Steady revenue growth</p>	<p>Weakness</p> <p>Decline in liquidity position</p>
<p>Opportunity</p> <p>Positive outlook for global jewelry and watches market Growth in global wine market Positive outlook for global fragrances market</p>	<p>Threat</p> <p>Growing counterfeit products market Intense competition Increasing labor costs in the US and Europe</p>

Strength

Strong brand portfolio

LVMH sells its products under a portfolio of strong brands operating through a multi-brand concept. The company owns 70 brands. In wine and spirits segment, LVMH has a leading portfolio of champagne brands such as Moet & Chandon and Veuve Clicquot. Mercier is a brand designed for the French market, while Ruinart targets a number of priority markets, mainly in Europe. Krug is a well-known brand, specializing exclusively in high-end vintages. In the fashion and leather segment, Louis Vuitton is the leading brand. Other significant brands in this segment include Fendi, a well-known brand in furs, leather goods, accessories and ready-to-wear; and Loewe, a Spanish brand that specializes in high quality leather. In the watches and jewelry segment, LVMH holds a portfolio of quality watch and jewelry brands with strong market positions. These brands include TAG Heuer, one of the world's leading makers of luxury sports watches and chronographs; Hublot, a high-end watchmaker; Zenith, a luxury watchmaker; Bvlgari, the pace-setter for Italian fine jewelry since 1884; and Fred, a designer of contemporary jewelry pieces. LVMH is present in perfumes and cosmetics segment through its major French houses: Parfums Christian Dior, Guerlain, Givenchy and Kenzo. In addition to these renowned brands, this business segment includes Benefit Cosmetics and Fresh, two American cosmetics companies; Acqua di Parma, an Italian brand; Parfums Loewe, a Spanish brand; and Make Up For Ever, a French company specializing in professional make-up products. In selective retailing segment, DFS is the world's leading luxury retailer

catering to international travelers. A strong brand portfolio helps LVMH in increasing brand awareness and brand recall among its customers in most of its key markets. Also, it helps the company in attracting new customers thereby increasing its customer base.

Diversified business in terms of business segments and geographic presence

LVMH is engaged in diversified businesses both in terms of business segments and geographies. It primarily operates through five business segments: fashion and leather goods, selective retailing, wines and spirits, perfumes and cosmetics, and watches and jewelry. Each of these business segments generates significant amount of revenues for LVMH. The company has an extensive store network in diverse geographic markets. As of December 31, 2017, LVMH operated through a network of 4,374 stores worldwide, including 1,156 stores in Europe (excluding France), 1,151 stores in Asia (excluding Japan), 754 stores in the US, 508 stores in France, 412 stores in Japan, and 393 stores in Other markets. In FY2017, the US region accounted for 26.6% of the company's total revenues, followed by Asia (excluding Japan), the US, Europe (excluding France), France, Japan and Other Markets. In FY2017, Asia (excl. Japan) accounted for 28% of the company's total revenues, followed by the US (25%), Europe (excl. France) (19%), Other Markets (11%), France (10%) and Japan (7.2%). Its wide geographic presence shields it from risks related to excessive dependence on a single geographic market. Significant presence in diverse business segments and geographic markets protects the company's businesses from downturn in any particular business segment and country.

Steady revenue growth

LVMH reported a strong growth in terms of revenues during FY2017. The company reported revenue of EUR42,636 million in FY2017, an increase of 13.4% as compared to EUR37,600 million in FY2016. The increase in revenue was primarily attributed to strong performance from the company's fashion and leather goods, selective retailing, wines and spirits, perfumes and cosmetics, and watches and jewelry segments. Total revenue of LVMH's fashion and leather goods segments increased by 21.1% in FY2017 as compared to FY2016. Furthermore, the company's perfumes and cosmetics, selective retailing, watches and jewelry, and wines and spirits segments also registered a sales growth of 12.3%, 11.2%, 9.7% and 5.1% respectively in FY2017. Strong growth in revenues enhances the investor's confidence on the company. It also helps LVMH efficiently fund its growth opportunities in future.

Weakness

Decline in liquidity position

The company's liquidity position declined in FY2017. The company's current ratio stood at 1.4 at the end of FY2017, which was lower than that of its major competitors, Compagnie Financiere Richemont SA and Ralph Lauren Corporation which reported a current ratio of 3.7 and 2.5 during the same period. In FY2017, the company's total current liabilities grew by 17.1% to EUR15,003 million from EUR12,810 million in FY2016. Decline in liquidity position indicates the company's decreasing ease in funding its day to day business operations.

Opportunity

Positive outlook for global jewelry and watches market

LVMH could benefit from the positive outlook for global jewelry and watches market. According to in-house research report, the global jewelry and watches industry generated revenue of US\$ 540.4 billion in 2017. Jewelry and watches is the largest segment of the global jewelry and watches market, accounting for 81.7% of the market's total value. Asia-Pacific accounted for 51.1% of the global jewelry and watches market value in 2017. The performance of the industry is forecast to grow at a CAGR of 8.2% during 2017-2022 to reach a value of US\$800.2 billion by 2022. Since the company has presence in global jewelry and watches markets, it could consider business expansion initiatives in these areas.

Growth in global wine market

The company stands to benefit from the growing wine market. According to an in-house research report, the global wine market is expected to grow at a CAGR of 4.4% during 2016-2021 to reach a value of US\$ 363,739 million billion by the end of 2021. It is further expected to have a volume of 22,029.8 million litres in 2021 growing at a CAGR of 2.4% during 2016-2021. Growth in global population, rising income levels and cultural changes will contribute for the growth in the market for wine. LVMH sells wines under Chateau d'Yquem, Cloudy Bay, Cape Mentelle, Newton, Cheval des Andes and Terrazas de los Andes brand names. With the growing global wine market, the company could increase sales in new markets and increase international sales.

Positive outlook for global fragrances market

The global fragrances market is growing at a steady rate in the past few years, and the trend is expected to continue in future as well. Changing global trends and increasing brand consciousness among youth are leading to growth in the market for companies offering fragrances. Increased travel and growing concerns about social status and meetings are resulting in market growth. Economic stability in majority of the countries is also aiding the market. The rapidly growing middle class and increasing income are expected to be the major factors behind the market growth in the future. According to an in-house research report, the global fragrances market is projected to grow at a CAGR of 3.1% during 2016-21 to reach US\$42,442.4 million by the end of 2021. In terms of volume, the market is expected to grow at a CAGR of 1.9% during 2016-21 to reach 910.5 million units by the end of 2021. LVMH manufactures and sells fragrances under different brands such as Parfums Christian Dior, Parfums Givenchy, Kenzo Parfums, Acqua di Parma, and Parfums Loewe. These brands have strong presence in Europe, the Americas, Asia and the Middle East. Therefore, positive outlook for the global fragrances market would drive LVMH's sales growth.

Threat

Growing counterfeit products market

The counterfeit market has been growing in recent years driven by the internet counterfeit market. The abundance of counterfeit goods and accessories is adversely affecting the sales of branded products.

The spread of counterfeit goods has become global and the range of goods subject to infringement has increased significantly. According to the Intellectual Property Rights (IPR) Seizure Statistics by Customs and Border Protection (CBP) Office of International Trade, the number of IPR seizures reached 34,143 in 2017 from 31,560 in 2016, an increase of 8% over 2016. The counterfeit trade in watches/jewelry accounted for 38% of the total manufacturer's suggested retail price of the seizures in 2017. Counterfeit products, low on quality could hurt customer loyalty when they buy such products by mistake. LVMH was in legal battles with some of the most popular retailers such as eBay and Wal-Mart relating to sale of counterfeit products. Such events could hurt the company's relations with the retailers. Brands being its main assets, LVMH will have to divert significant amount of resources to protect its brands in the backdrop of rising counterfeit crimes.

Intense competition

The markets for fashion and accessories, perfumes, cosmetics, watches, and jewelry are highly competitive. In each of its geographic markets, the company faces significant competition from global and regional branded apparel, perfumes, cosmetics, watches, and jewelry companies. In the watches and jewelry segment, the company's main competitor is Compagnie Financière Richemont whereas in fashion and leather goods segment it competes mainly with Gucci Group (a division of Kering). LVMH also competes with independent brands such as Ralph Lauren, and Burberry which have lower priced collections. Apart from this, the company's key competitors also include Signet Jewelers and Tiffany in the jewelry segment. The key competitive factors in the industry include the performance and reliability of products, new product development, price, product identity, and customer support and service. Further, LVMH also faces significant competition from some of its large wholesale customers as they sell fashion and accessories, perfumes, cosmetics, watches and jewelry under their own private labels. High level of competition in the market place could negatively impact the market share of the company.

Increasing labor costs in the US and Europe

Labor costs have risen in the US and Europe in recent years. The federal minimum wage provisions are contained in the Fair Labor Standards Act (FLSA). According to the National Conference of State Legislatures, the minimum wage rate in the US was US\$7.25 per hour as of February 2018. The 29 states including the District of Columbia in the US have minimum wages more than federal rate. These wages range from US\$11 in California, US\$10.1 per hour in Connecticut, US\$9.25 per hour in Maryland, US\$10.1 per hour in Hawaii, US\$9.25 per hour in Michigan, US\$8.25 per hour in Illinois, and US\$8.25 in Florida. The minimum wage in Columbia is US\$12.5 per hour. Furthermore, According to the government of UK, the minimum wage rates increased from GBP7.2 in April 2016 to GBP7.5 in April 2017 on an hourly basis for adults. Further, the wage rates for the age group 18 to 20 increased from GBP5.3 to GBP5.6 on an hourly basis. The wage rates for the fewer than 18 age group increased from GBP3.87 in 2016 to GBP4 in 2017 and for the people between 21 to 24 years of age increased from GBP6.7 in 2016 to GBP7. in 2017. As of of December 31, 2017, LVMH employed 145,247, of which 32,717 were in the US and 34,159 in Europe respectively. Hence, the increase in labor costs in its two key markets could affect LVMH's operating profit margin.

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