

Hyperion Asset Management

Company Profile

LVMH Moët Hennessy Louis Vuitton SE

Main Business Activities

Louis Vuitton Moët Hennessy (LVMH) is the leading luxury goods conglomerate globally, operating across the following segments: Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewellery, Selective Retailing, and Other Activities. LVMH has over 75 different brands across these segments. Key brands include Louis Vuitton and Christian Dior, which are 2 of the 6 brands in the global luxury market with more than €6 billion in annual revenue. Hennessy is the leading cognac brand globally, and Bvlgari leads LVMH's jewellery division.

Key Value Proposition to Customers

Brand strength is the key value proposition for customers. The group's products have a reputation for high quality craftsmanship and exclusivity, which imparts status on the consumer. The key brands benefit from both heritage with a long, storied history, and provenance. Louis Vuitton and Christian Dior are French luxury brands and the majority of luxury brands come from France or Italy, with the exception of watches in Switzerland. These factors provide significant barriers to entry. The high price point, limited supply of product (demand outstrips supply) and the reputation for high quality manufacturing in France provides consumers with a feeling of exclusivity and luxury.

Sustainable Competitive Advantages and Outlook

The key competitive advantages for LVMH are the strength of the company's brands. Having a diverse portfolio of luxury brands across sectors provides resilience, scale advantages and the ability to retain and promote top talent across the group. The group has a strong management team, who are experienced and disciplined in running brands to maintain brand equity.

Overall Company Growth Options

Hyperion believe there is strong growth potential in emerging markets and also solid long-term growth potential in LVMH's smaller brands. LVMH's revenue growth will primarily come from increasing sales density in existing stores, rather than the rollout of new stores, and volume, rather than price. Hyperion believe it is also likely to acquire new brands over time.

Hyperion estimate the luxury market itself is growing at 4% to 6% per annum, with future growth driven by the trend to premiumisation and the emergence of the middle class in the developing world, particularly China. Hyperion believe growth will likely be skewed to China given their increasing demand for luxury items as a result of the following:

- 1) GDP growth fueling the wealth effect;
- 2) Demographics with millennials and Gen Z typically supported by parents and grandparents;
- 3) Social issues through a lack of social stratification leading to desire for luxury brands to portray social status, and growing empowerment of women in the workforce; and
- 4) The rise of technology, particularly social media.

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