LVMH – A Great Business with an Ugly Price

Perspectives: June 19th, 2023

French listed Moët Hennessy Louis Vuitton, or **LVMH** for short, is one of the world's truly great businesses. As a *stock* with a market capitalisation of over USD500bn, on its own it is now 13% of the French CAC index, and at 5,8% weight it is the 2nd largest index constituent in the MSCI Euro index. As such, it is *widely* owned in meaningful exposures by both passive index trackers and fund managers that cannot afford to be different to the indices and look wrong for longer than a few months.

I *like* LVMH as a business. Its chief architect is the long-serving Chairman and CEO, Bernard Arnault. His long-term vision for building this portfolio of luxury brands started in 1987, and courtesy of his personal large economic and control voting stake his vision has not been interfered with. The group has been an exemplary acquiror and long-term builder of businesses, across sectors and geographies – a rare and valuable capability. The sheer scale of the group demands respect – EUR80bn in sales and EUR20bn in operating profits, with powerful brands including Tiffany, Christian Dior, Fendi, Givenchy, Moët & Chandon Hennesy, Louis Vuitton, TAG Heuer, Bulgari, and Kenzo.

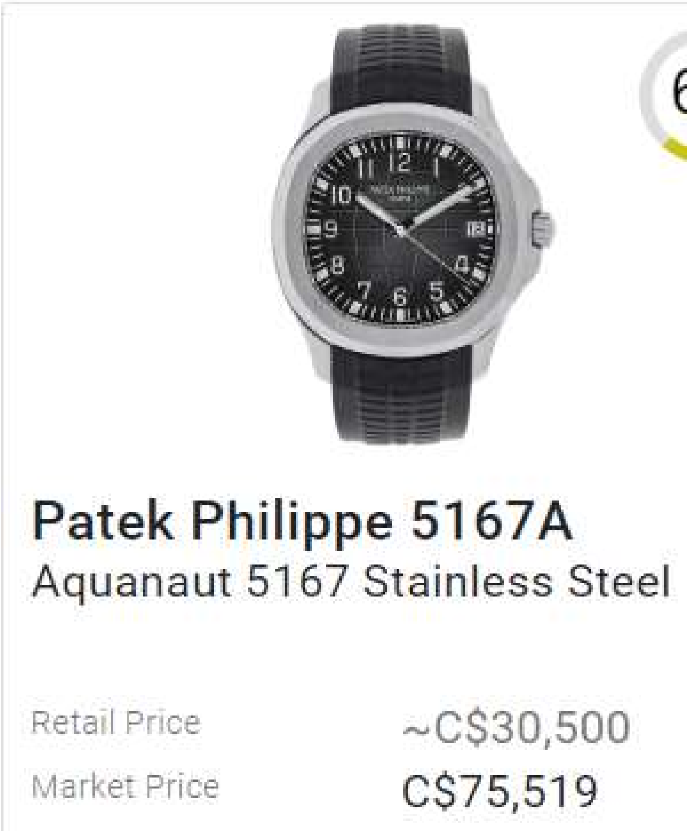
Evaluating *that which can be counted*, the group delivered a long-term [40-year] average return on equity of 16,6%. For context, a long-term average RoE of above 10% in Euro's is superb, while above 15% is *spectacular* and rare.

I *dislike* LVMH as a stock today. Not only are its current valuation multiples above its historical high points, but it is at *double* its historical high points – with one single exception being July 2000 when the share price reached EUR91 at 6x sales, 9x book value, and a dividend yield of 1%. It is instructive to look at what happened from that point in July 2000 onwards. Firstly, it took exactly 10 *years* to get back to and sustainably exceed the July 2000 share price of EUR91. Secondly, on three separate occasions, in 2001, 2003, and again in 2009, the share price had declined by at least 50% from its peak level of July 2000. Digging deeper into these painful share price declines, the accompanying deterioration in the financial results of the group during two of these three pain points was *not* meaningful at all. See the table below. The impact of a significant negative wealth effect as global stock markets declined in 2000 - 2001 and 2008 - 2009 on the sales and profitability of a luxury goods business such as LVMH becomes clear.

	2001	2003	2009
Sales	5,6%	-5,8%	-0,8%
Operating Profits	-54,0%	4,7%	-12,5%
EPS	-50,0%	29,8%	-13,3%
DPS	0,0%	6,3%	3,1%

So, the question is: "Where are we today?" At the current share price of EUR868, the implied valuation multiples are 5,6x sales, 7,9x book value, and a dividend yield of 1,4%. These numbers are eerily reminiscent of those peak levels of July 2000.

But wait, there's one more piece of important information and context – we personally know of people actively speculating in second-hand luxury goods. Below is a screenshot taken today of a popular website that tracks the so-called 'market price' of a luxury watch and compares it with its retail price. As per usual, we do not know where this insanity leads to, but we know that it always ends at some point, and usually it ends very painfully so - for some.



Our work continues…

Daniel Malan
Managing Director & Chief Investment Officer
daniel@perspectiveim.co.za

Perspective Investment Management
www.perspectiveim.co.za

Perspective

Investment Management