

Analysis of Stock Price Fluctuation Factors in Luxury Goods Industry Based on LVMH's Stock Price

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Abstract. This article collects LVMH Moët Hennessy Louis Vuitton's stock data in the past 11 years to analyze the factors affecting stock price fluctuations in the luxury goods industry. This article analyzes factors affecting stock price fluctuations by dividing time periods. Then it was concluded that the internal factors affecting LVMH's stock price include the acquisition of Belmond and Tiffany and the provision of job opportunities for the younger generation. External factors affecting LVMH's stock price include the US-China trade war, the COVID-19 pandemic, and the Russia-Ukraine conflict. Among them, the one that caused the most obvious fluctuations in stock prices was the acquisition of Tiffany. Based on the analysis of LVMH's stock price fluctuations, corresponding suggestions can be made for the subsequent development of LVMH to increase profits and avoid risks. It can also provide stock investors with advice on whether to buy or sell stocks.

Keywords: Acquisition, stock price, COVID-19 pandemic, Russia-Ukraine conflict.

1. Introduction

With the development of the social economy and people's increasing consumption demand, the consumer goods industry has become one of the main economic pillars. Consumer goods cover many fields such as clothing, shoes, and daily necessities, so they are closely related to people's daily lives. High-end consumer goods, also known as luxury goods, are usually regarded as a kind of consumption fashion and a symbol of status. Internationally renowned leading companies in the luxury goods industry include LVMH Moët Hennessy Louis Vuitton, CHANEL, Hermès, and many other companies as well. This article will take the creative and innovative LVMH Moët Hennessy Louis Vuitton as an example.

LVMH, which stands for Moët Hennessy Louis Vuitton, the establishment of Louis Vuitton occurred in 1987 with the amalgamation of the renowned fashion house, Louis Vuitton, which originated in 1854, and Moët Hennessy. This resulting entity is widely recognized as LVMH. In the year 2023, LVMH achieved the status of being the most valuable corporation in Europe, as it garnered a valuation of \$500 billion. The foundation of LVMH's success lies in its commitment to maintaining high standards of quality. LVMH exercises control over around 60 subsidiary entities and oversees the management of a portfolio of 75 widely recognized brands. These subsidiaries are usually managed independently and are organized under six divisions: Fashion Group, Wines and Spirits, Perfumes and Cosmetics, Watches and Jewelry, Selective Distribution and Other Activities. [1]

As a listed company and a leading company in the luxury goods industry, LVMH's stock price has attracted much attention from market investors. Stock prices can reflect the market's evaluation of the company's overall operating conditions. Through the fluctuation of stock prices, the company's operating conditions, market competitiveness, and industry prospects can be analyzed. Factors affecting stock price fluctuations involve many aspects. This article aims to analyze the internal and external variables that influence the volatility of LVMH stock, as well as assess the quantitative impact of these factors on the stock price. This study aims to conduct a comprehensive examination of the LVMH stock price, with the objective of gaining insights into the influence of various causes on its fluctuations. Additionally, the study seeks to identify potential hazards and provide strategies to mitigate them. The company can predict risks in advance and take corrective measures in the future. Based on analysis, shareholders can determine whether to buy or sell stocks in advance. [2]



Figure 1. Monthly Close Stock Price of LVMH

2. Data Description

This article obtained LVMH's monthly stock data from 2013.8.1 to 2023.8.1 from Yahoo! Finance. From a macro perspective, LVMH's overall stock price has shown an upward trend in the past 11 years. Before 2017, the stock price fluctuated less, and the trend was stable. After 2016, the stock price showed explosive growth. Combined with a financial report analysis, the moderate upward trend in stock prices before 2017 was a sign of accumulation of strength, but it had been undervalued by the market and was not officially recognized until 2017. In these 11 years of monthly stock data, the lowest share price was 128.6 euros on July 1, 2014, and the highest share price was 871 euros on April 1, 2023. The difference between the lowest value and the highest value of the stock price is 742.2 euros. LVMH's stock price increased from the initial value of 132.55 euros to the final value of 798.5 euros for 11 years, an increase of approximately 501.3%. From this, the overall growth rate of the stock price is approximately 501.3%.

3. Quantitative Analysis

3.1. Stock Price Trend in 2018

3.1.1 Positive Annual Report Performance

At the beginning of 2018, the stock price continuously grew. From March to April, the stock price rose by approximately 16%, and from April to May, the stock price rose by approximately 3%. The internal factors causing the continuous growth were due to the positive financial results disclosed by LVMH in 2017. Based on the annual report, it can be observed that Christian Dior Couture became a part of the LVMH Group in early July 2017, therefore strengthening the Fashion and Leather Goods business division. The income has significantly beyond the threshold of 40 billion euros, whilst the present operating profit, which has experienced an 18% increase, surpasses 8 billion euros. These strong sales data make investors in the market very optimistic about the group's development. [3]

3.1.2 Acquisition of Belmond

Another important internal factor that caused the stock price to fall was the news that LVMH would acquire Belmond in December. Some investors expressed doubts or uncertainty about LVMH's entry into the hotel industry, as the company is mainly known for its luxury fashion and spirits brands. On December 24, 2018, LVMH officially signed a contract to acquire Belmond. As investors are

usually optimistic about companies that make strategic acquisitions to expand into new markets or industries with growth potential, the stock price continued to rise in early 2019. The acquisition could be seen as a valuable addition to LVMH's business, and investors can expect revenue synergies between LVMH's brands and Belmond's high-end hospitality and travel experiences. Cross-collaboration between these brands helps increase revenue and profitability. This would also increase LVMH's earnings, supporting positive stock price trends. As more investors buy LVMH stock in anticipation of future earnings, that could push the stock price higher. The acquisition was expected to be completed in the first half of 2019, leading to continued gains in LVMH shares during the first half of the year as investors awaited finalization. All in all, LVMH's signing to acquire Belmond is likely to have a positive impact on investor sentiment, as its business scope expands into hotel management, which has also led to good stock performance for the company. Potential investors are interested in purchasing the company's shares, which also allows the company to use funds from potential investors to provide financial support for future activities, which will help LVMH expand its business scope in the luxury goods field and thereby diversify its business. [4]

3.1.3 Impact of US-China Trade War

However, the external factors affecting luxury goods sales are that as US-China trade tensions and economic uncertainty affect consumer confidence, the stock price fell slightly in June. On July 6, the US-China trade war began. The euro's strength against other currencies at this time positively impacted LVMH's earnings, which may have boosted the stock price from June to July. LVMH generates a large portion of its revenue outside of Europe, meaning changes in currency exchange rates can affect its financial results and share price. The stock price fell sharply in October, down approximately 12% compared to the previous month, and continued to fall in November, down approximately 6% compared to the previous month. [5]

3.2. Stock Price Trend between 2019 and 2021

3.2.1 Impact of COVID-19 Pandemic

The stock prices continued to rise in the first half of 2019, reflecting people's confidence in the luxury goods market. In the second half of 2019, the stock price showed an overall trend of rising first and then falling, with the stock price falling by about 5% in December. According to the chart from December 2019 to March 2020, the stock price showed a sharp decline. One of the important reasons for the sharp decline in stock prices is the COVID-19 pandemic. The stock price was relatively stable in January 2020, and investors may have been assessing the potential impact of this global event and did not make the decision to sell the stock. Shares fell about 9% in February, in turn reflecting concerns about the escalating COVID-19 pandemic and its potential impact on global markets and consumer behaviour. The worldwide economy has been profoundly affected by the COVID-19 pandemic, which has also had notable repercussions on the luxury goods market. As mentioned above, LVMH officially completed the acquisition of Belmond in the first half of 2019. The hotel industry is inseparable from the tourism industry. Travel restrictions and reduced tourism during the epidemic affected Belmond's normal business and subsequently affected LVMH's sales. Due to the economic uncertainty caused by the epidemic, many of LVMH's retail stores have been temporarily closed. Blockades, travel restrictions and other actions have led to reduced consumer spending on luxury goods. Investors may have sold luxury goods stocks, including LVMH, as a risk precaution, putting downward pressure on prices. Stock prices generally trended upward in the second half of 2020, driven by good news about vaccine development and the gradual easing of epidemic-related restrictions, as investors responded positively to signs of economic recovery and adjusted business strategies. [6]

3.2.2 Acquisition of Tiffany & Co.

When LVMH announced on November 25, 2019, that it had agreed to acquire Tiffany & Co. for \$16.2 billion, it was seen as a major strategic move to expand its influence in the luxury jewelry market. Subsequently, in March 2020, LVMH stated that considering the economic uncertainty

caused by the acquisition, LVMH announced that it would not purchase Tiffany & Co.'s shares on the open market. This move was seen as a strategy to renegotiate the acquisition price. However, the stock price has fluctuated as the COVID-19 pandemic has raised concerns among investors about the prospects of the deal. LVMH decided to abandon the deal in September 2020, while Tiffany decided to sue LVMH after LVMH withdrew from the deal. This further adds to uncertainty and legal challenges, and litigation of this nature could negatively impact investors. Reduced investor confidence had a negative impact on share prices, causing LVMH shares to rise just 1%. The abandonment of the deal was reportedly influenced by contemporaneous external factors, including a French government request to delay the acquisition due to trade tensions between the United States and France. [7]

In October 2020, the European Commission officially approved the merger of LVMH and Tiffany. LVMH and Tiffany subsequently announced that they had finalized a merger deal, and LVMH would pay Tiffany \$131.5 per share, lower than the price tag per share they originally agreed to before the outbreak of the new coronavirus in November 2019. The confirmation of the transaction caused LVMH's stock price to surge sharply. Investors believed that LVMH had great development potential, and the stock price rose by approximately 20%.

In January 2021, LVMH confirmed the completion of its acquisition of Tiffany & Co. With the successful completion of the acquisition, investors are very confident in the future development of LVMH. It also marked an important milestone, causing LVMH's share price to rise slightly. According to the 2021 annual report, it is evident that Tiffany has significantly contributed to the overall success of LVMH. Specifically, the profit from recurring operations for the Watches and Jewelry segment amounted to 1,679 million euros, representing a substantial increase from the 302 million euros recorded in 2020. The considerable rise in performance resulted in a robust performance for LVMH. The Watches and Jewelry business group had a notable increase of 10 percentage points in its operating profit, reaching 18.7% of revenue.

3.3. Stock Price Trend in 2022

3.3.1 Impact of Russia-Ukraine conflict

In the first half of 2022, LVMH's stock price showed an overall sharp downward trend. From a macro perspective, this is closely related to the world development situation. The Russia-Ukraine conflict that broke out in February restricted Europe's overall economic growth with higher energy and food prices, exacerbating the inflationary impact of the COVID-19 epidemic and global supply chain shortages. LVMH has closed 140 stores of its brands in Russia, but at the same time, it will still pay wages and benefits to its employees in Russia as usual. Supply chain issues arising from the outbreak of conflict include logistical issues in the wine and spirits sector, including shortages of glass bottles, and raw material issues in the jewelry sector, such as the decision to stop purchasing diamonds from Russia following the invasion of Ukraine. These have affected the normal operations of LVMH, causing some investors in the market to be unfavorable about LVMH's subsequent development, causing the stock price to fall. The ensuing inflation has caused the United States and many other countries to raise interest rates, which is very detrimental to American investors who have adapted to low interest rates. The appreciation of the dollar against the euro and other foreign currencies, driven by increasing interest rates, has resulted in a more pronounced decline of LVMH's American depositary receipts (ADRs) traded in dollars on U.S. exchanges compared to the same shares traded in Paris. [8]

3.3.2 Provide employment opportunities for younger generations

The stock price rose in September 2022 as LVMH implemented an expansion to provide training and employment opportunities for young people from all backgrounds. LVMH built the INSIDELVMH.com platform to improve students' understanding of the luxury goods industry, provide them with professional training, and help them prepare for careers. For 16 years, LVMH has

ranked first on Universal's list of companies most attractive to French business school students. LVMH's plan was recognized by the market, and its stock price rose as a result. [9]

4. Conclusion and Suggestion

This article analyzes LVMH's stock data in the past 11 years, focusing on the time period when the stock price fluctuated greatly, and then discovered two acquisitions within LVMH during these 11 years. The acquisitions of Belmond and Tiffany had a great impact on the stock price fluctuations. Especially the acquisition of Tiffany, so acquisition behavior is seen as an important internal factor affecting stock price fluctuations. In addition, due to some employee-friendly policies within LVMH, such as paying wages and benefits to Russian employees as usual during the Russia-Ukraine conflict and providing job opportunities for the younger generation to solve employment problems, the market is optimistic about LVMH's subsequent development and has a positive impact on the overall stock price. It had a certain positive impact. The stock price variations of LVMH are significantly influenced by external variables that are intricately connected to the prevailing social development landscape. Notably, the ongoing US-China trade war, the global COVID-19 pandemic, and the Russia-Ukraine crisis have exerted substantial influence on the stock price of LVMH. The Sino-US trade war has increased economic uncertainty and currency exchange rates have also changed. When the COVID-19 pandemic broke out, the country was under closed management and then gradually returned to normal life. The Russia-Ukraine conflict has suppressed overall economic growth in Europe, and LVMH is facing shortages of raw materials and supply chains. In short, these factors have an impact on both consumer behavior and investment behavior.

Through the above summary analysis, one of the reasons why LVMH has become a giant in the luxury goods industry is to expand its industry and market influence by continuously acquiring other brands. Given its involvement in several sectors through acquisitions, LVMH has established six internal divisions to facilitate its everyday operations. These divisions encompass the fashion group, wine and spirits, perfumes and cosmetics, watches and jewelry, selective distribution, and other activities. These departments promote their products through cross-cooperation, thereby attracting more consumers to buy and increasing profits. Because the group's sales are always growing, the company's EBIT is also increasing, increasing its earnings. This also makes the market generally optimistic about the development of LVMH. For stock investors, investors should analyze the business of the selected company before making an investment. When investors know that one of the factors that promotes the rise of stocks is acquisitions, they can buy stocks in advance the next time the group intends to acquire them and gain profit growth after the formal acquisition. Stock investors should not invest blindly. Not only may they not achieve the expected rate of return, but they may also lose the initial investment.

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