

LVMH Strategy and Financial Analysis of LVMH Group

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Abstract. In the current environment of economic downturn, frequent regional conflicts and continuous impact of COVID-19, the luxury industry and fashion industry are also expanding with the trend of The Times. These industries have their own unique judgment on the current situation, and their strategic layout is constantly updated and changed with a deeper understanding of the situation and more accurate judgment. Through corporate strategy and financial indicators, this paper analyzes how LVMH Group, as a leader in the luxury industry and fashion industry, avoids risks in the face of multiple difficulties, carries out self-transformation and innovation, constantly realizes the digital transformation of LVMH enterprises, highlights and gives play to its comprehensive advantages, and implements merger and acquisition strategy to increase the company's profits. The analysis of the company can reflect from the side how the luxury industry and fashion industry promote consumption and economic development through their own strength under the current situation.

Keywords: luxury industry; Strategic layout; Financial analysis; LVMH group.

1. Introduction

1.1. Background

With the development of The Times, the luxury industry is constantly expanding. In the context of the global epidemic and sustainable development, the strategic layout of the luxury industry also changes randomly, and the global market is unpredictable. The Chinese market is still an important subject for the expansion of the luxury industry. However, how to deal with different consumer groups in the global market, how to deal with the changes in human health conditions under the epidemic, and how to increase the market profit space are still important propositions of the luxury industry. However, the definition and demand of luxury are constantly changing. The digital transformation of the luxury industry, the increasing trend of younger users, large base and strong resilience have always been the characteristics of luxury products. Therefore, luxury products need to seize opportunities and avoid risks in this era to achieve positive growth. At this time, faced with the challenges of the epidemic and the economic downturn, the luxury industry did not suffer much negative impact, and even the luxury consumption gradually returned, and because of the widening gap between the rich and the poor, the consumption momentum of high-end consumers is even more fierce. As the leading group in the luxury industry, LVMH has given a unique answer to its development in this era. Despite the complex situation, LVMH still maintains its revenue and profit growth, and continues to maintain its M&A strategy.

1.2. Related research

The rise and fall of the luxury industry is closely related to the development of the global economy. There are three important time nodes. The first one is between the two industrial revolutions. Second, after World War II, people desperately needed to enjoy life in the period of peace and stability, so the luxury industry should develop. The third is that around the 21st century, due to the strengthening of global economic integration, various emerging economies have become the most popular names for the development of the luxury industry. Meanwhile, the industry also began to integrate its own capital for reproduction and expand the monopoly situation [1]. If the industry's history has been driven by economic growth, in recent years it has been driven by technology and innovation. In recent years, the fashion industry has grown more reliant on artificial intelligence and social media, where

the two intersect to predict trends. The short term forecast is based on the analysis of product evolution to get the future product, while the long term forecast is based on the industry direction to reposition the product and development strategy [2]. As the head of the industry, LVMH Group has a core concept that keeps the whole company creative and revolutionary. So how do you keep that going? The first is to hire people who are curious and open to creativity. The second is that the company itself has very talented designers, and young designers gravitate to the company because of the magnet effect. Last but not least, the history of the company's brands is the root of the company's advantages. Since different brands of the company have different historical birthplaces, each brand has its own unique story, so it has its own revolution [3].

However, due to the changes in the international environment, sustainable development has become the consensus of the luxury industry. LVMH's competitor Kering Group has gained the upper hand in the achievements by virtue of its long-term sustainable development strategy. However, LVMH Group is not weak either, and has signed a strategic partnership agreement with UNESCO and supported the intergovernmental scientific projects of the organization [4]. Under the influence of COVID-19, all major companies, including LVMH, have donated funds to fight against the virus. Major luxury stores have closed a large number of stores under the impact of the epidemic, and the important clothing and textile industry needs to show its own characteristics in the fashion week, which has also been postponed indefinitely due to health problems. The progress of the global market has gradually slowed down, and the corporate financial budget has been changed [5]. Against the background of normalized epidemic prevention and control and the global economic downturn, consumers reduce unnecessary consumption expenditure, downgrade consumption, and start to choose healthy and cost-effective products and services. As a result, the fashion industry has become more dependent on online retail; The development of the fashion industry needs to be based on the brand value so as to upgrade precipitation; The development of the fashion industry also requires more in-depth digital transformation. By means of the Internet and big data, online experience is combined with offline experience and modern logistics to provide consumers with more perfect user experience [6].

In such a complex environment, LVMH has always been a pacesetter in corporate mergers and acquisitions, and its internal control before and after mergers and acquisitions has given the company a large space for profit growth. According to LVMH's internal control report, it can be seen that the group attaches great importance to risk and governance. Good internal control can help the stock price of the enterprise not to fall sharply after the merger, which can help reduce the negative impact of the merger goodwill on the company [7]. There are many successful M&A cases of LVMH Group, which provide impetus for its development after M&A. From 2002 to 2018, LVMH Group's operating revenue and operating profit increased, and its earnings per share also showed an increasing trend, with low asset-liability ratio and high turnover of accounts receivable. Facts have proved that LVMH Group's merger and acquisition is in line with the trend of economic development and provides support for the group's sustainable development [8]. At the same time, LVMH Group continues to launch digital innovation. LVMH launches the world's first luxury block chain platform and provides it to all brands. The aim of this amazing operation is to prevent counterfeiting, to solve the problem of fakes at the source, to protect intellectual property and creation, to avoid advertising fraud and the second-hand market of fakes. LVMH has also simplified the name of its e-commerce site, calling it 24S, a move that will make the site more recognizable and facilitate the company's market expansion [9]. The future of the luxury and fashion industries is full of opportunities. After 2021, the three luxury groups saw growth in net profit, abundant cash flow and confidence in the short to medium term future. Hermes Group's operating revenue reached a new high, but its capacity was insufficient. The return of Gucci under Kering Group made its performance increase significantly; LVMH saw growth in all its business units [10].

1.3. Objective

This paper will study how LVMH Group, which has a long history, develops its own business strategies in combination with its own characteristics and develops the group through these strategies in the context of the sluggish environment. The first part mainly introduces the development background of The Times; The second part mainly introduces the characteristics, history and development strategy of LVMH Group. The third part will demonstrate the company's development and superiority through quantitative indicators such as profitability, operating capacity and sustainable development capacity. The fourth part will study the impact of the epidemic on LVMH Group in recent years and the new profit growth point of LVMH Group. The fifth part will draw conclusions and promote further research on the relationship between LVMH Group's development, industry development and economic development in the future.

2. Method and data

The article will adopt the method of financial analysis and strategic analysis, and use multidimensional indicators to show the company. The following financial measures will be used: gross margin, net margin, accounts receivable turnover, cash ratio, return on capital, and operating margin. Through these data show the company's profitability, operating capacity and development capacity. SWOT model and Value chain model will be used to analyze the company's development history and strategy.

$$\text{Gross profit margins} = (\text{Gross profit} / \text{Revenue}) * 100\% \quad (1)$$

$$\text{Net profit margins} = (\text{Net profit} / \text{Revenue}) * 100\% \quad (2)$$

$$\text{Receivables turnover ratio} = (\text{Net credit sales} / \text{Average net receivables}) * 100\% \quad (3)$$

$$\text{Cash flow ratio} = \text{Market price per share} / \text{Present value of cash flow per share} \quad (4)$$

$$\text{Return on capital} = (\text{Net operating profit} - \text{Adjusted taxes}) / \text{Owners equity} * 100\% \quad (5)$$

$$\text{Operating margin} = (\text{Operating income} / \text{Net sales}) * 100\% \quad (6)$$

3. Results

As shown in Table 1, its gross profit rate has a small change in five years. In 2020, due to the impact of the epidemic, the gross profit rate has a small decline. However, in 2021, the group makes a quick response and increases the product price, so the gross profit rate rises. These changes can also be seen in the year-on-year changes of profit margin and operating profit, which indicate that LVMH's profitability is stable but rising. From the perspective of LVMH's accounts receivable turnover rate, it can be seen that before the epidemic, the turnover rate of accounts receivable increased, indicating that the company's accounts receivable turnover speed was accelerated and the turnover capacity was also improved. In 2020, due to the impact of the epidemic, the turnover speed decreased, but in 2021, the turnover rate of accounts receivable increased significantly and the turnover speed increased. From the perspective of cash ratio, LVMH has kept between 20%-30% in the past five years, indicating that it has strong ability to directly repay current liabilities, can repay debts on time and has low risks. As shown in Table 2, the perspective of total assets, total assets continue to rise and increase year-on-year, indicating that LVMH has strong ability of sustainable development. From the perspective of return on capital, the use effect of LVMH's invested funds was affected by the epidemic, but it improved in 2021, indicating that the company is good at creating value and pays attention to long-term development.

Table 1. Financial data of LVMH

YEAR	2017	2018	2019	2020	2021
GROSS PROFIT RATE	65.33%	66.63%	66.23%	64.46%	68.30%
PROFIT MARGIN	12.58%	13.57%	13.36%	10.53%	18.74%
ACCOUNTS RECEIVABLE TURNOVER RATE	15.73%	15.72%	16.09%	14.39%	19.63%
CASH RATIO	0.28	0.31	0.28	0.82	0.38
RETURN ON CAPITAL	15.44%	16.35%	14.93%	7.43%	16.12%
OPERATING PROFIT YEAR-ON-YEAR	25.79%	23.54%	13.06%	-34.91%	136.61%
OPERATING PROFIT	5886.96	7272.88	8222.69	5352.36	12664.30
TOTAL ASSETS	69755	74300	96507	108671	125311

4. Discussion

Due to the impact of the COVID-19 pandemic, LVMH has broken away from the growth of previous years. Results for 2020 showed a year-on-year decline due to months-long store closures around the world and disruptions in international travel. From the perspective of regional business, the business in the United States, Europe and Japan has been largely suspended, resulting in a decline in LVMH Group's operating income in these three markets. From the perspective of business segments, the watch and jewelry sector suffered the biggest decline. LVMH's weakness also lies in these two parts in recent years. LVMH Group has been planning to acquire TIFFANY and the acquisition was completed in 2021. LVMH Group, as the leader of luxury goods, is in the forefront of fashion, and frequent change of designers is its secret weapon to maintain profits. As early as 2018, the group replaced the designers of Louis Vuitton men's wear series and Celine designers. After the epidemic, the group restructured the design and adjusted some personnel arrangements in the organizational structure. Although the revenue of LVMH Group declined after the outbreak of the epidemic, the effect of big brands is still obvious, and consumers' money flows to high-end luxury goods. Luxury goods are also on the rise. Louis Vuitton has raised its prices five times in the past year, including by as much as 54% in February. The rising price of luxury goods has won the hearts of high net worth people, and the sales volume is not reduced because of people's psychological needs. In the Chinese market, buying a bag is easier than buying a house, and buying a bag is better than buying a financial product to preserve value. This combination of punch, so that LVMH Group profits surge.

LVMH Group consists of departments such as marketing, sales, monitoring, finance and human resources, and six departments, including wine and alcohol, fashion, leather goods, perfume, cosmetics and watches and jewelry, are responsible for supervising more than 50 brands under them. There is a strong interest in mergers and acquisitions at the top of the group, but the branded subsidiaries remain largely autonomous and the original owners can still have a huge influence in their own territory. Group mergers and acquisitions also serve the purpose of seeking new knowledge, expanding network, and building exclusive communication platform of LVMH, so as to establish connections between designers and between designers and consumer groups, thus achieving the purpose of marketing. Many famous brands build together to form a luxury party, such a party is the best sales platform. The brand formed in this way will be recognized by high net worth consumers and establish a brand image. LVMH Group is more based on its global market segmentation, good after-sales maintenance service, excellent quality and high price. These features have attracted millions of consumers and investors. Data in recent years show that the average net interest rate of LVMH Group in the past five years is 13.99% higher than the industry average of 12.16%, and the average ROE index in the past five years is 20.95% higher than the industry average of 16.42%. These data prove that LVMH Group's profitability is strong with its ability to resist risks, the return on

shareholders' investment is directly proportional, the company's operation continues to improve, and it is suitable for and attracts shareholders' investment.

Table 2. Data of LVMH

	2019	2020	2021	TTM
Operating (Bil)	11.65	10.9	18.65	18.19
Investing (Bil)	-5.87	-2.94	-15.98	-4.05
Financing (Bil)	-4.73	7.4	-15.16	-14.23

As shown in Table 2, cash flow from financing activities of LVMH Group was negative in 2019 and 2021, cash flow from investment activities was negative in the past three years, and cash flow from operating activities increased from 2019 to 2021 except for a slight drop in 2020. This indicates that the cash flow generated by the business activities and the cash flow generated by the investment will be repaid when the debt matures, and the proportion of shareholders' equity will increase, so the shareholders can distribute more dividends now and in the future, which is also conducive to the improvement of stock value.

5. Conclusion

Through the analysis, the following conclusions are drawn. The paper provides an opportunity to have a deeper understanding of the development trend of the luxury and fashion industries and the strategic layout of LVMH Group in the current era. The paper finds and indicates the development and trend of LVMH Group under unstable conditions. For example, against the background of the epidemic, LVMH Group's profit declines, and then expands its territory, increases its profit and develops the group through the strategies of price increase, product innovation, company merger and acquisition and market expansion. Future studies should more carefully consider the potential impact of consumer and investor psychology on industry and brand growth. Looking into the future, further research will be very beneficial to LVMH Group, the luxury fashion industry and economic development.

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