



# The Financial Statement Analysis of LVMH

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**Abstract.** This article analyses the commercial, financial and market performance of Louis Vuitton Moët Hennessy-LVMH, which is grand enough to become synonymous with luxury brands. So in this article, there will be a slight insight into the strategies and some subtle financial aspects of the popularity of the luxury industry. First, the article describes the current situation and background of LVMH. It then takes the reader through the six key management models of LVMH. The article also uses Political, Economic, Social, Technological, Legal and Environmental Factors- PESTLE to analyse the strategic direction of LVMH. It also draws conclusions about future strategic directions and developments in relation to the strategies already used by LVMH. The second important section analyses the three most important competitors of LVMH, Richemont, Kering and Hermès. The last section analyses and compares them in two ways: financial performance and SWOT analysis. It is hoped that it will give some ideas and directions to new companies wishing to enter the luxury industry. It is also hoped that LVMH's own client base will come to understand them better and trust them more, helping them to build a closer bridge with their clients.

**Keywords:** Strategy · Main Competitors · Income Statement

## 1 Introduction

LVMH is a family-run business. It is presently one of the biggest extravagance merchandise companies in the world, which has been pursuing the primary direction of luxury goods. The main client base is additionally normally affluent individuals. The main products they own and sell are wines and spirits, leather and fashion goods, perfume and cosmetics, watches, jewellery and franchise retailing. The first specified wines and spirits accounted for the largest extent. They likewise have numerous subsidiaries and have collected many well-known luxury brands. Therefore, their topographical dispersion is also exceptionally broad. It deserves a more comprehensive and detailed investigation and analysis.

### 1.1 Background of LVMH

The brand LVMH is a composite acronym for Louis Vuitton and Moët Hennessy. In 1987, Louis Vuitton, the world's leading fashion and leather manufacturer, and Moët Hennessy, the world's dominant wine producer, announced their merger to form a major

luxury goods manufacturing and distribution group. Most of this unification was carried out by Bernard Arnault, who is the CEO of LVMH and held more than 50% of the shares. But at that freshly merged stage, they did not integrate very well and there was almost no interference in the actual running of the business. This was a very important part of their strategy in the latter years. The Arnault family has maintained a shareholding of over 46% and a voting stake of over 62%, firmly controlling the direction of the company and its decennials of billions of euros a year in luxury goods. LVMH is now a luxury goods empire with a market capitalisation of over 53 billion euros, annual sales of over 20 billion euros, a net profit of over 3 billion euros and 71,000 employees worldwide, and this is of course only in economic terms. [1] In addition, Asia was a particularly effective arena for LVMH, with the region making up a third of the company's overall revenue, outpacing every other part of the world by at least 10%.

## 1.2 Motivation

Since 1987, Louis Vuitton has become the world's largest and best-known luxury goods group. Louis Vuitton is also an early and fast-growing brand, although it has experienced its share of failures. This is why the entire group, including its brands and companies, is actively promoting the market. In a sense, it is also an incentive for its competitors, as it is a very competitive group. When the company's development is positive, it likewise gives employees which have exceeded 163,000 more confidence and motivates them.

## 1.3 Contribution

Positively, this post will demonstrate some inspiration for new companies looking to enter the luxury industry. They could use the analysis section to find out and follow LVMH's management style and marketing strategy. Hopefully, it could also help LVMH to plan and improve better. Wish It will be a useful introduction and list of the financial statements of LVMH.

## 2 Literature Review

LVMH is the hottest and largest luxury group at the moment. They have become a leader in the luxury industry because they have a very well developed and forward-thinking strategy. It is not impossible to derive that merger and acquisition is a key strategy for LVMH to create wealthy, and that its merger and acquisition activities create a comprehensive industry. LVMH itself was born out of mergers and acquisitions. [2] They have been on the acquisition trail since the company's inception, in 1989 they started. Their acquisition targets are the big luxury brands like Celine, Dior and Fendi, they don't spend their energy overdoing it on smaller companies. But they will maximise the benefits they can get on each brand they acquire, which is why luxury brands are willing to join LVMH. According to the agreement announced on November 25, 2019, LVMH will acquire Tiffany, the global luxury jeweler, for \$135 per share in cash, in a transaction with an equity value of approximately €14.7 billion or \$16.2 billion." On Nov. 25, 2019, LVMH acquired Tiffany & Co. With \$16.2 billion. [3, 4] A more detailed

analysis and presentation of LVMH's business model and strategy will be presented in the next section.

Another very significant reason for LVMH's success is the fact that they have competitors who are always alongside them and pushing them forward. [5] They are very different in terms of products, brand acquisitions and brand management: LVMH puts its own logo on every product. But Richemont does not they are more independent of their brand.

### 3 The Analysis of LVMH

#### 3.1 Strategy of LVMH

##### 3.1.1 Management Model

###### (1) Decentralized Organization

They use a relatively decentralized management structure [6] to motivate groups or companies to have their own space to understand and fulfill the needs of their customers. With this approach, the brands in this situation are less compact and similar, and they are all relatively independent. Therefore, the various branches of LVMH will be closer to their customers, allowing them to make changes and enhancements to satisfy their customers' needs.

###### (2) They apply Organic Growth

LVMH's structures are very rigorous. Their employees are recruited and selected strictly to join the company. Since its initiation, LVMH has been a group with strong globalization. So they need employees who are at least good at language (English first). As a consequence, it takes a long time to train the staff and then make an accurate assessment. This is also a big challenge for their Human Resources. That shows that they always focus on their internal growth at first to develop their products. In terms to protect creativity, they need to encourage their employees to be more active and productive.

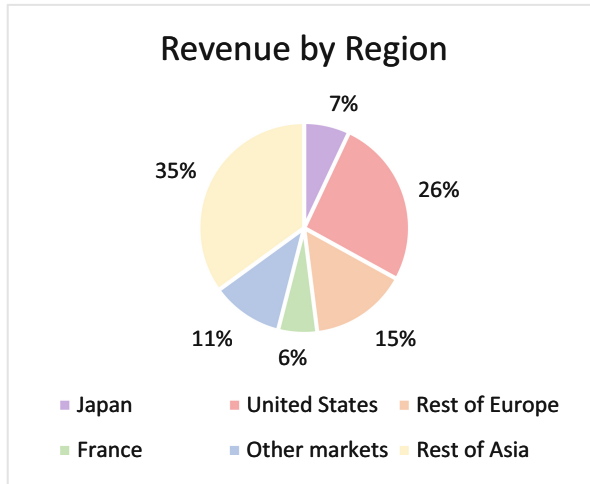
###### (3) There is also a Vertical integration in LVMH

Vertical integration is when a business expands by acquiring another company that operates before or after them in the supply chain like the start of LVMH could be a vertical integration. This permits control over each connect within the esteem conglomerate, from sourcing and generation offices, particularly retailing. This integration further ensures total control over the depiction of their Maisons.

###### (4) They are creating synergies

The sharing of resources across the company creates bright synergies while respecting the individuality and autonomy of their companies. The combined strengths of the LVMH are mobilized to the benefit of each of its brands.

Because of the group's size, sharing resources is an absolutely satisfactory way of tying them together. They can share resources to access new sources of clients and skills, which create synergies. But at the same time, they still have to keep the subsidiaries at arm's length. Instead of tying them together completely, they use their combined strengths. This means they can distribute the benefits evenly to each of their brands.



**Fig. 1.** The Revenue by Region by LVMH. Graph credit: Original

(5) They sustaining savoir-faire

In this case, savior faire alludes to a convention, which can be a conventional thought, but basically means traditional craftsmanship. The misfortune of conventional craftsmanship within the 21st century is exceptionally critical, so LVMH does its best to preserve its own unmistakable craftsmanship and quality. They have a long-term thinking, driving a modern era to esteem and protect craftsmanship.

(6) The most essential one is they balance across business segments and geographies

Since of the measure of the company and the specificity of their extravagance merchandise, their topographical versatility is additionally remarkable. They have to be conveyed their companies equitably to advance an adjusted trade. The chart underneath appears the geographical dispersion of LVMH that shows the largest share is in Asia, which is 35%. This moreover appears that there's an attractive show to exhibit their new products which can attract new consumers. That could lead to an increase on their revenue of LVMH, which could be taken by France who have only 6%. The Fig. 1 show the revenue distribution of LVMH for 2021 [7].

### 3.1.2 PESTLE Analysis of LVMH

- (1) Political: Political components are one of the key factors for LVMH and have had a huge effect on the advertising environment. Not only financial components, but also modern approaches, commerce rules and controls have had an ingrained effect on LVMH's improvement within the UK market. According to The Economist (2009) value added tax has increased by 2.5% which created the threat to market as there would be restriction and hindrance in consumer spending. There is also long term influences on customers buying behaviour due to certain rise of net tax 6.255 billion pound spending the cuts of 8.855 billions pound in the end of 2011 and in 2015

the net rise of 8.23 billions and would have huge impacts on customers buying behaviour [8].

- (2) **Economic:** Economic factors include various factors such as inflation rates, GDP and unemployment rates. Inflation in the UK reached 7% this year, which is the highest rate since 1992. This will also affect the spending power of customers. Also, the UK revised 7.4% growth in GDP in 2021 is exceptional for goods production. Unemployment is falling and the unemployment rate was 3.8% in April 2022, but the situation is not serious as there are still wealthy upscale who are free to buy luxury goods.
- (3) **Social:** Social factors include demographics, cultural and religious norms, and social practices and trends LVMH is closely linked to social factors. LVMH targets more immense income groups. The company creates an image that is consistent with social identity theory. Therefore, consumers believe that consuming LVMH products increases social identity and shapes social image, which lead to most buyers are conscious of graduate professionals self world and higher social reputation.
- (4) **Technological:** LVMH uses the latest technology to promote its products through its website or its corporate software. The marketing department of LVMH could receive customer feedback on social media and indeed submit it to the company for internal promotion.
- (5) **Legal:** Whereas there are many laws that large corporations need to be concerned with when doing business in multiple countries, the most important legal factor for any luxury brand is ‘counterfeiting’. For LVMH, counterfeiting remains a challenge on a global scale. In addition, the company needs to analyze in detail the commercial and employment laws of the countries in which it wants to invest; whether these laws are compatible with its business model.
- (6) **Environmental:** LVMH is committed to environmental protection and sustainability. The company approves an environmentally sound approach in line with its business and core values. The company uses natural materials to preserve biodiversity. They has also established an Environmental Affairs Department to encourage a culture of ecological practices.

### 3.1.3 Strategic Strength of LVMH

- (1) **Multi-disciplinary expansion**

Their most distinctive feature is portfolio management [9] which is based on diversification through acquisitions where the headquarters are not precisely involved in the management and strategy of the subsidiary. Diversification is not only reflected in the products as mentioned in the introduction, but also in their business coverage. The media business included in the LVMH group builds two of the international Art magazines sold on the market, six newspapers sold in France, radio Internet, etc. Take the classical radio station (Radio Classique) as an example. It has a huge influence in France and has an advertising network covering the whole of France. It attracts nearly 600,000 listeners. Their added value comes from maintaining tight financial controls and economies of financial scale, which results in external capital markets being very effective in capturing information about the company and external investors being able to act expeditiously when essential.

**(2) Entrepreneurial spirit**

LVMH is very unanimous and constructed internally. They focus on the training and development of their employees. LVMH provides a clear vision of “product quality, creativity, image, entrepreneurial spirit, and the willingness of its employees to constantly address their own achievements and strive to be the best.”, which guides and motivates the company to maximize company-wide execution. Their administration is additionally excellent, so their vision inspires and drives the team and is an extraordinary guarantee that they will achieve their objectives.

**(3) Establishing unique values**

Each brand has its own unique brand culture and history. LVMH is known by consumers for all aspects of its fragrances. They create unique values, and luxury products are able to meet the emotional needs of consumers because of their ‘luxury’ differentiation and cultural connotations. This allows them to better attract consumers and increase their confidence, which in turn increases brand awareness and reputation.

**(4) Core competencies**

As consumers know, LVMH has always been in the leading position of luxury brands. Competitiveness is one of the most important things to reinforce and bolster. They share the resources and information of their subsidiaries, thus being agile enough to innovate against their competitors. This has enabled them to be at the forefront of brand innovation. Being agile with information and data can also keep them from being overwhelmed or beaten by their competitors. In addition, their vigilance in the face of the global health crisis is also an action that is faster than their competitors.

**3.2 Main Competitors of LVMH**

LVMH’s biggest competitors are Kering, Richemont and Hermès. They are all among the largest luxury brands in the world and are amid the top in terms of market share. Likewise, they distribute a similar customer base and products. Richemont in particular began nearly at the same time and has developed and battled side by side with LVMH for a long time to end up the second biggest extravagance brand in the world. Kering, Richemont and LVMH are both groups with many impressive subsidiaries, which are very comparable. The difference is that Hermès is a family business, it has no subsidiaries. But the fact that they have managed to achieve a similar intensity to LVMH without subsidiaries shows that they also have their own unique and effective managing model. The remaining part of the paper proceeds as follows: the income statements of the three main contenders and SWOT analysis.

**3.2.1 Income Statement of LVMH, Richemont, Kering and Hermès****(1) Income statement of LVMH**

As shown above in Fig. 2 [10], LVMH’s financial level is still at a high level. Their operating income is a measurement that demonstrates how much of LVMH revenue will eventually become profits. Operating income is similar to a company’s earnings before interest and taxes (EBIT). In the table above EBTI is still a very

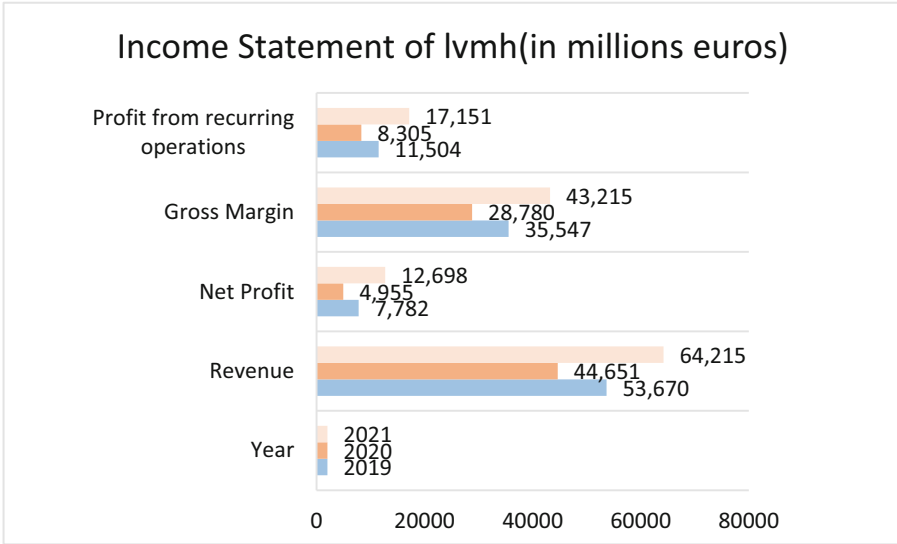


Fig. 2. The Income Statement of LVMH (in millions euros)

Table 1. The financial Statement of Richemont [11]

	2021	2020	Change
Sales	13,144	14,238	-8%
Operating profit(in millions of euros)	1,478	1,196.4	-3%
Earning per share	2.296	1.646	+39%

substantial value, demonstrating that LVMH is doing well over the last three years. But regardless of where any of the data points, 2020 is the relative worst year. But the table also shows that there is a recovery here in 2021 which fills in part of the missing 2020.

(2) Income Statement of Richemont

According to the Table 1 from the beginning of this page [11], Richemont is the opposite of LVMH. Their sales were instead higher in 2020 than in 2021. This represents that they have not been greatly affected by the global health crisis. Alternately, a slippage occurred in 2021 when LVMH made some progress. But Richemont’s earning per share (EPS), which is a figure depicting a public company’s benefit per exceptional share of the stock, went up. The more expensive a company’s earnings per share, the more profitable it is. So this also shows that Richemont has always had strong profitability.

(3) Income Statement of Kering

Kering’s revenue for 2021 is €17,645.2million [12], an increase of 34.7% compared to 2020. This shows that they have not weathered the sudden decline in

covid-19 well either. This is also reflected in their EBITDA which shows profitability before interest payments, tax, depreciation and amortisation. In this respect Kering and LVMH are the same, and they are more significantly covered in 2021 than LVMH.

(4) Income Statement of Hermès

Hermès is in the same situation as LVMH and Kering. They are also similarly affected by Covid-19 and thus have a negative growth in REVENUE from 2019 to 2020 which is  $-7.2\%$ . Their profits are also at a three-year low of €1,385million in 2020.

In the financial assessment of the four groups, Richmond is the best performer in the fight against the world health crisis. However, if we look only at the figures for 2021, LVMH has the highest revenue and net profit, while Richmond has the lowest revenue. Hermes is a close second.

### 3.2.2 SWOT Analysis of LVMH, Richemont, Kering and Hermès

SWOT analysis is the most natural pattern of analysis used in business. It outlines and summarizes the strengths of a company through four broad directions. Conversely, it can also give a very clear description of a company's problems. This is why SWOT is a very popular and effective analysis method.

(1) SWOT of LVMH

**Strengths:** LVMH has a very high ability, high reputation and high brand value which can lead to their sales having to be ensured. In addition, they have good internal management. Their board of directors is very visionary, so their unique management model is a very important reason why they are so strong. Their clients are relatively high quality and stable.

**Weakness:** Consumers are united in the view that the products under the LVMH brand are overpriced, which deprives them of many opportunities to win new customers. And they are very destitute at jewellery and watches compared to Richmond. They rarely advertise and only have marketing on their own website and software, which also makes consumers less likely to get information quickly.

**Opportunities:** LVMH should grasp the next generation of innovation as they have planned in the management model, which will make the brand more sustainable. They should also capture the Asian market which is the largest market that will bring them the most revenue. They should also mobilise their resources to reduce the waste of resources.

**Threats:** LVMH's various financial figures suggest that they would be threatened by a world health crisis similar to covid-19. And what they should be aware of is the limits of luxury and the leap of new innovative brands jump in.

(2) The SWOT of Richemont

**Strength:** Like mentioned above, Richemont is the second largest luxury group in the world which proves that their visibility brings them a greater volume of clients. This is one of the items that can compete with LVMH. Furthermore, the group has been around for a long time, so they are in a position to fight against unstable



economic factors. What they have the most advantage of is their products. They specialise in the research and sale of watches and jewellery.

**Weaknesses:** But compared to LVMH, their other luxury goods are weaker. Especially in leather goods they are not able to beat LVMH at all. In addition, Richemont Group also has a very significant disadvantage, which is Internal factors that are a lack of competitiveness compared to the competitor [1].

**Opportunities:** They can increase their strength in other luxury goods besides watches and jewellery. This way they can have a greater ability to take on LVMH. Richemont can also expand the geographical spread of their subsidiaries or shops. This is something they could learn from LVMH which is very good at managing the geographical aspect.

**Threat:** They should be very concerned about the progress and development of their competitors. Because the luxury brands are gaining momentum and more and more new companies are being launched this is also having an impact on Richemont. There is also the issue of lower prices for equivalent products, which of course LVMH is also facing.

### (3) The SWOT of Kering

**Strength:** Kering has the same wide geographical distribution as LVMH which shows that the scale of Kering is similar to LVMH. In the same way as LVMH, they also have a complete internal structure which can lead their refinement and development. Kering's products are characterised by their distinctive and detailed design.

**Weaknesses:** There is one very fatal problem for Kering is that the tax evasion investigation they received in 2019. This investigation has had a very significant impact on their reputation compared to their competitors. On the other hand, one of their previous advertisements was based on a racially sensitive topic which also caused a lot of dissatisfaction among customers.

**Opportunities:** They need to improve their image in the minds of consumers in different ways and Kering can attract new consumers and keep them for a long time by diversifying and digitalising.

**Threat:** Kering should be wary of Cheap fakes and forgeries. of course all his other competing groups need to be aware of this issue. Because their logos are very well reproduced.

### (4) The SWOT of Hermès

**Strength:** Hermes is the largest in online sales turnover which can help them increase their income. Even if they are a family business they can stand out from the crowd of luxury groups, which also highlights their strengths. And they are very good at making leather goods compared to LVMH.

**Weaknesses:** Because they are a family business they will be relatively less competitive. And unlike LVMH they do not have subsidiaries, so their development is very homogeneous.

**Opportunities:** They could acquire some of the larger and more reputable brands, which would also allow them to become more competitive. They could also attract more consumers through advertising compared to LVMH who hardly advertise.

Threat: The loss of market share due to fierce competition is a very dangerous sign for all luxury companies, including LVMH, and the emergence of many counterfeits at Hermès has had a significant impact on their reputation. Hermès will not be strong enough to withstand the global health or financial crisis.

## 4 Conclusion

In conclusion, LVMH with this momentum will be the leader in the luxury industry for at least the next 10 years. The luxury industry is led by them, and they have risen to the top. They are ahead of their competitors, both in terms of management strategy and in financial terms. It is undeniable that, from a financial point of view, LVMH would have been affected by Covid-19 or similar changes. They are not yet fully strong in the face of a financial crisis or a health crisis. By the way, LVMH's main competitors in the next 10 years will be Richemont, Kering and Hermes, but definitely, there could be new dark horses come out. Let the LVMH and the luxury industry as a whole look forward to and move forward with better developments and achievements.

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