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CHRISTIAN DIOR

WHY WOULD BERNARD ARNAULT INVEST BILLIONS ON A NAME HE ALREADY HOLDS?

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Tuesday, April 25th 2017[i]. Bernard Arnault decided to go shopping. On the menu, a double operation that aims to simplify the ties that unite the group LVMH (Moët Hennessy Louis Vuitton), Christian Dior and its owner Bernard Arnault. The first transaction consists of an offer worth about €12.1 billion from the holding company controlled by Arnault Family Group to take over of the remaining 25.9% stake Christian Dior. The second one on the strengthening of LVMH group through the acquisition of the Christian Dior Couture for €6.5 billion[ii]. However, a question remains: why would Bernard Arnault invest billions on a name he already holds?

LVMH

"The LVMH group is the world's leading luxury goods company, the result of successive alliances among companies that, from generation to generation, have successfully combined traditions of excellence and creative passion with a cosmopolitan flair and a spirit of conquest."

- LVMH website[iii]

Born out of the merger of Louis Vuitton and the Moët Hennessy group in 1987, the LVMH group led by Bernard Arnault is the world's largest luxury conglomerate in terms of turnover **(Exhibit 1)**. In 2016, the consolidated revenue of LVMH group was €37.6 billion[iv], 5% more than in 2015 **(Exhibit 2)**. This French group has a portfolio of more than 70 houses present in six different sectors - Wines & Spirits, Fashion & Leather Goods, Perfumes & Cosmetics, Watches & Jewelry, Selective Retailing and Other Activities. The group's houses have set up numerous devices for the transmission of know-how and enhancement of craft trades and creation, in order to retain and maintain a strong and distinctive identity, allowing the preservation of their uniqueness and their excellence over time. Moreover, the LVMH group has a policy to attract the best luxury brands in the world to its portfolio, acquiring every year new companies to maintain and augment its position and reputation by raising its presence in countries where are present the potential customers and in the sectors where the group has its highest revenues.

In 2016, LVMH operated in 70 countries over 3,948 stores and had 134,476 employees. Although 2016 was a less good year for the luxury industry due to the geopolitical crises, terrorism and other events[1], LVMH managed to have good results comparing to 2015. Looking at the revenue breakdown of the group, Fashion & Leather Goods and Selective Retailing were the two businesses sectors that contributed the most, representing 34% and 32% of the total revenue, respectively **(Exhibit 2)**. By geographic region, United States represented 27%, Asia (excluding Japan) 26%, Europe (excluding France) 18% and France 10% **(Exhibit 2)** - comparing with the two previous years, the region of Asia (excluding Japan) is the only one in decrease since 2014. Regarding the breakdown of stores - 3,948 in total - 1,061 (27%) were located in Europe and 991 (25%) in Asia (excluding Japan) **(Exhibit 3)**.

Bain & Company, the global management consulting firm, expect that Chinese people will represent 45% of the luxury industry global sales by 2025[v]. Therefore, the luxury brands need to focus on the Chinese market to follow the market developments in order to increase their positions or at least maintain them.

Louis Vuitton

"Louis Vuitton: one name, two famous initials, savoir-faire and values."

- Louis Vuitton website[vi]

Nothing predicted the incredible career of Louis Vuitton, founder of the brand with the same name. At the age of 14, he left his hometown, a small village in the East of France. After two years, in 1837, he reached Paris and became a box-maker apprentice[vii]. In 1854, he was able to open his own shop in the capital. Alongside with the Industrial Revolution that has improved the means of transport thanks to the technical progress generated by the steam engine, Louis Vuitton drew two ideas: it was necessary to create innovative and high-quality luggage, imposing three words: luxury, functionality and innovation. He replaced the leather with waterproof canvas and invented the stackable flat trunks - as opposed to the rounded forms of the time. The reputation became international: in 1885, the first Louis Vuitton branch abroad opened in London. After Louis Vuitton' death, in 1892, his son Georges took control of the company. Four years later, Georges created the famous "monogram" canvas with the initials of his dad, flowers and stars, which still remains the emblem of the brand. At the beginning of the 20th century, he expanded the distribution to Buenos Aires, Bangkok, San Francisco, Chicago,

[1] In the *Industry Overview* (page 11) is explained what happened in 2016.

New York, Boston and Montréal. In 1914, opened in the Champs-Élysées the Vuitton Building, the largest travel goods store in the world. In 1927, Gaston, son and successor of Georges Vuitton, launched the first perfume, *Heures d'absence*.

In the 1960s, with the development of airplanes, trains and cars, Gaston Vuitton improved the luggage. He made them smaller, more durable and suitable for shorter trips. After the death of Gaston Vuitton, in 1970, the company had some difficulties in relation to the transaction of successor. Nevertheless, the company revived the business and merged with Moët Hennessy in 1987. It is Henry Racamier, husband of Gaston Vuitton's daughter Odile, who controlled the company when the merger took place.

Ten years later, fashion made its debut under the artistic direction of Marc Jacobs, an American fashion designer, and during the 2000s the brand expanded its offers to watches, jewelry, sunglasses, accessories, shoes and men's ready to wear, becoming one of the most profitable brands in the world over the years.

Moët Hennessy

"Moët Hennessy: more than Champagnes, Spirits, and Wines, they are vehicles for personal memories and in so many ways the unique products of hundreds of years of cumulative knowledge and craftsmanship."

- Moët Hennessy website[viii]

In 1971, Moët & Chandon and Hennessy, two iconic companies with more than 200 years of existence at that time, decided to merge, giving birth to the group Moët Hennessy.

Moët & Chandon, founded in 1743 by Claude Moët[ix], is one of the oldest Champagne Houses. The enthusiasm of the nobility for these sparkling wines was such that Moët house, located in Epernay (150 km from Paris), started to prosper quickly. In 1748, the company became supplier of champagne of the King of France and later, of other courts of Europe. There are traces of Moët champagne in England in 1750 and in the United States in 1787. In 1793, Jean-Rémy Moët, grandson of Claude Moët, with a pioneer and visionary spirit, gave to the house an international growth and transformed it into a luxury brand. In 1833, the company took the name of Moët & Chandon[x] after the arrival of Pierre-Gabriel Chandon, son-in-law of Jean-

Rémy Moët, at the head of the house. In the 1950s, Robert-Jean de Vogüé, one of the most important wine buyers in France, led the company to a greater success. Under his management, Moët & Chandon seized some competitors like Ruinart in 1962 and the Mercier house in 1970. The company then started to expand its activities to other sectors such as the acquisition of Parfums Christian Dior in 1971. In the same year, Moët & Chandon and Hennessy merged.

Hennessy, founded in 1765, was born from the vision of a man[xi], Richard Hennessy. Irish officer at the service of the King of France, he squeezed the extraordinary commercial potential of Cognac eaux-de-vie internationally, established his own trading business and founded a dynasty that lasts until today. In the 19th century, Hennessy expanded to the most remote countries. The first casks landed in New York City. Australia, India, Japan, China and South America were conquered in their turn. In 1860, a quarter of all cognac exports was from Hennessy. During the 20th century, successive generations were committed to preserve the heritage by adapting and the strategy of the house in order to continue the work of the founder.

Moët Hennessy merger mainly happened due to a french law that restricted the Champagne growing region to 34,000 hectares to protect the its quality. In 1970, Moët & Chandon cultivated 25,000 hectares, but Robert-Jean de Vogüé believed that this diversification would insure a stable future for the company until finding a suitable region to expand the production. In 1973, Domaine Chandon winery in Napa Valley opens. This location allowed Moët Hennessy to grow in one of the most important markets, the United States. In 1976, after de Vogüé's death, Alain Chevalier, also responsible for the success of Domaine Chandon, became the leader of Moët Hennessy and continued to diversify the company, purchasing Roc, a French cosmetics firm.

With more than 250 years, the quality of Moët Hennessy champagnes, spirits and wines expresses all the richness and diversity of its fabulous vineyards. With a seductive and generous "personality", distinguished by a brilliant fruitiness, a tasty and an elegant maturity, Moët & Chandon is a symbol of success and glamour.

Christian Dior

"Christian Dior changed the rules of elegance around the world with his debut collection in 1947. Today, this vision continues to be explored boldly and imaginatively."

- Christian Dior website[xii]

Originally from the North of France, Christian Dior started to design when he was a child[xiii] and, going against the will of his parents' entrepreneurs who wanted him to follow a more "respectable" career, he began by working for Robert Piguet[2], before joining Lucien Lelong[3]'s house. It was only in 1946, when he was 41 years old, when he was approached by Marcel Boussac[4], who has offered him the opportunity to launch his own brand. The impact on Parisian and international fashion was unprecedented.

During the economic crisis of the post-war, Christian Dior launched his first creation entitled *Corolle*, in reference to the petals of flowers. Using meters and meters of precious fabrics to make imposing skirts, he structured these fabrics in corseted, ultra-feminine silhouettes that seemed straight out of another time. The legendary editor Carmel Snow of Harper's Bazaar[5] called the collection *New Look*, a style to which all women - weary of the sartorial restraint imposed by the War - succumbed immediately. And if they could not afford it at Monsieur Dior's (which was really expensive), they made their own model, even if they had to sacrifice their curtains. In this same year, 1947, it was also the year of the creation of the house Christian Dior Parfum, with the launch of the famous perfume *Miss Dior*. In 1949, he opened the first store in New York.

Nonetheless, Christian Dior was not only an idealist and emancipator, he was also a visionary manager. In ten years, the company Dior settled in about fifteen countries, starting with England and the United States, and imposed its name and its image on the international market thanks to an innovative "advertising" policy and innovative for the time.

His sudden death from a heart attack in Italy in 1957 leaved a true empire of luxury "orphaned" - responsible for more than 50% of the exports of the French couture sector – however his succession was assured. The succession at the head of the house Dior was provided by the young Yves Saint Laurent with only 21 years, having entered the service of Christian Dior two

[2] Robert Piguet was a Swiss-born and Paris-based fashion designer who is remembered for training Christian Dior and Hubert de Givenchy.
[3] Lucien Lelong was a French couturier who was prominent from the 1920s to the 1940s.
[4] Marcel Boussac was the founder of the Boussac group, a French textile company, whose origins go back to 1911. The Boussac group employed thirty thousand people and had a portfolio of thirty companies, including textile production, like the fashion house Christian Dior, and distribution companies: Conforama, Le Bon Marché. After the death of Marcel Boussac, the founder, the group was put in judicial settlement in May 30, 1978, and taken over by the Willot brothers.
[5] Harper's Bazaar is an American women's fashion magazine.

years earlier. Yves Saint Laurent, artistic director, had just enough time to sign some collections, one of great success, the *Trapeze Line*, before having to leave the house Dior to do his military service in 1960. Yves Saint Laurent was then replaced by Marc Bohan, a french fashion designer, who remained at the head of the artistic direction of Christian Dior until 1989, when Gianfranco Ferré, an italian designer, succeeded him.

In the early 1990s, the arrival of the thunderous designer John Galliano, marked a glamorous and revolutionary turn, was beneficial to the spirit of the brand as the world of fashion in general. Despite the creative and exuberant effervescence of John Galliano, the original values of the house as refinement, elegance and excellence were always worn in majesty.

In 2016, the consolidated revenue of Christian Dior was €37,968 million[xiv], up 8% over 2015. Analyzing the business group, Fashion & Leather Goods and Selective Retailing were the two businesses that contributed the most, representing 32% and 30% of the total revenue, respectively. Christian Dior Couture had a revenue of €1,854 million, representing 5% of the total revenue **(Exhibit 4.a)**. By geographic region, the United States represented 27%, Asia (excluding Japan) 26%, Europe (excluding France) 18% and France 10% **(Exhibit 4.b)**.

Focusing more closely at the Christian Dior Couture business, the revenue of this business is divided by three categories: license royalties (€29 million), wholesale (€96 million) and retail and other activities (€1,729 million). Comparing with 2015, the revenue of retail and other activities increased in all geographic regions - 14% in the Americas, 6% in Europe and the Middle East and 4% in Asia-Pacific. Despite this last region having the lowest growth, it represents 44% of the total revenue of retail and other activities **(Exhibit 4.c)**.

With these results, it is possible to conclude that Christian Dior and China have a "good" relation. The story began in 1947[xv]. Christian Dior, without having ever traveled to China, designed for his first fashion show, a coat entitled *Shanghai*. This taste for the Orient was already reflected in the exotic decoration of his childhood home and throughout his collections he showed his fascination for this country - giving names as *Hong Kong*, *Nuit de Chine* and *Chinoiseries*. He also honored the chinese calligraphy. In 1950, the ideograms inspired him for a print on a dress of the *Vertical* line. In 1955, he reinterpreted the famous chinese dress, the *qipao*. Since the 1970s, some fashion shows of Dior took place in China, such as 2010-2011 cruise collection designed by John Galliano or the spring-summer 2013 haute couture show.

Besides this connection with China, the first shop was only opened in Hong Kong in 1980, and another in Shanghai in 1994.

Bernard Arnault

Bernard Arnault is a French businessman born in March 5, 1949 in Roubaix (Nord) in France. It was through real estate[xvi] that Arnault started his business career. By the end of the 1970s, he took over a small company in the North, called Ferinel. The company was founded in 1922 by his grandfather. In 1976, Bernard Arnault became the leader of the company - he was 27 years old. In 1981, the young CEO left for the United States leaving Ferinel to Michel Lefebvre, his man of confidence. In Florida, he set up a real estate subsidiary. However, this adventure was short since the business did not go as planned, coming back to France in 1984. Upon his arrival, one of his friends presented him the Boussac file, which the government, struggling with the Willot brothers[6], could not extricate itself. In December 1984, although Arnault was at that time only a small real estate developer, he was chosen to take over the textile company in collapse.

Since the beginning of his management in the Boussac company, Arnault saw a high potential in two companies present in the portfolio: Dior and Le Bon Marché[7]. He immediately felt that with these two assets he would be able to build a big project in the luxury sector. Then, he implemented a strategy of "exterminating angel", according to the words of the journalist Airy Routier[8], once he took advantage of the fact that the leaders of the group, Alain Chevalier and Henry Racamier, asked him help and through multiple financial dealings, he ended up seizing LVMH by getting rid of the two men who counted on him.

Thus, his interest in Moët Hennessy was evident since the house of Champagne and Cognac owned the perfumes Dior, unfortunately separated from the Christian Dior house when the Boussac empire was in crisis. Arnault wanted to take control of all the activities of the brand Dior, but he had to face Alain Chevalier, the CEO of Moët Hennessy.

[6] The Willot brothers were part of a French industrial family created in the 1960s.
[7] Le Bon Marché opened in Paris, in 1852, and it was the first department store in the world.
[8] Airy Routier is a French journalist. In 2003 he wrote *L'ange Exterminateur, la vrai vie de Bernard Arnault,* a book about the history of the French businessman Bernard Arnault.

Creation of LVMH

A few months before the creation of the world's leading luxury goods company, a stock market raid was attempted on Moët Hennessy[xvii]. Chevalier, feeling attacked asked for advice and help at Lazard Frères, a financial advisory and asset management firm. Following the advice of one of Lazard's partners, Moët Hennessy issues 800 million bonds convertible into shares. Their holder would be able to control 24% of the capital of the company, at the chosen moment by its leaders. These bonds were acquired by Lazard Frères and its allies: Caisse des Dépôts, UAP (Union des assurances de Paris), Worms, BNP and Crédit Agricole. At the same time, Alain Chevalier found an ally to consolidate the overly dispersed capital of its company. It was Henry Racamier, CEO of Louis Vuitton. Thus, on June 3, 1987, they announced the creation of the world leader in luxury, LVMH. Several motivations were at the base of this *rapprochement*. Louis Vuitton and Moët Hennessy operated a significant part of their activity in beverage (Moët & Chandon, cognac Hennessy, Ruinart, Mercier and Veuve Clicquot), beauty and perfume businesses (Roc, Christian Dior Parfums and Givenchy). Therefore, the existence of synergies was evident. Both companies would benefit from the distribution and advertising - common national and international distribution channels. There would be also an increase in the bargaining power of both firms. The merger of these two groups formed a world-wide group, rich in its experience not because of its in various fields of activity, carrying at the same time an exceptional development and endowed with first-rate human, industrial, commercial and financial resources. Moët Hennessy and Louis Vuitton were at the head of two very important groups, both of which were major French exporters and were known around the world for their world-renowned brands.

However, there were constant disagreements between Henry Racamier and Alain Chevalier. The fact that Henry Racamier did not have a successor, Alain Chevalier could take the presidency of the new group. Therefore, Racamier wanted to replace him at the general direction by Michel Piétrini, general manager of Chanel. The attempt failed but Bernard Arnault, on the lookout, bought discreetly LVMH shares, both personally and via Financière Agache[9], taking advantage in particular of the stock market crash of October 19, 1987[10], during which LVMH shares momentarily lost 40% of their value.

[9] Financière Agache is a holding company controlled by Arnault Family Group.
[10] The day that became known as "Black Monday", when the stock markets crashed around the world.

On the other side, to maintain his power, Alain Chevalier encouraged Anthony Tennant, boss of Guinness[11] - with whom he already had a major wine and spirits marketing agreement - to enter the capital of LVMH and proposed an exchange of interests, each taking 20% of the capital of the other. Henry Racamier obviously disagreed with this proposal and, became firmly determined to get rid of Alain Chevalier as soon as possible, by proposing secret alliance to Bernard Arnault. These two parties decided to join forces in this operation expecting to result in the direct or indirect control of LVMH on an equal footing and, in the case of success, it was agreed that Henry Racamier would be the first representative within LVMH and Bernard Arnault would succeed him. To carry out this operation, the two allies planned to launch a friendly takeover bid on 30% of LVMH's capital, by purchasing the shares through Financière Agache that would contribute to a joint venture owned equally by the two allies. The operation would take place on Monday, June 27, 1988. However, at the same time, Bernard Arnault informed Antoine Bernheim, a Lazard's partner, about the maneuver he has been prepared. Bernheim advised against execution and proposed a complete reversal of alliance: Lazard Frères proposed to Alain Chevalier to defend against the attacks of Henry Racamier, since it would benefit in his defense the support of Bernard Arnault who would receive in exchange 24 % of the capital of LVMH, without stock market battle and without overbidding, by simple amicable buyout of the convertible bonds still held by the Lazar Frères. Alain Chevalier posed as a condition the entry of Guinness to the capital of LVMH, with parity with Bernard Arnault. Arnault agreed, but the agreement concluded with Guinness, under the leadership of Antoine Bernheim provided that the funds would be brought to a small company named Jacques Rober, subsidiary of Dior, which would serve as a front company. Financière Agache would control 60% and Guinness 40% of the 24%.

When Henry Racamier learned about this reversal of alliances, he sought in turn to get along with Guinness, but it was too late. On July 8, 1988, the joint entry of Financière Agache and Guinness in the capital of LVMH assured them the control of 24% of the capital. On September 26, 1988, by taking advantage of the exacerbated conflict between Henry Racamier and Alain Chevalier, Bernard Arnault managed, against all odds to have his father named chairman of the supervisory board of LVMH. Alain Chevalier remained chairman of the board of directors but it was only in appearance. On January 13, 1989, Bernard Arnault became the new chairman of LVMH, making its ambition clear: to constitute a giant group in the luxury sector.

[11] Guinness is an Irish beer.

Since Jacques Rober was a subsidiary of Dior, in 1988 the luxury house acquired 32% of LVMH share capital through its jointly subsidiary owned by Guinness. In 1989, the participation of Jacques Rober in LVMH increased to 44%. In 1994, Guinness and LVMH redefined the content of their capital agreements. The Irish company would no longer hold LVMH shares and the French one would reduce its participation at 20%. This transaction allowed Christian Dior to increase its share capital in LVMH from 24.5% to 41%.

In 1996, Arnault controlled 19% of LVMH share capital through a "cascade" of holdings **(Exhibit 5)**, simplifying it over the years. LVMH took control of Le Bon Marché in 1998. In 2016, Arnault family group owned directly and indirectly 36% of LVMH share capital **(Exhibit 6)**.

The next two decades were a succession of buybacks, acquisitions and brand creations. Over the years, the LVMH empire has become the leader in the luxury market. Nowadays, it is the only group present simultaneously in 5 different business sectors - Wines & Spirits, Fashion & Leather Goods, Perfumes & Cosmetics, Watches & Jewelry and Selective Retailing - and has a portfolio of more than 70 well-known brands. Among them are *Dom Pérignon* (champagne produced by Moët & Chandon house), *Céline* (French couture house), *Loewe* (Madrid-based leather goods and ready-to-wear House), *Givenchy* (French fashion and perfume house), and *Sephora* (cosmetics).

Industry overview

The luxury goods industry is a highly concentrated market. The world's ten largest luxury companies have a total market share of 47.2% **(Exhibit 1)**. These players, solid companies that have in their portfolios the most profitable and iconic brands in the world, make an enormous effort to maintain and augment their position by betting a large part of their resources in capital and marketing tools. Therefore, the largest luxury groups are in a constant "war" to attract the best companies to their team.

Over the years, the luxury sector has become democratized without losing its characteristics: rarity, selectivity and exclusivity. Formerly, confidential and reserved for an elite, luxury will become an element of pleasure that has been gradually democratized. Depending on the country, luxury may be more or less an outward sign of wealth as well as a social marker.

Although luxury takes many forms, it retains its singularity and timelessness and it leaves no one indifferent by the dream it provides.

In the last years, the industry of luxury has been reformulated due to technological advances. In this connected world, big brands can no longer ignore the power of social media. Nowadays, most luxury brands own their site, their online stores and are represented by some influencers. With the help of influencers, luxury brands reduce their image production costs and improve the visibility of their brands. For example, Louis Vuitton and Dior have 29 and 23 million followers on Instagram[xviii], respectively. The luxury sector has always been profitable despite the global economic crisis, but it is becoming polarized between companies that have understood the changes in consumers and marketing and those who have not yet fully assimilated them.

In spite of the good performance of the luxury industry over the years[xix], 2016 was a dark year. Geopolitical crises, terrorism, turmoil caused by Brexit and USA elections, had hit the confidence of the consumers. The turnover was reduced to €249 billion in 2016, against €251 billion for the year 2015 **(Exhibit 7)**. However, 2016 was a good year for China, a year of change. First of all, the Chinese authorities have taken a number of measures to restore the strength of the internal market. From June 2015, import taxes have been lowered on a number of products. Thus, the luxury brands did not sit idly by; some of them have decided to lower their price in China. In addition, Chinese authorities have also decided to tackle the "daigou", a widespread practice of buying luxury goods abroad for other people in China, increasing controls at airports. The fear of attacks in Europe or unfavourable currency effects also contributed to the increase in consumption in China.

Despite the bad results in 2016, the luxury industry has recovered in 2017. The increase in tourism in Europe and the good sales in China made the sector grew 4.5%, reaching a global turnover of 262 billion euros. By then, Bain & Company expect the average annual growth of the luxury market to be maintained between 4% and 5% over the next few years, reaching sales of 366 to 390 billion euros by 2025.

The luxury industry is driven by a generational shift, the “millennials", accounting for 85% of its growth in which they will represent 55% of the consumers in 2025. This new situation has forced brands to adapt their strategy in terms of digital marketing but also to renew their offer with products likely to satisfy an ultra-connected to the internet and unreliable clientele. Nonetheless, there are different types of "millennials". In a global study of the interest of "millennials" in luxury[xx], Deloitte reveals a new light: the new generation of Chinese has a behaviour that often differs from the rest of the world. Chinese consumers account for one-third of the global luxury market, and the younger generations are eager for fashion and accessories to which they allocate a big part of their savings. As unique children, they are also financially supported by their parents or grandparents. The study shows that China is the market where consumers are more likely to have the latest products, but if the young Americans and Europeans discover them mostly on social media, this is not the case of the Chinese "millennials". They are not indifferent to the trends that circulate on the networks, but they check first on the brands websites and in fashion magazines. Another difference is the importance of physical stores for this young generation - 64% of "millennials" in China prefer to go to luxury boutiques, rather than buying online, with the rate falling to 50% on average for Europeans and 43% in the United States. This does not mean they do not check online before but going to a physical store allow them to touch the products and try them. Last surprise, the strong loyalty of Chinese "millennials" to some brands, which is not the case in the United States or in Europe, where their ego is facing a much wider offer. The Chinese are 50% to be faithful to a brand, against 25 to 30% of the "millennials" of other countries.

Thus, in an era where the luxury has become digitalized and with the rise of fast-fashion and short-lived trends, the luxury companies have to constantly innovate and promote their products to not be forgotten by clientele.

Dior: why would Bernard Arnault invest billions on a name he already holds?

Giving yourself the luxury of signing a check of several billion euros for a name that you already control may seem like a strange choice on the part of Bernard Arnault. The boss of the world luxury leader announced on the 25th April of 2017 a double operation: on one hand, the financial arm of his family, Arnault Family Group, made a public offer to take control of the remaining 25.9% stack in Christian Dior; on the other hand, LVMH would like to add to its portfolio the fashion and leather goods activities of the famous fashion house - Christian Dior Couture - valuing the company at 6.5 billion euros.

"We are probably paying a little much, but in thirty years we will be happy to have done it."

- Bernard Arnault[xxi]

After having bought Rimowa luggage at the end of 2016 and in mid-March of 2017 the perfumes Francis Kurkdjian[xxii], LVMH could have bought a different piece of "jewelry" instead of betting in Dior, which at that time was facing historical values on the stock market (**Exhibit 8)**.

Despite this very high amount, this deal allows LVMH and Bernard Arnault to make several shots in one time. In a symbolic way, it completes the "wedding" of Bernard Arnault with Dior, the first luxury brand he bought. These transactions allow the simplification of structures - putting under the same roof Parfums Christian Dior and Christian Dior Couture - and strengthen the LVMH's fashion and leather goods division, long claimed by shareholders and investors. Thereby, Arnault Family Group increases LVMH capital share from 36 to 47% **(Exhibit 6)**.

Finally, Bernard Arnault takes advantage of the good health of his rival Hermès[12] to finance this operation. The 8% he holds in the luxury group, inherited from his (missed) attempt to take control a few years ago, will be proposed to the shareholders of Christian Dior. A way to take advantage of the good market performance of Hermès.

- **Relationship between Bernard Arnault and Hermès**

For almost ten years, Bernard Arnault organized the discrete rise of LVMH to the capital of the Hermès group[xxiii], in order to seize prestige leather goods. In 2010, the businessman surprised everyone when the world number one in luxury announces hold 14.2% Hermès and be able to rise to 17.1% without informing Hermès or the stock market authorities. Behind this magic trick, it lies a complex set of financial arrangements, passing through tax havens in Luxembourg, the US state of Delaware and Panama. In the following years, Arnault manages to detain more than 23% of the capital of its rival. After a great "battle" between Bernard Arnault and Hermès in court, they sign truce in 2014. A transaction has been signed under which all Hermès shares held by LVMH would be distributed to its shareholders. However,

[12] Hermès is a French high fashion luxury goods manufacturer founded in 1837.

following these operations, Arnault Group Family would hold approximately 8% of Hermès International's share capital.

The main terms of the offer

The Arnault Family Group, LVMH and Christian Dior announced a double operation. One is the acquisition of the Christian Dior Couture for €6.5 billion and the other - take control of the remaining 25.9% stake in Christian Dior (the shares subject to the offer represent 46,308,068 shares) - "*would take the form of a simplified mixed public offer*[xxiv]*, completed by a secondary cash offer and a secondary exchange offer, within the overall limit of €8.0 billion in cash and 8.9 million Hermès shares currently held by Arnault Family Group, under the following terms:*

- *Primary mixed offer: €172 and 0.192 Hermès share*[13] *for each Christian Dior share* **(Exhibit 9)***;*
- *Secondary cash offer: €260 for each Christian Dior share; and*
- *Secondary exchange offer: 0.566 Hermès share for each Christian Dior share.*"

LVMH in 2017

In 2017, the consolidated revenue of LVMH group[xxv] increased 13%, representing 42,636 million euros. Looking at the revenue breakdown of the group, Fashion & Leather Goods rose to 36%. By geographical region, the United States represented 25%, Asia (excluding Japan) 28% - rose 2 points over the previous year, Europe (excluding France) 19% and France 10%. Regarding the breakdown of stores - 4,374 in total - 1,156 (26%) were located in Europe and 1,151 (26%) in Asia (excluding Japan).

Therefore, the acquisition of Christian Dior Couture - although it only occurred in the middle of the fiscal year - shows excellent performance on the group, improving LVMH presence in the countries and sectors that indented.

[13] The closing price of Hermès at 24 April 2017 was €459.3.

Exhibit 1 – The world's 10 largest luxury companies

Top 10 luxury goods companies by sales

FY2016 Luxury goods sales ranking	FY2015 Luxury goods sales ranking	Company name	Selection of Luxury Brands	Country of origin	FY2016 Luxury goods sales (US$ m)	FY2016 Total revenue (US$m)	FY2016 Luxury goods sales growth*	FY2016 Net profit margin[1] **	FY2016 Return on assets**	FY2014-16 Luxury goods sales CAGR[2] *
1 ↔	1	LVMH Moët Hennessy-Louis Vuitton SE	Louis Vuitton, Fendi, Bulgari, Loro Piana, Emilio Pucci, Acqua di Parma, Loewe, Marc Jacobs, TAG Heuer, Benefit Cosmetics	France	23,447	41,593	5.0%	11.6%	11.6%	10.0%
2 ↑	3	The Estée Lauder Companies Inc.	Estée Lauder, M.A.C., Aramis, Clinique, Aveda, Jo Malone; Licensed fragrance brands	US	11,824	11,824	5.0%	10.6%	10.6%	4.7%
3 ↓	2	Compagnie Financière Richemont SA	Cartier, Van Cleef & Arpels, Montblanc, Jaeger-LeCoultre, Vacheron Constantin, IWC, Piaget, Chloé, Officine Panerai	Switzerland	11,677	11,677	-3.9%	11.4%	11.4%	1.1%
4 ↔	4	Luxottica Group SpA	Ray-Ban, Oakley, Vogue Eyewear, Persol, Oliver Peoples; Licensed eyewear brands	Italy	10,051	10,051	2.8%	9.4%	9.4%	9.0%
5 ↔	5	Kering SA	Gucci, Bottega Veneta, Saint Laurent, Balenciaga, Brioni, Sergio Rossi, Pomellato, Girard-Perregaux, Ulysse Nardin	France	9,369	13,700	7.7%	7.0%	7.0%	11.9%
6 ↑	7	L'Oréal Luxe	Lancôme, Biotherm, Helena Rubinstein, Urban Decay, Kiehl's; Licensed brands	France	8,476 e	8,476 e	6.0%	n/a	n/a	11.2%
7 ↓	6	The Swatch Group Ltd.	Omega, Longines, Breguet, Harry Winston, Rado, Blancpain; Licensed watch brands	Switzerland	7,413	7,665	-10.7%	7.9%	7.9%	-6.9%
8 ↔	8	Ralph Lauren Corporation	Ralph Lauren, Polo Ralph Lauren, Purple Label, Double RL, Club Monaco	US	6,653	6,653	-10.2%	-1.5%	-1.5%	-6.6%
9 ↑	10	PVH Corp.	Calvin Klein, Tommy Hilfiger	US	6,646	8,203	5.6%	6.7%	6.7%	1.6%
10 ↓	9	Chow Tai Fook Jewellery Group Limited 周大福珠宝集团有限公司	Chow Tai Fook, CHOW TAI FOOK T MARK, Hearts on Fire	Hong Kong SAR	6,604	6,604	-9.4%	6.1%	6.1%	-10.7%
				Top 10	**102,160**	**126,447**	**0.6%**	**9.6%**	**6.7%**	**4.0%**
				Top 100	**216,579**	**243,008**	**1.0%**	**8.8%**	**6.9%**	**3.9%**
				Economic concentration of Top 10	**47.2%**	**52.0%**				

[1] Net profit margin based on total consolidated revenue and net income.
[2] Compound annual growth rate.
e = estimate p= pro forma n/a = not available ne = not in existence
*Top 100 sales growth rates are sales-weighted, currency-adjusted composites
**Top 100 net profit margin, return on assets and asset turnover ratio are sales-weighted composites
Source: Published company data and industry estimates.

Source: Deloitte - Global Powers of Luxury Goods 2018

Exhibit 2 – LVMH Revenue

Revenue by business group

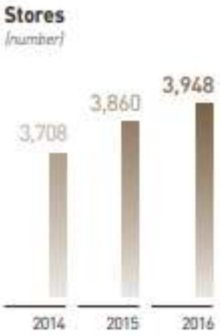
(EUR millions)	2016	2015	2014
Wines and Spirits	4,835	4,603	3,973
Fashion and Leather Goods	12,775	12,369	10,828
Perfumes and Cosmetics	4,953	4,671	4,006
Watches and Jewelry	3,468	3,308	2,782
Selective Retailing	11,973	11,193	9,520
Other activities and eliminations	(404)	(480)	(471)
Total	**37,600**	**35,664**	**30,638**

Revenue by geographic region of delivery

(as %)	2016	2015	2014
France	10	10	10
Europe (excluding France)	18	18	19
United States	27	26	24
Japan	7	7	7
Asia (excluding Japan)	26	27	29
Other markets	12	12	11
Total	**100**	**100**	**100**

Source: Financial Documents 2016

Exhibit 3 – LVMH Stores



Source: LVMH Financial Documents 2016

Exhibit 4 – Christian Dior financial results

Source: Christian Dior Annual Report 2016

- **Exhibit 4.a – Information by business group**

Information by business group

(EUR millions)	2016	2015	2014
Revenue by business group			
Christian Dior Couture	1,854	1,765	1,501
Wines and Spirits	4,729	4,226	4,055
Fashion and Leather Goods	12,321	11,731	10,202
Perfumes and Cosmetics	4,780	4,347	3,800
Watches and Jewelry	3,365	3,068	2,688
Selective Retailing	11,398	10,423	9,077
Other activities and eliminations	(479)	(479)	(456)
TOTAL	**37,968**	**35,081**	**30,867**

- **Exhibit 4.b – Revenue by geographic region**

Revenue by geographic region of delivery

(as %)	2016	2015
France	10	10
Europe (excluding France)	18	19
United States	26	24
Japan	7	7
Asia (excluding Japan)	27	28
Other markets	12	12
TOTAL	**100**	**100**

- **Exhibit 4.c – Christian Dior Couture**

Retail and other activities

(EUR millions)	2016	2015	Change at actual rates	Change at constant rates
Europe and the Middle East	764	722	6%	5%
Americas	202	177	14%	7%
Asia-Pacific	763	734	4%	0%
TOTAL	**1,729**	**1,633**	**6%**	**3%**

- **Exhibit 4.d – Income statement**

Consolidated income statement

(EUR millions, except earnings per share)	*Notes*	2016	2015	2014
Revenue	*23-24*	**37,968**	**35,081**	**30,867**
Cost of sales		(13,078)	(12,307)	(10,558)
Gross margin		**24,890**	**22,774**	**20,309**
Marketing and selling expenses		(15,190)	(13,828)	(11,884)
General and administrative expenses		(2,907)	(2,647)	(2,365)
Income (loss) from investments in joint ventures and associates	*7*	(1)	(3)	(9)
Profit from recurring operations	*23-24*	**6,792**	**6,296**	**6,051**
Other operating income and expenses	*25*	(196)	(298)	(153)
Operating profit		**6,596**	**5,998**	**5,898**
Cost of net financial debt		(97)	(164)	(148)
Other financial income and expenses		(270)	2,849	(83)
Net financial income (expense)	*26*	**(367)**	**2,685**	**(231)**
Income taxes	*27*	(2,065)	(2,518)	(1,775)
Net profit before minority interests		**4,164**	**6,165**	**3,892**
Minority interests	*17*	2,595	3,787	2,467
Net profit, Group share		**1,569**	**2,378**	**1,425**
Basic Group share of net earnings per share *(EUR)*	*28*	**8.75**	**13.29**	**7.97**
Number of shares on which the calculation is based		179,213,608	178,928,184	178,762,207
Diluted Group share of net earnings per share *(EUR)*	*28*	**8.69**	**13.18**	**7.90**
Number of shares on which the calculation is based		179,894,454	179,684,869	179,594,235

- **Exhibit 4.e – Balance sheet**

Consolidated balance sheet

Assets

(EUR millions)	*Notes*	2016	2015	2014
Brands and other intangible assets	*5*	16,269	16,242	15,363
Goodwill	*4*	11,256	10,365	9,626
Property, plant and equipment	*6*	12,106	11,418	10,501
Investments in joint ventures and associates	*7*	753	521	497
Non-current available for sale financial assets	*8*	651	632	7,200
Other non-current assets	*9*	711	561	515
Deferred tax	*27*	2,158	2,031	1,077
Non-current assets		**43,904**	**41,770**	**44,779**
Inventories and work in progress	*10*	11,053	10,704	9,593
Trade accounts receivable	*11*	2,237	2,173	2,008
Income taxes		357	436	346
Other current assets	*12*	2,318	2,176	1,695
Cash and cash equivalents	*14*	3,035	2,771	2,638
Current assets		**19,000**	**18,260**	**16,280**
TOTAL ASSETS		**62,904**	**60,030**	**61,059**

Liabilities and equity

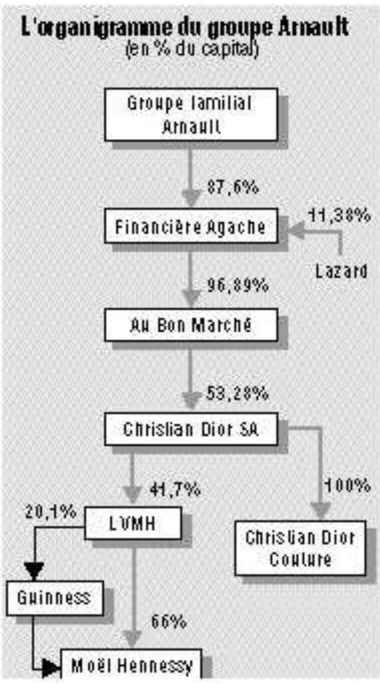
(EUR millions)	*Notes*	June 30, 2016	June 30, 2015	June 30, 2014
Share capital	*15.1*	361	361	363
Share premium account	*15.1*	194	194	2,205
Christian Dior treasury shares	*15.2*	(109)	(116)	(288)
Cumulative translation adjustment	*15.4*	441	554	37
Revaluation reserves		351	412	1,613
Other reserves		8,260	6,490	6,615
Net profit, Group share		1,569	2,378	1,425
Equity, Group share		**11,067**	**10,273**	**11,970**
Minority interests	*17*	17,062	16,047	18,367
Equity		**28,129**	**26,320**	**30,337**
Long-term borrowings	*18*	5,453	6,130	4,390
Non-current provisions	*19*	2,037	2,377	1,827
Deferred tax	*27*	5,584	5,738	5,194
Other non-current liabilities	*20*	8,475	7,262	6,275
Non-current liabilities		**21,549**	**21,507**	**17,686**
Short-term borrowings	*18*	4,918	4,425	6,416
Trade accounts payable	*21.1*	3,835	3,602	3,164
Income taxes		425	431	358
Current provisions	*19*	355	323	331
Other current liabilities	*21.2*	3,693	3,422	2,767
Current liabilities		**13,226**	**12,203**	**13,036**
TOTAL LIABILITIES AND EQUITY		**62,904**	**60,030**	**61,059**

- **Exhibit 4.f – Cash flow statement (operating activities and operating investments)**

Consolidated cash flow statement

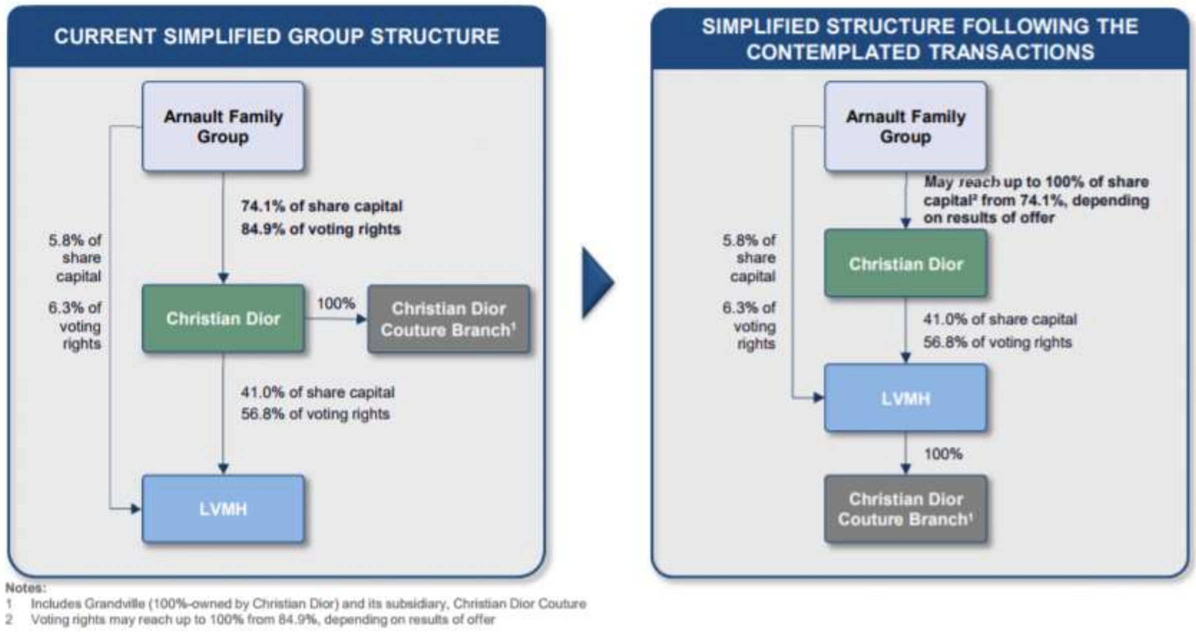
(EUR millions)	*Notes*	2016	2015	2014
I – OPERATING ACTIVITIES AND OPERATING INVESTMENTS				
Operating profit		6,596	5,998	5,898
Income/(loss) and dividends from joint ventures and associates	*7*	21	17	39
Net increase in depreciation, amortization and provisions		2,225	2,136	1,622
Other computed expenses		(177)	(473)	(5)
Other adjustments		(99)	(67)	(82)
Cash from operations before changes in working capital		**8,566**	**7,611**	**7,472**
Cost of net financial debt: interest paid		(88)	(164)	(159)
Tax paid on operating activities		(1,998)	(1,551)	(1,847)
Net cash from operating activities before changes in working capital		**6,480**	**5,896**	**5,466**
Change in working capital	*14.2*	(579)	(468)	(976)
Net cash from operating activities		**5,901**	**5,428**	**4,490**
Operating investments	*14.3*	(2,242)	(1,947)	(1,953)
Net cash from operating activities and operating investments (free cash flow)		**3,659**	**3,481**	**2,537**

Exhibit 5 – "Cascade" of holdings in 1996



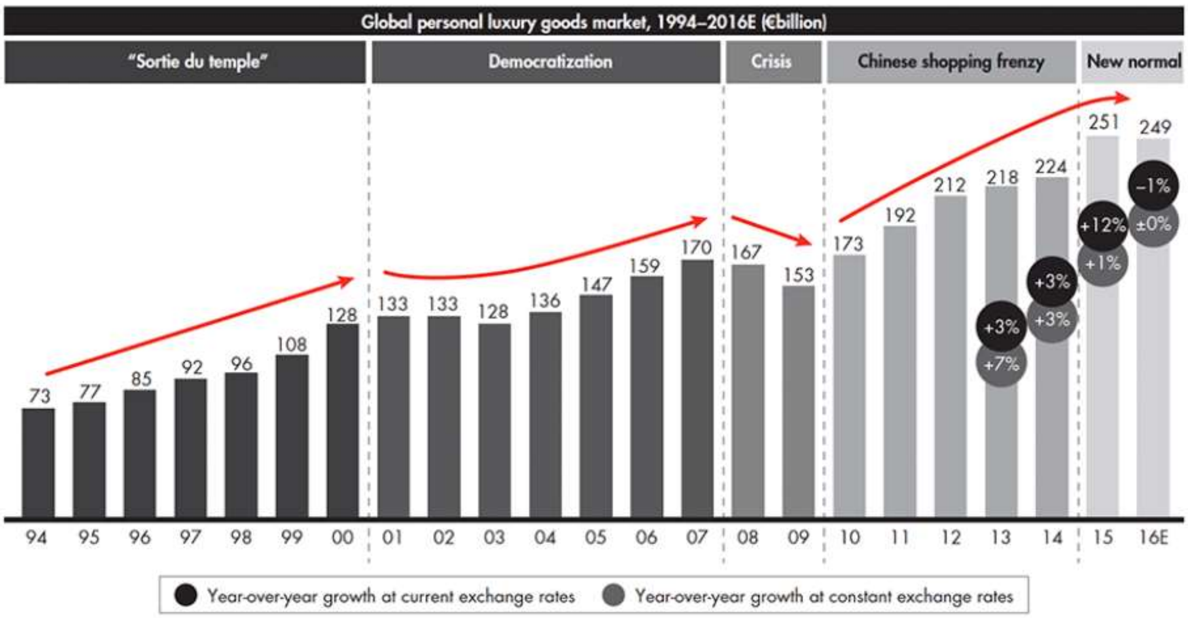
Source: LesEcho.fr

Exhibit 6 – Group structure before and after the announcement of the transactions



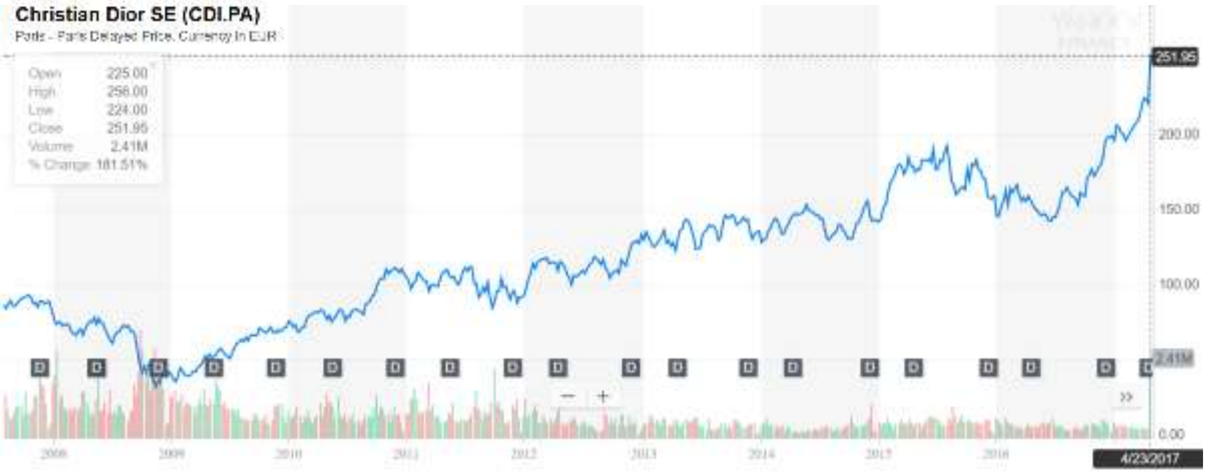
Source: LVMH presentation: Simplifying Christian Dior – LVMH group Structures

Exhibit 7 – Market of luxury goods



Source: Bain & Company – Luxury Goods Worldwide Market Study, Fall-Winter 2016

Exhibit 8 – Christian Dior stock market (12/8/2007 – 23/4/2017)



Source: Christian Dior website

Exhibit 9 – Christian Dior share price

Christian Dior share price	
Spot share price	227 €
1-month avg.	219 €
3-month avg.	207 €
6-month avg.	196 €

Source: Christian Dior website

Additional information:

WACC Christian Dior: 6.8% (Source: Bloomberg)

Inflation considered in the end of 2016: 0.5% (Source: European Central Bank)

Company Name	Ticker	Share Price (30th December 2016)	Diluted Share	Cash & Equivalents	Debt	2016 Revenue	2016 EBITDA	2016 Operating Income
Christian Dior	CDI	199,25	179 894 454	3035	10371	37968	8821	6596
Hermès	RMS	213,3	126 569 652	1050	5420	12385	2318	1380
LVMH	MC	181,4	507 126 088	3544	7379	37600	9047	6904
Luxottica Group	LUX	51,1	480 025 531	867	2044	9086	1858	1345

Source: Bloomberg and annual reports

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