LVMH SE

COMPANY REPORT

LUXURY GOODS

15 DECEMBER 2021

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Shining Bright Like a Diamond

The luxury powerhouse strengthens its position

- Based on our projection for the share price at the end of FY2022 – expected to reach €802.09 – we issue a BUY recommendation for MC FP common stock, expecting a 12.67% return vs. the current share price of €711.90 (as of Dec. 15th, 2021).

- Revenues for FY2021 are estimated to reach €60,320M and are forecasted to increase +19.0% to a value of €71,801M in FY2022. The CAGR 2022-2025 is predicted to sit at 11.9%. EBITDA is set to recover +60.0% to reach €21,355M by FY2021 vs. FY2020, above pre-pandemic values. For FY2022 we estimate EBITDA to increase to €24,704M, representing an EBITDA margin of 34.4%. The result will follow this trend, increasing from €3,536M in FY2020 to €12,800M in FY2021. For FY2022 it is set to reach €13,495, representing a result margin of 18.8%.

- LVMH's quick recovery in the first 3 quarters of FY2021 was driven by the release of pent-up demand for luxury goods. We expect good times ahead with the improvement of the pandemic situation. Growth can be hindered by the lack of vaccine efficacy and new variants, potentially compromising the reignition of travel, a big driver of luxury goods consumption. Digital expansion will help further boost revenues.

Company description

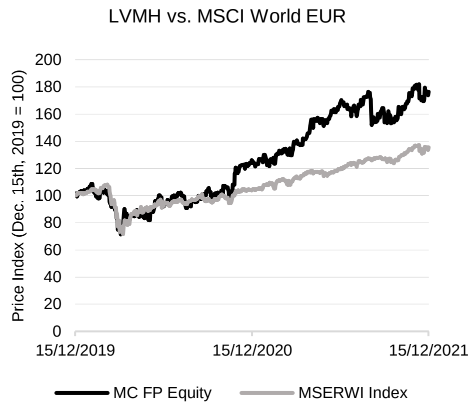
LVMH Moët Hennessy Louis Vuitton SE is the world's leading luxury goods conglomerate, famous for its brands such as Louis Vuitton, Christian Dior and Tiffany. LVMH operates in 6 segments: Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewelry, Selective Retailing, and Other and Holding Companies.

Recommendation:	**BUY**
Vs Previous Recommendation	*BUY*
Price Target FY22:	**802.09 €**
Vs Previous Price Target	*781.26 €*
Price as of 15-Dec-2021	**711.90 €**

Reuters: LVMH.PA, Bloomberg: MC FP Equity

52-week range (€)	484.4 – 741.6
Market Cap (€m)	359,336.75
Outstanding Shares (m)	504.757

Source: Bloomberg



Source: Nova SBE Equity Research

(Values in €Ms)	2020	2021E	2022F
Revenues	44 651	60 320	71 801
EBITDA	13 308	21 355	24 704
Result	3 536	12 800	13 495
ROIC	6.17%	16.30%	14.90%
EV/EBITDA		19.35	18.03

Source: Nova SBE Equity Research

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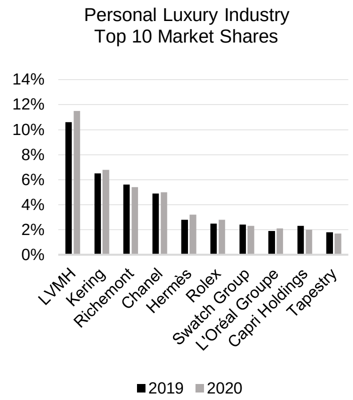
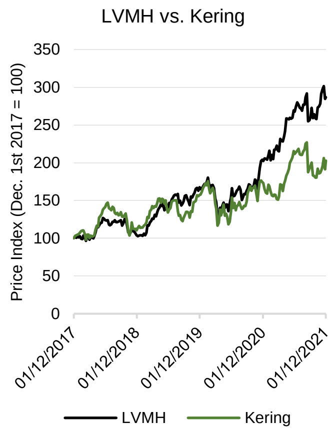
Industry Overview

Competitive Landscape



Company	2019	2020	Δ
LVMH	10.6%	11.5%	+0.9%
Kering	6.5%	6.8%	+0.3%
Richemont	5.6%	5.4%	-0.2%
Chanel	4.9%	5.0%	+0.1%
Hermès	2.8%	3.2%	+0.4%
Rolex	2.5%	2.8%	+0.3%
Swatch Group	2.4%	2.3%	-0.1%
L'Oréal Groupe	1.9%	2.1%	+0.2%
Capri Holdings	2.3%	2.0%	-0.3%
Tapestry	1.8%	1.7%	-0.1%

Graph 1 & Table 1 – Source: Euromonitor International



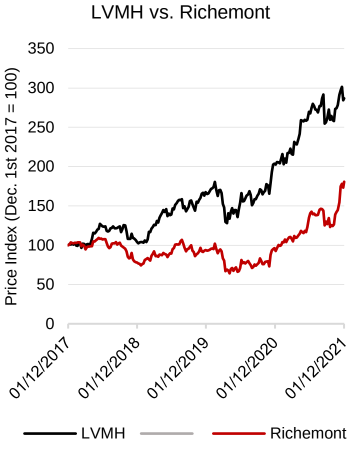
Graph 2 – Source: Bloomberg

The personal luxury industry is largely **dominated by a handful of very large luxury titans**, each with its own particular focus when it comes to strategy and portfolio composition, but all with the **synergy-generating mindset** of bundling mutually reinforcing brands and/or product offerings. The industry, even though **not particularly concentrated** (the top five revenue generating engines gathered 31.9% of sales in 2020), has been facing a **stable trend of consolidation** (with the same top five players adding +7.1% in market share since 2015) both **through M&A and organic growth**. In FY2020, **LVMH was responsible for 11.5%**[1] (vs. 9.0% in FY2015) **of the €263.3B global personal luxury market**, making it the **world's leading luxury conglomerate**. The three most relevant competitors are Kering, Richemont and Chanel.

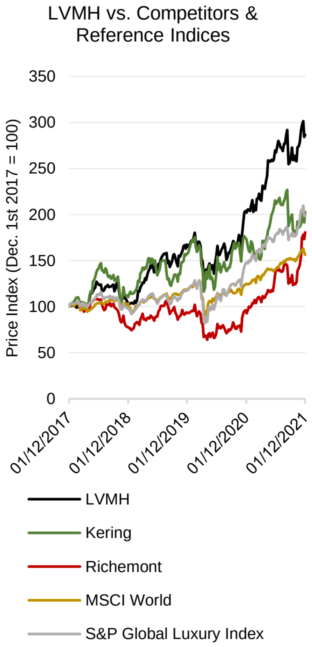
Kering (EPA: KER)

LVMH's most significant competitor is French-based Kering SA, with a market share of 6.8% in FY2020[1]. Kering's portfolio is mainly focused on **fashion, leather goods, watches, jewelry, and eyewear**. Its **sales fell by -17.5% in FY2020**[2], despite a +67.0% growth in online sales, but are **expected to bounce back by +29.2% in FY2021** to €16.9B, +6.5% above FY2019's mark[3]. Still, the company was able to obtain a **profit margin of 20.5%,** larger than in FY2019 (14.5%) despite a **-7.0% drop in net income**. Gucci was the main revenue driver, representing 58.7% of revenues, in spite of a -22.7% y-o-y drop in sales. Its second largest brand, Yves Saint Laurent, representing 13.8% of sales, saw a drop of -14.9% in revenues, but its third largest brand, €1B Bottega de Veneta, benefited from a sales boost of +3.7% through a continued brand revamp since 2018[4], making its revenue share jump from 7.6% to 9.5%[2]. M&A has been marked by the **acquisition of Danish eyewear company Lindberg** and investments in the resale and rental markets with a **5.0% stake in e-commerce platform Vestiaire Collective** and an **undisclosed stake in the handbag rental start-up Cocoon**, all taking place in FY2021[5]. Forecasted growth will come mainly organically.

[1] The presented calculations have been performed by the authors based on historical and forecasted market data retrieved from Euromonitor International – such as market size, company share, brand share and distribution channel estimates.
[2] Based on financial data retrieved from the company's annual and quarterly reports.
[3] Based on forecasted financial data retrieved from Bloomberg.
[4] Deloitte. "Global Powers of Luxury Goods 2021: Breakthrough Luxury".
[5] Based on information retrieved from Bloomberg's M&A dashboard (Function: MA). Accessed December 10st, 2021.



Graph 3 – Source: Bloomberg



Asset	Annualized Return	Annualized Volatility	Sharpe Ratio
LVMH	30.1%	26.3%	114.7%
Kering	19.3%	33.2%	58.3%
Richemont	15.9%	30.9%	51.6%
MSCI World	11.8%	17.0%	69.4%
S&P Global Luxury	18.7%	23.4%	79.8%

Graph 4 & Table 2 – Source: Bloomberg

Richemont (SWX: CFR)

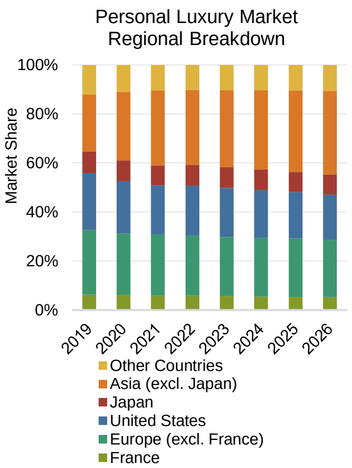
The third biggest player in the market is Swiss-based Cie Financière Richemont SA, with a market share of 5.4% in FY2020[1]. Richemont's portfolio is focused mainly on **jewelry, watches, and online distribution**, with Cartier as its most iconic brand. The company presents a **different financial calendar**, with the fiscal year ending on March 31st, and therefore the pandemic only affected the results in Q4. Adjusting for time differences, Richemont's **sales fell by -20.0% in FY2020**[2], but are **expected to bounce back by +39.5% in FY2021** to €17.2B, beating Kering to take the second place in the market share ranking[3]. **Profit margins dropped** from 19.9% in FY2019 **to 6.5%** (€931M) **in FY2020** due to a non-recurring €1.4B post-tax non-cash accounting gain on the revaluation of the YNAP shares held prior to a tender offer[2]. If this caption is ignored, we observe a **profit decline of -34.0%** due to both a deterioration of operating profits and a surge in financing costs. 61.0% of sales were provided by jewelry sales, representing a +1.9% increase compared to FY2019. Watch sales fell by -4.1% and other brands posted mostly lower revenues, although a strong growth of online sales was witnessed with the help of the brands Montblanc and Peter Millar. M&A has been marked by the **acquisition of the jeweler Buccellati** for €230M in FY2019, a **25.0% stake in a new joint venture with Alibaba and Farfetch** for a marketplace in China in FY2020, the **acquisition of Belgian luxury leather goods Maison Delvaux** in FY2021[5], and **talks for ceding control of loss-making Yoox Net-a-Porter to Farfetch**[6]. The activist investor **Third Point has also recently bought an undisclosed stake in the company**[7].

Chanel (Private)

The **fourth biggest player is UK-based, private-held company Chanel**, with a market share of 5.0% in FY2020[1]. Chanel's portfolio is focused on **haut couture, fashion, watches, jewelry, eyewear, fragrances, and cosmetics**, all under Chanel's brand. Chanel's **sales dropped by -17.6% in FY2020**, even though early FY2020 showed double-digit growth[2]. Chanel was quick to adapt to pandemic restraints, and online sales helped partially offset the plunge in international travel retail. Skincare and jewelry proved particularly resilient, with fragrances and cosmetics showing more fragile revenues[2]. M&A was marked by a **continued effort to acquire small factories and specialists** that have grown vital to their supply of luxury goods, namely the **acquisition of Italian tannery Conceria**

[6] Financial Times. "Luxury group Richemont in talks to cede control of lossmaking online retailer". Accessed November 12th, 2021.
[7] Financial Times. "Activist investor Third Point buys stake in Cartier owner Richemont". Accessed November 8th, 2021.

Gaiera Giovanni in FY2020 and the **Italian footwear manufacturer Ballin** in FY2021[5].



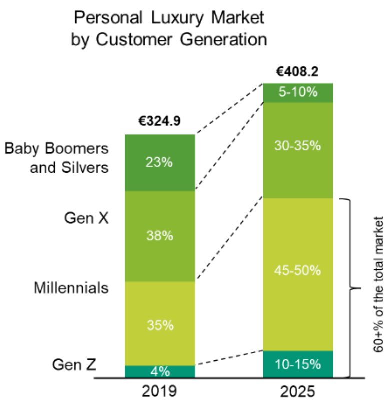
Region	2021	2022	Δ 2021-2022	2026	Δ 2022-2026
FR	5.9%	5.9%	+0.0%	5.3%	-0.6%
EUR (excl. FR)	24.9%	24.4%	-0.4%	23.4%	-1.0%
US	20.1%	20.4%	+0.2%	18.5%	-1.9%
JP	8.0%	8.5%	+0.5%	8.2%	-0.3%
Asia (excl. JP)	30.7%	30.6%	-0.0%	34.1%	+3.5%
Others	10.4%	10.2%	-0.2%	10.6%	+0.4%

Graph 5 & Table 3 – Source: Euromonitor International

Geographic Distribution

Looking at the geographic distribution of luxury sales, it is easy to conclude that the **US and China dominate consumption worldwide** with 22.5% and 13.8% of projected revenues in FY2021, respectively[1]. **Both markets are predicted to expand**, with a CAGR 2021-2025 of 3.0% and 6.2%, respectively - China will grow +€9.7B in absolute value vs. +€7.3B for the US, which will remain the most important market in the foreseeable future. Japan, with a growing share of 10.4%, comes as a relevant third place with the second fastest growing market in absolute value, right after China, with a +€7.6B expansion. Spain and South Korea are the fastest growing markets in relative terms, both with CAGRs 2021-2025 above 7.0%, but with small absolute value representations[8]. Region-wise, **Asia, with China and Japan, will bring the most revenues in FY2021** (€96.8B or 37.2%), **followed by Europe** (€83.1B or 32%) **and then the US** (€58.5B or 22.5%).

Trends



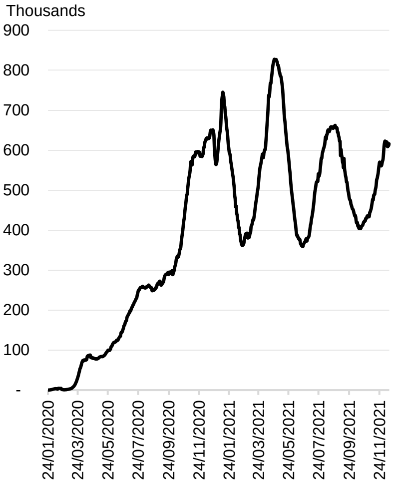
Graph 6 – Source: BCG x Altagamma's "True-Luxury Global Consumer Insights" report, published June 2021 and Euromonitor International Data.

Customer dynamics are changing and present a particular importance in forecasting the future. **Millennials and Gen-Z customer base is forecasted to increase from 39.0% in FY2019 to more than 60.0% in FY2025**[9]. These generations will mainly **boost the market through average spending per luxury customer**, which is forecasted to increase between +44.8% and +62.0% until FY2025 vs. FY2020 (between +5.5% and +18.0% vs. FY2019)[9]. Top spending customers (more than €20K a year) proved to be the most resilient in FY2020, increasing market size through increased spending. Nevertheless, **low spending customers** (less than €2K a year) **will contribute the most to market growth between FY2020 and FY2025**, with a population growth of +30.0%[10] fuelled by an increase in consumption by a growing Chinese middle-class[11]. Millennials and Gen-Z are also characterized by **increased digital engagement**[9,12], bringing an ever more urgent need for the industry to **adopt an omnichannel approach to sales**[13]. In fact, of the 46.0% of sales performed offline, 30.0% were first researched online, suggesting sales conversion is taking place progressively more

[8] Based on data from Statista's "Luxury Goods" market outlook. Retrieved from https://www.statista.com/outlook/cmo/luxury-goods/worldwide
[9] Boston Consulting Group. "True-Luxury Global Consumer Insight Summary of the BCG-Altagamma 2021 Study". June 2021.
[10] Based on data retrieved from the 8th edition of Boston Consulting Group's "True-Luxury Global Consumer Insight". June 2021.
[11] McKinsey. "The Chinese luxury consumer". August 12th, 2019.
[12] McKinsey. "'True Gen': Generation Z and its implications for companies" November 12th, 2018.
[13] Business Wire. "Millennials and Generation Z Are Driving the Digital-first Future of Customer Experience". December 3rd, 2019.

online, leaving the offline channel to serve more for the buying experience, with both channels mutually reinforcing each other's strengths.

Challenges



Graph 7 – Source: Our World in Data

The personal luxury market contracted -19.0% in FY2020[1] due to the onset of the pandemic. Many factors contributed to this contraction: one is the fact that **20.0% to 30.0% of industry revenues are generated by consumers making purchases outside their home countries**[14], and COVID-19 forced governments to pass restrictions to international mobility that led to a -59.6% decline in the global travel and tourism industry. Another is the fact that COVID-19 curbs **reduced the number of social occasions**, a major force behind luxury consumption, be it presential work, parties, or ceremonies – all lost opportunities to show off newly acquired products that are closely tied to status[15]. **Reduced vaccine efficacy and new variants** are both risks to take into account as moderately likely scenarios in the near future (FY2022 to FY2023)[16], **potentially delaying market recovery to pre-pandemic levels.**

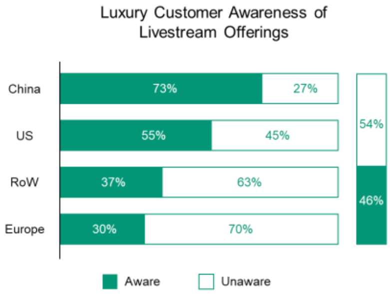
Graph 8 – Source: McKinsey. "Welcome to luxury fashion resale: Discerning customers beckon to brands". November 29th, 2021.

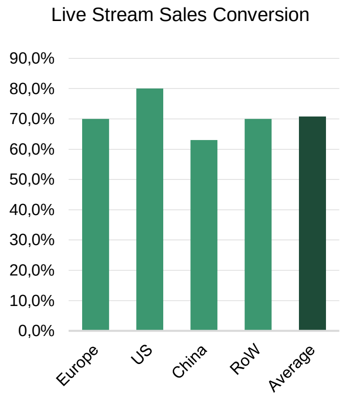
New business models are also surging rapidly, namely the **resale** and **rental** markets. Resale offers customers the opportunity to buy branded goods at a discount and the potential of acquiring limited editions or unique and vintage products, apart from presenting itself as a more suitable approach towards responsible consumption. **Younger generations are particularly prone to adhere to these trends** – 37.0% and 44.0% of Millennials and Gen-Z luxury customers, respectively, had sold 2nd-hand goods in FY2020 (vs. 26.0% for other generations) and 27.0% and 31.0% had purchased them (vs. 17.0% for other generations)[9]. The luxury resale market was valued at €22.1B-26.5B in FY2020 and **industry watchers predict an annual growth rate of 10-15.0% over the next decade**[17]. Renting is also growing with 18.0% of customers testing this modality in FY2020 (a +13.0% increase vs. FY2019)[9], but the business model could be handicapped by the fact that consumer benefit is substantially different from traditional luxury, although at lower price levels, potentially attracting currently non-luxury customers.

Customer awareness for sustainable practices is also increasing and is particularly important for Millennials and Gen-Z customers, 70.0% of which are influenced by sustainable practices in their purchasing decisions (vs. 60.0% on average)[9]. 80.0% of customers also affirm they would stop purchasing from a

[14] McKinsey. "A perspective for the luxury-goods industry during – and after – coronavirus". April 1st, 2020.
[15] Euromonitor International. "Luxury Jewellery in China – Analysis". Country Report. January 2021. www.portal.euromonitor.com
[16] Science. "New coronavirus variants could cause more reinfections, require updated vaccines". January 15th, 2021.
[17] McKinsey. "Welcome to luxury fashion resale: Discerning customers beckon to brands". November 29th, 2021.

company if they found out about unsustainable practices. Customers are mostly worried about animal welfare, although transparency in material usage and fair labour are also concerns**Error! Bookmark not defined.**. **The industry is starting to move to meet customer expectations**, with **Kering recently announcing it would go "entirely fur free"** by the end of 2022[18], following **similar pledges made by Chanel and Capri Holdings** in 2017-2018[19]. An outpouring of **new vegan leather solutions** have been developed and research is predicted to continue as there is much value to steal from animal leather[20]. The effect on revenues will depend on whether luxury brands will be blamed for sustaining leather consumption for so long or cherished for making the change to more sustainable solutions.





Graphs 9 & 10 – Source: BCG x Altagamma's "True-Luxury Global Consumer Insights" report, published June 2021.

Opportunities

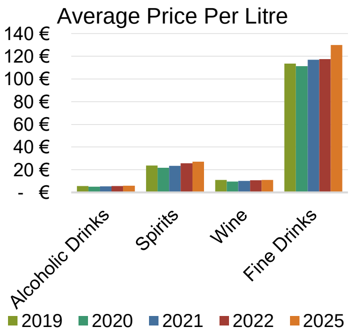
Virtualization of luxury is an undeniable and booming trend[21]. Many brands now offer **in-game products** for sale and customers are progressively more aware of it – in China and the US, 50.0% of luxury customers know of the existence of these products vs. 30.0% in Europe and Other Regions[9]. **More than half of those aware have purchased in-game goods**, and **86.0% of those have purchased the real products either before or after**, proving that going virtual is not only a **potential new source of revenue, but also a powerful marketing tool**. The also nascent **NFTs**, now worth more than €6B worldwide[22] and growing fast[23], pave the way for the proof of authenticity of these digital products. **Virtual livestreams are also a booming trend** and are becoming increasingly important as both a marketing instrument and a sales channel. These are particularly popular in China, and **sales conversion has shown to be very promising** (80.0% in the US and 63.0% in China).

Wines & Spirits

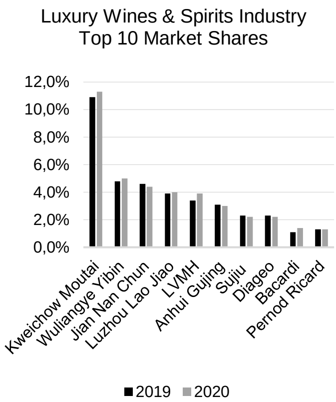
Sector Overview

The **wine market consists of alcoholic beverages derived from fermented grapes**. The market is composed of three main distinct segments: the still wine segment (which includes drinks such as red and white wine); the sparkling wine segment (which includes drinks such as champagne and prosecco); and the fortified wine segment (which includes drinks such as sherry and port wine). The

[18] Reuters. "Luxury group Kering to ditch fur completely". Accessed September 24th, 2021.
[19] Financial Times. "Luxury fashion must ditch leather to be truly ethical".
[20] Infinium. "Vegan Leather Market: Global Industry Analysis, Trends, Size, Share and Forecasts to 2026". February 2021.
[21] Bloomberg. "Luxury Brands Are Already Making Millions in the Metaverse". Accessed December 9th, 2021.
[22] Markets Insider. "The NFT market is now worth more than $7 billion, but legal issues facing the nascent sector could hinder its growth, JPMorgan says". Accessed November 19th, 2021.
[23] Markets Insider. "Luxury NFTs could become a $56 billion market by 2030 and could see 'dramatically' increased demand thanks to the metaverse, Morgan Stanley says". Accessed November 16th, 2021.



Graph 11 – Source: Euromonitor International



Company	2019	2020	Δ
Kweichow Moutai	10.9%	11.3%	+0.4%
Wuliangye Yibin	4.8%	5.0%	+0.2%
Jian Nan Chun	4.6%	4.4%	-0.2%
Luzhou Lao Jiao	3.9%	4.0%	+0.1%
LVMH	3.4%	3.9%	+0.5%
Anhui Gujing	3.1%	3.0%	-0.1%
Sujiu	2.3%	2.2%	-0.1%
Diageo	2.3%	2.2%	-0.1%
Bacardi	1.1%	1.4%	+0.3%
Pernod Ricard	1.3%	1.3%	0.0%

Graph 12 & Table 4 – Source: Euromonitor International

Graph 13 – Source: Euromonitor International

spirits market, on the other hand, includes distilled alcoholic beverages with an ABV ranging between 20.0% to 50.0% or more, including whisky, vodka, rum, gin, brandy, liqueurs, and other spirits.

Inside the alcoholic drinks market, **wine** is projected to account for only 10.5% of sales volume in FY2021[1]. However, due to a larger-than-average price per litre (€10.5 vs €5.3), it is **forecasted to account for 19.8% of revenues**. **Spirits** sales, on the other hand, are projected to account for 7.9% of volume and **35.3% of revenues through the highest average price per litre** in the industry sitting at €23.6. **Fine wines and spirits** will comprise only 2.2% of the wines and spirits industry in volume, but at a **projected price per litre of 116.8€** (+€5.7 vs. FY2020) **the luxury segment will bring 16.4% of sales value.**

The **luxury wines and spirits market is little concentrated**[24], with the top five companies selling 28.6% of worldwide revenues in FY2020. **Four out of these top five companies are Chinese baijiu producers** – the top player being Kweichow Moutai (SHA: 600519) with a market share of 11.3% and with 97.4% of revenue proceeding from China in FY2020. **LVMH comes 5th with a global market share of 3.9%**[1]. The fact that China is such a populous country with different consumption patterns when compared to the rest of the world somewhat distorts the big picture of the market where LVMH operates, which is especially focused on brandy and champagne. **If we exclude China** from our analysis, we find that **LVMH is the top player in all other regions**, with market shares ranging from 6.4% in Western Europe to 24.4% in the MEA region, totalling an **11.2% overall market share**. The major competitors outside China are big names such as Diageo, Bacardi, Pernod Ricard, and Rémy Cointreau.

In FY2021, **most luxury wines and spirits sales will be made through offline channels** (87.7%), the majority of which through grocery retailers, with **e-commerce seeing a share increase** of +0.8% vs. FY2020 (+2.8% vs. FY2019). **Consumption at-home dominated in 2020** but **the usual consumption patterns are expected to come back by 2025** with out-of-home sales reaching 55.0% and 29.0% respectively for wines and spirits[25].

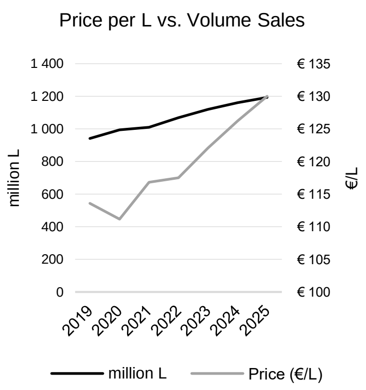
Asia is the largest fine wines and spirits consumer, being blameworthy of 79.7% of forecasted global revenues in FY2021 – **94.1% of which attributable to China**. Europe comes after it with 9.9%, followed by the US with 6.7%. By FY2025,

[24] Based on the Herfindahl-Hirschman Index (HHI) of 227.96 calculated for the Fine Wines, Champagne and Spirits company share estimates for 2020 retrieved from Euromonitor International.
[25] Based on statistics retrieved from Statista's "Wine" and "Spirits" market outlooks.

China is expected to gain +1.5% in market share at the expense of Europe and the US.

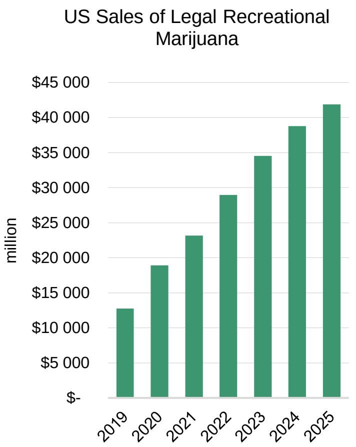
Graph 14 – Source: Euromonitor International

FY2020 was a disappointing year in terms of growth, with COVID-19 imposed restrictions coupled with economic downturn leading to a **decrease of -€2.4 in average selling prices** (€111.2 vs. €113.6 in FY2019) **partially offset by a +5.6% volume increase** (994M L vs. 941.5M L in FY2019)[1], meaning buyers traded down as at-home consumption increased. **Overall, the market expanded by +3.3% in FY2020**, much bellow FY2019 growth of +10.8%. The industry is **projected to grow at an estimated CAGR 2020-2025 of 7.0%. Most of the growth will come from China** (CAGR of 8.5%) and the United States market is set to contract by -28.2% in FY2021 after a surprising growth of 37.6% in FY2020, resulting in a forecasted CAGR 2021-2025 of -3.1%.



Graph 15 – Source: Euromonitor International

The future looks very promising for digital retail solutions as big markets such as China are betting heavily on partnerships with large e-commerce platforms. Wuliangye Yibin, the 2nd largest baijiu producer, is strengthening cooperation with e-commerce platforms such as JD.com, Alibaba and Tencent and entered a joint venture focused on greater internet involvement in FY2020[26]. In the US, services such as Drizly, GoPuff and Foxtrot are offering home deliveries of alcohol within minutes[27]. **The offline channel will, however, remain strong**, especially for more higher-end products, as **customers look for knowledge and recommendations** from experienced store personnel.



Graph 16 – Source: Statista

It is important to note **climate change and weather unpredictability as a source of uncertainty** for the health and abundance of agricultural crops, potentially affecting production volumes, profit margins and prices[28]. **In the US, another risk factor is the continued adoption of cannabis amongst its population**. US sales for recreational marijuana are expected to grow at a CAGR 2020-2026 of 14.0%, jumping from a $20B market in 2020 to a $40B+ one in 2026[29]. The substance might work either as a substitute or a complement for spirits and other alcoholic drinks, which might dent or lift revenues in unpredictable ways.

M&A has been marked by: Diageo's announcement of the **sale of Smirnoff and Guinness brands to AB InBev** in 2019 (yet to be concluded), and the **acquisition of American distillers Davos Brands and Aviation Gin** for €542M in September 2020, apart from **many other acquisitions** of small distillers such as Casa Um, Loyal 9 Cocktails and Far West spirits, all during 2021; Pernod Ricard's **multiple**

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[26] Euromonitor International. "Fine Wines/Champagne and Spirits in China – Analysis". Country Report. January 2021. www.portal.euromonitor.com
[27] Euromonitor International. "Fine Wines/Champagne and Spirits in the US – Analysis". Country Report. January 2021. www.portal.euromonitor.com
[28] Climate Central. "Climate Change & Wine". September 9th, 2021.
[29] Brightfield Group & Statista. "Sales of legal recreational cannabis in the United States from 2019 to 2026 (in million U.S. dollars)". November 11th, 2021.

acquisitions of small distilleries such as Marquis de Montesquiou, Speciality Drinks, Sovereign Brands and La Hechicera during 2021[5].

Company Overview

Maison	Product Type
Dom Pérignon	Champagne
Krug	Champagne
Mercier	Champagne
Moët&Chandon	Champagne
Ruinart	Champagne
Veuve Clicquot	Champagne
Hennessy	Cognac
Clos19	E-Commerce
Volcan de mi Tierra.	Tequila
Belvedere	Vodka
Ardbeg	Whisky
Glenmorangie	Whisky
Ao Yun	Wine
Bodega Numanthia	Wine
Cape Mentelle	Wine
Château Cheval Blanc	Wine
Château d`Yquem	Wine
Cheval des Andes	Wine
Clos des Lambrays	Wine
Cloud Bay	Wine
Newton Vineyard	Wine
Terrazas de Los Andes	Wine
Woodinville	Wine

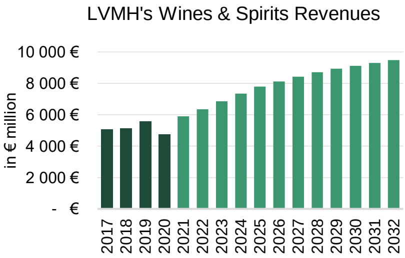
Table 5 – Source: LVMH's annual report

LVMH's activities in Wines and Spirits are divided between the **Champagne and Wines segment**, and the **Cognac and Spirits segment**. **LVMH focuses on growth in high-end market segments** and is the **world leader in cognac and champagnes**. The Wines and Spirits business unit consists of **23 houses** (Table 5), some of them over one hundred years old which were acquired over time.

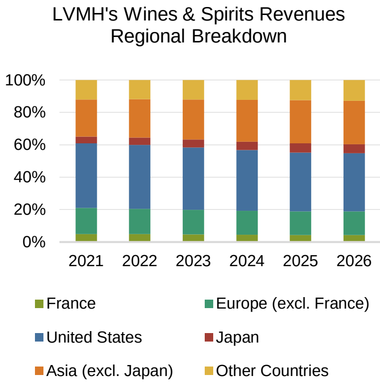
Diageo currently owns a 34.0% stake in Moët Hennessey. This represents a put option granted by LVMH to Diageo for its 34.0% share in Moët Hennessy, for 80.0% of the fair value of the subsidiary at the exercise date of the option, which can be exercised at any time subject to a six-month notice period. In the **first half of FY2021, dividends paid to Diageo amounted to €143M** (in respect to FY2020). Additionally, **net profit attributable to Diageo for the first half of FY2021 was €211M**, with its share in accumulated minority interests coming to €3,428M[30]. During the first half of FY2021, **LVMH acquired a 50.0% stake in Armand de Brignac**, a major purveyor of prestige champagne (the purchase price allocation was carried out in the second half of FY2021, but since we do not know the details of the transaction, it was not included in the forecast). Additionally, **LVMH acquired an additional 45.0% stake in Château d'Esclans**, a company in which LVMH already had a 55.0% stake, bringing its ownership interest to 100.0%. This consolidates LVMH's position and opens the doors to expand market share in the luxury rosé market.

In terms of supply chain, the reality is also different between the two segments driven by differences in production processes. For the **Champagnes and Wines** segment, **the group owns 1,700 hectares under production which provide almost 20.0% of its annual requirements**. To complement this, the group purchases grapes and wines from a **large group of suppliers with multi-year agreements**, with the largest supplier of grapes and wines representing less than 10.0% of total supplies for the group. For the **Cognac and Spirits**, **the production of the group only supplies around 1.0% of the eaux-de-vie** it needs to produce its Cognac, which means that **LVMH partners with approximately 1,600 independent producers** for the additional supply. Purchase prices are agreed upon between LVMH and each individual producer based on supply, demand, and the overall quality of the eaux-de-vie. **In FY2020, harvest prices were about**

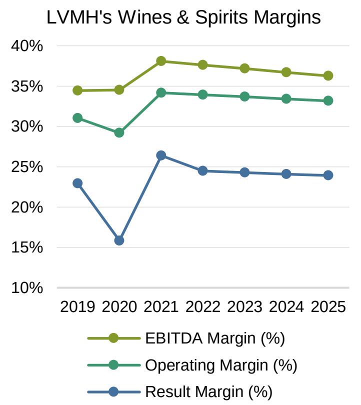
[30] Based on information retrieved from LVMH's annual, half-year and quarterly reports from 2017 to 2021.



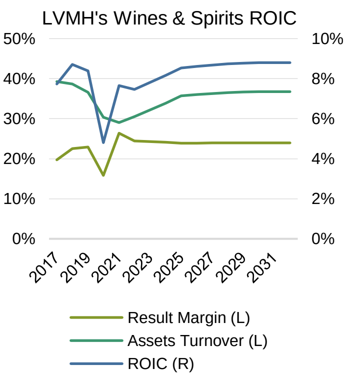
Graph 17 – Source: Analyst Forecasts



Graph 18 – Source: Analyst Forecasts



Graph 19 – Source: Analyst Forecasts



Graph 20 – Source: Analyst Forecasts

+1.6% higher than in FY2019. For both segments, the remaining dry materials (bottles, corks, etc.) and all other components of containers and packaging are purchased from non-Group suppliers. In FY2020, **these costs represented around €22M** through services like pressing, handling, and storing bottles.

Even though LVMH tries to mitigate these price increases by keeping additional inventory on hand to adjust supply, it is still **rather dependent on suppliers, which could justify the hit caused by the pandemic** to the Wines and Spirits business unit. This is **well illustrated by the operating margin**: from FY2017 to FY2019 the margin was around 31.0%, with the same value in **FY2020 being 29.2%.** The operating margin then **bounced in the first half of FY2021 to 34.2%** (the best value registered over the last 5 years).

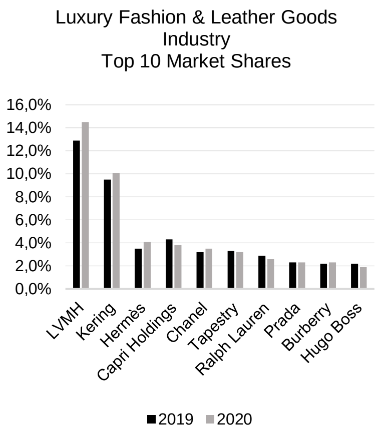
The forecasted revenue for FY2021 is €5,904M, representing a +24.2% increase from FY2020, and a +6.3% increase from FY2019. **We believe revenues will continue growing**, reaching a value of €7,785M by FY2025 and representing a CAGR 2021-2025 of 7.2% **driven by increases in market share and market growth**. The acquisition of the remaining 45.0% stake of Château d'Esclans highlights LVMH's acquisition strategy, so **we believe it is likely they will consolidate their position, resulting in a growing market share for all regions**. Their **global market share, however, is expected to decrease**. This is **driven mainly by the Chinese market**: with a forecasted CAGR 2021-2025 of 7.6%[1], the different consumption habits mean that **LVMH is not able to proportionally increase its market share**, as **there is no evidence that they will expand into the baijiu space**. As such, LVMH's total market share in the luxury wines and spirits market is expected to decrease from 5.1% in FY2022 to 5.0% in FY2025, continuing to decrease slightly thereafter.

Recurring costs are forecasted to be €3,656M in FY2021, a significant increase from €3,113M in FY2020 **driven by the increase in sales**. This represents 61.9% of revenues, an operational improvement from the past 4 years, when this value was around 66.0%. Because there is no evidence that this improvement is due to a structural change, the **value is expected to converge to 63.7% by FY2025** (the average between FY2019 and FY2021) and remain constant thereafter. This is **reflected in the result margin, with the value stabilizing at 23.3% by FY2028**, slightly lower than the 26.4% in FY2021.

In terms of **CAPEX, following a strong increase to €730M in FY2021** (vs. €310M in FY2020) **driven by the strong investment in vineyard land and producing vineyards**, **CAPEX is forecasted to decrease to €251M in FY2022**, reflecting the expectation that **investment will slow down compared to FY2021** and that

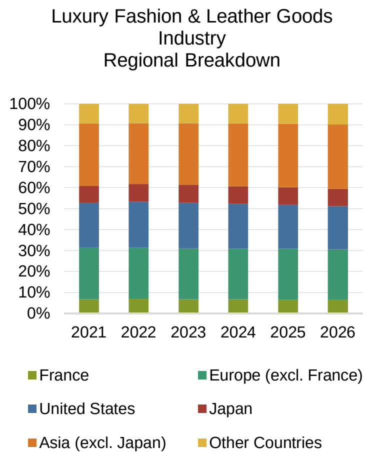
sales per hectare will increase with prices per litre (as fine drinks prices are forecasted to do so).

The ROIC for this business unit if forecasted to increase +2.9% to 7.7% in FY2021, mainly through an **expected +10.5% jump in the result margin from 15.8% in FY2020 to 26.3% in FY2021**. **We expect result margins to remain close to FY2021's figure and expect asset turnover to increase with time through increased sales per hectare**, leading ROIC to vary between 7.5% in FY2022 and 8.8% in the long run, remain **steadily above the expected WACC** of 5.03% and generating value for the company.



Company	2019	2020	Δ
LVMH	12.9%	14.5%	+1.6%
Kering	9.5%	10.1%	+0.6%
Hermès	3.5%	4.1%	+0.6%
Capri Holdings	4.3%	3.8%	-0.5%
Chanel	3.2%	3.5%	+0.3%
Tapestry	3.3%	3.2%	-0.1%
Ralph Lauren	2.9%	2.6%	-0.3%
Prada	2.3%	2.3%	0.0%
Burberry	2.2%	2.3%	+0.1%
Hugo Boss	2.2%	1.9%	-0.3%

Graph 21 & Table 6 – Source: Euromonitor International



Graph 22 – Source: Euromonitor International

Fashion & Leather Goods

Sector Overview

The **luxury leather goods market** covers the premium segment of the broader leather goods market and includes items such as handbags, suitcases, briefcases, and other leather goods such as wallets. The **luxury fashion market**, on the other hand, covers the premium section of the apparel and footwear markets.

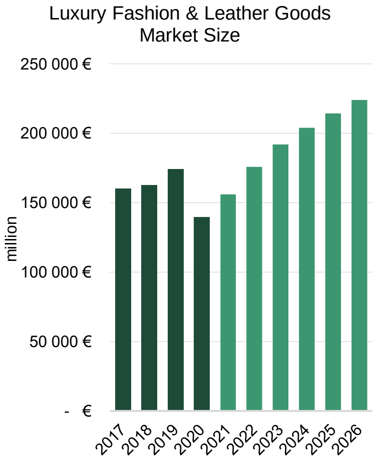
Inside the personal luxury forecasted €292.7B market in FY2021[1], **leather goods are set to represent 18.2% of revenues** (€53.3B), with **fashion taking the share prize with 35.1% of total revenue** (€102.7B), 76.8% of which from fashion and 23.2% from footwear. Women's fashion will dominate in FY2021 with a share of 53.8% (vs. 32.3% for men's).

The luxury fashion and leather goods industry is little concentrated[31], with the top five companies selling 36.0% of worldwide revenues in FY2020, but the **luxury leather goods market is substantially more concentrated than luxury fashion**, with the top five companies totalling 66.6% of global revenues (vs. 24.1% in the luxury fashion industry) in FY2020[1]. **LVMH is the largest player in both markets, with some edge on its competitors** – 14.5% of market share vs. 2nd-place Kering's 10.1% - with brands such as Louis Vuitton, Céline, Fendi Christian Dior, and Givenchy. Significant competitors are Kering (with brands such as Gucci, YSL, Bottega Veneta and Balenciaga), Hermès, Capri Holdings (with Michael Kors, Versace, and Jimmy Choo) and Chanel.

In FY2021, **most luxury fashion and leather goods sales will be made through offline channels** (79.9%), the majority of which through specialist stores, **with e-commerce seeing a share decrease of -0.4% vs. FY2020** (+7.7% vs. FY2019)[1].

[31] Based on the Herfindahl-Hirschman Index (HHI) of 398.38 calculated for the Designer Apparel and Footwear + Luxury Leather Goods company share estimates for 2020 retrieved from Euromonitor International.

The **online segment is expected to keep expanding** as new solutions are created for a better online shopping experience and as distribution channels adapt to increased demand for home deliveries. **By FY2025, more than 25.0% of revenues are projected to come from online shopping**, 61.0% of which from mobile devices[32]. **Asia is the largest luxury fashion and leather goods consumer**, being responsible for 37.9% of forecasted global revenues in FY2021 – with both China and Japan accounting for more than 65.0% of regional sales. Europe comes after it with 31.5%, followed by the US with 21.3%. Geographic allocation of consumption is forecasted to remain similar in the foreseeable future.



Graph 23 – Source: Euromonitor International

FY2020 came to stop 4 years of continued growth on both these markets. Travel restrictions halted purchases by international customers and lockdown measures decreased demand for luxury, leading to a **-19.9% drop in market size for FY2020** driven by a volume contraction of -20.7%. Even though the adoption of **e-commerce solutions provided some relief**, with digital becoming an increasingly important channel (+8.8% market share and +€7B), this was **not enough to offset a store-sale contraction** of -€41.6B. For the coming period between FY2020 and FY2025, the **industry is projected to grow at an estimated CAGR of 8.6%,** mostly through growth in China (CAGR of 14.9%). The newfound comfort in **online sales is also expected to settle and grow**. **Live-streams, virtual try-ons and influencers** are some of the determinant drivers that will impact digital growth during the following years. Some change in consumption patterns is also expected as lifestyle changes imposed by the pandemic come to stay. An example is the **sticking of remote work and e-learning**, which is expected to decrease the demand for travel bags and backpacks, leaving room for the promotion of items focused on a more personal use such as handbags[33,34,35,36].

M&A has been marked by: Hermès' **sale of China-based luxury brand Shang Xia to EXOR NV** in December 2020 for €80M; Kering's **5.0% stake in leading second-hand platform for clothes and handbags Vestiaire Collective** in March 2021, and **joint acquisition of a minority stake in British subscription luxury handbag platform Cocoon** in June 2021 for undisclosed amounts; Chanel's **acquisition of Italian tannery Conceria Gaiera Giovanni and the Italian footwear manufacturer Ballin** in October 2020, and the **acquisition of Italian outerwear manufacturer Paima** in August 2021 for undisclosed amounts[5].

[32] Based on statistics retrieved from Statista's "Luxury Fashion" and "Luxury Leather Goods" market outlooks.
[33] Euromonitor International. "Designer Apparel and Footwear (Ready-to-Wear) in the US – Analysis". Country Report. January 2021. www.portal.euromonitor.com
[34] Euromonitor International. "Designer Apparel and Footwear (Ready-to-Wear) in China – Analysis". Country Report. January 2021. www.portal.euromonitor.com
[35] Euromonitor International. "Luxury Leather Goods in the US – Analysis". Country Report. January 2021. www.portal.euromonitor.com
[36] Euromonitor International. "Luxury Leather Goods in China – Analysis". Country Report. January 2021. www.portal.euromonitor.com

Company Overview

Maison	Product Type
Emilio Pucci	Fashion
Loro Piana	Fashion
Patou	Fashion
Celine	Fashion & Leather Goods
Christian Dior	Fashion & Leather Goods
Fendi	Fashion & Leather Goods
Givenchy	Fashion & Leather Goods
Kenzo	Fashion & Leather Goods
Loewe	Fashion & Leather Goods
Louis Vuitton	Fashion & Leather Goods
Marc Jacobs	Fashion & Leather Goods
Berluti	Leather Goods
Moynat	Leather Goods
Rimowa	Luggage

Table 7 – Source: LMVH's annual report

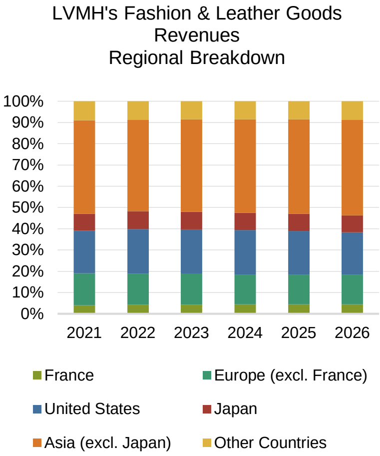
LVMH's Fashion and Leather Goods business unit includes **14 brands** (Table 7) owned by LVMH, that are **primarily French** but also include Italian, Spanish, British, German and American companies, and is the **biggest business unit by revenue**. This business unit includes sales of everything from high-end luggage to ready-to-wear men and women's apparel and shoes.

For LVMH, **controlling the distribution of its products is a core strategic priority**. This is particularly important for the Fashion and Leather Goods business unit since it allows them to **benefit from distribution margins and to keep control of brand image**. In terms of supply sources and subcontracting, LVMH keeps **most of the production process in-house**, using external manufacturers only to supplement its manufacturing and achieve production flexibility in terms of volumes. Regarding the supply of raw materials, LVMH **diversifies its network of suppliers to decrease dependency on any individual supplier**: the leading leather supplier accounts for only 21.0% of total leather supply. Because **quality of materials used is one of the top priorities**, most of their relationships with suppliers are **partnerships**. **All these efforts to diversify and seek flexibility in capacity lead to the observed operating margin**: despite the impact of COVID-19 in revenues and supply chains worldwide, the business unit managed to adjust production costs and is **set to register the highest operating margin since FY2017, at 41.1% in FY2021**. Even in FY2020, the year with the most challenges regarding the pandemic, the business unit managed to improve its operating margin from an average of 32.3% between FY2017 and FY2019 to 33.9% in FY2020.

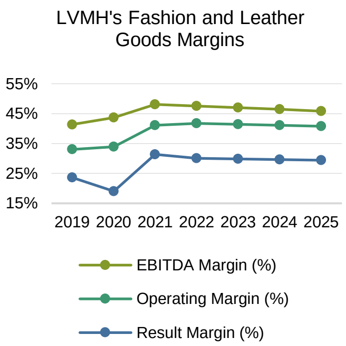
In the first half of FY2021, **Fashion and Leather Goods registered revenues of €13,863M**, a significant increase from the first half of FY2020 with €7,989M[30]. The **growth is expected to maintain throughout the second half of the year**, with **forecasted revenues of €29,042M in FY2021**. This represents a growth of 36.9% from FY2020 and 30.6% from FY2019. Revenues **are forecasted to reach €43,794 by FY2025**, at a CAGR 2022-2025 of 9.4%, considerably higher than the market CAGR for that same period (6.8%). This is a **result of LVMH's market share consolidation**, with global market share forecasted to grow from 18.6% in FY2021 to 20.5% in FY2025 (due to regional growth of market shares) **and reaching a maximum of 20.6% in FY2028** driven by different CAGRs across regional markets.

Graph 24 – Source: Analyst Forecasts

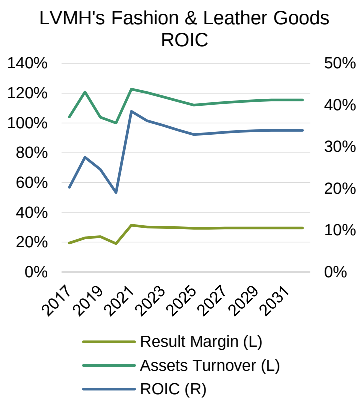
In terms of costs, as previously mentioned, the Fashion and Leather Goods business unit has **production flexibility**, which is reflected by **recurring costs as**



Graph 25 – Source: Analyst Forecasts



Graph 26 – Source: Analyst Forecasts



Graph 27 – Source: Analyst Forecasts

percentage of business unit revenues: between FY2017 and FY2020 this value hovered between 64.0% and 56.3%, exhibiting a **decreasing trend**. **In FY2021, however, this value saw a sharp decrease to 51.9%**. Because there is no evidence that this decrease is due to any operational improvements and thus expected to maintain, **the forecast assumes that this value linearly converges to 54.1%** (the average value for 2020-2021) which it will reach in FY2025, remaining constant thereafter. This method was deployed particularly for this business unit, as it was **clear that the value had a decreasing trend**, with much to be said about it being able to generate the best operating margin in FY2020, when most other businesses were suffering. Because FY2021 was an outlier in itself with tremendous growth from the pandemic recovery, **we believe costs as a percentage of total sales will increase slightly to a more conservative value**, thus the choice to use the average between the two last years as a long-term driver. This equates to a **steady-state result margin of 29.4% for the business unit**, slightly lower than the 31.4% observed in FY2021.

Capital Expenditure for the business unit **did not suffer a large impact from the pandemic**, again pointing to its production flexibility. Bouncing slightly from €692M in FY2020 to €874 in FY2021, CAPEX is forecasted to progressively decrease to €547M by FY2026 due to an **increase in sales per square meter** (through customers trading up and buying more online).

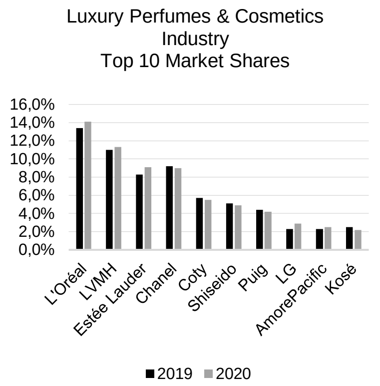
The **ROIC for this business unit if forecasted to increase +19.5% to 38.5% in FY2021**, through both increases in the result margin (+12.3% to reach 31.4%) and asset turnover (+22.7 to reach 122.7%). We expect the ROIC to remain high and above 30.0%, **remaining steadily higher than the expected WACC** of 5.03% and **generating the most value of all business units**.

Perfumes & Cosmetics

Sector Overview

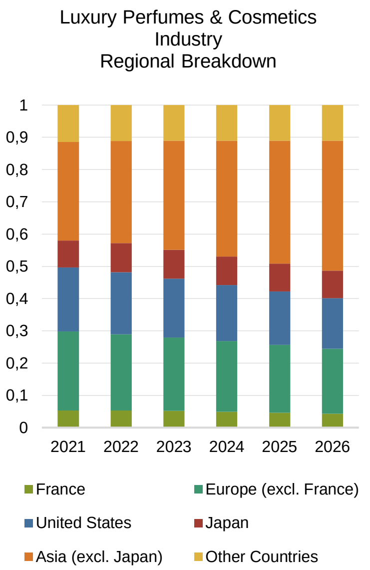
The luxury perfumes and cosmetics industry is comprised of three different product segments: **fragrances** (perfumes and eaux de toilette), **skincare products** (skin creams and lotions for face and body care, lip care products and hand/foot care products) and **decorative cosmetics** (like make-up, lipsticks and gloss, eyeshadow and mascara, nail polish and similar products). The industry is set to represent **14.5% of the broader personal luxury industry, making it the 3rd largest category** with €42.5B of forecasted revenues for FY2021[1]. Prestige skincare products gathered almost half of the total with a share of more than

47.0%. Cosmetics drew another 34.0% of sales, with fragrances coming last by collecting around 18.0% of worldwide sales in the category[37].



Company	2019	2020	Δ
L'Oréal	13.4%	14.1%	+0.7%
LVMH	11.0%	11.3%	+0.3%
Estée Lauder	8.3%	9.1%	+0.8%
Chanel	9.2%	9.0%	-0.2%
Coty	5.7%	5.5%	-0.2%
Shiseido	5.1%	4.9%	-0.2%
Puig	4.4%	4.2%	-0.2%
LG	2.3%	2.9%	+0.6%
AmorePacific	2.3%	2.5%	+0.2%
Kosé	2.5%	2.2%	-0.3%

Graph 28 & Table 8 – Source: Euromonitor International



Graph 29 – Source: Euromonitor International

On a global scale, the luxury perfumes and cosmetics market can be considered **fairly competitive**[38], with the top five revenue generating companies providing 49.0% of total worldwide revenues in FY2020.

LVMH is the 2nd company with the largest market share in the super premium beauty and personal care market, with a share of 11.3% in FY2020. Significant competitors are the market leader L'Oréal Groupe (with brands such as YSL, Giorgio Armani and Lancôme), Estée Lauder (with brands such as La Mer, Jo Malone London and Tom Ford), Chanel and Coty (with Calvin Klein, Hugo Boss, Gucci and Burberry).

In FY2021, most luxury perfumes and cosmetics sales will be made through **offline channels** (79.2%), the majority of which though specialist stores, with the **pandemic helping accelerate the conversion to online sales**, which are set to represent 20.8% of revenues this year (-3.1% drop vs. FY2020, +8.2% vs. FY2019)[1]. **Online purchases are expected to represent more than 23.0% by FY2025**, 63.0% of which through mobile and app purchases[37].

Asia is the largest consumer of luxury perfumes and cosmetics, being responsible for 38.8% of forecasted global revenues in FY2021. Both China and Japan account for 49.1% of regional sales - **Japan is the country in the world with the highest consumption per capita**, while **China generates market through volume**. Europe comes after it with 29.9%, followed by the US with 19.9%. The Asian market is forecasted to grow faster than the rest of the world (14.5% CAGR 2020-2025 vs. 9.0% average) through China, whose market is set to add +€8.1B by FY2025, making it the world's largest[1].

On a global scale, **we've seen FY2020 come and wreck sales** due to home seclusion trends and store closures. **The market contracted by -14.6% vs. FY2019**, with fragrances suffering the most. Even though the adoption of **e-commerce solutions provided some relief**, with digital becoming an increasingly important channel (+11.3% market share and +€3.6B), this was **not enough to offset a store-sale contraction** of -€6.7B[1]. Beauty is sensorial, and therefore innovative digital solutions are needed to sustain the observed growth in the online channel. Technologies such as **virtual try-on**, coupled with **tech-aided personalization of product offerings** will help in catching the interest of customers. However, personalized sales support and human interaction will still be

[37] Based on statistics retrieved from Statista's "Prestige Cosmetics and Fragrances" market outlook.
[38] Based on the Herfindahl-Hirschman Index (HHI) of 585.90 calculated for the Super Premium Beauty and Personal Care company share estimates for 2020 retrieved from Euromonitor International.

Graph 30 – Source: Euromonitor International

needed to offer an experience worthy of the "luxury" stamp, leading brands to adopt more **multi-channel solutions**[39,40]. Skincare, as well as cosmetics and fragrances, have been facing a move towards "**clean beauty**", a term that refers to beauty products that are "clean" from harmful ingredients (to both people and the environment). This trend is expected to remain strong, with **brands progressively launching more** and more super premium skin **products highlighting ingredient integrity**, efficacy, science-based formulation, immunity-positioned vitamins, and plant-based sourcing[41].

M&A has been marked by: L'Oréal's **sale of French perfumes and cosmetics manufacturer Cosmeurop to investment firm Superga** in April 2021, and the **acquisition of US-based skin care products manufacturer Youth to the People Inc**. in December 2021, both for undisclosed amounts; Estée Lauder's **stake increase from 29.0% to 47.0% in Canadian beauty retailer DECIEM** in February 2021 for €652.8M[5].

Company Overview

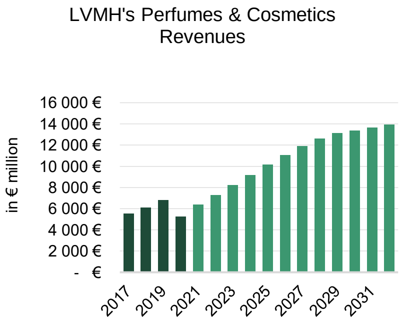
Maison	Product Type
Benefit Cosmetics	Cosmetics
Cha Ling	Cosmetics
Make Up For Ever	Cosmetics
Acqua di Parma	Perfumes
Perfumes Loewe	Perfumes
Fenty Beauty By Rihanna	Perfumes & Cosmetics
Fresh	Perfumes & Cosmetics
Givenchy Parfums	Perfumes & Cosmetics
Guerlain	Perfumes & Cosmetics
Kenzo Parfums	Perfumes & Cosmetics
KVD Vegan Beauty	Perfumes & Cosmetics
Maison Francis Kurkdjian	Perfumes & Cosmetics
Marc Jacobs Beauty	Perfumes & Cosmetics
Officine Universelle Buly	Perfumes & Cosmetics
Parfums Christian Dior	Perfumes & Cosmetics

Table 9 – Source: LVMH's annual report

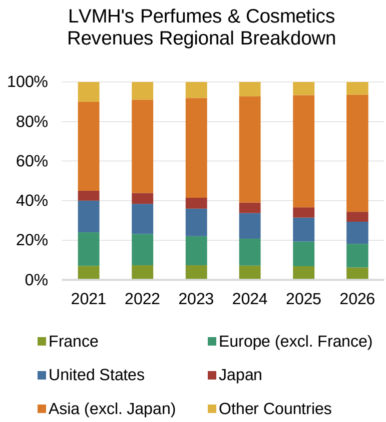
LVMH is a **key player in the global luxury perfume, makeup, and skincare sector,** owning a group of 15 brands (Table 9). LVMH maintains its strong market position by **growing the long-term future of their flagship brands**, whilst **heavily investing in the research and development on new products** to keep them ahead of the competition and in line with market trends. To maintain the continuous improvements in R&D, **the houses in the Perfumes and Cosmetics business unit pooled their resources to form a joint R&D centre** in Saint-Jean-de-Braye (France) near the industrial site of Parfums Christian Dior, with around 425 researchers employed. The team of researchers includes experts in key fields such as molecular and cell biology, dermatology, and ethnobotany. Additionally, given the strong market in Asia, LVMH has **3 innovation centres in Japan, China, and South Korea** to specifically focus on meeting the needs of Asian women.

Regarding manufacturing and supply chain, the Group maintains for this business unit a similar behaviour: **the production centres** of Guerlain, Parfums Christian Dior and LVMH Fragrance Brands **are able to meet almost all the demand** for the rest of the brands, with the remaining being subcontracted to third parties. Despite production being mostly carried out in-house, **most of the raw materials used in the manufacturing process are bought from suppliers**, with the group **striving to maintain long lasting partnerships with them**, as some of the

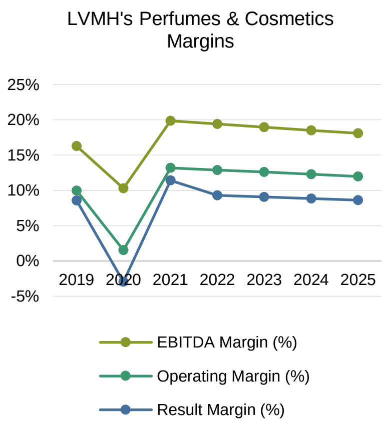
[39] Euromonitor International. "Super Premium Beauty and Personal Care in the US – Analysis". Country Report. January 2021. www.portal.euromonitor.com
[40] Euromonitor International. "Super Premium Beauty and Personal Care in China – Analysis". Country Report. January 2021. www.portal.euromonitor.com
[41] Euromonitor International. "Super Premium Beauty and Personal Care in the Japan – Analysis". Country Report. January 2021. www.portal.euromonitor.com



Graph 31 – Source: Analyst Forecasts



Graph 32 – Source: Analyst Forecasts



Graph 33 – Source: Analyst Forecasts

materials used are only available from a limited number of suppliers. As with the Wines and Spirits business unit, the materials involved in the bottling process and packaging are bought from external suppliers. The Perfumes and Cosmetics business unit also **heavily benefits from economies of scale**: due to the large number of houses in the group, LVMH benefits from **volume effects when negotiating the rates for advertising spaces and the locations in department stores**. These economies of scale allow for greater investments in design and advertising. In terms of distribution, the picture varies across the different houses: **most of the Group's Perfumes and Cosmetics brands are sold largely through selective retail channels**, but some of the other houses distribute their products via their own operated stores. In addition to all of this, to meet the growing demand for a digital shopping experience particularly from younger demographics, all the brands in the segment are rapidly accelerating their digital content initiatives and incorporating digital tools to enhance customer experience.

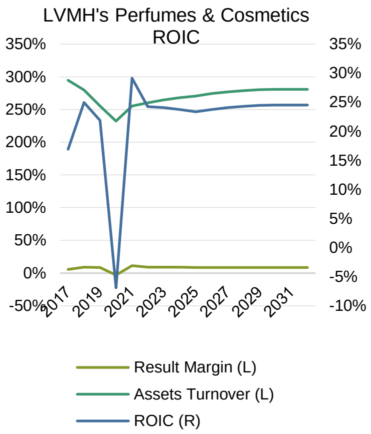
In the first half of FY2021, the **Perfumes and Cosmetics business unit saw revenues of €3,025M, a 3.0% decline at constant consolidation scope and exchange rates compared with the same period of FY2019**[30]. For the full **FY2021, revenues are expected to be €6,378M**, a 6.7% decrease from FY2019, but a 21.5% increase from FY2020. **The recovery** compared with FY2020 **was mainly driven by the gradual reopening of physical spaces as well as the strong growth in the online sales**. Unlike many of its competitors who opted to increase the number of discounted sales or to sell in parallel networks to support the decrease in revenues, the Group maintained their selective distribution strategies during the COVID-19 pandemic. **The slow recovery** and underperforming vs. FY2019 **is largely driven by a slow forecasted recovery of the market in general**: with a total size of €46,085M in FY2019, the market is expected to return to pre-pandemic levels only by the end of FY2022, at €47,529M continuing to grow thereafter with an expected CAGR 2022-2025 of 9.3%. **Revenues will follow this growth trend, reaching €10,149M by FY2025** resulting in a **forecasted CAGR 2022-2025 of 11.6%,** driven by the increase in the Group's market share from 15.4% in FY2022 to 16.8% in FY2025. This growth is mainly supported by the strong Asian market.

In terms of costs, following a decreasing trend between FY2017 and FY2019, suggesting operational improvements, the **business unit saw a sharp increase in recurring costs as percentage of sales from an average of 84.2% to 89.7% in FY2020**. This value **improved significantly in FY2021 to 80.1%** and is **expected to converge to 81.9% by FY2026** (the average of FY2019 and FY2021) as a way to reflect the operational improvements observed in the trend while correcting for the FY2021 outlier.

The slow recovery of the market combined with the business unit's inability to completely adjust to the pandemic ultimately resulted in a severe impact, with Perfumes and Cosmetics seeing a **negative result margin of -3.0%.** The business unit is **expected to continue the recovery verified in FY2021 with a result margin of 11.4%,** reaching a **steady-state margin of 8.7% in FY2029**.

Following a decrease in FY2020 from €386M to €251M, **CAPEX starts building back up rising progressively from €262M in FY2022** to **€541M in FY2029**, largely driven by the expansion in PP&E with increased demand.

For Perfumes and Cosmetics, **ROIC is expected to substantially improve in FY2021, from a negative value in FY2020 of -6.9% to 29.2%.** The negative value in FY2020 was driven by a negative result margin of -3.0%. **The ROIC is expected to correct to a value of 24.3% in FY2022, steadily growing thereafter to reach its steady state value of 24.5% in FY2030.**



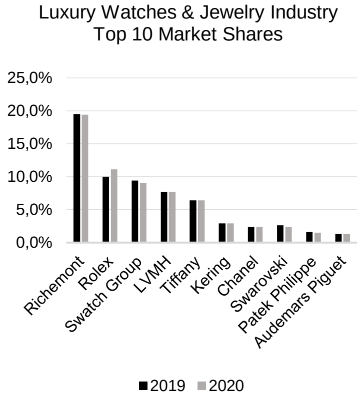
Graph 34 – Source: Analyst Forecasts

Watches & Jewelry

Sector Overview

Luxury watches and jewelry, referred to as "hard luxury" for the notoriously "harder" materials used in production when compared to other luxury products, consist of the top-end portion of the broader watches and jewelry markets. Luxury watches includes both **luxury wrist and pocket watches**, as well as some **smartwatches** from luxury brands. Luxury jewelry contains **luxury rings, necklaces, earrings, bracelets, brooches**, and other small decorative items that are worn for personal ornamentation. The industry is forecasted to be **responsible for 25.5% of global personal luxury revenues in FY2021**, making it the **2nd largest category** with €74.7B in revenues expected for that year (about half the market size of luxury fashion and leather goods)[1].

On a global scale, the luxury watches and jewellery market presents the **highest degree of concentration of the analysed industries**[42], with the top five revenue generating companies selling a growing 53.7% of worldwide revenues in FY2020. **Watches contribute the most to this concentration**, with lead market players Rolex and Richemont being responsible for 42.3% of global luxury watch sales.



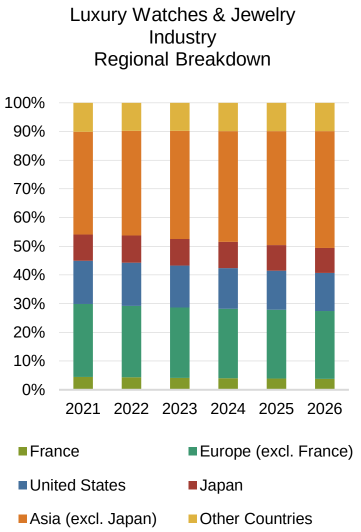
Company	2019	2020	Δ
Richemont	19.5%	19.4%	-0.1%
Rolex	10.0%	11.1%	+1.1%
Swatch Group	9.4%	9.1%	-0.3%
LVMH	7.7%	7.7%	0.0%
Tiffany	6.4%	6.4%	0.0%
Kering	2.9%	2.9%	0.0%
Chanel	2.4%	2.4%	0.0%
Swarovski	2.6%	2.4%	-0.2%
Patek Philippe	1.6%	1.5%	-0.1%
Audemars Piguet	1.3%	1.3%	0.0%

Graph 35 & Table 10 – Source: Euromonitor International

[42] Based on the Herfindahl-Hirschman Index (HHI) of 710.23 calculated for the Luxury Timepieces + Luxury Jewellery company share estimates for 2020 retrieved from Euromonitor International.

LVMH's market share in the luxury watches and jewelry industry was 14.1% in FY2020. The acquisition of Tiffany was responsible for adding +6.4% in market share to the company's previously held 7.7%, **making it jump from 4th to 2nd in the ranking**[1]. Significant competitors are the lead player Richemont (with brands such as Cartier, Van Cleef & Arpels and IWC), Rolex (with the homonymous brand Rolex and Tudor), Swatch (with brands such as Omega, Longines and Breguet), and Kering (with brands such as Boucheron, Gucci and Pomellato).

In FY2021, most luxury watches and jewelry sales will be made through **offline channels** (86.5%), the majority of which though specialist stores, with the pandemic helping accelerate the conversion to online sales, which are set to represent 13.5% of revenues this year (-0.2% drop vs. FY2020, +4.4% vs. FY2019)[1]. **Online purchases are expected to represent more than 30.0% by FY2025**, 70.0% of which through mobile and app purchases[43].



Graph 36 – Source: Euromonitor International

By analysing the geographic distribution of luxury watches and jewelry sales, we can conclude **that China is by far the most important economy, representing close to 18.8% of total worldwide revenues forecasted for FY2021**, and making **Asia the most important region with a total share of 44.9%.** China is the largest consumer in both segments, but it is particularly fond of watches. The Chinese market if forecasted to contribute with +€11.0B of the +€32.9B market growth in value between FY2020 and FY2025. Europe comes after it with 29.9%, followed by the US with 15.0%.

Graph 37 – Source: Euromonitor International

As expected, **FY2020 was not a good year for luxury watches and jewelry**, with both markets suffering the consequences of pandemic disruptions. As the **more traditional category** within the luxury industry and with the **highest retail prices** (€1,683.4 per unit for FY2020)[1], **online retail has been underexplored**, as a more conservative approach to sales was adopted, especially in China. This led to a **slower pace of recovery through this channel when compared to other luxury segments** (+4.6% e-commerce share vs. +7.7% personal luxury industry average), leading to an impacting wound on FY2020's sales, which dropped -18.7% in retail value globally.

The cessation of social and life events created both a lack of consumer need and a postponement of consumption, especially in luxury jewelry such as engagement and wedding rings. **Supply has also been hit with the closure of**

[43] Based on data retrieved Statista's "Luxury Watches & Jewelry" market outlook data retrieved from https://www.statista.com/outlook/cmo/luxury-goods/luxury-watches-jewelry/worldwide

production facilities and increased issues with transportation, namely with watches traveling from Switzerland to China[44,45].

There is **increased expectation on online channels to grow substantially in the near future**, as brands increase their digital presence after taking notice of changing purchasing habits on an ever more connected market. The luxury watches industry is **expected to observe a significant turn as the demand for smartwatches is expected to increase greatly** (CAGR 2021-2025 of 11.2% to reach €43.2B[46]), **mainly affecting the sales of less expensive, trend-driven brands** and leaving traditional mechanical timepiece manufacturers unaffected. The luxury jewelry industry will also suffer the effects of innovation, with **lab-grown diamonds becoming increasingly popular** (CAGR 2021-2030 of 9.4% to reach €44.1B[47]) due to their more sustainable production, offering a guilt-free alternative to mined diamonds, an industry known for humanitarian concerns. The flourishing younger generation consumers, in addition to adopting a more responsible look towards consumption**, present particular tastes that gravitate more towards jewelry made out of metals other than gold**. These phenomena are expected to **put some downward pressure on retail prices**, and the market is predicted to **behave elastically**, further helping increase total market size through volume. In both segments, the **burgeoning resale market is expected to thrive**, as both luxury watches and jewelry present very good resale values[44,45,48,49].

M&A has been marked by: Richemont's €423.6M **investment in Farfetch China together with Alibaba**, taking a combined 25.0% stake in a new joint venture to accelerate the digitization of the luxury industry in June 2021, and a **proposal** announced in November 2021 **to sell online fashion retailer Yoox Net-a-Porter to Farfetch** for an undisclosed amount; Kering's **proposal to sell watchmakers Gerrard-Perregaux and Ulysse Nardin** to a potential buyer, announced in May 2021[5].

Company Overview

The Watches and Jewelry business unit operates in two segments, **high-quality watchmaking**, and **high jewelry**, and is **comprised of 8 brands** (Table 11). These 8 brands are present **all around the world** and establish LVMH as one of the international leaders of the highly fragmented global jewelry market. This

Maison	Product Type
Fred	Jewelry
Repossi	Jewelry
Hublot	Watches
Tag Heuer	Watches
Zenith	Watches
Bulgari	Watches & Jewelry
Chaumet	Watches & Jewelry
Tiffany & Co.	Watches & Jewelry

Table 11 – Source: LVMH's annual report

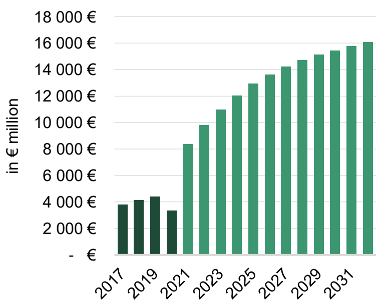
[44] Euromonitor International. "Luxury Timepieces in China – Analysis". Country Report. January 2021. www.portal.euromonitor.com
[45] Euromonitor International. "Luxury Jewellery in China – Analysis". Country Report. January 2021. www.portal.euromonitor.com
[46] Based on data retrieved Statista's "Smartwatches" market outlook data retrieved from https://www.statista.com/outlook/dmo/digital-health/digital-fitness-well-being/digital-fitness-well-being-devices/smartwatches/worldwide
[47] Allied Market Research. "Lab Grown Diamonds Market". Accessed December 1st, 2021. https://www.alliedmarketresearch.com/lab-grown-diamonds-market-A13694
[48] Euromonitor International. "Luxury Timepieces in the US – Analysis". Country Report. January 2021. www.portal.euromonitor.com
[49] Euromonitor International. "Luxury Jewellery in the US – Analysis". Country Report. January 2021. www.portal.euromonitor.com

strong international presence gives the Group the **ability to coordinate and pool resources that allow for a robust worldwide network of multi-brand customer support to drive customer satisfaction**. The Watches and Jewelry business unit is **steadfast on improving its online sales**, as well as **improving the productivity of its retail networks**, whether it be through group-owned stores, multi-brand retailers, ambassadors, or other brands. This is exemplified by TAG Heuer's partnership with Porsche in FY2020, or the multiple celebrity ambassadors that boast their Bulgari pieces in the red carpet. The brands directly operated 471 stores at the end of FY2020 in prestigious locations.

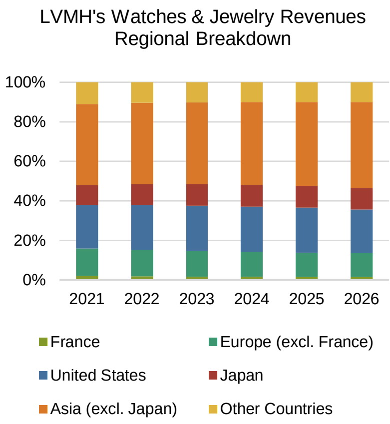
In terms of watches manufacturing, **the group benefits from the synergies** of having a portfolio of powerful brands and thrives by **coordinating the use of shared resources** such as prototype design capacities, improving manufacturing productivity and bargaining power in negotiations with suppliers. The majority of the watches and chronographs sold by TAG Heuer, Hublot, Zenith, Bulgari, Montres Dior, Chaumet and Fred are assembled in Switzerland, where the design and manufacture of mechanical movements is also done. It is also there that the Group manufactures the most critical components such as dials, cases, and straps. In jewelry, the Group introduced centralized checking for diamonds, as well as technical cooperation in the development of new products. **Subcontracting accounted for approximately 15.0% of the costs of sales for the Watches and Jewelry business unit in FY2020**.

Despite the Group's best efforts, **the segment was not immune to the pandemic**, as the closure of international travel and physical stores **sharply decreased revenue (-23.8% decline) from FY2019 to FY2020,** and **operating margin from 16.7% in FY2019 to 9.0% in FY2020**. This **decrease was limited by China's strong recovery in the second half**, which can be observed by the change in the distribution of revenues per region: **Asia (excluding Japan) jumped from 38.0% in FY2019 to 43.0% in FY2020**, while Japan and the US kept their shares constant at 12.0% and 8.0%, respectively. France, Europe (excluding France) and other markets represented a smaller portion of total revenues in FY2020 than they did in FY2019. **For FY2021 the picture drastically improved: revenues jumped from €3,356M in FY2020 to €5,085 in the first half of FY2021 alone**. **This increase is due to the consolidation of Tiffany & Co., solidifying LVMH's position in the US, reflected by the increase in market share.** Tiffany's consolidation marked the end of a long and winding road from the first rumors in the fall of 2019 (after Tiffany had been underperforming both the S&P 500 and the S&P Consumer Discretionary Index for quite some time), to the **closure in January 2021 at an equity value of $15.8B.**

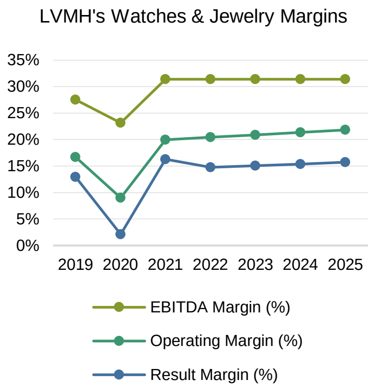
LVMH's Watches & Jewelry Revenues



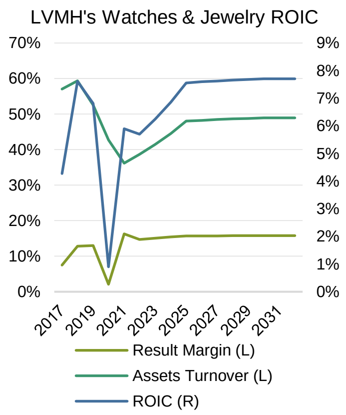
Graph 38 – Source: Analyst Forecasts



Graph 39 – Source: Analyst Forecasts



Graph 40 – Source: Analyst Forecasts



Graph 41 – Source: Analyst Forecasts

This strategy of acquiring reputable brands that were "struggling" and turning them around by leveraging LVMH's scale and cost sharing infrastructure is the **cornerstone of LVMH's growth over the last years**. This is perfectly illustrated by LVMH's acquisition of Bulgari in 2011, purchased for $3.7B in an all-stock transaction, a premium of 60.0% over the unaffected share price. Following the streamlining process and sales channel optimization, LVMH was able to double Bulgari's revenue while also consolidating its own position as a leader in the fragmented jewelry market.

All of this resulted in the **business unit booming in FY2021 to revenues of €8,363M**, a 149.2% growth from FY2020 and an 89.9% increase from FY2019, **solidifying Watches and Jewelry as the third largest business unit**. **Revenues are forecasted to reach €12,929M by FY2025, at a CAGR 2022-2025 of 9.7%.** This growth is sustained by the market growth (with a forecasted CAGR 2022-2025 of 7.9%), but **mainly by the increase in market share in the American and Japanese market, where LVMH is expected to reach market shares of 20.0% and 14.8%**, respectively. This results in a global market share of 12.0% by FY2025, up from 11.2% in FY2021.

In terms of **recurring costs, the picture looks optimistic for LVMH**: following a downward trend between FY2017 and FY2019, recurring costs as percentage of sales slightly increased in FY2020 from an average of 76.3% to 76.8%. **After Tiffany's consolidation, however, recurring costs decreased to 68.6% in FY2021**, and are expected to remain constant thereafter, in an attempt to reflect the operational improvements while remaining somewhat conservative. **This results in an operating margin of 21.9% in the steady-state**, considerably higher than the 16.7% observed in FY2019 to reflect the structural improvements.

CAPEX predictably spiked in FY2021 due to the consolidation of Tiffany, with the value jumping from €188M to €1,277M driven by the almost tripling of PP&E. In FY2022, CAPEX stabilizes at a more normal value of €556M, and continues to slowly grow thereafter, reaching €677M in FY2029.

For this business unit, **ROIC is expected to increase by +5.0% from 0.9% in FY2020 to 5.9% in FY2021**. This jump is fuelled by an **increase in result margin from 2.1% to 16.3%** but **limited by a decrease in the asset turnover from 42.8% to 36.2%**. ROIC is then expected to keep increasing until it reaches the **steady state value of 7.7% in FY2030.**

Selective Retailing

Company Overview

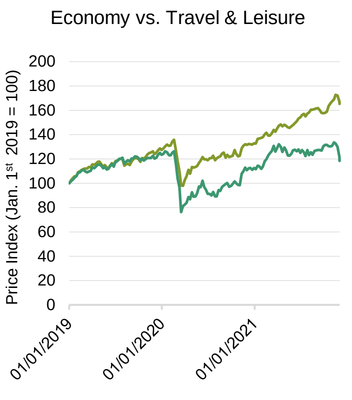
Maison	Product Type
DFS	Travel Retailer
La Grande Epicerie de Paris	Grocer
Le Bon Marché Rive Gauche	Department Store
Sephora	Beauty Retailer
Starboard Cruise Services	Cruise Ship Shopping

Table 12 – Source: LVMH's annual report

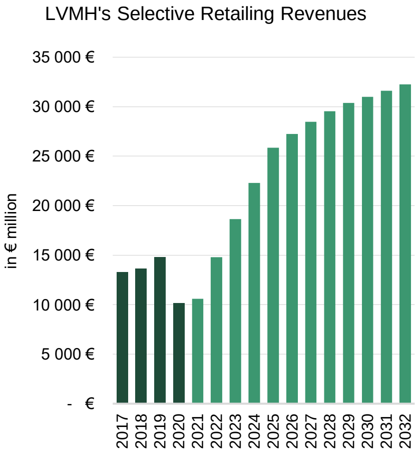
Selective Retailing is the Group's second largest business unit in revenue behind Fashion and Leather Goods, registering Revenues of €10.2B in FY2020. The business unit is comprised of **Travel Retail**, which encompasses retailing activities included in the travel industry and holds brands such as Duty Free Shoppers and Starboard Cruise, and **Selective Retail** which englobes the remaining retailing activities holding brands such as Sephora, Le Bon Marché Rive Gauche, and La Grande Épicerie de Paris.

Duty Free Shoppers is the fourth largest travel retail operator and leader in the sale of luxury items to travellers, and it mainly operates in Asia-Pacific. Due to its nature **DFS is inevitably linked to tourism cycles**, explaining the severe hit from the COVID-19 pandemic. As a response, the group focused on developing alternative sales channels not so heavily focused on physical spaces and shifted to a more local clientele as a means of mitigating the drop in tourism. **FY2021 brought a more positive environment** to the brand with the openings of new locations and reopening of old ones. The **digital strategy also accelerated, marked by the launch of an e-commerce platform and WeChat initiatives** to provide the customers with a different purchasing experience in Macau, as well as **digital solutions for airports in the US aiming to build customer loyalty**. **Starboard Cruise Services**, which focused on the retail of duty-free luxury products in cruises, **also suffered a big impact when most countries shut down their ports as a response to the pandemic**.

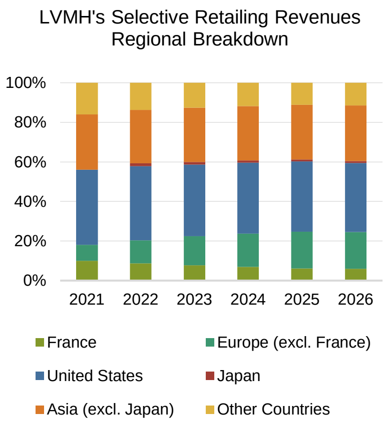
The most significant brand of the Selective Retailing business unit is Sephora. Sephora is known for the luxurious architecture of its stores and **sells a wide array of beauty and perfumes related products**. Since its acquisition by the Group in 1997, Sephora **experienced rapid growth in Europe** fuelled mainly by the opening of new stores and acquisition of perfume retail chains. This acquisition strategy was applied to Southeast Asia, where the brand also opened locations by leveraging the acquisition of the e-commerce site Luxola in FY2015 operating in 8 countries in the region. **Digital transformation is also at the forefront of Sephora's strategy**, illustrated by initiatives such as Click & Collect and Call & Collect in FY2020. In 2021, **Sephora announced a strategic partnership with Zalando** (an e- commerce platform selling luxury shoes and clothing with 42M users) to create a Prestige Beauty category allowing the brand to expand its online presence in Europe. Sephora's growth perspective also extends to physical retail stores, with the brand **announcing in 2020 a partnership with Kohl's resulting in the opening of 800 Sephora Prestige Beauty points of sale**, 200 of which to be finished in FY2021.



Graph 42 – Source: Bloomberg



Graph 43 – Source: Analyst Forecasts



Graph 44 – Source: Analyst Forecasts

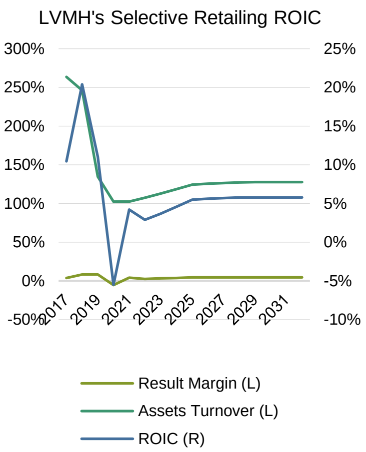
Le Bon Marché was the world's **first department store and was acquired by the Group in 1998**. The space sells a selection of high-end sophisticated brands and is viewed as the "true Parisian" experience for high-end shopping. Only having one location, **the brand was strongly hit by the pandemic, being forced to close its doors for three months in FY2020, and 4 months in FY2021**. While the **Brand attempted to shift to a digital sales strategy**, because its value proposition is so heavily based on in-store purchase experience marked by excellent customer service, it was not enough to offset the huge decrease in traffic.

Because of its more physical retail nature, Selective Retailing was one of the most severely impacted business units by the pandemic, with revenues dropping 31.0% to €10,155M in FY2020 from €14,791M in FY2019[30]. Unable to fully adjust the cost structure, the segment also saw an **operating margin of -2.0% in FY2020, versus 9.4% in FY2019**. With the gradual reopening in Q2 of FY2021, the business unit saw more positive results, with revenues of €10,593M in the 1st half of FY2021, up +4.3% from FY2020, but down -28.4% from FY2019, showing a significantly weaker recovery when compared with other business units. **This observation can be explained by the correlation between the segment's revenues and tourism**: even though physical spaces gradually reopened in FY2021, tourist activity did not experience a proportional boost, leaving the group's revenues with mostly domestic clientele, representing a smaller portion of its usual revenues. This lag between the economy and tourism can be seen in Graph 42.

Due to the multitude of activities carried out by the business unit, **the market used as a proxy was constructed with data from the travel and health & beauty specialist retailer industries.** The slow recovery in FY2021 is **driven mainly by the slow recovery of this proxy market,** only reaching pre-pandemic levels by the end of FY2023. Nonetheless, **revenues are forecasted to reach €25,844M by FY2025, with a CAGR 2022-2025 of 20.5%.** This strong growth is **supported by a growing market** with a CAGR for the same period of 9.7%[1], but mainly by an **increase in market share**: in Europe, due to the partnership with Zalando, Sephora (and thus the group's) market share is expected to increase from 0.1% in FY2021 to 0.5% in FY2025, remaining constant thereafter. In the US, a similar growth is expected with market share increasing from 0.6% in FY2021 to 1.0% in FY2025 driven by Sephora's partnership with Kohl's. The increase in stores resulting from this partnership is also taken into consideration when forecasting right-of-use assets for the business unit. In Asia, market share is also expected to increase slightly due to the Group's digital initiatives.

In terms of costs, the segment saw an **increase in efficiency in FY2019 with costs as percentage of revenue improving from -86.5% in FY2018 to -81.0%**

Graph 45 – Source: Analyst Forecasts



Graph 46 – Source: Analyst Forecasts

in FY2019. FY2020 was predictably a worse year with recurring costs representing -86.7% of revenues. The picture slightly improved in the **first half of FY2021** with the company seeing **costs at 84.0% of revenues**. Following the same logic of slow recovery, **we expect costs to return to the average of FY2019 and FY2021 by the year FY2025**, remaining constant thereafter. This culminates in a steady state result margin of 4.6%, lower than the 8.2% observed in FY2019.

CAPEX for this business unit **heavily increases from FY2021 to FY2022** (from €468M to €1,043M) **driven by the expected boost in sales**. After this, CAPEX remains somewhat constant as PP&E stabilizes as well. This is the result of the balance between an increase in sales and an increase in sales per square meter, which require less PP&E per sales.

In terms of **ROIC**, Selective Retailing **experienced one of the biggest hits from the pandemic, with the value dropping from 11.0% in FY2020 to -5.5% in FY2021**. This was fuelled by the **result margin dropping from 8.2% to -5.4%** in the same period. **In FY2022, driven by the business unit's slow recovery, the ROIC declined further due to the decrease in the result**: despite the higher sales and better operating margin, because the forecast assumes other comprehensive income to be zero in all future periods this culminates in a lower result margin. **Because the increase in revenue was not enough to offset the decrease in the result margin, the ROIC for FY2022 is forecasted to decrease to 2.9%.** Following this adjustment, **the ROIC is expected to steadily increase to reach a value of 5.8% by FY2029**, remaining constant thereafter and destroying value for the company (ROIC<WACC) only until FY2025.

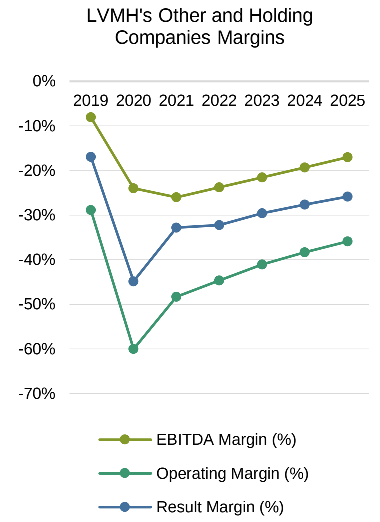
Other & Holding Companies

Company Overview

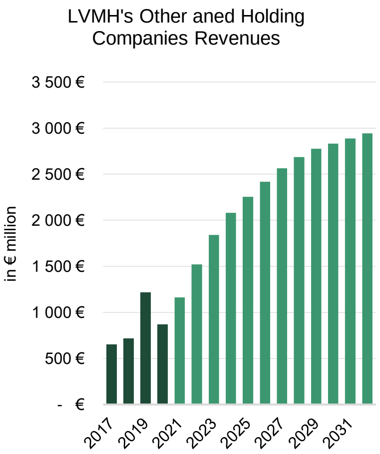
Maison	Product Type
Jardin d'Acclimatation	Amusement Park
Connaisance Des Artes	Art Magazine
Cova	Chocolates
Cheval Blanc	Luxury Hotel
Belmond	Luxury Tourism
Investir	Newspaper
Le Parisien	Newspaper
Les Echos	Newspaper
Radio Classique	Radio
Royal Van Lent	Yacht

Table 13 – Source: LVMH's annual report

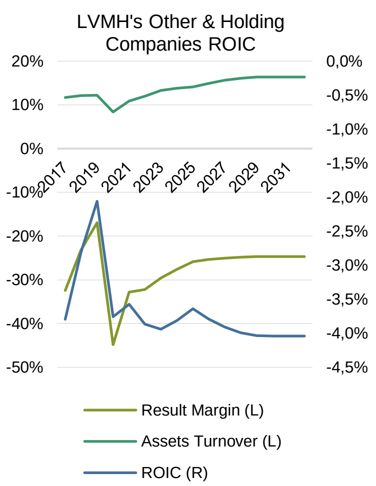
The Other & Holding Companies business unit is comprised of **10 different brands** (Table 13). Representing **only 2.0% of LVMH's total revenue**, the Other & Holding Companies business unit is the group's smallest segment. **Les Echos group** was acquired by LVMH in FY2007 and **includes several well-known press related businesses.** The brand also publishes trade journals and the Le Parisien daily newspaper. **La Samaritaine** is a real estate complex in Paris by the Seine River. Before 2005, the space was rented out as a department store, and leased office and retail spaces. After being closed in 2005 for safety reasons, La Samaritaine was abandoned and only reopened in June of 2021, after LVMH's gradual investment of almost $750M across five years. **La Samaritaine includes**



Graph 47 – Source: Analyst Forecast



Graph 48 – Source: Analyst Forecast



Graph 49 – Source: Analyst Forecast

several high-end retail stores owned by the Group such as Chanel and Dior, as well as around 20 restaurants. Another brand under the business unit is **Royal Van Lent**, a Dutch brand that **designs and builds custom yachts**, which are then marketed under the Feadship brand, one of the top brands for yachts above 50 meters. **Cheval Blanc** is a brand of **high-end hotels** with locations in Paris, Courchevel, Saint-Tropez, Saint-Barth Isle de France, and Randheli. The Paris hotel was recently opened in June 2021 right next to La Samaritaine. In addition to Cheval Blanc, the business unit also has in its portfolio the **Belmond brand**. Belmond is a **luxury tourism experience brand**, operating a large portfolio of activities such as luxury hotels, river cruises, safaris, etc. Lastly, LVMH also operates **Le Jardin d'Acclimatation**, an old **amusement park** renovated in 2018.

Much like the Selective Retailing business unit, **the Other & Holding Companies has its activities closely linked to tourism**, experiencing the same challenges in terms of recovery to pre-pandemic levels. To draw conclusions and base the forecast, **a proxy market was created using data from the attractions and experiences markets** (to reflect Belmond's activities such as safaris and Le Jardin d'Acclimatation), cruises, luxury hotels, and spas.

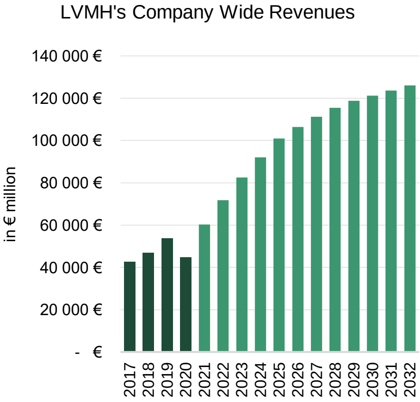
In FY2020, **revenues for the business unit took a severe hit**, **dropping -28.6% to €868M from €1,215M in FY2019**. The correlation with tourism meant that **FY2021 did not pose as great of a recovery as desired** with revenues climbing to **€1,163M, up +34.0% from FY2020** but still down -4.3% from FY2019. These results are also reflected in the **EBITDA margin, decreasing from -8.1% in FY2019 to -23.4% in FY2020 and -26.0% in FY2021**. Although **revenues are expected to reach €2,253M in FY2025 with a CAGR 2022-2025 of 14.0%, this will still culminate in a result margin of -25.9% in the same year**, in line with the average result margin from FY2017 to FY2019, at -24.2%. The business unit continuously having negative results (excluding company overheads) **suggests that it is mainly used as a distribution channel to the group's other brands**: in fact, all the hotels and other activities included in this business group enable LVMH to cross-sell products from other segments, justifying the constant losses.

This is observed in the **ROIC** of the business unit, **registering negative returns even in a pre-pandemic context**. In FY2020 the ROIC became more negative reaching a value of -3.8%, having slightly recovered in FY2021 as a consequence of a higher result margin to a value of -3.6%. It will then slightly decrease to -4.0% in the steady state, driven by a constant increase in the assets turnover (which is positive) and **continuing to destroy value for the company.**

Valuation

Overview

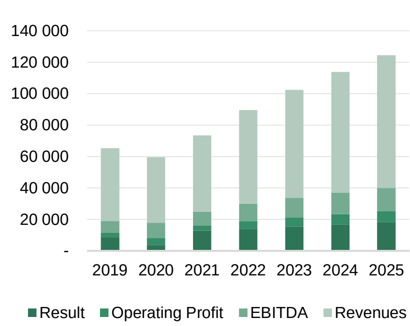
The present Equity Research was conducted with the use of a **discounted cash flow methodology**. The forecast assumes the company will **reach a steady state of perpetual 2.0% growth in FY2030**, and all relevant captions have been forecasted until FY2032, which is the year in when ROIC and RONIC converge, allowing us to use a perpetuity thereafter. **Free cash flows were calculated for each year and for each business unit as the forecasted result minus the expected change in invested capital** and were then **discounted at a WACC of 5.03%** to obtain the enterprise value (EV) for each of the core business units. These values were then added-up to obtain an expected **Core EV of €458.1B in FY2022**, to which a **Non-Core EV of -€12.5B** (valued at forecasted BV for FY2022) was summed to obtain a total company-wide **EV of €445.6B**. Assuming a constant and **permanent D/E ratio of 10.0%, BV of debt was forecasted to be €40.51B**, leading to an **estimated market capitalization of €405.11B in FY2022**. For a **permanent 504.8M shares outstanding**, the **price per share is set to be €802.59 per share at the end of FY2022**, which represents an **expected return of +12.67% vs. €711.90** per share in December the 15th, 2021.



Graph 50 – Source: Analyst Forecast

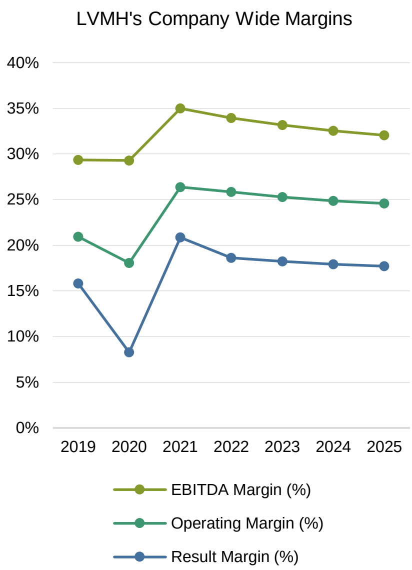
Forecasted Income Statement

The industry and company research for each business unit of LVMH was integrated in the forecasting of the income statement, for each unit individually. By looking at a companywide sum of forecasted revenues, **we estimate total sales in FY2021 to reach €60.3B**, representing a **+35.1% (+€15.7B) y-o-y growth vs. FY2020** and exceeding FY2019's pre-pandemic historical-high mark of €53.7B. **For FY2022 we expect revenues to expand by +€11.5B (+19.1% y-o-y growth vs. FY2021) to reach €71.8B**. **Sales are forecasted to increase at a CAGR 2022-2025 of 12.0%**, surpassing the €100B threshold. **Revenue distribution between business units is forecasted to suffer some changes** from FY2020 to FY2021, in particular: Watches and Jewelry will add +6.3% (from 7.5% to 13.9%) of revenue share, mainly through the consolidation of Tiffany & Co.; and Selective Retailing is set to shed -5.2%, as revenues are closely tied to the travel industry, which will not fully recover to FY2019 values until FY2024.



Graph 51 – Source: Analyst Forecast

Recurring costs, which include both COGS and other operating costs, are **forecasted to reach a value of €39.0B during FY2021**, representing a **+€7.6B increase (+24.0%) vs. FY2020**, caused mostly by a 122.5% increase in Watches and Jewelry costs triggered by the consolidation of Tiffany & Co., and also the significant expansion of Fashion and Leather Goods sales. **Recuring costs as a percentage of sales are forecasted to decrease -5.6% in FY2021 vs. FY2020,**



Graph 52 – Source: Analyst Forecast

from 70.2% to 64.6%. **By FY2022 these are expected to represent a slightly higher 65.6%** of sales and will **increase at a forecasted CAGR 2022-2025 of 13.1%**, representing 67.5% of proceeds by FY2025.

EBITDA margin is thus forecasted to escalate to 35.4% in FY2021, **adding +5.6% points vs. FY2020. EBITDA for FY2021 is set to hit €21.4B** (+€8.0B vs. FY2020, +€5.3B vs. FY2019), and will **grow at a y-o-y rate of 15.7% to reach €24.7B in FY2022**. After this year, **EBITA is forecasted to expand at a CAGR 2022-2025 of 9.9% to achieve €32.8B and a 32.5% margin.**

Depreciation is anticipated to rise to €5.2B in FY2021, **representing a +€180M increase vs. FY2020**, and is **estimated to be €5.8B in FY2022** and €7.5B in FY2025.

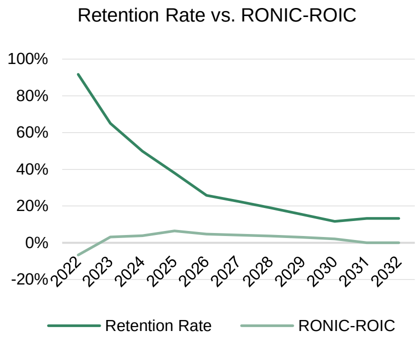
Assuming a **permanent statutory tax-rate equal to 28.4%**[50] and other minor income and expenses, t**he after-tax company-wide result is on its way to an increase of +€9.2B (+261.9% recovery) in FY2021 to reach €12.8B**, outperforming a pre-pandemic result of €8.4B in FY2019. **FY2022's result will see a 5.5% y-o-y increase vs. FY2021, attaining €13.5B**, and after it is **anticipated to grow at a CAGR 2022-2025 of 10.1%** extending to €18.0B.

Forecasted Balance Sheet

By looking at a company-wide sum of the **invested capital** expectations, a **+€21.1B (+37.1%) y-o-y rise to €78.5B is anticipated for FY2021**, mostly instigated by a +€16.9B (+51.0%) increase in brands, goodwill, and other intangibles after the consolidation of Tiffany & Co. **For FY2022 a much more modest growth of +€12.1B (+15.5%) is expected**, as no major acquisition is neither rumoured nor announced**. Invested capital will then grow at a CAGR 2022-2025 of 8.4% resulting in €155.5B by FY2025**. Most growth is expected to come from **M&A activity**, as this is engrained in the management's investment philosophy, and through the increase in **right-of-use assets**, composed mainly of store leases that are **forecasted to grow at the pace of offline sales**. This caption is forecasted to evolve as a function of the number of stores, and a constant value of Right of Use Assets / Store. The number of stores, which is the fundamental driver of the caption, is forecasted to grow at the same rate of offline sales, considering data regarding the shift between digital and physical retailing. This was done to incorporate the trend of digitization, which implies that total sales per store will tend to increase as the volume of the online channel increases. **CAPEX for FY2021 is expected to sit at €3.9B,** €1.3B of which from Watches

[50] KPMG. "Corporate Tax Rate Table – Corporate Tax Rates for 2011 - 2021". Accessed December 10th, 2021. https://home.kpmg/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html

and Jewelry with the consolidation of Tiffany & Co., but also with significant investments in Fashion and Leather Goods (€874M) and Wines and Spirits (€730M). PP&E is mostly composed of production buildings, factories and other facilities, vineyard land and production vineyards, and therefore CAPEX will be closely correlated with the expansion of sales, although luxury prices per unit are forecasted to increase and therefore sales per square meter of PP&E are set to increase in tandem**, leading to CAPEX being lower than proportional to revenue expansion and hence contributing to healthier ROICs in the future**. **LVMH's forecasted pay out policy will grow from 8.3% in FY2022 to 86.7% in the steady state.** This increase follows the rationale behind the convergence of the ROIC and RONIC: as the return on new invested capital decreases to converge with return on invested capital, the company is progressively less compelled to invest in the new business opportunities with higher return. So, the company stabilizes its investment levels and pays out a larger percentage to its shareholders. This is observed by the Graph 51, which shows the retention rate decreasing as the ROIC and RONIC converge.



Graph 53 – Source: Analyst Forecast

WACC

The free cash flows have been discounted using a **weighted average cost of capital of 5.03%**, that reflects both the estimated future capital structure and projected refinancing costs.

D/E

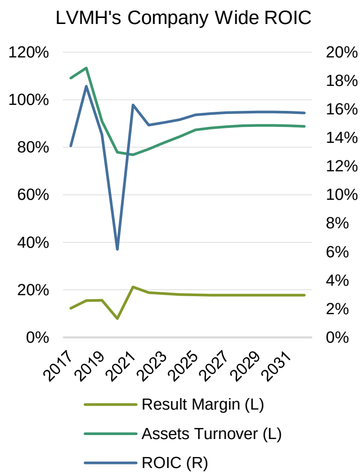
The **D/E ratio is expected to remain constant and equal to the ratio between the MV of equity and the BV of debt**, calculated for June 30th, 2021 - the date for which the most recent estimate of debt value is available. The MV of equity has been calculated using the closing price of LVMH's stock for the date (€661.3) multiplied by the number of shares outstanding (504.8M), resulting in a market capitalization of €333.2B. Not all MVs of debt components are available, and so the BVs provided by the half-year report were used instead and considered a suitable proxy at the mark of €33.3B. **These equated to a D/E ratio of 10.0%.**

Cost of Equity

The cost of equity was **calculated using the CAPM**. To start with, **an estimate of the β was computed using a revenue weighted approach**. Starting from 5-year weekly β_L obtained for a set of 79 comparable companies in the S&P Global Luxury Index (SPGLGUP Index), we unlevered each one of these β_L according to the capital structure of the respective company. We then computed the average β_U for each business segment where LVMH operates. To get the β_U for LVMH, we calculated the average of the segment β_U, weighted by LVMH's revenues in that segment. After this, we re-levered the β_U by LVMH's capital structure, yielding a **β_L of 1.00**. A **regression β_L** against the Euro denominated MSCI World Index (MSERWI Index) **was also computed** with 5Y of weekly data, yielding a β_L of 0.91. **The decision to use the revenue-weighted β_L vs. the regression β_L was based on our belief that it more accurately describes the business risk of free cash flows**. For the **risk-free rate**, the yield of the Generic 10Y German Government Bond **(-0.35%)** was used. The **equity risk premium (ERP) was calculated using a revenue-based, regional weighted average**. To reflect country-specific risk, we added a default spread (based on the CDS spread of each country's sovereign debt ratings) to a base line **5.00% ERP estimate for a mature market**[51]. The ERPs were then aggregated by region (according to LVMH's revenue split) and averaged out using revenues as weights to achieve an **ERP of 5.84%.** The reasoning behind this approach is that free cash flows are heavily dependent on EBITDA, which is highly reliant on revenues, and revenues from different geographies will fluctuate according to, among others, country-specific macroeconomic conditions (accounted for using CDS spreads as a proxy for risk). Using these inputs, the **cost of equity was calculated equating to a value of 5.49%.**

Cost of Debt

The **pre-tax cost of debt of 0.56%** was obtained using the 10Y yield to maturity of an index composed of similarly rated (A^-, A and A^+) consumer discretionary companies in Europe[52]. According to the relevant literature, when assessing cost of debt for companies with investment-grade debt, one can assume that the probability of default is so low that it can be considered zero[53], thus making the product of probability of default and loss given default equal to zero as well. This justifies the use of yield-to-maturity as a proxy for pre-tax cost of debt. After accounting for tax-benefits, **the final cost of debt equated to 0.40%.**



Graph 54 – Source: Analyst Forecast

Profitability Analysis

ROIC for FY2021 is forecasted to increase +10.1% to 16.3% (vs. 6.2% for FY2020), improving profitability prospects even relative to pre-pandemic levels (+2.1% vs. 14.2% in FY2019) through a +13.3% boost in the result margin to 21.2% (vs. 7.9% in FY2020) caused by improved supply chain control in the Fashion and Leather Goods department and the high margins provided by newly acquired Tiffany & Co. **We forecast ROIC to vary between 14.9% and 15.8% for the**

[51] KPMG. "Equity Market Risk Premium – Research Summary". September 30th, 2021.
[52] The index used was Bloomberg's EUR Europe Consumer Discretionary A+, A, A- BVAL Yield Curve.
[53] Koller, Tim. 2020. "Valuation: Measuring and Managing the Value of Companies". 7th edition. Page 324. New Jersey: John Wiley & Sons Inc.

period between FY2022 and FY2031, before it settles at the **long-term ROIC of 15.75% in FY2032**, used for our calculation of the perpetuity. **The ROIC is consistently above the estimated WACC of 5.03%**, **implying value creation from operations.**

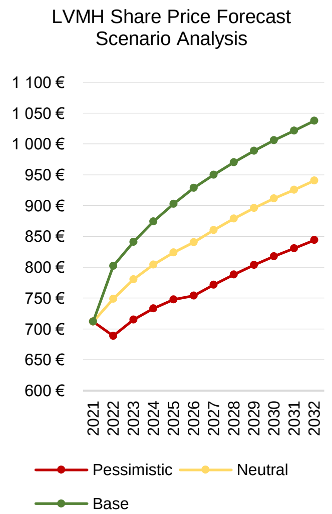
Multiples Valuation

	Avg EV/EBITDA$_{2021}$	Avg EV/EBITDA$_{2022}$
LVMH Price (mul)	€ 800,19	€ 699,79
LVMH Price (DCF)	€ 744,31	€ 744,31
Multiples - DCF	€ 55,88	€ (44,52)
Multiples vs DCF	7,5%	-6,0%

Table 14 – Source: Analyst Forecast

Using a similar method to what was done to calculate the β, the EV/Est. EBITDA$_{2021}$ and EV/Est. EBITDA$_{2022}$ **multiples were calculated for LVMH using a weighted average approach**. The EV/EBITDA ratios were first calculated for each company in the S&P Global Luxury Index using data from Bloomberg, and the averages per segment were then computed and weighted by LVMH's revenues per segment to obtain the multiple. In the end, on December 1st, the **EV/Est. EBITDA$_{2021}$ multiple was at x20.67**, implying a stock price of **€800.19** for LVMH, and the **EV/Est. EBITDA$_{2022}$ multiple was at x15.82**, implying a price of **€699.79**. The real closing price that day was **697.50€,** suggesting the stock was undervalued by this year's estimated EBITDA, but priced correctly by next year's estimated EBITDA according to the industry average.

Scenario and Sensitivity Analysis



Graph 55 – Source: Analyst Forecast

€ 802.09	β 0.910	1.000	1.058	1.063
ERP 5.00%	€ 1,334.49	€ 1,087.46	€ 968.82	€ 960.01
5.84%	€ 958.99	€ 802.09	€ 723.60	€ 717.69
6.68%	€ 745.75	€ 632.87	€ 575.04	€ 570.64

Table 15 – Source: Analyst Forecast

A **scenario analysis** has been performed for **base, neutral and pessimistic scenarios**. The scenario presented in the previous equity research is the base scenario. For the neutral scenario, LVMH's market shares in each region were assumed to remain constant forever, and in the pessimistic scenario, these were assumed to decrease to 90% of the current value by FY2025, remaining constant thereafter. The resulting share price prediction for each scenario can be seen on Graph 55. As expected, the base case scenario yielded the highest share prices, followed by the neutral and then the pessimistic scenarios. A **sensitivity analysis was also performed for β and ERP**. We let β assume 4 values: the weighted-average β used previously in our valuation (1.000), the regression β (0.910), the S&P Global Luxury Index average (1.058) and the average β for the 17 comparables in the index that belong to the same Apparel, Footwear & Accessories Design sub-industry as LVMH (1.063). ERP was allowed to change between the ERP provided by KPMG (5.00%), the analyst-estimated ERP used in the equity research (5.84%) and an arbitrarily higher ERP (6.68% = 5.84% + (5.85%-5.00%)). The resulting share price estimate for the end of FY2022 can be seen on Table 14. on the left. **As expected, for the same β, the higher the ERP, the lower the expected share price and vice-versa.** Believing the company is positioned to take advantage of the market opportunities and given the fact that we expect the Base Scenario will occur, **we issue a "BUY" recommendation**.

Appendix

Financial Statements

Forecasted Income Statement

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
COMPANY WIDE																
Sales outside the Group	42,636	46,826	53,671	44,651	60,320	71,801	82,356	91,828	100,704	106,154	111,048	115,231	118,565	120,936	123,355	125,822
% Total Core Business Total Sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Intra-Group sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
% Total Core Business Total Sales	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Sales	42,636	46,826	53,671	44,651	60,320	71,801	82,356	91,828	100,704	106,154	111,048	115,231	118,565	120,936	123,355	125,822
%YoY Growth		9.83%	14.62%	-16.81%	35.09%	19.03%	14.70%	11.50%	9.67%	5.41%	4.61%	3.77%	2.89%	2.00%	2.00%	2.00%
Recurring Costs (includes COGS and other costs)	(32,412)	(34,751)	(37,649)	(31,343)	(38,965)	(47,098)	(54,659)	(61,521)	(67,975)	(71,756)	(75,149)	(78,040)	(80,330)	(81,937)	(83,575)	(85,247)
% Total Core Business Total Sales	-76.02%	-74.21%	-70.15%	-70.20%	-64.60%	-65.59%	-66.37%	-67.00%	-67.50%	-67.60%	-67.67%	-67.72%	-67.75%	-67.75%	-67.75%	-67.75%
EBITDA	**10,224**	**12,075**	**16,022**	**13,308**	**21,355**	**24,704**	**27,698**	**30,307**	**32,729**	**34,398**	**35,900**	**37,191**	**38,234**	**38,999**	**39,779**	**40,575**
EBITDA Margin (%)	23.98%	25.79%	29.85%	29.80%	35.40%	34.41%	33.63%	33.00%	32.50%	32.40%	32.33%	32.28%	32.25%	32.25%	32.25%	32.25%
Depreciation, amortization & impairment expenses	(1,931)	(2,072)	(4,518)	(5,003)	(5,183)	(5,768)	(6,454)	(7,017)	(7,475)	(7,845)	(8,180)	(8,470)	(8,706)	(8,881)	(9,058)	(9,239)
Of which: Right of Use Assets	-	-	(2,407)	(2,576)	(2,720)	(3,306)	(3,797)	(4,210)	(4,560)	(4,806)	(5,026)	(5,214)	(5,364)	(5,471)	(5,581)	(5,692)
% Total Core Business Right of Use Assets			-19.40%	-20.57%	-19.43%	-19.30%	-19.22%	-19.17%	-19.14%	-19.14%	-19.14%	-19.14%	-19.15%	-19.15%	-19.15%	-19.15%
Other	(1,931)	(2,072)	(2,111)	(2,427)	(2,463)	(2,462)	(2,657)	(2,807)	(2,915)	(3,039)	(3,154)	(3,256)	(3,343)	(3,409)	(3,478)	(3,547)
% Total Core Business PP&E, Vineyard Land & All Intangible Assets	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Profit from recurring operations	**8,293**	**10,003**	**11,504**	**8,305**	**16,172**	**18,936**	**21,244**	**23,290**	**25,254**	**26,554**	**27,720**	**28,721**	**29,528**	**30,119**	**30,721**	**31,335**
Operating Margin (%)	19.45%	21.36%	21.43%	18.60%	26.81%	26.37%	25.80%	25.36%	25.08%	25.01%	24.96%	24.92%	24.90%	24.90%	24.90%	24.90%
Other operating income and expenses	(180)	(126)	(231)	(333)	(72)	(221)	(253)	(282)	(310)	(327)	(342)	(355)	(365)	(372)	(380)	(387)
% Total Core Business Total Sales	-0.41%	-0.26%	-0.42%	-0.73%	-0.12%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%
Operating Profit	**8,113**	**9,877**	**11,273**	**7,972**	**16,100**	**18,715**	**20,991**	**23,008**	**24,944**	**26,227**	**27,378**	**28,366**	**29,163**	**29,746**	**30,341**	**30,948**
%YoY Growth Rate		21.74%	14.13%	-29.28%	101.96%	16.24%	12.16%	9.61%	8.42%	5.14%	4.39%	3.61%	2.81%	2.00%	2.00%	2.00%
Statutory Taxes	(2,791)	(3,398)	(3,878)	(2,551)	(4,574)	(5,317)	(5,964)	(6,536)	(7,087)	(7,451)	(7,778)	(8,059)	(8,285)	(8,451)	(8,620)	(8,792)
% Company Wide Operating Profit	-34.40%	-34.40%	-34.40%	-32.00%	-28.41%	-28.41%	-28.41%	-28.41%	-28.41%	-28.41%	-28.41%	-28.41%	-28.41%	-28.41%	-28.41%	-28.41%
Tax Adjustments	556	769	750	(52)	307	96	108	118	128	135	141	146	150	153	156	159
% Total Core Business Total Sales	1.27%	1.60%	1.36%	-0.11%	0.50%	0.13%	0.13%	0.13%	0.13%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%
Other Comprehensive Income, net of tax	(634)	28	243	(1,833)	966	-	-	-	-	-	-	-	-	-	-	-
% Total Core Business Total Sales	-1.44%	0.06%	0.44%	-4.02%	1.57%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
COMPANY WIDE result	**5,244**	**7,276**	**8,388**	**3,536**	**12,800**	**13,495**	**15,135**	**16,590**	**17,986**	**18,911**	**19,741**	**20,453**	**21,028**	**21,449**	**21,878**	**22,315**
COMPANY WIDE result Margin (%)	12.30%	15.54%	15.63%	7.92%	21.22%	18.79%	18.38%	18.07%	17.86%	17.81%	17.78%	17.75%	17.74%	17.74%	17.74%	17.74%

Forecasted Balance Sheet

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
COMPANY WIDE																
Operating cash	853	937	1,073	893	1,206	1,436	1,647	1,837	2,014	2,123	2,221	2,305	2,371	2,419	2,467	2,516
% COMPANY WIDE Total Sales	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Brands, Goodwill and other intangible assets	30,794	30,981	33,246	33,054	49,922	57,124	63,361	68,456	72,756	76,523	79,906	82,810	85,148	86,851	88,588	90,360
% COMPANY WIDE Total Sales	72.23%	66.16%	61.94%	74.03%	82.76%	79.56%	76.93%	74.55%	72.25%	72.09%	71.96%	71.86%	71.82%	71.82%	71.82%	71.82%
Right-of-use assets	-	-	12,409	12,521	13,998	17,124	19,752	21,959	23,822	25,105	26,254	27,234	28,017	28,577	29,149	29,732
% COMPANY WIDE Total Sales	0.00%	0.00%	23.12%	28.04%	23.21%	23.85%	23.98%	23.91%	23.66%	23.65%	23.64%	23.63%	23.63%	23.63%	23.63%	23.63%
Property, plant and equipment	11,430	12,639	15,996	15,672	16,689	18,554	19,531	20,698	21,716	21,584	21,595	21,746	22,039	22,479	22,929	23,388
Vineyard land and producing vineyards	2,432	2,473	2,537	2,551	2,992	3,051	3,131	3,205	3,276	3,319	3,369	3,426	3,489	3,558	3,630	3,702
Inventories and work in progress	10,888	12,485	13,715	13,016	17,052	19,188	21,012	22,457	23,602	24,789	25,858	26,778	27,524	28,075	28,636	29,209
% COMPANY WIDE Recurring Costs	-33.59%	-35.93%	-36.43%	-41.53%	-43.76%	-40.74%	-38.44%	-36.50%	-34.72%	-34.55%	-34.41%	-34.31%	-34.26%	-34.26%	-34.26%	-34.26%
Deferred tax assets/(liabilities)	(3,248)	(3,104)	(3,224)	(3,157)	(2,958)	(3,495)	(4,033)	(4,541)	(5,031)	(5,587)	(6,145)	(6,694)	(7,222)	(7,716)	(7,870)	(8,028)
% COMPANY WIDE Brands, Goodwill and other intangible assets	-10.55%	-10.02%	-9.70%	-9.55%	-5.93%	-6.12%	-6.36%	-6.63%	-6.91%	-7.30%	-7.69%	-8.08%	-8.48%	-8.88%	-8.88%	-8.88%
Other Operating Assets	10,473	11,112	12,930	11,893	13,830	15,995	17,954	19,604	21,027	22,492	23,807	24,909	25,740	26,255	26,780	27,316
% COMPANY WIDE Total Sales	24.56%	23.73%	24.09%	26.64%	22.93%	22.28%	21.80%	21.35%	20.88%	21.19%	21.44%	21.62%	21.71%	21.71%	21.71%	21.71%
Total Assets	**63,622**	**67,523**	**88,682**	**86,443**	**112,733**	**128,978**	**142,356**	**153,674**	**163,182**	**170,347**	**176,864**	**182,513**	**187,106**	**190,499**	**194,308**	**198,195**
Liabilities related to purchase commitments for minority interests' shares	(9,177)	(9,281)	(10,735)	(10,991)	(13,334)	(13,300)	(14,258)	(15,127)	(15,911)	(16,610)	(17,242)	(17,793)	(18,253)	(18,612)	(18,984)	(19,364)
Other Liabilities	(3,631)	(3,640)	(4,502)	(4,243)	(4,916)	(5,856)	(5,378)	(4,939)	(4,535)	(4,164)	(3,823)	(3,510)	(3,222)	(2,957)	(2,715)	(2,492)
Total Liabilities	**(24,554)**	**(26,207)**	**(29,662)**	**(29,154)**	**(34,209)**	**(38,422)**	**(41,988)**	**(45,174)**	**(48,099)**	**(50,033)**	**(51,764)**	**(53,225)**	**(54,355)**	**(55,107)**	**(55,908)**	**(56,749)**
COMPANY WIDE Invested Capital	**39,068**	**41,316**	**59,020**	**57,289**	**78,523**	**90,556**	**100,368**	**108,501**	**115,083**	**120,314**	**125,100**	**129,288**	**132,751**	**135,391**	**138,401**	**141,446**
COMPANY WIDE CAPEX		3,322	5,532	2,117	3,921	4,386	3,714	4,047	4,004	2,950	3,215	3,464	3,698	3,920	3,998	4,078

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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