U.PORTO

MASTER'S DEGREE
BUSINESS ECONOMICS AND STRATEGY

Diversification in the Personal Luxury Goods Industry: A Case Study of LVMH and its Peers Financial Performance and Mergers and Acquisitions Strategies

Helena Dias Guedes da Silva

M

2022

U.PORTO
FACULDADE DE ECONOMIA
UNIVERSIDADE DO PORTO

DIVERSIFICATION IN THE PERSONAL LUXURY GOODS INDUSTRY: A CASE STUDY OF LVMH AND ITS PEERS FINANCIAL PERFORMANCE AND MERGERS AND ACQUISITIONS STRATEGIES

Helena Dias Guedes da Silva

Dissertation

Master's in Economics of Business and Strategy

Supervised by

Jorge Bento Ribeiro Barbosa Farinha

2022

Biographic Note

Helena Dias was born on August 3, 1998 in Santa Maria da Feira, Portugal.

In 2020 she graduated at the University of Porto with a Bachelor's degree in Economics during which she had the chance to spend two semesters abroad: one at the University of Tamper in Finland and the other at the University of São Paulo, Brazil.

In 2020 she started her Master's degree in Business Economics and Strategy at the University of Porto and studied for one semester at the University of Cologne, in Germany. This dissertation represents the finalization of that degree.

Acknowledgments

To my boyfriend, for always taking time to reassure me of my skills to develop a good work but especially for the love, emotional support, and for making life more beautiful.

To my father for the 17 years of love, companionship and for teaching me to always look at the bright side of life.

To my mom and my brother for inspiring me to never stop looking for my passion.

To all my friends for being with me through thick and thin.

And of course, a huge thanks to my advisor, Professor Jorge Farinha, for the availability to answer my doubts and for all the valuable advice.

Abstract

The present dissertation reviews the mergers and acquisitions (M&A) strategy of the leading personal luxury goods (PLG) conglomerates and analyzes their financial performance using ratios, stock performance, and the DuPont framework. The work resorted to a case study approach with a quantitative longitudinal data collection method to test theories presented in the literature. By choosing the top 4 conglomerates in the PLG industry it was possible to study whether the more diversified conglomerate (LVMH) had underperformed its less diversified peers (Kering, Richemont and Swatch) in the period from 2014 to 2021. The results have shown LVMH outperforming in terms of growth, including organic, net profit margin and achieving satisfying results in the current ratio, EBITDA margin, return on assets, and return on equity. Overall, there was no evidence of underperformance compared to the other conglomerates. While many studies indicate a relationship between a high level of diversification and lower performance, the results show that other factors such as a well-thought through strategy, experience picking the right targets and know-how in managing brands affect the success of conglomerates, despite how diversified they are.

Resumo

A presente dissertação investiga a estratégia de fusões e aquisições dos principais conglomerados de bens de luxo pessoais e analisa seu desempenho financeiro usando rácios, desempenho de ações e a estrutura DuPont. O trabalho recorreu a uma abordagem de estudo de caso com um método quantitativo de recolha de dados longitudinal para testar teorias apresentadas na literatura. Ao escolher os 4 principais conglomerados da indústria de bens de luxo pessoais foi possível estudar se o conglomerado mais diversificado (LVMH) teve um desempenho inferior aos seus pares menos diversificados (Kering, Richemont e Swatch) no período de 2014 a 2021. Os resultados mostraram que o grupo LVMH superou em termos de crescimento, incluindo orgânico, margem de lucro líquido e obteve resultados satisfatórios no índice atual, margem EBITDA, retorno sobre ativos e retorno sobre o património líquido. No geral, não houve evidência de um desempenho inferior em comparação com os outros conglomerados. Embora muitos estudos indiquem uma relação entre um alto nível de diversificação e um desempenho inferior, os resultados mostram que pode não ser tão direto e existem outros fatores, como uma estratégia bem pensada, experiência na escolha dos alvos certos ou know-how na gestão de marcas que afetam o sucesso dos conglomerados, por mais diversificados que estes sejam.

Index

Index of Figures .... *vii*

Index of Tables .... *viii*

1. *Introduction* *1*

2. *Literature Review* *3*

 2.1. Main Concepts in Mergers and Acquisitions 3

 2.2. M&A Waves 5

 2.3. M&A Process and Failures 8

 2.4. M&A Motivations 10

 2.5. The Luxury Goods Industry 12

  2.5.1. Luxury Goods 12

  2.5.2. Historic Overview 14

  2.5.3. Forecasts 15

 2.6. Theories on Conglomerates 19

3. *Methodology* *22*

 3.1. Research Focus 22

 3.2. Research Methodology 22

 3.3. Sample Selection 23

 3.4. Performance Measurement 26

4. *Case Study: LVMH Group* *29*

 4.1. LVMH Group M&A Strategy 29

 4.2. Peers M&A Strategy 34

  4.2.1. The Kering Group 34

  4.2.2. The Swatch Group 35

  4.2.3. Compagnie Financière Richemont 36

 4.3. Performance Analysis 37

  4.3.1. Revenue Growth Rate 37

  4.3.2. Ratio Analysis 39

 4.4. Stock Performance 46

5. *Conclusions, Limitations and Future Research* *48*

 5.1. Conclusions 48

 5.2. Limitations and Future Research 49

References *51*

Index of Figures

Figure 1. M&A Waves in the US (1851-2017) 6
Figure 2. Number and value of M&A transactions in the US from 1985 to 2021 7
Figure 3. Pre-Merger Phase Process 9
Figure 4. Luxury Markets Categories 15
Figure 5. The global luxury market value (€ billions) and growth rates, 2019-2021 16
Figure 6. Global personal luxury goods market (€ billion) 16
Figure 7. Global personal luxury goods market, by product category (€ billions, 2021E) . 17
Figure 8. Share of global personal luxury goods market, by distribution channel and format (€ billions) 18

Index of Tables

Table 1. Extent and Directions of Product Diversification for the Leading PLG Conglomerates 23
Table 2. LVMH Business Segments Revenue in 2021 24
Table 3. Richemont Business Segments Revenue in 2021 24
Table 4. Kering Business Segments Revenue in 2021 25
Table 5. Swatch Business Segments Revenue in 2021 25
Table 6. Revenue Year-on-Year Growth Rates for the Conglomerates 38
Table 7. Revenue Y-o-Y Growth Rates for the LVMH Group Business Segments 38
Table 8. Current Ratio for the Conglomerates 40
Table 9. Gross Profit Margin for the Conglomerates 40
Table 10. EBITDA Margin Average for the Conglomerates, 2014-2021 41
Table 11. Profit Margin for the Conglomerates 41
Table 12. LVMH Return on Equity Calculation according to the DuPont Model 43
Table 13. Kering Return on Equity Calculation according to the DuPont Model 44
Table 14. Richemont Return on Equity Calculation according to the DuPont Model 45
Table 15. Swatch Return on Equity Calculation according to the DuPont Model 45
Table 16. Daily Closing Stock Price in Euros for the Conglomerates 47

Index of Graphs

Graph 1. EBITDA Margin (%) for the conglomerates 41
Graph 2. Return on Assets (%) for the Conglomerates 42
Graph 3. Stock Price Evolution in Euros for the Conglomerates, 2014-2021 46
Graph 4. LVMH's Abnormal Return and Acquisition Highlights 47

1. Introduction

The topic of mergers and acquisitions has been extensively studied and its branches unfold into numerous subdivisions, one of them being how the acquisition activity of a business influences its overall performance.

Mergers and acquisitions, or M&A, are classified by form depending on if the business is acquired by its own managers or by another company, and by objective depending on if it is a horizontal, vertical, or conglomerate merger. Horizontal mergers are deals between two companies competing in the same industry while vertical mergers are within companies in the same supply chain and conglomerate mergers are combinations of companies that have neither a competitor or industry relationship, being from different industries and/or geographies (Damodaran, 2008).

Empirically, M&A occur in waves, meaning they go through periods of intense activity usually accompanied by a period of economic expansion (Gaughan, 2005). Some studies consider the main driver of M&A activity to be industry-level shocks like technological innovations, supply shocks, globalization and especially industry deregulation (Andrade, Mitchell et al., 2001). Hence, mergers usually correspond to the business and strategic reaction of companies to a changing environment (Kleinert & Klodt, 2002).

The process of merging or acquiring a company is far from simple as it can take months and sometimes years to conclude and is divided into three stages: pre-merger, deal closing, and integration (Schmid, Sánchez et al., 2011). Thus, the high failure rates characterizing M&A deals are plausible and expected, as well as the lack of value creation emerging from the deals (Datta, Pinches et al., 1992).

Nevertheless, the discouraging data does not prevent companies from pursuing an acquisition strategy. Studies from Sherman (2011), Duksaitė and Tamošiūnienė (2011), and Goedhart, Koller et al. (2018) consider several motivations to pursue this strategy: from seeking to change the corporate identity by means of a company with a different product offer or with brand recognition, to synergy gains, tax benefits, gaining knowledge-based assets, an alternative to greenfield, or for less obvious reasons such as a manager's pursuit of their self-interest.

The personal luxury good (PLG) industry concentration has been notorious since the 1980s, resulting in the rise of conglomerates whose financial resources, distribution systems, and brand portfolio management are centralized whilst each company has full autonomy in its

operations (Donzé & Fujioka, 2015). Research on conglomerates performance in several industries is mixed. Chan-Olmsted and Chang (2003) found conglomerates to be less profitable than non-conglomerates, Wang and Barney (2006) showed a risk reduction in conglomerates compared to non-conglomerates, Dimitrov and Tice (2006) found more diversified conglomerates perform better than focused companies in times of recession, Berger and Ofek (1995) estimated a 13% to 15% value reduction when businesses are operated by a diversified company, and Palich, Cardinal et al. (2000) found evidence to support the curvilinear model which defends that a company's performance increases as it shifts from being a single business to becoming a diversified business but when the relatedness of the segments decreases, performance soon follows.

In view of the mixed results, the lack of case study approaches in this area and inspired by the work developed by Chan-Olmsted and Chang (2003) on global media conglomerates, it was deemed suited to make use of the case study approach to study the performance of the conglomerates in the personal luxury goods (PLG) industry, characterized by the presence of large conglomerates, and test hypothesis developed in previous literature. It represents the only path to conduct an in-depth analysis of conglomerates by means of qualitative and, most importantly, quantitative data extracted from the Groups' financial statements. Previous studies have focused on large samples, even when the analysis is within the same industry but a case study with a lower sample allows an understanding of if it is possible to correlate performance with diversification or if there is no correlation, meaning the conglomerates' success is more dependent on other factors like having a well-thought-out strategy for example.

This dissertation is organized into five chapters. Proceeding the introduction is Chapter 2 covering the literature, unfolding into main concepts in mergers and acquisitions, an historical background on the topic in the merger waves' subsection, processes, failures and motivations to engage in acquisitions, an overview of the luxury goods industry, and theories on conglomerates. Chapter 3 entails the methodology, the chosen sample, and the performance measures. The strategic analysis of the acquisition activity of the groups and the calculated results are presented in Chapter 4, combined with a critical analysis. Finally, Chapter 5 covers the conclusions, limitations, and suggestions for future research.

2. Literature Review

2.1. Main Concepts in Mergers and Acquisitions

Despite still being a vibrant topic all over the financial world, the term mergers and acquisitions (M&A from now on) has been around since the 19th century and has been thoroughly defined and subject to extensive research. It is nevertheless necessary to start by establishing a background in the field by means of the existing literature.

It is widely acknowledged that all companies' ultimate goal is to be profitable, and profitability goes hand in hand with growth – be it through geographic expansion or through product expansion, implementing larger-scale production, integration with other parts of the production process, among others. Sherman (2011, pp. 1-8) separates growth strategic options into three categories: organic growth, inorganic growth, and growth by external means. Organic growth happens when a company enhances sales and increases output without going through a restructuring process - a deliberate, significant, and unusual alteration in the organization and operations of a business, commonly in times of financial or operational distress (Coates, 2014). In opposition, inorganic growth is a strategic tool for corporate restructuring that results from a company merging or acquiring another company. In practice, organic growth can be translated into a company hiring additional salespeople and expanding geographically to access a new market whilst with an inorganic growth strategy the company would get the same result by buying a company that is already established in the targeted market. External revenue growth is related to options such as franchising, licensing, joint ventures, strategic alliances, or the appointment of overseas distributors.

According to Coates (2014), the core of inorganic growth strategies is a deliberate transfer of control and ownership of a business organized in one or more corporations. The transactions involve a purchaser (or buyer) and a seller (or target) which may merely consist of an operating unit or division (such as a manufacturing facility) or the entirety of a business. Due to the topic's broadness in terms of transaction types, Sherman (2011) warns on the relevance to distinguish them due to the highly different strategic, financial, tax, and cultural impacts of the deals. M&A can be classified by its form and objective.

Damodaran (2008) classified acquisitions according to their **form**. A company can be acquired either by its own managers and/or outside investors or by another company. The

former is called a **buyout** and is usually accomplished with a tender offer. The latter can be separated into five subcategories:

- **Merger** if it constitutes a combination of two or more companies in which the assets and liabilities of the target(s) are absorbed by the buying firm (David L. Scott).
- **Reverse merger** if the acquiring company becomes part of the target firm. A reverse merger is typically used as a strategic option for private companies to avoid going through an IPO (initial public offering) process to gain public company status. In practice, a private company acquires a public "shell company" (a company with few or no operations) and the management of the former takes over the board of directors and management of the latter. Following the merger, the assets and business operations of the public company become primarily, if not solely, those of the former private operating company (*Investor Bulletin: Reverse Mergers*, 2011).
- **Consolidation** if the target and the acquirer combine their business units or the entirety of their businesses to become a new firm.
- **Tender offer** if the target continues to exist due to stockholders holding out to their shares. Hayes (2022) defines a tender offer as a public solicitation by an investor requesting all shareholders of a company to sell their stock at a specific price during a certain period of time. The offer is usually set at a higher price per share than the current market price to incentivize shareholders to sell their stocks. In a takeover attempt, the tender may be conditional on the investor being able to obtain a certain number of shares to get controlling interest.
- **Acquisition of assets** "such as a plant, a division, or even an entire company" (David L. Scott), where the acquirer takes a controlling ownership interest in the target.

Economic theory has categorized mergers into three groups in terms of their **objective**. In his book, Gaughan (2005) distinguished between horizontal, vertical, and conglomerate mergers. **Horizontal** mergers are deals between two companies that compete in the same industry. It is the case of the merger in 2009 between China Eastern and Shanghai Airlines, both operating in the Chinese market, with national and international routes and sharing the Shanghai Pudong airport as their main hub (Ho, McCarthy et al., 2020). Horizontal mergers have historically been a cause of concern for competition regulators because a higher industry concentration is often harmful to consumers as it translates into higher prices and less output. Hence, most nations have laws to prevent the domination of an industry by a few companies

– the antitrust laws in the US and the competition policies outside the US. **Vertical** mergers occur between companies who have a buyer-seller relationship with each other, i.e., when two companies belonging to the same supply chain decide to join operations. Take for instance the 1996 merger in the cable industry between Time Warner, a MSO (multiple system operator) owning multiple cable distributors that distributed cable television services to consumers, and Turner Broadcasting, a major producer of news and entertainment channels (Suzuki, 2009). Vertical mergers tend to provoke a chain of similar deals in a given industry because competitors fear they might be losing their competitive advantage by not reacting similarly. **Conglomerates** are combinations of companies that have neither a seller-buyer relationship nor a competitor relationship. These deals occur between companies within different industries or firms located in different geographies. Many conglomerates are multi-industry and multinational corporations. Each of a conglomerate's subsidiary businesses runs independently of the other business divisions but the subsidiaries' managers report to the senior management of the parent company. This type of deal became increasingly popular in the 1960s, reaching a peak in 1968. Berkshire Hathaway is a well-known conglomerate with a majority stake in over 50 companies and minority holdings in dozens more in sectors ranging from plane manufacturing, textiles, insurance, and real estate. The major risk for conglomerates is to become inefficient as a result of their dimension and/or diversification. Warren Buffet's strategy to manage Berkshire Hathaway is to allocate the capital between the subsidiaries while allowing them to be near-fully independent when managing their operations (Chen, 2022). The impact of conglomerate mergers on competition is less evident than with horizontal or vertical mergers. In line with Malik, Anuar et al. (2014), conglomerates neither directly reduce the number of competitors nor do they involve the danger of the merged entity cutting off a competitor's access to key inputs or distributors.

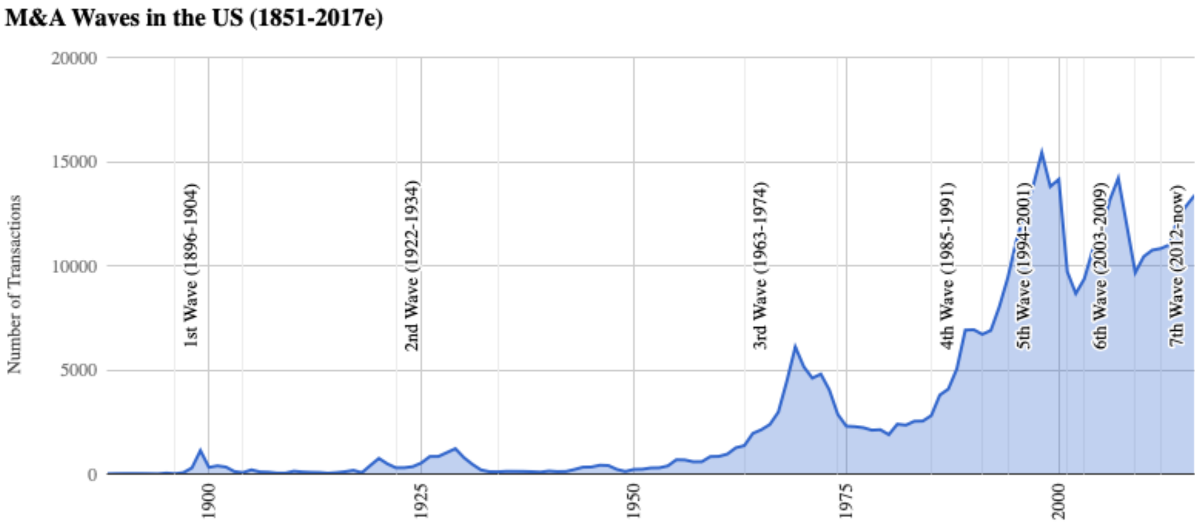
2.2. M&A Waves

Unlike Europe where M&A gained more relevance in the 20th century, merger statistics in the United States (US) were introduced as early as the late 19th century (Kleinert & Klodt, 2002). For that reason, the data provided on M&A waves in this sub-section is mostly related to the US.

Mergers go through periods of intense activity usually accompanying a period of economic expansion and tend to soothe when the economy and the market turn down. For this reason,

it is said that M&A occurs in waves (Gaughan, 2005). In addition to the wave-like behavior, Andrade, Mitchell et al. (2001) have shown that mergers exhibit significant sectoral clusters that change over time and the main drivers of industry-level merger activity are technological innovations, supply shocks, and especially deregulation. Kleinert and Klodt (2002) have found that mergers are usually business reactions to a changing environment, i.e., to shocks in the economy affecting entire industries, hence the wave-like behavior clustered in industries. Historically, there have been six M&A waves (Figure 1).

Figure 1. M&A Waves in the US (1851-2017)



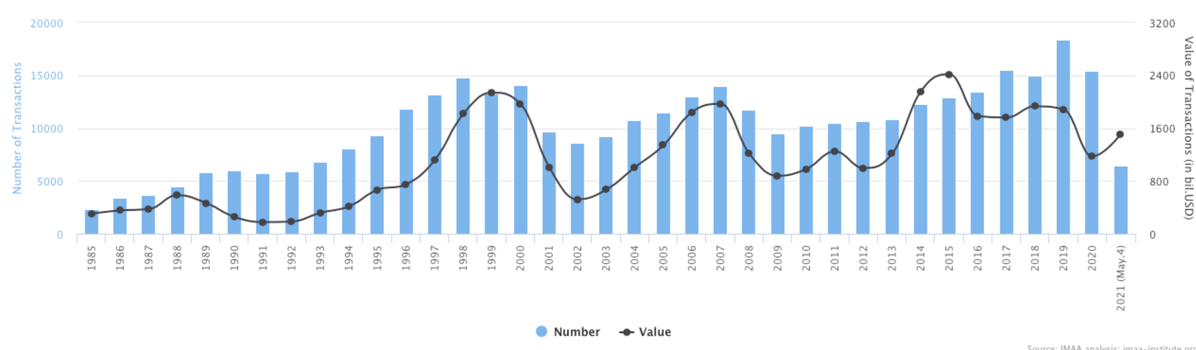
Source: Institute for Mergers, Acquisitions & Alliances

The **first wave** occurred from 1897 to 1904[1]. It was characterized by horizontal mergers leading up to monopolies in the oil, mining, and steel industries. It was fundamentally a byproduct of the Industrial Revolution, a time when companies strived to be single sellers in the market by reaching high-scale production (Fatima & Shehzad, 2014). However, the Sherman Act (1890) and the Clayton Act (1914), both antitrust laws in the US, disrupted this trend (Kleinert & Klodt, 2002). Enabled both by the post-war economic boom and by the investment banks' favorable loan conditions (Machiraju, 2007), the **second wave** of merger activity was registered from around 1916 till 1929 and was dominated by vertical mergers, with new sectoral clusters emerging in railroads and utilities (Kleinert & Klodt, 2002). The

[1] Articles differ on the exact dates of the merger waves. For this section, the considered dates are from Fatima and Shehzad (2014).

third wave, from 1965 to 1969, became known as the conglomerate era due to the rising trend for cross-border mergers and for diversification. Towards the end of the wave, the targets were more and more different from their acquirer, resulting in post-merger unsatisfying results (Fatima & Shehzad, 2014). The **fourth wave** was from 1981 to 1989 and became notable for hostile mergers and leveraged buyouts (Park & Gould, 2017). Hostile mergers occur when either a group of investors or another company takes control of the target company against the will of the management and/or directors (Gaughan, 2005). During this period, hostile takeovers corresponded to 14% of the total mergers (Andrade, Mitchell et al., 2001). The **fifth wave** took place from 1992 to 2000 and horizontal mergers were emphasized once again but for the first time at a global reach. Andrade, Mitchell et al. (2001) labeled the 1990s as the "decade of deregulation", characterized by the virtual disappearance of hostile takeovers (only 4% of all merger deals), an overwhelming 70% of deals involving stock compensation, and 58% entirely stock financed, an average transaction involving only one bidder and 1.2 rounds of bidding, and by "merger of equals" deals where joining firms were often about the same size and got similar amounts of post-merger stock and directorships (Park & Gould, 2017). Deregulation was what propelled companies to expand to previously domestic-dominated markets and engage in cross-border mergers and acquisitions (Kleinert & Klodt, 2002). The wave was most prominent in banks and telecom segments and came to an end with the burst of the millennium tech bubble and proceeding corporate scandals (Machiraju, 2007). The **sixth wave** from 2003 to 2007 ended abruptly after four years due to the financial turbulence of the 2008 crisis (Figure 2).

Figure 2. Number and value of M&A transactions in the US from 1985 to 2021



Source: Institute for Mergers, Acquisitions & Alliances

The wave was characterized by cash-financed deals, with a quarter of the takeovers made by private equity buyers empowered by the accessibility of credit at low interest rates (Alexandridis, Mavrovitis et al., 2012). Most companies were aiming at consolidating financial assets, securing long-term access to markets, and establishing cultures of innovation. Mergers during the sixth era often occurred in cases where blue-chip firms could be combined in such a way as to make synergy gains (Park & Gould, 2017).

By analyzing the historical background and characteristics of each wave, the findings from Alexandridis, Mavrovitis et al. (2012) and Andrade, Mitchell et al. (2001) on how much the forces of deregulation, technological innovation, and globalization have spurred the waves, especially the past three, becomes evident.

2.3. M&A Process and Failures

M&A is a meticulous, thorough, and demanding process that takes months and sometimes years to conclude. Schmid, Sánchez et al. (2011) divide it into three main stages: pre-merger, deal closing, and integration with the acquired company. Derived from its complexity, M&A deals are characterized by high failure rates. Some studies point to failure rates as high as 70 percent to 90 percent Martin (2022). In his study on European acquisitions and based on managers' self-reports, Kitching (1974) disclosed failure rates of 46-50 percent. Cartwright and Schoenberg (2006) presented average rates to be around 44 to 50 percent. Although studies differ in performance measurement and despite them being subjective assessments (Das & Kapil, 2012), the amount of deals ending in failure and the lack of value creation emerging from the deals still needs to be considered, as Datta, Pinches et al. (1992) and Agrawal and Jaffe (2000) have concluded in their studies.

Weber, Tarba et al. (2017) signaled the primary reason for high failure rates to be the deal nature of being "easy to buy but hard to perform". In their study, Calipha and Brock (2019) performed an analysis of seven M&A cross-border merger deals between Israeli buyers and European targets by using quantitative data taken from company documents and financial reports combined with qualitative data composed of in-depth interviews of senior managers from both acquirer and acquiring companies.

Figure 3. Pre-Merger Phase Process

Pre-Merger Phase						
Strategic Planning	Screening of Candidates	Justification to the Board of Directors	Negotiation	Due Diligence	Contract Finalization	Aproval by Antitrust Authorities

Source: Adapted from Calipha and Brock (2019)

Within the pre-merger phase, seven steps have been identified (Figure 3). The **strategic planning** phase is when a SWOT analysis is conducted, when motives and objectives are listed (Bauer & Matzler, 2013) and when the acquirer considers three alternatives: to establish a new company, cooperate with another company or to buy a new company (Calipha & Brock, 2019). Following the mapping of the reasons is the **screening** stage where the acquirer searches for a fitting company in terms of the goals and objectives previously outlined and a team is assigned to define guidelines on what a strategic fit should be for the company. By the end of the process, there is at least one company to be considered. When the list of potential targets is concluded, the team must j**ustify the decision to the Board of Directors** to get their approval. Once it is approved, the **negotiation phase** begins with an initial price offer to the target company. Next is the **due diligence** stage, a time when the acquiring company assesses all the financial, operational, organizational, strategic, and cultural differences to assure the company is indeed a suitable candidate and that the initial offer was rightfully estimated. After this examination, the acquiring company creates a business plan specifying the organizational structure, control system, and other elements for the post-merger acquisition phase. After the due diligence comes the **finalization of the contract**. The last step before the deal closes is the **approval by the antitrust authorities**. When and if they do receive approval, both parties close the deal. In the **deal closing** phase, the strategic integration plan is reviewed and fine-tuned to get to a step-by-step guide on how the integration will unfold. The last phase is the **integration** with the target which is when both parties will put all the plans, procedures and ideas developed in the previous phases to action (Schmid, Sánchez et al., 2011).

Deal failures tend to result from a lack of proper planning or underestimation of the required processes in the pre-merger phase. Lovallo, Viguerie et al. (2007) show that managers tend to make unrealistic assumptions in the pre-merger phase, creating a distorted view of the target that is only rectified once the integration process starts or a risk of overpaying for the target company arises. This problem, usually derived from the managers' overconfidence –

the so-called hubris hypothesis or sin of pride (Weber, Tarba et al., 2017) -, occurs when the premium paid for the target is high to the point where the post-merger operations cannot provide a high enough return on investment (ROI) to remedy the valuation "error" even if the merger is successful. This leads, in turn, to senior managers of the acquired company abandoning the company and moving to competitors and other firms, leaving an instable environment among the employees of the acquired company.
A common point among successful deals is the existence of a business development team comprised of specialists in different areas together with the contribution of top managers in fundamental stages, such as the screening of potential targets or the negotiation of the first agreement (Calipha & Brock, 2019). Research from Mirvis and Marks (1992) has found the involvement of HR executives right from the beginning to be essential and Boschetti and Mattson (2018) have listed a series of actions HR can take in each phase.
Despite an extensive number of failures being enumerated, most authors consider the most crucial fail to be acquirers solely prioritizing the integration with the target after the deal is closed instead of doing it all the previous stages. Weber (1996) reported culture fit during the pre-merger phase to be as important as financial and strategic factors in assuring the deal's success. Canina, Kim et al. (2010) considered not realizing the necessity of developing an integration strategy in the early stages of the process to be the buyer's prime mistake. Weber, Tarba et al. (2017) have found that even if the buyer avoids the overpayment mistake and succeeds in guaranteeing the planned synergies, the organizational factor can still cause the deal to fail.

2.4. M&A Motivations

Despite the failure rates and the demanding process of a deal, companies still engage in mergers and acquisitions to pursue growth. The reasons are varied but some of them are not, however, in the best interest of the company. Duksaitė and Tamošiūnienė (2011) consider growth as the primary reason for companies pursuing an M&A strategy, all the other motives being secondary. In light of the research by Sherman (2011), Duksaitė and Tamošiūnienė (2011), and Goedhart, Koller et al. (2018), the main motivations for a buyer to acquire a target company are summarized in the following paragraphs.
The first reason is seeking to change its **corporate identity** by diversifying the product offer, adding a new significant capability, or taking advantage of a brand's recognition. For instance,

when AlliedSignal acquired Honeywell in 1999, AlliedSignal retained Honeywell's name due to its brand recognition (*Our History*).

Synergy gains are the main value-creation component of M&As. Synergy is accomplished when the value of the two companies combined is higher than the sum of their separate parts. There are two main types of synergies (DePamphilis, 2019). **Operating synergies** consist of both economies of scale (when companies seek to spread their fixed costs by increasing their output) and economies of scope (when assets or skills already used in the production process are applied to related products or services). **Financial synergies** consist of decreasing the cost of capital either by acquiring a business with uncorrelated cash flows or by matching better investment opportunities with internally generated funds.

An M&A deal can also be motivated by a **competitive or environmental response** or by an **industry shock** such as regulatory or technological. Taking advantage of **tax benefits** through cross-border mergers is another reason on top of the list. For example, according to Meier and Smith (2020), a US company with no prior cross-border M&A history buying a company in Ireland worth 5% of its total assets would decrease its effective tax rate by 3.56 percentage points.

Other companies seek to make use of the target company's **knowledge-base/intangible assets** and pay large premiums to get them. The assets which cannot be adequately reflected in a seller's balance sheet, but which are more valuable due to the time, effort, and difficulty required to possess them are what is commonly called **goodwill**. These intangible assets go from customer relationships and loyalty (structural capital) to the cumulative knowledge, experience, competencies, and mindset of the employees, the innovation capital such as intellectual property, or the seller's organizations, processes, and strategies. Getting these assets through an acquisition process ends up being faster and cheaper than developing them da capo. An M&A strategy also represents a cheaper, easier, and safer **alternative to a Greenfield investment** for companies seeking to expand their business to new geographies, especially when the knowledge of the country and the cultural, legal, political, and social environment highly differs from the countries where the company operates. A common strategy, especially for private equity firms, is targeting an inefficient company, acquiring a significant stake in a public company, and improving its performance. Then, once the margins and cash flows are improved, the stakes are sold at a higher price, making the buyers profit from the transaction. A similar strategy is **picking small or undervalued companies**

with high growth potential and helping them develop their business but not with the intention of selling the stake afterwards.

Finally, a distinct type of rationale is linked to the manager's pursual of their self-interest to get financially compensated. In the US, the compensation package is designed to foster selfish behavior from managers and top executives because even if the deal ends up failing, the stock price boom in the earlier stages of the business results in a massive bonus for the CEO. In addition, executive compensation packages are strongly correlated with the company's size, hence the incentive to take the decision to merge or acquire another company (Martin, 2022).

2.5. The Luxury Goods Industry

Defining industry's boundaries has always proved to be an ambiguous and subjective task to pursue and the luxury industry is no different. Either because of the difficult task of defining what a luxury good is or because of all the subsectors it encompasses, management researchers do not seem to agree. This section presents a definition of luxury goods, a historic overview of the luxury goods' industry, and the industry forecasts as a conclusion.

2.5.1. Luxury Goods

The term "luxury" was associated for several centuries with the Latin root "lux" (meaning light) to refer to precious objects such as gold and gems. The second industrial revolution at the end of the 19th century gave rise to a new concept of luxury associated with "something enjoyable or comfortable beyond the necessities of life". Nowadays, luxury is mostly interpreted as a status symbol, personal indulgence, and leisure time (Okonkwo, 2007). BCG has defined luxury goods as "Items, products and services that deliver higher levels of quality, taste and aspiration than conventional ones". Yet, it is important to retain that luxury products are not merely expensive products - they are valuable in terms of their emotional and artistic appeal, the unique design, the class-consciousness, and the cultured and refined taste (Som & Blanckaert, 2015).

Donzé (2022) considers the best definition of luxury goods the one provided by Kapferer and Bastien (2012). The authors used previous literature as their foundation to gather the six most common features of a luxury good. Hence, they have defined it as a product:

- That gives a qualitative hedonistic experience.

- That is sold for a price that exceeds its functional value.
- Whose brand is linked to heritage.
- Available in a restricted and controlled distribution network.
- Accompanied by personalized services.
- That represents a social marker.

Another key feature of luxury goods referred to by Hanna (2004) is perceived value – through the quality of design, materials, and manufacture. For instance, a consumer only buys a €100 towel if it is clear why it is that costly.

Although the luxury goods features can be summarized in bullet points, luxury is nonetheless highly influenced by individual perception, which poses a major challenge for companies in the industry. Hanna (2004) provides a selection of what she calls critical success factors (CSF) that companies in the industry follow to position their brands and products.

- Deliver premium quality in all products in the line and along the whole supply chain.
- Have a heritage of craftsmanship that demands expertise for manufacturing.
- Be exclusive either by using naturally scarce materials, launching limited editions, having selective distribution, or creating waiting lists.
- Have a marketing approach combining product excellence with emotional appeal. For example, it is mandatory to invest in the point-of-sale atmosphere to reflect the values associated with the brand.
- Have a global reputation.
- Have a recognizable style and design to the point where consumers recognize the brand without seeing the label.
- Have an association with a country of origin with strong reputation as a source of excellence for a certain product category, such as watches from Switzerland.
- Have a superior technical performance as is the case with luxury cars.
- Represent a lifestyle that the customer can recreate in everyday life just by possessing the luxury product.

A company does not have to tick all the above factors to have an effective strategy. However, **exclusivity** has been emphasized in the literature as the most common factor among luxury products, and **emotional appeal**, **style** and **design** seem to be of greater importance when compared to quality or performance when it comes to fashion goods (Catry, 2003).

2.5.2. Historic Overview

In the 19th century Europe, luxury goods were produced by craftsmen whose target customers were the local social elite of the time. The industrial revolution brought a wave of entrepreneurs willing to invest in the large-scale production of high quality exclusive products for the elite (Brun & Castelli, 2013). Because local markets in Europe were too small to support large amounts of luxury goods, companies were forced to expand to international markets to get access to a larger customer base. This was the main driver leading up to the PLG industry globalization and concentration phenomenon still witnessed to this day (Antoni, Burgelman et al., 2004).

Whereas in the first half of the 20th century luxury was restricted to the wealthiest people, the post-war period brought the trend of massification and democratization of luxury reflected in the sky-high demand for luxury goods. During the 1960-1980 period, the French luxury goods industry shifted from a niche to a mass market, adopted new advertising strategies and expanded to international markets, especially to Japan. The Swiss watch industry underwent a period of growth after 1945, tripling the exports from CHF 1.3 billion in 1960 to 3.6 billion in 1980 (Statistique annuelle du commerce extérieur de la Suisse). Despite the growth, it had a rougher journey when compared to French luxury goods due to the efforts employed into shifting the consumer perspective on watches. Before the 1960s, Swiss watches were not generally considered to be luxury goods but rather basic consumer goods. When Japanese companies entered the European watch market coupled with an unbeatable cost advantage, Swiss companies had to adapt their strategies and specialize in luxury watches. The companies that did, succeeded. As for the ones that did not, most of them succumbed to the Japanese competitors and seized to exist by the 1970s. Despite the bump on the road, the Swiss watch industry followed the trend of industry concentration, declining from 2,167 companies in 1960 to 861 in 1980 (Donzé & Fujioka, 2015).

The 1970s boom in traveling, expansion of the range of luxury products, and the growth in distribution networks all contributed to a new organizational structure. As Europe underwent the oil crisis, luxury companies looked to the East in search of new business opportunities in Japan, China, and Southeast Asia (Brun & Castelli, 2013). The shift from small- and medium-sized enterprises (SMEs) to an oligopoly of multinational enterprises (MNEs) managing brand portfolios across the globe took place from the 1980s onwards. These conglomerates are still running nowadays and operate by centralizing the financial resources, distribution systems, and brand portfolio management while allowing full

autonomy of their companies to manage the operations (Donzé & Fujioka, 2015). Although Japan started to be the main market for European companies in the PLG industry, the start of the 21st century brought a long phase of relative decline to Japan that was promptly offset by growth in other East Asian markets, especially in China. Overall, Donzé and Fujioka (2015) emphasize the market's role in shaping the strategies of these conglomerates to expand globally.

The luxury industry is popularly categorized into nine subsectors according to Bain & Company: Luxury Cars, **Personal Luxury Goods (PLG)**, Luxury Hospitality, Gourmet Food and Fine Dining, Fine Art, Fine Wine & Spirits, Furniture & Housewares, Private Jets and Yatchts, and Luxury Cruises (Figure 4).

Figure 4. Luxury Markets Categories

Luxury Cars	Personal Luxury Goods (PLG)	Luxury Hospitality
Gourmet Food and Fine Dining	Fine Art	Fine Wine and Spirits
Furniture and Housewares	Private Jets and Yachts	Luxury cruises

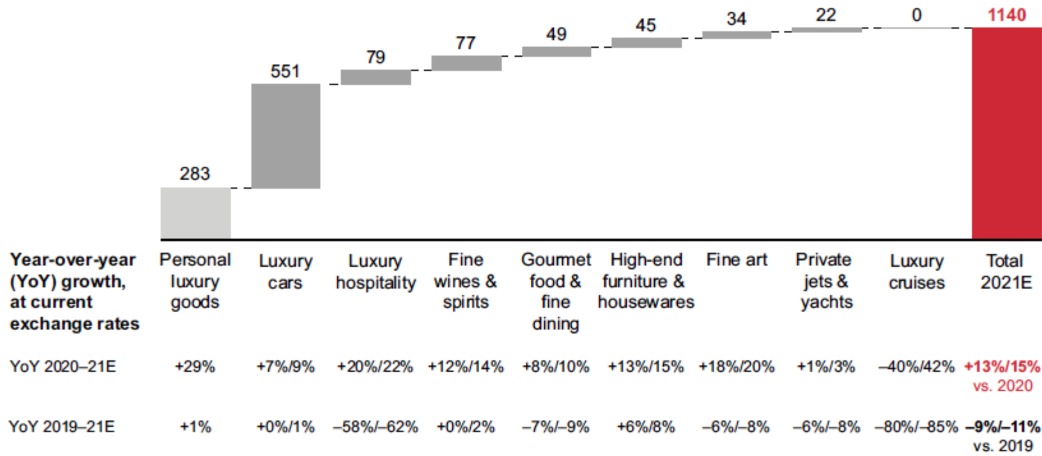
Source: adapted from D'Arpizio, Levato et al. (2021)

As of 2021, luxury cars, luxury hospitality, and personal luxury goods account for 80% of the total market (D'Arpizio, Levato et al., 2021). The PLG category includes clothing, leather goods, eyewear, perfumes, cosmetics, watches and jewelry.

2.5.3. Forecasts

The global luxury industry did not go unscathed from the 2020 Covid-19 pandemic. Yet, it has recovered faster than most industries. Even though the year-over-year growth rates from 2019 to 2021 are still negative due to the pandemic shock (around -9% to -11%), 2021 predictions set the industry to grow up to 13% to 15% when compared to 2020, reaching €1.14 trillion in value. Figure 5 emphasizes the impact of the PLG sector in this recovery (D'Arpizio, Levato et al., 2021).

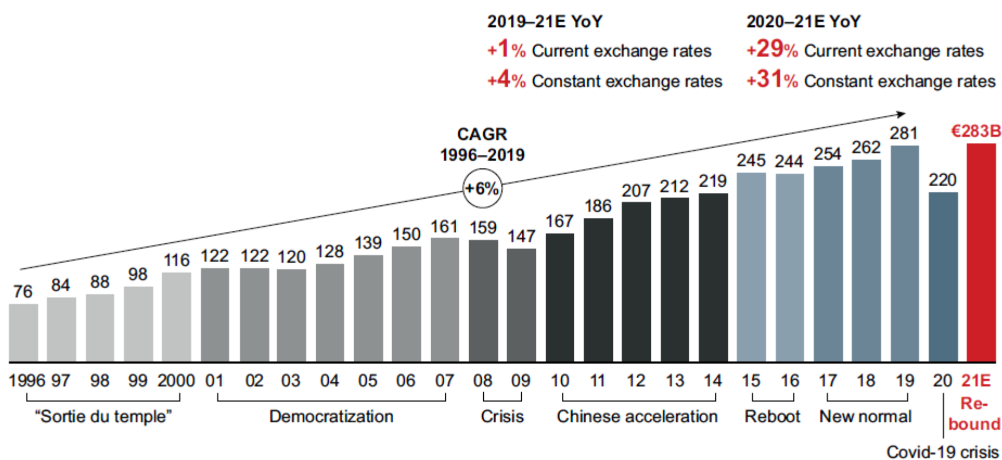
Figure 5. The global luxury market value (€ billions) and growth rates, 2019-2021



Source: Bain & Company

The Covid-19 shock presented the PLG industry withthe worst dip in history. In their 2021 Luxury Goods Worldwide Market Study, Bain & Company predicted a V-shaped rebound to pre-Covid levels by 2022, and a value reaching €283 billion in 2021. This quick recovery combined with annual growth rates' forecasts between 6% to 8% until 2025 suggest sustainable medium-term growth in this category of the luxury industry (Figure 6).

Figure 6. Global personal luxury goods market (€ billion)



Source: Bain & Company

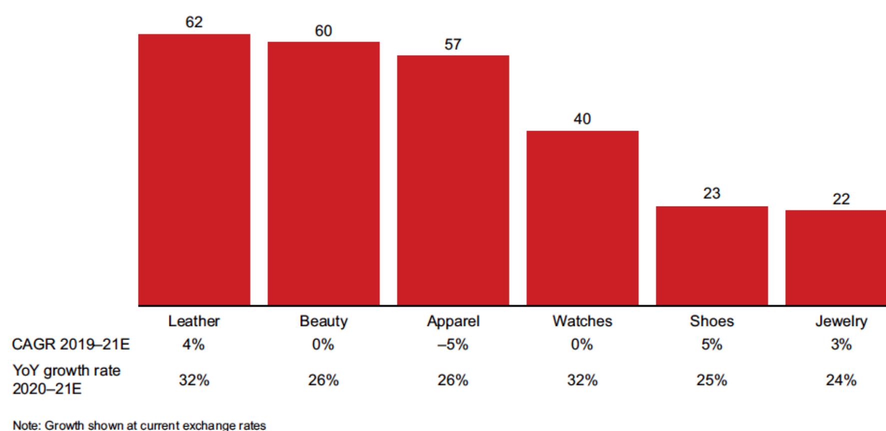
The sink in the PLG sector in 2020 was mainly a result of the fall in tourism by around 80% to 90%. The spending on PLG by consumers in their home markets rose by 50% to 60% from 2019 to 2021, with more relevance in mainland China. This upswing in 2021 was mostly

powered by consumers in China and the US, now considered the "dual engine for the sector".

The Americas, including the US and Latin America, sum up to €89 billion in annual sales, representing 31% of the global market. China follows in second place with sales at around €60 billion a year, accounting for 21% of the global market. The Middle East, in particular Dubai and Saudi Arabia are also leading the growth, followed by Europe, Japan and the rest of Asia which have not yet reached pre-Covid levels due to the resumption of world travel, particularly among Chinese tourists. Japan is expected to get to pre-pandemic levels by 2023 and Europe by 2024.

As for the PLG product categories, leather, shoes, and jewelry have surpassed their pre-Covid levels. Watches closed the gap with 2019 by the end of 2021 and have regained its record €40 billion valuation, a reflection of solid demand for iconic timeless pieces. Jewelry reached €22 billion, up 7% from 2019 (Figure 7).

Figure 7. Global personal luxury goods market, by product category (€ billions, 2021E)

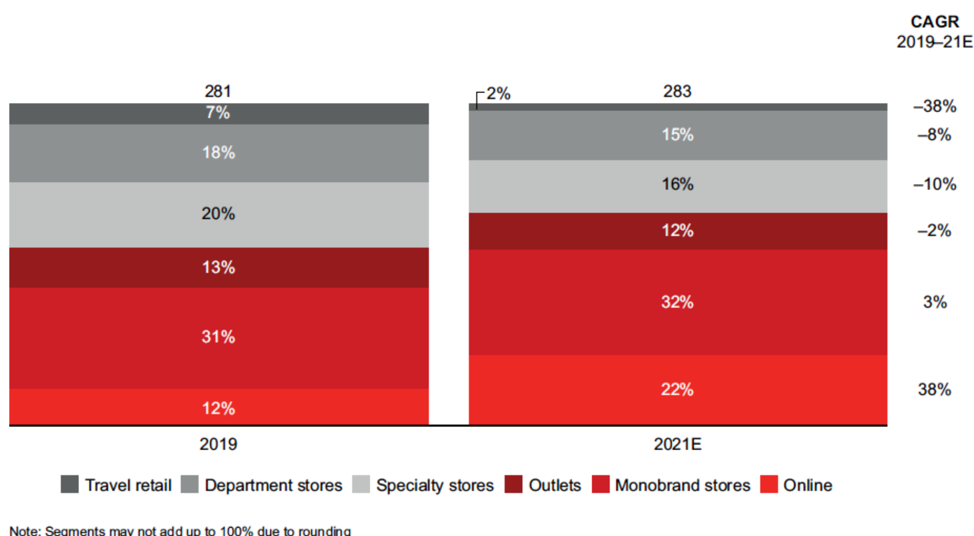


Source: Bain & Company

Brands continued to vertically integrate with distributors to take more control over their distribution, resulting in a rise of directly operated channels. Consequently, retain channels currently account for almost half the market and are likely to overtake the wholesale channel. Online and monobrand brands were key channels during 2021 and should keep growing in the medium term. The online segment is dominated by websites devoted to a single brand (around 40% of the segment), up from 30% in 2019. Overall, the study emphasizes the

CAGR[2] from 2019 to 2021 of 38% and 3% for the online and monobrand store segments, respectively (Figure 8).

Figure 8. Share of global personal luxury goods market, by distribution channel and format (€ billions)



Source: Bain & Company

Overall, consumers are seeking ever more personalization and alignment with their values, a brand with an interest in social issues and real action and responsibility in sustainability matters. D'Arpizio, Levato et al. (2021) anticipate four growth trends in the luxury market by 2025:

- Chinese consumers are set to become the dominant nationality for luxury, growing to represent between 40% to 45% of global purchases.
- Mainland China is on a path to overcome the Americas and Europe to become the biggest luxury market globally.
- Online is set to become the leading channel for luxury purchases.
- Younger cohorts from generations Y and Z should become more demographically dominant in luxury, representing 70% of global purchases.

While less than two decades ago, single-brand, family-owned companies accounted for more than 50 percent of personal luxury goods sales, nowadays the industry is largely dominated

---

[2] The Compound Annual Growth Rate represents the rate at which an investment would have grown if it had grown at the same rate every year and the profits were reinvested at the end of each year. (source: Investopedia).

by multi-brand, publicly owned groups – the conglomerates. According to D'Arpizio, Levato et al. (2021) leading brands have grown their share of the market from 17% in 2000 to close to 33% in 2021. Moreover, leading brands are now up to 18 times bigger than the average brand, contrasting with only 7 times bigger in 2000. In the following section, the topic of conglomerates will be looked at in-depth.

2.6. Theories on Conglomerates

According to Erdorf, Hartmann-Wendels et al. (2013) the main theories on the reasons for companies to engage in conglomerate mergers include the agency theory, the internal capital markets theory, and the debt co-insurance theory. The **agency theory** defends that diversification is often a product of the managers' pursual of their self-interest as a means to increase their power, compensation and perquisites (Jensen, 1986), to reduce their individual employment risk (Amihud & Lev, 1981), and to entrench themselves (Shleifer & Vishny, 1989). This leads managers to overinvest and grow their companies beyond the optimal size to get those benefits, at the cost of disregarding shareholder value.

The **internal capital markets theory** defends an array of capital allocation benefits coming from a company being diversified. For instance, a segment's assets can be used as collateral for obtaining funding for other segments, or cash flows generated by one segment may be used to subsidize investment in other divisions of the company (cross-subsidization). There are some downsides however. Stein (1997) has argued that the CEO may benefit some segments to the detriment of others in terms of resource allocation as a result of having insider information. Rajan, Servaes et al. (2000) found there is a high risk of misallocation of capital due to power struggles between divisions while Meyer, Milgrom et al. (1992) found inefficiencies due to lobbying costs (when managers of a unit with a lower performance attempt to lobby the top management to direct investment flows to their unit).

The **debt co-insurance theory** defends conglomerates benefit from financial risk spreading by gathering a portfolio of companies with imperfectly correlated cash flows which, in turn, leads to an overall decrease of the company's risk and a lower probability of insufficient debt service. Lewellen (1971) defends that the debt co-insurance enables the company to get a higher potential debt capacity which leads to an increased tax shield[3] for the company

[3] A tax shield is a reduction in taxable income for an individual or corporation achieved through claiming allowable deductions such as mortgage interest, medical expenses, charitable donations, amortization, and depreciation (Kagan, 2020).

because of the substitution of equity with debt capital. A higher tax shield means gains for the company.

When studying conglomerates' performance, researchers separate between related diversification and unrelated diversification, and between conglomerates and non-conglomerates. On the one hand, strategic management theories have focused on assessing performance consequences of a diversification strategy depending on how related that diversification is. On the other hand, researchers in the industrial economics and finance areas have been studying the relationship between the extent of diversification (e.g. whether to diversify or not) and firm performance (Park, 2002). Despite the thorough research, there is not a consensus on the relation between the degree of relatedness in the diversification strategy and the performance.

A majority of the studies conclude that conglomerates tend to be less profitable than non-conglomerates (Chan-Olmsted & Chang, 2003). However, some studies have shown a risk reduction in conglomerates when compared to non-conglomerates (Wang & Barney, 2006). In fact, Dimitrov and Tice (2006) found that diversified companies perform better than focused companies in times of recession due to their higher ability in obtaining external financing and the relative advantage of an internal capital market.

Berger and Ofek (1995) estimated the value of a diversified company's segments as if they operated as separate companies and found diversification to have reduced value in approximately 13% to 15% over the period of 1986-91. Although this value destruction was observed in firms of all sizes, it was less evident in companies with higher relatedness between their businesses. Moreover, the segments of more diversified firms had lower operating profitability than single-line businesses which could be explained by the overinvesting problem typical of conglomerates. Palich, Cardinal et al. (2000) found evidence to support the curvilinear model which defends that a company's performance increases as it shifts from being a single business to becoming a diversified business but when the relatedness of the segments decreases, performance soon follows.

Gary (2005) states that the key to high performance is not as much related to the degree of diversification but to **how effective managerial policies are in maintaining organization slack**. When conglomerates miss those policies, even with related diversification, the company is affected negatively. Furthermore, his analysis reveals that diversification strategies based on a very high degree of relatedness can lead to lower performance than less related strategies in some circumstances, meaning that extracting potential synergies may

require additional investment in shared resources. Park (2002) implies that ex-post performance differences between related and unrelated diversifiers reported in research are largely attributable to the ex-ante performance differences, meaning these differences may not be a result of the diversification relatedness. In the same line, Knoll (2008) explored the possibility of the performance being more tied to the **corporate effect** rather than with the degree of diversification. The corporate effect corresponds to the vertical relationships between the corporate center and the businesses as well as the horizontal relationships between the businesses. By analyzing global media conglomerates' ratios, Chan-Olmsted and Chang (2003) observed the curvilinear relationship between international product diversification and firm performance and pointed out the combination of the complexity of international operations, exposure to uncertainties, and risk in investment in distribution as the main causes of the performance decline.

In their 2012 transversal analysis, Ijaouane & Kapferer found that operative synergies in the luxury sector are not so much about cost reduction or about joining marketing activities, cross-selling, or cross-business bundling. Synergies in the luxury goods industry lie in operating and having full control of the production and distribution networks together with efficiency synergies such as transfer of know-how, access to scarce resources (raw materials, precious stones, specific fabrics, or grapes) and specific technology, components or products.

3. Methodology

3.1. Research Focus

The literature review has underlined the amount of mixed evidence regarding the diversification relatedness influence on the conglomerates' performance. Therefore, the goal for this dissertation was to find an industry characterized by conglomerates, pick a "more-than-average" diversified conglomerate, compare its performance with less diversified ones, and compare the results with the literature hypothesis. It was important to select a period with little to no M&A activity to isolate the effect of inorganic growth and a specific industry. For all the above-mentioned reasons, the choice was the personal luxury goods industry, specifically the highly diversified LVMH conglomerate and the peer comparison with more-focused conglomerates: the Kering Group in the fashion & leather goods, and the Richemont and Swatch Groups in the watches & jewelry. The data collected corresponds to the period between 2014 and 2022 since the conglomerates did not takeover large companies between 2014 and 2018, and from 2018 to 2021 because the Covid-19 recession's impact can reveal how each Group was affected.

Therefore, this dissertation provides an opportunity to investigate and analyze the LVMH Group's performance and test the following hypothesis:

> *H1. Does a more diversified conglomerate underperform in relation to more focused conglomerates in the luxury goods industry as Chan-Olmsted and Chang (2003) found?*
>
> *H2. Is there evidence for the theory developed by Knoll (2008) defending that the corporate effect, i.e. the vertical relationships within a conglomerate, has a higher impact on the conglomerate's performance than the degree of diversification?*

3.2. Research Methodology

This dissertation follows a case-study design with a quantitative longitudinal data collection method to test theories presented in the literature review (Vaus, 2001). The case study approach is described by Yin (2009) as "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident and it relies on multiple sources of evidence".

The data used in this dissertation is secondary data from annual financial reports in the period from 2013 to 2022. The data was collected, recorded, and reviewed in the form of audited

financial statements published by each of the chosen conglomerates and was later used in calculations for the performance analysis.

3.3. Sample Selection

LVMH, Kering, Richemont and the Swatch Group are the top 4 publicly traded conglomerates in the PLG industry and the ones selected as they all perform their activities mainly in the personal luxury goods industry. The objective of this dissertation is to study whether LVMH, the most diversified conglomerate, underperforms the less diversified ones (Kering, Richemont and Swatch).

To measure the degree of product diversification, the first step was reviewing the M&A history of each conglomerate from 2014 to 2021 by means of annual reports. Secondly, it was adopted a SIC[4]-based measure proposed by Varadarajan and Ramanujam (1987) grounded on two dimensions: Broad Spectrum Diversity (BSD) and Mean Narrow Spectrum Diversity (MNSD). BSD is measured by the number of the first two-digit SIC codes in which the conglomerate performs its activities whilst MNSD is measured by dividing the number of four-digit SIC codes in which a firm performs by the BSD. A lower diversifier would be a conglomerate with lower BSD and MNSD (Chan-Olmsted & Chang, 2003). The results are presented in Table 1.

Table 1. Extent and Directions of Product Diversification for the Leading PLG Conglomerates

Diversification measures	LVMH	Kering	Swatch	Richemont
Extent of diversification				
Number of business units[5] (ranking)	75 (1)	11 (4)	19 (3)	27 (2)
Number of SIC sectors involved[6] (ranking)	57 (1)	42 (2)	10 (4)	41 (3)
Directions of Diversification				
BSD[7] (ranking)	17 (1)	6 (2)	4 (4)	5 (3)
MNSD[8] (ranking)	3.35 (3)	7 (2)	2.5 (4)	8.2 (1)
Overall ranking[9]	**1**	**3**	**4**	**2**

Source: Adapted from (Chan-Olmsted & Chang, 2003)

[4] Standard Industrial Classification
[5] Business units corresponds to the number of subsidiaries each conglomerate owns.
[6] Four-digit SIC codes.
[7] Two-digit SIC codes.
[8] Number of four-digit SIC codes divided by the number of two-digit SIC codes
[9] Based on the averages of BSD, MNSD, and business unit/sector rankings.

When it comes to the business units and sectors involved, LVMH is clearly the most diversified conglomerate in terms of product extent and in terms of industries, with products including those from "apparel and other finished products" to "publishing", "leather and leather products", "communications", "amusement and recreation services", "eating and drinking places" and even "wine and distilled alcoholic beverages". LVMH's revenue by business segment is presented in Table 2.

Table 2. LVMH Business Segments Revenue in 2021

Revenue (EUR million)	2021	Percentage
Wines & Spirits	5,974	9.3%
Fashion & Leather Goods	30,896	48.1%
Perfumes & Cosmetics	6,608	10.3%
Watches & Jewelry	8,964	14.0%
Selective Retailing	11,754	18.3%
Total[10]	64,215	100%

Richemont follows in second place (Table 1). Even though it is not present in the "perfumes and cosmetics" industry like the Kering group, it is still considered more diversified because of the higher number of business units that show a diversification within the same industry through the expansion of brands, especially in the watches and jewelry segments with more than 75% of its sales coming from that segment in 2021 (Table 3). On the other hand, Kering had approximately 86% of its sales in 2021 coming from leather goods, shoes, and ready-to-wear (Table 4).

Table 3. Richemont Business Segments Revenue in 2021

Revenue (EUR million)	2021[11]	Percentage
Jewelry Maisons	11,083	58.0%
Specialist Watchmakers	3,435	18.0%
Online Distributors	2,788	14.0%
Fashion & Accessories/ Other	2,056	10.0%
Total	64,215	100%

[10] Includes "Other activities and eliminations" that were not considered due to lack of relevance.
[11] Taken from the 2022 annual report since Richemont's year end is March, unlike the other conglomerates that present their accounts for year end in December.

Table 4. Kering Business Segments Revenue in 2021

Revenue (EUR million)	2021[12]	Percentage
Luxury Houses:	17,019	96.0%
Leather Goods	50.0%	
Shoes	21.0%	
Ready-to-Wear	15%	
Watches & Jewelry	8%	
Other[13]	6%	
Corporate and other	625	4.0%
Total	17,645	100%

The Swatch Group presents itself as the least-diversified conglomerate due to the low number of industries it is present in, even though it has more brands than Kering. Its main focus is watches and jewelry, counting 95% of its sales coming from that segment (Table 5).

Table 5. Swatch Business Segments Revenue in 2021

Revenue (CHF million)	2021[14]	Percentage
Watches & Jewelry	7,014	95.0%
Electronic Systems	314	5.0%
Eliminations	-15	-
Total[15]	7,313	100%

Based on the averages of BSD, MNSD and business unit and sector rankings, the LVMH is considered the most diversified conglomerate by a large margin, followed by the watch & jewelry specialized Richemont, the couture & leather goods Kering and, at last, the watch & jewelry Swatch Group.

[12] Taken from the 2022 annual report since Richemont's year end is March, unlike the other conglomerates that present their accounts for year end in December.
[13] Licences managed by Kering eyewear and fragrances and cosmetics licenses.
[14] Taken from the 2022 annual report since Richemont's year end is March, unlike the other conglomerates that present their accounts for year end in December.
[15] Includes "Other activities and eliminations" that were not considered due to lack of relevance.

3.4. Performance Measurement

The choice of the financial ratio and stock performance analysis in this dissertation has two main objectives. First, to get an overview of each conglomerate's performance by means of their financial statements. Second, and most importantly, to conduct a comparative analysis between the LVMH Group and its peers to understand whether LVMH underperformed due to its more extensive product diversification. The financial data used in the financial ratio analysis and in the stock price comparison were extracted from the Groups' annual reports, from the Orbis Europe of Bureau van Dijk and the Thomson Reuters DataStream database. To calculate the abnormal return of LVMH, its monthly stock price, monthly S&P 500 prices and US 10-year government bond yields were sourced from Yahoo Finance while the 5-year average Beta for the luxury goods industry was calculated and extracted from Finbox.
Some financial literature findings point to a correlation between the stock price and the company's financial performance, i.e., the better the company's performance, the higher the stock price (Elliott & Schaub, 2006). Other studies have found that liquidity, profitability, and growth variables have no influence on the stock price, meaning that stock prices reflect solely the market valuation of the company's stock (Puspitaningtyas, 2017). Therefore, the stock price performance was analyzed in combination with the financial ratios.
According to Mulyadi, Sihabudin et al. (2019), the current ratio and the net profit margin have a positive effect on the company's performance. The **current ratio** is a liquidity ratio that assesses the company's capacity to meet its short-term obligations, i.e., the ones due within one year. It acts as a reference for investors to assess the investment risk because the higher the current ratio, the less the risk of a company failing to pay for its short-term liabilities. A rate of more than 1 means the company can cover its short-term liabilities with its current assets and although a threshold cannot be pointed for a "too high ratio", a very high current ratio in comparison to the industry's benchmark might mean the company is not using its excess cash to invest in growing the business. The formula for current ratio is:

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

The **net profit margin (NPM)** is a profitability ratio that shows the company's ability to generate profits after all costs and expenses, including interest, taxes, and preferred stock dividends have been deducted. A higher ratio means a higher ability to cover expenses outside of operations and income tax and a capacity of generating net profit.

$$NPM = \frac{Net\ Income}{Revenues}$$

The **gross profit margin (GPM)** is another profitability ratio that measures the remaining percentage of the sale after the company has paid for the cost of the goods sold (Nariswari & Nugraha, 2020). If a company has a high GPM in comparison to its peers, it means the cost of selling its goods is lower. In the case of conglomerates, a higher margin could be interpreted as an operational synergy since the decreased cost of producing might be a result of several brands within the conglomerate having their goods produced in the same factory or getting access to cheaper raw materials from a supplier within the conglomerate, for example. The formula is:

$$GPM = \frac{Reveues - COGS}{Revenues}$$

The earnings before interest, tax, depreciation and amortization margin (or just **EBITDA Margin**) is used as the indicator of operating cash flow due to its widespread use in peer analysis but of course taking into consideration it conceals low profitability levels, high leverage levels and overinvestment (Bouwens, Kok et al., 2019). In the matter of performance, the profit margins (NPM and GPM) are more valid. It is calculated as:

$$EBITDA\ Margin = \frac{EBITDA}{Revenues}$$

Considering that throughout 2014 to 2018 no major acquisitions occurred within the conglomerates, assessing the revenue growth rate will provide a grasp of the organic growth by isolating or minimizing the effect of mergers & acquisitions.

$$Revenue\ Growth\ Rate\ (t) = \frac{Revenues\ (t)}{Revenues\ (t-1)} - 1$$

The **return on assets (ROA)** is the measure of the conglomerates' effectiveness in processing its assets and the efficiency of its operations (Chan-Olmsted & Chang, 2003) and is considered a useful tool in assessing the company's performance (Tangen, 2003). According to the DuPont Model, ROA can be disaggregated into a profitability ratio and an efficiency ratio (Sheela & Karthikeyan, 2012), as follows:

$$ROA = \frac{Net\ Income}{Sales} * \frac{Sales}{Total\ Assets}$$

However, for this dissertation, it was deemed suited to isolate the influence of interest and tax on asset return because the intention is to assess the operational efficiency of each conglomerate and compare it. For that reason, the alternative formula has been used:

$$ROA = \frac{EBIT}{Total\ Assets}$$

To measure firm performance through return on equity (ROE), a **Du Pont analysis** was conducted. ROE tests how effectively a company's management uses investors' money and shows whether management is growing the company's value at an acceptable rate (Sheela & Karthikeyan, 2012). According to the DuPont Model, ROE disaggregates performance into three components: Net Profit Margin, Total Asset Turnover, and the Equity Multiplier (Figure 9). It is calculated as follows:

$$ROE = \frac{Net\ Income}{Sales} * \frac{Sales}{Total\ Assets} * \frac{Total\ Assets}{Equity}$$

The stock price performance was both analyzed by comparison of the stock price evolution of each conglomerate and by the abnormal returns of LVMH according to the Capital Asset Pricing Model (CAPM). Abnormal returns are the difference between the actual returns that investors get on an asset and the expected returns predicted using the CAPM equation (Team, 2020):

$$ER_i = R_f + \beta_i\ (ER_m - R_f)$$

ER_i is the expected return on the investment measured by the % growth of LVMH's stock price, R_f is the risk-free rate which was considered as the US 10-year bond yield, β_i is the 5-year average beta of the conglomerates (taken from Finbox) and $ER_m - R_f$ is the market risk premium. The abnormal return analysis allows for an understanding of the financial impact of mergers, product launches, organizational changes, and other events that affect the price of LVMH's stock in relation to a benchmark.

4. Case Study: LVMH Group

4.1. LVMH Group M&A Strategy

The world-renowned luxury goods conglomerate that would still be known after 30 years of existence as the LVMH Group resulted from the 1987 merger between two luxury businesses: the wine & spirits company Moët-Hennessy and the luxury fashion house Louis Vuitton.

Moët-Hennessy originated from a merger between Moët & Chandon and Hennessy. Moët & Chandon, a champagne producer founded in 1743, pursued an M&A strategy throughout the 20th century, successively acquiring two of the most exclusive and distinguished champaign houses: Ruinart in 1962 and Mercier in 1970. Later, the company decided to expand its portfolio beyond the champagne industry by acquiring Parfums Christian Dior in 1971. In 1972, the company merged with the cognac maker Hennessy, becoming one of the largest companies in the French luxury segment.

Louis Vuitton was founded in 1854 as a family business and became recognized for its luxury bags and travel goods. However, it was not until the 1970s that the business turned into a multinational enterprise owing to the dramatic shift driven by Henri Racamier, an entrepreneur from the French steel industry who was appointed CEO in 1977. The new strategy comprised a shift from a niche to a mass market, new advertising strategies, and a geographic expansion, especially towards Japan (Donzé & Fujioka, 2015). Before its merger with Moët-Hennessy, Louis Vuitton also acquired companies outside of its core business: the perfume company Parfums Givenchy in 1986, and maintained vineyards in France where Veuve Clicquot, Henriot and Canard-Duchene champagnes were produced (*Moët-Hennessy, Louis Vuitton to Merge*, 1987). In 1987, the two luxury businesses saw an opportunity in merging - Louis Vuitton was driven by the desire to expand its luxury business globally and Moët-Hennessy saw a lifeline to avoid becoming a target in the merger wave of the time. The LVMH Group was born that year.

Yet, the most prominent figure of the LVMH Group and current CEO Bernard Arnault only came into the picture in 1989 when he became the majority shareholder. Coming from an industrial family, Arnault was an engineer at Ferret-Savinel construction company, getting successively promoted to executive management positions until 1987, before undertaking the reorganization of the Financière Agache holding company (*Bernard Arnault*). In 1985, before acquiring his share at the LVMH Group, Arnault seized an opportunity: he bought

the near-bankrupt Agache-Willlot-Boussac textile conglomerate and sold all its assets, except the fashion brand Christian Dior (Agnew, 2019). In 1989, the LVMH Group had three segments: Wines & Spirits, Fashion & Leather Goods with the Christian Dior brand, and Perfumes & Cosmetics, with Wines & Spirits being the dominant segment.

Donzé and Fujioka (2015) divided the Group's development into three phases. The first period from 1989 to 1991 was characterized by a governance turmoil among the shareholders and, hence, recorded hardly any growth. Even though Arnault intended to focus the strategy on luxury fashion, the growth in that period was mainly in the Wine & Spirits segment which represented around 52.5% of gross sales due to the alliance with the Guinness group. Nevertheless, the Group still managed to acquire the Givenchy couture house in 1988.

The second period from 1992 to 2001 was marked by the implementation of the acquisition and diversification strategy to build the major personal luxury goods conglomerate. It was, therefore, a period of constant expansion and restructuring. The strategy was simple: acquiring top luxury brands in fashion, jewelry, watches, and distribution while discarding the companies that did not focus on luxury. The management operational strategy also shifted, and the individual companies were given entire responsibilities over the operational management while the segmentation and coordination of LVMH brands' portfolio was controlled by the French headquarters.

Among the top deals[16] in the Fashion & Leather Goods segment is the 1993 acquisition of the Cristian Lacroix couture house, the Berluti men's shoes and ready-to-wear brand, and the Kenzo Group, the house of Guerlain in 1994, Céline and Loewe in 1996, a 34% stake in Gucci and 51% stake in Fendi in 1999. In relation to the Céline acquisition, Arnault said in an interview: "What people don't know is that Céline has one of the best boutique networks in the Far East. They have more shops in better locations than anybody. It is a network that could not be duplicated today" (Gieschen, 2021). In 2000, LVMH acquired 67% of the Italian brand Emilio Pucci and took over Gabrielle Studio, the American fashion label and owner of Donna Karan for $405 million in 2001.

Perfumes & Cosmetics expanded with the acquisitions of Parfumeries Marie-Jeanne Godard in 1998 but 1999 was the highlight for this segment with the acquisition of 70% of Bliss, Hard Candy and Benefit, three young American companies, followed by the takeover of the French professional makeup brand Make Up For Ever. The Hard Candy, Benefit, and Make

---

[16] Information on deals, including values of acquisitions, were taken from the LVMH's annual reports and press releases on their Website.

Up For Ever deals were jointly worth €67 million. The American cosmetics company Urban Decay followed in the pipeline of acquisitions in 2000, as well as a 65% stake acquisition in Fresh, another American cosmetics company in a deal worth €18 million. In 2001 the Group took over a 51% stake in the Italian fragrance company Acqua di Parma.

In September 1999, the Watches & Jewelry segment was created with the acquisition of the TAG Heuer group for CHF1.151 billion, making the TAG Heuer brand the crown of the group. Adding to the segment were Ebel (€19 million), Chaumet (€47 million), and Zenith, a premium watchmaker (€75 million). The Fred brand was included in this segment together with the Italian producer of prestigious pens Omas. In 2001, LVMH announced the creation of a joint venture with the diamond company De Beers, for a design and sale business of jewels under the De Beers brand.

The Wines & Spirits segment was characterized by intense M&A activity. In 1990 LVMH raised its stake in Guinness, the British spirits company to 24% while Veuve Clicquot acquired two wineries - Cape Mentelle in Australia and Cloudy Bay in New Zealand. The takeover of Champagne Pommery occurred in 1991 and in 1997, new retail agreements were signed with the Diageo group, born out of the Guinness and GrandMet merger and LVMH became the largest shareholder of Diageo with 11% of the capital. In 1999, LVMH acquired Krug champagne for €153 million, Chateau D'Yquem for €98 million and disposed of Simi Winery, Pellison, Porto Rozés, and those of the Cognac and Spirits business group in Établissements Pellison, resulting in a capital gain of €29 million. In 2000, the Group acquired a 60% stake of the Newton and 90% of the MountAdam, two wineries located in California and Australia, respectively.

The Selective Retailing & Other Activities, LVMH's most diversified business segment, went through major changes during this period. Arnault had the famous high-end department store Le Bon Marché in his portfolio, which became part of LVMH when Arnault became the main shareholder. Starting in 1993, LVMH took over the Desfossés International economic press group, publishers of the financial dailies La Tribune-Desfossés and L'Agefi, and the weekly magazine Investir. In 1997, LVMH acquired a majority stake in the capital of DFS, the world's largest chain of duty-free shops for $2.47 billion (*LVMH Finds Duty-Free Isn't Risk-Free: Company Spotlight*, 1997), getting access to the most important consumer segment of luxury goods at that time: Japanese tourists. In that same year, the Group acquired France's leading retail chain for fragrances and cosmetics in sales and second in Europe - Sephora. At year-end 1999, LVMH took over the Phillips auction sale house for €90 million.

In 2000, LVMH acquired the world leader in the duty-free sale of luxury goods on cruise ships Miami Cruiseline Services for €361 million, the art magazine Connaissance des Arts, the American e-commerce site exclusively devoted to luxury and the art of living eLuxury, the American publication Art and Auction Magazine and through Sephora, it acquired Boidi, Carmen and 50% of Greek Marinopoulos, owner of the Greek retail network Beauty Shop. In 2001, LVMH announced the acquisition of a majority stake in the leading Paris department store La Samaritaine for €256 million.
After this acquisition phase, the Group concentrated on organic growth, profitability, and cash flow. The third phase from 2002 onwards continued to be focused on top luxury brands whilst always prioritizing the distribution network, the main source of synergies for the companies belonging to the conglomerate. In fact, LVMH's expansion objective since the 1990s has been to vertically integrate its supply chain as much as possible. In Arnault's famous words: "If you control your factories, you control your quality; if you control your distribution, you control your image" (Forbes, 1997).
The Fashion & Leather Goods restarted its M&A activity in 2011 with the acquisition of the French trunk maker Moynat, a heritage company founded in 1849, and a 51% stake acquisition of Heng Long, a supplier of fine quality crocodilian leather to luxury and high-end fashion products whose main goal was to be a strategic complement in the procurement of high-quality crocodilian skins for the Group's brands. In 2012, LVMH acquired Les Tanneries Roux, a supplier of high-quality leather, and Arnys in June, a ready-to-wear and made-to-measure menswear label. In 2013, LVMH acquired 80% stake in Loro Piana, a brand known for its luxury products and exceptional fabrics from the rarest and most refined raw materials in the world, for approximately €2 million. In that same year, the British luxury footwear company Nicholas Kirkwood joined the portfolio. The most recent deals in the segment were the disposal of Donna Karan in 2016, the acquisition of the German leader in luggage Rimowa in 2017, and in 2018, the purchase of a majority holding in Jean Patou, a French couture label (Reuters, 2018).
The Perfumes & Cosmetics segment sold Hard Candy and Urban Decay in late 2002 to focus the resources on its most profitable activities with the greatest potential for growth. In 2016, LVMH launched the brand Cha Ling to test appetites for a Chinese beauty brand mixing Asian ingredients with European chemistry. In 2017, the Group acquired Francis Kurkdjian perfumes and revolutionized the way luxury brands are built by establishing a partnership with the pop singer Rihanna for the launch of the new brand Fenty Beauty (Danziger, 2019).

In 2020, LVMH acquired the makeup brand Kat Von D and renamed it KVD and the perfumes and cosmetics specialist Officine Universelle Buly in 2021, a brand founded in 1803 which symbolizes the French art of living.

The Watches & Jewelry acquisition history was short but compiled the largest deals ever made in the luxury industry. The Ebel timepiece company was sold in early 2004 as it was not aligned with the strategy. In 2011, the Bvlgari acquisition was completed and valued at €1.5 billion. In that same year, the Group acquired the Swiss luxury watchmaking workshop La Fabrique du Temps, specialized in the design of high-end watch movements. The latest and largest deal occurred in 2021 with the acquisition of the iconic US jeweler Tiffany & Co for €13.8 billion.

In the Wines & Spirits segment, the Pommery champagne brand was sold in May 2002, the Hine cognac company in late June 2003, and the Canard-Duchêne in September 2003. In 2005, Moët Hennessy purchased Glenmorangie PLC a company founded in 1893 and positioned as one of the most dynamic and up-market whisky segments. In addition to its famous malt whisky, Glenmorangie owned two other distilleries in Scotland, Glen Moray and Ardbeg, well-known brands appreciated for their high-quality products. The acquisition of a 55% stake in Wen Jun Spirits, a Chinese producer of premium white spirits took place in 2007. After 10 years, LVMH acquired Woodinville whiskey and the Colgin Cellars in Napa Valley and Moët expanded the portfolio to the high-end rosé market in 2019 with the purchase of Château du Galoupet and Château d'Esclans.

Following the 2001 acquisition of La Samaritaine, the M&A activity in the Selective Retailing & Other Activities segment restarted in 2008 with Sephora's acquisition of a 45% stake in the selective Russian perfumes and cosmetics chain "Ile de Beauté" and increase in 2011 to 65% for an amount of €40 million. In a well-thought move to expand its presence in the Brazilian market, Sephora acquired the leading Brazilian online retailer of selective perfumes and cosmetics in 2010 Sack. In 2013, LVMH acquired 80% of the Milan-based patisserie business Cova and the Hotel Saint-Barth Isle de France. In 2014 the Group sold a 44% stake in Hotel Saint-Barth Isle de France and in 2015, it acquired the newspaper Le Parisien-Aujourd'hui. Sephora's geographic expansion to Southeast Asia occurred with the acquisition of a 95% stake in the e-commerce site Luxola, present in nine countries in Southeast Asia. In 2019, LVMH acquired Belmond hotel while the most recent deal occurred in 2021 with the takeover of the cosmetics retailer Feelunique.

Currently, the Group is the world's leading personal luxury goods conglomerate, with 75 prestigious brands, €64.2 billion in revenue in 2021, and a retail network of over 5,500 stores worldwide. Its long-term strategy consists of investing more in online channels, expanding its distribution network, and chasing the organic growth of its brands.

4.2. Peers M&A Strategy

4.2.1. The Kering Group

The now-known luxury conglomerate Kering had a rather untypical journey in the luxury industry. The Group's roots go back to 1963 when it was formed under the name Pinault SA as a timber trading company that after multiple acquisitions in the sector became publicly traded in the stock market by 1988. The first signs of an emerging luxury conglomerate started in the 1990s with acquisitions in specialized retail distribution but only in the late 1990s was the focus altered explicitly to luxury goods. Following the acquisition of Le Printemps, a French department store chain, and the takeover of an equity stake in La Redoute, an e-commerce retailer, the Group changed its name to Pinault Printemps Redoute in 1994. Within the luxury industry, the most relevant acquisitions occurred in 1999 with the purchase of a 42% stake in the Gucci group which, in turn, acquired Yves Saint Laurent, YSL Beauté, and Sergio Rossi, all luxury personal goods brands. The new century brought the acquisitions of the high jewelry houses Boucheron and Bedat & Co in 2000 and in 2001 the high-end leather goods house Bottega Veneta and Balenciaga, together with a partnership agreement with the Alexander McQueen house. From 2002 to 2004 the Group disposed of businesses that were not related to luxury goods.
A new CEO was appointed in 2005 and the conglomerate was renamed PPR. The Group drew a new long-term strategy: becoming a global luxury group by selling the Group's other activities and acquiring iconic luxury Houses. In 2005, only 17.9% of the revenue originated from the luxury goods while the remaining 82.1% were from retail. Until 2010, the Group sold unrelated businesses and bought companies focusing on Sport & Lifestyle, such as The Sportsman's Guide in 2006 and a 62.1% stake in Puma in 2007. By 2010, 36% of revenue was coming from luxury goods, while sport & lifestyle accounted for 25% and Fnac for 39%. In 2011, the sport & lifestyle brand Volcom was added to the portfolio while Conforama, a home furnishing retail chain, was disposed of. In 2012, the Group acquired the tailored clothing, made-to-measure service and sportswear for men's brand Brioni and created a joint venture with Yoox dedicated to e-commerce for several brands of the luxury division. By

this time, there was a project to demerge and list Fnac, resulting in 2012 revenue consisting of 64% Luxury and 36% Sport & Lifestyle.

Not only was 2013 the year the Group got the name Kering but it was also the year the Chinese fine jewelry brand Qeelin was taken over together with the jewelry groups Pomellato and DoDo. A majority stake was also acquired in the luxury designer brand Christopher Kane and in the tannery France Croco which has ensured the supply of raw materials to the brands belonging to the Group. In 2014 the Group disposed of more companies, in 2015 it sold the Italian luxury shoemaker Sergio Rossi and created the high-end eyewear entity Kering Eyewear which manages the distribution, development and design of Eyewear collections for several luxury brands including Gucci, Cartier, Saint Laurent, Balenciaga, among others. A major milestone occurred in 2018 as it was the first time the Group placed itself as a luxury pure player with 97% of its revenue being from luxury houses. The new strategy was also to internalize the e-commerce activities that were handled through the joint venture with Yoox Net-a-Porter.

In December 2021, the Group's Luxury Houses had a network of 1,565 directly operated stores. In fact, 81% of the Group's sales resulted from the directly operated stores and e-commerce websites, as this is an integral part of the conglomerate's long-term strategy of gaining more control over its distribution network.

4.2.2. The Swatch Group

The Swatch Group Ltd (the Company) is active worldwide and is represented in the finished watches and jewelry sector with 20 brands in all market and price segments, especially in luxury. In addition, it holds an outstanding industrial position with a high degree of vertical integration in the sector of watch movements and components, as well as in the electronic systems sector.

The Group has been active in M&A, particularly in the first decade of the century. In 2000, the Group acquired seven companies: three in connection to the acquisition of the German watchmaking company Glashütte Original, one in connection to the Swiss watchmaker Jaquet-Droz founded in 1728, and the other three connected to the watch hands manufacturer Universo. In that same year, two Swiss companies were created (one for logistics and distribution of horological products through Europe, and a retail sales outlet to sell Omega products in Zurich) as well as two distribution centers – one in Brazil and another in China. In 2001 eight other companies related to distribution and retail were created, two

legal entities were disposed of and two distributors were acquired (one in Greece and another in the Czech Republic).
In 2002, the Group acquired the specialist producer of watch dials Rubattel et Weyermann, furthermore it acquired Sokymat Automotive in 2003, the real estate company S.I.L'Etang in 2004, two dial producers in 2006, a watch index manufacturer in 2007, along with some minor transactions in 2008 related to the watch production chain. From 2009 to 2012, the company acquired one company per year, from watch distribution, assemblers of watch movements and watch cases companies.
The largest deal of the Group took place in 2013 with the $750 million acquisition of the US company HW Holdings, owner of the Harry Winston brand, resulting in the incorporation of 10 other companies in the Group. In addition, the main synergy was the Canadian company H.W. Protection which began providing its services to all the subsidiaries of Swatch. Rivoli Group, an operator of a network of over 360 retail stores in the Middle East specialized in the watch sector, was also added to the Swatch Group's portfolio. The most recent acquisition was the Réné Clémence watch glass manufacturer in 2014.
Even though the conglomerate's directly controlled retail network was reduced by 22% in 2021, the investments in e-commerce were a contributing factor for the recovery of the Group after the Covid-19 crisis and a priority for its long-term strategy.

4.2.3. Compagnie Financière Richemont

In the 1940s, Rembrandt Group owned significant interests in the tobacco, financial services, wines and spirits, gold, and diamond mining industries, along with luxury goods. Richemont was formed when Rembrandt acquired Rothmans International and, as a result, the new Richemont Group had minority holdings in Cartier Monde (Cartier, Piaget and Baume & Mercier), Montblanc and Chloé. The Group also took a 30% interest in Philip Morris, the tobacco company. In 1988, Compagnie Financière Richemont SA was founded through the spin-off of the assets owned by the South African Rembrandt Group Limited. Starting in 2000, the Group kick-started its M&A activity by taking a stake in Van Cleef & Arpels, a high jewelry Maison founded in 1906.
In 2001, for a total of €1.98 billion, three acquisitions in the watch industry took place: Jaeger-LeCoultre (founded in 1833), IWC (founded in 1868), and A. Lange & Söhne (founded in 1990). To complete the value chain of the watch branch, in 2002 the Group acquired the Swiss watch components manufacturer Petitjean and from 2003 to 2006, the Group focused

on organic growth. In 2007 there was a clear priority to expand the Group's network of boutiques with an increase from 79 to 1154, including acquisitions of boutiques in China by Montblanc and Alfred Dunhill and flagship boutiques for Van Cleef & Arpels and Montblanc. In 2008 the Group divested from the tobacco business and acquired watch component manufacturing businesses and the Couture Maison Azzedine Alaïa, adding the watch manufacturer Roger Dubuis in 2009. Excluding the 2011 Net-a-Porter acquisition for a net amount of €245 million, the Group's focus until 2017 was on expanding its network of boutiques, especially in the Asia Pacific region, and investing in manufacturing facilities.
Investment properties were acquired in 2018 as well as a 5% stake in travel retail specialist Dufry. In that same year, Richemont launched a tender offer for all issued and to be issued ordinary shares of YOOX Net-a-Porter Group. According to the 2019 annual report, the combined effect of Net-a-Porter and Watchfinder & Co omnichannel platform for premium pre-owned pieces in 2019 had a material impact on the Group's performance. In 2020 Richemont acquired the Italian jewelry Maison Buccellati in an undisclosed deal and, in 2021, the Belgian luxury leather goods Maison Delvaux for a total cash consideration of €178 million.
It is a part of Richemont's long-term strategy to gain control over its distribution and to invest in e-commerce, which the conglomerate has done with the multi-brand online stores Net-A-Porter, Mr Porter, The Outnet and YOOX. In 2021, the directly-operated stores represented 57% of total sales, followed by 23% from wholesale (sales to mono-brand franchise partners or to third-party multi-brand retail partners), and online retail with 19% - 6% from the brand's websites and the remainder from the multi-brand online distributors.

4.3. Performance Analysis

4.3.1. Revenue Growth Rate

The revenue growth rate of each conglomerate and each business segment of the LVMH Group was calculated, together with the compound annual growth rate[17] for the years between 2014 – 2021 and 2014-2018 and are presented in the tables below.

[17] CAGR (%) = $(\frac{Revenue\ Year\ t}{Revenue\ Year\ (t-n)})^{1/n} - 1 * 100$

Table 6. Revenue Year-on-Year Growth Rates for the Conglomerates

Revenue Y-o-Y Growth Rate	**LVMH**	**Kering**	**Swatch**	**Richemont**
2014	5.61%	-17.21%	1.99%	-0.38%
2015	16.43%	9.76%	6.38%	4.06%
2016	5.40%	6.26%	-8.01%	-2.58%
2017	13.39%	24.98%	-4.88%	2.07%
2018	9.83%	0.85%	10.78%	27.02%
2019	14.60%	1.72%	0.35%	1.78%
2020	-16.80%	-17.54%	-31.37%	-7.68%
2021	43.84%	34.72%	38.95%	46.12%
CAGR (%) 2014-21	11.15%	7.52%	-0.19%	8.80%
CAGR (%) 2014-18	11.19%	10.11%	0.77%	7.07%

Table 7. Revenue Y-o-Y Growth Rates for the LVMH Group Business Segments

Revenue Y-o-Y Growth Rate	**Fashion & Leather Goods**	**Perfumes & Cosmetics**	**Watches & Jewelry**	**Wines & Spirits**	**Selective Retailing**
2014	9.56%	5.35%	3.15%	-4.79%	7.09%
2015	14.23%	19.28%	18.91%	15.86%	17.40%
2016	3.28%	6.04%	4.84%	5.04%	6.97%
2017	21.11%	12.26%	9.72%	5.15%	11.18%
2018	19.28%	9.57%	8.36%	1.16%	2.52%
2019	20.49%	12.20%	6.84%	8.42%	8.39%
2020	-4.63%	-23.22%	-23.82%	-14.72%	-31.34%
2021	45.69%	25.91%	167.10%	25.64%	15.75%
CAGR (%) 2014-21	16.16%	7.76%	18.19%	6.0%	3.04%
CAGR (%) 2014-18	14.26%	11.68%	10.34%	6.67%	9.38%

The observations on Table 6 and Table 7 do not seem to point out to a lower-than-average performance of the LVMH Group, quite the opposite. LVMH scored the highest growth in both calculated CAGR, followed by Kering, Richemont, with Swatch last.

This could however mean that the LVMH Group has a "cash cow" segment responsible for this growth and actually ends up underperforming in all the others. However, by looking at Table 7 it becomes clear how all segments have contributed to the higher performance. In fact, the fashion & leather goods segment recorded a CAGR from 2014 to 2018 of 14.26%

whilst Kering, which specializes in that segment, only managed to grow by 10.11%. Considering the absence of M&A activity in the fashion & leather goods segment, it makes sense to compare the CAGR from 2014-21 and conclude that LVMH has outperformed the 7.52% of the Kering Group. As for the watches & jewelry segment, the CAGR from 2014-21 was heavily influenced by the Tiffany & Co 2021 acquisition but prior to that, the growth within that segment was merely organic. Even so, the CAGR of 10.34% from 2014 to 2018 was significantly higher than Swatch's 0.77% and Richemont's 7.07% compound annual growth rates.

On top of that, while the other conglomerates experienced negative growth rates or less than 1% in certain years, LVMH recorded higher than 1% growth rates in every segment during the entire period of study, excluding 2020 due to the pandemic. That becomes obvious, especially in Table 7 where the effect of M&A is isolated by segment. For example, the higher growth rate in 2019 could be merely a byproduct of the two acquisitions in the wines & spirits segment, but there was high growth in all business segments, some even higher than the segment where the acquisitions occurred, as is the case of the fashion & luxury goods and the perfumes & cosmetics segments in 2019 that increased the year-on-year revenue by 20.49% and 12.20%, respectively, in contrast with the 8.42% in the wine & spirits segment.

4.3.2. Ratio Analysis

The current ratio, the profit margins (Gross Profit Margin, EBITDA Margin, Net Profit Margin), the return on assets (ROA), and the return on equity (ROE) by means of the DuPont Model were calculated in the following tables.

The current ratio of the LVMH recorded the most stable behavior measured by the low standard deviation[18]. Even though the sample is not significant to draw an industry average, the fact that the ratio is higher than 1 is a good sign, and the fact that Kering had a lower average current ratio means that LVMH does not have the worst ratio among the conglomerates. The Swatch Group recorded extremely high ratios which could mean it is not making efficient use of its assets and the same could be said for the Richemont conglomerate, even though the ratio has registered a downward trend since 2016 (Table 8).

[18] Measure of the data dispersion around the mean.

Table 8. Current Ratio for the Conglomerates

Current Ratio	**LVMH**	**Kering**	**Swatch**	**Richemont**
2014	1.49	0.91	6.84	3.13
2015	1.49	1.05	7.59	3.42
2016	1.51	1.15	7.49	3.70
2017	1.41	1.27	6.89	3.07
2018	1.40	1.05	6.11	2.74
2019	1.17	0.93	7.02	2.86
2020	1.58	1.34	7.62	2.61
2021	1.23	1.31	7.34	2.42
Average 2014-21	1.41	1.13	7.11	2.99
Standard Deviation	0.14	0.17	0.51	0.43

Table 9 shows LVMH with the second lowest gross profit margin (GPM) after Richemont. In fact, the two more specialized conglomerates, Kering and Swatch had the highest gross profit margins which could be caused by operating synergies arising from having the entire Group's strategy focused on a single (or less) product category. As the Kering Group got less diversified throughout the time period, its GPM scaled. The LVMH Group's GPM increased alongside the strategy of vertically integrating its activities, as was the case with the acquisition of raw materials suppliers. This could be evidence of operating synergies arising from vertical integration in the personal luxury goods industry.

Table 9. Gross Profit Margin for the Conglomerates

Gross Profit Margin	**LVMH**	**Kering**	**Swatch**	**Richemont**
2014	68.59%	65.60%	79.38%	70.83%
2015	69.14%	65.03%	79.59%	69.30%
2016	65.21%	66.68%	79.94%	69.26%
2017	69.74%	69.15%	79.62%	70.13%
2018	70.87%	74.75%	81.58%	67.61%
2019	74.63%	81.98%	80.71%	68.67%
2020	75.04%	83.55%	76.44%	68.94%
2021	76.44%	82.34%	80.18%	69.40%
Average 2014-21	**71.21%**	**73.64%**	**79.68%**	**69.27%**

Even though accounting measures can highly influence these ratios, in terms of EBITDA and Profit Margins the conglomerates have very similar values and data does not point to LVMH underperforming in comparison to its peers. On average, it had the highest profit margin (13.51%) and the second highest EBITDA Margin (25.52%) after the Kering Group (Table 10, Graph 1, Table 11). The Swatch Group presented a downward trend due to its low revenue growth while the Richemont conglomerate had more stable margins.

Graph 1. EBITDA Margin (%) for the conglomerates

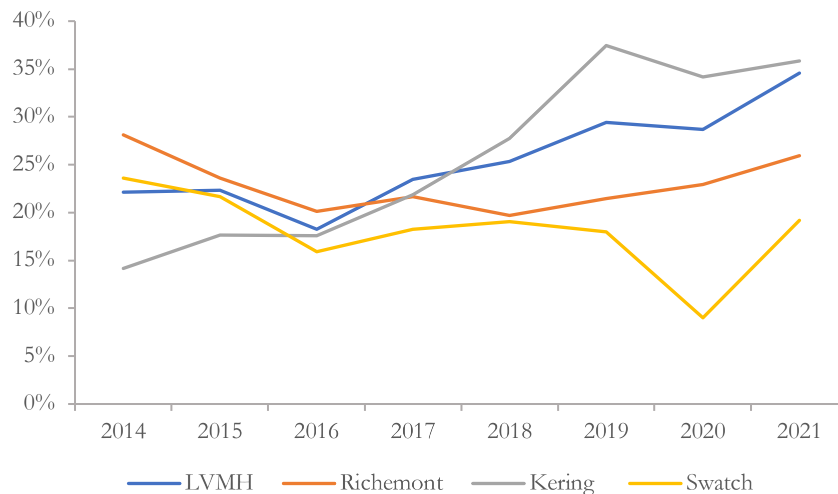


Table 10. EBITDA Margin Average for the Conglomerates, 2014-2021

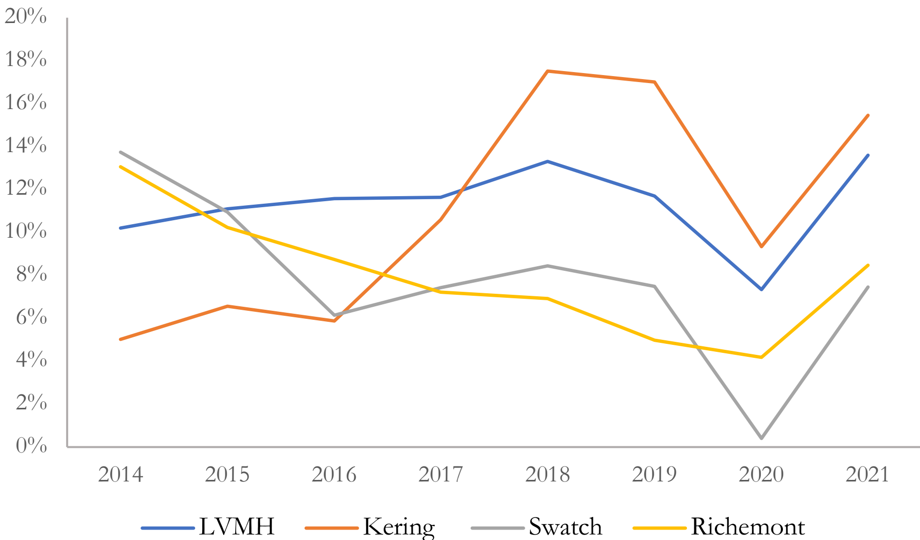
EBITDA Margin	LVMH	Kering	Swatch	Richemont
Average 2014-2021	25.52%	25.82%	18.08%	22.93%

Table 11. Profit Margin for the Conglomerates

Profit Margin	LVMH	Kering	Swatch	Richemont
2014	18.43%	5.17%	16.26%	19.78%
2015	10.01%	6.18%	13.24%	12.00%
2016	10.81%	7.01%	7.85%	20.84%
2017	12.58%	12.04%	9.45%	10.99%
2018	13.57%	24.03%	10.23%	8.73%
2019	13.36%	14.69%	9.07%	19.57%
2020	10.53%	16.64%	-0.95%	7.08%
2021	18.74%	18.45%	10.58%	6.72%
Average 2014-21	13.51%	13.03%	9.47%	13.21%

Although the return on assets (ROA) was only higher than all its peers from 2015 to 2017, LVMH recorded a stable ROA and only below Kering from 2017 onwards. The decline from 2018 to 2020 was common to all conglomerates, meaning it was most likely due to industry and/or macroeconomic circumstances. The Swatch Group ROA plummeted owing to a decline in revenue growth which translated into a lower EBIT. It is interesting to observe how the ROA for the Kering Group increased from 2016 to 2018 as an outcome of the Group's disposal of its non-luxury businesses and ever-increasing specialization in luxury fashion & leather goods leading up to a higher EBIT. As with the GPM, this could support the argument that operational efficiency improves with less diversification. Nevertheless, it is still not possible to show a lower-than-average operational performance for LVMH considering the ROA (Graph 2).

Graph 2. Return on Assets (%) for the Conglomerates



The LVMH Group's return on equity (ROE) is highly influenced by the $\frac{Total\ Assets}{Equity}$ (Table 12). The abnormally high value in 2014 was a consequence of a €2.7 billion gain from Hermés shares distribution that led to a higher than usual net income. In fact, the ROE in 2013 was 12.31%, a closer value to 2015. ROE followed an upward trend from 2015 to 2016, this time on account of the joint effect of higher sales and net income. However, in 2017 the higher ROE was caused by an increase in the total assets from the acquisition of Rimowa and Christian Dior Couture. Whilst 2018 was a year of growth in sales and net income, in

2019 the growth relied more on the increase in total assets after the hotel Belmond and Stella McCartney acquisitions coupled with deferred tax assets. Similar to the other conglomerates, sales and net income decreased in 2020 but the return on equity did not decrease as much because of the rise on the asset side of €14,300 million in cash & cash equivalents from the Tiffany & Co's acquisition. In 2021 the ROE doubled not only due to the 43.82% rise in sales but mainly due to the impact of exchange rates and a high net profit after the distribution of dividends that caused the 155% rise in net income.

Table 12. LVMH Return on Equity Calculation according to the DuPont Model

LVMH	$\frac{Net\ Income}{Sales}$ (a)	$\frac{Sales}{Total\ Assets}$ (b)	$\frac{Total\ Assets}{Equity}$ (c)	ROE (a)*(b)*(c)
2014	0.184	0.574	2.320	24.55%
2015	0.100	0.619	2.233	13.85%
2016	0.108	0.631	2.137	14.57%
2017	0.126	0.611	2.296	17.66%
2018	0.136	0.630	2.188	18.71%
2019	0.134	0.556	2.515	18.69%
2020	0.105	0.411	2.799	12.11%
2021	0.187	0.512	2.562	24.61%

The Kering Group's ROE (Table 13) had a clear breakthrough by 2017 and until then it was mostly fueled by the first two ratios, due to the rocketing in net income and sales growth. The 7.51 p.p. growth from 2016 to 2017 was caused by a 25% increase in sales combined with a 115% increase in net income resulting from the sale of the Group's distribution businesses (Conforama, Fnac and Redcats) and Sergio Rossi. Net income increased by 101% once again in 2018, this time because of PUMA's relinquishment of control leading up to a €1,200 million net gain. At the same time, equity decreased due to the dividend payment and stock dividend in the form of PUMA shares. The sharp decline in 2019 resulted from the non-recurrence of the past year's PUMA event. In 2020, both sales and net income declined but because sales decreased more than the net income, the impact on ROE was not as visible. By 2021, ROE was already above pre-pandemic levels because of the approximate 35% y-o-y growth in sales.

Table 13. Kering Return on Equity Calculation according to the DuPont Model

Kering	$\frac{Net\ Income}{Sales}$	$\frac{Sales}{Total\ Assets}$	$\frac{Total\ Assets}{Equity}$	ROE
2014	0.055	0.432	2.065	4.87%
2015	0.062	0.486	2.052	6.20%
2016	0.070	0.513	2.018	7.26%
2017	0.120	0.605	2.026	14.77%
2018	0.240	0.731	2.124	37.31%
2019	0.147	0.585	2.601	22.36%
2020	0.166	0.468	2.327	18.11%
2021	0.185	0.568	2.262	23.70%

The Richemont Group recorded a 5.55 p.p. increase in its ROE from 2014 to 2015 derived from a 65% increase in net income that did not come from growth but rather from the €639 million gain generated by the merger of The Net-A-Porter Group with YOOX Group. The increase in 2016 is attributed to the non-recurrence of the financial gain of the previous year, the lower operating profit, and a reversal in net finance costs. The increase in 2017 was fueled by a rise in total assets (27%) due to investments in listed undertakings and in money markets and externally managed funds and a strong generation of cash flow from operations, however sales growth was only around 3.44%. Once again, the high ROE in 2018 resulted mostly from an atypical event – a €1,378 million post-tax non-cash accounting gain on the revaluation of the YNAP shared held prior to the tender offer. However, if this amount is excluded, the net income only rose by 15% compared to the previous year, which would result in a 9.59% ROE. The fall to 5.39% in 2019 was a consequence of the non-recurrence of the previous year's event and net foreign exchange losses on monetary items. Even though sales decreased by 7.68% in 2020, the ROE increased to 7.47% because of a reversal in net foreign exchange losses on monetary items and an improvement in the fair value of financial instruments that increased the total assets and the net income. The only year where growth had an impact on ROE was 2021 with a 61.29% increase in the net income and 45.93% in sales but that could have been a result of the 2020 and the 2021 acquisitions (Table 14).

Table 14. Richemont Return on Equity Calculation according to the DuPont Model

Richemont	$\frac{Net\ Income}{Sales}$	$\frac{Sales}{Total\ Assets}$	$\frac{Total\ Assets}{Equity}$	ROE
2014	0.128	0.509	1.418	9.25%
2015	0.201	0.550	1.337	14.80%
2016	0.114	0.528	1.298	7.79%
2017	0.111	0.429	1.752	8.34%
2018	0.199	0.499	1.646	16.36%
2019	0.065	0.467	1.765	5.39%
2020	0.098	0.372	1.977	7.21%
2021	0.108	0.480	2.013	10.47%

Amongst its peers, the Swatch Group recorded the lowest ROE values (Table 15). The decrease in 2015 resulted from an approximate 21% decline in net income driven by the 3% drop in sales coupled with an unfavorable currency situation, with the overvalued Swiss franc resulting in reduced sales. The downward trend continued in 2016, once again because of a 47% reduction in net income caused by a 10.6% decrease in sales, and the negative net currency result. The following couple of years were positive due to the increase in sales, revealing the organic growth of the Group. The weakening of the other currencies in comparison to the Swiss franc led to a drop in 2019 and that, coupled with the economic environment in 2020, led to a negative return. However, in 2021 the net income recovered to pre-pandemic levels and the sales increase by 30.7% translated into a 6.67% ROE.

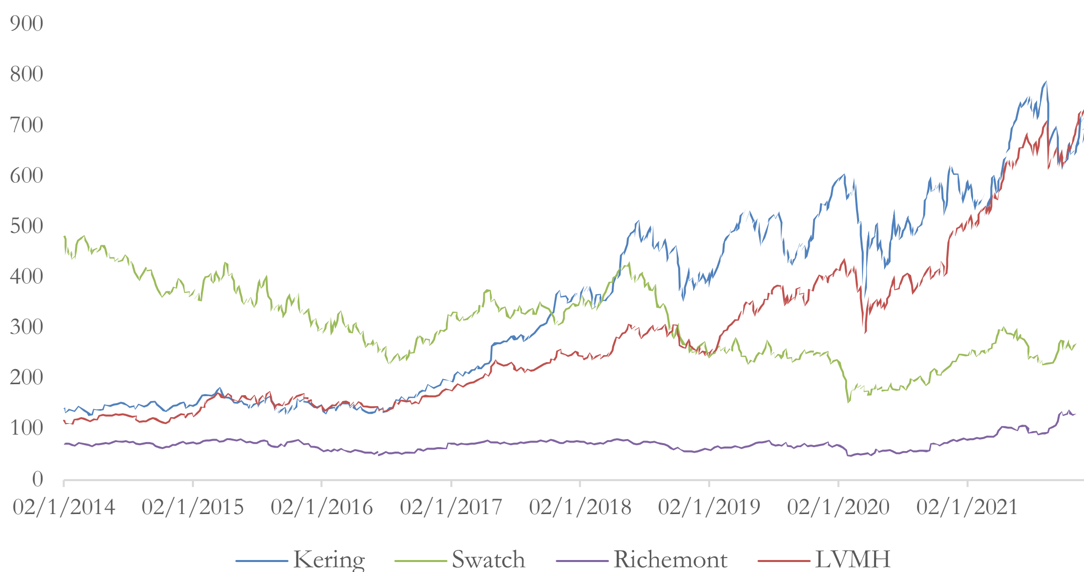
Table 15. Swatch Return on Equity Calculation according to the DuPont Model

Swatch	$\frac{Net\ Income}{Sales}$	$\frac{Sales}{Total\ Assets}$	$\frac{Total\ Assets}{Equity}$	ROE
2014	0.163	0.683	1.194	13.27%
2015	0.132	0.637	1.180	9.95%
2016	0.079	0.576	1.184	5.36%
2017	0.095	0.593	1.194	6.69%
2018	0.102	0.620	1.221	7.75%
2019	0.091	0.602	1.201	6.56%
2020	-0.009	0.434	1.176	-0.48%
2021	0.106	0.535	1.179	6.67%

4.4. Stock Performance

Graph 3 presents the daily closing stock price evolution extracted from the Thomson Reuters DataStream for the personal luxury goods conglomerates on this study. LVMH and Kering stock prices both experienced an upward trend during the time period from 2014 to 2021. Kering has not acquired any company since 2013 but even so, the stock price has reached the LVMH stock price in 2021. In 2017, probably because of the two wineries' acquisitions, LVMH's stock price increased but only to fall in the following year, most likely as a consequence of industry or macroeconomic shocks that also affected its pears. Even though the prices plummeted in 2020, LVMH had a rapid recovery which could be due to the Tiffany & Co acquisition. Kering also recovered more than the other conglomerates although, unlike LVMH, the Group did not acquire any company. The Swatch Group stock price went through a downward trend, with a slight improvement in 2016 but then it plummeted until 2020. This probably comes from the unfavourable results the Group had during this time period that were pointed out in the financial ratios analysis. The Group seems to be slowly recovering after the economic recession. From 2019 to 2021, Richemont made significant investments in e-commerce, coupled with acquisitions in 2020 and 2021, which might be behind the post-Covid price increase that it hadn't experienced since 2014.

Graph 3. Stock Price Evolution in Euros for the Conglomerates, 2014-2021



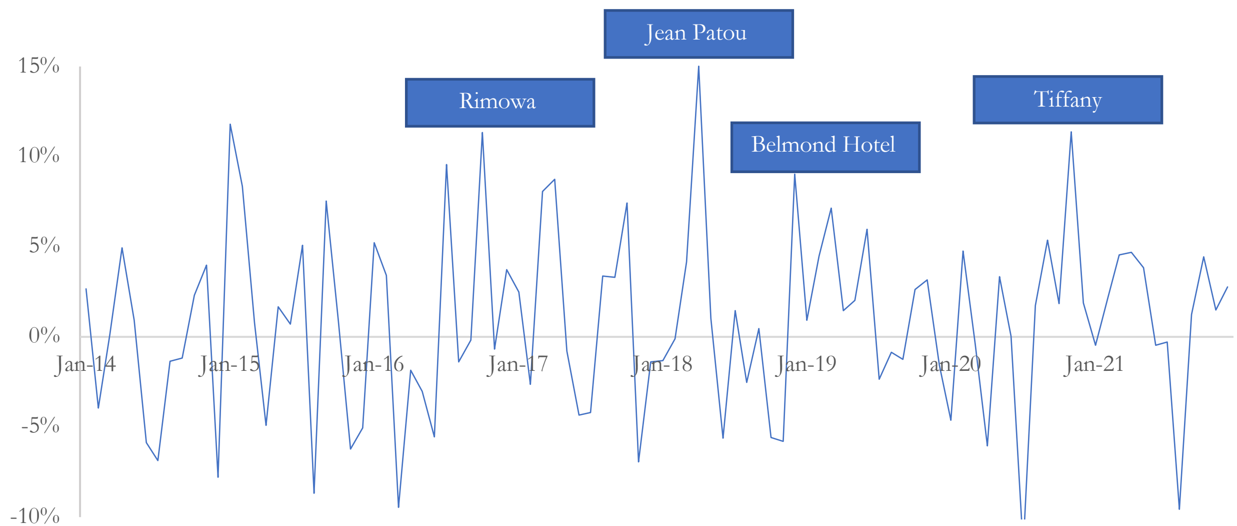
The stock performance analysis has not shown a lower performance of the LVMH Group. There was not a period where all the Groups had a stock price increase and LVMH did not and during the period of analysis, LVMH sticks out as the Group with the highest stock price increase (Table 16).

Table 16. Daily Closing Stock Price in Euros for the Conglomerates

Daily Closing Stock Price in Euros	LVMH	Kering	Swatch	Richemont
03/01/2014	118.1	142.4	482.7	72.3
27/12/2021	726.3	699.0	265.0	131.7
Stock Price Change in the Period (%)	515%	391%	-45%	82%

A positive abnormal stock return indicates a return from LVMH's stock that was higher than that expected from the market according to the CAPM model (as mentioned in the methodology, S&P 500 was considered as the market benchmark). Although the values are extremely volatile, it is clear how mergers and acquisitions impact the abnormal return and, hence, the investors' reactions in a conglomerate, making it difficult to establish a relationship between the stock price and a conglomerate's performance.

Graph 4. LVMH's Abnormal Return and Acquisition Highlights



Despite the abnormal return of LVMH (Graph 4) highlighting the mergers & acquisitions effect (positive market reaction to M&A activity undertaken), in the years between 2014 and 2017 with minimal M&A activity LVMH's stock price (Graph 3) rose each year, indicating that the market's reaction to its strategy and to the organic growth of its brands was positive.

5. Conclusions, Limitations and Future Research

5.1. Conclusions

This case study presents a real-life example to test the theory claiming that more diversified conglomerates within the same industry underperform the more-specialized conglomerates. With the financial and strategic analysis of the top 4 conglomerates in the personal luxury goods industry, this paper set out to find if there was evidence that more-diversified conglomerates perform more poorly than peers (Hypothesis 1), as well as to assess the corporate effect (the vertical relationships within the conglomerate) as a driver for the acquisitions decisions (Hypothesis 2).

For this case study, LVMH was the more-diversified conglomerate and its financial and stock performance from 2014 to 2021 was compared to three other conglomerates: Kering, Richemont and Swatch. By examining the revenue growth rates, both consolidated and by business segment, the results pointed to higher performance of LVMH. Both the CAGR from 2014 to 2018 and from 2014 to 2021 were higher than the other conglomerates and that was not solely a consequence of acquisitions – the analysis of LVMH business segments showed signs of organic growth, with growth being larger in segments with no M&A activity than the ones with occasional M&A activity, as was the case in 2019.

In terms of financial ratios, there was also a lack of evidence of LVMH underperforming. The current ratio was always above 1 and had the lowest standard deviation, proving it had the most stable values throughout the time period, which can be interpreted as a lower investment risk. LVMH scored first in the average Profit Margin, meaning the conglomerate had a higher ability to cover it expenses outside of operations and income tax, as well as a capacity to generate profit, and second after Kering in the EBITDA Margin, another measure of profitability. The Gross Profit Margin was the only indicator that could be interpreted as evidence for a lower operational performance because LVMH and Richemont, the two most diversified conglomerates in the sample, had the lowest GPM. This could mean the more specialized conglomerates end up being more efficient in their operations because of the company's lower complexity. However, LVMH's GPM increased during the time period from 2014 to 2021 whilst the Group pursued its strategy of vertically integrating its activities which could mean the corporate effect is the main source of operating synergies arising in conglomerates as Knoll (2008) proposed in his research. Indeed, sections 4.1. and 4.2. have shown all conglomerates' long-term strategy consists of gaining ever more control over their

production and distribution, accomplished through vertical integration. This finding is in line with the hypothesis developed by Ijaouane and Kapferer (2012) that synergies in the luxury industry are tied to the ability of a company to operate and have full control of its production and distribution networks.

Return on assets (ROA), another measure of operational efficiency, did not show a lower efficiency for the LVMH either as the conglomerate recorded a stable ROA, higher than all its peers from 2015 to 2018 but below Kering from 2017 onwards. The return on equity (ROE) values was highly influenced by the acquisitions but operational performance drove this ratio in 2015, 2016 and 2018.

The stock performance analysis did not give any signs of dissatisfaction from the market and although the years where acquisitions occurred the upward effect on the stock price was clear, the years between 2014 and 2017, where minimal M&A activity took place, the stock price of LVMH rose each year, showing a positive market reaction to its strategy and organic growth of the brands.

Overall, the analysis of the personal luxury goods industry conglomerates does not provide evidence to support Hypothesis 1, the theory correlating a higher diversification with a lower performance. It can provide evidence however for Hypothesis 2, the research by Gary (2005) who mentions the key to high performance is not as much related to the degree of diversification but to how effective managerial policies are in maintaining organization slack or to Knoll (2008) who found a possibility of the performance being more tied to the corporate effect rather than with the degree of diversification. Another important point behind LVMH's diversification success could be its extensive knowledge of how to build and promote a luxury brand. The Group's awareness and experience in applying the critical success factors presented in section 2.5. which come from its long history in acquiring and developing luxury businesses as a conglomerate, could be another reason for the success of its brands.

5.2. Limitations and Future Research

The case study approach is accompanied by several limitations, being the impossibility of generalizing results the main one. In addition, there is the risk of researchers' biases derived from a subjective interpretation of qualitative and even quantitative data (Meyer, 2001). However, it is a suited approach to confirm (or not) theories developed in the literature and understanding them better by means of a real-life example.

Research on the relationship between a business diversification and its performance is extensive and yet there is no consensus on what determines the success of a conglomerates' performance (or lack of success), despite most theories claiming non-conglomerates to be more profitable than conglomerates (Chan-Olmsted & Chang, 2003). It is challenging to have a large sample of conglomerates from distinct industries and draw a theory since the performance can be dependent on the industry, on the countries the conglomerate operates in, on the individual conglomerate capacity to manage other companies, or even on (un)favourable macroeconomic factors. For that reason, it might be useful to conduct similar case studies for different industries while looking in-depth into each conglomerate strategy, management, organization, and post-acquisition integration. Combining a case study on conglomerate performance with factors of success and failure in the integration of the businesses in the conglomerate could also be proved fruitful.

Given the ever-increasing tendency of concentration on some industries, this work will contribute to the research on the field by acting as a starting point for more in-depth research on the causes and factors of performance in conglomerates, especially the ones engaging in M&A. Ideally, it could lead researchers to get a large enough sample of conglomerates in distinct industries and draw new empirically based theories.

References

Agnew, Harriet. (2019). How one franc turned LVMH into the world's largest luxury group. *Financial Times*.

Agrawal, A., & Jaffe, J. (2000). The Post Merger Performance Puzzle. In *Advances in Mergers and Acquisitions* (Vol. 1, pp. 7-41). Emerald Group Publishing.

Alexandridis, George, Mavrovitis, Christos F., & G., Nickolaos. (2012). How have M&As changed? Evidence from the sixth merger wave. *The European Journal of Finance*, *18*(8), 663-688. https://doi.org/10.1080/1351847x.2011.628401

Amihud, Yakov, & Lev, Baruch. (1981). Risk Reduction as a Managerial Motive for Conglomerate Mergers. *The Bell Journal of Economics*, *12*(2). https://doi.org/10.2307/3003575

Andrade, Gregor M., Mitchell, Mark L., & Stafford, Erik. (2001). New Evidence and Perspectives on Mergers. *Journal of Economic Perspectives*, *15*(2), 103-120. https://doi.org/10.2139/ssrn.269313

LVMH in 2004: the challenges of strategic integration, Harvard Business School (2004).

Bauer, Florian, & Matzler, Kurt. (2013). Antecedents of M&A success: The role of strategic complementarity, cultural fit, and degree and speed of integration. *Strategic Management Journal*, *35*(2), 269-291. https://doi.org/10.1002/smj.2091

Berger, Philip G., & Ofek, Eli. (1995). Diversification's effect on firm value. *Journal of Financial Economics*, *37*(1), 39-65. https://doi.org/10.1016/0304-405X(94)00798-6

Bernard Arnault. https://www.lvmh.com/group/about-lvmh/governance/executive-committee/bernard-arnault/

Bet (5 year) for LVMH Moët Hennessy https://finbox.com/DB:MOH/explorer/beta

Boschetti, Marco, & Mattson, Tammy. (2018). *4 ways the HR role is pivotal to M&A success.* https://www.wtwco.com/en-US/Insights/2018/06/4-ways-the-hr-role-is-pivotal-to-ma-success-part-4-in-a-series

Bouwens, Jan, Kok, Ties de, & Verriest, Arnt. (2019). The Prevalence and Validity of EBITDA as a Performance Measure. 55-105.

Brun, Alessandro, & Castelli, Cecilia. (2013). The nature of luxury: a consumer perspective. *International Journal of Retail & Distribution Management*, *41*(11/12), 823-847. https://doi.org/10.1108/IJRDM-01-2013-0006

Calipha, Rachel, & Brock, David. (2019). The Pre-M&A Stage: Understanding the Phases and Success Factors. *Journal of Intercultural Management and Ethics*, *2*(4), 13-34. https://doi.org/10.35478/jime.2019.4.03

Canina, Linda, Kim, Jin-Young, & Ma, Qingzhong. (2010). What We Know about M&A Success. *Cornell Hospitality Quarterly*, *51*(1), 81-101. https://doi.org/10.1177/1938965509354448

Cartwright, Susan, & Schoenberg, Richard. (2006). Thirty Years of Mergers and Acquisitions Research: Recent Advances and Future Opportunities. *British Journal of Management*, *17*(S1), S1-S5. https://doi.org/10.1111/j.1467-8551.2006.00475.x

Catry, Bernard. (2003). The great pretenders: the magic of luxury goods. *Business Strategy Review*, *14*(3).

Chan-Olmsted, S. M., & Chang, B. H. (2003). Diversification strategy of global media conglomerates: Examining its patterns and determinants. *Journal of Media Economics*, *16*(4), 213-233.

Chen, James. (2022). *Conglomerate*. https://www.investopedia.com/terms/c/conglomerate.asp#citation-12

Coates, John C. (2014). Mergers, Acquisitions and Restructuring: Types, Regulation, and Patterns of Practice. In *Oxford Handbook on Corporate Law and Governance, forthcoming*. Harvard Law School. http://nrs.harvard.edu/urn-3:HUL.InstRepos:20213003

Compagnie Financière Richemont SA. https://de.finance.yahoo.com/quote/CFR.SW/history?period1=1388534400&period2=1663027200&interval=1mo&filter=history&frequency=1mo&includeAdjustedClose=true

D'Arpizio, Claudia, Levato, Federica, & Gault, Constance. (2021). *From Surging Recovery to Elegant Advance: The Evolving Future of Luxury*. https://www.bain.com/globalassets/noindex/2021/bain_digest_from_surging_recovery_to_elegant_advance_the_evolving_future_of_luxury.pdf

Damodaran, Aswath. (2008). Acquisitions and Takeovers. *Handbook of Finance*. https://doi.org/10.1002/9780470404324.hof002086

Danziger, Pamela N. (2019). What the LVMH - Rihanna Partnership Means for the Luxury Market. *Forbes*.

Das, Arindam, & Kapil, Sheeba. (2012). Explaining M&A performance: a review of empirical research. *Journal of Strategy and Management*, *5*(3), 284-330. https://doi.org/10.1108/17554251211247580

Datta, Deepak K., Pinches, George E., & K., V. (1992). Factors influencing wealth creation from mergers and acquisitions: A meta-analysis. *Strategic Management Journal*, *13*(1), 67-84. https://doi.org/10.1002/smj.4250130106

DePamphilis, Donald. (2019). An Introduction to Mergers, Acquisitions, and Other Restructuring Activities. In *Mergers, Acquisitions, and Other Restructuring Activities: An Integrated Approach to Process, Tools, Cases, and Solutions* (10 ed., pp. 5-12). Academic Press.

Dimitrov, Valentin, & Tice, Sheri. (2006). Corporate Diversification and Credit Constraints: Real Effects across the Business Cycle. *The Review of Financial Studies*, *19*(4), 1465-1498.

Donzé, Pierre-Yves. (2022). *Luxury as an Industry* (P.-Y. Donzé, V. Pouillard, & J. Roberts, Eds.). https://doi.org/10.1093/oxfordhb/9780190932220.013.5

Donzé, Pierre-Yves, & Fujioka, Rika. (2015). European luxury big business and emerging Asian markets, 1960–2010. *Business History*, *57*(6), 822-840. https://doi.org/10.1080/00076791.2014.982104

Duksaitė, Egle, & Tamošiūnienė, Rima. (2011). Why Companies Decide to Participate in Mergers and Acquisition Transactions. *Mokslas - Lietuvos ateitis*, *1*(3), 21 - 25. https://doi.org/10.3846/145

Elliott, R. Stephen, & Schaub, Mark. (2006). Long-Term Performance of Foreign Food and Beverage Equities Trade on the New York Stock Exchange: A Look at Investment Opportunities. *International Business & Economics Research Journal (IBER)*, *5*(3).

Erdorf, Stefan, Hartmann-Wendels, Thomas, Heinrichs, Nicolas, & Matz, Michael. (2013). Corporate diversification and firm value: a survey of recent literature. *Swiss Society for Financial Market Research*, *27*, 187-215.

Fatima, Tajalli, & Shehzad, Amir. (2014). An Analysis of Impact of Merger and Acquisition of Financial Performance of Banks: A case of Pakistan. *Journal of Poverty, Investment and Development*, *5*.

Forbes. (1997). Liberté, fraternité but to hell with égalité! https://www.forbes.com/forbes/1997/0602/5911080a.html?sh=311abb53d28c

Gary, Michael Shayne. (2005). Implementation strategy and performance outcomes in related diversification. *Strategic Management Journal*, *26*(7), 643-664.

Gaughan, Patrick. (2005). *Mergers: What Can Go Wrong and How to Prevent It* (1 ed.). Wiley.

Gieschen, Frederik. (2021). Bernard Arnault: Empire Builder. https://neckar.substack.com/p/bernard-arnault-empire-builder

Goedhart, M., Koller, T., & Wessels, D. (2018). The six types of successful acquisitions. https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-six-types-of-successful-acquisitions

Hanna, Julia. (2004). Luxury Isn't What It Used to Be.

Hayes, Adam. (2022). *Tender Offer Definition*. https://www.investopedia.com/terms/t/tenderoffer.asp

Ho, Chun-Yu, McCarthy, Patrick, & Yanhao. (2020). Decomposing sources of gain from airline mergers: A model and case study from China. *Research in Transportation Economics*, *84*. https://doi.org/10.1016/j.retrec.2020.100996

Ijaouane, Vincent, & Kapferer, Jean-Noel. (2012). Developing Luxury Brands Within Luxury Groups – Synergies Without Dilution? *Marketing Review St. Gallen*, *29*, 24-29.

Investor Bulletin: Reverse Mergers. (2011). https://www.sec.gov/investor/alerts/reversemergers.pdf

Jensen, Michael C. (1986). Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers. *The American Economic Review*, *76*(2), 323-329.

Kapferer, Jean-Noël, & Bastien, Vincent. (2012). *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands* (2 ed.). Kogan Page Limited

Kering SA. https://finance.yahoo.com/quote/KER.PA/history?period1=1388534400&period2=1663027200&interval=1mo&filter=history&frequency=1mo&includeAdjustedClose=true

Kitching, J. (1974). Winning and Losing With European Acquisitions. *Harvard Business Review*, *52*, 124-136.

Kleinert, Jörn, & Klodt, Henning. (2002). *Causes and Consequences of Merger Waves* [Working Paper No. 1092]. Kiel Institute of World Economics. http://hdl.handle.net/10419/2692

Knoll, Sebastian. (2008). *Cross-Business Synergies* (G. E. Wissenschaft, Ed. 1 ed.).

Lewellen, Wilbur G. (1971). A Pure Financial Rational for the Conglomerate Merger. *The Journal of the American Finance Association*, *26*(2), 521-537.

Lovallo, D., Viguerie, P., Uhlaner, R., & Horn, J. (2007). Deals without delusions. . *Harvard Business Review*.

LVMH Finds Duty-Free Isn't Risk-Free: Company Spotlight. (1997). https://www.bloomberg.com/news/articles/1997-02-12/lvmh-finds-duty-free-isn-t-risk-free-company-spotlight-ijpv6jhl#xj4y7vzkg

LVMH Moët Hennessy. https://finance.yahoo.com/quote/MC.PA/history?period1=1388534400&period2=1640908800&interval=1mo&filter=history&frequency=1mo&includeAdjustedClose=true

Machiraju, H.R. (2007). A Perspective of Mergers, Acquisitions, Amalgamations and Takeovers. In *Mergers, Acquisitions and Takeovers*. New Age International (P) Limited.

Malik, Muhammad Faizan, Anuar, Melati Ahmad, Khan, Shehzad, & Khan, Faisal. (2014). Mergers and Acquisitions: A Conceptual Review. *International Journal of Accounting and Financial Reporting*, *1*(1). https://doi.org/10.5296/ijafr.v4i2.6623

Martin, Roger L. (2022). Rethinking the M&A model: give value to get value. *Strategy & Leadership*, *50*(3), 11-14. https://doi.org/10.1108/sl-03-2022-0024

Meier, Jean-Marie, & Smith, Jake. (2020). Tax Avoidance through Cross-Border Mergers and Acquisitions. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.3639640

Meyer, Christine Benedichte. (2001). A Case in Case Study Methodology. *SAGE journals*, *13*(4), 329-352.

Meyer, Margaret, Milgrom, Paul, & Roberts, John. (1992). Organizational Prospects, Influence Costs, and Ownership Changes. *Journal of Economics & Management Strategy*, *1*(1), 9-35.

Mirvis, Philip H., & Marks, Mitchell Lee. (1992). The Human Side of Merger Planning: Assessing and Analyzing "Fit". *Human Resource Planning*, *15*(3).

Moët-Hennessy, Louis Vuitton to Merge. (1987, 04/06/1987).

Mulyadi, Dedi, Sihabudin, & Sinaga, Obsatar. (2019). Analysis of Current Ratio, Net Profit Margin, and Good Corporate Governance against Company Value. *Sys Rev Pharm*, *11*(1), 588-600.

Nariswari, Talitha Nathaniela, & Nugraha, Nugi Mohammad. (2020). Profit Growth: Impact of Net Profit Margin, Gross Profit Margin and Total Assets Turnover. *International Journal of Finance & Banking Studies*, *9*(4).

Okonkwo, Uche. (2007). What's in a name? The history of luxury fashion branding. In *Luxury Fashion Branding* (pp. 13-58).

Our History. https://www.honeywell.com/us/en/company/our-history

Palich, Leslie E., Cardinal, Laura B., & Miller, C. Chet. (2000). Curvilinearity in the diversification–performance linkage: an examination of over three decades of research. *Strategic Management Journal*, *21*, 155-174.

Park, Choelsoon. (2002). The Effects of prior performance on the choice between related and unrelated acquisitions: implications for the performance consequences of diversification strategy. *Journal of Management Studies*, *39*(7), 1003-1019.

Park, Kathleen Marshall, & Gould, Anthony M. (2017). The overlooked influence of personality, idiosyncrasy and eccentricity in corporate mergers and acquisitions. *Journal of Management History*, *23*(1). https://doi.org/10.1108/jmh-09-2016-0056

Puspitaningtyas, Zarah. (2017). Is Financial Performance Reflected in Stock Prices? International Conference on Accounting, Management, and Economics,

Rajan, Raghuram, Servaes, Henri, & Zingales, Luizi. (2000). The Cost of Diversity: The Diversification Discount and Inefficient Investment. *The Journal of the American Finance Association*, *55*(1), 35-80.

Reuters. (2018). *LVMH to resurrect Jean Patou fashion lines after buying stake.*

S&P 500. https://finance.yahoo.com/quote/%5EGSPC/history?period1=1388534400&period2=1663027200&interval=1mo&filter=history&frequency=1mo&includeAdjustedClose=true

Schmid, Alexandra S., Sánchez, Carol M., & Goldberg, Stephen R. (2011). M&A today: Great challenges, but great opportunities. *Journal of Corporate Accounting & Finance*, 3-8. https://doi.org/10.1002/jcaf.21731

Sheela, S. Christina, & Karthikeyan, Dr. K. (2012). Financial Performance of Pharmaceutical Industry in India using DuPont Analysis. *European Journal of Business and Management*, *4*(14), 2222-2839.

Sherman, Andrew J. (2011). *Mergers and acquisitions from A to Z* (3rd ed.). American Management Association.

Shleifer, Andrei, & Vishny, Robert W. (1989). Management entrenchment: The case of manager-specific investments. *Journal of Financial Economics*, *25*(1), 123-139.

Som, Ashok, & Blanckaert, Christian. (2015). *The Road to Luxury: The Evolution, Markets, and Strategies of Luxury Brand Management* (1 ed.). Wiley.

Statistique annuelle du commerce extérieur de la Suisse.

Stein, Jeremy C. (1997). Internal Capital Markets and the Competition for Corporate Resources. *The Journal of the American Finance Association*, *52*(1), 111-133.

Suzuki, Ayako. (2009). Market foreclosure and vertical merger: A case study of the vertical merger between Turner Broadcasting and Time Warner. *International Journal of Industrial Organization*, *27*(4), 532-543. https://doi.org/10.1016/j.ijindorg.2008.12.003

The Swatch Group AG. https://finance.yahoo.com/quote/UHR.SW/history?period1=1388534400&period2=1663027200&interval=1mo&filter=history&frequency=1mo&includeAdjustedClose=true

Tangen, Stefan. (2003). An overview of frequently used performance measures. *Emerald*, *52*(7), 347-354.

Team, FCFI. (2020). *What is Abnormal Return.* https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/abnormal-return/

Treasury Yield 10 Years. https://finance.yahoo.com/quote/%5ETNX/history?period1=1388534400&period2=1663027200&interval=1mo&filter=history&frequency=1mo&includeAdjustedClose=true

Varadarajan, P. R., & Ramanujam, V. (1987). Diversification and performance: a reexamination using a new two-dimensional conceptualization of diversity in films. *Academy of Management Journal*, *30*, 380-393.

Vaus, David de. (2001). *Research Design in Social Research.* Sage Publications

Wang, Heli C., & Barney, Jay B. (2006). Employee Incentives to Make Firm-Specific Investments: Implications for Resouce-Based Theories of Corporate Diversification. *Academy of Management Review*, *31*(2), 466-476.

Weber, Yaakov. (1996). Corporate Cultural Fit and Performance in Mergers and Acquisitions. *Human Relations*, *49*(9), 1181-1202. https://doi.org/10.1177/001872679604900903

Weber, Yaakov, Tarba, Shlomo, & Oberg, Christina. (2017). *A Comprehensive Guide to Mergers & Acquisitions: Managing the Critical Success Factors Across Every Stage of the M&A Process (Paperback)* (1 ed.). FT Press.

Yin, Robert K. (2009). *Case Study Research: Design and Methods* (4th ed., Vol. 5). SAGE Publications.