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Financial Analysis of LVMH Based on the Harvard Framework

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Abstract: The luxury empire as the front-end grip of the global goods trade service industry drives the lifeblood of the global fashion trade industry forward, in suffering from the impact of the economic downturn and trade shock brought about by the new global Crown Epidemic of 2019, the business marketing index of the luxury headline company LVMH has also been greatly impacted, the good thing is that with the recovery of the economy in recent years and the warming up of the international economic situation, the luxury goods industry has also started to improve The good thing is that with the economic recovery and international economic situation in recent years, the luxury industry has started to improve. Observing and analyzing the market performance and future direction of representative companies in the luxury industry in recent years helps to grasp the overall market trend and tendency of the luxury industry. In order to better formulate LVMH Group's business development strategy, analyze and assess the company's financial risk, this paper utilizes the Harvard framework's financial analysis model to analyze in detail LVMH Group's performance in the international market in recent years, and puts forward feasible solutions and financial planning for the future sustained profitability and sales expansion.

Keywords: Luxury brand, Business Case Analysis, Financial Analysis

1. Introduction

As the twenty-first century unfolds, two global trends about how consumption practices and consumer cultures have evolved. First, despite its critics, globalization has led to unseen growth in wealth and life quality, which has dramatically shaped consumption practices around the globe. An industry that has particularly benefitted from this global exponential growth is the luxury industry. For instance, in the past decade, personal luxury consumption (e.g., drinks, fashion, jewelry) has almost doubled in value from €147 billion in 2010 to €283 billion in 2021 globally. Today more than ever, consumers have the desire and the financial ability to indulge in luxury consumption [1]. Moreover, the knock-on effects of the strengthening of the US dollar from the Federal Reserve's new round of interest rate hikes from 2022 onwards have been particularly wide-ranging, encompassing the global commodities trade. Performance suffered from a confluence of adverse social, environmental and economic factors, including widespread inflationary pressures, an end to COVID-19 relief benefits, and geopolitical instabilities [2].

Therefore, it is important for luxury goods companies to find strategies to sustain continuous expansion of their sales and profitability. In order to help LVMH better formulate its business

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strategies, this paper utilizes the Harvard framework to conduct a comprehensive analysis of LVMH's financial performance in recent years. And constantly optimizing their structure based on their financial situation can help luxury goods companies continuously success in a volatile international economic situation an unpredictable international market.

2. Situation in firm

2.1. Industry overview

The origins of the luxury goods industry as a global trade in high-end goods and services can be traced back to 17th century France. An institution run by the ruling royal family brought the best designers and craftsmen together to create luxury clothing and products for the upper class. It wasn't until the mid-19th century that the British designer Charles Frederick Worth pioneered the concept of branding and led the salon show, the prototype of the fashion show, as a major innovation in the history of luxury.

Nowadays, the development of luxury industry has become more and more prosperous, with the birth of LVMH, Kering in France and Richemont in Switzerland, which are the fashion pioneers and trend-setting luxury groups with huge assets.

Luxury fashion purchases have been connected to aesthetic preferences, symbolism and enjoyment, as well as an increase in self-worth and better self-presentation. Fashion apparel serves as a vehicle for self-expression and identity formation and typically involves a high emotional consumer experienc [3].

2.2. Corporate profile

LVMH (Louis Vuitton Moët Hennessy) is a famous luxury goods group in France, which was formed by Bernard Arnault's merger of Louis Vuitton and Moët Hennessy in 1987. Its main business includes wine and spirits, fashion and leather products, perfume and cosmetics, watches and jewelry, boutique retail and other fields. It now owns 75 luxury brands such as Louis Vuitton, Dior, Givenchy, Fendi, Bvlgari and Hennessy. As a leading company in the luxury industry, LVMH's sales performance in recent years and the study of corporate development are still very exploratory. The LVMH products not only cover different fields but also seize a variety of consumer groups and then construct a multi-dimensional brand space. In the product category, there are long-established brands that attract core high-end customers, while many young people prefer fast-selling beauty retailers, such as Sephora and DFS duty-free stores [4].

LVMH's slow and calculated approach to long-term profitability has begun to pay off in recent years with strong performance and growth across the brand portfolio. LVMH has also seen growth despite challenging economic climates, a testament to the strength of its brands [5].

3. Case analysis

3.1. The harvard analytic framework

Professors Krishna G. Palepu, Paul M. Healy, and Victor L Bernard of Harvard University have collaborated to publish a book on financial reporting analysis, the Harvard Analytic Framework, which includes four key steps: industry analysis, accounting analysis, financial analysis, and outlook analysis. The idea is that in the financial reporting analysis, you need to consider the development environment of the industry where the enterprise is located, the accounting policy environment, financial analysis tools and industry prospects, and combined with the enterprise's own strategic management and business operations, etc., from an all-round perspective to establish a scientific

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analysis of the financial report should be followed by the basic logic of the idea and the importance of the concept of financial analysis [6]. Harvard analysis framework not only focuses on the enterprise's historical financial data, but also emphasizes the analysis of the enterprise's internal and external environment, competitive advantages and future development potential from a strategic perspective, so as to provide a more comprehensive, in-depth and scientific financial analysis results [7].

3.1.1. Financial analysis of LVMH based on the harvard framework

During the process of growth, the company will continue to realize added value and enhance its capabilities, which include profitability, operational capability, development capability and solvency [8], as can be seen in table 1, table2 and table 3.

Table 1: LVMH profit summary statement

year Item	2024	2023	2022	2021	2020	2019
Revenue (EUR millions)	84683	86153	79184	64215	44651	53670
Accounts Receivable (EUR millions)	4730	4728	4258	3787	2756	3450
Free Cash Flow (EUR millions)	10478	8104	10113	13531	6117	6167
Cost of sales (EUR millions)	27918	26876	24988	20355	15871	18123
Gross profit (EUR millions)	56765	59277	54196	43860	28780	35547
Selling expenses (EUR millions)	31002	30768	28151	22308	16792	20207
Finance expenses (EUR millions)	792	935	888	53	608	559
Administrative expenses (EUR millions)	6220	5714	5027	4414	3641	3864
Profit before tax (EUR millions)	18115	21625	20113	17155	7972	11273
Profit after tax (EUR millions)	13675	14940	14075	12036	4702	7171

Table 2: LVMH revenue breakdown

Year Item	2024	2023	2022	2021	2020	2019
Revenue of Wines and Spirits (EUR millions)	5862	6602	7099	5974	4755	5576
Revenue of Fashion and Leather Goods (EUR millions)	41060	42169	38648	30896	21207	22237

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Table 2: (continued)

Revenue of Perfumes and Cosmetics (EUR millions)	8418	8217	7722	6608	5248	6835
Revenue of Watches and Jewelry (EUR millions)	10577	10902	10581	8964	3356	4405
Revenue of Selective Retailing (EUR millions)	18262	17885	14852	11754	10155	14791

Table 3: LVMH cash flow summary statement

Year Item	2024	2023	2022	2021	2020	2019
Cash flows from operating activities (EUR millions)	18924	18400	17833	18648	10897	11648
Net profit (EUR millions)	12550	15174	14084	12036	4702	7171
Cash flows from investing activities (EUR millions)	-6539	-8310	-5920	-15979	-2939	-5869
Cash flows from financing activities (EUR millions)	-10716	-9397	-12685	-15156	7403	-4734
Profit realization ratio (%)	1.51	1.21	1.27	1.55	2.32	1.62

3.1.2. Operational capacity

Table 4: LVMH asset turnover

year Item	2024	2023	2022	2021	2020	2019
Total Asset Turnover Ratio (times)	0.57	0.60	0.59	0.51	0.41	0.56
Inventory turnover (times)	3.58	3.75	3.90	3.88	3.43	3.91
Accounts receivable turnover ratio (times)	17.9	18.2	18.6	16.9	16.2	15.6

(1) Total asset turnover ratio

Slightly declined in 2020 due to the impact of the epidemic, but then steadily improved year by year. An increase in total asset turnover implies an increase in product strength. Although the asset

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turnover ratio declined back in 2024, it still increased slightly compared with 2019, which further confirms LVMH's sustainable competitiveness in the luxury market, as detailed in table 4.

(2) Inventory turnover

From 2019 to 2024, the inventory turnover ratio shows a light fluctuation and does not fluctuate more than 0.5 (times). This shows that LVMH's product competitiveness and sales efficiency have been relatively stable, but declined in 2024, as outlined in table 4. It is possible that the sales growth rate shows a downward tendency due to the inventory backlog. Therefore, quarterly new product development innovation, refined operation and peripheral brand image expansion to increase sales efficiency and speed is particularly important.

(3) Accounts receivable turnover

It will peak in 2022 and then decline in 2024, but the accounts receivable turnover ratio will increase compared to 2019, as outlined in table 4. This is because the growth rate of LVMH's overall operating income outpaces the accounts receivable over the 2019-2024 period, causing the company's accounts receivable turnover to generally trend upward over the period, which suggests that LVMH has stronger remittance and cash flow management capabilities in 2024, as detailed in table 1.

3.1.3. Profitability

Table 5: LVMH profitability indicators

year Item	2024	2023	2022	2021	2020	2019
Gross profit margin(%)	67.0	68.8	68.4	68.3	64.5	66.2
net profit margin (%)	16.2	17.3	17.8	18.8	10.5	13.4
ROE (%)	20.3	24.5	25.5	24.6	12.1	18.7
ROA (%)	9.2	10.4	10.5	9.6	4.3	7.4
FCF/Total Revenue (%)	12.4	9.4	12.8	21.1	13.7	11.5

(1) Gross profit margin (GPM)

After a slight decline in 2020, it continues to grow steadily and peaks in 2023, and then fluctuates and falls in 2024, but LVMH's gross profit margin is generally on an upward trend, which is outlined in table 5.This implies that brand premiumization is strengthening, which is related to the fact that its high-end brands have adopted a strategy of raising prices without affecting the demand for goods to attract consumption. Higher sales of high-margin high-end jewelry and watches were also a key driver of the group's gross margins. Generally speaking, for the luxury goods category, which has a low price elasticity of demand, the corresponding price increase can ensure the increase of sales and revenue while maintaining the stability of the customer base.

(2) Net profit margin

The net profit margin shows an upward trend with some fluctuation, and compared with 2019, the net profit margin of sales rises by 2.8% in 2024, as detailed in table 5. This is related to LVMH's reduction of operations and expansion of low-margin business segments, such as the termination of DFS Duty Free in the boutique retail segment, from optimizing the overall margin structure. In addition, LVMH's acquisition of Tiffany & Co. in 2021 allowed LVMH to increase profits in the watch and jewelry segment, as indicated in table 2. Further optimizing the control of logistics and

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raw material costs in the production supply chain, which reduced the company's unnecessary use of capital and led to an increase in net profit margin.

(3) Return on Equity (ROE)

As shown in table 5, in 2020, due to the impact of the global new crown epidemic, global enterprises suffered a huge impact on the net return on assets declined, but in the following years, the return on assets in 2024, although declined, but compared with 2019 rose by 1.6%. the enhancement of LVMH's profitability to promote the improvement of the return on assets, and the growth rate of net profit exceeded the growth rate of shareholders' equity, which also led to an increase in the company's return on net assets. The company's return on net assets has also risen as net profit has outpaced growth in shareholders' equity. Meanwhile, LVMH's rational use of debt investment is also one of the important reasons for the increase in ROA.

(4) Return on Assets (ROA)

It fell sharply during the epidemic and began to recover in 2021, with return on assets peaking in 2022 and declining slightly in 2024. As the company's ROA and ROE are on a rising trend at the same time, it can be seen that the company has optimized its asset allocation management model while maintaining sustainable growth in profitability, and enhanced the return on investment and financing through rational operation of capital, as illustrated in table 5.

(5) Free Cash Flow/Total Revenue (FCF/Total Revenue)

Reaching its highest value in 2021 but falling to 12.8% in 2022, the ratio of free cash flow/operating income stays at around 12% in 2024, a slight increase compared to 2019, as shown in table 1,3 and 5. This has a lot to do with the synchronized growth of the company's operating income and free cash flow, LVMH's improvement in operational management efficiency has led to an increase in cash inflows, making the overall operation of the group's future expansion and development of a favorable situation.

3.1.4. Solvency

Table 6: LVMH short-term and long-term solvency

year Item	2024	2023	2022	2021	2020	2019
Current Assets (EUR millions)	47471	43710	39740	34301	39973	26510
Current Liabilities (EUR millions)	33696	33145	31543	27989	25318	22623
Inventory (EUR millions)	23669	22952	20319	16549	13016	13717
Current ratio (%)	1.41	1.32	1.26	1.23	1.58	1.17
Quick ratio (%)	0.71	0.63	0.62	0.63	1.07	0.57
Total Assets (EUR millions)	149190	143694	134646	125311	108671	96507
Total Liabilities (EUR millions)	79903	81193	78042	76402	69842	58142
Gearing ratio (%)	53.6	56.5	58.0	61.0	64.3	60.3
Interest coverage multiples	19.9	29.7	77.5	54.3	24.5	28.4

(1) Current ratio

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LVMH's current and quick ratios have fluctuated similarly in recent years, with a slight increase in both current and quick ratios in 2024 compared to 2023, as outlined in table 6. reflecting LVMH's increased short-term solvency and stronger cash flow.

(2) Quick ratio

Alongside the increase in the current ratio, LVMH's quick ratio has also been trending upwards since 2019, thanks to a significant near-doubling of current assets. It is worth noting about table 6 that the increase in current assets is accompanied by a rise in current liabilities and inventories, which will somewhat increase the latent credit risk of a slowdown in paybacks due to excessive inventory backlogs.

(3) Gearing ratio

The overall downward trend reflects LVMH's good financial soundness. The decline in debt ratio is reflected in the continuous rise in LVMH's net profit from 2021 to 2023, which has boosted the company's accumulated surplus and further increased shareholders' equity.It is not difficult to observe from the table 6 that LVMH's debt ratio since 2020 during the epidemic reached a peak of 64.3% in 2021, the company began to proactively reduce leverage in order to improve the efficiency of capital use. And the rising cash flow from operating activities and falling cash flow from financing activities since 2022 also reflect a greater reliance on the company's own business for financial expansion rather than relying on external financing.

(4) Interest coverage multiples

With interest coverage multiples well above 1 in all years, this high coverage ratio reflects the fact that LVMH remains extremely solvent over the long term. In 2022, which is outlined in table 6, the very low cost of net financial debt results in an exceptionally low interest expense in a year when the interest coverage multiple rises exponentially. However, the subsequent rise in the cost of net financial debt in 2023 also brings the interest cover multiple back into the normal range.

3.1.5. Development ability

Table 7: LVMH development capacity

year Item	2023-2024	2022-2023	2021-2022	2020-2021	2019-2020
Operating profit year-on-year growth rate (%)	-16.2	7.4	-10.0	115.2	-29.3
Year-on-year growth rate of operating income (%)	-1.7	8.8	-8.1	43.8	-16.8
Assets Growth Rate (%)	3.8	6.7	6.7	15.3	12.6
Fixed Assets Growth Rate (%)	9.3	18.5	18.5	12.8	-1.7
Liabilities growth rate (%)	-3.5	-3.3	-0.7	4.3	25.5
Growth in shareholders' equity (%)	10.6	10.7	17.8	25.9	1.2

(1) Operating profit growth rate

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In table 7, the operating profit in 2020-2021 increased significantly to 115.2% compared to the previous year, which was mainly due to the global epidemic in 2020 which hampered the free flow of capital, but as the market recovered and heated up, the profit rebounded sharply in the period of 2020-2021.In the following years, LVMH's corporate operating profit growth has been fluctuating up and down, which is related to the fluctuation of international exchange rates and the weak demand of the luxury market in recent years.

(2) Operating income growth rate

As shown in table 7, Operating income in 2019-2020 was affected by the epidemic so that the luxury consumption was significantly reduced, the second year of rapid rebound followed by a stagnant state in 2021-2022, 2022-2023 there is a rebound performance, but in 2023-2024 is still a downward trend. The volatility and uncertainty of the global economy and the exhaustion effect of consumers suggest that headline companies should adjust their market strategies in a timely manner in order to maintain sustained revenue growth.

(3) Asset growth rate

Due to the volatility of the epidemic, LVMH's asset growth rate increases in 2020-2021 and shows a flat rate in 2021-2022 and 2022-2023, before slipping to 3.8% in 2023-2023,as detailed in table 7.One of the main factors that allowed LVMH to grow its assets in 2019-2021 was due to the company's expansionary M&A-based strategy, followed by a slowdown in 2021-2024 due to a gradual transition from expansionary M&A to in-house asset management.

(4) Fixed assets growth rate

The fixed assets growth rate shows a significant upward trend, with the company increasing its investments in the period 2021-2022, such as new shop operations and infrastructure optimization. Fixed asset ratio declined slightly in 2023-2024, but compared to 2019-2020, fixed assets rose by 11% during 2023-2024,as outlined in table 7.

(5) Liability growth rate

Initially, the acquisition of Tiffany & Co. project is embarked upon during 2019-2020 and hence the corporate debt ratio grows to 25.5 percent. This was followed by a steep downward trend in 2020-2021 and continued to decline in the latter years until 2023-2024, when LVMH's debt growth rate was negative at -3.5 per cent, as shown in table 7.This is because the company started to gradually reduce leverage and improve the financial health of the business after the completion of the Tiffany & Co. merger in 2021.

(6) Text and citations shareholders' equity growth

Due to the impact of the global epidemic, the growth rate of shareholders' equity climbed considerably to 25.9% in 2020-2021, and then declined slightly, as outlined in table 7,with the growth rate fluctuating around 10% and up and down, with an overall significant upward trend, indicating that LVMH is in a state of sustained profitability and uses most of its profits for internal recycling of the company, which, combined with the declining growth rate of indebtedness, implies that an increase in the rate of growth of shareholders' equity means that LVMH is reducing financial risk while increasing shareholder returns.

3.2. Evaluation of LVMH financial analysis and recommendations for optimization

3.2.1. Financial forecasts

As a leading luxury goods company, LVMH's exponential increase in total assets, accounts receivable and operating income, as well as the continuous rise in net profit and free cash flow in recent years indicate that the company will have a good operating capacity and profitability in the coming years, and the overall operating income and net profit will also increase year by year accordingly. At the same time, the increase in current assets and the decrease in gearing ratio indicate that the company has a good long-term solvency and is able to cope with the unfavorable business environment brought about by the fluctuation of the international situation in the future. Data related to indicators of the company's ability to grow, such as the shareholders' equity ratio and the growth rate of fixed assets, reveal that LVMH has good potential for future growth and is expected to lead the luxury goods market to become further developed in the global commodity trade.

3.2.2. Emerging market growth potential

While LVMH has strengthened its presence in the mature markets of North America (U.S. and Canada), Europe (France, U.K., Germany, Italy and Spain) and Asia (Japan), it has continued to promote its brands in emerging markets such as China, Brazil, Thailand, Turkey, and Mexico, which will help the company's profitability to a greater extent. Utilizing Sephora, its strong beauty and personal care brand, as an edge to enter and expand LVMH's sales share in emerging markets, such as Sephora's globally promoted “Clean at Sephora” and “Planet Aware at Sephora” programs in several of these markets. For example, Sephora’s globally promoted “Clean at Sephora” and “Planet Aware at Sephora” programs have achieved good results in Brazil, Thailand, Turkey and Mexico, and sales have been boosted; the popularity of Dior Sauvage and Guerlain's Aqua Allegoria line of perfumery products, as well as the popularity of Bvlgari's Serpenti line of watches and jewelry in Asia have all provided a good opportunity for LVMH to expand its sales share in emerging markets in the future. The popularity of Bvlgari's Serpenti line of watches and jewelry in Asia is a solid sales foundation for LVMH's future growth in the emerging Asian markets.

3.2.3. Digital marketing

Digital channels are important for global brand strategy and can influence consumers' brand image. For luxury brands in particular, digital channel management is critical in global identity management. Moreover, digital channels present a less expensive opportunity to expand international, gather intelligence, sell and distribute products efficiently in new markets and evaluate market potential [9]. While operating offline brand stores, the Company has chosen to expand its online streaming digital marketing business to enhance consumer stickiness as well as automate the expansion of brand value by means of online social media celebrity advertising campaigns and marketing, which can further enhance the brand's profitability efficiency per unit of time. Moreover, Luxury brands can reduce the difference between a customer buying online, using VR experiences and buying directly in stores. Perceived Enjoyment and new virtual experiences can create a good market potential for e commerce. The study underscores the potential of VR and gamification technologies in creating rich, immersive shopping experiences that appeal to contemporary consumers, especially Millennials and Generation Z. By leveraging these technologies, luxury brands can offer personalized and enjoyable interactions, thereby building stronger emotional connections with customers. This strategy not only increases customer satisfaction and loyalty but also positions luxury brands to better compete in the digital marketplace by meeting the evolving preferences of modern consumers [10].

4. Conclusion

Utilizing the Harvard framework to analysis the financial circumstances of LVMH can comprehensively and objectively show the results of LVMH's superior market performance in the past few years, and make relevant structural optimization recommendations based on the future development of the business to help the company continue to grow in the global market. In a globalized economy with increasingly close economic ties, LVMH needs to establish long-term and mutually beneficial relationships with consumers, shareholders, supply chain and other stakeholders in order to further maintain the brand's sustainability and develop its viability for sustained profitability, while at the same time creating profitability by expanding the brand's culture in the world's emerging markets. LVMH can leverage its expertise in experiential marketing aimed at creating an unparalleled service experience for consumers to further increase its brand benefits, and further solidify its position and capabilities as a leading company in the luxury industry.

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