UNIVERSITA' DEGLI STUDI DI PADOVA

DIPARTIMENTO DI SCIENZE ECONOMICHE ED AZIENDALI "M. FANNO"

CORSO DI LAUREA MAGISTRALE IN ECONOMICS AND FINANCE: BANKING AND FINANCE

TESI DI LAUREA

"GROWTH THROUGH MERGERS AND ACQUISITIONS IN THE LUXURY INDUSTRY: THE LVMH CASE"

RELATORE:

CH.MO/A PROF. FABIO BUTTIGNON

LAUREANDO: RICCARDO ZORZI

MATRICOLA N. 2023144

ANNO ACCADEMICO 2022 - 2023

Dichiaro di aver preso visione del "Regolamento antiplagio" approvo dal Consiglio del Dipartimento di Scienze Economiche e Aziendali e, consapevole delle conseguenze derivanti da dichiarazioni mendaci, dichiaro che il presente lavoro non è già stato sottoposto, in tutto o in parte, per il conseguimento di un titolo accademico in altre Università italiane o straniere. Dichiaro inoltre che tutte le fonti utilizzate per la realizzazione del presente lavoro, inclusi i materiali digitali, sono state correttamente citate nel corpo del testo e nella sezione 'Riferimenti bibliografici'.

I hereby declare that I have read and understood the "Anti-plagiarism rules and regulations" approved by the Council of the Department of Economics and Management and I am aware of the consequences of making false statements. I declare that this piece of work has not been previously submitted – either fully or partially – for fulfilling the requirements of an academic degree, whether in Italy or abroad. Furthermore, I declare that the references used for this work – including the digital materials – have been appropriately cited and acknowledged in the text and in the section 'References'.

Firma (signature)

Abstract

Mergers and acquisitions have proven to be one of the most commonly employed methods by businesses to achieve their development and growth aspirations, particularly in recent years. Despite this encouraging tendency, several studies and research on the issue have failed to reach a consensus on whether or not value is created as a result of these activities. To contribute to the literature on the issue, it was decided to investigate a specific industry, that of luxury, by delving into its most prominent exponent, the LVMH Group. With the present work we want to identify the tactics behind the key purchases in the last ten years, as well as the impact they have had. Furthermore, it intends to assess if the French group's current and consistent purchases have produced value, as well as to examine its economic and financial situation. The results suggest that long-term value was produced for shareholders, but this cannot be extended to the short term due to the contradicting outcomes. When compared to the competitor Kering, the LVMH's financial condition likewise proven steady.

To all the people who have supported me in this journey.

Contents

Introduction

Growth and value creation are the primary goals of every business, and they are also the crucial aspects that define its success or failure. Furthermore, given the issues that companies experience on a daily basis in global markets, such as dynamism, globalization, competitiveness, sustainable finance, and the entrance of new technologies and AI, growth and value creation are factors that must be pursued for the company's basic survival.

Organic and inorganic business growth are both possible. Organic growth is defined as growth within the firm, and represents the use of own resources to extend the firm; it is a strategic business approach that tries to drive profitability and raise sales and revenues of the current business without the need of acquisitions. The latter, on the other hand, constitute the foundation of inorganic growth, which is based on external support and therefore through mergers and acquisitions. Acquisitions allow a corporation to skip the growth phase entirely by purchasing current sales and earnings. Inorganic growth has the benefit of increasing sales and earnings more quickly than organic growth.

Despite this, even the most rapid growth is not necessarily and immediately tied to value generation. The term "creation of value" refers to a growth in the share price and hence a potential gain for shareholders. The research on the issue is substantial, but the conclusions are mostly contradictory, making it difficult to reach a judgment regarding whether or not value is created as a result of M&A transactions. In fact, only roughly half of all deals produce value, value generated especially for the shareholders of the acquired company. In contrast, purchasing business shareholders are accustomed to losses or underperformance in the months after the purchase (Cartwright and Schoenberg, 2006, Martynova and Renneboog, 2007, Das and Kapil, 2012). Contrary to what it may now seem, the M&A industry has been flourishing in recent years, with total M&A deal value reaching all-time highs of $5.9 trillion in 2021 (Bain and Company, 2022).

The current study seeks to delve further into one of the industries most influenced by mergers and acquisitions: luxury. To do this, the largest player in the sector, the French Group LVMH, will be researched with the goal of determining if and how the established strategy of ongoing and numerous acquisitions has ensured expansion and value creation in recent years. The work is structured into four sections: the first will present the M&A and luxury markets, with an emphasis on recent years. The section will be concluded by a review of the literature. Part two will introduce the LVMH Group, describing its history, beliefs, and evolution. Part 3 will cover the major purchases during the previous decade, including Bulgari, Loro Piana, Belmond and Tiffany. The reasons behind each, the short-term value generation, and the financial economic impact will be examined. Finally, the final section will evaluate the company's long-term value generation via the Total Shareholder Return and its financial soundness using the key balance sheet indexes.

PART 1

1.1 Introduction

During the last 30 years, a wide range of management disciplines have exhibited a significant interest in the complex phenomenon that mergers and acquisitions (M&As) represent. Despite these breakthroughs in research, M&As failure rates have remained consistently high. Data reveal that less than half of all M&As are profitable (Brock et al., 2010). Even yet, M&As are increasing in the United States, Europe, and other parts of the world, and they are already a commonplace. These two factors are diametrically opposed, because a high failure rate should suggest a reduction in the number of operations. However, the importance and number of M&As have grown over time, indicating that corporations see an advantage from executing M&As. We can observe the progression of the number of M&A transactions in the United States over the previous century.

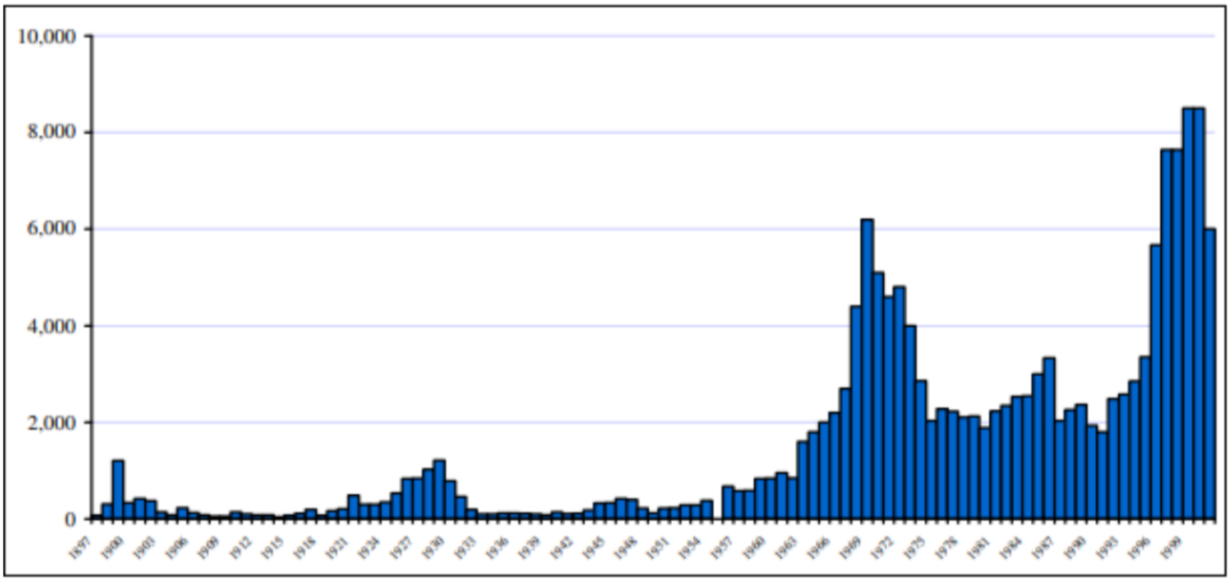


Figure 1 M&A activity in US over time [Source: Martynova & Renneboog (2008)]

We can see that there are a few recurrent patterns, which are known as waves. A wave often begins when the activity resumes after a period of calm and ends when the volume or deal count is dramatically decreased. Since 1985, there have been six waves. Numerous research on the issue have been undertaken, but the study's main result is that M&A activity is cyclical in nature

(Cretin et al., 2105). The main forces behind M&A waves have always been economic expansion, governmental reforms, and the introduction of new technology.

In the next paragraphs we will have a look more detailed to the M&A market behavior in more recent times, to the luxury market and the M&A activity in the specific luxury industry. Finally, we will analyze some previous results briefly going through the literature in order to understand if there is really value creation.

1.2 M&A Activity

The Covid-19 epidemic, which affected our everyday lives, routines, and way of life, was a recent occurrence. Beyond that, it goes without saying that COVID-19 had an impact on the economy as a whole, including M&A activity. During the years before the Pandemic, the trend evolution was highly positive and stable, with both volume and number of transactions increasing over time. However, in 2019, the number of M&A deals globally was already on a slight downward pattern (Kengelbach et al., 2020) with 36.834 transactions (+1% compared to 2018) and a value of 3.112 billion (-12% compared to 2018) (KPMG, 2019). If we break down the trend by geographic region, we can see that M&A activity in Europe and Asia declined in the first half of the year before picking up in the second half; in contrast, the United States, which started the year strong, has progressively steadied (Milano Finanza, 2020). In general, Pre-Pandemic circumstances were good and stable, and they generally followed a long-term tendency of increasing M&A importance.

1.2.1 Impact of Covid-19

Covid-19 had a significant impact on deal activity, like every other facet of business. Curiously, the pandemic has been the primary driver of the M&A collapse in the spring as well as its market's resurgence in the autumn and early 2021. Despite having expressed reservations about several previously agreed transactions, whether in the latter stages of negotiations or in the midst of them, once the initial shock has gone off, a new ability to accomplish mergers and acquisitions arises. In fact, companies have exhibited tremendous resilience and the capacity to adjust and recover from challenging conditions in 2020, comparable to what was experienced in 2001 and 2008 (KPMG, 2020). The first and second semesters of 2020 were markedly different. The first six months, particularly the period from March to June, slowed and were heavily impacted by the Pandemic's consequences, such as lockdown and economic insecurity, and they underperformed the previous year's first six months. As a consequence of less limitations, the favorable economic environment with low inflation and interest rates, as well as support from governments and central banks, the second half of 2020 shown a major resurgence and was devoted to recovery. However, the rebound did not make up for the year's dismal first half in terms of total deal volume or value. The whole year 2020 showed notable declines in both value (down 15%) and volume (down 11%) as compared to the prior year. The Asia-Pacific area and Europe, the Middle East, and Africa concluded the year somewhat better, with respective transaction value decreased by 4% and 6%. The Americas had the worst geographic decline, with a 25% drop (Bain & Company, 2022). This poor performance was also caused by leaders of firms who would typically be strategic purchasers being forced to divert their teams' concentration and energy away from longer-term goals like pursuing expansion through acquisition techniques and into the immediate health of their own company. Similar to this, private equity sponsors have been prioritizing efforts to improve or save their present portfolio companies above fresh deal activity (Harroc, 2020). However, this condition was advantageous for opportunistic purchasers who were actively evaluating possibilities to buy low-valued stock or debt packages (McDermott and Sim, 2020). Given the state of the economy in general and the volatility of the capital markets, particularly in the first half of 2020, this outcome is not surprising. In fact, it has been discovered that M&A activity is closely related to how stock prices and risk, as judged by implied volatility, changes over time. The connection between the MSCI World index and M&A volume between 2000 and 2019 was above 80%, as demonstrated by the graph below (Kengelbach et al., 2020).

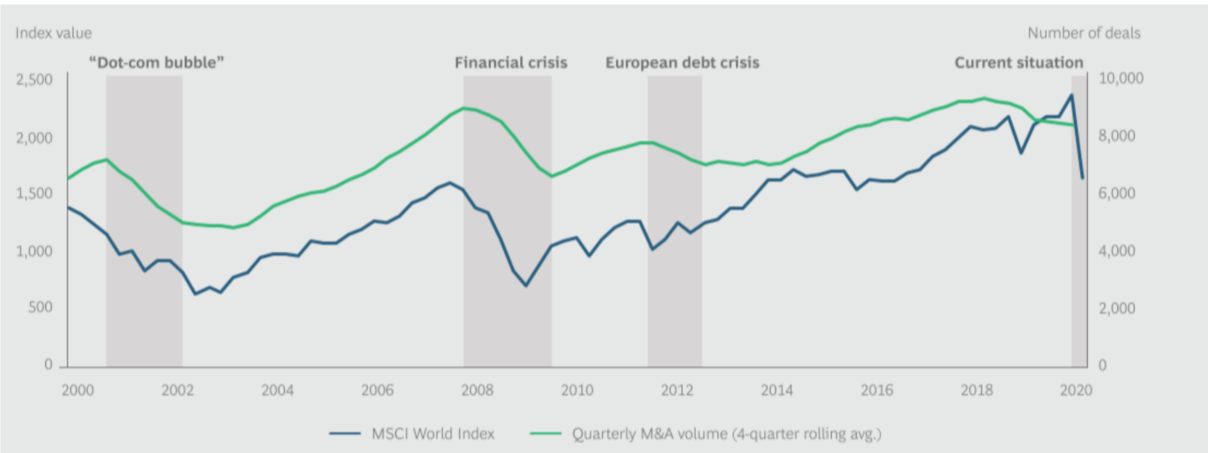


Figure 2 Market Volatility and M&A activity [Source: Kengelbach et al., (2020)]

1.2.2 M&As in last 2 years

The year 2021 saw an all-time high in M&A activity following the turbulent year before. Despite the lingering uncertainty over the pandemic's trajectory, there was a favorable environment for M&A activity because of economic growth, high levels of confidence, low inflation, low interest rates, high stock values, and a lot of liquidity. More specifically, with a market value of more than $5.9 trillion, 2021 was the best year ever (Bain and Company, 2022). The image below displays the M&A deal market value since the year 2000 (Baird et alt., 2022).

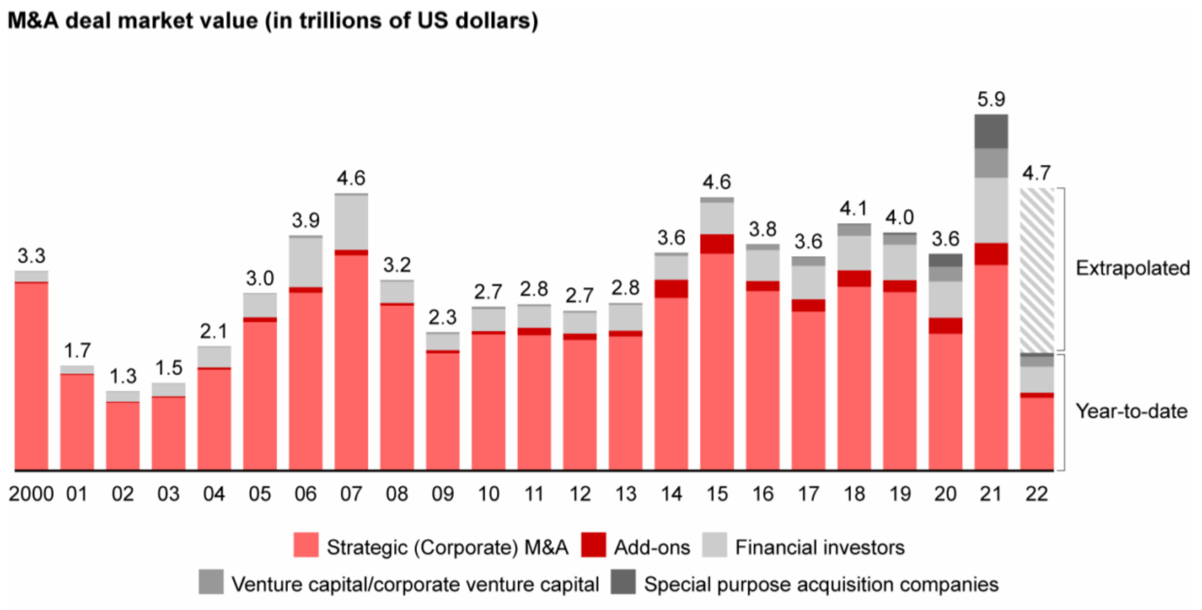


Figure 3 M&A activity starting from 2000 [Source: Baird er al., (2022)]

According to data from Bain & Company and KPMG, the total number of transactions was 48.948, a 31% increase over the previous record established in 2017. Domestic operations climbed in value and volume by 36% and 27%, respectively, over the previous year, while cross-border activity improved by 80% and 45%.

In a nutshell, 2021 was the strongest year in history for mergers and acquisitions, with new highs in both volume and number of deals being achieved by a variety of sectors and geographic areas. Investors, managers, and industry insiders were all certain that the approaching year would be another robust one for M&A growth: 89% of executives forecasted either a continuation of or an increase in their activities (Bain and Company, 2022). Unfortunately, during the past several months, every factor that led to astonishing results in 2021 has been slowly changing. Specifically, during the first half of 2022, we observed rising interest rates and inflation, declining stock values and an energy emergency made worse by the conflict between Russia and Ukraine (Lloyd et al., 2022). For the first time since 2018, the Fed raised interest rates by 0.25 bps, and it also announced further hikes. This was carried out because of inflation hitting an all-time high since 1981, amounting to 8,5% yearly. Inflation in Europe was forecasted to be 7.5% (PitchBook, 2022). All the above mentioned reflect the primary difficulties and barriers to M&A activity in the foreseeable future, and dealmakers will have to navigate one of the most unexpected and challenging environments in recent memory.

Deal values decreased by 20% in the first half of 2022, and additional declines are predicted when the economic harm is considered by international markets. Deal volumes have recovered back, reaching pre-pandemic levels, when M&A activity averaged 50,000 deals annually between 2017 and 2019. However, as CEOs became more cautious and regulatory scrutiny rose, the number of megadeals (deals worth more than $5 billion) decreased by nearly 40% between the second half of 2021 and the first half of 2022 (Lloyd et al., 2022). However, based on the performance of the first five months, 2022 may surpass $4.7 trillion in transaction value by the end of the year, making it the second-best year on record. As a result, there are still chances for M&A (Baird et alt., 2022).

1.3 Luxury industry

The issue of luxury will be covered in the next paragraphs. More specifically, we will attempt to identify and describe the essential aspects and characteristics of the luxury business, even though the concept of luxury is not well-defined and is always evolving. Then we will examine briefly the luxury market, concentrating on recent years and assessing the impact of Covid-19.

1.3.1 Definition and concept

Luxury is as old as human beings. Its history and the significance attached to the concept of luxury are fascinating and firmly ingrained in social culture. Since the luxury industry's market size has risen dramatically in recent years, and given that luxury is more accessible than in the past and so luxury products are more appealing to a more diversified consumers base, there is a problem in defining what luxury means and what luxury products are. In fact, the core of luxury shifts from year to year, making it impossible to establish a broad definition of a premium brand (Hudders et al., 2013). The term "luxury" is derived from the Latin word "luxus," and it refers to a lavish and opulent way of living. Therefore, in addition to being connected to prosperity, power, and pleasure, it had a negative connotation until the 14th century (Brun and Castelli, 2013). The foundation for today's global luxury firms was laid with the second industrial revolution in the second half of the nineteenth century, when the production of luxury goods transitioned from small artisan family-owned businesses to massive corporations in response to a growing demand (Brun and Castelli, 2013).

Initially, the products had a bigger role in developing a premium brand since quality, reliability, and design were prioritized more. Instead, the emotional component related to the shopping experience and social position become more significant with time. Seo and Buchanan-Oliver (2016) assert that three types of drivers have had the most impact on the purchase decisions of luxury goods:

- *Cultural trends:* As regional economies, societies, and cultures have grown more intertwined, there has been a developing global appreciation for luxury brands by countries in BRICS, CIVETS, and Asia. Globalization has had a tremendous impact on the luxury business. Even though economic, social, and cultural factors strongly impact attitudes and purchase patterns in different regions, customer preferences in certain brands are getting more comparable. Customers are looking for uniqueness, aesthetic value, and a link to fashion and lifestyle.
- *Social trends:* In the past, affluent people bought fancy things to show off their wealth and social position. As the consumer base expanded to include people from poorer socioeconomic backgrounds, the general scenario has changed. The phrase "democratization of luxury" is used to describe this. The new customer base purchases luxury goods for “a desire to emulate the lifestyle of the richest or the social class immediately above them, the superior quality of the products, or on more hedonic grounds on the basis of self-rewards” (Truong et al., 2009). As a result, individuals from various socioeconomic groups have varied perspectives on luxury brands, look at different features of high-end goods, and have distinct reasons for making purchases.
- *External trends:* The main external factors influencing the consumption of luxury goods are: rising internet use for online shopping, enhanced media coverage of high-end brands, and increasing overseas travel. All these features boost consumer

communication, luxury goods purchases and accessibility, making their perceptions more comparable.

Even tough these perceptions are growing increasingly similar over time, these patterns demonstrate that consumers still have a variety of thoughts about luxury goods and that these opinions have changed over time. Because there is no universally recognized definition of what constitutes a luxury brand, this inquiry led us to the conclusion that luxury is a relative concept (Ko, 2017).

Moreover, Hudders (2013) showed that the notion of luxury is arbitrary, suggesting that a product's perception changes across time and space and, most significantly, from person to person. As a result, goods and services are seen to be luxurious not only because of their qualities but also because of how an individual perceives them to be. However, Ko (2017) was able to pinpoint five basic components that a product must have in order to be considered as luxurious by a potential client:

1. Be high quality.
2. Offer authentic value via desired benefits, whether functional or emotional.
3. Have a prestigious image within the market built on qualities such as artisanship, craftsmanship, or service quality.
4. Be worthy of commanding a premium price.
5. Be capable of inspiring a deep connection, or resonance, with the consumer.

Even if luxury is a relative and subjective notion, consumers' opinions and attitudes are becoming increasingly similar and comparable as an outcome of cultural, social, and external trends. As a result, key features and attributes that a luxury brand should possess in order to be recognized as such have been discovered.

1.3.2 Luxury market

There are two key categories that we will use to describe the luxury and fashion market (L&F): 1) Personal luxury items, such as clothing and accessories, jewelry and watches, cosmetics and fragrances; and 2) Experiences or Other F&L Sectors, such as fine dining, fine art, and high-end furniture as well as luxury travel, hotels, private aircraft, and yachts. The market had been developing and rising steadily over the preceding 20 years, but the Covid Crisis derailed the usual course of growth, causing the first market decline in almost a decade. The impact was detrimental to the experiences sector as well as the entire luxury market. The size dropped by

20-22% from 2019 to 1 trillion in 2020, returning to 2015 levels (De Montgolfier, 2021). Personal luxury items fell by 21-25% compared to 2019, while the experiences industry was hit considerably worse due mainly to travel limits and restrictions, falling by -56%.

The pandemic revealed two key patterns and developments that might be vital for firms in the future to maintain their competitiveness: 1) a major shift in sales by geography; and 2) an expansion of the internet channel.

Firstly, Asia has eclipsed Europe and North America, which were the main areas in 2019. One particular location in mainland China was responsible for this startling rise. It was the only sector to show growth in 2020, growing by 45% to a total of $44 billion (D'Arpizio, 2020). This was made feasible in large part because local consumption increased across all demographics, price points, and generations. Chinese spending, however, decreased by 30–35% as a result of their inability to travel. With 150 million trips abroad in 2018, the Chinese population was actually acclimated to regular travel, and shopping experiences became an integral component of the journeys (Achille and Zipser, 2020). However, according to a Kearney analysis, Chinese consumers spent three times more than Americans and Germans, accounting for 64% of total survey expenditure.

Secondly, the distribution channels were also impacted by the Covid-19 Pandemic. Many businesses avoided selling their products online until this point, wanting to preserve the prestige of their premium brands through brick-and-mortar locations. However, the pandemic significantly altered the environment; lockdowns and travel restrictions forced businesses to rethink and make specific adjustments in order to reduce the losses and damages as much as possible. Most luxury companies strengthened their online presence at this time to make up for the closure of physical stores, and other brands allowed their retailers to distribute their items online for the first time (von Monteton, 2022). According to D'Arpizio (2020), the online channel saw the fastest growth overall, contributing 23% of all luxury sales globally in 2020 with sales of 49 billion as opposed to 33 billion in 2019. However, with the retail channel holding a 46% share, wholesale remained the most significant channel for distribution (De Montgolfier, 2021).

After a poor 2020, the L&F sector displayed some resiliency and started to recover in 2021. According to Bain, the luxury market increased by 13 to 15% from 2020 and reach $1.14 trillion, despite volume being 9 to 11% lower than in 2019. This rebound has been primarily driven by consumer goods and experience-based products as consumers' spending preferences shifted from immaterial experiences to material items. Because of this, the demand for luxury experiences has continued to be much below pre-pandemic levels. Luxury experiences will be the last industry to reach 2019 levels, most likely around 2024, depending on travel regulations and legal requirements. Instead, luxury goods and commodities focused on experience have already nearly reached 2019 levels (D'Arpizio and Levato, 2021). This is seen in the graph below.

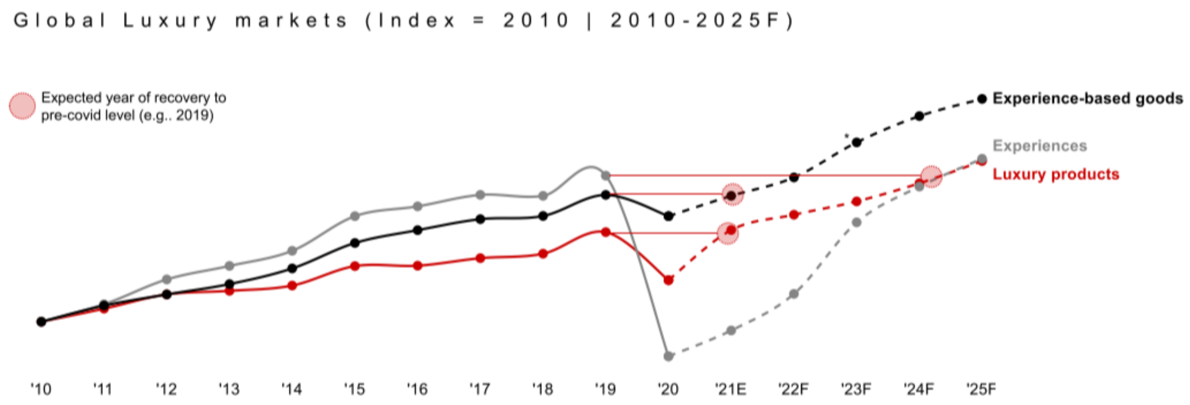


Figure 4 F&L sectors and their recovery [Source: D'arpizio and Levato (2021)]

Concerning the different sectors, all performed better than 2020 (expect for luxury cruises), but the most important ones are personal luxury goods, luxury cars and luxury hospitality, which together account for the 80% of the total luxury market.

There has been a significant change in the previous two years regarding the sort of customers. Tourists had a sizable portion of the luxury market before to the epidemic, but it is obvious that the present circumstance has significantly altered the position. Fortunately, local purchasing has grown, offsetting the declining performance of the tourism sector. China once again took the lead in the recovery in this instance, but Europe again put up a strong performance, particularly in Russia and Middle East Europe with Dubai and Saudi Arabia. The following image shows how the percentage of local consumers has grown in recent years.

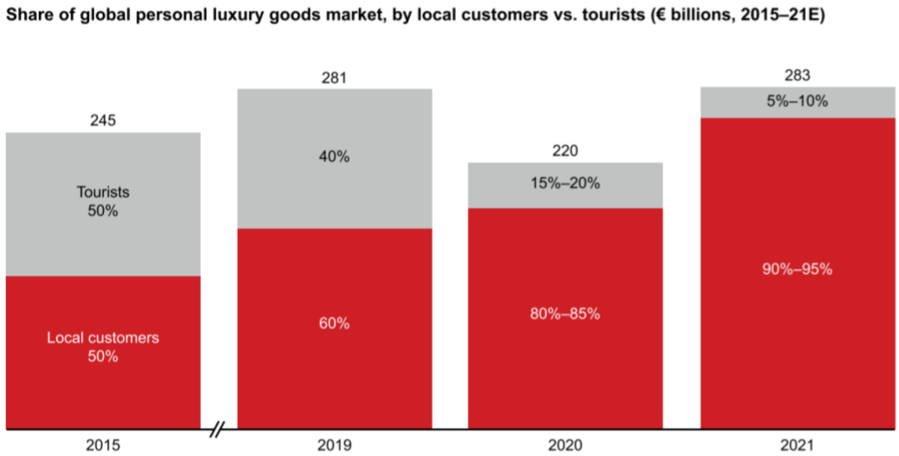


Figure 5 Evolution of local consumer percentage over time [Source: D'Arpizio and Levato (2021)]

In conclusion, 2021 was a good year for recovery, but as of the first quarter of 2022, progress is still being made. In truth, the market for luxury products for individuals grew even more, reaching 288 billion euros, up 17–19% over the same period in 2021. The United States and Europe were the regions that had the most growth in this industry. Claudia D'Arpizio said in the Luxury 2022 Spring Update - "Rerouting the Future" that "despite substantial macroeconomic obstacles, including hyperinflation, slowing GDP growth, and the Russia-Ukraine crisis, the personal luxury goods industry proved robust once again".

1.4 M&A in luxury industry

Historically, the luxury market comprised several small to medium-sized family-owned enterprises, mainly in Europe. The emergence of the so-called conglomerates and luxury multibrand groups was the outcome of several corporations in this sector consistently investing in merger and acquisition operations starting from 1980, mostly through horizontal purchases.

1.4.1 Specific reasons

Over the years, the luxury goods industry has seen a variety of trends and M&A participants: from 1999 to 2001, luxury groups dominated the market; from 2005 to 2008, developed market investors controlled the market; following the financial crisis in 2009, there was a period of calm; however, in 2010, emerging market investors began to gain importance (Ortelli, 2014). Instead, vertical mergers began to disrupt the game after 2012, as luxury companies attempted to maintain tight control over the supply chain.

M&As in the specialized luxury industry have been relatively consistent over time, with a peak at the end of the 1990s and the beginning of the new century, driven by factors of expansion and the development of synergies, in contrast to general M&A waves, which are marked by periods of decline and recovery. Indeed, there are three main motivations for M&A in the luxury industry, according to Ortelli (2014):

1. Brand portfolio extension of luxury groups: in the past, it has been the main variable in determining deal prices and volume. The main benefits of these kinds of deals are scale economies, revenue synergies, and cost reductions.
2. Vertical integration both upward and downward: organizations try to protect their suppliers of raw materials and exercise more control over their retailers. For protecting important resources like exotic skins and watch parts, upward integration is very well-liked. For instance, LVMH bought Heng Long, a company that specializes in crocodile skin, and Les Tanneries Roux, a manufacturer of quality leather goods, in a move that underlined the group's intentions to consolidate control of key supply chains in raw materials for luxury goods (Socha, 2012).
3. Financial investments: in the luxury sector, financial investments have historically been a big M&A driver, accounting for around one-fourth of all acquisitions overall, both in terms of volume and value. Up until 2009, developed market investors dominated the industry, and emerging market investors were late entrants.

The picture below illustrates deeply what we have just seen between 1999 and 2012.

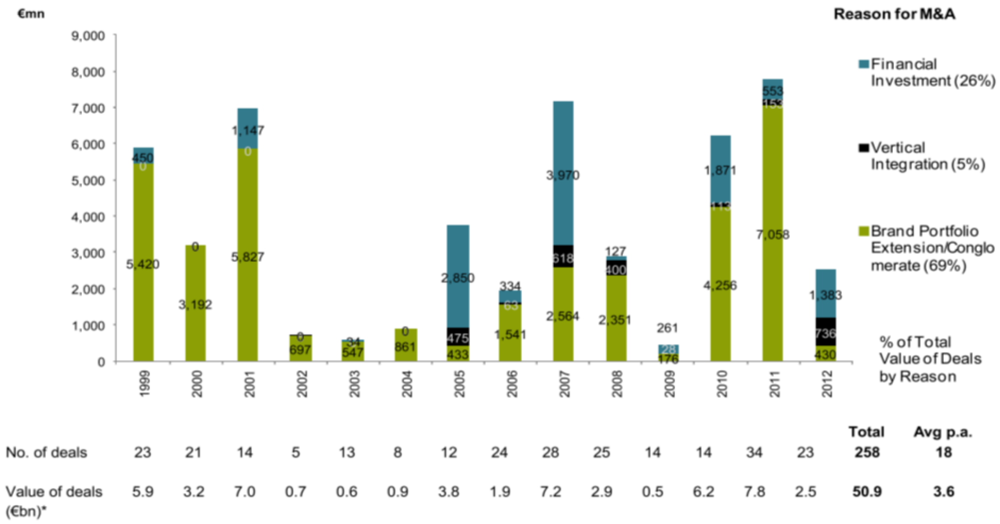


Figure 6 M&A reasons in luxury sector between 1999 and 2012 [Source: Ortelli (2014)]

1.4.2 The market today

The activity has intensified in recent years, but is now being fueled by new reasons such as the pandemic's long-lasting consequences, fierce competition for market supremacy, the digitalization of products, and the emergence of the metaverse (Martin, 2022).

Market disruptions and opportunities are most likely to blame for this rising M&A activity. Businesses are working to increase the number of their customers, the size of their digital and e-commerce platforms, and react to shifting consumer demands. Prior to the pandemic, the L&F sector in 2019 had 271 deals compared to 265 in 2018, making it one of the most desirable for M&As (Deloitte, 20020). Luxury remains a cash-rich sector with high profitability and margins, and there will be opportunities for better-capitalized groups after the crisis. However, after Covid-19, investment in the luxury sector is no longer perceived as a safe bet because markets increasingly recognize its dependence on the economic cycle (Guilbault, 2020). In actuality, quite apart from Covid, the luxury sector's M&A activity in 2020 was vigorous and healthy (Carrera, 2021). According to Ortelli (2021), more luxury players can be predicted to investigate fresh opportunities to diversify their portfolios or take actions that they may not have previously considered, particularly considering three criteria. First and foremost, we need to keep in mind that the luxury sector is one in which size is a key factor. Actually, you need a certain scale in order to build and manage worldwide brands, keep up continual product innovation, use marketing investment to stay relevant with your customers, and keep up with the digital transition. Businesses can more readily benefit from synergies with a larger structure. After the dismal performance of the luxury sector in 2020, businesses and managers secondly realized that no industry is fully risk-free, which prompted them to look for partners to lower their operations' exposure to risk. In conclusion, interest rates reached a record low because of the crisis. This produced the optimum atmosphere for mergers and acquisitions since cash-rich corporations discovered an open market for investments and sellers are more willing to advance.

All these variables combined to make 2021 a highly successful year for M&As in the F&L industry. We can now use Deloitte's "Global Fashion & Luxury Private Equity and Investors Survey 2022" to analyze the results in further detail. Let's start by looking at the broad picture.

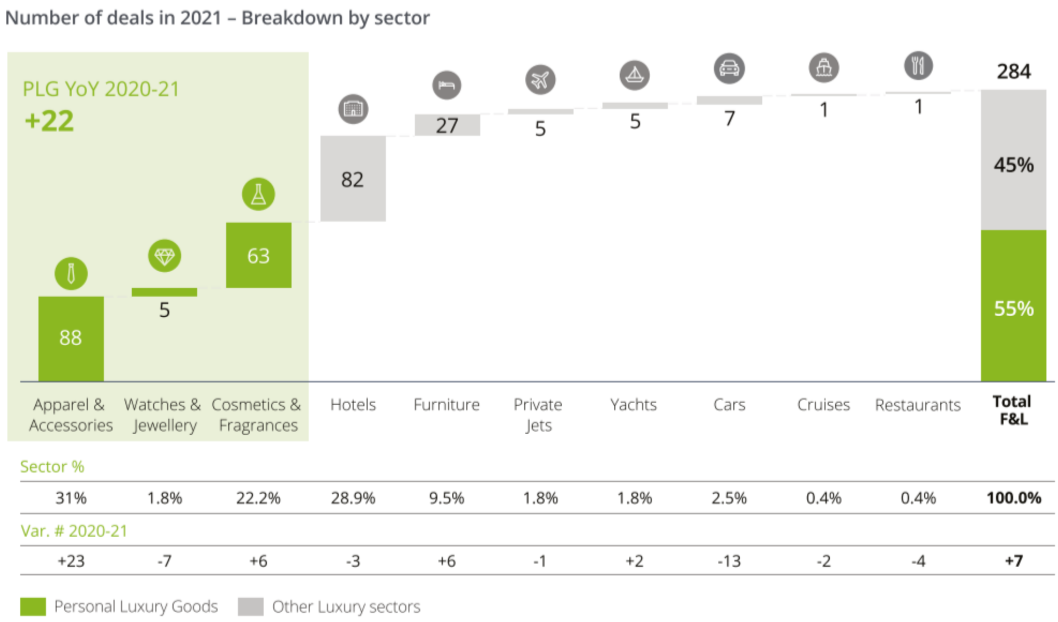


Figure 7 Number of deals by luxury sectors in 2021 [Source: Deloitte (2022)]

The year 2021 saw a higher number of M&A deals in the luxury sector than the previous year, with the Personal Luxury Goods segment (+22 deals vs 2020) registering an interesting increase and representing the 55% of total deals, particularly in the categories Apparel & Accessories (+23 deals), Cosmetics & Fragrances, and Watches & Jewelry. In total, 284 M&A transactions in the Luxury sector were recorded, representing a slight increase (+7 transactions) over the previous year and higher compared to pre-Covid level. The Hotels sector registered 82 deals, being the second largest, despite a reduction of 3 transactions vs 2020. Private Jets, Restaurants and Cruises were still affected by Covid effects with a decreased respectively by 1, 4 and 2.

The largest industry was the automobile sector, with a value of $9,783 billion and a remarkable percentage growth from 2020. Private jets and apparel & accessories came in second and third, respectively, in terms of value, with 1,385 and 1,096 billion. Cruises was the only industry to do worse than the previous year. The average deal value for the F&L industry in 2021 was $1,081 billion.

Furthermore, given that the percentage of medium and big size grew in 2021, the average size of the target company increased, continuing a good trend from 2019 as we can see from the CAGR 19–21. However, with a stake of 54%, investors favor small-sized businesses. In addition, transactions with multiples of 15 times or more EBITDA remained steady (representing 50% of the total), although transactions with multiples of 5 to 10 times and 11 to 15 times EBITDA dropped in favor of transactions with multiples of less than 5 times EBITDA.

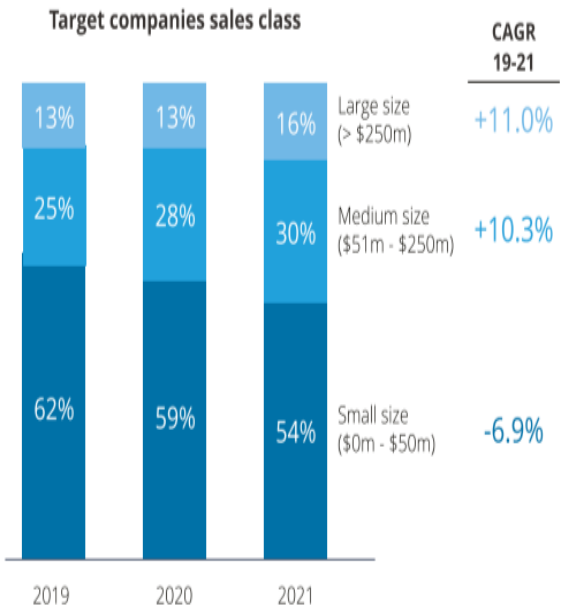


Figure 8 Target company by size [Source: Deloitte (2022)]

Financial investors have been particularly operative, acting as bidder in 58% of transactions and as sellers in 46% of cases. Private equity and venture capital funds have seen a significant increase in the number of transactions compared to the previous year, and they are now the most active acquirers. Geographically, North America has had the most significant growth (+24 deal), while Asia-Pacific has seen the greatest decline (-31 deal).

The Deloitte survey found that 21% of investors thought the sector was already capable of completely rebounding in 2021, while 50% of investors thought it would return to pre-pandemic levels within a year. 80% of respondents expressed interest in investing in the luxury industry as a result of these positive attitudes, with a particular focus on the Furniture and Cosmetics & Fragrances sectors. This focus is fueled by investors' use of strategic tools including internationalization, the creation of new product categories, and brand extension to increase the value of their assets.

1.4.3 The players

In this evolving scenario it is important to try to define who the buyers and the sellers are. Buyers are classified into three groups, each one with its own set of reasons and strategies (Ortelli, 2021):

- *Luxury conglomerates*: For huge companies like LVMH and Kering, acquisitions should be significant enough to signal a significant change in the core business. These companies opt to buy brands with a strong positioning, like Tiffany and Loro Piana, rather than those that need a big turnaround. Here, these organizations have an opportunity to enhance public awareness of these brands and utilize any potential synergies to advance their commercial endeavors.
- *Smaller but significant players*: the second category of purchasers consists of businesses that are financially sound, eager to develop without diluting their brands, or want to diversify their portfolio with complementary brands. An example is Moncler with the acquisition of Stone Island.
- *Financial Investors*: Since they have a shorter investment horizon and less synergies than industry investors, they frequently offer lower prices. They typically invest in companies that need a dramatic turnaround or that are too small for big enterprises to notice.

From the sell side we have:

- *Business owners who want to sell:* These are frequently well-run companies with strong financial standing that might survive on their own, but the opportunity to join a bigger and more influential organization is too seductive.
- *Companies that need a buyer to survive:* Companies looking for a buyer include those seeking financial support or a partner with a certain set of capabilities. This is essentially the moving section of the sector because there aren't many targets in the market and significant deals don't occur frequently.

In conclusion, the volume of transactions in the past year demonstrates that there is still a strong interest in mergers and acquisitions. According to forecasts and beliefs for the following year, there is also confidence for a prosperous future, notably for some particular sectors of the F&L business. People are drawn to these sorts of businesses for either the opportunities or the requirements, depending on your point of view. These elements collectively suggest that mergers and acquisitions increase value, but is this really the case? In the part that follows, we'll examine some evidence as well as a review of the literature.

1.5 Literature review

So far, we've discovered that companies regularly use mergers and acquisitions to accomplish a range of objectives, and that their popularity has increased rapidly in recent years. As a result, several research and papers have been written to examine whether M&As actually result in value creation for both target and acquiring firms. There are several methods and strategies for dealing with this problem, as well as numerous features that have been investigated; in this section, we'll try to understand and explain the most often used, significant, and researched ones.

1.5.1 General discussion

Currently, one of the most common strategies for corporate expansion is mergers and acquisitions. Contrary to popular belief, mergers and acquisitions offer different benefits to the parties involved. Target-firm shareholders often see positive short-term returns, but investors in bidding firms commonly endure share price underperformance in the months after acquisition, resulting in modest increases in total wealth for portfolio holders (Cartwright and Schoenberg, 2006, Martynova and Renneboog, 2007). Overall, only around half of the transactions may be deemed successful (Cartwright and Schoenberg, 2006, Das and Kapil, 2012). This paradox has attracted the interest and research attention of a broad range of management disciplines, but the main source of success/failure remains an issue of debate (Delis et al., 2021). Furthermore, because there is no universally accepted definition of successful acquisitions, measuring M&A outcomes is challenging. The success assessment is conditional on several elements and may be investigated from various viewpoints such as accounting, financial, strategic, and organizational perspectives (Roncagliolo and Avallone, 2021, Cartwright and Schoenberg, 2006). Indeed, financial studies and strategical/organizational studies, two broad categories that reflect two approaches in measuring and assessing M&A outcome and performance, dominate the literature (Roncagliolo and Avallone, 2021). Financial studies explore the influence of M&A on wealth creation by using a market-based methodology, such as abnormal returns, in line with the efficient market hypothesis and is anchored to capital market reaction (Novaes et al., 2021). On the other side, strategical studies look at success as the value that the acquirer creates and captures through the achievement of strategic goals and synergies. The strategical fit between engaged organizations is seen as a key to success, and as a result, the fit between involved companies is intensively researched, with an emphasis on compatibility in leadership styles and administration procedures, as well as the effect of cultural distance literature (Roncagliolo and Avallone, 2021).

Furthermore, there is a considerable disparity between short-term and long-term results. More particular, empirical research shows that target firm shareholders receive significant positive CAARs before to and during the announcement of a takeover. When the event window is extended across several years after an acquisition is announced, the magnitude of the M&A impact on share prices is heavily influenced by the estimating approach used to forecast the benchmark return. According to the research, takeovers induce a reduction in share values for several years after the transaction (Martynova and Renneboog, 2007).

Another noteworthy contrast is the comparison between bidder and target returns. As previously indicated, target owners frequently profit, whilst bidder shareholders lose money. Campa and Hernando (2004) revealed evidence that Target firm stockholders benefit from a statistically significant cumulative abnormal return of 9% over a one-month period centered on the announcement date. Regardless of the time period, deal type, industry involved, observation term, or measure of cumulative abnormal returns used, the results reveal that the returns are economically significant. Furthermore, researchers showed that cumulative abnormal returns are often smaller in the financial sectors. It's worth noting that positive cumulative abnormal returns are also recorded prior to the announcement date, showing that the market is predicting the agreement's news. Although the data is mixed, the average cumulative abnormal return of acquirers is zero. In fact, some studies provide positive outcomes while others produce negative results. These range from less than 1% to 5% and are almost always significantly different from zero. Positive returns instead range from 1 to 7%, but are frequently rather modest when compared to target shareholders' performance. Finally, there is no compelling evidence for either positive or negative cumulative abnormal returns to acquirers in aggregate. When total returns for target and bidder combined returns are considered, they are positive, indicating that M&As result in a total rise in the combined shareholder value of the merging businesses.

Despite overall value creation, we've observed that getting these outstanding results is difficult, as more than half of purchases are value damaging. This was notably true in the previous century and in the beginning of the current one; however, after the Great Financial Crisis in

2008, this pattern has partially reversed. Indeed, since 2008, global corporate governance has improved, allowing M&A deals to generate more value than ever before. Alexandridis (2017) corroborated this by examining 26,078 merger and acquisition agreements completed between 1990 and 2015, 5,694 of which included publicly listed target enterprises. The authors show that the average acquirer had an abnormal return of 1.05% surrounding the announcement of a public deal after 2009, compared to an average loss of 1.08% from 1990 to 2009; this is a significant improvement. Further, the failure probability was greater for large acquisitions, but the post-2009 improvement in profits to acquiring businesses was found to be more prominent in mega-deals, with the average acquirer susceptible to an abnormal return of 2.54%. This trend reversion may have been predicted since, according to McKinsey research (Dobbs et al., 2006), M&A agreements began to create more value already in 2003, and acquirers were more present and retained more value. The more positive reactions can be driven by the fact that more acquisitions were cash-deals at the time, which is favored by markets.

To summarize, M&As remain a popular development strategy for corporations worldwide, although the academic community is divided on whether M&As bring genuine benefits to acquiring organizations (Das and Kapil, 2012). As a result, while the empirical data on the profitability of takeovers is substantial, the judgments on whether takeovers build or destroy firm value are not fully consistent (Martynova and Renneboog, 2007).

1.5.2 Relevant Factors

To have a better understanding of the major elements impacting returns, let's take a look at some features that I've identified to be critical in predicting the volume of transactions as well as the rate of success of them. Economics and monetary policy, management, banks/financial advisors, and culture are among them.

1.5.2.1 Monetary Policy

Mergers and acquisitions, as we saw, happen in waves. Waves are impacted by a variety of factors, but they mostly track the larger economic and industrial cycle. As a result, the components that drive the cycle, such as monetary policy choices, the political climate, interest rates, macroeconomic indicators, and so on, have a significant influence on M&As, not only for the number of deals or deal value, but also for the returns and value creation.

When evaluating new investment possibilities, especially M&A transactions, monetary policy should be taken into account since it has an influence across different areas and industries and impacts the cost of financing and the informational content of asset prices (Adra et al., 2020). Additionally, because restrictive monetary policy choices, indicated by the central bank rising policy interest rates, frequently predict lower future stock returns, investors constantly monitor central bank actions because they have a considerable influence on future prices and expected returns (Obonyo, 2022). Investors are also more cautious when making purchases due to policy uncertainty according to Adra et al. (2020). They also suggest that Monetary Policy can impact M&As outcome through two different channels. First, through the "expected financing cost" channel, they show that risk-adjusted returns are lower during periods of monetary contraction due to market worries about leverage and liquidity situation. In reality, tighter monetary policy raises the borrowing cost and diminishes the feasibility of business investments. Second, equity investors demand a considerable discount for owning stock in businesses that make acquisitions during periods of severe monetary policy uncertainty. However, the findings indicate that the federal funds rate, rather than monetary policy uncertainty, is the most important monetary-policy-related factor impacting M&A variance. According to the research, monetary tightening causes a considerable drop in M&A activity for up to five quarters.

Similar outcomes are obtained by Horn (2021). The authors discover that aggregate M&A activity falls dramatically after a monetary policy shock, and the chance of becoming an acquirer falls significantly after a contractionary monetary policy shock. Furthermore, they discover that the acquisition likelihood falls much higher for businesses that are comparatively more financially restricted, implying that the credit channel plays an important role in the transmission of monetary policy to company M&A choices. A one-percentage-point increase in the one-year Treasury rate, in instance, decreases the chance of engaging in an M&A transaction during the next four quarters by 1.1 percentage points.

Finally, we can look at some evidence about the returns. Obonyo (2022), in an analysis about US firms, demonstrate that when the US Fed and the acquirer country's monetary policies are both restrictive compared to when they are expansive, US target businesses have considerably lower acquisition premia and cumulative anomalous returns. When the Fed is restrictive compared to when both the acquirer and target countries have expansive monetary policies, the cumulative abnormal returns to the target surrounding the merger announcement are around 11–13% lower.

Moreover, the performance of M&As can be significantly impacted by the publication of macroeconomic statistics. When major macroeconomic indicators are released, M&As that are disclosed during that time period often result in better risk-adjusted returns than those that are announced on days when no major macroeconomic data are released. According to authors

(Adra et al., 2020), this may be because the market pays greater attention when these indicators are released, which is important for smaller businesses that aren't often in the limelight. Acquisitions, however, are extremely likely to support losses as high as 2% rather than benefits when the indications do not lessen the economic uncertainties. In general, acquirers seem to comprehend the warning function of macroeconomic news.

1.5.2.2 Banks and Financial Advisors

The selection of banks or financial advisers is critical for companies in order to not only execute the deal, but also to accomplish it in a fair amount of time and with favorable returns. Several research have been conducted to determine if top-tier banks promote transaction success and provide abnormal returns. Firms use investment banks as financial advisors in M&As to minimize the likelihood of making bad purchases. Financial advisers work with them to assess synergies and speed up the transaction process (Chuang, 2016). Furthermore, CEOs do not make M&A choices on a regular basis because the failure of the deal increases the likelihood of them being fired. They seek advice from investment banks for this reason, as well as because they typically lack of experience (Bao, 2011).

For acquisitions with advisors' involvement, about 50% of the deals are advised by top-tier investment bankers (Guo et al., 2020). Firms are inclined to hire investment banks when transactions are more complex and in this case the probability of hiring top-tier advisors is higher given their experience and expertise in M&As. Further, top-tier financial advisors can better identify potential targets to match bidder business portfolio (Chuang, 2017). Top-tier investment bankers show their superiority by charging much higher advisory fees and are supposed to provide their clients with superior service (Guo et al., 2020, Chuang, 2017). In addition, deal completion should be faster when a high quality adviser is used because of the adviser's expertise and experience in handling M&A transactions. One of the most common proxies for adviser quality is market share (Walter et al., 2008).

Walter (2008) discovered that the capacity of banks to execute the deal more quickly reflects their quality, but there is no indication of a larger chance of completing the deal. In terms of abnormal stock returns for customers, high quality advisors are not able to generate higher positive abnormal returns to their clients in general. However, the abnormal returns to acquirers in bids involving stock are more positive when a high quality adviser is used as the acquirer's adviser, because are strong incentives for these advisers to protect their reputational capital.

Bao (2011) instead, by using a fixed effect analysis, reached different conclusions. Indeed, he discovered significant bank fixed effects on the 3-day cumulative abnormal return of a contract.

When all banks that advised on at least ten deals between 1980 and 2007 were studied and temporal effects were controlled for, the difference between the 25th and 75th percentile banks was 1.26%, compared with a full-sample average return of 0.72%. After adjusting for the component of returns attributed to the acquirer, the results remain substantial, and disparities in average returns among banks are likewise consistent over time and expected from earlier performance. These findings are significant because they demonstrate that the financial adviser chosen might have an influence on the performance and returns for shareholders.

Guo (2020) instead found that the effects of top-tier bankers are dependent on acquirer financial conditions. Specifically, top-tier advisors improve performance for constrained acquirers rather than neutral, and unconstrained acquirers. The results show that top-tier investment bankers improve constrained acquirers' short- (5 days) and long-term (36 months) performance by 1.45% and 24.27% respectively. Higher bid premiums are paid by unrestricted acquirers who receive top-tier advice. These findings imply that unconstrained acquirers prioritize transaction completion above deal overpaying and takeover performance. Overall, the findings imply that various acquirers have various objectives. While unconstrained acquirers retain top advisers to execute their targeted transactions, constrained acquirers do so to obtain improved performance.

In contrast to earlier findings, Chuang (2016) discovered that when bidders choose tier-3 consultants, agreements take longer to close. Additionally, the empirical data shows that both prior to and after the announcement date, bidders that work with financial advisors with a poor reputation earn larger announcement returns. Bidders do not have to pay higher advising costs when working with financial advisers with a poor reputation, which results in greater announced returns. In order to preserve their competitive advantages in the takeover advising market, less respected financial advisers may exert greater effort to properly examine the transactions.

This latest paper is in contrast and against intuitive when compared with the results seen earlier. However, it is in line with the numerous research made about this topic since there is no commonly accepted relationship between financial advisors' quality and returns; indeed some papers find a positive link, while others a negative one.

1.5.2.3 Management

The characteristics of the company, which are obviously connected to the acquirer's qualitative management, are among the crucial elements that define a successful acquisition. This suggests that management is a key factor in determining an M&A's profitability and profits. In fact this is consistent with the Q-theory of M&A which states that acquirers with superior management create value in M&As by transferring this management to target firms (Delis et al., 2022). However, management quality is difficult to measure and for this literature directly connected to the topic is not so extended; indeed, it continues to be dominated by financial and market studies (Cartwright and Schoenberg, 2006).

Delis (2022) were able to construct a management variable, namely an unobserved production input, in addition to the observable labor and capital. This variable was discovered to be one of the most important explanatory variables in understanding short-term M&A success. Management practices, arrive with a positive sign and are statistically significant at the 1% level; a one-standard-deviation rise in Management practices raises CAR by 0.011. They also discovered that acquirers with excellent management practices pursue more M&As and, more significantly, they buy target businesses with weak management practices in order to create value by changing these practices. However, the influence of management is less significant for frequent acquirers. Overall, the data support the notion that management is a critical component in M&A success and performance.

Management is responsible for a variety of duties and has relationships with a variety of people, the most significant of which is with employees. In fact, they are the firm's heart and work force, and they play critical roles in the manufacturing process. As a result, decisions concerning workers and the relationships with them are critical and must be carefully evaluated. In light of this, Bargeron (2015) investigated the impact of employee-management trust on M&A activity and outcomes. They discovered that businesses with strong cultures of trust (SCT firms) do not vary from other businesses in terms of volumes, but the primary distinction is in the acquisition's relative size: compared to other companies, SCT enterprises undertake acquisitions that are one third smaller on average. Second, they discover that bidder returns and the percent changes in the combined values of bidders and targets are significantly lower in large acquisitions made by SCT firms than in large acquisitions made by other firms, indicating that the market anticipates more value destruction when SCT firms make large acquisitions in comparison to other firms. Lastly, they discovered that SCT businesses that make big acquisitions are considerably more likely to experience a decline in trust than SCT organizations that do not. Trust is typically regarded as a valuable asset, and companies with strong cultures of trust are expected to create M&A procedures that protect the value of their cultures. According to the findings, high trust organizations consider these risks while developing their acquisition strategy for this important asset.

The choice to fire someone is directly related to the discussion of trust between management and employees; in fact, it is one of the most crucial decisions a manager can make. When a worker is dismissed, the business is required to cover some expenses, the firing cost. They are not insignificant and should be carefully considered by managers when making decisions; this problem is pertinent to our discussion since there is evidence to suggest that changes in firing costs may have an impact on the performance and financial results of M&As. In particular, Chatt (2021) examined how variations in firing costs affect subsequent M&A activity in the United States. Authors found an immediate and consistent 30% decrease in the overall dollar volume of mergers and acquisitions and a rise in the number of canceled transactions after the implementation of state regulations that boost firing costs. Intriguingly, they discovered that a firm that will be a target in the upcoming six months saw a 5% price fall in the five days preceding a rise in firing costs law. Given that, post-merger employee turnover is a first order source of value for U.S. mergers and acquisitions.

Another critical managerial role is to foster positive brand impression, customer brand loyalty, and favorable beliefs. This is possible, particularly in recent years, through an efficient advertising strategy and the clever use of media. All these factors are important in M&As; in fact, there is widespread agreement that brands and marketing skills have a considerable positive influence on M&A success, enhancing post-M&A performance. Chung and Kim (2020) investigates the impact of perceived assessment of mergers and acquisitions on customer brand loyalty toward the acquired company and the media used to communicate M&A news by comparing M&As between luxury brands. Authors observed that consumers' favorable evaluations of M&As can produce good consumer sentiments towards the target brand and this helps explain why target businesses normally gain more from the deal. This means that favorable customer perceptions of mergers and acquisitions are crucial to increasing brand performance and guaranteeing post-merger success. They also demonstrated that social media may be more effective in developing customer brand loyalty and interacting with consumers in a new way. As a result, all these factors should be examined both before and after an M&A.

1.5.2.4 Culture

Another major component considered when appraising M&As is culture. Cultural differences, in particular, are thought to be one probable explanation for the high likelihood of acquisition failure. To begin, according to Teerikangas (2006) there are three types of culture: organizational culture, national culture, and several cultures. In terms of organizational culture, Datta (1991) discovered that disparities in top management styles had a negative influence on performance. In contrast, Krishnan, Miller, and Judge (1997) discovered that functional background variations have a beneficial influence on post-acquisition performance. Cultural differences are usually associated with poor performance in domestic M&A; however, the connection appears to be inverse in overseas agreements. Thus, cultural differences would not be a barrier, but rather a possible success factor for M&A. Cross-border purchases perform better when the distance between the country cultures involved grows, according to Morosini, Shane, and Singh (1998). Finally, several cultures take organizational and national culture into account simultaneously. According to Teerikangas (2006), it is rare to obtain outcomes that are entirely aligned in one direction, therefore in cross-border negotiations, both national and corporate cultures impact success. Overall, all studies indicate that cultural differences should be considered during the M&A decision-making, appraisal, and integration processes.

1.6 Result in the luxury sector

Although there is a wealth of literature and research on the effects of M&As on the value of both the target and bidder firms as well as the overall performance, it mostly focuses on regional and industry insights. Instead, there are no conclusions in the pertinent research about the wealth impacts and capital market consequences of luxury business M&A announcements.

Because of this, Königs and Schiereck (2006) sought to examine how M&As in the luxury sectors contribute to wealth generation. They accomplished this through an event analysis that took into account 196 transactions between 1993 and 2005. The days before and the day following the purchases show small and statistically insignificant excess returns. CARs begin to show importance and relevance 5 days after acquisition, peaking at 35.26 percent in the next 20 days, and exhibiting static significance at the 5% level. However, when the risk factor and the risk adjusted cumulative abnormal returns are considered, the findings are not as pleasing. In particular, all of the results are statistically significant but the greatest value is only obtained 20 days after the purchase but it is still just the 2.34%. The authors also discovered that European and non-European transactions have distinct value consequences. European capital markets respond less positively than non-European ones, particularly when conglomerates are involved.

In general, the study indicates some form of value creation and a favorable market response when taking M&As in the luxury business into consideration. However, we should take into account that the results are less significant when risk-adjusted measures are used, and that there haven't been as many follow-up studies in the area to compare the findings. Thus, the latter may be impacted and related to the authors' sample.

PART 2

2.1 LVMH Group Introduction

By combining the prestigious fashion industry Louis Vuitton and Moët Hennessy, Bernard Arnault created LVMH, the largest luxury company in the world. LVMH has activities in the United States, the Middle East, Asia, and Europe. Its headquarter is in Paris, France. The group comprises 75 prestigious brands (or houses) in six industries, including fashion and leather goods, watches and jewelry, wines and spirits, perfumes and cosmetics, selective retailing, and other activities. The present size of LVMH may be estimated by looking at the high-end fashion brands it owns, such as Bulgari, Celine, Fendi, Givenchy, TAG Heuer, and Tiffany & Co. Every brand has a lengthy history and a distinct personality. Technically, all of them are managed by LVMH, which operates under this umbrella as a unique brand and draws on its heritage dating back over two centuries. The group is the largest in the F&L business, as evidenced by revenues of 64,2 billion euros in 2021 (+44% vs 2020), a net profit of 12 billion euros (+156% vs 2020), operations in 80 countries, 175,647 employees, and 5,556 shops worldwide (LVMH, 2021).

In order to understand how LVMH arrived at this point we will briefly go through the history of Louis Vuitton and Moët Hennessy, then we will look more in detail at the business and more recent results, and then finally we will move on to the core of the work which is an analysis of some M&As performed by the company in the recent years.

2.2 Louis Vuitton

The brand's creator, Louis Vuitton, established his own store at 4 Rue Neuve des Capucines, amidst the couture boutiques, in 1854. Because he was a carpenter's son, he mastered the art of carpentry and trunk design from the very beginning, becoming an expert. Due to his expertise with wood, silk, and satin, he earned a respected reputation as a master luggage maker (Fundinguniverse, 2000). Vuitton's company expanded as rail and subsequently vehicle travel became more commonplace (Yotka, 2019), so the business was pretty successful and he did several workshops and he moved in more bigger store compared to the original one; in this period, the label had just 20 employees (Sen Gupta, 2022). The most celebrated figures of the time frequently used Vuitton for their luggage. Vuitton's high-end trunks were far superior to anything before built in terms of the materials used, inside design, and finishings. The company's first catalog offered a wide range of products, from simple bags made for the common traveler to highly sophisticated trunks for carrying certain articles (Fundinguniverse, 2020). His son George, who founded the first location outside of France in London and created the recognizable LV monogram emblem in his father's memory following his death in 1892, was crucial to the company's success. The premium company has subsequently developed a wide range of products, almost all of which prominently display the iconic monogram. In the realm of luxury living, the brand's monogram continues to serve as its distinguishing sign, making its products simple to identify. In addition, George, in response to the increased number of robberies, designated a lock mechanism which completely revolutionized baggage safety (Sen Gupta, 2022). In 1914, the firm built a new facility on the Champs-Elysées to serve as the hub of its expanding distribution network; this store grew to become the world's largest retailer of travel products, and 225 workers were employed (Fundinguniverse, 2020). Military trunks that were straightforward and durable took the place of sophisticated and expensive designs as production was altered to meet the demands of the war effort during World War I. When the economy improved and Louis Vuitton re-attracted stylish consumers, customized orders skyrocketed, particularly during the jet-set era of the 1950s and 1960s, when Louis Vuitton trunks became the standard for glamorous actresses on the go (Yotka, 2019). Gaston, Georges' son, assisted his father in improving productivity. Gaston introduced leather into Louis Vuitton creations and in 1966 unveiled the cylindrical Papillon bag, which continues to be one of the most famous products. He opened a store in Tokyo in 1970 and chose to pursue legal action against the counterfeiters in the hopes of better educating consumers and discouraging the purchase and production of imitations. Always with this aim, the corporation also ran a successful marketing campaign and some years later decided to allocate two percent of annual sales revenue to the battle against counterfeiters. Despite its appeal among the French aristocracy, France had just two Louis Vuitton boutiques, with sales totaling less than USD 10 million (Sen Gupta, 20220). The premium fashion house's development into significant cities outside of France was supervised by Recamier, Gaston's successor and a steel tycoon. The Maison has over 100 stores globally within ten years of Recamier’s arrival. In 1984, the firm stopped being family-owned and decided to go public, making the brand more prosperous and well-known as a top-tier luxury brand all over the world. Seven years later, Marc Jacobs, a young fashion designer based in New York, joined Louis Vuitton, elevating the company as a whole and revolutionizing the fashion industry. Throughout his 16 years at Louis Vuitton, Jacobs gave the traditional monogram canvas a new character by employing them widely as a print pattern on everything from tights to coats and caps to fans.

2.3 Moët Hennessy

Moët Hennessy was founded roughly 250 years ago and is today a world leader in the manufacturing of wines, spirits, cosmetics, and fragrances. His current product lines include Christian Dior perfume, Dom Pérignon champagne, Hennessy, and many more. Moët et Cie and his son Claude-Louis founded the business in 1743. Within a short time, they built up a clientele that included several landed gentry and nobility, including Madame du Pompadour, who frequently purchased Moet champagne for the royal court.

It was estimated that Moët sold 20,000 bottles a year on average throughout the 1820s. By 1872, this figure had risen to two million, and by 1880, it had reached 2.5 million (Fundinguniverse, 2000). At the beginning of the 20th century, the bulk of Moët et Chandon's clients remained belonged to the upper classes. The business was also among the first to set up a social security program for its workers, which included free legal representation, housing help, pensions, maternity benefits, and sick pay. Moët et Chandon established their position in the market in the late 1920s after World War I by developing the Dom Pérignon. As the supposedly best champagne on the market, Dom Pérignon also rose to the top of the price scale and started a pattern that other champagne companies eventually followed. Despite experiencing setbacks in its operations during World War II, Moët et Chandon rebounded successfully as a consequence of its prompt facility modernization. Fairness and efficiency were prioritized in every phase of production, from the installation of modern wine presses to a rigorous system of labor rewards. The business's product offering was diversified through several mergers, acquisitions, and diversifications. The most significant and influential one was in 1971 with Jas. Hennessy & Company, the country's second-largest cognac manufacturer. The new business, known as Moët-Hennessy, benefited from a larger financial basis and was better equipped to encourage the expansion of its interests abroad. A stake in Parfums Christian Dior, which produces perfumes including Miss Dior, Dioressence, and Eau Savage, was the first acquisition made outside of the Champagne industry. By purchasing Schieffelin & Firm, one of the oldest wine and spirit wholesalers in North America, at the start of the 1980s, the company established a strong presence in the United States.

2.4 The merger

Louis Vuitton and Möet-Hennessy merged for $4 billion in June 1987, allowing Louis Vuitton to increase its investments in the luxury industry while shielding Möet-Hennessy from the prospect of being acquired. The merger “will allow both partners to retain their identities and autonomy, although there will be cooperation between them” said Recamier. Because Moet-Hennessy was far bigger than Louis Vuitton, its president, Alain Chevalier was chosen as the chairperson of the new holding company Möet-Hennessy Louis Vuitton (Fundinguniverse, 2020). Specifically, Moët had $1.34 billion in revenues the year before, where Vuitton only $290 million, so the former dominated the merged company; in addition the deal was accomplished by the exchange of 2.4 Louis Vuitton shares for each Moët-Hennessy share (Greenhouse, 1987). Because of multiple disagreements and court fights between Recamier and Chevalier over the management of the conglomerate, Racamier asked the young real estate developer and financial engineer Bernard Arnault to purchase equity in the firm. Arnault was able to acquire a 45 percent controlling interest in the LVMH stock via the assistance of the French investment firm Lazard Frères and the British liquor goliath Guinness plc (Fundinguniverse, 2020). The new company was expected to have $220 million in net income on revenues of $2,2 billion. At the time it was the sixth-largest company of the Paris Stock Exchange (Greenhouse, 1987).

In the middle of the 1990s, LVMH concentrated on development and expansion and spent more than $3 billion on acquisitions between 1996 and 1997. This is a recurring trend, and it is easy to deduce that LVMH uses merger and acquisition as a key tactic for generating wealth. The corporation as a whole engages in these operations (Chen, 2021). The core logic of its mergers and acquisitions is that since it cannot grow excessively and produce brands casually, it should buy excellent luxury brands and Racamier himself affirmed that "The Moët-Hennessy merger will form a group covering all aspects of the high-quality market". After all, many old shops in Europe are family businesses and for those family-owned enterprises unable to realize this goal, joining LVMH is advantageous to both parties. The goal of LVMH CEO Bernard Arnault is to assist change and globalize French family-owned businesses by introducing French and even European luxury goods to the globe (Chen, 2021). After some years he talked to CNBC that “In the 90s, I had the idea of a luxury group and at the time I was very much criticized for it. I remember people telling me it doesn’t make sense to put together so many brands. And it was a success ... And for the last 10 years now, every competitor is trying to imitate, which is very rewarding for us. I think they are not successful but they try”. At this time, it is evident that

LVMH is more than simply one organization; rather, it is a conglomerate of luxury businesses from around Europe. The main goal of this collection is to maintain, unite, optimize, and reinvent the genetic foundation of European brand culture and work with top-notch designers and operational teams, utilizing the collectively superior capabilities of the group (legal, financial, channel, marketing, human resources, R&D, information resources), and connecting with customers through brand and cultural differentiation (Chen, 2021). In actuality, the success of the LVMH group was the recurrent use of M&As carried on by the similarity of their main industries. In a broad sense, it may be argued that the whole portfolio of LVMH is managed according to a diversification strategy. Indeed, the diversification of its brands enabled the corporation to boost its financial performance while maintaining an extraordinarily high degree of stability and outperforming all prospective competitors (Tirelli, 2020). The company's goal is to uphold the premium quality and brand image of all of its goods, therefore innovation and the creation of new technologies and projects are the means by which this goal may be accomplished (Corominas, 2013).

2.4.1 Group evolution

After the merger in 1987, LVMH completed around 60 M&As, and the House of Brands conglomerate business model has had a revolutionary impact on the history of fashion and the group is now world's largest luxury company in terms of revenue. Typically, M&As were designed to create synergies between businesses vertically integrated in order to increase their operations, to save costs and to increase revenue by combining their current markets. Because they may partially share the distribution channels and get access to the targets' prized human resources, LVMH mainly purchased businesses horizontally within the industry (Ha, 2019). Deals have evolved over the past ten years into a means of taking the firm beyond its core market and into other sectors. By purchasing the hospitality companies Hotels Chevales and Belmond (2018), owners of the Hotel Cipriani in Venice and the Venice Simplon-Orient-Express, it has, for instance, started to grow in the hotel industry since 2006. Recently, LVMH made the decision to acquire Tiffany & Co., the world's leading luxury jeweler, in order to improve its position in the jewelry industry. The $14.5 billion transaction increased LVMH's portfolio of diversity and was Arnault's greatest acquisition to date (Tirelli, 2020). A brief summary of some of the main operations completed by the group divided by business area is presented below.

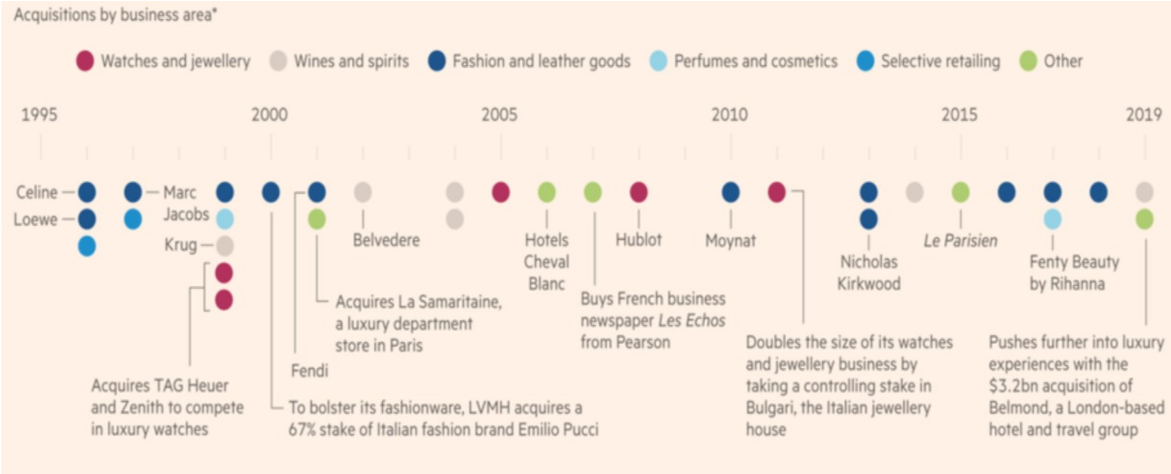


Figure 9 LVMH Acquisitions by business area [Source: Tirelli (2019)]

As we can observe from the picture, the Maison focused its acquisitions in all the different business area, but the most involved one is clearly the Fashion and Leather Goods industry. In 2021, it reached 30,896 million of revenues, representing the 48% of group's total revenue (LVMH, 2021). LVMH is a significant player in the fashion and leather goods industries thanks to Louis Vuitton's global dominance, Christian Dior's exceptional development, the expansion of a collection of distinctive brands whose success is reinforced year after year, and its active support for emerging designers. Among the different Maisons we also find brands such as Rimowa, Loro Piana, Emilio Pucci, Givenchy and Kenzo. In 2008 the percentage of revenues of this business area was "only" of 35%, meaning that the pattern of consistent and relevant acquisitions in the fashion and leather goods industry led to positive result, an increase in revenues and a consolidated position in the market. It's also fascinating to see how the other business sector has changed over time, as shown in the graph below.

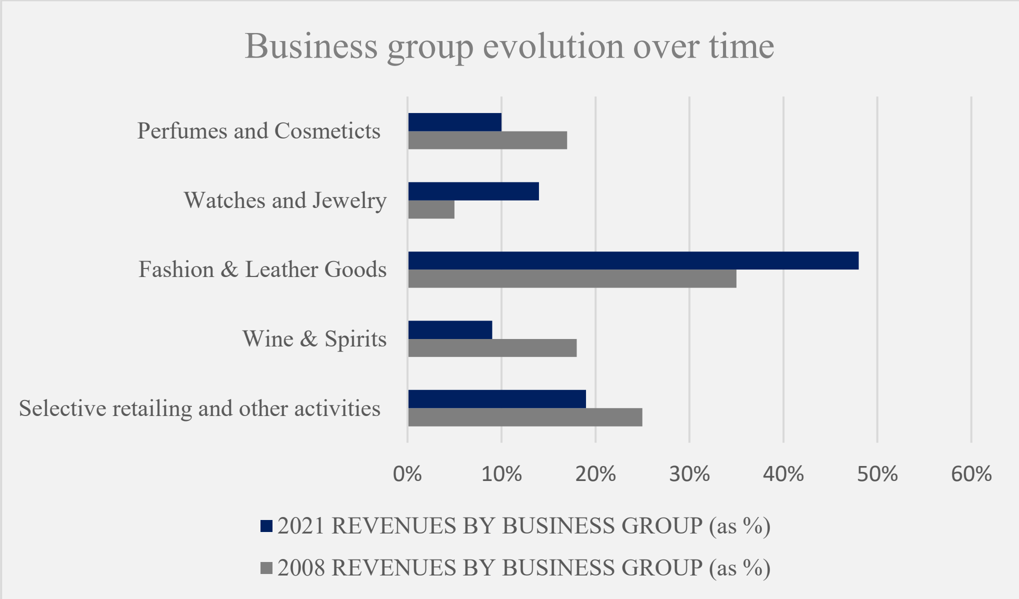


Figure 10 Business Group percentage evolution [Source: LVMH (2008), LVMH (2021)]

The other business categories suffered as a result of the fashion and leather goods industry's dominance. Practically all of them reduced their proportional influence on the income of the business. Wine & Spirits saw the greatest decline from 18% to 9%, Perfumes and Cosmetics decreased from 17% to 10%, and Selective Retailing dropped from 25% to 19%. The only sector that behaved well was watches and jewelry, which saw an increase in significance from 5% to 14%. This result is the evolution of the ambiguous program of M&As performed in the industry over time. Significant purchases like those of TAG Heuer, Hublot, Bulgari, and Tiffany & Co. are made. In fact, the LVMH Watches and Jewelry business group is one of the most dynamic players in its sector and the LVMH Watches and Jewelry business group is one of the most active companies in its industry. It keeps expanding its market share thanks to a successful strategy supported by famous jewelry Maisons that preserve outstanding creative legacies and skills and by top watchmaking Maisons that are continuously at the forefront of innovation. The business group's status in this incredibly competitive and lucrative market area was greatly elevated by the admission of the renowned American jewelry manufacturer Tiffany & Co. in 2021.

Now that we have a better understanding of how the organization operates, we can go on and examine how sales and stock price changed over the past 15 years.

2.4.2 Group's performance

Let's start with size and growth looking at the revenues evolution between 2008 and 2021. The picture below can help in the analysis.

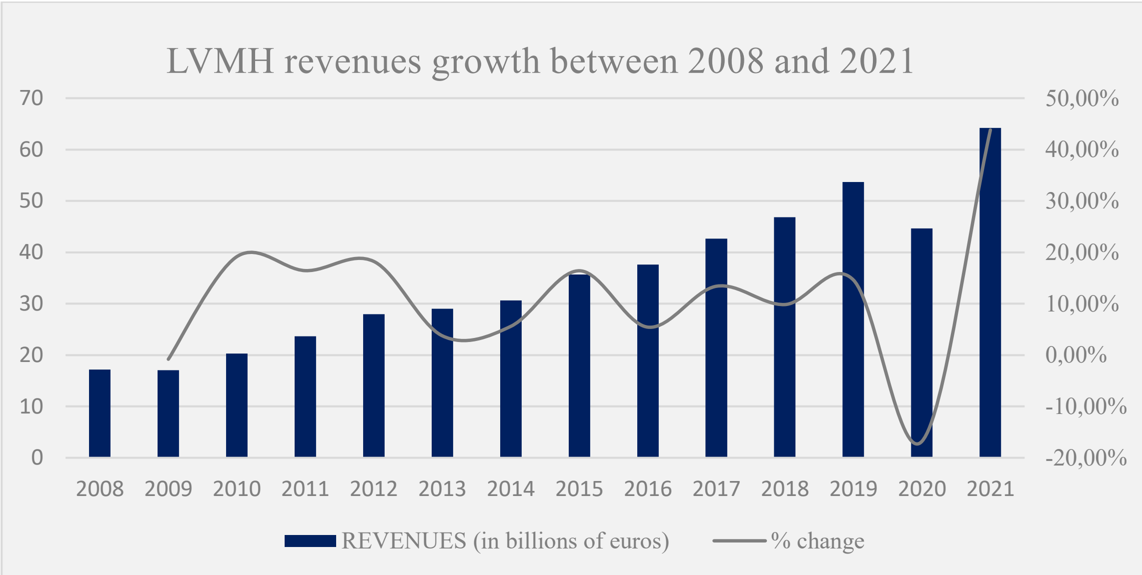


Figure 11 LVMH revenues [Source: Refinitive Eikon]

The revenues in 2008 were 17,193 billion of euros, while in 2021 were 64,215 billion of euros. This astounding outcome could have been reached since sales climbed every year expect in 2009 and 2020. The Great Financial Crisis may still have an impact in 2009, even if the drop is modest. In 2020, the decline was much larger, but this is consistent with what we saw in Part 1: a dismal year performance for the whole F&L business, even if it showed resilience and performed quite well in comparison to other industries. However, the following year, 2021, had the best results in the time period studied, with a percentage growth of 43,82%, allowing the corporation to reach its highest level of revenue in history. We noticed that the F&L business was pretty successful in 2021 in general, but the LVMH group was truly remarkable. The CAGR is 10,67%, which approximately shows the yearly average percentage growth of revenues for the time under consideration. This data suggests that LVMH's business model is successful, allowing the company to raise revenue year after year. This might also imply that the acquired enterprises are properly integrated inside the company and were carefully picked prior to the transactions.

Additionally, the group received credit from the market and investors, who firmly trusted in its future expansion. The price chart of the stock shown below attests this. The price per share was approximately 82 dollars at the start of 2008, and it is now above 640. When compared to a broad market common index like the S&P 500, the CAGR is greater at 17,11%. Up until around 2017, evolution was very steady until it started to climb rapidly. Not many losses were experienced by the price; the only noteworthy ones are in 2020 and 2021. However, following the Covid-19 crisis, the stock's value began to significantly rise. This may be attributed to two primary factors: the Tiffany and Co. acquisition, which was the largest in history, and the enormous attention and capital that the financial market has received throughout the pandemic. Investors generally have a bullish outlook on the LVMH share, and most analysts advise buying it.

Figure 12 LVMH Stock's price [Source: Refinitive Eikon]

2.4.3 Group's values

LVMH is currently one of the most significant, renowned, and well-liked organizations in the world. It has been able to achieve these levels in part because of ongoing efforts to improve everything from the products to the delivery process and the shopping experience. According to the organization, there are four core beliefs that serve as the foundation for both daily action and long-term outcomes: (LVMH, 2021)

1. Being creative and innovative: the Maison is able to continually reinvent themselves while always respecting the unique characteristics that set them apart thanks to a constant fusion of creativity and originality.
2. Delivering excellence: the unquestionable excellence of which they are bearers, an expression of the craftsmanship in its fullest form, is a key factor in the appeal of LVMH's Maison.
3. Cultivating an entrepreneurial spirit: the decentralization and agility of the conglomerate benefit efficiency and responsiveness to pressures. The entrepreneurial spirit that LVMH promotes and mobilizes its employees to achieve goals.
4. Taking action to make a difference: every single action made by every single person working in the organization reflects the company's dedication to ethics, corporate social responsibility, and environmental responsibility. They are dedicated to ensuring that their products and manufacturing practices have a positive influence on the entire ecosystem.

In cohesion with these values, there are also some characteristics and unique pillars that lead the general operational model (LVMH, 2021):

- Decentralized organization: each Maison is completely autonomous in terms of managing its own activities. In this way, long-term relationships are built with clients, speeding up and making the decision-making process more effective and appropriate.
- Vertical Integration: in pursuit of excellence, the conglomerate has preferred to control the process at the mountain and valley levels, integrating vertically with its suppliers/clients. This allows for more stringent control over the image associated with the Maison.
- Sustaining savoir-faire: the LVMH conglomerate and its Maisons look to the long term and, with the aim of protecting the identity and excellence of each individual fashion house, have implemented numerous tools in order to protect and to promote craftsmanship and creative skills even in the new generations.
- Organic growth: LVMH takes great care to motivate and grow its Maisons while safeguarding their creativity. Employees play a critical role currently, as it serves to motivate and urge them to improve.
- Creating synergies: the sharing of resources at the group level allows for the establishment and subsequent exploitation of synergies to the benefit of each Maison, which is respected to the greatest extent feasible in their individual independence.

- Balance across business segments and geographies: the simultaneous presence of multiple businesses across various geographies enables LVMH to balance the requirement to address potential economic fluctuations.

All these elements that we addressed in this section have allowed the LVMH group to transform the world of luxury and fashion, over the course of a few years. This led to the creation of a purely oligopolistic market, with LVMH in first place, followed by the main rival, the Kering group (Zuvela, 2021). Overall, LVMH is running in a very healthy manner with plenty of room for expansion. We can see that LVMH would be able to increase customer loyalty and appeal in the future by presenting itself as the industry leader and broadening its regional reach (Ha, 2019).

PART 3

The F&L market and M&A activities in this industry were reviewed in Part 1 and the LVMH group was briefly presented in Part 2 by going through its history and emphasizing its expansion in terms of both sales and stock price. We discovered that the Group's strategic and ongoing use of M&As for growth is one of the primary factors that has allowed it to become the largest player in the F&L industry. In order to better understand the rationale behind each acquisition, how it affected the financial condition, and how it contributed to the Group's current dominant market position, we will examine some of the most important purchases made by the LVMH Group in the last 10 years in the section that follows. Understanding how the LVMH group uses M&As to establish a dominant position in the industry is the work's ultimate goal.

3.1 Bulgari

3.1.1 History and Introduction

Bulgari was founded in Rome, Italy, in 1884. It mainly produces jewelry, watches and accessories, but all of the products are marked by the combination of classicism and modernity, a successful alliance. A keen sense for color enables the Maison to blend precious and semi-precious stones to create exceptional masterpieces and the unquenchable drive to safeguard its history while enthusiastically and energetically projecting into the future is the driving force behind Bulgari's tremendous success. The historic boutique in Rome's Via Condotti reflects the emblem and essence of all the qualities that the brand wishes to convey; newly refurbished, it combines elements of preservation and transformation, as a sort of bridge between past and present, in full Bulgari style.

On 6 March 2011, the market notified the acquisition by the French Group LVMH of the company Bulgari S.p.A., an acquisition which was then effectively implemented on 30 June 2011. The Bulgari family, the biggest shareholder of the eponymous company, formed an alliance with the LVMH group by transferring its position and receiving shares of the French group in exchange, making it the second largest family stakeholder, with the 3,5% of the LVMH capital (Reuters, 2011). In compliance with the terms, the Bulgari Majority Shareholders agreed to contribute all their Bulgari shares currently syndicated, equal to about 50.45% of the capital, in exchange of LVMH newly issued shares. The exchange ratio was 0,108407 LVMH shares for 1 Bulgari share (LVMH, 2011). Due to the operation, the LVMH company will be required to make an offer for the remaining Bulgari actions, which are valued at 12,25 euros for share. This price reflects a controlling premium of 59.4% over the closing share price of Bulgari on March 3, 2011 (7,685 euros), as well as controlling premiums of 59.9% and 57.3% over the volume-weighted average price of Bulgari shares during the previous month and the previous three months, respectively. With convertible bonds and stock options included, LVMH spent about €4.3 billion overall. Of this sum, 1.9 billion are covered by the issuance of new shares, while the remaining 2.4 billion are covered by cash available and new financial debt (Reuters, 2011). The two Bulgari brothers will continue to serve as president (Paolo) and vice-president (Nicola), respectively, while Francesco Trapani, the company's CEO, was set to receive a promotion in his area of expertise. He was nominated to manage the entire jewelry-watches division of LVMH (replacing Philippe Pascal) and to sit on the company's board of directors (Filippetti, 2011). In accordance with the technical specifications released by the LVMH group, "The business combination would permit LVMH and Bulgari to be uniquely positioned in the watches and jewelry sector to capture additional opportunities for growth in Europe, Asia and three Americas".

3.1.2 Acquisition rationale

We can now go deeper into the subject as the foundations for our examination of the purchase of Bulgari from the French group LVMH have been laid. Specifically, we will start by paying more attention to the elements that contributed to this operation. First, we start by looking at the importance that the Watches and Jewelry business group had at the time. The graph below represents the percentage value of each business group in 2010.

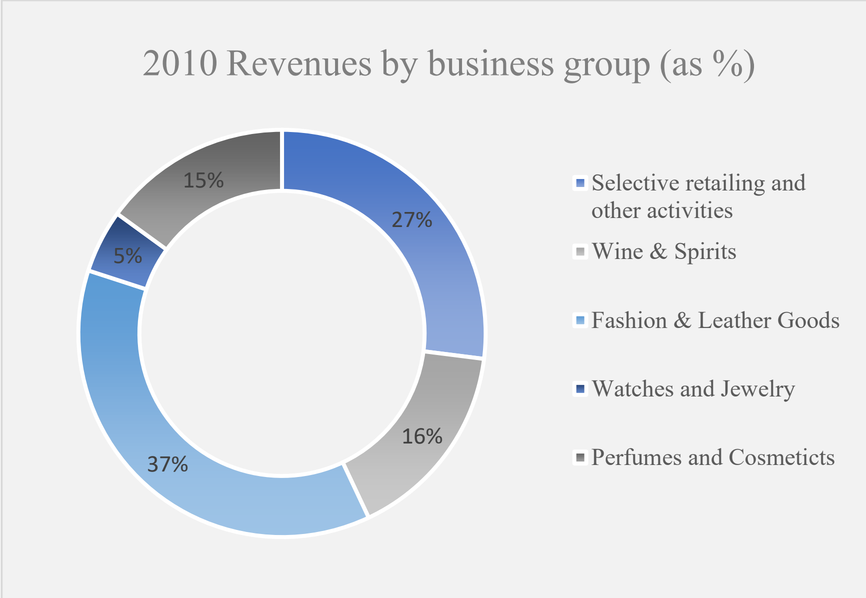


Figure 13 LVMH Business Groups' Revenues [Source: LVMH (2010)]

As we can see, the Fashion & Leather Goods business unit was already the most significant, while the Watches and Jewelry was in the last place and had a total impact on sales of 5% with 985 million euros of revenues. Even though this value is tiny in comparison to the group's sales, the 29% growth over the prior year nonetheless shows an excellent performance. This resulted from rigorous management, an increase in marketing expenses that was specific and focused, and multiple investments. This is consistent with the goals and intentions of the French group, as demonstrated by the then-president of the jewelry and watches business unit, who made it clear that they intended to grow more quickly than competitors, secure a stronger position in the market, and add more value through the expansion of their portfolio of brands (LVMH, 2011). With the 2008 acquisition of the Swiss company Hublot, the development process got under way a couple of years earlier. Despite this, the brand portfolio, which included names like Tag Heuer, Zenith, Hublot, and Chaumet, was still fairly limited. Despite being significant and luxurious brands, they remained somewhat niche, which constrained their overall availability and sales. The acquisition of a historical and internationally recognized group such as Bulgari, which also performed well in terms of jewelry and accessories, would have help the LVMH group to overcome this problem and finally gave a flagship brand within the group's watches and jewelry division where it lacked a dominant brand as instead it has in clothing, leather goods and wines (Filippetti, 2011).

Another important reason is the growth that Bulgari had shown in the years before the acquisition. In fact we can look at the evolution of revenues in the period 2002-2010.

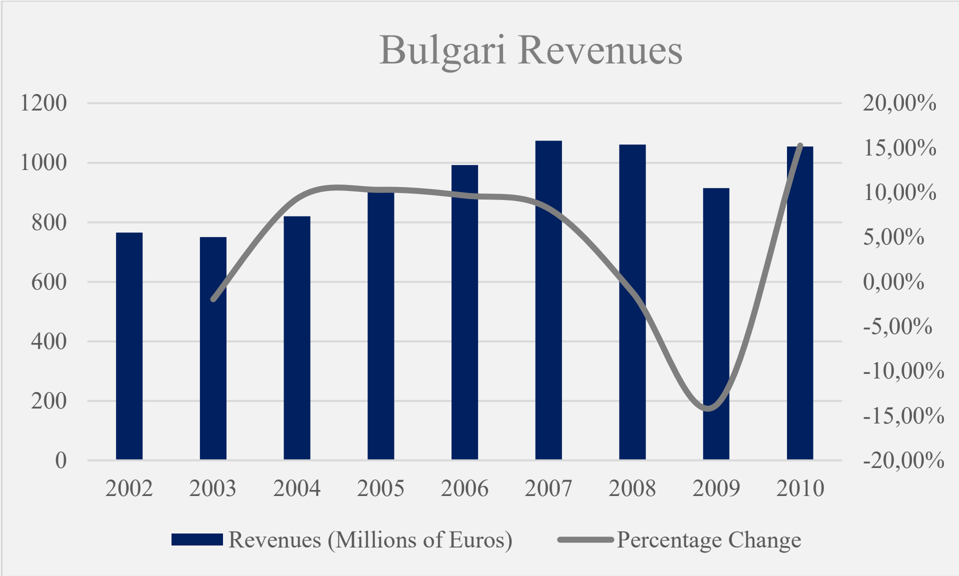


Figure 14 Bulgari Revenues 2002-2010 [Source: Refinitive Eikon]

Revenues increased from €765 million in 2002 to €1054 million in 2010, showing a moderate growth trend. The positive run was hampered by the financial crisis in 2007-2008, years during which Bulgari experienced a reduction in sales. In particular, in the three years before the acquisitions, Bulgari saw a percentage change in sale negative two times. Specifically, between 2008 and 2007 there was a decrease of 1.2%, while between 2009 and 2008 much more significant equal to -13,8%. Despite this, volume was relatively robust, suffering less than other businesses and demonstrating toughness during a challenging period of uncertainty. The CAGR for the full period of 2002 to 2010 is at 3.25%, which is not very encouraging but, as predicted, heavily impacted by the crisis. When we look at the time before the crisis, from 2002 to 2007, the CAGR is unquestionably more meaningful, with a value of 5.80%. The intriguing point is that when compared to the CAGR of the LVMH group during the same period, which instead ended at 4.45%, this number is confirmed to a high degree. In a nutshell, it indicates that the Bulgari firm saw a better rate of sales growth than the French group, and as a result, this is unquestionably one of the factors that influenced the purchase choice. However, LVMH did not suffer as much as Bulgari the Great Financial Crisis, putting it in a more solid financial position compared to the target. Indeed, the latter was financially impacted and was pretty difficult for it to expand even more by itself; this help LVMH group to find a meeting point without obstacles. The strategy may have been to wait for the moment when Bulgari had economic and financial difficulties to carry out the operation more easily. At the end, if we consider that revenues for the J&W unit of LVMH were 985 million in 2010, by integrating Bulgari in the conglomerate they would more than double.

Another crucial factor that falls under strategic considerations is from a geographical perspective. In Japan, where the Maison made it clear that it aimed to raise its share, the sales of the LVMH group's business unit for watches and jewels had a relevance of 12%, as shown in the figure below. Given that Bulgari's sales share in Japan was close to 20%, the acquisition of this company has undoubtedly assisted in this.

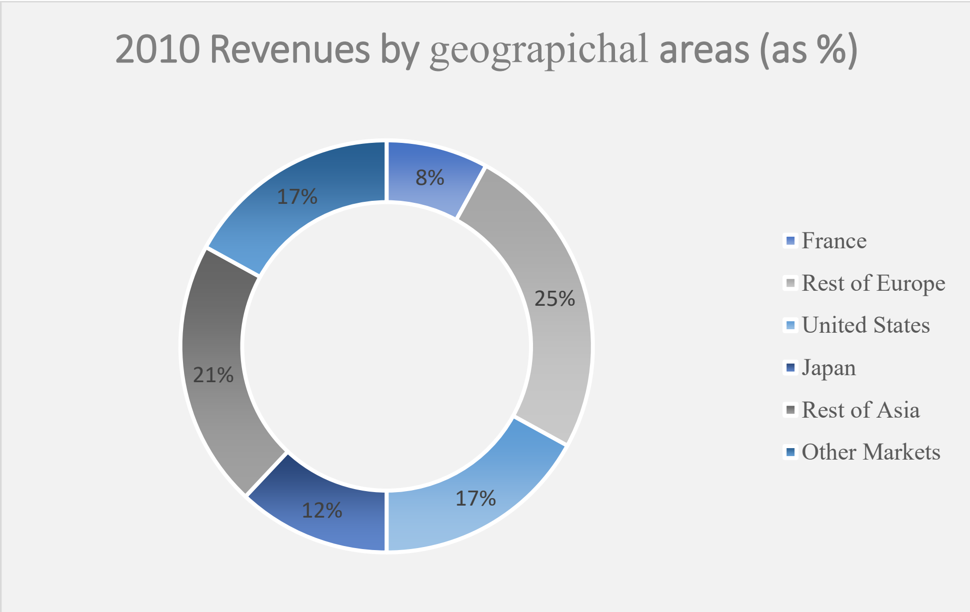


Figure 15 LVMH Revenues by geographies [Source: LVMH (2010)]

Along with the above mentioned factors, the transaction developed because of the two organizations' very compatible and linked beliefs and guiding principles. In fact, according to LVMH Group Managing Director, Antonio Belloni, "We felt very close to their business and this was a key factor in our decision to bring the two companies together. We share many of the same values, over and above their origins as a family business: an entrepreneurial culture, the spirit of innovation and creativity that have kept our brands at the forefront of modernity over time. Another fundamental value is the excellence we work towards in all aspects of our business: the quality of our products, our craftspeople, our salespeople, and our social and environmental policies. In the final analysis a constant desire to exceed our own expectations is right at the heart of everything we do, since it is only when you challenge yourself to the utmost that you can accomplish such wonderful things" (LVMH, 2011). In addition, LVMH would benefit from the incredible experience and talent of Bulgari management, especially from Francesco Trapani, the new chief of LVMH's Watches and Jewelry division, thanks to elements such as optimization of retail and distribution, optimization of vertical integration, increased purchasing power and shared best practices in all lines (LVMH, 2011). Furthermore, Bulgari's knowledge of jewels makes a significant contribution to all other brands in LVMH portfolio, both in term of synergies and skill sharing. Plus, Bulgari would gain from the knowledge and influence of LVMH, as well as from the utilization of common resources including prototype design capabilities and the best practices for creating investment plans, boosting efficiency, and negotiating contract terms with suppliers.

The next step, after examining the primary drivers behind the acquisition, is to assess the outcomes and consequences that it has had; to do this, we start by looking at the stock's performance surrounding the announcement date and then to the main financial impact.

3.1.3 Stock's performance

We will now assess how the LVMH stock performed in the days around the announcement date. This will be done in order to estimate the return that the investor and the shareholders would have made in the days prior to and after the acquisition. In addition, the evaluation of the share's performance may be seen as an indication of the market's perspective and response to the transaction. Another aspect is that by focusing only on the days around the announcement, the acquisition could be the only factor affecting significantly the price. Putting the attention on the price is considered to be forward-looking on the assumption that share prices are simply the present value of expected future cash flows to shareholders. However, I will first provide a quick explanation of the technique and the approach employed. Since this will also be used in the next case studies, it is crucial to get this straight away.

According to Bruner (2004), we consider as the raw return the change in share price and any dividends paid, divided by the closing share price the day before. The evaluation cannot end here since the shareholders and investors contributed their own capital, they demanded a certain return on their investment, which would be referred to as the cost of equity. This is the bare minimum return that can be achieved while taking on the risk. The following is the cost of equity formula, which is based on the capital asset pricing model:

$$R_i = R_f + \beta_i * (R_m - R_f)$$

So our measure of interest is the Abnormal Return, which simply is the difference between the raw return and the cost of equity.

Therefore, our goal is to determine the abnormal return of the LVMH shares around the period of the acquisition's announcement in order to assess the market's response. The two time frames of investigation that have been selected in this instance are particularly those that have shown to be the most used when examining Bruner's analysis in relation to the Returns to Acquiring Firm Shareholders. The exact event windows selected are (-1,0) and (-5,5), where 0 represents the announcement date. Let's examine the outcomes.

Bulgari Acquisition	
Event Window	Abnormal Return
(-1,0)	1,23%
(-5,5)	-6,96%

Figure 16 Abnormal Return at Bulgari acquisition [Source: Market-risk-premia, Yahoo Finance, Refinitive Eikon]

Beta for LVMH group is 0,95, so extremely near to 1, implying that our firm performs fairly similarly to the overall economy in which it participates. The expected market return and risk free rate are respectively 10,41% and 3,14%. Data are downloaded from Yahoo Finance and Marekt-Risk-Premia. Given these numbers, I calculated the cost of capital, which is initially calculated on an annual basis. The result is considerable, coming in at roughly 10%, but this was to be expected given how high the risk-free rate was. I then changed it to daily and after that to the one needed for our interest-period. All the data are presented in the Appendix. The acquisition was announced on March 6th, but since the market was closed on that day, I deemed March 7th to be the day of the announcement.

The result for the first shorter window of time, the one that considers only the day before the announcement, is positive. The abnormal return is equal to 1.23%; this is an encouraging result given the small time window and highlights the possibility for investors and shareholders to generate revenue as a result of the operation undertaken. The French group was able to create value in the market.

As for the ten-day window, which considers the five days before and after the announcement, the result is diametrically opposed. The abnormal return is negative and equal to -6,96%. This may mean that the price of the stock peaked in the announcement date, and then fell back to values even lower than those seen in the days before the announcement itself. As for large acquisitions, leaks can occur, which then affect the price of the stock. This could be one of those cases given the importance of the two companies involved. The price could have increased already in the weeks before the announcement and this would explain the difference between the two results obtained. The day of the announcement there was a positive return while in the longer time window a negative one since the price could have already discounted the news previously. Nevertheless, it is never easy to consider all the factors, and trying to comprehend how a stock's price behaves is always challenging.

Although these two results are opposite and may seem at first glance contradictory, they are not. In fact, they are in line with the results obtained by Bruner analyzing many studies and coming to the conclusion that the returns around the announcement date for the acquiring firm are on average negative or around zero. They obviously vary depending on the kind and significance of the transaction, the current economic climate, and the event window selected. Overall, there was no clear agreement on whether value is created or destroyed after a purchase.

3.1.4 Financial Impact

Regarding the analysis from the financial point of view we will quickly dwell on the results of the business unit relative to the acquired company and on the elements of the balance sheet that have been mainly hit as a result of the acquisition. It is difficult to assess the company's performance in relation to each specific acquisition because the LVMH Group does not release data and information specific to each individual brand. For this reason in this section we will limit ourselves to exposing the main general data in order to have a basic vision. In the next part, however, we will evaluate the company's performance

	2012	2011	2010
Revenue *(EUR millions)*	2,836	1,949	985
Revenue by geographic region of delivery *(as %)*			
France	6	7	8
Europe (excluding France)	27	26	25
United States	12	13	17
Japan	14	14	12
Asia (excluding Japan)	26	26	21
Other markets	15	14	17
Total	100	100	100
Profit from recurring operations *(EUR millions)*	334	265	128
Operating margin *(as %)*	12	14	13
Operating investments *(EUR millions)*	136	117	36
Number of stores [(a)]	347	327 [(b)]	122

Figure 17 LVMH W&J revenues [Source: LVMH (2012)]

from different points of view in the long term to assess whether the strategic choices adopted have produced positive results.

In this specific case it is worth focusing on sales, which increased by 98% following the purchase of Bulgari. This is simply due to the high sales volume that the latter already had. Its incorporation in the French group has doubled the importance of the Watches and Jewelry business unit from 5 to 10%. For Watches and Jewelry, also the profit from recurring operations climbed by two times, reaching 265 million euros. Both the consolidation of Bulgari's income and an increase in profitability led to this significant increase. Exposure to Asia and Japan increased by 5% and 2% respectively, as did the number of stores, of which 170 are directly attributable to the acquisition of Bulgari.

As far as the balance sheet is concerned, we will only dwell on the elements directly attributable to the incorporation of Bulgari. It mainly affected the 2.2 billion euro increase in other non-current assets. Tangible and intangible assets, grew by 5.6 billion euros, 4.2 billion of which resulted from first consolidations throughout the year. This principally refers to Bulgari, whose brand was estimated to be worth 2.1 billion euros, with goodwill of 1.5 billion euros. Inventories rose by 1.5 billion euros. 0.7 billion euros of this increase was related to inventories held by firms purchased in 2011, primarily Bulgari, with the remaining amount coming from the expansion of the Group's activities.

(EUR billions)	2011	2010	Change
Tangible and intangible assets	26.5	20.9	5.6
Other non-current assets	7.3	5.1	2.2
Non-current assets	**33.8**	**26.0**	**7.8**
Inventories	7.5	6.0	1.5
Other current assets	5.8	5.2	0.6
Current assets	**13.3**	**11.2**	**2.1**
Assets	**47.1**	**37.2**	**9.9**

(EUR billions)	2011	2010	Change
Total equity	23.5	18.2	5.3
Non-current liabilities	14.0	11.9	2.1
Equity and non-current liabilities	**37.5**	**30.1**	**7.4**
Short term borrowings	3.1	1.8	1.3
Other current liabilities	6.5	5.3	1.2
Current liabilities	**9.6**	**7.1**	**2.5**
Liabilities	**47.1**	**37.2**	**9.9**

Figure 18 LVMH Balance Sheet 2011-2010 [Source: LVMH (2011)]

At the end of 2011, non-current liabilities were 14 billion euros, up from 11.9 billion euros at the end of 2010. The recognition of a deferred tax obligation for the Bulgari brand (worth 0.7 billion euros), a rise in long-term net financial debt (worth 0.7 billion euros), and an increase in obligations to buy minority shares (0.5 billions euros) were the causes of this increase.

3.2 Loro Piana

3.2.1 History and Introduction

Loro Piana is a firm in northern Italy with a six-generation history that started with the commerce of wool in the 19^{th} century and then was officially created in 1924 by Pietro Loro Piana. Beginning in 1941, the firm developed into worldwide markets due to its sophisticated and elegant offer: it makes items from chosen wool and cashmere, which was unknown to most at the time. Since the 1970s, the firm has grown into a true multinational corporation, becoming the largest cashmere processor and buyer of fine wool (Beretta, 2011). The company's mission has always been to discover and work with the greatest raw materials and use them to create a product that is both attractive and practical for the wearer. Excellence is sought after in every part of the production process, from the selection of raw materials, to the final delivery of the finished product. Excellence is attained via research, which is the foundation of Loro Piana and enables the business to adapt, satisfy requirements, and then refresh the stylistic offer. The company is very proud of this value and believes in the strength of its communication with customers and the entire supply chain to arrive at new opportunities in the markets. All collections and accessories are strictly produced in Italy in compliance with the savoir-faire, the brand heritage and sartorial excellence. The firm has two different divisions: one producing clothes and apparels for men and women, and a second one dealing with fabrics and raw materials coming from all around the world (Mesco and Passariello, 2013).

On July 8, 2013, LVMH announced the acquisition of a majority share in Loro Piana, exactly the 80%. Sergio and Luigi Loro Piana, Target's leaders, retained their positions and remained 20% shareholders. Loro Piana had 130 stores throughout the world (5 in France), estimated revenues of 700 million euros in 2013, and 2300 employees at the time (LVMH, 2013). The LVMH group paid roughly 2 billion euros for 80% of the Italian luxury brand, giving the business, considering the debt, an enterprise value of 2,685 billion (Panorama, 2013). This value was calculated using the EV/EBITDA multiples as well as a control premium. The transaction was financed primarily with cash on hand and the issue of additional debt in the form of short-term commercial paper and medium-term bonds. Overall, the Group expected gearing to be less than 20% and to have no relevant impact on the debt profile. Loro Piana family stated that "is proud that our name is now associated with the LVMH Group. Under Bernard Arnault's leadership, LVMH has proved that it respects and nurtures family businesses and is most likely to respect the values and traditions of our Maison, as well as our desire to provide our clientele with unparalleled quality".

3.2.2 Acquisition Rationale

We will now delve into greater depth, following the same stages as in the Bulgari case, and beginning with the major causes behind the acquisition. The division of fashion and leather goods plays the most significant role within the group LVMH, and represents the business group with the greatest revenues, as we previously saw in part 2 and briefly in the Bulgari case. We have also found that the greatest M&A deals take place in this business unit. The question therefore becomes why, given that the Fashion and Leather Goods business unit already had a 35% impact on sales in 2012, the French Group maintains the process of acquisitions in this sector in order to further increase its importance. The crucial element I found is depicted in the graph below.

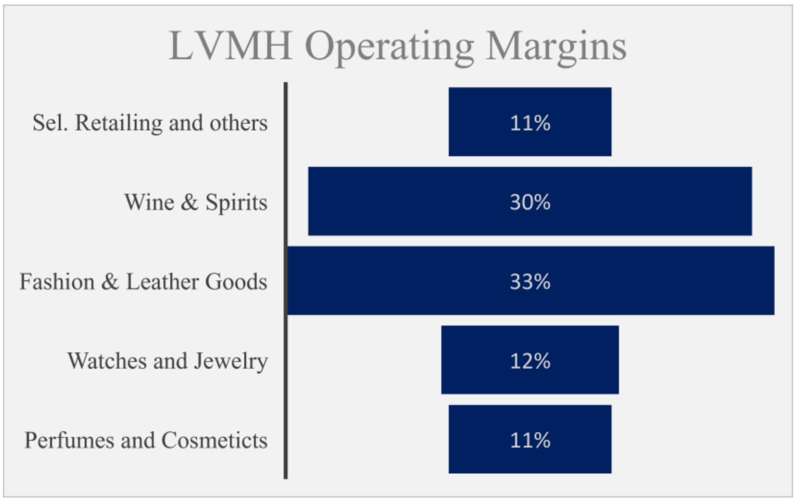


Figure 19 LVMH Operating Margins [Source: LVMH (2012)]

The amount of money left over from sales after all operational expenditures have been paid is known as the operating margin, and it is one of the most significant indicators of a company's profitability. For a firm, it's essential since the greater it is, the lower the company's overall financial risk is. As seen in the image above, the Fashion and Leather Goods segment has the largest operating margin (33%), making it the most lucrative business for the French Group. Additionally, wine and spirits acted well, although if we recall, their significance in the group has decreased the most over time. This means that despite the business was profitable, the LVMH Group preferred to focus more on fashion and luxury. This is likely due to the fact that the volumes were more than double (9,882 vs. 4,178 million of euro in revenues) and because the Group believes that through clothing and accessories, it can more efficiently and successfully express its values—an aspect on which it has always expressed a special interest and attention. Now that we know why LVMH chose to focus so much on this particular business unit, we can attempt to comprehend why the company specifically wanted the brand Loro Piana.

We might begin by examining the sales in the three to four years prior to the purchase. By doing so, we can evaluate if Loro Piana's business was successful and expanding prior to LVMH's shown interest in it.

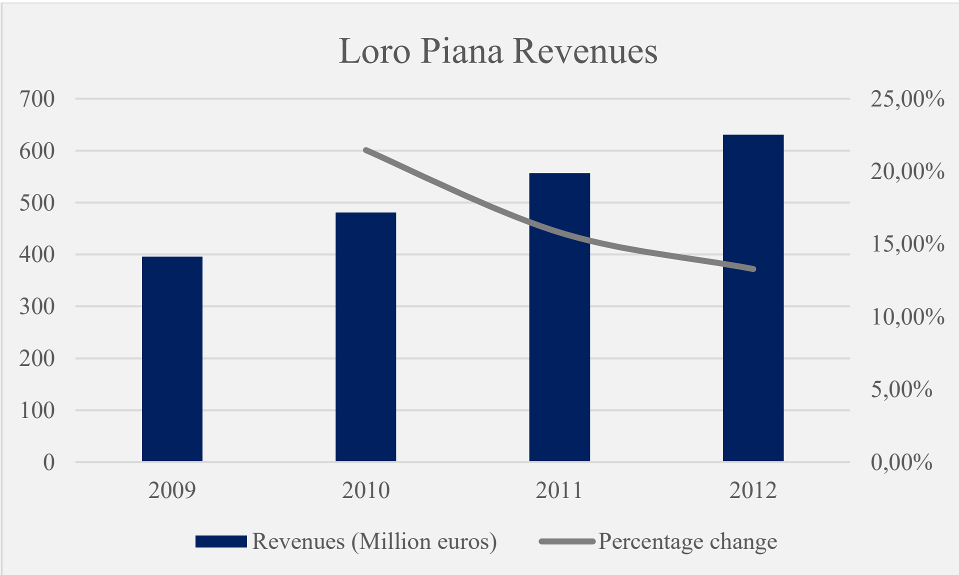


Figure 20 Loro Piana Revenue Evolution [Source: LVMH (2012)]

Sales nearly doubled in just three years, from 396 million euros in 2009 to 631 million in 2012, as shown in the graph above. The CAGR, which for this period is 16.7%, is unquestionably the most relevant number. We can also notice that the percentage increase diminished in the three years analyzed; however the values are still fairly positive coming at +21,5%, 15,8% and 13,3%. It's fascinating to note that 68% of Loro Piana's sales originate from luxury goods, with the remaining 32% coming from textile fabrics and raw materials (LVMH, 2013). This might have been still another major factor in LVMH's decision to make this purchase, since doing so gave them access to the Italian company's sought-after and high-end textile materials, which could have been valuable and used for other brands inside the French conglomerate. EBIT also increased even quicker, with a CAGR of 58.3% from 24.7 million to 97.9 million. Despite these numbers, Loro Piana had an EBIT margin of 15.6%, which was lower than the French group in the fashion industry. The acquisition may have been motivated by a desire to raise this number, boost productivity, and therefore raise profits.

The second factor is unquestionably Loro Piana's global reach. In reality, despite being a luxury brand and catering to a niche and selective audience, the Italian company has a sizable global presence, with roughly 130 shops. 19 of these 130 stores are in Italy, and 32 are in Europe; even in Asia, where there are 31 stores (not including the 24 in Japan alone), there are more than enough locations. The following illustration demonstrates how this information affects sales.

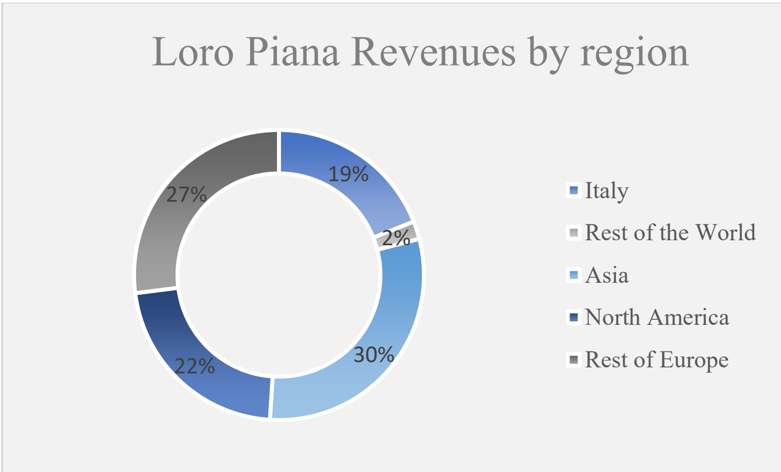


Figure 21 Loro Piana Revenue by region [Source: LVMH (2012)]

Asia accounts for 30% of overall sales, indicating once again how its clients are highly drawn by premium European items and have a great proclivity to spend. The French holding firm intends to further increase its footprint in the East of the world with the launch of Loro Piana, a decision that was previously obvious in the W&J sector with the acquisition of Bulgari, but which has now been extended to all business divisions.

The access to high-quality raw materials that Loro Piana possesses thanks to its vertical integration is a further feature that has already been noted but that now acquires particular significance. The French Group has actually started a vertical integration process with the goal of controlling all supply chain steps in order to have full control over the production processes, check that they meet the necessary standards of perfection, and ultimately provide the customer with the best possible product. Loro Piana is a "vertically integrated brand from access to the best raw materials through distribution to the most discerning clients" making it ideal for this project. With this transaction, LVMH gains access to materials of incomparable worth, like Vicuna, which was utilized by the Peruvian Emperor, cashmere and baby cashmere, fine Merino wool, and Lotus Flower Fiber. Loro Piana is one of the most exclusive brands in the world for high quality clothes because of the use of these materials, and these standards are achieved through obsession and the continuous search for quality at every stage, which is facilitated by Made in Italy, which has always respected these values. These features tie the Italian brand with the LVMH Group due to the two organizations' shared and foundational ideals. This facilitates integration inside the conglomerate and fully using the synergies established between the two. As evidence of this, Bernard Arnault himself commented on the purchase saying: “Loro Piana is an exceptionally rare Maison, rare in the unique quality and craftsmanship in its products, not least in cashmere and fine textiles, but also in the unbroken heritage and careful family husbandry over six generations. I am very pleased that Sergio and Pier Luigi Loro Piana believe that our group is best able to ensure the future of the house of Loro Piana. Indeed we share the same values: family and craftsmanship allied to the tireless pursuit of quality, and I am convinced that our group will prove a good home in realising the significant future potential of Loro Piana”.

Lastly, some analysts believe that the French conglomerate's decision is a market move intended at maintaining their leadership position in the luxury industry and in response to recent movements by one of its main competitors, Kering (Bennewitz, 2013). In fact, the latter group had purchased Brioni, a brand similar to Loro Piana, at around the same time.

Overall, the French multinational expands its portfolio with a best-in-class, distinctive brand with a long history and gains access to one of the most desired names in the world for high-quality products.

3.2.3 Stock’s performance

Let’s take a step forward and see the reaction of the market to the announcement of the acquisition in our usual two time windows. All the data are present in the appendix, but for having an idea the risk-free rate was equal to 1,67% while the implied market return 8,50%. Generally, the economic conditions have altered slightly since the Bulgari case in 2011 and as a result, the market risk premium is now smaller, implying that investors expect a lower reward over a risk-free investment than they did two years earlier. Let's finally see the abnormal returns.

Loro Piana Acquisition	
Event Window	Abnormal Return
(-1,0)	2,94%
(-5,5)	4,97%

Figure 22 Abnormal Return at Loro Piana acquisition [Source: Market-risk-premia, Yahoo Finance, Refinitive Eikon]

In this scenario, the excess returns are both positive and show high values in both windows, reporting +2.94% and 4.97%. Given that the stock market is unpredictable and frequently performs irrationally, it is challenging to come up with logical and thorough explanations for these results if compared to the Bulgari case. Nevertheless, in light of the events and type of transaction, a couple of reasons can be analyzed and evaluated. First, the market may have reacted so positively as a result of the strong identity, values and excellence that the Loro Piana brand represents. All these elements are aligned and fully represent the essence of the LVMH Group; for this reason the market may have reacted positively considering the acquisition of the Italian brand in line with the standards and brand identity of the conglomerate. Second, the acquisition may have been overshadowed initially, as it was not a game changer transaction that could immediately double sales in the interest segment as in the Bulgari case. In the latter case, we hypothesized how the performance may have been influenced by a previous market discount; with Loro Piana this may not have happened and the excess return around the announcement date may have benefited.

3.2.4 Financial Impact

Let us now briefly look at the main financial effects in the years around the acquisition. From the point of view of sales and profit from recurring operations it is rather difficult to find the effects of the acquisition given the short time span and low volumes of Loro Piana when compared to those of the LVMH Group. However at first glance, it appears that sales of fashion and leather goods decreased between 2013 and 2012 before increasing and surpassing their 2012 levels. With a little drop to 34% in 2013, the proportion of overall sales stayed unchanged at 35%. One of the indicator that could have been impacted is the operating margin. Because Loro Piana had a smaller operating margin relative to the LVMH' fashion business unit, its full integration may be one reason why it declined by 4% over the course of these two years.

	2014	2013 [a]	2012 [a]
Revenue *(EUR millions)*	10,828	9,883	9,926
Revenue by geographic region of delivery *(%)*			
France	8	8	8
Europe (excluding France)	21	20	19
United States	21	20	20
Japan	11	12	14
Asia (excluding Japan)	30	31	31
Other markets	9	9	8
Total	100	100	100
Type of revenue as a percentage of total revenue (excluding Louis Vuitton)			
Retail	58	52	51
Wholesale	40	43	43
Licenses	2	5	6
Total	100	100	100
Profit from recurring operations *(EUR millions)*	3,189	3,135	3,257
Operating margin *(%)*	29	32	33
Operating investments of the period *(EUR millions)*	585	629	580
Number of stores	1,534 [b]	1,339	1,280

Figure 23 LVMH Fashion and Leather goods revenues [Source: LVMH (2012)]

Probably the most interesting insight from the picture above concerns the type of revenue as of percentage of total revenue. In particular, the retail sector increased by 7% between 2012 and 2014, whereas licensing and wholesale fell by 3 and 4%, respectively. The French Group wants to have a direct channel and have close control of the sales and distribution channels. This is all a part of the larger goal of direct supply chain management. In reality, LVMH Group provides strong control over the brand image, sales reception, and environment that the brands want by keeping tight control over the distribution of its goods. It also enables the Group to retain tighter relationships with its customers, improving its ability to anticipate their demands. This is especially true for fashion and leather goods, and the Group established the first global network of premium boutiques under the banner of its fashion and leather goods brands, which at the end of 2014 had 1534 locations. The addition of 122 new stores and new openings in key strategic localities including Japan, the United States, and Paris made possible by the incorporation of Loro Piana increased the breadth of this initiative.

As for the balance sheet, only the elements most affected by the acquisition will be listed without dwelling on all the elements that are influenced by many other factors. The acquisition of Loro Piana had a substantial impact on physical and intangible assets which grew by 1.9 billion euros for the integration of the Italian brand. Other non-current liabilities were impacted by the Loro Piana transaction. They went up by 0.9 billion euros, of which 0.5 are due to the acknowledgment of the promise made to Loro Piana's minority shareholders for the purchase of the 20% stake they currently own in the business. Additionally, Loro Piana raised gross borrowings by 0.2 billion euros. Overall the balance sheet increased by 5.7 billion euros which represent a growth of the 11%.

(EUR billions)	2013	2012[a]	Change
Tangible and intangible assets	31.0	28.1	2.9
Other non-current assets	8.6	7.6	1.0
Non-current assets	**39.6**	**35.7**	**3.9**
Inventories	8.6	8.1	0.5
Other current assets	7.5	6.2	1.3
Current assets	**16.1**	**14.3**	**1.8**
Assets	**55.7**	**50.0**	**5.7**

(EUR billions)	2013	2012[a]	Change
Total equity	27.7	25.5	2.2
Long term borrowings	4.2	3.8	0.4
Other non-current liabilities	12.1	11.2	0.9
Equity and non-current liabilities	**44.0**	**40.5**	**3.5**
Short term borrowings	4.7	3.0	1.7
Other current liabilities	7.0	6.5	0.5
Current liabilities	**11.7**	**9.5**	**2.2**
Liabilities and equity	**55.7**	**50.0**	**5.7**

Figure 24 LVMH balance sheet 2012-2013 [Source: LVMH (2013)]

In the end, I believe that Loro Piana's acquisition is distinct from Bulgari's. In the first instance, the major goal was to make the W&J sector more significant, and this was accomplished by incorporating an iconic brand that is well respected and liked. This allowed for rapid economic returns, as sales in that particular sector more than doubled. However, a similar study in the instance of Loro Piana is more difficult. First off, the French group already had significant sales volumes and prestigious brands in the fashion and leather goods industry. Second, despite Loro Piana's own strong and expanding sales volumes, they are still negligible in comparison to LVMH's overall sales volumes in this business unit. Due to this, as can be seen from the study of the annual income statement, the latter have not suffered any notable modifications. I thus think that the purchase of Loro Piana had deeper strategic implications and motivations, which are more difficult to put into numerical form. In reality, the LVMH Group has enhanced its image and brand identity even further with this integration, assuring a first-rate and luxurious brand. Additionally, it has guaranteed the availability of the finest raw materials and wool available, which may be utilized for the other brands. Both parties benefit from this deal as the Italian brand may leverage LVMH's expertise, negotiating position, and infrastructure to develop over time. Last but not least, the transaction increased value for shareholders and investors. Overall, the operation can be deemed effective, but the results must be examined over a longer period of time and are challenging to evaluate alone.

3.3 Belmond

3.3.1 History and Introduction

The Belmond Group is a luxury hotel and travel operator that was listed on the New York Stock Exchange. Orient-Express Hotels was the company's original name before it was changed to Belmond on July 1st, 2014 (Fox, 2018). Thanks to its accommodations, distinctive experiences, and distinctive modes of transportation, it has been a pioneer and a benchmark in luxury travel for more than 40 years. The ancient and renowned Cipriani hotel in Venice was purchased by American businessman James Sherwood for £900,000 in 1976 (Fallon, 2018), and that is how Belmond's journey began. This hotel is a superb example of Belmond's ideals and high standards; it is close to St. Mark's Square but yet away from the busy city center, making it the ideal choice for guests seeking excellence in hospitality, service, personnel, cuisine, and architecture. The Venice Simplon Orient Express, a luxurious train that would have carried the most pretentious guests to La Serenissima starting in 1982, was being pieced together by the firm a year after it had acquired the Cipriani. Heritage, workmanship, a sincere reputation, and individualized and unrepeatable services that uplift and guide the soul are the values that define the brand. The intention is to provide the consumer a one-of-a-kind, never-to-be-repeated experience while ensuring that he is transported and is told the history of each edifice. The Belmond brand thinks that workmanship and design are essential to achieving this aim and may help differentiate the consumer experience. Each location captures and expresses the essence, culture and materials of the place in which it is located. The words of the current CEO and president of Belmond best represent all that the brand is: “Belmond has been at the forefront of luxury travel for more than four decades. At the very foundation of our brand is an entrepreneurial spirit and sense of adventure and we strive to continue our legacy of pioneering luxury travel experiences. We stand for understated luxury, for genuine service, for conscientious design and local craftsmanship. But the hallmark of a Belmond experience, is a moment that is infused with joy, celebration, and ultimately, lasts”.

Belmond at the time of the purchase comprehended 46 hospitality offerings, each with an own brand identity and operates in 24 different countries. Two macro-areas of the firm may be distinguished: the first is more closely related to hospitality and includes hotels (33), safari campus (3), and restaurants (1). The second is primarily concerned with travel and experiences thanks to trains (7) and cruises (2) (LVMH, 2018). In 2017, the former generated 87% of revenue and 78% of EBITDA, whilst the latter generated 13% and 22% (LVMH, 2018).

The Grand Hotel Europe, Copacabana Palace, Hotel Cipriani, Hotel Caruso, Belmond British Pullman, Eastern and Oriental Express, and Belmond Afloat are just a few of the notable properties.

With the intention of concluding the transaction by the middle of 2019, the French Group LVMH announced the agreement for the acquisition of the Belmond brand on December 14, 2018 (Fox, 2018). LVMH purchased 100% of the share capital, equal to 103.0 millions class A Belmond’s shares. The price paid for each share was $25, which represents an enterprise value of $3.2 billion out of a total equity value of $2.6 billion. The $25 price represents a generous 41.6% premium over Belmond shares the previous day (Reuters, 2018) (Crossley, 2019) which has been delisted following the acquisition.

3.3.2 Acquisition rationale

Let's examine the major drivers behind the French company's decision to purchase the Belmond brand, which operates in a sector very different from the two prior discussed purchases.

As discussed earlier in part 1, the luxury fashion market has grown strongly in recent years, reaching its peak in 2021 after recovering from the epidemic and economic crisis due to Covid-19. In 2018, the luxury market had reached 1.2 trillion euros showing a +5% compared to the previous year. Apart from Personal Luxury Goods, which once again prove to be the leading sector of luxury, the most important growth took place in luxury experiences: luxury hospitality up 5%; gourmet food and fine dining up 6%; luxury cruises up 7%; with luxury expeditions booming (Midmer, 2019). A BCG analysis that reveals that more than half of customers are buying less luxury things in favor of more premium experiences further supports this trend. The same survey predicted that by 2022, the experience market will represent two thirds of the whole luxury sector, demonstrating a significant shift in consumer attitudes. Additionally, by 2028, global expenditure on the so-called experience economy, which is predominantly driven by millennial customers, is predicted to reach $8.2 trillion (Paton, 2018). We can better assess the situation with the aid of the graphic below (D’Arpizio et al., 2019.)

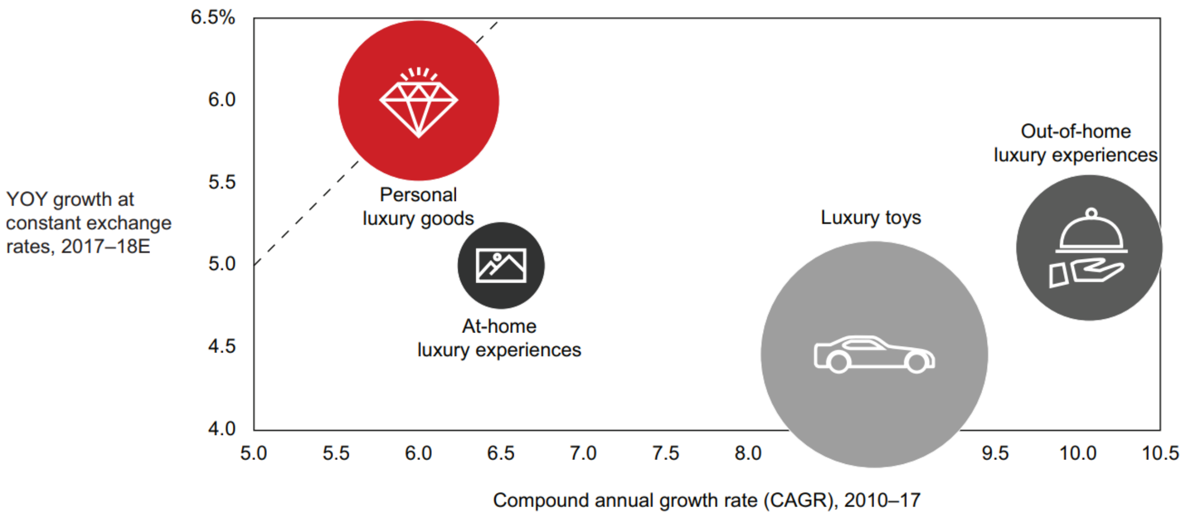


Figure 25 Luxury sectors growth [Source: D'Arpizio et al., (2019)]

As we can see the Personal Luxury Goods shows the highest YoY growth rate, as mentioned above, followed by the Out-of-home luxury experiences. These include luxury hospitality, luxury cruises and fine dining. The most intriguing aspect of the graphic, however, is found in the horizontal axis, which depicts the CAGR between 2010 and 2017. Out-of-home luxury experiences are the sector with the highest growth rate, ranging between 10% and 10.5%. This demonstrates that the trend is not fleeting but has instead been growing steadily for a number of years, and based on what has been observed, it was predicted that future years will witness even larger increase. Buying one of the most significant brands in the industry would have gained access to a significant portion of a market that has demonstrated great growth and has the same potential. This is unquestionably one of the reasons the LVMH Group sought to invest in Belmond.

The decision to invest in this sector was also dictated by the low presence of the same by the French conglomerate. The latter does not have a specific business unit for luxury hospitality or more generally for luxury experiences. On the contrary, it presents the so-called business unit of "other activities" which has the objective of being an ambassador of culture and a certain "art de vivre" (LVMH, 2022). Inside there are several Maisons that go from Les Echos, which manages prestigious economic and cultural publications, to the Royal Van Lent, which produces custom yachts signed Feadship. Only Cheval Blanc is devoted to building a chain of elite hotels in terms of hospitality. We can already tell from this that LVMH Group has never opted to focus and invest substantially in this type of business and activity. This is evident in the fact that "other activities" reduced the group's revenues by around 1.3% in 2017 (LVMH, 2017), resulting in a loss of 596 million Euros. As a consequence of the bad results and in light of the overall rise in this industry, the French group had chosen to focus heavily on well-known and well-appreciated brand in order to capitalize this increase while also cleaning up losses inside their own organization.

Let’s look at Belmond’s sales in the years leading up to the takeover. In the two preceding cases we have seen that LVMH looks for a sort of increase in the sales, even if in the case of Bulgari they were diminished in the in the period close to the acquisition.

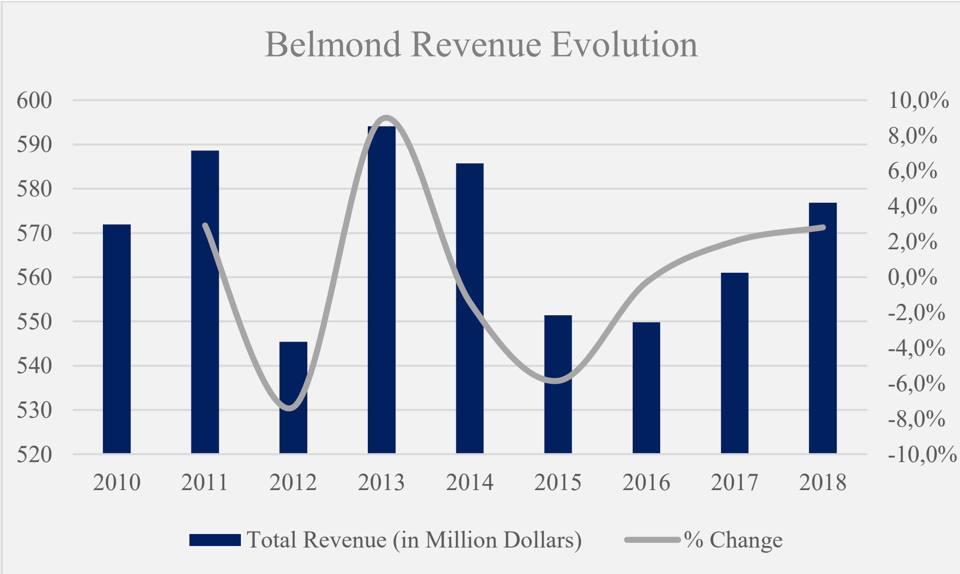


Figure 26 Belmond revenues [Source: Refinitive Eikon]

Although sales for 2018 were expected to be over 570 million dollars, they shown a somewhat volatile tendency with little overall growth since 2010. The years between 2011 and 2013 had the most dramatic shifts, with a -7,34% difference between 2011 and 2012 and a +8.93% difference between 2013 and 2012. Following this, there were negative years until 2016, when sales totaled $550 million, the second lowest absolute amount. In the years preceding the acquisition, the brand shown a comeback, with 2% and +3% increases in 2017 and 2018, respectively, and a room occupancy rate of 62% till September 2018. Nonetheless, net profits remained negative.

The reasons for Belmond’s acquisition cannot be found in the company’s incredible economic performance. Rather, they are more strategic, intangible and authentic reasons. By following consumer preferences and searching for more experiences there is the very quest for authenticity in consumption. The most essential sort of authenticity during consuming experiences is existential authenticity, which refers to the emotion that a consumer has while in relation to a brand, and the more favorably this experience is perceived by the customer, the more the brand will be regarded authentic (Girardin, 2018). In the years preceding the acquisition, the LVMH Group had been struggling with the perception of authenticity of several of its brands. The major reasons were that more and more people were wearing their items, making them less unique, and some businesses were also criticized for shifting manufacturing to nations with cheap labor costs while raising pricing. Through a positive halo effect, LVMH's acquisition of Belmond provides a chance to provide transformational experiences to its customers and increase their authentic views of - and hence loyalty to - other brands in LVMH's portfolio. As a result, this acquisition may be more closely linked to relationships, trust, and customer engagement. In particular, younger generations are more likely to spend more money on travel and luxury experiences; so, through this choice the LVMH Group hoped to capture this type of clientele, which may then be converted into clientele for other brands within the group. Finally, the Belmond brand had 48% of clients in North America (LVMH, 2018), a market in which the LVMH group was less active compared to Europe or Asia. Indeed, Asia was a market in which Belmond does not have many operations; its inclusion in LVMH represented an opportunity to penetrate that market as well. Belmond was present at the time in more than 24 countries, and thanks to that the LVMH group could reach a highly refined customer base in the ultimate luxury hotel world with one single acquisition.

Another factor is reflected by Belmond's iconic, irreplicable, and legendary assets. LVMH ensured the property of these extremely valuable estates in the most sought-after and desired tourist locations through Belmond's acquisition. Similarly, by sticking with the same management team, you guarantee experience and in-depth understanding of the sector. Also, huge potential exists in Hotel Management Agreements.

Finally, Belmond is fully complementary to the Cheval Blanc hotel facilities that the group already owns (LVMH, 2018). Belmond is synonymous of history, heritage and timeless experiences thanks to the adventures and natural wonders, cultural centers, sanctuaries and unforgettable trips in its portfolio. Cheval Blanc represents the ultimate luxury, service, architecture and unique gastronomy.

3.3.3 Stock's performance

The next stage is to depict the market's reaction to the purchase, considering the excess returns earned on the day of the announcement and in the time range that includes the five days before and after. The yearly capital cost in this example was roughly 7.3%, due mostly to the low risk-free rate of 0.25%.

Belmond Acquisition	
Event Window	Abnormal Return
(-1,0)	-1,54%
(-5,5)	1,39%

Figure 27 Abnormal Return at Belmond acquisition [Source: Market-risk-premia, Yahoo Finance, Refinitive Eikon]

In this situation, the outcomes are directly opposed. On the first day of the announcement, a negative excess return of 1.54% was recorded with respect to day before. This might be due to a poor reception from the market because of the acquired firm's characteristics. As previously said, a specific operation occurred in an area and in a business unit that was neither strategic or crucial to the French group, resulting in losses in the same one. Furthermore, the purchased company's economic results were unimpressive, with fluctuating sales and earnings that were negative in the previous year. As a result, investors may have viewed the deal negatively, and their sentiments were reflected on the share's price.

In the 10-day time frame, however, the excess return is around 1.4%, indicating a significant shift. This can be due to increasing investor scrutiny and transaction knowledge. However, as is usual, we try to uncover some a posteriori explanations for the variations in the price of the share. It is difficult to attach significance to all price fluctuations, which may be attributable to factors other than the acquisition. Again, the outcomes differ from the prior two cases.

3.3.4 Financial Impact

With regard to the financial impact of the transaction, it is difficult to analyze it, mainly for a couple of reasons. First of all, LVMH Group does not provide specific information about the

"Other Activities" in which the Belmond brand falls, unlike all other business units. Secondly, about a year after the acquisition, the pandemic from Covid-19 occurred and the most affected sector was obviously the hotel and hospitality one. Mainly for this reason also in the years following the acquisition the "Other Activities" still show a negative performance and loss.

What we can briefly see is the impact of Belmond's integration on the French group's balance sheet.

(EUR millions)	**2019**	**2018[1]**	**Change**
Intangible assets	33,246	30,982	2,264
Property, plant and equipment	18,533	15,112	3,421
Right-of-use assets	12,409	-	12,409
Other non-current assets	5,810	4,656	1,154
Non-current assets	**69,997**	**50,749**	**19,248**
Inventories	13,717	12,485	1,232
Other current assets	12,793	11,066	1,727
Current assets	**26,510**	**23,551**	**2,959**
Assets	**96,507**	**74,300**	**22,207**

(EUR millions)	**2019**	**2018[1]**	**Change**
Equity	38,365	33,957	4,408
Long-term borrowings	5,101	6,005	(904)
Non-current lease liabilities	10,373	-	10,373
Other non-current liabilities	20,045	17,505	2,540
Non-current liabilities	**73,884**	**57,467**	**16,417**
Short-term borrowings	7,610	5,027	2,583
Current lease liabilities	2,172	-	2,172
Other current liabilities	12,841	11,806	1,035
Current liabilities	**22,623**	**16,833**	**5,790**
Liabilities and equity	**96,507**	**74,300**	**22,207**

Figure 28 LVMH balance sheet 2018-2019 [Source: LVMH (2019)]

The first item definitely influenced by the acquisition are the intangible assets, which grew 2.3 billion, of which 1.2 are attributable to Belmond. The latter also increased Property, Plant and Equipment for 2.4 billion euros. This result is mainly due to the many assets and real estate that the brand owns. Belmond also influenced other non-current assets for 0.4 billion because of its joint ventures. Inventories were not affected, nor was debt particularly affected. The latter increased only 0.7 billion, as the cash flow from operating activities and operating investments managed to cover for the most part the financial investment made for the acquisition.

3.4 Tiffany

3.4.1 History and Introduction

Tiffany & Co. is one of the most well-known and renowned jewelry brands on a worldwide scale. It has a top-tier reputation and has been linked to style and glamour for the past two centuries. In particular, it was founded in 1838 by Charles Lewis Tiffany and J.B. Youngs, who opened a modest shop in New York City. The firm was immediately successful, and after three years a third partner, Ellis, arrived. Given that it was introduced by Charles in the 1840s, one of Tiffany's distinctive and well-known characteristics is the blue/aquamarine color, which symbolizes the company's heritage and history (Becker, 2022). With jewels and products in full American-style, the shop represented a turning point and a change from the Victorian era. It was the first American company to use the British Silver Standard, which has a purity level of 92% and enables it to get international recognition. Tiffany's name and precious jewelry began to be associated around 1878, when it purchased the largest yellow diamond, renamed the Tiffany Diamond, from the Kimberly jewelry mine in South Africa (Biron, 2019). After Charles assumed complete leadership of the business in 1853, his son Louis succeeded him when he passed away in 1902. Louis also served as the company's first nominated design director (Anderson, 2016). Additionally, he founded the first Tiffany Artistic Jewelry division, where priceless jewelry was manufactured right there on the premises. Louis was an important figure for the company, as he strongly influenced the brand with his colorful and natural aesthetic, distinctive features still today Tiffany made his American style renowned all over the globe in the first half of the 1990s, due to the Art Deco of the 1920s and the Retro style of the 1940s. Tiffany and Co. established its formal headquarters on Fifth Avenue in New York in 1941 (Becker, 2022). The renowned Hollywood film "Breakfast at Tiffany's" starring Audrey Hepburn and set at Tiffany's flagship store, was a critical milestone in the company's future prosperity. Tiffany is also well-known for the selection and discovery of valuable and vivid gemstones, including kunzite, morganite, tanzanite, and tsavorite. All of them were discovered in the 1900s, but a team of skilled gemologists is still constantly exploring and searching for the most valuable gems (Anderson, 2016). Elsa Perretti, who began working for the American brand in 1974, is undoubtedly one of the most important names associated with the Tiffany Brand. Under her direction, silver regained a certain status, and its collections combine elegance, luxury, and simplicity, making them perfect for every day and making the brand more appealing to different types of customers. John Loring became the new design director and remained so for the following forty years. From that moment on Tiffany released iconic and globally appreciated collections, among the most relevant we find: the collection of Paloma Picasso in 1980, the Tiffany Keys Collection, Tiffany T collection, Save the Wild Collection, Legacy collection, and the latest Tiffany Paper Flowers and T1 collections. Significant and diversified steps were taken with the Home & Accessories collection where "everyday objects are made extraordinary" and with the collection of fragrances that sees the Tiffany Eau de Parfum as the main product.

Tiffany's ability was to create a very specific position in the collective imagination. Nowadays it represents luxury jewelry par excellence and is often associated with romance, love and marriage proposals. The turning point came in 1886 when the Tiffany Setting diamond engagement ring was designed and produced, which from then on became the most desired jewel by every girl in a couple. The ring is packaged in the legendary Tiffany Blue Box, which has become as well-known as the ring itself. The box is made even more unique and identifiable by the color that is now worldwide recognized as Tiffany Blue. The formal term, which is protected by trademarks in many countries, is "1837 Blue" in celebration of Tiffany's foundation date, but it is astounding to contemplate how the firm has managed to establish a color widely known with the name of the brand itself through simple packaging (Carlassara, 2016). The box's power comes in invoking all the brand's qualities, such as elegance, refinement, beautiful richness, romance, but also style and innovation. Tiffany now symbolizes a historic brand that has been able to modernize itself while keeping loyal to the principles and goods that differentiate it, and generating a stable, rooted, and recognizable imagination all over the world.

The purchase by LVMH of Tiffany and Co. encountered some problems. A first offer was made in October 2019, and amounted to 14.5 billion dollars. Tiffany declined, claiming that the offer underestimated the value of the brand (Reuters, 2019). The agreement was then reached in a single month in November 2019 for a total of 16.2 billion dollars, for a value of 135 dollars per share (Reuters, 2020). However, there were legal battles between the two companies and the final agreement was reached in January 2021; the price was lowered by 425 million dollars, bringing it to a total value of 15.8 billion and 131.5 dollars per share. This hitch was attributable to the pandemic from Covid-19, in particular there was fear of possible American tariffs for French products and economic uncertainty. These factors had almost blown the negotiations, but then came to an end thanks to the approval of the European antitrust in October 2020 (D'Ascenzo, 2021).

3.4.2 Acquisition rationale

As usual, we examine what may have been the primary causes and factors that led to the LVMH Group's acquisition.

First and foremost, let's consider the French group's Watches and Jewelry business area. It made 4.123 million euros in sales in 2018, accounting for around 9% of total sales. As previously stated, Bulgari was bought in 2011 primarily to enhance the numbers and prominence of this business unit, which at the time comprised just 5% of the total. We can state that the operation was effective after a few years since the volumes of the W&J unit have consistently increased and proven profitable. Despite this, it has developed at a slower pace than, say, the Fashion and Leather Goods division, due to lesser investments and acquisitions in this area. LVMH has begun to pay particular attention to the jewelry industry in recent years; it has shown to be one of the best performing, with a +7% increase between 2019 and 2018, reaching a total volume of almost 20 billion dollars (Cohan, 2019). Furthermore, this market is seen to have significant entry barriers, making it difficult to introduce and build new successful brands. With the purchase of Tiffany, the Arnault company would gain a significant stake in an industry that has seen rapid expansion and is difficult to join. Finally, Tiffany's revenues in 2018 were around $4.170 million, which was more than LVMH's total W&J business unit. This demonstrates how, despite having several well-known brands such as Bulgari, Tag Heur, and Hublot, LVMH needed a brand that could mark a turning point in the jewelry business.

We have just mentioned what Tiffany's sales were in 2018, but let's see more detail about its sales in a longer time frame before the acquisition.

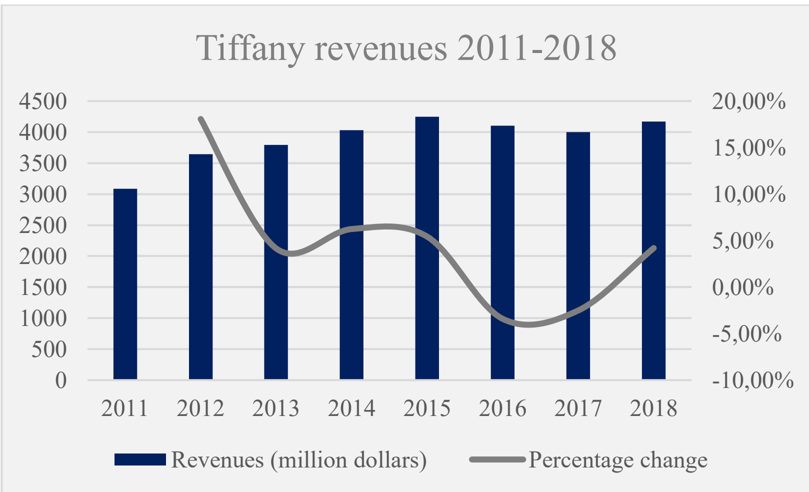


Figure 29 Tiffany revenues [Source: Refinitive Eikon]

As we can see sales in this seven-year timeframe have increased from 3.085 million in 2011 to 4.170 in 2018, showing a CAGR of 4.40%. Sales increased consistently from 2012 to 2015, but subsequently fell by -3.41% and -2.51% in 2016 and 2017, respectively. They climbed by 4.20% in 2018 to slightly below 2015 levels. Tiffany therefore proven to be a bit problematic in the years preceding the purchase, as witnessed in the cases of Belmond and Bulgari. As a general strategy, the LVMH Group might prioritize purchasing firms with significant sales volumes, but during moments of instability or slowness, it may be able to snag a more attractive price. Following those years' performances, Tiffany is defined as a "Sleeping Beauty" (Dummett et al., 2019), as it is a brand with significant potential that has not been fully realized, particularly given the sharp increase in the jeweler industry. The objective is to invest more money in the creation of new products, new advertising strategies, boutique, and making the brand more appealing to younger generations.

Another major component in this deal is the kind of clients that LVMH aims to target with this acquisition. Tiffany's products are less expensive than those of Bulgari, Hublot, and other European jewelers, and at the contrary they are more accessible. (Dummett et al., 2019). LVMH views this as a chance to acquire new clients, particularly younger ones. They are the current and future primary purchasers of luxury goods, and keeping them as near as feasible would be a wise strategic decision. The Z generation and millennials have demonstrated a tendency to buy luxury goods, making them both a challenge and an exciting opportunity for companies. LVMH can approach American clients faster through Tiffany, in addition to engaging a younger market. Tiffany is a true institution in America, as evidenced by sales, which account for 44% of total sales (LVMH, 2019). In comparison, the LVMH J&W business segment only had 9% of its activities in the US.

Tiffany, in addition to its significant presence in the Americas, has 47 stores in Europe, 90 in Asia Pacific Cooperation, 55 in Japan, and 5 in the rest of the globe. This is a critical component of LVMH's strategy. The worldwide presence is always in strategic reasons in all acquisitions viewed. The French firm is well-known around the world, and the purchase of brands that are similarly well-known helps them to preserve their long-established status. Furthermore, Tiffany maintains strict control over its shops and distribution. As previously shown with Loro Piana, this is a component that the conglomerate finds highly significant for a variety of reasons. Vertical integration is one of the crucial factors of LVMH and in the specific case of Tiffany "The majority of diamonds and raw precious metals are obtained through direct sourcing relationships and from known mines and sources which operate in environmentally and socially responsible ways" (LVMH, 2019).

Tiffany's extensive and broad portfolio is another important element. It has a 54% Jewelry Collection and a 26% Engagement Jewelry. The latter is a unique and distinguishing aspect of the American brand. In addition to these two industries, it has Designer Jewelry and others. This portfolio may be enhanced and expanded by joining the LVMH group. Tiffany's present plan, in particular, can be accelerated and efficiently implemented owing to the French group's experience and structure. This covers not just the classic collections, but also the most recent and non-Jewelry goods, which have_lately been released and have a significant development prospect.

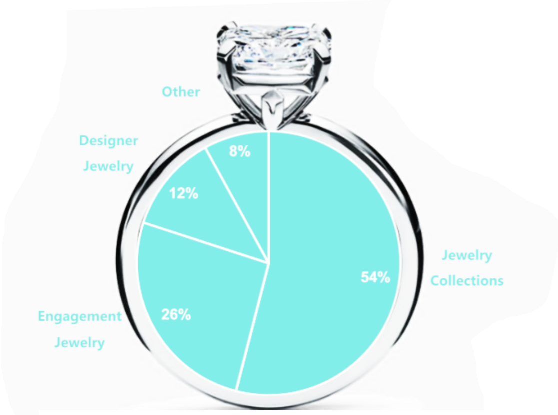


Figure 30 Tiffany Portfolio [Source LVMH (2019)]

Last but not least, we see a convergence of ideas, points of view, and goals between LVMH and Tiffany, as both brands seek to mix tradition and innovation. LVMH primarily investigates brands with a long history and substantial cultural heritage. Tiffany possesses all of the needed criteria because it is anchored in American culture, because it is viewed as an expression of timeless design rather than basic jewelry, and because the brand's worldwide reputation fits the standards demanded by the French group. Bernard Arnault's remarks can sum up the entire story: “I am pleased to welcome Tiffany and all their talented employees in our Group. Tiffany is an iconic brand and a quintessential emblem of the global jewelry sector. We are committed to supporting Tiffany, a brand that is synonymous with love and whose Blue Box is revered around the world, with the same dedication and passion that we have applied to each of our prestigious Maisons over the years. We are optimistic about Tiffany’s ability to accelerate its growth, innovate and remain at the forefront of our discerning customers’ most cherished life achievements and memories” (LVMH, 2021).

3.4.3 Stock’s performance

In terms of analyzing the stock’s performance surrounding the date announcement, a decision had to be taken in this specific circumstance as to which one to treat as the date of the announcement. As previously stated, a first offer was made in October 2019, most likely on the 28th, but it was not accepted, and no formal agreement was reached. As a result, I decided to consider the announcement date the 25th of November 2019, the day on which LVMH announced to the public via its website and press releases that it had entered into an agreement to acquire Tiffany & Co. Following the Covid-19 controversies, the final agreement and completion of the operation occurred only around the 7th of February 2021, but this cannot be considered the announcement date because the operation was already widely known to the market.

Tiffany and Co. Acquisition	
Event Window	Abnormal Return
(-1,0)	2,00%
(-5,5)	-1,58%

Figure 31 Abnormal Return at Tiffany acquisition [Source: Market-risk-premia, Yahoo Finance, Refinitive Eikon]

The data related to the announcement are in the Appendix but to get an idea the risk-free rate in France in November 2019 was -0.35%, the expected market return 6.36% and consequently the cost of annual capital, given the beta for LVMH, of about 6%.

Concerning the abnormal returns, we notice in this example distinct outcomes between the two event windows, with a positive return in the shorter time window and a negative return in the longer one, as in the Bulgari case. LVMH's share gained 2% on the day of the announcement compared to the previous trading day. This suggests that the market and investors reacted positively, viewing Tiffany's purchase as excellent news. It was, in fact, the largest and most costly acquisition in the luxury industry, involving the largest conglomerate and luxury business, as well as one of the most important and worldwide renowned jewelry brands. Tiffany's notoriety, prominence, and average positive outcomes have undoubtedly contributed to this favorable market reaction. Nonetheless, in the five days preceding and following the announcement, we discover a negative outcome, with an abnormal return of around -1,6%. In the instance of Bulgari, which offered a similar situation but with different values, we considered that the market had previously expected the purchase and that this was reflected in the price, given the magnitude and importance of the deal. In the instance of Tiffany, we have more evidence to back up this notion, given there was an offer made a month before the formal announcement. In this scenario, we can attempt to observe the stock's behaviors in a little bit longer time frame.

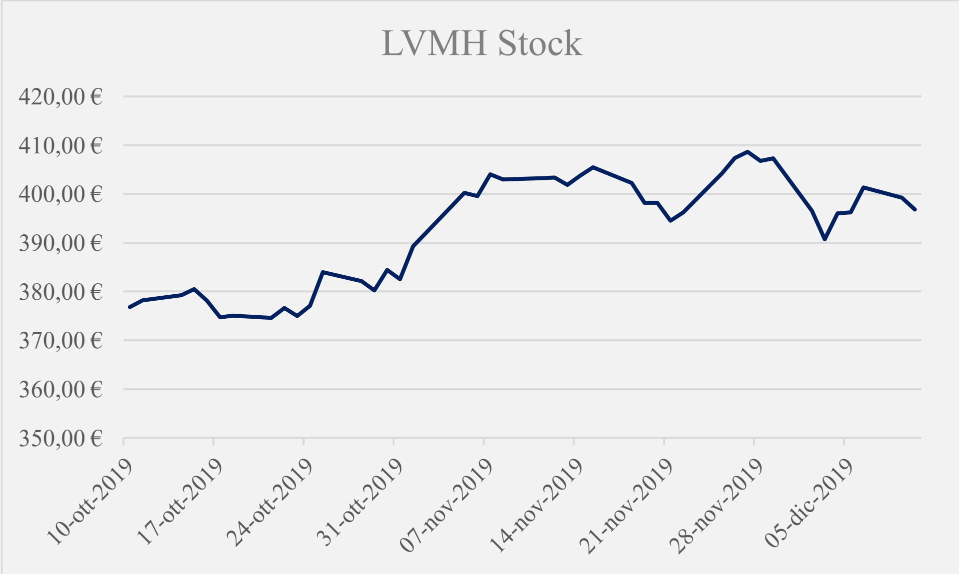


Figure 32 LVMH stock in a one month frame [Source: Refinitive Eikon]

It's simple to observe how, following the initial offer at the end of October, the stock price increased quickly, then fluctuated until the actual announcement date. In this round, the price has risen as previously witnessed, only to fall in the days following the news to levels comparable to those before the announcement. The graphic therefore confirms our idea, as it is clear that the price had already increased before the official announcement, and this implied that when this happened there was a positive return on the day of the announcement itself, to see the price drop in the following days. This type of consideration can only be made in specific circumstances like this, because there was a lot of debate about it and a lot of information about it; it is impossible to make them for other purchases that have less news and echo in this respect.

3.4.4 Financial impact

Concerning the financial impact, we will quickly examine the aspects immediately touched by the purchase, bearing in mind that the financial and economic implications must be thoroughly studied in the long run. Fortunately, because of Tiffany's sales volumes and the tiny size of LVMH's W&J business unit, the inclusion of the American brand into the French firm is evident.

	2021	2020	2019
Revenue *(EUR millions)*	**8,964**	**3,356**	**4,405**
Revenue by geographic region of delivery *(%)*			
France	2	4	5
Europe (excl. France)	15	20	23
United States	25	8	8
Japan	11	12	12
Asia (excl. Japan)	36	43	38
Other markets	11	13	14
Total	**100**	**100**	**100**
Profit from recurring operations *(EUR millions)*	**1,679**	**302**	**736**
Operating margin *(%)*	**18.7**	**9.0**	**16.7**

Figure 33 LVMH W&J revenues [Source: LVMH (2021)]

As can be observed, sales between 2020 and 2019 declined owing to the pandemic, but later in 2021, thanks to Tiffany's inclusion, sales increased from 3,356 million euros to 8,964 million. The profit from recurring operations increased from €302 million to €1,679 million. This instantly helped to LVMH's aims of strengthening its footprint in the jewelry market; in fact, we can see from this data how the W&J business unit grew its percentage of overall sales to roughly 14% after the acquisition of Tiffany.

Another data immediately affected are revenue by geographic region of delivery: the US gained 17 percentage points, reaching a total of 25%. This is a direct consequence of the integration of Tiffany, which had most of customers and sales in the Americas.

Overall we know that LVMH does not release precise data for any Maison belonging to the group, but in the annual report (2021) states that “Tiffany achieved a record performance in terms of revenue, profit and cash flow. The Maison raised its global profile through its innovations and high-profile collaborations. For the first time in its history, Tiffany’s annual Blue Book collection of high jewelry was unveiled in China. Following these presentations, high jewelry sales reached an unprecedented level.” We can therefore think that the operation has already begun to give the first positive results.

As for the balance sheet, without going into too much details, the acquisition impacted mainly the items seen in the previous cases such as intangible assets, property plant and equipment (1 billion euro), inventories (1.8 billion euros), lease liabilities (0.9 billion) and deffered tax liabilities (1.7 billion euro).

(EUR millions)	2021	2020	Change
Intangible assets	50,455	33,054	17,401
Property, plant and equipment	20,193	18,224	1,969
Right-of-use assets	13,705	12,521	1,184
Other non-current assets	6,657	4,899	1,758
Non-current assets	**91,010**	**68,698**	**22,312**
Inventories	16,549	13,016	3,533
Cash and cash equivalents	8,021	19,963	(11,942)
Other current assets	9,731	6,994	2,737
Current assets	**34,301**	**39,973**	**(5,672)**
Assets	**125,311**	**108,671**	**16,640**

(EUR millions)	2021	2020	Change
Equity	48,909	38,829	10,080
Long-term borrowings	12,165	14,065	(1,900)
Non-current lease liabilities	11,887	10,665	1,222
Other non-current liabilities	24,361	19,795	4,566
Non-current liabilities	**97,322**	**83,354**	**13,968**
Short-term borrowings	8,075	10,638	(2,563)
Current lease liabilities	2,387	2,163	224
Other current liabilities	17,526	12,516	5,010
Current liabilities	**27,989**	**25,318**	**2,671**
Liabilities and equity	**125,311**	**108,671**	**16,640**

Figure 34 LVMH balance sheet [Source LVMH (2021)]

PART 4

We now enter in the final part of the work. Part 2 looked at the LVMH Group in general, and in particular how financial performance has grown over the previous 15 years, as well as how the stock price has moved. It was also shown that the company has extensively used mergers and acquisitions to grow by investing in new luxury brands, achieving a dominating market position, and raising sales and profit.

Part 3 delved into further detail, analyzing the major acquisitions realized by the French business during the previous decade. This section has helped us to understand what characteristics LVMH looks for and outline some common traits among the brands acquired: of these, a strong brand identity and shared values, a recognized and appreciated history, a broad international presence, significant growth opportunities for both the buyer and the acquirer, and a clear position in the collective imagination of customers, and thus a precise market positioning, stand out. M&A investments also had similar goals: to improve a certain business unit, to grow into a specific geographic section of the market, and to capitalize on a market in expansion. We evaluated the short-term impacts on the stock's price and on the balance sheet and income statement items. Nonetheless, these considerations are constrained and of partial relevance. To analyze the efficacy of each relevant transaction, it should also be evaluated over a long time frame and, ideally, separately from the others. However, as we know, this is not feasible, especially for major corporations with dozens of brands, such as LVMH. Because the latter does not disclose any information on a particular brand, and the share price is unique and reflects the overall firm performance, it is hard to analyze the evolution of a single purchased brand over time, its performance, the development and usage of synergies, and the overall success or failure of the investment, except in special circumstances (i.e, when a brand performed particularly bad and it is sold or frizzed).

What we can do, and what will be the focus of Part 4, is to examine the LVMH Group performance as a whole. To begin, we will examine the Total Shareholder Return: assuming a particular amount of investment, we will compute the return for the investor and compare it to other investments. We will next examine the long-term evolution of the firm's financial performance. Analysis of this sort will provide us with an overall picture of the success of LVMH's group strategy, characterized by a strong relevance of non-organic M&A growth.

4.1 Total Shareholder Return

The first stage is to examine the value created for shareholders through Total Shareholder Return (TSR), between 2010 and 2021. We may find ourselves in a position where the LVMH stock performed well, but lower than the market in general or other firms in the same industry; this would be an uncomplete analysis and without any term of comparison. As a result, the decision was made to evaluate the investment in LVMH in comparison to four other alternative investment options. In this way there will be a more complete vision and will be easier to compare different results.

However, to start with we can briefly take a look at the LVMH Group TSR, before moving on to comparisons and look at the Excess TSR. These are determined based on year-end market price observations and are computed as capital gain plus any dividend divided by the initial price.

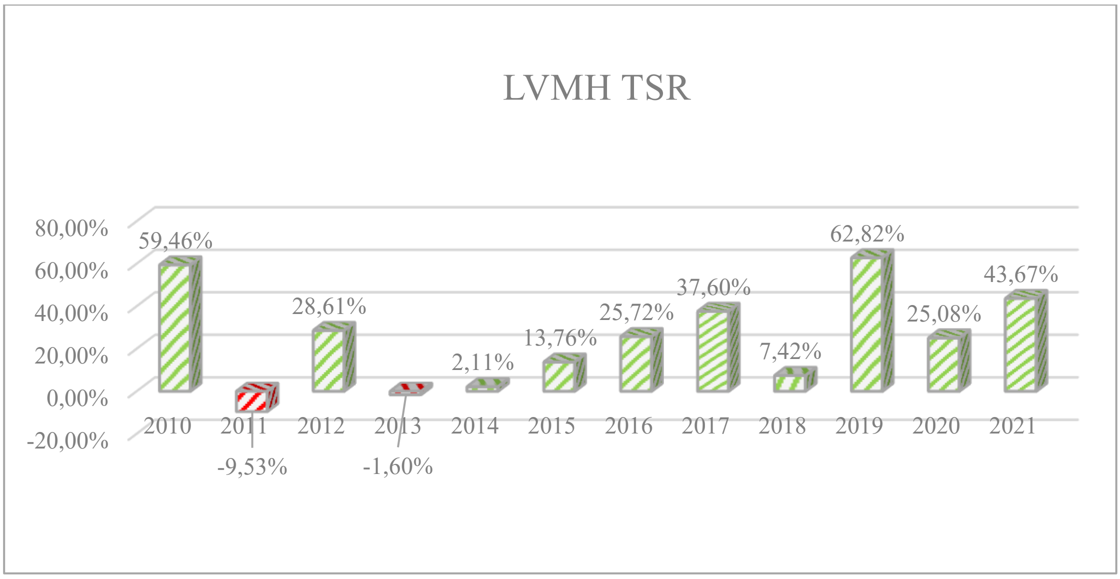


Figure 35 TSR [Source: Refinitive Eikon]

As we can easily see the TSR for the period under observation are extremely positive. The share rose from around €78 per share to €727, showing hardly desirable growth. Considering also the dividends distributed every year, the Cumulative Return for the shareholders has been 889%, which represents an average annual compound TSR of about 23%. Negative results were achieved in 2011 and 2009, where the minimum value of -9,53% was reached; in the rest of the years the performance has always been greater than 0 with the best results obtained in 2010 and

2019 with values of 59.46% and 62.82% respectively. At first glance these numbers are undoubtedly positive, but as already mentioned there is a need for a comparison to evaluate them in more detail and scrupulously. That's why we're going to look at ETSR, compared to different benchmarks. We'll start with the cost of equity.

4.1.1 ETSR on cost of equity

The cost of equity is the first item of comparison. It was previously introduced when the returns to the announcement date were examined, and the formula for calculating it, based on the CAPM, is the same. The concepts that make it an appealing starting point are also the same. The cost of equity is the minimal return expected by capital providers on an investment or project. It denotes the expected return on risk-taking. By comparing the TSR gained and the cost of equity, we may determine if the return was more than the minimum demanded by the investors. A result larger than zero indicates that there was over-profit in addition to fair profit, implying that value was generated. The appendix contains all statistics on the cost of equity, risk free rates, market return and beta.

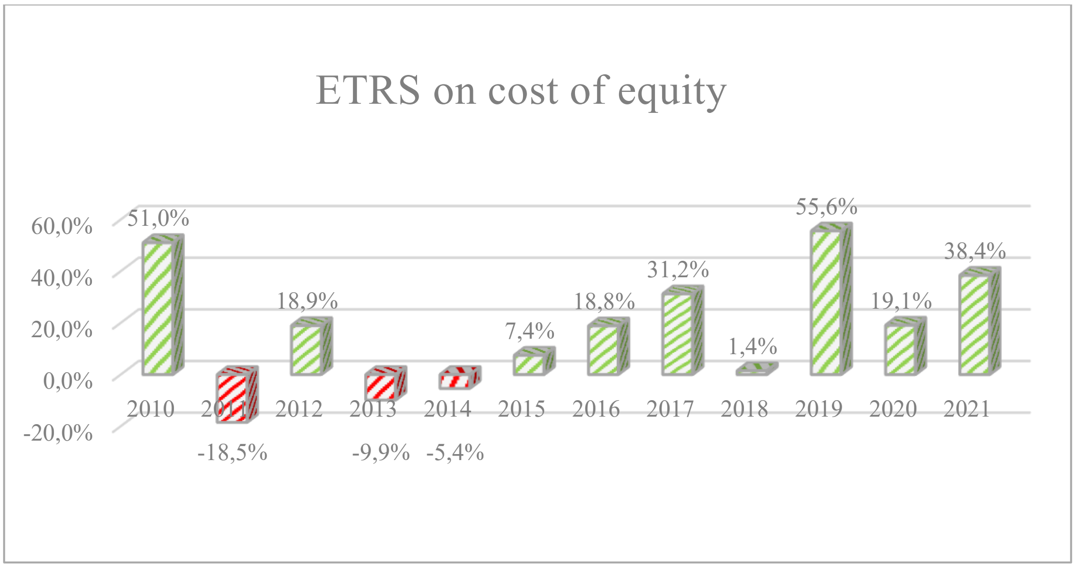


Figure 36 ETSR on cost of equity [Source: Refinitive Eikon]

Between 2010 and 2021, the average annual compound cost of equity was roughly 7.24%, which was much lower than 23% of the TSR of the LVMH's share. This implies that ETSR should be largely positive, as seen by the graphic above. The negative values are evident in the years 2011 and 2013, when the same LVMH’s share lost value. Indeed, the three-year period 2011-2014 was one of the most challenging for the French firm. The Fukushima accident, the Greek debt crisis, and the increase of the US debt ceiling were just a few of the myriad events that made 2011 remarkable and impacted the stock’s market. As a result, when measured against the cost of equity, the ETSR displays a value that is even worse than the TSR, emphasizing how 2011 brought about further losses for investors. Opposed to this, 2012 saw a good rebound: during the first half, there were still a lot of worries, particularly regarding the debt of several Eurozone nations, but as these started to fade, the market values increased. LVMH finished with a +28%. A drop in sales in China, and more broadly in Asia, had a significant impact in 2013, with an ETSR of -9.9%, and the impacts remained in 2014, with an ETRS of -5.4%, indicating that the benefit for investors was insufficient in comparison to the risk taken.

Aside from this brief setback, LVMH's performance was more than satisfactory. The average excess return for the time under consideration was 17%, with a cumulative excess return of 444%. There is no doubt that LVMH has been a lucrative investment, but the question today is whether this is primarily attributable to company management or whether it is a direct result of a more general market expansion.

4.1.2 ETRS on MSCI Europe

For the reasons stated above, it is vital and fascinating to compare the results produced by LVMH with an index indicating the market in which the firm is located, has the majority of its activities, and is listed. As a result, the original pick was an European index: the MSCI Europe. With this comparison, we can evaluate if the enormous gain in TSR observed in the preceding section was aided by the overall expansion of the European market.

Index contains large and mid cap representation across 15 Developed Markets countries in Europe. With 427 companies, the index covers 85% of the market capitalization of European developed countries (as of November 2022). The approach used by the index is defined as percentile in the sense that large-cap companies are those that capture the highest 70% of the total market capitalization, while mid-cap companies would capture the subsequent 15%. This methodology allows the index to evolve with the size and structure of the market (MSCI, 2022). Nestle, ASML Holding, Roche Holding, and Shell are the key constituents, in that order. LVMH follows closely behind in fifth place, with a weight in the index of 2.27%. The sector in which LVMH is inserted is the costumer discretionary and represents 10.35%, while France has a weight of 18.25%.

MSCI Europe had a compound annual average TSR of 5.6% and a cumulative return of 83% between 2010 and 2021. These numbers are clearly different from those of LVMH, but let's take a closer look at the ETSR.

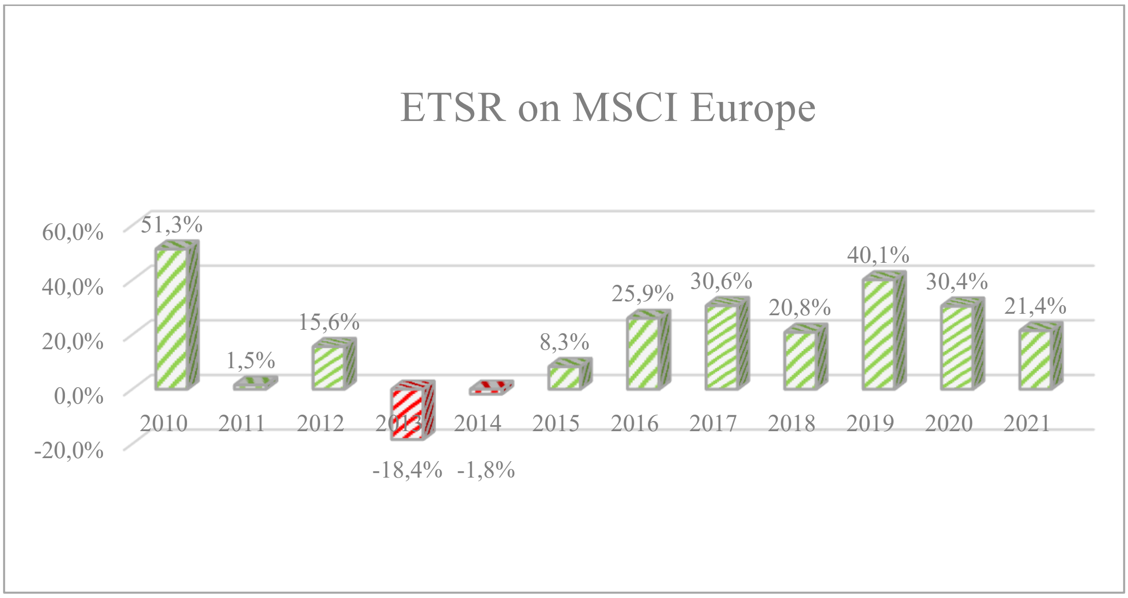


Figure 37 ETRS on MSCI Europe [Source: Refinitive Eikon]

As may be seen, ETSR are generally good. What is unexpected is the 1.5% value in 2011, which, as we have seen, resulted in losses for LVMH shareholders. This indicates that the European market suffered notably that year, and the French group's poor performance is a result of this. In contrast, the MSCI Europe increased by 16.8% in 2013 compared to LVMH's loss of 1.6%. The latter is thus more related to company-specific concerns, as indicated by the subsequent year's negative ETSR. The ETSR is constantly positive and shows fascinating outcomes as of 2015, with a low of 8.3% in 2015 and a high of 40.1% in 2019. In contrast, the index returned negative in 2016, 2018, and 2020.

The arithmetic mean of excess returns was 19%, with a cumulative excess return of 579%. These are significantly greater values than those observed in the equity cost section; this shows that LVMH has risen at a far more consistent and distinct rate than the overall market, and that this growth cannot be explained by the market itself. The index's composition, which is dominated by financial enterprises, health care, and industrial, may have influenced this considerable disparity in findings.

4.1.3 ETRS on CAC 40

Because there was no noticeable impact of the European market on LVMH's performance, the decision was made to use another index. It is still a geographical index, but this time it is more specific. We are talking about the CAC 40, which is a free float market capitalization weighted index that reflects the performance of the 40 largest and most actively traded shares listed on Euronext Paris, and is the most widely used indicator of the Paris stock market (Euronext, 2022). The Free Float Factor is rounded to the nearest 5% multiple.

The index was picked since it is the primary index of the French market, where LVMH is listed and has its headquarters. Furthermore, the CAC 40 index is utilized as a benchmark by LVMH in official publications. In this instance, LVMH also represents the firm with the highest weight inside the index, 11.73%, and the category in which it is inserted, consumer discretionary, has the highest weight, 28.5%. These two elements could make us think that the CAC 40 can better represent and explain the results obtained by LVMH and offer us some interesting ideas. So let’s see the usual ETSR.

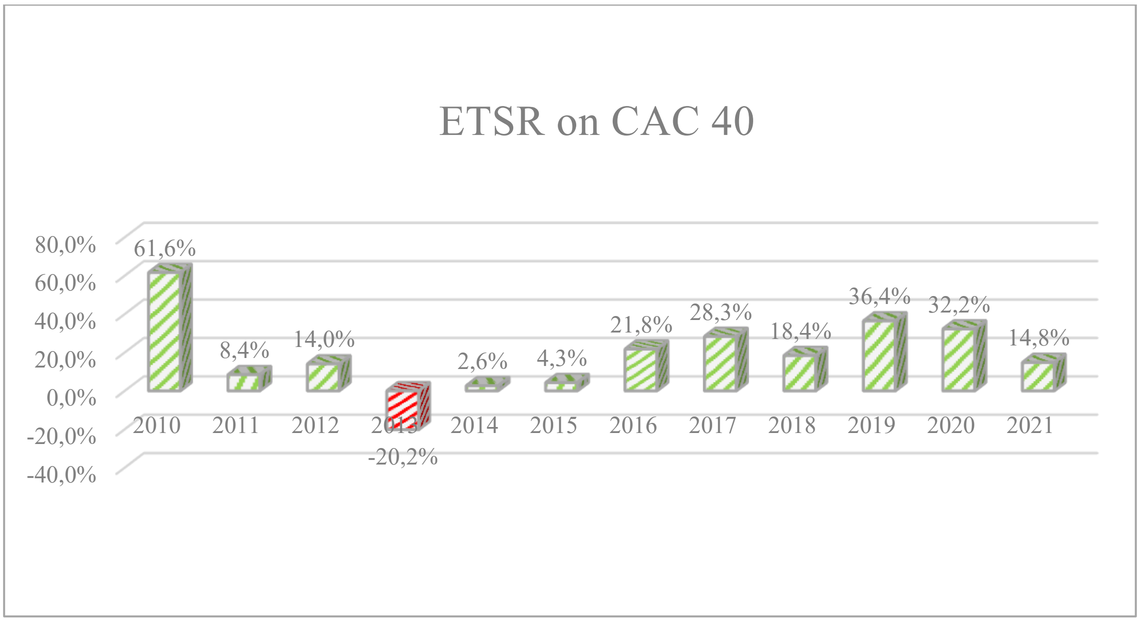


Figure 38 ETRS on CAC 40 [Source: Refinitive Eikon]

The CAC 40's outcomes are nearly equal to those of the MSCI Europe. Despite the differences in yearly TSR, the cumulative return is 82% (vs 83%) and the annual average TSR compound is 5.58% (vs 5.64%). As a result, the ETSR for LVMH are largely positive and have significant values also in this situation. However, we can discover some further confirmations and explanations of the previously revealed data from these results. We stated that 2011 was a terrible year for LVMH due to the macroeconomic and financial situations in Europe. These factors have had a greater impact on France, as the CAC 40 has performed at -17.9%. Again, we can observe that the only year with a negative ETSR score is 2013: this shows that it was a bad year specifically for LVMH and was not heavily impacted by external events, as it was in 2011. Otherwise, the pattern is fairly similar to that found with MSCI Europe, with all values after 2014 being positive, reaching a high of 36.4% in 2019. Finally, the ETSR average is 19%, and the total excess return is 554%.

So far, the data suggest that LVMH was a very lucrative firm between 2010 and 2021, allowing investors to earn much higher returns than the cost of equity and a diversified investment in a market index. However, it is evident at this point that geographical indexes, and thus the overall market, do not offer the appropriate benchmark for our firm under consideration. As a result, in the next part, we will compare LVMH to specific luxury industry indexes.

4.1.4 ETSR on Luxury Industry Indexes

The first luxury industry index is the MSCI Europe Textiles, Apparel, and Luxury Goods Index. It has medium and big stocks in 15 major European regional markets. France has over 70% exposure, followed by Switzerland and Germany. Apparel, Accessories, and Luxury Goods account for 99% of the index, with Footwear accounting for the remaining 1%. LVMH, Richemont, Kering, Burberry, Puma, and Hermes are the major players (MSCI, 2022). The purpose is to best reflect the European Fashion and Luxury market. The index uses market capitalization as a methodology to weigh its constituents. For this reason LVMH group has a weight within the index of 48.1%. This is a consistenly high value that significantly affects the performance of the index and consequently the comparison.

That is why an additional index, the S&P Global Luxury Index, was chosen. It focuses on the luxury market at a global level and not only in Europe. In this case the first region for percentage importance is the United States, followed by France and Switzerland. Major companies include Hermes, LVMH, Richemont, Tesla, Mercedes Benz (S&P, 2022). Unlike MSCI, which focused only on textile and fashion goods, this index also considers luxury goods in different segments. In this scenario, index constituents are weighted by float-adjusted market capitalization (FMC) multiplied by a luxury exposure score, subject to the single stock weight caps (S&P, 2022). Given this approach, the LVMH group no longer has the weight it had in the MSCI, and in fact comes in second place and France has a weight of 26% with 7 constituents (Specific weight of each components are not presented).

Let’s see the results.

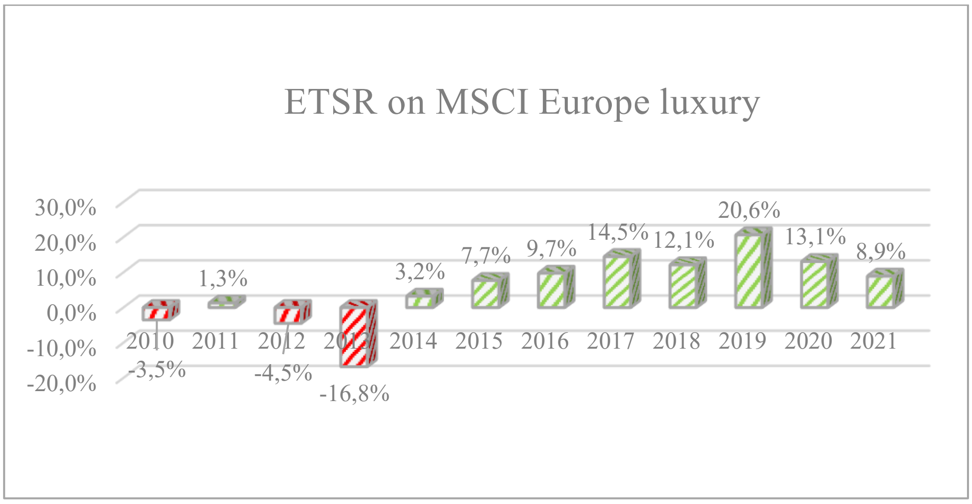


Figure 39 ETRS on MSCI Europe Luxury [Source: Refinitive Eikon]

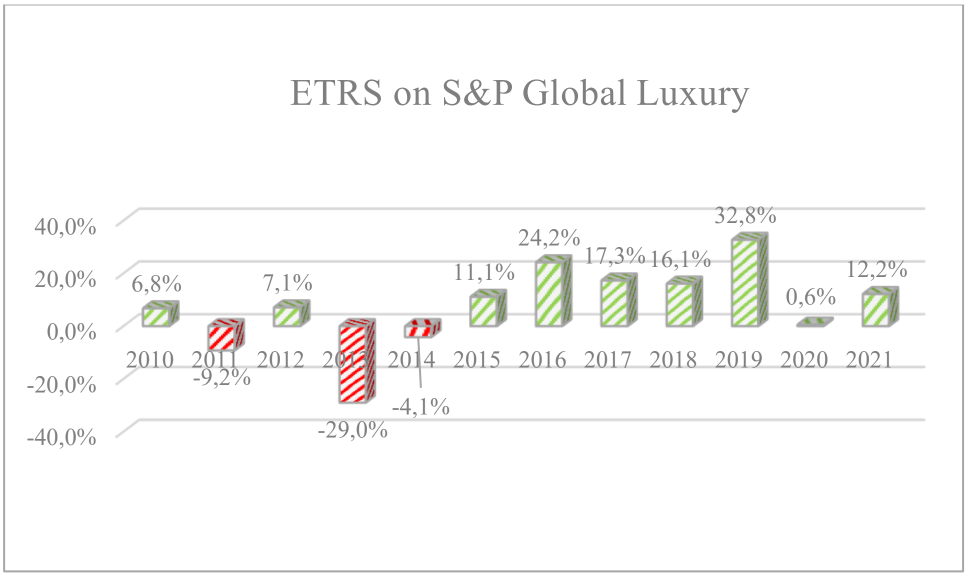


Figure 40 ETSR on S&P Global Luxury [Source: Refinitive Eikon]

Although the outcomes are encouraging also in this situation, they are more modest than in earlier examples. In reality, the greatest values are +20.6% for the MSCI and 32.8% for the S&P. Furthermore, significant low values were attained in several years, such as -29% vs S&P in 2011. TSR compound yearly averages for MSCI and S&P are 19% and 18%, respectively, with cumulative values of 683% and 610%. These statistics are substantially closer and more accurately indicate LVMH performance. This helps us comprehend how the French conglomerate's rise has been aided by the overall expansion of the luxury industry. This market has been expanding in recent years, as noted in previous sections, and market indexes have reflected this increase. In addition to capitalizing on this expansion, the French group has outperformed the market, generating additional earnings. In particular, when compared to MSCI, the average ETSR is 6% and the cumulative excess return is 81%; when compared to the S&P, the figures are 7% and 99%, respectively. These are significant data, especially given that the indices have had already tremendous outcomes.

The images provided so far have helped us to comprehend the performance of LVMH compared to specific benchmarks year by year, but it is hard to obtain a more comprehensive picture of the situation alone via them. To end, a simulation of investing in the instruments previously viewed will be provided in order to have clearer thoughts. The method involves simulating an investment of 10,000 euros in LVMH, MSCI Europe, CAC 40, MSCI Europe Textiles, Apparel and Luxury Goods Index, and S&P Global Luxury Index. The results are then compared to determine which investment has generated the largest returns. To do this, the daily prices were retrieved from Refinitive Eikon, and from these, the daily returns required to make our fictitious beginning investment profitable were computed. The results are subsequently shown in the image below.

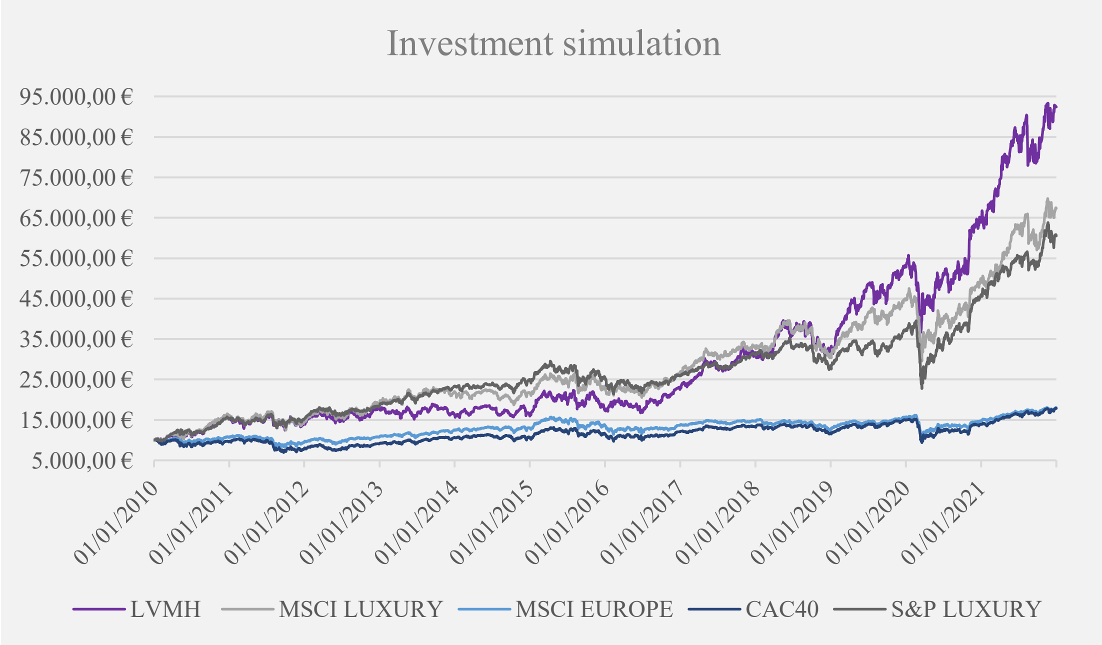


Figure 41 Investment simulation [Source: Refinitive Eikon]

This clearly shows the disparities between the various investments. The CAC 40 and MSCI Europe move in fairly similar ways, but not in the same way as the luxury indexes and LVMH. The latter has a lower investment worth than the luxury indexes up to 2018-2019, owing to some losses during the three-year period 2011-2014. However, in recent years, it has been able to embrace the possibilities that the expanding market has provided, producing amazing profits and concluding in 2021 with the unquestionably largest value. Thus, prior to the pandemic, LVMH's results were consistent with those of the indexes; but, it afterwards managed to better handle the crisis and achieve higher profits than other companies. This might be owing to the conglomerate's experience, name, image, and organization that it has been able to establish through time. It should be noted that both luxury indices have a significant exposure to LVMH, which has undoubtedly influenced their positive performance; however, the fact that the investment in the individual French company produced better results suggests that it outperformed the remaining components of both indices.

To summarize, the numbers speak for themselves: LVMH has been able to satisfy investors with outstanding earnings that are considerably beyond the minimal return needed by risk capital owners over time. In this regard, it outperforms general geographic market indexes as well as indices reflecting the same industry in which it works. This implies that the conglomerate's strategy of inorganic expansion through mergers and acquisitions was efficient and lucrative for both shareholders and the firm itself. Large corporations typically find it difficult to expand further, however this is not the case. LVMH has demonstrated its capacity to create trends rather than follow them, making it a leader in a highly competitive business.

4.2 Ratio Analysis

Once we understood how LVMH behaved in the stock market is important to comprehend if the results are justifiable. In order to that the primary ratios must be calculated for the purpose to analyze the company main financial condition. With the use of indexes businesses in the same sector may be compared, however this comparison would be challenging due to the disparities in size. We will briefly go through each ratio's underlying formula since it is critical to give the results a context; otherwise, they would be of limited use and lack a benchmark for comparison.

Ratio analysis can be carried out in fact in three different ways: time series, cross-sectional and comparing the results to a benchmark, which however is difficult to identify and calculate in most cases. In this work we will rely on the time series, so by comparing the ratios of the same company over several years and also cross-sectional, or comparing ratios of two different companies (Palepu and Healy, 2013). By doing so, we will be able to observe how the indices of LVMH have changed over time as a result of general business management, which also includes numerous acquisitions and mergers, as well as how these indices relate to another company in the same sector. The indices may be used to assess the business' success and performance while also making future plans. The three distinct characteristics of liquidity, solvency, and profitability comprise the three indices categories that we shall construct. Each of these examines a unique component of the company and includes unique inquiries and assessments.

The examination through indices proved to be valuable and has simplicity as a major benefit. However, there are several restrictions, one of which in particular may be particularly onerous. Different accounting standards or metrics are used by various businesses, and they might alter over time even within the same business. This causes a difficulty of comparability both for cross-sectional study with various firms as well as for time series analysis relating the same company across time.

The company chosen for the comparison is Kering, which is considered the main rival of LVMH. Kering was established in 1963, primarily as a lumber and construction firm. From the

1990s he became a major player in the retail world through some acquisitions, and made his entry into the luxury world in 1999 with the acquisition of the Italian brand Gucci. As a result of this operation, a lot of others in the luxury sector happened: given the higher profitability of this market, the owner Pinault chose to exit broad distribution and concentrate on Fashion and Luxury. Today the Kering Group owns brands belonging to the units of Fashion, Leather Goods, Jewelry and Watches such as Gucci, Saint Laurent, Bottega Veneta, Balenciaga, Brioni, Dodo, Alexander McQuenn (Donzè, 2018). In 2021 Kering had revenues of €17.645 million, operating income of €5.017 million, and cash flow from operations of €3.948 million. Kering is regarded as LVMH's major competitor owing to its industry, size, and very similar business model, which is centered on frequent mergers and acquisitions to extend its portfolio (Kering, 2021).

4.2.1 Profitability ratios

Profitability indicators, which gauge a company's capacity to generate a profit on its operations given the invested capital, are also frequently used to judge the effectiveness and efficiency of management. They are the most carefully scrutinized and significant statistics for the various organizations, and as a result, there are many tactics used to manipulate these financial results (Tussel, 2003).

4.2.1.1 ROE

ROE index represents the company's return from the perspective of its shareholders. A positive, ROE, or better, higher than the cost of equity is important to keep current investors and to attract new ones, in fact it represents the profit generated by each euro of equity and shows if the gain obtained is enough to offset the risk incurred (Palepu and Healy, 2013).

Return on Equity = Net Income / Average Equity

The net profit is divided by the total equity to calculate the ROE. Since equity is a flow and it is employed to make the profit while also fluctuating throughout the exercise, total equity is calculated as an average between the starting equity (the one in the prior balance sheet) and the end total equity.

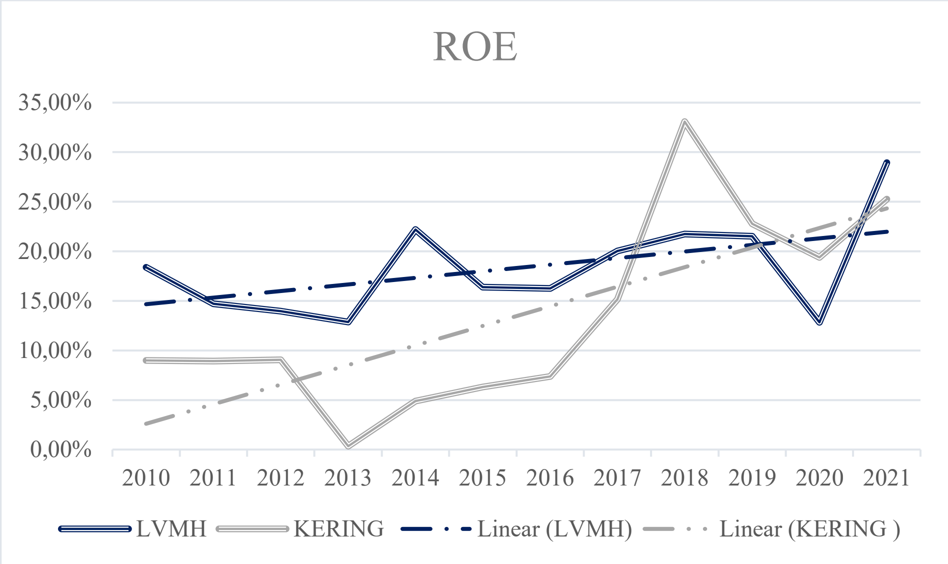


Figure 42 LVMH and KERING ROE and trendline [Source: Companies financial statements]

As regards LVMH, the ROE proved more stable than Kering, although major changes have occurred over the years. Between 2010 and 2013 there was a decrease from 18.4% to 12.9%. 2014 can instead be considered a particular year, as the result was strongly influenced by the distribution of Hermès shares. Since 2015 there has been a positive trend, from about 16% to 21.5% in 2019. This pattern was interrupted in 2020 but recovered in 2021 with a maximum value reached of 28.9%.

Kering, on the other hand, has demonstrated a consistent, quick, and sustained growth, reaching a value of 33.09% in 2019 after reaching a bottom of 0.34% in 2013. This value then fell over the next two years, reaching 25.2% in 2021. This huge increase in profitability may be explained by a particular fact: Kering has sold several brands and given shares to shareholders over the years in order to significantly establish itself as a luxury firm.

In the long run, both businesses were profitable, albeit in different ways. The LVMH group in fact has never fallen over the years under 12.8% showing a certain stability. The latter, however, is missing for Kering that although it has seen a strong growth trend has also witnessed strong changes over the years. Moreover LVMH has held an average highest value, pairs to 18.3% against 13.5% of the competitor.

4.2.1.2 ROA

ROA instead measures the ability to generate profit from the assets that the company holds and it is used to determine the overall effectiveness and efficiency of the company's activities. The higher the ratio, the better since the corporation can profitably utilize its assets. ROA represents the value of the resources invested in the typical operations. This index is especially helpful for companies who don't have a clearly defined core business and operate in a variety of areas (Sosterò et al., 2018). It permits evaluating the capacity to employ the resources invested in the characteristic management since it is unaffected by financing decisions and fiscal policies.

Return on Assets = EBIT / Total Assets

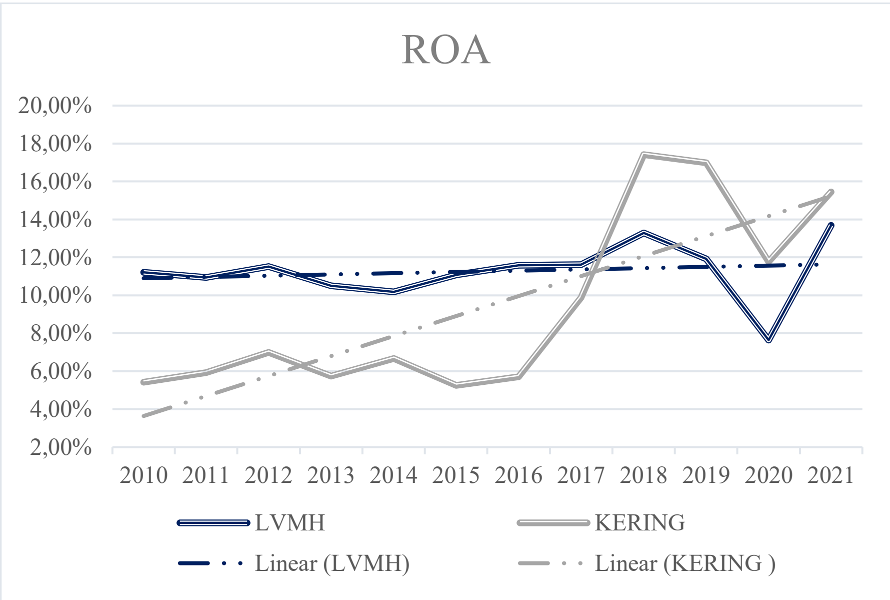
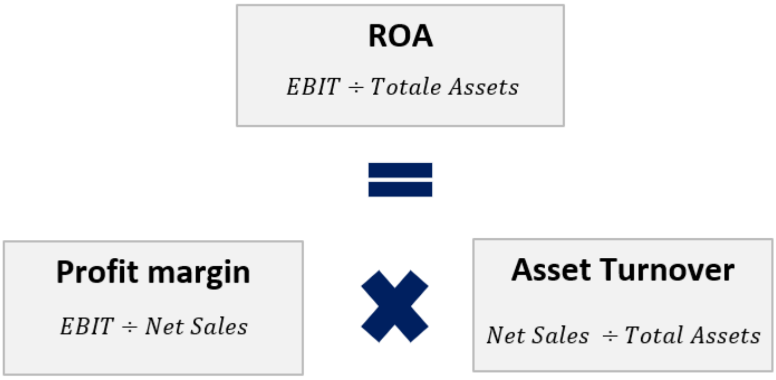


Figure 43 LVMH and KERING ROA and trendline [Source: Companies financial statements]

As we can see from the image above, the ROA of both companies moves quite similarly to the ROE. The main exception is for LMVH in 2014, where ROA is decreasing opposed the ROE increase due to Hermès share distribution. In addition, the fact that Kering's ROA grown dramatically states that the increase seen before int the ROE section is not only the result of some brands' sale but is also due to the increase in operating result. However, like the previous index, ROA was more profitable for LVMH until 2017; as of 2018 Kering showed a higher ROA, peaking at 17.41% in the same year. However, after a couple of difficulties in 2019 and 2020, both companies seem to have settled on values around 14-15%. Once again, LVMH results were more stable compared to Kering ones; for this reason the trend line is almost flat for LVMH, whilst increasing for Kering. Still, considering the entire period, LVMH performed better with an average ROA of 11.3% versus 9.4% of Kering. Finally, the fact that both have significantly lower ROA than the ROE suggests that they use leverage to generate their profits, however the difference between ROE and ROA for Kering group is smaller compared to LVMH’s one, meaning that Kering’s profit derived mainly from the core business.

Now that we've seen the ROA, we can dig a bit further and assess the factors that have the largest influence on it. The ROA, in particular, is easily deconstructed and is the product of Profit Margin and Asset Turnover.



So let’s see them both specifically.

4.2.1.3 Profit Margin

The profit margin, or even net margin or ROS, represents the percentage of profit obtained from sales, once all expenses have been paid. Net profit is what remains after accounting for all expenses, including operating costs, interest, and taxes. This ratio demonstrates that the higher it is, the better, because a successful company's sales operations may yield a considerable net profit (Supriyadi, 2021).

$$Profit\ Margin = EBIT\ /\ Net\ sales$$

This is a particularly important index as high values would mean that the company is able to have positive profits and thus be able to repay the debt or possibly distribute dividends.

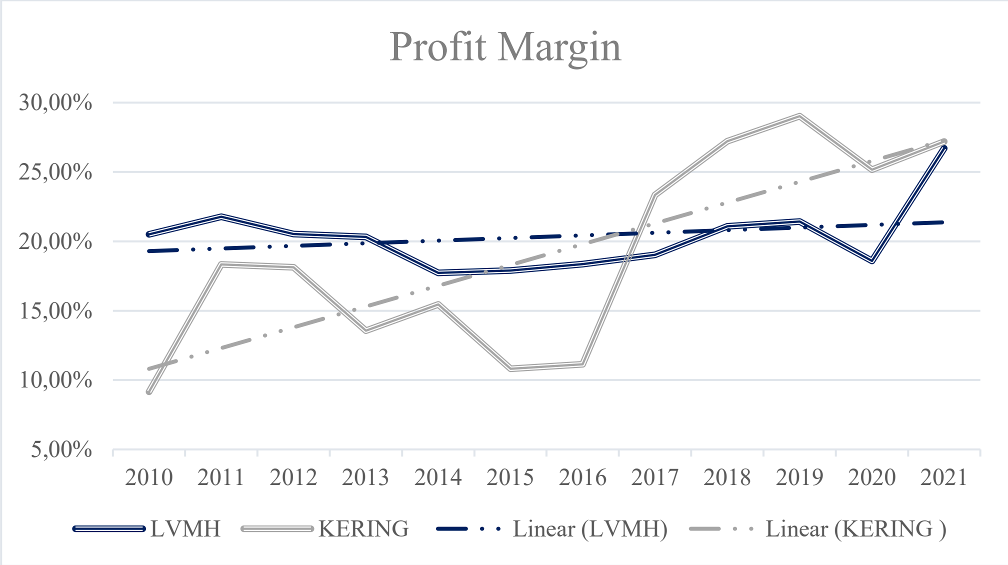


Figure 44 LVMH and KERING PM and trendline [Source: Companies financial statements]

In terms of profit margins, the LVMH Group has been very consistent throughout the years, maintaining usually between 18% and 21%. LVMH concluded 2021 with the highest value during this time frame equal to 26,71% due to the exceptionally advantageous year for the whole luxury business because of the significant rebound following Covid-19. Kering showed more gowth starting from 2016 and concluded 2021 with an higher value compared to the rival. However it is still more volatile and uncertain and overall LVMH finished with a better overall average of 20.33%, compared to 19.05% for the competitor.

Interestingly, both LVMH and Kering overall have higher profit margin than other companies in the same industry. This can be attributed to the fact that they can demand higher prices due to their market positioning, or in the same way they are able to contain costs more effectively.

4.2.1.4 Asset Turnover

This index indicates how many times the net assets have rotated via sales during the year. It also shows the amount of turnover created for each euro invested in the company's net assets (Sosterò et al., 2018). The asset turnover ratio may be used to determine how efficiently a firm uses its assets to produce income. The greater a company's asset turnover ratio, the more efficient it is in generating revenue from its assets. In contrast, a low asset turnover ratio implies that a corporation is not efficiently employing its assets to create sales.

Asset turnover = Net Sales / Total Assets

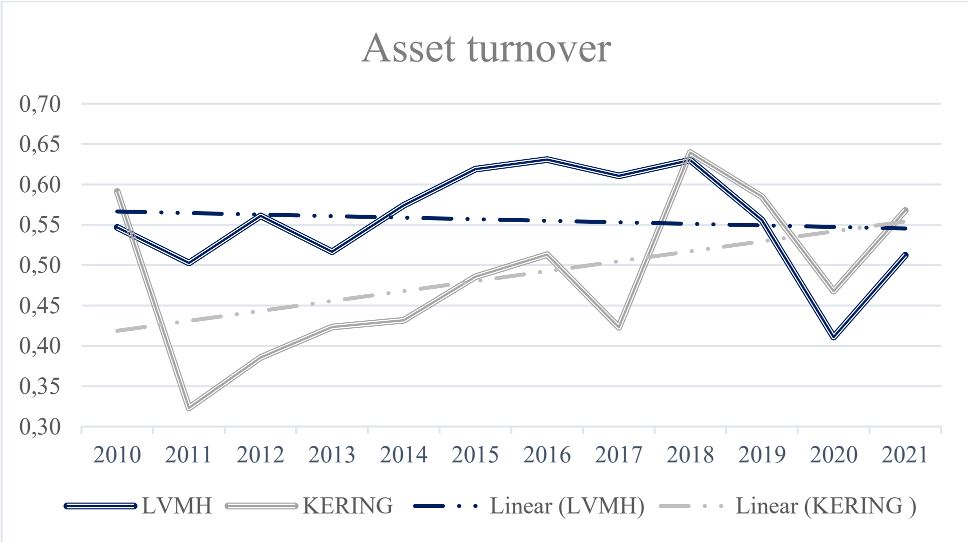


Figure 45 LVMH and Kering Asset Turnover and Trendline [Source: Companies financial statements]

The values produced by both firms are relatively low, and the chart demonstrates two patterns that are completely at odds with one another. Even if Kering has consistent growth and a final value that is 0.57 and greater than that of LVMH, the latter had a superior average during the years of observation, equivalent to 0.56. Up until 2018, LVMH's trajectory was likewise upward, but since 2019, there has been a dramatic fall. This is a result of Covid-19, which decreased sales, as well as the 2018 purchase of Belmond. Due to its extremely valuable properties, this has really greatly boosted the assets but hasn't had the same impact on income. Even if none of the values is very remarkable, it is in line with the luxury industry, which has a median value of 0.68 (Refinitive Eikon). In reality, it must be taken into account that some industries, like manufacturing, have a substantial asset base, which impacts a decline in the asset turnover ratio.

After looking at the various profitability indices we can conclude that LVMH proves to be a company capable of generating profits and very efficiently. It also appears to be more stable over time than its main competitor and also has higher average ratios, testifying once again its position as an industry leader.

4.2.2 Solvency ratios

The Solvency ratios are used to assess the ability of the company to cope with its liabilities in the medium to long term, and are particularly interesting for the creditors of the company itself. They can also be understood as levarage ratios for expressing the level of debt and leverage of the company (Henry and Robinson, 2011). Analysts are interested in a company's usage of debt for a variety of reasons. The main reason is because the quantity of debt in a company's capital structure is significant for analyzing the company's risk and return characteristics, particularly its financial ones.

4.2.2.1 Debt to Equity Ratio

This ratio compares the total liabilities of a company with its equity. In this way we can understand how much it relies on leverage, and then understand if it is financed more through creditors (debt) or shareholders (equity). A satisfactory outcome is to obtain a ratio of 1, representing an amount of debt equal to equity. A higher ratio would mean that the debt is higher and therefore the company would have to bear more expenses, mainly due to the interest on the debt. On the contrary though, if it is too low, it could mean that the company is limiting its growth by not taking enough debt (Palepu and Healy, 2013).

$$Debt\ to\ Equity = Total\ Debt\ /\ Total\ Equity$$

The total debt definition used in the nominator varies by analyst. Some consider only the total of interest-bearing short-term and long-term debt, excluding liabilities such as accrued expenses and accounts payable, others consider all type of debt, others still only long-term debt. For this reason you can find really different results depending on the chosen approach. In this work we will use only non-current liabilities.

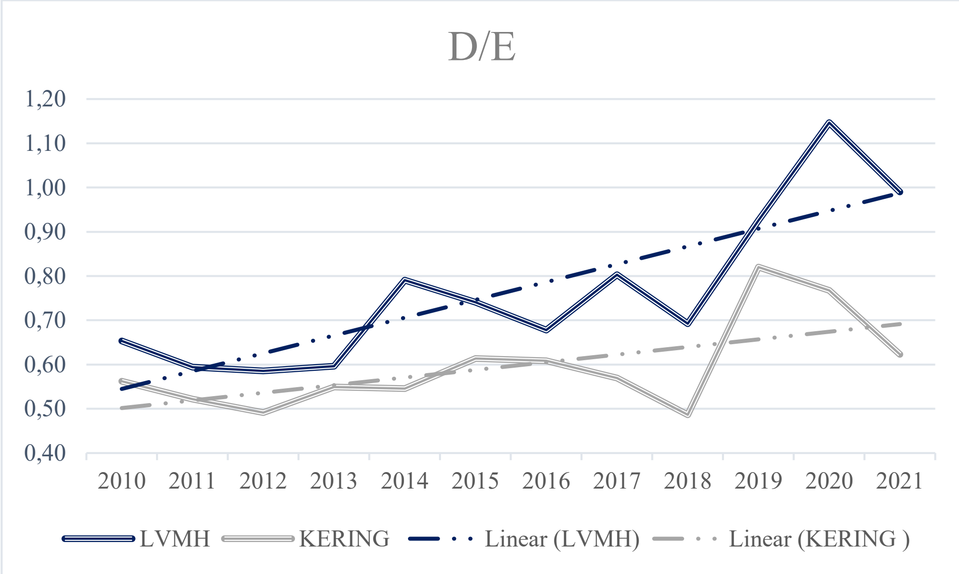


Figure 46 LVMH and KERING D/E and trendline [Source: Companies financial statements]

The D/E ratio of both companies can be considered satisfactory as they almost always lower than 1, showing how they can be considered safe investments. Despite this, the trend is growing for both, which means that over time debt has increased, but equity has not increased at the same rate. This is strongly influenced by the levels of debt seen in the last 3 years; in fact if we look between 2010 and 2018, the ratios had remained fairly stable. This rise is attributable to strategic reasons related to each particular organization, in addition to factors related to the pandemic issue. In 2019, Kering issued bonds convertible into PUMA shares for $550 million. LVMH instead released two Bonds worth one billion euros in 2019 and eight Bonds in 2020 to finance the acquisition of Tiffany.

In general, however, we can conclude that the financial structure is under control for both companies. In fact, although we have seen an increase in recent years, the values are below 1 in 2021, demonstrating the stability of businesses. In this case Kering had an average ratio of 0.6 compared to the highest 0.77 of LVMH. However if we consider the different dimensions between the two this difference is not so relevant.

4.2.3 Liquidity ratios

The ability of the business to cover both short- and long-term liabilities and current costs is referred to as liquidity. These indexes also evaluate the capacity to convert assets into cash.

Large organizations often have lower liquidity indices than small companies since they can address the liquidity issue more readily because they have access to more funding sources.

4.2.3.1 Current ratio

The current ratio represents the relationship between current assets and current liabilities. This ratio assesses a company capacity to settle short-term financial debts with a one-year maturity. It explains to investors and analysts how a business may use its present assets to the fullest extent possible to pay down its current liabilities and other payables.

$$Current\ ratio = Current\ Assets / Current\ Liabilities$$

Positive results and the ability of the business to pay down short-term obligations entirely with current assets are indicated by a current ratio greater than 1. The value of this index can, however, be changed or read incorrectly if you look at the inventory within.

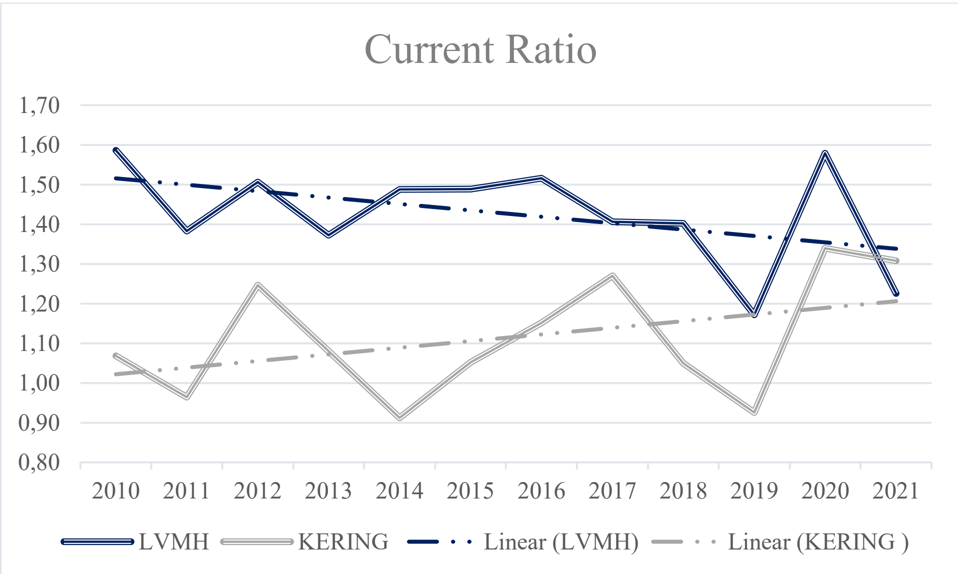


Figure 47 LVMH and KERING current ratio and trendline [Source: Companies financial statements]

The chart shows that the current ratio of LVMH is consistently more than 1, with an average value of 1.43 throughout the years 2010–2021. Overall, the results are encouraging, even if the LVMH group has recently had two significant declines: in 2019, it went from 1,40 to 1,17, and in 2021, it went from 1,58 to 1,23. Regarding the rival Kering, the results from the current ratio were similarly positive even though they were lower to 1 in three distinct years, namely 2011, 2014, and 2019.

In general, nevertheless, two opposite trendlines along time may be seen while examining the graphic. The current ratio numbers for LVMH are declining, especially since 2016, the year from which it is noted to have decreased consistently, with the exception of 2020, a year that was undoubtedly impacted by the Covid-19. For Kering, on the other hand, we observe a long-term upward trend that began in 2014 and gradually slowed down in 2018 and 2019. Growth picked up in 2020 and 2021, and at the end of 2021, Kering had for the first time in 11 years exceeded LVMH, with a value of 1.31 as opposed to 1.23. However in both instances, the numbers are favorable and demonstrate some stability in covering existing expenses.

4.2.3.2 Quick ratio

This new index will show us how rapidly the company can cover current liabilities using only "quick" current assets. If they can be converted into cash within 90 days, they can be regarded as such. To make the issue easier, these are current assets excluding inventory. The quick ratio or acid test is represented by the following formula:

$$Quick\ Ratio = (Current\ Assets - Inventory) / Current\ Liabilities$$

The quick ratio is the most conservative measure of liquidity since it only considers the assets that are the most liquid on a company's balance sheet. As a result, it provides the most accurate picture of the liquidity that would be readily available in an emergency. Values around 1 are considered safe, but in some industries where inventory is an important part of assets, even lower values are more than acceptable.

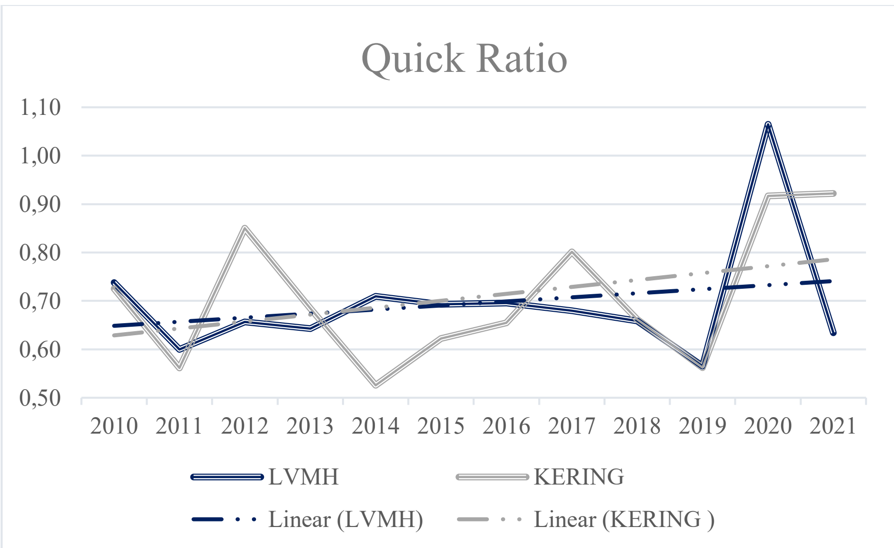


Figure 48 LVMH and KERING quick ratio and trendline [Source: Companies financial statements]

Given their respective industries of operation, both organizations' quick ratio numbers are typically less than 1. Regarding the LVMH group, we observe a similar pattern to the prior negative instance from 2014 to 2019, years during which there was a consistent decline that was stopped in 2020 by the pandemic. The scenario is once again reversed for the Kering group, which saw a positive development over the same time period and peaked at 0.92 in 2021. The fact that both businesses largely rely on their inventories to pay off their existing liabilities may make the scenario look concerning. Despite this, the total trends of both companies are positive and the average values for both in these years are around 0.7, a value certainly influenced by the outlier value of 2020, but that is considered satisfactory overall (Sosterò et al., 2018). In addition, as mentioned earlier, large companies like LVMH and Kering have the confidence to keep these liquidity indices lower than others enterprises given the ability to buy cash fast or sell inventory.

In light of these last considerations, and remembering the comforting results seen in the current ratio we can conclude by saying that the liquidity situation for the LVMH group is safe and does not show red flags. The values below 1 seen in the quick ratio are not alarming given the industry in which the group operates, and are still approaching acceptable values.

We can surely state a few things towards the end of this section. To begin, the LVMH Group demonstrated that it produced excellent performance in the financial markets throughout the time under examination. The statistics in the TSR and ETSR clearly demonstrate this. Similarly, the French group has some financial stability, as evidenced by the indexes examined. Of course, the ratio analysis may be expanded further by computing other ratios or deconstructing some of those previously computed, but this would need a separate work. However, these results are sufficient for our purpose and so to demonstrate that LVMH represents a firm that has grown through time, has been recognized by markets and investors, and possesses both business and financial strength, proving to be a more than sustainable corporation.

Conclusion

M&A operations provide a significant growth possibility for businesses that do not want to expand only through internal resources. This strategy is extensively adopted, particularly in the luxury industry, where various giants and conglomerates, such as LVMH, Kering, and Richement, have grown through a series of acquisitions. Because the literature on M&As in the luxury industry was rather poor, and the more general findings suggested a destruction of value for the buying company, the current job has set itself the goal of estimating whether LVMH's strategy of frequent and constant acquisition has generated growth and value.

Long-term results show how the French company was able to capitalize on multiple acquisitions to improve sales and revenues over the time under consideration. Along with this expansion, there is also contemporaneous value creation, which we have found to be relevant and greater to the expansion of European and luxury markets. However, for many businesses, achieving particular levels of development while retaining adequate economic and financial strength is tough. The LVMH group likewise achieved this goal, as indicated by the indexes developed in the last section of the research. The firm has managed to retain high profit margins while expanding volumes and keeping debt levels at safe levels.

There is no question from this case study that M&A operations may guarantee the rise and generation of value for the acquiring firm, but certain extra considerations are necessary. First and foremost, these gains were made feasible by LVMH's specific acquisition strategy, which was focused on several purchases; other studies demonstrate that more sporadic and less regular acquisitions do not provide the same advantages. This technique allowed the group to gain some expertise and understanding of the subject, ensuring that activities went smoothly. Furthermore, the decision to give acquired enterprises some autonomy might be considered to be an important success element. Another critical element is the difficult process of selecting the firms to be bought. The matching of beliefs and principles between buyer and acquired has been identified as a distinguishing feature in all of the acquisitions under consideration, allowing for a better integration into the new reality and faster exploitation of synergies. Nonetheless, these efforts were not without risk, as seen by the not always good short-term results.

Overall, in a rapidly changing global market, made more uncertain in recent years by the pandemic crisis, and with increasingly fierce competition, growth appears to be an aspiration that companies must strive first to ensure their survival, and then to win a leading position in the market to which they belong. These growth and leadership aspirations, as illustrated by

LVMH, may be achieved, while not without risk, through an inorganic growth strategy of mergers and acquisitions, while assuring value creation and financial stability.

References

Achille, A., Zipser, D., 2020. A perspective for the luxury-goods industry during—and after—Coronavirus. McKinsey and Company. [online] Available at https://www.mckinsey.com/industries/retail/our-insights/a-perspective-for-the-luxury-goods-industry-during-and-after-coronavirus

Adra, S., Barbopoulos., L., Saunders, A., 2020. The impact of monetary policy on M&A outcomes. Journal of Corporate Finance 62 (2020) 101529. Available at https://doi.org/10.1016/j.jcorpfin.2019.101529

Alexandridis, G., Antypas, N., Travlos, N., 2017. Value creation fromM&As: New evidence. Journal of Corporate Finance 45 (2017) 632–650. Available at http://dx.doi.org/10.1016/j.jcorpfin.2017.05.010

Anderson, A., 2016. The history of Tiffany. [online] Available at https://www.thejewelleryeditor.com/jewellery/article/the-history-of-tiffany-tiffanys/ [Accessed 12 December 2022]

Bain & Company, 2021. Global M&A Report 2021 [online]. Available at https://www.bain.com/globalassets/noindex/2021/bain_report_global_m_and_a_report_2021.pdf

Bain & Company, 2022. Global M&A Report 2022 [online]. Available at https://www.bain.com/globalassets/noindex/2022/bain_report_global_m_and_a-report-2022.pdf

Baird, L., Harding, D., Kumar, S., Vorobyov, A., 2022. Global M&A Report Midyear 2022. Bain and Company. [online] Available at https://www.bain.com/insights/global-m-and-a-report-midyear-2022/

Bao, J., & Edmans, A. (2011). Do Investment Banks Matter for M&A Returns?. Review of Financial Studies, 24 (7), 2286-2315. Available at http://dx.doi.org/10.1093/rfs/hhr014

Bargeron, L., Lehn, K., Smith, J., 2015. Employee–management trust and M&A activity. Journal of Corporate Finance 35 (2015) pp. 389–406

Becker, V. ,2022. Tiffany & Co.'s Brilliant History. [online] Available at https://www.sothebys.com/en/articles/tiffany-200-year history#:~:text=Founded%20in%201838%20by%20Charles,now%20iconic%20signature%20colour%20blue [Accessed 5 December 2022]

Bennewitz, S., 2013. Lvmh rileva anche Loro Piana: due miliardi per l'80% delle quote. [online] Available at https://www.repubblica.it/economia/finanza/2013/07/08/news/lvmh_rileva_loro_piana-62627567/ [Accessed 7 November 2022].

Beretta, E., 2011. Pier Luigi Loro Piana: lo stile di una dinastia. [Online] Available at https://www.comitatoleonardo.it/it/pier-luigi-loro-piana-lo-stile-di-una-dinastia/ [Accessed 9 November 2022].

Biron, B., 2019. Tiffany & Co. was just acquired by LVMH in a massive, $16.2 billion deal. Here's how the iconic jewelry chain became one of America's most beloved luxury brands. [online] Available at https://www.businessinsider.com/tiffany-and-co-history-iconic-luxury-brand-2019-11?r=US&IR=T [Accessed 10 December 2022].

Brock, D., Calipha, R., Tarba, S., 2010. Mergers and acquisitions: A review of phases, motives, and success factors. Advances in Mergers and Acquisitions. Doi: 10.1108/S1479-361X(2010)0000009004

Brun., A., Castelli, C., 2013. The nature of luxury: a consumer perspective. International Journal of Retail and Distribution Management. Vol.41 No. 11/12, pp. 823-847.

Campa, J., Hernando, I., 2004. Shareholder Value Creation in European M&As. European Financial Management, Vol. 10, No. 1, 2004, 47–81.

Carlassara, G., 2016. Tiffany & Co: dove i sogni diventano realtà. [online] Available at https://www.thismarketerslife.it/stories/tiffany-co-dove-i-sogni-diventano-realta/ [Accessed 12 December 2022].

Carrera, M., 2021. M&A Activity in Luxury Sector Healthy and Brisk Despite COVID-19, Says Deloitte. Women's wear daily. [online] Available at https://wwd.com/business-news/mergers-acquisitions/ma-activity-luxury-sector-not-impacted-covid19-deloitte-study-1234827233/ [17 September 2022].

Cartwright, S., and Schoenberg, R., 2006. Thirty Years of Mergers and Acquisitions Research: Recent Advances and Future Opportunities. British Journal of Management, Vol. 17, S1–S5. Doi: 10.1111/j.1467-8551.2006.00475.x

Chatt, R., Gustafson, M., Welker, A., 2021. Firing frictions and the U.S. mergers and acquisitions market. Journal of Banking and Finance 128 (2021). Available at https://doi.org/10.1016/j.jbankfin.2021.106139

Chen, R., 2021. Analysis on How LVMH Can Be the Leader of the Luxury Industry. Advances in Economics, Business and Management Research, volume 190

Chuang, K., 2016. The role of investment banks on the impact of firm performance in mergers and acquisitions: evidence from the Asia-Pacific market. Rev Quant Finan Acc (2017) 48 pp. 677–699.

Chung, Y., Kim, A., 2020. Effects of mergers and acquisitions on brand loyalty in luxury Brands: The moderating roles of luxury tier difference and social media. Journal of Business Research Volume 120, November 2020, pp. 434-442

Cohan, P., 2019. Four reasons Tiffany acquisition makes lvmh stock a buy. [Online] Available at https://www.forbes.com/sites/petercohan/2019/11/25/four-reasons-162b-tiffany-acquisition-makes-lvmh-stock-a-buy/?sh=7d64baf96659 [Accessed 6 December 2022].

Corominas, M. N., 2013. Qualitative and Quantitative analysis of LVMH. University of Barcelona, Analysis of Accounting Statements EUS Group. Available at http://diposit.ub.edu/dspace/bitstream/2445/46833/1/Qualitative%20and%20Quantitative%20Analysis%20of%20LVMH.pdf

Cretin, F., Dieudonnè, S., Bouacha, S., 2015. M&A Activity: Where Are We In the Cycle? Alternative Investment Analyst Review, Summer 2015.

Crossley, I., 2019. LVMH finalises Belmond acquisition for $3.2 billion. [online] Available at https://uk.fashionnetwork.com/news/Lvmh-finalises-belmond-acquisition-for-3-2-billion,1088987.html [Accessed 29 November 2022].

D'Arpizio et al., 2019. The Future of Luxury: A Look into Tomorrow to Understand Today. [online] Available at https://www.bain.com/insights/luxury-goods-worldwide-market-study-fall-winter-2018/

D'Arpizio, C., Levato, F., 2020. Covid-19 crisis pushes luxury to sharpest fall ever but catalyses industry's ability to transform. Bain and Company. [online] Available at https://www.bain.com/about/media-center/press-releases/2020/covid_19_crisis_pushes_luxury_to_sharpest_fall_ever_but_catalyses_industrys_ability_to_transform/

D'Arpizio, C., Levato, F., 2021. Bain-Altagamma Luxury Goods Worldwide Market Study, Fall 2021- 20th Edition. Available at https://altagamma.it/media/source/Altagamma%20-%20Bain%20Luxury%20Market%20Monitor%202021.pdf

D'Ascenzo, M., 2021. Lvmh acquista Tiffany e nomina nuovi manager. [online] Available at https://www.ilsole24ore.com/art/lvmh-acquista-tiffany-e-nomina-nuovi-manager-AD9L08BB [Accessed 14 December 2022].

Das, A., Kapil, S., 2012. Explaining M&A performance: a review of empirical research. Journal of Strategy and Management Vol. 5 No. 3, 2012 pp. 284-330. Doi: 10.1108/1755425121124758

Delis, M., et al., 2021. Management practices and M&A success. Journal of Banking & Finance

Volume 134. Available at https://doi.org/10.1016/j.jbankfin.2021.106355

Deloitte, 2020. Fashion & Luxury Private Equity and Investors Survey 2020. Available at https://www2.deloitte.com/it/it/pages/finance/articles/fashion---luxury-private-equity-and-investors-survey-2020---delo.html

Deloitte, 2022. Fashion & Luxury Private Equity and Investors Survey 2022. Available at https://www2.deloitte.com/it/it/pages/finance/articles/fashion-luxury-private-equity-and-investors-survey-2022---deloitte-italy---finance.html

De Montgolfier, J., 2021. The Future of Luxury: Bouncing Back from Covid-19. Bain and Company. [online] Available at https://www.bain.com/insights/the-future-of-luxury-bouncing-back-from-covid-19/

Dobbs, R., Goedhart, M., Suonio H., 2006. Are companies getting better at M&A? The McKinsey Quarterly: The Online Journal of McKinsey & Co. Available at https://pages.stern.nyu.edu/~igiddy/articles/better_mergers.pdf

Donzè, P. Y., 2018. The Birth of Luxury Big Business: LVMH,Richemont and Kering. Global Luxury Organizational Change and Emerging Markets since the 1970s, pp 19-38. DOI:10.1007/978-981-10-5236-1_2

Dummett B., et al., 2019. LVMH Bets It Can Restore Tiffany's Shine With $16 Billion Deal. [online] Available at https://www.wsj.com/articles/lvmh-nears-deal-to-acquire-tiffany-for-16-3-billion-11574611959 [Accessed 19 December 2022].

Euronext, 2022. CAC 40 factsheet. Available at https://live.euronext.com/sites/default/files/documentation/index-fact-sheets/CAC_40_Index_Factsheet.pdf

Fallon, I., 2018. Belmond's founder deserves his place in its history. [online] Available at https://www.ft.com/content/4edfdc18-fa52-11e8-af46-2022a0b02a6c [Accessed 30 November 2022].

Filippetti, S., 2011. Lvmh conquista la griffe Bulgari. Il Sole 24 Ore [online] Available at https://st.ilsole24ore.com/art/finanza-e-mercati/2011-03-07/lvmh-conquista-griffe-bulgari-222515.shtml?uuid=AafliIED [Accessed 26 October 2022].

Fox, J., T., 2018. LVHM to acquire Belmond for $3.2B. [online] Available at https://www.hotelmanagement.net/transactions/hedging-luxury-bets-lvhm-acquires-belmond-for-3-2b [Accessed 29 November 2022].

Fundinguniverse, 2000. LVMH Moët Hennessy Louis Vuitton SA History. [online] Available at http://www.fundinguniverse.com/company-histories/lvmh-mo%C3%ABt-hennessy-louis-vuitton-sa-history/ [Accessed 3 Novembeer 2022].

Girardin, F., 2018. Three Reasons why LVMH's Acquisition of Belmond is a Smart Move. [online] Available at https://www.hospitalitynet.org/opinion/4091367.html [Accessed 1 December 2022].

Greenhouse, S., 1987. The Champagne of Mergers. New York Times [online] Available at https://www.nytimes.com/1987/06/04/business/the-champagne-of-mergers.html [Accessed 18 October 2022].

Guilbault, L., 2020. Luxury M&A activity could pick up post-crisis. Vogue. [online] Available at https://www.voguebusiness.com/companies/luxury-m-and-a-activity-could-pick-up-post-crisis [Accessed 15 September 2022].

Guo, L., Li, Y., Wang, C., Xing, X., 2020. The role of investment bankers in M&As: New evidence on Acquirers' financial conditions. Journal of Banking and Finance 119. Available at https://doi.org/10.1016/j.jbankfin.2018.02.004

Ha, A., 2019. Inside LVMH's Success. [online] Available at https://alex-ha4121.medium.com/insides-the-lvmh-s-success-b9b208d63ebc [Accessed 4 November 2022].

Harroc, R., 2020. The Impact Of The Coronavirus Crisis On Mergers And Acquisitions. Forbes. [online] Available at https://www.forbes.com/sites/allbusiness/2020/04/17/impact-of-coronavirus-crisis-on-mergers-and-acquisitions/?sh=16dfd879200a [Accessed 2 September 2022].

Henry, E., Robinson, T. R., & Greuning, J. H. (2011). Financial Analysis Techniques. CFA Institute.

Horn, Carl-Wolfram; Fischer, Johannes J. (2021). Does Monetary Policy Affect Mergers and Acquisitions?, Beiträge zur Jahrestagung des Vereins für Socialpolitik 2021: Climate Economics, ZBW - Leibniz Information Centre for Economics, Kiel, Hamburg

Hudders, L., Vyncke, P., Pandelaere, M., 2013. Consumer meaning making: The meaning of luxury brands in a democratized luxury world. International Journal of Market Research. Doi: 10.2501/IJMR-2013-036

Lloyd, M., Wittmer, C., Potter, J., 2022. Global M&A Industry Trends: 2022 Mid-Year Update. Harvard Law School Forum on Corporate Governance. [online] Available at https://corpgov.law.harvard.edu/2022/07/25/global-ma-industry-trends-2022-mid-year-update/

LVMH, 2008. LVMH 2008 Annual report. Available at https://r.lvmh-static.com/uploads/2014/10/ra-lvmh-en.pdf

LVMH, 2010. LVMH 2010 Annual Report. Available at https://r.lvmh-static.com/uploads/2014/10/lvmh_ra_2010_gb.pdf

LVMH, 2011. Technical Specifications of the combination between LVMH and Bulgari (In compliance with the Italian Stock Exchange Regulations). Available at https://www.lvmh.fr/wp-content/uploads/2014/11/technical-specifications-of-the-combination-between-lvmh-and-bulgari-march-7-2011.pdf

LVMH, 2011. Strategic Alliance between the Bulgari family and LVMH to constitute a World Leader in Watches and Jewelry. Available at https://r.lvmh-static.com/uploads/2014/11/strategic-alliance-between-the-bulgari-family-and-lvmh-march-7-2011.pdf

LVMH, 2011. LVMH 2011 Reference Document. Available at https://r.lvmh-static.com/uploads/2014/10/reference_document_2011_lvmh.pdf

LVMH, 2012. LVMH 2012 Reference Document. Available at https://r.lvmh-static.com/uploads/2014/10/document_de_reference_2012_va.pdf

LVMH, 2013. LVMH 2013 Reference Document. Available at https://r.lvmh-static.com/uploads/2014/10/document_de_reference_2013_va.pdf

LVMH, 2013. Loro Piana description and transaction rationale. Available at https://www.lvmh.fr/wp-content/uploads/2014/09/presentation_july_8_2013-loro-piana.pdf

LVMH, 2013. Press release: Loro Piana joins the LVMH Group. Available at https://www.lvmh.fr/wp-content/uploads/2013/07/press_release_loro-piana_08.07.2013.pdf

LVMH, 2014. LVMH 2014 Reference Document. Available at https://r.lvmh-static.com/uploads/2015/02/lvmh-2014-reference-document.pdf

LVMH, 2015. LVMH 2015 Reference Document. Available at https://r.lvmh-static.com/uploads/2016/03/lvmh-document-de-reference-2015-va.pdf

LVMH, 2016. LVMH 2016 Reference Document. Available at https://r.lvmh-static.com/uploads/2017/03/document-de-reference-2016-va.pdf

LVMH, 2017. LVMH 2017 Reference Document. Available at https://r.lvmh-static.com/uploads/2018/03/lvmh_ddr_va_2017-interactif.pdf

LVMH, 2018. LVMH reaches an agreement with Belmond to increase its presence in the ultimate hospitality world. [online] Available at https://r.lvmh-static.com/uploads/2018/12/lvmh-belmond-pre sentation-14122018.pdf

LVMH, 2018. LVMH reaches an agreement with Belmond to increase its presence in the ultimate hospitality world. [online] Available at https://www.lvmh.com/news-documents/press-releases/lvmh-reaches-an-agreement-with-belmond-to-increase-its-presence-in-the-ultimate-hospitality-world/

LVMH, 2018. LVMH 2018 Reference Document. Available at https://r.lvmh-static.com/uploads/2019/03/document-de-reference-2018_va_interactif.pdf

LVMH, 2019. LVMH reaches an agreement to acquire Tiffany & Co.. Available at https://r.lvmh-static.com/uploads/2019/11/presentation-tiffany-25-11-2019.pdf

LVMH, 2019. LVMH 2019. Universal Registration Document. Available at https://r.lvmh-static.com/uploads/2019/12/lvmh-urd-2019-va.pdf

LVMH, 2020. LVMH 2020 Universal Registration Document. Available at https://r.lvmh-static.com/uploads/2020/06/lvmh-document-denregistrement-2020-va-interactif.pdf

LVMH, 2021. LVMH 2021 Annual report. Available at https://r.lvmhstatic.com/uploads/2022/03/lvmh_rapport-annuel-2021-va.pdf

LVMH, 2021. LVMH completes the acquisition of Tiffany & Co.. Available at https://r.lvmh-static.com/uploads/2021/01/lvmh-press-release-7-jan-2021.pdf

LVMH, 2021. LVMH 2021 Universal Registration Document. Available at https://r.lvmh-static.com/uploads/2022/03/lvmh-deu-2021_va.pdf

Martynova, M., Renneboog, L., 2008. A century of corporate takeovers: What have we learned and where do we stand? Journal of Banking and Finance. pp.2148–2177. doi: 10.1016/j.jbankfin.2007.12.038

Mesco, M., Passariello, C., 2013. LVMH Buys Control of Loro Piana. [online] Available at https://online.wsj.com/article/SB10001424127887323368704578593780343466700.html [Accessed 7 November 2022].

Midmer, J., 2019. From Owning to Being: The Rise of Experiential Luxury. [online] Available at https://www.linkedin.com/pulse/from-owning-being-rise-experiential-luxury-jon-midmer/ [Accessed 9 December 2022].

MSCI, 2022. MSCI Europe Textiles, Apparel, and Luxury Goods Index. [online] Available at https://www.msci.com/documents/10199/a6484b68-8345-435c-bd77-24ee4bc6ac17

MSCI, 2022. MSCI Europe index faq. Available at https://www.msci.com/documents/1296102/16199723/USLetter-MIS-Europe-cbr-en.pdf/5ce91ade-b43c-2f03-cbae-8d8b8446f4a9

Kengelbach, J., Gell, J., Keienburg, G., Degen, D., Daniel Kim. D., 2020. Covid-19's impact on global M&A. M&A update Boston Consulting Group. Available at https://www.bcg.com/it-it/publications/2020/covid-impact-global-mergers-and-acquisitions

Kering, 2011. Universal Registration document 2011. Available at https://keringcorporate.dam.kering.com/m/0461eeeb0793da75/original/2011-Reference-Document.pdf

Kering, 2012. Universal Registration document 2012. Available at https://keringcorporate.dam.kering.com/m/3dad122d1320df9e/original/2012-Reference-Document.pdf

Kering, 2013. Universal Registration document 2013. Available at https://keringcorporate.dam.kering.com/m/01d16be9662d794c/original/2013-Reference-Document.pdf

Kering, 2014. Universal Registration document 2014. Available at https://keringcorporate.dam.kering.com/m/0dd709c710ff0615/original/2014-Reference-Document.pdf

Kering, 2015. Universal Registration document 2015. Available at https://keringcorporate.dam.kering.com/m/5f9ab2e410ec6cc5/original/2015-Reference-Document.pdf

Kering, 2016. Universal Registration document 2016. Available at https://keringcorporate.dam.kering.com/m/301825b955a4d66c/original/2016-Reference-Document.pdf

Kering, 2017. Universal Registration document 2017. Available at https://keringcorporate.dam.kering.com/m/2810e82e7d0ed5e7/original/2017-Reference-Document.pdf

Kering, 2018. Universal Registration document 2018. Available at https://keringcorporate.dam.kering.com/m/7a57d2f917ef38a2/original/2018-Reference-Document.pdf

Kering, 2019. Universal Registration document 2019. Available at https://keringcorporate.dam.kering.com/m/4727d00d80ab511e/original/2019-Universal-Registration-Document-.pdf

Kering, 2020. Universal Registration document 2020. Available at https://keringcorporate.dam.kering.com/m/726533d8fa257732/original/Kering_2020_Universal_Registration_Document.pdf

Kering, 2021. Universal Registration document 2021. Available at https://www.kering.com/assets/front/documents/Kering_2021_Universal_Registration_Document.pdf

Ko, E., 2017. What is a luxury brand? A new definition and review of the literature. Journal of Business Research. Available at http://dx.doi.org/10.1016/j.jbusres.2017.08.023

Königs, A., Schiereck, D., 2006. Wealth Creation by M&A activities in the luxury goods industry. European Business School Working paper N. 7, 2006.

KPMG, 2019. Rapporto M&A 2019: record di operazioni in Italia. [online] Available at https://connect.kpmg.it/rapporto-mergers-and-acquisitions-2019

KPMG, 2020. Rapporto M&A 2020: dal mercato una prova di resilienza alla pandemia. [online] Available at https://home.kpmg/it/it/home/insights/2021/06/rapporto-mergers-acquisitions-2020.html#:~:text=Contro%20tutte%20le%20iniziali%20previsioni,del%203%25%20rispetto%20al%202019

Martin, M., 2022. Luxury M&As: how youth and digitisation are driving activity. The luxury law alliance. [online] Available at https://luxurylawalliance.com/news-features/luxury-mas-how-youth-and-digitisation-are-driving-activity/1804239313#_ftn1 [Accessed 22 September 2022].

McDermott, C., Sim, K., 2020. Covid-19: what are the impacts on M&A activity. MarshMcLennan. [online] Available at https://www.marshmclennan.com/insights/publications/2020/november/covid-19--what-are-the-impacts-on-m-a-activity.html [Accessed 1 September 2022].

Milano Finanza, 2020. Bain & Company: l'M&A sorprende nel 2019. [online] Available at: https://www.milanofinanza.it/news/bain-company-l-m-a-sorprende-nel-2019-202002111122016900

Novaes, P.V., Lamounier, W., Bressan, V., 2021. Is there really synergy creation after M&A? Evidence from Brazil under the life cycle approach. Contaduría y Administración 67(1), 2022, 68-89. Available at http://dx.doi.org/10.22201/fca.24488410e.2022.2991

Obonyo, T., 2022. Monetary policy and cross-border acquisitions. Finance Research Letters 50. Available at https://doi.org/10.1016/j.frl.2022.103197

Ortelli, M., 2014. European Luxury Goods: The M&A Wave — All the Targets, Multiples and Possible Outcomes. BersteinResearch.

Ortelli, M., 2021. Opinion: Luxury M&A Opportunities Will Heat Up Post-COVID. Here's Why. Luxury Society. [online] Available at https://luxurysociety.com/en/articles/2021/03/opinion-luxury-ma-opportunities-will-heat-up-post-covid-heres-why [Accessed 28 Agosto 2022].

Panorama, 2013. Louis Vuitton compra Loro Piana. [online] Available at https://www.panorama.it/news/economia/lvmh-loro-piana-vendita [Accessed 7 November 2022].

Palepu, K. G., & Healy, P. M., 2013. Business Analysis and Valuation - Using Financial Statements (Fifth Edition). Chapter 5, Cengage Learning.

Paton, E., 2018. LVMH Buys Belmond, Luxury Hotel Owner, as Rich Shoppers Spend More on Travel. [online] Available at https://www.nytimes.com/2018/12/14/business/lvmh-belmond-luxury-hotels.html [Accessed 9 December 2022].

Pitchbook, 2022. Global M&A report Q1-2022. [online] Available at https://pitchbook.com/news/reports/q1-2022-global-ma-report

Reuters, 2011. Maison Bulgari ceduta a LVMH. Fashion Network [online] Available at https://it.fashionnetwork.com/news/Maison-bulgari-ceduta-a-lvmh,157588.html [Accessed 4 November 2022].

Reuters, 2011. SINTESI-Bulgari, Lvmh rileva controllo e lancerà Opa, titolo vola. [online] Available at https://www.reuters.com/article/bulgari-lvmh-idITLDE7261PU20110307 [Accessed 23 October 2022].

Reuters, 2018. LVMH to buy Belmond luxury hotel group for $3.2 billion. [online] Available at https://www.cnbc.com/2018/12/14/lvmh-to-buy-belmond-luxury-hotel-group-for-3point2-billion.html [Accessed 29 November 2022].

Reuters, 2019. Tiffany asks LVMH to raise its $14.5 billion offer. [online] Available at https://www.cnbc.com/2019/11/06/tiffany-asks-lvmh-to-raise-its-14point5-billion-offer.html [Accessed 12 December 2022].

Reuters, 2020. LVMH agrees $15.8bn takeover of Tiffany. [online] Available at https://www.theguardian.com/business/2020/oct/29/lvmh-agrees-158bn-takeover-of-tiffany [Accessed 13 December 2022].

Roncagliolo, E., Avallone, F., 2021. The complexity in measuring M&A performance: Is a multi-dimensional approach enough? Financial reporting pp. 89-117. Doi: 10.3280/FR2021-001004

Sen Gupta, M., 2022. Exploring The Storied History Behind French Fashion House Louis Vuitton. [online] Available at https://www.augustman.com/my/style/fashion/history-of-french-fashion-house-louis-vuitton/ [Accessed 3 November 2022].

Seo, Y., Buchanan-Oliver, M., 2015. Luxury Branding: The industry, trends, and future conceptualisations. Asia Pacific Journal of Marketing and Logistics. Doi: 10.1108/APJML-10-2014-0148

Socha, M., 2012. LVMH Acquires French Tannery. Women’s wear daily. [online] Available at https://wwd.com/accessories-news/leather-goods/lvmh-acquires-french-tannery-5889962/ [Accessed 1 December 2022].

Sosterò., U., Ferrarese, P., Mancin, M., Marcon, C., 2018. L’analisi economico-finanziaria di bilancio. Giuffrè Editore, 3rd edition, pp. 281-391.

Supriyadi, T., 2021. Effect of return on assets, return on equity and net profit margin on the company’s value in manufacturing companies listed on the exchange Indonesia securities years 2016-2019. International Journal of Economics, Business and Management Research Vol. 5, No.04. ISSN: 2456-7760.

S&P, 2022. S&P Global Luxury Index factsheet. Available at https://www.spglobal.com/spdji/en/idsenhancedfactsheet/file.pdf?calcFrequency=M&force_download=true&hostIdentifier=48190c8c-42c4-46af-8d1a-0cd5db894797&indexId=5475692

S&P, 2022. S&P Global Luxury Index Methodology. Available at https://www.spglobal.com/spdji/en/documents/methodologies/methodology-sp-global-luxury-index.pdf

Tamošiūnienė, R., 2011. Why companies Decide to Partecipate in Meregers and Acquisitions Transactions. Mokslas - Lietuvos ateitis. Doi: 10.3846/145

Teerikangas, S., Very P., 2006. The Culture–Performance Relationship in M&A: From Yes/No to How. British Journal of Management, Vol. 17, pp. 31–48

Tirelli, R., 2020. LVMH: you never stop growing. [online] Available at https://www.bscapitalmarkets.com/lvmh-you-never-stop-growing.html [Accessed 18 October 2022].

Truong, Y., Kitchen, P., 2009. New luxury brand positioning and the emergence of Masstige brands. Journal of Brand Management, 16(5), 375-382. DOI:10.1057/bm.2009.1

Tussel, J., 2003. Assessing Potential Accounting Manipulation: The Financial Characteristics of Charitable Organizations With Higher Than Expected Program-Spending Ratios. Nonprofit and Voluntary Sector Quarterly, vol. 32, no. 4, December 2003 616-634 DOI: 10.1177/0899764003257459

Von Monteton, V., 2022. How the pandemic changed the luxury industry. Kearney. Available at https://www.kearney.com/consumer-retail/article/-/insights/how-the-pandemic-changed-the-luxury-industry [Accessed 11 September 2022].

Walter, T., Yawson, A., Yeung, C., 2008. The role of investment banks in M&A transactions: Fees and services. Pacific-Basin Finance Journal 16 (2008) pp. 341–369.

Yotka, S., 2019. A brief history of Louis Vuitton's famous monogram. Vogue [online] Available at https://www.vogue.fr/fashion/fashion-inspiration/story/a-brief-history-of-louis-vuittons-famous-monogram/1682 [Accessed 3 November 2022].

Zuvela, T., 2021. The $248b Man Behind the Empire: The Story of LVMH. [online] Available at https://themarketherald.com.au/fancy/the-a248b-man-behind-the-empire-the-story-of-lvmh/ [Accessed 18 October 2022].

Appendix

BULGARI	Event window	
	(-1,0)	(-5,5)
beta	0,95	0,95
risk free rate	3,14%	3,14%
implied market return	10,41%	10,41%
market risk premium	7,27%	7,27%
cost of capital-annual	10,05%	10,05%
cost of capital-daily	0,03%	0,03%
cost of capital-announcement	0,03%	0,26%
stock's return	1,26%	-6,70%
excess return	1,23%	-6,96%

Table 1 Source: Yahoo Answer, Refinitve Eikon, Market Risk-premia

LORO PIANA	Event window	
	(-1,0)	(-5,5)
beta	0,95	0,95
risk free rate	1,67%	1,67%
implied market return	8,50%	8,50%
market risk premium	6,83%	6,83%
cost of capital-annual	8,16%	8,16%
cost of capital-daily	0,02%	0,02%
cost of capital-announcement	0,02%	0,21%
stock's return	2,96%	5,18%
excess return	2,94%	4,97%

Table 2 Source: Yahoo Answer, Refinitve Eikon, Market Risk-premia

BELMOND	Event window	
	(-1,0)	(-5,5)
beta	0,95	0,95
risk free rate	0,25%	0,25%
implied market return	7,64%	7,64%
market risk premium	7,39%	7,39%
cost of capital-annual	7,27%	7,27%
cost of capital-daily	0,02%	0,02%
cost of capital-announcement	0,02%	0,19%
stock's return	-1,52%	1,58%
excess return	-1,54%	1,39%

Table 3 Source: Yahoo Answer, Refinitve Eikon, Market Risk-premia

TIFFANY	Event window	
	(-1,0)	(-5,5)
beta	0,95	0,95
risk free rate	-0,35%	-0,35%
implied market return	6,38%	6,38%
market risk premium	6,73%	6,73%
cost of capital-annual	6,04%	6,04%
cost of capital-daily	0,02%	0,02%
cost of capital-announcement	0,02%	0,16%
stock's return	2,02%	-1,42%
excess return	2,00%	-1,58%

Table 4 Source: Yahoo Answer, Refinitve Eikon, Market Risk-premia

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
risk free rate (%)	3,30	3,15	1,83	1,62	1,57	0,27	0,27	0,44	0,64	0,10	-0,47	-0,55
implied market return (%)	8,70	9,30	10,09	8,63	7,79	6,64	7,25	6,67	6,25	7,59	6,35	5,58
market risk premium (%)	5,40	6,15	8,26	7,01	6,22	6,37	6,98	6,23	5,61	7,49	6,82	6,13
beta	0,95	0,95	0,95	0,95	0,95	0,95	0,95	0,95	0,95	0,95	0,95	0,95
Cost of equity-annual (%)	8,43	8,99	9,68	8,28	7,48	6,32	6,90	6,36	5,97	7,22	6,01	5,27

Table 5 Source: Yahoo Answer, Refinitve Eikon, Market Risk-premia

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
price per share at the end of the year (€)		78,61	123,35	109,4	137,8	132,6	132,3	147,15	181,4	245,4	258,2	414,2	510,9	727
dividend per share (€)			2	2,2	2,9	3	3,15	3,3	3,6	4,2	5,4	6,2	7,2	7
Return to Sharehoder			59,5%	-9,5%	28,6%	-1,6%	2,1%	13,8%	25,7%	37,6%	7,4%	62,8%	25,1%	43,7%
Anualized TSR	23%													
Cumulative return	889%													
cost of capital	7,9%		8,4%	9,0%	9,7%	8,3%	7,5%	6,3%	6,9%	6,4%	6,0%	7,2%	6,0%	5,3%
ETRS on cost of capital	17%		51,0%	-18,5%	18,9%	-9,9%	-5,4%	7,4%	18,8%	31,2%	1,4%	55,6%	19,1%	38,4%
cumulative excess return on cost of equity	444%													
MSCI EUROPE (€)		1007	1089	969	1095	1279	1329	1402	1399	1497	1296	1591	1506	1841
MSCI TSR			8,1%	-11,0%	13,0%	16,8%	3,9%	5,5%	-0,2%	7,0%	-13,4%	22,8%	-5,3%	22,2%
annualized MSCI	5,64%													
cumulative MSCI	83%													
ETSR on MSCI	19%		51,3%	1,5%	15,6%	-18,4%	-1,8%	8,3%	25,9%	30,6%	20,8%	40,1%	30,4%	21,4%
cumulative excess return on MSCI Europe	579%													
CAC 40 (€)		3936	3850	3159	3620	4295	4272	4677	4862	5312	4730	5978	5551	7153
CAC 40 TSR			-2,2%	-17,9%	14,6%	18,6%	-0,5%	9,5%	4,0%	9,3%	-11,0%	26,4%	-7,1%	28,9%
annualized CAC 40	5,58%													
cumulative CAC 40	82%													
ETSR on CAC 40	19%		61,6%	8,4%	14,0%	-20,2%	2,6%	4,3%	21,8%	28,3%	18,4%	36,4%	32,2%	14,8%
cumulative excess return on CAC 40	554%													
MSCI luxury (€)		187,8	306,1	273,0	363,4	418,7	414,0	439,2	509,3	627,1	597,5	849,4	951,4	1282,0
MSCI luxury TSR			63,0%	-10,8%	33,1%	15,2%	-1,1%	6,1%	16,0%	23,1%	-4,7%	42,2%	12,0%	34,8%
annualized MSCI luxury	19%													
cumulative MSCI luxury	683%													
ETSR on MSCI luxury	6%		-3,5%	1,3%	-4,5%	-16,8%	3,2%	7,7%	9,7%	14,5%	12,1%	20,6%	13,1%	8,9%
Cumulative excess return on MSCI Luxury	81%													
S&P Luxury (€)		712,73	1088	1085	1318	1678	1783	1830	1858	2234	2040	2653	3304	4344
S&P Luxury TSR			52,7%	-0,3%	21,5%	27,4%	6,3%	2,6%	1,5%	20,3%	-8,7%	30,1%	24,5%	31,5%
Annualized S&P Luxury	18%													
Cumulative S&P Luxury	610%													
ETSR on S&P luxury	7%		6,8%	-9,2%	7,1%	-29,0%	-4,1%	11,1%	24,2%	17,3%	16,1%	32,8%	0,6%	12,2%
Cumilative excess return on S&P luxury	99%													

Table 6 Source: Yahoo Answer, Refinitve Eikon, Market Risk-premia