

Financial Analysis and Investment Strategies in the Luxury Goods Sector: A Comparative Study of LVMH, Hermès, and Richemont

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Abstract. With the evolution of globalization and economics recovery after COVID in recent years across the world, it is an obvious trend that people are willing to pay more to enjoy high quality of their lives. It indicates more business opportunities in luxury industry than ever to meet those consumer needs. To enable a solid understanding for financial investors in this segment with data-based business analysis, it is worthwhile to provide an investment proposal supported by a key benchmark analysis. Therefore, this paper summarizes an in-depth financial analysis of three luxury goods companies who are the leaders in the market, i.e. LVMH, Hermes, and Compagnie Financière Richemont SA (CFRS). The study is to aim an objective and concise assessment focus on the risk, profitability, and market ratios of these three companies to provide guidance to potential investment decisions. Financial indicators, including risk coefficients, profitability indexes, and market ratios, are analyzed to conclude with the investment strategies for six major investor profiles. The findings offer a comprehensive view with data supporting for different types of investors according to their customized financial preference and risk management to optimize their portfolios in the luxury goods sector.

Keywords: Profitability; Risk assessment; Market ratio; Investment strategy.

1. Introduction

Selecting appropriate investment assets is critical for achieving financial success, as it determines both potential returns and the level of risk in a portfolio [1-2]. The selection of assets plays a pivotal role in determining the profitability and risk of an investment portfolio [3]. Selecting the right assets requires not only an understanding of potential returns but also a careful alignment with an investor's financial goals and risk tolerance.

The luxury goods industry presents a unique investment opportunity, characterized by strong brand loyalty, high profit margins, and resilience during economic fluctuations. However, it also carries specific risks such as market volatility and increased competition. Understanding the financial health and performance of luxury brands is essential for making informed investment decisions in this sector.

This study focuses on three prominent luxury companies—LVMH, Hermes, and Compagnie Financière Richemont SA (CFRS)—and conducts a detailed financial analysis of their market capitalization, risk factors, and profitability metrics. By evaluating these companies, the research aims to provide insights and recommendations tailored to different types of investors, helping them optimize their investment strategies within the luxury sector.

2. Overview

LVMH (Moët Hennessy Louis Vuitton), founded in 1987 through the merger of fashion house Louis Vuitton, champagne producer Moët & Chandon, and cognac brand Hennessy, is a global leader in luxury goods. LVMH operates over 75 distinguished brands spanning fashion, cosmetics, jewelry, perfumes, watches, and spirits. The company's flagship brands include Louis Vuitton, Christian Dior, Givenchy, Fendi, and Dom Pérignon. LVMH is recognized for its extensive portfolio, combining artisanal craftsmanship with innovative designs to maintain exclusivity and brand heritage. With a

diverse international presence, LVMH has become a dominant force in the luxury industry, leveraging strategic acquisitions and maintaining robust growth through its various luxury sectors.

Hermes, established in 1837 by Thierry Hermès as a harness workshop, has evolved into one of the world’s most iconic luxury brands. Specializing in leather goods, fashion, and accessories, the brand is renowned for its meticulous craftsmanship, limited production runs, and exclusivity. Signature products such as the Birkin and Kelly bags, along with Hermes’ silk scarves and leather belts, have contributed to its status as a symbol of elegance and timeless design. Hermes maintains a strict focus on quality, with many of its products handcrafted by artisans, ensuring that the brand upholds its legacy of durability and prestige.

Compagnie Financière Richemont SA (CFRS), founded in 1992 and based in Switzerland, is a luxury conglomerate primarily known for its expertise in high-end fashion, accessories, jewelry, and watches. Richemont owns several prestigious brands, including Cartier, Van Cleef & Arpels, Piaget, and Montblanc. Its focus on bold, innovative designs and commitment to craftsmanship has enabled it to carve out a unique position in the luxury market. Richemont also excels in luxury watchmaking through brands such as Jaeger-LeCoultre, IWC, and Vacheron Constantin, solidifying its dominance in the luxury accessories sector.

3. Risk

The influence of risk on investment decisions is crucial and can be analyzed through several financial indicators, including market capitalization, beta values, and debt levels. These metrics help investors understand the potential volatility and financial stability of a company, the data show below in Table 1.

Table 1. Comparison of Three Companies' Market Capitalization, Beta Value & Debt Levels

	LVMH	HERMES	CFRS
Market Cap	\$374.99 billion	\$236.67 billion	\$89.16 billion
Beta	0.98	0.75	1.65
Debt	€39 billion	€2.06 billion	€7.4 billion

Market capitalization, or market cap, is a fundamental measure of a company's total value as determined by the market [4-5]. LVMH, with a market cap of \$374.99 billion, stands as the largest and most financially stable among the three companies analyzed. This substantial market cap suggests lower risk associated with market fluctuations due to its extensive market presence and established brand. Hermes, with a market cap of \$236.67 billion, is a significant player but smaller compared to LVMH, indicating a moderate level of risk. CFRS, having the smallest market cap at \$89.16 billion, is considered more vulnerable to market volatility, highlighting its higher risk profile due to its size.

Beta values are essential for understanding a company's volatility in the market. CFRS has the highest beta at 1.65, indicating significant volatility and risk compared to the market. This high beta reflects a greater likelihood of large swings in stock price. LVMH, with a beta of 0.98, shows moderate volatility, suggesting it is less risky than CFRS but more exposed to market movements than Hermes. Hermes, with the lowest beta of 0.75, demonstrates the least volatility and risk, making it a safer choice for conservative investors seeking stability.

Debt levels provide insight into a company's financial leverage and potential risk. LVMH carries the highest debt at €39 billion, indicative of its aggressive expansion and large-scale operations. This high level of debt introduces higher financial risk, especially during economic downturns. CFRS holds moderate debt at €7.4 billion, reflecting a balanced approach to leveraging. Hermes has the lowest debt at €2.06 billion, aligning with its conservative financial strategy and lower beta, which suggests minimal financial risk and stability.

From a volatility standpoint, LVMH's large market cap and high debt indicate a balanced risk-return profile with moderate volatility. Hermes offers the lowest risk with its small beta and minimal debt, making it suitable for risk-averse investors. CFRS, with its high beta and moderate debt, presents the highest risk, appealing to investors willing to accept greater volatility for potentially higher returns.

4. Profitability

Profitability metrics provide crucial insights into how effectively a company turns its revenues into profit, and how well it utilizes its assets and equity to achieve financial success. Total asset turnover, profit margin, return on assets (ROA), and return on equity (ROE) are key indicators used to evaluate profitability. The relevant indicators for the three companies are listed in Table 2.

Table 2. Profitability of Leading Luxury Companies (LVMH, Hermès, Richemont)

Company	Total Asset T/O	Profit Margins	ROA(Return on Assets)	ROE(Return on Equity)
LVMH	0.61	17.61%	10.56%	24.87%
Hermes	0.68	21.00%	14.30%	23.50%
CFRSA	0.54	14.50%	8.20%	15.00%

In terms of total asset turnover, Hermes leads with a ratio of 0.68, demonstrating the highest efficiency in converting its assets into sales. LVMH follows with a ratio of 0.61, showing strong performance but slightly less efficient than Hermes. CFRSA has the lowest total asset turnover at 0.54, indicating it is less effective in utilizing its assets to generate sales. The profit margin reveals how much profit a company retains from its revenues. Hermes excels with a profit margin of 21.00%, the highest among the three, reflecting superior profitability. LVMH's profit margin stands at 17.61%, indicating a solid but lower profitability compared to Hermes. CFRSA shows the lowest profit margin at 14.50%, suggesting that it retains less profit from its revenues relative to the other companies. Regarding return on assets (ROA), Hermes again leads with a return of 14.30%, indicating the most efficient use of assets to generate profit. LVMH has a ROA of 10.56%, which is lower than Hermes but still strong. CFRSA has the lowest ROA at 8.20%, reflecting the least efficiency in generating profit from its assets. When examining return on equity (ROE), LVMH stands out with a return of 24.87%, highlighting its high profitability relative to shareholder equity. Hermes follows closely with a ROE of 23.50%, showing strong returns but slightly lower than LVMH. CFRSA, with a ROE of 15.00%, has the lowest return on equity, indicating lower profitability compared to the other two companies.

In terms of Return on Equity (ROE), LVMH leads with the highest figure at 24.87%, indicating it is the most efficient at generating profit from shareholders' equity. Hermès follows closely with a strong ROE of 23.50%, demonstrating its high profitability. CFRS, on the other hand, has a lower ROE at 15.00%, indicating relatively weaker profitability.

When it comes to beta, which measures a stock's volatility, CFRS is the most volatile with a beta of 1.65, meaning its stock is more sensitive to market movements. LVMH has a beta of 0.98, reflecting stock movements that align with the market. Hermès, with the lowest beta of 0.75, offers greater stability and less volatility.

Finally, in terms of market capitalization, LVMH is the largest company with a market cap of \$374.99 billion, highlighting its dominant position in the luxury goods sector. Hermès follows with a sizable market cap of \$236.67 billion, reflecting its strong premium brand. CFRS, with a market cap of \$89.16 billion, is a smaller player in the luxury industry.

In summary, Hermes exhibits superior profitability across all key indicators, making it the most efficient in managing resources to generate profit and explore the future growth opportunities. LVMH

also shows strong profitability, particularly in ROE. CFRSA, while less profitable than Hermes and LVMH, still offers a noteworthy performance.

5. Market Ratios

The following table provides a summary of key market ratios for LVMH, Hermes, and Compagnie Financière Richemont SA (CFRS), helping investors make informed decisions based on their investment strategies [6-8]. These ratios offer insights into the valuation, growth potential, and financial health of each company. These data can be found in Table 3.

Table 3. Market Ratios of LVMH, Hermes, and CFRS

Company	P/E Ratio	P/B Ratio	Dividend Yield (%)	PEG Ratio
LVMH	29.5	4.1	1.50	2.10
Hermes	42.7	9.2	0.80	3.05
CFRS	25.8	2.7	4.80	1.75

The Price-to-Earnings (P/E) ratios of Hermès, LVMH, and CFRS reveal distinct investor expectations for these luxury brands. Hermès leads with the highest P/E ratio of 42.7, indicating that its stock is priced at a premium compared to its earnings, which suggests investors anticipate significant future growth or exceptional performance. LVMH follows with a P/E of 29.5, reflecting solid growth expectations, albeit less aggressive than those for Hermès. CFRS has the lowest P/E ratio at 25.8, suggesting a relatively cheaper valuation but possibly lower growth expectations or more stable earnings.

In terms of the Price-to-Book (P/B) ratio, Hermès again stands out with a remarkably high figure of 9.2, underscoring the market's confidence in its intangible assets, such as brand value. LVMH has a P/B ratio of 4.1, indicating a strong asset value, though not as extreme as Hermès. CFRS has the lowest P/B ratio at 2.7, suggesting a more modest valuation based on its assets.

When comparing dividend yields, CFRS offers the highest at 4.80%, making it appealing to income-focused investors. LVMH provides a more moderate dividend yield of 1.50%, balancing between growth and shareholder returns. Hermès offers the lowest yield at 0.80%, signaling a focus on reinvesting in the business rather than providing immediate returns to shareholders.

The PEG (Price/Earnings-to-Growth) ratio also highlights differences between the three companies. Hermès has the highest PEG ratio at 3.05, indicating that while growth expectations are high, the stock may be expensive relative to its actual earnings growth rate. LVMH's PEG ratio is 2.10, suggesting a more balanced valuation concerning its growth prospects. CFRS has the lowest PEG ratio at 1.75, implying it may be the most reasonably priced stock given its growth potential.

In conclusion, LVMH presents a balanced profile with strong profitability, moderate growth expectations, and a large market cap. It is a dominant player with reasonable risk (beta). Hermès has a premium valuation and focuses on high-end exclusivity, as reflected by its high P/E and P/B ratios, though it offers a low dividend. CFRS appears to focus on providing solid dividends and lower volatility, but its growth prospects and profitability are not as strong as its competitors.

6. Investment Decisions

Value investors typically seek stocks that are undervalued relative to their intrinsic worth, measured by low P/E and P/B ratios. In this analysis, CFRS appears more attractive due to its lower P/E (25.8) and P/B (2.7) ratios, suggesting that it is potentially undervalued compared to LVMH and Hermes, which have significantly higher ratios that could indicate overvaluation.

Income investors prioritize companies with higher dividend yields to generate regular income [9-10]. CFRS offers the most appealing dividend yield at 4.80%, compared to LVMH at 1.50% and Hermes at 0.80%, making CFRS the best option for income-focused investors.

PEG ratio investors focus on companies whose PEG ratio is less than 1, indicating that the stock is undervalued relative to its growth potential. While none of the companies have a PEG below 1, CFRS again stands out with the lowest PEG ratio (1.75), which is more attractive than LVMH (2.10) and Hermes (3.05), suggesting it offers better value relative to growth.

All three companies show strong return on equity (ROE), with LVMH leading at 24.87%, followed by Hermes (23.50%), and CFRS (15.00%). These high ROEs indicate efficient use of shareholders' funds, making them attractive to ratio analysis investors seeking companies with strong financial performance.

Index investors track companies that are part of major stock market indices. All three companies are listed in major global indices, making them suitable options for investors who follow an index strategy.

Momentum investors look for stocks that are currently in an upward trend, often measured by their position relative to the 200-day moving average. LVMH and Hermes show signs of strong momentum, which makes them attractive for momentum investors. CFRS, with its higher beta (1.65), suggests more volatility, which might deter some momentum investors.

7. Conclusion

In conclusion, LVMH, Hermes, and CFRS present distinct investment opportunities based on their financial indicators, offering a range of options for different types of investors. This analysis has highlighted varying investment profiles, driven by factors such as profitability, risk levels, and market ratios, which appeal to specific investor preferences. Hermes emerges as the most stable and profitable option, with its low risk and high return on equity making it an attractive choice for conservative investors seeking long-term stability. LVMH, with its balanced risk-return profile, offers a more diversified approach, suitable for investors seeking both stability and growth potential. Conversely, CFRS stands out for investors with a higher risk tolerance, as its relatively higher volatility and lower profitability metrics indicate a potentially higher reward for those willing to accept greater risk.

While the recommendations based on this analysis provide useful guidance, there are inherent limitations to consider. The data's timeliness may affect the relevance of the findings, as evolving market conditions can alter financial performance and investment attractiveness. Additionally, qualitative factors such as investor sentiment and market trends are not fully captured in this quantitative analysis. Future research could address these limitations by incorporating broader market conditions and subjective investor preferences, thereby providing a more comprehensive evaluation of investment strategies in the luxury goods sector.

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