

Investment Analysis and Asset Selection in Luxury Goods Sector: A Case Study of Burberry, Hermes and LVMH

Benjamin Y. Zhou^{1,*}

¹ Wellington College, Berkshire,
United Kingdom

*Corresponding author:
Benzhou1234567890@gmail.com

Abstract:

This paper conducts a detailed analysis of potential investments in three companies which are major players in the luxury goods industry: Burberry, Hermes, and LVMH. The analysis begins by evaluating risk through key indicators such as market capitalization, beta, debt ratio, and current ratio. This is then followed by an analysis of how profitable each company is using ROA (Return on Assets) and ROE (Return on Equity). Furthermore, this paper is then followed by market ratios which can be used to identify potential undervalued opportunities such as the PE (Price to Earnings) and PB (Price to Book), and PEG ratios. Beyond fundamental metrics, this paper also integrates qualitative factors such as insider buying and ‘Smart Money’ trades; these movements often provide essential insights into a company’s future performance. The findings reveal that each company presents a unique investment profile suitable for different types of investors. For example, the data suggests that Burberry and LVMH would be appealing to valuation investors, as, using the DCF model, their intrinsic value is higher than their current market price. On the other side, Hermes is a favourable choice for ratio and smart money investors, while momentum investors would find Burberry and Hermes appealing. This serves as a comprehensive guide for potential investors in the luxury goods sector to make informed decisions aligned with their specific financial goals and risk tolerance.

Keywords: Luxury goods; investment analysis; financial metrics; investing; stocks.

1. Introduction

To build financial success, one must invest wisely,

and a crucial element of this is carefully hand-picking the right assets [1]. The luxury goods industry shows a unique and compelling case as a potential invest-

ment target due to its specific favorable characteristics.

This sector is notably resilient to economic downturn because of its customer base of high-net-worth individuals who are less impacted by financial crises than the average consumer [2]. Therefore, this makes luxury companies a stable choice in the volatile stock market. Furthermore, luxury brands possess significant advantages such as pricing power. This is because of the brand loyalty they have within their consumer circles, which enables them to maintain high profit margins even when production costs rise [3]. The artificially limited production of many luxury goods, combined with their consistent strong demand, can also lead to appreciation of the value of their products.

These distinct features make the luxury goods market a high-quality area for investors looking for stability, diversification, and long-term compounders, setting it apart from other industries [4].

In this paper, three key players in the luxury goods sector will be analyzed; these companies are Burberry, Hermès, and LVMH. These companies are key players in the industry as they are established brands with significant advantages. These advantages include large supply chains, a loyal customer base, and a strong recognizable brand. These factors allow for pricing power and resilience during economic downturns. Therefore, their potential investment value is worth a comprehensive analysis.

2. Introduction of Companies

Burberry is a British luxury brand founded in 1856 by Thomas Burberry. Originally known for its outfit attire such as the invention of the gabardine fabric and its iconic trench coat, the company has been associated with both traditional and modern fashion art-pieces [3]. Burberry's iconic check patterns stand as one of the most recognizable brand symbols in the entire luxury industry. Headquartered in London, Burberry operates globally with it offering a wide range of products, from apparel to accessories to fragrances while maintaining a strong link to its British heritage and particularly the British royal family [5]. The brand's royal connections are well-documented with Burberry being granted its Royal Warrant in 1919, then in 1955, then again in 1989 [6].

Hermès, established in 1937 by Thierry Hermès in Paris, began as a harness and saddle workshop for European nobility. Over its long history, the company has expanded

into a wide variety of luxury goods, these include leather products, silk scarves, fashion and home items [1]. Today Hermès is recognised for its hand-made craftsmanship and limited production, with some of its handbags, such as the Birkin and Kelly, gaining cultural and economic significance [7]. Despite its rapid growth growing into a global brand, Hermès still remains largely family controlled.

LVMH (short for Moët Hennessy Louis Vuitton) is a French multinational luxury goods conglomerate created in 1987 through the merger of the brand Louis Vuitton and the alcohol company Moët Hennessy. The conglomerate owns a wide range of brands across multiple different sectors in the luxury goods industry. These include companies in sectors such as fashion, cosmetics, jewelry and beverages. With over seventy brands in its portfolio, such as Dior, Fendi and Givenchy, LVMH has become the leader in the global luxury industry [8]. Headquartered in Paris, it operated worldwide and is known for combining its heritage brands with its large-scale business operations.

3. Financial Indicators

3.1 Risk

Investing involves inherent risk, which is the potential for financial loss or underperformance relative to expectations [9]. The relationship between risk and investment decisions has been apparent since the foundations of modern finance. Risk will be measured risk using four key metrics: market cap, beta, debt ratio, and current ratio.

Market cap is short for market capitalization. This shows you a company's size and worth which can compare to its peers. Higher market cap companies symbolize lower risk in terms of business stability. They are typically industry leaders which have a strong customer base, diverse revenue streams, and easier access to capital. Beta is a measure of a stock's volatility in relation to the overall market. A lower beta means the stock is less volatile therefore less risky. The debt ratio is a measure of a company's financial leverage. This is calculated by this ratio by dividing the company's total liabilities by its shareholder's equity. The current ratio is a measure of a company's ability to pay its short-term obligations; this is calculated by dividing current assets by current liabilities. Related information about the three companies is shown in the following Table 1.

Table 1. Risk

	Burberry(£):	Hermes (€):	LVMH(\$):
Market Cap	4,351,000,000	244,390,983,230.00	245,307,000,000.00
Beta	1.00	0.83	0.99
Debt Ratio	73.15%	24.91%	53.56%
Current Ratio	1.49	4.36	1.41

In terms of market cap, Burberry can be seen to be in a relatively risky position compared to Hermes and LVMH. This is because its market cap of only four points three five one billion pounds (£4.351b) is only a fraction of its rivals - Hermes (€244b) and LVMH (€245b). This disparity highlights Burberry's size risk, making it more vulnerable to economic downturns, competitive pressures, and shifting consumer trends.

From the perspective of beta, all companies have a below or at one, making them all have minimal systematic risk. Regarding debt ratio and current ratio, Burberry has the highest debt ratio (73.15%) and LVMH has the lowest current ratio (1.41). However, all the companies have a debt ratio below one hundred percent and a current ratio above one, suggesting all the companies are capable of fulfilling their long - and short-term obligations.

Overall, all three companies exhibit relatively low risk; however, Burberry presents the highest risk as it has the lowest market cap and highest debt ratio and beta. Conversely, Hermes demonstrates the most stability as it has the lowest beta and lowest debt ratio and highest current ratio.

3.2 Profitability

Profitability is a fundamental pillar in analysing a company. It directly signals operational efficiency, competitive advantage, capacity for sustained growth, and quality of management [10]. Profitability will be measured profitability using three metrics: total asset turnover, ROA (return on assets), ROE (return on equity).

Total asset turnover stipulates how efficiently the company is using its assets to generate sales. For the luxury goods sector, the typical total asset turnover is between 0.3 and 0.8, which is low compared to similar sectors such as retail (with a total asset turnover of 2 to 4). The reason for this lower total asset turnover is that luxury brands carry high value assets and focus on brand exclusivity, not mass sales. ROA is a financial ratio that displays the relationship between the profit of the company and its assets. Similarly, ROE refers to a company's ability to generate profits from the money invested by its shareholders. Related information about the three companies is shown in the following Table 2.

Table 2. Profitability

	Burberry(£):	Hermes (€):	LVMH(\$):
Total Asset Turnover	0.72	0.7	0.6
ROA (Return on Assets)	0.48%	21.2%	7.8%
ROE (Return on Equity)	7.2%	28.6%	16.7%

All companies have a total asset turnover in line with expectations for the industry average with Burberry having the highest total asset turnover (0.72), then Hermes next (0.7), and LVMH last (0.6). This shows that Burberry is the most efficient at using its assets to generate sales and LVMH is the least efficient. In terms of ROA, Hermes has the highest ROA (21.2%), followed by LVMH (7.8%), followed by Burberry (0.48%). According to ROE, Hermes has the highest ROE (28.6%), next is LVMH (16.7%), and last is Burberry (7.2%). Using ROA and ROE can identify that Hermes is the most profitable with it having the highest ROA and ROE, then LVMH, then Burberry.

3.3 Market Ratios

Market ratios are essential tools for investors seeking to discover potentially undervalued companies and companies that have potential for future returns. By comparing a company's share price to key metrics such as the PE (price to earnings) and PB (price to book) ratios helps cut through daily unnecessary market noise and provide a standardized method to determine whether a stock is overvalued or undervalued which then assists us to decide if a stock is a buy, hold, or sell.

For these three companies the analysis will examine the market ratios of PE, PB, and PEG ratios of a company. The PE ratio indicates how expensive a company is relative to its profits; this answers the question of, how much are investors willing to pay for one dollar of the company's earnings?' This is calculated the PE ratio by dividing the market price per share by the earnings per share of the stock. The PB ratio compares a company's market capitalization relative to its book value; this is calculated the PB ratio by dividing the market price per share by the book value per share. The PEG ratio assesses the stock's PE ratio and the stock's expected growth rate by dividing the PE ratio by the annual EPS growth rate of the company. The PEG ratio adds another dimension of the PE ratio where, even though a high PE ratio of a company might seem overvalued, if the company is growing fast then the company might be fair value or even undervalued.

In addition to these three market ratios of PE, PB, and PEG, the analysis also includes several other key points. This includes the dividend yield, which reflects a company's payout to shareholders relative to its market capitalization. The examination also covers the fifty and two-hundred day moving averages; these are calculated

by averaging the closing price of a company's stock over the last fifty and two-hundred days, respectively. Furthermore, a detailed discounted cash flow (DCF) analysis will be conducted for each company to estimate its intrinsic value (these values will vary from person to person as investors will have different estimated growth rate of stock), if the company's intrinsic value is above its stock price, then can conclude the company is undervalued compared to the current price.

Our analysis will also extend to insider buying activity, as insiders possess knowledge not known to public investors

that may signal future positive performance. Additionally, as for stock buybacks, this is calculated by dividing the value of stock repurchased by the company's market capitalization. Finally, the study will explore smart money activity, which includes investments made by institutions such as hedge funds, hedge funds have multiple analyst which may identify certain information which could entirely change an investment thesis. Related information about the three companies is shown in the following Table 3.

Table 3. Market Ratios

	Burberry(£):	Hermes (€):	LVMH(\$):
PE Ratio	11.5	49.13	22.48
PB Ratio	4.75	14.4	4.06
PEG Ratio	1.8	5.07	3.39
Dividend Yield	No Dividend	0.77%	2.68%
50 Day Moving Average	11.94	2,150.00	471.14
200 Day Moving Average	10.14	2,010.00	562.81
Current Stock Price	12.23	2,095.00	495.10
DCF Value	21.55	1,660.00	890.00
Insider Buys	2	2	0
Stock Buybacks	No Buybacks	0.02%	0.12%
Smart Money	0	1	0
Index	No	Yes	Yes

As shown in the table, Burberry has the lowest PE ratio (11.5) and Hermes has the highest (49.13). None of these companies are below ten, but Burberry is very close. None of the three companies have a PB ratio below one with Hermes having the highest PB ratio (14.4) and LVMH having the lowest (4.06). For the PEG ratio, all three companies have a PEG greater than one with Burberry having the lowest (1.8) and Hermes having the highest (5.07). Regarding the dividend yield, Burberry and Hermes do not have a significant dividend yield with Burberry not offering any dividends and Hermes only offering 0.77%, in comparison LVMH offers a 2.68% dividend. In terms of moving averages, Burberry and Hermes are considered to have upward momentum as their fifty-day moving average is higher than their two-hundred days, while LVMH is considered to be on a downward trend with its fifty-day moving average lower than its two-hundred day moving average. Considering intrinsic value using DCF models, it can be inferred that Burberry and LVMH could be considered undervalued with their DCF value higher than its current stock value whilst Hermes could be considered overvalued. An analysis of insider buying, Burberry and Hermes both have two insiders buying whilst LVMH does

not have any. When this paper delves into the stock buybacks of the three companies, our data has illustrated that none of these companies can satisfy the criteria given for stock buybacks, which is that none of these three companies have stock buybacks that are greater than 5% of the total market capitalization. In terms of smart money, only Hermes has one smart money buy whilst Burberry and LVMH do not have any.

4. Asset Selection

In the investment world, there are many different factors which can exert influence on the market and make or break a person's investment thesis, thus making investment decisions increasingly complex. This being the case, knowing different kinds of investors may help people better understand the behavior of the stock market and the patterns distinct investors may perform. There exists a wide selection of distinct investors. In this section, the focus will mainly be on the following ten types of investors. The first type is value investors who use the strategy called value investing; this strategy involves picking stocks that are trading below their perceived fundamental

value. Therefore, the PE and PB ratio would be the primary data. If the PE or PB ratio is less than ten or one, respectively, this would notify an undervalued circumstance of the stock; then value investors would likely be interested in the stock. For income investors, they would make their judgment based on how much dividend the company pays out; if the company has a dividend yield higher than the yield of government bonds, then income investors would find that company attractive. Ratio investors are investors who can be satisfied by an ROE ratio greater than 10. This is because the higher the ROE is, the more efficiently the company is using its equity to generate profits. Income investors use the passive strategy of index investing and dollar cost averaging, constantly buying the index at a certain time each month or year, following the stocks in the index and generating market returns. Insider investors are constantly looking for companies that have insider buying, as they believe insiders have significant non-public information that can move the company's

stock. PEG ratio investors would deem potential buy with companies that have a PEG ratio below one, as a low PEG ratio typically indicates a stock is undervalued relative to its projected earnings growth. Valuation investors will use the DCF model to find potentially undervalued stocks; if a stock's intrinsic value is above its current price, this stock would be attractive to valuation investors. Momentum investors would compare a stock's fifty-day moving average to its two-hundred days; if the fifty-day moving average is higher than the two-hundred days, then the stock has momentum; therefore, they would buy. Stock Buyback investors are looking for companies that buy back five percent of their shares outstanding; this increases the value of the remaining outstanding shares and shows internal confidence in the company. Smart money investors are constantly identifying buys from smart money; if smart money buys, they will also buy. Related information about the three companies is shown in the following Table 4.

Table 4. Asset Selection

Name:	Burberry(£):	Hermes (€):	LVMH(\$):
Value	No	No	No
Income	No	No	No
Ratio	No	Yes	Yes
Index	No	Yes	Yes
Insider Investors	Yes	Yes	No
PEG Ratio Investors	No	No	No
Valuation	Yes	No	Yes
Momentum	Yes	Yes	No
Stock Buybacks	No	No	No
Smart Money	No	Yes	No
Total	3	5	4

This table is just a basic summary of the decisions made by the investors regarding which stocks they should invest in. Value investors and PEG investors will not buy any of the three companies as their PE and PB and PEG ratios are too high. Income investors would currently not buy any of the three companies; however, in the future they might potentially buy LVMH if French OATs yield dive below two percent. Ratio investors would buy Hermes and LVMH as their ROE is above ten. Index investors would say yes to LVMH and Hermes as they are both in the major European stock index (Euro Stoxx 50). Insider investors would buy Burberry and Hermes with them both having two insider buys. Valuation investors would say yes to Burberry and LVMH as their intrinsic value is above their current stock price. After comparing the fifty-day moving average with the two-hundred day moving average, momentum investors would find Burberry and

Hermes favourable. Stock buyback investors would not buy any of the three stocks as they all buy back less than five percent of their outstanding shares. Smart money investors will buy Hermes as one hedge fund has bought its stock.

5. Conclusion

This research provides a detailed analysis of three major players in the luxury goods sector: Burberry, Hermes, and LVMH. Through the research and comparison of various quantitative and qualitative data and indicators, this paper attains the risk situation, profitability, and investment value of the three companies. This analysis therefore provides which company would be the most practical investment for ten different types of investors: value, income, ratio, index, insider, PEG, valuation, momentum, stock

buyback, and smart money investors. The research shows that momentum investors would be interested in Burberry and Hermes. At the same time, ratio investors would show strong interest in LVMH, while value investors would not be interested in any of the three companies as the three companies' PE and PB ratios do not meet expectations. All in all, the conclusion drawn through the analysis helps to create a custom investment approach to boost investment profits.

While providing beneficial suggestions, considering the drawbacks in this paper is also an important part of attaining holistic goals. There are two main problems in this paper. The first is the ever-changing environment in the market; over just a quarter of the investment thesis of each of the three companies may change based on their earnings or microeconomics and macroeconomics factors, therefore the significance of this paper may slowly deteriorate over time. The second is ignoring the influence of subjective factors in asset selection; all the data analysis in this paper is based on the objective market index and market performance shown by various companies. However, this ignores subjective factors such as the shifting trends in fashion which could influence revenue and profits. By outlining the current weaknesses, this paper can be made more balanced and impactful.

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