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In 2016, LVMH Moët Hennessy Louis Vuitton was the world's largest luxury products company with annual sales of €35.7 billion and a business portfolio that included some of the most prestigious brand names in wines, spirits, and champagnes, fashion, watches and jewelry, and perfumes and cosmetics. The French conglomerate's business portfolio also included a luxury yacht producer, a 19th-century-styled French amusement park, two prestigious Parisian department stores, duty-free stores, a retail cosmetics chain, high-end luxury hotels, and a variety of French media properties. Even though no one needed LVMH's products—certain vintages of its Dom Pérignon champagne could retail for well over \$1,000, its Givenchy dresses frequently sold for \$5,000 or more, and popular Zenith chronograph watches carried retail prices of more than \$10,000—the company's products were desired by millions across the world. LVMH CEO Bernard Arnault suggested desire for the company's products "in some way, fulfills a fantasy. You feel as if you must buy it, in fact, or else you won't be in the moment. You will be left behind."¹

The company's business portfolio began to take shape in 1987 when Louis Vuitton, known worldwide for its purses and luggage, merged with the maker of Moët & Chandon champagne and Hennessy cognac. LVMH's current lineup of star luxury brands was forged by Bernard Arnault, who became CEO of the company in 1989 and promptly set about acquiring such names as Fendi, Donna Karan, Givenchy, Celine, Marc Jacobs, and Nicholas Kirkwood in fashion and leather goods; TAG Heuer, Bulgari, and Zenith in watches and jewelry; and Le Bon Marche and Sephora in retailing. By 2016 Arnault had assembled a portfolio of 70 luxury brands, which he categorized as a collection of star brands and rising stars. When asked about the managerial challenges of developing star brands, Arnault stated, "Mastering the paradox of star brands is very difficult and rare—fortunately. In my opinion, there are fewer than ten star brands in the luxury world."²

Arnault believed LVMH's collection of star brands such as Moët & Chandon, Krug, Louis Vuitton, Givenchy, and Parfums Christian Dior and its rising stars like Edun, Nicholas Kirkwood, and Marc Jacobs would lead to long-term corporate advantage since star brands had staying power. "The brand is built, if you wish, for eternity. It has been around for a long time; it has become an institution. Dom Pérignon is a perfect example. I can guarantee that people will be drinking it in the next century. It was created 250 years ago, but it will be relevant and desired for another century and beyond that."³

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Arnault's rapidly growing portfolio had allowed LVMH to grow from approximately €2.5 billion in 1990 to €35.7 billion in 2015. The company set revenue and operating profit records in 2015, with both growing by 16 percent since 2014. The company's stellar performance was driven by the appeal of its iconic brands and a mix of its newer aspirational brands. However, the company's

performance was driven by the appeal of its iconic brands and a mix of its newer aspirational brands. However, the company's overall performance was negatively impacted by acquisitions thought to be rising stars that did not materialize. Arnault had select divestitures of underperforming businesses, the most recent of which was the announced sale of Donna Karan International in July 2016. The planned \$650 million divestiture was to be completed by early 2017. Also, several LVMH businesses competed in glamorous industries, but had failed to make meaningful contributions to the company's performance. There was a concern among certain analysts that Arnault, as the company's majority shareholder and CEO, was able to utilize the company's ample cash flows to make acquisitions based on his personal interests rather than based on potential to boost shareholder value. A summary of LVMH's financial performance between 2011 and 2015 is presented in Exhibit 1 .

EXHIBIT 1

LVMH Income Statements, 2011–2015 (in millions of euros, except per share amounts)

	2015	2014	2013	2012	2011
Revenue	€35,664	€30,638	€29,016	€28,103	€23,569
Cost of sales	<u>12,553</u>	<u>10,801</u>	<u>9,997</u>	<u>9,917</u>	<u>8,092</u>
Gross margin	23,111	19,837	19,019	18,186	15,567
Marketing and selling expenses	13,830	11,744	10,767	10,101	8,360
General and administrative expenses	2,663	2,373	2,212	2,164	1,944
Income (loss) from joint ventures and associates	<u>13</u>	<u>5</u>	<u>23</u>	<u>—</u>	<u>—</u>
Profit from recurring operations	6,605	5,715	6,017	5,921	5,263
Other operating income (expenses)	<u>(221)</u>	<u>(284)</u>	<u>(119)</u>	<u>(182)</u>	<u>(109)</u>
Operating profit	6,384	5,431	5,898	5,739	5,154
Cost of net financial debt	78	115	101	140	151
Other financial income (expenses)	<u>(336)</u>	<u>3,062</u>	<u>(97)</u>	<u>126</u>	<u>—91</u>
Net financial income (expense)	(413)	2,947	(198)	(10)	(236)
Income taxes	<u>1,969</u>	<u>2,273</u>	<u>1,753</u>	<u>1,820</u>	<u>1,453</u>
Net profit before minority interests	4,001	6,105	3,947	3,909	3,465
Minority interests	<u>428</u>	<u>457</u>	<u>511</u>	<u>485</u>	<u>400</u>
Net profit	€ 3,573	€ 5,648	€ 3,436	€ 3,424	€ 3,065
Earnings per share, basic	€7.11	€11.27	€6.87	€6.86	€6.27
Earnings per share, diluted	€7.08	€11.21	€6.83	€6.82	€6.23

COMPANY HISTORY

LVMH's history as an enterprise is traced to 1743 when Moët & Chandon was established in the Champagne Province in northeastern France. Moët & Chandon not only became among France's premier brands of champagne, but was also sought after outside of France with exports accounting for a large percentage of its sales by the 20th century. The company first diversified in 1968 when it acquired Parfums Christian Dior and a 1971 merger between Moët & Chandon and Champagne Mercier combined's two best-selling brands of champagne. The company changed its name to Moët-Hennessy when it again merged in 1971, this time with Jas Hennessy & Co., the world's second-largest producer of cognac.

The company diversified further in 1987 as the French government launched into an era of privatization to promote economic growth and reduce the country's excessively high unemployment rate. The families who controlled Moët-Hennessy and leather goods designer Louis Vuitton saw a merger between their two companies as their best strategy to prevent the companies from becoming takeover targets of large international corporations that were making investments in France. The \$4 billion merger that created LVMH Moët-Hennessy Louis Vuitton allowed the heirs of the two companies' founders to retain control of LVMH with a combined ownership of 50 percent of outstanding shares. The new ownership structure also placed Hennessy heir and chair Alain Chevalier in the position of chair of LVMH while Vuitton family member and company president, Henry Racamier, became LVMH's director general.

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The new company became France's 40th-largest company with total revenues in 1987 of FF 13.1 billion (\$2.1 billion) and a portfolio of such well-known luxury brands as Veuve Clicquot, Moët & Chandon and Dom Pérignon champagnes, Hennessy cognac, Christian Dior and Givenchy perfumes and cosmetics, and Louis Vuitton leather handbags and luggage. On the day the merger was consummated, LVMH chair Alain Chevalier also signed an international distribution agreement with British brewer Guinness PLC to improve the distribution of the company's champagne and cognac brands in and the United States. The joint venture with Guinness called for both firms to acquire interlocking interests of about 10 percent of each company's shares and accounted for nearly one-fourth of LVMH and Guinness profits within the joint venture's first year.

The success of the LVMH-Guinness joint venture led Alain Chevalier to propose that Guinness purchase an additional 10 percent interest in LVMH to further protect the company from possible foreign raiders. The growing relative importance of the company's wine and champagne businesses and the proposal for increased ownership of LVMH shares by Guinness became worrisome to Racamier and other Vuitton family members who believed the company's core business should center on fashion and leather goods. To fortify the company's focus on haute couture, Racamier asked Bernard Arnault (the owner of Christian Dior, Celine, and Christian Lacroix brands) in mid-1988 to purchase shares of LVMH and join forces with Vuitton heirs in their disagreement with Chevalier.

Thirty-nine-year-old Bernard Arnault had only recently become known among France's business elite, since only four years before

Thirty-nine-year-old Bernard Arnault had only recently become known among France's business elite, since only four years before he was building condominiums in Florida for his family's modest real estate and construction firm. Arnault returned to France in 1984 and purchased nearly bankrupt Agache-Willot-Boussac—a state-owned conglomerate of retailing, fashion, and manufacturing. Arnault sold the assets of Agache-Willot-Boussac's poor performing businesses and retained its profitable businesses, of which Christian Dior was the most notable. Within three years the company had earned \$112 million on revenues of \$1.9 billion. In 1987, Arnault leveraged Christian Dior's cash flow to purchase Celine, a fashion and leather goods company and the launch of a new fashion brand headed by France's hottest young designer, Christian Lacroix.

Upon the invitation of LVMH Director General Racamier to become an LVMH shareholder, Arnault also met with LVMH chair Chevalier before forming a joint venture with Guinness PLC to purchase 37 percent of LVMH shares. Guinness was receptive to Arnault's proposal to form the joint venture since it assured the British company's management that its highly profitable distribution agreement with LVMH would remain intact, despite the feud between Hennessy and Vuitton clans. The joint venture provided Arnault with a 60 percent interest in the joint venture while Guinness held 40 percent and made Bernard Arnault the largest shareholder of LVMH by November 1988. After becoming LVMH's largest shareholder and asked of his intentions to bring about management changes at the company, Bernard Arnault commented that he approved of chair Chevalier's strategies, but "his problem is that he is not a major shareholder. In the businesses I manage, I'm the principal shareholder; and that helps me control the situation."⁴

Bernard Arnault became LVMH's president in January 1989 and chair in mid-1990 after prevailing in an 18-month legal battle with Henry Racamier, who had petitioned the court to invalidate a portion of Arnault's stake in LVMH. Upon becoming chair, Arnault launched an aggressive plan to transform LVMH into France's largest company. Arnault dismissed LVMH's top management; folded Dior, Celine, and Christian Lacroix into LVMH; and began making rapid acquisitions to expand the company's portfolio of luxury brands. Many French executives resented Arnault's business tactics and questioned his motives in becoming the head of LVMH, with an ex-LVMH officer calling Arnault "an asset shuffler, a raider, a French Donald Trump."⁵

LVMH UNDER BERNARD ARNAULT

When Bernard Arnault became president of LVMH in January 1989, the company was the world's leading luxury products group with revenues of FF 16.4 billion (approximately 2.5 billion euros) and net income of FF 2.0 billion (approximately 300 million euros) in 1988. The company's business portfolio included champagnes and wines; cognac and spirits; luggage, leather goods, and accessories; and perfumes and beauty products. LVMH's champagnes and wines business unit was the global leader in premium champagnes with some of the oldest and most prestigious brands in the world. Dom Pérignon was arguably the best-known brand of champagne, Ruinart was the world's oldest champagne company, and Mercier was France's best-selling brand of champagne. Moët & Chandon, Canard-Duchêne, Veuve Clicquot Ponsardin, and Henriot rounded out LVMH's portfolio of centuries-old champagne brands. LVMH's champagne and wine division also included the respected Napa Valley

portfolio of centuries-old champagne brands. LVMH's champagne and wine division also included the respected Napa Valley sparkling wine producer Domaine Chandon. LVMH's cognac and spirits business, like its champagnes and wines business unit, possessed two of the most prestigious brands worldwide with Hennessy and Hine—both founded in the mid-1700s and consistently recognized by connoisseurs for quality.

Louis Vuitton accounted for the largest share of LVMH's luggage, leather goods, and accessories division's sales with market-leading positions in luggage and travel accessories worldwide. Louis Vuitton's luggage had been popular since the mid-1800s when Vuitton's monogrammed products first became available to affluent travelers who visited his store. Loewe was a prestigious Spanish brand that earned the distinction of Supplier to the Royal Household in 1905 and had since become noted for fine ready-to-wear leather and textile apparel, handbags, and travel accessories. Loewe also marketed a fragrance line.

LVMH's perfumes and beauty products division was composed of three different houses: Parfums Christian Dior was internationally renowned for its quality, innovation, and prestige and was the leading prestige brand of fragrance in France. The brand was also among the fastest growing in the United States and held the number one position in Western Europe. Parfums Givenchy was among the most successful prestige brands in the United States and had extended its product line to include cosmetics in 1988.

LVMH's Rapid Growth under Bernard Arnault

LVMH's rapid portfolio diversification began shortly after Arnault gained a controlling percentage of company shares when it acquired Givenchy Couture in November 1988. LVMH's management had been working to unite its Parfums Givenchy with Givenchy Couture since 1987 and agreed on terms with Hubert de Givenchy just prior to Arnault becoming president of LVMH in January 1989. In 1990 Arnault purchased an additional interest in Loewe and purchased all assets of Pommery—the largest vineyard in the Champagne Province and producer of champagnes since 1860. Arnault's most ambitious target during 1990 was Guinness PLC. Arnault increased LVMH's share in Guinness from about 12 to 24 percent in what was suggested by outsiders as an attempt to make LVMH the world's largest alcoholic beverage seller with more \$5.5 billion in sales and a vast international distribution network.

Arnault abandoned his quest to gain a controlling stake in Guinness in 1994 when Guinness management agreed to a stock swap between LVMH and the British brewer that netted LVMH \$1.9 billion in cash. Arnault had initiated a few small acquisitions of fashion and spirits businesses between 1990 and 1994, but LVMH's \$1.9 billion cash infusion that resulted from the Guinness stock swap allowed Arnault to pursue his pledge to shareholders that "We're going to buy more luxury companies" in cosmetics, perfume, fashion, and retailing.⁶ Arnault initially focused on L'Oréal, a leading manufacturer and marketer of cosmetics with 1993 sales of \$6 billion, and French drug manufacturer Sanofi, who bought Yves Saint-Laurent in 1993. However, neither company was acquired by LVMH, and Arnault brought additional fashion and fragrance brands to the company's portfolio and diversified outside of luxury goods with the purchase of three of France's leading financial and business publications—*Investir*, *La Tribune Desfosses*,

of luxury goods with the purchase of three of France's leading financial and business publications—*Investir*, *La Tribune Desfosses*, and *L'Agefi*. Arnault also utilized the company's cash reserves to expand the number of company-owned retail stores where its Louis Vuitton and Loewe leather goods and Celine, Christian Dior, and Givenchy could be found.

Bernard Arnault believed that LVMH control of the retail channels where its products were sold was critical to the success of luxury brands. The use of company-owned retail locations allowed LVMH to not only make certain its products were of the highest quality and most elegant, but also allowed the company to ensure its products were sold by retailers offering the highest level of customer service. Arnault believed that ultimately the finer points of retailing impacted the overall image of luxury products as much as the products' attributes. This belief drove the company's moves into vertical integration into the operation of Louis Vuitton, Christian Dior, and other designer-label stores in Paris, New York, Beverly Hills, and other locations and also led to the \$2.5 billion acquisition of DFS (Duty Free Shoppers) in 1996. San Francisco-based DFS operated a chain of 180 duty-free boutiques in Asia and various international airports. Arnault saw DFS as an ideal acquisition candidate since the chain specialized in the sale of luxury goods to affluent international travelers and since its stores were concentrated in Asia. Asia was among LVMH's best geographic markets, accounting for as much as two-thirds of the sales of such products as Louis Vuitton luggage.

Arnault expanded further into retailing in 1997 with the acquisition of French cosmetics retailer Sephora and the purchase of a 30 percent interest in Douglas International, a German beauty-goods retailer with 190 stores in Europe and the United States. LVMH also expanded its line of fine champagnes in a 1997 acquisition of Château d'Yquem—a brand produced under such care and exacting standards that each vine yielded just one glass of champagne. Arnault again made an attempt to have LVMH become the world's largest wine and spirits producer and distributor when he spent \$2.3 billion in 1997 to purchase 11 percent of Grand Metropolitan PLC—a British food conglomerate with \$1.5 billion in annual wine and spirits sales. Arnault used the ownership position in Grand Met to insert himself into merger negotiations that were underway between Guinness and Grand Met. Arnault proposed an alternate merger scenario that would combine Guinness, Grand Met, and LVMH and make LVMH the controlling entity with a 35 percent stake in the three-way merger. Guinness and Grand Met shareholders rejected the proposal, but provided Arnault with a \$400 million payoff to allow the two-way merger to proceed, an 11 percent interest in the new company, and a seat on its board of directors.

Arnault expanded LVMH's retailing operations beyond specialty retailing in 1998 with the acquisition of famous Parisian department stores La Belle Jardinière and Le Bon Marché, but his boldest acquisition spree occurred during 1999 and 2000. During the two-year period, Arnault created a new watch and jewelry division with the purchase of TAG Heuer, Chaumet, and Zenith, and pushed the company into makeup artist quality cosmetics with the purchase of Bliss, Benefit, Make Up For Ever, and Fresh.

Arnault's buying binge also expanded the company's media operations with the addition of a French radio network and magazines

Arnault's buying binge also expanded the company's media operations with the addition of a French radio network and magazines targeted to music aficionados and art connoisseurs; added New World wine producers located in the United States and Australia; obtained new retail outlets for its products with the acquisition of an Italian cosmetics retailing chain and Starboard Cruise Services, which offered duty-free shopping aboard 100 cruise ships sailing in the Caribbean and elsewhere; and enhanced its line of champagnes with Krug—the producer of some of the world's most expensive champagnes. Arnault also added the fashion houses of Emilio Pucci, Thomas Pink, and Fendi.

Arnault had attempted to add Gucci to the company's impressive lineup of designer brands by purchasing more than 34 percent of the Italian fashion label's shares, but was thwarted by rival French conglomerate Pinault-Printemps-Redout (PPR) when it acquired 42 percent of Gucci shares. The battle for control of Gucci pitted France's two wealthiest men, LVMH's Arnault and PPR's Francois Pinault, against each other in a battle that would eventually be won by Pinault in 2001 but would provide Arnault with more than \$1.8 billion for his stake in Gucci.

In 2002, Arnault launched a takeover run at Hermès with a series of secret cash-settled equity swaps that totaled 23.2 percent of Hermès shares by 2014. The equity swaps went unnoticed by Hermès family shareholders for eight years at which time Hermès heirs pursued Arnault and LVMH with criminal insider trading charges and also began purchasing shares to prevent a takeover of the company. Hermès heirs accumulated 50.2 percent of company shares by 2014, which ended the possibility of a voting majority by Arnault. Hermès CEO Axel Dumas, a sixth-generation Hermès family member, called it “the battle of my generation.... Hermès is not for sale, and we are going to fight to stay independent.”⁷ Arnault agreed to spin off the 23.2 percent interest in Hermès to LVMH shareholders in 2014 after LVMH had been fined \$10 million by French regulators for violating securities disclosure regulations. Even though the settlement brokered in French civil courts ended Arnault's attempt to acquire Hermès, it provided LVMH with a \$5 billion gain on its purchases of Hermès shares. The company's most noteworthy acquisitions after Arnault's takeover attempt of Hermès included Fendi in 2003; Glenmorangie in 2005; Belvedere in 2007; Hublot, Royal Van Lent, and Dior in 2009; and Bulgari in 2011.

In 2016, Bernard Arnault was ranked 14th on *Forbes*'s list of billionaires with a net worth of \$36.7 billion. His wealth was primarily related to the Arnault family group's 46.6 percent ownership stake in LVMH. The ownership was structured through his 70 percent interest in Christian Dior, which owned a 40+ percent share of LVMH. Bernard Arnault also held a separate stake in LVMH of approximately 6 percent in LVMH. The Arnault family group controlled 62.9 percent of voting rights exercised at shareholders' meetings. The company had a market capitalization of €73.6 billion at year-end 2015 and had consistently outperformed the CAC 40 index of the largest public French companies since 2009.

A list of major LVMH's acquisitions between 1987 and 2016 is presented in [Exhibit 2](#) . The company's stock performance from 2006 through August 2016 is presented in [Exhibit 3](#) .

LVMH Acquisitions, 1987-2019

Year	Company Acquired	Principal Business
1987	Hine	Cognac production
1988	Givenchy	Haute couture, ready-to-wear fashions
1990	11.4% of Guinness Plc (United Kingdom)	Brewing and spirits production and distribution
	10.75% of Loewe SA (Spain)	Leather goods, fashion
	Pommery	Champagne production
1993	Christian Lacroix	Haute couture, ready-to-wear fashions
	Kenzo	Haute couture, ready-to-wear fashions/fragrances
	55% of Desfosses International	Media production, magazines, radio
1994	Outstanding 50% of <i>Investir</i>	Financial magazine
	49.99% of Djedi Holding (Guerlain)	Fragrances
1995	Further 41% of Fred Joillier	Haute couture, ready-to-wear fashions
	44% of Desfosses International	Media production, magazines, radio
1996	Further 76% of Loewe SA (Spain)	Leather goods, fashion
	Outstanding interest in Djedi Holding (Guerlain)	Fragrances
	54% of Celine SA	Haute couture, ready-to-wear fashions
	Remaining interest in Fred Joaillier	Haute couture, ready-to-wear fashions
	58.75% of DFS (USA)	Duty-free retail shops in Asia/Pacific, airports
	Remaining 46% of Celine	Haute couture, ready-to-wear fashions
1997	51% of Chateau d'Yquem	Champagne production
	Sephora	Cosmetics retailing
1998	Further 37% of Chateau d'Yquem	Champagne production
	Marie-Jeanne Godard	Fragrances
	Le Bon Marché	Parisian department store
	99% of La Belle Jardiniere	Parisian retailer
1999	Krug	Champagne production
	Bliss	Cosmetics production, health spas

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1999	Krug						Champagne production
	Bliss						Cosmetics production, health spas
	Benefit						Cosmetics production
	Increased interest to 64% in Chateau d'Yquem						Champagne production
	TAG Heuer						Watch design and assembly
	Thomas Pink						Haute couture, ready-to-wear fashions
	Ebel						Watch design and assembly
	Chaumet						Watch design and assembly
	Make Up For Ever						Cosmetics producer
	Zenith						Watch design and assembly, mechanism production
	Radio Classique & SID Editions						French radio stations, media
	72.5% interest in Phillips, de Pury & Luxembourg						Fine art auctioning
2000	Starboard Cruise Services						Duty-free cruiseline retailing
	67% of Emilio Pucci (Italy)						Haute couture, ready-to-wear fashions
	Omas (Italy)						Writing Instrument production
	Fresh						Cosmetics production
	60% of Newton Vineyards						Winery and vineyards
	Mountadam Vineyards						Winery and vineyards
	<i>Art & Auction, Connaissance des Arts</i>						Art magazines
2001	Majority interest in La Samaritaine						Parisian department store
	Donna Karan International						Apparel
	Acqua di Parma						Fragrances
2003	Rossimoda						Footwear
	Fendi						Fashion, leather
2005	Glenmorangie						Spirits
2007	<i>Les Echos</i>						Newspaper, media
	Belvedere						Spirits
	Wen Jun						Spirits (China)

2007	<i>Les Echos</i>	Newspaper, media
	Belvedere	Spirits
	Wen Jun	Spirits (China)
2008	Numanthia Termes	Wines
	Hublot	Watches
	Royal Van Lent	Yacht production
	Dior	Apparel, fragrances
2009	Chateau Cheval Blanc	Wines
2011	Bulgari	Jewelry, watches, fragrances
	<i>Investir</i>	Magazine, media
2013	Cova Montenapoleone	Milan, Italy café
	Loro Piana	Fashion
	Nicholas Kirkwood	Fashion
2014	Domaine du Clos des Lambrays	Wines
2015	Luxola	Cosmetics

Sources: LVMH Annual Reports, various years; Exel Financial Limited Annual Card, April 24, 2002.

LVMH'S APPROACH TO BUILDING SHAREHOLDER VALUE IN LUXURY PRODUCTS BUSINESSES

LVMH's corporate strategy under Bernard Arnault included diversification into the sale of luxury products of varying types. The company's wines, champagnes, haute couture and ready-to-wear fashions, cosmetics, fragrances, watches, and jewelry were among the most innovative, prestigious, elegant, and expensive produced. The company's retailing division focused on the sale of luxury items—whether LVMH products or brands offered by rival producers. The company's other businesses included periodicals of interest to the financial and art communities, custom luxury yacht production, and fine hotels. LVMH's broad collection of businesses was grouped into six business units. [Exhibit 4](#) presents LVMH's business portfolio in 2016. LVMH's performance by business group for 2014 and 2015 is presented in [Exhibit 5](#). The company's balance sheets for 2014 and 2015 are presented in [Exhibit 6](#). [Exhibit 7](#) illustrates the company's free cash flows from operations for 2014 and 2015.

EXHIBIT 4

LVMH'S Business Portfolio in 2016

Wines and Spirits	Fashion and Leather Goods	Perfumes and Cosmetics	Watches and Jewelry	Selective Retailing	Other Activities
Moët & Chandon	Louis Vuitton	Parfums	TAG Heuer	DFS (Duty Free Shoppers)	Royal Van Lent luxury yachts
Dom Pérignon	Loewe	Christian Dior	Hublot	Starboard Cruise Services	Jardin d'Acclimation amusement and leisure park
Veuve Clicquot	Celine	Guerlain	Zenith	Sephora	La Samaritaine department store renovation
Krug	Berluti	Parfums	Bulgari	Le Bon Marché	<i>Investir</i> financial publication
Mercier	Loro Piana	Givenchy	Fred	La Grande Epicerie de Paris	<i>Les Echos</i> daily newspaper
Ruinart	Kenzo	Perfumes	Chaumet		<i>Connaissance des Arts</i> art magazine
Château d'Yquem	Givenchy	Loewe	LVMH/De Beers joint venture		Cheval Blanc luxury hotels
Domaine Chandon	Christian Dior	Kenzo Parfums			Nowness art and culture video channel
California	Marc Jacobs	Fresh			
Domine Chandon	Nicholas	Benefit			
Australia	Kirkwood	Cosmetics			
Chandon Argentina	Edun	Make Up For Ever			
Cloudy Bay	Fendi	Acqua di Parma			
Cape Mentelle	Emilio Pucci				
Chandon do Brasil	Thomas Pink				

EXHIBIT 4

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Wines and Spirits	Fashion and Leather Goods	Perfumes and Cosmetics	Watches and Jewelry	Selective Retailing	Other Activities
Moët & Chandon	Louis Vuitton	Parfums	TAG Heuer	DFS (Duty Free Shoppers)	Royal Van Lent luxury yachts
Dom Pérignon	Loewe	Christian Dior	Hublot	Starboard Cruise Services	Jardin d'Acclimation amusement and leisure park
Veuve Clicquot	Celine	Guerlain	Zenith	Sephora	La Samaritaine department store renovation
Krug	Berluti	Parfums	Bulgari	Le Bon Marché	<i>Investir</i> financial publication
Mercier	Loro Piana	Givenchy	Fred	La Grande Epicerie de Paris	<i>Les Echos</i> daily newspaper
Ruinart	Kenzo	Perfumes	Chaumet		<i>Connaissance des Arts</i> art magazine
Château d'Yquem	Givenchy	Loewe	LVMH/De Beers joint venture		Cheval Blanc luxury hotels
Domaine Chandon	Christian Dior	Kenzo Parfums			Nowness art and culture video channel
California	Marc Jacobs	Fresh			
Domine Chandon	Nicholas Kirkwood	Benefit Cosmetics			
Australia	Edun	Make Up For Ever			
Chandon Argentina	Fendi	Acqua di Parma			
Cloudy Bay	Emilio Pucci				
Cape Mentelle	Thomas Pink				
Chandon do Brasil	Donna Karan				
Chandon China					
Hennessy					
Newton					
Ardbeg					
Château Cheval Blanc					
Glenmorangie					
Wen Jun					
Bodegas Chandon					
Belvedere					
Numanthia					
Terrazas de los Andes					
Cheval des Andes					
10 Cane Rum					

Source: LVMH website

EXHIBIT 5**LVMH's Performance by Business Group, 2014–2015 (in millions of euros)**

Revenues	2015	2014
Wine & Spirits	€ 4,603	€ 3,973
Fashion & Leather Goods	12,369	10,828
Perfumes & Cosmetics	4,517	3,916
Watches & Jewelry	3,308	2,782
Selective Retailing	11,233	9,534
Other activities and eliminations	—(366)	—(395)
Total	€35,664	€30,638
Profit from Recurring Operations	2015	2014
Wine & Spirits	€ 1,363	€ 1,147
Fashion & Leather Goods	3,505	3,189
Perfumes & Cosmetics	525	415
Watches & Jewelry	432	283
Selective Retailing	934	882
Other activities and eliminations	—(154)	—(201)
Total	€ 6,605	€ 5,715
Operating Investments	2015	2014
Wine & Spirits	€ 233	€ 152
Fashion & Leather Goods	553	585
Perfumes & Cosmetics	229	221
Watches & Jewelry	204	191
Selective Retailing	399	389
Other activities and eliminations	—337	—237
Total	€ 1,955	€ 1,775
Depreciation and Amortization	2015	2014
Wine & Spirits	€ 132	€ 119

Depreciation and Amortization	2015	2014
Wine & Spirits	€ 132	€ 119
Fashion & Leather Goods	641	555
Perfumes & Cosmetics	183	149
Watches & Jewelry	199	171
Selective Retailing	366	296
Other activities and eliminations	42	41
Total	€ 1,563	€ 1,331

Source: LVMH 2015 Annual Report.

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EXHIBIT 6

LVMH's Balance Sheets, 2014–2015 (in millions of euros)

Assets	2015	2014
Brands and other intangible assets	€13,572	€13,031
Goodwill	10,122	8,810
Property, plant and equipment	11,157	10,387
Investments in joint ventures and associates	729	519
Non-current available for sale financial assets	574	580
Other non-current assets	552	489
Deferred tax	1,945	1,436
Non-current assets	38,651	35,252
Inventories and work in progress	10,096	9,475
Trade accounts receivable	2,521	2,274
Income taxes	384	354
Other current assets	2,355	1,916
Cash and cash equivalents	3,594	4,091
Current assets	18,950	18,110

Wine and Spirits

The production of extraordinary class wine and champagne required considerable attention to detail and decades-long commitment to quality. For example, Château d'Yquem's vineyards were cultivated over generations and were made up of vines grown from individually selected seeds. Also, on nine occasions during the 20th century the winery rejected an entire harvest, viewing all grapes from the season as unworthy of the brand. Wine production also required technical expertise to develop techniques to improve the immune systems of vines to prevent grape diseases and the skills of master blenders, who selected combinations of grapes that would result in exceptional vintages. Not any less important was the time required to produce fine wines and champagnes, some of which were aged for several years prior to distribution. Distribution from production facilities to retail outlets was typically handled by either a subsidiary, joint venture, or third party.

In 2016 LVMH was the world's leading champagne producer with a 20.1 percent market share and sales volume of 61.4 million bottles in 2015. The company was also number one in the global cognac market with a 46.5 percent market share and sales volume of 76 million bottles in 2015. Ninety-four percent of LVMH's wine and spirits were sold outside of France. LVMH's still wine sales benefited from Moët-Hennessy's international distribution network and began to gain praise from connoisseurs beyond their domestic markets. The company's recent expansion into luxury spirits would also generate distribution synergies with wines and champagnes. Revenues for the division increased by nearly 18 percent between 2014 and 2015 as the result of favorable currency translation benefits; solid performance of its champagne and cognac brands in the United States, Europe, and Japan; and the efficiency of the company's international distribution network. In addition, the success of the company's recently acquired spirits brands—Genmorangie, Ardbeg, and Belvedere—contributed to the division's growth.

Fashion and Leather Goods

The fashion and leather industry entailed the recruitment of highly talented and creative designers who were able to create a line of apparel or accessories that appealed to some segment of consumers. Designers had considerable leeway with the direction of their designs since individual tastes and preferences varied considerably among consumers. Other important elements of creating high-end apparel and leather goods included the selection of fabrics or leather and the quality of construction. LVMH's Louis Vuitton products were all hand assembled by craftspeople who had trained for years perfecting their talents. Apparel and leather goods were distributed to either third-party retailers or company-owned retail locations.

LVMH's Louis Vuitton was the world's leading luxury brand and the foundation of LVMH's Fashion and Leather Goods division that had increased sales by 23 percent and operating income by nearly 12 percent between 2013 and 2015. LVMH's Fashion and Leather Goods division also included such prestigious brands as Kenzo, Marc Jacobs, Berlucchi, Thomas Pink, Pucci, Givenchy, Celine, Loro Biana, Kenzo, and Fendi. The group outpaced its key rivals as the Prada Group's sales declined by 1 percent during 2015. Hermès's sales grew by 18 percent, and Groupe Gucci's sales increased by 15 percent. France accounted for 9 percent of the division's sales.

Perfumes and Cosmetics

Success in the global cosmetics, fragrance, and skin care industry was largely attributable to the ability of producers to develop new combinations of chemicals and natural ingredients to create innovative and unique fragrances and develop cosmetics that boasted product benefits beyond cleansing and moisturizing to anti-aging, anti-pollution, and tissue regeneration. LVMH's fragrances, cosmetics, and skin care brands were among the world's most prestigious and innovative in their formulations. In addition to product innovation, LVMH's strategy for the division focused on heavy advertising and media investments, connection with its couture brands, and global expansion of its brands. The sales and operating profit of LVMH's perfumes and cosmetics division had grown by 22 and 27 percent, respectively, between 2013 and 2015.

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The division's growth was attributed to its iconic French fragrances such as *Miss Dior* and *J'adore* by Christian Dior and because of its hit new fragrances such as its men's fragrance *Sauvage* and its recently acquired brands such as Acqua di Parma. The division also benefited from the popularity of its Dior and Guerlain skin care products and cosmetics and relatively new American cosmetics brands such as Benefit, Fresh, and Make Up For Ever, and the success of its Sephora retail cosmetics operations. Sephora's network of stores located in Europe, the United States, and Japan carried LVMH's perfumes and cosmetics brands, which were also sold by prestigious retailers around the world. Even though LVMH's perfumes and cosmetics division had recorded impressive growth rates, its sales were only about one-sixth that of industry leader L'Oréal. Approximately 88 percent of the division's sales were outside of France.

Watches and Jewelry

The watch and jewelry industry was much like the fashion and cosmetics and fragrances industries in that it was highly fragmented with multiple product categories and wide-ranging price points. The upscale segment of the industry also reflected the fashion industry's demand for quality and creative or distinctive designs. The producers of many exquisite timepieces such as Rolex, Cartier, and Patek Philippe maintained long-established lines not only known for style, but also craftsmanship and accuracy. Most manufacturers of upmarket watches also added new models from time to time that were consistent with the company's tradition, history, and style. Watch production involved the development and production of the movement (although many watch manufacturers purchased movements from third-party suppliers), case design and fabrication, and assembly. Watches were rarely sold by manufacturers directly to consumers, but were usually distributed to independent jewelers or large upscale department stores for retail sale to consumers.

LVMH's watch and jewelry division was established in 1999 with the acquisitions of TAG Heuer, Chaumet, and Zenith. LVMH launched a joint venture with De Beers to market solitaire diamonds in 2001 and the Hublot and Bulgari brands were added in 2008 and 2011, respectively. The Bulgari brand set sales records in 2015 with extensions of its classic *Serpenti* collection and the development of new *Diva* and *Lucea* collections. The division's strategy focused on creativity and product innovation along with expert craftsmanship. The company retrenched its TAG Heuer brand to its core lines like *Formula 1*, *Aquaracer*, and *Carrera* after several new watch styles had failed to succeed in the marketplace. The company's Zenith *El Primero* automatic chronograph

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The division recorded a sales increase of nearly 23 percent between 2013 and 2015. However, its operating profits had fluctuated from €367 million in 2013 to €283 million in 2014, to €432 million in 2015. Only 7 percent of LVMH's sales of watches and jewelry originated from France.

Selective Retailing

LVMH's selective retailing division was made up of DFS and Starboard Cruise Services duty-free stores, the Le Bon Marché department store, and Sephora cosmetics stores. The division also operated upscale Galleria shopping malls located in downtown areas of major air destinations primarily in the Asia-Pacific region. LVMH's Galleries featured DFS stores, Sephora, and designer boutiques such as Louis Vuitton, Hermès, CHANEL, Prada, Fendi, Celine, Bulgari, and Tiffany. Le Bon Marché was Paris's most exclusive department store and Sephora was among the leading retail beauty chains in Europe and North America. The company was rapidly expanding the Sephora retail chain across the developed world with nearly 100 new stores opened in 2015 in Australia, Southeast Asia, and the Middle East. Sephora carried LVMH's products and other prestigious brands of cosmetics, fragrances, and skin care products including CHANEL, Dolce and Gabbana, Elizabeth Arden, Hugo Boss, Naomi Campbell, Gianni Versace, and Burberry.

The division's 2001 sales grew by nearly 18 percent during 2015 and 7 percent in 2014. The division's operating profits had fluctuated from €908 million in 2013, to €882 in 2014, to €934 in 2015. In addition, the division was relatively capital intensive with annual operating investments accounting for 40 percent or more of its annual operating profits.

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Other Activities

LVMH also maintained a business unit made up of media, luxury yacht production, a leisure park, and a luxury hotel chain. LVMH believed the businesses were important elements of its business portfolio because of the company's obligation to be an ambassador for culture and because of the natural linkage between its luxury brands and *l'art de vivre* (translated as "the art of living.") The newest member of LVMH's media lineup was *Nowness*—a video channel dedicated to art, culture, fashion, music, food, and travel.

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Jardin D'Acclimation was France's first leisure and amusement park that opened in 1860 and included historic amusement rides, a miniature steam-powered train, walking trails, and sitting areas. LVMH began the Cheval Blanc hotel chain in 2006, which offered guests the most luxurious accommodations along with world-class services tailored to the individual requests of each guest. In 2016, LVMH operated Cheval Blanc hotels in Courchevel, Maldives, and Saint Barthelemy in the Caribbean. The fourth Cheval Blanc was scheduled to open in late 2016 and would be attached to La Samaritaine in Paris. La Samaritaine was a former iconic department store dating to 1870 that had fallen into disrepair and was owned by LVMH. The company was engaged in a massive renovation of the 860,000-square-foot facility that would again make it among the finest department stores in Paris's historic city center. In addition to shopping space, the renovation would include the adjoining Cheval Blanc hotel, a DFS emporium, a flagship Louis Vuitton store, office space, 96 residential apartments, a day-care center, and a restaurant. The grand reopening was scheduled for late 2016.

The remaining business included in LVMH's Other Activities was Royal Van Lent. The Dutch yacht maker dated to 1849 and built only custom-designed yachts larger than 50 meters. The massive luxury yachts were sold under the Feadship brand name and were among the most elegant in the Mediterranean and the Caribbean. *Ocean Victory*, a private yacht built by Royal Van Lent, was the third most expensive yacht sold in the world in 2014 with a sales price of \$120 million. Feadship considered its \$125 million *Ectasea* built in 2004 as one of its most distinguishable yachts and its hybrid-powered 274-foot Savannah yacht among its most innovative. The Savannah was delivered to a Swedish billionaire in 2015 who paid an estimated \$100 million for the vessel. Despite the high sales prices of Feadship yachts, LVMH's Other Activities recorded operating losses in 2014 and 2015 and had never earned a profit in the company's history.

LVMH'S CORPORATE STRATEGY

Although much of LVMH's growth was attributable to the acquisition of new businesses, Arnault placed an emphasis on internal growth by exploiting common strategies and capturing synergies across the portfolio. While the company organizational structure and operating principles ensured that each business was autonomous, Arnault demanded that each of the corporation's businesses demonstrate commitment to creativity and innovation and product excellence. The long-term success of LVMH's brands, in Arnault's view, was largely a function of artistic creativity, technological innovation, and the closest attention to every detail of the production process.

The image and reputation of the company's products were seen as equal to the creativity and craftsmanship employed during the

LVMH's Performance in 2016

Going into the last half of 2016, LVMH's performance had slowed from 2015 with revenue and operating profit achieving 3 and 4 percent year-over-year increases, respectively. The strongest contributors to the sales and operating profit gains included its wine and spirits division, with a revenue increase of 7 percent and operating profit increase of 17 during the first six months of 2016. The division's cognacs performed especially well with volume gains of 13 percent. The sales of its perfumes and cosmetics increased by 5 percent during the first six months of 2016 as Parfums Christian Dior products *J'Adore*, *Miss Dior*, and *Sauvage* continued as top-sellers and the new foundation *Forever* and *Dior Addict* lipstick achieved good international performance. In addition, the company's newer cosmetics lines, Fresh, Benefit, and Make Up For Ever all achieved good starts to 2016. Operating profit for the division increased by 9 percent during the first six months of 2016.

The revenues of LVMH's fashion and leather goods products declined by 1 percent during the first half of 2016 as terrorism across Europe greatly affected tourism in the region. In addition, the company had entered into an agreement to divest its long-struggling Donna Karan business by early 2017 for \$650 million. Donna Karan became known worldwide during the late 1980s as her sophisticated business suits became a hit with executive women and her DKNY casual wear obtained a dedicated following among urban women for after-business attire. But as early as 1996, Donna Karan International began to lose favor with upscale consumers and began to lose prestigious retail accounts like Neiman Marcus when DKNY liquidated its growing inventories to discounter T.J.Maxx. The brand was never able to recover and achieve the rising star status envisioned by Bernard Arnault.

The company's watches and jewelry division experienced a 4 percent revenue increase and no change in operating profit during the first six months of 2016 as the TAG Heuer refocusing strategy began to produce results and Bulgari sales exceeded management's expectations. Even though Selective Retailing sales grew by 4 percent during the first six months of 2016, division operating profit declined by 5 percent. The company planned to expand its Galleria in Macao, open a Galleria in Cambodia, and open new Sephora flagship stores in Boston and Paris by year-end 2016. The company's Other Activities recorded a €123 million loss during the first six months of 2016 compared to a €75 million loss during the first half of 2015.

LVMH's revenues, operating profits, and free cash flows had produced attractive returns for shareholders and had made Bernard Arnault the world's 14th wealthiest person. However, some investors questioned the impact of LVMH's businesses outside its core on shareholder value. The mix of businesses included in the Other Activities division shared the purpose of "bringing together people who share a passion for lifestyle, culture, and the arts,"⁹ but it was unclear how the businesses benefited LVMH shareholders. The Other Activities division had never earned an operating profit and required substantial annual operating investments. Page C-305

Investors and analysts had called for the divestiture of nonperforming LVMH brands almost since the early 2000s, but with the exception of the divestiture of Omas pens and the sale of the company's art auctioning houses, Arnault had not been sympathetic to such opinions. He had long dismissed suggestions that the company should consider the sale of DFS, Star Cruise Services, Le Bon Marché, La Samaritaine, and Sephora. A Merrill Lynch luxury goods analyst likened Arnault's penchant for acquisitions to that of