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Bachelor Thesis

Financial Analysis of company from luxurious goods industry

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BACHELOR THESIS ASSIGNMENT

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Thesis title

Financial Analysis of company from luxurious goods industry

Objectives of thesis

Evaluate global Louis Vuitton commodity market. Make a financial analysis of the whole stock and determine the immediate future rise or fall in sales. Assess the place of the stock Louis Vuitton overall luxury goods markets.

Methodology

Literature review will be conducted using methods of synthesis, induction, deduction, and extraction. Analytical section will be done using methods of both qualitative (descriptive) as well as quantitative analysis such as fundamental,psychological,financial and technical analysis.

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Kleinman G. 2011. Trading Commodities and Financial Futures. 3rd edition. FR Press. NJ,US.

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Declaration

I declare that I have worked on my bachelor thesis titled „Financial Analysis of company from luxurious goods industry“ by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any third person.

In Prague on 16.3.2015 ______________________________

Dzhanvelyan Violetta

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Finanční analýza firmy z odvětví luxusního zboží

Financial Analysis of company from luxurious goods industry

Souhrn

Bakalářská práce zkoumá trh luxusního zboží jako specifický ekonomický sektor. Autorka analyzuje současný stav na mezinárodním trhu s luxusním zbožím, současné tendence a trendy na tomto trhu a významné společnosti, které dominují v tomto segmentu ve světovém měřítku.

Teoretická část práce obsahuje podrobnou analýzu základů finanční analýzy jako klíčového faktoru, který se využívá pro zhodnocení finančního stavu společnosti na trhu, a možností pro další vývoj.

Praktická část práce je věnována finanční analýze společnosti LVMH. Je to světová nadnárodní korporace na trhu luxusního zboží. Analýza provedená autorkou ukazuje, že většina finančních ukazatelů společnosti se zhoršila v poslední době, a taky poskytuje náhled a doporučení pro management pro zlepšení situace ve společnosti.

Summary

The thesis investigates the market of luxury goods as a specific economic sector. Namely, the author analyzes the current condition of the international market of luxury goods, the recent trends and tendencies on it, and the leading companies dominating the sector on the global scale. The theoretical part of the thesis also investigates deeply the basics of financial analysis as a key tool used for evaluating a company's financial condition on the market, and its possibilities of further expansion.

The practical part of the thesis is dedicated to the financial analysis of LVMH, the world's leading transnational corporation on the market of luxury goods. The author's research shows that the company has recently endured deterioration in most of its financial ratios, and provides an overview of the possible reserves to be used by the entity's management for improving the situation.

Klíčová slova: finanční analýza, finanční ukazatele, luxusní zboží, likvidita, rentabilita, LVMH, finanční závěrka, finanční výkazy, sklad, výměna, fundamentální analýza, technická analýza.

Keywords: financial analysis, financial ratios, luxury goods, liquidity, profitability, LVMH, final accounts, financial reports, stock, exchange, fundamental analysis, technical analysis.

Contents

1 Introduction

Financial analysis is a set of activities destined to investigate a legal entity's activities on the target market from the perspective of their effectiveness and yield for the company. In order to understand how effectively a company uses its resources available, builds its ties with suppliers, and satisfies the needs of its customers, as well as for finding room for improvement of the current level of performance, companies run financial analysis of their statements providing the widest range of indicators of their activities.

In this thesis, financial analysis of a company running its activities in the sector of luxury goods will be conducted. For the purposes of this research, the activities of one of the global leaders in this field – Louis Vuitton – will be investigated.

The sphere of luxury goods is interesting to analyze, as its products are used by only wealthy people, and even in the times of crisis, when all economic sectors stagnate, demand on the luxury segment tends to fluctuate only within slight limits. Therefore, it would be practically valuable and interesting to analyze how effective Louis Vuitton's activities are on the market, and to discover where the company fails to reach maximum results, and where improvement could further be made for increasing financial results.

The thesis will deal with both theoretical and practical aspects. Within the framework of theoretical research, the key characteristics and parameters of the global market of luxury goods, factors affecting its development, and the overall trends in it will be investigated. Also, the theoretical concepts related to financial analysis, its different kinds, types of indicators used in financial analysis, and the conclusions which can be drawn based on such research will be analyzed. In the analytical part, financial analysis of Louis Vuitton's activities will be run based on major indicators in order to discover how effective the corporation's activities are, and how they could be improved.

1.1 Goals

The goals of the research are as follows:

- To investigate the key parameters of the market of luxury goods: why people purchase luxury goods, what types of luxury goods exist, what trends currently persist on the market of luxury goods, what the level of competition is on this market, etc.;

- To conduct financial analysis: purposes and uses of financial analysis, types of financial analysis, ratios and indicators used in financial analysis, components of liquidity, profitability, indebtedness and capital market ratios;
- To run the financial analysis of Louis Vuitton's statements based on the major indicators commonly used in financial analysis;
- To discover where Louis Vuitton reaches the desired results, and where improvement of financial indicators could further be reached;
- To develop practical recommendations for Louis Vuitton to improve its economic results based on the findings of financial analysis.

1.2 Methodology

For the purpose of this research, a number of methods will be applied to reach the goals set. Namely, literature research will be used in order to get the required theoretical data on the market of luxury goods and methods of financial analysis. Retrospective and statistical analysis will be applied in order to track the dynamics on the market of luxury goods. Financial analysis will be used for the purpose of analyzing the statements of Louis Vuitton and drawing conclusions on how the company's financial results could be improved in the future. Finally, modeling will be used in order to assess probable scenarios when providing recommendations to the corporation for improving its financial results. For the purpose of writing the thesis, a number of publicly available bibliographic sources, both in print and electronic forms, data available on the Internet, and the financial statements of Louis Vuitton will be used.

2 Theoretical part

In this chapter, the key theoretical aspects related to basic financial indicators are being analyzed. Primarily, the theoretical part focuses on the definition of luxury goods and the main specificities of the luxury goods market, eventually on how it can influence basic economic indicators. This part also contains the description of the economic rationale and types of luxury goods. Finally, this part contains the description of financial indicators and methods used in financial analysis.

2.1 Luxurious goods

In the scientific literature, a luxurious good is commonly referred to as an extra in one's life which makes it more enjoyable, comfortable, in fact lying beyond the field of purely material satisfaction of demand, and dealing with human desires more than with actual needs (Scholz, 2014). In this chapter, the motives that make people buy luxurious goods, and types of such products will be analyzed.

2.1.1 Economic rationale

When analyzing people's motivations for buying luxurious goods, it is first of all necessary to proceed from the definition of those products given above. Luxurious goods are mostly aimed to satisfy desires, and not the material aspects of human demands. Therefore, the motivation of people here obviously drastically differs from their motives for purchasing and consuming ordinary, non-luxurious products (Okonkwo, 2007).

Human motivations for purchasing luxurious goods can be conditionally divided into socio-psychological and personal factors. The first group of motivation embraces those factors, which are connected with a person's perception of luxurious goods within society, i.e. in relation to other people's opinion on such goods and on their owners. At the same time, people also have their own personal motives for consuming luxurious goods which are only connected with their own relation to such goods, and their individual and subjective vision and perception of such products' value (Okonkwo, 2007).

The socio-psychological motivations are as follows:

- Exclusivity. This factor is a person’s motivation to have a unique or rare style and be presented with in society. As luxury goods are not affordable to everyone due to their price, by purchasing such goods, a person can effectively position himself or herself as a person with exclusive clothes or any other accessories in the eyes of other people (Fich, 2011);
- Attraction of attention. This represents a person’s desire to be spotted by other individuals. When wearing, using or simply having luxury goods, a person may attract greater attention of other people, as such goods in his or her possession are not widely spread among other people (Fich, 2011);
- Admiration. This factor is tightly interconnected with the previous one. A person having luxury goods may aim to evoke sympathy among other people. Often, people with lower earnings tend to have closer relations with richer persons, and luxury goods may be an indicator of richness. Thus, having such goods may be a way to raise other people’s admiration and interest in some mutual relations (Fich, 2011);
- Public use. This factor means that a person possessing luxury goods may use them for self-representation among people who may bring him or her some material or intangible benefits in the future. Publicly presenting luxury goods may be a way to raise people’s confidence in their owner as a self-sufficient person (Silverstein, Fiske, and Butman, 2005);
- Success and wealth. This motivation means that a person possessing luxury goods wishes to show other people that he or she has enough money to afford buying expensive and exclusive products. Thus, an image of a wealthy and successful person is created which may be used for entering some elite groups of people or simply for promoting career growth (Silverstein, Fiske, and Butman, 2005).

The personal motivations are as follows (Frank, 1999):

- Personal empowerment. When possessing some luxury goods, a person may feel confident in himself or herself, sense of success, and so on, which brings positive emotions;

- Relative superiority. A person buying a luxury product may start comparing self with other people who cannot afford purchasing such exclusive goods, and thus feel superiority to other consumers (Kleinman, 2011);
- Categorization. Often, a person owning luxury goods may want to feel belonging to a certain socioeconomic group, for instance, to people with the highest level of income, or to refined beau monde people, thus avoiding belonging to less wealthy people (Bocharov, 2009);
- Luxury lifestyle. When owning luxury goods, a person may emotionally feel like following a luxury lifestyle which is only affordable to rich and successful people, and being somehow similar to such people may be a great motivation for purchasing luxury products;
- Exclusivity. By owning a luxury product, a person may feel self unique as compared with other people who do not own or cannot afford buying such a product;
- Self image. Possessing a luxury product may often be a way for a person to increase his or her self-esteem, and build up a desirable image of his or her own in such person's own mind.

2.1.2 Types of goods

Different types of luxury goods can be distinguished based on the classification taken as a basis for the analysis of this concept. Therefore, different classifications exist in the scientific literature. The most widely spread of them will be considered below.

- Personal and impersonal luxury goods. Personal luxury goods are products which consumers use for maintaining their image in their own eyes and in the eyes of other individuals. Owners of such goods build up strong emotional ties with them, and thus provide them with a great intangible value. Personal luxury goods may include exclusive glasses, designer handbags or scarves, etc. At the same time, impersonal luxury goods are products, which do not have such strong ties with their owner. Such luxury products may include exclusive tile in the bathroom, or designer golden doorknobs (Chiari, 2009).

- Publicly and privately consumed luxury goods. This classification is done based on the social environment surrounding a person when consuming a luxury product. For instance, luxury goods such as expensive sports cars are used publicly, and are visible to a great number of people. At the same time, some luxury goods, such as, for instance, silver cooking utensils, are most often consumed privately, and are not shown to the wide public. This categorization of luxury may also apply depending on each particular situation. Thus, expensive alcohol may be consumed both privately and publicly (Belk, 2010).
- Affordable and exclusive luxury goods. This categorization of luxury goods is done based on their affordability. Such affordability assumes two main components: price, and availability on the market. For instance, affordable luxury goods include expensive and exclusive perfumes, designer clothes, expensive jewelry, and so on. Such products cost much, but they are generally affordable to many people, and are widely represented on the market (Kleinman, 2011). Moreover, affordable luxury goods also include expensive cars. Even though only a limited number of people can afford buying them, everyone may start sparing funds, and buy an expensive car in a few years. To the contrary, exclusive luxury goods are only affordable to a very narrow circle of people. For instance, such products may include private airplanes, or private medieval castles, etc. (Thomas, 2007).
- Luxury goods drawing attention and modest luxury goods. This categorization of luxury products is done based on their visual attributes. Luxury goods drawing attention mostly aim to satisfy people's desire for exclusiveness and perfect image. Such products have the brightest visual attributes of their richness and exclusivity such as brand logos and expensive decor. The main factor promoting the popularity of such luxury goods is how they illustrate their owner's wealth, and not their direct and real value. In such a way, luxury goods drawing attention create a market niche for people wishing to position themselves as unique in society. To the contrary, modest luxury goods do not focus on visual attributes, and do not tend to highlight brand logos or any other distinctive features. They are mostly used for personal purposes, and not with regard to the opinion of other people (Rittersma, 2010).

- Unique piece-goods, limited editions, limited and enlarged product diffusion. Unique piece-goods are luxury products of the highest niche which are mostly handmade, and are manufactured in single copies. A person owning such a product feels self unique and exclusive as compared with other people. Limited editions represent luxury goods which are manufactured in a limited number, for instance in 100 or 200 copies. Even though those are not unique-piece goods, such products make their owners feel quite unique (Bocharov, 2009). Luxury goods distributed under limited product diffusion are very rare due to the complexity of the manufacturing process, which requires handwork and high skills (for instance, such products may include the most expensive car brands such as Maybach or Aston Martin). Luxury goods distributed under enlarged product diffusion are still limited in their number as compared with the goods of mass production, but their manufacturing process is similar to series production (for instance, such products may include designer jeans or some expensive car brands such as Porsche) (Okonkwo, 2007).

Thus, it can obviously be stated that the market of luxury goods is quite spacious, and a wide variety of such products are offered to the customers who may have different motivations for purchasing them. The main particularity of luxury goods is that their key value is intangible, in contrast to the ordinary goods offered on the market, where the value is transmitted directly through their consumption parameters. Luxury goods satisfy human desires rather than human needs, and this is what makes this market unique. However, it should be understood that the market of luxury goods is quite limited due to the low affordability of such goods, and the competition on this market is overall very specific due to its particularities. In the next section, such competition will be investigated more in detail on the international level, just as the key features of the global luxury goods industry.

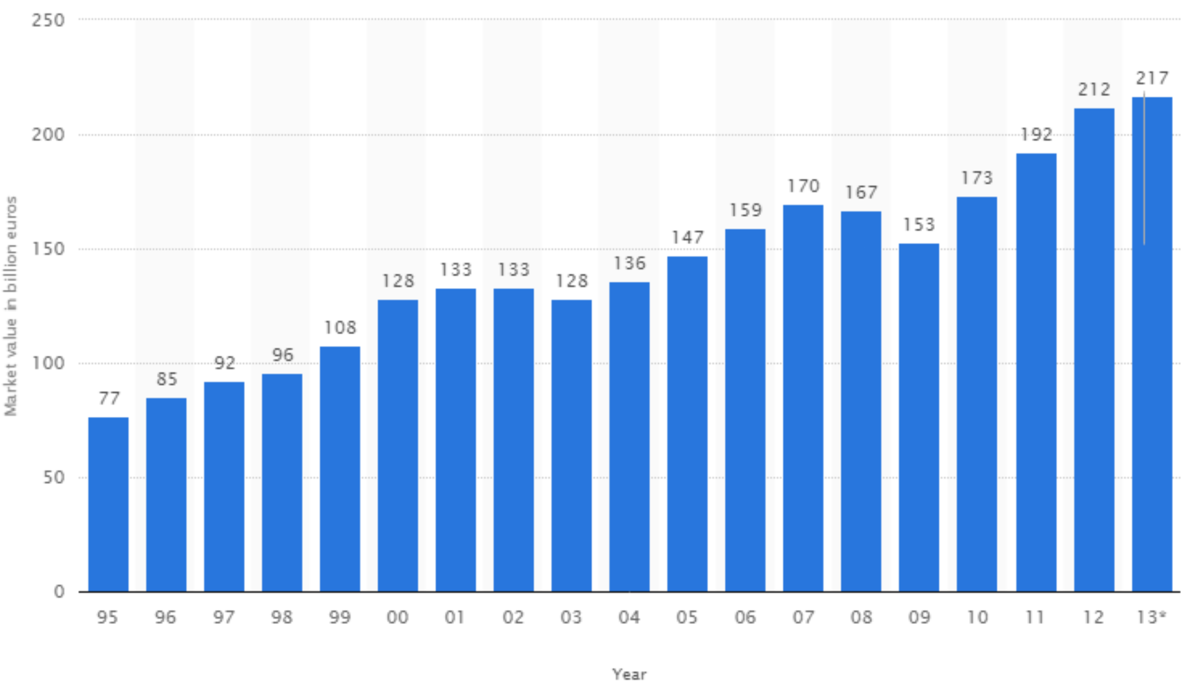
2.2 Luxury goods industry overview

The luxury goods industry is the market sector where luxury products are manufactured and distributed. Due to the specificities of the industry, the global market of luxury goods has its own particularities, and companies running their activities need to withstand thorough competition for the purpose of maintaining their stable positions and large customer base.

2.2.1 General market value

The market of luxury goods is first of all characterized by the stable customer base, and low volatility in line with the changes in external conditions. This is due to the fact that luxury goods are most often purchased by wealthy people who can afford buying expensive products even in the times of slight economic slowdowns, without any need to cut their major expenses. Moreover, a particular feature of the international luxury products market is brand loyalty. The price for goods of a particular brand here are much dependent on this brand's global famousness, and therefore sales in both physical volume and financial figures tend to grow as soon as such brand's customer awareness grows (Auguste and Gutsatz, 2013).

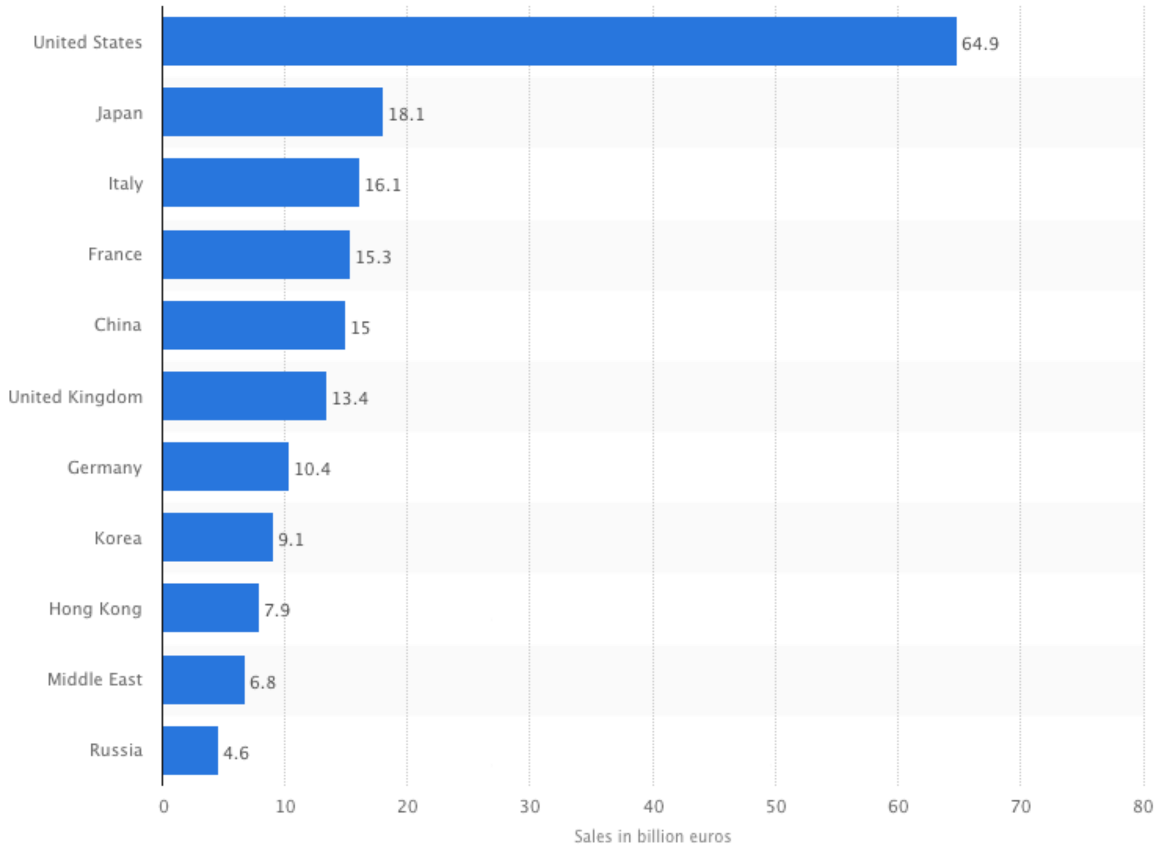
Figure 1: Value of the personal luxury goods market worldwide from 1995 to 2013 (in billion euros)



Source: Statista, 2015

As we can see from Figure 1 above, the global luxury goods market has lately demonstrated stable growth dynamics. The only slight decrease in the overall market value occurred in 2009, which can be explained by the negative consequences of the 2008 global financial and economic crisis which struck hard the entire global economy. However, already starting from the next year, the market again regained its positive dynamics, and reached the historical peak figure of its aggregate values in 2013, when this indicator amounted to 217 billion euros. In 10 years, the global luxury goods market grew by almost 70% which testifies the positive tendencies on it favoring the market's rapid development on the international scale.

Figure 2. Sales of the luxury goods industry in selected countries in 2013 (in billion euros)



Source: Statista, 2015

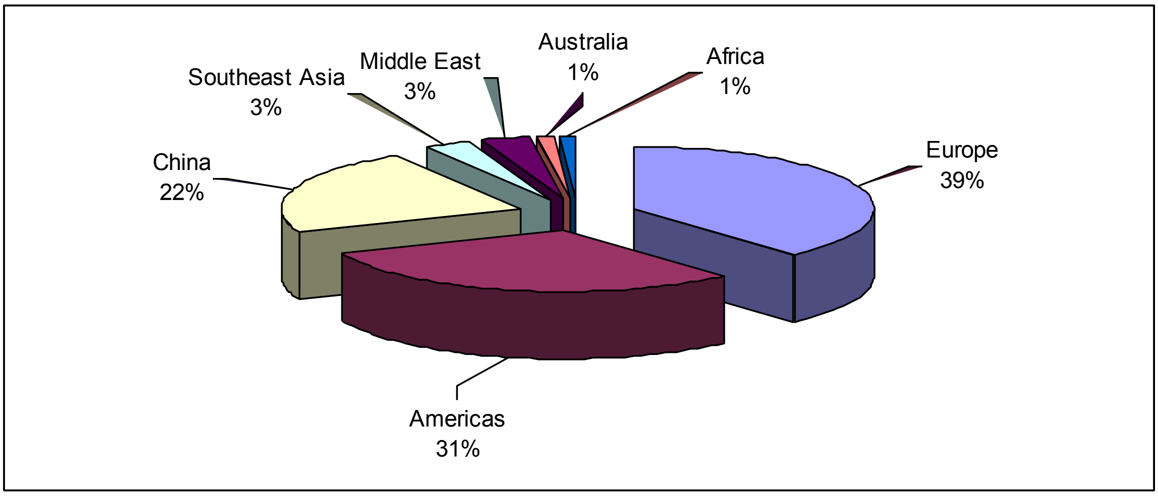
As Figure 2 above illustrates, the leading country in terms of sales of luxury products is the United States. In 2013, the total sales of luxury products in the US amounted to 62.5 billion euros. Other major countries in terms of the total sales of luxury goods include Japan, Italy, China, France, United Kingdom, Germany, etc. Thus, as we can see, the geographic structure of the global luxury goods market evidences that the highest level of sales is reached in countries with the high purchasing power of the population. I.e. it can obviously be states that the luxury goods market is much more developed in those states which have a high level of economic development, as the local population can afford buying not only products satisfying their needs, but also those satisfying their desires (Fich, 2011).

Figure 3. Value of the luxury goods market worldwide from 2011 to 2013, by region (in billion euros)

Region	2011	2012	2013*
Europe	69	73	74
Americas	58	66	69
Japan	18	20	17
Greater China	23	27	28
South Korea	7	8	8
South East Asia	5	5	6
Mainland China	12.5	15	15.3
Middle East	5.7	6.3	6.6
Australia	1.8	2.1	2.2
Africa	1.5	1.8	2

Source: Statista, 2015

Figure 4. Share of different regions in the luxury goods market's value, as of 2013



Source: Statista, 2015

Figure 3 and Figure 4 above demonstrate that, in contrast to the total sales, in terms of the market value of the luxury goods market, the world's leading region is Europe, while the American region only holds the second place. In 2013, the total value of the European luxury goods market made up 74 billion Europe, while the same figure in the Americas amounted to 69 billion euros. Also, it is worth noting that almost all regional luxury goods markets demonstrated positive growth dynamics in terms of the total market value in 2011-2013, except for Japan.

However, already in 2014 the Japanese luxury products market regained its positive growth trend, and showed the best growth indicator on the global level with +10% in the market value. In the Americas, growth of the regional luxury goods market in 2014 made up 6%, which rather low figure was caused by the devaluation of Latin American countries' national currencies, and slow growth in the US and Canada. In Europe, growth was even slower, and in China, those figures were negative. To the contrary, the Southeastern Asian luxury goods market has lately demonstrated positive growth (Pinkhasov and Nair, 2014).

2.2.2 Biggest companies

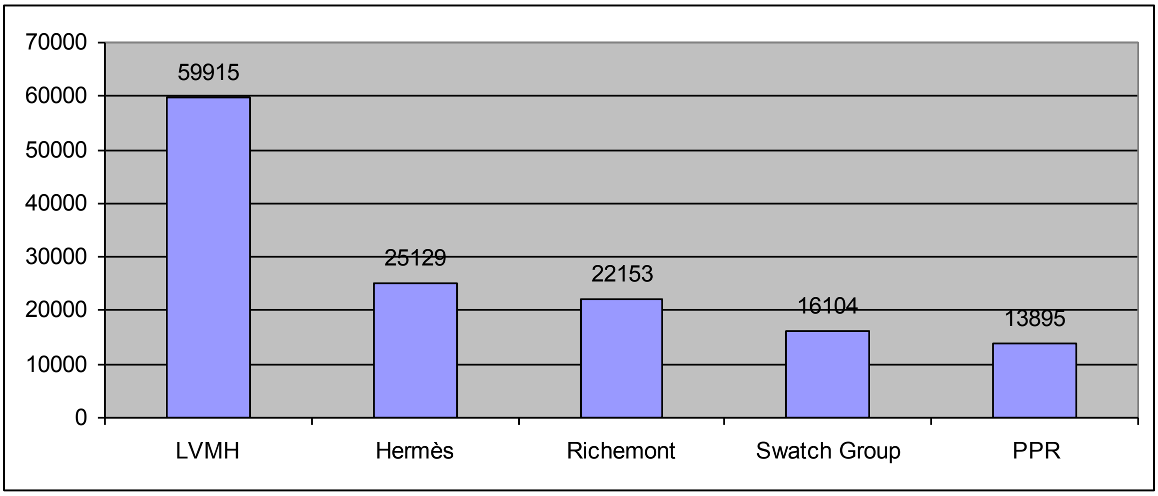
The major competitors on the global luxury goods market include the French companies LVMH, and Hermès, and the Swiss corporation Richemont. The shares of those companies on the global luxury products market are hard to evaluate, and different figures can be named based on the classification used for defining the limits of the market of luxury goods. Overall, it can definitely be stated that LVMH controls the biggest share on the global market of luxuries, which in aggregate accounts for over 25% of the market in terms of sales (Pinkhasov and Nair, 2014).

Figure 5. Top brands on the global luxury market, as of 2012

Index Components	Market Cap EUR m	MTD Price Change (%)	P/E (x) Estimate (Curr)	EV / LTM Sales (x)	EV / LTM EBITDA (x)	Est. Sales Growth (%)
LVMH	59,915	0.4	16.5	2.7	10.7	16.4
Hermès	25,129	(7.4)	39.3	8.5	24.1	15.3
Richemont	22,153	(6.3)	17.9	2.4	9.0	16.2
Swatch Group	16,104	0	14.0	3.0	11.3	11.4
PPR	13,895	(2.4)	11.7	1.4	9.4	10.5
Prada	13,431	7.8	23.9	4.9	16.3	23.0
Coach	13,276	(13.3)	16.6	3.4	9.9	16.1
Luxottica	12,725	5.6	22.1	2.3	13.0	12.6
Ralph Lauren	10,258	(5.9)	20.0	1.8	9.5	6.4
Burberry	7,133	(3.1)	21.3	2.9	11.6	13.1
Michael Kors	6,371	6.2	37.4	4.9	22.2	38.9
Tiffany & Co	5,301	(4.4)	14.5	1.9	8.4	7.0
Ferragamo	2,714	(0.9)	26.5	2.6	14.0	16.7
Tod's Group	2,375	(0.8)	16.7	2.5	9.8	6.5
Mulberry	1,082	(28.5)	33.6	5.0	21.2	23.0
Brunello Cuccinelli	751	4.0	31.0	3.2	18.8	13.8
Ports	463	4.5	8.1	1.8	5.5	9.8
Safilo	283	(0.7)	16.6	0.5	4.3	(0.9)
Savigny Luxury Index	**213,459**	**(2.0)**	**20.8**	**3.5**	**12.9**	**15.4**

Source: The Business of Fashion, 2012

Figure 6. Market capitalization of LVMH and the key competitors, as of 2012, in million euros



Source: The Business of Fashion, 2012

Figure 5 and Figure 6 above further prove LVMH's leading positions on the global scale. As the chart illustrates, Louis Vuitton is the global leader in terms of market capitalization. This means that the corporation's shares are traded on the global market at the highest aggregate price. Thus, as of 2012, the total market capitalization of LVMH made up nearly 60 billion euros, while the same figure of the second global company in terms of capitalization, Hermès, only amounted to slightly more than 25 billion euros. Also, it is worth noting that all major companies on the global luxury goods market demonstrated positive growth dynamics in 2012, which testifies the increase in their role on this market segment.

In addition to the aforementioned three global leaders on the luxury goods market, it is worth noting that significant market shares are held by corporations such as Swatch Group (Switzerland, watches), Luxottica (Italy, glasses), Mulberry (UK, leather goods), Tiffany & Co. (US, jewelry), and the French major manufacturers of luxury goods such as Kering and Ralph Lauren.

In the next section of this thesis, LVMH will be investigated as the global leader on the luxury goods market.

2.2.3 LVMH

Moët Hennessy • Louis Vuitton S.A., commonly referred to as LVMH or simply as Louis Vuitton is a powerful international conglomerate running its activities on the global luxury goods market. The company had originally started its activities back in 1854 when the worldwide famous fashion house Louis Vuitton was created in France; however the corporation in its current form was only established in 1987, Louis Vuitton merged with Moët Hennessy, the global leader in production of champagne and cognac. As of today, the corporation runs 60 subsidiaries around the globe, and employs over 80,000 people (Chevalier and Mazzalovo, 2012).

LVMH runs its activities on several main sectors of the global luxury goods market, and its business can be conditionally divided into the following segments: fashion and leather goods, wines and spirits, perfumes and cosmetics, watches and jewelry, and specialist retailing. On each of the above segments, LVMH operates major global brands. For instance, in fashion and leather goods, the company's key brands are Berluti, Céline, Dior, Donna Karan, Givenchy, Kenzo, Marc Jacobs, Loewe, Loro Piana, etc.; on the segment of wines and spirits, those are 10 Cane, Belvedere, Dom Pérignon, Hennessy, Glenmorangie, Moët & Chandon, Veuve Clicquot, etc.; LVMH's top perfumes and cosmetics brands are Christian Dior, Guerlain, Parfums Givenchy, Kenzo Parfums, BeneFit Cosmetics, Acqua di Parma, NUDE, etc.; the top watches and jewelry brands include Bulgari, Chaumet, Hublot, Zenith, etc.; finally, on the segment of specialist retailing, the company's key products are distributed under the brands DFS, Le Bon Marché, Sephora, and so on (Lvmh.com, 2015).

The key target geographical regions where LVMH runs its activities include France, Europe, Asia, Japan, and the Americas. Lately, the company has also expanded its activities to some other regions such as North Africa, and gradually develops its activities there, however France and Europe still play a major role in terms of sales and profits (Hoffmann and Coste-Manière, 2011).

In addition to its commercial activities, LVMH positions itself as a socially responsible brand, and organizes various social projects. Namely, the corporation actively participates in sponsorship projects in the art sector and sports events, environment protection campaigns, etc. (Lvmh.com, 2015).

Thus, it can obviously be stated that the international market of luxury goods is rapidly developing, and has lately been showing positive growth dynamics. LVMH is the world's leader on the luxury goods market, and the company's indicators are the best on the global scale in different respects. Therefore, it is worth analyzing how LVMH performs financially and what key factors of success it uses for maintaining its high market positions. The next chapter of this thesis will be dedicated to the fundamental analysis of LVMH.

2.3 Methods of financial analysis

As companies act in the highly changeable conditions of the market conjuncture, their financial position tends to significantly change with the course of time. Therefore, both internal and external users of any company's accounting and financial statements require obtaining reliable and grounded information for the purpose of making their managerial or investment decisions. Such data can be obtained through the effective performance of financial analysis, i.e. the assessment of the respective company's financial position. In this chapter of the thesis, the different methods of financial analysis and financial ratios will be investigated.

2.3.1 Horizontal analysis (trend/time analysis)

Horizontal analysis is the analysis of trends in the changes that occur in a company's different financial indicators. Such trends revealed through the implementation of horizontal analysis help forecast the development of the respective company's financial indicators in the future, and thus undertake the required measures for the purpose of maintaining or further improving them (Shim and Siegel, 2007).

Within the framework of financial analysis, the following formulas may be used for calculating trends in financial indicators:

- $\Delta Y = Xn – Xn\text{-}1$ where ΔY is the change in the value of a financial indicator, Xn is this indicator's value in the current period, and Xn-1 stands for the same figure in the previous period. This formula helps determine the absolute change in the respective financial indicators' value;

- $\Delta Y = (Xn – Xn-1) / Xn-1$. This formula is used for the purpose of calculating the percentage change of a particular indicator's value as compared with the same figure in the previous period;

- $Y = (Xn + Xn-1) / 2$. This formula is applied to calculate the average value of the respective financial indicator for the previous and current periods, where Y stands for such average value (Drake and Fabozzi, 2012).

Horizontal analysis should be used when there is a need to investigate the time changes in particular indicators' value, and it is useful for tracking the dynamics of a company's market position and financial indicators. However, horizontal analysis is not suitable for the purpose of investigating deeper the various aspects of the respective company's financial positions. With this aim, structural (vertical) analysis should be applied (Bragg, 2012).

2.3.2 Vertical (structural) analysis

Vertical analysis of a company's financial statements is the proportional analysis of its respective financial indicators that reveals their proportional ratio as compared with each other. Practically, in the course of vertical (structural) analysis, an item's value is calculated through its percentage relation to other indicators (Gibson, 2012).

Most commonly, vertical analysis is applied for evaluating the structure of a company's assets, liabilities, income, losses or other similar items of financial statements in the same time period. Most often, vertical analysis is also followed by horizontal analysis for the purpose of comparing the figure of change in the respective indicators' percentage values in different periods (Helfert, 2001).

In most cases, structural (vertical) analysis is used for comparing the items contained in the Balance Sheet or the Profit and Loss Account. Namely, within the framework of vertical analysis of the Profit and Loss Account, various expenses such as administrative costs, sales costs, etc. are shown through their share in the total sales. The similar technique applies to the composition of revenue lines. When analyzing the Balance Sheet, vertical analysis may be used for calculating the share of current and non-current assets in the total assets, or the share of short-term liabilities in the structure of equity and liabilities (Shim and Siegel, 2007).

Vertical analysis is helpful when there is a need to understand how the respective company's funding sources are formed, and what the overall structure of its activities is. However, this is not enough for the detailed understanding of such company's financial position and market viability. With the aim of deeper evaluating an entity's financial positions, financial ratios are used, which can be conditionally divided into four major groups: profitability, liquidity, indebtedness, and capital market ratios.

2.3.3 Analysis of financial ratios

In this chapter basic financial ratios as profitability, liquidity, capital market ratios and indebtedness are being analysed from the theoretical approach. Below in the practical part those ratios will be analysed on the example of LVMH financial reports.

2.3.3.1 Profitability ratios

Profitability ratios are used for investigating how effectively a company uses its resources available for the purpose of generating profits. In fact, theses indicators help evaluate the respective company's effective market performance. In practice, this means that the profitability ratios should be analyzed when there is a need to calculate the return on the respective company's funds and assets previously invested in its market operations (Vance, 2002).

The most widely used profitability ratios are as follows:

- gross profit margin (= gross profit/net sales): this indicator is used for calculating how much gross profit a company generates through its sales. Thus, the gross profit margin in fact demonstrates the overall profitability of all market activities led by the respective company. In practice, the value of the gross profit margin may significantly differ across different companies and industries, and therefore there are no recommended values for this ratio. However, when analyzing a company's financial statements, it is worth understanding that, the higher the value of this indicator, the better for the company's market position (Böhm, 2008);

- operating income margin (= operating income/net sales): this financial ratio is used for evaluating the effectiveness of a company's operational activities through the comparison of its operating income with the volume of its sales. In fact, the operating income margin is similar to the gross profit margin, but it shows the respective company's operational profits generated through sales, and not the total ones. The value of this ratio may significantly differ across different industries as well, but overall, any company should aspire to make it as high as possible in the respective market conditions (Brammertz, 2011);
- net profit margin (= net profit/net sales): in contrast to the two previous financial ratios, the net profit margin testifies how much net profit is generated through a company's sales. This indicator's value is probably the most illustrative, as it shows the share of the respective entity's net profit (i.e. the profit less all taxes and other possible withholdings) in its net sales, i.e. it demonstrates the effectiveness of the final results such company reaches on the market. The higher the value of this index, the better for the company (Helfert, 2001);
- return on equity (ROE) (= net income/average shareholders' equity): the value of this financial ratio shows the efficiency of use of a company's shareholders' equity. In contrasts to the profit margins, the formula of this index assumes the comparison of the respective company's net income and its equity, which ratio illustrates the successful degree of transformation of the company's equity in its net income. Just as in the case of the profit margins, there are no recommended values for ROE, and its actual figure may differ across different industries and countries, depending on the particular market situation. In general, the higher ROE, the better the respective company uses its equity (Shim and Siegel, 2007);
- return on assets (ROA) (= net income/total assets): this financial index illustrates how effectively a company uses its assets invested in its activities. Actually, this ratio demonstrates how effectively the respective company's assets are used for the purpose of generating its profits on the market. Companies should seek to improve the value of ROA to the maximum. Otherwise, they risk of losing the balance of the effective

market performance, and diminishg the real positive outcome of their market activities (Wahlen and Baginski, 2010).

2.3.3.2 Liquidity ratios

Liquidity ratios are used for the purpose of investigating a company's ability to meet its financial liabilities to the creditors using its own resources available. These ratios are essential for analyzing any company's financial stability and market position, as they predefine not only its current ability to repay its debts to creditors, but also the level of confidence the current and prospective creditors would have in it in the future. If a company is not sufficiently liquid, this means that its liabilities exceed the level of its resources available, and therefore the respective company faces significant threats in the conditions of the changing market conjuncture. In such situations, measures should be undertaken to promptly improve the situation. Otherwise, the company would risk of losing its stable position on the market and becoming bankrupt (Beaver, Correia and McNichols, 2011).

The main liquidity ratios are given below:

- current ratio (= current assets/current liabilities): this financial ratio illustrates a company's liability to meet its current liabilities to the creditors using its current assets. The current ratio is generally applied to effectively calculate an entity's ability to cover its short-term liabilities using the entirety of the current assets it holds as its resources. In the analytical practice, the normal value of the current ratio lies between 1.5 to 2.5, i.e. any company's current assets should exceed its liabilities by 1.5 to 2.5 times. Values smaller than 1.5 may testify that the respective company's liabilities are excessive against the value of its current assets. If the value of the current ratio is smaller than 1, this shows that the company faces substantial problems with liquidity, and, in case its creditors (Drake and Fabozzi, 2012);
- acid-test ratio (= (current assets-inventories)/current liabilities): this indicator is similar to the current ratio, however, in contrast to the latter, it illustrates a company's ability to meet its current liabilities to creditors using its most liquid assets. For this purpose, inventories are deducted from the total current assets as the least liquid of

them. The acid-test ratio shows part of the current liabilities which can be met using the funds which can be quickly converted into money. The recommended value of this indicator should be at least 0.6. Otherwise, it is believed that the company's liquidity and creditworthiness are low, and it may face significant difficulties, if its creditors require the payment of debts (Böhm, 2008);

- cash ratio (= cash/current liabilities): this financial ratio is calculated for the purpose of evaluating an entity's ability to cover its short-term liabilities using only its cash funds, i.e. the assets which don't have to be converted and can be used at once for repaying debts. According to the practice of financial analysis, the cash ratio's value should be at least 0.3. If it falls below this recommended value, this will most likely testify the company's problems with liquidity, and will mean the need to undertake measures for improving the situation (Helfert, 2001);
- net working capital (= net assets-net liabilities): this indicator is used to show the real amount of funds the company has in free use for the purpose of funding its activities. This financial ratio's value should never be negative, i.e. fall below zero. The higher the value of the net working capital, the higher the respective company's liquidity (Wahlen and Baginski, 2010).

2.3.3.3 Indebtedness ratios

Indebtedness ratios are calculated in order to evaluate a company's ability to repay its long-term liabilities to its creditors. Such calculations are performed by comparing the company's resources available with its long-term indebtedness to other entities and individuals. The assessment of the indebtedness ratios is crucial for the purpose of understanding the real financial situation of any company, as they show how the respective company is able to cope with its liabilities in the long-term period, which significantly differs for the operative actions that may be undertaken in the short term (Bragg, 2012).

- debt ratio (= total liabilities/total assets): this financial indicator shows the overall ratio between a company's total liabilities and assets, i.e. it illustrates how the respective company's aggregate liabilities and assets correspond. The value of this financial ration should never exceed 1. In practice, this means that the total liabilities should never exceed total assets. Otherwise, this would testify significant problems with the respective company's independent financial position on the market. Furthermore, the value of the debt ratio should be as low as possible in order to guarantee the company's trouble-free market activities with a reliable financial position (Drake and Fabozzi, 2012);

- long-term debt to equity (= long-term debt/total assets): this financial indicator is similar to the debt ratio, however, in contrast to the latter, it evaluates how a company's long-term liabilities correspond with its total assets. This figure is important to evaluate, as long-term liabilities are generally larger in amounts than current debts, and therefore the problems the respective company may face with them are considerably higher as well. According to the practice of financial analysis, the maximum allowable value of this ratio is 0.7, and companies should undertake all efforts to minimize this figure. Otherwise, they may have significant problems with repaying their long-term debts (Brammertz, 2011);
- debt service coverage ratio (= net operating income/total debt service): this financial index shows an entity's ability to cover the interest on the loans taken using its net operating income, i.e. its ability to service its debts using the proceeds from operating activities. There are no recommended values for this ratio, as the companies' income may differ across different industries, but all enterprises should seek to maximize the value of this financial ratio in order to guarantee stable and timely payment of interest on all loans (Helfert, 2001).

2.3.3.4 Capital market ratios

Capital market ratios are used in order to evaluate investors' interest in funding a particular company by purchasing its shares through the benefits the company may provide to them, and also the costs which the company bears for issuing such shares. The capital market ratios are essential for evaluating how attractive the respective company stands on the market, and therefore, in the long run, what opportunities it will have to raise the required loan funds. Also, the capital market ratios indirectly show the level of the respective company's business activity on the market, and thus its potential in terms of the interest rose among investors (Beaver, Correia and McNichols, 2011).

- earnings per share (EPS) (= net earnings/number of shares): this financial indicator shows the amount of earnings a company generates through its business activities divided by the number of its shares, i.e. the actual amount of funds each single share accounts for (Anuschenkova and Anuschenkova, 2009). The level of earnings per share may substantially differ for different companies, and it is impossible to recommend any uniform values to be reached, as they are largely predefined by the market conjuncture and the respective company's ability to cope with its particularities. The higher the value of this indicator, the higher the interest of investors in funding the respective company's activities, as this would increase their actual earnings (Bragg, 2012);
- payout ratio (= dividends/earnings): this financial indicator shows the percentage of a company's earnings paid to its shareholders under the form of dividends. As investors seek higher profits when making their investments decisions, they are inherently interested in gaining larger dividends from the objects of their investment. Therefore, the higher the value of this indicator, the more attractive the respective company's activities for investors (Böhm, 2008);
- dividend cover (= earnings per share/dividends per share): this financial ratio is inversely proportional to the payout ratio, i.e. it shows how earnings stand against dividends. The value of this indicator should be as low as possible in order to raise maximum interest from investors (Drake and Fabozzi, 2012);
- dividend yield (= dividend/current market price): this is another indicator showing the investors' potential interest in funding the activities of the respective company. It compares the dividends paid to investors with the current market price of the shares they hold. There are no recommended values for this financial ration, but overall, it should be as high as possible in order for the investors to be actually interested in investing their funds in the respective company (Brammertz, 2011).

2.3.4 The essentials of technical analysis

Technical analysis is an analytical tools used for forecasting future changes in the market value of a company based on the investigation of its respective figures in past period. Technical analysis is helpful for understanding the expected dynamics of price changes on future time intervals. Such analysis is mostly used for forecasting the changes in the market value of different equity and debt securities, market indices, and other instruments, which can be traded on the market. The results of technical analysis are useful for both managers of the respective companies and third-party investors interested in the possible changes in the market prices of their stocks and other instruments, as such information is crucial for making grounded investment decisions. Technical analysis doesn't focus on the reasons causing price movements, but rather investigates the dynamics of such changes, and is used as a forecasting tool (Stockcharts.com, 2015).

3 Practical part

For the purpose of running the analysis of LVMH’s financial indicators, data contained in the company’s financial statements are required. In order to ensure comprehensive results of the company’s technical analysis, data for the six last years, from 2008 to 2013, will be taken into account.

Table 1. LVMH’s selected Balance Sheet indicators in 2008-2013, in million euros

	2008	2009	2010	2011	2012	2013
Non-current assets	21129	21131	25965	33846	35725	39592
Current assets	10354	10975	11199	13267	14273	16082
Inventories	5764	5644	5991	7510	8080	8586
Accounts receivable	1650	1455	1565	1878	1985	2189
Cash and cash equivalents	1013	2446	2292	2303	2196	3221
Total assets	31483	32106	37164	47113	49998	55674
Equity	13793	14785	18204	23426	25508	27723
Non-current liabilities	11075	11273	11900	14093	15008	16251
Current liabilities	6615	6048	7060	9594	9482	11700
Accounts payable	2292	1911	2298	2952	3134	3308
Total equity and liabilities	31483	32106	37164	47113	49998	55674

Source: Lvmh.com (2015), own creation

Table 2. LVMH’s selected Profit and Loss Account indicators in 2008-2013, in million euros

Revenue	17193	17053	20320	23659	28103	29149
Cost of sales	6012	6164	7184	8092	9917	10055
Profit from recurring operations	3628	3352	4321	5263	5921	6021
Operating profit	3485	3161	4169	5154	5739	5894
Net profit	2026	1755	3032	3065	3424	3436
Number of shares	475610672	474838025	479739697	490056174	498953932	507793661
Dividends paid	17	21	20	61	188	86

Source: Lvmh.com (2015), own creation

Tables 1 and 2 above contain selected financial indicators from LVMH’s Balance Sheet and Profit and Loss Account, which will be used for running the technical analysis.

3.1 Horizontal analysis (trend/time analysis) of LVMH

Horizontal analysis of LVMH's financial statements is required in order to draw conclusions on the dynamics of the main indicators of the corporation's activities on the market.

Table 3. Horizontal analysis of LVMH's Balance Sheet

	2009/2008		2010/2009		2011/2010		2012/2011		2013/2012		
	Absolute change	% change	Absolute change	% change	Absolute change	% change	Absolute change	% change	Absolute change	% change	Average value for 2008-2013
Non-current assets	2	0,01%	4834	22,88%	7881	30,35%	1879	5,55%	3867	10,82%	29564,67
Current assets	621	6,00%	224	2,04%	2068	18,47%	1006	7,58%	1809	12,67%	12691,67
Inventories	-120	-2,08%	347	6,15%	1519	25,35%	570	7,59%	506	6,26%	6929,167
Accounts receivable	-195	-11,82%	110	7,56%	313	20,00%	107	5,70%	204	10,28%	1787
Cash and cash equivalents	1433	141,46%	-154	-6,30%	11	0,48%	-107	- 4,65%	1025	46,68%	2245,167
Total assets	623	1,98%	5058	15,75%	9949	26,77%	2885	6,12%	5676	11,35%	42256,33
Equity	992	7,19%	3419	23,12%	5222	28,69%	2082	8,89%	2215	8,68%	20573,17
Non-current liabilities	198	1,79%	627	5,56%	2193	18,43%	915	6,49%	1243	8,28%	13266,67
Current liabilities	-567	-8,57%	1012	16,73%	2534	35,89%	-112	- 1,17%	2218	23,39%	8416,5
Accounts payable	-381	-16,62%	387	20,25%	654	28,46%	182	6,17%	174	5,55%	2649,167
Total equity and liabilities	623	1,98%	5058	15,75%	9949	26,77%	2885	6,12%	5676	11,35%	42256,33

Source: Lvmh.com (2015), own creation

Table 4. Horizontal analysis of LVMH's Profit and Loss Account

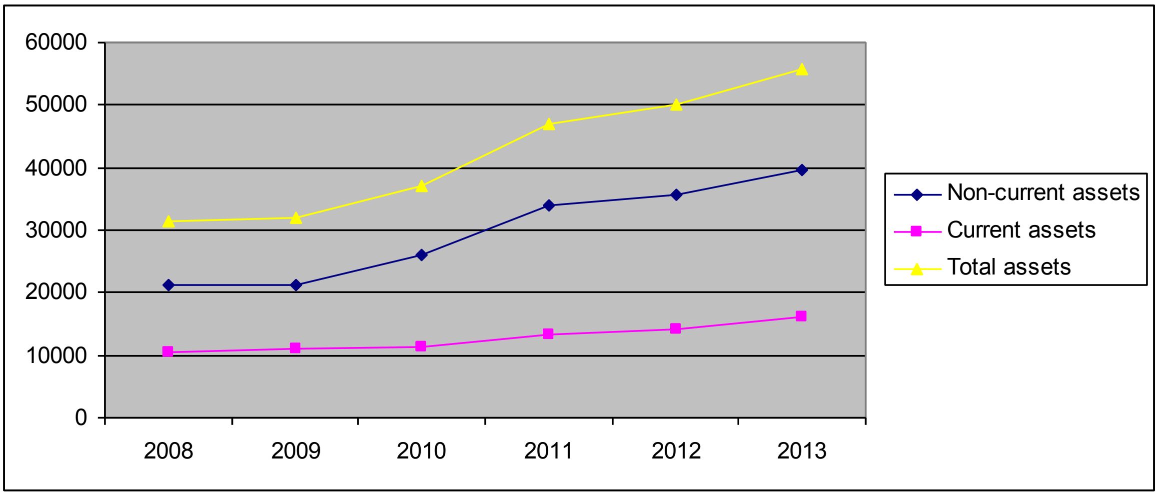
	2009/2008		2010/2009		2011/2010	
	Absolute change	% change	Absolute change	% change	Absolute change	% change
Revenue	-140	-0,81%	3267	19,16%	3339	16,43%
Cost of sales	152	2,53%	1020	16,55%	908	12,64%
Profit from recurring operations	-276	-7,61%	969	28,91%	942	21,80%
Operating profit	-324	-9,30%	1008	31,89%	985	23,63%
Net profit	-271	-13,38%	1277	72,76%	33	1,09%
Number of shares	-772647	-0,16%	4901672	1,03%	10316477	2,15%
Dividends paid	4	23,53%	-1	-4,76%	41	205,00%

	2012/2011		2013/2012		
	Absolute change	% change	Absolute change	% change	Average value for 2008-2013
Revenue	4444	18,78%	1046	3,72%	**22579,5**
Cost of sales	1825	22,55%	138	1,39%	**7904**
Profit from recurring operations	658	12,50%	100	1,69%	**4751**
Operating profit	585	11,35%	155	2,70%	**4600,333333**
Net profit	359	11,71%	12	0,35%	**2789,666667**
Number of shares	8897758	1,82%	8839729	1,77%	**487832027**
Dividends paid	127	208,20%	-102	-54,26%	**65,5**

Source: Lvmh.com (2015), own creation

Tables 3 and 4 above provide an overview of the time changes in LVMH's main financial indicators. They should be analyzed more in detail for the purpose of revealing positive and negative trends, and the fields, which require particular attention on the part of the corporation's management.

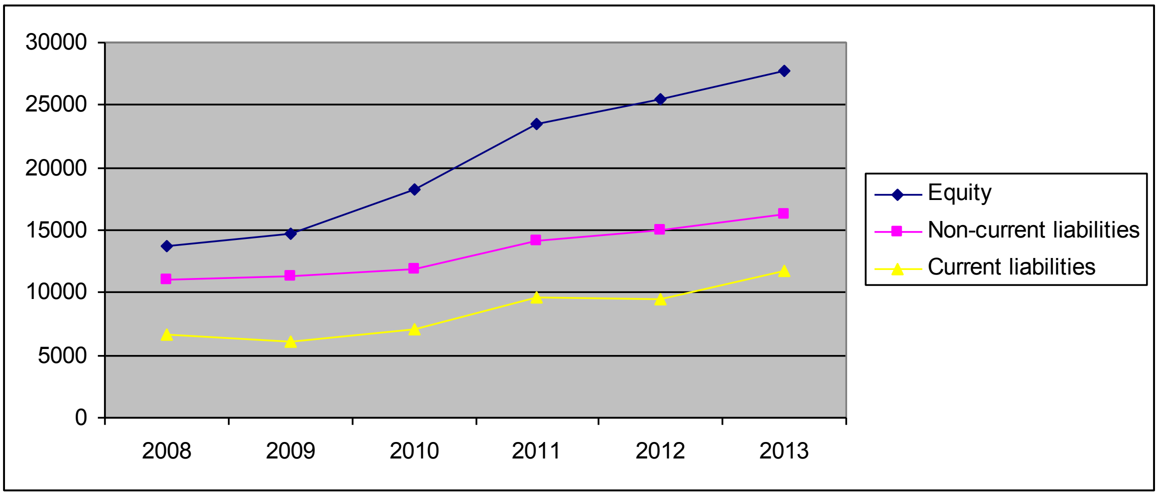
Figure 7. Dynamics of LVMH's assets in 2008-2013



Source: Lvmh.com (2015), own creation

Figure 7 above illustrates the dynamics of LVMH's assets in the period from 2008 to 2013. As we can see from the chart, those indicators have lately been demonstrating steady positive dynamics. Thus, the company's total assets grew from over 31 billion euros to over 55 billion euros from 2008 to 2013, i.e. by almost 77% in 6 years. This is a very positive sign which testifies that the corporation is increasing the volume of resources available in its disposition, and therefore has opportunities for the subsequent expansion to the global market. This is also a positive sign in terms of the company's increased liquidity, and its ability to fund its activities in an independent manner. However, it is worth noting here that non-current assets demonstrated higher growth in the analyzed period, while the growth pace of current assets remained significantly slower. Thus, as of 2013, the value of non-current assets made up over 39 billion euros, i.e. this figure grew by over 87% as compared with the same indicator's value in 2008. At the same time, the amount of current assets made up slightly over 16 billion euros, and this figure grew by slightly over 55% in 2013 as compared with 2008. However, taking into consideration the fact that both indicators showed steady growth in the analyzed period, this difference rather doesn't represent any threats for the company. The highest year-on-year growth figures across all types of assets were reached by LVMH in 2011, when the corporation's total assets grew by 26.77% in value as compared with 2010, the current assets demonstrated a 18.47% growth, and the non-current assets – 30.35% for the same period.

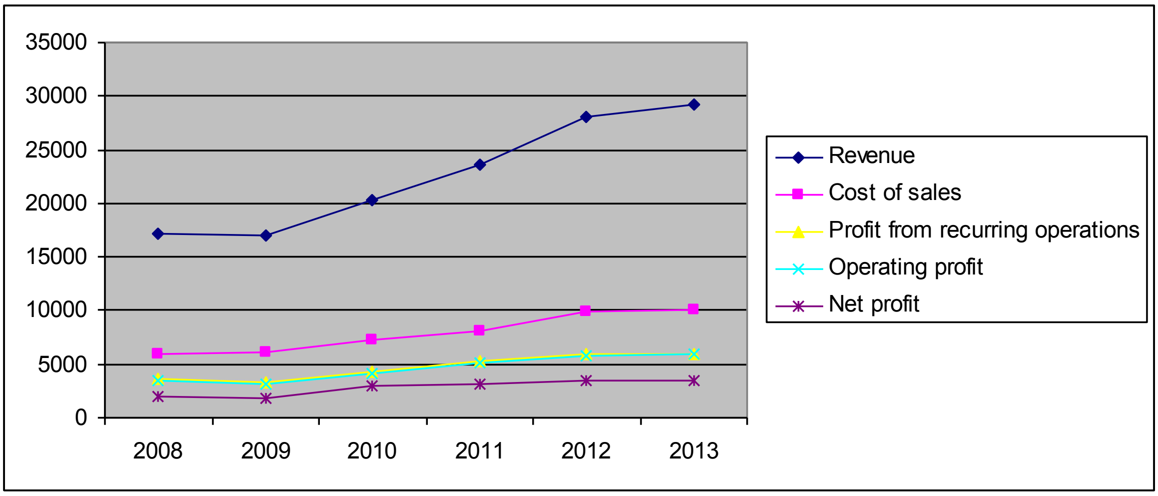
Figure 8. Dynamics of LVMH's equity and liabilities in 2008-2013



Source: Lvmh.com (2015), own creation

Figure 8 above illustrates the dynamics of LVMH's equity and liabilities in 2008-2013. As we can see from the chart, similarly to the indicators of assets, the corporation's equity and liabilities demonstrated stable growth dynamics in 2008-2013. The company's equity grew from nearly 14 billion euros in 2008 to nearly 28 billion euros in 2013, thus demonstrating a growth of over 100%. At the same time, the company's short-term liabilities grew from 6.6 to 11.7 billion euros, i.e. by almost 77%, and its long-term liabilities grew from 11 to 16.25 billion euros, i.e. by slightly less than 47%. It is worth noting here that the company's equity grew at a much higher pace than its liabilities, which is definitely a positive sign for LVMH, as it testifies that the corporation's financial position only became stronger, and the company's financial independence increased.

Figure 9. Dynamics of LVMH's profit and loss indicators in 2008-2013



Source: Lvmh.com (2015), own creation

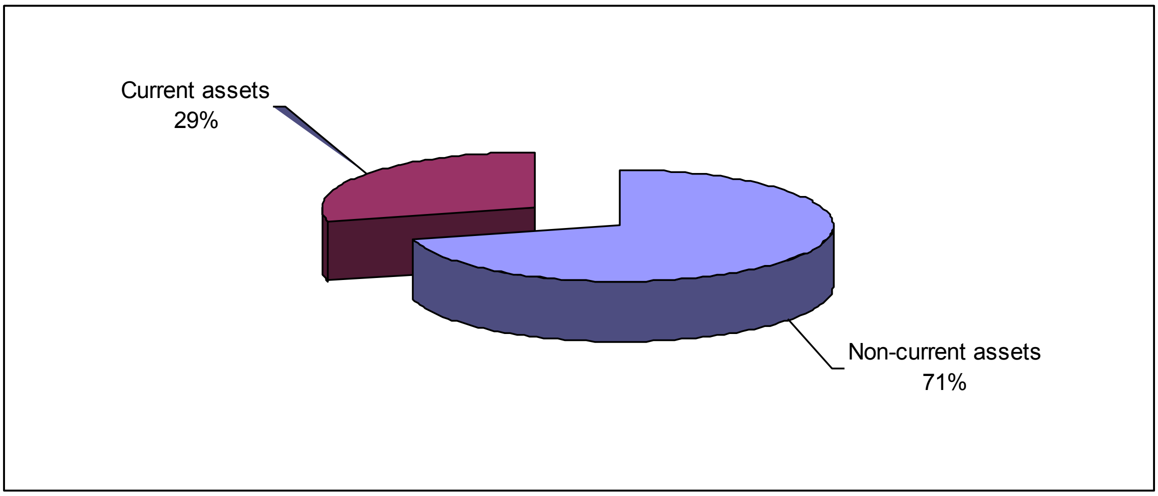
Figure 9 above depicts the dynamics of LVMH's profit and loss indicators in 2008-2013. First of all, it is worth noting here that all indicators demonstrated positive growth in the analyzed period, which is a good sign for the corporation's market position. The highest growth was demonstrated by the revenue indicator which grew from 17 billion euros in 2008 to 29 billion euros in 2013, i.e. by almost 70%. At the same time, the corporation's cost of sales grew from 6 to 10 billion euros, i.e. by over 67%. The indicator of net profit grew from 2 to 3.4 billion euros in aggregate, i.e. by 69%. Overall, the dynamics of the net profit value for the 6 years analyzed are positive, but it is worth noting that its growth pace significantly decelerated in the last 3 years. Namely, in 2013, the company's net profit only grew by 0.35% as compared with the previous year, which is a very low figure. This may be a sign of irrational expenses, as the growth of the company's profit significantly lags behind the growth of its aggregate revenues.

Overall, it can be stated that LVMH has been demonstrating positive growth dynamics across all indicators in recent years, and this proves the company's effective and successful market activities.

3.2 Vertical (structural) analysis of LVMH

Vertical analysis is required to understand how the assets and liabilities of LVMH are constituted, and what impact they have on the corporation's market position.

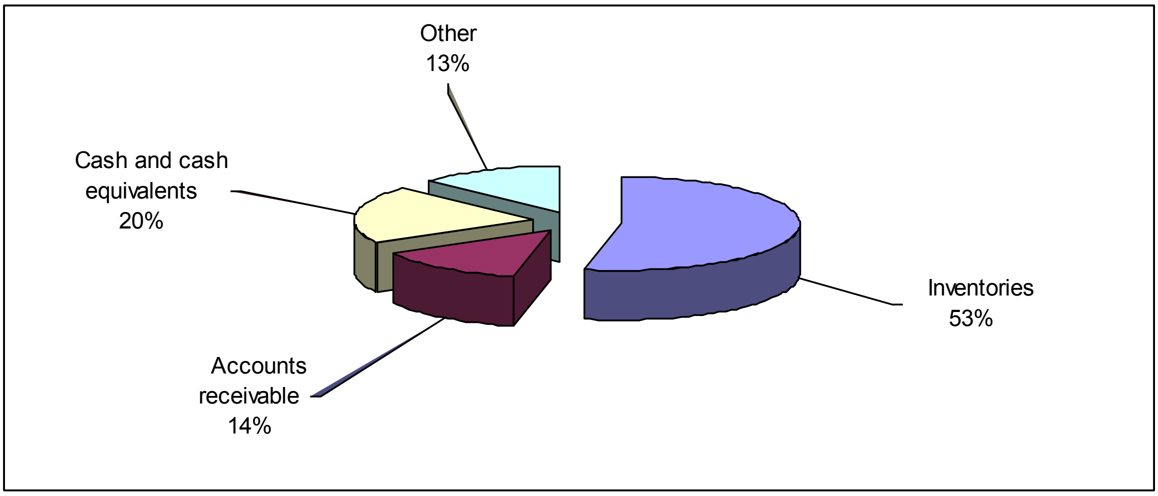
Figure 10. Structure of LVMH's assets, as of 2013



Source: Lvmh.com (2015), own creation

Figure 10 above illustrates the structure of LVMH's assets in 2013. As we can see from the chart, non-current assets account for the highest, making up 71% of the total assets in aggregate. At the same time, the share of current assets is significantly smaller, and only amounts to 29%. Overall, such a significant gap between the figures of current and non-current assets is rather inherent of industrial enterprises where heavy industrial equipment is required for the manufacturing process. Therefore, it can be stated that the share of current assets is rather low at LVMH, and this may be a sign of possible threats. Namely, it should be understood that current assets are liquid and can be relatively easily converted into cash for covering the company's liabilities to its creditors. At the same time, non-current assets are not liquid, and require much more time for being converted into monetary funds. Thus, LVMH should better increase the share of current assets for the purpose of ensuring the corporation's overall higher liquidity.

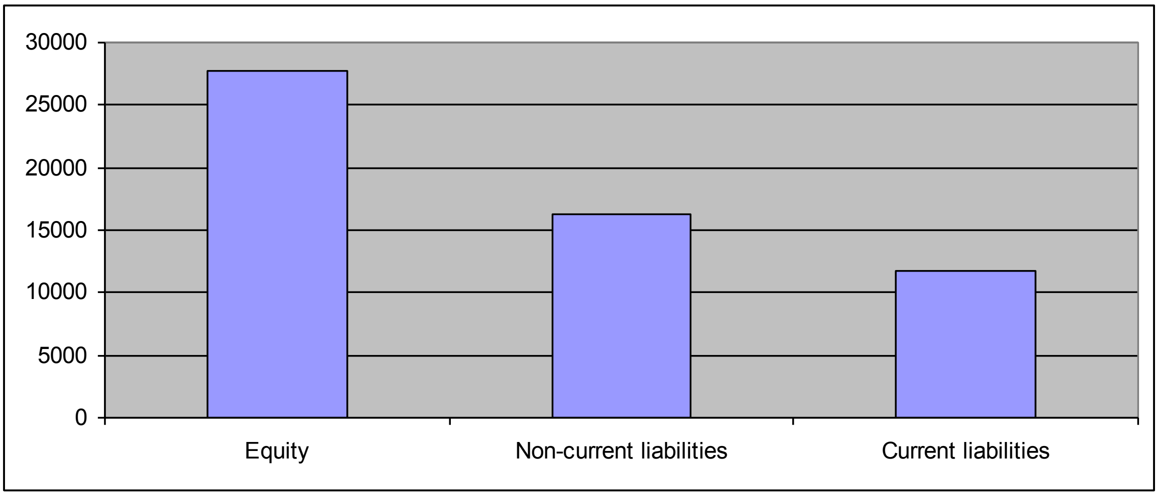
Figure 11. Structure of LVMH's current assets, as of 2013



Source: Lvmh.com (2015), own creation

Figure 11 above depicts the detailed structure of LVMH's current assets. As we can see from the chart, inventories account for the highest share of over 53%, while cash and cash equivalents in aggregate only make up 20% of the aggregate current assets. This is another negative sign for LVMH's liquidity, as the company's inventories are the least liquid current assets, and they in aggregate account for over one half of the total current assets. In order to reduce the risks of losing market stability and independence, LVMH should increase the share of the most liquid assets in the structure of current assets.

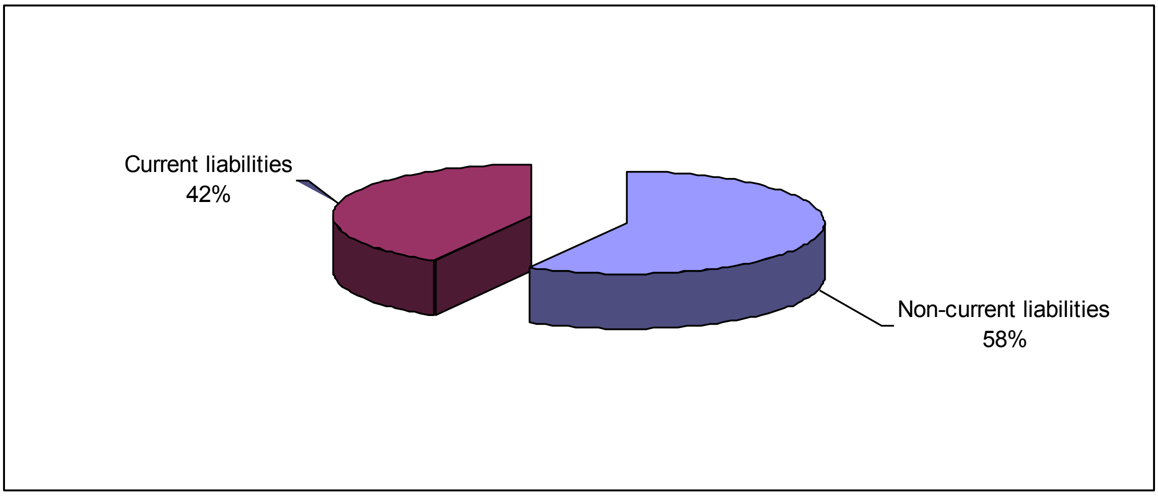
Figure 12. Structure of LVMH's equity and liabilities, as of 2013



Source: Lvmh.com (2015), own creation

Figure 12 above illustrates the structure of LVMH's equity and liabilities. As we can see from the chart, the corporation's equity is higher than both its non-current and current liabilities. In 2013, the value of equity made up 27.723 billion euros, while the value of current liabilities amounted to 11.7 billion euros, and non-current liabilities made up 16.251 billion euros. This is a positive sign for the company's market positions, as it testifies that LVMH tends to balance the own and borrowed funds used for financing its activities in order not to become excessively dependent on third-party creditors.

Figure 13. Structure of LVMH's liabilities, as of 2013



Source: Lvmh.com (2015), own creation

Figure 13 above depicts the structure of LVMH's liabilities. As we can see from the chart, the corporation's current liabilities account for 42%, and the non-current liabilities – for 58% of the corporation's total financial liabilities. This structure is balanced, and it means that LVMH implements a weighted approach to the use of borrowed funds for the purpose of ensuring timely payments of all debts on all time intervals.

Overall, the vertical analysis shows positive results for LVMH. However, the company should pay particular attention to the ratio between its liquid and non-liquid assets which is rather weak as of today.

3.3 Analysis of LVMH's financial ratios

For the purpose of better understanding the actual financial position of LVMH and forecast the company's expected market growth, it is worth analyzing more in detail the corporation's financial ratios, namely profitability, liquidity, indebtedness, and capital market ratios. Such analysis is crucial in the context of the value of data it may provide for the justified managerial decisions of the corporation's directors. All data for the analysis of financial ratios will be taken as of 2013, when the latest financial statements were published by LVMH.

The profitability ratios will allow understanding the company's actual level of profitability, i.e. the amount of profits it is able to generate from its market activities. The level of profitability in fact demonstrates the degree of achievement of the planned goals set by LVMH's management, and shows whether the company's market activities are beneficial or, to the contrary, brings losses.

3.3.1 Profitability ratios

- gross profit margin (= gross profit/net sales): = 6,021 / 29,149 = 0.21

The company's gross profits margin makes up 0.21. This value means that LVMH's aggregate revenues from sales generate 21% of gross profit. The value of the company's gross profit margin is rather normal for its field of business, and its positive value demonstrates that the sales activities of LVMH are rather effective in the context of the company's market performance.

- operating income margin (= operating income/net sales): = 5,894 / 29,149 = 0.2

The value of LVMH's operating income margin amounts to 0.2, and nearly equals the value of the gross profit margin. The high degree of correlation between those two values testifies that the company generates the largest portion of its profits through its operational activities, while the share of financial and investment activities in the generation of LVMH's profits from market activities is rather low.

- net profit margin (= net profit/net sales): = 3,436 / 29,149 = 0.12

The company's net profit margin amounts to 0.12, and is in fact the most illustrative indicator of the company's market activities. The net profit margin of LVMH as of 2013 is not very high, but its level is rather normal and sufficient for the industry in which the corporation operates. The above value testifies that the company is able to generate 12% of profit less taxes and levies from its aggregate sales.

- return on equity (ROE) (= net income/average shareholders' equity): = 29,149 / 27,723= 1.05

The value of ROE demonstrates how effectively LVMH uses its shareholders' equity for the purpose of generating profits from its market activities. The indicator's value amounting to 1.05 is very high, and it testifies that LVMH uses its equity very effectively for funding its market expansion and development. Thus, each unit of the company's shareholders' equity generates 1.05 units of net income, and this means that LVMH is effective in the use of its resources.

- return on assets (ROA) (= net income/total assets): = 29,149 / 55,674 = 0.52

Similarly to ROE, the indicator of return on assets demonstrates how effectively LVMH uses its assets for generating profits from its market activities. As we can see, the value of ROA is significantly lower than the value of return on equity. However, the indicator's value of 0.52 is still quite high, and it means that LVMH is able to generate 0.52 units of profits from each unit of its total assets.

For the purpose of better understanding LVMH's market position in terms of the company's profitability, it is worth analyzing the dynamics of changes in the corporation's profitability ratios in recent years. Table 5 below provides the calculated values of LVMH's profitability ratios for 2008-2013.

Table 5. Dynamics of LVMH's profitability ratios in 2008-2013

	2008	2009	2010	2011	2012	2013
Gross profit margin	0,211016	0,196564	0,212648	0,222452	0,210689	0,206559
Operating income margin	0,202699	0,185363	0,205167	0,217845	0,204213	0,202202
Net profit margin	0,117839	0,102914	0,149213	0,129549	0,121838	0,117877
Return on equity (ROE)	1,246502	1,153399	1,116238	1,009946	1,101733	1,051437
Return on assets (ROA)	0,546104	0,531147	0,546766	0,502176	0,562082	0,523566

Source: Lvmh.com (2015), own creation

As can be seen from Table 5 above, there have recently been negative tendencies for LVMH in terms of the company's dynamics of profitability ratios. Thus, for instance, the value of the corporation's gross profit margin fell by over 1 percentage point in 2013, as compared with the two previous years, and was even lower than the same indicator in 2008, the year of the global financial and economic crisis. The same can be said about the operating income margin. This indicator's value reached in 2013 was the lowest in the analyzed period, expect for the year 2009, and diminished by over 0.2 percentage points as compared with 2012. The net profit margin has lately shown negative growth dynamics as well. Thus, in 2013, this indicator's value fell below 0.12 for the first time in 2014, and this testified the actual deterioration in LVMH's market performance. Similar trends have lately been observed in terms of the indicators of return on equity and return on assets. The two ratios fell as compare with the previous years, and this meant a substantial decrease in the company's effectiveness of use of its resources, even despite the high absolute figures of the two ratios. Overall, the recent dynamics of LVMH's profitability ratios have definitely been negative for the corporation. The company is gradually losing the effectiveness of its market operations in terms of the financial results achieved by using its own resources. This means the overall deterioration in the effectiveness of the company's activities.

In order to evaluate the level of LVMH's liquidity, i.e. its ability to repay the short-term liabilities to creditors using its own current assets, it is worth analyzing the company's liquidity ratios.

3.3.2 Liquidity ratios

- current ratio (= current assets/current liabilities): = 16,082 / 11,700 = 1.37

The current ratio's value as of 2013 makes up 1.37, and this testifies that LVMH's current ratio is low, as it is below 1.5. As a result, it can obviously be stated that this a negative sign for the company. Such a low value testifies that LVMH may face difficulties with the payment of its liabilities to creditors in the short-term period. As the value of the current ratio is below the recommended value, this means that the company's current assets are rather insufficient for covering the company's liabilities in the short-term perspective. In its term this means that the company may face difficulties with the funding of its activities already in the near future. Thus, on the one hand, the corporation's current assets are not sufficient, and therefore it is unable to use them for rapid market expansion. On the other hand, further rising of loans from creditors may cause and even greater loss of liquidity. In the long run, this may lead to significant negative consequences for the corporation, and therefore LVMH should undertake actions in order to improve the level of its liquidity.

- acid-test ratio (= (current assets-inventories)/current liabilities): = (16,082 – 8,586) / 11,700 = 0.64

The company's acid-test ratio's value is above the recommended value of 0.6, and therefore it can be stated that, as of today, LVMH doesn't face any major problems in terms of this financial ratio. Thus, the company's liquid assets (i.e. current assets less their least liquid part, namely inventories) are rather sufficient for covering the corporation's short-term liabilities to third parties. However, it should be understood here that the indicator's value is only 0.04 points higher than the minimum allowable value, and therefore any negative change in the corporation's assets may bring this indicator's value below the recommended figure, and this would signify significant threats to the entity's liquidity. The same effects would be provoked by additional loans raised from third-party creditors for funding the company's activities, and therefore LVMH should increase the value of the acid-test ratio for the purpose of avoiding the risks of losing liquidity.

- cash ratio (= cash/current liabilities): = 3,221 / 11,700 = 0.28

LVMH’s value of cash ratio as of 2013 amounts to 0.28, and is lower than the recommended value of 0.3. This is a negative sign for the company’s liquidity, as it shows that the corporation’ ability to meet its current liabilities to third-party creditors using only its most liquid funds which do not require conversion, namely cash and cash equivalents, is rather low. This means that the company may face difficulties with the repayment of its short-term debts, and would need to seek ways to convert its assets with lower liquidity into cash funds for the purpose of doing so. Also, the company shouldn’t increase the amount of its current liabilities, as this would mean further deterioration in its liquidity, and would pose the company’s market position under more substantial threats.

- net working capital (= net assets-net liabilities): = 55,674 – 27,951 = 27,723 (EUR million)

The company’s net working capital as of 2013 amounts to 27,723 million euros, as LVMH’s net assets significantly exceed the value of the corporation’s net liabilities. This is a positive tendency for the corporation, as it means that the company has substantial funds that can be used for funding its activities and forming allowances fro covering the corporation’s liabilities in the short- and long-term perspectives.

In order to better understand the corporation’s level of liquidity, and track its changes, it is worth analyzing LVMH’s liquidity ratios in their dynamics for the recent years. Table 6 below provides data related to the corporation’s liquidity ratios in 2008-2013.

Table 6. Dynamics of LVMH’s liquidity ratios in 2008-2013

	2008	2009	2010	2011	2012	2013
Current ratio	1,565231	1,814649	1,586261	1,382843	1,505273	1,37453
Acid-test ratio	0,693878	0,881448	0,737677	0,600063	0,653132	0,640684
Cash ratio	0,153137	0,404431	0,324646	0,240046	0,231597	0,275299
Net working capital (EUR million)	13793	14785	18204	23426	25508	27723

Source: Lvmh.com (2015), own creation

As can be seen from Table 6 above, LVMH's liquidity ratios have lately demonstrated negative growth dynamics, except for the corporation's net working capital. Thus, the company's current ratio fell from the level of 1.505 (i.e. within the recommended range) to 1.37, the record minimum value in the analyzed period. LVMH's acid-test ratio decreased as well. Thus, for instance, in 2008, the value of this ratio made up 0.69, in 2012 – 0.65, and in 2013, it already amounted to only 0.64. Although this value remained in the allowed range, the negative tendency still represents a threat to LVMH's liquidity. The cash ration slightly grew in 2013 as compared with 2011-2012, but still remained considerably lower than in 2009-2010. At the same time, it remained well below the recommended value, and therefore the tendency is negative here for LVMH's liquidity. Finally, the company's net working capital showed constant growth in the analyzed period, and this is a positive trend for LVMH, as it means that the corporation's assets, which can be used for funding its activities, are growing at a pace higher than the one observed in liabilities.

Now, in order to evaluate the company's ability to meet its liabilities to third-party creditors in the long-term period, it is worth analyzing LVMH's indebtedness ratios reached in 2013.

3.3.3 Indebtedness ratios

- debt ratio (= total liabilities/total assets): = 27,951 / 55,674 = 0.5

As we can se, LVMH's debt ratio's value as of 2013 makes up 0.5. This is a positive sign for the company in terms of the stability of its market position, as the level of the debt ratio is below 1. This means that the company's total liabilities in aggregate account for only 50% of the value of its total assets. Therefore, the company's own resources are enough not only got bearing the current level of indebtedness, but also for further raising loans from third-party creditors in the future. This is assign of LVMH's stable market position and wise management of assets.

- long-term debt to equity (= long-term debt/total assets): = 16,251 / 55,674 = 0.29

The ratio of the long-term debt to equity indicator makes up 0.29, and is lower than 0.5. This means that the value of LVMH's long-term liabilities is not excessive as compared with the company's assets. Therefore, the company has the required reserves for raising additional long-term loans for funding its activities, at the same time meeting all its previous liabilities to creditors.

In order to have a more complete picture of LVMH's creditworthiness, it is worth investigating the dynamics of the company's indebtedness ratios in recent years. Table 7 below provides an overview of the company's dynamics of indebtedness ratios in 2008-2013.

Table 7. Dynamics of LVMH's indebtedness ratios in 2008-2013

	2008	2009	2010	2011	2012	2013
Debt ratio	0,561891	0,539494	0,510171	0,50277	0,48982	0,502048
Long-term debt to equity	0,351777	0,351118	0,320202	0,299132	0,300172	0,291896

Source: Lvmh.com (2015), own creation

As can be seen from Table 7 above, LVMH's debt ratio has lately remained at a constant level within the recommended range, and hasn't demonstrated any significant fluctuations. This means that the company's total assets have lately remained steadily sufficient for covering and servicing all its liabilities. The same dynamics have been observed in the long-term debt to equity indicator. Such stability testifies that the company is able to effectively manage its long-term liabilities using its own resources, and has the opportunities to raise additional financing in the future.

Finally, in order to understand LVMH's current and prospective attractiveness for investors, it is worth analyzing the company's capital market ratios showing its actual value on the market of luxury goods.

3.3.4 Capital market ratios

- (EPS) (= net earnings/number of shares): = 3,436,000,000 / 507,793,661 = EUR 6.77

LVMH's indicator of earning per share amounts to 6.77 euros. The positive value of this indicator testifies that the corporation's activities on the market are successful, and the company is able to generate significant earnings later distributed among its shareholders or re-invested in the entity’s activities as retained profit.

- payout ratio (= dividends/earnings): = 86 / 3,436 = 0.025

The payout ratio demonstrates the share of the company’s profits paid to its shareholders as dividends. As can be seen from the calculation above, LVMH pays only 2.5% of its earnings to its shareholders in the form of dividends, while the rest of the earnings are re-invested in the company’s activities. This figure is rather low, and it may signify lower investor interest in funding the corporation’s activities due to the low benefits obtained as a result of LVMH’s economic output.

- dividend cover (= earnings per share/dividends per share): = 3,436 / 86 = 39.95

The dividend cover value is inverse to the payout ratio, and therefore its value of 39.95 as of 2013 is rather excessively high, and is negative for investors, as it testifies that the actual benefits they achieve as a percentage of the company’s earning are low. Therefore, the management of LVMH should seek increasing this indicator’s value.

In order to track the recent changes in LVMH’s attractiveness for investors, it is worth analyzing the dynamics of the company’s market ratios. Table 8 below provides an overview of LVMH’s capital market ratios in 2008-2013.

Table 8. Dynamics of LVMH’s capital market ratios in 2008-2013

	2008	2009	2010	2011	2012	2013
Earnings per share (EPS)	4,259787	3,695997	6,320094	6,254385	6,862357	6,766528
Payout ratio	0,008391	0,011966	0,006596	0,019902	0,054907	0,025029
Dividend cover	119,1765	83,57143	151,6	50,2459	18,21277	39,95349

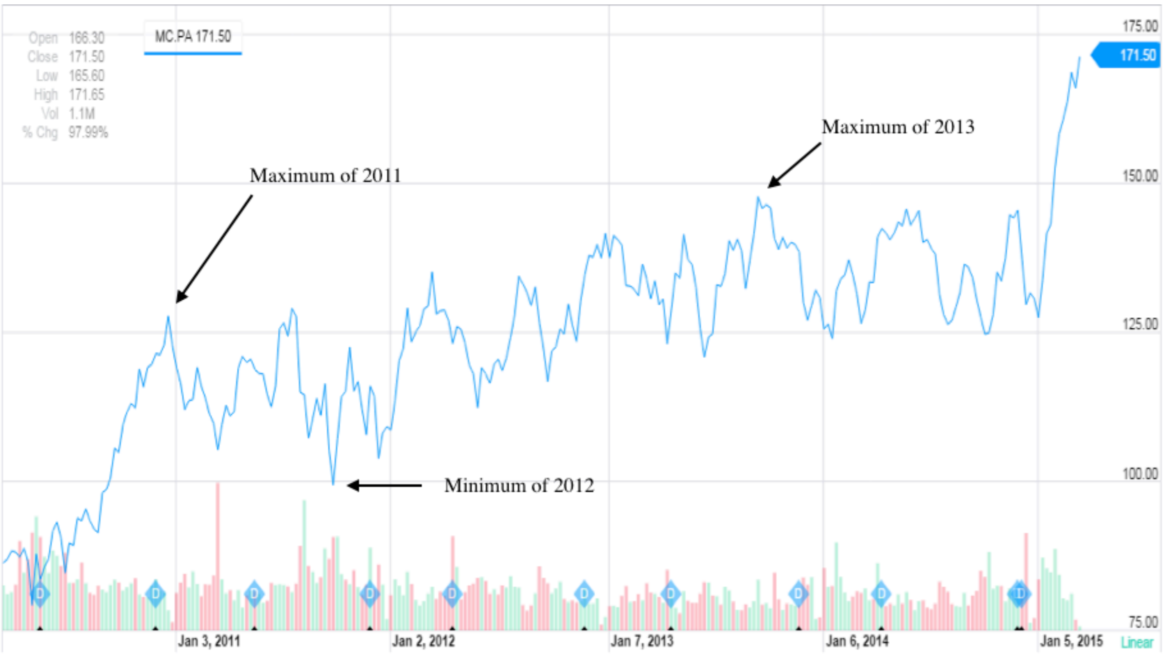
Source: Lvmh.com (2015), own creation

As can be seen from Table 8 above, LVMH’s capital market ratios haven’t been stable in recent years. Thus, the company’s earnings per share decreased by 0.1 EUR in 2013 as compared with 2012. However, the figure reached in 2013 was still the second highest in the analyzed period. The payout ratio significantly decreased in 2013 as compared with 2012, dropping more than twice. At the same time, the dividend cover indicator grew twice. Overall, those tendencies demonstrate the negative trends for the company, as its attractiveness for investors has recently diminished as a result of the substantial decrease in the level of benefits offered.

Overall, the analysis of LVMH’s financial ratios shows that the company endures considerable threats of loss of stability and deterioration of its market position. Thus, although the company’s profitability is currently at a relatively high level, it has recently demonstrated negative dynamics, and therefore the financial results achieved by LVMH through its market activities are deteriorating. The company’s liquidity is mostly lower than the recommended market level. Although this doesn’t cause any negative effects as of today, there are threats of loss of stability in case the company continues raising loan funds without effectively managing its liquid assets. A positive sign is that the levels of the company’s indebtedness are not very high, however they are mostly covered by non-liquid assets, while the liquid ones are not enough. Finally, the capital market ratios of LVMH and their recent negative dynamics show that the company’s attractiveness for its actual and potential investors may drop in the near future. Therefore, the management of LVMH should undertake measures to improve the corporation’s liquidity, thus guaranteeing it a high level of investor interest, and a steady market position.

3.4 Technical analysis of LVMH

Figure 14: Dynamics of LVMH's stock price in 2011-2015, in EUR



Source: Finance.yahoo.com (2015), own creation

As can be seen from the chart above, the stock price of LVMH has lately demonstrated positive growth dynamics. Thus, in the beginning of 2015, this figure reached its peak of EUR 171.5 per share. Steady growth dynamics have been observed since the late 2014. It is worth noting that the current stock price of LVMH is 40% higher than the average values demonstrated in 2013-2014. Thus, the tendencies in this field are definitely positive for the corporation. Taking into account the current trends with LVMH's stock price growth, further increase in this indicator's value should be expected in the near future. This would mean positive effects for the company, namely in terms of the increased investor interest, and thus the corporation's more stable position on the market.

4 Conclusion

The market of luxury is a very specific market where the demand for goods is formed not according to eh value of their production, but rather in line with the intangible value they grant to customers. Luxury goods are expensive, and thus affordable only to a limited number of people. The motivations for buying luxury goods may include exclusivity, attraction of attention, admiration, public use, success and wealth, personal empowerment, relative superiority, categorization, luxury lifestyle, exclusivity, self image, and so on. As a result of their specificity, the elasticity of demand for luxury goods substantially differs from the elasticity of demand for necessity goods: with the growing amount of income, people tend do buy more luxury goods, while in case of loss of income, such goods are the first ones to be excluded from the people's list of purchases.

The parameters of luxury goods predefine the structure of the global market of such products. Thus, the highest demand for luxury goods is observed in the countries of Western Europe and North America, where the purchasing power of the population is the highest in the world. The leading global corporations running their activities on the market of luxury goods are incorporated in countries of the two regions above, and ensure the greatest share in the global turnover of luxury products. One of such companies is the French corporation LVMH.

The financial analysis of LVMH's activities run in this thesis has shown that the company currently endures latent difficulties with its liquidity and market capitalization. Although those issues aren't yet evident, there are significant threats that they may grow in the future, causing significant difficulties to the company.

Thus, for instance, the levels of profitability of the corporation's activities have lately been constantly falling. The company's liquidity has decreased in recent years as a result of the low share of highly liquid assets in the corporation's resources. Finally, the amounts of benefits paid by the company to its shareholders have significantly diminished as well, and therefore LVMH risks of losing the interest on the part of investors.

For the purpose of improving the situation, and thus reaching a more stable position on the market, the management of LVMH should pay particular attention to the structure of the company's assets, and increase the share of investor benefits in the corporation's earnings. Thus, the results of the analysis run within the framework of this research testify that LVMH’s level of liquid assets, namely cash and cash equivalents, is rather low as compared with the company’s liabilities. Therefore, it should be increased for avoiding the risks of losing liquidity and becoming unable to meet the liabilities to creditors. Increased benefits paid to investors would allow significantly raising the interest of third-party creditors and provide the company with additional resources for funding its activities. If LVMH’s management successfully implements those measures, the corporation will be able not only to maintain, but also to further expand its market positions.

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