Investing in Luxury Fashion Shares

Sanja Heininen

DEGREE THESIS	
Arcada	
Degree Programme:	International Business
Identification number:	
Author:	Sanja Heininen
Title:	Investing in Luxury Fashion Shares
Supervisor (Arcada):	Andreas Stenius
Commissioned by:	-

Abstract:
The purpose of this paper is to evaluate if luxury fashion shares are an attractive investment based on the shares in Hermès, Prada, and Louis Vuitton. This is achieved by analyzing financial data and stock charts using fundamental and technical analysis. The fundamental analysis takes a look at ratios and other financial figures that are compared to each other and the industry either for year 2015 or for a period of five years. The technical analysis highlights trends in the stock charts that could be significant when evaluating it what direction the trend will move in the future. The paper finds out that investing in the luxury fashion companies' shares could be profitable, if a company with strong fundamentals and increasing share price and dividends in the long-run can be found. The conclusion made based on the analysis is that Louis Vuitton's LVMH and Hermès are potentially good investments, while investing in Prada would be too uncertain at the moment. The analysis is backed up by the financial data and share performance of the three companies in the luxury fashion market. A broader analysis, where the shares are compared to other investments, shares in other industries, or indexes, could be more insightful in making a valid investment decision. Hence this paper is a useful tool for people interested in investing in shares and the luxury fashion market.

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1 INTRODCTION

1.1 Motivation

The motivation behind this paper comes from the interest in investment and shares. Investing can be done in many ways. Investing in luxury fashion shares could be similar to investing in any other industry, but knowing the industry background would be key in understanding which investment is better than the other. The paper intend to be a great tool for knowing what to focus on when investing overall or when interested in the luxury fashion industry.

1.2 Aim of the Topic

The aim of the paper is to explore the luxury fashion market and some specific companies in the sector to see what the market has looked like in the past. Moreover, the financial status and share performance is analyzed over the course of five years. The intention is to find out how the companies are performing compared to each other, and in some cases also in comparison to the industry. The purpose is to find out whether or not the companies seem like good investments. It is, however, impossible to predict the market, the performance of the companies, and share price development in the future, and therefore the paper is more focused on showing in what direction the shares are going based on the information available in the present. The thesis statement is thereby to analyze the financial data and share price development of Hermès, Prada, and Louis Vuitton by utilizing fundamental- and technical analysis.

1.3 Problems and Research Question

The main problem the paper focuses on is the dilemma whether or not it is worth investing in luxury fashion shares. This can be solved by answering the additional questions: What state the luxury market is in and what the predictions for the future looks like? In what state the chosen fashion luxury companies are in and what are their plans for the future that affects their shares positively or negatively? Therefore, the research question

of the paper is whether or not the luxury fashion companies' shares are perceived as good investments based on current data.

The expected outcome of the paper is that it will be profitable for the investor to invest in the luxury fashion market's shares. The author anticipates that the luxury fashion market will be as lucrative in the future as it is now and continue to grow regardless of problems in the economy that might affect other industries negatively. Luxury companies target a group of consumers that will be willing to pay a premium for luxury fashion in the future as well. Therefore, the outlook for the market is quite positive and the author believes that the share prices will reflect the company performance positively. Luxury companies' shares are already a profitable market, yet foreseeing if investors interest in these companies in the future will be higher is hard to say for sure.

1.4 Description of Material

The author used a wide variety of literature, including both primary and secondary sources, to make a comprehensive study. Articles relevant to the study were found from business magazines and financial news sites (e.g. Financial Times, Forbes, Harvard Business Review, CNBC). Marketing studies were highly insightful (e.g. Bain & Company, McKinsey & Company, Wealth-X) as well as brand consultant reports (e.g. Internbrand, Millward Brown). Journals (Emerald Insight) were not as significant as e-books (ProQuest ebrary), which were consulted more often. Company and financial information were found from their respective websites (Hermès, Prada, LVMH). Financial reports that were used mainly included annual reports and sales number reports. Financial ratios and charts were gathered from equity sites (e.g. Financial Times, Wall Street Journal, Reuters, Macoraxis). Additional sites (e.g. Investopedia), and blogs (e.g. Luxury Society) were employed for finding specific information. Specific and general search terms were used in identifying more relevant material for the paper.

Materials used for the overall analysis of the paper, in addition to defining the tools of investing, are quite unanimous. The material was mainly divided into two parts: how the stock market works (Hobson, 2012; Owen & Griffiths, 2010; Wright, 2010; Winslow, 2003) and analyzing tools for analyzing shares and financial data (Logan, 2014; Schmidlin, 2014; Weigand, 2014; Damodaran, 2011; Thomsett, 2007; Pistolese, 2006).

In terms of luxury, the material used is more widespread. Most scholars have focused on the marketing aspects of the industry, and financial aspects are bluntly left out. The material collected focused on the concept of luxury (Heine, 2012), luxury retailing (Schwedt, Chevalier & Gutsatz, 2012), luxury consumers (Dubois, Laurent & Czellar, 2001), current events and what the future might hold for the luxury industry (Gapper, 2015; Shipilov & Godart, 2015), and specific geographical luxury market information (Roberts, 2015).

A large part of the luxury material was gathered through two marketing research groups: Bain & Company and McKinsey & Company. Studies prepared by Bain included annual global luxury studies (D´Arpizio et al, 2014), luxury goods worldwide market study (D´Arpizio et al, 2015), and specific geographical luxury studies (Bain, 2012). McKinsey's studies focused on luxury market trends (Atsmon, Pinsent & Sun, 2010), the European luxury market (Remy & Tochtermann, 2012), the Chinese luxury market (Remy & Kim, 2014; Atsmon et al, 2012), the Japanese luxury market (Desvaux, Ravisconi & Yamakawa, 2015), luxury consumer behavior (Hooper, 2010), and predictions about the future look of the luxury market (Keller, 2014). Also Wealth-X reports were used for gathering information about the wealthy customers and their take in the luxury industry challenges (Rienstra, 2016).

Material regarding the three fashion luxury companies was mainly found from their respective websites. Each company's management was examined more closely: Hermès (Ellison, 2015; Hazlehurst, 2014), Louis Vuitton/LVMH (Cavender & Kincade, 2014; Adams & Elliot, 2010; Wetlaufer, 2001), and Prada (Bertelli, 2012). In addition some specific information about Hermès history (Adams, 2014; Raisbeck, 2013) and Prada's financial data (Meinshausen, 2012) were important contributors. Two companies valuing brands were included as well, namely Millward Brown (2015) and Interbrand (2015).

1.5 Description of Method

The method section is divided into two sections: fundamental analysis and technical analysis. The paper mainly focuses of the fundamentals of the company, but technical analysis is also implemented to some degree. Both methods are described briefly to

highlight why they were used. The fundamental analysis of the three main companies is completed by analyzing the key data and ratios of each company. This is achieved by describing why the ratio or figure is important and then the data is compared to each other as well as to the industry standards or overall market standards. The second part of the analysis focus on share price development and chart analysis based on technical analysis methods. Each company is separately analyzed, but also compared to one another. The techniques used in this section have also been described using adequate literature. The fundamental analysis will indicate in what state the companies are financially and technical analysis will show how the companies are perceived by the market and from there the conclusion can be drawn to answer the research question of this paper. To answer why fundamental analysis has been incorporated more throughout this paper is due to the idea that the companies' performance should be evaluated for a longer time period. Technical analysis is better at noticing changes in price affected investors and traders rather than the performance of the company. Since technical analysis methods are widely used when investing the author feels like it is important to include in this paper.

For the analysis to reflect the true financial performance of Louis Vuitton, the company name is mainly used when specifically referring to that company, otherwise the luxury group, LVMH, which is the owner, will be used. Louis Vuitton does not have its own financial statement, and therefore the whole company financials are analyzed in the light of Louis Vuitton's, or the fashion and leather goods sections, performance in the market.

1.6 Demarcation

The paper focuses mainly on three luxury fashion companies and their shares: Louis Vuitton, Hermès, and Prada. These three companies represent the luxury fashion market in the best way based on the following characteristics. Louis Vuitton is one of the largest luxury fashion companies in the world. In addition, it has the highest brand value among luxury companies. The company is part of LVMH, a luxury conglomerate, and thereby the author decided to exclude any other company being part of a conglomerate. This is the reason why for example Gucci was not included, as the company is part of

luxury conglomerate Keiring. Likewise Dior, another famous luxury fashion company is excluded, considering it is part of the same luxury group as Louis Vuitton. Hermès, which together alongside Louis Vuitton creates some of the most recognized products in the luxury sector, is also included. What is more, Hermès is the second most valued luxury fashion company and on top of that, family-run, something that is highly valued by some investors. Chanel, probably the third most famous luxury company is not publicly listed and could not be included. The third company to be included is Prada, even though it has not performed financially as well as the two previous companies, it is still perceived as one of the biggest names in the industry. Prada made its initial public offering quite recently and is not as acknowledged as Louis Vuitton's and Hermès' shares. Furthermore, Prada is listed on the Asian stock market in opposite to the European stock market, giving a broader view to the study. Since two of the companies are listed in France, and one in Hong Kong, the American stock market and luxury fashion companies listed on stock exchanges there are not included.

The reason for choosing three luxury fashion companies to analyze, instead of for example one, is to give a broader picture of the market. The author has also chosen to compare each company financial data to each other, in contrast to comparing to the industry average or an index. In some cases the industry average is applied to give an even more detailed view over the financial performance of the company and its stock.

The study is mainly focusing on the financial data of the three specific companies. The luxury market as a whole is included in a minor role. Detailed information about each and every luxury markets, customers and their behavior, in addition to strategies and marketing by overall luxury fashion companies were not in the focus and thereby fell beyond the scope.

The paper encountered a time problem when limiting the scope. As the annual report for 2015 was not available when the analysis was written in the three first months of 2016, the author used the annual reports from 2014 as well as some less detailed reports from 2015. This means that the data used at some points were out of date as well as not accurate for judging current levels, referring to year 2016. Therefore, the report did not include any financial data or share data from 2016, even though this would be important when actually deciding on investing in the stock or not. Some ratios used in the paper

might reflect the performance of the companies in 2016, but the majority of the data used is appropriate for this paper.

Which ratios and data as well as methods used to analyze the companies' performance was mainly based on the authors own preference. The fundamental analysis section weighted more than the technical analysis due to the fact that share price movements are better to be analyzed in the current state, than from an historical perspective. In other words, fundamental analysis covers the historic data better, and fit the purpose of the paper better. It is also important to note that the author has rounded up decimals from 0.5 upwards.

1.7 Structure of the Study

The study begins with a section called definitions and background information. The definition part looks at luxury goods while the background information gives an introduction to the luxury market and its consumers. The four key markets, including Europe, America, China and Japan will be separately introduced due to their major impact on the luxury market overall. Thereafter the concept of luxury fashion companies is introduced with specific information about each of the main fashion companies: Louis Vuitton, Hermès, and Prada.

The reason for selecting the three above mentioned companies is explained in the third chapter. Brand value, stock performance, and management and other strengths are evaluated in this part giving some further information about the past, present and future of the companies.

The fourth chapter regarding the methods is divided into two sections: fundamental analysis and technical analysis. Both sections will show how the analysis was performed and what material was exploited. Hereafter each analysis technique is shortly introduced. In the analysis every method is described to make sense why they have been included in the analysis part. The figures, ratios, and charts of all the companies will be either compared to each other, the industry or to a common market standard.

The results part gathers together what has been analyzed to show the overall picture more clearly. Every figure, ratio, and chart is evaluated, showing the general perfor-

mance of each company in the past. This information in addition to the forecasts from the analysis part are evaluated against the background information shows the position of each company as a potential investment.

In the last chapter, discussion and conclusion part, the author shares her thoughts regarding the findings in the paper. In addition, flaws and problems emerged in the paper are discussed and further studies recommended.

2   DEFINITIONS AND BACKGROUND INFORMATION

2.1 Luxury Goods

The concept of luxury differs among people living in different situations. As brought up by Heine (2012) something that might be said is a luxury for some is not the same for another person. Luxury for different consumers "could include almost anything from a warm meal to musical talent, self-fulfillment to Louis Vuitton bags" (Heine, 2012 p.12). Luxury varies according to the individuals believes and sometimes "ordinary food might become luxurious if a person has not eaten it for a long time, and any luxury food could be considered ordinary after eating it for several days (Kemp, 1998 p.598)" (see Heine, 2012 p.43). Schwedt, Chevalier & Gutsatz (2012 p.3) wrote that the consumer makes the decision on what is viewed as luxury and what is not, and the manufacturer decide if their product or service is part of this category.

The luxury world contains of both goods and services, but also lifestyle can be perceived as luxury. Haute couture clothes, accessories, bags, and luggage are the most common luxury goods, but also the following markets have luxury segments: cars, boats, watches, jewelry, wine, food and so on. Other sections that can be associated with luxury are real estate, leisure activities, sports, resorts, and holidays.

The term luxury is used in a great number of publications, and yet many of them agree on the difficulty to define the word (see Heine, 2012 p. 9ff; Dubois, Laurent & Czellar, 2001 p.2). Despite of the disagreement on the definition, most researchers share the same attitude of luxury being something more than necessary (Heine, 2012 p.39; Du-

bois, Laurent & Czellar, 2001 p.15) and exclusive (Heine, 2012 p.39; Schwedt, Chevalier & Gutsatz, 2012 p.5; Dubois, Laurent & Czellar, 2001 p.12). Heine (2012 p.40) mentions that most dictionaries define luxury as "anything that is more than necessary and ordinary". He continues by adding that this definition is not quite true, as not all the things that have these traits are true luxury. Referring to the term exclusivity, Schwedt, Chevalier & Gutsatz adds that it incorporates something that is rare and somewhat hard to buy, in order for the customer to feel different from the ordinary customer. "While necessities are possessed by virtually everyone, luxuries are available exclusively to only a few people or at least only on rare occasions" (Bearden & Etzel, 1982 p.184) (see Heine, 2012 p.39).

Luxury goods are among the most expensive things on the market. Heine (2012 p.83f) refers to the pricing of luxury goods as the price paradox, since a reduction in price of a luxury product will in the long-run lead to a decrease in demand. An increase in price would in contrast lead to increasing demand. This is the complete opposite to mass-produced goods, which showcases the pricing paradox of luxury goods. For many luxury consumers, price is a major indicator of quality. Many luxury products will, therefore, face price rises year-by-year to generate more demand. This strategy persuades customers to buy as soon as possible. Another trick that luxury brands use to demand high prices are by projecting the image of expensive products. This is achieved by offering products that are extremely expensive that reflect respect onto less expensive products such as accessories, which in the end will be the biggest part of the revenue (see Heine, 2012 p.84). Price is "regarded as the most objective and the easiest-to-measure criteria to evaluate the luxuriousness of a product" (Heine, 2012 p.73).

Expensiveness might sometimes be mistaken with quality. Some goods might not be of better quality than lower priced goods, but the higher price will make it more exclusive as only the more affluent customers will be able to buy it. Accordingly, quality and price does not always equal luxury. The term quality is widely used to define luxury (Schwedt, Chevalier & Gutsatz, 2012 p.5; Dubois, Laurent & Czellar, 2001 p.8). Quality is achieved by manufacturing goods and producing services knowledgably, delicately, and by paying attention to detail. "Excellent quality guarantees reliability and durability" and customers have trust in the products and services (Dubois, Laurent & Czel-

lar, 2001 p.9). Some even say luxury goods are something that can be used for an eternity without worrying about defects.

A luxury product should not be available at all time and in all places, but rather be hard to get, which is a sign of rarity. This is achieved by limiting production and sales of a product. A person spending thousands on a designer bag might not get the element of luxury if every other girl has acquired the same bag, consequently losing the uniqueness and exclusivity that luxury items bring with them. Therefore, luxury products enhance rarity by having waiting lists. Some products might take up to years before the customer will receive the order (Heine, 2012 p.86).

In conclusion, "luxury products have more than necessary and ordinary characteristics compared to other products of their category, which include their relatively high level of price, quality, aesthetics, rarity, extraordinariness" (Heine, 2012 p.53ff). All these characteristics are the principals to defining what luxury goods essentially are, even though luxury is something quite hard to grasp.

2.2 Luxury Market & Consumer

In 2015, the luxury industry exceeded €1 trillion in retail sales, and presented a 5% increase year by year (D'Arpizio et al, 2015 p.1). Based on management consulting firm Bain (2015) the global luxury market is adjusting to lower, "sustainable growth over the long-term" that will become the new norm. During 2015, personal luxury goods expanded to over €250 billion (D'Arpizio et al, 2015 p.1ff). Accessories occupied 30% of personal luxury goods, remaining the leader of the sector, with apparel, accounting for 24% of the market, and hard luxury, meaning watches and jewelry, for 22%, growing steadily behind (D'Arpizio et al, 2015 p.21). Luxury shoes sales growth did as well outperform leather goods the second year in the row, which has not happened in 6 years (see D'Arpizio et al, 2014). Shoes stood for €16 billion in retail sales and growing by 4%, as leather goods stood for €43 billion and grew by 2% (D'Arpizio et al, 2015 p.21).

Throughout 2003-2013, apparel, fashion, and luxury sector outperformed the overall market. This sector performed even better than the technology sector (Nolen Foushee, Remy & Schmidt, 2015 p.1). However, Atsmon, Pinsent & Sun (2010 p.1) have noticed that "the luxury market is not recession-proof". The decrease in sales happened in 2003

and during the financial crisis in 2007-2009, when luxury retail sales and manufacturing decreased by more than 13% points and 21% points respectively. In addition, Gapper (2015) also suspects that a new fall in sales might occur as the government in China is trying to crack down on corruption. In the past luxury goods were given as bribes for high-standing officials, and now sales might decline drastically due to the new actions taken by the government. The consequence of this is that also Chinese officials will avoid using luxurious items, even though they would have the means to acquire these products. Gapper (2015) still believes that luxury goods will be consumed in the US and Europe in the same manner as before.
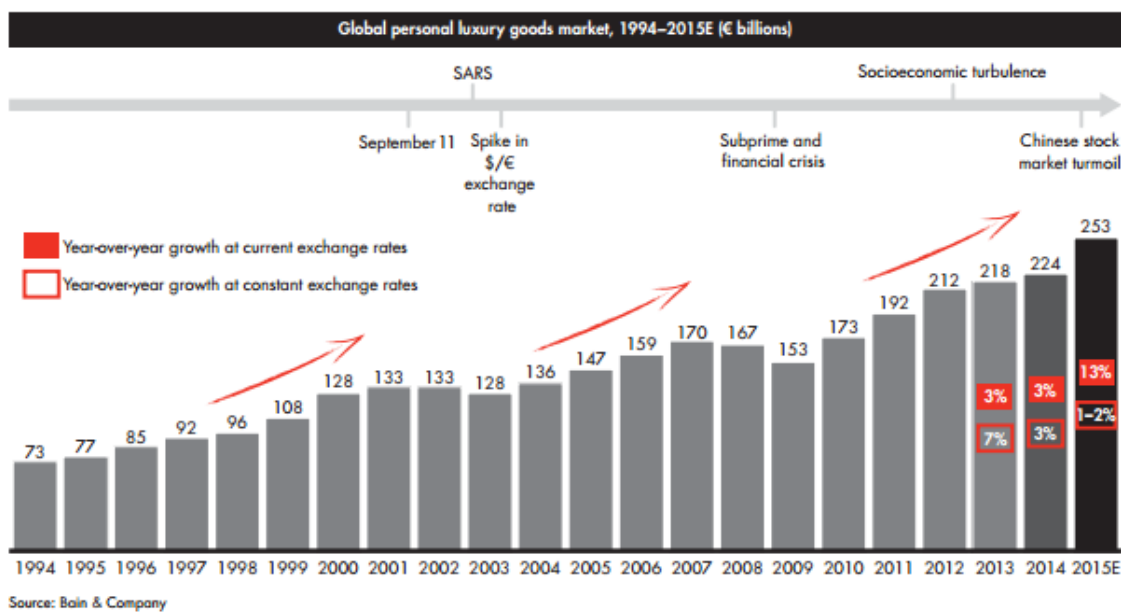
Figure 1. The global personal luxury goods market has increased quite steadily over the past two decades (Source: D'Arpizio, Claudia et al, 2015)

Based on the luxury study made by Bain (D'Arpizio et al, 2014) "all markets are now strongly driven by touristic spending", excluding China, Japan and South America. Consumers from China are the fastest growing group of consumers spending more outside of their own country. "Chinese consumers now represent about one-third of the global market, up from only 1% in 2000; Japanese consumers, who accounted for a quarter of the market in 2000, now make up 10% of global purchases" (D'Arpizio et al, 2015 p.12). Japanese consumers, on the opposite of Chinese consumers, acquire luxury goods in their homeland due to Yen devaluation. Consumption by Chinese and Middle Easterners grew during the year by 10% and 11% respectively, as Russian and Japanese

consumption is negative (D'Arpizio et al, 2014). The results came from an analysis made by Global blue regarding tax-free shopping in Europe.

"About 30 percent of Americans, Europeans, and Japanese say they are most likely to pay full price for an item that is classic – and more than half of Chinese". This is a result of customers valuing products that cannot be bought on discount. Timeless designs are also valued more highly and seen as an investment, and therefore fashion that follows trends are not as sought after (Hooper et al, 2010 p.2). In addition, it has been noticed that many consumers rather spend their wealth on expensive hotels, restaurants and other entertainments, than buy luxury goods (see Owen & Griffiths, 2010 p.119).

It was believed in 2010 that "globally, emerging markets are likely to represent at least 80 percent of growth by 2015" (Atsmon, Pinsent & Sun, 2010 p.2), but the growth in each countries local currency was actually closer to zero, even for some negative in 2015 (D'Arpizio et al, 2015 p.10). Some new emerging luxury markets noticed by Millward Brown's (2015) report included Turkey, Mexico and Nigeria. When income rises in emerging markets, people start spending money on non-essential goods. Based on the article by Rienstra (2016) for Wealth-X there are reason for optimism for luxury brands in the future. He states that "moderate growth" from developed countries during 2016 will be seen.

2.2.1 European Luxury Market

The European market and consumers have traditionally been seen as the main target group of luxury consumption. This, however, is not quite true as Europeans are the third largest group of consumer of personal luxury goods, and Europe the third largest regional market in 2015 (D'Arpizio et al, 2015 p.10ff). Europeans used to count for more than 30% of the luxury market in the 21st century, but has steadily fallen since then (see Remy & Tochtermann, 2012 p.2). During the financial crisis (2007-2011), the mature European market grew annually, showing that the continent is still strong (Remy & Tochtermann, 2012 p.2). In 2014, the European market was growing, but at a slow pace of 2%. This was due to economic challenges in the continent, tension in Eastern Europe as well as less tourism (D'Arpizio et al, 2014). In contrast, in 2015, tourist from China and the US were attracted to the market by the weak Euro. Chinese tourists' tax-free

purchases increased by 64%, as Americans grew similarly by 67%. In other words, tourists see the European market as the cheapest place to acquire in-season luxury goods (D'Arpizio et al, 2015 p.1). Paris and London are the second and third largest luxury cities globally (D'Arpizio et al, 2015 p.9f).

2.2.2 American Luxury Market

In 2014, the American market, including both northern and southern continents, grew by 6%, regardless of the slowdown in the US. This was due to good performance by both Canada and Mexico. In 2015, the market continued to grow as a result of local spending, and America was still seen as "the biggest global region for personal luxury goods purchases" (D'Arpizio et al, 2015 p.1). In contrast to the year before, the US stood for €79 billion, which was 90% of the regional market. Not even the next four markets combined were able to compete with the US (D'Arpizio et al, 2015 p.9). New York City is the largest luxury city, and purchases made there surpass the purchases made in all of Japan. During 2014 many luxury brands raised their prices in the US, to separate themselves from "accessible luxury" brands, as well as to readjust to prices in emerging markets (Roberts, 2015).

Personal luxury goods, top countries, 2015E (€ billions)

	US	Japan	China	Italy	France	UK	Germany	South Korea	Middle East	Hong Kong	Russia
	78.6	20.1	17.9	17.3	17.1	15.6	11.9	10.8	8.1	6.8	3.2
Global rank in 2014	1	2	5	3	4	6	7	8	10	9	11
Growth in euros 2014–2015E	20%	13%	17%	6%	10%	16%	14%	16%	19%	−11%	−25%
Growth in local currency, 2014–2015E	0%	9%	−1%	6%	10%	5%	14%	4%	0%	−25%	−2%

Source: Bain & Company
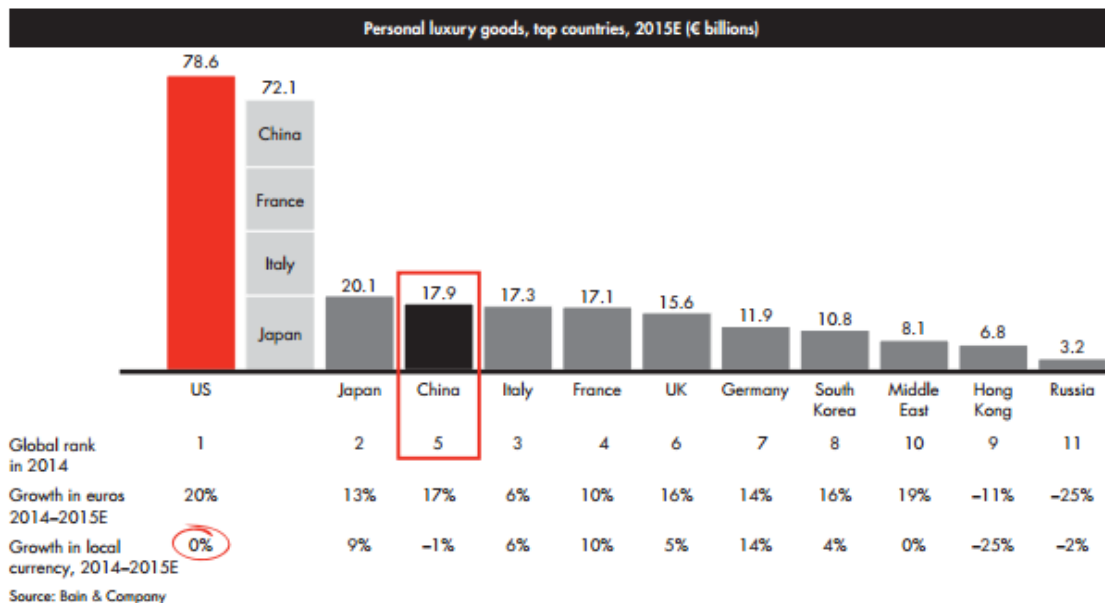
Figure 2. The US remains the largest market for personal luxury goods (Source: D'Arpizio, Claudia et al, 2015)

2.2.3 **Chinese Luxury Market**

"In just a few years, China could overtake Japan in market share; five years ago, it was only a tenth of Japan's size" (Atsmon, Pinsent & Sun, 2010 p.2). In 2012, Chinese luxury purchase spending exceeded all the other countries (Atsmon et al, 2012 p.7) and in 2015 Chinese consumers accounted for 31% of the global purchases (D'Arpizio et al, 2015 p.2). Chinese tend to purchase luxury goods both locally and while travelling in places like Hong Kong, Macau, US, and Europe. The reason for acquiring luxury goods outside of mainland China is due to heavy taxes ranging from 20% to 70%. More than half of Chinese, who buy abroad, would consider buying in China, if price gaps would be reduced to 20% or below (Atsmon et al, 2012 p.23). In 2013, 93 million trips were made overseas by Chinese travelers, when in 2002 the number was only 17 million (Remy & Kim, 2014 p.1). Remy & Kim also notices that only 8% of the population has passports, meaning there is room for growth. Hong Kong and Macau used to be the traditional destinations for Chinese travelers, but in 2012, 38% went to Europe and 13% to the US. Recently, Japan and South Korea has seen a surge in sales of luxury items due to Chinese tourists (see D'Arpizio et al, 2015 p.2). "Globally, one in four purchases of personal luxury goods comes from Chinese consumers" (Bain, 2012). The study by Bain in 2012 also shows that Chinese consumers make up for half of the luxury purchases made in Asia, as well as more than 30% in Europe. Keller et al (2014 p.2) forecast that by 2020, 75% of purchases made will be by Chinese consumers both locally and abroad.
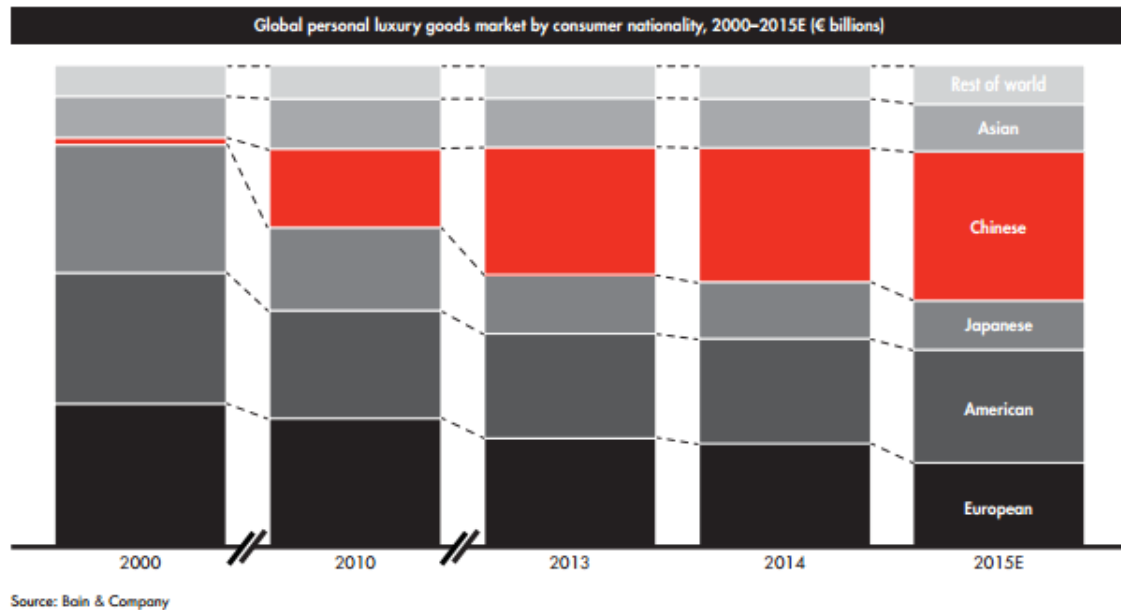
Figure 3. Chinese consumers have grown, as the Japanese consumers have fallen (Source: D'Arpizio, Claudia et al, 2015)

2.2.4 Japanese Luxury Market

In 2015, sales in Japan were driven by both local consumers and Chinese travelers. Japanese consumers used to stand for 25% of global luxury purchases in 2000, but has now fallen drastically to only account for 10% in 2015 (D'Arpizio et al, 2015 p.9). On the other side, Japan is still the second largest global market of personal luxury goods, generating 13% growth. Sales tax was raised by 5% to 8% in 2014, and the increase hurt luxury sales in the short-term (Desvaux, Raviscon & Yamakawa, 2015 p.3). Two trends were found in 2015 as an aftermath: "lower purchase frequency and increased trading up". In other words, Japanese people tend to buy less often and this is compensated by buying from more expensive brands than before.

2.3 Luxury Fashion Companies

Among the most well-known luxury fashion companies, the following brands can be found: Chanel, Gucci, Louis Vuitton, Dolce & Gabbana, Armani, Hermes, Dior, Prada, and Burberry. Most luxury fashion brands are profitable due to the basic idea that their products offer more value than products from other brands in the same category. Essentially, luxury fashion brands struggle between demand and desire, as the goods they sell should be exclusive enough to have the title luxury fashion.

Both fashion and luxury fashion companies come up with new products and ideas every season to attract customers. The difference, nonetheless, is that luxury brands focus on classical styles that are permanent best-sellers and sell year-around (Schwedt, Chevalier & Gutsatz, 2012 p.2). Luxury fashion companies cannot set the same price for its product in every country. As a matter of fact, most luxury brands have divided up the market in three sectors; Europe, in which most cases the home country of the brand is located, has a fixed index price of 100; America tends to be slightly more expensive, with an index of 105-110; Asia, mainly Japan and China, has the price index set at 145. Custom duties, taxes, and operating costs reflect the final retail price. Even currency fluctuations may affect the price gap in different sectors and for that reason price increases are common among fashion luxury brands (Schwedt, Chevalier & Gutsatz, 2012 p.170f). Some luxury fashion brands, such as Louis Vuitton, never sell their products on discount. Instead leftover goods are burned to remain exclusive (see Schwedt, Chevalier & Gutsatz, 2012 p.183).

Table 1. Retail price for luxury fashion goods based on region (Source: Schwedt, Chevalier & Gutsatz, 2012)

	Paris/Milan	New York	Tokyo
Domestic market	100	105−110	145
Duty free	80	84−88	116

Half a century ago most luxury companies were owned by families and the founder was behind the fashion design. Recently, the market has been taken over by a few luxury conglomerates. The biggest one, Louis Vuitton Möet Hennessy, also known as LVMH, has fierce competition from Kering, the owner of Gucci, and Richemont, the owner of Chloè (Shipilov & Godart, 2015). However, some family-run companies can still be found such as Hermès and Versace, as well as Prada to some extent.

2.3.1 Louis Vuitton

Louis Vuitton started off by making trunks, but has since moved on to including leather goods, ready-to-wear lines, accessories, shoes, watches, and jewelry (LVMH, 2016). Michael Burke, CEO of Louis Vuitton, says "our customers enter our stores in search of

something truly extraordinary, something that Louis Vuitton has a unique ability to offer" (LVMH, 2016).

Louis Vuitton was founded in 1854 by the namesake trunk maker Louis Vuitton, when his first store was opened in Paris, France. Two innovations that made Louis Vuitton's trunks famous were the use of canvas instead of leather to make them more durable as well as waterproof and changing the shape from round to rectangular. The iconic Monogram canvas was introduced by Georges Louis Vuitton, the son of the founder, in 1896 to stop counterfeits (LVMH, 2016). However, the company is still faced with the same problem in the modern world. The canvas, incorporating the LV monogram, diamonds, circles and flowers, is the signature print of the company.

In 1987, Louis Vuitton and Moët Hennessy merged and became the world leader of luxury products. The LVMH group consists of 70 companies creating high quality goods. Twenty-five of the companies included are legacy houses and only five of them are younger than five years old. The group is proud to be the only one representing five major sectors of the luxury industry. In wines and spirits section companies like Moët & Chandon, Hennessy, and Dom Pérignon can be found. Fashion and leather goods include in addition to Louis Vuitton, Dior, Fendi, and Pucci. Perfumes and cosmetics have names such as Gurlain, Make Up For Ever, and perfumes of Dior and Givenchy. Bvlgari, Hublot, and TAG Heuer are part of the watches and jewelry section and in selective retailing Sephora is included. Values of the group include creativity and innovation, delivering excellence, and cultivating entrepreneurial spirit. LVMH made €35,7 billion in revenues in 2015. (LVMH, 2016)

After Bernard Arnault, current CEO of LVMH, had taken over the group in 1990, he made drastic changes to transform Louis Vuitton from being just a "trunk maker". American fashion designer Marc Jacobs, was brought into the company in 1997 and changed the concept of the company by starting ready-to-wear lines as well as collaborate with "high-profile contemporary artists", which were highly successful (Adams & Elliot, 2010).

Products of the company, especially trunks and bags, were made for travelling. As transportation methods changed from railways to steamers, from cars to airplanes, the products needed to be adapted to the characteristics of the journey and traveler; meaning

material, design and ergonomics of the products should be adapted to the new purpose and user (LVMH, 2016). Steamer (introduced in 1901), Keepall (introduced in 1930) and Speedy, are some of the bags that have been available the longest. There are multiple phases in making a LV bag. On average it takes 250 operations to crate one leather bag (LVMH, 2016). Louis Vuitton's signature products are "Grands Classiques", meaning that they are "new, innovative, and sometimes shocking when introduced, but over time they become classics" (Interbrand, 2015 p.67). The main product categories of Louis Vuitton include leather goods, ready-to-wear for both men and women, shoes, accessories, watches, jewelry, and writing. To protect its exclusivity, LV has created "artificial scarcity through limited production and release of products" (Cavender & Kincade, 2014).

Louis Vuitton employs over 19000 people from all over the world. Half of these employees work in stores, as 19% work with support functions and 31% work with manufacturing. The company has more than 20 workshops, from which 12 leather goods workshops are in France (LVMH, 2016), where their products are crafted by hand. Most employees work in France, with 70% of the employees working in 65 other countries in which LV operates (LVMH, 2016). In 2015, the company had over 460 stores, but was expanding as well to countries such as Mongolia and other parts of Asia (Adams & Elliot, 2010). Arnault thinks that LV is a pioneer in finding emerging markets where they start by selling to the millionaires and then moving downwards to middle-income customers (Adams & Elliot, 2010). Louis Vuitton also has 10 e-stores in addition to its own retailers, which offer a large selection of goods for sale (LVMH, 2016).

2.3.2 Hermès

Hermès is said to be one of the most influential luxury houses, yet "rooted in tradition and also human by nature" (Interbrand, 2015 p.88). The founding principle of Hermès to this day has been "fine craftsmanship" (Interbrand, 2015 p.88; Adams, 2014), which leads to greater demand than supply, and waiting lists on goods that take more than a year to deliver are common within this company.

The company was founded by Thierry Hermès in 1837. The first workshop was opened in Paris, where "luxury harnesses and bridles for horse-drawn carriages" were made for

European elite. After the founders son, Charles-Émile Hermès, became manager, the company introduces saddles and started retail sales. Bags meant to carry saddles were later added as well as accessories and handbags in the 1920s. (Raisbeck, 2013)

The company has over 50,000 items in its collections and today Hermès is working in 14 different sectors: Leather goods and saddlery, ready-to-wear for men and women, footwear, belts and other accessories, silk and textiles, jewelry and watches, interior ware, perfumes, and petit h (Hermes, 2016). In 1930s the Sac à dépêches bag was introduced. The bag is better known as the Kelly, after Grace Kelly had been pictured with the bag in 1956. Other bags have also been named after celebrities, such as the most famous Birkin bag, after Jane Birkin (Raisbeck, 2013). The Birkin bag can cost from US$8,300 up to US$150,000 depending on the material and the waiting list for buying one of the above mentioned bags might take years (Adams, 2014). A collector paid US$203,150 for a red crocodile bag with white-gold and diamond details in an auction in 2013, representing the increase in value a Birkin bag can achieve over time (Adams, 2014). Signature headscarves have been sold since 1937 (Raisbeck, 2013), and they can take up to two years to produce. Hermès is proud to be able to provide handmade products of high craftsmanship (Hermes, 2016). One of the newest sectors, petit h, is a recycling division, where scrap material is used to create one-of-a-kind products (Adams, 2014).

In the end of 2014, 11718 people were employed by Hermès. 207 of the 311 exclusive stores were operated directly. Watches, tableware, and perfumes are sold as well through specialized stores and airport tax-free stores. Hermès has opened free-standing watch stores in Asia, when it realized that in its own stores the environment would not "allow the brand to express its uniqueness" (Schwedt, Chevalier & Gutsatz, 2012 p.251). The success of the branded stores affected the sales positively of the main stores as well as it connected with the customers in a new innovative way. All manufacturers are located in France (Hermes, 2016), but Hermès has also purchased crocodile and alligator farms in Australia and the US to provide the highest quality skins (Adams, 2014). The company website, which did not open until 2008 (Heine, 2012), includes just a small quantity of the products sold by Hermès. In fact, the websites function is brand education, and every store may have exclusive products only sold in one location (see Adams, 2014).

2.3.3 **Prada**

The only Italian luxury fashion company among the tree; the company is said to "emphasizing quality and innovation" (Interbrand, 2015 p.116). Prada creates unique and experimental goods that are designed by the founder's granddaughter, keeping the company close to the roots of the family.

Mario Prada established Prada in 1913 in Milan, Italy. The Italian royal household, among European elite, favored the accessories, luggage, and other luxury goods made out of fine materials and high craftsmanship. In the 1970s the company started its global expansion with Patrizio Bertelli focusing on the market and Miuccia Prada, granddaughter of the founder, creating the fashion. (Prada, 2016)

Main categories include leather goods, clothing and footwear for men and women, fragrances, and eye ware, alongside mobile phones and confectionary. In 2007, the Prada Phone by Korean phone manufacturer LG was launched and within 18 months more than one million phones were sold. The collaboration between Prada and LG resulted in two additional models being launched in 2008 and 2012. (Prada, 2016)

In the beginning of 2015, Prada had 594 directly-operated stores in 70 different countries. Prada's products are also sold in some selected department stores and multi-brand retail spaces. Prada employed 8100 people (Bertelli, 2012). The company owns eleven sites in Italy and one in Great Britain where their products are made. Also 480 external manufacturers contribute to the production of goods (Prada, 2016). Prada's website offers a limited amount of bags and accessories for sale and is focusing more on an introduction to the brand. This is due to the belief by Bertelli that luxury goods incorporate more senses than just sight, and their products are better displayed in their own retail stores. The website did not open until 2007 and was famous for only having an "opening soon" on the website front page for many years (Schwedt, Chevalier & Gutsatz, 2012 p.68). Bertelli added that "communication is very different from distribution", meaning that the internet is a good way to communicate with customers, but not as powerful when selling in the luxury sector.

Prada is part of the Prada Group, which includes four other companies; Miu Miu, which is Miuccia Prada's second brand, incorporates a more rebellious style; Church's, an

English brand founded in 1873, is a "leader in the men's handmade luxury footwear industry"; Car Shoes, from 1963, was designed for driving sports cars, but nowadays "is a symbol for exclusive lifestyle and luxury driving"; and Marchesi 1824, an iconic café in Milan, offering pastries, coffee, refreshments, and early evening cocktails. Labels acquired by Prada but later sold off are Jil Sander and Helmut Lang. Based on Bertelli, if those acquisitions would have been avoided, Prada and Miu Miu would have become successful and bigger much faster. Bertelli also ensure that acquired brands are kept separated from their house brands to not compromise their market shares even when other brands struggle. (Bertelli, 2012)

3 WHY THESE BRANDS HAVE BEEN CHOSEN?

The three luxury fashion companies that have been included in this paper are among the most valuable luxury companies based on Millward Brown's (2015) "BrandZ Top 100" report and Interbrand's (2015) "Best global brands" report. In addition to the brand value, the stock performance of each company has caught the eye of many investor related sites. The final characteristic to be noted is the management of each company as "good management counts for a great deal" (Hobson, 2012 p.81).

3.1 Brand Value

Based on the report by Millward Brown (2015 p.104) the sales of luxury goods halted due to "economic slowdown in China, Brazil and Russia". China's crackdown on corruption also decreased sales in the country and therefore of all the 13 categories that the report tracked, luxury declined the most in value. The year before, the luxury sector rose by 16%, but in 2015 the sector fell by 6%. Prada was hit the hardest by declining sales in China, as a major part of sales comes from that region. Also Louis Vuitton was impacted by the anti-corruption laws and economic slowdown in China, where the company had been expanding quickly (see Interbrand, 2015 p.67). Hermès was the least affected by problems in the Chinese market, since it has not completely settled into the market. Millward Browne's report also points out that Hermes suits the Chinese con-

sumers better, as they do not emphasize the logo as much as some of the other luxury brands.

On the list of top ten luxury brands by Millward Brown (2015 p.105), with a total brand value of US$104,6 billion, Louis Vuitton was listed number one with a brand value of US$27,4 billion. The brand value had risen by 6% from the previous year. Louis Vuitton has been on the top spot of luxury brands since 2006. In the brand top 100 list, Louis Vuitton had fallen by two and was the 32nd most valuable brand in the world (Millward Brown, 2015 p.59). Hermès listed on second place in the luxury category and 55th on the overall list was valued US$18,9 billion and had fallen by 13% since 2014. Regardless of the fall, Hermès brand value has risen by 292% during the past 10 years, making it the 10th top riser among all categories (Millward Brown, 2015 p.23). As seen from earlier reports by Millward Brown, Hermes has quickly increased in brand value over the last decade. Prada, number seven on the list of top ten luxury brands, with brands such as Gucci and Chanel ahead of it, was valued US$6,5 billion. Prada's value had changed the most among the ten luxury brands, with a decrease of 35% in brand value. Compared to the top two brands, which have been included in the top ten lists since the first report in 2006, Prada had not been included in the report until 2012, due to the impact of strong purchasing power from Chinese consumers.

Interbrand's "100 best global brands" report had another view on these three luxury companies compared to Millward Brown's report. Louis Vuitton was listed number 20th, with a brand value of US$22,2 billion, a decrease of 1% from the year before (Interbrand, 2015 p.67). Compared to Millward Brown, the position is 12 places higher, even though the brand value is US$5,4 billion lower. Hermès, listed 41st, brand value had risen by a remarkable 22% to US$10,9 billion (Interbrand, 2015 p.88). Interbrand's report (2015 p.16) was fascinated by the collaboration between high-tech brands and luxury heritage brands. The Apple watch made together with Hermès, was said to "increase awareness and connect with consumers". Again when compared to Millward Brown's report, Hermès position is 14 places higher and the value US$8 million smaller. Prada was valued US$6,2 billion, an increase of 4%, put it on the 69th place of the list (Interbrand, 2015 p.116). Prada, which was not even included on the overall list by Millward Brown, was valued by both brand value analyzing companies quite the same: US$6,5 billion vs. US$6,2 billion.

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3.2 Stock Performance

"Hermès' stock, like its brand value, has experienced significant growth, rising 125 percent over the past five years. Such growth demonstrates how a high-end heritage brand can be bold, relevant, innovative, and unequivocally itself— even 178 years after it was created" (Interbrand, 2015 p. 88). In 2002 Bernard Arnault from LVMH began acquiring shares in Hermès by using cash-settled equity-swaps (Adams, 2014). Arnault announced in 2010 that he already controlled 17% of the company and a takeover was thought to happen when the stock percentage kept rising to 23% (Ellision, 2015). The Hermès family did not sell their shares, even though speculations had increased the value of the stock up by 30%. Instead they pooled their shares into a "$16 billion co-op called H51 […] representing 50.2% of all company shares" (Adams, 2014). Family members agreed together with two other major stakeholders on not to sell for the next twenty years. The "lockup" is thought to be profitable as the company can for the following two decades make decisions for itself. The matter was taken to court where Hermes accuses LVMH for inside trading (Adams, 2014). The issue was finally solved in 2014, when a court in Paris settled an agreement where LVMH was forced to distribute to its shareholders the shares bought in Hermès (Milligan, 2014). Bernard Arnault's companies have also agreed on not to buy shares in Hermès for the following five years.

Including Hermès and Prada in this paper is partly due to their heritage status, but also because "IPOs of younger companies significantly underperform those of well-established and mature fashion houses" (Meinshausen, 2012 p.107). In an analysis equity investors chose firms based on managerial experience, a specific company size and a longstanding track record. In addition, the presence of global investment banks affects the company shares positively. The conclusion made by Meinshausen is that large, mature fashion companies that can rely on heritage and stable cash flows outperform smaller firms significantly. Hermès is said to hold strong share price performance after its IPO due to the above mentioned criteria's. Hermès made its IPO in 1993 (Hermes, 2016).

20% of Prada's shares were listed on the Hong Kong stock exchange when the company made its IPO in 2011 (Prada, 2016). Based on Meinshausen (2012 p.24), the $2,1 billion offering by Prada was one of the largest fashion IPOs. Prada had planned on going pub-

lic in 2001, but doe to turbulent world state including terror attacks, wars, and economic crises, the IPO was moved until a new opportunity came around (Bertelli, 2012). Prada has encountered a strong decrease in share price during the previous year. The decrease of share price was mainly due to worse than expected financial results from the company. As mentioned earlier, Prada was hit hard by the fall in sales in China, which fell down by 17%. J.P. Morgan Cazenova analysts believe the luxury environment might be though on Prada, which still has not got "brand-specific issues" and "high operating expenditures" under control. Fashion IPO shares experience price jumps of 20,5% on average during the first trading week according to Meinshausen (2012 p.28). Nevertheless, the main finding is that most of these companies underperform 36-months after the IPO by up to 31.5%. The fashion companies that have conducted their IPOs between 1990 and 2007 mainly intended on using their proceeds for internal and external growth. In addition, studies made by Hartmann et al in 2007 (see Meinshausen, 2012 p.95) indicate that "foreign issuers significantly underperform domestic offering".

Louis Vuitton, which is part of the luxury group LVMH, shares have risen steadily since 2011 (LVMH, 2016). "Growth shows the shareholders that you have struck the right balance between timelessness and fashion and that you have been able to charge a premium price because of that correct balance" said Arnault (Wetlaufer, 2001). Louis Vuitton's estimated sales in year 2000 were €1,5 billion with 284 stores worldwide. Around ten years later the sales had reached an estimated €5 billion and 440 stores were opened (Schwedt, Chevalier & Gutsatz, 2012 p.25), showcasing the rapid growth of the company. Louis Vuitton is the only luxury brand who owns all of their retailers and never sells outside of the system (Heine, 2012 p.). On the other hand, Louis Vuitton will face some problems if expanding to other product categories such as cosmetics, perfumes or eyewear, something Hermès and Prada have done, as this would require to be sold in wholesales for visibility or an in-house optician to sell optical frames. Regardless of this, Louis Vuitton announced that they would launch their first perfume in 2016, which would be highlight of that year (LVMH, 2016). According to Arnault, only 15% of sales are made from new products, the rest comes from classics. Therefore, new products are introduced with caution and only a limited number is made available at a time (Wetlaufer, 2001).

3.3 Management and other Strengths

Shipilov & Godart (2015) consider the real value a luxury group has is the ability to "exploit their diverse business portfolios to offer rich learning opportunities to both managers and creative talent". In addition, luxury groups can offer means to flourish smaller brands that would not be able to grow as fast on their own. Talented people are kept in the group by offering positions in other brands within the group. To illustrate this: "two-thirds of management openings in LVMH's brands are filled by people from inside LVMH". Another tactic LVMH uses is re-hiring formed employees that have left the company for a competitor or other industry. The employee will come back with new knowledge and experiences that can be implemented by the group. Moreover, career mobility is utilized in different sectors as well. Watch brands might find marketing managers in the cosmetics or fashion brands within the group. Recruiting people from other industries are also common, as proved by Louis Vuitton. Louis Vuitton hired managers from Toyota to improve its supply chain management, which turned out to be extremely successful. Luxury groups invest a lot in management of human capital, which generate high creativity. Furthermore, LVMH works in cooperation with both craft schools and universities to train young designers, artists and managers. Through these programs the group gets exposure as well as trainees and appetencies for their brands. (Shipilov & Godart, 2015)

Louis Vuitton is seen as a star brand, since it is known outside of its target group. Part of the value added when buying goods from Louis Vuitton is the recognition of the brand by other people who cannot afford it (Heine, 2012 p. 51). Star brands aim for maximum awareness by advertising in glamour magazines and sponsoring (Heine, 2012 p.69). However, catwalk shows, celebrity support, and PR are also major tools used by luxury companies. A star brand is born, according to Arnault, when products show heritage, yet are modern (Wetlaufer, 2001). The main attributes of a star brand are the following: "timeless, modern, fast growing, and highly profitable". Based on the article by Wetlaufer only a few luxury brands can become star brands, as balancing all four aspects at once is quite challenging. Cavender & Kincade (2014) wrote in their journal that Louis Vuitton has "demonstrated resiliency and leadership in the recovery from the most recent global economic recessions" due to its star brand position, which is not affected by the economy as much as less known brands.

Many claim that the success behind Louis Vuitton is its CEO, Bernard Arnault (Cavender & Kincade, 2014; Wetlaufer, 2001). Arnault is described as a visionary leader with "ambitious growth and expansion strategies". He is one of the reasons behind LVHM group's global success and made the group into the most profitable luxury goods conglomerate. Designers within the group are not concerned with financial or commercial constraints, as Arnault believes that it will hinder them from doing their best work. The whole business is said to be based on the freedom given to artists and designers to "invent without limitations" (Wetlaufer, 2001). "A great company can tail off when the driving forces retire" (Hobson, 2012 p. 81). However, Antoine Arnault, son of the CEO of LVMH, ensured that his father would not step down in the near future and estimated that there would be another 20 to 25 years before Bernard Arnault would retire (see Adams & Elliott, 2010).

Both Louis Vuitton and Prada believed in the 1990s that acquisitions would be the most profitable way (Bertelli, 2012; Cavender & Kincade, 2014). Later on, both companies have realized that focusing on the core brands have become more important. In addition, emerging markets have been the key to success. LV is seen as a pioneer in finding emerging markets, being the first one entering China (Adams & Elliot, 2010). Prada, on the other hand, was not far behind, entering the market around the same time in 1993. The next market, according to Bertelli, would be Africa, where he sees a huge market in the next ten or fifteen years. Africa is at the moment the largest market of untapped potential for luxury sales. The luxury market is said to grow 5.6% per year, second fastest after the Middle East (Bloomberg, 2015). 86% of luxury stores are located in Morocco and South Africa, while Nigeria has increased its demand for luxury goods. The largest players in the market include LVMH, but Prada has also added some stores to Morocco. Prada has managed in a market where many have struggled and stayed independent due to its organization culture. The management, values, and communication have stayed unchanged and this said to be behind the success of Prada. "Transparency between functions enables Prada to respond to changing market tastes very quickly" (Bertelli, 2012).

To showcase how Prada's management is doing some examples have been accumulated. Firstly, Bertelli (2012) finds it easier to be accountable for thousands of shareholders instead of a couple of partners. The reason behind this is the need to stay independent. Prada tries to avoid compromising core values and their design philosophy. Secondly,

another decision taken by Bertelli that has paid off was keeping the factory making Church's shoes in Northampton and not relocating it after the acquisition. The respect was returned by increased productivity and that resulted in dividends. Bertelli thinks that "a company whose managers take seriously the obligation to help their people improve will be a lot more competitive". Thirdly, Bertelli is hiring young people to keep an eye on what is happening in that specific target group in an attempt to stay ahead of the competition. (Bertelli, 2012)

The first generation of Hermès founded the business, as the second and third generation introduced new products (Ellison, 2015). Hermès used to be led by Patrick Thomas, the first non-relative CEO from 2003 until 2014 (Hazlehurst, 2014). Since then, Axel Dumas, sixth generation member of the family is in charge of the company. Pierre-Alexis Dumas is the artistic director, with whom Axel Dumas oversees the company. Therefore, as it quiet strongly shows, Hermès is family-centered from the beginning until now. Thomas believes it is worth working in a family owned company, as they outperform non-family ones based on their long-term view (Hazlehurst, 2014). He also adds that family-run businesses treat employees much better "not just in terms of money but fulfilment in your job". In addition to valuing craftsmanship, looking for excellence and being very creative are values of Hermès (Hazlehurst, 2014). In each site manufacturing Hermès goods in France, there are less than 250 workers to cope with the demand. The reason behind this is the belief that more people would be less intimate and more like a factory (Ellison, 2015). Based on Axel Dumas, the waiting list was invented when the demand for the Birkin bag grew. There was no capacity to produce more without hurting the quality, and therefore the waiting list had to be implemented. One Birkin bag takes around 15 hours to make by one person by hand.

To summarize the above chapter, it is clear that all of the companies have their own strengths. All of the companies are listed high on the brand valuation companies' lists, especially LVMH and Hermès, who have stayed in top two positions for years. On the other hand, Prada seems to be losing its position, decreasing drastically compared to the other companies on the list. For the stock performance, the buying of Hermès shares by Arnault's companies has affected the shares and financial condition of both Hermès and LVMH. Prada's shares have not gone through the same trouble, but still the shares of Prada are forecasted to underperform. The management of LVMH and Prada are rela-

tively strong when comparing to Hermès family-run business model. However, the family orientation is said to outperform non-family oriented, indicating that Prada would also have a strong position in the luxury fashion market. Thereby it is quite clear that thus so far, all of the companies come from a good start point for this paper.

4 FUNDAMENTAL ANALYSIS

4.1 Introduction

Fundamental analysis is conducted by evaluating historic and present data of a company in an attempt to make forecasts about the stock's price development. Historic data has the main advantage of being real figures. However, the downside is that they do not tell what will happen in the future (Hobson, 2012 p.133). Share price is constantly changing and therefore insignificant in relation to the value of a company. That is the reason to why valuation ratios are used. Valuation methods can either result in what the current value is or what the valuation actually should be (Schmidlin, 2014 p.125). Broadly speaking fundamental analysis looks at the most important economic ratios and decides whether or not the price of the share is fair.

The financial data is mainly found in the financial statement of the company. To make it easier to compare to other companies or the industry standard the numbers are expressed as fractions. "Expressing income statement positions as fractions rather than absolute numbers makes it easier to compare them to previous years' figures and allows for the comparison of income statements of competitors, different industries, businesses in different countries" (Schmidlin, 2014 p.9). Financial success or failure in the past is highlighted by ratios, while the business model might shed some light on what the future competitiveness might look like (Schmidlin, 2014 p.101). When working on a fundamental analysis quality is more important than quantity. This can be exemplified by Weigand's (2014 p.98) statement that "80 percent of the information that's relevant for evaluating a company's stock can be determined by interpreting 20 percent of the metrics"

Based on Weigand (2014 p.4) fundamentally strong companies tend to outperform in the long-run when implementing a buy and hold strategy. This is due to the fact that this strategy has lower trading costs and investors make less emotional errors. However, there are other authors that disagree on the usefulness of fundamental analysis. In Thomsett's book (2007 p.109) he claims that fundamental analysis "may be quite unreliable as a means for judging a company's value". Fundamental analysis is said to be slow at noticing changes in the market. Another problem regarding the fundamental analysis is the fact that the investor might find a stock that is undervalued, but have to wait years before the rest of the market sees the same (Owen & Griffiths, 2010 p.31).

4.2 How the Analysis was conducted

The literature used in the fundamental analysis part consist of books focusing heavily on ratio analysis (Schmidlin, 2014; Weigand, 2014; Hobson, 2012; Thomsett, 2007), dividends (Wright, 2010), introduction to fundamental analysis (Owen & Griffiths, 2010), overall information about the stock market (Winslow, 2003) and valuation (Damodaran, 2011). For the analysis, data from each company was collected from a vast amount of different sources. Firstly data from the companies own sites were utilized. Annual reports from both 2014 and 2012 were revised. In addition any reports concerning year 2015 were looked through; mainly the sales numbers came from this source. Secondly ratios were gathered from Financial Times' site, the Wall Street Journal's site and Reuter's site. The codes used were different on each site; Hermès RMS:PAR (Financial Times), HRMS:PA (Reuters), FR:RMS (Wall Street Journal); Prada 1913:HKG (Financial Times), 1913.HK (Reuters), HK:1913 (Wall Street Journal); LVMH MC:PAR (Financial Times), LVMH.PA (Reuters), FR:MC (Wall Street Journal). The ratios from Financial Times' and Reuter's were in sync, but the Wall Street Journal had different values. Therefore mainly the two first sources were used in first hand. When comparing to the industry, ratios from Reuter's were used. The ratios from these three sites were collected in the end of February 2016 and reflect the companies' positions from that time. Data for analyzing the risk was gathered from Macroaxis site in the middle of March 2016. The author follows the guideline set by Damodaran (2011) that valuating less is more, meaning the valuation models used and the data collected should be sim-

ple. In some cases five years of data is included, but at some points just one ratio per company is looked at.

4.3 Analysis

4.3.1 Shares Outstanding, Market Capitalization, and Free Float

Based on Weigand (2014 p.98) the best way to start analyzing is choosing large cap companies. He explains this by saying that they have a lot of qualitative information available since many analysts follow those companies in addition to having financial statements that are easier to interpret due to low volatility.

Large cap companies are said to range between US$10 to US$200 billion. Since Prada's market cap is calculated to be roughly US$7 billion, it is classified as medium cap. Both Hermès and LVMH are large cap companies. LVMH market cap in the end of 2014, at €67.1 billion, ranked it fourth in the Paris market. Hermès has the smallest amount of shares outstanding, while it should be noted that Prada has over 2.5 billion shares. LVMH has nearly five times more shares outstanding than Hermès, but equally five times less than Prada. The free float represents the part of the shares outstanding that the public can trade. For Hermès this represents 19.3% of the shares, for Prada 20.0% and for LVMH 53.1%.

In the end of 2014, 65.0% of shares were held by Hermès' family members. Arnault Family Group, which distributed and sold a large amount of Hermès shares due to a court's decision, was still holding 10.3%. The public held 17.8% and Mr. Nicolas Puech, part of Hermès family, seemed to be the largest single person holding 5.8% outside of the family holding group, while treasury stock stood for 1.1%. 4.6% of the shares are said to be held by top holders, meaning institutional shareholders such as Carmignac Gestion SA and Norges Bank Investment Management. More interestingly, in the end of 2014 Hermès had approximately 107,000 shareholders, compared to 23,000 in the end of 2013 and 25,000 in the end of 2012. The massive increase was due to the exceptional distribution of Hermès shares by LVMH and Christian Dior as well as interim dividend payment in form of Hermès shares by Financière Goujon and Christian Dior.

For LVMH in the end of year 2014, 46.5% of shares were held by Arnault Family Group. The second largest group consists of foreign institutional investors, who held 35.2%. French institutional investors held 11.6%, as individuals accounted for 5.6% and treasury stock for 1.1%. 9.9% of the shareholders are held by top holders, institutional shareholders such as Massachusetts Financial Services Co. and Norges Bank Investment Management.

As noted earlier, 20% of Prada's shares were floating on the Main Board in the stock exchange of Hong Kong in the beginning of 2015, while 80% of the share capital was held by Prada Holdings spa. 15.7% of the shares were held by top holders. Harris Associates LP held more than 7%, while the second largest institutional investor was Oppenheimer Funds, Inc. holding more than 6%.

Table 2. Showing each company's market capitalization, shares outstanding, and free float

	Hermès	Prada	LVMH
Market Capitalization	€34,46bn	HKD 57,19bn	€78,91bn
Shares Outstanding	105,57m	2,56bn	506,98m
Free Float	20,38m	512,35m	269,33m

4.3.2 Revenue, Operating Income, and Earnings per Share

Taking a look at revenue will give a rough idea of how much money the company has made. A steady increase of revenue indicates growth and based on this the stock price will increase in value alongside the revenue. The operating income shows the businesses financial performance (Hobson, 2012 p.86). Operating income is also referred to as earnings before interest and tax (EBIT) is important when evaluating the core businesses profitability. A high operating income reflects good management skills as the value is mostly affected by pricing strategies, raw material prices, and labor costs. Earnings per shares (EPS) should display the adjusted net profit divided with the diluted number of shares (Schmidlin, 2014 p.197). Higher EPS company shares are worth more and therefore investors pay more for them.

Hermès revenues have increased impressively year-by-year. Between 2012-2011 and 2015-2014 the change in growth reached double digits. The increase in revenue during

2015 was earned through growth in all markets during otherwise difficult times. The company did declare that "due to the economic, geopolitical and monetary uncertainties around the world, sales growth in 2016 could be below the medium-term goal of 8% revenue growth at constant exchange rates" (Hermes, 2016). Operating income have been maintained high, a good sign of management efficiency. Earnings per share of Hermès have increased steadily over the past five years. Notably, Hermès does have the highest EPS among the three companies, while the growth rate has been in line with its competitors. The average growth rate is estimated to be +20.30% and the forecasted EPS for 2016 are believed to increase.

Table 3. Hermès' revenue, operating income, and earnings per share from year 2011 to 2015

Hermès	2015	2014	2013	2012	2011
Revenue (€M)	**4,841**	**4,119**	**3,755**	**3,484**	**2,841**
Change (%)	+17.5	+9.6	+7.7	+22.6	-
Operating Income (€M)	**1,541**	**1,299**	**1,218**	**1,119**	**885**
Change (%)	+18.6	+6.6	+8.8	+26.4	-
EPS (€)	**8.84**	**8.19**	**7.54**	**7.07**	**5.38**
Change (%)	+7.2	+7.9	+8.6	+6.6	-

Prada's revenues have remained stable during the past three years. Since the increase in 2012, the growth has slowly decreased and become stagnant for the moment. Compared to Hermès, who had roughly equal revenue in 2011, Prada seems to be doing much worse in the market. One reason for the failed increase of revenues is the difficult situation in the Chinese market. Prada said in a statement that "market conditions remain volatile amid financial markets instability and rising geopolitical tensions worldwide potentially impacting tourism and consumer attitude" (Prada, 2016). The EPS of Prada increased impressively by more than 50% in 2013, but has thereafter suffered a decrease after being stable in 2014. EPS growth rate for the past five years has been +34.48, ranking much higher than competitors in the same industry. Prada's EPS has the smallest value of the three companies, thus might be explained by the fact that Prada is also the one with the largest amount of outstanding shares. The estimated average growth rate is +5.32 with a forecasted decrease of EPS for the following two years.

Table 4. Prada's revenue, operating income, and earnings per share from the past five years

Prada	2015	2014	2013	2012	2011
Revenue (€M)	**3,545**	**3,552**	**3,587**	**3,297**	**2,556**
Change (%)	-0.2	-1.0	+8.7	+28.9	-
Operating Income (€M)	**N/A**	**702**	**939**	**890**	**629**
Change (%)	-	-25.3	+5.5	+41.4	-
EPS (€)	**0.18**	**0.26**	**0.26**	**0.17**	**~ 0.10**
Change (%)	-30.8	0.0	+52.9	+70.0	-

In 2015 LVMH recorded a +16.4 increase in revenue due to strong progress in the key markets; Europe, the US, and Japan. Louis Vuitton's iconic and new products profitability is said to be at exceptional levels due to successful sales. LVMH's revenues have had a solid increase, quite similar to the one of Hermès. "Despite a climate of economic, currency and geopolitical uncertainties, LVMH is well-equipped to continue its growth momentum across all business groups in 2016" (LVMH, 2016). Operating income decreased during 2014 and 2013, but increased by double digit numbers in 2015. The LVMH portfolio of brands is remarkably diversified and therefore pinpointing what affected the downturn in operating income during the previous years is hard to say. LVMH's EPS have moved along the same direction as operating incomes. The annual EPS growth rate is 2.29%. LVMH's EPS compared to Hermès has not been as lucrative, even though in 2012 the EPS of LVMH was higher than Hermès. An average growth is estimated to be +3.67% with EPS increases for year 2016 and 2017.

Table 5. LVMH's revenue, operating income, and earnings per share from 2011 to 2015

LVMH	2015	2014	2013	2012	2011
Revenue (€M)	**35,664**	**30,638**	**29,016**	**28,103**	**23,659**
Change (%)	+16.4	+5.5	+3.7	+18.7	-
Operating Income (€M)	**6,384**	**5,431**	**5,898**	**5,739**	**5,154**
Change (%)	+17.5	-8.0	-8.0	+11.3	-
EPS (€)	**7.08**	**6.46**	**7.08**	**7.18**	**N/A**
Change (%)	+9.5	-8.8	-1.4	-	-

4.3.3 Gross Margin, Operating Margin, and Net Profit Margin

Cost of sales tends to be the largest expense in an income statement, and therefore it is important for the gross profit to be sufficient enough to cover fixed costs, taxes and interest payments (Schmidlin, 2014 p.10). It is said that high gross margin reflects lower exposure to input price increases as well as ability to sell products with higher retail prices, lower wholesale prices, and lower salaries. Gross margin decreases might happen due to an increase in sourcing and producing products or a decrease in selling price, or even both. The ratio is a good indicator of management efficiency. Compared to the industry all three companies seem to have exceptionally high gross margins. This can be explained by the characteristics of the luxury market: expensive and exclusive. Therefore all of the companies can increase prices yearly, which in fact Hermès and Louis Vuitton are renowned for, without hurting sales. The companies cannot afford having lower salaries, as it might hurt quality of their products and customer service. Higher raw material costs or producing costs might also be offset by the companies by increasing product prices even further.

Operating margins show how successful management has been on generating income from operations. High operating margin indicates either that the company controls its costs or that sales increase quicker than costs of the operation. In contrast to the gross margin, this ratio includes the expenses of administration and selling and accordingly much smaller. Hermès has the highest operating margin, even though its operating costs have increased year-by-year. Prada's and Louis Vuitton's operating margins are close to each other. Louis Vuitton has quite high selling and administration costs that also have increased yearly, and so has Prada's. Compared to the gross margin ratio, the operating margin is harder to manipulate with accounting tricks and thereby more reliable. High gross and operating margins also help towards increasing profits, company intrinsic value, and dividends (Weigand, 2014 p.108)

A high net profit margin indicates that the company has leverage over its competitors in the market, few competitors, low debt levels, and tight cost controls. High net profit margins also protect the company during difficult times along with improving the market position. Net profit margin decreased by both Prada and Louis Vuitton corresponding to the operating margin ratio. Hermès, yet again, stood on top and had almost double

the net profit margin in relation to Prada's. If a company wants to increase their net profit margins, costs have to be reduced or volume has to be increased (Schmidlin, 2014 p.45f). High brand recognition may help increase net profit margin, which is especially true for Hermès. Luxury companies overall were said to focus more heavily on sales growth rather than improving margins to drive value upwards.

Table 6. Gross margin, operating margin, and net operating margin for each company

	Hermès	Prada	LVMH	Industry
Gross Margin	66.13 %	72.62 %	64.80 %	39.33 %
Operating Margin	31.61 %	16.16 %	17.90 %	N/A
Net Profit Margin	20.32 %	10.36 %	11.22 %	N/A

4.3.4 Dividend and Payout Ratio

Companies producing excess returns, meaning earnings that are not needed for annual reinvestments, are used to pay off debt, distribute dividends, buy back shares or make acquisitions (Schmidlin, 2014 p.117). Thereby the ratio is useful for evaluating how big part of the earnings is returned to the investors versus how much is kept in the business for reinvestment. Companies that have developed equity and cash cushions during economic upturns may benefit from them in the long-term when competitors face problems in downturns (Schmidlin, 2014 p.124). The payout ratio is important when looking whether or not the company's dividends are in danger. A stable or growing dividend payout ratio is preferred as it signals positive growth of the company. If the ratio is too high, it limits the company's investments in future growth. However, if the return on equity (ROE) is maintained high, the payout ratio should not be of too much concern (Wright, 2010 p.178f). However, strong growth and profitable companies are hard to come by says Schmidlin (2014 p.117). Usually, only established companies can afford to distribute profits to their shareholders. Wright (2010 p.34) assures that when there is "a long-term track record for consistent and rising dividend payments", it clearly states the financial health of the company. In other words, the dividend history is better evidence than the company's earnings, as dividends confirm that the company is profitable.

Hermès dividend has increased over the past five years; it is noteworthy that Hermès has paid in addition to the ordinary dividend an extraordinary dividend of €5.00 in 2012

and 2014. The dividend average growth rate over the past five years is ranked the highest in the industry at 49.91%. The payout ratio has almost doubled from 2014 to 2015. But as noted before, the ROE of Hermès is kept high, and therefore the payout ratio 63% should not be of any concern. In contrast the high rate indicates positive growth of the company.

Dividends of Prada have risen in the past, but become flat in 2015. The payout ratio has moved in the same direction until 2015 when the ratio was equal to Hermès of 63%. Prada's ROE is not quite as good, under the industry average, and therefore the payout ratio might be a bit worrisome. In Prada's case, using earnings for future growth might be a more profitable solution, nevertheless the reason for the high payout ratio might be the decision of not to lower dividends even though operating income might have fallen in 2015 due to the economic instability.

LVMH's dividends have increased by 11.07% on average over the past five years, which is in-line with the industry average. The dividend increase has been quite stable and is forecasted to increase in the future as well to around €3.92 in 2016 and €4.12 in 2017. The payout ratio has increased as well, but not as high as Prada's and Hermès'. LVMH continues its strategy to further develop its brands, and due to this the payout ratio might have been kept lower than for the other two companies.

Table 7. Comparing dividends and payout ratio for Hermès, Prada and LVMH for the past five years

Dividend	2015	2014	2013	2012	2011
Hermès	**€5.45**	**€7.95**	**€2.70**	**€2.50**	**€7.00**
Payout ratio	63 %	34 %	33 %	7 %	27 %
Prada	**€0.11**	**€0.11**	**€0.09**	**€0.05**	**€0**
Payout ratio	63 %	45 %	37 %	29 %	0 %
LVMH	**€3.55**	**€3.20**	**€3.10**	**€2.90**	**€2.60**
Payout ratio	50 %	*29 %	46 %	43 %	36 %

excludes the distribution of Hermès shares, the percentage would otherwise have been 55%

In addition to dividend distribution, another major profit distribution form is share buybacks. Share buybacks result in either cancellation or increase in treasury stock for future use as acquisition currency. Cancellation of shares bought back increases the size of each share outstanding (Schmidlin, 2014 p.120). Either way, share buybacks are beneficial for investors if carried out efficiently. Buybacks financed through debt or buying overvalued shares are mistakes that might hurt the company and shareholders. Schmid-

lin (2014 p.120ff) suggests that companies only make share buybacks when the stock is significantly undervalued. He also adds that share buybacks should outweigh dividend distribution when share prices are attractive for the company. Hermès bought back 38,396 shares in 2014 for external growth purpose. In addition, the company redeemed 10,539 shares for €3.5 million in 2015 (Hermes). Hermès has been criticized in the past for buying back shares when the price has been high.

4.3.5 Dividend Yield, Price to Book, and Price to Earnings

There are three traditional measures of value: Dividend yield, price to book ratio (P/B), and price to earnings ratio (P/E) (Wright, 2010 p.33f). Wright states that the dividend yield is the only one of the three that can provide evidence that the company is actually making money in contrast to the other two price centered ratios. In addition, dividend yield can reveal the true value of the stock (Wright, 2010 p.60). Dividend yield is important when looking for a steady income (Hobson, 2012 p.135). The yield is based on the stock's closing price and therefore changes daily. For an investor, the actual yield will be based on the price paid and will remain unchanged (Thomsett, 2007 p.14). When dividends increase, they typically boost the share price and therefore dividend yield may indicate the price appreciation or depreciation in advance (Wright, 2010 p.33).

As Wright (2010 p.30) wrote, stock prices do not rise because of desire, they need a "reason for investors to buy and push the price higher". One of these reasons is the dividend yield. A high-yield stock attracts investors, and the price of the stock will increase. As a consequence, the yield will decline and when it is no longer attractive for the investors, the buying will halt. While there is no demand, the stock price will fall until a point where the yield is high enough to spark new investor interest and curb the decline. Stock without dividend will not have this kind of downside protection (Wright, 2010 p.35). "A trend of rising dividends is also a reliable predictor for future capital growth". Dividends are mainly increased by the managers and board of directors of the company when there are "higher earnings or the reasonable expectation for higher earnings" (Wright, 2010 p.34).

Based on the dividend-yield theory a stock is overvalued when the yield is low and the price is high, and undervalued when the yield is high and price is low (Wright, 2010

p.39). Companies that pay dividend fluctuates over time; low dividend yield is illustrated by peaks of overvalue and high dividend yield of valleys of undervalue (Wright, 2010 p.76f). Buying stock when it is undervalued and selling when it reaches historic overvalue minimizes downside risk in the stock market and maximize upside potential for capital gains and dividend income. On average it takes between three to almost six years for stock to rise from undervalue to overvalue, but only two years to do the reverse (Wright, 2010 p. 76; Owen & Griffiths, 2010 p.103).

A stock is most attractive for the investor when the yield is high (Wright, 2010 p.30). The industry yield is 1.8 %, and therefore it might seem quite unusual for Prada to have almost the double percentage amount. When there are doubts about the company's future, profits and unstable dividend, a higher yield is maintained to compensate for the higher risk, such as in the Prada case. The larger the yield is, the larger the income will be (Hobson, 2012 p.135). On the contrary, if the company is perceived as a good investment with growth opportunity by the market, the yield is low. Investors might prefer a stable, low yield, when dividends are forecasted to increase in the future, like Hermès and LVMH. Hobson (2012 p.136) reminds that the stock market is all about risk and rewards; a greater risk brings a greater reward if all goes well in the end. Hermès yield is forecasted to decrease from 1.7 % to 1.0 %. LVMH's yield forecast does not bring any surprises as it is only 0.1% lower than before.

Table 8. Dividend yield table for each company

Company	Yield	Yield (5 years avg)	Forecast Dividend	Prospective yield
Hermès	1.7 %	1.33 %	€3.43	1.0 %
Prada	3.9 %	0.14 %	€0.09	-
LVMH	2.3 %	2.33 %	€3.93	2.2 %

A price to book ratio of 1:1 means that the market value is equal to the financial statement reported by the company. A higher ratio indicates that the market is willing to pay a premium, and a lower ratio than 1 means that the market is either not willing to pay full price or the stock is valued incorrectly. Book value is not always the best ratio to follow, as there is room for interpretation. Both Prada and LVMH are under the industry average; nonetheless both of them are valued higher than 1. Hermès, on the other hand, has a remarkably high ratio, showing that investors are willing to pay much more for the

company. The closer the P/B is to 1 the better, but as can be seen, Hermès has proven to be growing in long-term.

Table 9. Comparing price-to-book to each other and the industry ratio

	Hermès	Prada	LVMH	Industry
P/B	10.56	2.36	3.22	4.12

Price to earnings ratio is important when focusing on capital gains rather than income. Winslow (2003 p.45) assumes that companies with similar growth expectations have close P/E ratios and the one with the highest P/E ratio tends to have the most expensive shares. High P/E ratios thereby point to an expensive valuation (Schmidlin, 2014 p.126). High growth companies, with a higher valuation, are expensive but promises rising profits in the future as compensation. Beyond earning increases, market position, financial stability, risk, management, and quality of earnings impact the P/E ratio (Schmidlin, 2014 p.127f). Companies, in this case luxury companies, with high market share have positive impact on value and thereby also acknowledged as more stable. This is recognized by paying a premium for the shares. Companies with less debt should be preferred over the ones with more debt. It is also important to note that many company managers are determined to maximize earnings, as they are aware of the interest a high P/E ratio as well as high future earnings estimations brings with them.

The industry P/E is set at 22.6:1, with LVMH closest to average with a P/E of 22:1. Cheap shares are identified by a low figure, in this case Prada's P/E of 19.3:1. However, it should be noted that Prada's P/E is quite close to the industry average. Quick growth tends to reflect a high P/E ratio, as companies with slow growth have a lower rating (Hobson, 2012 p.137). Lower P/E ratio companies tend to be more reasonably priced compared to higher ones. Hobson points out that companies in the same industry tend to have similar ratings, but he also adds that differences may occur, which is the case for Hermès. A low rating indicates concern, and a high rating indicated confidence in the company. In contrast, Wright (2010 p.61) says that stocks have their own personalities, and a high P/E ratio may be accepted when the company is characterized by strong growth or is otherwise of interest to the market. Hermès P/E is much higher than the industry, at 36.9:1. Based on Thomsett (2007 p.49) in the long-run low P/E stock out-perform high P/E stock. Earning profits from low rated P/E stock might be limited, but

on the other hand high P/E stocks are more volatile and incorporate more risk. Thomsett believes that choosing stock in the mid-range is the safest bet, in this case referring to LVMH.

Table 10. Price-to-earnings comparison

Company	Share Price (€)	EPS	P/E	Projected EPS	Projected P/E
Hermès	326.40	8.84	36.9	10.66	31.85
Prada	3.47	0.18	19.3	0.14	-
LVMH	155.76	7.08	22	8.28	21.56

4.3.6 Return on Equity, Return on Asset, and Return on Investment

High levels of return on equity combined with little or no debt is preferable as it indicates strong position in the market and adequate usage of capital (Schmidlin, 2014 p.43). Hermès has a high ROE indicating that the company is good at generating profits. LVMH's ROE is set near to the industry standard. Prada is the least successful of the three companies to generate profits. To increase profitability a company should either attempt to increase profits or reduce shareholders' equity by share buybacks or dividend payouts.

Based on Schmidlin (2014 p.53) companies with return on asset of over 10% can be considered very profitable. Hermès has a ROA of 21.35%, which is more than double the industry average and much higher than Prada´s and LVMH's. Both of them are somewhat under the average.

Return on investment can be increased by boosting asset turnover or improving profit margins (Schmidlin, 2014 p.52). Equally to ROA, Hermès has a high ROI, while Prada and LVMH are below the industry standard. Usually, the company with the highest ROI is the most interesting one for the investor, in this case Hermès, as the other two companies ROI are not high enough. However, the quality of a company cannot be based on the profit development on its own. When evaluating profitability, the profit should be considered in relation to invested capital (Schmidlin, 2014 p.41).

Table 11. Return on equity, return on asset, and return on investment compared to each other and the industry

	Hermès	Prada	LVMH	Industry
ROE	29.97 %	12.65 %	15.50 %	14.78 %
ROA	21.35 %	8.29 %	7.21 %	9.61 %
ROI	27.39 %	10.42 %	9.60 %	14.70 %

4.3.7 Debt to Equity and Debt Ratio

Debt to equity ratio is used to find out if the company is borrowing too much. Prada is within industry range with 0.24. Hermès has an extremely minimal amount of debt in contrast to the large amount of shareholder's equity with a value of 0.01. LVMH seems to have accumulated the largest amount of debt, standing over the industry average by 0.11.

Future growth in dividends and funding of expansion will be hurt if debt level of a company rises (Thomsett, 2007 p.30). Growing debt means that the company will have to use profits to repay debt and annual interests. This will restrict the company in the future. A low debt ratio reflects a strong equity position, like Hermès. LVMH on the other hand has accumulating quite a lot of debt, increasing the risk as well. While looking at the two ratios, LVMH debt level seems to become a concern for the investor as in both cases it is much higher than Prada's and Hermès'. For an investor companies with high level of debt should be watched extra carefully.

Table 12. Debt to equity and debt ratio compared to each other and the industry

	Hermès	Prada	LVMH	Industry
Debt to Equity	0.01	0.24	0.34	0.23
Debt Ratio	0.64	13.93	18.53	8.63

4.3.8 Beta and Alpha

Different types of risk that are attached to the stock market are the following: market risk, credit risk, reinvestment risk, inflation risk, and holding period risk (Winslow, 2003 p.105f). Asset allocation and diversification reduces market risk, but does not eliminate it. "The individual businesses in the portfolio should therefore come from a diverse range of industries, cover several regions and should have different underlying

drivers" to be able to react differently to macroeconomic movements (Schmidlin, 2014 p.238). Another way is to stick to a strategy of buy and hold; a long-term outlook for minimizing the risk (Winslow, 2003 p.108). Beta calculates the sensitivity to market risk. The market has a beta of 1.0, meaning a beta of a lower value moves less than the market and a beta with a higher value swings more. Therefore many investors are calculating the beta to find the perfect balance of risk for their portfolio. Individual common stock bears the highest risk among investment options (Pistolese, 2006 p.87). All of the companies' betas are lower than 1, meaning that they move with the market, but not as drastically. LVMH moves closest to the market, while Hermès and Prada move less, yet they are all low-beta stock. A low beta will reflect positively on the management's dividend policy, as earnings are less volatile and more predictable (Weigand, 2014 p.254). Thereby it can be said that "low betas derive from solid fundamentals". In the long-run, low beta stock should be preferred as they will be more stable.

Alpha refers to the excess returns above or below the market index to which it is compared (Weigand, 2014 p.2). A positive alpha reflects that the stock outperformed the benchmark index, while a negative alpha shows that the stock underperformed. All of the companies have a positive alpha, even though Hermès is closest to a 0, meaning it performed in line with the market. This should be considered extremely good, as 75% of mutual funds earn 0 alphas and less than 1% earn positive alphas (Weigand, 2014 p.9). How Prada managed to gain a positive Alpha is quite surprising, as other ratios have indicated that Prada's shares are seen as risky by the market.

Table 13. Hermès'. Prada's and LVMH's beta and average alpha comparison

	Hermès	Prada	LVMH
Beta	0.68	0.70	0.88
Average Alpha	0.0099	0.36	0.07

4.3.9 Forecasts & Recommendations

Analysts prepare forecasts, prospective data, telling what might happen mainly for the investors but also for the news. Larger companies have more analysts, giving a consensus view of what is expected to happen. This can be compared to smaller companies only having one or two analysts covering their financial information and share price per-

formance (Hobson, 2012 p.134f). Hobson advises to rely on prospective data, as investments are made for the future earnings, not the past ones. Stock analysts have great influence over stock prices based on their recommendations (Winslow, 2003 p.67f). Winslow even goes as far as saying that ratings are useless and there is a conflict of interest. He states that analysts in many cases exaggerate the use of buy, and when it should be a sell, they may rate a stock as hold. Damodaran (2011 p.9) agrees to some extent and adds that the equity research reports are biased and should not weight too much in the valuation analysis.

Analysts recommend to hold Hermès shares, with a tipping point towards outperform. Last year hold and underperform was much stronger, and the trend shows strongly that Hermès shares have become better investment options. Prada shares are recommended to hold, even though some analysts are pointing towards sell. From last year's recommendations, selling has become increasingly stronger and therefore it is clear that many do not see Prada as a good investment at this time. LVMH's shares are said to be outperforming, with a lean against both hold and buy. Outperform has become stronger over the last year. It seems to be clear that based on analyst recommendations LVMH's shares among the three companies are the best investment option at the moment.

Table 14. Analyst recommendations from Financial Times, the Wall Street Journal, and Reuters combined

	Buy	Outperform	Hold	Underperform	Sell
Hermès	8	11	30	4	4
Prada	9	2	31	17	16
LVMH	35	38	36	4	4

5   TECHNICAL ANALYSIS

5.1 Introduction

Technical analysis assumes that the price of the stock incorporates all that is known of the market and company. Price movements follow trends and patterns that can be forecasted (Owen & Griffiths, 2010 p.1). Owen & Griffiths assure that technical analysis

has a good performance history of predicting the outcome of the market. Technical analysis pinpoints the stock with the most sustainable increase (Owen & Griffiths, 2010 p.5). It also contributes with timing decisions on "when to take a profit or cut a loss". Technical analysis tends to be used by only short-time traders, but investors might also find them useful in noticing potential down trends in the market (Logan, 2014 p.120). Trend reversal signs and warnings may protect investors from losing the profits made and at least give time to react before the whole investment is gone. What is more, the signs may also indicate an opportunity for an investment to take place when a down-trend is reversing to an uptrend.

Chart patterns are said to be "visual representation of the branch of psychology known as crowd behavior" (Owen & Griffiths, 2010 p.48). The stock market is mainly driven by human behavior, and therefore over time the stock market will reflect that assumption. The stock market consists of large groups of people who act as one, meaning they are normally either too optimistic or too pessimistic (Owen & Griffiths, 2010 p.16). More accurately, the market is driven by human behavior in the short-run, while in the long-run the market will be corrected and value shares according to the true value of the business (Schmidlin, 2014 p.233). Furthermore, share prices might rise or fall drastically due to "market mania" when earnings and dividend growth are pushed to the side by the collective belief of a crowd that the "financial gravity did not necessarily apply" (Winslow, 2003 p.35). For the majority of investors, emotions play a critical role and distort the ides of "buying low and selling high". "Studies in behavioral finance have proven that human behavior is irrational and unpredictable when it comes to money" (Winslow, 2003 p.42). Stocks that are hyped by the media can quickly fall out of favor and as demand decrease a rapid price decline occurs (Pistolese, 2006 p.91). The conclusion that can be drawn is that investors and traders are not always rational and can make emotional errors that affect the price of the shares (Weigand, 2014 p.17).

When looking for an investment to implement a long-term tactic of buy and hold, sometimes it might get a bit tricky. A share, which price is rising is not the best buy, as Owen & Griffiths (2010 p.36) points out "in a rising market all shares will float up". This means that the share rides the market wave but does not have any upward potential of its own. Therefore relative strength of a share can be calculated by comparing to other shares in the same industry. Corporate earnings drive the stock value, and the earnings

in turn are determined by the business cycle (Owen & Griffiths, 2010 p.16). The stock market leads the economy by about half a year; rising ahead of recovery and falling before recessions (see Weigand, 2014 p.37). Knowing this is important when analyzing the stock charts. A good point Logan highlighted in her book is the fact that mainly traders are not concerned about the fundamentals behind a price movement of a stock, in fact, they are more focused visually, looking for clues when the stock is going up and when it is going down. In other words many might see fundamental analysis and technical analysis as two opposite ways of evaluating which stock is a good investment.

5.2 How the Analysis was conducted

The background material was collected mainly from three secondary sources; technical analysis introduction (Owen & Griffiths, 2010), trend analysis (Logan, 2014), and stock selection using technical analysis (Pistolese, 2006). In addition these sources were used as guidelines when analyzing the charts. Share price data was mainly collected from the companies own homepages (Hermès, LVMH, Prada). If not all data was found from there, additional sites were sourced. LVMH average share price was gathered and calculated from Euronext's page. To get the highest and lowest price Excel was utilized as for calculating the average share price for each year. All the charts used in the technical analysis section are from Financial Times interactive chart service. Technical analysis tends to heavily rely on Candle Stick Charts, but due to simplicity the author decided to use Mountain or Line Chart styles.

5.3 Analysis

Prada S.p.A. is listed on Hong Kong Stock Exchange and therefore its share prices are listed in Hong Kong dollar. LVMH and Hermès International are both listed on the Paris Exchange, better known as Euronext. LVMH is in addition included in CAC 40, DJ-EuroStoxx 50, MSCI Europe, FTSE Eurotop 100, which are French and European indices used by fund managers, and Global Dow and FTSE4Good, which are "key indices for socially responsible investing" showcasing the importance of the stock (LVMH, 2016).

5.3.1 Share Price Analysis

From the IPO in 2011, the share prices of Prada peaked in 2013 and fell almost in the same pace as it had risen. In 2015, the highest share price was only 1.10 HKD higher than in 2011. From the highest price during the five year period in 2013, the share price had fallen by 39% in 2015. The lowest share price during the period was found in 2015, a drop of 65% from the year 2013's lowest share price. The average price has also hit its all-time low in 2015 with 37.53 HKD. Prada is the only one of the three companies with falling share prices for more than one year in a row.

Table 15. Prada's highest, lowest, and average share price for the past five years

Prada	2015	2014	2013	2012	2011
12-month high share price	52.00 HKD	71.80 HKD	84.75 HKD	74.10 HKD	50.90 HKD
12-month low share price	22.40 HKD	42.95 HKD	63.75 HKD	31.55 HKD	27.00 HKD
12-month average share price	37.53 HKD	55.00 HKD	74.20 HKD	52.81 HKD	39.07 HKD

Hermès share prices have risen during the five-year period quite reliably. The highest share price during that time period was recorded in 2015 at €355.25 and the lowest in 2011 at €140.10. Since 2011 the highest price has risen by 32%, while the lowest increased by an impressive 95%. The average price of the share increased from 2011 until 2015 by 65%. Only three cases can be found where the price did not surpass the previous year's price; in 2012 the highest share price was €7.70 higher than 2013 and in 2014 the lowest share price was €3.33 lower than in 2013 as well as the average share price was €0.20 lower in the same year.

Table 16. Hermès' highest, lowest, and average share price for the past five years

Hermès	2015	2014	2013	2012	2011
12-month high share price	€355.25	€317.40	€283.20	€290.90	€268.74
12-month low share price	€273.72	€223.95	€224.15	€207.70	€140.10
12-month average share price	€324.65	€252.40	€255.73	€241.84	€197.34

LVMH's share price has improved quite well, but not as remarkably as Hermès' shares. LVMH has seen an increase in their highest share price year after year, until 2014 when it was €2.43 lower than the year before. The lowest prices of each year have uninterruptedly kept increasing. Similarly, it can be noticed that the average share price did not surpass the previous years in 2014, but only by €0.07. As a result, from 2013 to 2014 the share price did not improve at all.

Table 17. LVMH's highest, lowest, and average share price for the past five years

LVMH	2015	2014	2013	2012	2011
12-month high share price	€176.60	€132.80	€135.23	€126.53	€119.27
12-month low share price	€123.50	€109.05	€106.16	€97.33	€84.86
12-month average share price	€156.42	€122.15	€122.22	€113.05	€103.63

5.3.2 Trend Analysis

A trend indicates in what direction the market is moving; up or down (Logan, 2014 p.9). The bull phase is when the market is in a long-term trend upwards with short-term price movements downwards (Pistolese, 2006 p.5f). The long-term down trend is called a bearish phase with relatively short price movements upward. What makes the share prices rise in a bull market is improved economy and increased earnings by companies. "The most exciting and rewarding time to be invested in stock is during the bull market phase" (Pistolese, 2006 p.15). For an investor to profit as much as possible from a trend, identifying it in an early stage is important (Logan, 2014 p.6). In a quickly declining bear market it might be hard to find shares worth investing in in the long-term (Pistolese, 2006 p.73). But if an investment has already been made before the bear market took form, estimating whether the bear market will be short and shallow or long and deep is important when deciding on a hold or sell strategy (Pistolese, 2006 p.85).

A downtrend is characterized by declining peaks and declining bottoms and an uptrend by rising peaks and rising bottoms (Logan, 2014 p.15). A change in trend from uptrend

to downtrend or the reverse can be noticed when price peaks begin declining or price bottoms begin increasing (Logan, 2014 p.130). In an uptrend, a loss of momentum can be seen when the price starts moving sideways. A sideways movement implies that there is no current trend. A peak rising lower than the previous peak signals a decline. Also a head-and-shoulder top is a clear sign of reversed trend when the neckline has been broken. A stock falling from a high peak and staying at a very low price for a long period making a flat pattern should be avoided. It indicates that investors no longer have interest in the stock and there is no certain answer on how long it will take for the management to resolve the underlying problem (Pistolese, 2006 p.88f).

Understanding the major trend is important for investors when making an investment decisions. Long-term trends last longer than six months. For some a trend should last longer than one year to be classified as long-term trend (Logan, 2014 p.28). It is normal that a long-term trend will be facing some price movements as nearly no long-term trend will move smoothly in one direction. A long-term trend is formed by multiple intermediate-term trends. Price movements against the general trend are called corrections, and sideways moving price movements are called consolidations. Corrections and consolidations are only short-term price movements, since the long-term trend does not change until it is interrupted and starts moving in the opposite direction. Extension of a trend means that the intermediate-term trend moves in the same direction of the main trend. Extensions tend to last longer than corrections. Typically, intermediate-term trends last from a few weeks up to few months (Logan, 2014 p.31). Short-term trends are also known as minor trends or swings and last for a few days up to a couple of weeks. Short-term trends are what drive swing traders, and not of interest in this paper.

A feature of technical analysis is called support and resistance (Owen & Griffiths, 2010 p.42). The point where the shares are not bought anymore and the price halts its upturn refers to the resistance. On the opposite when investors halt a downturn by starting buying is referred to as the support. These two points showcases where people are targeting to buy and sell and they can also be called floor and ceilings. A strong ceiling or floor might be a warning signal for a potential reversal (Logan, 2014 p.108). A change in direction while in an uptrend might be noticed when the price closes under the support line (Logan, 2014 p.122). In a potential trend reversal the classical sign is a price closing above the resistance.

A trendless phase means that there are no clear peaks or bottoms, the price moves sideways, the moving average is flattened or rolling, and the price movement is somewhere between support and resistance lines (Logan, 2014 p.24). "Many unconfirmed reversal patterns turn out to be periods of consolidation and are eventually followed by resumption rather than reversal of the trend" (Logan, 2014 p.105). The highest priority in intermediate- and long-term investing should be protecting the invested capital (Logan, 2014 p.114).

Prada's four and a half year long chart, from June 2016 until the end of year 2015, showcases mainly four different stages: intermediate-term downward trend, long-term bull phase, a double top, and a long-term bearish phase. The first one is the decline that began shortly after the IPO in 2011. The decline lasted until the beginning of 2012 when the share price got new momentum and rose until the highest peak in March 2013. The price chart formed a head and shoulder that seemed to reverse the uptrend to a downtrend. The price did find some support and managed to get stuck in a phase of sideways price movement. After the beginning of 2014 it was finally certain that the trend had reversed and the share price started decreasing and turned into a bull phase that continued downwards until the end of 2015. Many intermediate-term trends of corrections can be noted during both the bull- and the bearish phase. In 2014 a set of consolidation can be seen as well.
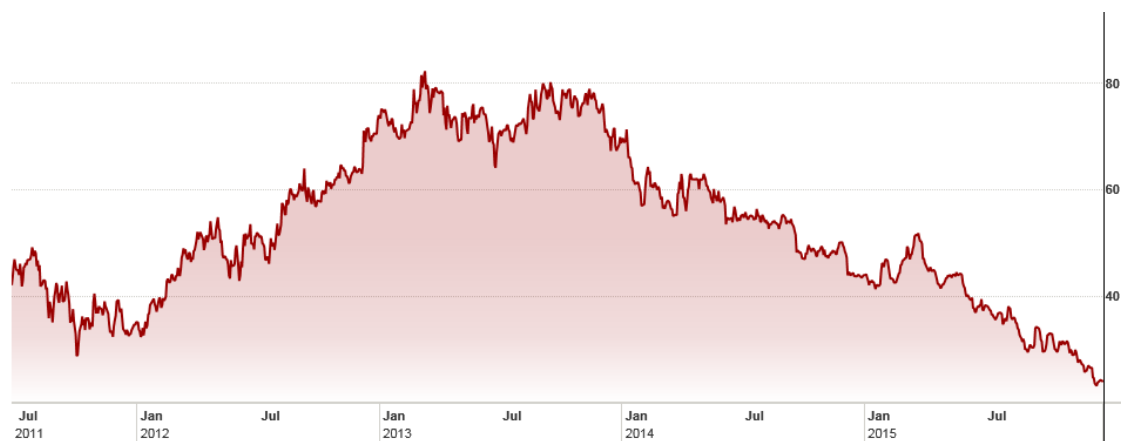

Figure 4. Prada stock price chart from 2011 to 2015 (Source: Financial Times)

Hermès chart showcases five years of price movement from 2011 until 2015. From the beginning of 2011, it took about eight months for the share price to increase in a bullish way. From there onwards the upward trend encountered some corrections and exten-

sions. In May 2012 a bullish phase started, which bottomed out in October the same year. From there forward the market was characterized by falling peaks and rising bottoms. In November 2014 the price broke through the resistance and started forming new peaks. Some consolidation was encountered, but the force of the upward trend managed to find momentum. After the second half of 2015, after an intermediate-term of consolidation, the peaks formed a head and shoulder pattern potentially indicating a reverse in trend direction.
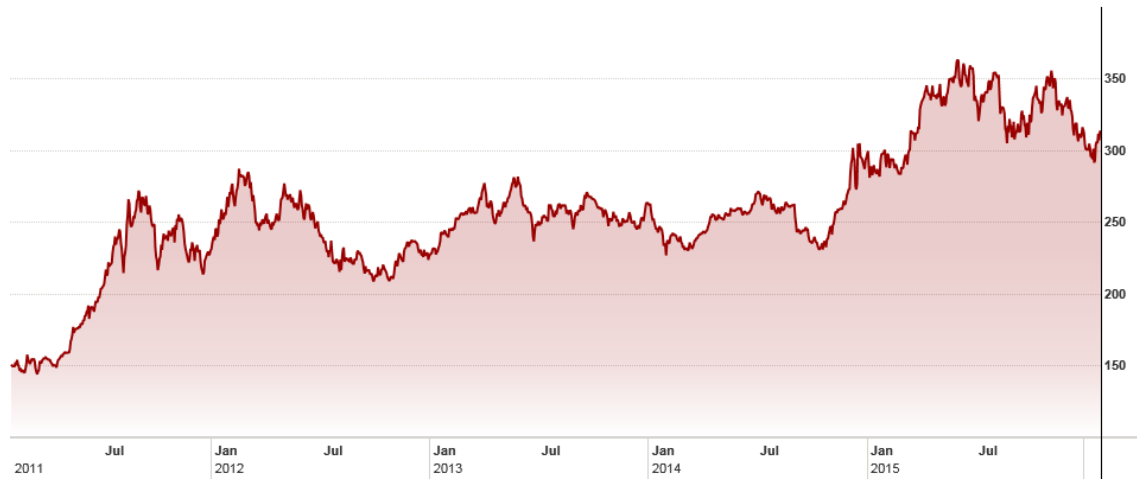

Figure 5. Hermès' stock price chart from 2011 to 2015 (Source: Financial Times)

LVMH's chart has the clearest bull phase in the long-term, which has lasted since the beginning of 2011 until the beginning of 2015. The upward trend has fluctuated quite strongly, showcasing multiple corrections and extensions. In the beginning of 2015 the price reached new heights. An interesting pattern was formed when the peaks became higher than the previous ones and yet the bottoms continued increasing. The somewhat extreme fall in price was countered the second half of 2015 and a new peak was brought down with what might be start of bear market.
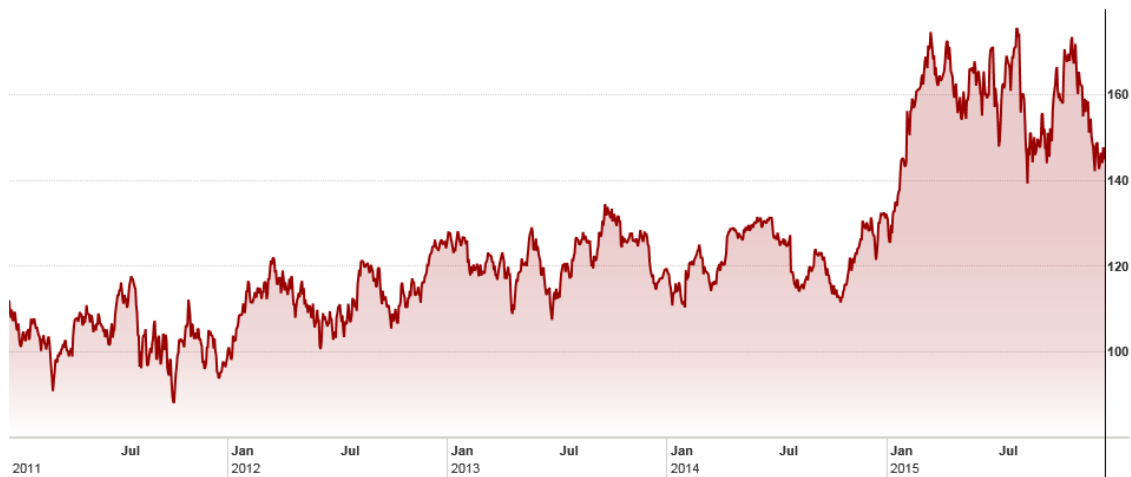
Figure 6. LVMH's stock price chart from 2011 to 2015 (Source: Financial Times)

The trend's percentage rise or decline is defined by specific closing price highs and closing price lows (Logan, 2014 p.42). Prada's uptrend from 3 October 2011's HKD28.80 until 5 March 2013's HKD81.55 distance of advance is calculated as 65%. From 4 September 2013's HKD80.00 to 22 December 2015's HKD23.20 Prada's distance of decline is calculated to be 71%. Hermès long-term trend has advanced by 60% from 16 March 2011's €144.05 until 2 June 2015's €363.35. Prada reached an even higher percentage in its upward trend, but in a much shorter time period. LVMH on the other hand has also advanced by 50% from 4 October 2011's €88.13 to 6 August 2015's €175.35.

When evaluating the three stocks in the same chart it becomes clearer that the share prices of Hermès and LVMH follow the same pattern. Regardless, it should be stated clearly that Hermès has outperformed Prada and LVMH in the long-run. Both Hermès and LVMH have had quite similar highs and lows. The largest difference is that Hermès shares profited from the exceptional price increase in the beginning of year 2011. The main reasons for similar share price patterns might be explained by the fact that both are traded in the same market, meaning France, while Prada is traded in Hong Kong. In addition Louis Vuitton and Hermès are key competitors and encounter the same difficulties in the market environment. Both Hermès and LVMH are perceived as much stronger companies than Prada and can therefore hold their position even in difficult market settings.
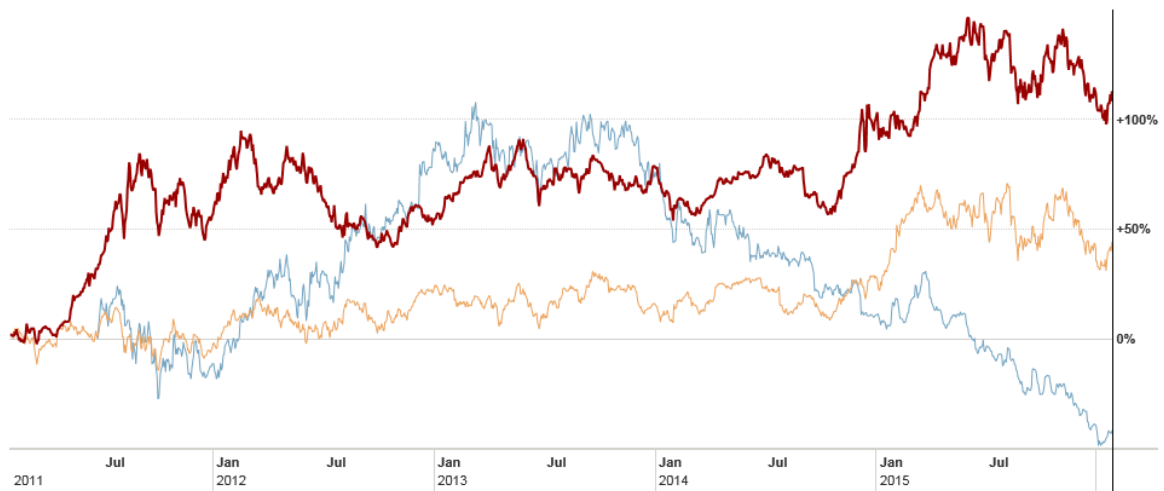
Figure 7. The three companies' stock price charts combined with Hermès in red, Prada in blue, and LVMH in yellow (Source: Financial Times)

5.3.3 50- and 200-period Simple Moving Average

Moving average is plotted over the price line and indicates trends that can be hard to notice due to rapid price movements (Logan, 2014 p.19f). A rising moving average reveals an uptrend, while a falling moving average reveals a downtrend. The moving average lags behind the price, and can therefore not be used for forecasting new trends in advance. However, when the 50-period moving average is broken, it indicates potential change in trend direction, since it takes a significant move for the price to break the line (Logan, 2014 p.129).

When a break of moving average is noted, other signs of a weakening trend should be found to prove the change of trend. In addition, Logan believes longer-term moving averages, such as 100- and 200-period moving averages, should be used only when monitoring potential support and resistance lines. Pistolese (2006 p.17ff) finds a 200-period moving average good for helping evaluate a stocks upside potential. A wide gap between the 200-period moving average and price line is preferable, as it indicates strong price momentum upwards. A gap between price and moving average that fluctuates from wide to narrow indicates that the demand is unpredictable.

A good investment is a stock that's price is above the moving average, which is rising. A falling moving average above the price warns against making a purchase as the risk is large. The price will continue to fall until the company makes changes and predicting

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how long that will take is problematic. A moving average that fluctuates above and below the price signals high risk since the horizontal movement might develop into a downtrend. When a constantly increasing price above the 200-period moving average suddenly changes direction and moves towards the moving average, it is time to be careful. This indicates that the growth momentum has decreased and the stock is potentially moving towards a downtrend.

For Prada, the 50-period moving average fell from July 2011 to around February 2012 and switched to an uptrend. The uptrend was penetrated during a phase of what seemed to be a trendless phase based on the moving averages flat line. The uptrend lasted less than one year until hit a phase decline and increase between February 2013 and December 2013. From there onwards until the end of 2015, the 50-period moving average has showcased a downtrend for the share price of Prada with only some slight outbreaks of peaks. It can be noticed at multiple touch points that the 50-period moving average has been working as a support and resistance line for the share price peaks and bottoms.

The 200-period moving average shows a more simplistic view of Prada's share price development. The 200-period moving average was broken through for the first time in June 2013 after which the share prices made the moving average into a support line for intermediate-term period. In December the same year the moving average was broken once again and from there onwards the line was only broken in an intermediate correction in March 2015. Before the moving average was broken the first time, the gap between price and the rising moving average was wide. The same thing can be noticed in the downward trend where the 200-period moving average has quite a wide distance from the price most of the time.

Figure 8. Prada's moving averages: Yellow line showing the 50-period moving average and the blue line the 200-period moving average (Source: Financial Times)

The most noticeable uptrend for Hermès has been from April 2011 until October 2011, in November 2012 until June 2013, and in November 2014 until June 2015. The stock suffered from downtrends in June 2012 until November 2012 and from a trendless phase in April 2013 until April 2014. The 50-period moving average for Hermès has not showed any extremely strong uptrends or downtrends if compared to Prada's moving average. Hermès did on more occasions break the 50-period moving average that has showcased a wave like motion.

The increase that started from the beginning of 2011 was not broken too severely until June 2012. After this a slight downward momentum could be noticed. The 200-period moving average was broken multiple times until it in November 2011 started its upward momentum. However, in August 2015 the moving average was stuck in some consolidation that after peaking out hit the support lines. The 200-period moving average is either indicating a reverse to a downward trend or the beginning of yet another consolidation phase. The 200-period moving average has been working as a support and resistance line in many cases. In addition, the moving average is much closer to the price than what it was for Prada, which is not a good sign.

Figure 9. Yellow line showcasing 50-period moving average and blue line 200-period moving average on Hermès stock chart (Source: Financial Times)

LVMH's 50-period moving average showcases a fluctuating 50-period moving average that has been broken on multiple points. The moving average increased strongly from until it got in a trendless phase for a while. In the second half of 2015 the 50-period

moving average fell, signaling a change in trend. However, that did not happen straight away but rather after yet another fall in share price.

The 200-period moving average has moved between the peaks and bottoms all the way until 2015 when the price finally towered over the moving average making a great gap between the moving average and the price. After the price broke through the moving average in the second half of 2015, it started changing direction, indicating a reverse in trend. In contrast to Prada and Hermès, LVMH 200-period moving average does not show clear resistance or support lines. Additionally, the moving average doesn't until the beginning of 2015 have enough distance to the price, showcasing how unreliable the price movements have been.

Figure 10. A stable blue 200-period moving average and a more volatile yellow 50-period moving average for LVMH (Source: Financial Times)

The 200-period moving average follows the direction of the primary trend, while the shorter 50-period moving average picks up the secondary trend. Buy and sell signals can be triggered when the 50-period moving average crosses over the longer 200-period one (Owen & Griffiths, 2010 p.40). When both moving averages are rising when the cross over takes place: it is called a golden cross. When both of them are falling it is called a dead cross. For Prada only a dead cross can be noticed, which is a bad sign. Hermès has gone through quite a lot of dead crosses and golden crosses during the past five years. The latest one occurred in the last time slot, showcasing a dead cross. This does indicate that the share price is about to fall, but how steeply and for how long is yet unknown. In many cases the 50-period moving average has dropped below the 200-period moving average resulting in a dead cross, but the movement was later corrected and quite soon

afterwards resulted in a new golden cross. LVMH's moving averages showcases even more golden crosses and dead crosses than Hermès' chart. However, it should be noted that LVMH had a more stably increasing 200-period moving average, while Hermès fluctuated much more. In the end of 2015 it was unclear if another dead cross appeared. It looked like both moving averages were in the phase of changing direction to a downward trend.

6   RESULTS

As can be noted in the background information of the paper, the luxury industry is a growing business. Even though it is said that the future of luxury sales will face growth slowdown, there are some factors that will still contribute in the ability of the fashion luxury companies in this paper to increase sales. Demand for luxury items in Europe and the US are believed to stay at the same level as in the past, which is quite good considering that the US is the largest market for personal luxury goods sales and Europe as a region the third largest. This can be illustrated as well for LVMH where both the US and Europe, excluding France, stood for 22% each of fashion and leather goods sales in 2015. France on its own stood for 9% of total sales. For Hermès France is an even bigger market, accounting for 16% of total sales in 2014, while Europe and Americas were the second and third largest regions respectively. For Prada, Europe is the second largest market, with Italy standing for 16% in 2014. America is not as big of a market for Prada as it is for the other two brands. Overall, Europeans stood for the third largest group of consumers in 2015 globally, while Americans are the second largest consumer group and this is something each company seems to be aware of.

A new customer base is rising in the emerging markets. Moderate growth is believed to come in the future from African and South American countries as well as less acknowledged countries in Europe. The Chinese luxury market has grown exceptionally during the past ten years and might surpass Japan in the coming years as it is currently the third largest market. Chinese are today the largest group of personal luxury consumers. But for now Japan stands for the second largest market after the US, thus putting Japanese as the fourth largest group of consumers globally. For LVMH Asia including Japan

stood for 39% of sales of fashion and leather goods in which Louis Vuitton is included. Thereby Asia is the largest market for the company. Japan on its own accounted for 11% showing that it is the second most important country for LVMH. The same trend can be noticed for Hermès were Asia was the largest region by revenue and Japan the second most important country after France. Knowingly, Asia-Pacific is also Prada's largest market. Japan is similarly important. During 2015 the consumption of luxury products in China slowed down, hitting Prada the worst. Prada is already trying to settle into the African market, which might be a profitable decision in case Asia continues to struggle.

Table 18. Sales by region and main countries for each company
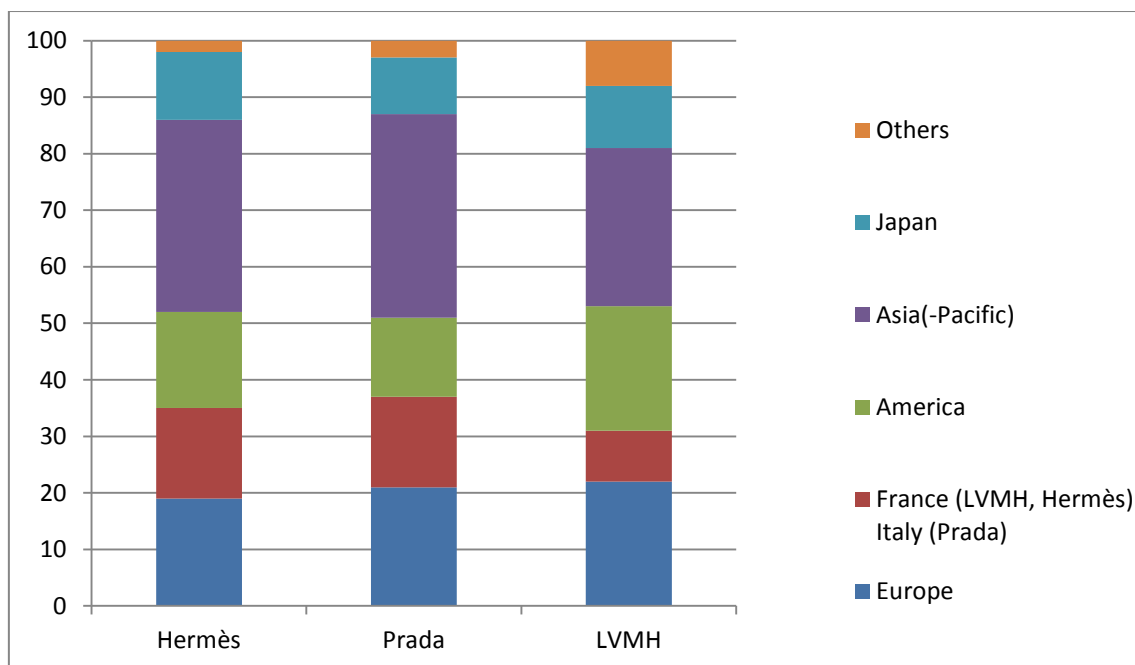
Louis Vuitton is the only one of the three companies only being available through its own retail network. Hermès operates two thirds of their stores directly. Prada has a distribution system mix of retailers and wholesalers, but planning to extend their retail network at the same time as the wholesale section is minimized. This might be a profitable move for Prada as the retail section showed growth in 2015, while the wholesale sales dropped by 16.6%. Prada is also the only one with licenses and royalties from its sunglasses and fragrances, which also were showing growth in revenue.

There will be no lack of millionaires and billionaires being able to afford the products of Hermès, Prada and Louis Vuitton, on the opposite even common people are able to ac-

quire some of their products. The problem they will be faced with is how to stay exclusive enough for the key customers to stay. Changing tourist flows, currency swings, and global pricing strategies are some of the challenges each company has to deal with. Nevertheless, heritage brands are said to have an advantage in the market. A portion of revenue luxury retailers will miss out on are used in the experience industry, including holidays and entertainment. Customers are said to be willing to pay full price for classic items, a good sign for both Hermès and Louis Vuitton, whom both seem to rely heavily on proven classical items such as bags. For Hermès the core business is leather goods and saddlery, similar to Louis Vuitton's and Prada's leather goods category. Ready-to-wear seem to be the second most important group of products. Regardless, Prada's footwear surpassed the sales of clothes in 2014.

The presence of global investment banks affects the company shares positively. For Hermès this would mean Carmignac Gestion SA, Parisian investment manager, and Norges Bank Investment Management, part of Norway's main bank. Norges Bank Investment Management also invested heavily in LVMH, and Massachusetts Financial Services Co, one of the oldest asset management companies in the world, was the top holder. For Prada the main institutional investor was Harris Associates LP, a US-based investment manager of international equity, and Oppenheimer Funds, Inc., another US-based fundamental analysis heavy investment manager. Foreign issuers are said to significantly underperform domestic offerings, which is quiet accurate when comparing Prada, issued in a foreign stock exchange, to Hermès and Louis Vuitton, which both are found in their home stock exchange in France.

Luxury companies have a business model that is of interest for investors as their "products are sold at a distinct premium due to brand name, image, technology or quality" (Schmidlin, 2014 p.103). Louis Vuitton's strong position in the market is mainly due to management performance as well as star brand status. A star brand was characterized as a highly profitable, timeless, modern, and fast growing company, and therefore Hermès would also fit this description. Wright (2010 p.59) believes the key to success in investment is recognizing and appreciating good value, which in this case would be Hermès and LVMH.

Weigand (2014 p.101) took up in his book that there are three criteria that a potential investment should fulfill to qualify; these are growth in revenue, profits, and dividends. First off, growing revenue and operating profit in the past might not be enough if the company cannot prove that the growth will continue in the future. For Hermès, regardless of the yearly increase in revenue and operating income, the company believes that sales growth in 2016 might be uncertain. This might be a sign of concern if the company does not believe in their ability to increase demand. Actually, many of the ratios analyzed in the fundamental analysis have another opinion regarding this statement, as most of them see Hermès as a fats growing company. In addition, Hermès has the most stable revenue and operating profit growth and thereby they will certainly be able to keep it up that way in the future. Prada has the least potential sales growth when looking at the stagnant or decreasing figures from the previous years. LVMH has the strongest sales growth potential due to its diversified portfolio of brands in different industries and markets. During economic difficulties, performance of stronger brands might drive the growth while weaker brands are underperforming. Equally to Hermès, LVMH has had a strong and stable increase in revenue and operating income over the years.

Higher EPS companies' shares are worth more and thereby investors will pay more for them. Hermès has shown consistent growth in its EPS; a good sign. Prada's EPS started to decrease in 2015 possibly indicating something worse for the future. LVMH's EPS have fallen twice, but seemed to start its recovery in 2015. This is a positive sign, but still not strong enough on its own.

Hermès has the best dividend distribution policy of all the companies. The dividend has increased yearly, positively reflecting future dividend payment estimates. LVMH has also had a year-by-year increasing divided, something that is of interest for investors. Prada's dividend payment growth stopped in 2015, a negative sign when in hopes of increased dividend in the future. Both Hermès and LVMH have large, sustainable dividends and great growth prospects. A stable or growing dividend payout ratio is preferred as it signals positive growth of the company. All three companies show an increasing dividend payout ratio expect for some small exceptions. Thus far, Hermès and LVMH seem like sound investment options, while Prada would not make it further in the analysis if it was only based on these characteristics for a long-term investment.

All three companies have high gross margins, making them more lucrative than companies with low gross margins. The higher the operating margin and profit margin are the better (Pistolese, 2006 p.24). Hermès showcased the highest operating and net profit margin, double the size of Prada's. However, Prada and LVMH have quite equal margins, meaning none of them seems to be doing too bad; anyhow, Hermès has an edge over the other two companies at this point.

Hermès is superior compared to its peers, but evaluating whether or not the stock is extremely overvalued is the next step. Some might say that Hermès shares are overvalued due its P/E ratio of 36.9, but due to the company's exceptional ability to maintain increasing EPS, the higher than normal P/E ratio can be justified. Both LVMH's and Prada's P/E are in range with the standard. It is even said that low P/E ratios outperform high P/E ratios over the long-term (Weigand, 2014 p.111). Thus, the conclusion is that for the P/E value each company seems to be reasonably valued. Based on P/B ratios investors are willing to pay a premium for only Hermès' shares, while Prada's and LVMH's P/B closer to 1 is said to be good.

The dividend yield might be one of the most important ratios to look at to decide if the investment is worth it or not. The larger the yield is, the larger the income will be potentially. A high yield indicates higher risk, which an investment in Prada would imply. Hermès has the lowest yield, and an even lower prospective yield. An extremely low dividend yield might indicate problems, and should be avoided if not investigated further (Weigand, 2014 p.111). Thereby it can be confirmed that dividend yield of Hermès is too low at the moment. LVMH's dividend yield seems to be adequate enough to outperform Hermès and investors might find the yield enough to indicate further dividend increases.

Hermès has low debt levels, while Prada is in sync with the industry. LVMH, however, has collected the most debt. Thereby, LVMH is more vulnerable, than the other companies, if increases in interest rates occur. As mentioned in the analysis, LVMH's debt levels are of big concern for the investor and should thereby be monitored more closely. The debt levels could of course be a result from other actions regarding other industries such as the wine or selective retailing sectors, but the debt is still part of the overall company and should be watched. Hermès is considered very profitable based on its

ROE, ROA and ROI values. Prada's and LVMH's ROE are within the industry range, but for ROA and ROI both are under the industry average, which could be a problem for most investors.

The risk of investing in each company seems to be quite low, considering each of them have a beta lower than 1. This is quite a positive sign in that sense that consumers tend to cut back on consumption during weak economic times, but for these companies it does not seem to be the case. This only strengthens the theory that luxury consumers will be able to purchase luxury goods regardless of economic conditions, just like consumer necessities. However, from a long-term investment point of view a low beta, incorporating low risk might mean that the returns are also lower. When focusing on risk the low-beta characterized by all three companies is a good sign, as it shows that the companies' fundamentals are stable. This is what investors need in the long-run, as the low beta might also reflect increases in dividends in the future. Especially for Hermès, economic difficulties that affect the overall market, will not affect it as badly, since the company moves 32% less than the market. Prada has a quite equal setting, while LVMH is closer to the market beta. The average alpha of each company was also positive, meaning that they all outperformed the benchmark index. Hermès had the lowest Alpha, which was close to 0, while Prada was considerably higher. A high alpha is preferred when making long-term investments and this case Prada outperformed the rest of the companies with a high alpha and low beta. Therefore, it could be said that risk wise Prada seems to be the best option in the long-run, even though other ratios of the company that have been analyzed imply something else.

Based on analyst recommendations, both Hermès and Prada should be hold. To be more specific Hermès leans towards outperform as Prada is underperforming. Actually more analysts have put a buy for Prada than Hermès, showing how split the views of the analyst are. LVMH is somewhere between hold and buy, indicating that analysts see this as the best company to invest in at the moment. It should also be noted that LVMH had the largest amount of analysts following the company, while Hermès had the least.

The interest in Hermès has stayed strong throughout the fundamental analysis. LVMH is also impressive, but not quite up to Hermès standard. Thereby the second part will

take a look at the technical analysis, where Prada might still have a chance to redeem itself.

Hermès' and LVMH's shares have increased reliably over the past five years, indicating that the increase might continue. Prada's shares have on the other hand decreased drastically, and whether or not the share price will ignite investor interest is uncertain at this stage. For a long-term investor the yearly income meaning the dividend payment will weigh more than capital gains when deciding if an investment should be made. However, a rising share price shows confidence in the company, and that their earnings will hopefully increase and therefore a rising one should be chosen over a stagnant or declining one. If it would be certain that Prada will increase its share price in the future we would be assessing the situation in another light, but so far, there has been no sign that there will be an upturn in the future.

The best time to be invested in stock is during the bull phase. The bear phase should be avoided, especially, if it is rapid. Based on this Prada would not at the moment fit the characteristics as it is in a long-term bearish phase. Prada could, however, start a price increase, as it looks like it might have hit its bottom. But signs for this should be monitored, as it could as likely just be a correction or correlation. Prada had the strongest uptrend when calculating the percentage rise compared to the two other companies. The following decline, calculated to be 71% can be explained by the research result stating that fashion companies underperform 36-months after the IPO by up to 31.5%. The long-term decline did started occurring 27 months after the IPO, and when the approaching the 36-month deadline, the company stock was quite correctly underperforming. Thereby the assumption that fashion IPO's will not succeed in the long-term was quite correct.

Hermès past share price chart showcased inconsistent movements both up and down. The long-term trend has been rising by up to 60%; a strong increase is seen as an attractive share. The intermediate-term trends have been falling quite often. The latest phase in the chart showed an intermediate-term decrease, which either could indicate that the bearish phase is starting or that the long-term upward trend correction provides the investor with a less expensive share price. Overall, Hermès has outperformed both Prada and LVMH in the long-run.

LVMH had a stable upward trend in the long-run, advancing by 50%, but has hit some intermediate-term decreases in 2015 making it uncertain in which direction the trend will continue. As with Hermès, the share has stopped in what looks like a phase of correlation, and might either start a further decrease or give a good chance for investing before the upward trend continues. Actually, since Hermès and LVMH share price patterns have been quite similar, it would be helpful to continue monitor both companies' share performance in an attempt to find signs not clear in one of the company's charts before it takes place in the second ones.

The results from the 50- and 200-period moving average analysis is that Prada's moving averages show the clearest in what direction it is moving. Only one golden cross was found that signaled the change in trend, while the 200-period moving average was broken only a few times and moved quite far away from the price. For Hermès both moving averages have quite clearly shown how the trend is changing. Additionally, the moving averages have often had some space between the price and themselves which was said to be a good sign. LVMH's moving averages told another truth. They were so close to the price that it is hard to predict or even notice when a change in trend might occur. This would indicate that out of the three LVMH's price changes are the most unreliable as the moving average doesn't have time to react.

The findings combined would thereby indicate the following: Prada would be the riskiest, or more precisely the most uncertain investment. Its fundamentals are in many cases in line with LVMH's, but Prada does not provide ratios and figures that are worth the risk other than the alpha and beta. From the technical analysis point of view the stock chart has fallen to its all-time low and there is no certainty that it will be able to reach a new height anytime soon.

LVMH's fundamentals seem to be in most cases in order. The only exception is the debt level that is much higher than the rest of the companies. LVMH does have the strongest buy recommendation from analysts. Recommendations were advised not to be taken too seriously, but they still do count for a part of the analysis. Compared to Hermès, LVMH share price is not extremely high and the dividend has been increasing well. The stock chart has had a clear long-term uptrend, which is good in case LVMH can keep it up in the future as well. Thereby LVMH's share could be seen as a potential investment that

could bring yearly income in form of dividends and hopefully increase the share price even further to make large capital gains.

Hermès had the strongest fundamentals of the three companies. In some cases the stock might seem overpriced, but the market still seems to be quite confident in the company's rapid growth. Hermès has had a solid dividend increases and at the same time be the most valuable of the three stocks. From the technical analysis point of view it would be good to time the buy when the price is lower and showing signs of an uptrend. In conclusion, based on the fundamental- and technical analysis, as well as the background information, two out of three luxury fashion companies' shares would be investment worthy. Investing in Prada could in some case be justified, but this should be debated and looked more carefully into before making any decisions. Basically it could be said that investing in the market at the moment is a good option for investors.

7 DISCUSSION AND CONCLUSION

The author of this paper agrees to some extent on what has been discovered in analysis. The reason behind why the author believes that the shares will increase in value and make a great investment is based on many factors. To start off there will always be a demand for fashion luxury companies' products. The world will always have rich people that can afford these products. One potential problem that the companies might come across is the loss of key customers. It could happen if they perceive that the products are not exclusive enough. This is something that could affect Louis Vuitton in the first hand, as star brands need to be recognized of the general public. When everyone knows the brand, more and more people want to buy it and that would lead to failing to be exclusive. Even right now when going outside, more people seem to have Louis Vuitton bags than any other brand, and the bags are still perceived as expensive. In addition, Louis Vuitton has had in the past, as well as now, problems with counterfeit goods that destroy the image of expensiveness. How the companies plan to stay exclusive at the same time as they grow will become complicated. However, if they are able to balance the demand and supply the luxury fashion companies should be able to increase dividends and share prices at the same time. Secondly, luxury fashion companies

are quite good investments as theirs sales do not fluctuate as widely as in some other industries. The same applies for their share prices. This means that they could be seen as safer investments than many other company shares.

The author agrees on the result that Hermès is perceived as a good investment. The best time to invest in it would be after some price-drop since the share is otherwise somewhat expensive. The same applies for LVMH, even though it is priced a little bit more reasonably. LVMH includes in addition to Louis Vuitton and the other luxury fashion brands a great deal of other companies in other sectors and thereby it could be quite a safe investment compared to Hermès. Hermès could bring higher returns when the luxury fashion market is doing well, but LVMH would be more stable during downtrends in that market. Dividend payments were said to have downward protection due to the dividend yield that halts downturns. As a result all of the three companies, but mainly LVMH and Hermès, who have been increasing dividends, are less risky.

In the authors opinion all of the companies are managed well at the moment. Prada and LVMH, whom both have strong managers that focus on the core brand is important for future growth. The only problem is that it is uncertain how long Bertelli and Arnault will stay in charge of the companies. Arnault was said to continue for at least another 20 years before retiring, but in case of illnesses or accidents, how would the companies perform then? Regarding Hermès and its family-owned orientation, whether it is good or not can be debated. Hermès was really well managed when Thomas, a non-family member, was in charge. He believed family-owned companies outperform others, and the author believes it too to some extent since the owners will not sacrifice quality and other aspects in the short-run just to make larger profits. The family-owned business model could in fact, be more sustainable in the long-run, but this is something that should be analyzed in a separate paper. Another point to make is the fact that Hermès has holding company H51, whose members are not allowed to sell during the following 20 years. In addition Arnault and his companies cannot buy shares in Hermès for the following five years either. Knowing this, it could be crucial when deciding on when to buy and when to sell, since these two groups might affect the share price drastically.

Even though it is certain that Prada is not a good investment at the moment due to its lack in fundamentals and underperforming shares, the author feels that it might still rise

in the near future. In that case, it would be wise to invest as soon as the stock seems to change trend and start a long-term uptrend. Prada might not be as strong as the other two companies, but the company has long-term growth plans that could result in great returns in the future. Additionally, Prada's stock was said to have least risk incorporated due to high alpha and low beta, which should indicate solid fundamentals and accordingly be stable in the long-run. Thereby investing when the price is at its lowest could be a good investment if the investor is willing to hold the investment for a long period of time. Thus the following citation would be appropriate when having the shares of Prada in mind: "It takes courage to purchase a stock at undervalue, it takes wisdom to sell it at overvalue" (Wright, 2010 p.111).

7.1 Problems and Flaws

When the author began the research it become clear that there is a lot of data available, not just about different tactics and rules on how to invest and how to analyze using different methods but also regarding luxury fashion companies and the market. Thereby deciding on what to choose was problematic at times. To elaborate on the previous statement the analysis part could be made in many different ways and many ratios and figures that were not used in this paper could be equally important when analyzing the company in the same way.

7.2 Further Studies

There are multiple ways in which potential investments can be evaluated and with different methods different conclusions can be made. Clearly, an investor looking for a good time to invest, taking a better look at monthly, weekly, and maybe even daily stock charts would be recommended. The paper only focuses on the five-year trend, leaving out the more detailed stock chart analysis. Calculating the future discounted cash flow would be one of the best methods to use when evaluating if the companies' shares are good investments. Therefore, the author would advise it to be included in more in depth studies.

The paper did not include any luxury fashion companies listed on the American Stock Exchange that is strongly driven by the four year trend set by presidential elections. An-

alyzing an American company might be different and thereby also something that could be considered in further studies. More specific studies could also be conducted where the importance of different strategies taken by the companies is compared to share price performance. For example changes made in online marketing, campaigns, and product assortment might affect the share price either positively or negatively. Finding out what drives the price could be crucial when deciding on when to execute a buy or sell.

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