# Christian Dior

**Christian Dior SE (DIOR.PA, Market Capitalisation EUR 70.77 bln)[1] commonly known as Dior, is a French based holding company that controls a 41% interest in Louis Vuitton Moet Hennessey (LVMH). Dior was founded in 1946 by Christian Dior who applied his architectural foundation to create genuine works of art that women can wear. In 2017, LVMH acquired Christian Dior (the fashion house) in a US$13.10 bln deal, consolidating LVMH's offerings which is today the largest luxury goods conglomerate in the world earning its revenue through six principal product lines: Christian Dior Couture, Wines & Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewellery and Selective Retailing. Christian Dior owns some of the most prominent and recognisable names in its respective industries operating through over 400 subsidiaries around the world.**

**For the purposes of this report, LVMH and Dior are interchangeable as they report revenues and profits under the same umbrella. From an investors stand point, the separation of ownership in LVMH provides arbitrage opportunities as outlined in the valuation section of this report.**


The luxury goods industry, like many others has been hard hit by COVID-19 in 2020 with all industry leaders anticipating a loss of profits caused by the closure of distributors and restrictions on tourism. Given the capacity and agility possessed by Christian Dior / LVMH, we have few concerns about the reductions having longevity and hurting the business over the long-run. The companies operate in a unique position within the luxury goods industry having successfully employed a vast vertical integration model and diversifying its revenue streams on a global basis that positions the company to flourish once a "new normal" is established.

## REVENUE SEGMENTS

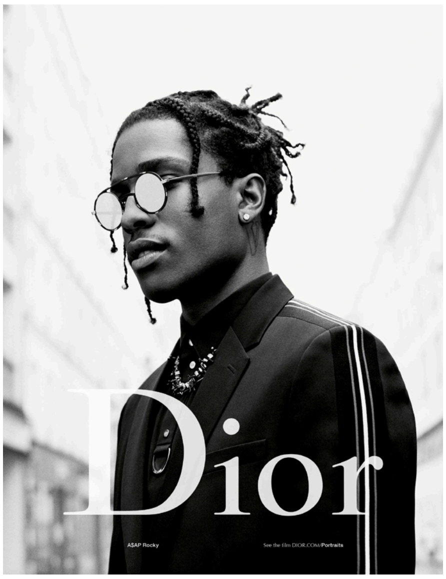
**Wines & Spirits:** Hennessy, Moët & Chandon, Dom Pérignon, Mercier, Veuve Clicquot. *2020 Sales € 5,576 mln 10% of Group Sales;*

**Fashion and Leather Goods:** Louis Vuitton, Christian Dior, Fendi, Loro Piana, Celine, Loewe, Givenchy, Kenzo, Marc Jacobs, Berluti. *2020 Sales € 22,237 mln, 41% of Group Sales;*

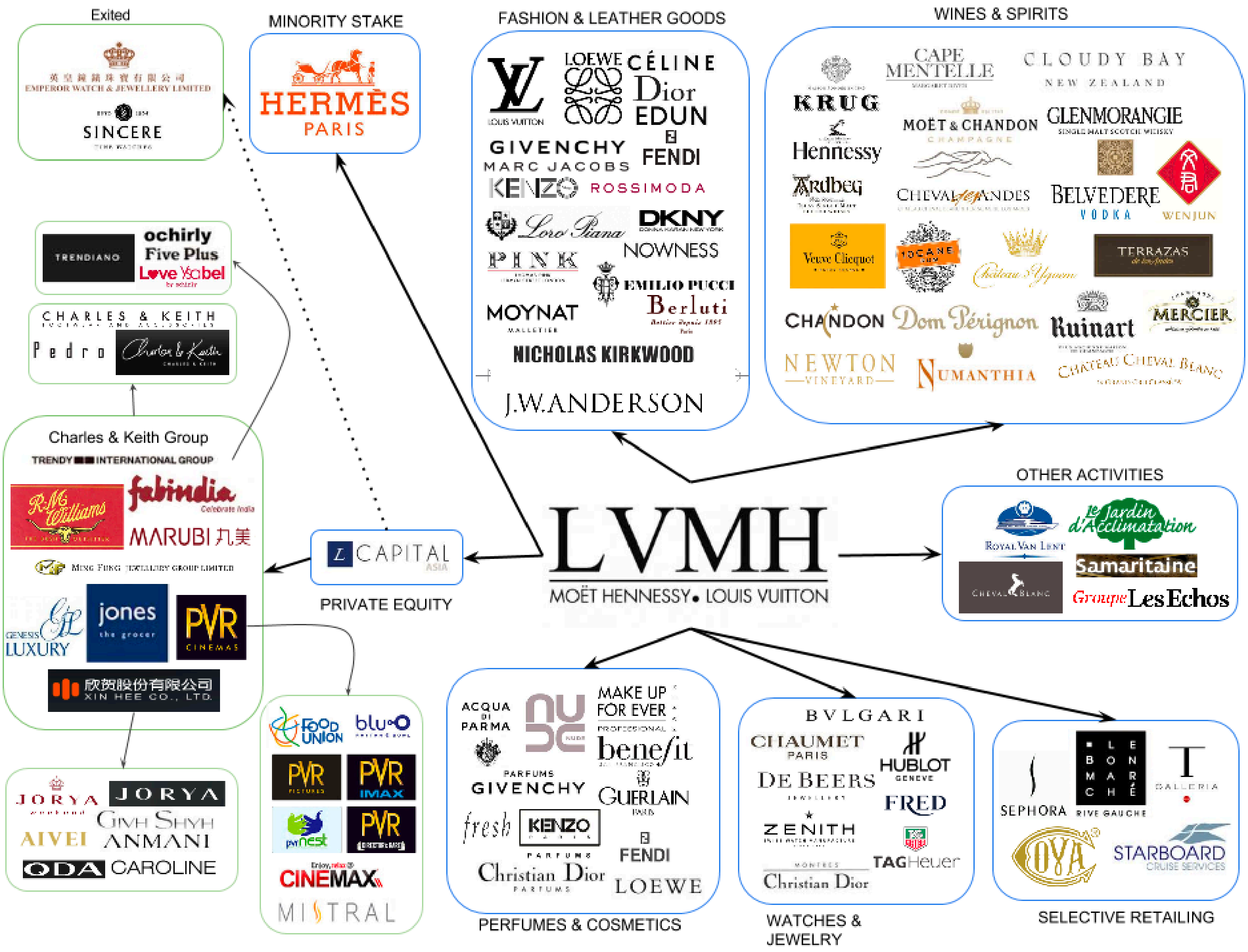
**Perfumes and Cosmetics:** Parfums Christian Dior, Guerlain, Parfums Givenchy, Kenzo Parfums. *2020 Sales € 6,835 mln, 13% of Group Sales.*

**Watches and Jewellery:** Bvlgari, Tag Heuer, Hublot, Zenith, Chaumet, Fred. *2020 Sales € 4,405 mln, 8% of Group Sales.*

**Selective Retailing:** Sephora, Starboard Cruise Services, Le Bon Marché. *2020 Sales € 14,791 mln, 28% of Group Sales.*



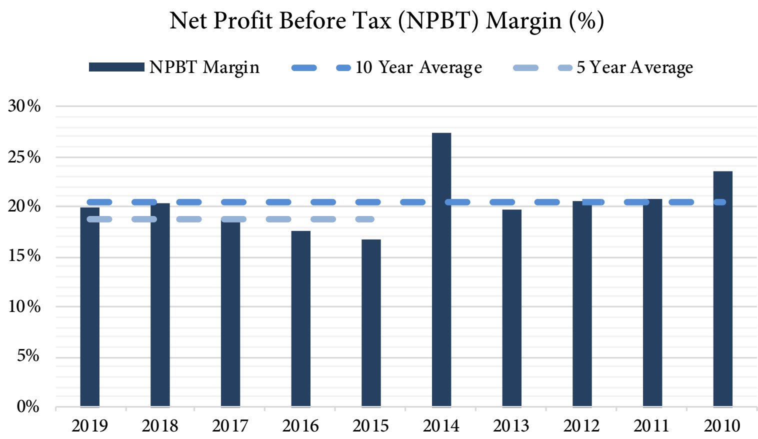
# LVMH SUBSIDIARIES



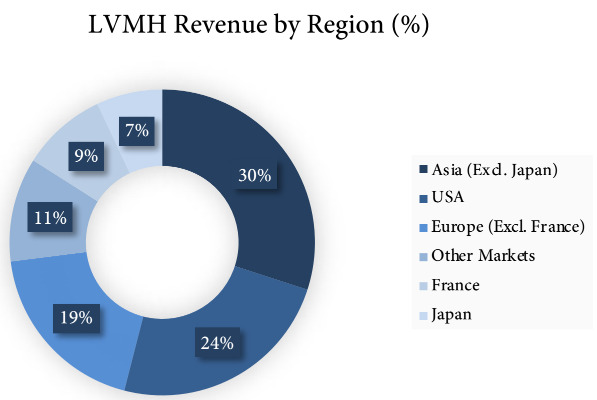
# A WORLD CLASS, LONG-TERM ORIENTATED BUSINESS MODEL

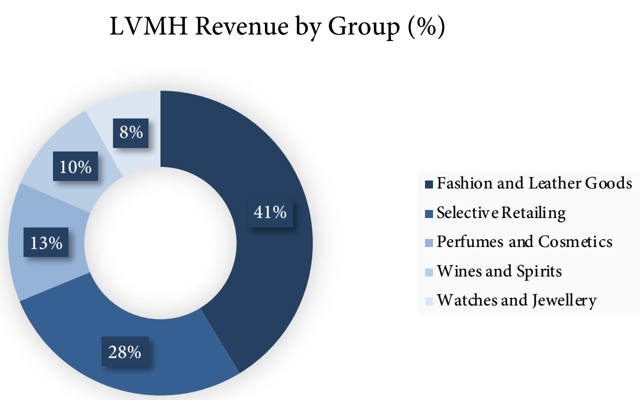
**LVMH's market position is ultimately down to its underlying business model which is anchored by the following pillars:**

1. **Decentralised Organisation:** Despite having a controlling interest in over sixty subsidiaries, LVMH's operating structure and governing principles enables its underlying businesses to function autonomously with support from the wider group. This allows businesses to cultivate meaningful relationships with customers and provides respective management teams a platform to ensure agile and effective decision making.
2. **Organic Growth:** While LVMH has the means to aggressively conduct M&A transactions, its primary focus remains on developing the houses it already owns. What this means is before conducting any external transactions, the company first looks at potential growth opportunities internally. In 2019, LVMH agreed to acquire Tiffany & Co and issued € 9.05 billion[2] of bonds to help finance the US$ 16 billion purchase. This new long-term debt raised LVMH's Net Debt/Total Equity (excluding capitalised leases) from 1.22% to 20.06%. Despite this increase in debt, on 31 March 2020, Moody's reaffirmed LVMH an A1[3] rating citing superior liquidity and growth prospects as the basis for maintaining its industry leading rating. For international retailers controlling debt levels is imperative to ensure liquidity is maintained to allow capital allocation to ensure growth segments are not hampered, else lease payments and/or interest costs could restrict LVMH's ability to grow its top-line if and when a reduction in sales occurs.
3. **Vertical Integration:** Vertical integration helps to reduce costs upstream and downstream, allowing control over every link in the value chain from sourcing and production facilities to the shelves. LVMH from 2010-2019, maintained an average Net Profit before Taxes (NPBT) margin of 20.51%. Vertical integration has allowed LVMH to maintain its profitability levels by ensuring the raw material cost of manufacturing is controlled, they are never over supplied and the quality of materials is aligned with what the consumers expect. Vertical integration also allows LVMH to effectively market itself with authority as a sustainable and responsible manufacturer of goods having direct input into products from the farm to the shelves[4] promoting a circular economy of fashion.

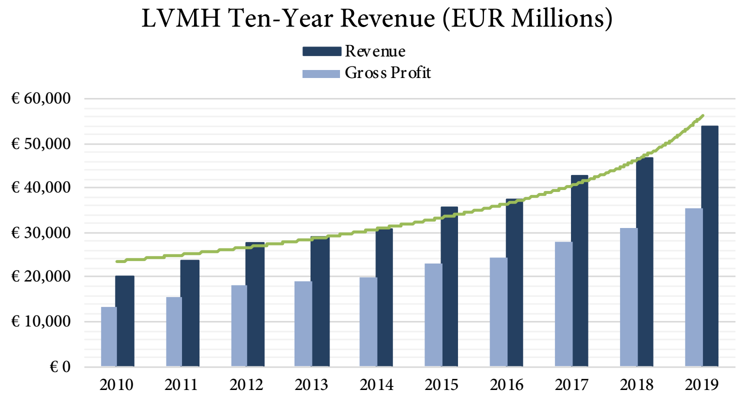



4. **Cultivating Synergies:** By sharing ideas/resources between its subsidiaries, LVMH can harness the collective innovation across the group to drive the company forward. Utilising its enormous geographical footprint that spans all developed markets in the world, LVMH is not short of sources for inspiration.
5. **Diversification:** LVMH is highly diversified in both product mix and geography. This extensive diversification mix helps to reduce direct exposure to idiosyncratic risks of different regions and product lines to maintain a balanced approach to long-term growth.

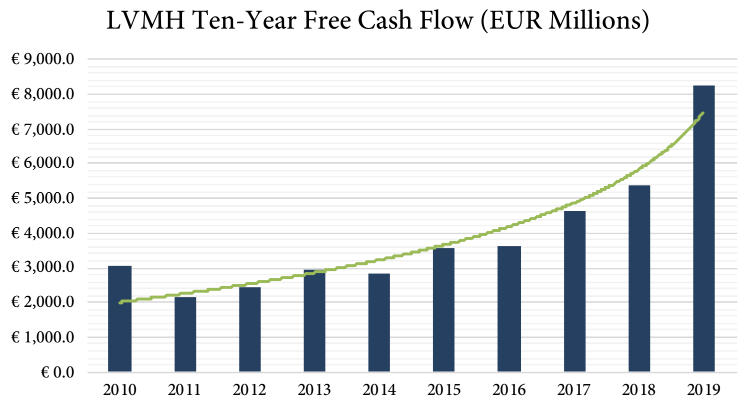


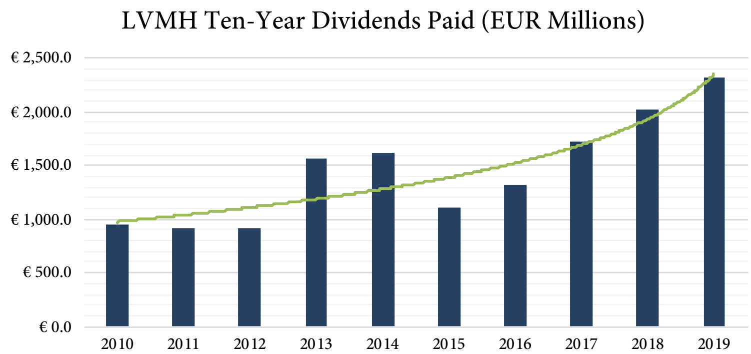
# A LOOK UNDER "LE CAPOT"



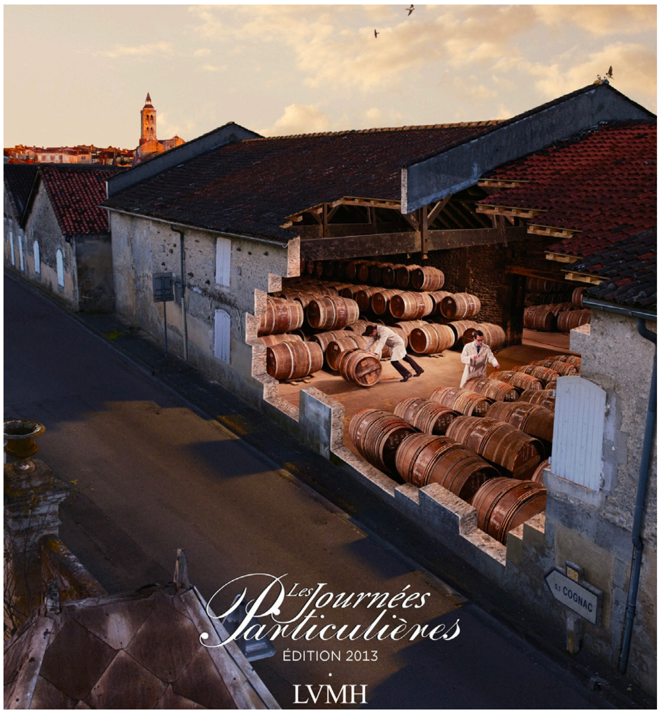

Total revenue from 2010-2019 grew annually at +11.40% will maintaining an average gross profit margin of 65.38%.




Free Cash Flow increased annually from 2010-2019 at +11.73%.




Total dividends paid to shareholders has increased from 2010-2019 at an annual growth rate of +10.42%.


LVMH's financial performance is a testament to its governance and innovation. It is little wonder why the company has experienced significant expansion during this period. Under the current guidance provided to us by management, we believe that LVMH is well positioned to continue to dominate the luxury goods market for years to come given the industry's high barriers to entry and consumer preference for heritage and popularity.

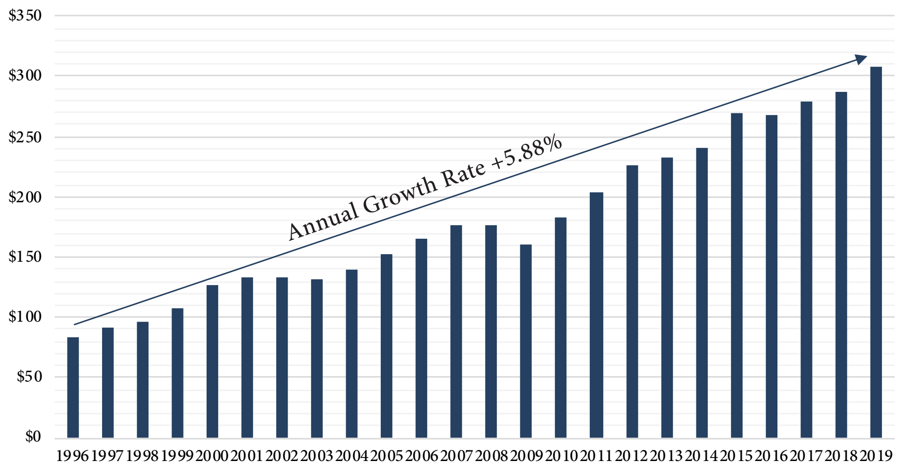
# THE PSYCHOLOGY BEHIND LUXURY DEMAND

There are a handful of reasons why consumers buy luxury. The leather is softer, the suits fit better, but above all else, owning and wearing luxury is a statement to the world that an individual is successful. The phenomenon of consumers wanting to display wealth can be dated back to as early as 1637 when red tulips in the Netherlands were considered a luxury must-have, to own a garden without tulips on display placed individuals 'below' others. They were a status symbol for no reason other than tulips were expensive. It has always been the way of people to actively seek a better life; in the age of consumerism, quality of life for many can be directly associated with the cost/quality of the clothes/accessories they own and wear. People buy and consume luxury to show off or gain acceptance from others and to reward ourselves for success. Quality made luxury goods that can last for decades will always be in demand, the exclusivity factor of special releases has a lucrative appeal, as Jordan Peterson would put it, 'the desire to be seen as the top lobster in the socially constructed hierarchy'. Luxury brands have done an exceptional job in recognising this psychological behaviour. Consumers willingness to pay high prices for luxury goods enables luxury brands to avoid discounts, and consistently raise prices. In the previous year L.V. increased prices by +5%, Dior implemented price increases across its best selling products and Hennessey increased across by the board by between +3% and +4% without experiencing a decrease in demand.

# THE FUTURE OF LUXURY

Since 1996, the Global Personal Luxury Goods Market has expanded at an annual growth rate of +5.88%. As global incomes have risen, emerging economies (especially China) have become more affluent, and globalisation of western culture has found itself at the forefront of consumer demand. The industry has always grown and been dependent on consumers willingness to spend. 2020 is going to be different, the loss of foot-traffic and retail spending has placed uncertainty on the future of luxury retail post COVID-19. While we do not pretend to be "future tellers" at Elevation Capital, we do not expect physical retail to disappear. We do however, expect the global pandemic to accentuate the already present cognitive shift toward online purchases as the pandemic has forced more consumers to experience the usefulness of e-commerce (refer our current investments in Farfetch & The RealReal which enables our investors to also invest into this growing phenomenon). Furthermore, companies who are not heavily burdened by debt will be in an advantageous position to capture renewed demand in a more normalised environment. The psychology behind why people buy luxury may change in the short-term as consumers are more mindful with their discretionary spending, but over the long-term the trends that we have outlined above should return as the appeal of buying expensive items - once they can be afforded - will return, which should see growth continue over the long-term as shown in the graph (below). Note the decrease in the Luxury Goods Market from 2008-2009 caused by the GFC, and the rapid recovery that occurred thereafter. It is easy to be plagued by negative short-term thinking during bad times, but long-term trends do not often change without a paradigm shift. Other projected changes to consumer behaviour post-COVID as stated by McKinsey & Co[5] is that companies are anticipating a continued shift away from fast-fashion and toward more sustainably sourced products that champion craftsmanship and heritage.

Global Personal Luxury Goods Market (USD bln)




*Source: Visual Capitalist*

***Chinese consumers are expected to nearly double their current luxury consumption to 1.2 trillion yuan (178 billion dollars) by 2025, representing 40 percent of the world's spending.***

- McKinsey & Co, 2019

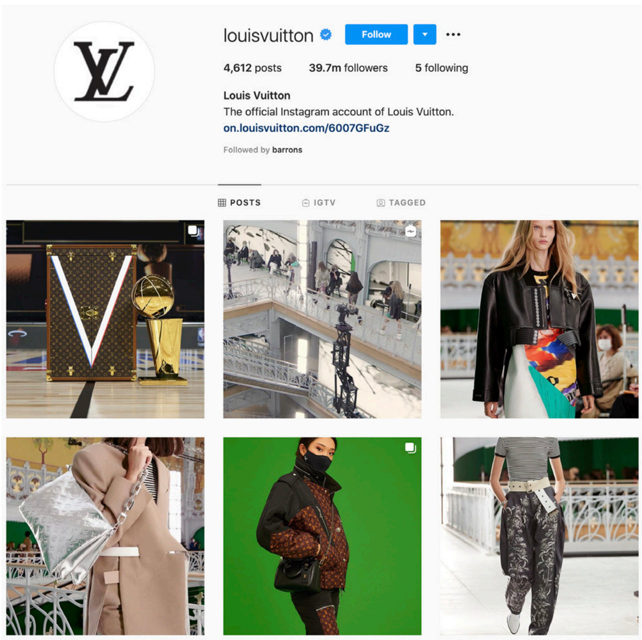
# LVMH'S FOCUS ON E-COMMERCE

Even before the global pandemic, the necessity to have a significant online presence has been a central priority for all major players in the luxury fashion industry. Some critics argue that purchasing luxury online removes one of the main appeals of the industry, the in-store experience which damages affinity with a brand because there are no discount benefits to purchasing online. While there may be some truth to this statement, developing an online presence to compliment the physical presence has proved to be a successful strategy as it improves not only brand awareness but also provides customers more purchasing options. There are a few measures which can be used to predict future growth, however, in 2020, one of the most accurate methods is to review a brands online popularity. Measuring popularity online is achieved by comparing the combination of brand value, share of search interest based on worldwide Google Trends data by brand, website traffic, social media audience size and engagement.

| Rank | Brand | Share of Search Interest | Website Traffic | Social Media Audience | Social Media Engagement |
|---|---|---|---|---|---|
| 1 | Gucci | 18% | 8.4M | 65.4M | 11.2M |
| 2 | Louis Vuitton | 15% | 10.7M | 69.1M | 9.0M |
| 3 | Chanel | 12% | 6.2M | 76.5M | 7.7M |
| 4 | Rolex | 8% | 3.3M | 18.6M | 1.0M |
| 5 | Dior | 8% | 5.3M | 56.1M | 5.3M |
| 6 | Balenciaga | 6% | 1.9M | 13.8M | 1.0M |
| 7 | Armani | 5% | 1.6M | 29.0M | 1.6M |
| 8 | Yves Saint Laurent | 5% | 1.8M | 15.1M | 2.1M |
| 9 | Tiffany | 4% | 2.4M | 23.4M | 2.5M |
| 10 | Burberry | 4% | 2.6M | 43.1M | 3.3M |
| 11 | Hermès | 4% | 2.4M | 13.4M | 0.99M |
| 12 | Cartier | 4% | 1.2M | 15.1M | 0.23M |
| 13 | Prada | 3% | 1.8M | 31.2M | 2.9M |
| 14 | Fendi | 2% | 1.2M | 18.8M | 3.2M |
| 15 | Lancôme | 2% | 1.4M | 17.5M | 0.80M |

Source: Luxe Digital

The luxury goods market is first and foremost a brand-driven industry. Consumer engagement in the premium goods industry, perhaps more-so than perhaps any other sector, is driven by perception and popularity. LVMH recognise the importance of online, all of its subsidiaries have been upgrading and repositioning themselves online to ensure a productive mix on physical and digital retail that is essential to remain popular in the industry. During the lock-downs, it was reported by Antonio Belloni on 30 June 2020 that digital sales in certain countries and brands grew by more than +100% while all brands strengthened their infrastructure and focused on developing their own online website.




***All brands are accelerating the implementation of their online sales platforms and stepping up their digital content initiatives. Excellence in retailing is key,requiring expertise and attentiveness from beauty consultants, as well as innovation at points of sale. Our brands are actively incorporating digital tools to enhance the customer experience and attract new consumers.***

- LVMH 2019 Annual Report

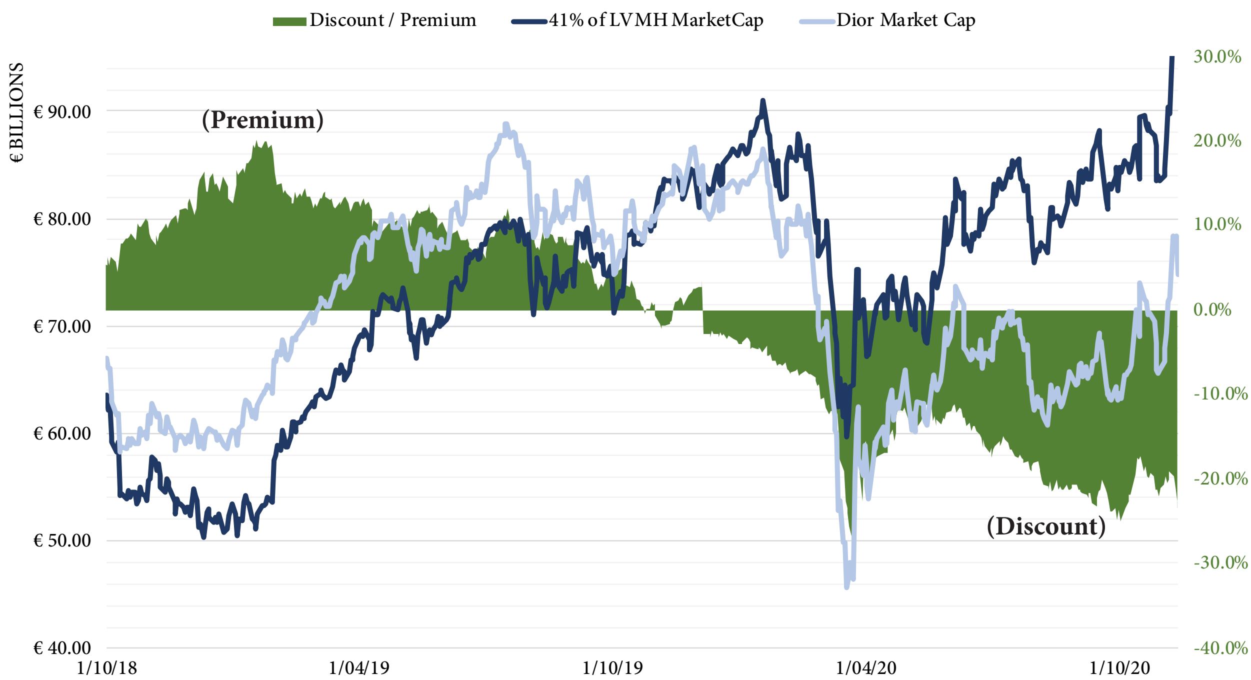
# A VAST GLOBAL DISTRIBUTION NETWORK


# VALUATION SUMMARY

When LVMH acquired Christian Dior (the fashion label) in 2017, Christian Dior maintained its 41% ownership stake in LVMH. What this means for investors, is that the value of Christian Dior in "perfect" capital markets should be equal to exactly 41% of LVMH's. However, theoretical assumptions rarely hold in the real world as they are exposed to frictions and externalities such as irrational investor behaviour. This imperfection gives rise to arbitrage opportunities. The Elevation Capital Global Shares Fund acquired shares in Christian Dior from 18 March 2020 - 19 March 2020, when the discount to LVMH market capitalisation was -23.30% and -24.00% respectively. Christian Dior during our purchase period represented a "cheap" way to own LVMH. History has shown us that Christian Dior can trade at a premium to LVMH, our purchase period coincided near the largest discount since Dior was acquired by LVMH providing us with a considerable margin of safety. As at 13 November 2020, Dior is trading at a 23.30% discount.

| | Date | Discount/Premium |
|---|---|---|
| Maximum Premium | 17/01/19 | +20.18% |
| Maximum Discount | 23/03/20 | -27.94% |
| ECML Average Purchase Discount | 18/03/20 - 19/03/20 | -23.65% |

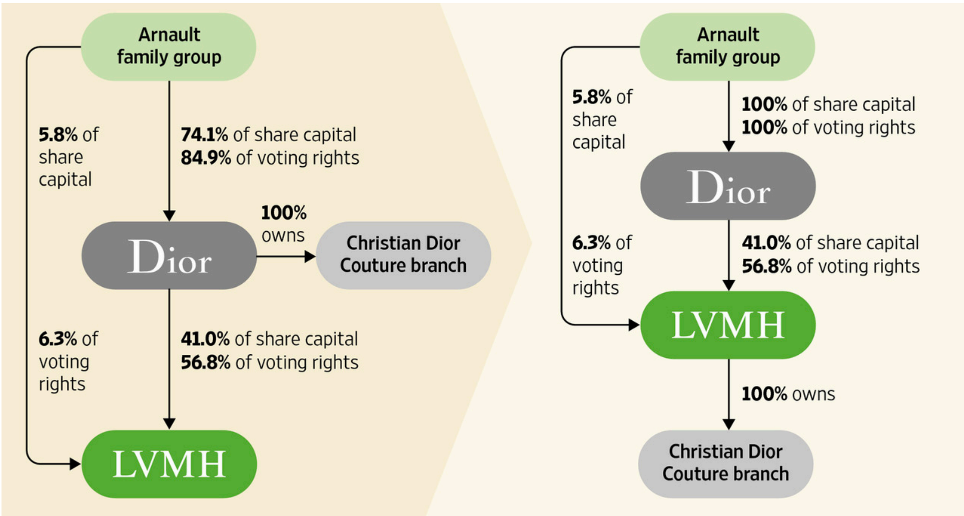
Dior Discount to 41% Market Cap LVMH




Source: Refinitv Eikon

# ALIGNING OUR INTERESTS WITH BERNARD ARNAULT

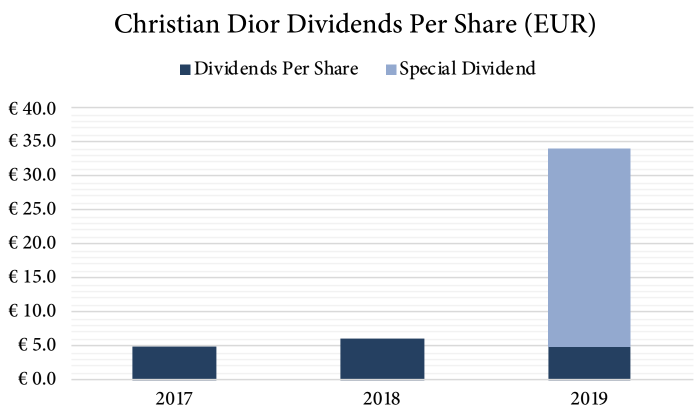
Bernard Arnault has built himself an empire with shrewd acquisitions and continuing profitability of the entities he controls. As at 22 October 2020, LVMH is the world's largest luxury fashion company. Christian Dior own 41% of LVMH's and 56.80% equity of the voting rights, making it the conglomerate's controlling shareholder[6]. Elevation Capital has long admired Arnault, we believe his track record speaks for itself. Arnault became the majority shareholder of LVMH in 1989 and has overseen its growth thereafter. By aligning our interest with that of Bernard Arnault, via owning shares in the parent to LVMH the Elevation Capital Global Shares Fund is positioned to benefit from the decisions made by Europe's most prominent businessman.

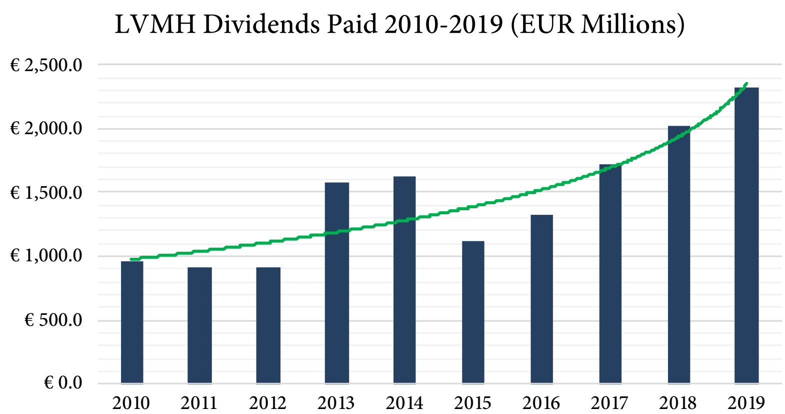



*Structure before the 2017 Acquisition of Christian Dior* *Structure after the 2017 Acquisition of Christian Dior*

# GROWING SHAREHOLDER DISTRIBUTIONS

Returning capital (and value) to shareholders has long been a key metric for proving corporate performance. We are comfortable aligning the Fund's interests with Arnault, who is clearly incentivised to increase dividends as the company continues its global expansion and earnings growth. See dividend charts below for both Christian Dior & LVMH:

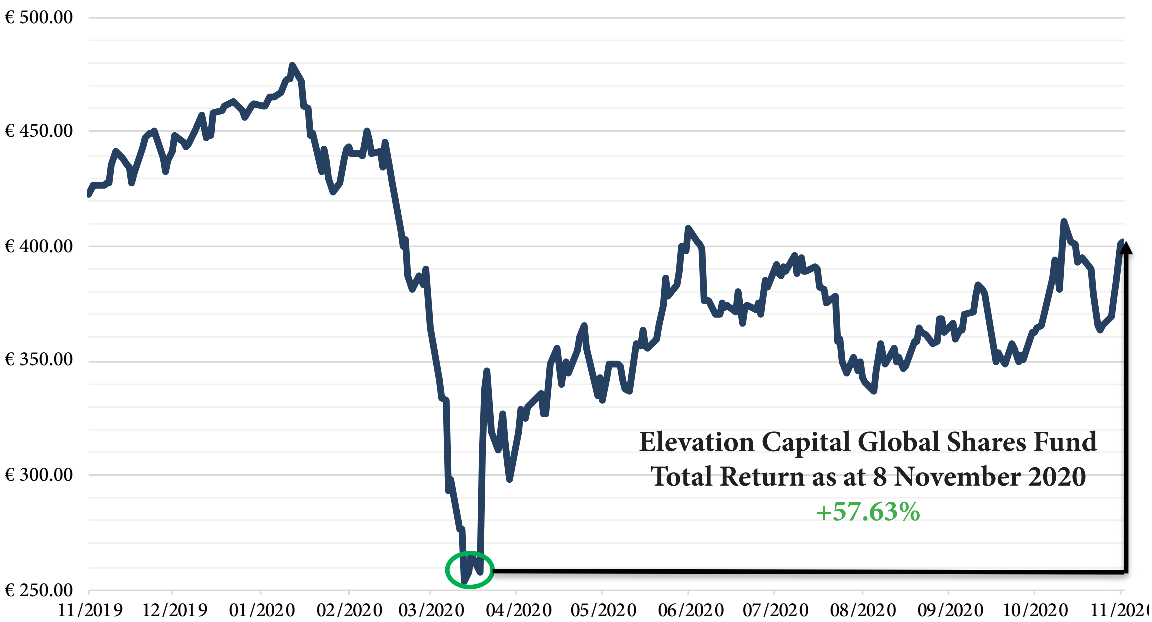


# CONCLUSION

Christian Dior represents an opportunity to own shares in LVMH, the largest luxury goods brand in the world. LVMH has experienced consistent growth from 2010-2019 in all earnings categories while maintaining a stable gross margin which is attributable to the company's pursuit of vertical integration to manage costs both upstream and downstream. While the luxury goods industry has been one of the hardest hit by the global pandemic as tourism and retail shopping has ground to a halt, LVMH will be able to harness its vast power and presence globally to ensure that once a "new normal" is established, it will remain at the forefront of the luxury industry. As at 8 November 2020, Christian Dior has returned +57.63% for the Elevation Capital Global Shares Fund while still trading at a historically large discount to 41% of LVMH's market capitalisation.

Christian Dior One Year Share Price History




Any data not referenced was sourced from Richemont Annual Reports & Earnings Conference Calls.
1 Refinitiv Eikon as at 22 October 2020.
2 Ashworth, M. (2020). *France's Richest Man Gets a Free Lunch From the ECB.* Bloomberg.
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3 Moody's. (2020) *Moodys Affirms LVMH A1 Rating Outlook Stable.* Moody's.
Accessed at the following link: https://www.moodys.com/research/Moodys-affirms-LVMH-A1-rating-outlook-stable--PR_4217284
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5 Achille, A. & Zipser, D. (2020). *A Perspective for the Luxury-Goods Industry During - and after - Coronavirus.* McKinsey & Company.
Accessed at the following link: https://www.mckinsey.com/industries/retail/our-insights/a-perspective-for-the-luxury-goods-industry-during-and-after-coronavirus
6 Dalton, M. (2017). *Arnault Family to Take Full Control of Christian Dior in a $13 Billion Deal.* The Wall Street Journal.
*Accessed at the following link: https://www.wsj.com/articles/lvmh-to-buy-christian-dior-couture-for-6-billion-1493101174*

This summary report was written in October / November 2020.

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**Past performance is not an indication of future results.**

# INDEPENDENT THINKING
# **DISCIPLINED INVESTING**

[In-de-pend-ent Think-ing] **ində'pendənt THiNkiNG** *verb*
Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you're several thousand miles away from Wall Street in a different nation, it's easier to be independent and buy the things that other people are selling, and sell the things that other people are buying.

[Dis-ci-plined In-vest-ing] **disciplinəd inves'ting** *verb*
The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. We also believe that cash is sometimes the most attractive investment.

Awards 2017

MORNINGSTAR INTERNATIONAL EQUITIES CATEGORY FUND MANAGER OF THE YEAR 2017, NEW ZEALAND

Awards 2012 Nominee

NOMINEE - MORNINGSTAR INTERNATIONAL EQUITIES CATEGORY FUND MANAGER OF THE YEAR 2012, NEW ZEALAND

NOMINEE - FUNDSOURCE INTERNATIONAL EQUITY SECTOR FUND MANAGER OF THE YEAR 2012, NEW ZEALAND

NOMINEE - FUNDSOURCE INTERNATIONAL EQUITY SECTOR FUND MANAGER OF THE YEAR 2013, NEW ZEALAND