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FÖRVALTNING

BEST IDEAS 2022 HOSTED BY MOI GLOBAL

LVMH

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Agenda

- 1) A background on Billinger Förvaltning
- 2) Follow-up on Best Ideas 2021
- 3) LVMH

A background on Billinger Förvaltning

A background on Billinger Förvaltning

- We are a privately held investment company with permanent capital
- We are long-term, long-only equity investors
- We invest in around 15-20 high quality listed businesses in Europe and the US
- Our priority is capital preservation; “Worry about the downside...”
- Our ambition is to be ‘good but not great’ in order to be great
- www.billingerforvaltning.se

Putting our 'best idea' in context

- “Don’t just do something, sit there”
- We invested heavily in spring 2020 but have in aggregate been net sellers since then (although we have also initiated a few new positions)
- We are therefore presenting one of our largest ‘core’ holdings; while we haven’t been adding to the position recently we feel very comfortable holding this for the long term

Follow-up on Best Ideas 2021

Three clusters of high quality businesses

These clusters made up 37 % of our NAV at the end of q3 2020

- 1) Elevators and Escalators (KONE and Schindler)
- 2) TIC (Intertek and SGS)
- 3) Aircraft engines (MTU Aero Engines)

Three clusters of high quality businesses

- **Performance was disappointing in 2021 (on average flat)**
 - 1) KONE and Schindler underperformed due to China construction exposure (down 5 % and up 2 %)
 - 2) Intertek and SGS – some structural concerns (down 3 % and up 14 %)
 - 3) MTU has been stop-start driven by sentiment around virus/travel (down 12 %)

Three clusters of high quality businesses

- On KONE/Schindler and MTU we remain positive
- On SGS/Intertek we have some structural concerns. We remain invested but have reduced our exposure.
- There is downside protection (revenue generation, cost structure, balance sheet etc) – despite 'not having worked' these positions are on average flat in the last year.

LVMH

Why do we like LVMH?

- 1) Collection of great luxury brands that have been time-tested
 - GMs in the mid-60s, EBIT margins in the low-20s
- 2) Exposure to structural growth drivers with long runway
 - average organic growth ~ 10 % in the last decade
- 3) Diversified portfolio across categories/price points/geographies/channels – a great way to get broad exposure to global luxury goods
- 4) Strong execution
- 5) Family ownership/long-term vision

1) Leading brands with long legacies

~ 75 brands across a number of categories

Fashion & Leather Goods (~ 41 % of t/o, ~ 62 % of EBIT)

- Louis Vuitton (> 20% of t/o, ~ 45% of EBIT)
- Christian Dior

Wines & Spirits (~ 10 % of t/o, ~ 14 % of EBIT)

- Champagnes (Moët & Chandon, Dom Pérignon, Krug etc)
- Cognac (Hennessy)
- Wines (Château d'Yquem, Cheval Blanc etc)

1) Leading brands with long legacies

Selective retailing and other (~ 28 % of t/o, ~ 12 % of EBIT)

- Sephora
- DFS (travel retail)
- Belmond (hotels)
- Groupe Les Echos (media)

1) Leading brands with long legacies

Perfumes & Cosmetics (~ 13 % of t/o, ~ 6 % of EBIT)

- Christian Dior
- Acqua di Parma

Watches & Jewelry (~ 8 % of t/o, ~ 6 % of EBIT before TIF)

- Chaumet
- TAG Heuer
- Tiffany

2) Structural growth drivers

- Wealth creation in China and other emerging markets
- Continued premiumisation/price & mix (plus volumes)
- Cross-selling/a strong grip on the luxury consumer - example of Samaritaine department store in Paris:
 - Cheval Blanc hotel
 - Dior beauty products
 - Dom Perignon/Krug/Ruinart
 - LV/Dior leather goods and Tiffany Jewelry

2) Structural growth drivers

- Continued consolidation of global luxury (megabrands like LV and Dior have been taking share, on top of this LVMH has been an active consolidator of the industry)
- E-commerce and travel retail create opportunities to sell to new customer segments; LVMH is relatively agnostic as to where consumers buy (both in terms of channels and geographies)
- Significant opportunity in hard luxury (including low brand penetration)

3) Diversification

- While LVMH is dependent on Louis Vuitton, it is much more diversified than the other major luxury groups (e.g. Kering/Gucci or Richemont/Cartier) across brands
- LVMH is also diversified across categories; F&LG is the key earnings driver but LVMH has a meaningful presence across wines & spirits, watches & jewelry (especially following TIF acquisition), perfumes & cosmetics and retailing
- LVMH is also diversified in terms of geographies and distribution channels which meant that the group was able to manage the disruption caused by the pandemic relatively well

4) Execution

- Brand equity (high desirability, strong price discipline/volume restrictions, customer experience etc) is key – the offering drives demand (unlike many other consumer goods segments)
- Downside protection ('manage the business as if it could go under in the next 12 months...I try to be optimistic long-term but pessimistic short-term')
- Strong capital allocation:
 - We estimate that Mr Arnault deployed ~ € 30 bn of incremental capital between the financial crisis and the pandemic.
 - The return on this incremental capital was north of 20 %.
 - Includes both acquisitions (e.g. Bulgari/Belmond/Loro Piana etc), manufacturing facilities (including vineyards etc), working capital etc.

5) Long-term vision

- Arnault family controls almost 50 % of capital and more than 60 % of votes
- Vertical integration e.g. for LV and Dior (upstream and downstream)
- Prudent financial profile
- 'Capacity to suffer' (e.g. Samaritaine restoration took 16 years and ~ \$ 1 bn)
- Arnault is very Buffett-like (origins of LVMH, financial prudence/focus on staying power, countercyclical investment etc)

Valuation and return expectations

- What does this mean for the earnings 'algorithm'?
- Organic revenue growth has been ~ 10 % on average in the decade between the financial crisis and CoVID (ranging from 5 % to 14 %)
- Operating margins are relatively flat over the decade
- EPS has grown at around 10 % CAGR
- Are there reasons to expect higher/lower growth going forward?
- At a P/E of ~ 27x and an FCF yield of ~ 4 % for '23 we would expect LVMH to meet/exceed our hurdle of ~ 10 % over time

Risks/question marks

- China;
 - GDP growth
 - Sentiment/consumer preferences
 - Policy
- Pre-pandemic, Chinese consumers represented more than 1/3 of global luxury spend which makes it by far the most important cohort (~ 20 % for Europeans and ~ 20 % for Americans)
- More than 2/3 of this happened outside China (price arbitrage etc)
- Repatriation has accelerated during pandemic

Risks/question marks

- Lower growth/recession (especially given operating leverage of the business model)
 - Operating leverage (> 5,000 stores etc – this business needs growth); in 2020 t/o was down 16 % organically with EBIT down 28 %
- Higher interest rates (with impact on asset prices)
- Pandemic (at least in the short term)
- Succession
- Complacency
- Base effects

Risks/question marks

- Impact of growth in e-com e.g. on competitive environment
- ESG 'concerns'
- Positioning/sentiment – LVMH is loved by investors
 - Like the other French names (Hermes/Kering etc) share price performance has been very strong over the last decade, driven in part by earnings growth but also by a significant re-rating (including on a relative basis).
 - Trades at a premium to some but a (big) discount to Hermes.

Thank you!

Q&A

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