



Luxury comes at a premium

It's that time of year again, when retailers try to entice us with price cuts and year-end specials. But for luxury goods, the sales strategy is different. An increase in price seems to stimulate higher demand for such products. Perceptions of scarcity and quality are reinforced by keeping the product out of reach for most of us, creating the aspiration of being able to afford such indulgences "one day". While many South Africans already have Richemont shares sparkling in their portfolios, let's have a look at some other global luxury goods companies:

LVMH

The crown jewel in the global luxury goods sector is LVMH, which has a market cap of about \$380bn and owns 75 prestigious brands, including Louis Vuitton, Moët & Chandon, Hennessy, Bulgari, Sephora and TAG Heuer. The group has been meticulously built up by 73-year-old French business magnate Bernard Arnault, who is LVMH chair, CEO and controlling shareholder (via the Christian Dior control structure). Arnault is the second-richest person on earth but isn't showing any signs of slowing down – LVMH completed the \$16bn purchase of high-end jeweller Tiffany & Co last year

and announced bumper interim profits recently, giving Arnault the firepower to hunt for more iconic brands to add to LVMH's repertoire. At €715 a share, LVMH is a great company trading at a fair price.

Hermès

With a net profit margin reaching an astonishing 30% for the first half of 2022, Hermès is the envy of the luxury goods world. The group has a market cap of \$170bn and is controlled by various members of the Hermès family. Best known for its handmade leather goods, especially the Birkin bag, Hermès eschews mechanisation and champions handcrafted artisanal processes. Unfortunately, Hermès shares are as pricey as its creations. At a p/e of more than 50, we'll wait until there is a markdown in the share price before adding it to any share portfolio.

Kering

In 1999, French retail group Pinault-Prêt-à-Porter (PPR) snatched the brands Gucci and Yves Saint Laurent from under the nose of LVMH, which had acquired a 34% shareholding in Gucci at the time. PPR added further luxury brands such as Bottega Veneta, Boucheron and Alexander McQueen soon thereafter. To

complete its pivot to luxury goods, PPR then disinvested from all its retail interests and was renamed Kering (a reference to the controlling Pinault family's origin in Brittany) in 2013. Today, Kering has a market cap of about \$74bn and offers good value at €570 a share.

Prada

The family-owned leather goods manufacturer was founded by Mario Prada in 1913 and taken over by his granddaughter Miuccia Prada in 1978, when annual sales were less than \$500,000. She also launched Miu Miu (her nickname) as an accessible luxury brand in 1993. Today, she is head designer and co-CEO of the Prada group with her husband, Patrizio Bertelli. Together, they still own 80% of this \$14bn market cap business. In 2011, a 20% shareholding was sold to the general public when Prada listed in Hong Kong. The shares have been roiled by strategic missteps since, and are now trading at a similar price to what they were listed at over a decade ago. With Prada losing some of its lustre over the past few years, we won't be collecting its shares now.

Capri Holdings

Markets have not been kind to the holding company of the Versace, Jimmy Choo and Michael Kors brands. With a market cap approaching \$8bn and a p/e of less than nine, Capri shares seem to be on sale, but there doesn't seem to be much excitement among buyers. The decidedly middle-of-the-range valuation is perhaps due to Capri being too aggressive in expanding its store base. The death knell for any luxury goods brand is when its products become too accessible, losing the key perceptions of scarcity and exclusivity. All luxury goods groups would do well to learn from Capri's fall from grace, and rather focus on maintaining strict control over their whole production and distribution value chain. The consequences of not restricting supply are too ghastly to contemplate: luxury products easily available at an attainable price. ✕

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