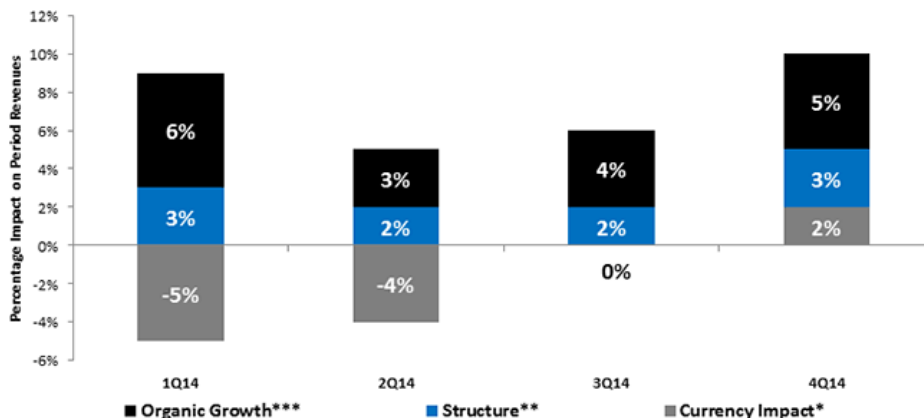


WHY DOES LOUIS VUITTON LIKE A WEAKER EURO?

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02/26/2015

In an article published January 31, 2013, Bernard Arnault, the chief executive of LVMH¹, was quoted as saying, “The cloud on the horizon ... is the evolution of currencies, [and a strong euro] would have an impact on French exporters and for our group ...”² These were prescient remarks. On this date the euro was at about \$1.36, and it was in a general strengthening trend through about the first half of 2014—not helpful for European multinationals looking for their exports to be competitive³. **End of 2014 Offers a New Outlook** In opening the annual results presentation for 2014 on February 3, 2015, Mr. Arnault hinted at a new environment, saying: *There was a change during the year. And in the second half, the euro managed to decline, which hadn't happened for a number of years, and this made our products more competitive, and for French exporters in general, it was very buoyant. Furthermore, the economy at the end of the year was somewhat boosted by two factors: the drop in the price of oil and more recently by the injection of liquidity into the European economy.*⁴ **Mapping the Inflection Point—4Q14** In looking at how the revenue picture at LVMH evolved in 2014, it's clear that the weakening of the euro in the second half of the year had a material impact. **LVMH's Quarterly Evolution of 2014 Revenue (as of 12/31/2014)**



*Currency Impact: Determined by translating the accounts for the year of entities having a currency other than the euro at the prior year's exchange rates, without any other adjustments.

**Structure: Referenced more fully as the impact of changes in the scope of consolidation, which broadly means accounting for the impact of acquisitions and disposals occurring over the course of the year.

***Organic Growth: Process of business expansion by increased output, customer base expansion or new product development.

Source: 2014 Annual Results, LVMH Moët Hennessy Louis Vuitton, 2/3/15. Past performance is not indicative of future results.

• **First Half of 2014—Euro Strength:** On December 31, 2013, the euro was at about \$1.37. While it certainly fluctuated—hitting about \$1.39 in early May 2014—it was still at about \$1.37 on June 30, 2014.⁵ As can be seen, this had a negative impact on LVMH's revenue.

• **Second Half of 2014—Euro Weakness:** By September 30, 2014, the euro hit about \$1.26, and it ended 2014 at \$1.21.⁶ Because of the euro's decline, there was no currency impact on LVMH's third-quarter revenues and a +2% currency impact on its fourth-quarter revenues. While the cumulative currency impact on LVMH's revenue of more than 30 billion euros was -2%,⁷ this is very different from the -5% impact seen in the first quarter of 2014. It's also worth noting

that on February 3, 2015—the day these results were made public—the euro was at \$1.15,⁸ and with Mario Draghi's blockbuster plan for [quantitative easing](#), it's tough to make a case for significant euro strengthening going forward. **Weaker Euro Not Only Tailwind for LVMH** While we're particularly interested in LVMH's example as a firm helped by a weakening euro, Mr. Arnault's mention of the oil price decline is also worth noting. In a speech, Bill Dudley, the president of the New York Federal Reserve Bank, said that a \$20-per-barrel decline in global oil prices results in an income transfer of about \$670 billion per year from oil producers to oil consumers.⁹ Put another way, if the decline in Brent oil from its approximately \$115 high in 2014 (June 19, 2014) to its level of about \$55 on February 3, 2015—a drop of \$60 per barrel—persisted for one year, oil consumers would have an additional \$2 trillion or so that they didn't need to spend on oil.¹⁰ Maybe some of that admittedly hypothetical amount would be spent on the aspirational luxury goods of LVMH. ¹As of 12/31/14, LVMH was the 12th largest holding in the [WisdomTree Europe Hedged Equity Index](#) at 2.8%. ²Nadya Masidlover, "LVMH Optimistic About 2013, Except for Euro," The Wall Street Journal, 1/31/13. ³Refers to the euro reaching a level of \$1.39 on 5/6/14, the recent peak of its appreciation against the U.S. dollar. ⁴LVMH Q4 2014 Earnings Call, Bloomberg transcript, 2/3/15. ⁵Source: Bloomberg, with levels of the euro as of specified dates. ⁶Source: Bloomberg, with levels of the euro as of specified dates. ⁷Source: 2014 Annual Results, LVMH Moët Hennessy Louis Vuitton, 2/3/15. ⁸Source: Bloomberg, with level of the euro as of specified date. ⁹Source: William C. Dudley, "The 2015 Economic Outlook and the Implications for Monetary Policy," Federal Reserve Bank of New York, 12/1/14. ¹⁰Levels of oil prices refer specifically to Brent oil with Bloomberg as source for specified dates. The \$2 trillion comes from multiplying Dudley's income transfer statement of \$670 billion per year by three to coincide with the \$60 drop in the price of Brent oil (\$20 times three). The statement is hypothetical in nature and meant for illustrative purposes.

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