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LVMH would be better off without M and H

The $270 bln owner of Louis Vuitton bags, Moët champagne and Hennessy cognac trades at a big discount to the value of its various parts. Its ailing drinks unit brings few synergies and tobacco-like risks. Spinning it off would leave a simpler, more richly valued luxury group. LONDON, June 11 (Reuters Breakingviews) - Bernard Arnault likes empire-building, not the other way around. Yet the LVMH (LVMH.PA) , opens new tab boss's $270 billion luxury company, whose 75 brands span Louis Vuitton bags, Moët champagne and Hennessy cognac, is now saddled with a conglomerate discount. The struggling drinks unit, which brings few synergies and faces tobacco-like risks, should be jettisoned.

Selling or spinning off Moët Hennessy sounds like heresy. That's not just because it accounts for two letters in the French luxury group's name: LVMH was created in 1987 through the merger of Moët Hennessy and Louis Vuitton. Pricey tipples like Dom Pérignon champagne, which sells for about 200 pounds ($270) a bottle – and higher for those made in the best years – have also acted as a hedge, as they are less exposed to economic cycles than some goods like shoes or handbags.

Yet that argument is starting to look shaky, as consumers increasingly hunt out cheaper drinks , opens new tab . The unit, accounting for about 7% of group sales, has been the worst-performing among LVMH's six divisions in the past year. Sales fell 8% to 6 billion euros last year, whereas LVMH's total revenue rose 1%.

For now, Arnault seems focused on fixing the business, but it's a good time to rethink where it belongs. Unlike Sephora – LVMH's lower-margin beauty retailer – it neither provides valuable intel that can help shape strategy for the rest of the group, nor offers much opportunity for cross-selling. Moreover, the world is changing rapidly, with the next generation of aspiring luxury consumers willing to embrace a future without alcohol. A pariah status akin to tobacco could damage the very brand desirability that LVMH has so painstakingly curated.

LVMH's 66% stake in the drinks unit could be worth 12 billion euros, if valued on the same average multiple of 14 times 2026 operating profit fetched by rivals Diageo (DGE.L) , opens new tab and Pernod Ricard (PERP.PA) , opens new tab . Given its size, and current challenges, a spinoff probably makes more sense than a sale for now. Listing the unit separately would leave behind a simpler, faster-growing luxury group, which should be valued more highly by investors. A simple sum-of-the-parts calculation suggests that LVMH could be worth some 369 billion euros including net debt, a 47% uplift on its current enterprise value.

Selling the drinks business would still be a big step for Arnault, not least because his son Alexandre, who is in the closely watched succession contest among five siblings, is currently its deputy CEO. Still, the fact that Big Tobacco stocks like British American Tobacco (BATS.L) , opens new tab are now valued at just 9 times operating profit suggests that the drinks unit could have further to fall. LVMH is better off without M and H.

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