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By Andrew Roberts

Feb. 22 (Bloomberg) -- LVMH Moet Hennessy Louis Vuitton SA is poised to pursue a takeover as revenue growth, led by sales of its eponymous handbags, slows the most in four years.

The $87 billion company could go after Burberry Group Plc, the U.K.'s biggest luxury-goods producer, as a way to increase revenue while it works on repositioning the Louis Vuitton brand, Berenberg Bank said. After LVMH purchased Italian jewelry maker Bulgari SpA in 2011, it also could pursue Tiffany & Co., the New York-based jeweler with a market capitalization of $8.1 billion, according to Cantor Fitzgerald LP.

Chief Executive Officer Bernard Arnault, who helped to build LVMH into the world's largest luxury-goods maker through acquisitions, "is going to need to buy growth," John Guy, a London-based analyst at Berenberg, said in a telephone interview. "He's going to need to buy time in order to sort Vuitton out."

Purchasing another blockbuster brand would allow LVMH to reduce its reliance on smaller labels such as Fendi and Celine, while buying it time to burnish Louis Vuitton and develop its other fashion lines, about half of which Guy estimates aren't profitable. LVMH's sales are projected to increase 7.3 percent this year, the worst annual rate since 2009, according to data compiled by Bloomberg, as the Paris-based company slows expansion of its flagship brand to enhance Louis Vuitton's image and exclusivity.

A spokesman for LVMH didn't return a voice message or e- mail seeking comment on whether the company is pursuing an acquisition or would consider a deal.

'Delicate Juncture'

LVMH, whose luxury offerings include Dom Perignon champagne and Guerlain perfume as well as high-end handbags, had worldwide sales of about 28 billion euros ($37 billion) in 2012. The company's fashion and leather-goods division, anchored by Louis Vuitton, was its biggest generator of revenue and operating profit even as its so-called organic sales growth slowed.

Excluding currency swings and acquisitions, revenue from fashion and leather goods climbed 7 percent last year, the slowest growth since 2009. Louis Vuitton, which accounts for more than three-quarters of the unit's sales, had organic revenue growth of 6 percent in 2012, down from 12 percent a year earlier and the smallest gain since at least 2001, according to research from Exane BNP Paribas.

Vuitton "is unquestionably at a delicate juncture," Luca Solca, head of luxury goods research at Exane BNP Paribas in London, wrote in a January report.

Brand Focus

After raising prices and including more leather in its handbag collections to increase their appeal, LVMH is focusing on improving existing Louis Vuitton stores and limiting new openings as it seeks to control the label's growth rather than chase sales "at all costs," Arnault said Jan. 31 on an earnings call. The company will also focus on service and increase the penetration of leather goods while putting fewer “LV”-logoed canvas handbags on the shelves, he said.

“What we are focusing on for the long term is the brand image and the satisfaction of our customers,” Arnault said of the Louis Vuitton strategy. “It’s not increasing revenue that we could of course increase far more than it is here. All it would take would be to open far more stores.”

Analysts project that LVMH’s companywide sales growth will slow to less than 8 percent a year on average through 2015, according to data compiled by Bloomberg. That compares with average annual growth of more than double that amount during the past three years, the data show.

Burberry Appeal

Burberry, with annual sales of about $3 billion, would give LVMH a strong men’s clothing line as well as a beauty business that it could distribute through its Sephora retail chain, Berenberg’s Guy said. LVMH could strengthen the $9.2 billion company’s leather business and lift profit significantly by centralizing sourcing, distribution and other costs, he said.

Acquiring Burberry now “strategically for them makes so much sense,” Guy said.

Burberry shares rose as much as 3.1 percent, the biggest intraday gain since Jan. 15, and were up 2.1 percent at 1,396 pence at 10:19 a.m. in London, extending the gain this year to 14 percent. LVMH rose 0.6 percent in Paris, reducing the stock’s decline this year to 5.4 percent.

A spokeswoman for London-based Burberry declined to comment on whether the company has been approached by LVMH or would be open to a sale.

LVMH also could pursue Tiffany to beef up its watch and jewelry division, said Allegra Perry, an analyst at Cantor Fitzgerald in London. LVMH sees more consolidation in the industry even if there is a shortage of companies for sale, Francesco Trapani, head of the company’s watch and jewelry unit, said in November. Last month, competitor Swatch Group AG agreed to buy the Harry Winston brand for about $1 billion.

‘No Secret’

“LVMH has made no secret of wanting to build especially in the hard goods space,” Cantor’s Perry said in a phone interview. Tiffany, even after missing profit estimates in four straight quarters for its worst earnings stretch in at least a decade, “is potentially an interesting acquisition to consider.”

Tiffany’s stock has gained 12 percent this year, and closed yesterday at $64.28, down 0.2 percent.

Mark Aaron, a spokesman for Tiffany, declined in an e-mail to comment on whether LVMH has approached the company or whether it would consider a sale.

Another jeweler, Graff Diamonds Corp., shelved a $1 billion initial public offering in Hong Kong last year, citing market conditions. Representatives for London-based Graff didn’t respond to a call and e-mail requesting comment on whether the company would consider a sale.

LVMH also could expand its beauty division by pursuing a skincare maker such as Clarins SA, said Thomas Mesmin, an analyst at CA Cheuvreux in Paris. The French maker of anti-aging serums would give LVMH technical expertise and complement LVMH’s fragrance lines, he said.

A representative for closely held Clarins couldn’t be reached for comment.

Internal Growth

While an acquisition of another luxury line could help to boost growth at LVMH, the company is still forecast to post record sales and profit through at least 2017, and is developing more brands on its own. At Celine, growth is “significant,” Arnault said last month. “Fendi too is developing well,” the CEO said of the leather-goods maker.

The CEO also has ambitions for unprofitable brands such as Berluti, the shoemaker run by his son, Antoine. LVMH plans to lift Berluti revenue as it increases its store network, including in Asia, and invests in marketing and communications, Arnault said.

Even so, “it’s impossible for the division to achieve 8, 9 or 10 percent growth just by being compensated by non-Louis Vuitton brands,” said CA Cheuvreux’s Mesmin. “The size differential is too important.”

Acquisition Strategy

While other parts of LVMH’s business such as wines and spirits should help lift sales and profit this year, it wouldn’t be unlike LVMH to add more brands to maintain momentum, said Andrea Gerst, portfolio manager of the Julius Baer Luxury Brands Fund, which owns LVMH shares.

“LVMH will continue to do acquisitions because it’s part of their strategy,” said Gerst in a phone interview. Though an acquisition can be expensive in the short term, “if it’s strategically the right thing, it pays out over the long term.”

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