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The Portfolio Is the Strategy

*What LVMH and Kering reveal about concentration risk, creative volatility, and
building beyond one hero*

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CENTRAL ARGUMENT

Gucci's €4.495 billion revenue contraction did not merely expose a weak creative cycle. It exposed the cost of allowing one culturally volatile house to carry too much of a group's economics. LVMH's portfolio did not prevent pain, but it gave the group more places from which recovery could come.

Executive summary

On 29 July 2026, Kering's shares closed 16.9% higher, their largest one-day gain in almost 24 years. The trigger was not that Gucci had returned to growth. It had not. Gucci's second-quarter sales were still down 2% on a comparable basis, marking a twelfth consecutive quarterly decline. The trigger was that the decline was smaller than investors expected, new handbag demand strengthened in the United States, and Luca de Meo's ReconKering program was producing visible evidence of discipline. [1-2,15-18]

The market reaction was therefore a clue. When one less-negative quarter at a single house can reprice an entire group by nearly 17% in a day, concentration is not an abstract finance concept. It is the operating story.

Between 2022 and 2025, Gucci's annual revenue fell from €10.487 billion to €5.992 billion—a contraction of €4.495 billion. Kering's group revenue fell €5.676 billion over the same period. On a simple reported-figure bridge, Gucci represents 79.2% of the group's contraction. Kering's recurring operating profit fell far more sharply, from €5.589 billion to €1.631 billion. Gucci's own recurring operating profit fell 74.1%. [3-5]

LVMH provides the contrast, but not a simple success story. From 2022 to 2025, its group revenue remained 2.0% above its 2022 level, while recurring operating profit fell 15.7%. The group absorbed a difficult cycle better than Kering, yet Fashion & Leather Goods still produced roughly three-quarters of its recurring operating profit. Diversification softened the shock; it did not eliminate dependence. [9-12]

The lesson is not that every brand should launch more categories. It is that a portfolio becomes strategic only when its engines are related enough to share capabilities, different enough to respond to different demand cycles, and disciplined enough that weak assets are not subsidized indefinitely.

1. The 16.9% clue

Kering's H1 2026 release landed in a luxury market that was beginning to improve unevenly. Group revenue grew 2% on a comparable basis in the second quarter, its first positive quarterly movement since mid-2023. Saint Laurent returned to growth for the half. Kering Jewelry rose 18% in the quarter and Eyewear rose 8%. Gucci remained negative, but its comparable decline narrowed to 2% after an 8% fall in the first quarter. [1-2]

Investors responded to the change in slope. The share price move measured surprise: the market had expected a worse Gucci result and placed new value on a credible path from decline to stabilization. It did not certify that the turnaround was finished. Gucci still lacked a full quarter of growth, Mainland China remained challenging, and the group was still rebuilding profitability from a much lower base. [15-18]

WHAT THE RALLY MEANS

The market was not paying for recovery completed. It was paying for the probability of recovery increasing.

This distinction matters editorially. A fashion turnaround moves through stages: creative clarification, product traction, customer response, revenue growth, margin recovery, and return on capital. Kering's H1 result offered evidence at the product, customer, and group-revenue stages. It did not yet prove sustainable Gucci growth or restored group economics.

2. What the €4.5 billion number really measures

The proposed headline — 'Kering Just Lost \$4.5 Billion' — contains a strong hook and two factual problems. The figure belongs to Gucci, not directly to Kering. It is measured in euros, not dollars. And it is a decline in annual revenue across three years, not a current cash loss.

2022 to 2025	2022	2025	Change
Gucci revenue	€10.487B	€5.992B	-€4.495B / -42.9%
Kering revenue	€20.351B	€14.675B	-€5.676B / -27.9%
Gucci recurring operating profit	€3.732B	€0.966B	-€2.766B / -74.1%
Kering recurring operating profit	€5.589B	€1.631B	-€3.958B / -70.8%
Kering recurring operating margin	27.5%	11.1%	-16.4 percentage points

Sources: Kering official full-year releases. FBB calculations use reported euro values. [3-5]

The bridge is still powerful when stated correctly. Gucci explains about 79.2% of Kering's reported revenue contraction and 69.9% of the decline in recurring operating profit. Those percentages are calculations, not a company-reported attribution, and scope and currency moved over the period. But the direction is unambiguous: Kering's group damage was dominated by the collapse of its largest earnings engine.

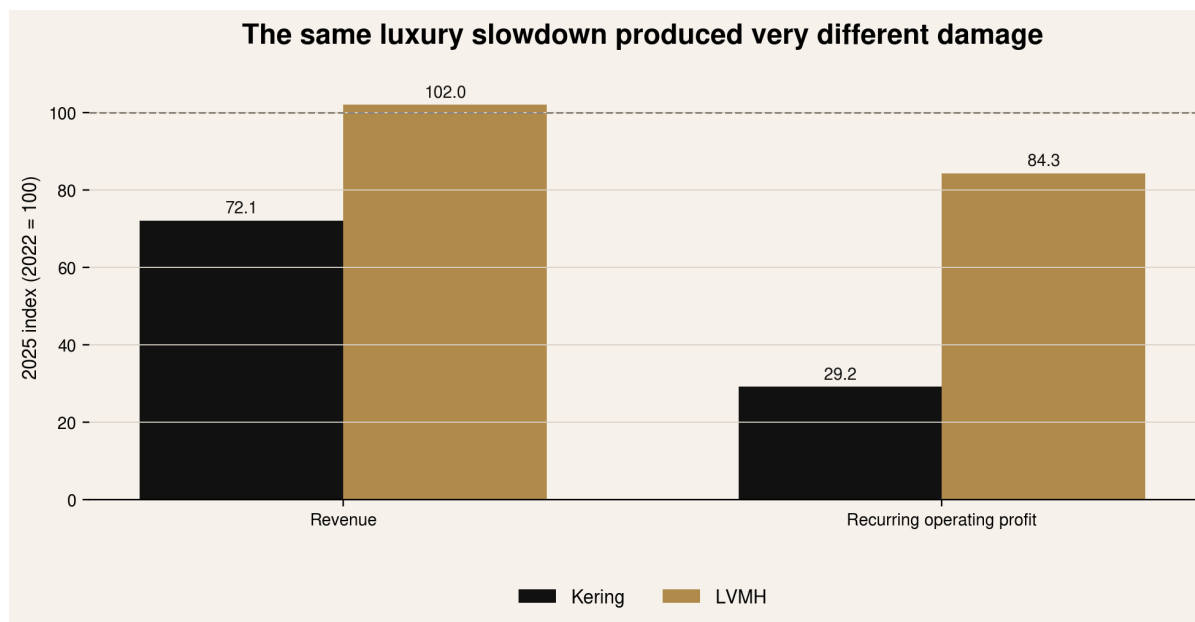


Figure 1. Kering and LVMH indexed performance, 2022 to 2025. Company filings; FBB calculations.

3. The hero house becomes the risk

Gucci's dominance was not irrational. In 2022, the house produced 51.5% of Kering revenue and 66.8% of recurring operating profit. High concentration can be the mathematical consequence of excellence: a brand finds a creative language, scales hero categories, raises full-price demand, and earns the cash to fund the rest of the portfolio.

The risk appears when costs and expectations are built around the assumption that cultural heat will persist. Fashion demand can move quickly; store leases, staff, manufacturing commitments, media plans, and inventory cannot. That mismatch is operating leverage. Gucci's 42.9% revenue contraction became a 74.1% operating-profit contraction because the business lost both volume and margin while still supporting a global luxury infrastructure.

The decline was systemic. China and aspirational consumers weakened. Gucci moved through creative and management transitions. The product offer lacked sufficient newness in leather goods at key moments. Distribution, pricing, inventory, and store productivity required correction. Kering continued to invest while sales were falling. The group entered 2026 with €8.0 billion of net debt and a need to close stores, reduce inventory, and rebuild the operating model. [3,6,15-18]

This is why 'one bad bet' is a useful thumbnail idea but an incomplete thesis. Gucci was not one discrete bet. It was a linked system of creative direction, product architecture, customer exposure, real estate, working capital, and organizational attention. Concentration amplified every weakness in that system.

4. LVMH's portfolio is not just bigger—it is differently built

LVMH had more than 75 maisons and €80.8 billion of revenue in 2025. The number of names matters less than the economic architecture beneath them. The group operates across five major businesses: Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewelry, and Selective Retailing. It combines maison autonomy with vertical integration and shared capabilities. [9-13]

That structure creates several forms of shock absorption. Categories have different purchase frequencies, margins, client bases, and cycles. Sephora can grow while cognac contracts. Jewelry can accelerate while leather goods slow. Beauty can maintain repeat demand while a couture house changes creative direction. Selective retailing also gives LVMH a route-to-market engine, not only a collection of brands.

From 2022 to 2025, LVMH's Fashion and Leather Goods revenue fell 2.3% and its recurring operating profit fell 15.9%. Yet Selective Retailing revenue rose 23.5%, and its recurring operating profit more than doubled. Perfumes and Cosmetics also grew. The portfolio did not produce universal growth; it produced offsets. Group revenue therefore remained slightly above its 2022 level even as the luxury cycle weakened. [9-12]

LVMH engine, 2022-2025	Revenue change	Profit change	Portfolio role
Fashion & Leather Goods	-2.3%	-15.9%	Largest desirability and profit engine; exposed to fashion cycle
Selective Retailing	+23.5%	+125.9%	Major offset through Sephora and travel-retail recovery
Perfumes & Cosmetics	+5.9%	+10.2%	Repeat-purchase and accessible-luxury demand
Watches & Jewelry	-0.9%	-24.9%	High-value category; stronger again in H1 2026
Wines & Spirits	-24.5%	-52.9%	A reminder that diversification includes weak engines too

5. The counterpoint LVMH cannot hide

A 75-maison headline can create the illusion of equal diversification. Public reporting shows otherwise. Fashion and Leather Goods represented 46.7% of LVMH revenue in 2025 but 74.4% of recurring operating profit. In H1 2026, the division still generated 71.3% of group recurring operating profit. LVMH's earnings remain concentrated in its most profitable business group. [9-12]

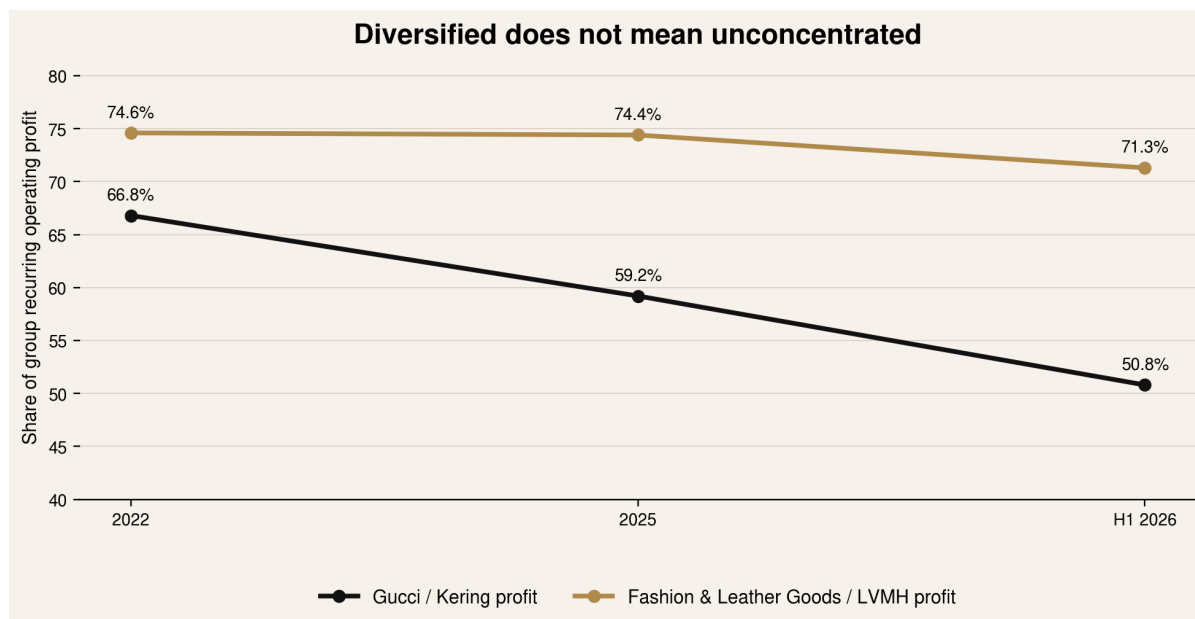


Figure 2. Profit concentration at the largest disclosed engine. Kering's Gucci data and LVMH's division data are different levels of disclosure; the comparison is directional.

The precise role of Louis Vuitton and Dior cannot be calculated because LVMH does not disclose individual maison revenue or profit. Any claim that LVMH has no single-brand risk would therefore exceed the evidence. The group is better described as a concentrated portfolio with multiple offsets, rather than a perfectly balanced one.

The academic record also warns against treating diversification as an automatic value creator. Earlier research found evidence of overinvestment and cross-subsidization in diversified firms; later research challenged the measurement of a universal conglomerate discount. A major meta-analysis found that moderate, related diversification tended to outperform both narrow focus and extensive unrelated diversification. [20-22]

THE REAL LVMH ADVANTAGE

Not the number of maisons, but the combination of relatedness, differentiated cycles, control of the value chain, and disciplined capital allocation developed over decades.

6. The 2026 recovery proves the portfolio mechanism

Bain and Altagamma's June 2026 update describes a luxury market growing slowly and unevenly. Personal luxury goods were expected to expand by roughly 2% to 4%, with jewelry stronger than leather goods and footwear, the Americas more supportive, China in cautious recovery, and geopolitical disruption weighing on tourism and parts of Europe and the Middle East. In a market like this, the average growth rate matters less than which category a group owns. [14]

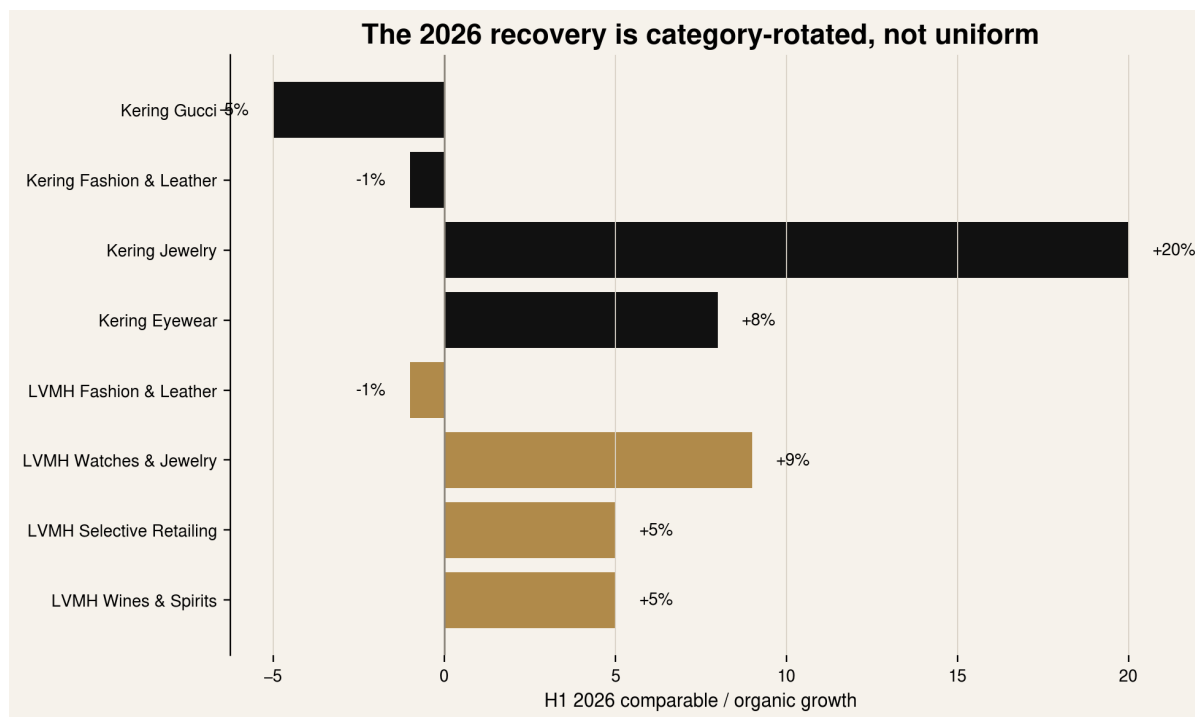


Figure 3. H1 2026 underlying growth. Company measures differ: Kering comparable growth; LVMH organic growth. [1-2,9]

Kering's H1 growth came despite Gucci because Jewelry rose 20% and Eyewear 8%. At LVMH, Watches and Jewelry rose 9%, Selective Retailing 5%, and Wines and Spirits 5%, while Fashion and Leather Goods fell 1% for the half before returning to 1% organic growth in Q2. The mechanism is visible in real time: not every engine needs to accelerate together for the group to stabilize.

The results also show why LVMH's advantage should not be exaggerated. Its reported H1 revenue fell 3% under currency and scope effects, recurring operating profit fell 4%, and investors reacted cautiously because Fashion and Leather Goods grew less than expected in Q2. Resilience is relative. [9,17-19]

7. ReconKering is an operating-system reset

Kering's response is often narrated through Gucci and Demna. The more consequential change sits one level above the house. ReconKering reorganizes the group around four businesses—Fashion and Leather Goods, Jewelry, Eyewear, and Corporate and Other—and a shared platform for Industry, Client, Technology, Sustainability, and Support Functions. [6-8]

This architecture targets the weaknesses exposed by concentration. Shared purchasing, manufacturing, quality, logistics, and research can improve scale and inventory discipline. A unified client platform can move decisions from intuition toward evidence. Technology can shorten planning cycles. Jewelry and Eyewear can create earnings streams that are not perfectly synchronized with fashion. House-level strategies can restore distinctiveness without forcing every brand into the same formula.

Kering has set ambitions to more than double its 2025 recurring operating margin percentage in the mid-term and lift return on capital employed above 20%. Its sequence—Reset by the end of 2026, Rebuild by the end of 2028, Reclaim by the end of 2030—makes clear that the July rally occurred near the beginning of the program, not its conclusion. [6-8]

The balance sheet improvement also needs careful reading. Net debt fell from €8.0 billion at year-end 2025 to €3.3 billion at June 2026, but cash included €4.0 billion from the sale of Kering Beauté to L'Oréal, and free cash flow included real-estate proceeds and a Gucci Beauty agreement payment. The actions are strategically meaningful; they are not the same as an operating earnings recovery. [1-2]

8. A founder's version of portfolio strategy

For an emerging brand, concentration is initially a feature. A recognizable hero can focus design, production, content, retail storytelling, and customer learning. Trying to look like a conglomerate too early usually creates inventory, complexity, and diluted marketing.

The transition should begin only after the hero has done its job: the brand is legible, customer evidence is repeatable, and the core product earns healthy contribution after marketing and returns. At that point, the business should not ask, 'What else can we make?' It should ask, 'Which related engine reduces risk while making the core stronger?'

Portfolio stage	Strategic job	Failure to avoid
Hero	Make the brand instantly recognizable and concentrate demand	Confusing one viral moment with durable product-market fit
Companions	Increase basket size through adjacent products and codes	Adding unrelated SKUs that consume working capital
Repeat engine	Create a reason to return at a different frequency or price	Using low price without preserving brand meaning or margin
Second risk engine	Reduce exposure to one SKU, channel, region, or customer cohort	Diversifying into a category with the same underlying demand risk
Shared platform	Make sourcing, data, design, and operations more productive as the portfolio grows	Building overhead before scale justifies it

A founder should track concentration in profit, not only sales. A product that delivers 60% of revenue may deliver 85% of gross profit or absorb most paid media. A second product can appear to diversify revenue while increasing inventory and cash risk. The useful dashboard includes SKU and category share of revenue and gross profit, full-price sell-through, inventory age, repeat purchase, attach rate, channel and regional exposure, contribution margin, and return on working capital.

BUSINESS LESSON

Focus creates recognition. A related portfolio converts recognition into resilience. The sequence matters.

9. What must happen before Kering can call this a turnaround

The July results justify cautious optimism. They do not justify declaring victory. A durable turnaround would require evidence across five layers:

1. Gucci returns to sustained comparable growth, not simply a slower decline.
2. Growth broadens across regions and customer cohorts rather than depending mainly on the United States or very important clients.
3. New products generate repeatable full-price demand after launch attention fades.
4. Inventory reductions, store closures, and cost discipline rebuild margin without starving brand desirability.
5. Jewelry, Eyewear, Saint Laurent, Bottega Veneta, and other houses become material profit contributors, not only positive growth anecdotes.

Kering's own mid-term framework adds a sixth test: return on capital. Revenue growth that depends on excess inventory, expensive real estate, or permanent marketing escalation would not solve the structural problem.

Conclusion: the group must outlive the hit

Gucci's fall from €10.487 billion to €5.992 billion in annual revenue is one of the clearest modern demonstrations of concentration risk in luxury. The creative cycle weakened, but the damage became a group crisis because so much revenue, profit, capital, and investor expectation sat behind one house.

LVMH's answer is not immunity. Its Fashion and Leather Goods division remains dominant, its profit declined, and its individual maison concentration is opaque. Its advantage is that recovery can arrive through more than one door: a Dior product reset, Tiffany and Bvlgari jewelry, Sephora retailing, champagne, cognac, perfume, or a different geography.

Kering's July 2026 rally is therefore the beginning of the next question, not the end of the story. Can ReconKering turn a collection of houses into a stronger portfolio operator while preserving the creative distinctiveness on which luxury depends?

For a founder, the transferable lesson is smaller and sharper. Build the hero. Learn why it works. Then build the adjacent system before the hero becomes the only thing keeping the business alive.

Research note and limitations

All company financial figures come from official results and registration documents. Calculations are FBB analysis using reported euro values. Comparable and organic growth definitions differ modestly by company. LVMH does not disclose individual maison revenue or profit, so Gucci-to-maison comparisons cannot be made. This paper treats share-price movements as evidence of changing market expectations, not as proof of operating causation or investment value. Research cut-off: 2 August 2026.

This white paper is educational fashion-business analysis and not investment advice.

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Primary filings and official company releases were used for all financial figures. Secondary reporting was used for market reaction, analyst expectations, and context. Academic sources are included only to frame the benefits and costs of corporate diversification.

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