

FIN 535

Mergers and Acquisitions

Case: The Wolf in Cashmere
LVMH's Bid to Acquire Tiffany

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Case Overview

- In November 2019, the iconic U.S. jeweler Tiffany agreed to be acquired by the luxury goods conglomerate LVMH.

2019年11月，美国著名珠宝商蒂芙尼同意被奢侈品集团LVMH收购。

- The \$16.6 billion transaction was scheduled to close in mid-2020. However, in 2020, the global COVID-19 pandemic took a toll on the luxury goods sector.

这笔价值166亿美元的交易原定于2020年中期完成。然而，2020年全球新冠疫情对奢侈品行业造成了巨大冲击。

- In September 2020 LVMH announced that it was backing out of the deal.

2020年9月，LVMH宣布退出交易。蒂芙尼随后对LVMH提起诉讼。

- Tiffany filed suit against LVMH. LVMH countersued, arguing that the pandemic triggered a material adverse effect (MAE) clause included in the merger agreement.

LVMH反诉称，疫情触发了合并协议中包含的重大不利影响（MAE）条款。

Case Questions

Q1) What were the key motivations for the M&A transaction between LVMH and Tiffany?

LVMH和蒂芙尼之间的并购交易的主要动机是什么？

Q2) How does the COVID-19 pandemic affect M&A transaction execution?

新冠疫情如何影响并购交易的执行？

Q3) What is the role of Material Adverse Effect (MAE) provisions in M&A?

并购中材料不利影响（MAE）条款的作用是什么？

The Luxury Goods Market

- There had been significant M&A activity in the luxury goods sector.
 - ▶ Driven by private equity firms and large luxury companies building multi-brand portfolio (LVMH, Kering)

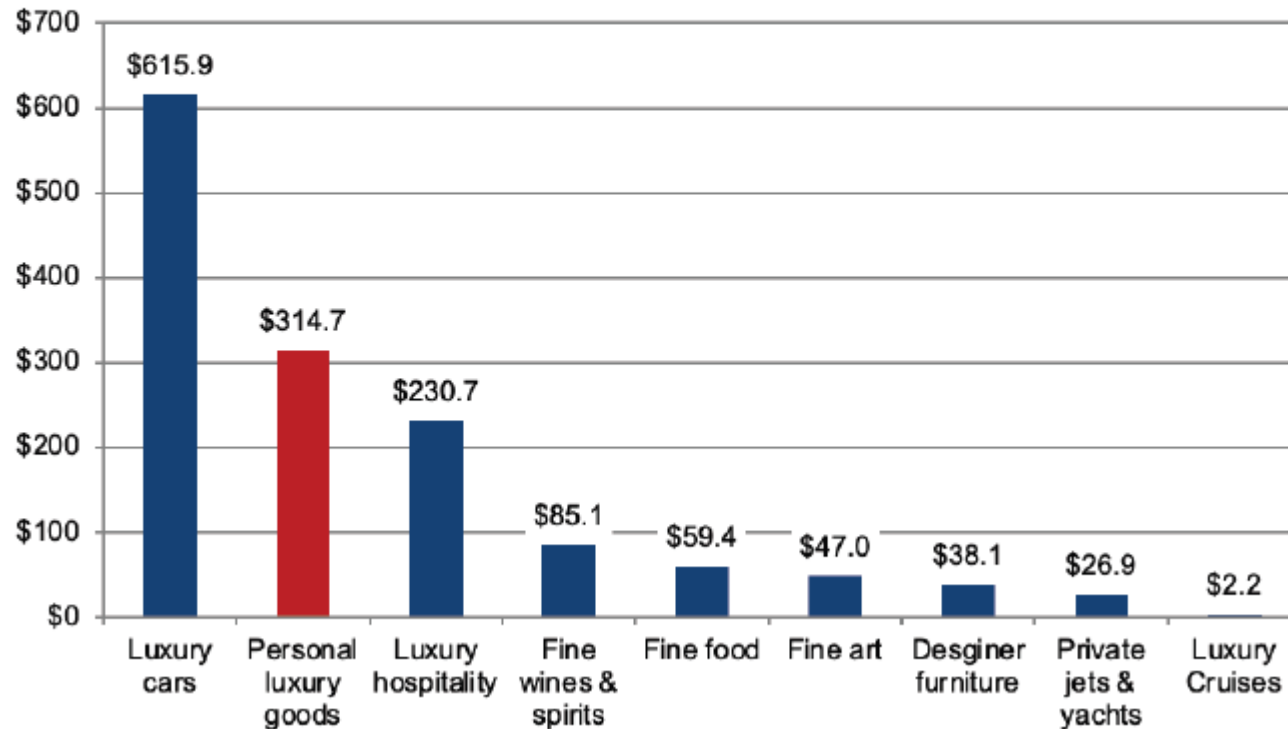
奢侈品行业并购活动频繁。
由私募股权公司和大型奢侈品公司推动，这些公司正在构建多品牌组合（LVMH、开云集团）。

- Luxury goods firms were severely impacted by Covid-19.
 - ▶ Full-year sales and operating profits projected to fall by 23% and 60%, respectively, relative to 2019.

奢侈品公司受到Covid-19的严重影响。
全年销售额和营业利润预计将分别比2019年下降23%和60%。

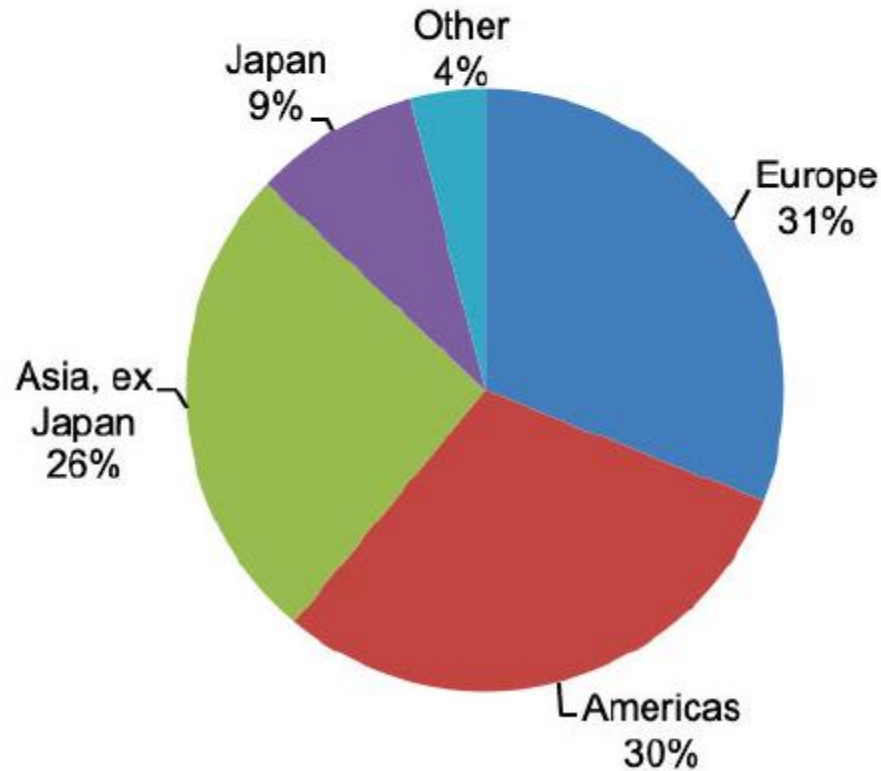
The Luxury Goods Market

Exhibit 1a The Global Luxury Goods and Services Market by Product Category
(\$ in billions)



The Luxury Goods Market

Exhibit 1b The Global Luxury Goods and Services Market by Region



The Luxury Goods Market

Exhibit 2 Leading Luxury Goods Companies (\$ in millions)

| Company | Country | 2019 Sales | 2019 Earnings |
|--------------------------------|-------------|------------|---------------|
| LVMH | France | \$60,109 | \$8,031 |
| Kering SA | France | \$17,789 | \$3,597 |
| Compagnie Financière Richemont | Switzerland | \$15,667 | \$3,121 |
| The Estée Lauder Companies | USA | \$14,863 | \$1,785 |
| L'Oréal | France | \$33,457 | \$4,879 |
| Chanel Limited | UK | \$12,273 | \$2,410 |
| EssilorLuxottica Group | Italy | \$19,476 | \$2,170 |
| Chow Tai Fook Jewellery Group | Hong Kong | \$7,241 | \$370 |
| PVH Group | USA | \$9,400 | \$415 |
| The Swatch Group | Switzerland | \$8,206 | \$745 |

LVMH Moët Hennessy – Louise Vuitton SE

- The world leader in luxury
- 75 luxury brands (Revenue €53bn in 2019)
- Arnault (third-richest) family owns 47.5%
- Five major sectors
 - ▶ Wines & Spirits
 - ▶ Fashion & Leather goods
 - ▶ Perfumes & Cosmetics
 - ▶ Watches & Jewelry
 - ▶ Selective retailing

世界奢侈品领导者
75个奢侈品牌（2019年收入530亿欧元）
阿诺家族（第三富有的）拥有47.5%的股份

五大主要领域
酒类与烈酒
时尚与皮革制品
香水与化妆品
手表与珠宝
选择性零售

Tiffany & Co.

- Founded by Charles Lewis Tiffany in 1837
由查尔斯·刘易斯·蒂凡尼于1837年创立
- International presence with 320 stores worldwide
 - ▶ Huge selection of jewelry (92% of total sales), timepieces, home and accessories, and fragrances (6%)
 - ▶ In 2015 Frederic Cumenal became CEO (former CEO of Moët & Chandon) and upgraded image

Exhibit 4 Tiffany & Co.: Summary Financials and Key Ratios, 2015-2019 (\$ in millions, except per share data)

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|---------|---------|---------|---------|---------|
| EARNINGS DATA | | | | | |
| Net sales | \$4,424 | \$4,442 | \$4,170 | \$4,002 | \$4,105 |
| Gross profit | \$2,762 | \$2,811 | \$2,611 | \$2,499 | \$2,505 |
| Selling, general & administrative expenses | \$2,029 | \$2,021 | \$1,801 | \$1,753 | \$1,706 |
| Earnings from operations | \$733 | \$790 | \$809 | \$746 | \$799 |
| Net earnings | \$541 | \$586 | \$370 | \$446 | \$464 |

Case Question 1

- What were the key motivations for the M&A transaction between LVMH and Tiffany?

Motivation for LVMH

- By owning a leading jewelry brand,
 - ▶ consolidating their presence in the US market
 - ▶ doubling their revenue in the jewelry sector

Exhibit 8 LVMH's Business and Geographic Segments – 2019

| | Revenue | Operating Profit |
|-----------------------------------|-----------------|------------------|
| Wines & Spirits | € 5,576 | € 1,729 |
| Fashion & Leather Goods | € 22,237 | € 7,344 |
| Perfumes & Cosmetics | € 6,835 | € 683 |
| Watches & Jewelry | € 4,405 | € 736 |
| Selective Retailing | € 14,791 | € 1,395 |
| Other activities and eliminations | <u>-€ 174</u> | <u>-€ 383</u> |
| TOTAL LVMH | € 53,670 | € 11,504 |

Motivation for Tiffany

- The merger could increase Tiffany's
 - ▶ Operating profit margin to 23% by 2025 (current margin 16%)
 - ▶ Annual sales by 7%
 - ▶ By facilitating greater product innovation, improved access to the Chinese market, and increased luxury watch sales
 - ▶ Sales would benefit from gaining access to LVHM's sizable platform and marketing experience in China

Case Question 2

- How does the COVID-19 pandemic affect M&A transaction execution?

How does the COVID-19 pandemic affect M&A transaction execution?

- Luxury goods firms were severely impacted by Covid-19.
 - ▶ Full-year sales and operating profits projected to fall by 23% and 60%, respectively, relative to 2019.

Global personal luxury goods market, quarter-on-quarter growth in retail-equivalent sales



Source: Bain & Company analysis

How does the COVID-19 pandemic affect M&A transaction execution?



stand still 购买者不能以波动的价格进行购买，只能按照谈好的价格

How does the COVID-19 pandemic affect M&A transaction execution?

LV故意拖延，希望能压一下收购的价格

- The merger agreement specified a “drop dead” completion date of August 24, 2020.

合并协议规定了“截止日期”为2020年8月24日。

- Sep 9, LVMH announced that it was withdrawing its offer for Tiffany, and Tiffany filed a lawsuit against LVMH at the same day.

9月9日，LVMH宣布撤回对蒂芙尼的收购要约。同一天，蒂芙尼对LVMH提起诉讼。

- Tiffany alleged that LVMH deliberately attempted to delay the antitrust clearance process to evade its obligations under the merger agreement and to force Tiffany to agree to a price cut.

蒂芙尼指控LVMH故意拖延反垄断审查程序，以逃避合并协议下的义务，并迫使蒂芙尼同意降价。

- In 2020 Oct, the terms are renegotiated and they agreed \$131.5 per share (total \$15.8bn), \$425 million lower than the original price.

2020年10月，双方重新谈判条款，最终同意每股131.5美元（总计158亿美元），比原价低4.25亿美元。

Case Question 3

根据搜索结果，对于 LVMH 是否成功引用 MAE（重大不利影响）条款解除合同，没有明确的最终法院认定结果。然而，双方在 2020 年 10 月重新协商并达成了新的协议，将收购价格从原定的每股 135 美元降低至每股 131.50 美元，总交易金额也随之减少至 158 亿美元。这表明尽管 LVMH 曾试图通过 MAE 条款退出交易，但最终双方还是通过协商解决了分歧，并顺利完成了交易

- What is the role of Material Adverse Effect (MAE) provisions in M&A?
 - ▶ Under what circumstances can or cannot a buyer walk away from closing?

并购中的重大不利影响（MAE）条款的作用是什么？
在什么情况下买方可以或不可以退出交易？

Considering MAE provisions in M&A agreements

- “Material Adverse Effect Clause” aims to give parties to a contract a way out of their contractual obligations if an event that causes a material adverse change or effect occurs.

“重大不利影响条款”旨在为合同双方提供一种退出合同义务的方式，如果发生导致重大不利变化或影响的事件。

- “Any event, development or condition occurring that has had, or would be reasonably expected to have, a material adverse effect on the business, financial condition or results of operations of the company and its subsidiaries”

“任何对公司的业务、财务状况或运营结果产生或合理预期会产生重大不利影响的事件、发展或情况”

- It excludes terrorist attacks, economic downturns, and natural disasters.

它排除了恐怖袭击、经济衰退和自然灾害。

- But these exclusions are void if the companies had been disproportionately adversely affected.. compared to others in the same industry.

但如果这些公司受到的影响远大于同行业其他公司，则这些除外条款无效。