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THE ACQUISITION OF TIFFANY BY LVMH

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Abstract

LVMH has announced in November 2019 the acquisition of Tiffany & Co. as part of their consolidation strategy. This work is divided into four different chapters which respectively analyze the theories related to M&A transactions, the current trend of the luxury sector, the companies themselves, and the deal that took place.

This thesis aims to analyze the value creation potential of this acquisition and explain the strategy put in place by LVMH. The history of these two iconic brands shows that to ensure stable and continuous growth companies have focused on financial instruments and operations.

M&A, International Strategy, Luxury Industry, LVMH, Tiffany & Co.

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1. INTRODUCTION

Luxury goods have always been seen as a door to an enchanted world far from reality. The luxury fashion market, with its market value reaching \$285 billion, is showing stable and sustainable growth globally according to the latest report published by Statista on luxury goods. This growth has led to strong competition and has prompted companies to pay attention to aspects not only related to products.

This work project aims to analyze and explain the strategy pursued by one of the most famous and renowned brands in the world: LVMH. This group starting from a small leather goods store with the Louis Vuitton brand has succeeded to impose itself on the market. The legendary brand has not only focused on the development of products, or their design, but also on financial strategies (and in particular M&A operations) that have allowed it to increase the company's size. Acquisitions are the main driver of growth for LVMH and I will focus on analyzing the biggest deal ever in the fashion industry: the acquisition of Tiffany & Co. by LVMH.

This document is organized as follows. I start with a literature review followed by an analysis of the luxury sector and both companies individually. I then provide an outline of the deal structure and the main valuation technique used to evaluate the single companies and the merged ones. The conclusions of the document will summarize the main results obtained from the analysis of the luxury sector and the transaction itself.

This operation represents a fundamental resource for both companies: this work project will attempt to demonstrate how, despite the risks inherent to them, the main consequence of this acquisition is to increase the value of both Tiffany and LVMH.

2. LITERATURE REVIEW

2.1 Motives and antecedents of M&A

Each CEO is responsible for increasing the value of their companies to gain a corporate advantage in the shortest possible time and then keep it constant to assert their presence in the market. Söllner (2009) recognizes different types of growth: organic growth and inorganic growth. Organic Growth implies the development of new activities based on skills, knowledge, and financial resources already in the company's possession; inorganic growth is based on the dimensional factor and is usually pursued through different modalities, such as strategic alliances, joint ventures, and merger and acquisitions operations.

The use of M&A transactions as a growth tool for external lines has become increasingly significant, even if it has never been characterized by a linear trend. Martynova and Renneboog (2008) have analyzed more than a century of transactions in the US market, leading to the identification of multiple large waves (Appendix 1). At the beginning of the 20th Century, the phenomenon was mainly located in the US where companies were trying to obtain a monopoly in their sector by pursuing vertical integration strategies. The aim was to create economies of scale necessary to compete with the large leading industries in the various industrial sectors. During the '50s, companies aimed to diversify their sources of income through M&A operations to reduce business risk. The '80s were characterized by high inflation and high cost of debt, so companies made extensive use of M&A operations to reduce operational and financial costs. In the '90s, the process only grew in scale thanks to deregulation and to the creation of new market instruments, which led to the large availability of cheap credit for companies, thus increasing the number of leveraged buy-outs (Appendix 2).

Currently, were driven by the need to increase economies of scale, but also to consolidate the company's position within the reference market, for corporate restructuring and risk diversification.

The halt in the phenomenon coincided with the American and global crisis that began in 2007 with the subprime mortgage crisis (Appendix 3). The “Past as Prologue” report by Deloitte (2018) is highlighted how M&A trends have strengthened the concept of "Bigger is Better": large acquisitions, those valued at over 10 billion dollars, have exceeded the reference index by 4.3 percent. Medium-sized operations, those valued from \$100 million to \$1 billion, have exceeded the index by only 0.1 percent. Usually, successful large acquisitions are made by companies with long M&A experience.

2.2 Sources of Value Creation and different type of synergies

There are many classifications of M&A transactions. The classic distinction is made according to the mode and direction of expansion of the acquiring company. According to the Corporate Finance Institute, there are three types of acquisitions: horizontal, vertical, and conglomerate. The most common are horizontal acquisitions or integrations of two companies operating in the same line of business. Vertical acquisitions require the buyer to expand its control upstream to the raw materials or downstream to the end consumer. The last method is that of conglomerate acquisitions that involve the integration of companies operating in unrelated sectors (Lewellen & Wilburg 2012).

However, there are other potential dimensions in which M&A transactions can be classified. For example, Bower (2001) distinguishes five types of M&A. The first category is overcapacity M&A in mature, capital-intensive sectors such as steel. Such acquisitions allow for cost rationalization through more efficient operations management and capacity reduction across the entire industry. The result is an increased market share.

The second category is the one that focuses on the geographical roll-up of the company, which, unlike the first, takes place during the company's development phase. Many companies, especially in the early stages of life, remain local and fragmented.

A company could implement a "roll-up" strategy to expand geographically, incorporating other neighboring companies: it is important at this point to limit the standardization of operations because business units must remain local to serve local customers.

Another category of M&A focuses on product or market expansion strategies. It is the result of diversification or internationalization pursued by the company relying on management skills and knowledge to target new clients' tastes, traditions, and cultures. Another category is represented by M&A as R&D: this method is mainly used in high technology sectors as the acquiring company can acquire the know-how of the acquired company and specific knowledge to become competitive in the shortest possible time.

The last category focuses on M&As to create a real new business through the convergence of sectors that at a first sight may seem unrelated to each other.

Regardless of the type of M&A, a challenge for managers is to exploit a different kind of synergies. Strategic synergies can result from the combination of two companies interested in raising barriers to entry into the industry or increasing difficulties in finding resources from competitors, to reduce their number or gain a competitive advantage.

Economic synergies concern companies interested in reducing costs and improving their income performance, creating economies of scale, which allow them to spread fixed costs over a greater quantity of products and thus have the possibility to reduce prices or increase margins.

Fiscal synergies could be achieved through international transactions, exploiting the differences in tax rates between the various countries. Financial synergies are very important as they allow the company with greater debt exposure to obtain financing at lower interest rates and with greater ease, resulting in a consequent reduction in the cost of capital for the companies involved (Devos & Kadapakkam 2008).

2.3 Motivation and barriers for cross border-deals

The most active market from an M&A point of view is undoubtedly the American one. According to the Global Capital Confidence Barometer (2020) conducted by Ernst & Young, 59% of the top managers of large industrial companies worldwide intend to buy companies over the next 12 months. The European economy is experiencing slow growth. The President of the European Central Bank (ECB) Christine Lagarde has shown herself in favor of continuing expansionist policies by increasing the liquidity placed on the market to foster economic growth in the coming years. Nevertheless, Europe is active from an M&A perspective.

Through cross-border acquisitions, both companies can benefit from increased access to new markets. These operations are difficult to manage because of the huge cultural differences that are reflected in increased efforts to achieve a good level of integration. Many large companies pursue very intensive international acquisition strategies. This is the case with LVMH and other major players such as IBM or Procter & Gamble, who continue very aggressively with the acquisition of similar and smaller companies based in different regions by leveraging their size, brand, and commercial power to accelerate access to new markets and new customers.

3 COMPANY AND INDUSTRY ANALYSIS

3.1 Industry Analysis

In the words of Coco Chanel: "Luxury begins where necessity ends". Certainly, this characteristic is what led us to consider the luxury sector as reserved for a small group of subjects and the possession of "luxury goods" as a factor of differentiation between the various social classes. Since the Industrial Revolution of the 18th, a greater percentage of the population has found themselves in possession of the financial means necessary to have access to luxury goods.

The phenomenon in question has been further accentuated during the 20th century and this is partly due to economic progress and the general possibility for an increasingly larger part of society to afford "the best" (Kremer & William 2013).

In the context of the analysis of consumer behavior, economic texts define "luxury goods" as those goods or services whose demand increases more than proportionally as a result of an increase in income. As income increases, consumers tend to consume more luxury goods than other goods (Varian 2010)¹.

According to BCG, the luxury market is further divided into three micro-sectors according to the products considered: personal luxury, experiential luxury, and luxury investment goods. Personal Luxury includes clothing, accessories, and cosmetics and they are also called soft luxury goods whereas jewelry and watches are part of hard luxury goods.

Experiential luxury, a term used primarily to refer to luxury services that provide immediate pleasure, is not immediately visible to others, and is preferably consumed in the company. Luxury investment goods that, as can be easily understood, concern specific luxury goods classified as traditional (cars, yachts, etc.).

The subject of our analysis is Personal Luxury as within it operate the main companies mentioned as leaders in the sector, LVMH, Richemont, and Swatch. The report "A new look for Luxury" by BCG (2020) estimates a decrease in sales of almost 20 percent compared to the previous year as Personal Luxury's turnover has been hit hard by the global pandemic and in 2020 sales are expected to reach around 220 billion euros (Appendix 4).

According to the Statista Luxury Report (2020), the luxury market as a whole is constantly growing (Appendix 5).

¹ In this context, the phenomenon of "trading up" consumption has developed, for which increasingly large sections of the population are led to buy and use luxury goods and services, although on some occasions. This is accompanied by the opposite phenomenon of "trading down", whereby on daily occasions consumers who do not have a high income are satisfied with medium-low quality products to be able to afford the "luxury" of goods or services to which they attach great importance (Silverstein & Michael 2008).

The causes of this can be identified in various factors: the first of these is the GDP growth, given the strong correlation between economic well-being, citizens' income, and demand for luxury goods (Appendix 6). Nevertheless, the consumption of luxury goods is linked not only to monetary factors as it is also influenced by social, cultural, and psychological factors. An example is given by Japan: luxury goods purchase in that country tripled during one of the deepest recessions the country has ever known (Business of Fashion 2016). The second factor influencing the development of the luxury market is exchange rate trends that have a direct impact on sales revenues in international markets and an indirect impact on consumer purchasing power (Camarda 2017). The third factor is the growing number and size of assets of High-Net-Worth Individuals, i.e., those with assets of over one million dollars should also be taken into consideration (Appendix 7).

It is worth mentioning the key role of emerging markets as they are considered one of the biggest growth opportunities for companies operating in the sector (Appendix 8). Although sales figures in mature markets such as the United States or Europe are still increasing, they show lower growth rates lately compared to the Asian market (Appendix 8). The market appears very concentrated, dominated by the four conglomerate groups LVMH, Kering, Richemont, and Swatch (Appendix 9).

Opportunities may arise from boosting the brand's web presence (Appendix 10). Today online sales represent a small share of companies' turnover, but the propensity shown by consumers towards this new purchasing channel makes it increasingly important for companies to become familiar with it (Appendix 11).

Threats are represented by counterfeiting and environmental responsibility and travel restrictions (Appendix 12). Counterfeiting damages sales but the brand image even more as it reduces the perception of its uniqueness.

3.2 Company Analysis

3.2.1 LVMH

The LVMH group was created in 1987 with the merger of two companies (hence the acronym, obtained from the initials): Louis Vuitton, a company specializing in fashion accessories, founded in 1854, and Moët Hennessy, a company specializing in wines and spirits created in 1971. LVMH is a French holding company based in Paris, whose portfolio includes, thanks to the majority of absolute shareholdings, more than seventy prestigious brands marketed throughout the world and which guarantee the company undisputed leadership in the luxury goods market. The Maisons, gathered under the guidance of chairman and CEO Bernard Arnault, is deeply rooted in six different sectors ranging from haute couture products and leather accessories, with the management of brands like Louis Vuitton, Kenzo, Celine, Fendi, to a wide range of Chateau between fine wines and spirits. Its activities are also extended to cosmetics and perfumery, to watches and jewelry. As far as the financial market is concerned, it is listed at CAC 40, the main index of the French stock exchange that represents the value of the forty most significant companies among the one hundred largest market capitalizations of Paris.

The main shareholder is Bernard Arnault who controls it both directly (5%) and indirectly through Christian Dior SE (42 percent). Overall, the Arnault Family Group, Bernard Arnault's holding company, controls 46.84 percent of the shares with 63.13 percent of the voting rights (Appendix 13). The LVMH Group includes 75 exceptional Maisons that create high-quality products. LVMH is the only conglomerate present in the five most important sectors of the luxury market: Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewelry, Selective Distribution (Appendix 14). The Watches and Jewelry Business Unit is part of the Hard Luxury subdivision we mentioned before instead the other Business Units are part of the Soft Luxury one.

LVMH currently has a strong international presence with 163,000 employees worldwide and closed 2019 with a turnover of 53.7 billion euros of which 30 percent of the revenues generated in Asia, 30 percent in Europe, and 24 percent in the US (Appendix 15). LVMH competitive advantage comes from a unique operating model based on six different pillars:

1. Decentralized organization: every Maison of the group is autonomous and receptive.
2. Vertical Integration: it allows to control the entire value chain of the holding.
3. Sustaining know-how: each Maison pursues a long-term vision valuing the transmission of know-how and the enhancement of craftsmanship and creativity for new generations.
4. Organic Growth: the group gives priority to internal growth and invests important resources in the development of its Maison and creativity.
5. Creating Synergies: the sharing of resources benefits each brand by leveraging the combined forces of LVMH as a Group.
6. Balance across segments and geographies: The Group has the resources necessary for organic growth, thanks to the balance between business sectors and a well-distributed geographical presence.

As for the internal configuration, LVMH is organized into five autonomous subdivisions. Each one of them is equipped with its administrative section and function as a Strategic Business Unit.

First among these, is the Wine and Spirits SBU and is part of the Soft Luxury category. In 2019 alone they had a turnover of 5.576 million euros, 8.4 percent more than the previous year. The Maison has reaffirmed its leadership position by pursuing balanced geographic expansion. It achieved sustained growth in China and the United States while maintaining a strong innovation policy and pushed forward its environmental and social commitments.

The second division, the Fashion and Leather goods SBU, focuses its production on soft luxury goods such as leather accessories, bags, and designer clothing.

It has generated revenues of 22.237 million euros, 31 percent of which in Asian countries, which constitute an increasingly expanding market. This subdivision groups together Fendi, Celine, Kenzo, Marc Jacobs, and many other famous brands.

The instrument of acquisitions in this sector has proved to be synonymous with success: LVMH has acquired controlling stakes in Jean Patou, Fenty, and Stella McCartney in the last two years.

The third subdivision is the Perfume and Cosmetics SBU, it includes both "historic" brands such as Christian Dior and new companies such as Benefit Cosmetics and Makeup Forever, targeting younger consumers. It achieved organic revenue growth of 9 percent with a total revenue stream of 6,835 million euros, 40 percent of which in Asian countries, particularly in China.

Profit from recurring operations rose 1 percent after taking into account an exceptional impairment expense relating to certain young brands' product lines. Also, in this area, a considerable advantage derives from the synergies, especially in R&D, between the individual companies.

The fourth subdivision is the Jewelry and Watch SBU which focus its production on hard luxury goods and accounts for only 8 percent of the group's total sales with a total turnover of 4.405 million euros, due to high competition, in particular from Gucci, Richemont, and Hermès. Among the main competitors was Bulgari, acquired by LVMH in 2011 for a total of 4.3 billion euros. The fiscal year of 2019 has faced persistent geopolitical uncertainties but LVMH is focused on gaining market share by acquiring an industry leader such as Tiffany. The last SBU is the Selective Distribution one in which operates companies such as Sephora, Le Bon Marchè, DFS, and Miami Cruiseline Services.

This business unit reported revenues of 14.791 million euros, an 8 percent increase over the previous year. The growth was driven by Sephora's strong performance as it continued to gain market share.

3.2.2 Tiffany & Co.

Tiffany & Co., commonly known as Tiffany's, is an American company founded in 1837 in New York City, selling hard luxury items such as jewelry through thousands of stores located in many countries as customers outside the US account for over 60 percent of sales. As far as the financial market is concerned, it is listed at the NYSE. The first Tiffany & Co. store opened on September 18, 1837, in Broadway, downtown New York. Initially, the company, founded by Charles Lewis Tiffany and John B. Young in Manhattan sold stationery and costume jewelry and offered a unique, no-haggling approach as prices were marked. In 1845, Tiffany published its Blue Book, the first mail-order catalog in the United States, which featured high-quality, refined jewelry. In 1851 Tiffany & Young bought the operations of silversmith John Moore and two years later Tiffany bought out his partners renaming the company Tiffany & Co. Although it served European royalty, Tiffany found its primary clientele in the growing number of wealthy Americans. In 1878, he bought a yellow diamond weighing 287.42 carats, named Tiffany Diamond, and transformed it into a brilliant cushion cut weighing 128.54 carats and displaying it in its flagship store in New York. Louis Comfort Tiffany entered the company as artistic director after his father Charles Tiffany passed away in 1902.

In 1886, Tiffany & Co. was the first jewelry store to introduce the modern engagement ring, the Tiffany Setting, handmade with a rare diamond. In the same year, the company purchased the French Crown Jewelry. In 1940 Tiffany bought its famous flagship store on Fifth Avenue which increased the popularity of the brand considerably thanks also to the film "Breakfast at Tiffany's" in which Audrey Hepburn argues that there is no such place in the world more peaceful and elegant than Tiffany.

Tiffany & Co. collaborated with the famous designer, Jean Schlumberger, whose creations are inspired by nature (1956); with Andy Warhol who created the Tiffany Greeting Cards; with Elsa Peretti and Paloma Picasso.

In 1978, Avon Products Inc. bought Tiffany and Co. for nearly 104 million dollars in stock. However, in a 1984 Newsweek article, Tiffany's Fifth Avenue store was compared to Macy's department store during a sell-off period due to a large number of inexpensive items on sale; also, customers complained about the decline in quality and service. For this reason, Avon sold Tiffany to a group of investors led by William R. Chaney for \$135.5 million in cash in 1984. Tiffany returned to the stock exchange in 1987 and raised approximately \$103.5 million from the sale of 4.5 million common stock.

The company, due to the economic downturn of the '90s, has begun to adopt mass merchandising strategies. They started a new advertising campaign pointing out that Tiffany products were within everyone's reach: the company started advertising the fact that the price of diamond engagement rings would start at 850 dollars to reach a larger part of the population. Consequently, the company increased drastically their revenues during these years and opened stores in more than 20 cities around the world.

In 2001, Tiffany & Co. collaborated with Pantone to create "1837 Blue", inspired by the previous Tiffany Blue shade. The company set up the Laurelton Diamonds subsidiary to manage Tiffany's worldwide diamond supply chain in 2002. In honor of the 175th anniversary, in 2012, Tiffany presents "Rubedo", a metal that captures the rosy light of dawn.

Tiffany generates more than 50 percent of total sales from its named jewelry collections, including Tiffany Victoria, Tiffany HardWear, Tiffany T, and Return to Tiffany.

Engagement rings and wedding bands contribute over 25 percent of sales, with jewelry by designers such as Paloma Picasso, Elsa Peretti, and Jean Schlumberger bringing in some 15 percent. The company's remaining revenue comes from non-jewelry items such as timepieces, leather goods, sterling silver goods, china, and crystal.

Tiffany's sales in the Americas represented over 40 percent of worldwide net sales in 2019.

Asia/Pacific contributes nearly 30 percent, Japan generates more than 10 percent and Europe accounts for over 10 percent. Headquartered in New York, Tiffany also operates in more than 325 stores in about 15 countries worldwide, with major markets in the Americas (about 40 percent of total locations), the Asia-Pacific region (about 30 percent), Japan (about 20 percent), and Europe (some 15 percent). It has service, fulfillment, and manufacturing, and design centers in the US (Kentucky, New York, and Rhode Island), as well as Belgium, Botswana, Cambodia, the Dominican Republic, Mauritius, and Vietnam. In 2019, 2018 and 2017, the Company spent 379 million dollars, 394 million dollars, and 315 million dollars on advertising, marketing, and public and media relations.

The company concentrates its advertising efforts on initiatives to reinforce that perception, including the publication of its Blue Book, which showcases its more expensive, high-end jewelry. Tiffany struggled to maintain its growth in the last five years and registered an inconsistent revenue trend. Net earnings follow the same outcome for the same period. Tiffany reported a 0.5 percent decrease in revenue to \$4.4 billion in fiscal 2019. Net income in 2019 decreased 8 percent to 541 million dollars due to the impact of costs related to the proposed Merger. Tiffany's main strategy is to prioritize an evolved brand message, renewing product offerings and enhancing its in-store presentations, delivering an exciting omnichannel customer experience, strengthening the Company's competitive position and lead in key markets, cultivating a more efficient operating model, and inspiring an aligned and agile organization.

Tiffany & Co., commonly known as Tiffany's, is an American company founded in 1837 in New York City, selling jewelry through thousands of stores located in many countries. As far as the financial market is concerned, it is listed at the NYSE, nicknamed the "Big Board", it is the world's largest stock exchange in terms of trading volume and the second-largest in terms of number of listed companies.

The company sells its goods exclusively through more than 320 Tiffany & Co. stores and boutiques, its websites, business-to-business accounts, wholesale distribution, and catalogs.

4. STANDALONE VALUATIONS OF LVMH AND TIFFANY

4.1 Absolute Valuation

The value of a firm is the value of its expected future cash flows discounted at an appropriate discount rate. As such, the valuation exercise will be done via the discount of the future expected cash flows (Damodaran 2006). The Discounted Cash Flow (DCF) method has long established itself, especially in M&As practice, such as the main method used for company evaluations. It is part of the absolute valuation methods and is often combined with a relative evaluation carried out with a method based on multiples. The DCF method is based on the evaluation of future cash flows from an asset side perspective. This means that the Enterprise Value (EV), the amount of a company's total value, will vary based on the performance of its operational activity. The Value of the Equity is obtained by subtracting from the value of the company the current value of the net financial debt (also known as leverage). To calculate the Enterprise Value (i.e., equity plus debt) we need to calculate the Free Cash Flow of the Firm (FCFF). The FCFF represents the cash flow available to the company and is the difference between the cash flow from operating activities and the cash flow for investments in fixed assets.

The FCFF is then discounted at a rate reflecting the opportunity cost of the invested amount: The Weighted Average Cost of Capital (WACC). The formula takes into account separately both the risk to which is subject the equity and the one to which the debt is subject. In practice, WACC is the average of the cost of equity (weighted by the proportion of equity on the capital

structure at market value) and the cost of debt (weighted by the proportion of debt on the capital structure at market value).

Later we need to compute the Terminal Value, which is the value of the firm after the estimation I assumed for the fifth year: the company is then forecasted to grow at a constant growth rate which is close to the economic growth rate.

Consequently, I obtained the Enterprise value by summing up the Present Value of the FCFF and the Present Value of the Terminal Value.

4.2 Relative Valuation

Multiples are adopted for company evaluations to be compared with the DCF method. They are based on analogies and comparisons with other similar companies, so once the comparable companies have been identified, the application of multiples quickly leads to final results. The difficulty lies in finding similar companies for a reliable comparison as this is subject to a high degree of subjectivity in the choice of both the parameters to be used for the comparison and the identification of comparable companies (Drăpgoi & Stancu 2016). From the mathematical point of view, a multiple is a ratio determined in one or more companies comparable to the one to be evaluated. For the relative evaluation, I used the Enterprise Value to EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) multiple because it is little influenced by accounting or fiscal policies and it is generally used for companies with stable or mature business. Later I calculated the EV / EBIT (Earnings Before Interest and Taxes) multiple and used it as an alternative to the previous multiple as it can create distortions when comparing the realities of different countries. I later estimated the Price to Earning (P/E) multiple. In other words, the ratio is comparing the stock market capitalization of the company and the net profit.

It represents the number of years in which the company would pay back the investor with the profits achieved and I used it because it is the most used multiple for listed companies.

4.3 Tiffany

4.3.1 Absolute Valuation - DCF

I estimated Tiffany's valuation by discounting Future Expected Cash Flows in USD. The sales CAGR in the 2016-2019 period is 0.81 percent p.a (Appendix 16). This growth rate is due to the jewelry segment of Tiffany which accounts for 97 percent of the company's revenue. Sales develop at the same speed as the world GDP. The IMF estimates an annual average real GDP growth rate of 3.6 percent during the 2010-2050 period. I then averaged the cost of sales at 38 percent of the revenues (2016-2019), hence the gross margin is 43.8 percent of the revenues. Operating expenses are expected to rise at 1,3 percent each year due to higher spending on salaries and marketing expenses. Interest expenses will have a 7 percent y-o-y increase. The corporate tax rate I used is 25 percent (Appendix 17). Inventories did not considerably vary from the previous years, thus I let them unchanged as well as the Trade Receivable and the Trade Payable (Appendix 18). Tiffany's Capital Expenditure (Capex) are modeled as flat as they are not suffering big y-o-y changes considering that they are mainly used to improve retail networks, re-modeling, and new stores opening. Therefore, the company has a Capex of USD 36 million, representing 4,5 percent of its EBIT. The average Capex was 6.2 percent of its EBIT over the 2016-2019 timeframe and will remain flat for the following years as management has not planned any major store opening in the next future. Finally, the Net Working Capital (NWK) variation, the measure of management's ability to manage current business operations, will remain at 2.54 percent of revenues (Appendix 19). For the WACC calculations, I assumed a risk-free rate equal to the United States 10-year bonds yield. The cost of debt of Tiffany resulted in being equal to 2.84 percent weighting for 8.46 percent of the

overall WACC. Considering a beta of 0,84 and a market risk premium for the USA equal to 6.46 percent, the cost of equity is equal to 8.74 percent with a relative weight of 91.54 percent. Finally, the WACC for FY2019 is equal to 8.24 percent. (Appendix 20). I later obtained an Enterprise Value equal to USD 1.54 billion and by dividing it by the number of shares we obtain a share price of USD 126.26.

4.3.2 Relative valuation

I calculated three multiple of s Tiffany's equity value. The Tiffany peer-group differs from the one used for LVMH as they are most predominant in the Jewelry sector. Tiffany's equity value was calculated by averaging P/E, EV/EBITDA, EV/EBIT of the respecting peer group. Tiffany is the leading player in the jewelry industry and is trading at a higher multiple than its peers. Expected earnings and prices are growing resulting in high P/E for last year at 45,2x probably because investors are waiting for the company to be acquired by LVMH. One of the biggest competitors, Signet Jewellers Ltd, is trading well above the rest of the companies resulting in an EV/EBITDA multiple of 21,7x compared to the median of 12,3x. Tiffany does not have the highest EV out of the competition as the biggest competitor, Signet Jewellers Ltd, has an EV of USD 39 billion and holds an EV/EBITDA slightly higher than the median of 13,3x. The multiples valuation provided an equity valuation of USD 15,95 billion. The share price obtained with the relative valuation is USD 131,39 resulting in a slightly higher value than the one obtained with the DCF valuation (Appendix 20).

4.4 LVMH

4.4.1 Absolute Valuation - DCF

I estimated LVMH valuation by discounting Future Expected Cash Flows in USD. LVMH registered a 14.62 percent sales growth over the previous year, recording US\$53 billion in revenues in FY2019 (Appendix 21).

This growth rate is due to the Fashion and Leather goods segment which accounts for 41,9 percent of the company revenues (Appendix 22). Inorganic growth boosted the Fashion and Leather Goods SBU due to the Christian Dior Couture acquisition as sales jumped by 20.7 percent.

The Perfumes & Cosmetics SBU contributed 12.69 percent of LVMH's goods sales and was up by 12.2 percent (Appendix 24). Watches and Jewelry, and Wines and Spirits accounted for 8,3 percent and 10,5 percent of the total revenues, respectively. The cost of sales is averaged 70 percent of the revenues (2016-2019), hence the gross margin is 28.6 percent of the revenues. Operating expenses will continue to rise at 12,1 percent each year due to higher spending on salaries and marketing expenses. Interest expenses will have a 10,4 percent y-o-y increase due to higher volumes of financing (Appendix 25). The corporate tax rate is modeled at 28 percent following the announcement of the French Minister of Finance to reduce the corporate income tax rate in 2020 to ultimately 25 percent by 2022. Inventories did not considerably vary from the previous years, thus remained unchanged as well as the Trade Receivable and the Trade Payable (Appendix 26). LVMH's Capex is modeled flat as they are not suffering big y-o-y changes. Capex accounts for 36,8 percent of its EBIT in 2019. Net Working Capital variation will continue at 1.79 percent of revenues (Appendix 27). For the calculation of the WACC, the risk-free rate is equal to France's 10-year bond yields.

The cost of debt of LVMH as of 2019 is 0,08 percent weighting 10.8 percent. The beta was taken comparing LVMH with CAC 40, which gives us a beta of 0,899 and the market risk premium for France is 7.583 percent. The cost of equity is equal to 10.09 percent with a relative weight of 89.20 percent. The WACC for 2019 used in the DCF is equal to 9.01 percent. The enterprise value obtained is EUR 209,7 billion by dividing it by the number of shares we obtain a share price of USD 399,58.

4.4.2 Relative valuation

The LVMH peer group is not the same used to value Tiffany as they are most predominant within the Fashion and Leather sector. LVMH equity value was calculated via the average P/E, EV/EBITDA, EV/EBIT of the respecting peer group. Expected earnings and prices are quite stable explaining the high P/E for last year.

It has to be said that LVMH Moët Hennessy is trading above the median when it comes to P/E and EV/EBIT as investors are waiting for the Tiffany and Co. deal to be finalized. One of the biggest competitors, Richemont, is trading well above the rest of the companies: there were some talks that they could try to acquire Tiffany, but this was discarded. News broke out about a deal between Alibaba, Farfetch, and Richmont expanding the business of luxury goods online. Therefore, prices went through the roof ever since this announcement but expected earnings are not looking good for these companies. LVMH has by far the highest EV out of the competition and holds an EV/EBITDA lower than the median of 29.5x (Appendix 28).

The fact that the Enterprise Value is higher than the competitors' one may reflect the perception of investors expects growth in profits and margins in the next two years.

4.5 Sensitivity analysis of LVMH and Tiffany & Co.

The sensitivity analysis was performed to assess the price sensitivity of both LVMH and Tiffany to the changes in the assumed growth rates and WACC. These parameters have been quite volatile over the past years and considered that both have a great impact on the Enterprise Value this analysis offers an indication of their effect on the prices. The sensitivity analysis of Tiffany resulted in a consistent variation in the stock price as the growth rate is assumed to range from 2,3 to 3 percent and the WACC is assumed to vary from 5,3 to 6,5 percent.

The maximum price resulting from this was USD 166,56 whereas the minimum was USD 90,77 (Appendix 29). The sensitivity analysis of LVMH resulted in a less drastic change in its stock price as the growth rate is assumed to range from 4 to 4,5 percent and the WACC is assumed to vary from 9 to 10,1 percent. The maximum price resulting from this was USD 366,68 whereas the minimum was USD 434,77 (Appendix 30).

5 THE DEAL & THE MERGED ENTITY

LVMH announced the acquisition of Tiffany for \$135 per share in cash in November 2019. To get his bid Arnault had to raise his offers more than 5 times: this shows how much he wanted the asset, leading him to sign contracts that were pretty iron tight in terms of their ability to get out of that. Once a price was agreed upon, the merger agreement was signed. The merger agreement is the contract that links the two parties together, after getting the antitrust approval in many different markets to prove there was not an overconcentration of power in the luxury sector.

The merger was supposed to be completed by November 24th, 2020. But a few months later, Covid19 began to spread in China, and later it started to spread around having a devastating impact on both companies' share prices.

The luxury sector relies heavily on China for growth so anything that kind affects China affects luxury brands' earnings as well. After the coronavirus outbreak and its related turbulence on financial markets, LVMH has decided to review the deal stating that the company would not acquire Tiffany shares on the open market anymore signaling its intention to renegotiate the deal at a cheaper price. While LVMH did everything possible to preserve the cash reserves of its own companies by stopping paying dividends to shareholders and stopping paying rents, Tiffany continued to pay out its dividend and it had not stopped paying rent to its landlords. From Bernard Arnault's perspective, these cash reserves would be later needed to revitalize Tiffany's business. He tempted on multiple occasions to talk to Tiffany about that and get them to change course but without any success. The LVMH board had become concerned with Tiffany's deal and wanted to apport some changes to the transaction and immediately Tiffany's shares went down. This was a bad sign for investors outside as they started wondering if LVMH could get out of the deal. LVMH started looking for ways to renegotiate the contract which was basically iron tight. Information was leaked strategically to let Tiffany's share price to collapse even more. LVMH had tried several tactics to bring Tiffany back at the negotiating table like media leaks or the attempt to press shareholders.

LVMH was also asked by the French government to delay its acquisition due to trade tensions between the US and France. This statement had a tremendous impact on Tiffany's share price that plunged in March due to investors' high expectations relative to the implications of the merger. This has made it impossible for LVMH and Tiffany to close the deal by the settled deadline of November 24th. Tiffany started a lawsuit against LVMH to finalize the deal at the original terms. Tiffany was about to argue in court that LVMH needed to respect the agreement. LVMH instead would have argued that Tiffany's executives have not prudently run the company in the aftermath of the pandemic. Other concerns were regarding the material adverse effect. The material adverse effect is a reason for which you walk away from the deal. Some

merger agreements will specify events like earthquakes or terrorist attacks: things that will materially and irreversibly affect the company. Those catastrophes are excluded from the M&A clause. What LVMH was arguing is Tiffany included yellow vest protests and social arrests in Hong Kong as two kinds of specific cases they have not been allowed for LVMH to walk away from the deal. Arnault specifies that a pandemic or a global health crisis was not mentioned at all. This gave LVMH the right to walk away from the deal.

Later in October Bernard Arnault announced that an agreement was finally reached: the original merger agreement was subjected to numerous modifications and was fixed the purchase price of \$131.50 in cash and a reduced closing conditionality, while other key terms of the merger agreement remained unchanged.

I then valued the merged entity by summing up the estimated Cash flows from the two firms (previously calculated for the standalone valuation) taking into consideration some of the most relevant synergies to compare it with the deal that happened. The ex-ante standalone valuation was needed to estimate the Revenues, COGS, Operating Expenses, Capex, and NWC that I then used to calculate the value of the merged entity. As for the WACC, it is assumed to be equal to 8,5% and the growth rate equal to 3,5%.

The calculation I did results in the valuation of the merged entity with an Enterprise Value of USD 216.535,3 million and an equity value equal to USD 208.775,3 million. This is slightly higher than the current market value and it is due to severely revised growth rates' projections for the next 5 years. In proceeding with the analysis of the merged entity I took into account all the synergies and economies of scale that can be exploited once the acquisition is completed. The evidence suggests that this acquisition will enhance strategic and economic synergies between the two entities while better balancing the weights of the various LVMH's Strategic Business Units.

Tiffany will be able to expand its product line and its presence in different regions while constituting a perfect complement for LVMH by being aligned with the group's goal of combining tradition and modernity. Strategic synergies will be achieved by growing the product lines, distribution network, and branding together. LVMH can rely on its previous experience with Bulgari, where once the merger was achieved, it focused on collection development, which is the core business of the jewelry sector.

Tiffany can also count on exploiting LVMH's expertise while pursuing market expansion strategies. The management has the necessary knowledge to target new clients' taste traditions and cultures. Evidence points out that Tiffany will increase its distribution in Europe thanks to the development of synergies with LVMH: it has a significantly greater presence in Europe than Tiffany (as it represents 29% of total revenues of the Watches and Jewelry Business Unit, including 6% in France) compared to the American jeweler (as it represents 11% of its total sales, compared to 44% in the USA, 28% in Asia-Pacific, and 15% in Japan).

Economic synergies can be achieved by reducing costs and improving their income performance, creating economies of scale through the integration of production processes with Bulgari. Tiffany has a great integration in the upstream part of its production and product traceability unparalleled in the jewelry industry. A part of the product is made in Italy, between Arezzo and Alessandria, so is a realistic possibility the creation of production synergies with Bulgari. However, Bulgari and Tiffany should remain distinct brands, being Bulgari an Italian brand.

6 CONCLUSION

During my work project, I noted how the success of an M&A transaction is identified with the ability of the company to create value over time. There are many reasons why a company undertakes this type of transaction. The valuation process of a business is influenced by many long-term factors, and there may be no explicit links recorded over a short period: the results of my analysis point out that LVMH paid a high price to acquire Tiffany and this could reflect long-term synergies information that has not been made public. The analysis suggests that there is significant potential for synergies in the deal and that whether that corporate value will be realized will come down to the execution of the post-merger integration process between LVMH and Tiffany. LVMH's experience with M&A deals in the luxury industry suggests they will be successful, but it will nonetheless be interesting to follow how the events will unfold. The analysis suggests that acquiring a brand like Tiffany could give a concrete possibility to the LVMH group to increase its presence in the hard luxury sector. The Watch and Jewelry market has an estimated growth of 7 percent per year, according to Deloitte Luxury Market Outlook, and it is the smallest Business Unit of the LVMH group, representing only 8% of its total revenue. Therefore, acquiring a company such as Tiffany could double its presence in this market up to 16 percent. Also, industry consolidation is enhancing single luxury brands, such as Tiffany & Co., to accomplish long-term investments to foster their overall position within the market. LVMH has previously accomplished that when it acquired Bulgari in 2011, an Italian company founded in 1884, whose profit kept growing since the transaction was realized. Therefore, the American Jeweler will benefit enormously from this deal strategically, financially, and operationally as it will be able to leverage gross sales in different countries, grow new products in more countries, and cut redundant costs. Finally, Tiffany with its history and its brand is the perfect embodiment of the LVMH group's message and this is a huge advantage when it comes to the post-merger integration process between the two companies.

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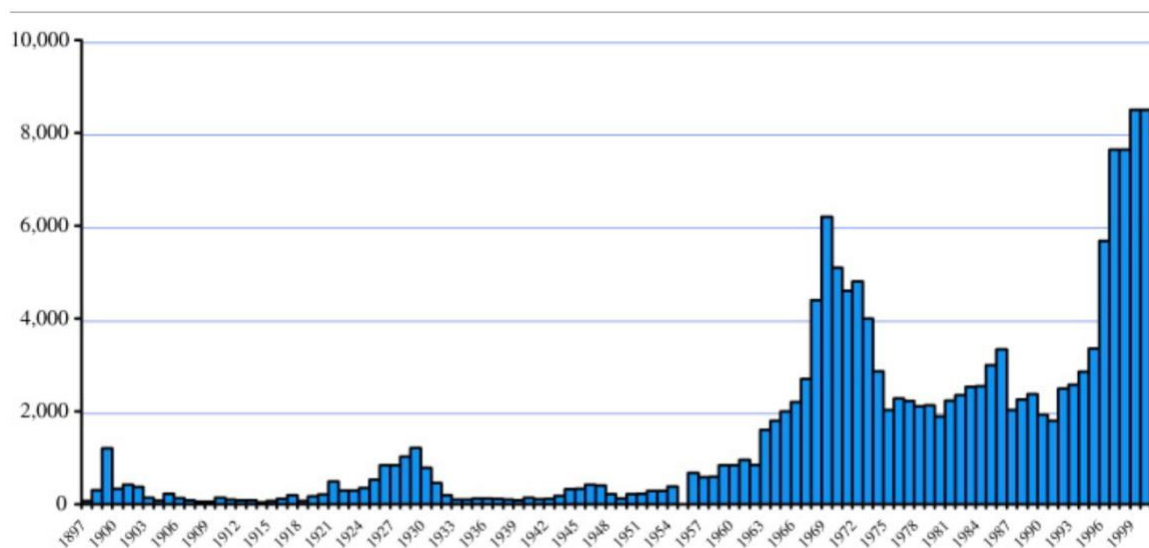
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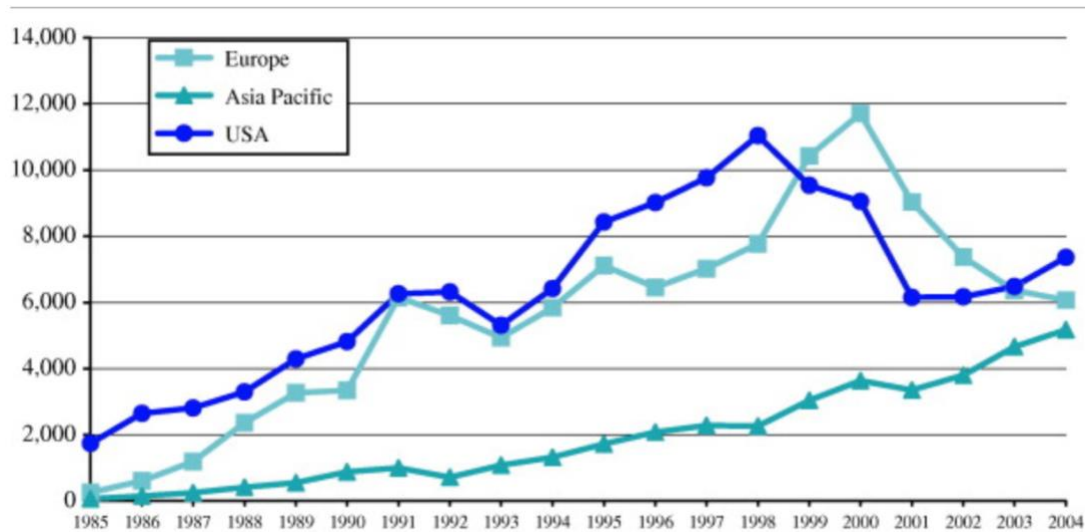
8 APPENDICES

Appendix 1 - Data on the total takeover value through the 20th Century



Source: 1897–1904 from Gaughan (1999); 1904–1954 from Nelson (1959); 1955–1962 from Historical Statistics of the US-Colonial Times to 1970; 1963–1997 from Mergerstat Review, 1998–2002 from Value Creators Report.

Appendix 2 - Worldwide merger waves since 1985 (total number of deals).



Source: Thomson Financial Securities Data

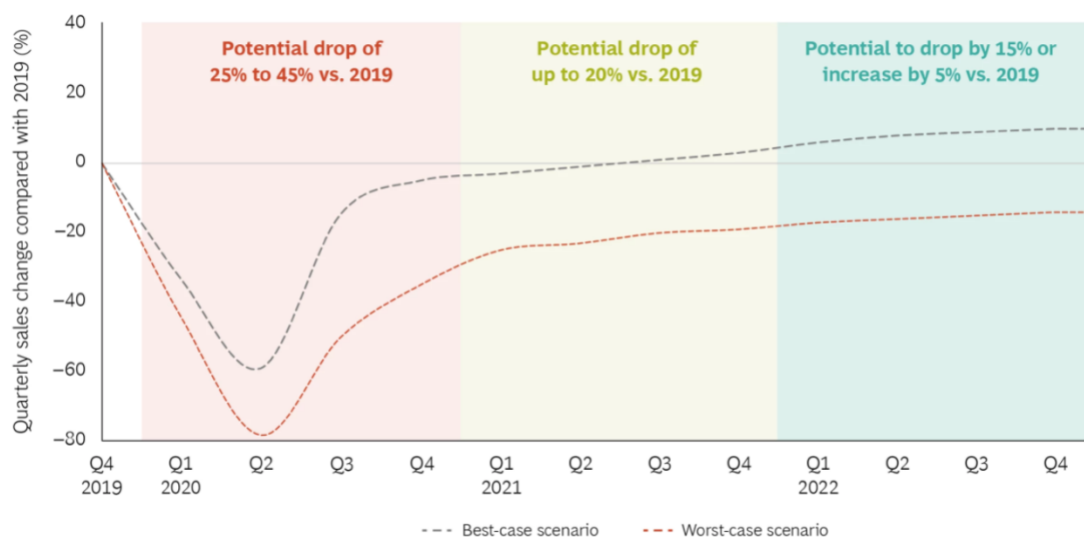
Appendix 3 – Summary of takeover waves

Summary of takeover waves						
	Wave 1	Wave 2	Wave 3	Wave 4	Wave 5	New wave (6?)
Period	1890s–1903	1910s–1929	1950s–1973	1981–1989	1993–2001	2003–present
Geographical scope	US	US	US, UK, Europe	US, UK, Europe, Asia	US, UK, Europe, Asia	US, UK, Europe, Asia
M&A outcome	Formation of monopolies	Formation of oligopolies	Growth through diversification	Elimination of inefficiencies	Adjustment to globalization processes	Global expansion
Industry-relatedness	Focus	Focus	Diversification	Focus	Focus	Focus
Industries	Hydraulic power, textiles industry, iron industry	Steam engines, steel, railways	Electricity, chemicals, combustion engines	Petrochemicals, aviation, electronics, communications technology	Communications/information technology	n.a.
Dominant sources of financing/means of payment	Cash	Equity	Equity	Debt financed/Cash paid	Equity	Debt and Cash financed/Cash paid
Hostile takeover activity	n.a.	n.a.	None (US&UK)	High (US&UK)	Some (US&UK)	Some (US&UK)
			None (Europe)	None (Europe)	High (Europe)	Some (Europe)
			None (Asia)	None (Asia)	None (Asia)	Some (Asia)
Cross-border M&A activity	n.a.	n.a.	n.a.	Some	Medium	High
Other specifics				LBOs, MBOs, going-private deals, and divestitures	Mega-deals, divestitures	Deals by private equity funds
Events coinciding with beginning of wave	Economic expansion; industrialisation processes; introduction of new state legislations on incorporations; development of trading on NYSE; radical changes in technology	Economic recovery after the market crash and the First World War; strengthen enforcement of antimonopoly law	Economic recovery after the Second World War; tightening of anti-trust regime in 1950	Economic recovery after recession; changes in anti-trust policy; deregulation of fin. services sector; new financial instruments and markets (e.g. junk bonds); technological progress in electronics	Economic and financial markets boom; globalization processes; technological innovation, deregulation and privatisation	Economic recovery after the downturn in 2000–2001
Events coinciding with end of wave	Stock market crash; economic stagnation; beginning of First World War	Stock market crash; beginning of Great Depression	Stock market crash; oil crisis; economic slowdown	Stock market crash	Stock market crash; 9/11 terrorist attack	n.a.

This table summarizes the main characteristics of takeover waves most frequently mentioned in the academic literature.

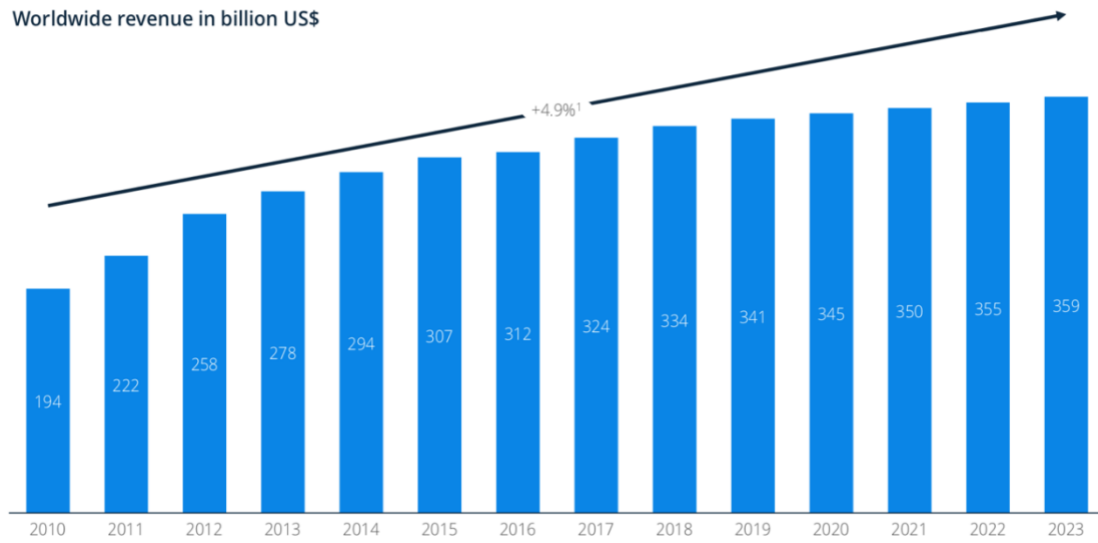
Source: M. Martynova, L. Renneboog / *Journal of Banking & Finance* 32 (2008)

Appendix 4 – Luxury brand sales hit hard by the Covid19 crisis



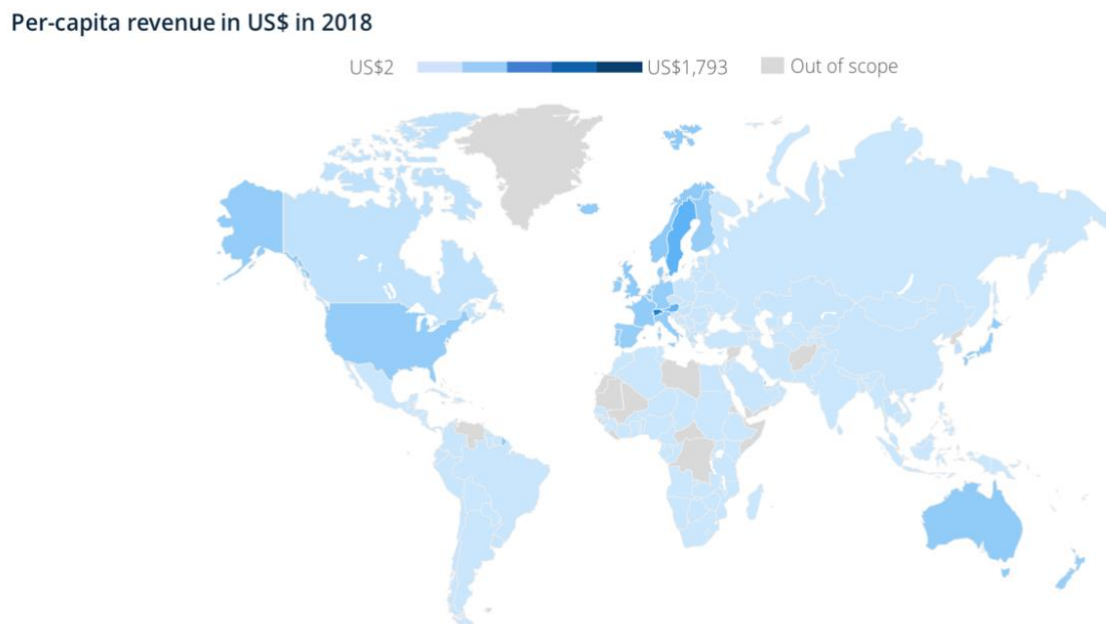
Source: BCG Analysis

Appendix 5 – Luxury Market Outlook



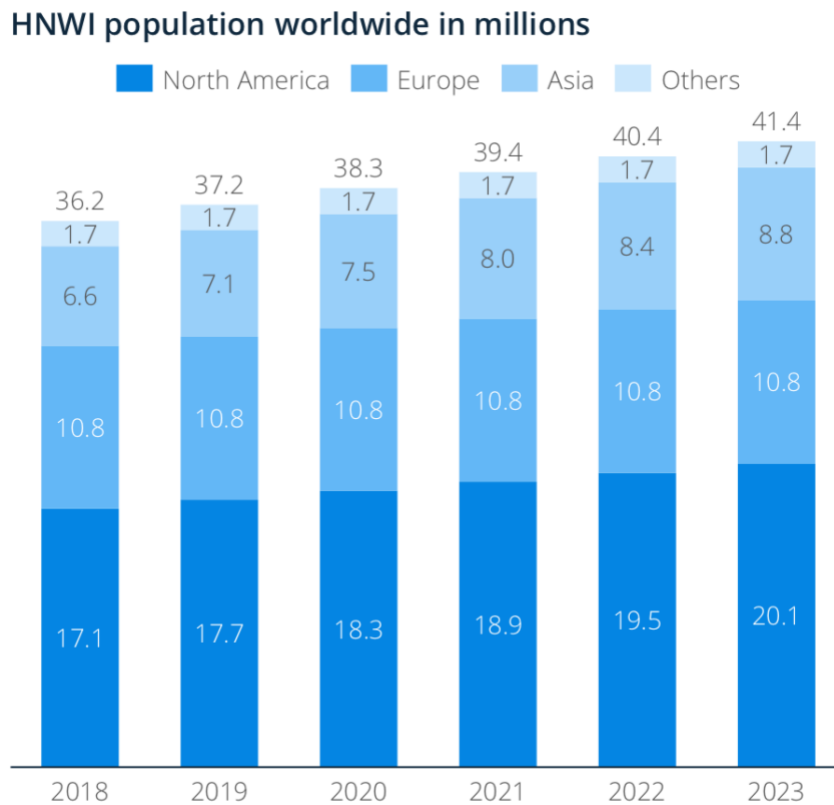
Source: Statista Consumer Market Outlook 2019

Appendix 6 – Per capita retail value of Luxury Goods



Source: Statista Consumer Market Outlook 2019

Appendix 7 - High-Net-Worth Individuals Population Worldwide



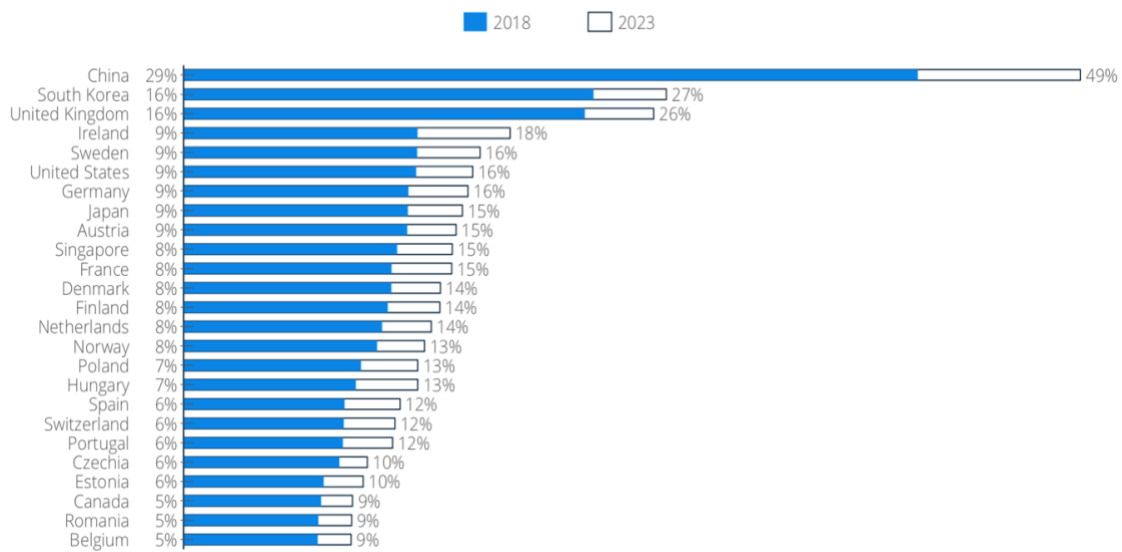
Source: Statista Consumer Market Outlook 2019

Appendix 8 – SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> - Well-trained and loyal Human Resources - Strong branding - High-quality products - Solid leadership 	<p>Weaknesses</p> <ul style="list-style-type: none"> - Conflict of interests - Counterfeiting - Increasing debt - Diversification
<p>Opportunities</p> <ul style="list-style-type: none"> - New Markets - Growing e-commerce sales - Consumer trends - Sponsorships 	<p>Threats</p> <ul style="list-style-type: none"> - Intense competitions - Travel bans - Dependence on suppliers - Exchange rate fluctuations

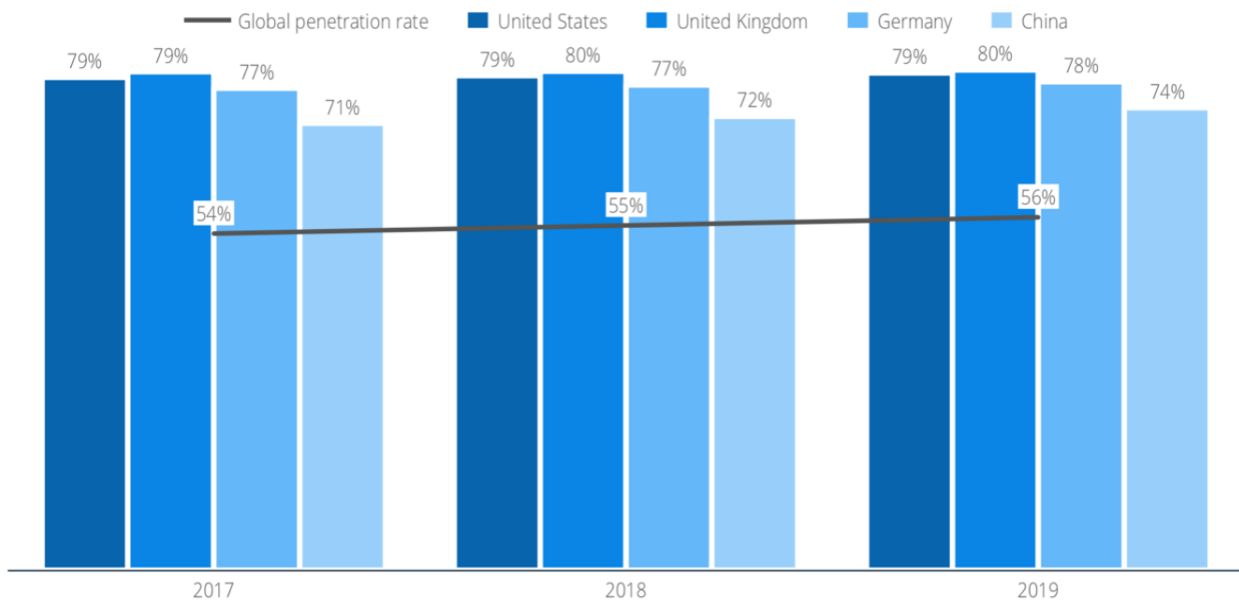
Source: Bloomberg

Appendix 8 - Sales figures by region



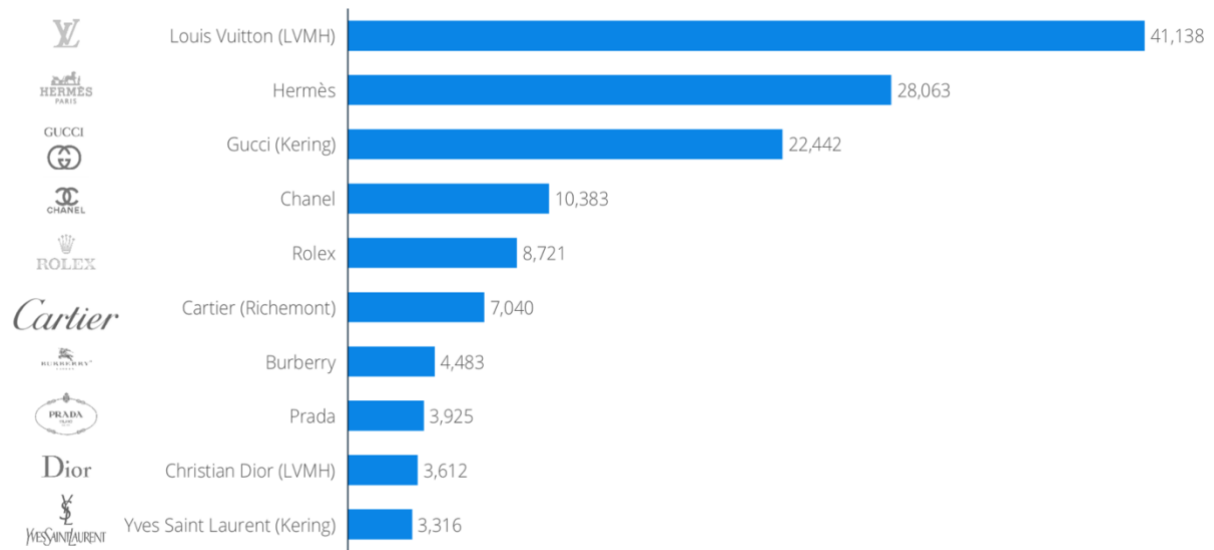
Source: Statista Consumer Market Outlook 2019

Appendix 9 – E-commerce penetration rate



Source: Statista Consumer Market Outlook 2019

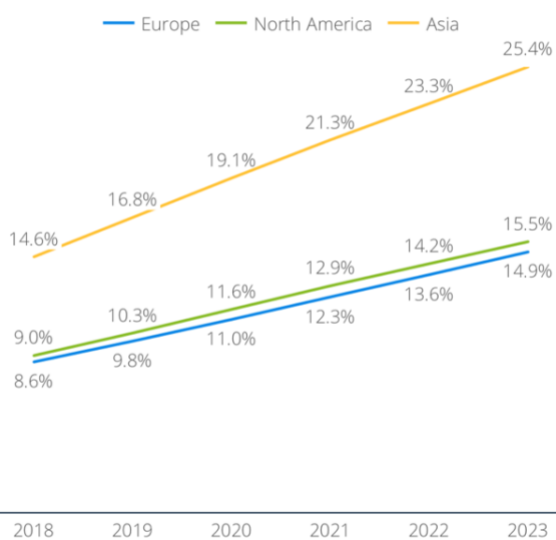
Appendix 10 – Brand values in million US\$



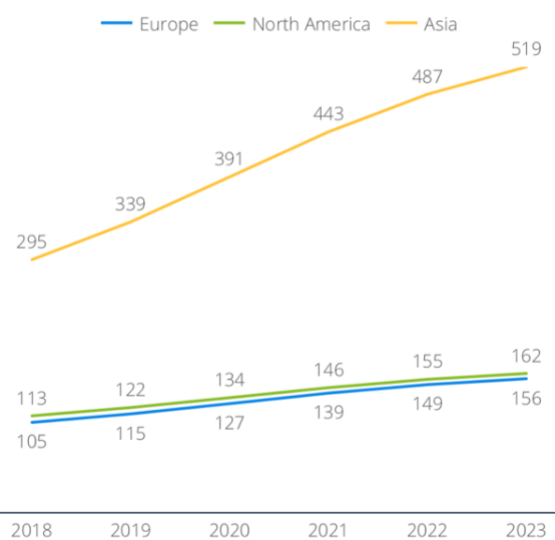
Source: Statista Consumer Market Outlook 2019

Appendix 11 – Luxury Goods online share

Luxury Goods online share



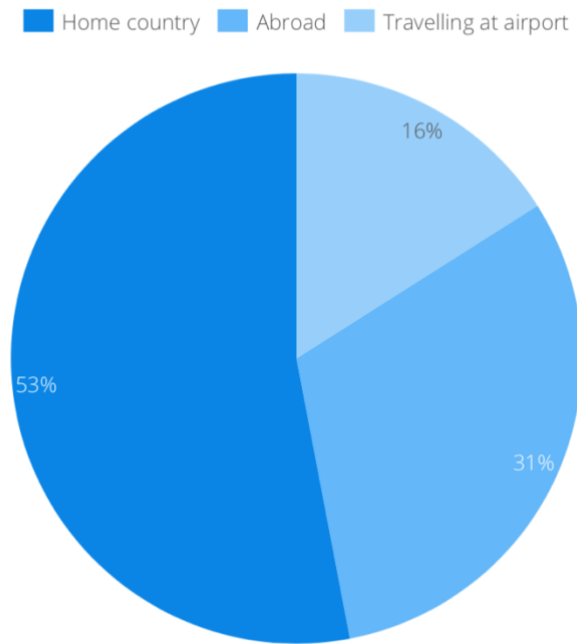
Fashion eCommerce revenue in billion US\$



Source: Statista Consumer Market Outlook 201

Appendix 12 – Distribution of luxury product purchase worldwide

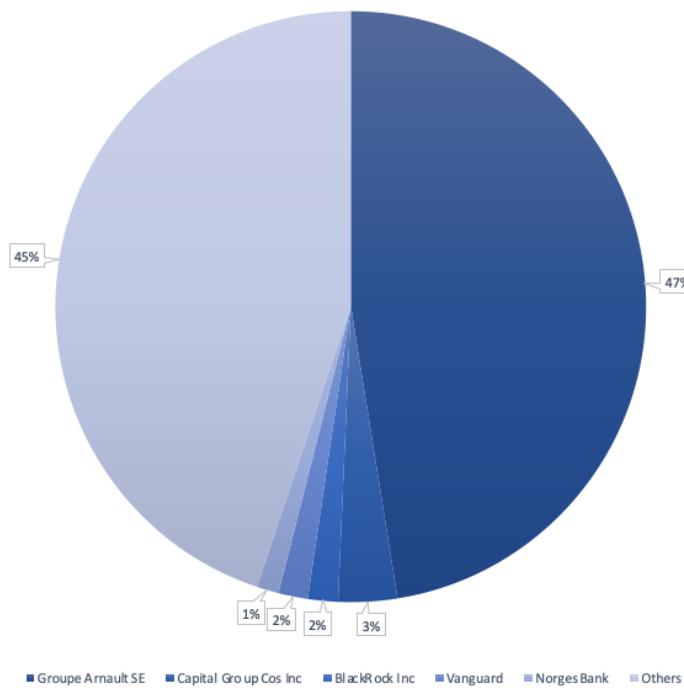
Distribution of luxury product purchases worldwide



Source: Statista Consumer Market Outlook 201

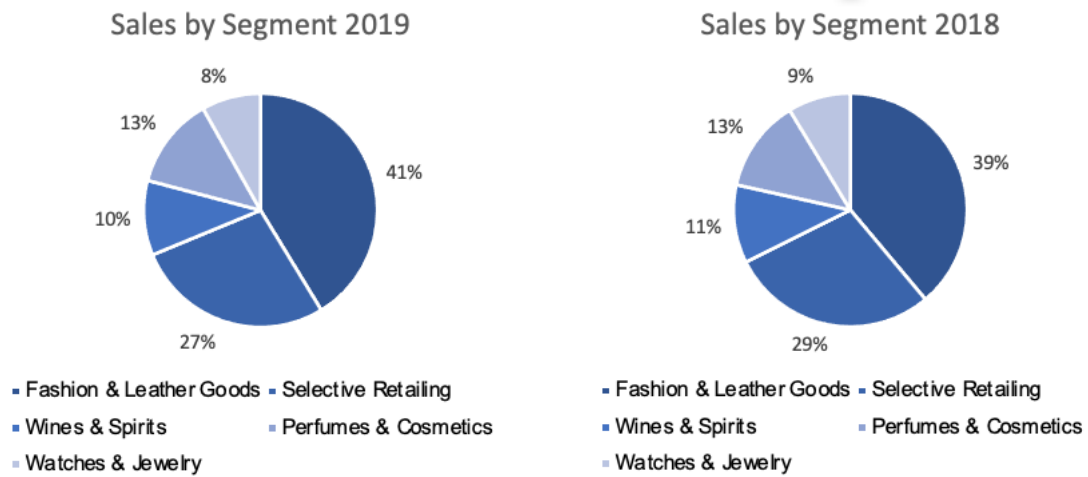
Appendix 13 – LVMH Shareholders structure

Ownership Summary



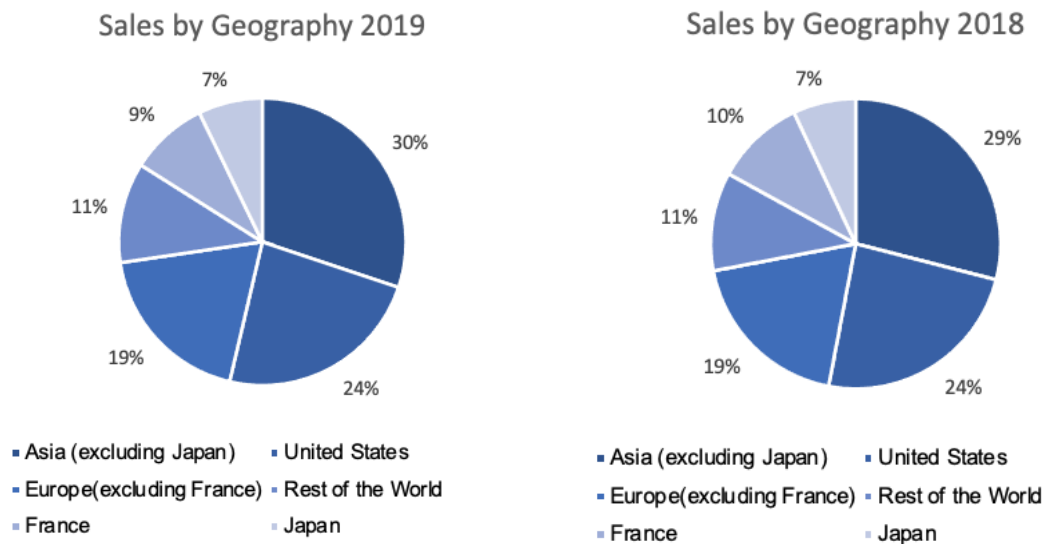
Source: Bloomberg

Appendix 14 – LVMH Sales by Segment



Source: Bloomberg

Appendix 15 – LVMH Sales by Geography



Source: Bloomberg

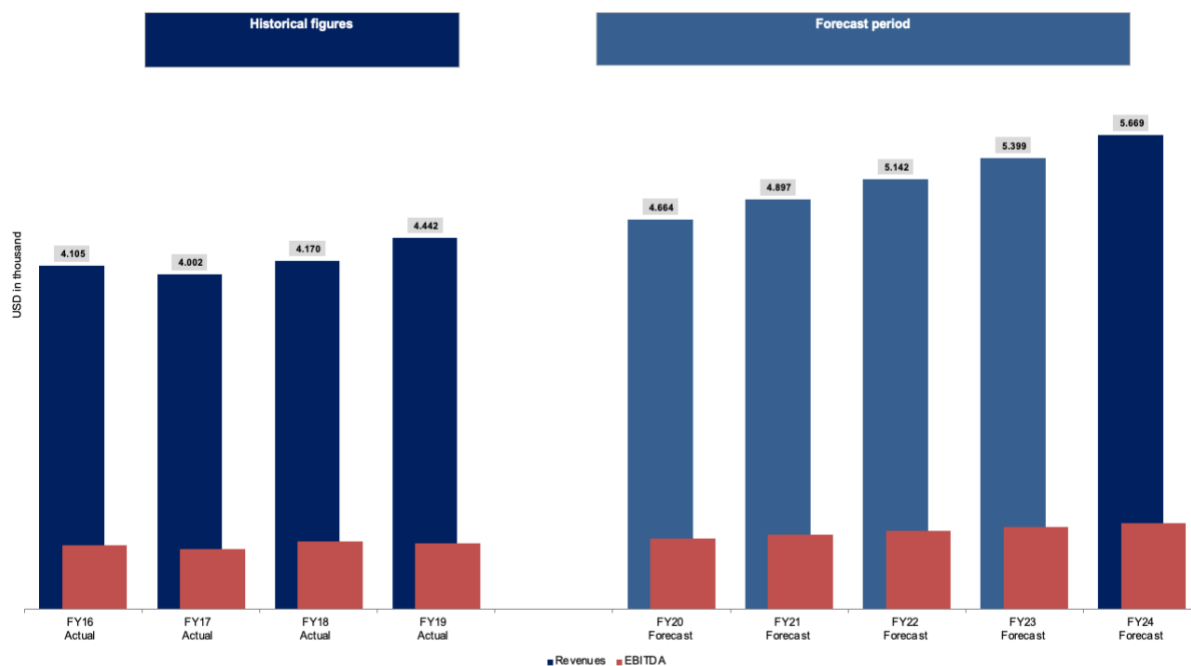
Appendix 16 – Tiffany & Co. Income Statement

P&L

\$ in thousands	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Revenues	4.105	4.002	4.170	4.442	4.664	4.897	5.142	5.399	5.669
Other revenues	-	-	-	-	-	-	-	-	-
Total revenues	4.105	4.002	4.170	4.442	4.664	4.897	5.142	5.399	5.669
Cost of goods sold	(1.614)	(1.512)	(1.559)	(1.631)	(1.772)	(1.861)	(1.954)	(2.052)	(2.154)
Gross margin	2.491	2.490	2.611	2.811	2.892	3.036	3.188	3.348	3.515
Operating expenses	(1.731)	(1.769)	(1.801)	(2.021)	(2.043)	(2.145)	(2.252)	(2.365)	(2.483)
EBITDA	760	721	809	790	849	891	936	983	1.032
D&A	-	-	-	-	-	-	-	-	-
EBIT	760	721	809	790	849	891	936	983	1.032
Interest expense	(49)	(46)	(42)	(40)	(45)	(48)	(51)	(55)	(59)
Extraordinary income	(1)	1	(7)	(7)	5	5	5	5	6
EBT	710	677	761	744	809	848	890	933	979
Tax rate	-35%	-34%	-51%	-21%	-25%	-25%	-25%	-25%	-25%
Taxes	(246)	(231)	(390)	(157)	(202)	(212)	(222)	(233)	(245)
Net income	464	446	370	586	606	636	667	700	734

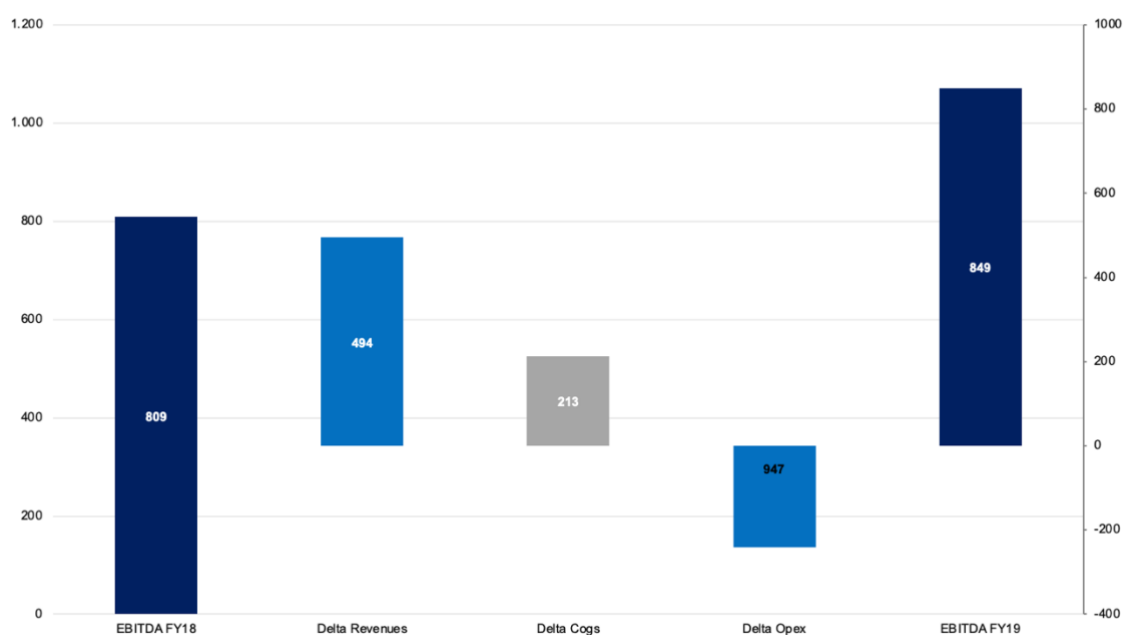
Source: Bloomberg

Appendix 16 – Tiffany & Co. Revenue Growth



Source: Bloomberg

Appendix 16 – Tiffany & Co. EBITDA Breakdown



Source: Bloomberg

Appendix 16 – Tiffany & Co. Balance Sheet

Balance Sheet

\$ in thousands	31Dec16	31Dec17	31Dec18	31Dec19	31Dec20	31Dec21	31Dec22	31Dec23	31Dec24
	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Intangible assets	-	-	-	-	-	-	-	-	-
PP&E	936	932	991	1,027	1,084	1,138	1,195	1,255	1,317
Financial assets	43	58	321	63	321	321	321	321	321
Inventory	2,225	2,158	2,254	2,428	2,638	2,770	2,909	3,054	3,207
Trade receivable	206	226	231	245	258	271	284	298	313
Other assets	485	494	514	562	573	601	631	663	696
Deferred Income Taxes	383	302	188	216	237	261	287	316	348
Cash and equivalents	844	928	971	793	1,260	1,698	2,156	2,635	3,135
Total Assets	5,122	5,097	5,468	5,333	6,371	7,060	7,783	8,541	9,337
Trade payable	329	313	437	513	558	586	615	646	678
Other liabilities	551	434	405	413	505	530	557	584	614
Income taxes payable	27	22	89	21	21	21	21	21	21
Financial liabilities	1,285	1,300	1,288	1,254	1,288	1,288	1,288	1,288	1,288
Shareholders' equity	2,930	3,028	3,248	3,131	3,855	4,491	5,158	5,858	6,592
Total Liabilities & Equities	5,122	5,097	5,468	5,333	6,227	6,916	7,639	8,397	9,193

Source: Bloomberg

Appendix 16 – Tiffany & Co. Cash Flow

Cash Flow

\$ in thousands	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
EBIT	721,2	809,4	790,3	848,9	891,3	935,9	982,7	1.031,8
Operating taxes	(245,7)	(415,5)	(167,0)	(212,2)	(222,8)	(234,0)	(245,7)	(258,0)
Operating tax rate	-34%	-51%	-21%	-25%	-25%	-25%	-25%	-25%
NOPAT	475,5	393,9	623,3	636,7	668,5	701,9	737,0	773,9
Add-back D&A	-	-	-	-	-	-	-	-
Gross Cash Flow	475,5	393,9	623,3	636,7	668,5	701,9	737,0	773,9
Inventory	67,4	(95,9)	(174,5)	(210,3)	(131,9)	(138,5)	(145,4)	(152,7)
Trade receivables	(20,0)	(4,8)	(14,2)	(12,3)	(12,9)	(13,5)	(14,2)	(14,9)
Trade payables	(16,3)	124,6	76,0	44,5	27,9	29,3	30,8	32,3
Investments in working capital	31,1	23,9	(112,7)	(178,1)	(116,9)	(122,8)	(128,9)	(135,3)
Investments in other assets/liabilities	(126,2)	(48,1)	(40,2)	80,5	(3,4)	(3,6)	(3,7)	(3,9)
Capex	4,0	(58,7)	(36,2)	(57,1)	(54,2)	(56,9)	(59,7)	(62,7)
Other investments	61,2	(81,8)	162,2	(279,4)	(23,7)	(26,1)	(28,7)	(31,6)
Extraordinary items	1,4	(6,9)	(7,1)	4,7	4,9	5,1	5,4	5,7
UFCF	447,0	222,3	589,3	207,1	475,2	497,7	521,3	545,9
Interest expenses	(46,0)	(42,0)	(39,7)	(44,9)	(48,1)	(51,5)	(55,1)	(58,9)
Delta Taxes vs. Operating taxes	15,2	25,1	9,9	10,1	10,8	11,6	12,4	13,3
Delta Financial liabilities	15,4	(12,4)	(33,9)	-	-	-	-	-
Delta Equity (incl. dividends)	(347,2)	(150,3)	(703,7)	117,3	-	-	-	-
Net Cash Flow	84,4	42,7	(178,1)	289,6	437,9	457,9	478,7	500,3

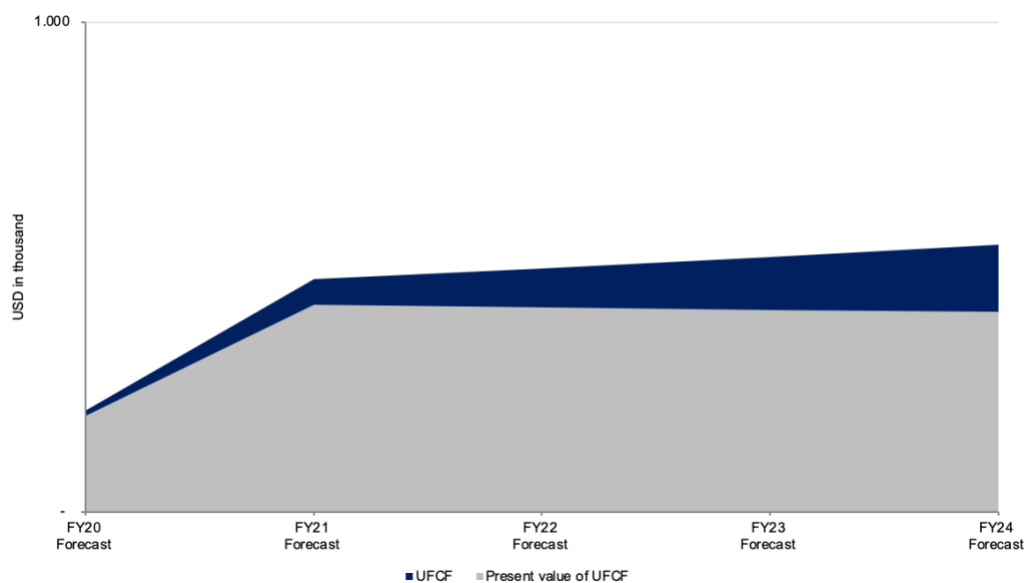
Source: Bloomberg

Appendix 16 – Tiffany & Co. DCF

DCF Valuation		
PV of Cash flows	1.857,1	\$ 12%
Continuing value	18.744,0	\$
PV of Continuing value	14.006,6	\$ 88%
Enterprise value	15.863,7	\$
() Financial liabilities	(1.253,9)	
Cash	792,6	
Equity value	15.402,4	\$
Number of Shares	122,0	
Share Price	126,25	\$

Source: Bloomberg

Appendix 17 – Tiffany & Co. UFCF and Present value of UFCF breakdown



Source: Bloomberg

Appendix 17 – Tiffany & Co. Relative Valuation

Company Name	Equity Value	Enterprise Value	P/E	EV/EBITDA	EV/EBIT
Vivara Participacoes SA	\$ 1.450.000.000,00	\$ 1.466.100.000,00	41,4 x	19,5 x	23,8 x
Signet Jewellers Ltd	\$ 1.520.000.000,00	\$ 39.520.000.000,00	40,0 x	21,7 x	9,4 x
Pandora	\$ 62.720.000.000,00	\$ 69.382.000.000,00	32,5 x	4,4 x	6,1 x
Luk Fook Holdings Intl Ltd	\$ 1.490.000.000,00	\$ 1.296.000.000,00	17,4 x	5,1 x	7,7 x
Maximum	\$ 62.720.000.000,00	\$ 69.382.000.000,00	41,4x	21,7x	23,8x
75th Percentile	\$ 16.820.000.000,00	\$ 46.985.500.000,00	40,4x	20,0x	13,0x
Median	\$ 1.505.000.000,00	\$ 20.493.050.000,00	36,2x	12,3x	8,6x
25th Percentile	\$ 1.480.000.000,00	\$ 1.296.000.000,00	28,7x	4,9x	7,3x
Minimum	\$ 1.450.000.000,00	\$ 1.296.000.000,00	17,4x	4,4x	6,1x
Tiffany & Co.	\$ 15.950.000.000,00	\$ 2.292.420.000.000,00	45,2x	13,3x	22,0x

Source: Bloomberg

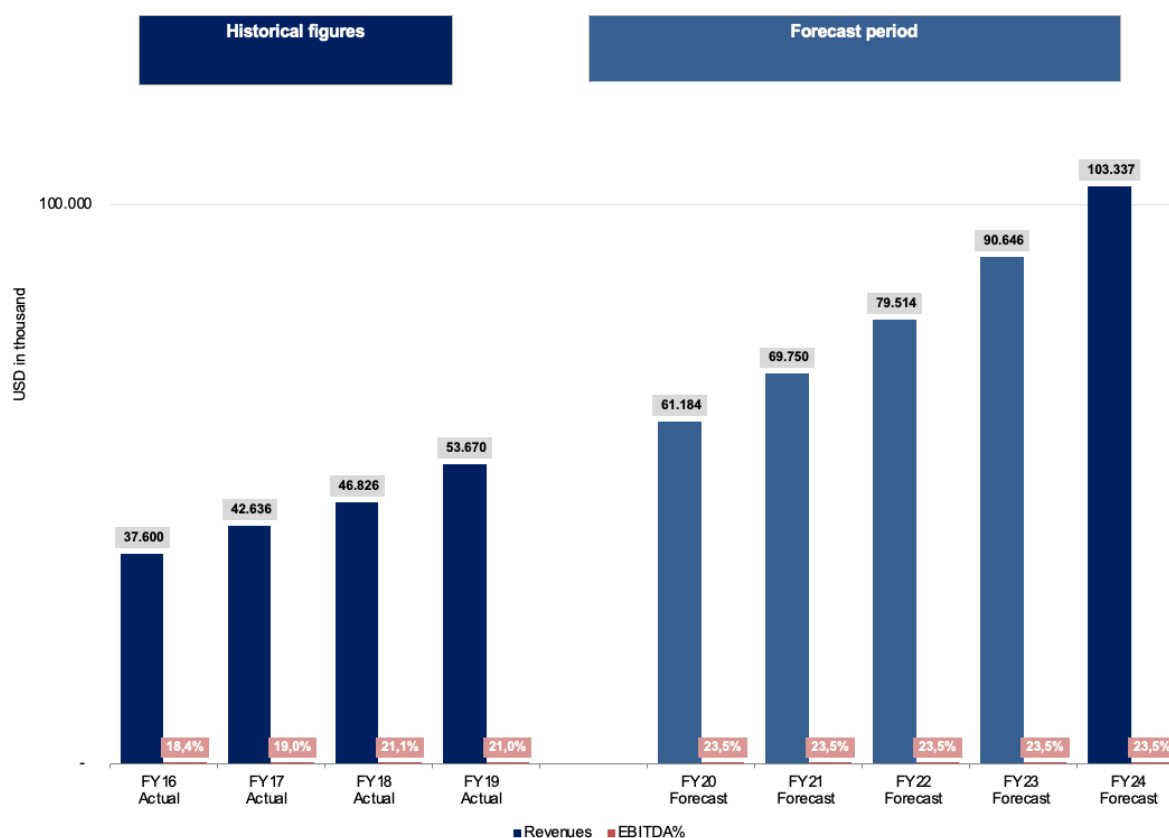
Appendix 20 – LVMH Income Statement

P&L

\$ in thousands	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Revenues	37.600	42.636	46.826	53.670	61.184	69.750	79.514	90.646	103.337
Other revenues	-	-	-	-	-	-	-	-	-
Total revenues	37.600	42.636	46.826	53.670	61.184	69.750	79.514	90.646	103.337
Cost of goods sold	(27.623)	(31.178)	(33.377)	(38.302)	(42.217)	(48.127)	(54.865)	(62.546)	(71.303)
Gross margin	9.977	11.458	13.449	15.368	18.967	21.622	24.649	28.100	32.034
Operating expenses	(3.053)	(3.342)	(3.592)	(4.095)	(4.589)	(5.231)	(5.964)	(6.798)	(7.750)
EBITDA	6.924	8.116	9.857	11.273	14.378	16.391	18.686	21.302	24.284
D&A	(315)	(62)	(365)	(531)	(428)	(488)	(557)	(635)	(723)
EBIT	6.609	8.054	9.492	10.742	13.950	15.903	18.129	20.667	23.561
Interest expense	(133)	(137)	(117)	(107)	(118)	(119)	(121)	(122)	(123)
Extraordinary income	(185)	78	(271)	(452)	(306)	(349)	(398)	(453)	(517)
EBT	6.291	7.995	9.104	10.183	13.526	15.435	17.611	20.092	22.921
Tax rate	-34%	-28%	-27%	-29%	-34%	-18%	-18%	-18%	-18%
Taxes	(2.133)	(2.214)	(2.499)	(2.932)	(4.599)	(2.778)	(3.170)	(3.617)	(4.126)
Net income	4.158	5.781	6.605	7.251	8.927	12.657	14.441	16.476	18.795

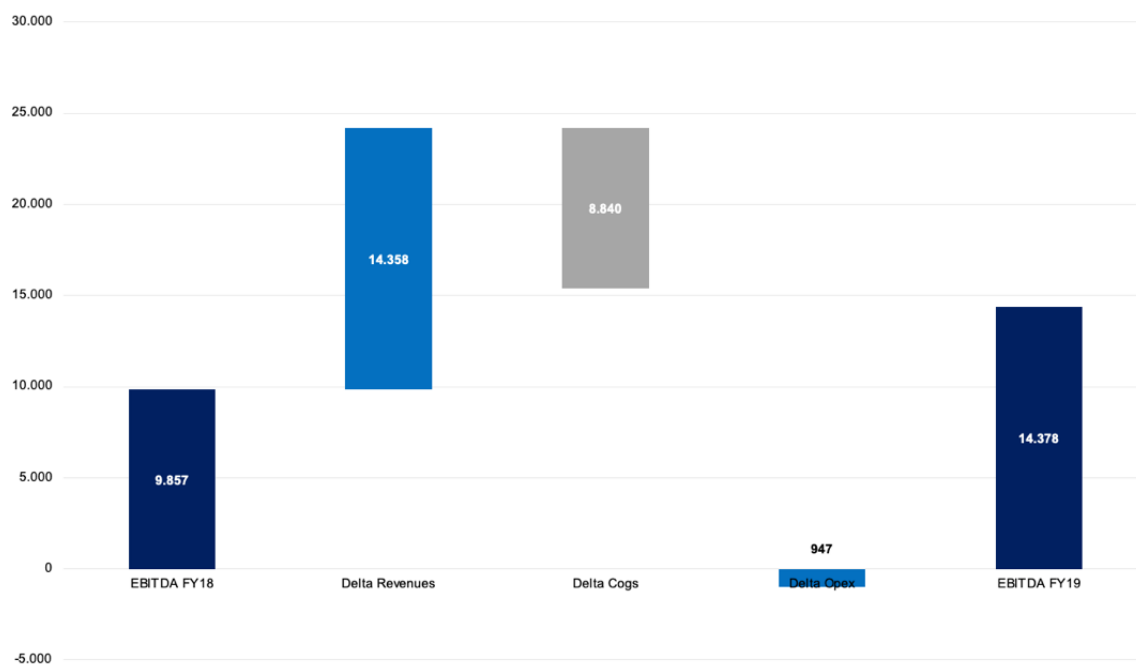
Source: Bloomberg

Appendix 21 – LVMH Revenue Growth



Source: Bloomberg

Appendix 22 – LVMH EBITDA Breakdown



Source: Bloomberg

Appendix 23 – LVMH Balance Sheet

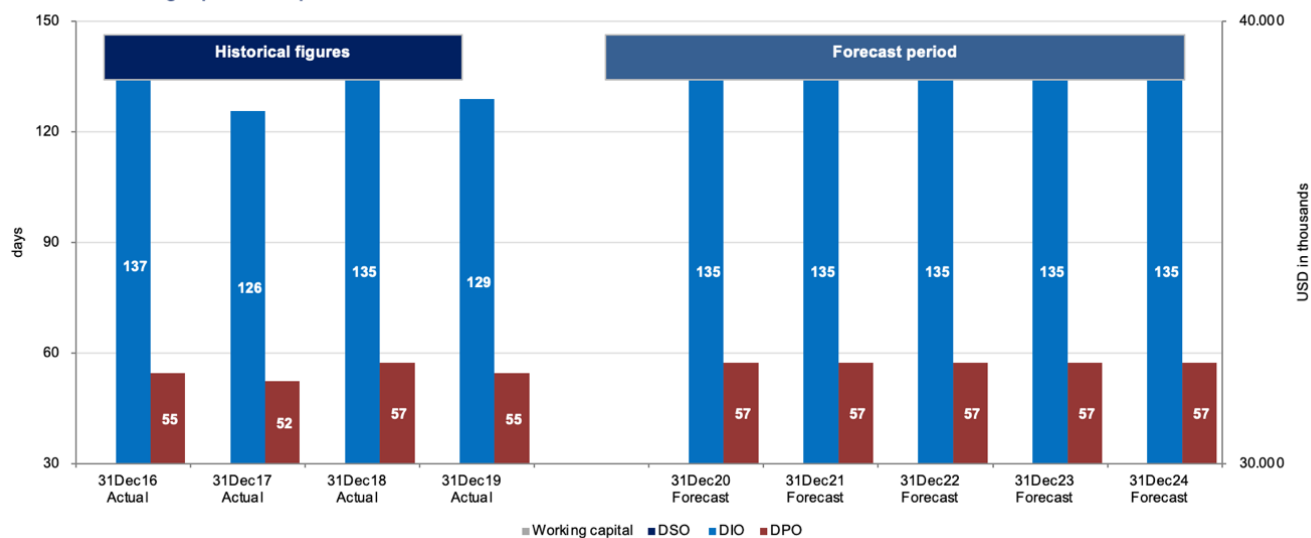
Balance Sheet

\$ in thousands	31Dec16 Actual	31Dec17 Actual	31Dec18 Actual	31Dec19 Actual	31Dec20 Forecast	31Dec21 Forecast	31Dec22 Forecast	31Dec23 Forecast	31Dec24 Forecast
Intangible assets	23.736	30.794	30.981	33.246	30.981	30.981	30.981	30.981	30.981
PP&E	12.139	13.862	15.112	18.533	19.797	22.569	25.728	29.330	33.436
Financial assets	4.344	4.038	4.656	18.218	4.656	4.656	4.656	4.656	4.656
Inventory	10.546	10.888	12.485	13.717	15.792	18.002	20.523	23.396	26.671
Trade receivable	2.685	2.736	3.222	3.450	4.210	4.799	5.471	6.237	7.110
Other assets	2.622	3.699	3.234	3.670	4.600	5.244	5.978	6.815	7.769
Cash and equivalents	3.544	3.738	4.610	5.673	12.820	24.637	38.121	53.506	71.057
Total Assets	59.616	69.755	74.300	96.507	92.856	110.888	131.458	154.921	181.682
Trade payable	4.184	4.539	5.314	5.814	6.721	7.662	8.735	9.958	11.352
Other liabilities	19.727	22.500	23.459	38.895	31.680	36.115	41.172	46.936	53.507
Financial liabilities	7.807	12.339	11.570	13.433	11.570	11.570	11.570	11.570	11.570
Shareholders' equity	27.898	30.377	33.957	38.365	42.884	55.541	69.982	86.458	105.253
Total Liabilities & Equities	59.616	69.755	74.300	96.507	92.856	110.888	131.458	154.921	181.682

Source: Bloomberg

Appendix 24 – LVMH Working Capital Development

FY16-FY24: Working capital development



Source: Bloomberg

Appendix 25 – LVMH Cash Flow

Cash Flow

\$ in thousands	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
EBIT	8.054,0	9.492,0	10.742,0	13.949,9	15.902,9	18.129,3	20.667,4	23.560,8
Operating taxes	(2.230,3)	(2.605,5)	(3.093,0)	(4.743,0)	(2.862,5)	(3.263,3)	(3.720,1)	(4.241,0)
Operating tax rate	-28%	-27%	-29%	-34%	-18%	-18%	-18%	-18%
NOPAT	5.823,7	6.886,5	7.649,0	9.206,9	13.040,4	14.866,0	16.947,3	19.319,9
Add-back D&A	62,0	365,0	531,0	428,3	488,2	556,6	634,5	723,4
Gross Cash Flow	5.885,7	7.251,5	8.180,0	9.635,2	13.528,6	15.422,6	17.581,8	20.043,2
Inventory	(342,0)	(1.597,0)	(1.232,0)	(3.306,6)	(2.210,8)	(2.520,3)	(2.873,2)	(3.275,4)
Trade receivables	(51,0)	(486,0)	(228,0)	(987,9)	(589,4)	(671,9)	(766,0)	(873,2)
Trade payables	355,0	775,0	500,0	1.407,4	941,0	1.072,7	1.222,9	1.394,1
Investments in working capital	(38,0)	(1.308,0)	(960,0)	(2.887,2)	(1.859,2)	(2.119,5)	(2.416,2)	(2.754,5)
Investments in other assets/liabilities	1.696,0	1.424,0	15.000,0	6.855,0	3.791,2	4.322,0	4.927,0	5.616,8
Capex	(1.785,0)	(1.615,0)	(3.952,0)	(5.113,3)	(3.259,8)	(3.716,2)	(4.236,5)	(4.829,6)
Other investments	(6.752,0)	(805,0)	(15.827,0)	-	-	-	-	-
Extraordinary items	78,0	(271,0)	(452,0)	(305,9)	(348,7)	(397,6)	(453,2)	(516,7)
UFCF	(915,3)	4.676,5	1.989,0	8.183,9	11.852,0	13.511,3	15.402,9	17.559,3
Interest expenses	(137,0)	(117,0)	(107,0)	(118,2)	(119,4)	(120,5)	(121,8)	(123,0)
Delta Taxes vs. Operating taxes	16,3	106,5	161,0	144,2	84,3	93,3	103,5	115,1
Delta Financial liabilities	4.532,0	(769,0)	1.863,0	-	-	-	-	-
Delta Equity (incl. dividends)	(3.302,0)	(3.025,0)	(2.843,0)	-	-	-	-	-
Net Cash Flow	194,0	872,0	1.063,0	8.209,9	11.816,9	13.484,0	15.384,6	17.551,5

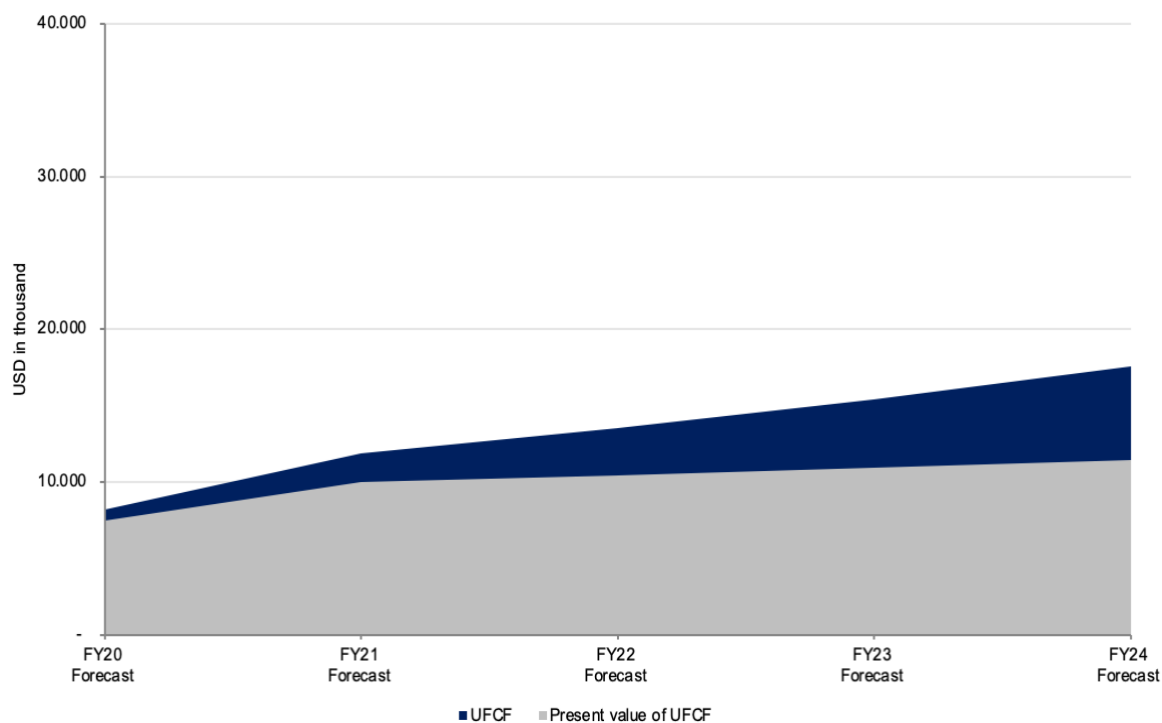
Source: Bloomberg

Appendix 26 – LVMH DCF

DCF Valuation			
PV of Cash flows	50.241,2	\$	23%
Continuing value	255.864,2	\$	
PV of Continuing value	166.294,2	\$	77%
Enterprise value	216.535,3	\$	
() Financial liabilities	(13.433,0)		
Cash	5.673,0		
Equity value	208.775,3	\$	
Number of Shares	505,4		
Share Price	413,06	\$	

Source: Bloomberg

Appendix 27 – LVMH UFCF and Present value of UFCF breakdown



Source: Bloomberg

Appendix 28 – LVMH Relative Valuation

Relative Valuation					
Company Name	Equity Value	Enterprise Value	Current P/E	EV/EBITDA	EV/EBIT
Kering	\$ 76,270,000,000.00	\$ 84,260,000,000.00	41.4 x	19.5 x	24.2 x
Cie Financiere Richemont	\$ 41,270,000,000.00	\$ 42,640,000,000.00	182.3 x	18.4 x	10.2 x
Hermes	\$ 87,350,000,000.00	\$ 85,150,000,000.00	77.8 x	39.6 x	49.0 x
Tapestry	\$ 6,910,000,000.00	\$ 9,380,000,000.00	12.8 x	61.8 x	--
Maximum	\$ 87,350,000,000.00	\$ 85,150,000,000.00	182.3x	61.8x	49.0x
75th Percentile	\$ 79,040,000,000.00	\$ 84,482,500,000.00	103.9x	45.1x	36.6x
Median	\$ 58,770,000,000.00	\$ 63,450,000,000.00	59.6x	29.5x	24.2x
25th Percentile	\$ 32,680,000,000.00	\$ 9,380,000,000.00	34.2x	19.2x	17.2x
Minimum	\$ 6,910,000,000.00	\$ 9,380,000,000.00	12.8x	18.4x	10.2x
LVMH Moet Hennessy LV	\$ 249,490,000,000.00	\$ 272,790,000,000.00	60.3x	24.9x	34.4x

Source: Bloomberg

Appendix 29 – Tiffany & Co. Sensitivity Analysis

		WACC			
		5,3%	5,7%	6%	6,5%
g	2,3%	16.277	14.324	13.137	11.535
	2,5%	17.335	15.128	13.805	12.040
	2,7%	18.554	16.039	14.553	12.598
	3,0%	20.782	17.659	15.864	13.556

Source: Bloomberg

Appendix 29 – LVMH Sensitivity Analysis

		WACC			
		9%	10%	11%	12%
g	1%	194.322	171.165	152.687	137.609
	2%	216.535	187.822	165.539	147.754
	3%	246.153	209.239	181.604	160.153
	4%	287.618	237.794	202.259	175.652

Source: Bloomberg