

Merger between Louis Vuitton and Tiffany & Co.



TIFFANY & Co.

Industry Group: Consumer & Retail

Dean Macchia, Carl Pai, Zach Jacobus-Oseroff, Ravin Nanda, Sharon Sapoff, & Stratton Papakirk

Agenda

Industry Overview



Rationale



Agenda

Industry Overview

Recent Deals



Synergies



Recent Deals

LVMH

LVMH



LOUIS VUITTON

Competition



Tiffany's

Rationale

Synergies

Tiffany's

TIFFANY & Co.

Risks

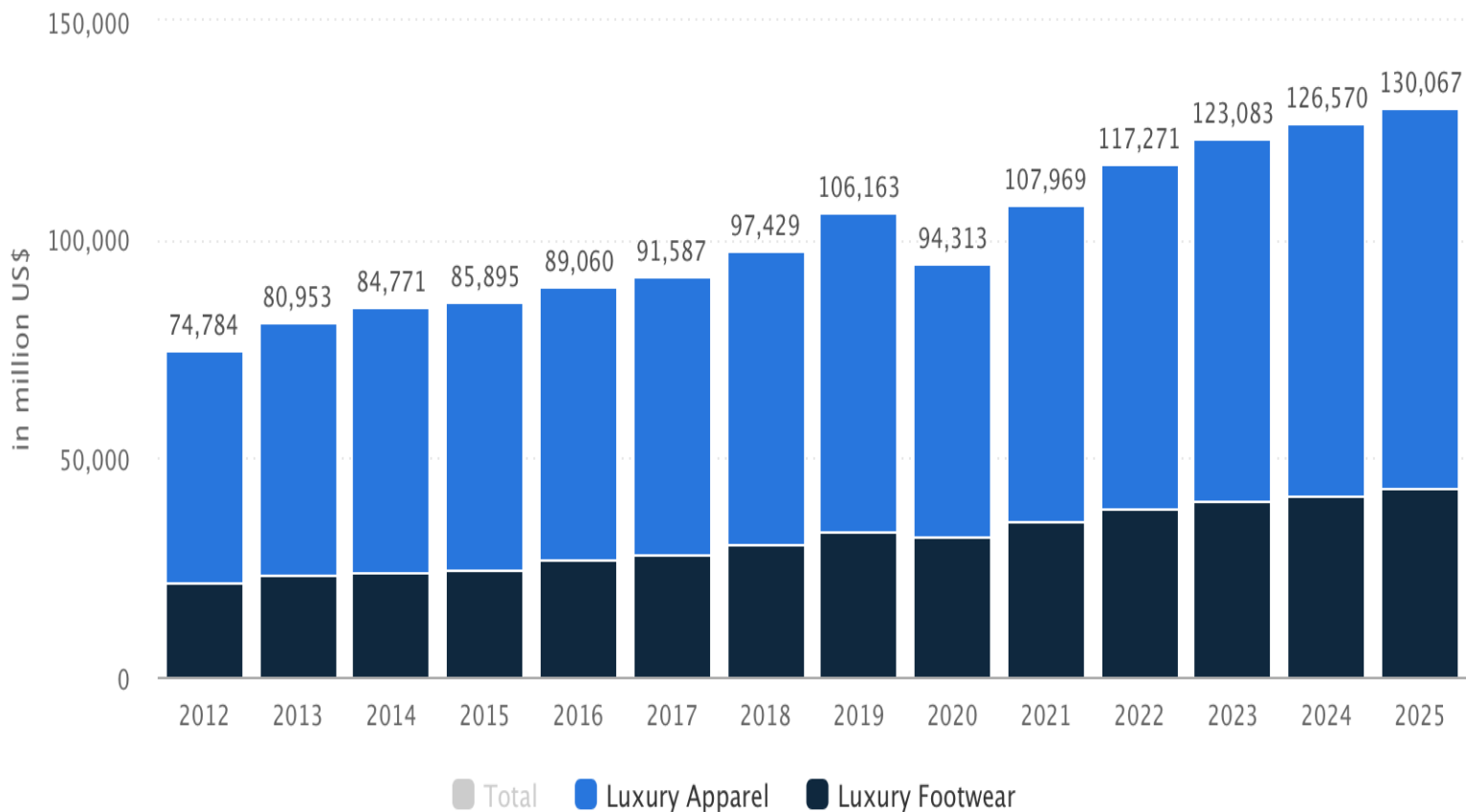


Competition

Risks

Industry Overview

Revenue and Growth



Source: Statista (Forecast adjusted for expected impact of COVID-19), July 2020

Industry Factors

Stakeholder Pressure

Stakeholders—namely, customers—are incentivizing high fashion houses to address issues related to sustainability, diversity, creativity, and innovation.

Winner-Takes-All Economy

M&A activity within the luxury fashion space has increased by more than 100% since 2000, making it an incredibly competitive and tiered industry

Volatility and Response

The high fashion industry is incredibly risky, especially with growing dependence on China. Successful companies will prioritize margins and adaptive leadership.

Agenda

Industry
Overview

Recent
Deals

LVMH

Tiffany's

Rationale

Synergies

Competition

Risks

Industry Overview

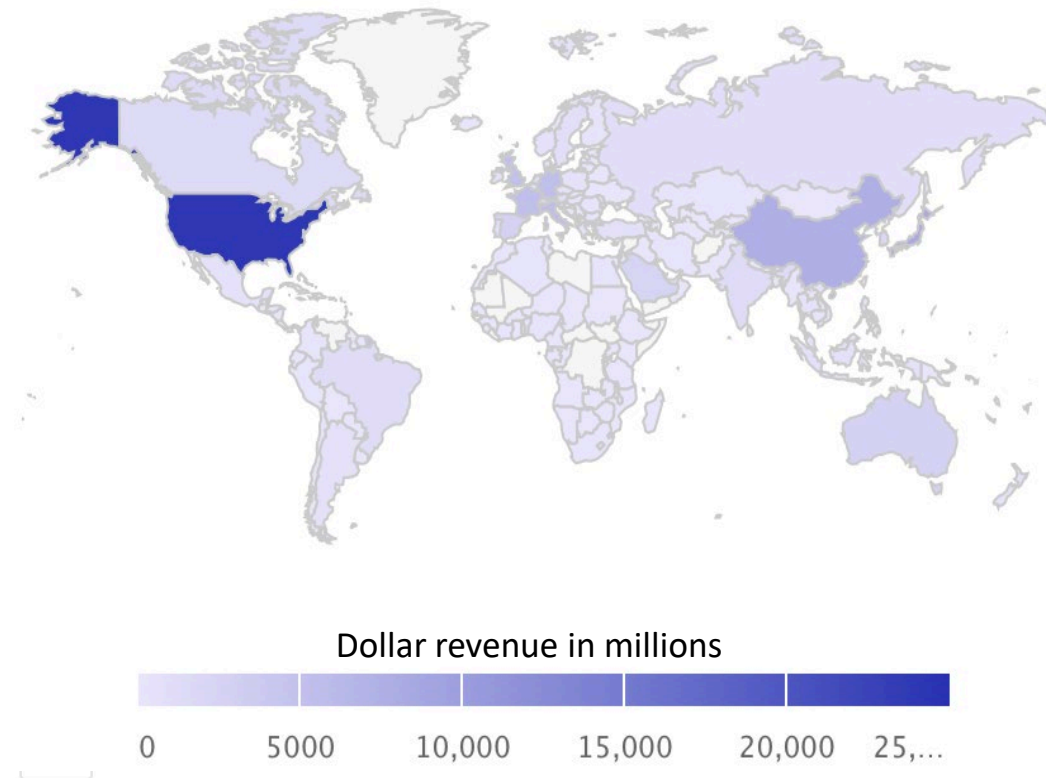
Key Players



COVID-19 Effect

- Falls in disposable income and American/Chinese tourism have disincentivized spending on luxury goods
- Industry will likely recover after the release of a vaccine and the return to pre-virus stability

Geography



Source: Statista (Forecast adjusted for expected impact of COVID-19), July 2020 © Natural Earth

Agenda

Industry
Overview

Recent
Deals

LVMH

Tiffany's

Rationale

Synergies

Competition

Risks

Recent Deals

LVMH-Dior

\$13.1 Billion: Previously
Largest Luxury Deal
(LVMH-Tiffany is **\$15.8 Billion**)

- Conglomerate-Dominated M&A
- Increased consolidation by top players
- High pandemic resilience for conglomerates
- **Capri Holdings:** 1st U.S.-based luxury conglomerate (Possible Player)



+



=

CAPRI

HOLDINGS LIMITED

MICHAEL KORS VERSACE

Agenda

Industry
Overview

Recent
Deals

LVMH

Tiffany's

Rationale

Synergies

Competition

Risks

LVMH

Who is LVMH?

A French multinational luxury products conglomerate that manages 75 prestigious brands (Houses) with a retail network of 4,910 stores, headquartered in Paris, France.

Business Model

Create products that embody unique savoir-faire on heritage with modernity.

Produce and market their products and services through distinct/selected channels.

Prioritize long-term vision that builds on heritage and stimulates creativity and excellence.

Committed to integrity and ethics towards its businesses and stakeholders with its Code of Conduct.

Six Pillars Operating Model



Decentralized organization
Houses are autonomous and responsive, empowering employees while minimizing the distance between customers.



Organic Growth
LVMH commits significant resources to develop its Houses by encouraging creativity and excelling employees.



Vertical integration
Integration allows control throughout the value chain, from sourcing to producing to retailing.



Synergy creation
Sharing resources among the group creates synergies and strengths while maintaining the identity of each House.



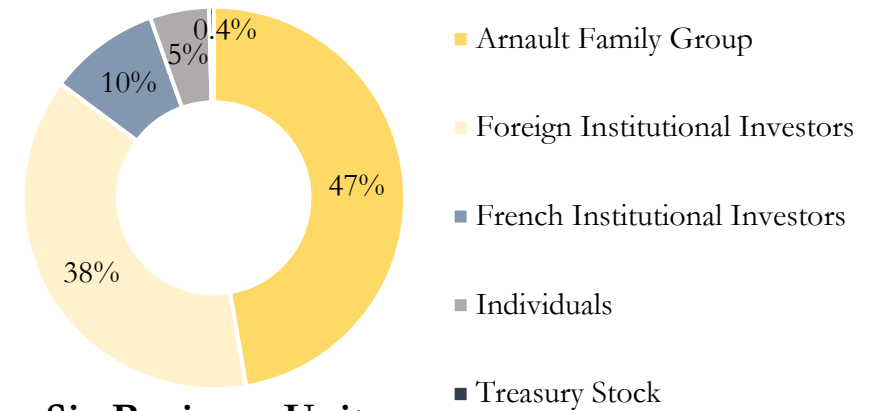
Savoir-faire
LVMH has ensured that each Houses value craftsmanship and creativity in order to preserve distinct identities long term.



Businesses/Geographies balance
A balance across business activities and geographies allows LVMH to sustain growth and withstand economic risks.

Capital Structure

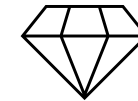
Main holding company: Christian Dior SE



Six Business Units



Wines & Spirits



Watches and Jewelry



Fashion & Leather Goods



Selective Retailing



Perfumes & Cosmetics



Other Activities



Agenda

Industry Overview

Recent Deals

LVMH

Tiffany's

Rationale

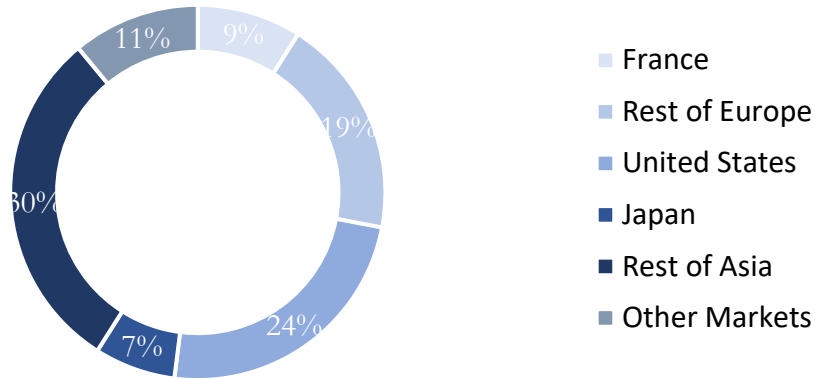
Synergies

Competition

Risks

Financial indicators

Revenue by Region as a % of total revenue



Revenue by Business Units as a % of total revenue



Recent performance and outlooks

€ Income statement

in millions of euros	2017	2018	2019
Revenue	42,636	46,826	53,670
Gross Margin	27,853	31,201	35,547
<i>in % of revenue</i>	65%	67%	66%
Profit from recurring operations	8,293	10,003	11,504
Net profit	5,840	6,990	7,782

Short-term outlook

- Good resilience from big brands under Covid-19
- Strong recovery in Q3 from all business units, most notably Fashion and Leather Goods
- Solid growth in online sales, partially offsetting the negative impact of months of store closures
- Suspension of international travel severely penalized travel retail and hotel activities

Long-term outlook

- Focus on innovative and high quality products and more selective investments, notably store network expansion, cost management and agility
- Continue to tightly oversee excellence in its brands to maintain the prestige and luxury
- Continue to invest in ESG, notably lowering carbon emissions, promoting inclusion and applying strict standards in its supply chains

Agenda

Industry
Overview

Recent
Deals

LVMH

Tiffany's

Rationale

Synergies

Competition

Risks

Tiffany & Co.

What is Tiffany?

Tiffany & Co. is an American luxury jewelry retailer headquartered in New York City, NY, made up of 326 stores globally, and is engaged in product design, manufacturing, and retail.

Business Model: Key points

Optimize retail profitability and productivity

Amplify an evolved brand message

Renew the Company's product offerings and enhance in-store presentations

Deliver an exciting omnichannel customer experience

Strategic Priorities

Sales Growth

- Mid-single-digit percentage increase

Operating Margins

- Efficiencies in supply chain
- Pricing

Strong Capital Structure

- Ability to invest in strategic initiatives

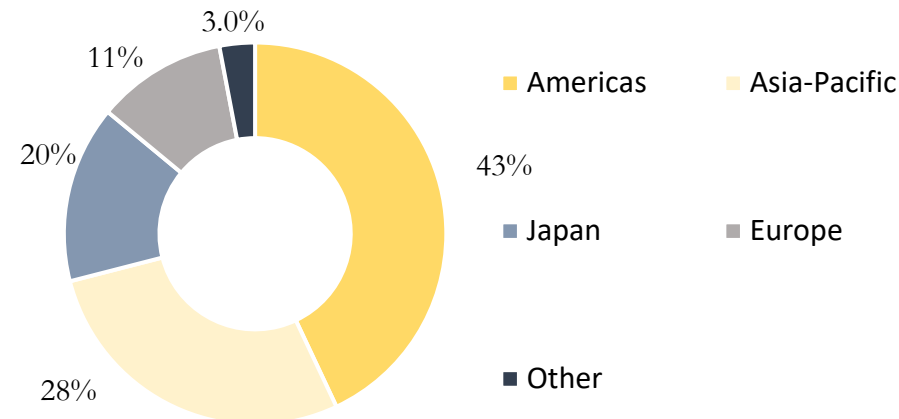
Improve Inventory

- Maintain inventory growth at a rate less than sales growth

Productivity

- Increase conversion of traffic to customers

Sales by Region



Agenda

Industry
Overview

Recent
Deals

LVMH

Tiffany's

Rationale

Synergies

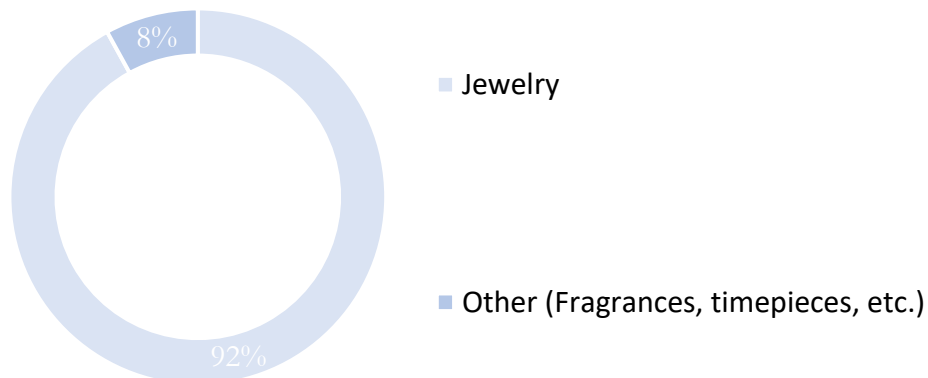
Competition

Risks

Tiffany & Co.

Financial Indicators

Revenue by Business Units
as a % of total revenue



Recent performance and outlooks

Income statement

in thousands of dollars	2017	2018	2019
Revenue	4,169,800	4,442,100	4,424,000
Cost of Revenue	1,565,100	1,631,100	1,662,100
Gross Profit	2,604,700	2,811,000	2,761,900
Operating Expenses	1,810,200	2,020,700	2,029,300
Operating Income	794,500	790,300	732,600



Short-term outlook

- Like LVMH, good bounce back, but strongly affecting 2020 numbers
- Although this will affect the short term, Tiffany sells because of the brand
- Pandemic has led to continued fall of in-store retail sales
- Like LVHM, online numbers have made up for fall in retail



Long-term outlook

- Address the seasonality of purchases
- Address fall in consumer spending due to falling consumer confidence
- Increase in cost of diamonds is pertinent
- Business is dependent on distinctive appeal of the Tiffany & Co. brand
- Environmental efforts

Agenda

Industry
Overview

Recent
Deals

LVMH

Tiffany's

Rationale

Synergies

Competition

Risks

Strategic Rationale & Synergies

Jewelry industry faces high barriers to entry but has 8.1% CAGR
Tiffany's brand value + LVMH resources → 17% operation margin growth to 23%

Jewelry Market presents high growth potential and the opportunity to increase LVMH and Tiffany's operating margins

LVMH can access US market and attract a younger generation

LVMH can increase its revenue from jewelry sales from 9% to 17%

Tiffany's relatively lower priced products will expand LVMH's client base to a younger generation

Smooth transition and Tiffany's autonomy allows the company to uphold vertical integration, organic creativity, and grow

Tiffany's CEO = Ex LVMH Executive

Tiffany's will retain control over operations while leveraging LVMH's digital branding resources

Agenda

Industry Overview

Recent Deals

LVMH

Tiffany's

Rationale

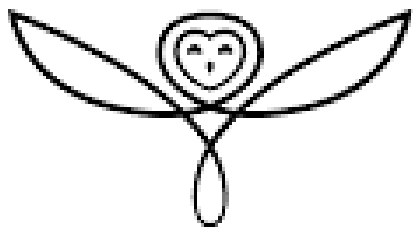
Synergies

Competition

Risks

Competition

K E R I N G



Moncler Acquisition?

RICHEMONT

“Hard Luxury” Sales

Richemont: €9.16B

LVMH: €4.2B

LVMH + Tiffany: €8.2B



Agenda

Industry
Overview

Recent
Deals

LVMH

Tiffany's

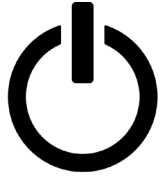
Rationale

Synergies

Competition

Risks

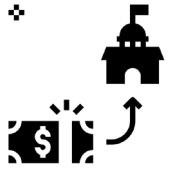
Risks/Downsides



Resurgence of COVID-19 cases can lead to store shutdowns and strict travel restrictions again, adversely impacting tourism and sales



Reduced interest in fashion: divergence of spending to entertainment and travel categories



Trade wars: Trump Administration plans to impose a 25% tariff on French goods, such as cosmetics and handbags, as of January 2021



Failure to complete the acquisition within the expected time frame or at all



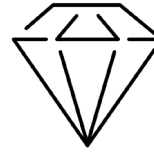
Even if LVMH receives a discount and completes the acquisition, Arnault's reputation as a reliable buyer will be harmed



Reduced discretionary spending and falling consumer confidence for prolonged periods of time



Potential of poor sales in Q4, around holiday season, which usually represents about third of annual net sales



Increases in costs of diamonds, other gemstones and precious metals, thus decreasing supply



A strength of the U.S. dollar against foreign currencies would reduce profitability, as the company operates stores in 20+ non-U.S. markets



Potential political activities or regional instability following Election Day can disrupt local consumer spending

Agenda

Industry
Overview

Recent
Deals

LVMH

Tiffany's

Rationale

Synergies

Competition

Risks

Quantitative Analysis



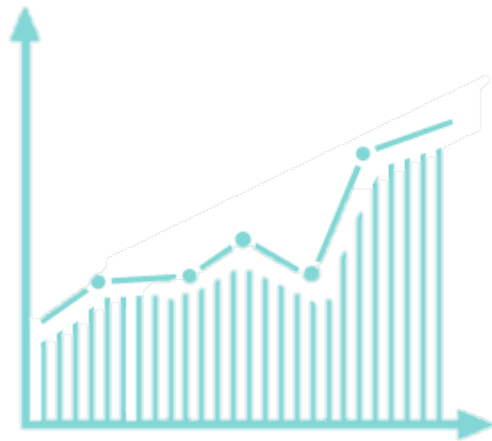
LOUIS VUITTON



TIFFANY & Co.

Quantitative Analysis

Stock Chart



DCF



Comps



Precedent Transactions



Football Field



Agenda

Stock Chart

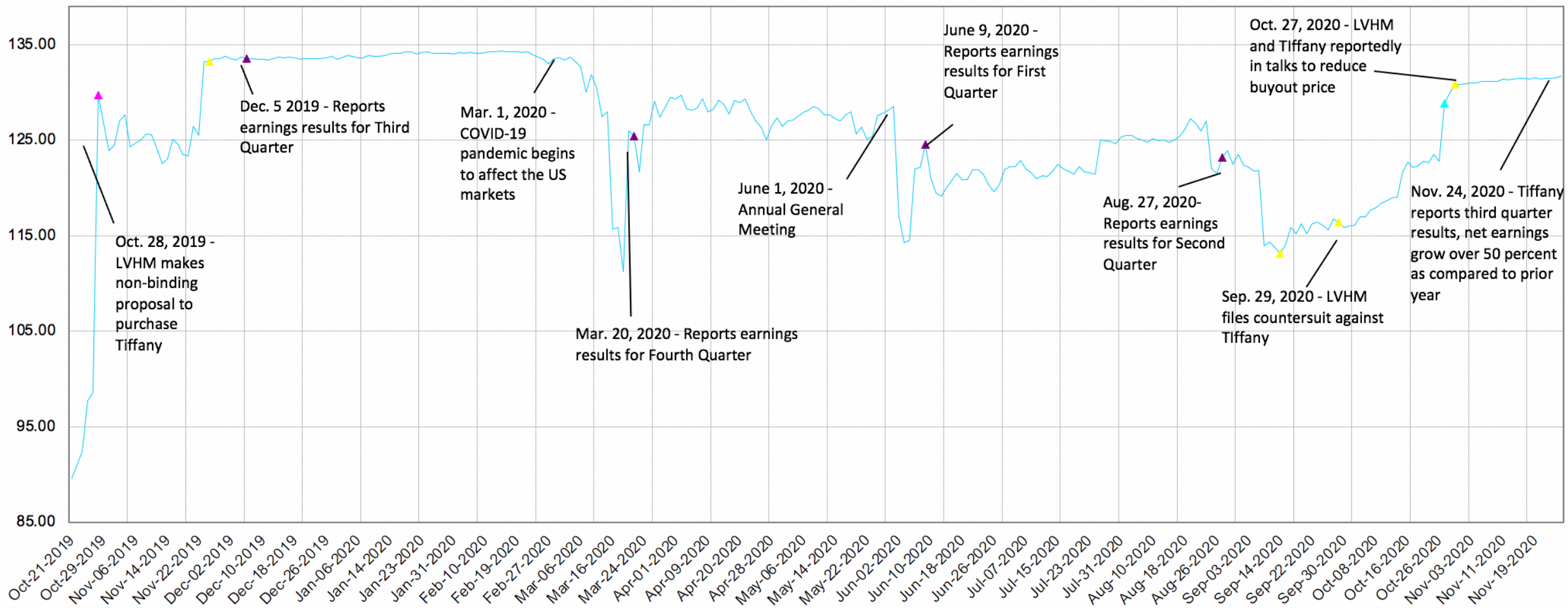
DCF

Comps

Precedent

Football

Tiffany & Co. Stock Chart



Agenda

Stock Chart

DCF

Comps

Precedent

Football

Discounted Cash Flow

Free Cash Flow Buildup

\$mm	Projected Annual Forecast				
	2021P	2022P	2023P	2024P	2025P
Period	1	2	3	4	5
Total Revenues	\$ 4,200.00	\$4,800.0	\$5,520.0	\$ 6,348.00	\$7,300.2
EBITDA	\$662.1	\$982.6	\$1,049.5	\$952.2	\$1,168.0
EBIT	\$393.4	\$721.4	\$800.7	\$896.8	\$1,035.8
Tax rate	21.0%	21.0%	21.0%	21.0%	21.0%
EBIAT	\$310.8	\$569.9	\$632.6	\$708.5	\$819.3
Depreciation & Amortization	\$288.9	\$309.1	\$330.8	\$353.9	\$378.7
Accounts receivable	\$ 214.30	\$ 231.50	\$ 248.80	\$ 268.10	\$ 288.60
Inventories	\$ 2,683.91	2,871.8	3,087.2	3,311.0	3,555.2
Prepaid expenses	\$ 344.40	\$ 375.30	\$ 407.20	\$ 442.80	\$ 481.00
(Accounts payable)	\$ 470.60	\$ 508.20	\$ 546.40	\$ 588.70	\$ 633.60
(Accrued expenses)	133.0	147.6	163.1	180.7	199.8
(Capital expenditures)	\$ (228.50)	\$ (185.09)	\$ (149.92)	\$ (121.43)	\$ (98.36)
Unlevered free cash flows	\$ 753.58	\$ 880.30	\$ 902.37	\$ 965.04	\$ 1,056.56
Discount Rate (WACC)	5.6%	5.6%	5.6%	5.6%	5.6%
Present value of free cash flows	\$713.4	\$789.0	\$765.7	\$775.2	\$803.5

Sum of present values of FCFs **\$3,846.7**

Terminal Value

Growth in perpetuity method:	0.0
Long term growth rate	3.0%
WACC	5.6%
Free cash flow (t+1)	803.5
Terminal Value	31,479.3
Present Value of Terminal Value	\$23,939.2

Enterprise Value to Equity Value

Enterprise Value	\$27,785.9
Less: Net debt	2,652.9
Equity Value	\$25,133.0
Diluted Shares Outstanding	121.4
Equity Value Per Share	\$ 207.01

WACC	Perpetuity Growth Rate				
	2.0%	2.5%	3.0%	3.5%	4.0%
4.6%	225.51	277.25	360.74	518.18	925.94
5.1%	182.33	216.05	265.61	345.59	496.43
5.6%	151.29	174.70	207.01	254.50	331.14
6.1%	127.97	144.97	167.41	198.38	243.89
6.6%	109.87	122.64	138.94	160.44	190.13

Agenda

Stock Chart

DCF

Comps

Precedent

Football

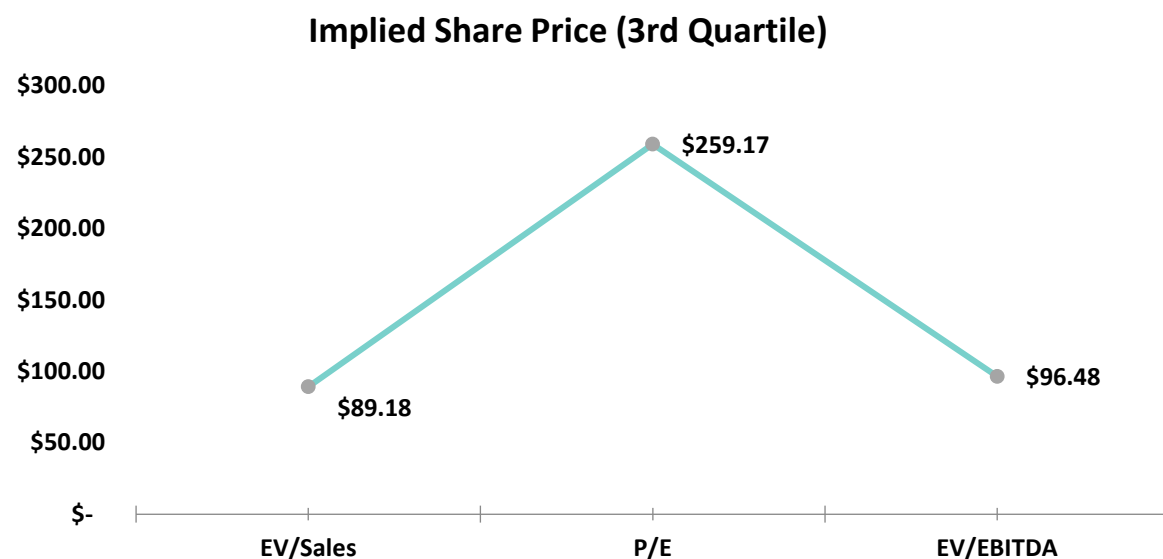
Comparable Companies Analysis

Company Name	Market Data			Financial Data			Valuation		
	Stock Price	Market Cap	Enterprise Value	Revenue	EBITDA	Net Income	EV/Sales	EV/EBITDA	Price/Earnings
Signet Jewelers	31.43 USD	\$ 1,629	\$ 4,046	\$ 5,081.1	\$ 227.4	\$ (127.2)	0.80x	17.79x	
Pandora A/S	649.20 DKK	\$ 64,319	\$ 70,922	\$ 19,074.0	\$ 5,181.0	\$ 1,885.0	3.72x	13.69x	34.12x
Envela Corporation	4.37 USD	\$ 116	\$ 126	\$ 107.4	\$ 6.9	\$ 5.5	1.17x	18.28x	21.05x
Lao Feng Xiang Co	47.92 CNY	\$ 19,149	\$ 24,208	\$ 51,366.5	\$ 2,832.4	\$ 1,474.8	0.47x	8.55x	12.98x
Burberry Group	17.22 GBP	\$ 6,943	\$ 7,496	\$ 2,229.6	\$ 362.1	\$ 20.7	3.36x	20.70x	335.39x
3rd Quartile							3.36x	18.28x	109.44x

Target Company	Stock Price	Market Cap	Enterprise Value	Shares Outstanding	EPS	Revenue	EBITDA	Net Income	Net Debt
Tiffany & Co	131.72 USD	\$ 15,992.3	\$ 17,472.2	121.4	\$ 2.37	\$ 3,668.70	\$ 723.40	\$ 287.50	\$ 1,507.00

Valuation: Tiffany & Co	Implied Share Price
Price/Earnings	\$ 259.17
EV/Sales	\$ 89.18
EV/EBITDA	\$ 96.48
Average:	\$ 148.28

Implied Share Price:
\$148.28



Agenda

Stock Chart

DCF

Comps

Precedent

Football

Comparable Companies Analysis

P/E

EV/Sales

EV/EBITDA

SIGNET
JEWELERS



PANDORA



ENVELA
CORPORATION



LAO FENG XIANG
ESTABLISHED 1848



BURBERRY
LONDON ENGLAND



TIFFANY & CO.



Agenda

Stock Chart

DCF

Comps

Precedent

Football

Precedent Transactions Analysis

Precedent Transactions Analysis

Announcement Date	Acquirer Name	Target Name	Equity Value	Net Debt	Enterprise Value	Sales	EBITDA	Net Income	EV to Sales	EV to EBITDA	Price to Earnings
2017/7/25	Capri Holdings	Jimmy Choo	\$ 1,200	\$ 139	\$ 1,339	\$ 392.5	\$ 23.5	\$ 56.9	0.29x	56.98x	21.09x
2017/5/8	Tapestry	Kate Spade	\$ 2,776	\$ 45	\$ 2,821	\$ 1,359.2	\$ 119.7	\$ 209.5	0.48x	23.57x	13.25x
2017/4/30	LVMH	Christian Dior	\$ 13,100	\$ 5,455	\$ 18,555	\$ 55,423.0	\$ 23,513.0	\$ 2,966.0	2.99x	0.79x	4.42x

in millions in millions in millions in millions in millions in millions

Company Being Valued

Last Price **\$131.72**

Equity Value Multiples	Metric	Shares Outstanding	EPS	Implied Price Range		
				1st Quartile	Median	3rd Quartile
Net Income	\$ 541.1	121.4	\$ 4.46	\$ 39.37	\$ 59.06	\$ 76.53

Min	0.29x	0.79x	4.42x
1st Quartile	0.39x	12.18x	8.83x
Median	0.48x	23.57x	13.25x
3rd Quartile	1.73x	40.27x	17.17x
Max	2.99x	56.98x	21.09x

Enterprise Value Multiples	Metric	Shares Outstanding	Total Debt	Cash & Equivalents	Net Debt	Implied Enterprise Value Range			Implied Price Range		
						1st Quartile	Median	3rd Quartile	1st Quartile	Median	3rd Quartile
Sales	\$ 4,424.0	121.4	\$ 997	\$ 875	\$ 122	1714.02161	\$ 2,131.24	\$ 7,672.77	\$ 13.11	\$ 16.55	\$ 62.19
EBITDA	\$ 988.5	121.4	\$ 997	\$ 875	\$ 122	\$ 12,039.84	#####	#####	\$ 98.16	\$ 190.90	\$ 326.90

Agenda

Stock Chart

DCF

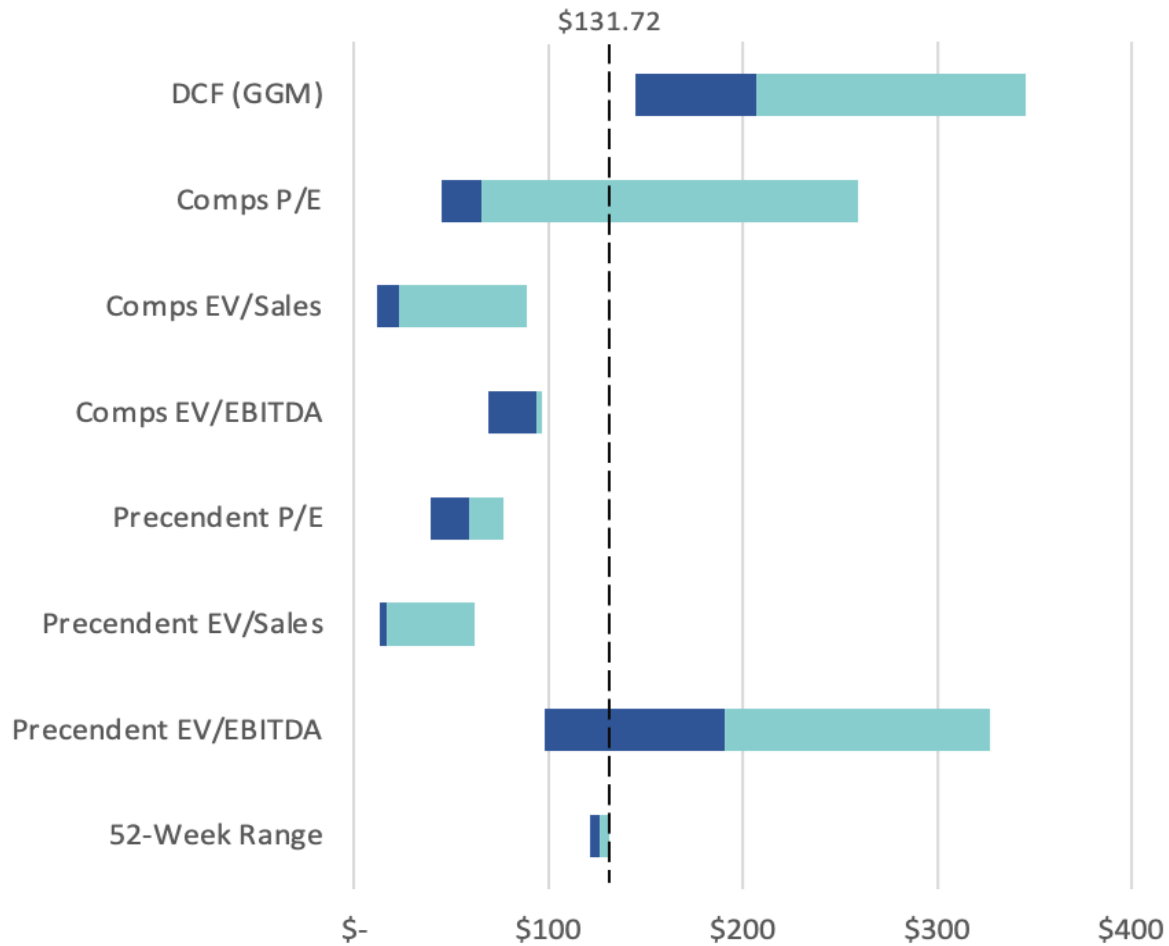
Comps

Precedent

Football

Valuation Football Field

Football Field Analysis



Note: Current Price as of 11/27/20 close

Implied Share Price		
	Value	Weight
DCF (GGM)	\$ 207.01	40%
Comps	148.28	30%
Precedent	88.84	30%

Implied Share Price:	\$ 153.94
Current Share Price:	\$ 131.72

