

The Research Related to the Effect of the LVMH's Acquisition of Tiffany & Co.

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Abstract. This paper makes a comprehensive analysis of the motivation of LVMH's acquisition of Tiffany & Co. The acquisition, which took place in 2020, was a significant move for both companies and had a profound impact on the luxury industry. A key motivation for LVMH's decision to acquire Tiffany & Co. was to expand its presence in the high-end jewelry market. By acquiring one of the world's most iconic and prestigious jewelry brands, the LVMH Group aims to strengthen its position as a global leader in luxury goods. This strategic move has allowed LVMH to diversify its product portfolio and attract a new customer base that values Tiffany & Co.'s elegance and craftsmanship. Based on the analysis of LVMH's financial reports in recent years and the collection of various expert data, this paper draws the conclusion that LVMH's acquisition of Tiffany & Co. is more beneficial than harmful. Highlights how the company is strategically positioned in the premium jewelry market by expanding distribution channels, cost synergies, and aligning itself with long-term growth targets.

Keywords: Luxury group, acquisition, jewelry.

1. Introduction

LVMH, the world's largest luxury group, announced its acquisition of Tiffany & Co., the iconic American jeweler, at \$135 a share, in 2019. According to LVMH's 2018 financial report, its total revenue reached 46.8 billion euros, while the watch and jewelry business revenue was only 4.1 billion euros, accounting for only 9%. In the first three quarters of 2019, LVMH's revenue reached 38.4 billion euros, an increase of 16% year-on-year, with the fashion and leather goods business, which accounts for the largest part of LVMH, up 22% year-on-year, the perfume and cosmetics business up 11% year-on-year, the fine retail business up 11% year-on-year, and the wine and spirits business up 10%. While, the watch and jewelry business grew the slowest at 8%. This became a big reason for LVMH's acquisition of Tiffany in November of that year. And this move helps LVMH fill a gap in jewelry and watches. This strategic merger between two industry powerhouses has not only captured the attention of investors but has also sparked discussions about the future of the luxury market. There are fans of each side that doubt whether the other side deserves LVMH (or Tiffany) to spend so much money (or to be acquired). Also, many are skeptical about the price tag and questioned whether LVMH, a French luxury goods group, can manage Tiffany of America. [1] This paper delves into the details of this historic deal and its potential implications. LVMH is a portmanteau of Louis Vuitton and Moët Hennessy. In 1987, Louis Vuitton, the world's leading fashion and leather manufacturer, and Moët Hennessy, the world's leading wine producer, announced a merger to form a major luxury goods manufacturing and distribution group. [2] The full name represents the three European luxury veterans that make up the group. The "LV" in LVMH represents Louis Vuitton, a renowned luxury fashion and leather goods brand. The "M" represents Moët & Chandon, a prestigious champagne brand with a history of nearly three hundred years. The "H" represents Hennessy, the world's most well-known brand of brandy. The merger between Louis Vuitton and Moët Hennessy was initiated by the third generation of LV, Camille, who believed that expanding beyond the high-end line of LV was necessary to reach a wider audience and increase the group's overall profitability. Today, LVMH Group operates in six main areas: wine and spirits, fashion and leather goods, perfume and cosmetics, watches and jewelry, boutique retail, and other cultural and artistic activities. The group owns more than 70 brands, making it the largest luxury group in the world.

2. Motivation

Established in 1837, Tiffany & Co. is a globally renowned jewelry and luxury brand that epitomizes uniqueness, elegance, and uncompromising quality. With an unwavering commitment to delivering exceptional products and services, Tiffany has garnered widespread recognition and acclaim as one of the iconic leaders in the jewelry industry." The Tiffany T series represents the pinnacle of Tiffany's artistic achievements, serving as a commemoration and celebration of friendship. With its sleek contours and minimalist design, it embodies the essence of simplicity in artistry. By incorporating various gemstones into different materials, this collection offers a diverse range of designs. Building upon its foundational simplicity, intricate details are added to enhance the overall aesthetic appeal. Furthermore, the stacking feature within this series opens up endless possibilities for customization. [3] The multifaceted significance of LVMH's acquisition of Tiffany is noteworthy. The acquisition will enable LVMH to further solidify its dominant position in the luxury market, as Tiffany's esteemed reputation and extensive history in jewelry will contribute to increased brand recognition and market share for LVMH. Furthermore, the acquisition will enable LVMH to capitalize on additional market opportunities. Tiffany boasts extensive visibility and a devoted customer base in the Asian market, whereas LVMH currently holds a relatively modest market share in this region. By acquiring Tiffany, LVMH can strategically enhance its presence in the Asian market and unlock further avenues for sales growth. Additionally, LVMH can leverage the collaboration with Tiffany to achieve brand synergies. With its extensive portfolio of luxury brands, LVMH can capitalize on Tiffany's distinctive jewelry design and brand image. This partnership enables LVMH to integrate Tiffany's innovative capabilities into its existing brands, thereby offering consumers a more diverse range of product choices. In summary, the acquisition of Tiffany by LVMH holds significant strategic importance for the group in terms of consolidating its leadership position in the luxury market and capitalizing on new market opportunities and growth potential. The article will mainly talk about the effect of LVMH's purchase of Tiffany&Co from three aspects, the acquisition motive of LVMH, the impact of acquisition on LVMH and Tiffany&Co. And the reason why this paper research LVMH because LVMH is one of the largest luxury groups in the world. Studying LVMH can help people understand the development trends of the luxury industry, market competition and brand management strategies. In addition, LVMH's performance and decisions also have a significant impact on the entire luxury industry, so studying LVMH can help people better understand and analyze the dynamics of the luxury market.

First of all, the author would explain the acquisition motive of the parent company, the LVMH.

As the author mentioned before, the LVMH always has poor performance in watches and jewelry than the other products. And the Independent brand Tiffany has also seen its performance decline since 2018. It is the desire of one side for the jewelry watch market and the desire of the other side for more effective management of the marketing market that prompted this acquisition led by the LVMH Group. But this is just a facade. LVMH's motives run deeper than that. There are several motivations behind the deal including but not limited to marketing strategy, diversity of the business portfolio, and competing with competitors by acquiring a strong brand in the luxury fields. However, gaining access to the high-end jewelry business and the U.S. market is the main goal LVMH is trying to achieve. Indeed, Tiffany&Co. has always been known for its profitability and brand, however, there is some possibility that LVMH will build a watch under the Tiffany name and other brands. Companies are often based on organic growth, an activity that uses the skills, knowledge, and financial resources they already have to develop new ones. Or inorganic growth, which is based on dimensional factors and usually achieved through different means, such as strategic alliances, joint ventures, and mergers and acquisitions. Leveraging M&A transactions as a growth tool for the external line has become increasingly important, even if it has never been characterized by a linear trend. [4] Brunelli, Michele. The acquisition of Tiffany by Lvmh. Diss. 2021.

2.1. Expanding the Market Share

As one of the world's largest luxury groups, LVMH has established an impressive portfolio of renowned brands that have become synonymous with elegance and sophistication. In addition to Louis Vuitton and Dior, LVMH owns a diverse range of prestigious labels spanning various sectors such as fashion, cosmetics, jewelry, and spirits. The acquisition of Tiffany by LVMH can indeed expand its share in the luxury market and enhance its competitiveness in the jewelry and watch industry. By acquiring Tiffany, LVMH can leverage the brand's strong reputation and global presence to strengthen its own position in the luxury jewelry market. Additionally, LVMH's acquisition of Tiffany can support its smaller businesses, such as Bulgari and Tag Heuer, by providing them with additional resources and opportunities for growth. This can help these divisions to further establish themselves in the market and increase their market share. Furthermore, the acquisition can also strengthen LVMH's presence in key markets like Asia and the United States. Tiffany has a significant presence in these regions, and by acquiring the brand, LVMH can leverage its operational expertise and global distribution network to drive synergies and cost savings in areas such as procurement, manufacturing and marketing. By utilizing the comprehensive strength of the LVMH Group, resources are shared to benefit each brand. This could improve the profitability and efficiency of LVMH and Tiffany, allowing for increased market penetration and growth opportunities [4].

2.2. Enhancing Brand Portfolio

Tiffany is a well-established and prestigious jewelry brand that is recognized worldwide for its unique design and quality. Most of LVMH's revenue comes from fashion and leather goods, select retail and high-end perfumes and cosmetics, with watches and jewelry contributing little to the total. In 1999, the LVMH Group acquired nearly 100% of Tag Heuer and subsequently acquired Bulgari to expand its portfolio. Branded jewelry is the fastest growing segment of the fine jewelry market. LVMH has been increasing revenue from its watch and jewelry business since 2000, but only in recent years has it contributed much. The acquisition of Tiffany&Co. is a strategic investment by LVMH Group to strengthen its weakest divisions in order to gain a competitive advantage over its competitors. LVMH said in a statement announcing the deal that Tiffany is a leading luxury brand originating in the United States and adding Tiffany to LVMH's portfolio will boost its watch division, which has Tiffany's signature on its watches. Tiffany&Co., which is classified as the Watch and jewelry division, has introduced a new line of gold jewelry in addition to its traditional silver jewelry line. Therefore, by acquiring Tiffany, LVMH can expand its brand portfolio to more high-end jewelry markets and further enrich its product line [5].

3. Impact on LVMH

The acquisition enables LVMH to enhance its presence in the upscale jewelry sector, leveraging Tiffany's well-established brand recognition. This strategic move is poised to bolster LVMH's market share and foster heightened competitiveness among luxury conglomerates. Following its integration into LVMH, Tiffany now faces intensified competition from Van Cleef & Arpels, a rival brand within the group. Moreover, they must contend with the emergence of a new luxury jewelry label under the umbrella of LVMH. Lower price points have the potential to attract consumers with moderate purchasing power. The acquisition could have implications for LVMH shareholders. However, the acquisition does not result in any dilution for LVMH shareholders as it does not reduce the number of shares. On the contrary, due to additional TIF purchases, there has been an increase in the value per share available to each LVMH shareholder. Essentially, while the number of shares remains unchanged, the earnings of LVMH have been augmented by TIF [6].

4. Impact on Tiffany&Co.

LVMH's expertise in managing and developing luxury brands is unparalleled. The company has a deep understanding of the luxury market and knows how to position its brands for success. With LVMH's guidance, Tiffany can expect to see significant improvements in its brand positioning, marketing strategy, and global presence. As part of LVMH, Tiffany will have a large resource pool, including financial operations and marketing capabilities. This will help Tiffany expand its global reach into new markets. LVMH's operational expertise in the supply chain contributes to Tiffany's operations to improve efficiency and save costs. LVMH can enhance Tiffany's brand value by improving its customer experience. From personalized shopping experiences to exclusive events and promotions, LVMH knows how to create an unforgettable customer journey. By implementing these strategies at Tiffany stores around the world, the company can increase customer loyalty and drive sales growth. LVMH can help Tiffany by expanding its product offerings. LVMH has a vast portfolio of luxury brands that offer everything from fashion and accessories to beauty products and home goods. By leveraging this expertise, LVMH can help Tiffany develop new product lines that appeal to a wider range of customers. LVMH's luxury expertise and renowned brand group will also contribute to Tiffany's research and development innovations, or introduce new and exciting projects, collaborations and collections.

5. Before the Acquisition

LVMH has a market cap of \$143 billion and a 2018 free cash flow of \$5.34 billion, making the acquisition almost three times the company's 2018 free cash flow. LVMH Group has maintained a low debt-to-equity ratio in the past, and the debt-service coverage ratio is satisfactory. The company plans to finance the acquisition entirely through short-term debt. LVMH will receive a bridge loan of \$8.5 billion, commercial paper of \$5.75 billion and revolving credit of \$2.2 billion. Buying Tiffany would also add \$1.85 billion to LVMH's debt pile. If Tiffany continues to operate at the same rate after the acquisition, LVMH's ratio of total debt to Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) will remain virtually unchanged after the acquisition. However, the amount of short-term and long-term debt on the company's books is increasing every quarter. In June 2019, LVMH's debt-to-equity ratio increased. [7] Tiffany is a long-established luxury brand known for its high-quality diamonds and jewelry. However, in some markets, particularly in Asia, Tiffany's brand positioning may be relatively weak. In the digital age, e-commerce and online sales have become important trends in the luxury industry. However, prior to LVMH's acquisition, Tiffany's online sales channels were relatively weak. Before LVMH bought Tiffany, the jewelry and watch industry was in recession. According to the Credit Suisse 2019 Global Wealth Report (2018 Global Wealth Report), the United States is now the country with the largest number of millionaires in the world, at 18.6 million, it is well ahead of second-place China (4.5 million) and third-place Japan (3 million). However, in such a consumer market with huge purchasing power, the presence of LVMH Group is quite limited: in the 2018 fiscal year, less than a quarter of LVMH Group's sales came from the US market, of which the jewelry and watch division's US market sales accounted for only 9% [8].

6. After the Acquisition

The acquisition of Tiffany, the iconic American jeweler, would profoundly transform LVMH's watch and jewelry division and complement LVMH's 75 renowned brands. [9] LVMH's acquisition of Tiffany is the largest merger in the luxury industry so far, which is bound to have a huge impact on this industry, and the trend of large collectivization in the luxury industry is becoming more and more obvious today. In the current globalization, the traditional family management and workshop production mode of luxury goods have been difficult to gain space in competition with large groups. If a single luxury brand cannot have a large size and global channels like Patek Philippe, nor can it be backed by a large mining group like De Beers, then to find a suitable large luxury group, from

capital to channels and other aspects of support, in order to better survive and develop. And even large groups will seek to leverage each other's resource advantages to gain better competitive strength. Although LVMH has never released specific performance data for Tiffany, from the continued high growth performance of the group's jewelry watch division this year, Tiffany's performance has recorded strong growth in the past year. In the nine months ended September 30, 2022, LVMH's jewelry and watch division sales increased 2.7 times year-on-year to 6.16 billion euros, an increase of 3.894 billion euros from the same period in 2020, while Tiffany's sales in the first nine months of 2020 were 2.3 billion dollars. However, Tiffany and LVMH still have problems such as cultural differences that take time to get used to. [10] After the acquisition, ownership of Tiffany will be transferred from the original company to the acquirer. This means that the acquirer will have decision-making power and control over Tiffany. The acquirer may adjust Tiffany's business strategy to fit its own strategic objectives and market needs. This may include changing product positioning, market positioning, sales channels, etc. The acquirer may adjust or reposition Tiffany's brand. They may introduce a new brand image, logo, or product line to enhance brand value or appeal to a new consumer segment. Tiffany's product line is relatively traditional and lacks some novel and innovative designs. This could lead to low interest in its products among the younger generation of consumers. LVMH may need to invest in product innovation to appeal to a broader consumer base. An acquirer may also bring a new corporate culture and values, which could have an impact on Tiffany's employees and organizational structure. Employees may need to adapt to new ways of working and management styles. Tiffany's supply chain management may need improvement. Especially in the procurement and production of diamonds and jewelry, it is essential to ensure the quality and traceability of the products. LVMH may need to strengthen the management and monitoring of the supply chain to ensure product quality and sustainability.

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