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LEGAL/PRIVACY

Key takeaways from the Hermès and LVMH legal battle

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Hermès fall/winter 2014 ad campaign

By SARAH JONES

The settlement of the feud between luxury conglomerate LVMH Moët Hennessy Louis Vuitton and leather goods maker Hermès benefits both parties, but what does it mean for other independently-owned luxury brands?

After battling to retain control of its company against LVMH, Hermès finally got the resolution it asked for years ago: for LVMH to reduce its amount of shares of the label. Even though this particular acquisition has been put to rest, it may resurface over time.

“I think it will allow both sides to reset the relationship,” said Brian Igel, founding partner at Bellizio + Igel Pllc., New York.

"The settlement prevents LVMH from increasing its stake in Hermès for the next five years, which gives the parties plenty of time to discuss a future merger or other special relationship without the specter of a hostile takeover looming in the background," he said.

"Importantly, it also provides the necessary time for the new generation to perhaps convince the old guard that a merger is in everyone’s best interests."

Mr. Igel is not affiliated with Hermès or LVMH, but agreed to comment as an industry expert.

Hermès did not respond by press deadline, and LVMH was unable to comment directly.

Resolution
After a four year legal dispute, LVMH and Hermès have signed an agreement to dissolve LVMH's stake in the brand.

LVMH will distribute all of its Hermès shares to its own stockholders, eliminating the company's 23.2 percent stake in the brand's business.

"The solution will result in a profit to LVMH of approximately $3 billion euros," said Rania Sedhom, managing partner at Sedhom & Mayhew, Pllc., New York. "Moreover, after the share distribution, Groupe Arnault, LVMH will still own north of 8 percent of Hermès.

"It is not customary to have a settlement yield a net win for both parties, but this settlement surely does."

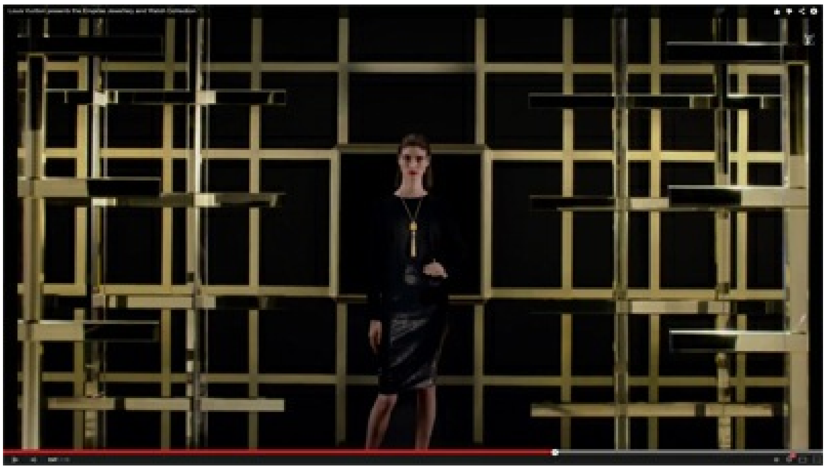
The disagreement began in 2010, when LVMH publicly acknowledged it had accumulated a 17.1 percent stake in Hermès through equity derivatives rather than direct purchases. This meant that the conglomerate was not required to declare its acquired shares.

Bulgari ad in WSJ. magazine; LVMH acquired Bulgari in 2011

When LVMH did announce its stake in the company, it spurred speculation of a bid to take control of the family-run brand, even though it said at the time it was not seeking a place on the board (see story). This produced anxiety for Hermès, which decided to consolidate its shares in a holding company to prevent further stock buys from LVMH, and retain family ownership (see story).

A few months later, news broke that LVMH then had more than a 20 percent stake in the company, which made Bernard Arnault the largest individual stakeholder in the company (see story).

In 2011, Hermès chairman Bernard Peuch asked LVMH publicly in an article published in French magazine Le Figaro to decrease its stake in the company by 50 percent, lowering it to 10 percent of shares (see story).



Video still from Louis Vuitton Emprise Watch

After fending off LVMH's advances, Hermès filed a complaint against the conglomerate, escalating the disagreement to a legal dispute. Hermès claimed that LVMH was guilty of "insider trading, collusion and manipulating stock prices."

LVMH shot back with its own lawsuit the same day against Hermès for "blackmail, false accusations and false competition" (see story).

The Autorité des marchés financiers (AMF) probed the process by which LVMH acquired so much Hermès stock. When LVMH tried to get the investigation expunged, the AMF suggested the maximum fine of $13.05 million for failure to disclose the share acquisition (see story).

This was followed by a second lawsuit against Hermès from LVMH, this time aimed at an individual manager for libel (see story). Hermès fired back with its own lawsuit to attempt cancelling the complex derivatives that allowed LVMH to acquire shares.

Hermès spring/summer 2014 campaign image

LVMH was eventually fined $10.4 million by the AMF and agreed to pay the penalty rather than fight it (see story).

The issue of LVMH's large stake in Hermès remained unresolved until the announcement of the redistribution of shares on Sept. 3. LVMH will distribute its shares in the brand to its own shareholders.

LVMH's largest shareholder, Dior, will then disperse its Hermès shares to its stockholders. This redistribution must be completed by Dec. 20, 2014.

Dior fall/winter 2014 ready-to-wear campaign

After this is completed, Groupe Arnault will have an 8.5 percent control in Hermès. For the next five years, LVMH, Groupe Arnault and Dior have agreed to not acquire any more Hermès shares.

With this agreement signed by both parties, all of the former legal battles also end.

“The most important court may very well be the court of public opinion," Mr. Igel said. "Legal battles which play out in public often end up having unintended consequences.

"It should not be lost on anyone that Hermès shares took a bit of a hit yesterday, falling more than 3 percent when word of the settlement got out," he said. "That’s because the takeover, and the resulting bid premium that would have gone with it, just disappeared."

Money monitoring
For independent luxury brands similar to Hermès, there is a learning opportunity.

"Equity swaps allow investors to bet on a stock’s value without actually owning shares," Ms. Sedhom said. "Investors can, for example, enter into swap arrangements with a bank in return for a fee.

"Many equity swaps exist in order to assist companies with debt issues," she said. "For example, a company’s creditors may agree to cancel a portion or all of a company’s debt in exchange for stock. Equity swaps may also be entered into for tax benefits.

"Since equity swaps are available to private companies, small luxury brands may want to more closely consider their investors and shareholders and to bolster their relationships with them. Moreover, small luxury brands should closely monitor their spending and maintain healthy balance sheets.

"Many start-ups often seek too large or too little an influx of cash. It may be beneficial to determine more carefully the amount of money needed, and grow at an organic, rather than aggressive, pace. Overleveraging may end in a bad result."

Final Take
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