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JEWELRY

What does LVMH and Tiffany's battle mean for the luxury industry?

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The tussle between LVMH and Tiffany is just one of a series of abandoned transactions in the midst of the global COVID-19 pandemic, albeit, one of the most high profile. But what are the wider implications for the luxury market, as a whole?

When LVMH announced that it could no longer go ahead with its planned acquisition of Tiffany earlier this month, it sent shockwaves across the whole of the luxury industry. The deal, which was estimated to be worth $16.2 billion, would have represented the largest global investment in the luxury sector and was seen as hugely beneficial for both companies involved.

"It seemed to be a perfect marriage," said Robert Burke, chairman/CEO of consulting firm of luxury consultancy Robert Burke Associates. "They were going to be stronger together than separately and there were benefits on both sides. Everyone was excited about this acquisition because it would have been the biggest-ever global luxury investment. At $16.2 billion, it was something that got everyone's attention."

For Tiffany, whose shares fell 10 percent on the news of a failed deal, it would have meant it could focus more on long-term investment of its stores, brand image and exploring new product categories as well as using LVMH's expertise to expand in the Chinese market.

For LVMH, Tiffany represented an iconic American brand long-coveted by its CEO, Bernard Arnault, that would help strengthen its positioning in hard luxury and add to its portfolio of brands that include Bulgari and Tag Heuer.

So, when an agreement did come into place in November last year, after months of talks between the two companies and several raised offers by with LVMH, it was a move that was widely celebrated.

However, on Sept. 9, the French conglomerate said it could not go through with the deal, citing a letter by the French government asking it to delay to the takeover due to tariff threats from the United States and Tiffany's weak performance due to the global COVID-19 pandemic.

The jeweler responded by suing LVMH on the grounds that LVMH was seeking to still acquire Tiffany but at a lower price than what was previously agreed. Needless to say, relations between the two turned sour.

Disrupted market

The tussle between the two companies is just one of a series of abandoned transactions in the midst of the global COVID-19 pandemic, albeit, one of the most high profile.

Earlier this year in May, L Brands, the owner of lingerie brand Victoria's Secret, called off its $525 million deal with private equity firm Sycamore Partners that would have seen Sycamore acquire a majority stake in Victoria's Secret.

Both parties filed lawsuits against each other, but agreed to walk away in May.

"The pandemic has disrupted the mergers and acquisitions market," said Neil Saunders, managing director at GlobalData Retail, a retail research agency and consulting firm.

"Certainly, anyone that made an agreement before the pandemic hit is exploring ways that reduces what they pay or perhaps pulling out or delaying because the fundamentals of a lot of businesses are really changed quite drastically," he said.

"It's not surprising that people perhaps want to try and get out of clauses from agreements that they have already signed. We are in very unusual times. And I think the pandemic has become an excuse for trying to back out of deals."

Certainly, the luxury market has faced a difficult year so far.

According to research by Bain & Company, luxury could contract between 20 percent and 35 percent in 2020, depending on the speed of the recovery. And while both parties have suffered due to the effects of COVID-19, Tiffany posted a 36 percent fall in sales in the first half of the year while LVMH said it saw a 27 percent drop in revenues in the same period, the implications of walking away from the deal can be weathered.

Disruptive but not destructive

"It's more disruptive than destructive for either company," Mr. Saunders said. "For LVMH, other than racking up legal costs and perhaps some ill-will and not getting its hands on a prize that it has long since coveted, it doesn't really mean that much. It's not a disaster for LVMH by any stretch of the imagination.

"For Tiffany, it's more serious because Tiffany could benefit from being part of a larger group," he said. "It has done some very good things on its own but Tiffany could benefit from being part of a larger luxury group. But if it didn't go through, it wouldn't be the end of the world for Tiffany.

"Tiffany has still got a lot of good, underlying brand value. It still has a good view of where it wants to move itself in terms of strategy and customers and so it will just really have to go back to pursuing its ambitions as a standalone company and perhaps looks for another buyer."

It is a view shared by Mr. Burke.

"At the end of the day, Tiffany will be OK," Mr. Burke said. "It's one of the few globally recognized luxury jewelry brands which I believe can even go even more luxury and has potential.

"And in other ways, this puts a flag out there to say that Tiffany has been open to be acquired, so let's see if this means that a company like Kering starts to look at the opportunity," he said.

"I'm not sure that Richemont has the appetite but certainly, it is clearly known now that Tiffany is open to the right acquisition."

While the two parties prepare for trial, which is set for Jan. 5 next year after the Nov. 24 deadline that the deal was expected to close what impact will the failed merger may have on the wider luxury market in terms of consolidation?

"It certainly could go either way," Mr. Burke said. "Luxury has certainly been hit, the economy has been hit and fashion goods have been hit, but luxury is proving to be the first to come back, within the consumer goods category."

"I do think that there will be more consolidations because for the right partnerships or acquisitions, there are a lot of upsides and strengths," he said. "And it seems as if the big brands and big groups are only getting bigger and stronger. So, I don't see a slowdown."

However, where investment may come from is a different matter.

"A lot of the interest in terms of buying some of these things is coming from outside of retail, it's from investors, property companies, maybe private equity who are looking for distressed assets for very good prices because they believe there is something they can do with them longer term," Mr. Saunders said.

"We are going to see a dearth of retailers on retailer deals for the next year or so," he said. "The interest will really come from outside the retail world, investors and private equity and property companies and others who have got cash to spend and want to get into the retail market.

"[For retailers] I think there isn't the cash there to do it and I don't think any of these groups really want to take the risk of buying other brands that are also struggling. It just doesn't make any sense at all."

Fierce competition

And while larger brands and companies may be able to ride out the uncertainties of the global COVID-19 pandemic on their businesses, smaller brands may suffer.

"I do think it's going to be really hard for smaller brands," Mr. Burke said. "There will be niches for them to fill, but when you look at Kering and LVMH, they have built these powerhouses that are just so dominant in the market.

"There are a lot of advantages in being part of a very big group with big budgets that can produce major shows globally, be able to market a brand globally, which is very hard for independent brands and there are becoming fewer and fewer big independent brands," he said. "The competition has been fierce for the customer's attention."

Indeed, there are still very big opportunities for the smaller brands long-term, Mr. Saunders said. "But I think all the movement in the market is very disruptive to luxury as a whole.

"The whole luxury segment is in a state of flux," he said. "It is in a state of flux because demand is up and down in an unprecedented way, some of the traditional overseas markets that drive growth, some of the European and American companies have very variable performances now, there are lots of external issues like tariffs that are having an impact and on top of that, you have uncertainty with some of the luxury goods players."

"It's a very fluid market. And really, we are not going to go onto stable ground until 2021 at the very earliest and I think that is really unhelpful for all of the players, big and small.

"The smaller players probably don't have the financial robustness of some of the larger groups in terms of access to capital and cash and borrowing facilities to see them through. So, it is quite worrying for some of those smaller groups."

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