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JEWELRY

LVMH's revised deal for Tiffany & Co. may hint at luxury recovery

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After months of negotiations, LVMH has revised its deal to buy Tiffany for $15.8 billion. Image credit: Shutterstock

By ELLEN KELLEHER

French luxury conglomerate LVMH's updated deal to buy Tiffany & Co. at the reduced price of $15.8 billion is being met with enthusiasm as industry experts say it suggests CEO Bernard Arnault is seeing tepid signs of recovery in the wider luxury market.

Under the new agreement's terms, LVMH Mot Hennessy Louis Vuitton will get a steep discount and pay $131.50 per share for the beloved U.S. jewelry maker, which knocks more than $400 million off the price of its original $16.2 billion offer of $135 per share. After a tempestuous battle, Mr. Arnault's decision to go back to the drawing board and sign up again for the marriage signals that LVMH is betting that Tiffany will help to anchor its efforts to advance in Asia.

"[As] the main engine of luxury, China continues to be robust," said Milton Pedraza, CEO of the Luxury Institute, New York. "So, [LVMH has] more confidence in following through on the acquisition.

"This signals that LVMH is seeing the marketplace recover," he said.

Marriage at last

After months of negotiations, the new agreement puts an end to a legal spat between the two companies that was set to culminate in a January trial.

In a statement from LVMH, the luxury group revealed both sides have agreed to settle their pending litigation in Delaware Chancery Court (see story).

The revised acquisition is now scheduled to be completed in early 2021, and is still subject to approval by Tiffany's shareholders.

The Tiffany store in Shanghai's Hong Kong Plaza was renovated last year. Image courtesy of Tiffany & Co.

Some industry experts argue that LVMH's decision to step away from the table in September was a negotiating tactic.

"LVMH leveraged the pandemic," said Chris Ramey, founder of the consultancy group The Home Trust International, Palm Beach. "Its desire to own Tiffany likely never wavered."

The Luxury Institute's Mr. Pedraza agreed.

"They had paid a hefty price for Tiffany," he said. "When the economics changed they had to find a way to re-negotiate the price."

LVMH are experts in talent management and deployment once they acquire a brand. The expectation is that the conglomerate will transform Tiffany into a critical piece of its empire just as it did Bulgari, which it acquired back in 2011.

With the help of LVMH, Bulgari managed to double sales since 2011 and saw profits increasing fivefold, Mr. Arnault said in 2019 (see story).

"Bulgari was a good brand, but with new management and capital from LVMH and more sophisticated marketing and selling techniques, they transformed it into a higher-performing brand at LVMH," Mr. Pedraza said. "They see that potential in Tiffany."

LVMH already owns 75 iconic brands that range from cosmetics, retail, leather goods, ready-to-wear, to wines and spirits and hospitality, but the acquisition of Tiffany's is the most expensive deal ever made by the group. Bulgari was acquired for $5.2 billion in 2011 (see story).

The jewelry group Bulgari has been a great success for LVMH. Image courtesy of Starboard

Its decision to tie the knot with Tiffany is part of a brand-buying spree designed to fulfill its intention of dominating not just leather goods and apparel but also high-end hospitality, through Belmond, and travel, with Rimowa (see story).

Arguably, LVMH's specialty is taking in heritage brands, spiffing them up and then sprinkling their expertise on other LVMH businesses without damaging the overall equity.

With its powerful presence in Asia, Tiffany also holds potential for LVMH as it banks on growth from China, now arguably the most important luxury market.

"Tiffany is an American luxury brand with close to 140 doors throughout the fastest-growing markets in Asia-Pacific and Japan," Mr. Ramey said.

In addition to bolstering LVMH's jewelry portfolio, the marriage also gives the group a greater foothold in the U.S. market.

"Tiffany will help LVMH's total sales in the U.S. as Tiffany has a large presence in the U.S. and substantial U.S. revenues," said Bob Shullman, founder and CEO of the Shullman Research Center, Greenwich, CT.

In a record-breaking 2019, the U.S. accounted for 24 percent of LVMH's total sales, while the group's watches and jewelry sector saw 7 percent growth on a reported basis (see story).

"We are as convinced as ever of the formidable potential of the Tiffany brand and believe that LVMH is the right home for Tiffany and its employees during this exciting new chapter," Mr. Arnault said in a statement.

Long courtship

The relationship between LVMH and Tiffany is a complicated one, as the original agreement to acquire the 183-year-old jewelry company for $16.2 billion in cash was struck back in November 2019.

It was not until earlier this week that reports emerged that LVMH and Tiffany & Co. had resumed acquisition talks (see story), after a legal battle had ensued between both companies.

After LVMH backed out of the deal in early September, citing concerns over potential U.S. tariffs, Tiffany filed suit to enforce the merger.

Among Tiffany's accusations was that the French conglomerate had not been assertive about receiving governmental approvals for the deal, including the European Union. Meanwhile, LVMH claimed that the "highly profitable" jeweler it had planned to purchase "no longer exists" due to mismanagement during the pandemic (see story).

At day's end, Mr. Arnault's principal intention in buying Tiffany appears to be a simple one: to mold the brand into a highly profitable piece of the LVMH empire.

"It will be a much bigger and more profitable brand over time," Mr. Pedraza said. "[LVMH does] invest in culture and talent.

"[LVMH leadership] will put capital into Tiffany and people into it," he said. "They will figure out how to grow its conversion and retention rates and its share of wallet."

"Those are skills that LVMH has."