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Analysis on the Impact of the Acquisition of LVMH and Tiffany & Co

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ABSTRACT

On the 7th of January 2021, a famous acquisition deal in the luxury industry was completed, the acquisition of LVMH-Tiffany & Co., which turned out to be the largest acquisition deal in history. What are some of the insights behind this deal? What kind of impacts this deal will have on the luxury industry? Is this deal going to have any positive or negative impacts on LVMH or Tiffany's jewellery and watches division? This paper provides an overall analysis of the acquisition deal and specifically focuses on the financial performance of LVMH after the acquisition, the motivation behind this deal, and the impacts on the future of LVMH and Tiffany & Co.'s jewellery and watches business. After a set of measurements, it is clear that Tiffany has contributed to the watches and jewellery sector of LVMH's portfolio largely by increasing the revenue percentage of the product segment. 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, having the access to high-end jewellery business and the American market is the main goal that LVMH was trying to achieve. Indeed, Tiffany & Co. has been profitable and known for its brand name, however, there are some possibilities that LVMH will build a watchhouse with Tiffany's name and other brands.

Keywords: *LVMH, Tiffany, Acquisition, Horizontal Analysis, Jewellery Business*

1. INTRODUCTION

Acquisition, a new strategy that plays an important role in modern business expansion. Normally, the acquisition happened to be linked with strategic operations and the future growth of two different firms. Both companies' demand and interests will be satisfied once the acquisition is completed and acquiring company can move forward to the new market. As this is by far the largest acquisition deal in the luxury industry, there are a load of studies that research the advantages, disadvantages, and reasons that LVMH can continue leading the luxury business by acquiring companies that can fulfil its weak sector. This paper aims to provide an overall analysis of the effect on the acquisition deal of LVMH-Tiffany & Co. By examining the financial performance and motivation of the deal, the findings will tell the effects of two companies since the completion in January from the perspective that why this deal is necessary and the incentives behind it. The discussion will further explain the influences of this deal on Tiffany & Co. and its watches sector from the perspective of stamped Tiffany watches. It is necessary to research this acquisition deal since LVMH carries the leadership position in the luxury business and its single corporate movement can lead to a large impact on the luxurious industry.

The acquisition can be seen as a business or finance term, but it is often referred to as a corporate strategy when it comes to business expansion. The first merger and acquisition wave occurred little after the depression of 1883 which the business tried to survive the hardship of the economy through different times by acquiring other companies or mergers with its competitors to take a bigger advantage in the market. In simpler words, the business can achieve higher goals by combining resources from different enterprises and industries.

Since 1987, LVMH started its business expansion by acquiring other luxury businesses [1]. It has acquired watches, jewellery, leather-made clothing, and all sorts of perfume and cosmetics companies. As the LVMH develops and acquires more companies, it slowly and surely has become the largest luxury company in the world; every business strategy on the global scale is important and meaningful to the luxury and other relevant businesses in the world. It is quite important that we ought to understand the meaning behind the acquisition of Tiffany by LVMH because the acquisition itself is a very strategic move in which LVMH is going to achieve something by adding Tiffany & Co. into its portfolio. Understanding the impacts this deal will have on both companies, LVMH and Tiffany & Co., as well as the luxury business is somewhat essential for those investors and retailers.

Thousands of acquisitions happen in different industries and businesses, the biggest acquisition deal in the luxury industry can lead to some interesting findings and insights. The research and study are merely focused on the company and luxury industry, but there is no doubt that the research and study have used the references from alternative papers that have previously conducted the research and analysis on the luxury business, acquisition that is relevant to LVMH and Tiffany & Co., and acquisition in the luxury industry.

The acquisition of LVMH-Tiffany & Co. has deeply affected both companies and the luxury industry, especially in the watches and jewellery sector. This acquisition deal is going to strengthen LVMH's high-end luxurious jewellery business and expand its presence in the American market [2]. The deal will not only bring in more organic revenues, but also increase the percentage of the watches and jewellery division of the business portfolio. In addition, the LVMH can also use its resources and capability to build a watch-house to produce more co-branded watches with Tiffany's brand name. By adding Tiffany & Co. to its portfolio, LVMH can be more competitive and have more advantages in the watches and jewellery market.

2. FINANCIAL PERFORMANCE

2.1 Horizontal Analysis

Horizontal Analysis is sometimes referred to as Trend Analysis, it is an analytical tool that allows investors, business managers, and analysts to see what has been driving a company's financial performance over a specific number of accounting periods and to spot trends and growth patterns.

Table 1. Income statement of LVMH [3]

	30-Jun-21	31-Dec-20	30-Jun-20	Change (Jun-21 vs Dec-20)	% Change (June-21 vs Dec-20)
Sales/Revenue	$28,665	$44,651	$18,393	$(15,986)	-36%
Cost of Sales	$(9,109)	$(15,871)	$(7,002)	$6,762	-43%
Gross Margin	$19,556	$28,780	$11,391	$(9,224)	-32%
Selling, General, and Administrative Expenses	(11,903)	(20,433)	(9,699)	8,530	-42%
Income/(Loss) from joint ventures and associates	(21)	(42)	(21)	21	-50%
Profit from Recurring Operations	7,632	8,305	1,671	(673)	-8%
Other Operating Income and Expenses	(34)	(333)	(154)	299	-90%
Operating Profit	7,598	7,972	1,517	(374)	-5%
Cost of net Financial Debt	11	(35)	(46)	46	-131%
Interest on Lease Liabilities	(140)	(281)	(149)	141	-50%
Other Financial Income and Expenses	117	(292)	(267)	409	-140%
Net Financial Income/(Expenses)	(12)	(608)	(462)	596	-98%
Income Taxes	(2010)	(2409)	(511)	399	-17%
Net Profit before Minority Interests	5,576	4,955	544	621	13%
Minority Interests	(287)	(253)	(22)	(34)	13%
Net Profit, Group share	5,289	4,702	522	587	12%
Operating Profit Margin	27%	18%	8%		

The financial performances are the most important element of an acquisition deal because it provides the direct sign of the impact of this acquisition in terms of whether this deal is reasonable or has been sensible yet. According to the horizontal analysis of the income statement above, given the challenge time of covid throughout the entire year of 2020 and first two quarters of 2021, most of the percentage changes on the income statement are negative; however, the net profit before minority interests and net profit has increased for 12% for the first half-year of 2021 after the integration of Tiffany & Co.

Another point worth mentioning is that the operating profit margin has increased a lot semiannually from June 2020 to December 2020 even though the Covid-19 hit the world, resulting from 8% to 18%. Additionally, the operating profit margin has increased from 18% to 27% during the first half-year of 2021 after acquiring Tiffany & Co., which indicates that there are more consumers are willing to purchase luxury goods with the acquisition of the American iron brand Tiffany & Co.

Table 2. 2021 organic revenue change by business group and by quarter [4]

2021 vs 2020	Q1 2021	Q2 2021	H1 2021	Q3 2021	9M 2021
Wines & Spirits	+ 36%	+ 55%	+ 44%	+ 10%	+ 30%
Fashion & Leather goods	+ 52%	X 2.2	+ 81%	+ 24%	+ 57%
Perfumes & Cosmetics	+ 18%	+ 67%	+ 37%	+ 19%	+ 30%
Watches & Jewelry	+ 35%	X 2.2	+ 71%	+ 18%	+ 49%
Selective Retailing	- 35%	+ 31%	+ 12%	+ 15%	+ 13%
Total LVMH	+ 30%	+ 84%	+ 53%	+ 20%	+ 40%

Table 3. 2021 organic revenue change by business group and by quarter [4]

2021 vs 2019	Q1 2021	Q2 2021	H1 2021	Q3 2021	9M 2021
Wines & Spirits	+ 17%	+ 7%	+ 12%	+ 7%	+ 10%
Fashion & Leather goods	+ 37%	+ 40%	+ 38%	+ 38%	+ 38%
Perfumes & Cosmetics	- 4%	- 1%	- 3%	0%	- 2%
Watches & Jewelry	+ 1%	+ 9%	+ 5%	+ 1%	+ 4%
Selective & Retailing	- 30%	- 19%	- 25%	- 19%	- 23%
Total LVMH	+ 8%	+ 14%	+ 11%	+ 11%	+ 11%

Tiffany & Co. has performed extremely well since its acquisition, which has contributed a lot to the Watches and Jewelry section of the portfolio. Table 2 has shown the organic revenue change by business group and by quarter, indicating that organic revenue has increased 49% in Watches & Jewelry in nine months in 2021 which is the second to the Fashion & Leather Goods. The year 2020 seems unusual and often be seen as a crash for most business sectors, the huge percentage of increase in organic revenue can be a rebound for the market as there are more vaccines and Covid-19 and less strict social distancing rules on citizens.

As the approval of the LVMH-Tiffany & Co. deal is on November 24, 2019, comparing the organic revenue change between 2021 and 2019 seem more appropriate. With the acquisition of Tiffany & Co., the organic revenue of the Watches & Jewelry has increased 4% in nine months which is not a bad sign since the consumers are less willing to spend money on purchasing luxury goods when Covid-19 is not completely away. What is more, a lot of people have been laid off since the Covid-19 which results in less desire of purchasing the unessential goods.

Table 4. 2021 organic revenue change by region and by quarter [4]

2021 vs 2020	Q1 2021	Q2 2021	H1 2021	Q3 2021	9M 2021
United States	+ 23%	X 2.1	+ 60%	+ 28%	+ 48%
Japan	+ 8%	X 2.1	+ 42%	+ 15%	+ 31%
Asia (excl. Japan)	+ 86%	+ 55%	+ 70%	+ 12%	+ 47%
Europe	- 9%	+ 87%	+ 25%	+ 23%	+ 24%
Total LVMH	+ 30%	+ 84%	+ 53%	+ 20%	+ 40%

Table 5. 2021 organic revenue change by region and by quarter [4]

2021 vs 2019	Q1 2021	Q2 2021	H1 2021	Q3 2021	9M 2021
United States	+ 15%	+ 31%	+ 23%	+ 22%	+ 23%
Japan	- 3%	- 4%	- 3%	- 6%	- 4%
Asia (excl. Japan)	+ 26%	+ 34%	+ 30%	+ 26%	+ 29%
Europe	- 18%	- 15%	- 16%	- 6%	- 13%
Total LVMH	+ 8%	+ 14%	+ 11%	+ 11%	+ 11%

The iconic US jeweller, Tiffany & Co., is known for its luxury goods, particularly its sterling silver jewellery and diamond. The acquisition of Tiffany & Co. will furthermore be beneficial for the geographical expansion of both companies. LVMH will grow its presence in the USA since Tiffany & Co. is the leading luxury retailer in America. Given the fact that most economists consider the year 2020 to be a temporary downturn of the economy, it is expected that the organic revenue changes in different regions are significant. The United States has the largest percentage of organic revenue change in 9 months in 2021 which has increased 48% when compares to 2020, the following is Asia (excluding Japan) which has increased by 47%. The result of total LVMH has increased 40%.

Comparing 2021 versus 2019 seems a bit reasonable since it's the pre-covid year. There are decreases in organic revenue changes in Japan and Europe in 9 months by - 4% and - 13%, however, the changes remain to increase in the United States and Asia (excluding Japan) in 9 months by + 23% and + 29%, which results in the increase of + 11% for the total LVMH. Therefore, it is certain that acquiring Tiffany & Co. has added strong weights to the portfolio for LVMH in selling watches and jewellery in United States.

3. MOTIVATION

LVMH has a diverse range of brands in Wines & Spirits, Fashion & Leather Goods, Perfumes & Cosmetics, Watches & Jewelry, and Selective Retailing. The LVMH calls Tiffany the leading luxury brand originating in the United States in a statement announcing the deal, the integration of Tiffany into LVMH's portfolio is going to boost its watch division with the Tiffany-signed on the watch. The deal of acquiring Tiffany & Co. is designed to bolster LVMH's smallest business, the jewellery and watch division that is home to Bulgari and Tag Heuer and help it expand in one of the fastest-growing areas while also strengthening its US presence. Tiffany & Co. has been categorised in the watches and jewellery division and has launched a new collection of gold jewellery besides the traditional silver collection of jewellery.

Most of LVMH's revenue is earned from Fashion & Leather Goods, Selective Retailing, and high-end Perfumes & Cosmetics which the Watch & Jewelry has a very tiny contribution to the total revenue. The LVMH acquired nearly 100% of shares in Tag Heuer in 1999 and later acquired Bulgari to enhance its portfolio [5]. Branded jewellery is the fastest-growing segment of the fine jewellery market. LVMH has increased its watches and jewellery segment revenue since the year 2000, it does not have many contributions until recent years. The acquisition of Tiffany & Co. is a strategic investment which the LVMH want to enhance its weakest division to take a competitive advantage over its competitors; as Cannikin Law suggests in the modern management science, a bucket's capacity is determined by its shortest stave, therefore, the most effective method is to acquire the leading watch and jewellery brand in the existing market to fulfil its need. Tiffany is known for its wedding and bridal segment which is huge in America and getting more popular in Asia, it is clear the United States and Asia (Excluding Japan) are two areas that have a similar and significant increase in organic revenue changes in 9 months.

4. DISCUSSION

LVMH has many competitors, top one includes CHANEL, Calvin Klein, Burberry, BCBG, and Richemont. These companies are retailers that have a similar product line as LVMH, which are known for luxury, accessories, clothing, jewellery, and cosmetics. The percentage of total revenue by product segment can be seen in Figure 1 and Figure 2, the watches and jewellery of LVMH are about 8.5% before the acquisition of Tiffany & Co., however, it can be increased to 14.8% by 6.3% after the acquisition. In short, the deal will increase the weight of watches and jewellery in LVMH's portfolio. This is the essential reason that LVMH acquired Tiffany & Co., to strengthen the watches and jewellery division.

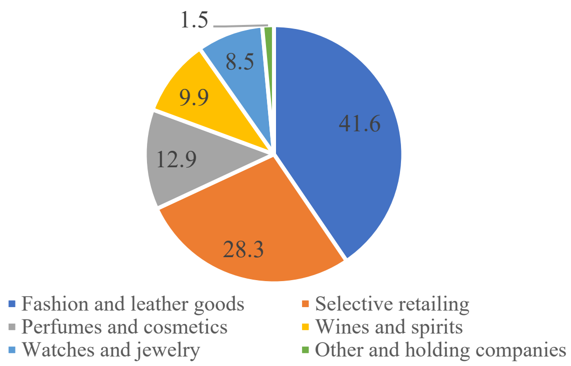

Figure 1 LVMH: product mix percentage of total revenue by product segment (%) [6].

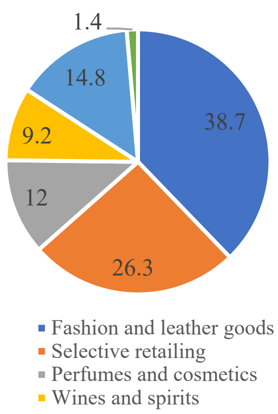

Figure 2 Tiffany & Co: product mix percentage of total revenue by product segment (%) [6].

Tiffany & Co. always has been a jewellery house throughout its history, more than 90% of its worldwide net sales are coming from jewellery, which means there are only 10% of its worldwide net sales are coming from watches [7]. However, Tiffany & Co. is quite expensive than it is supposed to be despite the fact it has amazing products. People will accept the expensive price for the brand name, Tiffany & Co., as high-end jewellery because jewellery has been seen as the portable decoration that shows class and elegance throughout history; however, it is not necessary the same for the watches because there are still several people consider watches as a practical tool of checking time without having any luxurious value attached on it. Therefore, people who are willing to spend money on purchasing luxurious watches with high-end value are limited to certain people.

Throughout the history of Tiffany & Co., it has come to an agreement and partnership that it would display and market the watches, and other watch brands would serve as a watch-house to produce, design, service, and distribute the watches. Therefore, these watches at Tiffany stores are stamped with the “Tiffany” logo [8]. Tiffany & Co. had many partnerships with many watch brands, however, there is only one brand that remains the partnership with Tiffany & Co. after Swatch group ends the partnership with Tiffany & Co [9]. With the rise of social media and digital media, people start to realise that they can buy the special Tiffany & Co. Patek at five Tiffany stores in the world which causes the Patek retailers to lose large amounts of sale volume as customers can easily purchase a special version of the watch from one specifical Tiffany store. Nevertheless, Tiffany & Co. sell more Patek watches at their retail stores than any other retail store in the world due to Tiffany stamp Patek, additionally, acquiring Tiffany & Co. might cause Patek to end the relationship with Tiffany & Co. which will increase the value of existing Patek watches and those at Tiffany stores tremendously. Because there will not be any manufacturing lines of Patek watches with Tiffany & Co. stamp and demands for Patek watches with Tiffany & Co. will make those existing Tiffany & Co. stamp Patek watch extremely valuable. Another possibility is that the watches will be as important as value because LVMH and Tiffany & Co. are going to stamp everything with the watches. The relationship between Tiffany and its co-brand watches is questionable after the acquisition, LVMH can use its capacity and resources to redefine Tiffany’s watch; additionally, it does not hurt its revenue that much as the watch is not the largest sector of its portfolio. LVMH currently has 8 brands for the watches and jewellery division, and it is also possible that it integrates different brands into one giant brand where it has different features and techniques of each brand.

5. CONCLUSION

This paper will be beneficial to those researchers and investors who are interested in investing luxury industry. The study has revealed the impacts of the acquisition deal of LVMH, and Tiffany & Co. and the findings are demonstrated in various ways, which are the analysis of financial performance, the incentive of conducting this deal, and what this deal means to the LVMH and Tiffany watches in the future. It is discovered in the paper that the acquisition of Tiffany & Co. by LVMH is a wise choice and very meaningful from the strategic investment perspective. LVMH has been able to increase the revenue percentage shares of jewellery and watches section of its overall revenue, the percentage shares of sale volume in the American market have increased as well. Tiffany & Co. is not only strong in the high-end sector but also particularly strong with low-end products [10]. The main reason for this acquisition is to expand LVMH’s standing in the high-end jewellery sector and American market so that it can have competitive advantages over its competitors. The deal will have significant impacts on the luxury industry, and it carries out a few meanings for both LVMH and Tiffany & Co., as well as the high-end jewellery and watches sector. The value of Tiffany stamped Patek watches may skyrocket as a result of Tiffany’s watch line reformation, which will undoubtedly affect those relevant businesses and individuals with an interest in high-end watches.

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