

Date: November 5th, 2024

From: Sharvil Jadon, Yonggy (Brian) Park, Ariel Qi, Branden Soo and Travis Zeng

To: Scott Abrams

Re: LVMH Tiffany Case

What is the situation that LVMH faces? What about Tiffany & Co.?

By increasing Tiffany's margins and boosting sales, LVMH views the acquisition of Tiffany & Co. as a calculated move to increase its market share in the luxury jewelry industry and spur financial growth. By increasing Tiffany's operational effectiveness, maximizing marketing, and utilizing its vast worldwide distribution network, LVMH thinks it can achieve huge synergies. It is anticipated that these synergies will boost Tiffany's growth rate and profitability, particularly in foreign regions where LVMH is well-established. Financially speaking, the acquisition gives LVMH the chance to increase sales and margins, which might increase overall returns and firmly establish the company's dominance in the luxury market.

What are LVMH's strengths and weaknesses? What are the strengths and weaknesses of Tiffany's?

The financial strengths of LVMH include its wide range of premium brands, global reach in more than 70 countries, and robust profitability, all of which work together to generate a consistent flow of income and lower risk through diversification. However, it is susceptible to shifting consumer tastes and economic downturns that may affect luxury expenditure due to its reliance on the fashion and leather goods sectors. Conversely, Tiffany & Co. enjoys the benefits of a well-known brand and a well-established international retail network, which generate steady income and a devoted clientele. Its premium price points, strong emphasis on jewelry sales, and brand image may make it difficult to draw in younger customers, which could hinder long-term growth and market accessibility.

Is this a merger that makes sense?

Both LVMH and Tiffany & Co. stand to gain financially and strategically from this deal. By purchasing Tiffany, LVMH will be able to increase its market share in the rapidly expanding luxury jewelry industry, which has been underrepresented in comparison to its fashion and leather goods divisions. Tiffany's well-known brand and dominant position in the US market would enhance LVMH's jewelry range, boosting its competitiveness in North America and expanding its global presence. The possibility of operational synergies, such as better margins, more efficient marketing, and improved distribution, fits in nicely with LVMH's experience growing luxury brands. Tiffany might modernize and reposition itself to appeal to younger consumers and accelerate its growth trajectory by utilizing LVMH's worldwide infrastructure,

brand management expertise, and resources. In terms of money, the purchase might result in substantial value, making it a logical strategic move for both parties.

What price is the price that LVMH should be willing to pay (opening bid and walkaway price)? Hint: the company is likely to use the stand-alone valuation as the opening bid and the merger valuation (with synergies) as the walkaway price.

For LVMH, the opening bid would ideally be based on the standalone valuation, as this reflects Tiffany & Co.'s fair value without the additional benefits of synergies from a merger. Using the standalone EV/EBITDA range, a fair starting point could be around the average standalone valuation, approximately \$75.95 per share. To start on the conservative end, LVMH might consider an initial bid close to \$75, aligning with Tiffany's fair market value.

The walkaway price, however, would incorporate the anticipated synergies from the merger, reflecting the additional value that LVMH expects to unlock. With the synergy-driven valuations using EV/EBIT, LVMH's walkaway price would be closer to the upper end of the range, approximately \$103.34 per share. This price reflects the maximum value LVMH might pay while accounting for the potential benefits of improved growth rates and margins post-acquisition. Therefore, LVMH's price range for negotiation could start around \$75 and extend up to \$103 per share.

Appendix

Figure 1. Valuation Results Summary

| Valuation Method | difference between low and high | | Valuation Range | |
|---|---------------------------------|---------|-----------------|---------|
| | | | Low | High |
| Discounted Cash Flow Analysis - Standalone | \$46.2 | \$75.5 | \$46.2 | \$121.7 |
| Discounted Cash Flow Analysis - Merger Valuation | \$85.3 | \$131.4 | \$85.3 | \$216.7 |
| DCF (Standalone) with Exit Multiple - EV / EBITDA | \$62.4 | \$22.2 | \$62.4 | \$84.6 |
| DCF (Merger) with Exit Multiple - EV / EBITDA | \$96.7 | \$32.6 | \$96.7 | \$129.2 |
| DCF (Standalone) with Exit Multiple - EV / EBIT | \$90.7 | \$26.7 | \$90.7 | \$117.4 |
| DCF (Merger) with Exit Multiple - EV / EBIT | \$137.3 | \$38.7 | \$137.3 | \$176.1 |
| Comparable Companies - EV / EBITDA | \$56.5 | \$38.4 | \$56.5 | \$94.9 |
| Comparable Companies - EV / EBIT | \$76.2 | \$27.1 | \$76.2 | \$103.3 |

Figure 2. Football Field Results for Tiffany & Co.'s Valuation

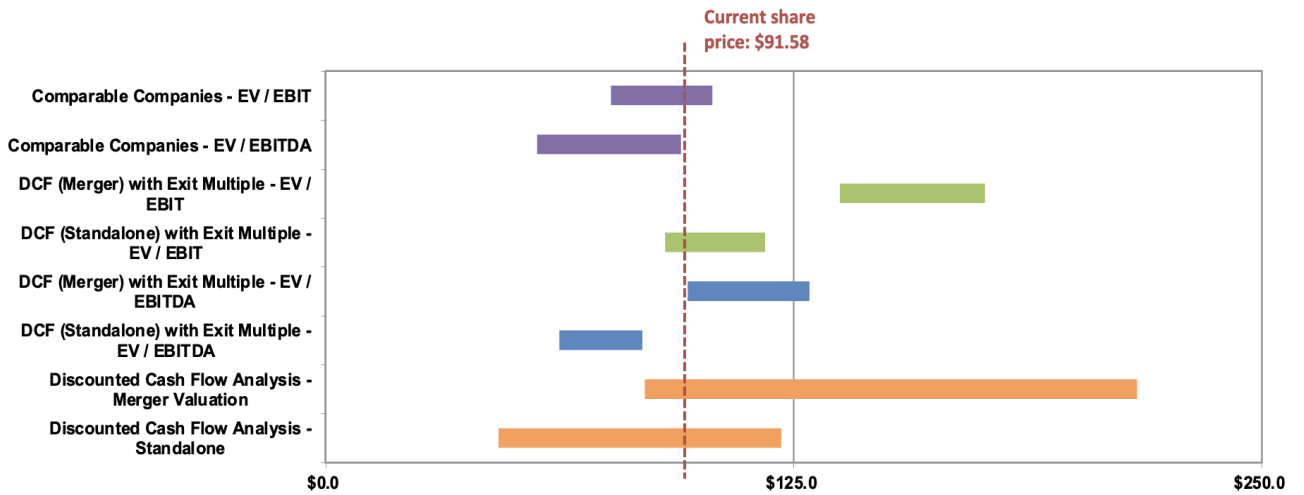


Figure 3. DCF with Gordon Growth - Standalone

| | Projected Year Ending December 31, | | | | | | | |
|--|------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| EBIT | 814.6 | 842.8 | 872.2 | 902.8 | 822.9 | 847.6 | 873.0 | 899.2 |
| Less: Taxes @ 21% | (171.1) | (177.0) | (183.2) | (189.6) | (172.8) | (178.0) | (183.3) | (188.8) |
| Net Operating Profit After Taxes (NOPAT) | 643.5 | 665.8 | 689.1 | 713.2 | 650.1 | 669.6 | 689.7 | 710.4 |
| Plus: Depreciation | 234.6 | 242.3 | 250.4 | 258.8 | 266.6 | 274.6 | 282.8 | 291.3 |
| Plus: Amortization | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Plus: Share-based Compensation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Less: Capital Expenditures | (266.9) | (275.9) | (285.3) | (295.1) | (300.2) | (309.2) | (318.4) | (328.0) |
| Less: Working Capital Investment | (99.2) | (103.2) | (107.3) | (111.6) | (103.1) | (106.2) | (109.4) | (112.7) |
| Unlevered Free Cash Flow | \$512.0 | \$529.1 | \$546.9 | \$565.3 | \$513.4 | \$528.8 | \$544.7 | \$561.0 |

| Discount Rate | A | | B | | | | C | | | |
|---------------|-------------------------|----------|--|-----------|-----------|-----------|-------------------------------------|------|------|--|
| | PV of Cash | | Present Value of Residual at Growth Rate of: | | | | Enterprise Value at Growth Rate of: | | | |
| | Flows 2020-2027 | | 2.0% | 3.0% | 4.0% | 2.0% | 3.0% | 4.0% | | |
| 6.6% | \$3,253 | \$ 7,456 | \$ 9,619 | \$ 13,445 | \$ 10,709 | \$ 12,872 | \$ 16,698 | | | |
| 7.1% | 3,190 | 6,478 | 8,136 | 10,864 | 9,668 | 11,326 | 14,053 | | | |
| 7.6% | 3,128 | 5,684 | 6,987 | 9,013 | 8,812 | 10,115 | 12,142 | | | |
| 8.1% | 3,069 | 5,028 | 6,073 | 7,627 | 8,097 | 9,142 | 10,695 | | | |
| 8.6% | 3,011 | 4,479 | 5,330 | 6,552 | 7,490 | 8,341 | 9,563 | | | |
| Discount Rate | D | | E | | | | F | | | |
| | Net Debt ⁽¹⁾ | | Equity Value at Growth Rate of: | | | | Per Share Value at Growth Rate of: | | | |
| | 2.0% | 3.0% | 4.0% | 2.0% | 3.0% | 4.0% | 2.0% | 3.0% | 4.0% | |
| 6.6% | \$ 1,854 | \$ 8,855 | \$ 11,018 | \$ 14,844 | \$ 72.58 | \$ 90.31 | \$ 121.67 | | | |
| 7.1% | 1,854 | 7,814 | 9,472 | 12,200 | 64.05 | 77.64 | 100.00 | | | |
| 7.6% | 1,854 | 6,959 | 8,262 | 10,288 | 57.04 | 67.72 | 84.33 | | | |
| 8.1% | 1,854 | 6,244 | 7,288 | 8,842 | 51.18 | 59.74 | 72.47 | | | |
| 8.6% | 1,854 | 5,637 | 6,488 | 7,709 | 46.20 | 53.18 | 63.19 | | | |

(1) Adjustment also accounts for preferred stock and minority interest.

Figure 4. DCF with Gordon Growth - Merger

| | Projected Year Ending December 31, | | | | | | | |
|--|------------------------------------|------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| EBIT | (556.5) | 1,356.4 | 1,298.3 | 1,342.9 | 1,270.4 | 1,308.5 | 1,347.8 | 1,388.2 |
| Less: Taxes @ 21% | 0.0 | (284.8) | (272.6) | (282.0) | (266.8) | (274.8) | (283.0) | (291.5) |
| Net Operating Profit After Taxes (NOPAT) | (556.5) | 1,071.6 | 1,025.6 | 1,060.9 | 1,003.6 | 1,033.7 | 1,064.7 | 1,096.7 |
| Plus: Depreciation | 236.6 | 260.2 | 268.8 | 277.7 | 286.1 | 294.7 | 303.5 | 312.6 |
| Plus: Amortization | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Plus: Share-based Compensation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Less: Capital Expenditures | (277.5) | (362.5) | (306.0) | (316.4) | (322.1) | (331.8) | (341.7) | (352.0) |
| Less: Working Capital Investment | (125.8) | 837.8 | (65.9) | (78.7) | (73.5) | (75.7) | (77.9) | (80.3) |
| Unlevered Free Cash Flow | (\$723.2) | \$1,807.1 | \$922.6 | \$943.5 | \$894.1 | \$920.9 | \$948.6 | \$977.0 |

| Discount Rate | A | | B | | | | C | | |
|---------------|----------------------------|-----------|--|-----------|-----------|-----------|-------------------------------------|------|--|
| | PV of Cash Flows 2020-2027 | | Present Value of Residual at Growth Rate of: | | | | Enterprise Value at Growth Rate of: | | |
| | | | 2.0% | 3.0% | 4.0% | 2.0% | 3.0% | 4.0% | |
| 6.6% | \$4,873 | \$ 12,985 | \$ 16,752 | \$ 23,415 | \$ 17,858 | \$ 21,625 | \$28,288 | | |
| 7.1% | 4,764 | \$ 11,282 | \$ 14,170 | \$ 18,919 | 16,046 | 18,934 | 23,683 | | |
| 7.6% | 4,658 | \$ 9,899 | \$ 12,168 | \$ 15,697 | 14,557 | 16,826 | 20,355 | | |
| 8.1% | 4,555 | \$ 8,757 | \$ 10,576 | \$ 13,282 | 13,312 | 15,131 | 17,837 | | |
| 8.6% | 4,455 | \$ 7,801 | \$ 9,283 | \$ 11,410 | 12,256 | 13,738 | 15,865 | | |
| | D | | E | | | | F | | |
| | Net Debt ⁽¹⁾ | | Equity Value at Growth Rate of: | | | | Per Share Value at Growth Rate of: | | |
| Discount Rate | | | 2.0% | 3.0% | 4.0% | 2.0% | 3.0% | 4.0% | |
| 6.6% | \$ 1,854 | \$ 16,004 | \$ 19,772 | \$ 26,435 | \$ 131.18 | \$ 162.06 | \$ 216.68 | | |
| 7.1% | \$ 1,854 | 14,192 | 17,080 | 21,830 | \$ 116.33 | \$ 140.00 | \$ 178.93 | | |
| 7.6% | \$ 1,854 | 12,703 | 14,972 | 18,502 | \$ 104.13 | \$ 122.73 | \$ 151.65 | | |
| 8.1% | \$ 1,854 | 11,458 | 13,278 | 15,983 | \$ 93.92 | \$ 108.83 | \$ 131.01 | | |
| 8.6% | \$ 1,854 | 10,402 | 11,885 | 14,011 | \$ 85.26 | \$ 97.41 | \$ 114.85 | | |

(1) Adjustment also accounts for preferred stock and minority interest.

Figure 5. DCF with Exit Multiple - EV / EBITDA - Standalone

| | Projected Year Ending December 31, | | | | | | | |
|--|------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| EBIT | 814.6 | 842.8 | 872.2 | 902.8 | 822.9 | 847.6 | 873.0 | 899.2 |
| Less: Taxes @ 21% | (171.1) | (177.0) | (183.2) | (189.6) | (172.8) | (178.0) | (183.3) | (188.8) |
| Net Operating Profit After Taxes (NOPAT) | 643.5 | 665.8 | 689.1 | 713.2 | 650.1 | 669.6 | 689.7 | 710.4 |
| Plus: Depreciation | 234.6 | 242.3 | 250.4 | 258.8 | 266.6 | 274.6 | 282.8 | 291.3 |
| Plus: Amortization | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Plus: Share-based Compensation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Less: Capital Expenditures | (266.9) | (275.9) | (285.3) | (295.1) | (300.2) | (309.2) | (318.4) | (328.0) |
| Less: Working Capital Investment | (99.2) | (103.2) | (107.3) | (111.6) | (103.1) | (106.2) | (109.4) | (112.7) |
| Unlevered Free Cash Flow | \$512.0 | \$529.1 | \$546.9 | \$565.3 | \$513.4 | \$528.8 | \$544.7 | \$561.0 |

| Discount Rate | A | | B | | | C | | | | | | | |
|---------------|-------------------------|-------|--|-------|-------|---------------------------------------|--------|----------|-------|--------|-------|--------|-------|
| | PV of Cash | | Present Value of Residual at Exit Multiple of: | | | Enterprise Value at Exit Multiple of: | | | | | | | |
| | Flows 2020-2027 | | 10.5x | 11.5x | 12.5x | 10.5x | 11.5x | 12.5x | | | | | |
| 6.6% | \$3,253 | \$ | 7,495 | \$ | 8,209 | \$ | 8,923 | \$10,748 | \$ | 11,462 | \$ | 12,176 | |
| 7.1% | \$3,190 | \$ | 7,220 | \$ | 7,908 | \$ | 8,595 | 10,410 | \$ | 11,097 | \$ | 11,785 | |
| 7.6% | \$3,128 | \$ | 6,956 | \$ | 7,618 | \$ | 8,281 | 10,084 | \$ | 10,747 | \$ | 11,409 | |
| 8.1% | \$3,069 | \$ | 6,703 | \$ | 7,341 | \$ | 7,979 | 9,772 | \$ | 10,410 | \$ | 11,048 | |
| 8.6% | \$3,011 | \$ | 6,460 | \$ | 7,075 | \$ | 7,690 | 9,471 | \$ | 10,086 | \$ | 10,701 | |
| | D | | E | | | F | | | | | | | |
| | Net Debt ⁽¹⁾ | | Equity Value at Exit Multiple of: | | | Per Share Value at Exit Multiple of: | | | | | | | |
| | | | 10.5x | 11.5x | 12.5x | 10.5x | 11.5x | 12.5x | | | | | |
| 6.6% | \$ | 1,854 | \$8,895 | \$ | 9,609 | \$ | 10,322 | \$ | 72.91 | \$ | 78.76 | \$ | 84.61 |
| 7.1% | \$ | 1,854 | 8,556 | \$ | 9,244 | \$ | 9,931 | \$ | 70.13 | \$ | 75.77 | \$ | 81.41 |
| 7.6% | \$ | 1,854 | 8,231 | \$ | 8,893 | \$ | 9,556 | \$ | 67.47 | \$ | 72.90 | \$ | 78.33 |
| 8.1% | \$ | 1,854 | 7,918 | \$ | 8,556 | \$ | 9,195 | \$ | 64.90 | \$ | 70.13 | \$ | 75.37 |
| 8.6% | \$ | 1,854 | 7,617 | \$ | 8,233 | \$ | 8,848 | \$ | 62.44 | \$ | 67.48 | \$ | 72.52 |

Figure 6. DCF with Exit Multiple - EV / EBITDA - Merger

| | Projected Year Ending December 31, | | | | | | | |
|--|------------------------------------|------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| EBIT | (556.5) | 1,356.4 | 1,298.3 | 1,342.9 | 1,270.4 | 1,308.5 | 1,347.8 | 1,388.2 |
| Less: Taxes @ 21% | 0.0 | (284.8) | (272.6) | (282.0) | (266.8) | (274.8) | (283.0) | (291.5) |
| Net Operating Profit After Taxes (NOPAT) | (556.5) | 1,071.6 | 1,025.6 | 1,060.9 | 1,003.6 | 1,033.7 | 1,064.7 | 1,096.7 |
| Plus: Depreciation | 236.6 | 260.2 | 268.8 | 277.7 | 286.1 | 294.7 | 303.5 | 312.6 |
| Plus: Amortization | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Plus: Share-based Compensation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Less: Capital Expenditures | (277.5) | (362.5) | (306.0) | (316.4) | (322.1) | (331.8) | (341.7) | (352.0) |
| Less: Working Capital Investment | (125.8) | 837.8 | (65.9) | (78.7) | (73.5) | (75.7) | (77.9) | (80.3) |
| Unlevered Free Cash Flow | (\$723.2) | \$1,807.1 | \$922.6 | \$943.5 | \$894.1 | \$920.9 | \$948.6 | \$977.0 |

| Discount Rate | A | + | | | B | | | = | | | C | | |
|-------------------------|-----------------------------------|--|-----------|-----------|-----------|-----------|--------------------------------------|---------------------------------------|-----------|-----------|-----------|-----------|-----------|
| | PV of Cash | Present Value of Residual at Exit Multiple of: | | | | | | Enterprise Value at Exit Multiple of: | | | | | |
| | Flows 2020-2027 | 10.5x | 11.5x | 12.5x | 10.5x | 11.5x | 12.5x | 10.5x | 11.5x | 12.5x | 10.5x | 11.5x | 12.5x |
| 6.6% | \$4,873 | \$ 10,708 | \$ 11,728 | \$ 12,748 | \$15,581 | \$ 16,601 | \$ 17,621 | \$15,581 | \$ 16,601 | \$ 17,621 | \$15,581 | \$ 16,601 | \$ 17,621 |
| 7.1% | \$4,764 | \$ 10,315 | \$ 11,297 | \$ 12,280 | 15,079 | 16,061 | 17,043 | 15,079 | 16,061 | 17,043 | 15,079 | 16,061 | 17,043 |
| 7.6% | \$4,658 | \$ 9,938 | \$ 10,884 | \$ 11,830 | 14,595 | 15,542 | 16,488 | 14,595 | 15,542 | 16,488 | 14,595 | 15,542 | 16,488 |
| 8.1% | \$4,555 | \$ 9,576 | \$ 10,488 | \$ 11,400 | 14,131 | 15,043 | 15,955 | 14,131 | 15,043 | 15,955 | 14,131 | 15,043 | 15,955 |
| 8.6% | \$4,455 | \$ 9,229 | \$ 10,108 | \$ 10,987 | 13,684 | 14,563 | 15,442 | 13,684 | 14,563 | 15,442 | 13,684 | 14,563 | 15,442 |
| Discount Rate | D | = | | | E | | | F | | | | | |
| Net Debt ⁽¹⁾ | Equity Value at Exit Multiple of: | | | | | | Per Share Value at Exit Multiple of: | | | | | | |
| | 10.5x | 11.5x | 12.5x | 10.5x | 11.5x | 12.5x | 10.5x | 11.5x | 12.5x | 10.5x | 11.5x | 12.5x | |
| 6.6% | \$1,854 | \$13,728 | \$ 14,748 | \$ 15,767 | \$ 112.52 | \$ 120.88 | \$ 129.24 | \$ 112.52 | \$ 120.88 | \$ 129.24 | \$ 112.52 | \$ 120.88 | \$ 129.24 |
| 7.1% | \$1,854 | 13,225 | 14,207 | 15,190 | \$ 108.40 | \$ 116.45 | \$ 124.51 | \$ 108.40 | \$ 116.45 | \$ 124.51 | \$ 108.40 | \$ 116.45 | \$ 124.51 |
| 7.6% | \$1,854 | 12,742 | 13,688 | 14,635 | \$ 104.44 | \$ 112.20 | \$ 119.96 | \$ 104.44 | \$ 112.20 | \$ 119.96 | \$ 104.44 | \$ 112.20 | \$ 119.96 |
| 8.1% | \$1,854 | 12,277 | 13,189 | 14,101 | \$ 100.63 | \$ 108.11 | \$ 115.58 | \$ 100.63 | \$ 108.11 | \$ 115.58 | \$ 100.63 | \$ 108.11 | \$ 115.58 |
| 8.6% | \$1,854 | 11,830 | 12,709 | 13,588 | \$ 96.97 | \$ 104.17 | \$ 111.38 | \$ 96.97 | \$ 104.17 | \$ 111.38 | \$ 96.97 | \$ 104.17 | \$ 111.38 |

Figure 7. DCF with Exit Multiple - EV / EBIT - Standalone

| | Projected Year Ending December 31, | | | | | | | |
|--|------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| EBIT | 814.6 | 842.8 | 872.2 | 902.8 | 822.9 | 847.6 | 873.0 | 899.2 |
| Less: Taxes @ 21% | (171.1) | (177.0) | (183.2) | (189.6) | (172.8) | (178.0) | (183.3) | (188.8) |
| Net Operating Profit After Taxes (NOPAT) | 643.5 | 665.8 | 689.1 | 713.2 | 650.1 | 669.6 | 689.7 | 710.4 |
| Plus: Depreciation | 234.6 | 242.3 | 250.4 | 258.8 | 266.6 | 274.6 | 282.8 | 291.3 |
| Plus: Amortization | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Plus: Share-based Compensation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Less: Capital Expenditures | (266.9) | (275.9) | (285.3) | (295.1) | (300.2) | (309.2) | (318.4) | (328.0) |
| Less: Working Capital Investment | (99.2) | (103.2) | (107.3) | (111.6) | (103.1) | (106.2) | (109.4) | (112.7) |
| Unlevered Free Cash Flow | \$512.0 | \$529.1 | \$546.9 | \$565.3 | \$513.4 | \$528.8 | \$544.7 | \$561.0 |

| | | A | + | B | | | = | C | | |
|----------------------|----|-----------------------------------|---|--------------|--------------|--|--------------|--------------|--|--|
| | | PV of Cash Flows 2020-2027 | Present Value of Residual at Exit Multiple of: | | | Enterprise Value at Exit Multiple of: | | | | |
| Discount Rate | | | 16.1x | 17.1x | 18.1x | 16.1x | 17.1x | 18.1x | | |
| 6.6% | \$ | \$3,253 | \$ 11,493 | \$ 12,207 | \$ 12,921 | \$14,746 | \$ 15,460 | \$ 16,174 | | |
| 7.1% | \$ | \$3,190 | \$ 11,071 | \$ 11,758 | \$ 12,446 | 14,261 | 14,948 | 15,636 | | |
| 7.6% | \$ | \$3,128 | \$ 10,666 | \$ 11,328 | \$ 11,991 | 13,794 | 14,457 | 15,119 | | |
| 8.1% | \$ | \$3,069 | \$ 10,278 | \$ 10,916 | \$ 11,554 | 13,346 | 13,985 | 14,623 | | |
| 8.6% | \$ | \$3,011 | \$ 9,905 | \$ 10,520 | \$ 11,136 | 12,916 | 13,531 | 14,147 | | |
| | | D | = | E | | | F | | | |
| | | Net Debt ⁽¹⁾ | Equity Value at Exit Multiple of: | | | Per Share Value at Exit Multiple of: | | | | |
| Discount Rate | | | 16.1x | 17.1x | 18.1x | 16.1x | 17.1x | 18.1x | | |
| 6.6% | \$ | 1,854 | \$ 12,892 | \$ 13,606 | \$ 14,320 | \$ 105.67 | \$ 111.52 | \$ 117.37 | | |
| 7.1% | \$ | 1,854 | 12,407 | 13,094 | 13,782 | 101.69 | 107.33 | 112.97 | | |
| 7.6% | \$ | 1,854 | 11,940 | 12,603 | 13,265 | 97.87 | 103.30 | 108.73 | | |
| 8.1% | \$ | 1,854 | 11,492 | 12,131 | 12,769 | 94.20 | 99.43 | 104.67 | | |
| 8.6% | \$ | 1,854 | 11,062 | 11,677 | 12,293 | 90.67 | 95.72 | 100.76 | | |

Figure 8. DCF with Exit Multiple - EV / EBIT - Merger

| | Projected Year Ending December 31, | | | | | | | |
|--|------------------------------------|------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| EBIT | (556.5) | 1,356.4 | 1,298.3 | 1,342.9 | 1,270.4 | 1,308.5 | 1,347.8 | 1,388.2 |
| Less: Taxes @ 21% | 0.0 | (284.8) | (272.6) | (282.0) | (266.8) | (274.8) | (283.0) | (291.5) |
| Net Operating Profit After Taxes (NOPAT) | (556.5) | 1,071.6 | 1,025.6 | 1,060.9 | 1,003.6 | 1,033.7 | 1,064.7 | 1,096.7 |
| Plus: Depreciation | 236.6 | 260.2 | 268.8 | 277.7 | 286.1 | 294.7 | 303.5 | 312.6 |
| Plus: Amortization | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Plus: Share-based Compensation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Less: Capital Expenditures | (277.5) | (362.5) | (306.0) | (316.4) | (322.1) | (331.8) | (341.7) | (352.0) |
| Less: Working Capital Investment | (125.8) | 837.8 | (65.9) | (78.7) | (73.5) | (75.7) | (77.9) | (80.3) |
| Unlevered Free Cash Flow | (\$723.2) | \$1,807.1 | \$922.6 | \$943.5 | \$894.1 | \$920.9 | \$948.6 | \$977.0 |

| Discount Rate | A | B | | | C | | |
|---------------|----------------------------|--|-----------|-----------|---------------------------------------|-----------|-----------|
| | PV of Cash Flows 2020-2027 | Present Value of Residual at Exit Multiple of: | | | Enterprise Value at Exit Multiple of: | | |
| | | 16.1x | 17.1x | 18.1x | 16.1x | 17.1x | 18.1x |
| 6.6% | \$4,873 | \$ 16,419 | \$ 17,439 | \$ 18,459 | \$21,292 | \$ 22,312 | \$ 23,332 |
| 7.1% | \$4,764 | \$ 15,816 | \$ 16,798 | \$ 17,781 | 20,580 | 21,562 | 22,545 |
| 7.6% | \$4,658 | \$ 15,238 | \$ 16,184 | \$ 17,130 | 19,895 | 20,842 | 21,788 |
| 8.1% | \$4,555 | \$ 14,683 | \$ 15,595 | \$ 16,507 | 19,238 | 20,150 | 21,062 |
| 8.6% | \$4,455 | \$ 14,151 | \$ 15,030 | \$ 15,908 | 18,606 | 19,485 | 20,364 |
| Discount Rate | D | E | | | F | | |
| | Net Debt ⁽¹⁾ | Equity Value at Exit Multiple of: | | | Per Share Value at Exit Multiple of: | | |
| | | 16.1x | 17.1x | 18.1x | 16.1x | 17.1x | 18.1x |
| 6.6% | \$ 1,854 | \$ 19,438 | \$ 20,458 | \$ 21,478 | \$ 159.33 | \$ 167.69 | \$ 176.05 |
| 7.1% | \$ 1,854 | 18,726 | 19,708 | 20,691 | \$ 153.49 | \$ 161.54 | \$ 169.60 |
| 7.6% | \$ 1,854 | 18,041 | 18,988 | 19,934 | \$ 147.88 | \$ 155.64 | \$ 163.40 |
| 8.1% | \$ 1,854 | 17,384 | 18,296 | 19,208 | \$ 142.49 | \$ 149.96 | \$ 157.44 |
| 8.6% | \$ 1,854 | 16,752 | 17,631 | 18,510 | \$ 137.31 | \$ 144.51 | \$ 151.72 |

Figure 9. Comparable Companies Analysis

LVMH: The Tiffany Acquisition
Financial Data for Luxury Goods Industry Comparables
(as of October 2019, in millions of US dollars)

| | Revenue | EBITDA | EBIT | Net Income | Current Assets | Current Liabilities | | | | | | | |
|----------------------------------|---------|--------|--------|------------|----------------|---------------------|--|--|--|--|--|--|--|
| Burberry Group plc | 3,548 | 925 | 605 | 456 | 1,544 | 912 | | | | | | | |
| Capri Holdings Limited | 5,571 | 640 | 441 | 337 | 1,895 | 1,803 | | | | | | | |
| Kering SA | 16,772 | 5,997 | 4,612 | 2,284 | 7,190 | 8,581 | | | | | | | |
| Pandora A/S | 3,294 | 1,061 | 628 | 468 | 6,268 | 10,159 | | | | | | | |
| Prada S.p.A. | 3,624 | 998 | 352 | 290 | 13,860 | 10,642 | | | | | | | |
| Ralph Lauren Corporation | 6,367 | 1,080 | 647 | 451 | 3,387 | 1,736 | | | | | | | |
| Tapestry, Inc. | 6,004 | 1,052 | 695 | 541 | 2,204 | 1,212 | | | | | | | |
| LVMH Moët Hennessy Louis Vuitton | 56,568 | 16,304 | 11,563 | 7,464 | 24,106 | 21,048 | | | | | | | |
| Tiffany & Co. | 4,385 | 967 | 738 | 561 | 3,674 | 871 | | | | | | | |

| | Share Price | Shares Out. | Debt | Bond Rating | Beta | Employees | Dividend Yield | Market Cap | + Debt | - EV | EV/EBITDA | EV/EBIT |
|--|--------------|-------------|--------|-------------|------|-----------|----------------|------------|--------|-----------|-----------|----------------------------|
| Burberry Group plc | 24.59 | 413 | 873 | A-* | 1.15 | 10,629 | 2.2% | 10143.59 | 873 | 11016.19 | 11.91 | 18.21 |
| Capri Holdings Limited | 30.97 | 152 | 3,562 | BBB- | 0.97 | 17,797 | 0.0% | 4721.38 | 3,562 | 8283.38 | 12.94 | 18.78 |
| Kering SA | 530.96 | 126 | 6,170 | A- | 1.09 | 34,795 | 2.6% | 66794.23 | 6,170 | 72964.23 | 12.17 | 15.82 |
| Pandora A/S | 40.43 | 92 | 6,963 | BBB-* | 1.52 | 32,000 | 6.8% | 3726.33 | 6,963 | 10689.33 | 10.07 | 17.03 |
| Prada S.p.A. | 3.10 | 2,559 | 23,149 | BB* | 1.68 | 13,556 | 2.0% | 7926.94 | 23,149 | 31076.05 | 31.14 | 88.19 *excluded in average |
| Ralph Lauren Corporation | 95.08 | 79 | 2,244 | A- | 1.05 | 24,300 | 1.9% | 7501.81 | 2,244 | 9745.31 | 9.02 | 15.07 |
| Tapestry, Inc. | 25.44 | 286 | 3,568 | BBB- | 1.08 | 21,000 | 4.3% | 7268.21 | 3,568 | 10836.01 | 10.30 | 15.58 |
| LVMH Moët Hennessy Louis Vuitton | 416.57 | 505 | 15,727 | A+ | 1.14 | 127,739 | 2.3% | 210181.44 | 15,727 | 225908.44 | 13.86 | 19.54 |
| | | | | | | | | | | AVERAGE | 11.47 | 17.15 |
| | | | | | | | | | | MIN | 9.02 | 15.07 |
| | | | | | | | | | | MAX | 13.86 | 19.54 |
| Tiffany & Co. Actual | 91.58 | 122 | 1,854 | BBB+ | 1.05 | 14,200 | 2.4% | 11136.13 | 1,854 | 12989.73 | 13.43 | 17.60 |
| Tiffany & Co. Comps MIN (EV/EBITDA) | 56.51 | 122 | | | | | | 6872.06 | 1,854 | 8725.66 | | |
| Tiffany & Co. Comps AVERAGE (EV/EBITDA) | 75.95 | 122 | | | | | | 9235.62 | 1,854 | 11089.22 | | |
| Tiffany & Co. Comps MAX (EV/EBITDA) | 94.94 | 122 | | | | | | 11545.16 | 1,854 | 13398.76 | | |
| Tiffany & Co. Comps MIN (EV/EBIT) | 76.21 | 122 | | | | | | 9267.33 | 1,854 | 11120.93 | | |
| Tiffany & Co. Comps AVERAGE (EV/EBIT) | 88.84 | 122 | | | | | | 10802.90 | 1,854 | 12656.50 | | |
| Tiffany & Co. Comps MAX (EV/EBIT) | 103.34 | 122 | | | | | | 12566.53 | 1,854 | 14420.13 | | |

*Prada has been excluded from the calculation because of its multiples being outliers

Figure 10. WACC Calculations

| | | WACC |
|--|-----------------------------------|--------------|
| Cost of Debt (Rd): | | |
| | Estimated All-In Cost for Company | 3.48% |
| | Tax Rate | 21.0% |
| | $R_d = 3.5\% * (1 - 21.0\%) =$ | 2.7% |
| Cost of Equity (Re): | | |
| | Risk Free Rate | 2.11% |
| | Target Beta | 1.05 |
| | Market Risk Premium | 6.00% |
| | $R_e = 2.1\% + 1.05 * 6.0\% =$ | 8.4% |
| Weighted Average Cost of Capital (WACC): | | |
| | D/V | 14.3% |
| | E/V | 85.7% |
| | | 7.60% |
| Tiffany's Capital Structure as of 2019 | | |
| | D | 1854.0 |
| | E | 11136.1 |
| | V | 12990.1 |