

LVMH: The Tiffany Acquisition

It is 2019 and Eleanor Rose, head of M&A at LVMH, the world's largest luxury goods conglomerate, is meeting with Alessandro Bogliolo, CEO of Tiffany & Co. to propose an unsolicited bid to acquire Tiffany. If the companies could come to an agreement, the merger was expected to be one of the largest ever M&A transactions in the luxury goods industry.

Case Questions:

- What is the situation that LVMH faces? What about Tiffany & Co.?
- What are LVMH's strengths and weaknesses? What are the strengths and weaknesses of Tiffany's?
- Is this a merger that makes sense?
- 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.

Hints:

- Use the assumptions in Exhibit 13 to build your DCF for your standalone valuation.
- Use the above assumptions as well as information in the case regarding improved growth rates and margins for the merger valuation (with synergies).
- Arrive at values using both Gordon growth terminal values as well as exit multiples; for exit multiples, use EV/EBITDA and EV/EBIT.
- Also prepare a relative valuation using trading comps (a control premium should be taken into account).
- Summarize your valuation with a football field; a template has been provided.
- We are performing both a DCF and a Relative Valuation.
 - For your DCF, you can run a few versions:
 - A DCF with a Gordon Growth terminal value
 - A DCF with an Exit Multiple (using EV/EBITDA as the multiple)
 - A DCF with an Exit Multiple (using EV/EBIT) as the multiple
 - For your Relative Valuation, you can run a couple versions:
 - A Relative Valuation using EV/EBITDA as the multiple
 - A Relative Valuation using EV/EBIT as the multiple
 - The multiples used in the DCF (for the exit multiple) and in the Relative Valuation can come from the same source. That source is either trading comps (what other companies are currently trading for in terms of a multiple) or what other companies have been acquired for (precedent transactions). This case only gives us one precedent transaction (the Bulgari one) so we don't have enough data points to do precedent transactions. In other words, we're using comparable companies to get the multiples for the exit multiple in the DCF AND the relative valuation.

- All the information you need for the comparable companies is in Exhibit 10. You can calculate EV and you have EBITDA and EBIT listed. Calculate EV/EBITDA for all the companies and do the same for EV/EBIT – then take an average and that serves as the multiple you would apply to Tiffany’s. This is the multiple used as an Exit Multiple in a DCF or in a Relative Valuation.
 - Do not worry about benchmarking the comps – assume this is a good list. You can use a median as your average to account for any outliers.
- For the standalone value of Tiffany’s, do not take the synergies into account (nor the control premium). For the merger valuation, take the synergies into account in the DCF and the control premium into account in the relative valuation. The case outlines the potential synergies (higher growth rates, better margins).
- For the Relative Valuation, you account for the synergies by applying a Control Premium. You would not put a control premium into your DCF – only into your Relative Valuation.
- The template that I provided is simply a template and does not have any numbers listed for Tiffany & Co. If you use it, you need to clear out any number that should not be there.
- To build a range of values for your football field for the DCF, use the sensitivity analysis.
- To build a range of values for the football field for the Relative Valuation, look at the high and low comps. For example, suppose you had three comparable companies and their multiples were as follows:
 - Company 1: 8x
 - Company 2: 10x
 - Company 3: 12x

You would use the average of 10x for your valuation. But your range of values would be the resulting values you arrive at using multiples from 8x to 12x.

- **The difference between an Exit Multiple and the Relative Valuation thus relies on what you apply that multiple to.** In other words, suppose you arrive at 10x EBITDA multiple based on the comps. To use this as an Exit Multiple in a DCF, you would apply that 10x multiple to the EBITDA in the terminal year of your forecast period. If instead you were performing a Relative Valuation, you would use that 10x multiple and apply it to the target’s LTM or NTM EBITDA (LTM or NTM would have been based on your choice – and you would be consistent with the comps). And then you would take the EV that you arrived at and adjust it for either a control premium or liquidity discount.

Case Submissions:

The assignment is due at the beginning of class on Tuesday, November 5th. Please submit a written memo (two pages maximum) plus appendices that summarizes your findings in PDF format on Blackboard. Include all relevant spreadsheets and tables in the PDF (do not upload your Excel file to Blackboard). Please use the following format:

Date: November 5th, 2024

From: Team Member 1, Team Member 2, Team Member 3, Team Member 4 and Team Member 5

To: Scott Abrams

Re: LVMH: The Tiffany Acquisition

**Note: If you inadvertently submit a wrong file to Blackboard, you can resubmit the correct file before the deadline.*