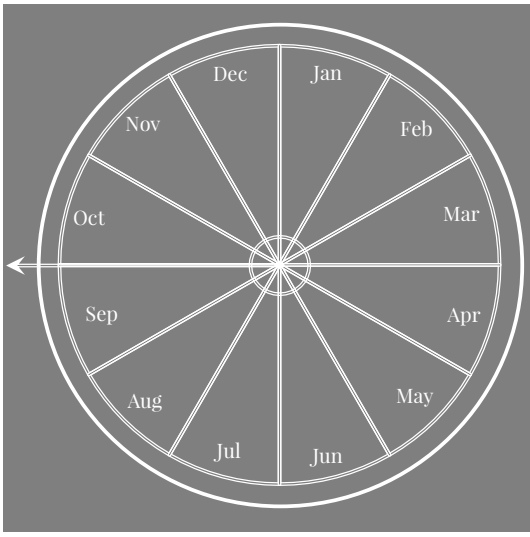
# B




# Volume 14: September 2020

## Notes


### Welcome

Introduction

### Retreat from Tiffany's

LVMH, COVID & the takeover

### Sector updates

Recent news and commentary

# September 2020

Barton Founder & Principal,

Winston Chesterfield

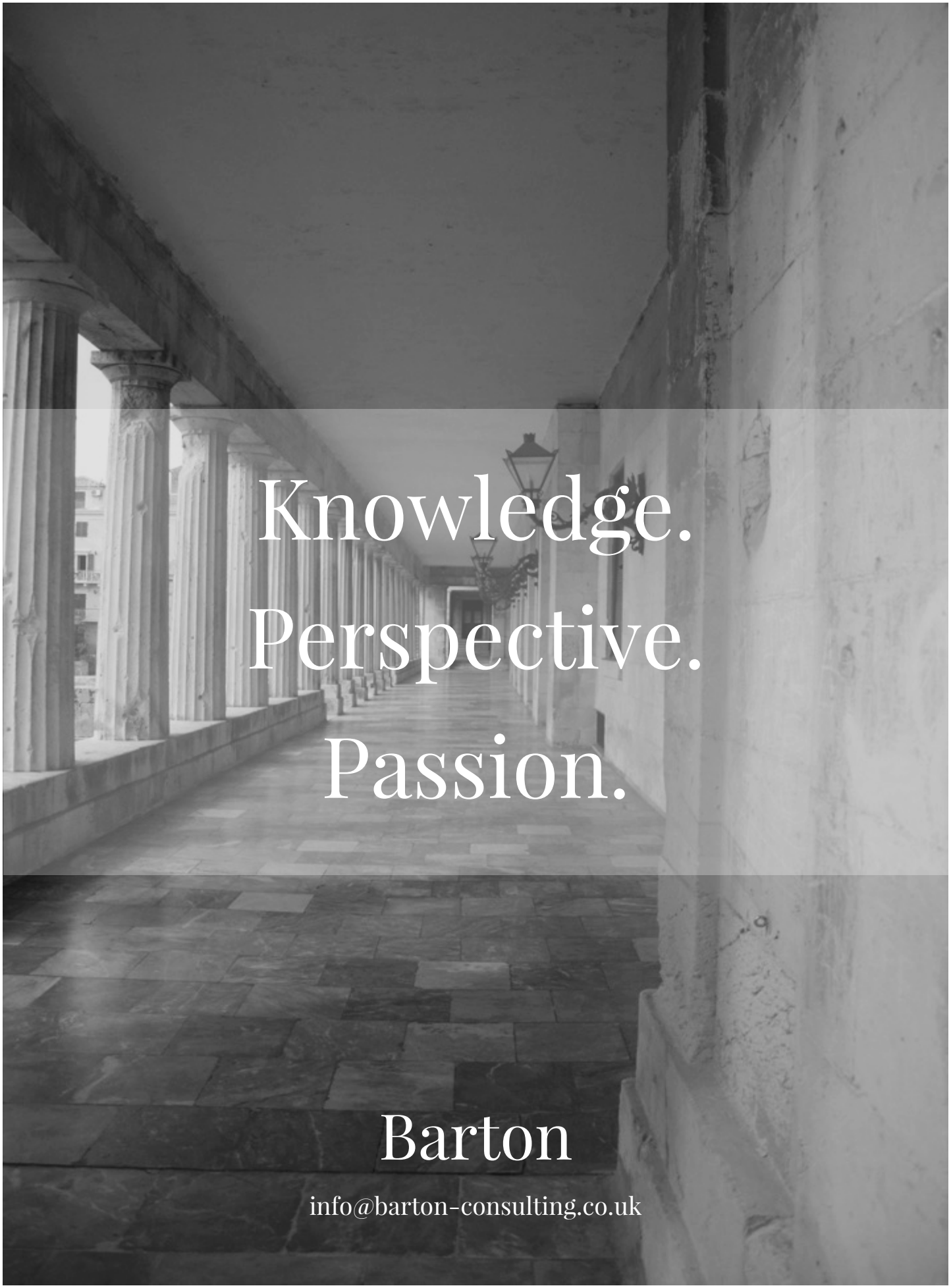
If you feel cheated when you learn that we are already three quarters of the way through 2020 – a year about which many a "vision" pun has been made but one which, ironically, we didn't see coming – you wouldn't be alone. For most of the nations of the world, this year has been a write-off, a weird blip in modern history that has no comparison and no precedent.

Over the last decade, there had been voices warning of a 'potential global pandemic' in the near future, amongst them the software entrepreneur and philanthropist Bill Gates who, rightly or wrongly, finds himself front and centre of the debate around vaccines and virus containment. However, it's fair to say that the world had many other things on its plate and therefore wouldn't consider such an eventuality one it needed to focus on. It's also fair to say that these pandemic forecasters couldn't actually be specific about what the pandemic would actually be. In the end, it has been a 'coronavirus' – of which, COVID-19 is just one of a number that humanity has come into contact with.

As fears of a second wave across Europe continue, China – where the virus originated many months ago – has claimed 'victory' over COVID-19, with reported new cases now just a handful each day, in a country with the world's largest population. Of course, there is always more to the reporting of COVID-19 than meets the eye, and commentators are beginning to voice concerns that politics is playing a huge role in not only the reporting of the pandemic but also in its management – something that seemed unthinkable in the confusion and uncertainty of February.

However, it is the fallout from COVID-19 that has rattled leaders, businesses and populations. Things which seemed a great idea at this time last year such as, erm, buying a multi-billion dollar American jewellery brand, no longer have the same appeal. Of course, in a pandemic situation, everyone is allowed a reverse ferret or two but rewriting long term strategy already seems somewhat premature. Instead, it is more likely the pandemic is being used opportunistically to make radical moves and enact difficult but unavaoidable decisions.

In this month's article, we review LVMH's decision to step away from its $16.2bn takeover of Tiffany & Co and ask whether the decision isn't the bluff the market is reading.



Knowledge.
Perspective.
Passion.

Barton

info@barton-consulting.co.uk


# RETREAT FROM TIFFANY'S

Nasty takeovers aren't really LVMH's style. It normally proceeds on its acquisitions of the world's finest luxury brands with a little more, well, style. And so when it agreed to acquire Tiffany & Co, arguably one of the two biggest whales of global jewellery names (along with Cartier), the market fully expected them to honour the $135 a share that was agreed.

In many ways, it was a good match. It was a massive purchase for LVMH, which already owns part of Bulgari (which it successfully overhauled), but is significantly behind rivals Richemont when it comes to a portfolio of jewellery brands. For Tiffany it made sense as well, as it could benefit from LVMH's knowhow and resources, boosting Tiffany's marketing budget, creating new products and also improving the retail experience – at which LVMH is, arguably, difficult to beat.

Commentators were buoyant about the deal, claiming there was strong growth ahead in jewellery, particularly in mainland China and that the lagging Tiffany – which hadn't quite taken full advantage of the luxury jewellery industry's growth of 7% in 2018 - could be energised by LVMH's firepower.

But that was in November last year. No one outside of a laboratory was yet using the word 'coronavirus' in daily parlance. There were no major shifts in consumer lifestyle expected. No one was warning about what a global pandemic, and resultant lockdowns, would do to global luxury demand and, more specifically, what the heck would happen to luxury jewellery. LVMH already saw Tiffany & Co as a makeover job in a pre-COVID-19 world. It's fair to assume that in a post-COVID-19 world, they – at the very least – were seriously overpaying at $135 a share. And it is from this that many commentators, such as HSBC's Erwan Rambourg, have intimated that the deal will still go ahead and that Tiffany's claim of LVMH not wanting to abide by the agreed sale price is, largely, true. This could well be the case, but it's always worth considering the other point of view, that LVMH's recent claims in its countersuit against Tiffany & Co that the jeweller is "mismanaged" and has "dismal prospects" are genuinely held views. To this point, LVMH made a damning statement in filings: "The business LVMH proposed to acquire in November 2019 - Tiffany & Co, a consistently highly-profitable luxury retail brand - no longer exists."

Naturally, Tiffany & Co as a business would fight this assertion (and particularly its executives who stand to make over $100m in bonuses if the deal goes ahead). Companies and brands fight for their right to exist in much the same way that people do and to hear their business sullied in public by once-enamoured suitors brings out a highly defensive tone that can be difficult to brush away. It is often said that once divorce gets to a courtroom, the participants have already given up on reconciliation.

LVMH always takes a very careful 30-year view on its acquisitions. With Belmond, it could clearly see the massive potential in buying a business that – whilst in financial difficulties – still possessed some of the finest and most unique assets in luxury hospitality, and allowed the group to get a firmer foothold in the sector of experience-based luxury. If you take a 30 year view of Belmond's

> "...it's quite possible that COVID-19 has made LVMH take another look at management, at the huge investment required on top of the $16.2bn asking price..."

brand and assets, the continued rise of experiential luxury, the expected boom in new wealth and therefore luxury travellers from all corners of the globe as well as the impact of social media on the long-term status of luxury travel, the investment – even with COVID-19 as a blip - is a no-brainer. Whether they're dressed in suits or in Crocs, people are always going to want to travel in style and serious comfort.

If you look at a 184 year old American jewellery business like Tiffany & Co, you might be tempted to make the same judgement, but it's quite possible that COVID-19 has made LVMH take another look at what it needs to do, at management, at the huge investment it will need to make – on top of the massive $16.2bn asking price – and considered it a doubtful bet for the 30-year future.

Why? After all, Chinese luxury consumers have roared back from COVID-19. After a flurry of 'revenge' purchasing, they're now largely back in the groove of luxury goods acquisition, which is persuading luxury brands to double down on China and invest more in mainland bricks-and-mortar and digital retail there. A few years ago, Chinese buyers accounted for 1 in 3 luxury goods purchases. Soon, they will be pushing 1 in 2. Jewellery in China specifically, has also grown hugely. Jewellery & watch group Richemont, which also owns Van Cleef & Arpels as well as Cartier, reported 49% sales growth in China in the first quarter of this year as well as triple digit online sales growth, in direct contrast to an overall 47% decline across the globe. And Tiffany & Co themselves have seen an instant post-COVID-19 recovery in China. In June, the company reported that retail sales in China had jumped 30% year on year in April and surged 90% in May, contrasting with weak figures for the previous two months.

However, the issue for Tiffany & Co is its home of the USA. Sales in the Americas, its largest market, have fallen 45% as the country gets to grips with a maelstrom of disruption from COVID-19 deaths to widespread disorder and protesting. This is arguably no small consideration for LVMH. Though Tiffany & Co has suggested delaying the acquisition completion to after the US election (which many commentators feel is significant to the level of chaos that has been brought on the USA in the past few months), LVMH, in laying out their legal arguments for walking away from the deal, have poured fuel on the fire. They have either done this – rather ironically – as a Trumpian method of getting a better deal for their shareholders, or as a genuine route out of the takeover.

Returning to the 30-year view, and the possibility that LVMH in taking another look genuinely don't see the required investment in Tiffany & Co paying off, we cannot forget what COVID-19 has done to our expectations and desires for existence. It's too easy to bank the Chinese sales growth and say it will continue unabated and unchanged, and that Tiffany's star will only continue to rise. However, relying on a single market for the next three decades of sales growth is not in the policy book of LVMH. Their brands need to have global appeal, and to an extent, global success. Tiffany & Co's giant expenditure might currently be bankrolled by Chinese consumers in the short term, but what happens when the market cools on the brand and a competitor or, potentially, a new brand begins to appeal more to those consumers?

As a luxury consumer market, the USA was already deep in a state of long-term casualisation. In the workplace, the US market had begun the trend away from tailoring and formal wear. Now, even bankers wear jeans and trainers. In the hierarchy of this brave new world of luxury goods, coupled with a potential long term change of wealthy professionals working more from home, athleisure and wellness become the new priorities. New jewellery pieces are relegated in this scenario. The problem for jewellery brands is not when their product becomes a "luxury" for consumers – that itself can actually create even greater appeal. It's when their product becomes irrelevant. Jewellery is designed to be worn but it is really designed to be seen. With a future of more cocooned, casual lifestyles, it's possible that LVMH took another look at Tiffany & Co and realised the limitations of its potential.

# Sector updates

*Image: Rolls-Royce*

**Rolls-Royce Motor Cars** launched its new Ghost model this month alongside reports that demand for its high-priced vehicles is, in the words of CEO Torsten Muller-Otvos "more or less back to normal" in Asia, Europe and the Middle East. What was interesting to Barton was that he left out the bull elephant of the luxury car market, the USA. Not only has it been the worst affected country when it comes to COVID-19 deaths, it has also been experiencing repeated prolonged bouts of violent rioting and looting in its major cities and suburbs *and* is in the final run up to a Presidential election. There have also been reports this month that India may take some time to catch up with the rest of Asia, as the Economic Times reported the luxury car industry there is set to fall by 40%, already hitting a market with relatively low penetration by comparison with other large economies.

**Louis Vuitton** have launched a new face shield that is designed to be "both stylish and protective," featuring the famous LV monogram canvas edging around a protective perspex visor. When not in use, the visor can also be worn upward as a cap. However, though it also features gold engraved studs and an elastic, monogrammed headband, it is curious to Barton that LV have plumped for a design – similar to that used by hairdressers and shopkeepers - that Japanese researchers showed recently is ineffective in preventing the spread of airborne droplets. A simulation using Fugaku, the world's fastest supercomputer, found that almost 100% of airborne droplets of less than 5 micrometres in size escaped through plastic visors of this kind. In addition, about half of larger droplets measuring 50 micrometres found their way into the air – not surprising, given the openness of the design compared to masks. The Louis Vuitton Shield goes on sale later in October.

*Image: Louis Vuitton*

*Image: Tom Ford*

**Tom Ford** has announced a new watch product made entirely from ocean plastic. Known as the Tom Ford Ocean Plastic Timepiece, the watch will be created from recycled plastic, equivalent to 35 bottles. Not to be outsmarted by those who will cry "gimmick", the brand will also use carbon-neutral transportation, solar energy and recyclable packaging in the manufacture of the timepiece. Ford himself made a curious comment that "…ethical luxury is the greatest luxury of all," on the basis that it is "appealing to know that you are not only wearing a high-quality product, but by simply owning the product, you are also taking direct action to improve the planet." Hmm. Whilst it is, in Barton's view, debatable that everyone will view this as a the 'greatest luxury', it's encouraging that Ford has joined the fight against the global scourge of ocean plastic.