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# BOW Finance Newsletter

## 2019-2020 Issue 3

### Investment Banking:

#### LVMH Moët Hennessy Makes Offer to Buy Tiffany & Co.



**Type of deal:** M&A

**Industry:** Consumer Retail (luxury goods)

**Acquirer:** LVMH Moët Hennessy (LVMUY, \$85.91)

**Target:** Tiffany & Co. (TIF, \$124.28)

**Time announced:** October 18, 2019

**Time closed:** N/A

**Purchase price:** \$14.5 billion

#### Acquisition Rationale:

- Gain market share:** Currently, the largest luxury goods companies in the world are competing to acquire such more luxury brands so that they can reap the benefits of young consumers and high-spending Chinese consumers. Furthermore, unlike other goods, jewelry has few global players. Acquiring Tiffany & Co. would be hugely beneficial for LVMH by allowing LVMH to gain significant share in a growing market. The watch and jewelry division makes up just 8.5% of LVMH's \$53.5 billion in revenue. There are few luxury jewelry companies as large as Tiffany that would be able to increase this figure.
- Increased US revenue stream for LVMH:** In 2018, less than one-quarter of LVMH's \$53.5 billion revenue came from the US. Acquiring a prominent, iconic luxury goods company with as strong a U.S. presence as Tiffany & Co. would improve this revenue distribution model. Tiffany & Co. has approximately \$4 billion in annual revenue.
- Lifting Tiffany's stagnant sales:** Recently, Tiffany & Co. sales have been stagnant, suggesting the luxury goods company has not mastered the strategy of being a 21st Century company. Greg Furman, CEO of The Luxury Marketing Council, believes that "this deal offers Tiffany a way to leverage the intelligence and best marketing practices found in the LVMH portfolio." Furthermore, the deal could help Tiffany & Co., an American company, expand more into Europe. However, some investors believe Tiffany & Co. may continue to look for a higher offer. LVMH's current offer works out to be about \$120 per share, but Tiffany & Co. may use the \$136 per share price reached just over a year ago as a basis for a more generous offer.

### Investment Banking: Fiat Chrysler and Peugeot Announce Merger



**Type of deal:** M&A

**Industry:** Industrials

**Company #1:** Fiat Chrysler Automobiles (FCAU, \$15.65; Advisor: d'Angelin & Co., Goldman Sachs)

- Company description: FCA is an Italian-American auto manufacturer, currently eighth largest globally. The group was established in 2014 from a merger of Fiat and Chrysler into a new holding company, and is headquartered in Amsterdam. The company's portfolio includes brands such as Chrysler, Dodge, Fiat, Jeep, Maserati, Abarth, Lancia, and Ram Trucks.

**Company #2:** Peugeot SA Group (PUGOY, \$25.03; Advisor: Perella Weinberg Partners, Zaoui & Co.)

- Company description: The PSA Group is a French automobile and motorcycle manufacturer, currently tenth largest globally and third-largest in Europe. The group was founded in 1976 and its portfolio includes the brands Peugeot, Citroën, DS, Ambassador, Opel, and Vauxhall.

**Time announced:** October 31, 2019

**Time closed:** TBA

**Purchase price:** \$48 billion

#### Acquisition Rationale:

- Increase market share:** The new combined company will have revenues of \$190 billion, producing 8.7 million vehicles per year and thus creating the world's third-largest automaker by production volume. This would allow them to better compete against Volkswagen and Toyota, the two leading automakers each selling over 10 million vehicles in the past year and participating in mergers and acquisitions of their own (such as the Volkswagen/Porsche acquisition in 2012). In the automobile industry, M&A activity has increased tremendously over the years to eliminate competition, ensure growth, and synergize complementary strengths and weaknesses.
- Enter new markets:** Peugeot currently has no presence in the U.S., and neither company has successfully entered the Chinese market. While entering these new markets poses risks in innovation and adaptation to new consumer tastes, there are great opportunities for the combined companies to expand to the world's second-largest and largest new car market, respectively, and leave a bigger global footprint.
- Research development:** Together, FCA and PSA would be better-equipped to invest capital in electric and hybrid technologies needed to meet strict emissions targets in China and Europe. As the automotive industry evolves, this merger would also combine both companies' research and development efforts in technologies such as autonomous vehicles, ride-sharing, and electrification, improving cost efficiencies for both parties. This innovation and investment into technology will also help both companies decrease costs and adapt to evolving consumer tastes in new markets, such as the high tech features and affordable prices coveted by Chinese consumers.

### Markets

#### Market Updates:

- S&P surged due to optimism about lower interest rates and hopes for a resolution to the U.S.-China trade war. [Read here.](#)
- U.S. economic growth continues amid job gains. [Read here.](#)
- Fed cut rates for the 3rd time since July but signals a pause. [Read here.](#)
- Q3 earnings for Twitter, Amazon, and Tesla surprised many. [Read here.](#)

#### Boeing 737 MAX Grounding:

##### Summary:

Boeing's 737 MAX fleet has been grounded since March after two fatal crashes killed a total of 346 people and is not expected to return to the air until next year. Repercussions from the crashes continue as the largest aerospace company worldwide faces significant financial losses as well as the replacement of Kevin McAllister, one of its top executives and former head of Boeing Commercial Airplanes.

On October 29th, CEO Dennis Muilenberg was questioned by the Senate Transportation Committee on Boeing's handling of the Max 737. He was asked whether the company hid information from regulators regarding flaws in its onboard flight system (known as MCAS) which ultimately contributed to both crashes. Muilenberg acknowledged that Boeing made mistakes but that "the premise that we would lie or conceal is just not consistent with our values".

However, months before the MAX was certified, pilot Mark Forkner had communicated to a colleague that he had "unknowingly" lied to the Federal Aviation Administration (FAA) about a new system (MCAS) that was causing him trouble. CEO Muilenberg had known about these messages to the FAA until last month. A group of international aviation regulators also reported that Boeing never provided a sufficient explanation of the MCAS system that would have allowed regulators to assess it adequately ([read more](#)). In addition, Boeing is now facing another blow as dozens of Boeing 737 NG (new generation) aircraft have been grounded due to cracks in the pickle forks ([read more](#)).

##### Economic & Market Implications:

Boeing reported a sharp decline in quarterly earnings and sales. Profits fell by more than half (from \$2.36 billion to \$1.17 billion), sales dropped 21% to \$20 billion, and production costs rose by \$900 million in the latest quarter. Airlines with the 737 MAX model in their fleets are missing out on potential earnings due to canceled flights and tightened capacity. Southwest Airlines, the largest domestic air carrier, said that its operating income was reduced by \$210 million in the third quarter and expects fuel efficiency to decrease in the fourth quarter as a result of the grounding. As a company that is especially dependent on Boeing and flies only variants of the 737 for strategic reasons, Southwest is now forced to consider shifting from an all-Boeing fleet.

Because of Boeing's presence as a huge generator of jobs and the United States's largest manufacturing exporter, CNBC's Jim Cramer warns that its prolonged struggles could potentially hurt the entire U.S. economy if these issues aren't resolved. For example, the slump in US manufacturing results in part from Boeing's production slowdown of its 727 MAX jets. Furthermore, the grounding could cost General Electric, manufacturer of engines for the MAX, up to \$1 billion.

### Upcoming Campus Events and Deadlines

#### Upcoming Events:

Nov 6, 12-1PM - Networking Luncheon with Rothschild held by BOW (WU 067); [sign up](#)

Nov 6, 5:30-7:30PM - Rothschild & Co info session (Social Studies 119); [info here](#)

Nov 6, 7-8PM - What Comes After?: Post-Recruiting Finance Panel held by BOW (Soc Psych 126); [sign up here](#)

Nov 13, 4-5PM - DUMAC on-site visit & networking event held by BOW; [sign up](#)

#### Upcoming Deadlines:

Nov 15 - Girls Who Invest; apply [here](#)

Dec 1 - Aldrich Capital Partners (Growth Equity intern); apply [here](#)

Dec 6 - Teach For America (summer fellowship for rising seniors); [info here](#)

Jan 3 - Piper Jaffray Career Exploration Program; apply [here](#)

Jan 5 - Point72 2020 Case Competition; apply [here](#)

Jan 6 - Romero Mentoring Winter Analyst Prep Program

#### Rolling Deadlines:

- ClearBridge Investments (Portfolio Management Research Support intern); apply [here](#)

- Starwood Capital Group (full-time Acquisitions analyst); email [nrouleau@starwood.com](mailto:nrouleau@starwood.com)

- Goldman Sachs 2020 Exploratory Programs; apply [here](#)

- Ares Management (Product Management & Investor Relations teams in Private Equity, Credit, and Real Estate and public IR teams); apply [here](#)

- Evercore (Healthcare IBD intern in SF); contact Pranav Ganapathy ([pg113@duke.edu](mailto:pg113@duke.edu))

- PIMCO (Account Analyst intern); apply [here](#)

- Principal Financial Group; apply [here](#)

- Summit Partners (Growth Equity & Venture Capital intern); apply on Career Connections

- DUMAC (senior full-time position)

\*Please check CareerConnections for more information

### Past Issues Archive

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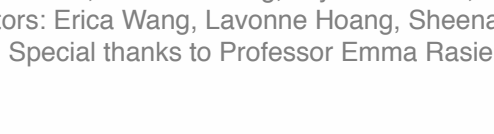
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Writers: Annabelle Howell, Rachel Ma, Karoline Xiong, Taylor Shabani, Amanda Kang, Caroline Kincaid  
Editors: Erica Wang, Lavonne Hoang, Sheena Ma,  
Special thanks to Professor Emma Rasiei



Duke Association for Business Oriented Women - Duke University - Durham, NC 27705 - USA

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