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LVMH to Acquire Bulgari After Agreeing to Buy Family Stake (2)
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(Updates with deal multiples in sixth paragraph.)

By Andrew Roberts and Marco Bertacche

March 7 (Bloomberg) -- LVMH Moet Hennessy Louis Vuitton SA plans to acquire Bulgari SpA for about 3.7 billion euros (\$5.2 billion) to add the world's third-largest jeweler in what would be its biggest acquisition in at least a decade.

The largest luxury-goods company agreed to purchase the Bulgari family's 50.4 percent stake for 1.87 billion euros in stock and will then make a tender offer for the rest, according to a joint statement distributed by the Italian Exchange today. The acquisition represents a 61 percent premium to Bulgari's March 4 closing share price in Milan.

Chief Executive Officer Bernard Arnault has built LVMH by snapping up brands from Donna Karan International Inc. to Glenmorangie Plc. LVMH owns 20.2 percent of Hermes International SCA after purchasing a stake without the knowledge of the company's founding family. He's buying the maker of \$18,900 Sotirio Bulgari retrograde date automatic watches as the Rome-based company's sales growth trails larger rivals including Cie.

Financiere Richemont SA. Bulgari is adding lower-priced items and high-end watches as demand rebounds after the recession.

"We see this as a great deal for Bulgari shareholders," Alessandro Migliorini, an analyst at Helvea, wrote today in a note. "In contrast, it remains to be seen whether LVMH's financial muscle and organizational strength will suffice to extract sufficient value to justify the acquisition price."

Ebitda Multiples

LVMH is paying 26.4 times earnings before interest, taxes, depreciation and amortization for the family's stake, data compiled by Bloomberg show. The company paid 15.49 times Ebitda for a 17.1 percent stake in Hermes, which was acquired through equity swaps. The average multiple paid for jewelry retailers in the past decade is 8.5 times, according to Bloomberg data.

"Our entrance into LVMH will allow Bulgari to reinforce its worldwide growth and to realize significant synergies," Bulgari CEO Francesco Trapani said in the statement. He will join LVMH's executive committee and replace Philippe Pascal as head of watches and jewelry, the French company said.

The move caps a busy week for Arnault, who fired John Galliano from Christian Dior SA after three people alleged the designer made anti-semitic and racist comments to them. Arnault controls Dior.

Today's announcement doesn't affect LVMH's stake in Hermes, which is a long-term investment, said Olivier Labesse, a spokesman for Paris-based LVMH. Hermes's founding family wants LVMH to reduce its stake by more than half. LVMH has said it doesn't plan to sell its stake and is a peaceful investor.

\$3 Billion Cash

LVMH rose 30 cents to 111.85 euros at 11:12 a.m. in Paris, valuing the company at 54.8 billion euros. Bulgari shares rose 58 percent to 12 euros. The news drove gains in shares of other companies, including Burberry Group Plc. Burberry advanced as much as 6.7 percent in London.

LVMH, with about \$3 billion in cash at the end of 2010, has announced at least eight acquisitions including the Hermes stake purchase in the past year, according to data compiled by Bloomberg. Paolo and Nicola Bulgari will remain chairman and vice chairman of Bulgari's board, the company said.

"We will see what comes on the market. We will not bid too high," Pascal said in an interview this year. "We are very picky." Pascal will remain on the company's executive committee and be given new responsibilities in the group, LVMH said today.

New Shares

LVMH will issue 16.5 million new shares valued at 113 euros each in exchange for the Bulgari family's 152.5 million shares. The companies are valuing Bulgari at 12.25 a share compared to the 7.59-euro March 4 closing price.

Financially, "the deal looks uninspiring for LVMH, but strategically it is an excellent move, bulking LVMH up in watches and jewelry, one of the fastest-growing areas of luxury," Andrew Holland, an analyst at Evolution Securities in London, said in a note to clients.

Bulgari sales for the three months ended Dec. 31 climbed 21 percent to 357.8 million euros, the company said in January. Full-year revenue climbed 15 percent to 1.07 billion euros. Excluding currency swings, annual sales rose 8.3 percent, beating the company's forecast for "mid-single-digit" growth.

The sales increase in the last three months of 2010 trailed rival Richemont's 33 percent gain. Bulgari said in November that Hengdeli Holdings Ltd. will distribute its watches in China under a five-year partnership. Swatch Group AG owns 9.05 percent of Hengdeli, which is listed in Hong Kong, while LVMH owns more than 6 percent, according to Bloomberg data.

Bulgari was founded in 1884 by Sotirio Bulgari. Trapani, who has run the company since 1984, is a family member. The company has been listed on the Milan stock exchange since 1995.

LVMH was advised by Credit Agricole while Bulgari was advised by Credit Suisse.

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