

Tumi gets zipped up in Samsonite's tummy for \$1.8bn

Samsonite Market Cap: \$24.43bn (as of 12/03/2016)

Tumi Market Cap: \$1.83bn (as of 12/03/2016)

Introduction

Last week, the world's biggest luggage company, Samsonite, zipped up a deal to acquire luxury rival Tumi for around \$1.8bn. This acquisition will be the largest one for Samsonite since its IPO in 2011.

After getting the shareholder approval, the deal is expected to close in the second half of 2016, meaningfully expanding Samsonite's presence in the attractive premium segment of the global business bags, travel luggage and accessories market. This transaction is also expected to offer Tumi distribution channels in Asia and Europe, which are the acquirer's fastest-growing markets.

Samsonite will pay \$26.75 per share in an all-cash transaction, which represents a 33% premium to Tumi's closing price on last Wednesday.

About Samsonite International S.A.

Samsonite International S.A. (SEHK: 1910) is an American luggage manufacturer and retailer, with products ranging from large suitcases to small toiletries bags and briefcases. It was founded in Denver, Colorado in 1910 by Jesse Schwayder.

Mr. Schwayder initially named one of his cases Samson, after the Biblical strongman, and began using the trademark Samsonite in 1941. The company changed its name to Samsonite in 1966.

The company's registered office is in Luxembourg and it is listed on the Hong Kong Stock Exchange.

About Tumi Holdings, Inc.

Tumi Holdings, Inc., (NYSE: TUMI) is a New Jersey-based manufacturer of suitcases and bags for travel. It was founded by Charlie Clifford in 1975 and is named after a Peruvian ceremonial knife used for sacrifices. The company has been a unit of Doughty Hanson & Co. since 2004, when the London-based private equity firm took over Tumi for \$276mln.

Tumi is available at department stores and specialty stores, but it also has over 120 stores named after itself and 200 shop-in-shops around the world. It also supplies accessories such as electronic equipment, pens, and belts.

The company teamed with designer Anish Kapoor in 2006 to produce the PowerPack Backpack that incorporated solar technology for charging phones and PDAs. The company also had a licensing agreement with Italian motorcycle manufacturer Ducati, launching a collection of eight co-branded pieces in 2006 sold through both of the brands' retail outlets.

Deal Structure

Under the terms of the agreement Samsonite will buy Tumi in a \$1.8bn deal (including Tumi's \$94m of net cash). The deal will be an all cash transaction set at \$26.75 per share, and it is expected to be completed in 2nd half of 2016. The official date will mostly depend on the antitrust review.

Tumi is subjected to a no-shopping provision. This means that during the pendency of the merger, the company will not be able to solicit other bidders. The breakup fee was set at \$54.7m.

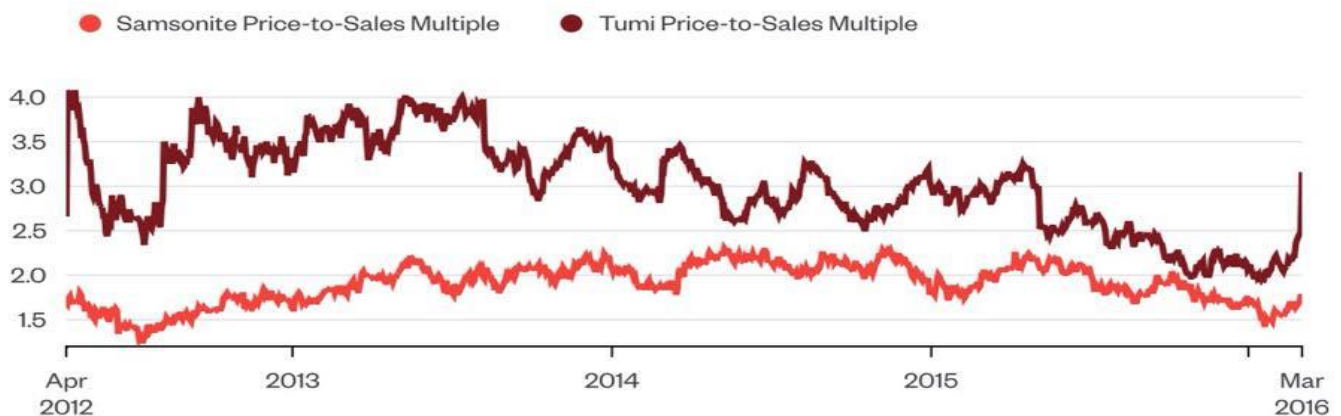
Samsonite, whose cash balance is c.\$200m, will finance the acquisition mostly with loans, taking advantage of the current low interest rate environment. With regard to this matter the company has already secured financing from Morgan Stanley, HSBC, SunTrust and MUFJ.

Price analysis

The price offered (\$26.75 per share) represents a premium of 33% on Tumi's share price on March 2 (\$20.13), the day before the deal was announced.

In order to better assess the magnitude of the premium we looked at the multiples of the transactions. Samsonite is paying about 3.1x TTM revenue, when the median for acquisitions on the apparel, footwear and accessories sector is 1.5. Furthermore, the purchase price values Tumi's EV at 14.5x EBITDA. Considering that Samsonite's own EV/EBITDA is 11.7, the acquisition cannot be considered cheap by any standard. That said, there is consensus between analysts that the merger offers considering revenue-boosting opportunities and cost saving thus explaining the high multiples.

According to Samsonite CEO, Ramesh Tainwala, the current valuations of the 2 companies are more favorable to Samsonite than they have been in the past years. Indeed, looking at the graph below, we can see that the gap between Tumi and Samsonite's valuations has been shrinking considerably.



Source: Bloomberg

Tumi's revenues increased last year at the slowest rate since 2009 as a result of currency fluctuations and weaker traffic from Chinese tourists. The setbacks sparked a decline in Tumi shares that reduced its valuation advantage over Samsonite to about half of what it was in 2012 (based on the multiple of price to sales).

Market reaction

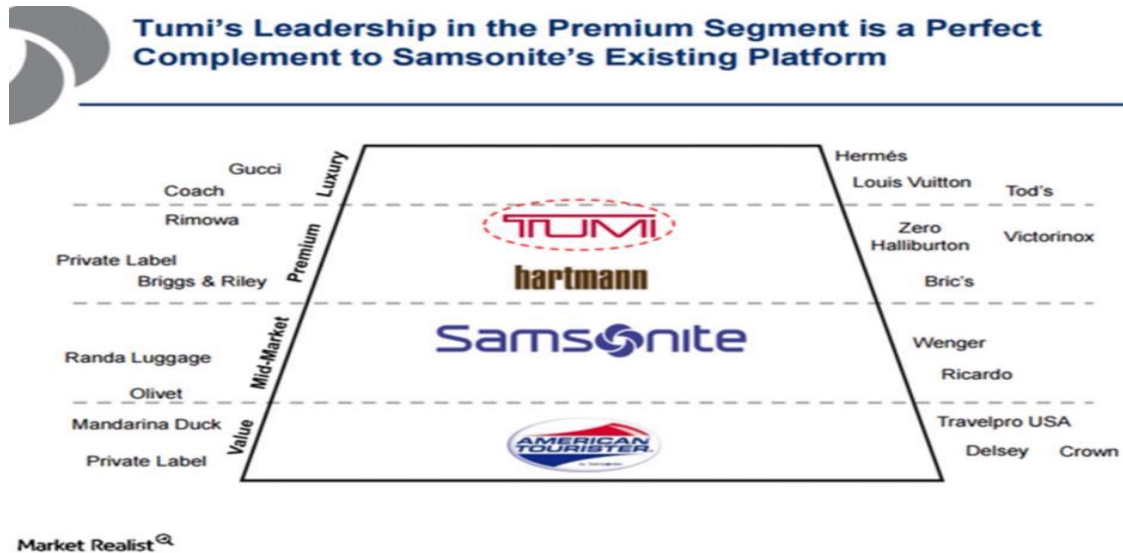
After the deal was announced Samsonite shares rose as much as 6.3% to HK\$25.20 in Hong Kong, the highest intraday level in four months. Tumi shares jumped 30% to \$26.20 at the close of trading day on Thursday 10.

Deal Rationale

The acquisition of the premium luggage brand Tumi comes as part of Samsonite's continued global acquisition strategy. In fact, since 2012 Samsonite has announced nine acquisitions, aiming to double its annual sales to c.\$5bn in the six years ending 2020, as it expands into distributing and selling other travel and non-travel bag brands. To name a few, in the past two years

Samsonite purchased French luggage brand, Lipault, a US-based cellphone case maker Speck, and Germany leather goods manufacturer, Hartmann.

One of the main reasons behind the hunt of the luggage giant Samsonite for the premium luggage-maker Tumi is its complementarity with Samsonite's portfolio of brands. A core-brand as Samsonite is very widely distributed and as a result does not have the attraction a premium brand would need to have. Therefore, the acquisition of a high-end brand Tumi should help the company rebalance its portfolio of baggage brands.



The deal seems to have upside potential for both companies. On the one hand, Samsonite will gain from diversification of its product portfolio, expanding its presence in the highly attractive premium segment of the global business bags, travel luggage and accessories market. On the other hand, the New Jersey-based Tumi with two thirds of its net sales in the US market (as of 2015) will benefit from Samsonite's growing global infrastructure when expanding further into key markets such as Asia, Europe, and South America, where the latter has a substantial clout.

Conclusions

Ramesh Tainwala, the CEO of Samsonite, stated that at the moment his focus is on the integration of two companies. In addition, he emphasized the importance of retaining Tumi's design team, as the backbone of its successful premium product in order to ensure the quality of the brand remains intact post acquisition. Both statements provide some confidence that the companies are on the same page in terms of the future development of the combined entity. Despite the fact that the acquisition does seem to create a company with a great mix of products, distribution channels and plenty of synergies to be unlocked, there is still a lot to be done to justify the premium paid. However, the surge in both companies' share prices after the announcement indicates that the markets trust Mr. Tainwala experience in pursuing inorganic growth strategies without underestimating the importance of innovation.

Financial Advisors

Morgan Stanley advised Samsonite on the acquisition, while Goldman Sachs Group advised Tumi.

Tags

Samsonite, Tumi, Innovation, Premium, Luxury, Takeover, Morgan Stanley, Goldman Sachs, luggage

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