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FINANCIAL SERVICES

Merger and acquisition successes point to healthy luxury market

May 25, 2016

Dr. Jart+ was acquired by The Este Lauder Companies in late 2015

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SAN FRANCISCO Merger and acquisition deals show signs of a healthy luxury market across most sectors, according to an executive from Deloitte Corporate Finance.

Luxury sales are climbing largely because of hotels and automobiles, but acquisition patterns show that fashion and jewelry are continuing to innovate and produce quality product. While the slowing economy has put luxury brands in a tough position, healthy amounts of venture capital show that the sectors are healthy, meaning that proper marketing is the key component of growth.

"Companies need to grow," said Michael Garcia, senior vice president at Deloitte Corporate Finance. "Especially public companies have a mandate from investors to grow, and one of those ways is doing acquisitions.

"The need to grow specifically drives acquisitions and several companies out there are known for making acquisitions and growing as a result, so they have premium valuations."

Strategic investments

According to the presentation at Financial Times' Business of Luxury Summit on May 23, personal luxury goods continues to dominate the market, and a healthy 12.9 percent growth indicates continued interest, even as that growth is offset by currency fluctuation. At constant exchange rates growth was a mere 2 percent, but that points to the state of the economy, not consumer interest.

In the apparel sector, shows are the primary growth area, while branded jewelry is offsetting the drop in interest in the watches sector.

Taking mergers and acquisitions as a sign of market healthiness because of the impact they have on growth, Deloitte found that 47.5 percent of the deals were in the personal luxury goods segment, with another 36.2 percent in the hotels. The predominance of these sectors shows that investors are looking for substantial property assets to protect themselves against economic volatility and currency fluctuations.

More tellingly, two thirds of sellers sold for strategic rather than financial purposes, indicating that entrepreneurs are continuing to find ways to monetize their ideas and are looking to investors for growth. In addition, earnings before interest, tax, depreciation and amortization on these deals were multiples of more than 10 times the original investment in more than 72 percent of cases.

Hotels were particularly lucrative, comprising more than half of deals where EBITDA returns were more than 15 times the original investment, indicating the principles of operating leverage and economies of scale will help hoteliers capitalize on a globalizing, more accessible world.

Survey respondents, which consist primarily of equity investors, forecast the fashion and luxury market to grow at least 5 percent in 2016, with cosmetics and fragrances, furniture, apparel and accessories and cars being regarded as the most likely growth sectors.

Yachting is the most negatively viewed sector, with 25 percent predicting decrease compared to just 30 percent increase, but private jets and cruises are also not high priorities for investors.

Together, the merger and acquisition patterns and forecasted growth suggest that consumers will continue to crave the range of products brand have to offer, with the primary challenge for marketers being positioning the brand ahead of competitors.

Picking a partner

When it comes to investing in a brand, there is no magic formula for identifying the proper brand, time or terms, according to a panel at the FACC Luxury Symposium 2016.

From the brand's side, entrepreneurs need to be thinking about and preparing to seek venture capital before they actually need it. While there is no consistent method, a number of guidelines and principles can go a long way toward helping brands and investors have mutual success (see story).

Although mergers and acquisitions are more generally thought of as involving smaller brands, the hotel world recently saw a large merger that illustrates the continued value of the growth strategy.

After a prolonged back-and-forth complicated by competing offers, Starwood Hotels & Resorts signed an amended definitive merger agreement with Marriott International. The merger saw Marriott purchase Starwood for $12.2 billion. Together, the two companies operate upwards of 5,500 hotels and more than 1 million rooms.

A large, global group of hotels will allow the combined company to leverage economies of scale and continue to grow at a fast rate. A business move that will make expansions and improvements less expensive has considerable benefit to consumers in the long run, who will be able to stay with the company in more locations and enjoy better services and amenities (see story).

"It is about change," Mr. Garcia said. "Things are always changing, and when things change you have some choices. You can do nothing, you can look at your own brand and create something different with it, or you can acquire, and we are seeing a lot of that as well."