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FINANCIAL SERVICES

# Independent luxury houses seek scale, growth via M&A

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*Missoni recently sold a minority stake in its family-owned company. Image credit: Missoni*

By SARAH JONES

In response to an increasingly competitive and expensive luxury business, a number of independent luxury houses have sought outside capital through acquisitions or investments.



In June, Italian lifestyle label Missoni became the latest independent family-owned house to sell a stake in its brand, following in the footsteps of others including Versace. As heritage brands seek to advance and keep up in an evolving luxury business, is the fully independent label poised to become a thing of the past?

"In today's hyper competitive luxury marketplace, independents require significant amounts of capital to innovate, produce, market and sell and scale globally," said Milton Pedraza, CEO of the Luxury Institute, New York. "Outside investors with patience are required for that purpose, and today there are many specially from Asia and the Middle East.

"The independent houses will continue to exist but most will require and seek investors to grow to critical mass," he said. "Without critical mass these brands cannot invest for the long-term and must live from hand to mouth. That's not a valid or successful formula in today's unforgiving luxury landscape."

### Takeover trend

In recent years, a number of independently owned houses have been scooped up by investment firms and conglomerates.

For instance, LVMH acquired the previously family-run jeweler Bulgari in 2011.

During a panel at the Financial Times Business of Luxury Summit in 2017, Francesco Trapani, the former CEO of Bulgari, explained that when a larger group or brand makes a purchase, it is often because the company bought is family-owned and the next generations do not have an interest in continuing on that path. This was the case of Bulgari when Mr. Trapani and his family, who founded the jeweler, sold to LVMH (see story).

*Lily Aldridge for Bulgari's Lager than Life campaign. Image credit: Bulgari*

In addition to Bulgari, LVMH bought a majority stake in fellow family-owned cashmere label Loro Piana in 2013. More recently, it added German luggage maker Rimowa to its stable of brands.

Kering, meanwhile, purchased family-owned Pomellato in 2013 and independent watchmaker Ulysse Nardin in 2014.

"Independent high-end watchmaking manufactures are rare," said Franois-Henri Pinault, Kering's chairman and CEO, in a statement at the time of the Ulysse Nardin acquisition. "This is an opportunity that we had to seize, particularly because this structural acquisition will enable us to take advantage of numerous synergies with our existing brands."

For independent houses, becoming part of a larger conglomerate brings the benefit of scale. Particularly as luxury houses navigate the transition to digital, being able to share best practices across an umbrella of brands puts them at a competitive advantage.

*Rimowa joined LVMH in 2016. Image credit: Rimowa*

In addition to joining established groups, other independent houses have seen capital infusions or takeovers from investors.

In 2013, jeweler Buccellati sold a 60 percent stake to private equity firm Clessidra, with the Buccellati family retaining the remaining shares.

Four years later, Clessidra and Buccellati sold 85 percent of the company to Chinese group Gangsu Gangtai

Holding. With this investment, Buccellati sought to expand its presence internationally (see story).

"[Independent brands] seek outside capital as it has become very expensive to globalize," said Ashok Som, professor of global strategy and chair of the management department at the ESSEC Business School, Paris. "This is mainly due to the synergy effects that conglomerates have bought inside the business.

"To reach ever changing HHNIs who are new customers across the globe, doing business has become much expensive than before," he said.

Clessidra also purchased a majority stake in Roberto Cavalli in 2015, with the brand's eponymous founder retaining a 10 percent share in the company (see story).

Similarly, French fashion house Balmain was sold to Qatari-based Mayhoola for Investments in 2016.

In 2014, Balmain's CEO and controlling shareholder Alain Hivelin died, leaving the fashion house's future uncertain. His majority ownership passed to a holding company owned by his family, which then sold a majority stake to Mayhoola (see story).

*Balmain's fall/winter 2017 advertising campaign. Image credit: Balmain*

While many acquisitions have left families with minority stakes, others retain the brand owners as controlling shareholders.

For instance, investment firm FSI took a 42.1 percent interest in Italian fashion label Missoni in June.

With this transaction, the Missoni family will retain a majority controlling interest in the company, which is now in its 65th year. As Missoni looks to better compete in the global fashion industry, this investment will give it additional capital to do so (see story).

For brands that want to remain independent yet successful, investment is often needed.

According to Versace's then-CEO Gian Giacomo Ferraris at the Cond Nast International Luxury Conference in 2016, being able to compete with conglomerates in the digital space requires capital.

The brand got additional funds with the help of investor Blackstone, which took a 20 percent stake in the company in 2014. The brand is open to and working on an IPO (see story).

*Versace fall/winter 2016 campaign. Image credit: Versace*

"We see many more new ways to get investment in a brand," Mr. Pedraza said. "Whether it is angels or VCs, partners,

or even fans and consumers, we see more funding sources for brands, not less.

"The blockchain will enable even more of this activity," he said. "Funding may become more like betting than investing."

Independently minded

Not all independent luxury houses are seeking a takeover.

Independent French fashion label Chanel just revealed that its sales totaled $9.62 billion in 2017, an increase of 11 percent from the previous year.

While its status as a privately owned company means that Chanel does not have to publicize its results, the house opted to publish its financial figures for the first time in its history. In interviews with Reuters and The New York Times, Chanel chief financial officer Philippe Blondiaux noted that by voluntarily publishing the results, the house was not planning to go public or seek acquisition, instead intending to stay private for the long-term (see story).

Herms similarly fought to stay out of LVMH's hands in multi-year legal battle.

The settlement of the feud between luxury conglomerate LVMH Mot Hennessy Louis Vuitton and leather goods maker Herms benefits both parties, but what does it mean for other independently-owned luxury brands?

After battling to retain control of its company against LVMH, Herms finally got the resolution it asked for years ago: for LVMH to reduce its amount of shares of the label (see story).

"Family-owned houses can still be competitive but focus and super niche is the key," Mr. Som said. "One cannot survive by doing everything that brands under conglomerates are trying to do. For example, what Gucci or Louis Vuitton today can do, very few independent houses can afford.

"I see two fundamental trends. Super-specialization and super-customization on one hand and rise of transactions and sales on the other," he said. "Those who are doing well will be rich in cash and will buy. The rest to survive had to find their super niches."