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COMMERCE

Future of luxury investment: it is a seller's market

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LVMH is worth around four or five times the market cap of its competitors, according to investment experts. Image credit: Louis Vuitton

By NORA HOWE

The luxury sector has seen a recent uptick in merger and acquisition activity as well as innovative investments, and experts believe consolidation will continue and conglomerates will grow stronger.

Investors are seeing a trend in major companies expanding their portfolios outside of their core categories, investing in capabilities over brands, as evidenced by LVMH's step into hospitality and Kering's interest in resale and circular consumption. During a session at the *Vogue Business* and Google virtual summit "The Way Forward" on Nov. 10, luxury investment experts suggested the state of luxury expansion is founded on securing talent within companies and seeking consumer-centric capabilities for future generations.

"The luxury industry will be dominated by companies that can think creatively about how to increase their share of consumer attention," said Swetha Ramachandran, investment manager at GAM Investments.

"LVMH, for example, has caught onto this through its approach across wines and spirits, fashion and leather, watches and jewelry and perfume and cosmetics," she said. "This consumer-centric approach is increasingly something I would expect other companies to adopt."

State of M&A

When luxury M&A, especially as the world emerges from the COVID-19 pandemic, company size matters.

Well-known, or blue chip, brands have an edge on competition, and their size allows them to secure, manage and leverage top talent. As companies quickly adapt to new processes and demands, attracting the right talent will be key.

"This industry is changing pretty swiftly, and if you are one of the outperforming conglomerates, you have the means to attract, retain and develop talent," said Erwan Rambourg, global head of consumer and retail equity research at HSBC.

"If you're looking to evolve your business model, go beyond the current crisis, continue to gain share and to be at the top of your game, scale will matter," he said. "The bigger conglomerates are in a good space to be able to attract that

top talent."

French conglomerate LVMH is a prime example of a company that attracts a large portion of traffic and appetite, thus gaining negotiating power over other global operators.

LVMH acquired Tiffany & Co for $15.8 billion between 2020 and 2021. Image credit: Tiffany & Co

In the last year alone, LVMH has acquired or increased its stakes in Tiffany & Co., Off-White, Etro and Tod's (see story).

Another major shift among luxury investment behavior is the issue of buying versus selling. The market is currently favoring sellers, and since cash is in abundance, the issue lies within which targets are willing to sell.

This is key when it comes to the common question of why LVMH has not yet acquired Chanel. According to panelists, it is not necessarily about LVMH's inability to secure the acquisition, but instead that Chanel is simply not in a position to sell its shares at this time.

Similar questions have been asked of conglomerates Kering and Richemont, which have dismissed rumors of a possible merger as recently as this spring.

"Richemont and Kering makes sense on paper, but the difficulty of that deal happening is probably linked to Johann Rupert, who is currently running Richemont," Mr. Rambourg said.

"Many speculate part of the pushback has been culture, and while the two companies have different cultures, they are not incompatible," he said. "I think convincing Johann Rupert that it's time to be proactive might be the bigger issue."

Another crucial part of navigating the dynamic world of luxury acquisitions is knowing when to sell, especially from a private equity standpoint.

For instance, Carlyle Group sees itself as a time-based investor, and what dictates that timing is whether it has accomplished the vision within its plan.

"When we invested in Moncler, we thought that the brand had the potential to become a global brand and to develop a retail presence, and we embarked on that journey," said Marco De Benedetti, managing director and co-head of Carlyle Group. "When we established Moncler as a global brand when direct-to-consumer represented more than 50 percent of the business we decided to take it public."

LVMH redirected investments from Fenty's ready-to-wear department to its skincare and cosmetics. Image credit: Fenty

On the contrary, conglomerates such as LVMH have pulled back on investing in brands that are not performing to its standards, redirecting money where there is greater return opportunities.

Earlier this year, LVMH paused its ready-to-wear label Fenty, less than two years after it was launched (see story).

Kering goes for circularity

While companies look to expand their capabilities through new investments, Kering has honed in on the resale market, a popular sector among younger consumers.

The secondhand fashion sector is forecast to be worth more than $60 billion by 2025. The growth is being accelerated by younger consumers who keep sustainability top of mind, as well as more interest in online communities and social shopping.

In March, the French group was joined by U.S. investment firm Tiger Global Management in a financing round for resale platform Vestiaire Collective worth 178 million euro, or $216 million at current exchange.

Vestiaire Collective's transaction volume grew 100 percent year-over-year, and is using the funding for its next cycle of growth (see story). As of September, the platform is worth $1.7 billion.

In July, Kering expressed further interest in the circular fashion space with an investment in luxury subscription handbag rental service Cocoon, marking a noteworthy shift in how luxury is approaching the rental/resale market (see story).

"In the next 10 years, millennial and Gen Z consumers are going to make up over two thirds of the total consumer base," GAM Investments' Ms. Ramachandran said. "In terms of capabilities, companies need to think less about brands, per se, and more about acquiring competencies that can win over a new, digitally savvy generation of consumers."