From Handbags to Athleisure, European Private Equity Investors Splurge on Luxury

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Twenty years ago, Net-a-Porter (now YNAP following merger with Italy's Yoox) started selling high-end fashion online. While its entrance to the luxury goods market was met with reluctance, it paved the way for other luxury brands, founded on in-person experiences, to embrace e-commerce.

Originally considered a Millennial experience, older generations have adopted similar online shopping habits. As a result, many brands developed e-commerce platforms over the years, but the pandemic accelerated the trend as shopping at retail locations ceased.

Online shopping is not only convenient for customers, but also it creates opportunities for brands to engage with new customers in new ways. It also allows brands to reach shoppers anywhere worldwide while travel is at a standstill. Looking ahead, e-commerce capabilities will be critical to success, but in-store experiences will not lose their luster when in-person shopping returns. This especially holds true for when tourism, and the resulting shopping, begin again in earnest.

Shoppers Turn to Comfortable Luxury to Stay at Home In

Like many industries, luxury goods companies struggled in 2020, but at the same time new—and promising—trends emerged during lockdown. As people stay home and seek comfortable, yet stylish, items there has been an uptick in sales of activewear, loungewear and homewares, according to a recent Vogue article. Additionally, shoppers are willing to purchase "investment pieces" that have lasting value.

Notable transactions in the space

GOLDEN GOOSE

Founded in 2000, Golden Goose Deluxe is an Italian high fashion company producing mainly footwear, as well as apparel and accessories

- 2018 Revenues of Euro 187 million and EBITDA of Euro 49 million

In 2013 the Company was acquired by Riello Investimenti and Style Capital for an undisclosed consideration

Ergon Capital had acquired the company in 2015 for Euro 130 million (EV / EBITDA ~12.4x) and sold it to Carlyle in 2017 for ca. Euro 440 million (EV / EBITDA ~14.5x)

In 2020 Carlyle sold Golden Goose to Permira for an approximate consideration of Euro 1.2 billion

Deal rationale:

- Acquire a fast-growing high-end fashion company, with strong positioning in the luxury sneaker market globally
- Build upon Golden Goose's unique brand identity and capacity to innovate
- Accelerate the company's strong worldwide retail and online presence

MONCLER

Moncler, founded in France in 1952, is now an Italian luxury apparel and lifestyle company, most known for its down jackets and sportswear

- 2019 Revenues of Euro 1.6 billion and EBITDA of Euro 664 million

In 2003, Moncler was at the brink of bankruptcy and was bought by Remo Ruffini

Ruffini managed to transform the brand's apparel from a niche and functional piece of clothing for adventurers, to a trendy, yet luxury fashion product

During the recent years, Moncler received multiple investments from several financial investors, including Progressio SGR in 2005, Carlyle (2008) and Eurazeo in (2011)

In December 2013, the company completed an IPO to gain major visibility among the leaders in the luxury apparel

Today, the market values Moncler at:

- Euro 8.5 billion Equity Value
- Euro 9.4 billion Enterprise Value
- LTM EV / EBITDA multiple of 14.2x

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These trends are expected to remain post-pandemic—more individuals are joining the trend towards high-end sneakers and comfortable footwear while also wearing outfits that can transition from the office to happy hour or even a yoga class. These garments are relatively easier to produce and can be sourced globally—creating cheaper and higher margins for brands. They are also easier to restock, which allows brands to quickly place the products in the hands of their customers to enjoy emerging fashion trends. However, customers will only purchase items if the brand "allure" and the fashion content are preserved. A sweatshirt from a top-notch designer and one from a mainstream brand have lot in common except for the exclusive feeling that comes from owning a luxury item, which is a mixture of brand strength, shopping experience and a scarcity factor.

Size Matters in Luxury

The luxury goods industry has been in a period of consolidation over the past 10 years because M&A can help create economies of scale—opening the door to prime physical locations, the latest technology and top-notch talent.

Physical locations: Retail locations and flagship stores only found on 5th Avenue, the Champs- Élysées and Via Montenapoleone will flourish, even in a digital world, because people seek in-person, white-glove service and shopping experiences that cannot be fully replicated online. Access to this coveted real estate is much more feasible for corporate conglomerates in the luxury space.

Talent: As part of a larger company, brands have access to the very best talent. Often, brands can leverage the expertise of designers outside of their line to ensure their creativity stays fresh and they are in front of the latest trends.

Technology: Access to the latest technology can create and strengthen a brand's digital presence by offering visibility into the product lifecycle from the designer's desk to the moment the piece arrives perfectly packaged at a customer's home. By leveraging technology to track the sourcing of every piece of leather or zipper all way through to last-mile logistics, brands can guarantee a high-quality, seamless e-commerce experience. Furthermore, digitalization of the supply chain will create a greener and more sustainable product footprint, especially for personalized items. This is important as Millennials are demanding eco-friendly products that are sourced form labor friendly locales. It will also lead to destocking, will take away price pressure and potential issues with reselling, discounts and brand dilution on a global scale while also strengthening the new affluent, yet sustainability conscious, customer relationship. Conglomerates can achieve this because they can afford the necessary strict controls across a very complex supply chain.

Additionally, diversity created through consolidation allows luxury goods companies to create financial resilience—enabling them to better withstand dips in sales. Even after the 2008 Financial Crisis, luxury goods spending continued and brands that offered diverse items, from a high-priced handbag to a T-shirt, excelled in the following years.

Lincoln Perspective

Between 2010-2019, the European luxury market grew 1.9% and before COVID-19 was expected to grow 3.1% until 2024. Unsurprisingly, Italy and France have been the most active in luxury market M&A, with Italy closing 95 and France closing 71 deals in aggregate between 2010 and H1 2020, according to Mergermarket. Despite the coronavirus pandemic, figures in H1 2020 are almost the same as H1 2019—demonstrating that deals are still getting done in this environment.

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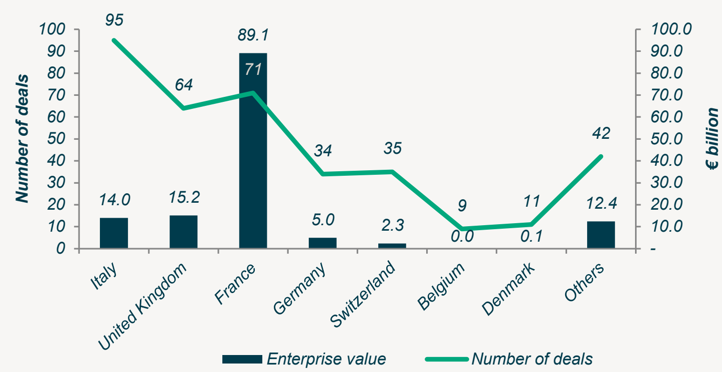
Deals completed by target geography – aggregated value 2010-H1 2020



€ billion	Italy	United Kingdom	France	Germany	Switzerland	Belgium	Denmark	Other
Number of deals	95	64	71	34	35	9	11	42
Enterprise value	14.0	15.2	89.1	5.0	2.3	0.0	0.1	12.4

Source: Mergermarket

The Euro 89.1 billion enterprise value in France is justified by the acquisition of Christian Dior SA by Bernard Arnault, valued at Euro 52 billion

Consolidation of medium-sized luxury over the next three years will be driven by the cash flow pressures placed on them following larger players' investments in digitalization and an overall omnichannel experience to create global scale and ubiquitous brand appeal. Larger conglomerates are well positioned to purchase these medium-sized companies, further benefiting from economies of scale.

The opportunity for private equity investors, especially in Italy and France, is to purchase, grow and sell luxury suppliers, luxury services companies, and up-and-coming brands. For emerging brands, this can be through a "plug and play" strategy, where PE can sell to larger luxury conglomerates, filling a gap in their brand families and realizing the brand's potential through the buyer's global reach.

When evaluating potential targets, Lincoln International identified three factors to keep in mind:

Examine the brand equity. Brands come and go and fashion trends are fickle. As a result, only a few manage to build brand equity strong enough to survive the passing of time, even after years of neglect. Gucci was a completely forgotten brand in the 1980s but is now the EUR9BN sales star of Kering's universe and from 2003 to today, Remo Ruffini built Moncler into a EUR10BN market value. A luxury goods company is comprised of many parts—of which only one is product. People buy a luxury item because of the unique experience created by owning a well-crafted item from an acclaimed producer who can tell a story of exclusive materials, hours of hand work as well as decades of proprietary design. Items that can project taste, status and image come at a price and that is the secret to earning very high margins over time. Before making a purchase, PE investors should devote extensive time to review the target to ensure it meets those criteria and that the management team has a realistic vision and skill-set needed to further develop the brand.

Create supply chain platforms. With such complex networks of global supply chains, there is an opportunity for PE investors to use add on acquisitions to create a luxury supply chain platform. Avoiding disruptions in the supply chain, while still ensuring quality, will make sure luxury client reputation remains strong—important at a time where loyalty takes time to build but is easily lost.

Recent consolidation processes in the Italian luxury and fashion suppliers segment

Owner fund	Platform company	Platform vintage	Platform description	Platform Net Sales [1]	Add-ons timeline 2018	2019	2020
Chequers Capital	riri	Nov-18	Manufacturer of zippers and buttons	> €140m[2]			Coeurdor Surfaces Synergie
alpha	A.M.F snaps	July-19	Metal and non-metal components for apparel	€50m	Made Black / Figrosi		mim
H.I.G. Capital	Cadica Integretaile	May-19	Producer of hangtags and labels for fashion brands	€43m[3]		Bernini / Tessilgraf	Giorgi Boxes & Packaging
Star Capital	IPS International Promo Studio	Oct-18	Manufacturer of high-quality denim and prêt-à-porter	€43m[3]	Moda Italia sartoria industriale		
Equinox	VPA	Jun-20	Manufacturer of jewellery	€41m			Vendorafa
Mandarin Capital Partners	Gruppo Margot	Oct-19	Metal accessories and hooks for bags and others	€39m[2]			Morini
bravo invest	MW Metalworks	Dec-16	Manufacturer of leather and metal components	€32m[4]	FGF Leather Accessories		

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Invest in software services. The U.S. is the market leader in software, but there is an opportunity for European players to grow within the space. Specifically, there are applications within the luxury market where investors will find success. For instance, traceability software is critical to ensure items are not sourced from companies that abuse labor practices or safety standards and that they are engaging in sustainable practices. It will also enable luxury clients to track the time for each stage of the supply chain to determine how long it takes to manufacture a product from start to finish and manage post-sales customer care online to enhance the brand appeal and engagement for future sales.

A fashion-tech example: Temera

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Temera is active in the development of solutions based on innovative use of IoT technologies like RFID (UHF NFC) and BlockChain, specifically designed for Fashion & Luxury industry

The Company has an own software platform that powers various applications ranging from production/digitization, supply chain automation to retail store management, product authenticity & warranty management incl. interfaces to enterprise software

Key Facts

>€15m	~16%	~100	650m	150
2019F Net Sales	EBITDA Margin	Employees	Scanned products	Delivered projects

Main Clients

ARMANI, BRIC'S, BVLGARI, Loro Piana, PRADA, PINKO, roberto cavalli, Cartier, BRUNELLO CUCINELLI

Trending Investment Area: Convergence of the Physical and Digital

Luxury brands have shifted to address an increase in online shopping during the COVID-19 pandemic. In this climate, technology providers enabling a better omnichannel experience in the luxury industry draw broad investor appeal.

One such player facilitating the convergence between physical and digital is the Lutech Group, a leading European provider of information and communications technology services and solutions, which helps luxury brands bring their unique in-store shopping experience online.

Through the integration of traditional, digital, and mobile solutions, luxury brands can:

Improve in-store conversion rates by selling and shipping items not found in the brick and mortar store, but available at a different location.

Increase the effectiveness of the purchasing experience through a contact-free process that speeds up checkout while also increasing the time a sales associate spends with a customer when retail locations reopen.

Optimize omnichannel fulfillment and in-store activities by engaging sales assistants in the preparation and shipment of products ordered online and managing inventories and products from a single mobile app.

Enable store personnel to engage with customers through digital one-to-one marketing and a centrally organized CRM.

As online shopping becomes the "new normal" in an industry built on in-store experiences, luxury brands are adapting. Private equity investors see the appeal in tech providers powering this industry-wide transformation.

Source: Rocco Corridoni - Lutech Industry Leader - Fashion & Retail

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