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The M&As in the Luxury Industry: a study of the phenomenon and of its main consequences on companies' ownership within the sector

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Academic Year 2016-2017

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Introduction

The main objectives of this paper are two: the study the M&A phenomenon in the luxury industry and the identification of its major players and the consequent ownership situation of luxury companies. The reason why this sector has been chosen is because of its differences and peculiarities compared to the others that have influenced the M&A path over the years. The focus on the ownership structure, instead, has been stimulated by a recent trend highlighted by many researchers and according to which financial entities like Private Equity funds and Holdings have entered the sector in the last ten years, participating to the overall M&A activity of the considered industry: the aim of this paper is to understand the main consequences of this new phenomenon within the analyzed industry. Both points will be deeply discussed in the following three chapters where the answers to the two main questions have been developed as well.

First of all, it is important to understand what the acronym M&A stands for and what it means: M&A, Mergers and Acquisitions, is a common expression that refers to specific kinds of transactions between two companies: mergers, acquisitions, consolidations, tender offers, purchase of assets and management acquisitions. In all these cases, at least two companies are involved, a target and a buyer, although the final result will be different depending on the chosen kind of transaction. The first chapter will go through the study of the M&A trend at general level, which means considering all the industries worldwide, to examine whether it exists a logic behind their clustering over the years, starting from the end of the XIX century till the beginning of 2017 and whether a theory has been already created to explain this phenomenon. Furthermore, an analysis of the current situation will be provided to understand where we are in the cycle, once verified that a cycle actually exists. Finally, it will also explore the sources of value that companies seek to create when doing M&As, not only considering the target company (and still it is quite a big issue, given the large number of evaluation methods), but also others related to more practical benefits that the transaction between the two specific companies may bring and to liquidity and control features of the target shares. All in all, it will be illustrated that the key point comes from confronting the price with value of the transaction to understand whether it will create or destroy value for the buyer company.

The second chapter has the aim of providing general and relevant information and data on the luxury industry, in order to give a useful background to better understand studies and results on

M&As in this specific sector discussed in chapter three. At the beginning, a description of the market will be provided in terms of sales, growth rates and segments, to have a clear picture of its scope and of how it has evolved along the years, with a particular focus on the Personal Luxury Goods segment. It will be followed by a more qualitative description of the luxury industry's main peculiarities that make it different from the others, indeed influencing its sales cycle and trends; this analysis will illustrate features belonging to both offer and demand sides. To conclude, there will be a detailed and at the same time concise insight on this sector's main players, some of which will be recalled also in chapter three as they are also very active M&A players. Following this path, a focus on the three most known luxury holdings (LVMH, Kering and Richemont) will be done, to understand their scope of activity from a business and geographic point of view. Finally, it will be discussed the new already anticipated trend that has been spreading in the industry in the very last fifteen years, that is financial firms' entrance and in particular PE funds and Holdings participation, which has also provided interesting results in chapter three concerning their activities in M&As. Through an analysis of Market Mogul and Financial Times, the main factors that have made this sector appealing to entities other than strategic will be deeply discussed, anticipating part of what has come out from the research case of chapter three.

The third chapter will go in detail with the M&A phenomenon in the Luxury Industry, in order to understand whether the M&A theory discussed in the first chapter is valid and to what extent, but also to explore the degree of openness of this sector to financial markets and to a less family oriented ownership, anticipated in chapter two, in order to understand whether a change in the preexistent ownership situation has happened in the most recent years, thus facing and achieving the two objectives of the paper mentioned at the beginning.

First of all, a numerical insight on M&As happened in this sector will be illustrated, which will provide interesting results, given that the luxury industry has always had a per se growth path and endogenous trend compared to the other sectors, as deeply remarked in chapter two. The outcome will then be confronted to the general trend and to the main macroeconomic data of the whole industry. Afterwards, an in-depth analysis of the main players will be provided, to examine in detail who has purchased luxury companies the most, given the recent entrance of financial companies in this sector, especially by Private Equity funds. The selling side will be studied as well to see from what to what companies luxury targets are going. The same reasoning will be applied on a geographic base, dividing the world in six main regions: Europe, North, Central and South America, Asia Pacific (APAC) and Middle East and Africa (MEA). As it will come out from the discussion, Europe is the most active region, therefore a focus on it will be done, to understand where European players come from and, among luxury targets remaining in Europe, which ones have moved from a European country to another in terms of ownership. Finally, a focus on luxury segments will be provided, not only on the deals made in each of them over the years, but also on their main investors, again from an activity point of view (corporates against financial) and from a geographic one, following the same path used for the whole industry analysis.

The main sources of this thesis have been academic financial books on the M&A phenomenon and on the main sources of value creation, while articles and reports have been used to analyze the luxury industry and its features and, finally, chapter three's sources have been a strictly confidential database, provided by my thesis supervisor of LUISS Guido Carli, together with the two platforms Zephyr and Orbis, with all the information on deals, players' name, activity and nationality.

Chapter one: The M&A phenomenon

1. Introduction

M&A is a common expression that refers to specific kinds of transactions between two companies like mergers, acquisitions, consolidations, tender offers, purchase of assets and management acquisitions. Mergers occur when two companies become one legal entity as agreed by both companies' boards of directors and shareholders. Acquisitions consist in a company purchasing another firm's majority stake, usually agreed by management and shareholders of both firms; consolidations happen when two companies create a new one of which they hold the common equity shares. Tender offers instead are share purchasing transactions that completely bypass the target company's board and directly communicate with its shareholders. Especially when a firm goes bankrupted, it may happen that another one buys the assets that explains the second last phenomenon. Finally, management acquisitions (also defined as management-led buyouts) occur when the executive committee purchases the controlling stake of a company, making it private and usually funded with a large percentage of debt, having the shareholders' approval.

Considering all the above mentioned phenomena, many researchers have studied how they have clustered over the years causing the so called "merger waves", that started around 1895 and happened for about six times, from USA to the whole globe. Although they are quite different one from the other, the common points are the beginning and the end, the first one usually fostered by favorable market and regulatory conditions and the second caused by a financial breakdown. The study of the last four to five years of the XXI century have led to discover the possible existence of a seventh wave that is not over yet, but indeed further research will be needed. The first two paragraphs will go through these topics quite deeply.

Finally, the third paragraph will explore the sources of value that companies seek to create when doing M&As, as it does not come from the target company only (and still it is quite a big issue, considering the large number of evaluation methods), but also from the synergies such transactions may create, as well as the degree of control and liquidity of the target shares. All in all, the key point comes from confronting the price with value of the transaction to understand whether it will create or destroy value for the buyer company.

2. The merger waves

Researchers and analysts have studied so far the path of M&A generation and development and have noticed that it tends to draw a wave that starts in a certain year when deals tend to increase compared to past, then remarkably grow, till they crash and end, to restart again after a few years. This is the most accredited theory used by many researchers also mentioned in this paper and according to them, since 1895 six merger waves have happened until now and there is the hypothesis that a seventh wave has begun in these last four years. By studying both the value and the number of transactions, a deeper understanding of their clustering over the years has been developed so far, specifically divided, where the first two were mainly experienced by the USA; Europe's first wave happened in the 1980s when US was experiencing its fourth. At the beginning of the XXI century, this phenomenon became global as Asia took part to it as well.

2.1 First wave, 1895-1905

Stigler has defined this period as “merger for monopoly” (1950) as many manufacturing companies made horizontal deals that put them in a monopolistic position within their industries and in 80% of the cases they were in the eight key industries in US: metals, machinery, food, fabricated metal goods, oil, chemicals and transportation equipment. In this period, many giants were born like DuPont, Standard Oil and General Electric and some of them still exist. Mainly two factors have contributed to generate this wave: the first one is innovation in both physical infrastructures (that for example helped in completing the railway connecting the Western part to the others within US) and technology in the production process that lowered the overall manufacturing costs and increased the production capacity enabling companies to grow and internalize more activities and thus stimulating mergers. The second one is the lack of regulation that allowed firms to make merger deals without any restriction and this enabled for example American Tobacco to gain 90% of the market share and JD Rockfeller’s Standards Oil the 85% in their industries through mergers. In fact, the Sherman Act issued in 1890 and aimed at putting limits to these giants’ power had not been de facto implemented until 1904 with the Northern Securities case when Antitrust regulation was applied for the first time[1]. This also caused the end of the first wave as American courts started to apply this regulation in many other cases that forced companies like Standard Oil and American Tobacco to be dismantled. At the same time, a crash in the stock market between 1903 and 1905 left companies without financial resources to keep their M&A activities on, so they strongly decreased for several years.

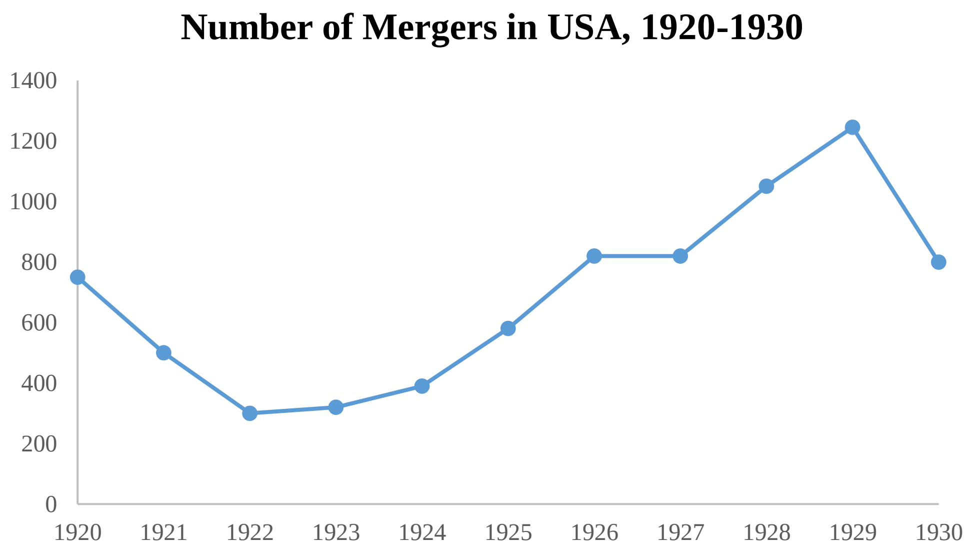
2.2 Second wave, 1920-1929

Defined by Stigler (1950) as the “merger for oligopoly” wave, it consisted in vertical integrations mainly operated by small and medium companies that wanted to increase their capacity scale to be able to compete against the giants that were born in the first wave. Considering this, together with the post-war recovery and the excess capacity coming from war

[1] After a financial fight between the Great Northern and Northern Pacific Railway’s president Hill and the Union Pacific Railroad’s president Harriman to control the Chicago, Burlington and Quincy Railroad, the two cooperated with the banker J.P. Morgan and the financier J.D. Rockefeller to create the Northern Securities Company holding that had the majority stake in the CB&Q, the Northern Pacific, and the Great Northern railroads. The US Supreme Court Judged this merger as unlawful and forced Hill to dismantle the whole company into the three original ones in 1904.

volumes of production, deals rose from 71 in 1918 to almost 800 in 1920; although there had been a marked decrease in the following two years, the number went up again reaching around 1245 in 1929, mainly occurring in the food, iron, paper and printing industries, as showed by the graph.

Exhibit 1.1: The second wave by number of deals



Source: *re-elaboration of data collected from* The US economy in the 1920s, *G. Smiley*

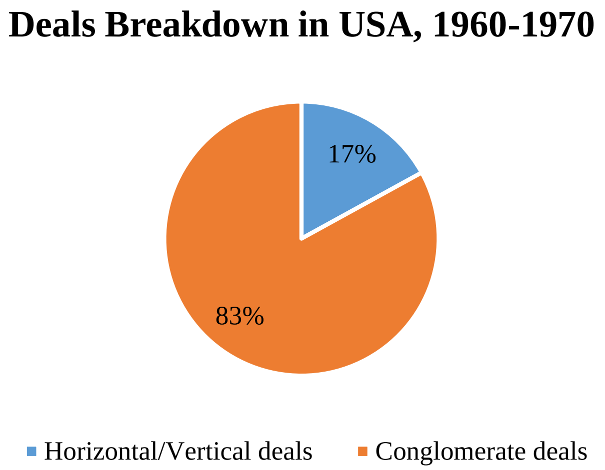
This made many mining, public utility and banking companies disappear (representing 17.5% of the total US assets) and giants like IBM, and General Motors arise and live until today. As in the previous period, technological progress and lack of regulation fueled this wave until the 1929 financial crash. For the first one, further improvements in the transportation system (like in railways and motor vehicles) and the birth of telephone and radio (that companies started to use to promote their brands) were the main drivers. For the second, the main focus of regulation were cartels, pools and anticompetitive actions like price fixing, against which the US government promoted a stricter regulation to protect competition in that period through the 1914 Clayton Act that enforced and gave further details on unfair behaviors anticipated in the Sherman Act. The consequence was a much stronger emphasis on the formers (that accounted for 39.6% and 34.9% of the cases falling under the Sherman Act between 1901 and 1930) while it was lower on monopoly and oligopoly as results of the mergers (only 13.2% were the cases between 1901 and 1930). The beginning of the Great Depression in 1929, due to the stock market drop, put an end to the second wave, as there were no more financial resources to sustain these deals, especially if we think that the Dow Jones Index decreased by 25% between October 24 and 28. Deals fell from 1254 in 1929 to 800 in 1930 and just a few were made during the Second World War up to the 1950s, with no particular relevance.

2.3 Third wave, 1960-1970

It is characterized by unrelated diversification deals, as in that period this strategy was quite successful as a way to reduce profits volatility by investing in unrelated markets and the conglomerate discount concept[2] was still quite unknown. The two fundamental factors that fueled this kind of deals were financial innovation and lack of regulation. Regarding the first point, two important elements are worth mentioning: the "P/E game" (it was discovered that a company with a high P/E, so Price over Earnings, could be combined with another with a low ratio, gaining high EPS over time, thus producing a further increase of the market price of the combined firms) and the "pooled accounting", which means that companies could get more paper gains by switching between accounting systems, that pushed managers to increase the number of deals to be made. About the second point, US regulation in the previous years became stricter on monopoly and oligopoly as ways to reduce competition on a specific market by giving a strong power to one or a few companies within an industry, but this was not perceived when it came to mergers in unrelated businesses. This brought to life many conglomerates like General Electric and caused a drop in horizontal and vertical mergers to less than 17% in the 1960s[3], as shown by the graph. The end of this wave was due to an economic recession occurred at the beginning of the 70s when the Dow Jones dropped by 40% and the oil crisis happened, worsening the situation.

[2] It means that a company as a whole is worth less than the sum of its parts.
[3] Weston et al., 2004.

Exhibit 1.2: Several kinds of deals' weight changed from a wave to another



Source: re-elaboration of data collected from Restructuring and Corporate Governance, *Weston et al, 2004.*

2.4 Fourth wave, 1981-1989

This period has been defined as the "anti-merger" wave[4] because of the many divestments of unrelated divisions by large conglomerates created in the 60s (60% of the unrelated businesses were sold until 1989[5]), thus the role of the "corporate raiders"[6] emerged, where these were people who restructured conglomerates whose value was smaller than the sum their parts, by doing hostile takeovers and leverage buyouts (LBOs). The major traits of this wave are essentially four: targets were larger than in the previous waves, hostile takeovers represented quite a high percentage of the overall takeovers in that period, LBOs increased so much to represent the 21.3% of all M&As between 1981 and 1987[7], where the 15% only happened between 1983 and 1986[8] and it involved all the sectors in the US. For example, Mobile Oil sold the retailer Montgomery Ward for $3.8 billion in 1988 and Paramount sold its finance company Associates First Capital in 1989. Indeed, a change in the government's mentality has been considered as one of the most important causes of this wave, as the Chicago School way of thinking was prevailing with its "laissez-faire" concept according to which markets work well to the extent nobody interferes and president Regan fully agreed with this statement; about it, it is worth noticing that antitrust cases fell from 1611 in 1977 to 638 in 1989. Furthermore, a

[4] Allen et al., 1995.
[5] Wasserstein, 1998.
[6] McCarthy and Dolfsma, 2013.
[7] Gaughan, 2010.
[8] Ravenscraft, 1987.

strong deregulation was applied, thus allowing a higher degree of concentration in many sectors. One final point to mention is that several international companies became active players in M&A in the United States and that the first merger wave occurred in Europe in this period. About the latter, many believe that 1986 is the official year of European Community's first wave, when the Single European Act was signed, creating the European Single Market. The most important trends to be registered in this period in Europe are a decrease in the national M&A deals (that still accounted for more than a half of the total European deals), an increase in the Community operations as many more companies were interested in cross-border activities and an increase in the international deals, where most of the acquirers were American, but there was also a slower increase in the number of international deals where the acquirers belonged to the European Community. Overall, the European Community's M&A deals accounted for around 20% of the global value of deals between 1985 and 1987. An end to the American economic expansion occurred together with a collapse in the stock market (on the Black Monday in 1987) which heavily decreased the financial resources that fueled the M&A activities, putting an end to the fourth wave. In this case, not only the Dow Jones fell by 22.6% overnight, but also the market indexes of the most important financial markets in countries like Australia, Hong Kong and UK.

2.5 Fifth wave, 1992-2000

It achieved very large numbers in terms of size, value and scale as around 13000 mergers were recorded each year in US, accounting for 15.4% of the country GDP in 1999 and it was very different compared to the previous one, as the main aim was not to restructure companies, but rather to let them grow, which meant that many horizontal and vertical deals were made to create synergies and hostile takeovers heavily decreased. For this reason, "strategic buyers"[9] gained a more important role compared to the financial ones; moreover, a growing trend of cross-border M&As was dominating in US, as a way to take advantage of opportunities outside the country and to face global competition. It happened mainly in sectors like banking, health care, defense and technology. It is important to note that this was the very first global wave as it involved all the main regions, namely US, Europe and Asia. While EU domestic deals still represented around 70% of the total in EU, cross-border deals grew strongly, especially in small

[9] McCarthy and Dolfsma, 2013.

countries like Austria and Ireland and less in countries like Italy and Spain. Overall, the EU share increased to 43% of the total value of global deals between 1991 and 1993, reaching 2548 operations in 2000 where UK was the most active (31%) followed by Germany (16%) and France (13,5%)[10] . In the meantime the rising stock market stimulated speculators to believe in further increase in the stock prices, which made them buy and overvalue the actual share prices; when this mechanism stopped working on the 10th of March 2000 the internet bubble exploded, the European Community deals decreased by 27%, the economic system had a slow-down and corporate scandals occurred everywhere in the world (WorldCom, Enron, Adelphia and others) due to accounting manipulations that artificially magnified companies' profits that undermined investors positive expectations: all this put an end to the fifth wave.

2.6 Sixth wave, 2003-2007

It began in US with a strong decrease in the primary interest rates decided by the US Federal Reserve from 6.5% to 1%[11] to recover from the internet bubble of the former years and the consequent recession. Cheap credit stimulated M&A deals growth and the raise of private equity firms, which existed even before but in this wave they became dominant in the overall M&A activity with the only aim to speculate on a future raise of the stock price of the firms they wanted to buy. Indeed, they pushed the general M&A activity and accounted for more than a half of the largest deals made in that period, especially in the technology industry: for example, Hellman & Friedman bought DoubleClick for $1.1 billion. Also in this case all the regions were involved in the wave, but this time it was Europe at the top of the activity, where deals grew by around 50% between 2003 and 2005 recording the "best years for European M&A" in 2004 and 2005, according to the Economist. Globally, M&A activities were doing fine, as more than 30000 deals were made in 2005 that increased to more than 40000 in 2006 reaching the peak in 2007 as the graph below shows. In the same year there was also a strong increase in the billion-dollar deals (15% in USA, 20% in Europe and 12% in Asia) that contributed to the peak reached by deals value since the beginning of the century and that some researchers have defined as one of the first alarming signs of the 2007 financial crisis. Almost at the end of 2007, the sub-prime crisis exploded starting from the US real estate market (also

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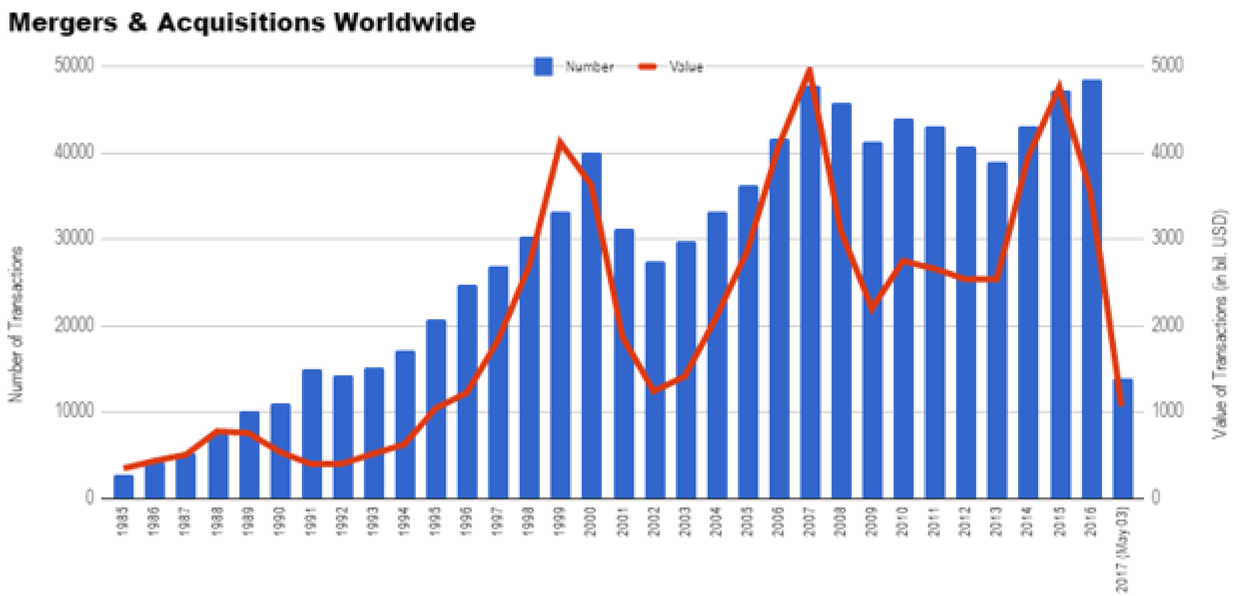
[10] Vancea M., *MERGERS AND ACQUISITIONS WAVES FROM THE EUROPEAN UNION PERSPECTIVE*, University of Oradea, Romania, 2013.
[11] K.M. Bianco, 2008.

due to cheap credit) and expanding to every industry at a global level. At the beginning of 2008 the Dow Jones fell by 9% and the other market indexes similarly followed, starting from NASDAQ and S&P 500 to Japan's Nikkei, from Australian Stock Exchange that lost 7% to British FTSE that arrived to 5.5%. Indeed, this put an end to the sixth wave, as at the beginning of 2008 M&A deals fell especially in value terms, getting worse in 2009.

Exhibit 1.3: From the fourth wave, M&A transactions by number and value



Source: Mergers and Acquisitions Statistics, *imaa institute database*

In the end, by considering all the regions in the most recent years, the graph shows some of the M&A waves starting from the fourth one in the 1980s, when it expanded towards the European Community gathering a strong growth over those years. This kind of clustering becomes clearer moving to the fifth one, in the 90s, when it turned to be a truly global phenomenon, involving Asia above all, bringing both the number of deals and their value to grow so much in time, to reach the peak of around 45000 transactions worth $5 trillion in 2007, as well as in 2015-2016, when a new wave seems to have risen after the sub-prime crisis[12].

[12] Next paragraph will go through it more in detail.

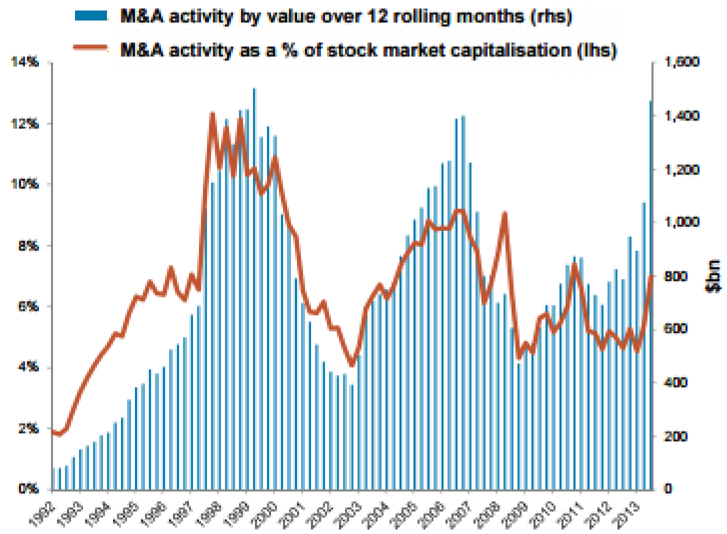
3. The current situation

3.1 Has a seventh wave begun already?

A recent research[13] has developed a proprietary index that can track the point where the global economy is now concerning the merger waves and, in particular, whether a seventh wave has begun after the 2007 financial crisis, based on what has happened since the end of the XX century and the first twelve years of the XXI (the globalization process makes the previous waves not comparable to the last ones). Although this study has been done on the US economy, figures show that a seventh wave has started already and at a global level; it uses four parameters that generate a trend to be confronted with the one of the M&A value on an yearly base:

- Market capitalization: its ups and downs closely coincided with the M&A activities and the ratio between the two values had peaks ranging from 9% to 12% and bottom from 2% to 4%, as the graph shows.

Exhibit 1.4: Market Capitalization

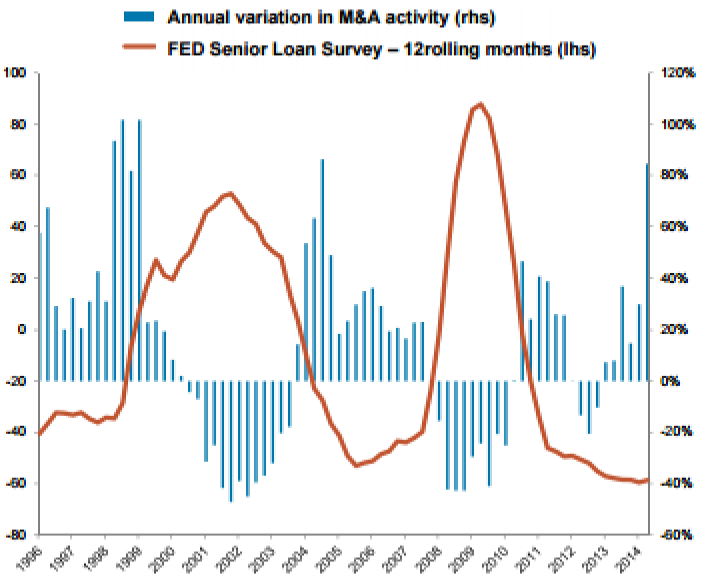


Source: M&A Activity: Where Are We In the Cycle?, *Cretin, Dieudonné and Bouacha, 2015*

- FED loan conditions: the study has shown that loan conditions improvements coincided with an increase in the M&A activity and the opposite situation is valid with their worsening, as illustrated below.

[13] F. Cretin, S. Dieudonné, S. Bouacha, *M&A Activity: Where Are We In the Cycle?*, Alternative Investment Analysis Review, 2015.

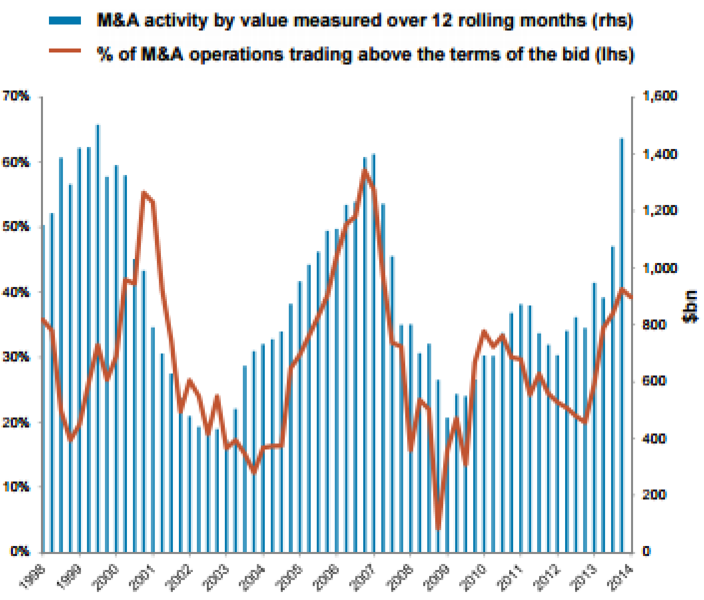
Exhibit 1.5: FED loan conditions



Source: M&A Activity: Where Are We In the Cycle?, *Cretin, Dieudonné and Bouacha, 2015*

- Expected improved bids: researchers have found out that this parameter is a good proxy of the market sentiment towards M&A deals, meaning that sometimes the target share price was higher than the deal terms proposed, due to strong expectations by investors that those terms could be improved by the original buyer itself or by a counterbid of another buyer. The more this happens the more have been the deals registered on the market as the graph below shows.

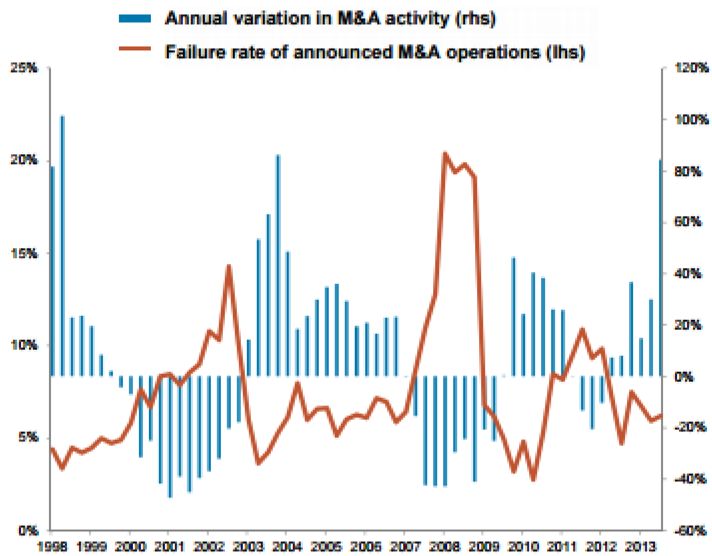
Exhibit 1.6: Expected improved bids



Source: M&A Activity: Where Are We In the Cycle?, *Cretin, Dieudonné and Bouacha, 2015*

- Failure rate: generally speaking, the lower is the number of terminated operations (due to antitrust issues, economic recession or more deal-related problems) compared to the completed ones, the larger the M&A deals registered on the market. This kind of data has coincided with the last merger waves trend as shown below.

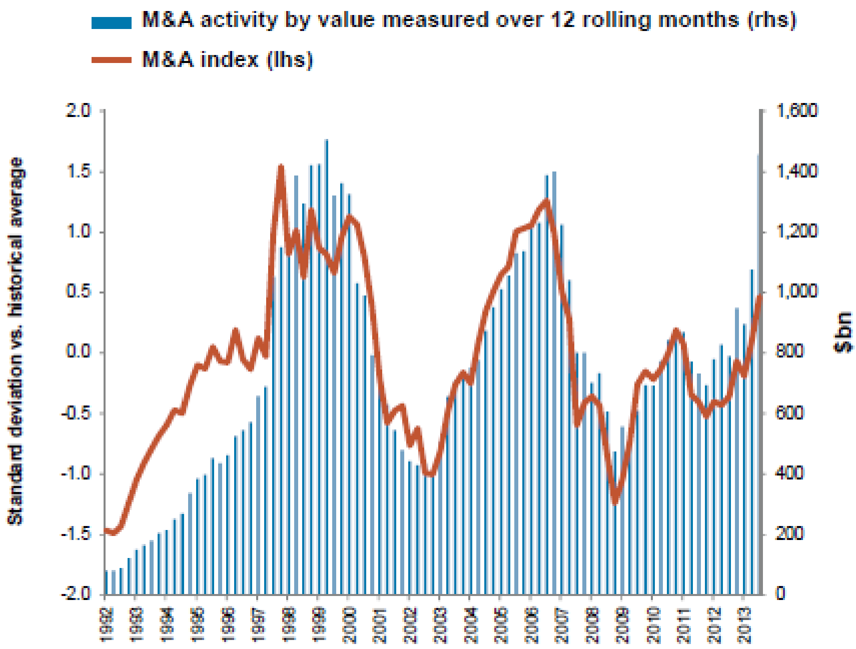
Exhibit 1.7: Failure rate



Source: M&A Activity: Where Are We In the Cycle?, *Cretin, Dieudonné and Bouacha, 2015*

By combining the four parameters (according to their weight, which is based on the correlation with the M&A trend) the three researchers have developed an index that can track the merger waves, helping to understand the current situation. Considering that M&A deals have grown faster than market capitalization in Q2 of 2014, loan conditions are still favorable to firms, the failure rate has remained stables and investors' expectations are optimistic, they have drawn the conclusion that a seventh wave has begun in 2013. In fact, the chart beneath clearly shows the correlation between the authors' proprietary M&A index and the M&A actual activity along the years considered.

Exhibit 1.8: M&A index as a weighted combination of the four parameters



Source: M&A Activity: Where Are We In the Cycle?, *Cretin, Dieudonné and Bouacha, 2015*

3.2 Main figures and players

Once demonstrated that a seventh wave has begun following the previously illustrated research, it becomes important to explore its main characteristics.

The graph below[14] focuses on the very last years that constitute the seventh wave, where 2013 represents the starting point of the whole period (consistent with the research above discussed), with deals increasing by 13% in 2014 and becoming more than 40000, among which mega deals[15] grew stronger than before both in US and in Europe.

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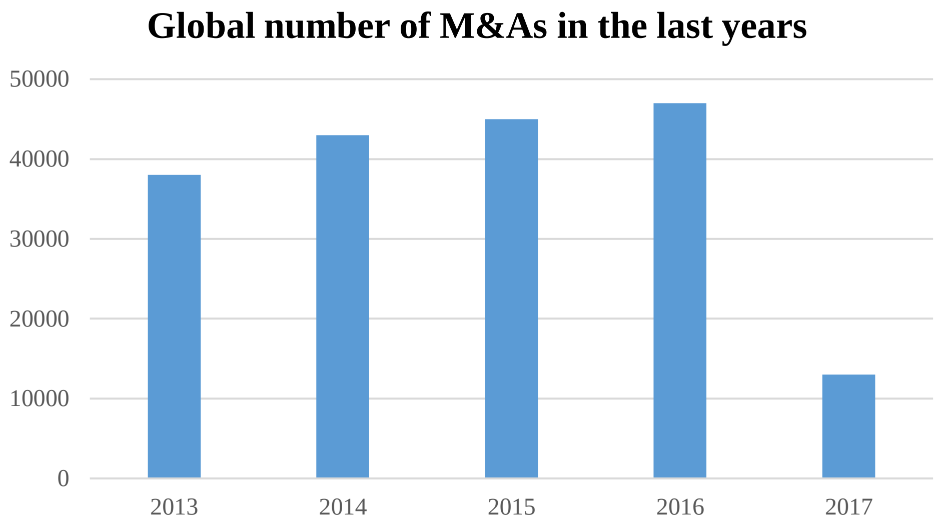
[14] It is a part of the one used in the first paragraph that started in 1985 by imaa, just considering the number of deals form 2013.

[15] Usually it means they are worth more than $20 billion.

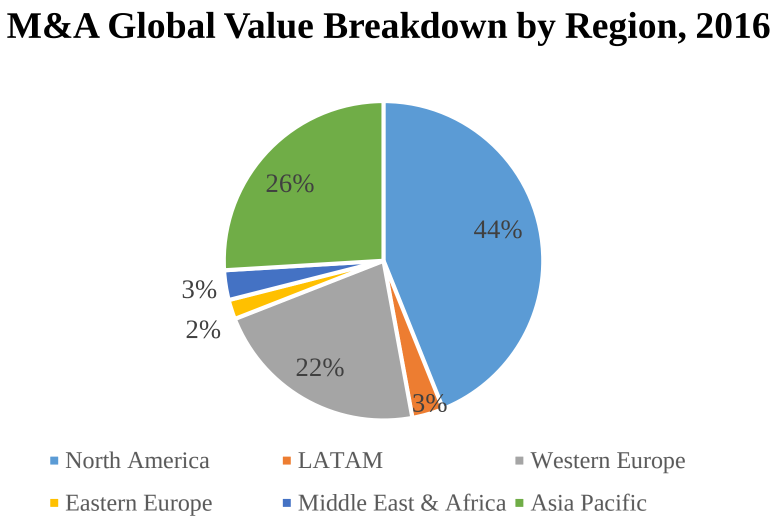
Exhibit 1.9: The seventh wave start



Source: *re-elaboration of data collected from* Mergers and Acquisitions Statistics, *imaa institute database*

The peak was achieved in 2016 with around 45000 deals worldwide aiming at gathering innovation capabilities as well as at reaching a good level of geographic expansion to pursue strategic growth, as happened with China, whose cross-border deals in USA and EMEA increased by 252% that year, pushing the overall cross-border M&A volumes to 36% of the total worldwide, according to a JP Morgan M&A research (2017). It is worth noticing how this peak is divided among regions as follows: North America still has the largest share of 44% ($2.2 trillion), Western Europe has taken an increasing part to the M&A activity since 1980s and reaching the 22% ($1.1 trillion), but Asia Pacific has had a big explosion in the most recent years, achieving a share of 26% ($1.3 trillion). These are the main global players in this wave, from a geographic perspective, as shown by the chart below.

Exhibit 1.10



Source: M&A MARKET REVIEW FINANCIAL RANKINGS, *Bloomberg, 2016.*

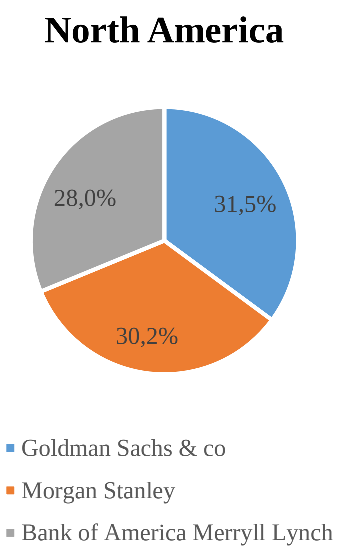
The bar graph also plots data for 2017 (up to May), but indeed further research will be needed in the future to understand how the wave will keep moving and for how long it will exist. According to some researchers' expectations[16], 2017 is going to be a continuation of 2016 trends, so a large volume of deals to foster firms' organic growth, but with uncertainties in the regulatory background (due to the effects of Brexit, USA elections and others that may negatively affect this growth), but where private equity funds' share of activity will dominate more than before, competing with corporates.

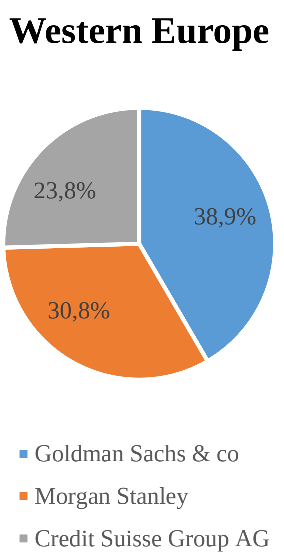
The main difference between the two entities is based on their business model which gives different reasons and ways to make an M&A deal: industrial buyers want to improve or renew their strategies looking for synergies and capabilities that they lack, but M&As are not their core business indeed, unlike for private equity funds which seek to buy companies and to increase their value to make a profit out of their future sale, so it is a more short to medium-term objective, compared to the formers. This clearly explains why the main players in 2016 were the second ones, in fact the charts below show that the top three buyers (ranked by value as a percentage of total M&A value in 2016) in the most active regions are financial entities rather than industrial ones, two of which are present in the three considered areas, namely Goldman Sachs & co and Morgan Stanley, whose share accounts for more than half of the total

[16] JP Morgan, 2016.

in North America and Western Europe; they are both investment banking and securities firms, also providing other investment services.

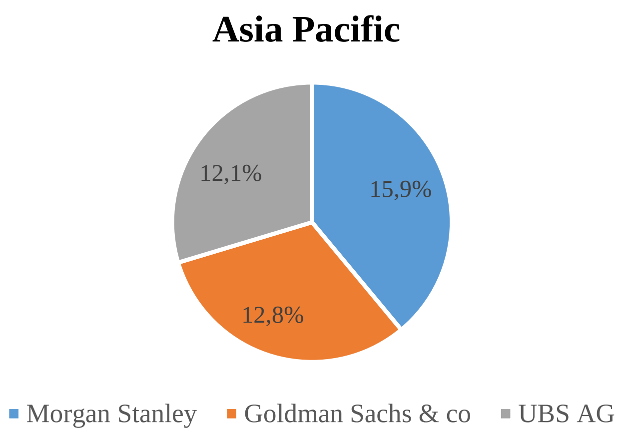
Exhibits 1.11 and 1.12: North America and Western Europe main players





Source: re-elaboration of data collected from M&A MARKET REVIEW FINANCIAL RANKINGS, *Bloomberg, 2016*

Exhibits 1.13: Asia Pacific main players



Source: re-elaboration of data collected from M&A MARKET REVIEW FINANCIAL RANKINGS, *Bloomberg, 2016*

One important point to highlight is that these three financial entities' weight accounts in total for almost 90% of total deals value in North America and Western Europe, while it is much lower in Asia Pacific of around 41%.

The most involved industries in M&A activities in 2016 were Financial 19.1%, Consumer Non-cyclical industries 15.6% (producing goods and services consumers cannot live without, no matter what the economic situation is), Communications (11.4%) and Consumer Cyclical industries 9.9% (of which the luxury sector is part).

4. M&A Value Creation

This topic has been deeply explored over the years to fully understand the strategies behind an M&A transaction, where the focus is on investors' reactions once a deal is announced: if they perceive that the price is lower than the actual value of the target ($P_{target} < V_{target}$), the buyer's share price will rise creating value, whereas, if they think that the value is lower, the share price will decrease and value will be destroyed. It is therefore important to assess the sources of this value, as they will have a strong impact on the buyer and on the overall M&A performance also after the deal is made and the purchase or the merger is implemented. According to Bruner (2004), the following identity is valid:

$$V_{target} = V_{stand\ alone} + V_{synergies} + \Delta_{liquidity\ and\ control}$$

Next paragraphs will be dedicated to each of the variables on the right-hand side.

4.1 The stand-alone value

There are several methods to be used to value a company; this paper will go through the most used and known in practice: the discounted cash flow (DCF), multiples of comparable firms, the equity approach, the discounted income method (DIM), mixed (the equity method and the DIM).

4.1.1 The discounted cash flow method

It computes a firm's value as follows:

$$V = \sum_{t=1}^{\infty} \frac{FCFt}{(1+r)^\wedge t}$$

From a practical point of view, as it is not possible to compute infinite values, the formula becomes: $V = \sum_{t=1}^{n} \frac{FCFt}{(1+r)^t} + \frac{TVn}{(1+r)^n}$ that computes the enterprise value, or the value of the operating assets of the target. In fact, the free cash flows (FCF) used come from the NOPAT (net operating profits after taxes) adjusted by costs and revenues not generating any cash flow (depreciation and Net Working Capital) and by investments cash out and divestments cash in. The terminal value represents the present value in period "n" of all the future infinite FCFs and it is computed as: $TV = \frac{FCFn-1*(1+g)}{r-g}$.

FCF's infinite and constant growth rate g can be computed with Fisher's formula that is: $g_{nominal} = [(1 + g_{real}) * (1 + g_{inflation})] - 1$[17]. It implies that further FCF growth in a faraway future in essentially driven by the actual growth per unit and by the inflation effects. Another way to compute is through the self-sustainable growth rate formula: g = ROE * (1 – payout ratio), according to which FCF growth depends on the retained earnings ratio and the accounting return that they generate on the invested equity. In any case, it can never be greater than the discount rate otherwise it would make the target PV negative, which surely does not correspond to the value of a healthy company.

Finally, the discount rate is the weighted average cost of capital (WACC) that investors of the target company face when pursuing an investment given a certain amount of debt, equity, interest rates and level of risk. It is usually computed as follows, although some researchers and analysts argue that it underestimates its nominal value when considering taxes and inflation[18]: $WACC = re * \frac{E}{D+E} + rd * (1-t) * \frac{D}{D+E}$, where t is the marginal tax, while r_d and the two ratios are market values estimated after the merger. Concerning the cost of equity r_e, there two possible ways to estimate it: the first one comes from the Dividend Growth Model of the cost of capital, typically used to compute the present value when cash flows' growth rate is constant over time: $re = \frac{DIV1}{P0} + g$. The second method comes from the Capital Asset Pricing Model (CAPM): $re = rf + \beta e * (rm - rf)$, where the cost of equity is considered equal to the risk free rate plus a premium (the difference between the market return and the risk free rate, where the former's beta is equal to 1) proportioned to stocks systematic risk expressed through the beta. If the buyer wants to drastically change the targets financial structure, it necessary to modify

[17] Many analysts, though, use a more simplified and less precise formula that is: $g_{nominal} = g_{real} * g_{inflation.}$

[18] Bradley and Jarrell, 2003.

the beta accordingly, by delevering the original one, $\beta unlevered = \frac{\beta levered}{1+(1-t)*\frac{D}{E}}$ and then relevering it according to the new financial structure: $\beta levered = \beta unlevered * [1 + (1 - t) * \frac{D}{E}]$. In the end, it is as well possible to obtain the new β_{levered} by using the asset β, that is the weighted average of the equity's and debt's: $\beta levered = \beta asset + (\beta asset - \beta debt) * (1 - t) * \frac{D}{E}$.

4.1.2 The multiples method

It is usually used as a way to control and compare the final result coming from more structured ones like the former, or as a way to have a proxy for private firms, whose data cannot be observed on the financial markets. Indeed, it requires the presence of comparable companies to have reliable results as it is based on the use of ratios belonging to the equity side and to the asset side.

In the first family, where the most used ones are $\frac{P}{E}$ and $\frac{P}{B}$, the outcoming number is the equity value. The first ratio can be computed by using three different kinds of earnings per share (EPS), acquiring three definitions:

- ✓ Trailing P/E: it uses the most recent annual EPS;
- ✓ Rolling P/E: it uses the sum of the last four quarters EPS;
- ✓ Forward P/E: it uses the forecasted EPS for the following year.

This ratio compares the price of the firm, or in other words, the present value of the expected future earnings, to the current EPS or the forecasted ones, so the higher the ratio, the higher the earnings are expected to be, compared to the current. In order to understand whether companies are comparable it is possible to decompose the ratio using the dividend discount formula and obtaining what follows[19]: $\frac{P}{E} = \frac{payout\ ratio}{r-g}$ which means that not only the payout and the cost of capital (and thus the level of risk) have to be similar, but also the growth rate, to have a reliable price for the target. In order to clean the resulting price from the specific growth effect it can be used the PEG ratio: $\frac{\frac{P}{E}}{g*100}$. Indeed, the final result would still have some defects that cannot be fixed, like the assumption that market prices are correct (and thus they are used to price other companies) and differences in the accounting methods that affect for example the value of the EPS as they are not a cash flows as well as book values.

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[19] $P = \frac{DIV1}{r-g}$, by diving both sides by EPS it becomes: $\frac{P}{EPS} = \frac{EPS*payout}{r-g} * \left(\frac{1}{EPS}\right)$.

The P/B ratio compares the market value of the equity with the accounting one and it can be a good tool to understand whether a company is over or underpriced on the market. By using the Dividend Discount model as before[20], the ratio becomes: $\frac{P}{B} = \frac{ROE*payout}{r-g}$. It is clear that in order to be comparable according to this ratio, firms also have to have the same level of Return on Common Equity (ROE), which makes it more volatile and less reliable than P/E, due to the fact that the more the criteria are needed to make firms similar the grater the difficulties to find adequate candidates.

On the asset side among the most used ratios there are $\frac{EV}{EBITDA}$, $\frac{EV}{EBIT}$ and $\frac{EV}{Sales}$, where EV is the market enterprise value of the comparable firm computed as $EV = Net\ Debt + Equity$ (in market values both the variables on the right hand side). As before, it is crucial to understand from a practical point of view whether companies are actually comparable, so starting from the first one, by computing the enterprise value with the DCF and by dividing both sides by EBITDA we get: $\frac{EV}{EBIDTA} = \frac{\frac{FCFO1}{EBITDA}}{WACC-g}$ which means that comparable companies have to have similar growth rates, financial structures (that influence the value of the discount rate) and operating structures that influence the ratio $\frac{FCFO1}{EBITDA}$, which is determined by the tax shield coming from depreciation, CAPEX and Δ Net Working Capital that transform the accounting value into the operating cash flow. Ideally, companies should operate in the same country to have the same tax rate that influences the value of the ratio. This also applies to the second multiple that becomes $\frac{EV}{EBIT} = \frac{\frac{FCFO1}{EBIT}}{WACC-g}$ with the difference that depreciation becomes another important comparability criterion (not just the tax shield), which makes the ratio be more volatile, thus less reliable than the previous one. By using the DCF again, it is possible to analyze comparability also on the third multiple: $\frac{EV}{Sales} = \frac{\frac{FCFO1}{Sales}}{WACC-g}$ whose determinants are the same as for the previous one plus the EBITDA margin (EBITDA/Sales) that provides the weight of the Cost Of Good Sold (COGS) necessary transform sales into the EBITDA, arriving to the FCFO in the end. Indeed companies should have a similar margin to be considered comparable. For all these reasons, the latter is the least used multiple and only when it is not possible to use the first two or in retail where sales and the EBITDA margin are important variables.

[20] In this case $DIV1 = B * ROE * payout$.

4.1.3 Discounted Income Method

It is based on discounting future earnings that the equity is expected to produce. There are four versions of it, as it can be either simple/pure or complex, levered or unlevered. The simple levered DIM computes the equity value as $V = \frac{Net\ Income}{re}$ assuming a constant infinite annuity (that is why it is defined as simple or pure) where net income is an expected earnings average and the discount rate is the cost of capital; it is defined levered as the numerator considers the interest payment to debt-holders. When the company is expected to live for just a specific number of years the value can be computed as $V = \sum_{i=1}^{n} \frac{NIi}{(1+re)^i}$ where "n" represents the number of years before the end of the company. The unlevered simple DIM differs from the previous one because it uses a different kind of income to compute the equity value: $V = \frac{NOPAT}{WACC} - \frac{interest}{rd}$, so it is the difference between the operating value of the firm[21] and the value of financial debt the firm has (calculated with the average expected interest discounted with the cost of debt). Complex DIMs use punctual values for 5 to 10 years and then the Terminal Value to discount. The levered complex DIM computes the value as follows: $V = \sum_{i=1}^{n} \frac{NIi}{(1+re)^i} + TVn$, so as before the net income is used but punctually estimated for n years, after which the terminal value is used as the present value in n of all the future net incomes starting from n+1. In the unlevered complex DIM the same applies, but using the operating asset value and debt as follows: $V = \sum_{i=1}^{n} \frac{NOPATi}{(1+WACC)^i} + TVn - Financial\ Debt.$ To estimate income flows several methods exist, among which we recall the projection of the historical results approach (that estimates the punctual flows based on historical trends) and the planned results approach (where flows are estimated based on the expectation of the future economic performance of the firm)[22]. It is important to use *normalized* income flows, so cleaned from any extraordinary event (like capital gains or losses not related to the core activity or earnings management), thus not belonging to the stable management activity. Concerning the terminal value, two methods can be used to estimate it: the Gordon model that gives a more optimistic forecast: $TV = \frac{\frac{NOPATn*(1+g)}{WACC-g}}{(1+WACC)^n}$ so it is computed with the last analytically estimated NOPAT flow assuming a constant growth at g and the same is valid for the levered method. A more prudential estimation

[21] Computed by using the average of the expected net operating profit after taxes discounted by the weighted average cost of capital.
[22] L. Guatri, M. Bini, 2005.

computes the terminal value as follows: $TV = \frac{\frac{NOPAT}{WACC}}{(1+WACC)^n}$ where the average of the expected net operating profits is forecasted to remain constant over time, thus a steadier situation is assumed. As growth is considered infinite over time, a prudential estimation of g is usually used, therefore the GDP growth rate tends to be preferred.

4.1.4 The equity method

It can be either simple when only material assets are considered or complex if the immaterial ones are taken into account as well. Basically, it starts from revising the accounting value of assets and liabilities and using the resulting capital gain and losses to adjust the equity value of the company, as follows.

$$K = C + (\sum_{i=1}^{n} Gi - \sum_{i=1}^{n} Li) * (1 - tc)$$ [23]

The formula implies that the adjusted equity value is equal to the accounting equity value plus all the capital gains and losses coming from the above-mentioned adjustments, times the tax rate effect. Adjustments come from the difference between assets' and liabilities' market value and book value. The market value of each item can be estimated as follows.

- ✓ Material assets: they can be revalued at their current market value, but if the market does not exist or it is not active enough, either the replacement cost can be used assuming to buy a new asset with the same functionality, but, when it is cheaper to reproduce it (for example due to technological obsolescence), the reproduction cost is preferred. In case of leasing, the adjustment comes from the difference between the current market value and the present value of the remaining future rents.
- ✓ Stock left: rough materials are evaluated at their most recent purchasing price; semi-finished goods are valued based on the production cost while the final output is at the lowest between the production cost and average selling cost, minus not sustained duties. In case of works in progress, they are valued based on the percentage of work done, plus possible claims (which are future revenues that are not considered in the financial statement as they are uncertain).
- ✓ Shares: if they are controlling shares their value comes from the economic value of the controlled firm, but if the company strongly depends on a group of which it is part, then

[23] Guatri L., Bini M, *Nuovo Trattato sulla Valutazione delle aziende*, Milano, Università Bocconi Editore, 2005, p 135.

the value of the whole group is to be preferred. If they are non-controlling, the market price is used, but if it is not a public company the accounting equity value shall be chosen.

- ✓ Fixed earnings financial assets and liabilities: if they are publicly traded, the market value is used, if not, the nominal value is used or the cost if they yield similar returns compared to the market. If they are very different, similar financial assets price can be used, but when they do not exist, the market interest rate is used to discount earnings to get the asset/liability present value, which will be lower than the nominal one the greater the discount rate than the asset/liability interest rate and the opposite is valid.
- ✓ Credits and Debts: normally the nominal value is used, while the present value is preferred when they do not yield any interest or when they do, but it is not aligned with the one of the market. If the market interest rate is greater than the credit's, the value has to be decreased compared to the nominal one, if the opposite happens the credit value has to be increased.

The complex equity method also considers the intangible assets (IA) and their adjustments that contribute to the final equity value as follows:

$$K = C + IA + (\sum_{i=1}^{n} Gi - \sum_{i=1}^{n} Li) * (1 - tc)$$ [24].

Intangible assets can be know-how, licenses, industrial secrets, brands and so on and they are not always present in the balance sheet as they are internally produced; there are several ways to estimate their value. Among the most used there are:

- ➢ The Cost criteria: it can use the production costs needed to develop intangibles and possible investments to keep them useful over time, also considering the depreciation process when possible. Otherwise, the reproduction cost exists, that consists in estimating the value coming from discounting future investments needed to replicate them in the future, adjusted for the remaining useful life of the asset: $V = Cr * \left(\frac{Vr}{Vt}\right)$ [25] where the Value of the intangible is equal to the reproduction cost multiplied by the ratio between the remaining useful life and the whole life.
- ➢ Differential results: it assumes that the company has a better performance by having intangible assets than if it did not have them. There are two ways to estimate it: by

[24] Guatri L., Bini M, *Nuovo Trattato sulla Valutazione delle aziende*, Milano, Università Bocconi Editore, 2005, p 135.
[25] Guatri L, Bini M, p. 165.

discounting differential earnings (that are more earnings or less costs minus the greater cost of having intangible assets) or the losses the company would have without the intangibles.

- Comparatives: it consists in confronting similar recent transactions or multiples to get a reliable proxy of the intangible assets' value.

4.1.5 The mixed equity-income method

The aim is to balance the pros and cons of the two previous methods, by considering both future profitability and the actual assets and liabilities consistency. There are three main kinds of approaches belonging to this category: the average value, the goodwill estimation and EVA® (economic value added). The first one equally considers the equity values coming from both methods as follows:

$$V = \frac{1}{2} * \left(K + \frac{R}{i}\right) = K + \frac{1}{2} * (\frac{R}{i} - K)$$

Where the second formula is a different expression of the first one, meaning that the value is equal to the equity adjusted value plus half of the goodwill, although this does not rationally express the real equity value.

The second approach, instead, starts from the adjusted equity value plus the goodwill as follows:

$$V = K + G$$

Where G (the goodwill) is computed as the present value of the differential average earnings the company is expected to generate compared to its industry:

$$G = \frac{R - i * K}{(1 + r)^n}$$

Where "i" represents the average interest rate of the industry and K its average equity value, while R is the company's average earnings and "n" the number of years the firm is expected to generate these extra earnings. If the period is expected to be unlimited the formula becomes:

$$G = \frac{R - i * K}{r}.$$

Finally, the third approach is based on the EVA®, therefore on the idea that value is created when actual returns are greater than the cost of capital or, in others words, when NOPAT is greater than the earnings necessary to pay back the invested capital (IC).

$$EVA® = NOPAT - WACC * IC$$

If extra earnings are expected to be generated indefinitely in the future, their present value is defined as the market value added (MVA), computed as follows.

$$MVA = \frac{EVA®}{WACC}$$

In the end, the equity value is computed as the enterprise value minus the net financial position: $V = IC + MVA - Net\ Fiancial\ Debt.$

4.2 The value of synergies

Synergies are what companies usually look for when deciding to pursue an M&A, to make the whole worth more than the sum of the single parts and they can heavily contribute to foster their growth and to increase the buyer's share price. Synergies can be split in this way:

$$V_{\text{synergies}} = V_{\text{In place synergies}} + V_{\text{Real option synergies.}}$$

"In place" means that they are real and predictable synergies that usually drive firms to make an M&A deal and they can be evaluated by using the DCF method (explained above), where the synergies growth rate can be computed with the Fisher Equation (1896) according to Bruner, but both the inflation rate and the real growth rate should be weighted by the correlation between each of the two and the final result and the kind of synergy to be put in place. Indeed, it gives very interesting insights on the main drivers of this value: in fact, from a financial point of view, the value can increase either due to the after tax Free Cash Flows' rise or because of the discount rate (WACC) reduction. The first case may happen when an M&A brings one or more of the following benefits:

- Revenue improvement synergies: by cross-selling products the buyer or the resulting entity of the merger is able to sell more and thus to increase its revenues due to the complementarity of their offer, the combination of sales force, the exploitation of distribution channels and a larger customer base. Moreover, it enables to acquire and/or switch technological knowledge that improves or innovates the original output that can ultimately result in an increase in sales.

- Cost reduction synergies: the first advantage that companies can have are economies of scale, as there could be a production capacity improvement which reduces the average costs per unit, while producing more but also to eliminate duplicates like warehouses, middle management and other expenses, in case of horizontal integration. When it comes to vertical integration, there are less intermediaries to deal with and to pay and it enables to have a more reliable system to receive inputs or distribute outputs. Furthermore, as M&As contribute to companies' growth, which makes their bargain power with suppliers or retailers increase. Finally, know-how and internal innovations sharing can improve the overall production process, which lasts in decreasing operating costs.
- Tax reduction synergies: first of all, the depreciation tax shield increases especially with mergers, as the overall amount of assets to depreciate increases as well (especially considering that the whole amount is added back again after deducing the tax from the EBIT, as these costs do not generate actual cash-outs). Moreover, if one of the two companies has Net Operating Losses, they can be transferred to the buyer that can carryforward them, therefore reducing the tax expense for a limited period.

Concerning the discount rate, firms can benefit from financial synergies through M&As, as they are able to get borrowing terms (concerning the amount and the interest rate) that can reduce the WACC, thus increasing the present value of synergies that shareholders cannot generate by themselves. Indeed, the result is neither automatic nor obvious at all, because the risk is to increase the leverage so much that it destroys value in the end, due to the crossing of the limit. Option synergies, instead, are potential synergies that managers could exploit from the M&A deal, but that do not drive decisions in the M&A strategy, as they are additional advantages that managers may be willing to exploit in the future. The main categories are:

- Growth option synergies: they exist when one or both companies have resources or know-how that could be implemented to enter new markets, or enlarge and improve the current situation in industries they already work in.

- Exit option synergies: M&A give companies the possibility to react to industry changes in alternative ways than before the deal, being less *path dependent*[26].
- Options to defer: M&As can allow companies to wait before undertaking risky actions like investing in R&D to develop know-how.
- Options to alter the operating scale: it means that the firm has the possibility to enter or exit a new market more freely, granted by the M&A deal.
- Options to switch: M&As can give firms the possibility to change their mix of inputs, outputs or production processes.

To evaluate them, it can be used the Black-Scholes option pricing model, to which this category of synergies belongs.

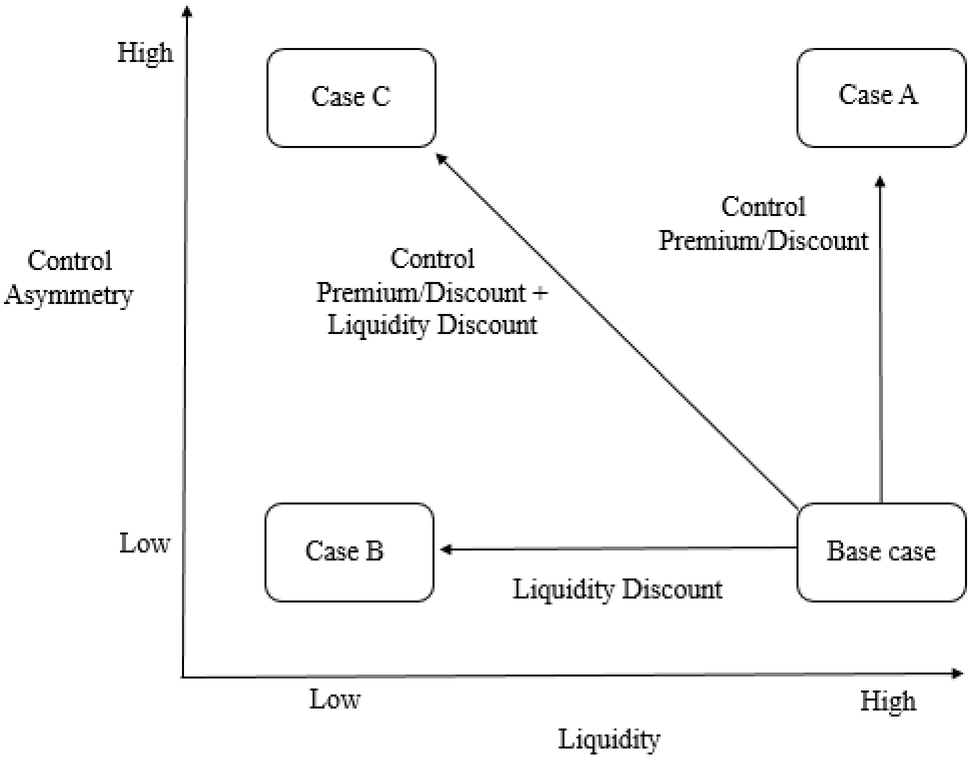
4.3 Liquidity and control effects

Liquidity and control of the shares can affect either positively or negatively the value of a company; by combining the two variables it is possible to distinguish four cases that give a certain sign and value to the Δ in the above formula and that are represented below:

- Base case: shares are highly liquid and shareholders have the same span of control, so $\Delta = 0$.
- Case A: shares are liquid, but some shareholders have a larger control than others, generating a premium for the formers (control premium, $\Delta > 0$) and a discount to the latter (control discount $\Delta < 0$).
- Case B: shareholders have the same span of control, but shares are not liquid, so a discount arises (liquidity discount, $\Delta < 0$).
- Case C: both deviations from the base case exist, so low liquidity and different span of control, thus both premium and discounts are generated ($\Delta \neq 0$ or $\Delta = 0$).

[26] Bruner, 2004.

Exhibit 1.14: Liquidity and control four combinations



Source: re-elaboration of the graph taken from Applied Mergers and Acquisitions, *Bruner R. F., 2004*

To estimate the actual value of Δ, it can be used Pratt's Multiplicative Model, according to which: Gross base price * $(1 + \pi_{control})$ * $(1 - \delta_{liquidity})$ = Net price, where π will be positive for controlling shares (premium) and negative for minority ones (discount). Clearly, in the base case, Gross base price = Net price, as there are neither premiums nor discounts.

In order to estimate π and δ, we recall the option-based methods of evaluation as it is possible to assimilate the first factor (associated to the right of control and thus to decide among different strategies and directions for the firm) to call options, of which two important drivers are common: value contingency (the better the underlying company's strategies are going, the lower the value of the right) and uncertainty (the higher the degree of uncertainty surrounding strategies, the higher the value of the right). As for the second, it can be assimilated to put options (as it gives the right to sell shares) among whose drivers two are common with the liquidity discount: time (the longer it takes to divest the lower the value of the right) and uncertainty (the higher the volatility of the stock, the higher the value of the right).

5. Conclusion

Ongoing research along the years has allowed to discover the path of M&As over time, in particular to identify the so called “merger waves” and to understand why they have occurred since 1895. Indeed, the reasons why they have happened are different, especially the way they happened, as in the first one the aim was the horizontal expansion that generated the first strong monopolies in industries like oil, food and intermediate goods manufacturing. In the second wave, companies moved to vertical integration in order to overcome the first regulatory limitations that the US government started to impose, arriving to the diversification strategy in the third wave, so the expansion towards unrelated businesses. After all these integrations, divestment became the new trend in the fourth wave, while geographic expansion and cross-border deals were the main themes behind the fifth, the more regions like Europe and Asia took part to this phenomenon; finally, capabilities acquisition and innovation were the drivers of the sixth that has brought us to the XXI century.

Where are we now? According to Cretin’s, Dieudonné’s and Bouacha’s research, a seventh wave begun in 2013 and we are in the middle of it now, so further research will be needed in the future to study it more deeply. What is sure is that financial investors and private equity funds have the lion part in keeping the M&A phenomenon alive in these last years, especially companies like Goldman Sachs and Morgan Stanley, that have the largest share of activity in the three most active regions in the world, namely Wester Europe, North America and Asia Pacific.

In the third paragraph, it was important to highlight and explain what actually lies behind the M&A phenomenon, no matter the chosen strategy (vertical/horizontal integration, diversification and so on) and the kind of transaction preferred (mergers, acquisitions, consolidations and so on). In fact, companies seek to create value through these deals and according to Bruner, the overall value to be compared to the price of the transaction comes from the target (the stand alone value), the synergies that the deal will create and the extent shares are liquid and controlling, that can positively or negatively influence the final value. To evaluate a company, corporate finance provides us with a large number of methods, like the discounted cash flows, the discounted earning, the equity methods and so on. To assess the synergies value, both in place and option ones Black-Scholes option pricing model can be used, to which these categories of synergies belong. Finally, Pratt’s Multiplicative Model can be implemented to estimate how the value changes based on the degree of liquidity and control of the shares:

clearly, the higher the degree of control and/or the lower the liquidity, the lower the value, and the opposite is also valid. After the assessment, if the final value is larger than the price of the transaction, value will be created for the buyer company, otherwise it will be destroyed (or else, there could be no value creation nor destruction at all).

Next chapter will go more in detail with the luxury industry, to have a specific background in mind of the industry's main trends and features to better understand the dynamics behind the M&A phenomenon within it, which will be discussed in the third chapter.

Chapter two: The luxury Industry

1. Introduction

This chapter has the aim of providing general and relevant information and data on the luxury industry, after having analyzed the global M&A situation in the former chapter. In this way, it can give a useful background to better understand studies and results on M&As in this specific sector discussed in chapter three.

The first two paragraphs will describe the luxury market, first of all in terms of sales, growth rates and segments, to have a clear picture of its scope and of how it has evolved along the years, with a particular focus on the Personal Luxury Goods segment of which consumers tend think the most when talking about the examined sector, although it will come out that it does not represent the largest one in terms of sales nowadays. The second paragraph, instead, will give a more qualitative description of the luxury industry's main peculiarities that make it different from the others, indeed influencing its sales cycle and trends; this analysis will illustrate features belonging to both offer and demand sides.

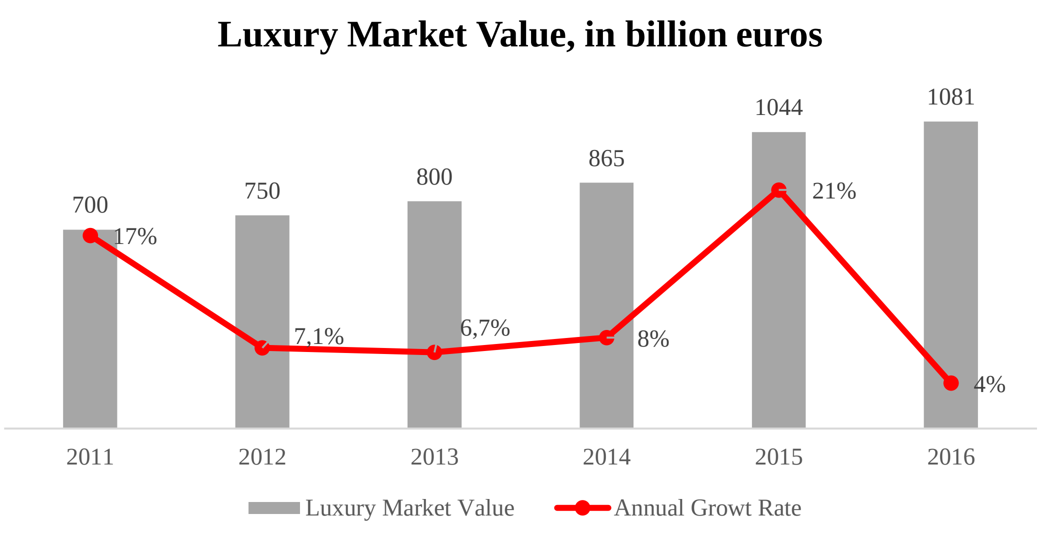
The last paragraph will provide a detailed and at the same time concise insight on this sector's main players, some of which will be recalled also in the next chapter as they are also very active M&A players. In particular, a focus on the three most known luxury holdings (LVMH, Kering and Richemont) will be done, to understand their scope of activity from a business and geographic point of view. Finally, it will be discussed quite a new trend that has been spreading in the industry in the very last fifteen years, that is financial firms' entrance and in particular PE funds and Holdings participation, which has also provided interesting results in the next chapter concerning their activities in M&As. Through an analysis of Market Mogul and Financial Times, the main factors that have made this sector appealing to entities other than strategic will be deeply discussed, anticipating part of what has come out from the research case of chapter three.

2. Main figures and trends of the sector

The luxury industry is a wide world, not always clear, as in many cases it tends to be identified with personal luxury goods only, which is just a part of it, and thus it is important to have a clear picture of it, to better understand it and the main topic of this paper on M&As.

The table below shows the industry sales value and their growth rate over the last five years, from 2011 to 2016[27].

Exhibit 2.1: Sales Value never stops growing in this industry between 2011 and 2016



Source: re-elaboration of data collected from Bain & Company reports

Overall, the luxury industry's almost never-ending growth came to an end in 2002, when no growth was registered and followed by a decline in 2003 by 4.4% according to Claudia D'Arpizio (2004), Bain & Company Italy partner, which was due to a currency effect of dollar

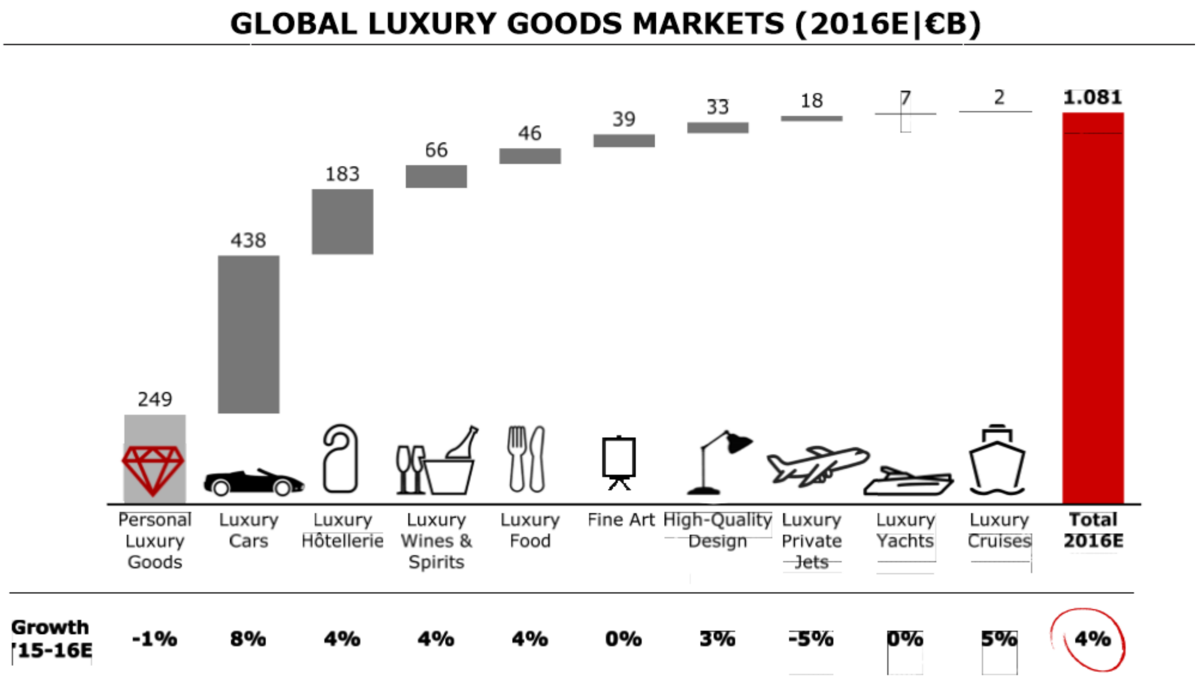
[27] Unfortunately, it has been hard to find punctual data before 2010, but only general information and macro figures on the main trends per groups of years.

and yen weakening compared to euro, influencing more than 60% of the market[28]. After a few years of recovery, another period of shrinking sales followed between 2008 and 2009 due to the financial crisis that made all segments volume of sales decrease (luxury hotel occupancy and US luxury department stores' sales dropped from -10% to -15% on average on a monthly basis, while luxury cars reached -40% at the end of 2008, just to provide a few examples). In 2010 a period of recovery began and sales grew by 17% between 2010 and 2011 reaching €700 billion. From 2012, a stable growth started, strongly influenced by the very last effects of the 2009 sovereign debt crisis occurred in several European countries (like Greece, Ireland, Cyprus and Portugal); in fact, it contributed in lowering the industry growth rate from 17% to 7.1% in 2012 and which remained quite stable for the two following years. The industry value grew double-digits again in 2015 by 21%, reaching €1044 trillion; among the main factors to recall there is the currency effect that depreciated euro versus other currencies like the US dollar and yuan (moving to the opposite direction from the one in 2003) and that pushed sales especially in the Eurozone. Furthermore, the Chinese boom in luxury purchases increased so much that only 20% of Chinese spending was made at home. This benefited Japan first of all, as it is the first destination for Chinese luxury customers, but also Australia and Europe. Finally, a new period of a more moderate growth seems to have started in 2016, when the growth rate decreased to 4% and researchers seem to agree that 2017 will follow this path, with no abnormal growth nor peaks.

According to Bain & Company (2016), this industry is made of ten segments: Personal Luxury Goods, Luxury Cars, Luxury Hospitality, Luxury Cruises, Designer Furniture, Fine Food, Fine Wines & Spirits, Yachts, Private Jets and Fine Art. The split of market share of each segment in 2016 is shown by the chart below.

[28] *Crescono i consumi nel mercato del lusso*, IULM, 2004.

Exhibit 2.2: The split of market share of each segment in 2016, reaching €1.081 trillion sales



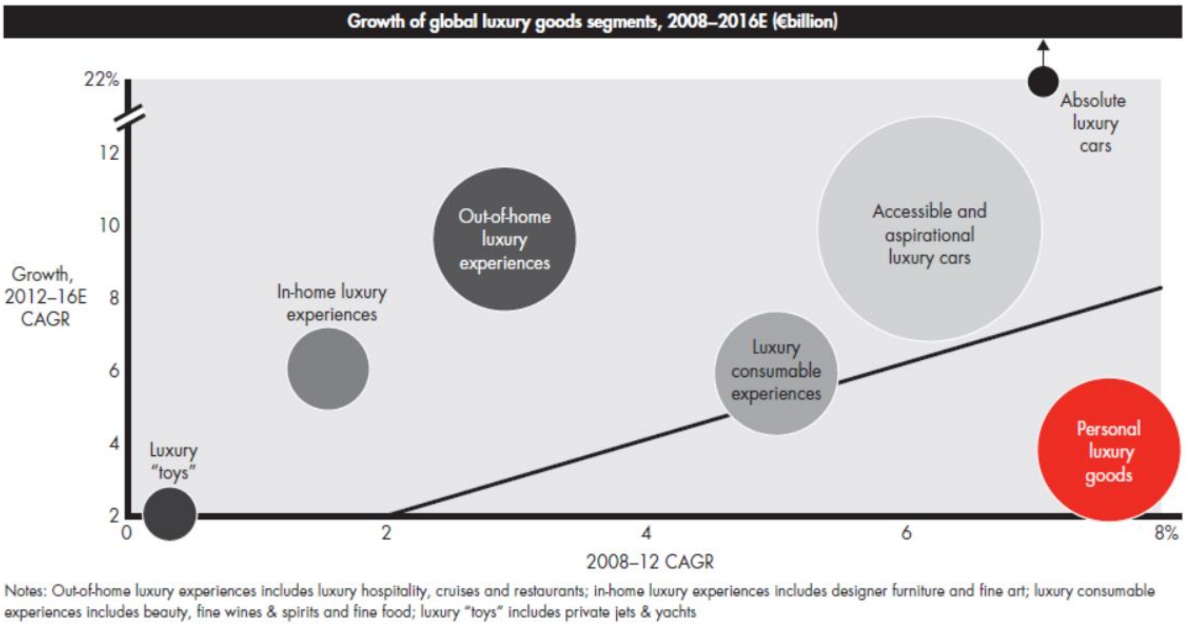
Source: Worldwide Luxury Market Monitor, *2016, C. D'Arpizio, F. Levato, D. Zito, Bain & Company and Altagamma*

The industry reached around €1.08 trillion of sales in 2016, with a growth of 4% compared to 2015; although Personal Luxury Goods still remains an important segment representing 23% of the industry in 2016[29], it lost sales by 1%, thus remaining quite flat from 2015, while Luxury Cars has become predominant, growing by 8% from the previous year and accounting for 40% of total sales; growth wise, it is followed by Luxury Hospitality, Food and Wines & Spirits with a 4% growth rate. Concerning the other segments, while Yachts has remained stable and Private Jets has decreased by 5%, Luxury Cruises has grown by 5%, but they still represent a very small portion of total luxury sales.

Figures explained above represent the consequence of a new trend in the luxury sector that is expanding worldwide: experience gaining over luxury products.

[29] Personal Luxury Goods includes Clothing, Accessories, Cosmetics, Watches and Jewellery.

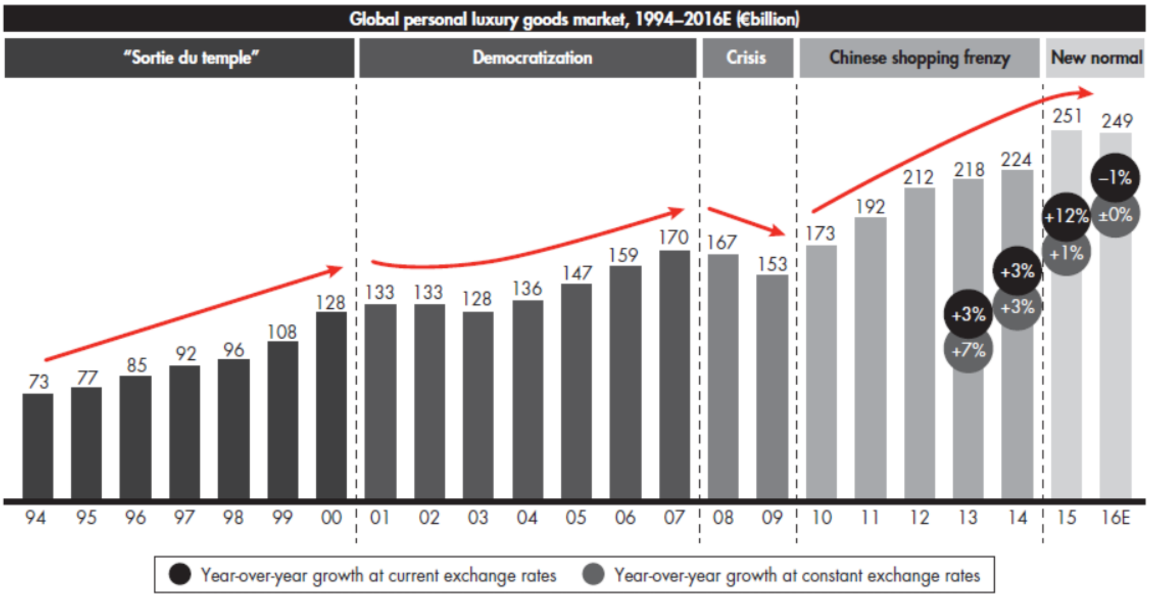
Exhibit 2.3: Luxury experience importance has increased compared to Luxury products



Source: Luxury Goods Worldwide Market Study, Fall-Winter 2016, *2016, C. D'Arpizio, F. Levato, D. Zito, Bain & Company*

By looking at the table, it clearly emerges that in these last years (2012-2016) both in-home (fine arts and designer furniture) and out-of-home (cruises, hospitality and restaurants) luxury experiences have grown if compared to the period 2008-2012, especially the second ones, fostered by an increase in luxury travelers. Furthermore, accessible and absolute luxury cars sales have been growing in both periods (especially in Europe), also stimulated by the always stronger link with technology and Silicon Valley innovations (that empower the driving experience) and by Chinese purchases, while "luxury toys" (private jets and yachts) have grown a bit in the past compared to 2012-2016 when they became flat. Finally, as mentioned above, the personal luxury goods segment has decreased recently after being the first growing category as shown below.

Exhibit 2.4: Luxury Goods explosive growth ended and became flat in 2015-2016

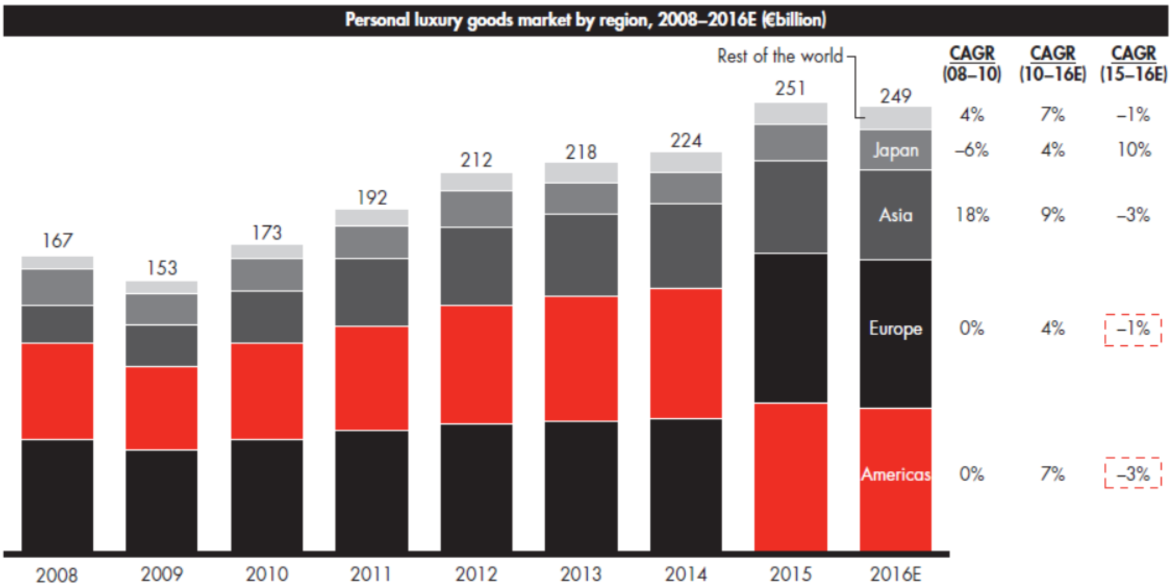


Source: Luxury Goods Worldwide Market Study, Fall-Winter 2016*, 2016, C. D'Arpizio, F. Levato, D. Zito, Bain & Company*

Five phases have been highlighted in the chart: "Sortie du temple" between 1994 and 2000 when this segment exploded, growing by 75% from the starting to the ending year; Democratization between 2001 and 2007 with un uncertain growth path, that ultimately brought sales to €170 billion before the financial crisis; Crisis that made sales drop by 9% between 2008 and 2009; Chinese shopping frenzy in 2010-2014 that represented Chinese consumers explosion in the Personal Luxury Goods segment (and in the industry overall), which reached its peak of €251 billion in 2015. We are recently in the New Normal phase where the segment growth has become flat, in favor of services and luxury experiences increase on the other hand, as discussed above. This recent slowdown was mainly driven by Apparel & Accessories and Watches & Jewelry decline that has been influenced by a decrease in consumption (especially in Asia) and an increase in the number of new entrants on those markets, according to a recent research by Deloitte (2017). Moreover, the overall decline in Personal Luxury Goods in 2016 was caused by "the fall in international trade and the reduction in tourist flows due also to the terroristic attacks in Europe" said Armando Branchini, vice president of the Altagamma foundation. Claudia D'Arpizio believes that 2017 will be positively different, as a 4% growth was registered in the first quarter and "The increase is expected to remain stable, with an average annual growth rate between 3%-4%, up to 2020, when the market should reach €280-290 billion." according to D'Arpizio[30].

Moving to regional highlights on the Personal Luxury Goods segment, the split among regions is the following.

Exhibit 2.5: Europe and Americas drive luxury goods sales



Source: Luxury Goods Worldwide Market Study, Fall-Winter 2016*, 2016, C. D'Arpizio, F. Levato, D. Zito, Bain & Company*

Americas and Europe account for the largest market share, where the former's increased more than the latter's by 7% versus 4% between 2010 and 2016, but it also decreased more in the Americas than in Europe in the last two years, becoming -3% versus -1% drop between 2015 and 2016 solely, although they still represent the largest markets for Personal Luxury Goods, especially Americas. It can be inferred that in the Western part of the world, the greatest part of growth was registered between 2010 and 2014, given that luxury goods sales decreased in the last two years of the analyzed period in both regions and that no growth was registered between 2008 and 2010. This path has not been valid for the other regions instead; in fact, Asia (excluding Japan) reported a booming increase in sales between 2008 and 2010 with an 18%, which became its half between 2010 and 2016, probably reduced by the drop of 3% between

[30] These quotations come from the article *Altagamma sees luxury goods grow more than forecast, rising 4% to €254-259 billion*, by Marta Casadei, Il Sole 24 Ore.

2015 and 2016, but still representing the most growing area. China has had an important role in driving this trend, as it registered a 19% growth rate between 2007 and 2014 that became a 2% between 2015 and 2016, when sales decreased to €17 billion. Japan, on the other hand, had an opposite path of growth, which started with a 6% decrease in sales between 2008 and 2010, followed by a 4% growth between 2010 and 2016 whose positive value has been probably pushed by the very last two years, 2015-2016, with a 10% increase in sales.

In the end, it can be stated that the luxury industry has had a stop in its growth twice during the first ten years of the XXI century, but also that a strong recovery has followed that brought total luxury sales to reach €1.081 trillion in 2016. After having analyzed the ten segments in which this industry is divided and focused on the Personal Luxury Goods (PLG), it can be inferred that this very last years' increase in sales is not to be attributed to the latter segment, at least not in a great part, as another one, Luxury Cars, achieved around 40% of total sales in 2016 and, moreover, luxury customers have been moving towards luxury experience more than products recently, especially travelers, so further changes in the industry shape are to be expected in the very close future.

3. How does Luxury industry differ from the others?

More than once in this paper it has been stated (and it will be stated) that this sector is quite different from the others and clearly these differences have influenced the industry growth rate over the years, discussed above, as well as its peculiar trends, difficult to find elsewhere and ultimately the M&A dynamics (deeply explained in chapter three) either directly or indirectly. Therefore, this paragraph will go through the main features that make this industry differ from the others, from the product offer side and from the demand side.

Starting from the offer, it is worth mentioning the main find outs by Chevalier and Mazzalovo (2007) who have deeply discussed this topic. According to them, there are three factors that characterize this industry the most: firms dimension, financial trends and time. Focusing on the first one, while size represents one of the most fundamental variables to compare industries and firms, it does not have the same importance in the luxury industry for two reasons: reputation is more important and sales figures are not comparable. Beginning from the first point, the analysed sector is made of small and medium firms and, indeed, there are also larger players like LVMH, Kering and Richemont, but they have been defined as "holdings of individual small companies”. This becomes quite straightforward if we compare Dior Couture’s 2016 revenues of €1,936 million with Orange’s (the French telecommunication company) of €40,918 billion that are even larger than LVMH’s of €37,600 billion in the same year, where the latter is certainly a much larger entity than Dior Couture and yet it is smaller than this telecommunication enterprise. Nevertheless, it is quite likely that worldwide, people tend to think of the two luxury entities when referring to France at a first glance, rather than of the other firm, because brand awareness is what makes them have a stronger international standing more than their size, compared to companies belonging to other industries. As for the second point, it is not always easy to compare sales figures (as it will be discussed later) because there are companies like Hermès whose revenues mostly come from the stores they own, while others’ retail sales revenues can be just a part of the total that may largely depend also on wholesale and licences, which makes results difficult to be compared. This is even more so if we think of the small number of employees they tend to have, as a consequence of the subcontracting activity that these firms do, though to a different extent: in fact, if it is true that luxury firms’ design activities are internal in the majority of the cases, it becomes not that sure anymore for production and distribution activities. Some very small companies only have the design office, like Marchesa, while production and distribution have been externalized, instead others like Chanel and Prada own the largest part of their value chain but some products are subcontracted to others. There is also the licensing topic that can provide quite remarkable part of total sales to companies like Paco Rabanne that has remained with the brand name only. It means that also the number of employees (on which a company dimension can be measured) is very small and most of them are concentrated in the design office and in the retail distribution for the ones who have it internalized.

The second point is about the financial aspect, as luxury companies on average can live even when they register losses for several years, while in other industrial sectors firms tend to be rapidly eliminated going bankrupted, acquired or merged; this is possible not only because of the value of the brand, but also because when a luxury company is successful, margins are high enough to compensate years of losses. This comes from two factors in particular: high break-even point and a limited need of cash. In fact, given that many of luxury companies’ costs are fixed, that some of them do not even guarantee any direct revenue (like catwalks, because those dresses will not be sold in the stores) and that for variable costs top quality materials are necessary in the whole production process, not only for products themselves, but also for its packaging for example, total costs are very high, so they require very high revenues. Once an already launched firm is able to earn more than its costs, by selling goods with very high margins, profits became quite large over the years and enable firms to face bad periods for many years, without going in bankruptcy. From this, the second point follows; in fact, once fixed costs have been covered, most of the margin becomes profits as they do have a limited cash need. This happens because, unlike manufacturing companies, luxury ones have production subcontracted or they can subcontract the additional units, so there will be no need to make other investments generating other fixed costs when the production grows to face a larger demand, secondly they gain cash or immediately recoverable payment methods when they own and manage stores, therefore they have much liquidity and third, when sales are high, given that each product has a high margin, revenues will be enough to keep the inventory. These are very important points of distinctions, considering that accounts receivable and payable can be a problem in other industrial sectors.

Moving to the last element, which is time, first of all it is interpreted as the time to launch a product, from its design, prototype till the final distribution, which can be very long (between 18 and 24 months) and supported by a high level of investments that can be equal to the first year of sales in many cases, so firms will start to earn from the second/third year. Both time and investments to launch a new product in the luxury industry can often be more than the average of other consumer-goods products, whose launch takes around a year and six months to recover from the investments. Secondly, time is referred also to what is needed for big changes: while firms in other industries can change themselves in a bit more than a year in many cases and have a feedback from the market quite immediately, for luxury ones it is different, as brand identity and history are strong points there, thus it may take quite a long time to change and it will not be always successful. Chanel, for example, is known for being a very classic and feminine brand, so when it started to produce male ready – to –wear, the purpose was just to show them on the catwalk and still it is that way (apart for items like perfumes that are actually produced to be sold), because it will take time before customers get used to Chanel’s expansion to the Men’s world and if they do not, the brand’s success risks to end. This is one of the reasons why this sector’s main players have been family firms for many years, because they can wait, not seeking immediate financial results, as other firms usually do, which explains why financial entities like Private Equity funds have not taken part to turnarounds in this industry until recently (in fact, the situation has quite changed in the last ten years and further details will be provided in the next chapter).

There is also a demand-related argument that microeconomics teaches us[31]: products sold in the analysed industry are defined as “luxury goods” not only from a marketing standpoint , but also from an economic one: customers’ demand grows more than proportionally than their income increase, which clearly influences luxury firms’ sales cycle and the overall industry’s. This is particularly evident when there are positive economic conditions, that bring luxury clients to buy more and the whole industry to over perform the average, or also during financial crisis, because this sector is able to recover quite quickly, as illustrated in the first paragraph, which has indeed attracted M&As transactions also in periods when there has been a general recession that has discouraged these activities in other industries.

Indeed, these features individually taken are nothing new or unique of the luxury industry, but their combination and simultaneous presence is what makes many say that “luxury industry is very different from the others”.

4. The industry’s main players

Another important topic to analyse is on the industry’s main players, which will be developed by focusing on the three already mentioned luxury holdings that in the very last years have registered among the largest sales in the whole sector: LVMH, Kering and Richemont. Even though LVMH has gained the first place, while the other two are more or less among the first six, they have been chosen as they are indeed the main strategic M&A players and thus among the protagonists of chapter three, so next paragraphs will provide an in-depth, though concise, analysis of their main segments of activity/brands and geographic scope.

The last paragraph, instead, will illustrate the newest entrants of this industry as it is one of the main questions to be answered in this paper and whose main figures and trends will be discuss in the next chapter.

4.1 LVMH

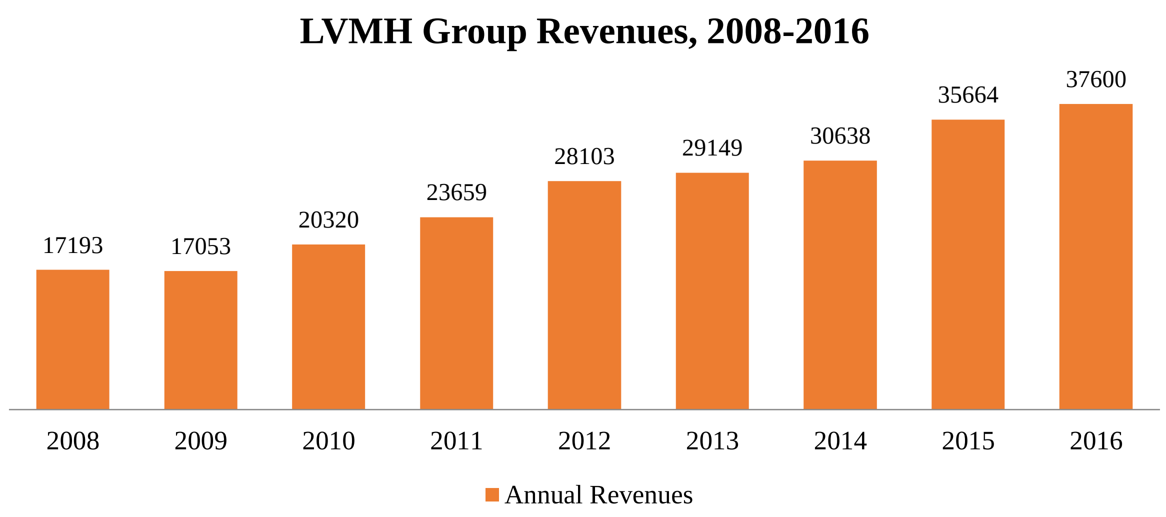
This holding was born from the merger between Louis Vuitton of the PLG segment and Moët Hennessy of Wines & Spirits in 1987 and it is listed at the Paris Stock Exchange; its founder, president and CEO is Bernard Arnault. It has pursued a policy of non-stop acquisitions in

[31] *Microeconomia*, H.R. Varian, Cafoscarina, 2011.

different segments of the luxury market, with a very large international presence. The following charts will provide a more detailed picture of its scope of activity from a business line and geographic points of view.

First of all, it is important to highlight its activity through the years, by looking at its sales between 2008 and 2016, as the following table illustrates.

Exhibit 2.6: LVMH revenues in million euros, 2008-2016



Source: re-elaboration of data collected from Statista, The Statistic Portal, updated in 2017

It clearly emerges that, apart from the first two years of the analysed period, LVMH's revenues have strongly grown in the following six, which has brought the holding to have the first place both in the PLG segment and in the whole industry. The financial crisis hit the luxury industry as seen in the first paragraph and LVMH lost 1% in sales between 2008 and 2009, which is not a very large amount compared to other firms in other industries, but it was heavily recovered starting from 2010, with a 19% increase from around €17 billion to more than €20 billion. High growth rates followed until 2012, while in 2013 and 2014 they became much smaller and normal, around 4%, with another explosion in 2015. The period ending in 2016 has seen a decreasing growth rate of 5% that brought sales to €37.600 million, so it will be interesting next years to see whether LVMH's abnormal growth will follow or whether it will slow down and stabilize around 4%-5%.

The table below shows how revenues can be split among LVMH's business lines between 2008 and 2016, to see which ones have sold the most so far and their growth path over the years.

Exhibit 2.7: LVMH revenues split by segments

In million euros	2008	2009	2010	2011	2012	2013	2014	2015	2016
Wines & Spirits	3.126	2.740	3.261	3.524	4.137	4.187	3.973	4.603	4.835
Fashion & Leather Goods	6.010	6.302	7.581	8.712	9.926	9.882	10.828	12.369	12.775
Perfumes & Cosmetics	2.868	2.741	3.076	3.195	3.613	3.717	4.006	4.671	4.953
Watches & Jewellery	879	764	985	1.949	2.836	2.784	2.782	3.308	3.468
Selective Retailing	4.376	4.533	5.378	6.436	7.879	8.938	9.520	11.193	11.973
Other Activities and eliminations	(66)	(27)	39	(157)	(288)	(359)	(471)	(480)	(404)
Total	17.193	17.053	20.320	23.659	28.103	29.149	30.638	35.664	37.600

Source: re-elaboration of data collected LVMH's Annual Reports

First of all, it is important to notice that Fashion & Leather Goods and Selective Retailing segments account for the largest share in the whole period; in particular, the former has had a 35% weight on average, registering peaks of 37% especially at the beginning, till 2011, while the latter's share has been 29% on average, with an opposite path, that saw its weight strengthening especially in the most recent years, reaching 31% between 2013 and 2015 and 32% in 2016, only 2% less than Fashion and Leather Goods. This means that while one of LVMH's pillar has remained strong through the years (that is Fashion & Lather Goods), quite a newer division like Selective Retailing (that was added a bit later to the group) has grown strongly very recently, mirroring the trend of increasing importance that the Retail part of the value chain is gaining and where companies are investing the most to keep their customers, especially in this industry. Concerning the other segments, different outcomes can be highlighted along these years; starting from Wines & Spirits, although its sales have been growing (apart from 2014), it has lost its weight on total sales, because it was 18% in 2008 and arrived to 13% between 2014 and 2016. The same has happened to Perfumes & Cosmetics, whose share has decreased form 17% in 2008 to 13% in 2016, even though its sales never stopped increasing, (apart from 2012). Moreover, these two latter divisions are the ones that drove LVMH's sales decrease during the financial crisis, between 2008 and 2009, together with Watches and Jewellery that has had quite an unstable path during these years, with sales increasing and decreasing around every year or couple of years. Indeed, it represents the smallest segment, with a peak of 10% share between 2012 and 2013, while in the last three years of the analysed period it stabilized on 9%. All in all, it can be stated that LVMH's greatest part of activity has always been focused on Fashion & Leather Goods and Selective Retailing the most and that this trend has become stronger and clearer in the very last years compared to the beginning.

Moving to the geographic point of view, the table below shows LVMH's regions where it operates worldwide.

Exhibit 2.8: LVMH revenues split by region, 2008-2016

In million euros	2008	2009	2010	2011	2012	2013	2014	2015	2016
France	2.646	2.478	2.725	2.866	3.083	3.206	3.212	3.552	3.745
Europe (except France)	4.095	3.664	4.236	4.797	5.397	5.538	5.830	6.408	6.825
United States	3.825	3.840	4.611	5.237	6.377	6.704	7.262	9.345	10.004
Japan	1.779	1.683	1.784	1.970	2.351	2.040	2.107	2.487	2.696
Asia (except Japan)	3.404	3.850	4.991	6.430	7.876	8.745	8.740	9.636	9.922
Others	1.444	1.538	1.973	2.359	3.019	2.915	3.487	4.236	4.408
Total	17.193	17.053	20.320	23.659	28.103	29.149	30.638	35.664	37.600

Source: re-elaboration of data collected from Statista, The Statistic Portal, updated in 2017

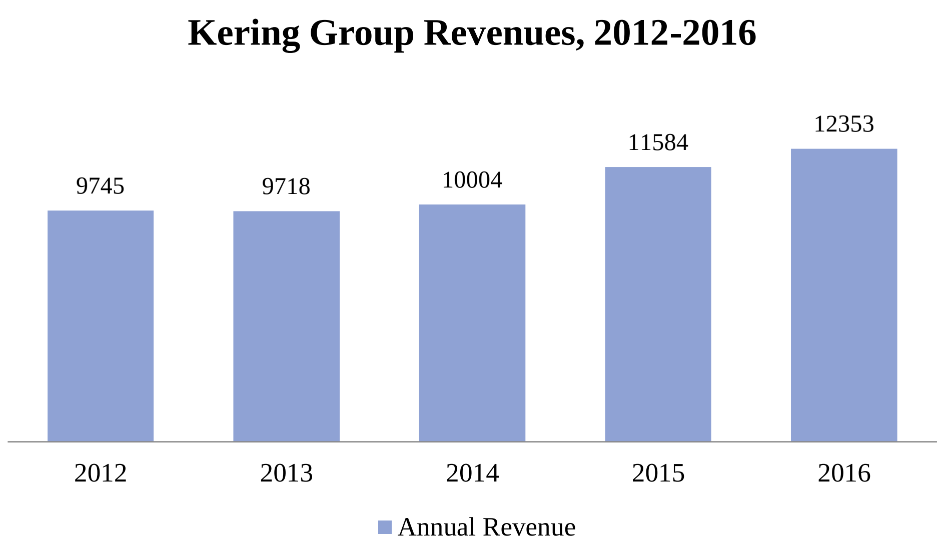
The geographic division follows the one used by the Group's Financial Statements and it strongly highlights not only the regions but the most important countries for the Group's sales. What can be noticed is that areas like France, Europe and Japan have seen their sales share decreasing over the years, although their sales have grown (apart from the drop in 2009 because of the financial crisis). What is happening is that the historical base of sales is shrinking in favour of USA, Asia (excluding Japan) and Others (Middle East in particular). In fact, while the formers have lost around 5 basis points between 2008 and 2016, the latter have gained it, with a turnaround point being more or less in 2011, so after the financial crisis explosion, of which the second group of regions (USA, Asia and Others) does not seem to be affected, because their sales have grown between 2008 and 2009. In the end, the considered period has ended in 2016 with the following ranking of best sellers regions: USA (€10.000 million), Asia except Japan (€9.922 million), Europe except France (€6.825 million), Others (€4.408 million), France (€3.745 million) and Japan (€2.696 million), completely different from 2008, when Europe had the first place and USA the second.

4.2 Kering

Kering has quite a different history from LVMH: its original name was Pinault Group and it was created in 1963 by François Pinault and it operated in the building material business. In 1991 it entered the Retail by purchasing Conforama and in 1994 its name became Pinault-Printemps-Redoute (PPR), after taking over Au Printemps and merging with La Redoute. In 1999 PPR entered the luxury world by purchasing Gucci, Sergio Rossi, Yves Saint Laurent and Yves Saint Laurent Beauté, together with other luxury companies, starting its life as a multi-brand luxury goods group. In 2013 it changed its name into Kering; it is listed in the Euronext Paris and its founder and CEO is François Pinault.

The next tables will provide the same focus discussed for LVMH[32].

Exhibit 2.9: Kering Group annual revenues in million euros, 2012-2016



Source: re-elaboration of data collected from Kering's Annual Reports

[32] The period begins in 2012 rather than in 2008 because after 2013 change of name from PPR to Kering, financial statements provide data in a quite different way for brands and regions that has made it difficult to keep the same structure used in this paper, considering that the 2012 Annual Report was edited in 2013.

Unlike LVMH, Kering has had quite a hard time immediately after the financial crisis explosion; in fact, while in 2008 revenues were more than €20 billion, they had a strong drop by -15% on average until 2012. After a 0% growth rate between 2012 and 2013, Kering Group has started to grow again, strongly pushed by Gucci's last years' explosive sales increase that has lasted till the end of the analysed period. A positive sign was registered between 2014 and 2015 when sales grew by 16%, ending the period with 7%, reaching €12.353 million. Indeed, next years will be crucial to understand whether the Group will be able to fully recover and reach high sales such as in the pre-crisis years.

Exhibit 2.10: Kering Group revenues split by brands, 2012-2106

In million euros	**2012**	**2013**	**2014**	**2015**	**2016**
Gucci	3.369	3.561	3.497	3.898	4.378
Bottega Veneta	945	1.016	1.131	1.286	1.173
Saint Laurent	473	557	707	974	1.220
Other Luxury brands	1.156	1.337	1.424	1.708	1.698
Puma	3.271	3.002	2.990	3.403	3.642
Other Sports & Lifestyle brands	261	245	255	279	242
Total	9.475	9.718	10.004	11.548	12.353

Source: re-elaboration of data collected from Statista, The Statistic Portal, updated in 2017

In this case, the split has been made between brands rather that segments, but the table clearly shows that one great distinction exists among Kering's brands: Luxury and Sports & Lifestyle, whose largest representative is Puma, purchased in 2007. Indeed, the formers have a larger share of revenues than the latter, as they represent the historic pillar of the Group, but Gucci, that has generated the largest part of revenues so far, is immediately followed by Puma, because companies like Bottega Veneta and Saint Laurent that generate the second and third largest revenues in the luxury division are much smaller. In particular, Gucci and Puma had a very similar share in 2012 of 36% and 35% respectively, whose difference instead increased till 2016, becoming 35% and 29%, especially because Gucci's sales boomed in 2015 and 2016, growing by 11% and 12%. Bottega Veneta's sales have grown in these four years, but its share has kept an average of 10%, while Saint Laurent's great growth in sales by 27% on average brought its weight from 5% in 2012 to 10% in 2016, outperforming Bottega Veneta by 1% in 2016. As for the other brands, they account for a very small part of the total, especially Sports & Lifestyle ones that have been more recently introduced than Luxury.

Moving to the geographic point of view, the following table shows Kering revenues break down.

Exhibit 2.11: Kering Group revenues split by regions, 2012-2016

In million euros	2012	2013	2014	2015	2016
Western Europe	2.950	3.109	3.101	3.591	3.829
Asia-Pacific	2.447	2.428	2.601	3.012	3.212
North America	1.993	2.041	2.101	2.664	2.718
Japan	1.169	972	1.000	1.158	1.235
Other countries	1.185	1.168	1.200	1.158	1.359
Total	9.744	9.718	10.004	11.584	12.353

Source: re-elaboration of data collected from Statista, The Statistic Portal, updated in 2017

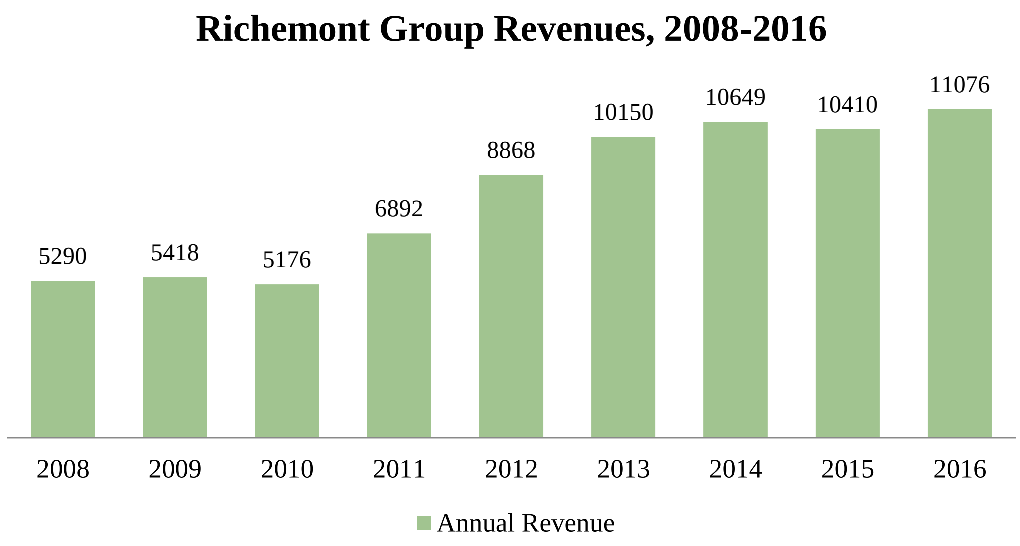
Overall, the situation has not drastically changed over the considered years, with sales growing in all the regions almost every year (except a little drop in Asia-Pacific and Japan in 2013). In fact, Western Europe still represents the largest market for Kering and whose share has been 31% on average per year, followed by Asia-Pacific with 26% on average, North America with 21%, Japan with 10% and Other countries (like Eastern Europe and Middle East) with 11%. Apart from Asia-Pacific that registered a 1% increase of its weight between 2013 and 2014 and kept till 2016 and Japan 2% decrease right after 2012, no other particular situations have occurred in this range of years.

4.3 Compagnie Financière Richemont

It was created in 1988 by the South African billionaire Johann Rupert who holds the majority stake; it is listed in the Swiss Market Index and it is the third most important luxury group after LVMH and Kering. Its activities are in the luxury industry where they began by acquiring minority stakes in the jeweller Cartier Monde SA and in the tobacco where it purchased them in Rothmans International, which brought the group's operations to be separated between Rothmans International for tobacco activities and Vendôme Luxury Group for luxury goods in 1993. At the end of the XX century, the group started to buy stake also in the television industry and after the merger of Rothmans International with British American Tobacco in 1999, Richemont started to decrease its share of ownership in the tobacco industry, while increasing it in the luxury one, especially in the Watches & Jewellery segment and more recently in the online fashion retailing with Yoox and Net-A-Porter that it merged, creating a unique entity in 2015 and holding 50% of total shares.

The following chart shows the Group's revenues from 2008 and 2016.

Exhibit 2.12: Richemont revenues in million euros, 2008-2016



Source: re-elaboration of data collected from Statista, The Statistic Portal, updated in 2017

The group's revenues have had quite an unstable path at the beginning and at the end of the considered period, but a strong growth has been registered between 2011 and 2014 and especially when sales grew by 33% between 2010 and 2011 and by 29% between 2011 and 2012. Despite the slow and sometimes negative growth pace at the beginning and in 2015, the group has more than doubled its revenues between 2008 and 2016, reaching more than €11 billion in 2016, going very close to Kering's in the same year.

To better understand what segments have influenced the group's activity the most over the years and Richemont's most important distribution regions, the following tables have been included in the discussion.

Exhibit 2.13: Richemont revenues by segment, 2008-2016

In million euros	2008	2009	2010	2011	2012	2013	2014	2015	2016
Jewellery maisons	2.657	2.762	2.688	3.479	4.590	5.206	5.438	5.657	6.048
Specialist watchmakers	1.378	1.437	1.353	1.774	2.323	2.752	2.986	3.123	3.225
Montblanc maison	625	587	551	672	723	766	730	-	-
Other businesses	630	632	584	967	1.232	1.426	1.495	1.630	1.803
Total	5.290	5.418	5.176	6.892	8.868	10.150	10.649	10.410	11.076

Source: re-elaboration of data collected from Statista, The Statistic Portal, updated in 2017

As already anticipated, the group's main focus is on Personal Luxury Goods segment and in particular on Watches & Jewellery that generates around 80% of total sales, because it is where the group has invested the most in M&As. Among the two, Jewellery has generated the largest amount of sales in the whole period, starting from €2.657 million and representing 50% in 2008 to more than €6 billion in 2016 that accounts for 55% of the total. The Watches division is about half of the former and its weight has as well increased over the years, although a bit less than Jewellery, going from 26% in 2008 to 29% in 2016. Concerning Montblanc, it has had a remarkable weight considering that it is a company rather than a business line like the others, especially between 2008 and 2011 when it was 12% and 10% respectively. It strongly decreased till 7% in 2014, although its sales never stopped increasing, (apart for 2010), but clearly it was losing the importance it had before, given that Richemont has kept buying companies in the Watches and Jewellery segment and in the others of the PLG market, or simply increased its stake, therefore Montblanc has been incorporated in Other businesses. Concerning the latter mentioned division, it includes Ready-to-Wear firms like Chloé and Dunhill and Accessories with Lancel. Both sales and share have increased along the years, moving from €630 million in 2008 to €1.803 in 2016 and from 12% to 16% respectively, but still they do not represent the main focus of the group.

Moving to the geographic point of view, the table below will provide more detailed information.

Exhibit 2.14: Richemont revenues by geographic region, 2008-2016

In million euros	2008	2009	2010	2011	2012	2013	2014	2015	2016
Europe	2.284	2.363	2.099	2.588	3.097	3.611	3.919	3.067	3.388
Asia-Pacific	1.295	1.474	1.740	2.569	3.684	4.162	4.235	4.100	3.937
Americas	1.012	889	712	998	1.253	1.473	1.603	1.588	1.745
Japan	699	692	625	737	833	904	892	814	1.031
Middle East And Africa	-	-	-	-	-	-	-	841	975
Total	5.290	5.418	5.176	6.892	8.867	10.150	10.649	10.410	11.076

Source: re-elaboration of data collected from Statista, The Statistic Portal, updated in 2017

Results are quite similar to LVMH's: while European and Japanese weights have decreased during the years, Asia-Pacific's has increased. In fact, European €2.284 million sales in 2008 represented 43% of the total, while €3.388 million in 2016 the 31% (although they grew again in 2013 and 2014 to 36% and 37%) and this has been influenced heavily by Asia-Pacific sales growth, but also by a decrease in sales in Europe, especially between 2009 and 2010 and 2014 and 2015, whose drop was by 11% and 22% respectively. On the other hand, Japanese sales have been growing along the years (except in 2014-2015), but its weight dropped from 13% in 2008 to 9% in 2016. Asia-Pacific sales have always increased till 2015 and their weight growth path has been completely opposite to the other two regions', because it grew from 24% in 2008 to 36% in 2016, reaching two peaks of 42% and 41% in 2012 and 2013; now it generates the largest part revenues of the group. Americas' revenues instead do not have a clear path, as they have increased and decreased over the years and so their percentage on total sales, that in 2016 were €1.745 million, accounting for 16% of the total and thus the third best result. Finally, Middle East and Africa represent very recent markets for the group and their total weight is equal to Japan's, ranging between 8% and 9% between 2015 and 2016.

4.4 New players of the industry

In the last fifteen years the examined sector has witnessed a change in its main players, because, even though corporate firms still dominate it, financial ones have started to enter it and among them, Private Equity funds and Holdings (as it will be more deeply illustrated in the next chapter). Considering that until not so many years ago private equity and luxury firms have been "uncomfortable bedfellows" as defined by the Financial Times (2015), it is worth analysing the main reasons why the luxury industry has begun to appeal this category of investors and the Personal Luxury Goods segment in particular. Sources come from researches made for Italian targets, where financial firms have invested the most so far, but some general principles can be deduced on their general attitude towards this industry.

The first point concerns the amazing growth rate that the PLG segment has reached between 2000 and 2014[33] doubling its size from €128 billion in 2000 to €224 billion in 2014, according to Bain estimations that have been already mentioned in the first paragraph. This point has not been the only one to make the segment very appealing from a financial return standpoint, but also luxury consumers' increase from 140 million to more than 350 million worldwide, of which a third has been made up by Chinese. According to Market Mogul (2017), Fashion & Luxury firms' average expected IRR ranges between 20% and 30%, which is remarkably high if we take total industries average Cost of Capital updated on January 2017 of almost 8%, with a standard deviation of 1%[34]. Furthermore, the luxury Design segment has started to attract financial investors' attention in the most recent years, because of the urbanization and "smart" city living trends that are driving luxury customers' choice to invest in furniture and interiors that follow this new style.

Secondly, as customers are now turning to small and independent brands, beside big ones like Gucci and Louis Vuitton, a new investment opportunity has been discovered by financial companies and that perfectly matches one of the above mentioned luxury industry features that is the large presence of small and medium enterprises. In fact, according to Armando Branchini, founder of consultancy InterCorporate and vice-chairman of Italian luxury lobby Altagamma, "The financial market is now aware of the opportunity of being able to invest not only in big luxury groups, but also midsized luxury companies, which can be ultimately listed with

[33] When the period of observation ends, given that the article was written in 2015, but growth has continued even after, as already discussed.
[34] Numbers come from the Weighted Average Cost of Capital by industry taken from Damodaran database. http://pages.stern.nyu.edu/~adamodar/

minority stakes of 20 to 25 per cent". Moreover, financial firms have begun to change their investment habits in this industry, by becoming more patient and willing to invest for a longer time in luxury companies than the three years they usually wait in other industries before divesting, because, as Mr Branchini himself has reckoned, PE funds in particular "have realised fashion and luxury require longer-term attention" and that "Market returns are much more interesting than in other industries" over 7 to 10 years.

These elements have given an important result that represents the third point of the discussion: the capability to successfully respect the "very delicate equilibrium" between the creative and the investment sides. In fact, while in the past this has created many problems to make deals last, nowadays a way out has been found to sort out this problem. According to the Financial Times, the key for PE funds to make a good investment in this sector lies in bringing a small or medium niche brand to a global level, that is what Mayhoola did when it purchased Valentino in 2012, spending around €200 million in enlarging its global network that contributed in €700 million revenues and €64 million of EBITDA in that period, while only in 2009 it had an EBITDA loss of 9 million and revenues for €230 million. In this way, both PE funds buyers and luxury targets can gain important advantages, according to Market Mogul, because the formers invest in small firms with high potential earning from their growth surrounded by a profitable market, while the latter obtain financial resources to face the fast-paced growth in the luxury industry and to expand especially to Asia and Middle East, in order to have an international presence in the strategically most important cities in the world, while keeping a good share of decision-making power. Furthermore, the balance between creative and financial sides has been achieved by financial firms also in understanding that the right moment to invest in such an industry is not only defined by an economic point of view, but also when the owner-designer is ready to accept a radical change for his company, not obstructing it, that also contributes in making a deal last and be successful.

5. Conclusion

This chapter has had the aim of providing a detailed picture of the luxury industry and of its main players.

The first focus has been on the overall industry, following Bain & Company’s split in ten segments: Personal Luxury Goods, Luxury Cars, Luxury Hospitality, Luxury Cruises, Designer Furniture, Fine Food, Fine Wines & Spirits, Yachts, Private Jets and Fine Art. The largest segment in the very last years has been Luxury Cars whose sales in 2016 accounted for 40% of total sales, followed by Personal Luxury Goods, signaling a breaking point with the past when the latter segment was the dominant one. Another important result is that both in-home (fine arts and designer furniture) and out-of-home (cruises, hospitality and restaurants) luxury experiences have acquired an always increasing role, compared to luxury goods and toys (yachts and private jets) in the last four years of the analyzed period. Moreover, differently from what it can be expected, luxury industry never-ending growth stopped between 2002 and 2003 because of the currency effect, of dollar and yen weakening compared to euro, then recovery began in 2004 till 2008 when the financial crisis exploded, hitting also this industry, where sales dropped. Unlike other sectors, though, recovery was very fast and in fact sales increased by 17% between 2010 and 2011, without stopping growing (although at a more stable pace and normal rate around 7%) and reached €1.081 trillion in 2016.

The second point discussed was on the main reasons why this industry is different from the others and according to Chevalier and Mezzalovo (2007), dimension, financial aspects and time frame are the most peculiar factors. Concerning dimension, they have shown that unlike other industries, in luxury, it is not the most important variable to compare companies or this industry with others, as brand awareness is, especially because almost all of them are small and medium enterprises, apart from a few big groups, defined as “holdings of individual small companies”. Secondly, retail, wholesale and licenses can have very different weights in generating revenues in each luxury company, therefore results can be quite difficult to compare. About the financial aspect, given the high level of break-even point because of the high fixed costs, the large amount of liquidity they generate and the high margin each product has, when a luxury company becomes successful, it will be able to face years of losses without going bankrupted, merged or acquired, which is usually what happens in many other sectors and in a very short time. Third, time has a completely different interpretation in the luxury industry, because while other consumer-goods firms try to reduce it when launching a product (usually no longer than a year and six months to recover the investment), or to change the direction the firm has been following for years and they generally can see results quite immediately, luxury ones have longer periods to face, ranging between 18 and 24 months for the launch, around a year to recover and they have to make quite an effort to make to customers accept their changes, which also takes more time than the average.

In the end, the analysis has moved to the industry's main players that nowadays can be divided into strategic and financial given their recent entrance. Starting from the first ones, the focus has been on the three most important luxury holdings, LVMH, Kering and Richmont that have been ranked among the first six for their annual revenues but also the most active strategic M&A players. Indeed, these are the common traits they share, but there are also some differences concerning their main luxury segments of activities and geographic retail distribution. In fact, while LVMH embraces the largest number of segments with PLG, Wines & Spirits and Selective Retailing (with a particular focus on the latter and on Fashion and Leather Goods), Kering mainly works on Luxury and Lifestyle & Sports brands, mainly focused on Ready-to-Wear and Accessories that are strongly present in these two categories. Richemont, instead, (the only non-French entity, as it is Swiss) has purchased companies mainly working in the Watches & Jewelry segment, although there are Fashion brands as well, but they represent a very small part of the total. Concerning Retail distribution, while LVMH's and Richmont's most important market has become Asia-Pacific (excluding Japan) and also USA for the former and Europe has moved to the second/third place in the last five years, the latter still has registered the largest sales for Kering, while Asia-Pacific and North America occupy the second and third place.

The last point concerns the industry's new entrants that are financial firms and in particular PE funds and Holdings that were quite reluctant till fifteen years ago. The main reasons of this change according to some researchers, especially targeting PLG and Design firms, are to be found first of all in the very positive performance registered in these segments in terms of sales and new customers, especially Chinese. Secondly, these investors have understood the large potential that small niche brands can have and the high value they can create by giving them financial resources for their worldwide expansion, especially in Asia and Middle East. Therefore, they have become more patient by deciding to divest their investments after a longer period than three years, as they normally do, but also they have understood how to balance the creative and financial side by waiting for the right moment to come to invest in a luxury firm, that is when the designer-owner has become aware that the firm needs a radical change to keep living.

Considering this very recent trend that researchers have reckoned to be happening, next chapter will provide a detailed quantitative analysis on whether and how the ownership situation of this industry has changed in the last almost twenty years.

Chapter three: M&As in the luxury industry

1. Introduction

This chapter goes in detail with the M&A phenomenon in the Luxury Industry, in order to understand whether the M&A theory discussed in the first chapter is valid and to what extent, but also to explore the degree of openness of this sector to financial markets and to a less family oriented ownership, as discussed in chapter two, in order to understand whether a change in the preexistent ownership situation has happened in the most recent years.

The first paragraphs will go through the merger waves theory, which will provide interesting results, given that the luxury industry has always had a per se growth path and endogenous trend compared to the other sectors, as deeply remarked in the preceding chapter. The outcome will then be confronted to the general trend and to the main macroeconomic data of the whole industry.

Afterwards, an in-depth analysis of the main players will be provided, to examine in detail who has purchased luxury companies the most, given the recent entrance of financial entities in this sector, especially Private Equity funds. The selling side will be studied as well to see from to what companies luxury targets are going. The same reasoning will be applied to a geographic point of view, dividing the world in six main regions: Europe, North, Central and South America, Asia Pacific (APAC) and Middle East and Africa (MEA). As it will come out from the discussion, Europe is the most active region, therefore a focus on it will be done, to understand where European players come from and, among the luxury targets remaining in Europe, which ones have moved from a European country to another in terms of ownership.

Finally, a focus on luxury segments will be provided, not only on deals made in each of them over the years, but also on their main investors, again from an activity point of view (corporates against financial) and from a geographic one, following the same path used for the whole industry analysis.

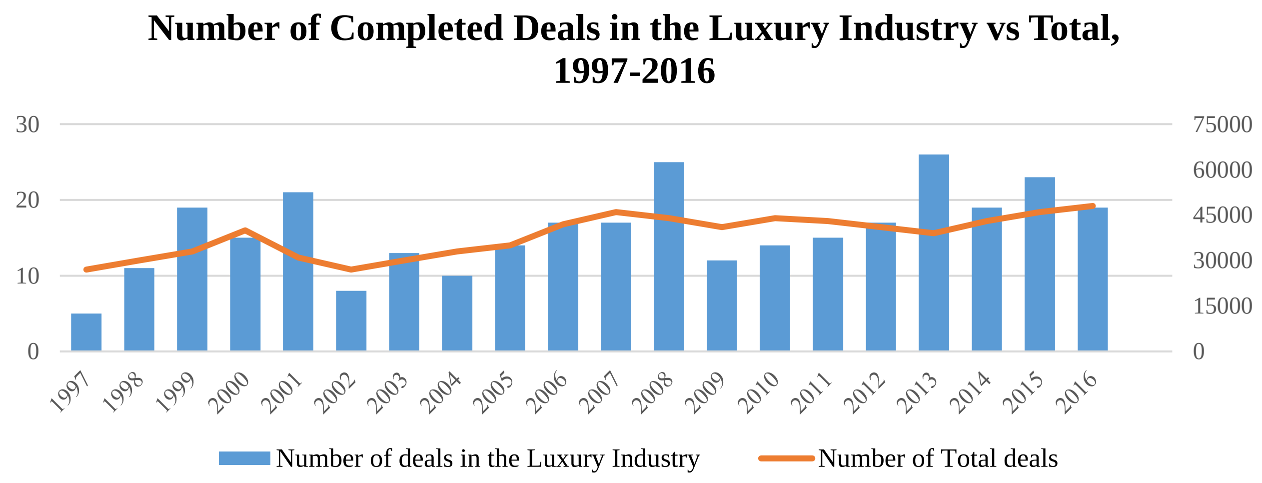
The main source of this chapter is a strictly confidential database, provided by my thesis supervisor of LUISS Guido Carli, together with the two platforms named Zephyr and Orbis, with all the information on deals, players' name, activity and nationality. The following discussion considers a period starting in 1997, because Zephyr does not provide any information on deals made any sooner than this year and it ends in 2016, given that at the time when this paper has been written, 2017 was not over yet, so data of that year were not complete. The main assumption on which the whole analysis lies is to consider deals where bidders have acquired the majority stake (50% plus one share), or through which they have strengthened their majority position, by acquiring shares that have increased their already majority participation in a company, because the final goal is to take a picture of the ownership situation within this industry and of its possible changes during the considered years. Following this way of thinking, also transactions with minority stake acquisitions have been considered if they were tranches that ultimately brought the buyer to become the major shareholder. One more assumption is that only *completed* deals have been used, therefore what has been described through graphs made by the writer of this paper has happened already, while rumored or announced deals have not been considered, as they would bias the whole study with data belonging to uncertain events. The sample used is made of 320 observations, unfortunately not always totally considered in the analysis, as some of them lack a few information, as specified along the chapter every time deals have been excluded. Fortunately, in the majority of the cases data have been enough to provide reliable and final results, while in a few of situations related to corporate investors' distinctions, this has not been possible, so in those cases a conclusion has been drawn, provided the specification that it is not 100% certain. Finally, only the number of deals has been taken into account to plot the graphs, given that deals' values were not enough to draw trustworthy and representative trends.

2. A deep dive in the industry's M&A activities

2.1 Merger waves theory applied to the luxury industry: Data analysis

In the first chapter, a detailed analysis of the M&A waves theory has been presented to better understand whether there was a logic behind the number of deals made over the years and their total value, whether they formed casual clustering in a few years or not and the possible link to the macroeconomic events that characterized the world from the end of the XIX century until now. Studies helped to discover that a general principle actually exists and it has driven M&A activities along the years: the waves, which have a beginning in a certain year, followed by a period of an increasing number till they reach the peak and then crash, usually because of a financial crisis. Following this path and the main aim of this paper, it becomes important now to understand if the Luxury industry has followed the general trend or if it has had a per se path from 1997 to 2016, as shown in the table below[35].

Exhibit 3.1: The luxury industry trend of deals compared to macro data



By recalling the general M&A waves theory, the starting period of this chart is in the middle of the fifth wave that began in 1992 and ended in 2000 because of the dot.com bubble; in the case of the luxury industry instead, between 1997 and 2003 an unstable trend can be observed that could be renamed as "the groups' period" because of the flourishing activity that luxury groups pursued in the years considered. In fact, some of them managed to complete three or more deals

[35] Although 12 observations have been excluded because they regard minority stakes (while the general trend includes everything), they do not alter the final results represented in the table.

per year between 1997 and 1999 and in 2001 (considering that one or two deals per firm or group have been made on average according to the observed data[36]) and at the same time, others have made one deal targeting a large number of companies. While at a general level M&A players made the number of deals increase until 2000 internet bubble that represented the peak before the end, luxury M&As fell by 21% during that year, while they reached the top of 21 deals in 2001, when activities dropped in most of the other industries because of the financial bubble. By putting the two trends together, it seems that the luxury industry "failed" to follow the general wave trend because of anomalies registered in 1999 and 2001 coming from the above-mentioned M&A intense activity pursued by some big luxury groups (deeply described in chapter two) that altered the final outcome. In fact an important group drove a large increase by 120% between 1997 and 1998, by doing three M&A deals in the cars segment, while in 1999, group A made four deals (one of them worth more than €1 billion, from available data) acquiring the total equity of four companies and 51% of another, accounting for 21% of all M&As that year, all in the Personal Luxury Goods segment, the same where group B made the first tranche of a big deal involving nine target companies, while group C made three deals targeting three firms, in both cases worth more than €1 billion. In 2001 something similar happened, as group A purchased four companies again (accounting for 19% of the total, where in two cases it acquired 100% equity stake), group C purchased other three (that together with group A, accounted for 33% of total deals) while group B made one big deal as a second tranche to bring to majority the previously acquired stake of the same nine companies. Still all this happened in the Personal Luxury Goods segment that has registered bidders' interest for many years, beside one of group A's purchases that happened in the Wines & Spirits. Furthermore, the latter segment saw a big deal happen in the same year involving two groups as buyers, worth more than €9 billion.

Overall the trend is not completely clear because, although both the number and total value of deals in 2000 were lower than in 1999, drops did not reach the same level as in 2002 and 2009 in the market, because two mega deals were made in the Car and Personal Luxury Goods segments that year and in terms of number, deals were not as few as at the beginning of the analyzed period, so it cannot be inferred that M&A activity had a relevant slowdown, until the end of 2001. On the other hand, by not considering the four abnormal deals in 1999, the total number would be 15 as in 2000 and 17 in 2001, which draws a shape much similar to a wave

[36] Only six out of the 320 completed deals have been excluded because of lack of data.

ending in 2001. Therefore, by taking into account all these assumptions, a "missed wave" could be identified between 1997 and 2001.

The graph below shows in detail the wave that can be assumed to be existed between 2004 and 2008, the very first one in this sector in the analyzed period.

Exhibit 3.2: The first merger wave in the sector

Indeed, between 2002 and 2004, M&As do not have a clear path, apart from the fact that 2002 definitely put an end to the rippling period lasted until 2001, as deals fell by 62% from one year to the other. Considering that the number started to grow again and quite strongly by 63% from 2002 to 2003, the beginning of a new wave could have been identified (perfectly in line with the general trend) if the number of deals did not fall from 13 to 10 in 2004 as it happened, so unlike the other industries, the wave in the luxury one began in 2004, because from this year deals started to grow again, until 2008. In 2004 group B made a mega deal that represented the final tranche to buy the remaining equity stake of the same nine companies, becoming their only owner in the end; it was worth more than €1 billion, which together with a more than €3 billion acquisition in the cosmetics division strongly pushed the total deal value of 2004 to increase more than the one in 2003 of around €5 billion (although six observations are missing in 2003 and four in 2004, thus they have been excluded from this analysis). The first important remark of this period is that 2006 and 2007 have been very different years, although they reported the same number of deals, which is 17. In fact, while in 2006 13 out of the total 17 deals were made by industrial firms, it was financial investors who pushed deals to 17 in 2007 by making 10 deals, thus signaling an increasing role of financial buyers in the luxury industry. Moreover, 6 of their deals were made in different segments from Personal Luxury Goods and specifically they belonged to Design, Cars and Hotels. This can be seen surely as a clear sign of change in the sector concerning its major players, anticipating the trend that characterized the very last years till 2016 (further details on this topic will be provided in the next paragraphs). The wave ended in 2008 when deals reached the peak of 25, (the second largest number after 26 in 2013), right at the beginning of the financial crisis. It is worth noticing that, unlike the above-mentioned cases, the abnormal growth in 2008 was not at all pushed by the same groups making big deals or targeting more firms than the average, rather by many different groups and firms participating to M&A activities that made one deal each on average; plus, unlike the previous year, 20 out of the total were made by corporates, rather than by financial investors. What remained quite constant instead, was that almost half of the deals were made in the Personal Luxury Goods segment; indeed, macroeconomic factors strongly pushed the wave, especially considering that the luxury industry growth has always had its peculiar path, usually different from the general trend. Favorable conditions in 2008 are also proved by the unusual number of big deals registered in different segments: more than €1 billion deals were made, one in Personal Luxury Goods (PLG) and one in Cars and more than €5 billion in Wines and Spirits.

Moving to the last period, the table below shows a new wave that was generated in the Luxury Industry between 2010 and 2013 (although shorter than the previous one) and the uncertain path that has dominated the very last three years.

Exhibit 3.3: The last years of the analyzed period

After a drop in the number of deals by 52% in 2009 because the financial crisis, deals began to grow again in 2010 signaling maybe the strongest difference with the general trend that instead followed an unstable path of strong reductions and sudden growth, reflecting the bad and uncertain economic conditions that dominated the global economy since 2008/2009. One of the most interesting facts shown by data is that PLG did not always represent the most chosen segment where to invest as it happened in the past: in 2010 PLG deals only accounted for half of total luxury deals while in 2012 they were seven out of seventeen, while the others were almost equally divided among the Cars, Food & Beverage and Wines & Spirits, being two on average, apart from Design that accounted for three in 2010 and four in 2012. Secondly, financial investors' position grew, as they moved from doing three deals on average at the beginning of the XXI century to almost five (without considering abnormal peaks), which did not make them dominant yet compared to corporates, but it gave a clear sign of change (although still slow). Luxury giants' and financial investors' activities remained almost quite between 2010 and 2012, not making more than one deal per year, until 2013 explosion: during that year, deals reached the highest number of the whole period of analysis, which is 26, strongly pushed by both sides of investors. First of all, group A made three deals acquiring the majority stakes in two PLG companies and in one Food & Beverage; group B made three deals in the PLG segment only, which made the two groups generate 23% of total deals. Another 38% came from financial investors that reached a second peak of activity with 10 deals, eight of which in the PLG segment, one in Jet and another in Wines & Spirits. It is worth noticing that, apart from one deal in Food & Beverage and other two in PLG, the other 23 were one-shot deals and that was the first time such a thing happened, which may be signaling that 2013 was a very favorable year from an economic point of view at least in this industry and for its players. To foster this idea there is to say that two big deals were made one in PLG and another in Jets worth more than €1 billion, where just one company was targeted in each of the two. As stated in the first chapter, 2013 represented the beginning of a seventh wave for the overall M&A activities and it is still going on, instead in the luxury sector it represented the peak and the end of the second wave that began in 2010, marking a strong point of distinction between the two paths.

The last three years (2014, 2015 and 2016) are part of the seventh wave for the other industries, where it has been growing heavily, while M&As have shown an uncertain pattern in the luxury industry; indeed, 2014 can be interpreted as the crash year of the previously on going wave in the sector, as deals dropped by 27%. On the other hand, this year has seen the Design segment share grow heavily, as 8 deals out of 19 belonged to it, which is one more than PLG deals, meaning an increasing change in buyers' interest compared to the past and that began in 2010, as previously mentioned. Apart from this, financial investors' activity restrained (only three deals made) as well as the major luxury corporate players during the year, leaving the stage to others and also to other segments; in fact, the second M&A deal of the analyzed period occurred in Cruise in 2014, with a 100% stake acquisition worth more than €1 billion by a corporate buyer. In 2015 some of the trends previously mentioned continued their path: first of all financial bidders made 6 out of the total 23 deals, somehow preserving the more important role they have acquired through the years. Secondly, deals in the Design segment were 9 while the ones in PLG were 10, strengthening the increasing interest for the former compared to the latter.

Finally, 2016 is the last year of analysis, where important events happened especially in helping to understand what the future of this sector may be: deals decreased by 17% to 19 as they were in 2014, but M&A intensity did not refrain as for example in the Hotels segment a mega deal was completed, worth more than €10 billion for 100% equity stake acquisition by a corporate player belonging to it as well.

Indeed, M&A activity has remained quite alive in the last two years, but more time will be needed to understand whether it will remain like this in the future years, for how long and whether it will design the shape of a new wave.

2.2 Merger waves theory applied to the luxury industry: Key findings

Data analysis has provided different points of interest regarding how the M&A activity has moved along the years, which are worth recalling and analyze also compared to the luxury industry and to the general trend.

Concerning the period ranging between 1997 and 2001 (when the fifth wave was going on in the other industries), a flourishing M&A activity was registered with two peaks in 1999 and 2001, although it did not draw a wave as one could expect. It can be stated that M&A activity was driven by the most important luxury groups that in fact altered the pattern by focusing their big bids in 1999 and 2001. Another important group, instead, drove a large increase by 120% between 1997 and 1998, by doing three M&A deals; considering all the elements, these years can be defined as "the groups' period". It is not by chance that these were all European industrial groups, as it perfectly reflects two of the main features of the fifth wave mentioned in the first chapter: the strong raise of the EU share in the global M&A activity and that of the strategic buyers compared to the financial that aimed at creating synergies and to accomplish strategic objectives through M&As, rather than just doing hostile takeovers.

The first luxury wave in the considered period happened between 2004 and 2008 and not only it has been almost in line with the general trend, but also financial investors' strong rise became a common trait in both cases and in particular 2007 represents the peak of this first change in the luxury sector, with 10 deals, which has happened again in the second wave. Luxury groups' dominance had a stop in this period, which could explain why luxury M&A clustering actually followed the general trend of evolution.

The table below gives an interesting insight on the KPMG Luxury and Fashion Index that can help to enrich the understanding of the M&A cycle between 2001 and 2009 (although some of the considered companies in the index do not belong to the luxury market, but to fashion), putting the Luxury and Fashion Global performance[37] in relation with the broad economy represented by the MSCI Index that provides information on the broad global stock market performance. The KPMG Index shows that during this period the luxury industry was positively correlated to macroeconomic factors like currency fluctuations, consumer confidence changes and economy growth and slowdowns. When all these factors were positive for the global economy, the Luxury and Fashion Industry over performed the general trend, but also it dropped when the economy fell; according to the authors of the report, this outcome has shown that surely the Luxury Industry trend has always been quite different from most of the other sectors as commonly believed, but it is as well certain that it is vulnerable to recession like other consumer industries.

[37] This index detects the share prices of 60 Luxury and Fashion companies on ten different stock exchanges and in different market segments, from basic fashion, to high luxury, to top-end retailers, as specified by the report itself.

Exhibit 3.4: The KPMG Index between January 2001 and June 2009

Source: KPMG analysis of Bloomberg data: Morgan Stanley Composite Index (updated on 22/05/2009)

Focusing on the pattern drawn by the KPMG Fashion and Luxury Global Index, it has been already mentioned that 2001 represented one of the peaks for the M&A activity (mainly driven by luxury groups), before 2002 drop, when the Composite Index fell as well reaching the bottom between the end of 2002 and the beginning of 2003, when deals started to grow again until 2008 peak. It is possible to notice how the first merger wave in this sector has gone almost completely hand in hand with the Index, as the considered shares value grew till the end of 2007, presumably pushing positive expectations of players and investors till 2008, but they fell during the latter year, going in contrast with the peak of deals[38], while it reached the minimum point in 2009 between January and May, when the Subprime crisis effects became evident and spread in every part of the global economy, also affecting the luxury industry. This last point is more coherent with Luxury M&A deals drop by 52% in 2009 and Luxury sales fall during that year,

[38] Unfortunately, no clear evidence has been found to deeply explain this contrast, but the assumption of positive expectations by investors.

which are indeed important variables that drive choices when making M&A deals in the industry.

The sector lived a period of recovery starting from 2010 and preparing a fertile field for the second merger wave; sales were €700 billion that year and grew by 17% in 2011, with an almost constant, but not abnormal growth till 2016 (apart from 2015 21% peak in sales increase)[39]. All luxury segments sales decreased in 2009 but most of them improved in 2010, fostering the overall sector growth, although with different intensity: luxury cars grew by 17%, Wines & Spirits by 12%, Hotels (that had the largest drop in 2009, by 20%) had a slight recovery of 3% at the end of 2010, Food sales grew by 10%, Design by 7%. The main trends of this wave were a more established, though not predominant, presence of financial investors as M&A bidders, but also a decreasing importance of the PLG segment in buyers' interest, in favor of others and especially Design, that has strengthened in the last three years of analysis. 2013 explosion was strongly fed by luxury groups willingness to reinforce their position in the PLG segment with new majority acquisitions (accounting for 23% of all deals) and by financial investors' activity that accounted for the 38% of the total and reached their peak of the period. To better understand what pushed the M&A activity from the corporate investors point of view, it is interesting to consider a Deloitte research[40], according to which the main drivers affecting the M&A activity in this sector in those years are:

- Globalization: a raise of wealthy and middle class customers occurred in the last years in the emerging markets (Asia Pacific, Latin America, Middle East and Africa) that accounted for 19% of the luxury market in 2013;
- Value chain integration: vertical integration was seen as the best strategy to control the whole value chain, from product design to its final distribution to preserve quality and brand heritage, on which luxury brands rely the most to differentiate;
- Consolidation as a growth strategy: big luxury conglomerates did it to increase their expertise in the luxury sector and their knowledge of the luxury customer. Seasoned investment firms had the aim of gathering luxury brands under a few holdings or groups.

[39] For more details on the Luxury industry growth refer to chapter two.
[40] *Global Powers of Luxury Goods report* 2014.

Luxury companies faced these issues by making M&A deals either with other industrial firms and groups, not necessarily belonging to the same segment, or with financial buyers that could provide them with enough resources to face this new era.

Moving to the very last three years, they are totally not aligned with the general trend, where they belong to the seventh wave, following the results provided by the three researchers mentioned in the first chapter; they have followed the previous years in terms of changes in the luxury buyers and the main segments of interest, but it is as well sure that it is quite early to assume a specific path or trend. Activities have kept a certain level of intensity especially in 2015 and 2016 (though to a different extent), but more years will be needed to understand what is going on in the sector now.

3. Luxury M&A Main Players' Profile

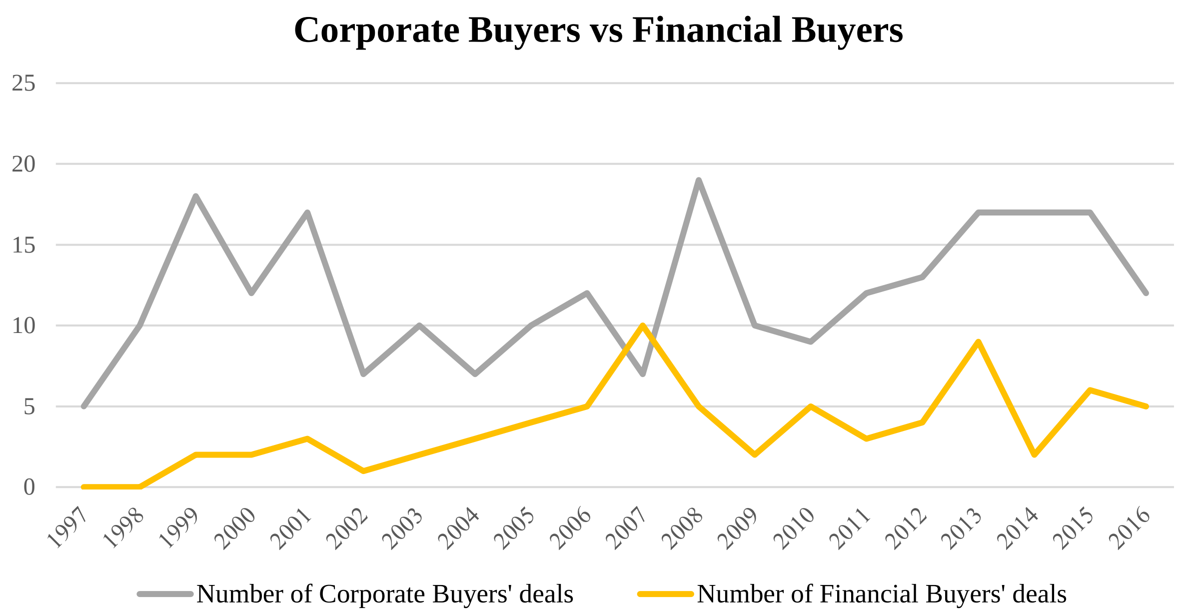
3.1 Corporate versus Financial Firms

Another important part of this paper about M&As concerns its major players; in the two preceding paragraphs, it has been mentioned that corporate firms are not the only players operating in the luxury industry, as in the last twenty years financial ones have started to take part to the M&A activities, strengthening their role in the very last eight/ten years.

The table below shows the split of the number of deals between the two categories in the same range of years as before, 1997-2016[41], in order to have an idea of the intensity of activity by both groups of investors. The starting question is: are corporate firms still dominant?

[41] Only seven buying and sixteen selling deals out of 320 have been excluded from the analysis because they lack the information concerning the nature of the investors.

Exhibit 3.5: The main players of the sector



By looking at the chart, it is clear that not only M&A transactions were just a few between 1997 and 1998, specifically 5 and 10, but also they involved corporates only, both on the buying and on the selling side. Financial entities started to appear in 1999 (at least in the analyzed period) by making two deals in the Personal Luxury Goods segment. On the other hand, corporate entities reached two peaks of 18 in 1999 and 17 in 2001 fostered by some luxury groups' abnormal activity, (recalled in the very first paragraphs of this chapter), dominating the sector in those years. During the first wave in the luxury industry (2004-2008), unlike corporate that had an uncertain and volatile path, financial ones saw a period of heavy growth, with a 52% average growth rate between 2004 and 2007, when they boomed, reaching the largest number of deals in the whole period, which is 10, outdoing corporates' that was 7. Indeed, there was a particular financial company that made three deals, outperforming the average of 1 and that strongly pushed the total amount of deals of the whole category. On the other hand, after a period of uncertain pattern, corporate players reached their highest peak in 2008 of 19, growing by 171% from 2007, strangely not pushed by luxury groups, as they made no more than two deals each, thus remaining in the average, so a strong participation was registered that year to M&A activities by a wider range of firms.

After 2007 financial crisis explosion that affected M&A transactions in the luxury sector in 2009 mainly, corporate buying deals have lived a period of growth between 2010 and 2015, with an average growth rate of 12%, that exploded in 2013, when two luxury groups made three deals each (again outperforming their average), while they had a slowdown by 24% in 2016, which may be temporary considering the positive trend they have lived in the last seven years, but indeed more research will be needed in the very next years to better understand what the situation will be. Financial players instead have had a very uncertain path of growth in the very last seven years (after the general drop in 2009), but they registered a 53% growth rate on average and 7 deals per year on average[42], which is precisely half of corporates' in the same period. What is more, financial players' average of deals in the last six years is massively larger than the one in the first seven (1997-2003) of one, right before their flourishing period of growth that began in 2004.

All in all, the answer to the question at the beginning of this paragraph is certainly yes, corporate entities are still the major players in this industry, but it is as well certain that financial buyers have enlarged their share of activity during these almost twenty years, reshaping a bit the structure of investors that characterized this industry before. Results are quite coherent not only with the results highlighted by the Financial Times and Market Mogul in chapter two, but also with the general trend that we can recall from chapter one: in the three most active regions (north America, Western Europe and Asia Pacific) the three most important M&A players were financial entities rather than industrial in 2016. Therefore, it could be inferred that this sector might have begun to adequate to the rest of the industries, although it will require some more years of research to validate this hypothesis.

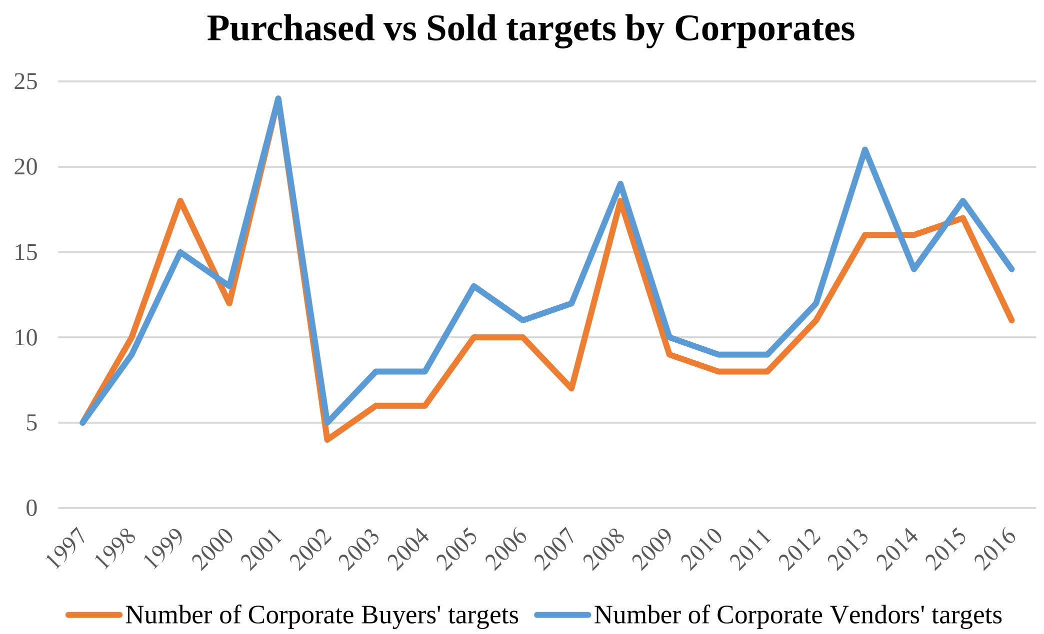
There is a second important question to answer: is luxury companies' ownership changing?

In order to answer this question, the following analysis has been developed considering the luxury companies involved in the transactions as *targets* to understand how many of them have been bought and sold by corporate and financial investors[43].

[42] It is worth noticing that numbers are very close to the average, apart from the only two deals observed in 2014.
[43] The number of targets has been preferred to the number of deals because some luxury groups bought more than one company by making just one deal, thus not giving a full picture of the actual amount of targets whose ownership has changed.

The first graph gives an overview of the number of luxury companies bought and sold by industrial players between 1997 and 2016[44].

Exhibit 3.5: What is the net result of corporates' buying and selling activities?



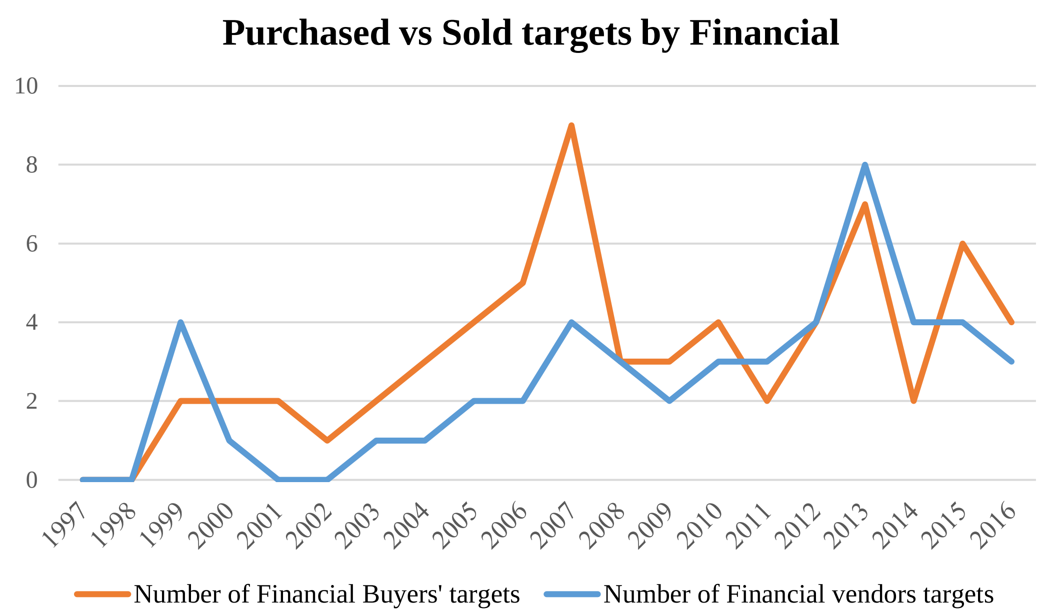
In most of the years, industrial entities have sold more than purchased firms, but this can be a misleading interpretation of what has actually happened: in fact, more than half of total sales comes from companies (mainly small to medium family owned ones) selling themselves to luxury groups or larger firms, so they basically represent the fuel to the M&A phenomenon within this industry, which is normal considering that the sector has seen its explosion exactly in the analyzed range of years. On the other hand, targets purchased by industrial entities are almost equal to those sold, especially between 1997 and 2002 and between 2008 and 2012, meaning that most of these targets are still owned by corporate entities, although they have changed shareholders. Not by chance, the years when the two curves are distant the most correspond to the same periods when financial entities had their most intense buying activity, if we recall the previous paragraph, which means that in those years a smaller part of luxury companies kept belonging to corporate shareholders, while more targets moved to the financial

[44] To build the curves, deals with more tranches were selected only in the year when the buyer managed to reach the majority stake of the target.

category. The period ends in a decrease in both sales and purchases by industrial firms, but to better interpret this result, more years have to be observed to see what will happen.

Moving to financial investors, right below there is the same overview as above.

Exhibit 3.6: What is the net result of financials' buying and selling activities?



It is important to recall one of the main features of the database used for this chapter: it does not consider deals before 1997, so it is not odd that no targets have been bought until the two in 1999, while four were sold in the same year as they are likely to come from some widespread cases of purchases in the luxury industry before 1997.

By observing the chart, it emerges that in most of the years considered, purchased targets were more than the sold ones, with a peak in 2006 and 2007, the only exceptions to this trend are 1999, 2000 and between 2011 and 2014. This is a crucial result because not only financial entities' M&A activity has been intense over the years and increasing over time, but it also lasted with purchases heavily outweighing sales in almost fourteen years, with an ending period registering a remarkable gap between the two curves. Indeed, next years are going to be fundamental to understand whether this trend will keep existing or whether it will slow down.

Again, the answer to the question is yes, luxury companies ownership is changing, because more and more financial entities are consolidating their presence in the industry not only as players in the M&As but also as quite stable owners of luxury target companies, although at a slow pace.

In the end, these results show that the major players in the M&A activities are corporate entities that hold the largest share also in luxury targets ownership. On the other hand, a new trend was born in the very first years of the XXI century, when financial firms started to take part to the M&A transactions also in this industry[45] that brought them to earn an increasing role as owners of luxury companies too. Next years are going to be crucial to understand how this "battle" will continue.

3.2 Corporate firms: who are they?

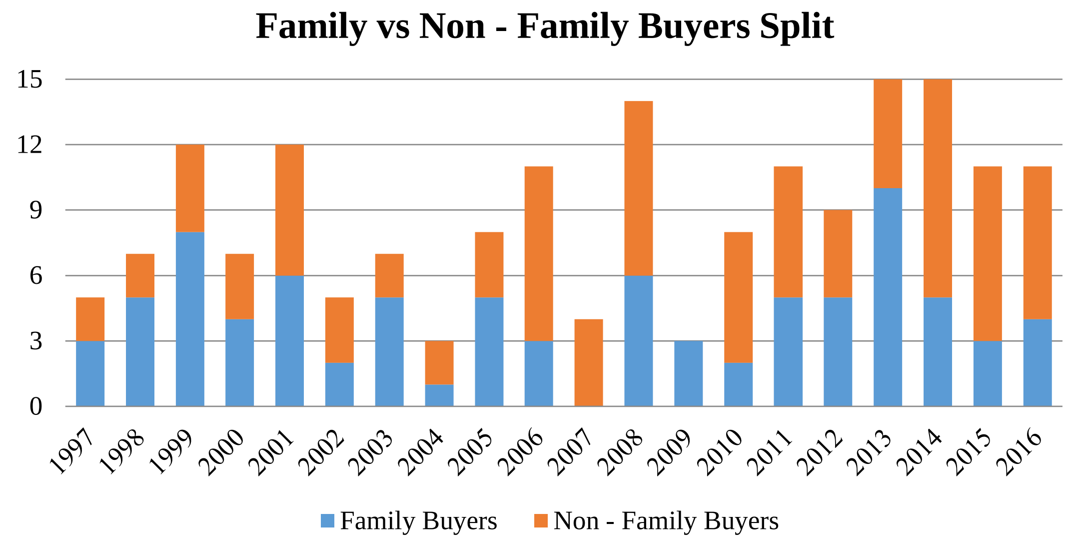
Corporate entities still dominate the luxury industry as players and as owners and although they all belong to this category, they are quite different, so it is worth to understand the main traits that characterize and yet that distinguish them, which are a bit different depending on whether we consider buyers or sellers.

Starting from the buyers, the table below illustrates their distribution according to the main distinction we can operate, so whether companies are family owned or not, which depends on the share totally held by individuals or families (both directly and indirectly) in a firm. If the total share is larger than 25% we are dealing with a family company, as its main shareholders are classified as such, if not then it will be a non-family owned firm[46].

[45] We recall again from the first chapter that their worldwide market share made them gain the first three positions in 2016.

[46] As only M&As aimed at gaining the majority stake are considered in this chapter, defining buyers as a family or not automatically makes the target firm be defined as family owned or not.

Exhibit 3.7: Who are corporate buyers?

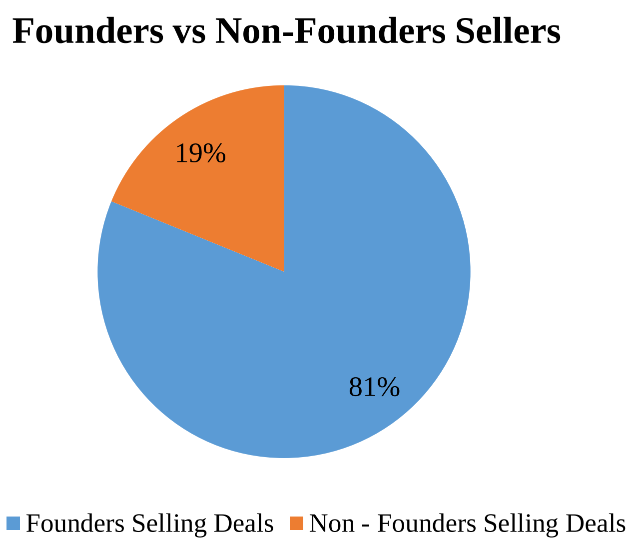


Results are quite clear, as non-family buyers have dominated M&A activities; in fact, in most of the years, they have made more deals than family ones, although the latter must not be confused with the founder family, as for example the two major players previously highlighted, namely groups A and B, are mostly owned by one family each, but they have not founded any luxury company (in fact founders have sold rather than bought firms, as it will be discussed later). This latter category has outdone the other in 1998 with 5 deals versus 2, in 1999 with 7 deals against 5, in 2000 with 4 versus 3 deals and in 2003 with 4 deals against 3 (in 1999 and 2000 the two mentioned groups' activity has had its influence on yearly results) and in 2013 when the highest peak of deals has been reached, strongly pushed by family shareholders' activity that ended up with 10 deals, while the others made 5. Overall, non-family buyers have made 93 deals in total, while family ones 85, so positions are quite strongly defined, though not final and sure[47].

Moving to the selling side, the following chart shows how selling deals can be divided considering a new distinction criterion: founders and non-founders sellers[48].

[47] Unfortunately, 60 deals out of 238 had to be excluded because they lack the information concerning the examined distinction, so results might be different considering the small gap between the two categories.
[48] It does not consider 60 deals that lack also the information of the sellers' nature.

Exhibit 3.8: Who are corporate sellers?



It is not surprising to observe such a result, as founders have made 168 selling deals at least (given that some observations are missing), while the others only 39. In fact, it has been stated previously that this kind of deals can be considered as the fuel to M&As in the luxury industry that has exploded exactly in analysed range of years. Firms sold by founders are in most of the cases small to medium size family owned companies whose shareholders have decided to join larger ones or groups that can give them more resources and a larger client base spread all over the world and in other cases without any heir to continue managing the company. For this reason they are not considered as M&A players in this paper, because almost all of the sellers falling in this category have only sold their company once, without any other kind of participation, while M&A players mainly fall in the other category, because they have added or dismissed companies for strategic purposes, remaining active on this field.

Going more in detail with the non-founders category, it is composed by family and non-family shareholders that have sold luxury companies in the analysed period, making in total 39 deals. Family sellers account for 36% of the total, with 14 deals, while non-family for 64%, that is 25.

All in all, it can be concluded that luxury companies certainly belong to corporate entities the most, but in the majority of the cases not to their founders, but to other shareholders that can be classified as family or not depending on the total share they hold in a firm. Non-family players have sold and bought the most compared to family ones, but in both cases there is not a large gap between acquisitions and sales[49], therefore it can be stated that luxury companies are moving to non-family players more than to family ones, but this outcome is not final, given that many observations are missing on the buying side.

3.3 Financial firms: who are they?

In the preceding paragraphs, we have demonstrated that financial companies are gaining an important role as investors and owners in the luxury industry, therefore it is worth understanding who they are and their core activity.

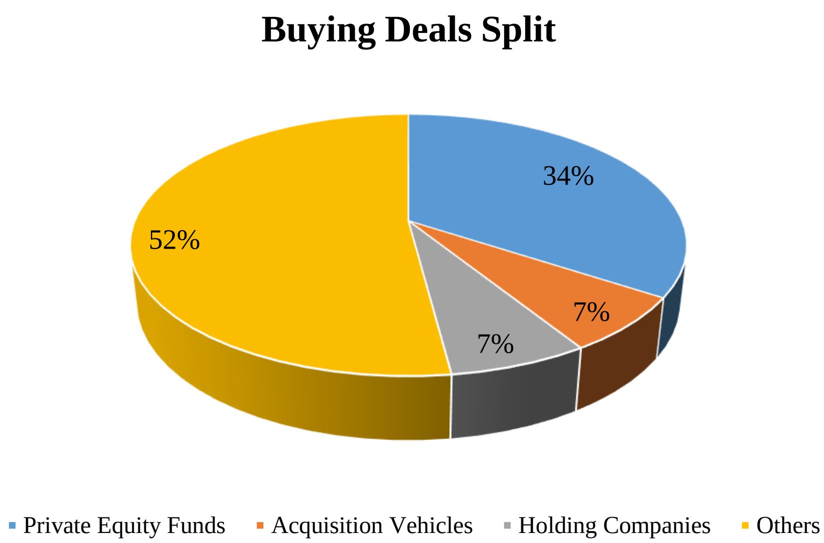
They can be divided into two main categories: Government (that also includes deals having a tribunals as a counterpart to sell a bankrupted company), and Short-Term Private Investment Companies (mainly composed by Private Equity and Venture Capital Funds, Holding Companies, Real Estate companies, Acquisition and Investment Vehicles and so on)[50]. Furthermore, they tend to be quite different depending on whether we consider buyers and sellers (although it can seem strange, 22 out of the total considered 320 deals do not provide any information on counterparts, plus our analysis starting period is in 1997), therefore they will be examined separately to explore in depth this kind of players as much as possible.

Starting from buyers, right below there is the split of the total 73 buying deals that have had a financial bidder between 1997 and 2016.

[49] Unlike before, deals in this case have been used as a proxy of intensity in the M&A activity but also to measure the change in ownership as deals targeting more than one firm are spread between the analysed categories, therefore results are very similar even considering the number of targets, rather than deals.

[50] It has been quite hard to provide a more specific partition, given that the source of this information does not give any detail on companies' financial investments' nature.

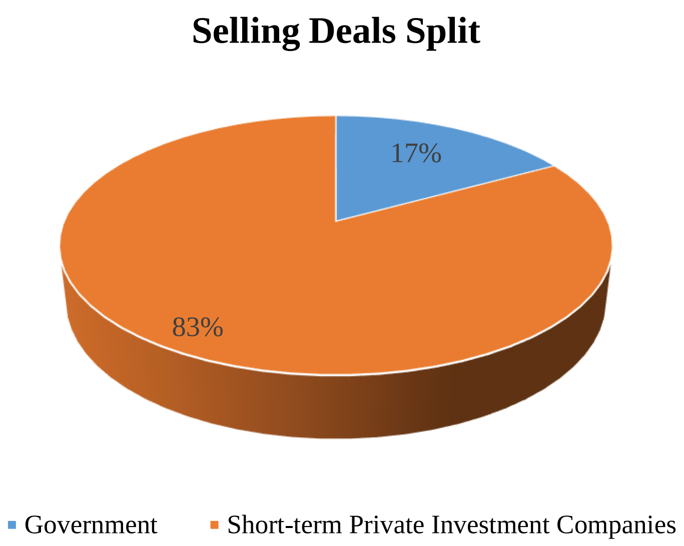
Exhibit 3.9: Who are financial buyers?



The first element to notice is that only Short-Term Private Investment companies have made M&A deals in the luxury sector according to the available data in the last 19 years considered. Among them, the largest share is hold by Private Equity Funds that in fact have invested in the luxury industry the most, making 25 deals in total. After them, there are Holding Companies and Acquisition Vehicles (names have been assigned by the database from where all the other information was taken) that made 5 deals each. Finally, the Others not explicitly mentioned are mainly: Asset Management Services, Financial Advisory Services, Fund Managers, Investment Banking Services and Venture Capital, accounting for one or two deals maximum on the total period.

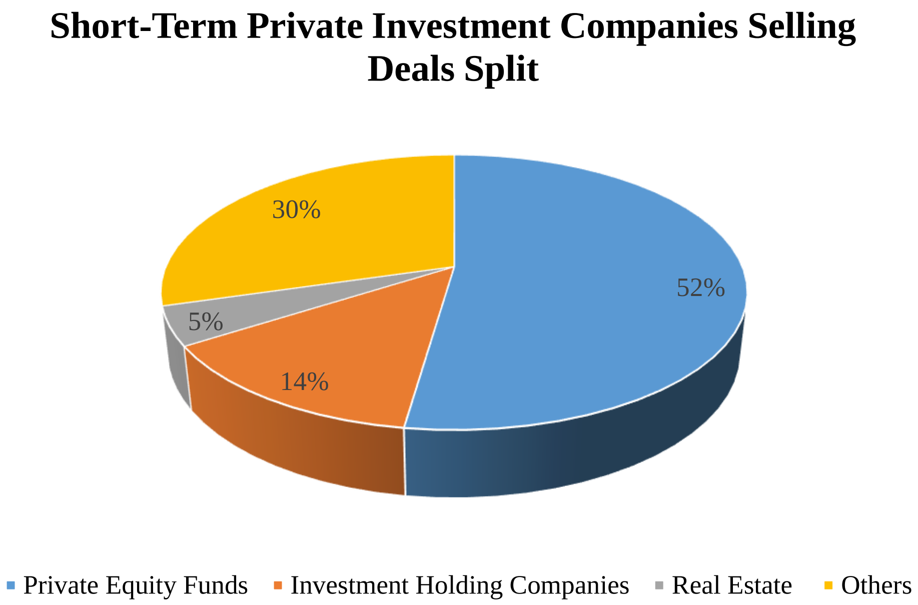
Concerning sellers instead, the following table shows how total deals are divided.

Exhibit 3.10: Who are financial sellers?



In this case, the two types of investors have participated to M&A activities in the considered period as sellers of luxury companies, registering 53 deals in total in the whole range of years. The smallest share belongs governments that in two cases represent governments of two different countries (in one of the two deals also two Pension Funds have participated as sellers), while the other seven are generically defined as tribunals selling bankrupted companies. The largest share, instead, belongs to the Short-Term Private Investment Companies with 44 deals; indeed, it can be inferred that this kind of companies is the most active among financial entities, thus it is interesting to analyze who pushed its rise on the selling side, as the table below shows.

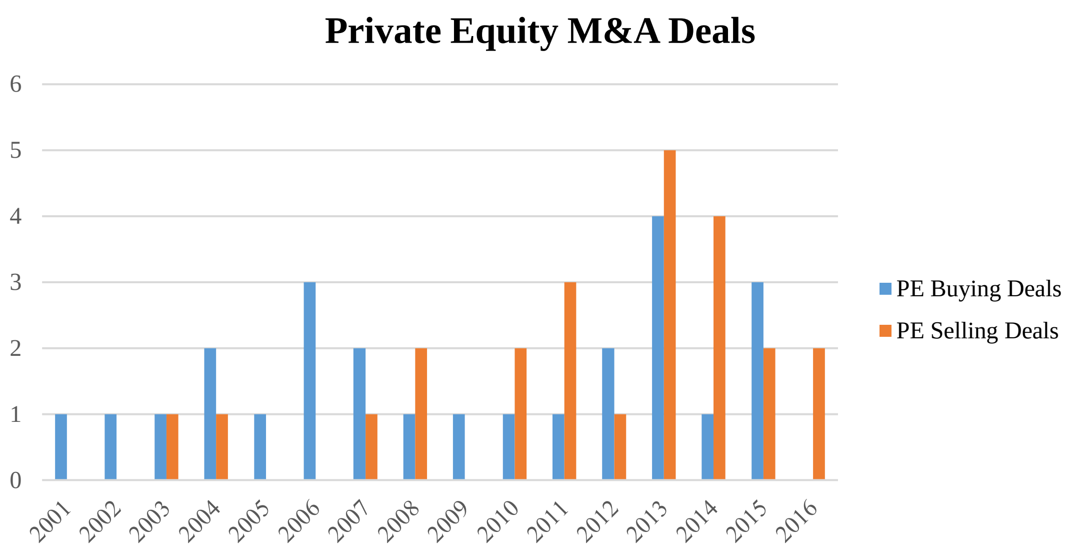
Exhibit 3.11: Details on Short-Term Private Investment firms sellers



Also in this case, the most active have been Private Equity Funds with 23 selling deals out of 44 of the category made between 1997 and 2016; at the second place there are Investment Holding Companies with 6 deals, Real Estate with 2 and the Others that contain most of the companies already part of this category on the buying side with 13 deals that are split as one per firm.

Considering the above-mentioned trend, consisting in Private Equity Funds' strong interest and activity in the luxury industry, a focus on their deals over the years can give a very interesting outcome, also to understand their position as owners of luxury targets.

Exhibit 3.12: A focus on PE funds



Unlike what has been noticed for the whole financial category, Private Equity Funds have been very active M&A players but this is not as well valid considering their share of ownership of luxury companies, as buying deals have been more than selling ones from 2001 to 2007, but the opposite has happened between 2008 and 2016 with much larger numbers. This is certainly not surprising if we think of the real nature of these firms, as already mentioned in the first chapter: their main purpose in buying luxury companies (or other firms belonging to any other industry) is to make their value grow over time in order to have a large gain once they will sell them. Although, as specified in the second chapter, their investments in this industry are lasting more than in others because they have understood that more time is needed, they still pursue short-term and not at all strategic kinds of objectives that dominate their choices and that in fact are reflected in these results.

In the end, as short-term value seeking purposes are quite common to the whole category of financial players, it could be stated that results explained in the previous paragraph – this category is increasingly gaining share in owning luxury companies – is more influenced by the large number of buying deals they have made so far (and much more than the selling ones) rather than by the period of time their investments last. Within this category, it is clear that more and more luxury companies' ownership is moving from public entities to Short-Term Private Investments companies and between members of the latter kind.

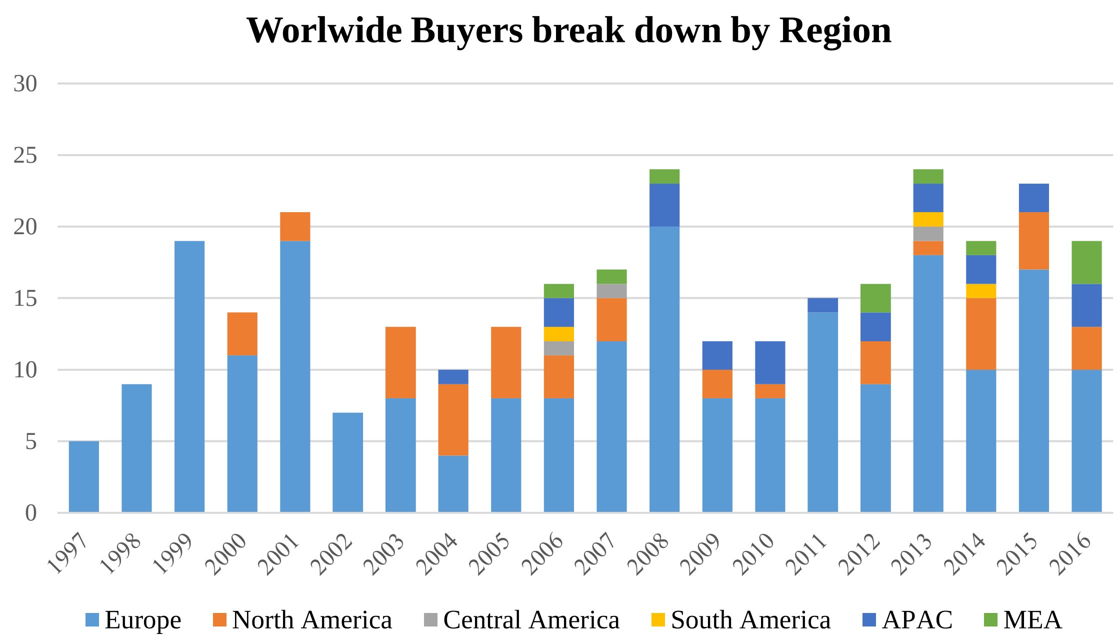
3.4 Cross-border M&A: where are luxury companies going?

3.4.1 Worldwide Cross-border M&A

Having discovered how M&A players can be divided between industrial and financial, it becomes now fundamental to understand the main nationalities they belong to, analysing the split between worldwide regions and then focusing on Europe that holds the largest share in the luxury industry.

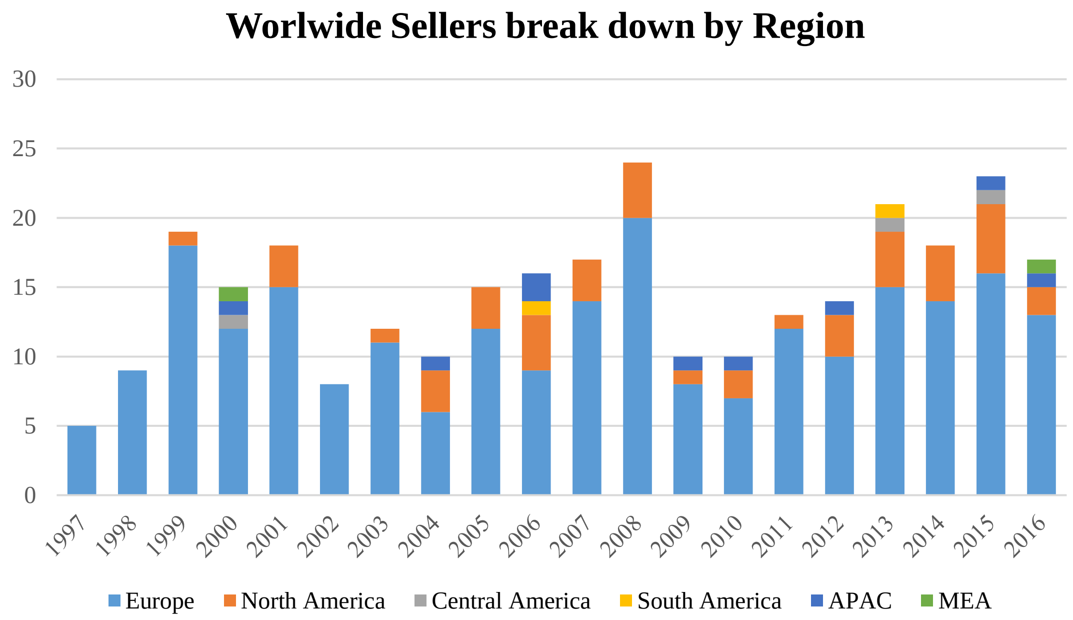
This paragraph will go through the worldwide perspective, considering six regions: Europe, North America, Asia Pacific (APAC), Central America, Middle East and Africa (MEA) and South America. The graphs below show the number of buying and selling deals per region[51].

Exhibit 3.13: Where do buyers come from?



[51] The total amount of deals per year will be slightly different from the one computed in the merger waves table, because they have been counted by players' nationalities and some deals have had more than one buyer or seller.

Exhibit 3.12: Where do sellers come from?



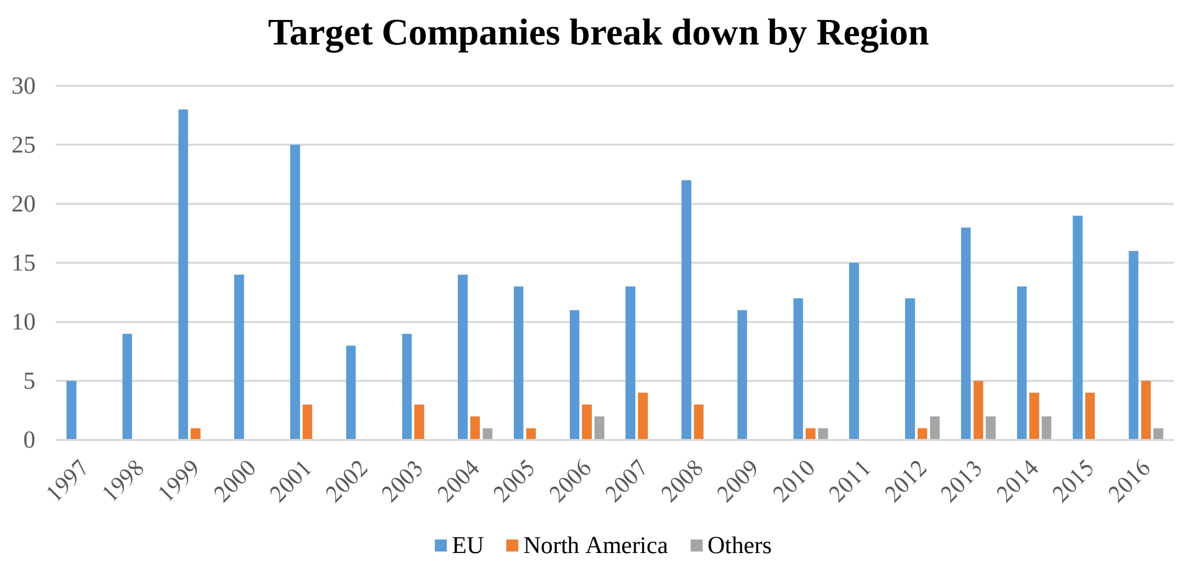
In both cases[52] it emerges that Europe is the most active region in making buying and selling deals, followed by North America, although with a very large difference. Just to make an example, Europe has made 224 buying deals in total, while North America only 45, but indeed since 2003 the latter's presence has become quite constant even if it is has always kept quite a small share compared to the former. As it can be imagined, among North American players, USA has made most of the deals, in particular 40, while 3 were made by Bermuda Islands and 1 by Canada. In general, the buying activity has seen a much more international presence than the selling and in 2006 M&As in the luxury industry became a bit more of an international phenomenon that has continued until 2016; in fact, not only Europe and North America made deals, but also APAC (in 2004 they made only one), reaching a total of 23 till 2016, though it is again too little compared to Europe, especially because they have made two deals on average per year between 2000 and 2016. Among Asian Pacific countries, the most active buyers have been Japanese so far with 8 deals, followed by Chinese with 5, Malaysian with 3 and Korean Republic and Singapore with 2; the others like India, Hong Kong and Taiwan only made one. In 2006 also MEA began to participate, even though in a very small proportion as only 9 deals have been made in total, 6 of which by Middle Eastern buyers like Kuwait and Qatar and 4 by African ones like Egypt and Angola (most of the deals belong to the Personal Luxury Goods

[52] 11 buying deals and 34 selling ones have been excluded from the analysis because they lack the information of counterparts' nationality.

segment, one in Hotels and one in Cars). Finally it is possible to notice that a little participation has come from Central and South American investors, Cayman Islands for the formers and Brazil for the latter (mainly in Personal Luxury Goods and one in Jets), but it can be inferred that this sector has not been their main target.

Overall, Europe has made 224 buying deals against 234 selling ones that have been strongly influenced by the fact that M&As in the luxury industry have been fueled especially at at the beginning by small to medium family owned industrial companies joining larger ones and big groups, as already anticipated previously. These companies, in most of the cases, belong to the European region as shown by the following table[53].

Exhibit 3.13: Where do targeted luxury companies come from?



Between 1997 and 2003 only European and North American luxury companies were targeted for M&As, since 2004 players have started to target firms also belonging to other regions of the world, like Central and South American and Asian Pacific ones, although numbers are still quite small, as European ones have been so far 287, North American 40 and the others no more than 11 in total; European buyers have purchased roughly 240 European luxury companies. Regions targeting European luxury companies the most (compared to their total investments) have been: Central America that has made three acquisitions only and all in Europe, Europe with 94% of

[53] To group these companies, it was considered the number of targeted firms by country each year, regardless of the stake purchased.

its total deals, MEA that has bought 9 out 10 firms in Europe and APAC where they account for 70% of total investments, so even more than what purchased in the home region that is only 26%. In the end, there is North America with 18 deals that represent 43% of the total, while the other 55% are the 23 targeted North American companies.

The main conclusion that these data bring to is that, although international players' and targets' presence has increased especially between 2012 and 2016 and in cases like North America, APAC and MEA purchases have been larger than sales, (specifically 45 versus 44, 23 versus 9 and 10 versus 2), the luxury sector still remains very European, as not only almost all sellers and targets are European, but also buyers, which means that cross-border M&As are still a small part of the total and that they have not drastically changed the geographic ownership structure of luxury companies, in fact they only account for 19% of total considered deals[54]. They strongly remain European and only shareholders' European country has changed[55], therefore M&As in the luxury industry remain a more European domestic activity, more than an international one. Next years will be crucial to understand if a change of trend will happen or if things will remain as they are now.

Finally, it is interesting to match investors' category and nationality to draw the main conclusions on how many luxury companies each of them has purchased the most in every region[56].

[54] Considered deals are 320 (the total sample) minus 45 (selling and buying deals without any nationality detail), so 275.
[55] More details on this will be provided in the next paragraph.
[56] 7 deals have not been included in the analysis because it is not specified whether buyers are industrial or financial entities, of which 4 European, 2 Asian and 1 North American.

Exhibit 3.14

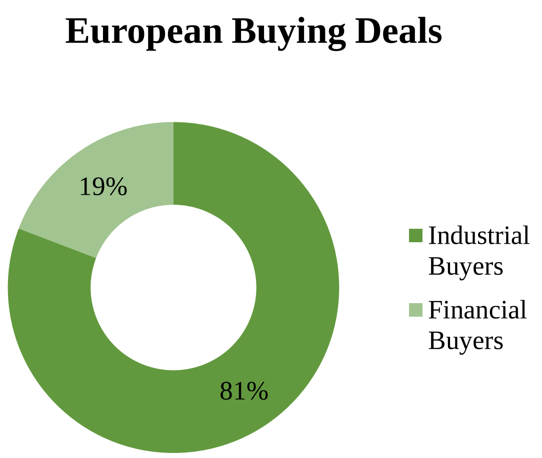
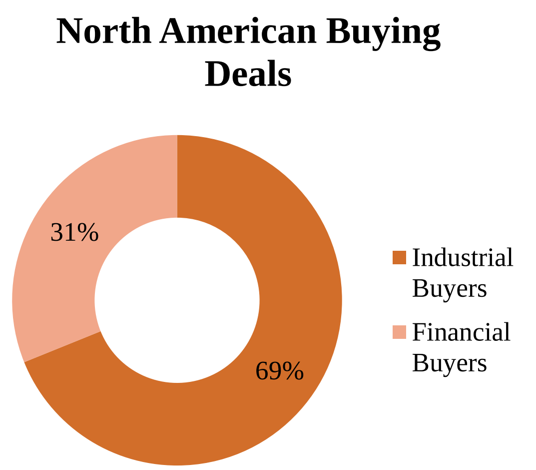


Exhibit 3.15



By looking at the two most active regions for M&As in the luxury industry, quite a different picture comes out: certainly, in both cases industrial buyers are more than financial, reflecting the general trend, as already stated in the preceding paragraphs, but they differ in weight. In fact, while in European industrial bidders have registered 181 deals in total and financial 43, the latter investors' share of deals is larger versus corporates' in North America, with 14 deals that count for 32% and 31 for the others that weight 68% of the total. It can be deduced that financial investors are much more active in North America compared to industrial ones, than they are in Europe. Focusing on the industrial kind of investors, again Europe and North America register some differences: the former's main bidders in the whole period have been family ones with 76 deals representing 54% of the total, while non-families' have been 44 accounting for 46%, thus going in countertendency with the general trend, but considering that 39 observations have been excluded from the analysis as they lack this specification, results are not final, although they strongly reflect the European feature of firms still strongly owned by families, unlike in other regions. In fact, North America on the other hand, has seen non-family players dominate with 76% of share (16 deals), while family ones for the remaining 24%, with 5 deals. As missing observations are only 10 and given that North America is different from Europe, as shareholders are mainly non-family entities, it can be inferred that this result is reliable and final. Going more in depth with investors in the financial category, in Europe most of all the previously presented kinds of firms have acquired luxury firms, but in particular, they are PE funds (36%), Holding Companies (11%) and Acquisition Vehicles (7%). In North

America, instead, they are PE funds (64%) and Venture Capital (14%), so they are quite different.

Exhibit 3.16

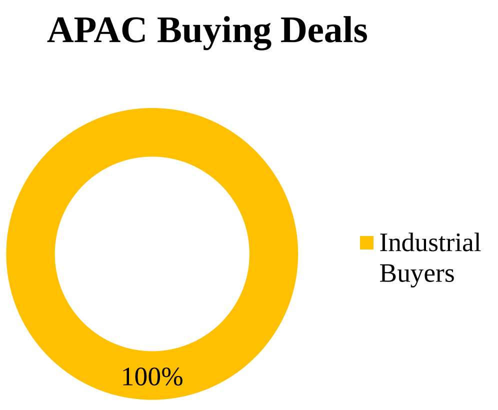
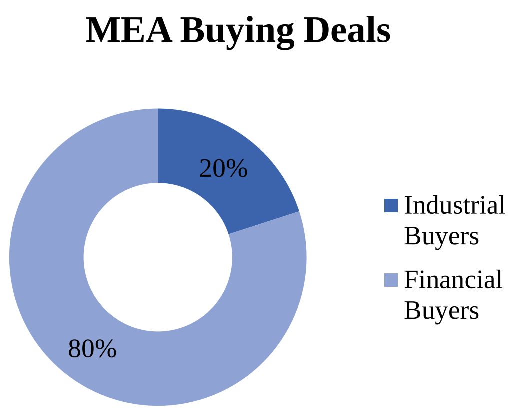


Exhibit 3.17



Another couple of quite opposite situations worth analyzing are represented in the charts above, especially because they do not follow the trends examined so far: on the one hand, Asian Pacific bidders are all industrial entities according to the available data, which means that financial entities in this region have not target the sector so far, although this is not completely sure, as two observations are missing; what is certain is that they are not very interested in this industry. In fact, from preceding paragraphs, one of the main find outs was that financial companies have gained so far an increasing, though not predominant, role in luxury M&As, that clearly is not valid in APAC. Furthermore, in this region non-family investors have dominated the scene so far with 12 deals representing 80% of the total, while families have made only 3, representing the remaining 20%[57]. On the other hand, in MEA countries, bidders are mainly financial companies, signaling another countertrend compared to the other regions and to the overall situation. In fact, while industrial firms have made two deals only[58], financial ones have made 8, seven of which by Middle Eastern companies (Kuwait, Qatar and Bahrein) and the other by Egypt. Furthermore, unlike Europe and North America, PE funds represent a very small portion with only one deal, while most of them offer investment and investment banking services.

[57] Excluded observations are 6, therefore results are reliable and final.

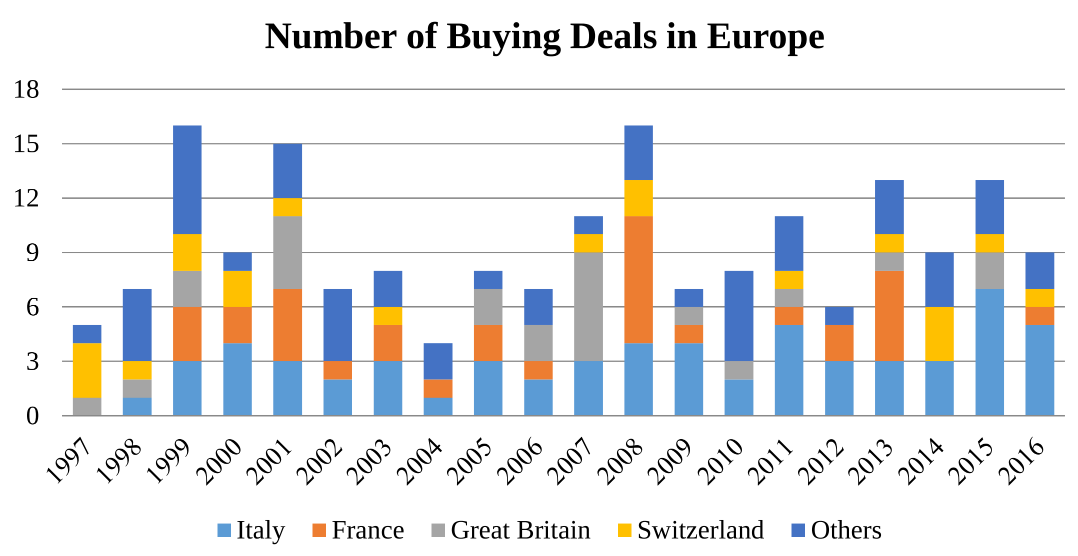
[58] It is not specified whether they are family buyers or not, but only that one comes from Saudi Arabia and the other from Angola.

Finally, South and Central America only account for three deals each, so they do not give relevant results compared to the previous ones, but curiously they also provide quite interesting and opposite pictures: 2 out of 3 Central American bidders are financial firms (both property developers) and only 1 is industrial, while Southern ones are all industrial companies.

3.4.2 A focus on Europe

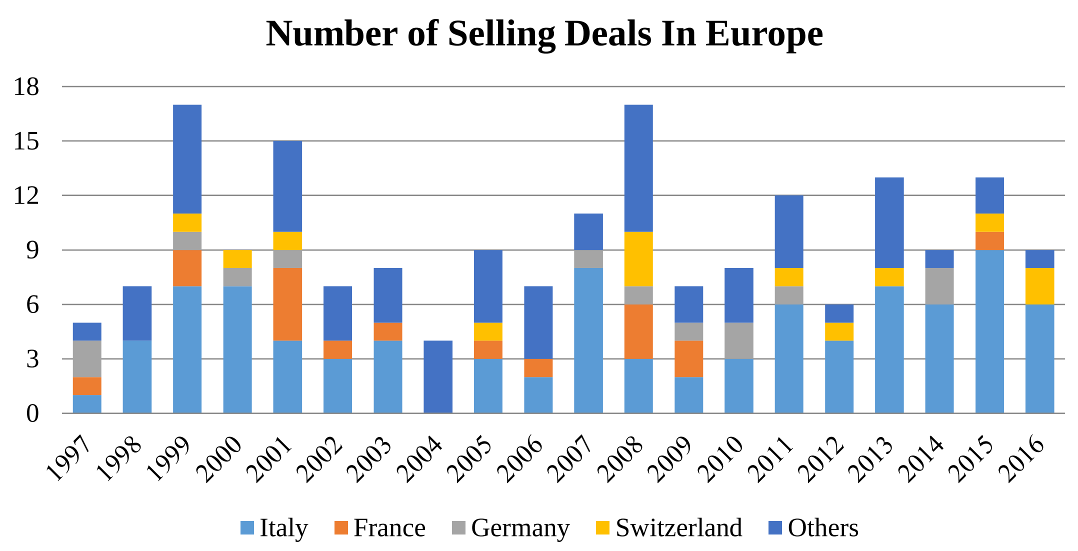
Europe is the most active region worldwide in M&As in the luxury industry, as previously stated more than once; its buying deals represent the 73% of the total (as declared before they are 224) followed by North America that accounts for 15%, leaving the remaining 12% to the other four regions. It is therefore crucial to examine more in depth what are the main European players in this scenario and where luxury companies are going after these almost 20 years of incessant activity, considering also that 69% of the deals (the total sample minus the ones without nationality details, so 275) have happened between European players both as buyers and sellers, in total being 190. For these reasons, the two following charts show how the 190 deals can be split among the most active European buyers and sellers, having a European counterpart.

Exhibit 3.18: European main buying countries



Unlike what has been shown above, in this case the chart illustrates a much richer participation to the M&A activity, meaning that not only Europe is the most active region, but also that this activity is largely spread among several countries. Indeed, the two most active players are Italian and French with 61 and 33 deals respectively; it could be a surprising result, given that there are two French groups quite famous for their buying activity in the luxury industry, but still this country has not gained the first place. This result does not come out just considering the number of deals, given that one group in particular has purchased more targets by making one deal only for three years, in fact, even considering the number of targets, results remain the same (in the worldwide picture and only taking into account transactions where bidders gained the majority stake for the first time, Italians have purchased 61 luxury companies, of which 49 are Italian and 4 French, while French have purchased 43 firms, of which 12 are French and 11 are Italian[59]). Furthermore, while French players have emerged especially in 1999, 2001, 2008 and 2013 (when French groups have made deals the most) ranging between 4 and 7 deals, Italians' presence has remained quite constant over the years, reaching the peak of 7 in 2015 and keeping a remarkable share especially in the very last years of the analysed period. Great Britain has the third place with 24 deals with a peak of 4 in 2001 and another of 6 in 2007; then there is Switzerland with 20 deals, much more distributed over the years than the British ones. About the Others category, the most participative bidders belong to Netherlands with 14 deals, Germany with 8 and Ireland and Luxemburg with 7 deals each.

Exhibit 3.19: European main selling countries



[59] The same has happened on the selling side, as Italians have sold 97 companies and French 34, again considering worldwide transactions where sellers have given away the majority stake for the first time.

Moving to sellers, quite a different picture comes out from this table compared to the preceding one: Italy has the first place again with 89 selling deals, which means that, although it is the most active country in buying luxury companies, it also sells the most and more than what it has bought so far, so the net result is that luxury firms are leaving Italy, whose selling share is constant and quite large over the years featured in the table. On the other hand, France is second once more with 25 selling deals that are certainly less than the purchasing ones, so luxury firms are moving towards this country, but also to Switzerland that has the third place in selling with 13 deals (together with Germany) versus the 20 buying ones. Among the Others that have had a large share especially in 1999 and in 2008, there are Netherlands with 11 selling deals (more than buying ones) and Great Britain with 8 deals, so this is another country to where luxury firms are moving.

The following four charts show in detail what has been stated at the beginning of this paragraph: deals with non-European counterparts only account for a small part of total deals in each country, although in a different percentage

Exhibit 3.20

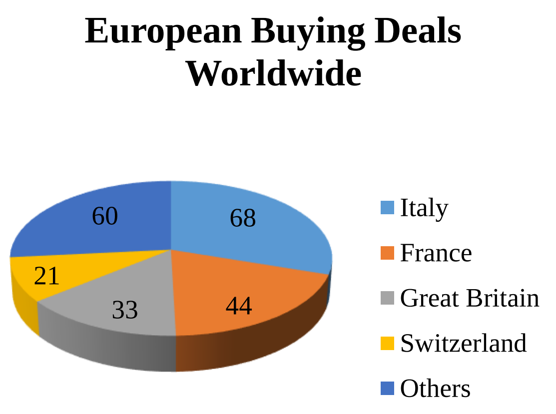
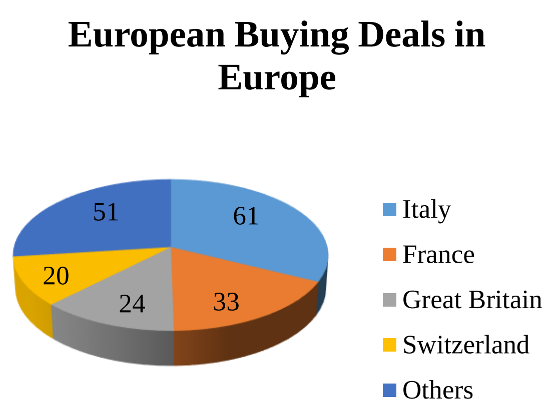


Exhibit 3.21



Starting from the buying side, Italy, for example, has dealt mainly with European players in 61 out of 68 cases, 52 of which are Italians as well, representing an emblematic case of M&A transactions remaining quite domestic. France is more open instead, as non-European sellers have made 11 deals with French counterparts and, among the 33 European sellers, only 8 are French, while 11 are Italian and the others come from Switzerland, Germany and Great Britain, with no more than two deals each. A similar situation is valid for British players, whose outside

Europe counterparts have taken part to 9 deals; instead, half of European ones are British and 6 are Italians, the second most numerous players as sellers, while others like French, Irish and German are among the remaining ones with no more than two deals each. The opposite situation has happened in Switzerland, where 20 out of 21 deals have had European counterparts, that are quite fragmented, but at the first place there are Italians with 5 deals, then Swiss and Germans with 4, French with 2 and finally there are others like Great Britain, Netherlands and Luxemburg.

Exhibit 3.22

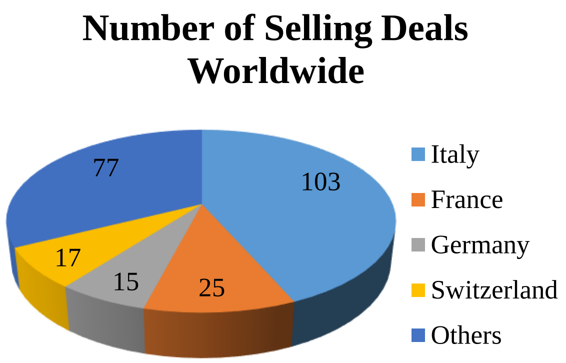
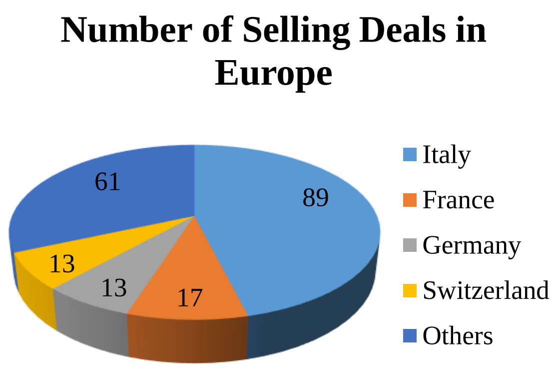


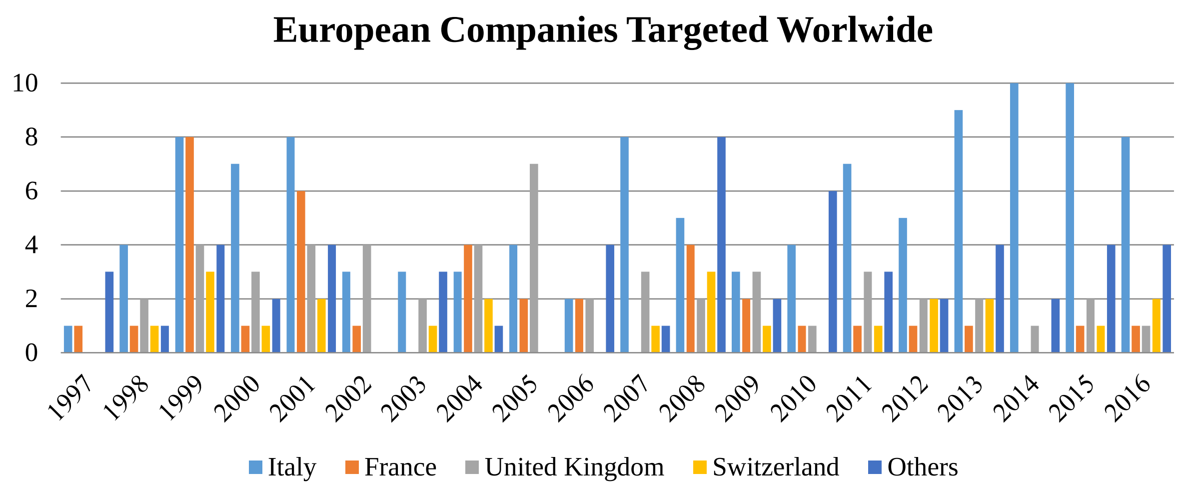
Exhibit 3.23



Moving to the selling side, most of the analysed countries, namely France, Germany and Switzerland, mainly sell to other European counterparts (French to French with 8 deals, Germany in a fragmented way to Germans, Irish, Swiss mostly with two deals each and Swiss with Swiss and French especially), so there are no special elements to highlight, compared to what has been mentioned earlier. About Italy instead, there is quite a large gap between the two situations, particularly if compared to the buying picture. Italians keep dealing with Europeans the most (and again with other Italians with 52 deals, French with 12 and Great Britain with 6) but a larger share is addressed to non-European buyers that are 14. Of the latter, 7 belong to North America, 4 to MEA while the remaining ones are distributed between APAC and South America.

In order to complete the whole analysis it is important to focus on the most targeted luxury companies each year split by nationality, as shown below.

Exhibit 3.24: The split of the targeted European firms by year



The first element to notice is that the most targeted brands strongly reflect the picture of the most active buyers from their nationality stand point; Italy is again at the first place with its companies targeted 112 times between 1997 and 2016[60]. In particular, not only at least one Italian luxury firm was involved in M&A transactions each year, but they reached the peak of 8 in 1999 and 2001, while from 9 to 10 between 2013 and 2015, so at the beginning and at the end of the whole period; in 1999, 2001 and 2013 it was mainly French family owned groups who purchased them the most with 3 to 4 deals each year, while Italians remained at 2-3, instead in 2014 there was a more international participation that involved USA, Qatar and Taiwan with around one deal each, to be added to Belgium, Spain, Luxemburg and Italy, whose players boomed in 2015 with 7 deals out of 10 (the others belonged to Luxemburg and USA). Following, there are British luxury companies that are around half of the Italians, 52, that have had quite a constant and stable involvement during the years with an average of 3, except for the peak of 7 in 2005, strongly pushed by British buyers with 5 deals, one by USA and one by China. At the third place there is France with 38 deals in total, whose trend in quite opposite compared to the Italians, as after an initial peak of 8 deals in 1999 and of 6 in 2001 (in the first year the same French groups previously mentioned purchased 6 companies, 4 of which in one deal by one group and the latter thing happened in 2001 as well, with 4 targets bought by one French group in one deal, that again happened in 2004 when 4 French companies were

[60] Some targets have been counted more than once because several transactions consisted in increasing bidders' majority stake along the years, which has been considered as targeting a company more times in this kind of analysis.

purchased in total), their involvement has decreased over time, stabilizing on 1 target per year from 2010 to 2016. Finally there is Switzerland with 23 targets in total, 8 of which have the two French groups as bidders, other 5 are Swiss, while the others see countries like USA, Belgium and Austria. Among the Others there are German companies that have been 20 (mainly with bidders coming from USA, Great Britain and Switzerland) and Scandinavian have been 12, especially from Denmark and Sweden with 5 deals each (with Scandinavian bidders but also from USA, Netherlands, China and Bahrein).

Overall, the wrap up on nationalities who have purchased Italian, British and French luxury companies the most is the following[61]:

- Italian targets: they have been purchased mainly by Italians (47%), French (18%), British (4%) and outside Europe there are North America (USA only, 4%), MEA (especially Qatar, 4%) and APAC (especially Japan, 3%).
- French targets: they have been purchased mainly by French (55%), Italians (13%), while outside Europe there are North America (USA only, 8%) and APAC (in particular Hong Kong and Korean Republic, 5%).
- British targets: they have been purchased mainly by British (33%), French (13%), Italians (8%) and outside Europe there are North America (USA in particular, 12%) and APAC (especially India, 8%).

Finally, it is important to analyse how the share of activity is split between financial and industrial buyers in the most active countries on this side. Previously, it has been explained that, although financial buyers are gaining share and several luxury companies' ownership in these last almost 20 years and especially in the last 5, Europe is still dominated by corporates that have made 81% of total deals, therefore the following tables illustrate to what extent the four most important European countries of bidders comply with this trend.

[61] Swiss targets' main bidders have been already discussed above.

Exhibit 3.25

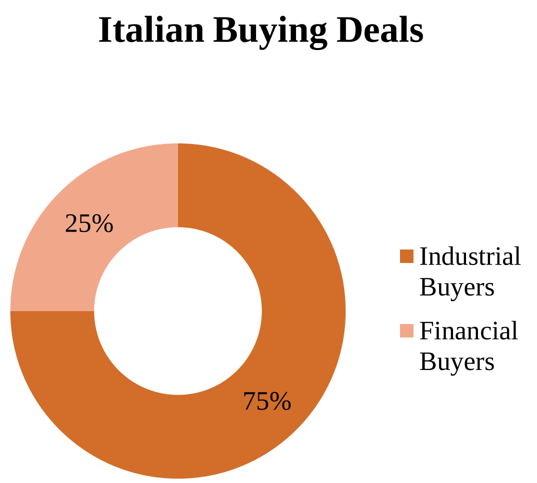
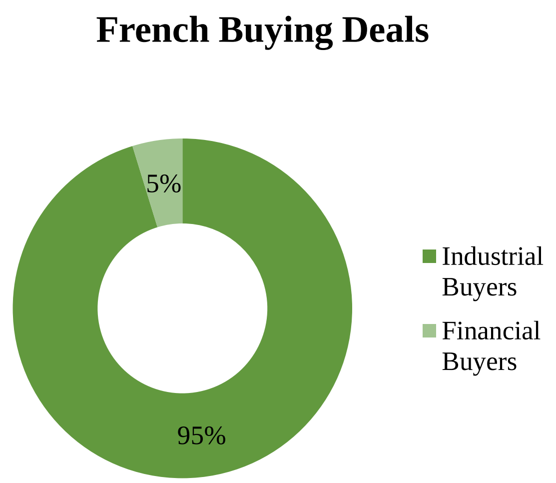


Exhibit 3.2

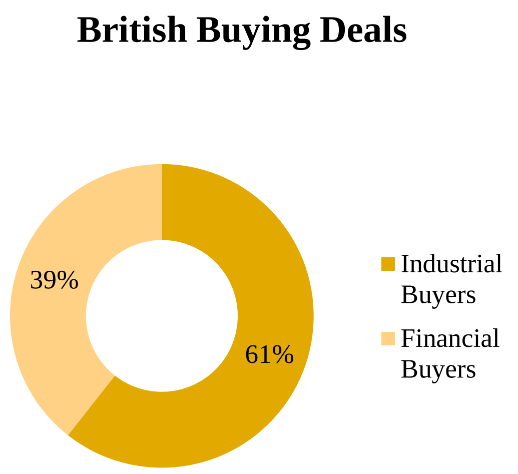


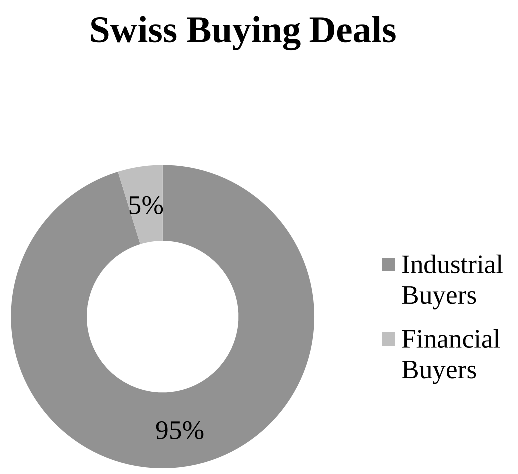
Starting from the first two, as classified in the formers charts, two quite different situations emerge, as in Italy, financial buyers have a larger share compared to corporates than what they have in France. In fact, Italians have made 17 deals, while French ones only 2 (although two observation have been excluded because they lack this information, but still results are quite clear and final), where in the former case the main bidders are PE funds with 6 deals and Holding companies with 3 (4 deals are excluded as they do not provide this detail), while for the latter one deal was made by an Acquisition Vehicle and another by an Holding Company. About industrial investors instead, in Italy non-family entities have made most of the deals, 22 specifically, while family ones have made the remaining 17[62], while an opposite situation has been registered for France, where 35 out of 40 deals have been made by family entities, while the remaining 5 by non-family ones, although it is important to highlight that 33 out of the 35 family buyers' deals have been made by the two family owned groups that have been mentioned more than once in this chapter, that do not have equals neither in Italy nor in any of the other countries, apart for Switzerland, although in a smaller scope.

[62] 12 deals have been excluded because they lack this information, therefore, as the difference between the two categories in not that large, results are not final.

Exhibit 3.27

Exhibit 3.28





In this case as well, it is possible to observe two different situations, as in Great Britain there is a much wider part of activity played by financial investors, almost equal to 40%, against Switzerland where financial buyers account for the 5% only that is just one deal by a PE fund. In the former instead, they have made 13 deals, of which 5 by PE funds and 4 by Acquisition Vehicles (that in 3 cases also offer investments services)[63] that is more similar to the North American structure, because in that region financial buyers have a more important role than in Europe. On the industrial side instead, not surprisingly, in Great Britain family entities do not have a big role in the M&A activity, as they have made 3 deals only, against non-family ones with 9[64]. An opposite result has been observed in Switzerland, where family entities have made 12 deals (and 3 are missing in total because they lack this detail) while non-family ones have made 5; as previously anticipated, also in this country there is a group belonging to the former category that has operated more than any other buyer in this industry, that in fact has made 10 deals, indeed it does not reach the same scope as the French (as generally speaking deals are much less in Switzerland than in France) but its dominating role is conceptually the same as for the two French groups.

[63] Two deals have been excluded as they do not provide this information.
[64] It is important to consider that 8 deals are missing from the analysis, but it is commonly known that unlike countries like Italy and France, in Anglo-Saxon ones companies tend to be publicly owned, rather than by families or individuals, so it is hard to believe that results could be much different if we had all the information.

At the beginning of the chapter, it has been highlighted that M&A activities in the luxury industry have not been highly international so far as in other sectors, because 69% of the total have seen European counterparts only. Within Europe instead, the situation is quite different; in fact, of 190 deals among European players, only 41%, that is 77, have had buyers and sellers belonging to the same country, of which 68% in Italy, 17% in Great Britain, 10% in France and 5% in Switzerland that is perfectly in line with the ranking by number of targets traded in Europe only (regardless of the number of times they have been involved in transactions): 64 Italians, 23 British, 16 French and 8 Swiss, also considering that buyers belonging to these countries are the first to purchase companies having the same nationality (apart from Switzerland), as previously analysed.

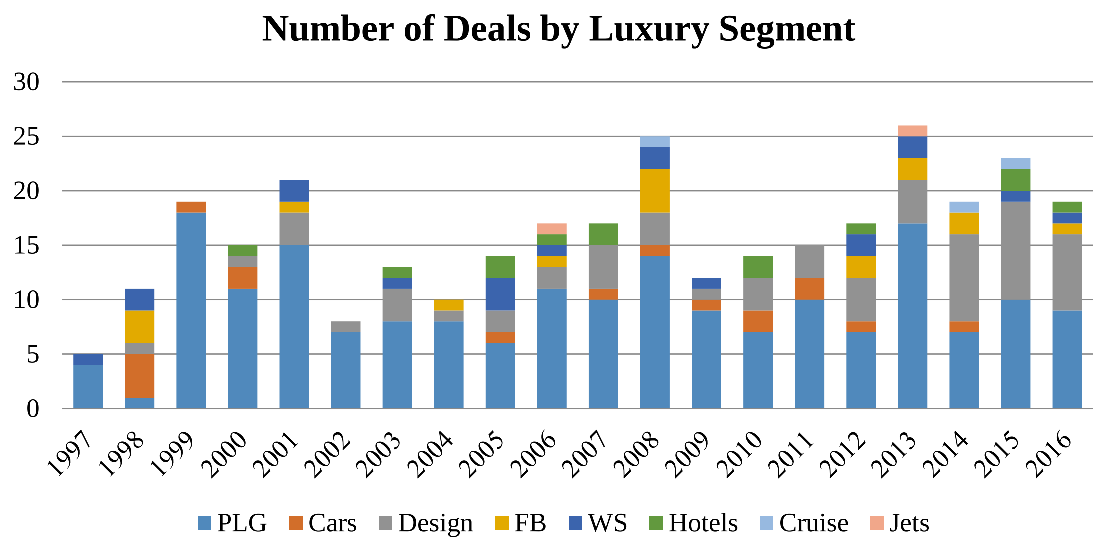
Overall, the trend that keeps many firms having shareholders with the same nationality still exists, which is normal considering that the M&A boom in this sector has been at the beginning of the XXI century, especially because a further step, at least in Europe, in terms of increasing cross-border M&As has been done, because extra country transactions weight 59% on total transactions in Europe. Next step to expect for the future, therefore, will be to see an enlargement of the latter percentage and an increase in the other regions' share, beside Europe, in luxury M&As, now that luxury firms' ownership is leaving their original countries, especially Italy.

4. An in-depth analysis of the Luxury Segments

The final topic discussed in this chapter consists in a detailed study of M&As in the luxury segments, to have a more complete picture of this phenomenon within the analysed industry.

The first step is linked to the merger waves, to look in detail at deals split by luxury segments each year, as shown by the following table.

Exhibit 3.29: The merger waves split by segments



By looking at the table, it immediately comes out that the Personal Luxury Goods segment is the protagonist of the whole period, with 188 deals in total and driving the total trend; in fact, especially until 2008, the shape of its trend solely resembles the shape of the whole industry's. This is not a surprising result, given that this segment has always been one of the largest markets not only by number of competitors but also by sales, as in 2016 they were €249 billion as already mentioned in chapter two. Deals have reached the peak in 1999 with 18 (the highest) and in 2001 with 15, thus at the very beginning of the whole period, certainly pushed by the groups' abnormal activity, as recalled more than once. From the one in 2008 of 14 till the end (in 2013 they reached 17) another flourishing period has been encountered but, as it will be examined later in this chapter, it was not those groups who have pushed deals the most but many other firms that have joined M&As and also by financial ones.

On the other hand, in the Cars segment, whose sales have had a strong growth in the very last years (they grew by 8% between 2015 and 2016, reaching €438 billion), deals have been much less and specifically 17, a good part of which has been made between 1998 and 2000, influenced as well by groups' purchases particularly and after a five years interruption, they started again in 2005, with no more than 2 (achieved in 2010 and 2011 only). At the same level are Food & Beverage, Wines & Spirits and Hotels with 17, 19 and 13 deals, though these numbers reflect these segments' scope, as their sales account for 4%, 6% and 17% of total luxury sales in 2016 and especially the last two have seen deals becoming more frequent staring from 2005.

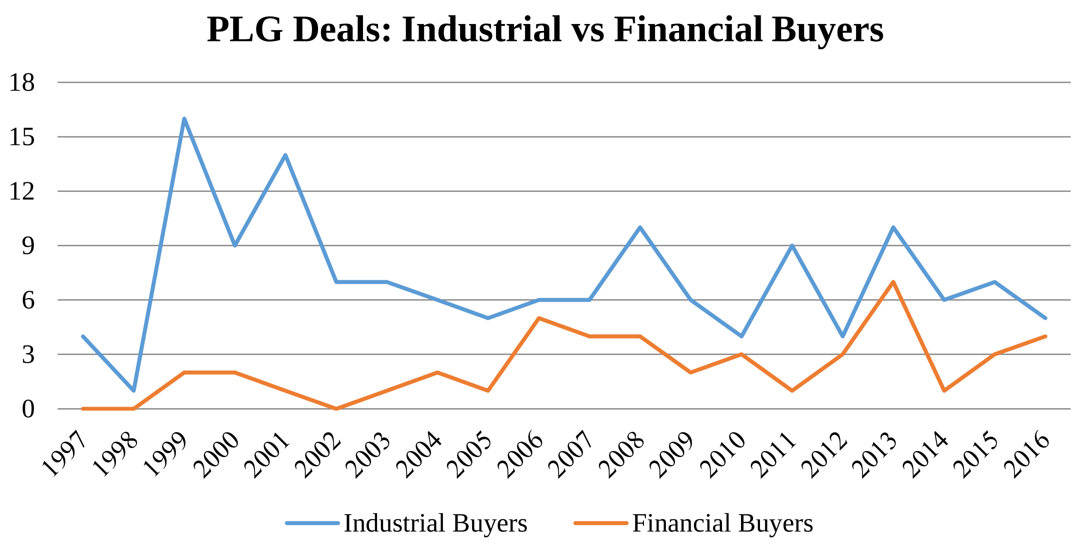
An interesting case is represented by the Design segment that has registered the second largest number of deals in total that is 60, although quite far from PLG's. While it was not so much different from the others till 2006, it started to explode in 2007 with 4 deals and especially in the very last three years it has reached an average of 8 deals per year, which is even more amazing, considering that its sales of €33billion in 2016 only represent 3% of total luxury, so it can be defined as a still small but very active segment from the M&A point of view.

Finally, Cruise and Jets have registered 3 and 2 deals respectively, where the former in particular has seen them happen between 2014 and 2016 the most, so next years could be interesting to observe, in order to understand whether something more may happen.

As already anticipated, the topic will also focus on investors, to see in detail what are the main trends among industrial and financial players and the main regions they come from.

Starting from the first point, the following charts will show how bidders are split between corporate and financial ones in each segment.

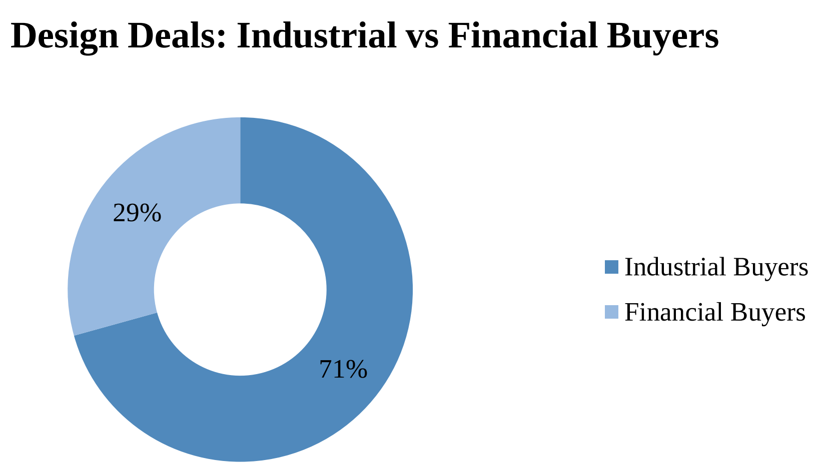
Exhibit 3.30: PLG's buyers



The first table represents the Personal Luxury Goods segment, whose focus has been split over the years, given the large number of deals: indeed, corporate buyers have dominated so far the industry with 142 deals in total against 46 of financial ones, representing 76% and 24% of the total respectively. Nevertheless, it is fundamental to notice how deals are distributed especially in the very last 9 years: it is clear in fact, that financial buyers have increased their presence, starting from 2006 when the gap shrank for the first time with 6 deals made by industrial bidders against 5 by financial ones and from that moment onwards the difference between the two groups has decreased, compared to the first 8 years, until the end in 2016, with another similar case in 2007 in particular, when financial bidders' activity boomed and in this segment they made 7 deals against corporates' 10. It can be inferred that the general trend analysed so far has been driven by what has happened in this specific segment, where financial buyers have more and more increased their participation. Going in detail about the industrial category, 56% of total PLG deals[65] have had family bidders, that is 54, while the other 43 accounting for 44% of considered deals have been made by non-family bidders, not at all reflecting the general trend, although given the large number of excluded observations and the small gap between the two categories, results may not be final. As for financial entities, they are all Short-term private investment companies, 14 of which are PE funds, so 30% of the total, 13% are Holding Companies (in particular six) while the other 57% is distributed among Venture capital, Acquisition Vehicles and Property Developers.

Moving to the Design segment, right below there is the same split as anticipated above[66].

Exhibit 3.30: Design's Buyers



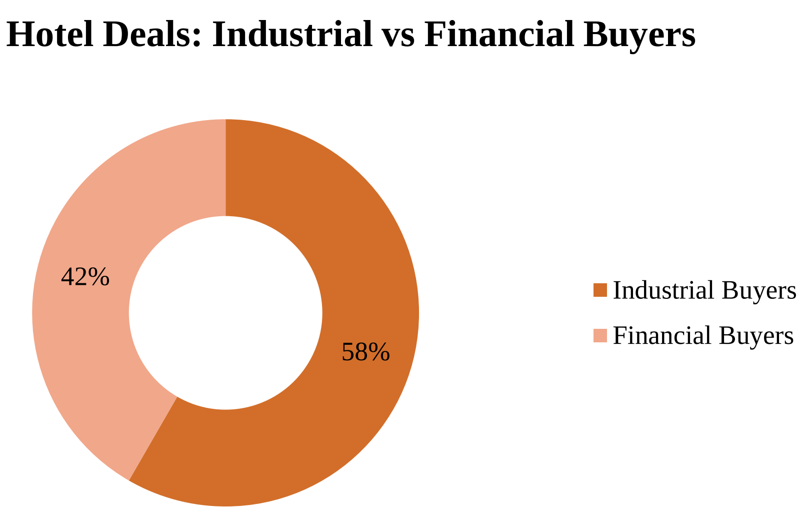
Weights in this case are similar to the ones in the PLG segment, but financial buyers have a bit larger share with 17 deals against corporates' that are 41. Concerning their trend, the analysis of data has shown that bidders' interest in this segment has risen especially at the very end of

[65] They are 97, as 45 have been excluded due to lack of this information.
[66] Given the low number of deals, segments' details other than PLG's will be provided through this kind of chart.

the period, from 2013 when corporates made 4 deals, reaching the peak of 7 the years after and keeping quite a remarkable level till 2016; from the financials investors' point of view, no clear trend can be identified, especially because they have made 1 deal in most of the years, apart from the peak of 3 in 2007 (when their overall activity boomed) and in 2013[67]. Focusing on the kind of corporate investors, 25 deals have been made by non-family entities, representing 76% of total deals[68], while the remaining 8 have been made by family ones. As for the financial side, also in this case PE funds have the largest share with 9 deals accounting for 69% of the total (given that 4 deals do not have this detail, the considered ones become 13) while Acquisition Vehicles have made 2 deals only and the remaining two have been made by an Investment Holding Services and by a Management Buy-Out team.

The situation for the Hotels is quite different from the ones discussed previously, as the chart below shows.

Exhibit 3.31: Hotel's Buyers



The Hotel segment has seen a larger presence of financial bidders compared to the others, with a total of 13 deals split between 5 for the formers and 7 for the latter (one deal does not have this detail, therefore it has been excluded), although it is not the market where financial buyers have invested the most, especially compared to the two above. As it can be imagined, this market is characterized by the total absence of family investors on the corporate side (excluding only one deal with no detail on it) and again, unlike the other segments, no PE fund has

[67] 2 deals have been excluded from the analysis because they lack this kind of information.
[68] Considered deals are 33 out of 41 because 8 deals do not have this detail.

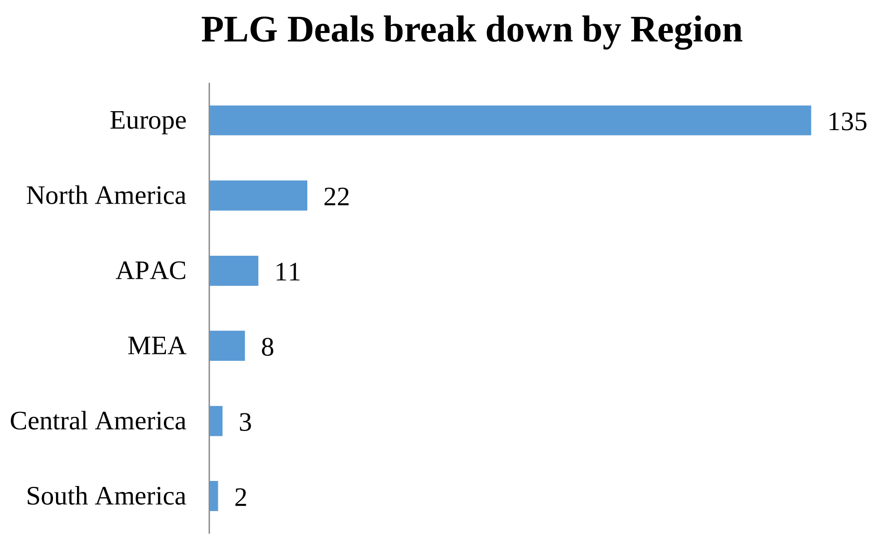
purchased any luxury hotel, as the main investors are Asset Management Companies and Acquisition Vehicles. Overall, it can be stated that the Hotel segment is in countertendency compared to the rest, but as its numbers are quite small they have not influenced the general trend.

Concerning Cars, Food & Beverage and Wines & Spirits, they all have in common one element: only one financial firm has made an M&A deal in each one of them. For Cars, it was an Investment Banking Service company in 2007, for Food & Beverage it was a PE fund in 2001 and for Wines & Spirits it was Fine Wine Investment Fund Management in 2013. Moving to the industrial side, Cars have seen more family investors than non-family with 8 against 5 deals respectively (and only 3 excluded observations for lack of information), representing the only case in the whole observed sample, together with Wines & Spirits with 12 family buyers and 6 non-family (only 1 deal has not been considered) and PLG previously analysed, while Food & Beverage have had 3 family buyers and 5 non-family (with 4 observation excluded) following the general trend.

As for Cruises and Jets, the formers have had 2 non-family corporate buyers in 2014 and 2015 and one Holding Company as the only financial buyer in 2008, while the latter has had a financial bidder of Unsecured Creditors in 2013 and another with no detail on the nature of the bidder.

To end the whole picture, the last focus will be on major buyers' nationalities in each of the luxury segments; if above they have been classified based on the total number of deals, now the structure of this discussion follows the criterion of variety of investors, so the number of regions where players come from, the larger this number the more there will be variety.

Exhibit 3.32: PLG's buyers main nationalities



As it could be expected, this segment not only is the one with the largest number of deals, but also where players from all regions have purchased companies, so there is a large variety from this point of view, as shown in the graph above; furthermore, it is the only one where South America has made its only two deals[69], while for the others it accounts for the majority of their deals. In Europe, of 135 total deals, the largest share of buyers is represented by Italians with 38 deals, French with 30, then Great Britain with 18 and Swiss with 16; it essentially has driven the structure of buyers that has characterized the whole luxury industry so far, so all the most important players have invested in this segment more than in the others.

The second place is occupied by Cars and Hotels, with buyers coming from four out the six considered regions, as illustrated right below.

[69] 7 deals have been excluded from the analysis because they do not provide this information.

Exhibit 3.33

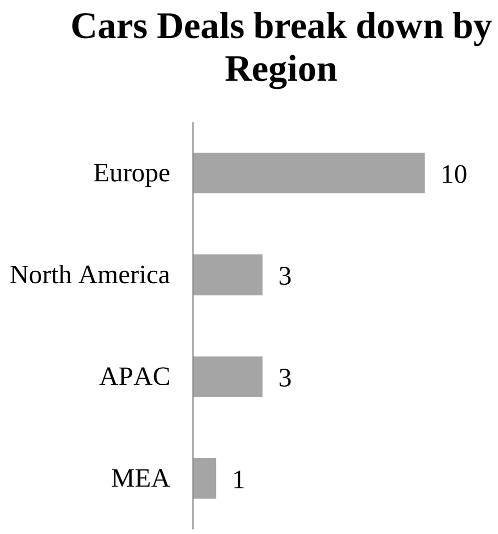
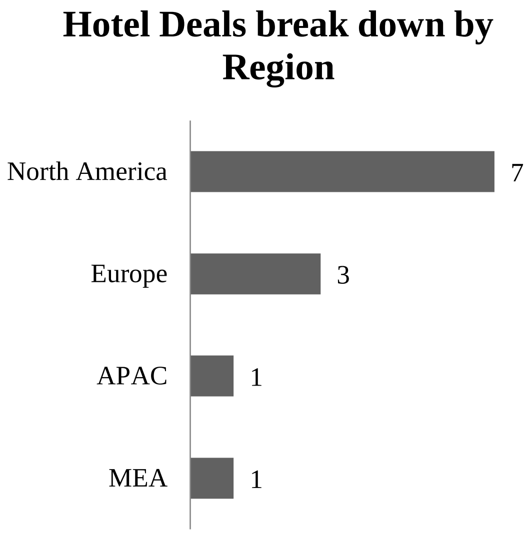


Exhibit 3.34



Countries involved are the same (Central and South America are absent) but there is one big difference: while in the Cars segment regions are classified as usual, so first placed is Europe followed by North America, for Hotels the opposite has happened, so Europe is indeed the most active region in luxury M&As except for the latter segment, where only 3 deals have been made[70]; in fact, this kind of market interests North America the most (and in particular USA from where these bidders come), while they both do not represent the main target for MEA countries, that have made only one deal in each of them. Focusing on European countries, the main bidders in Cars are Germans with 5 deals that also represents the largest share among German deals compared to the other segments, while concerning Hotels, deals have been made by 2 British non-family corporate bidders and the third by a financial one from Cyprus.

The third case includes two segments (Design and Food & Beverage) whose buyers come from three regions, although quite differently.

[70] Only 1deal has been excluded has it lacks this information.

Exhibit 3.35

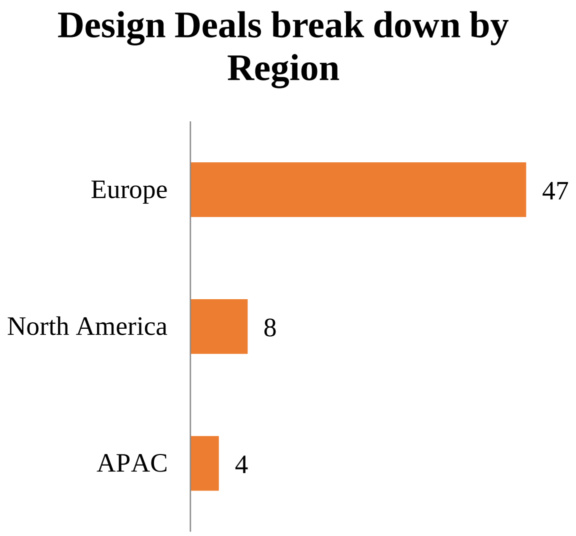
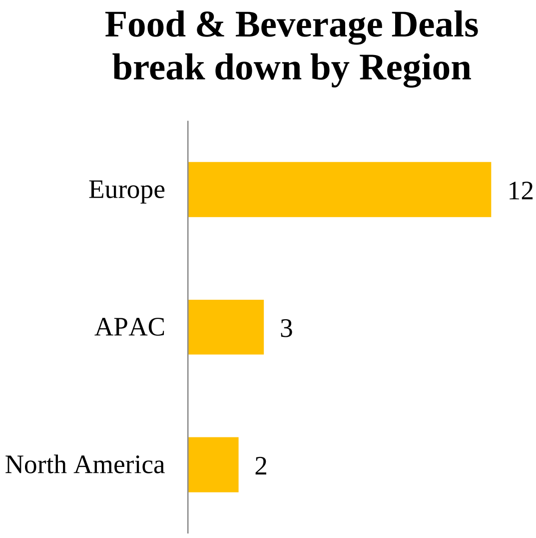


Exhibit 3.36



In this couple of charts, regions are the same but there is a difference in the order, as in both cases Europe has the largest number of deals of 47 in Design and 12 in Food & Beverage and while North America bidders' large interest goes to the former where they have made 8 deals, it is much lower in Food & Beverage companies with 2 deals only[71]. The opposite instead is valid for APAC buyers, whose ranking actually depends on North American ones, because in any case the formers have made more deals in Design than in Food & Beverage, with 4 deals against 3, but given the quite smaller activity by North American in Food & Beverage, Asian have been classified right after Europe. In the Design segment, the major players among European countries are Italians with 23 deals and Great Britain with 6, but as for the rest there is no other dominant share between Swiss, Germans, and Scandinavian countries (French have not made any deal so far). Quite different is the picture in Food & Beverage, where French and Italians have made 3 deals each and the others are distributed among Belgium, Spain, Switzerland and Great Britain.

Finally, the three remaining segments' bidders come from less than three regions; in particular, Wines & Spirits players mainly belong to European countries with 17 deals in total (especially from France with 11 deals, Italy and Great Britain with 3 each), while only one comes from North America[72], USA. Concerning Cruises and Jets, in countertendency with the rest, no

[71] There is one deal missing in Design because it does not provide any detail on buyers' nationalities.
[72] One deal has been excluded as it lacks this kind of information.

European player has made deals in those two segments, as for the former, two come from North America, Bermuda Islands, and another does not have this information, while for the latter one comes from South America, Brazil, while the other lacks this detail.

To conclude, the Personal Luxury Goods segment is the most active one with 189 deals, which may not be very surprising; what is new is that M&As in the Design segment have increased very much especially in the last three years of the analysed period reaching 60. The others are a little less than 20, apart from Cruises and Jets where they are 3 and 2 respectively. Concerning investors, although corporates have made many more deals than financial ones, in the very last years the latter have emerged especially in the Personal Luxury Goods segment, where the gap of deals has shrunk and in Hotels where their activity weights 42% of the total. More in detail, in all segments but Personal Luxury Goods, Wines & Spirits and Cars, non-family entities are increasing their ownership in luxury companies more than family ones, while on the financial side PE funds are the main protagonists followed by Acquisition Vehicles and Holding Companies belonging to the general category of Short-Term Private Investment companies identified in this chapter. About their nationalities, European players are the most active buyers in almost all segments, in line with the general trend, apart from Hotels where North America has made more deals. Segments have been classified by variety of nationalities to which their bidders belong and, as it can be imagined, Personal Luxury Goods has gained the first place as all the six regions have made deals on this market; secondly, there are Cars and Hotels with four nationalities (Europe, North America, APAC and MEA), Design and Food & Beverage with three (Europe, North America, APAC) and finally Wines & Spirits, Cruises and Jets with no more than 2.

5. Conclusion

This chapter's aims has been to provide and analyse a detailed picture of the M&A phenomenon within the luxury industry from two points of view: how it has evolved during the last 19 years and a screening of its main players and the same has been applied to the single segments, to see whether they are in line with the general trend or not. By crossing these two points, it has been also interesting to understand where luxury companies are going and how they are moving.

The topic discussed in the first two paragraphs after the introduction has been about merger waves and to what extent this theory is adequate to describe M&As in the luxury industry between 1997 and 2016, given that this sector has always had a peculiar growth path and quite different features from the other industries. The analysis has been based on the number of deals aimed at acquiring the majority stake or at increasing it made between 1997 and 2016 with a sample of 320 transactions, although it has not been possible to go much in detail from their value stand point as too many observations were missing. Results have demonstrated that this sector has had a per se M&A clustering over the considered years that heavily differs from the general trend analysed in the first chapter. In fact, while the general trend examined in the first chapter has shown that the fifth wave was going on between 1992 and 2000, a flourishing period of M&A activity has been observed in the luxury industry, not at all shaping a wave and renamed by the author of this paper as "the groups' period" because of the abnormal activity registered especially in 1999 and 2001 by two French groups. Given that buyers have been observed to make one to two deals on average yearly and that the two mentioned groups have made four in those two particular years, biasing the total trend of the first six years, a "missed wave" has been identified between 1997 and 2001, whose shape instead can be observed by excluding the abnormal observations. Moving on with the years, two waves have been observed between 2004 and 2008 and between 2010 and 2013, exactly when the most active players slowed down, with the first one more in line with the sixth wave occurred at a general level between 2003 and 2007. Finally, when the seventh wave has been discovered in the other industries begun in 2013 and still going on, the second luxury wave reached its peak before the end and an uncertain path has followed in the very last years of the analysed period, which highlights the strongest point of distinction between the two paths. For all these reasons it can be inferred that the M&A theory can be partially applied, as it has not always been valid and certainly not aligned to the other sectors.

Moving to the investors' profile, the first examined distinction has been between corporate and financial firms: this idea has come from quite a recent trend that has seen so far the latter raising their share of activity and ownership in M&As in the luxury industry, particularly pursued by Private Equity funds, so it has been interesting to study the extent this trend has moved till 2016. Given that corporate entities are still predominant in this industry but that in all the others financial hold the largest share M&A investments worldwide, a deep discussion has been developed in the third paragraph and in its subparagraphs, looking at the buying side. Results come out by confronting buying deals by both categories have shown that financial entities activity has grown during the years, especially between 2003 and 2007 when the latter made more deals than industrial companies. Indeed, after 2007 the gap between the two categories has increased again, with corporates dominating the industry, but it is as well certain that financial have augmented their presence compared to the beginning of the considered period. Going more in detail, the number of targets each year has been used to understand, consistently with the intensity of M&A activity of each of the two kinds of investors, where luxury companies' ownership is going, by confronting purchased and sold targets. The outcome is that selling companies are mainly industrial as well as buyers, so a great part of shareholders still belong to the same category, as expected, but between 2003 and 2007 and in 2016 financial buyers' deals were much more than sellers' which means that a remarkable part of ownership has moved to these players along these years, confirming the trend anticipated in chapter two and that has generated one of the questions to be answered through this chapter.

An analysis of investors' main features has been developed to better understand who they are; among corporate buyers, two categories have been identified: family and non-family entities. Results have shown that there is a strong presence of the latter against the formers with 93 versus 85 deals, although 60 observations have been missing, therefore they are not completely reliable and final. Concerning sellers, as it can be imagined, in 81% of the cases (which is a rough figure given that many observations have been excluded) they are companies' founders who decided to join groups or larger firms to face the new century challenges and issues like globalization. As for financial entities, buyers are all Short-Term Private Investment companies and in 34% of the transactions they are Private Equity Funds (so the second trend mentioned in the previous chapter has been confirmed), followed by Acquisition Vehicles, Holding Companies, Venture Capital, Asset management companies and so on. On the selling side, not only there has been this category, but also another one (although with 17% of deals only) called Government, made of governments of two countries and generally defined Tribunals that sold bankrupted companies.

Moving to cross-border M&As, the analysis has been developed from a worldwide and a European point of view; starting from the first one, six regions have been identified: Europe, North, Central and South America, Asia Pacific (APAC) and Middle East and Africa (MEA). Outcomes have illustrated that cross-border transactions are still a small part of total M&As, accounting form 19%, where Europe is the most active region on both the buying and the selling side, but also European companies are the most targeted; after Europe there are North America, APAC, MEA and Central and South America, but the gap is quite large considering that Europe has made 224 buying deals and North America 45 in the whole period, where the formers' weight is 73% of the total. Furthermore, deals between European players only are 190, accounting for 69% of total worldwide transactions, which means that M&As in the luxury industry are still quite a domestic phenomenon, not very international yet. For these reasons, a focus on Europe has been developed, to understand the weight of cross-border deals between European different countries that is 56%, (so much more than at the international level) and where luxury companies are going. Results have shown that the most active country is Italy on both the buying and the selling side and also as targets, because Italian firms targeted have been 112. As sold targets are more than purchased ones with 66 purchases and 97 sales, given that they have targeted 47% of all the Italian companies, Italian targets are leaving Italy in most of the cases. The second place goes to France in buying and selling and the third for buying is Great Britain, while the fourth is Switzerland and all of them represent the main European destinations of luxury targets, as their purchases are larger than sales. The second most targeted companies are British, then French and Swiss mainly, with 52, 28 and 23 in total.

By crossing nature of activity and nationality of buyers it has been discovered that Europe and North America follow the general trend of corporate entities buying more than financial ones (although in the second region the latter's weight is larger compared to industrial, than it is in Europe). Instead, APAC and MEA are in countertendency, the former because no financial player has participated to M&As in the luxury industry (at least according to available data), while the latter's main players are financial rather than industrial, with 80% of deals against 20%.

Finally, a deep analysis of luxury segments has been developed and they are: Personal Luxury Goods (PLG), Design, Cars, Hotels, Wines & Spirits, Food & Beverage, Cruise and Jets. The first finding has been that, not surprisingly, PLG is the most active segment registering 189 buying deals, largely followed by Design with 60 and whose explosion mainly happened since 2012, while Wines & Spirits, Food & Beverage and Cars number of buying deals are slightly less than 20, Cruises and Jets account for 3 and 2.

Focusing on investors' profile, all segments follow the main trend of corporate and financial players highlighted before, but it is important to specify that the gap between the two has strongly decreased since 2012 in PLG, while in Hotels, financial players' buying deals weight is larger compared to corporate (42% versus 58%) than in other segments. Moreover, going against the general trend, family buyers in Personal Luxury Goods, Wines & Spirits and Cars have been more than non-family ones so far.

The last point is about buyers' nationality in each segment, identifying a different extent of variety, that is maximum in PLG where players belonging to all the six nationalities have invested, although the first one, Europe, has quite a large gap with the second, North America, with 135 versus 22 deals: all the most important players have invested in this segment more than in the others also in the other regions. The second place is occupied by Cars and Hotels, with buyers coming from four out the six considered regions, where an important point is worth to highlight: Europe is not the first buying region in Hotels, as North America is, with 7 and 3 deals respectively and it is certainly a rare case (apart from Cruises and Jets where Europe has not made any deal at all). Finally, Design and Food & Beverage buyers come from three regions (Europe, North America, APAC) while Wines & Spirits, Cruises and Jets players come from no more than 2.

To conclude, available data has allowed to develop quite a large understanding on M&As in the luxury industry, although it has not been possible to go in detail with corporate investors differences between family, non-family and founders. In general, tools have been quite limited to provide more precise and detailed results and information, so it is essential to keep studying this phenomenon that never stops evolving. Moreover, as it may have emerged from the discussion, the very last years of the considered period are quite critical in understanding how the whole situation will evolve in the luxury industry given the very last changes occurred, so next years more research will be needed to further answer the main questions proposed in this paper.

Conclusion

The thesis has had the aims to study the M&A phenomenon in the luxury industry and to provide a detailed picture of how it has evolved over time and what is the situation concerning luxury firms' ownership.

The first step has been to analyze M&As on a global scale in the first chapter, considering all the industries worldwide thanks to an ongoing research that has allowed to discover the path of M&As over time and in particular to identify the so called "merger waves" (probably the most accredited theory that explains the M&A movements over the last two centuries) and to understand why they have occurred, especially considering that they have begun in the United

States and only after they spread worldwide and to Europe and Asia in particular. First of all, they have been defined as a clustering of M&A transactions begun in a certain year and growing till achieving the peak and then crashing, drawing the shape of a wave. Indeed, the reasons why they have happened are different, as in the first one, begun in 1895, the aim was the horizontal expansion that generated the first strong monopolies in industries like oil, food and intermediate goods manufacturing. In the second wave happened in the 1920s, companies moved to vertical integration in order to overcome the first regulatory limitations that the US government started to impose, arriving to the diversification strategy in the third wave (1960-1970), so the expansion towards unrelated businesses. After all these integrations, divestment became the new trend in the fourth wave in the 1980s, while geographic expansion and cross-border deals were the main themes behind the fifth wave (1992-2000), the more regions like Europe and Asia took part to this phenomenon; finally, capability acquisition and innovation were the drivers of the sixth that has brought us to the XXI century and precisely occurred between 2003 and 2007.

Where are we now? According to Cretin, Dieudonné and Bouacha, a seventh wave began in 2013 and we are in the middle of it now, so further research will be needed in the future to study it more deeply. So far, they have been able to prove its existence by creating an M&A index that can track and interpret the last four years' data, based on four variables (failure rate, improved bids, FED loan conditions and market capitalization) and their historical trends from the end of the XX century to the first twelve years of the XXI. What is sure is that financial investors and private equity funds have the lion part in keeping the M&A phenomenon alive in these last years, especially companies like Goldman Sachs and Morgan Stanley, that have the largest share of activity in the three most active regions in the world, namely North America, Western Europe and Asia Pacific that from a value standpoint in 2016 they weighted 44%, 22% and 26%.

To conclude the first chapter, it was important to understand and explain what actually lies behind all this movement, no matter the chosen strategy (vertical/horizontal integration, diversification and so on) and the kind of transaction preferred (merger, acquisition, tender offer and so on). In fact, companies seek to create value through these deals and according to Bruner, the overall value to be compared to the price of the transaction comes from the target (the stand alone value), the synergies that the deal will create and the extent the target shares are liquid and controlling, that can positively or negatively influence the final value. To evaluate a company, corporate finance provides us with a large number of methods, like the discounted cash flows, the discounted earnings, the equity methods explored in the chapter. To assess the synergies value, both in place and option ones, the Black-Scholes option pricing model can be used, to which these categories of synergies belong. Finally, Pratt's Multiplicative Model can be implemented to estimate the value changes based on the degree of liquidity and control of the shares: clearly, the higher the degree of control the lower the value, the higher the degree of liquidity the larger the value and the opposite is also valid. After the assessment, if the final value is larger than the price of the transaction, value will be created for the buyer company, otherwise it will be destroyed (or else there could be neither value creation nor destruction at all).

Moving to the second chapter, the aim was to provide a detailed picture of the luxury industry and of its main players. The first focus has been on the overall industry, following Bain & Company's split in ten segments: Personal Luxury Goods, Luxury Cars, Luxury Hospitality, Luxury Cruises, Designer Furniture, Fine Food, Fine Wines & Spirits, Yachts, Private Jets and Fine Art. The largest segment in the very last years has been Luxury Cars whose sales in 2016 accounted for 40% of total sales, followed by Personal Luxury Goods, signaling a breaking point with the past when the latter segment was the dominant one. Another important result is that both in-home (fine arts and designer furniture) and out-of-home (cruises, hospitality and restaurants) luxury experiences have acquired an always increasing role, compared to luxury goods and toys (yachts and private jets) in the last four years of the analyzed period. Moreover, differently from what it can be expected, luxury industry never-ending growth stopped between 2002 and 2003 because of the currency effect, of dollar and yen weakening compared to euro, then recovery began in 2004 till 2008 when the financial crisis exploded, hitting also this industry, where sales dropped. Unlike other sectors, though, recovery was very fast and in fact sales increased by 17% between 2010 and 2011, without stopping growing (although at a more stable pace and more regular rate around 7%) and reached €1.081 trillion in 2016.

The second point discussed was on the main reasons why this industry is usually considered different from the others and according to Chevalier and Mezzalovo (2007), dimension, financial aspects and time frame are the most peculiar factors. Concerning dimension, they have shown that unlike other industries, in luxury, it is not the most important variable to compare companies or this industry with others, as brand awareness is, especially because almost all of them are small and medium enterprises, apart from a few big groups, defined as "holdings of individual small companies”. Secondly, retail, wholesale and licenses can have very different weights in generating revenues in each luxury company, therefore results can be quite difficult to compare. About the financial aspect, given the high level of break-even point because of the high fixed costs, the large amount of liquidity they generate and the high margin each product has, when a luxury company becomes successful, it will be able to face years of losses without going bankrupted, merged or acquired, which is usually what happens in many other sectors and in a very short time. Third, time has a completely different interpretation in the luxury industry, because while other consumer-goods firms try to reduce it when launching a product (usually no longer than a year and six months to recover the investment), or to change the direction the firm has been following for years and they generally can see results quite immediately, luxury ones have longer periods to face, ranging between 18 and 24 months for the launch, around a year to recover and they have to make quite an effort to make to customers accept their changes, which also takes more time than the average.

In the end, the analysis has moved to the industry’s main players that nowadays can be divided into strategic and financial given their recent entrance. Starting from the first ones, the focus has been on the three most important luxury holdings, LVMH, Kering and Richmont that have been ranked among the first six for their annual revenues but also the most active strategic M&A players. Indeed, these are the common traits they share, but there are also some differences concerning their main luxury segments of activities and geographic retail distribution. In fact, while LVMH embraces the largest number of segments with PLG, Wines & Spirits and Selective Retailing (with a particular focus on the latter and on Fashion and Leather Goods), Kering mainly works in Luxury and Lifestyle & Sports, mainly focused on Ready-to-Wear and Accessories that are strongly present in these two categories. Richemont, instead, (the only non-French entity, as it is Swiss) has purchased companies mainly working in the Watches & Jewelry segment, although there are Fashion brands as well, but they represent a very small part of the total. Concerning Retail distribution, while LVMH’s and Richmont’s most important market has become Asia-Pacific (excluding Japan) and also USA for the former while Europe has moved to the second/third place in the last five years, the latter still has registered the largest sales for Kering, while Asia-Pacific and North America occupy the second and third place. The last point concerns the industry’s new entrants that are financial firms and in particular PE funds and Holdings that were quite reluctant till fifteen years ago. The main reasons of this change according to some researchers, especially targeting PLG and Design firms, are to be found first of all in the very positive performance registered in these segments in terms of sales and new customers, especially Chinese. Secondly, these investors have understood the large potential that small niche brands can have and the high value they can create by giving them financial resources for their worldwide expansion, especially in Asia and Middle East. Therefore, they have become more patient by deciding to divest their investments after a longer period than three years, as they normally do, but also they have understood how to balance the creative and financial side by waiting for the right moment to come to invest in a luxury firm, that is when the designer-owner has become aware that the firm needs a radical change to keep living.

Considering this very recent trend that researchers have reckoned to be happening, the last chapter has provided a detailed quantitative analysis on how the M&A phenomenon has evolved during the last 19 years in the luxury industry and a screening of its main players and the same has been applied to the single segments, to see whether they are in line with the general trend or not. By crossing these two points, it has been also interesting to understand where luxury companies are going and how they are moving.

The first topic discussed has been about merger waves and to what extent this theory is adequate to describe M&As in the luxury industry between 1997 and 2016, given that this sector has always had a peculiar growth path and quite different features from the other industries. The analysis has been based on the number of deals aimed at acquiring the majority stake or at increasing it made between 1997 and 2016 with a sample of 320 transactions, although it has not been possible to go much in detail from their value stand point as too many observations were missing. Results have demonstrated that this sector has had a per se M&A clustering over the considered years that heavily differs from the general trend analysed in the first chapter. In fact, while the general trend examined in the first chapter has shown that the fifth wave was going on between 1992 and 2000, a flourishing period of M&A activity has been observed in the luxury industry, not at all shaping a wave and renamed by the author of this paper as "the groups' period" because of the abnormal activity registered especially in 1999 and 2001 by two French groups. Given that buyers have been observed to make from one to two deals on average yearly and that the two mentioned groups have made four in those two particular years, biasing the total trend of the first six years, a "missed wave" has been identified between 1997 and 2001, whose shape instead can be observed by excluding the abnormal observations. Moving on with the years, two waves have been observed between 2004 and 2008 and between 2010 and 2013, exactly when the most active players slowed down, with the first one more in line with the sixth wave occurred at a general level between 2003 and 2007. Finally, when the seventh wave has been discovered in the other industries and that began in 2013 and that is still going on, the second luxury wave reached its peak before the end and an uncertain path has followed in the very last years of the analysed period, which highlights the strongest point of distinction between the two paths. For all these reasons it can be inferred that the M&A theory can be partially applied, as it has not always been valid and certainly not aligned to the other sectors.

Moving to the investors' profile, the first examined distinction has been between corporate and financial firms: this idea has come from quite a recent trend that has seen so far the latter raising their share of activity and ownership in M&As in the luxury industry, particularly pursued by Private Equity funds, so it has been interesting to study the extent this trend has reached till 2016. Given that corporate entities are still predominant in this industry but that in all the others financial hold the largest share M&A investments worldwide, a deep discussion has been developed, looking at the buying side. Results come out by confronting buying deals of both categories have shown that financial entities' activity has grown during the years, especially between 2003 and 2007 when the latter made more deals than industrial companies, with 10 against 7 deals. Indeed, after 2007 the initial gap between the two categories has increased again, with corporate dominating the industry, but it is as well certain that financial have augmented their presence compared to the beginning of the considered period, moving from 1 to 7 seven average deals per year. Going more in detail, the number of targets each year has been used to understand, consistently with the intensity of M&A activity of each of the two kinds of investors, where luxury companies' ownership is going, by confronting purchased and sold targets. The outcome has been that selling companies are mainly industrial as well as buyers, so a great part of shareholders still belong to the same category, as expected, but between 2003 and 2007 and in 2016 financial buyers' deals were much more than sellers' which means that a remarkable part of ownership has moved to these players along these years, confirming the trend that has been anticipated and that has generated one of the questions to be answered through this chapter.

An analysis of investors' main features has been developed to better understand who they are; among corporate buyers, two categories have been identified: family and non-family entities. Results have shown that there is a strong presence of the latter against the formers with 93 versus 85 deals, although 60 observations have been missing, therefore they are not completely reliable and final. Concerning sellers, as it can be imagined, in 81% of the cases (which is a rough figure given that many observations have been excluded) they are companies' founders who decided to join groups or larger firms to face the new century challenges and issues like globalization or because of lack of capable heirs. As for financial entities, buyers are all Short-Term Private Investment companies and in 34% of the transactions they are Private Equity Funds (so the second trend mentioned has been confirmed), followed by Acquisition Vehicles, Holding Companies, Venture Capital, Asset management companies and so on. On the selling side, not only there has been this category, but also another one (although with 17% of deals only) called Government, made of governments of two countries and generally defined Tribunals that sold bankrupted companies.

Moving to cross-border M&As, the analysis has been developed from a worldwide and a European point of view; starting from the first one, six regions have been identified: Europe, North, Central and South America, Asia Pacific (APAC) and Middle East and Africa (MEA). Outcomes have illustrated that cross-border transactions are still a small part of total M&As, accounting for 19%, where Europe is the most active region on both the buying and the selling side, but also that European companies are the most targeted; after Europe there are North America, APAC, MEA and Central and South America, but the gap is quite large considering that Europe has made 224 buying deals and North America 45 in the whole period, where the formers' weight is 73% of the total. Furthermore, deals between European players only are 190, accounting for 69% of total worldwide transactions, which means that M&As in the luxury industry are still quite a domestic phenomenon, not very international yet. For these reasons, a focus on Europe has been developed, to understand the weight of cross-border deals between European countries that is 56%, (so much more than at the international level) and where luxury companies are going. Results show that the most active country is Italy on both the buying and the selling side and also as targets, because Italian firms targeted have been 112. As sold targets are more than purchased ones with 66 purchases and 97 sales, given that they have targeted 47% of all the Italian companies, Italian targets are leaving Italy in most of the cases. The second place goes to France in buying and selling and the third for buying is Great Britain, while the fourth is Switzerland and all of them represent the main European destinations of luxury targets, as their purchases are larger than sales. The second most targeted companies are British, than French and Swiss mainly, with 52, 28 and 23 in total.

By crossing nature of activity and nationality of buyers it has been discovered that Europe and North America follow the general trend of corporate entities buying more than financial (although in the second region the latter's weight is larger compared to industrial, than it is in Europe). Instead, APAC and MEA are in countertendency, the former because no financial player has participated to M&As in the luxury industry (at least according to available data), while the latter's main players are financial rather than industrial, with 80% of deals against 20%.

Finally, a deep analysis of luxury segments has been developed and they are: Personal Luxury Goods (PLG), Design, Cars, Hotels, Wines & Spirits, Food & Beverage, Cruise and Jets. The first finding has been that, not surprisingly, PLG is the most active segment registering 189 buying deals, largely followed by Design with 60 and whose explosion mainly happened since 2012, Wines & Spirits, Food & Beverage and Cars number of buying deals are slightly less than 20, while Cruises and Jets account for 3 and 2.

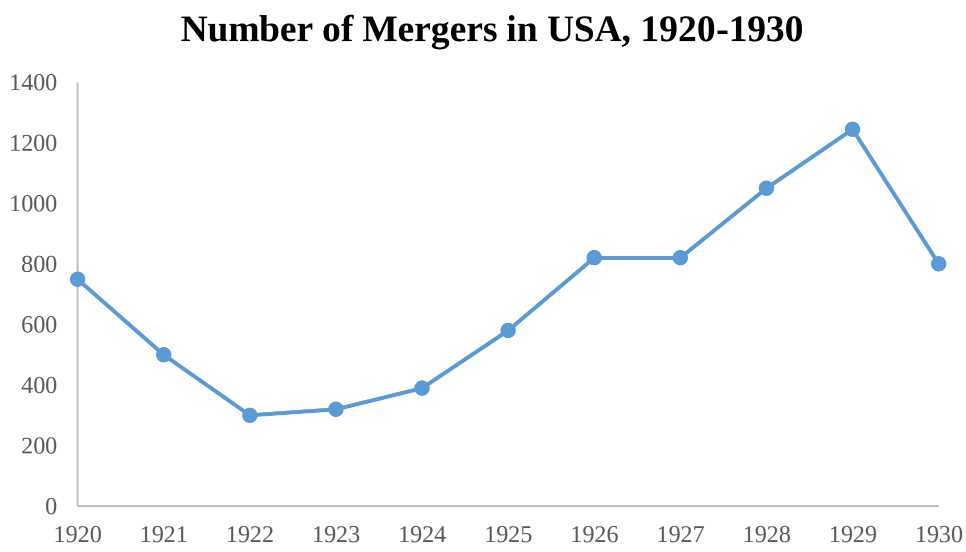
Focusing on investors' profile, all segments follow the main trend of corporate and financial players highlighted before, but it is important to specify that the gap between the two has strongly decreased since 2012 in PLG, while in Hotels, financial players' buying deals weight is larger compared to corporate (42% versus 58%) than in other segments. Moreover, going against the general trend, family buyers in Personal Luxury Goods, Wines & Spirits and Cars have been more than non-family ones so far.

The last point is about buyers' nationality in each segment, identifying a different extent of variety, that is maximum in PLG where players belonging to all the six nationalities have invested, although the first one, Europe, has quite a large gap with the second, North America, with 135 versus 22 deals: all the most important players have invested in this segment more than in the others also in the other regions. The second place is occupied by Cars and Hotels, with buyers coming from four out the six considered regions, where an important point is worth to highlight: Europe is not the first buying region in Hotels, as North America is, with 7 and 3 deals respectively and it is certainly a rare case (apart from Cruises and Jets where Europe has not made any deal at all). Furthermore, Design and Food & Beverage buyers come from three regions (Europe, North America, APAC) and finally Wines & Spirits, Cruises and Jets players come from no more than 2.

All in all, data has allowed developing quite a large understanding on M&As in the luxury industry and in all industries worldwide across the chapters, although it has not been possible to go in detail with corporate investors differences between family, non-family and founders. In general, tools have been quite limited to provide more precise and detailed results and information, so it is essential to keep studying this phenomenon that never stops evolving. Moreover, as it may have emerged from the discussion, the very last years of the period considered are quite critical in understanding how the whole situation will evolve in the luxury industry, so next years more research will be needed to further answer the main questions proposed in this paper.

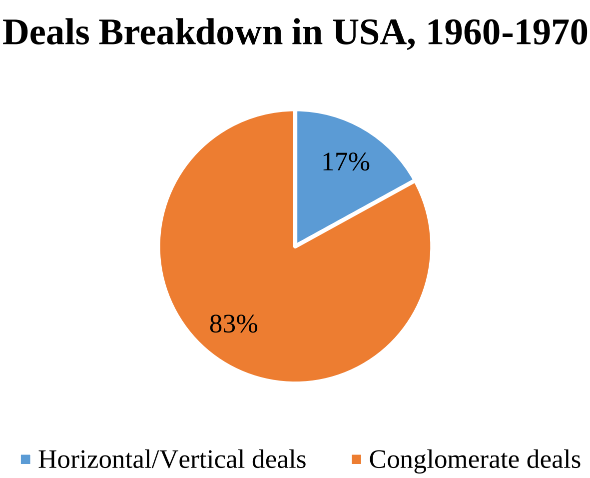
Appendix

Exhibit 1.1: The second wave by number of deals



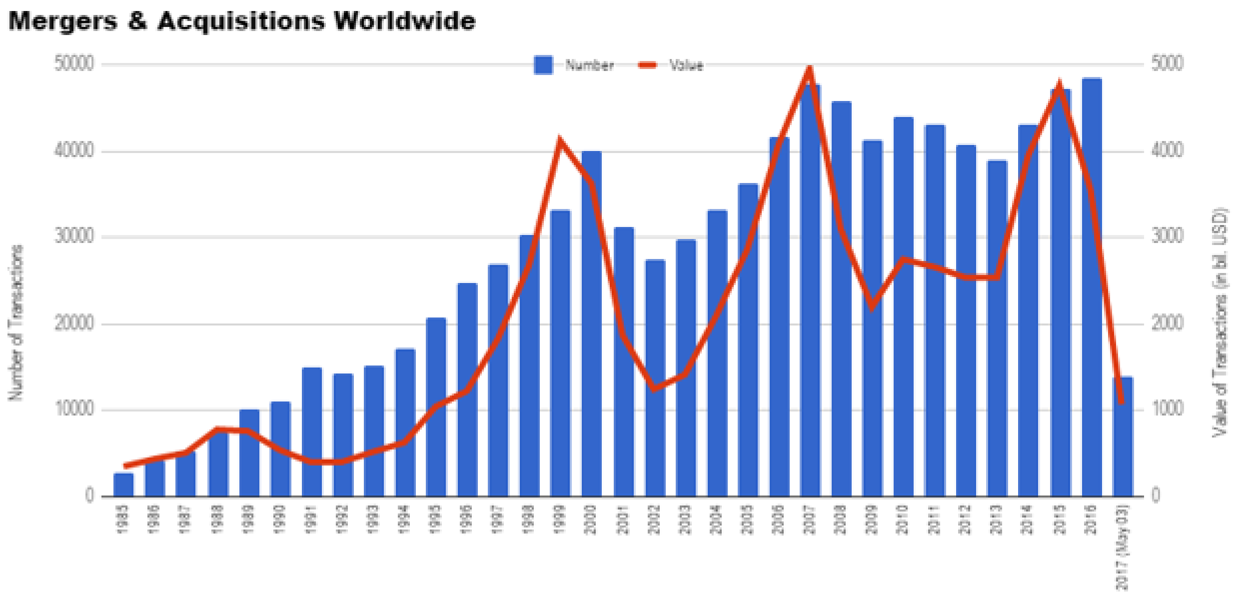
Source: *re-elaboration of data collected from* The US economy in the 1920s, *G. Smiley*

Exhibit 1.2: Several kinds of deals' weight changed from a wave to another



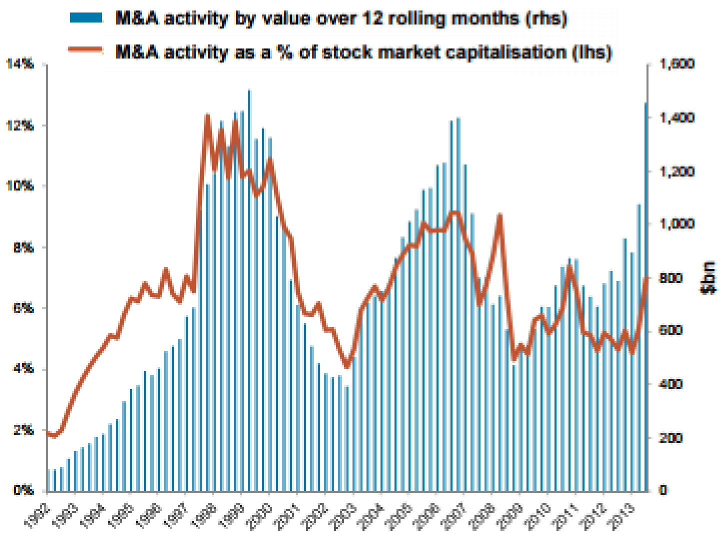
Source: re-elaboration of data collected from Restructuring and Corporate Governance, *Weston et al, 2004.*

Exhibit 1.3: From the fourth wave, M&A transactions in number and value



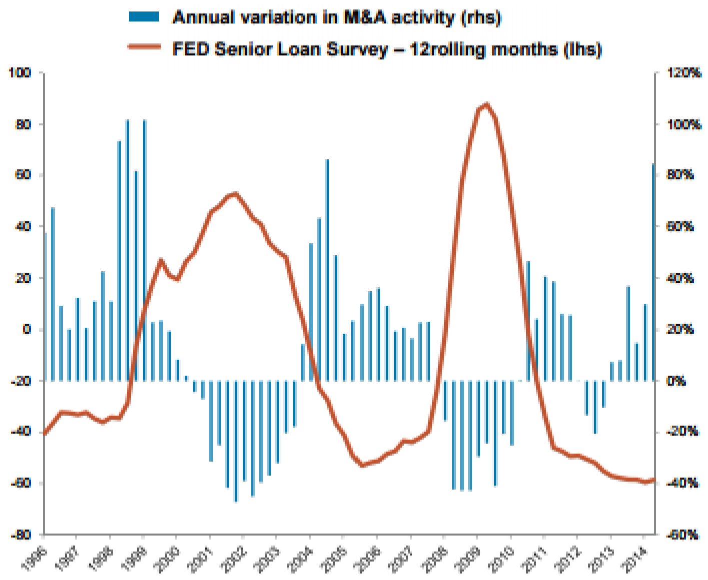
Source: Mergers and Acquisitions Statistics, *imaa institute database*

Exhibit 1.4: Market Capitalization



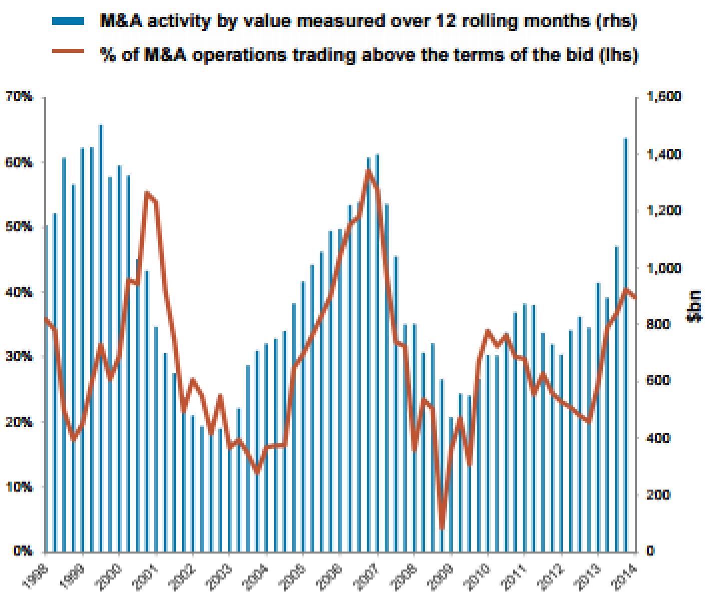
Source: M&A Activity: Where Are We In the Cycle?, *Cretin, Dieudonné and Bouacha, 2015*

Exhibit 1.5: FED loan conditions



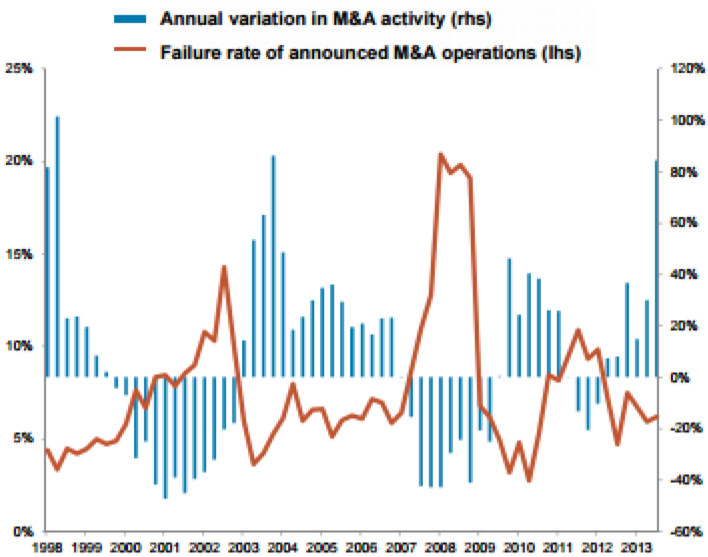
Source: M&A Activity: Where Are We In the Cycle?, *Cretin, Dieudonné and Bouacha, 2015*

Exhibit 1.6: Expected improved bids



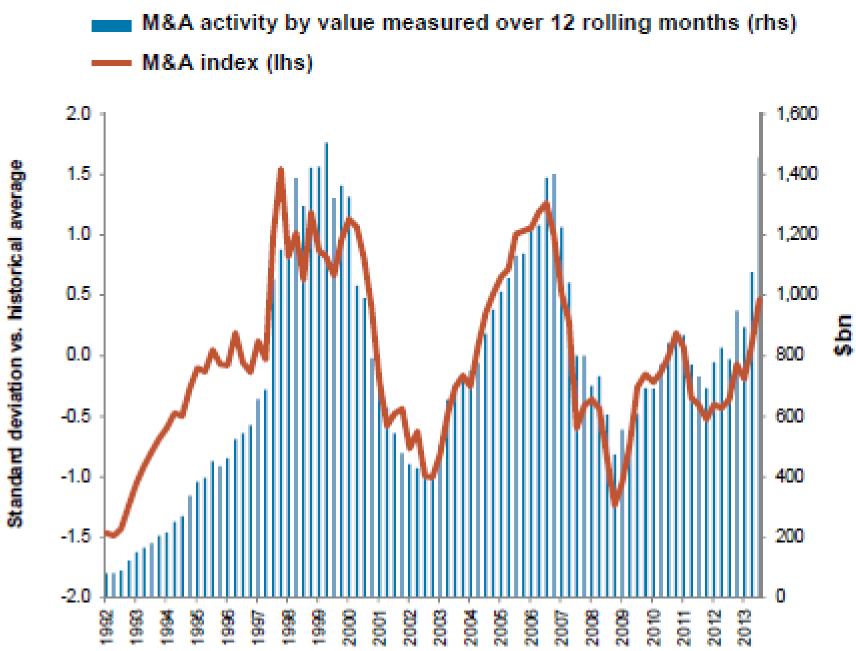
Source: M&A Activity: Where Are We In the Cycle?, *Cretin, Dieudonné and Bouacha, 2015*

Exhibit 1.7: Failure rate



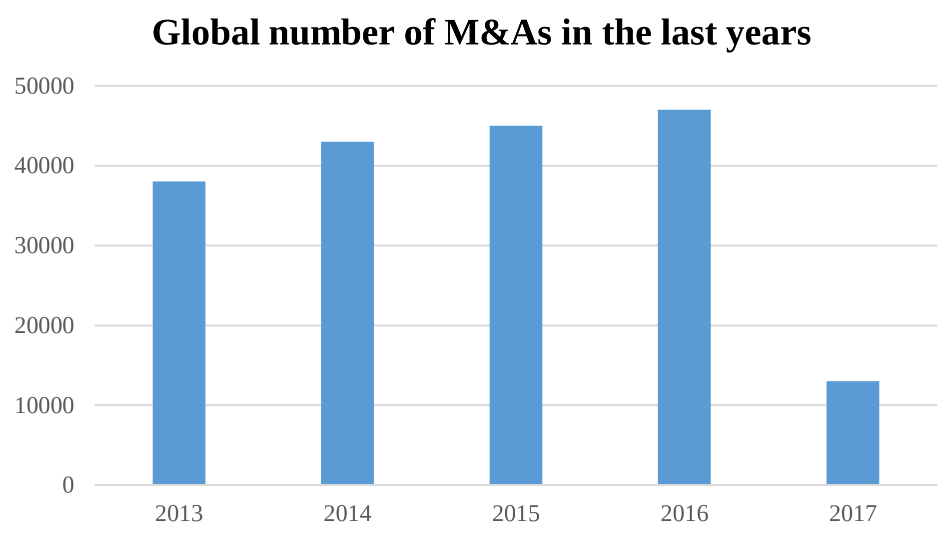
Source: M&A Activity: Where Are We In the Cycle?, *Cretin, Dieudonné and Bouacha, 2015*

Exhibit 1.8: M&A index as a weighted combination of the four parameters



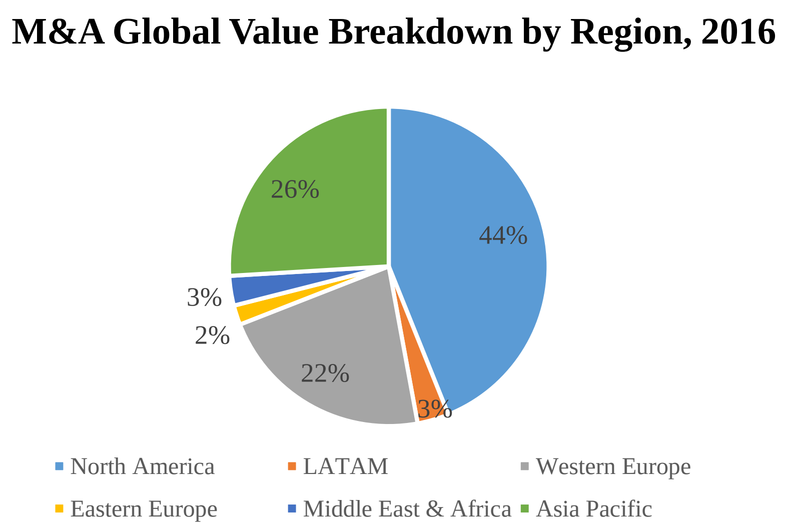
Source: M&A Activity: Where Are We In the Cycle?, *Cretin, Dieudonné and Bouacha, 2015*

Exhibit 1.9: The seventh wave beginning



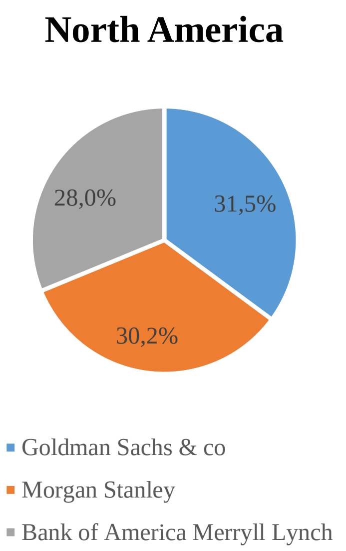
Source: *re-elaboration of data collected from* Mergers and Acquisitions Statistics, *imaa institute database*

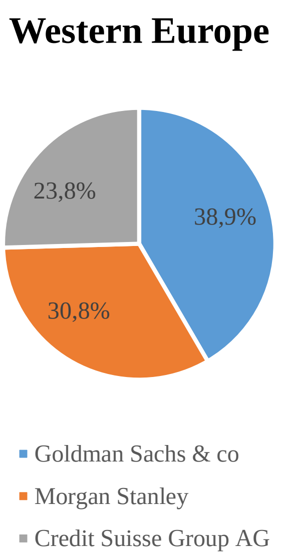
Exhibit 1.10



Source: M&A MARKET REVIEW FINANCIAL RANKINGS, *Bloomberg, 2016.*

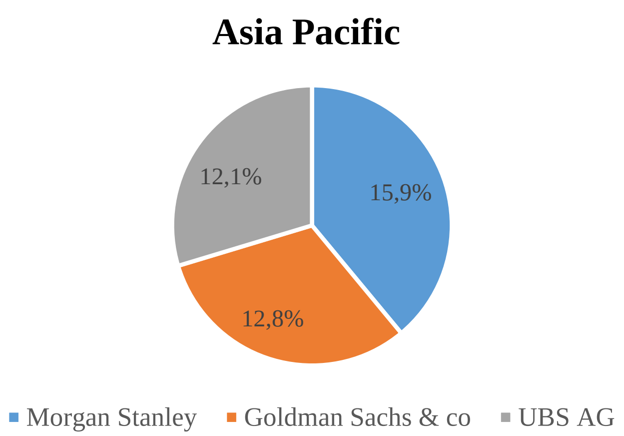
Exhibits 1.11 and 1.12: North America and Western Europe main players





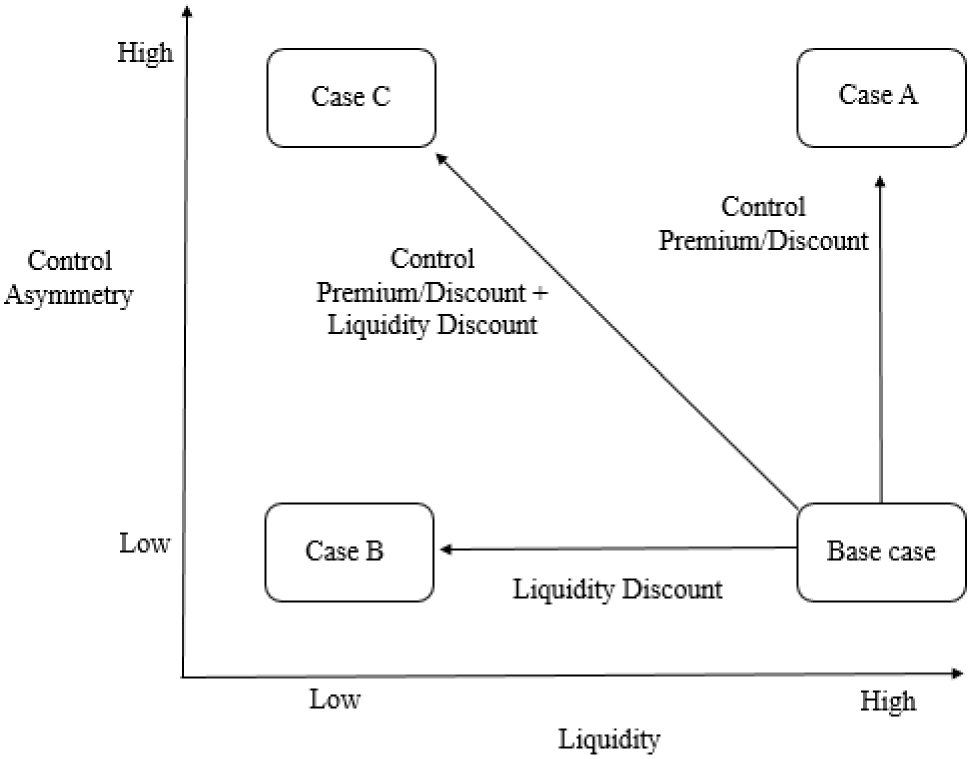
Source: re-elaboration of data collected from M&A MARKET REVIEW FINANCIAL RANKINGS, *Bloomberg, 2016*

Exhibits 1.13: Asia Pacific main players



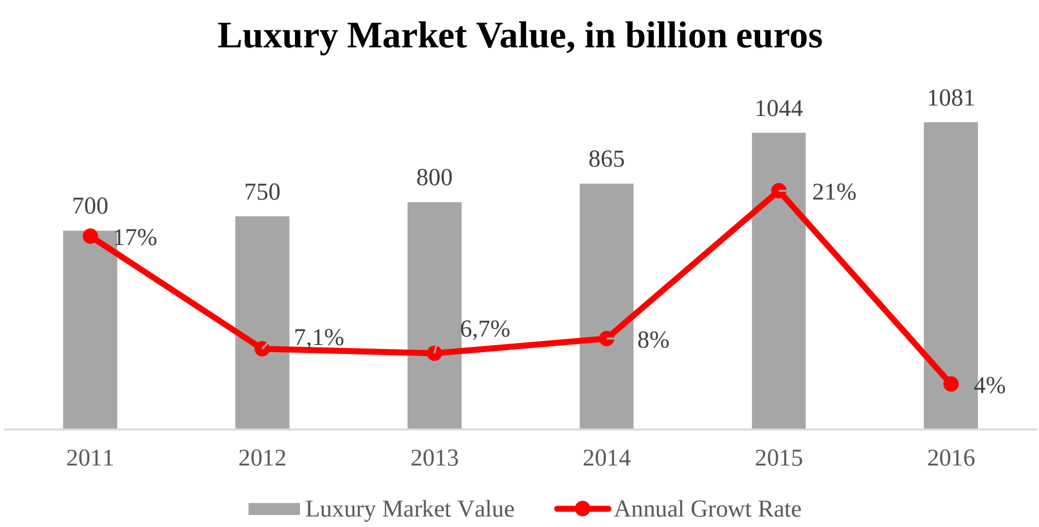
Source: re-elaboration of data collected from M&A MARKET REVIEW FINANCIAL RANKINGS, *Bloomberg, 2016*

Exhibit 1.14: Liquidity and control four combinations



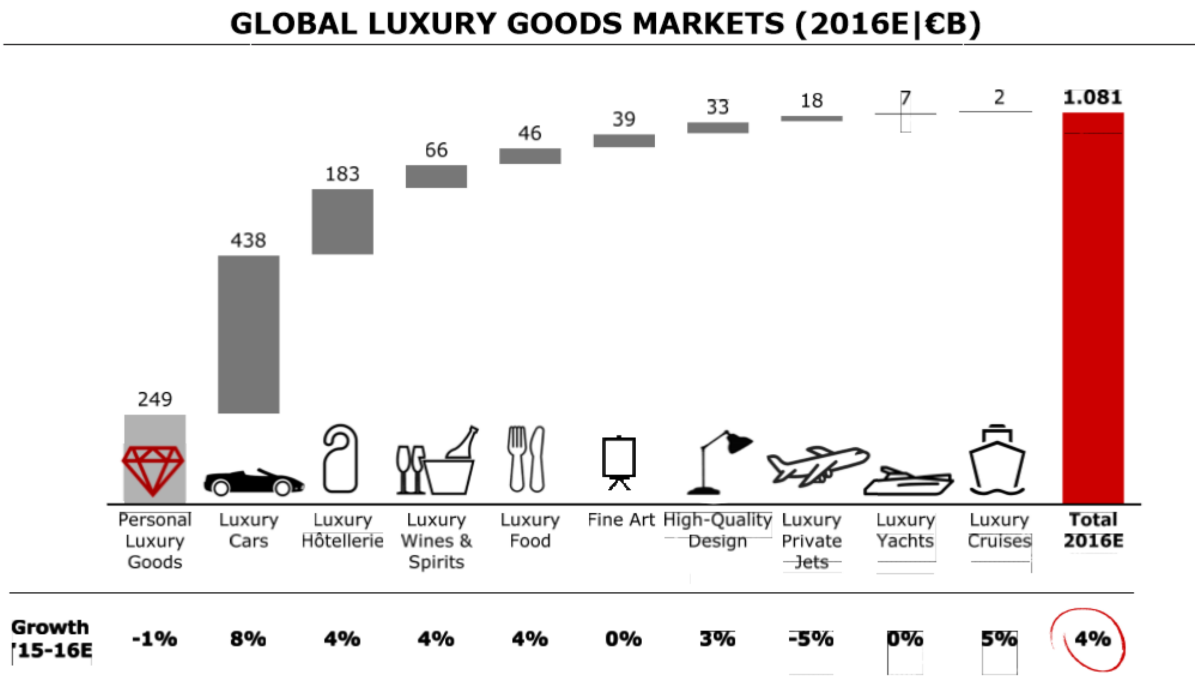
Source: re-elaboration of the graph taken from Applied Mergers and Acquisitions, *Bruner R. F., 2004*

Exhibit 2.1: Sales Value never stops growing in this industry between 2011 and 2016



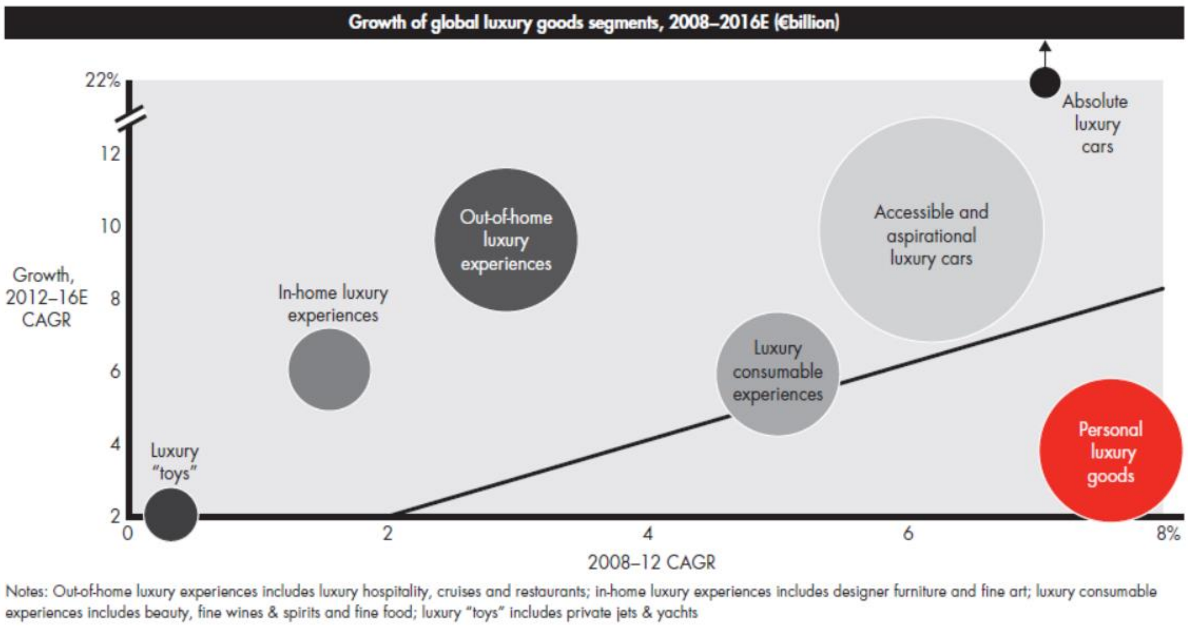
Source: re-elaboration of data collected from Bain & Company reports

Exhibit 2.2: The split of market share of each segment in 2016, reaching €1.081 trillion sales



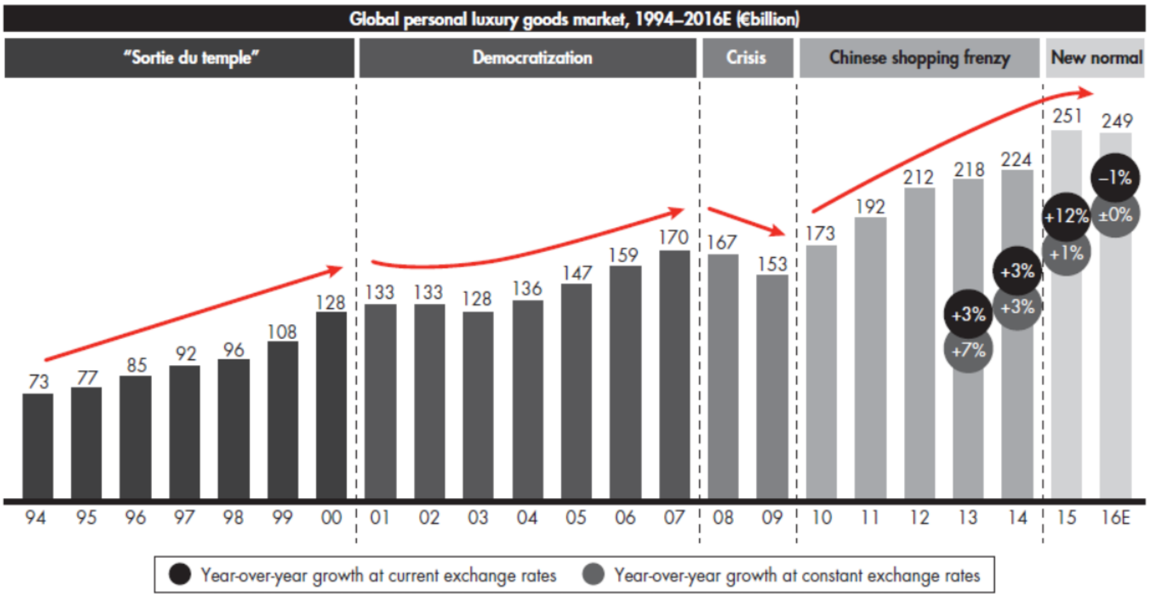
Source: Worldwide Luxury Market Monitor, *2016, C. D'Arpizio, F. Levato, D. Zito, Bain & Company and Altagamma*

Exhibit 2.3: Luxury experience importance has increased compared to Luxury products



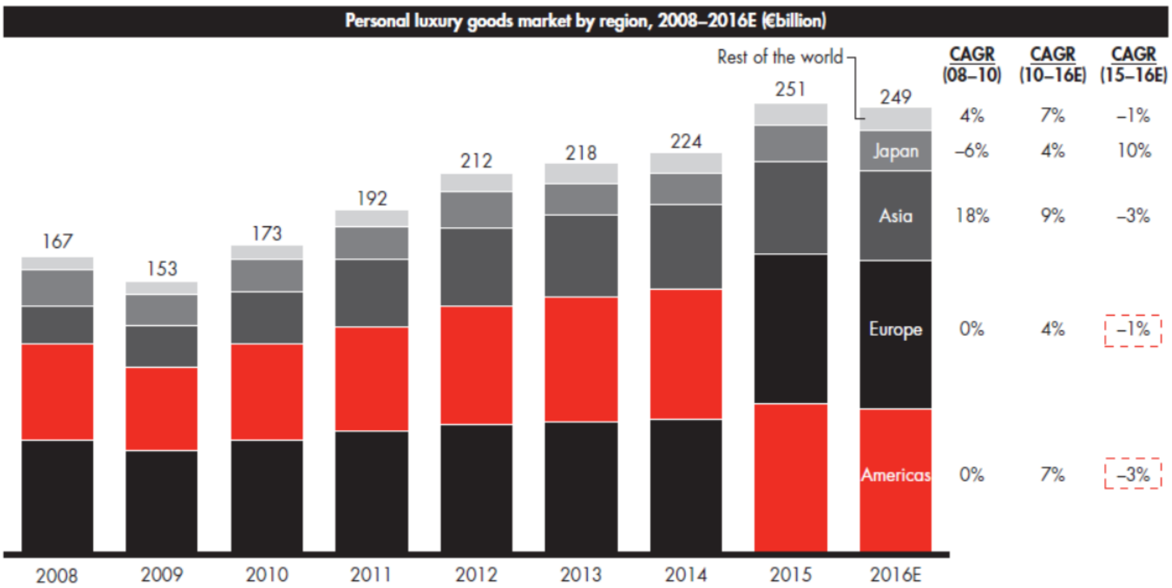
Source: Luxury Goods Worldwide Market Study, Fall-Winter 2016, *2016, C. D'Arpizio, F. Levato, D. Zito, Bain & Company*

Exhibit 2.4: Luxury Goods explosive growth ended and became flat in 2015-2016



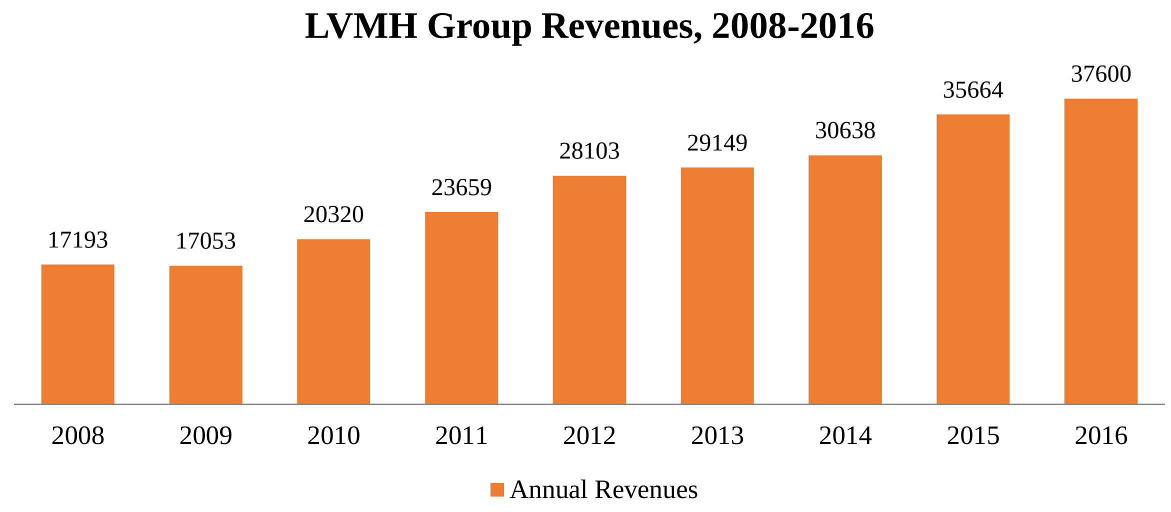
Source: Luxury Goods Worldwide Market Study, Fall-Winter 2016, *2016, C. D'Arpizio, F. Levato, D. Zito, Bain & Company*

Exhibit 2.5: Europe and Americas drive luxury goods sales



Source: Luxury Goods Worldwide Market Study, Fall-Winter 2016, *2016, C. D'Arpizio, F. Levato, D. Zito, Bain & Company*

Exhibit 2.6: LVMH revenues in million euros, 2008-2016



Source: re-elaboration of data collected from Statista, The Statistic Portal, updated in 2017

Exhibit 2.7: LVMH revenues split by segments

In million euros	2008	2009	2010	2011	2012	2013	2014	2015	2016
Wines & Spirits	3.126	2.740	3.261	3.524	4.137	4.187	3.973	4.603	4.835
Fashion & Leather Goods	6.010	6.302	7.581	8.712	9.926	9.882	10.828	12.369	12.775
Perfumes & Cosmetics	2.868	2.741	3.076	3.195	3.613	3.717	4.006	4.671	4.953
Watches & Jewellery	879	764	985	1.949	2.836	2.784	2.782	3.308	3.468
Selective Retailing	4.376	4.533	5.378	6.436	7.879	8.938	9.520	11.193	11.973
Other Activities and eliminations	(66)	(27)	39	(157)	(288)	(359)	(471)	(480)	(404)
Total	17.193	17.053	20.320	23.659	28.103	29.149	30.638	35.664	37.600

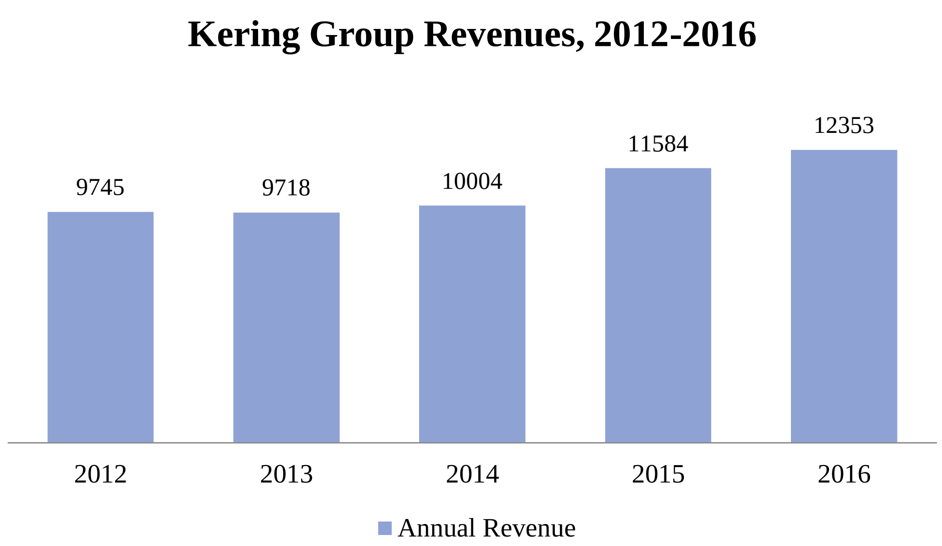
Source: re-elaboration of data collected LVMH's Annual Reports

Exhibit 2.8: LVMH revenues split by region, 2008-2016

In million euros	2008	2009	2010	2011	2012	2013	2014	2015	2016
France	2.646	2.478	2.725	2.866	3.083	3.206	3.212	3.552	3.745
Europe (except France)	4.095	3.664	4.236	4.797	5.397	5.538	5.830	6.408	6.825
United States	3.825	3.840	4.611	5.237	6.377	6.704	7.262	9.345	10.004
Japan	1.779	1.683	1.784	1.970	2.351	2.040	2.107	2.487	2.696
Asia (except Japan)	3.404	3.850	4.991	6.430	7.876	8.745	8.740	9.636	9.922
Others	1.444	1.538	1.973	2.359	3.019	2.915	3.487	4.236	4.408
Total	17.193	17.053	20.320	23.659	28.103	29.149	30.638	35.664	37.600

Source: re-elaboration of data collected from Statista, The Statistic Portal, updated in 2017

Exhibit 2.9: Kering Group annual revenues in million euros, 2012-2016



Source: re-elaboration of data collected from Kering's Annual Reports

Exhibit 2.10: Kering Group revenues split by brands, 2012-2106

In million euros	2012	2013	2014	2015	2016
Gucci	3.369	3.561	3.497	3.898	4.378
Bottega Veneta	945	1.016	1.131	1.286	1.173
Saint Laurent	473	557	707	974	1.220
Other Luxury brands	1.156	1.337	1.424	1.708	1.698
Puma	3.271	3.002	2.990	3.403	3.642
Other Sports & Lifestyle brands	261	245	255	279	242
Total	9.475	9.718	10.004	11.548	12.353

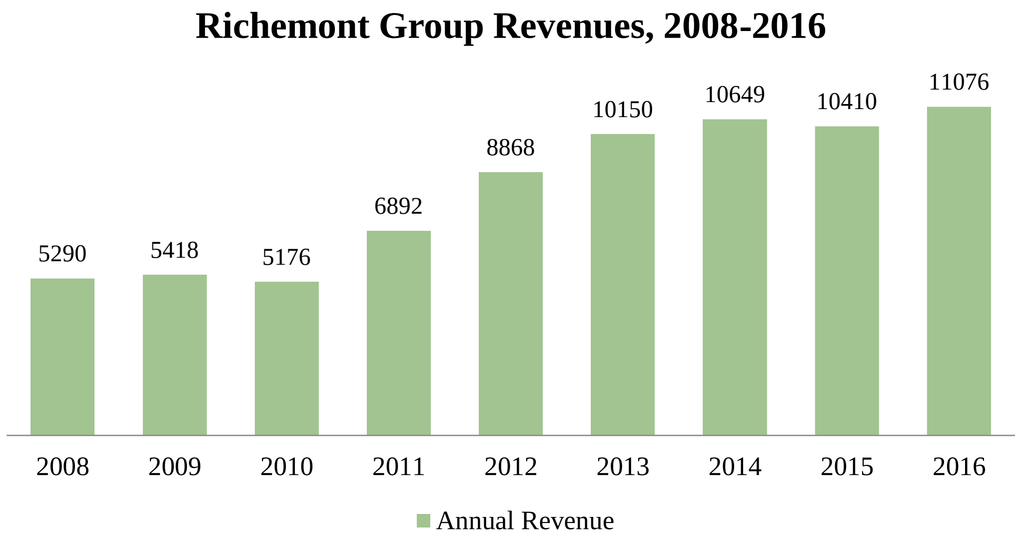
Source: re-elaboration of data collected from Statista, The Statistic Portal, updated in 2017

Exhibit 2.11: Kering Group revenues split by regions, 2012-2016

In million euros	2012	2013	2014	2015	2016
Western Europe	2.950	3.109	3.101	3.591	3.829
Asia-Pacific	2.447	2.428	2.601	3.012	3.212
North America	1.993	2.041	2.101	2.664	2.718
Japan	1.169	972	1.000	1.158	1.235
Other countries	1.185	1.168	1.200	1.158	1.359
Total	9.744	9.718	10.004	11.584	12.353

Source: re-elaboration of data collected from Statista, The Statistic Portal, updated in 2017

Exhibit 2.12: Richemont revenues in million euros, 2008-2016



Source: re-elaboration of data collected from Statista, The Statistic Portal, updated in 2017

Exhibit 2.13: Richemont revenues by segment, 2008-2016

In million euros	2008	2009	2010	2011	2012	2013	2014	2015	2016
Jewellery maisons	2.657	2.762	2.688	3.479	4.590	5.206	5.438	5.657	6.048
Specialist watchmakers	1.378	1.437	1.353	1.774	2.323	2.752	2.986	3.123	3.225
Montblanc maison	625	587	551	672	723	766	730	-	-
Other businesses	630	632	584	967	1.232	1.426	1.495	1.630	1.803
Total	5.290	5.418	5.176	6.892	8.868	10.150	10.649	10.410	11.076

Source: re-elaboration of data collected from Statista, The Statistic Portal, updated in 2017

Exhibit 2.14: Richemont revenues by geographic region, 2008-2016

In million euros	2008	2009	2010	2011	2012	2013	2014	2015	2016
Europe	2.284	2.363	2.099	2.588	3.097	3.611	3.919	3.067	3.388
Asia-Pacific	1.295	1.474	1.740	2.569	3.684	4.162	4.235	4.100	3.937
Americas	1.012	889	712	998	1.253	1.473	1.603	1.588	1.745
Japan	699	692	625	737	833	904	892	814	1.031
Middle East And Africa	-	-	-	-	-	-	-	841	975
Total	5.290	5.418	5.176	6.892	8.867	10.150	10.649	10.410	11.076

Source: re-elaboration of data collected from Statista, The Statistic Portal, updated in 2017

Exhibit 3.1: The luxury industry trend of deals compared to macro data

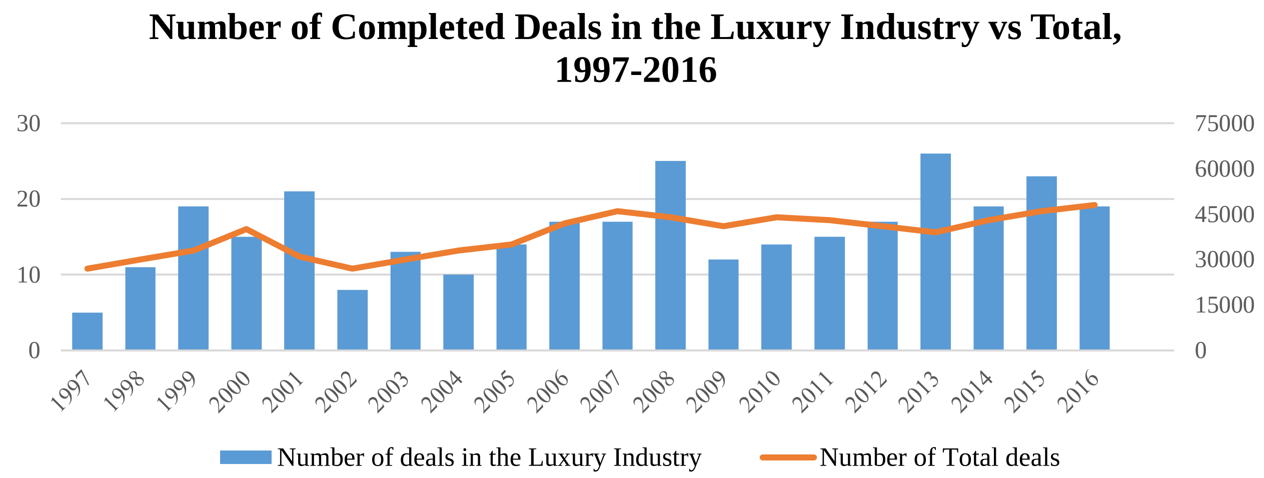


Exhibit 3.2: The first M&A wave in the sector

Exhibit 3.3: the last years of the analyzed period

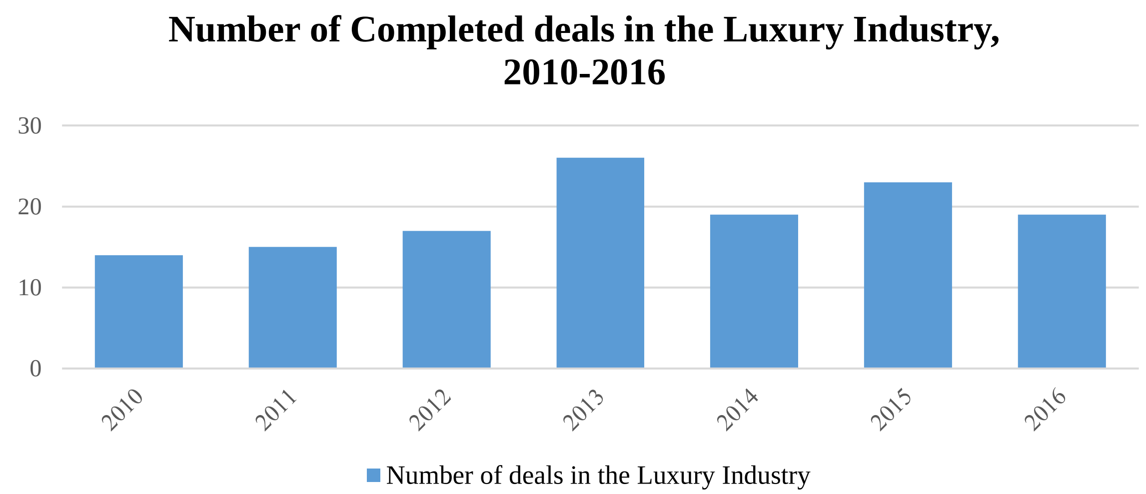


Exhibit 3.4: The KPMG Index between January 2001 and January 2009

Source: KPMG analysis of Bloomberg data: Morgan Stanley Composite Index (updated on 22/05/2009)

Exhibit 3.5: The main players of the sector

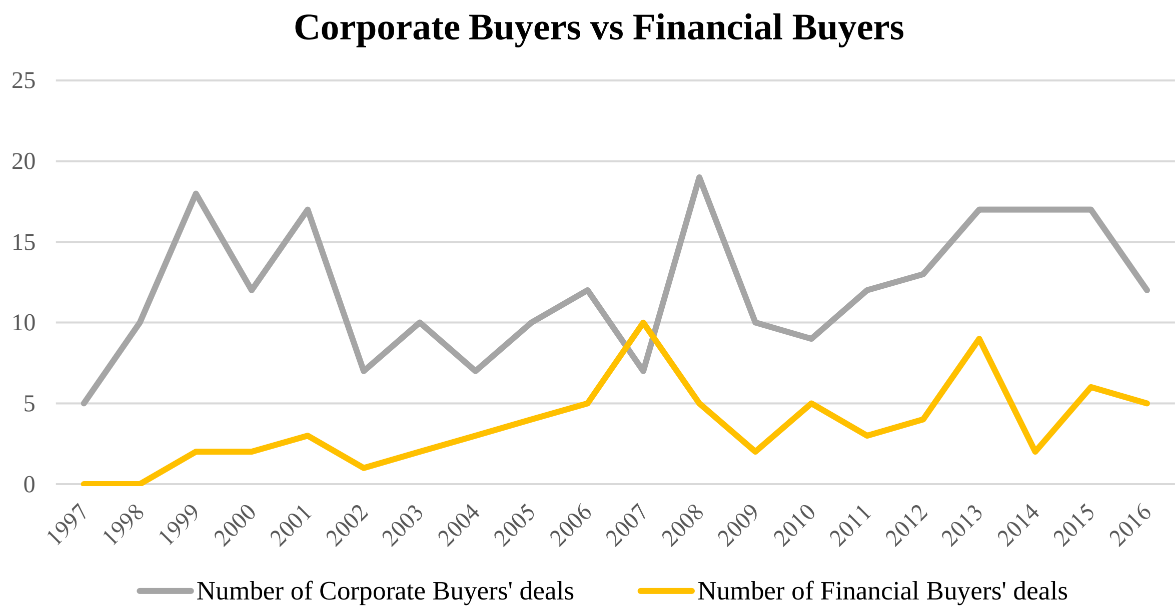


Exhibit 3.5: What is the net result of corporates' buying and selling activities?

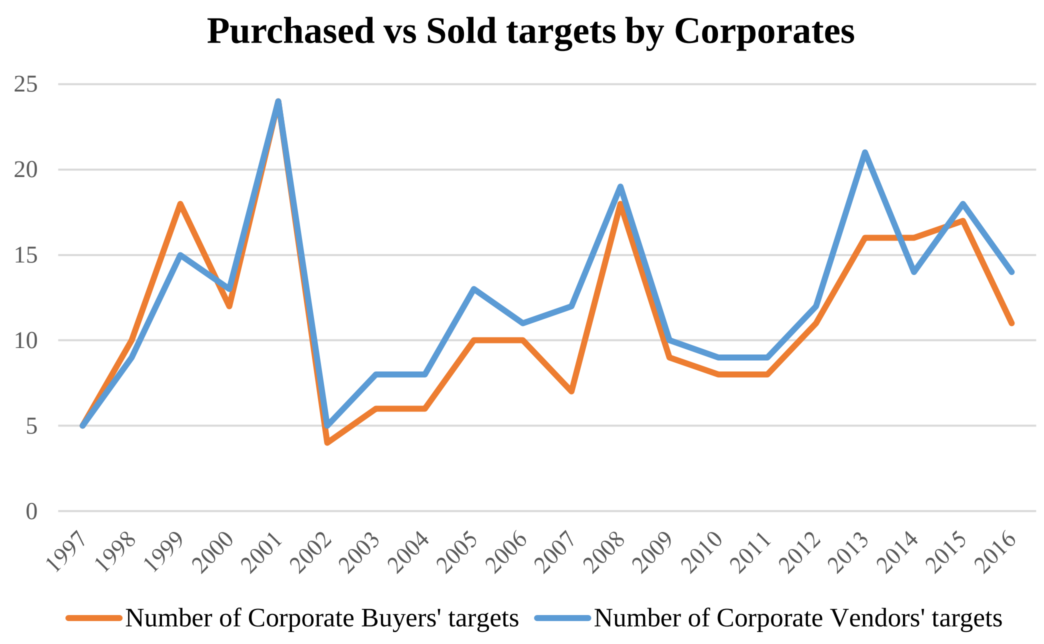


Exhibit 3.6: What is the net result of financials' buying and selling activities?

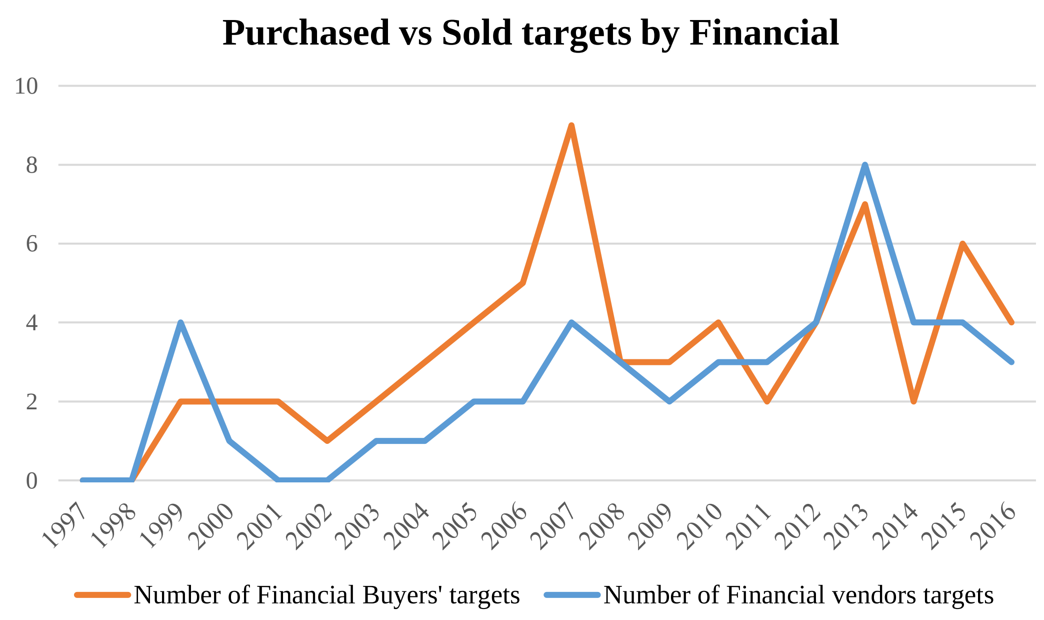


Exhibit 3.7: Who are corporate buyers?

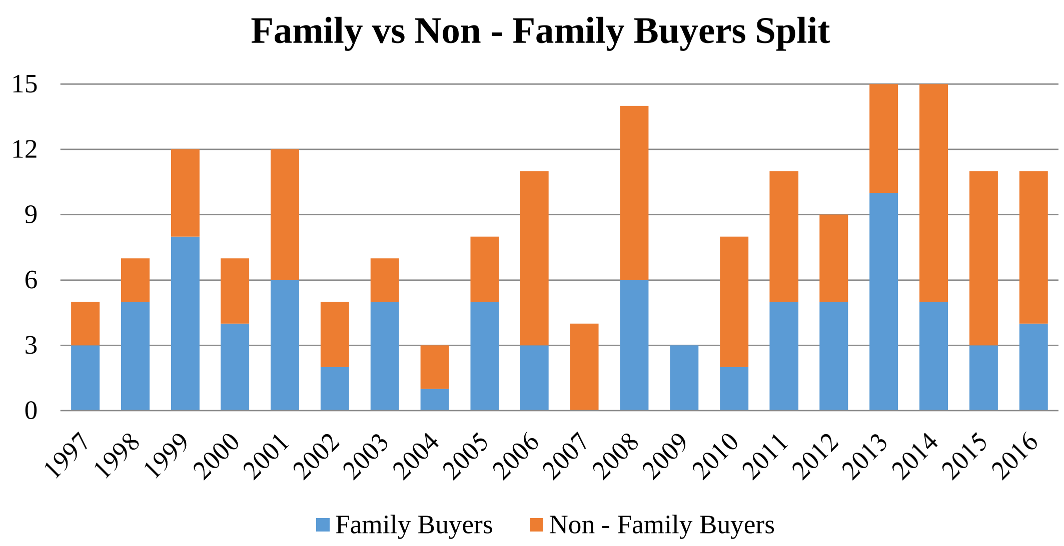


Exhibit 3.8: Who are corporate sellers?

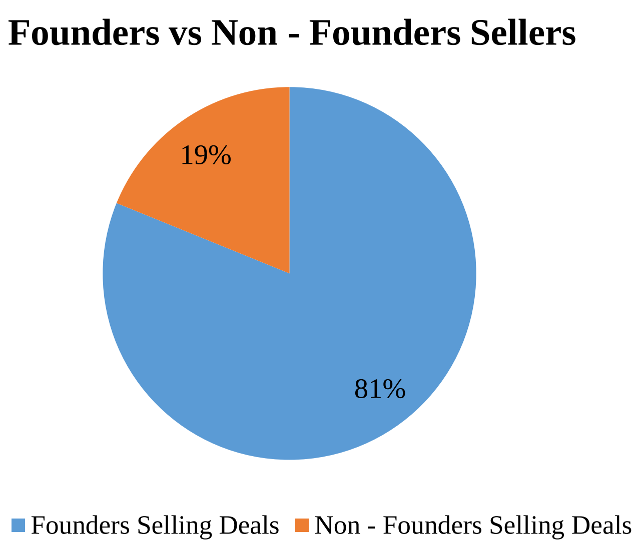


Exhibit 3.9: Who are financial buyers?

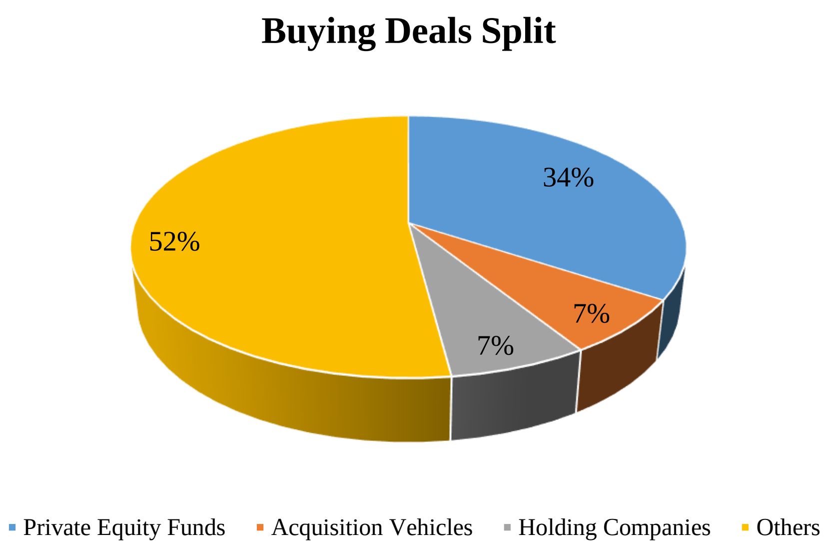


Exhibit 3.10: Who are financial sellers?

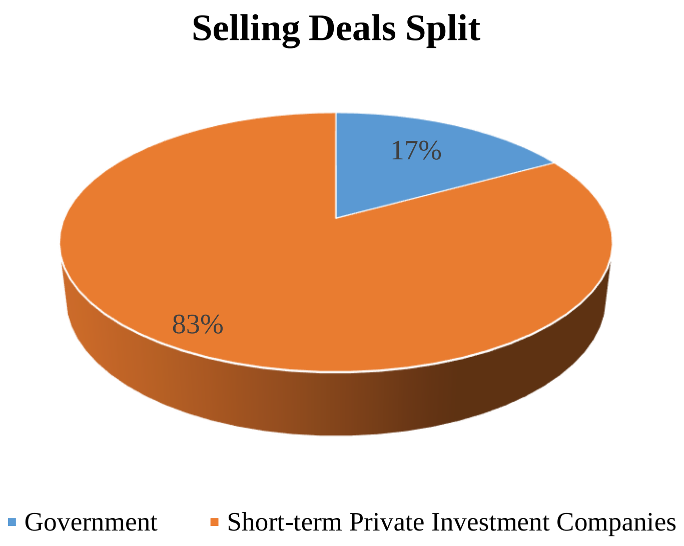


Exhibit 3.11: Details on Short-Term Private Investment firms sellers

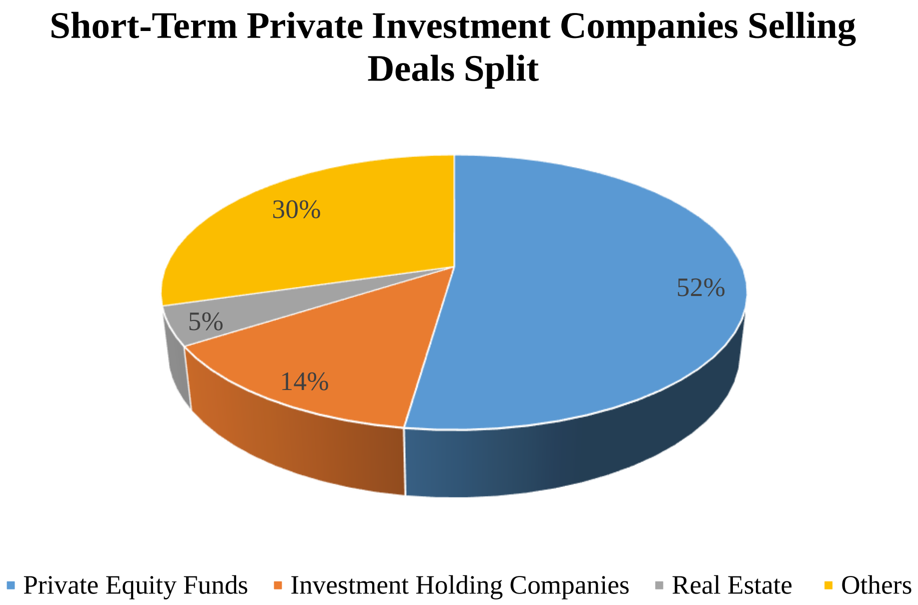


Exhibit 3.12: A focus on PE funds

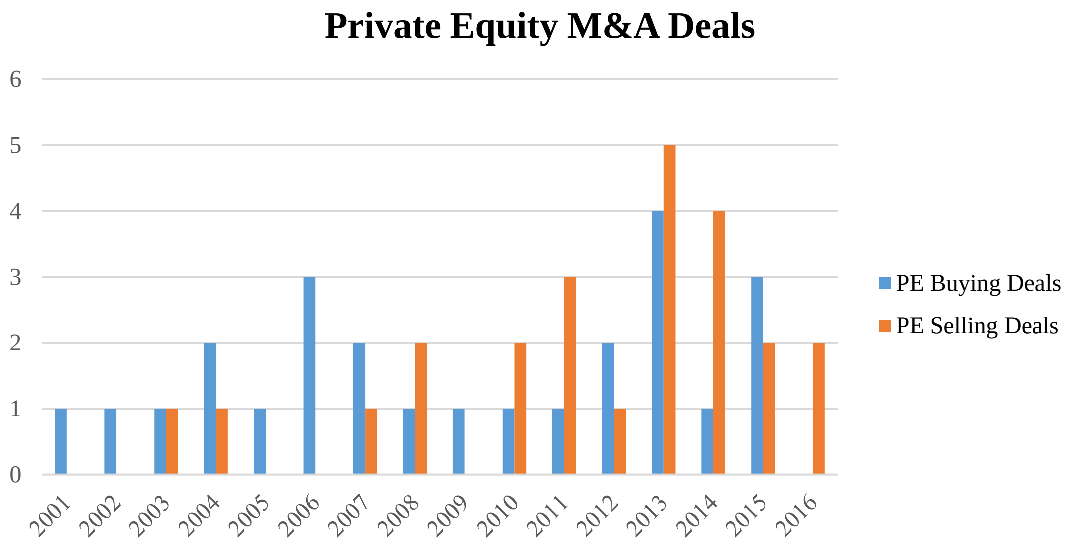


Exhibit 3.13: Where do buyers come from?

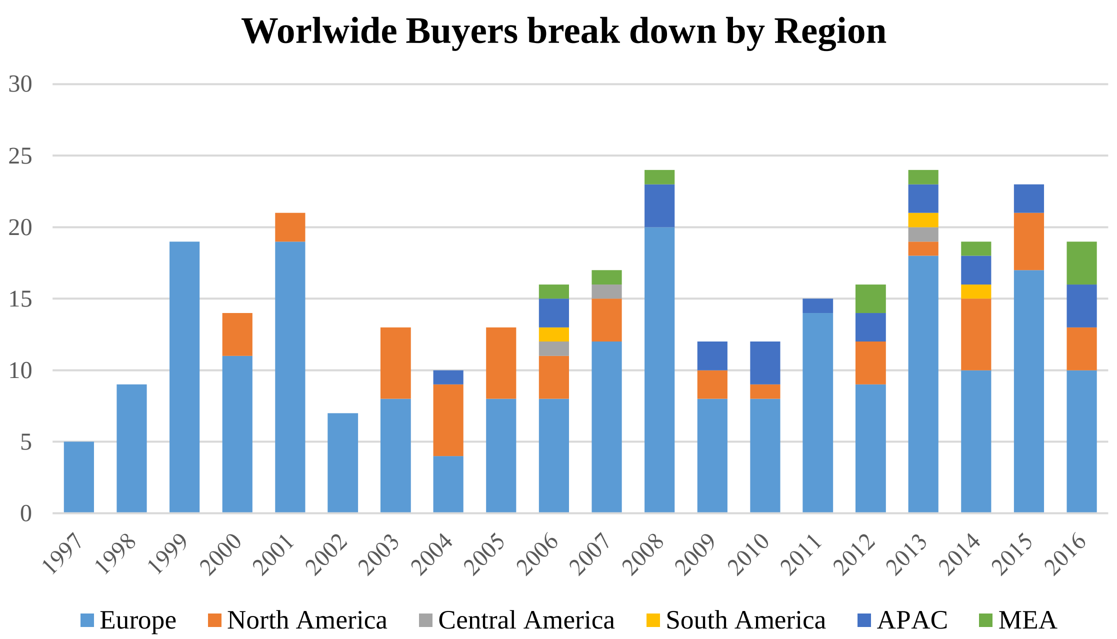


Exhibit 3.12: Where do sellers come from?

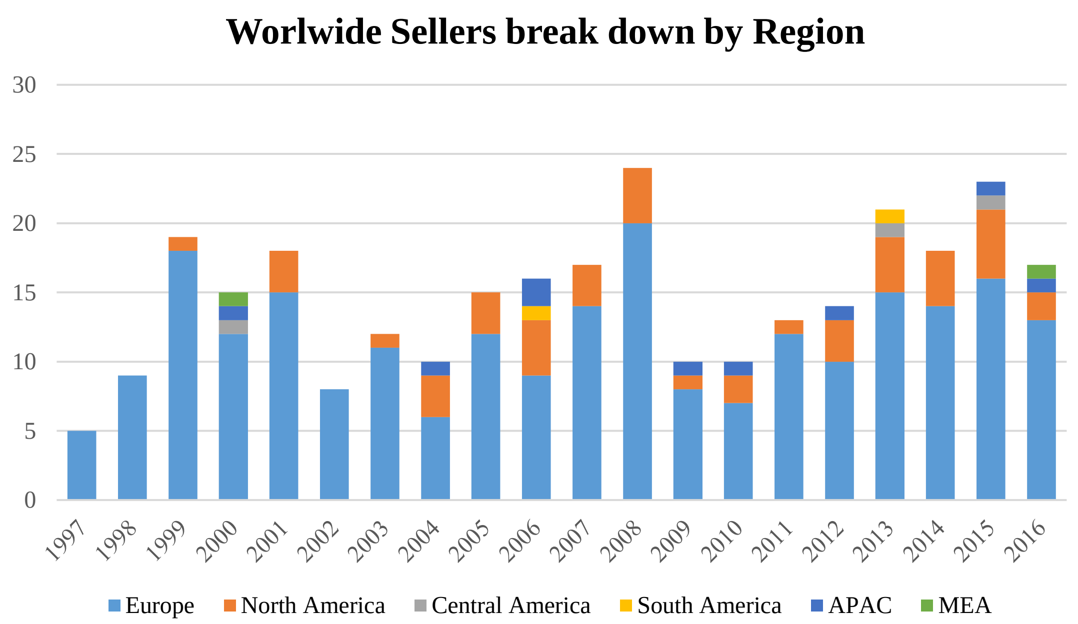


Exhibit 3.13: Where do targeted luxury companies come from?

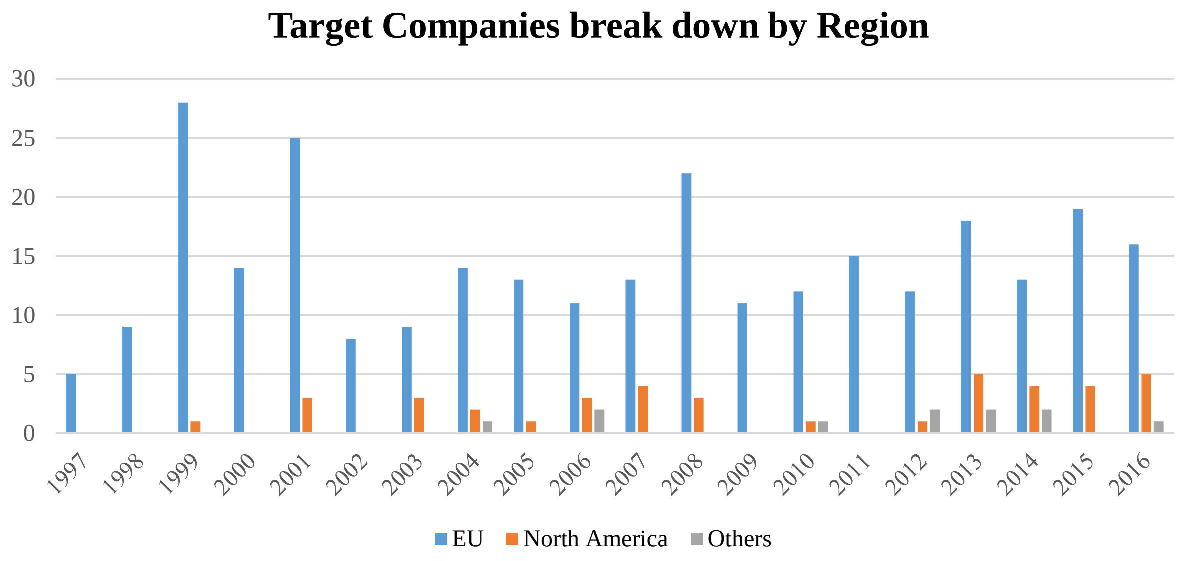


Exhibit 3.14

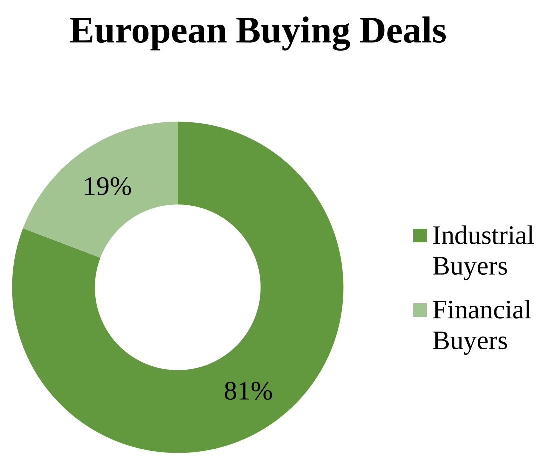


Exhibit 3.15

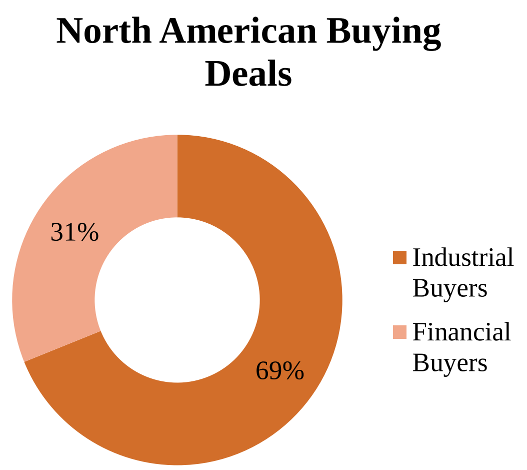


Exhibit 3.16

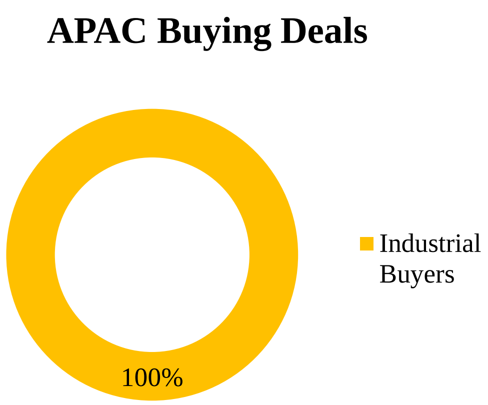


Exhibit 3.17

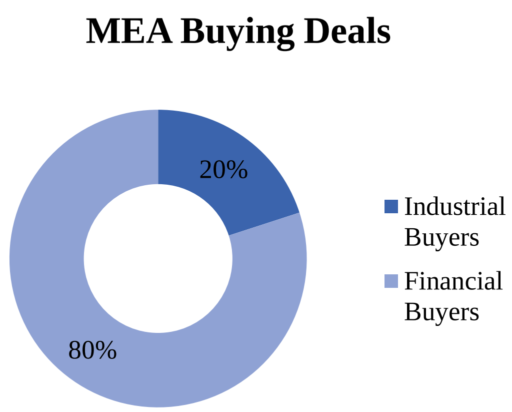


Exhibit 3.18: European main buying countries

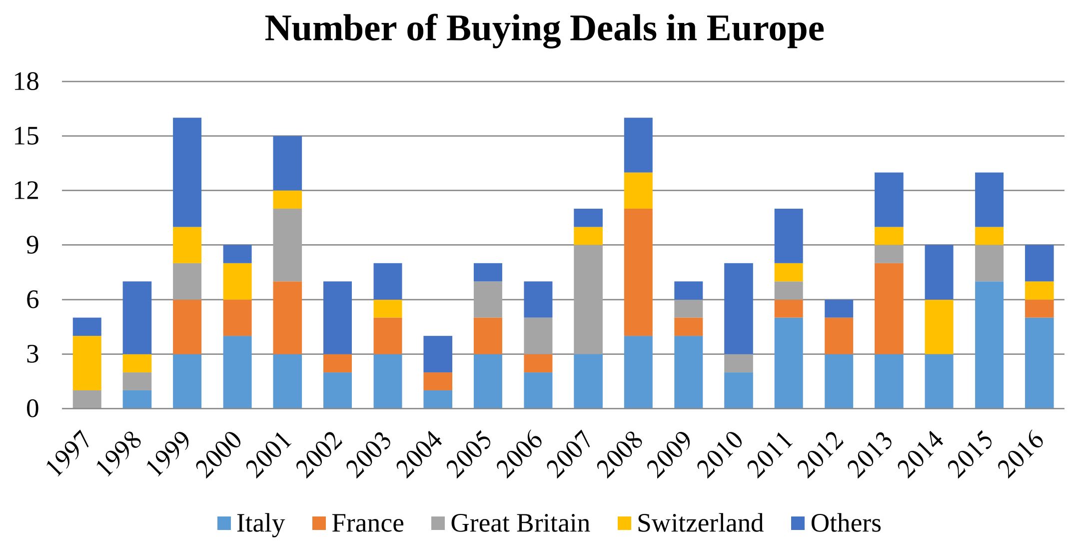
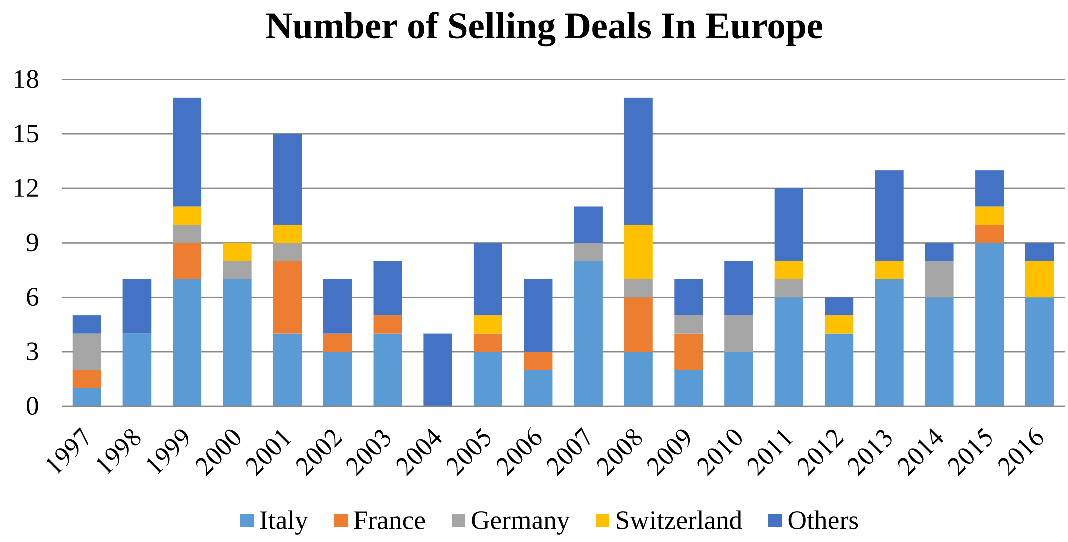


Exhibit 3.19: European main selling countries



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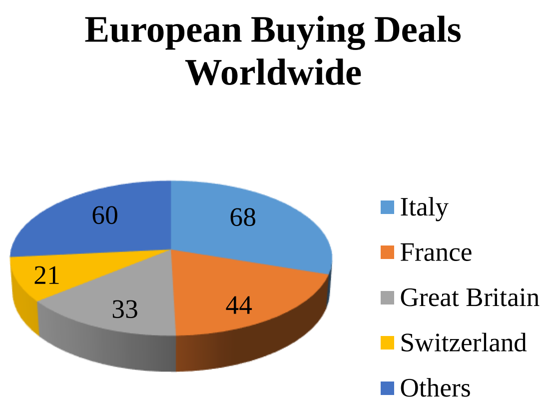


Exhibit 3.21

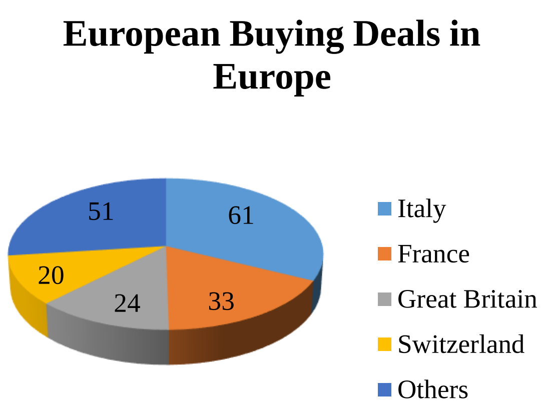


Exhibit 3.22

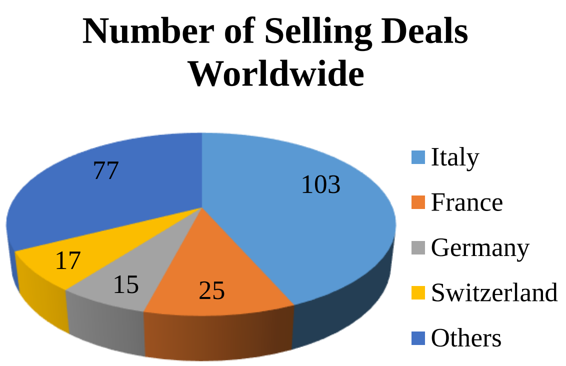


Exhibit 3.23

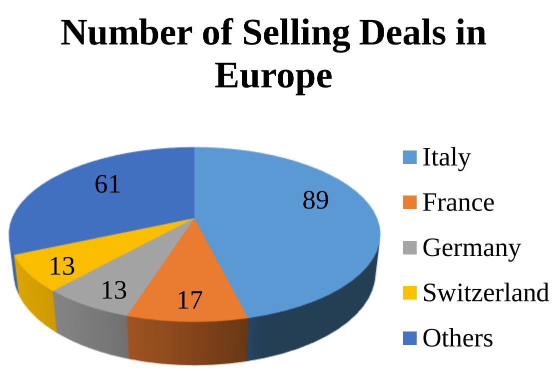


Exhibit 3.24: The split of the targeted European firms by year

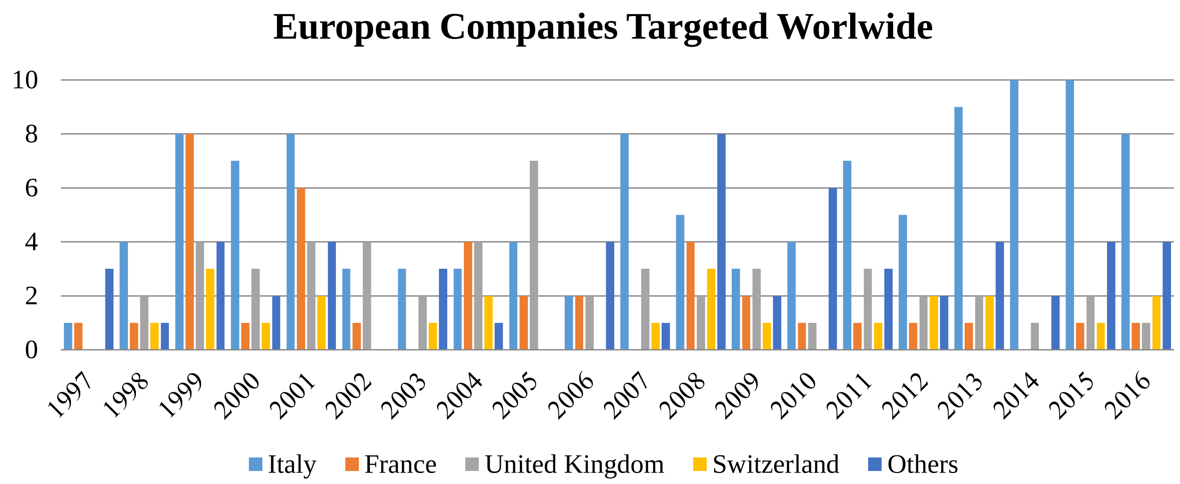


Exhibit 3.25

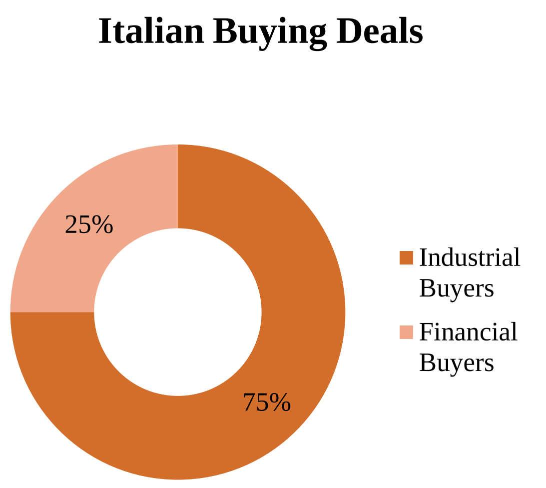


Exhibit 3.2

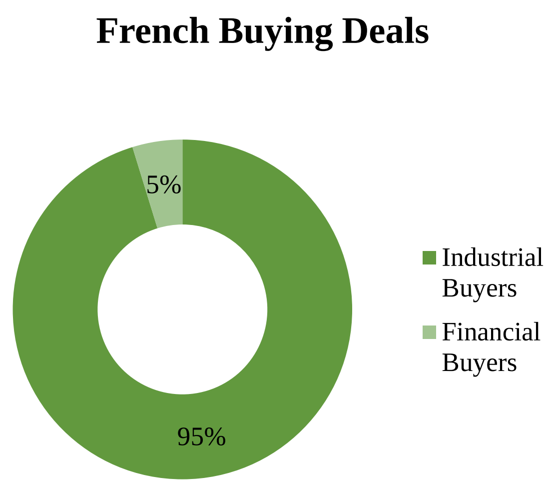


Exhibit 3.27

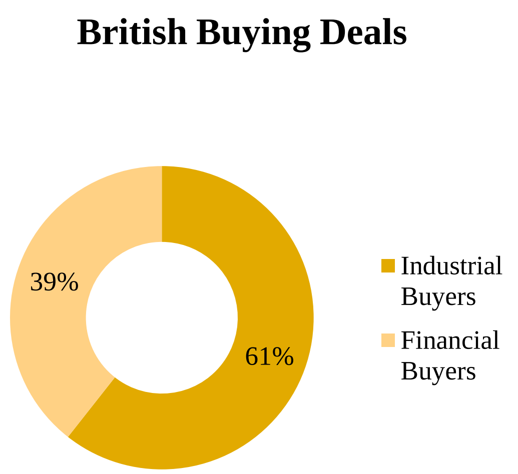


Exhibit 3.28

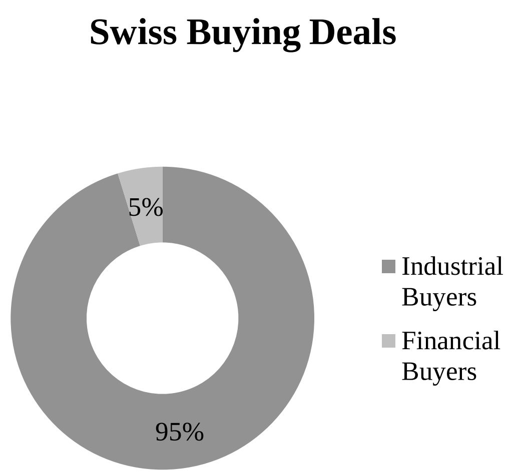


Exhibit 3.29: The merger waves split by segments

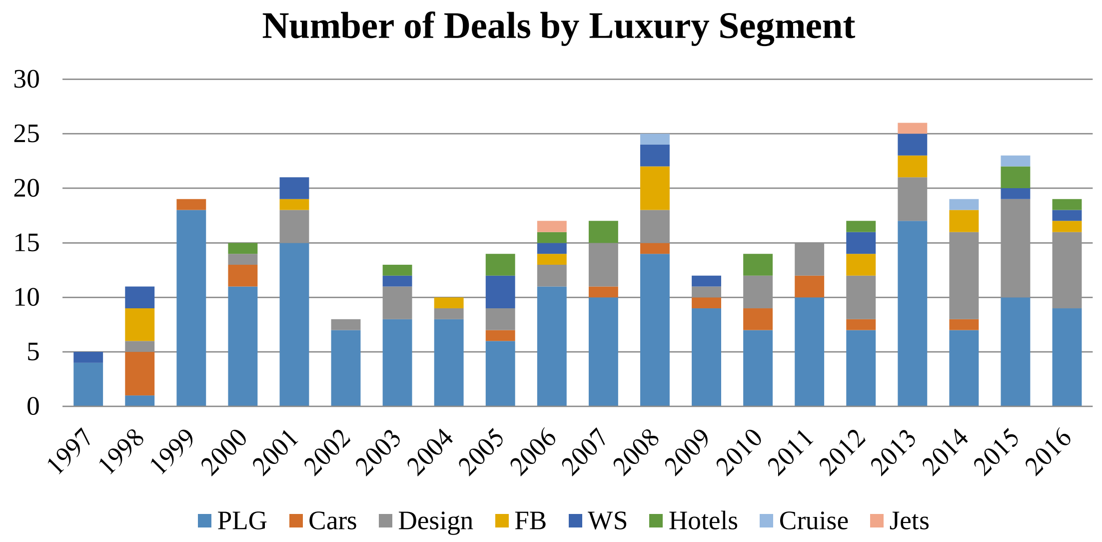


Exhibit 3.30: PLG's buyers

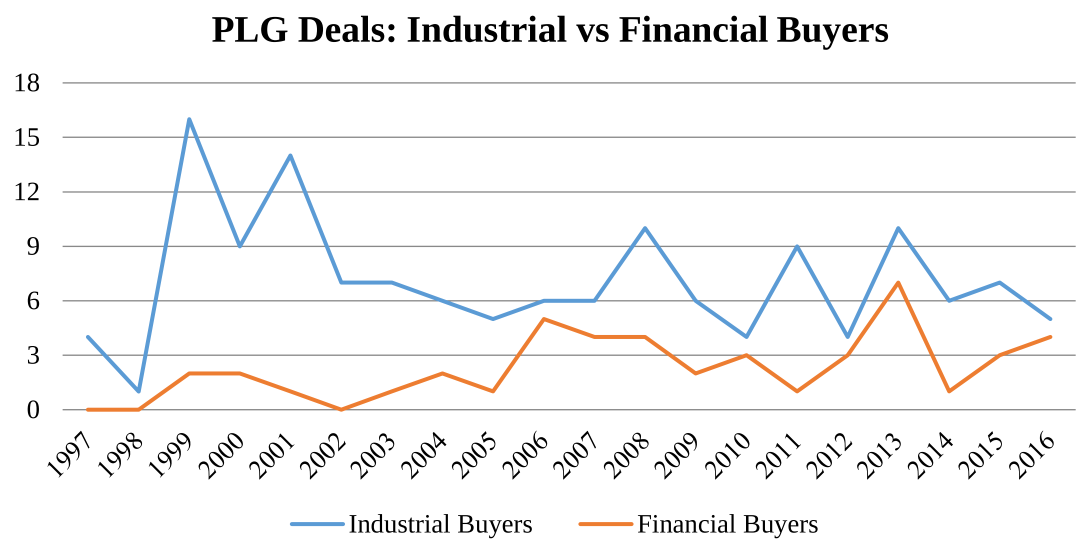


Exhibit 3.30: Design's Buyers

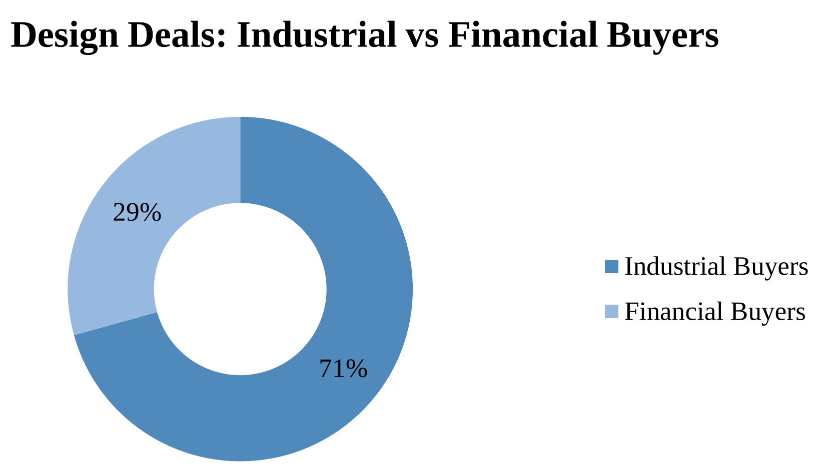


Exhibit 3.31: Hotel's Buyers

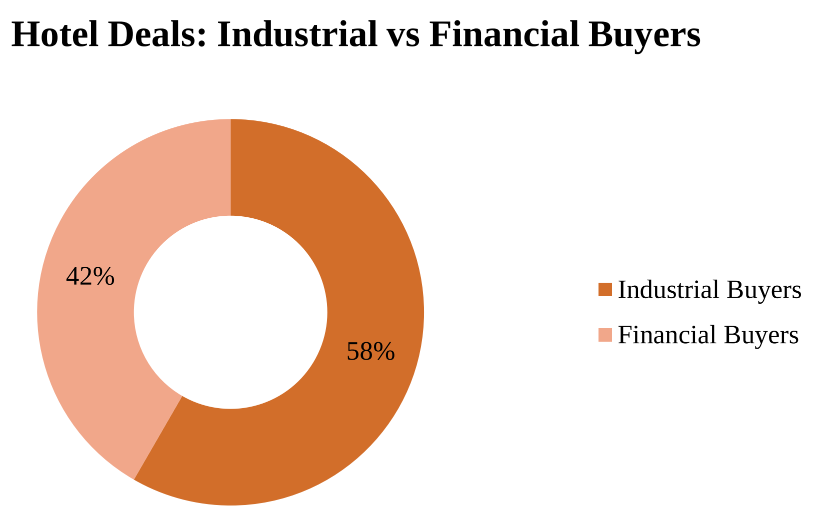
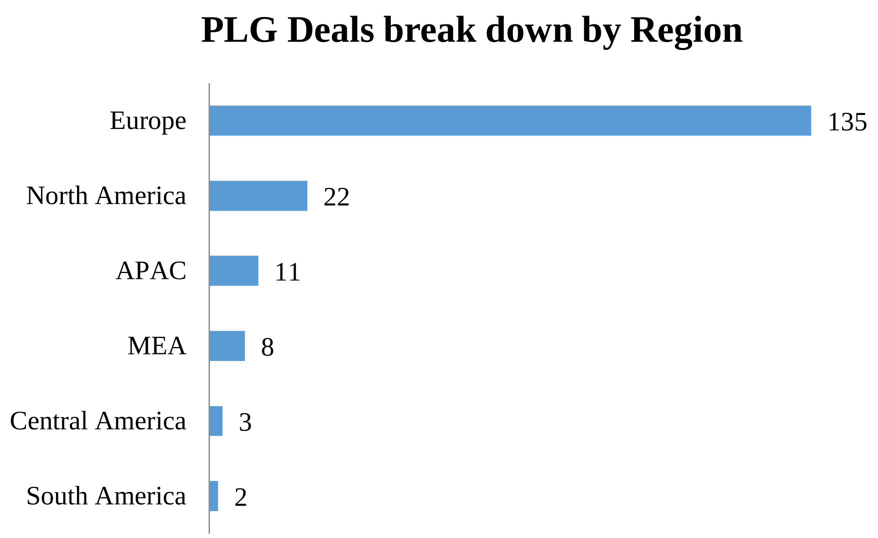


Exhibit 3.32: PLG's buyers main nationalities



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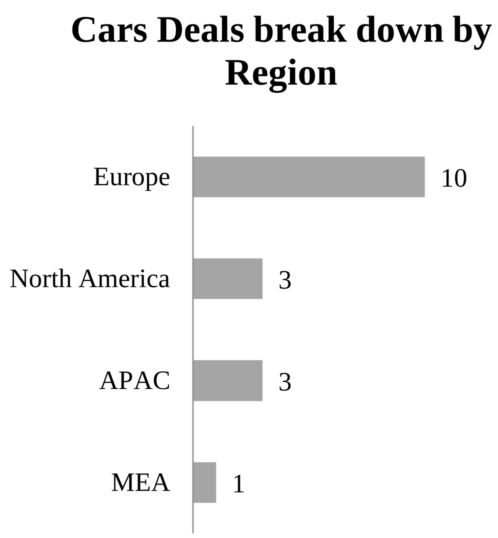

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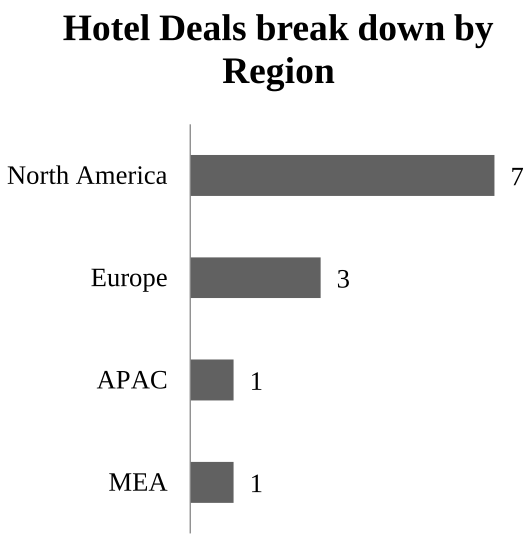

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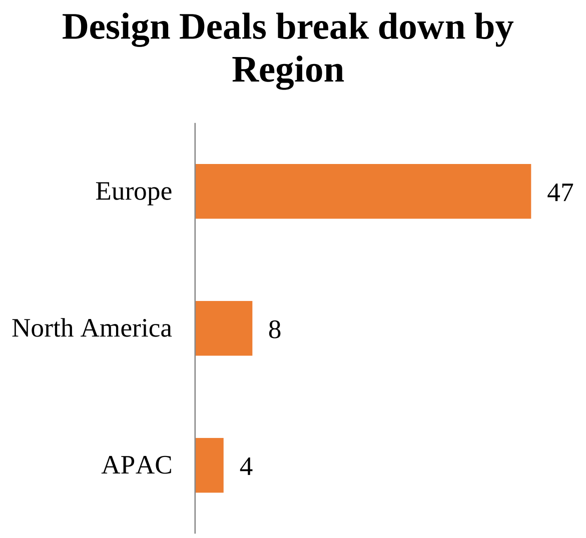

Exhibit 3.36

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Chair of Performance Measurement and Financial Reporting

The M&As in the Luxury Industry: a study of the phenomenon and of its main consequences on companies' ownership within the sector

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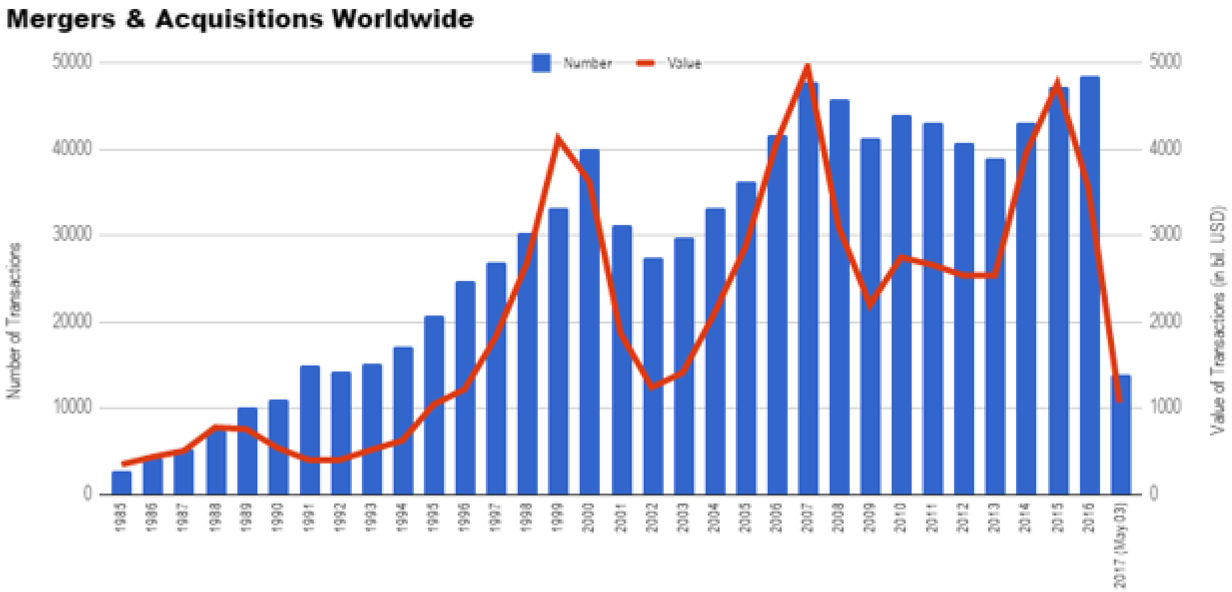
Summary

The first aim of this paper has been to deeply analyze and study the M&A phenomenon in the luxury industry. The reason and the interest on the latter lie on the strong differences and peculiarities that this sector has compared to the others and that have clearly influenced the M&A path over the years. The second objective comes from a recent trend highlighted by many researchers and according to which financial entities like Private Equity funds and Holdings have entered the sector in the last ten years, participating to the overall M&A activity of the considered industry. Based on this, another main point has been to understand to what extent this has happened so far and its consequences on the luxury companies' ownership structure. In the end, the thesis has provided a detailed explanation of M&As' evolution over the years in the luxury industry and a rich picture of its main M&A players and of the consequent luxury firms' shares ownership.

First of all, it has been crucial to clarify the meaning of transactions defined as *Mergers and Acquisitions*, among which we recall mergers, acquisitions, consolidations, tender offers, purchase of assets and management acquisitions, quite different one from the other but where at least two companies are involved in all the cases, as target and buyer. Furthermore, to have a general background of their evolution regardless of any specificity in terms of industry or country, it has been important to analyze M&As on a global scale in the first chapter, considering all the industries worldwide thanks to an ongoing research that has allowed to discover the path of M&As over time and in particular to identify the so called "merger waves" (probably the most accredited theory that explains the M&A movements over the last two centuries) and to understand why they have occurred, especially considering that they have begun in the United States and only after they spread worldwide and to Europe and Asia in particular. First of all, they have been defined as a clustering of M&A transactions begun in a certain year and growing till achieving the peak and then crashing, drawing the shape of a wave. Indeed, the reasons why they have happened are different, as in the first one, begun in 1895, the aim was the horizontal expansion that generated the first strong monopolies in industries like oil, food and intermediate goods manufacturing. In the second wave happened in the 1920s, companies moved to vertical integration in order to overcome the first regulatory limitations that the US government started to impose, arriving to the diversification strategy in the third wave (1960-1970), so the expansion towards unrelated businesses. After all these integrations, divestment became the new trend in the fourth wave in the 1980s, while geographic expansion

and cross-border deals were the main themes behind the fifth (1992-2000), the more regions like Europe and Asia took part to this phenomenon; finally, capability acquisition and innovation were the drivers of the sixth that has brought us to the XXI century and precisely occurred between 2003 and 2007.

Exhibit 1: From the fourth wave, M&A transactions in number and value



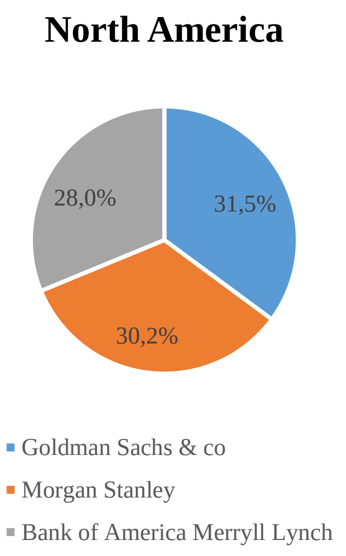
Source: Mergers and Acquisitions Statistics, *imaa institute database*

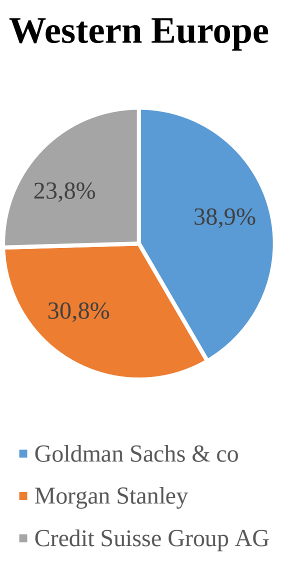
By considering all the regions in the most recent years, the graph shows some of the M&A waves starting from the fourth one in the 1980s, when it expanded towards the European Community gathering a strong growth over those years. This clustering becomes clearer moving to the fifth one, in the 90s, when it turned to be a truly global phenomenon, involving Asia above all, bringing both the number of deals and their value to grow so much in time, to reach the peak of around 45000 transactions worth $5 trillion in 2007, as well as in 2015-2016, when a new wave seems to have risen after the sub-prime crisis.

Where are we now? According to Cretin, Dieudonné and Bouacha, a seventh wave began in 2013 and we are in the middle of it now, so further research will be needed in the future to study it more deeply. So far, they have been able to prove its existence by creating an M&A index that can track and interpret the last four years' data, based on four variables (failure rate, improved bids, FED loan conditions and market capitalization) and their historical trends from the end of the XX century to the first twelve years of the XXI, proportionally weighted according to the degree of correlation of each variable to the actual M&A trend. What is sure is that financial investors and private equity funds have the lion part in keeping the M&A

phenomenon alive in these last years, especially companies like Goldman Sachs and Morgan Stanley, that have registered the largest share of activity in the three most active regions in the world in 2016, namely North America, Western Europe and Asia Pacific (from a value standpoint in 2016 each region weighted 44%, 22% and 26%), as shown by the three charts below.

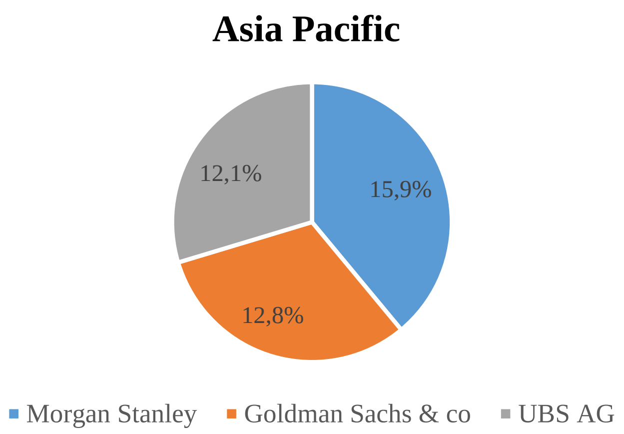
Exhibits 2 and 3: North America and Western Europe main players





Source: re-elaboration of data collected from M&A MARKET REVIEW FINANCIAL RANKINGS, *Bloomberg, 2016*

Exhibits 4: Asia Pacific main players



Source: re-elaboration of data collected from M&A MARKET REVIEW FINANCIAL RANKINGS, *Bloomberg, 2016*

One important point to highlight is that these three financial entities' weight accounts in total for almost 90% of total deals value in North America and Western Europe, while it is more diluted in Asia Pacific where it is around 40%.

The most involved industries in M&A activities in 2016 were Financial with 19.1%, Consumer Non-Cyclical industries with 15.6% (producing goods and services consumers cannot live without, no matter what the economic situation is), Communications (11.4%) and Consumer Cyclical industries with 9.9% (of which the luxury sector is part).

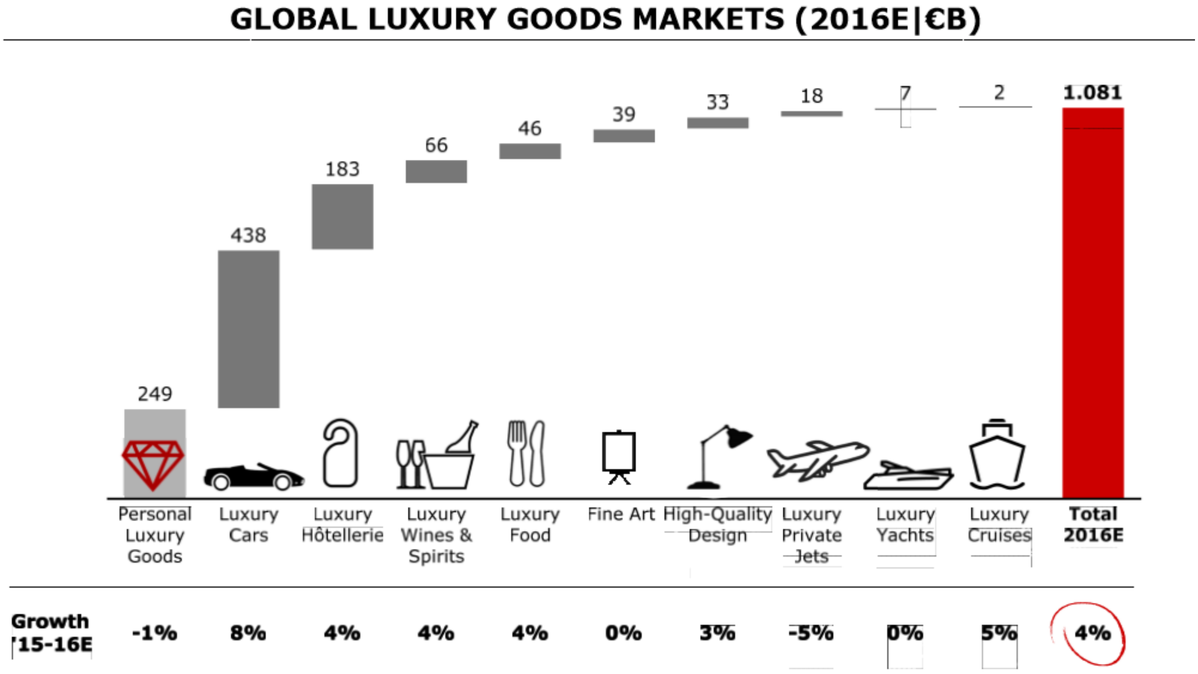
To conclude the first part, it was important to understand and explain what actually lies behind all this M&A movement, no matter the chosen strategy (vertical/horizontal integration, diversification and so on) and the preferred kind of transaction (merger, acquisition, tender offer and so on). In fact, companies seek to create value through these deals and according to Bruner (2004), the following identity is valid:

$$V_{\text{target}} = V_{\text{stand alone}} + V_{\text{synergies}} + \Delta_{\text{liquidity and control}}$$

It gives the overall transaction value to be compared to the actual price and it comes from the target (the stand alone value), the synergies that the deal will create and the extent the target shares are liquid and controlling that can either positively or negatively influence the final result. To evaluate a company, corporate finance provides us with a large number of methods, like the discounted cash flows, the discounted earnings, the equity methods explored in the chapter. To assess the synergies' value, both in place and option ones in which they can be divided depending on whether they are concrete or just potential, the Black-Scholes option pricing model can be used. Finally, Pratt's Multiplicative Model can be implemented to estimate the value changes based on the degree of liquidity and control of the shares: clearly, the higher the degree of control the lower the value, the higher the degree of liquidity the larger the value and the opposite is also valid. After the assessment, if the final value is larger than the price of the transaction, value will be created for the buyer company, otherwise it will be destroyed (or else there could be neither value creation nor destruction at all if they are equal).

The second part's main focus has been on the luxury industry, to provide a detailed picture of the sector and of its main players. Concerning the first one, following Bain & Company's analysis, the industry can be split into ten segments: Personal Luxury Goods, Luxury Cars, Luxury Hospitality, Luxury Cruises, Designer Furniture, Fine Food, Fine Wines & Spirits, Yachts, Private Jets and Fine Art. The picture below shows their specific weight on total sales value in 2016.

Exhibit 5: The split of market share of each segment in 2016, reaching €1.081 trillion sales



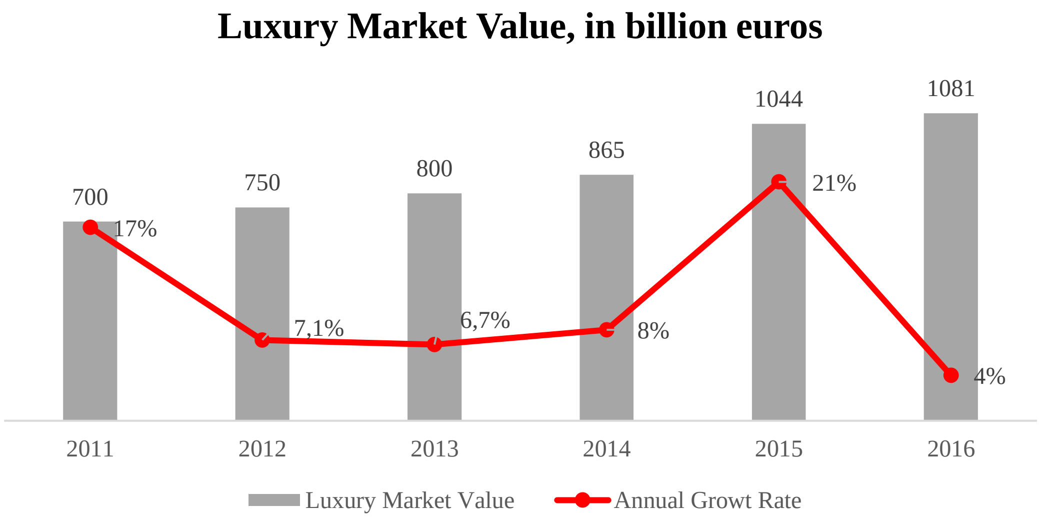
Source: Worldwide Luxury Market Monitor*, 2016, C. D'Arpizio, F. Levato, D. Zito, Bain & Company and Altagamma*

The largest segment in the very last years has been Luxury Cars whose sales in 2016 accounted for 40% of total sales growing by 8% from the previous year, followed by Personal Luxury Goods with 23%, signaling a breaking point with the past when the latter segment was the dominant one.

Another important result has been that both in-home (fine arts and designer furniture) and out-of-home (cruises, hospitality and restaurants) luxury experiences have acquired an always increasing role, compared to luxury goods and toys (yachts and private jets) in the last four years of the analyzed period. Moreover, differently from what it can be expected, luxury industry never-ending growth stopped between 2002 and 2003 because of the currency effect, of dollar and yen weakening compared to euro, then recovery began in 2004 till 2008 when the financial crisis exploded, hitting also this industry, where sales dropped. As illustrated by the table below, unlike other sectors, though, recovery was very fast and in fact sales increased by

17% between 2010 and 2011, without stopping growing (although at a more stable pace and more regular rate around 7%) and reached €1.081 trillion in 2016.

Exhibit 6: Sales Value never stops growing in this industry between 2011 and 2016



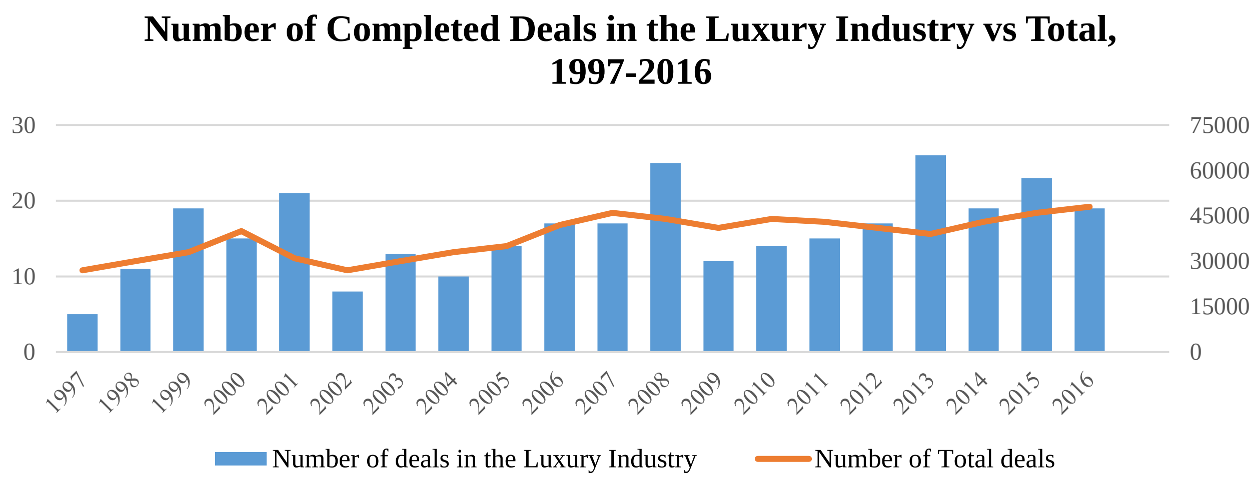
Source: re-elaboration of data collected from Bain & Company reports

After a general discussion on the industry's main figures and facts, it has been essential to focus on the main features that make this it so different from the others and according to Chevalier and Mezzalovo (2007), dimension, financial aspects and time frame are the most peculiar factors. Concerning dimension, they have shown that unlike other industries, in luxury, it is not the most important variable to compare companies or this industry with others, as brand awareness is, especially because almost all of them are small and medium enterprises, apart from a few big groups, defined as "holdings of individual small companies". Secondly, retail, wholesale and licenses can have very different weights in generating revenues in each luxury company, therefore results can be quite difficult to compare. About the financial aspect, given the high level of break-even point because of the high fixed costs, the large amount of liquidity they generate and the high margin each product has, when a luxury company becomes successful, it will be able to face years of losses without going bankrupted, merged or acquired, which is usually what happens in many other sectors and in a very short time. Third, time has a completely different interpretation in the luxury industry, because while other consumer-goods firms try to reduce it when launching a product (usually no longer than a year and six months to recover the investment), or to change the direction the firm has been following for years and they generally can see results quite immediately, luxury ones have longer periods to face, ranging between 18 and 24 months for the launch, around a year to recover and they have to make quite an effort to make to customers accept their changes, which also takes more time than the average.

In the end, before approaching the research case in chapter three, the analysis has moved to the industry's main players that nowadays can be divided into strategic and financial given the latter's recent entrance. Starting from the first ones, the focus has been on the three most important luxury holdings, LVMH, Kering and Richmont that have been ranked among the first six for their annual revenues within the luxury sector, but also they have been so far most active strategic M&A players. Indeed, these are the common traits they share, but there are also some differences concerning their main luxury segments of activities and geographic retail distribution. In fact, while LVMH embraces the largest number of segments with PLG, Wines & Spirits and Selective Retailing (with a particular focus on the latter and on Fashion and Leather Goods), Kering mainly works in Luxury and Lifestyle & Sports, mainly focused on Ready-to-Wear and Accessories that are strongly present in these two categories. Richemont, instead, (the only non-French entity, as it is Swiss) has purchased companies mainly working in the Watches & Jewelry segment, although there are Fashion brands as well, but they represent a very small part of the total. Concerning Retail distribution, while LVMH's and Richmont's most important market has become Asia-Pacific (excluding Japan) and also USA for the former while Europe has moved to the second/third place in the last five years, the latter still has registered the largest sales for Kering, while Asia-Pacific and North America occupy the second and third place. Concerning the second category of players, the industry has witnessed new entrants being financial firms and in particular PE funds and Holdings that were quite reluctant till fifteen years ago. The main reasons of this change according to some researchers, especially targeting PLG and Design firms, are to be found first of all in the very positive performance registered by these segments in terms of sales and new customers, especially Chinese. Secondly, these investors have understood the large potential that small niche brands can have and the high value they can create by giving them financial resources for their worldwide expansion, especially in Asia and Middle East. Therefore, they have become more patient by deciding to divest their investments after a longer period than three years, as they normally do, but also they have understood how to balance the creative and financial side by waiting for the right moment to come to invest in a luxury firm, that is when the designer-owner has become aware that the firm needs a radical change to keep living.

Having in mind the merger waves theory and the luxury industry's most peculiar traits, trends and players, it has become time to move to the third part of the paper, on the specific case of M&As in the luxury industry, developed thanks to a strictly confidential database, provided by my thesis supervisor of LUISS Guido Carli, together with the two platforms named Zephyr and Orbis, with all the information on deals, players' name, activity and nationality. The first topic discussed has been about merger waves and to what extent this theory is adequate to describe M&As in the luxury industry between 1997 and 2016, given that this sector has always had a peculiar growth path and quite different features from the other industries. The analysis has been based on the number of deals aimed at acquiring the majority stake or at increasing it and made between 1997 and 2016 with a sample of 320 transactions; it has not been possible to go much in detail from their value stand point as too many observations were missing. Results have demonstrated that this sector has had a per se M&A clustering over the considered years that heavily differs from the already analysed general trend, as shown below.

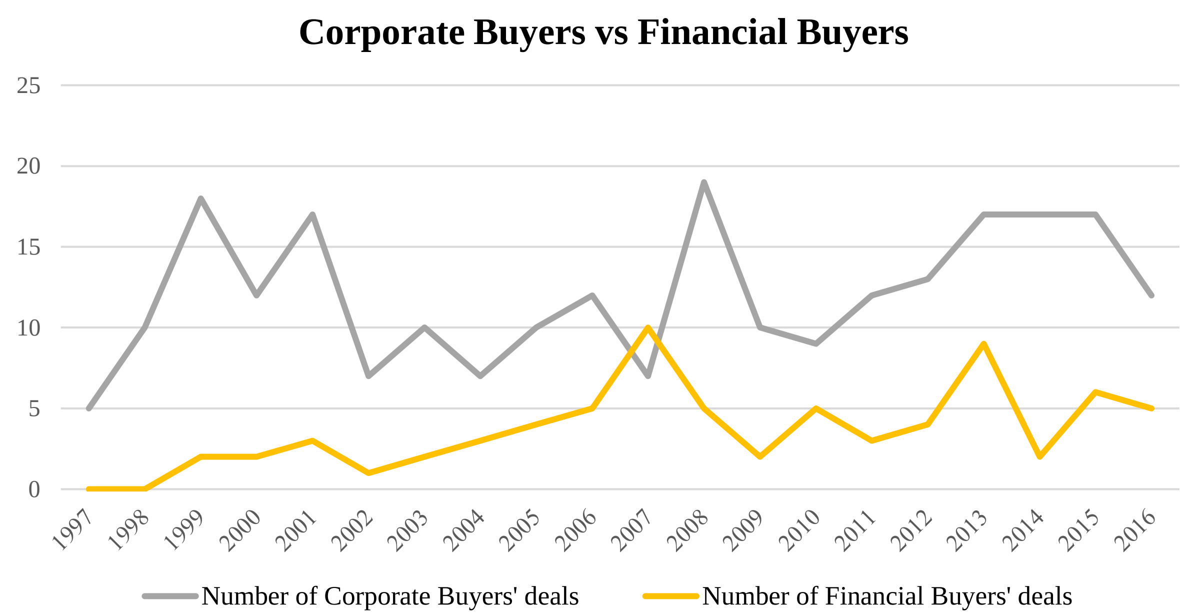
Exhibit 7: The luxury industry trend of deals compared to macro data



In fact, while the general trend has shown that the fifth wave was going on between 1992 and 2000, a flourishing period of M&A activity has been observed in the luxury industry, not at all shaping a wave and renamed by the author of this paper as "the groups' period" because of the abnormal activity registered especially in 1999 and 2001 by two French groups. Given that buyers have been observed to make from one to two deals on average yearly and that the two mentioned groups have made four in those two particular years, biasing the total trend of the first six years, a "missed wave" has been identified between 1997 and 2001, whose shape instead can be observed by excluding the abnormal observations. Moving on with the years, two waves have been observed between 2004 and 2008 and between 2010 and 2013, exactly when the most active players slowed down, with the first one more in line with the sixth wave occurred at a general level between 2003 and 2007. Finally, when the seventh wave has been discovered in the other industries, begun in 2013 and still going on according to the above-mentioned theory, the second luxury wave reached its peak before the end and an uncertain path has followed in the very last years of the analysed period, which highlights the strongest point of distinction between the two paths. For all these reasons it can be inferred that the M&A theory can be partially applied to this sector, as it has not always been valid, furthermore, it has been rarely aligned with the other sectors.

Moving to the investors' profile, the first examined distinction has been between corporate and financial firms to concretely observe the already anticipated recent trend that has seen so far the latter raising their share of activity and ownership in M&As in the luxury industry, particularly pursued by Private Equity funds, so it has been interesting to study the extent this trend has reached till 2016.

Exhibit 8: The main players of the sector

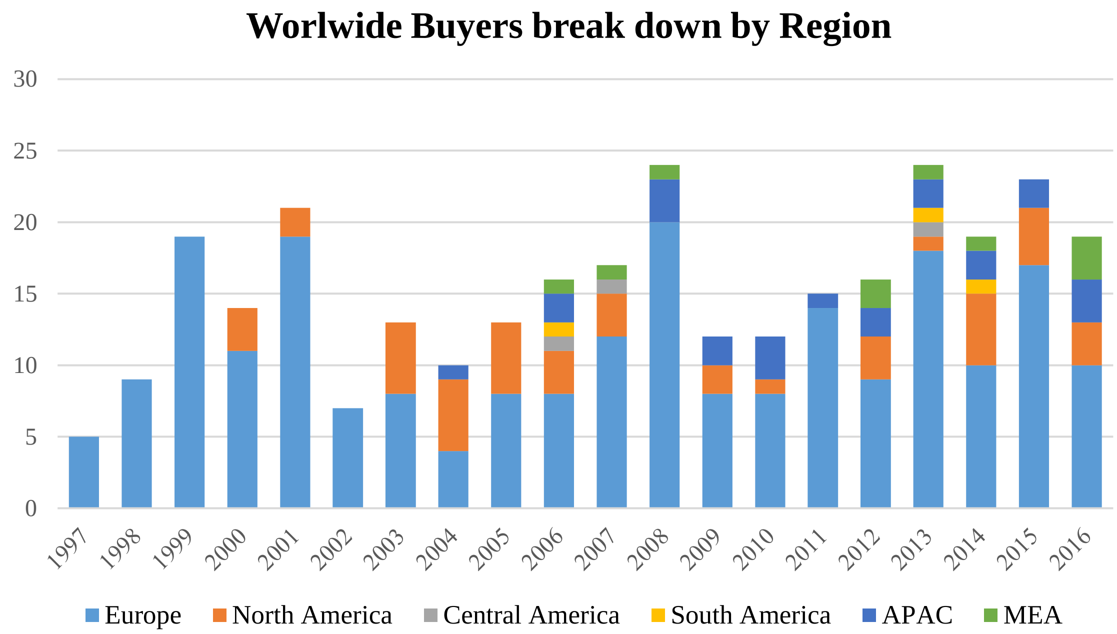


Given that corporate entities are still predominant in this industry but that in all the others financial hold the largest share of value of M&A transactions worldwide, a deep discussion has been developed, looking at the buying side. Results come out by confronting buying deals of both categories have shown that financial entities' activity has grown over the years, especially between 2003 and 2007 when the latter made more deals than industrial companies, with 10 against 7. Indeed, after 2007, the original gap between the two categories has increased again, with corporate dominating the industry, but it is as well certain that financial have augmented their presence compared to the beginning of the considered period, moving from 1 to 7 average deals per year. Going more in detail, the number of targets each year has been used to understand, consistently with the intensity of M&A activity of each of the two kinds of investors, where luxury companies' ownership is going, by confronting purchased and sold targets. The outcome has been that sellers are mainly industrial companies as well as buyers, so a great part of shareholders still belongs to the same category, as expected, but between 2003 and 2007 and in 2016 financial buyers' deals were much more than sellers' which means that a remarkable part of ownership has moved to these players along these years, confirming the trend that has been anticipated and answering the second of the two initial questions.

An analysis of investors' main features has been developed to better understand who they are; among corporate buyers, two categories have been identified: family and non-family entities. Results have shown that there is a strong presence of the latter against the formers with 93 versus 85 deals, although 60 observations have been missing, therefore they are not completely reliable and final. Concerning sellers, as it can be imagined, in 81% of the cases (which is a rough figure given that many observations have been excluded) they are companies' founders who decided to join groups or larger firms to face the new century challenges and issues like globalization or because of lack of capable heirs. As for financial entities, buyers are all Short-Term Private Investment companies and in 34% of the transactions they are Private Equity Funds (as already anticipated), followed by Acquisition Vehicles, Holding Companies, Venture Capital, Asset management companies and so on. On the selling side, not only there has been this category, but also another one (although with 17% of deals only) called Government, made of governments of two countries and generally defined Tribunals that sold bankrupted companies.

Moving to cross-border M&As, the analysis has been developed from a worldwide and a European point of view; starting from the first one, six regions have been identified: Europe, North, Central and South America, Asia Pacific (APAC) and Middle East and Africa (MEA). A general picture of buyers' continents has been provided right below, from 1997 to 2016.

Exhibit 9: Where do buyers come from?



Outcomes have illustrated that cross-border transactions are still a small part of total M&As, accounting for 19%, where Europe is the most active region on both the buying and the selling side, but also that European companies are the most targeted; after Europe there are North America, APAC, MEA and Central and South America, but the gap is quite large considering that Europe has made 224 buying deals and North America 45 in the whole period; since 2003 the latter's presence has become quite constant even if it is has always kept quite a small share compared to the former, whose weight is 73% of the total. Furthermore, deals between European players only are 190, accounting for 69% of total worldwide transactions, which means that although since 2006 a more international participation has been registered, M&As in the luxury industry are still quite a domestic phenomenon, not largely international yet. For these reasons, a focus on Europe has been developed, to understand the internal dynamics and whose weight of cross-border deals between European countries is 56%[73] of 190, (that is 106 versus 52 between different regions, so much more than at the international level) and where luxury companies are going. Results show that the most active country is Italy on both the buying and the selling side and also as targets, because Italian firms targeted have been 112. As sold targets are more than purchased ones with 66 purchases and 97 sales, given that they have targeted 47% of all the Italian companies, Italian targets are leaving Italy in most of the cases.

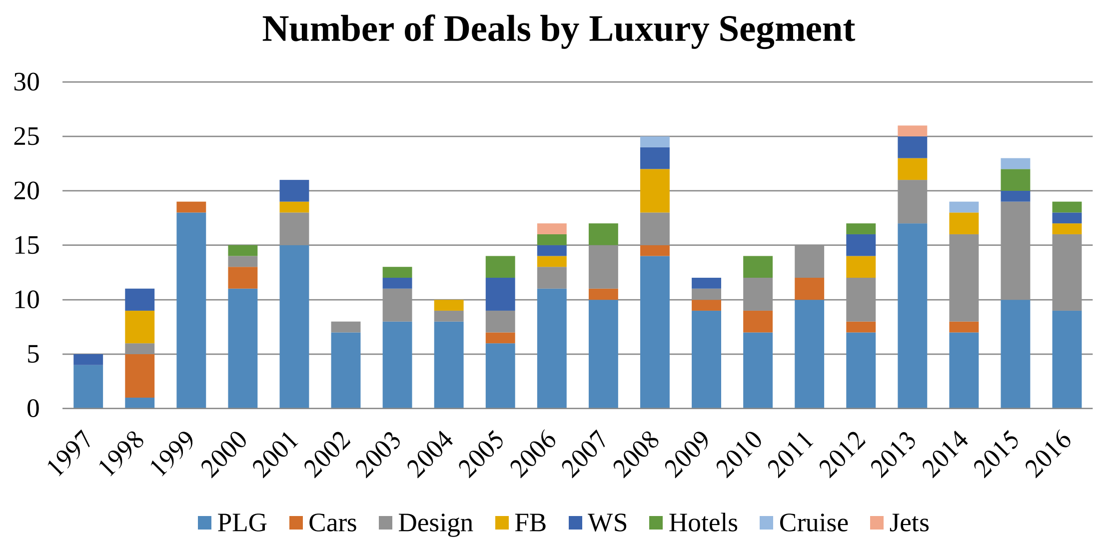
[73] While 190 includes all deals between European countries and also within the same, 56% is the percentage of deals between different European countries.

The second place goes to France in buying and selling and the third for buying is Great Britain, while the fourth is Switzerland and all of them represent the main European destinations for luxury targets, as their purchases are larger than sales. The second most targeted companies are British, than French and Swiss mainly, with 52, 28 and 23 in total.

By crossing nature of activity and nationality of buyers it has been discovered that Europe and North America follow the general trend of corporate entities buying more than financial (although in the second region the latter's weight is larger compared to industrial, than it is in Europe). Instead, APAC and MEA are in countertendency, the former because no financial player has participated to M&As in the luxury industry (at least according to available data, but two observations are missing), while the latter's main players are financial rather than industrial, with 80% of deals against 20%.

Finally, a deep analysis of luxury segments has been developed and they are: Personal Luxury Goods (PLG), Design, Cars, Hotels, Wines & Spirits, Food & Beverage, Cruise and Jets, whose M&A activity between 1997 and 2016 is shown below.

Exhibit 10: The merger waves split by segments



The first finding has been that, not surprisingly, PLG is the most active segment registering 189 buying deals, in fact, especially until 2008, the shape of its trend solely resembles the shape of the whole industry's. It is largely followed by Design with 60 and whose explosion mainly happened since 2012, while Wines & Spirits, Food & Beverage and Cars number of buying deals are slightly less than 20 and Cruises and Jets account for 3 and 2.

Focusing on investors' profile, all segments follow the main trend of corporate and financial players highlighted before, but it is important to specify that the gap between the two has strongly decreased since 2012 in PLG, while in Hotels, financial players' buying deals' weight is larger compared to corporate (42% versus 58%) than in other segments. Moreover, going against the general trend, family buyers in Personal Luxury Goods, Wines & Spirits and Cars have been more than non-family ones so far.

The last point is about buyers' nationality in each segment, identifying a different extent of variety, that is maximum in PLG where players belonging to all the six nationalities have invested, although the first one, Europe, has quite a large gap with the second, North America, with 135 versus 22 deals: all the most important players have invested in this segment more than in the others also in the other regions. The second place is occupied by Cars and Hotels, with buyers coming from four out the six considered regions, where an important point is worth to highlight: Europe is not the first buying region in Hotels, as North America is, with 7 and 3 deals respectively and it is certainly a rare case (apart from Cruises and Jets where Europe has not made any deal at all). Furthermore, Design and Food & Beverage buyers come from three regions (Europe, North America, APAC) and finally Wines & Spirits, Cruises and Jets players come from no more than 2.

Finally, it can be inferred that data have confirmed what anticipated at the beginning: luxury industry's peculiarities and main strategic players have contributed to alter the M&A cycle in the considered range of years, but without rejecting the merger waves theory and secondly, although strategic buyers are still dominant in the sector, financial ones have indeed played an important role in the last ten years gaining quite a remarkable presence. Yet, international players have quite a marginal role, as luxury M&As are still a more European phenomenon, but things may change in the future, by looking at the last almost twenty years evolution, where the sector has moved from a more strategic and family field to non-family and financial entities.