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M&A in the Luxury indutry: a growing pattern

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ABSTRACT:

This dissertation examines the value repercussions of mergers and acquisitions occurred worldwide within the luxury industry over the last 10 years. The luxury sector comprises few companies dispersed over many different corners of the world that operate internationally.
Part I of the elaborate focuses on an empirical analysis of the M&A trend. Over the last ten years nearly 150 transactions took place and this paper aims at analysing the value and the effects generated through them. In particular, the LVMH group materially shows the tendency of conglomeration that the luxury industry has been experiencing and many of the positive consequences it has brought. Results show a significant correlation between strategic and financial benefits related to the M&A operations as concerning stock performance and considerable increase in value for shareholders, which will be disentangled in part II.
Recently, the Group lead by Bernard Arnault completed the acquisition of Tiffany and Co., one of the few brands that survived by itself until now. As a formidable example of the on-going trend, I will interview Alessandro Bogliolo, Tiffany's former Chief Executive Director as part III of the dissertation.
Further, I will question the resilience of the brand identity after the acquisition processes starting from the projects of Arnault on Tiffany's itself. In this part I will also go deep in the technicalities of this operation.
Finally, in the last part I will search the reasons and the characteristics of those firms, operating in the luxury sector, which managed to maintain their independence.

SUMMARY

INTRODUCTION

"Luxury is a necessity that begins where necessity ends."

This quote by the fashion icon Coco Chanel seems the most suitable to introduce a paper that presents the analysis of one of the major trends the luxury market. The products of the luxury industry are necessary not because they are useful for our survival, but because, like other products, they are able to satisfy the need to make whoever owns them feel special. Luxury goods have always been seen as a means of transposing the user into a world of dreams, free from reality, even in situations of economic and social crisis such as the current one. If this vision of the luxury market seems, on one hand, shareable, on the other hand, it is undeniable that companies operating in this market have had to face an ever-increasing competition and, in the last few years, protect themselves from the possible effects that the global crisis could have had on their activity. In the light of these considerations, it would be misleading, today, to continue to look at luxury and, in particular, at the products of the fashion system as something detached from reality or as a way out of it. If the luxury industry is made of clothes, jewels and unique objects, this does not exclude that it is not made of economy, finance, logics and market strategies used by those who want to continue to be part of it. Mergers and acquisitions is the strategic decision companies pursue to gain both tangible and intangible benefits.[1] According to Thomson Reuters (2017) [2] , in 2017 they were signed more than 50,000 M&A agreements, accounting for over US$ 3.5 trillion. M&A has also been a popular growth strategy in the luxury market, and it is recently becoming more popular.[3] Although lately the number of M&As in the luxury market experienced a sharp increase, there are not many studies concerning this trend. As a matter of fact, much of the available literature focuses on the brands' effects on M&As rather than on the opposite. However, this kind of transactions influences the image of both brands taking part in it, which is truly a key factor in the luxury sector, where brand image is what mainly drives

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[1] H. Lee, C. Lee, C. & C. Wu, *Brand image strategy affects brand equity after M&A*, European Journal of Marketing, Vol. 45 No. 7/8, pp. 1091-1111. https://doi.org/10.1108/03090561111137624 (2011)
[2] Thomson Reuters, Mergers and acquisitions review, https://www. thomsonreuters.co.jp.
[3] L. Solca (2015), *LVMH vs Kering: Which Player is Best Positioned for Growth,* https://www.businessoffashion.com/articles/professional/LVMH-VS-KERING.

consumption choices for customers.[4] The usual benefits derived from M&As will not apply for luxury brands: increased market share will result in the dilution of perceived symbolic and hedonic value.[5] This paper aims to analyze and explain the "hybrid" strategy carried out by one of the most famous and renowned brands in the world in the luxury market, LVMH. This group, in fact, originally started with a small leather goods store under the simpler brand Louis Vuitton. Later in its history it has succeeded, through strategies and shrewd moves, to impose itself in the market of reference and to is now one of the "poles of luxury".[6] The route described shows the history of a brand that, in order to guarantee stability and exponential growth in times of crisis did not focus on the development of products, design or elements that have always been considered as relevant in the luxury sector but on financial strategies (and in particular on M&A operations) that have enabled it to increase the company's resources. This consideration introduces the second objective of this paper, that is, that of proving how today in competitive sectors such as luxury, it is necessary to focus on instruments and financial operations, previously underestimated, which are able to guarantee a stable and at the same time fast growth. The operations of M&A in this sense represent, nowadays, a fundamental resource for companies, and this text will attempt to demonstrate how, despite the inherent risks, the main consequence of an acquisition or a merger is to increase the value of the company.[7]

The thesis is divided into three chapters in which the following are analyzed respectively: theories relating to M&A operations, the trend of the fashion sector and the case of the LV Group with a focus on the Tiffany & Co. acquisition that was carried out this year.

The first chapter considers M&A operations in their multiple and diverse aspects, attempting to analyze the motivations which push companies from every sector to use them more frequently, going so far as to consider these operations of "extraordinary finance" as increasingly ordinary in these times. The main aim of the first part is to understand whether M&A operations should be considered as a risk by the companies that want to carry them out or as a resource and an opportunity regardless of the sector considered.

In the second chapter, the attention has been turned to the specific characteristics of the reference market, the luxury one, trying to offer an overview of the main competitors and the specific causes which induce companies operating in it to carry out M&A operations. The analysis of the sector is useful to highlight how sometimes it is the distinctive characteristics of the same (in the case of

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[4] A.J. Kim, & E. Ko, *Do social media marketing activities enhance customer equity? An empirical study of luxury fashion brand.* Journal of Business Research*, 65*(10), 1480–1486 (2012)

[5] H. Hagtvedt, & V.M. Patrick, *The broad embrace of luxury: Hedonic potential as a driver of brand extendibi*lity, Journal of Consumer Psychology, *19*(4), 608–618. (2009)

[6] http://class25.com/it/louis-vuitton/prodotti/louis-vuitton

[7] M. Snichelotto & A. Pegoraro, *Le operazioni di M&A come strumento del vantaggio competitivo*, RiVista (2009)

luxury, the excessive competitiveness) to make necessary the use of "atypical" instruments such as M&A operations.
The third chapter studies a specific operator in the luxury sector, such as the LVMH group, which has found its growth strategy in M&A operations. The chapter, in particular, dwells on the acquisition carried out, in 2021, by the group against Tiffany & Co., another brand symbol of the luxury sector, to understand and explain what were the reasons that led to the negotiations and the conclusion of the deal not only from the point of view of the acquiring company but also of the target. The LVMH case shows how an adequate cost-benefit assessment and movements to support the M&A operation can guarantee the success of acquisition operations in many cases and even in the presence of very different considerations.
Lastly, there will be a brief last section concerning the resilience of brand identity over this trend of conglomeration.
The final conclusions of the paper will summarize the main results obtained from the analysis of the luxury sector and the case study.

I. MERGERS AND ACQUISITIONS IN THE LUXURY INDUSTRY: A GROWING PATTERN

A. Definition of mergers and acquisitions

M&A are operations of extraordinary finance, falling within the broader concept of concentration operations, whose objective is to increase the competitive advantage of a company aimed at acquiring control within markets which are sometimes differentiated in terms of characteristics and functioning. In all countries' companies legislation there will be a section headed "Mergers" which will contain the following concept: "Any two or more corporations existing under the laws of this State may merge into a single corporation, which may be any one of the constituent corporations or may consolidate into a new corporation formed by the consolidation, pursuant to an agreement of merger or consolidation, as the case may be, complying and approved in accordance with this section."[8] With this operation the companies participating in the fusion cease to exist legally in order to have their

[8] Delaware General Corporation Law § 251

assets merged into what will be a new company. In the case of an acquisition, instead, a new company is not created, but a company called the incorporating company will maintain its legal identity, joining that of other companies that cease to exist. The economic motivations behind a merger can be many:

- To rationalize costs through the use of economies of scale or scope so as to achieve competitive advantages in cost and therefore price, to the advantage of the new entity resulting from the merger;
- To increase its own competitiveness in order to operate on wider markets;
- To save companies in crisis or in difficulty, but still capable of creating value if combined with other companies;
- To integrate companies with complementary management profiles.

Mergers can be strategically classified according to the purpose pursued in:

- Horizontal mergers: when they involve homogeneous companies, operating in the same sector and therefore previously competitors; These are the most popular and profitable like in the famous case of Pfizer acquiring the competitor Wyeth after a payment of 64,5 billion dollars.
- Vertical mergers: when they involve companies with different specializations but operating in the same business sector.

More rare, because of doubtful economic convenience, yet existent, are the conglomerate mergers, concerning companies operating in different sectors. [9]

Further, mergers can be classified according to the way in which they are carried out:

- Mergers by union, usually put in place when none of the individual companies has a social name worthy of preservation and therefore there is a tendency to strengthen a sense of commonality of the new workforce resulting from the merger and provides for the relative termination of the merged companies to the benefit of the new company;
- Mergers by incorporation in which one company incorporates others, bringing them together under its own economic and legal subjectivity;[10]
- Reverse mergers when the incorporating company is smaller in size than the incorporated company.

After the merger, each of the shareholders will receive shares relating to the company resulting from the merger, established on the basis of an exchange ratio determined by the role of the net assets attributed to the companies prior to the merger, in place of their own shares which are cancelled. Conversely, with acquisitions the acquiring company pays a price to the shareholders of the acquired company, the price arising from an economic valuation of the capital of the target company.[11] In this case, after the acquisition, management is the sole responsibility of the shareholders of the acquiring

[9] See Hagtvedt, supra note 5
[10] Id
[11] Id

company and the shareholders of the target company are totally excluded from the control and management functions of the company.

However, the classic distinction is not sufficient to fully comprehend the phenomenon in question. In fact, there are numerous other classifications regarding M&A operations.[12]

Bower, for example, argues that there are five fundamental reasons why companies merge, and on the basis of these reasons he distinguishes five types of M&A.[13] According to the author, companies tend to merge in order to manage excess capacity through consolidation in saturated sectors, "to roll-up the competitors" literally "to crumple the competitors" that is, to incorporate them in geographically fragmented markets, to expand into new markets or specialize in new products, to replace the so-called R&D and finally to succeed by eliminating the boundaries and barriers of a market by creating a completely new one.[14] These very different motivations lead to the following classification:

1) The overcapacity M&A
2) The geographic roll-up M&A
3) The product or market extension M&A
4) The M&A as R&D
5) The industry convergence M&A

The over-capacity M&A take place in mature capital-intensive markets[15], i.e. the steel market. On the side of the acquiring firm this type of transactions allows the rationalization of costs. The end result is the achievement of a new portion of the market, a more efficient management of the business and the reduction of the overall production capacity for the whole sector. To be successful in this type of acquisition, it is recommended to quickly understand the situation of the acquired firm by imposing your own process without expecting to be able to totally eradicate the existing one. This kind of acquisition seems very similar to the next one and can in fact be a substitute transaction as they both result in the consolidation of the business. However, there is a foundational difference between the two: “the geographic roll up” type of M&A occurs during the development phase of the life of the market.[16] As a matter of fact, many companies, especially at their development stadium, remain fragmentized, anchored to their born place and they do not represent a dominant figure in the market

[12] See Hagtvedt, supra note 5.
[13] J.L. Bower, *Not All M&As Are Alike—and That Matters*, Harvard Business Review, (2001)
[14] Id.
[15] The term "capital intensive" refers to business processes or industries that require large amounts of investment to produce a good or service and thus have a high percentage of fixed assets, such as property, plant, and equipment(PP&E). Companies in capital-intensive industries are often marked by high levels of depreciation. (Investopedia)
[16] See Bower, supra note 13.

already. Thus, a company could perform a “roll-up” strategy to expand geographically acquiring the neighbour firms. This way, the transaction will lead to a decrease in the operation costs and an increase value for the customers. In this case, a critical factor of success relies in the company’s ability to lower costs without excessive standardization of the operations because it is essential that the operating units remain local if the relationship with local clients is deemed important to the business. Moving to the product or market extension M&A, the acquiring company’s goal becomes to expand its product range or its reference market. Therefore, it is the result of a diversification or internationalization strategy pursued by the firm. In the case in point it is important ascertain the possession of the skills to manage the expansion of the product range or the needs of customers with tastes, traditions and cultures different from those of the country served until then. M&A as R&D is a type of acquisition that replaces research and development within a company. This strategy is mostly used within high-tech industries as it allows the expanding enterprise to acquire all the knowledge necessary to competitively operate in a market where rivalry is based on level of knowhow. It seems noteworthy that the last category of acquisitions indicated (industry convergence M&A) differs from the previous ones in the purposes for which it is undertaken. The four types analysed involve, in fact, some change in the relationship between companies operating in a given market.[17] This category, on the other hand, has the objective of creating a real new business through the convergence of sectors, which at first analysis, may appear to be disconnected from each other. In this case, the manager's bet is not so much the integration of resources or the reduction of costs as the ability to exploit synergies between unrelated sectors. The classifications analysed up to this point concern M&A transactions in general terms.[18] We shall now discuss the procedure of a merger technically.

The assets of the merging company will be moved to the resulting company, which might have been created for the purpose of the merger itself. Thus, the shareholders of the merging company get shares of the resulting company. They will hold about the proportion of shares in the end-company reflecting the respective valuations of the companies that merged to form that company. In the US, cash is allowed as merger consideration. In this particular case, the shareholders exit the company. Further, if another merging company already wholly owns one merging company and the shareholders of the second one get offered cash, than the merger consists of a method of squeezing out the minority shareholders of that company.[19]

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[17] See Bower, supra note 9.
[18] See Bower, Supra note 7.
[19] P.L. Davies, *Gower’s Principles of Modern Company Law*, Tenth Edition (2016)

Section 900 of the Delaware General Corporation Law clearly contemplates the use of schemes of arrangements in the merger process stating that under s.895 arrangements “proposed for the purpose of or in connection with a scheme for the amalgamation of two or more companies” are allowed and concerning the transfer of the property from one company to another.[20] Section 900 also allows the court to transfer the undertaking from one company to another and to dissolve the first one without the need to winding it up.[21] In the same way, a scheme can be used for the “de-merger” or division of a company. In some particular cases, however, the merger or “de-merger” must comply with the provisions of Pt 27 of the Act.[22]

Also under the provisions in the Insolvency Act 1986 it is possible to effect a merger. Precisely, sections 110 and 111 involve the transfer of undertaking and/or property in exchange for shares or “other like interests”, if the transferor is in voluntary winding up in order to get advantages from the transaction.[23]

In practice, most often the scheme that takes place will be equivalent to a takeover. The most basic example is the “transfer scheme”, under which the shares in the target company that were not already owned by the bidder are transferred to it in exchange of cash or shares. So doing, the effects are those of a takeover bid. However the formal consequences differ from a simple merger.[24]

Going back to the merger as it is, we can delineate the differences within the just mentioned and an acquisition.

Both extraordinary shareholders’ meetings of the companies involved must approve the merger. The operation can take place in two different forms: by union or by incorporation. The merger by union foresees the formation of a formally new company, which comes to life from the participating companies, which as a result of the operation lose their legal individuality. The entire patrimony of the pre-existing companies is transferred to the newly formed company whose corporate structure will be made up of all the shareholders of the companies involved in the operation. In the merger by incorporation, an "incorporating" company absorbs another company, known as the incorporated company, which, as a result of the operation, loses its legal personality. The assets of the absorbed company are united with those of the incorporating company and the corporate structure is the result of the union of the corporate structures of the companies involved in the merger. It is therefore clear that the two types of merger are not in any way distinct from a structural point of view. The difference between them must therefore be sought at a formal level. A merger by incorporation does not, in fact,

[20] 2006 Act s.900(1), The section also applies to the reconstruction of a company by way of transfer of its undertaking or property to another company

[21] 2006 Act s.900(2)(a), (d)

[22] See Davies, supra note 14

[23] Id.

[24] Id.

provide for the constitution of a new company yet consists in the confluence in an already existing company of assets and social structures of other companies. Only for the latter will there be the loss of legal individuality foreseen for all the companies participating in the operation in the case of a merger by union.[25]

The merger can take place through an increase in share capital by the incorporating company, through the cancellation of the merged company already in the possession of the acquiring company or through the joint application of these cases. Acquisition in the proper sense, on the other hand, means the purchase of all or part of the shares of the company being sold in exchange for cash, treasury shares or other securities. A final approach is the purchase of part or all of the assets of the firm, and in this case payment is made directly to the firm and not to its shareholders. For a higher price, this form of acquisition allows the acquirer not to take on the debts of the acquired company as well.[26]

The process of M&A operations is obviously not standardised since they occur for different reasons and are treated separately by managers, however it is possible to identify four general phases that are common in the decision-making process of the buyer. We can identify the phase of selection, appraisal, negotiation and integration. The first two are very similar from the point of view of the actions of the management and therefore can be unified. The acquiring company must, in fact, assess the risks associated with the transaction and the possible benefits. It should be remembered that an acquisition creates value only when the two companies are worth more together than as separate businesses. This implies that the unified complex of two or more companies acquires value if the management is able to perfectly integrate the two participating companies by reducing costs through the centralization of production or by sharing production, technological and know-how resources. It is clear that in this first phase the buyer must analyse first the involved sectors in order then eventually to proceed to the individualization of a target enterprise. The strategic analysis must be a "comparative process aimed at identifying the resources that can be shared in order to develop the expected synergies".[27]

When choosing a company to acquire, it is important to focus on companies that are widely held, undervalued, or divisions of companies to increase the likelihood that they will be sold without particular resistance. After the identification of the target company, the negotiation phase actually begins with the due diligence, that is the operation of estimating the value of the target company in order to evaluate the economic and financial opportunity of the acquisition. This work of analysis is immediately prior to the closing of the deal and its main objective is to reduce the information asymmetry between the buyer and the seller. The due diligence aims to understand the business and

[25] See Davies, supra note 14.
[26] R. Brealey, S. Myers, A. Franklin, S, Sandri, *Principi di finanza aziendale,* McGrawHill (2010)
[27] See M. Snichelotto, A. Pegoraro, supra note 7

market dynamics of the target company, to evaluate its organization and understand which business model could be successfully implemented, to identify possible improvements in performance and areas that could enjoy added value following the aggregation.[28]

Once the negotiation phase is over and the deal is effectively closed, the integration phase begins, which does not have a real end insofar as every decision from this moment on will be based on the mutual exchange of knowledge and skills.[29]

From a legal point of view, each phase is accompanied by a series of documents and, except for the contract itself, the letter of confidentiality and the letter of intent are of particular interest. In a letter of confidentiality, the parties invite each other to confidentiality and establish certain obligations for the violation of which a penalty may be established. The letter of intent specifically indicates, on the other hand, the subject matter of the negotiation as well as a purchase price, timeframe and responsibility of the parties. Also relevant to the merger process is the accounting aspect of the transaction.[30]

B. The procedure

The most common methods that are used for acquiring a U.S. public company are the statutory merger, a tender offer and the exchange offer. Typically, in a merger transaction the acquiring company will form a new subsidiary in order to realize the merger. The target on its side will be merged with the new acquisition subsidiary to effect the merger and none of them will survive the transaction as a wholly owned subsidiary of the acquiring corporation. The merger is effective only after the "certificate of merger" is issued by the Secretary of State, in the state in which the incorporating company is incorporated, or later time as specified therein.[31]

Upon the merger certification, all the target company's shares belonging to the target company shareholders are cancelled without need to take any action by the target shareholders, and the target company shares will embody the right to receive the merger consideration. The merger consideration may occur in cash, equity or debt securities, rights, other property or a combination of all the above. Approval of the boards of directors of the inherent companies and a vote of the shareholders of the

[28] F. Bencini, *Operazioni di M&A e business due diligence in un contesto di incertezza* (2010)
[29] Id
[30] Id
[31] T. Harthmann & A.B. Stebbins, *Mergers & Acquisition 2021: a practical cross-border insight into mergers and acquisitions*, International Comparative Legal Guides 15th edition. 2021. Available at: https://iclg.com/practice-areas/mergers-and-acquisitions-laws-and-regulations/usa

constituent companies represent on average all merger transactions. A short-form merge can be completed under the laws of many states, including Delaware, with no need for the target company board approval or a separate shareholder vote, when an acquirer owns at least 90% of the shares of the target company. In some cases, a short-form merger is allowed to be used within Delaware, only if the acquirer owns enough shares to approve the merger (typically most of the outstanding shares) following the completion of a tender offer. Stock of the target company are directly purchased from the target company shareholders by the acquiring company, in the case of a tender offer or an exchange offer. Often a back-end merger (even in the short form, as described before) follows a tender offer or an exchange offer: in this case the target company in the transaction is merged with a subsidiary of the acquiring company therefore any remaining target company shares are voided, and target company shareholders are only entitled to receive the merger consideration (subject to any state law appraisal rights if they did not tender their shares into the offer. Legal and financial advisers are typically retained by the parties in a public company acquisition transaction. The company financial advisers cover the role of supporting the evaluation of the target company and to ensure that the structure the offer is shaped conveniently. At the same time, the acquiring company's legal advisers will assist the financial advisers of the acquired business with the construction of the offer, as well as with drafting and negotiating the necessary documents.[32] The target company board also relies on the financial adviser analysis to identify the potential bidders, review any bids received as well as their fairness, from a financial standpoint.[33] A fairness opinion is often requested by the target company to the financial adviser, and to this purpose a second financial adviser opinion may be looked for, including those cases where the first financial adviser's relationship may represent a potential conflict of interest according to the board of the target company.[34] In the case of an acquisition of a target company whose size is significant in relation to the size of the acquiring company, a fairness opinion from the financial adviser may be requested by the acquiring company, too. The legal adviser will advise the target company board as too its fiduciaries duties as regard to reviewing and responding to the offer, and both the legal adviser from the acquiring and the target company will take part to the transaction documentation drafting and negotiation. The parties may also request external accounting firm's due diligence review of the other party's business (It is common practice for the target company to go for the due diligence review when the acquiring company is offering its securities as all or significant portion of the consideration to target company's shareholders).

There might be cases for the engagement of environmental consultants, employee, benefit consultants, as well as other specialists by each of the parties involved. In connection with antitrust

[32] Id
[33] Id
[34] See, T. Harthmann & A.B. Stebbins supra note 25

and other regulatory matters, both the acquiring company and the target company will rely on the legal adviser's expert opinion. Delaware courts often investigate on the conduct of investment banking advisers in M&A transactions, especially in cases where a financial adviser may have observed a conflict of interest originating from the relationship of both the target and the acquirer, that were not revealed to the final customer. In a significant case, the Delaware Supreme Court upheld the Court of Chancery, when detecting that a sell side financial adviser helped and encouraged the target board's violation of fiduciary duties by, among other things, neglecting to inform about conflict arising from the financial adviser's attempt to actively join the buyer's financing group.[35]

A well-designed sale process will help the target company board to identify and abate any potential adviser conflicts and ensure appropriate control over the advisers during a sale process.

Anytime securities are offered as part of the consideration in a merger or in an exchange offer, the acquiring company must register the underlying securities under the Securities Act. The registration statement must be filed with the SEC together with the required exchange documents and must be declared effective by the SEC before the bidder can acquire the shares in the offer, in the event of an exchange offer. In the case of a merger, the proxy solicitation materials together with a registration statement (including a detailed plan) will be filed with the SEC and declared effective prior to the proxy statement/detailed plan distribution to the target company shareholders. Registering securities, a bidder from outside the U.S. accepts to submit periodic reporting requirements of the Exchange Act and others ongoing corporate governance, certification, internal controls and disclosure requirements under the Sarbasess-Oxley Act.[36]

The target company shareholders have the right to access additional information about the acquiring company if the consideration includes securities of the acquiring company. The acquiring company will be asked to supply certain financial information together with its registration statement, and if the acquiring company is a foreign private issuer and its financial statements are drafted in compliance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), there will be no need to reconcile to the U.S. generally accepted accounting principles (GAAP).[37]

The observation of U.S. GAAP will be indeed requested if the acquiring company's financial statement are not prepared in accordance with the U.S. GAAP. Shareholders of a Delaware target company can submit appraisal claims if the consideration involves all cash or a mix of cash and securities, under the circumstances described above.[38] The acquiring company, an acquisition

[35] Id
[36] See, T. Harthmann & A.B. Stebbins supra note 25
[37] Id
[38] Id

subsidiary of the acquiring company and the target company will come to a merger agreement in case of a friendly tender/exchange offers and mergers, the merger agreement will determine the terms and conditions of the offer if a tender or exchange offer is regarded as the "first step" of the acquisition prior to the merger. Often, accordance to acquire public companies' targets comprehend "no shop" provisions which are subject to a fiduciary out, to provisions allocating antitrust and other regulatory risks and conditions to closing. Furthermore, agreements to acquire public company targets include representation and warranties that extend materiality and "material adverse effect" qualifiers. On average nor the representations nor the warranties survive closing, and the acquiring company is not usually re for any breaches of such representations and warranties. The acquiring company usually relies on the fact that the target company, being it a public company, is subject to liability and disclosure provisions of the U.S. Federal securities laws.[39]

Tender offer: In tender offers the tender offer statement (Schedule TO) and the SEC, with the offer document, will be filed by the bidder.

Exchange offer: In exchange offers, where the bidder is offering securities as consideration, the registration requirements of the Securities Act must be met. The registration statement (including the bidder's detailed plan) on Form S-4 (or Form F-4 in case the bidder is a foreign private issuer) is to be recorded with SEC along with the exchange offer document on Schedule TO (hence the bidder's detailed plan and exchange offer document merge into a single document) and must be declared effective by the SEC prior to the bidder acquisition of any shares in the offer.[40]

Merger: Upon the execution of the merger agreement, the acquiring company and the target company will set forth a proxy statement, the target company shareholders' approval of the merger will be solicited through this document. A registration statement on Form S-4 along with the SEC will be drafted and filed by the acquiring company always if the consideration includes securities of the acquiring company. Imagine the merger is approved by the shareholders of the target company, a certificate of the merger is filed with the Secretary of State in the state of incorporation where the surviving corporation is incorporated.[41]

Tender offer: The tender offer statement (TO) consists of a summary term sheet inclusive of a bullet point brief description of the most material terms of the offer; target company basic information such as a name, address and telephone number, title and total number of outstanding shares of the class of securities being sought, the main markets where the target company securities are traded and details of the target company's share price in the last two years; the bidder's identity and background; terms of the offer; previous contacts ,transactions and negotiations between the bidder and the target

[39] Id

[40] See, T. Harthmann & A.B. Stebbins supra note 25

[41] Id

company as well as any conflict of interests; the source and amount of the bidder's funds, also including conditions to its financing ;the goal of the tender offer and the bidder's plan that would alter the target's company's management, business or corporate structure or that would impact the marketability or registration of the stock of the target company; the interest in target companies securities, revealing the target company shares belonging to the bidder and certain persons and entities to whom the bidder has been related with within the previous 60 days; persons entitled to help with the solicitation of the shares and their compensation terms; financial statement of the bidder (audited for the last two fiscal years and unaudited for the latest interim period available) must be included if material; that is if:[42]

I. The consideration is made of only cash
II. No financing conditions impact on the financial statement
III. And either all outstanding securities of the subject class are object of the offer or the bidder is a public reporting company (financial information is looked for and the offeror is a foreign private issuer whose financial statement is prepared in compliance with IASB IFRS, there will be no need to reconcile to U.S. GAAP, but should not the offeror's financial statement be prepared according to the U.S. GAAP a reconciliation to U.S. GAAP will be required.)

Pro forma financial information is required just in cash tender offer documents where the securities are offered in a future merger or other transaction in which the securities of the target company are to be acquired and its acquisition is material to the bidder. The tender offer must also include information concerning regulatory issues, applicability of antitrust laws, accordance with laws, document relating to the financial situation and all the contracts and arrangements between the bidder and the target company.[43]

Exchange offer. When the acquiring company is a private foreign issuer, then the registration statement will be of the Form S-4 and it will have to include the information that follow (some of which may be added by reference to the SEC filings of either the target or the bidder), with the items set forth above for involvement in the tender offer on schedule TO: audited income statement and balance sheet information previously selected for the last five fiscal year for each bidder and for the target company. Also, ex ante selected unaudited financial information for the past interim period and for the previous year. Further, a full audited financial statement is needed for the bidder, with the balance sheet for the previous two years and three years income and cash flow statements, with full interim unaudited financial statements for the last interim period.[44]

[42] See, T. Harthmann & A.B. Stebbins supra note 25
[43] Id
[44] Id

There is the need for pro forma data for each share for both parties, the prices for their share before the offer's announcement, same with the prospectus offer document being part of the registration statement. Among this large number of documents there are also a statement concerning risks relating to the merged entities, a management's analysis and discussion of the current financial situation and results again for both parties. A qualitative and quantitative reconciliation to US GAAP is required excluding the case when the bidder already fills in the accounts in compliance with US GAAP. In the case of a private bidder preparing its accounts based on the IAS IFRS and for the merger to be put into practice it will be necessary to produce a pro-forma consolidated balance sheet as well as an income statement information relevant to the latest fiscal year and the latest interim period of the bidder and of the target company.[45]

Merger. A complete list of proxy statement subjects should comprehend details of the target company shareholders meeting including date, time and place. For any subject to be discussed at the shareholders' meeting, it is mandatory to list the name of the persons making the solicitation as well as a full description on their indirect and direct interests. The main features of the dissenting shareholders rights of appraisal requires a full report of the voting securities with their main holders, and to the best knowledge, any disposition potentially ending in a change of control of the target company. A detailed report of the merger arrangement and of the terms of the agreement pertaining to the directors and executive officers of the target company, including their recompense will be necessary, with an analysis of the status of the mandatory regulatory agreements, a report of the past contacts, deals and negotiations between both the acquiring and the target company. Then there must be a report of any alteration to the charter, bylaws or other executive documents and of any other action to be decided at the general meeting, and a full report of the voting method. The target company board's reason for the merger will be included in the proxy statement, as well as a full report of the circumstances leading the target company board to advice the merger. Whenever an opinion or a comment is received from a third party (e.g.: an unbiased opinion coming from the target company's financial adviser) and the same comment is mentioned in the proxy statement or the registration statement, the same comment must be revealed. Also, a report of the activity and MD&A of the acquiring company will be necessary only if the same is subject of an informed voting decision (e.g., if there is a financing condition).[46]

Should the vote be requested only to the shareholders of the target company, there is no need for the target company to describe the business activity and the MD&A. Usually when cash is offered as a merger consideration, and the vote is acted only by the target company shareholders, neither financial

[45] See, T. Harthmann & A.B. Stebbins supra note 25

[46] Id

nor pro-forma financial data pertaining to the acquiring company are requested. The content necessary for a joint proxy statement in case the acquiring company securities are part of the consideration, in large degree, are similar to those necessary to the supplementary information in exchange (as compared to tender) offer documents previously mentioned, and a full report of the risk elements pertaining to the company issuing the securities and the transaction, a description of the business both of the acquiring and of the target company, the MD&A of both the acquiring company and of the target company in addition to proforma and historical financial statements, will be mandatory. Further to disclosure as described before tender/exchange offer papers and proxy statements will mandatorily include details pertaining to generous retirement packages arrangements between the acquiring company or the target company on one side, and senior management of both the acquiring and the target company on the other side.[47]
Tender/exchange offer documents and proxy statements are required to include detailed information regarding generous retirement package arrangements between the target company or acquiring company on one side, and senior management of each company on the other one. [48]

c. Transactions in the last 10 years

Over the last three decades the Fashion & Luxury industry experienced a material change of paradigms. However, the vital essence of the luxury industry is what remained since the mid 1980s: companies selling primarily status, prestige and exclusivity as well as the desire to far oneself from the ordinary, other than high-quality products. Since then, the life of the sector has been based on this concept that is today the elementary factor of the whole industry. The 1980s were in fact years of proliferation of luxury brands and repositioning of many of them. The early 1990s, when many market actors became aware of the increasing competition, marked the beginning of intensification of consolidation activities, which reached a peak in the year 2000. [49] M&A activities has been extensively dominated by four giant luxury conglomerates in Europe with highly diversified products and brand portfolios and a strengthened market position. There are some specific features of the luxury industry that justify the number of mergers occurred: operating costs may display important differences, and gross margins are considerably high. Thus, the ability of those conglomerates to

[47] Id
[48] Id
[49] A. Königs, D. Schiereck, *Wealth creation by m&a activities in the luxury goods industry*, Working Paper No 7-2006

create shared distribution and manufacturing networks provided them with the chance to exploit economies of scale and opportunities to enhance market power. All these factors represent the fundamental motives of the consolidation activities observed over the last ten years.[50] The rose up of the mergers phenomenon leads us to speak about a "merger mania". LVMH and Kering are in fact taking over all kinds of luxury brands. According to Deloitte (2019), the luxury goods industry proved their strength through M&As during the last ten years, thanks to three main factors: the globalization of luxury, the value chain integration, and company consolidation. Private Equity companies in particular demonstrated to be of great support for the big luxury firms, as they are in power of capital and skills to help them grow internationally. The value chain is quintessential for luxury companies. It comprises controlling each aspect of their activities, beginning from the supply of raw materials, to production and distribution. In order to provide high quality of service the management of the firm must guarantee an optimal administration of the value chain. In the end luxury goods companies have long been focusing their interests on vertical integrations, foundational in the M&A activities.[51]

First, luxury firms have to ensure perfect control over the main raw material supplies. This means possessing access to the best suppliers and to their specific expertise. Examples are luxury handbags and footwear that are now controlling tanning and leather processing companies. Also this integration is clear if observing the recent mergers between mining companies and luxury jewellery firms.

Second, jurisdiction in the point of sale is radical. It is enough to refer to the joint ventures between brands in the luxury sectors and local distributors. Gaining such partnerships ensures the companies a discrete level of control over retail transactions.

Lastly, the agreements between luxury brands and online retail specialists are remarkable traces of the first ones' attempts to expand vertically.[52]

The aggregation of many smaller firms into few larger ones, that is the merger and acquisitions processes, represents the formula to success and the key to survive in an insane competitive market where factors as resources, expertise, and knowledge are foundational. Among the many advantages brought by the aggregation of firms into big conglomerates there are the possibility to get additional capital and sharing production buildings, operating systems and real estate. This means that small firms can boost their growth and become quickly abundantly present worldwide. For already big assemblies instead, the opportunity to enrich their business portfolio incorporating successful brands is an easy gain. Luxury brands should keep their perception of exclusivity and prestigious which can be really complicated in a context of continuous growth. A possibly easier and less risky strategy

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[50] Id

[51] C.J. Berry, *The Idea of Luxury, Cambridge: Cambridge University Press* (1994)

[52] Id

could be the purchase of additional market shares or the acquisition of competitors with high growth potential (Forbes, 2017). And the consolidation strategy (Locarno, 2016) of the luxury industry is vital. Hence, M&As that result from this approach can be very beneficial to the acquirers. As straightforward as that, this will increase their market power and thus their ability to ensure their supply of rare raw materials as well as the shopping experience delivered to the customers.[53]
The economic literature has always tried to explain the macro and micro-economic motivations for mergers and acquisitions and their effects. In this regard, it is necessary to mention and explain which are the three most important economic strands for analysis. Synergy motive is the first strand, where the acquiring firm considers the transaction a profitable form of investment. The desire for synergy gains in favour of the shareholders would induce managers to undertake an M&A transaction. The second line of analysis, managerial empire building motive, tends to increase the utility of the manager to the detriment of the figure of the shareholder. Undoubtedly, the growth in company size gives the manager more power and prestige, moreover, a conglomerate acquisition decreases the variability of performance and the manager acquires the advantage of becoming irreplaceable for the company. Market for corporate control is the third strand, in which managers are considered to be in competition with each other. If a firm has an inefficient manager, its market value is lower than that of another firm managed by an efficient manager; therefore, in order to improve its value, more efficient managers will be willing to acquire that firm.8 According to financial economics studies, the overall effect on the profitability of the firms involved is positive, as the shareholders of the acquired firms receive gains and the shareholders of the target firms do not suffer losses. More recent studies (Stennek, 2006) show that M&As increase the combined value of firms that join the stock market, regardless of the profit made, for the simple reason that they anticipate the acquisition choices of their competitors. After reviewing the economic literature, in the next section we will go on to study the effect that M&As causes on the economy.[54]

d. Growing through M&A

The financial manager is the person whose objective is to increase the value of his firm in order to achieve a competitive advantage in the shortest possible time. In 1986 Ghemawat identified three factors, difficult to imitate, that ensure the durability of the competitive advantage achieved by

[53] Id
[54] See Berry, C.J., supra note 46

enterprises.[55] These factors are size, preferential access to critical resources and the limits of the strategic options of the competitors. Growth represents all the means through which a company, by leveraging the three factors mentioned above, can acquire and consolidate a competitive advantage.[56] It is possible to identify two types of growth: growth by internal or by external lines. While the first involves the development of new activities based on competences, knowledge and financial resources within the already existing ones on the part of the company, growth through external lines leverages the dimensional factor and is usually pursued through various methods such as strategic alliances, joint ventures and M&A operations. Each of the mentioned modalities premises agreements between two different realities but the difference lies in the degree of integration between the two parties involved in the agreement. Mergers and acquisitions are normally classified as extraordinary corporate finance transactions that lead to a growth in size of the company. In the current market condition many companies fail to maintain a competitive advantage by focusing on internal growth alone, as they were not able to keep up with the evolution of the industry and relied on their small size and little ability to adapt to changing economic scenarios. Fast adaptability, in fact, involves the use of a huge reserve of financial resources that only a small percentage of companies have at their disposal nowadays.[57] This consideration succeeds, albeit only in part, in explaining why modern economic systems are strongly influenced by M&A operations and the growing importance of this phenomenon. The phenomenon linked to the use of M&A operations as a mode of growth by external lines, leading to the achievement of a competitive advantage, has taken on great dimensions even if it has never been characterized by a linear trend.[58]

E. History of the transactions

Despite the success M&A has always experienced as a type of transaction, since the beginning of the 19^{th} century the phenomenon has appeared in a cyclical way.

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[55] P. Ghemawat, *Sustainable Advantage*, Harvard Business Review, (1986)
[56] Il vantaggio competitivo nasce fondamentalmente dal valore che un'azienda è in grado di creare per i suoi acquirenti che fornisca risultati superiori alla spesa sostenuta dall'impresa per crearlo.
(Porter. M, "Il vantaggio competitivo dellenazioni", 1991)
[57] Ghemawat, P., supra note 38
[58] Ghemawat, P., supra note 38

Geographically, it can be mainly traced between the English and American Market. A study conducted on the last century of transactions by Martynova and Renneboog in 2008[59] resulted in the identification of six main waves:

1. 1890 - 1903: American companies worked to gain a monopoly of their industry by creating trust and pursuing a vertical integration kind of strategy.
2. 1910 - 1929: this wave's effects are mainly visible in smaller companies that were excluded from the first wave and thus did not represent dominant positions in the markets. The rationale behind these transactions was the creation of economies of scale, which would make them able to compete with the bigger industries in their sector of competence.
3. 1950 - 1973: At this stage, the new aim of the companies became the reduction of perceived risk gained through the diversification acquired from the M&A deals. With no doubt the protagonist of this wave was General Electric. The company diversified by acquiring Ken-Rad Tube Manufacturing Corporation and creating a series of divisions.
4. 1981 - 1989: During this period, due to high inflation and the high cost of debt, companies, in order to remain in the market, became aware of the necessity of lowering costs at the operating and financial level. operational and financial level. The most widely used tool for this purpose was that of M&A.
5. 1993-2001: Regulation in various markets and the creation of new market instruments new market instruments (e.g., junk bonds) opened the door to high credit availability for the high availability of credit for financing very risky investments. The situation led to a rapid and consistent spread of leveraged buy-outs.
6. 2003-2007: acquisitions in this phase were made for a wide variety of reasons for a wide variety of reasons: from the desire to achieve economies of scale, the consolidation of a position within the reference market, the reference market, the desire to make an investment in restructuring investment in order to obtain profit margins, to the needs of diversification. A halt to the phenomenon was recorded at the time of the American and global crisis that began in 2007 with the subprime mortgage crisis.

Research conducted by Martynova and Renneboog has shown how the end of each wave coincided with a period of crisis or recession in the American market. Moreover, each of them, although motivated by different reasons, shows how companies have always been driven by 3 fundamental drivers such as technological and market shocks technological and market shocks, changes in regulation, and availability of credit.[60]

[59] M. Martynova, & L.D.R. Renneboog, *A century of corporate takeovers: What have we learned and where dowe stand? Journal of Banking and Finance*, 32(10), 2148-2177

[60] See M. Martynova & L.D.R. Renneboog, supra note 42

Since the beginning of the new millennium, there has been a sharp decline in the global flow of such transactions linked to both number of transactions (-1.4%) and their value (-29.8% in 2003 compared to 2002). The average size of transactions also fell; the category of mergers and acquisitions with a value of over 10 billion euros experienced a gradual decline. Moreover, the distribution of these transactions faced the reduction in operations motivated by a desire to expand into new product sectors. There has been an increase in acquisitions made to increase market specialization of the purchaser.[61]

However, the contraction of M&A operations recorded at the beginning of the century has not been constant. In fact, as early as 2005 there was an 18% increase in the average value of transactions, although the decrease linked to their size. In 2008 there was a further slowdown in the number of transactions (down 16%) and their overall value (-35%). This decrease is distributed evenly homogeneously in all sectors and in all geographical areas, both at European and global level. [62]

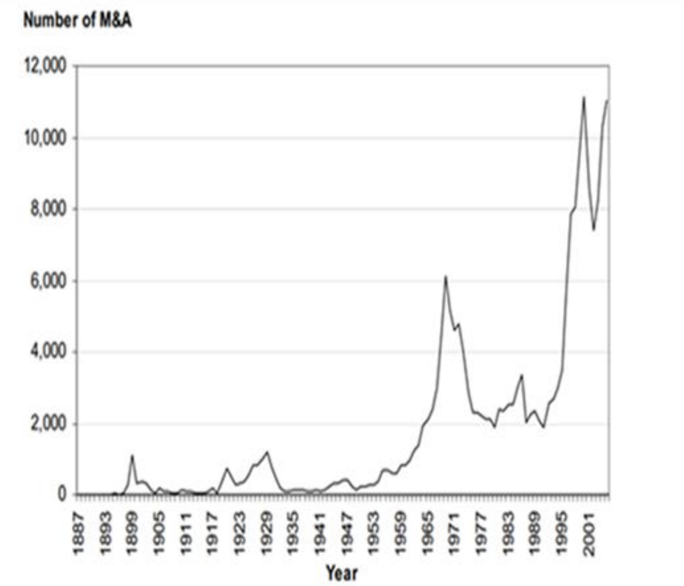

Figure 1Emea equity research, luxury goods, luglio 2012, HSBC.

II. CAUSES AND CONSEQUENCES OF M&A PHENOMENA

F. Luxury sector: the evolution of a status symbol

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60 See M. Martynova & L.D.R. Renneboog, supra note 42

61 Id

People have declaimed against luxury for two thousand years, in verse and in prose, and people have always delighted in it. This is how, back in the 1700s, Voltaire tried to explain such an abstract, complicated and fascinating phenomenon as luxury. The difficulty in defining the concept as well as the desire to explore and understand its characteristics led to the alternation of positive and negative opinions about luxury itself, sometimes considered as an expression of a high social status and sometimes as a pure ostentation of richness. Generic definitions of luxury, such as the one which identifies it as "something expensive that is pleasant to have but is not necessary"[63], fail to explain the scope of the phenomenon. In fact, given the importance it has assumed in the nowadays, it is nearly impossible to attempt to give a univocal definition of luxury. The concept and perception of luxury evolve jointly with the social context which arises from time to time and are both traditionally linked to six factors: quality, price, uniqueness, aesthetics, traditional character and superfluous character.[64]

The more a good is considered of quality, has a high price and is characterized by a high degree of uniqueness and aesthetics, the more it is considered luxurious. Beyond the objective characteristics that traditionally accompany the concept of luxury, luxury today is a subjective category, a sensory experience involving all the five senses and the emotionality of belonging to a very special category. The intrinsic value of a luxury good cannot only be the real value of the good but the value perceived by the consumer who owns it and who attributes to that good a subjective value that cannot be the same for any other consumer. Given the generic and not at all univocal definitions of luxury itself, it seems obvious that this sector has specific characteristics that influence both the structure and the strategies adopted by the companies present in it, especially when they involve extraordinary operations such as M&A.[65]

This chapter aims to analyse these specificities and to identify the intrinsic motivations for an acquisition in a sector where adapting to factual reality social context seems to be a determining factor to remain competitive. Anything defined as "luxury" has traditionally been seen as unnecessary even by insiders. As Coco Chanel said: "Luxury begins where necessity ends". Certainly, this characteristic represents what has led to consider the luxury sector as reserved to a restricted group of subjects and the possession of "luxury goods" as a factor of differentiation among the various social classes. Starting from the Industrial Revolution in the 18th century (as a result of lower production costs and increased quality of life), a greater percentage of the population found itself in possession of the

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62 Cambridge Dictionary

63 B. Dubois, G. Laurent & S. Czellar, *Consumer rapport to luxury: Analyzing complex and ambivalent attitudes* (2001)

64 Id

financial means necessary to have access to luxury goods. The phenomenon was further accentuated in the course of the 20th century, due in part to economic progress and in part to a general "democratization" by which is meant the possibility for increasingly broad strata of society to afford "the best".[66] In fact, the phenomenon of luxury has become even more pronounced over the course of the 20th century.[67] As a result of this process, what seemed to be only a desire to flaunt one's wealth and a desire to own something absolutely unnecessary has gradually transformed into a need, a human nature need, connected to human nature falling into the more general category of needs for self-realization and recognition.[68] In the context of the analysis of consumer behavior, economic literature define "luxury goods" as those goods and services whose demand increases more more than proportionally as a result of an increase in income.[69] As income increases, consumers tend to consume more luxury goods. It is possible to make a distinction identifying three distinct micro-sectors to which the various luxury goods can be traced: the first of these micro-sectors is the one of the "inaccessible luxury". It includes goods that have a high degree of uniqueness, are aimed at "traditionalist" consumers who attribute a high value and a high degree of exclusivity to luxury goods, configured as an expression of a social class. These goods correspond to high levels of both tangible components such as price and intangible components such as customization of the product.[70]

The second category of luxury identified is called "intermediate luxury" and includes those goods distributed at high prices but lower compared to the previous ones, not directly customized but still adaptable to the needs of consumers desirous to elevate and to assert their social status. Finally, the third micro-sector is that of "accessible luxury" in which are included those goods that are considered "luxury" more for the brand to which they are associated than for the qualitative characteristics of the product. They are produced and distributed on a large scale to a target of consumers who have a lower income than buyers of the first two categories and that they try, through the purchase, to homologate themselves to the first two classes of clients.[71]

From this classification, which contemplates the possibility of a luxury open to social classes in possession of a medium income, today we can speak of a "mass" luxury. With this term we indicate the increasing portion of the population having access to luxury goods. The socio-cultural and economic changes that have taken place since the nineteenth century, such as economic growth and the consequent crisis, the increase in the real income of consumers, globalization and the advent of

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65 Id

66 J.N. Kapferer & V. Bastien, *The luxury strategy: break the rules of marketing to build luxury brands*, Kogan pageLtd (2009)

67 Refer to the Maslow hierarchy of needs

68 High elasticity of demand

69 D. Alleres , *Luxe: Strategies-Marketing*, French edition, Paperback (1990)

70 See D. Alleres, supra note 53

the Internet have on the one hand, favored the distribution of these goods and, on the other, increased the need for consumers to own them. The "new luxury" does not mean that luxury products are devalued, sold at lower prices and therefore accessible to all, but that luxury is seen as a source of pleasure and an exception by an increasing number of people. In other words, if there continue to be people living in luxury hotels, it is not strange that a couple decides to live that same experience even if it will be only for a weekend. People today believe they are entitled to this synonym of wealth, a limited right of course, but still a right which, from time to time, takes on the connotations of a reward for the efforts made.[72]

This trend has led to the emergence of the phenomenon of "trading up" in consumption, whereby increasingly large segments of the population are led to purchase and use luxury goods and services, albeit on certain occasions. This is accompanied by the opposite phenomenon of "trading down" whereby, in daily occasions, consumers who do not have a high income are satisfied with products of medium-low quality in order to be able to afford "luxury" goods to which they attribute greater importance.[73] The markets offer a wide range of "new" luxury goods and services, from cars to wines and shoes. These, unlike traditional ones, are sold at high prices but are also able to generate high sales volumes. A clear example is that of Panera Bread, a chain active in the restaurant sector in the American market that offers fresh sandwiches produced with seasonal ingredients. Despite the difference in price with cheaper sandwiches such as those of Burger King (equal to around 3$) the company registered an increase in sales of around 41% in 2001 alone, stealing a large slice of the market from its competitor whose products registered stable or declining consumption in the same period. This is not an isolated case as it actually concerned almost all "new luxury goods" which can be divided into three categories. The first category, known as accessible super premium, includes those products that have a very high price compared to products of the same category, but which are accessible to middle-class consumers because they do not have a "high value" as they are. Belvedere Vodka perfectly fits in this category, with a high price compared to its competitor Absolut Vodka but which, being around 28$, is not precluded to consumers who do not have a high income. The second category is that of old-luxury brand extensions. These are considered the reduced price versions of those goods traditionally accessible only to the rich (from Mercedes-Benz cars to Tiffany&Co. silver jewelry). The last identifiable type of goods is that belonging to the mass prestige category. These are the goods that are placed in an intermediate position between luxury and mass goods. Companies

[71] J.N. Kapferer, *Is Luxury history?,* 2013 http://luxurysociety.com/articles/2013/04/the-new-luxury-is-luxury-for-all-suggests-jean-noel-kapferer

[72] N. Fiske, M. Silverstein, *Trading up: la rivoluzione del lusso accessibile*, Etas Milano (2004)

offer these goods at a lower price than the category maximum, but they maintain a higher level of performance and price than the category average.[74]

G. Definition of the luxury industry

Below we will analyze the specific characteristics of the sector with mention of the main competitors and the levels of turnover recorded over the last decade.

In almost all statistics, the luxury market is further divided into three micro-sectors according to the products considered. The first one is Personal Luxury[75] in which are included those goods that concern "possession", are usually visible to others and are consumed personally. To this category appertain clothing, accessories and cosmetics (which, according to a further classification, would go under the name of "soft luxury") or even jewelry and watches ("hard luxury"). This branch of the market accounts for around 17% of total turnover. The case of Experiential luxury is different, a term used to indicate above all luxury services that provide immediate pleasure, are not immediately visible to others and are preferably consumed collectively. This sector is of great importance, accounting for 58% of total turnover. Finally, as a residual category, Luxury Investment goods is classified, as can easily be guessed, as traditional (cars, yachts, etc.) while continuing to play an important role in the composition of turnover (25% of the total in 2013). Finally, online sales should not be underestimated. These continue to grow, especially in the footwear sector, reaching 10 billion euros (i.e. 5% of total sales in the luxury goods market) with an annual growth rate of around 28%.[76]

Among the sectors of the luxury market just mentioned, Personal Luxury is certainly the one most largely analyzed. This is because the main companies widely considered as leaders in the sector (LVMH in France and Europe or Ferragamo in Italy) operate within it. The turnover of Personal Luxury has not been affected by the global crisis and in 2013 came to an amount of about 230 billion euros with a growth over the previous year of 10%.[77] The companies and multinationals that operate within the luxury sector such as Prada and Dior are companies that develop, produce and market jewelry, watches and accessories. However, some of them as the LVMH group are also active in other sectors such as beverages or are, as the Swatch group, vertically integrated. Most of these companies

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[73] M. Silverstein, *Luxury for the masses*, Harvard Business Review (2003)

[74] A. Konigs & D. Schiereck, *Wealth creation by M&A activities in the luxury goods industry*, European Business School, Department of Finance, N°7

[76] www.altagamma.it

[77] www.altagamma.it

are still family owned but there are also companies such as Tiffany defined as 100% free float (whose shares are therefore entirely available to the public for trading). All the companies operating in this sector share high levels of profitability but present heterogeneous characteristics. However, it seems possible to identify three sub-categories within which to identify similarities between the companies operating within them. Thus, we can distinguish the diversified groups, that is those companies that have grown thanks to acquisitions that have enabled them to create a portfolio of highly diversified brands. Among them, the LVMH group stands out for its importance and today it can boast in its portfolio a list of more than 50 brands operating in five different product categories such as fashion and leather goods, cosmetics and fragrances, wines and spirits, watches and jewelry and, finally, in "selective distribution "[78]. In the remaining two categories, companies are classified according to their product and not their composition. We have hard luxury companies, producers of watches and jewelry, which are often considered together, although the structure of their distribution changes considerably.[79] The most important companies in this category are Richemont with the Cartier brand and the Swatch group with the Omega brand. The presence of the latter in the hard luxury category and in that of diversified groups makes it clear that it is not possible to make really clear distinctions within the sector. Finally, under the name of soft luxury we have companies active in the production of clothing and leather goods, such as Hermès or Tod's.[80]

As repeatedly underlined, the luxury market is in continuous growth. The causes of this growth can be identified in various factors defined as drivers of development. The first of these is, of course, the; its growth rate is a determining factor for the development of the luxury market, given the strong correlation between the economic well-being income of citizens and demand for luxury goods.[81]

From these considerations one cannot conclude, however, that the consumption of luxury goods is Japan tripled during one of the deepest recessions the country has ever experienced.[82] The irrelevance of monetary factors in certain circumstances can also be seen in the lack of importance consumers place on the price of luxury goods. If for the purchase of almost every good on the market, an increase in price causes a drop in sales[83], in the case of luxury goods the price is a driver of differentiation and an indicator of high quality. The second factor that impacts on the development of the luxury market is the trend in exchange rates on revenues from sales made on international markets and an indirect impact on consumer purchasing power. Also noteworthy is the number and size of the assets of High

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[78] Technical term used to indicate a retailing strategy that involves the distribution of the product reserved to some specific markets

[79] Emea equity research, luxury goods, HSBC (2012)

[80] Id

[81] Id

[82] See Emea equity research, supra note 62

[83] In the microeconomic literature, this is what usually happens: as price increases, demand decreases

Net Worth Individuals, i.e. of those with assets in excess of one million dollars. Some factors that have taken on great importance, especially since 2008 with the outbreak of the global crisis are the emerging markets. They are considered as one of the major growth opportunities for companies operating in the sector. In fact, although sales figures in mature markets such as the US or Europe are still positive, they have been showing slower growth rates lately. In addition, a large percentage of these sales is accountable to purchases by foreign tourists who take advantage of the lower price of luxury goods in these countries and the lower risk of counterfeiting.[84] The real targets of companies producing luxury goods are now countries such as China, the Middle East and Brazil, where growth rates have reached 19%. Continuing with the analysis of the factors that characterize the luxury market, it is necessary to mention concentration. In fact, the market appears to be very concentrated and, in this sense, the example of the European market dominated by the four conglomerate groups LVMH, PPR (today Kering), Richemont and Swatch is self-evident. Another key factor is represented by the distribution channels, are fundamental for luxury brands, which must maintain the prestige of their image. The Internet is an example of a new distribution channel and another driver of development. Today, online sales cover a small share of companies' profits, but the propensity shown by consumers for this new purchasing channel makes it increasingly important for companies to become familiar with it. Two factors to be kept under control that represent real challenges for companies in the sector are counterfeiting and social responsibility. Regarding the former, the topic has always been controversial, but today it is even more delicate, especially in developing countries. Counterfeiting has a negative impact on sales, but even more so on brand image and it reduces the perception of uniqueness of the brand. Social responsibility and ethical behavior are very much felt by consumers today and operators in the luxury sector must adapt.[85] The last development driver to be mentioned is brand extension. Adding the new products to the brand portfolio is an opportunity for companies to access new markets and renew their brands thus obtain new revenues. [86] It is undeniable that large companies with an already strong brand can produce and market new products within their production chain without seeking the help of external operators, but given the characteristics of the market in which there are high operating margins, strong cash flow generation and high exposure to emerging markets as well as high idiosyncratic and market risk, high cyclicality and a strong drive for innovation, the strategy of external growth through the acquisition of existing companies is still the most widely used strategy by luxury companies operating in the luxury market.[87]

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[84] See Emea equity research, supra note 62

[85] Id

[86] Industry trends, issues and Service opportunities - luxury and speciality retail PwC, 2007, www.pwc.com

[87] Meinshausen S., Schiereck D., "Dressed to Merge- small fits fine: M&A success in the fashion and accessories industry", International review of financial analysis, 24 giugno 2011

Therefore, I will now analyze the characteristics, the motivations, the opportunities and the risks of M&A operations in the luxury sector with particular reference to the fashion industry.

H. Performance-related rationale behind mergers and acquisition decision

In recent years, mergers and acquisitions have been widely researched. In this context, a large number of M&A studies were conducted, and capital market reactions generated by M&A activities were examined with respect to regional and industrial differences and focuses. Although a wide part of sectors has been already covered, there are still no significant findings in today's literature on the real market implications and wealth effects of M&A proclamations within the luxury industry. Lane and Jacobson conducted a research regarding the stock market reactions to brand expansions announcements in the food retail market issuing significant empirical evidence on the correlation between brand leveraging, attitude and familiarity on the one hand and stock market reaction on the other hand.[88] They showed that this sector usually responds positively, the higher consideration and the more familiar a brand already is. Markets reacted positively just in the same way in cases when both esteem and familiarity were lower. Where customer familiarity compared to brand attitude was much lower, the study shows way less favorable reactions.[89] Hosken and Simpson also provided empirical evidence concerning mergers in the retail segment with their event study centered on the wealth effects of supermarket M&As.[90] Thus, they both examine stock market reactions and effects of a potential increase in price setting power and found out that whenever there is the occurrence of supermarket mergers, they would we positively evaluated by the stock market and at the same time did not harm consumers with higher retail pricings. If one applies the results of these studies to the luxury segment, there are two possible assumptions to be made regarding eventual capital market responses: Since all luxury companies' aim is to satisfy the desires of their clientele, one of their main concern will be to establish and maintain an unstained reputation.[91] Thereby, customer brand esteem should be very high together with brand popularity. Starting from the findings of Jacobson and Lane it would not me of any surprise that the effects following announcements of luxury M&As are positive and there would not even be discrepancy between familiarity and attitude. Moreover, especially in

[88] See Lane/Jacobson (1995)
[89] Id
[90] See Lane/Jacobson (1995)
[91] A. Königs, S. Schiereck, *Wealth Creation By M&A Activities In The Luxury Goods Industry*

Europe the dominance of the four conglomerates LVMH, PPR, Richemont and Swatch generates an almost oligopolistic market structure.[92]

Transactions of this kind could in theory be disapproved because of apprehensions regarding exorbitant price setting forces. Nonetheless, if luxury retail oligopolists act like as they were not luxury retailers and will not abuse of their market power, this concern would be unsubstantiated. To generate a deep theoretical background for mergers and acquisitions, Weston and Halpern made a distinction between two classes of theories:[93] The first one sums up the explanations regarding the overall non-profitability of M&As. These types of transactions are aimed at an increase of sales and control – and all eventual subsequent gains are expected to be offset by transaction costs. The second class of theories embraces all outlooks aimed at explaining a variety of types of capital market reactions consistently with the intention of value maximization: There are financial reasons, meaning that the diversification effects introduced through an acquisition leads to a decrease in expected bankruptcy costs. Economic motivations instead concern the predicted exploitation of synergy potentials. Another reason could be trying to take advantage of information asymmetries – in case the acquirer company has exclusive information about the target firm.[94] Finally, we can speak of the corporate control hypothesis, which makes necessary an underperformance of the target equity and is appropriate only in case the acquirer intends to benefit from simple control measures like management replacements after deal confirmation.[95] Signaling effects are those theoretical concepts one must refer to when completing this type of considerations, arguing that new information present in the market will be positively evaluated by capital market actors, as they make it easier to take investment decisions on a more extended situation basis.[96] Ait-Sahalia, Parker and Yogo highlight the completely different utility functions and consequent demand curves of ordinary and luxury goods in their disquisition regarding luxury goods and their implications for the equity premium puzzle.[97] They point out the disproportionately high income elasticity of demand for luxury goods and the consequent sensitivity to market shocks. Starting from this point, they suppose a high volatility of luxury firms' revenues. Taking it as it is, and taking shareholder value as dependent on the remaining cash flows to be distributed, luxury equities are expected to be equally more volatile. This implying that risk in itself could be a crucial value determinant of luxury equity returns. For the above reason,

[92] Id
[93] Weston/Halpern (1983), p. 298-300
[94] Eckbo et al. (1990)
[95] Jensen (1986)
[96] Meyrs/Majluf (1984)
[97] Ait-Sahalia et al. (2004).

eventual excess returns should be risk adjusted in order to reveal more reliable information on actual wealth effects.[98]

Mergers may create value every time their driver is something that will procure benefits to the new entity. According to Kolb and Rodríguez there are three main motivations justifying a merger, while Myers and Allen provide many arguments they find reliable for mergers. Nonetheless, these are just in agreement with the five strategies underlying a successful merger by creating real value for the future entity presented by Goedhart, Koller and Wessels:

- Reduction of costs and revenue growth enhance the performance of the newborn firm;
- In case of mature companies, it is not rare to experience fusions aimed at the removal of surplus capacity from the market;
- The acquisition of skills results faster and cheaper than if developed in-house;
- Whenever companies are mature and acquiring smaller companies with innovative products and both companies have different geographic collocation, market access gets accelerated;

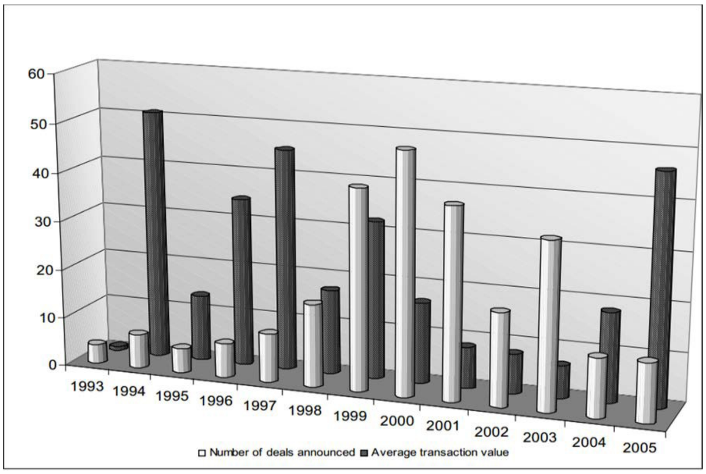
In case a company decides to perform an acquisition and pays via equity, it can either do it through cash balance by issuing new stock and get the necessary cash (increase in capital) or it can do it offering stock to the target as payment of the deal. The choice of the means of payment is usually made based on three factors: availability of cash, perceived value of the stock and tax consideration. The cash availability is the simplest one: a company can only use cash if it possesses it. On the other hand the evaluation of the stock might come with more difficulties: if the company perceives its own stock as undervalued it will eventually pay more than it wants to in order to complete the deal. De la Bruslerie stated that companies with higher stocks usually tend to finance their deals via equity. In this case the possible taxdeferral on capital gain of the shares received by the target shareholders may as well play a fundamental role as means of payment.[99] According to the author, the previously mentioned means of payment may not be evaluated separately from the premium paid to target. Throughout his study, De La Bruslerie analysed a sample of M&A in Europe in the 2000-2010 decade concluding that cross border mergers, competitive transactions and the absolute size of the target company support a cash deal. The price paid relative to the intrinsic value of the target and the degree of reached synergies are the true value drivers – creation, maintenance and destruction.[100] Bruner defines the possible outcomes of the deal as "value destruction" with returns lower than what was required by the investors, "value creation" for those returns above what was requested by the investors and "maintenance" returns required by them.[101] Further, the author argues that M&A are denoted by

[98] Id
[99] De La Bruslerie, L'entreprise et le contrat: jeu et enjeux (2010)
[100] Stahl et al.(2005)
[101] Bruner, Applied Mergers and Acquisitions (2004)

failure only when other factors are taken into consideration in the studies. In fact, there is not a well states definition of what is a M&A failure. So his conclusion is stll that shareholders usually receive positive returns thanks to mergers and acquisitions. The shareholders' of the acquiring company have their value preserved (if not created) on 67% of the deals. The combined net value creation for acquiring and target shareholders is positive.[102] The article also highlights some deal features that are likely to create market value for the acquiring firm shareholders, these being: acquiring interrelated businesses, merger between equal sized companies, target being private business, credible synergies or pay with cash, among others.[103] Sirower and Sahni (2006) denote that the market has, generally, a negative reaction to M&A deals. According to the authors, such a reaction is explained by the upfront full payment (as compared with other investments), by the expected performance improvements already reflected on the share price, by the investments necessary to make the synergy and, at last, because it's expensive to handle an M&A deal that goes wrong. The authors developed a graphic model that shows the necessary combination of cost and synergies level that justify, for instance, a premium of 35% and an EBIT margin of 18%.[104]

Starting from the mid-Eighties, after having understood the characteristics of the market and its evolutionary thrusts, many companies operating in the luxury sector have sought to reposition themselves. With a growing awareness of competition it was marked the beginning of a consolidation activity that gradually intensified until 2000, when the number of transactions reached an all-time high.[105] This activity was mainly carried out by the four conglomerates leaders of the European market, LVMH, Kering (formerly PPR), Richemont and the Swatch group, which created highly diversified portfolios of brands and products and strengthened their position on the market. As previously mentioned, some specific characteristics of the luxury market represent reasons that are consistent with the acquisition decision. In this regard, mention should be made of the high margins, potential synergies, the creation of common distribution and production channels or even the possibility of achieving economies of scale and scope as well as attempts to increase or maintain market share.[106] In 2000, the number of M&A operations had already reached considerable numbers (around 196) but in the last 14 years they have more than doubled, reaching a total of 583.

[102] Id
[103] Id
[104] *Avoiding the Synergy Trap: Practical Guidance on M&A Decisions for CEOs and Boards*
[105] See Königs A., Schiereck D., supra note 33
[106] Id

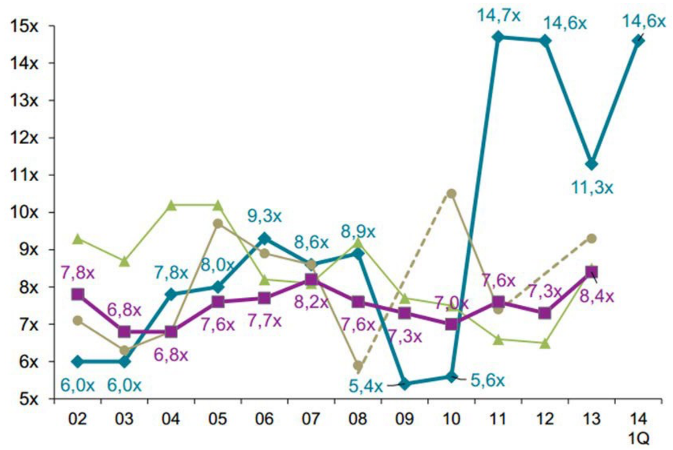


Most of the transactions have had Italian financial operators as purchasers but deals of greater value have been signed by foreign investors. The most valuable one was conducted by the Kering group, which in 2004 acquired almost 84% of Gucci's share capital for a value of 6,059 million euros. This was followed by the acquisitions of Bulgari in 2011 and Loro Piana in 2013 both carried out by the French group LVMH (100% for a value of 4,300 million euros in the first case and 80% for a value of 2 billion euros in the second). Asian groups have also shown their presence and of particular importance in this regard was the acquisition of 35% of Krizia by Shenzhen Marisfrolg Fashion.

Company	Industy	Home Country	M&A Deal Involvements		Average Transaction Value (GBP)
			Acquiror	Target	
LVMH	Luxury Conglomerate	France	51	-	275,902,141
PPR	Luxury Conglomerate	France	36	1	565,817,749
Richemont	Luxury Conglomerate	Switzerland	6	-	1,607,500,000
Swatch	Luxury Conglomerate	Switzerland	6	1	n.a.
Christian Dior	Fashion	France	1	1	39,300,000
Escada	Fashion	Germany	2	-	10,800,000
Etienne Aigner	Fashion	Germany	-	2	6,561,847
Gucci	Fashion	Italy[20]	19	19	961,064,771
Hardy Amies	Fashion	United Kingdom	1	2	743,400
Hermès International	Fashion	France	3	-	10,563,333

It is not by chance that the attention of experts is focused on the fashion sector. It, in fact, is the most active in such operations. The statistics of the analysis carried out by KPMG Advisory in the current year show how the fashion segment has already recorded since 2011 a multiple on the gross operating margin (EBITDA) of 14.7 times, thus distancing itself from the values recorded in the retail and food&beverage sectors (whose multiples on the EBITDA are equal to 7.6 times and 7 times respectively).[107]

[107] M. Castello, partner di KMPG advisory, *Le acquisizioni da investitori esteri nel fashion e luxury: quale valore per i marchi italiani?,* ricerca per il VI Luxury Summit dell'11 giugno 2014



Studies conducted on M&A transactions carried out to date show a strong positive correlation between the performance of the four large European conglomerates mentioned above and the transactions carried out by them. The results of these companies have clearly improved after the acquisitions they have carried out. This is probably due to the first consequence of an M&A operation: consolidation and enlargement of the portfolio of products and brands. The few negative results highlighted, on the other hand, are not statistically significant.[108] A further reason why companies may decide to initiate a M&A operation is the fact that it is a good idea to take advantage of the opportunities offered by the market.[109] Also companies might decide to launch a M&A operation to obtain financing from investors, who, despite being able to create a diversified portfolio through their activities, see it favorably to invest in a company that is diversified and equipped with a large market share.[110] The luxury sector and, in particular, the Fashion System have characteristic that differentiate them from other sectors. For this reason a M&A operation must also be evaluated in light of these specific characteristics. These operations are characterized by the high managerial complexity of the decisional process that leads to the acquisition itself and the main differences between an operation carried out in the luxury sector and one in any other sector (with the exception of banking/financial) are found in this process. Errors within it, from the information gathering to the evaluation of possible alternatives, can jeopardize the entire transaction.[111] The steps in the decision-making process leading to an acquisition always consist of the formulation of the opportunity in the market or of a problem in the acquiring company to be solved through an M&A operation, in the conceptualization in which the possible target alternatives are identified, in the detail in which the operational alternatives are specified and finally in the evaluation that concludes with the choice of the target company and that

[108] See A. Königs & D. Schiereck, supra note 33

[109] Damodaran A., *Investment valuation: tools and techniques for determining the value of any asset.* John Wiley & Sons (New York) (2012)

[110] Campa J.M, Hernando I., "Shareholder Value Creation in European M&As", European Financial Management, 10, 2004

[111] C. Haspeslag, C. Philippe, D.B. Jeminson, *La gestione delle acquisizioni. Successi e insuccessi nel rinnovamentodelle imprese*, Etas (1992)

opens the way to the negotiation (implementation phase). Not all phases are always fully explored. Five different decision-making processes can be distinguished: nova, off-the-shelf, appraisal, historical, search. They are ordered according to their degree of complexity and completeness.[112]
Wanting to analyze specifically the decision-making process of an M&A operation in the luxury sector, the formulation phase appears to be the most delicate. In this sector, in fact, the most common operations are those of a "concentric" type, that is, with the aim of diversification, with some exceptions of a vertical and horizontal type with the aim of integration. In the phase of formulation, therefore, the main intent of the acquiring company is that one to give credibility to the strategy underlying the decision. For this reason, the most frequently used tactics in this phase are those of the "idea-driven" and "reframing" type aimed at defining ex ante all the guidelines of the operation in order to reduce the risk and uncertainty connected with it and to justify the necessity of the operation itself. If the acquiring company is, instead, intent on maximizing the innovative potential of the operation the tactics to use will be of the type "issue-based" or "objected directed process" that carry to define the problem to resolve without supplying narrow margins within which to operate. Given the strong competitiveness inside the field that demands decisions and fast implementations, the buyer companies in the phase of conceptualization prefer the tactics ready made regarding those search and design. In fact, these tactics make it possible to identify immediately available target companies. Finally, for the evaluation phase, which will be followed by the final implementation phase, the only requirement is that the choice of the target company must respect the parameters of coherence established in the previous phases and provide added value to the image (a fundamental element of every company operating in the Fashion System) of the purchasing company.[113] With regard to the type of decision-making process, in the case in question, the prevalence of "nova" or "appraisal" processes should be identified, depending on whether the acquiring company has significant financial resources or not.[114]

The high complexity and extraordinary nature of these operations make the evaluation of integration projects very delicate, as the decision to implement it that must be made in relation to the benefits expected from the operation.[115] There are several motivations that can drive two entities to carry out the process under consideration:

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112 P. Nutt, *Types of Organizational Decision,* Processes in Administrative Science quarterly, September, Vol. 29, (1984)
113 See P. Nutt, supra note 94
114 R. Cappetta, F. Zanelli & A. Ponti, *La dimensione simbolica delle decisioni di acquisizione del sistema moda*, 4° Workshop dei docenti e ricercatori di Organizzazione Aziendale, gennaio 2003
115 J.M. Campa, I. Hernando *Shareholder Value Creation in European M&As*, in: European Financial Management, 10, p. 47-81 (2004)

- Strategic motivations: this is the most important motivation. The two companies involved may want to raise barriers to entry to the industry or increase the difficulties in obtaining resources from competitors, with the goal of reduce their number or gain a competitive advantage. Also of strategic importance are the motivations of the companies of wanting to refocus their core-business following the as a result of the operation, in order to update the positioning in the market or to implement a diversification of products/services;
- Economic reasons: the companies involved want to reduce costs and improve profitability performance through the creation of synergies between companies. The increase of the productive capacity has as main consequence the obtainment of economies of scale that allow to distribute the fixed costs on a greater quantity of products and having therefore the possibility to reduce the prices or to increase the margins. Also the combination of complementary resources and the elimination of inefficiencies are relevant factors. relevant factors. It is enough to think of the case in which the entities are located at different levels of the production chain. If the two organizations are united under one umbrella, the costs of coordination and administration can be reduced.[116]
- Fiscal reasons: the main benefit resides in the possibility of imputing in the various years, in relation to the revaluation of goodwill and capital goods, which make it possible to reduce taxable income. Taxation could also be reduced through international operations, taking advantage of the differences in tax rates between the various countries.
- Financial reasons: after an M&A operation, the subject with a greater debt exposure will have greater guarantees than before, thus obtaining financing at a lower cost. In addition, combining different entities demonstrates a diversification of the company's activity, which allows the obtaining of loans at lower interest rates. These reasons result in the reduction of the cost of capital for the companies involved and for the resulting company.[117]

The economic and financial reasons, though of considerable importance, rarely are able to provide a complete justification for initiating such a transaction, with strategic motivations playing a leading role in the process particularly in a context such as the luxury sector, in which margins are already extremely high and there is no compelling need to achieve economies of scale. It should be pointed out that when the size of the two companies is significant, the merger and acquisition could modify the conditions of competition within the market, effectively increasing concentration.

So there are different points of view to consider, with the synergistic aspects arising from the merger of two distinct units that occupy a prominent position. In fact, the economic justification of the operations of M&A must hold account of the effects of synergy that managing the different entities

[116] I. Stern, *Mergers and acquisition: a guide to creating value for stakeholders*. Accademy of management executive, may 2002, vol. 16 issue 2
[117] Id

as a unit can bring. At a general level, any transaction will be approved only if the value of the resulting company is greater than the sum of the values of the individual companies involved; in other words, if the transaction has a positive value net of the price paid. In the case of two generic firms a and b, there will be a synergistic benefit if:

$v(a + b) \geq v(a) + v(b)$.[118]

It is important to note that synergies can also involve the intangible elements of the enterprises, especially when the transfer of skills and know-how succeeds in generating new knowledge, which can result in faster development of the organization. Mergers and acquisitions are classified by researchers according to the affinities and links between the companies involved in horizontal, vertical or conglomerate. The most common are the horizontal operations, in which two companies operating in the same line of business. The nature of these operations leads to an increase in the rate of concentration of the market, with a consequent reduction in the rate of competitiveness.

Vertical operations, on the other hand, take place between companies belonging to different levels of the same production chain: there will therefore be a party that wants to expand its control or upstream towards raw materials or downstream towards the final consumer. Using this type of operation the acquiring company obtains a greater control of the variables and the elements in play in the chain, internalizing the externalities and generally reducing waste.

At last we speak of conglomerates when the companies involved operate in fields not directly related. Through this type, the resulting entity has the opportunity to diversify both production and the market, expanding its product portfolio. This is less widespread and less studied, but it is assuming particular relevance in the case of companies operating in the luxury sector as well explained already.[119]

III. LVMH'S CASE

I. Description of the firm

[118] S.N. Kaplan, *The market pricing of the cash flows forecasts: discounted cash flows vs. the method of "comparables"*. Journal of applied corporate finance, n. 4 (1996)

[119] C. Maquieira, W. Megginson, L. Nail: *Wealth Creation versus Wealth Redistributions in Pure Stock-for-Stock mergers, in: Journal of Financial Economics*, 48, p. 3-33 (1998)

After the brief description of the characteristics of financial acquisitions and the more specific overview of the luxury sector, this work aims to present an analysis of a case concerning the LVMH group. The chosen company, in fact, is not only one of the major players in the luxury sector comparable only to the Kering group (not by chance its main competitor) but is also a company among the most active in mergers and acquisitions. The use of M&A as a strategy for external growth has led Louis Vuitton (which became LVMH after its 1967 merger with wine and beverage company Moet Hennessy) to become, in just over 30 years, a giant in the luxury market and all the sectors it encompasses, and to own a diversified portfolio that today counts more than 60 brands including Fendi, Thomas Pink and Emilio Pucci. The intense activity of the group has opened the way to incredible opportunities for growth and consequent earnings, but also to countless risks. However, it is undeniable that the strategy implemented by the LVMH group has proved to be one of the longest-lasting and most successful of our century. The ability to control so many brands while leaving to each of them its own personality, its own positioning, its own way of management, imposing only common values on all of them and enjoying only the gains that are reflected in the balance sheet of the whole group may have been the key to this win-to-win strategy.[120]

The present chapter aims to outline the history of this group and to recall the most important acquisition operations carried out by the group over the last decade. The analysis will attempt to understand the reasons for yet another M&A operation attributable to the group (Acquisition of Tiffany & Co.) and to highlight the growth prospects of the acquiring company and the target in question, the risks and opportunities involved as well as the visible and perceived results. The official birth of Louis Vuitton dates back to 1854, the year in which the entrepreneur opened a leather goods and luggage store in Paris. By 1885, the modest success achieved allowed Louis Vuitton to look at the international market with the opening of stores in London, but the most important event for the company in the period under consideration is surely to be found in the creation of the "Damien Canvas" pattern whose trademark was officially registered as Louis Vuitton. After the death of the founder's death in 1892, the company was taken over by his son, George Vuitton. Under his management, in 1896, the famous monogram, today the symbol of the company, was born. During the '900 the company has been equipped with an increasingly strong international cut opening immediately its stores all over the world from Tokyo to Hong Kong, to New York in 1978, 1979 and 1981 respectively. Despite this, there are two events between 1987 and 1988 that marked a turning point in Louis Vuitton's history. In 1987, in fact, the maison was listed on the stock exchange and completed the merger with the wine and spirits company Moet Hennessy, created in 1971, assuming the name of LVMH. Only the following year Bernault Arnault, by taking advantage of a feud between

[120] U. Okonkwo, *Luxury Fashion Branding: Trends, Tactics, Techniques, Palgrave Macmillan* (2007)

the the presidents of the two companies belonging to the group, succeeded in assuming the position of majority shareholder of the group and initiated the series of M&A operations that have characterized the history of LVMH. Today the company has more than 19,000 employees, 460 points of sale worldwide, 7 e-stores and 60 brands.[121] The group, since its birth, aims to be a synonym of elegance and creativity and to represent the meeting point between tradition and innovation, always focusing on product excellence and on the creation of a working environment in which employees are considered the main customers.[122] The wave of acquisitions of which the LVMH group, under the impetus of the great personality of Bernault Arnault, began in 1988 with the acquisition of the Celine, a company operating in the fashion and accessories sector. From that moment on, the group has been able to experience the advantages associated with this type of growth strategy and by moving in this direction has acquired countless companies such as Berluti, Kenzo and a French newspaper in 1993, Dior in 1994, Loewe in 1996, Sephora and Marc Jacobs in 1997, Thomas Pink, Emilio Pucci, Fendi and DKNY between 1999 and 2001.

As stated by Arnault himself in an interview for Harvard Business Review in 2001, the incredible returns from these financial operations have made them the focal point of the group's strategy which, as such, acts in every circumstance while allowing each acquired company and therefore each associated with them to express their own personality and customer base.[123] Despite their success, for some of the operations listed above, the risks were, albeit only initially, greater than the benefits and the investments disproportionate to the returns. This pushed Arnault himself to call a halt in 2001 due to cash requirements.[124] For this reason, the LVMH group was forced to sell the shares in the meantime in Philliphs and, at the same time, face the economy’s fall into recession, especially in 2003, in Japan, a country where the group recorded a considerable percentage of total sales, estimated at around 40%. The setback in question has never, on the other hand, had Arnault doubt that the growth of Louis Vuitton-Moet Hennessy did not necessarily be achieved through M&A operations. This conviction is, therefore, to be found in the main motivation of the group's choices and the almost immediate resumption of the wave of acquisitions of which it has become the protagonist, arriving in recent years to acquire two of the most important Italian luxury brands: Bulgari and Loro Piana (in 2011 and 2013 respectively). As already mentioned, today LVMH is at the head, thanks to majority or absolute participation, of more than 60 brands and is configured as a complicated but at the same time perfectly functional structure. In order to make itself as transparent as possible and to organize in a systematic way the coordination of so many companies under a single control, LVMH has

[121] www.louisvuittoncareers.com
[122] www.lvmh.com
[123] S. Wetlaufer, *The Perfect Paradox of Star Brands: An Interview with Bernard Arnault of LVMH*, Harvard Business Review (2001)
[124] www.referenceforbusiness.com Bernault Arnault Biography

equipped itself with five divisions, each of which functions as a real SBU controlled by its own management. The first of these divisions controls the activity of the group in wines and spirits. Until 2003 the market share held by LVMH in this sector amounted to 40% in the cognac market and to 25% in the champagne market (the share increases to 50% if only the premium champagne segment is considered thanks to the brands Moet Chandon and Veuve Cliquot). The second SBU focuses on the fashion and leather goods sector. The LVMH group's presence in this sector is particularly strong and stable as demonstrated by the percentage of sales achieved (around 30% of total sales). The instrument of acquisition in this sector has proved particularly useful and successful in the fashion segment. LVMH has in fact acquired controlling stakes in Fendi, Prada and Donna Karan. The group has been able to exploit the synergies between the brands in its possession. An example of this is Kenzo, whose production line of men's clothing has been made available to other brands belonging to the group such as Givenchy and Lacroix. The synergies in question have enabled Louis Vuitton to exploit one of the advantages known to be associated with acquisitions, namely the saving of operating costs and the increase in profitability. Nevertheless, the revenues generated by the sector in question are still mostly attributable to the original Louis Vuitton and its successful collaboration with Marc Jacobs. The demand for Vuitton products often exceeds the supply and the presence of waiting lists to get the requested item makes the brand image even more prestigious. Another sector in which the presence of the LVMH group is known and which corresponds to the object of activity of the third division is that of perfumes and cosmetics. It corresponds to 18% of the total sales realized by the group and includes brands such as Dior, Givenchy, Kenzo (also active in clothing) and Guerlain. Furthermore, since 2001, the group's sights have turned to companies that could broaden their customer base. Hence the acquisitions of statuary brands such as Bliss, Hard Candy and Urban Decay aimed at a young audience. Also in this case, the exploitation of synergies, especially in R&D, proved to be the key to the success of these operations. By integrating functions, especially purchasing across brands, the group has been able to keep expenses under control and at the same time generating a growth rate twice that of the industry average. Cost savings on materials were around 20%. The fourth division's jewelry and watch business accounted for only 5% of the group's total sales until 2001. This was mainly due to the fierce competition represented by Richemont, Hermes and Bulgari, which enjoyed a greater reputation in the industry and products considered to be of higher quality. The countermove of the group to increase the success in the sector came with the acquisition of Bulgari in 2011 for 4.3 billion that led to the transposition of the earnings of the target company in the group's balance sheet.[125] The fifth and final division is that of selective retailing,

[125] Report Mergers & Acquisitions 2011, KMPG, www.kmpg.com

which manages the LVMH group's investments in companies such as Sephora, DFS Galleria, and Miami Cruiseline Services.[126]

Acquisitions of this kind have represented for each division an important means of growth for the LVMH group. Below we will try to understand the motivations and results of one of the most important and recent acquisitions made by LVMH, namely the acquisition of 100% of Tiffany's shares for the watches and jewelry division in 2021. As already underlined in the previous passages, the LVMH group immediately established itself as one of the pillars of the luxury market, but before 2011 the activity in the watches and jewelry sector struggled to keep up with the success achieved in the other divisions. It accounted for only 4.35 % of the Group's total revenues.[127] The need to bring this division up to the level of the other divisions in the Group's portfolio was a major challenge. Postponing all financial and non-financial considerations of convenience of the operation, it is already clear that acquiring a brand like Tiffany would have represented for the LVMH group a guarantee in the attempt to elevate the image of their products in the field of jewelry. It seems, therefore, right to mention the history of this great brand which, in a short time became a leader in its sector just like its acquiring company and that before the conclusion of the of the operation was one of its the main competitors. However, it is fair to specify what were the determinants that induced the acquiring company, LVMH in this case, and the target company, Tiffany, to complete the acquisition operation. Starting from the the LVMH group, the motivations underlying the choice of acquiring a brand such as Bulgari should be analyzed under two different levels: to expand the offer of products through a brand that could live up to the concept of excellence permeating all the divisions of the company and to enjoy the additional returns that could be realized by investing in a company that was no longer able to finance its growth on its own. The profitability of the jewelry and watch division in terms of sales was low for the LVMH group at least before the Bulgari acquisition, in fact it had long been looking for a way to compete in the hard luxury sector with Richemont (Cartier) and Swatch.[128]

J. LVMH acquires Tiffany & Co.: an interview to former CEO Alessandro Bogliolo

[126] K. Ramaswamy, *Louis Vuitton Moët Hennessy: In search of synergies in the global luxury industry*, Harvard Business Review (2003)

[127] *Louis Vuitton Moët Hennessy: In search of synergies in the global luxury industry*, Harvard Business Review

[128] *Analisi dell'acquisizione di Bulgari da parte di LVMH*, www.dominionfunds.com (2011)

For the purpose of this dissertation I had the chance to interview Alessandro Bogliolo, former CEO of Tiffany & Co. His role was crucial in the M&A process and he was able to provide an interesting and aware point of view of a successful Italian manager to understand the reasons behing the M&A trend of the F&L industry.

a) Could you explain some technicalities regarding the operation?

"It was never Tiffany's strategy as a public company, thus an independent company, to be sold.
During my mandate I had the job to increase value for the shareholders, but I didn't have to achieve this goal through an acquisition. What happens in a public company is that the board of directors is responsible to maximize profits of the shareholders. LVMH found that Tiffany was doing good despite all this conglomeration going on, especially in China which is the main market where it operates, and decided to make an offer. The group believed Tiffany was of great value and made a first offer of 120$ per share, which the board of directors refused.
What happens in this case is that a company receives an offer and the management prepares a three-years plan. A forecast of possible profits and gains is conducted and then the company itself has its own evaluation and thus can set a price. The price offered by LVMH was too low, thus we refused the initial offer. They then raised it but again the bid was too low. We later got to 195$ per share. At this point, being the board of directors in charge of doing the interests of the shareholder, we had to accept the offer. Personally, it was a great economic advantage to me as a shareholder, but on the other hand I put at risk the job of the whole board as new shareholders would mean a new board of directors and a new management. American public companies tend to align the interests of the board with those of the shareholders as they owe them a fiduciary duty.
There was an unsolicited bid and it was pretty much friendly dealt with, so it was not an hostile takeover.
The legal part came after, when LVMH decided to reduce the price because of the covid-19 crisis. Actually, this argument did not hold because the covid situation is temporary and only affected the business for few months. When preparing the evaluation of the company you are selling you look at the perpetuity and its future, so the year 2020-2021 was not significant. At the end we decided to give them a discount. We agreed that, in the interests of the shareholders, a discount of 400 million dollars over a bid of 13 billions was fair. They would receive the money just immediately, rather than 300 millions more after a whole process carried out in Delaware. The logic remains doing the interests of the shareholders."

b) *Over the last decade the Fashion & Luxury sector experienced an average of mergers and acquisition largely greater than any other industry. According to your personal opinion, what are the reasons behind this trend? And why specifically in this sector? Do you believe it was all about economies of scale? Or cut of operating costs? Was it rather a financial argument? Could it be that groups as LVMH and Kering saw the opportunity to exploit their economic abundance and cut off their competitors?*

"First of all, luxury as craftmanship is really ancient while the industry of luxury is rather recent, born between the 80s and the 90s. Brands as Tiffany have existed for 184 years now but they consisted of firms with few shops. Bulgari was in Rome, Tiffany had a store in New York and another one in Japan. Cartier was probably the most developed as the owners were three brothers with three stores: one in London, one in Paris and the last one in New York. So they have a long history but the luxury industrial sector is really recent. It was between the 90s and 2007 that the luxury sector became an industry. It developed from the craftmanship dimension to global retail store with psychotic profits.
Louis Vuitton boasts now profits of 10 billions per year, 5 times more with respect to 10 years ago, proving a giant growth of the use of luxury items. Being a recent industry, it experienced a first phase of growth rather than of concentration. LVMH already existed but it was in the hands of Vuitton before Arnault bought it and at the time it just owned a couple of champagne and wine canteens to be larger and a little diversified. This is where "LVMH" comes from. Arnault bought it later on and added all the brands you can count now.
With the financial crisis it became clear that these groups would become the greatest actors of the industry. The only mean through which to survive the crisis seemed to be an aggregation process: the more financial resources they had the larger the chance to survive. This is what happened also with the last crisis. Even though it only lasted one year the Bigs reacted immediately, and they even became stronger while the smaller ones took longer, losing a couple years in the process.
This paved the way to a concentration process because of the large economic availability of the "bigs". This can be seen as an opportunity, however the real reasons behind the acquisitions in the luxury sector are others.
The motive of the economies of scale is not strong enough. There are some brands that are part of the same group, and that is well known, yet this will not be sponsored. You will not say that Sephora and Bulgari are owned by the same shareholder. There are instead other reasons: for example, the barriers to entry to the luxury industry are really high: to be a luxury brand the first thing you must have is a story. The story is fundamental: We have firms with two hundred years of story on their back, in

particular the jewelleries such as Cartier, Tiffany, Bulgari and so on. Then we have the couturier fashion brands from the 90s like Chanel, Dior in the 50s, and the most recent ones like Armani who still count 40 years of history behind. There are these high barriers to entry and thus to grow is not easy especially if you want to make up a whole new brand. The best way to grow is in fact by acquiring an already existing well known firm. Again, growing as a brand new name is too hard withing the Fashion and Luxury industry. These are the real factors: economic reasons and limited synergies (in the sense that if you open five stores in a Chinese mall you get a discount but numbers in this case are not significant). In fact, if you look at growth rates of the luxury industry you can see how it all started with the European market, it grew in the Japenese one during the 80s when the Country already was an economic power. Then this became to slow down and the firms pushed towards the United States, then rode the wave of China from 2003 to 2005, which was the largest source of growth in the period.
There aren't other big markets for now, they talk about India, Brazil but the real growth only comes from the acquisitions right now."

c) *Do you believe this trend of mergers did somehow affect the italianness of our brands? Did we as Italian lose the position we used to cover in the Fashion and Luxury industry?*

"There are two dimensions when we talk about Italianness, the brand dimension and the ownership. As for the brand dimension, we can talk about Gucci: Gucci is an Italian brand, it is actually hard to find a more Italian firm, but we that is owned by Pinot. However, the brand is italian, from its positioning to the creativity side with Alessandro Michele (who is Italian), even the management in the hands of Zarri, the production also is for the largest part Italian both for leather goods in Florence and for the clothing production in the different Italian districts. So I throw a challenge to you now: What does the italianness of a brand depends on? Because if you ask any consumer wherever in the world he will tell you that Gucci is Italian because when you talk about luxury the primary value is the history of the brand, and every Gucci customer knows how tha firm is linked to the history of Florence. Same thing applying to Cartier in France. When you buy a moccasin from Gucci you feel like you're buying a little piece of Italianness and that is why I believe brands do not lose their "nationality". Totally different argument is those of the shareholders. Earlier, the shareholders of these brands were the families who created them. Today, they are just traded in the French market. In my opinion, this comes from the spread inability in our Country to create our own group of fashion and luxury. We lost the occasion, though the trend of this concentration had been clear from the early

2000s. If you think of putting together brands as Gucci, Bulgari, Loro Piana, Armani, Zegna: you would make a wonderful group. I will try to resume the reasons why it did not happen according to me: first of all the Italian companies were mostly still held by the founder families, in the case of Armani and Diesel in the father founder's hands, while the same conditions did not apply to the French companies. The strong family legacy made the Family holders less favourable to either selling or merging, to keep the full control over the company, while if we look at Cartier the Cartier brothers died a while ago, likewise Chanel, Vuitton has already been bought by Arnault therefore the relationship with the original family had already expired, so from this standpoint the Italian market is definitively more conservative. The second reason I identified, is the Italian parochialism, the difference between being from Florence or Milan, or Rome, the idea that someone could be better than the other. In most cases this aspect is of no interest for the customer. Furthermore, and generally speaking, of course, most of the Italian fashion companies specialized in clothes, and this market lower profits than those obtained by leather goods makers such as Vuitton or Hermes or Gucci. The achievements of Armani and Vuitton in the 90ties, were by far more comparable than they are today: Vuitton is now bigger, and this is certainly because Armani nourished the clothes market rather than leather goods."

d) *Were brands within these groups able to keep their financial independence?*

"We cannot neglect the extremely of high Italian potential, and this is because of the outstanding level of craftmanship and know-how in the luxury field. As a matter of fact, some french maisons commission their leather works to Italian makers. Tiffany, for example, it is a huge company whose production is mostly based in the US, however, is it also partly made in Italy, because of that unique Italian craftsmanship that I was mentioning before. I believe, it is more likely for a new brand to emerge in Italy, because of the high-level creativity and entrepreneurship of Italian enterprises, while France is more oriented towards the big companies. Think of Golden Goose as the perfect example of the agile Italian enterprise, a new brand grown in no time. Since there is still a good number of Italian Independent brands, such as Ferragamo, the potential for a conglomerate to come is still alive."

K. The operation

LVMH acquiring Tiffany & Co.

As stated in the first proxy statement regarding this operation, a special meeting was held at 200 Fifth Avenue, New York, New York 10010 on February 4, 2020, at 9:00 a.m., Eastern Time.

The purpose of the Special Meeting was to ask holders of the common stock to consider and vote the merger proposal, the compensation proposal and the adjournment proposal.[129]

At a meeting held on November 24, 2019, the Board agreed that the merger conditions, the merger and the linked transactions included in the merger agreement meet the interests of the Company and its stockholders. Also, It approved and declared in line with the interests of the shareholders the merger contract and the execution, delivery, and performance of the merger agreement by the Company and the consummation of the merger and the other transactions contemplated by the merger agreement; Further it directed that the merger agreement be submitted to the stockholders for adoption at the Special Meeting; and It advised that the stockholders vote to adopt the merger agreement and to approve such other matters that are submitted for their approval and adoption in connection with the merger agreement at the special meeting. Approval of the merger proposal requires the positive vote of holders of a majority of the shares of our common stock issued and outstanding and entitled to vote on such proposal.[130] While it was reaching its determination and recommendation, the Board of Directors received the advice and assistance of its outside legal and financial advisors and senior management at various times. The price per share agreed at this time was of 135$ at the time of the closing. Later on, another Special Meeting was required because something had changed after the signing of the first agreement: Arnault believed that the price he was paying was overrated because of the Covid-19 situation.[131] The Parent, The Company, the Holding and the Merger Sub all agreed to diminish the price per share from the originally set $135.00 to $131.50 and so make other significant changes to the original merger agreement in relation to the settlement of the merger litigation that occurred. In fact, the Board finds that it is in the best interests of the shareholders to agree to the reduction of the consideration per share and the other changed terms, rather than going on with the litigation. In compliance with the Delaware General Corporate Law, the new agreement amended and restated needed a new approval to be verified through the affirmative vote of the majority of the shareholders. Thus, the first merger agreement was amended and restated to reduce the price per share from $135 to $131.50 without any interest less withholding taxes, to allow the Company to distribute in its sole discretion up to $0.58 per share, to eliminate some of the previously set conditions like (i) the absence of a material adverse effect on the Company, the lack of legal prohibitions of any kind by governmental entities currently in effect and that can prevent, consistently restrain or materially impair or make unlawful the consummation of the transaction included in the agreement and (ii) any other action instituted by the previously mentioned entities that aim to impose

[129] https://sec.report/Document/0001193125-20-001590/

[130] Id

[131] https://sec.report/Document/0001193125-20-001590/

temporary or permanent halts to the transactions contemplated in the merger agreement or to impose legal restraints. Also, the new agreement narrowed the terms to the closing concerning the accuracy of the Company's representations and the warranties be limited to just select essential warranties and representations (linked to the Company's qualification, capital structure, organization, good standing, corporate authority and approval, actions aimed to making inapplicable any takeover statute, lack of right plans, lack of undisclosed finders or brokers' fees and receipt of financial advisors' statements. Further, to expand the meaning of usual procedures of business to include the way in which the Company and its subsidiaries have been treating their business since the first merger agreement and any Covid-19 measures added after the signing of such merger agreement.[132] The Company would have had no further obligation to fulfil certain obligations with respect to the conduct of its business awaiting the merger if the same had not been consummated within 6 business days after the date of the vote obtained through the material breach of the agreement by parent or merger sub (taken into consideration that the closing could not take place before January 7, 2021).[133] Finally, the Parent agreed that should the proceeding been brought by the company to impose the terms of the contract or for money damages, the final consideration per share would have been deemed covering any award of performance or damage to $135.00 less interest and any withholding taxes.

IV. THE EXCLUSIVITY OF BRAND IDENTITY: DOES IT GET LOST IN THE ACQUISITION PROCESS?

The acquisition of a brand within a new group of companies implies direct consequences on the brand identity and its role in the reference market. If we consider the brand in question as a sub-brand, i.e. a brand that is part of a holding company, we also understand how it is required to respond to the guidelines of the Group. The brand identity represents the instrument through which the company communicates its uniqueness with respect to other companies and, especially in the luxury market, is the guarantor of the quality and excellence of the products. The identification of the brand identity is the first phase in the creation of the brand itself. Therefore, it is essential to have a deep knowledge of the market, of the competition and of one's own company.134 Aacker and Joachimsthaler have

[132] Id
[133] https://sec.report/Document/0001193125-20-304075/
[134] D. Pitta & L. Prevel Katsanis, *Understanding brand equity for successful brand extension*, Journal ofConsumer Marketing, Vol. 12 No. 4, pp. 51-64(1995)

structured a model for brand planning identity divided into three concentric levels: brand essence at the center, core identity at the middle level and extended identity at the outer level

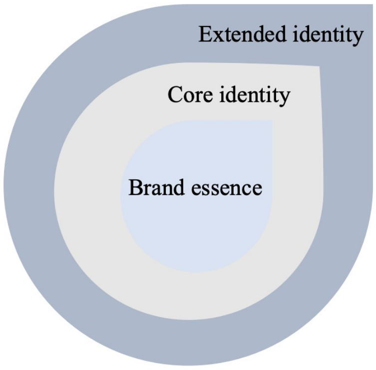

Figure 5: Aacker e Joachimsthaler model

Brand essence includes the company's vision and timeless values. It must be enduring and common to all products and markets in which the brand operates. Core identity should reflect the strategy and mission of the company, reflecting all the elements necessary to keep its promises to consumers. It too should be long-lasting and consistent over time.[135] Extended identity collects all those elements not included in the core identity that allow brands a certain flexibility and "do not fall into the tagline trap".

The ability of conglomerates such as LVMH or Kering as well as the Richemont group was, however, to allow each brand to keep their identity as well as their mission. The savoir-faire of each group is then kept safe, and the family spirit that characterizes most of the luxury brands stayed unchanged. By providing to each firm the resourced needed to create, produce and sell their products through carefully selected channels the LVMH group aims to maintain the personality of every firm pertaining to the holding.[136]

CONCLUSIONS

From the results highlighted in the dissertation, we can conclude that, despite the risks to be kept under control, M&A operations in the luxury and fashion sector continue to grow. The data reported, in fact, highlight the enormous scope of the M&A phenomenon in the market. They show how companies, still today, prefer the strategy of external growth conducted through acquisition operations in order to establish themselves within the sector and to survive within a market that is increasingly becoming oligopolistic. In the four companies considered, there are positive effects deriving from the operations carried out which have also allowed them to face the economic-financial crisis and the effects of globalization which have placed companies in front of ever increasing

[135] Id
[136] www.lvmh.com

competition. Acquisitions, as analyzed, represent in this sense the only way for a fast growth, to implement a lasting competitive advantage and to ensure survival. From the analysis of the luxury sector, reported in the second chapter, it is clear that the excessive competitiveness found in it and the factors influencing its development have forced the four conglomerate groups, LVMH, Kering, Swatch and Richemont, to focus on M&A strategies. The target companies, in fact, are specialized and renowned for their products so as to allow the respective groups to catch up with and surpass their competitors. Finally, it is the case to consider that, in most cases the operations in examination are not the result of a choice but of the fact that firms do not succeed to compete with great groups and they are forced to entrust to external investors. In more cases, M&A operations have, in fact, brought benefits both for the target companies, which while maintaining a certain degree of managerial autonomy, have secured a much more stable position than the initial one on the reference market, and for the acquiring companies, which have expanded their brand portfolio. This paper sought to understand and analyze M&A finance transactions in the luxury sector. The study of the LVMH case and of the Tiffany & Co. acquisition has allowed to highlight how the financial solidity and the experience in this kind of movements on which the LVMH group could count allowed the target company to relaunch its brand and the acquiring group to focus only on the exploitation of existing synergies so as to make the concluded acquisitions real successes. This paper aims to demonstrate the validity and convenience of mergers and acquisitions, which are often criticized as taking away the autonomy of brands steeped in tradition, as in the case of Tiffany & Co., if they are the result of careful evaluations before and after the negotiation itself and of careful monitoring during all phases of the operation. It also seems fundamental to know the pros and cons of this type of movement. In the current scenario, in fact, the economic and financial crisis as well as the effects of globalization have put companies in front of an increasingly fierce competition to survive to which the only answer is "continue to grow". In a world where there is no longer room for the "small", giants such as LVMH are trying not to stop their race, to impose themselves as leaders in their sector. Acquisitions, as analyzed, represent in this sense the only way for fast and, if well evaluated, secure growth. Placing these conclusions in the context under examination, the thesis sustained seems to acquire even greater legitimacy. From the analysis of the luxury sector, reported in the second chapter, it is clear that the excessive competitiveness found in it and the factors that influence its development (GDP and exchange rate trends) force the four conglomerate groups that are competing for the role of absolute leader to focus on the acquisition of companies. The target companies, in fact, even when not financially sound, are specialized and renowned for their products, thus enabling the respective groups to catch up with and surpass their competitors on every front and to rehabilitate their weaker divisions. Certainly, there is no single answer to the many questions that complex operations, such as those of M&A, could raise, but if we want to rely on the financial results recorded, we cannot but affirm that in more than one case there have been benefits both for the target companies, which, while maintaining a certain degree of managerial autonomy, have secured a much more stable position than the initial one on the reference market, and for the acquiring company (in this case LVMH) which has enriched the range of brands and, consequently, of products that make up its portfolio with two of the most famous and prestigious Italian brands, thus increasing its chances of qualifying as absolute leader in the sector. In the light of these considerations, it is therefore possible to conclude that the strategy of external growth, conducted through the complex but effective tool of M&A operations, has as its main result the creation of a lasting advantage for companies. What emerged from the interview to Alessandro Bogliolo, former CEO of Tiffany matched with the largest part of the research conducted. Further, Mr. Bogliolo gave his point of view regarding the failure to create conglomerates in Italy while still affirming that though the management of many Italian luxury brands is no longer in the families who created the firms, the "italianness" of such brands will never die. What he sustained is that the strongest ability of these giants is to allow each acquired firm to express their own creativity, to keep their mission unchanged and to maintain their identity and personality.

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APPENDIX

Figure 1[137]

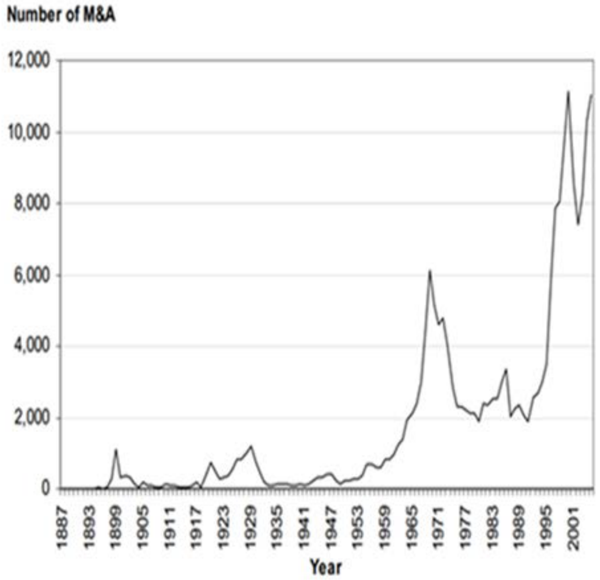


Figure 2[138]

[137] See Königs A., Schiereck D., supra note 33
[138] Id

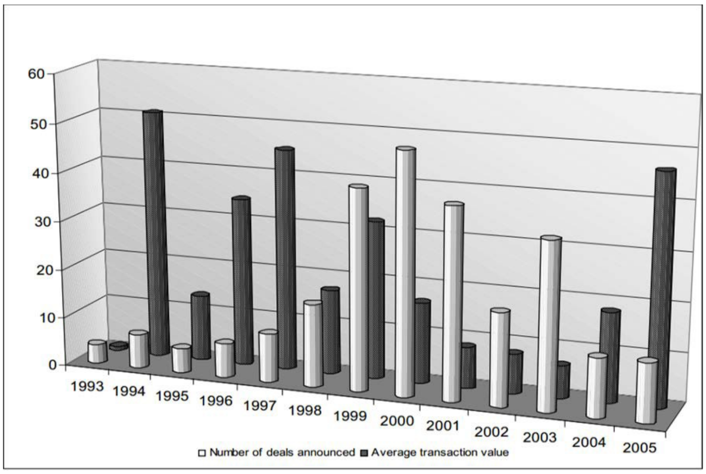


Figure 3[139]

Company	Industy	Home Country	M&A Deal Involvements Acquiror	Target	Average Transaction Value (GBP)
LVMH	Luxury Conglomerate	France	51	-	275,902,141
PPR	Luxury Conglomerate	France	36	1	565,817,749
Richemont	Luxury Conglomerate	Switzerland	6	-	1,607,500,000
Swatch	Luxury Conglomerate	Switzerland	6	1	n.a.
Christian Dior	Fashion	France	1	1	39,300,000
Escada	Fashion	Germany	2	-	10,800,000
Etienne Aigner	Fashion	Germany	-	2	6,561,847
Gucci	Fashion	Italy[20]	19	19	961,064,771
Hardy Amies	Fashion	United Kingdom	1	2	743,400
Hermès International	Fashion	France	3	-	10,563,333

Figure 4[140]

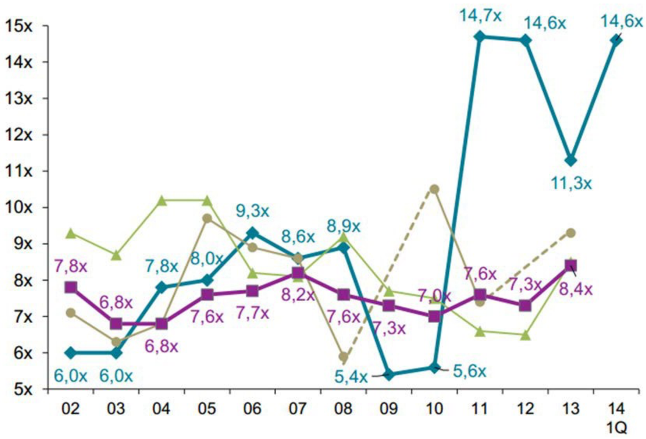
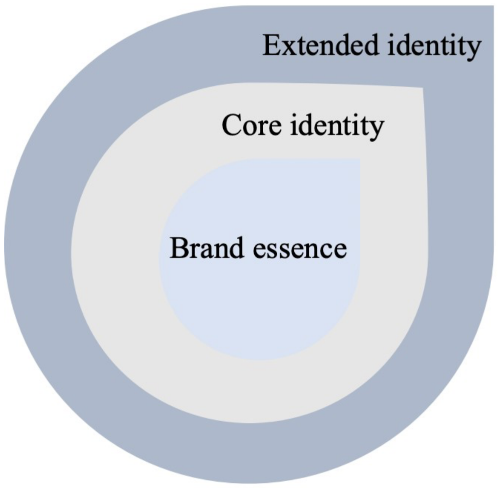


Figure 5[141]

[139] Emea equity research, luxury goods, luglio 2012, HSBC.
[140] See Königs A., Schiereck D., supra note 33
[141] Aacker e Joachimsthaler model


Extended identity
Core identity
Brand essence