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Master's Degree Thesis in Corporate Finance

Chair of Cases in Business Law

M&A Transaction in the Eyewear Industry: The EssilorLuxottica – Grand Vision Case Study (2021)

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Introduction

The eyewear industry is undergoing a transformation phenomenon very similar to that experienced by the fashion industry in recent years. Indeed, there is a trend of market concentration in the eyewear industry, leading to the creation of prominent players, almost conglomerates, that dominate the market.

In this context, the dissertation aims to analyse the transaction between the two leaders of the eyewear market, EssilorLuxottica and GrandVision, with a twofold objective.

The first research question, to be answered in the first part of the work with a qualitative analysis is:

What is the rationale behind the transaction, and which are the resulting synergies?
Given these synergies, what are the implications of the transaction on the competition in the eyewear market?

The second research question that will be answered in the second part of this work is:

Is the price paid by EssilorLuxottica for GrandVision's acquisition consistent with the fair value of the company?

For the purpose of this paper, "fair value" of a company means the determination of the value of the company on the basis of quantitative financial models such as Discounted Cash Flow, the Comparable Analysis and others[1].

To answer these two questions, there will be firstly a focus on the literature review inherent to the case study analysed. In detail, the first chapter will initially define what is meant by a merger and acquisition transaction and what are the current trends in the European context. Afterwards, it will focus on the M&A approval process, which can be summarised in three steps: Board

[1] Dividend Discount Model, Comparable Acquisition Analysis

Reccomandation, Shareholder Approval and Antitrust Approval. In this section, the regulation inherent to the tender offer will be provided, as it is the contract under which the transaction is conducted.

In the second chapter, the Essilor-Luxottica-GrandVision case study is analysed in detail, focusing initially on the eyewear sector in which both companies operate, and then analysing the history of the transaction with particular attention to the Antitrust Authority approval. Finally, the motivations behind the transaction and the structure of the agreement will be analysed in order to have all the elements to answer the first research question.

The second part of this work is dedicated to the valuation of GrandVision. In detail, the third chapter provides the theory of the analysis methodology used, which consists of three business valuation methods: Discounted Cash Flow, Comparable Analysis and Comparable Acquisition Analysis. The fourth chapter then provides the results of these analyses to answer the second research question concerning the deal price.

Chapter 1 - M&A transaction overview

The first chapter of the dissertation will provide the literature framework of the case study to understand and analyse it in the following chapters. As the case study of this dissertation refers to an M&A transaction, the first paragraph will define what is meant by an M&A transaction, what are the several types of transactions based on their nature and the rationale behind them.

The second paragraph will investigate the M&A trends and drivers, with a specific focus on Europe, which is the M&A market in which the transaction that will be discussed took place. This paragraph will provide a quantitative analysis of the M&A trends in Europe from 2006 to 2020, dividing the data based on three variables: sector, geography, and deal size.

The third section will analyse the M&A approval process and its three stages: the board recommendation, the shareholders' approval, and the antitrust approval. In the following sections then, a specific focus will be made on each of these steps.

Initially, in the fourth paragraph, there will be a focus on the corporate governance aspects, such as the duties of directors that are relevant in the context of M&A transactions, as well as the role of the M&A market as an external corporate governance mechanism also known as market for corporate control.

Then, the fifth paragraph will focus on the tender offer, which is the agreement used to conclude the M&A transaction that will be analysed. Expressly, since it is a cross-border transaction, it is provided both the EU regulatory context and the specific context to which the target company is subjected according to where it is incorporated.

Finally, in the last paragraph, following the last stage of the approval process, there will be a specific focus on EU antitrust regulation, to which the transaction we are about to discuss has been subjected.

1.1 M&A overview

Although there is a clear distinction between the economic implications of a takeover or acquisition and a merger, both terms are frequently used interchangeably. Acquisition refers to activities by which acquiring firms gain control of more than 50% of a target firm's equity[2]. In contrast, a merger refers to an agreement between two organizations to merge into one. Purchasing more than 50% of a target firm's stock empowers the buyer to decide on the newly acquired assets without seeking the consent of the other shareholders in the company.

Three distinct types of M&A activity can be recognized based on their nature[3]:

- **Horizontal M&A**: A horizontal M&A transaction happens when the target company and the acquirer operate in similar industries, and they may or may not be direct competitors;
- **Vertical M&A**: Vertical integration occurs between a company and its supplier or customer along its supply chain. It can be carried out in two different ways: the first refers to integration between stages, which means between firms at different stages of the supply chain, and is divided into backward integration when a firm acquires its input supplier, and forward integration when a firm acquires its product distributor. By contrast, the second type of integration is within-stage, that is, between firms in the same stage of the supply chain.
- **Conglomerate M&A**: A conglomerate M&A transaction happens when the target and the acquirer operate unrelated businesses. Usually, the rationale behind this type of transaction is diversification, even though sometimes it is associated with a discount[4].

In the M&A transactions, the acquiring entity must purchase the stock or existing assets of the target either for cash or for something of equivalent value (e.g., shares in the acquiring or newly merged corporation). We can have different types of deals based on the financing source used for the transaction. Indeed, when the fundings are in the form of cash, the acquirer can decide to buy the target company by using the cash it has on the balance sheet or raising debt to make the acquisition; whereas in case the funding is in the form of stock, we talk about stock swap deal,

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[2] Piesse, J., Lee, C.F., Lin, L., Kuo, H.C. (2013). *Merger and Acquisition: Definitions, motives, and market responses*. Encyclopedia of Finance, 27, 542-571

[3] https://corporatefinanceinstitute.com/resources/knowledge/deals/mergers-acquisitions-ma/

[4] Campa, J.M., Kedia, S. (2002). *Explaining the diversification discount.* Journal of Finance, 57(4): 1731-1762.

because target shareholders are swapping their old stock for new stock in either the acquirer or the newly created merged firm. Technical reasons behind the decision of one of the two payment options aforementioned exist. Indeed, when the target shareholders get paid in stock, it can potentially defer the payment of taxes on gain associated with the sale. At the same times, for the seller, a stock deal makes it possible to share in the future growth of the business as well as the risk related to it[5].

1.1.1 Rational behind M&A transactions

The M&A transaction is a type of business strategy a company can adopt. Indeed, the company can decide to grow through organic growth, which is the growth a company achieves by increasing output and enhancing sales through internal investment [6] (i.e. investment in technologies, in products or in employees). This type of business strategy is also defined as "make" rather than buy and does not necessarily mean that this is a slow process. The other meaningful way for companies to grow is through inorganic ways, and this is where M&A comes into play.

Different reasons can lead a firm to grow through an M&A transaction, and the most common are:

- **Economies of Scale**: Economies of scale can be realized in the acquisition of one firm and a competitor if the purchase results in reduced average production costs or the elimination of redundancies in the organization;
- **Time to Market**: This is a variant of economies of scale, and its objective is to enter new businesses or develop new business lines. This is particularly true for the technology industry; indeed, rather than investing time and resources to develop in-house new technologies, these companies prefer to buy start-ups or new players coming up in the market because it allows them to have a better ability to choose where they want to be and secondly it is a much quicker way to address a specific market;

[5] https://www.wallstreetprep.com/knowledge/how-buyers-pay-in-ma-cash-vs-stock/
[6] https://www.investopedia.com/terms/i/inorganicgrowth.asp

- **Combination of Customer and Supplier**: A company buys a supplier, or a supplier acquires a customer to reduce the risk of dependence on an outside supplier and to internalize the margin portion that typically would be lost in each step of the value chain;
- **Product Line Diversification**: Diversify a company's risk profile by expanding into new industries;
- **Defensive Acquisitions**: **t**he acquirer's business may be experiencing a severe slump, and the acquisition may alleviate the reason for the downturn;
- **Managerial Motives**: An acquirer may think it can enhance the value of an acquired business by replacing its management; this falls within the external corporate governance mechanisms and is known as market for corporate control;
- **Acquisition of a Control Premium**: The rationale is based on the assumption that public trading markets misprice publicly owned stocks because the stock's market value is that of the individual stockholder who does not have control. Because of the severe downturn, bidders may merely bid for companies to capture the control premium inherent in the stock, which they may subsequently cash out by selling the control premium to another purchaser.

Talking more broadly, the rationality behind M&A transactions are synergies which usually fall into two categories: cost reductions and revenue enhancements. Cost reduction usually implies layoffs of overlapping employees or elimination of redundant resources, while revenue enhancements are due to the possibility of expanding into new markets or gaining more costumer. For such synergies, the target usually receives a premium; indeed, the amount paid for the acquisition is calculated as the target's pre-bid market capitalization plus the acquisition premium. From the acquirer's point of view, the value of the company acquired is given by the target stand-alone value plus the present value of synergies. Therefore, the takeover has a net present value higher than zero only if the premium paid by the acquirer does not exceed the synergies created. However, while the premium is a concrete number, synergies cannot be calculated a priori; therefore, investors may be sceptical about their magnitude.

1.2 Trend in M&A activities

M&A activities tend to come in waves, in the sense that there is a robust correlation between the behaviour of M&A activity and the economic condition of countries, economic trends and financial markets.. Indeed, when the economy grows and, as a consequence, financial market confidence is high, the number of M&A transactions tends to be relatively high, whereas, when the economy is slowing down, and markets are pessimistic, the number of M&A transactions tends to be reduced.

The central theme which drives these trends is business confidence. Indeed, companies tend to be more acquisitive when they are confident about business perspectives. Moreover, if the market is also growing, their valuation tends to be higher; therefore, they have a stronger acquisition currency. Similarly, companies tend to be more acquisitive when there is a positive environment and low-interest rates because the cost of indebtedness is lower. In the other way around, when the future is more uncertain, there are less transactions for both psychological reasons and for tactical reasons (i.e. the acquirer may think that if he waits a bit longer, target may fail and so it become cheaper to acquire it in a context of distressed M&A).

1.2.1 European M&A trends

The M&A market became relevant in Europe around 2007; indeed, that year was the first time in recent history that the volume of mergers and acquisitions was higher than in the US[7]. Soon after the positive trend, the financial crisis had an adverse effect on European M&A activity, which showed a negative trend after 2007; indeed, when sub-prime loans crashed in 2008, the result was a rise in global instability and a tightening of credit. The industry started to recover in 2010, exhibiting a positive trend, as shown in the table below. In 2018 it reached the highest value at €1,2 trillion with a growth of around 289%, with respect to 2009 (Table 1.2.1.1). In 2020, the scenario that could be expected for the M&A market was very unfavourable for several reasons: the spread of COVID-19 in Europe brought concerns regarding its potential impact on the economy, corporate liquidity, and M&A transactions; mass protests and the chaotic path to Brexit

[7] Caterina, M., Campa, J.M. (2009). *The European M&A Industry: A Market in the Process of Construction*. Academy of Management Perspectives, 23(4), 71-87.

had also introduced important social and geopolitical issues; and dealmakers faced increased government intervention as authorities moved to protect systemically important technology, security, and healthcare assets for reasons of national and economic interest[8]. Nonetheless, European M&A activity proved surprisingly healthy in 2020, indeed, the deal value exceeded the €1.0 trillion threshold (Table 1.2.1.1). The fact that the M&A market reacted extremely well to the Covid-19 crisis was driven by realised vaccine promises and a generous fiscal-monetary package worth trillions of euros[9]. The robust M&A data was also influenced by favourable credit markets, low-interest rates, and equity investors' willingness to pay for diversified scale and growth.

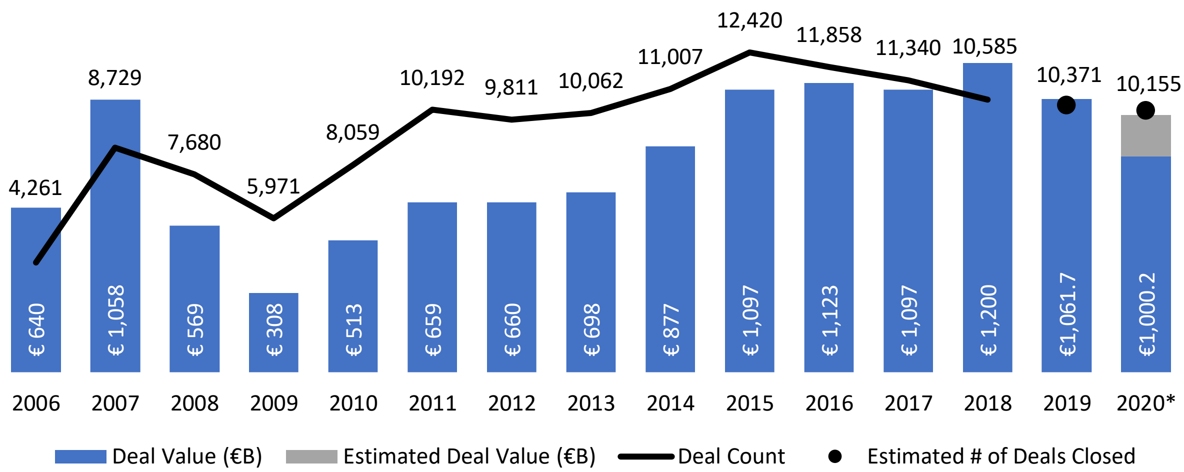

Table 1.2.1.1: *European M&A Activities: Deal Value in Billion €*
Source: Pitchbook, European M&A Report 2020

Looking to the future, we expect the European M&A market to experience a positive trend for several reasons. Economic confidence in the boardrooms and executive suites is primarily up for three main reasons: political certainty from the US election and Brexit, the start of global inoculations, and robust capital markets[10]. In addition, sustained low-interest rates suggest valuations will remain elevated, thereby putting further pressure on companies to grow, and M&A

[8] PitchBook Data, Inc. (2020). *European M&A Report.*
[9] https://www.bloomberg.com/news/articles/2022-02-01/europe-spent-just-a-third-of-3-trillion-euro-covid-war-chests
[10] PitchBook Data, Inc. (2020). *European M&A Report.*

will be a crucial growth strategy used by organizations to meet these elevated market valuations after earnings will return to an average level, and a sense of stability has returned. Finally, since large companies have not had the opportunity to invest, they now have much liquidity that could potentially be used for M&A strategies.

1.2.2 Sector Breakdown: European M&A Activity

Breaking down M&A activities based on the industry can provide helpful insight. The macro aggregate of B2B and B2C markets represents most of the M&A transactions in Europe, and this is related to the fact that these two markets are growing very fast[11] and, moreover, are creating unexplored markets in which companies tend to enter through M&A transaction for the reasons mentioned in the paragraph above.

Both the technology and healthcare sectors, two areas that have contributed to the pandemic's solutions, have seen an increase in M&A activity as a result of COVID-19. Technology accounted for 21.9 % of total M&A transaction volume in 2020 (Table 1.2.2.1), a record-high and much higher than the 13.1 % it did ten years earlier (Table 1.2.2.1). Due to COVID-19, the digital revolution has been dramatically accelerated, with enterprises being forced to accelerate their digital adoption and transformation plans due to stay-at-home orders and a remote workforce. The bulk of 2020's M&A activity within the technology sector occurred in the software space, which contributed 57.4% of overall deal in the sector[12]. Due to their recurring income streams and asset-light business models, software-as-a-service (SaaS) companies have attracted unprecedented interest, as in a company's workflow, software services frequently perform critical roles, and without them, business operations would be severely interrupted. Additionally, SaaS systems can help organisations achieve unprecedented scale and hyper growth.

As might have been expected, the health care sector, a habitual refuge in times of crisis, saw a lot of merger and acquisition activity in 2020. The sector completed M&A transactions for €123.2 billion in 2020 (Table 1.2.2.1), which is the second-highest total in more than ten years. In fact,

[11] https://info.ibt.onl/international-business-and-technology-blog/b2b-ecommerce-is-twice-the-size-of-b2c-and-growing

[12] PitchBook Data, Inc. (2020). *European M&A Report.*

the healthcare sector was the only one to have annual increases in M&A value beginning in 2019, and healthcare services contributed the bulk of M&A volume in 2020. The reasons for that can be found in the fact that COVID-19 has certainly augmented the appetite for pharmaceutical asset as government pandemic preparedness divisions proliferate and consumers become even more health conscious[13]. In addition, to improve product tracking, pharmaceutical companies prioritized go-to-market strategies and reorganized their supply networks. In general, due to the COVID-19 crisis, European consumers have quickly adopted telehealth and online pharmaceutical channels. Profit pools and market leaders will vary as customer behaviours continue to shift in favour of healthcare services that can be accessed online. This is encouraging for future M&A activity in the industry.

Innovations and technology development are the main reasons behind the increase over time of M&A transactions in Financial Services. Indeed, technology is shaping the way of doing business with the rise of a new sub-industry, fintech, that sees the emergence of numerous start-ups who put pressure on more traditional companies and push them to innovate (i.e Revolut, the start-up that modernised the banking market with the open banking system [14]). Looking at the table below, what seems unexpected is the decrease in the value of deals that have occurred in the energy sector. In fact, the total deals value in 2020 is 24% below 2006, passing from 53,5 to 40,6 billion € (Table 1.2.2.1). This could be explained by the fact that the energy sector, being a capital-intensive industry, requires considerable investments to innovate; therefore, the industry is usually concentrated, with high entry barriers, and the companies prefer to grow through organic growth strategies.

[13] PitchBook Data, Inc. (2020). *European M&A Report.*
[14] https://www.fintechfutures.com/2020/04/revolut-and-open-banking-whats-the-big-deal/

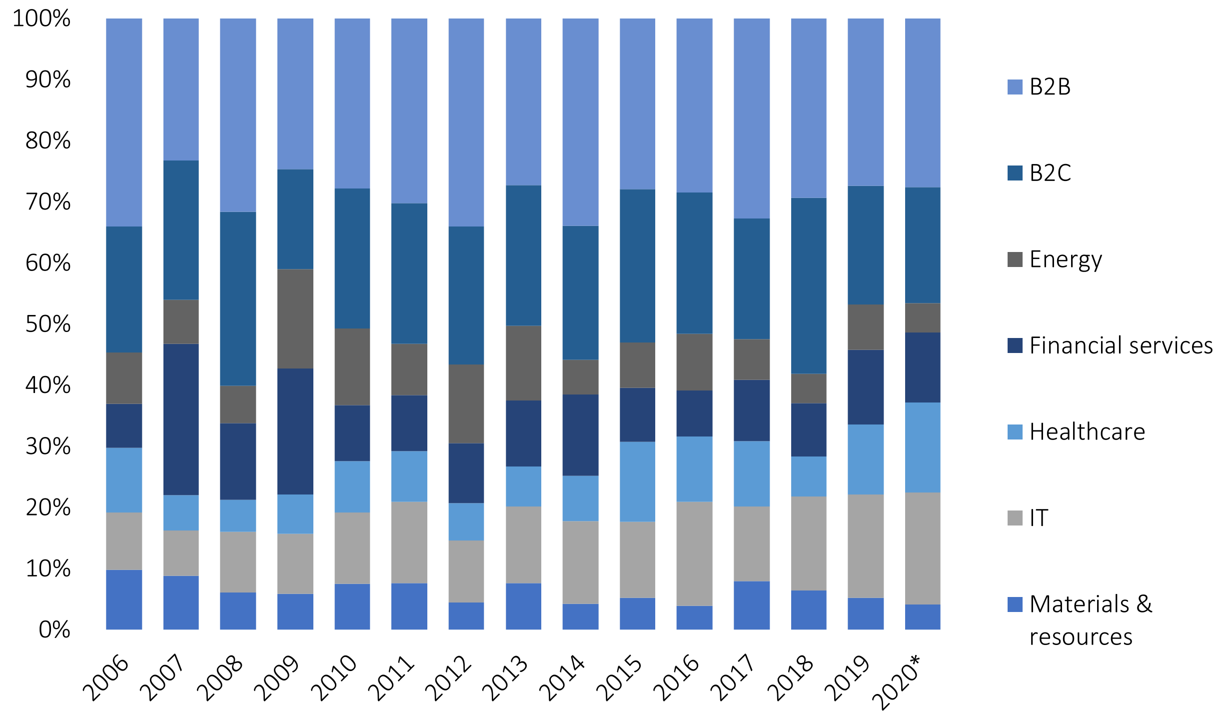

Table 1.2.2.1: *European M&A Activities: Sector Breakdown*
Source: Pitchbook, European M&A Report 2020

1.2.3 Geographic Breakdown: European M&A Activity

By breaking down European M&A activity based on the geographic area, we first notice that the UK/Ireland's companies rely more on M&A to achieve their goals with respect to the rest of the sample. Indeed, in 2020, the UK market share was around 31% of the total sample (Table 1.2.3.1). This proves that the UK market is more efficient compared to the rest of Europe, and this is explained by the fact that most industries are highly competitive and heavily rely on capital markets for funding needs rather than bank debts. The other interesting thing, as shown in the table below, is that while all European regions' M&A volumes declined from 2019, the smallest declines were seen in France and Benelux[15]. The number of M&A transactions completed in this area in 2020 was 1,688, accounting for 21.6 % of the total M&A volume (Table 1.2.3.1).

[15] Benelux is a politico-economic union and formal international intergovernmental cooperation of three neighboring states in western Europe: Belgium, the Netherlands, and Luxembourg.
Source: https://www.treccani.it/enciclopedia/benelux/

This is an excellent result considering that France, prior to the pandemic, was already struggling with slow economic growth; in fact, both the populist Gilets Jaunes movement and protests against pension reform weighed on French economic activity. As for the future, great things are expected from the France M&A market for two main reasons. The first is related to the fact that through state-guaranteed loans, deferred taxes, layoff plans and credit line extensions, the French government has injected billions of euros in fiscal stimulus to support the economy[16]. The second reason is that a portion of the UK's M&A activity will inevitably go to France as a result of Brexit, mainly as France exerts greater influence on the UE community and pushes to redefine itself as the gateway to Europe; indeed, many London euro-denominated securities are now traded on the Paris Stock Exchange.

The other European area that holds a significant share of the total volume of mergers and acquisitions is the DACH[17] region, indeed, with 1229 deals they account for the 16% of the total M&A volume in Europe (Table 1.2.3.1). These countries experienced a significant drop in M&A deals of around 22,7% in 2020 compared to the year before (Table 1.2.3.1). In 2016, the highest volume of M&A deals in the DACH regions was recorded; since then, there has been a downward trend except for 2019, where the number of deals increased slightly.

The negative result in 2020 can undoubtedly be explained by the impact of the pandemic crisis, as it brought uncertainty to the market, which leads M&A market players to be less confident in undertaking this type of growth strategy.

The Nordic Region[18] accounted for 13% of the total M&A volume in Europe in 2020, with 1014 deals that, in respect of 2019, represent a significant drop of about 24.5% (Table 1.2.3.1). Even without taking 2020 into account, the M&A market did not grow much from 2014 to 2019, with moderate growth of only about 0.8% and a peak in 2017, the year in which it reached its highest value since 2006 (Table 1.2.3.1).

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[16] PitchBook Data, Inc. (2020). *European M&A Report.*

[17] DACH stands for Deutschland (Germany), Austria, Confœderatio Helvetica (Switzerland). Therefore, it refers to German-speaking Europe. *Source: https://worldpopulationreview.com/country-rankings/dach-countries*

[18] The Nordic Region consists of Denmark, Norway, Sweden, Finland, and Iceland, as well as the Faroe Islands, Greenland, and Åland. *Source: https://nordics.info/show/artikel/the-nordic-region*

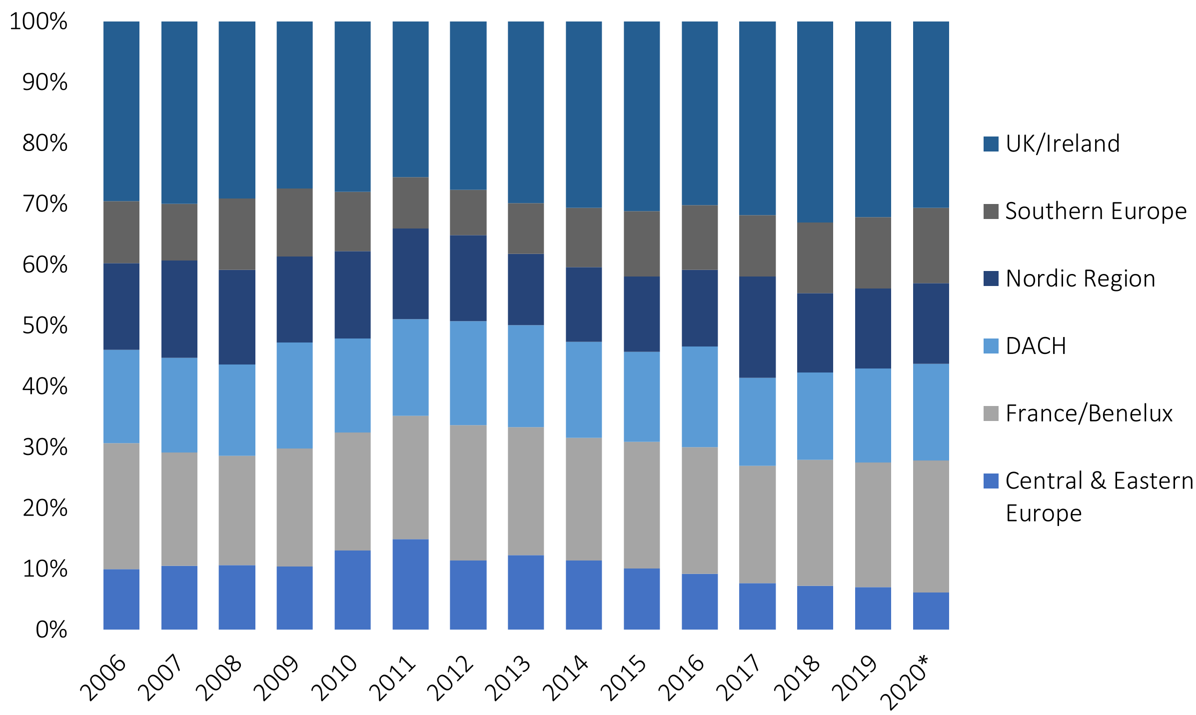

Table 1.2.3.1: *European M&A Activities: Geographic Breakdown*
Source: elaboration of data from Pitchbook, European M&A Report 2020

1.2.4 Deal Size Breakdown: European M&A Activity

By breaking down European M&A activities based on the value of the deals, we immediately notice that most of them are of small size. Specifically, about 74% of the total sample is attributed to deals with a value under EUR 100 million (Table 1.2.4.1). This can be partly explained by the fact that in many European countries, the business landscape is made up of family-owned companies that are usually small in size and therefore have low valuations. These companies are often the protagonists of M&A transactions as a consequence of the generational change that is taking place in the companies. Concerning the deals with a value over EUR 5 billion, therefore comparable to the case study that we will analyze in the next chapter, they are somewhat rare; indeed, they represent around 1% of the total sample with a surprising increase of around 18% compared to 2019 despite the impact of covid (Table1.2.4.1). The reasons for these results are similar to the ones mentioned above. Hence, few companies in Europe have market capitalizations higher than EUR 5 billion compared to, for instance, the US or Chinese stock market.

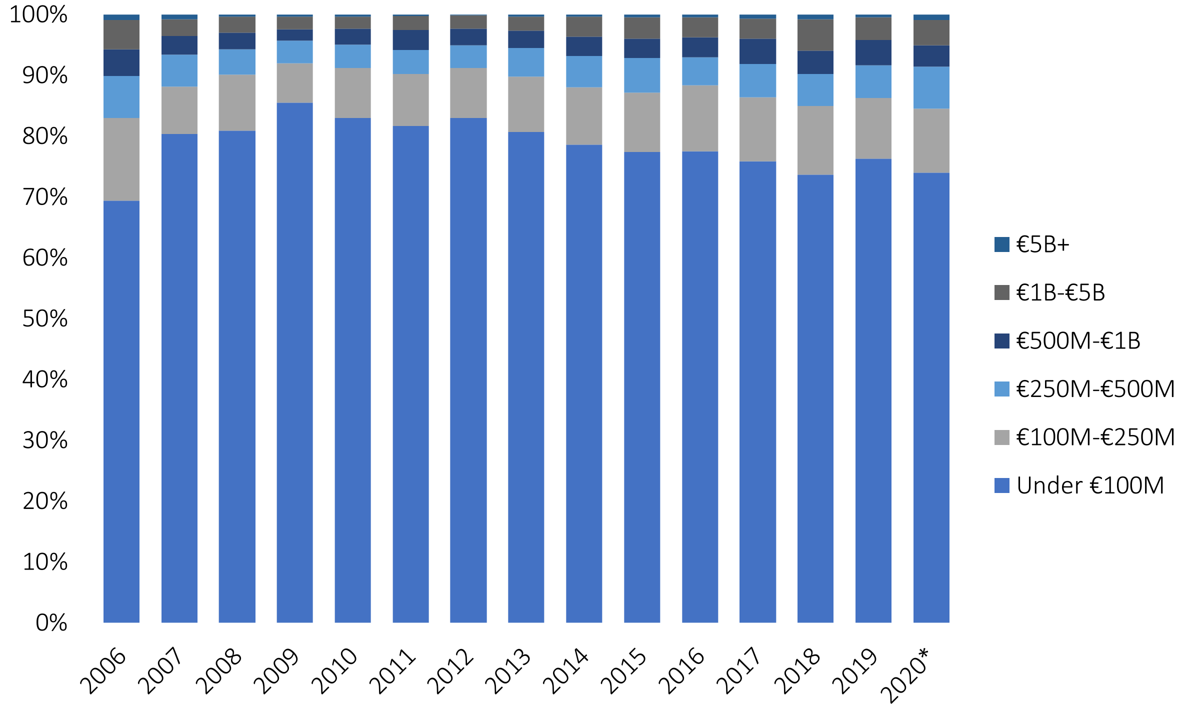

Table 1.2.4.1: *European M&A activities Breakdown by Deal Value*
Source: Pitchbook, European M&A Report 2020

1.3M&A Approval Process

Before diving into the M&A approval process, we should specify that it consists of three distinct stages: the first involves obtaining recommendations from boards of directors; the second involves shareholder approval through a voting mechanism; and the last one involves antitrust approval.

The first step for the potential acquirer is to approach the board of the company target and start to negotiate an agreement. The board has to evaluate whether the transaction should be recommended or not: in case the potential acquirer is recommended by the board to the shareholders we talk about friendly takeover; while, if the board does not recommend the acquirer to the shareholders or the acquirer decide to bypass the board and go directly to the shareholders we talk about hostile takeover. There are several advantages and disadvantages for the acquirer that needs to be considered before approaching the target with one of the two aforementioned methods. For instance, from the acquirer's point of view, there are several advantages of going for a friendly takeover, such as paying a lower control premium, getting ongoing cooperation from the management and the fact that a friendly takeover is likely to run to a shorter bid timetable.

Several types of agreements can be negotiated among the parties, and it depends on the type of transaction and their strategic objectives. For instance, a potential acquirer can go directly to the board and negotiate for an Exclusivity Agreement, which is generally used to give the buyer a period in which to conduct due diligence and negotiations without competition from other potential buyers[19]. When the seller decides to sign that type of agreement is usually confident of closing the transaction and therefore is willing to lose the competition that he would have if he had opted for an auction process.

Once the acquirer terminates the due diligence process, it starts negotiating the sales and purchase agreement with the board. The Sales and Purchase Agreement is a legally binding contract outlining the agreed-upon conditions of the buyer and seller of a property (i.e., a corporation).[20] The type of agreement, is the main legal document in any sale process, and it is subject to conditions such as shareholders' approval in the case of an M&A transaction. The contract can take different forms, such as a stock purchase agreement, an asset purchase agreement, a tender offer document, or a merger agreement. In the next chapter will be analysed the specific contract in place for the case study, which is a tender offer agreement.

The second step of the M&A process is the shareholder's approval. In a friendly takeover, as said before, the target company board calls an extraordinary general meeting and asks shareholders to vote on approval of the transaction. In a hostile takeover, instead, the potential acquirer goes directly to the shareholders and asks for their approval. Europe still lacks a common takeover bid framework; indeed, several directives have been issued, but unlike regulations, which are binding legislative acts, the former set a target that all EU countries must achieve. However, it is up to individual countries to define how these goals are to be achieved through national provisions[21].

[19] https://uk.practicallaw.thomsonreuters.com/w-029-3786?transitionType=Default&contextData=(sc.Default)
[20] https://corporatefinanceinstitute.com/resources/knowledge/deals/sale-purchase-agreement/
[21] https://european-union.europa.eu/institutions-law-budget/law/types-legislation_it

For the aforementioned reasons, the quorum required for the approval of an M&A transaction differs depending on the country in which the target company is legally incorporated. In the specific case we will analyse in the next chapter, the target company, Grand Vision, was incorporated under Dutch law, which is, therefore, the law applied to the transaction.

The Dutch Civil Code, Book 2, about Open Corporations (Public Limited Company) at the article 2:120 states that[22]:

"Where the law or the articles of incorporation do not require a larger majority, a resolution shall be passed at a General Meeting by an absolute majority of the votes cast."

Under Dutch law, an absolute majority is at least half plus one vote. However, Book 2 of the Civil Code or the articles of incorporations can require that certain resolutions are adopted by a qualified majority, which is reached with 2/3 of the votes[23].

Once the shareholders have approved the transaction, the third step is to obtain antitrust approval. M&A transactions that took place within the UE territory and those that reach certain turnover thresholds are regulated by the UE Commission. In contrast, smaller mergers which do not have an EU dimension may fall instead under the remit of Member States' competition authorities[24]. The deal can be formally closed if the Commission approves the transaction; nonetheless, it effectively requires time for the acquirer to fully incorporate the target company and obtain the expected synergies from the deal.

1.4 Corporate Governance in M&A

In order to properly understand the role of the board in an M&A transaction and the possible frictions that may lead to the non-recommendation of a transaction, it is necessary to define what

[22] Dutch Civil Code, Book 2, Legal Person. *Open Corporations (Public Limited Company).* Dutch Civil Law, 2 (4.4).
[23] https://uk.practicallaw.thomsonreuters.com/w-029-3786?transitionType=Default&contextData=(sc.Default)
[24] European Commission. (2004). *Competition: Merger Control Procedure.*

is meant by corporate governance, what the duties of the directors are in carrying out their role, and how M&A falls under one of the external corporate governance mechanisms.

With corporate governance, we intend the system of incentives, controls, and regulations designed to address conflicts of interest within the company. There are several reasons for this misalignment of interests. It exists as long as agents (managers) do not fully internalise the cost of their actions because the shareholders pay for their errors. Secondly, it also exists because there are different risk preferences among the managers and the owner; for instance, in the case of diversification, we have seen that managers are pushed to diversify because they have a stake only in one company, and so they are not diversified as the investors could be on their own. Another piece of evidence favouring different risk preferences is that while the investors are usually risk-averse, the managers are averse to losses and have been shown that, to cover losses, they are willing to take riskier decisions compared to a normal situation. This leads to viewing the risk as a function of "option framing". The last reason for this misalignment of interest could be attributed to interpretation problems in carrying out the delegated task. These conflicts lead to three types of agency problems: the first concerns the relationship between managers and owners, the second concerns the conflict among majority vs minority shareholders and the last concerns the conflict among shareholders and other stakeholders (i.e. bondholders). The main corporate governance mechanisms to address the aforementioned conflicts are monitoring mechanisms aimed at guiding or controlling behaviour and decisions, and aligning mechanisms aimed at incentivising expected behaviour and decisions. These mechanisms can be:

- Internal mechanisms like large shareholders, the board of directors, incentive plans, internal control systems, and high financial debt;
- External mechanisms like the market for corporate control, the managerial labour market, investor protection, the directors' fiduciary duties, good governance codes, external auditors, rating agencies, and the media.

The board of directors is the primary internal mechanism to avoid conflict of interest; indeed, directors have fiduciary duties toward corporations that can be summarised in three factors[25]:

- Duty of care: requires directors to make decisions in good faith and in a reasonably prudent manner
- Duty of loyalty: in case of conflict of interests, the director acts in favour of the firm over her/his personal interest
- Duty of candor: directors inform shareholders of all information relevant for the management and firm valuation

For instance, in the case of an M&A transaction, according to the duty of loyalty, the board of directors of the target company is required to inform and recommend the transaction if a potential acquirer offers a price higher than the market value of the target. In this case, and particularly if it is a hostile takeover, the directors might be tempted not to favour the transaction for personal reasons such as fear of being replaced once the acquirer finally absorbs them. In the event of non-compliance with these duties, the executive directors may be liable for the damages caused by the decision. The non-executive directors might be jointly liable if they did not do everything possible to prevent such actions or mitigate their negative consequences. However, the court evaluates directors' behaviour based on the so-called "business judgment rule", meaning that it evaluates if directors have taken informed and well-prepared decisions in the interest of the firm and not if the results of these have been positive or negative. However, the company can indemnify directors for costs associated with securities class actions by purchasing directors' and officers' liability insurance (D&O Insurance), which of course, has coverage limits and is not valid in case of fraud committed by the director.

Within the external corporate governance mechanism falls the M&A transaction under the market for corporate control. This mechanism aims to allocate the ownership to those who believe to be able to manage the company more efficiently. The market for corporate control is based on the efficient market hypothesis, which suggests that the market will correct high agency costs when

[25] Zattoni, A. (2020). *Corporate Governance: How to design a good company*. Bocconi University Press.

managers make strategic decisions designed to satisfy their own self-interest, and thereby cause others to undervalue the firm's assets in the equity market. Because of that, in an efficient market, the stock price declines because the firm's prospects are downgraded based on managerial inefficiency. In this situation, a different management team which believes that the company is undervalued, takes control of it, and alters its management and business strategy in an effort to raise the value of its assets. Indeed, the three alternatives to reallocate the control are the proxy fight[26]; the friendly takeover or a hostile takeover.

1.5 Tender offers

As mentioned in the previous paragraphs, in the case of an M&A transaction what is usually negotiated and then placed for shareholder approval is the sales and purchase agreement which can take various forms including a tender offer document. Since the Grand Vision acquisition that we are going to analyse in the next chapter was concluded with this type of agreement, we will now provide its regulatory framework.

A tender offer is a proposal that an investor makes to the shareholders of a publicly traded company[27]. The proposal is to tender, or sell, their shares at a fixed price and at a predetermined time. The bulk of tender offers are made at a predetermined price that is significantly higher than the share price at the time of the offer. The premium is being paid in an effort to persuade many shareholders to sell their shares and acquire the control of the company, indeed, the ability of the prospective buyer to acquire a specific number of shares, such as enough shares to create a controlling stake in the firm, may be a requirement of the offer in the case of a takeover attempt. A target company's shares typically trade below or at a discount in respect to the offer price the day following the announcement of a tender offer, which is related to uncertainty and the time needed for the offer. The spread gets smaller as the closing date gets closer and problems are fixed.

Generally, there are two different types of tender offer:

[26] Proxy fights: occur when a group of shareholder, tries to gather enough shareholder proxies to present a different list of directors. *Source: https://corporatefinanceinstitute.com/resources/knowledge/finance/proxy-fight/*
[27] https://corporatefinanceinstitute.com/resources/knowledge/deals/tender-offer/

- The voluntary tender offer, which is the most common and involves a bidder offering to acquire all the securities of the target company that it does not already own;
- The mandatory tender offer, on the other hand, is launched by the potential acquirer when certain participation thresholds are exceeded according to the securities laws and regulations or stock exchange rules governing corporate takeovers.

There are several advantages for the investors to approach the target company through a tender offer. For instance, investors are not required to purchase shares until a specific number of shares are issued, eliminating the need for a sizable upfront cash investment, and preventing investors from liquidating their positions in the event that the offering is unsuccessful. Additionally, buyers are permitted to incorporate "escape clauses," which release them from obligation to buy the shares[28]. For instance, if a proposed acquisition is rejected by the competent antitrust authority, the buyer may choose not to accept the offered shares. If shareholders accept such proposals, investors frequently take control of the target companies in less than a month.
Although takeover bids offer many advantages, there are also some disadvantages. A tender offer is an expensive way to complete a takeover, as the potential buyer incur all the expenses of preparing the documentation to be submitted for both shareholder and authority approval. In addition, the process can take a long time, as depository banks verify the shares offered and make payments on behalf of the acquirer. Finally, if there are other potential buyers, the offer price increases, and since there are no guarantees, the one who launched the offer may lose money in the transaction (i.e. expenditure for accounting and legal due diligence).

1.5.1 European Tender Offer Rule

There is still no common framework in Europe regarding the tender offer rules, which poses difficulties, especially in M&A cross-border transactions. The major European tender offer rules can be found in Directive 2004/25/EC of the European Parliament and the Council of April 21, 2004. With this Directive, two key goals were to be achieved: the first related to the promotion of an effective market for corporate control, and the other one concerning the protection of minority

[28] https://www.investopedia.com/terms/t/tenderoffer.asp

shareholders. Unlike a "regulation," which is a binding legislative act and must therefore be applied in its entirety across the EU, a directive is a legislative act that sets out a goal that all EU countries must achieve, but on how to accomplish these objectives is up to the different nations.

Indeed, Article 4 of Directive 2004/25/EC in paragraph 1 states that:

"Member States shall designate the authority or authorities competent to supervise bids for the purposes of the rules which they make or introduce pursuant to this Directive. The authorities thus designated shall be either public authorities, associations or private bodies recognised by national law or by public authorities expressly empowered for that purpose by national law. Member States shall inform the Commission of those designations, specifying any divisions of functions that may be made. They shall ensure that those authorities exercise their functions impartially and independently of all parties to a bid."

Therefore, for each country in the EU, there may be different rules and different authorities to enforce them. This, as mentioned above, can create problems in the case of cross-border transactions, as the bidder, for instance, would have to spend cost to prepare documentation for the different authorities to which it is subject (i.e. in the case of competition it has to notify both the competent National Authority and the EU Commission); or simply needs to hire consultants who know the environment in which the target company is incorporated.

The main rationale behind tender offer rules, as above-mentioned, is the protection of minority shareholders. Indeed, Article 5 of Directive 24/2005/EC in paragraph 1 states that[29]:

" Where a natural or legal person, as a result of his/her own acquisition or the acquisition by persons acting in concert with him/her, holds securities of a company as referred to in Article 1(1)[30] which, added to any existing holdings of those securities of his/hers and the holdings

[29] *Directive 2004/25/EC of the European Parliament and of the Council.* Official Journal of the European Union

[30] "*This Directive lays down measures coordinating the laws, regulations, administrative provisions, codes of practice and other arrangements of the Member States, including arrangements established by organisations officially authorised to regulate the markets (hereinafter referred to as 'rules'), relating to takeover bids for the securities of companies governed by the laws of Member States, where all or some of those securities are admitted to trading on a regulated market within the meaning of Directive 93/22/EEC ([11]) in one or more Member States (hereinafter referred to as a 'regulated market')"*

of those securities of persons acting in concert with him/her, directly or indirectly give him/her a specified percentage of voting rights in that company, giving him/her control of that company, Member States shall ensure that such a person is required to make a bid as a means of protecting the minority shareholders of that company. Such a bid shall be addressed at the earliest opportunity to all the holders of those securities for all their holdings at the equitable price as defined in paragraph 4."

As seen above, there are two types of tender offers: voluntary and mandatory. The mandatory tender offer aims to protect minority shareholders; indeed, paragraph 2 of Article 5, of the Directive 24/2005/EC specifies that the requirement in paragraph 1 to launch a mandatory offer no longer applies in the case of a voluntary tender offer.
In the case of the mandatory offer, the regulator wants to allow all shareholders to exit their investment by selling their shares to the potential buyer at an equitable price, which is defined in the article 4 of Directive 24/2005/EC as[31]:

" The highest price paid for the same securities by the offeror, or by persons acting in concert with him/her, over a period, to be determined by Member States, of not less than six months and not more than 12 before the bid, ..."

In addition to that, if the bidder or any person acting in concert with him/her purchases securities at a price higher than the offer price before the offer closes for acceptance, the bidder must increase his/her offer so that it is not less than the highest price paid for the securities thus acquired. There are two main reasons for shareholders to accept the offer. From a subjective point of view, there may be little trust in the company's new management or a failure to share its strategic vision. On the other hand, from an objective point of view, thanks to the mandatory tender offer, minority shareholders are allowed to exit their investments with a significant control premium, equal equal to the one received by majority shareholders.

In the case of a takeover bid, the regulator also protects the interests of the acquirer. Indeed, if the bidder has holdings that exceed a certain relevant threshold (for instance, 90%) and is interested

[31] *Directive 2004/25/EC of the European Parliament and of the Council.* Official Journal of the European Union

in buying 100% of the share in the target company, it has the right to "squeeze out" the remaining shareholders.

The European Securities and Markets Authority (ESMA), in Article 5 of Directive 24/2005/EC, defines the guidelines for member states in setting thresholds for the right to squeeze out. Specifically, paragraph 2 of Article 5 states that[32]:

"Member States shall ensure that an offeror is able to require all the holders of the remaining securities to sell him/her those securities at a fair price. Member States shall introduce that right in one of the following situations:

(a) where the offeror holds securities representing not less than 90 % of the capital carrying voting rights and 90 % of the voting rights in the offeree company, or

(b) where, following acceptance of the bid, he/she has acquired or has firmly contracted to acquire securities representing not less than 90 % of the offeree company's capital carrying voting rights and 90 % of the voting rights comprised in the bid.

In the case referred to in (a), Member States may set a higher threshold that may not, however, be higher than 95 % of the capital carrying voting rights and 95 % of the voting rights."

This rule seeks to standardize regulation within the European Union on this topic and incentivize M&A transactions. The second reason is particularly true in the case of private equity transactions in which listed companies are purchased because PE funds prefer to buy 100 % of the company so that they can delist it on the markets, but also to change the management of the company and be able to make decisions that could change the strategic vision without obstruction from the remaining shareholders.

1.5.2 Dutch Tender Offer Rule

Regarding the Dutch regulatory tender offer framework, the legislation under which Grand Vision was incorporated, the main regulatory body is the Authority for the Financial Markets (AFM). In addition to regulating the public offer process, the AFM may also be involved if it regulates the

[32] *Directive 2004/25/EC of the European Parliament and of the Council.* Official Journal of the European Union

target company because of the sector it operates in (i.e. offering certain financial products). Other potentially relevant regulators include the[33]:

- Netherlands Authority for Consumers and Markets, and the European Commission (competition authorities);
- Dutch Central Bank (for the financial sector);
- Minister of Economic Affairs and Climate (for the energy and telecom sector);
- Healthcare Authority (for the healthcare sector).

The primary regulation regarding tender offers in the Dutch context can be found in the Dutch Civil Code, Book 2 on Legal Persons under Title 2.4 about Open Corporations, and in the Financial Supervision Act, which regulates the supervision of almost the entire financial sector in the Netherlands. The rationale behind this legislation, as will be seen, is in line with European Union guidelines and thus focuses primarily on the protection of minority shareholders as well as on encouraging the M&A market.The tender offers are regulated in Netherlands in Chapter 5 of the Financial Supervision Act which is dedicated to public takeover bids. Indeed, in part 5.5.1. about Rules on mandatory bids, the Section 5:70 states that[34]:

"Any party that, either on its own or together with persons with which it acts in joint consultation, acquires, either directly or indirectly, predominant control over a public limit company having its registered office in the Netherlands whose shares or depositary receipts for shares, issued with the public limited company's concurrence, are admitted to trading on a regulated market, shall make a public takeover bid for all the shares and all the depositary receipts for shares issued with the public limited company's concurrence, and shall announce this without delay after the end of the period referred to in Section 5: 72(1)[35]."

With predominant control under Dutch law is meant 30% of the total stake. This percentage is explained by the fact that an investor with more than 30% of the voting share is able to influence

[33] https://uk.practicallaw.thomsonreuters.com/3-502-0666?transitionType=Default&contextData=%28sc.Default%29
[34] *Dutch Act on Financial Supervision. (2006). 5 (5.70), 271-272.*
[35] 1. The obligation to make a public takeover bid shall lapse if the party with which this obligation lies loses predominant control within 30 days of acquiring it, unless:
(a) the loss of predominant control is the result of a transfer of a holding to a natural person, legal person or company that may invoke Section 5:71(1); or
(b) the party with which the obligation lies has exercised its voting rights in that period.

the company's decisions significantly. Whereas 'acting in concert' refers to someone cooperating under the terms of a contract to acquire a controlling interest in the company. As specified in Section 5:72(1), the acquirer has 30 days to lose dominant control and forfeit the obligation to launch a mandatory tender offer. This time limit may be extended by the Enterprise Division of the Amsterdam Court of Appeal by a maximum of 60 days upon request of the party obliged to launch a public takeover offer.

There are several exemptions to the obligation to launch a public offer as set out in section 5:70(1) [36]. For instance, the bidder is exempt from launching a mandatory offer if it gains predominant control by declaring an open takeover offer for all the shares of a public limited company unconditional. Additionally, the bidder is exempt from launching the offer if it gains predominant control of a public limited company that has been granted a provisional moratorium or declared insolvent or gains predominant control through hereditary succession.

Following EU guidelines and with the aim of protecting minority shareholders, Dutch law define the fair price that shall applies only in the case of a mandatory tender offer. Indeed, the bidder

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[36] 1. Section 5:71(1) shall not apply to a party that:

1. acquires predominant control over a public limited company that is an investment company whose units are repurchased or repaid either directly or indirectly out of the assets at the unit holders' request;
2. acquires predominant control by declaring unconditional a public takeover bid concerning all the shares of a public limited company, or all the depositary receipts for shares of the public limited company that were issued with that company's concurrence;
3. is a legal person unrelated to the offeree company whose object is to promote the interests of the offeree company and the enterprise affiliated to it, and which will hold the shares for a maximum period of two years after the announcement of a public takeover bid in order to protect the offeree company;
4. is a legal person unrelated to the offeree company which has issued depositary receipts for shares with the company's concurrence;
5. acquires predominant control in the context of a transfer of the holding entailing predominant control within a group as referred to in Section 2:24b of the Dutch Civil Code or between a legal person or company and its subsidiary;
6. acquires predominant control over a public limited company that has been granted a provisional moratorium or has been declared insolvent;
7. acquires predominant control by hereditary succession;
8. acquires predominant control simultaneously with the acquisition of predominant control over the same public limited company by one or more other natural persons, legal persons or companies, on the understanding that the obligation referred to in Section 5:70(1) shall lie with the party that can exercise the greatest number of voting rights;
9. has predominant control at the moment when the shares or the depositary receipts for shares issued with the company's concurrence are admitted for the first time to trading on a regulated market;
10. is a depositary of shares, insofar as it may not exercise the voting rights attached to the shares at its own discretion; and
11. acquires predominant control by entering into a marriage or a registered partnership with a person who already has predominant control over the public limited company concerned.

must provide a reasonable price, or fair price, when making a mandatory offer for the target company, which is either the[37]:

- *"Highest price paid by it or by a person with whom it acts in concert for shares of the target company in the 12 months before the announcement of the mandatory offer.*

- *Highest price paid in the period between announcement of the mandatory offer and settlement (if higher than the price referred to above).*

- *Average stock exchange price of such shares during that one-year period (if the bidder or a person with whom it acts in concert has not acquired any shares in such period)."*

The fair price consideration may be paid in cash, listed securities, or both. Under certain circumstances, even if the bidder complies with the requirements mentioned above, the court may be asked to adjust the 'fair price'.

Once the mandatory bid has been launched, if the bidder exceeds a certain relevant threshold, it usually prefers to buy the entire company and absorb it completely into its own business. Indeed, in order to incentivise M&A and to follow the European regulatory framework, the Dutch authority, at the article 2:92a of Book 2 about Legal person, provides the possibility for the bidder to squeeze out the remaining shareholders. According to Dutch law, there are three distinct but related processes for shareholder buy-outs[38]: the first is the process by which a minority shareholder can exit his investment; the second, less common, involves a group of shareholders who own a significant stake and want to buy out the remaining shares; finally, the third option is the process triggered by a shareholder who owns 95% or more of the share capital and voting rights in relation to one or more classes of shares in the target company, to buy out the remaining stake. It may be the case that the offeror, if it does not reach the acceptance level of 95% and thus is unable to enter into a legal acquisition, but exceeds a certain lower acceptance level (for instance, 80%), agrees with the target company a cooperation for a second-step transaction such as: an asset sale;

[37] *Dutch Act on Financial Supervision. (2006). 5 (5.80a), 271-272.*
[38] https://www.amsadvocaten.com/practice-areas/corporate-law/to-buy-out-a-shareholder-in-the-netherlands/

or a legal merger or a combination of the two. In each case, the second-step transaction, which will give the bidder complete control over the target company's operations, is subject to approval from the target's general meeting. Current examples of second-step transactions are the public offer of KKR and Teslin for all shares in Accell in 2022, and CSC's public offer for all shares in Intertrust in 2021[39].

Once the bidder has acquired a large stake, such as 95% of the total, he usually asks to the relevant authorities to delist the target company from the stock markets because the remaining shares in the hands of several investors are so few in % of the total stake, that they are not attractive as they are not very liquid, which we remember to be the fundamental peculiarity of shares. Indeed, when a large part of the stake is in the hands of several people, as is the case in public companies typical of the Anglo-Saxon context, the shares are almost like a cash instrument and therefore is easy ro liquidate them on the market; whereas, in the other scenario described above the few investors find it difficult to liquidate their positions.

Regarding the Dutch regulatory context, the bidder must own at least 95% of the shares of the target company in order to delist it from the Euronext Amsterdam stock market, and the target firm must agree to the delisting[40]. The process to delist a company consists of a dedicated request that must be submitted to Euronext Amsterdam, which decides whether or not to approve the request. Once approved, delisting occurs 20 trading days after the decision is announced. We have now provided the regulatory context of the delisting process under the Dutch law since, as we will see in the next chapter, an actual example of a delisting process after a mandatory public offer and a squeeze-out procedure is the Grand Vision's acquisition by Essilor Luxottica.

[39] https://uk.practicallaw.thomsonreuters.com/3-502-0666?transitionType=Default&contextData=(sc.Default)&firstPage=true#co_anchor_a773798
[40] https://uk.practicallaw.thomsonreuters.com/3-502-0666?transitionType=Default&contextData=(sc.Default)&firstPage=true#co_anchor_a773798

1.6 UE regulatory approval

The last step in the M&A Approval process is the Antitrust Approval. As the transaction to be analysed was subject to approval by the EU Commission, the EU regulatory landscape is now provided.

The legal framework for EU Merger Control is provided by Council Regulation (EC) No. 139/2004 ,which state that[41]:

"Mergers and acquisitions which would significantly reduce competition in the Single Market are prohibited, for example, if they would create dominant companies that are likely to raise prices for consumers. "

Any merger or acquisition within the UE territory must be disclosed to the Commission before execution. Subsequently, the Commission's examination of concentrations is carried out using a simplified approach, involving a routine examination if the merging firms do not operate in the same or linked markets or if they have only very modest market shares that do not meet predefined market share thresholds[42]. If a company's market share rises over such levels, the Commission launches a full investigation to be carried out within 25 working days. There are two main conclusions of the investigation: The merger is cleared, either unconditionally or subject to accepted remedies, or if the merger still raises competition concerns and the Commission opens the second phase of the investigation. The remedies can be offered by the merging companies when the Commission has concerns that the merger may significantly affect competition; in that case, remedies mean a commitment of the merging company to modify the project in a way that would guarantee continued competition in the market. If the commission approve the remedies , they become enforceable against the bidder, and as a consequence, an independent trustee is chosen to oversee compliance with these commitments.

When the second phase of the investigation is opened, which is a more in-depth market analysis, the UE commission has 90 working days to make a final decision on the compatibility of the

[41] European Commission. (2004). *Competition: Merger Control Procedure.*
[42] Below 15% combined market shares on any market where they both compete, or below 25% market shares on vertically related markets

planned transaction with the EU Merger Regulation. The possible outcome of this phase of investigations are three[43]: the Commission can decide to unconditionally clear the merger; or decide to approve the merger subject to remedies; or prohibit the merger if the merging parties have proposed no adequate remedies to the competition concerns. As explained above, once the transaction is approved by the UE Commission or the National Authority, it takes a long time, sometimes even years, for the bidder to fully absorb the target into its own business.

[43] European Commission. (2004). *Competition: Merger Control Procedure.*

Chapter 2 - EssilorLuxottica-GrandVision Case Study

After providing the literature review and legal framework concerning the case study, the second chapter of the dissertation will provide the background of the transaction with both a qualitative and quantitative analysis.

The first paragraph provides an overview of the eyewear industry. In particular, it analyses the growth potential of the segments that compose it and the key market players, including the two parties involved in the transaction, EssilorLuxottica and GrandVision. Part of this information, including the market CAGR and the key players, will be used in the empirical section of the third chapter.

The second and third paragraphs, analyse respectively EssilorLuxottica and GrandVision. In particular, the two companies' history, mission and business model will be analysed to understand the rationale behind the transaction.

The fourth paragraph then explains the history of the transaction, which started in 2019 and ended in 2021, with a deep dive into the antitrust approval and the rationale that induced EssilorLuxottica to acquire GrandVision.

Finally, the fifth paragraph analyses the transaction's structure, focusing on the type of contracts used, initially a block exchange agreement and then a takeover bid which led EssilorLuxottica to squeeze out the remaining shareholder and delist the company from the Euronext Amsterdam stock market.

2.1 The Eyewear Industry

The eyewear industry faces ongoing challenges, innovations, and transformations and, like many other markets, has been negatively affected by the pandemic. In 2019, Eyewear products, which can be divided into four segments[44]: Spectacle Lenses, Sunglasses, Eyeglass Frames and Contact Lenses, generated total sales of $128 billion in 2019 worldwide (Table 2.1.1), with a total sales volume for the same year of 9.8 billion units[45]. The market was heavily affected by Covid-19; indeed, total worldwide industry sales decreased by 22% in 2020 (Table 2.1.1). This significant slowdown was because Covid-19 affected face-to-face trade, such as retail, due to shop closures.

[44] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[45] Baron, C. (2021). *Eyewear Report 2021*. Statista.

In addition, production plants were closed, and shipments were negatively impacted. In general, the eyewear market is mainly driven by consumer spending, which includes various factors such as per capita income, household debt levels and consumer expectations[46]. During the pandemic, per-capita income and consumer expectations were negatively affected as many people lost jobs, and the lockdown lowered expectations for the future, especially among young people. This further explains this massive drop in the industry. As can be seen from the projections in the graph, the industry's CAGR (Compound Annual Growth Rate) stands at 2.3% for 2012-2025 (Table 2.1.1), so the market will only return to pre-pandemic beats in 2023. Nonetheless, the pandemic has also had a positive effect; indeed, the eyewear industry is more generally part of the healthcare industry, which during this period has seen more and more people spending on healthcare products, including eyewear. In fact, consumer spending on healthcare products will grow at a CAGR of 3.4% for 2019-2025[47].

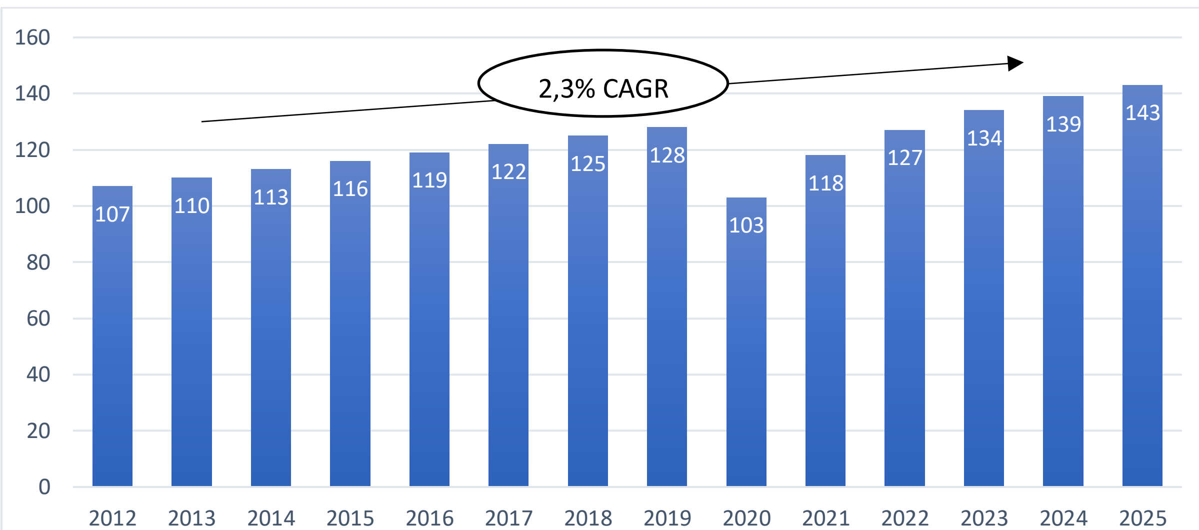

Table 2.1.1: *Eyewear Industry Worldwide Revenues in US$ Billion 2019*
Source: elaboration of data from Statista, Eyewear Report 2021

2.1.1 Segment Breakdown: Worldwide Eyewear Industry

As aforementioned, the Eyewear industry is divided into four segments: Spectacle Lenses, Sunglasses, Eyewear Frames and Contact Lenses.

[46] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[47] Baron, C. (2021). *Eyewear Report 2021*. Statista.

Spectacle lenses include corrective and non-corrective lenses made of unmounted glass and plastic. It is the largest segment of the eyewear industry, with a market share of 42% (Table 2.1.1.1) and sales of US$54 billion and 700 million units sold in 2019[48]. The continent that spent most on spectacle lenses is Europe, with 36% of revenues market share in 2019, followed by America with 35%. Within Europe, Germany had the greatest revenue share in the segment with US$4.4 billion, followed by France with US$3.9 billion and the UK with US$2.7 billion[49].

Sunglasses are framed or tinted lenses that reduce direct eye exposure to sunlight. They can be both from glass and plastic and with or without optically lenses. It represents the third largest segment with a market share of 17% (Table 2.1.1.1) and sales of $22.2 billion and 900 million units sold in 2019[50]. Americas is the continent with the highest market share in the sunglasses segment with 36%, followed by Europe with 31%. In Europe, Germany had the greatest revenue share with US$0.8 billion, followed by France with US$0.8 billion and Italy with US$0.7 billion[51].

The Frames segment consists of all kinds of spectacle frames excluding frames for protective eyewear and safety glasses. It can be made up of plastic, metals or organic materials; for this reason, they are divided into Plastic Eyewear Frames and Non-Plastic Eyewear Frames. This segment is the second largest, with a market share of 28% (Table 2.1.1.1), equally divided between plastic eyewear Frames and non-plastic ones, and sales of US$35.9 billion and 600 million units sold in 2019[52]. Americas is the continent with the highest market share in the Eyewear Frames segment with 37%, followed by Asia with 31% and Europe with 26%. Within Europe, Germany had the greatest revenue share with US$1.7 billion, followed by France with US$1.6 billion and Italy with US$1.1 billion[53].

Contact Lenses comprise all kinds of contact lenses that are worn to correct vision; this includes both rigid and soft lenses (daily, weekly, monthly, and yearly lenses) but excludes contact lenses solution and accessories. This is the segment with the smaller market share in respect to the others, with 13% of the revenue of the industry (Table 2.1.1.1), amounting to US$16.4 billion and 7.7 billion units sold in 2019[54]. Regarding the geographic allocation of those revenues, the continent

[48] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[49] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[50] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[51] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[52] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[53] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[54] Baron, C. (2021). *Eyewear Report 2021*. Statista.

that spent the most on contact lenses in 2019 was the Americas, with 38% of the total sample, followed by Europe with 30% and Asia with 29%. In Europe, the UK had the greatest revenue share in the segment with US$0.9 billion, followed by Germany with US0.7 billion and France with US0.4 billion[55].

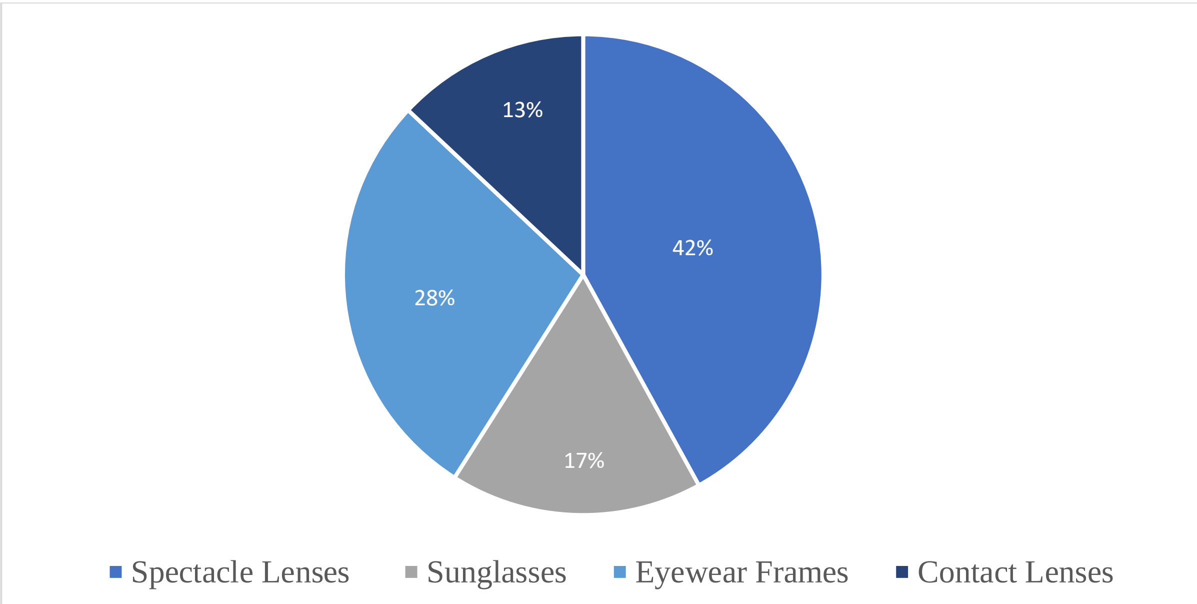

Table 2.1.1.1: *Eyewear Industry: Segment Breakdown 2019*
Source: elaboration of data from Statista, Eyewear Report 2021

Regarding the growth potential of each segment and future trends, the contact lenses in a projection to 2025 have the highest growth potential, with an estimated revenue growth rate of 13.3% from 2019 to 2025 (Table 2.1.1.2). In terms of CAGR, this means that the industry's revenues will increase 2.5% from 2012 to 2025[56]. Pre-covid expectations for this segment were much higher; indeed, the new 2020 forecast for this segment is 21.0% lower than the original forecast.

The sunglasses segment has the second highest growth potential, with an estimated revenue growth rate of 12% between 2019 and 2025 (Table 2.1.1.2). The estimated CAGR of the industry's revenues is 2.6% from 2012 to 2025[57]. For this segment, the impact of the pandemic on the future

[55] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[56] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[57] Baron, C. (2021). *Eyewear Report 2021*. Statista.

projections was even stronger; in fact, the 2020 forecast for the sunglasses segment is 23.3% lower than the original forecast.

The eyewear Frames segment is right behind the sunglasses segment, with a worldwide revenue growth potential of about 11.4% from 2019 to 2025 (Table 2.1.1.2) and a revenue CAGR of 2.3% from 2012 to 2025[58]. Due to the pandemic, the forecast for this segment is also downwards, in fact, the 2020 forecast for this segment is 21.5% lower than the original forecast[59].

The Spectacle lenses, as seen above, is the biggest segment in terms of revenues but is also the one with the lowest growth potential compared to the others, with a revenue growth rate of about 10% from 2019 to 2025 (Table 2.1.1.2), and a CAGR for the revenues of about 2% from 2012 to 2025[60]. The impact of covid-19 on this segment is quantified in a forecast for 2020, which is 21% lower than the original.

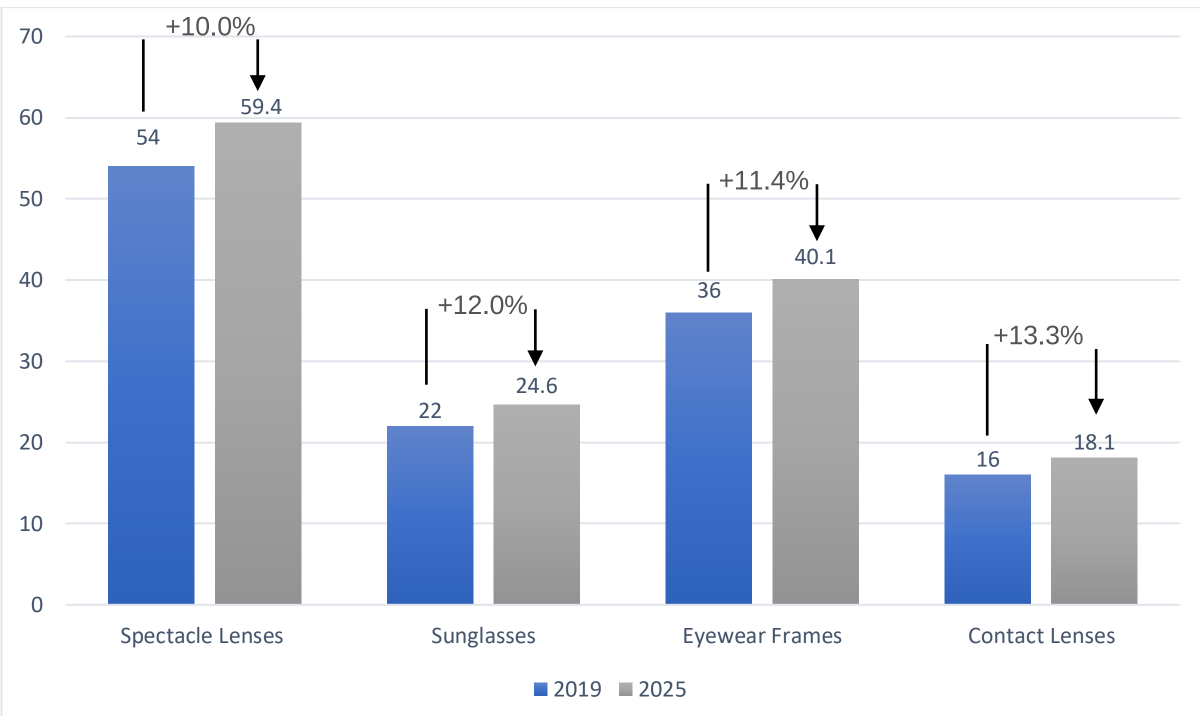

Table 2.1.1.2: *Eyewear Industry: Segment Breakdown 2019 Value in Billion €*
Source: elaboration of data from Statista, Eyewear Report 2021

[58] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[59] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[60] Baron, C. (2021). *Eyewear Report 2021*. Statista.

The data mentioned above are explained by the maturity of the market related to each segment. The contact lenses, for instance, is a less mature segment than the spectacle lenses segment, as can be seen by how much revenue it generates. Following this reasoning can also be explained the other values; indeed, the sunglasses segment has a greater growth potential than the spectacle lenses and eyewear frame segment. The potential growth of these segments is mainly explained by technology development; for instance, in the case of contact lenses, in 2014, Novartis' unit Alcon and Google announced to develop a high-tech contact lens that can monitor blood-sugar levels, which received U.S. approval one year later[61]. The project eventually failed and turned into a project to develop a smart contact lens. Another trend that technological development has brought to the eyewear industry is the development of smart glasses that are able to connect to one's own device and allow, for example, listening to music, answering calls or immersing oneself in the world of Virtual Reality or Augmented Reality.

2.1.2 Key Players of the Eyewear Industry

The eyewear industry is characterized by a concentration phenomenon similar to the fashion market. Indeed, the industrial landscape sees the presence of a few large companies that account for almost the entire industry turnover and then a series of small and local players that snatch up the remaining market share. The few key players dominating the eyewear market are[62]: EssilorLuxottica, GrandVision, Johnson & Johnson and Alcon. We will now give a brief overview of all four companies, and then we'll analyze EssilorLuxottica and GrandVision in more detail as they are the players involved in the case study object of this dissertation.

EssilorLuxottica is by far the world's largest eyewear company in terms of revenues. The company, based in Paris, France, was formed in 2018 by the merger of France's Essilor and Italy's Luxottica. EssilorLuxottica's extensive collection makes a significant part of its overall sales of frames of proprietary brands. The company's global revenues in 2019 were around US$ 19.5 billion, with a

[61] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[62] Baron, C. (2021). *Eyewear Report 2021*. Statista.

considerable growth since 2013 at a CAGR of 15%[63]. The geographic area with the most sales in 2019 is North America, with 53% of the company's total revenues, followed by Europe with 24%[64].

GrandVision is the world's second-largest company in the eyewear industry in terms of revenue. The company was established in Amsterdam, Netherlands, in 2011 following the merging of Pearle Europe B.V., and GrandVision S.A. It is a subsidiary of the investment firm HAL Holding N.V.[65]. It offers contact lenses, prescription glasses, sunglasses, and optical treatments and had revenues of US$4.6 billion in 2019, up about 9% year-on-year[66]. The company generates more than half of its overall sales in Europe, with the remaining amounts coming from the Americas and Asia[67].

Founded in 1886, Johnson & Johnson (J&J) is a manufacturer of pharmaceuticals, consumer packaged goods, and medical devices. The company's headquarters is in New Brunswick, New Jersey. J&J offers various goods, such as Avenue contact lenses, Neutrogena skin care products, and Johnson's infant items. Nearly US$3.4 billion of J&J's US$82.1 billion in total revenue in 2019 came from selling contact lenses[68]. The purchase of AMO and the introduction of new contact lens products contributed to the roughly 46% growth of the Vision Care business between 2016 and 2017 in the contact lens market[69]. In addition, in 2017, Sightbox, a start-up providing contact lenses with a subscription model, was purchased by J&J Vision Care Inc[70], demonstrating the company's ability to scale up in the eyewear market through merger and acquisition strategies.

Alcon is a Swiss medical firm based in Fribourg, Switzerland, with headquarters in Forth Worth, Texas, and Geneva, Switzerland. The company was established in 1945 and sells items for eye care, and its two main divisions are surgery and vision care[71]. Alcon is now the world's second-largest producer of contact lenses and contact lens solutions, after Johnson & Johnson, after completing the largest medical technology spin-off from Novartis in 2019[72]. Alcon's total revenue

[63] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[64] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[65] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[66] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[67] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[68] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[69] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[70] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[71] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[72] Baron, C. (2021). *Eyewear Report 2021*. Statista.

in 2019 was close to $7.4 billion, of which nearly $2 billion came from the sale of contact lenses[73]. The largest market in which it sells its products is America, with 42% of total revenues in 2019, and the rest is attributed to international trade[74].

2.2 EssilorLuxottica Overview

EssilorLuxottica has two centuries of innovation and the dedication of its people behind it. Founded in 2018[75], with headquarters in Paris, France, it represents the synthesis of two unique and complementary company histories, equally rich in successes, which have revolutionised the entire industry several times over, changing the very nature of eyewear and the way we care for our eyes[76].

Essilor's long history, born over 160 years ago, is linked to its mission to improve people's lives by improving their eyesight. This purpose has led to significant technological innovations, such as the invention of organic lenses and progressive lenses. Essilor has created a strong culture based on employee ownership, with a unique governance model involving them in the decision-making process[77]. This approach underpins Essilor's ambition to eliminate vision problems worldwide within a single generation.

Luxottica was born in 1961. In just a few years, it has transformed eyewear, historically conceived as a medical device, into a desirable fashion accessory to express oneself, revolutionising the eyewear market and increasing demand for branded, high-quality frames[78]. Throughout its history, it has also created a unique, vertically integrated business model that spans the entire value chain, from the concept phase to the end customer, and allows it to maintain complete control of product and process quality.

EssilorLuxottica, as mentioned in the previous paragraph, is the world's largest eyewear company, with a market capitalization of approximately EUR 73 billion[79]. The number of outstanding shares,

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[73] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[74] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[75] https://www.essilorluxottica.com/overview
[76] https://www.essilorluxottica.com/overview
[77] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[78] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[79] https://www.bloomberg.com/quote/EL:FP

as of 31 December 2020, is 439 million (Table 2.2.1), and the cap table framework sees as majority shareholder Delfin, which is the Del Vecchio family holding company, with a total stake in the company of 32.08% (Table 2.2.1). The remaining private capital is allocated to employee shareholders, retirees, and partners, which account for 4.27% of the total stake (Table 2.2.1), and to the treasury stock, which accounts for 0.45% (Table 2.2.1). Most of the share capital is public; indeed, the free float account for 63.2% of the total (Table 2.2.1), with resident and non-resident institutional investors and individuals as shareholders. Non-Resident Institutional Investors account for the largest share in the public market with 32.08% of the share capital (Table 2.2.1), which is equal to the share held by Holding Delfi, while resident institutional investors still have an important stake of 11.24% (Table 2.2.1). Finally, Individual Investors, who account for 3.58 % of the total share capital (Table 2.2.1), round up this cap table.

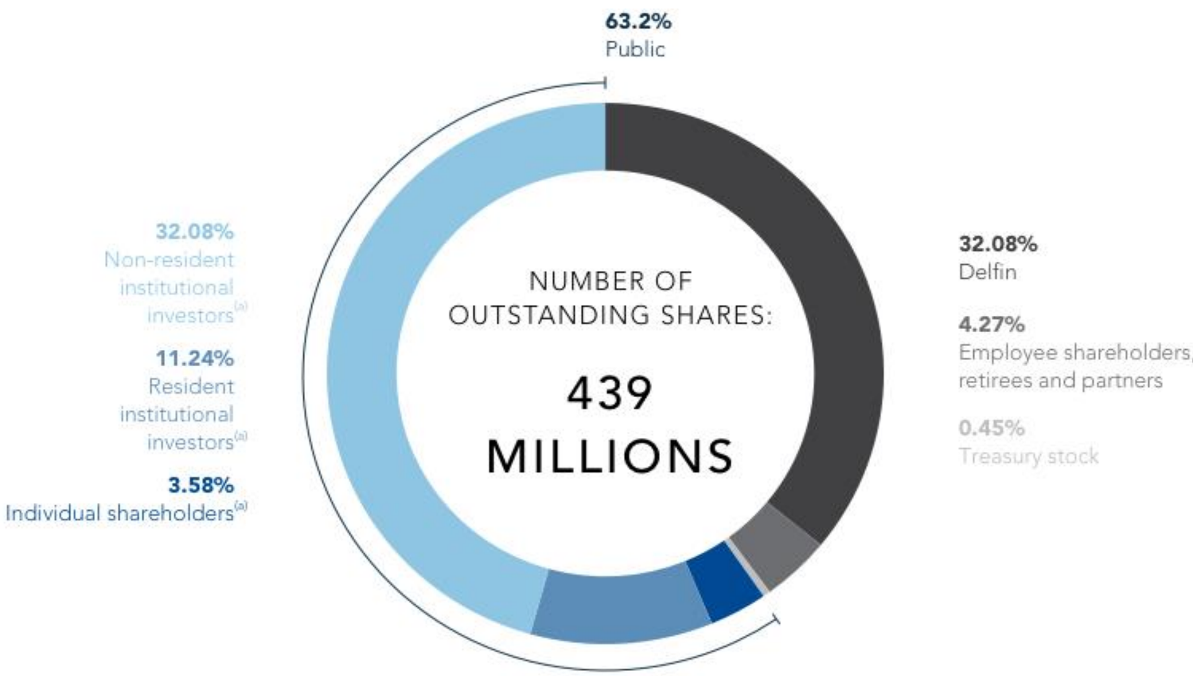

Table 2.2.1: *EssilorLuxottica Share Capital Breakdown*
Source: EssilorLuxottica official web page

EssilorLuxottica, as seen above, was born from the merger of two pioneers in the sector: Essilor in ophthalmic lens technologies and Luxottica in the production of prescription lenses and sunglasses[80]. It is a vertically integrated company capable of meeting the visual needs of

[80] https://www.essilorluxottica.com/overview

consumers and the growing demand of the global eyewear market. The company is now the leader in the design, manufacture and distribution of ophthalmic lenses and prescription, spectacles and sunglasses. With more than 180,000 employees and a global presence, EssilorLuxottica offers eyecare products and eyewear that meet the needs and tastes of every consumer[81]. The business model, unique in the industry, and the constant pursuit of operational excellence guarantee products that are rigorously tested to meet international quality standards, from simple reading glasses to customised lenses or branded spectacles.

By investing in lens and frame research and development and continually reinventing eyewear design, form and function, EssilorLuxottica sets new standards every year in the world of frames and eyecare products to enhance the consumer experience. This strong appetite of the company, for investment in product and process innovation is demonstrated by the fact that, to date, the company holds around 11k patents[82].

2.2.1 EssilorLuxottica: Vision and Mission

EssilorLuxottica shares its commitment to the recognition of sight as a fundamental human right and an essential lever of development in the world[83]. The vision and ideals, which include an entrepreneurial spirit and a shared ambition to produce the highest quality products for all consumers worldwide while acting responsibly, are where the stories intersect. In the past, Essilor and Luxottica were two businesses employing their unique skills to advance eye care and eyewear globally. Beginning in 2018, the two players integrated their strengths under the name EssilorLuxottica.

Indeed, the EssilorLuxottica mission is the following[84]:

"EssilorLuxottica's mission is to help people see more and be more. Our groundbreaking products correct, protect and frame the beauty of our most precious sensory organ - our eyes. By combining our expertise in lens technology and eyewear manufacturing, a portfolio of brands that consumers

[81] https://www.essilorluxottica.com/overview
[82] https://www.essilorluxottica.com/overview
[83] https://www.essilorluxottica.com/overview
[84] https://www.essilorluxottica.com/mission

love and global distribution capabilities, we enable people everywhere to learn, to work, to express themselves and to fulfil their potential."

The lack of awareness and access to quality eye care is a global health emergency with serious economic and social consequences. Indeed, 2.5 billion of the planet's inhabitants suffer from uncorrected vision problems, and over 6 billion do not protect themselves from harmful rays[85]. EssilorLuxottica wants to provide an answer to their needs and meet their growing visual requirements in line with changing lifestyles. Moreover, the company is in a unique position to transform the experience of wearing eyeglasses and sunglasses into one that is both delightful and beneficial to one's quality of life because of its portfolio of lens technologies and partnerships with some of the most well-known eyewear companies in the world[86].

EssilorLuxottica, indeed, promotes the quality of vision and works passionately to ensure that everyone is fully aware of its importance. By continuously innovating lenses and spectacles, their objective is to extend the benefits of good eyesight to everyone, to improve everyday life. To do that, the organization takes several initiatives to increase public awareness of the significance of vision correction and protection, educating decision-makers and the general public through targeted campaigns while also encouraging expert-to-expert knowledge sharing on vision science and patient needs[87].

In addition, the company also undertakes philanthropic actions as they support many charitable organizations, including OneSight and the Essilor Vision Foundation, whose goal is to give free eye tests and eyeglasses to those in need, and the Vision Impact Institute, whose goal is to make the healthy vision a global priority[88].

2.2.2 EssilorLuxottica: Business Model and Operations

EssilorLuxottica, as above mentioned, has the peculiarity of having a particular business model compared to its competitors. Indeed, Luxottica's founder and executive chairman, Leonardo Del Vecchio, realised the potential of vertical integration early on and initiated an M&A strategy to

[85] https://www.essilorluxottica.com/mission
[86] https://www.essilorluxottica.com/mission
[87] https://www.essilorluxottica.com/mission
[88] https://www.essilorluxottica.com/mission

integrate all stages of the value chain within the same company[89]. At the time, he made the visionary choice to start producing entire frames rather than just components and to internalise the markup that other manufacturers made at each stage of the value chain. His comprehensive perspective on everything from design to distribution provides the business with a distinct awareness of consumer trends and interests. He also fosters cross-functional innovation and welcomes synergies. These benefits of a vertically integrated business model have played a significant role in seducing the most sophisticated fashion houses to Luxottica's portfolio. In fact, to date, there are a number of brands in EssilorLuxottica's portfolio, some proprietary and some licensed, among the most famous in the world. As a non-exhaustive example we find: Giorgio Armani, Burberry, Bulgari, Chanel, Michael Kors, Tiffany & Co, Valentino, Versace, Oakley, Ray-Ban and many other brands as seen on the company web page[90].

Even after the acquisition of GrandVision, EssilorLuxottica continued its vertical integration strategy through M&A transactions; in fact, in 2022 alone, they announced two further acquisitions. On March 1, 2022, they announced the closing of the acquisition of U.S.-based lab network Walman Optical and on May 31, 2022, the company announced the completion of the purchase of a 90.9% shareholding in the share capital of Giorgio Fedon & Figli S.p.A.[91].

EssilorLuxottica's business model can be defined as both B2B and B2C, in fact their sales model consists of both direct sales to consumers via e-commerce or their own stores, which after the GrandVision acquisition amount to approximately to more than 18k, and B2B sales or to wholesale customers who are mainly mid- to high-priced eyewear retailers, such as independent opticians, optical chain shops, specialty sunscreen retailers, department stores, duty-free shops and online operators[92].

Regarding the company's operations, we can say that it is a company in excellent financial and operational health. From 2013 to 2017, the company experienced strong growth, increasing from $8.3 billion to $10.4 billion[93], a growth of about 25 per cent. After the acquisition of Essilor, the company saw a substantial increase in revenues due to synergies with the target company and

[89] https://www.luxottica.com/en/about-us/unique-approach/business-model
[90] https://www.essilorluxottica.com/brands
[91] EssilorLuxottica. (2022). *Interim Financial Report Q2 H1 2022.*
[92] https://www.luxottica.com/en/about-us/unique-approach/business-model
[93] Baron, C. (2021). *Eyewear Report 2021.* Statista.

already in 2018 achieved revenues of $18.3 billion[94], with a growth of about 76% compared to the previous year. In 2019, as mentioned, the company achieved revenues of $19.5 billion, and more than half of these revenues were generated in North America[95]. However, it still has a global presence, in fact, it also serves continents such as Asia, Oceania and Africa with 17% of revenues in 2019 and Latin America with 6%[96]. The rest of the revenue is attributed to Europe, which, together with North America, is the primary market in which EssilorLuxottica operates.

2.3 GrandVision Overview

GrandVision has a long history that dates back to 1891. Since then, it has been a successful and significant development that has always been and will always be focused on offering clients eye care[97]. GrandVision has become a world leader in optical retailing as a result. GrandVision's history begins in 1891, when Christian Nissen established his first optical shop in Helsinki, Finland[98]. Nissen is still one of GrandVision's top retail banners in Finland more than 120 years later. Success in delivering premium customer service and the resulting dedication to high-quality and reasonably priced eye care resulted in more growth, more clients, more stores, and more prosperous retail banners, always expanding the accessibility of high-quality and reasonably priced eye care worldwide. In 2011, Pearle Europe and GrandVision, two multinational corporations, merged to form a new organization named GrandVision[99]. One business, one goal: to provide world-class eye care to an increasing number of people.

GrandVision, together with EssilorLuxottica, is one of the largest companies globally in the eyewear industry. The company went public through an IPO on 6 February 2015 on the Euronext Amsterdam stock market under the ticker 'GVNV'[100]. With a market capitalization of approximately USD 7 billion and an outstanding number of shares of approximately 253,8 million[101], GrandVision in 2020 sees HAL Optical Investments B.V as its majority shareholder,

[94] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[95] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[96] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[97] https://www.grandvision.com/about-us/grandvision-history
[98] https://www.grandvision.com/about-us/grandvision-history
[99] https://www.grandvision.com/about-us/grandvision-history
[100] https://investors.grandvision.com/corporate-governance/shareholder-structure
[101] GrandVision. (2019). *Financial Report H1 2021*.

which holds 76.72% of the total stake in the company (Table 2.3.1). The free float, representing 22.98% of the shares (Table 2.3.1), is held by various institutional and retail investors in various jurisdictions. The remaining part is distributed between treasury shares and the board of directors. The former represents a 0.27% stake (Table 2.3.1), and is used by the company to hedge against price risks associated with awards made under long-term incentive schemes. On the other hand, the management board, holds 0.03% (Table 2.3.1), which this is the result of an incentive program involving the granting of stock options to motivate managers and align their interests with those of the shareholders.

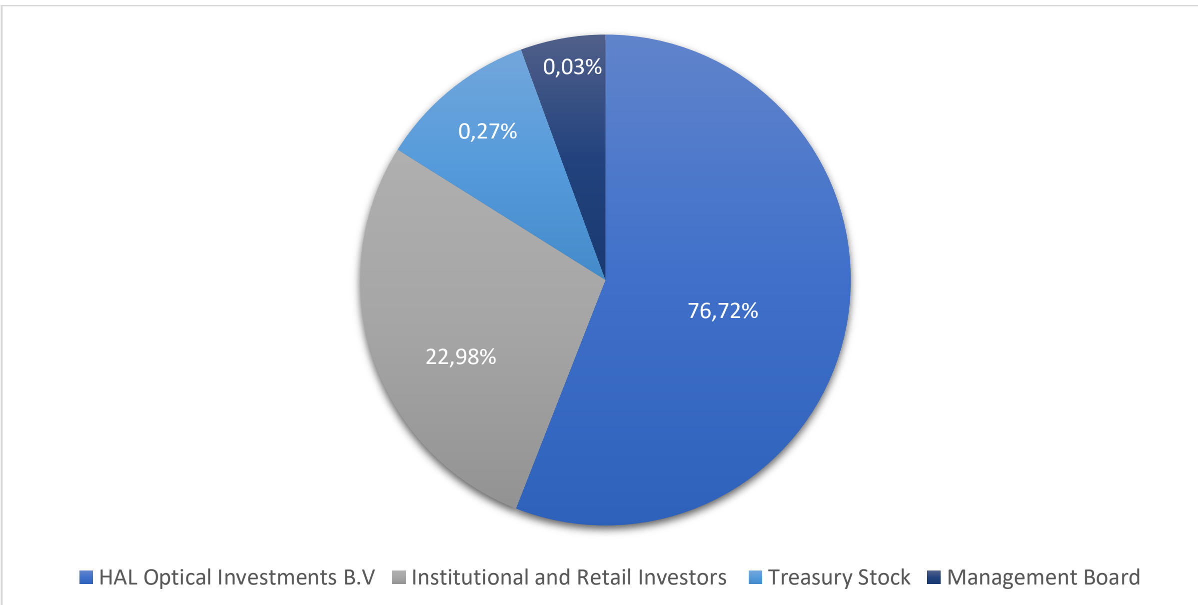

***Table 2.3.1:** EssilorLuxottica Share Capital Breakdown*
Source: elaboration of data from GrandVision official web page

Today, GrandVision is a well-known and important international optical store with over 39,000 employees and 7,200 stores in the world with a growing online presence[102]. They provide their clients with professional eye care services and a large variety of distinctive and stylish prescription eyewear, sunglasses, contact lenses, and eye care products[103]. Their stores frequently serve as the

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[102] EssilorLuxottica. (2021). *Offer Memorandum.*
[103] https://www.grandvision.com/about-us

top optical merchants in their respective nations and partner with well-known local retail brands, some of which have histories dating back more than 100 years.

2.3.1 GrandVision: Vision and Mission

GrandVision established a program called "GrandVision Cares" to develop a community of stakeholders through global and local initiatives and encourage the GrandVision group to adopt CSR as a shared philosophy and duty. The programme is based on three main pillars: People, Product Value Chain and Presence[104]. People refer to the support of the company's internal staff in terms of satisfaction and well-being as this has a directly influences product quality. A Product Value Chain designed to bring product and design innovation and assess the impact of the product on transport. And finally, thanks to their expansion strategy, GrandVision has a worldwide presence, with more than 7,200 shops in over 40 countries, enabling them to increase access to high-quality and affordable eye care.
The GrandVision Cares program fits well with the company's vision and mission.
Indeed, the company's define their vision as stated below:

"Our vision is to secure undisputed global category leadership as the destination of choice for eyecare solutions, leveraging our best-in-class customer value proposition."

While they define the mission as state below:

"Our mission is to provide unique high-quality and affordable eyecare solutions to more and more customers worldwide and turn them into fans."

Therefore, what is clear from the company's vision and mission is that three main characteristics make GrandVision a unique player in its industry: Optical Expertise, High Quality, Affordability and Accessibility. Indeed, GrandVision is committed to providing its clients with the highest caliber optical guidance, as well as accessibility, affordability, and high standards. Additionally, they care about making their clients feel and look wonderful. Everyone can express their unique personalities and lifestyles thanks to the variety of frames and lenses available for prescription

[104] https://www.grandvision.com/grandvision-cares/grandvision-cares

sunglasses, contact lenses, and glasses-both simple and with prescription lenses. GrandVision offers a distinctive and cost-effective selection of eyewear brands thanks to its exclusive in-house collection. Indeed, the company has an exclusive, premium brand for every style and price range.

2.3.2 GrandVision: Business Model and Operations

GrandVision distinguishes itself from other optical retailers by offering consumers a first-class omnichannel[105] journey, including providing affordable, high-quality products and expert eye care services[106]. This makes their business model highly adaptable to different environments and market structures, in line with their goal of expanding growth, primarily geographically. In fact, they are taken with their facilities in 40 countries around the world and are thus able to exploit high-potential markets such as the US and Asia. Additionally, the company invests heavily in both product and process innovation, in fact, they have created a platform to enable their customers to experience a full range of expert vision services, both online and in-store.

As is clear from above, the company has a B2C business model due to its geographical presence around the world through stores that connect directly with end users.

GrandVision manages to provide quality premium brand products at affordable prices thanks to partnerships with many brands, some exclusive and some not. GrandVision's most important brands include Balenciaga, Fendi, Versace, Persol, Ray-Ban, Gucci, Prada, and many others, as stated on the company's official web page[107].

As for the company's operations, it demonstrates excellent commercial health with 2019 worldwide revenues of US$4.9bn[108]. This represents a growth of about 9% compared to 2018, where it generated revenues of US$4.2bn,[109] and is in line with its expansion and growth target. As mentioned in the previous paragraph, the company operates mainly in the European market, which accounts for approximately 87% of total revenues generated in 2019[110]. Breaking down the Europe revenue for the different countries, we see that France is the market in which they sell

[105] "Omnichannel retail (or omnichannel commerce) is a multichannel approach to sales that focus on providing seamless customer experience whether the client is shopping online from a mobile device, a laptop or in a brick-and-mortar store" – Source: https://www.bloomreach.com/en/blog/2019/omnichannel-commerce-for-business
[106] https://annualreport.grandvision.com/business-and-strategy/our-business-model
[107] https://www.grandvision.it/brands
[108] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[109] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[110] Baron, C. (2021). *Eyewear Report 2021*. Statista.

most, with US$ 729 million in 2019, followed by German and UK[111]. Comparing these revenues with those of 2018, we see that France is the most mature market, with moderate growth in revenues of around 1.4% between 2018 and 2019, while the market with the highest growth potential is Germany, with growth in revenues of around 7.5% over the same years[112].

Compared to EssilorLuxottica, GrandVision operates less in the Americas and more in Asia, both of which account for 12% of the company's total revenues in 2019[113]. What has just been said, demonstrates an initial geographic complementarity of the two businesses that can begin to explain the acquisition that we will analyse below.

2.4 EssilorLuxottica – Grand Vision Acquisition

This paragraph will analyse the case study transaction in a qualitative way, which will then be analysed quantitatively in the next chapter.

EssilorLuxottica and GrandVision, as seen above, are major players in the eyewear industry, and their transaction history dates back to July 30 2019 when HAL, the majority shareholder of GrandVision, entered into a block trade agreement with EssilorLuxottica to sell its entire stake of 76.72% in the company[114]. A block trade agreement is a large, privately negotiated securities transaction[115]. The reason for negotiating this type of contract is that, while on a stock exchange, a large-scale sell order could have a significant impact on the share price, a block trade that is negotiated privately will not let the market players know about the additional supply until after the transaction has been publicly disclosed. In addition, a support agreement was also negotiated between the parties which provides for the support of the Board of GrandVision in respect of the transaction, for instance, support in the due diligence process or in the process of requesting the Authority approval. As seen in the first chapter, therefore, the case study can be classified as a friendly takeover. The ultimate goal of this contract is to achieve a relevant position such that a mandatory tender offer can be launched, which was actually launched on October 7 2021, after the takeover of HAL's position closed[116].

[111] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[112] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[113] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[114] EssilorLuxottica. (2021). *Offer Memorandum.*
[115] https://www.investopedia.com/terms/b/blocktrade.asp
[116] EssilorLuxottica. (2021). *Offer Memorandum.*

However, as seen above, almost two years have passed from the block trade agreement to the actual closing of the position, and this is mainly due to the fact that during the pandemic, and precisely on July 28 2020[117], there was a dispute between the companies. On that date, in fact, EssilorLuxottica announced that it initiated legal proceedings before a district court in Rotterdam, in the Netherlands, to obtain information from GrandVision. The reason for this legal action is to understand how the company's management is handling the pandemic crisis and whether the conditions of the support agreement have been broken. In fact, EssilorLuxottica stated that it had requested this information from GrandVision on a voluntary basis several times but never received it[118]. There were several court sessions, some won by GrandVision and thers by EssilorLuxottica, but in the end, GrandVision was found to have violated agreements when it stopped paying store owners and suppliers and applied for state aid during the epidemic crisis without first getting EssilorLuxottica's approval. Indeed, the arbitral tribunal ruled that EssilorLuxottica had the option to terminate the acquisition of GrandVision due to GrandVision's material breaches of its obligations to the bidder.
Notwithstanding this, having obtained the parties' commitment to comply with the old agreement, on July 1, 2021, EssilorLuxottica announced that it had finalised the acquisition of the HAL's position, subject to the conditions outlined in the block trade agreement. Following this, EssilorLuxottica, having exceeded a relevant threshold, launched a mandatory tender offer and started a buyout process until it acquired 100% control of the company and requested the delisting[119].

2.4.1 Antitrust Clearance

As seen in the section concerning the approval process, any transaction that takes place in the European market, if it exceeds the thresholds mentioned in the first chapter, is subject to approval by the European Commission. Indeed, after EssilorLuxottica announced to the market the agreement to purchase HAL's stake in GrandVision, it had to notify the transaction to the European Commission on 23 December 2019[120]. As the transaction is worthy of investigation in line with

[117] https://www.essilorluxottica.com/essilorluxottica-initiates-legal-proceedings-obtain-information-grandvision
[118] https://www.essilorluxottica.com/essilorluxottica-initiates-legal-proceedings-obtain-information-grandvision
[119] EssilorLuxottica. (2021). *Offer Memorandum.*
[120] European Commission. (2021). *Mergers: Commission clears acquisition of GrandVision by EssilorLuxottica, subject to conditions.*

the criteria stated in chapter 1, the European Commission has initiated an initial phase investigation, after which the Commission remains concerned that the deal may lead to less competition in the optical retail markets. For this reason, on 6 February 2020, it opened an in-depth investigation to be carried out within 90 days and thus no later than June 22 2020[121]. The in-depth investigation conducted by the Commission focused in particular on[122]:

(i) whether EssilorLuxottica will increase prices or worsen supply conditions for GrandVision's rival retailers by exploiting its considerable market share in the lens and eyewear sector.

(ii) the effects of combining the retail activities of EssilorLuxottica and GrandVision, in particular in the countries and regions where they currently compete; and

(iii) whether the combined company could restrict access to GrandVision's shops, the largest optical retail network in Europe and a crucial outlet for rival lens and eyewear manufacturers.

The second phase of the investigation was conducted by the European Commission using analysis methodologies such as economic modelling and interviews with more than 4,300 opticians in Europe. The survey considered the following factors[123]:

- The presence of the companies at each stage of the supply chain;
- The percentage of shops selling the most important EssilorLuxottica brands in those countries;
- The availability of alternative and reliable suppliers for retailers;
- The expected reaction of consumers.

After conducting a thorough market examination, the Commission became concerned that the acquisition, as initially disclosed, may make it harder for competing opticians in Belgium, Italy,

[121] European Commission. (2021). *Mergers: Commission clears acquisition of GrandVision by EssilorLuxottica, subject to conditions.*
[122] https://ec.europa.eu/commission/presscorner/detail/en/IP_20_217
[123] European Commission. (2021). *Mergers: Commission clears acquisition of GrandVision by EssilorLuxottica, subject to conditions.*

and the Netherlands to access EssilorLuxottica's products[124]. Indeed, the merged firm would have the capacity and motive to use its significant position in the wholesale supply of frames in each of those nations to make it more challenging for rival retailers to carry the eyeglasses produced and sold by the merged company, thus significantly reducing the competition. Moreover, in Italy, the transaction would create the largest player in the optical retail market, almost three times as large as the second player[125]. Therefore, there is a risk that it can weaken the competition in the Italian market with a final negative effect on consumers.
When the Commission has a concern that the transaction could significatively influence the competition in the specific industry, the parties involved can propose remedies to the transaction which, if accepted by the commission, become binding for the purpose of closing the transaction.

This is the case for the transaction analysed. Indeed, EssilorLuxottica, in order to remedy the competitive issues raised by the Commission, offered to sell off a portion of its retail business in each of the nations where the Commission had concerns. In particular, the proposal consisted in the[126]:

- *Sale of 35 locations of the GrandOptical network in Belgium, but without including the brand name. In addition, the purchaser will have a licence to rename these shops under its own brand name.*
- *Sale, in Italy, of 174 locations, including the entire EssilorLuxottica VistaSi chain and 72 shops of the 'GrandVision by' chain. In addition, the 'GrandVision by' shops will adopt the VistaSi brand name or the brand name of the purchaser after the VistaSi brand has been divested.*
- *Sale of 42 locations of the EyeWish chain in the Netherlands together with the brand name. The shops of this chain will be retained by the combined company, but will have to adopt a new name.*

[124] European Commission. (2021). *Mergers: Commission clears acquisition of GrandVision by EssilorLuxottica, subject to conditions*.
[125] European Commission. (2021). *Mergers: Commission clears acquisition of GrandVision by EssilorLuxottica, subject to conditions*.
[126] European Commission. (2021). *Mergers: Commission clears acquisition of GrandVision by EssilorLuxottica, subject to conditions*.

After considering the proposed remedies, The Commission concluded that the transaction would no longer threaten the competition[127]. However, the complete fulfilment of the remedies is a requirement for the Commission's decision.

2.4.2 Rational Behind the transaction

As mentioned in the first paragraph, M&A is a growth strategy that very often is explained by synergies, especially if it is a transaction that takes place in the same or complementary businesses. In this section, we will look at the types of synergies created by the acquisition and thus understand the rationale behind the transaction.

EssilorLuxottica is a considerably larger player with respect to GrandVision, as seen in the previous paragraph, in fact, in terms of revenues, in 2019, it had revenues of 17.4 billion (Table 2.4.2.1), which is slightly more than four times the revenues of GrandVision in the same year. The acquisition, in line with the strategy of creating a prominent vertically integrated single player, further strengthens EssilorLuxottica's position in the eyewear, eyecare and luxury markets. Especially the latter, characterised by large conglomerates such as LVMH, requires a specific scale to compete. On the other hand, looking at the sales channels, it can be seen that, while GrandVision mainly sells through retail, with 99% of the revenues coming from this channel (Table 2.4.2.1), EssilorLuxottica sells more through large distributors and therefore, in line with a B2B model, in fact, retail accounts only for the 35% of the total revenues (Table 2.4.2.1). This shows a complementarity of the two businesses, in fact, the acquisition would allow EssilorLuxottica to be much more balanced with 47% of the total revenues attributable to the retail. Considering then the number of stores, EssilorLuxottica, through the acquisition of GrandVision, reaches an even more capillary presence with more than 18k store in the world (Table 2.4.2.1), representing an increase of approximately 70% compared to before the acquisition. In this way, the company strengthens its position and confirms that it is the leader in the eyewear market. Looking instead at the geographical presence of the stores, as mentioned earlier, it can be seen that GrandVision is mainly

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[127] European Commission. (2021). *Mergers: Commission clears acquisition of GrandVision by EssilorLuxottica, subject to conditions.*

present in Europe with 75% of the stores (Table 2.4.2.1), while EssilorLuxottica operates mainly in North America, in fact, the stores in Europe are only 10% of the total (Table 2.4.2.1). This reveals a further synergy between the two companies, in fact, the acquisition allows Essilor Luxottica to have a more significant presence in the European market with 35 % of the stores over the total and thus fully exploit the market's potential as well.

Therefore, to briefly summarise, the rationale behind the transaction is synergies, since as we have seen, these are two companies that are complementary in terms of business model and geographical presence, in addition, there is also a shared vision and common ground on strategy. The transaction will help the company further develop its distribution, direct-to-consumer and omnichannel capabilities[128], and it will benefit from increased access to consumers, additional outreach opportunities and the ability to meet the growing demand for branded, high-quality eyewear. EssilorLuxottica aims to increase revenues and profits through operational improvements and expansion of the company, mainly through shop openings, hosted corner openings and omnichannel activities[129].

This acquisition, as seen above, is absolutely in line with EssilorLuxottica's growth strategy and vertically integrated business model. In addition to explaining the rationale of the deal, these synergies also explain why EssilorLuxottica decided to go ahead although the authority had given the option to break the agreement as a result of GrandVision's misconduct.

[128] EssilorLuxottica. (2019). *Interim Financial Report H1 2019.*
[129] EssilorLuxottica. (2021). *Offer Memorandum.*

	ESSILORLUXOTTICA	GrandVision	ESSILORLUXOTTICA GrandVision
Revenue	€17.4bn	€4bn	€21.4bn(1) +18,7%
Retail share of revenue	35%	99%	47%
Number of retail stores	10k+	7k+	~18k +70%
Stores in Europe as a % of total group stores	~10%	75%	35%

Note: based on FY 2019 data. (1) Excluding Grandvision proforma consolidation impact

Table 2.4.2.1: EssilorLuxottica-GrandVision synergies (2019)

Source: EssilorLuxottica official web page

2.5 Deal structure: Block trade Agreement and Mandatory tender offer

In this section, we will analyse the structure of the operation in more detail, as there are data that will be used in the analytical part of the next chapter.

As mentioned above, the type of agreement that was negotiated between the parties was a block trade agreement, which provided for EssilorLuxottica to purchase 195,203,728 Shares[130], representing approximately 76.72% of the share capital in GrandVision. The price paid for the share amounts to €28 per share, equivalent approximately to €5.5 billion, representing a 33% premium in respect to the unaffected share price of GrandVision on July 16th, 2019, of €21.04[131]. However, it was stipulated that the price per share will increase by 1.5% to €28.42 if the transaction does not occur white 12 months from the announcement date[132], as it actually did. The premium of 35%, as explained in the first chapter, is not only due to the synergies created by the transaction,

[130] EssilorLuxottica. (2021). *Offer Memorandum.*
[131] EssilorLuxottica. (2021). *Offer Memorandum.*
[132] EssilorLuxottica. (2021). *Offer Memorandum.*

but also by the fact that EssilorLuxottica has acquired operational control of the company for which a control premium is paid. In fact, being with that stake the majority shareholder and therefore able to make decisions without many obstructions from the other shareholders, the company had to pay a premium according to market standards.
The type of currency used to complete the transaction was cash. The financing source was a committed bridge financing from a global financial institution of approximately € 8 billion with a plan to refinance it with a through debt and equity/equity-like up to € 2 billion[133].
As mentioned above, since this is a friendly takeover, in parallel with the block trade agreement, a support agreement was negotiated between the parties according to which GrandVision agreed to support the transaction of HAL's stake in GrandVision as well as cooperation in the preparation of the filling to be submitted in respect of the mandatory tender offer.

On July 1 2021[134], as a consequence of the acquisition of HAL's stake in GrandVision, EssilorLuxottica, having exceeded 30% of the total stake, had to launch a mandatory tender offer under Article 5.70 of the Dutch Act on Financial Supervision. The mandatory tender offer was also structured as a recommended public cash offer, and the price was determined in accordance with Article 5.80a of the Dutch Act on Financial Supervision, hence a fair price equal to the highest price paid by the Offeror for shares in the capital of GrandVision in the 12 months preceding the announcement of the Offer. In fact, the final price at which the Offer was made is €28.42, which is the same as the price in the block trade agreement[135].
That price represents a premium of[136]:

"35.1% compared to GrandVision's closing price on July 16 2019 (which is the date prior to the day on which the parties announced the commencement of discussions regarding the Transaction) of €21.04;

39.6% over GrandVision's volume-weighted average price for the one-month period up to and including 16 July 2019, which was €20.35; and

[133] EssilorLuxottica. (2019). *Interim Financial Report H1 2019.*
[134] https://www.essilorluxottica.com/highlights2021/grandvision
[135] EssilorLuxottica. (2021). *Offer Memorandum.*
[136] EssilorLuxottica. (2021). *Offer Memorandum.*

43.8% to GrandVision's volume-weighted average price for the period of three months up to and including 16 July 2019, or €19.77."

It is important to know the control premium because it will then be used in the company's valuation to understand whether the price paid by EssilorLuxottica is consistent with a fair business valuation or not. Therefore it is important to understand how much of the approximately €7.2 billion is the control premium and how much is actually allocable to the target company's valuation.

EssilorLuxottica purchased further shares at the same price in September, and on October 7, 2021[137], through the launch of a mandatory public offer recommended to all shareholders, increased its overall ownership of GrandVision's issued share capital to 99.73%, in line with the intention to acquire 100% of the target as will be seen in the next section.

2.5.1 Buy out & Delisting

EssilorLuxottica, at the end of the takeover bid, announced that they wanted to acquire 100% of the shares or complete control of the operations and assets of the GrandVision Group through a buy-out process and that they wanted to delist the company[138]. It was essential for them to obtain 100 per cent of the shares or complete ownership of the GrandVision Group's operations and assets, taking into account the strategic rationale of the transaction. For instance, having a single shareholder and operating outside of a public listing increases the ability to realise integration objectives; furthermore, the option to remove shares from the Euronext Amsterdam listing reduces costs and facilitates the creation of a more effective capital structure, which could, among other things, facilitate intercompany transactions and dividend payments[139].

On 19 April 2022[140], EssilorLuxottica announced that it had completed the buy-out of the remaining shareholders and obtained 100 per cent of GrandVision's share capital. In addition, having exceeded the 95% threshold required by Dutch law to apply for delisting and following the bidder's desire to delist the company, the listing and trading of the Shares on Euronext Amsterdam

[137] https://www.essilorluxottica.com/highlights2021/grandvision
[138] https://www.essilorluxottica.com/completion-statutory-buy-out-grandvision-shareholders
[139] EssilorLuxottica. (2021). *Offer Memorandum.*
[140] https://www.essilorluxottica.com/completion-statutory-buy-out-grandvision-shareholders

will be terminated. As agreed with Euronext, the delisting effectively occurred on 10 January 2022, and the last day the shares were traded was 7 January 2022[141].

[141] https://www.essilorluxottica.com/delisting-grandvision-10-january-2022

Chapter 3 - GrandVision Valuation: Business Valuation Methods

Business valuation methodology refers to analytical financial models used by companies to determine the value of an asset[142]. The valuation can cover the company as a whole or an individual asset. Usually, the latter concerns the valuation of assets that may be overvalued and therefore require an impairment test to determine whether the value entered in the balance sheet is the actual value that the market attributes to that specific asset. On the other hand, the whole company's value is calculated for various reasons, including an M&A transaction, an IPO, an investor who wants to speculate on the shares' misprice, or simply listed companies monitoring the value that the market attributes to them. All valuation methodologies are based on the law of one price, according to which, if equivalent investment opportunities trade simultaneously in different competitive markets, they must trade for the same price in all markets. This implies that the price of a security should equal the present value of the expected cash flows an investor will receive from owning it[143].

In the Corporate Finance practice, four business valuation models are used[144]. Two that are analytical and primary, the Dividend Discount Model and the Discounted Cash Flow Model, and two that are used as supporting methods, which are the method of Comparable and the Comparable Acquisitions Analysis. For the purpose of the valuation of GrandVision, we will analyse in detail below the three methods used in the empirical section which are, the DCF as a primary method, the Comparable and Comparable Acquisition analysis as a support method.

3.1 Discounted Cash Flow methodology

The Discounted Cash Flow or Discounted Free Cash Flow model is a financial model that aims to calculate the value of assets of a company available to both shareholders and debt holders.

It is defined as Enterprise Value (EV) and is calculated as[145]:

$$\text{Enterprise Value} = \text{Market Value of Capital} + \text{Debt} - \text{Liquidity}$$

[142] https://www.investopedia.com/terms/b/business-valuation.asp
[143] Berk, J., DeMarzo, P. (2017). *Corporate Finance*, 4th Edition (Global). Pearson, 9, 309-310.
[144] https://corporatefinanceinstitute.com/resources/knowledge/valuation/valuation-methods/
[145] Berk, J., DeMarzo, P. (2017). *Corporate Finance*, 4th Edition (Global). Pearson, 9(3), 322-323.

EV is the value of the underlying business, free of debt and distinct from any cash or marketable securities (1). The net cost of buying the company's shares, taking its cash and paying off the debt is defined as the enterprise value. The advantage of the discounted free cash flow model is that it makes it possible to estimate the value of a company without having to make detailed forecasts of dividends, share repurchases or usage of debt.

Enterprise value is calculated by adding up the present value of the free cash flows that the company generates over the years. Free cash flow measures the cash generated by the firm before any payments to debt or equity holders are considered and is calculated as[146]:

$$\text{Free Cash Flow} = \text{EBIT} * (1 - t) + \text{Depreciation and Amortisation} - \text{Capital expenditure} - \text{Increase in net working capital}$$

All these voices are calculated during the preparation of the managerial balance sheet, which is a reformulated balance sheet used to perform financial analysis and company valuation.

In this reformulated balance sheet, EBIT stands for Earning Before Interest and Taxes and is obtained by subtracting the OPEX and the Depreciation & Amortisation from revenue. Capex instead is referred to funds used by a business to purchase, upgrade, and maintain fixed assets like real estate, plants, buildings, technology, or equipment.

Net Working Capital measures the efficiency of the operating business and is calculated as current operating assets (cash, receivable, inventories, etc.) minus current operating liabilities (payable, current liabilities, etc.)[147].

Once all these elements have been calculated, and the free cash flow generated by the firm has been determined, it is possible to calculate the Enterprise Value by calculating the Net Present Value of the firm's free cash flow. In fact, EV is equal to[148]:

$$EV = PV\ (\text{Future Free Cash Flow of Firm})$$

[146] Berk, J., DeMarzo, P. (2017). *Corporate Finance,* 4th Edition (Global). Pearson, 9(3), 322-323.
[147] https://www.investopedia.com/terms/w/workingcapital.asp
[148] Berk, J., DeMarzo, P. (2017). *Corporate Finance,* 4th Edition (Global). Pearson, 9(3), 323-324.

When using the DCF model, the Weighted Average Cost of Capital (WACC) must be used as the discount rate and not the cost of equity as debt holders are also considered. Indeed, in the case of a company with no debt, these two rates are equal, but if there is debt, the WACC is generally lower than the cost of equity because the risk of debt is lower than the risk of equity.
The WACC is defined as the average cost of capital the firm must pay to its investors, both debt and equity holders, and is calculated as[149]:

$$\text{WACC} = \frac{E}{E+D} re \ + \frac{D}{D+E} rd * (1-t)$$

Where *"E"* and *"D"* are the value respectively of equity and debt, *"re"* is the cost of equity which is calculated using the Capital Asset Pricing Model, *"rd"* is referred to the cost of debt and *"t"* is the corporate tax rate of the country in which the company is incorporated.

Once the value of the FCF and the WACC has been assessed, a standard discounted cash flow model is used to calculate EV, which is illustrated below[150]:

$$EV = \frac{\text{FCF 1}}{(1+wacc)} + \frac{\text{FCF 2}}{(1+wacc)^2} + \frac{\text{FCF 3}}{(1+wacc)^3} + \ldots + \frac{\text{FCF n + V n}}{(1+wacc)^n}$$

Often, the Terminal Value (V_N) , is estimated by assuming a constant long-term growth rate for the free cash flows beyond year N, which is usually based on the expected long-term growth rate of the company's revenues. In the practice of corporate finance, since it is not sustainable for a company to grow more than the country in which it operates, the long-term growth rate is usually set equal to the growth rate of the Gross Domestic Product (GDP) of the country in which it operates in the long run (usually 10-20 years), which is in turn equal to the long-term expected inflation rate because GDP grows only in nominal value. With that long-term growth rate (g_{FCF}), the Terminal Value can be calculated as[151]:

[149] Berk, J., DeMarzo, P. (2017). *Corporate Finance,* 4th Edition (Global). Pearson, 12(6), 461-462.
[150] Berk, J., DeMarzo, P. (2017). *Corporate Finance,* 4th Edition (Global). Pearson, 9(3), 323-324.
[151] Berk, J., DeMarzo, P. (2017). *Corporate Finance,* 4th Edition (Global). Pearson, 9(3), 323-324.

$$V_N = \frac{FCF_{N+1}}{(wacc - g_{FCF})}$$

The DCF method is often defined as an indirect method because it is necessary to first calculate the EV and then indirectly obtain the market value of the equity, which is the inverse formula seen for calculating the EV[152]:

Market Value of Equity = Enterprise Value - Debt + Cash

The DCF, as mentioned above, is the primary valuation method also used in practice, as it calculates the value of the company based on the expected future cash flows it is able to generate. However, there are limitations and challenges in using the DCF. For example, to use this method, one needs to make a forecast of the elements that make up the FCF[153]. In the case of an evaluation outside the company itself and thus without a business plan, this requires making assumptions about both the duration N of the forecast and the individual items of the balance sheet including revenues, costs, amortization & depreciation and the financial position.

Another main challenge in using the DCF is the determination of the Weighted Average Cost of Capital, as it first requires the calculation of the financial structure over time (D/E), then the calculation of the cost of equity through the CAPM and finally, the calculation of the cost of debt either through a bond yield simulation or through the Interest Coverage Ratio method, which the banks also uses to calculate the risk in giving a loan to a client.

Finally, the last challenge is the calculation of the long-term growth rate (g_{FCF}), which, as stated above, to be conservative, is usually set equal to the long-term expected inflation rate of the country in which the company is incorporated.

3.2 Comparables Analysis

Comparable multiple analysis, as well as DCF, is based on the Law of One Price, in fact, when calculating the PV of an investment, conceptually is calculating the amount that should be invested

[152] Berk, J., DeMarzo, P. (2017). *Corporate Finance*, 4th Edition (Global). Pearson, 9(3), 323-324.
[153] https://corporatefinanceinstitute.com/resources/knowledge/valuation/dcf-pros-and-cons/

elsewhere in the market to replicate the cash flows with the same risk. Therefore, according to the Law of One Price, if two companies are identical and will consequently generate the same cash flow, they should have the same value. The Comparables Method estimates the company's value based on the value of other comparable companies or investments [154].

However, identical firms do not exist; even if they sell the same product there may still be differences in size or scale. We can correct for differences in scale between companies by expressing their value in terms of a Valuation Multiple, which is a ratio between the value and a certain measure of the company's scale[155]. The concept is very similar to real estate valuations. Indeed, the typical way to calculate a fair estimate of the worth of an office building is to multiply its size by the average price per square foot. The same concept can be used for shares, substituting square footage for a more accurate representation of the company's size.

The comparable analysis process can be summarised in three steps. The first consists in selecting the universe of comparable, then choosing the valuation multiples to be used on the basis, as will be seen, of the determinant analysis, and finally multiplying the chosen scale measure with the mean or median of the multiples of the set of comparable. The universe of comparable is selected on the basis of business and financial profiles. The business profile refers to the sector in which it operates, the product it sells, the type of business model and the geography in which it operates. Whereas for the financial profile, size, profitability, growth prospects or credit profile are usually considered. Once the comparable companies have been identified, the valuation multiples to be used are identified. The Valuation Multiple can be calculated in two different ways[156]:

- Trailing version: which means calculating the multiple using the last accounting number;
- Forward version: which means calculating the multiple using the forecasted accounting number.

The second option, however, is more consistent because when calculating the company's value, one must always consider future projections for the company, as the past is not always representative of what the future will be due to different events and circumstances.

There are several multiple valuations that can be used in a business valuation, and some are specific to a particular sector. They are divided into Equity Value Multiple, in which the denominator must

[154] https://corporatefinanceinstitute.com/resources/knowledge/valuation/multiples-analysis/
[155] Berk, J., DeMarzo, P. (2017). *Corporate Finance,* 4th Edition (Global). Pearson, 9(4), 326-327.
[156] Berk, J., DeMarzo, P. (2017). *Corporate Finance,* 4th Edition (Global). Pearson, 9(3), 327-328.

be a financial statistic that flows only to equity holders, and in Enterprise Value Multiple, in which the denominator employs a financial statistic that flows to both debt and equity holders. From the equity side, the most commonly used ratios are P/E[157], P/CE[158] and P/B[159], while, on the asset side, the most commonly used ratios are EV/EBITDA[160], EV/SALES[161], EV/EBIT[162].

For the purposes of GrandVision's valuation, three Valuation Multiples are analysed in detail below, one from the equity side, P/E, and the other two from the asset side, EV/EBITDA and EV/SALES.

The price/earnings multiple is one of the most widely used in the practice of corporate finance. The idea behind its application is that when you buy a share, you are essentially buying rights to the company’s future profits. Therefore, an investor should be willing to pay proportionately more for a share with higher current earnings because changes in the size of the company's earnings are likely to continue. As a results, we may calculate the value of a company's share by multiplying its current earnings per share by the average P/E ratio of comparable companies. In order to understand whether companies are comparable on the basis of this multiple, it is necessary to perform a determinant analysis to evaluate the individual items that compose the multiple itself. For instance, the forward P/E multiple can be rewritten as[163]:

$$\text{Forward}\,\frac{\mathrm{P}}{\mathrm{E}} = \frac{P_0}{EPS_1} = \frac{DIV_1{}^{164}/\,EPS_1}{re-g} = \frac{Dividend\ Payout\ Rate}{re-g}$$

Where *“Dividend Payout rate”* is a number between 0 and 1, which indicates what percentage of earnings is distributed to shareholders through dividends and how much is allocated to reserves or internal investments. *“Re”* as said above, instead represents the cost of equity, and *“g”* is the

[157] Price over Earnings or Net Income. Usually is also expressed as per share.
[158] Price over Cash Earnings
[159] Price over the Book Value of Equity
[160] Enterprise Value over Earnings Before Interest, Taxes and Depreciation & Amortization. The latter is obtained by subtracting the OPEX from revenues.
[161] Enterprise Value over Sales
[162] Enterprise Value over Earnings Before Interest and Taxes. The latter is obtained by subtracting depreciation & amortization from the EBITDA.
[163] Berk, J., DeMarzo, P. (2017). *Corporate Finance,* 4th Edition (Global). Pearson, 9(3), 326-327.
[164] The Dividend can be written as: Dividend Payout rate*Earning per share (EPS)

sustainable growth rate and represents the rate at which the company can grow using only retained earnings.

Enterprise value multiples are used when comparing companies with different leverage, in fact, it represents the total value of the underlying business before the company pays off its debt. For this reason, it is consistent to consider as the denominator of the multiple, measures that do not consider interest payments, such as earnings or FCF.

The most used multiple in corporate finance practice from the asset side is EV/EBITDA, as this multiple allows to overcome the difference in depreciation & amortization policy between the compared firm, especially if two firms operate under different legislation. The logic for the calculation is the same as P/E ratio; indeed, it aim to evaluate a company's underlying business by multiplying its current EBITDA by the average EV/EBITDA ratio of comparable companies. In order to compare two companies on the basis of the multiple, if g is constant, it can be unbundled as follows[165]:

$$\mathrm{EV/EBITDA} = \frac{V_0}{EBITDA_1} = \frac{FCF_1 / \, EBITDA_1}{wacc - g_{\mathrm{FCF}}}$$

Thanks to the determinant analysis, which will be performed in the empirical part of the next section, can be, for instance, compared the growth rate of the two companies; or through the WACC can be compared the intrinsic risk of the company or understand whether they are comparable in terms of the free cash flow they are able to generate.

The other Valuation Multiple used in practice is EV/SALES. However it is less preferred than the previous one because additional elements are considered in the analysis of the determinants, which makes it challenging to find the right comparable. However, as in the case of not very mature companies with high growth potential but negative operating results, EV/SALES is one of the most used together with P/S. The calculation of the value of the underlying business is like that of the previous multiple as well as the inverse formula to perform the deterministic analysis, it is only necessary to replace Sales with EBITDA in the above formula.

[165] Berk, J., DeMarzo, P. (2017). *Corporate Finance,* 4th Edition (Global). Pearson, 9(3), 327-328.

There are different advantages to using comparable analysis as a valuation method. For instance, it is a straightforward method to use, it is based on market value information that are easy to access and it is widely used in practice. However, there are also disadvantages and challenges, indeed, it is difficult to find companies that are "pure comparable", as there are other features such as an exceptional management team, an efficient manufacturing process, or securing a patent on a new technology, which are not considered with this type of valuation method. Therefore, when the wrong comparable is chosen, the analysis may turn out to be meaningless. In addition, valuation multiples may be skewed depending on capital markets and the economic environment at the time of the valuation; therefore, since with this method the company is valued relative to other firms in the set of comparable, if the entire industry is overvalued, it is not considered in the model and the valuation may be meaninglessness.

3.3 Comparable Acquisition Analysis

The analysis of comparable acquisitions (Compaq) or previous transactions analysis, similar to the analysis of comparable companies, employs a multiples approach to derive an implied valuation range for a given company, division, business or set of assets ('target'). Compaq relies on multiples paid for comparable companies in previous M&A transactions[166]. The process, is very similar to that of the comparable analysis, in fact, initially, the Universe of Comparable Acquisitions is selected, then the valuation multiples most suitable for the valuation are identified and finally the value of the target company is calculated by multiplying its balance sheet measures by the average or median of the multiples of the set of Comparable Acquisitions.

Indeed, multiples such as EV/EBITDA and EV/SALES are the most commonly used multiples for comparable acquisition analysis and are the ones that will be used for GrandVision's valuation.

However, in comparison to the comparable analysis, for the precedent transaction analysis additional factors must be considered, such as the purchase consideration or the premium being paid for the transaction. In the first case, if the transactions differ in the purchase consideration, the transaction could be meaningless.

The purchase consideration refers to the mix of cash, shares or other securities that the acquirer offers to the target's shareholders. For example, in all-cash transactions, the acquirer makes an

[166] https://corporatefinanceinstitute.com/resources/knowledge/valuation/precedent-transaction-analysis/

offer to purchase all or part of the outstanding shares of the target company for cash. Therefore, the share value is calculated as the cash offer price per share multiplied by the number of diluted outstanding shares. As mentioned in Chapter One, the receipt of such consideration results in a taxable event, unlike the exchange or receipt of shares, which, if properly structured, is not taxable until the sale of the shares.

In stock-for-stock transactions, however, the situation is more complex, as the share value may be calculated either on the basis of a fixed exchange ratio or on the basis of a variable exchange ratio[167]. The exchange ratio is calculated as the bid price per share divided by the buyer's share price in both cases. However, in a fixed exchange ratio structure, the offer price per share (value to target) moves in line with the underlying share price of the acquirer, while the amount of the acquirer's shares received is constant. Whereas, in a floating exchange ratio structure, the offer price per share (value to target) is set and the number of shares exchanged fluctuates according to the movement of the acquirer's share price.

For the purpose of the transaction that will be analysed, since it has been a fully cash offer, we do not need to ask ourselves the problem of the exchange rate mentioned above.

There are various advantages and disadvantages to using comparable acquisition analysis as a valuation method[168], some of them similar to the multiple's method. For instance, as in the case of multiple methods, the data is market-based, which at the same time can be an advantage as well as a disadvantage for fair valuation purposes. This is also a very simple method to use that provides forward reference points across sectors and time periods. Finally, with this method, there is no need to make as many assumptions as with the DCF for example; however, there is a risk that the valuation may be meaningless since the multiple paid by the buyer may be based on expectations governing the target's future financial performance, which is typically not publicly disclosed and not considered in the Compaq method.

[167] https://www.wallstreetprep.com/knowledge/exchange-ratios-ma-fixed-vs-floating-exchange-ratios-collars-caps/
[168] https://www.streetofwalls.com/articles/investment-banking/recruiting-interviewing/precedent-transaction/

Chapter 4 - GrandVision Valuation: Empirical evidence

This chapter will provide the results of the empirical analysis conducted on GrandVision, which are used to answer the second research question of this thesis. In particular, in the first, section the results of the Discounted Cash Flow Model will be presented, in the second section those of the Comparable Analysis, and in the third section those of the Comparable Acquisition Analysis. Finally, a summary of these results will be provided to arrive at a single valuation to be compared with the price paid by EssilorLuxottica for the acquisition of GrandVision.

4.1 Discounted Cash Flow Results

The first step in GrandVision's valuation, based on the discounted cash flow method, is the reformulation of the income statement and balance sheet, which, as mentioned above, form the basis of the business valuation methods. Once reformulated, the income statement and balance sheet elements are forecasted. The forecasts are mainly based on the company's historical data from 2016 to 2020, as well as comparable information, the eyewear market segment and information from the company's annual reports. Since the company's business plan is not public information, as mentioned above, it is necessary to make assumptions in order to evaluate the company from an external point of view. After constructing the free cash flow from the forecasted elements, the Weighted Average Cost of Capital is calculated. The WACC is then used to discount the free cash flow to obtain the Enterprise Value, which is the final result of the Discounted Cash Flow.

4.1.1 Free Cash Flow Construction

For the construction of the free cash flow, which as already mentioned is necessary for the DCF valuation, a five-year projection of the following Key Performance Indicators was carried out: Revenue, Cost of Good Sold (COGS), Operating Expenses (OPEX), Depreciation & Amortization (D&A), Taxes, Net Working Capital (NWC), Capex and the long-term growth rate.
Regarding the revenue forecast, which is probably the most challenging assumption of the FCF projection, both the company's historical performance and the eyewear market's growth prospects were considered. GrandVision has performed very well in recent years, with revenues (2016-2020) increasing significantly year on year, outpacing the growth of the market segment in which it

operates. However, as the sector in which it operates is reaching its maturity stage, the annual increase is lower than in previous years in percentage terms. For this reason, revenues are assumed to grow at a constant rate of about 4.6% from 2020 to 2025. This value was obtained by averaging the historical average revenue growth from 2016 to 2020, which was around 6.8%[169], and the CAGR of the eyewear industry 2012-2025, which is estimated to be around 2.3%[170] taking into account the impact of Covid-19. As a result, the total increase is assumed to be lower than the historical one because it is not sustainable to assume that the company will maintain the same historical revenue growth rate in the future.

As far as COGS is concerned, as the term itself says, this item is closely related to revenues. In fact, an assumption was made on the ratio of COGS over Revenues to forecast its value. Looking at this ratio from 2016 to 2020, we see that the company's cost structure has remained more or less the same; in fact, as Revenues increase, there is a corresponding increase of almost the same proportion in COGS. For this reason, the average cogs/revenue ratio 2016-2020, which is about 27%[171], has been assumed to be the same ratio for the period 2020-2025.

The Operating Expenses confirm that GrandVision has a very stable cost structure averaging about 54%[172] of revenues from 2016 to 2020. For those reasons, in the forecast 2020-2025, the OPEX were assumed to be the same as the historical average mentioned above.

In the case of Depreciation & Amortization, given the direct relationship with capex, it was decided to relate depreciation to it, since if the company invests more (higher capex), depreciation will also increase over the years, as it is added to the already existing depreciation of the past investment. Looking at the historical ratio, however there is not a clear structure of D&A over Capex, in fact, in 2019 there was an exponential increase in the value of D&A. This is closely linked to the enforcement of IFRS 16 in 2019 for companies subject to International Financial Reporting Standards, as is the case of GrandVision. Indeed, according to IFRS 16, under a lease agreement, the lessee must recognise an asset (Right of use asset) and a financial liability (The lease liability) in the balance sheet. In the income statement, the lease costs are no longer reported, but rather the depreciation of the Right of Use Asset and the interest expense calculated on the lease liability. This, therefore, explains the exponential increase in D&A in 2019. Since going forward the

[169] Data retrieved from Refinitv Database
[170] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[171] Data retrieved from Refinitv Database
[172] Data retrieved from Refinitv Database

adjustment to the P&L will be the same, it was decided to assume D&A equal to the historical average of D&A/Capex from 2016 to 2020.

For the tax rate, which is required for the calculation of Net Operating Profit after Taxes (NOPAT), the corporate tax rate that applies to incorporated companies under Dutch law was applied, which is 25%[173].

Capex on the other hand, given the stability of investments with a constant growth rate from 2016 to 2019, it was decided to assume the same as this historical average, which is around 4%, excluding 2020 as investments were greatly reduced due to Covid-19.

GrandVision, as seen in the previous section, has a business model with retail sales as the main source of revenue. This brings a great advantage to GrandVision as it first allows it to collect the revenue from sales plots 30 days as reflected in Days of sales outstanding and instead pays suppliers at 12 months as reflected in the Average Payment Period. This means that the company has a negative Cash Conversion Cycle and consequently a negative NWC, which in economic terms means that the company is able to finance its operations through it.

Since the NWC is composed of Receivables, Payables and Inventories that are closely related to Revenues, the historical 2016-2020 average of DSO over Revenues, Days in Inventories over COGS and Average Payment Period over COGS was considered to forecast its 2020-2025 value. From these averages, the receivable, payable and inventories for 2020-2025 were calculated based on the forecast of revenues and cogs. Furthermore, with the formula seen in the previous chapter, the NWC is calculated.

Since the long-term growth rate is used in calculating of the perpetuity, to be conservative, it was chosen equal to the expected inflation rate for the country in which the company operates. In this way, will be assumed that the market growth represented by GDP drives future growth, but since it only grows in nominal value, this growth is equal to long-term inflation rate, which is about 2% for the Eurozone[174]. Before applying the growth rate to the terminal value, it is necessary to normalize the forecast values by taking the average of the 2021-2025 forecasts as the terminal value; for the change in the NWC, the terminal value is set equal to 0 because it is not sustainable

[173] https://home.kpmg/it/it/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html
[174]https://www.ecb.europa.eu/pub/projections/html/ecb.projections202206_eurosystemstaff~2299e41f1e.en.html#toc7

to assume that it grows perpetually, while for D&A and Capex, they are set equal so that they offset each other.

Once the above elements have been forecast, the free cash flow is simply constructed using the formula seen in the DCF methodology section. The results of this analysis are shown below.

DCF Mln €	2020	2021	2022	2023	2024	2025	TV
Revenues	*3.481 €*	3.640€	3.806 €	3.979 €	4.160 €	4.350 €	3.987 €
COGS	*988 €*	996 €	1.041 €	1.088 €	1.138 €	1.190 €	1.091 €
Gross Profit	*2.493 €*	2.644 €	2.765 €	2.891 €	3.022 €	3.160 €	2.896 €
OPEX	*1.639 €*	1.956 €	2.046 €	2.139 €	2.236 €	2.338 €	2.143 €
EBITDA	854 €	688 €	719 €	752 €	786 €	822 €	753 €
D&A	688 €	479 €	500 €	521 €	543 €	566 €	522 €
EBIT	166 €	208 €	219 €	231 €	243 €	256 €	231 €
TAXES	42€	52 €	55 €	58 €	61 €	64 €	58 €
NOPAT	125 €	156 €	164 €	173 €	182 €	192 €	174 €
D&A	688 €	479 €	500 €	521 €	543 €	566 €	522 €
Δ NWC	- 105 €	118 €	- 5 €	- 5 €	- 6 €	- 6 €	- €
CAPEX	187 €	195 €	203 €	212 €	221 €	230 €	- 522 €
FCF	**730 €**	**764 €**	**798 €**	**835 €**	**873 €**	**913 €**	**174 €**

Table 4.1.1.1: *Discounted Cash Flow, Personal elaboration of data from GrandVision Source: Refinitv Database*

4.1.2 Weighted Average Cost of Capital Calculation

To calculate the WACC, as seen in the formula above, several elements are required, including the ratio of Debt to Equity, the Cost of Equity, the Cost of Debt and Taxes[175]. As for the Debt over Equity ratio, this was found by using the financial structure of the comparables and assuming that it remains constant for the forecast of GrandVision. In this way, only a single WACC is necessary to discount all cash flows. This assumption is consistent with the Trade-off Theory, according to which, companies in the same industry should have the same capital structure because they will benefit from the interest tax shield up to the point in which by adding debt the compay's total value decreases[176]. Thus, the D/E of GrandVision, for the period 2020-2025, is about 86% which is also somewhat in line with its historical value 2016-2020.

[176] Berk, J., DeMarzo, P. (2017). *Corporate Finance,* 4th Edition (Global). Pearson, 16(7), 606-609.

For the calculation of the Cost of Equity, as mentioned above, the CAPM formula is used, according to which the Cost of Equity (R_e) is equal to[177]:

$$R_e = R_f + \beta * (E[R_{mkt}] - R_f)$$

For the risk-free rate, have been chose the yield to maturity (YTM) of the American treasury bond with expiration in 10 years, which is around 1,45% (Table 4.1.2.1), because the US is considered a risk-free country. In addition, according to Damodaran paper on the risk-free rate, the YTM of a coupon bond is approximately equal to the weighted average of the YTM of each ZCB in those years. Although in practice it is common to take the risk-free rate of the country in which the valued company is legally incorporated to have a currency match, in this analysis we wanted to be conservative and faithful to the original version of the CAPM.

Then, the ERP which is the risk of the market minus the risk-free rate as in the formula above, is identified based on Professor Damodaran's estimates[178]. Included in the ERP is the risk premium of the country in which the company operates, and since I have chosen a real risk-free rate here, I consider the ERP of the Netherlands, which is around 4,7% in 2021 (Table 4.1.2.1). In Damodaran's estimation the spread is associated with a specific rating assigned by Moody's, which may be the same as for other countries; it could have been possible to use the CDS market to specifically assess the spread of the Netherlands, but it is an illiquid market, so the first solution is clearly more consistent.

The remaining element to calculate the cost of capital is the Beta, which measures the systematic risk of a security or portfolio relative to the market as a whole[179]. Recalling the concept of trade-off theory mentioned earlier, the risk of a security relative to the market of similar companies operating in the same business must also be similar. For this reason, I calculated the Beta by taking the average of the unlevered Betas of the comparables and leveraging it for GrandVision's financial structure. Once all elements are in place, the CAPM formula is simply applied to obtain the cost of equity.

On the other hand, the cost of debt GrandVision's valuation purposes, is calculated using the method the bank uses for the interest rate on the company loan. This method calculate the cost of

[177] Berk, J., DeMarzo, P. (2017). *Corporate Finance,* 4th Edition (Global). Pearson, 10(8), 378-380.
[178] https://pages.stern.nyu.edu/~adamodar/
[179] Berk, J., DeMarzo, P. (2017). *Corporate Finance,* 4th Edition (Global). Pearson, 16(7), 606-609

debt as the sum of a risk-free rate and a spread that is calculated based on the Interest Coverage Ratio (ICR). The ICR is calculated as Net Interest Expenses over EBIT and represents a debt and profitability ratio used to determine how easily a company can pay interest on its outstanding debt. Once calculated the ICR, it is associated to a specific spread which Damodaran provides on its official we page page[180]. This spread is then added to the risk-free rate to obtain the cost of debt. Finally, for the calculation of the WACC, all the elements are now available, so it is sufficient to apply the formula seen in the previous paragraph, as shown in the table below. For the purpose of the valuation of GrandVision, the WACC was adjusted for an execution risk associated with the finalization of the transaction of 1.5% (Table 4.1.2.1).

ASSUMPTION FOR WACC	VALUES	SOURCE
Cost of Equity		
Risk-free rate 10 yrs US	1,45%	US Department of the Treasury
ERP Netherlands	4,72%	Damodaran Website
D/E	86%	Comparables Data
D/V	46%	-
E/V	54%	-
Beta Levered	1,14	Comparables Data
re	**6,82%**	
Cost of Debt		
rf	1,45%	US Department of the Treasury
Spread	1,33%	Damodaran Website
Tax rate	25%	KMPG Official Web Site
ICR	4,997	
rd	**2,09%**	
WACC	**4,63%**	
Aplha (execution risk)	1,50%	-
Adjusted Wacc	**6,1%**	

Table 4.1.2.1: *WACC calculation, Personal Elaboration of data*
Source: Cited in the table above

[180] https://pages.stern.nyu.edu/~adamodar/

4.1.3 Enterprise Value and Equity Value Calculation

The ultimate purpose of the DCF is to calculate the value of the company expressed in Enterprise Value. The first step to obtaining that value is to simply discount the cash flows available to both debtholders and shareholders (free cash flow) using the WACC as the discount rate, which also considers the Interest Tax Shield related to the debt portion. The second step is to calculate the Present Value of the Terminal Value (TV), which expresses the perpetual growth prospects for the company being valued at year zero. Finally, the Enterprise Value is obtained by adding the PV of the Terminal Value to the Net Present Value of the FCF, as seen in the table below. The equity value, on the other hand, is calculated by subtracting the Net Financial Position from the Enterprise Value. In the specific case of GrandVision's valuation, an additional risk factor, the execution risk, was added to the cost of capital, as in the table below. This can be explained by the fact that the EssilorLuxottica-GrandVision transaction had a troubled history as the strategy through which GrandVision handled the Covid emergency was not clear, with potential damage to the business being reflected in a riskier valuation.

From this intrinsic analysis of GrandVision's value based on the free cash flow it is able to generate, the enterprise value resulted in approximately €6.8 billion and the equity value in approximately €5 billion (Table 4.1.3.1).

Mln €		2021	2022	2023	2024	2025
FCF		763,59	798,39	834,78	872,83	912,61
Valuation Date	30/06/21					
Year		31/12/21	31/12/22	31/12/23	31/12/24	31/12/25
Discount Period		0,5	1,5	2,5	3,5	4,5
DCF		**741,0**	**730,1**	**719,3**	**708,7**	**698,2**
WACC	4,6%					
Alpha	1,5%					
Adjusted WACC	6,1%					
NPV	**3597,3**					
TV	4290,8					
PV of TV	3282,7					
EV	**6880,0**					
NFP	1835,9					
EQ	**5044,1**					

Table 4.1.3.1: *Discounted Cash Flow, Personal Elaboration of data*
Source: Refinitiv Database

4.2 Comparable Analysis Results

For the valuation of the EssilorLuxottica-GrandVision transaction, the comparable companies analysis was also used, considering, as mentioned above, three market multiples: P/E, EV/SALES and EV/EBITDA. The first step was to choose the comparables, which was done through the two steps of analysis mentioned above. The first method served to identify companies with a similar business profile to the company being evaluated. The second step, on the other hand, is based on the determinant analysis of the multiples chosen and determines which of the companies selected by the first method were true peers in terms of financial profile. The companies chosen as GrandVision's comparators for the purpose of this evaluation are Burberry Group PLC; Fielmann AG; Macy's Inc; Bath & Body Works Inc; Alcon AG; Carl Zeiss Meditec AG; Dillard's Inc and Swatch Group Shs.

Once the panel of comparables with their respective metrics has been obtained, to arrive at the target company's enterprise and equity value, it is sufficient to multiply its balance sheet metrics, such as earning, sales and EBITDA, respectively, by the average or median P/E, EV/SALES AND EV/EBITDA of the comparables as seen in the table below. In the specific case of that valuation, the median has been used since some outliers greatly influence the average and therefore by taking the latter the result could be biased. The results of this analysis are as follows: using the P/E multiple, the equity value of GrandVision is equal to approximately €3 billion (Table 4.2.1), using instead the EV/SALES it is equal to approximately €8 billion (Table 4.2.1), and finally using the EV/EBITDA multiple, the equity value for GrandVision is equal to approximately €6.3 billion (Table 4.2.1).

To at a single result, which will then be compared with that obtained using other valuation methods, we take the arithmetic mean of these three values above, which is approximately €5.7 billion (Table 4.2.1).

Company Name	P/E (Daily Time Series Ratio) (0CY)	Enterprise Value To Sales (Daily Time Series Ratio) (0CY)	Enterprise Value To EBITDA (Daily Time Series Ratio) (0CY)
Burberry Group PLC	15,65	2,82	8,76
Fielmann AG	32,31	3,18	13,29
Macy's Inc	9,76	0,47	4,06
Bath & Body Works Inc	19,00	2,83	9,06
Alcon AG	130,99	5,83	21,63
Carl Zeiss Meditec AG	69,70	10,19	41,83
Dillard's Inc	8,47	0,82	4,78
Swatch Group Shs	28,45	1,83	10,09
AVERAGE	**39,29**	**3,49**	**14,19**
MEDIAN	**23,73**	**2,82**	**9,58**
Enterprise Value	**4.779.205.946,93 €**	**9.818.555.985,35 €**	**8.179.433.360,94 €**
Equity Value	**2.943.305.946,93 €**	**7.982.655.985,35 €**	**6.343.533.360,94 €**

Table 4.2.1: *Comparable Analysis, Personal Elaboration of data*
Source: Pitchbook

4.3 Comparable Acquisition Analysis Results

The rationale behind the analysis of comparable acquisition transactions is the same as the multiple analysis seen above. In this case, it is more difficult to find the transaction that is similar to the one evaluated; in fact, to choose the right comparable in this case the similarity score proposed by the Pitchbook database was used as in the table below. The rule for selecting the right comparable was to take transactions that had a similarity score of at least 70%, and then the business in which the target company operates was considered, which is mainly retail but also Apparel and Accessories, as seen in the table below. Based on those selection criteria, seven comparable transactions were considered for GrandVision's evaluation.

For this analysis, two multiples were considered: EV/SALES and EV/EBITDA. Once the multiple that was paid for the comparable transactions was identified, these values were averaged and multiplied by the target company's balance sheet metrics to obtain the Enterprise Value and then the Equity Value. The result of this valuation method is as follows: using the multiple EV/SALES, the Enterprise Value of GrandVision results equal to approximately €5.5 billion and the Equity Value approximately €3.7 billion (Table 4.3.1); using the multiple EV/EBITDA, the Enterprise Value of GrandVision results equal to approximately €11.6 billion and the Equity Value approximately €9.8 billion (Table 4.3.1). In order to arrive at a final result that is comparable to the one obtained using the above valuation methods, we take the average of these two values for the Equity, which is approximately €6.8 billion. As mentioned in the first chapter, in the case of an M&A transaction aimed at acquiring control of the target company, a so-called control premium is paid. This means that in the equity value calculated above, a premium is inherently included, which therefore has to be discounted in order to make this value comparable to that obtained with the two previous methods[181]. For those reasons, the equity value has been discounted of a 30% control premium, which is usually the average control premium paid in M&A transactions. The result of this valuation, excluding the premium, is approximately €4.7 billion.

[181] https://www.statista.com/statistics/978583/average-premiums-in-europe-by-industry/

Acquired Companies	Similarity Score	Primary Industry Group	Acquirer	EV/Revenue	EV/EBITDA
Favini	73%	Apparel and Accessories	Fortress Investment Group	0,52	5,37x
KappAhl Sverige	79%	Retail	Mellby Gård(Johan Andersson)	0,3	5,79x
Mint Velvet	72%	Retail	River Island	1,05	8,19x
Swedol	74%	Retail	TOOLS Løvold	0,72	4,50x
Tom Tailor E-Commerce (ETR: TTI)	73%	Apparel and Accessories	Fosun International (HKG: 00656)(Guangchang Guo)	0,12	2,74x
Yoox Net-a-Porter Group	85%	Retail	Compagnie Financière Richemont (SWX: CFR)	2,5	38,13x
Average				**0,87**	**10,79**
Enterprise Value				**3.023**	**9.213**
Equity Value				**1.187**	**7.377**

Table 4.3.1: *Comparable Acquisition Analysis, Personal Elaboration of data*
Source: Pitchbook

4.4 GrandVision Valuation Football Field

As anticipated in the introduction, the objective of this chapter is to provide a fair valuation of the EssilorLuxottica-GrandVision transaction, to understand whether, taking into account the synergies seen in the previous chapters, the price paid by EssilorLuxottica is consistent with the fair value of GrandVision calculated based on three valuation methods: Discounted Cash Flow, Comparable Analysis and Comparable Acquisition Analysis.

As anticipated in the introduction, the objective of this chapter is to provide a fair valuation of the EssilorLuxottica-GrandVision transaction, to understand whether, taking into account the synergies seen in the previous chapters, the price paid by EssilorLuxottica is consistent with the fair value of GrandVision calculated on the basis of three valuation methods: Discounted Cash Flow, Comparable Analysis and Comparable Acquisition Analysis. In order to arrive at a final value for GrandVision, an average of the equity values found with the individual methods is taken, as shown in the table below. Thus, according to that empirical analysis, the equity value of GrandVision is approximately € 5.1 billion (Table 4.4.1). To compare that value with the one paid in the transaction, a premium for control of 35% must be added; therefore, the final value considering the premium is approximately € 6.9 billion. As can be seen from the press releases and the term sheet of the transaction, the value paid for GrandVision's equity is approximately € 7.2 billion[182], which is slightly higher than the empirical valuation seen above.

Valuation Method	Type of Valuation	Enterprise Value (€)	Equity Value (€)
Discounted Cash Flow	Absolute valuation	**6.880.025.157**	**5.044.125.157**
P/E	Relative valuation (Compas)	**4.779.205.947**	**2.943.305.947**
EV/SALES	Relative valuation (Compas)	**9.818.555.985**	**7.982.655.985**
EV/EBITDA	Relative valuation (Compas)	**8.179.433.361**	**6.343.533.361**
EV/SALES	Relative valuation (Compaq)	**3.022.668.333**	**1.186.768.333**
EV/EBITDA	Relative valuation (Compaq)	**9.212.892.000**	**7.376.992.000**
Average		**6.982.130.131**	**5.146.230.131**
Min		**3.022.668.333**	**1.186.768.333**
Max		**9.818.555.985**	**7.982.655.985**

Table 4.4.1: *Valuation Football Field, Personal Elaboration of data*
Source: Pitchbook, Refinitv Database

[182] https://www.bloomberg.com/news/articles/2021-06-29/ray-ban-owner-goes-ahead-with-8-7-billion-grandvision-deal

Conclusion

As outlined in the introduction of this dissertation, the aim of this work is to answer two research questions related to the EssilorLuxottica-GrandVision M&A case study of 2021.

For the reader's convenience, the two research questions are given below:

- *What is the rationale behind the transaction and what are the resulting synergies? Given these synergies, what are the implications of the transaction on competition in the eyewear sector?*
- *Is the price paid by EssilorLuxottica for GrandVision's acquisition consistent with the fair value of the company?*

Summarising the work done so far, all the elements are now in place to answer the research questions of this dissertation.

As far as the first research question is concerned, the answers have been provided in the second chapter. Indeed, the motivation for EssilorLuxottica to acquire GrandVision is the strong complementarity of the two activities. As seen in the second chapter, in fact, with the acquisition of GrandVision, EssilorLuxottica has a stronger market positioning, a widespread geographic presence especially in Europe and a very balanced group in terms of business model. Indeed, the two companies together form a player with balanced turnover lines, which are (i) a B2B revenue line in which EssilorLuxottica is the market leader, and (ii) a B2C revenue line that for GrandVision represents 99% of total turnover. By taking into account the synergies seen above and considering that EssilorLuxottica was already the largest player in the eyewear market before the acquisition, one can answer the second part of the first research question regarding the effect of the deal on the competition in the eyewear market. Indeed, following the notification of the transaction, as one might would have expected the EU Commission started an investigation procedure. As seen in chapter one, the antitrust authority investigation consists of two steps. In the specific case of this transaction, the second phase of investigation was reached, which consisted of a quantitative analysis of the case. The result was that the Antitrust Authority placed remedies so that the transaction could be concluded, which mainly concerned the sale of retail stores in Belgium, Italy and Netherlands.

With regards to the second research question, the results of this analysis are outlined in the fourth chapter, although the other chapters contributed to this analysis by providing background knowledge on the Eyewear market, M&A trends in the European context and the methodological analysis used for the valuation. As seen in chapter four, EssilorLuxottica paid €7.2 billion for GrandVision's equity in 2021, which is €28.42 per share, representing a 35% premium over GrandVision's unaffected share price of €21.04 on 16 July 2019. According to the independent analysis, the equity value of GrandVision is equal to approximately € 5.1 billion. To compare that value with the one paid in the transaction, a premium of 35% should be added; therefore, the final value considering the premium is approximately € 6.9 billion. Thus, the value obtained on the basis of empirical financial models is lower than the value actually paid by EssilorLuxottica. Based on these data, the answer to the second research question is that the price paid by EssilorLuxottica is not consistent with the fair value of GrandVision. This can be explained primarily, by the fact that being an assumption-based valuation and not being in possession of a business plan of the company, the analysis was conducted in a conservative way, and this explains why the value that the market would pay for such an investment is lower than the one actually paid by EssilorLuxottica. Another element to be taken into account that may explain GrandVision's overpricing is that being a strategic acquisition, EssilorLuxottica, was willing to pay more than the actual value in order to gain access to synergies that would strengthen its position in the eyewear market.

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Appendix

Income Statement (Value in Million)	2016	2017	2018	2019	2020
Revenue	**3.316,10 €**	**3.449,90 €**	**3.721,00 €**	**4.039,30 €**	**3.481,00 €**
% Growth	4,03%	7,86%	8,55%		
COGS	**900,60 €**	**923,60 €**	**1.003,50 €**	**1.109,60 €**	**988,40 €**
% Growth	2,55%	8,65%	10,57%		
COGS/Revenue	27,2%	26,8%	27,0%	27,5%	28,4%
Gorss Profit	**2.415,50 €**	**2.526,30 €**	**2.717,50 €**	**2.929,70 €**	**2.492,60 €**
Gross margin	72,84%	73,23%	73,03%	72,53%	71,61%
OPEX	**2.061,20 €**	**2.201,50 €**	**2.379,40 €**	**2.605,10 €**	**2.326,20 €**
OPEX/Revenue (excluding D&A from OPEX)	57,23%	57,74%	57,88%	48,85%	47,07%
Depreciation & Amortization	163,40 €	209,70 €	225,80 €	632,10 €	687,70 €
EBITDA	**517,70 €**	**534,50 €**	**563,90 €**	**956,70 €**	**854,10 €**
% EBITDA margin	15,61%	15,49%	15,15%	23,68%	24,54%
Depreciation & Amortization	**163,40 €**	**209,70 €**	**225,80 €**	**632,10 €**	**687,70 €**
EBIT	**354,30 €**	**324,80 €**	**338,10 €**	**324,60 €**	**166,40 €**
NET INTERESTS EXPENSES	-3,90 €	-1,90 €	0,70 €	0,70 €	1,00 €
EBT	358,20	326,70	337,40	323,90	165,40
Taxes	89,55	81,675	84,35	80,975	41,35
NET INCOME	268,65	245,03	253,05	242,93	124,05

Table 1 of Appendix: Income Statement reformulated, Personal Elaboration of data Source: Refinitv

Balancesheet reformulation (Value in Million)	2016	2017	2018	2019	2020
Debt	931,5	990,1	878,2	2313,8	1991,2
Cah	181,1	164,7	138,3	162,9	155,3
NFP	750,4	825,4	739,9	2150,9	1835,9
Equity	946,9	1039,1	1162,5	1177,2	1058,8
D/E	98%	95%	76%	197%	188%

Table 2 of Appendix: Balancesheet reformulation, Personal Elaboration of data
Source: Refinitiv

ELEMENTS OF NWC	**2016**	**2017**	**2018**	**2019**	**2020**
Days of sales outstanding	33	35	31	31	34
% DSO / Revenue	0,99%	1,03%	0,82%	0,76%	0,98%
Days in Inventories	119	138	120	117	115
% Days in Inventories/ COGS	13%	15%	12%	11%	12%
Average payment period	258	262	251	233	297
% Average payment period / COGS	29%	28%	25%	21%	30%

Table 3 of Appendix: Elements of NWC, Personal Elaboration of data
Source: Refinitv

COMPARABLES COMPANIES	**BETA 2 YRS**	**D/E**	**TAX RATE**	**BETA 2 YRS UNLEVERD**
Menicon Co Ltd	1,01	25%	30,6%	0,86
Visco Vision Inc	0,38	105%	20%	0,20
Safilo	1,43	170%	24%	0,62
COOPER COMPANIES INC	0,97	31%	27%	0,79
Capri holdings	1,76	100%	19%	0,97

Table 5 of Appendix: Beta Calculation, Personal Elaboration of data
Source: Refinitv

If interest coverage ratio is			
greater than	≤ to	Rating is	Spread is
-100000	0,499999	D2/D	17,44%
0,5	0,799999	C2/C	13,09%
0,8	1,249999	Ca2/CC	9,97%
1,25	1,499999	Caa/CCC	9,46%
1,5	1,999999	B3/B-	5,94%
2	2,499999	B2/B	4,86%
2,5	2,999999	B1/B+	4,05%
3	3,499999	Ba2/BB	2,77%
3,5	3,9999999	Ba1/BB+	2,31%
4	4,499999	Baa2/BBB	1,71%
4,5	5,999999	A3/A-	1,33%
6	7,499999	A2/A	1,18%
7,5	9,499999	A1/A+	1,07%
9,5	12,499999	Aa2/AA	0,85%
12,5	100000	Aaa/AAA	0,69%

Table 4 of Appendix: Interest Coverage Ratio
Source: Damodaran Home Page

Deal Summary					
Rank Date	07/17/2019	Rank Value Credit (MM)	6,269.60	Disclosed Fee Flag (Y/N)	N
Date Announced	07/17/2019	Deal Value (MM)	5,533.10	Total Fees (MM) / %	57.740 / 0.92
Date Effective	07/01/2021	Enterprise Value at Announcement Date (MM)	7,948.58	Total Target Fees (MM) / %	19.710 / 0.31
Date Withdrawn	--	Enterprise Value at Effective Date (MM)	7,948.58	Total Acquiror Fees (MM) / %	38.030 / 0.61
Deal Status	Completed	Equity Value at Announcement Date (MM)	7,212.08	Rank Value to LTM EBITDA	13.24
Deal Attitude	Friendly	Equity Value at Effective Date (MM)	7,212.08	Rank Value to LTM Net Sales	2.14
Acquisition Technique	Divestiture	Initial Offer Price	28.42	Premium, Pre Bid 1 Day (%)	35.08
% Held / % Sought / % Acquired	-- / 76.72 / 76.72	Share Price Paid By Acquiror	28.42	Premium, Pre Bid 1 Week (%)	41.39

Table 5 of Appendix: Deal Summary
Source: Refinitiv

LIBERA UNIVERSITÀ INTERNAZIONALE DEGLI STUDI SOCIALI

Department of Business and Management

Master's Degree Thesis in Corporate Finance

Chair of Cases in Business Law

M&A Transaction in the Eyewear Industry: The EssilorLuxottica – Grand Vision Case Study (2021)

-Executive Summary-

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Prof. Andrea Sacco Ginevri

Academic Year 2021/2022

Executive Summary - Table of Contents

Introduction

The eyewear industry is undergoing a transformation phenomenon very similar to that experienced by the fashion industry in recent years. Indeed, there is a trend of market concentration in the eyewear industry, leading to the creation of prominent players, almost conglomerates, that dominate the market.

In this context, the dissertation aims to analyse the transaction between the two leaders of the eyewear market, EssilorLuxottica and GrandVision, with a twofold objective.
The first research question, to be answered in the first part of the work with a qualitative analysis is:

What is the rationale behind the transaction, and which are the resulting synergies?
In the light of these synergies, what are the implications of the transaction on the competition in the eyewear market?

The second research question that will be answered in the second part of this work is:

Is the price paid by EssilorLuxottica for GrandVision's acquisition consistent with the fair value of the company?

For the purpose of this paper, "fair value" of a company means the determination of the value of the company on the basis of quantitative financial models such as Discounted Cash Flow, the Comparable Analysis and others[183].

To answer these two questions, there will be firstly a focus on the literature review inherent to the case study analysed. In detail, this consist of defining what is meat by merger and acquisition transaction, and then a deep dive into the M&A Approval process which can be summarised in three steps: Board Recommendation, Shareholder Approval and Antitrust Approval.
In the second chapter, the Essilor-Luxottica-GrandVision case study is investigated in detail, initially analysing the eyewear sector in which both companies operate and highlighting the

[183] Dividend Discount Model, Comparable Acquisition Analysis

rationale behind the transaction. Finally, in the light of these synergies, the intervention of the antitrust authority is analysed in order to have all the elements to answer the first research question. The second part of this work is devoted to the valuation of GrandVision. In detail, the third chapter first provides the theory of the analysis methodology used and then the results of these analyses to answer the second research question concerning the deal price.

Chapter 1 - M&A Transaction Overview

1.1 M&A Overview

Although there is a clear distinction between the economic implications of a takeover or acquisition and a merger, both terms are frequently used interchangeably. Acquisition refers to activities by which acquiring firms gain control of more than 50% of a target firm's equity[184]. In contrast, a merger refers to an agreement between two organizations to merge into one.
The M&A transaction is a type of business strategy a company can adopt. Indeed, the company can decide to grow through organic growth, which is the growth a company achieves by increasing output and enhancing sales through internal investment[185] (i.e. investment in technologies, in products or in employees). The other meaningful way for companies to grow is through inorganic ways, and this is where M&A comes into play. Different reasons can lead a firm to grow through an M&A transaction, and the most common are: Economies of Scale; Time to Market[186], Combination of Costumer and Supplier; Managerial Motives[187] and Defensive Acquisition.

1.2 M&A Approval Process

Before diving into the M&A approval process, we should specify that it consists of three distinct stages: the first involves obtaining recommendations from boards of directors; the second involves shareholder approval through a voting mechanism; and the last one involves antitrust approval.

The first step for the potential acquirer is to approach the board of the company target and start to negotiate an agreement. The board has to evaluate whether the transaction should be recommended or not: in case the potential acquirer is recommended by the board to the shareholders it is defined friendly takeover; while, if the board does not recommend the acquirer to the shareholders or the acquirer decide to bypass the board and go directly to the shareholders it is defined hostile takeover.

[184] Piesse, J., Lee, C.F., Lin, L., Kuo, H.C. (2013). *Merger and Acquisition: Definitions, motives, and market responses*. Encyclopedia of Finance, 27, 542-571
[185] https://www.investopedia.com/terms/i/inorganicgrowth.asp
[186] It mean to enter new businesses or develop new business lines.
[187] This refer to a corporate governance mechanism, the Market for Corporate Control

Once the acquirer has obtained the board recommendation, it starts negotiating the sales and purchase agreement. The Sales and Purchase Agreement is a legally binding contract outlining the agreed-upon conditions of the buyer and seller of a property (i.e., a corporation).[188] This type of agreement, is the main legal document in any sale process, and it is subject to conditions such as shareholders' approval in the case of an M&A transaction. The contract can take different forms, such as a stock purchase agreement, an asset purchase agreement, a tender offer document, or a merger agreement. This paper will analyse the tender offer agreement in detail, as it is used in the case-study EssilorLuxottica-GrandVision.

The second step of the M&A process is the shareholder's approval. In a friendly takeover, as said before, the target company board calls an extraordinary general meeting and asks shareholders to vote on the approval of the transaction. Europe still lacks a common takeover bid framework; indeed, several directives have been issued, but unlike regulations, which are binding legislative acts, the former set a target that all EU countries must achieve.

For the aforementioned reasons, the quorum required for the approval of an M&A transaction differs depending on the country in which the target company is legally incorporated. In the case we will analyse in the next chapter, the target company, Grand Vision, was incorporated under Dutch law, which is, therefore, the law applied to the transaction.

The Dutch Civil Code, Book 2, about Open Corporations (Public Limited Company) at the article 2:120 states that[189]:

“Where the law or the articles of incorporation do not require a larger majority, a resolution shall be passed at a General Meeting by an absolute majority of the votes cast.”

Under Dutch law, an absolute majority is at least half plus one vote. However, Book 2 of the Civil Code or the articles of incorporation can require that certain resolutions are adopted by a qualified majority, which is reached with 2/3 of the votes[190].

[188] https://corporatefinanceinstitute.com/resources/knowledge/deals/sale-purchase-agreement/

[189] Dutch Civil Code, Book 2, Legal Person. *Open Corporations (Public Limited Company).* Dutch Civil Law, 2 (4.4).

[190] https://uk.practicallaw.thomsonreuters.com/w-029-3786?transitionType=Default&contextData=(sc.Default)

Once the shareholders have approved the transaction, the third step is to obtain antitrust approval. M&A transactions that take place within the UE territory and those that reach certain turnover thresholds are regulated by the UE Commission. In contrast, smaller mergers which do not have an EU dimension may fall instead under the remit of Member States' competition authorities[191]. The deal can be formally closed only if the Antitrust Authority approves the transaction.

1.2.1 Tender offer rule

As mentioned in the previous paragraphs, in the case of an M&A transaction what is usually negotiated and then placed for shareholder approval is the sales and purchase agreement which can take various forms including a tender offer document. Since the Grand Vision acquisition that we are going to analyse in the next chapter was concluded with this type of agreement, we will now provide its regulatory framework.

A tender offer is a proposal that an investor makes to the shareholders of a publicly traded company[192]. The proposal is to tender, or sell, their shares at a fixed price and at a predetermined time. The bulk of tender offers are made at a predetermined price that is significantly higher than the share price at the time of the offer. The premium is being paid in an effort to persuade many shareholders to sell their shares and acquire the control of the company.
Generally, there are two different types of tender offer: (i) The voluntary tender offer, which is the most common and involves a bidder offering to acquire all the securities of the target company that it does not already own; (ii) The mandatory tender offer, on the other hand, is launched by the potential acquirer when certain participation thresholds are exceeded according to the securities laws and regulations or stock exchange rules governing corporate takeovers.

There is still no common framework in Europe regarding the tender offer rules. The major European tender offer rules can be found in Directive 2004/25/EC of the European Parliament and the Council of April 21, 2004. With this Directive, two key goals were to be achieved: the first related to promoting an effective market for corporate control, and the other concerning the protection of minority shareholders. Unlike a "regulation," which is a binding legislative act and

[191] European Commission. (2004). *Competition: Merger Control Procedure.*
[192] https://corporatefinanceinstitute.com/resources/knowledge/deals/tender-offer/

must therefore be applied in its entirety across the EU, a directive is a legislative act that sets out a goal that all EU countries must achieve, but on how to accomplish these objectives is up to the different nations.

Since GrandVision, as seen above, is legally constituted under Dutch law, the Dutch legislation on the tender offer is now provided.

The tender offers are regulated in the Netherlands in Chapter 5 of the Financial Supervision Act, which is dedicated to public takeover bids. Indeed, in part 5.5.1. about Rules on Mandatory bids, the Section 5:70 states that[193]:

"Any party that, either on its own or together with persons with which it acts in joint consultation, acquires, either directly or indirectly, predominant control over a public limit company having its registered office in the Netherlands whose shares or depositary receipts for shares, issued with the public limited company's concurrence, are admitted to trading on a regulated market, shall make a public takeover bid for all the shares and all the depositary receipts for shares issued with the public limited company's concurrence, and shall announce this without delay after the end of the period referred to in Section 5: 72(1)[194]."

With predominant control under Dutch law is meant 30% of the total stake. This percentage is explained by the fact that an investor with more than 30% of the voting share is able to influence the company's decisions significantly. Whereas 'acting in concert' refers to someone cooperating under the terms of a contract to acquire a controlling interest in the company. Following EU guidelines and with the aim of protecting minority shareholders, Dutch law defines the fair price that shall apply only in the case of a mandatory tender offer. Indeed, the bidder must provide a reasonable price, or fair price, when making a mandatory offer for the target company, which is either the[195]:

[193] *Dutch Act on Financial Supervision. (2006). 5 (5.70), 271-272.*
[194] 1. The obligation to make a public takeover bid shall lapse if the party with which this obligation lies loses predominant control within 30 days of acquiring it, unless:
(a) the loss of predominant control is the result of a transfer of a holding to a natural person, legal person or company that may invoke Section 5:71(1); or
(b) the party with which the obligation lies has exercised its voting rights in that period.
[195] *Dutch Act on Financial Supervision. (2006). 5 (5.80a), 271-272.*

- *“Highest price paid by it or by a person with whom it acts in concert for shares of the target company in the 12 months before the announcement of the mandatory offer.*

- *Highest price paid in the period between announcement of the mandatory offer and settlement (if higher than the price referred to above).*

- *Average stock exchange price of such shares during that one-year period (if the bidder or a person with whom it acts in concert has not acquired any shares in such period).”*

The fair price consideration may be paid in cash, listed securities, or both. Under certain circumstances, even if the bidder complies with the requirements mentioned above, the court may be asked to adjust the 'fair price'.

1.2.2 Antitrust Authority approval

The last step in the M&A Approval process is the Antitrust Approval. As the transaction to be analysed was subject to approval by the EU Commission, the EU regulatory landscape is now provided. The legal framework for EU Merger Control is provided by Council Regulation (EC) No. 139/2004 , which state that[196]:

“Mergers and acquisitions which would significantly reduce competition in the Single Market are prohibited, for example, if they would create dominant companies that are likely to raise prices for consumers. “

Any merger or acquisition within the UE territory must be disclosed to the Commission before execution. Subsequently, the Commission carry out a routine examination if the merging firms do not operate in the same or linked markets or if they have only very modest market shares that do not meet predefined market share thresholds[197]. Whereas, if a company's market share rises over such levels, the Commission launches a full investigation to be carried out within 25 working days.

[196] European Commission. (2004). *Competition: Merger Control Procedure.*
[197] Below 15% combined market shares on any market where they both compete, or below 25% market shares on vertically related markets

There are two main conclusions of the investigation: The merger is cleared, either unconditionally or subject to accepted remedies, or if the merger still raises competition concerns and the Commission opens the second phase of the investigation. The remedies can be offered by the merging companies when the Commission has concerns that the merger may significantly affect competition; in that case, remedies mean a commitment of the merging company to modify the project in a way that would guarantee continued competition in the market. If the commission approves it, they become enforceable against the bidder, and as a consequence, an independent trustee is chosen to oversee compliance with these commitments. When the second phase of the investigation is opened, which is a more in-depth market analysis, the UE commission has 90 working days to make a final decision on the compatibility of the planned transaction with the EU Merger Regulation. The possible outcome of this phase of investigations are three[198]: the Commission can decide to unconditionally clear the merger, or decide to approve the merger subject to remedies, or prohibit the merger if the merging parties have proposed no adequate remedies to the competition concerns.

[198] European Commission. (2004). *Competition: Merger Control Procedure.*

Chapter 2 – EssilorLuxottica-GrandVision Case Study

2.1 Eyewear Industry

The eyewear industry faces ongoing challenges, innovations, and transformations and, like many other markets, has been negatively affected by the pandemic. Eyewear products, which can be divided into four segments[199]: Spectacle Lenses, Sunglasses, Eyeglass Frames and Contact Lenses, generated total sales of $128 billion in 2019 worldwide, with a total sales volume for the same year of 9.8 billion units[200]. The market was heavily affected by Covid-19; indeed, total worldwide industry sales decreased by 22% in 2020. This significant slowdown was because Covid-19 affected face-to-face trade, such as retail, due to shop closures. In addition, production plants were closed, and shipments were negatively impacted. In general, the eyewear market is mainly driven by consumer spending, which includes various factors such as per capita income, household debt levels and consumer expectations[201]. During the pandemic, per-capita income and consumer expectations were negatively affected as many people lost jobs, and the lockdown lowered expectations for the future, especially among young people. This further explains this massive drop in the industry. Nonetheless, the pandemic has also had a positive effect; indeed, the eyewear industry is more generally part of the healthcare industry, which during this period has seen more and more people spending on healthcare products, including eyewear.

2.2 EssilorLuxottica & GrandVision Overview

EssilorLuxottica is by far the world's largest eyewear company in terms of revenues. The company, based in Paris, France, was formed in 2018 by the merger of France's Essilor and Italy's Luxottica. EssilorLuxottica's extensive collection makes a significant part of its overall sales of frames of proprietary brands. The company's global revenues in 2019 were around US$ 19.5 billion, with a considerable growth since 2013 at a CAGR of 15%[202]. The geographic area with the most sales in 2019 is North America, with 53% of the company's total revenues, followed by Europe with 24%[203].

[199] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[200] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[201] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[202] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[203] Baron, C. (2021). *Eyewear Report 2021*. Statista.

GrandVision is the world's second-largest company in the eyewear industry in terms of revenue. The company was established in Amsterdam, Netherlands, in 2011 following the merging of Pearle Europe B.V., and GrandVision S.A. It is a subsidiary of the investment firm HAL Holding N.V.[204]. It offers contact lenses, prescription glasses, sunglasses, and optical treatments and had revenues of US$4.6 billion in 2019, up about 9% year-on-year[205]. The company generates more than half of its overall sales in Europe, with the remaining amounts coming from the Americas and Asia[206].

2.3 EssilorLuxottica-GrandVision Acquisition

EssilorLuxottica and GrandVision, are major players in the eyewear industry, and their transaction history dates back to July 30, 2019, when HAL, the majority shareholder of GrandVision, entered into a block trade agreement with EssilorLuxottica to sell its entire stake of 76.72% in the company[207]. A block trade agreement is a large, privately negotiated securities transaction[208]. The reason for negotiating this type of contract is that, while on a stock exchange, a large-scale sell order could have a significant impact on the share price, a block trade, that is negotiated privately, will not let the market players know about the additional supply until after the transaction has been publicly disclosed. In addition, a support agreement was also negotiated between the parties[209], which provides for the support of the Board of GrandVision in respect of the transaction, for instance, support in the due diligence process or in the process of requesting the Authority approval.

The ultimate goal of this contract is to achieve a relevant position such that a mandatory tender offer can be launched, which was actually launched on October 7, 2021, after the takeover of HAL's position closed[210]. However, as seen above, almost two years have passed from the block trade agreement to the actual closing of the position, and this is mainly due to the fact that during the pandemic, and precisely on July 28 2020[211], there was a dispute between the companies. On that date, in fact, EssilorLuxottica announced that it initiated legal proceedings before a district

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[204] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[205] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[206] Baron, C. (2021). *Eyewear Report 2021*. Statista.
[207] EssilorLuxottica. (2021). *Offer Memorandum.*
[208] https://www.investopedia.com/terms/b/blocktrade.asp

[210] EssilorLuxottica. (2021). *Offer Memorandum.*
[211] https://www.essilorluxottica.com/essilorluxottica-initiates-legal-proceedings-obtain-information-grandvision

court in Rotterdam, in the Netherlands, to obtain information from GrandVision. The reason for this legal action is to understand how the company's management is handling the pandemic crisis and whether the conditions of the support agreement have been broken. In fact, EssilorLuxottica stated that it had requested this information from GrandVision on a voluntary basis several times but never received it[212]. There were several court sessions, but in the end, GrandVision was found to have violated agreements when it stopped paying store owners and suppliers and applied for state aid during the epidemic crisis without first getting EssilorLuxottica's approval. Indeed, the arbitral tribunal ruled that EssilorLuxottica had the option to terminate the acquisition of GrandVision due to GrandVision's material breaches of its obligations to the bidder.

Notwithstanding this, having obtained the parties' commitment to comply with the old agreement, on July 1, 2021, EssilorLuxottica announced that it had finalised the acquisition of the HAL's position, subject to the conditions outlined in the block trade agreement. Having exceeded a relevant threshold, EssilorLuxottica, launched a mandatory tender offer and started a buyout process until it acquired 100% control of the company and requested to the Dutch Authority its delisting[213].

2.2.1 Rational Behind the transaction

As mentioned in the first paragraph, M&A is a growth strategy that very often is explained by synergies, especially if it is a transaction that takes place in the same or complementary businesses. In this section, we will look at the types of synergies created by the acquisition and hence understand the rationale behind the transaction.

EssilorLuxottica is a considerably larger player with respect to GrandVision, in fact, in terms of revenues, in 2019, it reached €17.4 billion (Table 2.2.1), which is slightly more than four times the revenues of GrandVision in the same year. The acquisition, in line with the strategy of creating a prominent vertically integrated single player, further strengthens Essilor Luxottica's position in the eyewear, eyecare and luxury markets.

On the other hand, looking at the sales channels, it can be seen that, while GrandVision mainly sells through retails store, with 99% of the revenues coming from this channel (Table 2.4.2.1),

[212] https://www.essilorluxottica.com/essilorluxottica-initiates-legal-proceedings-obtain-information-grandvision

[213] EssilorLuxottica. (2021). *Offer Memorandum.*

EssilorLuxottica sells more through large distributors and therefore, in line with a B2B model, in fact, retail accounts only for the 35% of the total revenues (Table 2.4.2.1). This shows a complementarity of the two businesses, in fact, the acquisition would allow EssilorLuxottica to be much more balanced with 47% of the total revenues attributable to the retail. Considering then the number of stores, EssilorLuxottica, through the acquisition of GrandVision, reaches an even more capillary presence with more than 18k store in the world (Table 2.2.1), representing an increase of approximately 70% compared to before the acquisition. Looking instead at the geographical presence of the stores, as mentioned earlier, it can be seen that GrandVision is mainly present in Europe with 75% of the stores (Table 2.2.1), while EssilorLuxottica operates mainly in North America, in fact, the stores in Europe are only 10% of the total (Table 2.2.1). This reveals a further synergy between the two companies, in fact, the acquisition allows Essilor Luxottica to have a more significant presence in the European market with 35 % of the stores over the total and thus fully exploit the market’s potential as well. Therefore, to briefly summarise, the transaction will help EssilorLuxottica to further develop its distribution, direct-to-consumer and omnichannel capabilities[214], and it will benefit from increased access to consumers, additional outreach opportunities and the ability to meet the growing demand for branded, high-quality eyewear.

	ESSILORLUXOTTICA	GrandVision	ESSILORLUXOTTICA GrandVision
Revenue	€17.4bn	€4bn	€21.4bn(1) +18,7%
Retail share of revenue	35%	99%	47%
Number of retail stores	10k+	7k+	~18k +70%
Stores in Europe as a % of total group stores	~10%	75%	35%

Note: based on FY 2019 data. (1) Excluding Grandvision proforma consolidation impact

Table 2.2.1: EssilorLuxottica-GrandVision synergies (2019)Source: EssilorLuxottica, *Interim Financial Report H1 2019.*

[214] EssilorLuxottica. (2019). *Interim Financial Report H1 2019.*

2.2.2 Antitrust Clearance

As seen in the section concerning the approval process, any transaction that takes place in the European market, if it exceeds the thresholds mentioned in the first chapter, is subject to approval by the European Commission. Indeed, after EssilorLuxottica announced to the market the agreement to purchase HAL's stake in GrandVision, it had to notify the transaction to the European Commission on 23 December 2019[215]. As the transaction is worthy of investigation in line with the criteria stated in chapter 1, the European Commission has initiated an initial phase investigation, after which the Commission remains concerned that the deal may lead to less competition in the optical retail markets. For this reason, on 6 February 2020, it opened an in-depth investigation to be carried out within 90 days and thus no later than June 22 2020[216]. The in-depth investigation conducted by the Commission focused in particular on[217]: whether EssilorLuxottica will increase prices or worsen supply conditions for GrandVision's rival retailers by exploiting its considerable market share in the lens and eyewear sector; the effects of combining the retail activities of EssilorLuxottica and GrandVision, in particular in the countries and regions where they currently compete; and whether the combined company could restrict access to GrandVision's shops, the largest optical retail network in Europe and a crucial outlet for rival lens and eyewear manufacturers.

The second phase of the investigation was conducted by the European Commission using analysis methodologies such as economic modelling and interviews with more than 4,300 opticians in Europe. After conducting a thorough market examination, the Commission became concerned that the acquisition, as initially disclosed, may make it harder for competing opticians in Belgium, Italy, and the Netherlands to access EssilorLuxottica's products[218]. Indeed, the merged firm would have the capacity and motive to use its significant position in the wholesale supply of frames in each of those nations to make it more challenging for rival retailers to carry the eyeglasses produced and sold by the merged company, thus significantly reducing the competition. Moreover, the transaction would create the largest player in the optical retail market in italy, almost three

[215] European Commission. (2021). *Mergers: Commission clears acquisition of GrandVision by EssilorLuxottica, subject to conditions.*
[216] European Commission. (2021). *Mergers: Commission clears acquisition of GrandVision by EssilorLuxottica, subject to conditions.*
[217] https://ec.europa.eu/commission/presscorner/detail/en/IP_20_217
[218] European Commission. (2021). *Mergers: Commission clears acquisition of GrandVision by EssilorLuxottica, subject to conditions.*

times as large as the second player[219]. Therefore, there is a risk that it can weaken the competition in the Italian market with a final negative effect on consumers.

In order to address the competition concerns raised by the Commission, EssilorLuxottica, proposed remedies which consist of divesting part of its retail business in each of the countries where the Commission had concerns. In particular, the proposal consisted of selling 35 stores in Belgium, 174 in Italy and 42 in Netherlands.[220]. After considering the proposed remedies, The Commission concluded that the transaction would no longer threaten the competition[221]. However, the complete fulfilment of the remedies is a requirement for the Commission's decision.

[219] European Commission. (2021). *Mergers: Commission clears acquisition of GrandVision by EssilorLuxottica, subject to conditions.*
[220] European Commission. (2021). *Mergers: Commission clears acquisition of GrandVision by EssilorLuxottica, subject to conditions.*
[221] European Commission. (2021). *Mergers: Commission clears acquisition of GrandVision by EssilorLuxottica, subject to conditions.*

Chapter 3 - GrandVision Valuation

3.1 Business Valuation Methods

Business valuation methodology refers to analytical financial models used by companies to determine the value of an asset[222]. The valuation can cover the company as a whole or an individual asset. The company's fair value is calculated for various reasons, including an M&A transaction, an IPO, an investor who wants to speculate on the shares' misprice, or simply listed companies monitoring their market value.

All valuation methodologies are based on the law of one price, according to which if equivalent investment opportunities trade simultaneously in different competitive markets, they must trade for the same price in all markets. This implies that the price of a security should be equal to the present value of the expected cash flows an investor will receive from owning it[223].

In the Corporate Finance practice, four business valuation models are usually used[224]. Two are analytical and primary, the Dividend Discount Model and the Discounted Cash Flow Model (DCF), and two are used as supporting methods, which are the Comparable and the Comparable Acquisitions Analysis. For the purpose of the valuation of GrandVision, will be used three valuation methods: the DCF as a primary method, the Comparable and Comparable Acquisition analysis as a support method.

3.2 Empirical Evidence

As anticipated in the introduction, the objective of this chapter is to provide a fair valuation of the EssilorLuxottica-GrandVision transaction, to understand whether the price paid by EssilorLuxottica is consistent with the fair value of GrandVision calculated based on three valuation methods: Discounted Cash Flow, Comparable Analysis and Comparable Acquisition Analysis.

To obtain a final value for GrandVision, an average of the equity values found with the individual methods is taken, as shown in the table below. Thus, according to that empirical analysis, the

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222 https://www.investopedia.com/terms/b/business-valuation.asp
223 Berk, J., DeMarzo, P. (2017). *Corporate Finance*, 4th Edition (Global). Pearson, 9, 309-310.
224 https://corporatefinanceinstitute.com/resources/knowledge/valuation/valuation-methods/

equity value of GrandVision is approximately € 5.1 billion (Table 4.4.1). To compare that value with the one paid in the transaction, a premium for control of 35% must be added; therefore, the final value considering the premium is approximately € 6.9 billion. As can be seen from the press releases and the term sheet of the transaction, the value paid for GrandVision's equity is approximately € 7.2 billion[225], which is slightly higher than the empirical valuation seen above.

Valuation Method	Type of Valuation	Enterprise Value (€)	Equity Value (€)
Discounted Cash Flow	Absolute valuation	**6.880.025.157**	**5.044.125.157**
P/E	Relative valuation (Compas)	**4.779.205.947**	**2.943.305.947**
EV/SALES	Relative valuation (Compas)	**9.818.555.985**	**7.982.655.985**
EV/EBITDA	Relative valuation (Compas)	**8.179.433.361**	**6.343.533.361**
EV/SALES	Relative valuation (Compaq)	**3.022.668.333**	**1.186.768.333**
EV/EBITDA	Relative valuation (Compaq)	**9.212.892.000**	**7.376.992.000**
Average		**6.982.130.131**	**5.146.230.131**
Min		**3.022.668.333**	**1.186.768.333**
Max		**9.818.555.985**	**7.982.655.985**

Table 3.2.1: *Personal Elaboration of data*
Source: Pitchbook, Refinitv Database

[225] https://www.bloomberg.com/news/articles/2021-06-29/ray-ban-owner-goes-ahead-with-8-7-billion-grandvision-deal

Conclusion

As outlined in the introduction of this dissertation, the aim of this work is to answer two research questions related to the EssilorLuxottica-GrandVision M&A case study. Summarising the work done so far, all the elements are now in place to answer the questions. As far as the first research question is concerned, the motivation for EssilorLuxottica to acquire GrandVision is the strong complementarity of the two activities. As seen in the second chapter, in fact, with the acquisition of GrandVision, EssilorLuxottica has a stronger market positioning, a widespread geographic presence especially in Europe and a very balanced group in terms of business model. By taking into account the synergies seen above and considering that EssilorLuxottica was already the largest player in the eyewear market before the acquisition, one can answer the second part of the first research question regarding the effect of the deal on the competition in the eyewear market. Indeed, following the notification of the transaction, as one might have expected the EU Commission started an investigation procedure. The result was that the Antitrust Authority placed remedies so that the transaction could be concluded, which mainly concerned the sale of retail stores in Belgium, Italy, and the Netherlands. With regards to the second research question, the results of this analysis are outlined in the third chapter, although the other chapters contributed to this analysis by providing background knowledge on the Eyewear market and the methodological analysis used for the valuation. As seen in chapter three, EssilorLuxottica paid €7.2 billion for GrandVision's equity in 2021. According to the independent analysis, the equity value of GrandVision is approximately € 5.1 billion. To compare that value with the one paid in the transaction, a premium of 35% should be added; therefore, the final value considering the premium is approximately € 6.9 billion. Thus, the value obtained on the basis of empirical financial models is lower than the value actually paid by EssilorLuxottica. Based on these data, the answer to the second research question is that the price paid by EssilorLuxottica is not consistent with the fair value of GrandVision. This can be explained primarily, by the fact that being an assumption-based valuation and not being in possession of a business plan of the company, the analysis was conducted in a conservative way, and this explains why the value that the market would pay for such an investment is lower than the one actually paid by EssilorLuxottica. Another element to be taken into account that may explain GrandVision's overpricing is that being a strategic acquisition, EssilorLuxottica, was willing to pay more than the actual value in order to gain access to synergies that would strengthen its position in the eyewear market.

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