Frasers Group is continuing its deep dive into the luxury sector. On Thursday it announced that it has increased its already-large stake in leather goods company Mulberry and could make an offer for the brand.

The company has been building its stake in Mulberry since February this year when it announced a 12.5% holding. And only this month it raised that holding to just under 30%. But as of this week, it owns almost 37% of the company having acquired a chunk of shares at 150p each from Kaupthing.

Usually, a holding of 30% or over would be the trigger for an obligatory takeover offer. But that isn't the case here because the new purchase doesn't make Frasers Mulberry's biggest shareholder. At the moment, Challice Ltd holds around 56% of the issued share capital, and Frasers has been granted a dispensation by the Panel on
hold around 56% of the issued share capital, and Frasers has been granted a dispensation by the Panel on Takeovers and Mergers, which means it doesn’t have to make a mandatory cash offer.

Yet that doesn't mean an offer might not be forthcoming. The group said that it’s “still reserving its right to make a voluntary offer for the company”. It has a deadline to do this of December 17, but this could be extended if the Takeover Panel agrees.

Frasers also said any voluntary offer to Mulberry shareholders would be made in cash.

It's certainly an interesting prospect and is a reflection of the determination of Frasers boss Mike Ashley to move his group upmarket.

While the company owns the Flannels designer fashion chain and also House of Fraser department stores, its giant Sports Direct business had suffered from being seen as more downmarket than rival JD sports. This meant it hadn't had such favourable access to important product launches and led the company into a new strategy that saw it upgrading Sports Direct stores and talking of turning itself into the "Selfridges of sport".

But it's not only its sports operations that are heading towards the higher-end as its ‘elevation strategy’ is affecting the whole company. The group has been adding new locations for its Flannels chain and is also planning a department store chain just named Frasers with a more upmarket profile.

Mulberry is a major name in the luxury accessories area of department stores in the UK and would undeniably be an asset, despite its struggles with profitability in recent periods.

A couple of months ago, it announced losses for the latest financial year. This came not long after it had axed its ready-to-wear line and also said it would cut around a quarter of its staff. The company has also forecast losses for the current financial year, although given the pandemic, this is unsurprising.

By Sandra Halliday

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