Italian luxury market in transformation

By Dominique Muret - 24 July 2021

The impact of the Covid pandemic is disrupting the luxury industry in general and Italy’s in particular. After overhauling their retail organisation because of store closures and production stoppages, in 2020 labels were forced to rethink their business model by stepping up the pace of their digital transformation and pushing for sustainable development, a process requiring significant investments. Many labels have had no choice but to search for new investors and partners, as shown by the spate of acquisition deals announced in recent months. Like for example Etro, which has recently sold a 60% stake to L Catterton, Ermenegildo Zegna, which is about to be listed on the New York Stock Exchange, and LVMH, which bought a majority shareholding in Off-White on Tuesday, after acquiring full ownership of Emilio Pucci last month.

Acquisitions have multiplied on the Italian market because the country’s manufacturing sector has a wealth of hidden gems, and plenty of medium-sized companies – the so-called pocket multinationals – still owned by their founding families. Besides, now more than ever, made-in-Italy products have an undeniable appeal within a luxury market that is hungry for authentic, long-established brands. At the same time, the less robust labels, struggling because of the pandemic, have had to resort to state aid. Corneliani avoided bankruptcy earlier this year thanks to a fresh injection of funds by its shareholder Investcorp, and to the Italian government’s aid. Some labels have been gobbled up by larger groups or by Italian investment funds.

In December 2020, Moncler set the ball rolling by buying Stone Island, a stand-out name in Italian luxury sportswear. The following month, budget fashion chain OVS acquired the trademark rights and retail organisation of Stefanel. In March, Renzo Rosso’s holding company OTB (Only the Brave), announced the acquisition of German label Jil Sander, which was already run by an Italian company, the Onward Luxury Group.

At the same time, Made in Italy Fund, the investment fund operated by management company Quadrivio Group in joint venture with communications agency Pambianco, bought contemporary ready-to-wear label Dondup, five months after finalising a deal to buy luxury streetwear label GCDS. In June, Chinese textile and apparel group Fosun acquired luxury footwear label Sergio Rossi. A few days ago, Sicilian fashion retailer Giglio.com said that it plans to apply for a Milan Stock Exchange listing.

Strategic and tactical reasons

“Two reasons lie behind this steep rise in the number of acquisition deals. The first is strategic. Difficulties for the industry have increased. With the digital revolution, which has been accelerated by Covid, the number of fronts on which companies must spend has multiplied,” said Luca Solca, senior luxury analyst at Bernstein. “The other is more tactical. A peak in valuation multiples has probably been reached. After the results of H1 2021 [will be published], there will be an upward adjustment in estimates for 2021 and 2022 and a gradual dampening of valuation multiples,” he added.

In general, competition has increased, while investments have become heavier in areas like distribution, product development, advertising, digitalisation, supply chain sustainability and overseas expansion, especially in China, a crucial market for the sector. In 2020, luxury labels have been pushed to cut costs, streamline their operations and clean up their balance sheets in order to overcome the Covid crisis, and 2021 is looking like a consolidation year. For the stronger groups, which have weathered the crisis thanks to their underlying strength and low debt, this is undoubtedly the right time for mergers and acquisitions.
“That the market would become ebullient was anticipated: on the one hand, there are luxury giants and labels that are already well-established digital-wise, and on the other, highly specialized or single-product labels, as well as a plethora of medium-sized ones that struggled mightily last year. In order to get back on their feet and stay competitive, they need financing, in other words a partner or investment fund,” said Gianluca Ghersini, a lawyer at Gianni & Origoni, a firm specialised in mergers and acquisitions in the luxury and fashion world.

Ghersini says private equity firms, large luxury groups, holding companies are main market predators

According to estimates by Sistema Moda Italia (SMI), the aggregate revenue of the Italian textile and apparel sector, with its 45,000 companies and 400,000 workers, fell from €56 billion in 2019, of which €32.8 billion were exported, to €42.6 billion in 2020, with €27.5 billion worth of exports.

“Among the predators, there are private equity firms, large luxury groups, and financial holding companies looking for opportunities, or for labels that have been successful in the past and can be relaunched. The Covid crisis has only accelerated the process,” said Ghersini. “We are going to witness a great deal of consolidation, because by themselves, small-sized companies cannot survive. They do not have the ability to cope with the additional costs generated by the pandemic. Italian third-party suppliers and manufacturers, often ultra-specialised in a specific product category, will be forced to close ranks, expanding their range of services with different types of complementary products. As for labels that need capital to recover, they are likely to be bought up,” he added.

In other words, the Italian luxury market is in a state of upheaval, given also the number of deals inked by various Italian investment funds beyond the national borders. Starting with Style Capital, which acquired a majority stake in Australian womenswear label Zimmermann in December 2020. At the same time, Exor, the Agnelli family’s holding company, bought Chinese label Shang Xia from Hermès. Exor, the controlling shareholder of car manufacturers Stellantis and Ferrari, as well as of media group The Economist and Italian top-flight football club Juventus, also acquired a 24% stake in iconic footwear label Christian Louboutin last March, forking out €541 million.

A united front of Italian luxury names?

Many observers are willing to bet Exor will not stop there. Indeed, many see it potentially turning into a luxury label aggregator - and Solca does too. "We will probably see many consolidation deals within the Italian luxury market. It seems to me that Exor is interested in playing this [aggregator] role," he told FashionNetwork.com. Renzo Rosso’s OTB group, already a small fashion powerhouse itself, is often mentioned too. Having long been prey to international players, from French giants like LVMH and Kering to Qatari investment fund Mayhoola, owner among others of Valentino, to US group Michael Kors, which snapped up Versace in 2018, Italian luxury labels now seem more willing to put up a united front. The notion of integrating different, ideally complementary Italian companies into a new, local entity no longer seems unthinkable.

“The creation of a major new Italian luxury group still seems far in the future to me,” said Ghersini. “The problem is that the market remains very fragmented and specialized. Moreover, Italian operators have always been inclined to think more in industrial than in financial terms, which is why a group of this type has never been set up before in Italy,” he added, while also underlining the Italian market’s specificity: “most [companies] are family businesses, which are generally well managed but have two limits, their scope for expansion, and succession. The Italian market can therefore offer very interesting opportunities, because local businesses certainly need capital and executive talent.”
It is no coincidence that the groups whose names currently circulate most widely behind the scenes at banks and financial firms are Giorgio Armani and Dolce & Gabbana. Both are still owned by their founders, none of whom have successors. Also mentioned as potential targets are Salvatore Ferragamo, another family company, as is Brunello Cucinelli, a listed company.

More deals to be announced this summer

Last spring, Dolce & Gabbana denied a possible link to Kering, but said it was open to being part of “a broader Italian project.” For his part, Giorgio Armani admitted for the first time that his group might well “consider a connection with a major Italian corporation,” not necessarily in the fashion sector. Without offering further details, the couturier simply said that “a French buyer was not on the cards.”

In the meantime, the Italian luxury production sector has started to reconfigure itself. In October 2020, investment funds VAM Investments, Fondo Italiano d'Investimento and Italmobiliare gave birth to the Florence group, hailing it as “the leading manufacturing hub for luxury apparel in Italy.” In the course of a few months, the new entity acquired four long-established Italian producers: Giuntini SpA (outerwear and light fabrics), Ciemmeci Fashion Srl (leather and fur), Mely’s Maglieria Srl (knitwear) and Manifatture Cesari (a jersey specialist).

In 2020, the top-management team of Onward Luxury Group, the Japanese group's former European luxury subsidiary, acquired the dismantled company’s assets, creating a new entity called High Italian Manufacturing Co., which includes five producers specialising in footwear, knitwear, leather goods and apparel, as well as several small fashion labels.

Elsewhere, in a move until now unthinkable in Italy, Prada and Ermenegildo Zegna joined forces to create an unprecedented partnership, each acquiring a 40% stake in Filati Biagioli Modesto, an Italian producer specialised in cashmere. In a recent interview, Renzo Rosso said he too is keen to make some acquisitions among his suppliers.

Between suppliers and labels, there are likely to be further deals struck on the Italian market, with some surprises in the offing in the coming weeks. There are rumours that two or three acquisitions might be announced before the summer break.

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