POLITECNICO
MILANO 1863

SCUOLA DI INGEGNERIA INDUSTRIALE
E DELL'INFORMAZIONE

M&A Deals in the Luxury Sector: Revealing hidden links between Acquisition Drivers and Value Creation

TESI DI LAUREA MAGISTRALE IN

MANAGEMENT ENGINEERING

INGEGNERIA GESTIONALE

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Academic Year: 2022-2023

Abstract

Purpose: The luxury sector sets the stage for exploring one of the growth strategies primarily leveraged by its players: Merger and Acquisition (M&A) deals. The exceptional profitability of this industry is driven by premium prices, which result in significant profit margins and outstanding transaction multiples, applied when acquiring a company. This work aims to investigate motivating factors and synergies that can result from an acquisition in the luxury sector and to provide a thorough knowledge of the impact of acquisition drivers on value creation and M&A multiples.

Methodology: The study entails a comprehensive literature review, a collection of insights that emerged in experts' interviews, and a quantitative evaluation of financial data collection, which result in the construction of a database comprising 100 M&A transactions in the luxury sector. A graphical and statistical analysis, through classification and regression trees, examines how each acquisition driver impacts the definition of transaction multiples and the likelihood that the growth rate of the buyer outperforms the market average.

Findings: The results indicate that strengthening the supply chain, accessing new customer segments, and enriching the brand portfolio are the primary purposes behind an M&A transaction in the luxury sector. In addition, the main synergies that can be exploited, based on their implication area, can be classified into two categories: strategic and operational. Furthermore, buyer luxury companies tend to recognize the highest value in acquisitions in the "Cosmetics, Beauty & Skincare" sector aimed to enrich the brand portfolio or enter new customer segments and geographies. Outperforming players are more likely to invest in large companies in the "Apparel" sector, having as a primary objective the enrichment of their brand portfolio.

Keywords: Luxury Sector, Growth Strategies, M&A, Multiple, Acquisition Purpose, Synergies

Abstract in italiano

Scopo: Il settore del lusso pone le basi per l'esplorazione di una delle strategie di crescita più sfruttata dai suoi attori: le operazioni di M&A. I prezzi premium che caratterizzano questo settore portano ad un'eccezionale redditività che si traduce in margini e multipli relativi a operazioni di M&A significativamente elevati. Lo studio si propone di indagare i fattori che possono motivare un'acquisizione e le sinergie che possono derivarne. L'obiettivo del lavoro è inoltre quello di fornire una conoscenza approfondita dell'impatto dei driver di acquisizione sulla creazione di valore e sulla definizione dei multipli applicati nelle transazioni di M&A.
Metodologia: Lo studio prevede un'ampia revisione della letteratura, interviste con esperti e la raccolta di dati finanziari, che hanno portato alla costruzione di un database di 100 operazioni di M&A nel settore del lusso. Un'analisi grafica e statistica, attraverso alberi di classificazione e regressione, esamina l'impatto dei driver di acquisizione sulla definizione del multiplo della transazione e sulla probabilità che il tasso di crescita dell'acquirente superi la media del mercato.
Risultati: I risultati indicano che il rafforzamento della filiera, l'accesso a nuovi segmenti di mercato o aree geografiche e l'arricchimento del portfolio di brand sono le motivazioni principali di un'operazione di M&A e che le sinergie sfruttate in questo settore possono essere classificate in strategiche e operative, in base alla loro area di implicazione. Inoltre, gli acquirenti tendono ad attribuire il valore più alto alle acquisizioni nel settore "Cosmetics, Beatuy & Skincare" volte ad arricchire il portafoglio di marchi o ad entrare in nuovi segmenti di clientela e aree geografiche. I player più performanti tendono a investire in grandi aziende operanti nel settore "Apparel" avendo come obiettivo quello di arricchire il proprio portafoglio marchi.

Parole chiave: Settore del Lusso, Strategie di Crescita, M&A, Multiplo, Obiettivo dell'Acquisizione, Sinergie

Contents

Introduction

"The luxury domain is a paradox. Economic data show that it has been growing robustly (…) despite temporary recessions during economic, financial, and political crises" (J. Kapferer et al., 2016).

The luxury sector witnessed positive growth in the last years, reaching $97.2 billion in 2022, with predictions of further growth to $111.50 billion in 2023, according to a study published by Bain & Company[1].

This industry is dominated by very few brands (LVMH, Kering, Estèe Lauder, Chanel, etc.), which have built this macroeconomic sector (J.Kapferer et al., 2016), by sustaining investments in future and sustainable growth and contributing to the luxury sector's robust performance over the year.

One of the aspects leveraged by luxury companies through these investments, deserving of a more in-depth analysis, lies in Merger and Acquisition (M&A) transactions.

The acquisition of a 30% stake in Valentino by Kering for 1.7 billion euros before the summer 2023 began, followed by the announcement of another acquisition of a 49% share in the renowned Italian jewelry Maison Vhernier, has ignited a debate on how a peninsula of family-run companies that were all going through identity crises in the late 1980s could become giant money machines that had a significant impact on the society.

[1] https://www.bain.com/about/media-center/press-releases/2022/global-luxury-goods-market-takes-2022-leap-forward-and-remains-poised--for-further-growth-despite-economic-turbulence/

The two biggest conglomerates in the global luxury market, LVMH and Kering, respectively, are led by François-Henri Pinault and Bernard Arnault, who are unquestionably at the forefront of these outstanding results. But even though this duopoly is dominating the market, significant competitors are strengthening their positions in the luxury industry.

Exempli gratia, the U.S. Tapestry group recently made a significant move by acquiring Capri Holdings on August 10 for $8.5 billion, another major U.S. conglomerate that counts Versace in its portfolio. Moreover, Estèe Lauder saw the potential of Tom Ford and, in November 2022, shelled out $2.8 billion for the company.

The remarkable expansion and consolidation of these few dominant players in the luxury sector, achieved through numerous acquisitions, have been distinguished by the exceptional profitability of this industry.

This noteworthy profitability results mainly from the "premium prices" (C. Moore et al., 2005) that customers are willing to pay for a luxury product, resulting in a significant difference between production costs and the selling price of luxury goods. Items such as handbags, clothing, accessories, cosmetics, and perfumes are often sold at prices significantly higher than actual production costs, resulting in high profit margins and boosted revenue.

This aspect takes on particular significance in the luxury sector since, when evaluating a company to invest in, the value of each "luxury" investment can be viewed through the lens of "multiples of earnings" or "multiples of sales"[2]. The multiples method is based on the assumption that M&A transaction prices represent the best approximation of firm value and is aimed at identifying the relationship that links price with firm economic variables.

[2] https://www.beautyindependent.com/900-million-elemis-deal-high-valuations-indie-beauty-brands/

High multipliers suggest that the market is willing to pay a significant premium to acquire a company or own shares in it, which reflects confidence in the strength of the brand, its ability to generate profits, and the maintenance of high prices.
Overall, valuation trends provide insights into how the market perceives the future prospects and value creation potential, of acquired companies.
These dynamics gain significant relevance within the luxury sector, where multipliers often reach outstanding values vis a vis all the other sectors. Being this magnitude rare outside this industry, the luxury sector represents an exceptionally fertile and attractive ground for M&A transactions.
In tandem with the enhanced interest in inorganic growth strategies is the increasing awareness of the importance of internalizing critical manufacturing and distribution processes to gain control over the supply chain.
This awareness has been reflected in numerous vertical acquisitions in recent years by large companies aimed at integrating strategic suppliers or distributors. Supply chain control has become imperative for any business looking to stay competitive.
Furthermore, the necessity to reach out to new market segments has arisen, particularly targeting Millennials and Gen Z, demographics that exhibit heightened sensitivity towards sustainability themes.
Simultaneously, the need to assess unexplored geographical regions with significant potential and to expand the brand portfolio in order to broaden and improve the variety of products and services linked to a particular brand have become pivotal strategies.
Nevertheless, acquisitions within the luxury sector, renowned for its emphasis on quality, exclusivity, and craftsmanship (A. Brun, C. Castelli, 2013), hold a significance beyond the economic figures associated with them.

Each transaction is characterized by its unique background, emphasizing the significance of historical context, the adopted business strategy, and the specific characteristics that define the deal. Some of these elements recur consistently, while others are unique to each individual acquisition, yet they all align towards a central objective: the creation of value.

M&A transactions take the form of extremely complex processes wherein the human dimension assumes a pivotal role. The diverse needs of the involved stakeholders, ranging from the top management of large companies to the small leather craftsman, are integral factors that should not be overlooked, adding substantial complexity to these transactions.

This work aims to produce several contributions to the limited literature on the topic of M&A in the luxury sector by investigating the factors that motivate businesses to take on M&A, the synergies that result in the greatest value, and the ways in which acquisition drivers impact value creation.

The research provided the collection of information related to 100 acquisitions made by the main players in the luxury sector between 2010 and 2023 and a comprehensive analysis and examination of a subset of them.

These data were gathered addressing the difficulties of gaining access to them due to the high level of confidentiality of the companies involved.

Both qualitative and quantitative analyses were performed, including a qualitative examination of each transaction's context and features combined an in-depth statistical analysis.

The research was conducted concurrently and reinforced through interviews with experts in the M&A sector and the legal industry. Additionally, insights were gathered from senior managers of renowned fashion companies, notably PRADA, whose substantial contributions significantly enriched the study.

The outcomes obtained led to the expansion of themes and information already gathered from the literature, leading to relevant insights.

The study, indeed, introduces a classification of the main synergies that can be created and exploited in the luxury sector via M&A transactions.

Moreover, the research investigated new themes by analyzing how acquisition drivers impact M&A transaction multiples definition and value generation from the buyers' perspective.

1 The context of the study

1.1. Market Analysis

In the contemporary world, the concept of luxury is omnipresent, evoking a wide range of emotions, desires, and expectations.

These elements represent the pillars of a flourishing sector: the luxury industry.

Despite all the economic challenges, this sector continued to perform strongly due to the leading brand players that are continuing to invest in future and sustainable growth.

Indeed, according to a study performed by Bain & Company[3], the profitability of the luxury sector is slightly increasing: 95% of brands operating in this industry are facing positive growth.

In 2022, the Luxury Fashion market reached US$97.2[4] billion in revenue, which is an increase of 4.9%[2] compared to the previous year's revenue.

Moreover, the luxury sector is predicted to become even more profitable in the next years. According to a study published by Statista, the revenue of the Luxury Fashion segment amounts to US$111.50 billion[2] in 2023, and the market is expected to grow annually by 3.39% (CAGR 2023-2028)[2].

[3] https://www.bain.com/about/media-center/press-releases/2022/global-luxury-goods-market-takes-2022-leap-forward-and-remains-poised--for-further-growth-despite-economic-turbulence/

[4] https://www.deloitte.com/global/en/Industries/consumer/analysis/gx-cb-global-powers-of-luxury-goods.html

The rising demand for luxury products in emerging economies like China, India, and the Middle East is one of the primary factors contributing to this growth. Other key drivers include technological advancements and globalization. These areas have experienced tremendous economic growth over the past several years, which has led to an increase in the number of people with high net worth and a flourishing middle class with increasing spending power. The Asia-Pacific area is the most outstanding market for luxury goods, accounting for 38%[5] of worldwide sales in 2022, as stated by the Bain-Altagamma Luxury Goods Worldwide market study.

Another factor contributing to the growth of the luxury goods market is the development of e-commerce and other digital platforms as they continue to grow in popularity. A growing number of consumers are choosing to socially isolate themselves from other people by doing their shopping online as a response to the COVID-19 epidemic. As a direct consequence of this, the number of luxury items sold through internet retailers has been growing. According to the findings of a study carried out by Altagamma, the online sales of luxury products worldwide are projected to grow by 11%[6] in the next year.

In addition, the luxury market is also highly concentrated. Indeed, as reported in the study titled "Global Powers of Luxury Goods 2022"[7] published by Deloitte, in financial year (FY) 2021, the top 10 companies are the powerhouses of luxury brand sales.

They contributed 81%[7] of the year-on-year growth in sales value and 85%[5] of the combined net profit of the Top 100 luxury goods companies.

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[5] https://www.bain.com/insights/renaissance-in-uncertainty-luxury-builds-on-its-rebound/

[6] https://altagamma.it/media/source/ALTAGAMMA%20CONSENSUS%202023%20update_1.pdf

[7] https://www.deloitte.com/global/en/Industries/consumer/analysis/gx-cb-global-powers-of-luxury-goods.html

1.2. Main Players

As stated in the previous paragraph, the luxury industry is dominated by a small number of big conglomerates that possess many high-end brands in various sub-industries.

Among the top 10 players, LVMH Moet Hennessy Louis Vuitton SE (LVMH) is the clear luxury goods leader, contributing 32%[5] of the Top 10 sales in FY2021. Beyond LVMH, the most influential luxury goods companies in the world market are Kering SA, Estèe Lauder, Chanel, Richemont SA, and Hermes International. According to the report titled "Global Powers of Luxury Goods", the combined impact of the first two companies is greater than 50%[7] of the total market share.

Following is an overview of the main players in the luxury sector and how they performed last year, based on the report mentioned above.

LVMH[7]

LVMH, the world's premier luxury goods conglomerate headquartered in Paris, stands as a paragon of unparalleled success in the industry. With a commanding portfolio comprising over 70 illustrious luxury brands, including iconic names like Louis Vuitton, Dior, Fendi, and Bulgari, LVMH has consistently set the bar for luxury and elegance.

In 2021, LVMH further solidified its preeminent position as the foremost luxury goods company globally. Its performance in the personal luxury goods sector boasts sales surging by an astounding 55% year-on-year, reaching a staggering nearly US$55 billion. This growth ranked as the sixth highest among the top 100 companies worldwide.

What truly sets LVMH apart is its remarkable profitability. In 2021, the company proudly claimed the fifth-highest net profit margin among the world's top 100 firms, with an impressive 19.8%. The group's ongoing operations in 2021 yielded €17 billion in revenue, more than double that of 2020, marking a 49% increase over 2019.

Moreover, LVMH achieved an extraordinary operating margin of 26.7% in 2021, a remarkable 8-percentage-point increase compared to 2020 and a 5-point improvement over 2019.

Kering[7]

Kering, firmly established as the world's second-largest luxury goods conglomerate, boasts a coveted brand portfolio that includes fashion brands such as Gucci, Yves Saint Laurent, Bottega Veneta, and Balenciaga. In 2021, Kering, headquartered in Paris, has reached a remarkable 34.7% increase in net sales, surging to approximately US$21 billion.

Retail sales increased by 18% compared to 2019 and by an astounding 40% year-on-year. This growth took place globally, but it was particularly pronounced in the North American market. Notably, Kering's online sales, which represented 15% of the overall retail income and increased by 55% year over year, made a substantial contribution.

The Group's more selective approach to distribution is reflected in the more incremental increase in wholesale revenue, which was 17%. Kering had the seventh-greatest net profit margin among the top 100 companies in FY2021 (18.5%), an increase of 1.9 percentage points from the previous year.

Estèe Lauder[7]

Estée Lauder is one of the largest US-based companies operating in the market for cosmetics, perfumes, and skin and hair care products.

As the world gradually emerged from the pandemic and stores reopened their doors following mandated closures, the company experienced a commendable resurgence in luxury item sales, witnessing a substantial 13.4% increase. This growth was related to a global phenomenon, with sales surging across all geographic areas. The Asia Pacific region and the prestigious skincare and fragrance categories displayed exceptional performance.

Despite the persisting mask-wearing norms and fewer occasions for cosmetic use, the demand for makeup remained subdued compared to the pre-COVID-19 era. Nevertheless, the company celebrated the remarkable success of eight of its Estée Lauder brands, spearheaded by Estée Lauder, La Mer, and Jo Malone London, all of which achieved impressive double-digit revenue increases.

In a significant financial rebound, the company's operating margin and net profit margin for FY2021 surpassed levels seen in FY2019, the year before the pandemic struck. The operating margin witnessed a striking improvement, surging to 16.1% of net sales from 4.2% in FY2020. Meanwhile, the net profit margin soared to 17.7% from 4.9%, positioning the company in ninth place among the Top 100 global companies.

Chanel[7]

The introduction of Chanel No. 5 perfume, which remained a best-selling fragrance into the 1990s, let Chanel establish itself as a well-known luxury brand on a global scale. Since then, the company has expanded its product portfolio to include ready-to-wear clothing, cosmetics, haute couture, and accessories in addition to perfumes.

Chanel Limited saw the highest growth in organic sales among the Top 10 companies. They experienced a significant increase in net sales, with a rise of 54.7%. Currently, it has achieved the fourth spot on the list of leading global luxury product manufacturers.

With an operating profit of about $5.5 billion, Chanel had a solid financial year in 2021. The business's net profit margin reached a record high of 25.7%. Among the Top 100 firms, the company's net profit margin came in third, mostly as a result of revenue growth attained through volume and price increases. Additionally, the company's focus on cost reduction as it emerged from the COVID-19 epidemic also contributed to its success. Chanel invested heavily in its brand support operations in FY2021, increasing its spending by 32% to a total of US$1.8 billion. Additionally, the company made significant upgrades to its supply facilities and retail distribution network to improve its overall operations.

Richemont[7]

Richemont is the third-largest luxury goods corporation in the world, based in Switzerland, and with the product identity of brands or Maisons rooted mainly in fine watchmaking and jewelry.

The corporation includes well-known brands like Cartier and Van Cleef & Arpels in its portfolio. Richemont sales of luxury products in FY2021 decreased by 6.9% from the previous year. Due to the company's financial year ending on March 31, its results were less affected by the pandemic's recovery than those of businesses with later financial year ending dates. Group sales in the fourth half of the fiscal year increased by 30%, offsetting a 26% decrease in the first half.

In addition, Online sales of Richemont's luxury jewelry and watch brands recorded triple-digit growth, contributing 7% of group sales (excluding Online Distributors). Richemont reported sales growth of its luxury goods brands of 50.1% for fiscal year 2022 (ending March 2022), indicating that this acceleration is persistent. However, Richemont fell to sixth place in the Top 10 ranking, mainly due to this time discrepancy in reporting, as Chanel and L'Oréal Luxe surpassed it. Despite the effects of the pandemic, which resulted in a 3% reduction in operating income, the group's net income increased by 38%.

Hermès International[7]

Established in the heart of France, Hermes International stands as a revered luxury goods manufacturer renowned for its leather products and elegant scarves. Even in the face of the persistent challenges brought on by the COVID-19 pandemic, the company demonstrated resounding success in 2021, underscoring its unwavering commitment to excellence.

Hermès achieved a remarkable financial milestone in 2021, reaching the seventh position in the Top 10 rankings, thanks to 40.6% sales growth in FY2021. This remarkable growth was primarily propelled by robust demand spanning across all the company's product categories, with particular emphasis on leather products and saddlery, which delivered 45.5% of the company’s revenue in FY2021, with sales growth of 27.5%.

Hermès International boasted remarkable net profit margins that have consistently placed it among the foremost leaders in the Top 100 companies. In the fiscal year 2021, the company achieved an impressive net profit margin of 27.3%, securing its position as the second highest in this prestigious group.

2 Literature Review

This chapter aims to gain knowledge of the common concepts related to the luxury sector and the key aspects concerning Mergers and Acquisitions (M&A).

The literature review is structured in the following paragraphs:

1. Introduction and scope of the review

2. Theoretical Background

3. Identification of areas for improvement

2.1. Introduction and Scope of the Review

The objectives of this literature review in the luxury sector are twofold. In the first place, it aims to quantify the body of research and expertise already existing in the luxury business with regard to M&A transactions. Second, it attempts to gather and combine valuable data that may be used as a basis for formulating and answering the research questions further presented that aim at facilitating future research in this field and aiding businesses in this industry in making decisions related to M&A processes.

2.2. Theoretical Background

In this chapter, all the primary topics and theoretical foundations related to the field of this study will be presented to provide the reader with a thorough overview of the research area in which the work will be done and to facilitate the understanding of the analyses carried out later.

2.2.1. The Concept of Luxury

The concept of luxury has been evolving. The origins of this concept can be found in ancient cultures. “In the great civilizations of the ancient world, luxury goods were always associated with wealth, exclusivity, and power, as well as the satisfaction of non-basic necessities” (A. Brun, C. Castelli, 2013).
But in 18th-century Europe, the emergence of aristocratic elites and the beginnings of the Industrial Revolution marked the birth of the luxury business as we know it today. The wealthier classes were the first to acquire luxury items like leather goods, jewelry, and watches.

“The literature considers luxury to be a multidimensional, multifaceted concept” (K.P. Wiedmann et al., 2009). However, the idea of luxury generally evokes a state of exceptional comfort, elegance, and refinement above and beyond what is considered necessary.

Moreover, the boundaries that define the luxury sector are not uniquely defined worldwide since the criteria that define luxury differ from one culture to another. However, from an analysis conducted in 2016, the dominant characteristic associated with the context of luxury is “high quality” (J. Kapferer et al., 2016), the conductor element of this study.

To understand how luxury goods can be distinguished from other goods, a set of critical success factors (A. Brun, C. Castelli, 2013) that categorize a product or an experience in the luxury segment have been reported:

- Premium quality: guaranteed along the whole Supply Chain
- Heritage of craftsmanship

- Exclusivity: given by the usage of naturally scarce materials, limited editions, selective distribution, and waiting lists
- Combination of product excellence and emotional appeal in the marketing approach
- Brand Reputation
- Recognizable style and design: this is because luxury goods serve as symbols of status and means of individual expression
- Association with a country of origin that has a strong reputation as a source of excellence for a particular product category
- Uniqueness
- Superior technical performance: this critical success factor is limited to the category of brands based on technical expertise
- Creation of a lifestyle

Hence, from this set of critical success factors, it is easily understandable that "luxury is neither a service, an object, a product, a concept, or lifestyle. It is, in fact, a culture, a philosophy, and an identity" (S. Amalesh et al., 2022).

2.2.2. Key Profiles of the Luxury Sector

In the past, the artist in charge of providing a luxury product its distinctiveness and beauty—the brand creator—also played the role of the brand controller. However, during the past 20 years or more, changes in the sector have raised questions on his or her readiness or competency to lead a business internationally, including selling and managing the value chain. Concerns have also been raised regarding the continuity of the brand's legacy after its eventual exit from the corporate scenario.

Today, the golden rule of luxury is to ensure that creators are exempt from managerial responsibilities and have the freedom to pursue their art, and the structure of a luxury

company must foster this freedom. In this context, the role of the top management is crucial.
A manager's traditional responsibilities include goal setting, organizing, supervising, planning, and motivating subordinates to complete tasks.
Managers must simultaneously define the future, inspire others, and set the vision by employing strategies that inspire others to want to achieve desired objectives.
Both sets of qualities must be successfully embodied and applied by an effective management style in the contemporary luxury sector.
It is necessary to competently manage the organizational aspect while embodying the "dream maker"[8] role for both employees and customers.
In order to succeed in this environment, luxury firms should seek out managers that demonstrate a blend of creativity and rationalism, temporal and cultural adaptability, time and temporality management, and competence in both traditional and digital media.
Luxury managers need to be aware of the unique characteristics of the luxury experience, be able to lead creative people, and apply rigorous management disciplines. They must also be sensitive to the cultural nuances of managing a global business.
Namely, they should understand and communicate the brand story and products while meeting the challenges of the speed required by marketing, sales, and after-sales service in international markets.
They must also manage the delicate balance between developing new markets, opening distribution channels, and adapting to cultural expectations while maintaining the "exclusive" and artisanal essence of the brand, combining the need to growth and the timelessness.

[8] https://knowledge.essec.edu/en/leadership/what-luxury-brands-are-looking-their-managers.html

Finally, in the luxury industry, the ability to work in both digital and traditional environments is critical. The skills required in the digital and traditional luxury worlds differ significantly, so managers must demonstrate the ability to meet both challenges. There isn't a universal solution, though. In this sector, the unique business environment and the leaders' personalities have a big impact on management. Thus, in addition to traditional managerial skills, a deep comprehension of the complexities of luxury, meticulous attention to details, and fluency in brand-specific language are essential.

2.2.3. Supply Chain

Given the main characteristics on which the luxury industry relies on, such as high-end products, exclusivity, and premium customer service, an effective supply chain management must be guaranteed.

In addition, due to the wide range of stakeholders and processes involved in this industry, luxury companies' supply chains, which handle everything from sourcing the best raw materials to delivering final products to customers, are essential to their success.

Luxury businesses must ensure that their suppliers follow the strictest guidelines for product quality, ethical business practices, and on-time delivery. Likewise, they must manage their inventory to prevent understocking or overstocking, which could harm their reputation and profitability.

Recently, the luxury industry has also experienced many challenges as a result of the rising interest in aspects like transparency, sustainability, and digitization. These changes have forced the sector to update its supply chain planning, recognizing the need for agility and adaptability and remaining at the forefront of the evolving luxury landscape.

To understand all the reasoning related to the topic of this work, the key phases of the Supply Chain in the luxury industry have been investigated.

Sourcing

One of the most significant obstacles in the supply chain of the luxury business is the sourcing of materials.

Since each stage of the production process must correspond to the intended quality standard, sourcing must ensure the use of high-quality raw materials and components. Consequently, as stated in the article "Logistics and Supply Chain Management in Luxury Fashion Retail: Empirical Investigation of Italian firms" (A. Brun et al., 2008), "often materials have to be sourced in particular countries and from specialized suppliers".

The selection of the sources is not only driven by the quality of the materials, but also by the heritage, reputation, and craftsmanship associated with them.

The type of supply relationship is, therefore, set according to the considered category. Standard and non-critical components just require optimizing the operations and logistic flow, whereas the purchases of customized goods require a strategic approach: collaboration intensity with suppliers increases, and common objectives and strategies are defined.

Suppliers are carefully selected, and the client company often applies some kind of control or monitoring to their operations, especially for those components that do not occur in-house.

This close relationship makes it possible to maintain strict quality control and inhibits the growth of a grey market (suppliers producing goods supplied through unofficial channels).

For luxury companies, leveraging collaboration with suppliers is essential since it boosts productivity, product quality, and delivery times, all of which result in happier and more loyal consumers.

Additionally, because new products are typically co-designed, suppliers and outsourcers play a pivotal role in innovation and new product development. As stated in "Supply Chain Management in the Global Luxury Industry" (Z. Peng, S. Jianfu, 2011), "suppliers are normally involved in the new product development process, which is though controlled by the focal firm; (…) suppliers are continuously measured, stimulated to solve problems and developed to ensure the highest quality level". The innovative skills of suppliers with expertise in a range of technologies and materials are thus accessible to focal companies.

Production Process

The management of the production process presents another challenge. Following the sourcing of the raw materials, the production process begins.

Luxury brands typically have their production facilities, enabling them to closely manage the production process and uphold quality control. Through internal manufacturing, the company is also able to guarantee that the production process is responsible in terms of both the environment and society.

However, luxury firms, in some cases, can work with small suppliers who are experts in particular techniques, and, as a result, manufacturing schedules could be extended and made more complicated because numerous suppliers must work together to produce the finished good.

Another component of the production process segment is quality control.

Product quality, as stated in the article "Logistics and Supply Chain Management in luxury fashion retail: Empirical Investigation of Italian firms" (A. Brun et al., 2008), "Is one of the critical success factors in the luxury segment of the fashion industry". "This aspect is to be considered both in terms of product compliance with the specifications and in terms of superior manufacturing quality". Consequently, Luxury companies adopt strong quality control procedures to ensure that every product matches the brand's requirements. Testing of products, inspections, and certification of raw materials used in manufacturing are examples of quality control measures.

Inventory

Inventory management is a further element that should be highlighted. Luxury brands must effectively manage their inventories to prevent stockouts and overstocking. Customers expect to be able to purchase products when they desire them; therefore, stockouts can harm a brand's reputation in the luxury industry. However, overstocking can result in expensive excess inventory for the brand.

To overcome these obstacles, as reported by the article "Supply Chain Management in the Luxury Industry: A First Classification of Companies and their strategies" (F. Caniato et al., 2011), "For highly seasonal and unpredictable products, the SC is organized to be reactive and hedged in the case of possible supply disruptions with strategic inventories".

Several brands, for instance, have invested in digitalization, which enables them to monitor inventory levels better, manage suppliers, and enhance production processes. Using digital tools, luxury brands can increase supply chain transparency and traceability, which is crucial for consumers who are increasingly concerned with sustainability and ethical practices.

Among the many investments made, many players in the luxury sector have invested in developing Vendor Managed Inventory (VMI), a supply chain management strategy where the supplier takes responsibility for managing the inventory levels of their products at the retailer's location. This can help improve inventory accuracy, reduce stockouts and overstocks, and streamline the replenishment process.

For instance, Louis Vuitton has implemented the DDMRP[9] supply chain management system. DDMRP is a demand-driven, inventory-based system that ensures products are always available to consumers by optimizing inventory levels. It has proved to be highly effective in the fashion industry, where seasonal demand varies significantly.

Downstream

The distribution of products to customers constitutes the last phase of the supply chain. This phase determines the ultimate sales and revenue success of the company.

The distribution channels utilized by companies to reach consumers are one of the most relevant aspects of the luxury industry's downstream portion of the supply chain; by combining direct and indirect distribution channels, luxury companies sell their products. Indirect channels include department stores, multi-brand boutiques, and franchise stores. Direct channels include company-owned retail stores and e-commerce platforms.

According to the article "Logistics and Supply Chain Management in Luxury Fashion Retail: Empirical Investigation of Italian firms" (A. Brun et al., 2008), "companies prefer (when possible) to sell their product directly to the final points of sale, so bypassing any kind of wholesaler or distributor. This allows companies to have better control over the retailing echelon, which is critical in reaching the final customers". "Regardless of the fact they own a direct operated retail network or not, for the

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[9] https://www.patrickrigoni.ch/case-study/ddmrp-supply-chain-fashion-industry-louis-vuitton-case-study/

companies, it is essential to build a direct contact with the consumer, and this could be obtained using some kind of downstream integration”.

Because of this, company-owned stores are an essential component of the downstream supply chain for luxury businesses.

These shops, often located in crowded areas such as upscale shopping districts, are designed to give customers a unique, entertaining shopping experience. The products are exhibited to maximize their worth and appeal, and the store's design matches the brand's image and beliefs. These establishments have highly skilled staff who are knowledgeable about the goods they sell and offer specialized assistance to help customers make educated purchases.

Moreover, many prestigious firms have started their e-commerce websites to reach consumers online. These websites represent the image and values of the company while providing customers with a seamless and convenient shopping experience. Luxury firms use cutting-edge technology and digital marketing strategies on their e-commerce platforms to attract and keep customers.

2.2.4. Growth Strategies

Once the fundamental phases of the Supply Chain of companies that operate in the luxury sector have been discussed, a more in-depth analysis of how these can affect the companies' growth can be conducted.

Due to shifting consumer preferences, advancements in technology, demand volatility, and general economic situations, the luxury sector is an extremely competitive sector that is continuously changing.

Companies operating in the luxury sector need to continuously adapt and evolve if they want to stay competitive in this dynamic industry. To remain relevant, attract new clients, along with retain their current ones, they must grow.

Growth can be attained by organic or inorganic methods, and both have benefits and drawbacks. The ideas of organic and inorganic growth will be investigated in this chapter, along with how they relate to the luxury market.

Organic Growth

Organic growth is a growth strategy obtained through internal means, such as increasing sales, developing new products, and expanding into new markets. According to the article titled "Mastering three strategies of organic growth" by McKinsey & Company[10], companies can accomplish organic growth by employing the three strategies listed below:

- Pursuing new sources of growth: This strategy entails identifying new development opportunities within an organization's current markets or products. This can be accomplished by:
    - Product innovation: Creating new and unique products that address shifting consumer preferences and trends. By investing in R&D to generate new, cutting-edge goods or services that address evolving consumer preferences and demands, luxury businesses can grow organically.
    - Geographic expansion: Businesses can expand by opening new retail locations or e-commerce websites in new markets. This can be

[10] https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/mastering-three-strategies-of-organic-growth

accomplished by identifying potential markets with a demand for products and services.

- Brand building: Investing in marketing and advertising to increase brand recognition and loyalty.
- Customer retention: the development of strategies to retain existing customers and improve customer satisfaction.

▪ Optimizing the core business: This strategy involves maximizing the profitability of an organization's extant products and services by streamlining processes, reducing costs, and enhancing efficiency. This can release investments in new growth opportunities.

▪ Expanding into adjacencies: This strategy entails expanding into associated new markets or products.

Organic growth can be less rapid than inorganic growth, but it is also less risky because it is always consistent with the company's core business. However, companies that emphasize organic growth frequently concentrate on building a solid basis for their operations, which can result in long-term success.

Inorganic Growth

Inorganic growth refers to the expansion of a business using strategies aside from internal development and operations.

Among the two growth strategies, “inorganic growth is likely to be a key to unlocking strategic imperatives for many, many companies”, as stated by Bain & Company in a report of 2020[11].

[11] https://www.bain.com/insights/the-renaissance-in-mergers-and-acquisitions/

This can be performed using multiple methods, including:

- M&A: Luxury companies can acquire or merge with other firms to access new markets, products, or technologies. Additionally, this might help in increasing market share and reducing competition.
- Strategic partnerships: they are formed with other brands or businesses to work together on new goods, services, or advertising campaigns to broaden their product lines or penetrate new markets.
- Joint ventures: Collaborating with other luxury brands or companies to jointly develop and market new products or services.

Consequently, companies prioritizing inorganic growth tend to concentrate on obtaining access to new markets, products, and technologies, which can result in short-term gains.

Inorganic growth can be a quicker means of expansion, especially in the luxury industry. Nonetheless, this form of growth strategy is not devoid of challenges. Integration of two companies can be challenging and time-consuming, one of the most significant risks. Cultural differences, contradictory strategies, and disparate systems and procedures can all make transitions challenging. In addition, there is always the possibility that the acquisition will not deliver the anticipated benefits due to unanticipated obstacles or poor execution.

Brand dilution[12] is another risk associated with an inorganic growth strategy. When a firm expands too quickly or acquires businesses that don't reflect the values and image of the brand, the brand loses its exclusivity and uniqueness. In the luxury market, where exclusivity and brand image are key for attracting and retaining clients, this is particularly damaging. Indeed, a company that expands too quickly or acquires

[12] https://www.forbesburton.com/insights/business-growth-strategies-a-quick-guide-to-organic-in-organic-growth

companies whose brand values do not align with its own can dilute its brand image and diminish its appeal to luxury consumers.

Despite these obstacles, many luxury companies seeking to expand their operations and strengthen their competitive position continue to view inorganic growth as an attractive strategy.

Indeed, as confirmed by a report published by Bain & Company, "Under pressure to grow, many companies will find inorganic growth faster, safer, and more reliable than organic investments"[8].

Companies can use inorganic growth to accomplish their growth objectives and create long-term value for their stakeholders by carefully selecting acquisition targets, managing the integration process effectively, and continuously evaluating the strategic fit of new acquisitions.

2.2.5. M&A

This thesis will focus on the topic of M&A among the many inorganic growth strategies covered in the previous paragraphs.

Indeed, this subject is of the utmost relevance and importance given the enormous potential of the luxury sector. This industry stands apart from others due to its high acquisition prices, margins, and EBITDA margins, making it a highly desirable investment opportunity.

M&A processes entail integrating the resources, operations, and assets of two or more businesses to create a new firm or to incorporate them into an already-existing company. While acquisitions entail one firm buying and absorbing another, mergers often involve two similar-sized and status companies coming to an agreement and merging.

M&A is typically perceived as a faster track to business expansion. Indeed, empirical research performed by McKinsey & Company[13] confirms that "M&A is the strategy that is most likely to create the most value for companies".

2.2.5.1. Types of Deal

Companies pursue M&A for several reasons, such as value creation (synergies, less competitive pressure), diversification (new products, new markets, larger customer base), acquisition of strategic assets (competencies, talent, people, plants, facilities), tax purposes (efficient tax structuring at group level) and incentives for managers (new challenges, new business opportunities).

All these elements combined lead to the identification of three main types of M&A[14], identified according to the related intended rationale.

- TRANSFORMATIONAL ACQUISITION: it aims to establish a new business model or enrich the product offer. A company or business unit pursues a new business model or new products and services. Transformational Acquisitions create new company models that meet buyers' long-term growth aspirations. These kinds of deals have become popular due to the shifting global economy and industry shifts. Transformational deals allow organizations to explore beyond their core competency to achieve these objectives. In a transformational M&A, the target's peculiarities and specific nature are key. During the

[13] https://www.mckinsey.com/capabilities/strategy-and-corporate-finance/our-insights/how-one-approach-to-m-and-a-is-more-likely-to-create-value-than-all-others

[14] BIP Observatory

integration phase, this must be kept in consideration to not jeopardize the success of the deal.

- IMPROVEMENT ACQUISITION: it aims to improve technology and gain target know-how. An Improvement Acquisition, which targets the existing technology and talent of another company to outcompete the competition, can be a quicker path to product enhancement than internal development. It can also lead to cost savings through economies of scale. This may justify a premium price if the acquisition enables the buyer to improve an existing product.
- BUILD-UP ACQUISITION: it aims to expand geographical presence, product range, or distribution channel. The objective is to scale up a company's current operations to grow more quickly than organically by increasing customers, gaining market share, and gaining knowledge and experience. Build-up acquisitions lead to immediate development from day one by adding buyer and seller revenues. Combined value creation can increase over time more than if the two companies had remained separate.

Among improvement acquisitions, it is possible to classify M&A transactions based on whether the acquired company is positioned within the buyer's supply chain. When pursuing an M&A transaction, the target company can be acquired using two distinct logics: vertical integration and horizontal acquisition, also known as horizontal integration.

Vertical Integration

Vertical Integration is a business strategy in which a company expands its operations upstream or downstream in the supply chain.

It entails acquiring or merging with companies that operate at different stages of the value chain of the same industry. Two kinds of vertical integration exist[15]:

- Backward Integration: This is when a company acquires or merges with suppliers or producers of raw materials, components, or services located at the beginning of the value chain. By integrating backward, a company obtains control over its inputs, ensures a stable supply of resources, reduces its reliance on external suppliers, and may reduce costs.
- Forward integration: it entails the acquisition or merger of distributors, retailers, or other entities further down the value chain. This enables the company to gain control over distribution channels, enhance market access, acquire higher profit margins, and establish direct relationships with end consumers.

Vertical integration aims to increase operational effectiveness, cut costs, streamline procedures, improve collaboration, and gain a competitive advantage over competitors. Additionally, it gives more control over client satisfaction, pricing, and quality.

Horizontal Acquisition

Conversely, horizontal Integration refers to the strategy of acquiring or merging with competitors or companies operating in the same industry or market segment. It entails reshaping "the acquired company to avoid duplication and to create efficiencies, streamlining the brands, processing, production, and other supply chain functions.

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[15] https://thestrategystory.com/blog/forward-backward-integration-strategy-meaning-types-examples/

This also brings in new suppliers and customers while deepening the acquired firm's relationships"[16].

Horizontal acquisitions aim to increase market share, eliminate competition, and accomplish economies of scale.

By acquiring competitors, a company can:

- Increase market power: The consolidation of market share enables the acquiring company to exert greater influence, negotiate favorable terms with suppliers, and have more substantial negotiating power with customers.
- Access to new markets: Horizontal acquisitions allow companies to enter new geographic markets or expand their product/service offerings to meet a broader range of consumer requirements.
- Achieve cost savings: By eliminating duplicate operations redundancies and leveraging economies of scale, businesses can reduce expenses and increase profits.
- Acquire intellectual property or expertise: Acquiring companies may also attempt to obtain the target company's valuable patents, technologies, or specialized skills.

However, horizontal acquisitions are frequently subject to regulatory scrutiny due to potential antitrust concerns, as they can lead to market consolidation, diminished competition, and adverse consumer effects.

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[16] https://www.jpmorgan.com/insights/international/global-business/organic-international-expansion

2.2.5.2. Approach of Deal

In the context of corporate acquisitions, a takeover can be categorized as friendly or hostile depending on the level of cooperation and agreement between the acquiring and target companies. As stated in the "Hostile takeovers or friendly mergers? Real options analysis" (T. Ebina et al., 2022), "The distinction lies in the management and board of directors of the target company's willingness to support the acquisition".

A friendly takeover, in detail, is an acquisition that takes place when the target business's management and board of directors are receptive to the proposal and actively collaborate with the acquiring company.

On the other hand, a hostile takeover describes the acquisition of a target company where management and a portion of the target company's board of directors disagree. It can be categorized as[14]:

- Tender offer: one firm offers to buy the outstanding stock of the other firm at a specific price and communicates this offer in advertisements and mailings to stockholders. By doing so, it bypasses the incumbent management and board of directors of the target firm. The acquired firm will continue to exist as long as there are minority stockholders who refuse the tender. From a practical standpoint, however, most tender offers eventually become mergers if the acquiring firm is successful in gaining control of the target firm.
- Creeping takeover: gradual purchase of the target company's shares through the open market to gain a controlling interest. The buyer can obtain a portion of the shares at current market prices rather than needing to pay a premium price through a formal tender offer. The purpose of a creeping tender offer is to obtain a portion of the target company's shares more cheaply than one can through an ordinary tender offer. In some countries, however, there are

regulations governing this process that require the bidder to offer a formal bid upon holding a certain number of shares.

- Proxy Vote: the act of the buyer company persuading existing shareholders to vote out the management of the target company so it will be easier to take over.

Notably, the classification of a takeover as friendly or hostile is contingent on the dynamics of the specific acquisition situation and the perception of the target company's management. If the target company's management supports the acquisition after negotiations and revised proposals, what may have begun as a hostile takeover attempt may ultimately become a friendly one.

2.2.5.3. Buyers' typologies

When evaluating an M&A operation, a key aspect is the typology of the buyer.

Indeed, a deal can be done by strategic or financial buyers, each with distinct characteristics and motivations. The former includes professionals, firms, and conglomerate holdings operating in related industries; the latter encompasses private investors, private equity funds, and conglomerate holdings in unrelated industries.

Here's a description of each, based on the article titled "Financial versus Strategic Buyers"[17].

Strategic buyers adopt a long-term investment perspective, aiming to seamlessly integrate the operations of the target company into their existing structure. Their primary objective is to gain management control over the target company, with the

[17] https://www.cambridge.org/core/journals/journal-of-financial-and-quantitative-analysis/article/financial-versus-strategic-buyers/767F81C6EEB4E4674215430E5B121696

expectation of realizing synergies that enhance their competitive advantage in the long term. In some instances, the purchase agreement may involve the seller becoming a shareholder within the acquiring company, typically by receiving shares as part of the transaction. Strategic purchasers typically fund their mergers and acquisitions (M&A) activities through various means, including available cash, stock swaps, or bank facilities.

Conversely, financial buyers' investment horizon typically spans the medium term, with a primary focus on generating returns. Financial buyers seek to create value through the introduction of new management practices and strategic initiatives or by consolidating the acquired entity with other businesses in their portfolio. Additionally, they also provide financial support to the target company's business initiatives. When structuring deals, private equity firms tend to exhibit greater creativity and flexibility compared to industrial buyers. Typically, financial purchasers finance their acquisitions using available cash and bank facilities.

2.2.5.4. Buying Shares vs Buying Assets of a Company

In the context of M&A, the process of acquiring a corporation and its associated business can typically take two primary forms: an asset deal or a share deal. These two structures represent distinct approaches to acquiring ownership and control of a company, each with its own set of implications and considerations.

In an asset deal[18], the purchaser acquires selected or all assets (and liabilities) of the target business from the seller's company. If the target company is distressed or in danger of becoming insolvent, this makes the asset deal more attractive. The primary

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[18] https://www.roedl.com/insights/ma-dialog/2020-08/usa-share-deal-versus-asset-deal-transaction-structurin#:~:text=Asset%20Deal%20%20General%20Differences,target%20company%20by%20the%20buyer.

advantage of an asset deal is that it offers a high degree of selectivity. Buyers can choose which assets and liabilities they want to assume, allowing them to cherry-pick the most desirable aspects of the business while leaving behind any less attractive or risky elements. However, asset deals can be administratively complex, involving the transfer of each asset and the renegotiation of contracts with customers, suppliers, and employees.

Conversely, in a share deal[18], the buyer acquires all or part of the shares of the target from the seller. Share deals are characterized by their continuity, as the target company remains intact, and the transition for employees, customers, and suppliers is typically smoother. Where possible, the seller usually prefers a share deal because it allows for a lower overall tax bill in most scenarios (asset deals frequently lead to double taxation). However, this structure also means that the buyer assumes all the target company's existing commitments and liabilities, known and unknown.

The choice between an asset deal and a share deal is usually driven by tax considerations and commercial needs, e.g., in an asset deal, a purchaser might desire to buy only a branch of the entire business; it might be the best solution to "design around" a regulatory obstacle.

The following are the main advantages and disadvantages of the two types of deals:

ASSET DEAL

Table 1: PROs and CONs of Asset Deal

PRO	CONS
Limited exposure to unknown liabilities	Assignable contract rights/licenses may be limited

Tax deductions for depreciation and/or amortization	Higher tax cost for the Seller
Selection of employees to retain	Employment agreements with key employees may need to be renegotiated
Simplified due diligence	Required legal transfer of individual assets and liabilities, which can be administratively burdensome and costly

SHARE DEAL

Table 2: PROs and CONs of Asset Deal

PRO	CONS
Simple and commonly used	High exposure to unknown liabilities
No re-valuations and retitles of individual assets	Business needs to comply with Seller's country laws
Assume non-assignable licences and permits	Some shareholders may not wish to sell their stocks

2.2.6. Parent Advantage

M&A operations can be a powerful tool for a parent company to enhance its competitive advantage and create a parent advantage, namely, a concept initially used in the business strategy literature to explain "how a subsidiary can benefit from the interventions and directions of its parent company, and how value can be created and enhanced by that relationship" (Ciabuschi et al., 2017).

As reported in "How to assess the corporate parenting strategy? A conceptual answer", the theoretical foundation of the framework is the concept of parenting advantage as presented by Goold et al. in 1994. "The concept claims that a company should strive to be the best possible owner for the businesses in its portfolio or sell them at favourable terms to a better owner" (M. Kruehler et al., 2012).

The characteristics of the corporate parent must be compatible with the critical success factors of the businesses and their specific needs to gain parenting advantage. In this way, parenting advantage should determine in which operational activities a company invests its financial and managerial resources and how the corporate parent influences the business units under its control.

The delivery of efficient and effective parenting advantage includes strategies such as offering a wide range of resources, knowledge transfer, economies of scale, and greater efficiencies and promotes an assessment of the primary function and contribution of the corporate parent.

In the "Parenting advantages of emerging market multinationals (EMNCs) in luxury fashion retailing" (H. Bai et al., 2022), the writer–outlined four methods of value creation with regard to relationships and methods in which a parent company might build parenting advantage among subsidiaries:

- Stand-alone influence: By making strategic choices like hiring new top management, value is created. The parent corporation affects the plans and performance of each business under its ownership by treating each one as a separate profit center.

- Linkage influence: By strengthening the links between and among the business units it owns, the parent firm aims to add value.
- Functional and services influence: by providing centralized administrative and managerial services, such as standardized facilities for communication, image, finance, and infrastructure, corporate value can increase.
- Corporate development activities: By buying, creating, and selling new businesses, the parent may modify the number of companies in its portfolio. Therefore, through these activities, the parent has the ability to both generate and destroy value for the business. Such value is distinct from that which may be subsequently created through any ongoing parental influence.

The significance of the 'parent advantage' concept primarily stems from the diverse synergies that can emerge within a group of affiliated companies.

2.2.7. Synergies

As already mentioned in the previous paragraph, one of the main strategic drivers in an M&A transaction refers to synergies that can emerge between the buyer and the acquired company, both in vertical and horizontal integrations.

In a post- M&A context, synergies' impact is the positive difference between the value of the combined firm and the sum of values of the firms as separate entities.

$$Value\ of\ the\ new\ company\ =\ Preacquisition\ values + synergies \tag{2.1}$$

Hence, identifying the different kinds of synergies that can arise from an M&A transaction is enables to quantify the additional value that they bring to the deal itself, considering that it is not uncommon that the value estimated before the deal and the one estimated after the deal could not match.

Nonetheless, the exact value coming from these kinds of operations cannot be quantified directly since their impact relies on intangible factors such as brand repositioning, company culture, people, etc.

Moreover, synergies are also a key driver in deciding whether to acquire a company and which the target company to invest in: the higher the possible synergies that the two companies can leverage in the future, the higher the value of the new company.

From a study conducted by BIP[14], the main synergies that can drive an M&A process are reported in the following Table 3, classified by category:

Table 3: Synergies Classification

Strategy & Organization	**Revenue**
- Talent attraction: Snowballing effect - Immediate transfer of skills and best practices - Organization rationalization - Higher bargaining power against all the Five Porter's Forces - Access to new and better technologies (E.g. Patents) - Increase in purchasing power	- Brand synergies - Competitive synergies - Increased access to distribution channels - Enlargement of the product portfolio - Cross-selling opportunities - Customer base expansion

Costs	Financial & Tax
- Reorganization and optimization of processes - Economies of scale and scope - Asset optimization and facilities sharing - Better technical/processes know-how - Increase in R&D efficiency - Increase in IT systems efficiency	- Lower financial costs - Less profit volatility - Intercompany tax benefits - Increase in debt capacity - Higher access to funding - Cash management improvement

2.2.8. Enterprise Value, Equity Value & NFP

As the complete value of a firm, including its assets, financial liabilities, and capital structure, Enterprise Value[19] is essential in M&A deals. In addition, this metric gives buyers a comprehensive understanding of the target company.

Investors assess the company by determining Enterprise Value, which takes debt, liquidity, and other financial commitments into account. This better comprehension aids in establishing a fair acquisition price and formulating the financing plan for the transaction. Enterprise Value is also a helpful tool for figuring out potential synergies and return on investment, which aids in making decisions in M&A deals.

[19] https://www.pricebailey.co.uk/blog/enterprise-value-vs-equity-value/

This value reflects the overall cost that a buyer would incur to purchase a company. Along with the share purchase price, it also takes into account additional important factors, including the target company's financial structure.

The Net Financial Position (NFP) provides a detailed representation of the target company's financial health. It considers the variation between the target's total debt and cash and cash equivalents. Hence, in evaluating a company’s financial position, a positive indicates that the target has more cash than debt, while a negative NFP indicates that the target has more debt than cash.

Quantitatively, Enterprise Value is specifically determined by adding the company's Net Financial Position, which includes cash and cash equivalents minus debt, to market capitalization (i.e., the stock purchase price multiplied by the number of outstanding shares), as shown in the formula:

$$EV = P + NFP \tag{2.2}$$

Therefore, EV gives a more complete picture of the company's actual value because it takes into account both the amount of debt the company has and how its capital is managed.

2.2.9. Valuation Methods

Once the main aspects and reasons driving an M&A process have been collected from the literature (M. Arnaboldi et al., 2015), the following paragraph will provide an overview of how companies evaluate the target companies to acquire, determining the economic worth or fair market value of a business entity.

Valuation methods aim to estimate the price that a knowledgeable buyer is willing to pay for the company, given its assets, financial performance, and competitive market position. The main approaches to evaluating companies include:

- Discounted Cash Flows (DCF) Analysis: This fundamental method determines the present value of a company's future cash flows. It entails estimating the company's cash flows over a specific period (commonly five to ten years) and then discounting those projected cash flows back to their present value using an appropriate discount rate, typically the company's cost of capital. Considered one of the most comprehensive methodologies, DCF also necessitates detailed financial forecasts.
- Relative valuation: Using transaction multiples of peers that are publicly traded or transaction multiples of peers that have recently been sold or acquired in the same industry, this method compares the current value of a company to those of other similar businesses. Since the study performed with this work is based on this method, further explanations regarding the valuation method will follow.

2.2.9.1. Relative Valuation

Relative valuation is a widely used approach to estimate the company value. This approach compares the (target) company to other listed entities that are similar to it, assuming that the target company's valuation should be consistent with that of comparable companies. In most cases, it is combined with the DCF technique to compare different approaches to find a convergence of the different outcomes.

To assess the target company value, this method first requires defining a sample of comparable businesses, in compliance with the criteria presented in the next section, for whom the enterprise value (EV) or equity value (E) could be easily determined.

The main assumption of this approach is that if a sample of comparable companies is evaluated by the market a predetermined number (n) of times for a specific balance sheet metric, the target company, if comparable, can be valued in the same way.

The identification of a sample of comparable companies enables the computation of the transaction Multiple, the ratio between the value of each comparable company (i), and a parameter that could usually be extracted from each comparable company's balance sheet (e.g., EV/EBIT, EV/EBITDA, and so forth). In formulas, for each comparable company, the multiple could be estimated as:

$$Multiple_i = \frac{Value_i}{Parameter_i} \tag{2.3}$$

After the definition of the multiple applied in each comparable company acquisition, the overall cost a buyer would incur to purchase the assessed company can be computed by multiplying the average of multiples defined in the previous passage with the same parameter of the Target Company *(K)*. In formulas, the EV can be computed as:

$$EV_K = \frac{\sum Multiple_i}{No.\, Comparable\ Companies} \times\ Parameter_K \tag{2.4}$$

2.2.9.2. How to define Comparable Companies

Comparable companies are not just the same as the company's competitors, but these represent a cluster of companies that share the same value drivers as the target.

In selecting comparable companies, the following factors should be considered:

- Sector
- Geographical market
- Size (measured by assets or sales)
- Market share
- Growth perspective
- Market segment addressed
- Innovation and development models

2.2.9.3. Multiples definition

Enterprise value (EV) and equity (E), the two ways to determine a company's value, are used to categorize multiples into two groups.

- Enterprise Value Multiples

  EV multiples are those that support the valuation of the target company enterprise value, looking at the EV of comparable companies.

  Among the EV multiples, there are those with a wider diffusion and application, such as the EV/EBITDA, the EV/EBIT, the EV/FCFF, the EV/sales, and the EV/ CE. In particular:

  - EV/EBITDA is one of the most used EV multiples when dealing with industrial companies. The EBITDA represents the company's first estimate of its cash flows, but because it is overestimated, it is not a viable choice for industries where outsourcing is relevant.

    This multiple could be easily adjusted to have a more powerful application in some cases. Thus, the EV/$EBITDA_{adj}$ (earnings before interest, taxes, depreciation, amortization, and rent) is often used in the case of analyzing companies with an actual different level of rent that is supposed to change in future years.

- EV/EBIT is another relevant option for calculating multiples. The EBIT focuses on operating management, but it does not consider the different depreciation and amortization choices made by companies.
- EV/CE is often used for companies that operate in the luxury segment. Because it compares the EV with its balance sheet asset value, represented by the capital employed, it runs the risk that the balance sheet data may not be representative of the asset market value.

- Equity Multiples

  Analysts can assess a company's equity value directly, thanks to equity multiples. The market capitalization, which constitutes the numerator of the equity multiple, is given by the price of the stock on the official exchange multiplied by the number of outstanding shares.

  Among equity multiples, the P/E, the PEG, the P/FCFE, and the P/BV are the most commonly used.

  - P/E is the ratio between the market capitalization of a company and its earnings or, equally, the ratio between the price of the stock and the EPS (the ratio between earnings and the number of outstanding shares).

    It is one of the multiples that can always be computed (for listed companies), as it is easy to calculate and understand. However, the earnings of a company suffer from depreciation and amortization policies, its financial structure, and the profit or loss of discontinued operations. To avoid the latter, the adjusted P/E adjusts the earnings to not be affected by the profit or the loss of discontinued operations.
  - PEG is the ratio between the P/E and the earnings growth. This allows for a better analysis of the forthcoming growth perspectives of the company.

- P/FCFE is the ratio between the market capitalization of a company and its FCFE (Free Cash Flow to Equity).
- P/BV is the ratio between the equity market value (i.e., the market capitalization) of a company and its equity book value.

2.3. Identification of Areas for Improvement

The research showed that M&A processes play a pivotal role in the luxury sector. However, detailed analysis of these types of financial and strategic operations and their background within the luxury sector remains an unexplored domain because of various obstacles that are hard to overcome.

The results of the literature review have been summarized in the following key aspects, which will be the starting point for identifying areas for improvement.

1. Collecting sensitive data is a hustle
2. M&A transactions have to be evaluated from different perspectives
3. M&A processes' backstory is not always disclosed
4. Analysis of M&A transactions in the luxury sector is generally based on a small number of case studies at the same time
5. The literature on mathematical models of M&A transactions in this sector is scarce

Collecting sensitive data is a hustle

The luxury sector is characterized by its exclusivity, discretion, and the protection of brand reputation; because of this, it is challenging to collect sensitive data, especially in the case of vertical acquisitions.

Main data are reported by reports and balance sheets. Still, when there is the opportunity to interact directly with people who handle and work with these data, the problem is twofold: on one hand, quantitative data regarding particularly tiny but strategic vertical acquisitions do not emerge because they are not sufficiently quantitatively relevant to have a significant influence on their balance sheet and, on the other hand, legal, ethical and logistical obstacles inhibit the possibility to obtain unfiltered data regarding their financial health or business strategies.

M&A transactions have to be evaluated from different perspectives

When an analysis of an acquisition process is performed, financial figures and the price of the acquisition are not enough to understand all the hidden logic behind the transaction that led to a specific bargaining result.

Beyond the financial perspective, the legal and strategic one has to be taken into account because these can massively impact the final contract signed by the two companies at the end of a negotiation of an M&A process.

M&A processes' backstory is not always disclosed

What stands behind an M&A process in terms of human relationships, dynamics, cultural interactions, and differences is the foundation for a successful M&A process.

However, the backstory of a deal is often overshadowed by quantitative data and numbers because sharing information can weaken a party's negotiating position. Each party may have specific objectives in mind, and disclosing too many details can limit their ability to negotiate favourable terms.

Analysis of M&A transactions in the luxury sector is generally based on a small number of case studies at the same time

Due to the complexity and uniqueness of each M&A process mentioned above, the analysis among different M&A transactions that have been found in the literature review is generally based on two or three case studies, so the comparisons are generally highly detailed and performed on two or three different acquisitions.

The literature is scarce on mathematical models of M&A transactions in this sector

As a consequence of the previous aspect identified, mathematical and statistical models, such as linear regressions or correlation analysis, developed to compare different M&A transactions, are scarce in the literature.

3 Research Methodology & Research Questions

The approach adopted for the research process is described as follows.

The methodology for this study was articulated in the following steps:

- Literature review methodology
- Interviews
- Financial Figures & Data collections

The first stage of the research involved conducting a literature review, intended to be an in-depth survey of the luxury sector, along with issues related to supply chain and M&A transactions.

To this end, a thorough review of existing research and literature was conducted, with the aim of identifying relevant themes and trends that could provide insight into the current status and future prospects of these topics, although the topic of this thesis does not have an extensive pre-existing literature base, given its nature of recent interest.

The underlying assumption of this chapter is that there is a data shortage in this context, notably with respect to extensive research and data within the luxury industry in relation to M&A transactions. However, access to publicly accessible data sources, such as academic papers, market reports, and trade journals that offer insights into many facets of the luxury business, is assumed for the purposes of this literature analysis. Although this assessment makes use of publicly available data, it acknowledges that certain private and sensitive information, such as specific acquisition prices, may not be readily accessible. Therefore, the review's objective is to thoroughly evaluate the existing knowledge landscape for the luxury industry by utilizing both publicly available aggregated data and insights from disaggregated sources.

The second phase consisted of interviews with luxury sector experts who could focus particularly on supply chain management, merger and acquisition activities, and their interactions with each other. The topic of M&A, in particular, was examined with experts on a theoretical level alongside with top company managers who discussed, experienced, addressed, and evaluated them within their own firms.

Based on the first two steps and the information obtained, the third and final step was the creation of the database and dataset, which are functional for the analysis that is the subject of this work.

3.1. Literature Review Methodology

A literature review "is a search and evaluation of the available literature in your given subject or chosen topic area. It documents the state of the art with respect to the subject or topic"[20] addressed by the study.

The documents for the literature review have been gathered from the Scopus and Google Scholar together with articles from the main online newspaper "Pambianco", "Financial Times" and others, and from companies' financial statements and press releases.

[20] https://www.rlf.org.uk/resources/what-is-a-literature-review/#:~:text=A%20literature%20review%20is%20a,topic%20you%20are%20writing%20about

Initially, an in-depth analysis of the luxury sector was conducted in order to gain a comprehensive overview of its dynamics and characteristics.

Next, a theoretical and general analysis of supply chain management, mergers & acquisitions, and Parent Advantage issues was conducted, and then applied and related these concepts specifically to the context of the luxury sector.

In order to present a reliable result, the research was carried out in a logical and structured manner and documents were selected from 2002 onwards.

3.1.1. Context and Scope of the Review

The review was conducted with the aim of identifying and analyzing the key aspects that characterize the industry, with particular emphasis on the concept of luxury, supply chain management along with financial and strategic topics related to M&A transactions.

The literature review was performed in January 2023, intending to collect the existing literature about the topic and find evidence of the gaps for future research.

3.1.2. Keywords Identification

The initial step involved a comprehensive review of the academic literature using Scopus, to collect scholarly papers.

The keyword used in the queries formulation were selected taking into consideration the main blocks of work.

To this end, in order to maintain a structured approach, five main clusters were outlined, each related to the key themes of the analysis. In detail:

- Luxury Concept
- Supply Chain
- Growth Strategies
- M&A
- Parent Advantage

Papers with references to the subjects mentioned above in the title, abstract, or keywords were gathered and analyzed.

To obtain the output of results, including generic papers on topic of interest, these were joined using the AND and OR operators.

The term “Luxury Industry” was combined with each key theme to assess a first analysis of the sector. The concepts were also looked up using other definitions to include all pertinent articles. For instance, the "luxury sector" has been replaced with the terms "luxury industry" or "High-end industry".

The terms "Luxury Industry" and "Supply Chain" were combined to create the first query: 279 documents were provided by TITLE-ABS-KEY ((luxury OR high-end AND industry OR sector AND supply AND chain) AND PUBYEAR > 2002 AND (LIMIT-TO (SUBJAREA, "BUSI") OR LIMIT-TO (SUBJAREA, "SOCI") OR LIMIT-TO (SUBJAREA, "ECON.")).

Following, documents regarding growth strategies in the luxury sector were investigated through the query TITLE-ABS-KEY ((luxury OR high-end AND industry OR sector AND growth AND strategies) AND PUBYEAR > 2002 AND (LIMIT-TO (SUBJAREA, "BUSI") OR LIMIT-TO (SUBJAREA, "SOCI") OR LIMIT-TO (SUBJAREA, "ECON.")), resulting in a total of 154 articles. The term "growth strategies" has also been substituted with either "inorganic growth" or "organic growth".

Then, to investigate documents related to the concept of M&A in the luxury sector, the following query was implemented: TITLE-ABS-KEY ((luxury OR high-end AND industry OR sector AND M&A OR mergers AND acquisition) AND PUBYEAR > 2002 AND (LIMIT-TO (SUBJAREA, "BUSI") OR LIMIT-TO (SUBJAREA, "SOCI") OR LIMIT-TO (SUBJAREA, "ECON.")).
This query led to 40 articles. The terms "Mergers and Acquisitions", "M&A transactions", “Horizontal acquisitions” and “Vertical Acquisitions” were also employed to search for additional articles.

Lastly, only three documents linking “Parent Advantage” and “Luxury Sector” were founded through the query: TITLE-ABS-KEY ((luxury OR high-end AND industry OR sector AND parent AND advantage) AND PUBYEAR > 2002 AND (LIMIT-TO (SUBJAREA, "BUSI") OR LIMIT-TO (SUBJAREA, "SOCI") OR LIMIT-TO (SUBJAREA, "ECON.")).
It is important to point out that this stage required precision because a less rigid approach to filtering would have resulted in a considerably larger sample that was full of irrelevant research.

3.1.3. Document Selection

The selection of collected publications developed in two steps.

First, the papers that focused on unrelated topics were quickly and easily found through a preliminary assessment of the titles and abstracts and eliminated from the list.

Second, the first two of the five clusters are strictly related to the luxury industry. For these, a second, more precise reading was done to ensure the study's boundaries fell within the interested sector.

For what concerns the other three clusters, a second reading was carried out with the aim of selecting those studies that could have implications or give insights related to the analysed sector.

This phase led to the collection of 38 publications, of which:

- 8 about the Luxury Concept
- 15 about the Supply Chain in the Luxury Sector
- 1 about the Growth Strategies
- 9 about M&A
- 5 about the concept of the Parent Advantage

The material evaluation, or analysis of the publications represented the final phase in the strategy employed for conducting the literature review. Table 4 reports the identified studies based on the year of publication, author, title, source title, and document type.

Table 4: Selected Studies for Theoretical Background

No.	Year	Author	Title	Source Title	Type	Topic
1	2023	Aslam, H., Waseem, M., Roubau	Customer integration in the supply chain: the role of market orientation and	Annals of Operations Research	Article	Supply Chain

		d, D., Grebinevych, O., Ali, Z., Muneeb, D.	supply chain strategy in the age of digital revolution			
2	2023	Barbieri, P., Dattée, B., Mahapatra, S.K.	The paradox of supplier development in technology-based luxury supply chains	International Journal of Operations and Production Management	Article	Supply Chain
3	2023	Bindi, B., Bandinelli, R., Fani, V., Pero, M.E.P.	Supply chain strategy in the luxury fashion industry: impacts on performance indicators	International Journal of Productivity and Performance Management	Article	Supply Chain

4	2022	Amalesh, S., Mauli, S., Borah, S. B., Haque, T.	From silos to synergies: A systematic review of luxury in marketing research	Journal of Business Research	Article	Luxury Concept
5	2022	Bai, H., He, W., Shi, J., McColl, J., Moore, C.	Parenting advantages of emerging market multinationals (EMNCs) in luxury fashion retailing	International Journal of Retail and Distribution Management	Article	Parent Advantage
6	2022	Ebina, T., Kumakura, Y., Nishide, K.	Hostile takeovers or friendly mergers? Real options analysis	Journal of Corporate Finance	Article	M&A
7	2022	Riedmeier,	Me versus we: The role of luxury brand	Journal of Business Research	Article	Supply Chain

		J., Kreuzer, M.	managers in times of co-creation			
8	2021	Bindi, B., Bandinelli, R., Fani, V., Pero, M.E.P.	Supply chain strategy in the luxury fashion industry: impacts on performance indicators	Emerald Publishing Limited	Paper	Supply Chain
9	2021	Mari, C., Meglio, O.	A customer-based perspective in mergers and acquisitions	Advances in Mergers and Acquisitions	Book Chapter	M&A
10	2021	Radu-Alexandru, Ş.	Measuring Performance in the Luxury Industry: Is there a Difference in Performance between the top and Bottom Players in the Industry?	Studies in Business and Economics	Article	Luxury Concept

11	2021	Stolz, K.	Patents as a Competitive Advantage? Analysis of the German Watch Manufacturer Junghans	International Journal of Innovation and Technology Management	Article	Growth Strategies
12	2020	Amel-Zadeh, A., Meeks, G.	Accounting for M and A: Uses and abuses of accounting in monitoring and promoting merger	Accounting for M and A: Uses and abuses of accounting in monitoring and promoting merger	Book Chapter	M&A
13	2020	Cabigiosu, A.	An Overview of the Luxury Fashion Industry	Palgrave Advances in Luxury	Book Chapter	Luxury Concept

14	2020	Chung, Y., Kim, A.J.	Effects of mergers and acquisitions on brand loyalty in luxury Brands: The moderating roles of luxury tier difference and social media	Journal of Product and Brand Management	Article	M&A
15	2019	Brun, A., Sianesi, A., Karaosman, H.	Bespoke supply chains: Transforming luxury fashion supply chains	Proceedings of the Summer School Francesco Turco	Conference Paper	Supply Chain
16	2018	Moretto, A., Macchion, L., Lion, A., Caniato, F., et al.	Designing a roadmap towards a sustainable supply chain: A focus on the fashion industry	Journal of Cleaner Production	Article	Supply Chain
17	2018	Rawley, E., Godart, F. C.,	How and when do conglomerates influence the	Strategic Management Journal	Article	Parent Advantage

		Shipilov, A.	creativity of their subsidiaries?			
18	2017	Brun, A.	Supply Chain Management in the Luxury Industry	Palgrave Advances in Luxury	Book Chapter	Supply Chain
19	2017	Brun, A., Castelli, C., Karaosman, H.	A focused supply chain strategy for luxury fashion management	Journal of Fashion Marketing and Management	Article	Supply Chain
20	2017	Ciabuschi, F., Forsgren, M., Martin, O.	Value creation at the subsidiary level: testing the MNC headquarters parenting advantages logic	Long Range Planning	Article	Parent Advantage
21	2017	Quacquarelli, B.	Integration of Mergers and Acquisitions in the Fashion and Luxury Industry	Palgrave Advances in Luxury	Book Chapter	M&A
22	2016	Kapferer, J.-N.,	Pursuing the Concept of Luxury A cross-country	Journal of International	Article	Luxury Concept

		Michaut, A.	comparison and segmentation of luxury buyers' perception of luxury	Marketing Strategy		
23	2016	Kapferer, J.-N., Valette-Florence, P.	Beyond rarity: The paths of luxury desire. How luxury brands grow yet remain desirable.	Journal of Product & Brand Management	Article	Luxury Concept
24	2015	Castelli, C.M., Sianesi, A.	Supply chain strategy for companies in the luxury-fashion market: Aligning the supply chain towards the critical success factors	International Journal of Retail and Distribution Management	Article	Supply Chain
25	2015	Cavender, R., Kincade, D.H.	A luxury brand management framework built from historical review and case study analysis	International Journal of Retail and Distribution	Article	Luxury Concept

				Managem ent		
26	2014	Chung, K., Youn, C., Lee, Y.	The Influence of Luxury Brands' Cross-Border Acquisition on Consumer Brand Perception	Clothing and Textiles Research Journal	Article	M&A
27	2013	Brun A., Castelli, C.	The nature of luxury: a consumer perspective	Internatio nal Journal of Retail & Distributi on Managem ent	Article	Luxury Concept
28	2012	Fidrmuc , J.P., Roosenb oom, P., Paap, R., Teuniss en, T.	One size does not fit all: Selling firms to private equity versus strategic acquirers	Journal of Corporate Finance	Article	M&A

29	2012	Kruehler, M., Pidun, U., Rubner, H.	How to assess the corporate parenting strategy? A conceptual answer	Journal of Business Strategy	Article	Parent Advantage
30	2011	Caniato, F., Castelli C. et al.	Supply chain management in the luxury industry: A first classification of companies and their strategies	International Journal of Production Economics	Article	Supply Chain
31	2011	Zheng, P., Sun, J.	Notice of Retraction: Supply chain management in the global luxury industry	International Conference on Software Engineering and Service Science	Article	Supply Chain
32	2009	Caniato, F.,	A contingency approach for SC	International	Article	Supply Chain

		Caridi, M., Castelli, C.M., Golini, R.	strategy in the Italian luxury industry: Do consolidated models fit?	Journal of Production Economics,		
33	2009	Wiedmann, K.P., Hennigs, N., & Siebels, A.	Value-based segmentation of luxury consumption behavior	Psychology & Marketing	Article	Luxury Concept
34	2008	Brun, A., Caniato, F., Caridi, M., Castelli, C. et al.	Logistics and supply chain management in luxury fashion retail: Empirical investigation of Italian firms	International Journal of Production Economics	Article	Supply Chain
35	2008	Brun, A., Castelli, C.	Supply chain strategy in the fashion industry: developing a portfolio model depending on	International Journal of Production	Article	Supply Chain

			product, retail channel and brand	Economics		
36	2006	Štrach, P., Everett, A.M.	Brand corrosion: Mass-marketing's threat to luxury automobile brands after merger and acquisition	Journal of Product and Brand Management	Article	M&A
37	2005	Moore, C. M., Birtwistle, G.	The nature of parenting advantage in luxury fashion retailing - The case of Gucci group NV	International Journal of Retail and Distribution Management	Article	Parent Advantage
38	2002	Williams, H.	Marzotto acquires Valentino	Wool Record	Article	M&A

3.1.4. Document selection from other sources

In addition to the literature, the most consistent workload was focused on acquiring information from newspaper articles from major national and international newspapers, along with reading the companies' press releases, which was carried out for each acquisition in a circumstantial and meticulous manner.

Companies' press releases were used as the main source of reference. 45 publications that reported the official data of the acquisitions were analyzed.

Moreover, to effectively reconstruct the background of each acquisition background, 67 documents and articles from national and international newspapers as "Pambianco News", "Financial Times", "WWD", "New York Times" "Sole 24Ore", "Forbes", "Fashion United", "La Conceria", "Fashion Network", and "MDS | The global fashion business journal", were analyzed.

3.2. Interviews

The second stage of the research relies on interviews conducted with M&A experts actively engaged in the luxury sector, legal field, financial industry, and strategic consulting.

The experts interviewed and connected information is reported in Table 5.

Table 5: Experts interviewed

Name	Role	Company
Emilia Ricci	Strategic Corporate Finance Manager	PRADA
Roberto Massardi	Chief of Business Development Officer	PRADA
	Former General Director	Stone Island
Valeria Panza	Legal Industrial Director	PRADA

Fabrizio Fabbro	Former Senior Vice President	Burberry
-	Head of Talent & Development	Vacheron Constantin
Alessio Fiaschi	Business Angel, Area Leader Toscana	Ambrosetti
Damiano Coletti	Investor & Partner Growth	United Ventures
Camilla Silvestrini	Corporate Law (M&A and Private Equity)	Gatti Pavesi Bianchi Ludovici

The interviews led to a holistic understanding of M&A activities within the luxury sector. Indeed, this approach enabled to gather insights on benefits, challenges, and other aspects related to acquisition processes specific to the luxury industry.

These interviews were guided by nine different questions, which will be presented in Section 5.1.1, developed based on the missing aspects that emerged during the literature review. This approach allowed the interviews to explore relevant themes, experiences, and strategies with a considerable level of flexibility.

Following an in-depth examination of the data gathered from these interviews, which included comparative evaluation and thematic analysis, it was possible to identify key trends and insights that provided insights into the dynamics of M&A in the luxury industry.

3.3. Data Collection of M&A transactions

The last phase of the research consisted of the data collection for the subsequent analysis of the M&A operations.

To achieve this, a range of reliable sources, including company announcements, press releases, and public financial reports were employed in compliance with the methodology for the document selection explained in Section 3.1.4.

Only acquisitions referring to the personal goods category were examined, with further restrictions on acquisitions made by brands operating in the luxury sector.

The time span considered for acquisitions was determined to be from 2010 to 2023, inclusive, as it was considered not pertinent to examine transactions that occurred outside of this period.

Additionally, only strategic buyers were taken into account in order to provide a smooth analysis. As a result, the following specific cases were not considered and not recorded among the transactions:

- Disposal and Buyback transactions
- Transactions conducted by private equity funds

Given these constraints, a database of 100 acquisitions has been created, and all the data has been arranged in accordance with the format shown in the paragraph that follows.

3.3.1. Description of Data Collected

For each acquisition, all the related information was reported according to the following structure:

- Month and year in which the transaction was finalized

- Information about the buyer company
- Information about the target company
- Relevance of the acquired company heritage
- Level of Innovation
- Revenue of the target company
- Percentage of the acquired stakes
- Acquisition price
- Type of the acquisition
- Management continuity

Following is a detailed explanation of each feature.

Month and year in which the acquisition was completed

The merger and acquisition process is notoriously time-consuming, generally extending up to six months or more. As a result, the year that due diligence is started frequently differs from the year in which the transaction actually takes place. For this reason, the month and year of completion of the acquisition have been determined to serve as the benchmark since, in most cases, it is also the year in which the acquired companies are consolidated into the corporate balance sheets.

Information about the buyer company

For each acquiring company, the name, the sector in which it operates, the nation in which the headquarters is located, and the revenues for the year in which the transaction was made were reported.

Apparel, Jewelry & Watchmaking (J.&W.), and Cosmetics, Beauty & Skincare (C.B.&S.) are the different buyers' sectors.

Information about the target company

For each company acquired, the name, the sector in which it operates, the country in which the headquarters is located, and the year of foundation were reported. Three distinct sectors of the acquired companies were identified: Apparel, Jewelry, and Watchmaking (J.&W.), and Cosmetics, Beauty & Skincare (C.B.&S.).

Revenue of the target company

The revenue of the acquired company deserves a separate paragraph as they are the subject of analysis that will be presented later.

When an acquisition is made, the due diligence is completed during the year with the most recent data available.

Due to this, the revenue reported is related to the latest sales revenues the acquired company had before it was included in the buyer's consolidated balance sheet.

Notably, for most acquisitions, in particular those that occurred in the first half of the year, generally, the revenues of the acquired refer to the previous year.

Conversely, for acquisitions that occurred in the last months of the year, the current year's revenues were considered since they will be consolidated in the financial statement from the following year.

Relevance of the acquired company heritage

The importance of the tradition of acquired companies in an M&A process lies in the preservation of the target company's heritage, know-how, values, and cultural legacy. These aspects can contribute significantly to the long-term success of the deal. A company's heritage includes its history, reputation, loyal customer base, and distinctive approach to markets and customers.

This aspect is particularly relevant for vertical acquisitions when acquiring artisans or small leather companies with a high level of craftsmanship to preserve. However, it also plays an important role in horizontal acquisitions since the value that is given to a company with a long history behind it is different from that given to a new entity or startup.

Level of Innovation

Acquisitions frequently occur because the target company has developed cutting-edge technology and demonstrated itself to be particularly innovative. This innovation can manifest in various ways, rendering the company particularly attractive.

In some cases, this innovation is to the realm of manufacturing, as observed in the skincare industry, where emerging technologies can drastically transform production processes and enhance product quality, both in terms of efficiency and effectiveness. Such advancements empower companies to secure a competitive edge and maintain their competitiveness within the market.

On the other side, innovation may take place in terms of distribution, as in the case of businesses that have developed their online stores significantly. Companies that want to increase their online presence or enhance their e-commerce experiences can acquire other businesses with established expertise in this field. A company with an excellent online presence may have an established customer base and advanced technology that can be successfully integrated into other business operations.

In both scenarios, the acquisition of innovative companies is motivated by the desire to obtain a competitive advantage through access to cutting-edge technology and capabilities that would otherwise require a significant amount of time and resources to develop internally. These acquisitions may result in a significant impact on a company's long-term performance and growth.

Percentage of acquired stakes

A company can be acquired totally, through majority stakes, or through minority stakes. The latter category is the least relevant to the analysis given the limited control the buyer has over the acquired, the lack of operational synergies, and the greater difficulty in valuing the target company.

In the database, the percentages acquired and the respective category were reported for each acquisition. When the figure was not public, it was specified only if it was acquired minority or majority stakes.

Acquisition price

When possible, the price at which the acquisition took place, also referred to as deal value, was reported in the database.

In some cases, acquisition prices may become public knowledge as a result of requests for financial information, annual reports, or if an M&A transaction is of particular interest to investors, the media, or the public.

In most cases, however, confidentiality, especially about vertical acquisitions, remains a key element in M&A transactions, and many companies protect acquisition pricing information for issues of confidentiality, information control, negotiation strategies, regulations, and competitive strategies.

Companies involved, indeed, may wish to keep such information confidential to protect their competitive interests and prevent competitors from taking advantage of such information.

Acquisition's type

For each acquisition, the type was defined, distinguishing between horizontal and vertical.

Vertical acquisitions involve situations in which a company acquires another company operating in a supplier-customer relationship or at different stages within the same industry, including both suppliers and retailers.

Horizontal acquisitions are those in which a company acquires another company operating in the same industry or market. In these acquisitions, the companies involved are often direct competitors or operate in similar industry segments.

Management continuity

A critical issue in M&A transactions is management continuity, which involves confirming or replacing top managers in the target company. The decision depends on the skills, adaptability, and vision of the existing management with respect to post-acquisition objectives.

This is a key factor in the evaluation of transactions, and for this reason, monitoring was carried out by reading articles and reports along with the CEOs' LinkedIn profiles to evaluate their present positions and expected terms of office.

3.4. Research Questions & Objectives

In light of the research conducted in compliance with the methodology described in the previous section, a gap in the literature has been identified.

Hence, this work aims to fill this gap by answering three research questions that address the missing aspects related to M&A transactions within the boundaries of the luxury sector:

RQ1] What are the main factors that drive M&A transactions in the luxury sector? And which synergies enable value creation in this industry?

RQ2] Which financial and strategic parameters of an M&A transaction represent a source of value from the buyers' perspective, implying high multiples?

RQ3] Which features that characterize an M&A transaction increases the buyer's likelihood of outperforming the market?

RQ1] What are the main factors that drive M&A transactions in the luxury sector? And which synergies enable value creation in this industry?

This question aims at understanding whether and how value is generated via M&A transactions through a qualitative study.

The investigation's scope covers the reasons for a company's adoption of this inorganic growth strategy and the main synergies that may result from mergers and acquisitions in the luxury sector.

RQ2] Which financial and strategic parameters of an M&A transaction represent a source of value from the buyers' perspective, implying high multiples?

This last question aims to identify which are the characteristics of a target company and those of an M&A process that mostly attract a buyer company.

In this regard, the variation among the multiples applied by the buyer companies in evaluating the target is analyzed in relation to the characteristics behind each acquisition, including the terms of the transactions, the purpose, the sector, and other key evaluation drivers.

Moreover, beyond the variation in the multiple computations, the second research question also investigates possible patterns arising among the different inorganic growth strategies embraced by the main players of the sector.

RQ3] Which features that characterize an M&A transaction increases the buyer's likelihood of outperforming the market?

This research question aims at identifying the main elements and characteristics of M&A transactions shared by the firms that are outpacing the market average in growth rate.

This analysis aims to identify those elements that determine a successful inorganic growth strategy, highlighting the aspects that can make it more profitable than the market average and those that can hinder it.

4 Database Construction and Data Analysis

4.1. Preliminary Steps for Database Construction

The construction of the database employed for the descriptive analysis required three preliminary steps outlined in the following sections.

4.1.1. Purpose Classification

A comprehensive analysis of all the available data on each acquisition revealed that each transaction is driven by a variety of factors, including financial and strategic purposes.

As further explained in the paragraph that follows, while some purposes are acquisition-specific, others are regularly repeated and shared by all deals.

4.1.1.1. Purpose Identification and Explanation

From analyzing each acquisition background alongside the information gathered from interviews, it emerged that M&A deals, specifically in the luxury sector, are driven by two key factors: synergies seeking and competitive environment reaction.

Beyond these, four different purposes peculiar to each acquisition were instead identified. Due to this, four clusters were created, one for each distinct motivation. Each acquisition was given the value "1", “2”, “3” or “4” according to the foremost motivation that led the transaction process. In detail, the purposes are:

- Purpose 1: Strengthening of the downstream Supply Chain
- Purpose 2: Strengthening of the upstream Supply Chain
- Purpose 3: Entering new customer segments and/or new geographic areas
- Purpose 4: Enriching brand portfolio

While the first two refer primarily to vertical acquisitions, the last two are mainly related to horizontal acquisitions.

The first two purposes were attributed to all acquisitions made along the supply chain, from distributors, purpose “1”, to suppliers, purpose “2”. In both cases, the main objective is to gain more control over the supply chain. As stated in Section 2.2.3, indeed, in the luxury industry, effective success relies on meticulously managed supply chains that navigate the intricacies involving diverse stakeholders and processes, spanning from sourcing premium raw materials to delivering finished products to customers.

In detail, the former primary aims are increasing distribution efficiency and capillarity in the territory and improving control and autonomy in the relationship with the customers.

Conversely, the latter key objectives are acquiring know-how and improving quality and efficiency in production processes.

The second purpose is also related to safeguarding financially distressed companies. These acquisitions serve to take over businesses that, in the absence of such intervention, would be in danger of declaring bankruptcy. In addition, they can be aimed at supporting companies that, although they do not have a solid economic base for self-financing, play a strategic role in the business or industrial environment.

Particularly in Italy, there is an urge to uphold and nurture the "Made in Italy" industry by preserving and promoting the tradition, quality, and image of Italian products on a national and international scale. Moreover, Il "Polo Italiano del Lusso" was intended to be created, so some acquisitions were made with that objective in mind.

The third purpose refers to acquisitions made for expanding the buyer's presence in geographic markets and/or for reaching new customer segments. Specifically, the first pertains to the acquisition of brands located in regions where the purchasing company lacks a presence, with the aim of dismantling market entry barriers or increasing their market share. The second, instead, involves those acquisitions, particularly relevant and numerous in the cosmetic and beauty sector, made to meet new market trends and to reach new customer segments. In particular, the most popular target audience nowadays is Millennials and Gen Z, two segments that are highly active through social networks and concerned with issues of authenticity, sustainability, and social responsibility. This strategy tends to broaden the company's market, thereby enhancing opportunities for growth and profitability.

Finally, the last purpose was attributed when the aim of the acquisition was to reinforce buyers through pure portfolio enrichment. It is related to the acquisition of companies with complementary or related products or services to those it already offers to expand its portfolio and offer a wider range of solutions to existing and potential customers. In addition, the objective of these acquisitions is to acquire companies with a strong brand or reputation for excellence that can help improve the acquiring company's image and credibility.

4.1.1.2. Exemplary Acquisitions

To provide a clearer understanding of the rationale behind assigning a specific Purpose to every M&A deal, exemplary acquisitions for each of the four cases have been presented.

Purpose 1: Strengthening of the Downstream Supply Chain

Tod's acquired Italian Touch[21]

Diego Della Valle, the CEO of Tod's, declared on Tuesday, November 13, 2012, that a deal had been reached to expand his companies' online presence.

Management of the channel has been entrusted to a new operator in the online sales sector, Italiantouch S.r.l., focused on the marketing of exclusive brands and products of luxury goods, art objects, interior design, cosmetics, jewelry, watches, gourmet products, hotels, and travel. The technology platform has been marketing the four brands of the same Marche-based holding company online since 2012.

In particular, the agreement provided for Italiantouch to market "products related to all of the Group's brands, both through its own e-commerce portal and through a store specifically dedicated exclusively to the Group's brands, accessible from the websites of the individual brands. The channel was initially activated in the Italian market and in the main European countries and was then gradually extended to the other reference markets for the brands".

This acquisition, which was completed at a price of 25 million euros, expedited the group's plans to adopt omnichannel strategies and boost brand synergies and e-commerce penetration in order to improve the downstream side of the supply chain.

[21] https://www.todsgroup.com/sites/default/files/import/comunicato_stampa_17_09_2019_IT_Delcom_ENG.pdf

Purpose 2: Strengthening of the Upstream Supply Chain

Chanel acquired Renato Corti, Mabi and Grandis[22]

In order to enhance its upstream supply chain with strategic suppliers, Chanel announced three acquisitions in 2019. The French Maison, which last July invested in Attilio Gronchi's Tuscan tannery Samanta, specialized in printed reptiles, is returning back to Italy and has guaranteed the partnership of two other made-in-Italy players for years to come.

In fact, Chanel has entered the capital of leather goods manufacturer Renato Corti, which owns factories in Florence and Milan and has bought the same 40 percent stake in Mabi, which specializes in making high-end bags, with facilities in San Daniele (Udine) and Tuscany.

On the other hand, Chanel took the production know-how of the French firm Grandis, operating in the clothing, lingerie, beachwear, and leather divisions, in-house with a 34 percent share in its home country.

A total investment of $169 million, which feeds the network of ateliers controlled by Chanel through the subsidiary Paraffection, which now employs 5,000 people through some 30 realities.

"If we want to remain a leader in luxury for the next 20 years", Bruno Pavlovsky, president of Chanel's fashion division, stated, "we have to make investments and take risks in areas that we see as key to the future. We are not merely making a policy of acquisitions, but rather, we aim to ensure that these suppliers also remain important contributors to the development of our products".

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[22] https://www.themds.com/companies/chanel-keeps-integrating-suppliers-buys-stake-in-three-manufacturers.html

As the foundation of its industrial expertise, Chanel is dedicated to preserving endangered heritage crafts.

Purpose 3: Entering new customer segments and/or new geographic areas

The Estée Lauder Companies acquired Have & Be Co.[23]

The Have & Be Co. Ltd., the global skin care firm with Dr. Jart+, and the men's grooming brand Do The Right Thing, as its brands are based in Seoul. The Estée Lauder Companies Inc. recently stated that it has entered into an agreement to buy the shares of that company that it does not already beneficially own. The deal was agreed to at the time the acquisition was made, which came after the company made a minor investment in Have & Be Co. Ltd. in December 2015. Dr. Jart+, one of the skin care companies with the fastest global growth, is expected to further solidify The Estée Lauder Companies' leadership position in the skin care industry. This transaction will particularly contribute to the company broadening its consumer base in Asia/Pacific, North America, the United Kingdom, and travel retail. The business has never before purchased a beauty company with a presence in Asia.

Fabrizio Freda, President and Chief Executive Officer of The Estée Lauder Companies Inc., said, "As the Company's first acquisition of an Asia-based beauty brand, Dr. Jart+'s focus on creating high-quality skin care products that fuse dermatological science, incredible innovation capabilities, and artistic expression make it a terrific,

[23] https://www.elcompanies.com/en/news-and-media/newsroom/press-releases/2019/11-18-2019-114513426

strategic addition to our diverse portfolio of prestige beauty brands. We look forward to continuing global growth in the years to come”.

“The Estée Lauder Companies is the ideal home for our brands”, said Mr. Lee, Founder and Chief Executive Officer of Have & Be Co. Ltd. “Since the beginning of our partnership four years ago, the Company has shared our mission to provide the very best skin care and beauty products to consumers around the world. We are excited for the opportunity to continue this partnership as we continue to innovate and grow our brands globally”.

Purpose 4: Enriching brand portfolio

L’Occitane acquired ELEMIS[24]

In January 2019, the L'OCCITANE Group declared that it has purchased ELEMIS, a renowned global brand specialized in high-end skincare products for the body and face. The acquisition represented a major step towards building a portfolio of the top-ranked beauty brands and was the largest acquisition since L'OCCITANE went public on the Hong Kong Stock Exchange in 2010.

ELEMIS has been a pioneer in skincare in the UK since its foundation in 1990 and has had rapid growth in the US. Premium beauty products from ELEMIS are made with natural components and recipes that have been scientifically verified. ELEMIS sells products directly to consumers via its websites and in large quantities via a range of distribution channels, such as digital, retail distribution, QVC, and professional spa, with the intention to increase awareness, trial, conversion, and retention.

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[24] https://group.loccitane.com/group/news/loccitane-group-acquires-premium-skincare-brand-elemis

The acquisition supports the Group's aim of building a leading portfolio of premium cosmetics brands. Especially in skincare, where it has made large recent investments, the acquisition will enhance L'OCCITANE's product categories and omnichannel distribution.

L'OCCITANE's Chairman and CEO, Reinold Geiger, described the acquisition of ELEMIS as a significant step in their strategy to build a premium beauty brand portfolio. He emphasized the alignment between the two companies in terms of brand values, product quality, management, and growth potential, especially in the Asia Pacific market.

Sean Harrington, Co-Founder and CEO of ELEMIS, expressed excitement about the partnership, highlighting the shared philosophy of creating quality, nature-sourced products using cutting-edge science. He believed that, with L'OCCITANE's support, they could further grow ELEMIS into a leading global skincare brand.

Richemont acquired Delvaux[25]

Richemont announced in June 2021 that, in a confidential transaction, it had fully purchased the Belgian luxury leather goods Maison Delvaux.

Founded in 1829, Delvaux is the oldest luxury leather goods Maison in the world. It has a unique heritage, expressed through the richness of its archives, and distinguishes itself through its outstanding savoir-faire and creativity.

Since Delvaux was the first to formally file for a patent on a leather handbag in 1908, he is acknowledged as the creator of the contemporary luxury handbag. Its leather

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[25] https://eu.delvaux.com/it/diary/richemont-acquires-delvaux

goods are created in workshops located throughout Belgium and France by talented artists who have passed down their craft from generation to generation. The majority of these pieces are offered through a highly qualitative network of 50 boutiques worldwide.

By leveraging the Group's global footprint and digital skills to expand its omnichannel potential and customer engagement, Richemont's acquisition set up Delvaux for the next stage of growth.

Philippe Fortunato, Richemont’s CEO of Fashion & Accessories Maisons, highlighted Delvaux's strong heritage and creative momentum as a solid foundation for long-term growth, strengthening Richemont's presence in the leather goods category.

As a result, the acquisition, which was valued at about 250 million euros, contributed primarily to strengthening its weak performance in the soft luxury area, which includes fashion and leather products, in contrast to its success in jewelry, and to impro ving the company's position in the industry overall.

4.1.2. Multiples Computation

One of the primary objectives after the data gathering was to determine the multiple applied to each target company in the valuation phase that defined the final terms of the transactions.

In this regard, the relationship between a company's Enterprise Value and the multiple applied has been employed to calculate the multiple associated with each transaction.

As stated in the theoretical background, the multiple of a transaction is computed as:

$$Multiple_i = \frac{Value_i}{Parameter_i} \tag{2.3}$$

Taking into account the relationship between the price paid by the purchasing business and the target's EV, the target's EV is calculated as follows:

$$EV = P + NFP$$

(2.2)

Data pertaining to the Net Financial Position could not be found because, in the vast majority of cases, companies did not disclose financial information.

Therefore, the Net Financial Position has been treated as equal to zero in order to compute this operation and maintain consistency across data.

With those factors in mind, the price of the acquisition has been approximated to the EV of the target company.

Additionally, because the data were not easily accessible, it was chosen to use the revenue as a computation parameter in order to have the greatest quantity of data possible to build a database that could be used for reliable quantitative analysis among the several possible multiples.

Multiples that are calculated as the ratio of a company's EV to its revenue tend to be particularly well-suited to the topic of this research because they primarily focus on a company's capacity for revenue production growth.

As a result of all the previous considerations, the multiple associated with each transaction has been calculated as:

$$Multiple_i = \frac{P_i}{Revenue_i}$$

(4.5)

While for acquisitions that occurred entirely, the acquisition price had been deemed the driver to describe the enterprise value of that company; a second step was necessary in those cases where the buyer company only acquired a percentage of the stakes. The price of the acquired firm was calculated in these situations as the acquisition price divided by the percentage of stakes acquired.

Moreover, in the majority of cases where the financial terms of the transaction were disclosed, it was possible to find the percentage of stakes acquired.

However, in a limited number of cases of majority stake acquisitions, the exact percentage was not disclosed. As a result, the transaction was approximated to a full acquisition for the purposes of computing the overall price of the total price of the transaction has been approximated to total acquisition.

4.1.3. Buyers' Growth Rate Computation

For the calculation of the Growth Rate of revenues of the Buyer Companies, revenues from 2010 to 2023 were reported using information gathered from annual reports. The conversion of financial results reported in U.S. dollars to euros was done considering the date on which the financial statements of that specific company were closed.

The part of revenues related to the same year and the portions related to the months of the previous year were taken into consideration for annual reports whose fiscal year concluded on a date other than December 31. (For instance, if the fiscal year concluded on March 31, 2022, revenues for that year were counted as 3/12 of those for 2022 and 9/12 of those for 2021).

The growth rate related to acquisitions conducted from 2011 to 2022, for each company, has been computed as:

$$Growth\ Rate\ = \frac{Revenue_Y - Revenue_{Y-1}}{Revenue_{Y-1}} \tag{4.6}$$

Where $Revenue_Y$ refers to the revenue of the buyer company in the year of the acquisition and $Revenue_{Y-1}$ refers to the year that precedes the acquisition.

The Growth Rate of each Buyer was then used to assess whether every transaction was profitable or not.

The reason why the Growth Gate in terms of revenue of a company has been considered a valid driver to determine the success of an acquisition is that, as stated in Chapter 2, "M&A is the strategy that is most likely to create the most value for companies"[8.]

Thus, it implies that inorganic growth is most likely the primary cause of a company's growth.

In addition, to increase the accuracy of the analysis, the Growth Rate of each Buyer has been compared with the market's average growth rate in terms of revenues in order to assess the profitability of an acquisition since it was not possible to isolate the unique impact of an M&A transaction on growth rate.

When the growth rate of the buyers exceeds the growth rate of the market in the year of acquisitions, the related transactions are considered successful; if not, they are deemed unsuccessful.

4.2. Database Construction

The comprehensive analysis of all the 100 mapped M&A transactions enabled the identification of commonly disclosed traits characterizing each acquisition that could have been more in-depth investigated.

All the traits identified have been then further examined to create numeric or factor variables that could determine and make each acquisition distinctive.

In detail, numerical and factor variables describing each acquisition are structured as follows:

Table 6: Numeric Variables

Variable	Description
Year	The year in which the transaction was finalized
GR_Buyer	The Growth Rate related to the Revenue of the buyer company; it is computed as the EV's growth rate between the year of the acquisition and the previous one
GR_Mrk	The growth rate of the Personal Luxury Goods Market in terms of sales related to the year of the acquisition
Revenue_Buyer	Revenue of the Buyer company in the reference year
Revenue_Acquired	Revenue of the Acquired Company in the reference year
Acq_Year_of_Foundation	Year in which the Acquired Company was founded

Acq_Years_of_Existence	Difference between "Year" and "Acq_Year_of_Foundation"
Acquired_Stakes_Percentage	Percentage of stakes acquired
Price_of_Acquisition_M	Consideration paid by the Buyer Company
Ptotal_EV_M	Total EV of the Acquired Company
Multiple	Multiple of the acquisition, computed as the ratio between the Price of the acquisition (for the totality of the stakes) and the revenue of the Acquired Company

Table 7: Factor Variables

Variable	**Description**
Month	Month in which the acquisition was finalized
Success	"1" if the Growth Rate of the Buyer Company is higher than the Growth Rate of the market in the acquisition year, "0" otherwise
Buyer_Name	Name of the Buyer Company
Buyer_Category_of_Product	Category of Products of the Buyer Company
Acquired_Name	Name of the Acquired Company

Acquired_Category_of_Product	Category of Products of the Acquired Company
Acquired_Nationality	Nation in which the headquarters of the Acquired Company is located
Acqu_in_Italy	“1” if the Acquired Company is an Italian company, “0” otherwise
Acq_Age	“1” if the years of existence of the Acquired Company before the M&A transaction are lower than 15, “2” if it is higher than 15 and lower than 60, “3” otherwise
Importance_of_Heritage	"1" if the heritage of the Acquired Company has a key role in the transaction, "0" otherwise
Innovation_Level	"H" if the Acquired Company's level of innovation is high, "L" otherwise
Acquired_Dimension	“1” if the revenue of the Acquired Company, in the year of the acquisition, is lower than 50 M€, “2” if it is higher than 50 M€ and lower than 150 M€, “3” otherwise
Type_of_Integration_VH	“V” for vertical acquisition, “H” for horizontal ones
Management_Continuity	"1" for each acquisition if the management remained unchanged and "0" for changes

Purpose	- "1": Strengthening of the downstream Supply Chain - "2": Strengthening of the upstream Supply Chain - "3": Entering new customer segments and/or new geographic areas - "4": Enriching brand portfolio

Further details are provided for some of the factor variables in the following paragraphs:

Buyers and Acquired Companies Sectors

In particular, the variables *Buyer_Category_of_Product* and *Acquired_Category_of_Product* have been introduced to reinforce the analysis of the reason behind every acquisition. De facto, deals within the same industry frequently strive to strengthen through market share growth, scalability gains, or consolidation of competitors.

On the other hand, transactions in other sectors may be meant to diversify the buyer's portfolio and activities, acquire new knowledge, or take advantage of synergies between several sectors.

Acquired Company Headquarters Location

As regards the variable *Acqu_in_Italy*, the choice to use this criterion resulted from an interest to examine and highlight the relevance of "Made in Italy". Several factors contribute to the importance of Italian companies in the global M&A landscape, including their high specialization, reputation for outstanding craftsmanship, and extensive international customers. M&A deals involving Italian companies can offer access to prestigious brands, unique craftsmanship skills, and strategic market positions. Italy is an important center for manufacturing and exports also, making it a desirable location for acquisitions for multinational corporations looking to expand.

Acquired Companies Dimension

In order to assess the impact of the dimension of the acquired company on the multiple's definition and the likelihood of success, the variable *Acquired_Dimension* was introduced.

To this end, three clusters have been identified based on acquired companies' revenue:

- 0-50 million euro (1)
- 51-149 million euro (2)
- Above 150 million euro (3)

From conducted research, it has emerged that companies can be categorized as follows based on their annual revenues: they are considered micro-enterprises when their turnover is less than 2 million euros, small enterprises when the turnover is less than 10 million euros, medium-sized enterprises when the annual turnover does not exceed

50 million euros, and large enterprises when the annual turnover exceeds 50 million euro.[26]

However, due to the high revenue levels of luxury enterprises, micro, small, and medium-sized companies have been merged into one cluster; moreover, the third cluster is of utmost importance, as it was composed of the main luxury players like LVMH, Kering, Richemont, etc., which are the analysis of the study.

4.3. Data Analysis

Since the objective of the analysis was to describe the relationships among the key variables identified and explore the characteristics of M&A transactions indicated in Section 4.2, rather than forecast data for future acquisition, the entire dataset has been used for model training.

Before proceeding with the analysis and the creation of the descriptive models, some preliminary steps were necessary.

4.3.1. Data Preparation

The descriptive data analysis of the acquisition mapped has been performed following further steps to clean data from duplication and "NaN" values.

An initial examination of the data and its structure has been performed. An inquiry was made to check if there was missing data. The database of 100 acquisitions,

[26] https://ec.europa.eu/docsroom/documents/42921/attachments/1/translations/it/renditions/native#:~:text=La%20categoria%20delle%20micro%2C%20piccole,i%2043%20milioni%20di%20euro.

collected as explained in Section 3.3, was cleaned of the 41 acquisitions that contained missing terms. Since many buyers didn’t disclose the financial terms of the acquisitions, all those transactions for which the price was untraceable have been excluded from the final dataset of the analysis.

Then the data type of the 27 columns in the database has been investigated and the 15 categorical attributes have been transformed into the 'object' data type, facilitating the segregation of these two variable types for separate analysis before eventual merging.

The presence of duplicated data has been checked; however, upon examination, it was observed that no duplicate observations were present, as the dataset's size remained unchanged.

Given these constraints, a final dataset comprising 59 statistical units has been obtained.

The dataset was then divided into two sub-datasets: one containing categorical attributes and the other containing numerical attributes, according to the classification presented in Table 6 and Table 7.

Before proceeding with this evaluation, the consideration of outlier removal in the numerical sub-dataset was addressed.

Due to the dataset's deviation from a normal distribution, it was not feasible to remove or transform observations based on an absolute difference from the mean smaller than 'n' times the standard deviation. An alternative approach involved the removal of values greater than the 95th percentile plus 1.5 times the interquartile distance or smaller than the 95th percentile minus 1.5 times the interquartile distance.

After these passages, a database of 57 observations was obtained.

4.3.2. Variables Identification

The appropriate attributes on which the exploratory analysis was performed were chosen before moving on.

According to the Research Questions stated in Section 3.4, the target variables for the two models will be, respectively: *Multiple* and *Success*.

As regards the factor variables, the attributes *Month*, *Buyer_Name* and *Acquired_Name* have been excluded because they are not relevant to the data analysis.

Acquired_Nationality has been ignored, too, because the information of the attribute has been categorized through the attribute *Acq_in_Italy*.

For numerical attributes, a more detailed approach was necessary for variable selection.

Since *Success* is a target variable and *GR_Buyer* and *GR_Mrk* are variables on which "Success" has been created, these have been excluded.

Revenue_Buyer has been excluded, too, because its main scope was related to the computation of the attribute *GR_Buyer*.

Then, the correlation of the other numerical variables was checked because it can negatively influence the performance of the model.

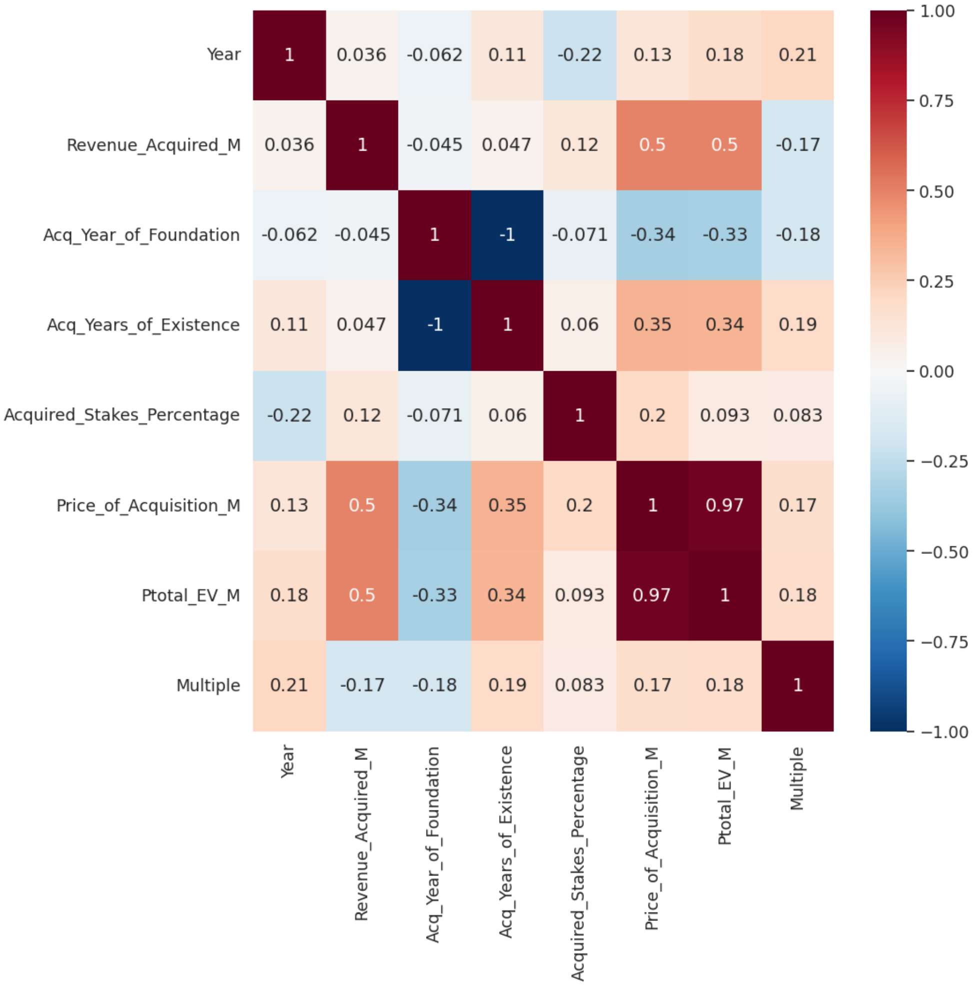

Figure 1: Correlation Table

Since *Ptotal_EV_M* has been computed based on *Price_of_Acquisition_M* and *Acquired_Stakes_Percentage*, it presents a high correlation with the former variable. In order to avoid collinearity problems, *Price_of_Acquisition_M* and *Acquired_Stakes_Percentage* have been excluded from the further steps.

Notably, *Acq_Years_of_Existence* was computed using *Acq_Year_of_Foundation* resulting in a high correlation between them. In addition, being these two variables used for defining *Acqu_Age*, these were not considered in the following steps.

Similarly, the attribute *Revenue_Acquired* is highly correlated with the attribute *Ptotal_EV_M* because this is a component of its computation.

Remarkably, these last two variables were employed in the computation of *Multiple*, one of the variables that will be taken as a target.

Hence, it was decided that both *Revenue_Acquired* and *Ptotal_EV_M* had to be excluded from the model.

4.3.3. Descriptive Analysis

After the identification of the final dataset, explorative analysis has been conducted in order to evaluate the relevance of features associated with data gathered and selected in the previous step.

Different methods have been used to analyze how the two target variables are impacted by the other variables.

Numerical target variable analysis

In particular, scatterplots were employed to examine the relationship between the selected numerical variables and *Multiple*.

Subsequently, an analysis of the percentage of overlap of the target variable with varying independent variables was conducted.

Additionally, boxplots were employed to provide a graphical insight into the categorical variables' influence on the target variable.

Categorical target variable analysis

Since *Success*, the target variable of the descriptive model addressing the third research question, is incorporated into the categorical dataset, a graphical analysis was conducted through histograms.

In this case, the selected categorical variables were plotted against the target variable, with a focus on understanding the relationships between them.

Regression and classification tree

Following an analysis of how categorical and numerical variables affect the target variables, the significance of their influence was determined.

Mean Decrease in Impurity (MDI), one of the indicators employed in regression trees, that can be eventually applied to classification problems, has been utilized to preliminary assess each feature relevance.

The MDI is computed as the mean and standard deviation of accumulation of the impurity decrease of the tree and determines how much a variable improves the purity or reduces the error in decision tree-based models when it is used for splitting nodes.

After a preliminary study via MDI, a regression and a classification tree were built.

The first tree analysis indicates *Multiple* as the target. Given that this variable is numerical, a regression tree has been constructed with the aim of determining the subset of variables that maximize the value of "Multiple".

Among all the variables, those used to construct the regression tree were: *Buyer_Category_of_Product*, *Acquired_Category_of_Product*, *Acqu_in_Italy*, *Acq_Age*, *Importance_of_Heritage*, *Innovation_Level*, *Acquired_Dimension*, *Type_of_Integration_VH*, *Management_Continuity*, and *Purpose*.

At each node, the variable used for the split, the squared error, that evaluates the quality of the split, the number of samples, and the mean value for that node are reported.

As *Success*, the second target variable, is a factor variable, a Classification Tree was selected to identify the subset of factors that may optimize the likelihood that an acquisition would be successful.

In this case, at each node, the variable used for the split, the Gini index, which reflects how much the split of data in that node reduces impurity, the number of samples, and the number of samples for each class (“0” and “1”) are reported.

In detail, the classification tree, with the target variable set as 'Success,' was constructed using the same variables as the regression tree, excluding the variable *Buyer_Category_of_Product* from the analysis to prevent biased outcomes.

The pruning was carried out in accordance with the Minimum Samples per Leaf along criteria, which was set at nine, while considering max level of depth set at four, since the splits in both the regression and classification trees resulted in considerable heterogeneity in the number of samples included in leaves of the same depth.

5 Results

This chapter presents a comprehensive illustration of qualitative and quantitative outcomes from the research and the data analysis carried out in compliance with the main steps outlined in Chapter 4.

In detail, the results obtained are structured in the following sections:

- Key qualitative results, broken down into:
  - Experts' Interviews
  - New Synergies Classification
- Key quantitative results from data analysis, broken down into:
  - Target variable: Multiple
  - Target variable: Success

5.1. Results from Qualitative Analysis

The following sections report the main insights from expert interviews and a new synergies classification model, which was built by combining interviews, information from the theoretical background, and each acquisition analysis.

5.1.1. Experts' Interviews

The following are the interviews with the experts. The answers reported are the result of comparative analysis and a summary of different views that converge in most cases. These have the aim to complete what the literature review already stated, highlighting the most relevant aspects that characterize the luxury sector.

1. **What are the primary reasons that lead companies to consider M&A opportunities from seller and buyer perspectives?**

   As stated by Alessio Fiaschi, the Area Leader Toscana of Ambrosetti, growth by acquisition is the most remunerative and safe strategy to grow. Indeed, many reasons push companies to consider investing in an M&A transaction. From a buyer's perspective, these are:

   - Having access to expertise or a specific technology: as it is already known, companies always have to innovate to remain competitive, and if on the market there is another company with innovative know-how, acquiring it represents an intelligent way to be cutting-edge.
   - In case of a rapid response to a market change or an urgent need for innovation, companies should promptly adapt to gain market share.

     But when a company has to rapidly develop a new competence internally, it may incur time compression diseconomy, as Damiano Coletti, Investor & Partner Growth of United Ventures, stated.

     These inefficiencies occur when things are done faster; state that as the time allowed to develop a competence shortens, the cost of developing the competence will increase exponentially.
   - To support a company's growth, it must adapt its supply chain.

     Especially in the luxury sector, where the workforce is critical, an acquisition represents a highly favorable option because it allows the buyer to acquire a selected workforce that has already proven the quality level of output.

   - Competition between brands: Given that the market is shared among a limited number of competitors and the market concentration is increasing, for big conglomerates, acquiring before others has become a competitive strategy.

- Preserve “Made in Italy”: as stated by Emilia Ricci, Strategic Corporate Finance Manager at PRADA, companies acquire suppliers, preventing excellence from falling into foreign hands.
- Sustainability: the ongoing trend, as explained by Alessio Fiaschi, is acquiring new businesses that get companies into a new world they don't know. The object of acquisition, indeed, becomes not the product but the purpose. It led companies to access sustainable techniques to improve supply chain sustainability and brand enhancement, get cost efficiencies, and meet stakeholders' expectations.

Beyond the buyer's perspective, the sellers have to be considered because it can significantly impact the negotiation's terms.

From what emerged from the interviews, the primary motivations for a company to sell its shares beyond the ones already stated in the literature review, such as financial gains, can be summarized:

- Exit Strategy: For many business owners, selling their company through an M&A deal can serve as an exit strategy. As stated by Emilia Ricci, some suppliers’ production is already 100% destined for a single client, and it becomes a natural exit option. It allows them to cash out on their investment and move on to new opportunities or retirement.

- Focus on Core Business: Some businesses may sell non-core assets or divisions through M&A. As a result, they can concentrate resources and efforts on their primary business operations.

- Need to preserve know-how: especially for small enterprises, where first artisans arrive at the end of their career with no heirs, it is common that owners choose to divest through M&A. This is done to protect knowledge and tradition that would otherwise be lost in generational transitions.

2. **What main synergies can result from an M&A transaction in the luxury sector?**

   Among all the synergies mentioned in the literature review that can emerge from an M&A transaction, some cover a significant role within the luxury sector.

   The first synergy highlighted by the interviewers refers to Bargaining Power. When organizations combine their resources, expertise, or market presence, they can often achieve greater bargaining power than they would individually. Conglomerates generally benefit from a higher contractual power with suppliers, customers, and distribution channels. Still, this type of synergy is particularly evident in the case of a small brand acquired by a big conglomerate. Due to the association with a major brand, even a smaller brand can benefit from the same treatment from third parties.

   Similarly, when M&A transactions happen, beyond a transfer of money and assets, there is a transfer of values and external appearance led by Brand synergies that can emerge. For example, if a key player in the luxury sector acquires a small, high-quality brand, it automatically becomes a luxury brand.

   This kind of synergy can be strategically leveraged also by the buyer. Indeed, if a big player wants to be associated with a specific image, it can use strategic M&A operations to reposition itself.

Another aspect to consider in evaluating synergies' relevance within the luxury sector boundaries is the capillarity of control over the supply chain that a luxury brand wants. Through M&A processes, distribution synergies can arise. These allow brands to lower costs and have higher control, too.

Product synergies play a relevant role, too; acquisition processes enable, indeed, to leverage economies of scale. This is an aspect particularly relevant in the case of a business unit acquisition. An example cited by the Strategic Corporate Finance Manager of PRADA is the acquisition of Conceria Superior, a key actor in their supply chain that produces Saffiano leather and was acquired for 40% to improve the savoir-faire and introduce scale economies in leather processing for all the brands of the group.

3. **Which vertical or horizontal acquisitions are companies primarily focused on? What motivated this direction?**

   In the contemporary landscape of the luxury sector, vertical acquisitions have become increasingly prevalent.

   In an era where the final client is mindful of production processes, product quality, and environmental stewardship in the choice of materials and usage of resources, “vertical integration is not a choice anymore”, as the former General Director of Stone Island stated.

   Indeed, according to him, the safest strategy for a company operating in the luxury sector is guaranteeing complete control over the supply chain. This allows one to “make quality without buying it” (IBID), which is significant when ensuring high standards is fundamental.

   Moreover, this trend is supported by the increasing relevance of a new sort of synergy mentioned by the Corporate Finance Manager of PRADA: territorial synergies.

Acquisitions within the supply chain nowadays tend to be within national boundaries for the majority of buyer companies. Indeed, acquiring suppliers who share the same regional hubs and can easily collaborate on production processes enables leveraging these new synergies.

In addition, the largest number of vertical integrations involve Italian craftsman shops. This is because the know-how of the "Made in Italy" has to be protected by the largest brands that can also leverage it.

Indeed, including expert artisans in production allows luxury companies to guarantee a high level of craftsmanship and to pass down this type of ability from one generation to another. This is the only way to increment companies' know-how.

From what emerges in the interviews, increasing the know-how spectrum is the key. Indeed, the Chief Business Development Officer of PRADA affirmed that "only the brands that nowadays are investing to obtain full control on the supply chain will have the capability to industrialize every product the market will ask for and will be the main players of tomorrow. A successful company must have the know-how of every product it sells".

4. What criteria are used to evaluate potential target companies for acquisition?

In the case of horizontal integrations, a comprehensive assessment of critical factors is necessary to evaluate potential target companies. Indeed, especially in the luxury sector, choosing a company implies assessing the target's brand strength, market position, reputation, product portfolio, and customer loyalty. Other key indicators are financial performance, operational efficiency, and considerations of innovation, sustainability, and geographic presence. The quality of the management team, cultural fit, and synergy potential are also essential aspects.

The evaluation process of a transaction is completed by rigorous due diligence and legal and regulatory compliance.

With regards to vertical integrations, when choosing the potential target company to acquire, the main criteria to consider are: at what stage of the product development process is the company more focused, the number of employees, how many people are inside the company, with what background, specialization and with what experience (human capital factors), machinery (tangible assets, what condition they are in, are they in compliance), balance sheets (company's financial and economic situation); the goal is to form shared business plans based on which you try to work towards the achievement of specific economic objectives.

Additionally, some unquantifiable intangible drivers become evident when interacting with a company.

For horizontal and vertical integrations, A multidisciplinary approach aligned with the acquiring company's strategic objectives ensures a thorough assessment to identify value-creating opportunities in luxury acquisitions.

The primary presumption is that it fits with both businesses' production needs.

5. **How do you assess whether the M&A transaction was profitable from a quantitative and qualitative point of view?**

Beyond financial and valuation methods to evaluate an M&A transaction (EV, EBITDA, net profit margin, ROI), when a business is acquired, the primary quantitative factors that are taken into account to determine the profitability of a vertical acquisition are: how many people are acquired, what is the productive increase in capacity to meet the demand, what is the contribution toward growth development in a forecast plan and which are the cost reduction targets met.

However, as Emilia Ricci said, measuring the quantitative value in canonical ways is arduous because the acquisition of small suppliers does not lead to a drastic change in EV. Still, in the long run, a supply chain that is flexible and that can cope with significant growth is a company that will be valued profitably. It is not a single acquisition, but it is a complex of strategic acquisitions, and it is a stated strategy that strengthens a brand's image and production capacity.

With regard to horizontal acquisitions, the main way to perform a quantitative analysis of an M&A transaction is by comparing the EVs of the buyer company before and after the acquisition.

Another possible approach, which emerged during the interviews, to assess whether an M&A transaction was profitable consists of the analysis of the incidence of fixed costs on the turnover because a decrease in the value of the OPEX corresponds to an increase in EBITDA and, consequently, EV.

On the other hand, from a qualitative standpoint, considering both vertical and horizontal integration, the best way to understand the profitability of an M&A deal is to assess the benefit of improving one's human capital in the company. It is then essential to evaluate the impact on the brand reputation of both the acquiring and target companies, the cultural fit between the two companies, the customers' perception and satisfaction, and long-term strategic alignment.

6. **What are the main risks (e.g., brand dilution, ownership dilution) and limitations that an M&A process could cause for both the buyer and seller?**

From the perspective of the buyer from a managerial standpoint, most interviewees recognized that the primary risks and obstacles that can occur with an M&A transaction are mainly related to the theme of governance.

Indeed, not all members of the acquired company may favor the new management and the company's new identity.

In this case, there is the risk that some workers of the acquired company don't recognize the new management.

In relation to this aspect, one of the harshest situations to deal with can emerge in the case of this kind of behavior from managerial profiles.

If this happens, the risk is that these reluctant managerial profiles decide to leave the company, causing management discontinuity.

Another risk a buyer takes when deciding to go for an M&A transaction is that whatever the acquired company does will be associated with the buyer's image. As an example, the Corporate Finance Manager of PRADA stated that in the case of vertical integration, an acquired supplier must comply with quality standards in terms of productive processes in accordance with the core values of PRADA itself.

However, risks and obstacles that can emerge for acquired companies must also be considered.

Among these, the risk of dilution is the most relevant. When a small brand is acquired by a big corporation, the risk is to lose its identity.

Moreover, in the cases of vertical integration where the acquired company is not a solo client-supplier if the stakes of the acquired company are not 100% taken by the buyer, the supplier should keep on serving different clients. Nevertheless, the supplier risks losing some of its clients because of creating a stronger relationship with one of its competitors.

7. **What are the primary factors that could facilitate or hinder an M&A process, especially in terms of cultural fit?**

According to Alessio Fiaschi, while opting to pursue an M&A transaction, it is essential to consider that they are intrusive operations in which the psychological conditions of the business owners, senior management, employees, and clients must be considered first and foremost. The most significant barrier is employees who have been with the same company for a long time and are resistant to change.

Therefore, for horizontal and vertical acquisitions, the main factor in facilitating an M&A process must be a cultural, strategic, entrepreneurial, way-of-understanding fit of doing business. M&As require negotiations, human meetings, and an honest path of mutual knowledge to understand how and what you do.

PRADA gives an explicative example. This conglomerate benefits from a strong advantage in terms of bargaining power compared to its competitors due to the company's cultural printing and its founders' personal background.

In conducting M&A processes, PRADA favors a people-centric approach, which should also be interpreted from the perspective of preserving "Made in Italy".

When the company decides to acquire a business, PRADA always considers human connections with artisans working in the target company. This approach led them to foster a deep relationship between the representative of one of the main conglomerates operating in the luxury sector and a small craftsmen's workshop.

Bertelli, president of the company, said «So we thought that where there are conditions and needs we will help these entities not so much by acquiring them but rather by intervening with minority stake investments.

I think this is the only way to support Italian products because it is not necessarily the case that every brand is capable of interpreting the needs of the small supplier, and often small companies are an expression of the owner who has given birth to a technology or created their own know-how. So I think these people are gratified by seeing their own realities progress.»[27]

8. **How are the new business figures and functions involved in the existing environment?**

   The ideal situation is that when acquiring a line of business, the resources involved are often employed, remain in charge of that company's division, manage their staff, and offer their expertise to maintain continuity. M&A deals also provide the chance for advancement for the acquired employees within the acquiring business, or they transfer to work as inspectors of the buyer at outside suppliers.

   In acquisitions through shareholdings, on the other hand, they become true business partners, maintain their dominance and control of the company, and are the CEOs in entities in which the acquiring company has minority shareholdings.

   However, C-level profiles are slightly more complex than operational ones. Especially in the case of horizontal acquisition of structured companies that present a board of directors, the process of management shift is delicate and can be harsh.

   The presence of founders' representatives as members of CDA with no management skills is common, most of all in Italian company acquisitions. The

[27] https://www.milanofinanza.it/fashion/patrizio-bertelli-la-filiera-serve-per-tutelare-l-identita-dei-marchi-202110281604233192?refresh_cens

problem is that they represent a high cost for the company without offering an opportunity for company growth.

When a company is acquired, the new management has to take care of these profiles softly and involve them in the management shift.

To guarantee management continuity and keep alive strategic partnerships and relationships with third parties, which are key in the luxury sector, the ex-CEO should gradually exit.

Hence, a smooth governance change is the pillar around which a horizontal acquisition with mature management should be based.

9. **What are the primary needs and criticisms of the acquired businesses?**

One of the primary needs of small companies that choose to be acquired by large conglomerates in the luxury sector is to guarantee continuity for employees, not losing tradition, authenticity, or heritage under new ownership while deciding on this exit option.

Small luxury brands may be concerned about losing their independence and creative freedom under new ownership, potentially affecting their ability to innovate, and they may feel threatened by changes in work conditions or job security.

On the other hand, decision-making and strategic meddling are the primary resistance of companies acquired through equity investments: entrepreneurs want to be their entrepreneurs and maintain their own identity as a company, and they accept acquiring companies as minority partners but want to limit certain types of interference. The main critical issues are resistance to change and distrust of the entry of outsiders.

5.1.2. New Synergies Classification

Comprehensive analyses that combine key elements emerged from the literature leview, experts' interviews, and the examination of each acquisition background resulted in a classification of the most relevant synergies within the luxury sector, shown in Table 8.

Table 8: Synergies of the luxury sector classification

Strategic Synergies	Operational Synergies
- "Made in Italy" recognition - Preservation of craftsmanship - Access to cutting-edge technologies - Brand synergies - New customer segment entrance	- Production synergies - Distribution synergies

The developed classification was based on each synergy's main area of implication, resulting in two different clusters: strategic and operational synergies.

In the following sections, a detailed explanation of each category, supported by references and examples drawn from the examination of each acquisition, was reported.

Strategic Synergies:

"Made in Italy" recognition

The term "Made in Italy" denotes the unique and sought-after brand name associated with Italian design, craftsmanship, and quality; it plays a significant role in the luxury market, particularly in the “Apparel” sector. Acquiring an Italian luxury brand allows companies both to ensure the quality of the finest processes and materials and to take advantage of the high reputation and international market demand for high-quality, Italian-made luxury products. The acquisition of Versace[28] by Capri Holdings is a perfect example of this synergy. The Italian Maison has been the emblematic example of the luxury of Italian fashion, and the decision to change the name from "Michael Kors Holdings" to "Capri Holdings" after the acquisition highlights the importance of preserving and promoting Versace's Italian identity as Capri is a highly renowned Italian island associated with the image of luxury and beauty, and this choice of name is a tribute to Versace's Italian heritage.

Preservation of craftsmanship

Safeguarding craftsmanship synergy refers to the acquisitions of businesses that possess traditional craft skills, cultural heritage, and techniques essential to creating luxury products. This ensures the preservation of these elements, passing them down from one generation to the next preventing them from being lost.

An exemplary class of M&A transactions that enable the exploitation of this synergy is the acquisitions of suppliers in the “Apparel” sector, illustrated by the recent acquisition of Lanificio Cariaggi Cashmere[29] by Brunello Cucinelli.

With regard to this acquisition, Brunello Cucinelli, who serves as the Executive Chairman and Creative Director of the Casa di Moda, stated, "I cannot overstate my affection for our homeland, nor the extraordinary opportunity for our children and grandchildren to perpetuate the production of products crafted from this remarkable

[28] https://www.capriholdings.com/news-releases/news-releases-details/2018/Capri-Holdings-Limited-Completes-Acquisition-of-Versace/default.aspx
[29] https://www.pambianconews.com/2022/03/15/brunello-cucinelli-rileva-il-43-di-cariaggi-lanificio-341460/

fiber, often referred to as the 'golden fleece.' This will undoubtedly contribute to enhancing the quality of life for our community in the decades to come".

Access to cutting-edge technologies

Access to cutting-edge technologies is a particularly sought-after synergy among companies operating in the “Cosmetics, Beauty & Skincare” sector.

M&A transactions leading to the exploitation of this synergy allow luxury companies to gain possess of patents, cutting-edge technologies, or chemical formulas -relevant in the case of the “Cosmetics, Beauty & Skincare” sector — significantly impacting their ability to innovate, create high-quality products, and enhance operational efficiency. To demonstrate this, the acquisition of Living Proof[30] by Unilever Prestige Beauty is one of many acquisitions made in the Beauty, cosmetic, and skincare sectors that can leverage this synergy. Living Proof, indeed, through patented bio-medical technology and advanced scientific discoveries originating from MIT (Massachusetts Institute of Technology, US), has a unique offering that has earned the brand a growing consumer following.

Moreover, in an era where online presence and e-commerce are vital, luxury brands need to acquire businesses with strong digital and e-commerce capabilities. This enables them to better serve customers in the online space and reach a broader audience. This synergy is particularly exploited in all industries. In the “Cosmetics, Beauty & Skincare” sector, for instance, Privè Revaux[31], a rapidly expanding U.S. eyewear brand, achieved remarkable success by leveraging a strategic celebrity ecosystem, fostering robust social media engagement, and excelling in digital

[30] https://www.unilever.com/news/press-and-media/press-releases/2016/unilever-to-acquire-living-proof/

[31] http://www.safilo.com.hk/it/4-comunicati-stampa?t=safilo-group-acquires-priv-revaux-a-fast-growing-usa-eyewear-brand&d=2020-02-10

marketing capabilities. It was precisely these strengths that made it an attractive acquisition target for Safilo.

Brand synergies

In the luxury market, Brand Synergies define a strategic partnership or collaboration of two or more high-end brands, with a consolidated brand identity, to the aim of enhancing their overall value, reputation, and image. This synergy is the one that large conglomerates exploit the most.

To build a more compelling and attractive brand identity that appeals to luxury consumers, this synergy entails leveraging the strengths and assets of each brand.

An example is Moncler acquiring Stone Island[32] to develop a new vision of luxury together, combining expertise and strengths. This acquisition marks a significant milestone in the luxury fashion landscape. It presents immense potential for expanded market reach and collaborative endeavors, but with a fundamental and distinctive aspect: the preservation of each brand's unique identity. Moncler seeks to establish a harmonious union that meets the expectations of loyal consumers from both brands by striking a balance between collaboration and brand identity, resulting in a "Beyond fashion, beyond luxury" operation, as defined by Remo Ruffini, president and CEO of Moncler.

Moreover, this transfer of brand values and external image beyond just financial assets can be leveraged by acquired smaller brands that has the potential to rise to the highest levels of the luxury market. Simultaneously, the buyer company can reshape its own brand to better align with its desired image, by strategically selecting small businesses

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[32] https://www.pambianconews.com/2020/12/09/stone-island-entra-a-far-parte-di-moncler-306298/

to invest in. It is a sophisticated combination of brand identity and perception that can profoundly impact the outcome of these deals.

New customer segments entrance

New customer segment entrance synergy, closely related to the previous one, is the strategic advantage that arises when two brands or companies collaborate to create a more extensive and diversified customer base.

In recent years, this type of synergy has gained significant prominence because of the evolving dynamics of consumer preferences.

These transactions are often driven by the strategic intent of entering new market segments, notablyMillennials and Gen Z, whose interest in social, economic, and environmental sustainability issues is exponentially rising.

An illustrative example of this synergy is represented by the acquisition of Sol De Janeiro by l'Occitane[33], in November 2021.

Founded in the US in 2015 as a results-driven premium body care brand with highly efficacious ingredients sustainably sourced from Brazil, the acquired brand was a perfect target because of its nature as a fast-growing, award-winning lifestyle skincare brand beloved by multi-generational, modern, and global consumers from millennials to Gen Z.

[33] https://group.loccitane.com/group/news/loccitane-acquires-majority-stake-brazilian-inspired-premium-beauty-brand-sol-de-janeiro

Operational synergies

Production synergies

The acquisitions of businesses with specialized expertise, know-how, artisanal excellence and sustainable production processes, aimed to consolidate valuable resources and optimizing operations, enable to exploit Production Synergies. These allow companies operating in the luxury sector to elevate product quality, improve operational efficiency, follow sustainable trends, and foster innovation. This type of synergy is achieved through the acquisition of suppliers and brands upholding the core values of quality and exclusivity, which remain paramount.

As an illustration of this type of synergy, PRADA's acquisition of excellence in calfskin leather processing, such as Conceria Superior[34], has streamlined the quality enhancement of skill sets and leather processing, benefiting all brands within the group.

Distribution Synergies

Since in the luxury sector, the control over the entire supply chain is becoming imperative; distribution synergies must be included in the classification because they lead to improved supply chain control, increased visibility, and potentially lower costs for luxury companies. Maintaining the impeccable standards associated with high-end products requires this level of control even in downstream operations.

Distribution synergies, obtained via distributors and retailers' acquisitions, enable companies to maximize their sales potential.

[34] https://www.PRADAgroup.com/it/news-media/press-releases-documents/2022/22-15-09-PRADA-group-acquires-tannery-superior.html

A relevant aspect to consider, in fact, is the difference in margins between companies that run their retail and companies that do not have a direct sales network because of the cost of external distributors and retailers which erodes the significant potential turnover of these companies.

An exemplary M&A transaction illustrating this synergy is represented by PRADA acquiring Fratelli Prada[35] at the end of 2019. The transaction allowed the group to directly control the Milan retail network because some stores were managed based on a franchise agreement by the company Fratelli Prada, which, as a result of this transaction, entered the group.

5.2. Results from Data Analysis

In this section, the results of the analysis are reported and commented on, taking into consideration both findings from the literature review, presented in Chapter 2, and key findings from interviews, reported in Section 5.1.1.

5.2.1. Preliminary Analysis of the Dataset

Before the data analysis of the attributes affecting the selected target variables, an overview of the 54 M&A transactions collected, in common between the two analysis, was provided.

Among the totality of the acquisitions, 32 are made by buyer companies operating in the “Apparel” sector, 17 by firms operating in the “Cosmetics, Beauty & Skincare”

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[35] https://www.pambianconews.com/2019/10/31/PRADA-compra-fratelli-PRADA-per-66-mln-277661/

sector, and the remaining five by buyer companies in the “Jewelry & Watchmaking” sector. These acquisitions represent 59.26%, 31.48%, and 9.26%, respectively, of the aggregate number of transactions.

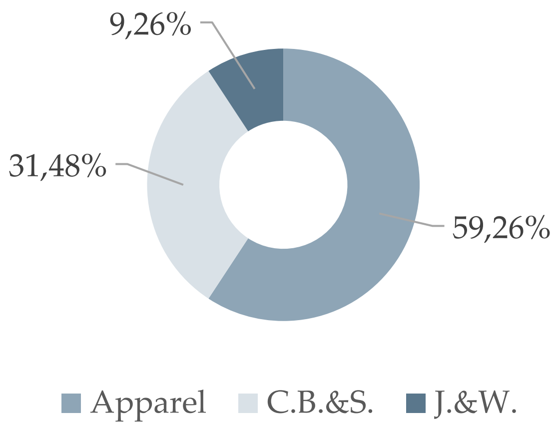

Figure 2: Buyer sector distribution

The distribution of acquired enterprises is comparable. Businesses operating in the "Apparel" sector make up 53.70% of the total, followed by those in the "Cosmetics, Beauty & Skincare" area at 29.63% and the “Jewelry & Watchmaking” sector at 16.67%.

When examining the countries where acquired firms were acquired, the US accounted for 35.19% of M&A transactions recorded, followed by Italy (22.78%), the UK (11.11%), and France (9.26%). The remaining 16.67% of the acquisitions were made in the rest of the world, both inside and outside Europe.

By examining the acquired companies’ characteristics, 33.33% of them were founded less than 15 years prior to the acquisition, 38.89% between 15 and 60 years prior to the acquisition, and the remaining 27.78% were established more than 60 years prior.

Regarding the revenue dimensions, small-size businesses accounted for 24.07% of the acquisitions, medium-sized businesses accounted for 31.48%, and large businesses accounted for the remaining 44.44%.

The degree of innovation in each acquired company was another feature observed. It was discovered that 72.22% of M&A transactions in the database involved companies with a low level of innovation and 27.78% with a high level, given according to cutting-edge technology, creative business models, or novel sales channels. The industry that comprises 73.33% of businesses with a high degree of innovation is "Cosmetics, Beauty & Skincare".

Looking then at the characteristics of the M&A transactions, it emerged that, in 59.26% of the cases, the acquired company's heritage was important and that, in 61.11% of deals, the management remained unchanged to ensure governance continuity.

The final observations pertained to the reasons for every acquisition.

24.07% of M&A transactions are, in fact, vertical acquisitions aimed at strengthening the downstream supply chain in 46.15% of cases (Purpose 1) or at strengthening the upstream supply chain in 53.85% of cases (Purpose 2).

Conversely, 75.93% of acquisitions are horizontal acquisitions. These were made to enter new customer segments or new geographies in 43.90% of cases (Purpose 3) or to enrich the buyer’s brand portfolio (Purpose 4) in 56.10% of cases.

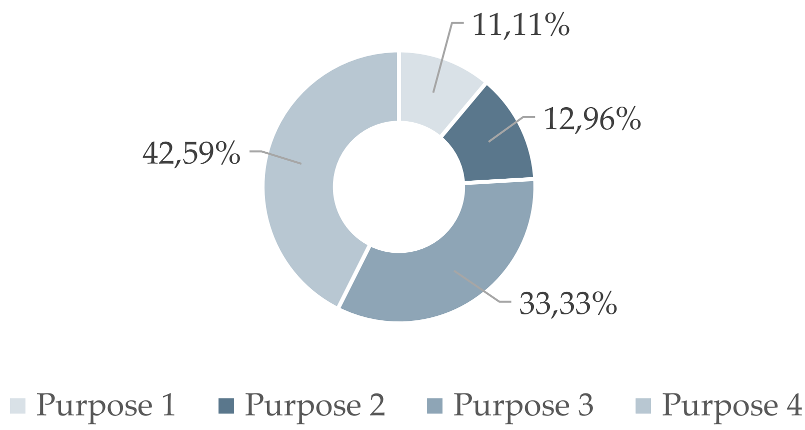

Figure 3: Purpose and Type of Integration Distribution

5.2.2. Target Variable: Multiple

This subsection examined how the size of the multiples was determined in relation to the other characteristics of each acquisition.

The rationale revolves around the idea that when buyers use a high multiple in determining the acquisition price, it indicates that they attribute a high value to that specific acquisition and, consequently, a high value on the precise attributes that characterize the acquired company. On the other hand, for low multiples, the opposite reasoning applies.

With this rationale in place, it is possible to determine what, from the perspective of the main players in the luxury market, makes up a source of value in a target company by examining the characteristics of each M&A deal and of the acquired company.

Descriptive Analysis

In this section, all the relationships between the selected variables and the target variable, *Multiple*, were examined and analyzed, connecting the results from quantitative analysis to qualitative information collected with the research.

As no relevant insights were suggested by scatterplots, only boxplots were reported.

The first aspect investigated is connected to how the target companies' product categories (*Acquired_Category_of_Product*) affect the decision of which multiple sizes to use when determining the acquisition price.

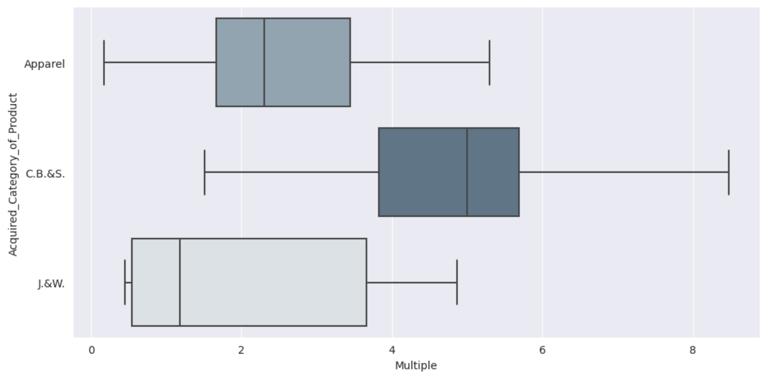

Figure 4: Relation between *Acquired_Category_of_Product* and *Multiple*

As is observable from the boxplots shown in Figure 4, for acquisitions where the target company operates in the "Cosmetics, Beauty & Skincare" sector, the average of multiple results particularly high.

Specifically, the industry average multiple is 5.36, which is 2.25 times the one of the "Apparel" sector, and 2.62 times the one of the "Cosmetics, Beauty & Skincare" sector.

Secondly, it was investigated if the multiple's size could differ based on the sector the buyer company works in (*Buyer_Category_of_Product*).

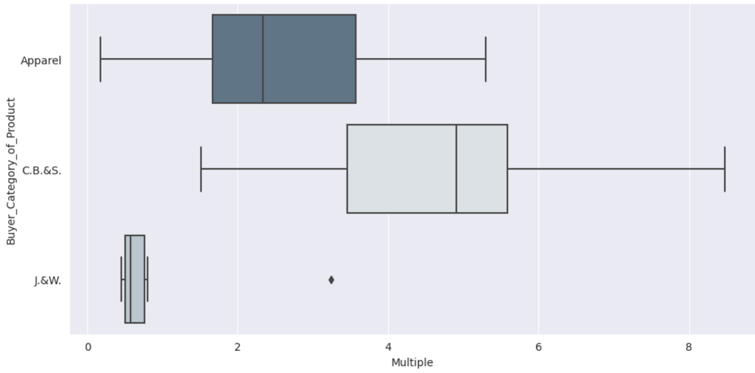

Figure 5: Relation between *Buyer_Category_of_Product* and *Multiple*

Yet, as can be observed in Figure 5, the industry for "Cosmetics, Beauty & Skincare" presents the highest multiples also when the company operating in this field is the buyer.

The rationale behind this outcome has been attributed to the fact that 94.44% of buyer companies operating in the "Cosmetics, Beauty & Skincare" acquired companies operating in the same sector in the timespan considered. Hence, this category of buyers is inclined to apply higher multiples in M&A transactions because they are deemed acquired companies operating in the "Cosmetics, Beauty & Skincare" sectors.

The following steps of the analysis investigated four other aspects related to the acquired company.

The first two aspects were the role that the heritage of the target company (*Importance_of_Heritage*) had in the deal and its level of innovation (*Level_of_Innovation*).

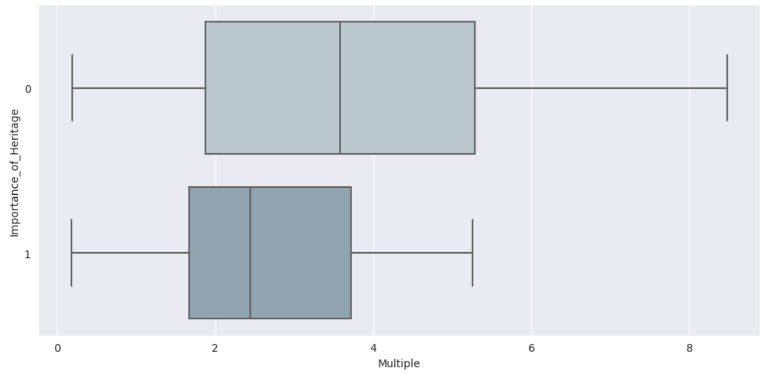

Figure 6: Relation between *Importance_of_Heritage* and *Multiple*

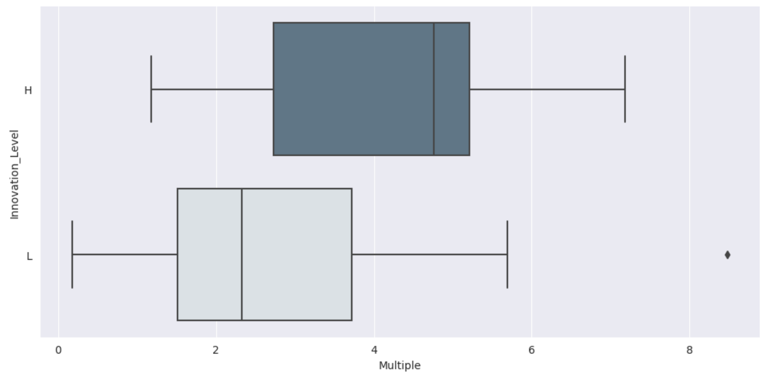

Figure 7: Relation between *Innovation_Level* and *Multiple*

Considering the rationale behind the construction of these two variables, the observation of the dataset showed that cutting-edge companies (*Innovation_Level* = "H") were typically not acquired for the heritage they have behind them. (*Importance_of_Heritage* = "0") and vice versa.

As a result, the two variables work in a complementary way: multiples are higher in transactions involving innovative companies (Figure 7) than in acquisitions of businesses acquired because of their heritage (Figure 6).

This result is also coherent with the identification of "Cosmetics, Beauty & Skincare" as the sector that mostly determines high multiples. Indeed, companies operating in this industry, as emerged from research, generally leverage cutting-edge chemical formulas along with innovative technologies and are generally companies for which heritage is not a key element in the transaction. Indeed, 72.22% of companies operating in this sector present a high level of innovation.

The company's country of origin was then analyzed with a focus on acquisition, presenting an Italian target company that represents the majority vis a vis to every other country in which companies were acquired, accounting for 27.11% of the total acquisitions.

This is because, throughout the interviews, the concept of "Made in Italy" came up several times, and most of the major players in the luxury market expressed an ambition to maintain the Italian savoir-faire that was transmitted from Italian artisans to succeeding generations.

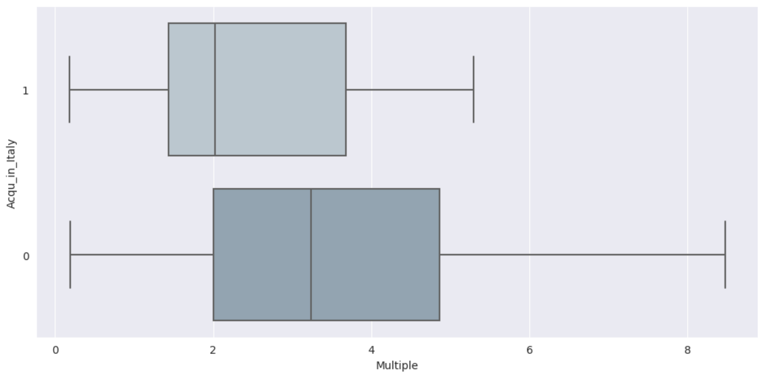

Figure 8: Relation between *Acq_in Italy* and *Multiple*

As the boxplots in Figure 8 demonstrate, the average multiples are significantly lower than the average multiples applied to target firms from the rest of the globe, notwithstanding the above-stated intentions of the main players. The average multiple applied in transactions when the target firm is not Italian is 3.55, whereas the average multiple for companies acquired in Italy is 2.38.

Additional reasoning was conducted because there was a lack of consistency between this result and the statements made in the interviews.

Looking at the acquisitions involving Italian companies as target companies, the aspects that emerged are twofold.

The first is that 76.92% of acquisitions highlights the target company's heritage as a key component of the deal (*Importance_of_Heritage* = "1"), and, as this section demonstrates, this attribute is linked to lower multiples.

The second aspect is that 0.08% of the companies in this cluster had a high level of innovation (*Innovation_Level*), which is a factor that the results of the analysis linked to large multiples.

An additional factor that was investigated was the years that the acquired company had been in business prior to the M&A transaction (*Acq_Age*).

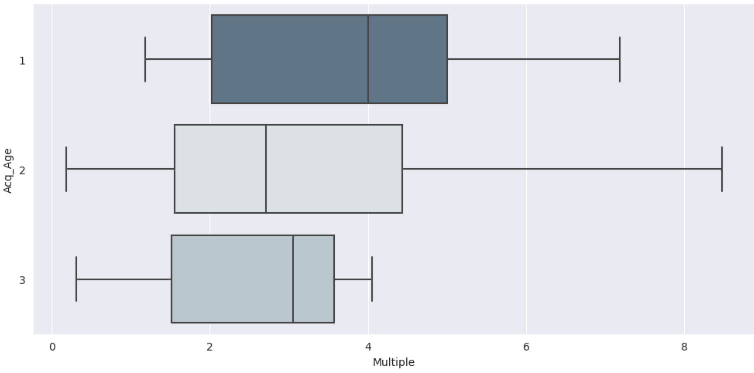

Figure 9: Relation between *Acq_Age* and *Multiple*

From the boxplots in Figure 9, the difference between the multiple averages among the three clusters is not as evident as in the previous case. However, the first cluster has an average size of multiples higher than the other two, meaning that the youngest companies are acquired for the highest prices.

This aspect can be explained by the fact that in this cluster, 66.67% of companies present a high level of innovation (*Level_of_Innovation* = "H"), which represents a source of value for buyers.

The way in which the dimension of the acquired company (*Acquired_Dimension*) influences the multiple sizes has been analyzed too.

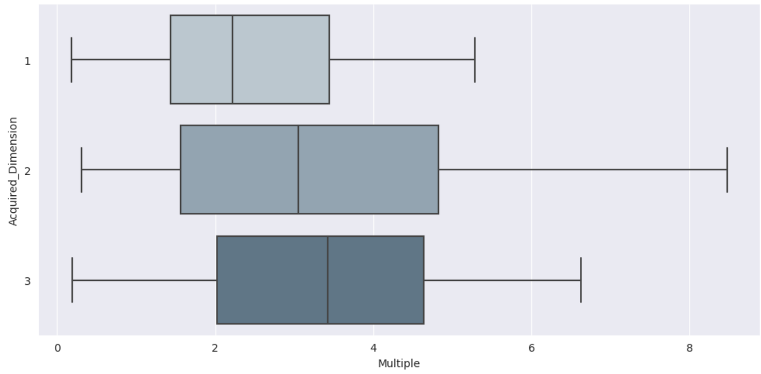

Figure 10: Relation between *Acquired_Dimension* and *Multiple*

As confirmed by Figure 10, the bigger the acquired company, the higher the multiple applied.

This observation is supported by the theory that, since brand perception is key in the luxury sector, a brand that has become a lifestyle representation is a significant source of value for which businesses are willing to pay a premium.

Given that this cluster includes all the major acquisitions made in the years under consideration, including Bulgari, Loro Piana, Christian Dior Couture, Tiffany & Co., and Versace, it makes rational sense why this cluster has the highest multiples.

The influence of whether or not management remained unchanged after a deal concluded (*Management_Continuity*) was evaluated in light of the relevance of top management and the challenges connected with management transition throughout M&A transactions, which were revealed by the interviews.

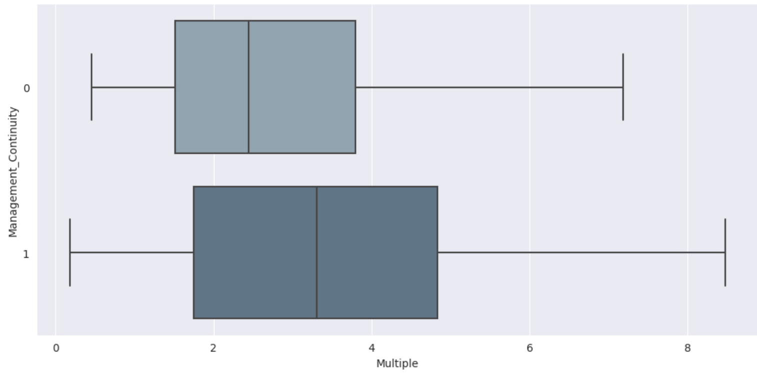

Figure 11: Relation between *Management_Continuity* and *Multiple*

The two boxplots in Figure 11 show a higher average transaction multiple for those cases where the management remained unchanged after the transaction.

This is coherent with what the literature review revealed about the significance of top management in this sector. Key leadership within a firm is represented by top management, and their continued presence following an acquisition can often act as a reassuring factor and a guarantee of continuity, particularly in an environment when the transaction itself has brought about uncertainty. However, top managers frequently have a set style of management and may find it demanding to adjust to new ownership or company strategies or to modify the way they work. Therefore, to convince top managers to stay with the company following the acquisition, the buyer could need to provide financial incentives or other types of better remuneration.

Other considerations were made on the type of acquisitions that could be vertical or horizontal in most of the transactions for which the price was disclosed.

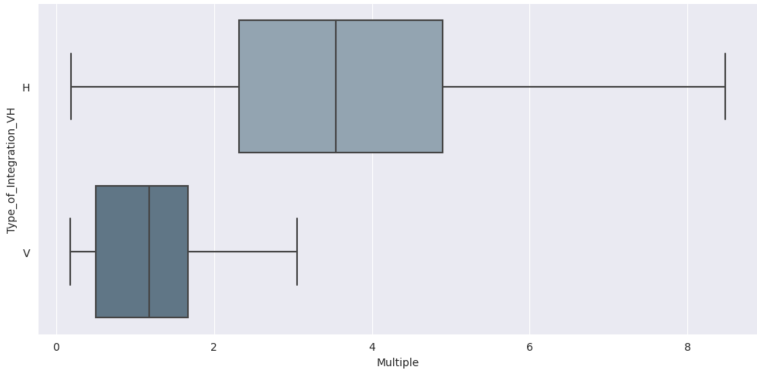

Figure 12: Relation between *Type_of_Integration_VH* and *Multiple*

The boxplots in Figure 12 demonstrate that the average multiple for horizontal acquisitions is higher than that of vertical acquisitions. In particular, 3.49 is the average multiple that was applied for the horizontal acquisition. Conversely, 1.23 is the average of the ones used in vertical transactions.

The same logic used for the acquired company's dimension with respect to Figure 10 can be used to determine the root causes of this discrepancy.

In fact, the majority of vertical acquisitions involve companies included in cluster 1 for a dimension that has a lower average of multiples in comparison to the others, and 90% of acquired companies with a low level of innovation (*Level_of_Innovation* = "L") described by relatively low average multiples.

Instead, among horizontal acquisitions are all those that might also represent a pivotal moment in the history of the buyer, like the previously mentioned acquisitions of Bulgari, Loro Piana, Christian Dior Couture, Tiffany & Co., and Versace, which implied particularly high multiples.

The last aspect investigated in this section was the relation between the four categories of purpose (*Purpose*) and the variable *Multiple*.

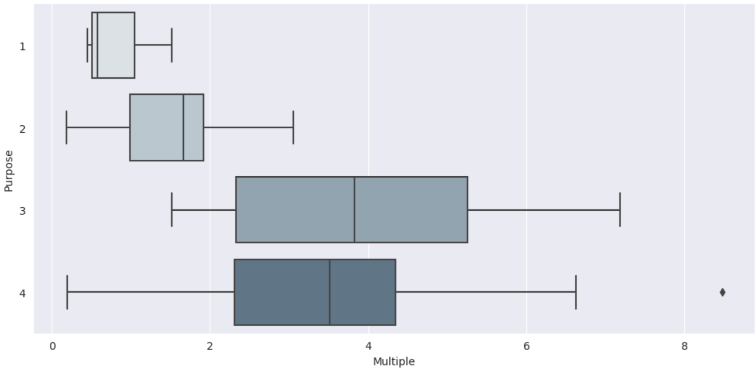

Figure 13: Relation between *Purpose* and *Multiple*

The boxplots in Figure 13 show that for Purpose 1 and 2, related to vertical integrations, multiples are generally lower than in the case of Purpose 3 and 4, which refer to horizontal acquisitions.

In particular, for Purpose 1, the average multiple is 0.80; for Purpose 2, it is 1.53, while for Purpose 3 and 4, the average multiples are 3.72 and 3.87, respectively.

The reasoning behind Figure 13 combines different aspects commented on in this section.

Firstly, acquisitions led by Purpose 1 are intended to reinforce the downstream supply chain, mainly acquiring retailers. This cluster is composed by companies for which, on average, the lowest multiples were applied in determining the transaction price.

Along with the previously stated logic, the consideration is further supported by the fact that 83.33% of acquired companies for Purpose 1 present a low level of innovation, which results in lower multiples. In addition, in this cluster, there are no companies operating in the "Cosmetics, Beauty & Skincare" industry that imply the highest average multiples.

With regard to Purpose 2, which reflects the intention of strengthening the upstream supply chain, boxplots display this cluster's second-lowest average multiple.

Low multiples can be justified by three factors. First, businesses that are acquired for Purpose 2 are those whose primary competitive advantage is their production process expertise, which 71.42% of the time evokes Italian savoir-faire.

Second, since none of these companies use innovative technologies, the competitive advantage on which these businesses are built is unrelated to innovation.

Thirdly, the key factor for these companies in every instance within this cluster is their heritage.

The three presented aspects, from prior analysis, result in lower multiples in comparison to other categories.

Instead, the highest multiples are found in transactions motivated by Purpose 3, which focuses on expanding into new customer segments and/or geographic areas, and Purpose 4, which is associated with the objective of enhancing the brand portfolio.

All the pivotal acquisitions that see a high investment—which is justified by the size of the acquired firms—in exchange for a significant source of value represented by validated brands are, in fact, included in these two clusters.

Regression Tree Analysis

Following analysis and further investigation of the variables influencing buyers' decisions to define multiples, a regression tree was generated to identify the subset of variables with the greatest influence on the target variable *Multiple*.

The Mean Decrease in Impurity (MDI), whose graph is presented in Figure 14, was taken into consideration when building the regression tree in compliance with the main steps outlined in Chapter 4.

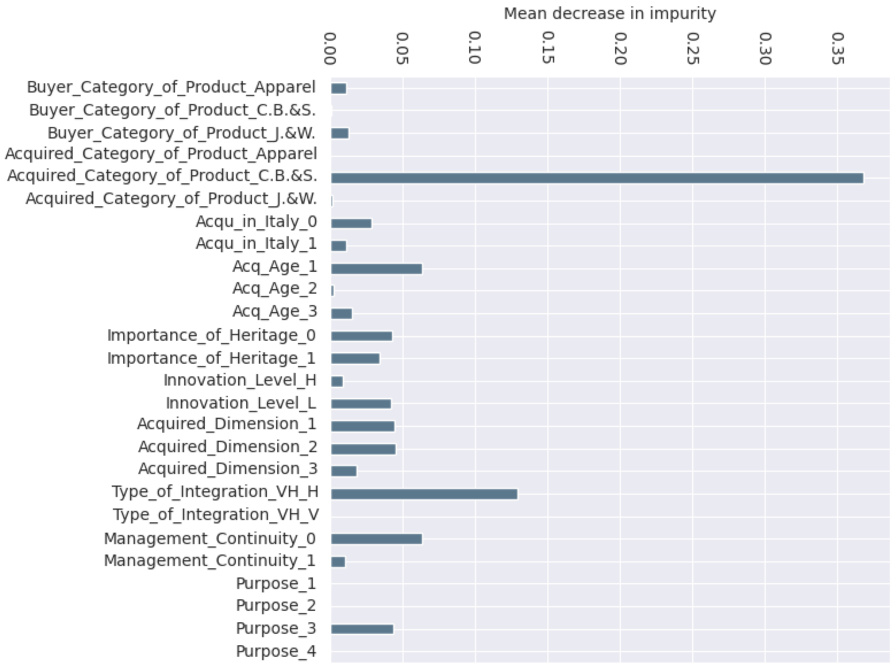

Figure 14: Mean Decrease in Impurity — Regression Tree

The graph shows the impact of each variable on the model's impurity decrease. The more significant a variable is, the greater the decrease in impurity that results from its inclusion.

Therefore, this indicator indicates that variables with a higher MDI are more significant in defining "Multiple".

According to the interpretation of the graph, when the acquired company operates in the "Cosmetics, Beauty & Skincare" sector (*Acquired_Category_of_Product_C.B.&S.*), its product category stands out as being particularly significant.

The type of integration in the case of horizontal acquisitions (*Type_of_Integration_VH_H*) is the second important variable that affects the variable "Multiple."

The age of the acquired company, in the case of young companies (*Acq_Age_1*) and the Management Continuity, when it is not maintained (*Management_Continuity_0*), have a significant relevance.

When determining *Multiple*, the following variables assume similar relevance: the tradition of the acquired company (*Importance_of_Heritage*), the innovation level, in the case it is low (*Innovation_Level_1*), the dimension of the acquired company, especially when they are small (*Acquired_Dimension_1*) and medium-sized (*Acquired_Dimension_2*), the purpose behind an M&A transaction in the case of new customer segments and/or new areas entrance (*Purpose_3*).

Instead, the buyer's product category (*Buyer_Category_of_Product*) and whether the acquired company has its headquarters in Italy (*Acqu_in_Italy*) was found to have a low impact on the acquisition multiple.

After the analysis of feature importance driven by the computation of the MDI, the regression tree was analyzed in order to identify the subset of variables that maximize the multiples applied in M&A transactions.

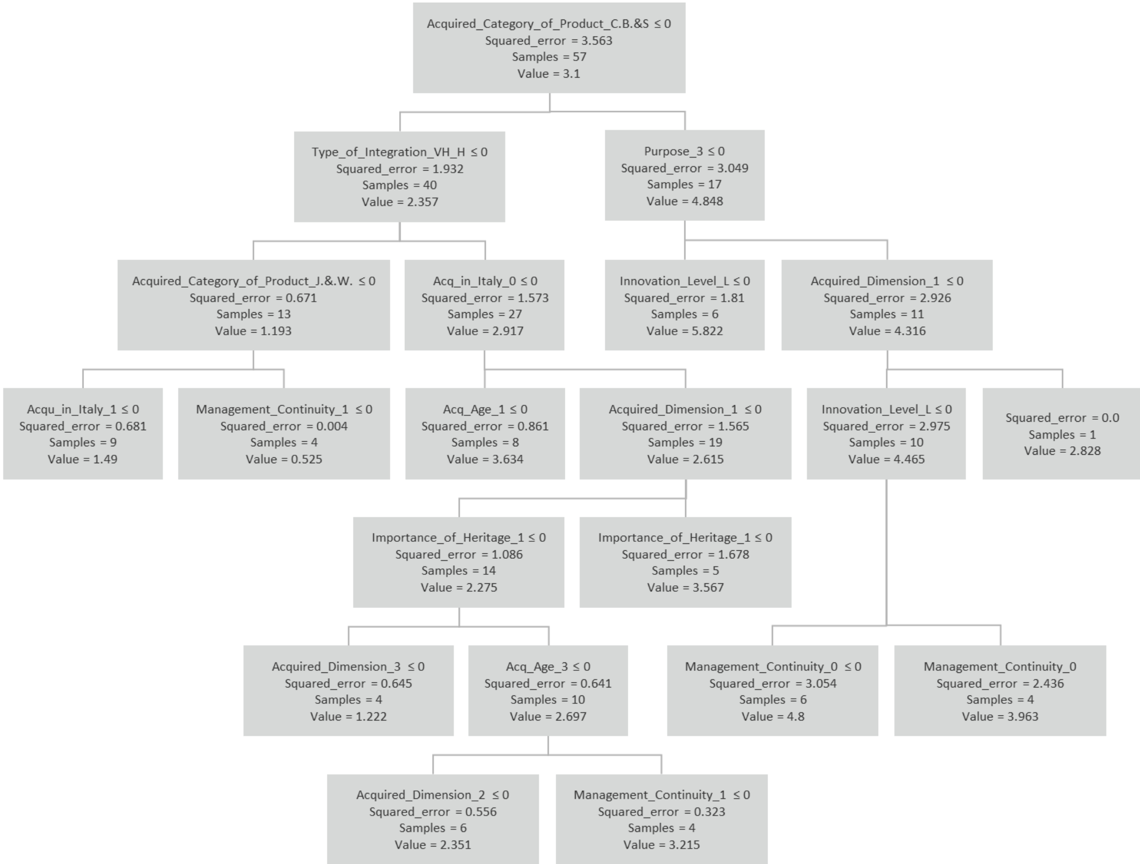

Figure 15: Regression Tree

Combining the information given by the regression tree reported in Figure 15 and the prior boxplots analysis, the subsets of attributes resulting in relatively high multiples were defined considering the leaf reporting the highest value of multiple average (5.822)

The highest multiples are applied when the acquired firm operates in the "Cosmetics, Beauty & Skincare" sector (*Acquired_Category_of_Product_C.B.&S.* = "1") and when the M&A transaction is not driven by Purpose 3 (*Purpose_3* = "0").

Since Purpose 3 was excluded, among Purpose 1, 2, and 4, the highest multiples are applied in the case of M&A transactions driven by Purpose 4 (*Purpose_4*) because of the reasonings related to boxplots in Figure 13 and the analysis of the dataset. Indeed, businesses acquired in the "Cosmetics, Beauty & Skincare" sector were only acquired for Purpose 3 or 4.

To enlarge the subset of attributes that lead to high multiples, the leaf, including observations with the second highest multiples average (4.8), is considered.

In this case, the highest multiples are applied when the target firm operates in the "Cosmetics, Beauty & Skincare" sector (*Acquired_Category_of_Product_C.B.&S.* = "1"), when the M&A transaction is driven by the intent to enter new customer segments or new geographies (*Purpose3*) and when the target firm is not a small-size firm (*Acquired_Dimension_1* = "0") and has a high level of innovation (*Innovation_Level_L* = "0").

Since acquisitions of small-size companies were excluded, integrating the outcome of the regression tree to reasonings related to Figure 10 and the analysis of the dataset with the already mentioned characteristics, acquisitions of large firms (*Acquired_Dimension_3*) result in higher multiples than acquisitions of medium firms (*Acquired_Dimension_2*).

5.2.3. Target Variable: Success

The objective of the second section of the data analysis was to determine which subset of an acquisition's attributes indicates the highest likelihood of success in order to identify the drivers that define a successful inorganic growth strategy.

In this instance, an acquisition is deemed successful if the purchasing company's growth rate in terms of revenue exceeds the market average.

Therefore, the purpose of this analysis was to comprehend the features of the inorganic growth strategies followed by top performers in the market.

To this aim, the acquisitions that occurred in 2023 have been excluded from the analysis because the computation of the growth rate between the year of the acquisition and the following one was not possible. Hence, the final dataset analyzed in this phase accounted for 54 acquisitions.

Descriptive Analysis

This phase of the descriptive analysis began with assessing each categorical variable's relevance to determine whether the acquisition was successful or not and its impact on the target variable *Success*.

In the histograms presented in the following figures, the dark blue columns represent the number of acquisitions whose *Success* value is "0", indicating acquisition failure (based on the comparison of the buyer's growth rate with the market growth rate), while the light blue column represents the number of transactions characterized by the *Success* value of "1", indicating that the growth rate resulting from the acquisition is higher than the market average.

Only histograms providing insightful results were reported.

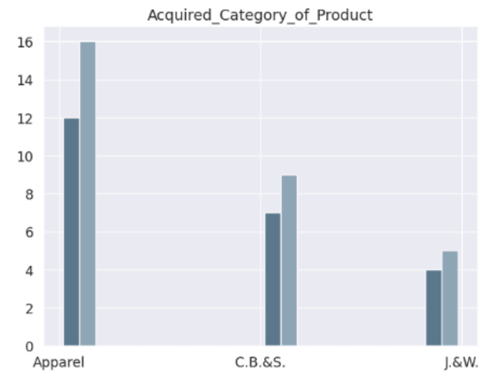

Figure 16: Relation between *Acquired_Category_of_Product* and *Success*

The variable analyzed in Figure 16 shows that, for acquired companies operating in the "Apparel" sector, the difference between the number of successes and failures is the highest in comparison to the other sectors.

The result is explained by further analyzing the growth rates of the buyer companies in the year after the acquisition. In fact, 57.41% of firms reporting a growth rate higher than the one of the market, operates in "Apparel" and 87.5% of them acquired firms in the same sector, resulting in the distribution of successes shown in Figure 16.

Similar reasoning can be made for the variable *Acqu_in_Italy*, whose relevance is shown in Figure 17.

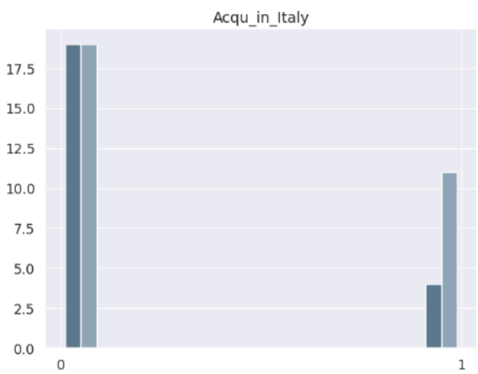

Figure 17: Relevance of *Acqu_in_Italy*

Especially for an acquired company located in Italy, the success rate of the buyer is higher than in the case of acquired firms operating outside Italy.

Examining the buyer companies for whom *Acqu_in_Italy* equals "1" can help to explain this outcome. This cluster is made up of the major players in the sector, such as Kering, LVMH, and PRADA, that made acquisitions in Italy.

Since these companies outperform the market in terms of revenue growth, for this variable, the number of successes is higher than the number of failures.

Then, the impact of the dimension of the acquired companies is presented in Figure 18 and commented on.

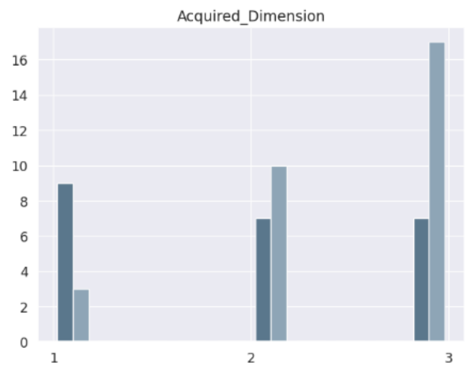

Figure 18: Relevance of *Acquired_Dimension*

The histograms related to *Acquired_Dimension* demonstrate that the larger the acquired firm in terms of revenue, the higher the number of successes and the lower the number of failures.

This outcome is brought about by the fact that, in the case of large-dimension acquired firms, the buyer's revenue increases significantly between the year prior to the transaction and the year in which the acquired company's financial results are documented in the buyer's consolidated financial statements.

Simultaneously, additional analysis of M&A transactions involving small revenue-generating acquired firms revealed that the buyer companies in those same years did not differentiate their acquisition strategy. Therefore, conversely to the market average, where, in many cases, the growth rate was boosted by the acquisition of large companies, the growth rate boost of those firms acquiring small companies comes from other factors that have a less significant impact on the growth rate.

The last aspect commented on is the distribution of successes among the four categories of purposes identified.

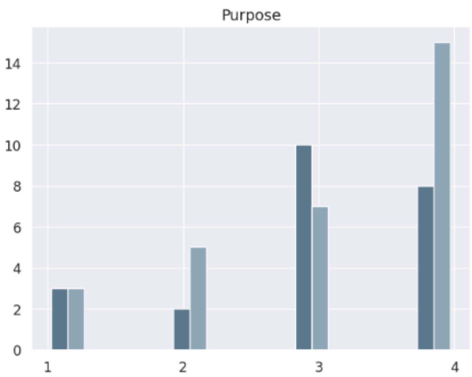

Figure 19: Relevance of *Purpose*

From histogram analysis related to Figure 19, the greatest discrepancy between the number of successes and failures is observed in relation to Purpose 4, which indicates an acquisition made with the intent of enriching the brand portfolio. Indeed, 69.57% of firms acquired for Purpose 4 are large firms, and 33.33% are medium-sized firms.

Purpose 2 acquisitions yield a greater number of successes too. This outcome is explained by the fact that this Purpose is associated with the strengthening of the upstream supply chain, which, as emerged from the interviews, is a strategy that all the main players are implementing and must adopt to thrive in this industry. As a result, businesses that are currently leading the market are making acquisitions for Purpose 2, resulting in a higher number of successful transactions associated with this Purpose.

An opposite likelihood of success is associated with Purpose 3. Hence, additional analyses were conducted to examine the acquisition that was made with the intention of expanding into new customer segments and geographic areas.

The fact that 38.89% of the acquired companies for Purpose 3 are small-sized businesses and 33.33% are medium-sized businesses contributes to understanding why most cases fall into the category of failures. Then, in contrast to those driven by other Purposes, the growth rate of buyers acquiring firms in accordance with Purpose 3 experiences a smaller boost in revenue.

For Purpose 1, no relevant insights emerged from histogram analysis.

Classification Tree Analysis

With the same methodological approach as the regression tree, a classification tree was constructed in order to determine the subset of characteristics that increase the inorganic growth strategy's chance of success.

Even in this instance, an earlier study based on the MDI was performed and reported in Figure 20.

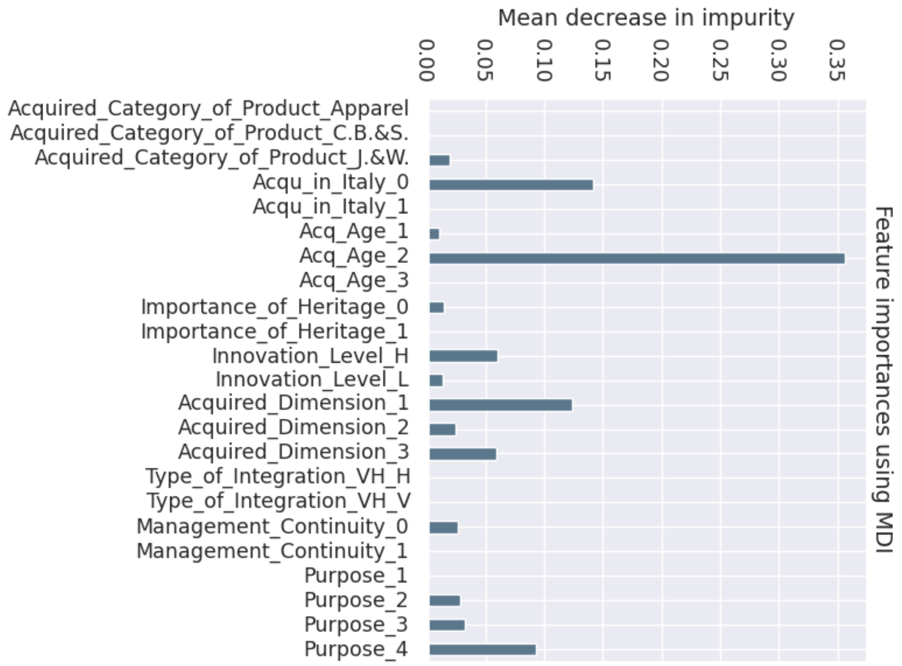

Figure 20: Mean Decrease in Impurity — Classification Tree

The graph demonstrates that the target variable is not significantly impacted by the acquired companies' category of product (*Acquired_Category_of_Product*), the importance of the acquired company's history and tradition in the transaction (*Importance_of_Heritage_0*), whether the acquisition is vertical or horizontal (*Type_of_Integration*) and whether the acquisition presents a transition to new top management (*Management_Continuity*).

The outcome shows, instead, that the company headquarter, if it is not located in Italy (*Acqu_in_Italy_0*), significantly impacts the *Success* variable. The same is true for the acquired company age, especially in the case of a company founded between 15 and 60 years ago (*Acq_Age_2*).

The impact of the dimension of the acquired company (*Acquired_Dimension*) is relevant in every case, especially in the case of small-size acquired firms.

Then, the level of innovation of the acquired firm (*Innovation_Level*) significantly impacts the *Success* variable, along with the Purposes that stand behind the acquisitions, especially in the case of M&A transactions driven by Purpose 4 (*Purpose* = “0”).

The outcomes resulting from implementing the classification tree, reporting *Success* as the target variable in accordance with the Data Analysis approach described in Chapter 4, were reported.

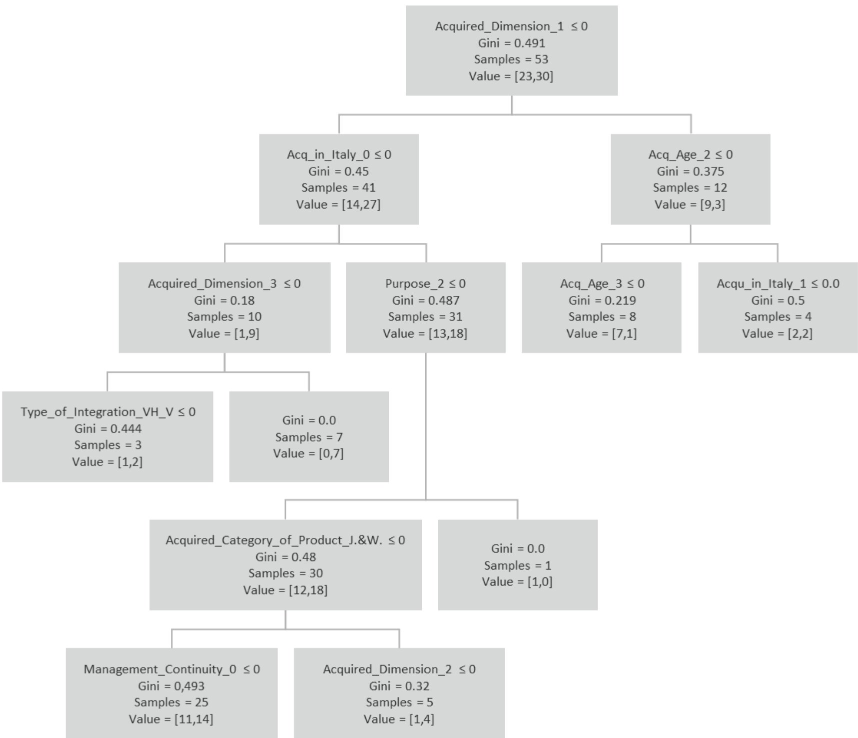

Figure 21: Classification Tree

The classification tree, reported in Figure 21, enabled the identification of the subsets of variables that have the highest likelihood of success, considering the leaves with the first and second-highest number of observations classified as a success (*Success* = “1”), along with the largest difference between the sizes of the two classes.

Based on the graph's interpretation, acquisitions with the highest probability of being deemed successful are those with target companies that are not small businesses (*Acquired_Dimension_1* = "0"), that have their headquarters in Italy (*Acq_in_Italy_1* = "1") and that are large-sized (*Acquired_Dimension_3* = "1").

In light of the rationale behind the boxplots in Figure 18 and the dataset analysis, it can be inferred that with the exception of small businesses, acquisitions of large companies are more likely to be deemed successful because they increase the buyer's revenue more than in the other scenarios.

An additional subset of variables was found by taking into account the last leaf that has the second-highest number of observations that were categorized as successful.

These leaf's acquisitions include small and medium-sized acquired businesses (*Acquired_Dimension_1* = "0") that were not acquired in Italy (*Acq_in_Italy* = "0"), that were not acquired for Purpose 2 (*Purpose_2* = "0"), that are not in the “Jewelry & Watchmaking” industry (*Acquired_Category_of_Product_J.&W.* = "0").

The set of attributes leading to a high chance of success is defined by combining the classification tree's output with the previously discussed boxplot reasonings and the dataset analysis according to the characteristics specified at each node.

Acquiring large companies is most likely to result in a success, given the previously stated logic regarding the acquired company dimension.

Regarding the reason behind an acquisition, Purpose 4 is associated with a greater chance of success than the other Purposes (Purpose 1 and Purpose 3), according to the comment regarding Figure 19 and the data analysis of the cluster of acquisitions identified at this node.

Referring to reasonings related to the acquired company category of product, made in relation to Figure 16 and dataset analysis, the acquisition of a target company operating in the "Apparel" sector (*Acquired_Category_of_Product_Apparel* = "1") suggests a higher likelihood of success than the other categories.

6 Discussion

6.1. Relevance of the topic

Mergers and Acquisitions play a pivotal role in the luxury sector since it is an inorganic growth strategy that the main industry players exploit to progressively consolidate and dominate the market.

Being the luxury industry, a sector renowned for its exclusivity, quality, and craftsmanship (A. Brun, C. Castelli, 2013), it is ex aequo distinguished by its high prices and margins, which result in significant financial metrics such as revenue and EBITDA.

Because these figures are used for company valuation, multiples definition, and transaction price determination, there is a growing interest in analyzing the factors that characterize these transactions and understanding how they contribute to value creation.

These aspects underscore the importance of identifying and exploring the relationship between all acquisition drivers, including the target company characteristics and the financial terms and performance of the acquisition, which was still unexplored.

As a result, the findings presented in the next section find their relevance due to the lack of a detailed analysis of these themes in the literature.

6.2. Main Findings

The main findings of our research are the results of a comprehensive analysis of the themes that emerged during the literature review, the experts' interviews, and the quantitative analysis.

The combination of all the research led to the development of the three research questions, already reported in Section 3.4:

RQ1] What are the main factors that drive M&A transactions in the luxury sector? And which synergies enable value creation in this industry?

RQ2] Which financial and strategic parameters of an M&A transaction represent a source of value from the buyers' perspective, implying high multiples?

RQ3] Which features that characterize an M&A transaction increases the buyer's likelihood of outperforming the market?

The combination and integration of the aspects that emerged in the literature review, the insights collected from experts' interviews, and the outcomes from descriptive data analysis lay the foundation for answering the three research questions and identifying the main findings.

RQ1] What this research question has revealed, further enhancing the findings from the existing literature, is that, in the luxury sector, M&A stands out as the most profitable and secure strategy for growth and, consequently, for value creation.

Starting from this, the primary aspect considered regards the objectives and motivations behind M&A transactions.

The first two main purposes identified are related to vertical integration. In recent years, there has been an increasing awareness of the importance of acquiring specific and strategic manufacturing skills in-house. The trend is, therefore, to acquire suppliers or distributors (Purpose 1 and Purpose 2) to gain greater control over the supply chain, to gain access to expertise or a specific technology, to decrease dependence on outside suppliers, to make production more efficient and safer, and to combat competition.

However, there is also the other side of the coin. Suppliers and distributors acquisition is a key support action because it helps these companies maintain their economic stability and pass on their skills and production capabilities to future generations. This helps to preserve sector-specific knowledge and experience, thus ensuring continuity and quality of supply over time.

The last two purposes, instead, are related to horizontal acquisitions. Entering new customer segments and/or new geographical areas (Purpose 3) is the third one, and this type of M&A transaction also comprehends acquisitions done to follow sustainable trends in order to address new customer segments that are particularly sensitive to this theme and to meet the stakeholders' expectations also in the production processes.

The last key reason that can motivate an acquisition in the luxury sector regards the enrichment of the brand portfolio (Purpose 4), a strategy that can be the key when the buyers' objectives are the enhancement of brand prestige, the increase in market share or the anticipation of competitors' actions.

Nevertheless, a fundamental aspect inherent in all acquisitions, regardless of their underlying motivations, is the imperative to realize outstanding value through the creation of synergies, classified as strategic or operational, based on the main area of implication.

Strategic synergies encompass aspects such as "Made in Italy" recognition, the preservation of craftsmanship, access to cutting-edge technologies, brand partnership, and the exploration of new customer segments.
Acquiring Italian luxury brands allows companies to maintain the quality of processes and materials while benefiting from the international demand for high-quality Italian-made luxury products.
Preserving craftsmanship is particularly relevant when acquiring suppliers in the “Apparel” sector, as it aims to protect and promote Italian skilled workers, ensuring its continuity from one generation to the next.
Access to cutting-edge technologies is a strategic advantage, particularly for large luxury companies in the "Cosmetics, Beauty & Skincare" sector. Acquiring businesses with advanced and sustainable technologies empowers luxury brands to innovate, create high-quality products, and enhance operational efficiency. Moreover, in an era where online presence and e-commerce are vital, luxury brands strategically acquire businesses with strong digital and e-commerce capabilities. This enables them to better serve customers in the online space and reach a broader audience.
Brand synergies entail strategic joining forces between high-end brands to enhance their overall value, reputation, and image. By leveraging the strengths and assets of each brand, these collaborations aim to create a more compelling and attractive brand identity that appeals to luxury consumers.
Finally, strategic acquisitions can lead to the exploration of new customer segments. This synergy, most exploited in "Cosmetics, Beauty & Skincare", involves entering market segments that align with evolving consumer preferences, such as reaching Millennials and Gen Z, who prioritize social, economic, and environmental sustainability.
On the other hand, operational synergies in the luxury sector refer to the ways in which luxury companies optimize their internal processes and distribution networks to

ensure supply chain management, improve efficiency, and enhance their overall quality of operations.

Production synergies aim to elevate product quality, improve operational efficiency, and encourage innovation. This is achieved by capitalizing on specialized expertise, artisanal excellence, and resource consolidation, upholding their recognized fundamental principles of uniqueness and exclusivity.

Distribution Synergies are of utmost importance in the luxury sector as they revolve around the control and optimization of the downstream supply chain. This comprehensive control is crucial for luxury brands, serving both to maintain their impeccable standards and reputation and, most importantly, to fully manage the potential of direct sales. The acquisition of distributors and the establishment of distribution synergies address this issue, allowing companies to minimize potential costs during the transition from production to sales, which might otherwise occur when relying on external distributors and dealers.

RQ2] This research question finds its explanation in the regression tree built on the 59 M&A acquisitions mapped in the database combined with analysis of data.

What was ascertained from the analysis and reasonings addressing this research question is that, in the context of an M&A transaction, specific traits of the target companies and the acquisition characteristics are responsible for the application of higher multiples by the buyers when defining the financial terms of the acquisition.

The aspects of an M&A transaction and of the acquired firm that, from the buyers' point of view, constitute a source of value, contributing to high multiples in M&A transactions, are clarified by the following key findings, diagrammed in Figure 22.

The first aspect in terms of importance deemed as valuable by buyer companies refers to the sector in which the acquired companies operate.

Buyer companies tend to recognize a high source of value when acquiring target companies operating in the "Cosmetics, Beauty & Skincare" sector. Due to this industry-specific focus, buyers may be more likely to value acquisitions in this sector because they have faith in the long-term growth potential and profitability of companies operating in this field.

The second element is related to the reason for the acquisition.

It was revealed that buyers are most willing to pay the highest multiples when they are driven by the aim to expand their brand portfolio (Purpose 4).

Alternatively, buyers place a high value on acquisitions where the main objective is to expand into new markets and customer segments (Purpose 3).

This implies that buyers value strategic diversification of the portfolio and expansion and are willing to pay more for a target company that shares their expansion objectives.

In the case of acquisitions made to enter new customer segments or geographies, high value is attributed when the target company is a large company and when its level of innovation is high.

Indeed, another important factor affecting the value that buyers assign to the target company is its dimensions. Higher multiples for larger target companies indicate that buyers consider scale and market presence to be significant value drivers.

Another important factor affecting the value that buyers assign to the target company is whether the target firm is an innovative company or not. High levels of innovation in the target business seem like a desirable attribute, which suggests that buyers value innovation-driven growth when determining the acquisition's worth.

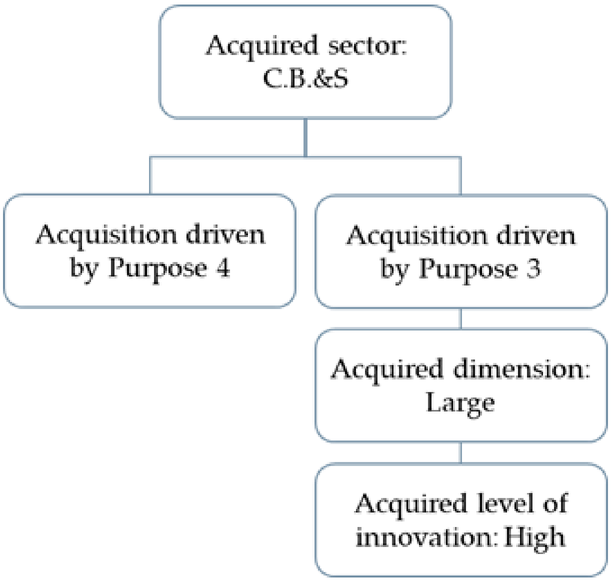

Figure 22: Routing for highest M&A multiples

RQ3] In addressing this research question, it was assumed that the EV's inorganic growth strategy, as revealed by the research, accounts for a significant portion of the company's growth rate.

In the quest to answer this research question, the investigation involved comparing each buyer's growth rate to that of the market in order to identify the elements shared by firms with higher-than-average growth rates and, consequently, the common aspects between successful inorganic growth strategies, using the classification tree method.

Based on the analysis conducted, it emerged that certain aspects of M&A transactions can increase the likelihood that the buyer will outperform the market.

As Figure 23 diagrams, buyers with higher-than-average growth rates are more likely to invest in large businesses. Larger companies may have a high brand reputation, established customer base, and the ability to boost buyer revenue in consolidated financial statements following the acquisition.

Another characteristic of these outplacing players is the preference for investing in companies with Italian ancestry, which is coherent with the trend that emerged in the interviews.

When it comes to buying out large foreign companies, successful market players favor businesses in the "Apparel" industry. This is explained by the fact that buyers typically acquire firms in the same sector and, as previously stated in Chapter 1, the majority of outperforming companies operate in the "Apparel" sector.

In addition, M&A transactions made by the cluster of players with above-average growth rates are typically motivated by the aim to enrich the brand portfolio (Purpose 4).

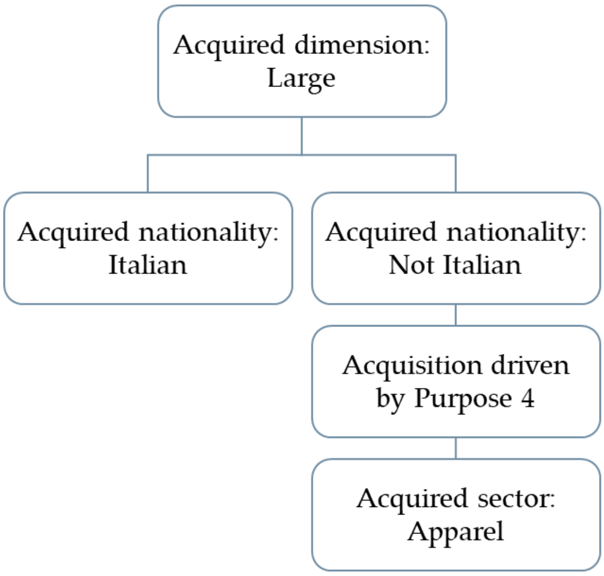

Figure 23: Routing for highest *Success* likelihood

7 Conclusions

In this final chapter, the limitations of this work in the field of M&A transactions in the luxury sector and suggestions for overcoming them will be presented.

Following, academic and business implications and future outlooks of the study will be discussed.

7.1. Limitations of the study

Despite efforts to conduct a comprehensive study, the presence of certain constraints is acknowledged, and these must be considered when interpreting the quantitative analysis results.

The study, indeed, faces substantial limitations in investigating M&A processes in the luxury sector.

The first limitation is given by the intricate nature of the luxury industry, which is defined by exclusivity, discretion, and a steadfast commitment to protecting brand reputation. These traits result in significant challenges in collecting sensitive data, particularly in the context of vertical acquisitions.

Traditional data sources, inclusive of reports and balance sheets, provide a portion of information that is not sufficient for conducting a comprehensive study in this field.

Quantitative data on relatively minor but strategically important vertical acquisitions is frequently buried due to their limited quantitative impact on balance sheets. In addition, legal barriers stymie efforts to obtain unfiltered data on the acquisitions and related business strategies of the entities involved.

Another limitation acknowledged with this study is related to the importance of evaluating M&A transactions from multiple perspectives beyond traditional financial metrics. A thorough examination necessitates consideration of legal and strategic dimensions, recognizing their significant influence on the final contract resulting from M&A negotiations. The complexities of the backstory behind M&A processes, such as human relationships, cultural dynamics, and negotiating complexities, are foundational for success. However, because information sharing can jeopardize negotiating positions, this backstory is frequently obscured by a focus on quantitative data and numerical outcomes. The diverse objectives of the parties involved, combined with the sensitive nature of negotiations, frequently result in a lack of comprehensive disclosure.

The last substantial limitation to be considered is the inclusion of a restricted number of case studies in the analysis due to the previously mentioned limitations in finding quantitative and qualitative data on M&A transactions in this industry.

Furthermore, the time horizon was set at 11 years in order to increase the amount of data available for quantitative analysis. Growth strategies can change and take on new characteristics over a long period. At the same time, each company's growth rate is directly related to its operating period, customer demand, and market trends.

To address this last point, the buyers' annual growth rate was compared to the market average, cleaning this figure of the other external factors.

All the aspects mentioned limited the breadth and complexity of the analysis, preventing the development of comprehensive analytical models and insights.

In light of the infeasibility of constructing a statistical model due to the limited availability of data, the findings of this research were extracted from a descriptive analysis of the dataset. In addition, it is essential to acknowledge that the results given by the use of the classification and regression trees are not robust enough by themselves.

To address this weakness, this study was conducted by combining qualitative insights and reasonings with quantitative results at each step, allowing for more solid insights from the research.

7.2. Academic Implications

Due to the restriction outlined in the preceding section, the literature lacks an analysis based on a large set of M&A deals in the luxury industry.

Academic research in this field is generally based on a limited number of case studies. Despite these studies analyzing each acquisition with a high degree of depth, discernible patterns and similarities that can represent those of the entire sector are not observable.

As a consequence of this, mathematical and statistical models, such as linear regressions and correlation analyses, developed to compare different M&A transactions are scarce in the literature.

Given these limitations, future research should focus on exploring these aspects in greater depth, as the currently available literature is limited, especially from a quantitative perspective.

Other analysts and researchers are suggested to broaden the dataset by taking more variables in analysis and expand the dataset by delving into paid and proprietary sources.

Once the number of observations has increased, they are suggested to use more sophisticated models that can capture the interaction between all the variables.

Moreover, it could be interesting to have the types of deal — Transformational, Improvement, Build-up acquisitions — and approaches of deal — Tender Offer, Creeping Takeover, and Proxy Vote — as other variables to consider, especially when analyzing the acquisitions' traits that can impact the multiple.

It could also be interesting to examine the impact of an acquisition in a time horizon longer than one year and relate this information with the Purpose of the acquisition and the type of buyer.

The last recommendation for future research in this field is to delve deeper into differences among buyers, including in the analysis of financial investors, beyond companies operating in the luxury sector. It could be interesting to advocate the relationship between the categorization of buyers and their growth rate following the acquisition and examine the differences in acquisition multiples definitions between the distinct classes of buyers.

7.3. Business Implications & Future Outlooks

This research can provide valuable contributions to companies operating in the luxury industry by supporting decision-making processes in relation to M&A transactions.

Acquisitions are one of the primary options for inorganic growth, but these transactions are not bereft of any drawbacks or risks, necessitating comprehensive and in-depth valuations prior to M&A transactions.

When deciding which company to acquire and the terms of the M&A transaction, luxury firms consider a variety of factors. They must examine the target companies' financial situation in tandem with the related strategic aspects that can impact the transaction and, eventually, generate value following the M&A process.

This study can aid buyers in maximizing their chances of success by supporting their decisional processes related to M&A transactions by showing the traits of an M&A transaction and a target company that are shared by companies that outperformed the market in the years studied.

The findings related to the potential synergies that can emerge from a transaction in this sector, inclusive of an explanation of how these can be achieved and through virtuous cases, can assist companies in the strategic evaluation of the target company to invest in in relation to the long-term objectives they want to achieve.

Beyond business implications related to luxury firms, this study can also contribute to supporting the decisions of financial investors. When determining which companies to invest in, these actors typically consider financial indicators to evaluate the company's long-term stability and capacity to generate revenue, along with potential value generation from exit opportunities.

Financial investors can benefit from this study by gaining awareness of what is deemed highly valuable by buyer companies in the luxury sector and other buyers, hence, the traits for which buyers are willing to pay higher prices.

From the research and analysis conducted, several noteworthy trends that can shape the luxury sector in the next years emerged.

Firstly, a growing inclination towards vertical acquisitions has been noticed, and luxury brands are acknowledging that full control over the supply chain is becoming imperative in an industry where the quality level and the attention to details is key.

Acquiring suppliers, especially Italian artisans, and tanneries, is becoming more and more frequent.

This shift suggests a decreasing future presence of independent suppliers and artisans in Italy as luxury brands seek to streamline their production processes.

Moreover, the industry witnessing a surge in acquisitions with a strategic focus on supply chain integration is also driven by a growing commitment to sustainability. Companies are increasingly recognizing the importance of a sustainable supply chain to resonate with consumer segments that are becoming progressively more attuned to environmental concerns. In this context, acquisitions are becoming instrumental in navigating the evolving landscape of the luxury sector, addressing both economic imperatives and the growing importance of sustainability in the market. Hence, a rising number of acquisitions made with the intent to address new customer segments, in particular those placing high value on sustainability, is expected.

Concurrently, due to the high profitability and the acknowledged value placed on innovation and cutting-edge technology in the "Cosmetics, Beauty & Skincare" sector, there could be a discernible upward trend in the establishment of start-ups and small to medium enterprises driven by these elements. These newcomers, in fact, are generally poised to inject fresh perspectives and cutting-edge ideas into the luxury market, fostering a culture of continuous innovation.

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Appendix

The annex acts as a supplementary source to provide a comprehensive understanding of the whole research conducted and of the data gathered throughout the analyses.

Thus, this section is intended to offer additional insights, detailed information, and supporting documentation to the research, mainly focusing on underlying each analysis and their robustness.

Initial Database

The Initial Database, shown in Table 9, reports the year, the name of the Buyer company, and the name of the Acquired Company for each of the 100 acquisitions mapped through the research.

Table 9: Comprehensive list of acquisition mapped

No.	Year	Buyer_name	Acquired_name
1	2023	L'Oreal Luxe	Aesop
2	2023	Tapestry	Capri Holdings
3	2023	Morellato	Christ Group
4	2023	Kering	Creed
5	2023	OTB	Frassineti
6	2023	Richemont	Gianvito Rossi

7	2023	Luk Fook Holdings	Hong Kong Resources Holdings Co
8	2023	LVMH	Nuti Ivo
9	2023	Kering	UNT
10	2023	Kering	Valentino
11	2023	LVMH	Vuarnet
12	2022	LVMH	Art Lab
13	2022	Puig	Bryedo
14	2022	L'Occitane	Grown Alchemist
15	2022	LVMH	Gruppo Pedemonte
16	2022	Golden Goose	Italy Fashion Team
17	2022	Brunello Cucinelli	Lanificio Cariaggi Cashmere
18	2022	Puig	Loto del Sur
19	2022	LVMH	Maglificio Matisse
20	2022	Kering	Maui Jim
21	2022	LVMH	Robans
22	2022	PRADA	Superior SpA
23	2022	Estèe Lauder	Tom Ford

24	2021	Euroitalia	Atkinsons; I coloniali
25	2021	Estèe Lauder	DECIEM
26	2021	Richemont	Delvaux Design Coordination et Finance S.A
27	2021	Zegna	Filati Biagioli Modesto
28	2021	PRADA	Filati Biagioli Modesto
29	2021	OTB	Jil Sander
30	2021	Kering	LINDBERG
31	2021	Aeffe	Moschino
32	2021	Chanel	Paima
33	2021	Farfetch	Palm Angels
34	2021	Unilever Prestige Beauty	Paula's Choice Inc.
35	2021	L'Occitane	Sol de Janeiro
36	2021	Moncler	Sportswear Company
37	2021	L'Oreal Luxe	Takami Co
38	2021	Zegna	Tessitura Ubertino
39	2021	LVMH	Tiffany & Co
40	2021	Chanel	Vimar 1991

41	2021	L'Oreal Luxe	Youth the People
42	2020	Puig	Charlotte Tilbury
43	2020	Morellato	D'Amante
44	2020	Watches of Switzerland Group	Fraser Hart
45	2020	Chanel	Gaiera
46	2020	Chanel	Nillab
47	2020	Safilo	Privé Revaux
48	2020	Cortina Holdings Limited	Sincere Watch Limited
49	2020	L'Oreal Luxe	Thierry Mugler S.A.S; Loris Azzaro SA
50	2019	Capri Holdings	Alberto Gozzi
51	2019	Safilo	Blenders Eyewear
52	2019	Liu Jo	Blufin
53	2019	Richemont	Buccellati
54	2019	Morellato	Cléor
55	2019	Chanel	Conceria Samanta
56	2019	SMCP	De Fursac
57	2019	Zegna	Dondi Group

58	2019	Shiseido Americas	DRUNK ELEPHANT
59	2019	L'Occitane	ELEMIS
60	2019	PRADA	Fratelli Prada
61	2019	Estèe Lauder	Have & Be Co. Ltd
62	2019	LVMH	Masoni Industria Conciaria SpA
63	2019	Farfetch	New Guards Group
64	2019	Chanel	Renato Corti
65	2019	Unilever Prestige Beauty	Tatcha
66	2018	Canada Goose	Baffin
67	2018	Zegna	Cappellificio Cervo
68	2018	Chanel	Colomer Leather Group
69	2018	Puig	Dries Van Noten
70	2018	Citychamp Watch & Jewellery Group	Ernest Borel Holdings
71	2018	Tod's	Italiantouch
72	2018	Chanel	Mabi
73	2018	Movado	MVMT Watches
74	2018	Farfetch	Stadium Goods

75	2018	Zegna	Thom Browne
76	2018	Capri Holdings	Versace
77	2017	LVMH	Chrstian Dior Couture
78	2017	Chanel	Grandis
79	2017	Capri Holdings	Jimmy Choo Group
80	2017	Movado	JLB Brands Limited
81	2017	Tapestry	Kate Spade & Co
82	2017	Unilever Prestige Beauty	Living Proof
83	2017	Watches of Switzerland Group	Mayor's Jewelers
84	2017	LVMH	Rimowa
85	2016	L'Oreal Luxe	Atelier Cologne
86	2016	Zegna	Bonotto
87	2016	Estèe Lauder	By Kilian
88	2016	Unilever Prestige Beauty	Dollar Shave Club
89	2016	Piquadro	Il Ponte Pelletteria
90	2016	L'Oreal Luxe	IT Cosmetics
91	2016	Shiseido Americas	Laura Mercier and ReVive
92	2016	Chanel	Mégisserie Richard

93	2016	Estèe Lauder	Too Faced Cosmetics LLC
94	2015	YOOX Net-A-Porter Group	Net-a-Porter Group
95	2015	Tod's	Rogier Vivier
96	2015	Tapestry	Stuart Weitzman Holdings LLC
97	2013	LVMH	Loro Piana
98	2012	Kering	Brioni
99	2011	LVMH	Bulgari
100	2011	LVMH	Heng Long Italy

Dataset used in the analysis

Following up, the final dataset description is reported in .

Moreover, for the sake of clarity, the final dataset is split into three different tables, reporting the Acquired Companies' characteristics (Table 11), the Transactions' Traits (Table 12), and the Transactions' Financial Terms (Table 13), respectively.

Table 10: Dataset Description

Buyer_Category_of_Product	**No. Buyer companies by sector**	**Acquired_Category_of_Product**	**Total**
Apparel	19	Apparel	28

		J.&W.	4
Apparel Total			32
C.B.&S.	6	Apparel	1
		C.B.&S.	16
C.B.&S. Total	6		17
J.&W.	3	J.&W.	5
Total	**28**		**54**

Table 11: Acquired Companies Characteristics

ID_ACQUISIZIONE	Acqu_in_Italy	Acq_Age	Innovation_Level	Acquired_Dimension
L'Oreal Luxe acquires Aesop, 2023	0	2	H	3
Tapestry acquires Capri Holdings, 2023	0	2	L	3
Morellato acquires Christ Group, 2023	0	3	L	3
Kering acquires Creed, 2023	0	3	H	3

Kering acquires Valentino, 2023	1	3	L	3
Puig acquires Bryedo, 2022	0	2	L	2
L'Occitane acquires Grown Alchemist, 2022	0	2	H	1
Estèe Lauder acquires Tom Ford, 2022	0	2	L	3
Brunello Cucinelli acquires Lanificio Cariaggi Cashmere, 2022	1	3	L	2
Unilever Prestige Beauty acquires Paula's Choice Inc., 2021	0	2	H	3
Richemont acquires Delvaux Design Coordination et Finance S.A, 2021	0	3	L	2
Moncler acquires Sportswear Company, 2021	1	2	L	3

LVMH acquires Tiffany & Co, 2021	0	3	L	3
L'Occitane acquires Sol de Janeiro, 2021	0	1	L	2
Estèe Lauder acquires DECIEM, 2021	0	1	H	3
Aeffe acquires Moschino, 2021	1	2	L	2
Watches of Switzerland Group acquires Fraser Hart, 2020	0	3	L	2
Safilo acquires Privé Revaux, 2020	0	1	L	1
Puig acquires Charlotte Tilbury, 2020	0	1	H	3
Morellato acquires D'Amante, 2020	1	2	L	1
L'Oreal Luxe acquires Thierry Mugler S.A.S; Loris Azzaro SA, 2020	0	2	L	3

Cortina Holdings Limited acquires Sincere Watch Limited, 2020	0	3	L	1
Unilever Prestige Beauty acquires Tatcha, 2019	0	1	H	2
Shiseido Americas acquires DRUNK ELEPHANT, 2019	0	1	H	2
Safilo acquires Blenders Eyewear, 2019	0	1	H	1
Richemont acquires Buccellati, 2019	1	3	L	1
PRADA acquires Fratelli Prada , 2019	1	3	L	1
Morellato acquires Cléor, 2019	0	2	L	2
L'Occitane acquires ELEMIS, 2019	0	2	L	2
Farfetch acquires New Guards Group, 2019	1	1	L	3

Estèe Lauder acquires Have & Be Co. Ltd, 2019	0	1	H	3
Chanel acquires Renato Corti, 2019	1	1	L	3
Zegna acquires Thom Browne, 2018	0	2	L	2
Tod's acquires Italiantouch, 2018	1	1	H	1
Movado acquires MVMT Watches, 2018	0	1	L	2
Farfetch acquires Stadium Goods, 2018	0	1	L	2
Citychamp Watch & Jewellery Group acquires Ernest Borel Holdings, 2018	0	3	L	1
Chanel acquires Mabi, 2018	1	2	L	2
Capri Holdings acquires Versace, 2018	1	2	L	3
Canada Goose acquires Baffin, 2018	0	2	L	1

Watches of Switzerland Group acquires Mayor's Jewelers, 2017	0	3	L	3
Unilever Prestige Beauty acquires Living Proof, 2017	0	1	H	2
Tapestry acquires Kate Spade & Co, 2017	0	2	L	3
Movado acquires JLB Brands Limited, 2017	0	1	H	1
LVMH acquires Christian Dior Couture, 2017	0	3	L	3
LVMH acquires Rimowa, 2017	0	3	L	3
Chanel acquires Grandis, 2017	0	2	L	1
Capri Holdings acquires Jimmy Choo Group, 2017	0	2	L	3
Unilever Prestige Beauty acquires Dollar Shave Club, 2016	0	1	H	3

Shiseido Americas acquires Laura Mercier and ReVive, 2016	0	2	L	2
Piquadro acquires Il Ponte Pelletteria, 2016	1	2	L	1
L'Oreal Luxe acquires IT Cosmetics, 2016	0	1	H	3
Estèe Lauder acquires Too Faced Cosmetics LLC, 2016	0	2	H	3
YOOX acquires Net-a-Porter Group, 2015	0	1	H	3
Tod's acquires Rogier Vivier, 2015	0	3	L	2
Tapestry acquires Stuart Weitzman Holdings LLC, 2015	0	2	L	3
LVMH acquires Loro Piana, 2013	1	3	L	3
Kering acquires Brioni, 2012	1	3	L	3

LVMH acquires Bulgari, 2011	1	3	L	3

Table 12: M&A Deal Traits

ID_ACQUISIZIONE	Importance_of_Heritage	Management_Continuity	Type_of_Integration_VH	Purpose
L'Oreal Luxe acquires Aesop, 2023	0	0	H	4
Tapestry acquires Capri Holdings, 2023	1	1	H	4
Morellato acquires Christ Group, 2023	0	1	H	4
Kering acquires Creed, 2023	0	1	H	4
Kering acquires Valentino, 2023	1	1	H	4
Puig acquires Bryedo, 2022	0	1	H	4
L'Occitane acquires Grown Alchemist , 2022	0	1	H	3
Estèe Lauder acquires Tom Ford, 2022	1	0	H	4

Brunello Cucinelli acquires Lanificio Cariaggi Cashmere, 2022	1	1	V	2
Unilever Prestige Beauty acquires Paula's Choice Inc., 2021	0	1	H	3
Richemont acquires Delvaux Design Coordination et Finance S.A, 2021	1	0	V	2
Moncler acquires Sportswear Company, 2021	0	1	H	4
LVMH acquires Tiffany & Co, 2021	1	0	H	4
L'Occitane acquires Sol de Janeiro, 2021	0	1	H	3
Estèe Lauder acquires DECIEM, 2021	1	0	H	3
Aeffe acquires Moschino, 2021	1	1	H	4
Watches of Switzerland Group acquires Fraser Hart, 2020	0	0	V	1

Safilo acquires Privé Revaux, 2020	0	1	H	3
Puig acquires Charlotte Tilbury, 2020	0	1	H	4
Morellato acquires D'Amante, 2020	1	0	V	1
L'Oreal Luxe acquires Thierry Mugler S.A.S; Loris Azzaro SA, 2020	0	0	H	3
Cortina Holdings Limited acquires Sincere Watch Limited, 2020	1	0	H	3
Unilever Prestige Beauty acquires Tatcha, 2019	1	1	H	4
Shiseido Americas acquires DRUNK ELEPHANT, 2019	0	0	H	3
Safilo acquires Blenders Eyewear, 2019	1	1	H	3
Richemont acquires Buccellati, 2019	1	1	H	4
PRADA acquires Fratelli Prada , 2019	1	0	V	1

Morellato acquires Cléor, 2019	1	1	V	1
L'Occitane acquires ELEMIS, 2019	0	1	H	3
Farfetch acquires New Guards Group, 2019	0	1	H	4
Estèe Lauder acquires Have & Be Co. Ltd, 2019	0	1	H	3
Chanel acquires Renato Corti, 2019	1	1	V	2
Zegna acquires Thom Browne, 2018	1	1	H	4
Tod's acquires Italiantouch, 2018	0	0	V	1
Movado acquires MVMT Watches, 2018	0	1	H	3
Farfetch acquires Stadium Goods, 2018	0	0	H	4
Citychamp Watch & Jewellery Group acquires Ernest Borel Holdings, 2018	0	0	H	3

Chanel acquires Mabi, 2018	1	1	V	2
Capri Holdings acquires Versace, 2018	1	0	H	4
Canada Goose acquires Baffin, 2018	1	1	H	3
Watches of Switzerland Group acquires Mayor's Jewelers, 2017	1	0	V	1
Unilever Prestige Beauty acquires Living Proof, 2017	0	1	H	3
Tapestry acquires Kate Spade & Co, 2017	0	1	H	4
Movado acquires JLB Brands Limited, 2017	0	1	H	3
LVMH acquires Christian Dior Couture, 2017	1	0	H	4
LVMH acquires Rimowa, 2017	1	1	H	4
Chanel acquires Grandis, 2017	1	1	V	2

Capri Holdings acquires Jimmy Choo Group, 2017	1	1	H	4
Unilever Prestige Beauty acquires Dollar Shave Club, 2016	1	0	H	4
Shiseido Americas acquires Laura Mercier and ReVive, 2016	0	0	H	3
Piquadro acquires Il Ponte Pelletteria, 2016	1	1	V	2
L'Oreal Luxe acquires IT Cosmetics, 2016	0	1	H	4
Estèe Lauder acquires Too Faced Cosmetics LLC, 2016	1	0	H	3
YOOX acquires Net-a-Porter Group, 2015	1	0	H	4
Tod's acquires Rogier Vivier, 2015	1	1	H	4
Tapestry acquires Stuart Weitzman Holdings LLC, 2015	1	1	H	4

LVMH acquires Loro Piana, 2013	1	1	H	4
Kering acquires Brioni, 2012	1	0	V	2
LVMH acquires Bulgari, 2011	1	1	H	4

Table 13: Financial Terms of M&A Transactions

ID_ACQUISIZIONE	Acquired_Stakes_Percentage	Price_of_Acquisition_M	Ptotal_EV_M	Multiple
L'Oreal Luxe acquires Aesop, 2023	1	2329,00	2329,00	4,63
Tapestry acquires Capri Holdings, 2023	1	7700,00	7700,00	1,49
Morellato acquires Christ Group, 2023	1	250,00	250,00	0,81
Kering acquires Creed, 2023	1	3500,00	3500,00	14,00
Kering acquires Valentino, 2023	0,3	1700,00	5666,67	3,99

Puig acquires Bryedo, 2022	1,00	1000,00	1000,00	8,47
L'Occitane acquires Grown Alchemist, 2022	0,49	5,03	10,27	2,83
Estèe Lauder acquires Tom Ford, 2022	1,00	2670,00	2670,00	1,68
Brunello Cucinelli acquires Lanificio Cariaggi Cashmere, 2022	0,43	15,05	35,00	0,31
Unilever Prestige Beauty acquires Paula's Choice Inc., 2021	1,00	1679,00	1679,00	6,36
Richemont acquires Delvaux Design Coordination et Finance S.A, 2021	1,00	250,00	250,00	3,05
Moncler acquires Sportswear Company, 2021	0,70	1150,00	1642,86	5,30
LVMH acquires Tiffany & Co, 2021	1,00	14724,29	14724,29	3,80
L'Occitane acquires Sol de Janeiro, 2021	0,83	378,70	456,27	4,82

Estèe Lauder acquires DECIEM, 2021	0,47	820,00	1744,68	4,66
Aeffe acquires Moschino, 2021	0,30	66,60	222,00	3,51
Watches of Switzerland Group acquires Fraser Hart, 2020	1,00	37,67	37,67	0,45
Safilo acquires Privé Revaux, 2020	0,61	61,68	100,55	5,28
Puig acquires Charlotte Tilbury, 2020	1,00	891,20	891,20	5,19
Morellato acquires D'Amante, 2020	1,00	8,00	8,00	0,50
L'Oreal Luxe acquires Thierry Mugler S.A.S; Loris Azzaro SA, 2020	1,00	1300,00	1300,00	3,82
Cortina Holdings Limited acquires Sincere Watch Limited, 2020	1,00	70,97	70,97	2,33
Unilever Prestige Beauty acquires Tatcha, 2019	1,00	446,43	446,43	5,00

Shiseido Americas acquires DRUNK ELEPHANT, 2019	1,00	769,00	769,00	7,19
Safilo acquires Blenders Eyewear, 2019	0,70	57,50	82,14	2,12
Richemont acquires Buccellati, 2019	1,00	150,00	150,00	4,05
PRADA acquires Fratelli Prada, 2019	1,00	66,00	66,00	1,52
Morellato acquires Cléor, 2019	1,00	50,00	50,00	0,63
L'Occitane acquires ELEMIS, 2019	1,00	753,60	753,60	5,69
Farfetch acquires New Guards Group, 2019	1,00	612,35	612,35	1,98
Estèe Lauder acquires Have & Be Co. Ltd, 2019	1,00	1500,00	1500,00	3,34
Chanel acquires Renato Corti, 2019	0,40	106,67	266,67	1,67
Zegna acquires Thom Browne, 2018	0,85	427,50	502,94	3,72

Tod's acquires Italiantouch, 2018	1,00	25,00	25,00	1,18
Movado acquires MVMT Watches, 2018	1,00	92,31	92,31	1,56
Farfetch acquires Stadium Goods, 2018	1,00	220,00	220,00	2,33
Citychamp Watch & Jewellery Group acquires Ernest Borel Holdings, 2018	0,53	41,62	78,54	3,24
Chanel acquires Mabi, 2018	0,40	46,67	116,67	1,67
Capri Holdings acquires Versace, 2018	1,00	1830,00	1830,00	2,67
Canada Goose acquires Baffin, 2018	1,00	28,56	28,56	0,04
Watches of Switzerland Group acquires Mayor's Jewelers, 2017	1,00	84,82	84,82	0,52
Unilever Prestige Beauty acquires Living Proof, 2017	1,00	189,80	189,80	2,00

Tapestry acquires Kate Spade & Co, 2017	1,00	2144,23	2144,23	0,19
Movado acquires JLB Brands Limited, 2017	1,00	68,00	68,00	4,87
LVMH acquires Christian Dior Couture, 2017	1,00	6500,00	6500,00	3,51
LVMH acquires Rimowa, 2017	0,80	640,00	800,00	2,29
Chanel acquires Grandis, 2017	0,34	0,60	1,78	1,78
Capri Holdings acquires Jimmy Choo Group, 2017	1,00	1166,07	1166,07	2,74
Unilever Prestige Beauty acquires Dollar Shave Club, 2016	1,00	949,01	949,01	5,00
Shiseido Americas acquires Laura Mercier and ReVive, 2016	1,00	233,15	233,15	1,51
Piquadro acquires Il Ponte Pelletteria, 2016	0,80	3,18	3,97	0,18
L'Oreal Luxe acquires IT Cosmetics, 2016	1,00	1088,89	1088,89	6,63

Estèe Lauder acquires Too Faced Cosmetics LLC, 2016	1,00	1345,83	1345,83	5,25
YOOX acquires Net-a-Porter Group, 2015	1,00	1840,00	1840,00	2,44
Tod's acquires Rogier Vivier, 2015	1,00	415,00	415,00	3,27
Tapestry acquires Stuart Weitzman Holdings LLC, 2015	1,00	xxx	xxx	xxx
LVMH acquires Loro Piana, 2013	0,80	2000,00	2500,00	3,57
Kering acquires Brioni, 2012	1,00	350,00	350,00	2,06
LVMH acquires Bulgari, 2011	1,00	3700,00	3700,00	3,99

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Acknowledgments

We want to express our sincere gratitude to everyone who supported us along this journey.

First and foremost, we would like to thank Prof. Alessandro Brun, our supervisor, for his priceless guidance and support. His experience and knowledge significantly enhanced the value of our academic experience.

We also want to express our heartfelt gratitude to all the professionals who graciously got involved with the interviews. Your cooperation has been invaluable.

A special thanks to PRADA, especially Emilia Ricci, Roberto Massardi, and Valeria Panza, for dedicating their time and supporting us throughout this study's development.

We extend heartfelt gratitude to our family and friends, whose unwavering encouragement and support have been a constant source of strength. It would have been much more challenging to accomplish this objective without them.

Lastly, we would like to express our gratitude to everyone who has helped us throughout the years to grow both academically and personally. We are incredibly thankful for every moment spent together because each person has uniquely contributed to our adventure.

Thanks to all who have played a part in this. We feel incredibly fortunate to have you with us at this milestone.

Allegra e Valentina