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EXECUTIVE SUMMARY OF THE THESIS

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

TESI MAGISTRALE IN MANAGEMENT ENGINEERING – INGEGNERIA GESTIONALE

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1. Introduction

"The luxury domain is a paradox. Economic data show that it has been thriving (…) despite temporary recessions during economic, financial, and political crises" (J. Kapferer et al., 2016).
The luxury industry, dominated by a limited number of major companies (LVMH, Kering, Estèe Lauder, Chanel, etc.) that sustained investments in future and sustainable growth over the years, sets the stage for a nuanced exploration into a critical aspect leveraged by its players, Merger and Acquisition (M&A) deals.
The exceptional profitability of this industry is driven by premium prices (C. Moore et al., 2005), far exceeding production costs, resulting in significant profit margins. Since the value of each investment is generally valued through multiple methods based on the acquired company earnings or sales, the luxury sector represents an attractive ground for M&A deals due to its outstanding multiples.
Given the complexity of this sector, which stands out for its quality, exclusivity, and craftsmanship (A. Brun, C. Castelli, 2013), the value of acquisitions should be analyzed beyond the economic value 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.
The study examines 100 M&A transactions in the luxury sector from 2010 to 2023, offering qualitative and quantitative insights enhanced by interviews with M&A experts, legal professionals, and senior managers. This work aims to contribute to the limited literature on M&A in the luxury sector by investigating motivating factors, synergies, and the impact of acquisition drivers on value creation and M&A multiples definition.

2. Literature Review

By conducting a Literature Review, the objective was to analyze the main traits of the Luxury sector and explore the primary areas related to the topic of the study.

The concept of luxury

The evolution of the luxury concept traces back to ancient cultures, associating luxury goods with premium quality, craftsmanship heritage, and exclusivity (A. Brun, C. Castelli, 2013). In 18th-century Europe, the emergence of aristocratic elites marked the inception of the modern luxury business. Luxury is multidimensional, evoking exceptional comfort, elegance, and refinement. The criteria defining luxury vary globally, but "high quality" stands out as a dominant characteristic (J. Kapferer et al., 2016).

Luxury Supply Chain

Given the main characteristics on which the luxury industry relies, effective supply chain management must be guaranteed, addressing challenges from sourcing to distribution. Stringent guidelines are required to ensure quality, ethical practices, and timely delivery in the supply chain, addressing transparency and sustainability challenges.
The supply chain phases—sourcing, production, inventory, and downstream distribution—were examined in-depth.
The meticulous selection of suppliers and the collaboration with them is necessary to ensure the use of high-quality raw materials and components and to exploit co-design opportunities (Z. Peng, S. Jianfu, 2011).
Strong quality control procedures are required in production processes to ensure production standards that match each brand's requirements. Testing of products, inspections, and certification of raw materials used in manufacturing are some examples of quality control measures.
Inventories require effective management, too, to prevent stockouts and overstocking. The supply chain of a luxury firm must be organized to be reactive and hedged in the case of possible supply disruptions with strategic inventories (F. Caniato et al., 2011).
Through the last phase of the supply chain, luxury companies can sell their products by combining direct and indirect distribution channels, even though they prefer (when possible) to sell their product directly to the final points of sale, bypassing any kind of wholesaler or distributor. This enables better control over the retailing echelon, essential to building direct contact with the consumer (A. Brun et al., 2008).

Growth Strategies and M&A deals

In this competitive and dynamic sector, companies must grow to remain relevant, attract new clients, and retain existing ones. This aim can be obtained through organic or inorganic growth strategies, each with advantages and drawbacks.
While organic growth is obtained through internal means, inorganic growth refers to business expansion 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 companies [1], despite its increased risk.
Indeed, many luxury companies seeking to expand their operations and strengthen their competitive position continue to view it as one of the most attractive strategies.
Among different inorganic growth strategies, M&A is the most likely strategy to create value for companies, providing a fast track to business expansion [2]. By carefully selecting acquisition targets, managing the integration process effectively, and continuously evaluating the strategic fit of new acquisitions, companies can use this strategy to achieve their growth objectives and create long-term value for their stakeholders.

Parent Advantage & Synergies

M&A transactions allow buyer companies to create Parent Advantage, 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).
In the pursuit of the Parent Advantage, strategic alignment becomes paramount. This requires the corporate parent to customize its characteristics in accordance with the distinct requirements and critical success factors of its subsidiaries.
The achievement of the Parent Advantage requires a comprehensive approach, encompassing the provision of varied resources, fostering knowledge transfer, and capitalizing on the diverse synergies that can emerge within a group of affiliated companies.
Synergies assume a pivotal role in the landscape of M&A transactions, generating positive differentials between the valuation of the

integrated firm and the aggregate values of its separate entities. Identifying synergies is crucial for quantifying the added value they bring to the deal.
The actual value that a transaction can generate also includes intangible factors, such as brand repositioning, company culture, and personnel factors. Therefore, the strategic selection of target companies is tied to realizing synergies: the greater the potential synergies between two companies, the higher the perceived value of the resulting entity.

Company Evaluation

Beyond strategic considerations, target company selection is based on financial terms evaluation with a particular focus on Enterprise Value (EV). A firm's EV represents the comprehensive value of a firm, including its assets, financial liabilities, and capital structure, enabling buyers to assess the overall cost they would incur to acquire a company.
To this aim, Relative Valuation (M. Arnaboldi et al., 2015) stands out as a commonly used approach for computing a target company's EV across various valuation methods. This approach relies on estimating the acquisition multiples based on a set of comparable companies that serve as a benchmark for assessing the relative value of the target company.
Multiples can be computed as the ratio between the EVs of each comparable company *(i)* and a parameter that could usually be extracted from each comparable company's balance sheet.
In formulas, for each comparable company, the multiple could be estimated as:

$$Multiple_i = \frac{Value_i}{Parameter_i} \tag{1}$$

After the definition of the multiple applied in each comparable company acquisition, the overall EV of the target company *(K)* can be computed by multiplying the average of multiples with the same parameter of the target company. In formulas, the EV can be calculated as:

$$EV_K = \frac{\sum Multiple_i}{No. Comparable\ Companies} \times Parameter_K \tag{2}$$

3. Research Methodology

The Research Methodology consisted of three fundamental steps: a qualitative analysis of the sources selected for the Literature Review, an analysis of insights that emerged in experts' interviews, and a quantitative part comprised of financial data collection.

Literature Review

The Literature Review started with research on Scopus through queries to find papers addressing the relationship between the Luxury Sector and one or more of these topics: Supply Chain, Growth Strategies, M&A, and Parent Advantage.
After the paper selection, the final documents eligible for the theoretical background accounted for 38. Other 112 sources from international newspapers and companies' press releases were investigated for qualitative data gathering.

Experts' Interviews

The research's second stage relied on interviews with M&A experts directly operating in the luxury sector, legal field, financial industry, and strategic consulting. The Chief of Business Development Officer, the Strategic Corporate Finance Manager, and the Legal Industrial Director of PRADA significantly contributed to this phase.
The interviews were guided by nine questions based on the missing aspects that emerged during the literature review.
The primary research questions that addressed the quest of answering the research questions presented in Section 6 are:

1. What are the primary reasons that lead companies to consider M&A opportunities from seller and buyer perspectives?
2. What main synergies can result from an M&A transaction in the luxury sector?
3. Which vertical or horizontal acquisitions are companies primarily focused on? What motivated this direction?
4. What criteria are used to evaluate potential target companies for acquisition?
5. How are the new business figures and functions involved in the existing environment?

Data Collection on M&A transactions

The last step of the research consisted of the data collection for the construction of the Database used for the subsequent graphical and statistical analysis of the M&A operations.
For each acquisition, all the related information was reported according to the following structure:

- Information about the Buyer and the Acquired Companies: Revenue, sector of operation, nationality, level of innovation, year of foundation.
- M&A deal traits: Month and year the transaction was finalized, eventual management transition, acquisition type (vertical or horizontal), relevance of the acquired company heritage.
- Financial terms of the acquisition: Percentage of the acquired stakes, acquisition price.

4. Database Construction & Data Analysis

Preliminary Steps

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

Purpose Identification

From analyzing each acquisition background along with the information gathered from interviews, it emerged that four primary purposes can drive M&A deals in the luxury sector:

- 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, aimed at gaining control over the supply chain, the last two are mainly related to horizontal acquisitions.
To provide a clearer understanding of the rationale behind assigning a specific purpose to every M&A deal, the following acquisitions have been reported as exemplary cases:

- Purpose 1: Italian Touch acquired by Tod's [3].
- Purpose 2: Renato Corti, Mabi, and Grandis acquired by Chanel [4].
- Purpose 3: Have & Be Co. acquired by Estée Lauder [5].
- Purpose 4: Delvaux acquired by Richemont [6].

Multiples Computation

After the data gathering, one of the primary objectives of the study was to determine the multiple applied to each M&A transaction computed in compliance with formulas reported in the Literature Review.
Two assumptions underpinned this method: first, the price of the acquisition has been approximated to the EV of the target company; second, revenue was selected as the computation parameter due to the limited disclosed data.
In those cases where the buyer company only acquired a percentage of the stakes, the price of the acquired firm was calculated as the acquisition price divided by the percentage of stakes acquired.
As a result, the multiple associated with each transaction has been calculated as:

$$Multiple_i = \frac{P_i}{Revenue_i} \tag{3}$$

Database Construction

The comprehensive analysis of all the 100 mapped M&A transactions enabled the identification of the common traits characterizing each acquisition. All the traits identified have been then further examined to create numeric or factor variables that determine and make each acquisition distinctive.
In detail, numerical variables used in the study are *Year, GR_Buyer, GR_Mrk, Revenue_Buyer, Revenue_Acquired, Acq_Year_of_Foundation, Acq_Years_of_Existence, Acquired_Stakes_Percentage, Price_of_Acquisition_M, Ptotal_EV_M, Multiple.*
Factor variables are *Month, Success, Buyer_Name, Buyer_Category_of_Product, Acquired_Name, Acquired_Category_of_Product, Acquired_Nationality, Acqu_in_Italy, Acq_Age, Importance_of_Heritage, Innovation_Level, Acquired_Dimension, Type_of_Integration_VH, Management_Continuity, Purpose.*

For the sake of clarity, further explanations about the categorization of some of the factor variables were provided.
Success takes value "1" if the Growth Rate of the buyer in the year following the acquisition (*GR_Buyer*) is higher than that of the market average (*GR_Mrk*), "0" otherwise.
Acqu_in_Italy, *Importance_of_Heritage*, *Innovation_Level*, and *Management_Continuity*, assume value 1 when true and 0 otherwise.
Acquired_Dimension takes value "1" in the case of small-size firms, "2" for medium-size firms, and 3 in the case of large-size ones.
Type_of_Integration_VH equals "H" if the acquisition is horizontal and "V" if vertical.
Purpose can assume values "1","2", "3", or "4" in compliance with Purpose Identification.

Data Analysis

Since the objective of the analysis was to investigate relationships among the variables identified rather than predict future acquisitions' traits, the entire dataset has been used for model training.
The statistical and graphical analysis of the 100 mapped acquisitions involved thorough data cleaning, addressing "NaN" values deriving from 41 undisclosed transaction prices, and handling duplications and outliers. The final dataset comprised 57 statistical units.
To conduct the analysis, *Multiple* and *Success* were identified as target variables. Following the collinearity analysis among all variables, the ones selected to be employed in the further steps 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*.
Different methods were then employed to assess how the other variables impact *Multiple* and *Success*.
In particular, while boxplots were used to provide graphical insights into the relationship between the *Multiple* and each selected variable, histograms were used to examine the relevance of each variable on *Success*.
Scatterplots were then used to examine the relationship between the selected numerical variables and Multiple to complete the analysis.

Following a preliminary descriptive analysis, the significance of each variable influence on the target was carried out through the Mean Decrease in Impurity Index (MDI).
Regression and classification trees were then constructed for the targets *Multiple* and *Success*, respectively.
While the regression tree was built relying on the variables previously selected, for the classification tree, *Buyer_Category_of_Product* was excluded to prevent biased outcomes.
The objective was to identify the subset of variables that maximize the value of *Multiple* in the first case and the likelihood of outperforming the market in the second case.

5. Results

Results from Qualitative Analysis

Comprehensive analyses that combine key elements emerged from the Literature Review, experts' interviews, and the examination of each acquisition background resulted in a classification of the most relevant synergies within the luxury sector.
The developed classification was based on each synergy's primary area of implication, resulting in two different clusters: strategic and operational.

Strategic Synergies

Made in Italy Recognition: Acquiring an Italian luxury brand allows the transfer of values and high reputation associated with "Made in Italy" to the buyer.
This synergy is particularly relevant in the Apparel sector, where Italian design, craftsmanship, and quality are fundamental prerequisites.
Illustrative case: Capri Holdings' acquisition of Versace [7].

Preservation of Craftsmanship: Acquiring businesses that possess traditional craft skills, cultural heritage, and techniques essential to creating luxury products ensures the preservation of these key elements, preventing their loss from one generation to the next.
Illustrative case: Brunello Cucinelli's acquisition of Lanificio Cariaggi Cashmere [8].

Access to Cutting-edge Technologies: Acquiring companies distinguished by their cutting-edge technologies, patents, or chemical formulas

enhance buyers' ability to innovate and create high-quality and sustainable products, especially in the “Cosmetics, Beauty & Skincare” sector.
Illustrative case: Unilever Prestige Beauty’s acquisition of Living Proof [9].

Brand Synergies: Acquiring a business with a consolidated brand identity can lead to the creation of a more compelling and attractive brand identity that appeals to luxury consumers. This synergy, mainly exploited by large conglomerates, entails leveraging the strengths and assets of each brand, preserving their unique identities.
Illustrative case: Moncler’s acquisition of Stone Island [10].

New Customer Segments Entrance: Acquiring a brand targeting a different customer segment enables the creation of a more extensive and diversified clientele.
These transactions are often driven by the strategic intent of entering new market segments, notably Millennials and Gen Z, whose interest in social, economic, and environmental sustainability issues is exponentially rising.
Illustrative case: L’Occitane's acquisition of Sol De Janeiro [11].

Operational Synergies

Production Synergies: Acquiring businesses with specialized expertise, know-how, artisanal excellence, and sustainable production lines allows buyers to elevate product quality, improve operational efficiency, follow sustainable trends, and foster innovation while maintaining and ensuring the core values of the luxury sector.
Illustrative case: PRADA's acquisition of Conceria Superior [12].

Distribution Synergies: Acquiring distributors and retailers enables companies to maximize their sales potential by improved supply chain control, increased visibility, and potentially minimizing external costs due to a direct sales network.
Illustrative case: PRADA's acquisition of Fratelli Prada [13].

Results from Quantitative Analysis

After a preliminary study of the dataset, results from graphical and statistical analysis were reported and commented on.
To strengthen the validation of this quantitative study, results from data analysis were supported by reasonings deriving from the Literature Review, experts’ interviews, and the examination of each acquisition.

Target Variable: Multiple

Descriptive Analysis

The first phase of the analysis investigated how the size of multiples was determined concerning the other characteristics of each acquisition.
The rationale revolves around the idea that when buyers use a high multiple in determining the acquisition price, 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 the acquired company.
Only descriptions of results derived from boxplots showing the relationship between *Multiple* and the variables that the regression tree used for the first splits were reported in this document.
Acquired_Category_of_Product: Acquisitions of the target company operating in the “Cosmetics, Beauty & Skincare” sector present the highest multiples average. Specifically, the industry average multiple is 5.36, 2.25 times the "Apparel" sector and 2.62 times the “Cosmetics, Beauty & Skincare” sector.
Innovation_Level: Acquisitions of cutting-edge companies generally present high multiples; this result is coherent with identifying “Cosmetics, Beauty & Skincare” as the sector with the highest average multiple. 72.22% of companies in this industry leverage cutting-edge chemical formulas and innovative technologies.
Acquired_Dimension: the larger the acquired company, the higher the multiple applied.
This observation is supported by the composition of this cluster, which includes all the major acquisitions mapped, including Bulgari, Loro Piana, Christian Dior Couture, Tiffany & Co., and Versace: brands that have become luxury lifestyle representations and for which businesses are willing to pay a premium.
Purpose: Purposes 1 and 2, related to vertical integrations, present generally lower multiples

than those of Purposes 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; for Purpose 3 and 4, the average multiples are 3.72 and 3.87, respectively.

The low multiples related to acquisitions driven by Purpose 1 can be explained by the fact that this cluster includes mainly retailers, of which 83.33% presents a low level of innovation, implying lower multiples.

Low multiples associated with Purpose 2 can be justified by the fact that acquisitions in this cluster are driven by acquired companies ’savoir-faire, which 71.42% of the time evokes the “Made in Italy” and which is connected with their heritage, implying low multiples from what was revealed in the analysis.

Instead, the highest multiples are found in M&A transactions motivated by Purpose 3 and Purpose 4. All the pivotal acquisitions that see a high investment—justified by the size of the acquired firms—in exchange for a significant source of value represented by validated brands are included in these two clusters.

Regression Tree Analysis

The outcome of the regression tree was then examined to identify the subset of variables that maximize the multiples applied in M&A transactions.

This subset was defined considering the leaves of the regression tree that presented the two highest values of multiples average: 5.82 and 4.80, respectively.

The regression tree revealed that the highest multiples are applied when the acquired firm operates in the “Cosmetics, Beauty & Skincare” sector and when the M&A transaction is not driven by Purpose 3. Among the remaining purposes, the highest multiples are applied in the case of acquisitions driven by Purpose 4 because of the previously reported reasonings.

High multiples are also applied when the target firm operates in the “Cosmetics, Beauty & Skincare” sector; the M&A transaction is driven by Purpose 3; the target firm is not small and has a high level of innovation.

Since acquisitions of small-size companies were excluded, integrating the outcome of the regression tree to previous reasonings acquisitions of large firms result in the highest multiples.

Target Variable: Success

Descriptive Analysis

The second phase of the data analysis aimed to determine which subset of an acquisition's attributes results in the highest likelihood of success.

The objective of the analysis was to identify the drivers that define successful inorganic growth strategies and comprehend how these are applied by top performers in the market.

Acquisitions that occurred in 2023 have been excluded from the analysis because data necessary for the computation of the growth rate between the year of the acquisition and the following one were not available within the study's timeframe. Hence, the final dataset analyzed in this phase accounted for 54 acquisitions.

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

As for the regression tree, only descriptions of results derived from histograms showing the relationship between *Success* and the variables that the classification tree used for the first splits were reported in this document.

Acquired_Category_of_Product: This variable shows that, for acquired companies operating in the “Apparel” sector, the difference between the number of successes and failures is the highest compared to the other sectors.

57.41% of firms, indeed, reporting a growth rate higher than one of the markets operates in “Apparel”, and 87.5% of them acquired firms in the same sector.

Acqu_in_Italy: Especially for an acquired company in Italy, the buyer's success rate is higher than that of acquired firms operating outside Italy. The cluster of buyer companies for whom *Acqu_in_Italy* equals "1" includes the major luxury players, such as Kering, LVMH, and PRADA, that outperform the market in terms of revenue growth.

Acquired_Dimension: this variable analysis demonstrates that the larger the acquired firm in terms of revenue, the higher the number of successes and the lower the number of failures. In the case of large-sized 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 within the buyer's consolidated financial statements.

Purpose: the greatest discrepancy between the number of successes and failures is observed among acquisitions driven by Purpose 4. This can be explained by the fact that 69.57% of firms acquired for this purpose are large-sized, and 33.33% are medium-sized.

Purpose 2 acquisitions yield a greater number of successes too. Indeed, as emerged from the interviews, strengthening the upstream supply chain emerges as a strategy adopted by all the leading industry players. As a result, businesses currently leading the market are making acquisitions for Purpose 2.

An opposite likelihood of success is associated with Purpose 3. This can be explained by the fact that 38.89% of the acquired companies for Purpose 3 are small-sized businesses, and 33.33% are medium-sized, resulting in a smaller boost in buyers' revenue.

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

Classification Tree Analysis

As in the case of *Multiple*, the classification tree enabled the identification of the subsets of variables that imply the highest likelihood of success, considering the leaves with the first and second-highest number of observations categorized as successful, along with the largest difference between the sizes of the two classes.

Based on the graph's interpretation, acquisitions with the highest probability of success are those with target companies that are not small businesses and have their headquarters in Italy.

In light of the rationale previously reported, it can be inferred that, excluding 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.

Alternatively, to maximize the likelihood of success, the classification tree reveals that the acquired firm should be small or medium-sized, not acquired in Italy, not acquired for Purpose 2, not operating in the "Jewelry & Watchmaking" industry, and that the M&A transaction should present a management transition.

By combining the classification tree's output with the previously discussed boxplot reasonings, it can be ascertained that large companies' acquisitions are most likely to result in success; likewise, acquisitions driven by Purpose 4 and firms acquired operating in the "Apparel" sector that lead to a higher likelihood of success than the other categories.

6. Discussion

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

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

The results of the study underscore the prominence of M&A as the most profitable and secure strategy for growth and, consequently, for value creation. The primary focus lies in the objectives and motivations behind M&A transactions. The first two purposes are driven by the aim of vertically integrating the supply chain. Notably, supplier or distributor acquisitions enhance production efficiency, combat competition, and internalize valuable skills. Horizontal acquisitions aiming to enter new customer segments or geographical areas outline the third purpose, addressing sustainability trends and stakeholder expectations.

The final purpose involves enriching the brand portfolio, strategically enhancing brand prestige, increasing market share, or pre-empting competitors' actions.

Regardless of the motivation, the imperative in the M&A transaction within the luxury industry lies in generating value through synergies, which were classified into strategic and operational categories contingent on their primary areas of implication.

Strategic synergies include recognition of Made in Italy, preservation of craftsmanship, access to cutting-edge technologies, brand synergies, and new customer segments entrance. Operational synergies include Production and Distribution Strategies. These can be leveraged to optimize internal processes, distribution networks, and supply chain management to elevate product quality, improve efficiency, and maintain impeccable standards, upholding the luxury sector's recognized fundamental principles of uniqueness and exclusivity.

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

In the context of an M&A transaction in the luxury industry, specific traits of the target companies and the acquisition characteristics responsible for the application of higher multiples by the buyers were identified and diagrammed in Figure 1.
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.
The second element is related to the reason for the acquisition. Buyers are most willing to pay the highest multiples when they are driven by the aim to expand their brand portfolio (Purpose 4).
A comparable value is attributed to acquisitions, where the main objective is to expand into new markets and customer segments (Purpose 3).
In the case of acquisitions driven by Purpose 3, high value is attributed when the target company is large and when its level of innovation is high, suggesting a high interest of buyers in innovation-driven growth when determining the acquisition's worth.

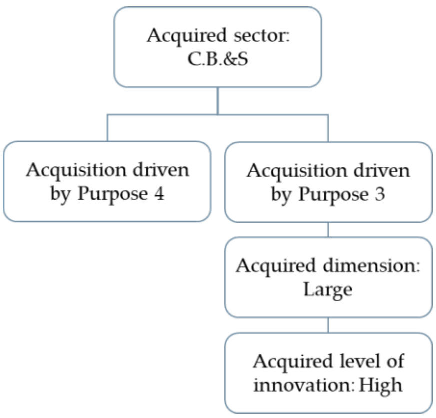

Figure 1: Routing for highest M&A multiples

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

To answer this research question, the investigation involved comparing each buyer's growth rate to the market's.
This enabled the identification of the M&A transaction traits shared by buyers with higher-than-average growth rates and, consequently, the common aspects between successful inorganic growth strategies using the classification tree method.
As Figure 2 diagrams, buyers outperforming the market are more likely to invest in large businesses. Larger companies boost, more than others, 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.
Successful market players favor companies in the "Apparel" industry when buying out large foreign companies. This can be explained by the tendency of firms to acquire companies within the same sector, and it is noteworthy that a significant proportion of the most 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).

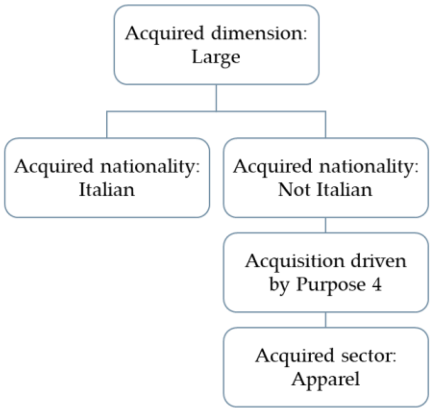

Figure 2: Routing for highest *Success* Likelihood

7. Conclusions

Despite efforts to conduct a comprehensive study, certain constraints are acknowledged, and these must be considered when interpreting the quantitative analysis results.
The first limitation is given by the intricate and exclusive nature of the luxury industry, which results in significant challenges in collecting sensitive data, particularly in the context of vertical acquisitions.

Another limitation lies in assessing M&A transactions beyond traditional financial metrics.
Each M&A deal is marked by a multitude of nuanced elements in its backstory, which often remains obscured because of the risk of jeopardizing negotiating positions.
The last substantial limitation to be considered is the inclusion of a restricted number of observations in the quantitative analysis due to the previously mentioned limitations in finding quantitative and qualitative data on M&A transactions in this industry.
The study employed an 11-year time horizon to enhance quantitative data availability, recognizing the evolving nature of growth strategies over an extended period. Considering the direct correlation between a company's growth rate and the operating period, the buyers' annual growth rate was meticulously compared to the market average, isolating it from other external factors. 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 from the classification and regression trees are not robust enough by themselves. To address this weakness, this study combined qualitative insights and reasoning with quantitative results at each step, allowing for more solid insights from the research.

Academic Implications

Due to the restriction of disclosed data, the literature lacks an analysis based on a large set of M&A deals in the luxury industry.
Existing research, primarily based on a limited number of case studies, challenges identifying patterns representative of the entire industry. The scarcity of quantitative models used to compare M&A deals, such as regression and correlation analyses, underscores the need for expanded datasets and sophisticated approaches.
To address these limitations, future research should broaden the number of observations by delving into paid and proprietary sources.
Another suggested direction for deeper investigation is to include other variables in the analysis, such as deal types and deal approaches, along with expanding the time horizon considered.
Moreover, researchers are encouraged to delve deeper into differences among buyers, including financial investors, beyond companies operating in the luxury sector.

Business Implications

This research offers valuable insights for decision-making in M&A transactions within the luxury industry. Acquisitions, as a primary avenue for inorganic growth, demand comprehensive valuations to mitigate risks. The study aids luxury buyers in choosing target companies, determining M&A terms, analyzing financial and strategic issues, and maximizing the potential for creating value after the acquisition.
Additionally, financial investors can leverage the study to identify valuable traits of target companies and M&A transactions for which buyers are willing to pay a higher price, contributing to more informed investment decisions.

Future Outlooks

The study reveals key trends shaping the luxury sector in the coming years. Notably, there is a growing trend toward vertical acquisitions as luxury firms recognize the importance of gaining complete control over the supply chain. Acquiring suppliers, especially Italian artisans, and tanneries, is on the rise, indicating a potential decline of their independence as individual firms. This shift is driven by a strategic focus on supply chain integration and a commitment to sustainability, responding to the increasing importance of environmental concerns among customers. Additionally, in the Cosmetics, Beauty & Skincare sector, the high profitability and emphasis on innovation may lead to a rise in start-ups and small to medium enterprises, contributing to a culture of continuous innovation in the luxury market.

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