Luxury industry: Covid-19 prompts investment funds to adopt long-term approach

By Dominique Muret - November 2, 2021

The role played by investment funds in the fashion and luxury sectors has changed in the wake of the crisis sparked by the Covid-19 pandemic. While investment opportunities have multiplied, leading to a spate of mergers and acquisitions, investors are paying more attention to the intrinsic value of labels, and to how they can bolster their expansion in the long term, as illustrated by the participants of the Milano Fashion Global Summit 2021.

“Short-term investments are no longer possible in a market that changes so quickly. Companies must now be backed for the long term, and evolve into chameleons in order to be able to tap all the transformations that are occurring,” said Alessandra Gritti, managing director of TIP Tamburi Investment Partners, which recently acquired a stake in high-end textile producer Limonta, and in 2019 did the same with budget fashion retailer OVS.

“In this post-pandemic phase, investment funds are looking at luxury players in a different way. Previously, a brand’s value was independent of its financial situation. Nowadays, a company must be viable in terms of its business model and also of its ability to produce cash flow, to stay on the market and invest in the medium and long term,” said Maurizio Tamagnini, CEO of FSI-Fondo Strategico Italiano, the Italian investment fund that bought a 41.2% stake in Missoni in 2018.

An opinion echoed by Andrea Bonomi, founder and president of Investindustrial, the private equity firm that is working with Ermenegildo Zegna on the latter’s stock exchange listing via a Spac (Special purpose acquisition company). “With the Covid-19 crisis, there are so many short-term emergencies to manage and challenges to face, like digital transformation and sustainability, that investors have had to adopt a new approach. A growing number of funds are investing with a long-term industrial perspective,” said Bonomi.

Looking for operational partners
“We are actually witnessing the acceleration of a trend that had already started before the pandemic. In the past, investment funds adopted a purely financial approach, mostly through leveraged buy-outs that generated outstanding returns. This approach is dying out, since founding families of middle-sized fashion labels are increasingly looking for operational partners capable of bolstering their efforts to become global market players,” said Luigi Feola, managing partner of L Catterton, the private equity firm co-founded by LVMH which notably took control of Etro in summer and of Birkenstock in February.

The example of Missoni is very telling in this respect, judging from the in-depth transformation FSI has engineered at the long-established Italian label in the last year and a half. “We appointed Livio Proli as CEO, cut costs, concentrated all offices in one single site in Milan, reorganised staff and hired talented new personnel, especially in the digital field, merged the second line, M Missoni, with the main line, took direct control of the Missoni Home line by acquiring T&J Vestor, and finally opened up new markets in Asia and in China, establishing subsidiaries there,” said Tamagnini.

According to Tamagnini, Missoni’s 2021 revenue is expected to be on par with 2019, and the label’s financial situation is positive. “We managed to transform a hugely difficult situation into a great opportunity. We are half way through a marathon. Besides [expanding in] Asia, we will step up the pace of omni-channel operations and name a new creative director soon,” he said.

The power of French groups

With the pandemic, another element has turned out to be essential in the industry, according to Tamagnini: “company size has become tremendously important. In five years, the market capitalisation of the leading French fashion and luxury groups has grown from €200 billion to €500 billion, while that of Italy’s top five groups rose from €20 billion to a little over €35 billion.”

Tamagnini is pessimistic about the outlook in Italy. “Italians are the world’s best entrepreneurs, but not necessarily the best capitalists. There are still plenty of Italian entrepreneurs whose name is the same as that of their company. Few of them manage to have a vision that goes beyond their own existence.”

Gritti too underlined that “company size is the topical theme. Size is essential to maintain market share.” She also made a comparison between France and Italy. “Once they become part of French luxury giants, Italian companies take flight, also by exploiting group synergies at the retail level that enable them to benefit from prime locations. The amount of finance that has been injected into labels bought by major groups, while other Italian companies have sorely lacked it, is what has made the difference in terms of growth and company size in the last few years,”
concluded Gritti.

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