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**"M&A and Market Reaction in the Luxury Industry:  
A Quantitative Study"**

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Firma (signature) 

*Alla mia famiglia, per la forza.*

*Ai miei nonni, per l'incoraggiamento.*

*Al Prof. Fabio Buttignon, per la guida.*

*Ai miei compagni, per la condivisione.*

# **M&A and Market Reaction in the Luxury Industry: A Quantitative Study**

## **Abstract**

*This thesis investigates the market reaction to M&A transactions in the luxury goods sector. It begins by examining the concept and scope of luxury, the structure of the industry, its key players, and the strategic profiles that characterize the sector. The analysis then focuses on the specific characteristics of M&A deals, including valuation approaches and key success factors highlighted in the literature. The empirical section relies on a dataset from S&P Capital IQ, complemented with data from Refinitiv and AIDA, and estimates the stock market reaction using Cumulative Abnormal Returns (CAR), alongside additional control variables. The results offer insights into how investors respond to M&A activity in this distinctive industry context.*

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## Introduction

Mergers and acquisitions (M&A) are now a central feature of the luxury goods industry. In this sector, value comes not only from products, but also from symbolic capital such as heritage, craftsmanship, and exclusivity. These elements guide corporate strategy and shape what investors expect (Giacosa, 2012; Kapferer & Bastien, 2009; Catry, 2003; Som & Blanckaert, 2015). Because luxury differs from mass-market industries, financial markets may read and price acquisitions in a different way. This thesis examines whether, and to what extent, stock markets reward or penalize M&A announcements, with a specific focus on firms operating in the personal luxury goods industry. By looking at short-window market reactions, it aims to show how investors judge the strategic and financial meaning of these deals in a context where brand equity, the added value that consumers attribute to a product because of its brand name, and scarcity are primary drivers of advantage.

The core problem has two parts. First, even though M&A is central to the growth strategies of major luxury groups, evidence on market reactions in this industry is still fragmented. Second, classic reasons for doing M&A - operational synergies, portfolio realignment, vertical integration, and fast geographic expansion - can play out differently when brands compete on rarity and cultural meaning (Palepu & Healy, 2013; Pfeffer & Salancik, 1978). Knowing whether the market sees luxury M&A as creating or destroying value is therefore key for managers, investors, and scholars working with strong intangible assets.

To answer this question, the thesis uses an event-study approach and measures abnormal returns (AR) and cumulative abnormal returns (CAR) around announcement dates (MacKinlay, 1997). Event studies offer a timely, market-based way to capture the information content of corporate news by separating the announcement effect from general price movements. In M&A research, short-window event studies are considered reliable for value effects: they usually show large positive reactions for targets and smaller, often near-zero, reactions for acquirers (Andrade, Mitchell, & Stafford, 2001). Applying this method to luxury firms tests whether these well-known patterns also hold where exclusivity, creative autonomy, and brand stewardship matter most.

The empirical analysis builds a hand-checked sample of M&A deals from S&P Capital IQ, with additional data from Refinitiv and AIDA. The study covers announcements from 2011 to 2025 and includes only transactions with a publicly listed acquirer, so daily prices are available to compute abnormal returns. It also carefully classifies “*true*” luxury brands, based on heritage, price positioning, and selective distribution, so the results reflect personal luxury goods rather than adjacent premium markets. Beyond the baseline market model, the design also considers sector effects by using a luxury-specific index available over the sample period.

The contribution is threefold. First, it documents short-term investor reactions to M&A in a brand-intensive setting, adding sector-specific evidence to the corporate finance literature (MacKinlay, 1997; Andrade, Mitchell, & Stafford, 2001). Second, it complements the numbers with a qualitative reading of emblematic deals, connecting statistical patterns to typical luxury narratives such as creative leadership, vertical capability building, and market entry. Third, through a carefully curated dataset and a transparent classification of personal luxury goods, the study focuses specifically on the luxury segment, avoiding the inclusion of adjacent premium players that follow different logics.

Methodologically, the thesis follows established event-study steps. It defines the event and estimation windows, estimates normal returns, computes ARs and CARs over short intervals around the announcement, and runs standard tests of statistical significance (MacKinlay, 1997). This delivers an immediate, model-based view of perceived value creation or destruction and shows how markets process acquisition news in a sector where long-term accounting outcomes may take time to emerge.

The thesis is organized as follows. **Chapter 1** delineates the contours of the luxury industry - definitions, market structure, key players, managerial profiles, and growth models - with emphasis on the strategic centrality of exclusivity and brand equity (Giacosa, 2012; Kapferer & Bastien, 2009; Som & Blanckaert, 2015). **Chapter 2** reviews the M&A literature on motivations, synergies, process stages, typologies, valuation, payment methods, and success factors, highlighting how classic drivers interact with organizational and cultural dimensions in complex transactions (Palepu & Healy, 2013; Kavanagh & Ashkanasy, 2006). **Chapter 3** presents the quantitative analysis: it justifies why market reactions matter, details the event-

study methodology, describes the dataset and luxury classification, and reports the empirical findings on ARs and CARs. **Chapter 4** complements the statistical evidence with qualitative case studies of prominent transactions, offering a richer interpretation of the mechanisms behind the observed market reactions. The thesis concludes by discussing limitations and avenues for future research.

# 1. LUXURY GOODS INDUSTRY

Before examining the specific dynamics of mergers and acquisitions within the luxury industry, it is important to first clarify what sets this sector apart from other segments of the market. Understanding the underlying traits that define luxury, such as a strong sense of tradition, restricted availability, and high emotional resonance, is crucial for assessing how these elements may shape both strategic decisions and the outcomes of M&A deals. Unlike mass-market businesses, luxury firms operate according to distinct principles that influence not only how they deliver and sustain value, but also how they pursue growth, innovation, and global positioning. Investigating the conceptual foundations of luxury and the mechanisms behind its market perception provides essential context for interpreting M&A activity in this exclusive industry.

## 1.1 Definition and the concept of luxury

*“There is no one definition of the word “luxury” and this is due to the fact that luxury is a rather personal phenomenon: each consumer sees it in their own way.”* (Giacosa, 2012)

As highlighted by Giacosa (2012), *“luxury is shaped by individual perception and context, what may be desirable to some may appear unnecessary to others”*. Furthermore, the definition of luxury is not static, continually adapts to shifts in social norms, political ideologies, and economic conditions.

To better grasp the nature of luxury, Kapferer and Bastien (2009) propose three key interpretative approaches:

1. **The Personal Experience Approach** – Luxury is a deeply individual and aspirational experience. An object may be regarded as luxurious by one person while appearing unnecessary to another. Historically, luxury was associated with public displays of wealth, but it has gradually become more personal, often reflecting a desire for differentiation and social emulation.

2. **The Elite Experience Approach** – Luxury is defined by exclusivity. It is accessible only to those who can afford both essential and non-essential goods without financial constraint. This view emphasizes luxury as a privilege restricted to a financially unconstrained elite, reinforcing symbolic status boundaries.
  
3. **The Brand Extension Approach** – Luxury is also constructed through branding strategies. A brand achieves luxury status by cultivating rarity, exclusivity, and prestige across product lines, while ensuring consistent quality and superior craftsmanship.

Despite these conceptual frameworks, several misconceptions still surround the luxury industry. One of the most common is the idea that price alone defines luxury.

As Som and Blanckaert (2015) point out, *“if one pays a high price for an item, that does not mean that the product is a luxury good”*.

In many cases, the value of luxury lies not in perfection but in uniqueness. Products may display deliberate imperfections or artisanal traits that differentiate them from mass-produced goods, reinforcing the emotional and symbolic dimensions of luxury.

Although the literature offers no single universally accepted definition of luxury, distinguishing luxury goods from ordinary consumer products is crucial for understanding market dynamics and strategic behavior in the industry. To address this, Brun and Castelli (2013) identify ten key factors (CFS) that contribute to a brand’s luxury positioning:

1. **Premium quality** across the entire supply chain, with exceptional raw materials and craftsmanship.
  
2. **A long-standing artisanal legacy**, often built on skills and techniques handed down over time.
  
3. **Exclusivity**, achieved via rare materials, limited production runs, selective distribution, and even waiting lists.

4. **Strategic marketing** that combines superior product performance with strong emotional appeal.
5. **Global brand reputation**, establishing trust, desirability, and symbolic power.
6. **Distinctive design**, allowing products to be recognized without overt branding.
7. **Country-of-origin effect**, leveraging national identity as a quality marker (e.g., “Made in Italy”).
8. **Intentional uniqueness**, including subtle imperfections that signal artisanal value.
9. **Superior technical performance**, especially relevant for luxury brands focused on innovation or engineering.
10. **Lifestyle orientation**, where luxury is not just a product, but a representation of a way of life.

Among these factors, exclusivity often emerges as the central pillar of luxury positioning (Catry, 2003). This exclusivity is often constructed rather than inherent, created through artificial scarcity, limited editions, selective retailing, or refined store environments. By cultivating a perception of rarity, luxury firms generate the “*illusion of unattainability*” (Catry, 2003), which in turn strengthens brand prestige and perceived value.

## **1.2 The luxury goods industry**

To analyze M&A in the luxury sector, it is essential to first understand the structural and strategic characteristics that define this unique market.

The luxury sector has long been noted for its ability to withstand macroeconomic volatility. This durability stems from its non-cyclical nature and from the relative financial stability of its core customer base, high-net-worth individuals who continue to spend on luxury goods regardless of broader economic conditions (Kapferer & Tabatoni, 2010). As noted by Som and Blanckaert (2015), this resilience has been further reinforced by the rise of new consumer segments in regions such as Asia and by shifts in consumer behavior, particularly in mature markets like the United States.

Even following the COVID-19 pandemic, the luxury sector recovered swiftly. Deloitte (2023) confirms that by the end of fiscal year 2022, luxury brands responded promptly to post-pandemic challenges by intensifying their digital strategies and revising distribution models<sup>1</sup>. Bain & Company (2024) further reports that top-tier luxury consumers expanded their share of total spending in 2024, underscoring their growing strategic importance<sup>2</sup>.

A defining characteristic of the luxury market is the “*inelasticity of demand*”<sup>3</sup>. Unlike mass-market products, luxury goods maintain their desirability, and sometimes increase it, even as prices rise. This is because pricing in luxury is closely linked to perceptions of exclusivity and prestige. As a result, brands can preserve high margins and strong positioning even amid inflationary pressures.

The global luxury market is typically segmented into three macro-categories: personal luxury goods, experiential luxury (such as high-end travel and hospitality), and luxury investment goods (e.g., fine art and collectible watches) (Silverstein, 2003). Of these, personal luxury goods remain the industry’s core segment. They include fashion, leather goods, cosmetics, fragrances, watches, and jewelry, products consumed directly and visibly by individuals, often for purposes of self-expression and status signaling.

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<sup>1</sup> Deloitte. (2023). *Luxury goods sales continued their recovery from the pandemic*. Retrieved from: <https://www.deloitte.com/global/en/about/press-room/luxury-goods-sales-continued-their-recovery-from-the-pandemic.html>

<sup>2</sup> Bain & Company. (2024). *Global luxury spending to land near €1.5 trillion in 2024, remaining relatively flat as consumers prioritize experiences over products amid uncertainty*. Retrieved from: <https://www.bain.com/about/media-center/press-releases/2024/global-luxury-spending-to-land-near-1.5-trillion-in-2024-remaining-relatively-flat-as-consumers-prioritize-experiences-over-products-amid-uncertainty/>

<sup>3</sup> KPMG. (2024). *The market of luxury goods*. Retrieved from: <https://assets.kpmg.com/content/dam/kpmg/gr/pdf/2024/02/gr-kpmg-future-of-consumer-goods-the-market-of-luxury-goods.pdf>

In 2023, the personal luxury goods market generated €362 billion in global sales, a 4% increase at constant exchange rates compared to 2022, remaining the “*core of the core*” of the global luxury industry<sup>4</sup>. However, this upward trend showed signs of moderation in 2024, with the market contracting slightly to €363 billion, a 2% decrease at current exchange rates and flat at constant rates<sup>5</sup>. This marked the first decline in 15 years (excluding the COVID-19 period) and was primarily attributed to weaker demand from younger consumers, particularly Generation Z, leading to an estimated drop of around 50 million luxury customers globally (Bain & Company, 2025). The modest decline at current exchange rates reflects a normalization following the strong growth recorded in 2022 and 2023. Nonetheless, the longer-term trend remains positive, as performance in 2024 continues to exceed pre-COVID levels, as shown in Figure 1.

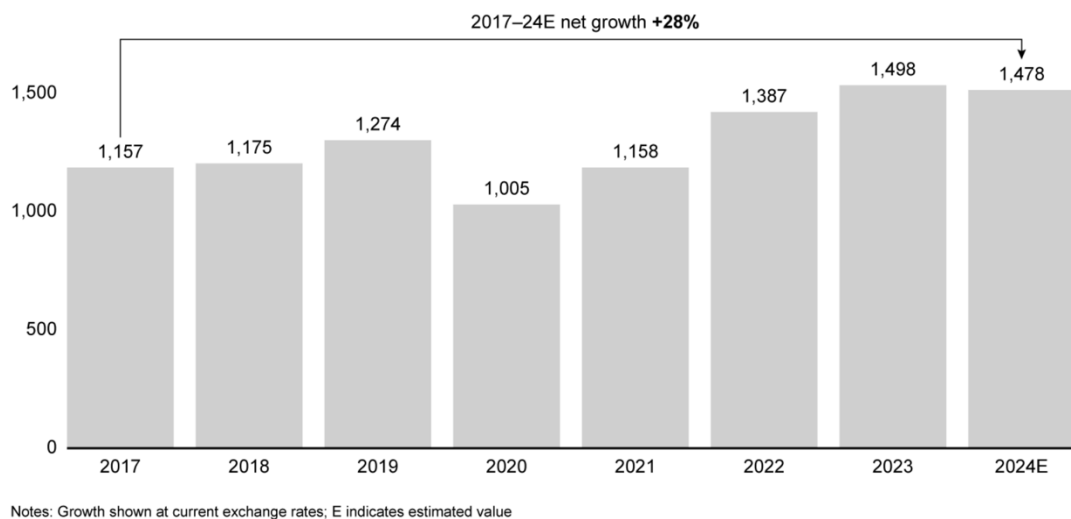


Figure 1. Worldwide luxury spending (€ billions) (Bain & Company, 2025).

As outlined in *Luxury in Transition: Securing Future Growth* (Bain & Company, 2025), one of the key structural trends in the industry is the continued expansion of digital and online sales. Online luxury sales saw a slight dip between 1% and 4%, reflecting a stabilization trend post-pandemic (Bain & Company, 2025), it has retained a stable 20% share of the overall luxury market. Within this segment, monobrand websites reported mixed performances: some

<sup>4</sup> Bain & Company. (2024). *Long Live Luxury: Converge to Expand through Turbulence*. Retrieved from: <https://www.bain.com/insights/long-live-luxury-converge-to-expand-through-turbulence/>

<sup>5</sup> Bain & Company. (2025). *Luxury in Transition: Securing Future Growth*. Retrieved from: <https://www.bain.com/insights/luxury-in-transition-securing-future-growth/>

brands achieved significant growth, while others struggled to engage consumers. Multibrand platforms, meanwhile, encountered difficulties in appealing to high-end clientele, with more accessible and premium brands performing relatively better. Conversely, off-price online channels continued to gain traction, acting both as an entry point for new consumers and a value-oriented option for affluent buyers.

At the same time, experiential luxury, encompassing sectors such as high-end travel, fine dining, and luxury hospitality, has gained significant momentum. This segment appeals to individuals who prioritize experience-driven value over physical ownership. The market for experience-based luxury has displayed a dual trend: while the more accessible tiers of the segment saw a contraction, demand remained robust among high-net-worth individuals pursuing the most exclusive and bespoke experiences.

Despite some regional slowdowns, most notably in China, where luxury sales declined by 18-20% in 2024<sup>6</sup> due to weakened consumer confidence and a shift toward overseas purchases (Bain & Company, 2025), the industry's long-term outlook remains robust. Global luxury spending reached €1.48 trillion in 2024<sup>7</sup>, registering only a 1% contraction at current exchange rates, reflecting the sector's resilience and ability to adapt quickly to market changes (Bain & Company, 2024).

Generational shifts are also driving change. Millennials and Gen Z already play a key role in luxury consumption and, along with Gen Alpha, are projected to become the dominant consumer base by 2030<sup>8</sup>. These younger consumers value authenticity, personalization, and sustainability, compelling brands to innovate and communicate through digital and socially relevant channels.

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<sup>6</sup> Bain & Company. (2025). *2024 China Luxury Goods Market: Navigating Turbulent Waters*. Retrieved from: <https://www.bain.com/insights/2024-china-luxury-goods-market/#:~:text=In%202024%2C%20the%20Chinese%20mainland,confidence%20and%20increased%20overseas%20spending.>

<sup>7</sup> Bain & Company. (2025). *Luxury in Transition: Securing Future Growth*. Retrieved from: <https://www.bain.com/insights/luxury-in-transition-securing-future-growth/>

<sup>8</sup> KPMG. (2024). *The market of luxury goods*. Retrieved from: <https://assets.kpmg.com/content/dam/kpmg/gr/pdf/2024/02/gr-kpmg-future-of-consumer-goods-the-market-of-luxury-goods.pdf>

Given these dynamics, the luxury fashion segment alone is forecasted to generate around \$495 billion in revenue by 2025, with a projected CAGR of 3.94% between 2025 and 2029<sup>9</sup>. Such projections underscore not only the industry's resilience but also its ongoing evolution.

Of all luxury categories, personal luxury goods represent the most vibrant and strategically pivotal segment. This segment represents not only the core of the luxury industry in terms of consumer visibility and emotional engagement, but also the area where the most substantial corporate investments and strategic transformations occur. Leading conglomerates, such as LVMH, Kering, and Richemont, derive the majority of their revenues from personal luxury goods, which include fashion, leather goods, jewelry, and watches. Due to its centrality, this segment serves as a primary battleground for brand positioning, innovation, and international expansion.

For these reasons, this thesis focuses its empirical analysis specifically on M&A activities within the personal luxury goods sector. Such transactions are not only more frequent and impactful here than in other segments, but they also provide the clearest insights into how companies in the luxury space deploy M&A as strategic tools to enhance brand equity, access new markets, and achieve long-term growth. By narrowing the scope to this segment, the analysis can better capture the financial rationales and managerial implications of M&A operations within a context that most vividly reflects the luxury industry's defining characteristics.

### **1.3 Key players in the luxury industry**

After outlining the defining characteristics of the luxury market and its major product segments, this chapter will focus on the main corporate actors shaping the global luxury landscape. These companies hold leadership positions globally thanks to their financial performance, strong brand equity, and consistent commitment to innovation. Moreover, they are key drivers of M&A activity, which represents a fundamental pillar of their long-term expansion strategies. In this section, particular attention will be given to how leading firms

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<sup>9</sup> Statista. (2024). *Luxury Fashion Report 2024*. Retrieved from: <https://www.statista.com/outlook/cmo/luxury-goods/luxury-fashion/worldwide>

have leveraged mergers, acquisitions, and alliances to strengthen their competitive position, expand their brand portfolio, and streamline operations. Below are profiles of three of the leading luxury brand companies that have most used M&A as a growth tool.

### **LVMH – Louis Vuitton Moët Hennessy**

LVMH is generally acknowledged as the world's leading luxury conglomerate in terms of scale, influence, and market presence. As noted by Som & Blanckaert (2015), the company owes its origins to the 1987 merger between Louis Vuitton, a leader in luxury fashion and leather goods, and Moët Hennessy, a dominant player in wines and spirits. This initial merger served both as a protective move against potential hostile bids and as a strategic effort to unite two iconic heritage brands under a diversified structure.

Since its inception, LVMH has pursued an aggressive and highly strategic acquisition policy<sup>10</sup>. Since Bernard Arnault assumed control in the late 1980s, the group has methodically expanded its presence across every major luxury segment through targeted acquisitions: from fashion and leather goods to perfumes, cosmetics, watches, jewelry, and selective retail. Arnault's strategy emphasized acquiring legacy brands with untapped potential, even if they were underperforming at the time.

Among its early acquisitions were Givenchy (1988), Kenzo (1993), and Guerlain (1994), followed by Céline and the DFS Group in 1996. The latter marked LVMH's entry into luxury retail, a segment that would later be expanded with Sephora (1997). Other significant deals of the 1990s include Marc Jacobs (1997) and TAG Heuer (1999), which allowed LVMH to enter the watch segment more forcefully.

In the 2000s, LVMH consolidated its expansion with acquisitions such as Emilio Pucci (2000), Fendi (2001), and notably Bulgari (2010), strengthening its position in hard luxury. The strategy continued into the 2010s with the acquisition of Loro Piana (2013), Rimowa

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<sup>10</sup> Everything Luxury. (2024). *LVMH's Strategic Acquisitions from Its Inception to 2024*. Retrieved from: <https://everythingluxury.com/fashion/lvmhs-strategic-acquisitions-from-its-inception-to-2024/>

(2016), and Christian Dior (2017), the latter representing one of the most complex transactions, valued at €12 billion.

In recent years, LVMH has increasingly ventured into both experience-based and digitally driven luxury sectors. In 2019, the group acquired Belmond Ltd. (luxury travel and hospitality), and in 2021, it finalized its most significant deal to date: the acquisition of Tiffany & Co. for \$15.8 billion, significantly boosting its jewelry segment and strengthening its footprint in the U.S. market.

Other recent acquisitions include Joseph Phelps Vineyards (2022), and Barton Perreira (2023), an eyewear brand purchased for \$80 million. In 2023, LVMH also acquired Pedemonte Group, a jewelry manufacturer, and increased its investment in production capabilities through the acquisition of Platinum Invest Group, which includes the French manufacturers Orest and Abyse.

In 2024, LVMH further expanded its hard luxury portfolio with the acquisition of L'Épée 1839, a Swiss manufacturer of luxury timepieces, and strengthened its eyewear division with a full acquisition of Barton Perreira. Moët Hennessy also expanded into rosé wines by taking control of Château Minuty.

Throughout its history, LVMH has also demonstrated the ability to divest underperforming brands (e.g., Christian Lacroix in 2005) and to protect its strategic interests, as seen in the controversial Hermès affair in 2013.

Today, the LVMH group comprises over 75 Maisons, organized across five major business units: fashion and leather goods, perfumes and cosmetics, watches and jewelry, wines and spirits, and selective retailing. In 2022, the company reported record sales of nearly \$60 billion, with a net profit margin of 18.6% and an operating margin of 26.7%<sup>11</sup> (Deloitte, 2023).

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<sup>11</sup> Deloitte. (2023). *Global Powers of Luxury Goods 2023*. Retrieved from: <https://www.deloitte.com/global/en/Industries/consumer/analysis/gx-cb-global-powers-of-luxury-goods.html>

The Fashion and Leather Goods division remains the largest, accounting for over two-thirds of personal luxury sales. Louis Vuitton and Christian Dior lead the way, alongside strong performances from Céline, Fendi, Loewe, and Marc Jacobs. In the Watches and Jewelry segment, Tiffany & Co., Bulgari, and TAG Heuer are the crown jewels, while Sephora and Le Bon Marché anchor the selective retail segment.

LVMH's sustained growth has been closely tied to its consistent and strategic use of M&As. The group's acquisition strategy reflects its broader goals: diversifying its portfolio, entering new market segments, acquiring production know-how, and revitalizing heritage brands. LVMH has successfully used M&A not only as a growth lever but also as a strategic tool for building synergies, acquiring talent, integrating vertically, and consolidating market leadership. This model has been especially effective in a sector where reputation, legacy, and exclusivity are critical drivers of value.

In addition to its M&A strategy, several key success factors have contributed to LVMH's global leadership. One of the most distinctive aspects of LVMH's approach is its commitment to preserving creative autonomy within its brands. Bernard Arnault has consistently empowered creative directors with autonomy, as evidenced by the celebrated tenure of John Galliano at Dior, Marc Jacobs at Louis Vuitton, and Phoebe Philo at Céline. While creative freedom is costly, it is balanced by strict cost control across manufacturing, logistics, inventory, media, and distribution.

Another cornerstone of LVMH's strategy lies in its unwavering commitment to quality throughout its operations. The group maintains tight control over the entire value chain, producing most of its goods in-house and owning 100% of its Louis Vuitton store network, a rarity in the luxury industry. This vertical integration ensures consistency, exclusivity, and profitability across its brand portfolio.

What sets LVMH apart is its rare capacity to balance global scale with creative excellence, tradition with forward-thinking, and diversification with a disciplined strategic vision. As the luxury market continues to evolve, LVMH's agility and its reliance on strategic M&A will remain fundamental to maintaining its global dominance.

## Kering

Previously operating under the name Pinault-Printemps-Redoute (PPR), Kering has established itself as a major force in the global personal luxury goods sector. Founded in 1963 by François Pinault as a timber trading business, the group underwent a major transformation in the late 1990s and early 2000s, transitioning from a retail conglomerate into a pure luxury goods group. The 2013 rebranding to “Kering” reflected a broader strategic repositioning, drawing on its Breton roots, where “Ker” means “home”, and signaling a values-based approach centered on people, brands, and sustainability (Som & Blanckaert, 2015).

Kering’s brand portfolio features several of the most renowned and influential names in the luxury landscape: Gucci, Saint Laurent, Bottega Veneta, Balenciaga, Alexander McQueen, Brioni, and more. As of FY2022, Kering's total net sales of luxury goods surpassed €20 billion, representing a 15.3% increase year-on-year<sup>12</sup> (Deloitte, 2023). Gucci remains the group’s flagship brand, exceeding €10 billion in revenue, followed by Saint Laurent and Bottega Veneta, both of which recorded double-digit growth. Kering has also been expanding in eyewear and beauty through strategic vertical integration and brand-specific initiatives.

Kering’s expansion through M&A has followed a targeted and carefully curated acquisition approach. The group began consolidating its position in luxury in 1999 with the landmark acquisition of Gucci, marking the start of its transformation into a multi-brand luxury conglomerate. That acquisition served as a launchpad for subsequent strategic deals aimed at constructing a diverse and resilient brand ecosystem. Between 2001 and 2004, Kering (then PPR) expanded Gucci Group by acquiring Bottega Veneta and Balenciaga, while also forging partnerships with Stella McCartney and Alexander McQueen. Additional acquisitions in subsequent years included Brioni (2011), Chinese jeweler Qeelin (2012), and British designer Christopher Kane (2013).

More recently, Kering has continued to pursue growth through targeted M&A activities. In 2021 and 2022, the group strengthened its presence in the high-end eyewear segment by

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<sup>12</sup> Deloitte. (2023). *Global Powers of Luxury Goods 2023*. Retrieved from: <https://www.deloitte.com/global/en/Industries/consumer/analysis/gx-cb-global-powers-of-luxury-goods.html>

acquiring Danish brand Lindberg and American brand Maui Jim. In 2023, Kering announced two major transactions: the acquisition of Creed, the world's largest independent high-end fragrance brand, for a reported €3.5 billion<sup>13</sup>; and the purchase of a 30% stake in Valentino for €1.7 billion, with an option to acquire full ownership by 2028<sup>14</sup>. These moves mark a clear strategic ambition to build Kering Beauté into a major pillar of the group, expanding beyond fashion into luxury beauty (Deloitte, 2023).

Kering tends to acquire minority or majority interests in creative, high-potential niche brands that offer promising development trajectories. The group generally allows its maisons to operate autonomously, while offering centralized expertise in key functional areas such as finance, legal affairs, logistics, and digital transformation. This model fosters efficiency and collaboration across the group, without diminishing the creative freedom of individual brands.

Key success factors for Kering include its capacity to develop and reposition brands through creative leadership and design innovation. High-profile designers such as Alessandro Michele (Gucci), Anthony Vaccarello (Saint Laurent), and Matthieu Blazy (Bottega Veneta) have played pivotal roles in revitalizing brand appeal. Additionally, the group's emphasis on direct-to-consumer distribution, digital innovation, and sustainability has contributed to its resilience and competitiveness in a rapidly evolving luxury landscape.

In summary, Kering's transformation from a broad-based retail holding into a premier luxury powerhouse has been driven by a bold yet methodical M&As strategy. Through targeted acquisitions and strategic divestitures, Kering has built a cohesive portfolio of brands that benefit from both autonomy and group-level synergies. By harmonizing integration efforts with creative independence and strong operational execution, Kering remains a key player in the global luxury arena.

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<sup>13</sup> Kering (2023, June 26). *Kering Beauté to acquire high-end fragrance brand Creed*. Press release. Retrieved from:

<https://www.kering.com/en/news/kering-beaute-to-acquire-creed>

<sup>14</sup> Kering (2023, July 27). *Kering to acquire 30% stake in Valentino*. Press release. Retrieved from:

<https://www.kering.com/en/news/kering-to-acquire-30-stake-in-valentino>

## Richemont

Compagnie Financière Richemont, based in Switzerland and majority-owned by the Rupert family, ranks among the most prominent groups in the international luxury goods market. Established in 1988 following the reorganization of the South African Rembrandt Group, Richemont emerged as a distinct luxury entity, particularly in the jewelry and high-end watchmaking sectors. The group is best known for its prestigious maisons such as Cartier, Van Cleef & Arpels, Jaeger-LeCoultre, and Piaget, which collectively account for a significant share of its total revenues (Som & Blanckaert, 2015).

Contrary to the more centralized models of other conglomerates, Richemont adopts a decentralized organizational approach that grants its maisons significant operational autonomy. This structure helps maintain the distinct heritage and creative direction of each brand, while still providing group-level support functions such as legal services, financial oversight, and logistics. As of FY2023, Richemont achieved nearly €20 billion in sales (excluding discontinued operations), marking a 19% year-on-year increase<sup>15</sup> (Deloitte, 2023).

Richemont's expansion has been largely driven by M&A, with a primary focus on jewelry and watchmaking, and more recently, on fashion and accessories. One of the group's defining M&A milestones occurred in 2000, when Richemont acquired Jaeger-LeCoultre, IWC, and A. Lange & Söhne for \$1.8 billion, securing a dominant position in the haute horlogerie segment and successfully fending off rival bids from LVMH (Som & Blanckaert, 2015).

Since then, Richemont has continued to expand its portfolio through carefully selected acquisitions. In 2021, the group acquired Delvaux, the Belgian luxury leather goods maison, adding heritage craftsmanship to its fashion and accessories division. In 2023, Richemont took a controlling stake in Italian luxury shoemaker Gianvito Rossi, reinforcing its presence in the high-end footwear market<sup>16</sup>. Such deals exemplify Richemont's focus on acquiring specialized brands that combine artistic direction with promising growth opportunities.

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<sup>15</sup> Deloitte. (2023). *Global Powers of Luxury Goods 2023*. Retrieved from: <https://www.deloitte.com/global/en/Industries/consumer/analysis/gx-cb-global-powers-of-luxury-goods.html>

<sup>16</sup> Richemont. (2023). "Richemont Acquires Majority Stake in Gianvito Rossi." Retrieved from:

Among Richemont's key strategic initiatives in recent years is its deliberate shift toward digitalization. In October 2023, the European Commission approved Richemont's agreement with Farfetch, which involved the transfer of a 47.5% stake in YOOX NET-A-PORTER (YNAP) in exchange for Farfetch shares. This partnership is expected to establish YNAP as a neutral, industry-wide online platform and accelerate Richemont's e-commerce capabilities<sup>17</sup>.

Richemont's expansion has been significantly driven by the strong performance of its Jewelry Maisons. In FY2022, sales from Cartier, Van Cleef & Arpels, and Buccellati exceeded €11 billion, representing 67% of the group's luxury revenues and growing by nearly 49% year-on-year. Specialist watchmakers also saw a strong rebound, with brands like IWC, Jaeger-LeCoultre, and Vacheron Constantin contributing to a 53% sales increase in the category. Additionally, Richemont's fashion brands, including Alaïa, Chloé, and Delvaux, reported robust growth following creative revitalization and expanded retail footprints (Deloitte, 2023).

Richemont's success can be attributed to its emphasis on brand autonomy, along with a diverse but synergistic portfolio of maisons, and its deep geographic reach, particularly in Asia and the Americas. The group's emphasis on craftsmanship, innovation, and selective expansion has allowed it to thrive in a competitive landscape while maintaining high standards of exclusivity and quality.

In conclusion, Richemont's rise to the forefront of the luxury industry has been underpinned by a well-structured and targeted approach to M&As. Through sustained investment in heritage maisons, digital transformation, and direct-to-client retail, Richemont continues to secure its role as a pillar of the global luxury industry.

As demonstrated by the growth trajectories of LVMH, Kering, and Richemont, M&A serves as a central mechanism for long-term strategic advancement within the luxury goods industry.

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<https://www.richemont.com/en/news-media/press-releases/2023-07-31-richemont-acquires-majority-stake-in-gianvito-rossi/>

<sup>17</sup> Richemont. (2023). "European Commission Approves Richemont-Farfetch YNAP Deal." Retrieved from:

<https://www.richemont.com/en/news-media/press-releases/2023-10-23-european-commission-approves-ynap-transaction/>

Far from being isolated or opportunistic events, for these major players, M&A is not a sporadic tactic but a core component of their strategic blueprints, serving as instruments to consolidate market power, enter new categories, acquire artisanal know-how, and respond to shifting consumer preferences. In a sector where brand heritage, craftsmanship, and exclusivity are paramount, the ability to integrate new maisons without compromising their identity is a key determinant of success.

Given the prevalence and strategic weight of M&A in the luxury sector, it is crucial to explore their role in shaping company performance and market positioning. It is precisely this observation that motivates the present research. This thesis centers on the personal luxury goods segment, a space where M&A activity is particularly prominent and analytically valuable. The empirical analysis that follows will seek to identify what the market reaction is associated with M&A transactions among major players by controlling also for patterns, critical factors, and outcomes, offering insight into one of the most dynamic and brand-sensitive sectors of the global economy.

## **1.4 Key profiles of the luxury sector**

In the previous sections, we have examined how major conglomerates in the luxury industry leverage M&A as a fundamental growth strategy. However, the effectiveness of M&A transactions, and the long-term performance of the acquired brands, relies heavily on the capabilities and strategic foresight of the management team. For this reason, understanding the profile and competencies of luxury managers is crucial to appreciating how strategic decisions, particularly in M&A, are conceived, evaluated, and implemented.

Luxury operates within a distinctive paradox: while it celebrates heritage and permanence, it simultaneously depends on innovation, originality, and reinvention to stay relevant. Managing this equilibrium calls for a distinct leadership style, capable of harmonizing creative autonomy with business pragmatism. As Ashok Som (2017)<sup>18</sup> highlights, the role of managers

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<sup>18</sup> Som, A. (2017, October 9). *What luxury brands are looking for in their managers*. ESSEC Knowledge. Retrieved from:

<https://knowledge.essec.edu/en/leadership/what-luxury-brands-are-looking-their-managers.html>

in luxury is not simply administrative, it is profoundly strategic and symbolic. Managers in this sector must combine logical strategic thinking with an emotional, visionary approach aligned with the brand's identity.

Traditionally, the creator of a luxury product, whether a couturier, designer, or perfumer, was also the primary decision-maker within the brand. However, as the industry has become more globalized and corporatized, this model has become less viable. Today's luxury industry calls for leaders able to manage international operations, increase production capacity while preserving exclusivity, and stay agile in the face of shifting consumer expectations. Creative directors are now encouraged to focus purely on artistic expression, while managerial leaders are entrusted with guaranteeing both operational efficiency and coherence with the company's strategic vision (Som, 2017).

In this context, the role of top management has become increasingly central. Strategic decisions such as entering new markets, launching product lines, or engaging in M&A activities demand a high level of managerial competence. Luxury managers are required to balance competing priorities, such as expanding reach without sacrificing exclusivity, and preserving heritage while fostering innovation. These paradoxes are at the core of luxury brand management and shape the decision-making process for M&A.

Som (2017) identifies several key attributes required of effective managers in the luxury sector:

- **Balanced cognitive approach:** Effective managers must integrate analytical decision-making with intuitive creative sensibilities.
- **Temporal adaptability:** They need to manage the interplay between long-term brand narratives and short-term market responsiveness.
- **Intercultural competence:** Given the global footprint of luxury brands, understanding and navigating different cultural codes is essential.

- Talent strategy: While nurturing internal leaders remains central, bringing in external profiles with crisis expertise and international exposure is also valuable.
- Omnichannel fluency: Success hinges on the ability to move fluidly between digital ecosystems and traditional retail environments.

This complex profile reflects the critical role that management plays not only in daily operations but also in defining long-term strategic directions, including M&A. The outcome of an acquisition frequently depends on how well managers retain the essence of the acquired brand while ensuring it fits within the parent group's overarching strategy. Furthermore, post-merger integration requires managers who can foster collaboration between creative and operational teams, harmonize cultural differences, and ensure continuity in quality and brand equity.

In the luxury world, where precision underpins excellence and brand perception drives value, managers play a far more influential role than mere implementation; they are guardians of brand integrity and engines of strategic innovation. Their influence on the outcome of M&A transactions is therefore both direct and profound, making managerial profiles a central element in the analysis of value creation in luxury mergers.

## **1.5 Growth strategies in the luxury industry**

Luxury brands operate at the intersection of legacy, selectiveness, and continual innovation. In a sector where historical identity must evolve alongside innovation, and timeless appeal must respond to global market shifts, the question of how to achieve sustainable growth becomes central to a firm's long-term success. As Som and Blanckaert (2015) note, there is no universally optimal path to expanding a luxury business. Instead, growth strategies must reflect the specific goals, resources, and identity of each company. Nevertheless, over time, three primary strategies have come to define luxury sector growth: mergers and acquisitions, product line expansions across different segments, and brand-building efforts through curated marketing and collaborations.

Among these strategies, inorganic growth, especially via M&A, has played a pivotal role in shaping the modern luxury landscape. Conglomerates like LVMH, Kering, and Richemont have strengthened their leadership positions largely by incorporating independent heritage brands into their portfolios and achieving vertical integration. These conglomerates benefit from strong financial backing and centralized infrastructures that enable them to scale production, expand distribution, and optimize advertising, while still allowing individual maisons to maintain creative independence. As a result, M&A serves not only as a means for expansion, but also as a strategic lever to gain resources, manage distribution channels, and access new categories or regions while minimizing risk. This model contrasts with the more organic development paths of traditional family businesses, which have historically financed their expansion internally and maintained tighter ownership control.

However, as luxury brands transition from family-run maisons to highly structured corporate entities, they face a series of dilemmas. The real challenge is in maintaining brand identity and creative integrity, while also pursuing global growth and satisfying shareholder expectations. Balancing exclusivity with the need for profit growth is especially demanding in the luxury industry. While conglomerates benefit from economies of scale and portfolio synergies, they also encounter imbalances: frequently, a small number of top-performing brands drive most of the group's profits, while others operate at break-even or are retained for strategic positioning.

In parallel, globalization and shifting consumer dynamics have accelerated the pressure to grow. The emergence of younger, more diverse, and more international customer bases has pushed brands to adapt both culturally and operationally. New entrants, particularly independent or family-owned brands, often struggle to compete without external funding or affiliation with a major group. For these players, an affiliation with a larger group can provide vital assets like international distribution systems, technological platforms, and integrated production chains (Som & Blanckaert, 2015).

Vertical integration has become a core strategic model within the luxury sector's development path. Brands increasingly seek to internalize production and distribution, not only to ensure quality and authenticity, but also to defend against counterfeiting and maintain price integrity.

Pioneered effectively by Louis Vuitton, this approach allows certain maisons to oversee every step of the value chain, from material sourcing to final point of sale. At the same time, it has supported diversified product development and tighter alignment between creative direction and operational execution.

In summary, the transformation of luxury from independent craft-based houses to global powerhouses has been driven by the dual imperative of expansion and brand coherence. This has led to the widespread adoption of a dual strategy: combining organic methods, such as retail expansion, vertical integration, and product diversification, with inorganic ones, primarily M&A, partnerships, and joint ventures. In the sections that follow, this chapter will explore these two growth models in greater detail, analyzing how they are deployed in practice and how they shape the competitive dynamics of the luxury industry.

## **Organic Growth**

For luxury firms aiming to grow without diluting their brand essence, internal or organic growth remains a key strategic route. Unlike inorganic strategies that rely on acquisitions or external alliances, organic growth entails expansion driven by a company's own assets, competencies, and internal processes. This approach typically involves broadening presence in current or new markets, enhancing existing product ranges, or introducing new internally developed collections (Forbes Burton, 2023<sup>19</sup>).

As mentioned above, in the luxury industry, where brand heritage, exclusivity, and authenticity are paramount, organic growth holds particular appeal. It allows companies to grow while safeguarding both their creative autonomy and operational coherence. This is especially relevant for maisons that prioritize craftsmanship, storytelling, and selective distribution as key components of their value proposition.

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<sup>19</sup> Forbes Burton (2023). *Business Growth Strategies: A Quick Guide to Organic & Inorganic Growth*. Retrieved from:

<https://www.forbesburton.com/insights/business-growth-strategies-a-quick-guide-to-organic-in-organic-growth>

Several organic growth strategies can be identified by Forbes Burton (2023):

- **Market Development:** This approach involves expanding into previously unexplored regions or targeting new customer demographics with existing products. For instance, luxury brands often expand into emerging economies such as India or the Middle East<sup>20</sup>, adapting communication strategies without altering the core product. This method preserves the integrity of the brand while unlocking new revenue streams.
- **Product Development:** Product innovation and extension are central to organic growth in luxury. Brands may launch complementary categories, such as a fashion house introducing a fragrance line, or enhancing product lines via exclusive materials, innovative designs, or special editions<sup>21</sup>. These efforts enhance desirability and consumer engagement without diluting the brand.
- **Market Penetration:** Focuses on boosting presence in current markets by strengthening brand loyalty and customer engagement. Techniques include strengthening customer service, implementing loyalty programs, refining pricing strategies, and intensifying promotional efforts<sup>22</sup>. These methods aim to reinforce brand-consumer relationships and encourage repeated purchases from loyal clientele.

Hermès stands as a prominent case of effective internal growth within the luxury sector. The French maison has consistently rejected aggressive acquisition strategies, choosing instead to emphasize exceptional quality, tightly managed production, and strategic product diversification. This disciplined approach has enabled Hermès to preserve its exclusivity and desirability while attaining steady and resilient expansion. In fact, the company reported no

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<sup>20</sup> LCBS (Luxury Connect Business School). (2023). *East Meets West: Adapting Global Luxury Brands for the Indian Consumer*. Retrieved from:

<https://lcbs.edu.in/east-meets-west-adapting-global-luxury-brands-for-the-indian-consumer/>

<sup>21</sup> McKinsey & Company. (2021). *State of Fashion: The Luxury Edition*. Retrieved from: <https://www.mckinsey.com/industries/retail/our-insights/state-of-luxury>

<sup>22</sup> McKinsey & Company. (2021). *State of Fashion: The Luxury Edition*. Retrieved from:

<https://www.bain.com/it/about-bain/media-center/press-releases/italy/20232/Dopo-un-anno-da-record-il-mercato-dei-beni-di-lusso-si-trova-di-fronte-al-dilemma-tra-focalizzarsi-su-consumatori-alto-spendenti-o-continuare-ad-espandersi-a-nuove-audience-in-un-contesto-di-continue-complexita/>

M&A activity in 2022 or up to September 2023<sup>23</sup>, further underscoring its commitment to internal development.

Financially, this model has proven exceptionally effective. Hermès has maintained net profit margins above 20% for seven consecutive years (FY2016–FY2022), and in FY2022 it recorded the highest net profit margin among the world’s Top 100 luxury companies at 29.1%, up 1.8 percentage points from the previous year<sup>24</sup>. These profit margins stem not from mergers, but from sustained organic progress. In Q2 2024 alone, Hermès achieved a 13% increase in organic sales, largely driven by the leather goods division, an area where the company has intentionally capping production volumes to uphold the brand’s exclusive positioning<sup>25</sup>.

This combination of financial discipline, artisanal focus, and organic expansion places Hermès as a benchmark for luxury firms aiming to grow without compromising brand integrity.

Brunello Cucinelli and Moncler are also noteworthy examples of firms that have pursued expansion through non-M&A routes.

Brunello Cucinelli has focused on global expansion through carefully chosen retail launches in key markets, frequently developed with regional collaborators, as well as on high-profile artistic and cultural partnerships that reinforce brand values and visibility<sup>26</sup>. Moreover, the company has leveraged licensing agreements for non-core categories such as eyewear, thus extending its brand ecosystem without internalizing new capabilities.

Similarly, Moncler, prior to its acquisition of Stone Island in 2020, adopted a distinctive approach to inorganic growth based on strategic collaborations and co-branding initiatives. Launched in 2018, the Moncler Genius initiative brought together celebrated designers and creative figures through a series of collaborative projects (e.g., Hiroshi Fujiwara, JW

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<sup>23</sup> Deloitte. (2023). Global Powers of Luxury Goods 2023. Retrieved from: <https://www.deloitte.com/global/en/Industries/consumer/analysis/gx-cb-global-powers-of-luxury-goods.html>

<sup>24</sup> Ibid.

<sup>25</sup> Martin Roll (2020). *Hermès –The Strategy Insights Behind the Iconic Luxury Brand*. Retrieved from: <https://martinroll.com/resources/articles/strategy/hermes-the-strategy-behind-the-global-luxury-success>

<sup>26</sup> Brunello Cucinelli. (2023). *Annual Report 2022*. Retrieved from: <https://investor.brunellocucinelli.com>

Anderson, and Craig Green), enabling the brand to innovate and appeal to younger audiences without structural changes to the company<sup>27</sup>. These examples demonstrate that luxury brands can grow and diversify their reach by leveraging collaborations, licensing deals, and co-creation, without relying on direct acquisitions.

Although organic growth offers significant advantages in terms of brand integrity and creative control, it is not without challenges. One of its main limitations is the slower pace at which results tend to materialize, especially when compared to acquisition-based strategies. This growth path often demands substantial upfront investments in areas such as research and development, infrastructure, and marketing, placing considerable strain on internal resources. Furthermore, in mature or highly competitive markets, the returns from organic initiatives may progressively decline, limiting their overall effectiveness. Organizational dynamics can also present obstacles: legacy systems, resistance to change, or a lack of agility may hinder a company's ability to innovate or respond promptly to market shifts (Forbes Burton, 2023).

## **Inorganic Growth**

Inorganic growth describes a company's expansion achieved by engaging in external strategies, such as mergers, acquisitions, or partnerships, rather than relying on in-house development processes. This strategy is especially widespread in the luxury sector, where tapping into new markets, acquiring reputable brands, or reinforcing supply chain control often demands swift access to external assets, know-how, or consumer networks that would be time-consuming or costly to develop internally (Agnihotri, 2014).

There are several strategic routes that companies can follow when pursuing inorganic growth. One is Horizontal integration which consists of acquiring peer firms within the same industry segment to boost market presence, reduce competitive pressure, or exploit scale-related efficiencies. Another is vertical integration, where firms gain more oversight across the supply or distribution chain, helping them lower operational expenses and ensure consistent quality standards. A third approach is diversification, that involves expanding into unrelated

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<sup>27</sup> Moncler. (2019). *Annual Report 2019*. Retrieved from: <https://www.monclergroup.com/en/investor-relations/financial-reports>

industries or markets, allowing firms to build a more balanced product offering and mitigate risks linked to geographic or sectoral concentration<sup>28</sup>.

In contrast with organic expansion, inorganic methods provide quicker entry into new customer segments, geographies, and technological capabilities, often facilitating the creation of synergies and enhancing strategic competitiveness. However, these approaches also come with notable drawbacks, including elevated financial outlays, cultural clashes between merging entities, compliance complexities, and potential dilution of brand identity.

From a theoretical standpoint, different motivations guide the choice of inorganic strategies. Theoretical frameworks offer various interpretations of why firms opt for inorganic growth. Efficiency theory argues that mergers are driven by the pursuit of operational synergies and cost optimization (Klein, 1996). From a monopoly perspective, acquisitions serve as instruments to increase market dominance (Ravenscraft & Scherer, 1987). Valuation theory suggests that companies may pursue targets when they perceive undervalued assets, thanks to superior information or insight. In markets characterized by oligopolistic competition, such as luxury, strategic behavior theory explains that joint ventures can act as a response to uncertainty or a way to deter new competitors (Vickers, 1985; Vernon, 1983).

Joint ventures offer a middle-ground strategy, allowing firms to pool resources, distribute risk, and combine strengths, especially when entering foreign markets, without requiring full ownership. Although joint ventures strike a balance between autonomy and cooperation, their success depends on a strong alignment of strategic goals and cultural compatibility between partners (Agnihotri, 2014).

Given that joint ventures do not usually entail a full transfer of ownership or control, they fall outside the analytical scope of this thesis. Instead, greater attention will be given to M&A in the strict sense, that is, transactions that lead to a transfer of ownership and control. This approach is particularly relevant in the luxury industry, where acquiring iconic brands or

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<sup>28</sup> Forbes Burton (2023). *Business Growth Strategies: A Quick Guide to Organic & Inorganic Growth*. Retrieved from:

<https://www.forbesburton.com/insights/business-growth-strategies-a-quick-guide-to-organic-in-organic-growth>

incorporating key strategic assets has frequently served as an effective catalyst for rapid expansion in the luxury sector, reaching untapped consumer groups and reinforcing the firm's overall strategic stance within the industry.

The following section introduces a series of case studies illustrating how M&A deals in the luxury industry have resulted in tangible, long-term growth for acquiring companies.

## **1.6 Recent M&A trends in the luxury industry**

This thesis will concentrate on M&A as the primary form of inorganic growth strategy discussed in the preceding sections. The relevance of this topic in the luxury sector cannot be overstated: M&A have evolved into a structured and deliberate component of luxury groups' strategies, employed to broaden brand portfolios, access international markets, and consolidate their global positioning. The frequency and scale of such transactions in recent years underscore their significance. Looking at just the past five years, it becomes clear how central M&A has been in shaping the competitive landscape of the personal luxury goods industry.

A landmark transaction was completed in 2021, when LVMH acquired Tiffany & Co. for \$15.8 billion, one of the most substantial deals in the history of luxury goods. Despite protracted price negotiations, the acquisition not only marked the end of Tiffany's 183-year independence but also positioned LVMH as a dominant player in the global jewelry market. While LVMH had long been a leader in the luxury sector, its jewelry division had historically underperformed compared to its fashion and leather goods segments. The acquisition of Tiffany offered LVMH a decisive chance to reinforce its footprint in the high-end jewelry segment by incorporating a globally renowned brand with deep-rooted brand equity and a loyal consumer base. Furthermore, the transaction allowed LVMH to expand its footprint in the U.S. market, a region where it had previously held a relatively weaker position. This required considerable post-acquisition investments to support Tiffany's growth trajectory and integration into LVMH's expansive global structure. The group's financial strength and wide-ranging brand portfolio were instrumental in supporting Tiffany's global expansion and enabling new synergies across sales channels and target markets (Zhang, Niu, & Liu, 2024).

In 2022, The Estée Lauder Companies (ELC) acquired Tom Ford for an enterprise value of \$2.8 billion, including \$2.3 billion paid by ELC and a \$250 million contribution from Marcolin S.p.A. at closing<sup>29</sup>. Through this acquisition, Estée Lauder established lasting ownership over the rapidly expanding Tom Ford Beauty line, which had recorded strong double-digit net sales growth over the past decade. Estée Lauder expects the brand to reach \$1 billion in annual sales, reinforcing its position in the luxury beauty market and expanding its digital and global footprint.

Additionally, the transaction removed ongoing royalty obligations and opened up new income opportunities via expanded licensing arrangements. Notably, Estée Lauder partnered with Zegna for fashion operations and renewed Tom Ford's eyewear license with Marcolin. Tom Ford will remain as creative visionary through 2023, ensuring continuity in brand identity during the integration phase.

The year 2023 was especially dynamic. Kering took a 30% stake in the Valentino fashion house for €1.7 billion, securing an option to acquire the remaining shares by 2028<sup>30</sup>. The deal initiated a wider collaboration with Mayhoola and highlighted Kering's strategic ambition to deepen its involvement in the high fashion arena. In the same year, Kering Beauté acquired 100% of the luxury fragrance house Creed from BlackRock and Chairman Javier Ferrán for €3.5 billion<sup>31</sup>. Founded in 1760, Creed is the largest independent player in high-end fragrances, known for its iconic scent Aventus. The acquisition provides Kering with an immediate scale in beauty and a platform to accelerate development across regions and categories, especially in China, Travel Retail, and women's fragrances. The deal positions Kering to capture value in a segment marked by strong growth, high margins, and recurring revenue streams.

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<sup>29</sup> Estée Lauder Companies (2022). *The Estée Lauder Companies to Acquire the TOM FORD Brand*. Retrieved from:

<https://www.elcompanies.com/en/news-and-media/newsroom/press-releases/2022/11-15-2022-214518900>

<sup>30</sup> Forbes Italia (2023). *François-Henri Pinault compra il 30% di Valentino per 1,7 miliardi di euro*. Retrieved from:

<https://forbes.it/2023/07/28/kering-30-valentino-mayhoola-for-investments/>

<sup>31</sup> Kering (2023). *Kering Beauté acquista Creed*. Retrieved from: <https://www.kering.com/it/news/kering-beaute-acquista-creed-storica-casa-di-fragranze-di-lusso/>

Meanwhile, Richemont pursued selective expansion with two significant acquisitions that reinforced its positioning in artisanal excellence and high-end craftsmanship. In 2023, the group acquired a controlling 70% stake in Gianvito Rossi<sup>32</sup>, the renowned Italian luxury footwear Maison. Founded in 2006 and headquartered in Milan, the brand is celebrated globally for its sophisticated design and impeccable quality, deeply rooted in the shoemaking tradition of San Mauro Pascoli. Founder Gianvito Rossi retained a minority stake and continues to lead the brand in partnership with Richemont, aiming to accelerate its international growth while maintaining the brand's distinctive heritage and artisanal expertise. In 2024, Richemont further expanded its jewelry division with the acquisition of 100% of Vhernier, a distinctive Italian high jewelry brand known for its bold, sculptural designs and the innovative use of unconventional materials like titanium and ebony. With all its creations handcrafted in Valenza, Vhernier reflects a contemporary but enduring design language that aligns well with Richemont's existing high-jewelry maisons<sup>33</sup>.

Other major players also made significant moves. In 2023, L'Oréal completed its \$2.5 billion acquisition of Aesop<sup>34</sup>, a premium cosmetics brand, representing the most significant acquisition ever made by L'Oréal and reinforcing its strategic foothold in the premium skincare and fragrance space. In 2024, EssilorLuxottica entered the streetwear segment by acquiring Supreme from VF Corporation for \$1.5 billion<sup>35</sup>. This strategic acquisition signaled a forward-thinking approach to luxury, designed to appeal to a younger, fashion-conscious demographic and to extend the group's reach beyond its core eyewear business. As noted by Chairman Francesco Milleri, Supreme's unique identity and consumer-focused business model align seamlessly with the group's innovation strategy and allow for new creative and cultural dimensions. Supreme is set to benefit from EssilorLuxottica's extensive industrial and distribution network while maintaining its distinctive brand ethos. Founder James Jebbia

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<sup>32</sup> Richemont (2023). *Richemont acquires a controlling stake in Gianvito Rossi*. Retrieved from:

<https://www.richemont.com/news-media/press-releases-news/richemont-acquires-a-controlling-stake-in-gianvito-rossi-starting-a-partnership-with-its-founder/>

<sup>33</sup> Richemont (2024). *Richemont acquires Vhernier*. Retrieved from:

<https://www.richemont.com/news-media/press-releases-news/richemont-acquires-vhernier/>

<sup>34</sup> L'Oréal (2023). *L'Oréal completes acquisition of Aesop*. Retrieved from: <https://www.loreal-finance.com/eng/news-release/loreal-completes-acquisition-aesop>

<sup>35</sup> Forbes Italia (2024). *EssilorLuxottica ha comprato Supreme per 1,5 miliardi di dollari*. Retrieved from: <https://forbes.it/2024/07/17/essilorluxottica-comprato-supreme-1-5-miliardi-dollari/>

emphasized the importance of staying true to Supreme's DNA, expressing confidence that the partnership would ensure long-term brand integrity and sustained success.

Finally, in 2025, Prada Group announced its acquisition of Versace from Capri Holdings for an enterprise value of €1.25 billion<sup>36</sup>. The transaction was not only emblematic of ongoing consolidation in the Italian luxury sector but also a calculated move intended to harness Versace's latent growth capacity. With annual revenues projected at \$810 million and a network of 227 retail stores globally, Versace brings with it unparalleled brand awareness, strong cultural relevance, and a distinctive aesthetic that complements Prada Group's existing portfolio. The acquisition will allow Versace to leverage Prada's best-in-class industrial infrastructure, retail expertise, and global capabilities, ensuring the brand continues to operate with creative autonomy. The group emphasized a patient, long-term approach, with priorities set on nurturing creativity, brand positioning, and customer experience over a 24-48 month horizon. This deal is expected to significantly increase Prada Group's scale, with Versace contributing approximately 13% to pro forma revenues and enhancing the group's geographic and product diversification<sup>37</sup>.

These prominent deals illustrate that M&A is more than a recurring tactic, it has become essential to sustaining a competitive edge in the luxury market. The question we will try to answer now is what are the motives for this "merger mania" (Pambianco, 2008) in the luxury business.

The drivers for M&A activities in the luxury business are multiple and often interrelated (Giacosa, 2012). From the perspective of the acquiring firm, a key goal is to achieve scale, which facilitates accelerated growth by generating operational synergies in areas such as production, logistics, and internal processes. These synergies allow companies to leverage

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<sup>36</sup> Prada Group (2025). *Prada Group reaches an agreement with Capri Holdings for the acquisition of Versace*. Retrieved from:

<https://www.pradagroup.com/it/news-media/news-section/25-04-10-pradagroup-versace.html>

<sup>37</sup> Prada Group (2025). *PRESENTAZIONE - IL GRUPPO PRADA ACQUISISCE VERSACE*. Retrieved from:

[https://www.pradagroup.com/content/dam/pradagroup/documents/2025/Aprile/inglese/Prada\\_Group\\_Investor\\_Presentation-Acquisition\\_of\\_Versace.pdf](https://www.pradagroup.com/content/dam/pradagroup/documents/2025/Aprile/inglese/Prada_Group_Investor_Presentation-Acquisition_of_Versace.pdf)

each partner's strengths, be it production capacity, market presence, or brand awareness, thus facilitating expansion in otherwise saturated or difficult-to-penetrate markets.

A second strategic goal is the geographical expansion of business scope. Acquiring a company with an established international network provides immediate access to new markets and customer bases, enabling the acquiring firm to speed up international expansion with reduced financial exposure and enhanced strategic efficiency.

Equally important is the acquisition of a valuable and well-established brand. Given the intangible value luxury brands represent, acquiring a maison with established heritage and visibility enables the buyer to capitalize on its pre-existing market prestige. Such was the case with LVMH's acquisition of Emilio Pucci or Bulgari.

M&A can also serve as a vehicle for brand extension across product categories, allowing the acquiring company to diversify its portfolio or reinforce its presence within a specific segment. By acquiring small, high-quality producers, firms can absorb specialized know-how without compromising the exclusivity that defines luxury positioning.

The creation of operational synergies is another recurring driver. The exchange of expertise between merging entities can streamline operations, lower expenses, and support product innovation, all while avoiding the limitations associated with organic scaling. This makes M&A particularly attractive when fast strategic realignment is needed.

Lastly, vertical integration via M&A is frequently pursued to secure control over the supply chain. By acquiring suppliers or distributors, luxury firms aim to safeguard product quality, preserve exclusivity, and strengthen their competitive position by maintaining control over production and distribution channels.

From the viewpoint of the acquired firm, M&A can represent a valuable opportunity to access financial resources, global networks, and managerial expertise. This can revive underperforming brands or accelerate the growth of rising ones by unlocking capital, enhancing operational models, and strengthening market outcomes. However, these advantages often come at the cost of reduced autonomy, as integration into a larger group can

generate friction due to differing managerial cultures and constrain the creative freedom that is essential in luxury branding.

The next chapter will present a comprehensive overview of the defining characteristics of M&A operations, examining key aspects such as typologies, financial structures, payment mechanisms, and related dynamics. This in-depth analysis will serve as a solid foundation for understanding M&A not only as a strategic growth tool but also as a multifaceted financial and managerial process. Gaining insight into these dynamics is essential for approaching the subsequent empirical analysis with a clear and structured perspective, enabling a deeper appreciation of the strategic and financial implications of M&A activities within the luxury sector.

## 2. MERGERS AND ACQUISITIONS

The chapter provides an in-depth overview of the key strategic and operational aspects that characterize M&A. It begins by examining the main strategic rationales behind such activity, including the pursuit of growth, portfolio diversification, and operational or financial synergies. It then outlines the different types of mergers and acquisitions, the phases of the deal process, and the primary stakeholders involved. Particular attention is given to the potential pitfalls companies may face at various stages, from due diligence to the complex phase of post-acquisition integration. Finally, the chapter reviews scholarly research on the drivers of success and failure in M&A deals, emphasizing both firm-level variables and broader contextual influences. Overall, the aim is to provide a clear and structured understanding of M&A strategy, which will serve as the theoretical foundation for the empirical analysis presented in the subsequent chapters.

### 2.1 Motivations for M&A

*"Organizational decision makers can choose between two broad alternatives to obtain resources from other organizations. They can create dense linkages to other organizations, or they can avoid such strong interconnection" (Pfeffer & Salancik, 1978).*

In an increasingly competitive and fast-evolving business environment, to maintain competitiveness and sustain long-term growth, companies must adopt strategic tools that enhance profitability. M&A represent a particularly effective route to achieve this, offering firms a means to scale operations, diversify offerings, and reinforce their market standing.

As Malik, Anuar, Khan, and Khan (2014) highlight, the primary goal of any organization is to generate maximum profit and increase shareholder wealth through higher dividends. To maintain and boost profitability, businesses rely on a range of strategic levers, among which M&A stands out, as a response to external pressures like market saturation, the need for innovation, or the pursuit of portfolio expansion. These strategic moves often require significant financial resources, which can be difficult for smaller or financially constrained firms to obtain. Consequently, organizations that struggle to secure sufficient funding may

find themselves unable to compete and are left with limited options, either exiting the market or merging with or being acquired by financially stronger firms. By integrating with other organizations, firms can unlock new opportunities and achieve sustainable expansion, reinforcing their position in the global marketplace.

While often treated as synonymous, the terms merger and acquisition describe conceptually distinct corporate transactions. According to Alao (2010), an acquisition occurs when one organization purchases part or all another organization, while a merger involves two or more organizations coming together to form a single entity. However, while Italian law distinguishes between these two processes<sup>38</sup>, the Anglo-Saxon legal system often treats them as synonymous. In this context, the companies involved are referred to as incorporating and incorporated entities, respectively. This has led to the common use of the term merger even when one company takes over another, particularly in cases where the organizations are of similar size. Given this overlap in terminology, we will consider mergers and acquisitions as a single phenomenon in our analysis.

With the basic concepts of M&A established, attention is now directed towards understanding the key motivations that prompt firms to pursue M&A.

While the answers may vary depending on the unique circumstances of each organization, there are several well-established motivations that drive firms to pursue M&A. Palepu and Healy (2013) outline a set of financial and strategic incentives that commonly underpin firms' decisions to engage in M&A activities.

One of the most common reasons firms opt for mergers or acquisitions is to increase their economic value. By combining resources, companies often benefit from economies of scale, such as the situation where a single larger firm can perform certain functions more efficiently than smaller firms could independently but, for example, by eliminating duplicate operations and redundancies. Another rationale involves combining complementary capabilities, where

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<sup>38</sup> *In the Italian legal system, mergers are regulated by Articles 2501 et seq. of the Civil Code, while acquisitions are typically governed either by the rules on transfer of shareholdings (e.g., Articles 2355 and 2469) or by those concerning the sale of a business, as outlined in Articles 2558 et seq.*

two entities join forces to build a stronger, more diversified organization by leveraging their respective assets.

Another strategic motivation for M&A is to improve target management. If a firm is underperforming in its industry, it might become an attractive target for acquisition. In many cases, poor performance is the result of managerial inefficiencies or decisions that serve personal interests rather than those of the shareholders. Acquiring a company with underperforming management provides an opportunity for the acquiring firm to step in and make improvements, thereby increasing value for its own shareholders.

Tax considerations can also influence M&A decisions, particularly when transactions offer opportunities to optimize the fiscal position of the combined entity, for instance, by leveraging accumulated losses or benefiting from preferential tax regimes. Nonetheless, these advantages are typically context-dependent and often subject to strict regulatory oversight. As such, while favorable tax treatments can enhance the overall value of a deal, they are rarely the principal rationale behind the decision to merge or acquire, serving instead as ancillary benefits.

Additionally, some companies use mergers and acquisitions to provide low-cost financing to financially constrained target companies. Capital markets are often imperfect, primarily due to asymmetric information between a company's management and outside investors. This lack of transparency makes public capital markets, such as stock exchanges, an expensive or challenging source of financing, especially for newly formed companies. Investors are often cautious during this investment due to perceived risks or insufficient information. In such cases, an acquirer can step in, offering not only financial support but also stability, helping the target company overcome capital constraints and providing a more reliable financing option.

Expanding into new geographical areas is a common strategic objective in M&A, particularly through cross-border transactions, which allow firms to enter foreign markets more swiftly than through internal development. Such acquisitions can provide immediate access to local distribution channels, advanced know-how, and potential cost savings that are often unattainable via partnerships or organic growth. The rising number of international deals,

especially those targeting emerging economies, reflects the strategic value that companies attribute to global expansion opportunities.

Finally, mergers can help firms increase product-market rents by creating dominant players in the market. With reduced competition, merging firms may gain the ability to set higher prices and increase profitability. However, such mergers can face regulatory scrutiny due to anti-competitive concerns.

To sum up, firms are driven to pursue M&A not only for immediate financial returns but also to improve operational performance, reinforce their competitive edge, and secure lasting development. These dynamics often initiate a self-reinforcing cycle, as captured in Sberman's Circular Model of Acquisition Growth at the Industry Level (2002) and later adapted by Chernenko et al. (2021), illustrated in Figure 2.

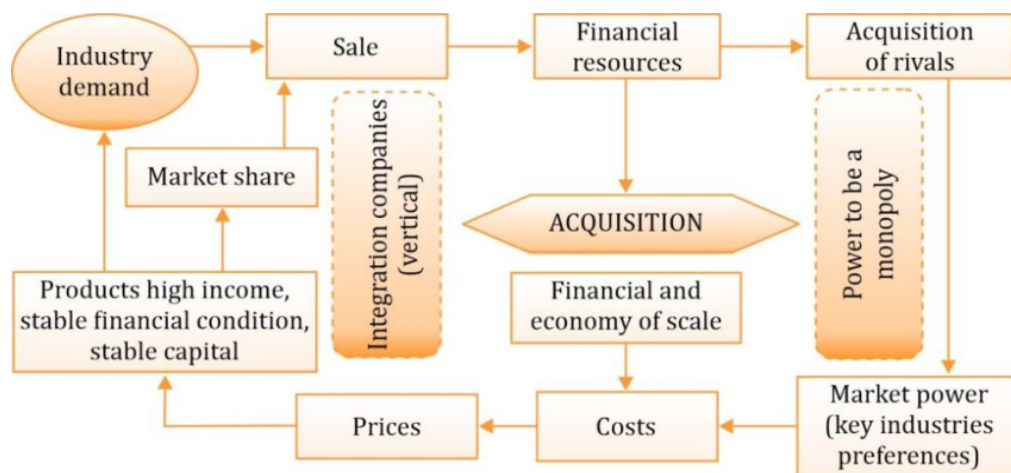


Figure 2. Circular model of acquisition growth at the industry (Sberman, 2002).

Through repeated acquisitions, large companies increase both their financial resources and competitive influence, which in turn facilitates additional deals and sustains their expansion trajectory. This cycle is further reinforced by vertical integration, which helps firms streamline operations, reduce costs, and secure a stable supply of complementary products. Moreover, the market power resulting from consolidation allows firms to steer industry trends, exert leverage in negotiations with suppliers and employees, and boost consumer demand, factors that contribute to a continuous expansion process.

Ultimately, M&A should be seen not just as a synergy-generating tactic, but as a transformative mechanism that actively drives the evolution of entire industries. The cyclical nature of acquisition-driven growth ensures that once a firm enters this trajectory, it often continues to expand, reinforcing competitive advantages and reshaping market structures over time (Chernenko, Moiseienko, Korohodova, & Hlushchenko, 2021).

In light of the multifaceted motivations and far-reaching consequences of mergers and acquisitions, it becomes evident that M&A is not merely a tactical choice, but a pivotal mechanism for strategic transformation in the modern business landscape. As companies compete with the demands of globalization, technological disruption, market saturation, and investor expectations, M&A has become an essential strategic tool for boosting growth, streamlining operations, and strengthening a company's standing in the competitive landscape.

### 2.1.2 Synergies in M&A

*“Businesses can create value through organic profitable growth, or through acquisitions. When it comes to M&A, the secret to success is synergies.”* (Binder, 2023)

As previously discussed, one of the primary strategic drivers behind mergers and acquisitions is the potential for synergies between the acquiring and target firms. By leveraging the acquirer's expertise, knowledge, and financial resources, the acquired firm can enhance its production processes and expand its business operations.

In M&A scenarios, value creation through synergies occurs when the total worth of the merged entity surpasses the aggregate of the separate firms' valuations (Feldman & Hernandez, 2022):

$$\text{Value}[A+T] > \text{Value}[A] + \text{Value}[T]$$

While this inequality may appear intuitive, the value generated by synergies is not always easily quantifiable. Often, synergies depend on intangible elements such as brand repositioning, organizational culture, human capital, and corporate alignment. Therefore, it becomes essential to identify and understand the main types of synergies that drive value creation in M&A transactions.

Feldman and Hernandez (2022) propose a typology based on two critical dimensions: the governance orientation of the resources and relationships that generate value, and the level of analysis at which these factors operate. This model identifies five principal categories of synergies: internal, market power, relational, network, and non-market synergies.

Internal synergies originate from the integration of tangible and intangible assets legally owned and controlled by the merging firms. Such assets fall under the control of the merged firm and are typically administered through formal internal governance. Examples include the consolidation of research and development pipelines, employee teams, and production facilities, where the recombination of internal capabilities generates greater value than they would independently.

Market-based synergies emerge through strategic relationships with buyers, suppliers, or rival firms. Through vertical integration or horizontal consolidation, firms can enhance their bargaining power, improve control over pricing, or eliminate rivals. These synergies are often grounded in industrial organization theory, where acquisitions help reduce transaction costs and improve coordination across the market.

Relational synergies are created through external partnerships and alliances that enhance mutual value creation. Unlike internal synergies, these derive from the capacity of the merging firms to build or strengthen relationships with key stakeholders such as suppliers, distributors, or strategic partners. Effective relational synergies rely on mutual confidence, well-defined governance mechanisms, and sound contractual practices between companies and their key collaborators.

Network synergies extend beyond direct partnerships and focus on the firm's overall position within a broader web of alliances. These synergies emerge when the acquiring firm inherits valuable relationships from the target or when redundant connections are removed, resulting in an optimized strategic network. Strengthening their role within the wider network enables firms to tap into exclusive resources, enhance innovation, and seize growth prospects more efficiently.

Non-market synergies involve interactions with societal actors such as governments, regulatory institutions, local communities, NGOs, or the media. Rather than being governed through legal agreements, these relationships are guided by common societal and environmental interests. For instance, when Unilever acquired Ben & Jerry's, a major part of the strategic rationale was the preservation and integration of socially responsible business practices within a larger corporate structure. This type of synergy contributes to enhanced legitimacy, stakeholder alignment, and long-term sustainability.

This classification provides a comprehensive framework for understanding how synergies can contribute to value creation in M&A transactions. By recognizing their diverse nature, firms can better assess the rationale behind an M&A and plan more effectively for post-merger integration.

Despite their strategic importance, synergies are not always successfully realized. As Chernenko et al. (2021) point out, many acquisitions fail to deliver the expected cost savings, operational efficiencies, or increased market power. In some instances, instead of generating value, M&A deals result in inefficiencies due to cultural clashes, poor integration planning, or strategic misalignment. Such issues may erode financial performance and, in some cases, necessitate the sale of previously integrated businesses.

Moreover, the M&A process itself is complex and involves considerable financial and operational risks. The negotiation process can be both time-consuming and costly, and in certain instances, transactions are not primarily aimed at synergy realization. In some cases, acquisitions serve simply as mechanisms for asset reallocation, rather than growth-oriented strategies. Therefore, a structured approach to synergy valuation is essential to justify the transaction and manage investor expectations.

According to Binder (2023), three primary approaches are used in synergy valuation: differential enterprise value, EBITDA multiple, and discounted cash flow (DCF). The choice of method depends on the nature of the deal, the availability of financial data, and whether the valuation is conducted from an internal or external perspective.

The differential enterprise value approach estimates synergies as the difference between the combined value of the firms and the sum of their standalone valuations. This method is useful when no explicit synergy disclosures are available, although it is highly sensitive to timing and can be less reliable when one of the entities is privately held.

The EBITDA multiple approach offers a more practical estimation. It calculates synergy value by multiplying expected annual synergy benefits by the pre-deal EV/EBITDA multiple. It presupposes that synergy gains carry equivalent risk and capital costs as the core business, and that their realization will be instant and cost-free. However, it often presumes perpetual realization, which may not reflect real market dynamics.

The most comprehensive and rigorous valuation approach is the DCF method. This model requires detailed projections of the cash flows generated by synergies, as well as the costs associated with realizing them. Typically, these cash flows begin with a ramp-up phase, with partial benefits materializing in the early post-merger years. The total implementation cost is frequently approximated by applying a multiple to the expected steady-state benefit. The model must also account for the finite useful life of synergies, recognizing that competitive forces may erode their value over time. Typically, the discount rate used is the acquirer's WACC, potentially modified to capture risks unique to the synergies in question.

While each of these methods has advantages and limitations, they all contribute to a clearer understanding of the value that synergies may generate. Ultimately, selecting the most suitable valuation technique depends on the specifics of the deal, the nature of the synergies involved, and the strategic intent of the transaction. Despite the challenges, firms continue to pursue M&A as a strategic tool to expand influence, strengthen capabilities, and optimize resource allocation in a dynamic and competitive marketplace.

## 2.2 Stages of the M&A process

This chapter explores the main stages of the M&A process, highlighting their critical role in ensuring a successful outcome. M&A deals are intrinsically complex and demand a methodical framework to mitigate risks and fully unlock synergy opportunities.

Understanding the sequential and interconnected nature of these phases is essential, as each stage influences the next and ultimately affects the deal's long-term success (Rodionova & Zavialova, 2018).

The process begins with the formulation of a corporate strategy, which lays the foundation for any potential merger or acquisition. Firms must first determine whether pursuing an M&A transaction aligns with their broader strategic objectives, such as expanding into new markets, increasing operational scale, acquiring new capabilities, or enhancing competitive positioning. Even when guided by clear strategic objectives, empirical evidence indicates that a large number of M&A transactions do not meet their projected goals. According to Christensen, Alton, Rising, and Waldeck (2011), between 70% and 90% of mergers fall short of expectations. For this reason, establishing a clear and well-articulated strategic rationale is essential.

Once the strategic intent is established, the acquiring firm defines specific criteria for identifying a suitable target. Common selection parameters involve strategic fit within the industry, financial robustness, established market positioning, operational strengths, and the likelihood of generating synergies. While industry leaders may seem attractive, acquirers often seek mid-sized firms with strong fundamentals and untapped growth opportunities. The search for targets may be conducted internally, through industry networks, or with the support of financial advisors or M&A intermediaries. The effectiveness of this stage is critical, as it directly shapes the feasibility and potential value of the transaction.

Upon identifying a viable target, the due diligence phase begins. This involves a comprehensive assessment of the target's financial, legal, operational, and strategic attributes. The process also involves assessing cultural compatibility and identifying potential risks, which helps anticipate post-deal integration hurdles and prevent hidden liabilities. During this phase, the acquirer also estimates the full cost of the transaction, not only the purchase price

but also integration-related expenses such as restructuring, technology alignment, and employee retention. If the target company resists the acquisition, the acquiring firm may need to address potential hostile takeover defenses (Rodionova & Zavialova, 2018).

Following due diligence, and assuming continued confidence in the transaction, the negotiation stage begins. This phase is characterized by in-depth discussions between both parties, focusing on valuation, deal structure, payment terms, and integration planning. Financial and legal consultants are frequently engaged during negotiations, and third-party intermediaries may be involved to safeguard discretion and streamline discussions. It is at this point that both firms must align their interests and ensure that the deal offers mutual value. Breakdown at this stage is not uncommon, especially if there are significant differences in valuation or integration strategy.

If negotiations are successful, the transaction proceeds to the execution phase. This includes the formal signing of agreements, securing regulatory approvals, and addressing any remaining legal or compliance obligations. Because of the legal and financial complexities inherent in M&A transactions, advisors play an essential role in ensuring that the process complies with all applicable laws and meets stakeholder expectations.

However, closing the deal is not the end of the M&A process. One of the most demanding and decisive stages is post-merger integration. This involves aligning organizational structures, corporate cultures, operational systems, and management processes. Successful integration is essential to capturing the anticipated value of the deal. If integration is mismanaged, it may result in problems such as employee turnover, cultural misalignment, operational disruption, and inefficiencies, all of which can erode or even reverse the intended benefits of the transaction.

While the M&A process is often presented as a sequence of linear stages, several scholars have proposed more iterative and dynamic models to better reflect its complexity. One such framework is the Algorithm of M&A Agreement Processes developed by Chernenko, Moiseienko, Korohodova, and Hlushchenko (2021), which introduces a feedback-oriented approach to decision-making throughout the transaction lifecycle (Figure 3).

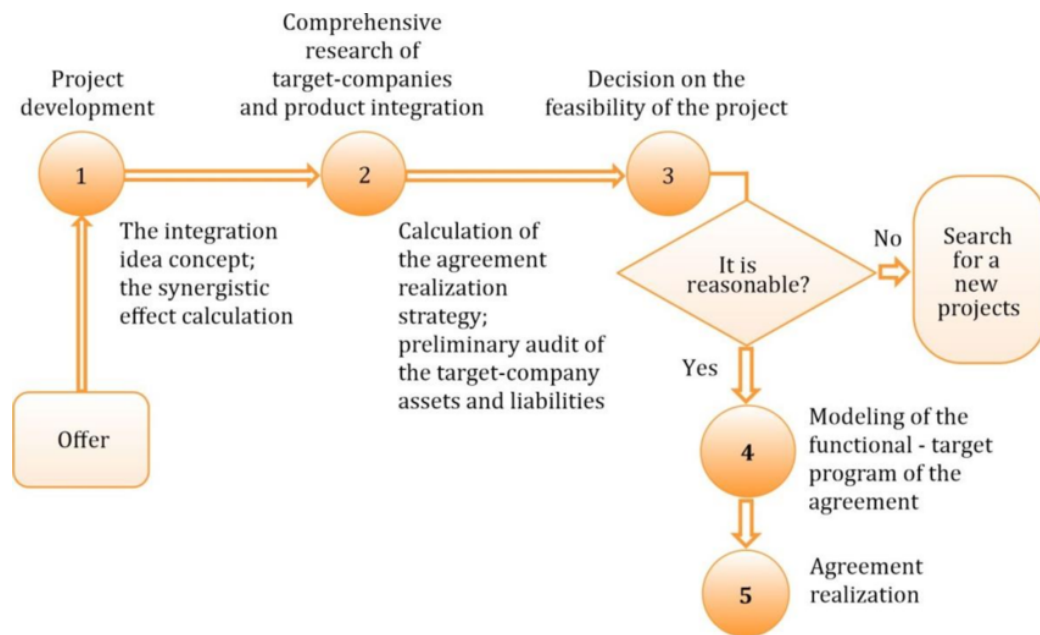


Figure 3. Algorithm of M&A agreement process (Chernenko et al., 2021).

Their model consists of five interconnected steps. The first is the project development phase, in which firms outline the preliminary concept for integration and identify strategic objectives and potential synergies. Next comes the evaluation of prospective targets, incorporating financial analysis and strategic fit assessments. This is followed by a decision-making phase, during which the firm determines whether the proposed deal is viable from both economic and strategic perspectives. If deemed unsuitable, the project is terminated, and alternatives are considered. If viable, the firm proceeds to develop a detailed implementation program, defining how integration and value creation will be executed. The final stage is the realization of the agreement, involving execution of the deal and operational integration.

What distinguishes this model from traditional linear approaches is its incorporation of a feedback mechanism. Instead of treating each step as isolated, the model encourages firms to revisit initial assumptions, adjust strategic approaches, and refine implementation efforts in response to new information. This iterative structure reflects the real-world complexity of M&A and encourages adaptive decision-making.

In conclusion, the M&A process is far more than a checklist of discrete steps; it is a multifaceted and evolving journey that demands strategic vision, rigorous analysis, and disciplined execution. From initial planning to post-merger integration, each stage plays a

pivotal role in determining the transaction's success. While established frameworks provide a useful guide, firms must remain agile and responsive to changing circumstances. If carried out successfully, M&A can serve as a powerful lever for business expansion, enhanced competitiveness, and the generation of lasting value. Ultimately, a transaction's real success is determined not by its formal completion, but by how effectively it becomes embedded in the acquiring company's overarching strategy.

## 2.3 M&A typologies

M&A transactions can take various forms, each defined by different dimensions that reflect specific strategic goals and organizational setups. As clarified by Rompotis (2015), M&A transactions can be typified according to the industrial relationship between the participating firms, the ownership status of the target company, the level of consent from the target's management, and the structural and strategic design of the transaction itself.

An important classification criterion in M&A is based on the business relationship between the acquiring and the target firm. Horizontal mergers and acquisitions involve companies operating within the same industry or market segment. Such transactions are often driven by objectives like expanding market presence, minimizing rivalry, or achieving cost efficiencies through scale. Horizontal expansion can also enable access to new customer segments, broaden product offerings, or secure valuable intellectual property and specialized competencies. However, Rompotis (2015) warns that such consolidations may generate adverse effects, including reduced competition, price distortions, lower product quality, and diminished consumer welfare, outcomes often associated with monopolistic or oligopolistic market structures. A prominent example of a horizontal acquisition in the luxury sector is LVMH's acquisition of Tiffany & Co. in 2021 for \$15.8 billion<sup>39</sup>, which significantly enhanced LVMH's presence in the high-end jewelry market and expanded its footprint in the United States, a key luxury market segment.

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<sup>39</sup> Entrepreneur (2022). LVMH Acquired Tiffany & Co. for \$15.8 Billion - And Now They're Going After This Iconic Brand. Retrieved from:

<https://www.entrepreneur.com/business-news/lvmh-acquired-tiffany-co-for-158-billion-and-now/420134>

In contrast, vertical integration refers to the combination of businesses positioned at separate levels of the supply chain. These can take the form of backward or forward integrations. A backward vertical acquisition occurs when a firm takes over its suppliers or upstream partners to gain more control over inputs and reduce reliance on third parties, thereby securing input availability and reducing dependency on external providers. Forward vertical mergers allow firms to internalize distribution and sales, fostering stronger connections with end consumers, improving brand reputation, and retaining greater portions of the value chain. A clear example of vertical integration is Estée Lauder's acquisition of Tom Ford Beauty in 2022<sup>40</sup>, which not only brought the brand's fragrance and cosmetic lines under full control but also secured long-term licensing arrangements for its fashion arm, strengthening Estée Lauder's vertical hold from brand creation through to market distribution. In some cases, vertical M&A transactions may also take on a conglomerate nature, particularly when the acquiring firm enters an entirely new industry, thus diversifying its business portfolio.

Another important classification relates to the ownership status of the target entity. Rompotis (2015) differentiates between public and private M&A transactions. When the target is publicly traded, the transaction often leads to the company being taken private once a controlling stake is acquired. This transition often triggers regulatory oversight concerning shareholder concentration and disclosure obligations. Private transactions, in contrast, involve unlisted entities and generally operate under more flexible regulatory frameworks, though they may present challenges in terms of transparency and valuation.

The degree of managerial consent also serves as a key differentiating factor in M&A typologies. Friendly acquisitions occur when the target firm's management supports the transaction, typically facilitating smoother negotiations and integration planning. In hostile acquisitions, the management or board of the target company does not support the deal and may actively resist it. In such scenarios, the acquiring firm may proceed without the target's approval, potentially triggering defensive tactics. These may include issuing new shares to dilute the acquirer's stake (a "*poison pill*"), repurchasing outstanding shares, launching a counter-offer (known as a "*Pac-Man*" defense), or implementing other measures intended to

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<sup>40</sup> The Estée Lauder Companies Inc. (2022). *Estée Lauder to Acquire the TOM FORD Brand*. Retrieved from: <https://www.elcompanies.com/en/news-and-media/newsroom/press-releases/2022/11-15-2022-214518900>

deter the acquisition. However, even hostile takeovers can evolve into consensual agreements if the acquirer improves its offer or successfully negotiates with the target's board.

Among the less conventional deal structures are reverse takeovers and reverse mergers. In a reverse takeover, a smaller firm acquires control of a larger or more established company, often adopting the latter's corporate identity. This strategy allows the acquiring firm to benefit from the brand equity or market access of the larger entity. In contrast, a reverse merger occurs when a private business merges with an inactive public company, often as a shortcut to public listing. This process enables the private firm to become publicly listed without undergoing the complex and time-consuming procedures associated with an initial public offering (IPO), thus facilitating access to capital markets.

Rompotis (2015) also highlights the role of management buyouts (MBOs), a type of transaction in which the management team of a smaller firm becomes part of a larger acquiring organization. These deals are often driven by the acquiring firm's desire to incorporate the managerial expertise, agility, and innovation capacity of the target firm, attributes often lacking in larger and more bureaucratic organizations.

Joint ventures represent another important form of corporate collaboration within the M&A spectrum. These arrangements involve two or more companies pooling resources to pursue a common objective, frequently in capital-intensive or high-risk projects such as infrastructure development. While joint ventures allow for the sharing of financial and operational risks, they also require significant coordination and carry a degree of uncertainty regarding final outcomes.

Another notable typology is the leveraged buyout (LBO), in which an acquisition is predominantly financed through borrowed capital. This strategy is often used by smaller entities to acquire larger targets and is considered an "*aggressive developmental policy*" (Rompotis, 2015). Although LBOs can unlock significant growth potential, they also expose firms to heightened financial risk, particularly if projected returns fail to materialize under the pressure of heavy debt obligations.

Related corporate restructuring strategies, such as demergers, spin-offs, and spin-outs, also merit attention. These approaches involve separating a company into distinct, autonomous entities, with some units potentially listed on public markets. Firms often adopt such strategies to sharpen strategic focus, enhance the efficiency of capital deployment, or reveal underlying value that may be obscured within a more complex corporate structure.

From a legal and financial standpoint, M&A deals can be executed through either share or asset purchases. Through equity acquisitions, the buyer takes ownership of the target's shares, inheriting its full portfolio of assets and liabilities. This approach allows for operational continuity and can make post-acquisition integration more manageable, though it also entails inheriting the target's financial and legal obligations. Asset deals let the acquirer choose certain resources, such as equipment or trademarks, while avoiding unwanted obligations. The proceeds from the sale are then distributed to shareholders, often leading to the liquidation of the remaining corporate structure. As Rompotis (2015) describes, this may result in an “*empty shell*”, particularly when all core assets are transferred.

In conclusion, the typologies of M&A outlined by Rompotis (2015) illustrate the strategic diversity and structural complexity inherent in M&A activities. These distinctions not only help clarify the varied forms of corporate consolidation but also reveal the motivations, risks, and regulatory considerations that shape the design and implementation of each transaction.

## **2.4 Valuation methods**

One of the most critical components of any merger or acquisition is the accurate valuation of the companies involved. As Aydin (2017) notes, the success of an M&A transaction is closely tied to determining a fair and realistic value for both the target and acquiring firms. A precise valuation can significantly impact the negotiation process as well as the post-merger performance. Yet, valuing a company remains one of the most complex challenges in corporate finance, requiring a careful selection among various methodologies and the ability to manage strategic and financial uncertainty.

As discussed in previous sections, the ultimate goal of an M&A transaction is to generate more value through the combination of firms than each could achieve independently. However, it is essential to distinguish between *value* and *price*. While price is driven by market dynamics, timing, and negotiation leverage, value reflects a firm's fundamental characteristics and its long-term contribution to the acquiring entity. In this context, different valuation approaches may be adopted depending on the transaction's strategic purpose and the profile of the target. The three main categories are balance-sheet-based methods, market and income-based approaches, and discounted cash flow (DCF) analysis. Each has specific strengths, assumptions, and limitations.

### **Balance-Sheet-Based Methods**

Balance-sheet-based valuation is one of the most traditional techniques, relying on the book values of a company's assets and liabilities. These methods are retrospective in nature, focusing on the firm's accounting history rather than its future potential. As such, they tend to overlook intangible factors such as brand equity, intellectual property, or managerial competence (Gabehart, 1998; Damodaran, 2005, as cited in Aydin, 2017).

The most basic of these is the book value method, which calculates a company's net worth by subtracting total liabilities from total assets. While straightforward, this approach can be misleading, especially in M&A contexts, as it reflects historical costs rather than current market conditions and does not account for intangible assets.

A more refined approach is the adjusted book value method, which updates asset values to reflect current market prices and attempts to incorporate intangible resources that are often omitted from traditional financial statements. This provides a more realistic view but remains static and backward-looking.

The replacement-cost method estimates the amount needed to replace a firm's assets with similar ones at current prices. Though useful in capital-intensive industries, it ignores intangible value and future profitability, making it of limited use in synergy-driven M&A.

The liquidation value method estimates the net proceeds from selling all a company's assets and settling its liabilities. It represents a firm's minimum value and is typically used only in distressed or wind-down scenarios (Aydin, 2017).

### **Income and Market-Based Methods**

Market-based methods estimate a firm's value by comparing it to similar companies or past transactions. These techniques are widely used in practice due to their simplicity and empirical grounding, although they require careful peer selection to ensure comparability (DePamphilis, 2019).

The market price method, when available, uses the current stock price of a publicly traded company as a proxy for its value. However, market prices may be influenced by short-term volatility, investor sentiment, or rumors of acquisition activity.

Valuation multiples, such as Price-to-Earnings (P/E), Enterprise Value-to-EBITDA (EV/EBITDA), or EV/Sales, are frequently applied in M&A. These ratios are derived from comparable listed firms and reflect not only current performance but also market expectations of future growth (Damodaran, 2012). The EV/EBITDA multiple is particularly useful because it neutralizes the effects of different capital structures and accounting conventions, facilitating cross-company comparisons. Still, it does not directly account for synergies or the specific strategic value that a buyer may attribute to the target. Multiples should thus be interpreted in context, and ideally used as part of a broader valuation framework.

Another relevant approach is Precedent Transaction Analysis (PTA), which compares the target to other firms that have recently been acquired in similar sectors. This method captures actual premiums paid in the market and reflects strategic motivations, such as acquiring market share or brand assets. Its main limitation lies in the difficulty of identifying sufficiently similar transactions and in the presence of deal-specific factors (DePamphilis, 2019).

## **Discounted Cash Flow Method**

Among all valuation techniques, the Discounted Cash Flow (DCF) approach is considered the most robust and forward-looking, particularly for strategic acquisitions. Rooted in capital budgeting theory, it values a company based on its expected future cash flows, discounted to present value using the appropriate cost of capital.

The DCF method involves estimating Free Cash Flows (FCFs) for each firm independently, typically through pro forma statements. These are then discounted using the Weighted Average Cost of Capital (WACC), which should reflect the capital structure of the merged entity. This is important because mergers often alter the risk profile and financing mix of the resulting company.

As Aydin (2017) notes, forecasting standalone cash flows is relatively straightforward using historical trends, but estimating post-merger cash flows is more complex, especially when synergies and integration costs are involved. Overestimating synergies remains one of the main risks of the DCF approach. The merger is financially justified only when the combined firm's present value exceeds the sum of its parts. Otherwise, the deal may fail to generate shareholder value, despite potential strategic or managerial motivations.

## **2.5 Methods of payment**

*“Payment alternatives chosen in corporate acquisitions are a major decision-making factor for both acquirer and target companies.” (Sankar & NM, 2018)*

The choice of payment method plays a pivotal role in shaping the structure of an M&A deal, influencing how risks, financial implications, and strategic benefits are distributed between the acquiring and target firms. Deciding whether to use cash, shares, debt, or a combination thereof is more than just a technical matter. Rather, it is a strategic tool used to align the often-divergent interests of buyers and sellers (Sankar & NM, 2018). While sellers typically

aim to maximize the transaction value, buyers seek to optimize cost and minimize financial exposure. As a result, the choice of payment method plays a critical role in the negotiation and overall success of the deal.

According to Ray (2010), M&A deal values can be discharged through various payment modes: cash, equity, debt, leveraged buyouts (LBOs), or earn-out arrangements. Each method carries distinct implications for taxation, liquidity, control, and post-merger integration.

Among all payment options, cash remains the most direct and frequently employed method in M&A. Cash offers provide the greatest level of certainty to target shareholders since the value is predetermined and does not fluctuate with the acquirer's future performance. For sellers, cash transactions ensure immediate liquidity and a clean exit, making them particularly attractive to individual shareholders and institutional investors looking for reinvestment flexibility. From the acquirer's perspective, a cash offer can signal financial strength and confidence in the value of the target. It can also act as a preemptive move against competing bids. However, funding a deal entirely with cash, especially if borrowed, can affect the acquirer's capital structure, increasing its leverage and potentially raising its financial risk (Ray, 2022).

In a share-for-share transaction, the acquiring firm offers its own equity in exchange for the shares of the target company. This method allows the target's shareholders to retain a financial stake in the new, combined entity, thereby participating in future growth and value creation. One of its advantages is the deferral of capital gains taxes, which can be beneficial to certain shareholders. On the downside, issuing new shares may dilute existing ownership and reduce the acquirer's control, particularly in closely held or family-owned firms. It may also depress the acquiring firm's stock price due to increased supply and investor uncertainty. Additionally, the financial health and liabilities of the acquired company may affect the group's gearing, requiring careful post-deal financial management (Ray, 2022).

An essential difference between paying in cash and in equity is how each affects ownership and control dynamics within the combined firm. While cash deals preserve the acquirer's ownership structure, equity-based deals often lead to changes in governance and control. This aspect is particularly relevant for family-owned businesses or strategic investors concerned

with maintaining influence over the combined entity. As such, the implications for control can be a decisive factor in selecting the preferred payment method.

Another common financing method involves the use of debt instruments, such as new loans or bond issuances. Acquisitions funded through debt can yield benefits like tax deductibility of interest and potential EPS improvement for current shareholders. Nevertheless, excessive leverage can expose the acquirer to financial strain. High debt ratios may trigger covenant breaches, downgrade credit ratings, and increase the risk of financial distress. Consequently, debt financing is only advisable when the combined firm's cash flows are stable and sufficient to service the debt sustainably (Ray, 2022).

Earn-outs are typically used in situations where the target's future results are uncertain or when a fixed purchase price cannot be agreed upon. Under this structure, part of the consideration is paid upfront, while the remainder is contingent on the achievement of specific financial or operational milestones. Earn-outs are particularly common in the acquisition of private firms in sectors where intangible assets and individual expertise are critical, such as advertising, consulting, or technology. This structure lightens the acquirer's upfront cost and encourages the target's leadership to achieve specific milestones, aligning both parties' interests. It also limits the risk of overpayment by tying part of the transaction value to measurable future outcomes (Ray, 2022).

Another important financing method in M&A is the leveraged buyout (LBO). An LBO typically relies heavily on debt to fund the acquisition, with the acquired firm's assets frequently pledged as security. LBOs are commonly carried out by private equity firms or investor groups, and in some cases, they also involve members of the target company's management.

The logic behind an LBO is to acquire a company, often one that is undervalued or underperforming, by using a limited amount of equity and a large portion of debt. The aim is to enhance operational performance post-acquisition, enabling the firm to produce sufficient cash flow to gradually repay the debt. If the strategy is successful, the acquirer may later sell the company or take it public, earning a significant return on the initial investment.

However, LBOs also carry high financial risk. Due to the significant debt burden transferred to the target company, consistent and healthy cash flow generation becomes critical to service its financial commitments. If these cash flows fall short, the company may struggle to service its debt, increasing the risk of financial distress. For this reason, LBOs are typically suitable only for companies with solid asset bases and stable operating income (Ray, 2022).

To conclude, the selected payment method in an M&A transaction is a strategic decision that influences the deal's capital structure, control dynamics, and risk exposure. Each option, whether cash, stock, debt, earn-out, or LBO, offers unique benefits and drawbacks, and the most appropriate choice depends on the characteristics of the firms involved, the strategic goals of the acquirer, and the broader financial and regulatory context.

### **2.5.2 Effects of the form of payment on shareholders and stakeholders**

The chosen payment structure in an M&A transaction has notable consequences for shareholders on both sides of the deal. These effects vary depending on the shareholder's role in the transaction and involve considerations related to returns, taxation, control, and valuation.

One crucial dimension involves how shareholder value and market reactions are affected. Numerous empirical studies have analyzed how different forms of consideration, cash, stock, or mixed, affect abnormal returns at the time of the deal announcement. According to Klitzka, He, and Schiereck (2022), buyers often experience positive abnormal returns when acquisitions are funded with cash. Interestingly, the highest returns are often linked to mixed-payment offers, which may signal a balanced and financially sound structure that appeals to investors. Contrary to traditional theories, their findings suggest that stock-only deals are not necessarily interpreted by the market as a signal of overvaluation. Instead, the structure of the payment is perceived as a broader reflection of the acquirer's financial strength and strategic confidence.

For target shareholders, cash-based deals typically deliver quicker and higher returns to target shareholders. This outcome is commonly attributed to the acquisition premium, which

compensates sellers for transferring ownership quickly and for potential tax implications (Madura & Ngo, 2012). As such, while both acquirer and target shareholders may benefit from M&A activity, they often have divergent preferences regarding the form of payment.

Another important dimension is control. If the transaction involves equity, particularly in private settings, target shareholders may end up with a significant ownership share in the resulting organization. This can allow them to retain influence in corporate governance, particularly when they become significant blockholders. Madura and Ngo (2012) highlight that equity-based deals are frequently chosen when the goal is to preserve the involvement of target shareholders in the merged firm. Similarly, de Bodt, Cousin, and Officer (2022) find that large shareholders are more inclined to accept equity if it enhances or maintains their control rights.

On the other hand, using equity to fund a deal can reduce the ownership percentage of current shareholders in the acquiring company. This potential dilution, while traditionally viewed as a drawback, is not necessarily a dominant concern in recent practice. According to de Bodt et al. (2022), many managers today are less focused on the control implications and more concerned with ensuring transaction success, especially when equity offers facilitate smoother negotiations with the target.

Tax treatment plays a role in shaping shareholders' favored form of consideration. While cash offers often result in immediate capital gains taxation, equity-based deals can sometimes be designed to postpone tax obligations, especially in long-term holdings or in deals classified as tax-free reorganizations. Madura and Ngo (2012) emphasize that the ability to defer taxation makes stock-based deals particularly attractive to private investors and founders with appreciated shares.

Valuation concerns further shape payment preferences. In contexts with high valuation ambiguity, cash may be preferred to minimize the potential downside of transacting with over- or undervalued shares. If the acquiring firm is believed to be overvalued, the target may be reluctant to accept stock. Conversely, an acquirer may avoid stock offers when the target's valuation is uncertain. These dynamics, as noted by Klitzka et al. (2022), reflect a rational

strategic calculus that accounts for asymmetric information and the signaling value embedded in the chosen payment method.

Beyond shareholder effects, the method of payment also influences managers and other corporate stakeholders. Deals involving shares are more likely to lead to the continued involvement of the target company's management team. This is particularly evident in private company acquisitions, where continuing ownership through equity can align interests and promote leadership continuity (Madura & Ngo, 2012).

Managers on the acquiring side may experience a reduction in their control when new equity is issued as part of the transaction. However, recent findings suggest that this concern is becoming less central. According to de Bodt, Cousin, and Officer (2022), the prospect of former target shareholders becoming blockholders in the combined entity does not appear to deter acquirers from offering equity. This may reflect growing confidence in governance mechanisms or a greater emphasis on post-deal integration rather than strict ownership control.

For broader stakeholders, such as creditors and employees, the payment method can also have indirect consequences. Companies facing financial constraints often opt for equity-financed transactions to conserve liquidity and limit borrowing, helping to maintain financial flexibility post-transaction. While this decision may be based on internal financial constraints, it ultimately affects a wide range of stakeholders by shaping the long-term solvency and investment capacity of the merged company (de Bodt et al., 2022).

Finally, the role of asymmetric information is particularly relevant. Both parties assess not only their own valuation but also the credibility of the counterparty's valuation. When deal uncertainty is pronounced, parties often lean toward cash offers to reduce exposure to valuation risk. When target firms suspect that the acquirer's shares are overvalued, they may insist on cash. Similarly, an acquirer may avoid offering equity if unsure about the target's true value. In this sense, the method of payment is not just a tool for value extraction, but rather a strategic instrument to reduce valuation risk and align interests on both sides (Klitzka, He, & Schiereck, 2022).

In summary, the choice of payment method in M&A transactions affects not only shareholder value but also managerial incentives and stakeholder dynamics. Cash payments tend to favor target shareholders through immediate returns, while equity or hybrid structures may preserve control and support managerial continuity. While concerns over control dilution persist, recent evidence suggests they are secondary to broader strategic and financial considerations.

The selected form of payment in an M&A transaction is ultimately a strategic decision shaped by factors such as valuation uncertainties, asymmetries in information, and the financial means at the acquirer's disposal. It reflects an effort to reconcile the goal of maximizing value with the practical constraints of executing the deal.

## **2.6 Success factors in M&A transactions**

M&A outcomes are shaped by numerous variables that affect each stage of the transaction process, from the initial strategic rationale to the integration phase. These factors are not independent but interact in complex ways, shaping both short- and long-term outcomes (Calipha, Tarba, & Brock, 2010).

One of the most consistently identified determinants of M&A success is the presence of a clear and coherent strategic rationale. A merger or acquisition should be aligned with the acquiring firm's competitive goals, resource base, and long-term vision. When M&A activity is guided by opportunistic motives rather than strategic planning, the likelihood of failure increases significantly (Mirvis & Marks, 1992; Kitching, 1967). By contrast, deals that are driven by well-defined objectives, such as entering new markets, acquiring complementary capabilities, or achieving economies of scale, are more likely to generate sustained value.

The type of diversification pursued also plays a central role. Studies suggest that diversification strategies closely tied to the firm's core business, like horizontal or vertical integration, generally lead to more favorable outcomes than entering unrelated industries. Related deals are more likely to generate operational synergies and strategic coherence (Porter, 1985). Unrelated acquisitions, on the other hand, often dilute managerial focus and increase the complexity of integration, reducing the probability of success (Lubatkin & Lane, 1996).

Another key factor is the evaluation of strategic fit, which refers to how well the target complements the acquiring firm's existing strategy and goals. Strategic fit enhances the potential for synergy realization and helps ensure that the merged entity can operate as a unified organization (Jemison & Sitkin, 1986). High strategic fit typically correlates with better integration outcomes and higher post-merger performance (Schweiger, Weber, & Power, 1989).

Closely related is the issue of valuation discipline. While the price paid for a target does not in itself determine success, overpaying, especially when based on optimistic synergy assumptions, can place significant pressure on the acquiring firm's financial performance (Rappaport, 1979). Effective due diligence and realistic assessments of synergy potential are therefore essential to avoid value erosion.

The quality of management on both sides of the transaction is another critical component. Successful M&A processes rely on the ability of management teams to coordinate across functional areas, resolve conflicts, and lead organizational change (Boland, 1970; Mirvis & Marks, 1992). M&A integration involves more than systems and processes, it also hinges on interpersonal dynamics, effective leadership, and fostering trust.

This brings attention to the importance of human resource integration. Cultural and managerial differences, while sometimes hidden during the negotiation phase, can surface post-deal and obstruct smooth integration. Involving HR professionals early in the process, during due diligence and pre-merger planning, can help align systems related to compensation, training, and performance evaluation, reducing disruption and employee turnover (Schweiger et al., 1989; Brown, 2005).

Another overlooked but essential factor is stakeholder management. M&A deals impact a wide range of stakeholders beyond shareholders, including employees, suppliers, customers, and local communities. Effective communication and engagement with these groups are crucial for maintaining stability and protecting the firm's reputation during and after the transition (Mirvis & Marks, 1992).

The organizational structure and control systems of the merging firms must also be considered. Misalignments in how authority, reporting, and decision-making are structured can lead to integration challenges. Aligning organizational and control structures from the outset can help prevent governance-related complications (Mirvis & Marks, 1992).

Finally, successful M&A execution requires managing uncertainty and ambiguity. While some level of uncertainty is inherent in any deal, key strategic and operational issues should be clarified before integration begins. Failure to resolve such ambiguities can lead to confusion, resistance, and stalled implementation (Jemison & Sitkin, 1986).

Over the years, the literature on M&A has evolved from a narrow focus on financial variables to a more holistic understanding of strategic, organizational, and cultural dynamics. While earlier research focused on quantitative metrics like company size and deal value, more recent studies underscore softer elements such as leadership quality and cultural alignment (Kavanagh & Ashkanasy, 2006; Gautam & Katila, 2001).

The study of cultural dimensions in M&A has also become more refined. Initial research on cultural factors tended to use broad national stereotypes that lacked nuance. More recent contributions have proposed context-sensitive frameworks, such as those developed by the GLOBE project, which offer a more nuanced understanding of how cultural differences influence integration success (House et al., 2004; Baskerville, 2003).

In summary, the literature on M&A success factors reveals a complex interplay of strategic, organizational, financial, and cultural variables that shape outcomes throughout the merger process. While research perspectives differ, a consistent insight emerges: success is not driven by any single decision, but by the coordinated alignment of multiple, context-dependent factors.

This chapter has synthesized the most influential contributions in the field and outlined a framework for understanding the conditions under which M&A can succeed. Rather than

suggesting a universal formula, the discussion has highlighted the need for coherence across strategic, operational, and human dimensions.

### 3. QUANTITATIVE ANALYSIS

In this chapter, theory meets evidence. We explore the market's reaction to M&A transactions in the luxury sector through the lens of financial economics, combining rigorous event study methodology with empirical insights drawn from real-world data.

#### 3.1 Why Market Reactions Matter in M&A Announcements

*“Economists are frequently asked to measure the effects of an economic event on the value of firms. On the surface this seems like a difficult task, but a measure can be constructed easily using an event study. Using financial market data, an event study measures the impact of a specific event on the value of a firm.” (MacKinlay, 1997)*

As discussed in the previous chapter, mergers and acquisitions are strategic decisions that can have a significant impact on a company's future performance. These transactions are often undertaken with the goal of creating value, whether through operational synergies, entry into new markets, or the acquisition of strategic assets and capabilities. Given their potential to reshape a firm's structure and trajectory, M&A announcements are closely monitored by financial analysts and investors. Their objective is to assess whether the announced deal is likely to generate positive or negative outcomes for the acquiring firm. In this context, market reactions offer an immediate and informative signal that can help determine whether the transaction is expected to enhance or diminish shareholder value.

The study of market reactions to M&A announcements plays a fundamental role in understanding the economic implications of corporate restructuring. Among the various methodologies used in financial economics, event studies have become the standard approach for capturing the impact of such events on firm value. These studies analyze financial market data, specifically stock prices, to assess how investors respond to new information, such as the announcement of an acquisition or merger (MacKinlay, 1997). The underlying assumption is that financial markets are rational and efficient, meaning that any relevant information

about a firm's future cash flows will be rapidly incorporated into its stock price (MacKinlay, 1997; Andrade, Mitchell, & Stafford, 2001).

A key strength of the event study methodology lies in its ability to provide a timely and objective measure of the economic impact of an event. Unlike traditional accounting or productivity-based metrics, which may take months or years to reflect the consequences of a strategic decision, market-based measures offer an immediate estimate of how the event is perceived in terms of value creation or destruction (MacKinlay, 1997).

By focusing on a short time window around the announcement date, researchers can isolate the effect of the M&A announcement from other market influences, allowing for a more precise evaluation of the event's informational content (MacKinlay, 1997).

This is particularly important in the context of M&A, where the strategic implications are often complex and multi-dimensional. As mergers represent large-scale reallocations of resources with the potential to reshape industry dynamics, understanding how the market interprets such transactions provides valuable insights into both firm-level value creation and broader economic efficiency.

In this sense, M&A announcements serve as a "*natural experiment*" that allows researchers to observe how stock markets process corporate news and re-evaluate firm valuation in real time (Andrade, Mitchell, & Stafford, 2001).

Another critical reason for studying market reactions to M&A announcements is to assess whether and how value is created or destroyed for shareholders. Event studies allow researchers to measure abnormal returns, that is, returns that deviate from what would be expected given normal market movements, around the announcement date. These returns reflect investor expectations about the future benefits or costs of the transaction. According to Andrade, Mitchell, and Stafford (2001), the most statistically reliable evidence on the value effects of mergers comes from short-window event studies. These studies have consistently shown that, on average, M&A deals do create value, although the distribution of this value is asymmetrical between the target and the acquiring firm.

Specifically, target firms tend to experience substantial positive abnormal returns, as shareholders receive a premium over the pre-announcement share price. This premium reflects the buyer's willingness to pay for expected synergies or strategic advantages. In contrast, acquiring firms often exhibit average abnormal returns close to zero or slightly negative. However, these negative returns are typically not large enough to be interpreted as evidence of value destruction. Rather, they may represent a fair market assessment of the deal's risk and reward profile, suggesting that the price paid is consistent with expected future gains (Andrade, Mitchell, & Stafford, 2001). This observation raises important questions about the incentives and performance of acquiring managers, as well as the long-term benefits of expansion through acquisition.

Furthermore, event studies contribute to a better understanding of how financial markets assimilate new information and adjust firm valuations accordingly. In an efficient market, prices react promptly and proportionally to the release of relevant news, such as a merger announcement. Observing these reactions provides insight into how investors interpret the strategic and financial implications of the transaction (MacKinlay, 1997). It also allows scholars to test broader hypotheses about market behavior, such as whether investors tend to overreact, underreact, or process information in a fully rational manner. As such, event studies are not only useful for measuring value creation but also for exploring the mechanisms through which markets respond to corporate decision-making.

In light of these considerations, studying market reactions to M&A announcements is not only meaningful but essential. It provides an immediate, data-driven indication of how investors evaluate the potential success of a transaction, capturing expectations about synergies, strategic alignment, and managerial effectiveness.

Through the use of event study methodology, researchers can isolate the informational content of the announcement and quantify its perceived impact on firm value. This is particularly relevant in the context of M&A, where long-term performance metrics are often delayed or difficult to interpret. Therefore, the analysis of short-term abnormal returns serves as a powerful tool to understand whether and how value is expected to be created or destroyed, offering valuable insights for scholars, managers, and investors alike (MacKinlay, 1997; Andrade, Mitchell, & Stafford, 2001).

### **3.2 Methodological Approach: Event Studies and Abnormal Return**

Assessing the effect of M&A announcements on acquiring firms' stock performance requires a robust methodological framework, for which I adopt the event study method. My approach draws primarily on the seminal contribution of MacKinlay (1997), whose framework has become the benchmark in empirical finance.

Event studies are designed to evaluate how specific economic events affect the value of firms, using financial market data as a proxy for investor expectations and firm valuation.

The underlying premise is that if markets are rational and efficient, any new information related to an event will be immediately reflected in stock prices. This allows me to capture the economic impact of the event by observing abnormal movements in asset prices over a relatively short time period, instead of relying on long-term performance measures that may be affected by unrelated factors.

Event studies have a wide range of applications across fields such as accounting, finance, law, and economics. In corporate finance, they are frequently used to assess the effects of M&A, earnings announcements, capital structure changes, and other firm-specific decisions. They have also been applied to the analysis of macroeconomic events, such as interest rate shifts or trade balance disclosures, and to evaluate the consequences of legal and regulatory changes. In most cases, the focus is on the behavior of common stock, but the same framework can be adapted to analyze other securities such as corporate bonds.

The use of market data to measure the effects of economic events dates back to the early 20th century.

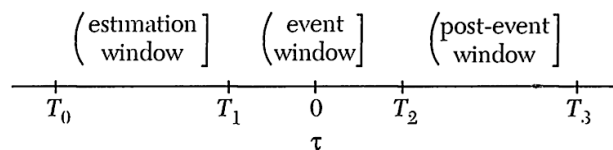
One of the first known event studies was conducted by James Dolley in 1933, who examined stock price changes around stock splits. Since then, the methodology has evolved significantly. Major advancements were made in the 1960s by Ball and Brown (1968) and Fama et al. (1969), who introduced statistical techniques to adjust for market-wide price movements and to isolate the effect of individual events. Over time, refinements have been made to account for statistical limitations and to adapt the model to different empirical

contexts. The version presented by MacKinlay (1997) consolidates this evolution and offers a rigorous, widely accepted framework for event studies.

While the specific structure of an event study may vary depending on the research question, MacKinlay (1997) identifies a general sequence of steps that are common to most implementations. In my analysis, I follow these steps:

#### a. Definition of the Event and Event Window

The first step involves identifying the event of interest and selecting the event window, which is the period over which stock price movements are examined. I set the window to span several days before and after the announcement in order to capture any information leakage or delayed market reactions. For M&A announcements, a common event window might range from day  $-1$  to day  $+1$  or even from  $-5$  to  $+5$  relative to the announcement date (day 0).



*Figure 4. Time line for an event study (MacKinlay, 1997).*

#### b. Selection Criteria for Firms

I selected firms based on clear criteria: belonging to the personal luxury goods industry, availability of sufficient price data in both the estimation window and the event window, and absence of overlapping major announcements that could distort the analysis.

### **c. Measurement of Abnormal Returns (AR)**

The abnormal return is defined as the difference between the actual return of a firm on a given day and the expected or “normal” return that would have been observed in the absence of the event. This is expressed as:

$$AR_{i,t} = R_{i,t} - E(R_{i,t}|X_t)$$

Where:

- $AR_{i,t}$  is the abnormal return for firm  $i$  on day  $t$
- $R_{i,t}$  is the actual return
- $E(R_{i,t}|X_t)$  is the expected return based on a model of normal performance
- $X_t$  represents the information used to estimate normal returns

Under the null hypothesis that the event has no effect, the abnormal returns are jointly normally distributed with a conditional mean of zero.

### **d. Estimation Window**

I used an estimation window placed before the event window to estimate the parameters of the normal return model. This ensures that the expected returns are not contaminated by event-related effects. In line with common practice, the estimation window spans 180 to 20 trading days prior to the beginning of the event window.

### **e. Calculation of ARs and Statistical Testing**

After estimating the parameters of the normal return model, I calculated abnormal returns for each firm and each day in the event window. These ARs were then aggregated and subjected to statistical tests to determine whether they were significantly different from zero.

## f. Calculation of Cumulative Abnormal Returns (CAR)

To evaluate the total impact of an event over a multi-day period, I accumulated abnormal returns across the event window. The Cumulative Abnormal Return (CAR) for firm  $i$  from time  $t_1$  to  $t_2$  is defined as:

$$CAR_{i(t_1,t_2)} = \sum AR_{i,t}$$

(for  $t = t_1$  to  $t_2$ )

This measure captures the aggregate effect of the event across several trading days and helps account for any lagged responses or market adjustments.

In order to make inferences about the overall impact of the event, abnormal returns can be aggregated not only over time but also across firms:

The aggregation over time calculates the CAR across the event window for each firm:

$$CAR_{i(t_1,t_2)} = \sum AR_{i,t}$$

While the aggregation across firms is the average abnormal return across  $N$  firms for a given day  $t$ :

$$CAR_{i(t_1,t_2)} = (1/N) \sum AR_{i,t}$$

In performing this aggregation, it is commonly assumed that there is no clustering of events, that is, that event windows do not overlap. This ensures that the abnormal returns are independent across firms, preserving the validity of the statistical tests.

In summary, abnormal returns (ARs) provide a point-in-time measure of how a specific event affects a firm's stock price on a given day. Cumulative abnormal returns (CARs) aggregate these daily impacts over a multi-day window, offering a broader view of the event's total effect on firm value. Together, ARs and CARs form the foundation of my event study analysis, allowing me to assess both the immediate and short-term cumulative consequences of M&A announcements in the personal luxury goods sector.

### 3.3 Defining the Sample: Selection Criteria and Dataset Construction

In this section, I outline the methodology I adopted to build the final dataset used for the event study on M&A transactions in the luxury goods industry. The selection, cleaning, and refinement of the data were carefully designed to ensure the reliability of the empirical analysis, both in terms of industry classification and availability of quantitative indicators.

I conducted the initial extraction using the S&P Capital IQ database, applying a set of filters to identify relevant deals. The search was limited to transactions announced between January 1, 2011, and May 23, 2025. The choice of the starting date was guided by the launch of the S&P Global Luxury Index on August 31, 2011, which I used in the construction of abnormal returns for the multifactor model. Any data preceding this date would have relied on back-tested and hypothetical performance, potentially introducing look-ahead or survivorship bias<sup>41</sup>. To preserve consistency and empirical validity, I therefore considered only actual post-launch data.

I restricted the industry classification of the target or issuer to either “Apparel, Accessories and Luxury Goods (Primary)” or “Footwear (Primary),” and the deal type to M&A transactions. Moreover, I included only transactions in which the acquirer was a publicly listed company, given the necessity of retrieving daily stock prices for the CAR computation.

Once the initial sample of M&A transactions was collected, I obtained additional firm-level information to enrich the dataset. Key financial indicators, including ROA, ROE, and Total Assets, were retrieved from S&P Capital IQ by downloading yearly data for both acquirers and targets. I then merged these files using Power Query to construct a panel structure and ensure consistency across fiscal years. Where data was unavailable or missing, especially for private targets, I manually integrated further information using alternative sources such as Refinitiv, AIDA, and Orbis.

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<sup>41</sup> “S&P Global Luxury Index”. Retrieved from:

<https://www.spglobal.com/spdji/en/indices/equity/sp-global-luxury-index/#overview>

To ensure that the analysis genuinely focused on the luxury segment, I implemented a rigorous classification system. Given the diversity of companies captured in the initial industry filter, I needed to distinguish between true luxury brands and firms operating in adjacent but distinct market segments. My classification framework was based on three key dimensions: the brand's heritage and positioning in the luxury market, the pricing level and positioning of the product portfolio, and the distribution strategy. Specifically, I classified a company as "*luxury*" if it satisfied all three of the following conditions: (1) a strong brand identity tied to craftsmanship or exclusivity; (2) a predominantly high-end pricing strategy with limited discounting; and (3) a selective or exclusive distribution network, typically including mono-brand boutiques and flagship stores. Companies that met only two of the criteria I considered "*borderline*" or "*premium*", while those failing to meet these thresholds, such as mass-market retailers, functional apparel brands, or fast-fashion operators, were excluded from the sample.

The classification process required extensive desk research, including analysis of brand websites, industry articles, and sector-specific reports from sources such as Bain & Company, Deloitte, and Statista. In borderline cases, I cross-verified the positioning of the company using retail channels, product pricing, and communication strategies. For example, I classified brands like VOLCOM as borderline due to selective distribution in certain markets and above-average pricing, while excluding firms such as Steve Madden for their mass-market appeal and lack of heritage.

Once the luxury classification was applied, I refined the sample further. I retained only transactions where at least one of the two firms (acquirer or target) belonged to the luxury or borderline segment. In addition, I removed deals without a confirmed transaction value, even after consulting alternative sources such as Refinitiv and company reports. This filtering step ensured completeness in terms of control variables for the regression model. Each transaction was carefully reviewed, and I completed missing values in key variables through manual integration.

As a final step, I adopted uniform naming conventions across all variables to ensure readability and clarity during the econometric estimation. I also assigned the Refinitiv ticker

to each acquirer, allowing a precise match between stock prices and transaction records in the calculation of abnormal returns.

Following this multi-step process, the final dataset includes 27 M&A transactions carried out by publicly listed companies operating in the luxury goods sector. These deals capture the M&A activity undertaken by luxury firms traded on international markets and span a wide range of strategic objectives, from portfolio expansion to vertical integration. The sample reflects the most relevant corporate moves made by iconic players such as Prada, Kering, LVMH, and Moncler, providing a solid foundation for exploring how the stock market responds to acquisitions in this highly distinctive industry. Covering the period from 2011 to 2025, the dataset offers a representative snapshot of how listed luxury companies have pursued inorganic growth strategies over time.

Some complex deals, such as the merger between Essilor and Luxottica, were retained in the sample because one of the firms involved (in this case Luxottica) met the luxury classification criteria. Although the transaction was formally structured as a merger and led by a non-luxury acquirer, I included it due to the relevance and positioning of the target company in the luxury sector.

Below is the complete list of 27 transactions included in the analysis:

<b>Announcement Date</b>	<b>Acquirer</b>	<b>Target</b>
<b>10/04/2025</b>	Prada S.p.A.	Gianni Versace S.r.l.
<b>19/02/2025</b>	Caleres, Inc.	Stuart Weitzman, LLC
<b>30/09/2024</b>	Frasers Group Plc	Mulberry Group plc
<b>20/03/2024</b>	Capri Holdings Limited	Calzaturificio Siela S.R.L.
<b>10/08/2023</b>	Tapestry, Inc.	Capri Holdings Limited
<b>27/07/2023</b>	Kering SA	Valentino S.p.A.
<b>28/07/2021</b>	Aeffe S.p.A.	Moschino S.p.A.
<b>10/06/2021</b>	Lanvin Group Holdings Limited	Sergio Rossi S.p.A.
<b>23/02/2021</b>	Moncler S.p.A.	Sportswear Company S.p.A.
<b>07/12/2020</b>	Moncler S.p.A.	Sportswear Company S.p.A.
<b>19/11/2020</b>	Frasers Group Plc	Mulberry Group plc
<b>27/09/2019</b>	Compagnie Financière Richemont SA	Buccellati Holding Italia S.p.A.
<b>03/12/2018</b>	Essilor	Luxottica Group S.p.A.
<b>01/10/2018</b>	Essilor	Luxottica Group S.p.A.
<b>25/09/2018</b>	Capri Holdings Limited	Gianni Versace S.r.l.
<b>25/07/2017</b>	Capri Holdings Limited	Jimmy Choo Group Limited
<b>08/05/2017</b>	Tapestry, Inc.	Kate Spade & Company
<b>16/01/2017</b>	Essilor	Luxottica Group S.p.A.
<b>10/11/2016</b>	Piquadro S.p.A.	Il Ponte Pelletteria S.p.A.
<b>04/10/2016</b>	LVMH Moët Hennessy - Louis Vuitton SE	Rimowa GmbH
<b>25/07/2016</b>	G-III Apparel Group, Ltd.	Donna Karan International LLC
<b>08/11/2013</b>	Essilor	Costa Inc.
<b>08/07/2013</b>	LVMH Moët Hennessy - Louis Vuitton SE	Loro Piana S.p.A.
<b>24/04/2013</b>	Kering SA	Pomellato S.p.A.
<b>02/05/2011</b>	Kering SA	VOLCOM, Inc.
<b>06/03/2011</b> (multiple tranches)	LVMH Moët Hennessy - Louis Vuitton SE	Bulgari S.p.A.

Together, these cases form the empirical foundation of the event study presented in the following chapters, allowing me to explore in detail how the stock market reacts to M&A activity within the luxury sector.

### **3.4 Findings: Market Reaction to M&A Announcements in the Luxury Sector**


To assess how the market reacts to M&A announcements in the luxury goods sector, I conducted an event study analysis based on a dataset of 27 public acquiring companies. The daily stock prices of each acquirer were matched to the corresponding Refinitiv ticker and cross-referenced with the MSCI World Index to calculate abnormal and cumulative abnormal returns (CAR). All price data were cleaned and transformed into log returns, and a market model was estimated for each firm over an estimation window of 180 to 20 days prior to the announcement. The resulting alpha and beta parameters were then used to compute expected returns and isolate abnormal returns across several event windows.

#### **CAR windows and statistical significance test**

One of the most delicate aspects when carrying out an event study is defining the exact timing of the event. In this case, I relied on the announcement dates reported by financial databases such as S&P Capital IQ and Refinitiv, assuming they reflect the first moment when the transaction became public. However, especially in the luxury sector, this is not always so clear. Rumors or informal information often circulate before the official statement, and prices may start adjusting in advance. This is important to bear in mind, as it may affect how we interpret the results, particularly in the shortest windows.

The empirical analysis was based on six event windows: [-1, +1], [-2, +2], [-5, 0], [-20, 0], [0, +5], and [-10, +10]. These intervals were chosen to capture both immediate and slightly more gradual market reactions to M&A announcements. For each window, I calculated the CAR for every transaction in the sample. I then tested whether the average CAR across all deals was significantly different from zero using a standard t-test.

The results of this analysis are summarized in the following table (Table 1):

 Statistical Results:

Event Window	N (obs)	Mean CAR	Std Dev	t-stat	p-value	Signif.
CAR_ <sub>[-1,+1]</sub>	27	-0.366867	1.841536	-1.035166	0.310124	
CAR_ <sub>[-2,+2]</sub>	27	0.010384	1.779614	0.030320	0.976043	
CAR_ <sub>[-5,0]</sub>	27	-0.778901	1.310499	-3.088356	0.004744	***
CAR_ <sub>[-20,0]</sub>	27	-0.562046	1.694874	-1.723122	0.096742	*
CAR_ <sub>[0,+5]</sub>	27	-0.016823	1.299537	-0.067266	0.946885	
CAR_ <sub>[-10,+10]</sub>	27	-0.386445	1.621105	-1.238680	0.226531	

*Table 1. CAR Windows Statistical Results.*

Among the event windows considered, the CAR over the [-5, 0] window is the most statistically significant, with a p-value below 0.01. The CAR over the [-20, 0] window also shows marginal significance at the 10% level. By contrast, the short-window CAR [-1, +1], which is commonly used in literature as the primary gauge of market reaction, is not statistically significant in this sample. The average CAR in that window is negative (-0.367), but the t-statistic is low (-1.04), and the p-value (0.310) does not suggest any meaningful deviation from zero.

These results must be interpreted with caution. As MacKinlay (1997) highlights, short-window event studies are typically preferred because they reduce the likelihood of confounding events and offer a cleaner estimate of the market's immediate response to new information. Moreover, in line with Andrade, Mitchell, and Stafford (2001), short-term market reactions, especially in the [-1, +1] window, are often regarded as the most reliable indicators of value creation or destruction following a merger announcement, under the assumption that stock prices quickly incorporate public information.

However, in this study, the shortest windows fail to yield statistically significant results, while slightly longer windows (especially [-5, 0]) do. This might suggest that in the context of the luxury industry, information leakage or gradual market adjustment could play a role, perhaps due to the opaque nature of luxury brand strategies, the complexity of valuations, or the international scope of many of the deals.

Another important limitation of the analysis is the relatively small sample size, which includes only 27 transactions. This reflects the complexity of collecting consistent and detailed financial data in the luxury sector, especially for targets that are private or operate in less transparent markets. It also stems from the difficulty of pinpointing reliable event dates, particularly in an industry where strategic moves may be anticipated or leaked before any formal disclosure.

As mentioned earlier, the study uses the official announcement date as a proxy for when the deal becomes public. While this is a common practice, it may not fully capture when the market actually starts reacting to the information. This limitation is especially relevant in shorter event windows, where even a small misalignment in timing can weaken statistical significance.

Despite these limitations, the analysis reveals a consistent pattern of negative CARs across nearly all event windows, suggesting that, on average, M&A deals in the luxury sector may be viewed with skepticism by investors, at least in the short term. The significantly negative CAR in the [-5, 0] window, in particular, indicates that the market often reacts before the formal announcement, potentially due to early rumors or informed trading. This finding will be further explored in the next section, which examines the determinants of true M&A rumors and anticipatory behavior in financial markets.

This tendency toward negative CARs is also consistent with existing literature on M&A performance. In particular, Andrade, Mitchell, and Stafford (2001) observe that negative abnormal returns for acquirers are often associated with deals financed through equity issuance. The market tends to interpret stock-financed transactions as a signal that the acquirer's shares may be overvalued, which introduces concerns related to informational asymmetries and potential dilution of shareholder value. By contrast, when acquisitions are financed without issuing new equity, such as through cash or debt, the average abnormal returns for acquirers tend to be close to zero. Although some long-term studies report persistent underperformance by acquirers, Andrade and colleagues (2001) question the reliability of such results, emphasizing the methodological challenges inherent in long-horizon return analyses.

## Regression Analysis: Exploring the Determinants of Market Reaction

To gain a deeper understanding of what drives the market response to M&A announcements in the luxury sector, I conducted a series of ordinary least squares (OLS) regressions using the previously calculated CAR as the dependent variable. Each regression corresponds to a different event window (e.g., [-1, +1], [-5, 0], etc.), allowing for comparisons across short-term and slightly extended time frames.

$$CAR_i = \alpha + \beta X_i + \varepsilon_i$$

Where:

- $CAR_i$  is the cumulative abnormal return for deal  $i$
- $X_i$  is the vector of explanatory variables
- *Benchmark*: MSCI World Index

The explanatory variables were constructed to capture a range of deal-specific, firm-level, and country-level characteristics that might influence investor perceptions. Below is a description of each variable and the rationale behind its inclusion.

- **both\_luxury** is a dummy variable equal to 1 when both the acquiring and the target firm operate in the luxury sector. The purpose of this variable is to test whether transactions that occur entirely within the luxury segment elicit different reactions compared to deals involving firms from other industries, remembering that I selected the dataset of transactions for which at least one of the target or acquirer was within luxury goods segment.
- **same\_country** captures whether the acquirer and target are based in the same country. This binary variable helps assess whether cross-border transactions are perceived as riskier or more complex, which may influence short-term market reactions (Serdar Dinc and Erel 2013).
- **luxury\_samecountry** is an interaction term between the previous two variables. It is equal to 1 only when both firms are luxury and based in the same country. This variable allows us to examine whether domestic luxury-to-luxury deals generate a distinct response compared to other combinations.
- **log\_transaction\_value** represents the natural logarithm of the total deal value (in millions of euros). This transformation helps mitigate the skewness of the raw data

and allows us to investigate whether larger transactions are perceived more positively or negatively by the market. Usually higher transaction values also correspond to a more complex transaction (Grinstein and Hribar 2004).

- **log\_acquirer\_mktcap** is the log of the acquirer's market capitalization as a proxy for firm size (Martin and Shalev 2017). Larger acquirers may be more experienced or more capable of absorbing integration risks, potentially affecting how the deal is evaluated by investors.
- **log\_gdp\_eurmm** captures the economic size of the target's country, expressed as the natural log of GDP (in millions of euros). This variable is meant to reflect macroeconomic context (Jandik et al. 2017), under the hypothesis that acquisitions involving targets from larger or more stable economies may be viewed as safer.
- **cash\_or\_hybrid** is a dummy variable set to 1 when the transaction is paid either entirely in cash or through a combination of cash and stock (Moschieri and Campa, 2014). Its goal is to differentiate between purely stock-financed deals, which are often associated with negative market reactions due to signaling and dilution concerns, and other payment structures.
- **delta\_roa** measures the difference in return on assets (ROA) between the acquirer and the target. This financial performance gap may signal whether the acquiring firm is taking over a more or less efficient company, which could influence expectations about post-merger synergies or challenges.

All independent variables were included in a multivariate regression framework for each CAR window. The regressions were performed using standard OLS, with a constant term added to capture the intercept. For each model, I reported the full set of coefficients, standard errors, p-values, and statistical significance levels.

### **Interpreting the Regression Results: Market Model**

Out of all the regressions I ran, only a few actually revealed results that were both statistically meaningful and useful to interpret. So instead of listing every model, I've decided to focus on the ones that seemed most relevant, those based on the CAR windows [-5, 0], [-20, 0], and [-10, +10]. For inference, I reported heteroskedasticity-robust (HC3) standard errors for all

specifications. Several acquirers appear multiple times, which could induce within-acquirer correlation of residuals. However, given the very small sample and the limited number of acquirer clusters, cluster-robust inference would be unstable and potentially misleading. I therefore favor HC3, which is conservative for heteroskedasticity, and interpret results as descriptive associations. Where relevant, I emphasize effect magnitudes and confidence intervals rather than marginal changes in p-values.

In what follows I focus on those event windows that meet three practical conditions: at least one economically meaningful regressor is statistically significant at the 5% level under HC3-robust standard errors, the signs are theoretically interpretable, and within pre-announcement windows, the pattern persists when the horizon changes. Windows that yield only borderline (10%) signals or that mix pre- and post-announcement days are not emphasized.

Against this criterion, the  $[-5,0]$  specification is the most informative pre-announcement window (Table 2). The adjusted  $R^2$  is 0.226, modest, but consistent with some cross-sectional explanatory power. The clearest and economically meaningful association is with acquirer size (log market capitalization):  $\beta = 0.616$ , HC3  $p = 0.007$ . In magnitude, doubling the acquirer's market cap ( $\approx \ln 2$ ) is associated with roughly +0.43 CAR points ( $0.616 \times 0.693$ ). A plausible interpretation is that size may proxy for execution capability, access to financing, or deal credibility, but the estimate should be read as a descriptive association, not a causal effect.

The interaction `luxury_samecountry` is only weakly suggestive ( $p \approx 0.10$ ) and, given the small sample and overlapping dummies, is treated as exploratory. Other controls are not statistically significant at conventional levels. In line with the selection criteria, I therefore emphasize the positive association between acquirer size and pre-announcement CARs and avoid strong claims about the interaction term.

OLS (HC3 robust) Results for CAR\_<sub>[-5,0]</sub>:

OLS Regression Results						
Dep. Variable:	CAR_ <sub>[-5,0]</sub>	R-squared:	0.464			
Model:	OLS	Adj. R-squared:	0.226			
Method:	Least Squares	F-statistic:	1.808			
Date:	Wed, 24 Sep 2025	Prob (F-statistic):	0.141			
Time:	19:18:46	Log-Likelihood:	-36.673			
No. Observations:	27	AIC:	91.35			
Df Residuals:	18	BIC:	103.0			
Df Model:	8					
Covariance Type:	HC3					
	coef	std err	z	P> z	[0.025	0.975]
const	-4.2281	1.764	-2.397	0.017	-7.685	-0.771
both_luxury	-1.0719	0.695	-1.541	0.123	-2.435	0.291
same_country	-0.3460	0.680	-0.509	0.611	-1.678	0.986
luxury_samecountry	2.0600	1.260	1.635	0.102	-0.410	4.530
log_transaction_value	-0.2242	0.162	-1.388	0.165	-0.541	0.092
log_acquirer_mktcap	0.6164	0.228	2.707	0.007	0.170	1.063
log_gdp_eurmm	0.0537	0.140	0.382	0.702	-0.221	0.329
cash_or_hybrid	-0.3150	0.943	-0.334	0.738	-2.162	1.532
delta_roa	0.1199	1.822	0.066	0.948	-3.450	3.690
Omnibus:	0.624	Durbin-Watson:	2.022			
Prob(Omnibus):	0.732	Jarque-Bera (JB):	0.639			
Skew:	-0.316	Prob(JB):	0.726			
Kurtosis:	2.590	Cond. No.	102.			

Notes:

[1] Standard Errors are heteroscedasticity robust (HC3)

+ Significance (based on HC3-robust P-values):

const \*\*  
both\_luxury  
same\_country  
luxury\_samecountry  
log\_transaction\_value  
log\_acquirer\_mktcap \*\*\*  
log\_gdp\_eurmm  
cash\_or\_hybrid  
delta\_roa

Table 2. CAR <sub>[-5,0]</sub> OLS Results.

Turning to the longer pre-announcement horizon <sub>[-20,0]</sub> (Table 3), the pattern is similar but not identical to <sub>[-5,0]</sub>. The adjusted  $R^2$  is 0.185 (below 0.226 in <sub>[-5,0]</sub>), while the association with acquirer size is larger in magnitude:  $\beta = 0.757$ , HC3  $p = 0.015$ . A doubling of market capitalization ( $\approx \ln 2$ ) is associated with about +0.52 CAR points ( $0.757 \times 0.693$ ), consistent with a stronger size-CAR relationship over a longer pre-event window. By contrast, *luxury\_samecountry*, weakly suggestive in <sub>[-5,0]</sub>, is not significant here ( $p \approx 0.20$ ), and the remaining controls (deal value, GDP, domestic status, payment method,  $\Delta$ ROA) do not reach conventional thresholds. The intercept is marginally negative ( $p = 0.065$ ) and has no direct economic interpretation. Overall, the stable, positive association between acquirer size and pre-announcement CARs carries over to a longer window, while ancillary dummies do not.

OLS (HC3 robust) Results for CAR\_<sub>[-20,0]</sub>:

OLS Regression Results						
Dep. Variable:	CAR_ <sub>[-20,0]</sub>	R-squared:	0.436			
Model:	OLS	Adj. R-squared:	0.185			
Method:	Least Squares	F-statistic:	1.308			
Date:	Wed, 24 Sep 2025	Prob (F-statistic):	0.301			
Time:	19:18:46	Log-Likelihood:	-44.318			
No. Observations:	27	AIC:	106.6			
Df Residuals:	18	BIC:	118.3			
Df Model:	8					
Covariance Type:	HC3					
	coef	std err	z	P> z	[0.025	0.975]
const	-5.2877	2.868	-1.844	0.065	-10.909	0.334
both_luxury	-1.0812	1.022	-1.058	0.290	-3.085	0.922
same_country	0.1893	0.804	0.236	0.814	-1.386	1.765
luxury_samecountry	1.3975	1.082	1.292	0.196	-0.723	3.518
log_transaction_value	-0.1637	0.172	-0.950	0.342	-0.502	0.174
log_acquirer_mktcap	0.7573	0.312	2.429	0.015	0.146	1.368
log_gdp_eurmm	-0.0240	0.143	-0.168	0.867	-0.305	0.257
cash_or_hybrid	-0.7423	1.597	-0.465	0.642	-3.873	2.388
delta_roa	0.1112	1.425	0.078	0.938	-2.681	2.903
Omnibus:	0.067	Durbin-Watson:	2.209			
Prob(Omnibus):	0.967	Jarque-Bera (JB):	0.085			
Skew:	0.067	Prob(JB):	0.958			
Kurtosis:	2.760	Cond. No.	102.			

Notes:

[1] Standard Errors are heteroscedasticity robust (HC3)

+ Significance (based on HC3-robust P-values):

const \*

both\_luxury

same\_country

luxury\_samecountry

log\_transaction\_value

log\_acquirer\_mktcap \*\*

log\_gdp\_eurmm

cash\_or\_hybrid

delta\_roa

Table 3. CAR [-20,0] OLS Results.

Of course, it's important to remember that these results come from a **relatively small sample**, 27 deals. This clearly limits the power of the regressions and the general conclusions I can draw. On top of that, the models explain only a portion of the variation in CARs, meaning there are likely other deal characteristics or external factors that influenced market reactions but weren't captured here.

Still, the analysis highlights at least one consistent pattern: larger acquirers seem to be rewarded (or punished less) by the market, perhaps because of the stability and experience they bring. There's also a hint that the nature of the deal, especially when it involves luxury

firms within the same country, might influence how investors respond, but more data would be needed to confirm that.

### **Interpreting the Regression Results: Multifactor Model**

After conducting the main analysis using the traditional market model, I wanted to test the robustness of the results by applying a **multifactor model**, which allows for a more nuanced estimation of expected returns. This decision is supported by both theoretical and empirical considerations.

On the theoretical side, MacKinlay (1997) points out that including a **sector-specific index** in addition to a broad market index can help reduce the variance of the residuals and improve the accuracy of the estimated abnormal returns. Empirically, Tanuwidjaja (2007) demonstrates the advantages of multifactor models in M&A event studies, showing that they lead to more precise estimates, especially in industries where firms are strongly influenced by sector dynamics. Although Tanuwidjaja uses a SUR framework, the underlying principle is the same: incorporating more relevant sources of systematic risk can refine the model and improve explanatory power.


In line with this approach, I re-estimated the CARs by applying an **OLS-based multifactor model**. For each acquiring firm in the sample, I regressed daily log returns on two independent variables: the return of the **MSCI World Index**, which serves as a proxy for global market trends, and the return of the **S&P Global Luxury Index**, which captures sector-specific movements. This regression was estimated over the same pre-announcement estimation window of [-180, -20], as done in the earlier analysis. Although the methodology used here doesn't rely on a SUR structure, it still respects the logic of multifactor modeling, offering a richer and more realistic representation of the return-generating process.

Technically, the model used to estimate expected returns is specified as follows:

$$Return_{i,t} = \alpha_i + \beta_{1i}MarketReturn_t + \beta_{2i}SectorReturn_t + \varepsilon_{i,t}$$

Once the expected returns were estimated for each firm, I calculated the abnormal returns within six event windows, as before, and then summed them to obtain the **multifactor CARs** (Table 5).

Among the six windows, the **[-5, 0]** window once again emerged as the most statistically significant. The mean CAR in this window was negative (-0.743) and significant at the 1% level, confirming the earlier result obtained with the market model. All other windows, including the commonly used short window **[-1, +1]**, failed to show significance, suggesting that investors may start reacting even before the official announcement date.

 **Statistical Results (Multifactor CAR):**

Event Window	N (obs)	Mean CAR	Std Dev	t-stat	p-value	Signif.
CAR_ <sub>[-1,+1]</sub>	27	-0.391707	1.839667	-1.106379	0.278695	
CAR_ <sub>[-2,+2]</sub>	27	-0.005650	1.770153	-0.016585	0.986895	
CAR_ <sub>[-5,0]</sub>	27	-0.743087	1.265344	-3.051497	0.005192	***
CAR_ <sub>[-20,0]</sub>	27	-0.437479	1.977065	-1.149790	0.260697	
CAR_ <sub>[0,+5]</sub>	27	-0.039237	1.392613	-0.146402	0.884733	
CAR_ <sub>[-10,+10]</sub>	27	-0.491155	1.585359	-1.609804	0.119517	

*Table 4. CAR Windows Statistical Results.*

I focused on the **OLS regressions by using the multifactor-adjusted CAR[-5, 0] and CAR[-20,0]** as dependent variable using the same set of explanatory variables previously discussed in order to build a good comparison with the Market Model.

$$CAR_i = \alpha + \beta X_i + \varepsilon_i$$

Where  $CAR_i$  now is the cumulative abnormal return for deal  $i$  calculated with expected returns of the multifactor model.

The results were consistent with those of the simpler model, adding confidence to the robustness of the findings.

OLS (HC3 robust) Results for CAR<sub>[-5,0]</sub> (Multifactor CAR):

	coef	std err	t	p> t	95% CI
const	-4.083	1.720	-2.374	0.029	[-7.697, -0.470]
both_luxury	-1.156	0.661	-1.749	0.097	[-2.545, 0.233]
same_country	-0.213	0.633	-0.337	0.740	[-1.543, 1.117]
luxury_samecountry	1.959	1.295	1.513	0.148	[-0.762, 4.681]
log_transaction_value	-0.192	0.151	-1.273	0.219	[-0.510, 0.125]
log_acquirer_mktcap	0.595	0.228	2.614	0.018	[0.117, 1.074]
log_gdp_eurmm	0.067	0.141	0.476	0.640	[-0.229, 0.363]
cash_or_hybrid	-0.477	0.982	-0.486	0.633	[-2.540, 1.585]
delta_roa	0.015	1.790	0.008	0.994	[-3.745, 3.775]

+ Significance (based on HC3-robust P-values):

const	**
both_luxury	*
same_country	
luxury_samecountry	
log_transaction_value	
log_acquirer_mktcap	**
log_gdp_eurmm	
cash_or_hybrid	
delta_roa	

Table 5. Multifactor CAR [-5,0] OLS Results.

OLS (HC3 robust) Results for CAR<sub>[-20,0]</sub> (Multifactor CAR):

	coef	std err	t	p> t	95% CI
const	-6.148	3.501	-1.756	0.096	[-13.503, 1.206]
both_luxury	-0.863	1.269	-0.680	0.505	[-3.529, 1.804]
same_country	0.790	0.988	0.800	0.434	[-1.285, 2.865]
luxury_samecountry	0.620	1.358	0.457	0.653	[-2.232, 3.472]
log_transaction_value	-0.150	0.212	-0.706	0.489	[-0.596, 0.296]
log_acquirer_mktcap	0.885	0.400	2.212	0.040	[0.044, 1.725]
log_gdp_eurmm	-0.069	0.223	-0.308	0.762	[-0.538, 0.400]
cash_or_hybrid	-1.273	1.664	-0.765	0.454	[-4.769, 2.223]
delta_roa	-0.251	1.781	-0.141	0.890	[-3.991, 3.490]

+ Significance (based on HC3-robust P-values):

const	*
both_luxury	
same_country	
luxury_samecountry	
log_transaction_value	
log_acquirer_mktcap	**
log_gdp_eurmm	
cash_or_hybrid	
delta_roa	

Table 6. Multifactor CAR [-20,0] OLS Results.

In the multifactor CAR analysis, the short pre-announcement window [-5,0] in Table 5 shows a clear descriptive pattern: acquirer size (log market cap) is positively associated with CAR ( $\beta = 0.595$ , HC3  $p = 0.018$ , 95% CI [0.117, 1.074]). In magnitude, doubling the acquirer's market cap ( $\approx \ln 2 = 0.693$ ) is associated with about +0.41 CAR points ( $0.595 \times 0.693$ ). Other controls are not statistically significant at the 5% level in this window; there is only a weak 10%-level negative signal on both\_luxury ( $p \approx 0.097$ ), which I treat cautiously given the small

sample. This pattern is consistent with the Market Model, which yields a very similar association ( $\beta \approx 0.616$ ,  $p = 0.007$ ), implying roughly +0.43 CAR points for a size doubling; sign, magnitude, and significance are aligned across specifications. The intercept is negative (HC3  $p \approx 0.029$ ) but has no direct economic interpretation.

Over the longer pre-announcement horizon  $[-20,0]$  reported in Table 6, the same size-CAR association remains positive and statistically meaningful ( $\beta = 0.885$ , HC3  $p \approx 0.037$ , 95% CI  $[0.044, 1.725]$ ), with a doubling of market cap ( $\approx \ln 2 = 0.693$ ) associated with about +0.61 CAR points ( $0.885 \times 0.693$ ). The Market Model again points in the same direction ( $\beta \approx 0.757$ ,  $p = 0.015$ ), implying about +0.52 CAR points; the multifactor estimate is slightly larger, but the overall message is similar. The intercept is negative (HC3  $p \approx 0.096$ ) and has no direct economic interpretation. In both windows, the emphasis is on cross-sectional, HC3-based associations in a small sample ( $N = 27$ ), not on precise causal effects, and the lack of significance for the other controls should be read accordingly.

Overall, these results suggest that the negative market reaction to M&A deals in the luxury sector is not merely an artifact of the model used to compute expected returns. The fact that both the market model and the multifactor model lead to the same conclusions lends credibility to the findings and strengthens their empirical validity. Moreover, by including a sector index, the multifactor approach aligns better with the nature of the industry studied, one where brand positioning, competitive reputation, and niche market dynamics play a particularly strong role.

Despite the limited sample size, which naturally reduces statistical power, the multifactor model confirms that the initial results are robust and not overly sensitive to the choice of return-generating process. This reinforces the reliability of the insights drawn from the empirical analysis.

### **3.5 Discussion and Limitations**

Measuring how markets respond to mergers and acquisitions can tell us a lot about how these transactions are perceived in terms of value creation. At first glance, this may seem like a

complex task. However, as suggested by MacKinlay (1997), financial markets themselves offer a useful way to estimate the impact of economic events. By comparing the actual return of a firm with what would normally be expected, it becomes possible to isolate the effect of the event, in this case, the M&A announcement.

In my analysis, I followed this approach by estimating abnormal returns (AR) and cumulative abnormal returns (CAR) across different time windows. These metrics reflect the change in investor expectations around the time of the announcement and provide insight into whether a transaction is seen as beneficial or not from the market's point of view.

To estimate the normal return, I first used a standard market model with the MSCI World Index. Then, building on theoretical suggestions and previous research, I tested a two-factor model that includes both a global market index and the S&P Global Luxury Index. This allowed me to better account for movements specific to the luxury sector, which often behaves differently from the broader market. MacKinlay (1997) argues that including a sector index can reduce residual variance and improve estimation accuracy, and this was confirmed in my results. To assess the precision improvement brought by the multifactor specification, a paired t-test was conducted on the residual standard deviations of the two models (Table 7). The results indicate a statistically significant reduction in average residual error when including the sector index ( $p = 0.0002$ ), supporting the use of a multifactor model for more accurate estimation of expected returns. While the model I applied is based on simple OLS regressions rather than a full SUR specification, as used in Tanuwidjaja (2007), it still adds useful depth and improves robustness.

**Standard Deviation of Residuals:**

- Market Model Mean STD: 1.2386
- Multifactor Model Mean STD: 1.2348
- Average difference: 0.0038
- T-test paired:  $t = 4.385$ ,  $p = 0.0002$

*Table 7. Comparison of Residual Standard Deviations Between Market and Multifactor Models*

Looking at the results, a few patterns emerge. Among the different event windows considered, the [-5, 0] window is the one that shows statistically significant negative CARs. This suggests

that markets might anticipate the announcement or start reacting to early information leaks, and that M&A activity, at least in the short term, is not necessarily welcomed by investors in this industry. Interestingly, the size of the acquirer appears to have a consistently positive effect on market reaction, confirming that firm size may still play a role in shaping investor confidence.

That said, it's important to be clear about the limitations of this study. One of the main challenges was the availability of clean and complete financial data, especially for luxury firms, which are often private or partially listed. This characteristic significantly impacted the construction of the sample, as it led to an extensive **data cleaning process**. In particular, transactions were excluded whenever essential information, such as daily price series or key financial indicators, was missing and could not be reliably retrieved manually. In this context, attempting to refill the dataset with proxy data or assumptions would have introduced a high risk of distortion, ultimately compromising the reliability of the results. Therefore, a conservative approach was adopted, and any transaction with incomplete data was fully removed from the analysis.

Given the small N and potential event-induced variance, classical t-tests may overstate precision. As robustness, future work could complement them with Patell/BMP or rank-based tests (Corrado), or bootstrap the mean CAR. With repeated acquirers, HC3 was preferred to cluster-SE due to the very low number of clusters; results are thus interpreted as descriptive associations.

Another limitation concerns the identification and accuracy of the announcement date, which plays a critical role in event study methodologies. Ideally, abnormal returns are estimated over a window that captures both market anticipation and post-announcement reactions. However, this requires a precise identification of the event date. In this analysis, the announcement date was taken from the S&P Capital IQ database, which may not always perfectly reflect the first moment the market became aware of the transaction. In cases where information leaked prior to the official disclosure, or where the market reacted only after more detailed announcements, the observed CARs may not fully capture the true effect of the event. Consequently, both the magnitude and statistical significance of the results could be influenced by inaccuracies or heterogeneity in event timing. This is particularly relevant for shorter windows such as [-2, +2] or [-1, +1], where even a one-day discrepancy can lead to biased or attenuated estimates of abnormal performance.

In addition, while the use of a multifactor model improved the estimation of normal returns, the methodology remains relatively simple and does not fully address potential cross-correlation in residuals across firms. A more sophisticated approach, such as the Seemingly Unrelated Regressions (SUR) model employed in other studies (e.g., Tanuwidjaja, 2007), could further enhance robustness, especially in the presence of multiple contemporaneous events.

Despite these constraints, the findings remain coherent with the literature and offer some interesting insights. They highlight how short-term investor sentiment can be cautious in response to M&A announcements in the luxury sector, and show the value of using a sector-specific index to refine our understanding of market expectations. Even in an industry as unique and brand-driven as luxury, financial data can still tell us a lot, if we know how to interpret it.

## 4. QUALITATIVE ANALYSIS

While the quantitative analysis of abnormal returns offered valuable insights into how the market tends to react to M&A announcements, it still provides only part of the picture. Numbers can reveal patterns, but they cannot fully explain the complexity of why a deal is perceived positively or negatively. M&A outcomes depend on many factors that go beyond immediate market response, including strategic intent, deal execution, timing, and context. For this reason, the CAR analysis is complemented with a qualitative exploration of specific cases.

### 4.1 Motivation for a Qualitative Follow-Up

The results from the event study in the previous chapter naturally led me to a broader question. If the market often reacts negatively when an acquisition is announced, and if this reaction is then followed by weak performance of the acquirer's stock in the months that follow, why do firms still go ahead with M&A? It's not just a theoretical curiosity, this contradiction is something that comes up frequently when looking at the data. And yet, companies keep acquiring. So I felt the need to dig deeper and try to understand what might be behind this apparent inconsistency.

A helpful starting point for understanding market reactions to M&A deals is the work of Sirower and Sahnii (2006), who examined over 1,000 large transactions between 1995 and 2001. Their findings reveal that while the average effect on the acquiring firm's share price is negative, this masks a significant variation in outcomes. In fact, about 35–40% of deals resulted in positive returns for the acquirer, while the majority, roughly 60–65%, were viewed unfavorably by the market both at the time of the announcement and one year later.

What makes the difference, according to the authors, is often the initial market reaction. Deals that start off with a positive response tend to continue performing well, suggesting that early optimism can reflect informed investor confidence. Conversely, when a deal is met with skepticism or negativity, this tends to persist over time and is rarely reversed, especially when the transaction is stock-financed.

Most notably, Sirower and Sahni (2006) found that acquirers whose deals were received positively and continued to perform well could experience gains of over 30% in the following year. On the other hand, those associated with persistently negative reactions faced substantial losses. This highlights how the market's initial verdict is more than just noise, it can serve as a meaningful signal of future performance.

Lastly, although acquirers often don't benefit directly, the study shows that M&A transactions can still create value overall. Target firms typically enjoy strong gains, and cash-financed deals tend to generate a positive combined market return, suggesting that M&A can lead to broader economic value creation, even if that value is not always captured by the buyer.

This leads to a wider consideration: the idea that M&A is still, for many companies, a way to grow fast. The hope is to capture synergies, expand the business, or gain capabilities they wouldn't be able to develop internally in the same timeframe. Of course, the market remains cautious. Investors have seen enough deals that didn't deliver what was promised, so there's often doubt about whether the benefits, especially cost savings or revenue improvements, will really materialize. But even with this skepticism, the expectation that value can be created still drives many firms to try.

This brought me to a second question: if some companies manage to succeed in M&A while others don't, what are they doing differently? I came across a study by Daume et al (2022), which explores this exact point. What they found is that the most successful acquirers don't rely on single, big-bang deals to drive growth. Instead, they tend to combine those with a more ongoing, methodical approach. They carry out smaller acquisitions regularly, building experience and staying active in the market. This helps them learn over time and avoid some of the mistakes that can come with rare, high-stakes deals.

The study also emphasizes something that, in theory, seems obvious, but in practice is often underestimated: culture. When two companies join, it's not just about systems or structures, it's about people, ways of working, communication styles. When this part is neglected, integration becomes messy, people leave, and the expected benefits never show up. Firms that take culture seriously, both their own and the target's, seem to have smoother transitions and better results overall.

Another pattern that emerged is that high-performing acquirers tend to focus not only on reducing costs, but also on growing revenues. It's easy to think that cutting expenses is the fastest way to improve results, but growth is what really makes a deal transformative. Companies that look for new business opportunities after a merger, that try to unlock commercial potential instead of just optimizing operations, often see more meaningful, long-term improvements.

At the same time, cost discipline is still important, but not in a rigid or purely financial sense. It's more about staying flexible, making sure that the organization doesn't get bloated, and continuing to improve even after the excitement of the deal has faded. The companies that succeed seem to have this mindset: always asking what could be done better, not assuming the deal alone is enough.

So, even if acquisitions come with risks, and they definitely do, there are firms that manage to make them work. Not because they're lucky, but because they follow certain principles consistently. Things like combining different types of deals, paying attention to people and culture, focusing on real growth, and keeping the organization lean and alert. These are not magic formulas, but they seem to make a big difference in whether a deal creates value or becomes just another statistic (Sirower & Sahni, 2006; Daume et al., 2022).

Building on the insights from the literature, one clear takeaway is that M&A outcomes cannot be fully understood through averages alone. While general patterns and best practices are useful, each deal comes with its own context, dynamics, and strategic intent. That's why a more case-by-case approach is needed, one that looks at the specific drivers behind each transaction and the market's reaction to it.

In order to get a more concrete sense of what works and what doesn't, I decided to take a closer look at a selection of individual cases.

In the next section, I will focus on five of the most relevant transactions from the initial dataset used for the CAR analysis. These deals were chosen because of their strategic relevance, scale, or unusual characteristics. For each of them, I will examine key elements such as the acquirer's motives, the context of the transaction, and how the market responded.

This qualitative assessment aims to provide a deeper, more nuanced understanding of deal execution and to offer a personal evaluation of how effectively each acquisition was handled.

## **4.2 Selection of Deals for the Qualitative Analysis**

After completing the quantitative event study and reviewing the key insights from the literature, it became clear that a purely numerical analysis can only go so far in explaining the complex dynamics behind M&A performance. While the CAR-based approach offered a valuable overview of how markets tend to react to luxury M&A deals, understanding the deeper reasons behind success or failure requires looking more closely at individual cases. Each transaction has its own context, strategic objectives, integration process, and public perception, elements that numbers alone cannot fully capture. For this reason, I decided to conduct a qualitative assessment of a small number of selected deals from the original dataset.

The selection was based on three main criteria. First, I focused on transactions with high deal value, as larger deals typically involve greater risk, visibility, and strategic weight for the acquiring firm. Second, I considered the strategic relevance of the companies involved. Well-known names such as LVMH, Luxottica, and Versace represent some of the most influential actors in the luxury industry, and their acquisition strategies offer meaningful insights into sector dynamics. Finally, the availability of public information was a key factor: in order to carry out a thorough qualitative analysis, it was essential to have access to reliable sources such as press releases, financial news, interviews, and post-deal evaluations.

Following this selection logic, I identified five transactions<sup>42</sup> that stood out either for their size, their symbolic impact, or the richness of available documentation. Each of these deals reflects a different facet of M&A in the luxury sector, and together they form a diversified sample that allows for meaningful comparison and reflection.

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<sup>42</sup> All deal descriptions in this section are based on publicly known facts and on my own analysis and interpretation. No external sources were used beyond the initial dataset.

The first and most prominent case is the **merger between Essilor and Luxottica**, announced on January 16, 2017. Valued at €16.3 billion, this deal marked the birth of a new global leader in eyewear, combining a producer of lenses (Essilor) with a dominant manufacturer and retailer of frames and sunglasses (Luxottica). The deal was widely viewed as a turning point for the industry, not only due to its size but also because of the complexity involved in aligning two corporate cultures, leadership structures, and global operations.

Closely related to this, I will consider also the **second tranche of the EssilorLuxottica integration**, formalized on October 1, 2018, also deserves dedicated attention. This second step, valued at €7.4 billion, completed the operational consolidation of the two firms. By considering both the first and second phases of the transaction, it becomes possible to trace the evolution of the merger, examine how initial market expectations were managed, and reflect on how the integration challenges were addressed over time. It offers an interesting perspective on how large, staged deals are executed and monitored.

The second case is **LVMH's acquisition of Bulgari**, announced on March 6, 2011. With a value of around €3.4 billion, this transaction carried significant symbolic weight. Bulgari, a prestigious Italian jewelry brand, was integrated into LVMH's portfolio with the goal of reinforcing the group's presence in the hard luxury segment, jewelry and watches.

The third transaction selected is **LVMH's acquisition of Loro Piana**, finalized on July 8, 2013, with a valuation of around €2.0 billion. Unlike Bulgari, Loro Piana operated in a niche segment of ultra-luxury, known for its exceptional quality in fabrics and understated elegance. This case serves as a useful contrast to others with more aggressive or transformative approaches.

For the fourth transaction I chose to include the **acquisition of Versace by Capri Holdings**, announced on September 25, 2018, for approximately €1.83 billion. This deal sparked considerable debate due to the apparent contrast between the bold, iconic image of the Versace brand and the more commercial positioning of the acquiring group (formerly known as Michael Kors Holdings).

Finally, I have selected the acquisition of a 30% stake in **Valentino S.p.A. by Kering S.A.**, announced on 27 July 2023. With a deal value of €1.7 billion, this transaction stands out due to the strategic relevance of Valentino as a heritage Italian maison and the potential for full acquisition by 2028. The high-profile nature of both players and the recent timing make it particularly interesting to investigate in terms of strategic rationale, integration plans, and expected long-term value creation.

Overall, these five transactions offer a diverse and compelling cross-section of luxury M&A activity over the past decade. They differ in terms of motivations, market positioning, and deal structures, but they all share a high level of strategic importance. Analyzing them in more detail allows for a deeper understanding of how M&A is actually executed in the luxury sector, and how theory, numbers, and real-world dynamics come together in complex and sometimes unpredictable ways.

### **4.3 Methodology**

For each of the five M&A transactions I have analysed, I provided a structured discussion covering a set of core elements necessary to understand the deal. In particular, the analysis includes the names of acquirer and target, the year of the transaction, the strategic rationale, the main financial terms, the chosen post-deal integration approach, and the positioning of the target brand prior to the acquisition.

Following this descriptive overview, the focus shifts to the evaluation of how each deal unfolded. The aim is to assess whether the acquisition created value, preserved it, or ultimately destroyed it. To ensure consistency and avoid subjective impressions, this assessment relies on a transparent framework that applies uniform criteria across all five cases. For this part of the analysis, a summary table (*Table 8*) was prepared to assign and compare scores, so that the reasoning behind each conclusion remains explicit, comparable, and traceable.

The qualitative evaluation is based on three main dimensions, which emerged as recurrent drivers of long-term outcomes:

- **Strategic Fit (0–3 points):** the degree to which the acquisition aligned with the long-term strategy of the acquirer. Did it strengthen its market position, provide access to new geographies or customer segments, or generate convincing strategic synergies?
- **Integration Success (0–3 points):** the effectiveness and speed of the post-deal integration. Were synergies realised as expected, or were there delays, inefficiencies, and value leakages?
- **Brand and Cultural Alignment (0–2 points):** the extent to which there was compatibility in brand identity, corporate values, and organisational culture. Was the acquired brand preserved in its distinctive attributes while still fitting into the acquirer’s broader portfolio?

Each case was scored on these three dimensions, resulting in a maximum of 8 points. This score was then mapped onto a five-point qualitative scale:

- 1–2 points → **Value Destroyer**
- 3 points → **Value Preserver**
- 4–5 points → **Value Creator**
- 6–7 points → **Strong Value Creator**
- 8 points → **Transformational Deal**

This structure makes it possible to compare very different cases on a common basis, while also recognising that M&A success is multi-dimensional and rarely reducible to financial indicators alone.

In parallel with this qualitative scorecard, I also developed a Performance Panel (*Table 9*) in order to capture how markets and shareholders actually evaluated each deal over time. The panel reports two complementary indicators:

- **Market Reaction (CAR):** the Cumulative Abnormal Return of the acquirer in the [-1, +1] event window around the announcement date, which reflects the short-term perception of the deal by financial markets, calculated in Chapter 3.

- **Financial Performance (TSR):** the Total Shareholder Return of the acquirer was measured on a **calendar-year basis**, taking the stock price at 31 December and including all dividends distributed during the year. Returns were calculated for the first, second, and third year after the transaction. The formula used is:

$$TSR = \frac{(P_{final} - P_{initial}) + D}{P_{initial}}$$

Where  $P_{final}$  is the stock price at the end of the period,  $P_{initial}$  is the stock price at the beginning, and  $D$  represents the dividends per share distributed during the period. Detailed TSR calculations are reported in Appendix A.

To ensure consistency, company TSRs (which include dividends) are systematically compared with the S&P Global Luxury Net Total Return Index, expressed in the same currency and over the same horizons. Both TSRs and the benchmark are then summarised through their median three-year value, which mitigates the influence of temporary shocks and avoids excessive weight being placed on a single outlier year. This ensures full alignment between company performance and the sector benchmark, while avoiding penalising firms with higher dividend payouts.

The classification adopted is the following:

- Negative if median TSR < cost of equity ( $K_e$ ) as estimated by CAPM;
- Good if the median TSR >  $K_e$ ;
- Excellent if the median TSR > median S&P Global Luxury Net TR.

In this way, the qualitative drivers (strategic fit, integration, culture) remain separated from the actual performance outcomes, which are assessed through independent and transparent financial benchmarks. The qualitative score (Table 8) thus indicates how the deal was conceived and executed, while the Performance Panel (Table 9) provides evidence of how markets and shareholders evaluated the results.

The estimation of the cost of equity relies on the Capital Asset Pricing Model (CAPM), a framework originally developed by Sharpe (1964), Lintner (1965) and Mossin (1966). The

CAPM establishes a linear relationship between risk and return, assuming that investors must be compensated both for the time value of money and for bearing systematic risk. Its standard formulation is:

$$Ke = Rf + \beta(Rm - Rf)$$

where  $Ke$ , as mentioned above, is the cost of equity,  $Rf$  is the risk-free rate,  $\beta$  measures the sensitivity of the company's returns to market movements, and  $(Rm - Rf)$  represents the equity risk premium. In this study, the risk-free rate was proxied by the 10-year government bond yield of the acquirer's home country at the time of deal closing, consistently retrieved from Refinitiv. Since the expected return of the market portfolio ( $Rm$ ) is not directly observable, standard practice is to approximate it with the long-term historical average performance of broad global indices such as the MSCI World Total Return Index. In line with both academic literature and professional valuation practice (Koller et al., 2025; Damodaran, 2023), this study assumes an expected market return of approximately 7% annually, consistent with the historical evidence for developed equity markets.

The estimation of the beta coefficients was also based on Refinitiv data. Specifically, the 5-year monthly levered beta<sup>43</sup> reported by Refinitiv was adopted for each company. This measure is based on a regression of stock returns against a broad market index over a rolling five-year period, using monthly price changes. While this does not replicate the exact beta at the historical deal date, it ensures methodological consistency and comparability across all cases. The detailed financial calculations are reported in Appendix B.

This approach provides a robust framework for assessing the relative performance of each transaction. By grounding the cost of equity on consistent and transparent assumptions, it ensures that the classification of TSR outcomes against CAPM thresholds rests on both theoretical rigor and practical reliability.

Finally, in the discussion of each case, the two perspectives are combined: the qualitative assessment explains the strategic and organisational logic of the deal, while the performance indicators illustrate whether this rationale translated into value creation. This dual perspective

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<sup>43</sup> Refinitiv defines the 5-year monthly beta as the regression slope of a company's stock returns against market returns, calculated on monthly price changes over a five-year horizon (minimum of 40 observations). The exact benchmark index used by Refinitiv is not disclosed in the definition, but the metric provides a standardized and widely accepted proxy for systematic risk.

highlights the distinctive features of each transaction and offers a balanced judgment that integrates factual evidence, strategic reasoning, and contextual interpretation.

#### **4.4 Summary Tables**

This section presents the summary tables that serve as the foundation for the qualitative analysis and provide the reader with a clear, at-a-glance overview of the key features and outcomes of the selected transactions.

Deal	Structure & Consolidation	Strategic Fit (0-3)	Integration Success (0-3)	Brand & Culture (0-2)	Total (0-8)	Label (1-5)
<b>Luxottica-Essilor</b>	Merger of quasi equals; full control & consolidation; operating synergies implementable	3	3	2	8	Transformational Deal
<b>LVMH – Bulgari</b>	Control acquisition; full consolidation	2	1	1	4	Value Creator
<b>LVMH – Loro Piana</b>	80% control (family minority retained); full consolidation	3	2	2	7	Strong Value Creator
<b>Capri – Versace</b>	100% acquisition; full consolidation	1	0	1	2	Value Destroyer
<b>Kering – Valentino (30%)</b>	30% + Option (70% 2026-28); equity method; autonomous management; no operating synergies; only macro choices aligned (creative direction/CEO)	2	0	1	3	Value Preserver

Note: Strategic Fit, Integration Success, and Brand & Culture contribute to the total score (0-8).

Table 8. Qualitative Drivers

<b>Deal</b>	<b>CAR [-1,+1] (%)</b>	<b>TSR Median (%)</b>	<b>Ke (CAPM) (%)</b>	<b>S&amp;P Global Luxury Median (%)</b>	<b>TSR Classification</b>
<b>Luxottica - Essilor</b>	0.26	24.45	6.37	32.31	Good
<b>LVMH - Bulgari</b>	-2.21	12.42	7.78	23.38	Good
<b>LVMH - Loro Piana</b>	-1.93	12.06	8.16	4.27	Excellent
<b>Capri Holdings - Versace</b>	0.04	10.09	10.13	32.31	Negative
<b>Kering - Valentino</b>	0.02	-36.78	10.25	-1.67	Negative

*Table 9. Performance Panel*

## 4.5 Rationale

This section develops the reasoning and insights that led to the final evaluation score assigned to each transaction. It aims to clarify the strategic, operational, and contextual factors that shaped the outcome assessment.

All financial data used in this analysis, including revenues, profits, net debt, were sourced from the official annual reports and investor publications of the acquiring companies, covering the year of the transaction and the following three fiscal years.

### **Luxottica - Essilor (2017-2018)**

The merger between Essilor and Luxottica, announced in 2017 and completed in October 2018, is widely considered a turning point for the global eyewear industry. It did not resemble a conventional takeover. Rather, it brought together two leaders that, for decades, had dominated different ends of the same value chain: Essilor in ophthalmic lenses and optical innovation; Luxottica in branded frames, design and a unique worldwide retail network. The industrial intent was clear from the outset: compress the distance between technology and the

point of sale, manage lenses, frames and distribution within a single platform, and offer consumers a more consistent journey, from eye examination to product choice, across prescription and fashion eyewear. From a technical perspective the transaction was structured as an all-share, *quasi* merger of equals and, under IFRS 3, treated as a reverse acquisition with Luxottica recognised as the accounting acquirer. The corporate housekeeping took time: after closing, a mandatory exchange offer brought ownership above 90%, Luxottica was delisted from Milan in 2019, voting rights were realigned, and the leadership gradually converged with the appointment of Francesco Milleri as CEO and Paul du Saillant as Deputy CEO in 2020, while founder Leonardo Del Vecchio remained non-executive chairman. An ownership culture accompanied this process: by 2020 roughly forty-four per cent of employees were shareholders, a signal of internal alignment around a long-term vision.

Integration was demanding but methodical. Management organised twenty-eight dedicated workstreams to keep the programme measurable and on schedule. Three pillars concentrated the effort. First, IT harmonisation, including a unified SAP backbone, to enable common planning, procurement and reporting. Second, supply-chain redesign and lab consolidation to capture scale effects without diluting service levels to opticians. Third, a coordinated go-to-market, with joint initiatives for independent eye-care professionals and a more integrated innovation pipeline. The new group did not attempt to flatten brand identities. It protected the heritage of Essilor and Luxottica and built a shared mission around improving vision worldwide. On the commercial side, the merger quickly unlocked options that were impossible for each company alone. *Ray-Ban Authentic*, Luxottica frames fitted with Essilor prescription lenses, is the most visible example of a product concept that requires both capabilities to sit under the same roof. The *EssilorLuxottica 360* programme, designed to support independent opticians with tools, economics and marketing assets, is another. On costs, synergies came from shared sourcing, lab consolidation and portfolio housekeeping (such as the full absorption of Costa). The company guided for €420–600 million of synergies within five years and, despite the shock of 2020, kept executing toward that range.

On this basis the qualitative assessment is straightforward. In terms of strategic fit the rationale is exceptionally strong: uniting the dominant player in lenses with the dominant player in frames and retail created a vertically integrated model that peers could not replicate at the time; it tightened control over design and quality, accelerated innovation cycles and raised barriers to entry. Integration performance also deserves the highest mark: the breadth of the workstreams, the discipline of the SAP roll-out and the steady redesign of the supply chain point to a well-sequenced execution that continued even during the pandemic. The

cultural dimension was not an afterthought. Management resisted the temptation to homogenise two strong legacies and instead codified where to integrate and where to preserve autonomy. Brands and client relationships remained where identity matters most; process, systems and economics were unified where scale creates value. That choice showed up in day-to-day decisions: Essilor's scientific culture and long-standing ties with eye-care professionals were protected and amplified through *EL360* rather than rebranded; Luxottica's creative engine and retail know-how were kept intact, then connected to Essilor's lens innovation to launch hybrid propositions such as *Ray-Ban Authentic*. Governance followed the same logic of respect and convergence: the move to a unified leadership, with clear accountabilities and a chairman who represented the group's heritage, reduced political friction without erasing history. Broad employee share ownership, around forty-four per cent of the workforce, helped align incentives and soften the "us vs. them" reflex that often derails large integrations.

This framing also explains the scores. The strategic fit merits the top mark because the merger created an economic model no rival could replicate at the time: full control of lenses, frames and retail shortens innovation cycles, deepens data feedback from stores to product design, and strengthens bargaining power across the chain. Integration execution deserves the highest rating as well, not for a single headline, but for the disciplined way the 28 workstreams, the SAP backbone and the supply-chain redesign were sequenced and delivered, even through the pandemic. The brand-and-culture score is likewise at the ceiling because identity was consciously protected while a shared purpose and ownership mindset took root. In aggregate, these reasons, not merely a tally of points, justify the 8/8 classification as a transformational deal.

Financial evidence is consistent with this picture, once the timing of events is taken into account. The immediate market reaction was cautiously positive (CAR of +0.26% in the [-1,+1] window), which suggests that investors recognised the industrial logic but did not expect instant earnings uplift. The first full year after closing confirmed that value creation had started: in 2019 revenues reached €17.4 billion (+7.4% year-on-year), net profit grew by about nine per cent and free cash flow exceeded €1.8 billion. Shareholders earned a Total Shareholder Return of +24.45%, comfortably above the cost of equity estimated via CAPM ( $K_e \approx 6.37\%$ , using the French ten-year government yield at closing, a five-year levered beta of 0.90 and a long-run market return of 7%). At the same time, the stock did not fully match the strength of the sector, as the S&P Global Luxury Net Total Return advanced by +32.31%

in the same period. Read together, these facts portray a company that was creating value but was also digesting a complex integration and operating in a category, optical retail, less buoyant than fashion luxury during that upswing.

The pandemic altered the trajectory. In 2020 EssilorLuxottica's TSR turned negative (-5.17%), while the luxury benchmark advanced by +25.66%. The divergence has an operational explanation more than a strategic one: eyewear is still predominantly store-based and appointment-driven, and lockdowns penalised optical channels more than e-commerce-ready categories such as leather goods. Crucially, the group did not put the integration on hold. The SAP programme and the supply-chain consolidation moved forward; *Ray-Ban Authentic* and *EL360* were launched; procurement synergies continued to accrue. Those choices could not reverse the year's relative underperformance, but they mattered for the speed and credibility of the recovery.

Normalisation in 2021 changed the tone. TSR rebounded to +48.79%, again above Ke and now above the benchmark too (+32.41% for the S&P Global Luxury Net TR). As demand returned, the advantages of the vertical model became more visible: controlling lenses, frames and retail helped manage availability and service levels; the synergy pipeline began to appear in operations and margins; and the acquisition of GrandVision reinforced the integrated retail platform, signalling that the merger was also the base for a broader growth strategy. The market rewarded this combination of delivery and strategic clarity.

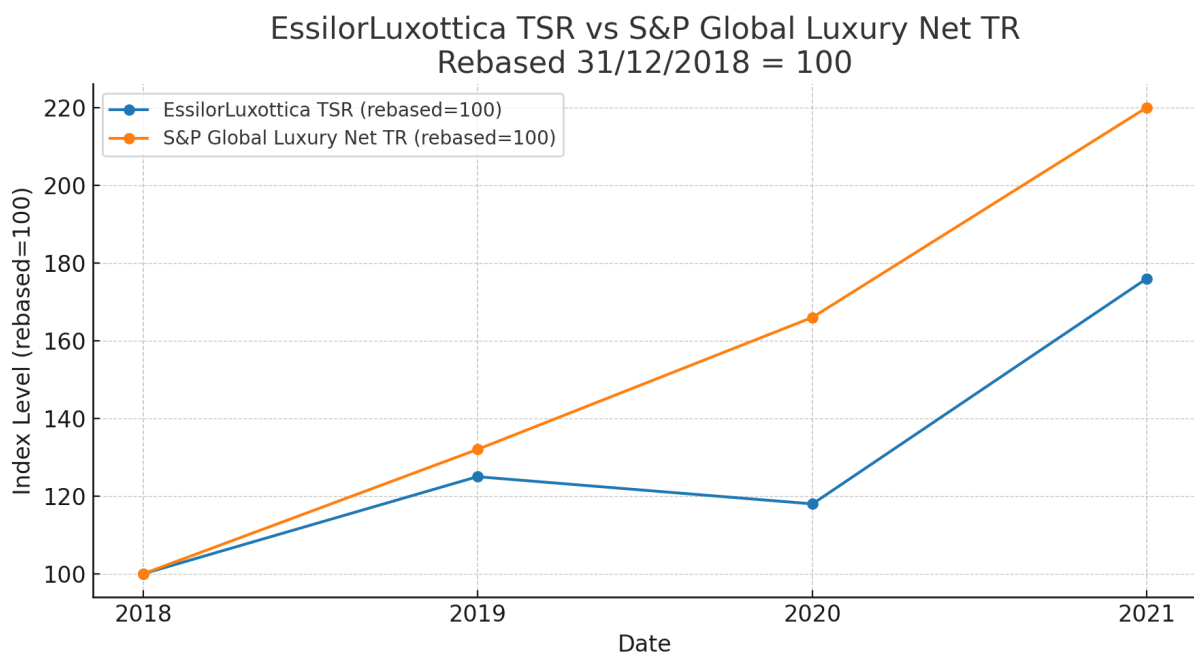


Figure 5. Indexed EssilorLuxottica TSR vs S&P Global Luxury Net TR.

The figure visualises the sequence clearly. Both series start at 100; by end-2019 they track each other closely, then diverge as the pandemic hits physical retail harder than the sector overall; finally, EssilorLuxottica turns sharply higher in 2021, although the cumulative line remains below the index because of the previous dip. The shape of the two curves mirrors the operational narrative and is coherent with the three annual TSR readings.

For the Performance Panel I use medians to avoid one-off distortions: EssilorLuxottica's median TSR over the three post-closing years is +24.45%, which exceeds the CAPM-based cost of equity and therefore signals value creation for shareholders. The median of the S&P Global Luxury Net TR over the same horizons is +32.31%; staying below that threshold places the case in the "Good" bucket rather than "Excellent". In plain language: the merger created value and strengthened long-term competitiveness, but the stock did not outperform an exceptionally strong sector every single year, especially during the pandemic, when the business model was more exposed to store closures than most luxury peers.

Seen together, the qualitative and financial readings are consistent rather than contradictory. A transaction with exceptional strategic fit, careful integration and sound cultural alignment was always likely to show a time profile with an initial build-up, a shock in 2020, and then a strong recovery as synergies and the vertical model became visible. That is precisely what the numbers and the chart show.

### **LVMH - Bulgari (2011)**

Announced in March 2011, the acquisition of Bulgari was a deliberate move to strengthen LVMH in hard luxury. Unlike the previous case, where two large standalone players then "played the future together" and attribution from deal to post-deal performance was fairly direct, here the reading is intrinsically more complex. Bulgari's trajectory blends with concurrent and subsequent group developments, so performance in the following years reflects both the Bulgari integration and LVMH's broader, ongoing strategy. The deal was framed less as a financial trade and more as a partnership built on shared values and a long-term horizon. Bulgari entered the group with the prestige of a Roman maison, a strong identity in high jewellery and watches, and meaningful savoir-faire in fragrances and leather goods. LVMH provided global reach, financial firepower, and, crucially, a well-tested playbook for scaling maisons without flattening their character. Strategically this filled a visible gap: at the time Watches & Jewelry was still a smaller pillar inside LVMH compared

with Fashion & Leather Goods and Perfumes & Cosmetics; bringing in Bulgari almost doubled the division overnight and gave the group immediate critical mass in one of luxury's most resilient, high-margin categories.

Integration was gradual rather than sudden. LVMH prioritised continuity, investing in retail visibility and communication while letting the maison's creative engine consolidate around emblematic lines. The launch and rapid traction of *Octo* in watches and *Diva* in jewellery show how the brand's language could be amplified once manufacturing, merchandising and marketing were scaled on group platforms. Within roughly two years the integration could be considered complete; the trajectory was positive in mature markets and encouraging in Asia, although the pace and depth were intentionally measured compared with other LVMH landmark integrations. This was a managerial choice: protect equity, build operations, and avoid organisational shock. At the same time, and this matters for interpretation, the Bulgari workstream ran alongside other group initiatives that would soon reshape investors' perception of LVMH's hard-luxury footprint. As a result, cause-and-effect lines are less crisp than in the prior case: Bulgari's contribution is real, but it is embedded in a portfolio narrative that mixes organic expansion with additional acquisitions.

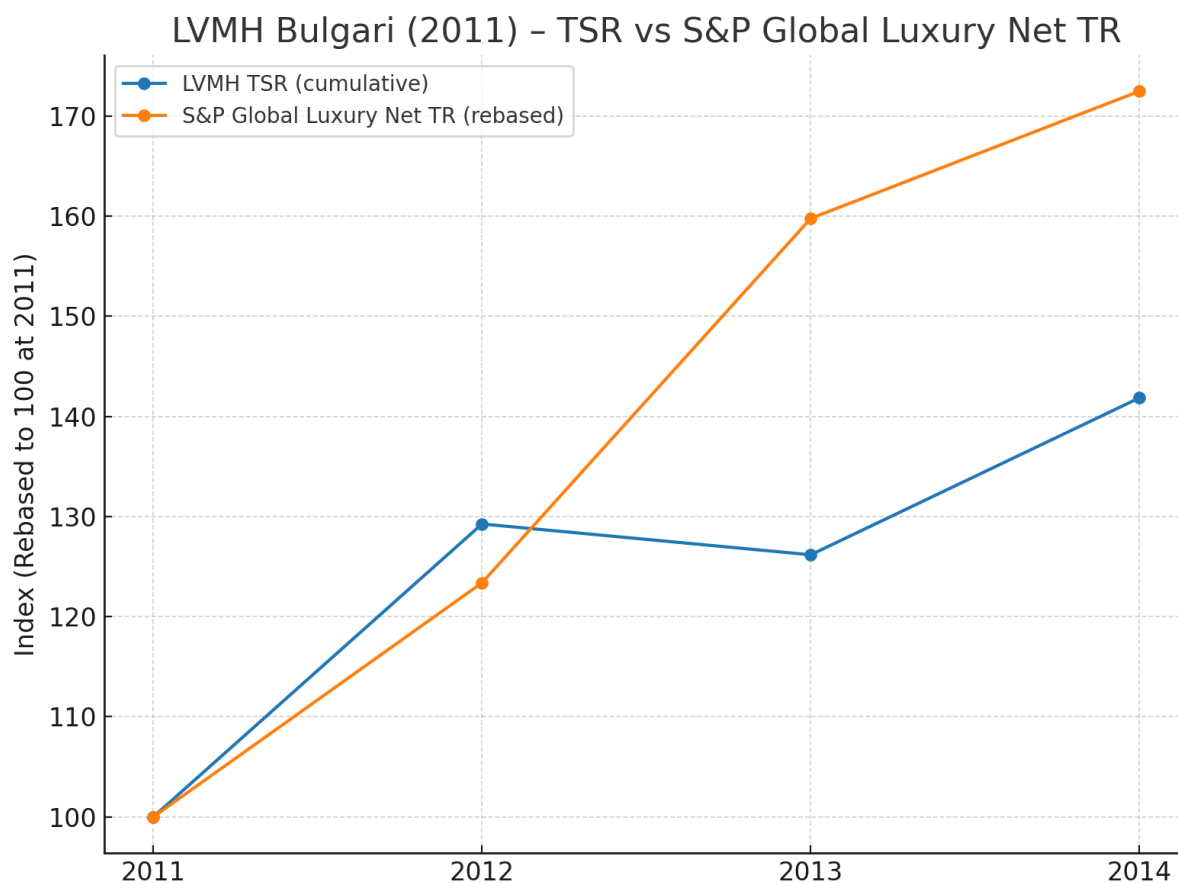
Culturally the fit was credible. LVMH did not attempt to overwrite Bulgari's Roman identity; instead, it clarified the perimeter where scale would add value and the perimeter where autonomy was essential. Corporate discipline was introduced in supply chain, finance and store economics; design, heritage and narrative remained firmly under the maison's control. That balance, respect coupled with guardrails, helped Bulgari keep its aura while learning to operate at LVMH scale. Yet there is an inevitable tension when a storied jeweller expands quickly: network growth and product ladder broadening must be balanced against exclusivity and craft. That tension was visible in the early years and required calibration as investments accelerated. Again, the broader group context matters: as LVMH pushed on multiple fronts, the cultural equilibrium at Bulgari had to be maintained while the whole division evolved, another reason why the post-deal performance cannot be read as the output of a single transaction alone.

These elements explain the qualitative scoring used in this thesis. The strategic fit is clearly strong: the deal closes a structural gap in the portfolio, enhances pricing power across multi-category luxury, and positions LVMH more convincingly in a segment where Richemont had long been the reference. Still, because Watches & Jewelry remained smaller than the core fashion engine and because the platform effect at group level was not immediate, the move stops short of being fully transformational on day one. The integration delivered what it

promised, but with a deliberately gradual cadence; benefits arrived progressively rather than through a fast end-to-end redesign, also because other major initiatives were unfolding in adjacent years and naturally shared management bandwidth. On brand and culture, alignment was good: Bulgari's character was preserved, the maison was elevated without being homogenised, and operational discipline improved; small frictions were the price of scaling a house whose equity rests on rarity. In aggregate, the logic is strong and the execution sound, but the overall impact is more evolutionary than revolutionary; in my framework the result is 4/8, Value Creator. Crucially, this judgment also reflects the attribution challenge noted above: post-deal outcomes are the product of a mixed strategy, organic and inorganic, rather than a single bolt-on.

The financial path mirrors this reading once the timeline is kept in view. The very short-term reaction was cautious: the CAR in the  $[-1,+1]$  window was  $-2.21\%$ , a sign that the market acknowledged execution risk and the price paid. The first year of full consolidation, however, told a different story. In 2012 LVMH delivered a TSR of  $+29.25\%$ , outpacing the S&P Global Luxury Net Total Return ( $+23.39\%$ ). Investors rewarded the industrial logic and the rapid expansion of the division's scale. The picture changed in 2013, when LVMH posted a slightly negative TSR of  $-2.38\%$  while the luxury benchmark advanced  $+29.56\%$ . Part of this sharp divergence reflects the normal cooling of expectations after a strong first year and the weight of integration costs; part reflects the portfolio setting: cyclical tailwinds lifted the sector strongly, while LVMH's share price was also absorbing news from the wider group, including the announcement of Loro Piana later that year. In other words, the Bulgari effect "meshes" with subsequent moves, precisely the dynamic flagged at the start, and that makes the link between a single deal and annual market returns less linear than in the previous case.

In 2014 performance recovered: TSR  $+12.42\%$ , which exceeded both the CAPM-based cost of equity ( $\sim 7.87\%$ ) and the sector return ( $+7.95\%$ ). This rebound is consistent with the operational narrative, Bulgari fully integrated, Octo and Diva gaining traction, and the maison scaling on group platforms, yet the cumulative picture still showed LVMH below the luxury index because of the 2013 air-pocket. The chart makes the sequence easy to read. Rebased to 100 at end-2011, the S&P Global Luxury Net TR rises steeply in 2013, while LVMH's curve flattens; in 2014 the gap narrows as LVMH's line turns higher, but the index remains ahead in cumulative terms. Importantly, this shape also illustrates another point: post-deal performance is the outcome of a broader growth program that blends organic initiatives and further acquisitions, not the isolated result of Bulgari alone.



*Figure 6. Indexed LVMH TSR vs S&P Global Luxury Net TR*

For the Performance Panel I rely on medians to avoid one-off distortions. Over the three-year post-deal window, LVMH's TSR median is +12.42%, which is above  $K_e \approx 7.87\%$  ( $R_f$  France  $\approx 3.52\%$  at the date of announcement,  $\beta = 1.25$ , long-run  $R_m = 7\%$ ) and therefore signals value creation for shareholders. The S&P Global Luxury Net TR median is +23.39%. Since the company's median return sits below the sector median, the classification is Good rather than Excellent: the acquisition strengthened LVMH's strategic position and created value, but the stock did not beat the sector across the whole window, also because the Bulgari signal is interwoven with the rest of LVMH's agenda, a hallmark of the group's growth model that mixes organic development and further M&A.

In short, Bulgari was a sound strategic step and a respectful integration that broadened LVMH's base in hard luxury. Financially, it cleared the cost-of-capital hurdle and recovered well after a weak middle year, but it did not deliver sustained outperformance versus a very strong sector benchmark. Read together, the qualitative and quantitative evidence point to the same conclusion: this is a portfolio-reinforcing acquisition, interesting precisely because its

outcomes are embedded in a wider strategy that blends organic and inorganic growth, which makes the attribution to one deal less direct than in the prior case, even as the overall direction of travel is positive.

### **LVMH - Loro Piana (2013)**

LVMH's acquisition of an 80% stake in Loro Piana, announced in July 2013 and finalised later that year for roughly €2 billion, marked a deliberate move into the very top tier of apparel, an area where value is defined less by logos and more by rarity, provenance and technical mastery. Loro Piana was already a benchmark in this world. Its vertically integrated model, from sourcing *vicuña*, baby cashmere and superfine merino to weaving, finishing and retail, gave the maison a kind of know-how that competitors simply could not rent or copy. For LVMH, the deal was not about adding another fashion label; it was about hard-wiring into the Group's portfolio a scarce capability built over generations. Where the earlier Bulgari acquisition had given LVMH critical mass in hard luxury jewellery and watches, Loro Piana deepened the Group's footprint at the apex of apparel, reinforcing a narrative of quality and durability that complements and stabilises the more cyclical parts of the portfolio.

The industrial logic was therefore unusually tight. LVMH gained privileged access to rare fibres and to a supply chain optimised for uncompromising quality, while Loro Piana obtained the capital, store network and management systems required to scale carefully without diluting standards. The complementarity explains the maximum mark on strategic fit in my framework: the transaction strengthened the Group in a structurally resilient niche, created synergies in sourcing and retail, and broadened LVMH's offer at the top end of fashion where price points and gross margins are structurally supportive. Unlike acquisitions where the promise lies in marketing leverage, here the lever sits inside the product itself, materials, finishing, timeless design, and that is a defensible advantage.

Execution followed the same philosophy of respect and patience. The founding family remained as minority shareholders and stayed close to management in the first years, ensuring continuity of values and product judgment. LVMH intervened selectively where scale matters, store economics, systems, logistics, while avoiding the kind of hurried expansions that can blur a quiet brand. The opening of the Avenue Montaigne flagship in Paris, together with targeted renovations in key Asian locations, increased visibility without changing tone; the introduction of high-end lines such as *Gift of Kings* and *The Blend* showed that growth could

come from deepening product storytelling rather than stretching it. This is why the integration score is high but not absolute: benefits arrived progressively and by design, and the Group paced investments to preserve workmanship and service standards. In other words, the integration “worked” precisely because it refused to run faster than the maison’s production philosophy would allow.

Culturally the alignment was strong and, crucially, managed explicitly. Loro Piana’s identity, discretion, authenticity, technical excellence, could have jarred with big-group pressures to accelerate growth. Instead, LVMH set boundaries early. The maison kept its voice, its fabric development calendar, and its conservative approach to distribution; the Group brought discipline to the back-office and a clearer economic framework to retail. That division of labour helped avoid the two classic pitfalls of such deals: either flattening the brand under generic processes or, conversely, protecting it so much that group synergies never materialise. Some frictions were inevitable when store roll-outs met the scarcity of raw materials, but they were the product of deliberate trade-offs rather than managerial drift. Taken together, the reasoning behind the scores is straightforward: maximum on strategic fit, high on integration thanks to a careful sequencing of changes, and a strong mark on brand-culture because identity was preserved while the maison learned to operate at LVMH scale. In my qualitative grid this combination yields 7/8 and the label Strong Value Creator.

The market’s first reaction, however, was cautious. The CAR in the  $[-1,+1]$  window was  $-1.93\%$ , a reminder that investors questioned both the price paid for an ultra-luxury house and the near-term earnings visibility in a business that measures progress in seasons and fabrics, not quarters. What followed over the next three years shows why the financial story eventually caught up with the industrial one.

In 2014, the first full year after completion, LVMH delivered a TSR of  $+12.42\%$ , a level that comfortably exceeded the CAPM-based cost of equity ( $K_e \approx 8.16\%$ ). The sector, as captured by the S&P Global Luxury Net TR, advanced as well, but the Group’s return was stronger, an early sign that investors were willing to pay for the combination of portfolio breadth and a credible path to scaling Loro Piana without compromising it. The context matters here: 2013 had been a transition year for LVMH, still digesting Bulgari and making other moves such as Cova; the flow of news meant the market evaluated the Group holistically. In this setting, a double-digit TSR in 2014 suggests that Loro Piana’s integration was not a drag on sentiment but part of a broader story the market was prepared to back.

In 2015, performance remained steady with a TSR of +12.06%. Again this was above Ke and, importantly, ahead of the sector benchmark for the period. The stability is telling. It indicates that investors were reading the quiet operational progress, selective retail investment, more visible hero lines, smoother logistics, not as headline-grabbing events but as the kind of reliable delivery that compounds over time. It also reflects the portfolio effect: Bulgari's ramp-up in hard luxury and the absence of negative surprises across the larger houses framed Loro Piana's contribution within a coherent hard-luxury strategy. Where Bulgari had given scale and visibility to the division, Loro Piana was making the quality of the division's earnings look more resilient.

By 2016 the trajectory steepened. LVMH recorded a TSR of +27.67%, far beyond both Ke and the sector's return. The widening gap corresponds to what one would expect when a patient integration begins to surface in economics, better product mix, more productive stores, higher full-price sell-through, while the Group simultaneously expanded into adjacent categories (the acquisition of Rimowa arrived that year). It would be simplistic to attribute the whole rally to Loro Piana, but it would be equally wrong to ignore its role. The maison was by then fully embedded in the Group's systems and contributing to the narrative that LVMH could lead not only in fashion and leather goods but also across hard luxury and ultra-premium apparel.

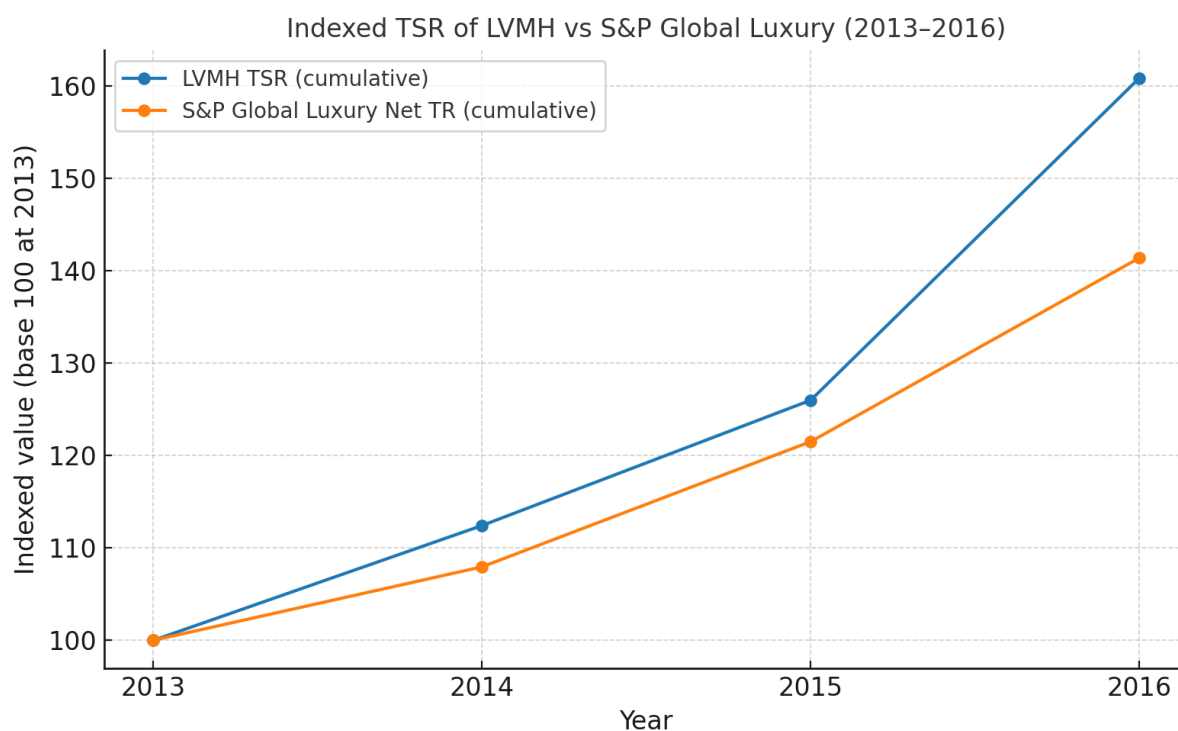


Figure 7. Indexed LVMH TSR vs S&P Global Luxury Net TR

The chart captures this sequence well. With both series rebased to 100 at 2013, LVMH rises above the benchmark in 2014 and keeps stretching the distance in 2015 and 2016. The shape of the two lines is coherent with the annual TSR readings and with the argument above: a cautious start from the market, then a steady period of delivery, and finally a decisive outperformance as integration benefits and portfolio breadth become visible.

For the Performance Panel, I apply the same rule used across cases: I compare median outcomes over the three years to avoid one-off distortions. LVMH's TSR median is +12.42%, which is not only above  $K_e$  ( $\approx 8.16\%$ ) but also above the sector's median return for the same window. On this basis, the case clears the "Good" threshold and meets the stricter benchmark-based one: the panel classification is Excellent. The result is consistent with the qualitative view. Where Bulgari delivered a strong but more gradual reinforcement of hard luxury, Loro Piana shows what happens when a carefully protected integration compounds: returns that exceed the cost of capital, steady relative gains versus the sector, and a widening gap once the full effect of the operating model begins to show.

In short, the numbers do not just accompany the narrative; they explain it. The strategic fit was unusually pure, the integration respected the economics of scarcity that underpin the brand, and the culture was managed as an asset rather than a constraint. That is why the share price did not jump overnight, and it is also why, over three years, LVMH's curve in the chart bends more than the benchmark's.

### **Capri Holdings (formerly Michael Kors Holdings) - Versace (2018)**

Announced in September 2018 and completed at year-end, the acquisition of Gianni Versace S.r.l. by Michael Kors Holdings, soon rebranded Capri Holdings, was presented as a step change: from an accessible-luxury mono-brand built around Michael Kors, to a multi-brand luxury group able to sit alongside LVMH and Kering. The logic on paper was clear. Versace brought an icon of Italian fashion with a globally recognised aesthetic and runway credibility; Capri contributed scale in sourcing, logistics and retail, plus the experience gained after buying Jimmy Choo. Management mapped out an ambitious plan: expand Versace's stores from c.190 to c.300, shift the mix toward higher-margin accessories and footwear (from <35% to 60% of sales), and use Capri's platform, e-commerce, supply chain, omni-channel,

to accelerate growth. Even the corporate rename to Capri Holdings was designed to signal a portfolio mindset rather than a Michael-Kors-centric group.

The execution story, however, quickly revealed how hard that strategic leap would be. Versace's first months of consolidation were modest in scale, about 3% of group revenue, and loss-making at the operating line. Integration and transaction costs were heavy (\$52m in FY2019 and \$24m in FY2020), net debt jumped to \$2.6bn by March 2019, and the promised platform synergies took time to materialise: the unified ERP rollout slipped to late FY2021, undermining the timing of logistics and e-commerce efficiencies. There were also one-off frictions, such as a \$77m loss on currency hedges tied to the deal, that further dented early P&L optics. Put differently, the group tried to build a luxury conglomerate while still stabilising its core Michael Kors engine; the managerial span required proved wider than anticipated.

These outcomes explain the qualitative reading adopted in this thesis. Strategic fit is only partial. Diversification into high fashion could, in principle, shift the group's centre of gravity upward; but the operational model and brand positioning of Michael Kors differ markedly from a heritage house like Versace. The ambition was coherent; the organisational distance was large. Integration success is weak: the process was slow and costly, systems standardisation lagged, and the first years delivered little evidence of operating leverage. Brand and culture were handled respectfully at the surface, Donatella Versace remained as creative lead and the brand's flamboyant identity was preserved, but structural tensions persisted between Capri's drive to standardise and the craft-led, Italy-centred way Versace works. In my grid this combination yields 2/8 and the label Value Destroyer: the vision outpaced the group's readiness to absorb a couture-heritage maison.

The market's reaction and subsequent returns are consistent with that diagnosis. The CAR in the [-1,+1] window around the announcement was almost flat (+0.04%), signalling neither strong enthusiasm nor outright concern. The first full year after closing, 2019, delivered a TSR of +0.61%. That figure is well below the S&P Global Luxury Net TR (+32.31%) and barely above zero despite a strong sector backdrop. The gap is not a mystery: the brand was still loss-making, integration expenses were front-loaded, debt was higher, and the portfolio thesis had not yet produced tangible synergies. In 2020 the TSR rose to +10.09%, helped by cost control and channel mix, yet it again trailed the luxury benchmark (+25.66%).

Importantly, Capri does not pay dividends, so TSR here is entirely price-driven; comparing it to a Net total-return index is deliberately conservative and avoids overstating performance.

Only in 2021 did the share price stage a notable rebound, with TSR +54.55%, temporarily outperforming the S&P Global Luxury Net TR (+32.41%). But the drivers of that jump were largely cyclical and defensive rather than the fruit of deep integration: a broad post-pandemic sector recovery, tighter inventory and discount discipline, and management’s focus on margin and channel. Versace itself finally posted a small operating profit (\$21m, 2.9% margin), yet revenues declined year-on-year, evidence of stabilisation, not of a transformed growth engine. The figure makes the arc visible. Both series start at 100; the index climbs briskly through 2019 and 2020 while Capri barely moves and then edges up; the sharp 2021 jump narrows the gap but does not erase two years of underperformance. The cumulative picture is one of catch-up rather than sustained outperformance.

Indexed TSR vs S&P Global Luxury Net TR (Base 100, 2018) - Capri Holdings

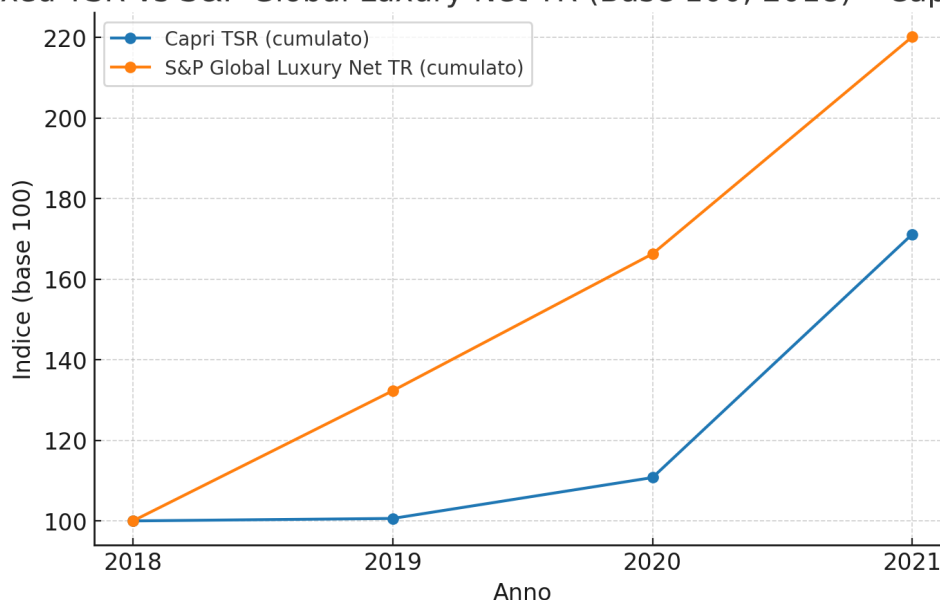


Figure 8. Indexed Capri Holdings TSR vs S&P Global Luxury Net TR

The Performance Panel summarises this with transparent thresholds. Using the inputs agreed earlier,  $R_f$  (US 10Y at Dec-2018)  $\approx 2.83\%$ ,  $\beta = 1.75$  (Refinitiv 5-year monthly levered),  $R_m = 7\%$ , the CAPM cost of equity is  $K_e \approx 10.13\%$ . The company’s median TSR over the three years is +10.09%, essentially in line with, but marginally below,  $K_e$ . Because the classification hinges on medians to avoid one-offs, the panel reads Negative: the deal did not clear the cost-of-equity hurdle over the window considered, and it fell far short of the S&P Global Luxury Net TR median ( $\sim +32\%$ ) that defines the “Excellent” bar. In plain language, shareholders were compensated for time and risk only in the third year, and mostly thanks to a

broad sector rebound and internal cost work rather than to synergies unique to the Versace acquisition.

This does not mean the brand lacks long-term potential, or that management's portfolio ambition was misguided in principle. It means that, within the horizon analysed, the acquisition imposed heavy financial and organisational costs and under-delivered on execution, while the late-cycle recovery was insufficient to change the fundamental assessment. The contrast with the LVMH cases in this chapter is instructive. Where Bulgari and especially Loro Piana show patient integrations that compound into above-benchmark returns, Capri-Versace illustrates the risks of attempting a platform leap before the backbone, systems, culture, balance-sheet flexibility, is ready. The qualitative score and the financial record point in the same direction: Value Destroyer.

### **Kering - Valentino (2023)**

In July 2023 Kering announced the purchase of a 30% stake in Valentino S.p.A. for €1.7 billion, completed in November 2023 as part of a broader partnership with Mayhoola, Valentino's majority shareholder. Crucially for framing the transaction, it is 30% now plus an option on the remaining 70%: the agreement includes reciprocal call/put options that give Kering the right (and, if exercised, the obligation) to acquire the other 70% between May 2026 and 2028 at a performance-adjusted price, with the total commitment estimated at around €4 billion at signing. Until any option is exercised, this is a minority investment that is equity-accounted and does not consolidate Valentino's operations into Kering. In practical terms, Valentino must be run autonomously in the interim, with no group synergies to harvest on systems, logistics, retail or P&L. What can be aligned are only macro choices, for instance, top-level brand direction (e.g., shifts in creative direction) and now also CEO leadership, but the day-to-day operating machine remains independent.

Valentino is a high-quality asset: one of Italy's most recognisable couture maisons across ready-to-wear, leather goods, accessories and beauty, supported by 200+ boutiques in 25+ countries. In 2023 the company reported €1.348bn in revenues and €23.4m net profit (no dividends). Kering presented the deal as a long-term move to reinforce the Group's positioning in haute couture and diversify beyond Gucci. The industrial logic is intelligible, but investor reception hinged on the structure: buying only 30% restricts control and

postpones synergies to a later stage, so the step reads as positioning with a strong future option, not yet a platform change.

The macro and portfolio context sharpened scrutiny. From H2-2022 onward Gucci slowed; by 2023 comparable sales fell –21%, recurring operating income roughly halved (–51%), and margins contracted by >12 p.p. Weakness continued into 2024, amid softer luxury demand, China headwinds and brand-specific challenges. Against that backdrop, many investors interpreted the Valentino move as off-priority: financially meaningful in the very long run, but not addressing the immediate task of stabilising Gucci. The “30% + option (70%)” architecture, by design, brings no near-term operating levers; it is a bet on future control once conditions, and the price, are right.

The first year of accounting reflects this design. Because the stake is equity-accounted, Kering recognised only its share of Valentino’s result, which in 2024 turned negative (–€11m) versus a small Valentino profit in 2023; taken together, Kering’s equity-accounted investments produced a –€10m loss in 2024. The carrying value of the stake moved only modestly from €1.75bn (end-2023) to €1.76bn (2024) and €1.93bn (mid-2025), underscoring the limited impact at group level in this initial phase. In qualitative terms: strategic fit is present but constrained by the minority setup; integration is effectively absent (no operational initiatives, no synergies captured); brand/culture are naturally compatible but remain largely untested because nothing material has been integrated. In my scoring grid that combination yields 3/8 (Value Preserver), sensible long-term positioning with low immediate leverage.

The market verdict has been far tougher. The very short-term reaction was neutral (CAR +0.02% in the [–1,+1] window). But 2024 delivered a TSR of –36.78% for Kering, while the S&P Global Luxury Net TR rose +5.43%. By June 2025, the cumulative TSR since the transaction stood at –48.73%; over the same span the sector index, though volatile, was only –3.8% versus its December-2023 level (and –8.8% from Dec-2024 to June-2025). The chart shows the divergence at a glance: the sector edges up and then softens; Kering drops from 100 to ~63 by year-end 2024 and to ~51 by mid-2025. The shape of the two lines simply tracks the narrative: a minority, option-like stake, with no synergies available by construction, set against a weakening core brand, yields drawdown, not protection.

Two mechanisms explain the gap. First, the “30% + option (70%)” structure precludes harvesting synergies in 2024–H1 2025, no shared merchandising, no platform efficiencies, no joint retail economics, so the investment carried financial cost without offsetting P&L relief precisely when investors wanted evidence that the Group could stabilise Gucci. Second, the

stake's financial visibility is inherently low under the equity method; with small (and in 2024 negative) contributions, shareholders discounted the step as optional rather than catalytic.

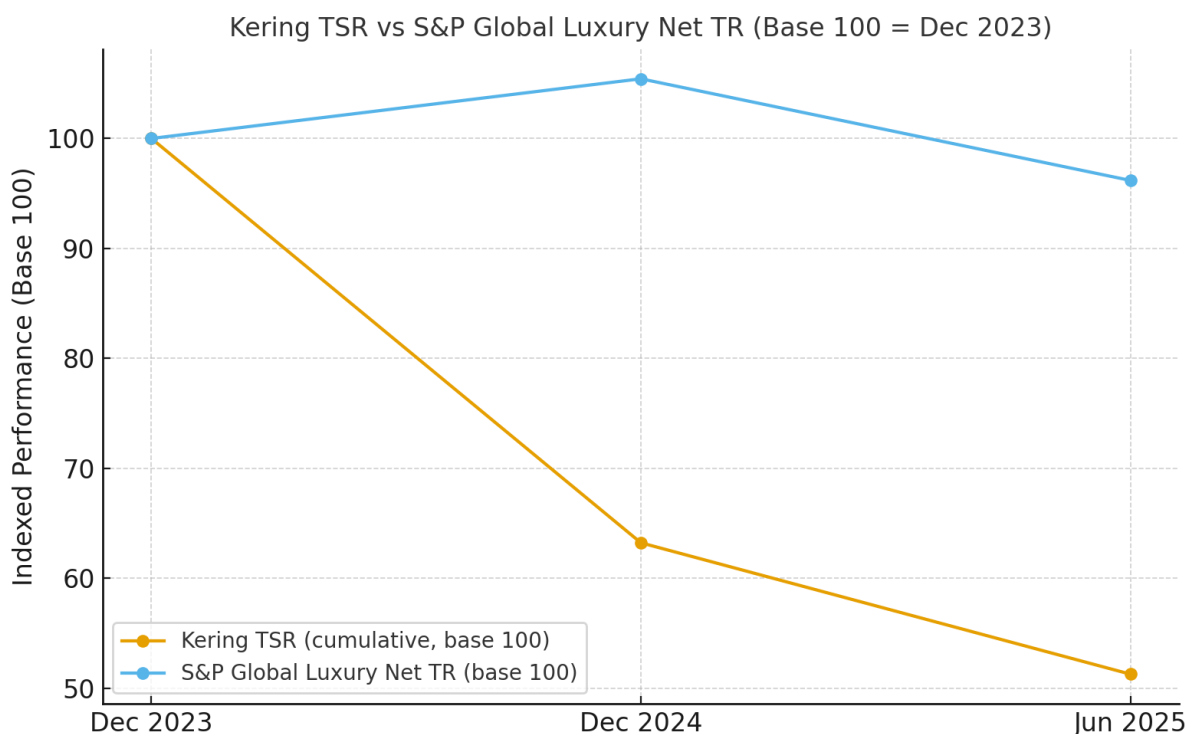


Figure 9. Indexed Kering TSR vs S&P Global Luxury Net TR

The Performance Panel summarises this outcome with transparent thresholds. Using  $R_f$  (France 10Y, Dec-2023)  $\approx 3.12\%$ ,  $\beta = 1.27$  (Refinitiv 5-yr monthly levered) and  $R_m = 7\%$ ,  $K_e \approx 8.0\text{--}8.1\%$ . With 1Y and H1 of Year-2 available, the median TSR  $\approx -42.8\%$ , well below  $K_e$  and below the sector's median ( $\approx -1.7\%$ ) over the same horizon. Classification: Negative. In other words, the transaction failed to preserve shareholder value in the period observed.

This does not pre-judge the option to acquire the remaining 70%: timing, price and, above all, progress at Gucci will determine whether full control can be value-creating. But the lesson from the first 18 months is clear. A minority, equity-accounted stake in a prestige maison can be strategically coherent and reassuring from a branding standpoint, yet financially neutral or worse if it arrives without control or synergies while the core profit engine is deteriorating. The qualitative label of Value Preserver captures the ex-ante rationale; the performance panel's Negative captures the ex-post market judgment so far. And, as with LVMH in an

earlier chapter, this deal's effects are intertwined with many other moving parts at Kering, another reason why attribution is complex, yet the evidence to date points consistently in the same direction.

## Conclusions

This thesis set out to understand how mergers and acquisitions are perceived and how they perform in the luxury industry, a sector where symbolic value, heritage, and managerial stewardship make deals attractive but also delicate. The work kept a critical, academic stance and showed why luxury is a special case: many transactions happen here, yet success depends on elements - exclusivity, creative control, brand equity - that standard tools capture only in part (Som & Blanckaert, 2015; Kapferer & Tabatoni, 2010). Chapter 1 framed these tensions and explained why M&A are both frequent and strategically important, but hard to read with generic benchmarks (Som & Blanckaert, 2015; Kapferer & Tabatoni, 2010). Chapter 2 then examined why firms buy, how they value targets, and what can go right or wrong after closing, stressing caution on synergies: many drivers are intangible (brand position, culture, talent, governance), so they are difficult to price before the deal and to realize after it (Feldman & Hernandez, 2022; Chernenko et al., 2021). The form of payment matters as well, cash, equity, debt, or hybrids shift risk and control differently and influence both the initial market reaction and the company's resilience over time (Sankar & NM, 2018; Ray, 2022). In short, true success means creating value above the sum of the parts once financing costs and execution frictions are taken into account (Aydin, 2017).

Chapter 3 used an event-study to read investor expectations at announcement (MacKinlay, 1997). Across the sample, short-window CARs were often small and not statistically significant; some pre-event windows hinted at information leakage or anticipation. This is consistent with a cautious investor stance and the timing noise typical of announcements (Andrade, Mitchell & Stafford, 2001). These results are useful but not definitive: in a perfect market, the immediate reaction should fully reflect future performance, yet in luxury we saw why this single lens can be misleading. The chapter was explicit about limits: event dating, overlapping news, and a modest, sector-specific sample. For this reason it argued for combining market reaction with industry-aware controls rather than reading it in isolation.

Chapter 4 put this into practice with a case-by-case analysis that joins CARs with Total Shareholder Return, the share-price path, and performance against benchmarks (MSCI World and the S&P Global Luxury Index). This layered view is essential in luxury because creative cycles, distribution choices, and brand repositioning unfold over years and may not appear in

announcement-day returns (Sirower & Sahni, 2006). The cases made the point clearly. Some deals that looked promising at first proved more complex than expected, for example, Kering's minority entry into Valentino, where the short-term reaction was muted and the later TSR underperformed sector and market benchmarks, while others were strong value creators, such as LVMH with Bulgari and, even more clearly, Loro Piana. The Essilor-Luxottica merger stood out as transformational, with industrial logic, execution, and synergies aligned across product, channel, and scale.

Two broad lessons follow. First, there is no single metric that "*tells the truth*" in luxury M&A. Announcement-day CARs are a starting point, not the verdict. A robust assessment triangulates CARs with post-deal TSR, absolute price dynamics, and relative performance versus market and sector, and then interprets all of this in light of the specific strategy, governance, and integration path of each case. Second, outcomes depend on more than abilities of acquiring managers. External shocks and the financing side of the deal - cost of debt, equity dilution, and the signal sent by the payment mix - shape both early reactions and the headroom for capturing synergies. Over time, these choices must be sustained by real, durable cash flows (Ray, 2022; Klitzka, He & Schiereck, 2022; Madura & Ngo, 2012).

Overall, the thesis makes three contributions. Conceptually, it adapts standard M&A frameworks to the economics of luxury, where brand capital, exclusivity, and creative governance complicate valuation and integration (Som & Blanckaert, 2015). Empirically, it builds a sector-focused dataset and shows that a multifactor, industry-aware event study provides a clearer read of market expectations than a one-factor lens (MacKinlay, 1997). Practically, it offers a usable template that blends CARs, TSR, and benchmark tracking with a structured qualitative scorecard for evaluating future deals.

Future research could build on this work by drawing on improved availability of data regarding the timing and costs of synergies, expanding the sample, refining event dating, and incorporating richer qualitative evidence, such as integration plans, changes in creative leadership, and distribution shifts. Taken together, these avenues would help clarify what, in luxury M&A, truly drives the gap between promise and outcome (Aydin, 2017; Sirower & Sahni, 2006). More broadly, the findings provide a foundation for examining how financial

factors and less tangible qualitative elements interact to shape performance in a sector that requires case-by-case judgment and a long-term perspective.

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## Appendix A

### Stock Prices, Dividends & TSR Reconstruction (1Y–3Y)

Deal	Year	Start Price	End Price	Dividends (€)	TSR (%)
<b>Luxottica – Essilor</b>	2019	110.45	135.80	€1.54	+24.45
	2020	135.80	127.55	€2.04	–5.17
	2021	127.55	187.24	€1.15	+48.79
<b>LVMH – Bulgari (2011)</b>	2012	109.40	138.80	€2.60	+29.25
	2013	138.80	132.60	€2.90	–2.38
	2014	132.60	132.25	€16.82 (Hermès dist.)	+12.42
<b>LVMH – Loro Piana (2013)</b>	2014	132.60	132.25	€16.82 (Hermès dist.)	+12.42
	2015	132.25	144.90	€3.30	+12.06
	2016	144.90	181.40	€3.60	+27.67
<b>Capri Holdings – Versace (2018)</b>	2019	\$37.92	\$38.15	\$0	+0.61
	2020	\$38.15	\$42.00	\$0	+10.09
	2021	\$42.00	\$64.91	\$0	+54.55
<b>Kering – Valentino (2023)</b>	2024	€399.00	€238.25	€14.00	–36.78
	H1 2025	€238.25	€184.56	€6.00 (H1)	–48.73

**Methodological Notes:**

- The dividends reported are those actually received within the year considered.
- For LVMH (2014), the in-kind distribution of Hermès shares (around €13.67 per share) is included as part of the total return.
- Where dividends were not distributed, the corresponding column is marked as “0”.
- The calculation of TSR was performed according to the standard formula:

$$TSR = \frac{(P_{final} - P_{initial}) + D}{P_{initial}}$$

## Appendix B

### Data inputs & derived metrics (audit trail)

EssilorLuxottica (closing: Oct-2018)

Item	Value
CAR [-1,+1]	+0.26%
TSR 1Y / 2Y / 3Y	+24.45% / -5.17% / +48.79%
TSR (median)	+24.45%
S&P GL Net TR – levels	31-12-2018 2509.0148 · 31-12-2019 3319.7487 · 31-12-2020 4172.2932 · 31-12- 2021 5524.9566
S&P – YoY	+32.31% / +25.68% / +32.42% → median = +32.31%
R <sub>f</sub> (FR 10Y)	0.74%
β (5Y monthly levered)	0.90
K <sub>e</sub> (CAPM)	6.37%
TSR classification	Good (24.45 > 6.37 but < 32.31)
Tab.8 (Fit / Integration / Brand–Culture / Total / Label)	3 / 3 / 2 / 8 → Transformational

**LVMH – Bulgari (closing: 2011)**

<b>Item</b>	<b>Value</b>
<b>CAR [-1,+1]</b>	-2.21%
<b>TSR 1Y / 2Y / 3Y</b>	+29.25% / -2.38% / +12.42%
<b>TSR (median)</b>	+12.42%
<b>S&amp;P GL Net TR – levels</b>	30-12-2011 1188.9094 · 31-12-2012 1466.8964 · 31-12-2013 1899.4846 · 31-12- 2014 2050.5312
<b>S&amp;P – YoY</b>	+23.38% / +29.49% / +7.95% → median = +23.38%
<b>R_f (FR 10Y)</b>	3.52% (25-Feb-2011)
<b><math>\beta</math></b>	1.25
<b>K_e</b>	7.87%
<b>TSR classification</b>	Good (12.42 > 7.87 but < 23.38)
<b>Tab.8</b>	2 / 1 / 1 / 4 → Value Creator

**LVMH – Loro Piana (closing: Dec-2013)**

<b>Item</b>	<b>Value</b>
<b>CAR [-1,+1]</b>	-1.93%
<b>TSR 1Y / 2Y / 3Y</b>	+12.42% / +12.06% / +27.67%
<b>TSR (median)</b>	+12.42%
<b>S&amp;P GL Net TR – levels</b>	31-12-2013 1899.4846 · 31-12-2014 2050.5312 · 31-12-2015 2138.0268 · 31-12- 2016 2210.3658
<b>S&amp;P – YoY</b>	+7.95% / +4.27% / +3.38% → median = +4.27%
<b>R_f (FR 10Y)</b>	2.36% (25-Dec-2013)
<b>β</b>	1.25
<b>K_e</b>	8.16%
<b>TSR classification</b>	Excellent (12.42 > 4.27 and > 8.16)
<b>Tab.8</b>	3 / 2 / 2 / 7 → Strong Value Creator

## Capri Holdings – Versace (closing: Dec-2018)

Item	Value
<b>CAR [-1,+1]</b>	+0.04%
<b>TSR 1Y / 2Y / 3Y</b>	+0.61% / +10.09% / +54.55%
<b>TSR (median)</b>	+10.09%
<b>S&amp;P GL Net TR – levels</b>	31-12-2018 2509.0148 · 31-12-2019 3319.7487 · 31-12-2020 4172.2932 · 31-12- 2021 5524.9566
<b>S&amp;P – YoY</b>	+32.31% / +25.68% / +32.42% → median = +32.31%
<b>R<sub>f</sub> (US 10Y)</b>	2.83% (Dec-2018)
<b>β</b>	1.75
<b>K<sub>e</sub></b>	10.13%
<b>TSR classification</b>	Negative (10.09 < 10.13)
<b>Tab.8</b>	1 / 0 / 1 / 2 → Value Destroyer
<b>Note</b>	Capri did not distribute dividends in the period analyzed: TSR coincides with price performance only.

**Kering – Valentino (30%) (signing Jul-2023, closing Nov-2023)**

Item	Value
CAR [-1,+1]	+0.02%
TSR 1Y / 1.5Y (H1)	-36.78% / -48.73%
TSR (median)	-42.76% (average of the two values)
S&P GL Net TR – levels	29-12-2023 5068.6109 · 31-12-2024 5343.7681 · 30-06-2025 4875.1580
S&P – Δ	+5.43% ('24) / -8.77% (H1 '25) → median ≈ -1.67%
R <sub>f</sub> (FR 10Y)	3.12% (Dec-2023)
β	1.27
K <sub>e</sub>	≈ 8.05%
TSR classification	Negative (-42.76 < 8.05)
Tab.8	2 / 0 / 1 / 3 → Value Preserver
Note	30% stake; equity method; 2024 contribution -€11m to P&L; options for the remaining 70% (2026–2028) with performance-adjusted price.

## Notes valid for all deals

- **TSR:** includes dividends; 1Y/2Y/3Y horizons from the closing date. The TSR median is calculated over the three values (or over the two available ones if one is missing).
- **Benchmark:** S&P Global Luxury Net Total Return (SPGLGUN); I reported end-of-period levels and YoY returns %. The S&P median is the median of YoY returns over the same horizons as TSR.
- **CAPM:**  $R_m = 7\%$ .  $R_f$ : 10-year government bond yield of the acquirer's country at the closing date (Refinitiv).  $\beta$ : Refinitiv 5Y Monthly Levered Beta (same metric for all cases). CAPM was calculated according to the formula:

$$K_e = R_f + \beta(R_m - R_f)$$

- **TSR classification:**
  - *Negative* if  $TSR\{med\} < K_e$
  - *Good* if  $TSR\{med\} > K_e$
  - *Excellent* if  $TSR\{med\} > S\&P\ median$
- **CAR:** [-1,+1] days around the announcement calculated in the Quantitative Analysis by following the Methodological Approach in Chapter 3.2.

## Sources & operational consistency (short reminder)

- **Risk-free returns:** Refinitiv, France 10Y Benchmark (FR10YT=RR) for French acquirers; US 10Y Benchmark (US10YT=RR or equivalent) for Capri (USA). Dates: closest to the indicated closing.
- **$\beta$ :** Refinitiv, 5-Year Monthly Levered Beta (regression on a broad market index; same metric for all cases).
- **Sector benchmark:** S&P Global Luxury Net Total Return (SPGLGUN), end-of-period levels as above.
- **Classification rules** and the separation between qualitative drivers (Tab.8) and the Performance Panel follow the updated methodology of Chapter 4.3.