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"MERGERS AND ACQUISITIONS IN THE DIGITAL LUXURY BUSINESS: THE YOOX NET-A-PORTER CASE"

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ABSTRACT

This thesis focuses on the analysis of digital acquisitions and mergers in the luxury sector, examining how luxury companies are responding to the digital transformation's challenges and opportunities. The luxury sector, characterized by rarity and exclusivity, is undergoing a profound transformation due to the digital technologies and e-commerce's emergence, known for its accessibility. The main objective of this research is observing how digital transformation has impacted the luxury sector. It examines the motivations behind digital M&A and analyses the strategies adopted by luxury companies to remain competitive and survive in an increasingly digital and global environment. After a brief analysis of the luxury's concept, the reference sector, future opportunities and existing literature, a case study analysis of two companies at the digital change's forefront, FARFETCH and Yoox Net-A-Porter, is proposed. By offering an analysis of digital M&A in the luxury sector and by highlighting the corporate strategies adopted to embrace digital transformation and remain relevant in an ever-changing market, this thesis allows us to understand how, luxury companies must be able to innovate and grow by embracing digital transformation and all the new opportunities offered, in order to survive and maintain a competitive advantage in this new context.

INTRODUCTION

Digital innovation has become increasingly important in recent years, especially since the outbreak of the COVID-19 pandemic. This change has also affected the luxury sector, which has always been reluctant to enter this new world for fear of losing its exclusivity and prestige's aura. Mergers and acquisitions (M&As), on the other hand, have experienced a major boost among companies in the sector, which have had to acquire the necessary skills and resources. This thesis aims to analyse M&A in the digital luxury sector, exploring the growth strategies adopted by companies and the success factors that drive such transactions.

It is a basic requirement understanding the logic behind M&A transactions in today's modern business world. Just by reading any business newspaper or business news website it will give you an idea of the size, frequency and huge sums of money involved in these transactions (Roberts et al., 2003).

Companies need to be able to develop structured and dynamic growth strategies to cope with an increasingly challenging environment characterised by globalisation, hypercompetition and accelerating technological change. Growth and innovation are therefore two of the main drivers of economic development (Bresciani, 2021). A company can choose to grow by taking advantage of internal or external opportunities, for example through M&A transactions. They are usually stimulated by economic expansion, government reforms and the new technologies' introduction (Goedhart et al., 2015). Company valuations also have a significant impact on mergers; indeed, periods of high market valuations have been found to be the most active. M&As follow a cyclical pattern, driven by stock market overvaluation and undervaluation. It can therefore be concluded that the two dimensions are correlated (Rhodes-Kropf & Viswanathan, 2004).

Digital transformation is considered by some scholars, including Schwab (2017), to be the 'fourth revolution'. He believes that the latter is characterised by a number of technologies, such as the Internet of Things (IoT), robotics, artificial intelligence (AI) and machine learning, which enable the digital, physical and biological worlds' convergence. The new digital era brings various opportunities and challenges, so it is important for companies to understand how to introduce digital elements into their business. Currently, there are no publications that provide a procedure to follow, but Martinez (2019) emerged that there are common characteristics by comparing different digitalisation paths. Companies usually embark on these journeys after identifying specific customer needs or weaknesses in their processes. It is crucial

that the company's employees are aware of the opportunities offered by new technologies so that they can make the best use of them in their daily work. The digital technology’s introduction will allow to improve production processes, expand distribution channels, e.g., through the development of e-commerce, offer personalized recommendations to their customers, and create tailor-made products to meet their needs using information from the analysis big data’s collected. According to Deloitte's Global Powers of Luxury Goods 2022, technologies such as the metaverse, blockchain, non-fungible tokens (NFT), and augmented reality (AR) will transform the future of luxury.

The last few years’ technological developments and the predominant role that technology is playing in everyday life made me want to look into this subject. Habit buying have changed significantly compared to the past, especially with the spread of the COVID-19 pandemic. I decided to look at the new technologies’ impact on M&A transactions in the luxury sector for several reasons. Secondly, I wanted to focus specifically on the luxury sector in order to understand and analyze the change in approach that has led brands to integrate digital platforms into their business models, despite their initial reluctance, and to observe how consumers have reacted to this evolution. Buying a luxury product is not like buying any other product. The buying process’ fundamental part for these types of goods, is the experience given to the consumer. You would think that with the introduction of digital, this would disappear. I wanted to analyse a recent M&A transaction involving Yoox Net-A-Porter and FARFETCH Limited to understand the impact of digital on luxury. I chose to analyse this deal because it involves two pure-play companies whose pioneering approach to e-commerce and digital has laid the foundations for revolutionising the luxury sector.

The aim of this thesis is to understand the digital M&A’s importance and evolution in the luxury sector over time, to provide an in-depth overview of the dynamics and to identify best practices that can drive value creation through such transactions.

The thesis is divided into three chapters. The first chapter provides an overview of the luxury sector, explaining what is meant by luxury, consumer behavior, and its evolution over time, providing an analysis of the sector's performance in recent years, and highlighting future growth opportunities. There is no single luxury’s definition. The concept has been hotly debated over the years. Some attribute a negative value to it, associating it with excess; others attribute a positive value, such as Bernard Mandeville, who saw a correlation between luxury and economic development. The product’s high quality, high price, the sense of prestige that

conveys to the consumer, exclusivity, and rarity are the most important characteristics that define a luxury product. But these attributes are not enough; it is essential that the consumer perceives them as such. Consumer behaviour itself has evolved over the years. Consumers tend to buy luxury products for different reasons. Consumers have become more aware and informed and they are able to compare products from different brands with the introduction of digital technology. A sector’s analysis was then carried out taking into account its evolution in recent years and the main players within it, it was represented by conglomerates and independent luxury houses. The sector was hit hard by the outbreak of the global pandemic, contracting from 20% to 22% at current exchange rates, but signs of recovery were already visible since 2021 onward and they were confirmed in 2022 and 2023. This expansion is expected to continue throughout the decade and into 2030. Analysts believe that the main opportunities for the future lie in the emerging markets’ development, new generations of consumers and the digital’s introduction and development, this is a topic that is constantly being discussed in the luxury sector. Online is expected to become the main distribution channel, reaching a share of 32%–34% (D'Arpizio et al., 2023). Therefore, in the second chapter, M&As, in the luxury sector, carried out to face the digital revolution and they were analyzed in depth. First of all, their evolution in recent years was analyzed. After a strong boom in the 1980s and 1990s, which led to a consolidation of the sector, the luxury industry’s positive recovery has recently made it a rich target for M&A activity. The report, then, outlines the main drivers, the critical success factors of these M&A transactions and the changes that digital technology has brought to business models, leading to the emergence of new ones. Finally, it has been observed whether these transactions create value or not: a topic that is still much debated, and the payment’s method to be used, which is influenced by how confident the acquiring company’s shareholders are in the transaction’s success. Finally, the third and final chapter analyzes the case of the acquisition of YNAP by FARFETCH, after an in-depth analysis of the academic literature and industry reports on both the market and M&A transactions in the digital luxury sector. The analysis considers both qualitative aspects, such as the actors’ presentation involved and their business model, the transaction’s structure, the timing, the strategic motivations that led to the deal, and quantitative aspects, such as the target company’s financial performance that led to its sale and the market reaction to the transaction.

Thanks to this research, it has been possible to analyse the impact of digital on M&A transactions in the luxury sector. The results are presented in detail in the final conclusions of this thesis.

CHAPTER 1

THE LUXURY SECTOR AND NEW TECHNOLOGIES

1.1 WHAT DOES LUXURY MEAN?

The concept of luxury has no single definition. It refers to several product categories, some of which are completely different. It is also strongly linked to the emotional and psychological perception of the consumer. These aspects make it difficult to give a precise definition.

The term luxury has ancient origins and comes from the Latin word 'luxus'. The latter can be translated as 'excess', 'extravagance', 'debauchery', 'luxury', 'pomp' and 'pageantry' (Castiglioni, et al., 1996). However, the term has never undergone a process of scientific or social definition, although it has been widely debated over time. The nature of luxury is therefore difficult to define, and this complexity can be understood by referring to the meanings listed above. Indeed, they have some negative and some positive meanings. This is in line with the two main approaches that have been taken to luxury throughout history. The first sees luxury as a negative aspect that undermines the strength of society. This view can be found first in Plato's Polytheia and later, for example, in Aristotle and St Augustine. The second, on the other hand, sees luxury as a positive aspect of society. Bernard Mandeville, for example, argues that wealth and comfort in life are generated by the production and marketing of luxuries, thus linking luxury to economic development. Indeed, the expansion of trade allowed more people to afford luxury goods. This in turn boosted employment and economic prosperity. It is clear from the above that the concept of luxury is not absolute but relative (Mortelmans, 2005).

A variety of definitions can be found in the literature on the luxury sector. In the absence of a widely accepted definition in this regard, Ko, Costello and Taylor (2019) decided to develop a new one, derived from a careful review of the existing literature. The table below (Table 1) shows some of the definitions that the authors considered in their analysis. Reading them, it is possible to understand how the concept of luxury has evolved over the years. Initially it referred specifically to luxury goods, but today it also includes the luxury services component.

Definitions of Luxury		
Authors	**Definition**	**Key dimensions**
Ko et al. (2019)	*"A luxury good or service is of high quality, offers authentic value, is prestigious, worthy of a high price, and inspires a connection in the consumer".*	• Quality • Price • Prestige • Authenticity • Connection
Kapferer and Laurent (2016)	*"Luxury is rare, crafted high quality, leading to high prices".*	• Quality • Price • Rarity
Han et al. (2010); Grossman and Shapiro (1988)	*"Luxury is goods that bestow prestige on the owner regardless of utility".*	• Prestige • High price
Tynan et al. (2010)	*"Luxury goods provide customers with sufficient value to compensate for the high price. Characteristics of luxury goods and services are quality, high price, rarity, exclusivity, prestige and authenticity that offer symbolic and hedonic values through experiences".*	• Quality • Price • Exclusivity, prestige, rarity • Authenticity • Experience
Kapferer and Bastien (2009)	*"Luxury is a social phenomenon with a human connection, for two reasons (i) luxury goods are handmade and (ii) luxury goods are accompanied by outstanding personal service".*	• Craftsmanship • Status, exclusivity • Human connection • Heritage
Berthon et al. (2009)	*"Argues that there is no delineation of luxury brands. Focuses on three aspects of luxury: the quality of luxury goods (functional), the hedonic customer experience*	• Quality • Prestige, exclusivity • Customer experience • Quality

	(experiential), and the signals of prestige and exclusivity to others (symbolic)".	
Vickers and Renand (2003)	*"Luxury goods are symbols of personal and social identity, and the status associated with luxury goods is an important part".*	• Status • Symbol of identity

Table 1.1: Definitions of Luxury
Source: Wirtz, Holmqvist and Fritze (2020)

Looking at the definitions in Table 1, many key dimensions tend to recur. The high quality of the product, its high price, the sense of prestige it conveys to the consumer, its exclusivity and rarity are perceived as characteristic elements of the luxury product that distinguish it from other types of goods. These characteristics had previously been identified in a qualitative study by Dubois, Laurent and Czellar (2001), in which the authors interviewed a heterogeneous sample in terms of age, gender and occupation of consumers who had bought or received at least one luxury product. The respondents claimed that a luxury product had to be of excellent quality, both in terms of the raw materials used and the production process used to make it. This guaranteed two other characteristics that were considered fundamental, such as reliability and durability. This justified another characteristic of luxury products, namely their high price. In addition, scarcity and uniqueness are closely linked to the previous two characteristics, given the valuable raw materials, artisanal production processes and limited distribution of the products. Price is therefore positively correlated with product quality, and the higher the price, the more unique and desirable a product is perceived to be. Another important aspect is aesthetics. The luxury experience must involve all the consumer's senses. In addition, according to the respondents, another distinctive aspect that luxury products should have, it is that they should have their own story to tell and pass on, and therefore be able to engage and excite the customer. Finally, a final characteristic identified by the respondents was the superfluity associated with luxury products, a feature that has characterised them since antiquity. Indeed, luxury goods are characterised by being non-functional and necessary for survival (Dubois, et al., 2001).

According to Heine (2012), it is now recognised, even in the economic literature, that there is no clear definition of a luxury product and brand. As mentioned above, Ko, Costello

and Taylor (2019) attempted to develop one. Starting from the definitions already found in the literature, they attempted to develop one that could be generally applied to the different categories of products and services. To do this, they applied three criteria. Firstly, the definition had to have a solid conceptual basis, secondly, it had to be generally applicable and thirdly, it had to be possible to measure the construct. The final concept they arrived at is shown in the table above. In conclusion, although the authors have attempted to define luxury, they believe that it depends on the consumer's evaluation of the good or service. Consumers must perceive the product or service as 'luxury' to define it as such, therefore it is not enough that it has the distinctive characteristics listed above (Ko, et al., 2019). In fact, Tynan, McKechnie and Chhuon (2010, p. 1157) stated that goods classified as 'luxury' and 'non-luxury' are the two ends of a continuum, "so where ordinary ends and luxury begins is a matter of degree according to consumer judgement" (Chandon, et al., 2016).

1.1.1 LUXURY CONSUMER BEHAVIOUR

Luxury purchasing behaviour has been considered in the literature to define the concept of luxury. In fact, it is believed that these two issues are related and interconnected. Studies have examined conspicuous forms of consumption, hedonistic forms of consumption and the process of democratisation of luxury (Aiello & Donvito, 2006).

In 1950, Leibenstein classified ostentatious forms into three types: the Veblen effect, the Snob effect, and the Bandwagon effect.

The Veblen effect occurs when an increase in the price of a good corresponds to an increase in consumer demand for that good. This effect is consistent with the theory of ' conspicuous consumption' developed by Thorstein Veblen in 1899. He argued that consumers buy luxury goods to signal their wealth and status. Therefore, it is not enough to own goods, but to display them. This theory has been taken up, for example, in the measurement schemes of Dubois, Laurent and Czellar (2001) and Vigneron and Johnson (2004), who believe that conspicuousness is a relevant dimension in the consumption of luxury goods. Han, Nunes and Dreze (2010) also argue that status is a key factor in the preference for luxury goods. They also consider another dimension, namely financial status. Based on these two factors, they identify four types of consumers. Patricians with high financial means and a low need to consume for prestige, parvenus with high financial means and a high need to consume for prestige, poseurs

with low financial means and a high need to consume for prestige, and finally proletarians with low financial means and a low need to consume for prestige.

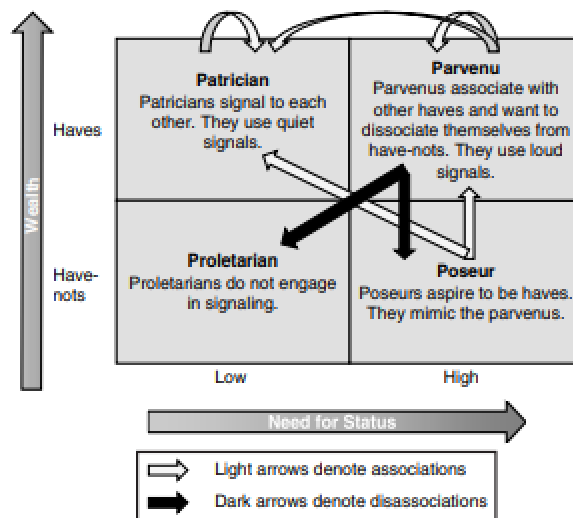


Figure 1.1: Signal Preference and Taxonomy Based on Wealth and Need for Status

Source: Han, Nunes, & Drèze (2010).

The Snob effect occurs when the demand for a good decreases as the number of buyers increases. This attitude is typical of those who want to maintain their own diversity and therefore want to distance themselves from their social environment when they begin to feel that there is too much similarity. In this case, the main characteristics that goods must have to be attractive to consumers are rarity and uniqueness. Snyder and Fromkin, who in 1977 developed the theory of uniqueness based on the same concept, share this view.

Finally, the Bandwagon effect occurs when demand for a good increases because a consumer buys the good because he or she has seen other people do so. This attitude supports the thesis that consumers need to buy a certain luxury good to feel accepted within a social circle. Based on social comparison theory, Mandel, Petrova and Cialdini (2006) conducted studies. They found that an assimilation effect is triggered in people when they see other people with similar characteristics to themselves, in whom they see themselves mirrored, succeeding. This leads consumers who can easily imagine themselves in this situation to increase their expectations of their own future wealth and, consequently, their desire to buy luxury brands. Conversely, if a contrast effect is triggered by seeing people who are perceived as different from oneself as successful, this leads to a reduction in expectations of success and consequently in preferences for luxury products.

Hedonistic forms include recreational shopping and hedonistic consumption. The former suggests that consumers purchase luxury products solely for the satisfaction derived from the shopping activity. In contrast, hedonistic consumption, introduced by Holbrook & Hirschman (1982), argues that purchases are driven by the emotional sphere rather than utilitarian motives. This type of consumption has spread in developed markets due to the increase in personal income and prosperity, which has led consumers to purchase for their personal enjoyment (Shukla & Purani, 2012).

The democratisation of luxury consists in making luxury products available to a wider segment of society by increasing their production and distribution, without exceeding the limits that allow the product to be considered luxury (Mortelmans, 2005). Dubois and Laurent (1995) thus introduced a new category of consumers, the "luxury hikers", i.e., those who can occasionally afford this type of product. The democratisation of luxury has been the driving force behind the significant growth of the luxury goods market since the 1980s. One example is the growth of Louis Vuitton from a family business with a turnover of less than $10 million in 1977 to the LVMH group with a turnover of almost $2 billion. This was made possible by an increase in the number of consumers (Dubois, et al., 2001).

Another theory of luxury consumption is the 'self-concept' theory. It states that consuming luxury products can improve the way consumers perceive themselves, making them feel good about themselves. Those with an interdependent self-concept tend to be more concerned with the social function of luxury consumption than those with an independent self-concept, who have a personal orientation towards luxury consumption. The former are therefore more likely to engage in chain luxury consumption (Ko, et al., 2019).

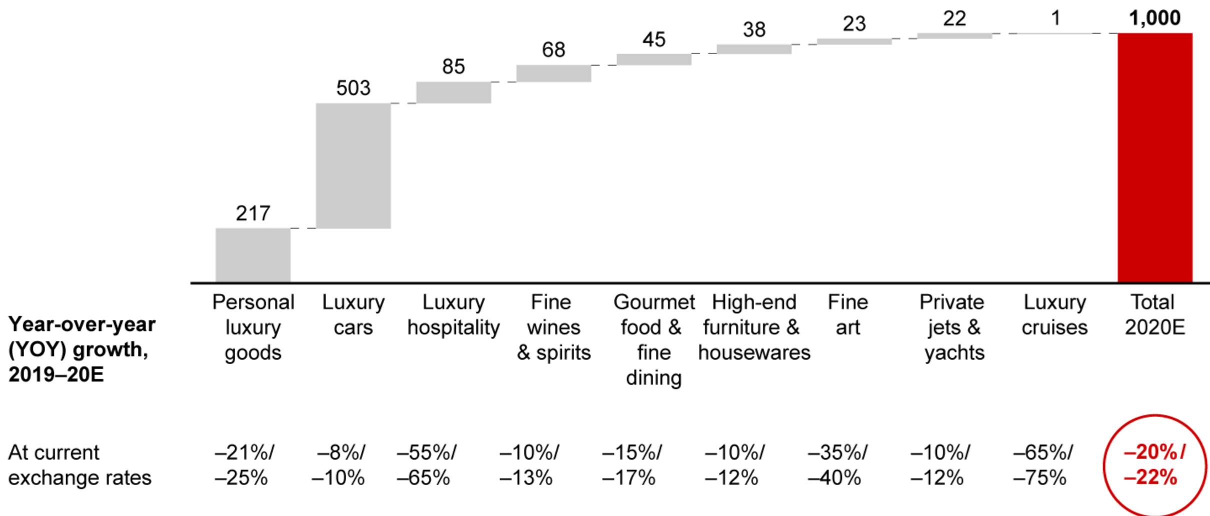
A turning point in the study of consumer behaviour is the article published by Russell Belk in 1988. According to a study by Ladik, Carrillat and Tadajewski (2015), this manuscript turned out to be one of the most influential in recent history and is also one of the most cited. Belk discusses the idea of the 'extended self', starting from some of William James's earlier reflections. The author argues that consumers express themselves through the goods they own. In fact, he believes that the latter reflect their identity and are an integral part of them. In recent decades, consumer behaviour has been influenced by the significant technological changes that have taken place. In this regard, Belk (2013) has revised his thinking to include the impact that digitalisation has had on consumers' understanding of themselves. The proliferation of the Internet and social networks has led people to be constantly connected and to present and expand their selves in new ways, for example by using virtual avatars and sharing many more aspects of their private lives than before.

As can be seen, there are many different attitudes towards luxury consumption. Understanding luxury consumer behaviour is therefore very important because the perceived value of luxury goods is co-created by the consumer and it is this that leads customers to purchase the products or services despite the high price (Tynan, et al., 2010).

1.2 GENERAL OVERVIEW OF THE LUXURY SECTOR

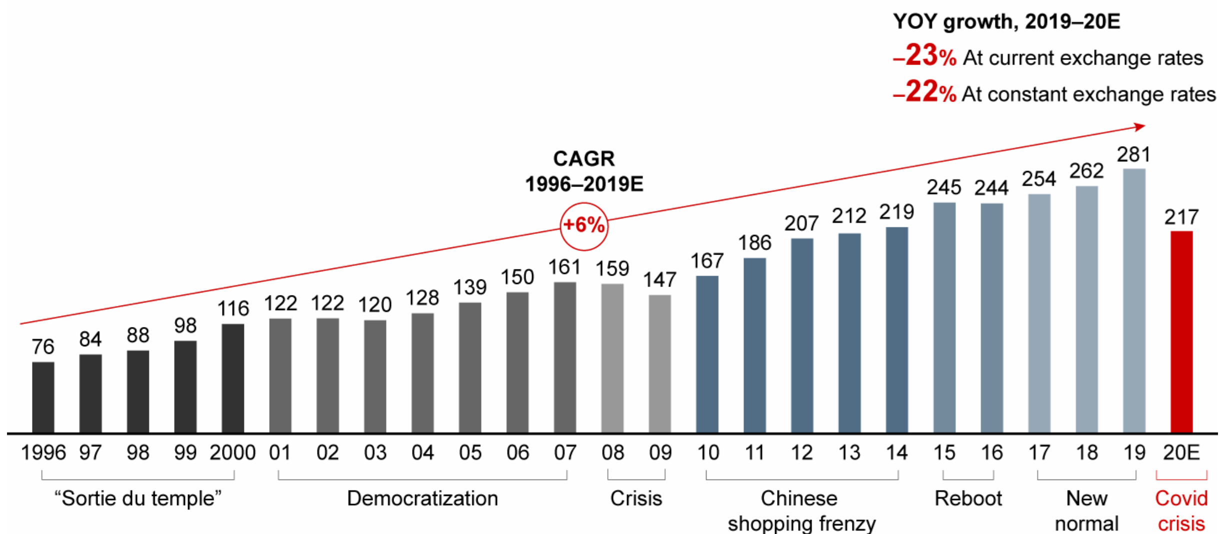
The luxury sector is a complex and highly competitive market. It could be segmented in nine sub-markets: personal luxury goods, luxury cars, luxury hospitality, fine wines and spirits, gourmet food and fine dining, high-end furniture and housewares, fine art, private jets and yachts, and luxury cruises. However, the industry is mainly driven by personal luxury goods, luxury cars and luxury hospitality, which together account for more than 80% of the total market (D'Arpizio, et al., 2023). It has been growing rapidly since the 1960s and has intensified over the last 30 years. According to Bain & Company, the global turnover of the luxury personal goods industry has increased from €77 billion in 1995 (Donzé & Fujioka, 2015) to €288 billion in 2021 (D'Arpizio, 2022).

As reported in the Bain and Company report (2021), the size of the global luxury market, which includes both goods and experiences, has shrunk from 20% to 22% at current exchange rates in 2020 due to the outbreak of the Covid-19 pandemic, reaching an estimated value of EUR 1 trillion. The graph below shows the composition of the luxury market in 2020 and the real percentage contraction of the various segments that make up the market. As can be seen, nobody has escaped unscathed from the outbreak of the Covid-19 pandemic (D'Arpizio, et al., 2021).



Source: D'Arpizio, Levato, Prete, Gault & De Montgolfier (2021).

For the purposes of this thesis, we will focus on the luxury personal goods segment. This market, which had not contracted since 2009, declined by 23% at current exchange rates compared to 2019, reaching a value of EUR 217 billion and a level similar to that of 2014 (see chart below) (D'Arpizio, et al., 2021).

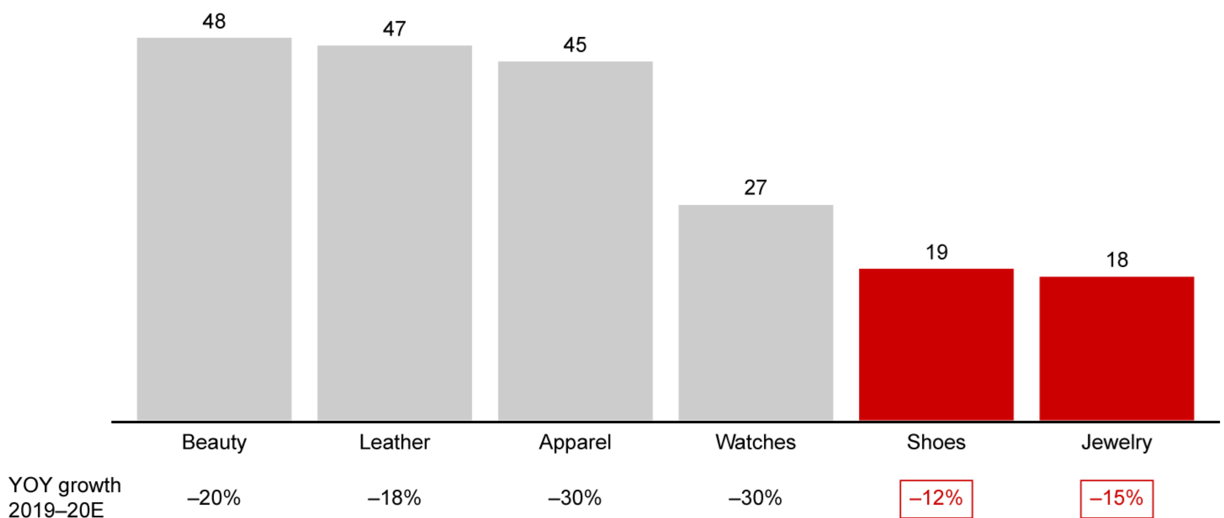


Source: D'Arpizio, Levato, Prete, Gault & De Montgolfier (2021).

This segment comprises six categories: Beauty, Leather, Apparel, Watches, Footwear and Jewellery.

However, beauty products, leather goods and clothing accounted for the majority of sales. Looking at the contraction of this luxury sector in more detail, all of its constituent categories contributed to the decline in its performance, as shown in the graph below. The product categories that declined the least were jewellery and footwear (shown in red on the graph). Indeed, jewellery managed to maintain sustained demand in Asia and take advantage of online sales, falling by 15% to EUR 18 billion. Footwear, on the other hand, fell by 12% to 19 billion euros, although this decline was offset by an increase in sales of trainers, stimulated in particular by the closure restrictions. Beauty products declined by 20% compared to 2019, due to the closure of specialty and travel retail stores. The result was mainly due to the sale of cosmetic skincare products and the exploitation of the online channel, which allowed it to remain one of the most profitable categories. Leather goods also fell by 18% to 47 billion euros. Finally, watches and clothing were down 30%. The former reached a sales level of 27 billion euros, thanks to the resilience of the online channel and iconic brands, while clothing reached a sales level of 45 billion euros, with an increase in demand for sportswear at the expense of formal wear (D'Arpizio, et al., 2021).

Global personal luxury goods market, by product category (€ billions, 2020E)



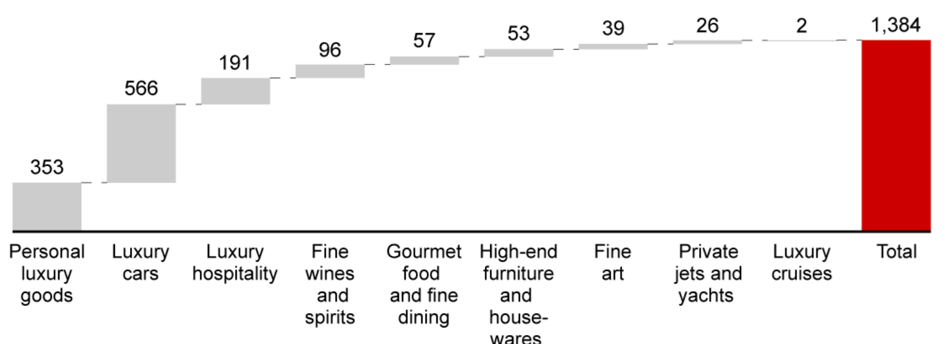
Note: Growth shown at current exchange rates
Source: Bain & Company

Source: D'Arpizio, Levato, Prete, Gault & De Montgolfier (2021).

From the above data, it is possible to understand the importance of the development of the online distribution channel in counteracting the negative effects of the crisis, which would otherwise have been much worse (D'Arpizio, et al., 2021).

The latest Bain-Altagamma Luxury Goods Worldwide Market Study (2022) reports that the global luxury goods market has bounced back despite uncertain conditions. After a sharp contraction in 2020, it returned to EUR 1.15 trillion in 2021, and showed clear signs of recovery in 2022, with further unexpected growth of 19%-21% to EUR 1.38 trillion, up 8%-10% from pre-pandemic levels in 2019. Only the hospitality and luxury cruise categories are still struggling to return to pre-crisis levels (see chart below).

Worldwide luxury market, 2022E (€ billions)



	Personal luxury goods	Luxury cars	Luxury hospitality	Fine wines and spirits	Gourmet food and fine dining	High-end furniture and house-wares	Fine art	Private jets and yachts	Luxury cruises	Total
2019–22E overall growth at current exchange rates	26%	3%	–7%	26%	8%	24%	7%	12%	–25%	**8%–10%**
2021–22E growth										
at current exchange rates	22%	6%	110%	16%	12%	13%	13%	18%	355%	**19%–21%**
at constant exchange rates	15%	–1%	95%	9%	11%	9%	5%	10%	325%	**11%–13%**

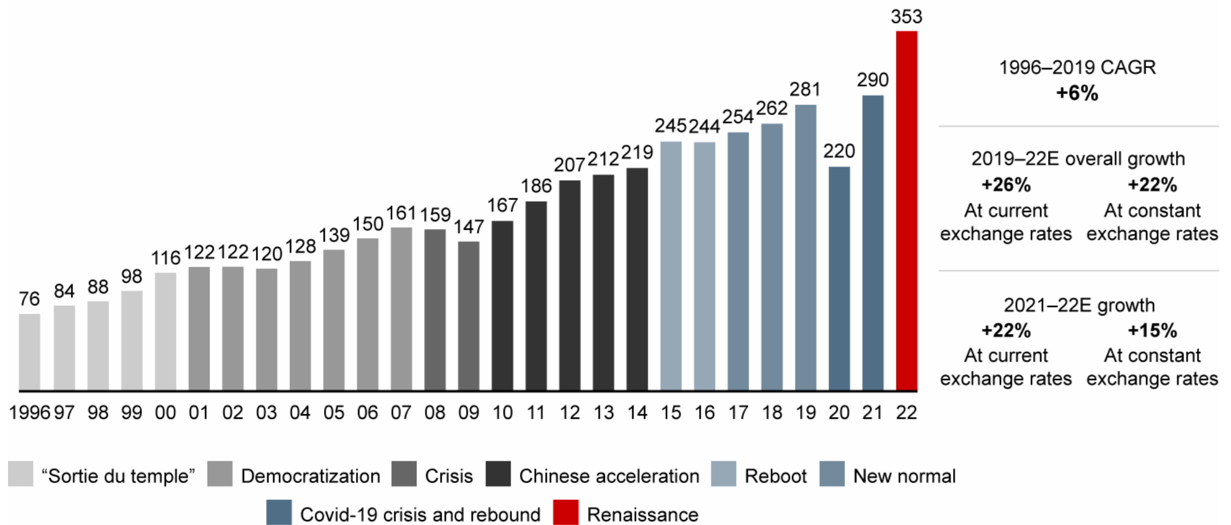
Note: E indicates estimated growth
Source: Bain & Company

Source: D’Arpizio, Levato, Prete & De Montgolfier (2023).

It is estimated that further expansion will take place in 2023 and continue throughout the decade to 2030.

The market for personal luxury goods, the segment on which the analysis will focus, also showed significant growth in 2022, rising by 22% at current exchange rates (or 15% at constant exchange rates) compared to the previous year, continuing the recovery trend in V seen in 2021 (see graph below) (D'Arpizio, et al., 2023).

Global personal luxury goods market (€ billions)



Source: Bain & Company

Source: D'Arpizio, Levato, Prete & De Montgolfier (2023).

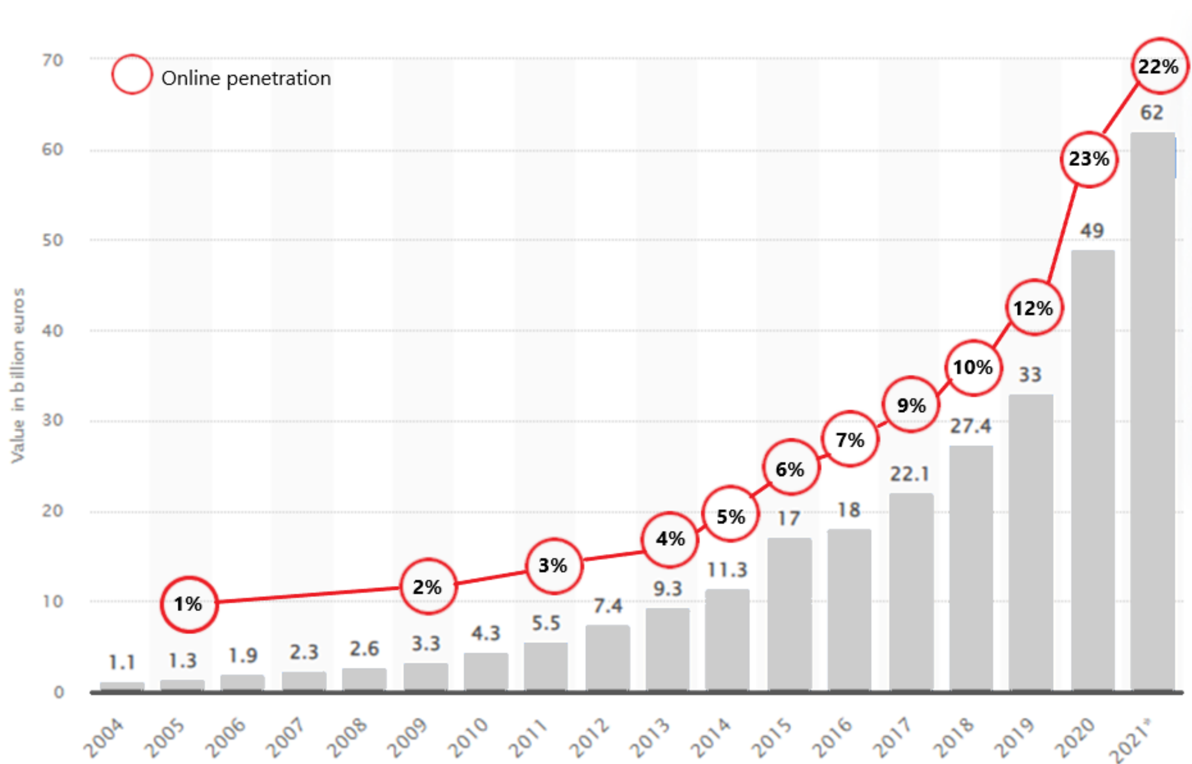
Due to its client-centric nature, growing consumer base and high-income consumers who are less sensitive to economic downturns, this segment is expected to continue to grow in 2023, despite the economic turmoil. This positive outlook is also supported by the Altagamma Consensus 2023, which forecasts solid growth for the sector despite macroeconomic uncertainty due to rising energy costs, rising inflation, commodity shortages, geopolitical tensions, and declining purchasing power for certain consumer groups. The analysts expect growth in 2023 to be 3%-5% at constant exchange rates in the base case and 6%-8% in the best case. All categories in this segment are back to pre-pandemic levels, if not better. The recovery is being driven by hard luxury, leather goods and apparel. Leather goods grew by 23%-25%, well above pre-pandemic levels, accessories by 21%-23% and finally apparel by 22%-24%, with formal wear returning. As seen above for the whole luxury sector, analysts also have a positive outlook for the personal luxury goods segment. In 2022, it will be worth EUR 353 billion and they expect it to grow by 50% to EUR 540-580 billion by 2030 (D'Arpizio, et al., 2023).

1.2.1 ONLINE PERSONAL LUXURY GOODS MARKET

The previous section analysed the development of the luxury sector, with reference to the personal luxury goods segment. We have seen how the sector has developed and the impact that Covid-19 has had on it. After a general overview, for the purposes of this thesis, we will

now focus again on the personal luxury goods segment but will only consider the online distribution channel.

Over the past two decades, globalisation and the use of the Internet have led to a strong development of the online sales channel. As shown in the graph below, the online personal luxury sector has grown exponentially from EUR 1.1 billion in 2004 to an estimated EUR 62 billion in 2021.



Value and online penetration of the online personal luxury goods market worldwide from 2004 to 2021.

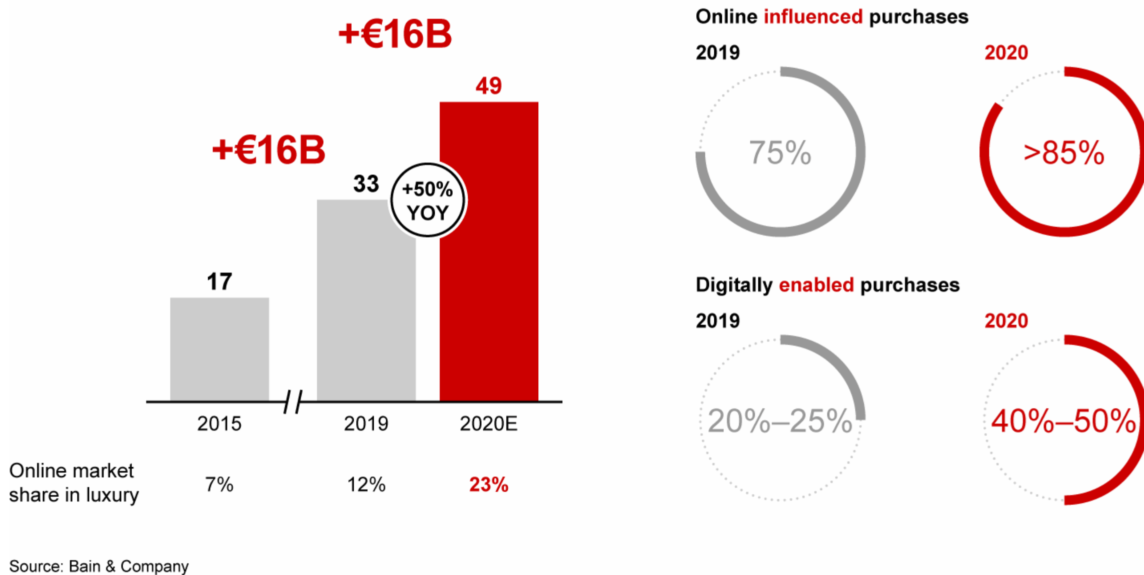
Notes: Growth shown at current exchange rates

Source: Personal elaboration with data from Statista, 2022 and Bain & Company, 2021

According to a report by Bain and Company (2020), online luxury sales will increase from €33 billion in 2019 to €49 billion in 2020. In just one year, the share of purchases almost doubled from 12% to 23%. A strong impetus for this change came from the restrictions imposed to contain the spread of the Covid-19 pandemic. It is also expected to rise to 30% by the end of 2025, making online the main distribution channel for luxury purchases and driving the omnichannel transformation.

The growing importance of this distribution channel is confirmed by the increase in purchases influenced online, from 75% in 2019 to more than 85% in 2020, and the increase in digitally executed transactions, which will double from 20/25% to 40/50% between 2019 and

2020 (D'Arpizio, et al., 2021). This change is mainly due to technological innovations that have changed the way consumers shop. Today, people are increasingly connected, and time is a scarce resource. They want to be able to satisfy their needs anytime, anywhere. As a result, online and offline channels are integrating to provide consumers with a seamless experience. In fact, many customers see the product in the store and then buy it online (showrooming) to take advantage of possible discounts, or vice versa, they see it online and then decide to buy it in the store (webrooming) to be able to touch it with their hands (Kartajaya, et al., 2016). Today, more than three-quarters of the total luxury goods market is directly or indirectly influenced by digital. It has also been found that brands that are present in a customer's initial selection considerations are twice as likely to be purchased as those that are added later in the evaluation process. For this reason, it is crucial for brands to take advantage of digital transformation to build brand awareness, reputation, and visibility through both online and offline channels in order to maintain their prominence over time among the possible purchase options that consumers consider in their initial decision making (Remy, et al.,2015).

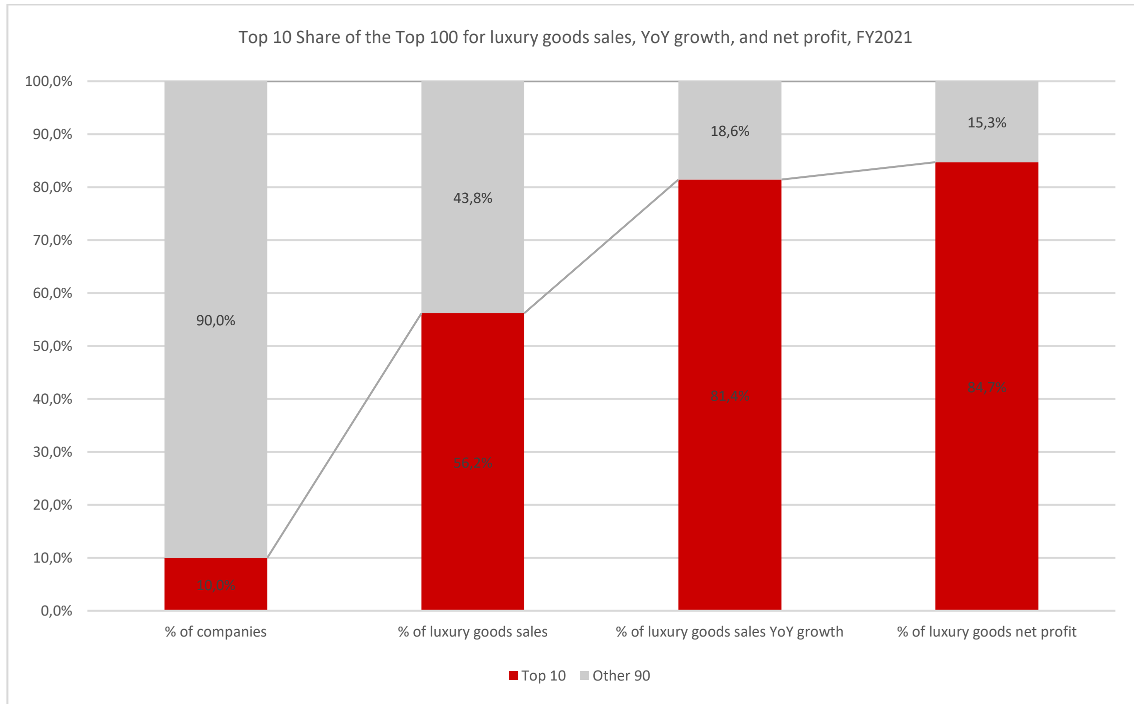


Source: D’Arpizio, Levato, Prete, Gault & De Montgolfier (2021).

According to the latest Bain-Altagamma Luxury Goods Worldwide Market Study (2022), online sales will increase by 20% in 2022 compared to 2021, from EUR 63 billion to EUR 75 billion, with market share remaining almost unchanged from the previous year. The Altagamma Consensus 2023 forecasts 8% growth for digital retail in the current year, continuing its expansion but at a more stable pace.

1.3 MAJOR MARKET PLAYERS

According to Deloitte's Global Powers of Luxury Goods 2022, the top 10 luxury goods companies produced 56.2 per cent of luxury goods sales in 2021 and contributed 81.4 per cent of annual sales growth (see chart below).



Source: Faccioli & Martin (2022).

It is clear from the figures above how important the companies in these top ten positions are to the luxury sector, both in terms of turnover and development. Here is a list of them.

FY2021 Luxury goods sales ranking	Change in ranking from FY2020	Name of company	Country of origin	FY2021 Luxury goods sales (US$M)	FY2021 Total revenue (US$M)	FY2021 Luxury goods sales growth	FY2021 Net profit margin[1]**	FY2021 Return on assets**	FY2018-2021 Luxury goods sales CAGR[2]*
1	↔ 0	LVMH Moët Hennessy-Louis Vuitton SE	France	54,938	75,920	55.9%	19.8%	10.1%	17.5%
2	↔ 0	Kering SA	France	20,861	20,861	34.7%	18.5%	10.5%	8.9%
3	↔ 0	The Estée Lauder Companies Inc.	United States	16,215	16,215	13.4%	17.7%	13.1%	5.8%
4	↑ 2	Chanel Limited	United Kingdom	15,639	15,639	54.7%	25.7%	25.9%	12.0%
5	↔ 0	L'Oréal Luxe	France	14,597	14,597	21.3%	n/a	n/a	9.6%
6	↓ -2	Compagnie Financière Richemont SA***	Switzerland	12,862	15,314	-6.9%	9.8%	3.6%	0.1%
7	↑ 2	Hermès International SCA	France	10,619	10,619	40.6%	27.3%	17.7%	14.6%
8	↑ 2	Chow Tai Fook Jewellery Group Limited 周大福珠宝集团有限公司	China/Hong Kong SAR	8,937	9,050	23.2%	8.8%	9.6%	6.2%
9	↑ 2	Rolex SA	Switzerland	8,750[e]	8,750[e]	37.9%	n/a	n/a	10.1%
10	↑ 7	China National Gold Group Gold Jewellery Co., Ltd 中国黄金集团黄金珠宝股份有限公司	China	7,825	7,865	50.3%	1.6%	7.2%	7.4%
Top 10*				**171,243**	**194,829**	**34.5%**	**18.1%**	**10.7%**	**10.7%**
Top 100*				**304,703**	**345,357**	**21.5%**	**12.2%**	**7.7%**	**5.2%**
Top 10 share of Top 100				**56.2%**	**56.4%**		**84.7%[3]**		

[1] Net profit margin based on total consolidated revenue and net income
[2] Compound annual growth rate
[3] Top 10 companies share of total net profit for Top 100 companies-based on the 78 companies reporting net profits
e=estimate n/a=not available

*Top 10 and Top 100 sales growth rates are sales-weighted, currency-adjusted composites
**Top 10 and Top 100 net profit margin and return on assets are sales-weighted composites
***Richemont's financial year end date is March 2021. The difference in year end date means that there is a different comparison with respect to companies with a December 2021 financial year end and much of the recovery that took place in 2021 is reflected on Richemont's FY22 results.

Source: Deloitte Touche Tohmatsu Limited. *Global Powers of Luxury Goods 2022*. Analysis of financial performance and operations for financial years ended through 31 December 2021 using company annual reports, industry estimates, and other sources.

Top 10 luxury goods companies by sales, FY2021

Source: Faccioli & Martin (2022).

Despite these excellent results, the other 90 companies surveyed also performed well. The world's top 100 luxury companies managed to recover from the Covid-19 crisis, which had caused sales to fall from USD 281 billion in 2019 to USD 252 billion in 2020, and to reach USD 305 billion in 2021 (Faccioli & Martin, 2022). These figures testify to the importance of independent luxury houses, which, despite the consolidation of the sector in the 1980s, have managed to compete successfully in the market, despite the increasingly important presence of the large luxury conglomerates.

Today, the main players in the luxury market are conglomerates and independent luxury houses. These are analysed in more detail below.

1.3.1 LUXURY CONGLOMERATES

Until the 1960s and 1980s, most European luxury manufacturers were small and medium-sized enterprises (SMEs), family-owned, artisanally organised and with limited financial and marketing resources. To cope with the rapidly growing demand for luxury products, globalisation and to be more flexible in the face of change, the luxury industry underwent a reorganisation which led to a wave of mergers and acquisitions and consequently to the consolidation of some companies. This has allowed the centralisation of financial resources, distribution systems and brand portfolio management. On the other hand, the operational management of the companies belonging to these groups remained autonomous (Donzé & Fujioka, 2015).

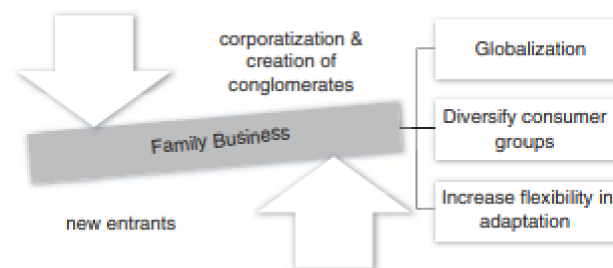


Figure 1.2: Paradoxical Challenges Faced by the Luxury Family Houses

Source: Som & Blanckaert, 2015

Thus, there was a shift from an industry dominated by SMEs to one dominated by a few powerful multinational enterprises (MNEs), such as LVMH and Pinault-Printemps-Redoute (PPR), later Kering, in France, and Swatch Group and Richemont in Switzerland (Donzé & Fujioka, 2015).

Moët-Hennessy Louis Vuitton (LVMH), founded in 1987, is a leading French luxury group with a turnover of almost EUR 80 billion in 2022 (+23% compared to 2021). The group was created by the merger of Louis Vuitton and Moët-Hennessy. Moët & Chandon was a family-owned champagne producer with roots dating back to the 18th century. In 1972 it merged with Hennessy, a cognac producer, to become one of the largest luxury groups in France. Louis Vuitton, on the other hand, was a family-owned company specialising in leather handbags and travel goods, founded in Paris in 1854. In the 1970s it experienced significant growth thanks to Henri Racamier, an entrepreneur in the steel industry, who was elected CEO

in 1977 and transformed the company into a multinational. Gross sales rose from less than 10.7 million euros in 1975 to 51.6 million in 1981 and 213 million euros in 1985.

The change in strategy led to exponential growth, with turnover increasing twenty-fold in just ten years. The company began to invest its profits and diversify its business. In 1987, to exploit possible synergies, it merged with Moët Hennessy to form LVMH, one of the leading luxury giants, with a gross turnover of around 2.3 billion euros that year. In 1988, a conflict between the two owning families allowed Bernard Arnault to become the main shareholder, taking control of the group and turning it into his own family business (Donzé & Fujioka, 2015).

Thanks to the Group's acquisition and divestment strategies, its portfolio now comprises 75 houses and is highly diversified. In fact, LVMH is the only luxury group to be present in all five major market segments: Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewellery, and Selective Retailing. In 2022, Fashion and Leather Goods accounted for 49% of total sales, Selective Retailing for 19%, Watches and Jewellery for 13%, Perfumes and Cosmetics for 10% and Wines and Spirits for 9%.

To expand and dominate the market, LVMH has pursued both a strategy of growth through acquisitions, as we have just seen, and an organic growth strategy focused on launching new products, increasing communication spending and expanding its retail network, which will consist of 5664 stores by 2022 (Som & Blanckaert, 2015). These strategic choices have enabled LVMH to operate globally. If we look at the record sales generated in 2022, we can see that 27% were generated in the United States, 24% in Europe and 37% in Asia, of which 7% were generated in Japan.

The factors behind LVMH's success are mainly its vertical integration and the Group's diversification. Vertical integration allows LVMH to maintain control of the value chain, from the sourcing of raw materials to production and selective distribution, thus guaranteeing the excellent quality of its products. On the other hand, the high level of diversification, both in terms of business segments and geographical areas, has enabled the company to face and overcome macroeconomic turbulence.

Pinault-Printemps-Redoute (PPR), known as Kering since 2013 following a name change, was founded in 1963 by François Pinault. Initially trading in timber and building materials, in the mid-1990s it specialised in the retail and distribution of luxury goods, operating through three main divisions: Luxury, Sport & Lifestyle and Fnac (Som & Blanckaert, 2015).

Ten years ago, only 17% of Kering's sales came from the luxury sector, which is now its main business, specialising in fashion, leather goods and jewellery. In 2022, Kering generated sales of more than EUR 20 billion, up 15% on the previous year, driven in particular by Gucci

and Yves Saint Laurent, both acquired in 1999. The group operates worldwide, with 27% of sales coming from North America and the same from Europe, and 39% from Asia, including 6% from Japan.

Kering's strategy is also based on growth through acquisitions and internal growth, focusing on expansion into new markets, consolidation in already mature markets and the development of distribution channels, including online (Som & Blanckaert, 2015). By 2022, 78% of sales will come from the online channel and directly operated stores, which currently number 1659 worldwide, and 22% from wholesale.

Kering's success factors are the diversification of the group's brands and the sharing of expertise between them (Som & Blanckaert, 2015). The fact that the brands owned by Kering have very different customers, products and positioning is undoubtedly a strength for Kering, as is its integrated business model. Indeed, the group manages and coordinates all the functions that can be shared between the maisons, such as logistics, information systems and advertising space. This allows time to be optimised and the various brands to concentrate on developing their specific characteristics. In recent years, the Group has also invested in vertical integration, developing activities that can benefit all the brands, such as Kering Eyewear.

The Swatch Group (SG), founded in 1983, is a Swiss company and the world's largest watch manufacturer. It was created by the merger of the Société Suisse pour l'Industrie Horlogère (SSIH) and the Allgemeine Schweizerische Uhrenindustrie AG (ASUAG), two major Swiss watch companies on the verge of bankruptcy. The operation was proposed by Nicolas G. Hayek, who at the time held the position of strategic advisor and later became Chairman and CEO of the Group from 1986 to 2010. The main objective of the merger was not to consolidate the group's presence in the industry, but to regain its skills and new knowledge in order to face its Japanese competitors. The reorganisation phase was followed by a growth phase, during which gross sales increased from CHF 2.6 billion in 1995 to CHF 8.1 billion in 2012 (Donzé & Fujioka, 2015).

The Swatch Group is active in the manufacture of finished watches, jewellery, watch movements and components, and is a major player in the electronic systems sector. Internally, the Group comprises 17 watch brands and operates its own worldwide distribution network, consisting of single-brand stores and the multi-brand boutiques Tourbillon and Hour Passion.

In 2022, the Group generated sales of CHF 7.5 billion, of which 95% came from the Watches & Jewellery segment and 5% from the Electronic Systems segment. In terms of geographical distribution, 27% of sales came from Europe, 56% from Asia, 15% from the Americas, 1.4% from Oceania and 0.6% from Africa.

At a strategic level, the Group invests heavily in research and development of new products, focusing on materials and production processes. Considerable resources have also been devoted to microelectronics and micromechanics. This has enabled the Swatch Group to enter the telecommunications, services, and automotive industries.

The Group's success lies in the fact that it is fully vertically integrated, with full control from production to distribution, which allows it to monitor both the quality and the cost of its products. In addition, the Swatch Group is present in all market segments, from mass to luxury, which enables it to reach a larger number of end consumers.

Compagnie Financière Richemont SA, based in Geneva, was founded in 1988 by Johann Rupert through the spin-off of the assets of Rembrandt Group Limited. The latter was founded by Anton Rupert in the 1940s and was active in tobacco, financial services, wines, spirits, gold and diamond mining and investments in luxury goods. Today, Richemont is one of the leading groups in the luxury sector, with 26 Maisons, each with its own management team. In 2022, it generated a turnover of 19 billion euros, of which 11.1 billion euros came from the sale of jewellery and 3.4 billion euros from the sale of watches, the company's two main businesses. In terms of geographical distribution, 23% of sales came from Europe, 22% from the Americas, 47% from Asia, including 6% from Japan, and 8% from the Middle East and Africa.

In recent years, Richemont has adopted an omnichannel strategy, operating 2326 mono-brand boutiques, which accounted for 57% of sales in 2022, 35 digital boutiques, which accounted for 19% of sales, and a select network of multi-brand retail partners, which accounted for 24% of sales.

Richemont's success factors are the brands in its portfolio, which are among the most prestigious in the luxury sector, such as Van Cleef & Arpels, and its balanced global presence, which allows it not to be dependent on any one market and to be less affected by macroeconomic turbulence. Furthermore, Richemont has always focused on offering innovative products to its customers and has implemented acquisition and merger strategies to increase its production capacity (Som & Blanckaert, 2015).

Luxury conglomerates still play a key role in the luxury sector today, as the economic data above shows. This confirms the insight that entrepreneurs such as Bernard Arnault for LVMH, François Pinault for Kering, Nicolas Hayek for Swatch Group and Anton Rupert for Richemont had in the 1980s about the growth potential of luxury companies. The description of the major luxury groups shows that the strategy pursued by the latter was and is based in particular on the acquisition of luxury boutiques and the expansion of the distribution network,

thus enabling financial optimisation, risk diversification and the acquisition of management skills. Consolidation was encouraged by globalisation and strong international expansion, which led to the creation of multi-brand portfolios. This also allowed the exploitation of synergies along the value chain and the realisation of economies of scale (Som & Blanckaert, 2015).

1.3.2 INDEPENDENT LUXURY HOUSES

As mentioned above, the luxury market was dominated by small and medium-sized family businesses until the 1980s. This was followed by a consolidation of the sector, resulting in the large conglomerates that still dominate the market today. The independent luxury houses that have managed to survive and maintain their independence are those financed by wealthy private families, such as Chanel. The Italian luxury market, unlike its French and Swiss counterparts, had managed to retain its family-run character. This characteristic was lost in the last decade, when the crisis led to the acquisition of many brands by large multi-brand conglomerates. For example, Bulgari and Loro Piana were acquired by LVMH and Brioni and Bottega Veneta by Kering (Som & Blanckaert, 2015).

In addition to financial necessity, there are other factors that have led to the failure of family-owned luxury companies or their acquisition by large conglomerates. It is often difficult for this type of company to attract professional talent, as the top position is often held by a family member, which limits personal ambitions. Another reason is the mismanagement of succession, which can lead to conflicts between heirs or the appointment of unsuitable family members who, instead of creating value, destroy it (Som & Blanckaert, 2015).

Family businesses also have qualities that distinguish them from other types of company. The owners of these companies are more focused on the long-term vision rather than quarterly targets, which is also their main critical success factor, the alignment between the interests of management and shareholders promotes better management, and the turnover within them is very low, which makes employees feel part of the family and more loyal (Som & Blanckaert, 2015).

The independent luxury houses that have survived are those that have managed to consolidate their position in the market. To grow and expand globally requires huge amounts of capital, which has been raised through IPOs that allow families to retain control. These transactions have transformed companies from small businesses into international corporations.

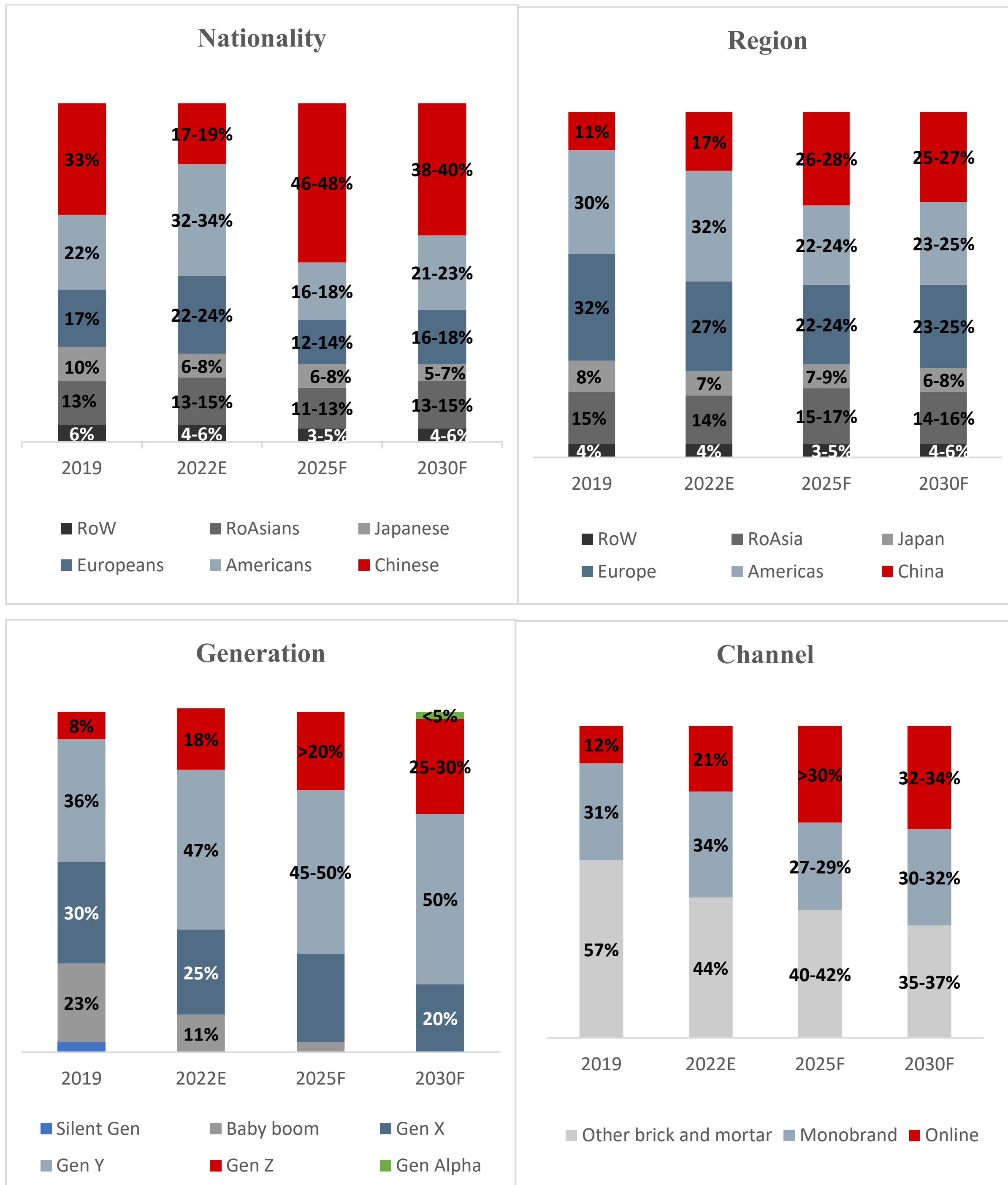
1.4 CHANGES AND GROWTH OPPORTUNITIES IN THE LUXURY SECTOR

According to forecasts made in the latest Bain and Company report (2023), the main growth drivers in the luxury sector will be:

- Emerging markets, particularly mainland China, are expected to become the largest luxury market, and Chinese consumers will regain their pre-pandemic status as the dominant nationality in luxury consumption, accounting for 40% of global purchases;
- Generations Y, Z and Alpha are expected to become the largest consumers of luxury goods, accounting for 80% of global purchases;
- Online is set to become the largest distribution channel for luxury purchases with an estimated share of 32%-34%.

The graph below shows how the drivers just outlined are expected to contribute EUR 330-370 billion to the personal luxury segment by 2025 (D'Arpizio, et al., 2021) and EUR 540-580 billion by the end of 2030 (D'Arpizio, et al., 2023).

Share of global personal luxury goods market, (€ billions, 2019-30F)

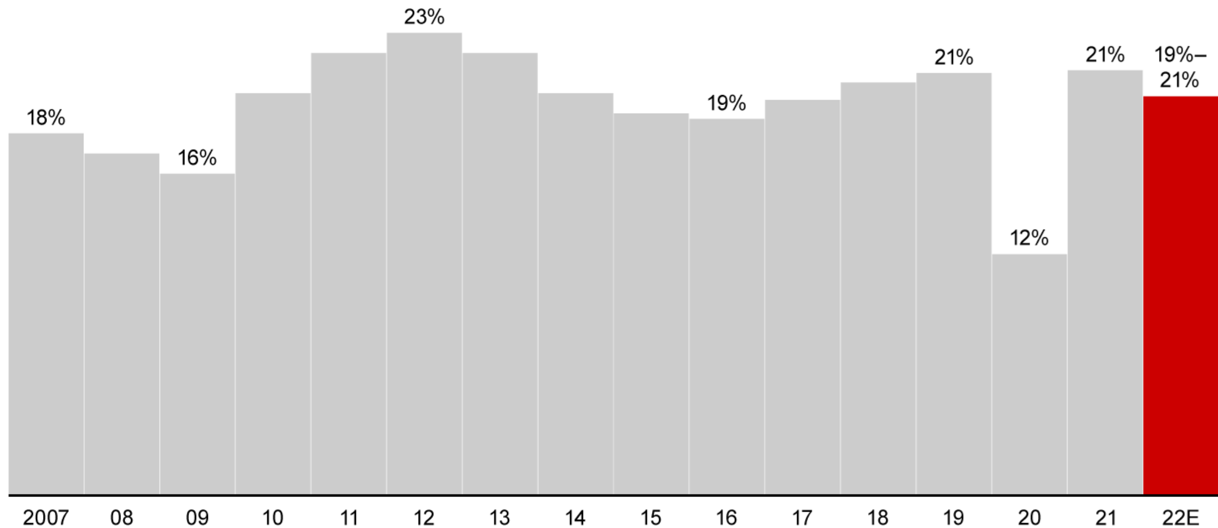


Notes: Segments may not add up to 100% due to rounding; F indicates forecasted growth; RoW is rest of world; RoAsians is rest of Asian markets.

Source: Personal processing with data from the 19th (2021) and 21st (2023) edition of the Bain Luxury Study, published by Bain & Company for Fondazione Altagamma.

To enable this growth in the luxury personal goods sector, luxury brands are making huge investments, despite high inflation and rising costs, and this is one of the reasons why their profit levels fall slightly in 2022 compared to 2021, from 21% to 19%-21%. As shown in the

graph below, the increase in profitability between 2020 and 2021 is unprecedented (D'Arpizio, et al., 2023).



Source: D'Arpizio, Levato, Prete & De Montgolfier (2023).

1.4.1 EMERGING MARKETS: BRIC and MEASA

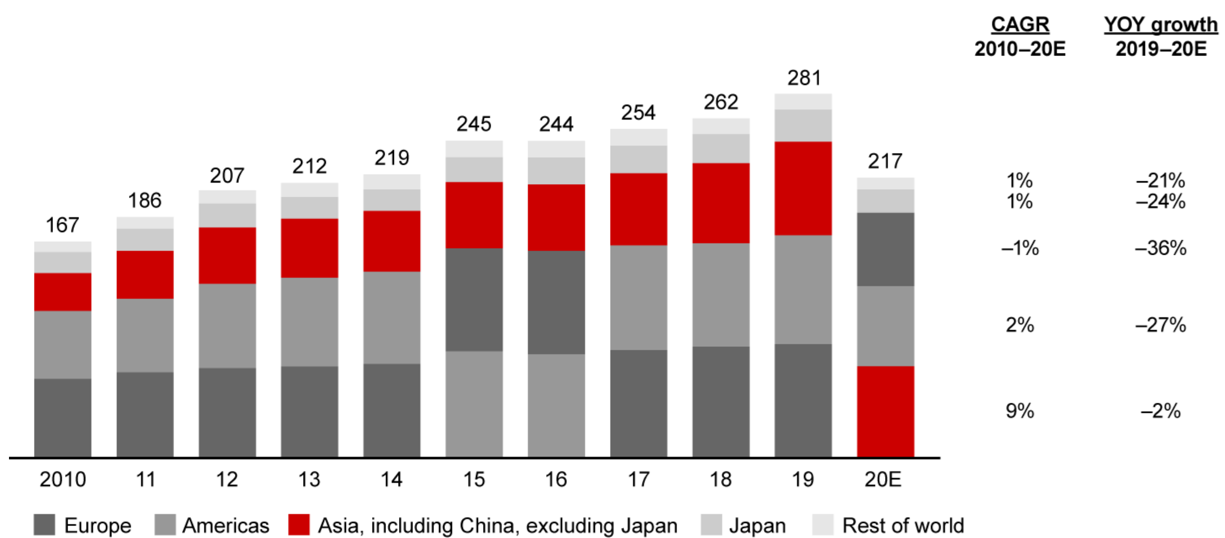
The main markets for luxury goods - Europe, the US and Japan - have experienced a slowdown in growth. Nevertheless, they are expected to remain major contributors to luxury sales in the coming years. In the global scenario, in addition to these mature markets, new markets are emerging, such as Brazil, Russia, India and China (BRIC), which have a very high growth rate, and the Middle East Africa South Asia (MEASA) region, which offers excellent opportunities, particularly in terms of the e-commerce channel. According to a study by Dubai CommerCity, online cross-border sales between countries in the Gulf region increased by 214% year-on-year in mid-2020 (Moran, 2021).

According to the Boston Consulting Group, there are four key drivers of growth in emerging markets: population growth, the rise of the middle class, rapid urbanisation and the digital leap. It is estimated that the population of these markets will grow by around 1 billion over the next decade, driving the expansion of the consumer base. In addition, the population of these states is relatively young; suffice it to say that about half of India's population is under the age of 25. Another important factor is that hundreds of thousands of people are joining the

middle and affluent classes, creating optimism, and although disposable incomes are still lower than globally, household spending in emerging markets is growing almost three times faster than in mature markets. Finally, many people are moving from rural to urban areas, and smartphone penetration among consumers is increasing.

As reported in the Bain and Company (2020) report, the global ranking of luxury sales by region has changed dramatically in recent years. Until 2019, Europe and the Americas dominated the ranking, but from 2020, Asia became the main region for luxury sales (see chart below).

Share of global personal luxury goods market, by region (€ billions)



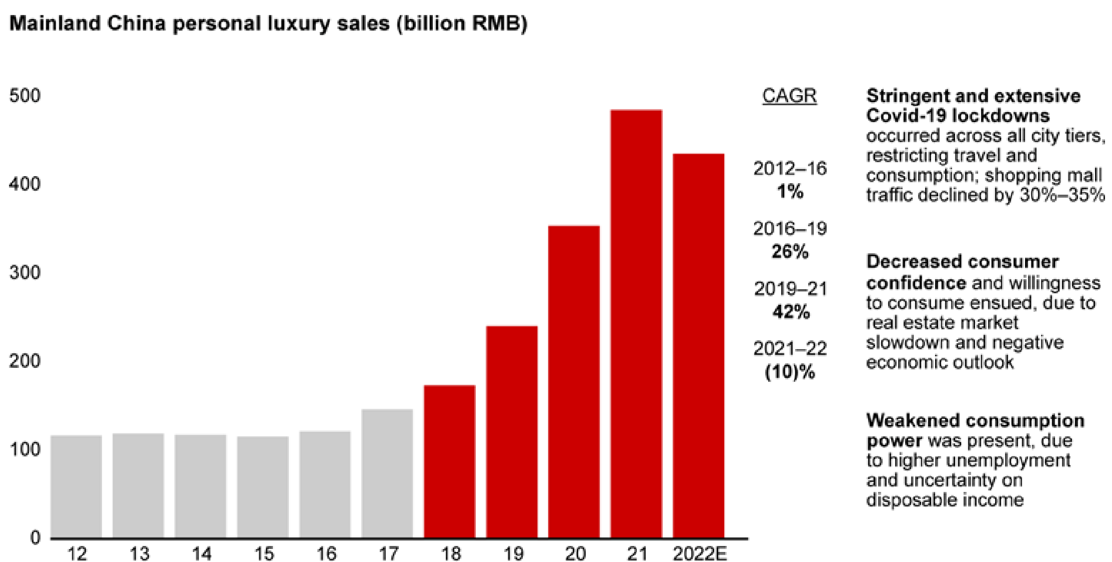
Note: Growth shown at current exchange rates
Source: Bain & Company

Source: D'Arpizio, Levato, Prete, Gault & De Montgolfier (2021).

This progress is largely due to mainland China. It was the only region in the world to record luxury goods sales growth of 45% at current exchange rates, reaching EUR 44 billion in 2020, despite the Covid-19 pandemic crisis. Europe, on the other hand, saw demand fall by 36% at current exchange rates to EUR 57 billion. Nevertheless, Russia was the best performing European country, confirming the opportunities offered by emerging markets. The same can be said of Brazil, which outperformed the regional average. In fact, the Americas fell by 27% at current exchange rates to EUR 62 billion (D'Arpizio, et al., 2021). The pandemic has had a positive impact on the Brazilian luxury market, changing the purchasing behaviour of consumers who used to shop abroad or in duty-free shops, and now, due to travel restrictions, have shifted their purchases within the country (Grasseschi Dunck, 2022). However, the luxury market was affected by Russia's invasion of Ukraine in February 2022, which is still ongoing.

The war put at risk 2-3% of global luxury personal goods sales, or between EUR 6 and 8 billion. The decrease in Russian spending is mainly due to the devaluation of the rouble, the restrictions that have led to the exclusion of Russian banks from the Swift system, making it difficult to complete payments, the ban on the export of certain goods, including luxury goods, to Russia, and the restrictions on travel by Russian citizens. In addition, many brands have decided to close their stores in the country (Casadei, 2022). However, the direct impact of the war is not a major concern for the luxury sector, as Russia and Ukraine only account for a small proportion of sales. It is the indirect effects that are more worrying. As reported in the Bernstein report, there are fears about the impact that sanctions against Russia could have on inflation and energy costs, leading to a slowdown in global GDP growth (Ferraro, 2022).

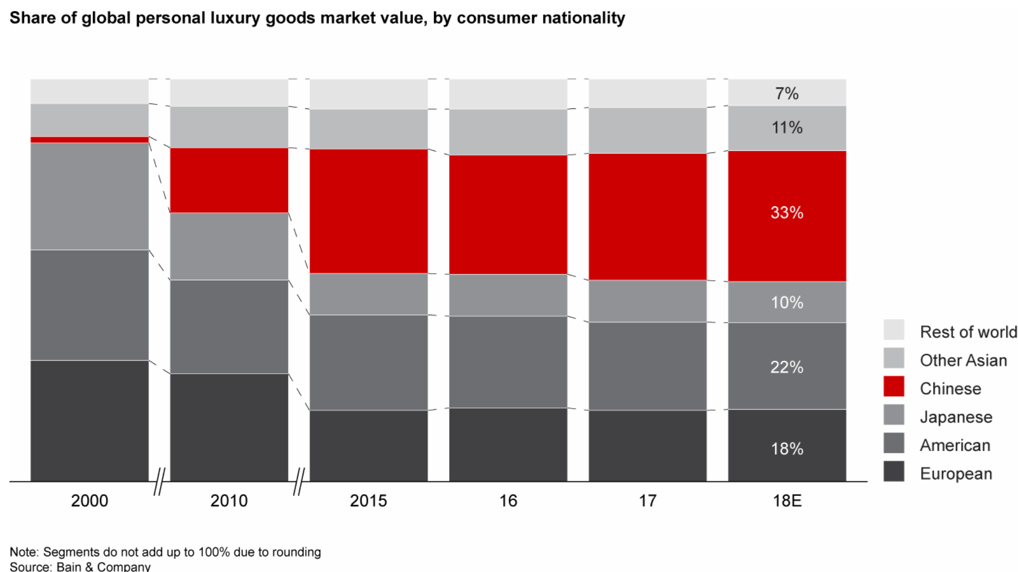
According to the latest Bain-Altagamma Luxury Goods Worldwide Market Study (2022), the Americas have regained the top position for personal luxury goods sales. The Chinese market, after five years of growth that saw it double in size between 2019 and 2021, came to a standstill in 2022 due to the zero-coupon policy. Tight blockades, restricted mobility, rising unemployment and targeted shopping by consumers afraid of catching the virus by leaving home led to a 10% year-on-year decline in sales (see graph below) (Lannes & Xing, 2023).



Source: D’Arpizio, Levato, Prete & De Montgolfier (2023).

Nevertheless, the Chinese market remains crucial to the long-term future of the luxury market and is expected to recover as early as 2023. Statistics predict that Chinese consumers will account for 46% of the global market by 2025, up from 33% in 2018 (D'Arpizio, 2019), and then 40% by 2030. According to Federica Levato, Senior Partner and EMEA Leader

Fashion & Luxury at Bain & Co, this lower share should not be seen as a slowdown in China, which is expected to continue its strong growth trajectory, but rather as the unlocking of additional growth pockets related to mature and emerging markets (D'Arpizio, et al., 2023). The chart below shows how Chinese consumers' share of the global personal luxury goods market has grown exponentially from 2000 to 2018.



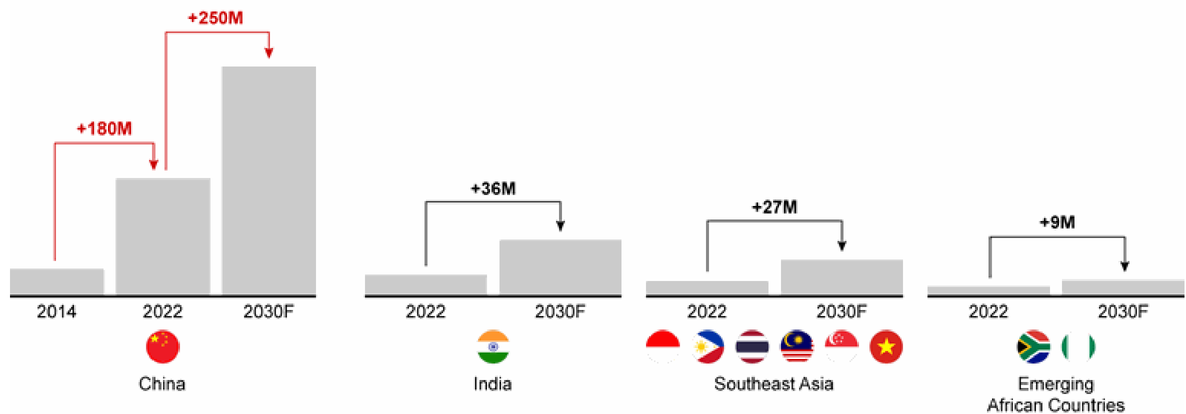
Source: D'Arpizio, Levato, Prete, Del Fabbro & De Montgolfier (2019).

According to the Altagamma Consensus 2023, the Chinese market is already recovering, and Chinese consumers will lead the way with 10% growth, followed by Southeast Asia and South Korea with an estimated 8% growth. While there can never be 'another China' in terms of its contribution to the development of the industry, these markets have stood out in recent years for their growth and future potential, albeit in need of improved infrastructure. In fact, it is estimated that India can grow its luxury market by up to 3.5 times by 2030 compared to 2022. By 2025, Delhi and Mumbai will have luxury department stores through a partnership between Aditya Birla Fashion and Retail Limited (ABFRL) and Galeries Lafayette (Bolelli, 2022). This will be driven in part by the expected rise of the middle and high income classes in emerging markets (see chart below). The largest growth is expected in China, where the consumer class with sufficient income in PPP terms is expected to grow by around 1.2 billion Chinese by 2030 compared to 2000, becoming a driver of global growth. By then, 60 per cent of urban consumption is expected to be driven by middle-income consumers and 20 per cent by high-income consumers, up from 35 per cent and 10 per cent respectively in 2021. Although China is already a major contributor to global consumption, there is still room for further expansion. Indeed, Chinese household consumption accounts for around 38% of GDP, compared with 50%

for the Asia-Pacific region, 52% for the European Union and 68% for the United States. Part of this difference is due to a higher savings rate and increased property spending by many households. However, this scenario could change due to the sophistication of the financial system and the introduction of new policy directions that could lead consumers to move towards alternative investment and consumption options (Zipser, et al., 2021).

China will still be the growth behemoth **Growth in other regions fragmented across many emerging markets**

Mid- and high-income consumers



China is expected to double its mid- to high-income population by 2030

Sources: Bain-Altagamma 2021 Worldwide Luxury Market Monitor; Bain analysis

Source: D'Arpizio, Levato, Prete & De Montgolfier (2023).

In this regard, the Credit Suisse report (2022) notes that wealth inequality, both between and within countries, is decreasing thanks to the development of emerging markets. The United States remains at the top of the wealth pyramid with 141,140 individuals with assets of more than USD 50 million, defined as ultra-high net worth individuals, followed by China with 32,710 individuals and India in fifth place with 4,980 individuals. The Asia-Pacific region, excluding China and India, has 30,010 UHNW individuals. It is estimated that by 2026 the number of millionaires will increase by 13% in the United States and by 97% in China, reaching around 60,000 individuals, i.e., the same number of UHNW as in the whole of Europe.

In China, wealth per adult will reach USD 76,639 in 2021, growing at an average rate of 14.5% per year. China's rapid expansion can be understood by comparing these figures with global figures. Looking at the period from 2000 to 2021, the global average annual growth rate of wealth per adult was 5%, and by the end of 2021 it stood at USD 87,489. It can therefore be concluded that average wealth in China is approaching the global average. In India, on the other hand, average wealth per adult remains well below the global average, at $15,535 at the end of 2021, but with a remarkable average annual growth rate of 8.8%. In Brazil, average wealth per

adult will be $21,429 at the end of 2021, with an average annual growth rate of 5.8%. In contrast, Saudi Arabia and the United Arab Emirates were the richest Gulf countries, with average wealth per adult of $84,407 and $122,841 respectively. Emerging markets have been a major contributor to global wealth growth. Indeed, their share of wealth will more than triple between 2000 and 2019, from 7% to 24%, and is projected to reach 28% by 2026 (Shorrocks et al., 2022).

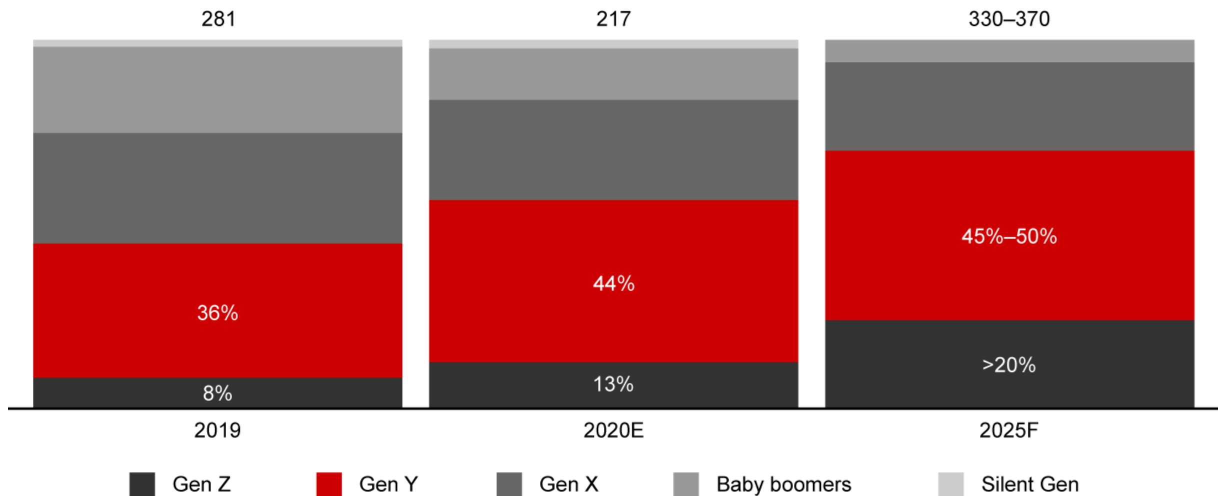
The data provided by the Altagamma Consensus 2023 also confirms the stronger growth of emerging markets compared to mature markets. The region with the highest estimated growth is Asia (+9%), followed by the Middle East (i.e., the United Arab Emirates) (+7%) and Latin America (6%).

1.4.2 NEW CUSTOMERS: GENERATION Y, Z AND ALPHA

The younger generation represents another powerful growth opportunity for the luxury sector, both in terms of their significant spending power today and what they will have in the future.

In fact, the latest Bain-Altagamma Luxury Goods Worldwide Market Study (2022) shows that market growth in 2022 will be driven by Generations Y and Z. According to a report by Bain and Company (2020), younger generations will drive 180% of luxury market growth from 2019 to 2025, accounting for two-thirds of the total market (see chart below) (D'Arpizio & Levato, 2020).

Global personal luxury goods sales, by consumer generation (€ billions)



Notes: Generations by range of birth year: Silent generation, 1928–45; baby boomers, 1946–64; Generation X, 1965–80; Generation Y, 1981–1995; Generation Z, 1996–2015; F indicates forecasted growth
Source: Bain & Company

Source: D'Arpizio, Levato, Prete, Gault & De Montgolfier (2021).

The study also found that people are starting to buy luxury goods at an earlier age. Generation Y, on average, starts consuming luxury products between the ages of 18 and 20, while Generation Z starts at the age of 15. In this respect, it does not seem out of place to start building loyalty and interaction with the Alpha generation, which is currently less than 12 years old. It is estimated that by 2030, the spending of this generation, together with Generation Z, will grow three times faster than that of the other generations and will account for 80% of global purchases (D'Arpizio, et al., 2023).

1.4.2.1 CHANGES IN CONSUMER BEHAVIOUR

The growth opportunities just described, especially the introduction and development of online sales, have led to a change in consumer purchasing behaviour. Nevertheless, the key attitudes identified in section 1.1.1 are still valid and widely shared by shoppers. This is confirmed, for example, by a study of Chinese consumers conducted by Mainolfi (2020), which found that brand awareness and bandwagon buying behaviour also have a significant impact on purchase intentions for online luxury fashion products.

To understand the changes that have occurred, Liu, Burns and Hou (2013) conducted a study comparing the shopping behaviour of online and bricks-and-mortar luxury shoppers. The results showed that there are several factors that influence the two types of shoppers. Consumers

who choose to shop online are much more price conscious than those who shop in physical stores. They have the possibility to compare several sites at once, which allows them to choose the product they want at the condition they think is best. In contrast, comparing prices between physical stores is less convenient and more time-consuming. Convenience is therefore another factor that drives shoppers to buy online, avoiding long queues at checkout and buying what they want, when they want and wherever they are. Online, customers can also read reviews from other customers who have already bought the product. These can influence the purchase decision both positively and negatively, for example by describing the quality of the product, its fit in the case of clothing, or how they felt about the service. Confirming this, the study found that online consumers have a high level of trust in reviews left by other people. Another positive aspect of online shopping that customers appreciate is the breadth of the product catalogue. It turns out to be significantly larger than in physical stores, where space is at a premium. Finally, online shopping is more relaxing for customers who do not feel pressured by sales assistants to complete their purchase. On the contrary, consumers who prefer to shop in physical stores are more averse to online risks such as theft of payment information, delays in delivery or damaged packages, and also feel that the experience is important, that assistance from staff is a distinguishing feature, and that it is essential to see the product in person before purchase to notice any defects. These considerations from observing US consumers were also confirmed by a study conducted by Jain (2021) on emerging markets. Yu, Hudders and Cauberghe (2018) conducted a study to investigate consumers' perceived risk when purchasing luxury products online. The latter found that associating a quality brand with a product led to a reduction in perceived risk, which in turn increased purchase intention.

As mentioned earlier, today's consumer buying process is heavily influenced by the use of the Internet, from the stage of identifying a need, to searching for information and evaluating product alternatives, to the actual purchase. Luxury brands feared that this exposure would devalue them and cause them to lose their perception of exclusivity. In this regard, Beuckels and Hudders (2016) conducted a study that showed that the use of image interactivity on the website allows customers to forget that they are in a virtual dimension and still perceive the product as exclusive and of high quality. Interactivity can be achieved, for example, by zooming in to enlarge the image and observe details more precisely, by using mix and match functions that allow different products to be combined, by allowing the customer to change colours, or by allowing the customer to use 3D technologies to observe the product at 360° from different angles. Thanks to these tools, the customer will be able to obtain more information about the

product, even without touching it directly, and will be able to make a more informed and conscious purchase.

1.4.1 DIGITAL INTRODUCTION AND DEVELOPMENT

Technology has evolved considerably in recent years, taking many steps forward and offering new possibilities in many contexts. It has become an integral part of our lives. Many companies, operating in different sectors, have incorporated it into marketing, retailing and customer service. Only the luxury industry remained reluctant to adopt these tools for business development (Baker, et al., 2018). In this regard, a strong push for digital transformation, especially in the luxury sector, came from the Covid-19 pandemic (Rangel & López, 2022). With the development of digital, luxury was thus faced with the 'internet dilemma'. Brands have questioned how to distribute their products and services to an increasingly technologically advanced clientele while maintaining their image, aura of exclusivity and personal relationship with their customers (Baker, et al., 2018). However, there are still some brands that are reluctant to implement digital interactions with their customers, such as Chanel, which does not sell its fashion and jewellery online, but only its eyewear and cosmetics, arguing that only by interacting with customers in-store can the emotions and spirit of the brand be conveyed. Chanel has decided to use technological innovations only in its physical stores to enhance the customer experience. However, a study by Kluge and Fassnacht (2015) found that the accessibility of luxury goods online, made possible using internet, does not affect the scarcity of the good perceived by the consumer and does not dilute the desirability of the brand. Moreover, the latter is not undermined by the explicit display of prices in the webstore.

Digital transformation affects several areas of the luxury sector, from the supply chain, business decisions, e-commerce and omnichannel development to sustainability. The use of big data, cloud-based services, artificial intelligence, the Internet of Things (IoT) and blockchain technologies is unlocking new opportunities and solutions (Rangel & López, 2022). This transformation is affecting the entire value chain (see image below), with the aim of creating value in the long term rather than in the short term.

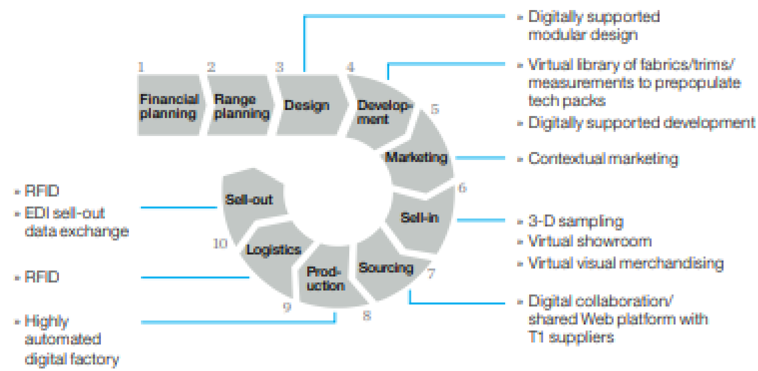


Figure 1.3: Industry 4.0 approaches are penetrating the apparel value chain.

Source: Achille, Remy & Marchessou (2018)

For example, the introduction of technology has made production processes more efficient, reduced waste and improved communication both inside and outside the company. The use of 3D technology in the design phase, for example, has reduced costs and lead times by eliminating the need to make multiple prototypes and allowing changes to be made directly on the computer. The use of blockchain in the procurement and logistics phase provides greater transparency in terms of environmental and social sustainability, allowing consumers to verify the quality and origin of raw materials and the working conditions of workers. The use of technology is also having a strong impact in the marketing phase, thanks to the use of big data analytics and machine learning, which enables the creation of a personalised and tailored consumer experience. According to Rosh Singh, managing director of Unit 9, a company that handles technology marketing projects, luxury brands can use digital technology to interact with consumers in four different ways. Gaming allows companies to reach younger consumers. For example, Balenciaga launched its Autumn/Winter 2021 collection through a video game. Another example is Hermés' H-pitchhh app, which educates each user about the brand's equestrian background while inviting customers to join their community to celebrate Hermés' annual theme of fun through micro-moments (Lawry, 2022). Another medium is augmented reality (AR), which Singh says is a great way for consumers to interact directly with the brand. An example of AR merging the physical and digital experience is the Burberry pop-up in London's Harrods department store in May 2021. The shop was created for the launch of the new Olympia bag, whose design is inspired by classicism. To communicate the values behind the product design, customers visiting the store were given the opportunity to bring the statue of Elpis, a character from Greek mythology to life by scanning a QR code. Gucci, also using AR, allowed customers to try on products even if they were not physically present in the store because they were sold out, or to try them on virtually from home without having to go to the store. Balmain, on the other hand, used virtual reality (VR). The brand gave its customers the

'My City of Lights' VR experience, allowing them to escape reality using an Oculus headset and see creative director Olivier Rousteing's (Lawry, 2022) creative process up close. Another technology is non-fungible tokens (NFT). This is the latest digital trend. They allow luxury brands to offer their products and services to customers in a more secure and efficient way. They can be used by customers to dress up their avatars in the metaverse or to combat counterfeiting by proving the authenticity of products. An NFT is, in effect, a digital asset stored on the blockchain as proof of ownership that, when associated with a physical good, can be used to provide digital verification and originality of the same (Moran, 2021). These are just a few examples of possible applications, but the potential for this type of technology is vast and evolving. Morgan Stanley predicts that the NFT market for the luxury industry will be worth $56 billion by 2030 (Lee, 2021). Finally, there are cryptocurrencies, which, unlike NFTs, can be traded and actually work in the same way as traditional money. Indeed, brands must always be able to adapt to the needs of their customers, for example by adapting their payment options, as The Outlierman has done by introducing a new cryptopay system (Moran, 2021). According to the latest report by Bain & Company, the use of technology in the ways just described will generate €60-120 billion more in luxury sales by 2030.

For the purposes of this thesis, we will focus on how new technologies and the introduction of the Internet have affected the part of the value chain related to the sale and distribution of luxury products.

Distribution is an important part of the value chain in the luxury goods sector. Today, it has become even more important due to globalisation and the increasing number of affluent consumers worldwide. There are different types of distribution channels: directly operated stores, franchising, wholesale distribution, travel retail, licensing and e-commerce (Som & Blanckaert, 2015). Particular attention will be paid to the latter. As mentioned earlier, luxury brands were initially reluctant to use this distribution channel, fearing that it would reduce their value. Its use increased dramatically with the outbreak of the Covid-19 pandemic and is expected to become the main distribution channel for luxury goods. Despite these expectations and the extensive literature supporting various aspects of luxury value and consumer behaviour in relation to luxury brands, there is still a dearth of studies focusing on the digital strategies and activities of luxury brands. A recent study conducted by Sheetal Jain (2022) found that the main factors that attract consumers to this type of distribution channel are the quality of the web store and the perceived ease and usefulness of online shopping. The technologies used to support the latter are mainly IoT devices, AR and VR, big data analytics and 3D technologies. Augmented reality and virtual reality, for example, enable greater engagement with the

consumer and show products in a more realistic way. According to a study by Smink, Frowijn, Van Reijmersdal, Van Noort and Neijens (2019), AR was found to increase purchase intent and interest in the product. In addition, the shift from offline to online has generated a huge amount of data that, when analysed by artificial intelligence, can make it possible to predict future trends, recommend to customers the products that best suit their tastes, show them how other customers have matched that product or what they have bought together. Artificial intelligence will thus make it possible to enrich the shopping experience by personalising it through data analysis and helping customers through chatbots (Silvestri, 2020).

According to Euromonitor, there are three trends in e-commerce that are trying to reach and engage consumers. E-customisation aims to personalise the customer's online experience by using artificial intelligence and the preferences expressed by the consumer to deliver a tailored experience. Consumers are enthusiastic about the benefits of personalisation, but on the flip side they are concerned about their privacy because of the large amount of personal data they provide to companies. This practice is positively correlated with the hedonic pleasure experienced by the consumer during the purchase process (Lawry, 2022). Game changers consist of engaging the consumer by making them have fun and interact with the brand's website while offering prizes. A study conducted by Kim and Ko (2010) found that entertainment was one of the factors that positively influenced consumer trust and purchase intention (Arrigo, 2018). Finally, sensory shopping uses technology to simulate multi-sensory experiences that make customers feel as if they are shopping in person. Brands are starting to embrace Web 3.0 to engage all five senses, even though the experience is digital. L'Oréal, for example, is developing auditory technology to recreate the sensation of perfume on the web using sound (Evans, 2023). These activities have been found to enhance the emotional aspects of luxury clothing purchases (Lawry, 2022).

The largest e-commerce market is China. It is larger than the next nine markets combined. Most Chinese consumers, over 70%, are omnichannel consumers, taking advantage of both online and offline (Zipser, et al, 2021). By 2021, 73% of the population will have access to the internet and 60% will own a smartphone. Another opportunity for e-commerce expansion is India. Its population is the second largest and youngest in the world, factors that contribute to increasing disposable income. By 2025, 400 million citizens are expected to be online consumers, giving the country an e-commerce penetration rate of 25-30%. 60% of the population will have access to the internet and own a smartphone (Bloomberg Intelligence, 2022).

CHAPTER 2

DIGITAL M&A IN THE LUXURY INDUSTRY

Digital transformation has enabled the creation of new products, new business strategies, new distribution networks and new communication methods in the luxury sector. According to the Boston Consulting Group (2016), companies implementing digital must consider eight areas:

- Strategy. The company needs to rethink its strategy in the light of digital; this means moving from a control mentality to an agile mentality, where the company must be able to adapt to changing customer needs;
- Consumer analytics. To successfully satisfy consumers and provide them with personalised experiences, companies need to use the big data they collect to learn more about their customers and apply this knowledge across the value chain;
- Goods and services. Organizations need to understand how digital goods and services can be used to enhance their value proposition and customer experience;
- Marketing and branding. Companies need to use new technologies to improve their online reputation and create advertising campaigns that can be targeted to each individual customer, using data collected online to build emotional relationships;
- Channels. It is vital that different business processes, from product development to customer service, work together so that physical and online stores work together, and customers can move easily from one to the other;
- Ecosystems and partnerships. Companies need to clearly define their strategy and identify their ideal partners;
- Organization and skills. Digital development must be integrated into all aspects of the business, from top to bottom, rather than being developed as a separate department. The company also needs to identify the skills it needs and look outside the organization for them;
- Operations and Infrastructure. The CEO is responsible for ensuring that the company has all the resources and infrastructure it needs to move forward.

It is therefore crucial for companies to be able to take advantage of the opportunities that arise, especially in today's increasingly competitive environment, which is also exacerbated by

the outbreak of the COVID-19 pandemic, where companies must grow and know how to innovate in order to survive. Growth and innovation are emerging as the two main drivers of economic development (Bresciani, 2021). The main growth drivers for luxury brands are inorganic growth, line extensions that allow them to reach multiple customer segments by offering them different models at different prices, and finally the expansion of brand awareness, for example through events and advertising (Som & Blanckaert, 2015). This thesis will focus on the first method, taking into account mergers and acquisitions (M&A) transactions. The latter are becoming increasingly important and have therefore been the focus of numerous studies in this regard.

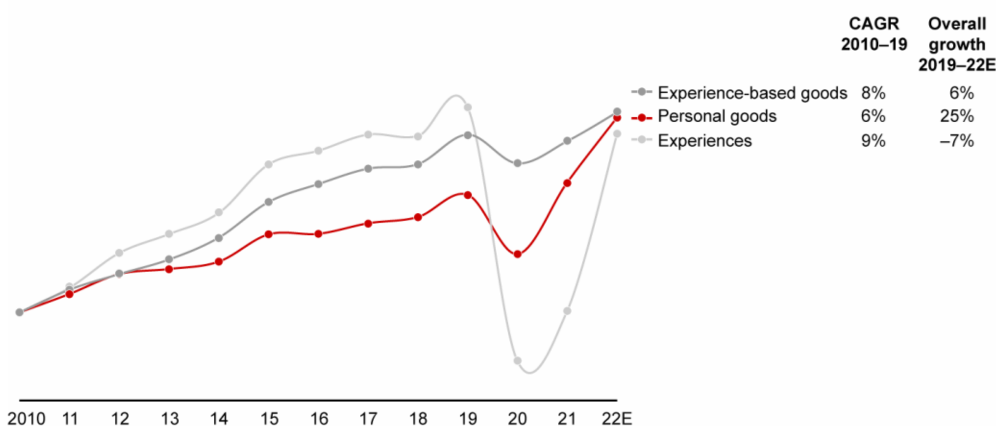
2.1 PERFORMANCE OF M&A TRANSACTIONS IN THE LUXURY SECTOR

Over the years, the luxury industry has seen several waves of mergers and acquisitions. Indeed, companies are seeking to expand their presence and brand portfolio in order to remain competitive in an ever-changing market. The main factors driving these waves are: rising share prices and optimistic managers; low interest rates, especially for highly leveraged acquisitions by private equity firms; the introduction of new technologies; and finally, the occurrence of a large acquisition within an industry can also encourage other acquisitions in the same industry (Goedhart, et al., 2015).

M&A activity in the luxury sector has always been stable. It has been strongly driven by its characteristics, such as its inherent competitiveness, high profitability and rapid growth. Between the 1980s and 1990s, there was a boom in transactions that led to a consolidation of the industry, as seen in the previous chapter. Initially, most transactions were horizontal, with the main objective being to exploit synergies, economies of scale and scope, create common production and distribution networks and diversify business. Nowadays, in addition to growth strategies and market assertion, operations are carried out aimed at vertical integration, both upstream and downstream, in order to ensure higher product quality and greater control over the supply chain (Camurati, 2022).

M&A is a useful tool for companies to implement their strategies. As we saw in the previous chapter, the outbreak of the Covid-19 pandemic led to an economic downturn, followed by a recovery that started as early as 2021, thanks to new corporate strategies related to digitalisation, disruptive technologies and a strong commitment to sustainability. This positive recovery of the luxury sector (see chart below) made it a rich target for M&A activity,

reaching 284 deals in 2021, 7 more than the previous year, and growing by 2.5 percent. The main driver was the luxury personal property segment, which accounted for around 55 per cent of all transactions, followed by hotels. Transactions were particularly strong in North America, with an increase of 24 transactions, and Europe, with an increase of 10 transactions. In terms of type of investor, financial investors accounted for the largest share (58 percent), of which 44 percent were private equity and venture capital funds; the remaining 42 percent were strategic investors, mostly from the apparel and accessories sector (Milantoni & Nastasi, 2022).



Source: D'Arpizio, Levato, Prete & De Montgolfier (2023).

The recovery and significant M&A activity in the luxury sector has been driven mainly by the following factors. In recent years, the sector has been characterized by consolidation, with larger companies acquiring smaller or competing brands to expand their presence and product portfolio. This phenomenon has been driven primarily by the desire to expand into new markets, reach new customer segments and benefit from synergies between brands. Second, M&A activity in the luxury sector has often been driven by geographic expansion. Companies have sought to enter new emerging markets or strengthen their presence in key markets by acquiring local brands or distributors. The rise of online sales in the luxury sector has also led to increased interest in digital acquisitions. Many luxury companies have acquired e-commerce platforms or e-commerce start-ups to expand their online presence and reach a wider audience. In addition, luxury companies have shown increasing interest in experiential luxury, such as luxury hospitality, luxury tourism and art. This has led to a number of acquisitions in the luxury hospitality sector and collaborations between luxury brands and art and design companies. Finally, new players from areas such as technology and accessible luxury have joined the

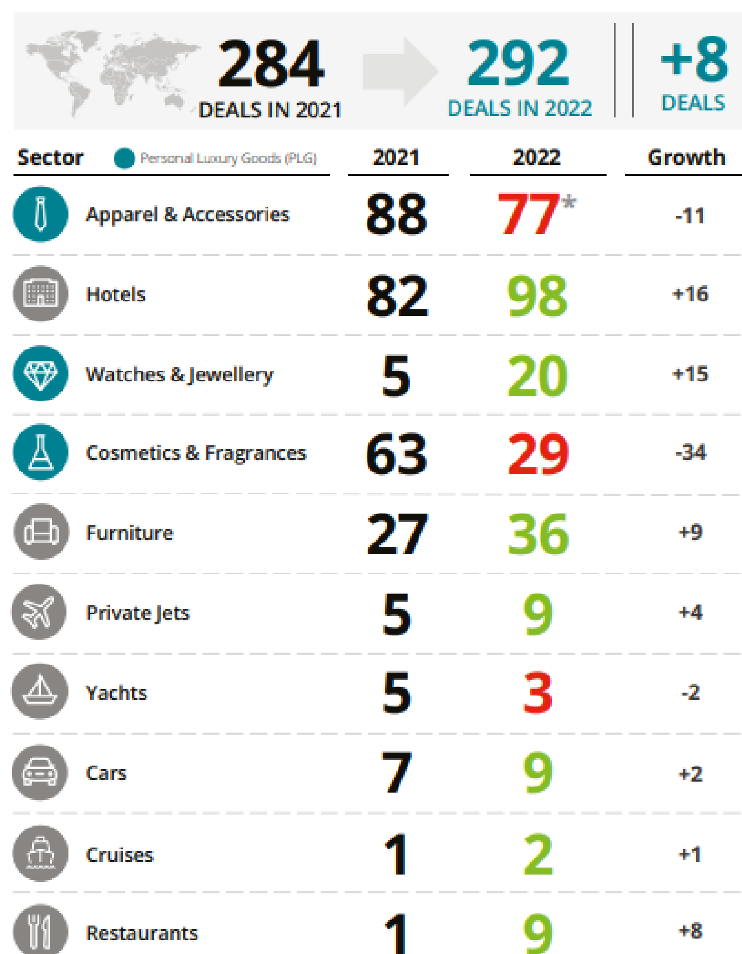
traditional luxury players. These new entrants have often sought to acquire established luxury brands to gain credibility and access to luxury consumers.

According to Deloitte's Global Fashion & Luxury Private Equity and Investors Survey, 292 M&A deals took place in the luxury sector in 2022, eight more than the previous year. However, the luxury personal goods segment shrank by 30 deals to 126, representing 43.2 per cent of the total deals that took place. Despite this, analysts believe the segment remains relevant (see chart below).

Source: Milantoni & Nastasi (2023).

Specifically, the analysis showed that there were 29 deals in the cosmetics and perfumes category, 34 fewer than in 2021, while the watches and jewelry market saw an increase of 15 deals. Finally, the clothing and accessories category of personal luxury goods recorded 77 deals, 11 fewer than in 2021. However, the sector is second only to hotels (33.6 per cent) in terms of attractiveness to luxury companies, accounting for 26.4 per cent of all M&A deals in the category (see chart below) (Milantoni & Nastasi, 2023).

Overview of deals in 2022 by Sector



284 DEALS IN 2021 → 292 DEALS IN 2022 | +8 DEALS

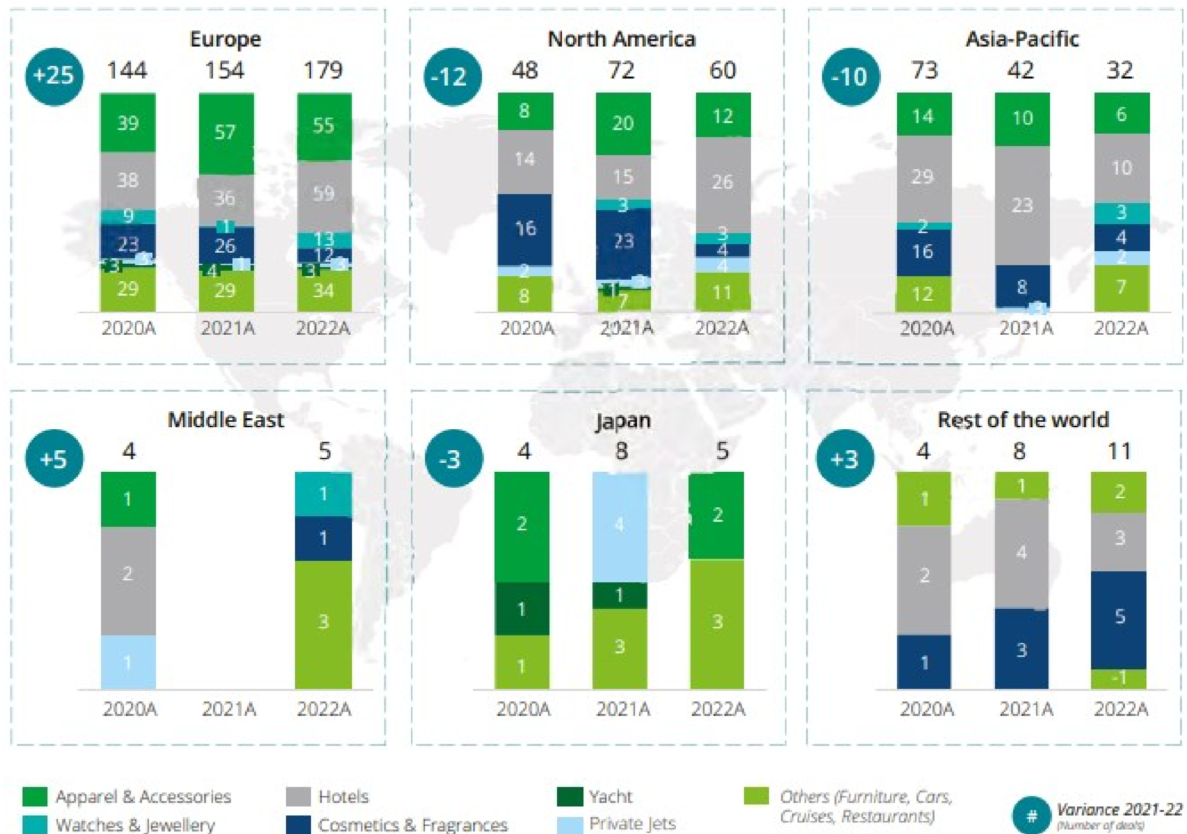
Personal Luxury Goods (PLG)

Sector	2021	2022	Growth
Apparel & Accessories	88	77*	-11
Hotels	82	98	+16
Watches & Jewellery	5	20	+15
Cosmetics & Fragrances	63	29	-34
Furniture	27	36	+9
Private Jets	5	9	+4
Yachts	5	3	-2
Cars	7	9	+2
Cruises	1	2	+1
Restaurants	1	9	+8

Note: the analysis considers both closed and announced deals during 2022 | Source: Elaboration on Deloitte intelligence data
** The value does not include Apparel retail segment, that accounts for further 26 deals.*

Source: Milantoni & Nastasi (2023).

The largest increase in deals was in Europe with an increase of 25 deals, followed by the Middle East with an increase of 5 deals. In contrast, there was a sharp decline in the United States, with 12 fewer deals (see chart below). In terms of investor types, similar to last year, 51 per cent are financial investors and the remaining 49 per cent are strategic investors, mainly from the apparel, accessories and hotel sectors. However, compared to the previous year, financial investors completed 15 fewer deals, while strategic investors completed 23 more deals (Milantoni & Nastasi, 2023).



Source: Milantoni & Nastasi, (2023).

According to the data collected, investors have positive expectations for growth over the next three years. From a market perspective, they believe that the personal luxury goods sector will perform better, but from a geographical perspective, they are betting on Asia and the Middle East. Elio Milantoni, partner at Deloitte, says: "After the impact of the Covid-19 pandemic, the luxury sector has again shown great resilience in the face of new challenges related to an uncertain macroeconomic and geopolitical environment. However, the growth trend continues, and the sector remains one of the most attractive for investors, partly due to the easing of some of the issues that have arisen in the recent period, such as inflation, raw material costs and supply chain difficulties". The situation in the first half of 2022 has changed from 2021, which saw rising interest rates and inflation, falling share values and an energy and commodity crisis exacerbated by the war between Russia and Ukraine (Lloyd, et al., 2022).

At the moment, sustainability and digitalization are the issues that are receiving the most attention. With regard to the latter, many brands have decided to take advantage of new channels and strategies, for example by increasing their digital presence, as demonstrated by the participation of many companies in the first Metaverse Fashion Week. For this reason,

Tommaso Nastasi, partner at Deloitte, says: "Digitalization and sustainability are now inescapable factors: consumers are increasingly looking for responsibly produced products. At the same time, luxury companies are aware that they need to keep up with technological innovation and the new languages that are being adopted in order to attract new generations of customers. For this reason, they are expected to increase their digital presence" (Fashion magazine, 2023).

2.2 MAIN DRIVERS OF DIGITAL M&A

The main motivations for these transactions are analyzed below, with particular reference to those occurring in the luxury sector to enable brands to pursue digital transformation. Based on their experience with various organizations, Koller, Goedhart and Wessels (2015) identified a number of strategic factors that often lead to value-enhancing acquisitions.

Improving the performance of the target company is the first archetype of a value-creating acquisition and one of the most commonly used strategies. It involves acquiring a company in order to reduce its costs and improve its margins and cash flow. For this reason, it is mainly used by private equity funds, which invest in companies with a medium- to long-term perspective, bringing in expertise and know-how specific to the target sector to help the target company expand and grow, thereby increasing its value and realizing a return on investment for investors through its subsequent sale (24Ore Business School, 2023). In this context, Acharya, Hahn and Kehoe (2010) analyzed profitable private equity acquisitions in which the target company was bought, improved and then sold without further acquisitions. They found that during the period of ownership by the private equity firm, the operating profit margins of the acquired firms improved on average by about 2.5 percentage points more than those of their peers. Thus, many of the transactions resulted in even higher operating profit margins. It should be noted, however, that it is easier to improve the performance of a company with low margins and low ROIC than that of a company with high margins and high ROIC.

Another archetype is to accelerate the market entry of products. This strategy is particularly useful for small companies that have innovative products but find it difficult to access the potential market. Sometimes the target company can also facilitate the buyer's revenue growth. An example of this is the acquisition of small technology start-ups by luxury brands, which, thanks to the tools they provide to the buyer, enable the latter to increase its sales by increasing its visibility and expanding its distribution network. When luxury brands decide

to enter e-commerce and expand their communication channels, they have to deal with some potential problems that may arise. First, "structural" barriers, mainly related to the quality of infrastructure and the location of servers for Internet use. Second, 'political' barriers, related to Internet access and market restrictions. Thirdly, 'cultural' barriers, related to the habits and preferences of the country with which one wishes to interact. To overcome the last two types of barriers, it is important for brands to acquire specific local knowledge. For example, in China, the blocking of many websites, such as Facebook, Instagram and Google, affects the accessibility of brands that rely on these sites as links to access their e-commerce platforms. For these reasons, they have to turn to local search engines, such as Baidu for China or Yandex for Russia (Guercini & Runfola, 2015). In this respect, if a fashion company wants to expand into an international market that is significantly different from its home market, such as China, it is best to first rely on marketplaces such as JD.com or Alibaba, which provide it with an existing customer base, knowledge of consumer preferences and the infrastructure for order fulfilment, while consumers gain awareness and trust in its business (Moran, 2021).

Linked to the previous archetype is the need to acquire skills or technologies more quickly and at lower cost. Indeed, companies need to be adept at deciding whether it is appropriate to build, acquire or partner when it comes to building the new capabilities needed for digital. In the luxury sector, there is a tendency to favour acquisitions or partnerships because of its initial reluctance to embrace the Internet, which has led to a slowdown in technology development in this market. This strategy allows companies to acquire the skills and tools they need more quickly than if they had to develop them in-house. It also allows them to avoid paying royalties on patented technologies and to keep these tools out of the reach of competitors. Another obstacle faced by luxury brands is the recruitment of top digital talent and their subsequent retention within the company to improve the digital skills of the entire organisation (Remy, et al., 2015). As explored in the previous chapter, digital allows companies to overhaul and improve their processes, both front-end and back-of-house (Achille, et al., 2018). For this reason, it is crucial for companies to evolve from a technological perspective. Companies need the right infrastructure and level of connectivity to ensure an optimal experience for their customers, and to make it widely available. In order to make use of the information gathered through big data, companies need to be equipped with systems capable of processing the vast amount of personal data collected, so that they can learn about their customers' habits, track their online journeys and recognise their emotional state in order to generate the maximum stimulus response (Volponi, 2022). Luxury companies can then acquire start-ups or digital companies to gain access to innovative technologies, cutting-edge digital solutions or

technological development capabilities. For example, in 2020, Richemont acquired Delvaux, a company specialising in augmented and virtual reality technologies, to enhance the online shopping experience for its customers. Meanwhile, some online gaming platforms have begun to attract the attention of both luxury lifestyle brands and gamers fascinated by the opportunity to experience brand storytelling in a different way. One example is the project developed between Gucci and the Roblox platform. The haute couture brand used the latter's knowledge and tools to immerse users in Alessandro Michele's creative vision through themed spaces and dreamlike dimensions. This experience, called Gucci Garden Archetypes, was available to consumers for two weeks in May 2021 and also gave them the opportunity to virtually purchase and wear limited-edition Gucci garments and accessories created in collaboration with Roblox creator Rook Vanguard. Gucci's metaverse generated nearly 20 million visits and 7.2 million unique users in this short period of time (Volponi, 2022).

In addition, mergers and acquisitions can enable luxury companies to improve and enhance the digital shopping experience offered to customers. For example, in 2019, Farfetch acquired Italian e-commerce platform New Guards Group to leverage its expertise in streetwear fashion and improve the online shopping experience for a younger audience (Palazzi, 2019).

Such transactions can also enable companies to expand their online customer base. This may include accessing new markets or consumer segments through the acquisition of specialised e-commerce platforms. For example, in 2017, JD.com, a leading online retailer in China, acquired a majority stake in Farfetch to expand its presence in the online luxury sector (Bolelli, 2017).

M&As in the digital luxury sector can take place as part of a consolidation process, with the aim of creating stronger and more competitive platforms. One example is the merger between Yoox and Net-a-Porter in 2015, which created Yoox Net-a-Porter (YNAP), one of the leading e-commerce platforms in the luxury sector.

Finally, mergers and acquisitions can enable luxury companies to achieve operational synergies and improve business efficiency. This can include integrating supply chains, sharing resources or reducing operating costs. For example, the aforementioned acquisition of New Guards Group by Farfetch enabled operational synergies and cost reductions.

In conclusion, it can be argued that the main objective for luxury companies is to develop a strategy that allows them to combine the high standards of luxury with the agility of digital,

and to do so they can take advantage of the drivers just outlined (Remy, et al., 2015). A further confirmation of the importance of digital transformation for the luxury sector is the reallocation of brand budgets in favour of digital, as also reported by McKinsey in its analysis. The reallocation of resources and M&A activity is enabling luxury companies to respond quickly to changes in customer demand and preferences, using the data collected to create new products that meet their needs. This also allows them to reduce costs and change business models in a way that promotes business growth (Achille, et al., 2018).

2.3 M&A CRITICAL SUCCESS FACTORS

Mergers and acquisitions are complex transactions that require a great deal of attention. For this reason, the critical success factors can vary depending on the specific circumstances of each deal. However, there are some common factors that are generally considered important for their successful outcome, regardless of the sector in which they take place. Some of the key aspects to consider are strategic coherence, organisational coherence, integration and valuation. The target company chosen must be compatible with the strategy to be pursued. It is very easy to overestimate positive synergies and underestimate negative ones. It is also important to take cultural differences into account when integrating the two companies to avoid situations that are difficult to manage. The last two aspects to be considered for a successful transaction are integration and valuation. The former is one of the most important and delicate steps in the process; on the other hand, the latter is crucial to avoid overestimating the value of the target company and consequently paying an excessive price (Johnson & al.,2017).

The first step is to assess the strategic fit of the target. It must contribute to the financial and non-financial objectives of the acquiring company. To this end, the acquirer conducts a careful analysis of the market, industry, customers, products and finances in order to identify the most suitable company (Jemison & Sitkin, 1986). Identifying and then exploiting the synergies, both operational and strategic, between the companies involved can in fact generate added value in the operation, as their careful management can contribute to the long-term success of the latter. Effective management of relationships with stakeholders such as customers, employees, suppliers and investors is also a key to success. Clear communication, careful management of expectations and early engagement can build stakeholder trust and support for the business. Finally, thorough analysis and proper due diligence prior to the deal are critical to understanding the risks and opportunities associated with the transaction. Indeed,

a detailed assessment of financial, legal, operational and strategic factors can help to make informed decisions and mitigate potential risks (Depamphilis, 2019).

Second, organisational fit must be considered, which includes the administrative practices, cultural practices and personnel characteristics of the two firms. It has a strong influence on the integration of the day-to-day activities to be carried out by the two companies (Jemison & Sitkin, 1986). A critical success factor is the cultural compatibility between the companies involved in the transaction. Shared values, vision and culture can facilitate integration and reduce post-acquisition conflict. Cultural differences should therefore not be underestimated. In fact, they can be an important element in creating synergies. The study by Stahl and Voigt (2008) found that cultural differences can have a positive or negative effect on M&A performance. The effect depends on the degree of relatedness between the parties and the magnitude of the cultural differences. In the case of related M&As or large cultural differences, the latter may actually be an obstacle. Conversely, if they are not significant, they can break down the rigidities and norms of the acquiring company and help to develop new skills, knowledge and trust. In addition, the complementary capabilities of the two companies can make them mutually reinforcing. To achieve the best outcome, it is therefore crucial that no one context prevails over the other. Certain cultural characteristics of the acquired company may be worth preserving. Another critical success factor is the degree of compatibility of the two companies' information systems, both at management and accounting levels. People working in the acquired company may be reluctant to adopt new business practices (Giacosa, 2012).

In terms of organisational fit, a study by Nadolska & Barkema (2014) also found that top management learns lessons from previous acquisitions. In particular, heterogeneous top management teams are less likely to generalise and incorrectly transfer what they have previously learned. This leads to more successful but slower acquisitions than homogeneous teams. Heterogeneous teams also learn much more from each acquisition, but this is compensated for by homogeneous teams due to their faster deal-closing speed.

The third key aspect to consider is integration. It is one of the most important and critical steps in the M&A process. If done correctly, it is one of the main sources of value creation (Angwin & Meadows, 2015). Indeed, a McKinsey article reports that many deals underperform relative to what would be expected because managers apply the same approach to all deals. On the contrary, to achieve better performance, each process should be tailored to its strategic intent. In addition, managers should remain involved throughout the process and not just in the

initial stages, delegating the integration (Uhlaner & West, 2008). Effective integration of the activities and resources of the companies involved is therefore a key determinant of M&A success. Careful planning and proper management of the integration process can help realise synergies, reduce costs and maximise the value of the deal.

The most important and durable type of post-acquisition integration developed to date is that of Haspeslagh and Jemison (1991). It combines the strategic needs and the need for organisational adaptation of the companies involved in the acquisition transaction. The dimensions considered are strategic interdependence and organisational autonomy. The former asks how interdependent the merging firms are. This is useful in understanding whether value is created through value capture or value creation. Value capture involves the transfer of resources from the acquiree to the acquirer and is therefore a one-off action, whereas value creation takes a longer-term view and involves the sharing of resources. This leads to better results than if the resources were used separately. The second is how much of the culture of an organisation, which can be either that of the acquirer or that of the target, is retained or lost during the integration phase. Taking these two dimensions into account, three integration strategies can be observed. The "preservation" strategy, in which the acquired company requires a high degree of autonomy and low strategic interdependence. The "absorption" strategy, in which the acquired company requires a low degree of autonomy and a high degree of strategic interdependence, and finally the "symbiosis" acquisitions, in which the acquired company requires a high degree of strategic interdependence and a high degree of organisational autonomy. In the "preservation" approach, the two companies retain a high degree of autonomy; the aim of this type of integration is to preserve the unique characteristics of each of the companies involved, unifying only those activities that can be performed more efficiently if they are carried out centrally. The "absorption" approach is usually implemented between companies operating in a similar environment, where the main objective is to achieve significant economies of scale and scope by eliminating any kind of barrier between the companies involved through their unification. The high degree of interdependence can lead to dissatisfaction among the management of the acquired company, which wishes to maintain its autonomy. In order to implement this strategy, it is therefore important for the acquiring company to communicate transparently with the acquired company. Finally, the "symbiosis" approach is the most difficult to implement. Initially, the two firms operate independently, maintaining their distinctive characteristics and their own independence; only later do barriers come down, synergies are created and there is a mutual exchange of skills and know-how (Giacosa, 2012). Two other strategies have emerged from subsequent studies. That of holding integration, also known as “intensive care”, which is characterised by the acquirer applying

highly directive provisions to the acquired firm, and the “reorientation” strategy, in which the acquired firm is in sound financial condition and has a strong business but needs to be aligned with the acquirer (see figure below) (Angwin & Meadows, 2015).

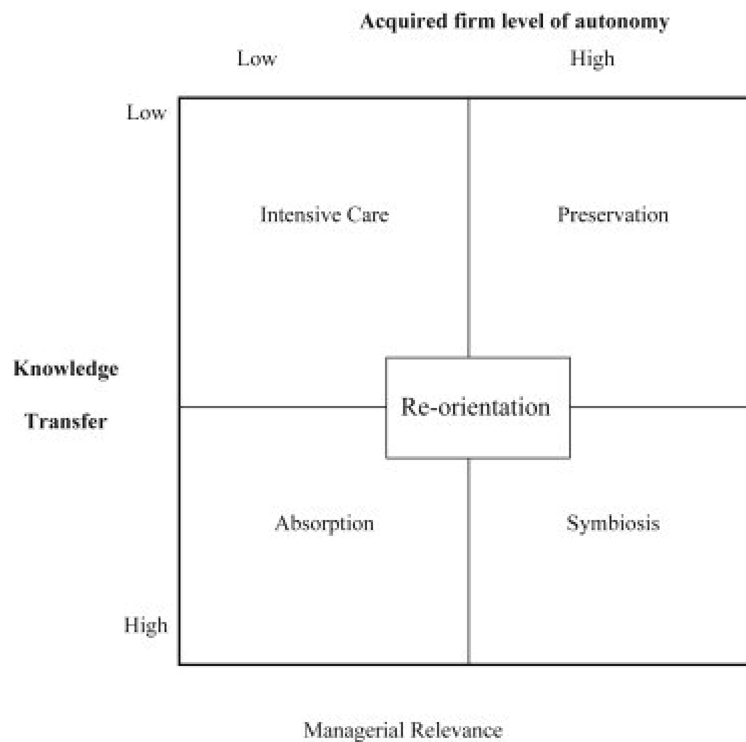


Figure 2.1: The five post-acquisition integration strategies.
Source: Angwin & Meadows (2015).

In the post-acquisition phase, top executives play an important role. In fact, it is their responsibility to ensure that the predetermined strategy is implemented. For this reason, the relationship with the two dimensions analysed by Haspeslagh and Jemison and with post-acquisition strategies was examined. Top managers can be outsiders or insiders. Usually the former, who have a more objective view and no emotional attachment to the acquired company, make more significant changes than the latter, who are more inclined to maintain the integrity of the company they are in. It turns out that high levels of organisational autonomy are associated with insider retention, i.e., they try to keep the management of the acquired company in place to avoid losing skills that are considered crucial. For low levels of autonomy, on the other hand, no clear relationship emerged. On the other hand, high levels of strategic interdependence are associated with the use of outsiders, as significant changes are taking place in the acquired company that can bring new perspectives and value creation. On the other hand, low levels correspond to the use of insiders, as in this case value is captured and therefore quick changes in the short term are preferred. Insiders are therefore the ideal subjects as they are

already embedded in social work networks. From the perspective of post-acquisition strategies, it has emerged that insiders dominate in “preservation” acquisitions, as they aim to capture value and maintaining distinctive capabilities is key. In “absorption” acquisitions, outsiders dominate, as seamless integration with the acquiring company is necessary for value creation, and this requires significant change and restructuring of the acquired company. In "holding" acquisitions, insiders dominate because the acquired companies are usually struggling, and the focus is on improving their performance as quickly as possible. However, this is at odds with the literature on turnarounds. It argues that for turnarounds to be successful, top management must be changed. To reconcile this discrepancy, we find that lack of strategic interdependence is more important than autonomy in the choice of top management type. Finally, in symbiotic acquisitions we find first insiders, useful for retaining distinctive capabilities, and then outsiders, useful for developing potential synergies. We therefore see a predominance of autonomy in the first part and strategic interdependence in the second. Acquisitions for value capture (Holding and Preservation) are dominated by insiders, as the changes mainly affect the acquired company. In contrast, outsiders dominate in acquisitions for value creation (Absorption and Symbiosis), as the changes affect both companies. It can therefore be concluded that the choice of top executive type is driven by the dimension of strategic interdependence rather than organisational autonomy. Moreover, it should be remembered that misallocation of top executives could harm the performance of the firm (Angwin & Meadows, 2009).

From the above findings, it can be seen that applying the same strategy to all M&A deals is deeply flawed.

The fourth critical success factor to be considered is the valuation of the target company and hence the decision on the price and premium to be paid. The acquirer will make a takeover bid if its estimate of the target's value exceeds its market value. The probability of a successful takeover is higher when the value of the target is overestimated and lower when it is underestimated. This theory is known as the "winner's curse". It turns out that making an offer close to the estimated value of the target results in an overpayment, so it pays to underbid. From a premium perspective, the more uncertain the information about the target company, the lower the premium should be (Varaiya & Ferris, 1987). Very often, excessive premiums are paid. This happens mainly because the CEO of the acquiring firm is overconfident in his ability to extract value from the acquired firm. In order to mitigate this problem, it would be necessary for the board of directors to be composed of an equal number of inside and outside directors, and for the CEO not to be the chairman of the board at the same time. In this context, Warren Buffet

said in Berkshire Hathaway's 1981 annual report: "We have observed many kisses, but few miracles". In fact, he believes that many buyers see themselves as beautiful princes who can unlock capabilities that the target's managers are unable to exploit (Hayward & Hambrick, 1997).

Nowadays, many managers decide to undertake several M&A transactions at the same time. This can lead to a reduction in the productivity of the acquiring firm. Therefore, in addition to understanding whether the target companies are in line with your strategy, it is very important to understand whether you have the necessary personnel with the right skills. For example, to avoid buying the wrong assets, not investing in the right ones or mismanaging the deal. It therefore pays to create a corporate function that deals exclusively with M&A (Uhlaner & West, 2008). A study of a sample of German companies found a positive correlation between the establishment of this function and M&A performance. The experience of the acquirer in this type of transaction also contributes to better M&A performance (Trichterborn, et al., 2016).

Finally, in the case of M&As in the luxury sector, a study by Kelleigh Ash (2023) found that in order to complete a successful transaction, it is necessary to carry out a thorough brand evaluation both during the M&A process and afterwards, and to implement effective strategies to integrate the target company's brand with that of the acquiring company.

According to a study conducted by Clayton M. Christensen, Richard Alton, Curtis Rising and Andrew Waldeck (2011) and published in the Harvard Business Review, the factors just analysed are also the main sources of risk and failure in an M&A transaction. In fact, the most common mistakes made by executives are failing to identify the ideal target that meets their company's strategic objectives, paying too high a price, and not understanding how to integrate the target with their own company. Understanding your strategy, who you are acquiring, and the details of the integration process are therefore critical to the success or failure of the deal. For example, strategic fit is a necessary but not sufficient condition for the success of an M&A deal. It must be complemented by organisational fit. The complexity of a transaction could lead to segmentation of the tasks to be performed, such as industry, product, market and competitor analysis or financial valuation of the target. This could lead to a lack of integration between the analyses carried out by different professionals, with a greater focus on strategic fit than on organisational fit (Jemison & Sitkin, 1986).

In conclusion, it is important to note that the success of M&A in the luxury sector depends on the combination of these factors in their relationships, but also on other transaction-specific aspects. Indeed, each transaction is unique and requires a tailor-made approach based on the

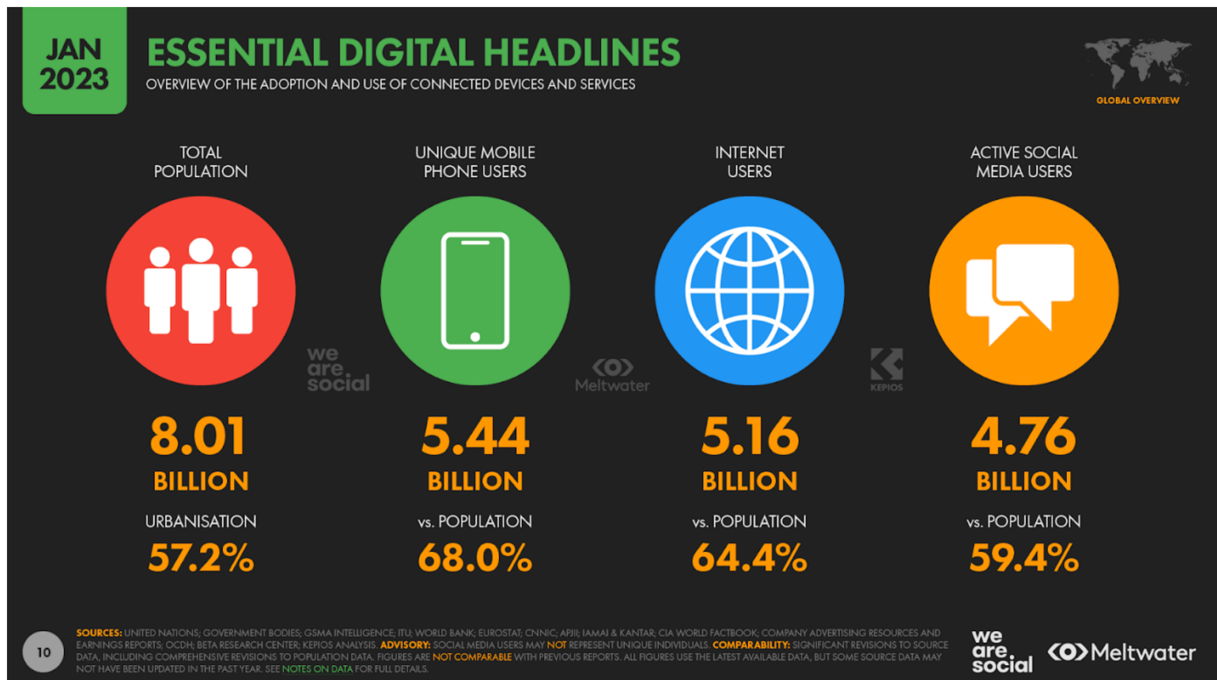
situation and objectives of the companies involved. It can therefore be concluded that there is no magic formula that can be applied to achieve a successful acquisition.

2.4 E-COMMERCE BUSINESS MODELS

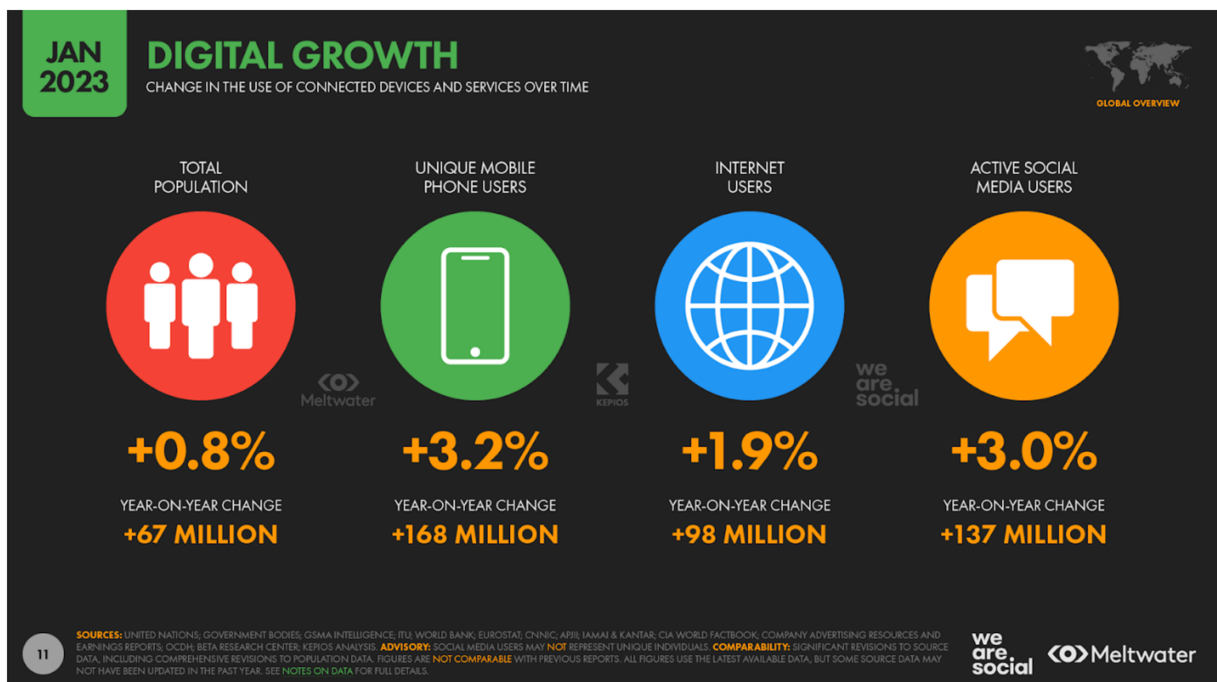
Digital transformation is having a significant impact on the business models of the luxury industry. The adoption of digital technologies and evolving consumer behaviour are leading to significant changes in the strategies and operations of luxury companies. As explored in detail in the previous chapter, digital transformation has made it possible to create a personalised, ad hoc customer experience by gathering their preferences and buying habits. In addition, digital marketing strategies, such as the use of social media, e-commerce and loyalty programmes, make it possible to build a closer relationship with customers and anticipate their needs. Digital transformation has also helped to improve sustainability in the luxury sector. Thanks to blockchain, it is possible to trace the path of a product, verifying its authenticity and ethical origin. Thus, technological innovation has completely disrupted the buying process and habits of luxury consumers. Indeed, luxury is increasingly embracing e-commerce as a sales channel. Companies are investing in creating sophisticated online shopping experiences to ensure that luxury and brand exclusivity are maintained in the digital world. In addition, omnichannel strategies are becoming commonplace, allowing customers to interact with the brand through multiple channels, combining physical stores, websites, apps and social media, with the integration of augmented reality (AR) and virtual reality (VR), for example. In after-sales service, the use of technology has also enabled improvements in customer relationships, for example by digital loyalty programmes, online customer support services and the use of chatbots. These changes are forcing the luxury industry to reinvent itself in order to remain relevant and competitive in an increasingly digital environment. In fact, it turns out that luxury companies that embrace new technologies and adapt to the needs of digital consumers are more likely to thrive in this changing scenario.

The importance of digital transformation is also supported by the latest data, updated to 2023, which shows that 68 percent of the world's population, or 5.44 billion people, use mobile phones. With 168 million more users than last year, the number of unique mobile device users has increased by just over 3 per cent. 64.4 per cent of the world's population, or 5.16 billion people, are currently online. Although the number of global internet users increased by 1.9 per cent over the previous year, various delays in data reporting suggest that the actual growth is likely to be greater than this figure indicates. Worldwide, 4.76 billion people use social media,

or just under 60 per cent of the world's population. With 137 million new users in recent months, growth has slowed to an annual rate of 3 per cent (Starri, 2023).



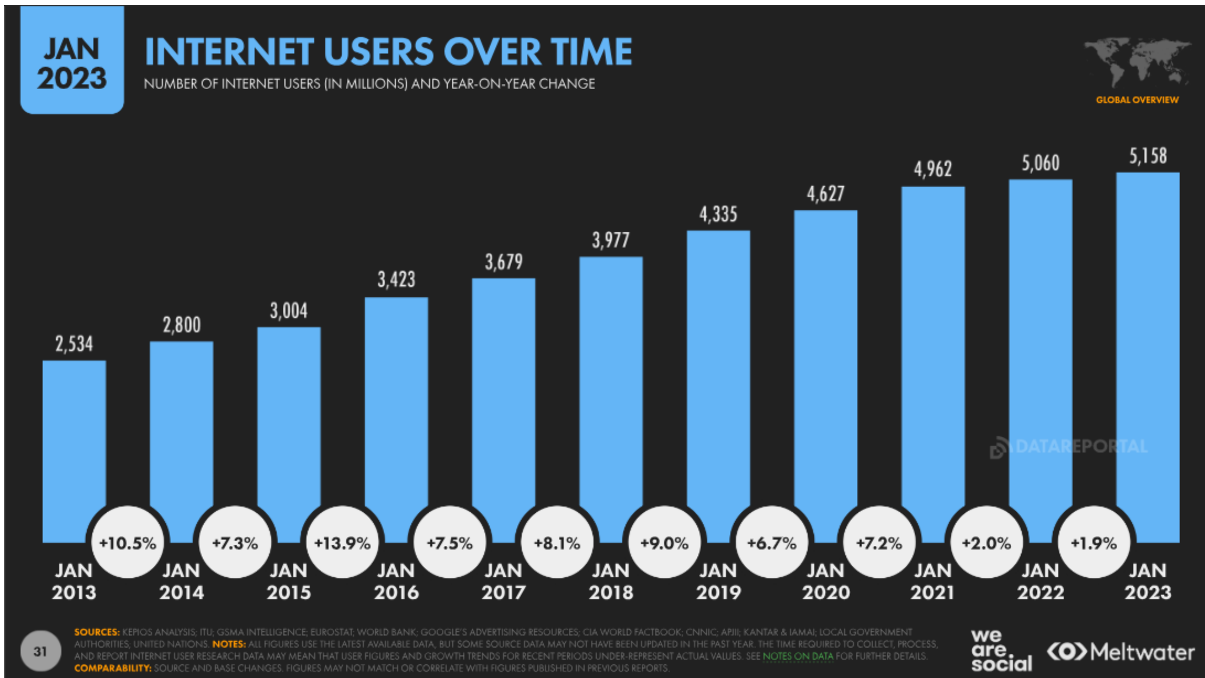
Source: Starri (2023).



Source: Starri (2023).

As can be seen from the graph below, the use of new technologies, and the internet in particular, has increased dramatically over the past decade. Currently, the rate of growth appears to be slower than in the past, but this slowdown was expected as more than 6 out of 10 people

are connected and it is expected that by the end of 2023, 2 out of 3 people will be connected (Starri, 2023).



Source: Starri. (2023).

The changes just described, such as the development of artificial intelligence and blockchain, and the increased use of the internet and social networks by the world's population, have required timely responses, leading to the emergence of new business models and transforming e-commerce platforms into the main point of contact between companies and their customers.

According to the Altagamma-McKinsey Digital Luxury Experience Observatory, there are three levels of digital integration among luxury brands, due to their initial reluctance to integrate this change into their business. The three archetypes identified are as follows:

- *The hesitant holdout:* Digital, in this case, is only partially used as a showcase to drive offline purchases. This strategy is characterised by the strict management of all retail activities through single-brand websites only. It is currently being implemented less and less;
- *The selective e-tailer:* Digital, in this case, is used to sell entry-level products, primarily through single-brand sites, and to enable the entry of aspirational consumers. For these reasons, it is seen as a marketing channel rather than a sales channel;

- *The plugged-in professional*: Digital, in this case, is used to sell most luxury products, either through single-brand or multi-brand sites. For these reasons, it is seen as both a sales channel and a marketing channel (Dauriz, et al., 2014).

This varying degree of integration has led luxury brands to approach digital in different ways. This in turn has led to the development of different types of e-commerce, including:

1. *Direct e-commerce (B2C)*: This is the traditional e-commerce model in which luxury brands sell their products directly to consumers through their official websites. This allows brands to maintain complete control over the online shopping experience and preserve the image of exclusivity associated with the brand. For example, Gucci offers a wide range of luxury products, including clothing, handbags, shoes and accessories, directly on its official website (Fantaguzzi, 2022).
2. *Multi-brand e-commerce*: This model involves e-commerce platforms that house multiple luxury brands under one roof. These platforms offer a wide range of luxury products from different brands, allowing customers to shop in one place. They are an alternative to the physical stores of luxury department stores. Examples include Yoox-Net-a-Porter, an e-commerce platform that hosts a wide range of luxury brands, including clothing, accessories, footwear and cosmetics, and Farfetch, a luxury marketplace that connects consumers with luxury boutiques around the world and offers a wide range of high fashion brands (Beauloye, 2022).
3. *Flash sales and temporary e-commerce*: This model is particularly popular in the luxury sector, where websites offer luxury products at discounted prices for a limited time. This approach creates a sense of urgency among customers and can increase the desire to purchase luxury products at cheaper prices. This strategy is used by Rue La La and Veepee, for example.
4. *Private sales clubs*: These exclusive clubs offer registered members access to private sales and discounts on luxury products. Customers must be invited or approved to join these clubs, creating a sense of exclusivity and desirability. For example, The Outnet is a luxury private sales club with exclusive offers on clothing, footwear and accessories from luxury designers.
5. *Social commerce*: With the increased use of social media, many luxury companies are using these platforms to facilitate e-commerce. Brands can use shopping features directly on social media to showcase products and allow users to purchase without leaving the app. This is possible, for example, through Instagram Shopping, where

several luxury brands showcase their products and allow users to purchase them directly through the app, or Facebook Shops, which allows companies to create virtual storefronts on Facebook and Instagram to sell their luxury products.

6. *Second-hand luxury e-commerce*: This model involves websites that specialise in selling used or vintage luxury products. Customers can purchase used luxury items at more affordable prices, offering a sustainable alternative to luxury consumption. Examples include Vestiaire Collective and The RealReal.
7. *Experiential e-commerce*: This model focuses on providing customers with a unique and immersive digital shopping experience. Luxury companies can use virtual reality, augmented reality or other technologies to create realistic and immersive virtual shopping experiences. Burberry, for example, has created an experiential e-commerce experience called Burberry's Augmented Reality Store, which uses augmented reality to allow customers to virtually try on clothes and products. Luxury group LVMH has also developed virtual showrooms that allow shoppers to digitally browse and purchase collections from the group's brands. (Faccioli & Sheehan, 2021)

Each type of e-commerce just described uses its own distribution mode to reach customers and sell its products. The four main types are described below:

1. *Wholesale*: Wholesale in the luxury sector involves the sale of large quantities of products to retailers, luxury boutiques or other authorised distribution channels. These retailers purchase products from the manufacturer or luxury brand at a wholesale price and then resell them to the end consumer. For example, Chanel, a luxury brand, sells its products wholesale to selected boutiques and authorised retailers around the world. These boutiques and retailers purchase Chanel products directly from the company and make them available to consumers in their stores. This discussion can be extended to other luxury brands.
2. *Dropshipping*: In the dropshipping model, the seller does not physically stock the products (asset light). When a customer places an order, the product is shipped directly from the supplier or manufacturer to the end customer. In this way, the seller does not have to manage inventory. This is what Farfetch, a well-known luxury e-commerce group, does.
3. *E-retailer/multi-brand platform*: Luxury multi-brand platforms are digital platforms that connect consumers to a wide range of luxury brands and products. They act as intermediaries between consumers and brands, offering a variety of luxury products from different companies. Unlike the previous point, in this case the platform holds the

inventory, so it takes care of shipping the goods to the customer. Zalando is an example of an e-retailer that connects consumers with a wide range of high fashion products from luxury brands and boutiques around the world.

4. *E-concession*: An e-concession is a partnership model in which a luxury brand grants a retailer or e-commerce platform permission to sell its products online. The brand retains control over the presentation and image of its products on the retailer's site or platform. This is what many brands do with the e-commerce platform Yoox-Net-A-Porter (Fantaguzzi, 2022).

In the current landscape of the luxury personal goods sector, one can observe the prevalence of single-brand sites, which, despite slowing growth, represent the main distribution channel, and multibrand sites. A distinction can be made between those that use an e-retailer distribution channel, characterised by the possession of product inventory (full stack), and those that use dropshipping, in which they do not possess it, and for this reason are called "asset light" (Achille, et al., 2018). Multi-brand full-stack sites are, for example, Zalando, LuisaViaRoma, Yoox Net-a-Porter Group; on the other hand, asset-light sites are, for example, Farfetch, Etsy and Asos (for more details, see the graph below).

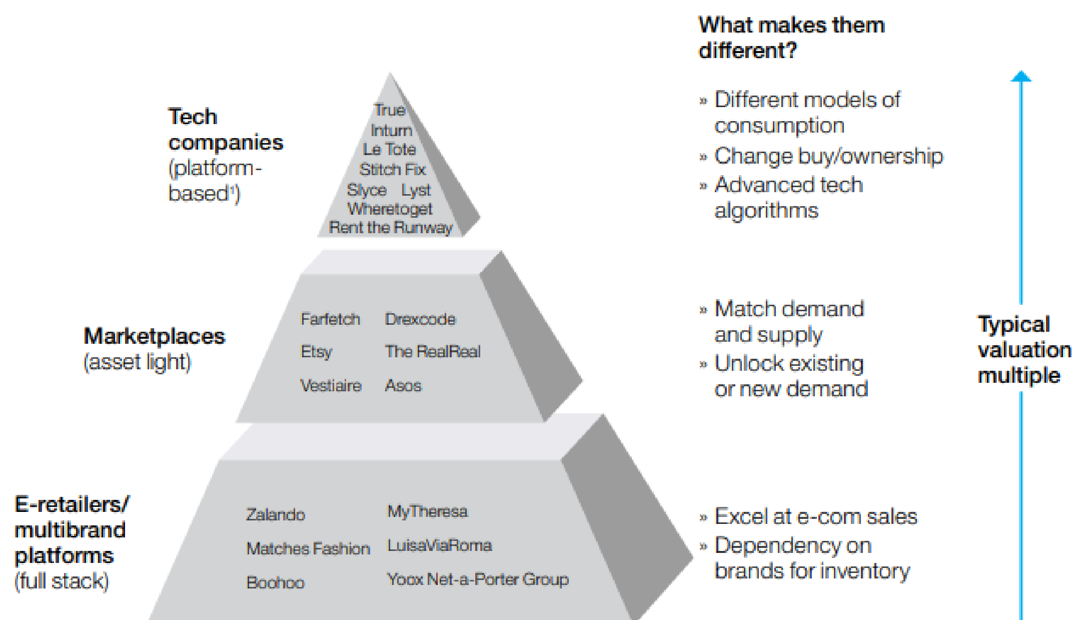


Figure 2.2: E-luxury business models are evolving.

Source: Achille, Remy, & Marchessou, (2018).

Each e-commerce model has its own advantages and disadvantages. For example, companies that have their own website have direct contact with their customers, allowing them to manage communication in the way they see fit and to best express their distinctive features, for example through the design of the platform or the information it contains. In addition, since consumers usually need to have their own account in order to make a purchase, the brand is able to gather information about its customers, which is useful both from a marketing and a logistical point of view. Finally, another positive aspect for the brand is that customers will only find its products on the site and not those of its competitors, as is the case with multi-brand sites. From the consumer's point of view, the brand's own site is perceived as more trustworthy, especially for luxury products, where people are afraid of encountering counterfeit products, and the customer service is perceived as better, with more accurate knowledge of the products. However, the presence of products within multi-brand sites should not necessarily be seen as a negative aspect; on the contrary, it could generate occasional sales as customers who initially entered the site to buy another product become intrigued by the company's products while browsing. In addition, from the customer's point of view, having a wider range of products available gives them more choice and the ability to make comparisons. Full-stack platforms also enable companies to reduce the costs associated with warehousing products for e-commerce. On the other hand, the loss of control over consumer data and the presence of multiple competitors are negative aspects to contend with when turning to this type of platform (Redazione, 2019).

A further distinction can be made between 'open' and 'closed' marketplaces. As Valerie Dichtl, former fashion buyer and consultant at Amazon, puts it: "Amazon or Ebay are examples of 'open' marketplaces, where anyone can sell on the site with very few restrictions. Farfetch and Zalando are examples of 'closed' marketplaces, where brands need permission to sell on the platform and must adhere to strict guidelines" (Moran, 2021).

The ones just discussed are just some of the types of e-commerce in the luxury sector that have led to websites transforming from mere storefronts to marketplaces (Achille, et al., 2018). As technology and consumer preferences continue to evolve, new business models may emerge in the future.

2.5 DO M&As IN THE LUXURY SECTOR CREATE VALUE?

Acquisitions and mergers in the luxury goods sector can create value for the companies involved, but it is important to note that results can vary depending on the specific circumstances of each transaction. In general, a transaction is considered to have created value if the cash flows of the combined companies are higher than they would have been otherwise. Several studies have attempted to examine the impact of M&A on the luxury sector. According to McKinsey, based on a study that considered 1770 acquisitions that took place between 1999 and 2013, the combined value of the acquiring and target companies increased by an average of 5.8 per cent (Goedhart, et al., 2015). Given the significant impact these deals can have on the companies involved, as well as the market as a whole, here are some ways in which M&A deals can create value in the luxury sector:

- Synergies and efficiencies: Merging two luxury companies can allow the combination of complementary skills, knowledge, and resources, creating strategic synergies that enhance the competitiveness of the combined company. In addition, combining resources, production capabilities, distribution and sales networks can lead to cost reductions, operational optimisation, and improved business performance.
- Broadening the customer base: Luxury acquisitions can enable companies to expand their customer base through access to new market segments or distribution channels.
- Geographic expansion: Acquisitions can enable companies to enter new geographic markets by leveraging local expertise and creating growth opportunities.
- Brand enhancement: A merger or acquisition can enhance brand visibility and image, allowing you to capitalise on the prestige and reputation of both companies.
- Access to new skills and technology: Acquiring a company in the luxury sector can provide access to unique skills, manufacturing capabilities or innovative technologies that can improve your competitive position in the marketplace.
- Supply chain optimisation: Combining the distribution networks of two companies can lead to supply chain optimisation, enabling greater market penetration and better customer service.
- Brand portfolio expansion: Acquisitions and mergers can enable luxury companies to expand and diversify their brand portfolio. This can lead to greater penetration of different market segments and a broader customer base.

- Know-how and design enhancement: In the luxury sector, know-how, design and creativity are crucial. Combining the expertise of different companies can lead to the creation of unique and innovative products and services that add value for customers.

These are just some of the ways in which value can be created through an M&A transaction. When a company decides to engage in this type of activity, its main objective is to increase the profitability of the company and, consequently, to increase the wealth of its shareholders. Many studies have been concerned with investigating whether these activities actually create value or destroy it but have produced contradictory results in this regard (Kumar & Sharma, 2019). Understanding this aspect is important both for companies and for the market as a whole. Indeed, it should be highlighted that M&As create value not only for the companies involved, but also for the economy due to the cost and revenue synergies that are established (Goedhart, et al., 2015).

A century ago, a number of academics were pondering this question. Healy, Palepu and Ruback (1922) conducted a study to understand whether and to what extent mergers lead to improved firm performance. Other scholars such as Hogarty (1978), Philippatos et al. (1985), Pawaskar (2001), Sharma and Ho (2002) and Ken C. Yook (2004) in later years conducted empirical studies in this regard. The result they came up with was that mergers and acquisitions do not create value (Kumar & Sharma, 2019). The numerous studies that have been conducted to test whether takeovers create or destroy wealth for shareholders have indeed found that, in the short run, most of the value is captured by the shareholders of the acquired firm. In contrast, investors in bidding firms most often experience share price underperformance in the months following the acquisition (Cartwright & Schoenberg, 2006). A number of studies examining the reaction of capital markets to M&A announcements have estimated that the value-weighted average of large deals lowers the acquirer's share price by between 1 and 3 per cent, and also show that post-transaction returns are no better (Goedhart, et al., 2015). In this regard, Mark Mitchell and Erik Stafford (2000) found in their study that acquirers underperform comparable firms by 5 per cent in terms of shareholder returns in the three years following the acquisition. Marco Becht, Andrea Polo, and Stefano Rossi (2019), through their study of takeovers in the UK, found that those that required shareholder approval (Class 1 takeovers) elicited a positive market reaction to the announcement, while smaller (Class 2) takeovers that did not require approval generated zero or negative average returns. They also made a further comparison between UK Class 1 takeovers and US takeovers of a similar size, but which did not require shareholder approval. The latter were found to deliver negative returns to their shareholders,

significantly lower than their UK counterparts. From this comparison they were able to conclude that UK Class 1 transactions that required shareholder approval produced a gain for the acquiring company's shareholders, whereas UK Class 2 transactions and US transactions of a similar size that did not require shareholder approval produced a loss for the acquiring company's shareholders. In addition to creating value for acquiring shareholders, the mandatory vote has been shown to be a good deterrent to bad deals, as CEOs and boards are more likely to resist the temptation to overpay for a deal. Long-term financial performance was also analysed by comparing the financial parameters of the companies involved before the merger with those of the combined company after the merger. The assumption was that if the improvement was accretive, the merger should be considered successful. Some of the parameters considered were earnings per share (EPS), return on assets (ROA), return on equity (ROE), market price/market value (MPS/MV) and net present value (NPV). However, when analysing EPS, one should not forget the bootstrapping effect, i.e., the increase in the index due to the acquisition of companies with lower P/E multiples and not due to the realisation of synergy benefits. For this reason, it is not possible to conclude that M&A has created value simply by observing an increase in combined EPS, but the other indicators must also be taken into account. Empirical studies evaluating the financial performance of mergers and acquisitions have shown that they do not create value. Benefits are mainly transferred from the acquirer's shareholders to the target's shareholders. Sharma and Ho (2002) also found that the type of acquisition, the form of financing, the size of the acquisition and the payment of a premium do not significantly affect post-acquisition performance. However, as noted above, the research is not conclusive. On the contrary, the Accenture report published in 2012 argues that M&As create value. It also found that less concentrated industries offer potential acquirers a target-rich environment in which they can find and identify small companies that best fit their selection criteria. However, this advantage diminishes somewhat if the buyer is determined to make a large transaction. Moreover, these industries also tend to be less mature and less regulated than more concentrated industries, making it easier to implement changes during the crucial merger integration phase (Kumar & Sharma, 2019). A study by Alexandridis, Antypas, and Travlos (2017) also shows a reversal of the previous literature, which argued that acquisitions of large, listed targets led to value destruction for the acquirer's shareholders. This change occurred as a result of the 2008 financial crisis. This is thought to have caused a change in conventional governance characteristics, leading to an improvement in companies' investment decisions. The acquisitions studied between 2010 and 2015 showed a significant improvement in a wide range of conventional measures estimated around the deal announcement. Königs and Schiereck (2006) conducted a study to examine the value impact of

M&As specifically on the luxury sector. The data collected showed that both market and risk adjustments detected positive announcement effects and could therefore be interpreted as value-creating. Subsequent studies have also confirmed this view, finding significantly positive M&A announcement effects for both shareholders of luxury targets and acquirers. Moreover, the abnormal returns received by target shareholders were found to exceed those received by acquirer shareholders (Königs and Schiereck, 2008).

The literature examining whether value is created by M&As, as analysed, can be divided into two strands. Das and Kapil (2012) conducted a systematic literature review, analysing 48 articles on the performance of mergers and acquisitions. Their aim was to resolve inconsistencies and gain a better understanding of how researchers have used variables to examine deal performance. The latter does not have a universal definition and construct, which is why there are different ways of measuring it, making comparisons difficult.

In conclusion, it can be said that mergers and acquisitions are one of the preferred growth strategies of firms, although the academic community is divided on whether they provide real benefits to acquiring firms (Das & Kapil, 2012). Therefore, it must be emphasised that studies of M&As in the luxury sector may yield different results due to the specifics of each transaction and the economic environment in which they take place. M&A decisions must therefore be based on a thorough analysis and assessment of the potential benefits and risks associated with each transaction. Value creation depends on the correct assessment of opportunities, strategic planning, careful execution and effective post-acquisition integration.

2.6 PAYMENT METHODS: CASH VS STOCKS

The method of payment is another aspect that the acquiring company needs to consider when deciding on an M&A transaction. The company can choose to pay in cash or in shares. In the former case, the acquiring company's shareholders bear all the risk of missing out on synergies and overpaying for the target company; in the latter case, the risk is also shared with the acquired company's shareholders. The choice between the two is therefore strongly influenced by the confidence of the acquiring company's shareholders in the success of the transaction and the capital structure. Indeed, they must be able to withstand the extension of credit lines, understand which structure is best for the company, and avoid rash actions that could lead to bankruptcy (Goedhart, et al., 2015).

If the acquiring company chooses to use shares, it faces the additional choice of whether to issue a fixed number of shares or a fixed value of shares. In the first case, the number of shares to be issued is fixed, but the value of the transaction may fluctuate between the announcement of the offer and the closing date depending on the buyer's share price. In the second case, the buyer issues a fixed value of shares, so the number of shares issued is not fixed until the closing date (Rappaport & Sirower, 1999).

Both payment methods have their own advantages and disadvantages. Starting with the consideration of cash payment, the main advantages associated with it are certainty of payment, as this method provides immediate and secure cash flow for the vendors, avoiding exposure to future risk. In addition, sellers can use the funds received to make further investments or to meet financial needs immediately, as they have the necessary liquidity. Finally, sellers can avoid the risk associated with the future performance of the target company and stock market fluctuations. The main disadvantages, on the other hand, are that sellers may lose the opportunity to participate in the future growth and value of the acquiring company and that the acquirer may not benefit from the synergies and value creation opportunities that could be realised by using shares in the acquirer as a form of payment. Finally, when considering payment in shares, the main advantages are that sellers receiving shares in the acquirer can benefit from the growth and future value of the combined company. In addition, the receipt of shares can allow sellers to benefit from the realisation of synergies and long-term value creation opportunities. Finally, using shares as a form of payment can reduce the immediate financial impact on the buyer by avoiding the use of significant financial resources for cash payments. However, the main disadvantages are that the seller is exposed to the risks of the buyer's shares, such as fluctuations in value or stock market performance, and may also have to wait for a lock-up period before selling the shares received and converting them into cash (DePamphilis, 2019, Yaghoubi, et al., 2016, Rappaport & Sirower, 1999).

Furthermore, the two payment methods can be combined to balance the needs of the parties involved. In fact, this strategy can mitigate the risks and maximise the benefits for both the acquiring and target companies (DePamphilis, 2019).

The choice of payment method must take into account the availability of cash to the acquirer, the perceived value of the shares, the acquirer's confidence in the success of the transaction and the tax implications of different methods. For example, if the acquiring company believes that its shares are overvalued, it will prefer to pay in shares (Damodaran,

2002). However, this could lead to a subsequent decline in the value of the shares. Conversely, if management believes that it is likely that the assumed level of synergies will not be achieved, it will prefer to pay in shares to share the risk. As a result, and as empirical research has shown, the market reacts much more favourably to announcements of cash deals than to share deals. It may also be the case that companies that choose to pay in shares do so not because they believe their shares are overvalued or because they do not believe the deal will succeed, but because they do not have sufficient cash or debt capacity to make a cash offer (Rappaport & Sirower, 1999, Yaghoubi, et al., 2016).

A study by Isabel Feito-Ruiz and Susana Menéndez Requejo (2013) found that both the choice of payment method and the valuation of the acquiring shareholders are affected by the ownership structure and the legal and institutional environment. The likelihood of M&As with cash payment decreases when there is a high concentration of ownership in the acquiring firm, or in countries with a strong legal and institutional framework. These results are consistent with those of Rossi and Volpin (2004). They find that there is a lower risk of wealth expropriation for target shareholders when the acquiring firm is from a country with a strong legal and institutional framework. Due to greater managerial control, acquiring shareholders value cash-out M&As more highly in firms with high ownership concentration. Moreover, valuation is also higher in countries with strong legal and institutional frameworks, where agency costs are lower and cash payment is not seen as a way to prevent dilution of the firm's ownership.

CHAPTER 3

THE ACQUISITION OF THE YOOX NET-A-PORTER GROUP BY FARFETCH

Having examined the luxury sector, the challenges and opportunities of digitalization, digital M&A, and the motivations behind them, we will now look at a real case, namely the recent acquisition of Yoox Net-A-Porter (YNAP), a wholly owned subsidiary of the luxury conglomerate Compagnie Financière Richemont (CFR), by FARFETCH Limited. This transaction is a clear example of what has been described in theory in the previous chapters. It illustrates the importance that digital and e-commerce have gained in the luxury sector and how companies are moving in this direction. The acquisition was announced on 24th August 2022, and aims to consolidate the partnership between Richemont, FARFETCH, and Alabbar to promote the digitalization of the luxury sector. For these reasons, it is considered a historic acquisition, as stated in the same announcement.

The acquisition will be analyzed step by step. Firstly, the history of the two pioneers of online luxury goods sales, YOOX and Net-A-Porter, will be explained, starting from their launch in 2000 in Italy and the UK, respectively, through their merger in 2015, which created the Yoox-Net-A-Porter group, to their acquisition by Richemont. After presenting the target company and the protagonist of the deal, the sale of YNAP by Richemont will be analyzed in detail. Several aspects of the transaction will be considered. Firstly, the main players involved will be presented. Second, it examines the motivations that led Richemont to sell YNAP, a company in which it believed strongly. It is then analyzed the structure of the transaction, its timing, the strategic motivations behind it, the market reaction to the deal, and, finally, the expected synergies.

3.1 YOOX AND NET-A-PORTER: HISTORY AND MERGER

This section outlines the history of the two companies, YOOX and Net-A-Porter, leading up to their merger in 2015.

YOOX is a luxury fashion e-commerce platform based in Milan. The name itself highlights the union between digital and luxury, combining the male Y and female X chromosomes with the zeros of binary language. Founded in 2000 by Italian entrepreneur Federico Marchetti, YOOX has grown significantly over the years, playing a major role in

changing the dynamics of the luxury fashion industry and becoming a leading online retailer of high-quality fashion and lifestyle products from a wide range of luxury brands, emerging designers, and high-end brands. Marchetti's vision was to create an e-commerce site dedicated to the sale of luxury fashion products, offering customers a selection of high-quality clothing from prestigious brands. In June 2000, YOOX launched its website, offering a selection of fashion products for men and women. In 2006, the Online Flagship Store division was launched, working directly with international luxury brands to create their e-commerce sites with a B2B service perspective.

The key strengths that make YOOX stand out in the market are:

- Wide range of products: YOOX offers a wide and varied range of fashion products, including clothing, accessories, luggage, jewelry, watches, and homeware. The wide range of categories allows customers to satisfy different shopping needs in a single online store.
- Luxury brands and designers: YOOX is known for its wide range of high-end brands and famous designers from around the world. The site works with many of the leading fashion brands, such as Gucci, Prada, Versace, Dolce & Gabbana, and many others. It also gives space to emerging designers, helping to identify new talent.
- Immersive shopping experience: The YOOX site is designed to provide an immersive online shopping experience. The site's intuitive organization and high-quality product photography make it easy for shoppers to search and navigate.
- Sales and discounts: YOOX often offers sales, promotions, and discounts on a wide range of products. This makes expensive products more affordable for consumers.
- Exclusive collaborations: The site often collaborates with companies and designers to produce limited-edition collections, giving users access to unique and sought-after products.
- Personalization: YOOX uses machine learning algorithms and artificial intelligence to personalize the online shopping experience. Customers receive targeted recommendations based on their preferences learned from previous use of the site, increasing the relevance of the products displayed.
- Global shipping: YOOX offers worldwide shipping so customers can receive their products from anywhere.

- Sustainability: By promoting sustainable processes and a variety of eco-friendly products, YOOX has demonstrated a growing commitment to sustainability in the fashion industry. For example, it has used technological innovation to develop the 'Digital ID', which informs customers of a product's sustainability credentials, facilitating the spread of the circular economy.
- Customer service: YOOX offers attentive and competent customer service to ensure a hassle-free experience for customers.

YOOX has changed the way people shop for luxury fashion, offering a wide range of prestigious brands and high-quality products online. Its ability to respond to changing fashion trends and provide a personalized shopping experience has contributed to its continued success in the fashion e-commerce industry. On 3rd December 2009, YOOX was listed on the Milan Stock Exchange. The shares were worth €4.3 million at a valuation of approximately €95 million. In 2015, YOOX announced a merger with NET-A-PORTER, another major online luxury fashion retailer, becoming the first Italian unicorn (Rociola, 2015).

NET-A-PORTER was founded in London in June 2000 by Natalie Massenet, a British fashion journalist. The founder's idea was to create a luxury fashion e-commerce platform that would offer customers a curated selection of products directly from the biggest names in fashion. The platform launched online in 2000 with a clear vision to provide an online luxury service similar to a fashion boutique. In 2001, NET-A-PORTER launched its first issue of 'The Edit', an online magazine dedicated to luxury fashion, helping to create a more engaging and informative online shopping experience. The platform has continued to grow, expanding its range of fashion products and brands, collaborating with internationally renowned designers, and maintaining high standards of customer service. In 2010, NET-A-PORTER launched “The Outnet”, an online luxury outlet platform, to broaden its offering and reach a wider range of customers. Like YOOX, NET-A-PORTER has expanded globally, launched several initiatives and services to enhance the customer experience, including the implementation of advanced technologies such as augmented reality and artificial intelligence for personalized shopping, forged exclusive collaborations with renowned designers, created unique and appealing collections, and is actively committed to sustainability.

The merger of the two companies created the YOOX NET-A-PORTER (YNAP) group, one of the largest global players in the luxury fashion e-commerce sector. The combination of the two companies was one of the most significant mergers in the luxury fashion e-commerce

sector. The two businesses were complementary. YOOX focused on selling fashion products from previous seasons, while NET-A-PORTER offered current fashion items. Today, the Group's unique offering includes the multi-brand online boutiques NET-A-PORTER and MR PORTER for seasonal products and YOOX and THE OUTNET for off-season products. This has enabled them to reach a wider customer base. YNAP is positioned in the fast-growing online luxury market, with over 4 million high-spending customers and over 900 million visitors worldwide (Richemont, 2022). In addition, the merger has led to significant operational synergies, with cost savings in logistics and sourcing through the resources and infrastructure's sharing, and has further enhanced access to luxury brands and improved negotiating positions with them. The Group has operations and offices in the USA, Europe, the Middle East, Japan, Mainland China, and Hong Kong SAR, and ships to over 180 countries worldwide. YNAP operates as an online luxury fashion retailer, offering a wide range of products from leading fashion brands and designers for which it manages the inventory, as well as stocking the online stores of some luxury fashion houses (Richemont, 2022). The merger was successful, bringing YNAP a significant increase in revenue through the combination of the two customer bases and operational synergies, allowing YNAP to invest in advanced artificial intelligence and data analytics technologies to deliver a highly personalized online shopping experience, and creating a holistic e-commerce platform covering a wide range of customer segments, from luxury fashion to luxury outlets. Even with the outbreak of the COVID-19 pandemic, YNAP continued to innovate, adapting to the growing demand for e-commerce and implementing safety measures to ensure the health of its employees and customers. As a result, the merger has helped to further drive the growth of luxury fashion e-commerce, proving that luxury can succeed online. High-quality YNAP has remained one of the world's leading luxury fashion e-commerce platforms, continuing to thrive in a competitive marketplace and being a leading destination for luxury fashion lovers looking for high quality products and a premium online shopping experience.

In summary, the combination of YOOX and NET-A-PORTER has demonstrated the potential for success when two luxury fashion e-commerce companies join forces. Through a combination of complementarities, operational synergies, access to luxury brands, and a global strategy, YNAP has become the undisputed leader in the industry, offering a wide selection of high-fashion products and an unparalleled online shopping experience. Its ability to remain relevant, sustainable, and at the forefront of the industry allows it to further consolidate its position. The stories of both companies help to illustrate how entrepreneurial vision, combined with attention to detail and technological innovation, can transform a start-up into one of the

world's most influential fashion e-commerce companies. Both platforms have helped to redefine the way people buy luxury goods online, offering a curated selection, high-quality service, and a strong global presence.

3.1.1 RICHEMONT ACQUIRES YOOX-NET-A-PORTER GROUP

In 2018, YNAP was acquired by Richemont, a major luxury group that owns several jewelry, watch, and luxury fashion brands. Richemont's purchase of YNAP was a significant development for the luxury fashion e-commerce industry. Richemont acquired full ownership of YNAP by purchasing all outstanding shares in the company. The total purchase price was approximately EUR 2.7 billion, valuing the e-commerce business at EUR 5.3 billion (Ferraro, 2023). The acquisition was part of a broader strategy by Richemont to expand into luxury fashion e-commerce. YNAP's brands, including NET-A-PORTER, Mr. Porter, and YOOX, allowed Richemont to strengthen its position in the online market and connect with a broader customer base. The transaction enabled significant operational synergies between Richemont and YNAP. These synergies resulted in reduced procurement, logistics, and operational management costs. The acquisition of YNAP, which already had a significant global presence, also enabled Richemont to expand its international reach. This gave Richemont easier access to key markets in North America, Europe, and Asia and enabled it to reach a wider audience. With YNAP, Richemont has significantly diversified its portfolio, as YNAP is mainly active in e-commerce, while many of Richemont's brands have a physical presence with bricks-and-mortar boutiques. The transaction took place at a time when e-commerce in luxury apparel was expanding rapidly, offering significant growth prospects for both companies. Through the acquisition, Richemont was able to leverage YNAP's cutting-edge e-commerce capabilities and expertise, including artificial intelligence and data analytics. Since the acquisition, YNAP has continued to thrive as part of Richemont, delivering revenue growth and maintaining its leading position in luxury fashion e-commerce.

In conclusion, Richemont's acquisition of YNAP was a strategic move to consolidate Richemont's position in luxury fashion e-commerce. It resulted in significant operational synergies, portfolio diversification, and greater access to global markets. Initially, this acquisition proved to be a success for both companies, enabling them to capitalize on the evolving trends in luxury online shopping and to meet the needs of high-end consumers. Then the scenario changed. YNAP began to make losses, which increasingly burdened Richemont's

accounts, leading it to sign an agreement with FARFETCH to sell its subsidiary in order to deconsolidate it from its balance sheet. In the remainder of this chapter, we will analyze this transaction in detail, looking not only at the players involved, the structure of the transaction, and its timing, but also at Richemont's motives for selling YNAP and the market's reaction to the news.

3.2 SALE OF YOOX NET-A-PORTER GROUP BY RICHEMONT

The consolidation of the partnership between Richemont, FARFETCH, and Alabbar was announced on 24th August 2022, with the aim of promoting the digitalization of the luxury sector. According to the Bain and Company report (2020), as reported in the first chapter of the industry analysis, the online luxury market is expected to more than triple by 2025. Furthermore, as consumer behavior analysis has shown, customers are increasingly demanding seamless experiences, and purchases are increasingly influenced by digital (D'Arpizio et al., 2021). This requires continuous investment in technology. For this reason, collaboration between e-commerce giants, allowing them to pool their resources to build a global platform, has become crucial. Richemont has therefore decided to collaborate with the e-commerce giant FARFETCH and has chosen it as its technology partner, both to implement the "Luxury New Retail" vision of its Maisons and to accelerate the YNAP marketplace offering. With FARFETCH potentially acquiring 100 percent of YNAP, this partnership marks a major shift in online luxury retail. The aim is to combine the skills that have made FARFETCH and YNAP successful. The aim is to combine FARFETCH's 3P business, which is based on electronic concessions where FARFETCH does not hold inventory, giving brands full control over the pricing and supply of their products, with YNAP's distinctive 1P business, which manages the inventory of the brands it owns. In addition, this agreement marks a major change in the distribution network of Richemont Maisons, which will open electronic concessions on the Farfetch marketplace and adopt FARFETCH Platform Solutions in order to combine Richemont's considerable retail experience with FARFETCH's high technological capabilities to offer innovative services to its customers. The implementation of the technology is expected to start after the completion of the first phase of the YNAP partnership (Richemont, 2022).

3.2.1 THE KEY PLAYERS INVOLVED

3.2.1.1 RICHEMONT

Richemont, as described in the first chapter, is one of the world's leading luxury groups, with a broad presence in the jewellery, watches and high-end fashion sectors. It was founded in Switzerland in 1988 by Johann Rupert, a South African entrepreneur. Originally a subsidiary of the Rembrandt Group, it became an independent company in 1988.

Richemont has a broad portfolio of world-renowned luxury brands, renowned for their craftsmanship and workmanship, as well as online distributors that promote technical innovation and expert care to provide the best possible service. Richemont's goal is to support its Maisons and businesses to grow and prosper ethically and sustainably over the long term. Richemont operates in four areas: specialized jewelry boutiques such as Buccellati, Cartier, and Van Cleef & Arpels; specialized watchmaking such as A. Lange & Söhne, Baume & Mercier, IWC Schaffhausen, Jaeger-LeCoultre, Panerai, Piaget, Roger Dubuis, and Vacheron Constantin; online retailers such as Watchfinder & Co., NET-A-PORTER, MR. PORTER, THE OUTNET, YOOX, and the OFS division; others, mainly focused on fashion and accessories, such as Alaïa, AZ Factory, Chloé, Delvaux, dunhill, Montblanc, Peter Millar, including G/FORE, Purdey, and Serapian (Richemont, 2022).

Richemont has a global presence with offices in Europe, Asia, North America, and other key regions. Its products are sold worldwide through a network of boutiques, authorized retailers, and online channels. The company is renowned for the quality of its craftsmanship and the innovation of its products. This is reflected in its finely crafted jewelry, precision watches, and luxury leather goods. The company is committed to sustainability, seeking to reduce the environmental impact of its operations and promoting corporate social responsibility. Despite occasional challenges in the luxury industry, Richemont has experienced steady growth over the years and maintains a strong presence in the global marketplace.

Over the years, Richemont has made strategic acquisitions to broaden its brand portfolio. For example, as mentioned earlier, it acquired the YOOX NET-A-PORTER Group (YNAP) to expand into luxury fashion e-commerce.

In conclusion, Richemont is a leading luxury group with a portfolio of world-renowned brands and a long tradition of quality craftsmanship. Its global presence and commitment to innovation and sustainability have contributed to its continued success. The company continues to play a major role in shaping the luxury industry and meeting the needs of consumers around the world who are seeking high-quality products.

3.2.1.2 FARFETCH

FARFETCH Limited is a leading global luxury fashion platform, differentiated by its business model in which partner boutiques manage inventory and order fulfillment, while FARFETCH manages the technology and operations of online sales. FARFETCH connects consumers to an extensive network of luxury boutiques and independent fashion brands around the world, acting as an intermediary between physical stores and online consumers.

Founded in London in 2007 by José Neves, a Portuguese entrepreneur with a passion for fashion and technology, His vision was to create a global online marketplace that would connect independent luxury fashion stores with customers around the world. Launched in 2008, FARFETCH has grown rapidly to become a major player in the online luxury fashion industry. FARFETCH began as an e-commerce marketplace for luxury boutiques around the world, offering a wide range of high-fashion clothing. This enabled independent fashion stores to expand their online presence. Over the years, FARFETCH has rapidly expanded its international presence by partnering with a large network of luxury fashion stores located in different parts of the world, enabling it to offer a wide range of products from different regions and cultures. In addition, FARFETCH has invested heavily in technology and innovation to enhance the customer experience. It has implemented advanced features such as augmented reality for virtual try-ons of clothes and artificial intelligence to personalize purchases. In 2018, FARFETCH successfully completed its initial public offering (IPO) on the New York Stock Exchange, becoming a publicly traded company. This provided FARFETCH with the necessary funding for further expansion and investment. In fact, over the years, FARFETCH has formed strategic partnerships with major fashion brands, including Gucci, Burberry, and others, to offer its customers unique shopping experiences and exclusive collections. FARFETCH has also demonstrated its commitment to sustainability in luxury fashion by promoting sustainable products and launching initiatives to reduce its environmental impact. In March 2021, luxury fashion portal FARFETCH expanded its global retail network with its debut on the Luxury

Pavilion of Tmall, the Chinese marketplace controlled by Alibaba. As part of a "market within a marketplace" plan, the integration will give FARFETCH's 3,500 luxury brands—90 percent of which were not on Tmall—access to Alibaba Group's 779 million customers. The fact that FARFETCH was included in Time magazine's list of the 100 most influential companies in 2021 and that its sales increased 64 percent year-on-year to $1.7 billion (£1.2 billion) in 2020 demonstrates the relevance and impact of the marketplace model on the global fashion industry (Moran, 2021). 2022 kicked off with the acquisition of US beauty company Violet Grey, a strategic partnership with Neiman Marcus (including the purchase of a minority stake in the Dallas-based retailer for $200 million), and a long-term partnership with subsidiary Ngg-New Guards Group. The Italian holding company, which owns brands such as Palm Angels, Marcelo Burlon, Opening Ceremony, and OffWhite (controlled by LVMH), which manufactures and distributes Reebok products, has begun tracking Reebok's retail, e-commerce, and wholesale sales in Europe. As part of the agreement, partnerships will be established to market Reebok's high-end products in more than 50 countries. However, 2022 also saw the introduction of Farfetch Beat, a project involving partnerships with fashion and avant-garde culture, available exclusively on farfetch.com; the acceptance of cryptocurrency payments; and the acquisition of Wannaby, a startup that provides virtual testing solutions. To support Salvatore Ferragamo's e-commerce and omnichannel innovation, the company signed a deal in the summer to acquire Onport, a marketplace service provider that previously operated under the name Jetty. High-spending, brand-loyal customers using the fashion concierge service on their phones can now pay with cryptocurrency in 37 countries (Fabbri, 2023).

Today, FARFETCH's marketplace connects customers in over 190 countries with products from over 50 countries and more than 1,400 of the world's top brands, boutiques, and department stores, offering a unique shopping experience and access to the largest selection of luxury products on a global scale.

FARFETCH's other businesses include Browns, where it has developed a mixed reality with digital to create a 360-degree customer experience; Stadium Goods, which offers luxury products to consumers; and New Guards Group, a platform for the development of global fashion brands. FARFETCH offers its wide range of consumer-facing channels and enterprise-level solutions to the luxury industry through its Luxury New Retail initiative, which aims to combine luxury with digital. This initiative also includes FARFETCH Platform Solutions, which provides e-commerce and technology services to corporate clients, and Future Retail, which develops innovations such as connected retail solutions (Richemont, 2022).

FARFETCH's strategic choices include its willingness to acquire other luxury fashion e-commerce companies to extend its reach and diversify its offering. In 2020, it signed a

partnership with Richemont and Alibaba precisely to increase the rate of digitalization and conquest of the Chinese market.

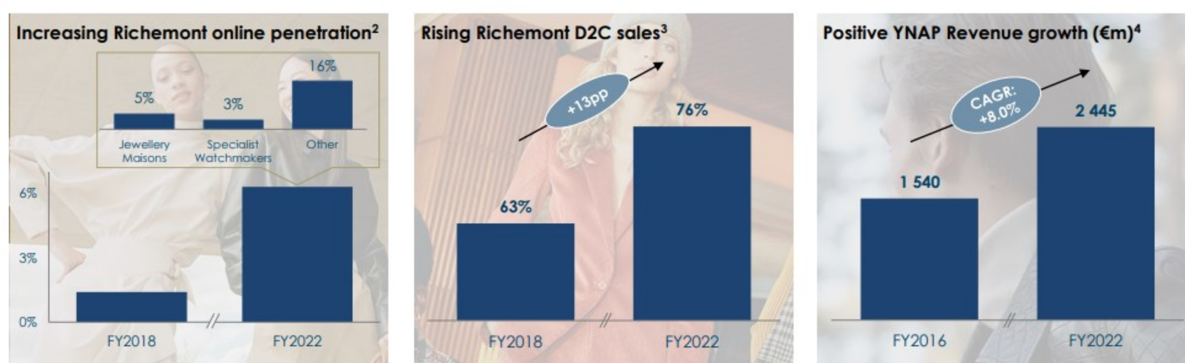
3.2.1.3 SYMPHONY GLOBAL

Symphony Global is one of Mohamed Alabbar's investment vehicles.

Symphony Global and its affiliates (including Alabbar Enterprises) house the businesses and investments of His Excellency Mohamed Alabbar and his family. The Alabbar Group is a leading industrial and investment company in the Middle East with interests in a wide range of sectors, including luxury retail, real estate, fashion, leisure, e-commerce, food manufacturing, food services, and hospitality. The Group has investments in the Middle East, Southeast Asia, Europe, and Africa (Richemont, 2022).

3.2.2 REASONS THAT LED RICHEMONT TO SELL YNAP

In 2010, Richemont bought the remaining stake in Net-a-Porter (it already owned 33%) for around $550m, then backed the merger with YOOX and bought the two companies back together in 2018 at a valuation of €5bn (O'Connor, 2022). Having been one of the first to believe in the marriage of luxury and digital, he invested large amounts of money and resources in YNAP. Initially, the results were good, suggesting that the acquisition had been the right strategic move. According to an investor presentation published in 2022, the acquisition of YNAP enabled Richemont to increase its online penetration, including in hard luxury, to around 6%, as shown in the graph below. Direct-to-consumer (D2C) sales also increased by 13 percentage points between 2016 and 2022, from 63 percent to 76 percent. Finally, revenues will grow at a CAGR of 8%, from $1,540 million to $2,445 million.



Note: [2]Defined as online sales divided by total sales; Maison-only online retail sales, i.e., excluding online distributors. [3]Includes retail sales for FY2018 and retail and online retail sales for FY2022. [4]Financials for the year ending in March, excluding the Online Flagship Stores division. 2016 revenue figure calendarized to 31 March 2016.

Source: Richemont, 2022.

However, in order to achieve these results, the deal required the investment of large amounts of capital. In 2018, at the time of the acquisition, Richemont had formed a joint venture with Alibaba to expand YNAP's reach in China. This investment, along with others, began to weigh on YNAP. From then on, the company had to deal with poorly executed technology investments, high customer acquisition costs, and excess inventory.

Richemont's online distribution segment, which consists of YNAP and a small portion of the sales of luxury watch retailer Watchfinder&Co., experienced revenue growth of 15% in the year ending March 2021 (Faccioli & Sheehan, 2021). However, due to the outbreak of the COVID-19 pandemic, which forced YNAP to temporarily close some of its stores, Richemont's online store group lost 241 million euros ($285 million) (Fernandez, 2020). Also in 2020, the increase in sales was accompanied by a corresponding increase in costs, particularly due to the huge investments in IT and communications to improve the customer experience.

Online Distributors

in €m	2021	2020	Change
Sales	**2 197**	2 427	-9%
Operating results	**(223)**	(241)	+7%
Operating margin	**-10.2%**	-9.9%	-30 bps

Source: Richemont Annual Report 2021

However, as time went on, things started to change, and in the year ending March 2021, sales decreased by 9% to 2,197 million euros, mainly due to the impact of distribution center closures caused by the COVID-19 pandemic (Faccioli & Sheehan, 2021). The operating loss of

the online distributors decreased to 223 million euros. Tight cost control was the reason for the year-on-year improvement of 18 million euros: operating expenses decreased faster than sales. Tight inventory control halved the EBITDA deficit to 37 million euros, and cash flow improved significantly. However, many costs are due to major investments in information technology (Richemont, 2022). Yoox Net-a-Porter, which operates the e-tail sites Yoox, Net-a-Porter, Mr. Porter, and The Outnet, has long been a problematic presence in Richemont's portfolio (O'Connor, 2022). In the financial year ending March 2023, the online retailer posted an operating loss of 210 million euros (Richemont, 2023), 6 percent less than the previous year. The division's revenue reached 2.8 billion euros, up 27 percent from the previous year (O'Connor, 2022). EBITDA fell to 24 million euros from 37 million euros the previous year (Richemont, 2023).

Online Distributors

in €m	2022	2021	Change
Sales	**2 788**	2 197	+27%
Operating result	**(210)**	(223)	+6%
Operating margin	**-7.5%**	**-10.2%**	+270 bps

Source: Richemont Annual Report 2022

On the other hand, Richemont's results have been good in recent years, for example in 2021, the first year of recovery after the COVID-19 pandemic. The company has published encouraging half-year results. Sales in every business area, channel, and region grew at double-digit rates in the first half of the year, well above even pre-pandemic levels. Half-year sales to September 30 were 8.9 billion euros, an increase of 63 percent over the same period last year. Triple-digit growth was achieved in the Americas, with levels approaching those of the European market. Once again, the increase was led by jewelry businesses such as Cartier and Van Cleef & Arpels, with specialty watchmakers playing a significant role. With an operating margin of 22%, the Group's operating profit amounted to approximately 1.95 billion euros, and profit for the period increased to approximately 1.25 billion euros. Cash flow from operating activities almost doubled to $1.78 billion (Camurati, 2021).

Six months ended 30 September	2021	2020	2019	% change 2021 vs 2020	% change 2021 vs 2019
Sales	**€ 8 907 m**	€ 5 478 m	€ 7 397 m	+63%	+20%
Gross profit	**€ 5 638 m**	€ 3 165 m	€ 4 610 m	+78%	+22%
Gross margin	**63.3%**	57.8%	62.3%	+550 bps	+100 bps
Operating profit	**€ 1 949 m**	€ 452 m	€ 1 165 m	+331%	+67%
Operating margin	**21.9%**	8.3%	15.7%	+1 360 bps	+ 620 bps
Profit for the period	**€ 1 249 m**	€ 159 m	€ 869 m	+686%	+44%
Earnings per 'A' share/10 'B' shares, diluted basis	**€ 2.145**	€ 0.281	€ 1.533	+663%	+40%
Cash flow generated from operating activities	**€ 1 781 m**	€ 926 m	€ 928 m	+92%	+92%
Net cash position	**€ 3 153 m**	€ 2 111 m	€ 1 770 m		

Source: Richemont's Annual Report 2021

The negative results were not only due to YNAP but also to the management that Richemont had put in place. The Swiss group, which specializes in watches and jewelry rather than digital technology, found it too difficult to manage the costs of running a large luxury e-commerce operator with outdated technology and growing competition. Richemont suffered severe financial losses due to a poorly executed technology and logistics upgrade, which also hastened the departure of key customers using YOOX's white-label e-commerce solution, such as Kering and Moncler (O'Connor, 2022). As can also be seen from the table below, most of the successes are coming from Richemont's core business, while YNAP is increasingly becoming a ballast.

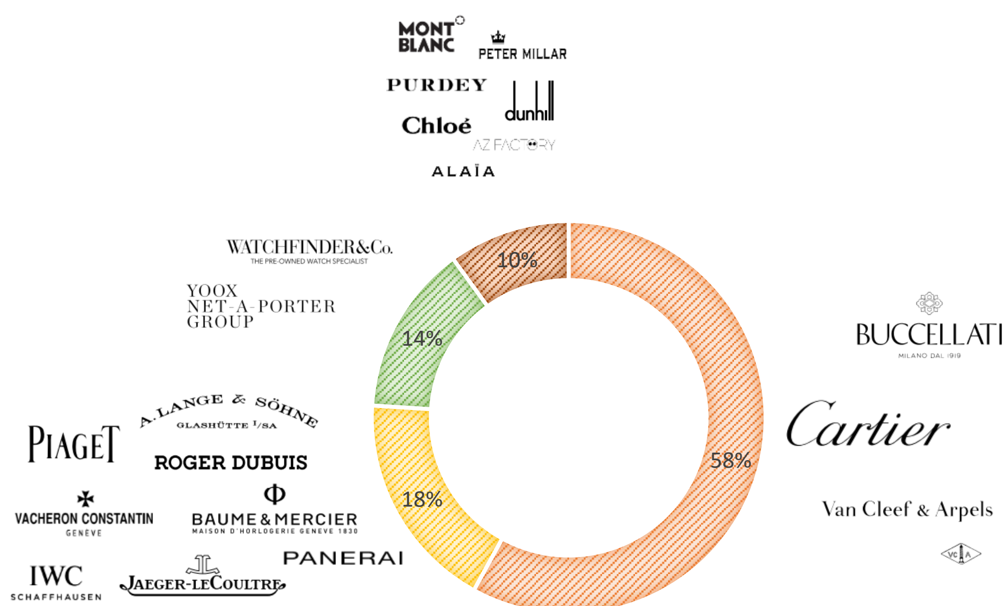
	Year	Sales	Operating result
Jewellery Maisons	2020	7.217	2.077
	2021	7.459	2.309
	2022	11.083	3.799
Specialist Watchmakers	2020	2.859	304
	2021	2.247	132
	2022	3.435	593
Online Distributors	2020	2.427	(241)
	2021	2.197	(223)
	2022	2.788	(210)
Other	2020	1.788	(141)
	2021	1.345	(214)
	2022	2.056	(47)

Data in €m

Source: Personal elaboration with data from Richemont's Annual Report business review 2022 and 2021

PERCENTAGE OF GROUP SALES

Jewellery Maisons · Specialist Watchmakers · Online Distributors · Other



Source: Personal elaboration with data from Richemont's Annual Report business review 2022

YNAP's heavy losses are dragging down Richemont's valuation, despite the fact that its brands such as Cartier and Van Cleef & Arpels have soared. According to RBC analyst Piral Dadhania, the FARFETCH deal "allows Richemont's portfolio to return to being a pure luxury group" (O'Connor, 2022) and will increase Richemont's operating margin by around 4.5% (O'Connor & Williams, 2022). In view of the results achieved and the market and analyst forecasts, Richemont, which does not have the expertise to turn the situation around, decided to sell YNAP in order to deconsolidate it from its balance sheet at some point in the future. As early as October 2021, there were reports of talks between Richemont and FARFETCH on the YNAP deal (O'Connor, 2022). Since the sale was announced, things have already started to look up for Richemont. Investor confidence in the company has soared. In April 2023, the company's share price was up almost 60% from the previous six months. However, as Bernstein analyst Luca Solca said in a November 2022 note, YNAP is expected to continue to weigh on the company's results until the deal is completed (O'Connor, 2023). Commenting on Richemont's work, Jose Neves, CEO of FARFETCH, said: "They have built extraordinary brands. I think the company lacks the cutting-edge technology that is needed today to serve customers and compete in today's very competitive scenarios. That's what our deal will give them" (O'Connor, 2022).

Finally, the arrival of activist investor Bluebell Capital Partners, which has called for changes in Richemont's governance and advised the group to sell non-core businesses such as e-commerce, and LVMH's significant investment in Tiffany & Co. that could challenge Richemont's dominance in the watch and jewelry business, have increased the pressure to announce progress on the deal (O'Connor, 2022).

In contrast to YNAP, FARFETCH, the main buyer in the transaction, has experienced exponential growth in recent years. According to Deloitte's Global Powers of Luxury Goods 2021, FARFETCH experienced the highest sales growth for its owned and licensed luxury goods brands of all the top 100 companies in FY2020. Revenue increased by more than 100%, mainly due to the acquisitions of Stadium Goods and New Guards Group in 2018–2019, as well as increased consumer demand for luxury casual wear. The company has emerged as a luxury e-commerce expert, responding to the shift in consumer behavior towards online shopping caused by the pandemic. The table below provides an overview of the company's performance over the last four years. This period also allows us to see how the COVID-19 pandemic has affected the company. On the one hand, it has had a positive impact by increasing online purchases, and on the other hand, it has had a negative impact due to the effects of the zero COVID policy in China, which happens to be one of FARFETCH's three largest markets.

Revenues are increasing year over year. In 2020, they amounted to $1.674 million, an increase of 64% compared to 2019, when they amounted to $1.021 million. In 2021, they grew by 35 percent over 2020 to 2.257 million. The main drivers of this very rapid expansion were the digital platform services, whose revenue increased by 47.3 percent, and the acquisition of the New Guards brand. Finally, growth slowed to 3 percent in 2022, with revenues of 2,317 million. Adjusted EBITDA turned positive for the first time in 2021, only to turn negative again the following year. FARFETCH started to turn a profit in 2021, recording 1.471 million and 344 million the following year. As for the gross merchandise value (GMV), it was 3.187 million in 2020, 49% higher than in 2019. In 2021, it increased by 33% compared to 2020, and in 2022, it decreased by 4% to 4.059 million. Following the 2022 results, CEO Jose Neves said: "Luxury is an industry that has proven to be resilient, and FARFETCH is on track to almost double in size in three years, despite an unprecedented series of global events. Through it all, we have remained focused on our mission to be the global platform for luxury while taking the opportunity to radically restructure the organization and streamline the cost base".

	2019	2020	2021	2022
Revenue	1,021,037	1,673,922	2,256,608	2,316,680
Cost of revenue	(561,191)	(902,994)	(1,240,097)	(1,293,505)
EBITDA adjusted	(121,376)	(47,432)	1,638	(98,715)
Net (loss)/profit	(393,500)	(3,315,623)	1,470,611	344,855
Gross Merchandise Value	2,139,699	3,187,014	4,229,874	4,058,501

in $ thousands

Source: Reprocessed data from Farfetch Annual Report 2019, 2020, 2021 and 2022

At the Capital Markets Day on 2nd December 2022, FARFETCH's management provided its guidance for 2023–2025. The company's management expects the gross margin to reach $4.9 billion in 2023, an increase of 20–22% compared to the forecast at the end of 2022. The EBITDA-adjusted margin is expected to move from negative to 1-3%. This is the result of $85 million of operating cost efficiency improvements as well as gross and contribution margin improvements. However, $170 million of expenses have been allocated "to support new partnerships". However, the big jump is expected by 2025, with GMV almost doubling to $10 billion and the adjusted EBITDA margin rising from 1-3% to 10%. According to the stated goals for 2025 (see chart below), the Platform Solutions business unit is expected to generate the highest GMV and EBITDA margin of any business unit. According to eToro social trading platform analyst Gabriel Debach, these results will only be possible if YNAP's contribution

becomes central. For Credit Suisse analysts, the company is also on track to double its GMV in the coming years thanks to recent deals with Neiman Marcus, Reebok, Salvatore Ferragamo, and Richemont (Fabbri, 2023).

Le stime del management per il 2025

(sulla base del nuovo sistema di reporting, non più per canali ma per business unit)

(USD, bn)	Marketplaces	Platform Solutions	Brand Platform	Fulfilment	Group	
Gmv	\$3.8	\$4.3	\$1.5	\$0.9	\$10.5	Target di lungo periodo **cagr 20%+**
Ricavi rettificati	\$1.7	\$0.3	\$1.5		\$3.5	
Margine lordo (in rapporto ai ricavi rettificati)	60%	75%	55%		60%	
Margine di contribuzione (in rapporto ai ricavi rettificati)	40%	75%	48%		45%	
Ebitda margin rettificato (in rapporto ai ricavi rettificati)	5%	20%	20%		10%	
	Target di lungo periodo **20%**	Target di lungo periodo **50%**	Target di lungo periodo **25%**		Target di lungo periodo **30%**	

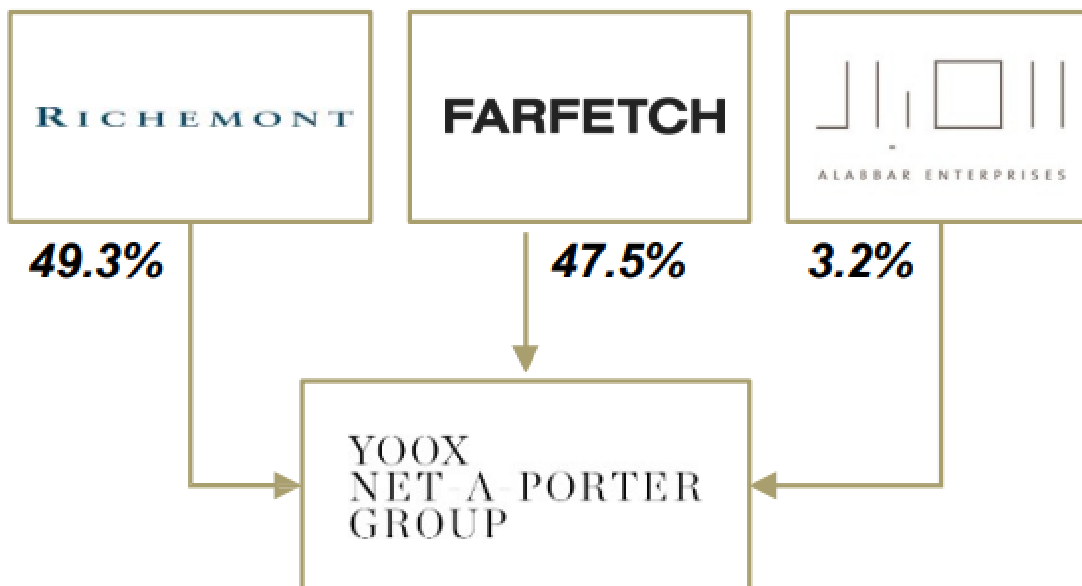
Fonte: Farfetch

Source: Fabbri, 2023

3.2.3 TRANSACTION'S STRUCTURE

The acquisition of YNAP is planned in two stages. These are described in detail below.

3.2.3.1 STAGE 1



Source: Richemont, 2022

In the first phase of the transaction, FARFETCH will acquire a 47.5% stake in YNAP, and Alabbar will acquire a 3.2% stake in YNAP (see chart above), thus creating a neutral platform without a controlling shareholder and allowing Richemont to deconsolidate the unit from its financial reporting. In a second phase, FARFETCH will be able to increase its stake as Richemont and FARFETCH hold put and call options that can be exercised upon the occurrence of certain conditions, which will be discussed in more detail in the next section. The agreement also provides for the adoption of Farfetch Platform Solutions by Richemont and YNAP. This will allow YNAP to accelerate its market penetration and transition to a hybrid 1P/3P (first party/third party relationship) business model (Richemont, 2022).

In this first phase, it is expected that FARFETCH will account for the acquisition of 47.5% of the shares as a non-controlling interest, thereby avoiding the need to consolidate YNAP. In addition, it is announced that upon completion of the sale of 47.5% of YNAP's share capital to FARFETCH, Richemont will receive 53.0–58.5 million FARFETCH Class A

ordinary shares, representing an estimated 10–11% of FARFETCH's fully diluted share capital and 12–13% of FARFETCH's issued share capital. On the fifth anniversary of the first phase of the transaction, Richemont will also receive $250 million, which is expected to be settled in FARFETCH Class A common shares based on the 60-day volume weighted average price (VWAP) in effect at that time. At the end of the first phase, YNAP will be debt-free and is expected to have a minimum of $290 million and a maximum of $445 million of cash on its balance sheet. This difference relates to the permitted acquisition of certain minority interests by YNAP after the signing of the first phase, which will amount to up to €155 million. Richemont will also provide YNAP with a committed credit line of an additional $450 million for a period of up to 10 years (Richemont, 2022), to be drawn at YNAP's discretion and subject to certain conditions.

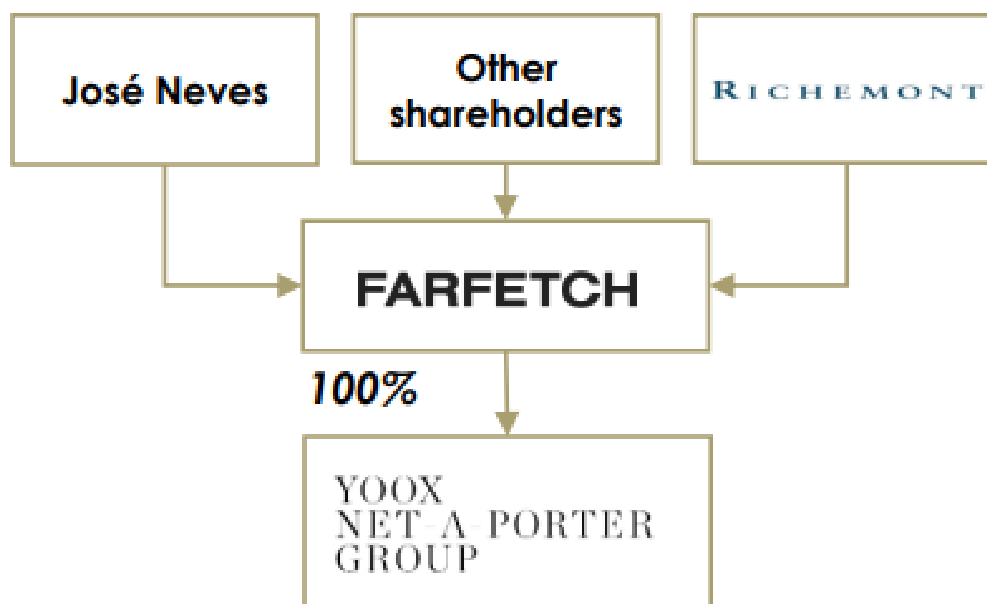
As for the other member of the partnership, Alabbar, a long-standing partner of Richemont and YNAP in the Gulf States, he will join Richemont and FARFETCH as shareholders in YNAP. Alabbar will receive a 3.2% stake in YNAP in exchange for the sale of his shares in the joint venture with YNAP in the GCC. As a result of this share swap, YNAP will own all its operations in the region. Mohamed Alabbar is a businessman with interests in real estate, retail, high-end hospitality, e-commerce, technology, logistics, and food. He is the founder and chairman of Emaar Properties, the leading developer of iconic properties such as Burj Khalifa, the world's tallest tower, and Dubai Mall, one of the world's largest and most prestigious shopping malls. He is also widely recognized as the driving force behind Dubai's economic growth. He claims that his extensive knowledge of the Middle East market and his influential and technologically savvy clients will make YNAP great in the future (Richemont, 2022).

As for the Online Flagship Store ("OFS") division of YNAP, it will remain separate from the transaction, and Richemont will continue to bear the risks and rewards associated with it. Following the announcement on August 24, 2022, Richemont's investment in YNAP was included as an asset "held for sale" in the interim consolidated financial statements for the six months ended September 30, 2022, and its results were presented as discontinued operations. This will continue until the completion of the first phase of the transaction. In addition, the carrying value of this investment has been reduced to its expected fair value, net of selling costs, resulting in a non-cash charge to Richemont's consolidated income statement estimated at €2.7 billion based on FARFETCH's share price on August 23, 2022 (Richemont, 2022), but actually €3.4 billion as shown in the 2023 financial statements (Richemont, 2023).

All shareholders of YNAP will be bound by a shareholders' agreement, which will include the usual shareholder protections and governance rights. YNAP will be governed by a new ownership structure. Its new Board of Directors will consist of seven members, including three representatives from Richemont, three from FARFETCH, and one from Alabbar (Richemont, 2022).

As is customary for companies of this size, the first stage of the merger is subject to an approval phase by competition regulators, who will assess whether the transaction is likely to reduce competition in the market. The UK regulator, the Competition and Markets Authority, gave the go-ahead in March 2023. It was estimated that the first phase of the transaction would be completed by the end of 2023 (O'Connor, 2023). This will be the case, as all the necessary approvals have been obtained. The last came from the European Commission in October 2023 (Richemont, 2023).

3.2.3.2 STAGE 2



Source: Richemont, 2022

In the second phase of the transaction, as mentioned above, FARFETCH will be able to increase its stake in YNAP's share capital from 47.5% to 100%. This will be made possible by a mechanism of put and call shares that can be exercised upon the occurrence of certain conditions (Richemont, 2022).

The put-and-call option mechanism and the conditions under which it can be used by FARFETCH to acquire the remaining shares in YNAP are explained below.

Currently, FARFETCH holds a call option on all shares in YNAP that it does not own, exercisable at any time between the initial stage of the transaction and the fifth anniversary of the transaction, at the higher of market value and certain pre-determined valuation levels. Richemont, in turn, has a put option exercisable at any time between the third and fifth anniversaries of the completion of the first phase of the transaction, provided that YNAP has achieved positive adjusted EBITDA, as defined in the shareholders' agreement, in the 12-month period prior to the exercise and in three of the four quarters of the same 12-month period. At the time of the agreement, YNAP's adjusted EBITDA was negative. The put option requires FARFETCH to purchase any remaining shares of YNAP that it does not own at the time of exercise at fair market value. The put and call options, if exercised, will be settled in FARFETCH Class A ordinary shares. The number of FARFETCH Class A ordinary shares to be issued to acquire the remaining YNAP shares is subject to a dilution cap of approximately 15% to 16% of the fully diluted share capital following the acquisition of the remaining YNAP shares. A range is provided as a component of the initial consideration and is dependent on the FARFETCH share price at the time of completion of the transaction. This cap may also be waived at the discretion of FARFETCH. In this case, any remaining amount must be paid in cash. Upon exercise of the put or call option, all shareholders of YNAP will also become shareholders of FARFETCH. In addition, if FARFETCH acquires YNAP in full, Richemont will have the right to nominate a non-executive director to the board of FARFETCH, provided that Richemont continues to hold a minimum shareholding in FARFETCH. Conversely, if the full acquisition does not take place and the put or call option is not exercised, a qualified majority of YNAP shareholders could agree to an exit through a sale to a third party or an initial public offering (IPO) of YNAP shares (Richemont, 2022).

In the above situations, the proceeds will be distributed to the YNAP shareholders according to a predetermined cascading mechanism, which could result in Richemont receiving a return in excess of its share within a certain exit valuation range (Richemont, 2022).

As mentioned in the first phase, most of the Richemont Maisons will adopt the FARFETCH platform solutions for their e-commerce operations and connect their physical stores worldwide, enabling their customers to enjoy an omni-channel experience. The brands involved include IWC Schaffhausen, A. Lange & Söhne, Alaïa, Baume & Mercier, Buccellati, Cartier, Chloé, Delvaux, Dunhill, Piaget, Purdey, Roger Dubuis, Serapian, Vacheron

Constantin, and Van Cleef & Arpels. The e-concessions introduced by most of the Richemont Maisons on the FARFETCH marketplace concern Panerai, Piaget, Roger Dubuis, Serapian, Vacheron Constantin, AZ Factory, Baume & Mercier, Buccellati, Cartier, Chloé, Dunhill, IWC Schaffhausen, Jaeger-LeCoultre, Montblanc, and Van Cleef & Arpels. These initiatives will be implemented according to a pre-established timetable following the completion of the first phase of the transaction (Richemont, 2022).

It should also be noted that the completion of the second and final phase of the transaction, if it is initiated, is subject to the receipt of certain regulatory approvals (Richemont, 2022).

3.2.4 TIMING OF THE TRANSACTION

Over the years, as the timeline below shows, Richemont has led the way in digitalization, anticipating the success that the marriage of technology and luxury would later have. In 2002, it acquired a minority stake in Net-A-Porter before taking control in 2010. In 2015, the merger of Yoox and Net-A-Porter took place, the first transaction of its kind in the online luxury sector, which Richemont actively supported. Following this transaction, Richemont held 48.9% of YNAP and 25% of the voting rights. Then, in 2018, it acquired 100% and took full control (Squadra BOF, 2018), following an IPO at EUR 38 per share for a total of EUR 2.7 billion and the subsequent delisting of the shares. In addition, the equity value was around EUR 5.3 billion and is currently valued at around EUR 1 billion (Redazione, 2022). This is an example of a private transaction. Subsequently, in 2020, Richemont, together with Alibaba and the Pinault family holding Artemis, announced a partnership with FARFETCH with a total investment of USD 1.5 billion in the parent company and its Chinese subsidiary. The aim of this agreement was to improve brands' access to the Chinese market and accelerate the digitalization of the luxury sector globally. To meet the needs of luxury companies, the initiative leverages Alibaba's and FARFETCH's "cutting-edge" omnichannel retail technologies, including business solutions provided by FARFETCH (Faccioli & Sheehan, 2021). The new joint venture, which included FARFETCH's operations in China, was named Luxury New Retail (LNR) (Fashion Magazine, 2020). LNR is an innovative initiative that leverages FARFETCH and Alibaba's cutting-edge omni-channel distribution technologies to meet the needs of the luxury segment. It provides fully connected e-commerce websites and apps, omnichannel distribution technologies, and access to the Farfetch and Tmall Luxury Pavilion marketplaces with a single integration to support luxury brands' single and multi-brand retail strategies (Business Wire, 2020). Finally,

in 2021, Richemont announced that it is in advanced discussions with FARFETCH for the possible acquisition of a minority stake in YNAP (Camurati, 2021), and then in August 2022, it will consolidate the partnership between Richemont, FARFETCH, and Alabbar, which will mark a historic turning point towards the digitalization of luxury fashion. In a first phase, FARFETCH is expected to acquire a 47.5 per cent stake and later, in a second phase, the entire company, creating a 'global online luxury platform' (Richemont, 2022).

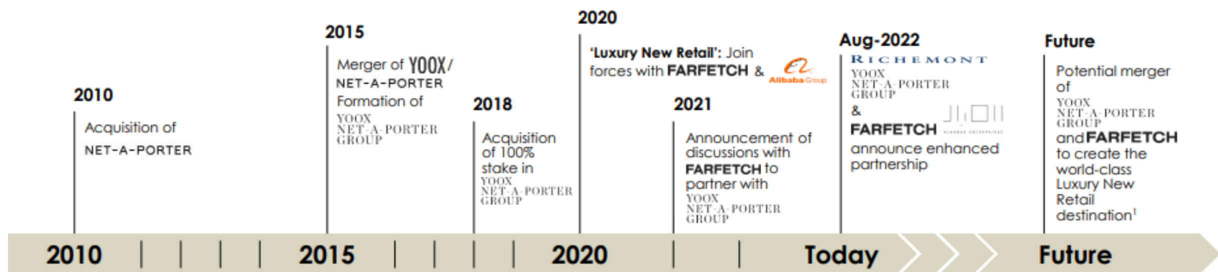


Figure 3.1: Significant development in Richemont's digitalisation journey

Source: Richemont, 2022

The timetable set out in the agreement for the acquisition of YNAP by FARFETCH is as follows.

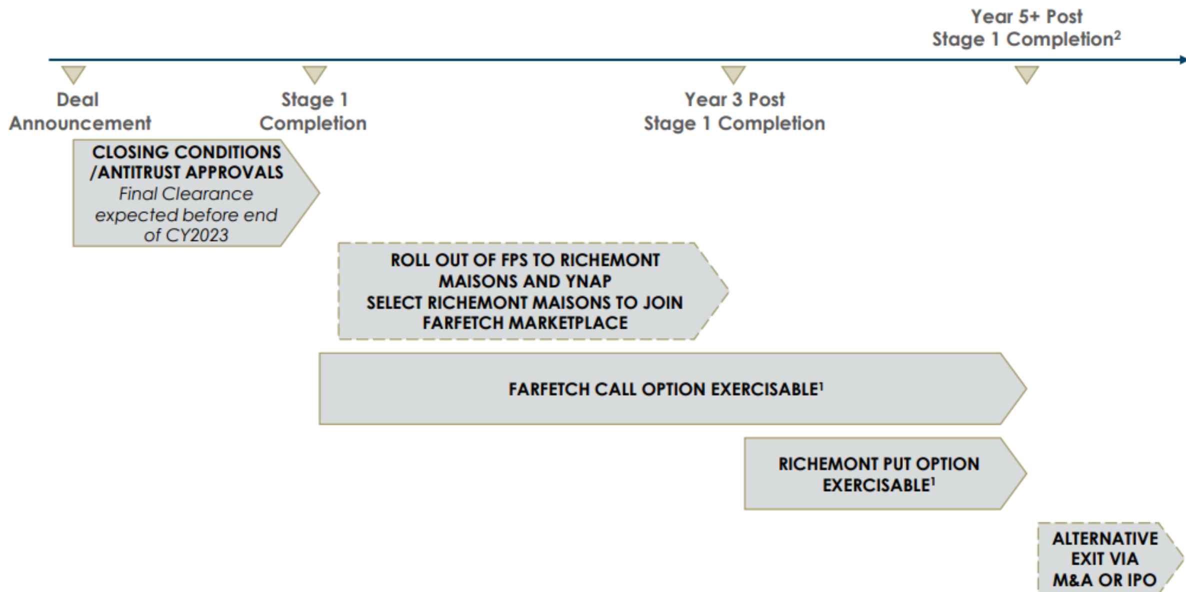


Figure 3.2: Timeline

Note: [1]Call option subject to certain valuation floors, put option subject to positive adjusted EBITDA condition. [2]FARFETCH call option and Richemont put option subject to extension in specific circumstances regulated by the agreement.

Source: Richemont, 2022.

As the chart shows, it all started with the announcement of the deal on 24th August 2022. From there, the first phase of the deal began, which will be completed by the end of 2023 with the receipt of the necessary approvals, such as antitrust clearance. The second phase will then begin, during which both Richemont Maisons and YNAP will adopt Farfetch Platform Solutions, enabling YNAP to accelerate its market penetration and transition to a hybrid 1P/3P business model. Also during this phase, some Richemont Maisons will sign e-concessions to enter the Farfetch marketplace, and FARFETCH will be able to increase its stake in YNAP's share capital to 100%. This will be made possible by a mechanism of put-and-call shares that can be exercised under certain conditions. The call option held by FARFETCH on all shares of YNAP that it does not own is exercisable at any time between the first phase of the transaction and the fifth anniversary. On the other hand, Richemont has a put option exercisable at any time between the third and fifth anniversaries of the completion of the first phase of the transaction, provided that YNAP has achieved positive adjusted EBITDA in the 12-month period preceding the exercise and in three out of the four quarters of the same 12-month period. Conversely, if the full acquisition is not completed and the put or call option is not exercised, a qualified majority of YNAP shareholders could approve an exit through a sale to a third party or an initial public offering of YNAP shares (Richemont, 2022).

3.2.5 STRATEGIC MOTIVATIONS

Having outlined the players involved, the financial motivations that led Richemont to sell YNAP, the structure of the transaction, and its timing, we now consider another key element of the transaction, namely the strategic motivations behind the deal.

Richemont decided to sell a stake in YNAP to FARFETCH, which could in the future become its entirety under certain conditions, for several reasons. We have already examined in detail the financial reasons for this decision, in particular YNAP's losses in recent years. We will now examine the strategic reasons that led to the conclusion that it was the right thing to do, given the benefits that would be derived from this operation.

Richemont believes that FARFETCH is well positioned to provide end-to-end functionality for the luxury sector and has innovative technology solutions that can be made available to luxury brands and retailers to meet the growing omnichannel needs of luxury customers (Richemont, 2022).

Despite its short track record, YNAP, which was formed by the merger of two early movers in the online market, has managed to establish a solid reputation in the industry and enjoys an authoritative voice in the luxury sector thanks to the strong relationships it has built with major brands, its editorial expertise, excellent customer service, and a large customer base of more than 4 million worldwide. In this regard, it is believed that FARFETCH's sophisticated technology can be applied to YNAP's operations to meet the needs of its customers. Currently, FARFETCH's platform is already connected to the inventory of many of YNAP's partner brands, which will greatly accelerate the launch of YNAP's marketplace offering, allowing YNAP to move to a hybrid business model that uses fewer resources and integrates inventory ownership with a third-party e-concession/marketplace offering. This change is expected to improve the customer shopping experience while optimizing YNAP's financial performance due to the absence of inventory. This change in business model will also make the company faster, more flexible and less dependent on investment needs (Richemont, 2022). Not only will YNAP benefit from this transaction, but so will FARFETCH. As a result of the transaction, FARFETCH will consolidate a dominant position in the luxury e-commerce sector, adding more than $3 billion in gross merchandise volume to its market and increasing its market share in the sector. FARFETCH will also benefit from YNAP's vast customer base and gain access to the aspirational brands with which YNAP works. At the time, Richemont had to spend significantly more in comparison to gain these benefits (O'Connor, 2022).

Another reason why Richemont chose FARFETCH as a partner is to promote the LNR vision of its Maisons. Through this partnership, FARFETCH's extensive luxury-focused technological capabilities and expertise will be combined with Richemont Maisons' rich experience in luxury retail, gained from managing over 1,250 of its own stores worldwide and providing luxury experiences to its highly affluent clientele. Through this strategy, Richemont Maisons will be able to drive the creation of omnichannel services and cutting-edge technology solutions in the most cost-effective way possible, and will enhance the solution offering of the FARFETCH platform for the benefit of luxury brands and customers (Richemont, 2022). This collaboration will allow FARFETCH to add the likes of Cartier, Van Cleef & Arpels, and Jaeger-LeCoultre to its technology ecosystem, as Richemont announced an agreement with FARFETCH's B2B unit called 'Platform Solutions'. Richemont's portfolio of brands will begin using FARFETCH's white-label services to enhance their digital capabilities, including e-commerce site logistics and building a more complete omnichannel. In addition, brands will use an electronic concession model to sell their products on the FARFETCH marketplace. Commenting on the latter, Bernstein analyst Luca Solca said: "This looks like a very good deal for FARFETCH", providing a "very welcome boost to traffic generation... which FARFETCH

has been desperately needing". This deal allows FARFETCH to penetrate the hard luxury market, which currently accounts for a very low percentage of its sales, and could lead to a strengthening of the company's credibility as a leading technology platform for luxury names (O'Connor, 2022).

To illustrate the proactiveness of the actors involved in this transaction, their motivations for entering into this partnership, and their vision for the future, the following statements were made by Johann Rupert, José Neves, and Mohamed Alabbar on the day the agreement was announced:

Johann Rupert, Chairman of Richemont, said on 24th August 2022: "Today's announcement is an important step towards realizing a dream that I first expressed in 2015: to build an independent and neutral online platform for the luxury industry that would allow brands to retain control over how their products are presented and that would be very attractive to both luxury brands and their discerning customers. We knew then that if we wanted to control our own destiny and protect the uniqueness of the luxury industry as it goes digital, we had to work together because the task was too big to do alone. FARFETCH's sophisticated technology will enable Richemont Maisons to benefit from the best route to market and realize its vision of Luxury New Retail, while the implementation of a hybrid model in YNAP will greatly enhance its prospects. We have adjusted the valuation of YNAP to reflect the current market environment and will receive shares in FARFETCH in return, further aligning our interests. As a supporting shareholder and partner of Luxury New Retail, we will seek to build the perfect platform for the future, enabling the luxury industry to thrive in an increasingly digital economy. I am delighted to be working with José Neves and Mohamed Alabbar. I would also especially like to thank my son Anton, whose technological skills and creative thinking have been instrumental in building this partnership, and of course my colleagues for their tireless work over the past two years, which has enabled Richemont to reach this turning point in its transformation towards the Luxury New Retail" (Richemont, 2022).

José Neves, Founder, President, and CEO of FARFETCH, said: "Today, FARFETCH and Richemont have significantly advanced our Luxury New Retail vision for the digitalization of luxury. This important partnership clearly establishes FARFETCH as the preeminent global platform for luxury. The capabilities of our FARFETCH platform solutions are perfectly suited to the luxury industry, and this has been recognized by Maison Richemont and luxury pioneer YNAP, who will all be able to enhance the digital experience of their global customers by using

FARFETCH platform solutions. The launch of Maison Richemont's e-concessions on the FARFETCH marketplace represents a shift in our strategy for hard luxury, which represents over 20% of the global luxury industry but only 3% of FARFETCH's sales, and is an area where we see much stronger customer demand than we have offered to date. Finally, we are delighted to have acquired 47.5% of YNAP and to be working with Richemont to transform YNAP into a hybrid business model, which we believe will deliver strong growth and profitability for YNAP. This investment and the work we will do with FARFETCH Platform Solutions for YNAP will pave the way for a potential acquisition by FARFETCH, which would create a complementary portfolio of iconic luxury destinations catering to different demographics, price points, and geographies. I would like to thank Johann and Anton Rupert for their vision and look forward to working more closely with them" (Richemont, 2022).

Mohamed Alabbar, Founder and Owner of Symphony Global, said: "I am delighted to have the opportunity to consolidate my long-standing relationship with Richemont and YNAP, and this time to participate in the realisation of their vision of Luxury New Retail. YNAP is one of the world's most coveted luxury shopping destinations and the partnership with FARFETCH to further develop YNAP's marketplace business will further enhance the experience for its brand partners and discerning customers. I am also confident that our in-depth knowledge of the Middle East luxury market, with its tech-savvy and influential customers, will be of great value to YNAP in the future" (Richemont, 2022).

In the highly competitive and demanding luxury e-commerce market, where it is difficult to generate profits due to price competition, high customer acquisition costs and logistical problems, the merger represents a significant consolidation and further strengthens FARFETCH's leadership position within this market. This does not mean that FARFETCH will stop competing with other shops and websites for customers and inventory, but expanding its consumer base through YNAP's sites and adding key customers to its B2B will help FARFETCH achieve its goal of becoming the dominant technology provider and marketplace for luxury brands (O'Connor, 2022).

3.2.6 MARKET’S REACTION

According to Bain and Company's forecasts for 2023, as reported in the first chapter, the potential market growth is expected to be between 5% and 12%, based on the record year of

2022. The analysts also predict that the sector will be worth between USD 577 billion and USD 621 billion by 2030, doubling in size since 2020. This positive market performance is also reflected in the performance of the S&P Global Luxury Index, which is up more than 10% year-on-year, outperforming global listings by more than 500 basis points in euro terms as of August 28, 2023 (see chart below). Moreover, it is not expected to run out of steam in the short term (Barhat, 2023).

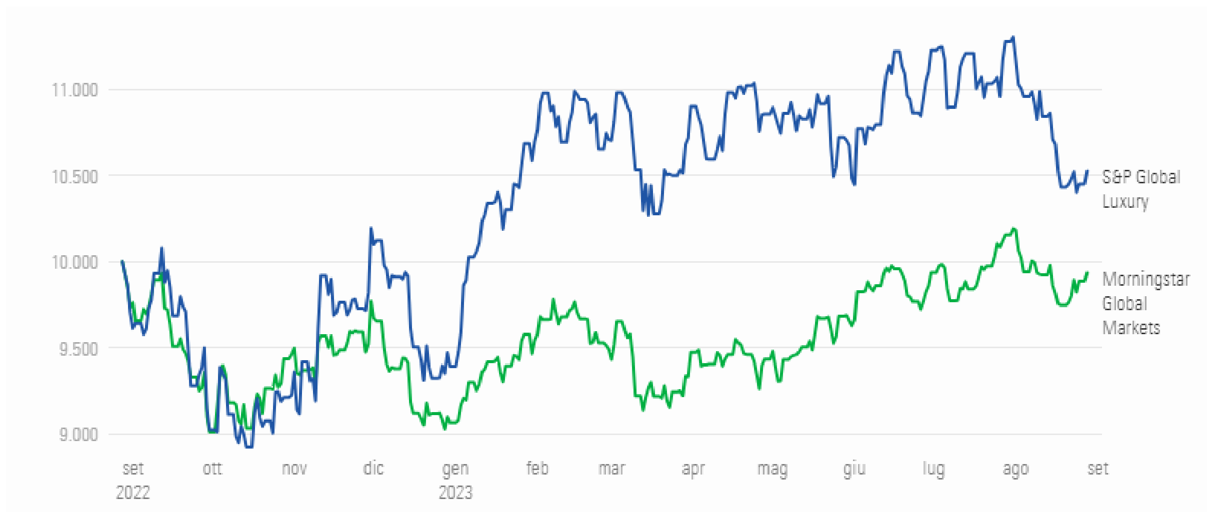


Figure 3.3: Trends in the Luxury sector

Source: Morningstar Direct, data in euros as of 28 August 2023. Growth graph with base 10,000.

This is the background to the acquisition of YNAP.

As early as 2021, when Richemont announced that it was in advanced talks to strengthen its partnership with FARFETCH, the market reacted positively, with the share price rising by 8.5% in a few minutes in Zurich (Camurati, 2021). This reaction was confirmed the following year with the official announcement of the sale of the majority of YNAP to FARFETCH and the businessman Mohamed Alabbar. Richemont's shares closed up almost 3%, while FARFETCH's share price jumped 21%, giving the platform a market capitalization of $3.6 billion (O'Connor, 2022). Analysts described the sale as "very good news", although the price was "painful". Zuercher Kantonalbank was positive on the sale, believing that the deconsolidation of YNAP from Richemont would allow the latter to increase its EBIT margin by 470 basis points. Moreover, according to the bank's experts, Richemont will have a stronger market position than ever before, even in the event that the devaluation is higher than forecast in August 2022. Vontobel also sees the announcement as "very good news", as it puts an end to years of underperformance and significant expenses in YNAP (Licini, 2022). In a note, analyst Jean-Philippe Bertschy recommends buying the stock (Suzzi, 2022). Vontobel analysts

write: "We have been advocating a better capital allocation and an exit from YNAP for years, and this is now the way forward", while pointing out that the price is painful due to the sharp devaluation. The purchase also surprised the market, as it was expected that other companies would buy YNAP's shares. Nevertheless, analysts speculated that the sale could also give the Richemont board some breathing space before the shareholders' meeting on 7th September 2022, when it will have to deal with activist investor Bluebell Capital, which has called for the appointment of Francesco Trapani, former CEO of Bulgari, to the board and for Richemont to focus on "hard luxury" (Licini, 2022).

In recent months, things have started to look up for Richemont, which is keen to get loss-making e-tailer YNAP off its balance sheet. According to a November note from Bernstein analyst Luca Solca, YNAP will continue to weigh on the company's results until the purchase is completed. However, investor confidence in Richemont increased after the deal was announced; in the following seven months, the company's share price rose by around 60 percent (O'Connor, 2023).

Below is a graph showing the performance of Richemont's share price and FARFETCH's share price over the last five years, highlighting the moment the deal was announced.

Figure 3.4: Performance of Richemont and Farfetch shares over the past five years
Source: Google Finanza, 2023.

3.2.7 SYNERGIES AND FUTURE PERSPECTIVES

Following the acquisition, YNAP adopted FARFETCH's online platform solutions to drive its growth and transition to a hybrid business model. This partnership between Richemont and FARFETCH also foresees that the Richemont Maisons will adopt the FARFETCH platform

solutions to accelerate the realization of their Luxury New Retail ("LNR") vision and open e-retail stores on the FARFETCH marketplace. The Maisons' Luxury New Retail vision will be accelerated by decoupling the online and retail front-end solutions from Richemont's supply chain and back-end to reduce integration complexity and interdependencies. In this context, YNAP will adopt the FARFETCH platform's solutions to facilitate the transition to a hybrid retail-marketplace model, while Richemont will adopt the FARFETCH platform's solutions to drive the delivery of its brands' luxury products. This represents a major breakthrough for Richemont Maisons in terms of omni-channel distribution capabilities. FARFETCH will also benefit from expanding its watch and jewelry offerings on its own site (Richemont, 2022).

The image below illustrates the key benefits just outlined that will result from the partnership with Farfetch Platform Solutions. This agreement will enable a single front-end for sales and services. Integration with FARFETCH will provide a unified and connected system, new delivery methods, advanced payment options, and access to new markets. With the e-concessions and technologies provided by FARFETCH, Richemont's brands will be able to offer their customers an advanced omni-channel e-commerce experience (Richemont, 2022).

Figure 3.5: Benefits of Farfetch Platform Solutions partnership
Source: Richemont, 2022.

This acquisition brings together two highly complementary businesses, FARFETCH and YNAP, to create the ultimate luxury retail destination. The chart below shows the distinctive capabilities of the two companies. As can be seen, they complement each other, and their combination will enable the companies to achieve their goals.

FARFETCH

YOOX
NET-A-PORTER
GROUP

FARFETCH	YOOX NET-A-PORTER GROUP
• Visionary behind the marketplace model and platform strategy for luxury • Modular and scalable end-to-end enterprise e-commerce solution tailored for the luxury industry; • Distinctive 3P model built on unlimited offer, global reach, seamless shopping experience; • Almost 4 million digitally native primarily Millennial and Gen Z affluent customers; • Omnichannel capabilities to connect the entire customer journey both online and offline; • Strong innovation capabilities.	• Some of the most coveted and prestigious destinations that luxury brands want to be associated with; • Longstanding and deep brand relationships; • Unique 1P model built on product curation coupled with sophisticated editorial skills; • Excellence in customer service; • Strong EIP business; • Covering the entire product life cycle and all the key markets for luxury; • Extensive global logistics network tailored for luxury.

Source: Personal elaboration with data from Richemont, 2022.

The acquisition will enable the companies involved to increase their market presence, broaden their product lines, increase their available resources, technologies and know-how, reduce costs and increase their bargaining power.

This operation represents a milestone in the digitalisation of the luxury goods industry. Indeed, the partnership between Richemont, FARFETCH and Symphony Global will drive this transformation and is also a landmark transaction in the implementation of the Luxury New Retail vision. The acquisition brings together two complementary companies, YNAP and FARFETCH, to create the ultimate Luxury New Retail, in which YNAP will initially become a neutral platform with no controlling shareholder and Richemont's Maisons will experience a step change in omnichannel retail capabilities (Richemont, 2022).

CONCLUSION

The aim of this thesis was to analyze the impact of digital on M&A transactions in the luxury sector. Through an in-depth analysis of M&A in the digital luxury sector, it aimed to provide a clear understanding of the growth strategies adopted by companies and the critical success factors driving such transactions. The luxury industry is facing a rapid digital transformation, and M&As are an important strategic tool for companies to remain competitive and capitalize on opportunities in the digital luxury sector. Understanding these dynamics and best practices can provide valuable value to companies in the industry considering or planning M&A transactions.

Over the years, the M&A strategy has been widely adopted in the luxury sector. These transactions are one of the ways in which companies can decide to grow and increase their market share. It is an example the consolidation that took place in the 1990s. This transactions' wave gave rise to the four key conglomerates in the industry: LVMH, Kering, Richemont, and Swatch Group. With the advent of digital technology, the luxury sector was faced with the dilemma of whether the brand image would lose its distinctive characteristics of exclusivity and uniqueness by adopting and implementing it in its business. It turns out that it is possible to maintain a sense of exclusivity even when using online platforms by providing services that are appropriate to the concept of luxury. Companies must be able to innovate in order to survive in a notoriously complex, highly competitive, and rapidly changing environment such as the luxury industry. According to the latest report by Bain & Company (2023), the main opportunities for the industry's future will be the development of emerging markets, especially mainland China, which is expected to account for 40 percent of global purchases; the emergence of new generations, such as Generation Y, Z, and Alpha, which are estimated to account for 80 percent of global purchases; and last but not least, online, which will become the largest distribution channel for luxury purchases, with an estimated share of 32–34 percent. It is estimated that these drivers will help the personal luxury segment reach €330–370 billion by 2025 (D'Arpizio et al., 2021) and €540–580 billion by the end of 2030 (D'Arpizio et al., 2023).

The digital M&As' analysis in the luxury sector shows that the main reasons are to improve the target company's performance, to accelerate time to market, to acquire skills or technologies faster and at lower cost, to improve the online shopping experience, to enable companies to expand their customer base, and to achieve operational synergies and improve business efficiency. To bridge the digital divide, luxury brands have integrated online platforms and advanced e-commerce tools. The importance of technological innovation in luxury M&A

strategies has become a recurring theme. The advanced technologies' integration, such as augmented reality to enhance the customer experience, advanced product customization, and supply chain optimization, have become priorities for many companies in the industry. Such investments in digital innovation have proven to be critical in enabling brands to remain competitive in a rapidly changing marketplace. Given such transaction's type complexity, it is crucial to pay attention to strategic coherence, organisational coherence, integration, which is a very complex and delicate phase of the acquisition process, and valuation in order to avoid overpaying. Neglecting these aspects can lead to the failure of the operation. Consistent planning is therefore very important. The two companies, both the acquiring and the acquired, must share the vision, mission, and new strategic plan. Thus, according to Haerrudin (2017), a successful M&A process must not only include thorough planning of the financial aspects and strategic analysis but also planning for compatibility between the preferences of the two organizations regarding the strategy to implement the transformation. According to Achille, Remy, and Marchessou (2018), digital is an opportunity for luxury brands and retailers, and there is no formula for its successful integration into the business. They identify five elements to consider. The first is that digital is no longer just a sales or communication channel but a key element that brands need to master. For example, digital affects retail, supply chain, brand management, and customer interaction. The second is that digital should not be a label applied to a channel or business function but should be applied to every aspect of the business to understand the opportunities and risks it faces. Thirdly, digital requires organizational changes. For example, the executive committee must include a digital manager who participates in key choices that affect the brand's future. The fourth is the use of big data and machine learning, maximizing their potential to strengthen relationships with customers. The fifth and final element is the continuous sourcing of skills and knowledge from outside in order to stay up-to-date and innovative.

This work has shown that integrating advanced technologies and focusing on the customer experience have become the pillars on which luxury companies' growth strategies are based. Knowing how to take advantage of the opportunities offered by globalization and digital disruption has therefore become paramount. Digital M&A has been a viable solution for companies that have not been able to develop these skills in-house.

To illustrate what has just been said, the case of Yoox-Net-A-Porter has been analyzed. Its acquisition by another e-commerce giant, FARFETCH, symbolizes the digital's growing importance in the online luxury goods sector. The partnership's consolidation between Richemont, FARFETCH, and Alabbar to promote the luxury sector's digitalization was announced on 24th August. Richemont has thus decided to work with FARFETCH, choosing it

as its technology partner, both to implement the "Luxury New Retail" vision of its Maisons and to deconsolidate YNAP from its balance sheet. In the first phase of the transaction, FARFETCH will acquire a 47.5% stake in YNAP, and Alabbar will acquire a 3.2% stake, making it a neutral platform without a controlling shareholder and allowing Richemont to deconsolidate the entity from its financial reporting. In a second phase, FARFETCH will be able to increase its stake to 100% through a put-and-call mechanism. In addition, the agreement provides for the adoption of Farfetch Platform Solutions by Richemont and YNAP, allowing the latter to accelerate its market penetration and its transition to a 1P/3P hybrid business model (Richemont, 2022). This partnership marks a major shift in online luxury retail. The aim is to combine the skills that have made FARFETCH and YNAP successful.

The case analysis showed how digital is no longer just a type of distribution channel but a strategy in its own right. Both FARFETCH and YNAP have played a significant role in the online luxury industry’s transformation, offering consumers a high-quality digital shopping experience and a wide luxury products’ selection from around the world. This transaction is the first step for FARFETCH to dominate luxury e-commerce, enhancing the YNAP and Richemont brands with its digital platform and expanding its customer base. It will also allow Richemont to focus on its core business and improve its profitability, as YNAP was a loss-making business that weighed on its balance sheet.

It is vital to understand the opportunities’ enormous potential that digital offers, both for business development and for future generations. However, challenges remain, including continued adaptability to new trends and the digital consumers’ changing expectations.

As the luxury sector is a constantly evolving environment, there are considerable insights that can be considered when analyzing possible and likely future developments. Looking at how new technologies will evolve over time and how they will further merge with the luxury sector it could be one of them. Indeed, it is predicted that the metaverse will have an impact on our lives similar to the introduction of the internet and smartphones. By 2030, the metaverse could reach five billion regular users, and the business opportunity is estimated at around $13 trillion (Faccioli & Martin, 2022). But the development of technologies such as AR, VR, and AI, or new technologies, it could also lead to exciting studies and outcomes for the field. Another food for thought and research that may come from reading this paper it is to follow the progress of the deal between Richemont, FARFETCH, and Alabbar to acquire YNAP, which is still in its early stages. It will be interesting to see how YNAP reacts after integration with an online retail expert such as FARFETCH and whether it will be able to recover from the poor performance of recent years. It will also be interesting to analyze the position of FARFETCH,

which is now facing difficulties in managing the customers’ return to bricks-and-mortar stores after a period of rosy prospects that led to excellent results and the signing of the agreement with Richemont. Moreover, the situation has been exacerbated by problems in China and Russia, two of its three main markets, leading to a fall in the value of FARFETCH's shares.

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