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**MERGER AND ACQUISITION IN THE DIGITAL BUSINESS:
THE YOOX NET-A-PORTER CASE**

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Firma dello studente

Stay hungry. Stay foolish.
Steve Jobs

Abstract

Even if Mergers and Acquisitions are an old phenomenon, they still have some dark sides. Indeed, it is difficult to identify the factors that guarantee the success of these operations. They typically occur in waves. It seems we are in the middle of a new waves. In 2015 a new record has been established \$4.28 trillion, an amount 16.6% larger than the previous record set in 2007 and 29.9% above 2014. Despite the uncertainty and volatility that have characterised the current year, the trend is expected to hold. In particular, in the thesis I will analyse the digital business. The spread of Internet as a mass technology has revolutionised many aspects of our lives. And today the firms that lead this industry are those which have survived to the dot-com bubble. Among those there are YOOX Group and Net-A-Porter Group. They are multi-brand online luxury retailers. Both were born in 2000 and both since their launches have revolutionised this niche market. Despite online channel has recorded the highest growth rate over last years in the luxury sector, it has been largely ignored by many luxury brands. Since they perceived online as a threat for customers' luxury experience. This has favoured YOOX and Net-A-Porter, which in these fifteen years have developed unique know-how and expertise. In 2015 they have decided to merge, the combined company YOOX Net-A-Porter Group is the global leading online luxury fashion retailer.

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Introduction

Corporate growth is a topic that has interested managers and researchers from years, and probably this appeal is enhanced by the actual economic contest. Globalization, hyper-competition and accelerated technological change require businesses to develop sharp and dynamic strategies of growth to survive and prosper in the “new global market”. Many studies have been developed in order to assess the corporate performance related to their growth strategies. Growth is important because among all it allows companies to reach scale and scope economies, to increase bargaining power towards consumers and suppliers, to attract high skilled human capital and to diversify their businesses. Slow-growing businesses show fewer interesting opportunities for managers thus may have more difficulty to attract and retain talent. However, growth is not a synonym of good performance, as it may be easy to think. Indeed, there are cases where growth can destroy value, for example: when strategies or organizations are unsuitable to sustain the development, or the employment of too much debt, or even the wrong assessment of goals and risks. Globalization has changed the way of doing business: on one hand, it increases the opportunity for a company to get access to new markets; on the other hand, it raises the risks borne by a company due to the higher competition to which it is exposed. For these reasons, it may be even more important today than in the past to develop a strategic concept of growth and internationalization. Given the new competitive environment and the rapid technological changes, companies should know well how to exploit at the best their internal skills and resources. At the same time, they should have an open mind with respect to the opportunities and the requirements that the “external world” offers and seeks. Many companies have understood that the globalization has made it necessary the achievement of a critical mass. At least in some sectors, this is quite fundamental to keep their competitive position in the “new global market”. A possible consequence is that it may be very hard for small companies to survive alone, since many sectors are consolidating and big international companies lead markets. According to the 2016 annual ISTAT companies’ report between 2010 and 2013 nearly 90% of the Italian companies have not changed dimension, measured in terms of employment. Further there has been a small tendency towards smaller dimension. Data shows that the companies’ economic performance is related to their size. Indeed, 13% of small companies have increased their value and employment, while regarding to medium-large companies the percentage raises to 30%. In addition, the economic performance is linked to the company presence in international markets. Companies oriented towards exports have

increased both, value and employment. While less international companies and with less intercompany relationships have underperformed. Probably, this is also due to the growth of foreign demand. However, growth is not a pattern that every company should undertake to achieve success. A shallow and inaccurate strategy may lead to drop in profitability. Growth is the right strategy to follow for businesses that already have high profitability. While low profitable companies should focus more on raise profits, before start to develop a growth strategy. In other words, it should be profitability to drive growth, and not the opposite (Davidsson et al, 2009). According to McKinsey, a company has to reach the correct balance between growth and return on invested capital (ROIC) to create value. In companies with high ROIC, growth will create more value than increase in ROIC. While in companies with low ROIC value creation is more influenced by ROIC than by growth.

How a company can grow?

Generally, extant literature differentiates between organic growth and external growth. In reality, the decisions of a company on which growth strategy put into practice are not limited to a simple choice between organic growth or external growth. Moreover, firm's growth strategies often vary over time (Achtenhagen, Brunninge and Melin, 2016).

Organic growth consists in the implementation of new activities exploiting resources owned by the business. The resources include skills, human capital, technology and capital. The strategies that a company may follow to grow its business are various. Some companies may amplify their productive capacity, in order to respond to an increase of the demand. Other companies may diversify their business. To achieve economies of scale, to better exploit the resources owned by the company or to exploit findings of the Research and Development department (R&D). Furthermore, companies may want to integrate different stages of production (vertical integration). With the aim of increase their market power and reduce costs. Organic growth presents some limitations. The resources of the company may be not enough to sustain the growth and the process may take very long time to realize. Managerial capabilities are essential, since manage a small business is very different from manage a bigger one. Moreover, marketplace may not allow the company to grow beyond a certain point. Despite these drawbacks, organic growth may give to the company more control on the process. Anyhow, given the dynamism of the markets, companies may need a faster way to grow. External growth allows companies to obtain knowledge, market-shares, new products or access to new markets in a faster and sometimes cheaper way. It consists in joining forces with another business.

Companies can agree upon strategic alliances, joint ventures or they can engage in Mergers and Acquisition deals (M&A). The company can immediately take advantage of the benefits related to a bigger size. For example: a greater customer base or more favourable financing terms. But clearly, these operations bring other risks that can cause the failure of the deal. For example: asymmetric information and the risk of overpayment.

The thesis will focus on the M&A transactions. In particular, I will examine the merge between YOOX and Net-A-Porter occurred at October 2015. The combined company YOOX Net-A-Porter group (YNAP) is the principal online luxury retailer. In the next sections I will present an overview on M&A operations. Then I will introduce the e-commerce market and YNAP merge. As the case study of this thesis demonstrates, organic growth and external growth are not alternative, rather they are complementary. Firstly, YOOX has engaged in an organic growth pattern (opening new online stores and entering in new markets) and secondly it has undertaken a more external growth strategy (joint venture with Kering, merger with Net-a-Porter and strategic alliance with IBM).

Chapter 1

M&A market trend

Companies undertake M&A operations from the 18th century. However, they still have some dark sides, even if they are a very old phenomenon. In fact, it is difficult to identify which are the factors that guarantee the success of these operations. Typically, M&A occurs in waves. These are driven by several factors. For example: technological changes, stock prices, low interest rates. In the last two decades M&A importance is increased. In particular, globalization and the development of international markets have boosted cross-border M&A. Adding further benefits and risks to this strategy. Historically, in Italy the phenomenon is less developed than other countries as USA and UK. This is due to the characteristics of the Italian market as the prevalence of small-medium business conducted by families and reduced development of capital markets. In this particular economic trend, the sub-prime crisis and the sovereign debt crisis are affecting the economy even now. The 2016 itself has been a year of uncertainty and volatility. The drop of the oil's price, the Brexit, the terrorist attacks, the flows of migrants towards Europe and the resulting geopolitical tension, the possible raise of interest rate after years of low rates are all events that have contributed to create uncertainty. In this context it is interesting to see the behaviour of the M&A market in recent years. A recent research has demonstrated that during a period of crisis the acquisition behaviours changed substantially. The probability of diversifying acquisition and cross-border acquisition is lower relative to the pre-crisis period (Cerrato, Alessandri, Depperu, 2016). In the period before the sub-prime crisis (2003-2007) there were a boom of M&A financed by debt. The average merger was larger than that occurred in previous M&A waves (80s, 90s) and mostly were horizontal and cross-border. When the bubble burst the M&A market registered a significative meltdown (Fig. 1).



Figure 1. Global M&A activity (1996-2015). Source: JP Morgan

After a period of fluctuating performance, the 2015 has been the year of the record with \$4.28 trillion on mergers and acquisitions, an amount 16.6% larger than the previous record set in 2007 and 29.9% above 2014 according to the Mergermarket M&A annual trend report. Moreover, seven industries have recorded their highest M&A value (Fig. 2): Pharma Medical & Biotech, Consumer, Technology, Business Services, Real Estate, Transport and Defence.



Figure 2. Industries' market shares 2015 vs 2014. Source: Mergermarket M&A trend report 2015

The US accounted for 46.2% of global M&A activity. Stringent US tax laws as well as a weakened Euro drove US companies to invest in Europe. In addition, the devaluation of Euro against the dollar is probably one of the factor that push back European companies to invest abroad. The two largest deals of the year are respectively Anheuser Busch Inbev/SABMiller (\$120.3 bn) and Royal Dutch Shell/BG Group (\$81.2 bn) both occurred in Europe. The biggest

announced deal was the Pfizer’s purchase of Allergan (\$183.7 bn), the third-largest deal in history, however at the end the deal was not concluded. According to JP Morgan in the last quarter of 2015, globally, businesses owned more than \$6 trillion in accumulated cash reserves. Thus expectations about the M&A market in 2016 should be positive, also considering a possible “domino effect” where companies that were inactive in 2015 seek to replicate to their peers. Is this true? Has the growing trend continued in 2016? According to Mergermarket H1 trend report M&A activity has dropped to \$ 1.32tn, -26.8% compared to H1 2015 when deals worth \$ 1.81tn (Fig. 3). The main cause is the uncertainty related to the Brexit and the US elections. Clearly, UK recorded a huge drop in the value of deals -50.5% in Q2 (\$19.3 bn) compared to Q1 (\$38.9 bn). While China has dominated the market with four of its largest outbound acquisition, buying quality over quantity.

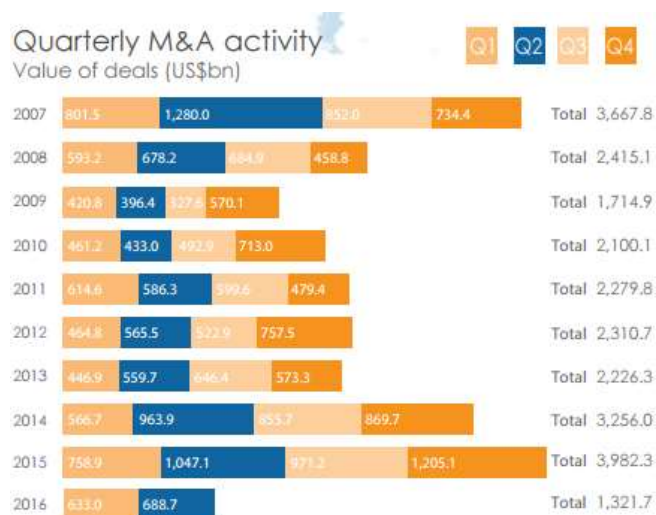


Figure 3. Quarterly M&A activity. Source: Mergermarket M&A H1 trend report 2016.

In Europe, UK referendum and the US government’s grip on tax inversion deals have both reduced the M&A activity within the continent. Germany is an outsider in this sense. In fact, German companies are investing larger sums in US asset, for example Bayer’s purchase of Monsanto for \$66 bn will become the largest outbound acquisition by a German company and the largest of the year since now. Moreover, high quality German assets are attracting Chinese buyers.

Italy’s M&A market in the first half of 2016 has registered 298 deals worth €25.3 bn, a 47% increase compared to the same period the year before when deals worth €17.2 bn. Foreign acquirers have invested in Italy €6.7 bn for 105 deals: the biggest is the acquisitions of Italcementi by Heidelberg for €3.7 bn. Italian companies have invested abroad, data registered

48 deals worth €10.1 bn, the most important is the acquisition of the insurance group ParterRe by Exor for €6.9 bn. The domestic market has recorded 145 deals worth €8.5 bn, the most active businesses were: financial services, industrial, banking and consumer sector. These data buck the global trend, at least for the first half of the year. According to Max Fiani (KPMG partner): “This was the best performance since 2008”.

Different types of M&A transactions

Mergers and Acquisitions is a general term that refers to the consolidation of companies or assets. The leading principle behind buying a company is to create synergies that make the value of the combined companies greater than the sum of the two parts, in order to create shareholder value. In general, strong companies plan to buy other companies in order to create a more competitive and cost-efficiency company. Usually, target companies agree to be purchased when they know they can not survive alone. While, if they do not agree we speak of “hostile take-over”. The success of a deal depends on whether the expected synergies are achieved.

Even if the two terms merger and acquisition, usually, are used as synonymous, they represent different strategies. Each with a different degree of integration between the two companies involved.

- *Merger*, we speak about merger when two companies combine together to form a completely new company. In this case they became a new legal subject. Or when one company absorb another business and the target company ceases to exist. The exchange ratio determines the number of the new company’s shares that target’s shareholder will receive. According to the Federal Trade Commission we can distinguish between:
 - *Horizontal merger*, when a company merges with another company in the same industry and at the same stage of production. The benefit of this kind of transaction is that it eliminates competition, this could increase market share, revenues and profits. It also supports cost efficiency.
 - *Vertical merger*, when the two combined companies are in the same value chain of producing the same good and service but they operate at different stages of production. The main aim of this deals is to secure supply of essential goods and avoid disruption in supply. Further, it is a way to restrict supply to competitors and hence increase market share, revenues and profits. It also offers cost savings.

- *Conglomerate merger*, this is the combination between two companies that operate in completely different industries. This operation is usually undertaken to diversify the business in order to reduce risks.
- *Product concentric merger*, it occurs between two companies that deal products related to each other and operate in the same market. The main purpose of this merger is to access to a greater number of consumers, hence increasing profits.
- *Market concentric merger*, it takes place between two firms that operate in the same business but in different markets. The leading aim of the deal is to enhance the firm's client base.
- *Acquisition*, when one company buys another one or a majority stake in the target company and established itself as the new owner. However, in this case the acquired company does not change its name or legal structure. Thus no new company is created.
- *Tender offer*, when a company offers to acquire the outstanding shares of another company at a specific price. Usually, the price offered is at a premium to the market price. The offer is presented directly to the company's shareholders, avoiding the management. Hence it is an expensive fashion to complete a hostile takeover.
- *Acquisition of assets*, typically done during bankruptcy proceedings. One company purchase the assets of another company, the latter usually is liquidated after the deal is concluded.
- *Management acquisition*, when the management of a company buy a majority stake in the company. These are usually financed with debt.

Antitrust authorities can block a M&A operation. This happens when authorities believe that the deal will severely reduce competition in a market, resulting in a significative price increase for the consumers. Furthermore, authorities can make the approval of the deal contingent upon the divestiture of some businesses. From here on out, in the first chapter, the terms merger and acquisition will be used as synonymous.

Rationale for M&A

As said before, the main rationale underpinning M&A transactions is to create a combined entity which value is greater than the sum of the value of the two company if they continued to run independently. In other words, companies should pursue M&A strategy only if synergies are related with the deal. It is possible to divided synergies in three categories:

- *Operating synergies*: these include revenue increase and cost reduction and they are the result of the combination of the two companies. Revenue enhancement may derive from increased sales or increased pricing power. While cost reduction is associated with the achievement of critical size to benefit of economies of scale. Other savings might arise from shutdown overlapping departments. Such as advertising, marketing or R&D.
- *Financial synergies*: these are related to the idea that bigger companies usually have access to a greater and cheaper pool of funds. Thus a company may decide to engage in an M&A transaction to lower its financing costs.
- *Managerial synergies*: comes out when a high-performing management team takes the place of a poor-performing team.

The reasons underpinning M&A decision are many, however researches have shown that not all the reasons are good. Motives have been classified by the academics as value-increasing/financial or non-value-increasing/managerial motives (Nguyen, Yung and Sun, 2012; Cartwright, 2006). The formers are driven by the achievement of synergies and include goals, such as: increase the market power, achieve economies of scale, tax benefits, acquisition of new technologies or competencies in a faster and cheaper way, costs reduction, revenues improvement, diversification and access to new markets. The latter include agency, hubris and market timing motives. That is managers undertake acquisition to enhance their prestige, power or fee, thus to promote their personal interests and not the shareholders' ones, or acquisition driven by stock market prices (Nguyen, Yung and Sun, 2012). Researchers have argued that M&A may involve multiple motives (Nguyen, Yung and Sun, 2012; Brouthers, van Hastenburg and van den Ven, 1998). Brouthers, van Hastenburg and van den Ven have classified motives as: economic, personal and strategic (Tab. 1). Then they have identified 17 motives included in past studies and they have asked to the top financial managers of 47 Dutch's companies, which

undertake M&A operations in 1994, to rate these 17 motives on the importance of the motive in a particular M&A deal.

TABLE 1. Motives for mergers

<i>Economic motives</i>
Marketing economies of scale
Increase profitability
Risk-spreading
Cost reduction
Technical economies of scale
Differential valuation of target
Defence mechanism
Respond to market failures
Create shareholder value
<i>Personal motives</i>
Increase sales
Managerial challenge
Acquisition of inefficient management
Enhance managerial prestige
<i>Strategic motives</i>
Pursuit of market power
Acquisition of a competitor
Acquisition of raw materials
Creation of barriers to entry

Table 1. Source: Brouthers, van Hastenburg and van den Ven's motives for M&A, 1998

The results show that economic category is the more important, followed by strategic and personal motives; while the top five motive include three economic motives, one strategic and one personal motives. These findings support the idea of multiple motives behind M&A transactions, even if the sample is not too large and managers might have hidden the importance they give to personal motives.

Koller, Goedhart and Wessels (2015) suggest six strategic rationales for a value creating M&A:

- *Improve the performance of the target.* It simply consists in buy a target and produce costs savings in order to increase margins and cash flows. Private equity firms usually do this. Clearly is easier to implement this strategy when the company presents low margins and low returns.
- *Consolidate to remove excess capacity from an industry.* The strategy is developed in mature industries where usually supply is greater than demand. Additional aim of consolidation may be that of reducing price competition in an industry. Anyhow evidence indicate that is very difficult to pursue this strategy, since it is achievable only when there are just three or four competitors and it is difficult for new entrants to get

access to the industry. Peers without taking any action may capture the benefit of reduced capacity too (free-rider problem).

- *Create market access for the target's, or bidder's, products.* Usually the targets involved in this strategy are small businesses with innovative products. In this case, due to their size they have not the ability to exploit the entire potential market for their goods. Thus bigger companies can largely profit from this situation. In other cases, the target's company may provide to the bidder a faster access to new markets.
- *Acquire skills or technologies more quickly and at a lower price than they could be built internally.* Many companies have adopted this strategy instead of spend huge amount on R&D, the spread of cross-border transactions is a proof of that. Especially in hi-tech industries be fast in respond to customer needs is essential to achieve success.
- *Pick winners early and help them develop their businesses.* It consists in identify and acquire a company in a new industry or product line, before others recognize its worth and potential growth. Clearly this has a high degree of risk, moreover management has to be willing to make investments based on a “bet” and they should have skills and patience since the investment may need time to produce good results.
- *Exploit a business's industry-specific scalability.* Many merger plans have the achievement of scale economies among their rationales. However, particularly for large deals it may be a superficial source of value creation. That is, large companies are already operating at scale. Thus their combination probably will not produce substantial costs savings. To justify an acquisition, economies of scale have to be unique. In other words, general rationale as back-office savings may be not enough to produce value. While economies of scale may be an important source of value when a large company buys a smaller one.

M&A performance and shareholder value creation

Due to their high strategical importance M&A transactions have been studied deeply over the years. Literature on this argument is extremely fragmented. It is possible to discern four schools of thought:

- *Financial economic school.* These researches are conducted taking into account stock market-based measure in order to assay the performance and value creating effects of M&A. In particular, they focus the attention on the stocks prices behaviour of the acquiring and target company around the announcement day.
- *Strategic management school.* It focuses on the effects that premerger relatedness, perceived similarity, or complementarity have on the performance of M&A deals.
- *Organization behaviour school.* Scholars of this school of thought examine the effects that the deal has on human capital, culture and organization of the company. Moreover, they study the impact that specific-firm characteristics have on the transactions' performance, e.g. acquisition experience. Attention is given both to premerger issues and post-merger issues.
- *Process school.* According to this school the success of a deal is stimulated by an effective and efficient process.

One field of study does not exclude another one. However, usually most experts follow an isolated perspective (Bauer and Matzler, 2014). A research conducted by McKinsey on 1,770 acquisition between the 1999 and 2013, stated that the acquirer and target's combined value increased by 5.8% on average. Anyhow from an acquiring company point of view, empirical evidence indicate that M&A are or a break-even situation, or a failure (Brouthers, van Hastenburg and van den Ven, 1998). In other words, most empirical studies show that many M&A deals destroy value for the acquiring company's shareholders and that the main portion of the benefits of the acquisition is captured by the target's company shareholders. Generally, they found that the announcement of a deal lowers the price of acquirer's stocks between 1% and 3%. Others found that shareholders' returns of the acquirers are lower than those of peers companies in the three years following the acquisitions. This happens because shareholders of acquired firm receive a premium over their stocks preannouncement market price, that on average is about 30% (Koller, Goedhart and Wessels, 2015). Kengelbach and Roos, from the Boston Consulting Group (BCG) (2011), have examined 26.000 transactions occurred between

1988 and 2010. In a seven-day window centred on the announcement date the average share price performance was 15,5% for the target firms and -1% for the bidders.

A study concerning the acquisition of and by internet firms has provided different results. In particular, it found that the acquisition of online firms by offline firms and the acquisition of online firms by other online firms cause positive abnormal return for the acquirer (Uhlenbruck, Hitt and Semadeni, 2006). A possible explanation for these findings is that the deals studied in the research have been perceived by investors as a way to develop new skills in a technology that has become fundamental for most of the companies: Internet. Maybe today these results would be different since Internet is a more common and well-known technology.

Even if many have criticized the use of announcement effect, others studies have shown that the first reactions of the market are enduring and these are a quite good indicator of future performance (at least for the first year). However, this approach applied to individual transaction give not useful results. On average, transactions' performances can be evaluated in a correct way by the initial market reaction, but this not true for a single deal. According to Luo (2003) the market reaction to the announcement, that is the combined bidder and target abnormal return, forecasts whether the deal will be concluded or not. In other words, companies extract information from the market reaction. Results of this approach seem to be affected by a large acquisition bias. That is, large acquisitions (with respect to the size of the acquirer) dominate results. For this reason, some scholars have studied acquisition programs of companies. In particular, they consider 639 non-banking companies from 1999 and 2010, and they identify five categories:

- *Programmatic acquirers.* They conclude many acquisitions which value is a large percentage of their market capitalization.
- *Tactical acquirers.* They execute many deals, but which value is a small percentage of their market capitalization.
- *Large-deal companies.* They realize at least one transaction which value is larger than 30% of the acquiring company's value.
- *Organic companies.* They do not execute M&A transactions.
- *Selective acquirers.* They can not be included in the previous four categories.

Results in terms of total returns to shareholders show that programmatic, tactical and organic companies are more successful. While large-deal companies present the worst results,

consistent with the results of announcement-effect presented above. Interesting is also the examination conducted across industries. Results show that large-deals are more successful in mature industries and slower-growing ones. Where the value generated by reducing excess capacity is significant. While they are unsuccessful in faster-growing industries. Intuitively, in these sectors the key success factor is product innovation. The deal may produce a braking in output innovation since managers focus on the integration of the companies (Koller, Goedhart and Wessels, 2015).

Another field of study has been the disclosures of synergies associated with a deal. Managers seem to be more inclined to disclose synergies when shareholders could believe they are paying the target too much. While the managers' inclination to disclosures decrease when they do not have precise synergies estimates, or when they believe disclosures might enhance the risk of shareholder litigation. Moreover, synergies disclosures have a positive impact on the stock returns of the bidding company and they are more likely to equity-financed deals (Dutordoir, Roosenboom and Vasconcelos, 2013). Thus transparency improve the market perception of the deal.

Anyhow it appears from literature that stock markets drive M&A activities, in other words we tend to see more M&A activity in period of high market valuations. A suggested explanation is that over valued bidders use their stocks as "acquisition currency" in these periods. This rationale seems naive since target companies should not be willing to accept stock (Rhodes-Kropf and Viswanathan, 2004). According to them is misevaluation that drives mergers, in fact recent M&A waves ended with a great decline in stock prices. Merger waves occur because in high valuation periods target companies tend to over-valued synergies (Rhodes-Kropf and Viswanathan, 2004). To give support to this idea, they have argued that target companies' managers do this not to maximize long-term shareholder value, in contrast their goal is to maximize their own short-run gain (Rhodes-Kropf, Robinson and Viswanathan, 2005).

If empirical studies exhibit this outcome, it is plausible to ask why has the importance of these operations, as strategic option, continued to increase throughout the years? Some authors have suggested possible answers to this inconsistency (Brouthers, van Hastenburg and van den Ven, 1998):

- Managers' goals could be different from shareholders' value maximization, if this is the case the measure of performance used in the empirical research is faulty.

- Managers believe the next merger will be successful since they have learned mistakes executed in past mergers. But in reality they continue to do the same mistakes, thus they are overly-optimistic.
- Past empirical researches inaccuracy due to data collection, time-periods covered or other statistical bias.

According to this, many studies have argued that managers' merger decisions are based on multiple motives, that is they try to achieve several goals when decide to engage in a merger. If multiple motives perspective holds, previous merger studies, that use financial indicators of performance (profitability or shareholder value) to assess merger success, presumably, tend to underestimate the achievement of other goals and may provide biased results (Brouthers, van Hastenburg and van den Ven, 1998). That is, in a financial perspective the deal could not be a success, but if a different perspective is considered it could be successful.

To measure the performance of M&As researches have adopted different methods. Clearly, the different measures capture different sides of M&A performance. This justify the different evidences highlighted by the studies. Different classifications of measures have been developed, for example Cording et al. (2010) divide acquisition performance in: announcement effect domain, long-term stock performance domain, accounting-based domain and managerial self-assessment domain. Zollo and Meyer (2008) identify task performance, acquisition performance and firm performance. Risberg, King and Meglio (2016) propose three categories of performance measures: economic, strategic and integrative. I will present seven approaches, the classification is based on that of Thanos and Papadakis (2012):

- *Short-term financial market performance.* I have already presented some findings of this approach above. Scholars in this field have used the event study methodology that assumes market efficiency and they have compared the shareholders returns, of the bidding or target firm, around the acquisition announcement with the “normal returns” of a period not affected by the event. Generally, the evidence is that shareholders of the target absorb a great portion of the value generated by the deal, due to the large premiums often paid by the bidder. Results on the bidder shareholders are mixed, some studies find negative significant returns others show positive insignificant returns around the deal announcement. Some studies figure out four characteristics that matter, in terms of returns for the acquirer' shareholders (Koller, Goedhart and Wessels, 2015):

- *Strong operators are more successful.* Acquirers with profits and share price that grow more than the industry average for the three years preceding the deal earn statistically significant positive returns on announcement.
- *Low transaction premiums are better.* Clearly a high premium has a negative effect on return.
- *Being the sole bidder help.* If more companies compete to buy a target the price will increase. Studies point out that the more are the bidder the lower are acquirer's stock returns.
- *Private deals perform better.* Comparing acquisitions of private companies and public companies, it seems that the formers are associated with higher excess returns.

The main advantages of this approach are that it uses a direct measure of shareholder value and that is easy to collect data for all publicly traded companies. However, researchers argue that these studies of performance have four main drawbacks, firstly they assess investors' expectations (ex-ante measure) and not the actual performance of the deal (ex-post measure). Secondly, they focus only on financial performance and they do not take into account other important factors for M&A performance. Furthermore, they can be applied only to public listed firms and lastly short-term measure could be affected by the length of the event window, the length of the estimation period and the method used.

- *Accounting-based performance.* Researchers compare the average returns of the bidder or combined firm after the merger, with the weighted average returns of the target and the bidder firm before the merger. Scholars usually use accounting ratios as ROA and ROE. Studies show mixed results, some evidence positive results on operating performance and profitability others indicate negative performance. A research on long-term profitability of European acquisitions points out that bidder and target companies outperform their competitors in the industry, but the combined entity's profitability decrease after the acquisition (Gosh and Dutta, 2016). The main advantages of accounting-measures are that they evaluate actual performance and not the investors' expectations. In addition, experts agree that the long-term accounting ratios reflect best the potential synergies of a deal. Anyhow these measures present some disadvantages too. First of all, they represent only the economic performance of the company. The

results might be affected by the ratios used. Moreover, they are not useful for cross-border comparison since accounting rules are different.

- *Long-term financial market performance.* Another fashion to assess the success of an acquisition, used by the scholars, is to look at the long-term financial performance of the bidder after the acquisition announcement. Contrary to short-term measure they are expected to determine “realized” and not “expected” measure. The methodology used is that of event study, but clearly the event window is longer than that used for short-term measures. In general studies point out that on average M&A cause negative abnormal returns for the bidder in the long-term. Laamanen and Keil study 611 takeovers, they conclude that the acquisitions did not create long-term value. However, they concluded that experience matter, that is frequent acquirers outperformed not frequent acquirers in the long run. As the short-term measures, this approach can be applied only to public listed company and the results might be influenced by the length of the window chosen. Moreover, some authors argue that the models available to assess the abnormal returns in the long run have a low statistical significance.
- *Key informants’ retrospective assessments of overall M&A performance.* These are subjective performance measure. That is key informants (typically managers of the bidder, consultants, security analysts and academics) have to rate how much the goals set before the M&A deals have been achieved. The goals include both financial and non-financial aspects. The evidence highlighted by these studies is that on average 45-60% M&A tend to fail. These measures take into account the multiple rationales behind an M&A decision, thus they provide a more complete evaluation of performance. Indeed, Brouthers, van Hastenburg and van den Ven (1998) have used this approach to provide evidence of multiple rationales behind M&A decisions. Critics against these subjective measures are that they might be affected by respondent bias, accurate recollection of past event of the respondent, ex-post rationalization symptoms and by the actual familiarity with the particular M&A of the respondent. Anyhow a series of robustness test have been employed by researchers, as the consideration of different categories of key informants, the calculation of the correlations between subjective measures and objective accounting data. These tests seem to validate the findings of the studies.
- *Divestiture.* This approach considers whether a target company has been divested and the divestment is interpreted as managements’ dissatisfaction with the acquisition’s

performance. The considered period varies a lot in the literature, as the findings pointed out by the studies. Divestiture rates range from 20% to 74% depending on whether acquisitions are related or not, and whether they are in new industries for acquiring firms. This approach has a great limitation, in fact divestiture is not a synonym of poor performance, on the contrary acquirers may decide to divest due to corporate strategy changes or because they could earn a high premium from the sell, as private equity firms actually do.

- *Integration process performance.* This approach measures the effects of different factors on the post-acquisition integration process. This is based on the assumption that all value creation takes place after the acquisition. In general, the resources and processes' complementarity of the bidder and the target companies may be an important factor to achieve a successful integration. Further, it seems to exist a positive relationship between the degree of integration and the overall M&A success. However, empirical evidence does not identify speed of integration as a driver of M&A success (Bauer and Matzler, 2013). Even if high integration speed reduces the period of uncertainty, slow integration may be preferable for deals between companies that present cultural differences (Steigenberger, 2016). It is possible to distinguish two aspects of the integration process the task integration and the human/sociocultural integration, the two aspects are not independent, both affect the company's overall performance.

The task integration regards the harmonization of the operations and systems of the bidder and target companies, the transfer of skills and resource sharing and learning. According to the studies the successful integration is fundamental for the success of an acquisition. For example, difficult in the integration of information technology systems (IT) may create both short and long-term performance issues. However, a study indicates that only 30% of managers believe that the combination of the companies' IT systems has been successful. It should be noted that up to half of a merger's benefits may be related to the IT systems integration (Lohrke, Frownfelter-Lohrke and Ketchen, 2016). IT systems' integration is important because otherwise companies may experience delays or disruptions on operations.

The human/sociocultural integration refer to employee turnover, cultural convergence, employee commitment, stress, job satisfaction, and security. The average turnover rate of top management in acquired firms is higher than in non-acquired, this research stream

tries to understand whether this influence the company performance. It seems it does, in fact top management turnover has been linked to lower ROA, lower perceived overall performance and an increased possibility of divestiture. For what concern corporate culture, studies evidence that differences in culture have negative effects on the integration process and consequently on the M&A's performance. Cultural similarity often provides common basis, thus the need for formal integration is reduced (Bauer and Matzler, 2013). In contrast, researches on national cultural differences have provided mixed results. Indeed, different national culture often results in tensions in the first phase of integration; but if differences are managed well they can create learning opportunities in following phases (Steigenberger, 2016). Lastly, has been shown that M&A announcement increase employee uncertainty, stress and absenteeism, this does not support the realization of synergies. The limits of this approach are two: on one hand, subjective measures (e.g. top management turnover, employee turnover, employee outcomes, stress, motivation) based on survey data present the same limitation highlighted for the key informants' retrospective approach; on the other hand, objective data (e.g. R&D expenditure) are susceptible to the reliability of the secondary source of data.

- *Innovation performance.* Last field of research of M&A performance try to figure out the influence of acquisition on the innovation performance of the bidder or target company. Data used in this stream are number of patents, R&D intensity and product innovativeness. The main finding is that the acquirer's innovative output is reduced by multiple acquisitions over time. Even if this is an interesting approach, it has a main great drawback that is when number of patents is used as a proxy for innovative output scholars implicitly assume that all the inventions can be patented, and this is not true. Other limitations are the same mentioned before for the integration process measures, namely bias that might affect the survey and the secondary source data. A recent and unusual study has investigated whether M&A affects the innovation strategy of merging firms' competitors. Evidence shows that since a company engaged in an M&A deal is more focused on short-term objectives and in the implementation of integration process, competitors exploit this situation increasing their technological search and improve their innovation performance. Competitors are more inclined to do this because in such situation a failure is less risky since the merging firms are slowing down their innovation

strategy (Valentini, 2016). Anyhow it has to said that this study does not infer causality but it only shows correlations.

Why M&As fail and related risks

According to McKinsey, M&A are not intrinsically positive or negative as any other business process, deals to be successful must have a clear and specific value creation ideas and they should not be based on vague rationale such as growth or internationalization (Koller, Goedhart and Wessels, 2015). Today, companies think about M&A as the faster way to enter in new markets, to improve their competitive position, to spread the financial risk, to reach economies of scale and to introduce new brands (Thanos and Papadakis, 2012). Despite the many benefits that these operations might provide, the average rate of failure highlighted by the literature is high and this is probably due to the complexity of this topic. In fact, M&A require managers to develop a careful analysis of the risks involved in the deal and to implement a clear and dynamic strategy for each stage of the transaction, in order to be able to successfully respond to unexpected events. Very briefly the phases of M&A include the identification of the target company, the assessment of potential synergies, the negotiation, due diligence and the integration process. Where the latter is probably the more complex phase. The reasons for M&A failures are not well-established due to the many factors affecting the success of the operations that increase the risks related to these operations. Anyhow potential explanations for the value destruction of M&A are (Petitt and Ferris, 2013):

- Overestimation of the target's value, related on the excessive confidence on the growth and/or market potential and asymmetric information.
- Overestimation of the expected synergies.
- Pay too high premium, due to management's hubris or the competition with other bidders.
- Execute a poor and inaccurate due diligence of the target.
- Fail to achieve a successful integration process of the two companies after the deal.

Thus the main risk associated to M&A are unrealistic expectations, people are affected by an optimism bias, that is they believe change will be faster and easier than what they are in reality (Steger and Kummer, 2007). In general managers are excessively optimistic and tend to foresee too positive results for themselves. This leads to wrongly forecast the potential synergies and the target's value, as consequence acquirer overpay the target. Moreover, the obstacles that

might arise during the integration process might be underestimate and the process may be longer than what management expected. According to Steger and Kummer if the rationales are unrealistic, there is no way to avoid the failure, and there is a great likelihood to waste the resources implied to achieve these goals. Moreover, due to the high emotional involvement managers are not keen on abandon the deal. After all, be confident on the conclusion of a deal and on its goals might be potential success factors, since confident managers are more likely to work harder to go beyond the impediments that might arise (Steger and Kummer, 2007). However, when the goals are unrealistic, the effort does not matter, managers are simply overconfident. Overconfidence may result in an illusion of control and superficial analysis of integration question. Shareholders of the bidder and the target company are exposed to many risks, in the pre-acquisition phase the variation of the stock price may affect the conditions of the deal and its conclusion. In the integration phase the risk is that target will not perform as expected, thus generating overpayment. M&A are also affected by asymmetric information, since target companies' management are better informed on the value of the business. A business is not made only by the management, also the employees are important for the success of an M&A deal. More precisely how the employees react to the deal may be an important factor of success. Often after the announcement of the agreement employees are worried about what will happen, the uncertainty related to their job increase (Steger and Kummer, 2007). This may add further difficulties to the integration process. Cultural differences are another factor of risk for the successful integration of the two companies, particularly in cross-border M&A. Culture could be a risk because implanted cultures might be difficult to transform. For this reason, strategists sustain that transactions that involve companies belonging to the same industry or business sector have a greater likelihood of success with respect to deals between unrelated companies, because they present larger opportunities for value enhancement. However, this appears not to be the case where there are lack of organizational or culture fit (Cartwright 2006). Some studies have investigated the relationship between culture fit and financial performance, they find that cultural similarities positively affect the market expectations on M&A deals (Cartwright, 2006). Risks associated with national cultural differences are greater than that associate with organizational cultural. Empirical studies on this issue show that differences in national culture present mixed outcome. On one hand they can contribute to learn new routines or increase the knowledge, on the other hand they can have negative effects as distrust and conflicts. However, it seems that cultural similarities boost M&A transactions. Examination of managerial attitudes towards foreign M&A point out that

managers belonging to individualistic culture (UK, USA and Netherlands) are more inclined towards engage in an M&A deals with companies coming from individualistic cultures, rather than companies belonging from collective culture (Italy, Spain and Japan) (Cartwright, 2006). In other words, it seems that M&A decisions are affected by cultural stereotypes.

The payment method of the deal affects how the risks, and clearly the rewards, are distributed between the shareholders of the bidder and the target. Intuitively, if a company pays in cash the bidder's shareholders bear all the risks related to the operation, while if the company pays in stocks target's shareholders carry a portion of the risks. We have already seen that in period of overvaluation of the markets companies are more inclined to pay in shares, at least when the bidder's stocks are more over evaluated of the target's ones. In this way the future market correction will not be a burden only for the acquirer's shareholders. Decision of how to pay should take into account also the capital structure of the company, since bear the cost of a huge debt can lead to the failure of the transaction and the company itself. Research indicates that the bidder's stock returns following the announcement of the deal, on average, are greater when the acquirer pays in cash than when it pays in shares (Koller, Goedhart and Wessels, 2015).

If M&As result in a more efficient allocation of resources between owners, they will create value for the economy. This is related with the principle of the *best owner* of a business. That is, the owner that with its resources and skills will create the most value for a business in the actual environment. Clearly, as the external conditions change over time, the best owner may change over time, too. As already said, M&A is a complex topic since the transactions' success is driven by many factors. However, according to McKinsey, the best acquirers are those that present the following characteristics:

- *Engage in M&A thematically.* It develops business plans that consider both M&A and organic strategies to achieve specific purpose. Business plans take in to account the capabilities of the company and its peculiarities as the best owner of a business.
- *Manage reputation as an acquirer.* A company that considers how it is perceived by the targets, that is which invests in its reputation as an acquirer may gains a real competitive advantage. Indeed, to be perceived as an attractive acquirer may decrease search time, facilitate the integration process and reduce the chances of bidding war.
- *Confirm the strategic vision.* The financial due diligence is reinforced with a strategic due diligence. That is, given the additional information available after the letter of intent, managers can better assess the feasibility of their scopes and strategy.

- *Reassess performance improvement targets.* Successful acquirers revise expectations on performance improvements once they discover more about the targets during the integration process. This allows them to update their objectives and exploit the real potential of a deal. The due-diligence estimates are considered as the lowest acceptable performance improvements.

At the end, the best acquirer is who has the ability to develop systematic institutional skills in defining its M&A strategy, that handle its reputation as an acquirer and that is able to recognize new performance improvement opportunities.

Chapter 2

The rise of Internet firms and the dot-com bubble

Probably, almost everyone agrees with the fact that Internet is among the technologies that most have changed human live. It gives a great push to globalization. Today almost all the world is connected, we can easily talk with a friend that is halfway around the world, or we can buy nearly everything while we are sitting on the sofa, or we can easily find information on something just google it. Clearly, this has also changed the way of doing business and the way in which businesses evolve. In the second half of 1990s managers formed incorrectly and overly optimistic expectations about the potential of Internet. Consequently, many Internet companies (known as dot-coms) were launched. Investors evaluated these companies millions, just because they operated online. In other words, many investors did not consider the basic principles to assess investment, they underpinned their evaluations on the belief that dot-coms may re-write the basic laws of economics. Related to this belief there was the concept of *network effect*. It implies that: *as the number of nodes in a network increases arithmetically, then the value of the network increases exponentially*. In reality, many of these companies were not successful. HSBC conducted a research on dot-coms' P/E ratios. The study concluded that Internet firms' stocks were over-evaluated by 40%. Necessarily, in 2000 the Dot-com bubble burst. Internet firms' stock prices collapse and many of these companies went bankrupt. Investors experienced significant losses, the Nasdaq index was the most hit since it includes most technology stocks. The common strategy of these companies was "*get big fast*". That is, their leading goal was to rapidly increase their customer base, in order to build a powerful brand which would produce profits in the future. Some companies were successful in doing this, for example Google and Amazon were not profitable in their early years of activity, but today they earn billions. However, even if over-evaluated some companies were successful and they have survived. Companies as Amazon, eBay and Google now are global market leader. Even if, they did not operate in the US market also the case-study's companies are survivors of the dot-com bubble. In fact, both, YOOX and Net-A-Porter, were founded in 2000.

E-commerce market

Many things have changed in the last 15 years. Connected consumers have grown rapidly in these years. Today, almost every household has a computer. In addition, smartphones and tablets boom accelerated this trend. In other words, today Internet is a mass technology. This encourages businesses to innovate, to offer a continuing-evolving range of online services. New markets arise. These are related to the sharing economy. Companies as Uber or Airbnb, which allow users to share their cars or their homes with other users, are worth billions. Telecommunications market is also very different from that of 15 years ago. Many services move to the Internet, think to e-mail, instant messaging widespread. Entertainment is also moving in that direction. Many TVs today are equipped with internet connections. Or it is possible to simply download movies from Netflix, which very successfully transform its business from online DVD rental to online video streaming business. Further, social-media as Facebook, Twitter, LinkedIn are part of our everyday life, and they are exploited in different ways. Moreover, they are worth billions. With this foreword, it is easy to think that e-commerce market's importance is substantially increased. E-commerce or electronic commerce is the purchasing, selling and exchanging of goods and service over computer networks (as Internet), where transactions and terms of sale are performed electronically. It is possible to identify three main categories: Business-to-Business (B2B), Business-to-Consumer (B2C), Consumer-to-Consumer (C2C).

Online market has grown 20% per year over the last three years. According to the Global 1000 report, the top 10 companies dominate almost half of the global e-commerce market in terms of gross merchandise value (GMV). Survivors of the dot-com bubble are now the market leader; eBay and Amazon, together with the Chinese group Alibaba (Fig. 4).

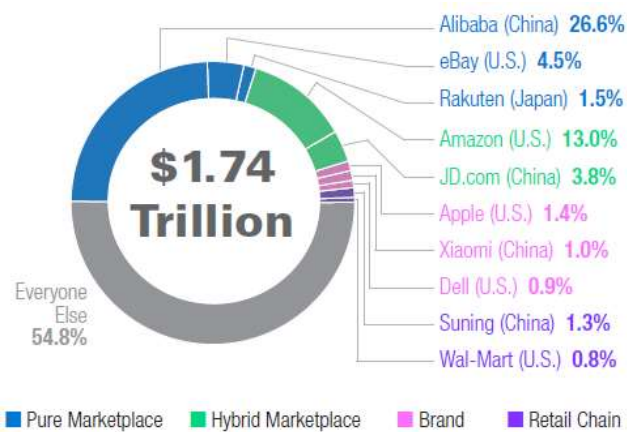


Figure 4. Global e-retailer market share. Source: Global 1000: The global reinvention of e-retail.

While YOOX Net-A-Porter Group operates in the luxury e-commerce sector, of which I will present the characteristics later. Clearly, the traditional off-line companies have developed online strategies to keep their positions in the market. According to Devin Wenig, President and CEO of eBay: “... the world of e-commerce and commerce are now just seamlessly merged ... Today we don't even know what e-commerce means. They've just come together, the on- and the offline. Now, every merchant, every retailer must have an omni-channel strategy or they won't survive.” According to A. T. Kearney, the largest market for e-commerce are: USA, China and UK. In its global retail e-commerce index, it identifies the omni-channel trend. That is, traditional and pure online player are understanding that the winner strategy is the combination of online and physical shopping. Indeed, brick-and-mortar companies, as Wal-Mart, continue to expand their online offering, while companies, as Amazon, are entering in physical markets. Even if e-commerce remains only a fraction of global retail markets, growth expectations are very positive. E-commerce accounted for 7,4% of global retail market in 2015. According to Casaleggio associati 2016 report, the percentage will rise to 12,8% in 2019. In Europe e-commerce market is worth \$477 bn and it account for 7,3% of the total retail sales. UK, Germany and France are the largest markets. In Italy, the e-commerce value is €28.8 bn, a 19% increase from 2014 after two years of low growth. Electronics, fashion, services, books and tickets are the most commonly purchased items, however grocery deliver is gaining importance.

Mobile commerce is an important factor for e-commerce grow, due to the evolution of consumers' habits. Indeed, many companies are investing on the mobile channel. YOOX is a pioneer in this, it has begun to look at mobile opportunity from 2006, with the creation of the

first mobile taskforce. In addition, online payment options are ever more safe and international shipping is ever more fast. In other words, consumers seem to be less sceptical about online commerce. A possible explanation is of course the technologies development, but maybe there is even a generational change factor. That is, new generations feel more at ease in buying online.

Given this digital environment, it is fundamental for companies to have rapid decision making and continuously innovation. Customer data is critical for the success of a business. Mainly, data allows a company to improve the customers' shopping experience and their satisfaction, hence increase company's returns. Indeed, a survey pointed out that 89% of consumers declare that a poor customer experience leads them to do business with a competitor. Further, customers expect the same standard, both, in online shopping as in physical shopping. Intuitively, data allows a company to develop a more personalized experience for its customers. According to Devin Wenig, in a world of hyper-competition where you can find everything everywhere, data may allow a business to build a sustainable advantage. That is, data may allow the coexistence of incredible selection and simplicity, often preferred by customers. Intuitively, nobody wants to buy in a store with billions of items, if he wants only one thing.

M&A in e-commerce sector

Given e-commerce market growth potential, many companies have engaged in M&A deals to acquire access to new markets, competitive advantage and technologies faster. For example, Just Eat, a British company, to enter in the Italian market in 2015 has bought Pizzabo, Clicca e Mangia, DeliveRex, HelloFood Italia. eBay in 2002 acquired the internet payment provider PayPal. Apple has bought Siri and Novauris Technologies to enhance the capabilities of iPhone's voice assistant; more recently it has bought Beats Electronics to improve iTunes performance. Microsoft has bought LinkedIn for \$26 bn. According to Hampton e-commerce M&A overview, in 2H 2016 the deal volumes in the sector has slightly decrease (5%) with respect to 2H 2015, however the value of the deals has increased (Fig. 5). The online food delivery companies are the most active. Indeed, among the top 8 acquirers 4 belonging to this sector: Foodpanda, JustEat, Zomato and Delivery Hero. In addition, the report highlights the opportunity that Indian e-commerce companies offer due to the high growth of the market. While Alibaba is beginning to look for investments outside China due to the braking of its revenue growth.

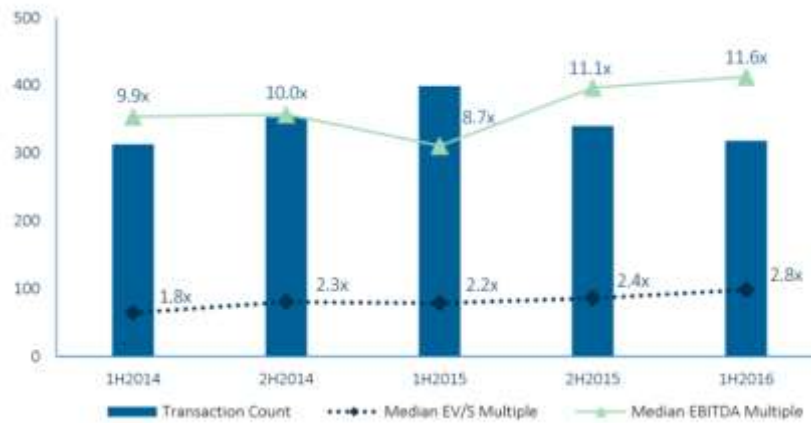


Figure 5. M&A trend in e-commerce business. Source: Hambleton, 2016

Luxury e-commerce market

The concept of luxury is changing as luxury consumer is changing. Traditionally, a luxury good is perceived as an expensive product made of high-quality material, which consumers buy to show off their affluence. The high-quality of the materials is still fundamental, but goods should not be only expensive, rather they should be excellent. Moreover, today consumers tend to purchase luxury goods to take care of themselves, to establish relationships, to explore and to express their lifestyle. For this reason, today consumers are less interested to the visibility of the logo and they are less inclined to spend. This does not mean the ending of the luxury, rather it highlights a shift in customer's behaviour which tends to alternate high-end purchases and low-end purchases. In other words, the new consumer is more informed and careful in paying a fair price for the value he is receiving. Internet has had an important role in this sense, since it allows the consumer to immediately get access to a wide range of information about prices, products, firms. (Cappellari, 2016). Thus, today the items included in the concept of luxury goods are different. Together with the traditional goods as car, clothes, leather goods, fashion accessories we find cosmetics, smartphones or wearable technologies, designer items, but even spirits and foods produced by prestigious brands. Clearly, in this context the companies that operate in this sector are more than before and they offer a wider range of products. For example: today the aim of Ferrari is not to sell only car, rather it is to sell a "Ferrari's world". That is, together with its core business the company has opened Ferrari stores where it is possible to buy different items from clothes and fashion accessories to cologne and stationery. Further, today Armani group produces not only apparel but also sunglasses, furniture, cosmetics and it manages also luxury hotels, resorts and cafés. Thus, nowadays luxury companies do not offer to their customers only luxury goods, rather they try to offer a "luxury lifestyle". Moreover,

some of these companies refuse to be label as luxury companies, rather they prefer to be drawn close to high-quality sector. Clearly, the idea of *brand* is still central since the consumer become emotionally attached to brands that reflect its values. However, the meaning of luxury may differ depending on consumer characteristics. For some consumers the luxury concept is more linked to the personal sphere; while for others it still has its traditional status meaning, or better people buy luxury goods to show off their affluence. Clearly, this has a direct effect on the strategies that a company has to develop. For example, the formers may be not interested to the exposure of the logo, while the latter may want that the brand is immediately recognisable, thus the logo should be very apparent (Cappellari, 2016). As already said before, Internet contribute to make the consumers more informed. However, this is not the only way in which Internet has shaped consumer behaviour. Indeed, today it is difficult to distinguish consumers that purchase online from consumers that purchase in traditional stores, because usually consumers use both channels. Better, the two channels seem to be complementary sometimes. New consumers' habits are the so called: *ROPO (Research Online, Purchase Offline)*; *Showrooming* consumers go to the stores to look and try on products but then they conclude the purchase on Web. These are proof that the luxury companies have to invest in the seamless omni-channel experience (Cappellari, 2016).

In the last two decades the luxury market has tripled its value, despite the two big crisis occurred in 2000s (dot-com crisis, sub-prime crisis). One of the reason is that luxury has become a global phenomenon thanks to the growth of emerging markets. Which today accounts for a considerable share of brands' profits. This has helped companies to manage crisis or slowdown of single countries. The luxury sector has registered €1 trillion in retail sales value in 2015, with a growth of 5% with respect to 2014 according to the *Luxury Goods Worldwide Market Study* by Bain & Company. For what concern luxury personal goods online sales have accounted for €14 bn in 2014, a 50% increase compared to 2013. As highlighted by McKinsey and Altagamma in their study *Digital Luxury Experience 2015* e-commerce represent 6% of the global luxury market for personal goods in 2014 (7% in 2015 according to Bain & Company). Further, according to McKinsey the main portion of the total luxury market growth rate in 2014 is driven by e-commerce. More precisely, in the last five years online sales have registered an annual growth rate of 27% while the other channels have reached only 7% (Fig 6).

EVOLUTION OF THE GLOBAL PERSONAL GOODS LUXURY MARKET

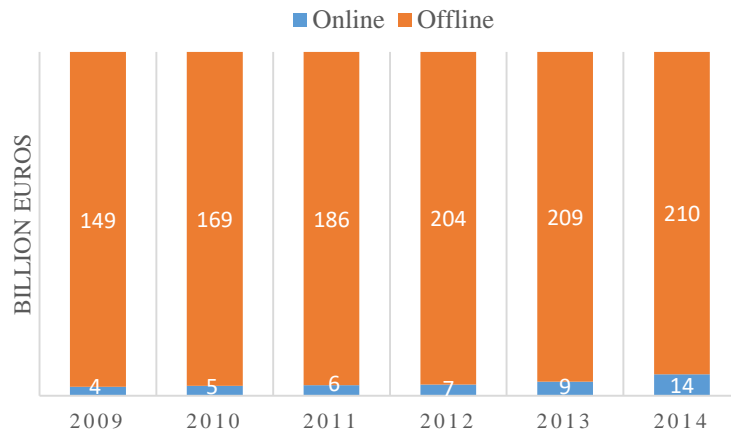


Figure 6. Source: McKinsey, 2015

The main drivers of this growth are luxury brands own websites and leading department stores websites, followed by multi-brand full price and off-price websites.

Given the mobile technology boom, this should be not unexpected. Indeed, is the mobile technology the main driver of new consumer behaviour. Almost all luxury consumers have at least one smartphone, globally the share is 95% and it reaches 100% in mature countries. This is higher compared to the rate of ownership of the general population. Moreover, 75% of luxury consumers own more than one mobile gadget. As said previously, social networks are part of our everyday life. Luxury consumers are highly social, 25% use social media every day. Intuitively, these are powerful instruments since they increase brands' visibility. For example, figure as fashion bloggers are very influential today. To understand the importance of this channel, it should be noted that a McKinsey's research pointed out that three out of four luxury acquisitions are driven by a brand's digital presence. That is by what consumers see, do and hear online. Even if the purchases occur in store. This trend is valid across countries and generations. On average Millennials (18-35 years old) and Baby Boomers (>65 years old) own the same amounts of mobile gadgets and spend the same amount of time on the Internet. Even if, historically luxury players have been sceptical about digital and e-commerce, their consumers are not. Indeed, the McKinsey's report identifies as luxury consumers are highly digital, mobile and social. Intuitively, this give support to the importance of omnichannel investments by luxury companies. Online sales and prices have a negative relationship, indeed more affordable luxury goods on average have a higher e-commerce share with respect to more

expensive items. For what concern the categories, the beauty products and ready-to-wear apparel are the most sold online. Followed by accessories, watches and jewellery. These differences are not only relied to price differences, but also to the online presence of the categories. Indeed, recently beauty brands and fashion retailers have engaged more in innovation. To investigate how luxury e-commerce might evolve over next years, Altagamma and McKinsey examined the online sales trajectory of more than 50 luxury brands over the past ten years. Results indicate that the trajectory often follow an S-curve (Fig.7). This curve can be divided in three parts:

- *Ramp-up*. In this phase luxury brands begin to sell their products online. A reduced range of items are offered online and they do not advertise it much. They operate online through partners with full-price or off-price or through their own websites.
- *Scale-up*. In the second stage companies realize that e-commerce is an important source of revenues. Reached the tipping point (6-7%) brands begin to launch a full e-commerce shop and they worry more about the online brand's visibility. According to McKinsey most luxury companies are now in this phase. Basically, e-commerce becomes a priority. Indeed, it requires significant investments IT, customer support and supply chain. As result, e-commerce is expected to reach 18-20% of total revenues in the next five years.
- *Plateau*. Beyond the 20% threshold e-commerce growth is expected to decelerate, since maturity is reached.

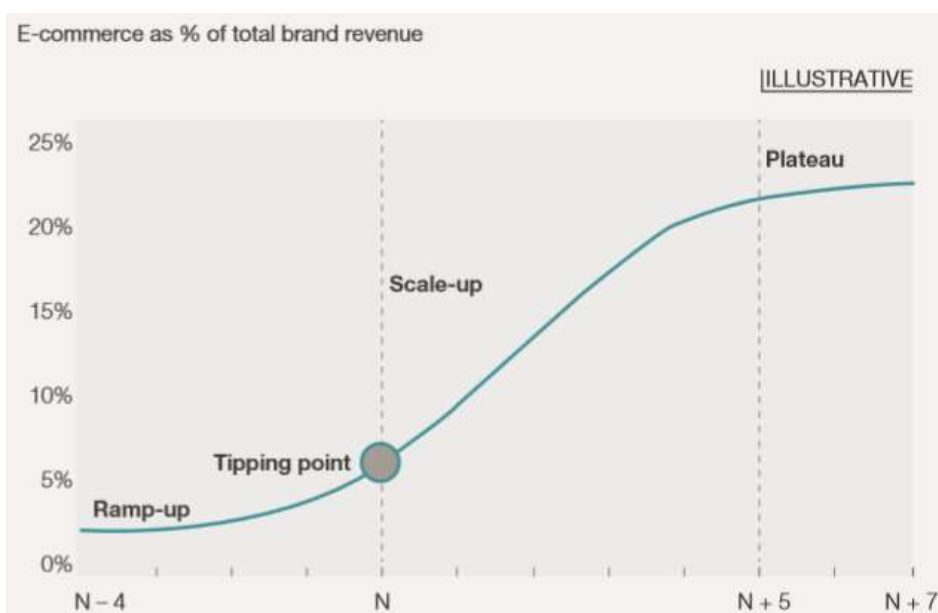


Figure 7. Online sales trajectory Source: McKinsey, 2015.

To conclude the study, the global luxury e-commerce market is compared to more mature online markets as: Mass fashion and consumer electronics. Researchers states that the global luxury e-commerce market will follow a trajectory similar to individual brands. In particular, they estimate that luxury's share of online sales will raise from 6% to 12% by 2020. While, by 2025, the online sales will represent the 18% of total sales. With a value equal to €70 bn, the online channel will be the third largest global luxury market, behind China and USA. Thus, for luxury companies is fundamental to engage in a well-established digital strategy, in order to offer their customers an excellent omni-channel experience and to capture this opportunity of growth.

In the report *Global Luxury Retailing Market 2015-2019*, Technavio identifies the top five players in the luxury e-commerce market for personal goods. These are:

- *Nordstrom*. It is an American chain of department stores and it operates also online. The group has 11,67% market share.
- *Neiman Marcus Group*. It is an American luxury department store which operates online through Neiman Marcus, Bergdorf Goodman and Horchow websites. It has 5,36% market share.
- *Saks Fifth Avenue*. Even this is an American luxury department store. It is owned by one of the oldest commercial corporation of North America, the Hudson's Bay Company. It has 4,2% market share.
- *Ralph Lauren*. It is the best luxury single brands in terms of e-commerce penetration. It is developing a successful omni-channel experience for its customers. For example: it has installed the Oak Fitting room in its stores, which very briefly links in-stores shopping with online shopping.
- *Net-A-Porter*. The luxury multi-brand online stores founded in 2000, it belongs to YOOX Net-A-Porter Group. It is specialized on integrating editorial content in to e-commerce experience.

Thus, the leading players of luxury online market are not luxury companies, rather they are American department stores and specialized luxury e-commerce retailers. This gives support to the study conducted by Altagamma and McKinsey presented above. Indeed, over past years luxury companies have perceived e-commerce as a threat, but today they are understanding the importance of this channel and that they have to offer the same off-line excellence in the online customers' experience. Companies as YOOX and Net-A-Porter have cleverly exploited this delay. However, now that luxury companies are focused on increasing their e-commerce

commitment, the questions are: How will specialized retailer will perform? Is the merger between YOOX and Net-A-Porter a response to this changing trend?

Chapter 3

YOOX Net-A-Porter Group

In October 2015 YOOX Net-A-Porter Group (YNAP) is founded. The Group is the result of the merger between YOOX Group and The Net-A-Porter Group (NAP). The main objective of the merger is to create the global leading online luxury fashion retailer. The two companies, both founded in 2000, have revolutionized the luxury fashion industry.

YOOX Group

YOOX Group is born in June 2000. It has founded by Federico Marchetti. His main idea was to link luxury fashion with online commerce. The objective declared in the first business plan of the company was to become the world's leader in the luxury fashion e-commerce sector. It launched *yoox.com*, an off-season woman's apparel e-shop, which for the first time sells 100 fashion brands on Internet. It operated in 14 European countries, and it was the first fashion e-commerce in Italy. It survives to the dot-com bubble and it increases its visibility. So much that Business Week defines it as: "*the big hit with young-savvy fashionistas everywhere*". In 2003 YOOX has started to operate in USA, while in 2004 it has reached the Japanese market. Since its beginning YOOX has encouraged innovation and creativity. Indeed, in 2004 it launched its first fashion talent scouting, where capsule collections realized exclusively for YOOX are sold. This enables cutting-edge designers to present their collections worldwide. Over the years many designers have produced exclusively collection only for YOOX. Further, the Group is engaged in social. It often supports projects of non-profit organization and charity programme. In 2005 *yoox.com* has enlarged its business including kids apparel. 2006 is a very important year for the business. *Yoox.com* has launched the design section and, as said before, the company has created the first YOOX group mobile taskforce. Innovation is a strategic priority for the company since it means to create value for the company and the stakeholders. Moreover, in 2006 the first online flagship store powered by YOOX group was launched. Indeed, thanks to its experience, the group designs, implements and manages (global logistics, international customer care and web marketing) many online store of top luxury brands. As for example: Marni, Armani, Valentino, Dolce & Gabbana, Diesel, Moncler and many others. In 2008, the group has enlarged its business with man apparel and it has launched a new in-season e-shop: *thecorner.com*. In addition, it has added a new innovative service for its customers, that is shop

directly from the catwalk. Further, since innovation is the key for success according to the group's philosophy; in 2009 the first mobile app of yoox.com is introduced. Together with the first release of the sustainability report, the company has introduced the YOOX's ecobox, a packaging made of 100% recyclable materials. On December 3rd 2009 YOOX group is listed on the Milan stock exchange. It was the unique IPO in 2009 on the Italian stock exchange. However, the market reaction was positive, especially that of institutional investors. The shares registered +8,37% the first day, and the group raised €26,8 million. This liquidity has been used to develop a new logistic platform. Indeed, in 2010 the group inaugurated its global technolistics platform completely automate in Bologna. Where radio frequency identification (RFid) technology and automation are combined and it did this before any other competitor. Moreover, it launched iPad app for yoox.com the same day of the iPad's launch. It entered in the Chinese market with the Emporio Armani's e-shop powered by YOOX. While in 2011 the group has begun to directly operate in China with the launch of thecorner.com.cn; and it founded a subsidiary in Honk Kong to expand the group's presence in Asian markets, those with more potential growth. 2012 is a very prolific year for the company. It has launched yoox.com in China, it has added the section art to yoox.com and it has inaugurated the new online shop *shoescribe.com*, which is entirely dedicated to women's shoes. Last but not least, YOOX and Kering Group have formed a joint venture. The aim is to manage the mono-brand online stores of several luxury brands owned by the French group, among which: Yves Saint Laurent, Bottega Veneta, Balenciaga, etc. YOOX group is listed in the FTSE MIB index in 2013. The same year it has launched the first edition of yoox.com's shoppable video: the consumers can directly buy items from the video. In 2014 the section sportswear is added to yoox.com. The new yoox.com mobile app is launched and it is available 11 languages. In the year of its 15th anniversary the group announces the merger with Net-A-Porter Group. To summarize before the merger YOOX group operated through three online shops: yoox.com (off-season multi-brand store for fashion, design and art), thecorner.com (in-season multi-brand store for woman and man luxury apparel), shoescribe.com (in-season multi-brand store for woman shoes). In addition, the group run 38 mono-brand online stores of various luxury fashion brands. However, the main group's business line was the multi-brand stores (fig. 8). Especially the off-season. The group operated globally with 1.3 million active customers (customer that make a least one order in the 12 preceding months), with 15.2 million monthly unique visitors and an average order value (AOV) of €202. The net revenues in 2014 was €524.3 million, mainly driven by Europe (fig. 9).



Figure 8. Net revenues by business line. Source: YOOX's investor presentation

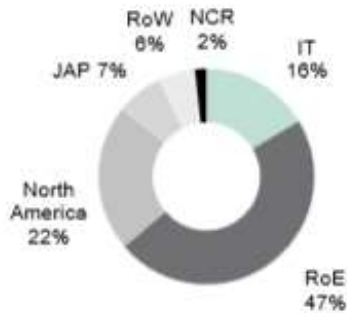


Figure 9. Net revenues by geography. Source: YOOX's investor presentation

The Net-A-Porter Group

Net-A-Porter was born in 2000 from the idea of Natalie Massenet to develop an online fashion magazine where users can directly buy products clicking on the images. The beginning was very difficult. *net-a-porter.com* was launched from Massenet's flat in London. Designers and investors were sceptical about NAP because it lacked a physical retail. However, due also to the experience of the founder in the fashion world, the business had a great growth potential. In 2001 Roland Mouret sold his first collection on NAP. In 2002 the Swiss group Compagnie Financière Richemont (CFR) acquired 25% of the business. 2004 is the turning point for the group. It became profitable and it won the prize as best shop at the British Fashion awards. Indeed, the next year (2005) NAP expanded its distribution centre in London. While in 2006 the group has begun to operate in US with *net-a-porter.com* and it has launched the online mono-brand store for Jimmy Choo. In 2007 Nap has introduced its exclusively service of same day delivery. In 2009 an off-season store is launched, *theoutnet.com*, and the first mobile app for *net-a-porter.com* is launched. Richemont group has acquired 97% of NAP, via a special purpose vehicle Largenta, in 2010. The remaining 3% was owned by NAP's management, excluded Massenet that owned 4% of Largenta and remained executive chairman. The same year the group launched the first fashion magazine for tablet. At this point the company is well-established in the fashion world, many designers have created exclusively collection for NAP. But above all, brands want to be stocked by NAP since this not only guarantee new customers,

but it adds value to the brand thanks to NAP credibility. In 2011 the group has enlarged its business to man apparel launching *mrporter.com*. In addition, net-a-porter.com has attained in Asia. As proof of its enhanced credibility, in 2012, the group has launched its own label: Iris & Ink. Moreover, a new weekly digital fashion magazine is published, and the mobile app for theoutnet.com is released. In 2013 NAP has reached the Chinese market, net-a-porter.com is traduced in French, German and Chinese. Moreover, a beauty goods section is added to the store. To strength its editorial content NAP has launched in 2014 Porter a fashion magazine in print and digital form, and the mrporter’s magazine *the journal* is launched on mobile. Further, the section sportswear is added to net-a-porter.com. In 2015 a new label is launched on mrporter.com: Kingsman, and the group has introduced The Net Set, a mobile app that gather all the NAP’s social community. Thus, before the merger the group operated through three e-shop: net-a-porter.com (in-season multi-brand store for luxury woman apparel, with a dedicated magazine), theoutnet.com (off-season multi-brand store for luxury woman apparel and with its own label) and mrporter.com (in-season multi-brand store for luxury man apparel). NAP also run the online store of Jimmy Choo and it released a fashion magazine. NAP revenues were driven primarily by in-season business (fig 10). In 2014, net revenues were equal to €753.8 million. NAP shipped in more than 170 countries and it offered same day delivery in London, Manhattan and Hong Kong. The group is well-established in Anglo-Saxon world (fig. 11). NAP had less active customers than YOOX, 0.8 million, however the AOV was greater, €481, due to its main focus on in-season business.

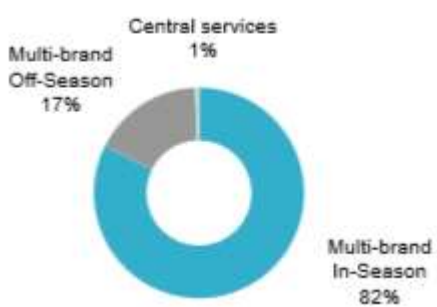


Figure 10. Net revenues by business line. Source: YOOX’s investor presentation



Figure 11. Net revenues by geography.
Source: YOOX's investor presentation

The deal

The merger was defined by Federico Marchetti, founder of YOOX and CEO of YNAP, as “the merge of equals”. Indeed, the CFR’s holding Largenta has been incorporated in to YOOX in an all-share merger with a 1:1 exchange ratio. Thus, NAP’s assets were valued exactly the same as YOOX’s assets. At the date of the merger, Largenta owned the whole NAP’s capital and CFR was the unique shareholder of Largenta. As result of the transaction, Richemont Group has received 50% of YNAP capital, while the remaining 50% is distributed among the YOOX’s shareholders. 65,5 million of shares were issued, but to preserve the independence of the combined company the shares were split in *A shares* (ordinary shares) and *B shares* (shares without voting rights). Thus, the stake of Richemont is composed by 25% of *A shares* and 25% of *B shares*. This was done in order to preserve the agreements between YOOX and its mono-brand partners. Richemont has agreed a 3 years lock-up equal to 25% of YNAP’s total capital, further it commits to not acquire other YNAP’s shares after the merger and to not enter in to any shareholder agreement. The *B shares* can be converted in ordinary shares in case of sell to third parties not related to CFR. Indeed, a capital increase up to €200 million (or not more than 10% of YNAP’s share capital) was launched. The capital increase will be completed in one or more tranches over the next 3 years. This should enable the entrance of strategic investors to support integration and growth opportunities. One of these is Mohamed Alabbar owners of Alabbar Enterprise, a company that operates in Middle Est, Asia and Africa in luxury, fashion, retail and e-commerce businesses. Alabbar owns many shopping malls and business retails in Dubai. The leading is The Dubai Mall which represents the 50% of the purchases of luxury goods in Dubai. A dedicated capital increase of €100 million have been launched in April 2016, which allows Alabbar enterprise to acquire a stake of 4% in YNAP. 3.571.428 ordinary shares have been issued at a price equal to €28, thus with a premium of 5,7% with respect to the closing

price of 18th April. Together with the new capital Alabbar will enrich YNAP with its experience in Middle Est markets, markets with great growth potential. The major shareholders of YNAP are in the table below (Tab. 2).

Major shareholders	Ordinary shares	% on ordinary share capital	Ordinary shares + <i>B shares</i>	% on total share capital
Federico Marchetti	5,164,667	5.7	5,164,667	3.9
Compagnie Financière Rupert	22,693,459	25.0	65,599,597	49.1
Renzo Rosso	5,186,321	5.7	5,186,321	3.9
Mohamed Ali Rashed Alabbar	3,571,428	3.9	3,571,428	2.7
Fil Limited	2,897,225	3.2	2,897,225	2.2
Treasury Shares	17,339	0.0	17,339	0.0

Table 2. Source:www.ynap.com

Initially, the Board of Directors had to be composed by 12-14 members, 2 nominated by Richemont, at least half independent and the others coming from YOOX's management. Natalie Massenet had to be chairman of YNAP, but she resigned just before the merger because she believed that the terms of the merger undervalued NAP's value. The BoD today is composed as follows:

- Federico Marchetti – Ceo
- Raffaello Napoleone – Independent chairman
- Stefano Valero – Vice chairman
- Eva Chen – Independent, non-executive director
- Alessandro Foti – Independent, non-executive director
- Chaterine Gérardin Vautrin – Independent, non-executive director
- Robert Kunze-Concewitz – Independent, non-executive director
- Richard Lepeu – Non-executive director
- Vittorio Radice – Independent, non-executive director
- Gary Saage – Non-executive director
- Laura Zoni – Independent, non-executive director

According to the analysts, the terms of the merger have been very favourable for YOOX's shareholders, maybe is one of the rare case of *Buy Cheap* recalling the successful archetypes identified by McKinsey.

Rationales, expected synergies and related risks of the merger

As it is possible to discern from the two groups' history, they have been founded the same year and they both operate in the digital luxury sector. However, they have developed two very different profiles. YOOX is stronger in off-season and mono-brand businesses, while NAP shines in in-season business and editorial content. Thus, in terms of target customers it seems to be poor overlapping issues, demonstrated also by the different AVOs. The merger will allow the company to cover all luxury fashion customer segments. Moreover, even if both operate globally, each of them has different main area of business. YOOX has more experience in Asia (especially Japan) and Europe; while NAP is more well-established in Anglo-Saxon world, namely North America, UK and Australia. The complementarity of the two businesses is one of the key driver of the merger. Moreover, leveraging on respective areas of strength may allow a significant growth potential for the combined company, in a market that has itself a high growth potential as demonstrated in the previous chapter. Indeed, the combined company can boast a huge customer base of more than 2 million high-spending customers and a well-established global logistic platform. Thanks to its accumulated experience in luxury digital fashion and the access to an unrivalled database, the combined company has a great likelihood to outperform its smaller competitors. In the merger's investor presentation YOOX has presented the following estimates for net revenues breakdown by business line and geography (fig. 12 and 13):



Figure 12. Net revenues by business line. Source: YOOX's investor presentation.

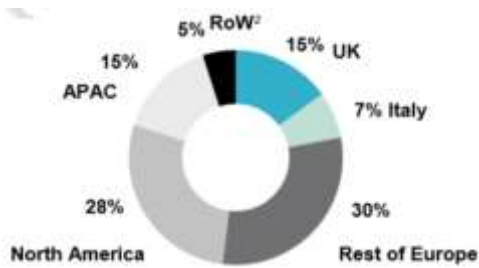


Figure 13. Net revenues by geography. Source: YOOX's investor presentation.

There is a clear shift toward in-season business, while the exposure to mono-brand business is reduced. This may be interpreted as a strategy to respond to the trend presented in the previous chapter. In other words, since luxury brands are understanding the importance of online channel, they may begin to internalize their e-shops. Thus, for YOOX this operation may represent a hedge against this risk. Moreover, the group will present a more balanced geographical mix, keeping the focus on the peculiarity of each local market. Indeed, the group will own 10 local offices, 3 automated distributional centres, 5 logistics hubs and 11 customer care centres which will cover all jet lags. Further, in the presentation of the merger YOOX has declared that the estimated annual run-rate synergies are equal to €60 million and they will be fully achieved in the third year after the merger, FY2018. However, this estimate appears too conservative to many analysts. Indeed, YNAP updates the estimate to €85 million after the completion of the deal. The expected synergies include:

- Revenue synergies:** The creation of a global inventory which will be shared by all the online stores and logistic centres of the Group should increase the range of products available in any single market. In other words, today a customer from Honk Kong can buy only the items available in the Hong Kong warehouse, as result if a specific item is not available the purchase will be performed on a competitor's e-store. Instead with the introduction of the global inventory customers will can buy the items present in every warehouses of the company. Thus, exposing YOOX and NAP's respective collections to a wider audience worldwide may increase sells and improve retail margins. The complementarity in geographic terms may allow a faster localisation of online stores. YOOX may enhance its offer in UK and Australia, while NAP in Italy, Japan and China. The expanded platform should also strengthen the partnership with brands. Moreover, YOOX's partner brands may exploit NAP's editorial skills and luxury operations, and a better advertising opportunities. While NAP's top brands may benefit from YOOX's experience in mono-brand offer.

- **Cost synergies:** the optimisation of the global logistic platform and the closer localisation of items to customers will determine a more efficient delivery service and a reduction in costs. In addition, scale economies may be achieved by combine top suppliers for logistic and technological services. Overlapping offices may be consolidated, even if the group has ensured that there will not be layoffs. Moreover, the combination of yoox.com and theoutnet.com (the two off-season stores) will provide benefits, since the product sourcing conditions will be improved. The integration of marketing strategies will provide a greater return. Lastly, the greater size of the Group should increase the bargaining power towards brands and this might slightly improve its pricing condition.
- **Capex synergies:** The streamlining of research and development investments thanks to one shared technology platform. This will allow the creation of one virtual global inventory linking storefronts and distributional centres.

The result of the combination should be one firm, operating in 3 highly synergistic business lines exploiting a common global technology and logistics platform and corporate functions.

Clearly, there are risks related to the merger. First of all, risks related to the integration process. The perfect integration of Information Technology (IT) platform is essential for the success of the deal and the creation of a global inventory. Since both YOOX and NAP operated a proprietary software system, to facilitate the integration the Group has signed a partnership with International Business Machines Corporation (IBM). The partnership has also the objective of develop a more personalized offer to customers and brands. The Capex, estimated in €95 million in 2015-2018, will rise mainly due to the need of modernise NAP's warehouses and of course the integration of IT platform. Organizational culture integration may represent a risk. However, to face this risk the two Groups before the merger have established 20 pre-merger work streams divided into 8 macro-areas, where management of YOOX and NAP co-operate to accelerate the integration. In addition, the absence of planned redundancies should enhance employees' perception of the deal. While the risk that YOOX's partners, firstly Kering, perceive the stake of Richemont as a threat is contained by the structure of the transaction. In other words, by the limitation of the Richemont's voting rights.

The combined company: YOOX Net-A-Porter Group

The merger between YOOX and Net-A-Porter has won the premium as the deal of the year at the XII edition of the M&A Award, promoted by Kpmg e Fineurop Sodic. YOOX's shares ceased to trade on October 5th, becoming YNAP. On the first day of negotiations the shares gain 6,74%. The response of the market was very positive. Indeed, the performance of the stock in 2015 was formidable, +88%. The explanation of this result is highlighted by the 2015 pro-forma results of the combined company. Net revenues have reached €1.7 billion against €1.3 billion of 2014, recording an increase of 31%. Net income adjusted (excluding incentive plans) grow of 37,8%, from €43.3 million in 2014 to €59.7 in 2015; while the EBITDA adjusted raises from €105.9 million in 2014 to €133 million in 2015 (+25,7%). In the first half of 2016 the performance of the stock was negatively affected by the high uncertainty that have hit the markets. The shares' price has slightly decreased and they have reached their minimum in the days following the Brexit referendum. In the firsts six months of 2016 the shares have lost 39,8% with respect to the last price of 2015. However, after that sharp decline the shares have recovered well. In particular, thanks to the new business plan 2016-2020 presented by the Group in July and to the positive results registered by the company in the first half of 2016. In 2016 the key indicators of the Group's activities continued to increase with respect to the pro-forma indicators of the first half of 2015. Indeed, the number of unique monthly visitors raises from 26.1 to 28 million, the number of orders from 3.3 million to 3.9 million, number of active customers from 2.3 million to 2.6 million. While the average order value slightly decreases from €354 in 1H 2015 to €335 in 1H 2016. 1H 2016 net revenues are equal to €897 million, a +13,3% with respect to 1H 2015 net revenues €791 million (+16% at constant exchange rate). With an EBITDA equal to €70 million with a margin of 7,9% against €60 million (margin 7,6%) registered in 1H 2015. The greater incidence of sales and marketing costs have been greatly offset by the operating leverage on general expenses. The net income adjusted increases of 15% at €37 million with respect to the €32.1 million registered in the first half of 2015. In 2016 the

sales of the Group continued to increase in all business lines and markets in which the company operates.

1H 2016 NET REVENUES BY BUSINESS LINE

- Multi-brand in-season €490m
- Multi-brand off-season €318.2m
- Online flagship stores €88.7m

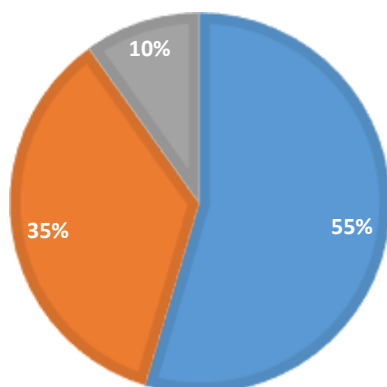


Figure 14. Source: YNAP Consolidated interim financial statements at 30 June 2016.

1H 2015 PRO-FORMA NET REVENUES BY BUSINESS LINE

- Multi-brand in-season €443.4m
- Multi-brand off-season €268.2m
- Online flagship stores €80m

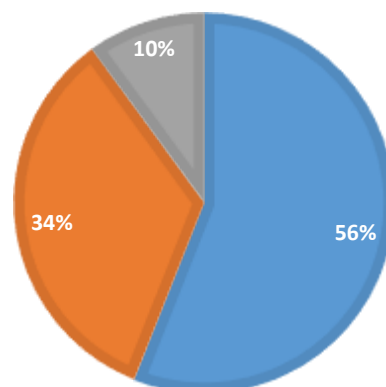


Figure 15. Source: YNAP Consolidated interim financial statements at 30 June 2016.

The multi-brand in-season business line records a 10,5% increase with respect to the pro-forma data of 1H 2015 (Fig. 14 and 15). The growth could be even larger, but it has been slowed down by the cut in marketing investment on THE CORNER and SHOESCRIBE. Indeed, the two storefronts will be closed during the year, this in order to focus the improvement on the two most powerful e-shop NET-A-PORTER and MRPORTER. As proof, new prestigious brands have been launched on the latter, namely: Prada, Tiffany & Co., Moncler, Zegna. *The multi-brand off-season* business line records a higher increase equal to 18,6%. The performance is achieved thanks to the positive results of both the off-price storefronts, YOOX and THE OUTNET. *The online flagship stores* business line registers an increase of 10.8%. Two new shops have been launched: *Armani Exchange* in North America and *Chloé* in Europe, US and Asia-Pacific. As we will see later, one object of the new business plan is to strengthen the relationship between the Group and its partners' stores.

1H 2016 NET REVENUES BY GEOGRAPHICAL AREA

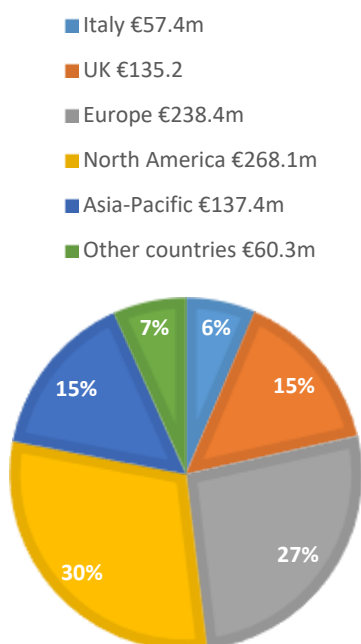


Figure 16. Source: YNAP Consolidated interim financial statements at 30 June 2016.

1H 2015 PRO-FORMA NET REVENUES BY GEOGRAPHICAL AREA

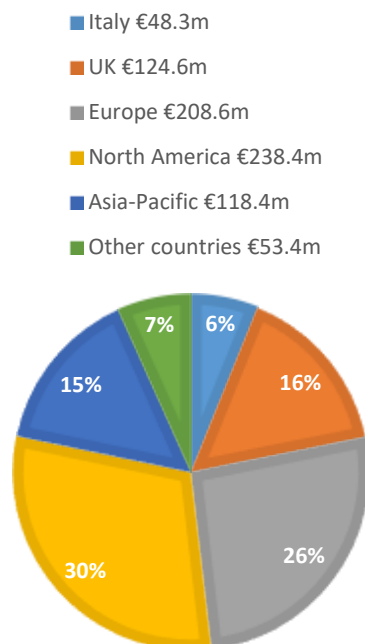


Figure 17. Source: YNAP Consolidated interim financial statements at 30 June 2016.

The sales have increased in all the markets, however the contribution in terms of net revenues of each market remains almost the same (Fig 16 and 17). Italy records an increase in net revenues of 19%, UK registers the lowest increase equal to 8,6%, mainly due to the great slow down after the referendum. In general Europe (Italy and UK excluded) registers a 14,3% increase, thanks to the good performance of France, Germany, Spain and Russia. North America which remains the leading market records an increase in net revenues of 12,5%. While the excellent performances of Japan and China drive the net revenues in Asia-Pacific up of 16%. And the Middle East raises the net revenues of other countries of 13%.

In the first half of 2016 the Group has begun to implement its strategical investments. During the presentation of 2015 results the CEO Marchetti had announced investments equal to €150 million during 2016, adding that the main focus of the Group will remain the technology innovation. In particular, the group has worked to the implementation of the new Order Management System (OMS), the first online store has migrated from the former YOOX GROUP to the new OMS in August. Moreover, the investments concern the upgrade of the Italian logistic centre in order to construct a new in-season warehouse. Indeed, according to the

new business plan the logistic centre in Italy will become the leading. Further, the Group continued to upgrade its mobile offer and the services available for its brand partners. The total investments amount to €48.130 million. The net financial position sharply improves. It is equal to €138.8 million against €62.1 million on 31th December 2015. This is mainly due to the capital increase of €100 million subscribed by Alabbar Enterprise. Remember that all the 2015 data are pro-forma.

Despite the period of transformation and integration YNAP continue to improve its results. This is in line with the findings of McKinsey Altagamma. In other words, since online channel is the fastest growing channel in the luxury sector, YNAP wants to capture at best this opportunity of growth. To do so the Group has designed a new business plan to implement in 2015-2020. According to the plan in the next five years net revenues will grow at an annual rate of 17%/20% at constant exchange rate; outperforming the average of the sector, which is expected to grow by 15% a year. The synergies of the merger will push up the adjusted EBITDA margin to 11/13% in 2020, against a margin equal to 8% in 2015. The EBITDA will be also improved thanks to the expected sales growth of private labels characterised by higher margins and to the efficiency generated by the global techno-logistic platform that will be shared also with the partner brands. As already said before the integration of the two companies will require an increase in capital expenditure with a peak between 2016-2017, the Group expects to gradually reduce the capex around 4/5% of net revenues within 2020. In addition, a positive free cash flow is forecasted by 2018 when the synergies of the merger should be completely unlocked and the investments for integration should be completed. The ambitious plan of the Group has the aim to bolster its leadership position in the online luxury market. The actual market share in the personal luxury goods sector is equal to 10% and it is expected to grow to 11/12% in 2020 in a market that is expected to be worth €34 billion. While the turnover of the Group is expected to grow to €3.7/4 billion in 2020 with a customer base of 6 million. Analysts' estimates are more conservative. Indeed, they calculate net revenues equal to €3.4 billion, which implies a CAGR equal to 15% which is in line with the sector trend. With an EBITDA margin of 11% and considering a more conservative level of annual run rate synergies €65 million. One of the most powerful assets of YNAP is its customer base. Indeed, today YNAP can boast a customer base greater than the ones of all other online luxury players. As seen before, the luxury customers are highly mobile and social. In addition, mobile customers in 2015 have been more loyal, more engaged and they have spent more (Fig. 18).

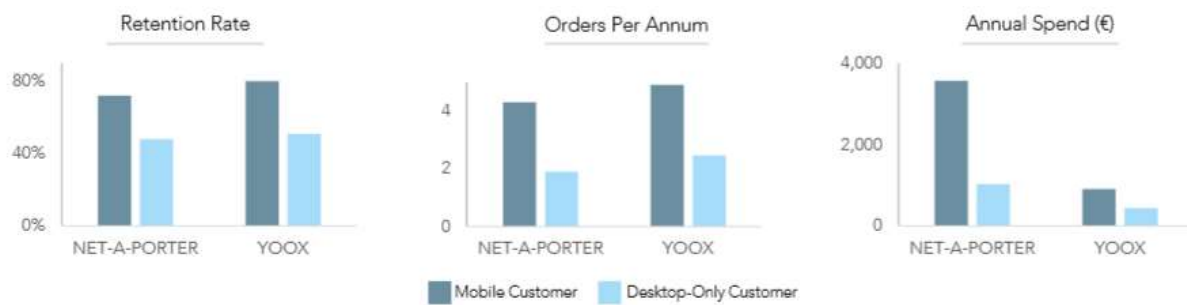


Figure 18. Source: Fast Forward to 2020. YNAP's business plan presentation, 2016.

For this reason, one of the aim of the plan is to provide to the customer an excellent and innovative mobile service for all its storefronts. With the release of new mobile apps and the strength of customer care through instantaneous chat. Further, thanks to the big database available for the Group, it can refine this data in order to develop a customer's holistic view. Which will allow YNAP to offer a more personalized experience to the customer. While NAP's editorial skills are expected to produce creative content to entertain the customer and increase the time that they spend on YNAP's stores.

According to the Group's forecast, the *multi-brand in-season* business line will remain the leading for the Group. To enhance the potential growth of the business line the strategy of the Group will focus on the following factors:

- Increase customer acquisition, engagement and retention. Especially focusing on the *high net worth customers* (HNW). Currently these represents 2% of the active customers but they account for 40% of the net revenues. Clearly they are characterised by a higher AOV, a higher order frequency and they are more loyal. The business has developed a unique know-how in terms of targeted customer acquisition thanks to its Personal Shopping and Client Relations teams which leverage sophisticated customer relationship management strategies and the communities of existing customers.
- *International expansion*. The group own an unrivalled global platform. The aim is to consolidate its leadership position in US, to accelerate the growth in Middle East and to improve the performance in Europe. Moreover, the combined company can leverage YOOX's localisation expertise and platform in Asian market to grab the potential growth of that area. Increase YNAP brands awareness in Middle East and China is a declared priority for the Group. The Middle East is characterised by the presence of a

large HNW customer base and a deep mobile penetration. The same holds for China where young and technology savvy luxury customers represents a great growth opportunity.

- Enriched personalised service driving customer engagement and retention through: dedicated personal shoppers for most valuable customers, style advice delivered through sophisticated native apps, data-driven CRM and enriched one-to-one geo-localised editorial content and product recommendations.
- Enrich its offer. Together with the most sought brands and exclusive collection, the Group is planning to introduce Mr Porter's own label in 2017, which will be sold exclusively on MRPORTER. In addition, fine jewellery and watches will be added to the offer. The business model will be based on a consignment model implying zero inventory permitting an AOV and Cash Flow enhancement. Currently hard-luxury is an under-penetrated category online, but it has a great online potential. YNAP forecasts to reach €100 million in sales by 2020 from this category.

Currently, YOOX and THEOUTNET represent 10% of the off-price personal luxury goods online market. The off-price luxury market is expected to grow from the 2015 10% share of total luxury market to 13% in 2020. This also reflects a behavioural change; indeed millennials are attracted by off-price market. The strategic priorities for YNAP's *multi-brand off-season* business line are:

- Power the growth of YOOX high-value customer base through increased investments in awareness. To achieve the goal YNAP will focus on expanding awareness and engagement implementing a balanced mix of advertising initiatives and brand building.
- Increase in engagement and loyalty driven by personalised mobile propositions. This will be possible leveraging an unrivalled quantity of internal and external data and refining it in to smart customer profiles.
- International expansion. Thanks to YOOX's localisation assets and expertise THE OUTNET will unlock its entire global growth potential. Moreover, both brands will expand in Middle East with a fully in-country presence.
- THE OUTNET will increase its offer of best-selling categories as shoes and bags. In addition, Both, YOOX and THE OUTNET will have a privileged access to Online Flagship Stores' off-season stock.

- YOOX's own label will be introduced and Iris & Ink (THE OUTNET's own label) will be strengthened. Both label will be exclusively sold on YOOX and THEOUTNET. Indeed, private label is expected to reach 10% of off-season net revenues by 2020.

For the *online flagship stores* business line the Group will focus on fewer bigger partnership and upcoming fashion stars. YNAP will help brands to fully capture the omni-channel retail opportunity. The aim is to create a deeper integration between online stores and brick-and-mortar brand's stores. For example: the possibility to buy online and pick up in store, buy online and return in store, online and offline customer information will be integrated in a single database, etc. Together with the traditional services offered (creation and management of e-shop, logistic services) YNAP will offer a new range of unique value-added services:

- Data insights
- Innovative native apps
- Creativity and digital projects
- Editorial content
- Customer service innovation
- Consultancy service

Moreover, the scope of the Group is to create more flexible partnerships, in order to accommodate different brands' needs and digital ambitions and in this way establish a greater number of partnership. In particular, three different models of partnership will be offered: *fully-integrated omni-channel*, *light omni-channel*, *turnkey*. Each has a different level of integration between online and offline experience, while across all the models brands will fully own the retailing and marketing strategies for their online stores.

The aim of YNAP is to launch one global techno-logistic platform in order to implement the *omni-stock programme*. The latter include:

- The realization of the global inventory, in order to provide global visibility for YNAP's stock.
- The network specialisation by business line. In-season and off-season hubs in central markets (US, Europe) will be divided. While distribution centres in peripheral markets (Middle East, Asia) will be shared across in-season and off-season. Bologna's logistic platform will remain the hub of off-season line and it will be expanded. In addition, a new centre will be opened in Italy to serve the in-season line. The centre will leverage

the proximity to YNAP's biggest suppliers, its strategical location at the heart of continental Europe and it will represent a natural hedge against Brexit. Moreover, in late 2016 Hong Kong warehouses will be consolidated, in 2018 a distributional centre in Dubai will be opened.

- The connection of all YNAP's warehouses will allow a more flexible allocation of inventory. Further, leveraging smart data will improve inventory management. In other words, the use of advanced predictive algorithms will optimise the allocation of the stock and it will maximise inventory value. Moreover, the Group wants develop an "open network" able to interact with partner brands' distributional centres and stores to enable omni-channel functionalities and evolving business models.

For what concern the impact of Brexit on the business development, YNAP has already account a decrease in UK's contribution to Group's net revenues. Indeed, in 2020 UK's share is forecasted to be 12% (vs 15.8% in 2015). This reflect a more mature stage of e-commerce in UK. The construction of Italy in-season hubs should minimise the impact of custom duty introduction. In fact, the localisation of inventory serving EU in Italy rather than in UK will allow the company to pay duties only on products shipped inter-company from Italy to the UK. Moreover, the depreciation of GBP against Euro should have a neutral effect on Group's profitability since GBP-denominated costs and revenues are well-balanced.

The other players in the market

As we have seen in the previous chapter, the major players of online luxury sectors are not the luxury brands. Indeed, they have underestimate the importance of the Web channel in past years, being sure that it was a threat for the luxury experience of their customers. This has favoured the growth of multi-brand retailers. Luxury is a very different market from apparel, luxury is a niche. Thus, it requires different know-how and expertise from common online retail, in order to offer to the customer an exclusively shopping experience. This is also demonstrated by the poor and mainly off-season offer of luxury products by big online players as Amazon or Zalando, to mention a European one. Establish strong relationships with the major luxury brands is fundamental to succeed in this market. For example, today many brands recognize that YNAP has accumulated excellent expertise in the creation and management of online stores. Thus they find more convenient to entrust these operations to YNAP than to

develop these skills internally. Moreover, luxury brands are accepting that their own websites and multi-brand retailers' ones are not mutually exclusive.

The main competitors of YNAP are US department stores (those presented in the previous chapter Nordstrom, Neiman Marcus, Saks Fifth Avenue), which have developed a credible online presence over the years. And privately held companies (Luisa Via Roma, Moda Operandi, FarFetch, Matches Fashion), which manage smaller businesses. Mostly these have begun to operate as brick and mortar retailer and then they have developed an online store. For example: Luisa Via Roma is a boutique based in Florence since 1930. In 1999 it has launched its online stores and now 95% of its sales volume comes from the Web. The same holds for Matches Fashion. While Moda Operandi and FarFetch are born as pure online players. In particular, the latter was born to allow independent exclusive boutiques from all over the world to reach a global audience. While recently it has acquired an historical London based boutique *Browns*. The aim is to develop and test new innovative omni-channel services, which if successful will be offered to all 300 boutiques in the online platform. Clearly, YNAP is better positioned with respect to these smaller competitors, which usually rely on weaker business models. Nordstrom and Neiman Marcus have a greater scope, respectively they have a market share in the luxury market for personal goods equal to 11,67% and 5,36% (against YNAP's 10%). However, their businesses are mainly driven by offline stores. For example, Neiman Marcus revenues in 2015 were equal to \$5.095 billion but only \$1.340 billion come from online stores. Unlike its competitors YNAP has a global footprint. Moreover, it operates in both in-season and off-season channel with robust historical performance. Last but not least, thanks to its huge customer base it can boost the most comprehensive database.

The market reaction to the announcement

As we have seen in the first chapter, empirical results usually highlight a negative effect of announcement on bidder's stocks price (McKinsey's research 2015 and BCI's research 2011). This is not the case for YOOX's shares. Indeed, on the day of the announcement (31st March) YOOX's shares gained 11%. Overall, in three trading sessions shares recorded a 33,7% increase, from €21,08 on 27th March to €28,19 on 1st April. In addition, shares' price reverses to level prior the announcement only for the effect of Brexit referendum, fifteen months later. In my opinion, the positive market's reaction is mainly due to the terms of the agreement, which seem favourable for YOOX. There is no cash payment. I believe this is quite important since the integration of the companies will require a huge increase in investments. Moreover, there

seems to be strong support from CFR for the successful of the deal. NAP has been delivered with no debt and no onerous incentive plan in place. Further, the strategic rationales underpinning the merger seem to be clear and specifically thought to create value, as suggested by McKinsey for successful deals. Remember, that in the first YOOX's business plan the declared aim is to become the world's leader in the luxury fashion e-commerce sector. Actually, with this merger YOOX achieves the objective. Indeed, no other players in the market own the potential and the capability of the combined company. The high business complementarity, the possibility to cover all luxury customer segments, together with the availability of the most powerful global database on digital luxury demand trends are all valuable source of competitive advantage for YNAP. Additionally, I believe that the transparency in the synergies disclosures from YOOX has enhanced the positive market reaction. This is in line with the findings of Dutordoir, Roosenboom and Vasconcelos (2013), which state that synergies disclosures are more likely to equity-financed deals. According to Marchetti, in 2009 YOOX and NAP spoke for the first time of a possible merger. After six years the merger become reality and the timing seems perfect. Since in these six years the two companies have had the possibility to strengthen their businesses and to increase brands awareness. And now the combined company is absolutely well positioned to capture the future market's opportunity of growth. A study conducted in 2006 found that the acquisition of online firms by offline firms and the acquisition of online firms by other online firms cause positive abnormal return for the acquirer (Uhlenbruck, Hitt and Semadeni, 2006). This study was conducted on a numerous sample and the event window considered coincide with the day of the announcement. The results show a positive stocks' bidders performance, equal to 1% on average. Despite the research is conducted in 2006 when Internet was a less exploited technology, this trend seems to hold. For example, considering some recent deals concerning online retailer firms, and assessing the market reactions to the announcement of these deals, we obtain results similar to those founded by Uhlenbruck, Hitt and Semadeni. The considered deals are:

- SRP Groupe acquisition of Saldiprivati from Banzai S.p.A. The deal was announced on 3rd October 2016. SRP is a France-based company engaged in e-retailing of clothes, cosmetics and household products. While Saldiprivati is an Italy-based e-commerce company. SRP agreed to pay €38 million for the acquisition. The payment includes earn-outs of EUR 10m subject to the fulfilment of performance conditions tied to the 2018 results payable in 2019, and an amount of EUR 5m which is related to the achievement of 2017 objectives linked to the successful carve-out process of

Saldiprivati. The main rationales of the deal are to enter in to the Italian market, to have access to a broader range of brands, and to improve the quality of service.

- Wal-Mart Stores Inc acquisition of Jet.com Inc. The deal was announced on 8th August 2016. Wal-Mart Stores Inc, is an American department store group, which also has e-retailing operations. While Jet.com Inc is a start-up e-commerce company which sells products in various categories. The peculiarity of the start-up it is in its innovative pricing software, which allows to lower prices as customers add more items to their shopping carts. Indeed, the main rationale of the transaction is to enhance Wal-Mart's digital expansion strategy to target millennial customers. For the acquisition Wal-Mart agreed to pay \$3 billion in cash and \$300 million in shares, a portion of which will be paid over time.
- Windeln.de AG acquisition of Bebitus Retail S.L. The deal was announced on 10th August 2015. Windeln.de is an online retailer for baby and children products. It operates in seven European countries and in China. Bebitus sells baby and toddler products for daily needs. It begun to operate in Spain and then it expanded in France and Portugal. Windeln.de have paid €5 million for the acquisition. Moreover, the parties agreed to pay additional performance based purchase price instalments that are subject to Bebitus reaching certain revenue targets each year until 2017. The leading objective of the deal is to enhance Windeln's scope to South Europe.
- Zalando SE acquisition of Metrigo. The deal was announced on 9th March 2015. Zalando is one of the most important European multi-brand online retailer, mainly of apparel and shoes. It operates in 15 European countries. Metrigo is a young German company, which operates in the online advertising sector. The company develop and operate technology that employs statistical methods to enable assessments to be made about which campaigns and products are suitable for a user at a particular time and place. Zalando has paid €3 million for the acquisition. The aim is to decrease Zalando's expenditure in digital research.

To compare these cases with YNAP's one, I consider a three days event window. Namely, the day prior the announcement (-1), the announcement day (0) and the day following the announcement (1). The market's reactions are showed in the following table (Tab. 3):

	Value in (-1)	Value in (0)	Value in (1)	Change in % between -1;0	Change in % between -1;1
SRP Groupe	€19,22	€19,55	€20,02	1,7%	4,2%
Wal-Mart	\$73,76	\$73,34	\$73,54	-0,6%	-0,30%
Windeln	€11,77	€11,97	€12,18	1,7%	3,5%
Zalando	€25,57	€25,98	€24,25	1,6%	-5,2%
<i>Average</i>				1,1%	0,55%
YNAP	€23,18	€25,75	€28,19	11,1%	21,6%

Table 3. Bidder's stock performance during M&A announcement.

Even if the sample is very small, YOOX's announcement seems to be characterised by a much more positive market's reaction with respect to the other deals. On average the returns for bidders' shareholder are positive but quite low (1,1% on the announcement day), while the returns for YOOX's shareholders are significantly higher (11,1% on the announcement day). One possible explanation is that while YOOX operates in a niche market (online luxury personal goods retailer), the others operate in the broader market of online retailer. Thus they are exposed to more competition and they are smaller and they have a less global footprint with respect to other players in the market, especially SRP Groupe and Windeln.de.

For this reason, it could be interesting and maybe more appropriate to compare YNAP deal with that of one of its competitors. Namely the acquisition of mytheresa.com from Neiman Marcus occurred on October 2014. The latter is not quoted so it can not be included in the previous sample. Neiman Marcus Group manages luxury department stores, outlet stores and high-end retailer Bergdorf Goodman in US. Further, the company operates online under the Neiman Marcus, Bergdorf Goodman, Last Call, Horchow, CUSP and MYTHERESA brand names. MYTHERESA is an online retailer for women's luxury fashion. It has been founded in 2006 by the owners of the multi-brand luxury store Theresa based in Munich since 1987. MYTHERESA is particularly active in Germany and rest of Europe and it is gaining traction in Asia. MYTHERESA ships to over 120 countries and almost two-thirds of its revenue comes from outside Germany. Thus, in geographic terms the two businesses are complementary, since Neiman Marcus's core business is in US. Neiman Marcus agreed to pay approximately €150 million for the acquisition of both businesses, MYTHERESA and Theresa store. The amount includes an earn-out based on future performance and the acquisitions will be funded through cash and debt. After the completion of the acquisition the businesses run as an independent subsidiary of Neiman Marcus. Even if the acquisition will allow Neiman Marcus to enhance its

scope and to reach a more global footprint, I believe that the acquisition has weaker and vaguer strategic rationales with respect to YNAP's deal. Indeed, the merger with NAP allows YOOX to acquire skills (as editorial expertise) more quickly and at lower price than they could be built internally. While I believe that MYTHERESA acquisition is poor in this terms. That is, the company may provide no new skills to Neiman Marcus except the geographical expansion, however the German company may benefit a lots from Neiman Marcus expertise. In addition, the issue of new debt from Neiman Marcus may erode the potential value creation of the acquisition. Since the Group is already burden by a huge amount of debt due to the \$6 billion leveraged buyout by Ares Management and the Canada Pension Plan Investment Board of 2013. Long-term debt was equal to \$4.7 billion in 2015. In 2016, Neiman Marcus' performance is weak. It experiences a decline in sales of 2.9% to \$4.9 billion from \$5.10 billion in 2015. However, according to K.W. Katz (CEO of Neiman Marcus) MYTHERESA is showing double-digit percent sales increases. After all, I believe that Neiman Marcus has paid too much for the acquisition if compared with YNAP's deal. And as McKinsey suggests, low transaction premium is always better.

Conclusion

Globalization, hyper-competition and accelerated technological changes require businesses to develop sharp and dynamic strategies of growth to survive and prosper in the “new global market”. However, growth should not be intended as synonymous of good performance. Since if the business is unsuitable to sustain the development, growth may destroy value. Growth strategies can be divided in two categories: Organic growth and External growth. Intuitively, the two strategies are not alternative, rather they are complementary. Moreover, firm’s growth strategies often vary over time. As the YOOX’s case also demonstrates. External growth, in particular M&A, allows companies to obtain knowledge, market-shares, new products or access to new markets in a faster and sometimes cheaper way. M&A are not intrinsically good or bad, but they are a very complex topic. Which despite its benefits, embedded risks as asymmetric information, agency problem or the risk of overpayment. Moreover, the complexity of the integration process is sometimes underestimated by managers. Literature reports a high rate of failure. In particular, from an acquirer’s point of view, M&A announcement seems to have a negative effect on the shares’ price. Most of the benefits are captured by targets’ shareholders, which according to McKinsey estimates receive an average premium of 30% over their stocks preannouncement market price. Indeed, a BCG’s research has examined 26.000 transactions from 1988 to 2010. The results show that the average share price performance was 15,5% for the target firms and -1% for the bidders. Looking at deals concerning Internet firms, a study reported a positive effect on the value of bidders’ shares. On the day of the announcement the bidders’ shares gain 1% on average (Uhlenbruck, Hitt and Semadeni, 2006). I have found similar results. Even if I have examined a much smaller sample, since I have considered only deals concerning online fashion retailer in the last three years. At least those for which I have found data. Market’s reaction to YOOX’s announcement was more positive than the others considered (11,1% vs. average 1,1% on announcement day). In my opinion, the payment in equity has fostered the favourable reaction, since the integration process will require a significant increase in investments. Moreover, the transparency adopted by YOOX has boosted the reaction. This is in line with the literature, according to which synergies disclosures have a positive impact on the stock returns of the bidding company and they are more likely to equity-financed deals (Dutordoir, Roosenboom and Vasconcelos, 2013). Analysts evaluate the merger as beneficial for both, YOOX and Net-A-Porter. Indeed, the two businesses are highly complementary. According to Bauer and Matzler (2013) strategic complementarity is decisive

for postmerger integration and M&A success. Before the merger YOOX's operations was more focused on multi-brand off-seasons and mono-brand business lines. While NAP's was more powerful on multi-brand in-season business line and editorial business. This enables the combined company to cover all the luxury customer segments. In addition, NAP was more well-established in Anglo-Saxon world (North America, UK and Australia). While YOOX had a greater experience in Asia (especially Japan) and Europe. Thus, they can help each other to increase brand's awareness in respective areas of strength. Moreover, the expected growth trend for the global luxury e-commerce market is very positive. Online sale is the channel that has reported the highest growth rate in luxury sector over last years. More precisely, in last five years it has registered an annual growth rate equal to 27% while the other channels have reached only 7%. According to McKinsey's estimates, in 2025 online sales will account for 18% of total sales in luxury market, against a share equal to 6% in 2014 and 7% in 2015. Not surprisingly, given the deep penetration of Internet in our everyday life, brands' digital presence drives three out of four luxury purchases. Luxury brands have underestimated the importance of online channel over pasts years. This has favoured multi-brand retailers as YOOX and Net-A-Porter. Which today thanks to their consolidation are well-positioned to lead the market. Further, with respect to its peers YNAP has a more global footprint, a more comprehensive database on digital luxury demand trends and good track-records in both, off-season and in-season businesses. The merger has expected to lead €85 million of annual synergies on EBITDA and capex savings by 2018. Despite the period of change, in the year of the merger YNAP has registered a growth in every business lines and in every markets in which it operates. The organic growth continues in 2016. The latest results released by the company report net revenues in the first nine months of 2016 equal to €1.3 billion with a growth of 17% against 2015 results. All the markets record a double-digit growth. The same holds for all the business lines, among which off-season registers the highest growth. Additionally, the company expects to register a further increase in revenues and an improvement of the EBITDA adjusted margin for the 2016 fiscal year. To capture the opportunity growth of the market YNAP has developed a new business plan, which mainly focus on guarantee to the customers and brands partners a superior experience. For this reason, YNAP has agreed upon a strategic alliance with IBM, which will help the company to develop the global techno-logistic platform and to improve its mobile and personalized offer. Moreover, YNAP's aims are to boost its high net worth customer base, to strengthen brand awareness in China and Middle East and to develop greater omni-channel services for its brands partners. Clearly, any delays or management uncertainty on the

integration could negatively affect the growth pattern. Thus, management should continuously assess the feasibility of their scopes and strategy; meanwhile looking for new opportunities in order to exploit the whole potential of the consolidation. These are characteristics that identify best acquirers, according to McKinsey. Valentini (2016) has found that because of the integration process focusing on short-term objectives, the merging companies are outperformed by their competitors in terms of technological innovation. I believe this will not happen for YNAP, since in this case integration process and technological innovations are strictly related. Further, uncertainty and dissatisfaction, that may have arisen among the employees, have been positively handled, since no redundancies have been planned. The geo-political tensions and terroristic attacks in Europe may represent a risk for the demand of luxury goods, even if currently this risk seems to hit more off-line retailers because of decrease in tourist flows. Some analysts found that at the actual average salary level the Group may have difficulties in finding or retaining high skilled employees. Moreover, a possible increase in oil price may cause a significant increase in costs for the company. Even if presently, there is huge uncertainty about this topic.

To conclude, I believe that the merger is grounded on solid strategic rationales, which are value-increasing motives rather than managerial ones. Since their launches YOOX Group and NAP Group have revolutionised the online luxury market. Today, the two twins company have what it takes to continue this revolution and leveraging on its expertise YNAP has a concrete opportunity to lead the market.

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