

# Tod's New Beginnings - LVMH increases its friendship with Tod's to a 10% stake

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*LVMH (MC.PA) Market Cap as of 30<sup>th</sup> April 2021 – €315.40bn*

*Tod's (TOD.MI) Market Cap as of 30<sup>th</sup> April 2021 – €1.30bn*

## **Introduction**

On April 23rd the news broke that the luxury-powerhouse LVMH has acquired a 6.8% stake in Italian shoe and leather goods producer Tod's. This increases the French maison's ownership in Tod's to 10%, up from the previous 3.2%. According to Della Valle, the Italian company's chairman, LVMH's €75m investment might just be the beginning of what could eventually be full on acquisition. Indeed, Tod's is considered ripe for takeover, as it has fared considerably worse than its competitors during the pandemic, and has recorded declining revenue even before the crisis.

## **About Tod's**

Tod's SpA is a Milan-listed holding company that controls the brands Tod's, Hogan, Fay, and Roger Vivier. Under these names it produces luxury shoes, leather apparel, and accessories, which it distributes through directly operated stores, franchised retail outlets, and a series of independent multi brand stores. The company was founded in 1920 as a small shoe factory that gradually expanded in size. Under current CEO Diego Della Valle, who joined the company in the 1970s, Tod's became an internationally known luxury brand partly due to the new marketing strategies that he introduced. Della Valle currently owns 63.4% of the group, and the rest of the shares are divided between LVMH, which now possesses 10%, and other shareholders, which own the remaining 26.6%.

Over three quarters of the group's revenues are attributable to shoe sales, and more than half of revenue is coming from Europe, with Italy being the biggest market there. China and the US also represent important sources of sales. Tod's SpA has struggled with declining revenue and net income ever since 2012. For instance, its CAGR for the last 5 years was -9.2%. The current crisis, which has had an especially harsh impact on the fashion industry, further harmed the luxury house. In 2020 full year revenue declined 30,4% YOY to €637.2m, and operating income became negative. It is important to point out that this is a significantly sharper drop than those exhibited by its rivals.

In 2017, a turnaround strategy was introduced to stop the downward trend. In particular, the company increased investment in marketing and collaborated with a number of in-demand designers, all to appeal to younger generations. In 2019 it also engaged a new creative director who formerly worked at Bottega Veneta, Walter Chiappioni. The most recent part of the turnaround strategy included the appointment of Chiara Ferragani, a social media star with massive following, to Tod's board of directors. This move, which also aimed at drawing more attention from younger customers, earned widespread approval from the market as the company's shares rose by more than 20%. However, if speculation about a takeover were to be true, it would signify the Italian brand's admission that the turnaround strategy did not succeed.

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## About LVMH

LVMH Moët Hennessy Louis Vuitton SE is a French luxury goods conglomerate that controls more than 75 different businesses. The group first came into existence in 1984 when CEO Bernard Arnault bought Christian Dior's parent company Boussac, which had gone bankrupt. He turned that company around and was soon in a position to make a new acquisition, namely the one of the LVMH, which consisted of the previously merged companies Louis Vuitton and Moët & Hennessy. After this success, Arnault went on to accumulate a score of other brands, many of which were often direct competitors. He thus created a conglomerate of a massive scale, with the success of this business model encouraging many of his competitors to try the same.

The Arnault family is the majority shareholder of LVMH with a stake of 47.5%. French institutional shareholders account for 7.4% of ownership and international institutional investors for 39.6%. The remaining 4.8% are owned by individuals.

LVMH has interests in 6 sectors: Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewelry, Selective Retailing and Other Activities. such as lifestyle brands etc.. The group's holdings now include notable producers of luxury goods such as Christian Dior, Givenchy, Loro Piana, Bulgari and Tiffany & Co, to name a few. However, its most important brand remains Louis Vuitton, which accounts for more than half of all sales. With a market value of roughly €321bn it is Europe's most valuable company and the 20th most valuable company worldwide. For the last five years, revenues have been growing at a CAGR of 4.6% and the operating margin was 19.1%. During the crisis revenues took a moderate dip (from €53.7bn in 2019 to €44.7bn in 2020). Nonetheless, it is fair to say that LVMH emerged as one of the winners from the pandemic. Thanks to strong post-

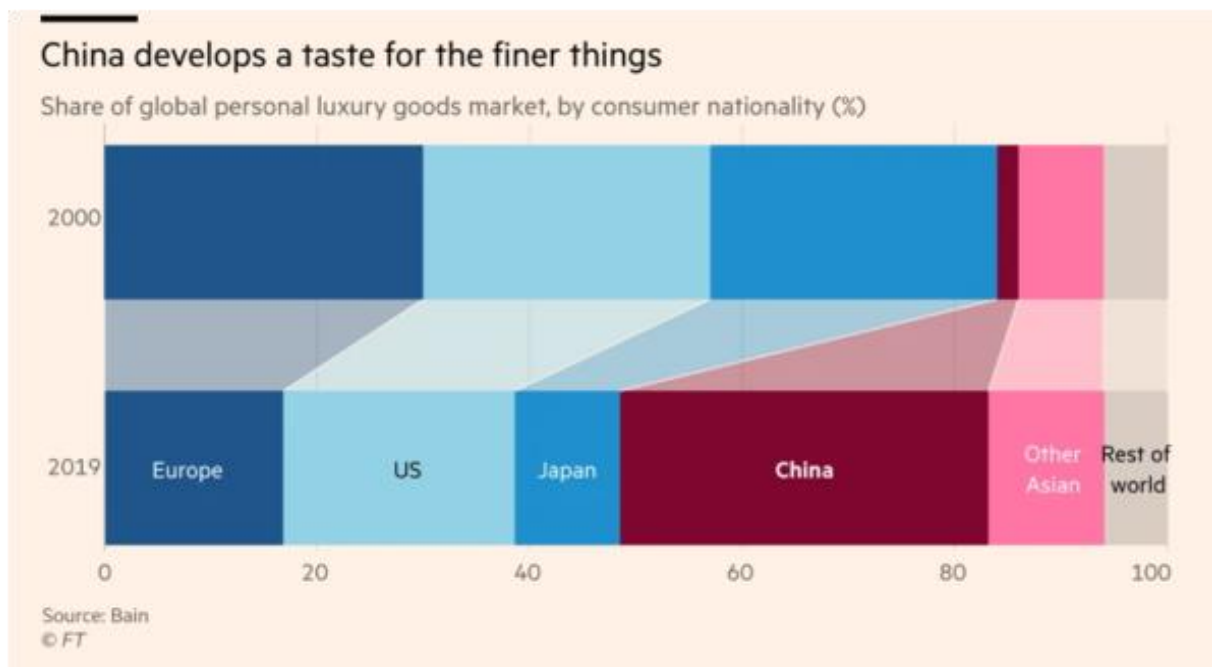
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lockdown demand in China and the US, Q1 revenues are already up 30% on an organic basis when compared to 2020. Indeed, first revenue projections predict that 2021 year end revenues will sit at an all time high of €59.1bn. Therefore, it is not unreasonable to assume that the group might want to benefit from its current positive financial situation by acquiring distressed Tod's.

## Industry Overview

The global luxury industry is highly concentrated, with the top ten luxury brands controlling 47.9% of the market. Each of these players are attempting to maintain and increase their market share by deploying a diverse set of capital and marketing resources. This massive effort can only be maintained by solid corporations that own significant portions of the world's most lucrative, fast-growing, and popular brands. As a result, global luxury conglomerates are locked in a never-ending struggle to entice the best companies to join their portfolio of subsidiaries, all while seeking intense diversification.

The proliferation of social media, as well as the rapid growth of new markets, such as Asia, and platforms, have reshaped the luxury industry over the last five years. With regards to asian countries, according to Bain, Chinese local spend could account for up to 28% of global luxury consumption by 2025, up from 11% in 2019, and brands are preparing to adjust their retail footprint accordingly.



Luxury brands face substantial threats as a result of the latest technological revolution's uncontrollable impact. Maintaining a competitive edge in such fast-fashion and short-lived trends seems almost impossible; further, the top ten luxury companies did not shift in 2016, suggesting that only well-established luxury behemoths will compete in the current climate. Meanwhile, behemoths like LVMH and Kering must adhere to two core principles: the first is minimizing reputational risk (i.e. acquiring the best businesses and monitoring the consistency of established brands); and the second is recognizing industry dynamics (e.g. rising importance of millennials and travelers, dominance of social media marketing, rising complexity of business models).

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The Covid-19 crisis in 2020 had a major effect on the luxury goods industry. The core personal luxury goods market shrank for the first time since 2009, dropping by 23% to €217bn at current exchange rates. Bain & Co declared that this is the biggest decline since they have started following the industry. The total luxury industry, which includes both luxury products and experiences, has shrunk at a similar pace, and is now estimated to be worth around €1tn. However, Covid-19 brought improvements that expanded the online presence in all aspects of life. Online sales in the luxury industry reached €49bn in 2020, up from €33bn in 2019. From 12% in 2019 to 23% in 2020, the percentage of sales made online nearly doubled. Through these challenging times, Luxury brands must continue to innovate and promote their products, renewing distribution networks, and attempting to appear in fashion blogs and influencers' photographs in order to avoid being ignored by customers.

## **Deal Structure**

Tod's declared in a statement that its chair, Diego Della Valle, sold 2.25 million shares, or 6.8%, to a LVMH investment vehicle for €75 million. Della Valle will own 63.64% of Tod's outstanding shares following the deal, which is scheduled to close on April 28. The LVMH group, controlled by billionaire businessman Bernard Arnault, already owned 3.2 percent of the company.

Despite the fact that LVMH has just completed a \$15.8 billion acquisition of U.S. jeweler Tiffany and has stated that it is currently focusing on absorbing the purchase, Jefferies' Flavio Cereda mentioned in a note that there may be talk of a further LVMH stake increase in Tod's.

The agreed-upon price for LVMH's stake acquisition was 33.10 euros per share, the weighted average of stock's prices in the last 15 days of trading, corresponding to a 10% discount to Tod's share price. On Thursday, Tod's shares closed at 35.3 euros.

## **Deal Rationale**

The French luxury group LVMH has increased its stake in Tod's in an attempt to help relaunch the struggling Italian luxury leather goods maker and perhaps eventually acquire it. Tod's has long struggled to revive sales which have been shrinking for the past five years and has been hit harder than most of its rivals as a result of the COVID-19 pandemic in 2020. Therefore, the move by LVMH is viewed by some as a bailout of the troubled Italian shoemaker.

Furthermore, according to Citigroup analysts, the deal suggests that Tod's acknowledges that its turnaround strategy has not worked and now needs to bring more expertise into the house. The €75m deal also comes after Tod's announced that Italian social media influencer Chiara Ferragni would join its board earlier this month, with the purpose of helping the leather goods brand better position itself with younger consumers.

LVMH Chief Executive Officer Bernard Arnault explained in a statement that the friendship with Tod's founder and CEO Diego Della Valle and his family goes back over 20 years and that the transaction will further reinforce the partnership between the two companies. Della Valle then echoed Arnault, elaborating on the values of luxury, quality and products appeal the companies share, hinting to a closer relationship with the French luxury giant and further opportunities to be taken in the future.

Nevertheless, LVMH's increased stake in Tod's fueled takeover expectations. The Italian leather goods firm has been at the centre of a recurring market speculation that viewed it as a prime takeover target, which could definitely be an interesting opportunity for the Paris-based luxury predator. LVMH has been working on expanding its portfolio, having just completed the multibillion-dollar takeover of Tiffany&Co., and analysts are now also

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speculating on the possibility it might raise its stake in Tod's. However, sources close to the matter have described the move as a "friendly support" for the struggling Tod's, as LVMH does not expect to raise its stake further for now. Moreover, Della Valle, who has increased his stake in the leather group, has repeatedly denied he intends to sell. Yet, according to Italian broker Equita, the sale of Tod's remains the most probable scenario in a few years.

Speculations about the possibility that Della Valle may delist the company with the help of LVMH have also arisen. Tod's has been viewed as an ideal candidate to take private: with a free float of just €300m and low growth potential, the company seems to have limited room for a rebound.

### ***Market Reaction***

On April 23rd, LVMH Moët Hennessy Louis Vuitton announced it would up its Tod's stake. Shares in Tod's rose as much as 16% from €35.3 on the previous day, hitting a 16-month high before falling to trade 11% up at €39.32, bringing the company's market capitalization to about €1.3bn. The stock price was well above the price per share of €33.10, which the French luxury tycoon has agreed to pay for its additional 6.8% stake in the Italian firm. Tod's shares, however, are still short of its IPO price, set at €46 more than two decades ago.

It is worth noting that Tod's stock price was already taking off prior to the LVMH news. In the past two weeks, shares have also soared 23% as a result of investors' enthusiasm following the April 9th announcement of the appointment of Instagram influencer Chiara Ferragni as board member.

On the LVMH side, the stock market did not display much excitement over its increased stake in Tod's with share prices almost untouched, barely declining from €632.00 to €628.10 on announcement date in Paris trading.

### ***Financial Advisors***

Financial advisors for the transaction were not disclosed.

TAGS: LVMH, Tods, Acquisition, Luxury, Fashion, Arnault, Ferragni, Della Valle, shoemaker

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