

## Louvain School of Management

# The financial impact of M&A announcements: event study in the personal luxury goods industry between 2000 and 2016

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## Introduction

This paper's main concern is to analyse the value implications of mergers and acquisitions (M&A) announcements in the luxury industry. In other words, this thesis aims at answering the following question: do M&A create value (positive or negative) at the time of their announcement in the luxury industry? The success of M&A can be evaluated in many ways as it highly depends on how its performance is defined. Some scholars tell that the CEOs and experts of involved firms are the most appropriate for explaining the success of an M&A while comparing the original objectives with the post-merger KPIs<sup>1</sup> (Schoenberg, 2006; Cannella & Hambrick, 1993; Homburg & Bucerius, 2005; etc.). Others rather use accounting methods while relying essentially on the analysis of ratios before-after the M&A (Tuch & O'Sullivan, 2007; Healy et al., 1992; Bertrand & Zitouna, 2008; Bertrand, 2009; etc.). Finally, some authors prefer to evaluate the success of an M&A by analysing its announcement and the resulting abnormal returns on the stock markets (Martynova & Renneboog, 2008; Wang & Moini, 2012; Konigs & Schiereck, 2006; Campbell et al., 1997, etc.). This is this last preference that is the focus of this paper. Indeed, the central question of this thesis is the following:

*Do M&A generate value (positive or negative) for the acquiring firms' shareholders in the luxury industry?*

Corporate managers of larger companies are conscious that generating growth is key (Lechner & Kreutzer, 2010). In this context, M&A is only one choice among others: internal growth and strategic alliance. Scholars like Kreutzer (2012) explain how important it is to systematically consider all available tools for their growth strategy. In this paper, the focus was given to the analysis of M&A. Over the last decades, the number of M&A has drastically increased, which substantially changed many of the world's industries (DePamphilis, 2012). Wang & Moini (2012) show that between 1987 and 2010, M&A rocketed from \$97.3 billion to \$2,400 billion. As M&A became more and more common in firms' practices, it also became a topic of interest among several research disciplines starting in the 1960s (Wang & Moini, 2012). However, most of studies concluded that success rates were really poor (20 to 60% only). Wang & Moini (2012)

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<sup>1</sup> KPI stands for Key Performance Indicator. Those are indicators helping to understand the performance of a strategy or objective (KPI.org). URL link: <http://kpi.org/>.

talk even of “*success paradox*”. This leads to question the real benefits of M&A and this paper falls within this perspective.

Moreover, the choice of the luxury industry was made for 3 main reasons. First, luxury companies are really active in terms of M&A. Indeed, the luxury industry has been experiencing a phase of consolidation mainly through the use of M&A for a few decades now. It started in the 1990s with the emergence of larger groups such as LVMH (Cavender, 2012). The consolidation process slowed down at some points but still keeps happening today with LVMH, Kering, Richemont, Coach, Michael Kors, Estee Lauder, L’Oreal, Swatch, and many others. For example, Coach (who recently changed its name to Tapestry) acquired Kate Spade for \$2.4 billion in 2017 and its CEO, Victor Luis, said he was planning further strategic M&A in the near future (FN, December 2017<sup>2</sup>). Greg Furman, who is the leader of the Luxury Marketing Council<sup>3</sup>, talked of “*LVMH-izing American luxury*” (FN, December 2017). Second, the luxury industry is like no others. As a matter of fact, it is Dubois (1998) who once said that to be successful in the luxury industry, it is required to do the exact opposite of what is believed as “*traditional*” in other sectors. In this logic, it becomes very intriguing to know how M&A are affecting luxury companies. Third, the literature stays quite poor when it comes to stock market repercussions and financial value effects of M&A announcements in the luxury industry (Konigs & Schiereck, 2006). It becomes therefore interesting and contributing to analyse this particular sector.

Indeed, since there exist very few studies on the wealth effects of M&A announcements in the luxury industry so far, this paper becomes very contributing. Furthermore, this paper offers different subanalysis of the main sample that are not available in other researches already existing on this topic and focuses on a period of time not yet tested in this sector. On top of that, some procedures developed in this study in order to deal with the underlying assumptions of the event study methodology seem not to exist in other works. This could therefore bring a lot to the literature.

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<sup>2</sup> FN (December 2017) - 13 Big M&A Deals That Happened in 2017 and Two That Didn’t - By Katie Abel - URL link: <https://footwearnews.com/2017/business/mergers-acquisitions/walmart-jet-com-steve-madden-jimmy-choo-sale-michael-kors-biggest-fashion-deals-469540/>

<sup>3</sup> The Luxury Marketing Council is a “*global community of CEOs and CMOs [...] considered [as] a leader in the field of luxury marketing*” (more on <https://www.luxurycouncil.com/about>).

After that, the methodology used in this paper remains classic. I started by elaborating some research hypothesis. Next, I created a list of M&A announcements in the luxury industry between 2000 and 2016. I then collected the historical data of stock prices required in this study. From there, I designed a sample on which I applied an event study in order to evaluate the financial performance of M&A at their announcement. Finally, I performed 4 subanalysis to better understand the wealth implications of M&A announcements in the luxury industry. The details of the methodology is the subject of the second part of this paper.

The plan of this thesis includes 3 main parts. The first one reviews the existing literature and is organised in 3 chapters. The first chapter introduces the readers to the M&A concept, context, types and motives. The second chapter explains the concept of performance when it comes to M&A and tackles different ways to evaluate it. The last chapter of Part 1 is an analysis of the luxury market and industry. The second part of this paper dresses the research hypothesis as well as the methodology, and provides information about the data collected. Finally, the third part shows the results and my personal analysis of those. This study ends with a conclusion and some suggestions for future directions.



## Part 1: Literature Review

### Chapter 1: Mergers & acquisitions and the corporate strategy

#### 1.1. Definition and concept of mergers & acquisitions

The terms Merger and Acquisition are very ambiguous. Indeed, in practice, they are usually used indistinctly. However, strictly speaking, their terminologies are different. Across the wide M&A literature and on the internet, one can find many different definitions.

Barney & Hesterly (2012) define an acquisition as one firm purchasing another one, and a merger as the combining of the assets of two equal-sized firms. Johnson et al. (2011), Horne & John (2004), and Hirshleifer (1995) share analogous definitions. Barney & Hesterly (2012) explain that both mergers and acquisitions can be achieved in many similar ways but four main differences remain.

First, mergers do require the cooperation of the targeted firm's management in order to combine assets whereas acquisitions don't. Indeed, Hirshleifer (1995) explains that the purchase of another company can be performed through the use of tender offers<sup>4</sup> in order to face the disapproval of the acquired firm's management. In other words, one main difference between mergers and acquisitions is that mergers are friendly in essence whereas acquisitions can be whether friendly or unfriendly (also described as hostile takeovers).

Second, contrarily to acquisitions, companies operating a merger should be of similar size, even if Barney & Hesterly (2012) explain that one of the firms will eventually become more dominant.

Third, mergers imply the bilateral participation of both merging companies into each other's assets whereas acquisitions are unilateral.

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<sup>4</sup> Tender Offer: "to purchase shares directly from shareholders" (Hirshleifer, 1995).

Fourth and as a result of the second and third differences mentioned above, the targeted firm of an acquisition ceases to exist after the deal is achieved, leaving only the acquiring company to remain. Contrastingly, after a merger between two companies, both of them stop existing as such but combine into a new entity.

As mentioned earlier, numerous popularised definitions of M&A are available in the literature and on the internet, which can be confusing. That is why I found interesting to have a look at how it was described in the International Financial Reporting System (IFRS). The IFRS No. 3<sup>5</sup> speaks rather of so called “*business combinations*” which include M&A, and defines it and its components as followed:

- **Business combination:** “*A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as 'true mergers' or 'mergers of equals' are also business combinations as that term is used in [IFRS 3]*”.
- **Business:** “*An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants*”.
- **Acquirer:** “*The entity that obtains control of the acquiree*”.
- **Acquiree:** “*The business or businesses that the acquirer obtains control of in a business combination*”.

In this definition, there is no differences noted between an acquisition and a merger. The emphasis is rather made on the transfer of control<sup>6</sup> from the acquired business(es) to the acquirer. This is as such that M&A should be understood in this paper.

## 1.2. Context of mergers & acquisitions: a growth strategy among others

Corporate managers of larger companies are conscious that generating growth is key (Lechner & Kreutzer, 2010). In this context, M&A is only one choice among others: internal growth<sup>7</sup> and strategic alliance.

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<sup>5</sup> The source used for IFRS No. 3 is available on <https://www.iasplus.com/en/standards/ifrs/ifrs3>.

<sup>6</sup> A definition of control by IFRS 3 is available in appendix number 1.

<sup>7</sup> Although Hoffmann & Schaper-Rinkel (2001) believe that in the world of today, it is gradually more difficult to rely only on organic growth for developing all needed capabilities.

Johnson et al. (2011) explain that internal development (or organic growth) “*is where a strategy is pursued by building on and developing an organisation’s own capabilities*”. Rothaermel & Hess (2010) argue that organic growth involves lower risk than external growth<sup>8</sup> methods but is slower to achieve.

According to Johnson et al. (2011), a strategic alliance is when “*2 or more organisations share resources and activities to pursue a strategy*”. Moreover, they explain that while M&A require an integral change in ownership of the acquired company, an alliance will at most result in a partial modification of proprietorship. They subdivide alliances in two:

- **Equity alliances:** such a strategy implies the establishment of a new entity that is owned by all participants such as joint-ventures.
- **Non-equity alliances:** those rely on contracts such as franchises, licenses, and long-term subcontracts.

Alliances are a more common choice than what we may think. Indeed, Kale & Singh (2009) show that numerous large firms tie more than 20% of their assets up in alliances. On top of that, Bodnaruk et al. (2013) explain that companies ordinarily take part in 1.3 new alliances every year. However, as the majority of alliances collapse too early (Bodnaruk et al., 2013; Dyer et al., 2001, 2004; Kale & Singh, 2009), many surveys concur that around 50% of alliances fail creating positive value over time (Bleeke & Ernst, 1995). Nevertheless, this is still less than M&A. Indeed, Laurie et al. (2006) show that about 65% of M&A fail generating positive value over time.

Nevertheless, achieving sustainable growth can be problematic for the majority of firms (Lechner & Kreutzer, 2010). This is mainly due to the fact that many managers fail in systematically considering all available tools for their growth strategy. Indeed, they frequently rely rather on their “*gut-feel*” (Kreutzer, 2012) or tend to base their decision on their previous experience (Ernst & Halevy, 2000).

In order to avoid such mistakes, many authors<sup>9</sup> have come with guidelines on what strategy to choose accordingly to the situation. Kreutzer (2012) suggests a very complete

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<sup>8</sup> External growth methods are alliances and M&A.

<sup>9</sup> Among others: Hennart & Reddy (1997); Ernst & Halevy (2000); White (2000); Hoffmann & Schaper-Rinkel (2001); Roberts & Liu (2001); Hagedoorn & Duysters (2002); Dyer et al. (2004); Villalonga & McGahan (2005); Geyskens et al. (2006); Wang & Zajac (2007); Yin & Shanley (2008); Capron & Mitchell (2009); Wiklund & Shepherd (2009); Capron & Mitchell (2010); Carayannopoulos & Auster (2010); Lechner & Kreutzer (2010); Kreutzer (2012).

approach. He explains that, in order to reduce the failure risk, four groups of criteria should be systematically analysed before taking such decision: *“the environment, the target, the growth strategy, and company-related factors”*.

The first group of factors that Kreutzer (2012) describes is the environment, which he splits in two:

- **Regulatory and institutional constraints:** Scott (2001) explains that managers' choice might be limited by regulations (ex: the antitrust committee may make M&A difficult if it is susceptible to impact negatively the market's competition).
- **Environmental uncertainty:** the degree of uncertainty<sup>10</sup> in the industry should affect the choice. In risky environments, internal development and M&A should be avoided while alliances should be preferred. Indeed, organic growth may be too slow and is resource-demanding whereas M&A require too high investments. On the other hand, alliances' exposure is shared between partners and can be further invested (merge with or acquire the partner) if it turns out to be successful<sup>11 12</sup> (Dyer et al., 2004).

The second group of factors depicted by Kreutzer (2012) deals with some key characteristics of the targeted firm. Therefore, this set concerns more M&A and alliances. Kreutzer (2012) identifies 5 essential features to be considered:

- **Existence of potential partners:** as a first step, corporate managers should make sure whether suitable partners are available (Hennart & Reddy, 1997).
- **Competition level:** it is then necessary to evaluate how competitive it is to acquire (or collaborate with) the partner. Dyer et al. (2004) argue that if competitors are eyeing on the same target, it may be interesting to buy the target immediately to avoid competition if the level of environmental uncertainty is low. Indeed, by doing otherwise, the acquiring company could get trapped in a bidding competition with its competitors to buy the targeted firm, which would eventually lead to a too expensive premium to pay and therefore, to value destruction.
- **Targeted assets' digestibility:** after that, managers should estimate the degree of embedment of the target's needed and not-needed assets. Hennart (1998) finds

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<sup>10</sup> Dess & Beard (1984) describe the environmental uncertainty as *“[a high] turnover, the absence of patterns, and the unpredictability of the environment and of future payoffs”*.

<sup>11</sup> Bleeke & Ernst (1993) find that in 75% of alliances, one of the partners end up purchasing the other.

<sup>12</sup> Ernst & Halevy (2000) show that the financial market favours alliances to M&A in industries presenting high uncertainty through better share prices.

that firms will go for an M&A if the target's desired assets are isolated from those not needed while Hennart & Reddy (1997) show that if desired and undesired assets are mixed up, firms will rather choose joint ventures.

- ***Ease of assessing the target firm's value:*** Balakrishnan & Koza (1993) conclude that it may be safer to go for alliances when it is difficult to properly assess the target's value, and when more information is available, further investment stays possible.
- ***Risk of opportunistic behaviour:*** managers should finally evaluate the likelihood that possible partners behave opportunistically<sup>13</sup>. If the probability is high, Hoffmann & Schaper-Rinkel (2001) advise to rather investigate the M&A option.

The third set of factors is more obvious: managers should also base their decision on their own growth strategy. Kreutzer (2012) distinguishes 3 main aspects of the growth strategy to be carefully analysed:

- ***Distance to the core:*** if they stay in their core business(es), firms may be able to grow internally by leveraging their own assets and capabilities. However, if firms do not possess the right resources and capabilities, it may be more relevant to grow externally (Capron & Mitchell, 2010).
- ***Cultural and geographical distance:*** when managers plan to expand into new markets, they should consider cultural and geographical factors in their growth method decision. According to Kreutzer (2012), the further you go and the more different is the culture, the more relevant become alliances in comparison to others means<sup>14 15</sup>.
- ***Synergy potential:*** Dyer et al. (2004) argue that potential synergies among prospective partners should also be considered while choosing the growth method. Kreutzer (2012) explains that when potential synergies are high, integration requirements will be important and M&A are therefore a better solution. However, he warns that synergy benefits are often overestimated by managers. On another note, Dyer et al. (2004) believe that when most involved

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<sup>13</sup> Definition of opportunistic behaviour: "*opportunistic behavior is an act or [behaviour] of partnership motivated by the maximization of economic self-interest and occasioned loss of the other partners*" (by IGI Global: <https://www.igi-global.com/dictionary/opportunistic-behavior/55923>).

<sup>14</sup> Ernst & Halevy (2000) show that the financial market favours alliances when companies seek to enter new markets abroad through higher share prices.

<sup>15</sup> Kogut & Singh (1988) show that when the cultural difference between two firms is high, joint ventures are favoured.

assets are hard, it may be better to go for an acquisition. Conversely, when engaged assets are mainly soft, M&A shouldn't be chosen.

The fourth and last group of factors portrayed by Kreutzer (2012) involves the analysis of firms' own resources and capabilities. According to him, 3 criteria should be carefully considered:

- **Resource endowments:** organic growth and M&A are resource-demanding. Kreutzer (2012) therefore explains that managers should first make sure that their firm is strong enough for implementing such strategies.
- **Growth mechanism capabilities:** many authors<sup>16</sup> show that firms can develop specific capabilities in one growth method based on previous experience.
- **Absorptive capacity and appropriability regime:** firms should estimate how well protected their strong capabilities and technologies are and how good is the company to appropriate others' skills and technologies. If assets are secured and "absorptive capacity" is high, then alliances can be more efficient and less risky (Hoffmann & Schaper-Rinkel, 2001). However, if resources are not shielded enough, opportunistic behaviour may become really risky in alliances.

Kreutzer (2012) concludes that managers should always consider all the criteria explained here above before choosing their growth mechanism. Moreover, Capron & Mitchell (2010) explain that this choice should be dynamic in time and should be regularly revisited since the firm's environment, for example, may change over time. Finally, it may happen that none of the 3 methods are suitable to the firm's particular situation. In this case, Capron & Mitchell (2012) advise managers to whether reassess their options or change of strategy. The tab in appendix number 2 summarises Kreutzer's (2012) decisional framework depicted here above.

### 1.3. Types of mergers & acquisitions

As it was the case for their definitions, M&A typologies are numerous across the literature and on the internet. I identified four main and widely used bases of classification: relatedness, nature, integration form, and motives.

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<sup>16</sup> Among others: Kale et al. (2002), Schreiner et al. (2009).

First, M&A may be whether related or unrelated. This basis is essentially used when referring to diversification strategies. Indeed, a company may choose to enter a new business, namely to diversify its current business(es). Rumelt (1974) explains that such a corporate-level strategy can be achieved through M&A and is based on:

- Relatedness when the goal of the M&A is to establish a business unit in a new industry sharing similar value-chain functions with its current business(es).
- Unrelatedness when the purpose behind is to improve the newly acquired business through the use of the acquirer's organisational competencies.

After that, it is also possible to classify M&A on the basis of their nature: friendly or unfriendly. Johnson et al. (2011) explain that in order to perform a friendly M&A, the acquirer needs the agreement and collaboration of the targeted firm's management. Conversely, when the acquiring firm makes an offer directly to the would-be acquired firm's shareholders without the approval of the management, it is considered as an unfriendly (or hostile) M&A.

Third, Haspeslagh & Jemison (1991) study the integration form that the acquiring company may implement after operating an M&A. Thus the resulting classification accounts four types of M&A (Haspeslagh & Jemison, 1991):

- **Preservative:** *"is appropriate where there is little interdependence and a high need for autonomy – as in a conglomerate, perhaps. Preservation allows old strategies, cultures and systems to continue much as before, with changes confined to the essential minimum such as the financial reporting procedures needed for control."*
- **Symbiotic:** *"is indicated where there is strong strategic interdependence, but a high need for autonomy – perhaps in a professional services organisation dependent on the creativity of its staff. Symbiosis implies that both acquired firm and acquiring firm learn the best qualities from the other. Symbiosis takes time and is the most complex of the integration approaches."*
- **Holding:** *"is the residual category where there is very little to gain by integration and it is envisaged that the acquisition will be 'held' temporarily before being sold to another company. It is best in these cases simply to leave the acquired unit largely alone."*
- **Absorptive:** *"is preferred where there is strong strategic interdependence and little need for organisational autonomy. Absorption implies rapid adjustment of the*

*acquired company's old strategies to the needs of the new owner, and corresponding changes to the company's culture and systems."*

This approach is based on two important criteria:

- ***Need for strategic interdependence:*** Haspeslagh & Jemison (1991) explain that higher is the interdependence of both the acquiring and acquired firms' resources and capabilities, higher is the need for integration.
- ***Need for organisational autonomy:*** the acquired firm's characteristics (e.g. culture, geography, nature of the workforce – highly skilled or substitutable) may restrain the integration potential. Stahl & Voigt (2008) show that in some cases, it may be better to avoid direct integration of the acquired firm before getting to know its distinct culture.

Figure number 1 summarises the classification of M&A based on Haspeslagh & Jemison's (1991) framework on integration forms.

*Figure 1: M&A integration framework by Haspeslagh & Jemison (1991)*

		<i>Need for strategic interdependence</i>	
		Low	High
<i>Need for organisational autonomy</i>	High	Preservative	Symbiosis
	Low	Holding	Absorption

*[Source: Haspeslagh & Jemison (1991) - page 145]*

The fourth and last classification I identified is the most common one and was developed by the Federal Trade Commission (FTC) of the United States of America (USA). The FTC is responsible for verifying that proposed M&A involving companies with headquarters in the USA do not impact the market competition negatively<sup>17</sup>. This is in this context that it elaborated a classification of M&A which is based on the motives of the assessed transactions. This approach accounts the 5 following types:<sup>18</sup>

<sup>17</sup> Barney & Hesterly (2012) - pages 280-281: *"have the potential for generating monopoly (or oligopoly) profits in an industry"*.

<sup>18</sup> Following definitions are from Strategic Management and Competitive Advantage - Concepts, 4th edition by Jay B. Barney & William S. Hesterly (2012) - page 281.

- **Vertical M&A:** “a firm acquires former suppliers or customers”.
- **Horizontal M&A:** “a firm acquires a former competitor”.
- **Product extension M&A:** “a firm gains access to complementary products through an acquisition”.
- **Market extension M&A:** “a firm gains access to complementary markets through an acquisition”.
- **Conglomerate M&A:** “there is no strategic relatedness between a bidding and a target firm”.

Finally, many other classifications exist across the literature such as the disciplinary-synergistic cut of Morck et al. (1988). However, they will not be covered in this essay.

#### 1.4. Motives for mergers & acquisitions

This subchapter aims at dressing a list of rationales that were raised as motives to justify M&A. CEOs and scholars considered many motives and for the purpose of simplifying this section, I classified the tackled reasons in 5 broad categories: efficiency motives, financial motives, managerial motives, market power motives, and other motives. The motives addressed in this paper are far from being exhaustive and are not exclusive to one another.

##### 1.4.1. Efficiency motives

Farrell & Shapiro (1990 & 2001) explain that efficiency gains can be divided in 2: technical efficiencies and synergies. They describe technical efficiencies as the gains that can be obtained by reallocating more effectively the newly joint production capabilities. According to them, technical efficiencies can also be achieved by other means than M&A (e.g. alliances or organic growth). Conversely, synergies cannot be reached by any other mechanism than M&A since it requires the combining firms to closely integrate their unique assets<sup>19</sup> (Farrell & Shapiro, 1990 & 2001).

First, while referring to Farrell & Shapiro’s (1990 & 2001) description, technical efficiencies may take the form of:

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<sup>19</sup> Farrell & Shapiro (1990 & 2001) describe unique assets as “hard-to-trade” assets such as “know-how, R&D capabilities, large scale sales, marketing power, reputation, patents, human skills, and organisational culture”.

- **Economies of Scale:** Bascle (2015) defines economies of scale as “*cost economies [coming] from increasing the output of a single offer*”. Indeed, the production cost of an output is composed of a variable and a fixed parts. Variable costs will vary linearly with the amount of output produced whereas fixed costs will not to some extent<sup>20</sup>. Therefore, when two companies producing the same product combine together, they can increase the production level and further spreading the fixed costs among all units of output. In other words, they can benefit from economies on fixed costs per unit by producing more of a same output.
- **Economies of Scope:** Motta (2004) explains that when products are similar and related in some ways to each other, one firm can realise economies of scope by producing them conjointly. Indeed, since the products are related, it may be possible to share some parts of their production process resulting in a reduction of the marginal cost<sup>21</sup> of the company.
- **Economies of vertical integration:** Motta (2004) explains that a higher cost efficiency can be achieved when combining two stages of production of a same industry. For example, such economies can be identified at the distribution level. One company could make some savings in combining promotion support of two levels of production. Furthermore, a company could reach economies of vertical integration by preventing “*opportunistic behaviour*” (Motta, 2004) from the acquired stage of production.

Second, “*synergies involve either a process of learning, the close integration of specific hard-to-trade assets or know-how among the merging firms*” (Motis, 2007). Such synergies should allow the combining firms to further their unique capabilities and achieve competitive advantage. For example, Roller et al. (2006) argue that through the leverage of the complementarity of their technology, talents, corporate cultures, intellectual properties, special know-how or R&D capabilities, the merging firms can realise a substantial “*technological progress*”. According to the same authors, this “*technological progress*” can involve the development of a new product or operational innovations.

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<sup>20</sup> Fixed costs are unaffected by changes in the amount of outputs produced to some extent only. Indeed, Garrison et al. (2011) explain that fixed costs behave as such as long as some “*relevant range*” is respected. If the relevant range is exceeded, a new level of fixed costs is reached. For example, the rent of a storage warehouse with a capacity of 100 units is the same whether you actually store 1 or 100 units. However, you will need to rent a second warehouse if you need to store more than 100 units.

<sup>21</sup> Garrison et al. (2011) define the marginal cost as follows: “*the cost involved in producing one more unit of a product*”.

In conclusion, technical efficiencies could be seen as cost savings and synergies, as additional revenues generation. According to Christofferson et al. (2004)<sup>22</sup>, about 70% of acquiring companies fail to achieve the expected synergies and more or less 40% misestimate the potential technical efficiencies. Those errors lead to an overestimation of the premium to pay to acquire the targeted firm, which eventually results in value destruction for the buyer.

#### 1.4.2. Financial motives

Scholars also pinpointed a few financial motives used by CEOs to justify their M&A moves. I identified four financial motives across the literature:

- **Taxes:** Merging firms together may sometimes lead to a higher tax efficiency (Johnson et al., 2011). For example, a firm could decide to acquire another located in a country with lower taxes in order to transfer its own taxes there to benefit from better taxation rates. Or a firm achieving a lot of profits may want to cut its taxes by purchasing a company with accumulated losses<sup>23</sup>. However, regulatory institutions may constrain such strategies (Johnson et al., 2011).
- **Interest rates:** Larger companies generally have access to better interest rates from external capital markets (Motis, 2007). Therefore, when buying a smaller firm, the acquirer may allow it to borrow at reduced costs. However, Berger & Ofek (1995) explain that savings achieved through this motive are far from being enough to fully justify an M&A and overcome the premium to pay in order to acquire the targeted firm.
- **Asset stripping:** Johnson et al. (2011) explain that some firms may be motivated by purchasing another whose assets are undervalued<sup>24</sup> <sup>25</sup>. After acquiring it, the buyer will then sell it piece by piece and make a profit compared to what it paid for the whole.

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<sup>22</sup> Where mergers go wrong - Scott A. Christofferson, Robert S. McNish, & Diane L. Sias - McKinsey Quarterly - May 2004.

<sup>23</sup> Generally accepted accounting principles (GAAP) specify that a company experiencing losses can use the loss carryforward technique in one of the seven following years in order to reduce its profits on paper and as a result, reduce its tax liability (Investopedia-<https://www.investopedia.com/terms/t/tax-loss-carryforward.asp>).

<sup>24</sup> This means that the firm as a whole is worth something less than the sum of its assets (Johnson et al., 2011).

<sup>25</sup> However, it requires strong capabilities to find such bargains and to avoid bidding wars (Johnson et al., 2011).

- **Internal capital market:** Tirole (1988) explains that when external capital markets (e.g. financial instruments or banks) are inefficient, companies may create value by funding needing business units with the money generated by other business units. Therefore, the motive pursued by the acquiring company is to reallocate more efficiently capitals among its business units. However, many scholars show that this driver destroys more value than it actually creates<sup>26</sup> while investing the wrong business units. Indeed, Berger & Ofek (1995) as well as Schneider & Spalt (2015) show that overall, companies implementing such a strategy see their market value decreasing by 10%.

As a conclusion, most financial motives (excluding asset stripping) are generally not enough to overcome acquisition premiums and therefore destroy more value than it actually creates overall if taken alone.

#### 1.4.3. Managerial motives

Managerial motives refer to those that are pursued in the interests of managers at the expense of the shareholders (Johnson et al., 2011). This concept can be explained by 2 theories: the X-inefficiency theory developed by Leibenstein in 1966 and the principal-agent theory elaborated in the 1970s (Investopedia<sup>27</sup>). The first one illustrates that firms do not behave efficiently as described in economic theories because those are complex entities whose actions are led by managers who may have different goals from profits maximisation (Leibenstein, 1966). This bring us to the second theory: the principal-agent problem. This theory highlights the conflictual relationship between managers (agent) and shareholders (principal). Indeed, shareholders are interested in maximising the value of the firm while managers are more interested in maximising their personal revenues or a satisfied ego. Managers may use M&A in their own benefits (and at the expense of shareholders') in four ways:

- **Empire building:** Mueller (1969) explains that when managers' financial incentives are directly correlated with the size of the firm (ex: sales amount), managers may be tempted to grow their company as fast as possible and rush into unreasonable M&A.

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<sup>26</sup> Meyer et al. (1992); Seru (2014); Stultz (1990); Barney & Hesterly (2015); Berger & Ofek (1995); Schneider & Spalt (2015).

<sup>27</sup> URL link: <https://www.investopedia.com/terms/x/x-efficiency.asp>.

- **Hubris:** This theory, which was developed by Roll in 1986, explains that managers may be wrongly confident in their ability to do better than the targeted firm's management and end up paying too much for its acquisition. In fact, this hypothesis is very similar to the winner's curse concept in value auctions: the winner of the auction becomes the loser in the sense that, being overconfident, he ends up paying too much compared to the real value of the object.
- **Risk spreading:** Most managers' remunerations are based on the financial health of their firm. Moreover, we know from the portfolio theory that it is less risky not to put all our eggs in one basket. Indeed, if a firm possesses only one business unit A, then all the results will depend on A's performance. On the other hand, if a firm possesses two unrelated business units A and B, then a bad performance of A may be covered by the good performance of B. In this logic, managers may be tempted to use M&A for spreading risk over unrelated business units<sup>28</sup> (Motis, 2007). However, unrelated diversification is punished by the financial market<sup>29</sup>. It will indeed apply a conglomerate discount on the price of the company which is naturally against shareholders' interests.
- **Bandwagon effect:** M&A follow a cyclical pattern with ups and downs. Johnson et al. (2011) explain that during a peak period, managers may be put under pressure to "join the [M&A] bandwagon" in three possible ways. Firstly, managers may come in for a lot of criticism from media and business analysts for not operating any M&A. Secondly, in fear of losing ground to competitors, shareholders may urge managers to make an M&A. Thirdly, if managers do not complete any M&A, employees may become worried about being targeted themselves by an unfriendly M&A (which is often synonym of cuts in the workforce of the acquired company).

In conclusion, managerial motives always impact negatively the performance of the acquiring firm and such deviations should therefore be minimized and controlled.

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<sup>28</sup> Business units forming the portfolio should not be related to each other so that the factors that may affect negatively one business unit will not affect the others completing the portfolio (Ross et al., 2012).

<sup>29</sup> At least, it is so in developed economies. However, some scholars show that it can create value in developing countries and therefore, the financial market might not apply the conglomerate discount (Ramachandran et al., 2013; Kuppuswamy et al., 2014).

#### 1.4.4. Market power motives

Another driver for M&A may be to increase one firm's market power in order to capture more value from its customers (Haleblian et al., 2009). Hitt et al. (2007) explain that market power "*exists when a firm is able to sell its goods or services above competitive levels or when the costs of its primary or support activities are below those of its competitors. Market power usually is derived from the size of the firm and its resources and capabilities to compete in the marketplace.*" In order to do so, managers often go for horizontal or vertical M&A. However, such M&A can be constrained by competition regulators such as the Antitrust Committee in the US (Hitt et al., 2007). Indeed, the risk of this motive is to see the merging firms' prices increase after the merger (unilaterally or collusively) which would impact negatively the welfare of consumers (Motis, 2007). On top of that, firms may want to achieve higher market power for several reasons:

- **Raise entry barriers:** Firms may want to acquire another company that will allow them to raise entry barriers in order to contain the competition level in its industry (Motis, 2007). Eventually, the merging firms will increase their market power and therefore will be able to increase their prices.
- **Spread the portfolio:** Motta (2004) argues that a firm may want to acquire another which is active in different but related product markets in order to strengthen its market power. Indeed, the theory behind is that customers will prefer to deal with one supplier offering the different products they need rather than dealing with different suppliers for each product (Motta, 2004).
- **Obtain multimarket contact:** When acquiring a firm, the acquirer may seek a multimarket contact. Kahn (1950) and Edwards (1954) show the increased interdependence between firms mutually competing in different markets and as a result, the decreased competition level. Therefore, they argue that multimarket contact may favour collusive behaviour among rivals and the use of their market power (Singal, 1996).
- **Increase purchasing power:** Increasing the firm's purchasing power can also be a driver for an M&A. Motis (2007) explains that when a firm consolidate with competitors, while increasing its market shares and size, the firm may improve its bargaining power towards its suppliers, resulting in discounted prices for its inputs.

In conclusion, M&A pursuing market power motives could be very beneficial to the acquiring company as it allows it to increase its market power and capture more value while reducing the competition level. However, while impacting directly the competition, such M&A are highly controlled and limited by regulatory institutions. Indeed, a decrease of the competition level in a marketplace would allow the firms to increase their prices and therefore harm the welfare of consumers.

#### 1.4.5. Other motives

The motives described above are far from being exhaustive and many other reasons cannot be classified within those categories. It is worthy to mention:

- **Defensive motive:** In order to avoid losing competitive ground to its rivals, a firm may decide to acquire preventively another firm targeted by its competitors (Fridolfsson & Stennek, 2005).
- **Disciplinary motive:** M&A can also be used to discipline ineffective or overpaid managers and therefore protect shareholders (Jensen, 1986; Jensen & Ruback, 1983; Haleblan et al., 2009). Indeed, the theory behind this motive makes the assumption that poorly managed firms have lower market value than what it should have if the management was better (Haleblan et al., 2009). Therefore, a firm with a poor management is susceptible to be taken over with the aim of creating more value by replacing the management team (Manne, 1965; Motis, 2017).
- **Overcome barriers to entry:** Riley (2015) explains that one firm wishing to enter a new market with high barriers to entry may be tempted to acquire another company already active in the targeted market. By doing so, the acquirer would take control of the key capabilities and assets needed to compete in the new marketplace and overcome the entry barriers.
- **Secure supplies:** By buying its suppliers, the acquirer could also secure its raw materials supply and its quality (Locarno, 2016), which is particularly important in industries with very high-quality and rare products.
- **Secure relationships with end-consumers:** Similarly to the previous motive, by buying its customers and franchises, a company could ensure that end-consumers live the expected experience when buying its products (Locarno, 2016).

## Chapter 2: Evaluation of the performance of mergers & acquisitions

### 2.1. Concept of performance of mergers & acquisitions

Over the last decades, the number of M&A has drastically increased, which substantially changed many of the world's industries (DePamphilis, 2012). Wang & Moini (2012) show that between 1987 and 2010, M&A rocketed from \$97.3 billion to \$2,400 billion. As M&A became more and more common in firms' practices, it also became a topic of interest among several research disciplines starting in the 1960s (Wang & Moini, 2012). However, most of studies concluded that success rates were really poor (20 to 60% only) and those conclusions haven't changed much during this period (Bruner, 2002; Cartwright et al, 2006). Wang & Moini (2012) even talk of "*success paradox*" and this raises many questions. How is the performance defined? How do we measure this performance?

DePamphilis (2012) explains that the success of M&A depends greatly on how the performance and the success are defined. In the literature and on the internet, many different concepts of performance exist. Indeed, Zollo & Meier (2008) pinpointed 12 different methods of assessing the impact of M&A on the performance when analysing 88 empirical works. Those methods gravitate around 6 main axes: (Wang & Moini, 2012)

- **Measurement type:** subjective or objective.
- **Unit of measure:** expected returns or realised returns.
- **Timeframe:** short-term or long-term.
- **Source of information:** public or private.
- **Level of analysis:** lowest (task level) or intermediate (project level) or broader (firm level).
- **Point of view:** acquirer view or acquiree view or combined view.

In this paper, I will introduce the readers to the most common methods which relate to whether the financial performance (Haleblian & Finkelstein, 1999; Sudarsanam & Mahate, 2006), the accounting performance (Lu, 2004; and Zollo & Singh, 2004), the operational performance (Mitchell & Lehn, 1990), or the perceptual performance (Brock, 2005; Homburg & Bucerius, 2005; and Hayward, 2002).

## 2.2. Event study

The event study method has been very popular for decades (Martynova & Renneboog, 2008). This approach examines the excess of returns in stock prices due to the announcement of an unexpected event (the M&A). If the firm's observed returns are significantly higher than the estimated returns at the announcement of the M&A, it would mean that it created positive value for the company's owners (shareholders) (Wang & Moini, 2012). The period of time over which stock prices are analysed is called the event window and consist of time intervals around the event announcement date (Wang & Moini, 2012). An event study can be whether short-term or long-term. The short-term study assumes that the stock prices reflect all available information regarding the firm's current and future performance reported under its present-value within a short period of time (Wang & Moini, 2012). On the other hand, the long-term study considers that the market needs time to correctly adjust the stock prices of the company involved in the M&A (Wang & Moini, 2012).

This method implies a few assumptions (Wang & Moini, 2012):

- **The market efficiency:** stock prices capture all available information in regards to the current and future performance of the corresponding firm (Assumption 1).
- **Unexpectedness of the event:** the event (M&A) should not be anticipated before its announcement so that the firm's stock prices reflect fully the M&A effect at its announcement day (Assumption 2).
- **Absence of other effects:** no other events should impact the stock prices of the surveyed firm during the event window (Assumption 3).

However, those assumptions underlying the event studies are difficult to be met. First, Oler et al. (2008) show that all information is rarely available which implies that stock prices cannot reflect all information, at least not directly. Bromiley et al. (1988) also warns about the possible irrationality of the market ("*Monday Effect*"<sup>30</sup> for example). Moreover, Lubatkin & Shrieves (1986) explain that the unexpectedness of the event is not always respected since M&A are part of the company's corporate strategy and rumors could spread before the official announcement of the event. Furthermore, it is hard to

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<sup>30</sup> "*Monday, equity markets experience opening performance that mirrors Friday's closing performance*" (Investopedia - <https://www.investopedia.com/terms/m/mondayeffect.asp>).

ensure that no other events will affect the stock prices of the analysed company during the event window (Wang & Moini, 2012).

This method has pros and cons. When looking at the advantages, Wang & Moini (2012) explain that event study allows:

- An impartial measurement.
- The availability of the data.
- The isolation of the M&A effect (short-term studies only).
- The low industry sensitivity since abnormal returns are calculated.

However, Wang & Moini (2012) also depict a few disadvantages when using this technique:

- It requires a few assumptions which can be hard to validate.
- The performance assessed is the expected one, not the actual one.
- It requires complicated calculations, even though the data is easy to access.
- Since stock prices are available only for public companies, M&A performed by private firms cannot be assessed with this method.
- It focuses on one motive only: the added value for shareholders. All other motives are ignored.

As previously indicated, event studies can be used to evaluate the M&A performance for the buyer, the seller or the combination of both (short-term or long-term wise). Papadakis & Thanos (2010) showed that when using a short-term event study, M&A generate greatly positive abnormal returns to the acquired firms but the results are mixed for the acquirers. These findings make sense and are confirmed by other scholars. Indeed, Bertrand & Zitouna (2008) explain that the expensive premiums paid to acquired firms generate a lot of value for its shareholders. Furthermore, if the acquirer already has some participation in the targeted firm's equity before that the M&A takes place, the value created by the M&A could be already considered in the acquiring company's stock prices (Halpern, 1983).

On another note, long-term event studies are more dependent of the different factors used (benchmark model, time window, sample's specificities, etc.) (Wang & Moini, 2012). Nevertheless, the evidence shows that most of investigations conclude that the acquirers'

abnormal returns are whether negative or not statistically significant (Tuch & O' Sullivan, 2007).

### **2.3. Accounting method**

The accounting method relies essentially on the comparison of ratios and other features before and after the M&A. As such, it is based on actual returns contrastingly to the event study and therefore implies a long-term perspective (wang & Moini, 2012). The logic behind is that all benefits of the M&A will eventually be captured in the company's accounts (Tuch & O'Sullivan, 2007).

Accounting studies may vary a lot as measurement tools are numerous. As a result, it can be used to evaluate the performance in many different ways: profitability (Healy et al., 1992); productivity (Bertrand & Zitouna, 2008); innovation (Bertrand, 2009); growth (Gugler et al., 2003). Many ratios and accounting tools are available and further explained by Martynova & Renneboog (2008). Nevertheless, many scholars agree that the ROA and/or operating cash flows are the most suitable instruments to estimate the performance of an M&A (Bertrand & Betschinger, 2011; Meeks, 1981; Barber & Lyon, 1996).

Wang & Moini (2012) depict a few advantages when using the accounting approach. Contrarily to the event study, it is based on actual returns and not estimated ones. Moreover, it is easier to use than the event study. On top of that, more than one motive can be assessed through this method. Finally and similarly to the event study, the data on which is based the assessment should be easily collectable as long as the company is public.

However, Wang & Moini (2012) warn also about this technique's drawbacks. Indeed, because of its long-term basis, it has higher risks to capture disruptive effects of external influences. Furthermore, even though the data is supposed to be relatively reliable, intentional manipulations are possible. This could then distort the study. Moreover, accounting rules are dynamic in time and in regards to the company's location which highly limitates the use of this approach (Hult et al., 2008). Furthermore, due to the previous disadvantage and the fact that the companies in focus can change their accounting standards relatively easily, it makes it difficult to establish proper

benchmarks. On top of that, since the available accounts of a company are usually the consolidated ones, this method allows only a firm level analysis (Bruton et al., 1994). In addition, the integration policy (fully integrated to separately managed) will also greatly affect the relevance of this approach (Powell & Stark, 2005). Finally, the way how the acquiring firm will treat the purchase (accounting treatment and the means of payment) of the targeted company will also have huge impact on the ratios used to assess the M&A.

The empirical evidence generated by the accounting method when assessing the performance of M&A is really confusing (Wang & Moini, 2012). Indeed, accounting studies seem to draw different conclusions, even contradictory sometimes. For example, Meeks (1977) assessed the performance of the M&A realised by 233 acquiring companies in the UK between 1964 and 1972. He showed that the firms in focus became more profitable during the first year following the acquisition but started losing efficiency from the second year onward already. Dickerson et al. (1997) demonstrated the total opposite.

#### **2.4. Managers' perception**

This method requires interviewing the involved managers a few years after that the M&A took place and collect their perceptions of how performant it was compared to their original expectations (Wang & Moini, 2012). While their expected results usually take the form of ratios, managers are often asked to assess the M&A performance overall in order to test the convergence of the results (Schoenberg, 2006). When using this method, it is more common to analyse the acquiring firm (Homburg & Bucerius, 2005) even though sometimes, the perceptions are gathered from the acquired company's management (Brock, 2005).

On one side, this method presents many advantages. First, Wang & Moini (2012) explain that compared to many other approaches, interviewing the managers allows to collect some private information about the deal. Second, this method helps isolating the M&A impact on the performance from all other effects (Wang & Moini, 2012). After that, Brouthers et al. (1998) show that this approach makes it possible to evaluate many different dimensions of the performance of the M&A as well as to consider several of its motives. Finally, Schoenberg (2006) demonstrates that all M&A can be assessed through this method.

However, interviewing managers about their M&A performance can be disadvantageous as their perceptions can include some biases (Schoenberg, 2006). Furthermore, the quality of the analysis is greatly dependent of the data delivered by the surveyed company (Wang & Moini, 2012). On top of that, interviewed managers may not be able to correctly assess the M&A as the survey is conducted a few years later and that the management of the company may have changed meanwhile (Datta, 1991). Lastly, managers may be tempted to exaggerate their success.

The empirical results under this method are mixed. For example, Schoenberg (2006) shows in his review that 44 to 53% of managers questioned believed that their M&A had not reached the expected results. However, Ingham et al. (1992) conducted a managers' perception survey on 146 companies of the UK top 500 firms and concluded that 77% of interviewed managers believed that their profitability had increased shortly after the M&A and 68% of them thought that their better profitability lasted in the longer term. Furthermore, Burner (2002) shares quite similar results with Schoenberg (2006). Indeed, he analysed 13 surveys that had been done based on executives' perceptions of their M&A performance. He explains that among the 13 studies he reviewed, 6 suggested negative results while the rest was whether neutral or positive. He also demonstrates that managers tend to give better scores to their own achievements than to others'. Indeed, he shows that in managers' opinions, 37% of M&A achieved by other executives from themselves were to have a positive effect on the performance and 21% were said to achieve expected results. Besides, when rating their own M&A's performance, 58% believed that they had impacted positively their company's performance and 51% thought that they had reached original objectives.

### **2.5. Experts' perception**

This approach is very similar to the previous one with the exception of interviewing some external experts instead of executives (Wang & Moini, 2012).

As a result, pros and cons of this method are almost identical with those of the last one. However, a few differences subsist. Since experts are external to the analysed company, the evaluation has less risks to be affected by the partial subjectivity of managers (Cannella & Hambrick, 1993). Nevertheless, the externality of informants also means that the available information becomes limited (Wang & Moini, 2012).

When relying on the perceptions of external experts, 44% of M&A seem to be negative for the company's performance (Schoenberg, 2006).

## **2.6. Divestment method**

Some scholars explain that it is also possible to evaluate the performance of M&A by determining whether acquiring companies have divested the newly acquired firm after performing the M&A (Wang & Moini, 2012). The rationale behind is that the acquiree would be divested only if the acquirer's original expectations were not met (Ravenscraft & Scherer, 1987).

This method is not very complicated to implement but has a huge limitation: the main assumption that divestment means negative performance is not always true. Indeed, divestment is sometimes synonym of successful restructuration of resources when responding to duplications following the M&A or to changes in the environment (Kaplan & Weisbach, 1992; Capon et al., 2001; Schoenberg, 2006).

Ravenscraft & Scherer (1987) as well as Porter (1987) realised some divestment surveys on the M&A performed during the 1960s and 1970s. Ravenscraft & Scherer (1987) found that 33% of acquiring firms had divested the newly acquired companies whereas Porter (1987) reported that more than 50% had done so. Later, Mitchell & Lehn (1990) performed a similar survey on 401 M&A between 1982 and 1986. They concluded that 20.2% of them had been divested within the following 6 years. Other evidence was brought by Kaplan & Weisbach (1992) who showed that during the period 1971-1982, acquirers divested 44% of their freshly acquired businesses by 1989.

## Chapter 3: The luxury market and industry

### 3.1. What is luxury?

*“Some people think luxury is the opposite of poverty. It is not. It is the opposite of vulgarity.”*

[Coco Chanel]

*“Luxury is a necessity which starts where necessities end.”*

[Coco Chanel]

*“Luxury must be comfortable, otherwise it is not luxury.”*

[Coco Chanel]

*“Luxury is the ease of t-shirt in a very expensive dress.”*

[Karl Lagerfeld]

*“Luxury will always be around, no matter what happens in the world.”*

[Carolina Herrera]

*“Luxury is in each detail.”*

[Hubert de Givenchy]

*“Give me the luxuries of life and I will willingly do without the necessities.”*

[Frank Lloyd Wright]

*“Luxury, like a minimum wage, is a relationship; it changes as we change.”*

[Vida Dutton Scudder]

### 3.2. Definition and concept of luxury and luxury goods

According to wordorigins.org<sup>31</sup>, Luxury comes from the latin words “luxus” and “luxuria” which means “excess”. In the ancient Rome, it was used to describe “*riotous living and sinful waste*”. It was then first translated into French as “luxurie” and “luxure” and took another meaning: “lust” or “lechery”. It appeared in the English language for the first time in the 14th century as “luxury” with the translation of “Somme le Roi”, an old French book of that time. It is only in the mid 17th century that “luxury” started to take the meaning of “*wealth, splendor, opulence*”.

Luxury existed ever since man existed (Kapferer, 2009). The example of the Pharaoh in the Old Egypt (1550-1070 BC) is one of the most remarkable. During his life, he was daubed with perfumes (which was designed only for gods, the Pharaoh and the High Priest) and was dressed in fancy clothing made of sumptuous animal skins, gems and jewels. Following his passing, it was even more sensational: he was buried in stunning tombs in the Valley of the Kings or in a pyramid with magnificent treasures (Kapferer, 2009).

It was then in the ancient Greece that first debates about luxury took place between its advocates who saw it as a source of aspiration and improvement, and the opponents who saw luxury as being against virtue and morality (Kapferer, 2009; Som & Blanckaert, 2015). Such disputes happened and keep happening in many places all over the world and at many different times. Indeed, luxury has always been an important social topic in all societies because it relates to sensitive subjects such as the social status, the notion of what is essential and what is unnecessary, and the wealth distribution (Kapferer, 2009).

During the 18th century, together with the ascent of the liberalism doctrine of Adam Smith, many philosophers such as David Hume broke up the link between morality and luxury and provided a rational justification for luxury (Kapferer, 2009). But it is only in the 19th century, as the Industrial Revolution led to the rise of the consumer society and the increase of the standards of living, that an unstoppable process of democratisation and legitimization started (Kapferer, 2009). This process still keeps going today in all societies as more and more people can afford luxury. Today, luxury is progressively becoming a world available to many of us (Kapferer, 2009).

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<sup>31</sup> URL link: <http://www.wordorigins.org/index.php/site/comments/luxury/>.

As a result, defining luxury becomes very complex since it is a highly relative notion. Indeed, the concept of luxury is dynamic and evolves with time, the place and the individuals' beliefs and desires (Berry, 1994). It is therefore not surprising that defining systems and frameworks struggle to identify the luxury industry and luxury goods. For example, the luxury industry cannot be clearly outlined with the classic Standard Industrial Classification System or even the 5 forces framework of M. Porter. As a matter of fact, it is hardly imaginable to think that Bentley competes with the Kelly bag of Hermes. In other words, there is a lack of generally accepted definition of what is luxury and what is not, and by extension, what is a luxury good and what is not (Heine, 2012).

In economic terms, a luxury good is a good for which the income elasticity of demand is higher than 1 (Frank, 1991). In other words, when one's incomes rise, its demand for luxury goods will increase more than proportionally.

On a more sociological and managerial point of view, scholars rather concentrate on the marketing mix to explain what are luxury goods. Accordingly, luxury goods are goods of very high quality that provide a prestigious status to its users and that are extremely expensive (Brioschi, 2000).

Another approach was tackled by Dubois et al. in their survey on luxury consumers in 2001. The purpose of their study was to determine the specificities of luxury goods. They found 6 characteristics strongly associated with luxury goods (see figure number 2 on next page).

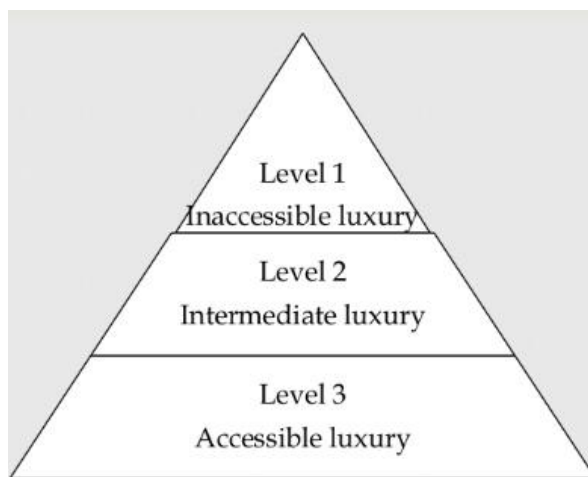
*Figure 2: Characteristics of luxury goods by Dubois et al. (2001)*

Excellent quality	The first notion is that of perceived excellent quality. The mental association between luxury and quality is so strong that for some respondents, the two words are almost synonymous.
Very high price	The second notion spontaneously associated with luxury, and almost as salient as the previous one, is that of a very high price. Such a perception is established either on the basis of the absolute value of the price or, more frequently, by comparison with non-luxury alternatives.
Scarcity and uniqueness	The third concept associated with luxury is that of scarcity. Scarcity is closely associated with the perceived excellent quality and high prices associated with luxury goods.
Aesthetics and polysensuality	The fourth aspect of luxury involves a strong aesthetic appeal. And, according to many consumers, it should always be the case. At the extreme, luxury products become pieces of art which have to be recognized as such.
Ancestral heritage and personal history	The fifth notion associated with luxury is its anchoring in the past. In consumers' mind, to be luxurious, products and services must have a long history and their elaboration processes as well as consumption should respect tradition.
Superfluosness	Finally, the concept of luxury implies some perceived superfluosness or uselessness. Luxury products are not felt to be necessary for survival. It is in this sense that consumers as well as researchers oppose luxuries and necessities.

*[Source: Dubois et al. (2001)]*

After that, Danielle Alleres (1996) explains that luxury can be divided in 3 segments when considering the exclusivity level and the targeted class of luxury goods. Her theory can be represented with a pyramid (see figure number 3 here below).

*Figure 3: The luxury segments by Danielle Alleres (1996)*



*[Source: L'empire du Luxe by Danielle Alleres (1996)]*

At the highest level of the pyramid, one can find the inaccessible luxury. This segment relates to goods which are tailor-made in a limited way with very high-quality raw

materials and that are sold through a very selective distribution system at extremely high prices. Those goods are especially designed for the wealthiest.

The intermediate level of the pyramid refers to luxury goods that are not made-to-measure but that are still distributed very selectively and at expensive prices. Those goods adapt to the needs of middle-class people who became wealthier thanks to their professional achievements (in contrast to the targeted people of the previous category who rather inherited their fortune).

Goods belonging to the bottom category of the pyramid are designed and dispensed on a broader scale, and are still perceived as luxury goods through the brand itself. This category is accessible to a wider number of people.

### 3.3. The luxury market

Bain & Company together with Fondazione Altagamma publish every year a global luxury market study. The data used in this chapter is based on the 2016 edition<sup>32 33</sup>.

Bain & Company (2016) divided the worldwide luxury market into 10 segments: personal luxury goods, luxury cars, luxury hospitality, fine wines and spirits, fine food, fine art, designer furniture, private jets, yachts, and luxury cruises. The global luxury market altogether was worth almost 1.1 trillion euros in 2016. Luxury cars was the top performing segment, accounting for 40.5% of the market. However, this paper and analysis will focus on the personal luxury goods which is the “*core of the core*” (Bain & Company, 2016) (see appendix number 3). Personal luxury goods was the second largest sector in 2016 (249 billion euros / share of 23%). Moreover, this segment has shown an important growth since 1994 (241%) and a strong resistance to the crisis in 2008. Indeed, the sector experienced a small recession of -1.8% and -8.4% in 2008 and 2009 respectively before recovering entirely in 2010 with an increase of 1.8% compared to the situation before the crisis, that is in 2007 (see appendix number 4).

The personal luxury goods segment can be subdivided into 4 main categories (see appendix number 5):

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<sup>32</sup> Luxury goods worldwide market study, fall-winter 2016 - By Claudia D'Arpizio, Federerica Levato, Daniele Zito, Marc-Andre Kamel, and Joelle Montgolfier - Bain Company.

<sup>33</sup> Altagamma 2016 worldwide luxury market monitor - By Claudia D'Arpizio - Bain & Company.

- **Accessories:** it is mainly composed of leather goods (such as handbags) and shoes and accounted for 30% of the market in 2016.
- **Apparel:** it refers to the ready-to-wear and represented 23% of the sales in personal luxury goods in 2016.
- **Hard luxury:** it relates to watches and jewelry which held a share of 22% of the market in 2016.
- **Beauty:** it comprises fragrances and cosmetics and accounted for 21% in 2016.

After that, Bain & Company (2016) shows that in the global personal luxury goods market, the most used distribution channel is wholesale (share of 65% in 2016). However, the retail channel keeps growing faster with an increase of 1% in 2016 (versus -2% for wholesale). This can be explained by the strategy of luxury companies looking for a higher control of the experience delivered to their customers (Bain & Company, 2016) (see appendix number 6).

Furthermore, mono-brand stores, department stores and speciality store remain the most popular formats in the personal luxury goods market with shares of respectively 29%, 23% and 22%. However, the trend is downward in those last 3 sub-channels. On the opposite, off-price stores, online sales and airports stores acknowledged a significant growth in 2016. Bain & Company (2016) explains this by on one hand, the increase of globe-trotters shopping in the airports and on the other hand, the higher proactivity of brands on the internet while creating their own websites. Those trends are expected to continue in the future (Bain & Company, 2016) (see appendix number 7).

Moreover, personal luxury goods are more and more sold at a discount (share 37% compared to full-price sales in 2016). However, brands tend to control further markdowns by using controlled outlet channels (Bain & Company, 2016) (see appendix number 8).

On another note, when looking at the global personal luxury goods market by region in 2016, Europe and Americas remained the biggest markets with similar shares of 33% each. Japan and China also held important shares of the global market (9% and 7% respectively) (see appendix number 9). However, when now looking at the nationalities of consumers, Bain & Company explains that Chinese customers contributed to 30% of global sales in this market. This can be explained by the fact that Chinese consumers

bought about 80% of their personal luxury goods outside of China. Indeed, only 53% of sales in the global personal luxury goods market were made by local consumers in 2016. The remaining 47% were made by regional tourists (13%) and extra-regional tourists (34%). Furthermore, Chinese consumers' share is predicted to grow even further in the future thanks to its fast growing middle-class and the emergence of the “*new-money households*” (Bain & Company, 2016) (see appendix numbers 10 and 11).

According to an analysis of BCG and Concept M in 2010<sup>34</sup>, households consuming luxury products can be divided in 5 segments (see appendix number 12):

- ***Aspirational mass-market households***: they have ordinary incomes and origins but dream of a more sophisticated lifestyle. They don't spend much individually but account for about 30% of the global luxury sales as a group.
- ***Rising middle-class households***: they are from modest origin but have above-average revenues. They represent approximately 25% of global luxury sales.
- ***New-money households***: They are mainly businessmen and investors who generated at least a net worth of \$1 million by themselves. They buy around 33% of global luxury goods.
- ***Old-money households***: they are similar to new-money households except that their wealth is the result of inheritance. They account for more or less 7% of global luxury sales.
- ***Beyond-money households***: they are different from old-money households in terms of their relationship to their social status. Indeed, contrarily to the previous category, they don't want to display ostentatiously their wealth. They represent about 5% of global luxury sales.

The last 3 segments described here above are part of the High Net Worth Individuals (HNWIs) and have always been vital for the well-being of the luxury market (Locarno, 2016). Globally, the number of HNWIs increased by 7.5% in 2016 (The Economist, October 2014<sup>35</sup>). The highest concentration is located in Asia Pacific and between 2010 and 2016, the share of this region in the volume of HNWIs has almost doubled which makes it “*the biggest source of new future growth*” (The Economist, October 2014).

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<sup>34</sup> The New World of Luxury: Caught Between Growing Momentum and Lasting Change - By Jean-Marc Bellaiche, Antonella Mei-Pochtler, and Dorit Hanisch - Bain & Company and Concept M, 2010.

<sup>35</sup> The Economist - The Proliferation of High Net Worth Individuals - October 2014 - URL link: <https://www.economist.com/graphic-detail/2017/10/04/the-proliferation-of-high-net-worth-individuals>.

After that, it is interesting to couple the luxury consumer segmentation developed by BCG (Boston Consulting Group) with the luxury market segmentation of Danielle Alleres (1996) explained earlier in this paper. In 2016, B&C shows that the “*accessible luxury*” segment represented 40% of the global personal luxury goods market. The consumers within this category refer mainly to the “*aspirational mass-market households*” as well as the “*rising middle-class households*”. Moreover, another 35% of the global market belonged to the “*intermediary luxury*” which is mainly bought by the “*rising middle-class*” and “*new-money*” customers. Finally, the top of the Alleres pyramid (“*absolute luxury*”) held a share of 25% of the global personal luxury goods market in 2016. The main consumers in this segment are the HNWIs.

The overview of the global personal luxury goods market in 2016 can be summarized with figure number 4 here below:

Figure 4: The global personal luxury goods market in 2016 by Bain & Company (2016)



[Source: Bain & Company - Altagamma 2016 worldwide luxury market monitor - By C. D'Arpizio - slide 17]

### 3.4. The luxury industry

After introducing the readers to the concept of luxury and the luxury market, I describe here below the luxury industry. I start by explaining how different the luxury industry is from other industries. After that, I depict the key success factors that are required to

develop in order to perform well in this industry. Later on, I dress an overall picture of the luxury industry while referring to the 2017 survey of Deloitte. Finally, I finish this subchapter with the main trends and resulting challenges faced by luxury companies today.

### *3.4.1. Specific characteristics of the luxury industry*

According to Chevalier & Mazzalovo (2008), the luxury industry is very specific compared to non-luxury sectors in 3 ways: the company size, the financials, and the relationship to time.

#### *Company size*

Unlike for most industries, the size of the firm seems not to be of major importance when it comes to luxury companies (Chevalier & Mazzalovo, 2008). Indeed, luxury firms rely much more on their reputation and on their brand awareness. The luxury industry is therefore composed mainly of SME (small and medium-sized enterprises) and a few conglomerates which are the collection of smaller individual firms (Chevalier & Mazzalovo, 2008). As interestingly illustrated by Chevalier & Mazzalovo (2008), an average brand owned by LVMH generates 10 to 20 times less sales than a brand like Gap or Zara. A consequence of this characteristic is a reduced workforce which leads to the subcontracting (but with a very high control) of some activities (Locarno, 2016). For example, it is not unusual for luxury watch manufacturers to subcontract the making of smaller components and to keep inside only the design and the final assembly activities (Locarno, 2016). Furthermore, growth is crucial for luxury companies as the global competition becomes tougher, but it should not be to the expense of the integrity and luxury-perception of the brand, which therefore limitates the potential maximal size of a luxury brand (Forbes, August 2017<sup>36</sup>).

#### *Financials*

When it comes to financial specificities, Chevalier & Mazzalovo (2008) explain that the luxury industry is characterised by a very high break-even point and huge margins. First,

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<sup>36</sup> Forbes (August 2017) - Luxury Brand Mergers And Acquisitions Set To Explode - By Pamela N. Danziger.

luxury companies need to spend a lot of money to constantly maintain their brand power and awareness as well as their very high quality. Indeed, luxury firms make huge investments all along their value chain to ensure the very high quality of their products and the experience they deliver to customers (Bain & Company, 2016). This means investing in high-quality raw materials, employing high-qualified people at all stages, investing in huge and fancy “*flagship stores*” (Chevalier & Mazzalovo, 2008), spending a lot of money to ensure a presence everywhere, organising expensive fashion show and other brand-empowering events, investing huge amounts of money in marketing and brand management, etc. Such spendings, which are mainly linked to the luxury brand management, are usually not direct gross margin generators but are essential to all luxury companies, no matter how small they can be (Chevalier & Mazzalovo, 2008). However, once they overcome the break-even sales, luxury brands become very profitable as margins are very high and they generate a lot of cash that can be used for further investments (Chevalier & Mazzalovo, 2008).

Another attribute of luxury businesses is that they can survive many years of losses before going bankrupt. In most industries, companies that lose too much money for too long usually exit the market quite rapidly (Chevalier & Mazzalovo, 2008). However, in the luxury industry, the rules are different. For example, Christian Lacroix never made any profits when being under the group LVMH (Chevalier & Mazzalovo, 2008). Chevalier & Mazzalovo (2008) explain this phenomenon in two steps:

- First, despite of their ability to generate profits, luxury brands stay very powerful which can be very beneficial to the group owning the brand.
- Second, having huge margins, luxury companies can resist a long time before having to sell out or going bankrupt.

### *Relationship to time*

A major characteristic of the luxury industry is the lead time required to launch new products on the market or to implement changes in the corporate strategy. Where fast product-to-market industries can reach break-even sales within 6 months, luxury companies take much more time and money (Chevalier & Mazzalovo, 2008). For example, Chevalier & Mazzalovo (2008) explain that the lead time needed to launch new luxury perfumes on the market can vary between 18 months and 2 years. It is then common to spend the equivalent of the forecasted amount of sales of the first year in advertising and

promotional events. In the end, it is usual to take up to 3 or 4 years to break-even. Other sectors where the timing is crucial are the fashion and watch businesses (Chevalier & Mazzalovo, 2008). Consequently, it requires luxury firms to be long-term oriented, and it is therefore not surprising to see that most companies in the luxury industry are family-controlled businesses, even larger groups such as LVMH, Richemont and Kering are controlled by families (Chevalier & Mazzalovo, 2008).

### 3.4.2. Key success factors in the luxury industry

As explained before, the luxury companies are characterised by a relatively small size, a very high break-even point and profit margin, as well as by a long-term perspective. It is therefore not surprising to learn that it is important to develop the relevant key success factors to perform well in this industry. Indeed, it is Dubois (1998) who once said that to be successful in the luxury industry, it is required to do the exact opposite of what is believed as “*traditional*” in other sectors (see figure 5 number here below).

Figure 5: The paradox of luxury goods marketing by B. Dubois (1998)

Table 1.2: The paradox of luxury-goods marketing
High price
High cost
Craftsmanship
Limited distribution
Low promotional activity
Advertising with no sophisticated copy strategy

Source: Bernard Dubois'

[Source: Chevalier & Mazzalovo (2008) - *Luxury Brand Management: A World of Privilege* - page 14]

Chevalier & Mazzalovo (2008) explain that there are 3 critical factors required for being able to compete in the luxury industry:

- The power of the brand's name.
- The identifiability of the brand.
- The ability to keep up with the image of luxury in our societies.

### *The need for a powerful brand*

First, it is essential for luxury companies to develop and maintain their identity and reasons for being (Chevalier & Mazzalovo, 2008). Their image should be strong enough to transmit their values and qualities just through their name. Chevalier & Mazzalovo (2008) demonstrate that a luxury firm's name should reflect the very high quality, sophistication and exclusivity of their products; its traditional know-how and craftsmanship; as well as its legacy and heritage. It is therefore not uncommon that luxury brands begin with the name of famous designers or craftsmen that have a significant influence. For example, Coco Chanel who created sumptuous dresses for her very special friends or Salvatore Ferragamo who designed shoes for the actresses both gave their name to the famous brands we know today as Chanel and Salvatore Ferragamo. Moreover, it is capital for luxury companies to always stay coherent with their identity, even when extending their business lines. As a result, business extensions in the luxury industry can be highly time and money-consuming.

### *The need for a strong identifiability of the brand*

After that, the values and heritage of the brand should be extended to its products so that its customers can identify themselves to the brand's identity and show it to the world (Chevalier & Mazzalovo, 2008). When consumers buy luxury goods, they expect to live an amazing and taylor-made experience and to be served with top-quality products. However, that is not all. The products should have their very own "aesthetic codes" and luxury providers should make sure to keep coherence in all their lines (Chevalier & Mazzalovo, 2008). This explains why the design is always crucial for all luxury companies. For example, when Guerlain makes its perfumes, it gives extra care to the scent but also to the design of the bottle which is as important as its content.

### *The need for the ability to adapt to the environment*

Finally, as already mentioned in earlier (see page 30), the concept of luxury is highly dependent on how it is perceived by the society. Through their usage, luxury products should be able to provide customers the possibility to express their values and way of life (Chevalier & Mazzalovo, 2008). Moreover, luxury brands should maintain such capabilities as the social and cultural environments evolve across time.

### 3.4.3. *The luxury industry structure*

When now looking at the industry structure, scholars tend to agree that it is an oligopoly globally dominated by a few conglomerates (Chevalier & Mazzalovo, 2008; Locarno, 2016). Indeed, as we will see later in this chapter, the luxury industry has been tending towards consolidation and diversification in the recent decades.

In the following paragraphs, I will dress an overall picture of the luxury industry based on the 2017 luxury survey of Deloitte<sup>37</sup> “Global Powers of Luxury Goods 2017”. This report shows several interesting analysis on the top 100 luxury companies worldwide for the year 2015. When I talk about the luxury industry in this subchapter, I therefore refer to the top 100 of Deloitte (2017). Moreover, Deloitte focused on the same luxury goods as I do in this paper.

First, the global luxury industry is relatively concentrated as the top 10 companies represented 48.1% of the industry worldwide in 2015<sup>38</sup>. Among the companies composing this top 10, 3 are multi-product conglomerates (LVMH, Compagnie Financiere Richemont, Kering), 2 are exclusively involved in the perfumes and cosmetics (The Estee Lauder Companies, L’Oreal Luxe), another 2 are fashion firms (Ralph Lauren, PVH Corporation), 2 others are jewellers and/or watchmakers (The Swatch Group, Chow Tai Fook Jewellery Group), and the final one is the only company only involved in luxury accessories (Luxottica Group). Furthermore, it is interesting to see that 6 companies out of the 10 composing the top 10 are based in Europe (3 in France, 2 in Switzerland, and 1 in Italy). The remaining ones are whether from North America or from Asia (3 from the USA and 1 from Hong Kong). Regarding the financials of the top 10 compared to the top 100, it grew sales by 9.6% in 2015, which is 2.8% better than the top 100. Moreover, the 10 best companies of the industry outperformed the top 100 by 1.7% when it comes to net profit margins (11.4% vs. 9.7% in 2015). Refer to appendix number 13.

When now looking at the top 100, Deloitte (2017) shows that in 2015, 41 companies out of 100 belonged to the apparel and footwear sector. However, companies exclusively active in this sub-industry are, on average, smaller than in any of the 4 others and generated only 19.5% of the total top 100 sales in 2015. Luxury accessories as well as

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<sup>37</sup> Deloitte - Global Powers of Luxury Goods 2017 - By Patrizia Arienti.

<sup>38</sup> As mentioned already, by worldwide luxury industry, I mean the top 100 established by Deloitte (2017).

cosmetics and fragrances companies are on average larger than the previous ones but much less numerous (both 10 companies out of 100). In 2015, they represented 7.4% and 13.9% of total sales in the industry respectively. After that, 28% of the top 100 is composed of jewellery and watches firms. They had in total a 26.7% share of luxury goods sales in 2015. Last but not least, the 11 multiple luxury goods companies completing the top 100 are 2 to 6 times larger on average than in other segments as they generated 32.5% of the total sales in the top 100 in 2015. Refer to appendix number 14.

Furthermore, Deloitte (2017) demonstrates how geographically concentrated the luxury industry is. Indeed, within the top 100 companies, 71 are based in Europe, 15 in North America, 13 in Asia and 1 in South America. Moreover, this is in Italy that the luxury companies are the most numerous with 26 firms in the top 100 in 2015. However, Italy generates only 16% of the sales in the industry which shows the high fragmentation of the industry in this country with a rather small firm average size. On the contrary, French companies selected in the top 100 are less numerous (10 firms) but are about 4 times larger than in Italy on average. In fact, France was holding the biggest market share (23.9%) of the global industry in 2015, of which 75% is achieved by the 3 French big luxury multinationals (LVMH, Kering, L'Oreal). Other countries worthy to mention are the USA with 15 luxury companies and making 21.3% of the top 100 sales as well as Switzerland with 14.4% of the global luxury market share with only 10 firms. Refer to appendix number 15.

In 2015, 10 luxury companies newly entered the top 100 of Deloitte. All of them were private firms and 90% of them were based in Europe. Moreover, 7 of them were active in the apparel and footwear sector while the remaining 3 were whether multi-category players or jewellers and/or watchmakers.

Finally, some additional analysis such as the performance per category and per country are available in appendix numbers 16 and 17.

#### *3.4.4. Main trends in the luxury industry*

As already mentioned earlier (see pages 29 and 30), the concept of luxury (and with it, the personal luxury goods industry) has been evolving a lot and is highly linked to its social and cultural perceptions. In recent years, 4 main trends have been shaping the

luxury industry: consolidation, diversification, pressure for more social corporate responsibility, and war for talents (Locarno, 2016).

### Consolidation

The luxury industry has been experiencing a phase of consolidation mainly through the use of M&A for a few decades now. It started in the 1990s with the emergence of larger groups such as LVMH (Cavender, 2012). The consolidation process slowed down at some points but still keeps happening today with LVMH, Kering, Richemont, Coach, Michael Kors, Estee Lauder, L’Oreal, Swatch, and many others. For example, Coach (who recently changed its name to Tapestry) acquired Kate Spade for \$2.4 billion in 2017 and its CEO, Victor Luis, said he was planning further strategic M&A in the near future (FN, December 2017<sup>39</sup>). Greg Furman, who is the leader of the Luxury Marketing Council<sup>40</sup>, talked of “LVMH-izing American luxury” (FN, December 2017).

Consolidation strategies consist of implementing strategies with the aim of increasing the firm’s market power and allow it to secure its supplies and its relations with end-customers (Locarno, 2016). In order to do so, luxury companies often go for horizontal or vertical (upstream or downstream) integrations depending on the objective pursued:

- **Horizontal integrations:** As shown earlier in this paper, the perception and power of brands are crucial in the luxury industry and the delivered products should always be identifiable and in line with the heritage of the brand. Moreover, when growing their brands, luxury firms shouldn’t sacrifice their integrity and luxury-perception (rarity, craftsmanship, etc.). As a result, after a certain size is reached, it can become very complicated to keep growing (Forbes, August 2017). As a result, it sometimes becomes easier and less risky to further expand the business by purchasing additional market shares or by acquiring competitors with a high potential to grow (Forbes, August 2017). For example, it is not uncommon that LVMH purchases under-developed brands (e.g. Fendi for \$225 million in 2001<sup>41</sup>) to allow it to reach its full potential. Consolidating activities of that sort

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<sup>39</sup> FN (December 2017) - 13 Big M&A Deals That Happened in 2017 and Two That Didn’t - By Katie Abel - URL link: <https://footwearnews.com/2017/business/mergers-acquisitions/walmart-jet-com-steve-madden-jimmy-choo-sale-michael-kors-biggest-fashion-deals-469540/>

<sup>40</sup> The Luxury Marketing Council is a “global community of CEOs and CMOs [...] considered [as] a leader in the field of luxury marketing” (more on <https://www.luxurycouncil.com/about>).

<sup>41</sup> The Telegraph (November 2001) - LVMH pays \$225m to take control of Fendi - By Damian Reece - link URL: <https://www.telegraph.co.uk/finance/2743316/LVMH-pays-225m-to-take-control-of-Fendi.html>.

allow LVMH to achieve efficiency gains (economies of scale, economies of scope, synergies) as well as raising barriers to entry in the global luxury industry, but also to increase its purchasing power in regards to its suppliers and increase its market power. In turn, it enables the firm to achieve faster (and sometimes safer) growth.

- **Vertical integrations:** Furthermore, it becomes more common for luxury companies to operate vertical integrations in both ways: upstream (acquiring another firm active in an upper stage of the value chain) and downstream (lower stage in the value chain) (Locarno, 2016). First, when acquiring one supplier, the buying company can secure the supplies in rare and high-quality raw materials which are needed to produce luxury goods. For example, Hermes and Gucci are acquiring farms of Merino sheep, alligator and snake to make sure to have access to the best raw materials they need for their leather goods (BOF, June 2017<sup>42</sup>). Moreover, as luxury firms subcontract a lot of their activities but contrastingly need to keep a very high quality all along the value chain, some luxury firms may decide to purchase their suppliers in order to bring back some of those subcontracted activities within their scope and therefore securing the requirements of those stages. This is particularly the case in the luxury watchmaking segment where groups like Swatch, Rolex, Richemont and LVMH are buying some of their specialist subcontractors to decrease their dependance towards them (Hoffman & Lecamp, 2015). On top of that, as mentioned when analysing the market, luxury firms tend to boost the retail channel to ensure that final customers live an amazing experience when buying their products. To do so, they open new directly owned stores but also buy back franchises (Bain & Company, 2016).

### Diversification

Another trend identified by Locarno (2016) is the tendency to resort to diversification strategies. Diversification can traditionally be of two kinds: business diversification which consists of entering a new business line; international diversification which implies entering a new geographic market (and both types can be coupled) (Basclé,

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<sup>42</sup> BOF (Business of Fashion) (June 2017) - Luxury Brands Are Snapping Up Farms to Control their Supply Chains - By Georgina Safe - link URL: <https://www.businessoffashion.com/articles/global-currents/how-luxury-brands-are-snapping-up-farms-to-control-their-supply-chains>

2015). To that, I would like add a third option: brand diversification which is very specific to the luxury industry I believe.

Starting in 1990s, a few luxury companies began diversifying their business lines and extending their scope (Cavender, 2012). Some of which became today big conglomerates active in numerous segments. For example, LVMH is active in more than 8 different sectors (wines and spirits, fashion and leather goods, perfumes and cosmetics, watches and jewelry, selective retailing, fine food, hospitality, media, etc.) (website of LVMH<sup>43</sup>). In fact, it is not surprising. Indeed, as explained a bit earlier (see page 43), luxury brands are limited in their potential to grow. As a result, entering a new business line allows the company to overcome this limitation. However, as seen before in this paper (see pages 39 and 40), it is crucial for luxury brands to keep coherence with its origins and values to which the consumers are very sensitive. It becomes therefore very complex for luxury brands to extend their business to other segments (Chevalier & Mazzalovo, 2008). For example, even though the psychological difference between jewelry and watches is very thin, it took Bulgari's first watch 7 years to be successful (Chevalier & Mazzalovo, 2008). In other words, business diversification is very risky as well as time and money-consuming. As a matter of fact, Grant (2013) shows that it is the most value-destructive decision in corporate strategy.

In order to further growth, luxury firms have other possibilities than diversifying their business lines. Indeed, they can extend their activities to other markets abroad and/or purchase under-developed brands active in the same segment (e.g. international and brand diversification). Morck & Yeung (1991) show that international diversification is beneficial on average since it allows a firm to capture strategic capabilities situated abroad.

### *Pressure for more social corporate responsibility*

A study released by Luxury Institute and Positive Luxury<sup>44</sup>, 2 organisations working in cooperation with luxury companies, show that the pressure for more social corporate responsibility (CSR) on the sector has become higher. *"Sustainability and social*

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<sup>43</sup> URL link: <https://www.lvmh.com/houses/>.

<sup>44</sup> Luxury Institute & Positive Luxury (January 2016) - 2016 Predictions For Luxury Sustainability & Innovation - By Diana Verde Nieto - link URL: <https://www.luxurysociety.com/en/articles/2016/01/2016-predictions-for-luxury-sustainability-innovation/>

*responsibility are no longer nice-to-have for luxury brands - they are now requirements*" (HBR, February 2016<sup>45</sup>). Nieto (2016) explains this new necessity by 4 main kinds of pressure:

- ***The regulatory pressure:*** the regulatory institutions, especially in Europe, are passing more and more laws enforcing a stricter control and reporting of all the value-chain stages (Winston, HBR, 2016). Winston (HBR, 2016) mentioned the example of the Modern Slavery Act that passed in 2015 in the UK. This regulation makes it mandatory for larger corporations to publish annually a report approved by the board on the slavery and human traffic situation across their supply chain. It is particularly relevant since 71% retailers and suppliers in the UK believe there is a high chance that slaves are used at some point in their supply chain (Winston, HBR, 2016).
- ***The social pressure:*** Winston (HBR, 2016) explains that this is probably the strongest pressure in play here, that is the society is evolving and norms are changing. Indeed, new generations are expressing a higher interest and care in sustainability and big challenges of our time. According to a research cited in the survey, 88% of the Millennials and of the Generation X in the UK and in the US said that *"brands need to do more good, not just 'less bad'"* (Winston, HBR, 2016). This phenomenon is also followed by celebrities such as Leonardo DiCaprio who became an ardent activist in the fight against global warming (Winston, HBR, 2016). This leads to the creation of special labels proving the provenance of products and the respect of sustainability factors, increasing therefore the pressure on the corporations (Winston, HBR, 2016).
- ***The investment community pressure:*** After that, there are some evidence of an increasing focus on sustainability and CSR in the investment community. In 2015, analysts at Morgan Stanley increased the price target on companies active in the ready-to-wear industry that were performing well on a sustainability point of view (Winston, HBR, 2016). It is believed that this behaviour will soon extend to the luxury industry (study of Nieto, 2016).
- ***The natural environment pressure:*** Finally, Nieto (2016) explains that on top of all the pressures coming from the different actors in the society, natural resources are limited and it raises a real threat on luxury businesses and their survival. Indeed, luxury goods require very high-quality and rare raw materials, some of

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<sup>45</sup> HBR (Harvard Business Review) (February 2016) - Luxury Brands Can No Longer Ignore Sustainability - By Andrew Winston - link URL: <https://hbr.org/2016/02/luxury-brands-can-no-longer-ignore-sustainability>

which are not available anymore already. Nieto (2016) gives the examples of the gold, some components in cosmetics, diamonds, exotic skins, etc. which are becoming extremely rare.

In turn, the luxury industry will eventually have to tackle those sustainability and CSR challenges if they want to survive in the future (Nieto, 2016; Winston, HBR, 2016).

### War for talents

*“The race for top talent will define the next decade for the fashion and luxury industries.”*

*[BOF, April 2014<sup>46</sup>]*

The Business of Fashion (BoF) and The Boston Consulting Group (BCG) realised a study together in 2014 on the Human Resources (HR) challenges faced in the luxury and fashion industries (BOF, April 2014). According to that study, 70% of the firms active in those 2 last industries strive to recruit very talented creative directors and 2 companies out of 3 were short of internal relevant candidates for top management positions. Moreover, the study shows that it is particularly difficult for smaller firms which may not have as many resources to allocate as big groups such as LVMH or Kering.

In the luxury and fashion industries, the brand heritage and identity are of capital importance as already explained before. Consumers need to be able to identify themselves to the brand and its values and codes. In this context, a few roles can act as true ambassadors of the brand and become therefore crucial to the company (BOF, June 2013<sup>47</sup>). The most important of those roles is maybe the creative director (BOF, June 2013). Indeed, the creative director *“is the God”* (a senior executive at a major fashion brand cited by BOF, June 2013), he is the guardian of the codes and values with a lot of visibility and becomes therefore the captain of the brand. For example, it is difficult to think of Chanel without thinking of Karl Lagerfeld, and the opposite is true too. However, this is not the only function that is of major significance in a luxury company (BOF, June 2013). Indeed, if Louis Vuitton wants to deliver luxury goods of the highest quality that

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<sup>46</sup> BOF (Business of Fashion) (April 2014) - BCG-BoF Report | The Race For Talent in Fashion and Luxury - By J-M. Bellaiche, T. Gaissmaier & S. Willersdorf - URL link: <https://www.businessoffashion.com/articles/careers/bcg-industry-report-race-for-talent-in-fashion-and-luxury>

<sup>47</sup> BOF (Business of Fashion) (June 2013) - Why Creative Directors Matter More Than Ever - By I. Amed - URL link: <https://www.businessoffashion.com/articles/right-brain-left-brain/why-creative-directors-matter-more-than-ever>.

are the results of heritage and craftsmanship, it needs the most talented people and craftsmen at all the stages of the value chain. This why large groups develop some partnerships with top universities so they can directly impact the future talents at an early stage and attract the best elements (Locarno, 2016). For example, Kering is associated with Parsons School of Design in the USA and HEC Paris in France (Locarno, 2016).

In other words, in order to answer the demanding requirements of luxury, it is crucial for the employer to be able to find and attract talents, to hire them, to manage them and their development, and to retain them. This is how begins the war for talents.



## **Part 2: Research Hypothesis, Methodology and Raw Data**

In the second part of this paper, the readers are explained the research hypothesis, the methodology used and how the relevant data was collected.

### **Chapter 1: Research hypothesis**

The prime objective pursued in this research is to show whether or not M&A impact (positively or negatively) the financial performance of acquiring firms in the personal luxury goods industry. To that purpose, 3 hypothesis are dressed in this chapter and tested in the third part of this paper.

#### **1.1. Hypothesis 1**

As of today, the impact of M&A on the performance of involved firms has been the subject of many studies (Konigs & Schiereck, 2006). As a matter of fact, numerous scholars conducted event studies to test the financial impact of M&A across many different industries (Konigs & Schiereck, 2006). In their literature review, Tuch & O'Sullivan (2007) show that most of those investigations conclude that the acquirers' abnormal returns are whether negative or statistically not significant. However, the literature stays quite poor when it comes to the luxury industry and the results might be different. Indeed, because of what is following here below, I have reasons to believe that the announcements of M&A have a positive impact on the acquiring firms' shareholders value in the luxury industry.

First, Lane & Jacobson (1995) show that the variation of stock prices at the announcement of a brand extension in the retail market is correlated with the brand's perception by customers. The more the brand is perceived as prestigious and familiar, the more stock prices tend to respond positively to the announcement and inversely (Lane & Jacobson, 1995). On another hand and as already mentioned in the literature review (see pages 39 and 40), Chevalier & Mazzalovo (2008) explain that all luxury firms should have powerful and prestigious brands. Therefore, if the conclusions of Lane & Jacobson (1995) are extendable to the luxury industry, it would not be surprising to see that M&A announcements have a positive financial impact on the acquiring firms involved.

Second, Hosken & Simpson (2001) demonstrate that M&A between supermarkets generate positive returns on the stock market and does not imply an increase in prices for end consumers. Once again, this looks favourable for the luxury industry which is highly active on the retail segment (35% in 2016 and expected to grow further<sup>48</sup>) as long as selling prices to end consumers remain unchanged.

Third, Konigs & Schiereck (2006) evaluated the financial performance of M&A in the luxury industry between 1993 and 2005 and concluded that it had positive effects on the acquirers' stock prices. Therefore, it can be expected that between 2000 & 2016 and while using different features, those conclusions stay unchanged.

Fourth and as explained in the literature review (see page 43), due to the fact that luxury firms should remain perceived as exclusive, rare and prestigious, it can become very complicated to keep growing (Forbes, August 2017). As a result, it can be easier and less risky to further expand the business by purchasing additional market shares or by acquiring competitors with a high potential to grow (Forbes, August 2017). It could therefore make sense to reward such strategies if properly approached.

Fifth, Chevalier & Mazzalovo (2008) explain how beneficial it can be for a luxury group to keep very powerful brands despite of their ability to generate profits (see page 38). In this context, acquiring a strong luxury brand could be seen as beneficial for the group by the market.

Sixth and as shown in the literature review (see pages 43 and 44), one of the main trends in the luxury industry is the consolidation strategy (Locarno, 2016). It has also been explained that M&A motivated by consolidation purposes can be very beneficial to the acquirers as it can increase their market power in many ways and/or allow them to secure whether their supply in rare raw materials or the shopping experience delivered to end consumers which are both of capital importance in the luxury industry. That is why it would not be astonishing to see that the market reacts positively to such strategies as long as regulators don't restrict it.

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<sup>48</sup> Bain & Company - Altgamma 2016 worldwide luxury market monitor - By C. D'Arpizio.

For all those reasons, I believe that M&A should create positive value for the acquirers' shareholders on the day of its announcement. This is how was designed Hypothesis 1.

***Hypothesis 1:*** on the day of its announcement [0], M&A have a positive impact in terms of value creation for the acquirers' shareholders in the personal luxury goods industry.

## 1.2. Hypothesis 2 and 3

As mentioned in the literature review (see page 21), the event study method is based on 3 main assumptions:

- ***Assumption 1:*** the market efficiency.
- ***Assumption 2:*** the unexpectedness of the event.
- ***Assumption 3:*** the absence of other effects.

The research hypothesis 2 and 3 in this study are designed to verify Assumptions 1 and 2. Indeed, Hypothesis 2 controls that no anticipation of the M&A announcements are made by analyzing the event window [-13 ; -1]. Moreover, Hypothesis 3 checks that no significant adjustments of the market are required after the announcement day by testing the time interval [+1 ; +13]. In other words, M&A should have no effect on the value creation for acquirers' shareholders during the days preceding and following the announcement date.

***Hypothesis 2:*** during the 13 days preceding its announcement [-13 ; -1], M&A have no impact in terms of value creation for the acquirers' shareholders in the personal luxury goods industry.

***Hypothesis 3:*** during the 13 days following its announcement [+1 ; +13], M&A have no impact in terms of value creation for the acquirers' shareholders in the personal luxury goods industry.

## Chapter 2: Methodology

As already mentioned earlier in this paper, this research follows an event study methodology. A brief introduction to this method is already available in the literature review (see pages 21 to 23) but it is further detailed in this chapter.

This approach evaluates the financial performance of M&A by examining the abnormal returns reflected in the involved firms' stock prices that are generated by their announcement (Wang & Moini, 2012). Abnormal returns can be determined by comparing observed returns with expected returns around the announcement day. If observed returns are significantly different than expected returns, there will be abnormal returns. Positive abnormal returns are synonym of good financial performance as it increases the value of shareholders and vice-versa (Wang & Moini, 2012).

In this chapter, I explain and justify the different parameters of my event study. I divided my approach in 5 main steps:

- **Step 1:** first of all, the perspectives in terms of time frame and actor should be decided. Does the study follow a long or short-term view? Does the study focus on the evaluation of the financial value created for acquirers and/or acquirees?
- **Step 2:** in a second time, the benchmark model should be chosen. This choice impacts the way how expected returns are calculated.
- **Step 3:** next, expected returns should be computed so that observed returns can be compared. Expected returns are estimated with an OLS (Ordinary Least Square) regression along an estimation period assumed to be "normal". This time interval is called the estimation window.
- **Step 4:** after that, abnormal returns should be calculated by comparing the observed returns with the expected returns determined in step 3. Abnormal returns should be computed across the days around the M&A announcement date. This period is called the event window.
- **Step 5:** finally, in order to draw more general conclusions about the financial effect of M&A in the personal luxury goods industry, cumulative average abnormal returns should be determined.

### **2.1. Step 1: choice of the time and actor perspectives**

First, the event study proposed in this paper takes a very short-term perspective which means that the market efficiency is assumed. In other words, stock prices should capture all available information in regards to the current and future performance of the corresponding firm (Wang & Moini, 2012). This assumption might seem impossible to meet but Farma et al. (1969) demonstrate that markets are efficient enough to reflect most of the available information properly and almost immediately after the announcement. Moreover, the short-termism of this study also implies that M&A are unexpected events and that therefore, no anticipation from the market should be reflected before the announcement takes place (Campbell et al., 1997).

Furthermore, this thesis focuses on the value (positive or negative) created by the acquiring firms for their shareholders. Therefore, the M&A financial performance of the acquired companies will not be evaluated in this paper.

### **2.2. Step 2: choice of the benchmark model**

The next step is to select the benchmark model to be used in the event study. There are many different models existing with pros and cons for each. In this paper, I use the market model which puts in relation the company's stock returns to those of the corresponding market index (Campbell et al., 1997). It assumes that the firm's stock prices are highly correlated with those of the market and therefore allows a better identification of the expected returns (Campbell et al., 1997).

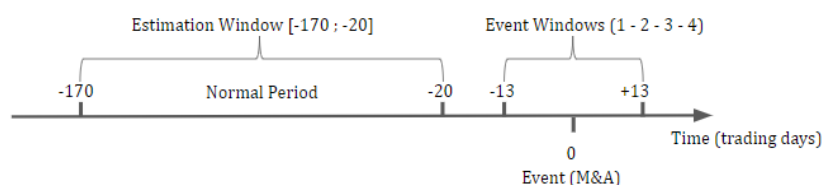
### **2.3. Step 3: choice of the estimation window and computation of expected returns**

Abnormal returns are calculated by comparing the observed returns with the expected returns. In order to know what the expected returns are, it is needed to estimate them. Their estimation can be done by using an OLS regression on a period of time preceding the event window and said to be "normal". The time interval over which expected returns are estimated is called the estimation window.

### 2.3.1. Choice of the estimation window

The estimation window was difficult to settle because no standard seems to exist in the literature. However, several scholars do explain that the estimation window should not overlap with the event window so that the studied event does not influence the “normality” of the estimation period (Campbell et al., 1997; MacKinlay, 1997). Nevertheless, the length of the estimation window varies a lot across the literature without any particular explanation or justification. For example, Konigs & Schiereck (2006) used the event study method to test the financial performance of M&A in the luxury sector between 1993 and 2005 and chose an estimation period of 250 days preceding the event window. On another hand, Manlio (2014) did a similar study and used a different estimation window of 200 days before the event window. In both cases, scholars do not justify their choice. According to Campbell et al. (1997), the estimation window in an event study using the market model “could be [set] over the 120 days prior to the event” but they don’t give any rationale justifying this suggestion. Nevertheless, I will follow this recommendation and add an extra 30 days [-170 ; -20] to the estimation window in order to smooth the curve as much as possible without making the model too demanding in regards to the data availability<sup>49</sup>. Figure number 6 here below shows the estimation window used in this study.

Figure 6: Estimation Window used in this study



[Source: Author's figure]

<sup>49</sup> For example, if there is 1 irregular data in a sample of 10 data, its disturbing effect on the normality will be much stronger than if the sample counted 100 data. However, the more data is taken, the higher the requirements for data availability are.

### 2.3.2. Computation of expected returns

As just explained earlier, expected returns can be estimated by using an OLS regression model (MacKinlay, 1997):

$$E(R_{i,t}) = \alpha_i + \beta_i R_{m,t} + \varepsilon_{i,t} \quad (\text{F.1})$$

where  $\alpha_i$  is the first regression parameter specific to the security  $i$ ;  $\beta_i$  is the second regression parameter expressing the sensitivity of the security  $i$  to the market index  $m$ ;  $R_{m,t}$  is the  $t$ -period observed return on the market index  $m$ ; and  $\varepsilon_{i,t}$  is the zero mean disturbance term.

In this equation,  $\alpha$  and  $\beta$  are the parameters of the OLS regression that puts in relation the company's stock returns to those of the corresponding market index (Campbell et al., 1997). In this study, I used Excel to determine the parameters and compute expected and abnormal returns.

## 2.4. Step 4: choice of the event window and computation of abnormal returns

### 2.4.1. Choice of the event window

As mentioned already (see page 52), the event window is the period of time over which abnormal returns are calculated. In other words, this is the time interval around the announcement date (time 0) during which the financial performance of M&A is evaluated. Since this study follows a short-term perspective, I test the M&A on the day of its announcement [0]<sup>50</sup>. Nevertheless, I will also analyse the financial impact of M&A on a longer interval [-13 ; +13]<sup>51</sup> to see if the results stay similar after possible adjustments or anticipations of the market. The choice of this time interval [-13 ; +13] was made while taking into account the fact that any longer window<sup>52</sup> would have led to the exclusion of more events due to the resulting overlapping of several event windows<sup>53</sup>.

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<sup>50</sup> To be referred to as Event Window 1.

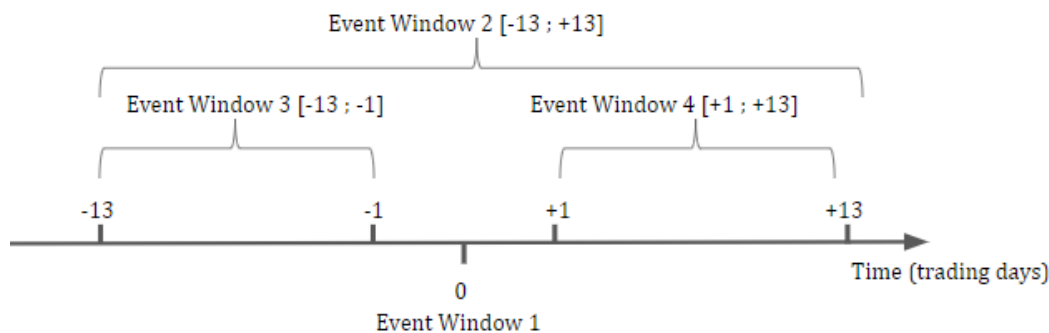
<sup>51</sup> To be referred to as Event Window 2.

<sup>52</sup> Meaning whether after [+14] or before [-14].

<sup>53</sup> The overlapping risk will be further covered later in this paper.

Furthermore, in order to test the assumptions made based on the short-termism of this study, 2 other event windows are also considered in this paper. First, Assumption 2 is checked with a 13-day interval  $[-13 ; -1]$ <sup>54</sup> before the announcement. Second, Assumption 1 is verified with a 13-day period  $[+1 ; +13]$ <sup>55</sup> right after the announcement. Figure number 7 here below depicts the different event windows analysed in this study.

*Figure 7: Event Windows 1 - 2 - 3 - 4 analysed in this study*



*[Source: Author's figure]*

#### 2.4.2. Computation of abnormal returns

After that, the acquiring firm's abnormal returns can be computed. MacKinlay (1997) explains that abnormal returns are computed by the difference between the observed returns and the expected returns:

$$AR_{i,t} = R_{i,t} - E(R_{i,t}) \quad (F.2)$$

where  $AR_{i,t}$  is the t-period abnormal return on the security i;  $R_{i,t}$  is the t-period observed return on the security i; and  $E(R_{i,t})$  is the t-period expected return on the security i.

<sup>54</sup> To be referred to as Event Window 3.

<sup>55</sup> To be referred to as Event Window 4.

## 2.5. Step 5: computation of cumulative average abnormal returns

### 2.5.1. Computation of average abnormal returns

Next, in order to compute the cumulative average abnormal return, average abnormal returns across the  $n$  events analysed should be calculated first (Ribonnet, 2015):

$$AAR_t = \frac{1}{n} \sum_{i=1}^n AR_{i,t} \quad (F.3)$$

where  $AAR_t$  is the  $t$ -period average abnormal return; and  $AR_{i,t}$  is the  $t$ -period abnormal return on the security  $i$ .

### 2.5.2. Computation of the cumulative average abnormal return

Finally, in order to evaluate the impact of M&A on the financial performance of the acquiring companies along the whole event window and across the whole sample, the cumulative average abnormal return should be calculated as the sum of the average abnormal returns (Ribonnet, 2015):

$$CAAR_{[x;y]} = \sum_{t=x}^y AAR_t \quad (F.4)$$

where  $CAAR_{[x;y]}$  is the cumulative average abnormal return across the time interval  $[x; y]$ ; and  $AAR_t$  is the  $t$ -period average abnormal return.

Once the cumulative average abnormal return is computed, it is possible to draw broader conclusions on the financial performance of M&A. Indeed, if the CAAR is positive, it means M&A created positive value for the firms' shareholders and vice versa (Wang & Moini, 2012). The market efficiency assumption made in this model implies that when no event occurs, the CAAR should remain null (Kirchhoff & Schiereck, 2011).

## Chapter 3: Raw data

For the purpose of this study, some raw data about the M&A deals in the personal luxury goods industry as well as the historical stock prices of the analysed companies and their corresponding market indices were collected. I used the Bloomberg Terminal to build a relevant list of M&A deals and both Yahoo Finance and Investing.com when it came to get stock prices data.

### 1.1. M&A deals data

In order to make a reliable list of M&A deals operated in the luxury industry, I decided to use the Bloomberg Terminal which is available at BSPO - UCL<sup>56</sup>. Indeed, this software offers the possibility to extract a record of financial events such as M&A based on a set of criteria of our choice.

First, in order to ease the work and to keep coherence with the industry analysis dressed in my literature review, I decided to limitate the scope of my research to the top 100 personal luxury goods firms of Deloitte (2017)<sup>57</sup>. Moreover, I further restricted the sample to public companies only. Indeed, I am interested in evaluating the financial short-term performance of M&A for shareholders through an event study as explained already. Therefore, I need the analysed firms to be quoted on a financial stock market.

Second, I selected M&A deals only. This type of deal implies that there is a transfer of control from the acquired (or selling) firm to the acquirer as explained at the beginning of my literature review (see page 5).

Third, I set a time window of 17 years, from the 1st of January 2000 to the 31st of December of 2016. The rationale behind was to take a large window to make sure to have enough events (M&A announcements) in my data sample while still coping with the data availability since stock prices historical data of before 2000 is difficult to find.

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<sup>56</sup> BSPO - UCL: Library for economic, social, political and communication sciences - Catholic University of Louvain.

<sup>57</sup> Deloitte - Global Powers of Luxury Goods 2017 - By Patrizia Arienti.

Fourth, I decided to take all deal status into consideration. Indeed, whether the deal actually happens or not should not impact my study. The announcement effect should occur anyway (Manlio, 2014).

The application of above criteria led to the identification of 46 public firms active in the personal luxury goods industry that were involved in at least one M&A announcement between 2000 and 2016. This first sample<sup>58</sup> totalised 382 M&A announcements with an average announced deal value of 459.57 million USD. An overview of M&A Deals Sample 1 is available in appendix number 18.

In a second time and in order to keep only the most relevant transactions into account, I skimmed off M&A Deals Sample 1 in a similar way as explained by Ribonnet (2015). I chose to ignore all events having an announced deal value under 100 million USD and those for which the deal value was not communicated.

This resulted in a second data sample<sup>59</sup> reduced to 70 M&A and involving 22 personal luxury goods companies. An overview of M&A Deals Sample 2 is available in appendix number 19.

## **1.2. Stock prices data**

The next step was to collect the stock prices data for both the studied firms and their corresponding market indices. I extracted this data from whether Yahoo Finance or Investing.com.

More specifically, in regards to the firms in focus, I used the the daily adjusted closing prices<sup>60</sup> in order to calculate the daily returns. I did similarly when it came to the indices. Using adjusted closing prices is the standard in this context (Campbell et al., 1997). The indices are used to correctly estimate the expected returns during the event window. In my study, I used the following market indices described in Table 1 following.

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<sup>58</sup> To be referred to as M&A Deals Sample 1.

<sup>59</sup> To be referred to as M&A Deals Sample 2.

<sup>60</sup> An adjusted closing price is the closing price of stock including “*any distributions and corporate actions that occurred at any time before the next day's open.*” (Investopedia.com) - URL link: [https://www.investopedia.com/terms/a/adjusted\\_closing\\_price.asp](https://www.investopedia.com/terms/a/adjusted_closing_price.asp).

*Table 1: The market indices used for each firm of the sample*

<b>Market Indices</b>	<b>Concerned Firms</b>
S&P 500	Coty, PVH, Estee Lauder, Michael Kors Holdings, Ralph Lauren, Kate Spade, Fossil Group, Elizabeth Arden, Tiffany, Luxottica Group
FTSE Italy	Tod's
IBOVESPA	Restoque Comercio e Confecoes de Roupas
CAC 40	LVMH, Kering, L'Oreal, Hermes International
SSE 180	Zhejiang Ming Jewelry
HIS	Chow Tai Fook Jewellery Group
S&P BSE SENSEX	Gitanjali Gems
SMI	Compagnie Financiere Richemont, Swatch Group
FTSE 100	Burberry Group

*[Source: Author's figure]*



## Part 3: Results & Findings

This third and last section is intended to analyse M&A Deals Sample 2. Based on this sample, I test the hypothesis dressed in the previous part of this paper. First, I describe my approach and computations. In a second time, I study the financial impact of M&A in the luxury industry. Moreover, I realise 4 sub-sample analysis to better understand the impact of M&A. Finally, I summarise the results of this research and address a few remarks to the readers.

### Chapter 1: Approach & computations

#### 1.1. AR computations

The next step after defining the scope of the event study (see pages 52 to 57) is to do all the regressions and computations for each of the 70 events of the sample.

For each M&A announcement, my approach can be summarised in 7 steps:

- **Step 1:** Extraction of the adjusted closing prices from whether Yahoo Finance or Investing.com for both the security and the corresponding market index.
- **Step 2:** Computation of daily returns for both the security and the corresponding market index.
- **Step 3:** Calculation of the intercept (alpha) and the slope (beta) on the estimation window.
- **Step 4:** Reckoning of the SE<sup>61</sup> and the RS<sup>62</sup> also on the estimation window.
- **Step 5:** Determination the expected returns across the event window with (F.1).
- **Step 6:** Estimation of the abnormal returns along the event window with (F.2).
- **Step 7:** Test of the statistical significance of abnormal returns with a Student t-test<sup>63</sup>.

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<sup>61</sup> SE stands for Standard Error. It is the deviation between “a sample mean [and] the actual mean of a population” (Investopedia.com). URL link: <https://www.investopedia.com/terms/s/standard-error.asp>.

<sup>62</sup> RS stands for R-squared. It is a statistical measurement tool that provides the explanatory power of the model (Investopedia.com). URL link: <https://www.investopedia.com/terms/r/r-squared.asp>.

<sup>63</sup> The Student t-test analyses the differences between two means and tells you if they could happen by chance or not. If not, it means the difference is statistically significant (Statistics How To - URL link: <http://www.statisticshowto.com/probability-and-statistics/t-test/>).

Nevertheless, a few remarks are worth to mention in this subchapter.

First, 3 events were excluded from M&A Deals Sample 2 due to a lack of data availability. Indeed, Coty was not quoted before the 13th of June 2013 (Reuters.com<sup>64</sup>) which means that no stock data exists for the two M&A announced before that date. Moreover, I could not find any historical data for the M&A announced by Elizabeth Arden.

Second, the Bloomberg Terminal listed the acquisition of Bulgari by LVMH as two distinct events. It did so probably because two different means of payment were used in this M&A. However, in the context of my study, this event should be counted as one. That is why I aggregated the two sub-events in one, therefore decreasing M&A Deals Sample 2 by one.

Third, event windows should not be impacted by any other events of a same company so that the abnormal returns computed reflect only the impact of the studied event (Ribonnet, 2015). When checking this risk, I found that two M&A announced by LVMH in 2000 were overlapping each other's event window. However, both acquisitions were announced on the 18th of December 2000. That is why I decided to treat them as 1 single event instead of excluding them both. Another two M&A were announced by Ralph Lauren within 10 days from each other. They were therefore excluded from M&A Deals Sample 2.

Fourth, after computing the OLS regression parameters, it is important to have a look at the sign of the slope (ThoughtCo.com<sup>65</sup>). The slope (or beta in (F.1)) is the second regression parameter expressing the sensitivity of the security to the corresponding market index. It makes sense to think that during a normal period, the market index and the security prices evolve in the same direction. Indeed, it is not reasonable to assume that a firm would make positive returns when all others perform badly and negative returns when all others perform well. In this logic, the slope should be positive, meaning that the security evolves in the same direction as the corresponding market index. Based on this criteria, the announced acquisition of Dudalina by Restoque Comercio e Confeccoes de Roupas was excluded. Indeed, the regression model used for this event was very poor with a negative slope and a R-squared inferior to 0.01%. I tried to cope with this issue by finding another market index more suitable but without success.

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<sup>64</sup> URL link: <https://www.reuters.com/article/us-coty-ipo/coty-fails-to-charm-investors-in-market-debut-idUSBRE95C0P420130613>.

<sup>65</sup> URL link: <https://www.thoughtco.com/slope-of-regression-line-3126232>.

Finally, it is also important to check the RS of the OLS regression models created (Konigs & Schiereck, 2006). The mean RS of all 62 events<sup>66</sup> tested in this study is 31.68%, which means that on average, the regression models I used explain 31.68% of the securities' expected returns. I first thought this percentage was rather low and therefore tried to look for standards in the literature. However, such standards seem not to exist. This is only when sharing my results with an assistant professor at U-Namur, Gilles Merckx, that I realised my results were maybe not so strange. Indeed, he told me that he conducted a comparable study with the same methodology and shared similar conclusions.

A glimpse of typical ARs computations under excel can be found in appendix numbers 20 and 21.

## 1.2. CAAR computations

As mentioned earlier, the scope of the study was defined in a first time and then, the abnormal returns were estimated for each event of M&A Deals Sample 3. The final step in order to draw more general conclusions about M&A Deals Sample 3, is to determine the CAAR with the method presented in the methodology (see pages 52 to 57).

For each of the 5 analysis made in this study, I followed a similar approach:

- **Step 1:** selection of the relevant sample (or subsample) accordingly to the analysis.
- **Step 2:** computation of the AAR with (F.3).
- **Step 3:** calculation of the CAAR for each of the event windows tested with (F.4).
- **Step 4:** check of the statistical significance with a cross-sectional Student t-test.

Once again, a few remarks should be made at this point.

As a reminder, the validity of the event study methodology relies on 3 main assumptions. First, the market should be efficient. Second, the analyzed events should not be anticipated by the market. Third, there should not be any other disruptive episodes within the tested event windows. This last assumption is difficult to assess and I couldn't find any suggestions in the literature on how to validate it. However, in order to avoid the skewness of the study, it should be checked. I therefore came up with a method in 2 steps.

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<sup>66</sup> Due to all the reasons mentioned above, 8 events were excluded from M&A Deals Sample 2 which was therefore reduced from 70 to 62 events. This new sample is to be referred to as M&A Deals Sample 3.

First, I isolated all events for which the CAR was significant for whether [-13 ; -1] and/or [+1 ; +13]. Indeed, during those 2 periods, the M&A should have no impact on the firm's stock prices as per Assumptions 1 and 2. As a result, if a significant impact is detected, this means whether that 1 of the 2 first assumptions is not respected or that other disruptive events are skewing the results. On this basis, I isolated 18 events among the 62 of M&A Deals Sample 3.

Second, I checked the AR of those events in more details and one by one, verified that these were not the result of other happening else than the M&A announcements in focus. To that purpose, I used many different types of sources (finance articles, finance forums, finance websites such as Reuters.com, the firms' annual reports, etc.). After examination, 3 groups were made:

- **Radical Data 1:** 4 cases were not impacted by other episodes<sup>67</sup>.
- **Radical Data 2:** 9 cases were skewed by other matters<sup>68</sup>.
- **Radical Data 3:** 5 cases could not be determined.

As a result, I decided to ignore all cases of Radical Data 2 since they were not due to the events in focus. Moreover, I kept Radical Data 1 within my sample since they are impacted by the studied events only. Furthermore, I also maintained Radical Data 3 in the sample. Indeed, no formal evidence was found to justify their rejection.

Finally and as a consequence of above results, M&A Deals Sample 3 was reduced to a final sample of 53 events<sup>69</sup>.

A glimpse of typical AARs and CAAR computations under excel can be found in appendix number 22.

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<sup>67</sup> For all of those 4 cases, the CAR was significant at [+1 ; +13], breaking therefore Assumption 1.

<sup>68</sup> For example, Fossil Group generated an AR of -44.4% on day 1 of the event window. This was not the result of the acquisition of Misfit Inc announced the day before but it was rather due to the quarterly bad figures the group reported that day (a net income decrease of 44.6% compared to the previous year) (TheMotleyFool.com, an American finance platform similar to Reuters.com) - URL link: <https://www.fool.com/investing/general/2015/11/13/why-fossil-group-inc-stock-plummeted-today.aspx>.

<sup>69</sup> To be referred to as M&A Deals Sample 4.

## Chapter 2: The impact of M&A on the financial performance of acquirers

For the purpose of this study, I calculated the CAAR in 5 different ways. First, I computed the CAAR of the 53 events of M&A Deals Sample 4 to verify the impact of M&A on the financial performance of luxury companies in general (Analysis 1). In a second time, I calculated the CAAR for 4 subsamples of M&A Deals Sample 4 in order to better understand the effect of M&A on the financial performance of acquiring firms (Analysis 2, 3, 4, and 5 respectively):

- **M&A Deals Subsample 1:** all M&A announced by the top 10 firms<sup>70</sup>.
- **M&A Deals Subsample 2:** all M&A announced by other firms<sup>71</sup>.
- **M&A Deals Subsample 3:** all M&A announced by mono-product firms.
- **M&A Deals Subsample 4:** all M&A announced by multi-product firms.

### 2.1. Analysis 1

The results of Analysis 1 can be summarized with Table 2 and Figure 8.

*Table 2: Summary of Analysis 1 (all firms)*

Analysis 1 - All firms			
N = 53	Estimation window = [-170 ; -21]		
Event Window	CAAR	Tcross-Value	Statistical significativity
[-13 ; -1]	-0.2687%	-0.4241	NO
[0]	1.5759%	3.5699	YES*
[+1 ; +13]	0.3770%	0.4232	NO
[-13 ; +13]	1.6842%	1.4704	NO

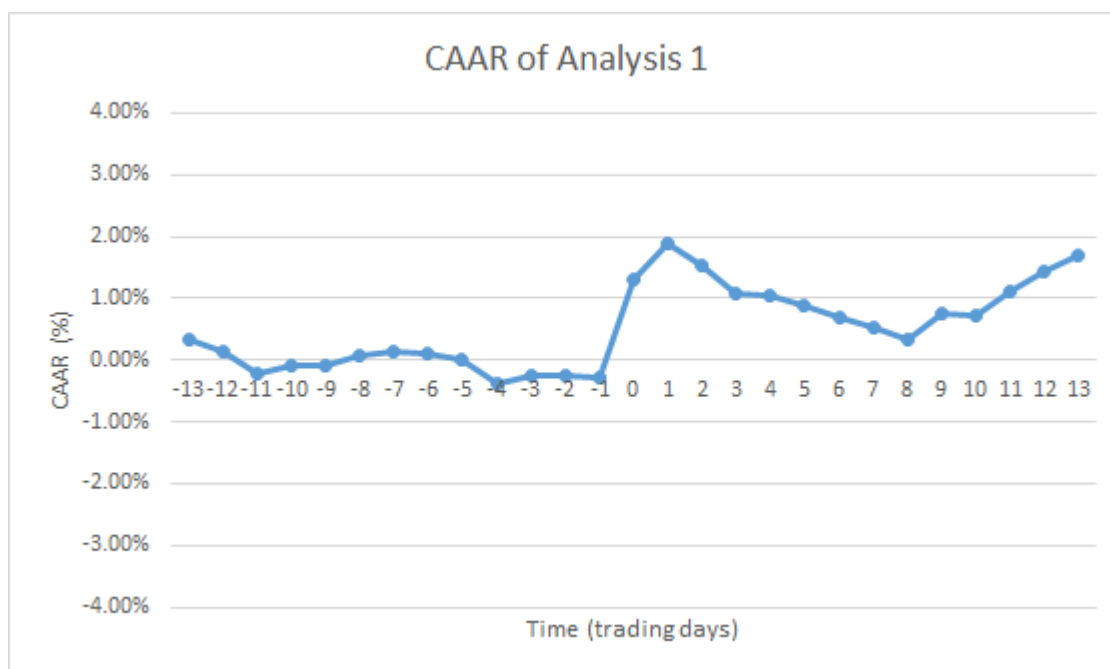
\* At the 1%-level    \*\* At the 5%-    \*\*\* At the 10%-level

[Source: Author's Table]

<sup>70</sup> The top 10 firms of the personal luxury goods industry established by Deloitte (2017).

<sup>71</sup> The firms not being part of the top 10 firms of the personal luxury goods industry established by Deloitte (2017).

Figure 8: Graph of Analysis 1 (all firms)



[Source: Author's figure]

First, M&A do not create significant value before and after the M&A announcement date. Indeed, as shown in Table 2, the CAAR for the event windows  $[-13 ; -1]$  and  $[+1 ; +13]$  are close to 0 and not statistically significant. This allows me to confirm Hypothesis 2 and 3. Konigs & Schiereck (2006), when using the same benchmark model, shared similar results for the period preceding the announcement but found positive and significant excess returns on the days following the event. This divergence might be due to the fact that I controlled the potential external influences on the window  $[+1 ; +13]$  in order to avoid the skewness of my results. Konigs & Schiereck (2006) did not mention any test of this kind in their study. Moreover, the filters applied by Konigs & Schiereck (2006) and myself on the original sample (M&A Deals Sample 1) are different. For instance, Konigs & Schiereck (2006) did not apply any criteria on the announced deal value while I considered only the M&A that were worth at least \$100 million. Maybe there is less information for smaller transactions announced by smaller firms and it therefore takes longer to the market to properly reflect the event on the stock prices. And since there are more M&A that are valued below \$100 million, it might significantly change the results when taking them into account. After that, on the day of their announcement, M&A do impact the financial performance of the acquiring firms positively by generating a 1.6% CAAR. It is statistically significant at the 1%-level and therefore validates Hypothesis 1. Konigs & Schiereck (2006) share alike findings even though they could not validate it statistically. Finally, even though it seems like M&A create positive value over time when

looking at the interval [-13 ; +13] with a CAAR of 1.7%, it is impossible to say for certain as it is not statistically significant. Konigs & Schiereck (2006) found similar results.

## 2.2. Analysis 2 and 3

The results of Analysis 2 and 3 can be summarized with Tables 3, 4 as well as Figure 9.

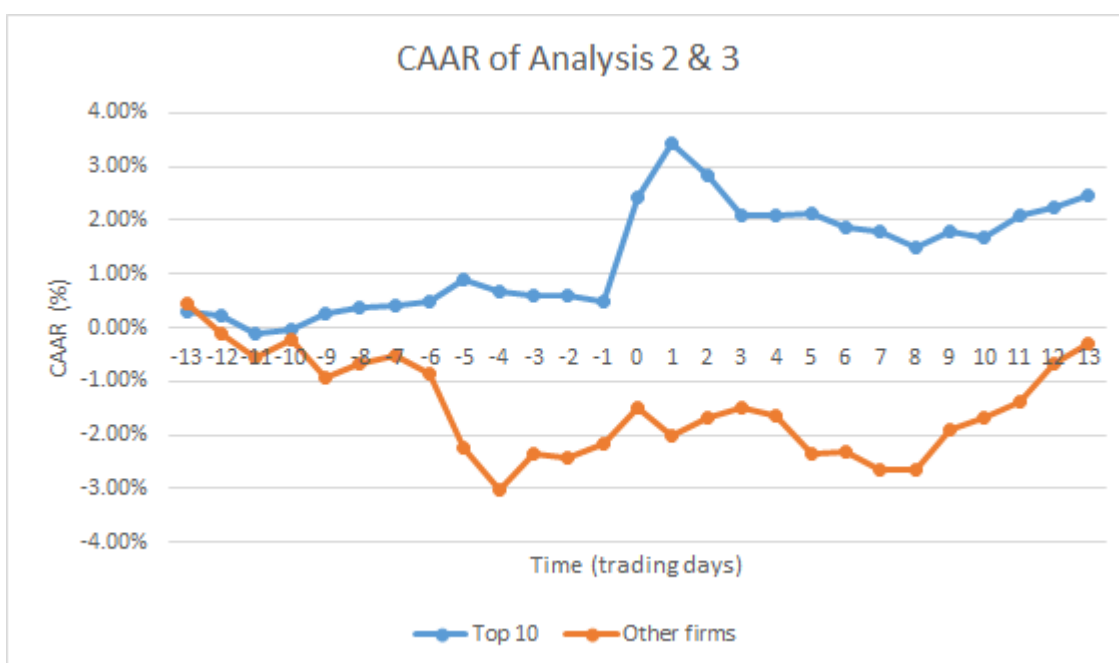
*Tables 3 and 4: Summaries of Analysis 2 and 3 (top 10 firms and others firms)*

Analysis 2 - Top 10 firms				Analysis 3 - Other firms			
N = 38		Estimation window = [-170 ; -21]		N = 15		Estimation window = [-170 ; -21]	
Event Window	CAAR	Tcross-Value	Statistical significativity	Event Window	CAAR	Tcross-Value	Statistical significativity
[-13 ; -1]	0.4775%	0.6699	NO	[-13 ; -1]	-2.1588%	-1.7565	NO
[0]	1.9344%	3.4896	YES*	[0]	0.6677%	1.0329	NO
[+1 ; +13]	0.0493%	0.0494	NO	[+1 ; +13]	0.1207%	0.6305	NO
[-13 ; +13]	2.4611%	1.7257	YES***	[-13 ; +13]	-0.2840%	-0.1584	NO

\* At the 1%-level    \*\* At the 5%-level    \*\*\* At the 10%-level                      \* At the 1%-level    \*\* At the 5%-level    \*\*\* At the 10%-level

[Source: Author's Tables]

*Figure 9: Graph of Analysis 2 and 3 (top 10 firms and other firms)*



[Source: Author's figure]

Regarding the top 10 companies, Hypothesis 2 and 3 are still validated as the CAAR at event windows [-13 ; -1] and [+1 ; +13] are close to 0 and not statistically significant. Moreover, at the announcement day, M&A still create positive and significant value of +1.9% with 99% of confidence that this is not due to hazard. Furthermore, it is very

interesting to see that when it comes to the top 10 firms, the positive value creation is still significant over the longer interval [-13 ; +13] (at a 10%-level).

When now looking at the firms which are not part of the top 10, it is very difficult to draw any conclusion. Indeed, none of the CAAR calculated are statistically significant. This is most probably due to the small size of M&A Subsample 2 (N=15). Moreover, the negative CAAR of -2.2% on the period preceding the announcement date is to be taken with grain of salt. Indeed, it is mainly affected by 2 extreme events of Radical Data 3 (see page 64). It might therefore be skewed. When taking those 2 events out, the CAAR at [-13 ; -1] becomes -0.8347%.

Unfortunately, those results could not be compared to those of other scholars since no similar segregation was found in the literature.

### **2.3. Comparison of Analysis 2 and 3**

When looking at Figure 9, it clearly seems that the top 10 firms generate more positive value for their shareholders at the announcement of an M&A than other companies. However, the results found for other firms are to be taken cautiously as the sample size is very small and that some data may be skewing the results (the 2 extreme data from Radical Data 3). Moreover, further analysis and tests would be required to verify the statistical significance of the gaps in CAAR at the different time intervals.

### **2.4. Analysis 4 and 5**

The results of Analysis 4 and 5 can be summarized with Tables 5 and 6 and Figure 10.

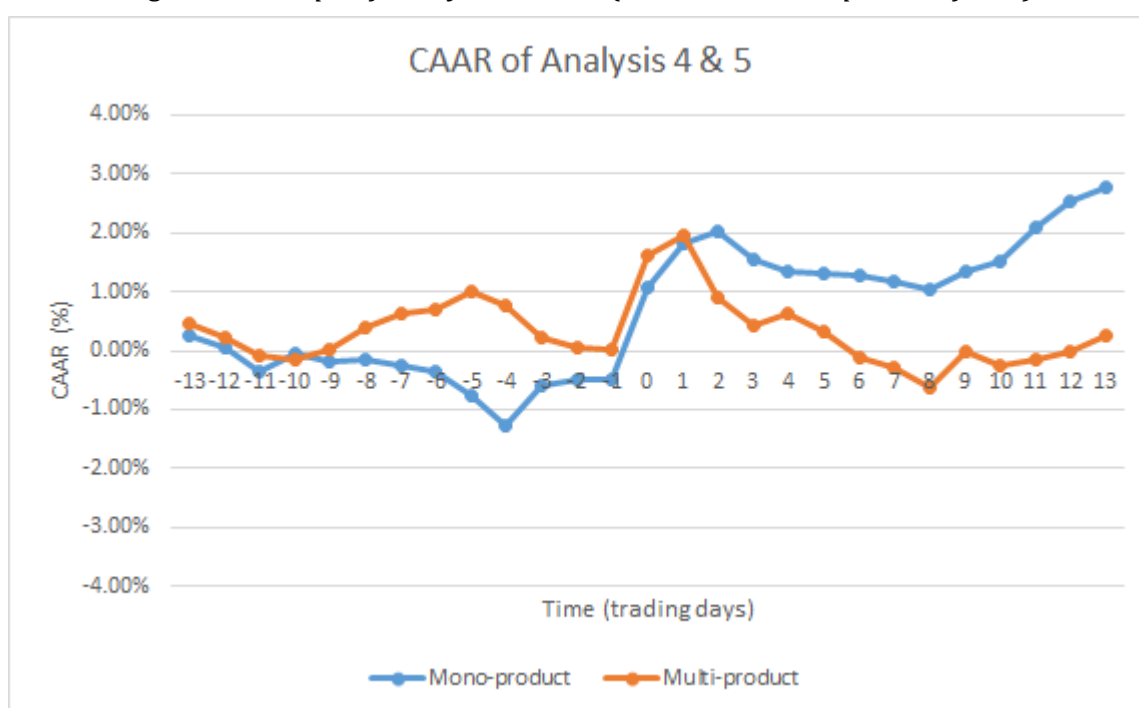
Tables 5 and 6: Summaries of Analysis 4 and 5 (mono and multi-product firms)

Analysis 4 - Mono-product firms				Analysis 5 - Multi-product firms			
N = 30	Estimation window = [-170 ; -21]			N = 23	Estimation window = [-170 ; -21]		
Event Window	CAAR	Tcross-Value	Statistical significance	Event Window	CAAR	Tcross-Value	Statistical significance
[-13 ; -1]	-0.4932%	-0.6345	NO	[-13 ; -1]	0.0242%	0.0227	NO
[0]	1.5590%	2.1279	YES**	[0]	1.5980%	4.2938	YES*
[+1 ; +13]	1.7240%	1.4198	NO	[+1 ; +13]	-1.3800%	-1.1128	NO
[-13 ; +13]	2.7898%	1.6680	YES***	[-13 ; +13]	0.2421%	0.1644	NO

\* At the 1%-level    \*\* At the 5%-level    \*\*\* At the 10%-level                      \* At the 1%-level    \*\* At the 5%-level    \*\*\* At the 10%-level

[Source: Author's Tables]

Figure 10: Graph of Analysis 4 and 5 (mono and multi-product firms)



[Source: Author's figure]

First and regarding mono-product companies, the CAAR at [-13 ; -1] is almost null and not statistically significant. However, during the 13-day period following the event announcement, M&A seem to create positive value for the mono-product acquirers. Nevertheless, it is not statistically significant, even at a 10%-level. Therefore, this result might be due to pure luck. As a result, Hypothesis 2 and 3 can still be maintained. After that, M&A do create positive and significant value for the mono-product acquiring firms' shareholders at both intervals [0] and [+1 ; +13].

Regarding multi-product firms, the periods before and after the announcement date being not statistically significant, Hypothesis 2 and 3 can be confirmed. Moreover, the

negative CAAR at the interval [+1 ; +13] is to be viewed cautiously. Indeed, it is mainly impacted by 1 extreme event of Radical Data 3. When ignoring that event, CAAR at [+1 ; +13] goes from -1.38% to -0.58%. After that, M&A still create positive and significant value at the announcement but fail to do so on a longer time frame [-13 ; +13].

Konigs & Schiereck (2006) conducted a subsample analysis quite close to this one. Indeed, they studied both conglomerates<sup>72</sup> and non-conglomerates<sup>73</sup>. In here, conglomerates could be the equivalent of multi-product firms and non-conglomerates of mono-product companies. Konigs & Schiereck (2006) found similar results for both subsamples except for the event window [0] of multi-product firms. Indeed, this study indicates a positive and statistically significant CAAR while Konigs & Schiereck (2006) show that conglomerates generate almost no abnormal returns<sup>74</sup>. This difference might be due to the fact that my sample includes M&A announced by other firms than the 4 conglomerates considered by Konigs & Schiereck (2006). Maybe that those M&A influence positively and significantly my results compared to those of Konigs & Schiereck (2006).

## 2.5. Comparison of Analysis 4 and 5

When comparing the results found for mono-product firms with those of multi-product ones, it seems that M&A generate an almost identical positive CAAR at the announcement and in both cases, it is statistically significant. However, when looking at the longer event window [-13 ; +13], mono-product firms look like being more performant. Indeed, during the 13 days following the event, their CAAR is 3.1% higher than the multi-product companies'. In other words, it looks like the market reacts more positively to M&A carried out by mono-product firms than those conducted by multi-product companies by not adjusting the stock prices after the announcement. However and as already mentioned earlier, further analysis and tests would be required to verify the statistical significance of the gaps in CAAR at the different event windows.

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<sup>72</sup> Conglomerates as defined by Konigs & Schiereck (2006) are LVMH, Kering, Richemont and Swatch.

<sup>73</sup> Non-conglomerates as defined by Konigs & Schiereck (2006) are other firms of their sample, else than LVMH, Kering, Richemont and Swatch.

<sup>74</sup> Which means it is not statistically significant.

## Chapter 3: Summary of results, remarks & limitations

### 3.1. Summary of results

The results of this study in regards to the research hypothesis dressed in Part 2 of this paper can be summarized with Table 7 here below:

*Table 7 : Summary of results*

Results summary	Hypothesis 1			Hypothesis 2			Hypothesis 3		
	CAAR at [0]	Statistical Significativity	Hypothesis Validity	CAAR at [-13 ; -1]	Statistical Significativity	Hypothesis Validity	CAAR at [+1 ; +13]	Statistical Significativity	Hypothesis Validity
Analysis 1	1.5759%	YES*	YES	-0.2687%	NO	YES	0.3770%	NO	YES
Analysis 2	1.9344%	YES*	YES	0.4775%	NO	YES	0.0493%	NO	YES
Analysis 3	0.6677%	NO	NO	-2.1588%	NO	YES	0.1207%	NO	YES
Analysis 4	1.5590%	YES**	YES	-0.4932%	NO	YES	1.7240%	NO	YES
Analysis 5	1.5980%	YES*	YES	0.0242%	NO	YES	-1.3800%	NO	YES

\* At the 1%-level \*\* At the 5%-level \*\*\* At the 10%-level

[Source: Author's Table]

### 3.2. Remarks and limitations

Now, a few remarks and limitations should be mentioned:

- First, in order to compute the AR across the different time intervals, it is required to have the stock data available. Since financial markets are closed on weekends, trading days were used instead of calendar days. This increases the length of the original studied periods and therefore, makes more information available than in the calendar time windows. However, this impact is negligible (Ribonnet, 2015).
- Moreover, one of the studied M&A was announced on a Saturday, day on which no quotation is available. In order to cope with it, the next trading day (Monday) was used as day [0] for that event. Once again, more information could be captured by the market by increasing the length of the original time frame. Nevertheless, this effect should be marginal (Ribonnet, 2015).
- Furthermore, the market efficiency seems difficult to be met. However, Farma & al. (1969) show that Assumption 1 should be met as markets are efficient enough to reflect most of the available information properly and almost immediately after the announcement. Their conclusion seems to be confirmed most of the time since none of the time windows [+1 ; +13] are statistically significant in this study.

However, 4 cases were confirmed as breaking Assumption 1 (Radical Data 1) (see page 64).

- On top of that, the unexpectedness of the event could be doubted. Nevertheless, none of the time intervals [-13 ; -1] are statistically significant which indicates that the impact of a possible non-compliance of Assumption 2 in this study should be minor.
- In addition, the absence of other effects can hardly be controlled for all events. However, the significant CAR of all events were checked for the time periods [-13 ; -1] and [+1 ; +13] and those which were due to other events were taken out of the studied sample (Radical Data 2). Even if 5 cases could not be determined (Radical Data 3) (see page 64) and therefore kept in the sample, the effect of potential disrupting influences on the study should be negligible as all time windows [-13 ; -1] and [+1 ; +13] are not statistically significant. Nevertheless, possible impact of such external happening on the day of the announcement [0] are difficult to evaluate.
- After that, the small size of M&A Deals Subsample 2 and 4 limitate the interest of Analysis 3 and 5. Indeed, in both those cases, the size of the subsample is inferior to 30 which makes it difficult to draw any conclusions statistically significant<sup>75</sup>, especially for M&A Deals Subsample 2 that is composed of only 15 events.
- Moreover, the mean R-squared of the regressions used to compute the expected returns of all 53 events of M&A Deals Sample 4 is of 32.48% which is relatively low. However, low R-squared seem to be quite common when using the event study method with the market model benchmark (Konigs & Schiereck, 2006; Gilles Merckx, assistant professor at U-Namur).
- Furthermore, this paper analyses events happening between 2000 and 2016, which includes the crisis of 2008. As a result, some of the studied events might be impacted by this external phenomenon. However, the chosen benchmark model in this study event should minimize the effect of the 2008 crisis as the AR of the firms in focus are computed while referring to their corresponding market indices. Since the crisis should affect all firms, the market indices should also reflect the influence of the crisis and therefore neutralize the potential impact on the AR of the firms tested. On top of that, there were only 5 events happening between 2007

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<sup>75</sup> The limit of 30 to define a sample (or subsample) as small or large is a rule of thumb only. However, it is followed by many scholars. For example, Hogg & Tanis (2005) show that a sample (or subsample) should be “*greater than 25 or 30*”.

and 2009<sup>76</sup> out of the 53 of M&A Deals Sample 4 which should also limitate the impact of the 2008 crisis in this study.

- Finally, this paper tests only the financial impact of M&A announcements for shareholders. However, the benefits of an M&A can be various and not only financial (Zollo & Meier, 2008).

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<sup>76</sup> In M&A Deals Sample 4, there were 4 events announced in 2007, 0 in 2008 and 1 in 2009.



## Conclusion and Perspectives

For all companies wishing to grow, there exists 3 ways: internal growth, strategic alliance, and M&A (Lechner & Kreutzer, 2010). In this context, managers seem to like M&A as its number has drastically increased over the last decades, which substantially changed many of the world's industries (DePamphilis, 2012). As M&A became a topic of interest among several research disciplines, scholars identified numerous motives justifying such strategies. However and despite of all expected rewards, most of studies concluded that success rates were really poor (20 to 60% only) and authors such as Zollo & Singh (2004) started to question the real benefits of M&A. This paper fell within this perspective.

Indeed, this thesis' main concern was to analyse the value implications of M&A announcements in the luxury industry. In other words, do M&A generate value (positive or negative) for the acquiring firms' shareholders in the luxury industry? The scope was further limited to the personal luxury goods industry and to the period between 2000 and 2016.

In order to properly answer that question, I conducted an event study coupled with the market model benchmark. I calculated the Cumulative Average Abnormal Return (CAAR) in 5 different ways. First, I computed the CAAR for the 53 M&A of my sample to verify their impact on the financial performance of the luxury companies in general. After that, I conducted 4 similar analysis on subsamples to better understand their performance implications. Indeed, I calculated the CAAR for the top 10 personal luxury firms, for the other firms (not part of the top 10), for the mono-product companies, and for the multi-product players. The literature being quite poor when it comes to evaluate the wealth implications of M&A announcements in the luxury industry, there were not many studies I could compare my results with apart from the one of Konigs & Schiereck (2006).

When analysing the personal luxury goods industry, I found significant and positive abnormal returns for the acquiring firms on the day of the announcement for all analysis expect for other firms (not part of the top 10) where the abnormal returns were positive but not statistically significant. While the poor quality of the subsample used to study other firms (not part of the top10) might explain the non-significance of their CAAR, the positive results of the other analysis are in line with the literature (Lane & Jacobson, 1995; Hosken & Simpson, 2001; Konigs & Schiereck, 2006). The reasons behind such

results are numerous but I think there are 3 main reasons. First, Lane & Jacobson (1995) show that the more the brand is perceived as prestigious and familiar, the more stock prices tend to respond positively to the announcement. This can therefore explain positive abnormal returns in the luxury industry since all luxury firms should have very powerful and prestigious brands (Chevalier & Mazzalovo, 2008). Second, as luxury firms seem to be limited in their capacity for further growth at some point, capital markets should reward strategic acquisition of luxury brands with high potential to grow. Indeed, luxury products are all about prestige, rarity and exclusiveness and should therefore be limited by definition. As a result, a potential solution to this limitation is the acquisition of other promising luxury brands (Forbes, August 2017<sup>77</sup>). Third, most of M&A in the luxury industry follow consolidation purposes. In this particular context and as long as regulators don't restrict it, stock markets would be right to reward such strategies. Indeed, consolidation strategies in the luxury industry could be very beneficial as it can increase the acquirers' market power in many ways and/or allow them to secure whether their supply in rare raw materials or the shopping experience delivered to end consumers which are both of capital importance in the luxury industry.

After that, a few limitations are worth to mention here. First, the market efficiency and the unexpectedness of the event underlying the short-termism of this study may seem difficult to meet. However, the results allow me to confirm those 2 assumptions. Indeed, the market efficiency was tested with a time interval of 13 days following the M&A announcement and none of them was statistically significant. Moreover, the non-anticipation of the M&A was also tested with a period of 13 days preceding the announcement and all results were statistically not significant. Second, another main assumption made when using the event study methodology is the absence of other effects during the event windows which can also be doubted. Nevertheless, this risk was minimized by controlling all extreme data of the sample and excluding all those that were proven to be due to external factors. Third, this paper analyses M&A happening between 2000 and 2016, which includes the crisis of 2008. As a result, some of the studied events might have been impacted by this external phenomenon. However, the chosen benchmark model in this study event should minimize the effect of the 2008 crisis as the abnormal returns of the firms in focus are computed while referring to their corresponding market indices. Since the crisis should affect all firms, the market indices

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<sup>77</sup> Forbes (August 2017) - Luxury Brand Mergers And Acquisitions Set To Explode - By Pamela N. Danziger.

should also reflect the influence of the crisis and therefore neutralize the potential impact on the abnormal returns of the firms tested. On top of that, there were only 5 events happening between 2007 and 2009 out of the 53 M&A tested which should also limitate the impact of the 2008 crisis in this study. Fourth, this paper considers as performant the M&A that generate positive abnormal returns at their announcement. In other words, it follows only one point of view: the value creation for shareholders. The rationale behind is that capital markets are supposed to capture properly the overall current and future performance of corresponding firms (Wang & Moini, 2012) and therefore, ultimately, all types of performance should be taken into account and be reflected in the stock prices. Indeed, it would seem logic to think that anything that could be beneficial for the company would be too for its owners. However, in today's practices, there is a trend to put more emphasis on the short-termist and risk-taking returns for shareholders than on the long-term success of firms (A. Cadbury, 2013; M. Goyder, 2013; R. Martin, 2013; R. Payne, 2013; T. Vermaelen, 2013; B. Julio, 2013<sup>78</sup>). Rick Payne (2013), head of the ICAEW<sup>79</sup> finance direction programme, illustrated this dilemma very well by saying *"there may be value in looking at shareholders as a main stakeholder, but focusing on them exclusively leads to dysfunctional behaviour, such as short-termism and excessive risk-taking. You can generate shareholder value, at least in the short term, by doing the wrong things."*

Finally and to come back to the central question of this paper, M&A do create value (positive) for the shareholders of acquiring companies in the personal luxury goods industry on the day of their announcement between 2000 and 2016. For future investigations, it would be very interesting to complement this event study with longer-term operational perspectives allowing to better understand the reasons of the financial success of M&A in the luxury industry and to verify that the expectations of the market eventually materialize. I would recommend the use of accounting methods coupled with interviews of involved CEOs and/or experts. Indeed, accounting methodologies would allow a better understanding of the direct repercussions of M&A in the firm's profitability (Healy et al., 1992), productivity (Bertrand & Zitouna, 2008), innovation (Bertrand, 2009) and growth (Gugler et al., 2003). On another hand, interviewing CEOs and/or experts would make it possible to access some information not available otherwise (Wang & Moini, 2012; Brouthers et al., 1998; Schoenberg, 2006). This could be of a great help to fully understand the reasons of the M&A success in the luxury industry.

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<sup>78</sup> Reported by Jane Simms in an online article of *Economia.icaew* in October 2013. URL link: <https://economia.icaew.com/features/october-2013/shareholders-versus-customers>.

<sup>79</sup> ICAEW is the Institute of Chartered Accountants in England and Wales.



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## **E. Famous Quotations**

Carolina Herrera - *"Luxury will always be around, no matter what happens in the world".*

Coco Chanel - *"Some people think luxury is the opposite of poverty. It is not. It is the opposite of vulgarity".*

Coco Chanel - *"Luxury is a necessity which starts where necessities end".*

Coco Chanel - *"Luxury must be comfortable, otherwise it is not luxury".*

Frank Lloyd Wright - *"Give me the luxuries of life and I will willingly do without the necessities"*.

Hubert de Givenchy - *"Luxury is in each detail"*.

Karl Lagerfeld - *"Luxury is the ease of t-shirt in a very expensive dress"*.

Vida Dutton Scudder - *"Luxury, like a minimum wage, is a relationship; it changes as we change"*.

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<b>Appendix</b>
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**Appendix 1: Definition of control by IFRS No. 3**

*“Control is generally presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In exceptional circumstances, however, it may be possible to clearly demonstrate that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is [IAS 27(2008).13]:*

- (a) Power over more than half of the voting rights by virtue of an agreement with other investors;*
- (b) Power to govern the financial and operating policies of the entity under a statute or an agreement;*
- (c) Power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body;*
- (d) Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.”*

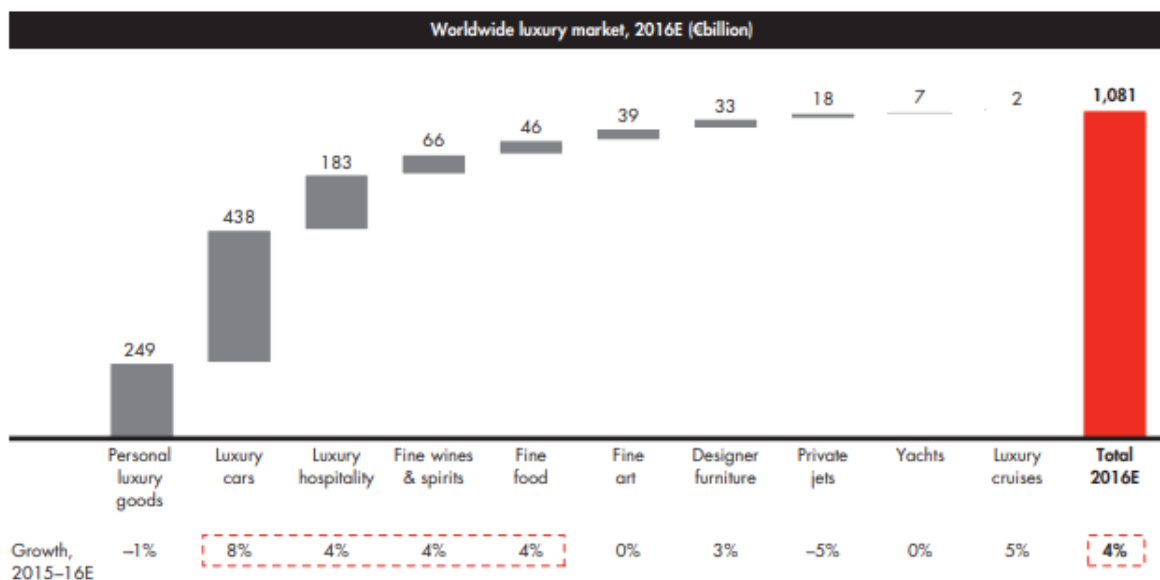
*[Source: <https://www.iasplus.com/en/standards/ifrs/ifrs3>]*

## Appendix 2: Kreutzer's decisional framework (2012)

Criteria related to	The following mechanisms are: ++ = highly effective, + = effective, - = not effective at all, when	Internal	Strategic alliances	M&A
Environment	All growth mechanisms are legally possible and not constrained by any institutional norms.	++	++	++
	Market uncertainty in terms of products and technology is high.	+	++	-
	Market uncertainty in terms of consumer acceptance of new products/services is high.	+	++	-
	First mover advantages arise in the targeted business segment.	--	+	++
Target	There are no potential partners.	++	-	-
	The competition level for potential targets is high.	+	-	++
	The targeted assets are hard to digest.	+	++	-
	The target firm's value cannot be easily assessed.	+	++	-
	The risk of opportunistic behavior is high.	+	-	++
Growth Strategy	The company grows in its core and can build on its existing skills and capabilities.	++	-	+
	The company grows in its core but is dependent on external skills and capabilities.	--	-	++
	The company grows outside its core and is dependent on external skills and capabilities.	--	++	+
	Cultural distance is high.	--	++	-
	Geographical distance is high.	--	++	-
	The potential for reciprocal synergies is high.	++	-	++
	The intended scope of the growth strategy is high.	++	-	++
	The relative value of soft to hard assets is high.	+	++	-
Firm	The company's financial strength is high.	++	-	++
	The company has an innovation capability.	++	n.a.	n.a.
	The company has a strategic alliance capability.	n.a.	++	n.a.
	The company has an acquisition capability.	n.a.	n.a.	++
	The company's ability to protect its critical knowledge is high (high appropriability regime).	+	++	+
	The company's ability to learn and absorb new knowledge is high (high absorptive capacity).	+	++	+

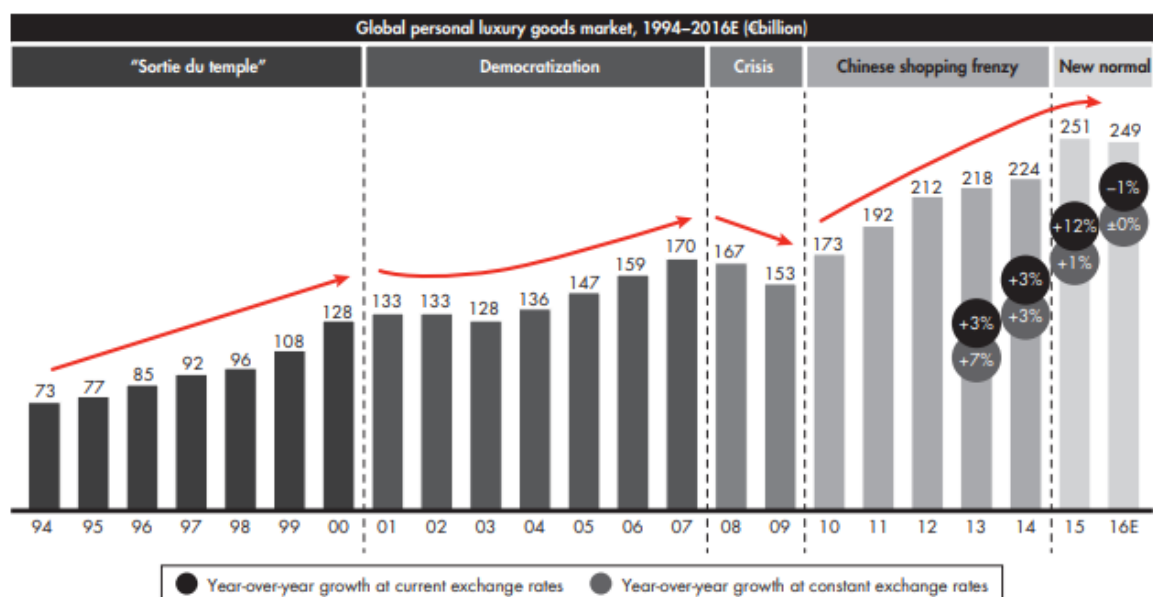
[Source: Kreutzer, 2012]

### Appendix 3: Worldwide luxury market in 2016



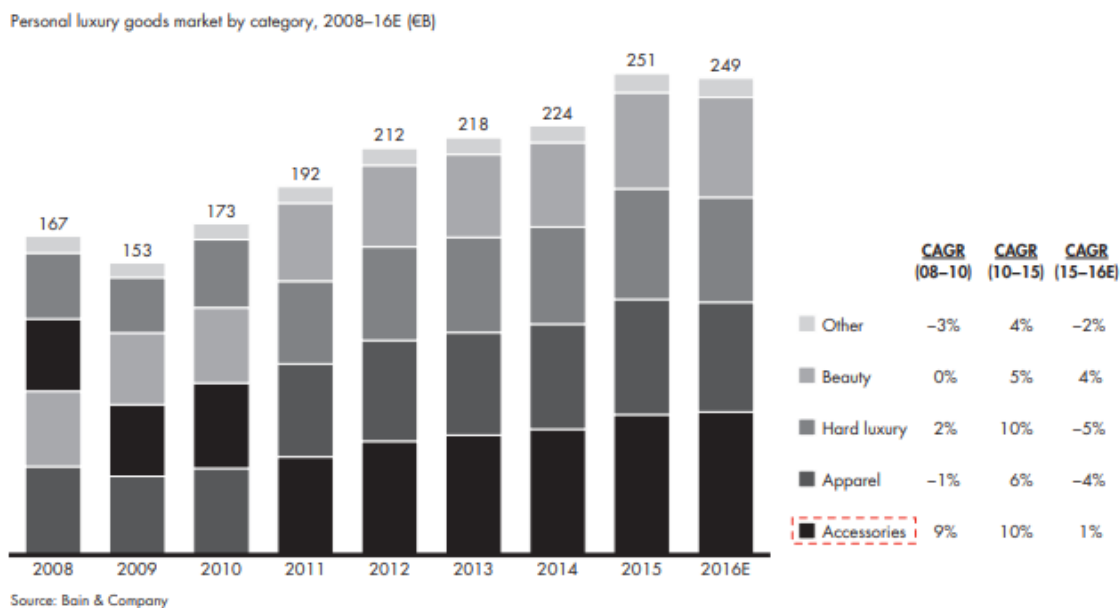
[Source: Bain & Company - Luxury Goods Worldwide Market - Study Fall-Winter 2016 - By Claudia D'Arpizio, Federica Levato, Daniele Zito, Marc-André Kamel and Joëlle de Montgolfier - page 6]

### Appendix 4: Worldwide personal luxury goods market from 1994 to 2016



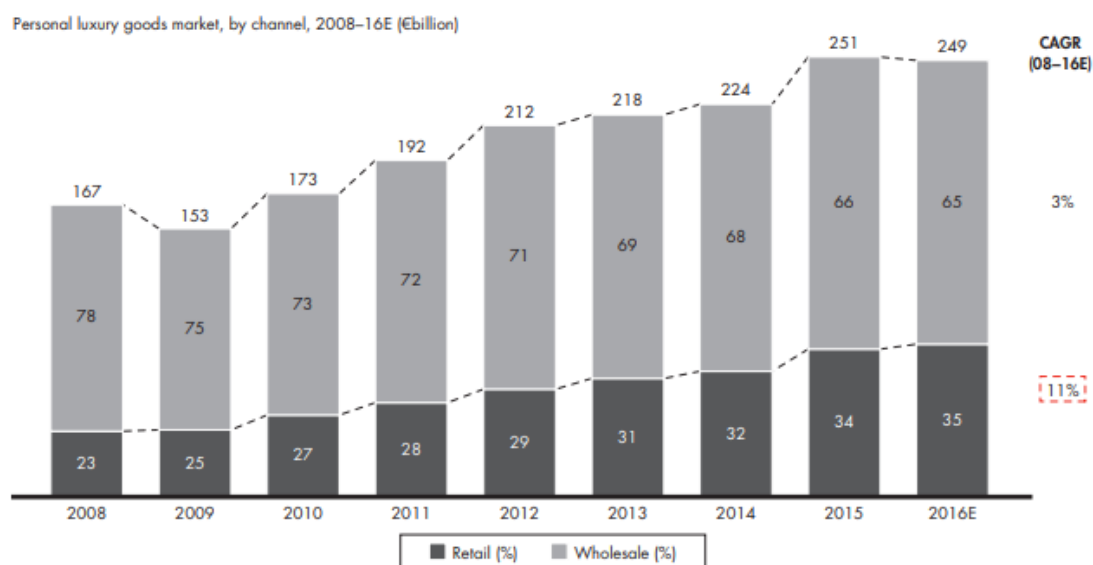
[Source: Bain & Company - Luxury Goods Worldwide Market - Study Fall-Winter 2016 - By Claudia D'Arpizio, Federica Levato, Daniele Zito, Marc-André Kamel and Joëlle de Montgolfier - page 7]

## Appendix 5: The personal luxury goods market by category in 2016



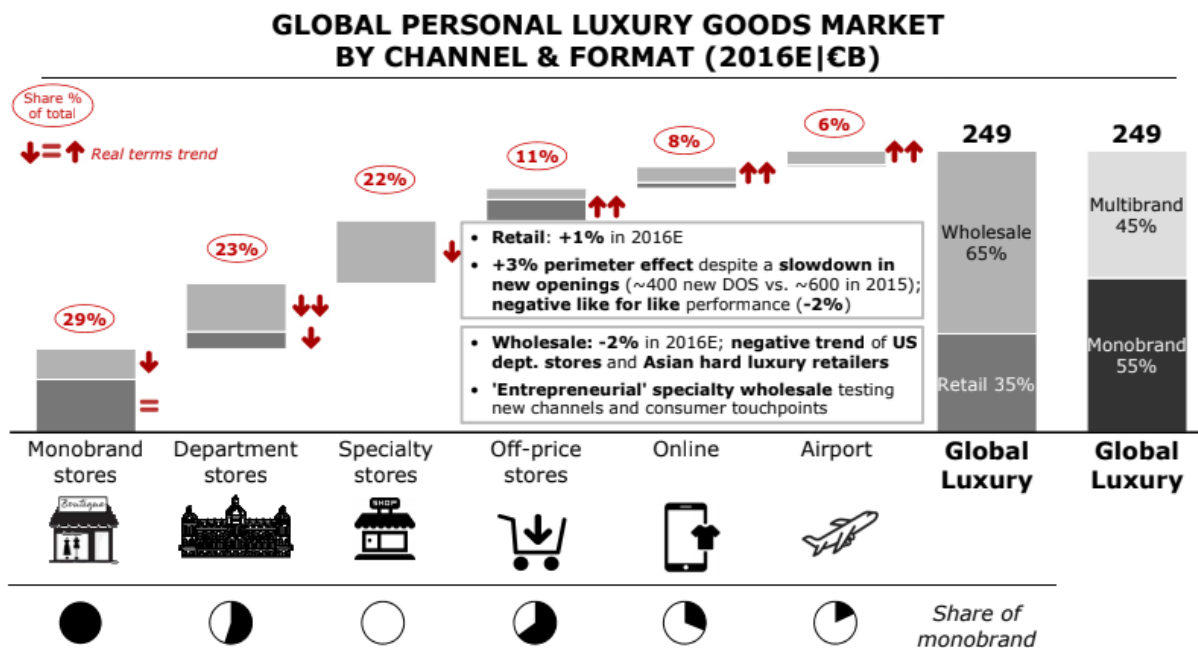
[Source: Bain & Company - *Luxury Goods Worldwide Market - Study Fall-Winter 2016* - By Claudia D'Arpizio, Federica Levato, Daniele Zito, Marc-André Kamel and Joëlle de Montgolfier - page 24]

## Appendix 6: The personal luxury goods market by channel in 2016



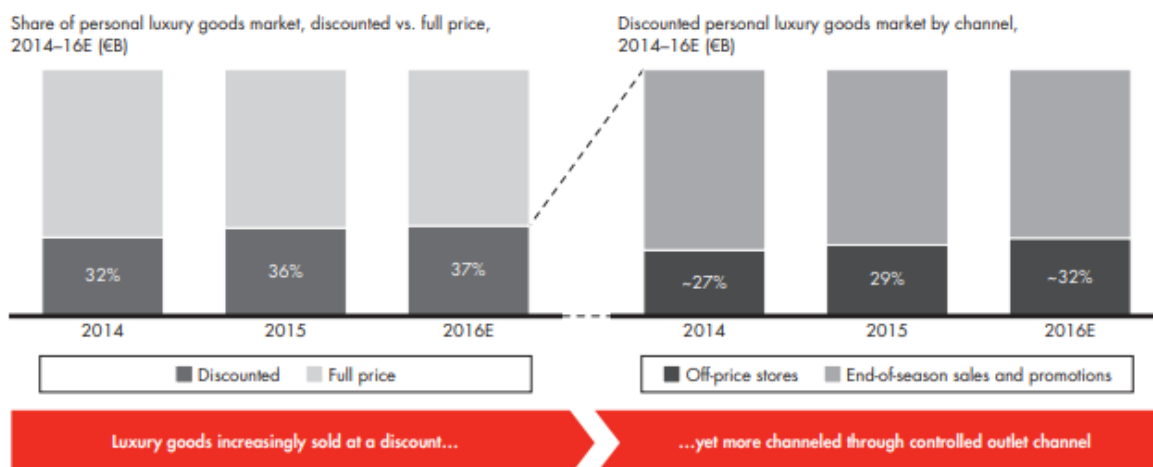
[Source: Bain & Company - *Luxury Goods Worldwide Market - Study Fall-Winter 2016* - By Claudia D'Arpizio, Federica Levato, Daniele Zito, Marc-André Kamel and Joëlle de Montgolfier - page 18]

## Appendix 7: The personal luxury goods market by channel and format in 2016



[Source: Bain & Company - Altgamma 2016 worldwide luxury market monitor - By Claudia D'Arpizio - slide 31]

## Appendix 8: Discount and full-price sales in the luxury goods market in 2016

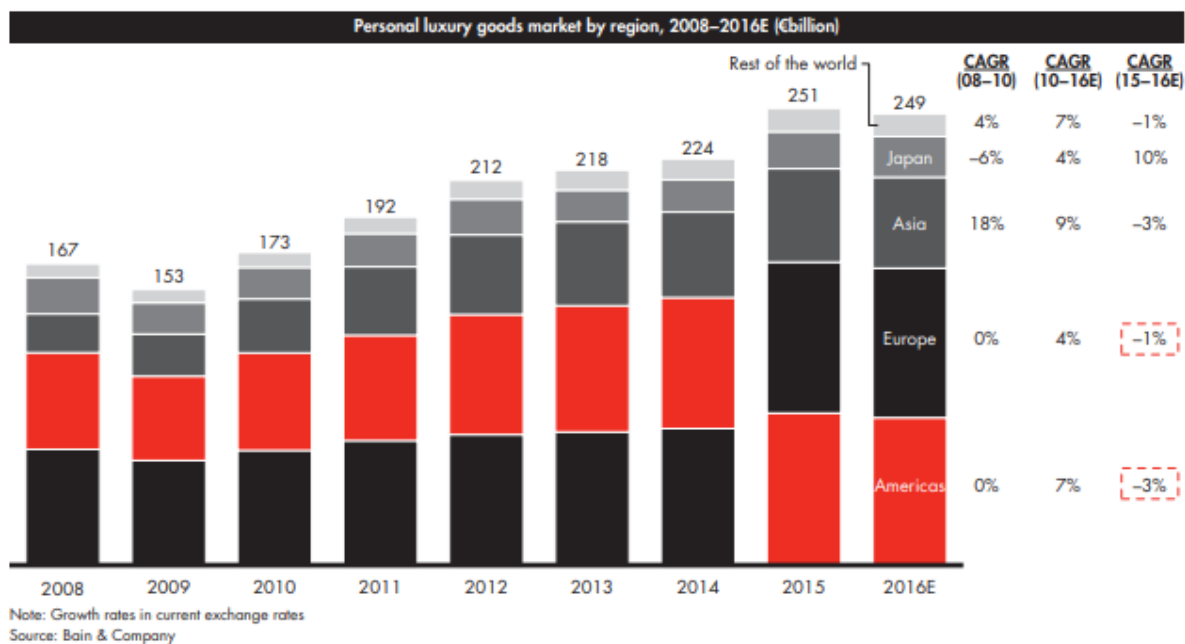


- Discounted market gained share:
  - Increasing "value for money" orientation of consumers
  - Growing promotional activities of struggling wholesale formats (US department stores, Asian watch retailers)
- Shift from tactical to strategic management of outlet channel for most brands, combined with reduced discounts in stores
- Attempts to better control and educate wholesale partners

Note: Share percentages are estimated  
 Source: Bain & Company

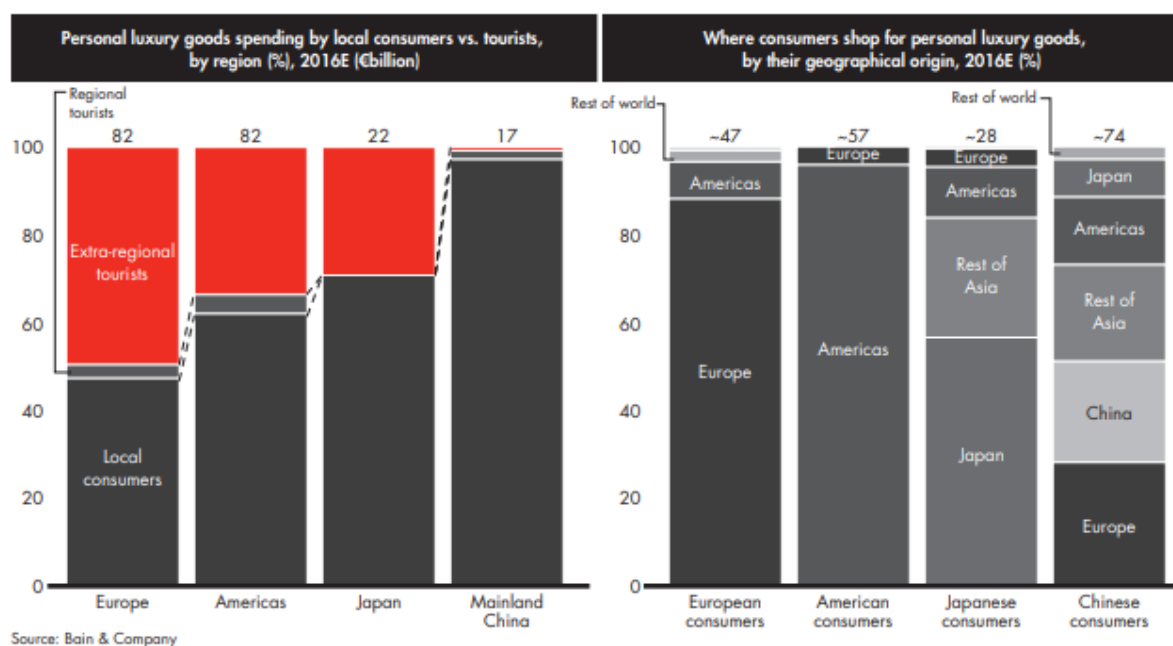
[Source: Bain & Company - Luxury Goods Worldwide Market - Study Fall-Winter 2016 - By Claudia D'Arpizio, Federica Levato, Daniele Zito, Marc-André Kamel and Joëlle de Montgolfier - page 20]

## Appendix 9: The personal luxury goods market by region in 2016



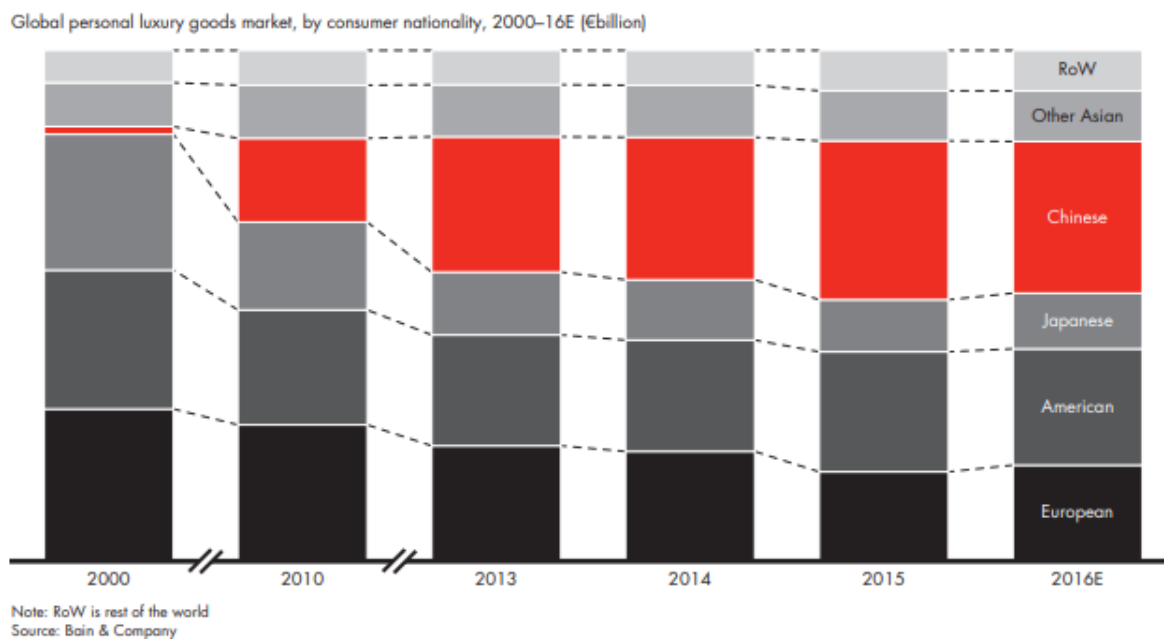
[Source: Bain & Company - Luxury Goods Worldwide Market - Study Fall-Winter 2016 - By Claudia D'Arpizio, Federica Levato, Daniele Zito, Marc-André Kamel and Joëlle de Montgolfier - page 12]

## Appendix 10: The personal luxury goods market by buyers' locality in 2016



[Source: Bain & Company - Luxury Goods Worldwide Market - Study Fall-Winter 2016 - By Claudia D'Arpizio, Federica Levato, Daniele Zito, Marc-André Kamel and Joëlle de Montgolfier - page 13]

## Appendix 11: The personal luxury goods market by buyers' nation in 2016



[Source: Bain & Company - *Luxury Goods Worldwide Market - Study Fall-Winter 2016* - By Claudia D'Arpizio, Federica Levato, Daniele Zito, Marc-André Kamel and Joëlle de Montgolfier - page 14]

## Appendix 12: The luxury goods market segmentation in 2010



[Source: *The New World of Luxury: Caught Between Growing Momentum and Lasting Change* - By Jean-Marc Bellaiche, Antonella Mei-Pochtler, and Dorit Hanisch - Bain & Company and Concept M, 2010 - page 5]

## Appendix 13: Top 10 players in the global personal luxury goods industry by Deloitte (2017)






### Top 10 luxury goods companies by sales

FY2015 Luxury goods sales ranking	FY2014 Luxury goods sales ranking	Company name	Selection of luxury brands	Country of origin	FY2015 Luxury goods sales (US\$m)	FY2015 Total revenue (US\$m)	FY2015 Luxury goods sales growth*	FY2015 Net profit margin**	FY2015 Return on assets*	FY2013-15 Luxury goods sales CAGR**
1	↔ 1	LVMH Moët Hennessy- Louis Vuitton SE	Louis Vuitton, Fendi, Bulgari, Loro Piana, Emilio Pucci, Acqua di Parma, Donna Karan, Loewe, Marc Jacobs, TAG Heuer, Benefit Cosmetics	France	22,431	39,615	15.2%	11.2%	6.9%	11.0%
2	↔ 2	Compagnie Financière Richemont SA	Cartier, Van Cleef & Arpels, Montblanc, Jaeger-LeCoultre, Vacheron Constantin, IWC, Piaget, Chloé, Officine Panerai	Switzerland	12,232	12,232	6.4%	20.1%	11.1%	5.1%
3	↔ 3	The Estée Lauder Companies Inc.	Estée Lauder, M.A.C., Aramis, Clinique, Aveda, Jo Malone; Licensed fragrance brands	US	11,262	11,262	4.5%	10.0%	12.2%	1.3%
4	↔ 4	Luxottica Group SpA	Ray-Ban, Oakley, Vogue Eyewear, Persol, Oliver Peoples; Licensed eyewear brands	Italy	9,815	9,815	15.5%	9.1%	8.4%	9.9%
5	↑ 6	Kering SA	Gucci, Bottega Veneta, Saint Laurent, Balenciaga, Brioni, Sergio Rossi, Pomellato, Girard-Perregaux, Ulysse Nardin	France	8,737	12,867	16.4%	6.2%	3.0%	10.3%
6	↓ 5	The Swatch Group Ltd.	Omega, Longines, Breguet, Harry Winston, Rado, Blancpain; Licensed watch brands	Switzerland	8,508	8,795	-3.0%	13.2%	8.4%	0.0%
7	↑ 8	L'Oréal Luxe	Lancôme, Biotherm, Helena Rubinstein, Urban Decay, Kiehl's; Licensed brands	France	8,031 <sup>e</sup>	8,031 <sup>e</sup>	16.7%	15.2% <sup>e</sup>	21.0%	11.0%
8	↑ 9	Ralph Lauren Corporation	Ralph Lauren, Polo Ralph Lauren, Purple Label, Double RL, Club Monaco	US	7,405	7,405	-2.8%	5.3%	6.4%	-0.3%
9	↓ 7	Chow Tai Fook Jewellery Group Limited 周大福珠宝集团有限公司	Chow Tai Fook, Hearts on Fire	Hong Kong	7,295	7,295	-11.9%	5.3%	5.4%	-14.5%
10	↔ 10	PVH Corp.	Calvin Klein, Tommy Hilffiger	US	6,292	8,020	-2.3%	7.1%	5.4%	0.7%
<b>Top 10</b>					<b>102,009</b>	<b>125,339</b>	<b>9.6%</b>	<b>11.4%</b>	<b>7.9%</b>	<b>6.8%</b>
<b>Top 100</b>					<b>212,029</b>	<b>238,739</b>	<b>6.8%</b>	<b>9.7%</b>	<b>7.9%</b>	<b>5.2%</b>
<b>Economic concentration of Top 10</b>					<b>48.1%</b>	<b>52.5%</b>				

[Source: Deloitte - Global Powers of Luxury Goods 2017 - By Patrizia Arienti - page 24]

## Appendix 14: Top 100 players of the PLG industry by category by Deloitte (2017)

### Product sector profiles







	Number of companies	Average size of companies by luxury goods sales (US\$m)	FY2015 Luxury goods sales growth	Share of Top 100 luxury goods sales
 <b>Apparel and footwear</b>	41	\$1,007	4.4%	19.5%
 <b>Bags and accessories</b>	10	\$1,569	13.4%	7.4%
 <b>Cosmetics and fragrances</b>	10	\$2,939	6.5%	13.9%
 <b>Jewellery and watches</b>	28	\$2,023	2.0%	26.7%
 <b>Multiple luxury goods</b>	11	\$6,274	10.8%	32.5%
<b>Top 100</b>	<b>100</b>	<b>\$2,120</b>	<b>6.8%</b>	<b>100.0%</b>

Source: Deloitte analysis of published company data and industry estimates

[Source: Deloitte - Global Powers of Luxury Goods 2017 - By Patrizia Arienti - page 26]

## Appendix 15: Top 100 players of the PLG industry by country by Deloitte (2017)

### Country profiles

	Number of companies	Average size of companies by luxury goods sales (US\$m)	FY2015 Luxury goods sales growth	Share of Top 100 luxury goods sales
 <b>China/Hong Kong</b>	7	\$2,682	-2.4%	8.9%
 <b>France</b>	10	\$5,061	14.9%	23.9%
 <b>Germany</b>	6	\$821	5.6%	2.3%
 <b>Italy</b>	26	\$1,307	9.3%	16.0%
 <b>Spain</b>	4	\$701	9.7%	1.3%
 <b>Switzerland</b>	10	\$3,057	3.6%	14.4%
 <b>United Kingdom</b>	10	\$1,177	2.4%	5.6%
 <b>United States</b>	15	\$3,013	-0.3%	21.3%
<b>Other countries</b>	12	\$1,349	16.5%	6.3%
<b>Top 100</b>	<b>100</b>	<b>\$2,120</b>	<b>6.8%</b>	<b>100.0%</b>

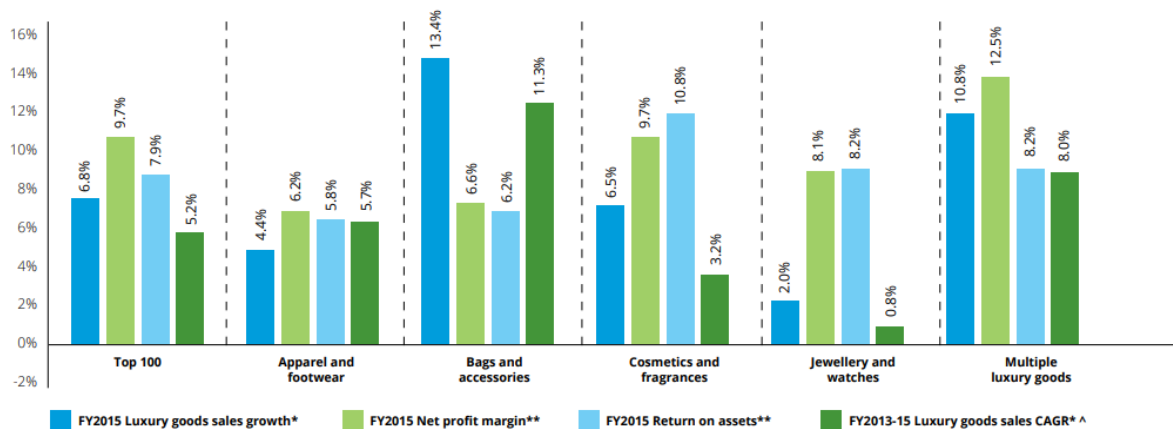
Results reflect Top 100 companies headquartered in each country

Source: Deloitte analysis of published company data and industry estimates

[Source: Deloitte - Global Powers of Luxury Goods 2017 - By Patrizia Arienti - page 34]

## Appendix 16: Performance of the top 100 of the PLG industry by category by Deloitte (2017)

### Performance by product sector



\* Sales-weighted, currency-adjusted composites

\*\* Sales-weighted composites

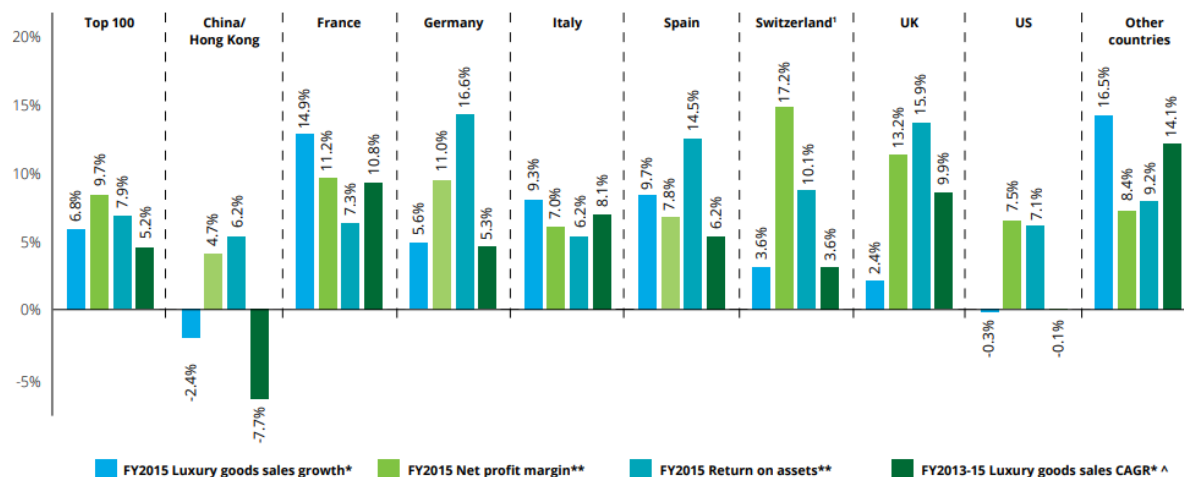
<sup>^</sup> Compound annual growth rate

Source: Deloitte analysis of published company data and industry estimates

[Source: Deloitte - Global Powers of Luxury Goods 2017 - By Patrizia Arienti - page 27]

## Appendix 17: Performance of the top 100 of the PLG industry by country by Deloitte (2017)

### Performance by country



Results reflect Top 100 companies headquartered in each country  
 \* Sales-weighted, currency-adjusted composites  
 \*\* Sales-weighted composites  
 ^ Compound annual growth rate  
 ! Net profit margin and return on assets based on data from two companies  
 Source: Deloitte analysis of published company data and industry estimates

[Source: Deloitte - Global Powers of Luxury Goods 2017 - By Patrizia Arienti - page 34]

## Appendix 18: Overview of M&A Deals Sample 1

Company	Home Country	M&A deals involvement	Proportion in percentage	Total transactions value (mUSD)	Average Transactions value (mUSD)
Aureus Private Equity	Switzerland	1	0.3%	N/A	N/A
Burberry Group PLC	U.K.	4	1.0%	183.8	61.3
Chow Tai Fook Jewellery Group Ltd	Hong Kong	4	1.0%	324.8	108.3
Cie Financiere Richemont SA	Switzerland	14	3.7%	2,225.7	1,112.8
Coty Inc	U.S.	11	2.9%	27,926.6	3,989.5
Eastern Gold Jade Co Ltd	China	1	0.3%	0.7	0.7
Elizabeth Arden Inc	U.S.	7	1.8%	302.2	75.6
Estee Lauder Cos Inc/The	U.S.	18	4.7%	1,706.0	853.0
Fossil Group Inc	U.S.	12	3.1%	530.0	176.7
Giorgio Armani SpA	Italy	2	0.5%	44.9	22.4
Gitanjali Gems Ltd	India	26	6.8%	165.4	55.1
Hermes International	France	6	1.6%	116.6	116.6
HUGO BOSS AG	Italy	4	1.0%	26.6	26.6
Inter Parfums Inc	U.S.	3	0.8%	38.3	19.1
Kate Spade & Co	U.S.	16	4.2%	1,299.4	100.0
Kering SA	France	27	7.1%	7,299.1	663.6
Lao Feng Xiang Co Ltd	China	5	1.3%	32.5	6.5
L'Oreal SA	France	51	13.4%	5,464.6	607.2
Luk Fook Holdings International Ltd	Hong Kong	3	0.8%	37.7	12.6
Luxottica Group SpA	Italy	27	7.1%	4,475.2	235.5
LVMH Moet Hennessy Louis Vuitton SE	France	55	14.4%	11,749.1	691.1
Marcolin SpA	Italy	1	0.3%	13.0	13.0
Michael Kors Holdings Ltd	U.S.	1	0.3%	500.0	500.0
Movado Group Inc	U.S.	1	0.3%	47.3	47.3
Mulberry Group PLC	U.K.	2	0.5%	0.5	0.5
Nestle SA, L'Oreal SA	Switzerland, France	1	0.3%	-	N/A
Pandora A/S	Denmark	5	1.3%	66.9	16.7
PC Jeweller Ltd	India	1	0.3%	-	N/A
PRADA SpA	Italy	1	0.3%	-	N/A
PVH Corp	U.S.	15	3.9%	6,909.6	531.5
Ralph Lauren Corp	U.S.	11	2.9%	1,105.0	110.5
Restoque Comercio e Confecoos de Roupas SA	Brazil	4	1.0%	621.7	207.2
Safilo Group SpA	Italy	2	0.5%	128.5	64.3
Salvatore Ferragamo SpA	Italy	2	0.5%	16.1	16.1
Swatch Group AG/The	Switzerland	18	4.7%	1,006.4	503.2
Swatch Group AG/The, Jin Jian Group	Switzerland, Singapore	1	0.3%	-	N/A
Ted Baker PLC	U.K.	1	0.3%	82.3	82.3
Tiffany & Co	U.S.	4	1.0%	202.1	67.4
Titan Co Ltd	India	2	0.5%	60.2	30.1
Tod's SpA	Italy	2	0.5%	524.5	262.3
Trinity Ltd	Hong Kong	4	1.0%	122.0	40.7
True Religion Apparel Inc	Canada	1	0.3%	1.9	1.9
Tumi Holdings Inc	U.S.	1	0.3%	4.3	4.3
Valentino Fashion Group SpA	Italy	1	0.3%	-	N/A
Wolford AG	Austria	1	0.3%	-	N/A
Zhejiang Ming Jewelry Co Ltd	China	2	0.5%	468.0	234.0
<b>Grand Total</b>		<b>382</b>	<b>100.0%</b>	<b>75,829.4</b>	<b>459.6</b>

[Source: The Bloomberg Terminal - Author's rework]

## Appendix 19: Overview of M&A Deals Sample 2

Company	Home Country	M&A deals involvement	Proportion in percentage	Total transactions value (mUSD)	Average Transactions value (mUSD)
Burberry Group PLC	U.K.	1	1.4%	107.1	107.1
Chow Tai Fook Jewellery Group Ltd	Hong Kong	2	2.9%	259.6	129.8
Cie Financiere Richemont SA	Switzerland	2	2.9%	2,225.7	1,112.8
Coty Inc	U.S.	6	8.6%	27,908.7	4,651.5
Elizabeth Arden Inc	U.S.	1	1.4%	227.5	227.5
Estee Lauder Cos Inc/The	U.S.	2	2.9%	1,706.0	853.0
Fossil Group Inc	U.S.	2	2.9%	480.0	240.0
Gitanjali Gems Ltd	India	1	1.4%	100.6	100.6
Hermes International	France	1	1.4%	116.6	116.6
Kate Spade & Co	U.S.	5	7.1%	1,014.8	203.0
Kering SA	France	8	11.4%	7,191.7	899.0
L'Oreal SA	France	6	8.6%	5,289.9	881.7
Luxottica Group SpA	Italy	5	7.1%	3,954.5	790.9
LVMH Moet Hennessy Louis Vuitton SE	France	12	17.1%	11,520.5	960.0
Michael Kors Holdings Ltd	U.S.	1	1.4%	500.0	500.0
PVH Corp	U.S.	5	7.1%	6,680.4	1,336.1
Ralph Lauren Corp	U.S.	5	7.1%	996.8	199.4
Restoque Comercio e Confecoos de Roupas SA	Brazil	1	1.4%	598.2	598.2
Swatch Group AG/The	Switzerland	1	1.4%	1,000.0	1,000.0
Tiffany & Co	U.S.	1	1.4%	137.4	137.4
Tod's SpA	Italy	1	1.4%	440.7	440.7
Zhejiang Ming Jewelry Co Ltd	China	1	1.4%	419.8	419.8
<b>Grand Total</b>		<b>70</b>	<b>100.0%</b>	<b>72,876.5</b>	<b>1,041.1</b>

[Source: The Bloomberg Terminal - Author's rework]

## Appendix 20: Glimpse at an ARs computations sheet under excel (estimation window)

Regression Parameters	
Intercept	0.001276513
Slope	1.108135721
Standard Error	0.01435617
R-squared	0.404381898

Event No.	Announcement Date	Acquiree	Acquirer	Price (mUSD)
3	3/15/2010	Tommy Hilfiger Corp	PVH Corp	3144.56

MKT index	S&P 500 (USA)
-----------	---------------

Period	Date	ACQ price	MKT Price	ACQ R	MKT R	AR	T Stat	Significance
-171	7/9/2009	25.998558	882.67999					
-170	7/10/2009	26.185528	879.13001	0.7166%	-0.4030%	N/A	N/A	N/A
-169	7/13/2009	27.35655	901.04999	4.3749%	2.4628%	N/A	N/A	N/A
-168	7/14/2009	28.399645	905.84003	3.7421%	0.5302%	N/A	N/A	N/A
-167	7/15/2009	29.639534	932.67999	4.2732%	2.9199%	N/A	N/A	N/A
-166	7/16/2009	30.525177	940.73999	2.9443%	0.8605%	N/A	N/A	N/A
-165	7/17/2009	30.603903	940.38001	0.2576%	-0.0383%	N/A	N/A	N/A
-164	7/20/2009	31.48955	951.13001	2.8528%	1.1367%	N/A	N/A	N/A
-163	7/21/2009	31.607637	954.58002	0.3743%	0.3621%	N/A	N/A	N/A
-162	7/22/2009	32.207912	954.07001	1.8813%	-0.0534%	N/A	N/A	N/A
-161	7/23/2009	33.280518	976.28998	3.2760%	2.3023%	N/A	N/A	N/A
-160	7/24/2009	33.693821	979.26001	1.2342%	0.3038%	N/A	N/A	N/A
-159	7/27/2009	33.782402	982.17999	0.2626%	0.2977%	N/A	N/A	N/A
-158	7/28/2009	34.795956	979.62	2.9561%	-0.2610%	N/A	N/A	N/A
-157	7/29/2009	34.264565	975.15002	-1.5389%	-0.4573%	N/A	N/A	N/A
-156	7/30/2009	34.736919	986.75	1.3691%	1.1825%	N/A	N/A	N/A
-155	7/31/2009	34.815632	987.47998	0.2263%	0.0740%	N/A	N/A	N/A
-154	8/3/2009	34.756588	1002.63	-0.1697%	1.5226%	N/A	N/A	N/A
-153	8/4/2009	34.540104	1005.65	-0.6248%	0.3008%	N/A	N/A	N/A
-152	8/5/2009	34.53027	1002.72	-0.0285%	-0.2918%	N/A	N/A	N/A
-151	8/6/2009	34.284233	997.08002	-0.7151%	-0.5641%	N/A	N/A	N/A
-150	8/7/2009	35.652081	1010.48	3.9122%	1.3350%	N/A	N/A	N/A
-149	8/10/2009	34.185848	1007.1	-4.1996%	-0.3351%	N/A	N/A	N/A
-148	8/11/2009	33.969349	994.34998	-0.6353%	-1.2741%	N/A	N/A	N/A
-147	8/12/2009	33.959511	1005.81	-0.0290%	1.1459%	N/A	N/A	N/A
-146	8/13/2009	33.339554	1012.73	-1.8424%	0.6856%	N/A	N/A	N/A
-145	8/14/2009	34.116966	1004.09	2.3050%	-0.8568%	N/A	N/A	N/A
-144	8/17/2009	33.831581	979.72998	-0.8400%	-2.4560%	N/A	N/A	N/A
-143	8/18/2009	34.341381	989.66998	1.4956%	1.0095%	N/A	N/A	N/A
-142	8/19/2009	34.696026	996.46002	1.0274%	0.6837%	N/A	N/A	N/A
-141	8/20/2009	35.021111	1007.37	0.9326%	1.0889%	N/A	N/A	N/A
-140	8/21/2009	36.045643	1026.13	2.8835%	1.8451%	N/A	N/A	N/A
-139	8/24/2009	36.094906	1025.5699	0.1366%	-0.0546%	N/A	N/A	N/A
-138	8/25/2009	36.548061	1028	1.2476%	0.2367%	N/A	N/A	N/A
-137	8/26/2009	36.932255	1028.12	1.0457%	0.0117%	N/A	N/A	N/A
-136	8/27/2009	36.942116	1030.98	0.0267%	0.2778%	N/A	N/A	N/A
-135	8/28/2009	37.503628	1028.9301	1.5085%	-0.1990%	N/A	N/A	N/A
-134	8/31/2009	37.217941	1020.62	-0.7647%	-0.8109%	N/A	N/A	N/A
-133	9/1/2009	36.932255	998.03998	-0.7706%	-2.2372%	N/A	N/A	N/A
-132	9/2/2009	36.735237	994.75	-0.5349%	-0.3302%	N/A	N/A	N/A
-131	9/3/2009	38.242466	1003.24	4.0210%	0.8499%	N/A	N/A	N/A
-130	9/4/2009	39.020706	1016.4	2.0146%	1.3032%	N/A	N/A	N/A
-129	9/8/2009	40.094501	1025.39	2.7147%	0.8806%	N/A	N/A	N/A
-128	9/9/2009	40.922012	1033.37	2.0429%	0.7752%	N/A	N/A	N/A
-127	9/10/2009	41.621449	1044.14	1.6948%	1.0368%	N/A	N/A	N/A
-126	9/11/2009	41.483521	1042.73	-0.3319%	-0.1351%	N/A	N/A	N/A
-125	9/14/2009	41.237259	1049.34	-0.5954%	0.6319%	N/A	N/A	N/A

[Source: Author's work]

## Appendix 21: Glimpse at an ARs computations sheet under excel (event window)

-20	2/12/2010	39.656601	1075.51	0.8740%	-0.2748%	1.0509%	0.7320	NO
-19	2/16/2010	40.277782	1094.87	1.5543%	1.7841%	-0.5504%	-0.383375	NO
-18	2/17/2010	41.78635	1099.51	3.6770%	0.4229%	3.0807%	2.1459	YES
-17	2/18/2010	42.082146	1106.75	0.7054%	0.6563%	-0.1496%	-0.104175	NO
-16	2/19/2010	41.78635	1109.17	-0.7054%	0.2184%	-1.0751%	-0.748861	NO
-15	2/22/2010	41.766624	1108.01	-0.0472%	-0.1046%	-0.0589%	-0.041037	NO
-14	2/23/2010	41.904663	1094.6	0.3300%	-1.2177%	1.5516%	1.080819	NO
-13	2/24/2010	42.61459	1105.24	1.6800%	0.9674%	0.4803%	0.334594	NO
-12	2/25/2010	42.387802	1102.9399	-0.5336%	-0.2083%	-0.4304%	-0.299807	NO
-11	2/26/2010	42.910381	1104.49	1.2253%	0.1404%	0.9420%	0.65619	NO
-10	3/1/2010	43.679447	1115.71	1.7764%	1.0107%	0.5287%	0.368285	NO
-9	3/2/2010	43.521683	1118.3101	-0.3618%	0.2328%	-0.7474%	-0.520637	NO
-8	3/3/2010	41.845509	1118.79	-3.9275%	0.0429%	-4.1027%	-2.857783	YES
-7	3/4/2010	42.299068	1122.97	1.0781%	0.3729%	0.5372%	0.37417	NO
-6	3/5/2010	43.689323	1138.7	3.2339%	1.3910%	1.5648%	1.089963	NO
-5	3/8/2010	45.59227	1138.5	4.2634%	-0.0176%	4.1553%	2.894402	YES
-4	3/9/2010	45.069698	1140.45	-1.1528%	0.1711%	-1.4701%	-1.024011	NO
-3	3/10/2010	45.631706	1145.61	1.2393%	0.4514%	0.6114%	0.425853	NO
-2	3/11/2010	47.002243	1150.24	2.9593%	0.4033%	2.3847%	1.661063	NO
-1	3/12/2010	47.071274	1149.99	0.1468%	-0.0217%	0.0432%	0.030089	NO
0	3/15/2010	51.665981	1150.51	9.3137%	0.0452%	9.1359%	6.363754	YES
1	3/16/2010	53.026669	1159.46	2.5995%	0.7749%	1.6132%	1.123694	NO
2	3/17/2010	53.421047	1166.21	0.7410%	0.5805%	-0.0299%	-0.02084	NO
3	3/18/2010	53.322464	1165.83	-0.1847%	-0.0326%	-0.2762%	-0.192424	NO
4	3/19/2010	52.977356	1159.9	-0.6493%	-0.5099%	-0.2119%	-0.147587	NO
5	3/22/2010	54.691711	1165.8101	3.1848%	0.5082%	2.4939%	1.737171	NO
6	3/23/2010	55.342926	1174.17	1.1837%	0.7145%	0.2642%	0.184041	NO
7	3/24/2010	55.944794	1167.72	1.0817%	-0.5508%	1.5644%	1.089715	NO
8	3/25/2010	54.780514	1165.73	-2.1031%	-0.1706%	-2.0417%	-1.422196	NO
9	3/26/2010	56.270405	1166.59	2.6834%	0.0737%	2.4740%	1.723334	NO
10	3/29/2010	56.26054	1173.22	-0.0175%	0.5667%	-0.7732%	-0.538571	NO
11	3/30/2010	56.319729	1173.27	0.1051%	0.0043%	-0.0272%	-0.018966	NO
12	3/31/2010	56.596016	1169.4301	0.4894%	-0.3278%	0.7250%	0.505004	NO
13	4/1/2010	57.493896	1178.1	1.5740%	0.7386%	0.6278%	0.437337	NO
14	4/5/2010	59.230442	1187.4399	2.9757%	0.7897%	1.9730%	1.3743	NO
15	4/6/2010	59.279785	1189.4399	0.0833%	0.1683%	-0.2309%	-0.160812	NO
16	4/7/2010	59.131775	1182.45	-0.2500%	-0.5894%	0.2755%	0.191901	NO
17	4/8/2010	60.493397	1186.4399	2.2766%	0.3369%	1.7756%	1.236844	NO
18	4/9/2010	61.835278	1194.37	2.1940%	0.6662%	1.3281%	0.925127	NO
19	4/12/2010	61.914219	1196.48	0.1276%	0.1765%	-0.1957%	-0.13629	NO
20	4/13/2010	62.022747	1197.3	0.1751%	0.0685%	-0.0284%	-0.019812	NO

[Source: Author's work]





