
TOD'S
MADE IN ITALY

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Executive Summary

In February, Tod's Group announced its decision to delist from the Italian Stock Exchange after 24 years of being publicly traded.

Crown Bidco, a corporate vehicle of the private equity firm L Catterton, managed to carry out a successful voluntary take over bid of Tod's Group that resulted in the company's delisting from the Euronext Milan market of Borsa Italiana after crossing the 90% ownership threshold.

Overview:

Acquirers: L Catterton

Target: Tod's Group

Acquisition Method: Voluntary Takeover Bid

Total Transaction Size: €512 million

Closed date: 08/05/2024

Deal Announcement Date: 10/02/2024

Table of Contents

Acquiring Company

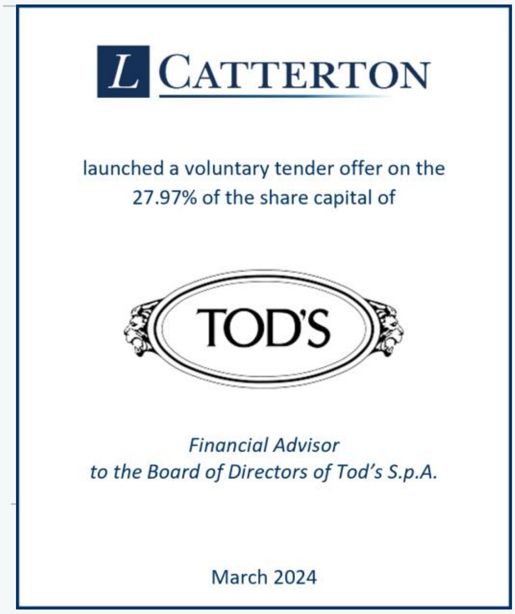
ACQUIRING COMPANY: L CATTERTON

L Catterton is a global private equity firm that was established in 2016 through a strategic partnership between Catterton, LVMH's private equity arm, and L Capital. The firm focuses on investing in high-growth consumer companies with strong brands and potential for global expansion across sectors, including: luxury, fashion, wellness, and lifestyle. With LVMH’s backing, L Catterton brings expertise in luxury brand management, helping companies grow globally, improve operations, and execute strategic transformations.

- CEO: J. Michael Chu and Scott Dahnke (Co-CEOs)
- Number of employees: 201-500 employees

Additional information:

- L Catterton manages around $35 billion in equity capital across three diverse strategies: private equity, credit, and real estate.
- The firm has made over 250 investments in consumer brands since its founding in 1989



Target Company

TARGET COMPANY: TOD’S GROUP

Tod’s Group is a prestigious Italian luxury brand known for its high-end footwear, leather goods, and accessories. Founded in the 1920s in the Marche region by Filippo Della Valle, it gained global recognition for its craftsmanship and iconic products like the Tod's moccasins. The company also owns brands like Hogan and Fay, and acquired Roger Vivier in 2015. Headquartered in Sant'Elpidio a Mare, Tod’s is still largely controlled by the Della Valle family, and despite facing recent market challenges, it continues to focus on maintaining its luxury status and expanding its global presence while committed to Italian craftsmanship, blending tradition with modern design to create timeless and elegant products.

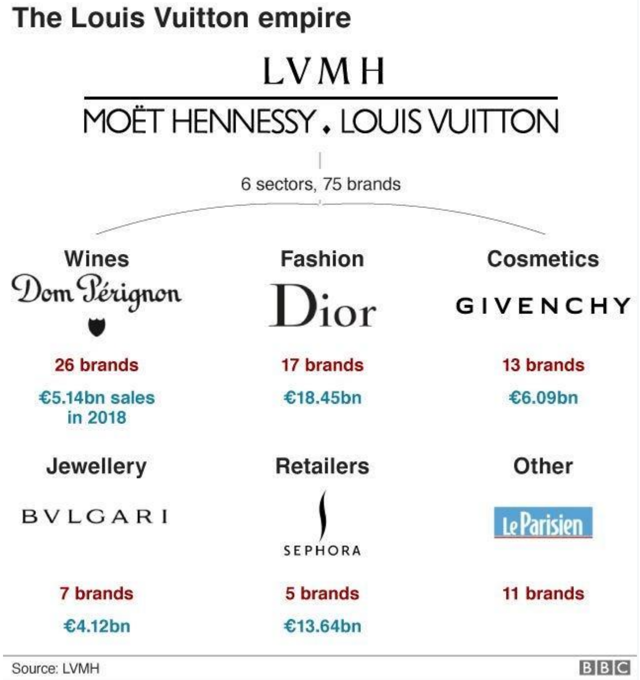
- CEO: John Galantic (appointed in September 2024, previously Diego Della Valle)
- Number of employees: 5,061 employees
- Market Cap*: €1.42 billion
- EV*: €2.03 billion
- LTM Revenue*: €1.13 billion for FY 2023
- LTM EBITDA*: €253.9 million for FY 2023
- LTM EV/Revenue*: 1.8x

*This data refers to the period before the company became private

Introduction

After launching the voluntary takeover bid on the 10th of February of 2024, Crown Bidco reached on the 3rd of May of 2024 an aggregated shareholding of more than 90% of the share capital, as the company managed to secure a total of 8,656,066 Tod's shares, representing 25.156% of its share capital. The breakdown of this amount consist of 4,262,500 Tod's shares (12.88% of the share capital) acquired through the voluntary takeover bid at a price of 43€, added to the 4,393,566 Tod's shares (12.276% of the share capital) they had previously acquired, directly on the market, at a lower price.

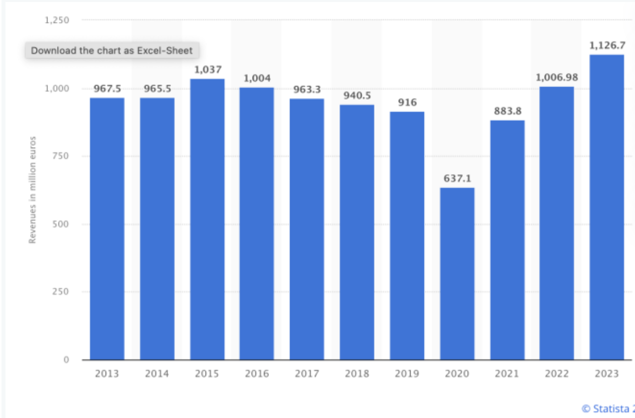
As part of the terms of the transaction, Diego Della Valle sold 10.45% of Tod's share capital to Crown Bidco. Consequently, Crown Bidco became the second-largest shareholder following the sale with a 36% stake in the company, while the Della Valle brothers retained their position as the majority shareholders, holding 54% of the share capital. To complete the composition of the share capital of Tod's Group after the transaction, Delphine SAS, a fully owned subsidiary of LVMH, maintained its position as a minority shareholder with 10% of the share capital.



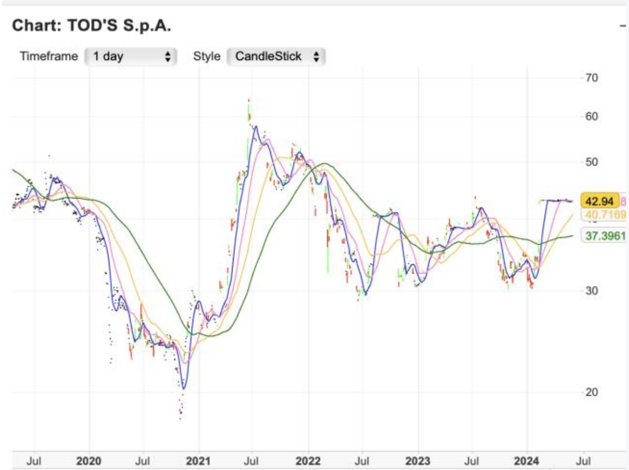
This deal is the second attempt of the Della Valle family in terms of taking the company private, following a failed takeover bid in August of 2022 in which they did not reach the ownership threshold. The reasoning behind it, according to the family, is that they wanted to regain control and pursue long-term growth strategies, as the company's earnings had struggled in recent years due to declining brand popularity. However, being publicly traded brought several constraints, like the need for quarterly earnings updates and short-term pressures from the markets, thereby making it difficult to realize long-term objectives. Consequently, delisting with the support of L Catterton gives them the flexibility to focus on the revival of the brand without the volatility and limitation of the stock market.

ST Aspects

Before the privatization was announced, Tod’s faced several challenges typical of listed luxury brands. Despite improvements in product offerings and earnings, analysts argued these were not adequately reflected in its share price and the fact that Tod’s was a prime takeover target. They also highlighted the difficulty small luxury groups have in executing turnarounds under the scrutiny of public markets. Concerning the overall performance of Tod’s for the fiscal year 2023, sales increased by 11.9% from FY2022 and allowed an EBIT margin of 8.4%. Indeed, revenue growth generated improvements in production, logistics and distribution efficiency. Moreover, the macroeconomic environment added pressure. For example, in the U.S, the luxury market grappled with the uncertainty of tariffs and a trade war. These type of factors made it increasingly difficult for Tod’s to implement effective pricing strategies without risking public skepticism.

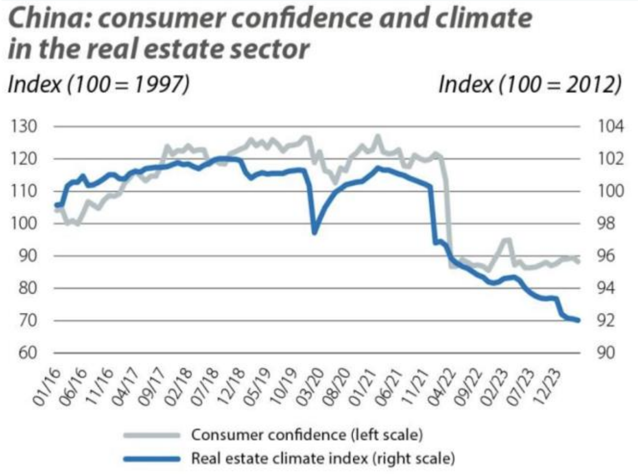


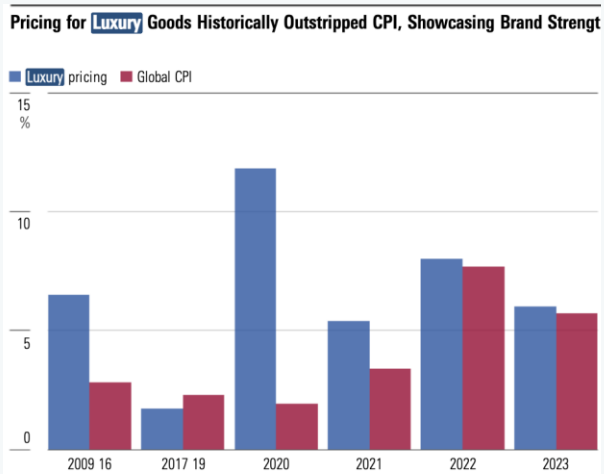
In this context, in May 2024, the deal had been announced with a value for the Italian luxury brand of €1.4 billion, with L Catterton offering €43 per share, creating a substantial 18% premium over the prior closing price. This premium served as a key incentive for shareholders, ensuring smoother execution of the buyout and reducing potential resistance to delisting from minority investors. For some, the premium compensates for the stock’s underperformance, trading at a price 9% below its IPO price in 2000.

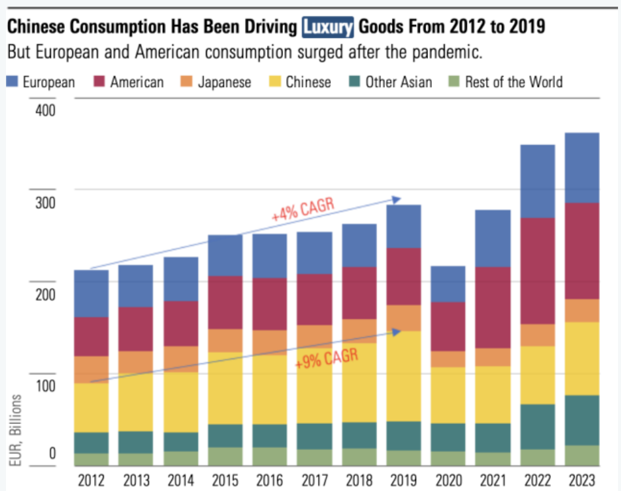


In a disturbed macroeconomic surrounding, being quickly able to operate out of the public scrutiny will also allow Tod's to control global pricing more effectively. It could be a determinant strategic factor in China for the luxury brand success in a challenging economic environment where unemployment, drop in wages, loss of property values and travel constraints limit Chinese consumer's power. Although, brands cannot increase prices aggressively this time transposing higher tariffs and increased costs on consumer's bargain in the short-term resulting from the US elections impact tariffs trade war. This could potentially squeeze margins for a short period.

Having Catterton as a partner could substantially help Tod's to revitalize the group's performance by renewing its portfolio and reinforcing its market position in the fiercely competitive luxury landscape. Additionally, Tod's will more easily invest in craftsmanship, innovation, and bespoke services that define luxury branding without the constraints of quarterly financial disclosures and public market volatility. In short, Capital support from the LVMH backed private equity fund will foster necessary investments that already increased by €10 million in 2023. Significant changes in the Board of Directors are planned, John Galantic has already been appointed as the new CEO of the brand since September 2024, modernizing the brand's heritage. However, the Chairman Diego Della Valle will not step out.







Despite the near future promising prospects, the important premium offered, the privatization triggered a “squeeze-out” process, legally compelling minority shareholders to sell their stakes. Indeed, in several jurisdictions, once the majority shareholders acquire a specific threshold of ownership (usually around 90-95%), they are legally forced to the sale of remaining shares to complete the delisting. Even though Shareholders are incentivized to sell before the stock is removed from exchanges to avoid holding an illiquid asset, rejecting the offer could result in being left with untradeable shares. It could therefore be argued that the large premium earned was necessary to mitigate minority shareholders' dissatisfaction. It also largely contributed to increase the upfront cost of the transaction (excluding large legal and buyout feed), creating financial pressure. This could limit funds available for immediate post-delisting investments in Tod's. In addition, it means that quick results are expected from the brand to recover from the implied high financial leverage, creating short-term liquidity or solvency concerns if the luxury market underperforms or if macroeconomic conditions worsen. However, Tod's should be able to capitalize on operational and distribution synergies with LVMH to reduce costs and improve profitability during the transition period.

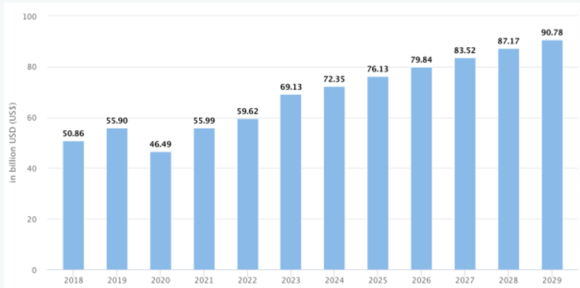
Another notable short-term consideration is the reduction in transparency and public brand awareness potentially impacting consumer trust already in danger. The positive approach from investors, public market and analysts was not obvious; in recent takeovers of Italian luxury brands such as Gucci, Bulgari and Bottega Veneta by French luxury giants have not been unanimously welcomed in Italy as industry experts feared a dilution of the “Made in Italy” brand and a loss of jobs to foreign competitors. Tod's recalled that maintaining its employees protected as one of its priorities.

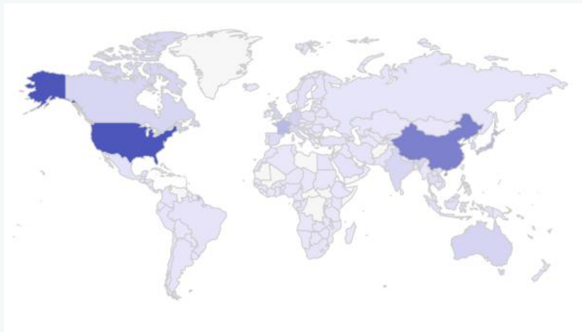
LT Aspects

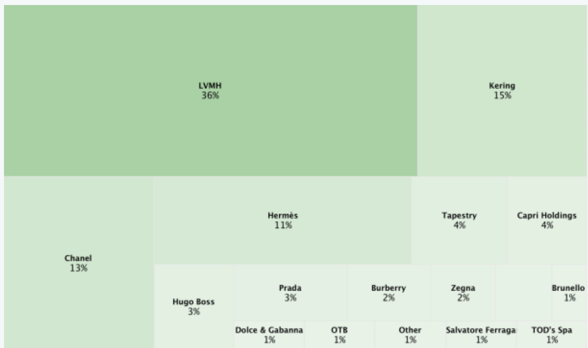
The Della Valle family sought to remain relevant in a rapidly shifting luxury industry where bigger players are gaining market share. Taking the company private was considered the needed change to drive future growth through private capital. Also to obtain faster decision making and greater flexibility. In accordance, the Della Valle brothers maintained their majority position to successfully manage the company through the turbulent macroeconomic period.

The delisting of Tod’s strengthened the strategic ties with LVMH reinforcing their “partnership” initiated in 2021 when the French billionaire Bernard Arnault raised his stake in the Italian company up to 10% with a 10% discount. At the time this was only considered an opportunity for future collaborations, while allegations of a possible takeover by the French group were repeatedly inferred but denied by Diego Della Valle. This relationship, however, began many years before as Diego Della Valle is a board member of LVMH since 2002.

The private equity, following their recent trend of profitable exits highlighted by the last $8.6bl listing of Birkenstock, offered to buy 36% of the shares and delist Tod’s form local stock exchange. The deal created strong connection between the two fashion giants. Implications of possible future ties have been signaled in recent years, in 2021 Della Valle indicated in an interview with the *Financial Times* the openness to sell a greater stake to Arnault, as they “share the same idea of fashion”; even if now Tod’s chairman doesn’t rule out an eventual return to the stock exchange.







Tod's was able to navigate the significant economic downturns in recent years accompanied by negative consumer sentiments and geopolitical uncertainty. In addition, the luxury industry has been growing at a constant CAGR of around 5% and is forecasted to maintain current growth figures. However, in the next few years the luxury industry is going to encounter difficulties in the two economies that represent most of the industry's revenue: China and the USA. In China, current struggling real estate sector, foreign investment, unemployment, and tariff's (imposed by the newly elected president of the United States) are posing difficulties for the economy to recover and reach the GDP growth targets. This aspect could pose difficulties for luxury brands in the incoming years as to contribute to China's slowdown, worldwide import tariffs imposed by Donald Trump could further decrease margins.

Nevertheless, a recovering US economy and China's ¥10Trillion stimulus can boost sales and market sentiment, bringing huge benefits to the Tod's group as the leather goods market is the second largest in the luxury industry. This situation must be carefully observed by management as China is the country where Tod's recorded the highest increase in revenue (24%) in 2023, now considered the major market for revenue generation for the industry, overtaking the US. Therefore, uncertainty and fluctuations in the economy can be represent either a threat or a huge opportunity for the Italian group.

Tod’s deal could also initiate a broader industry trend where luxury brands favour private ownership to navigate market fluctuations and uncertainty in markets like China, aimed at long term growth. Going private will allow brands to achieve strategic flexibility, allowing for investments and innovation without short term performance pressure form public markets. Recent examples are the acquisition of Farfecht by the South Korean e-commerce Coupang in December 2023, or the delisting of Natura & Co the Latin American cosmetics group.

Risk Analysis

Loss of Liquidity

Tod's Group's buyback offer with a premium of 17.6% over the last trading day prior to the announcement date has been completed, successfully delisting the company on the 7th of June 2024. One of the largest risks associated with delisting a company is the loss of easy access to liquidity and ready financing that the stock exchange and its many investors offer by purchasing their shares. Tod's group may therefore encounter some risk with raising capital quickly to fund any of their future ventures, having to rely more heavily on debt financing.

Struggles in the Chinese Market

With the delisting, Tod's may encounter more difficulties than their competitors in the Asian markets, specifically in Greater China which has historically been a large contributor to their sales. The first quarter of 2024 opened with a decrease of 24.0% of their sales in Greater China, due to a decrease in consumer sentiment and the luxury segment. The entire market on personal luxury goods in China is projected to fall 20% to 22% year-over-year in 2024 and expected to recover only in the second half of 2025. Therefore, coupled with Tod's loss of access to liquidity they might particularly struggle to absorb their losses faced in the Chinese markets.

Breakdown of consolidated sales by region: good results from domestic markets partially offset weakness in Asian markets

(million euros)

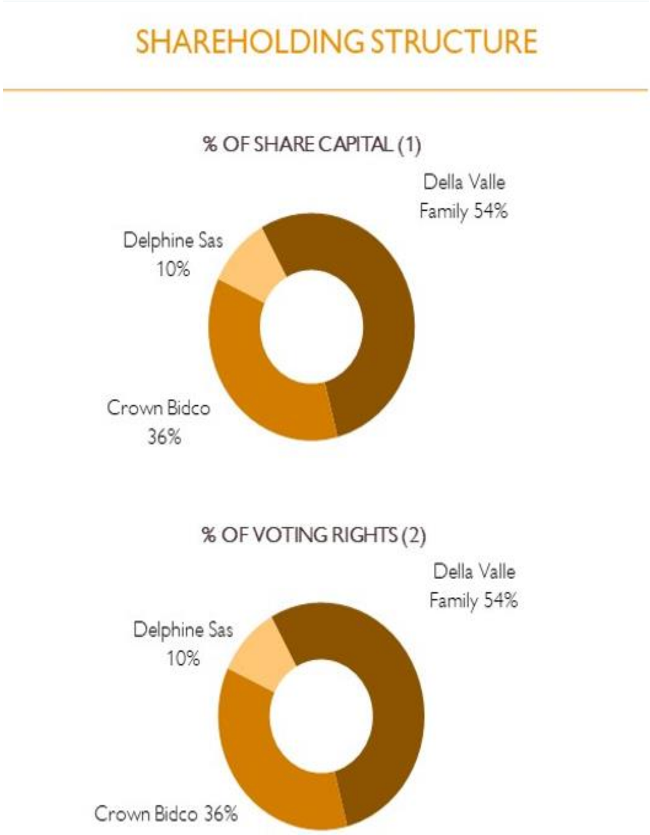
	Q1 2024		Q1 2023	% change	
	reported rates	constant rates		reported rates	constant rates
Italy	59.6	59.6	59.9	-0.6%	-0.6%
Europe (excl. Italy)	60.2	60.1	57.3	+5.1%	+4.8%
Americas (*)	20.0	20.0	16.7	+19.6%	+19.8%
Greater China (**)	67.3	69.8	88.6	-24.0%	-21.1%
Rest of World	45.2	48.4	48.0	-5.8%	+0.9%
TOTAL	252.3	257.9	270.5	-6.7%	-4.7%

(*) This line includes the whole American continent (Northern and Southern America).

(**) This line includes: mainland China, Hong Kong SAR, Macao SAR and Taiwan Region

Internal conflicts with L Catterton

L Catterton, the private equity backed by LVMH, was responsible for German footwear company Birkenstock's IPO in New York in 2023. L Catterton acquired the company in 2021, and in the following fiscal years Birkenstock increased their sales by over 500 million euros. A problem that might arise is L Catterton's future desire for an exit strategy, perhaps reintroducing Tod's to the stock market, which may come into conflict with the Della Valle's desire to remain private. Generally, private equity funds do not have the ultra-long-term health of the business as a priority – typically only holding positions in firms for 5-7 years before making an exit to generate liquidity. It is in the interest of the Della Valle family to make their long-term intentions clear with the other shareholders to avoid any conflicts of interest.



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