SORTINO M&A GROUP

Tod's delisting aided by L Catterton (owned by LVMH) of €1.4 billion

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TABLE OF CONTENTS

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Deal Introduction

DETAILS ABOUT THE DEAL

On 10th February 2024, it was announced that Italian luxury bag and shoemaker brand Tod's is going to be delisted from the Milan stock exchange and taken private by LVMH-backed private equity firm L Catterton.

Minority shares were bought for €43 each, a 18% premium on the closing value of Tod's shares on 9th February 2024, for its 36% stake of the company, totalling out to €512m. This gave Tod's a valuation of around €1.4bn excluding €800m debt. The Della Valle family, current owner of Tod's, will retain a 54% t majority stake while LVMH will retain a 10% stake in the company.

Tod's was advised by JP Morgan Chase & Co, while L Catterton was advised by Bank of America.

J.P.Morgan Bank of America

REASONS FOR M&A

Tod’s, famous for its leather driving loafers, has been striving to stay relevant in the luxury industry which is rapidly evolving with larger companies dominating the market. Albeit Tod’s sales reaching €1.12 billion in 2023, up 11.9 per cent year-on-year, it is still far behind conglomerates with likes of LVMH or Kering. The company has faced years of underperformance, with its stock reaching a record low of €18.08 in October 2020, down 87.2% from its peak of €141.10 in August 2013. Since 2017, the company has attempted to revitalize its sales by altering its management and strategy without success. It was also hit particularly hard by the Covid-19 pandemic. One reason addressed by Diego Della Valle is the company’s inability to target millennials due to the brand’s persist on using high-quality raw material such as hide. He believed that the delisting would allow the company to focus on investments in marketing and R&D to tackle said problem and improve sales revenue.

Tod's management also believes that privatizing the company will enable quicker decision-making and provide increased flexibility to pursue growth opportunities. Indeed, in 2022, the Della Valle family attempted to acquire the minority stakes in Tod's but fell short of securing the required 90% shareholder support. They also made an unsuccessful attempt to merge Tod's with the family-owned DeVa finance firm. The lack of shareholder support led to the failures, and if the family had persisted with the acquisition or merger, it would have been viewed as hostile. While the family will maintain a 54% stake, L Catterton acquired 10.5% of the 36% stake from Diego Della Valle, resulting in him receiving just under €149.4 million from the deal.

It is likely that the delisting could help improve Tod’s performance as L Catterton has restructuring experience and specialises in consumer brands as demonstrated by the turnaround of Birkenstock with a listing of $8.6bn in October 2023. LVMH has a rich tradition of investing in Tod’s given Diego Della Valle friendship with Bernard Arnault, founder of LVMH, initially acquiring a stake in 2000 and more recently securing a 6.8 percent stake in 2021, culminating in a total of 10 percent before the delisting. The delisting may be viewed as LVMH positioning itself to potentially acquire the brand, aligning with its strategy of acquiring established brands, as demonstrated by its purchases of Bulgari in 2011 and Loro Piana in 2013.

Industry Overview

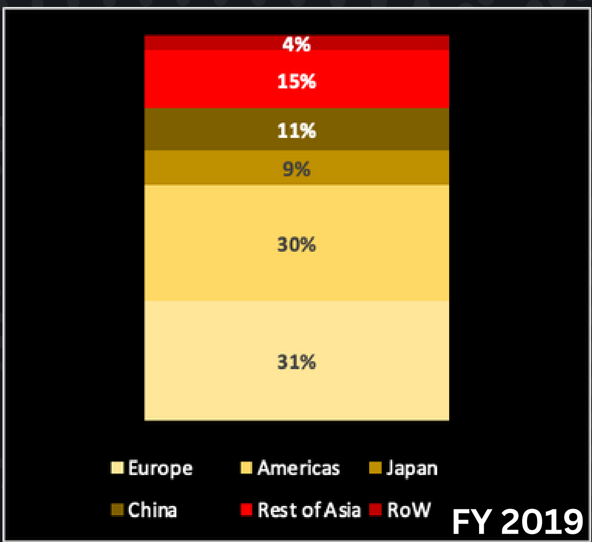
The Luxury Goods Industry is composed by a plethora of different goods and services, ranging from gastronomy, cosmetics, travel, and, most notably clothing. The essence of the Luxury Industry is characterized by exclusivity, quality, and rarity. The most important player in the industry is the LVMH Group, owner of numerous brands, including: Louis Vuitton, Bulgari, TAG Heuer, and many more.

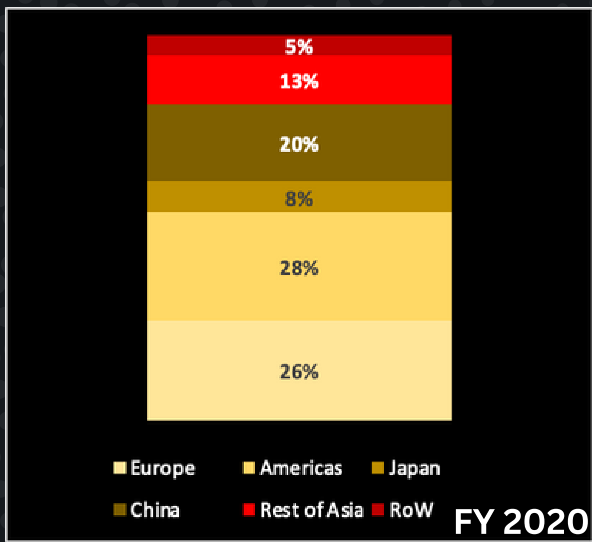
Industry challenges

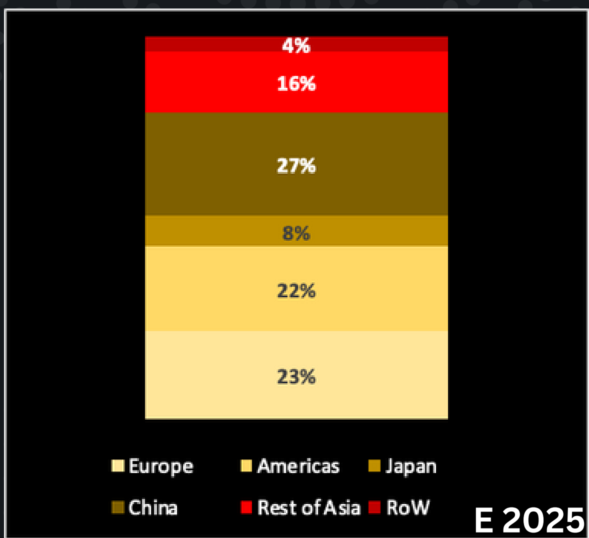
According to a report by Bain & Company from last November, the Luxury Goods Industry was expected to reach €1.5 trillion by the end of 2023 at a growth rate of 8-10% over 2022.
Amidst macroeconomic tensions and conditions, Luxury was able to grow consistently during 2023, although numerous potential setbacks ahead in 2024.
In fact, the so-called “revenge spending” that characterized the surge in American consumer spending following the end of COVID-19 restrictions is long gone, and the expectations of a similar increase in aggregate spending in China, following the country’s long-awaited opening after the zero covid policies, was also disappointing for investors. In fact, non-only did China underperform its own GDP growth expectations, but also the country’s stock market slowed down considerably, as instead the Japanese Nikkei continues to surprise investors with new rallies and records after 30 years of stagnation. China’s “setbacks” matter as in fact in the last 2 decades the country’s disposable income dramatically increased, and the same did its market share of spending in the luxury industry, going from an estimated 11% in 2019 to a projected 27% in 2025. China is still expected to increase its market share in consumption in the coming years, but this could come to a slow down given the potential erosion in the consumers’ disposable income.

Connected to the importance of Chinese consumers for the world's Luxury Industry, it is the blockade of the Aden Strait between Yemen and Africa, where, at its narrowest point, is only 30 kilometers wide. Chinese consumers do not merely shop in European Fashion cities like Milan and Paris, but often in their local European Luxury Stores and therefore, the impossibility of commercial ships to pass through the fastest route between Asia and Europe consists in a considerable disruption of the supply chain of raw materials and final goods.

Personal Luxury Goods Market by Region (EUR B | 2019-2025F)







American, European and Japanese Outlook

The U.S. has seen a deceleration in consumer spending in 2022, leading to an approximate drop of 8%. On the other hand, Europe, which saw its market share deteriorating since the democratization of luxury around the world, seems to be benefitting by increasing number of tourists to the continent. As mentioned in the previous paragraph, economically Japan is preforming soundly, and in the same manner, local consumers, a weak Yen and increasing tourism have favored the luxury industry as well.

Acquirer Overview

L Catterton (formerly Catterton Partners Corporation) is a private equity firm founded in 1989, with $38bn assets under management and headquartered in Connecticut United States. The firm invests in the consumer industry focusing on food and beverages, retail and restaurants, consumer products and services investing typically $100 to $1000m.

The L Catterton rebranding was created in 2016 in a merger with LVMH Bernard Arnault's family office creating a diversified consumer-dedicated private equity firm.

The firm seeks to invest in companies based in North America, Western Europe and Asia.

L Catterton's investment philosophy focuses on collaboration with management teams, focusing on mid-market companies, emphasising a hands-on approach to their portfolio companies.

MANAGEMENT, NOTABLE INVESTMENTS AND RECENTS EXITS

Senior Management:
- Bernard Arnault (Chairman)
- J. Michael Chu (Co-Founder and Co-CEO)
- Scott Arnold Dahnke (Global Co-CEO)
- Narayan Ramachandran (Vice Chairman)
- Annie Kyprianou (CFO)

Notable investments:
- A.P.C (Clothing) in March 2023 for an undisclosed amount
- Freshly (Restaurant) in November 2022 for an undisclosed amount
- Etro (Clothing) in Jul 2023 for $365.1m
- Birkenstock (Footwear) in Apr 2021 for $4.8bn
- Savage x Fenty (Feb 2021): $155m series B fundraising round
- Honest Company (Jun 2018): $200m minority investment in Jessica Alba's co-funded company

Recent Exits:
- Birkenstock (Oct 2023) IPO for $1.5bn
- Sale of Antony's coal fired pizza (Nov 2021) for $156.6m
- Reverse merger of Cazoo Group (Aug 2021) for $805.0m

Target Overview

Tod's is a renowned Italian luxury fashion house established in 1900. Their expertise lies in crafting footwear, apparel, and accessories, with a focus on timeless elegance and superior quality. The company, headquartered in Marche, Italy, is known for its iconic driving shoes, featuring a pebbled leather sole and a signature rubber pebble on the heel.

For over a century, Tod's has remained a family-owned business, with the Della Valle family actively involved for three generations. This dedication to heritage and tradition is evident in their meticulous craftsmanship and use of premium materials. Tod's products have garnered a loyal following amongst celebrities and discerning individuals who appreciate the brand's unwavering commitment to quality and timeless style.

Tod’s pursued its Initial Public Offering (IPO) on November 6th, 2000. Ever since then, the company saw its revenues and profits grow to reach a current Market Capitalization of €1.42bn and revenue figures of €1’106m as of 2023. Mr. Diego Della Valle is in talks to sell a 36% stake to L Catterton for EUR 512 million as of February 10, 2024. The transaction values the company at an estimated EUR 1.4 billion. As part of the transaction, the company will go private. J.P. Morgan has advised on the deal.

LBO Analysis

LBO MODEL - ENTRY AND EXIT ASSUMPTIONS

Entry Valuation	
Entry EBITDA	206.022
EBITDA Multiple	1,18x
Entry EV	242.261
EV/Revenue 2022A	0,24x
EV/Revenue 2023E	0,21x
EV/EBITDA 2022A	1,18x
EV/EBITDA 2023E	1,65x

Exit Assumptions	
Exit Date	2028
Exit Multiple	2,50x
Exit Fees	-

Based on historical financial results, the entry multiple for the LBO model was **1.18x**. Exit multiple for 2028 assumed to be **2.50x.**

CAPITALIZATION TABLE - PRE AND POST TRANSACTION

Cap Table Summary

	Pre-trx	Post-trx	
		% prefs	% ords
Della Valle Family	50.9%	54.0%	0.0%
L Catterton	6.5%	36.0%	0.0%
LVMH	10.0%	10.0%	100.0%
Other Equity holders	32.6%	0.0%	0.0%
Total	100.0%	100.0%	100.0%

Pre-transaction, the majority stakeholders of Tod’s was the Della Valle Family, controlling 50,9% of shares. 6,5% was owned by L Catterton.

Post-transaction, L Catterton increased their ownership to 36%, however, the controlling stake of Tod’s still under the ownership of the Della Valle Family.

FINANCIAL FORECAST

	Actuals			Forecast	Operating Case					CAGR	10,02%
EURmm	2020A	2021A	2022A	2023FC	2024P	2025P	2026P	2027P	2028P	20-'22	22-'28
P&L											
Total revenue	647.043	900.361	1.027.065	1.129.977	1.243.201	1.367.769	1.504.820	1.655.603	1.821.494	16,65%	10,02%
% growth		39,15%	14,07%	10,02%	10,02%	10,02%	10,02%	10,02%	10,02%		
Total COGS	637.639	743.204	821.043	983.202	1.033.915	1.140.341	1.271.817	1.385.486	1.527.464	8,79%	9,21%
% of revenue	98,55%	82,55%	79,94%	87,01%	83,17%	83,37%	84,52%	83,68%	83,86%		
& growth		14,20%	9,48%	16,49%	4,90%	9,33%	10,34%	8,20%	9,30%		
	647.043										
EBIT	(135.362)	24.157	58.228	(2.138)	58.692	73.865	79.917	118.277	144.840	-24,51%	332,36%
% EBIT margin	20,92%	2,68%	5,67%	-0,19%	4,72%	5,40%	5,31%	7,14%	7,95%		
Depreciation & Amortization	144.766	133.000	147.794	148.913	150.594	153.563	153.086	151.839	149.190	0,69%	0,04%
% D&A margin	22,37%	14,77%	14,39%	13,18%	12,11%	11,23%	10,17%	9,17%	8,19%		
EBITDA	9.404	157.157	206.022	146.775	209.286	227.428	233.003	270.116	294.030	179,81%	14,91%
% EBITDA margin	1,45%	17,45%	20,06%	12,99%	16,83%	16,63%	15,48%	16,32%	16,14%		
Pretax Income	(157.975)	2.471	29.036	103.643	100.590	146.308	185.395	204.788	214.853	-43,14%	15,70%
% margin	*24,41%*	*0,27%*	*2,83%*	*9,17%*	*8,09%*	*10,70%*	*12,32%*	*12,37%*	*11,80%*		
Net Income	(73.190)	(5.938)	23.065	(31.663)	427	(2.380)	(14.756)	(6.182)	(9.277)	-31,95%	-21,77%
% margin	-11,31%	0,66%	2,25%	-2,80%	0,03%	-0,17%	-0,98%	-0,37%	-0,51%		
+D&A	144.766	133.000	147.794	148.913	150.594	153.563	153.086	151.839	149.190	0,69%	0,04%
-Capex	30.267	44.933	45.845	53.222	58.679	63.328	70.526	77.464	84.976	14,84%	9,81%
-Change in NWC		71939	-37924	17008	-10458	3275	10141	986	4801		
UFCF		10.190	162.938	47.021	102.801	84.581	57.663	67.208	50.136		1,29%

Revenue growth is assumed to be 10.02% for the projected period. EBITDA margin standing at around 16% on FY2028P, implying a EV of £1,187.69mm.

FORECASTS

	Actuals			Forecast	Operating Case				
EURmm	2020A	2021A	2022A	2023FC	2024P	2025P	2026P	2027P	2028P
Projections									
Capital Expenditures % of Revenue	4,68%	4,99%	4,46%	4,71%	4,72%	4,63%	4,69%	4,68%	4,67%
Change in NWC	-	71.939	(37.924)	17.008	(10.458)	3.275	10.141	986	4.801
CapEx	30.267	44.933	45.845	53.222	58.679	63.328	70.526	77.464	84.976

EURmm	2021H	2021F	HY as % of FY	2022 H	2022F	HY as % of FY	Avg HY as % of FY	2023 H	2023 F FC
Projections									
Revenue	405.056	900.361	44,99%	476.031	1.027.065	46,35%	45,67%	575.958	1.261.173
COGS (purchases - change in inventory + personnel costs)	-210.274	-339.788	61,88%	-212.477	-440.731	48,21%	55,05%	-219.643	-399.010
Depreciation/Amortization	-67.624	-133.000	50,85%	-72.887	-147.794	49,32%	50,08%	-78.477	-156.701
Total Operating Costs	-407.716	-876.205	46,53%	-458.355	-968.837	47,31%	46,92%	-515.617	-1.098.906
EBIT	-2.660	24.156	-11,01%	17.677	58.228	30,36%	30,00%	60.342	201.140
Net Interest Expense	-11.206	-21.685	51,68%	-9.615	-29.192	32,94%	42,31%	-13.902	-32.860
EBT	-13.866	2.471	-561,15%	8.062	29.036	27,77%	-266,69%	46.440	-17.413
Income Taxes	-6.862	-8.409	81,60%	-7.307	-5.971	122,37%	101,99%	-15.491	-15.189

Analysis of seasonal revenue was conducted to forecast the expected FY growth for 2023FC. CapEx is forecasted to be a stable 4.6% of revenue.

RETURNS ANALYSIS

Return Analysis		2023A	2024A	2025A	2026A	2027A	2028A
Equity Contribution		-206.022	-	-	-	-	-
Dividends		-	-	-	-	-	-
Preference Shares		-	-	-	-	-	-
Ordinary Shares		-	-	-	-	-	-
Total Cash Flows		(206.022)	-	-	-	-	735.075
IRR	**28,97%**						
MOIC	**3,57x**						

Please click on the table to access the full model

Equity contribution for acquisition amounted to **£206mm**. Exit EV of **£735.075mm**, with a corresponding an IRR of **28.97%** and a MOIC of **3.57x**.

Deal Analysis

STRENGTHS

- Pursuant to this deal, the Dalla Valle family would retain majority control at 54%, which is important as the family also leads the creative direction of the firm.
- Tod's has made efforts to improve its financial position in the past years, as its financial statements indicate, which makes it better positioned to pursue this decision in comparison to its 2022 standing.
- Tod's gains a strong strategic partner with extensive experience in the luxury industry. Furthermore, at a time when the Chinese luxury market is booming, association with the LVMH brand is important from a tactical growth perspective.

OPPORTUNITIES

- The delisting would allow the Della Valle family to achieve long-term objectives which are made "more difficult" by its public status and the dilution of control. The family has ambitions to "turn the company around" in light of waning earnings in the past years. In fashion and more artistic sectors, obligations of disclosure and overexposure to the whims of the public market can serve as a barrier to the creative integrity and evolution of a company.
- It goes without saying that a partnership with LVMH and L Catterton could provide the firm with extra capital to pursue several important strategic objectives. It is important for Tod's to leverage these resources especially as it aims to take advantage of growing markets (China specifically).

WEAKNESSES

- Tod's first attempt to delist in 2022 failed because the first offer was too low; in the face of the firm's waning popularity and worn-through profitability, can it truly afford to take this path and does this give it the resources to pursue its turnaround without compromising its independence?
- It is worth considering that, ignoring recent surges in share price related to this deal, Tod's stock has around 10% traded below its 2000 IPO price in the past few years, with efforts to improve the product line and increase the bottom line not being appreciated by investors.
- The price offered by L Catterton represents a 17.6% premium to the closing price on February 9th. At 43 EUR per share, however, it is hardly a significant premium considering the fact that it hardly beats the original IPO price. Additionally, the offer is just a 1.7x multiple of revenues (compare this with Birkenstock's 5.5x). In essence, the valuation of the company seems to have changed very little since its listing.

THREATS

- This deal can also be understood as a consolidation of LVMH's position in the industry, as it will effectively enlarge its stake in the business, which raises further questions about industry concentration. It is posited that this move is little more than an intermediary step on the path to a complete takeover by LVMH - essentially a way to sell minority shareholders short in anticipation of a larger payout by LVMH.

Sources: ft.com.

GLOSSARY

Asset Turnover Ratio: The ratio indicates the efficiency of a firm to use its assets to generate revenue - calculated by dividing revenue by the total assets of a firm.

Capitalization Table: Breakdown of the company‘s ownership. It serves to show the pre and post transaction change in the composition of the equity in the company.

Current Ratio: The current ratio shows the ability of a firm to cover their short term obligations (liabilities) with their short-term assets - calculated by dividing current assets with current liabilities.

Net Working Capital: The difference between operating assets and operating liabilities.

Senior Notes: Debt that a firm issues which has the most priority to be paid back in the case of a bankruptcy.

Sweet Equity: any form of non-monetary equity that owners/managers of a company contribute to the business.

Terminal Growth Rate: Assumption of the rate that a company is expected to grow forever.

WACC: Cost of capital used to represent a firm's after-tax costs from all resources.

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