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Net-a-porter's Minority Shareholders Win Higher Valuation in Upcoming Merger With Yoox

Shareholders argued that now-profitable Net was grossly undervalued compared with peers, and that the company is a trophy asset.

By SAMANTHA CONTI
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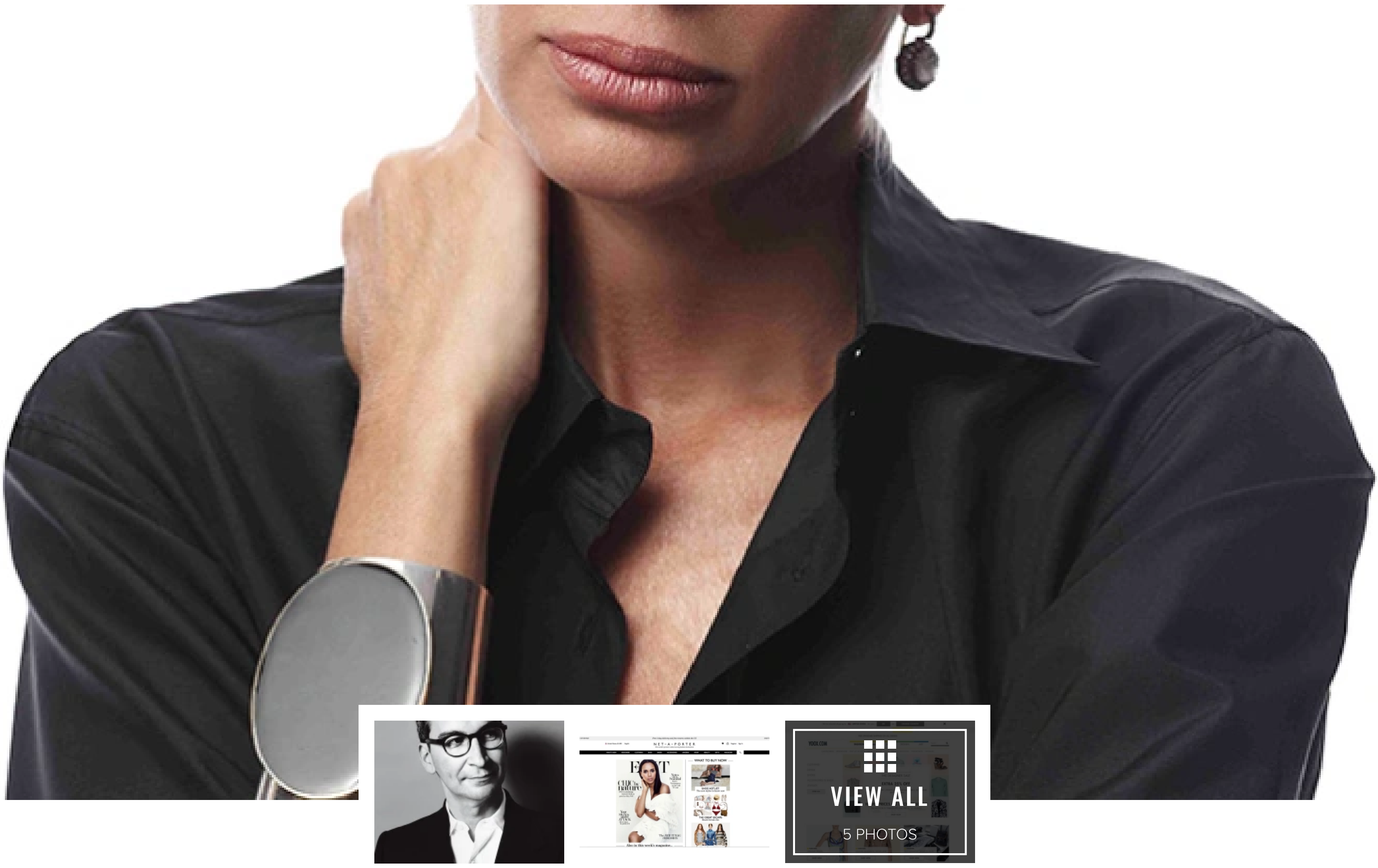

LONDON — Minority shareholders in Net-a-porter, which is set to merge with Yoox (https://wwd.com/tag/yoox/) Group in October, have scored a victory for themselves, securing a valuation over 50 percent higher than the one set out in the deal unveiled in March.

According to industry sources, Net's minority shareholders, a group that includes current members of management, have secured a valuation of about 1.5 billion pounds, or $2.34 billion, following an appraisal process with an independent valuer. That is more than 500 million pounds, or $750 million, higher than the valuation Richemont placed on the deal when it was revealed.

There was a mechanism in place, negotiated in 2010, for Net's parent Compagnie Financière Richemont to buy out the various Net minorities and the appraisal process had been taking place over the past few weeks. The minority shareholders represent 8 to 10 percent of Net's ownership, and it is understood that no one from Net's management team chose to roll into the Yoox (https://wwd.com/business-news/retail/yoox-introduces-new-marketplace-format-1235040990/) deal.

The independent valuer was appointed to decide at what price the minority shareholdings would be acquired. It is understood that the new valuation cannot block the completion of the merger — unless the board of Net's parent Compagnie Financière Richemont decides to rethink the transaction.

No one from Richemont or Net could be reached for comment Thursday. Yoox said that per company policy it does not comment on market rumor or speculation. Last month, shareholders in Yoox Group gave the overwhelming thumbs up to the proposed merger with Net-a-porter, and agreed to a future increase in share capital of up to 200 million euros, or about $221 million.

A source familiar with the appraisal process called the minority shareholders' win "significant, but disappointing. The result was unduly influenced by the poor merger deal originally struck by Richemont," said the person, who requested anonymity.

In March, Richemont agreed to merge Net-a-porter Group with Yoox (http://wwd.com/wwd-publications/wwd/2015-04-01-10105198/)in a deal valuing the former at 950 million pounds, or 1.44 billion euros, or $1.57 billion.

That figure represented slightly more than two times Net's 2013-14 sales of 532.7 million pounds, or $847 million. Net's valuation matched Yoox's market capitalization on the day the merger was revealed.

In an interview last month, Carmen Busquets, the original investor in Net who worked closely with founder Natalie Massenet to get the company off the ground, said that figure — and the multiple used to reach it — was too low. Busquets, an independent investor with a variety of holdings in tech companies selling luxury goods and services, also told WWD she believed Richemont was too hasty in picking Yoox as a future partner. She and the minority shareholders had argued the valuation did not take into account the company's sales, double-digit growth, and ability over the past 15 years to operate on a tight, self-funded budget, with no lucrative rounds of fundraising.

The minority investors also said Net was profitable in an industry filled with fast-growing, not-yet-profitable companies, that are garnering higher multiples and spiraling valuations.

For the 2014-15 fiscal year, Net reported a profit of 1.8 million pounds, or $2.9 million, after losses in previous years. Sales grew 22.8 percent to 654.1 million pounds, or $1.05 billion.

Earnings before interest, taxes, depreciation and amortization was 54.2 million pounds, or $83.48 million, an increase of 43 percent on the previous year.

Busquets and her fellow minority shareholders pointed to other fashion e-commerce businesses, such as Moda Operandi, Birchbox and Farfetch, (http://wwd.com/retail-news/direct-internet-catalogue/farfetch-raises-86-million-10083806/)which have raised millions over the past 18 months, garnering higher valuations each time.

Busquets said she believes Net is worth "well over" 2.5 billion pounds to 3 billion pounds, or $3.9 billion to $4.7 billion, a figure that recognizes the company's status as a "trophy asset and category-killer" and "the largest, highly efficient e-commerce luxury platform" out there.

"This company survived with an initial investment of $26 million, and look what we have accomplished. The Net-a-porter team deserves the best valuation it can get. I support the marriage with Yoox, but the valuation was too low — an insult. And Natalie needs to have the respect she deserves. How is it that companies that are losing money, companies that are not as well-known are valued at three times Net's revenues? Why are we being punished for being successful?" she added.

Busquets said she tried to back Massenet in a buyout earlier this year, valuing Net at 1.4 billion to 1.5 billion pounds, or 1.92 billion to 2.06 billion euros, or $2.11 billion to $2.27 billion, but Richemont rejected it.

She claimed there was also a letter of interest from a large private equity investor at a valuation of 2 billion pounds, or 2.74 billion euros, or $3.02 billion that was also ignored. She said she regrets not having had the chance to fully market Net earlier this year, and is confident it would have resulted in much higher valuations.

Indeed, when the news of the merger was first released on March 31, more than one bank put a higher valuation on Net: Vontobel talked about a 1.7 billion euros valuation, or $2.33 billion, while Citi estimated 1.9 billion euros, or $2.6 billion, based on the site's 2016 sales estimates.

In 2014, Vontobel was even more bullish on Net, saying it could be valued between 2 billion euros and 2.5 billion euros, or $2.7 billion to $3.38 billion, 4.3 times Net's 2012 sales.

As reported, a host of fashion players are a fund-raising round away from valuations in the 10-digit realm, including Nasty Gal, Rent the Runway, Moda Operandi and Bonobos. Yet some would say that in the eyes of investors those companies are little more than start-ups and their high valuations say more about the companies' future potential than current results.

"Start-up sales multiples can be sky-high, as these companies have virtually no sales," said one investor, adding that multiples tend to reduce as sales grow and companies such as Net get bigger.

Luca Solca, managing partner at Exane BNP Paribas in London, said the original valuation of Net at the time of the merger was unveiled seemed fair to him. Analysts, however, did not have access to Net-a-porter's management or the company's projections.

"Richemont was clearly interested in disengaging from a business with lower returns — and higher growth rates — than the rest of its core business. And the opportunities to do so were not many. Hence, a reasonable approach to valuation," Solca said.

Richemont acquired control of Net-a-porter in 2010 in a deal valuing it at 392 million euros, or $522 million, and three times forward sales.

The merger will see the creation of a new retail brand, Yoox Net-a-porter Group. Built on three pillars — in-season and off-season fashion, and the management of online, monobrand stores — the new group will have combined net revenues of 1.3 billion euros, or $1.44 billion.

The deal will give Net's parent Richemont a 50 percent stake in Yoox Net-a-Porter Group, and 25 percent of the company's voting rights. It will be quoted on the Milan bourse.

Following completion, the new group is expected to launch a capital increase of up to 200 million euros, or $221 million at current exchange, to fund future growth and allow for the entry of "strategic investors," Richemont said.

Richemont's chairman Johann Rupert has since asked his luxury rivals to invest in the new entity (http://wwd.com/retail-news/designer-luxury/richemont-johann-rupert-ecommerc-luxury-10141648/)and said earlier this summer that he placed calls to Bernard Arnault, chairman and chief executive officer of LVMH Moët Hennessy Louis Vuitton, and Kering chief François-Henri Pinault.

"I don't think any of us on our own can do it. I just want it to be free for everybody. We need a platform that is big enough for the luxury industry that is neutral," he said.

The day the merger was announced, Federico Marchetti, the founder and ceo of Yoox, called the deal "a game-changing merger between two pioneering companies that have already radically transformed the marketplace since 2000, and will now shift the industry paradigm once again."

Yoox and Net said they would aim to leverage each other's very different strengths, and build economies of scale to secure their long-term futures.

Marchetti will be ceo of the new entity, while Massenet will become executive chairman, with defined responsibilities.

Busquets also asked why Richemont, which has a cash pile of pile of 4.9 billion euros, or $5.40 billion, didn't acquire Yoox and list the entity on the London Stock Exchange. "Why not support the new economy in the U.K.? Net was born here and we could have become the Google of fashion, the Amazon of luxury," she said.

"Italy is not at the forefront when it comes to fashion technology or the new economy, and is therefore not in a position to fully realize the company's long-term purpose and vision," she added.

Busquets added she has “no interest in blocking the deal,” and has great respect for Marchetti. She said, however, his business is vastly different from Net’s. Yoox makes its money in off-season clothing and building e-commerce sites for third-party fashion brands.

“Federico has created a nice company that focuses on discounting, wholesale and white label, but it does not offer the optimal luxury service the Net customer has come to know and expect. Natalie and her team have created a company that has a brand name in high fashion, with multiple business lines and editorial content,” she said. “Why merge it with a discounter? Would Cartier merge with Swatch?”

She also believes that Massenet should have been named co-ceo of the new entity alongside Marchetti.

In the first half, Yoox notched a 38.3 percent gain in adjusted net profits to 4.4 million euros, or $4.8 million, lifted by increases in all its markets worldwide and by currency tailwinds. Earnings stood at 100,000 euros, or $109,000, after nonrecurring costs of 5.2 million euros, or $5.7 million, related to the merger with Net, and 1 million euros, or $1.1 million, in non-cash incentive plan costs. This compares with 3.2 million euros, or $3.5 million, in the same period last year.

Revenues rose 19.6 percent to 284.6 million euros, or $311.2 million, compared with 238 million euros, or $260 million last year.

Busquets believes the merger was not well thought out on Richemont’s part, and there were other potential deals that could have been explored that made more strategic sense. She said a more sustainable idea would have been to create “a broader marketplace technology that unifies the global stock of all the luxury groups.”

Luxury groups, she said, “and even on-line social media and commerce platforms, such as Instagram or Amazon,” could have been brought in as roughly equal partners with Net, to create a luxury e-commerce platform where similar-minded businesses could be housed under the same holding company, operated independently, but with a common board to take advantage of the synergies.

Richemont, she said, should have realized the opportunity it had to be a global game changer within the e-luxury industry. “If you want to go against this monster Amazon and protect the luxury industry online then surely you need more than 200 million euros of investment — and more than Yoox and Net.”

Busquets said she regrets selling the majority of the company to Richemont back in 2010.

"This partnership with Richemont began almost 15 years ago. By any measure Net-a-porter will be one of the best investments it has ever made. But instead of having a happy partnership it turned very contentious. I frankly regret having given up my pre-emption in 2002 to allow Richemont into Net when I had the money to build it on my own, but it was different back then. Nobody believed in luxury e-commerce so I felt my advisers were correct in telling me that the smart thing to do would be to give a group the same rights I held."

She said she admires Rupert for the company he has created in Richemont, and for the initial support he and his team gave to Net as an investor. "Never in history have global investors been able to create so much wealth as what was created in the 2010 deal. The sale of Net to Richemont created almost 25 millionaires," said Busquets.