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M&A INTERNATIONAL INC.

Cosmetics, Jewelry & Accessories Retailers M&A Outlook: If You Can't Be Them, Buy Them

2012

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Table of Contents

Executive Summary

Although not entirely immune to the unprecedented economic downturn that rattled world financial markets in 2008–2009, the retail cosmetics, jewelry and accessories industry rebounded much faster than expected. This rebound continued in 2011 as sales surged both in traditional Western markets and the relatively nascent emerging economies despite widespread economic uncertainty around the world. Historically, the cosmetics, jewelry and accessories[1] segment's sales have closely mirrored those of their luxury segment counterparts, and therefore have been fairly resilient to overall economic woes as the industry's core consumers generally retain their purchasing power even through a crisis. Most industry participants therefore reaffirm a positive near-term outlook, notwithstanding widespread austerity programs in many key European markets and renewed concerns over a stalling US economic recovery.

Significantly, the recent recession represented both a major setback and a turning point. Faced with lower demand in key consumer and business segments, many cosmetic, jewelry and accessories brand owners entered into alliances with other more diversified groups. Simultaneously, the segment has also been affected by other trends, including the emergence of new markets, particularly in Asia, the establishment of additional distribution channels and the expansion of the parent luxury sector to include products lying outside its traditional hard (e.g. gems, jewelry and watches) versus soft (e.g. apparel and accessories) classification. In fact, some of the key big-ticket acquisitions within the cosmetics, jewelry and accessories market have involved major luxury names. We believe such deals highlight the growing importance industry players are attributing to the "luxury" aspect of the retail cosmetics, jewelry and accessories industry – a market which is highly lucrative and abounds with consumers whose purchasing power is unparalleled and relatively unaffected by economic concerns.

Opportunities remain

"Despite strong M&A activity in the cosmetics, jewelry and accessories retail sector over the past two years, significant opportunities remain, especially in small- and medium-sized subsegments, driven mainly by funding, product rationalization and the need to establish a foothold in emerging markets."

Bill Fawkner-Corbett
Head of M&A International Inc.'s Retail Group

The economic downturn has taught industry players a valuable lesson – diversification remains key. Corporate earnings during the recession-weary quarters have been reflective of a particularly interesting, yet relatively well-established phenomenon: results have shown a strong positive correlation between the extent of corporate diversification (both product and geography) and performance, including cash generation and even increased market share for big players. Correspondingly, large, diversified cash-rich companies have dominated merger and acquisition (M&A) activity, acquiring interests in major businesses to further extend their own market positions, access emerging markets and leverage new distribution opportunities. At the same time, due to scarce primary (IPOs) and secondary market funding as well as a lack of liquidity, small- and medium-sized companies have increasingly become lucrative M&A targets, a development we expect to continue.

Within the cosmetics, jewelry and accessories segment, mature markets are stable while developing markets are expanding, in some cases rapidly. Geographically, while most M&A activity continues to take place in Europe, a more detailed analysis of recent transactions shows an increasing industry focus on emerging economies, particularly in China, where cosmetics, jewelry and accessories retailers expect continuing strong demand. While a key component of future industry performance is dependent on when the European economy recovers, we believe excessive targeting by companies in emerging markets could result in their under-representation in traditional (and still highly lucrative) markets and consequent failure to benefit from a rebound in economic growth.

Major differences exist between the M&A position of companies operating in both developed and developing regions, and between large and small businesses. Companies operating in mature markets are seeking to expand in high growth emerging economies, while those in developing regions are more focused on diversifying their product lines and bringing international brands to their domestic markets. Similarly, large companies are acquiring other luxury retailers to maintain peer-relative competitiveness, while smaller and mid-sized retailers are joining hands with industry majors to survive. We therefore expect more selective targeting of acquisitions driven by the above trends.

[1] Our analysis is based on 217 closed deals during January 2010–March 2012. The deal coverage includes: accessories (primary), luggage and handbags (primary), jewelry, timepieces and gemstone products (primary).

Overview and Analysis of M&A Activity (January 2010–March 2012)

1

Analysis by Deal Number and Deal Value: Big Names Do Count!

The fall in the average deal value of the cosmetics, jewelry and accessories segment was far more prominent than the fall in total deal numbers. Average deal value fell from a peak of $254mn in 2007 to a low of $26.8mn in 2009, mirroring the impact of the economic recession. There were 93 closed transactions in 2009, compared with 130 the year before. However, both the deal value and number of deals recovered in the subsequent years as the conditions became more favorable for deal-making (Figure 1).

Figure 1: Cosmetics, jewelry and accessories segment – 2007–2011

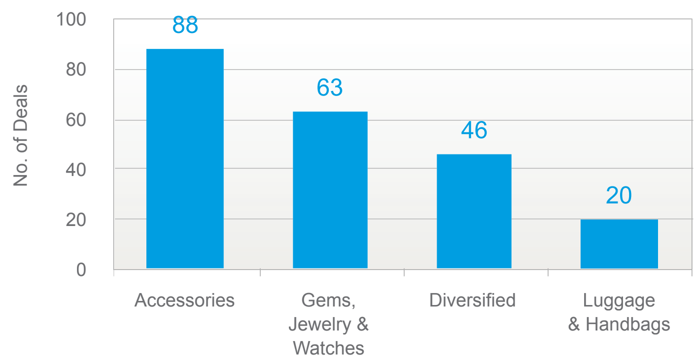
Source: Copal Analysis and Capital IQ

Strategic choices

"Building capabilities, whether in the 'soft' or 'hard' segments, remains a strategic choice for a company. However, diversification into new areas, which you do not really master, can be risky as consumers prefer to buy a brand's best known products rather than items outside their main brand heritage."

Lutz Becker
Retail Specialist
M&A International Inc.,
Germany

Figure 2: Analysis by segment – January 2010–March 2012



Source: Copal Analysis and Capital IQ

Major transactions during the review period include the acquisition of Tommy Hilfiger B.V. by US-based Phillips-Van Heusen (PVH) for $3.5bn in Q2 2010. The deal represented the largest of its kind following the general upturn in the economy until French luxury goods company LVMH Moët Hennessy Louis Vuitton (LVMH) bought watchmaker and jeweler Bulgari S.p.A. in mid-2011 for $5.2bn, doubling its watch and jewelry segment sales (key brands: TAG Heuer and de Beers) in yet another landmark transaction for the sector. LVMH, traditionally a major acquiror, owns several major luxury brands including Louis Vuitton, Donna Karan and Moët & Chandon.

Analysis of M&A Activity by Segment Type

Out of 217 closed transactions[1], the accessories segment accounted for the largest share at 40.5% followed by gems, jewelry and watches (Figure 2). Accessory demand

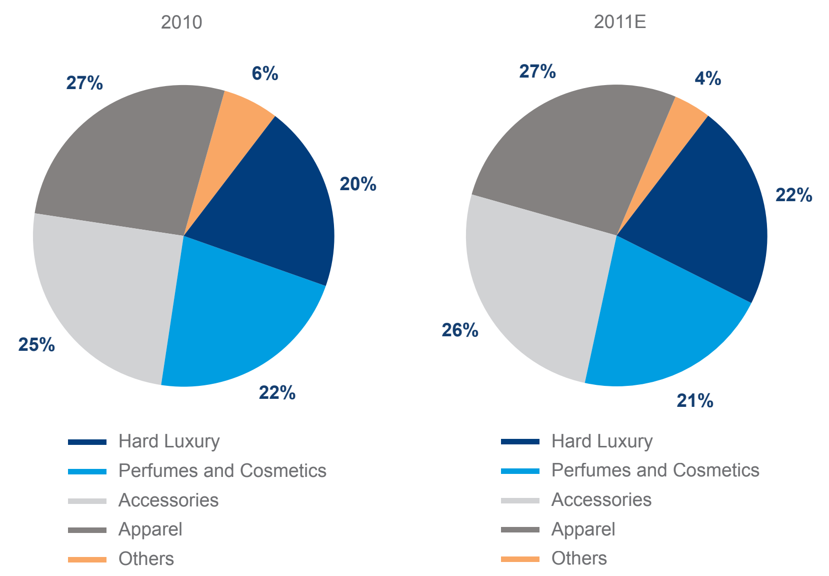
[1] Our analysis is based on 217 closed deals during January 2010–March 2012. The deal coverage includes: accessories (primary), luggage and handbags (primary), jewelry, timepieces and gemstone products (primary).

Overview and Analysis of M&A Activity (January 2010–March 2012)

1

has been relatively less cyclical than the gems, jewelry and watches sub-segment. Nowadays, sales in both are driven mostly by aspirational buyers rather than their wealthy counterparts. During a downturn, these individuals tend to delay their expensive purchases, such as gems and jewelry. However, these delayed purchasing decisions are not so profound when it comes to accessories. As the economic outlook improved over 2010 and 2011, the gems, jewelry and watches sub-segment witnessed the highest market share increase (2010: 20%; 2011: 22%) as these aspirational buyers returned (Figure 3). It is therefore of considerable strategic importance how a company expands its portfolio and builds its market position within the cosmetics, jewelry and accessories sub-segments. Significantly, there are limits as to how far a brand can diversify. A luxury brand, for example, connotes quality, exclusivity and scarcity. Diversification into segments incompatible with the character of a brand risks either diluting or destroying its value.

Figure 3: Global luxury goods market share by category

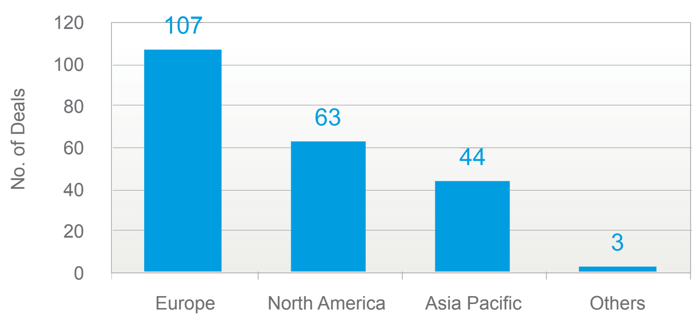


Source: "Luxury Goods Worldwide Market Study, 2011, Bain & Company", E-Estimates

Regional Analysis of M&A Activity: Far East Active

During January 2010–March 2012, Europe accounted for 107 deals (49.3% of total worldwide deals by volume) in the cosmetics, jewelry and accessories segment followed by North America (63 deals: 29.0%), Asia Pacific (44 deals: 20.3%) and other geographies (3 deals: 1.4%) (Figure 4).

Figure 4: No. of deals by region – January 2010–March 2012



Source: Copal Analysis, Capital IQ

NB: The deal classification is done by geographical location of the target company

Out of a total of 217 deals reviewed, 34 were identified as cross-regional. During the period under review, Europe accounted for the highest level of cross-regional inbound M&A transactions (17). At the same time, Asia Pacific and Europe had the largest number of cross-regional outbound M&A deals, with 10 each. PVH's $3.5bn acquisition of Tommy Hilfiger was the largest cross-regional M&A transaction.

By value, Europe reported disclosed deals worth $9,683.9mn during January 2010–March 2012, with an average deal size of $358.6mn, equal to 77% of total worldwide deal value. By volume, Italy, UK, France, Switzerland and Germany accounted for 75% of total deals in Europe.

In North America, closed deals worth $2,092mn were reported during the time period under review, averaging $72mn, equal to 17.2% of total deal value. The largest regional deal (involving a US-based target company) was the acquisition of Volcom Inc., a California-based Costa Mesa surf-and-skate brand, for $607.6mn by the French company PPR, owner of the Gucci brand. The acquisition was completed in Q2 2011, both complementing and accelerating development of the Puma sportswear brand

Overview and Analysis of M&A Activity (January 2010–March 2012)

acquired by PPR in 2007. The largest deal involving a US-based company as an acquiror was the previously mentioned acquisition of Tommy Hilfiger by Phillips-Van Heusen.

Asia reported a disclosed total deal value of $684mn, averaging only $30mn per deal. By value, it accounted for approximately 5.5% of total transactions. By volume, the largest regional shares included Hong Kong (11 deals), China (8), India (8), Japan (6) and Malaysia (3). During the same period, the largest transaction involved the acquisition of Hang Ten Group Holdings (a mass market casual clothing manufacturer) by Li & Fung Ltd for $357.8mn. Historically, Hong Kong-based Li & Fung has been one of the most active regional companies, increasing earnings through acquisitions of competitors and by concluding supply agreements to sell consumer goods (still its largest market) produced by American and European retailers.

Analysis of Private Equity Activity by Buyer and Seller Type: Quick to Sell on Rebound

Private equity buy-outs accounted for 17.5% of total deal volume (38 out of a total 217 deals) but only 2.5% of disclosed value during the period under review. However, private equity business sales comprised 13.4% (29 deals) of total deals by volume but 33.4% by value between January 2010 and March 2012 (Figure 5).

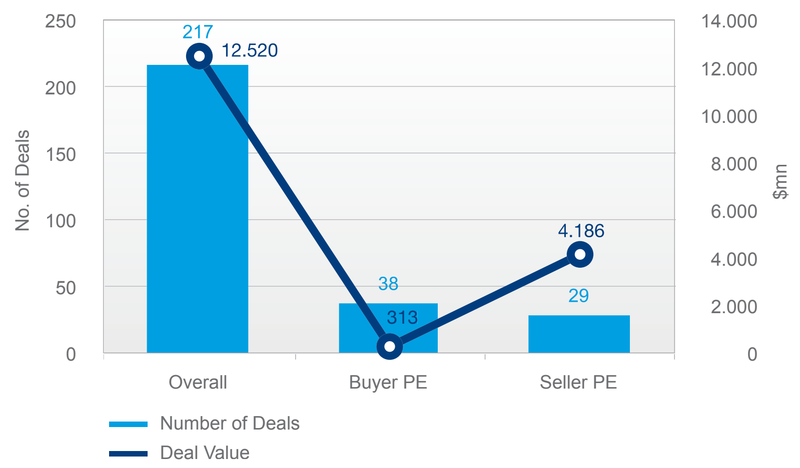
The recent financial crisis and its negative effects on consumer spending has eroded the balance sheets of many cosmetics, jewelry and accessories retailers, creating several attractive opportunities for private equity funds to enter or increase their participation within the overall sector. Their opportunistic investments have provided key support and have generated attractive returns for both buyers and sellers.

In October 2008, Carlyle Europe Partners III, L.P. acquired a 48% stake in Moncler Group, a French-based luxury jacket and sportswear manufacturer, valuing the entire company at approximately €400mn. In June 2011, Carlyle sold 63% of its stake in Moncler to Eurazeo, also a private equity company, valuing the company at €1.2bn.

Furthermore, in May 2011, TowerBrook Capital Partners sold its stake in Jimmy Choo, an upscale shoemaker, to Labelux, a private equity firm, for an estimated £500mn. TowerBrook had acquired Jimmy Choo from Lion Capital for an enterprise value of £185mn in February 2007. Under TowerBrook's ownership, Jimmy Choo expanded internationally, extending its product portfolio to include trainers, handbags, jewelry and perfume, while doubling its stores worldwide to 120.

As of March 2012, Billabong International Ltd, Australia's largest surf-wear manufacturer, was negotiating a possible acquisition by various private equity companies as part of its plan to sell assets, cut jobs and close down up to 150 stores in response to weaker consumer demand. It rejected a $817mn takeover bid from TPG Capital, a buy-out specialist, hoping to obtain a higher offer through current talks.

Figure 5: M&A activity by buyer and seller type – January 2010–March 2012



Source: Copal Analysis and Capital IQ

PE to the rescue

"Just like many other industries, the financial crisis left big holes in the pockets of cosmetics and accessories retailers, leaving them gasping for funds. Private equity firms arrived in time, 'delivered the goods' and were quick to sell on a rebound!"

Thibaut de Monclin
Retail Specialist
M&A International Inc.,
France

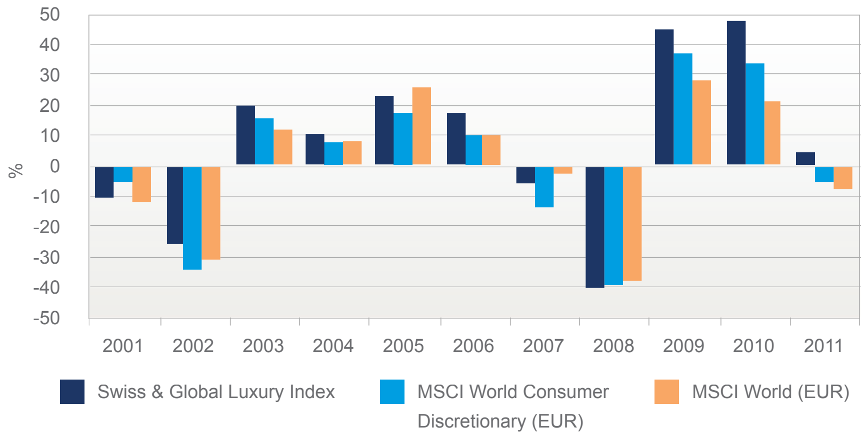
Overview and Analysis of M&A Activity (January 2010–March 2012)

1

Looking ahead, we forecast increased private equity transactions in Asia as Western brands target the expanding Chinese middle-class market in second- and third-tier cities. In response, domestic brands will seek resources to protect and expand their respective brand portfolios, creating increasingly attractive investment opportunities for either private equity companies or for potential merger or acquisition partners. For example, LVMH has established its own private equity company, L Capital, which has already made several small- to medium-sized acquisitions in both China and India. The fund currently has a $650mn war chest and is looking to further increase this amount in the coming periods.

Better consumer sentiment and strong tourist inflows increased consumption of cosmetics and accessories In 2011, US equity markets finished the year positively, outperforming even those in emerging markets (MSCI Emerging Markets Index fell 20.6%). Luxury retailer shares rose even more sharply. Increasing wealth amongst certain social segments explains why high-end US consumption continues to outperform consumer trends generally (Figures 6 and 7). In Europe, austerity measures, due to ongoing debt crises in several peripheral states, and weaker GDP performances were partly offset by tourism inflows, particularly from China. We expect further improvement in European consumer sentiment due to recent measures to ease the region's debt problems, relieving concerns regarding a possible sovereign default and also the impact of tourism and spending connected with the London Olympics in July 2012.

Figure 6: Strong outperformance – index returns



Source: Copal Analysis and Capital IQ

Figure 7: Luxury goods' organic sales growth (in %)

	2007	2008	2009	2010	2011
Europe	13.0	5.0	-7.0	9.0	12.0
Japan	6.0	-9.0	-15.0	-4.0	4.0
US	16.0	2.0	-14.0	14.0	24.0
China	40.0	45.0	30.0	45.0	47.0
Rest of Asia	22.0	13.0	8.0	23.0	27.0
Total	**15.0**	**6.0**	**-4.0**	**15.0**	**20.0**

Source: HSBC

Valuation Multiples: Exclusive Products, Inclusive Large Premiums

Due to differences of perception amongst buyers and targets between what constitutes a reasonable offer price and the amount of value derived, it is difficult to estimate a justifiable acquisition price in this segment. The companies involved in large-scale transactions are often prepared to pay a significant premium due to the existence of sufficiently well-funded companies capable of initiating competing offers.

In April 2012, Coty, a perfume company, launched a bid valuing Avon Cosmetics, a cosmetics seller, at 8.7x EBITDA, aggregating to $10bn or $23.25 per share. The offer was rejected by Avon's board, which termed the bid as "substantially undervalued and opportunistically timed". The offer was later revised to $10.7bn or $24.75 per share, which too failed to convince Avon's board. Finally, after almost two months of hard-pressed negotiations, Coty had to ultimately withdraw its offer.

In contrast, the successful LVMH stock and cash bids for Bulgari were respectively equivalent to EBITDA multiples of 28.2x and 25.8x. This valuation compares with the 5-year historic median multiple of 11.7x

Overview and Analysis of M&A Activity (January 2010–March 2012)

paid for jewelry and watch manufacturers and 10.6x for accessories (Source: S&P Capital IQ).

While some may therefore regard the transaction as hugely expensive, strategically it represents a sound development, expanding LVMH's exposure to watches and jewelry, two of the highest post-recession growth segments. Further, Bulgari can expect to benefit from access to LVMH's leading global retail network, opportunities to improve margins through cost-sharing and a greater ability to compete more effectively and on equal terms with larger watch and jewelry companies such as Richemont and Swatch.

In October 2010, LVMH acquired a 17.1% stake in its traditional rival Hermès at an EBITDA multiple of 15.5x, which it increased to 22.3% through subsequent purchases in July and December 2011. Though at a premium, many industry observers believe LVMH's stake in Hermès is 'priceless'.

Perception gap

"It is sometimes difficult to put a justifiable price tag on an acquisition in this segment as there could be a huge perception gap in the minds of the acquirors/acquiree concerning the 'price offered' and the 'value derived'."

David D. Dunstan
Retail Specialist
M&A International Inc.,
United States

Key Near-Term M&A Drivers

We expect pan-regional and multi-product diversification to act as key M&A drivers for the cosmetics, jewelry and accessories segment in future.

Multi-Regional Diversification: Globetrotting Yields the Best Deals

Responding to the recent economic downturn and weak spending patterns in key markets, companies have announced several key initiatives to avoid dependency on any one geographical market. For example, prior to the PVH acquisition of Tommy Hilfiger in 2010, only around 10% of the buyer's sales were generated outside the US. Conversely, Hilfiger reported 50% of sales from Europe and 10% from Japan. Asian consumers represent a significant opportunity for those companies seeking to diversify their customer base. According to McKinsey[2], Chinese consumption of luxury goods is expected to increase at a CAGR of 18% to $27.5bn by 2015, from approximately $12.2bn in 2010. Given their generally high correlation to market trends within the cosmetics, jewelry and accessories segment itself, it is quite apparent that Asia is undoubtedly becoming an increasingly important market for sales of cosmetics, jewelry and accessories products (Figure 8).

Figure 8: Luxury goods sales by region (in %)

	2007	2008	2009	2010	2011	2012
Europe	42.0	42.0	39.0	36.0	34.0	33.0
Japan	12.0	12.0	11.0	9.0	8.0	8.0
US	20.0	19.0	18.0	18.0	18.0	17.0
China	3.0	5.0	6.0	8.0	10.0	12.0
Rest of Asia & Other	22.0	23.0	25.0	28.0	29.0	31.0

Source: HSBC, F - Forecast

Multi-Product Line Diversification: Build It or Acquire It, But Make Sure You Have It

Bulgari's acquisition by LVMH last year illustrates the vulnerability of even large companies (without a diversified product base) to adverse economic conditions. We believe that Bulgari benefited, with CEO Francesco Trapani observing, "it is difficult for an independent brand to remain commercially viable in an increasingly volatile market". Similarly, in November 2011, PPR acquired Italian fashion company Brioni, a specialist manufacturer of handmade suits and men's fragrance, for $484mn in a transaction that added a quality menswear brand to its existing portfolio, which already included Gucci, Yves Saint Laurent and Alexander McQueen. In addition, demand for Brioni accessories is high in China, the world's fastest growing cosmetics, jewelry and accessories market. Consequently, we believe brands must either prioritize their existing portfolios or otherwise diversify to include the most strategically significant product areas while simultaneously maintaining core brand values.

[2] McKinsey's report: "Understanding China's growing love for luxury" – April 2011

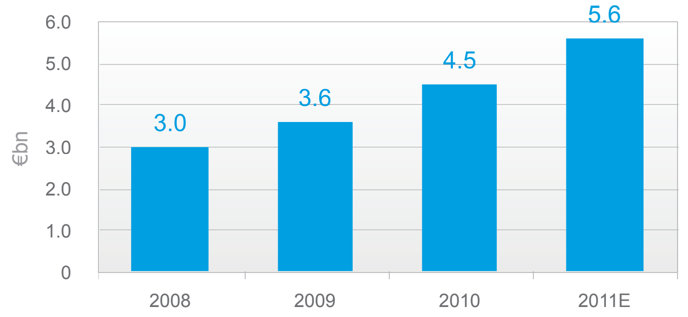
Key Near-Term M&A Drivers

New Distribution Channels: How to Deliver When Companies Are Deleveraging

Further significant M&A opportunities in the cosmetics, jewelry and accessories sub-segment include those intended to meet distribution challenges. In particular, we expect online sales as a percentage of total sales to increase from 3% as internet penetration increases, especially in Asian countries (Figure 9).

Online sales will also be driven by demographic changes. The increasing influence of social media and digital marketing will enhance opportunities available to manufacturers and distributors to optimize the quality of their customers' shopping experience, supporting greater online sales of cosmetics, jewelry and accessories. As an increasing percentage of the population enjoys internet usage, especially the young and fashion-conscious customer segments, online sector sales should increase.

Figure 9: Online personal luxury goods market – sales in €bn



Source: "Luxury Goods Worldwide Market Study, 2011, Bain & Company", E-Estimates

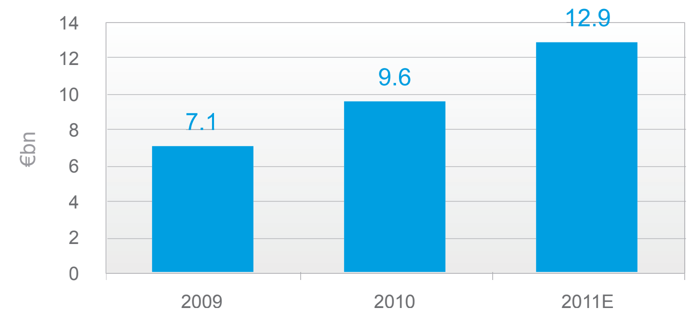
To take advantage of this trend, in April 2010, Swiss luxury goods manufacturer Richemont acquired UK-based online luxury retailer Net-a-Porter Ltd for $340mn. In March 2012, Net-a-Porter Ltd acquired Chinese e-commerce portal Shouke Limited as part of its plans to penetrate and expand within the Asia Pacific market. The particular challenges of accessing opportunities within this large, complex and rapidly expanding market require the earliest possible development of online distribution channels.

Key Near-Term M&A Drivers

M&A Implications of a Growing Chinese Market: The Dragon Likes Prada

In June 2011, Italian fashion group Prada listed its shares in Hong Kong rather than Milan, acknowledging the importance of the transformation in global wealth distribution and spending patterns taking place to the benefit of Asian markets. Previously, in May 2010, L'Occitane, a French cosmetics and perfume company, also listed in Hong Kong as part of its regional expansion strategy. We expect others to follow.

Figure 10: Chinese domestic personal luxury goods market – sales in €bn



Y-O-Y Growth	20%	35%	35%

Source: "Luxury Goods Worldwide Market Study, 2011, Bain & Company", E-Estimates

Change fueling growth

"Vast increases in wealth and affluence, proliferation of information over the internet, increasing penchant for overseas travel and rapid urbanization outside China's biggest cities are all fuelling growth of luxury goods. Other potential markets for luxury companies include India and Indonesia."

Richard Winter
Retail Specialist
M&A International Inc.,
China

For some time, China has been the main growth driver for the cosmetics, jewelry and accessories sector, reporting a significant increase in sales despite major economic problems worldwide (Figure 10). Currently, with mature markets reporting almost no economic expansion, Chinese buyers, both domestic and international, account for over 20% of global sales of cosmetics, jewelry and accessories, according to a report published by Bain & Company titled *"Luxury Goods Worldwide Market Study, 2011"*.

The growing demand from China reflects the country's rapidly increasing wealth, greater availability of online information, more overseas travel by its citizens, rapid urbanization and increasing affluence in the semi-agricultural hinterland areas. For the first time, in 2011 China reported its millionth millionaire, together with over 5,000 ultra-high net worth nationals whose individual wealth exceeded $50mn, a situation exceeded only by the US. Over 100 second-tier Chinese cities report populations of over one million, whose citizens enjoy purchasing power comparable to that of their tier-one counterparts and a desire to purchase luxury brands second to none.

To access the Chinese market, Western brands have adopted a dual strategy. Firstly, brands such as Shanghai Tang (owned by the Richemont Group) and Hermès have launched Chinese-specific labels designed to capitalize on the strong demand amongst domestic consumers for products based on and consistent with the country's own rich cultural heritage.

Secondly, brands already established in China are also preparing to participate in upcoming strategic acquisitions intended to import Western brands to the Chinese market. Local companies have proactively taken advantage of weak European stock markets and low corporate valuations to buy luxury assets relatively inexpensively. For example, Fosun International, a leading privately owned Chinese conglomerate, bought a 9.5% equity stake in Greek-based jewelry and luxury goods retailer Folli Follie Group for $121mn in May 2011. Fosun's investment is expected to facilitate Folli Follie's expansion, giving the company access to affluent consumers in China. Folli Follie Group also owns Links of London, a jewelry retailer, which it acquired in 2006. In a similar move, International Volant Limited, a wholly-owned subsidiary of China Haidian, a manufacturer and retailer of watches throughout China, acquired Eterna AG Uhrenfabrik from F.A. Porsche Beteiligungen GmbH for $27.4mn in June 2011. The acquisition was aimed at securing watch components, which Haindan believes "will be a limiting factor for the industry in the near future".

Different M&A Strategies: Distinguish "Needs" from "Wants"

All such deals emphasize the increasing demand for luxury goods in China with a corresponding impact on cosmetics, jewelry and accessories sales. We therefore see many attractive regional opportunities for those long-established European companies which own market leading brands representing the culmination of generations of investment and innovation, and expressing the concepts of "heritage" and "culture" not easily reproduced by newer companies in emerging economies.

Core business key

"We also saw big companies shedding their non-core business in an effort to be asset light and focus more on their core business, thereby, also helping them to build a cash war chest, which will aid them in the long run. In addition, companies with strong brands, but with insufficient resources to compete with larger and more diversified players, must seek new ways to sustain their business."

Jonathan Buxton
Retail Specialist
M&A International Inc.,
United Kingdom

In the recent past, strong brand competition resulted in increasing group level concentration. Consequently, while the largest companies have acquired others to maintain peer-relative competitiveness, smaller and mid-sized retailers have appeared content to cooperate with industry majors to survive. The "need" for small players to come into their own is to address the question of survival, while big players are acquiring companies "wanting" to close the gap with their competitors.

Opportunities in the cosmetics, jewelry and accessories segment continue to exist both for pure-play independent companies and for conglomerate brands. However, we believe brands that are part of conglomerates remain at an advantage given the synergies arising from marketing and distribution capabilities, strong brand recall and access to funds.

Currently, there are several major companies waiting for opportunities to invest in assets that complement their existing portfolios, after a rapid sales recovery has generated sufficient financial resources to pursue such opportunities. However, despite continued growth in the overall luxury goods market, their small- and medium-sized counterparts are under considerable commercial pressure and must seek to ensure adequate capitalization and extend product distribution to more markets. Consequently, despite already owning the Hublot and Tag Heuer watch brands, LVMH acquired Bulgari to compete more effectively with Swatch. In turn, Bulgari gained access to LVMH's extensive distribution network and strong marketing resources.

In addition, large companies have divested non-core activities to reduce assets and concentrate on the development of core businesses. Such a strategy, being highly cash generative, creates firepower for use in long-term corporate development. In particular, to refocus on sport, lifestyle and luxury goods at the expense of its retail interests, PPR sold Conforama, a furniture unit and firm legacy asset, to Steinhoff International Holdings for $1.6bn in March 2011. Historically, Conforama had been losing market share to IKEA, a Swedish furniture vendor.

Conclusion and Outlook

5

The cosmetics, jewelry and accessories retail sector has undergone a significant transformation in recent years, with companies either acquiring or merging with others. We expect the high level of M&A activity of 2010 and 2011 to continue, although appropriate acquisition targets will become scarcer.

With the easiest and most obvious opportunities realized, we anticipate greater selectivity in determining suitable M&A strategies for the following reasons:

1. With solid earnings growth increasing cash holdings, big diversified companies will continue to seek strategically appropriate M&A targets suitable for their existing product portfolios.

2. With continuing weak global macroeconomic conditions and widespread austerity regimes in many developed countries demonstrating the weakness of independent companies or pure plays (resulting in, for example, the Bulgari-LVMH transaction), potential targets are likely to seek strong commercial partners. M&A or private equity solutions are often the most appropriate for companies with limited financial resources, e.g. Billabong International seeks a private equity investor willing to value the company higher than a recently rejected $817mn bid.

3. Major M&A opportunities exist throughout Asia, particularly in China which is expected to account for approximately $27.5bn in luxury goods sales at home, equal to around 20% of the global market in 2015, according to McKinsey[2]. However, developing products that enable delivery of globally respected brands to China in ways which reflect its culture and heritage will be crucial. Similar market potential exists in both Indonesia and India. A very interesting aspect is the trend for Asian companies to buy assets in the developed world.

4. The industry has also undergone several important structural changes, especially concerning distribution, which will significantly impact M&A activity this year. Increasingly, we expect companies to target opportunities in the online retailing of cosmetics, jewelry and accessories goods, with the changing age profile of the typical "new age buyer" strongly influencing the mode of delivery.

About M&A International Inc.

6

M&A International Inc.'s members actively represent buyers and sellers in the cosmetics, jewelry and accessories retail sector as well as those seeking to raise private equity and debt capital. We possess significant retail sector expertise, industry relationships and experience in successfully executing complex transactions on behalf of our clients.

Bill Fawkner-Corbett

Head of M&A International Inc.'s
Retail Group
w.corbett@mergers.pl

[2] McKinsey's report: "Understanding China's growing love for luxury" – April 2011

Representative Transactions

Major Cosmetics, Jewelry and Accessories M&A Transactions

Date Announced	Target	Acquiror	Deal Synopsis	Value ($mn)
February 2012	Hang Ten Group Holdings Ltd (Hong Kong)	Li & Fung (Retailing) Limited (Hong Kong)	The acquisition was aimed at entering the growing segment of mass casual fashion brands and to increase Li & Fung's existing presence in key Asian markets such as Taiwan, South Korea, mainland China and Southeast Asia.	357.8
November 2011	Brioni (Italy)	PPR (France)	The acquisition of Brioni will add a new product segment to PPR's existing portfolio. Brioni products, which include formal men's clothing and accessories, are also selling particularly well in emerging markets, especially China.	484.0
July 2011	Sowind Group (Switzerland)	PPR SA (France)	PPR became the majority shareholder of Sowind Group in July 2011, one of the last remaining independent Swiss watchmakers. Sowind also has a component-manufacturing capability, which could be used in PPR's Gucci watches. PPR acquired a 23% interest in Sowind in June 2008.	NA
June 2011	Bulgari SpA (Italy)	LVMH Moët Hennessy Louis Vuitton (France)	LVMH acquired watch and jewelry maker Bulgari to close the gap with its competitor – Richemont. This alliance with LVMH will help Bulgari to reinforce its worldwide growth and realize significant synergies.	5,200.0
June 2011	Moncler Group (France)	Eurazeo (France)	Eurazeo acquired a 45% stake in Moncler group, a luxury down jacket and sportswear manufacturer, from Carlyle Group and from Moncler's management. Eurazeo's investment will help Moncler's international growth and expand its growing recognition as a global luxury brand.	610.89
June 2011	VOLCOM, Inc. (US)	PPR SA (France)	The acquisition of Volcom helped PPR accelerate the development of the Puma sportswear brand, which PPR acquired in 2007, taking it closer to other competitive brands like Adidas and Nike.	607.6
May 2011	Folli Follie Group (Greece)	Fosun International (China)	Fosun International, one of the largest privately owned conglomerates in China, acquired a 9.5% stake in Greece-based jewelry and luxury goods retailer Folli Follie Group (FFG). The partnership will mutually benefit both companies, empowering the FFG's presence in China and Fosun's presence in Greece.	121.0

Source: Capital IQ

Representative Transactions

Date Announced	Target	Acquiror	Deal Synopsis	Value ($mn)
May 2011	Jimmy Choo (UK)	Labelux (Austria)	Private equity firm Labelux acquired TowerBrook's stake in Jimmy Choo. Labelux plans to leverage Jimmy Choo's tremendous brand value and enormous growth potential.	811.0
October 2010	Hermès (France)	LVMH (France)	Hermès is LVMH's biggest competitor and as per LVMH's management, the deal is only financial in nature. LVMH acquired 17.1% in Hermès in October 2010 and later followed it up with 5.2% in two stages in July and December 2011 to take the total stake to 22.3%.	NA
May 2010	Tommy Hilfiger B.V. (Netherlands)	Phillips-Van Heusen (US)	PVH acquired Tommy Hilfiger to diversify its sales and to take advantage of Tommy Hilfiger's strong European distribution channels to market its own products.	3,524.4
April 2010	Net-a-Porter (UK)	Compagnie Financière Richemont (Switzerland)	Luxury goods maker Richemont acquired UK-based online luxury retailer Net-a-Porter Ltd, recognizing the increasing importance high-end consumer goods companies are assigning to online sales.	340.0

Source: Capital IQ

Representative Transactions

Recent Transactions Closed by Members of M&A International Inc.

has received an equity investment of $3,000,000 from

Internet and Catalog Retail
Fundraising – private equity
France

has been recapitalized by

Specialty Retail
Fundraising – private equity
United States

has received an equity investment of $3,000,000 from

Specialty Retail
Fundraising – private equity
France

has acquired

Other Consumer Goods
Advisor to buyer
Switzerland/Netherlands

has completed a recapitalization with

Retail Distributors
Fundraising – private equity
United States

a portfolio company of Summit Partners has been acquired by

Consumer Finance, Investment Management, Private Equity
Advisor to seller
United States

has been acquired by

Specialty Retail
Advisor to seller
United Kingdom

Members of our alliance have successfully closed over 300 retail deals, more than 60 of which were cross-border

Representative Transactions

Recent Transactions Closed by Members of M&A International Inc.

Role of M&A International:	Advisor to EST 1887 SMYTHSON OF BOND STREET
Sector	Leisure Equipment and Luxury Goods
Target	Smythson
Our role	Advisor to seller
Selling Company/ Location	Smythson, United Kingdom
Activity	Retail of luxury stationery
Acquiror/ Investors/ Location	Greenwill S.A., Italy
Activity	Holding company
Description of Transaction	Smythson, the luxury leather goods and bespoke stationery retailer, has been sold to Greenwill S.A (Greenwill). The financial terms of the deal have not been disclosed. Smythson, which was founded in 1887 by Frank Smythson, is recognized as one of the world's premier luxury brands. The company sells a range of stationery, leather goods, diaries and fashion accessories, and has a following throughout the world with a customer list which includes several Royal families, heads of state, members of the aristocracy, ''A'' list film stars and a long list of other celebrities. Greenwill is the holding company for Tivoli Group SpA, which is one of the leading luxury leather goods manufacturers in Italy. The company was established in 1973 and supplies leather accessories for numerous global luxury brands. Tivoli Group intends to invest in Smythson as it enters the next stage of its development and will provide the financial support and stability necessary to continue to develop the brand and the business in the long term.

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8

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