



Hotter was bought by Electra Private Equity in January.
CREDIT: HOTTER

A recent spate of footwear brand acquisitions by private equity and investment firms has put the sector under the spotlight. But what is it that these investment groups like and how can the shoe industry benefit?

Capital gains

They were once described as “locusts” by a German politician, owing to a reputation for buying struggling companies, stripping assets and then exiting with a healthy profit, but private equity firms seem to have put that reputation behind them. True, the focus will always be on returns but by enabling brands to grow quickly through a mixture of investments, contacts and know-how, those on the receiving end can often be catapulted into markets they would have struggled to access alone.

The past two years have seen a spate of footwear brands fall under private equity ownership or receive backing from investment firms. Just before Christmas, the US-based Jones Group – owner of Brian Atwood, Kurt Geiger and Stuart Weitzman – was bought for \$1.2 billion by Sycamore Partners, while in mid-January Swiss asset manager Da Vinci Invest bought Bruno Magli from UK hedge fund Fortelus. Other recent deals include Apax’s purchase of Cole Haan from Nike for \$570 million, Blackstone’s \$200 million investment for a 13% stake in plastic shoe brand Crocs, and Marwyn Management Partners’ purchase of upmarket rubber boot brand Le Chameau.

This trend is partly driven by increasing consumer interest in brands and owning multiple shoes for different occasions, says Gareth Whitley, head of the retail and leisure team at Silverfleet Capital, which bought UK-based footwear retailer Office in 2012. “Also, shoe retailers potentially offer international expansion opportunities as fashion trends become more homogeneous across the world.”

This potential for growth is key. Focusing on the “grey” rather than fashion market, UK-based shoe manufacturer Hotter received a \$21 million investment from Gresham Private Equity in 2007 which enabled it to grow from five standalone stores to 56, while online sales increased 300%, helped by investment in the website, an enhanced digital marketing programme and improved IT infrastructure.

This growth, with sales doubling in the past four years, attracted the attention of Electra Private Equity, which had been tracking Hotter’s progress. “It epitomises what we look for in a buyout investment – a really strong UK-headquartered business with not only a UK growth story but also proven international potential,” says Alex Fortescue, chief investment partner of Electra Partners. In January, Electra bought the business for a reported £200 million from Gresham, and the company plans to launch an international website in the first half of 2014, driving further sales in the US and rolling out sales channels in other markets.

High-end focus

In the luxury footwear market – one of the fastest growing segments of the luxury sector, according to consultancy Bain & Co – brand positioning also plays a key role. Having a supply

chain that is “coherent” with the story is vital, says Alexandre Hamaide, managing director at EmCap Partners. “If you are a luxury brand and you’re manufacturing in Portugal or in Eastern Europe or China, this is not coherent. If you want to take a brand abroad and you want to market it as a luxury product, the Made in Italy or Made in France aspect is very important,” he says.

EmCap, a high-end-focused investment firm, backed luxury Italian shoemaker Alberto Moretti in December. “The market for shoes is very dynamic, both in mature and emerging markets,” explains Mr Hamaide. “On the emerging markets side, which is our focus, department stores dedicated to shoes are growing and there is more and more space dedicated to it. The Level Shoe District in Dubai Mall – opened by Chalhoub, one of the big distributors in the region – is one of the largest spaces ever allocated to shoes. Takashimaya in Singapore is doing the same, so there is a trend that retailers are allocating more and more commercial and space resources to shoes.

“If you look on a micro level, in the fashion or luxury goods industries in general, the footwear segment is one of the most dynamic with less inertia than other accessories such as bags or apparel.”

He points out that the leaders in the luxury shoe segment didn’t exist 20 years ago – Christian Louboutin developed through a sole entrepreneur and Jimmy Choo grew with the help of private equity funds. Leathergoods brands, however, such as Hermes, Gucci and Louis Vuitton have been established for decades – 100 years in the case of Hermes. “For this reason, we see the market for footwear and for luxury shoes in particular as more open to innovation – the clients are more open to change, to trying new brands, which we thought was very attractive.”

One of the first things he looks at in terms of small or up-and-



Alberto Moretti (right) joins designers (l-r) Erica Pelosini, Louis Leeman, Paul Andrew and Edgardo Osario to celebrate the first anniversary of Dubai’s Level Shoe District. CREDIT: LEVEL SHOE DISTRICT



Dr Martens increased sales by 27% to £160.4 million in the year to March 2013.

CREDIT: DR MARTENS

coming brands is scalability: if the growth strategies bear fruit the brand needs the ability to increase production. Alberto Moretti established his eponymous brand three years ago in Tuscany, with skilled workers and resources on its doorstep as well as a supply of high quality leather from the country's tanneries. The Moretti family's factories have been making footwear for Car Shoes, Salvatore Ferragamo and Prada among others for decades.

"It is very important to have that history and understanding of shoe manufacturing because you can't improvise manufacturing shoes from one day to the other, it's a complicated process," adds Mr Hamaide. "Having a knowledge of manufacturing in-house is very important."

Brand strength

Lower down the scale, it might not be the supply chain story that is most important but the strength of the brand philosophy and how it resonates with customers. US-based Permira in January closed a £300 million deal for bootmaker Dr Martens, a brand that has been headquartered in Northamptonshire, UK, since the 1960s and is synonymous with rebellion and youth culture. "We were attracted to Dr Martens' brand authenticity and heritage, and its loyal customer base," says Cheryl Potter, head of Permira's consumer team. "Through our investments in the consumer sector [Valentino and Hugo Boss], we have identified a long-term growth trend in premium brands."

Much of Dr Martens manufacturing is done in China, having moved from the UK in 2002. Fabrizio Carretti, head of Permira's Milan office, says this, alongside its design skills and flexible cost base, gives it the ability to react quickly to changing trends. "We like the fact that Dr Martens is a lean and agile company," he explains.

Most of these types of deals typically involve taking seats on the board, to help steer company direction. They sometimes also involve management removal – as was the case with Cole Haan's CEO, who was replaced by the former CEO of Converse (although details of the departure are not known) – but Carretti cites Dr Martens' management as a reason for investment.

"The management team, led by CEO David Suddens, has

delivered an impressive turnaround and growth of the business since 2002 by focusing on product innovation, investing in the brand, improving operational performance, continuing the roll-out of retail stores and expanding internationally," he says. "Dr Martens' ambition is to complete its transition to a fully multi-channel consumer retailer, in order to better respond to the needs of its consumer. This is the strategy that we are backing."

Growth strategy

Mr Hamaide and Michelangelo Mantero, founder of GenCap Advisory and another investor, took seats on Moretti's board as part of their deal. A short-term priority is to open a standalone store in Paris or Milan and, later, London. "Consolidating the brand's presence in Europe is one of the keys to addressing foreign markets," explains Mr Hamaide. "In parallel, we are initiating talks with potential partners in international markets. The US is still a great market for footwear and the Far East is also very interesting – Hong Kong, Singapore and then China – and the Middle East."

Middle Eastern buyers are estimated to have spent 20% of their luxury budget on shoes in 2012, according to analysts, and Moretti gained recognition for a pair of 24-carat gold loafers for men and high-heeled pumps for women which went on sale in the Level Shoe District last year. "Our partner is currently working on a store in Abu Dhabi, which should be open in the next two to three months, so this is really coherent with what we want to do and where we are today."

The second part of the growth strategy, product development, involves increasing the size of the collections either to cater to a larger clientele without lowering the quality or brand positioning, while also increasing the number of shoes you can sell to existing clients, either on a wholesale or retail basis.

Some private equity firms might be known for an aggressive stance or job shedding, but most recent footwear investments have been relatively straightforward – on the surface at least. It seems it is a trend that is unlikely to abate any time soon with Mr Hamaide and peers "closely monitoring" the sector. "We think there are great opportunities in this market," he says. 📍