

# Control Freaks

*Reuters Breaking Views*

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Activists could stir things up in the business of luxury. Family control allows high-end fashion brands to hoard cash and live with second-rate governance. But assertive investors are becoming more willing to take them on, while some companies, like Prada, are more vulnerable than they appear.

Investors pushing for change have already targeted jeweller Tiffany & Co and handbag purveyor Kate Spade in the United States. In Europe, Albert Frere's Groupe Bruxelles Lambert recently became Burberry's largest shareholder with a 6 percent stake. Burberry is one of the few European players without a dominant shareholder, making activism a more obvious option. Yet Harris Associates has bought 2 percent of the public shares at Richemont, which owns Cartier, and 3.5 percent at Swatch. Both companies are dominated by insider voting blocks.

As developments elsewhere show, like Elliott Management's agitation at Samsung Electronics, entrenched owners shouldn't be complacent. A Harvard Law School study of 120 shareholder campaigns at companies with a controlling shareholding above 50 percent found that four in 10 succeeded in getting one or more of the activist's demands accepted.

The luxury sector could benefit from the scrutiny, too. Richemont, for instance, is sitting on almost 6 billion euros of cash. And dealmaking hasn't always been disciplined. The high price paid by LVMH for Bulgari, for example, means that returns on the investment still aren't reaching the group's cost of capital six years later, according to HSBC. Elsewhere, companies that could be leading the way on governance are not: the chairman and chief executive roles remain combined at LVMH, Kering and Hermès.

One tool for activists is an Italian law that gives minority shareholders the right to appoint directors. It could give them a way in at companies like Tod's, Salvatore Ferragamo, Brunello Cucinelli and Moncler. The \$8 billion Prada, too, is exposed despite its Hong Kong listing and an 80 percent family holding. And shareholders could easily find things to complain about. For one, the 12.4 million euros paid last year to each of the brand's co-CEOs, Miuccia Prada and her husband Patrizio Bertelli, amounted to 9 percent of net income.

Activists have fewer options at, for example, French giants LVMH and Kering, where outsized voting rights can shut out insurgents. Still, all luxury brands are touchy about their reputations. A high-profile activist assault could lead even powerful families to see the light.

## Context News

Groupe Bruxelles Lambert, activist investor Albert Frere's investment vehicle, became fashion group Burberry's largest shareholder on Nov. 10.

Activists' bargaining power at companies with controlling shareholders is not always as limited as it appears, according to a 2016 paper by Kobi [Kastiel](#), a fellow at Harvard Law School. Forces

that facilitate activism include the right to nominate directors, the right to veto going-private transactions, and the use of litigation to put pressure on those in control, Kastiel concludes.