

Stock story: Kering

August 2023

Luxury fashion conglomerate Kering has become a powerhouse by applying a similar formula to each of its brands. Investment manager Stephen Paice explains why we believe this classic 'compounder' will continue to stand out from the competition.

Your capital is at risk.

Stephen Paice: Luxury brands aim to grow desire faster than demand, and demand faster than supply. We don't really need their products, but they are the ultimate social signalling tool. They tap into aspiration, into emotion and capture the imagination.

Many of the world's most prestigious brands are parts of conglomerates like Kering, a company we have been invested in since 2008. It actually began as a timber trading business and only made its way into luxury in 1999 when it rescued Gucci from near bankruptcy.

Since then, it has grown to include brands like Boucheron, Balenciaga and Saint Laurent. Part of Kering's success has been how it applies a similar formula to each of its brands. It hires a bold creative director and combines them with a talented CEO and a great merchandising team, something which has consistently led their brands to stand out from the competition. You can see this in how Gucci and Balenciaga have defined the luxury streetwear trend, leading them to be ranked the top two brands in the Hottest Brands Index in recent years.

Kering owns some of the most attractive brands in the world that exhibit returns to scale – the bigger they get, the more powerful they become. The biggest brands today can almost dictate what we buy, and their scale can be leveraged across marketing, prime real estate and talent.

Gucci is going through a transition as a new designer comes on board, however it has long been the jewel in Kering's crown. It shows its other brands – and those it will acquire in the future – what is possible when it comes to growth and profitability.

With any long-term investment, it's important to trust the people running the business. Like in many of our investments, this is a family-controlled company. The Pinault family has steered Kering to be valued at more than €60bn and is managing the business to be fit for the future, something which is clear in how it ranks among the leaders in sustainable materials design.

We've already held Kering for 15 years because companies like Kering capture generations of growth, with pricing power and high margins, and yet have minimal competitive threats. This makes it a classic 'compounder', affording us the luxury of time to understand the company and its management, and the other aspects that make this such a unique asset.

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