

FASHION

# Italy's Textile Supply Chain Future Sits in Collaboration

- Leading textile and materials firms in Italy have joined forces by way of acquisitions and nuanced collaborative ventures to safeguard the fashion supply chain.

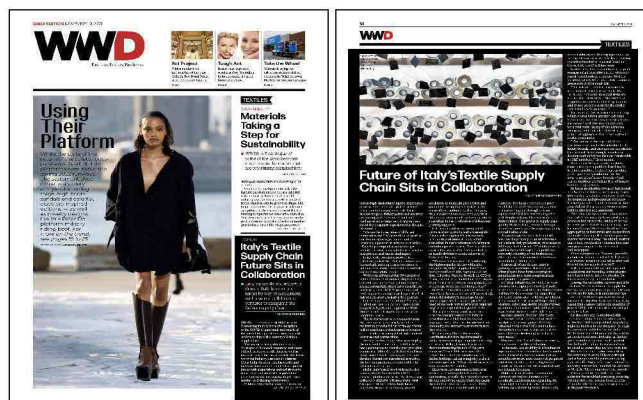
BY MARTINO CARRERA

**MILAN** — There's a brisk M&A activity blossoming in Italy since the inception of the COVID-19 pandemic and much of it is meant to support the know-how and craftsmanship of the country's fashion supply chain.

The sector is facing declining sales, shortages of financial resources and more difficult access to credit lines, as well as increased costs for raw materials, the latter worrying industry association Sistema Moda Italia. As such, leading textile and materials firms in the country have joined forces with acquisitions and collaborative ventures to safeguard the supply chain, providing manufacturing backup for one another and sharing information.

Evidence that Italian entrepreneurs are

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## Future of Italy's Textile Supply Chain Sits in Collaboration

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increasingly understanding the importance of preserving the local pipeline, several players including private equity firms, fashion moguls, industrialists and investors are coming to the rescue of small and medium-sized enterprises, dragging them out of the quagmire experienced in the past 20 months.

"We see the integration of different companies and M&A activities as a positive and encouraging sign," said Claudia D'Arpizio, a partner at Bain & Co. in Milan. "They help companies evolve and get managerial structures, which are crucial to face present and future challenges."

Luigi Feola, managing partner at L Catterton, noted that "business owners are increasingly seeking operative partners, helping them dodge uncertainties and take business on a global scale."

While it is estimated that 70 percent of high-end fashion manufacturing is globally concentrated in the key fashion districts spread across Italy, these have been hit the hardest by the COVID-19 pandemic, with performances starting to pick up in the first half of 2021 after a negative first quarter.

In the six months ended June 30, textile production rose 17.3 percent and exports jumped 18.5 percent compared to 2020, though that's still significantly below pre-pandemic levels.

The sector seems to be acknowledging that size matters, especially with the realization that the fallout of the pandemic will be much more challenging to weather solo – leading to unexpected and nuanced ventures and partnerships.

Among the first companies to exemplify the new collaborative mind-set that has been gaining steam over the past year-plus, cotton firm **Albini** Group linked with Prato, Italy-based **Beste** to create synergies and develop shared projects aimed at making the two companies more competitive in international markets.

Biella, Italy-based wool mills **Reda** also partnered with **Lanificio Fratelli Cerruti** for a shared platform dedicated to showcasing collections digitally. Silk specialists **Ratti Group** and **Mantero Seta**, both located in the textile district of Como, formed

an alliance to maintain production and guarantee the quality of services at the onset of the pandemic. Earlier this year, they also joined forces to each acquire a 20 percent interest in **Foto Azzurra**, which specializes in the production of silk-screen printing supports.

In that vein, and in an unexpected venture of sorts, **Prada** and **Ermenegildo Zegna** each bought a 40 percent stake in **Filati Biagioli Modesto SpA**, which specializes in the production of cashmere and other precious yarns. The acquisition came a few weeks after **Zegna** bulked up its textile division with the takeover of **Tessitura Ubertino**.

"We have always aimed at producing the highest-quality fabrics while also safeguarding Italy's supply chain," chief executive officer **Gildo Zegna** said at the time. Likewise, **Patrizio Bertelli**, co-CEO of **Prada**, said directly controlling one's supply chain "ensures uncompromising quality at every stage of the production process."

**Bertelli** reiterated his position last month remarking that acquisitions will increasingly define the industry's landscape in the future, especially for smaller players in need of the tools and investments required to grow and expand their global reach.

These partnerships nod to a common practice among international fashion powerhouses, which have been on a buying spree for the past decade securing continuity and support to manufacturers they rely on.

For instance, **Chanel** through its **Paraffection** division, has invested in Italian manufacturing companies including shoemaker **Ballin**, tannery **Gaiera** and the manufacturing branch of the yarn company **Vimar** 1991. In August, the French brand further consolidated its Italian holdings, taking a majority stake in knitwear specialist **Pauma**, which focuses on outerwear developments.

Elsewhere, investment and industrial vehicles are crafting their dreams of aggregation, mindful that manufacturers at the top end of the supply chain represent the true hotbed of innovation and R&D.

That is the rationale behind **Gruppo**

**Florence**, the luxury production pole established in 2020 by industry veteran **Francesco Trapani** through private equity fund **VAM Investments** together with **Fondo Italiano d'Investimento** and **Italmobiliare**. The goal is to supply high-quality Made in Italy products to major luxury fashion brands by acquiring family-owned Italian SMEs.

**Trapani** expects the pole to quickly become the primary point of reference for Made in Italy production, with sales in 2021 expected to reach 170 million euros, and has been building a rich portfolio currently counting seven businesses, after the recent acquisition of knitwear manufacturer **Metaphor**.

Despite all of the tie-ups, there's growing competition in this field, as other players have been scooping up manufacturers to form conglomerates with production prowess.

Holding **Industriale**, or **Hiind**, a private investment company helmed by **Claudio Rovere** recently bulked up its Holding **Moda** fashion division – currently controlling five other businesses – with the acquisition (for an undisclosed sum) of **Project Srl**, a Vicenza, Italy-based denim and sportswear garments manufacturer with 2021 revenues expected in the region of 5 million euros.

**Matteo Lavezzo**, founder of **Project**, underscored that "the evolution of the market and current [post-COVID-19] rebound proved that SMEs cannot face the global and complex market on their own, all the while dealing with clients' new needs."

**Rovere** touted **Project's** business vision, rooted in responsible production.

To be sure, sustainability is a hot-button topic and at the center of investors' scrutiny when it comes to M&A activities. Italian manufacturers are most often well prepared and viewed as the ones helping fashion brands to advance their ESG-oriented and eco-friendly journeys.

Publicly listed **Tamburi Investment Partners** pointed to **Limonta SpA's** sustainable achievements explaining the reasoning for its first acquisition in the fashion manufacturing sector last month,

when it submitted a binding agreement to acquire 25 percent of the textile and coating specialist founded in 1893 and based in **Lecco**, Italy, for 89 million euros.

Last month, **Limonta** announced a joint venture called **BioFabbbrica LLC** with U.S.-based biotechnology company **Modern Meadow**, which develops biofabrication to create sustainable materials.

"Our role of long-term investors has not changed," said **Alessandra Gritti**, **TIP's** CEO. "Short-term acquisitions are nonsensical these days....Our goal is to support companies in a healthy manner and create an ecosystem for the textile sector that's so fragmented."

To this end, the investment company, which works with a shorter exit time frame compared to private equity firms, has agreed with the founding family for a mid-term listing of the **Limonta** company, which is also viewed as a potential aggregator for other high-end textile companies.

"This sector at the top-end of the spectrum is an invaluable interlocutor for luxury brands, and through the acquisition **Limonta** will have enough muscles to develop and anticipate fashion trends with its R&D activities," **Gritti** added.

Well before the pandemic mayhem, **Pattern Group** – a publicly listed leader in patternmaking, engineering, grading, prototyping and production for the most prestigious luxury brands – had started building the **Italian Hub of Luxury Fashion Engineering**.

Its latest acquisition revealed last month of a 54 percent interest in **Tuscany-based Idee Partners**, which specializes in design, development and production of luxury leather goods, for 4 million euros further consolidates the group's presence in key fashion districts and segments.

"We have always courted companies that didn't necessarily have production prowess but rather the ability to invest in development and sustainability," said **Pattern Group CEO Luca Sbrulati**. "Our aggregation is industrial and stems from the understanding that smaller players cannot survive alone," he added, noting that when production volumes increase companies ought to be prepared and equipped.

Other companies in **Pattern's** portfolio include knitwear specialist **S.M.T. (Società Manifattura Tessile)** acquired in 2019 and **Roscini Atelier** acquired in 2017.

Although nuanced partnerships and acquisitions are booming, some players have had a harder time weathering the havoc wrought by the pandemic.

Among the casualties, cotton specialist **Tessitura Monti** was forced to apply for the special administration procedure and is now up for sale. It is understood that some parties have expressed informal interests for the **Maserada sul Piave**, Italy-based firm's assets before the deadline of June 8, 2021, although a deal has still yet to materialize.

On the contrary, **Como-based silk specialist Canepa** found its white knight in the **Muzinich Group**, which acquired a majority interest in the company through its investment vehicles **Capital Solution ELTIF Azimut** and **Muzinich & Co. SGR** for an undisclosed sum. **Invitalia**, an Italian governmental company, is also part of the deal with a minority stake and was involved to secure that no jobs were lost.

**Michele Canepa** – who returned to the company in 2019, fully acquiring it and subsequently filing a restructuring plan with the Court of **Como** – retained a minority interest but handed his CEO role to **Virginia Filippi**, appointed last month.

The acquisition marked a turning point for the troubled company, covering existing debts and setting in motion its relaunch, which **Canepa** has spearheaded in the past two years.