

Rouge Partners

Outline Description

1. Opportunity Set

Luxury goods is a strong growth market, reflecting the growing disposable income of BRIC markets and the innate desire of individuals to demonstrate their success and good taste through the acquisition, gifting and wearing of high-end luxury brands.

The universe of global luxury brands is highly fragmented, with the top 6 players owning just 10% of the brands.

There is an increasing divergence between the larger brand-owning groups and the smaller houses, due to the level of investment required to expand in key markets and the challenges of supporting growth across a number of geographies at the same time.

There is an opportunity to create value through building a new specialist luxury good group comprising 5 to 7 brands, bringing together a top flight team with the required experience, supported by a shareholder base with insight and relationships in the key growth markets of the next decade.

Rouge's management team has identified approximately 70 brands in the key categories of Accessories and Leather, Jewelry and Writing, Luxury Daywear, and Watches as well as a very small number of retail-led Fragrance brands which they believe could be acquired and grown successfully within this new luxury goods company. The focus will be on accelerating the growth of brands with high potential rather than turnarounds or the implementation of high-risk strategies. Discussions with a number of key targets have been initiated.

2. Structure

Rouge Partners has been structured as a partnership between a Management Team and 10 equal Founding Investors each committing to invest the same amount of capital, €50m each.

Well-established entrepreneurial families in the key growth markets are in discussions with Rouge Partners to become its Founding Investors. The objective of the partnership is to create a new, independent, publicly traded luxury goods group, which will list in five year's time, allowing the Founding Investors a choice as to whether to remain invested or alternatively liquidate all or part of their shareholding.

The main focus of the development strategy will be expansion in China and in other growth markets (including but not limited to Korea, Middle East, India, Turkey, Indonesia and Brazil).

Investments will take the form of controlling interests or investments with a path to control, and may include one equity accounted stake of up to 20 per cent of the Capital Commitments.

The Management Team will be responsible for developing the strategy, identifying the targets, raising the capital, investing it in attractive acquisition opportunities, overseeing the investments, supporting their growth and implementing the liquidity event through an IPO.

The Founding Investors will be consulted with and vote on key decisions, will bring their insight to the investment process and in some cases will provide added value to the acquired businesses. There will be a Founding Investors Committee where each shareholder will be represented.

3. Management Team

The founding partners comprise:

- Robert Polet, formerly CEO of Gucci Group, senior positions at Unilever
- Lorenzo Grabau, formerly a partner of Goldman Sachs
- Wei Chen, formerly Hermes and Louis Vuitton, Asia Pacific
- Philip Yea, formerly CEO of 3i, Partner at Investcorp, CFO of Diageo.

4. Current Financial Parameters

Targeted capital raise is €750m of equity

- initial capital raise with commitments of approximately €500m to be completed in early 2012
- second capital raise to be implemented (through further commitments) once 70% of the initial amount will have been invested.

The 10 Founding Investors will each commit €50m, and will have the opportunity, but not the obligation, to invest in the second capital raise.

The Management Team will collectively invest €7.5m in the initial capital raise.

There will no management fee charged on the capital committed but a reimbursement of the actual expenses incurred within a 1% limit of the Committed Capital.

The Management Team will receive limited compensation until the liquidity event takes place and will be entitled to share 20% of the value created in excess of the capital contributed, subject to a 3% hurdle rate.

At the time of the IPO, the value creation participation will be distributed in shares to the Management Team vehicle upon expiration of the lock-up period.

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