

Zegna Open to Buying a Textile Firm or Brand, CEO Says

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A shoe in the window of an Ermenegildo Zegna store in Milan.

Photographer: Alessia Pierdomenico/Bloomberg

The Italian luxury house Ermenegildo Zegna NV is open to acquiring other textile manufacturers or a fashion brand that's strong with younger shoppers, its chief executive officer said.

Zegna manufactures its own fabrics, knitwear and yarns, and also sells those products to other brands, such as Chanel and Brunello Cucinelli. "We have this

luxury textile platform," Ermengildo Zegna said in an interview. "We might add something to that."

An acquisition would broaden the company's ability to manufacture fabrics or fibers, for instance, and would also be less expensive than purchasing a new brand, he added. Competitors have been looking at expanding their manufacturing, too, driven by supply-chain problems during the pandemic, he said.

"There will be more vertical integration -- whether it's leather, apparel or accessories," Zegna said. "We are at the forefront of that."

The company would also consider acquiring a fashion company. "I would prefer a brand that's going after the young customer and a brand that's more digital -- that's more online than offline," Zegna said. "In accessories, I think we can do a better job."

Potential acquisitions aren't likely to be immediate. In 2022, Zegna said, his focus will be on growing organically, in part because of the uncertain trajectory of the pandemic.

Zegna listed its shares on Monday on the New York Stock Exchange after merging earlier this year with a blank-check company led by Sergio Ermotti, the former CEO of UBS Group AG. The Zegna family holds nearly 66% of the combined entity, which has a market capitalization of \$2.7 billion after the shares rose 5.9% on Monday.

The Italian fashion house is a global leader in menswear. Zegna said during a presentation to investors in July that it expects to report 1.34 billion euros (\$1.51 billion) in sales in 2022, which would be an 11% increase versus what the company expects to report this year. The company isn't as profitable as peers, however.

"Retail space productivity at less than 3 million euros per store seems a key structural reason for the gap," said Luca Solca, an analyst at Sanford C. Bernstein. "Fabric manufacturing for third parties is likely another factor depressing profitability."

The recent trend toward more casual dressing, which has been accelerated by the pandemic, has put the luxury suit maker on its back foot. Zegna is pivoting and says it aims to decrease its share of formalwear and increase its

leisurewear sales to more than half of revenue by 2023. Its acquisition of U.S. fashion house Thom Browne in 2018 is also part of that development.

"We are shifting the paradigm, particularly in America, from the power-suit perception of the brand to a more casual, more relaxed" offering, Zegna said. The company plans to invest more in marketing in the U.S. and to team up with other brands on collaborations that draw in new consumers, he added.

Zegna said in the investor presentation that it expects to generate more than half of the revenue from its apparel and accessories business in China this year, an increase from around 40% in 2019, before the pandemic struck.

Zegna's sales in the U.S. and the rest of the Americas, by contrast, are expected to generate around 15% of revenue this year. The CEO says the company is working to increase that figure.

Zegna, like other high-end brands, was able to pull back on discounting this year in the U.S. due to robust demand from shoppers, among other factors.

"It's the first season I remember in 40 years that we don't have any sales," Zegna said. "That's a very, very strong sign."