What the Tapestry-Capri merger block means for American luxury

The merger was blocked, which puts the creation of a US mega-conglomerate on hold. Experts weigh in on what this means for the brands and wider industry.

By Madeleine Schulz

October 28, 2024

Photo: JP Yim/Getty Images

On 24 October, the American fashion conglomerate pipe dream was forced to a halt when a US judge blocked the hotly debated Tapestry-Capri merger, granting the Federal Trade Commission (FTC)'s motion for a preliminary injunction.

On 28 October, Tapestry and Capri filed a joint notice of appeal. But it's unlikely that the judge will overturn the ruling, legal experts agree. "In order to do so, there would have to be evidence that this case was incorrectly ruled based on the facts and the law," says Lvlup Legal founder and managing

attorney Shermin Lakha. “It is likely that defendants Tapestry and Capri Holdings will appeal on both fact and law; however, they must present clear, new evidence that will justify a judge to overturn the previous judge’s decision. It may be difficult for the defendants to present new evidence in this case.”

Analysts and lawyers alike were surprised by the verdict. “It seems to ignore the realities of the market and makes a case for protecting consumers in a category that is highly discretionary and very competitive,” says Neil Saunders, managing director of retail at Globaldata. In reality, the ‘accessible luxury’ category is far more robust than the FTC claimed in the case, experts agree. The definition of the term is also unclear, which is the biggest red flag Tapestry raised in its opposition: a lack of a clear definition of what constitutes an ‘accessible luxury handbag’ was a problem because the case rested on this concept, Tapestry and Capri argued.

What happens from here? Much hinged on this merger, which would have been a first step towards building a proper American conglomerate. For Tapestry, it would’ve propelled the growth of the group. For Capri, it was about the reinvigoration of brands including Michael Kors under a new parent company, as argued during testimonies. In a slowing luxury market, it offered brands on both sides a growth engine — and a chance to establish the US as a bigger player relative to its European counterparts.

“This merger would have established one of the largest luxury fashion houses in the world, and would have likely resulted in a huge increase in revenue from its sales, giving the US a strong presence in the luxury fashion world,” Lakha says, noting that the merger would’ve given the States the opportunity to compete with European brands and increase its Asia reach. “European fashion houses like LVMH and Kering have demonstrated that these mergers do lead to an increase in stock prices, which does tend to impact employment and wages. However, the block of this merger may prevent the US luxury fashion market from having the ability to scale in the same way that the European and Asian markets scale.”

Vogue Business breaks down what the verdict signals for Capri, Tapestry and the US industry at large.

For Capri

The verdict poses challenges for Capri, which has seen a deceleration in sales. Last quarter, Capri’s first-quarter revenues fell 13 per cent. (Analysts had expected a 6 per cent decline.) “Capri has very few good options,” Saunders says.

If the pair are unable to prevail on appeal, a termination of the merger will mean Capri has to pay $240 million in termination fees, according to filings. This will be a big blow to an already-strained business, Lakha flags.

From there, the company could look to sell itself to another firm — in whole or in part — or begin reinvigorating its brands in-house, Saunders says. “Neither of these things will be easy, and if it looks to sell itself, it is very unlikely to get the kind of premium that Tapestry was willing to pay,” he says. Versace or Jimmy Choo, meanwhile, are contenders for acquisition by European luxury houses such as Kering, TD Cowen managing director Oliver Chen said in an industry update following the verdict — especially if Capri manages to monetise them. They could also be taken private by a private equity firm.

But reinvigoration could be an even bigger feat. Michael Kors is the biggest pain point, experts agree. The deal was heralded as a lifeline for the brand, which has dealt with inventory and distribution problems, an overreliance on discounting, and its brand positioning. (Tapestry reinvigorated Coach by tackling similar issues.) Experts had hoped that Tapestry would be able to apply this same strategy to Michael Kors, given how difficult a turnaround is to achieve — especially in a slowing luxury market, Saunders flags.

The eponymous designer acknowledged his brand's struggles during his recent testimony for the trial, during which he spoke about the difficulties of maintaining growth and relevance in today's attention economy. "Sometimes you'll be the hottest thing on the block. Sometimes you'll be lukewarm. Sometimes you'll be cold," he said. Kors recognised that his brand is in need of a revival, displaying an awareness of the brand's current positioning that executives rarely acknowledge. "I think we've reached the point of brand fatigue," he told the court.

As Kors himself recognised, the brand faces an uphill battle — even more so without Tapestry. "We believe the stores and brand need additional investment for growth," Chen said. "In other words, things may get worse before they get better."

For Tapestry

For Tapestry, a no-deal scenario is an inconvenience, but not as dire.

In the event that the appeal is unsuccessful, Tapestry might look to buying back its shares from Capri. CFO Scott Roe said during Tapestry's August earnings that, given Capri's valuation, this is a compelling option (while maintaining that "plan A", the deal, was Tapestry's priority).

"Tapestry has wasted time and some money on this acquisition, but the deal not going ahead is not catastrophic," says Saunders. It could even work in Tapestry's favour, he adds. "Given that Tapestry was probably overpaying for Capri, this may even be a blessing in disguise."

Tapestry is now left to develop another strategy for delivering growth in a slowing luxury market. This could mean leaning on its existing brands more heavily, or looking to make smaller acquisitions that will escape FTC scrutiny, Saunders offers.

"The company may wait until after the results of the election to have greater clarity on the future ambitions of the FTC and [FTC chair Lina] Khan before assessing other smaller acquisitions," Chen said. Additionally, Tapestry would be wise to shift away from handbag-heavy brands as acquisition targets, he added. "If Tapestry pursued an acquisition, we believe it may have to be in the general accessories or apparel category and outside of handbags. For example: outerwear, jewellery, or lifestyle, such as beauty and wellness." To achieve growth, Tapestry will need to convince investors of its merger and acquisition strength, advised Chen.

For the industry

The verdict could have major implications for future mergers in US fashion, as well as the ability for US brands to measure up against their European counterparts.

Historically, holding companies like LVMH have been able to successfully close mergers, Lakha says. This verdict marks a turning point, and it's one that bodes badly for the American fashion industry. "We may see a decline in mergers for fashion companies within the same market categories, which will also limit these companies from being able to compete with the European markets," says Lakha.

Even as a merged entity, Tapestry and Capri would be significantly smaller than LVMH or Kering, Saunders adds, questioning why this combined group is seen as such a threat. The fact that the companies are unable to proceed sets a worrisome precedent for the US industry, he says. “The FTC has set a signal that US fashion is closed to dealmaking, and it will make companies a lot more cautious about mergers and acquisitions.” This is a barrier to luxury growth, he says. “If the US wants its own powerful house of luxury brands, then some consolidation must be permitted.” Saunders expects that the European luxury houses will continue to strengthen their hands.

At a local level, though, a combined Tapestry-Capri would be the largest luxury player headquartered in the US. But Tapestry and Capri maintain that this was not a threat to third-party brands, given the vast array of ‘accessible luxury’ houses on offer outside of the groups and the fact that there would be no merging of the six brands.

In the near term, Lakha anticipates that the stock prices of both groups will go down if the appeal fails, which could result in a loss of jobs or other shifts within the companies, she adds. Given that Tapestry and Capri combined make up a large portion of the US fashion industry, the ripple effects won’t go unnoticed.