



# Kering's New CEO Has the Toughest Job in Luxury

Luca De Meo must balance debt reduction with creativity.

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Kering CEO Luca De Meo.

Photographer: THOMAS SAMSON/AFP

When Luca de Meo, the former chief executive officer of Renault SA, assumes the top spot at Gucci-owner Kering SA next week, he has a tricky transformation ahead.

Replacing the scion of the controlling family, he must reduce debt and tackle bloated executive ranks but most critically get Gucci firing on all cylinders again. This would be difficult enough at a carmaker, where costs can simply be slashed. But luxury relies on





the visions of designers and marketing spending to stand out in a crowded market.

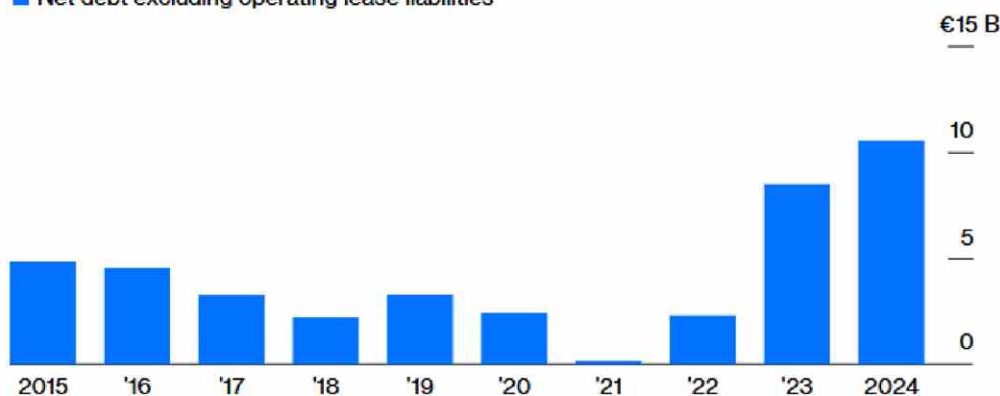
At Renault, De Meo combined financial acumen with design flair. Even so, the delicate balancing act between conserving cash and promoting creativity makes this turnaround fraught with potential fashion faux pas.

The first task of the new CEO, who takes over from Francois-Henri Pinault, is to put Kering on a firmer financial footing. Erwan Rambourg, analyst at HSBC Holdings Plc, estimates year-end net debt at €8.9 billion (\$10.5 billion) excluding lease liabilities, 3.3 times his estimated 2025 earnings before interest, tax, depreciation and amortization.

### Kering's Borrowings Have Ballooned

Although the company has begun to reduce leverage more work is needed

■ Net debt excluding operating lease liabilities



Source: Bloomberg Intelligence

De Meo will have little choice but to bring down the borrowing burden and cut costs, [as he outlined on Tuesday](#). Facing shareholders for the first time, he said he would take fast, tough decisions, and present his strategic plan in the spring.

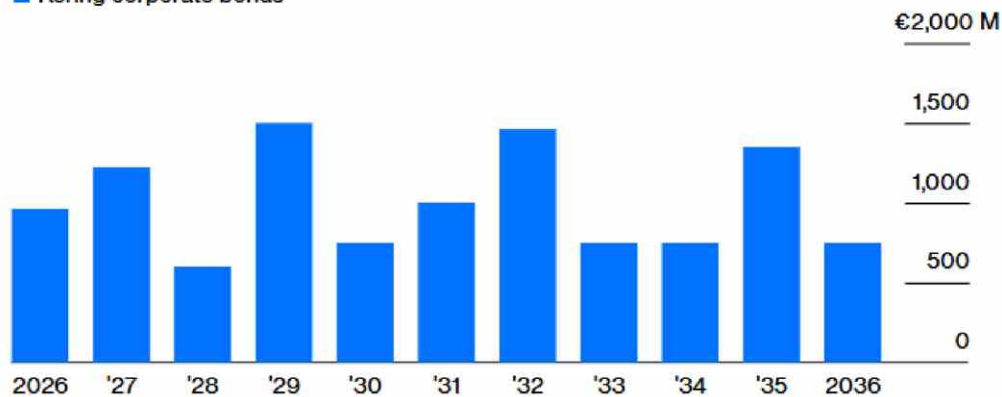
### Kering Debt Falling Due



## Kering Debt Falling Due

The company has significant bond maturities over the next five years

■ Kering corporate bonds



Source: Bloomberg

If this were not enough, there's the legacy of Kering's decision [two years ago to acquire](#) 30% of Italian brand Valentino from Qatar's Mayhoola for €1.7 billion, with the option to buy the remainder by 2028, for an estimated €4 billion.

Valentino is [facing its own challenges](#), so Mayhoola is unlikely to force Kering to buy the remainder before 2028 as it could do. As the price will be based on Valentino's performance. Kering said in July that the consideration would be "substantially below" €4 billion.

But De Meo could try to restructure the deal, for example, paying more in stock, giving Mayhoola a stake in the company. This would rid Kering of big cash outlay and bring in a muscular shareholder – if the Qatari fund, and the Pinault family are amenable.



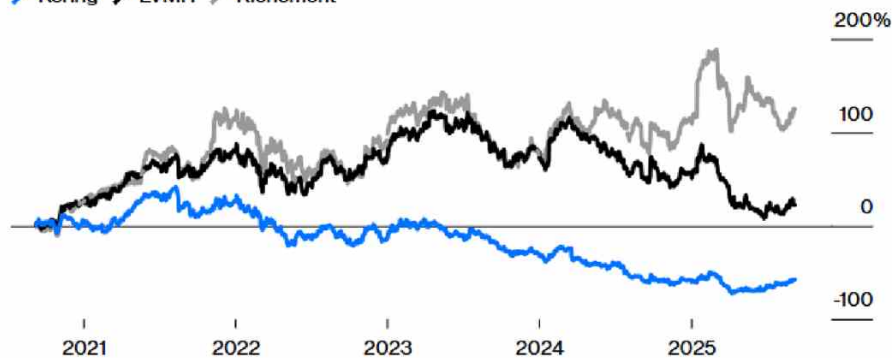




### Kering Shares Have Underperformed

Although the stock has recovered recently it is still lagging its main rivals

— Kering — LVMH — Richemont



Source: Bloomberg

Note: Normalized to September 2020

The new CEO must also decide on strategic projects such as expanding in beauty. The company [acquired Creed in 2023](#) for an estimated €3.5 billion to build Kering's beauty platform. But it has been dealing with more pressing issues ever since. Kering has made no secret of its desire to bring Gucci's beauty and fragrance in-house. The business is currently licensed to Coty Inc., [but WWD has reported](#) that the company is considering a breakup. That could open the way to an early exit from the Gucci license.

De Meo will have to weigh such ambitions against other calls on the company's cash. He could take a different approach: exiting beauty and jewelry in the way Kering offloaded its watch business in 2022, as Luca Solca, analyst at Bernstein notes. In time, smaller brands, such as McQueen could be put on the block. Such a strategy would likely crystalize a one-time charge for Creed, but it would buy the new CEO more time to revive Gucci.

As well as dealing with Kering's finances, De Meo must get to grips with a cumbersome management structure, which has swelled in recent years to include [two deputy CEOs](#).

With Gucci's sales showing no improvement in the most recent quarter, the new CEO would be wise to get all of the bad news out early. There are two factors that might prevent a classic "kitchen sinking." The first – that Pinault remains chairman – would be worrying. The second – that De Meo has to weigh financial goals

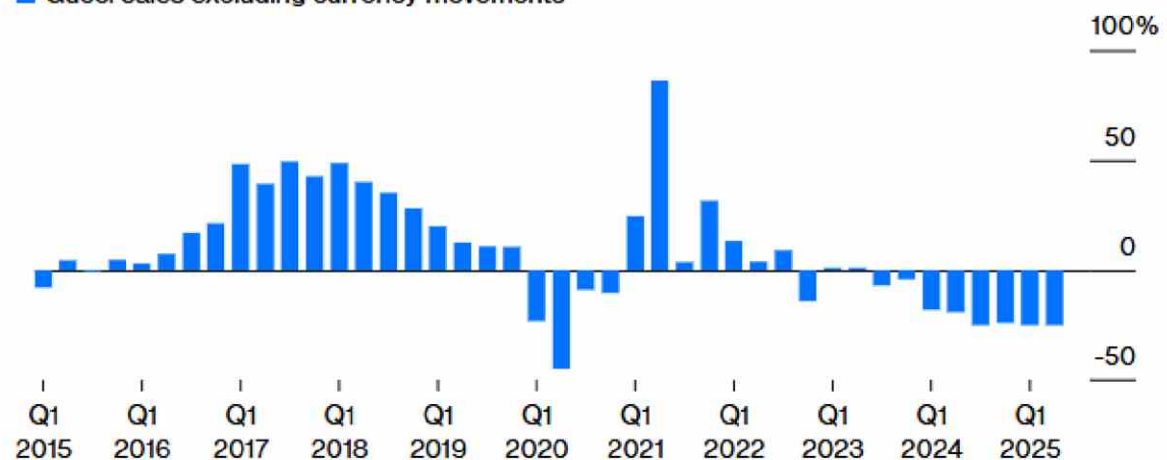


against nurturing its creative talents and investing in its brands – underlines his challenge.

## After Incredible Success Gucci's Performance Has Stalled

Luca de Meo must reinvigorate the Italian brand

■ Gucci sales excluding currency movements



Source: Bloomberg Intelligence

Matthieu Blazy's leaving Bottega Veneta to become creative director at Chanel Ltd. means [all of Kering's houses are in creative transition or turnaround mode](#). De Meo recognized the importance of good design, heritage and emotional connection at Renault. Nevertheless, reigniting sales requires investment, and is at odds with his plans to take an ax to the cost base.

This balancing act is most extreme at Gucci, which at its peak accounted for more than 60% of group sales.

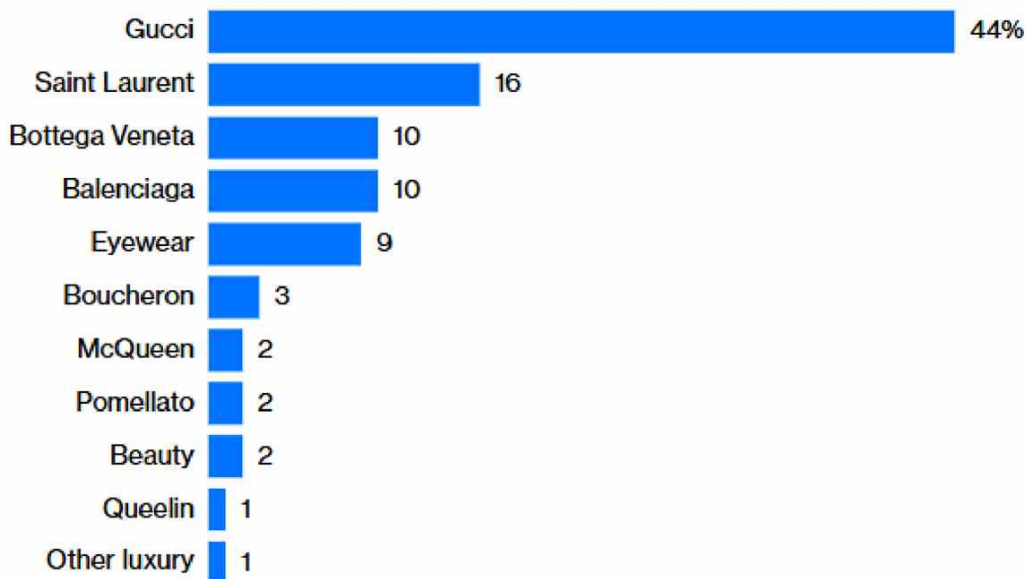




## De Meo Must Make Gucci Great Again

Kering's biggest brand is the driver of its fortunes

■ Kering sales by brand 2024



Source: HSBC Research

I'm [not convinced that Demna Gvasalia is the right designer](#) to lead the Italian house. But given that he is the second creative director in less than three years, the new CEO has little choice but to stick with him.

Gvasalia will reveal his vision in Milan later this month, while some pieces will be available to buy. If he can tap into some nascent demand for Gucci, such as the [popularity of the Giglio bag](#), a G-logoed and reasonably priced tote, then De Meo's path might be eased.

Let's not forget that in the not-too-distant past, Kering was the master of combining the right designer and house, with spectacular success. It now needs the same kind of alchemy between its luxury brands and its new CEO. Without this, the toughest job in bling will be even more of a stretch.