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Why EssilorLuxottica's acquisition of Supreme is surprising—and why it makes sense

Article

Last week, EssilorLuxottica, parent company of Ray-Ban and other eyewear brands, announced the acquisition of streetwear brand Supreme from VF Corporation.

- Supreme will offer EssilorLuxottica "a direct connection to new audiences, languages, and creativity," Francesco Milleri, chairman and CEO, and Paul du Saillant, deputy CEO, said in a joint statement.
- EssilorLuxottica will keep Supreme's direct-to-consumer model, housing it within its brand portfolio.

Why we care: It's a strange move for EssilorLuxottica.

"This deal was surprising, I think to many in the industry. It's frankly, a little puzzling as well, because EssilorLuxottica is so concentrated in eyewear and eye care," said our analyst Sky Canaves.

- Usually, brands acquire companies that make or sell complementary products, like Mondelēz buying Clif Bar or Procter & Gamble acquiring haircare brand Mielle Organics. This makes it easier to integrate existing teams and consolidate expertise, said Canaves.
- But with this acquisition, EssilorLuxottica will expand into apparel, footwear, and accessories—a completely new category.

The reasoning: Acquiring Supreme gives EssilorLuxottica an additional revenue stream to tap into if any of its licensing deals go south.

- Currently, EssilorLuxottica holds licenses with luxury brands like Armani, Chanel, Prada, and Versace.
- However, some companies (like beauty brand Coty) started bringing their licensed products in-house, which could mean EssilorLuxottica loses out on those sales.

It also adds to EssilorLuxottica's own brands, which are more profitable, said Canaves.

- "With licensed brands, EssilorLuxottica has to share the revenue from sales as royalties and they have to contribute to marketing those products," she said.
- But own brands like Ray-Ban are relatively inexpensive to produce, allowing EssilorLuxottica to sell them at a markup and keep a lot more of the margin.

The challenge: Supreme operates very differently from EssilorLuxottica, requiring major pivots.

“EssilorLuxottica is a vertically integrated eyewear manufacturer—it owns the whole supply chain,” said Canaves. “But I don’t think Supreme owns the whole supply chain, which means EssilorLuxottica will need to work with outside suppliers and manufacturers, a big change from how it currently operates.”

EssilorLuxottica must also battle declining consumer interest in streetwear.

- “Streetwear was a bit of a passing fad. A lot of consumers have moved on from it,” said Canaves. “And with Supreme, there’s concern the brand got a bit overexposed and almost became kind of a joke.”
- Reinvigorating Supreme will require EssilorLuxottica to invest in creative and design talent.
- “It will come down to having a designer who can steer the brand and serve as the creative face and spirit of the brand,” said Canaves.

The bottom line: EssilorLuxottica’s acquisition of Supreme raises questions about its ability to revitalize the brand. However, EssilorLuxottica does seem to have its sights set beyond traditional eyewear.

- The company acquired an 80% stake in Heidelberg Engineering, a Germany-based company specializing in diagnostic solutions, digital surgical technologies, and healthcare IT for clinical ophthalmology.
- Meta is in talks to acquire a stake of roughly 5% in EssilorLuxottica. The two companies already work together on Ray-Ban smart glasses, but this could help the eyewear company expand its smart glasses even further.

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