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The French Enlightenment

By DYAN MACHAN

François-Henri Pinault, head of French luxury firm PPR, runs a lucrative stable of luxury, sport and lifestyle brands. Prepped by a powerful father, Pinault is taking PPR in new, more caring directions.

François-Henri Pinault fancies himself an amateur magician when he isn't running the French luxury behemoth **PPR**. Seated in the wood-paneled inner sanctum of his Paris headquarters, in a 19th-century building on Paris' quiet Avenue Hoche, Pinault selects four aces from a card deck and—*presto!*—makes the two red aces appear where the black ones had been.

Voilà! His face erupts into a boyish grin.

Even more impressive than this simple sleight of hand is Pinault's transformation of the company's retailing and luxury-brand assets in the eight years since he has run the show, succeeding his father, the billionaire deal maker François Pinault. Dealt an underwhelming hand in business, the younger Pinault, 50, quickly shifted out of department stores and the sale of lower-margin essentials to focus on luxury and lifestyle brands, chief among them Gucci, which PPR (ticker: PP.France), then called Pinault-Printemps-Redoute, won in a bruising 1999 takeover battle with rival **LVMH Moët Hennessy Louis Vuitton** (MC.France) and its chairman, Bernard Arnault.



Emmanuel Fradin for Barron's

Pinault runs a lucrative stable of luxury, sport and lifestyle brands.

Luxury brands contributed 64% of PPR's 9.7 billion euros (\$12.8 billion) in 2012 sales, up from 11% a decade ago. That percentage could keep climbing as Pinault sheds more businesses that lie outside the trifecta of luxury, sports, and lifestyle brands. "I am here to transform things, or I should do something else," he says.

OTHER THAN PUMA, which was acquired in 2007 and continues to struggle, PPR owns a muscular portfolio of top-tier brands, including Bottega Veneta, Saint Laurent, suit maker Brioni, and shoe designer Sergio Rossi. Pinault picked up Volcom, the U.S. skate and surf brand, in 2011, and recently added Chinese jeweler Qeelin and British designer Christopher Kane.

PPR's sales have shrunk by half since 2003, but profit and market value have more than doubled. Earnings surged 28% last year, to €1.3 billion, or €10.06 a share, and are expected to rise to €10.57 a share in 2013 and €12.42 a share in 2014. The shares, which are traded in Paris, rallied 33% in the past year, to a recent €162.95, endowing the company with a market value of €20.5 billion.

Shares of PPR sell for 15 times this year's expected earnings, a discount to both LVMH, at 16 times earnings, and **Prada** (1913.Hong Kong), at 23 times. In part, that's because it is still in the process of shedding businesses, including Redcats, an online retailer of apparel and home goods, and Fnac, a French electronics chain.

Like its occupant, Pinault's office is understated. It features spare, contemporary furnishings, and betrays no hint of the extravagance the family can well afford. On the day of *Barron's* visit, an oversize piece of paper is spread out on a coffee table. Centered on it is the word Kering—the company's unusual new name—and a whimsical, winged logo that Pinault explains is a smiling, heart-shaped owl—his father's favorite bird of prey, but made to look friendlier.

Although Kering is days away from announcing its new name publicly—the change is subject to board approval in June—Pinault has agreed to discuss it. *Ker*, he says, is the word for home in the family's native Brittany, and is meant to reinforce that "we are a family business."

PPR is 41% owned by Artemis, the Pinault family holding company, which has 56.5% voting rights. The family's other holdings include the Christie's auction house and the Bordeaux winery Château Latour. As for "ing," that's an air kiss to the Anglo sensibility of many of

PPR's brands, and "represents action," Pinault says.

THE PRONUNCIATION "CA PINO" is a deliberate choice, Pinault says. Pinault cares about more than selling luxury goods. He is committed to the fair treatment of women and the planet, in general. "The notion of caring is not just about brands," he says.

Pinault credits his parents and his wife, the film star and activist Salma Hayek, with shaping his decision to make Kering so, well, caring. His father, although not very present in his youth, set an example of caring for employees. "He did his business with a sense of responsibility not related to the financial world," Pinault says.

His mother, Louise Gautier, was ahead of her time in demanding that her son sort trash and recycle. "I heard about economizing very soon in my life," he says.

Pinault is putting each of his divisions through a rigorous environmental-impact analysis to reduce emissions, waste, and water usage by 25% and increase the use of eco-friendly materials by 2015. For example, Gucci is selling sunglasses made from a combination of natural wax and sustainably harvested wood fibers instead of plastic, and Saint Laurent's shopping bags and boxes are now made of recycled materials. He also has tied his executive team's bonuses to progress in reaching sustainability goals.

Hayek has become his partner in efforts to curb domestic violence, and was a catalyst in Pinault's decision to create a corporate foundation in 2008 to support women's dignity and rights. The foundation's board, he says, is composed of "very, very strong women," including his wife. How to explain the nature of Hayek's contribution? "Pffftt," says Pinault, gesturing that he doesn't even know where to begin.

Hayek has educated him on the prevalence of domestic violence in both France and the U.S. "I was shocked; on our own soil, there are 53,000 women who have suffered female circumcision," he says.

He notes with pride that his wife recently spoke to a U.N. audience on violence against women. "She is not an asset to the company but an asset to me," says Pinault, who has vowed to boost the proportion of women on his executive team from 34% now to 50% by 2015.

Pinault claims that his social agenda is not particularly aimed at appealing to his largely female customer base, nor is it meant to put a halo over his brands. "Some buyers may care, but that's not it," he says. "I'm the main shareholder. I am enlightened. Like it or not, that's the way it is."



That said, shareholders have little reason to complain. Asian wealth, and a reopening of Western wallets, have brought a gilded comeback for high-end goods of all sorts since the global financial crisis of 2007-08. Luxury sales have averaged annual gains of 15% in the past three years, according to Citi Research's Thomas Chauvet.

"YOU WANT TO SEE the key?" asks Pinault, fetching from a desk drawer three large gold rings with a key attached. The rings jingle as he turns them over to show their inscriptions. One is engraved with his father's name and dated 1963, the year his father founded the company. Another is engraved with Pinault's name and dated 2003, when

he took over Artemis. The third ring is blank. The eldest of Pinault's four children is only 11, but he likes the idea that one of them might run the company someday.

Pinault says he wasn't "forced" to take charge of the business, although he ran a tough obstacle course to prove to Pinault père that he was both ready and worthy.

After graduating from the École des Hautes Études Commerciales with a master's degree in 1985, Pinault worked for the French trade mission in Los Angeles. He became enamored with California and the burgeoning tech scene, and had accepted an internship with **Hewlett-Packard** (HPQ) when his father, concerned he might lose his son to Silicon Valley, lured him back in 1987 with the possibility of someday taking control. For the next 16 years Pinault held a variety of jobs at PPR, including managing its African trading and timber operations. He also met regularly and individually with eight powerful French businessmen whom his father had handpicked to determine whether he was ready for the top job.

TRAINING TO BE BOSS was the least of it, however. Pinault was twice held hostage—in 1989, he was locked in a room for hours by workers after announcing that a Brittany factory would close, and in 2009, as CEO, he was blockaded in his car by an angry mob of workers until rescued by police. During his rise, Pinault was heckled, and subjected to whisper campaigns that he somehow fell short of his father's talent. "I was frustrated, and very much alone," he says.

After reinvigorating PPR's African trading operations and Fnac, Pinault quietly got the nod from the "wise men," as his advisors were known. But the timing was a surprise. Pinault and his father were having one of their regular Friday night dinners in April 2003 at the

famed Paris bistro L'Ami Louis when Pinault senior pulled out the aforementioned key and handed it over. Come the following Monday, father and son would switch offices.

In that instant, the 40-year-old Pinault was put in charge, with his father vowing to back off entirely, a promise he has kept. "For years, [François-Henri] wasn't sure he would become CEO," says Jean-François Palus, Pinault's No. 2 at PPR, and a friend from their days at business school, when both were involved in the university's student council. During those years, Pinault revealed an aptitude for figures as the student-council treasurer, but otherwise showed little sign of the socially enlightened businessman he would become, says Palus.

ENLIGHTENED DOESN'T mean soft, however. One of Pinault's first actions after assuming day-to-day control of Gucci in 2004 was to fire its creative director and fashion demigod, Tom Ford, a move that stunned the industry. Ford had started designing for Gucci-owned labels Saint Laurent and Bottega Veneta, and in Pinault's view, the brands were looking alike. Similarly, Pinault cut fashion darling Nicolas Ghesquière from his perch at Balenciaga last fall, after deciding the designer was veering from the course set by the label's late founder, the Spanish couturier Cristóbal Balenciaga. "The designer must fit the brand," says Pinault, adding that it's not the other way around.

But other than ensuring that the ateliers stay true to their brands, Pinault steers clear of them. "I am not creative like that," he says.

At LVMH, Bernard Arnault is famous for approving racks of clothes before they go out to the stores. Not so Pinault. "If I do that, shoot me," he says.

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