





December 6 — December 12, 2010
 Bloomberg Businessweek

Companies & Industries



frequently accompanied his father on business trips: "I was exposed at a very, very early age to a lot of these big Wall Street tycoons."

While at Atticus, Rothschild established his relationship with Deripaska. They first met in Paris in 2002 at a meeting where "the average age was considerably older than our average ages," he recalls. "We ended up going out and having dinner." Rothschild now chairs the board of EN+ Group, the holding company through which Deripaska controls assets including United Co. Rusal, the largest aluminum maker. "Ivan Glasenberg or Oleg Deripaska, they've come from nothing; they are not impressed by posh blokes," says Michael Rawlinson, a banker at Liberum Capital in London who met the British scion during a stint in New York in the 1990s. Rothschild has "the nerve to call up anyone, and what's interesting is he's taken seriously."

Rothschild's connections and deep pockets make him an attractive partner for Indonesia's Bakrie clan, which helms a palm-oil-to-property empire. "They just can't rely on Indonesian banks for borrowing. They must, must seek funding from outside Indonesia," says Jakarta-based Adrian Rusmana, a director at broker Sucorinvest Central Gani. "This alliance with Rothschild gives them access to European financiers, bankers, investors, and markets."

Rothschild on Nov. 16 outlined plans to boost annual coal production to 140 million metric tons by 2013, equal to all of South Africa's output last year. "They will control a large part of global seaborne-traded coal," says David Chang, a director at brokerage UOB Kay Hian Securities Indonesia. "This will give them some influence on coal supply and therefore coal prices."

The new company, **Bumi PLC**, will be the first major Indonesian business to list on the London Stock Exchange, where miners figure prominently among the top 20 companies on the benchmark index's market value. "To be able to do an IPO without having any assets, he has to be somebody," Indra Bakrie, who will be Bumi's chairman, says of Rothschild. "I wish I could do that."

—Jesse Riseborough and Simon Casey

The bottom line Nathaniel Rothschild has parlayed his family and work connections into a \$3 billion deal aimed at creating the world's biggest coal exporter.

Luxury Retailing
Chinese Shoppers' Long March Through Europe

► Spending by mainland tourists is boosting European luxury sales

► "The cherry on the cake is the Chinese tourists"

Ice Fu plans to pack light when she travels to Paris this month. The 28-year-old restaurant owner from Shenzhen in southeastern China needs to leave room for the Chanel, Hermès, and Louis Vuitton handbags she's intending to buy. "We have Chanel shops in China, but they're always out of stock," says Fu. "The Hermès bags I want to get still aren't available in China."

Even as makers of luxury goods are racing to open new stores in China, they're finding their European flagships mobbed by tourists like Fu. Around 2.5 million mainlanders visited Western Europe this year, 500,000 more than in 2009. And that number is expected to climb to 3 million by 2012 as incomes continue to grow, according to U.K. forecaster Oxford Economics. The Chinese now account for at least a quarter of European luxury goods sales, estimates Luca Solca, an analyst at Sanford

C. Bernstein. Their buying power has been bolstered by the yuan's 12 percent rise against the euro this year. "The classic shoppers on Place Vendôme in Paris used to be stars, celebrities, members of royal families from the Middle East in big limousines," says Uché Okonkwo, executive director of Paris-based consultancy Luxe. "Today, it's Chinese tourists that are brought in by big buses in groups."

Mainland Chinese spent \$23.4 billion in 2009 on luxury handbags and suitcases, shoes, watches, jewelry, clothes, cosmetics, and perfumes, according to a Nov. 9 report from **Bain & Co.** More than half of that was purchased overseas. The trend is buoying the luxury goods industry, with sales in Europe on course to grow 6 percent this year, after falling 9 percent in 2009, according to Bain's forecasts.

"The cherry on the cake is the Chinese tourists who bought not only in Asia but also in Europe," said **Hermès** Chief Executive Officer Patrick Thomas at the opening of a new Paris store in November. Visitors from China helped lift European sales 19 percent at Hermès and 13 percent at **LVMH Moët Hennessy Louis Vuitton** this year through September, excluding currency moves, say the companies. At Gucci, where nine-month European sales rose 9.9 percent on the same basis, spending by Chinese tourists dou-

28

Lust for Labels

Chinese consumers have greater buying power and more choice

Luxury Stores Opened in China This Year:

80

Includes brands such as Gucci, Versace, Louis Vuitton, Prada, and Cartier (estimate)

Luxury Purchases by Chinese Consumers*



*Based on 2010 survey

The Yuan's Strength

20% — Price of one Yuan in Euros



Since January, the yuan has gained 12% against the euro

DATA: BAIN & CO., BLOOMBERG



December 6 — December 12, 2010
Bloomberg Businessweek

Companies & Industries

bled to 22 percent of the region's total, according to parent PPR.

For mainland visitors, lower prices and bigger selection are the main draw of buying Chanel in Paris vs. Shanghai, a city where the French fashion house now boasts three boutiques. The Chanel Jumbo handbag, or *bao bao* in Chinese, that Fu covets costs more than \$4,700 in China, while the Hermès Kelly she's eyeing has a ticket of about \$8,800. In Paris, the same bags are priced at \$3,900 and \$6,500, respectively. Why the differential? China levies import duties of between 10 percent and 20 percent on European handbags, plus a value-added tax of 17 percent.

Europe may be about to lose some luster in the eyes of Fu and her fellow travelers. Gucci plans to raise some prices by more than 5 percent to reduce the spread between Europe and other countries, according to PPR, while Louis Vuitton will lift prices in a "significant way," says LVMH Chief Financial Officer Jean-Jacques Guiony. "An excessive price gap between different markets is confusing," says Michele Norsa, CEO of Salvatore Ferragamo. The Italian shoemaker may "rebalance" prices worldwide next year, raising some and lowering others, reports Norsa.

At the same time, European luxury goods makers are giving Chinese consumers more reasons to shop at home. Major luxury brands opened some 80 new stores in China this year through August, estimates Bain. Its report notes that companies are also improving product availability and enhancing customer service to meet growing demand: Luxury sales in mainland China rose 14 percent last year, outpacing an 8 percent rise by Chinese travelers' luxury spending overseas.

Don't expect the crowds of Chinese at Louis Vuitton's flagship on the Champs Élysées to thin out anytime soon, though. Being able to say you bought your bag in Paris adds prestige to the purchase, says Okonkwo. "It's a complete experience, and this is what counts for them." Fu seems to agree. "The mood and atmosphere shopping in Paris are nicer," she says.

—Andrew Roberts and Wendy Leung

The bottom line Chinese visitors are flocking to European luxury stores in search of better selection and prices. Retailers are moving to narrow the gap.

Briefs

by Caroline Winter

Roche, Bristol-Myers Squibb Price cuts imposed by China

China is slashing the price of drugs made by Roche, Bristol-Myers Squibb, and other pharma companies by about a third as the government seeks to rein in health-care costs and cool inflation. Research group IMS Health forecasts that China's pharmaceutical market will expand at least 25 percent next year, spurred by a new national health insurance system designed to improve medical care. To sell broadly in China, foreign drugmakers must list their products on a government pharmaceutical reimbursement register, which subjects them to price controls. Some companies, though, are lobbying the government to provide greater incentives for research and innovation.



Google Under EU investigation

Google is being probed by European Union antitrust regulators, who allege the company discriminates against competitors in its search results and prevents some website operators from striking deals to accept ads from the search giant's rivals. Google has denied the charges but says it is prepared to work with the European Commission to address concerns.



Morgan Stanley A sale in China

Morgan Stanley is selling its 34.3 percent stake in China International Capital Corp. to KKR, TPG Capital, Singapore's Great Eastern Holdings, and the island nation's sovereign-wealth fund, people familiar with the matter say. The deal would end Morgan's 15-year relationship with the first Sino-foreign investment bank. Morgan has planned to sell its stake, valued at about \$1 billion, since at least February, partly because Beijing won't allow the firm to take majority control. A sale would let Morgan find a new local partner or build its own investment bank in China. The economic crisis has spurred many foreign investors to dispose of their stakes in Chinese banks for gains.

Fannie Mae, Freddie Mac Facing delays, threatening penalties

Fannie Mae and Freddie Mac are meeting resistance in their attempts to push failed mortgages off their books and onto the balance sheets of private banks. The two government-owned mortgage companies have been trying to enforce contracts requiring lenders to buy back loans that didn't meet underwriting standards. By the end of September, banks hadn't responded to \$13 billion in buyback requests, according to the companies. Freddie Mac has begun assessing penalties for the delays. Lenders say their underwriting is being unfairly second-guessed and claim that repurchase requests waste government resources, given that about 40 percent are typically rescinded.

Seagate Technology Another IPO deadend

Seagate Technology, the world's largest maker of disk drives, ended talks to be taken private when buyout firm TPG Capital couldn't find partners to raise equity financing for the takeover, according to a person familiar with the matter. A perception that many disk drives could soon be replaced by flash memory may have made a deal less attractive, though Seagate says its sales for the current quarter will be at least \$2.7 billion, beating Bloomberg analysts' estimates. The company has seen two failed buyouts this year, and its stock has tumbled 24 percent.



Merck President Kenneth C. Frazier will assume the additional role of CEO on Jan. 1 • Austrian Airlines **Thierry Antinori** named chairman, will start on Apr. 1
• TUI Travel Former commercial director **William Waggott** promoted to CFO