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for Economy and Ecology

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Social Entrepreneurship Track

Finalist

NOIR/ILLUMINATI II (A): Defining Socially Responsible Affordable Luxury Clothing

Prof. Benoît Leleux and Mrs Barbara Scheel Agersnap
IMD, Switzerland

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http://www.oikos-international.org/projects/cwc

Peter looked out of his window. *His* window. He liked the sound of that. It had taken him 15 years of discipline and hard work to reach this point. Of course, he had enjoyed more prominent and remarkable views and offices in the past, but for the first time it was *his* name on the lease contract, *his* office and *his* company. And 2007 was going to be the year of Noir/Illuminati II. So far, after nine months, it looked very promising.

Peter Ingwersen founded the companies in February 2005. The two entities were like Siamese twins; Noir designed and produced luxury clothing for women, while Illuminati II was set up to produce high quality cotton fabrics both for Noir and other leading fashion brands. Together, they provided the basis for a totally new concept in fashion. Over the years, Peter had attended many fashion shows all over world and had become both aware and very concerned by the total lack of "social substance" of many of the major fashion companies. Was fashion just the ultimate personalization of some of the worst aspects of human behavior? Was it all about egocentrism and showing off? Could something be done to bring back meaning and substance to the world of fashion? Corporate Social Responsibility (CSR) was making its way into most other industries: why could it not infiltrate fashion? Was there any way to improve the "feel good" factor of beautiful clothes with a clear social responsibility message? Could egocentrism rhyme with eco-friendliness?

Conceptually it was very clear: Noir/Illuminati II would define socially responsible affordable luxury clothing. Putting the concept into operation was the real challenge. Building a brand on social awareness, or the guilt of conspicuous consumption, could clearly be a two-edged sword. Would customers buy the story? Even more pressing, would investors follow him in this venture?

He went back to his hotel and after a very long shower, he started to put the action plan together.

Defining the Idea and Analyzing the Market

Peter's experience in the fashion industry, both in Europe and the US, was quite extensive (*refer to* ***Exhibit 1*** *for Peter Ingwersen's biography*). After completing his training at the Danish School of Arts and Crafts, he joined Levi's Nordic Region as a designer in 1986, rapidly moving up the ranks in creative positions. By 1999, he was the global brand manager for Levi's Vintage Clothing and Red labels and the brand director for the EMEA[1] region. He left Levi's in 2002 to join an up-and-coming fashion company, Day Birger & Mikkelsen, as managing director. This was not enough: he was after a completely novel way to approach fashion, a new paradigm for the industry, something that would radically change the way people look at clothes consumption.

During his many years in the industry, he had grown more and more aware and concerned about the lack of social and environmental substance in the world of fashion. Nobody seemed to care much about the broader implications of creating and buying expensive clothes. In a

[1] EMEA: Europe, Middle East and Africa.

way, conspicuous consumption seemed to belong to the sphere of indulgence, an area free of social guilt and responsibilities. Whereas other industries were rapidly gaining consciousness and accepting responsibility for their actions on the world, fashion seemed to remain very much immune to these higher callings.

That would soon become Peter's crusade. Could he bring back meaning and substance to the world of fashion? Was there any way to improve the "feel good" factor of beautiful clothes with a clear social responsibility message? It is with this in mind that he started to hash out the principles behind Noir/Illuminati II, the company that would also provide the channel for the realization of his dream.

Noir/Illuminati II would rest on three key pillars:

- A *very specific niche*, in terms of price, appeal and design. Peter had neither the interest nor the financial resources to start another mass market fashion company. The focus would be on the socially conscious and responsible affluent clientele.
- A *strong message and rationale* to encourage the purchase decision. For most people in the developed Western world, clothes, especially luxury ones, are not necessities; Most people own enough clothes to keep themselves warm for the rest of their lives.
- A *sustainable company*. This ruled out focusing on some short-term fads; the company had to be established on solid, durable foundations so as to contribute over the long term.

Peter planned every part of the marketing parameters before he brought the company to life. Positioning, Products, Pricing, Placement, and Promotion, the infamous five Ps of fashion, were all conceptualized early on. He added a sixth P of his own: Profitability. The latter was critical for sustainability and a successful exit.

Exit was most likely to happen through a trade sale to one of the leading luxury brands, such as Louis Vuitton Moet Hennessy (LVMH) or Pinault-Printemps-Redoute (PPR). To be of any interest to them, it was essential to create a unique niche product absent from their portfolios. Big groups were always on the prowl for the imaginative addition to their product line-ups, for that new product that would leverage their competences and brand capital. After a careful segmentation of their portfolios, Peter identified what he considered to be their biggest "market holes": (1) most did *not* have a product with a strong Corporate Social Responsibility (CSR) profile; and (2) they did *not* have an *affordable luxury* clothing brand. The two concepts, affordability and luxury, were still often perceived as totally antagonistic. A minor antagonism certainly was not going to stop Peter: Noir Illuminati/II would be *socially responsible affordable luxury clothing*.

To reach his objectives, Peter realized that he had to build a strong brand. From his time at Levi's he knew how important high intangible value was. When Levi's ran into economic turmoil in the 1970s, it was able to borrow some US$500 million on the back of the company's little red logo. That gave it the fuel to fix its issues rapidly and effectively. Corporate social responsibility would be the fuel to his brand.

In a 2004 report, the Boston Consulting Group estimated that the market for luxury goods would reach $1 trillion by the year 2010.[2] With new and increasing buying power, especially

[2]www.bcg.com/publications/files/New_Luxury_Creators_and_the_Forces_That_Support_Them Apr_04.pdf

in places like China, Russia and the Middle East, the market would become even more attractive. A further segmentation revealed a sweet spot for goods that were not as expensive as luxury products from Cartier, Chanel and Dior, for example, but somewhat more affordable. Peter refined his vision:

> *We want to endorse meaningful consumption for the luxury consumer. We will be the new "ethics chic"[3].*

Convert, Luxury Sinners!

Peter always loved a good story, and to some extent he found inspiration in a 16th-century Catholic Church practice called the "letters of indulgence." Buying letters of indulgence as a punishment for sins was a popular way to clear one's conscience, even though most sinners of the time felt no remorse for the sins they had committed and had no intention of changing their ways.[4] That became one of the leading points of contention for Luther, who believed that sinners needed to carry remorse throughout their lives, not buy their way out of trouble.

For Peter, this concept of indulgence was still very much alive today, redefined in a more politically correct way as *charity*. By definition, luxury products were the ones that consumers did not really need, at least in their most extravagantly expensive forms. Hence, the consumption of luxury products bred guilt, albeit unconsciously. If he could find a way to generate a strong "positive association" with the act of conspicuous consumption, the guilt would be reduced and the attractiveness of the product would be that much stronger. The new trendsetter would have to be the one with enough free time and money to devote to responsible activities, such as caring for others or the environment. That trend was most visible in the huge appeal of movements such as Greenpeace and Friends of the Earth, the emergence of an organic product culture, the large increase in the number of charitable foundations, etc. These activities were becoming the ultimate status symbols, the ways to differentiate from the crowd and show you had reached the highest echelons of purpose and achievement. Giving and caring were in; conspicuous spending was out. Noir would be the first brand specifically engineered to bring social responsibility to luxury clothing.

Translating Purpose into Style

Once the strategic objective was laid out, it needed to be translated into a style of its own, i.e. a "red thread" in the design that would immediately identify a Noir product. Themes had to be defined to give internal consistency to the collections and continuity to the product offering. What would define a Noir piece of clothing in the street? Peter went back to its original storyline. What would the new trendsetters really miss? They gave up conspicuous consumption for meaningful spending. Somewhere, they elected to tone down their inner tendencies for more socially acceptable ones. But this was not about atonement: they did not give up on expressing their personalities, on making brash statements about how they felt about themselves… Noir's style would have to bring back that missing element of provocation, to spice up the offering. Meaningful spending, but personally rewarding and ego

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[3] http://www.aoifehegarty.com/2006/09/seeing-red.html.
[4] http://unterkunft.wittenberg.de/e/seiten/ablass.html.

satisfying! For Peter, it was clear the key driver would have to be *sex appeal*. Clothes would have to make people look and feel attractive. They would mix masculine and feminine accents and consist mostly of suits with delicate tops, shirts and blouses. A few other designers, such as Helmut Lang, Jil Sander and Raf Simons, had tried something similar but they had all been acquired by the Prada Group and lost some of their original identity in the transactions. Noir would produce two collections per year consisting of 50 to 60 designs each, and they would be the personalization of *attractiveness* and *sex appeal*.

Building Conscience: Illuminati II, the Responsible Cotton Brand

> *Today, emphasis is on fashion that carries a greater and deeper meaning. Clothing is more than protection against the weather; it is a means of establishing the personal identity. In a world where we often take and seldom give, Noir is aimed at both the fashion and social conscience of the consumer, who can thus endorse consumption and give a little back to the world by purchasing clothing that supports sustainable business processes in the Third World.*
>
> Peter Ingwersen

Style and pricing would clearly define the brand positioning, but evidently the product itself would also have to be set apart on the social responsibility map. Peter decided to focus on the textiles that would be used. A new brand, Illuminati II, was created to produce the finest sub-Saharan textiles from organically grown Ugandan cotton. The cotton would be weaved and further processed in Europe for Noir exclusively. Noir would then sell it around the world to leading luxury brands.

The name Illuminati derived from the Latin word *illumina*, meaning glow or light. The light was to be in sharp contrast to Noir. Illuminati II was to be the luxurious fabric brand that would supply the highest quality cotton fabrics to Noir and other luxury brands. It would operate under the umbrella of the most stringent fair trade and socially responsible organizations, such as the United Nations Global Compact Principles (www.unglobalcompact.org) and ILO's production guidelines (www.ilo.org). Illuminati II´s vision was to deliver organic and Fair Trade cotton fabrics whilst ensuring sustainability of The Humane Business Model from the heart of Africa. A Noir Foundation would also be established to recycle a percentage of the firm's revenues and profits to support the African cotton workers. The support would be conveyed to them through an NGO in the form of essential medicines and healthcare.

Peter originally approached a number of Sub-Saharan governmental organizations with his idea. Only Uganda showed interest, and the interest was mutual. The business model for cotton in Uganda (as in most developing countries) was solely price driven: producers were competing primarily on price, even though the cost of growing high-quality cotton was very similar as for the lower-quality product. The price for 1 kg of short staple[5] cotton fibers was $0.95; the high-quality extra-long staple fetched $3.40. Peter wanted the farmers to start

[5] Staple refers to the average length of cotton fibers: Short Staple (less than 25mm), Medium Staple (25 to 30mm), Long Staple (30 to 37mm) and Extra-Long Staple (37mm and above). The longer the staple, the higher the quality of the final cloth.

growing the extra-long staple cotton and do it organically. Until then, organically grown cotton was mostly produced in India, China and the US.

It took almost a year from the initial approach in 2005 to find the right local partners and to get ready for production. All farming in Uganda was done on government-owned land. A Danish public-sector investor[6] helped the company negotiate the deal. In early 2007 the work of testing and identifying the best possible locations and the best long staple cotton seeds for the area were completed. Some 500 acres along the Nile were sown. Harvesting would be done by hand so as to create employment opportunities twice a year for about 500 local people. Initially, the raw cotton would be shipped to Europe to be woven but the long-term plan was to develop all processing locally and increase the local value added.

The plan called for the commercial launch of Illuminati II fabrics in July 2008 for the Spring 2009 collections, but this would of course depend on the final quality of the harvest. While all the elements were in place, and agriculturalists were extremely optimistic about the prospects for the high-end organic cotton, the proof would come none too early.

Making Corporate Social Responsibility Sexy!

> *Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.*[7]

Noir and Illuminati II were from the start two components of the same global concept. Illuminati II was the *socially responsible* enabler of the *affordable luxury clothing* Noir would produce. Illuminati II would be the business-to-business brand, the "Intel inside" of high-end cotton. Noir would be the business-to-consumer end.

CSR had become a way of addressing relationships with customers, employees, suppliers, governments, local communities and the environment in a holistic manner. By engaging more pro-actively in society and acting in a responsible manner, companies were seen as interacting in a positive way to create value not only for themselves but also for society in a broader sense. There was no defined correct way of performing CSR. Like marketing, it was a discipline that could be used strategically – but with no guarantee of results. The benefits of CSR extended way beyond the strict financial bottom line; they also included an improved brand perception, reduced risks of pollution, better staff attraction and retention if the corporate philosophy matched that of the employees, etc. Peter Ingwersen remarked:

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[6] www.ifu.dk

[7] Phil Watts and Lord Holmes. "CSR: Meeting Changing Expectations." World Business Council for Sustainable Development, 1999.

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> *I believe there is a tendency that people are starting to be a little less focused on themselves only. Instead of living in a world of "me-me-me", people are now looking at how to shape their world around "me-me…and others."*

Engaging in responsible actions was also a way of minimizing a company's risks. Companies present in countries where governments were unwilling or unable to fulfill their responsibilities by creating norms and laws often operated in troubled water themselves, ultimately bearing the image responsibility if something went wrong. The Mattel toy recalls in the summer of 2007 due to lead paint contaminations were examples of the public relations disaster that could ensue. In an attempt to help such companies analyze their situation and social performance, the OECD produced guidelines for multinational enterprises operating in what it described as "weak governance zones." These guidelines included CSR questions a company should ask when looking at investments in such zones.[8] The UN produced its Global Compact Principles,[9] and the International Chamber of Commerce[10] its principles on issues from anti-corruption to intellectual property.

Examples of pro-active programs include the oil and gas companies' environmental management programs, such as BP working with scientists and academics in Angola to explore deep-sea eco-systems and understand better the impact of the company's operations on the environment. Companies such as Coca-Cola and McDonalds volunteered activities within health, wellness and the environment, educating children in schools to healthy eating, pioneering eco-friendly packaging solutions, removing sugar-loaded products from easy access, etc.

Adopting a CSR policy did not guarantee that a company played fair or that it would obtain endless positive P.R. and attract the best employees. For Peter, however, a well-thought out CSR policy should be an integral part of the company's overall strategy. It would act as the very visible "glue" running through the company, the symbol of a deep-running set of values held by the firm – about how the clothes were supposed to be produced, the cotton harvested, etc. – without compromising design, quality and appeal. Or, as he explained:

> *We want to be the company that turns CSR sexy.*

But was the strategy unique? While Peter was writing his business plan, Edun, a New York-based "socially conscious clothing company" founded by, among others, U2's lead singer Bono, was launched. Edun clothing was also produced from 100% organic cotton originating from African countries.[11] Worried by this potential competitor, Peter jumped on a plane to New York to meet with the people behind Edun. It turned out they were not in the luxury

[8] For more details see www.oecd.org/dataoecd/26/21/36885821.pdf
[9] www.unglobalcompact.org/
[10] www.iccwbo.org/
[11] www.edunonline.com/live/.

segment and that they, in many ways, would be complementary to, rather than competing with, his own ideas. Edun would sell mostly basic wares, like T-shirts without prints. On the face of it, two great fashion firms pushing the socially conscious ticket was probably better than one, as Edun was likely to help pay the cost of educating customers about the new concept.

Uniforms?!

In 2006 Novo Nordisk, a global pharmaceutical company from Denmark, asked Noir to design its new company uniforms. Novo Nordisk was in the process of redesigning its entire corporate image, from reception areas (to create more customer-friendly interiors) to new uniforms for all "contact" staff. Novo Nordisk was a pioneer in the promotion of CSR, having integrated the principles in its strategy very early on. It was only appropriate for them to select a clothing company that was equally CSR-conscious. And since Noir was also Danish, the choice was obvious.

Noir designed and produced uniforms for all Novo Nordisk's offices around the world. To satisfy such a large order, the company rapidly expanded its staff and dedicated it entirely to the task. The order was a critical turning point for Noir, not only financially but also strategically: 30% of Noir's turnover in 2006 originated from that single Novo Nordisk order. Strategically, the order initiated a whole new line of business for Noir. In 2007 it also designed uniforms for Georg Jensen,[12] an international luxury brand offering a wide range of products from jewelry to gift articles. More corporate clients were expected to follow in the footsteps of these two famous brands. Even though it was difficult to slot uniforms into the *socially responsible affordable luxury clothing* category, it did make sense as a product category within the Noir lineup: the production numbers were large so that development costs could be spread over many units, leaving quite attractive margins for the company.

An added bonus was the fact that Novo Nordisk mentored Noir on CSR issues; it opened its books and shared its experiences within this relatively new field. For example, it introduced Noir to its CSR audit practices, which facilitated Noir's acquisition of an ILO certification for its production sites in Portugal.

Pricing "Affordable Luxury"

Socially responsible affordable luxury clothing may sound like an exciting slogan; it is also a potent oxymoron,[13] or contradiction in terms: how can luxury be affordable? Clearly, it would require a delicate balance of strong cost controls and responsible pricing. To control costs, Noir would have to set its quality just right; it had to be "high-end", but it was impossible to envision the type of 100% Italian handmade production of Prada, Givenchy or Gucci. This would break the bank and place the products outside the "affordable" bracket. For this reason, Peter opted for Portugal as a production base; it vouched for European craftsmanship and quality but was significantly less expensive than Italy. To maintain a reasonable price status, Noir would position itself just above large-scale brands such as Zara or middle-of-the-

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[12] www.georgjensen.com
[13] An oxymoron is a figure of speech that combines two normally contradictory terms. *Oxymoron* comes from the Greek *oxy* (sharp) and *moros* (dull). Thus the word *oxymoron* is itself an oxymoron…

range names such as Donna Karan (DKNY) and Dolce & Gabbana (D&G) but below such luxury leaders as Prada. This would translate into an average $2,000 price tag for a Noir suit, significantly less than the $3,000 required for an equivalent suit from Prada.

Location, Location, Location

Peter designed a two-tier strategy for placing Noir products. The first few years were of course critical for the perception of the brand, so it was important to be in all the right luxury stores initially – other stores and shops would follow. For Noir, the "right" luxury stores were located in top fashion cities: Paris, London, New York, Berlin, Milan, Moscow and Hong Kong. Ideal store names would include for example Barneys in New York and Harvey Nichols in London.

To reach the purchasers in these stores it was important to get their attention and become the talk of town. With this in mind, Peter contacted an old friend who worked as deputy editor at *Harper's Bazaar*, the biggest fashion magazine worldwide. He flew to New York simply to have lunch with her and tell her the story behind Noir/Illuminati II. She loved it, and in September 2005 an article featuring Peter, the company and its philosophy hit the streets. The article was added to the letters of introduction Peter sent to the 30 luxury stores he was targeting for his collection. The power of the endorsement was amazing. All 30 stores responded to the cold letter and bought pieces of the collection.

The objective was to have Noir in 30 stores the first year, 60 stores the following year and 150 stores by 2010. This was probably the maximum in order to maintain the cachet of luxury and exclusivity; the aim then would switch to increasing the volume per store. A dedicated Noir flagship store was not planned, at least not within the first five years. This would become a possibility later, with New York or Paris the most likely locations. The flagship store would serve as a PR booster. It was not anticipated that it would create channel conflicts with the other high-end stores selling Noir products.

Interestingly, Peter did not approach a single Danish purchaser at this time, in spite of being based in Copenhagen. The vision for Noir was global from the start – everything in the company had to be global. While most companies find it important to prove their products in their home markets, Noir wanted to have immediate exposure to international buyers.

All initial sales were handled by Peter himself. He believed it was important to build personal relationships with every single purchaser. After the first year, a number of agents were appointed. All existing and target customers were individually called before each fashion show and offered tickets to the events. The majority of the sales took place behind the stage straight after the shows: it was critical to get the collection to the stores before the next season and the next collections.

Promotions

Peter believed in a strategy of aggressive press coverage. He carefully planned all interviews and generated campaigns based on editorials and word of mouth rather than pure advertising. Editors from *Vogue*, *Elle* and other big fashion magazines were given exclusive interviews and the articles were published in top markets – Italy, France, Russia, Japan, China and the US. More trendy fashion magazines, such as *Numéro* and *Surface*, were also

important, and even newspapers such as the *Financial Times*, *Süd Deutsche* and *Le Figaro* ran articles featuring Noir and Peter. (*Refer to **Exhibit 2** for some Spring 2007 designs.*) This strategy allowed Peter to communicate directly with both the purchasers and the end-consumers. The pull strategy worked beautifully, with consumers emptying the shelves rapidly and forcing the stores to call urgently for replacement stock.

Peter also relied on "ambassadors" for his clothes, mostly celebrities and politicians. Celebrities got extensive media coverage, and a photo with a movie star in a Noir dress at the première of a new film would generate more and better P.R. than any advertising budget could buy. Peter was still working on getting endorsements from Angelina Jolie, Elizabeth Hurley and Sharleen Spiteri, the lead singer from the rock band Texas. (*Refer to **Exhibit 3** for some fashion magazine coverings of Noir collection in Spring 2007.*)

Building a Team

To make things happen, Peter had to assemble a remarkable team of professionals. Early on, he relied on a team of six people: a designer, a production manager, a CSR specialist, a marketing expert, a sales expert and a tailor. Most of them had international experience and were "old hands" in the industry. They were more expensive to hire than rookies right out of school, but Peter believed it was the best investment to make to put the right knowledge to work immediately. By September 2007, the total number of staff had reached 15, of which 2 were freelancers. Peter did not believe in hiring friends, but wanted each individual to somehow "fit" the group at different levels: socially, culturally and professionally. His standards of professionalism were extremely high. A deal was a deal, a deadline a deadline, internally as well as externally. Customers and suppliers were to be treated with the utmost respect and CSR in general meant decent behaviors were expected toward all members of society.

Raising the Necessary Financing: Rounds 1 and 2…

In 2005, the launch year, Noir managed a turnover of DKK 2.9 million.[14] In 2006 the turnover more than doubled to DKK 6.9 million (€ 925,000), of which 70% originated from Noir collections and the balance from company uniforms. The target for 2007 was DKK 12 million (€1.6 million), of which 70% again would be Noir-generated and the balance come from contract sales. Novo Nordisk alone would account for 80% of the uniform sales, or some 24% of the total turnover for the year.

Although Noir had been extremely well received initially, growth consumed resources and Peter struggled to finance the company. The quest for funds started right at the beginning of the company and never really stopped. In March 2005, he engineered the first round of financing. He was ready to give up 50% of the company in order to bring on board the "right" investor – someone not only able to finance the company but also to offer relevant competencies and networks. He found what he was looking for in a Danish textile company called GGT. While Peter knew a lot about designing and producing clothes, he knew little about growing cotton or producing and selling textiles, so GGT's skills would complement his

[14] Or some €388,000 on the exchange rate (1 DKK = € 0.134) prevailing on 30 December 2005.

own nicely. The company was 50% owned by one of the biggest Danish private equity funds, another interesting connection to establish. In July 2005, GGT and Peter signed the term sheet on the basis of a formal business plan. Both parties agreed that a specialist accounting firm should look at the valuation of Noir, based on the pro forma figures provided. A number of sensitivity analyses were also conducted to account for the uncertainties in some of the assumptions in the model. (*Refer to **Exhibit 4** for valuation details*). The combined valuation of Noir/ Illuminati II came to around DKK 70 million, or some € 9.4 million.

Unfortunately, the private equity investor suddenly decided to sell its stake in GGT, which left the company uncertain about its own future and not really in a position to invest in Noir. This was a tough blow for Peter, who had spent almost three months and DKK 3 million (about €400,000) trying to finalize the deal. The effort was now in vain. Finding new investors turned into a question of survival. Doubling up his efforts, Peter went back to everyone he knew in the industry, both individuals and corporates and was able to sign up two angel co-investors. One of them, Thomas Lavkorn, had relevant experience in the clothing industry, having previously built a fashion company and taken it public through an IPO. Jointly, the two partners invested DKK 3 million for an equity share of 49%, for a pre-money valuation of about DKK 3 million (about €400,000), nowhere close to the earlier valuation envisioned with GGT. This investment was also clearly insufficient to cover the burn rate for long, but it was essential to give the company a breathing space of about six months to bring in the additional financing needed.

In December 2005, Peter met Mrs Nash at a dinner party in London. Mrs Nash was born in Kenya and was passionate about fashion. She was married to Noel Nash, the CEO and founder of a London-based European private equity group. Noel was actively looking for new opportunities within the start-up arena to place some of his private money. Two months later, the Nash couple, who were attracted to the idea of combining CSR and luxury fashion, visited Peter in Copenhagen to conduct the due diligence. A formal investment proposal came out of the process. Simultaneously, another wealthy private individual in Denmark heard about Noir through the fashion grapevine. He took the initiative to contact Peter and undertook his own separate due diligence, also resulting in a separate investment proposal.

Peter decided to bring the two investors together on a common term sheet. The total investment would be around DKK 10 million (€1.34 million). The agreement was signed in July 2006. One of the original investors asked out, so after the second round, the equity was equally shared between the two second-round investors (20% each), the remaining original investor (10%) and Peter (50%).

Leveraging the Financing…and Preparing for the Next Rounds

While DKK 10 million was a nice injection, it would not last forever under a forecasted monthly cash burn of around DKK 700,000 and only a small profit expected in 2006. Noir was able to obtain a short-term bank loan of DKK 5 million, but it was clear that another round of financing would have to be finalized by the spring of 2007.

Two groups of potential investors materialized for the third round. First, the existing lead investors expressed an interest in coming back with a group of young individuals who owned a leading Scandinavian agency specialized in online content. As lead investors of round three,

the investors would offer Noir services for web design at cost. Noir, for its part, would have to promise to use the agency for three years. The other potential investor was a well-known UK-based Nordic professional investor, Balder Group, investing in retail, property and media in Northern Europe. The Balder Group offered a convertible loan, with conversion tied to Noir delivering on set milestones over a three-year period. The Balder Group already owned several clothing companies and department store chains in Nordic countries and the UK.

Both investor groups were committing to invest the same amount of money to Noir, but their profiles could not have been more different. The current investors were known entities, had deep pockets, a very strong interest and their media agency would be very valuable to the brand. The new Icelandic investor offered some interesting distribution channels and extensive retail experience. The latter could become particularly interesting for Illuminati II when the cotton textiles were ready to be sold, in particular if the brands within the Balder Group were ready to pay for the high quality. This was a big assumption at this point since most of these clothing-related companies were currently not in the luxury segment.

Peter leaned back in his chair and took a deep breath. He had never been naive about the work and challenges he would be faced with. But right now there were many issues to consider:

- How strong was the product positioning? Affordable luxury was very much an oxymoron, but then again these kinds of conflicts never prevented brands from becoming successful. Did Noir's price/quality positioning really make sense in the competitive fashion industry?
- Did it make sense to push two brands (Noir and Illuminati II) at the same time? Was the original rationale still strong enough?
- From a placement strategy point of view, did it make sense to go global from the start or was there value in testing the home market first?
- Are uniforms for large corporate clients supporting or hindering the development of the brand and its perceived positioning in the market?
- Which investor would be best for Noir Illuminati II to accelerate the business as well as to support the company, its basic values and principles in the long run?
- Did he have the right team to grow the business?
- Was the envisioned market entry strategy sufficient to support the planned growth?
- How attractive would Noir Illuminati II be to companies like Gucci and LVMH from a portfolio point of view? Why would they possibly want to acquire him? If that exit route was really unlikely, than how would he best prepare for the next alternative route for exit?
- Would the Illuminati cotton be ready for launch as planned? Would it sell?

There was still much to organize before the board meeting the following day. It was going to be yet another very long night. The future of the company lay in the balance, so sleep would clearly have to wait…

Exhibit 1: Peter Ingwersen's CV

Date of Birth: 10.10.62

Birthplace: Copenhagen, Denmark

Nationality: Danish

Education

School of Arts & Crafts - Kolding, Denmark, 1982 – 1986

Specialization: Clothing Design, Retail Trends, Concept Development and Consumer Attitudes.

The school is the local equivalent to St. Martins School of Art in the United Kingdom

Professional Experience

2002 – 2004: Managing Director DAY BIRGER et MIKKELSEN[15]

1999 – 2001: Global Brand Director for Levi's Vintage Clothing & Levi's RED

Member of the Levi's® Brand Management Leadership Team

Full P&L Accountable, reporting to the President of the Levi's® Brand

Global Brand Director, Levi Strauss Europe, Middle East and Africa – Bruxelles

Responsible for brands such as Levi's® Europe, Levi's® US and Levi's® Japan

1998 - 1999: Strategist. Part of team of six asked to redesign and reposition Levi's® Europe.

1995 - 1998: Marketing Innovations Manager - Levi Strauss Europe, Middle East & Africa.

1990 - 1995: Creative Manager - Levi's® Nordic

1986 - 1990: Head of Design - Levi's® Nordic Region

[15] www.day.dk

Exhibit 2: Examples of Noir Design, Spring 2007 Collection

Exhibit 3: Sample Press Coverage of Noir Fashion – Vogue, Bazaar, Cover, The Times

Exhibit 4: 2005 Valuation Model: Earnings Projections

Assumptions for the forecasting period, 2005-2014:
The forecasted results are based on NOIR's budgets and businessplan
For the period 2011-2014 an annual growth of 10% p.a. is assumed
For the period 20111-2014 the gross margin is reduced by 5% p.a., from 50% in 2011 to 35% in 2014 to reflect growing competition
For the period 2011-2014 expenses to PR, advertising, sales and distribution as well as administration is estimated to be 17% of the turnover
Tax is 28%

Assumptions for the terminal period, 2015-2016:
Gross margin 30%
Expenses to PR, advertising, sales and distribution as well as administration is estimated to be 17% of the turnover
Tax is 28%
Growth is estimated at 3%

	Forecast										Terminal Period	
(DKK)	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Turnover	-	5,088,000	16,879,000	51,720,000	65,670,000	100,398,000	110,437,800	121,481,580	133,629,738	146,992,712	151,402,493	151,402,493
COGS	150,000	2,694,000	8,589,000	26,010,000	32,985,000	50,349,000	55,383,900	66,814,869	80,177,843	95,545,263	105,981,745	105,981,745
Gross Result	(150,000)	2,394,000	8,290,000	25,710,000	32,685,000	50,049,000	55,053,900	54,666,711	53,451,895	51,447,449	45,420,748	45,420,748
Sales, General & Administration	4,841,000	8,336,000	12,202,000	14,124,000	15,868,000	17,268,000	18,994,800	20,894,280	22,983,708	25,282,079	26,040,541	26,040,541
EBITDA	(4,991,000)	(5,942,000)	(3,912,000)	11,586,000	16,817,000	32,781,000	36,059,100	33,772,431	30,468,187	26,165,370	19,380,207	19,380,207
Write offs	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	(4,991,000)	(5,942,000)	(3,912,000)	11,586,000	16,817,000	32,781,000	36,059,100	33,772,431	30,468,187	26,165,370	19,380,207	19,380,207
Tax	(1,397,480)	(1,663,760)	(1,095,360)	3,244,080	4,708,760	9,178,680	10,096,548	9,456,281	8,531,092	7,326,304	5,426,458	5,426,458
Net Income	(3,593,520)	(4,278,240)	(2,816,640)	8,341,920	12,108,240	23,602,320	25,962,552	24,316,150	21,937,095	18,839,066	13,953,749	13,953,749
Gross margin	N.A.	47%	49%	50%	50%	50%	50%	45%	40%	35%	30%	30%
EBITDA margin	N.A.	-117%	-23%	22%	26%	33%	33%	28%	23%	18%	13%	13%
EBIT margin	N.A.	-117%	-23%	22%	26%	33%	33%	28%	23%	18%	13%	13%

Exhibit 4 (continued): 2005 Valuation Model: Discounted Cash Flow Model and Select Sensitivities

Assumptions:
Cashflow is estimated based on turnover etc - above
Suppliers are paid immediately
Capital expenditures = 0
WACC at 25%

	Forecast										Terminal Period	
(DKK)	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
EBIT	(4 991 000)	(5 942 000)	(3 912 000)	11 586 000	16 817 000	32 781 000	36 059 100	33 772 431	30 468 187	26 165 370	19 380 207	19 380 207
Adjusted tax	1 397 480	1 663 760	1 095 360	(3 244 080)	(4 708 760)	(9 178 680)	(10 096 548)	(9 456 281)	(8 531 092)	(7 326 304)	(5 426 458)	(5 426 458)
EBIT after tax	(3 593 520)	(4 278 240)	(2 816 640)	8 341 920	12 108 240	23 602 320	25 962 552	24 316 150	21 937 095	18 839 066	13 953 749	13 953 749
Write offs	-	-	-	-	-	-	-	-	-	-	-	-
Gross cash flow	(3 593 520)	(4 278 240)	(2 816 640)	8 341 920	12 108 240	23 602 320	25 962 552	24 316 150	21 937 095	18 839 066	13 953 749	13 953 749
Changes in Working Capital	-	(848 000)	(1 965 167)	(5 806 833)	(2 325 000)	(5 788 000)	(1 673 300)	(1 840 630)	(2 024 693)	(2 227 162)	(740 010)	-
Changes in Fixed Assets	-	-	-	-	-	-	-	-	-	-	-	-
Free Cash flow	(3 593 520)	(5 126 240)	(4 781 807)	2 535 087	9 783 240	17 814 320	24 289 252	22 475 520	19 912 402	16 611 904	13 213 739	13 953 749
Discount factor, WACC @ 25%	0,89	0,72	0,57	0,46	0,37	0,29	0,23	0,19	0,15	0,12	0,10	0,10
NPV of FCF	(3 214 142)	(3 668 039)	(2 737 266)	1 160 935	3 584 162	5 221 126	5 695 070	4 215 845	2 988 055	1 994 226	1 269 026	6 091 343

Sensitivity Analysis (DKK)

The table below illustrates the effect when changing the following factors and assumptions:
Sales
EBITDA margin
WACC
Growth (terminal period)

		Sales Index				
		98	99	100	101	102
EBITDA margin	-4%	13 751 150	14 149 101	14 566 299	15 003 478	15 461 398
	-2%	16 857 428	17 368 264	17 903 303	18 463 501	19 049 845
	0%	19 963 707	20 587 427	21 240 307	21 923 523	22 638 292
	2%	23 069 985	23 806 590	24 577 311	25 383 546	26 226 739
	4%	26 176 264	27 025 753	27 914 315	28 843 569	29 815 185

		WACC (%)				
		21%	23%	25%	27%	29%
Growth in Terminal Period	2,0%	29 975 797	24 997 813	20 960 509	17 640 546	14 879 303
	2,5%	30 252 717	25 190 354	21 097 194	17 739 298	14 951 734
	3,0%	30 545 392	25 392 803	21 240 307	17 842 332	15 027 081
	3,5%	30 855 172	25 605 921	21 390 297	17 949 920	15 105 517
	4,0%	31 183 566	25 830 552	21 547 654	18 062 361	15 187 226