LUXURY GOODS WORLDWIDE MARKET STUDY, NOVEMBER 2018

THE FUTURE OF LUXURY: A LOOK INTO TOMORROW TO UNDERSTAND TODAY

CLAUDIA D'ARPIZIO | FEDERICA LEVATO

BAIN & COMPANY

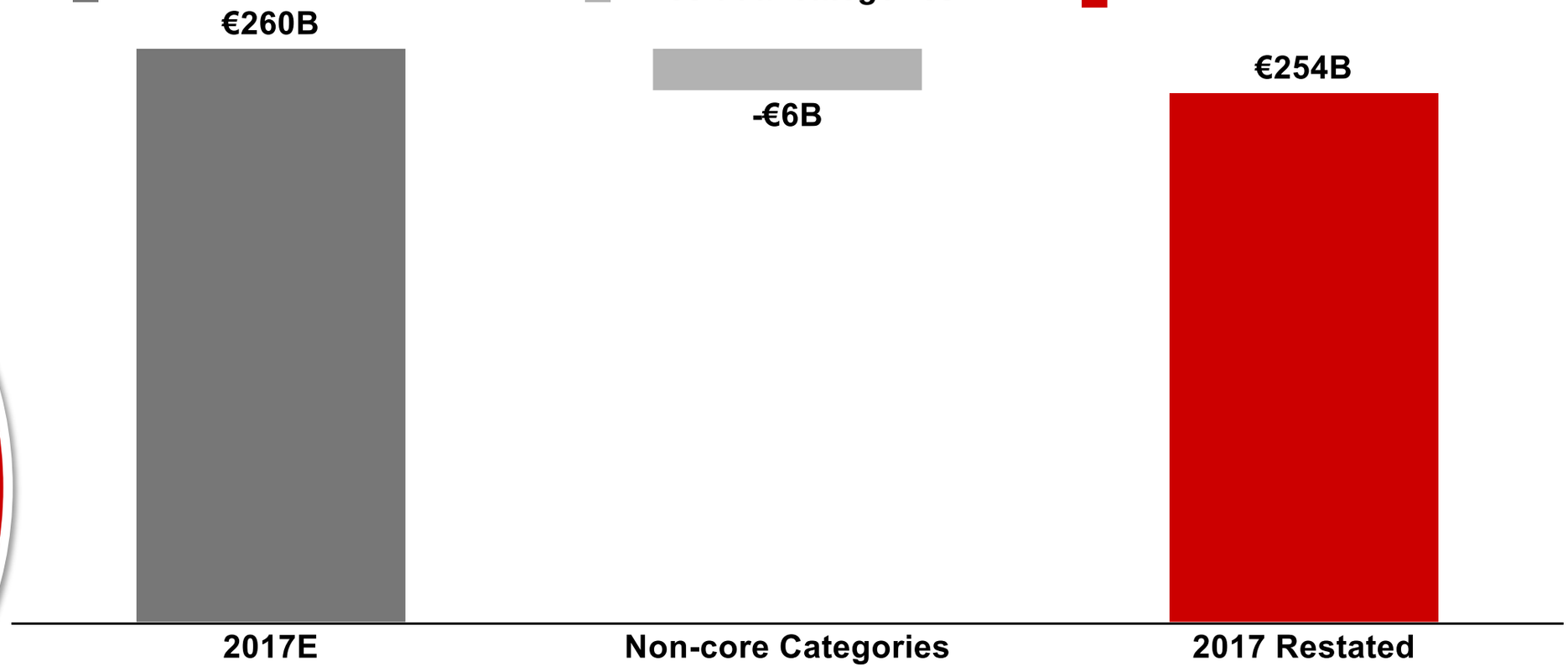


METHODOLOGICAL FOREWORD – SCOPE REVISION, TO FOCUS PERSONAL LUXURY GOODS MARKET ON CORE CATEGORIES

GLOBAL PERSONAL LUXURY GOODS MARKET RESTATEMENT

Personal luxury goods market | €B

- Market definition as per **Bain luxury study 2017** (May-18)
- Excluding **art-de-la-table** (now included into *High-Quality Design and Homeware*) and **other residual categories**
- **Restated new personal luxury goods market[1]**



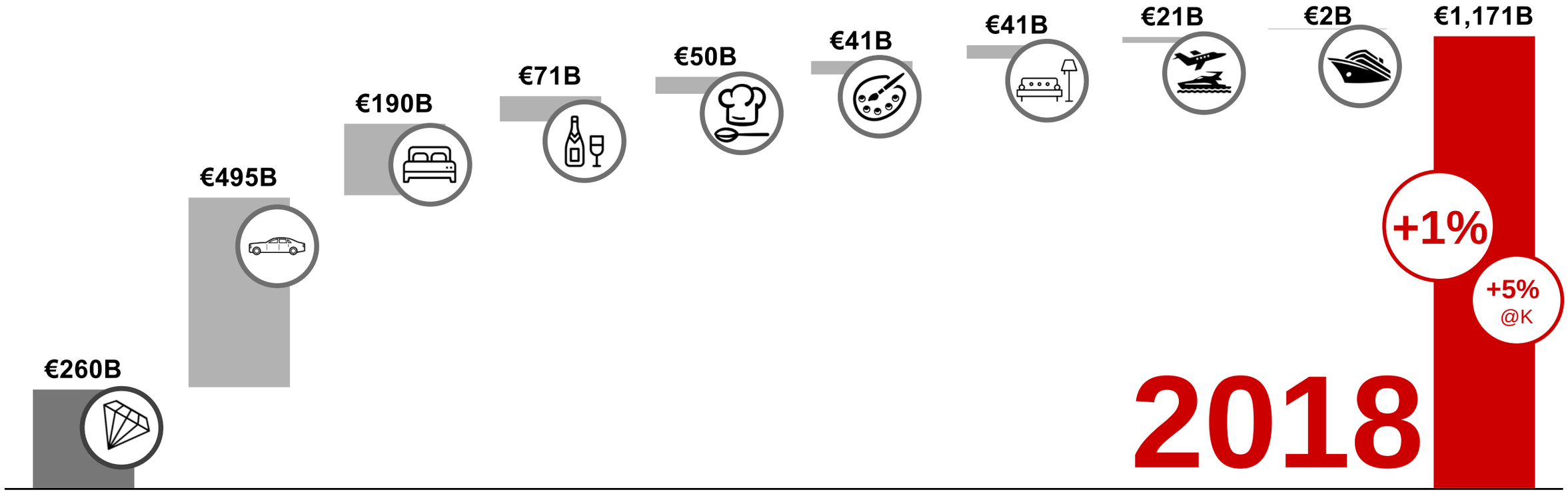
Note: (1) Personal luxury goods market includes Apparel, Accessories, Hard luxury and Beauty

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GLOBAL LUXURY MARKETS: ~1.2T€, WITH 5% REAL-TERM GROWTH IN 2018

Global luxury goods markets | €B

@K: Growth at constant exchange rates

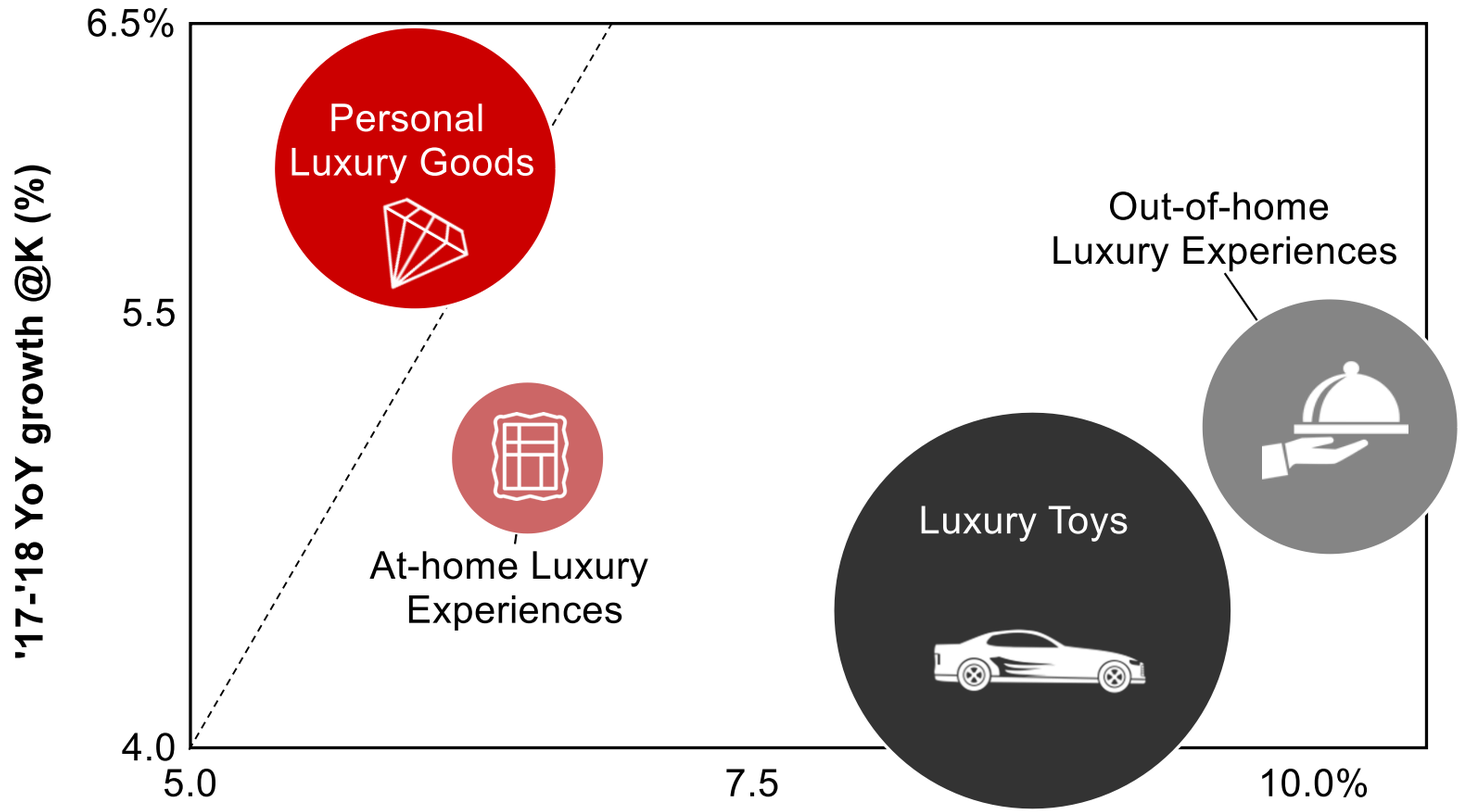


	Personal Luxury Goods	Luxury Cars	Luxury Hospitality	Fine Wines & Spirits	Gourmet Food & Fine Dining	Fine Art	High Quality Design Furniture & Homeware	Private Jets & Yachts	Luxury Cruises	Total 2018E
GROWTH '17-'18E	2%	1%	-1%	2%	3%	3%	3%	-7%	3%	
@K	6%	5%	5%	4%	6%	6%	4%	-3%	7%	

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PERSONAL LUXURY GOODS MARKET OVERPERFORMING OTHER LUXURY SEGMENTS IN 2018

Global luxury market by category | %



- **Personal luxury goods** gaining **traction** in the last year
- **Intimate** and less **"showy" experiences are expected to be** more valued by consumers, in particular younger ones

- **Luxury Toys** and **Out-of-home** experiences keeping a **positive trend**, but **slowing down** vs. the past, approaching a **maturation** phase

@K: Growth at constant exchange rates

Note: At-home luxury includes Fine Art, High-quality design furniture & homeware, Fine Wines&Spirits and Gourmet Food; Out-of-home luxury includes Luxury hospitality, Cruises and Fine dining; Luxury Toys includes Luxury cars, Private Jets and Yachts

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LUXURY TOYS

- **Positive** (**but softening**) **luxury cars** market**; Aspirational** segment outperforming
- **Lackluster** trend for luxury **yachts,** despite surging interest among **Chinese consumers**
- **Private jets** market on the **decline**, **hit by cannibalization** from **second-hand** segment

FINE ART & DESIGN FURNITURE

- **Recovery** of **public auctions** boosting **fine arts** market**, online** penetrating **higher price** ranges
- **Solid growth** in real terms for **high quality design furniture**, sustained by **living & bedroom** and **outdoor**; **direct channel** thriving; ongoing **consolidation trend**

FOOD&BEVERAGE EXPERIENCES

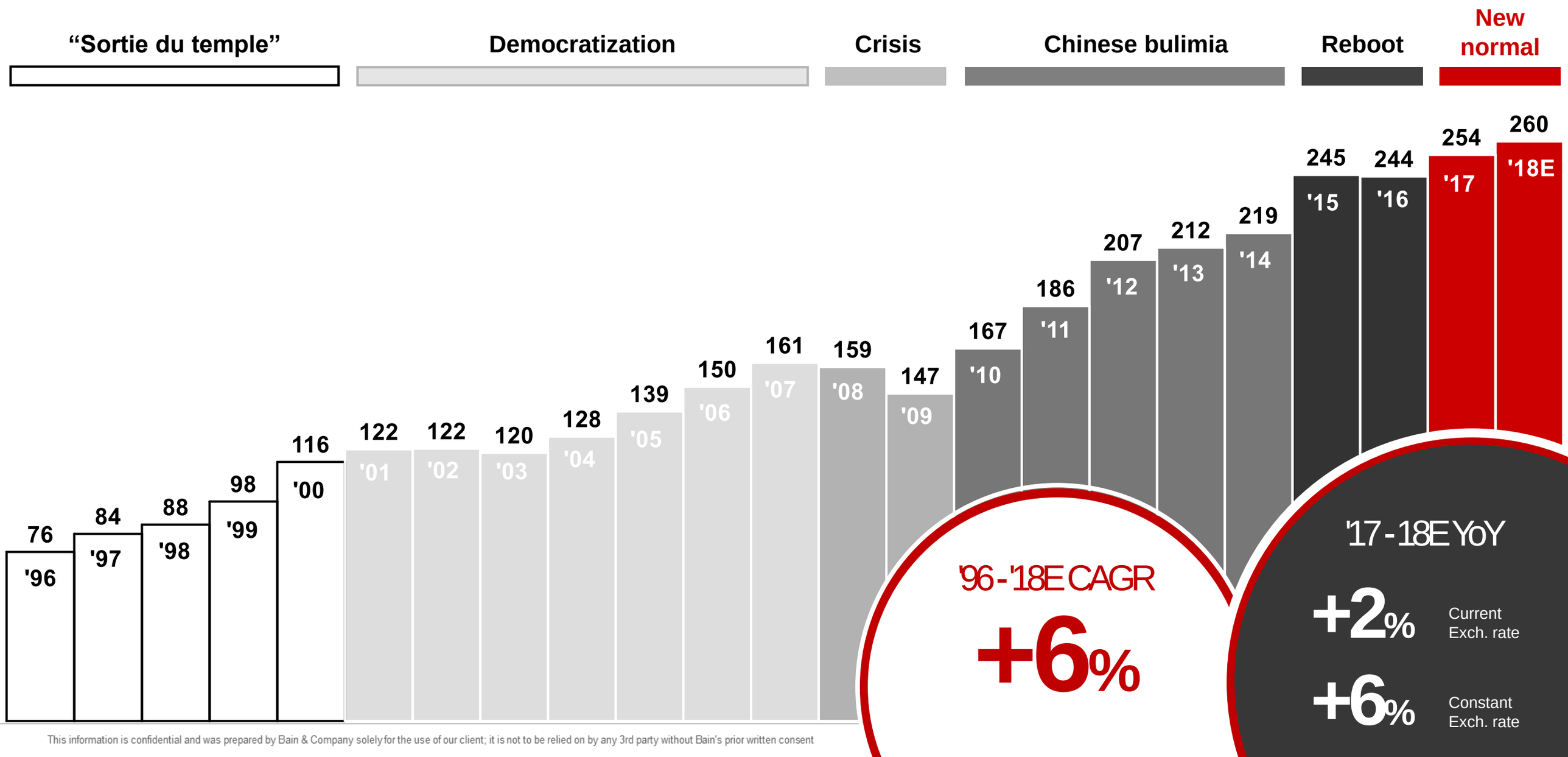
- Continuing **positive momentum** for **Spirits**, boosted by increasing demand for **exclusive clubs** and **craft spirits**
- **Low single-digit growth** for **Wines**
- **Strong Food market; "ethical eating" paramount trend,** with constant quest for **transparency** on food **quality** and **origin**

OUT-OF-HOME EXPERIENCES

- **Positive growth** in real terms for **luxury hotels**; **travel** becoming a "**state of mind**" with hotel evolving into **social venues in-sync** with the **city**
- **Booming demand** for **luxury cruises – best performing luxury market segment in 2018** in real terms, with **expedition segment** confirmed as star performer

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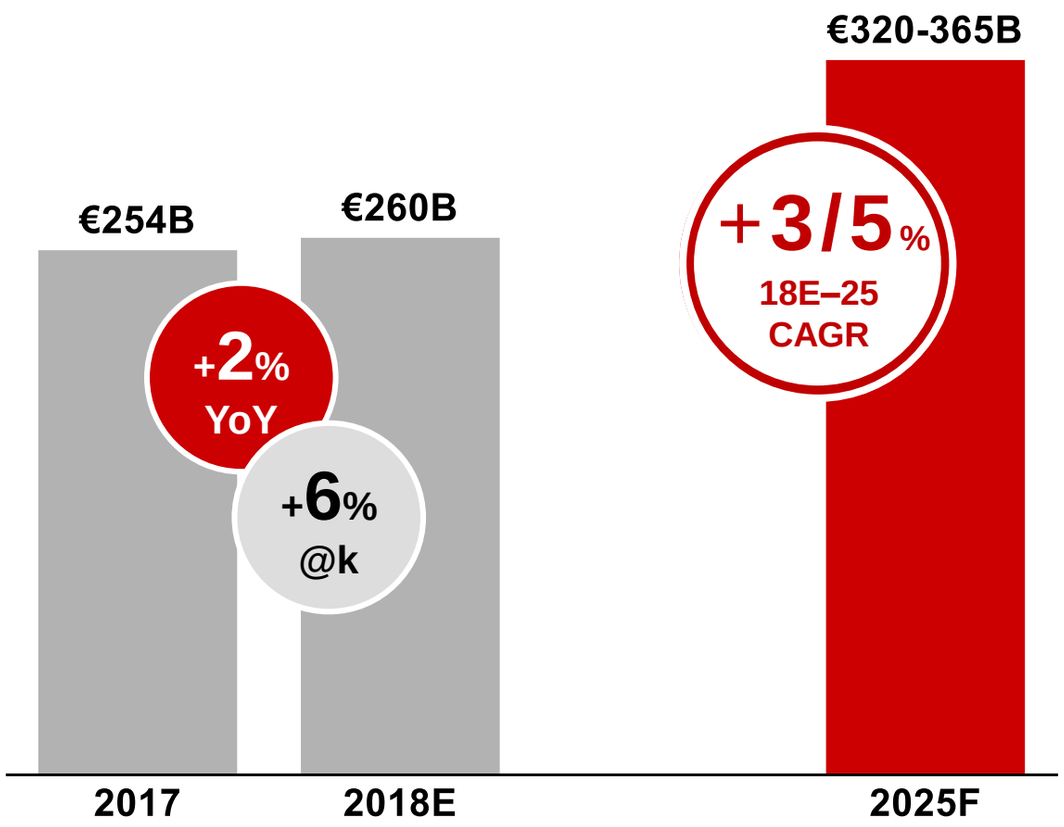
PERSONAL LUXURY GOODS MARKET IN 2018 CONFIRMED THE "NEW NORMAL" STARTED IN 2017



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SOLID MID-TERM GROWTH TO 2025, DRIVEN BY POSITIVE FUNDAMENTALS, WITH SOME POSSIBLE BUMPS ALONG THE ROAD

Personal luxury goods market forecast | €B



@K: at constant exchange rates

SOLID MID-TERM MACRO FUNDAMENTALS

- **Comforting mid-term macroeconomic outlook** going forward, which will sustain a **positive consumer confidence**

BUMPY ROAD

- **Possible bumps** along the road (e.g. socio political issues, government commercial policies, possible short-term soft recessions,…) could make the **path less smooth**

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LUXURY IN 2025 WILL BE A DIFFERENT PLACE

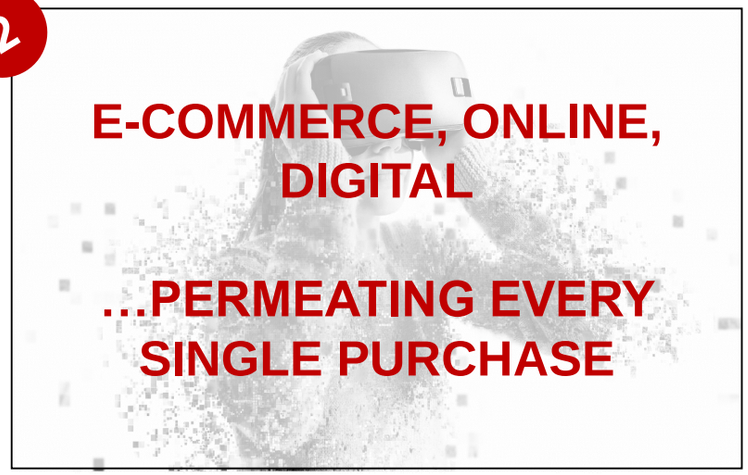
1



MORE CHINESE-DRIVEN PURCHASES

…HAPPENING IN CHINA

2



E-COMMERCE, ONLINE, DIGITAL

…PERMEATING EVERY SINGLE PURCHASE

3



FOOTPRINT CONSOLIDATION

…RESHAPING THE STORE OF THE FUTURE

4



A YOUTHFUL MARKET

…DISRUPTING GROWTH PATHS

5



CULTURES AND (SUB)CULTURES

…TAKING OVER CONSUMPTION TRENDS

6



ONE MARKET

…SERVING MARKETS OF ONE

7



DIFFERENTLY PROFITABLE BRANDS
…NIMBLE IS THE NEW BLACK



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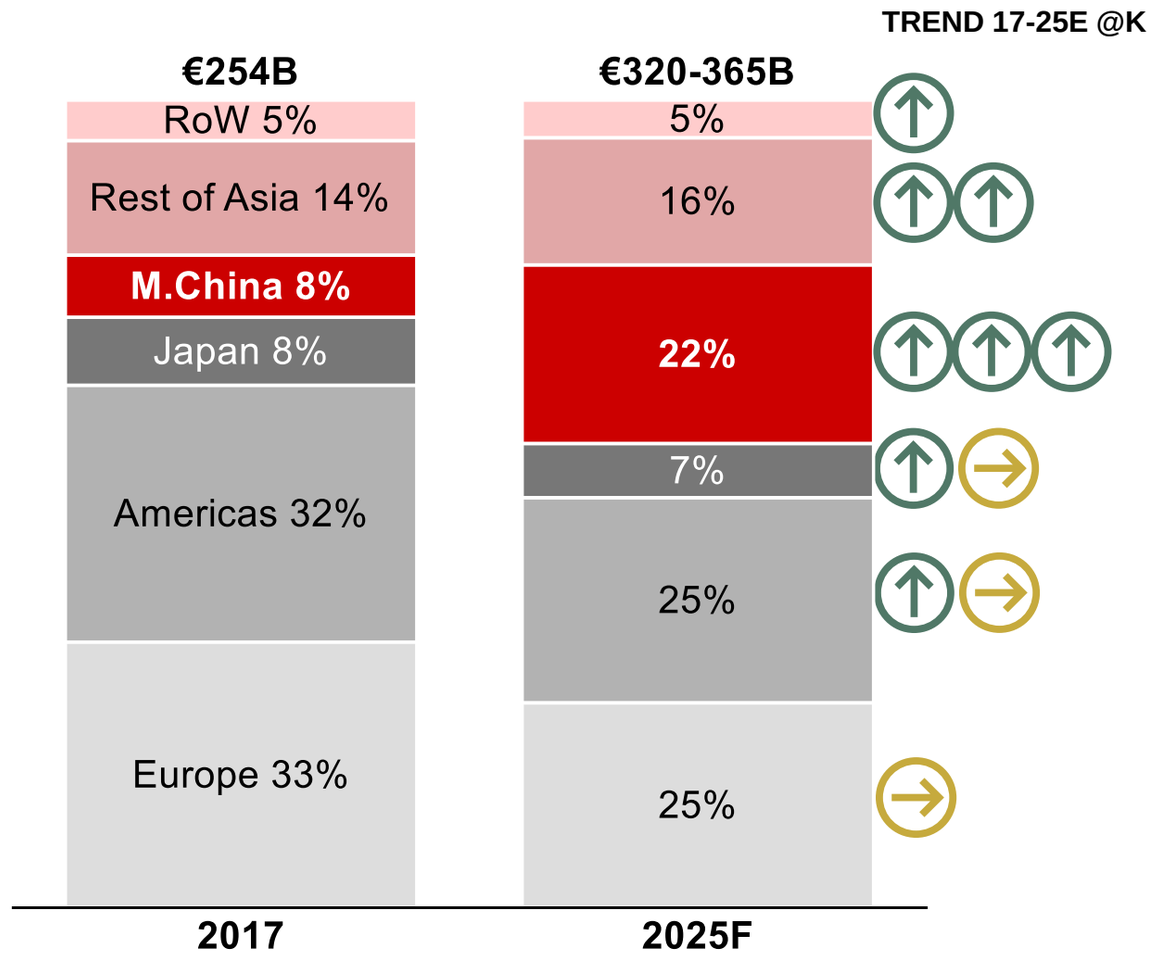
MORE CHINESE-DRIVEN PURCHASES… HAPPENING IN CHINA



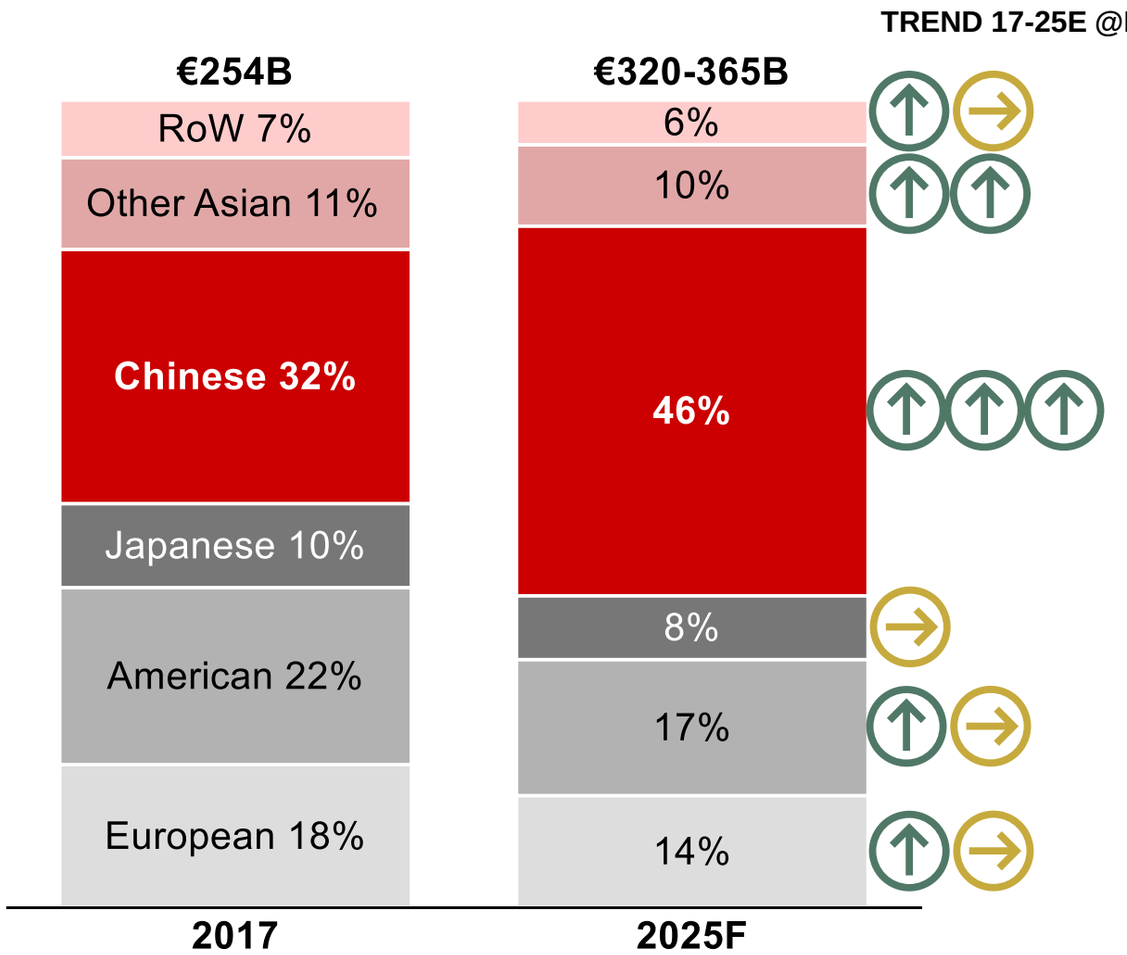
CHINESE CUSTOMERS WILL ACCOUNT FOR **45%+** OF THE **MARKET**… AND HALF OF THEIR **LUXURY PURCHASES** WILL HAPPEN IN THEIR **HOME COUNTRY**

CHINA AND CHINESE CONSUMERS TO CONTINUE DRIVING THE INDUSTRY: LION'S SHARE IN 2025; MATURE MARKETS DECREASE THEIR RELEVANCE

Personal luxury goods market by geography | €B



Personal luxury goods market by consumer nationality | €B



Note: RoW = Rest of the World

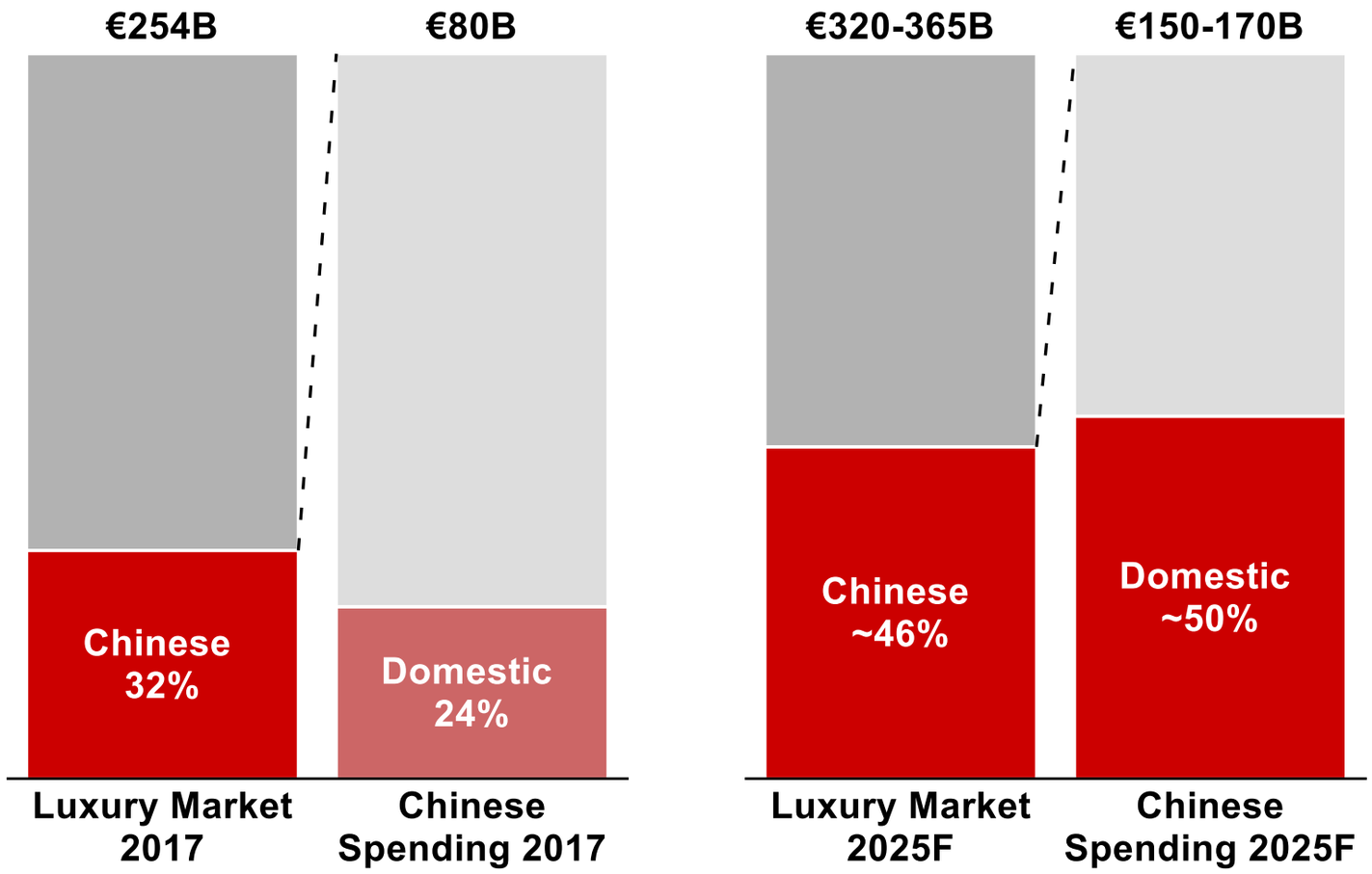
@K: At constant exchange rates

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Trend at constant exchange rate (increasing, decreasing, flat)

CHINA IS EXPECTED TO REMAIN THE MAIN GROWTH ENGINE OF THE LUXURY MARKET IN THE COMING YEARS

Personal luxury goods market
by nationality and consumption location | €B



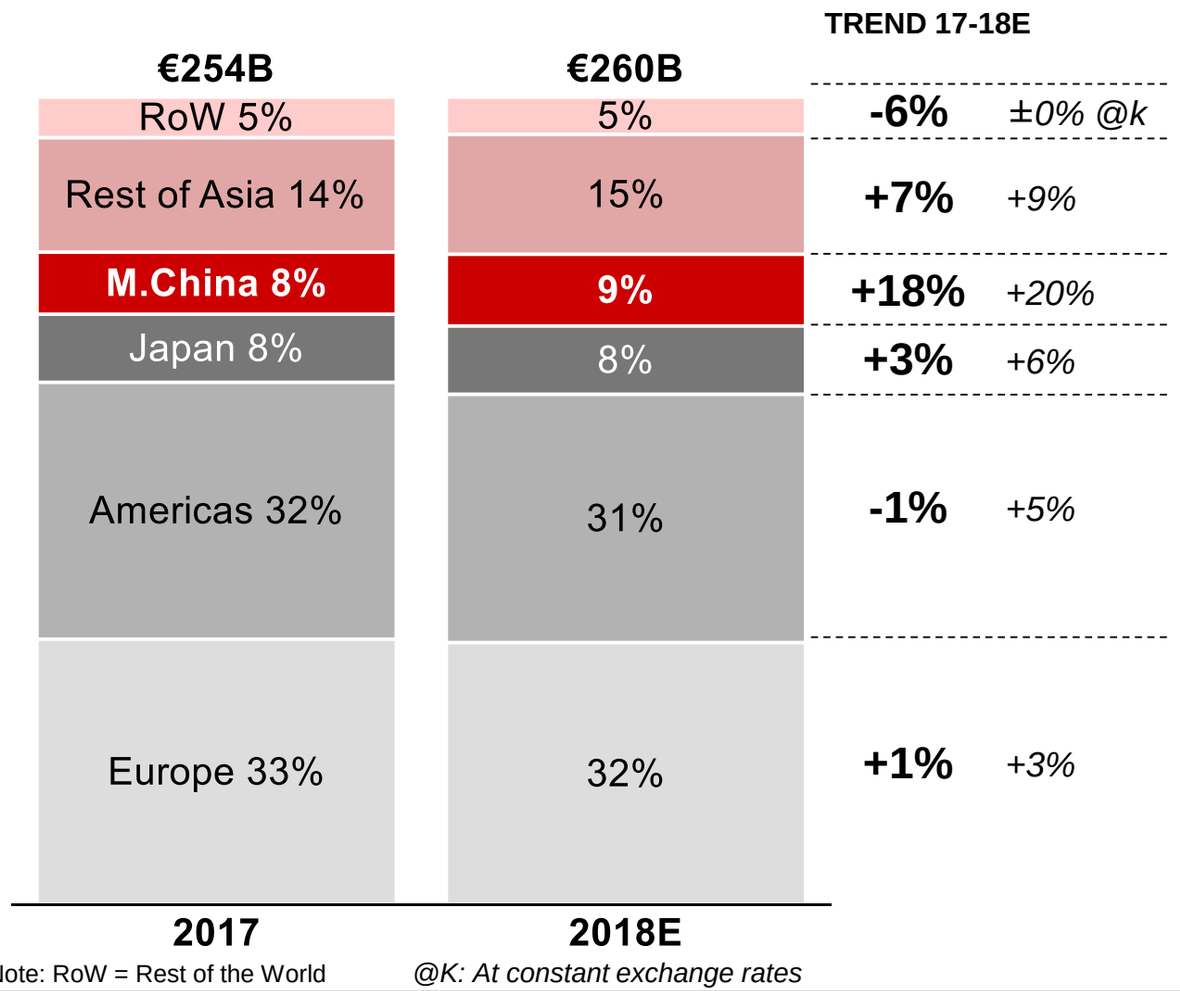
- **Chinese** consumers continuing to **grow their purchases:** both **enthusiastic international shoppers** and **local consumers**

- **Chinese local consumption booming** and expected to **grow rapidly going forward,** due to **healthier fundamentals**
  - Lower price differentials
  - Improved customer experience and reach (safer to buy also online vs. the past)
  - Possibly reduced import taxes
  - Chinese government policies on boosting internal consumption (e.g. Daigou channel crack down)

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POSITIVE GROWTH ACROSS THE BOARD IN 2018. CHINA AND CHINESE CONSUMERS LEADING THE GROWTH

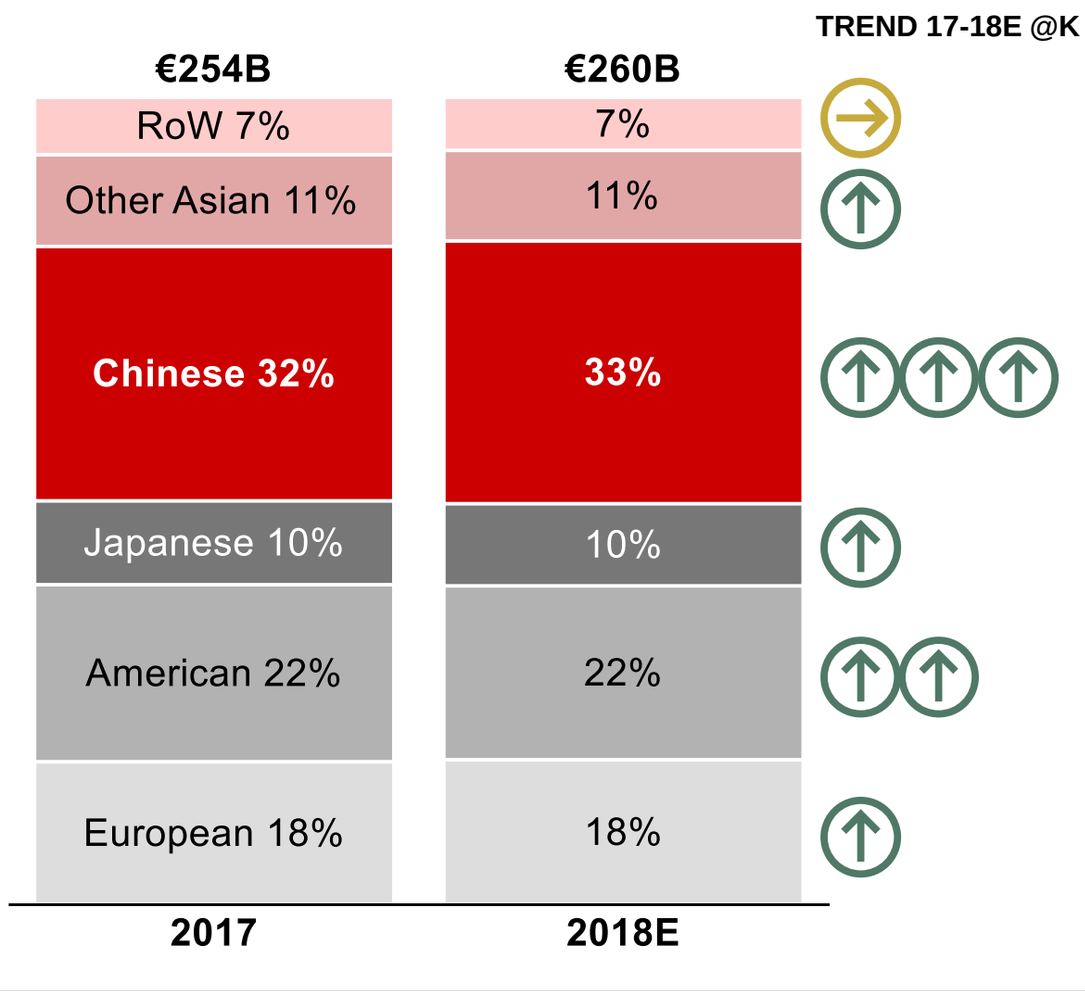
Personal luxury goods market by geography | €B



Note: RoW = Rest of the World

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Personal luxury goods market by consumer nationality | €B

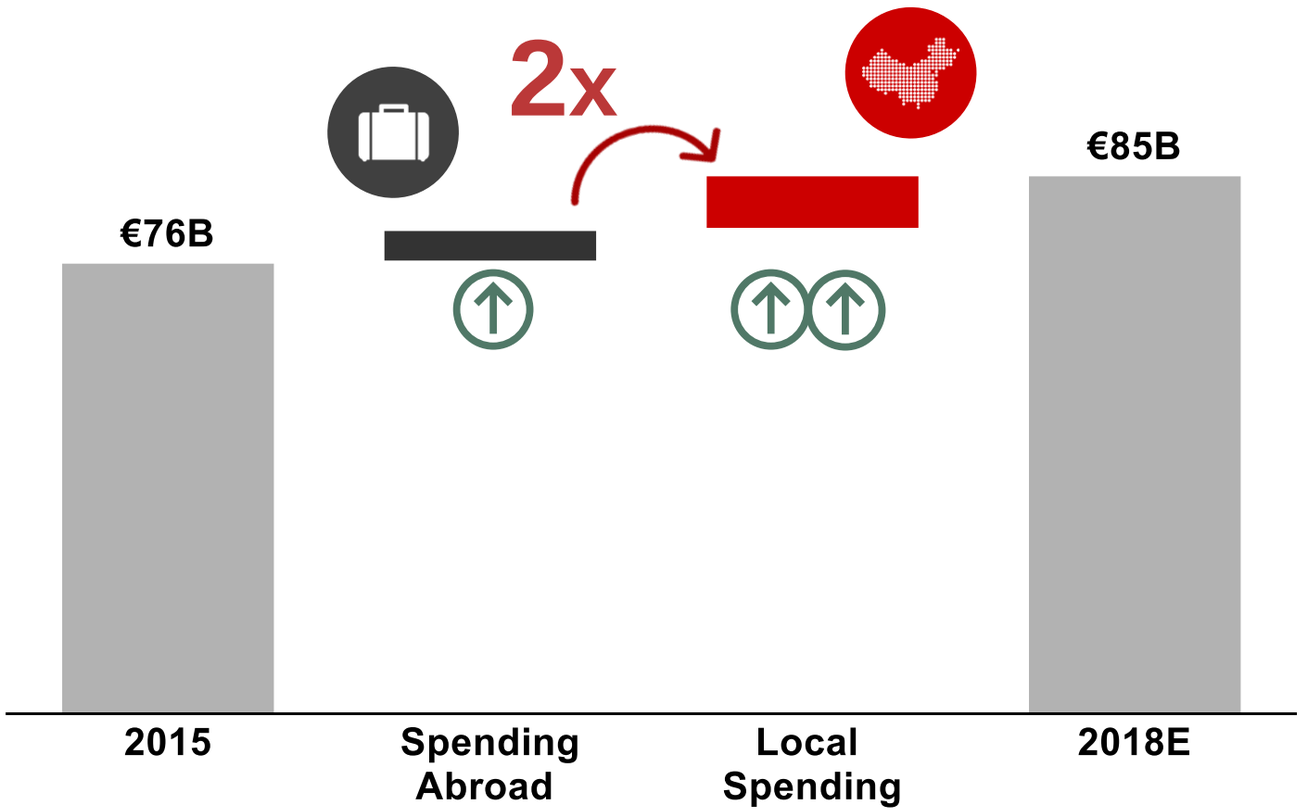


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Trend at constant exchange rate (increasing, decreasing, flat)

OVER THE LAST 3 YEARS, CHINESE SPENDING IN CHINA HAS CONTRIBUTED TWICE AS MUCH GROWTH AS CHINESE SPENDING ABROAD

Chinese spending growth contribution: Locally vs. abroad | €B



Local Spending major drivers: Price-Volumes effects

LOCAL SPENDING

PRICE

- Price harmonization
- Global price evolution
- Product mix effect
- Currency effect

VOLUMES

- New-to-market customers (Mid-class and Gen Z)
- Government import tax reduction

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EUROPE LAGGING BEHIND DUE TO STRONG CURRENCY; SOLID AMERICA (IN REAL TERMS); ASIA AND CHINA OUTPERFORMING

China

- **Lion's share** of the growth
- Consumers valuing **trendy products** and **tailored initiatives**
- **Online** booming, supported by **increased investments**

Asia

- **Good performance** of **HK** and **Macau**, benefitting from Chinese purchases
- Dynamic **S. Korea,** with strong **local consumption**
- **Brisk growth** in other Asian countries (Singapore, Thailand & Taiwan)

Japan

- **Soft local purchases**, increasingly pushing brands to find new solutions to bring them back to stores
- Brands starting to **rethink distribution** model in light of **increased touristic consumption**

Europe

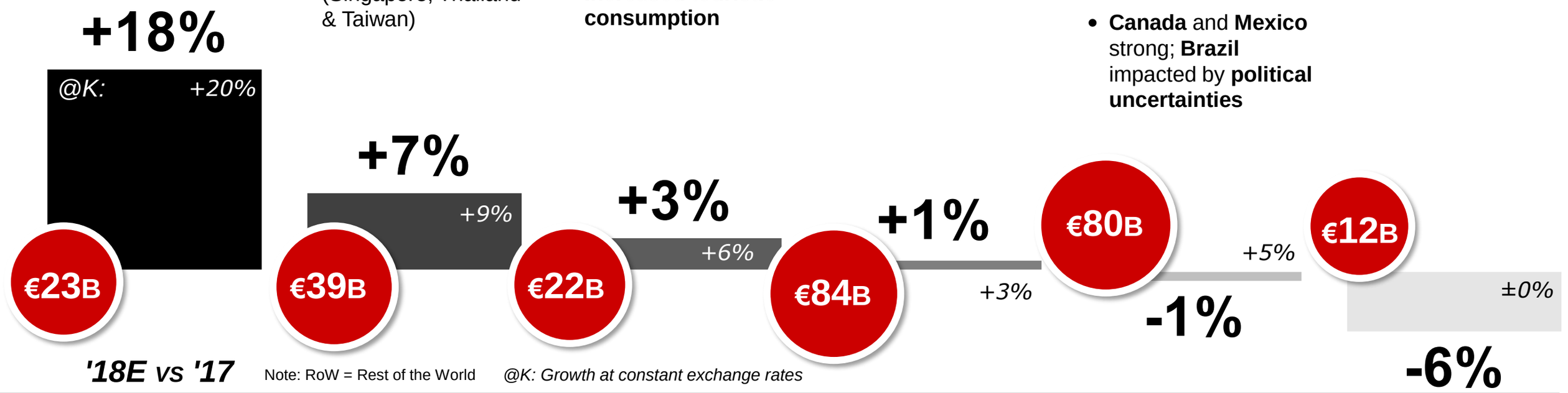
- **Mildly positive local** consumption, with **mixed country performance**
- Strong currency **impacting tourist spending**

Americas

- Boost of **local purchases**, driven by **positive US economic cycle;** yet **brands are mindful** of a **possible short-term soft recession**
- **Strong dollar** impacting **Asian** and **Latam tourists**
- **Canada** and **Mexico** strong; **Brazil** impacted by **political uncertainties**

RoW

- **Negative Middle East** due to **low local consumer** confidence, hit by **government spending restriction**



'18E vs '17

Note: RoW = Rest of the World

@K: Growth at constant exchange rates

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AMERICAS AND ASIA ENJOYING ROBUST LOCAL DEMAND, WHILE EUROPE AND JAPAN CONTINUING ON A SOFT TREND

2017-2018E Personal luxury goods market by consumers: local vs. tourists

↑ = ↓ TREND 17-18E	EUROPE	AMERICAS	M. CHINA	JAPAN	ASIA	ROW
LOCALS	↑ →	↑ ↑	↑ ↑ ↑	↑	↑ ↑	↓ ↓
TOURISTS	↓ →	→	→	↑ ↑	↑ ↑	↓
MAIN DRIVERS	• **Strong Euro** affecting **tourists'** purchasing power	• **US strong economy** driving up **disposable income** and **spending from locals** • **US West Coast** still **"hot destination"** for tourists, yet offset by **drop of tourists elsewhere**	• **Lower price differentials** and **stricter controls** on **borders** fueling **local consumption**	• **Continued interest** from **Chinese** tourists • Tourists leveraging **cheap flights** to reach main shopping cities (e.g. Kyoto and Osaka)	• **Local consumption** on the **rise sustained** by strong economic growth of **emerging markets** (Vietnam, Philippines) • **Chinese tourists** continuously providing an extra-boost	• **Oil price drop** in **Middle East** affecting **locals' disposable income** • **Turbulent political** situation impacting **tourist flow** (both extra and intra regional)

17-18E GROWTH

+4% **LOCAL** SPEND

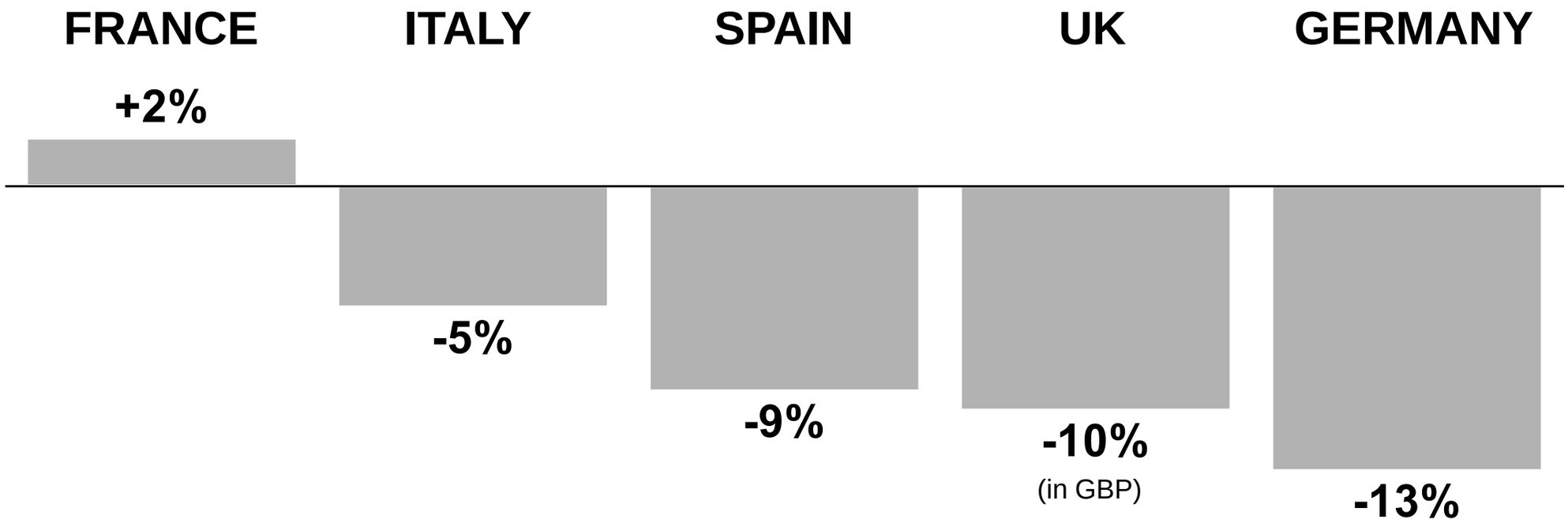
+0% **TOURIST** SPEND

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STRONG EURO IMPACTING TOURIST SHOPPING, EXCEPT FOR FRANCE; AVERAGE TICKET INCREASE PARTIALLY OFFSETTING VOLUME REDUCTION

Global Blue

2017-2018E European personal luxury goods tax free shopping growth in local currencies



	FRANCE	ITALY	SPAIN	UK	GERMANY
AVERAGE TICKET	↑	↑	↑→	↑	↑
TRANSACTIONS	↓	↓	↓↓	↓↓	↓↓

NOTE: figures refer to Jan-Sep period

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E-COMMERCE, ONLINE, DIGITAL… PERMEATING EVERY SINGLE PURCHASE



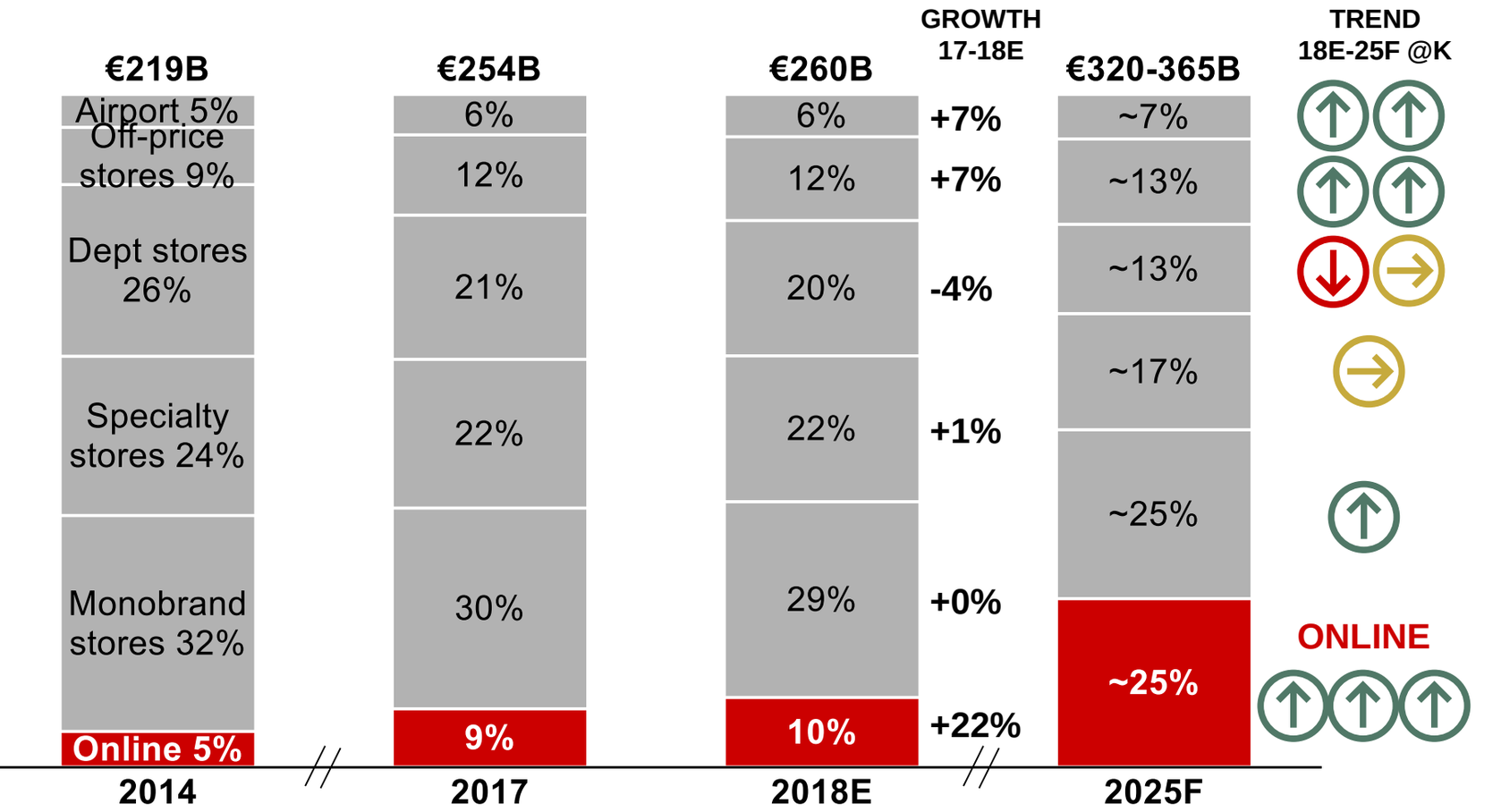
ONLINE CHANNEL WILL REPRESENT **25%** OF THE **MARKET VALUE.**

100% OF **LUXURY PURCHASES** WILL BE INFLUENCED BY AN **ONLINE INTERACTION**

ONLINE FASTEST GROWING CHANNEL, CONTINUING ITS FULL INTEGRATION WITH PHYSICAL: FROM 10% IN 2018 TO 25% BY 2025

2

Personal luxury goods market by channel | €B



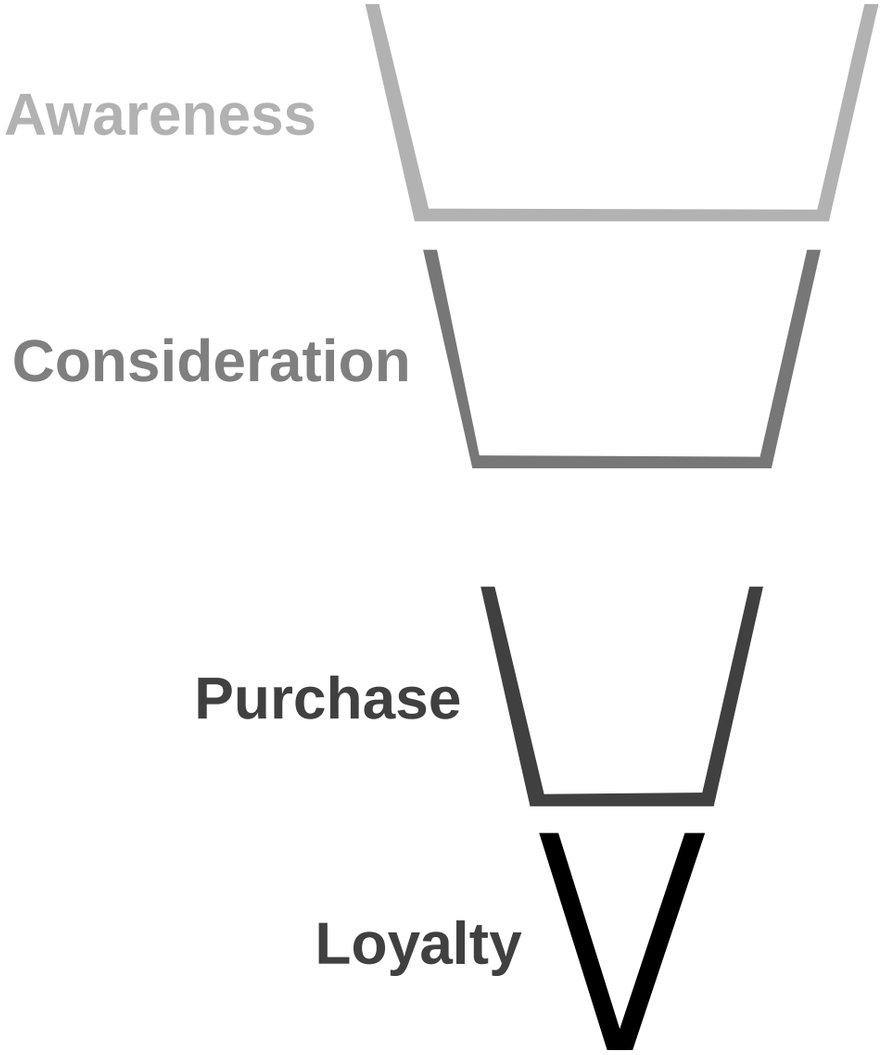
- **Online** accelerating and **gaining share** toward physical channel: **ecosystem** of **business models, going beyond regional** boundaries
- **New technologies** will further enrich **shopping experience** and **connectivity**: mobile and beyond
- **Physical channels** will re-shape their **purpose and mission**, focusing on the core elements of value: Airport retailing and Off-price to reach full-potential; more traditional channels **downsizing** and **evolving** their **roles**

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Trend at constant exchange rate (increasing, decreasing, flat)

IN 2025 ONLINE WILL INFLUENCE EVERY SINGLE LUXURY PURCHASE AND DIGITAL WILL ENABLE ~50% OF THEM

2



Online-INFLUENCED purchases in the luxury market

70% **2018**

~100% **2025**

Continuous **integration** and **convergence** between **e-commerce websites** and **digital content/marketing** platforms:

- **Social media** enhanced with **E-commerce capabilities**
- **E-commerce website** enriched with **editorial content**

Digitally ENABLED purchases in the luxury market

15-20% **2018**

~50% **2025**

Implementation of technologies throughout the **entire value chain** to support the digital enabling:

- **Virtual Reality**
- **Internet-of-Things**
- **Mobile payments**
- **"Smart" Inventory** and **Supply Chain** management

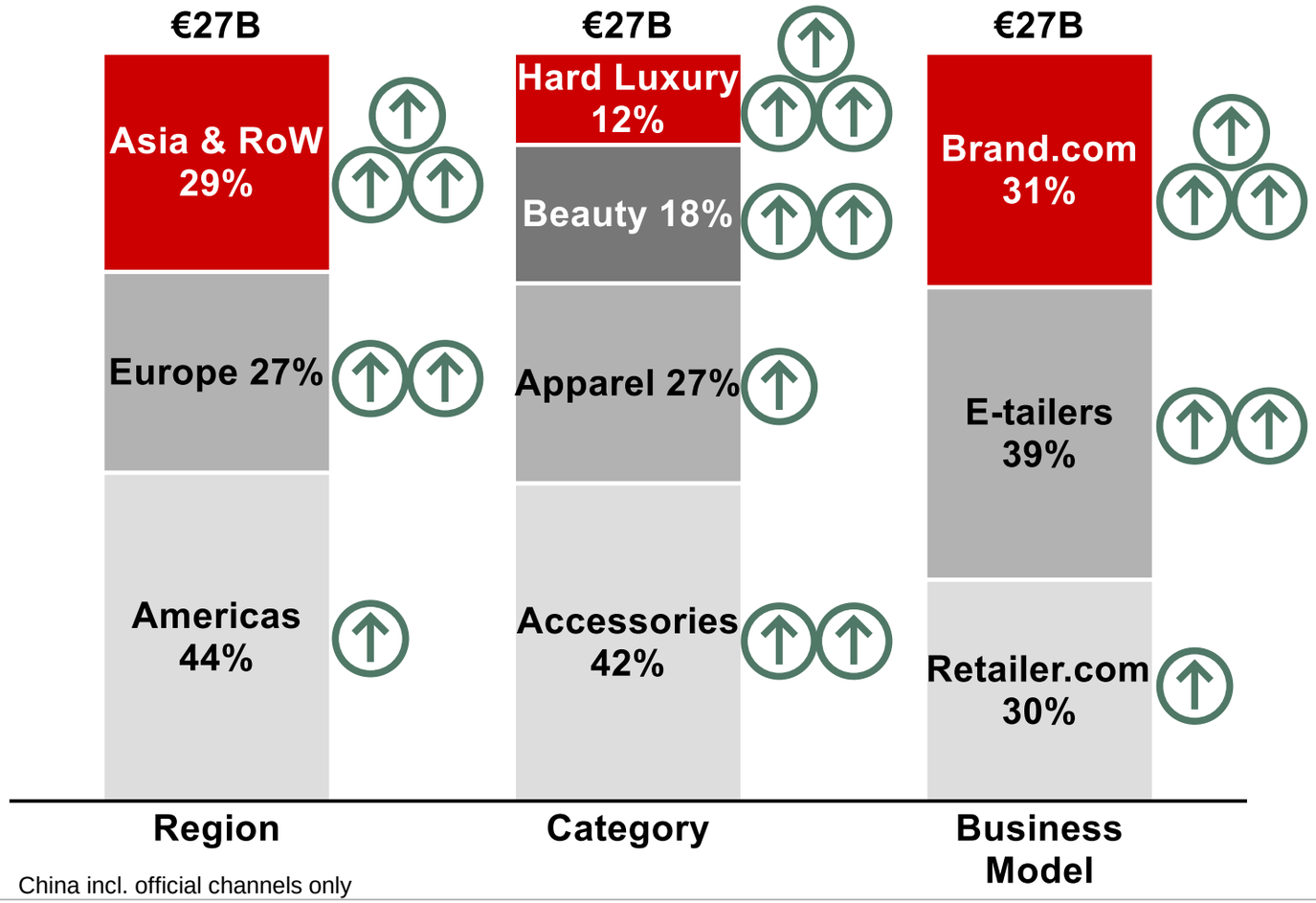
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ASIA CHAMPION REGION, BOOMING HARD LUXURY AND KEY PARTNERSHIPS AMONG PLAYERS ENABLING THE ONLINE CHANNEL

2

Personal luxury goods online market by key segment | €B

↑ = ↓ TREND 17-18E



China incl. official channels only

ONLINE '13-'17 CAGR 24%

ONLINE '17-'18E YOY 22%

- **Asia** still the **main growth engine,** yet with **room to further grow** in some countries
- **Europe** with **positive** trend; **US growing slower** than other regions

- **Booming hard luxury,** enjoying the **initial focus** of **specialized players** on the channel
- **Accessories** and **beauty** confirming to be **"ideal" categories** for an online purchase (e.g. no fit issues)
- **Apparel lagging behind**, penalized by the category slowdown in the market

- **Brands** implementing **dedicated strategies** to take the **channel at full potential** through their own websites
- **E-tailers** continuously **innovating** their **value proposition** also leveraging **exclusive partnerships** with brands

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FOOTPRINT CONSOLIDATION… RESHAPING THE STORE OF THE FUTURE



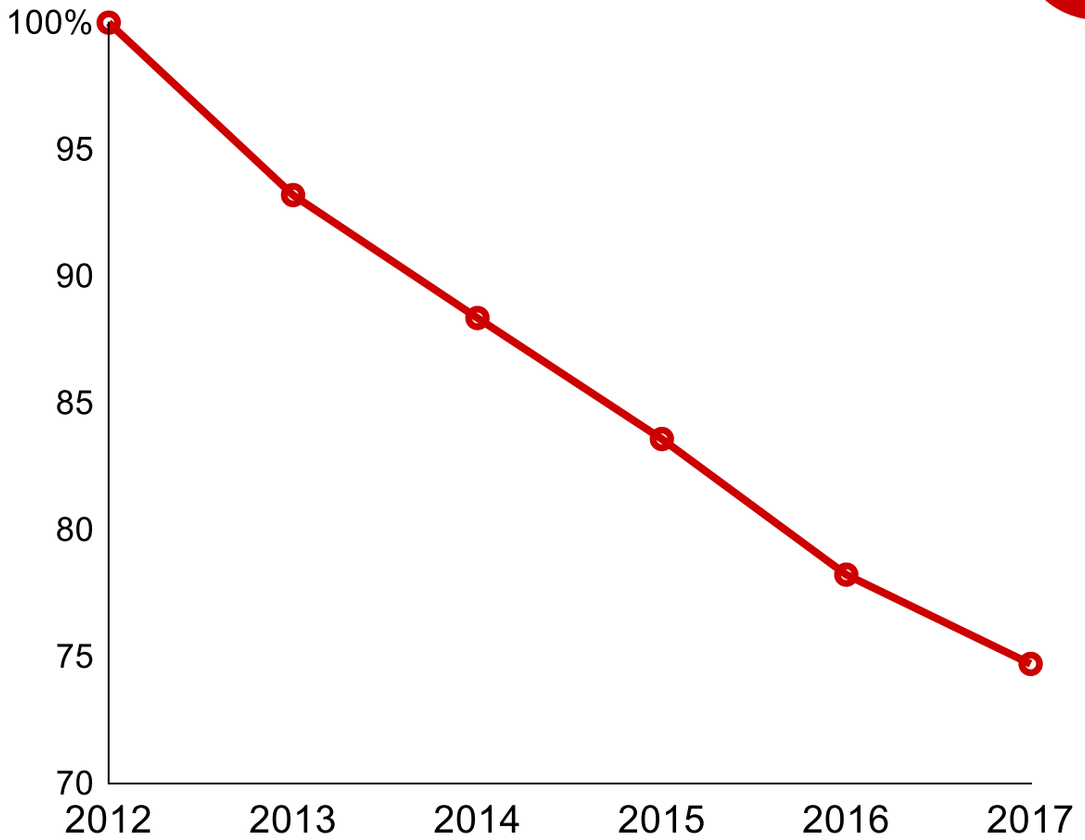
DIGITAL PENETRATION WILL LEAD TO **PHYSICAL DISRUPTION**: **NETWORK CONSOLIDATION.**
STORES WILL INEVITABLY **CHANGE**: FROM **POINT OF SALES** TO **POINT OF TOUCH**

MONOBRAND NET STORE OPENINGS IN CONTRACTION – DUE TO IN-STORE TRAFFIC DECLINE – RESHAPING THE ROLE OF PHYSICAL STORES

3

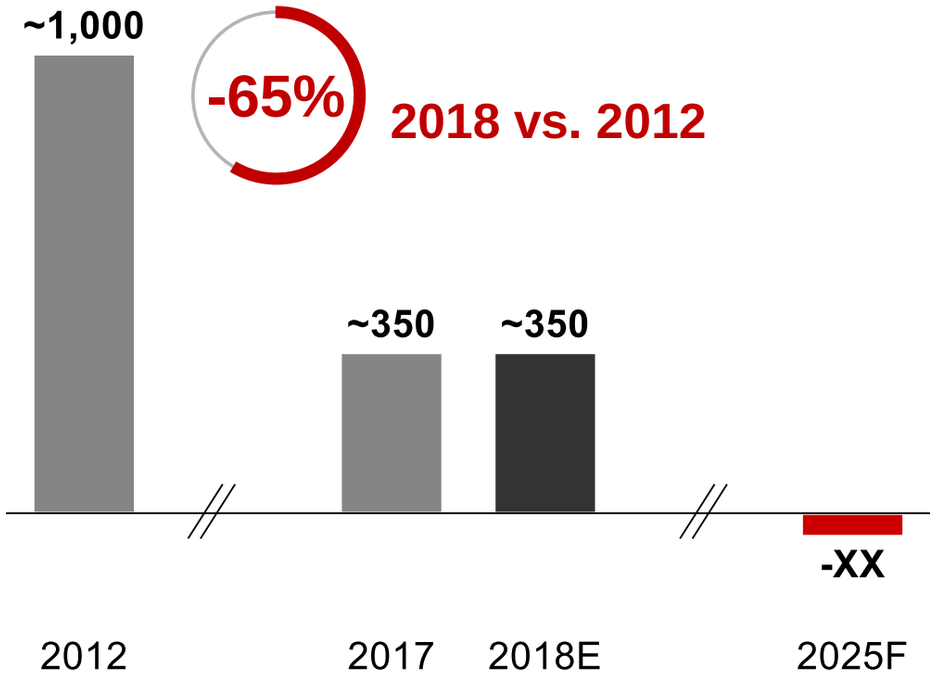
Fashion & Accessories same-store traffic declining in recent years…

Fashion & Accessories same store traffic YoY change | %



…impacting future luxury retail net store openings

Luxury retail net openings evolution (#DOS)



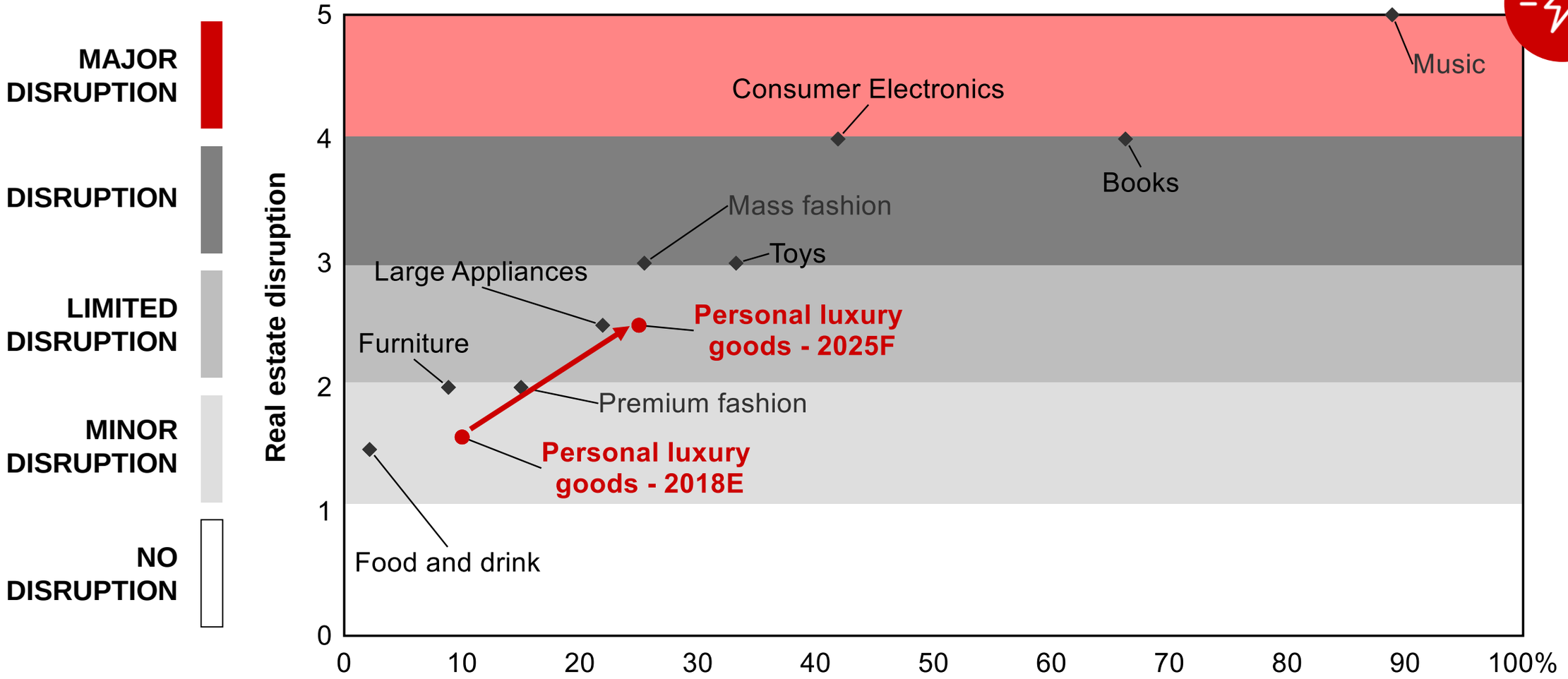
Source: ShopperTrak and Wells Fargo Securities

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DIGITAL PENETRATION WILL LEAD TO FOOTPRINT CONSOLIDATION WITHIN LUXURY INDUSTRY, AS ALREADY HAPPENED IN OTHER SEGMENTS

3

Real estate disruption index by internet penetration level



Source: Bain elaborations on Cushman & Wakefield data
Note: Real estate disruption measured along different dimensions (real estate vacancy rate, rent/sqm, store closings rate,…)

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ROLE OF THE STORE TO INEVITABLY CHANGE: FROM POINT OF SALES TO POINT OF TOUCH, A 360° CHANGE IN THE APPROACH TO CUSTOMERS

3

	TODAY	TOMORROW
Strategic focus	REGIONS	CITIES
Span	SILOES LIMITED (OMNI)CHANNEL	ECO-SYSTEM
Customer	PASSIVELY FOLLOWING THE CUSTOMER	PROACTIVELY INTERCEPTING THE CUSTOMER
Offer	BY FORMAT	CURATED
Vision	REGIONAL P&L vs. E-COMMERCE P&L	CITY P&L INTEGRATING DIGITAL and PHYSICAL

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IN 2018 SUSTAINED RETAIL PACE, DRIVEN BY ORGANIC GROWTH; WHOLESALE SLOWED DOWN DUE TO WEAK DEPT. STORES & SPECIALTY

3

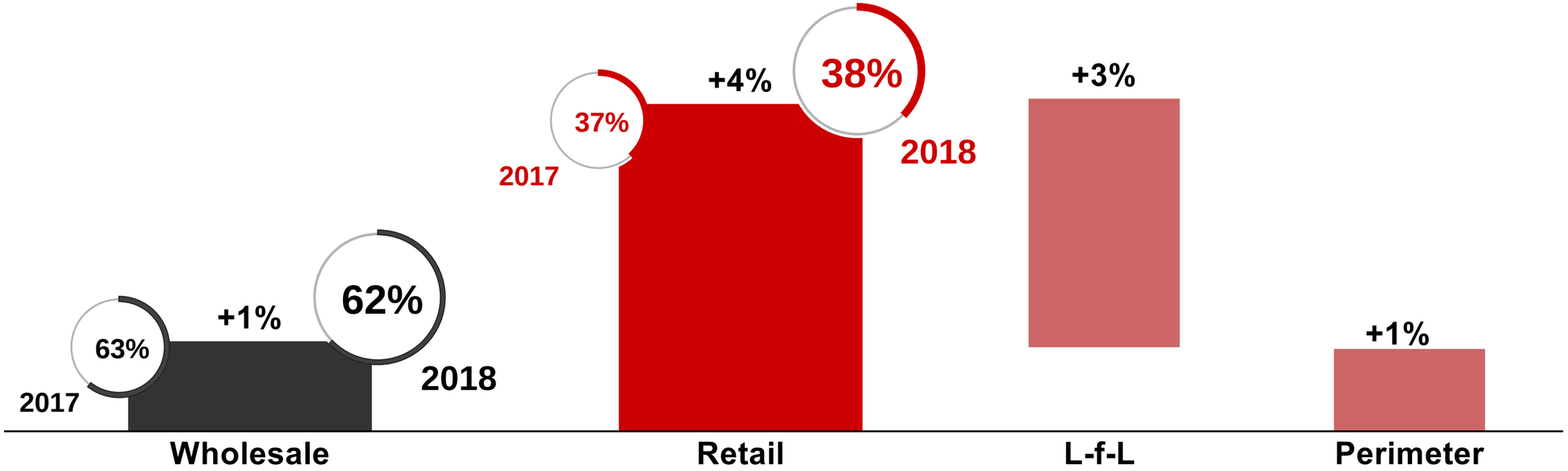
Personal luxury goods growth by channel | %

WHOLESALE

- **High-end department** store **under recovery**, **accessible segment struggling**
- **Specialty stores** slowing down suffering from tough online competition

RETAIL

- **Like-for-like performance** driving **2/3** of **retail channel growth**
- Perimeter expansion sustained also by network **buybacks** in **specific geographies**



XX% Incidence on total market

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A YOUTHFUL MARKET… DISRUPTING GROWTH PATHS

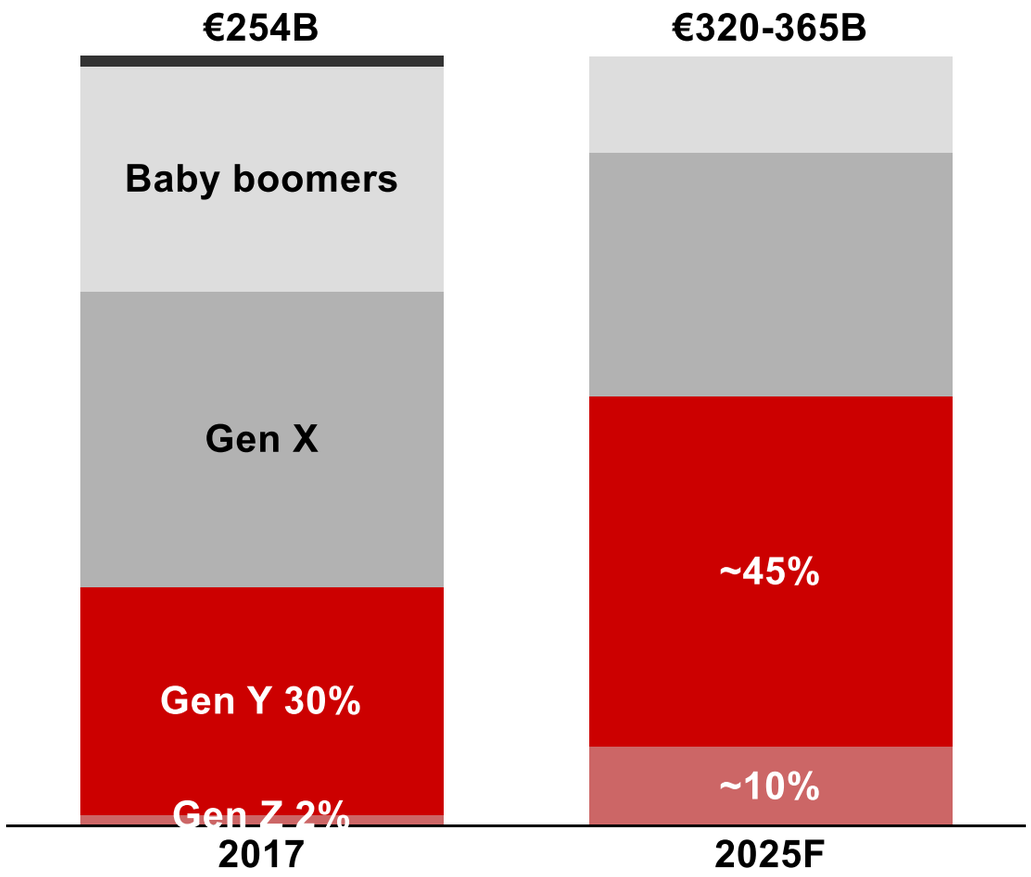


NEW GENERATIONS WILL DELIVER **~130%** OF THE **MARKET GROWTH**… WITH **GEN Z** SHOWING **ORIGINAL TRAITS** VS. **GEN Y**, TO BE PROPERLY **ADDRESSED**

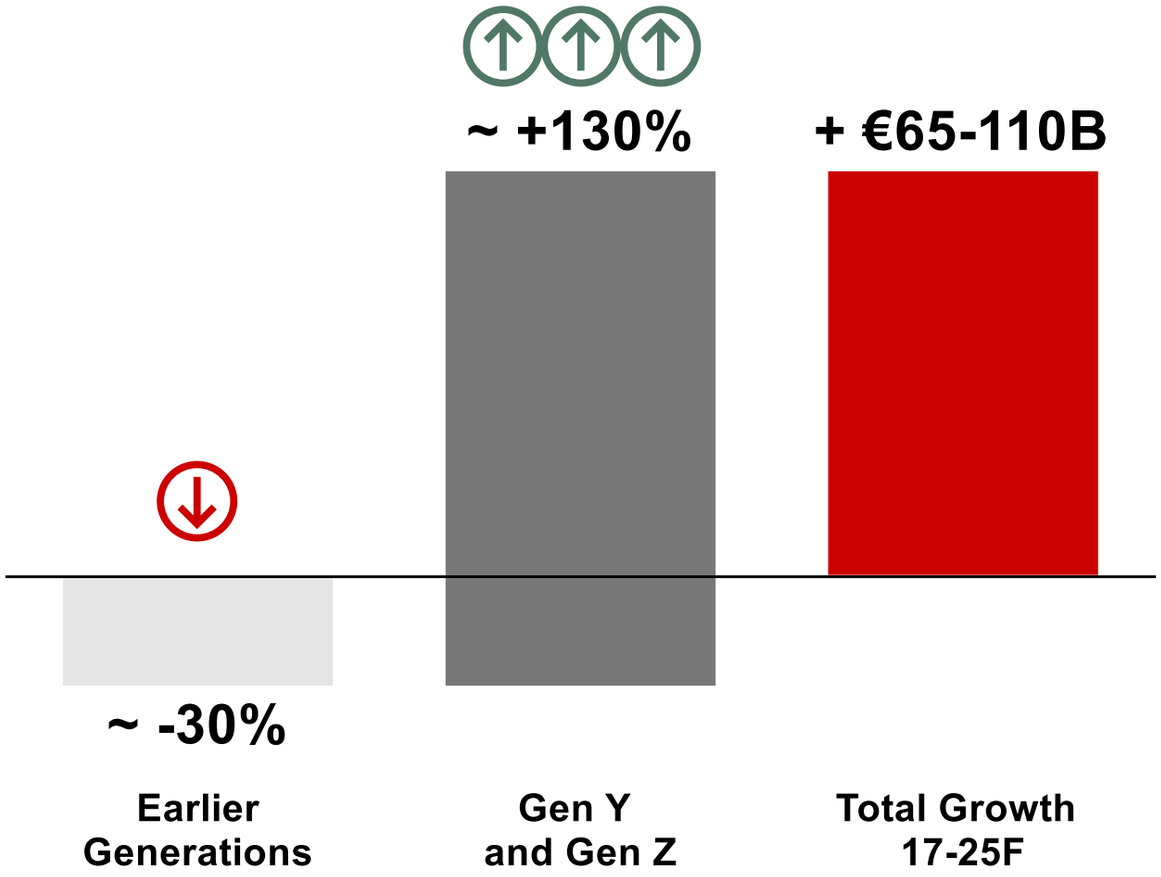
YOUNGER CUSTOMERS WILL REPRESENT ~55% OF THE MARKET IN 2025 AND WOULD DELIVER ~130% OF TOTAL GROWTH OVER THE 2018-2025 PERIOD

4

Personal luxury goods market by generation | €B



Personal luxury goods market growth by generational contribution | €B



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GEN Z ALREADY SHOWING ORIGINAL TRAITS vs. MILLENNIALS, WITH LOCAL SPECIFICITIES EMERGING

4

MILLENNIALS

- FLUID
- UBIQUITOUS
- UNIVERSAL
- SOCIAL
- NOMAD
- MINDFUL

GEN Z

- INDIVIDUALISTS
- BACK IN THE STORE (BUT CONNECTED)
- LOGO-LOVERS (BUT NO BRAND LOYAL)

CHINESE GEN Z

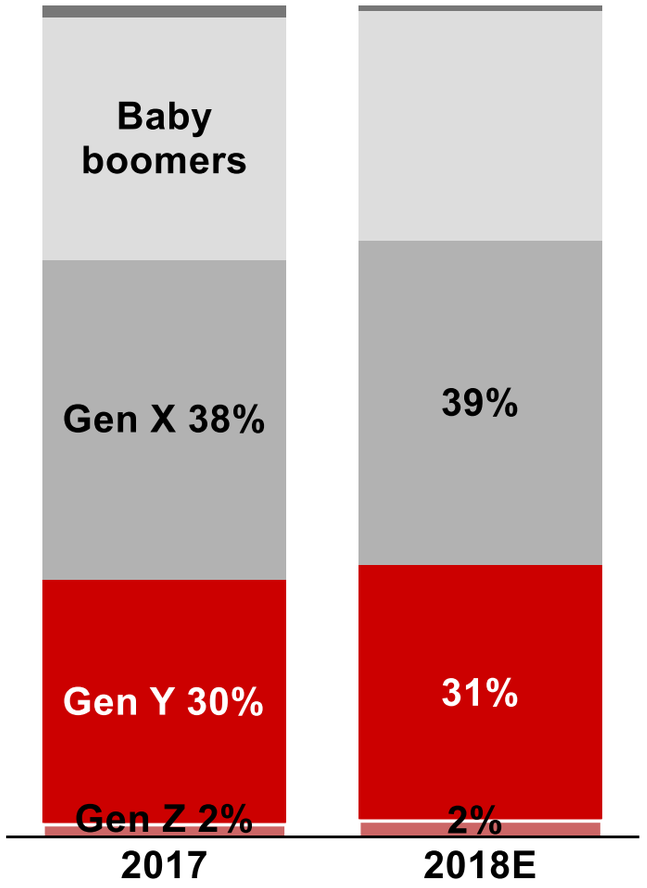
- LUXURY-ATTITUDE
- SOCIAL CONSUMERS
- CHINESE PRIDE

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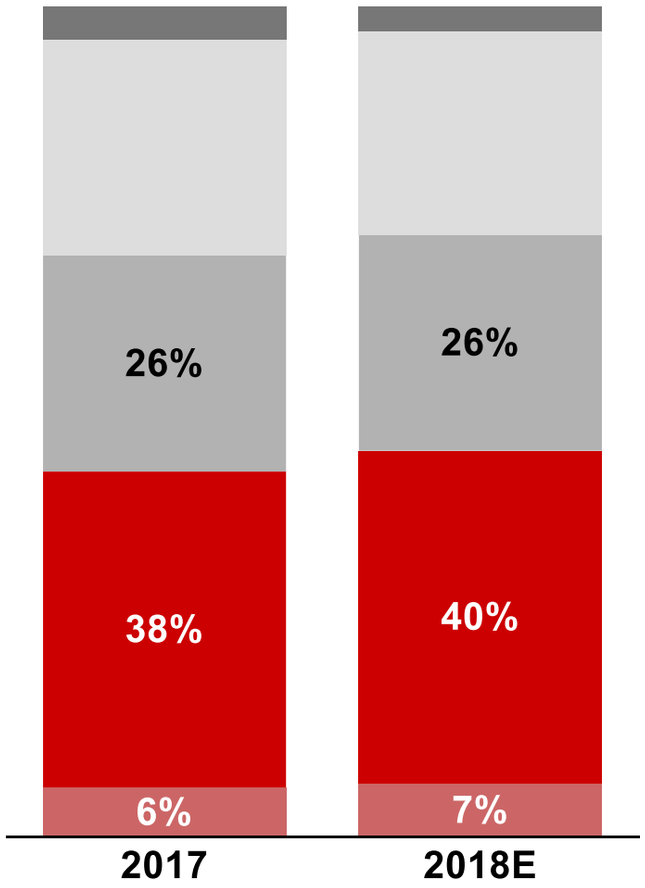
YOUNGER GENERATIONS DELIVERED THE ENTIRE MARKET GROWTH IN 2018; GEN Y WITH A LEADING ROLE; GEN Z READY TO TAKE OFF

4

Personal luxury goods consumers by generation | €B



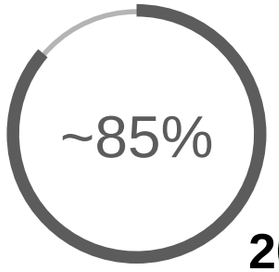
Personal luxury goods millions of consumers by generation



Contribution to total market growth of Gen Z and Gen Y (%)



2018



2017

- **Younger generations** are the **key driver** of "changes" in the industry, forcing brands to **evolve** and **innovate** across different **dimensions** (e.g. product offering, communications territories and media,…)

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CULTURES AND (SUB)CULTURES… TAKING OVER CONSUMPTION TRENDS





CULTURES/SUB-CULTURES AND
NEW CONSUMPTION PATTERNS WILL ARISE…
CATEGORIES WILL BLEND: BRANDS MUST BE
DYNAMIC AND **RESPONSIVE** TO **ADAPT**

CULTURES AND SUB-CULTURES ARE TAKING OVER THE CONSUMPTION

5

CULTURES WILL EAT (PRODUCT) STRATEGY FOR BREAKFAST

(SUB)CULTURES AND IDEAS WILL BECOME MAINSTREAM

FASHION 2025

CULTURALLY INCLUSIVE MODELS

NEW SHAPES EMBRACING BODY DIVERSITY

(NEW) CHANNELS FOSTERING 2nd LIFE OF LUXURY

RELIGIOUS

CULTURAL

ETHNIC

C-Millennials

M-Millennials

INCLUSIVE

ALTERNATIVE

POLITICAL

Gender

Minorities

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…CURRENTLY GENERATING MATERIAL RESULTS

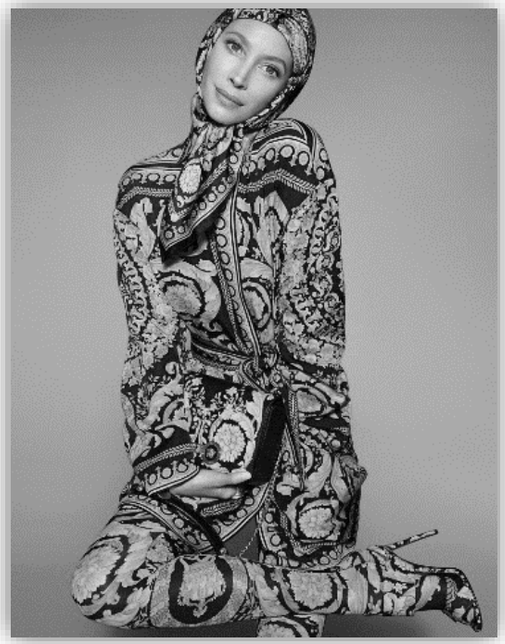
5

CULTURES WILL EAT (PRODUCT) STRATEGY FOR BREAKFAST

(SUB)CULTURES AND IDEAS WILL BECOME MAINSTREAM

THE RISE OF FASHION M-MILLENNIALS





SHARE OF MODEST «ACCEPTED» FASHION IN TOTAL WOMAN LUXURY READY-TO-WEAR

THE LIBERATION OF WOMEN AND DEMOCRATISATION OF SHAPES





SHARE OF «INCLUSIVE» LUXURY APPAREL ON TOTAL WOMAN LUXURY READY-TO-WEAR

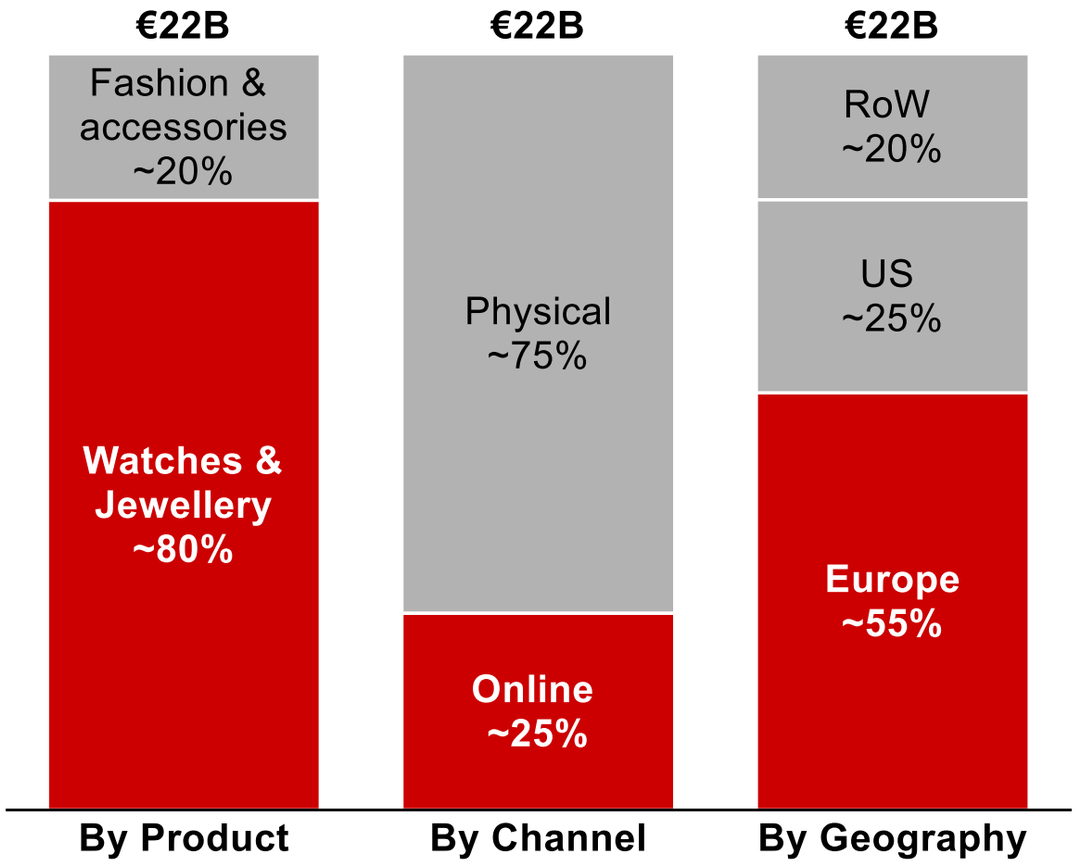
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LUXURY 2ND-HAND MARKET SURGING SPECIALLY IN EUROPE, ONLINE AND HARD LUXURY; STRONG TRACTION AMONG YOUNGER GENERATIONS

5

Personal luxury goods second-hand market | €B

9% **CAGR ’15-18E**



PRODUCT

- **Hard luxury** (watches mainly) & **Accessories** (bags)
- Strong presence of **Limited editions** & **Iconic items**

CHANNELS

- Still mainly **physical** (small local stores)
- **Online** fastest growing, boosted by emerging specialized platforms

GEOGRAPHIES

- **Europe** key geography**,** followed by **US**
- Dynamism in **Japan**, while **China** (still) **marginally present**

GENERATIONS

- Strong traction from **younger generations**, particularly **“opinionated” millennials**

BENEFITS FOR LUXURY PLAYERS

- **New customers** acquisition and **brand awareness**
- **Sellers reinvesting their gains** in new luxury purchases

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SHOES AND JEWELRY CONFIRMED GROWTH DRIVERS IN 2018, FOLLOWED BY ACCESSORIES AND BEAUTY; APPAREL SUFFERING

5

Shoes

- **Still on the rise**, on the tailwind of the ongoing **casualization** trend

Jewelry

- Confirmed among **top performing category**, sustained by **Asians** and **growing younger customers**

Bags

- **Confirmed brisk growth**, sustained by **entry** and **trendy** items

Beauty

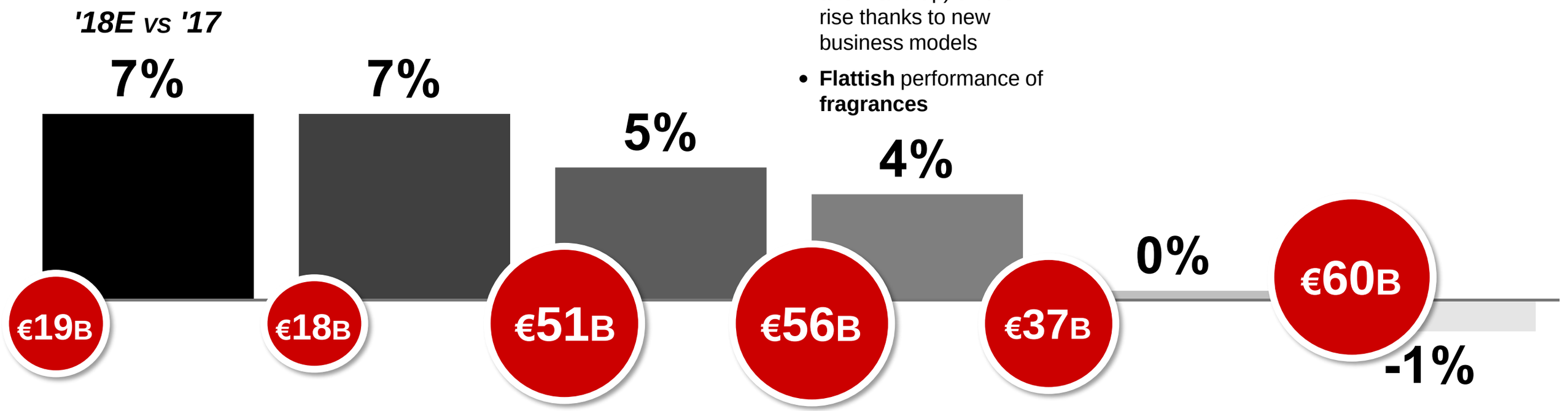
- **Cosmetics driving** growth, with make-up maintaining a positive growth, and **skincare** booming
- Beauty at the **forefront** of **high-tech innovation**
- **Indie brands** (skin care and make-up) on the rise thanks to new business models
- **Flattish** performance of **fragrances**

Watches

- **Flat performance** of watches, with mixed regional trends (lackluster Europe, more dynamic Asia)
- Women watches **gaining share**, mainly on jewel-watches

Apparel

- **Womenswear positive** growth offset by **negative menswear** performance (particularly from **US & European giants**)



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ONE MARKET… SERVING MARKETS OF ONE

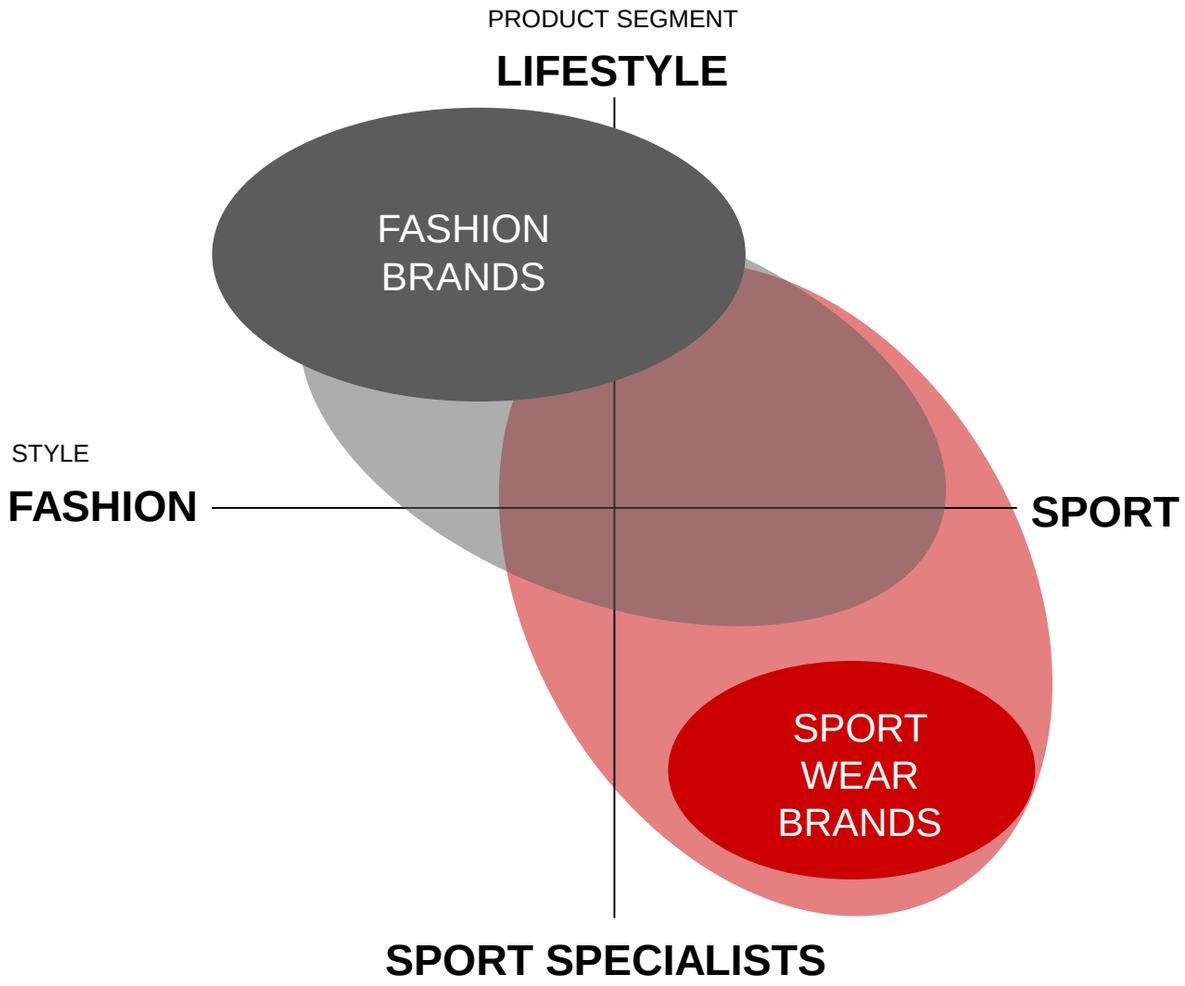


GROWTH MODEL WILL OVERCOME CURRENT BOUNDARIES, SHAPING **NEW COMPETITIVE MAPS**. BRANDS WILL BECOME **EXCELLENCE/IDEA PLATFORMS**, ENLARGING THEIR **RELEVANCE**

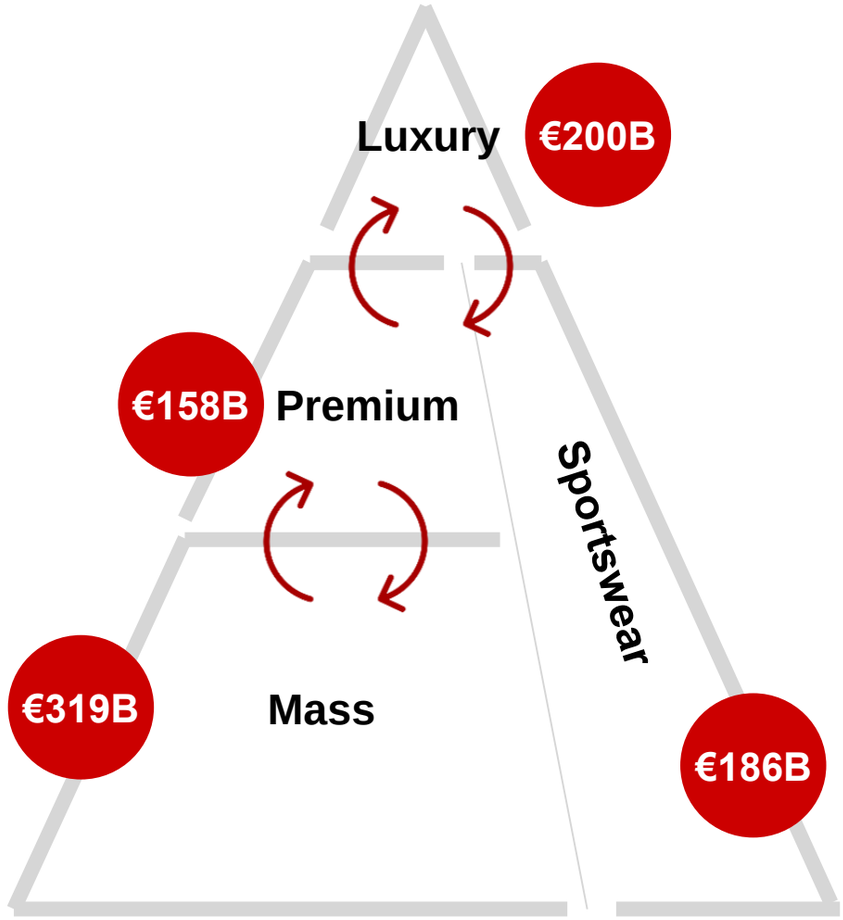
BRANDS WILL CROSS-OVER TYPICAL COMPETITIVE BOUNDARIES, CONVERGING INTO ONE MARKET

6

Fashion & sportswear cross over



Cross-segment competition in 2017 personal goods market

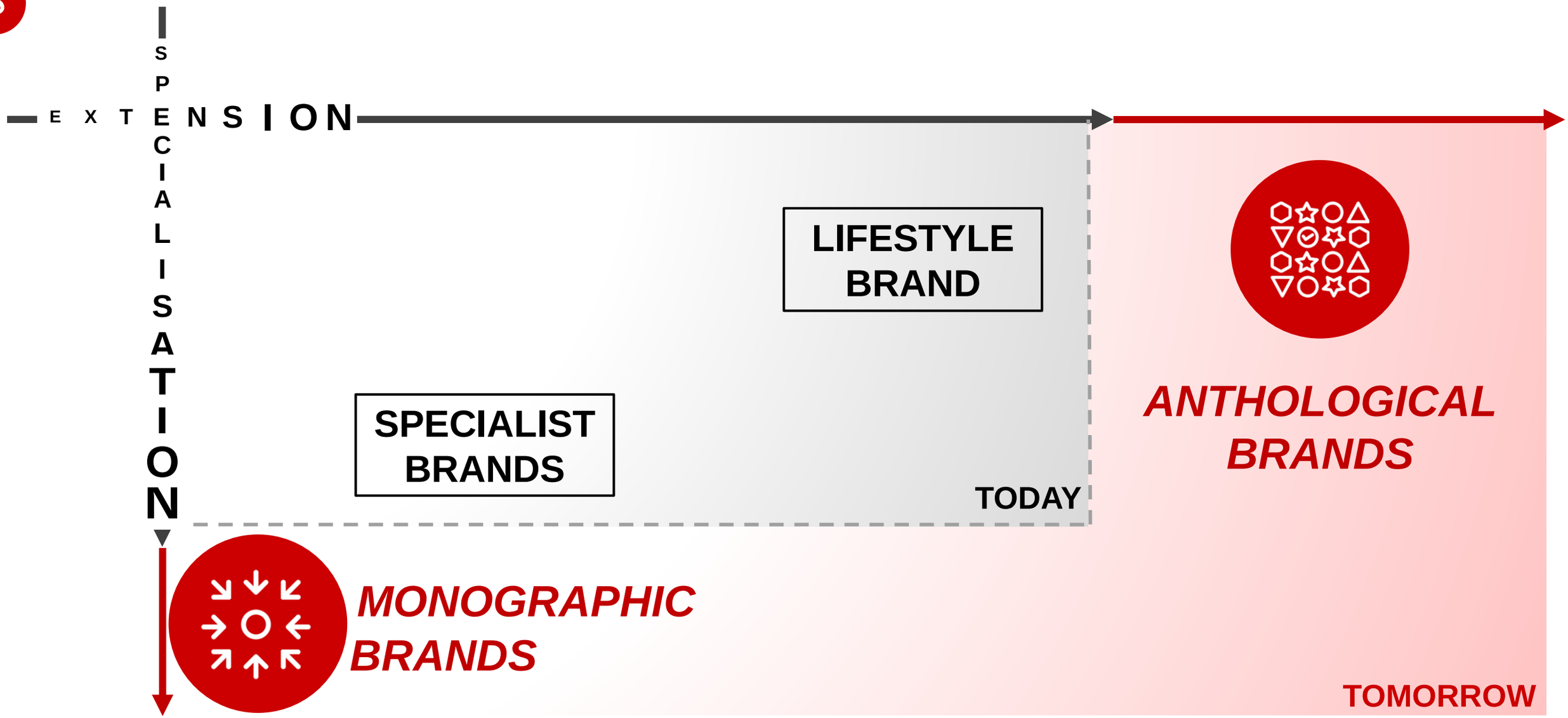


2017 Global personal goods market: soft (apparel, shoes, leather goods, accessories) and hard (watches and jewelry)

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THE GROWTH MODEL WILL EVOLVE LEADING TO THE RISE OF MONOGRAPHIC BRANDS AND ANTHOLOGICAL BRANDS…

6



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…DRIVEN BY A CONSOLIDATION OF THE POST-ASPIRATIONAL VALUE DRIVERS: THE REDISCOVERY OF EXCELLENCE AND THE GROWING POWER OF IDEAS

6



EXCELLENCE

- EXPERTISE
- MATERIALS



EMOTIONS

- STATUS
- AESTHETIC



IDEAS

- EXPERIENCE
- POINT OF VIEW

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ALREADY CLEAR SIGNS OF THIS TRAJECTORY AS COMPANIES ARE RATHER DEFINED BY THEIR CORE COMPETENCES THAN THEIR CONTINGENT OFFER

6

FROM		TO
"IT BAG"		"IT (***)"
CORE OFFER		CORE COMPETENCES
POSITIONING		ONE MARKET

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AS SIGN OF THIS ERA, THE TWO CENTRAL FUNCTIONS OF THIS INDUSTRY ARE CONVERGING, DESPITE IN CONSTANT TENSION

MERCHAN DESIGN

Analytics

Advanced

3-Printing

Artificial

Intelligence

DIFFERENTLY PROFITABLE BRANDS… NIMBLE IS THE NEW BLACK

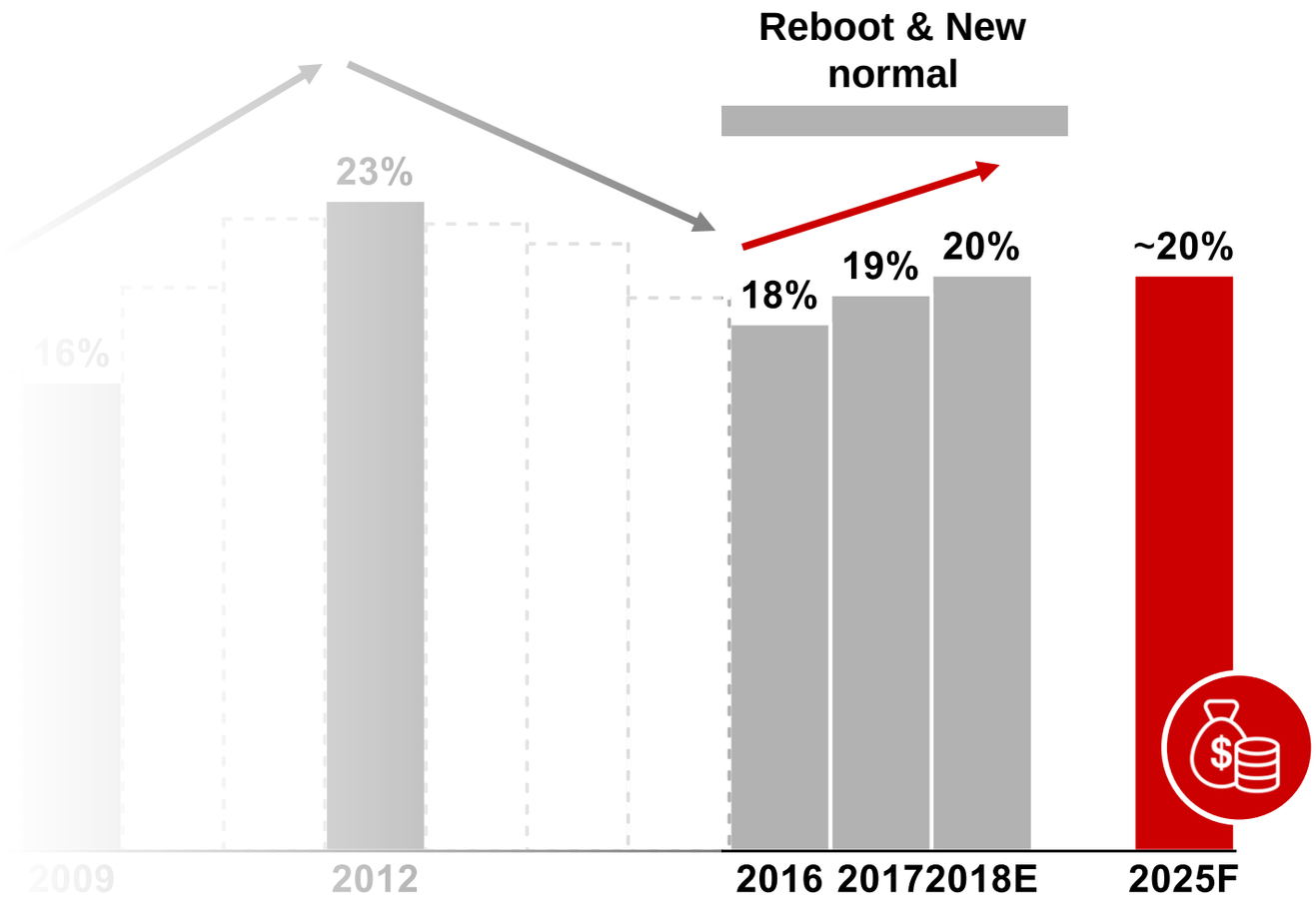


DIGITAL DISRUPTION CHANGING PROFILE AND NATURE OF **OPEX** AND **CAPEX**… **NIMBLE APPROACH** TO SUSTAIN **MARGINS**

DIGITAL DISRUPTION SHIFTING PROFILE AND NATURE OF EXPENDITURE ITEMS; PROFITABILITY LIKELY TO STABILIZE IN THE COMING YEARS

1

Evolution of EBIT of selected personal luxury goods brands | % of revenues



WHAT COULD IMPACT PROFITABILITY GOING FORWARD?

- Network consolidation **reducing "brick-and-mortar" investments, changing Capex** into "rolling" **maintenance needs**
- Increasing **headquarter Capex** (e.g. systems, infrastructure, logistics…) to align toward **omnichannel environment**
- **Lower Opex** on **physical retail** network following consolidation (e.g. rents)
- **Higher Opex** on **digital channel** (e.g. digital marketing,…)
- **Slightly higher Central Opex** (e.g. brand/marketing/merchandising competences,…)

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Impact on profitability (positive, negative, neutral)

LUXURY BRANDS WILL NEED TO ADOPT A MORE “NIMBLE” APPROACH IN ORDER TO SUSTAIN THIS PROFITABILITY LEVEL

1

A MORE “NIMBLE” APPROACH

“TEST & LEARN” PROCESS

- Manage processes and spending through a **“micro battle” approach**
- **Testing for results** to enable a **“smart” spending** and **allocation of budget**

CASH LIGHT

- Progressively switch to a **demand-driven model**, with faster lead times
- **More efficiently manage inventory** and **logistics** (e.g. Stock mutualization, Mega-City hubs,…)

“CIRCULAR” OPERATING MODEL

- Transition from a **cascade operating model** (from market insight, to design, to manufacturing,…) to a **circular approach**, based on **real time data**, impacting cross-functional learnings and improvements

INCREASED PERFORMANCES

INCREASED CASH GENERATION

INCREASED EFFICIENCY

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LUXURY IN 2025 WILL BE A DIFFERENT PLACE

1

CHINESE CUSTOMERS WILL ACCOUNT FOR **45%+** OF THE **MARKET**…

…AND HALF OF THEIR **LUXURY PURCHASES** WILL HAPPEN IN THEIR **HOME COUNTRY**

2

ONLINE CHANNEL WILL REPRESENT **25%** OF THE **MARKET VALUE**

100% OF **LUXURY PURCHASES** WILL BE INFLUENCED BY AN **ONLINE INTERACTION**

3

DIGITAL PENETRATION WILL LEAD TO **PHYSICAL DISRUPTION**: **NETWORK CONSOLIDATION**

STORES WILL INEVITABLY **CHANGE**: FROM **POINT OF SALES** TO **POINT OF TOUCH**

4

NEW GENERATIONS WILL DELIVER **~130%** OF THE **MARKET GROWTH**…

…WITH **GEN Z** SHOWING **ORIGINAL TRAITS** VS. **GEN Y**, TO BE PROPERLY **ADDRESSED**

5

CULTURES/SUB-CULTURES AND **NEW CONSUMPTION PATTERNS** WILL ARISE

CATEGORIES WILL BLEND: BRANDS MUST BE **DYNAMIC** AND **RESPONSIVE** TO **ADAPT**

6

GROWTH MODEL WILL OVERCOME CURRENT BOUNDARIES, SHAPING **NEW COMPETITIVE MAPS**

BRANDS WILL BECOME **EXCELLENCE/IDEA PLATFORMS**, ENLARGING THEIR **RELEVANCE**

7

DIGITAL DISRUPTION CHANGING PROFILE AND NATURE OF **OPEX** AND **CAPEX**…

…**NIMBLE APPROACH** TO SUSTAIN **MARGINS**

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LUXURY IN 2025: NEW TECHNOLOGIES PLAYING A CRUCIAL ROLE AS A FUNDAMENTAL ENABLER OF LUXURY BRAND STRATEGIES

1 MORE CHINESE-DRIVEN PURCHASES… HAPPENING IN CHINA

DYNAMIC PRICING AND **ADVANCED MERCHANDISING STRATEGY** TO **OVERCOME INTERNATIONAL DIFFERENCES** AND CAPITALIZE ON CONSUMPTION BACK IN LOCAL BORDERS

2 E-COMMERCE, ONLINE, DIGITAL… PERMEATING EVERY SINGLE PURCHASE

OPTIMIZATION OF SHOPPING EXPERIENCE (E.G. **HAPTIC FEEDBACK**) OVERCOMING DIGITAL BARRIERS AND **FULLY INTEGRATING PHYSICAL AND DIGITAL CHANNELS**

3 FOOTPRINT CONSOLIDATION… RESHAPING THE STORE OF THE FUTURE

BIG DATA AND **ADVANCED ANALYTICS** TO DRIVE RETAIL EXCELLENCE – **TRACKING CONSUMERS** IN A PURELY OMNICHANNEL SETTING; **AUGMENTED REALITY** TO PROVIDE THEM WITH A **TAILORED EXPERIENCE**

4 A YOUTHFUL MARKET… DISRUPTING GROWTH PATHS

CRM AND **CXM** TO BE TAKEN TO THE NEXT LEVEL: **BIG DATA, AFFECTIVE TECH** AND **EMOTIONAL ADVERTISING** TO CUSTOMIZE CUSTOMER **EXPERIENCE** BY **TASTE**, **TOUCHPOINT** PREFERENCES AND **EMOTIONAL** SPECIFICITIES

5 CULTURES AND (SUB)CULTURES… TAKING OVER CONSUMPTION TRENDS

"SMART AND AGILE" PROCESSES **RESPONSIVE** IN **CAPTURING** EMERGING **CULTURES** AND SUB-CULTURES AND **TIMELY ADAPTING VALUE PROPOSITIONS** ACCORDINGLY

6 ONE MARKET… SERVING MARKETS OF ONE

EXTREME PERSONALIZATION TECHNOLOGIES (E.G. **3D PRINTING**) TOGETHER WITH **ONLINE CUSTOMIZATION** AND **FITTING** TO DELIVER **UNIQUE PRODUCTS**, RESULT OF A **CO-CREATION WITH CONSUMERS**

7 DIFFERENTLY PROFITABLE BRANDS …NIMBLE IS THE NEW BLACK

PREDICTIVE ADVANCED ANALYTICS AND **ROBOTIC PROCESS AUTOMATION** TO **OPTIMIZE COST STRUCTURE**, **SUPPLY CHAIN** AND **INVENTORY,** INCREASING **PERFORMANCE** AND **EFFICIENCY**

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AS WE LOOK AHEAD: 3 STRATEGY MANTRAS AND 1 FUNDAMENTAL ENABLER TO BEAR IN MIND

BE PROACTIVE…

- Win by developing **dedicated** and **proactive strategies** for customers

…DISTINCTIVE…

- **Stand-out** by designing a **"unique" winning formula** shaped around consumer needs

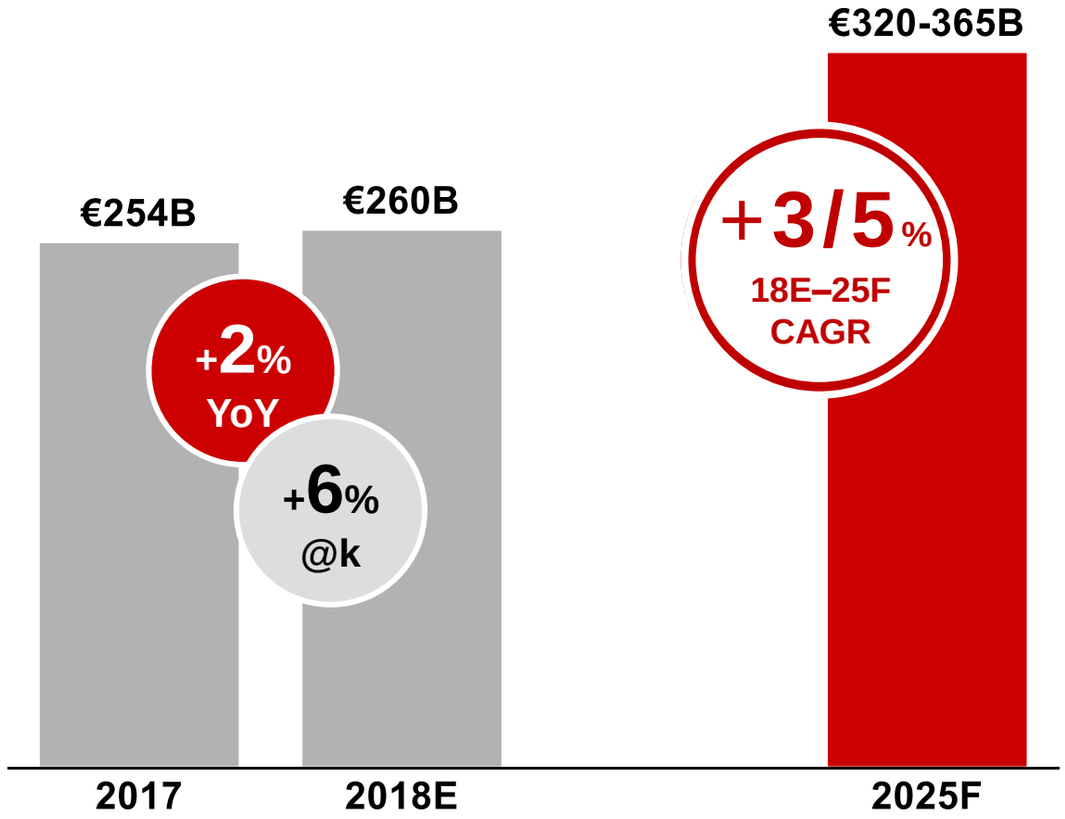
… NEXT GEN MINDED…

- **Focus** effort and strategy on **winning younger generations** as key engine of future market growth

… AND NEW TECH ENABLED

- Leverage **new advanced technologies** as fundamental **enabler** of the strategy

Personal luxury goods market forecast | €B



@K: Growth at constant exchange rates

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BAIN & COMPANY

PEOPLE PASSION RESULTS!

Claudia D'Arpizio, Partner
Bain & Company Luxury goods vertical



Claudia has spent 24 years advising multinational luxury and fashion clients on everything from strategy and new product development to innovation and organizational change.

She is the lead author of the Bain Luxury Study, one of the most cited sources of market information in the luxury industry.

In 2009, Claudia was also recognized as one of the 'Top 25 Consultants in the World' by Consulting Magazine.

Federica Levato, Partner
Bain & Company Luxury goods vertical



Over the last 14 years, Federica has led more than 200 assignments in the fashion and luxury industry on issues relating to corporate and brand strategy, portfolio management, merchandising, retail and wholesale excellence, digital acceleration, millennial strategies, marketing and communication, and more.

Alongside Claudia D'Arpizio, Federica is the co-author of the Bain Luxury Study, one of the most cited sources of market information in the luxury industry.

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BAIN CONTACTS

For any questions or further discussion, please contact:

Claudia D'Arpizio

- Partner (Milan)
- Email: claudia.darpizio@bain.it

Federica Levato

- Partner (Milan)
- Email: federica.levato@bain.it

For a copy of the study, please contact:

International press

- Katie Ware
  (katie.ware@bain.com or +1 646-562-8107)
- Dan Pinkney
  (dan.pinkney@bain.com or +1 646-562-8102)

Italian press

- Giulia Zanichelli
  (giulia.zanichelli@bain.it or +39 02 58288 252)

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METHODOLOGY OF THE STUDY

Revenues at retail equivalent value

- Revenues at retail value represent total sales valued at retail price.
- Each player consolidated sales are *retailized* through the following methodology:

Retail
+
Wholesale
+
Licenses

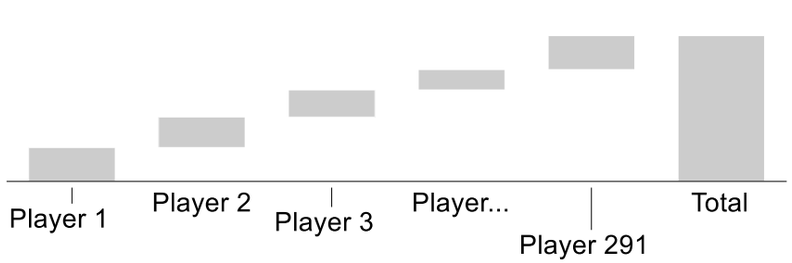
PLAYER CONSOLIDATED SALES

Retail
+
Wholesale at retail value — Application of **estimated mark ups** by geography and category
+
Licenses at retail value — Application of **estimated royalty rates** and **mark ups** by geography and product category

PLAYER SALES AT RETAIL VALUE

Bottom-up and top-down estimates

Bottom-up



- We add brands individual retail values...

Top-down

- Industry-specific (e.g. watches vs. beauty) data in the main geographical markets
- Comparison between market breakdown and turnover breakdown for key players
- Tens of industry experts interviews (top management of brands, distributors, department stores, …)
- Consistency check on the data and fine tuning

...we cross check results

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