Luxury is back... to the future

Figures, trends and actions

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Content of this document

• This document contains an update on the luxury goods market, in particular:
  – Insight to the performance of the market for the first three quarters of 2021, with expectations for the last quarter
  – Estimates for how the luxury market will evolve beyond 2021, with related macro-trends emerging
  – Bain’s recommendations for how luxury players can steer the next phase of growth

Sources of this document

• The insights are based on Bain’s triangulation of information and sources, available as of November 5th 2021 and includes:
  – Data regarding the outbreak of the Covid-19 and consequential lockdown across countries
  – Macroeconomic data (e.g., GDP, consumer confidence index) and the latest forecasts
  – Current trading performance from relevant luxury industry players
  – Annual reports, quarterly results and analyst reports
  – Consensus of 100+ expert interviews

• The scenarios do not consider disruptive changes in Covid-19 status quo (e.g., potential future waves of Covid-19 related to variations of the virus)
Global luxury markets: shift from experiences to goods compensates half of the gap vs 2019

Global luxury markets (€B | 2021E)

Year-over-year (YoY) growth, at current exchange rates

<table>
<thead>
<tr>
<th>Category</th>
<th>YoY '19-21E</th>
<th>YoY '20-21E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Luxury Goods</td>
<td>+1%</td>
<td>+29%</td>
</tr>
<tr>
<td>Luxury Cars</td>
<td>+0/1%</td>
<td>+7/9%</td>
</tr>
<tr>
<td>Luxury Hospitality</td>
<td>-58/62%</td>
<td>+20/22%</td>
</tr>
<tr>
<td>Fine Wines &amp; Spirits</td>
<td>+0/2%</td>
<td>+12/14%</td>
</tr>
<tr>
<td>Gourmet Food &amp; Fine Dining</td>
<td>-7/9%</td>
<td>+8/10%</td>
</tr>
<tr>
<td>High-Quality Design Furniture &amp; Homeware</td>
<td>+6/8%</td>
<td>+13/15%</td>
</tr>
<tr>
<td>Fine Art</td>
<td>-6/8%</td>
<td>+18/20%</td>
</tr>
<tr>
<td>Private Jets &amp; Yachts</td>
<td>-6/8%</td>
<td>+1/3%</td>
</tr>
<tr>
<td>Luxury Cruises</td>
<td>-80/85%</td>
<td>-40/42%</td>
</tr>
</tbody>
</table>

Total 2021E: +15/17% vs. 2020, +13/15% vs. 2019
Luxury cars
(partially suffering supply scarcity in key components) experiencing nuanced performance across brands, with newcomers entering the game

Luxury yachts
continue on positive tailwind as customers’ interest for intimate luxury experiences continues to surge

Private jets
rebound favoured by perceived benefits of safety, convenience and efficiency

Fine art
sustained by reopening of public auctions and art fairs, with global uncertainty favouring mid-priced segment over high one, recording increasing participation of new (younger) consumers and artists (Women, Afro-American, …)

High-quality design
sustained by new pivotal role of home, with intermingling spaces between living and working fuelling ‘resimercial’ solutions

Wine
brands’ recovery speed driven by brand awareness and recognition

Spirits
driving market, favored by increasing interest for “status” spirit as out-of-home spending turns at-home

Gourmet food and fine restaurants
experiencing three-shaped forces at play driving continued resilience: pantry-meals (at home), ghost kitchens rise (from ‘out-of’ to at-home) and gradual ease of lockdowns and revenge conviviality

Luxury hotels
recovering through mid-year travel resumption, favouring digitalization and customization of experiences as vital pathways to capture evermore demanding consumer

Luxury cruises
jeopardized by forced travel halt for first half of year, yet glimmers of hope for upcoming seasons given strong order book
Design furniture top performing category due to everything@home trend
Strong recovery also for wine and spirits and luxury cars

High quality design furniture & homeware

- Core high quality design market, already showing stronger-than-forecasted performance in last quarters of 2020, continuing on its growth path sustained by continued refocus of consumer spending on home, in particular on Living&Bedroom, outdoor and lighting
- Intermingling of living and working spaces fueling the growth of 'resimercial', with consumers seeking for increased comfort, functionality as well as flexibility in design solutions

Fine wine & spirits

- 'Revenge conviviality’ sustaining recovery across segments
- Spirits driving market recovery, mostly on account of:
  - Growth in (local) consumers interest for Asian spirits (mostly baijiu)
  - Increasing interest for "status" spirits, as out-of-home spending is shifted at-home, favoring mostly those categories traditionally lower penetrated by high-end brands (e.g., tequila, rum)
  - Better ability vs. wine brands in catering interest of younger generations, leveraging marketing messaging centered around key topics of interest (e.g., inclusivity, sustainability)
- In wine, sparkling (over-impacted in 2020) recovering better than other categories,
  - Brand awareness and recognition playing central role in defining recovery path

Luxury cars

- Market favored by positive consumption tailwinds, yet partially slowed-down by disruption across the supply chain
  - Asia outperforming other geographies, partially fueled by growth of local premium players outpacing traditional European ones in the 'accessible' segment
- (Policy-led) shift towards green power-trains continues, although its long-term financial sustainability at issue
  - Niche players looking at potential avenues to pool resources required for investments, today almost fully prerogative of largest groups

<table>
<thead>
<tr>
<th>20-21:</th>
<th>+6/8%</th>
<th>+4/6% @K</th>
<th>+0/2%</th>
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- Market size 2021E (€B)
Luxury yachts confirming positive momentum, with growth in deliveries (partially benefitting from delays occurred in 2020) paired with sharp growth in order books
- Interest from HNWI surging in response to willingness to secure “intimate” luxury experience for upcoming years and suspension of social activities
- Growth of market niches with focus on sustainable solutions (among which hybrid propulsion)

In Private Jets, demand stable vs. 2020 levels, with purchases driven by perceived benefits from target customers related with safety, convenience and efficiency
- Slowdown in used market jets, as availability narrows vs. past years

Fine art market rebounding thanks to gradual reopening of public auctions and art fairs
- Greater growth in medium-priced segment favored by global uncertainty discouraging bids on high-priced items
- High-end galleries experiencing progressive concentration through M&A, aimed at exploiting scale and scope economies

Macro-trends embedded within Zeitgeist of today’s consumer (diversity, equity and inclusivity) definitely stepping into fine arts
- Increasing acknowledgment of NFTs among younger gens and segment fanatics, yet still uncertain potential impact on broader market

Driven by dichotomic impact of pandemic outbreak in 2020, luxury food market showing significant difference in growth rates within its components
- Fine restaurants (sharply impacted last year) showing significant rebound as lockdowns eases
- Gourmet Food continuing on its mild growth path, although at lower rate vs. previous year

“Pantry meals” tapping into the luxury space, as consumers familiarity with at-home cooking is raised significantly, with side benefits on specialized appliances
- Ghost kitchens serving food-delivery market engaging into the luxury segment

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**HIGH-LOW BEST PERFORMING LUXURY MARKETS IN 2021**

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**Market size 2021E (€B)**

- **Private jets & yachts**: -6/8% @K
- **Fine art**: -6/8% @K
- **Gourmet food & fine dining**: -7/9% @K

**20-21:**

- **‘21E vs. ’19 (%)**
  - Private jets & yachts: -6/8% +1/3%
  - Fine art: -6/8% +18/20%
  - Gourmet food & fine dining: -7/9% +8/10%

**Market size 2021E (€B):**

- **Private jets & yachts**: ~€22B
- **Fine art**: ~€34B
- **Gourmet food & fine dining**: ~€49B
Luxury Hotel market recovering at good pace starting mid-Q2, favored by progressive increase in occupancy rates
- Chained hotels outpacing independent ones, favored by higher ability to adapt to shifting consumers' needs
- Brand and/or chain-level offer standardization deemed no longer valid as adaptation to consumers sought for customization and service tailoring proved to be vital to accelerate recovery

Surge in property digitalization to satisfy needs of younger generations and favor process automation and contactless interactions

Luxury cruises

- Sharp impact of COVID-19 on cruises market lasting throughout the year, with cruising companies forced to cancel travels until Q3
  - Players delaying vessel investment and working at debt restructuring to sustain short-term cash needs
- Nonetheless, order book for 2022 is approaching 2019 levels, with consumers signaling strong interest for luxury experiences that will likely drive accelerated market recovery in future years
  - Expedition segment expected to grow above traditional cruises also in future years

Experiences still significantly below pre-pandemic levels, jeopardized by restrictions to international travel

HIGH-LOW BEST PERFORMING LUXURY MARKETS IN 2021

Luxury hospitality

Luxury cruises

‘21E vs. ’19 (%)

20-21:
-58/62% [+20/22%]

-56/60% @K [-80/85%] 

Market size 2021E (€B)

~€79B ~€0.4B
Consumers overindulged on **products**, but the **willingness to go back to experiences** is at an all-time high.

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**Expected year of recovery to pre-covid level (e.g., 2019)**

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**Experiences**

Experiences disproportionately impacted, will be last to recover as strongly dependent on **revamp of touristic flows and business travel**

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**Experience-based goods**

Experience-based goods almost fully recovering to 2019 levels, favored by positive consumer traction across categories

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**Luxury products**

Products first to recover 2019 levels, driven by earlier onset of ease of restrictions

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Note: At current exchange rates; Luxury products include High-quality design furniture and Personal luxury goods; Experience-based goods include Fine Art, Luxury cars, Private Jets and Yachts, Fine Wines & Spirits and Gourmet Food; Experiences include Luxury hospitality, Cruises and Fine dining; (*) 2023 acceleration driven by (hoped) end of supply chain disruption in cars market
After its worst dip in history, the personal luxury goods market experienced a V-shaped rebound in 2021.
The Personal Luxury Goods Market

Market constantly improving from Q3 20; Some uncertainty on next holiday season remains

Personal luxury goods market evolution by Q (% vs 2019)

<table>
<thead>
<tr>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>Q1</td>
</tr>
<tr>
<td>Q2</td>
<td>Q2</td>
</tr>
<tr>
<td>Q3</td>
<td>Q3</td>
</tr>
<tr>
<td>Q4</td>
<td>Q4</td>
</tr>
</tbody>
</table>

Timeline of the year

- Developed countries vaccination campaign
  Dec '20–Present
- 50% US adults fully vaccinated
  May '21
- 58% EU citizens with 1+ shot
  Jul '21
- Xi Jinping "Common Prosperity" speech
  Aug '21
- End of US "stimulus checks"
  Sep '21

Note: @K: growth at constant exchange rates

• China sustaining growth
• Strong holiday season in US and EU
• Continued fast-paced vaccination in Japan

• Sustained macroeconomics and ease of restrictions (e.g. intraregional flights, limited lockdowns)
• Softening in China (consumer confidence, real estate financial tensions, potential further lockdowns)
• Winding down of US public relief programs

Full-year market growth (2021E vs. 2019)

+4% @K vs. 2019
Even though times are troubled, the luxury market will flourish again as companies take a front seat in transforming the industry on behalf of the customer.
2021
the first year of the new luxury “twentennial”

After 20 years of large expansion and deep evolution, Covid-19 has fast forwarded and anticipated some of the key changes for the next 20 years of global luxury market

**Changed fundamentals**

- Morphing Luxury map
- Local as new normal
- Nextgen is now

**Multifaceted behaviors**

- Customer of the future
- Touchpoints over channels
- New cycle of desire
- Extended product lifetime

**Polarized paradigms**

- Clear overperformance drivers
- Consolidating universe, yet with small rising stars
- Full recovery of profitability
2021
the first year of the new luxury “twentennial”

After 20 years of large expansion and deep evolution, Covid-19 has fast forwarded and anticipated some of the key changes for the next 20 years of global luxury market

### Changed fundamentals

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<th>Local as new normal</th>
<th>Nextgen is now</th>
</tr>
</thead>
<tbody>
<tr>
<td>China and Americas lungs of the market, ramifying into many new alveoli/luxury locations</td>
<td>Luxury gone local, with big opportunities to accelerate/recovery ahead</td>
<td>Strong demographic shift leading to renewed customer base</td>
</tr>
</tbody>
</table>

### Multifaceted behaviors

<table>
<thead>
<tr>
<th>Customer of the future</th>
<th>Touchpoints over channels</th>
<th>New cycle of desire</th>
<th>Extended product lifetime</th>
</tr>
</thead>
<tbody>
<tr>
<td>New personas, updated values, proactive engagements</td>
<td>Distribution ecosystem at a point of no return</td>
<td>Product winning over brands winning over categories</td>
<td>Boom of second-hand luxury</td>
</tr>
</tbody>
</table>

### Polarized paradigms

<table>
<thead>
<tr>
<th>Clear overperformance drivers</th>
<th>Consolidating universe, yet with small rising stars</th>
<th>Full recovery of profitability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long standing focus on local customer globally, presence in Asia, multi-touch and price value proposition</td>
<td>Increasing market concentration, yet with small players explosion thanks to new values and consumption patterns</td>
<td>EBIT % back to 2019 thanks to 2020 efficiencies and sales rebound</td>
</tr>
</tbody>
</table>
### MORPHING LUXURY MAP

**China doubling and Americas booming; Europe and Japan still in recovery mode**

#### M. China
- **Strong** cross-category, generation and price growth
- After softening in Aug-Sept, consumption re-started **strong in October** despite scattered lockdowns
- Hainan the key touristic luxury hub
  - +97%

#### Americas
- **Solid rebound**, polarized between entry prices and top items
- Strong market share shift towards **European brands**
- Evolving luxury map: new cities emerging, **large cities** back and persisting **suburban areas**
- **Blasting Brazil**

#### RoW
- Middle East very strong throughout markets (with **Dubai and Saudi Arabia** leading growth)
- **Struggling Australia** which only recently reopened (after months of lockdowns)

#### Japan
- Local consumptions impacted by the slow vaccine adoption
- Fukuoka emerging as rising star
- Continued focus for **large established brands**, with few exceptions intercepting the next gen of customers

#### Europe
- Local consumptions strong everywhere
- Some tourist bounce back over the summer (i.e. Middle-Eastern and American)
- London (and UK) suffering the most, while Russia championing thanks to strong repatriation

#### Asia
- Weak Hong Kong (ongoing network review) vs. mixed play in Taiwan and Macau
- S. Korea back to 2019 levels: full repatriation of local customers over-compensate lack of tourism
- SEA still suffering lack of tourism

#### Growth at constant exchange rates

<table>
<thead>
<tr>
<th>Region</th>
<th>20-21:</th>
<th>'21E VS. '19 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>M. China</td>
<td>+36%</td>
<td>+97%</td>
</tr>
<tr>
<td>Americas</td>
<td>+41%</td>
<td>+34%</td>
</tr>
<tr>
<td>RoW</td>
<td>+13% @K</td>
<td>+11% @K</td>
</tr>
<tr>
<td>Japan</td>
<td>-12% @K</td>
<td>+10%</td>
</tr>
<tr>
<td>Europe</td>
<td>-19% @K</td>
<td>+20%</td>
</tr>
<tr>
<td>Asia</td>
<td>-25% @K</td>
<td>+19%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>2021E (€B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>M. China</td>
<td>€60B</td>
</tr>
<tr>
<td>Americas</td>
<td>€89B</td>
</tr>
<tr>
<td>RoW</td>
<td>€12B</td>
</tr>
<tr>
<td>Japan</td>
<td>€20B</td>
</tr>
<tr>
<td>Europe</td>
<td>€71B</td>
</tr>
<tr>
<td>Asia</td>
<td>€32B</td>
</tr>
</tbody>
</table>

Note: RoW = Rest of the World

@K: Growth at constant exchange rates

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*Market size 2021E (€B)*
The market is local, locally driven and increasingly sub-urban in 2021.

Personal luxury goods – Growth in luxury spending by nationality

<table>
<thead>
<tr>
<th></th>
<th>Total Americans</th>
<th>Total Europeans</th>
<th>Total Chinese</th>
<th>Total Japanese</th>
<th>Total Rest of Asians</th>
</tr>
</thead>
<tbody>
<tr>
<td>’19 – ’21E Locals</td>
<td>+30/35%</td>
<td>+15/20%</td>
<td>-20/25%</td>
<td>-15/20%</td>
<td>0/-5%</td>
</tr>
<tr>
<td>’19 – ’21E Tourists</td>
<td>+50/60%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>’19 – ’21E Rest of Asians</td>
<td>-80/90%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Top 10 cities relevance

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2021E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourists</td>
<td>80/90%</td>
<td>70/80%</td>
</tr>
<tr>
<td>Locals</td>
<td>25-30%</td>
<td>35%</td>
</tr>
</tbody>
</table>
Awaited great recoveries: Chinese customers will be back by 2022-23; Japan by 2023 and Europe in 2024.

Recovery Curves (market value indexed 2019 | 2019-2025F)

Europe Region

Japan Region

Chinese Customers worldwide

↑ ↓ REAL TERM TREND '19-25F

Locals:

Tourist flows:
(expected resume)

Within Asia

Global:

H2 22

H2 23 / H1 24
Some of the consumption fundamentals of China will go through change.

**Local as New Normal**

Common prosperity potential impacts on luxury

<table>
<thead>
<tr>
<th><strong>Tailwinds</strong></th>
<th><strong>Question Marks</strong></th>
<th><strong>Headwinds</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Acceleration of middle class and consumption upgrade</strong></td>
<td><strong>Showing status</strong> (role of logo and aesthetic in product, role of KOL)</td>
<td><strong>Pressure on uber-wealth</strong></td>
</tr>
<tr>
<td>Persistent strong demand</td>
<td>Consumption <strong>localization</strong> (local or abroad)</td>
<td><strong>Delayed spending</strong> given current uncertainty</td>
</tr>
</tbody>
</table>

The policy has the goal to build an olive-shaped society

Luxury brands can secure (common) prosperity, but they will need to challenge (and adapt) their strategy.

Note: KOL = Key Opinion Leader
2021 confirms China’s growing importance in luxury; bright evolution for European and American customers

Personal luxury goods market (€B | 2019-2025F)

By customer nationality

- **2019**
  - RoW 6%
  - Other Asian 13%
  - Chinese 33%
  - Japanese 10%
  - American 22%
  - European 17%

- **2021E**
  - RoW 4%
  - Other Asian 10-12%
  - Chinese 21-23%
  - Japanese 30-32%
  - American 22%
  - European 17%

- **2025F**
  - RoW 4%
  - Other Asian 10-12%
  - Chinese 21-23%
  - Japanese 30%
  - American 16-18%
  - European 17%

Note: RoW = Rest of the World

By geography

- **2019**
  - RoW 4%
  - Rest of Asia 15%
  - China 11%
  - Japan 8%
  - Americas 30%
  - Europe 32%

- **2021E**
  - RoW 4%
  - Rest of Asia 11%
  - China 21%
  - Japan 7%
  - Americas 31%
  - Europe 25%

- **2025F**
  - RoW 4%
  - Rest of Asia 13-15%
  - China 25-27%
  - Japan 6-8%
  - Americas 23-25%
  - Europe 23-25%

Note: RoW = Rest of the World

REAL TERM TREND ‘19-’21E & ‘19-25F
Sustained acceleration of “under 40” in 2021, still main drivers for growth up to 2025

GenY and GenZ expected to contribute

~180% of the total growth from 2019 to 2025F

### Personal luxury goods market by generation

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<th>Generation</th>
<th>2019</th>
<th>2021E</th>
<th>2025F</th>
</tr>
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<tbody>
<tr>
<td>GenY</td>
<td>281</td>
<td>283</td>
<td>360-380</td>
</tr>
<tr>
<td>GenZ</td>
<td>8%</td>
<td>17%</td>
<td>&gt;20%</td>
</tr>
<tr>
<td>GenX</td>
<td>30%</td>
<td>26%</td>
<td>&gt;50%</td>
</tr>
</tbody>
</table>

**REAL TERM TREND '19-'21E & '19-'25F**
Two complementary forces fueling luxury during Covid: strong renewal of customer base and top customer growth

Renewed customer base 2019-2021

Lost consumers

Mostly in 2020 due to COVID crisis

New consumers

Mostly younger gens (Gen Y and Gen Z)

In 2021

~30% of new customers that entered the market since 2019

Accounting for

~25% of the Personal Luxury Goods market

Top customer base 2019-2021

UHNWI* incidence on total market (€B | 2019–2021E)

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
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<tr>
<td>2019</td>
<td>~30%</td>
</tr>
<tr>
<td>2021E</td>
<td>~35%</td>
</tr>
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</table>

TRENDS ‘19 – ‘21

#UHNWI

Avg. spending

Note: *UHNWI = Ultra-High-Net-Worth Individual
Within this shift, new luxury-relevant personas are establishing as key targets for the industry.

Ever more complex customer map calling for proactive management.
C U S T O M E R O F T H E F U T U R E

Cultural relevance and evolving values ask for new value-creation model in customer engagement

New value creation model

High tech & high touch

Digital

Emotional

Functional

&

Human

Inspiring

New KPIs to track

Earned growth rate

Earned growth rate Y1

Net Revenue Retention (NRR)

Earned New Customers (ENC)

Retained Y0 customers

Reflected new customers

Lost Y0 customers

Bought new customers

Total growth rate Y1

...and clear positive results

Churn rate reduction

(engaged vs. non-engaged customers with personalization and human touch)

20% Lower spenders

30% Mid spenders

80% Top spenders

Customer value growth

(engaged vs. non-engaged customers with personalization and human touch)

up to 3x more likely to increase spending level (by +50%)

Earned growth rate

Customer of the future

New value creation model

High tech & high touch

Digital

Emotional

Functional

&

Human

Inspiring

New KPIs to track

Earned growth rate

Earned growth rate Y1

Net Revenue Retention (NRR)

Earned New Customers (ENC)

Retained Y0 customers

Reflected new customers

Lost Y0 customers

Bought new customers

Total growth rate Y1

...and clear positive results

Churn rate reduction

(engaged vs. non-engaged customers with personalization and human touch)

20% Lower spenders

30% Mid spenders

80% Top spenders

Customer value growth

(engaged vs. non-engaged customers with personalization and human touch)

up to 3x more likely to increase spending level (by +50%)

CUSTOMER OF THE FUTURE

Cultural relevance and evolving values ask for new value-creation model in customer engagement

New value creation model

High tech & high touch

Digital

Emotional

Functional

&

Human

Inspiring

New KPIs to track

Earned growth rate

Earned growth rate Y1

Net Revenue Retention (NRR)

Earned New Customers (ENC)

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(engaged vs. non-engaged customers with personalization and human touch)

up to 3x more likely to increase spending level (by +50%)
**Online and monobrand**, the key channels for 2021 recovery, will lead the mid term growth of the industry.

### Personal luxury goods market by channel (€B | 2019–2025F)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2021E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale</td>
<td>60%</td>
<td>51%</td>
<td>45-50%</td>
</tr>
<tr>
<td>Retail</td>
<td>40%</td>
<td>49%</td>
<td>50-55%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Channel</th>
<th>Delta '19–21E</th>
<th>CAGR '19–'25F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel retail</td>
<td>-61%</td>
<td>↑</td>
</tr>
<tr>
<td>Department store</td>
<td>-16%</td>
<td>↓</td>
</tr>
<tr>
<td>Specialty</td>
<td>-19%</td>
<td>↓</td>
</tr>
<tr>
<td>Outlet</td>
<td>-5%</td>
<td>↑</td>
</tr>
<tr>
<td>Monobrand</td>
<td>+6%</td>
<td></td>
</tr>
<tr>
<td>Online</td>
<td>+89%</td>
<td></td>
</tr>
</tbody>
</table>

### 2021...

- Jump of directly operated channels, with online and monobrand positively growing
- Outlets recovering (eased restrictions) but still lagging
- Department and specialty stores regaining (local) footfall yet behind 2019 levels

### ...and beyond

- Further focus on retail across channels
- Online on track to be #1 channel (also with virtuous omnichannel circle)
- Monobrand still key, yet to be rethought in phygital ecosystem (format / size / location)
- Outlets relevant for value-driven purchases and Chinese middle class
- Survival of the fittest for department and specialty stores
- Travel retail back to historical levels
Online alone almost doubling its size in 2 years; overinvestments in brand.com paying off

**Online personal luxury goods market (€B | 2015–2021E)**

- **+€16B**
- **+50% YoY**
- **+€13B**
- **+27% YoY**

**Market share in luxury**

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2019</th>
<th>2020</th>
<th>2021E</th>
</tr>
</thead>
<tbody>
<tr>
<td>7%</td>
<td>12%</td>
<td>22%</td>
<td>22%</td>
<td></td>
</tr>
</tbody>
</table>

**TOUCHPOINTS OVER CHANNELS**

Online with dual role of widening reach (e.g. to 3rd+ tier cities / suburban areas) and supporting cross-channel sales

Over-investments in Brand.com paying off, together with capitalized omnichannel and tech-enabled sales

Accelerated adoption with new online customers across generations (previously would not have considered)

Increasing e-concession adoption

Leather goods, sneakers and skin care still top categories
From channel to touchpoint ecosystem: redefining role of channels through upgraded competences and KPIs

**Yesterday's Role**

**Proximity**
- Touchpoint as a point of sale

**KPI**
- Sales / POS
- Sales / SQM

**Tomorrow's Role**

**Brand booster**
- Touchpoint as media investment

**Omni Enabler**
- Touchpoint as a commercial facilitator

**Customer explorer**
- Touchpoint as service to a catchment area

**Customer funnel**

- **Awareness / consideration**
  - 85%+ Online influenced purchases

- **Conversion**
  - 50%+ Digitally enabled purchases
  - 10%+ Store-enabled online purchases

- **Transactions**
  - Loyalty
  - Engagement

**New capabilities, competences and talents required to provide seamlessly integrated experience across touchpoints**
**NEW CYCLE OF DESIRE**

Best-performing categories of 2020 are already beyond 2019 in 2021, watches and beauty on par, apparel still lagging

<table>
<thead>
<tr>
<th>Shoes</th>
<th>Leather</th>
<th>Jewelry</th>
<th>Watches</th>
<th>Beauty</th>
<th>Apparel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-geography overperformance</td>
<td>Iconic models and new heroes, ruling, especially in young gen</td>
<td>Branded luxury jewelry culture growing in traditionally non core markets</td>
<td>Solid demand for Uber-lux and iconic pieces</td>
<td>Continued self-indulgence trend driving skincare</td>
<td>Womenswear faster than menswear, also pushed by &quot;new normal&quot; habits especially for men</td>
</tr>
<tr>
<td>Continued tilt to casual (i.e. sneakers, boots vs. formal), impacted by &quot;new normal&quot; habits especially for men</td>
<td>Belt as new/old object of desire</td>
<td>Unisex jewels encountering success</td>
<td>Genderless watches growing</td>
<td>Make-up and fragrances still affected</td>
<td>Comfortwear now normalized vs formalwear not recovering</td>
</tr>
<tr>
<td>Women occasion-shoes accelerating</td>
<td>Logo is back yet in connection with brand heritage</td>
<td>Ecommerce relevant for entry prices and custom pieces</td>
<td>New digital relevance (especially for Asia and NextGen)</td>
<td>Weak travel retail still impacting entire category</td>
<td>Logo is back also in apparel</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>'20-'21</th>
<th>'21E VS. '19 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>€23b</td>
<td>+25%</td>
</tr>
<tr>
<td>€62b</td>
<td>+32%</td>
</tr>
<tr>
<td>€22b</td>
<td>+32%</td>
</tr>
<tr>
<td>€40b</td>
<td>+0% +32%</td>
</tr>
<tr>
<td>€60b</td>
<td>-1% +26%</td>
</tr>
<tr>
<td>€57b</td>
<td>-10% +26%</td>
</tr>
</tbody>
</table>

Market size 2021E (€B)
**NEW CYCLE OF DESIRE**

Traditional market segmentation lost relevance: now brands are multi-price point to answer to different customer (needs)

<table>
<thead>
<tr>
<th>The origins</th>
<th>Sortie du temple &amp; democratization</th>
<th>Crisis</th>
<th>Chinese acceleration</th>
<th>Reboot &amp; new normal</th>
<th>Covid Crisis</th>
<th>Rebound</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pricing pyramid</strong></td>
<td>'94-'07</td>
<td>'07-'09</td>
<td>'09-'14</td>
<td>'15-'16</td>
<td>'19-'20</td>
<td>'20-'21E</td>
</tr>
<tr>
<td>Absolute</td>
<td>+7%</td>
<td>-4%</td>
<td>+8%</td>
<td>0%</td>
<td>-22%</td>
<td>+29%</td>
</tr>
<tr>
<td>Aspirational</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accessible</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Influx from below</strong></td>
<td>'94-'07</td>
<td>'07-'09</td>
<td>'09-'14</td>
<td>'15-'16</td>
<td>'19-'20</td>
<td>'20-'21E</td>
</tr>
<tr>
<td><strong>The globalization</strong></td>
<td>'09-'14</td>
<td>'09-'14</td>
<td>'16-'19</td>
<td>'19-'20</td>
<td>'19-'20</td>
<td>'20-'21E</td>
</tr>
<tr>
<td><strong>The polarization</strong></td>
<td>'15-'16</td>
<td>'15-'16</td>
<td>'16-'19</td>
<td>'19-'20</td>
<td>'19-'20</td>
<td>'20-'21E</td>
</tr>
<tr>
<td><strong>Blurring the lines</strong></td>
<td>'19-'20</td>
<td>'19-'20</td>
<td>'19-'20</td>
<td>'19-'20</td>
<td>'19-'20</td>
<td>'20-'21E</td>
</tr>
<tr>
<td><strong>Cross boundaries</strong></td>
<td>'20-'21E</td>
<td>'20-'21E</td>
<td>'20-'21E</td>
<td>'20-'21E</td>
<td>'20-'21E</td>
<td></td>
</tr>
</tbody>
</table>

**Personal luxury goods market growth**

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>40</td>
<td>80</td>
<td>250</td>
<td>340</td>
<td>380-390</td>
<td>440-450</td>
</tr>
</tbody>
</table>
New cycle of desire: luxury post-consumerism?

**Waterfall**

“I aspire to become”

**Brands before icons**

- **Brand obsession**, purchasing width and **fragmentation**

**High vs. Low**

- **Exclusive creativity**, **simplification** in the entry offer

**Logo as badge of wealth**

- **Achievement** and **success** in life

**Osmosis**

“I express to be(long)”

**Icons (and heroes) before brands**

- **Recognizability** obsession, purchasing **polarization** and concentration

**High to low**

- **Inclusive** creativity regardless of price positioning

**Logo as badge of values**

- **Self expression**, **Sustainability**, **DEI****, ways of looking at the world**

**New cycle of desire: luxury post-consumerism?**

<table>
<thead>
<tr>
<th>Waterfall</th>
<th>Osmosis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brands before icons</strong></td>
<td><strong>Icons (and heroes) before brands</strong></td>
</tr>
<tr>
<td>Brand obsession, purchasing width and <strong>fragmentation</strong></td>
<td><strong>Recognizability</strong> obsession, purchasing <strong>polarization</strong> and concentration</td>
</tr>
<tr>
<td><strong>High vs. Low</strong></td>
<td><strong>High to low</strong></td>
</tr>
<tr>
<td><strong>Exclusive creativity</strong>, <strong>simplification</strong> in the entry offer</td>
<td><strong>Inclusive</strong> creativity regardless of price positioning</td>
</tr>
<tr>
<td><strong>Logo as badge of wealth</strong></td>
<td><strong>Logo as badge of values</strong></td>
</tr>
<tr>
<td><strong>Achievement</strong> and <strong>success</strong> in life</td>
<td><strong>Self expression</strong>, <strong>Sustainability</strong>, <strong>DEI</strong>**, ways of looking at the world**</td>
</tr>
</tbody>
</table>

**NEW CYCLE OF DESIRE**

**UBER LUXURY ENTRY PRICE**

- 2018 ~15%
- 2021E 20%

**UBER LUXURY**

- ~25%
- 30%

**LOGO ITEMS**

- In 2021 overperform reference market by **3x**

**Note:** *Icons based on leather goods and watches markets; **DEI = Diversity, Equity, Inclusion; Entry price and uber luxury excludes beauty and eyewear; Logo based on soft luxury goods market excluding shoes, eyewear and silk*
In the renewed digital disruption, an even larger role for luxury into the next frontiers for socio-cultural relevance.

**Digital**
- as strategic channel and opportunity, yet under new forms: Data strategy, NFT, metaverse, network and connection economies

**Cultural value**
- Expanded value proposition (contribution to generation of "meaning")
- New marketing frontier (from "persuasion" to co-creation of cultural value)

**Social value**
- Environmental sustainability
  - Demanded by consumers, especially new generations
  - Progressively, needed condition for the right to operate (e.g. regulatory, …)

- Diversity equity and inclusion
  - Demanded by consumers
  - A proven source of competitive advantage (business effectiveness, creativity, …)
  - A driven to attract and retain best talent

---

**NEW CYCLE OF DESIRE**

Manufacturer
- From producers to distributors

Publisher
- From communication to conversation accelerated by digital

Platform
- Tapping into the network economy through connection-based business and operating model

Expanding the mission from economic value creation, to social and cultural value creation
Secondhand vs. first-hand luxury goods market (indexed 2017 = 100)

Driven by an expanding demand (customer base) and expanding supply (enlarging competitive arena)

A growing opportunity for...

<table>
<thead>
<tr>
<th>BRANDS</th>
<th>FASHION PLATFORMS</th>
<th>INVESTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter a growing market</td>
<td>Develop a network-based business model</td>
<td>Add a distribution channel</td>
</tr>
<tr>
<td>Show commitment to sustainability</td>
<td>Gather data on customers</td>
<td>Boost hype and tighten control</td>
</tr>
</tbody>
</table>

...with few points to solve

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Understand the winning value proposition</td>
<td>Crack operational complexity (e.g. authentication, start up stock, margins)</td>
</tr>
<tr>
<td>Define logo and (re)branding strategy</td>
<td>Manage customer cannibalization</td>
</tr>
<tr>
<td>Value (re)appraisal and management</td>
<td></td>
</tr>
</tbody>
</table>

33 B€ of market value in 2021E

Booming secondhand market, to extend lifetime of luxury products

EXTENDED PRODUCT LIFETIME

2017 2018 2019 2020 2021

Second-hand vs. first-hand luxury goods market (indexed 2017 = 100)
2021, polarized growth back to “new normal”

Global personal luxury goods market CAGR

Sortie du temple democratization
1994-2007

Crisis
2008-2009

Chinese acceleration
2010-2014

Reboot
2015-2016

New normal
2017-2019

Covid crisis
2019-2020

Rebound
2020-2021E

Full recovery
2019-2021E

% winners

~85%

~35%

~95%

~50%

~60%

~10%

~100%

~40%

Global personal luxury goods market CAGR

+7%

-5%

+9%

-1%

+5%

-22%

+29%

+1%
Clear overperformance drivers: focus on local customer, exposure to China, multi-touch and price value proposition

**Top drivers of resilience**

01. Focus on local customers everywhere
02. Exposure to Asia (China)
03. High-low value proposition
04. Multi-touchpoints engagement model

**Not-drivers of resilience**

No matter what, but make it right

Product categories not a top driver of the over/underperformance

A world for (scale) insurgents

Both big and small players were able to succeed

Scale is a competitive advantage, still insurgency remains the fundamental success factor for players of any size
CONSOLIDATING STRENGTHS

Increasing **market concentration**, yet with high dynamism from rising stars

**Top brands**

Market share in soft+hard luxury market* (% | 2000-2021E)

![Market share chart]

**Rising stars**

~2% of Luxury market

Small / new-born (<200M€@RTL)

Fast growing (2x market CAGR)

Intercepting the Zeitgeist

**Avg. size vs. other players**

~7x | ~11x | ~15x | ~17x | 17-18x

Note: (*) excl. Beauty
PROFITABILITY FULL RECOVERY

In 2021, profits are already back at 2019 levels

EBIT of selected personal luxury goods brands by era (% | 2007 – 2021E)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Crisis</td>
<td>18%</td>
<td>23%</td>
<td>19%</td>
<td>21%</td>
</tr>
<tr>
<td>Chinese acceleration</td>
<td>16%</td>
<td>23%</td>
<td>19%</td>
<td>20-21%</td>
</tr>
<tr>
<td>Reboot &amp; New Normal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Covid Crisis &amp; Rebound</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Spending trend per key bucket (% revenues | 2021E vs 2019)

- **Gross margin**: Shift to direct channels
- **Marketing expenses**: Increase in spending (shifted to digital and clienteling)
- **Other Opex**: Optimized expenses (occurred in 2020)
- **Digital Opex & CapEx**: Investments in systems and digital done in 2020
- **CapEx (B&M and HQ)**: Resume of selective store openings in 2021

Prompt profit hunt run during 2020 and immediate market rebound led by direct channels driving up industry profitability.
The growth drivers are Chinese consumers (in China), online channel and younger generations.

**Personal luxury goods market main breakdowns (€B | 2019 – 2025F)**

<table>
<thead>
<tr>
<th>Nationality</th>
<th>2019</th>
<th>2021E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese</td>
<td>281</td>
<td>283</td>
<td>360-380</td>
</tr>
<tr>
<td>Japanese</td>
<td>10%</td>
<td>6-8%</td>
<td>5-7%</td>
</tr>
<tr>
<td>American</td>
<td>22%</td>
<td>30-32%</td>
<td>21-23%</td>
</tr>
<tr>
<td>European</td>
<td>17%</td>
<td>21-23%</td>
<td>16-18%</td>
</tr>
<tr>
<td>Row 6%</td>
<td>281</td>
<td>4-6%</td>
<td>5-7%</td>
</tr>
<tr>
<td>Other Asian 13%</td>
<td>10-12%</td>
<td>10-12%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>2019</th>
<th>2021E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>RoW 4%</td>
<td>281</td>
<td>4%</td>
<td>4-5%</td>
</tr>
<tr>
<td>Rest of Asia 15%</td>
<td>11%</td>
<td>6-8%</td>
<td></td>
</tr>
<tr>
<td>China 11%</td>
<td>21%</td>
<td>25-27%</td>
<td></td>
</tr>
<tr>
<td>Japan 8%</td>
<td>7%</td>
<td>6-8%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Channel</th>
<th>2019</th>
<th>2021E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online 12%</td>
<td>281</td>
<td>22%</td>
<td>28-30%</td>
</tr>
<tr>
<td>B&amp;M 88%</td>
<td>360-380</td>
<td>70-72%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Generation</th>
<th>2019</th>
<th>2021E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>S. Gen</td>
<td>281</td>
<td>283</td>
<td>360-380</td>
</tr>
<tr>
<td>Baby boomer</td>
<td>26%</td>
<td>&gt;50%</td>
<td></td>
</tr>
<tr>
<td>Generation X 30%</td>
<td>46%</td>
<td>&gt;20%</td>
<td></td>
</tr>
<tr>
<td>Generation Y 36%</td>
<td>17%</td>
<td>&gt;20%</td>
<td></td>
</tr>
<tr>
<td>Generation Z 8%</td>
<td>17%</td>
<td>&gt;20%</td>
<td></td>
</tr>
</tbody>
</table>
Luxury market has been deeply changed in last 20 years, with evolving keywords and macro-trends.
2020-21 turning point for establishing the keywords for the next 20 years of luxury

expanded MISSION

Contribute to CULTURAL development

Creativity, meaning

Foster & role model SOCIAL progress

Environmental sustainability, DEI (diversity-equity-inclusion)

Generate ECONOMIC growth

(the business of) excellence, network economy

2020-21 turning point for establishing the keywords for the next 20 years of luxury

expanded MISSION

Contribute to CULTURAL development

Creativity, meaning

Foster & role model SOCIAL progress

Environmental sustainability, DEI (diversity-equity-inclusion)

Generate ECONOMIC growth

(the business of) excellence, network economy
Claudia D’Arpizio, Partner Bain & Company
Leader Global Fashion-Luxury Goods vertical

Claudia has spent more than 25 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
Leader EMEA Fashion-Luxury Goods vertical

Over the last 17 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.
Bain contacts

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- Dan Pinkney (US)
  dan.pinkney@bain.com or +1 646-562-8102

Italian press
- Lara Visini
  (lara.visini@bain.com or +39 342-145-6301)
Methodology of the study

Revenues at retail equivalent value

Revenues at retail value represent total sales valued at retail price.

Each player’s consolidated sales are retailized through the following methodology:

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

Retail + Wholesale + Licenses = PLAYER CONSOLIDATED SALES

Retail + Wholesale at retail value + Licenses at retail value = PLAYER SALES AT RETAIL VALUE

Application of estimated markups by geography and category
Application of estimated royalty rates and markups by geography and product category

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
- Interviews with industry experts (top management of brands, distributors, department stores …)
- Consistency check on the data and fine tuning

...we cross-check results