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ALTAGAMMA CONSENSUS AND MONITOR

The impact of COVID-19 on the personal luxury goods industry: an average decrease of 20% expected in 2020
Return to pre-pandemic levels by 2022-23

Milan, May 7, 2020 - The latest updates to the **Altagamma Bain Monitor on World Markets** produced by Bain & Company in collaboration with Altagamma, and the **2020 Altagamma Consensus** published by the Altagamma Foundation, with input from leading international analysts, were presented today.

Following a positive final quarter of 2019 and a very promising start to 2020, the personal luxury goods industry was hit hard by the crisis caused by spread of COVID-19 and the consequent national lockdowns and air traffic restrictions, with a negative impact across all product categories and all markets for the current year.

According to the **President of Altagamma, Matteo Lunelli**: "*The pandemic had an immediate impact on the luxury goods industry worldwide, and according to the Altagamma Consensus it will lead to a 20% fall in turnover in 2020. The industry will get back on its feet, however, and the long-term trend remains positive – the Altagamma Bain Monitor estimates a growth of 2-3% between now and 2025. The Italian creative industry, with its unique manufacturing, creative and entrepreneurial resources, has the credentials to recover and return to its leading role. Nevertheless, there are some key priorities to address: in the short term, to safeguard struggling supply chains, and in the medium term, to work on digital transformation and relaunch tourism - which is strategic for all sectors - and ensure there is an even stronger focus on environmental and social sustainability*".

The update to the **2020 Altagamma Consensus***, produced in collaboration with 22 international analysts, estimates **an average decrease of 20%** in the consumption of personal luxury goods on all markets in 2020. Europe (-29%) and the Americas (-22% in the North and -21% in Latin America) are expected to see the biggest drops, due to their longer exposure to the crisis and the lack of international tourist flows, especially from China.
Spending by Chinese **consumers** (-9%, the first to come out of the crisis), and those in Japan (-14%) and the rest of Asia (-16.5%) is expected to drop sharply in 2020, albeit to a lesser extent than European and North American consumers (down 25% and 21% respectively).
In terms of **product** categories, the hardest hit are expected to be jewelry (-23%), watches (-25%) and clothing (-21.5%), while leather goods (-17%) and cosmetics (-13%) should see less of a drop.

Stefania Lazzaroni, General Manager of Altagamma, commented: "*The Altagamma Consensus, which draws on the insights of 22 analysts, predicts a sharp decrease in world consumption, with the profitability of companies in the luxury sector* ***down by 30% in 2020****. One very positive sign is the performance of online channels, with retail up 16% and wholesale up 12%. Companies will certainly be boosting their digital transformation, and the crisis will lead to new lifestyle trends, with consumers prioritizing sustainability and embracing moderation and consciousness. Interpreting these developments will be decisive when it comes to relaunching the luxury goods industry*".

The **Altagamma Monitor of World Markets** estimates that consumption of personal luxury goods will **drop by ~ 25% at constant rates in the first quarter of 2020** (compared to the same period of 2019), a figure that will vary according to region, depending on lockdown and reopening timelines.

*The Altagamma Consensus 2020 Update is published by the Altagamma Foundation in collaboration with specialized analysts from ALTAGAMMA, BAIN & COMPANY, BANCA AKROS, BCG, ALLIANCEBERNSTEIN, CREDIT SUISSE, DELOITTE, DEUTSCHE BANK, EQUITA, EXANE BNP PARIBAS, EY, INTERMONTE, KEPLER CHEUVREUX, MAIN FIRST BANK, MCKINSEY&COMPANY, MEDIOBANCA, MORGAN STANLEY, ORTELLI&CO., RBC CAPITAL MARKETS, SOCIÉTÉ GÉNÉRALE, UBS, VONTOBEL.

The current crisis notwithstanding, it is possible identify a number of best performers to date in terms of regional markets, channels and product categories, which have partially offset the generally negative trend:

- Regions: after being hard hit by the initial spread of the virus, **mainland China has seen a gradual recovery as restrictions have been lifted**; other regions have suffered due to a sharp decrease in tourism flows (mainly Chinese) and the lockdowns still in force.
- Channels: **all channels have performed badly**, especially travel retail and department/specialty stores, **with the exception of the online channel**, which is expected to maintain a positive growth curve in the future too.
- Categories: **accessories are holding up**, despite the overall negative trend, followed by beauty and jewelry; **watches, on the other hand, are the category that has lost the most to date**.

For the **second half of the year**, the Monitor predicts a contraction between **± 0/-10% and -20/-25%**, depending on the rate of recovery of local spending and tourism, which implies a decrease between -20/ -25% and -30/-35% in 2020.

Looking **beyond 2020**, the evolution of the global market will be based on **four key drivers**: regional macro-trends, local consumer confidence, tourism flows and, above all, actions/strategies proactively implemented by brands.

A return to the levels of 2019 (in absolute terms) is expected by 2022 or 2023, with different possible growth trajectories in the coming years depending on how the main market drivers develop, including (and above all) brands' strategic response to the crisis.

By **2025**, the market is expected to be worth **€320-€330 billion**: this would represent a 2019-2025 growth rate of +2/+3% (CAGR).

The personal luxury goods industry will have to contend with disruptive forces and changes in the coming years, and it is largely up to the players themselves to reshape the industry, starting from now: while reacting promptly to navigate the crisis, brands need to plan now to drive the transformation of the industry, starting from the consumer.

"We expect the luxury market to recover, but the sector will be profoundly transformed" - said **Claudia D'Arpizio, Partner of Bain & Company** and author of the study. *"The current crisis requires this industry to think even more creatively and to innovate even faster to meet consumer demands and work around the restrictions on the various channels. The brands that will come out on top are those that best manage to interpret the zeitgeist, while staying true to their DNA and roots".*

"Consumers are seeing a world that has changed profoundly, and that luxury brands will necessarily have to adapt to," commented **Federica Levato, Partner of Bain & Company** and co-author of the study. *"Safety in stores will be mandatory, and will have to be guaranteed while still offering the magic of the luxury shopping experience: developing creative ways to attract consumers to stores, or bring products directly to them, is what will make the difference. The rate of growth of this market will depend on brands' strategic responses to the current crisis and their ability to transform the luxury industry for their consumers".*

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