



EXPERIENTIAL CONSUMPTION DRIVES GROWTH OF THE HIGH-END SEGMENT

The Altagamma 2016 Observatory, annual report on performance of the top segment of the market, provides a snapshot of the segment's health: consumption of personal products is stable, while automobile and experiential luxury are up. Recovery in growth expected for 2017.

Milan, 20 October 2016. In a year of economic uncertainty and geopolitical crises, **the overall market of luxury goods is expected to amount to some 1081 billion Euro, up 4% at constant exchange rates.**

Growth in consumption in the **Personal Luxury** segment shows a slight decline of **1%**, for a total value of **249 billion Euro**.

Forecasts for **2017** indicate **growth in consumption of luxury goods for individuals**, with an average estimated increase of approximately **3% at constant rates**.

However, the high-end industry has encountered some difficulty due to the **drop in purchases by Chinese citizens**, which have been the leading nationality of luxury consumers for a number of years now. This has been exacerbated by other critical factors such as the **terrorist attacks**, which has resulted in a decrease of tourist volumes to Europe and a **less favourable exchange rate against the euro**.

The situation within the industry and in the high-end markets is highlighted in the reports **Altagamma Worldwide Market Monitor 2016** (presented by **Claudia D'Arpizio, Bain & Company**), **Tax-Free Consumption in the European Union 2016** (**Pierfrancesco Nervini, Global Blue**) and **Altagamma Consensus 2017** (**Armando Branchini, Fondazione Altagamma**).

Current and future scenarios and prospects were discussed from the economic and financial standpoint by **Vittorio Ogliengo** of **Unicredit Banca** and **Raffaele Jerusalem** of **Borsa Italiana**. **Nerio Alessandri** of **Technogym** and **Dario Rinero** of **Poltrona Frau** provided their points of view in terms of Design, while the Fashion portion was discussed by **Carlo Alberto Beretta** of **Kering** and **Paolo Riva** of **Diane Von Furstenberg**.

Closing the session of discussions, moderated by Armando Branchini and Claudia D'Arpizio, was the Key Note speech by **Brunello Cucinelli**.

Says the **Chairman of Fondazione Altagamma, Andrea Illy**, *"our industry is undergoing a substantial paradigm shift: retail and distribution models are evolving; consumers are changing, and so is the governance of companies. Production models are integrating new technologies, while the Digital segment and Millennials are posing new challenges for companies. Solutions must be examined, but it is now more important than ever to protect our intrinsic competitive advantages: our wealth of natural and artistic beauty, sensitivity to beauty and style, and the artisanal skills and techniques of our supply chains."*

For **Armando Branchini, Deputy Chairman of Fondazione Altagamma**, *"the global economy over these last two years certainly hasn't helped: it is not as serious as in 2009, but the WTO envisages a decrease in global trade for this year. The Personal Luxury Goods sector is essentially flat now, but 2017 forecasts indicate a recovery in growth of around 3% in real terms. Other luxury sectors, however, continue to increase this year as well, such as the automobile, design and nautical sectors: excellent signs for the high-end Italian industry, which contains numerous and diverse sectors."*



The key trends identified by the reports are summarised below.

1. Tax-Free Consumption in the European Union. By *Global Blue*.

In the first nine months of 2016, Italy, France, the UK and Germany were the preferred destinations of international tourists, which overall account for 73% of Tax-Free expenditure in Europe. After exceptional growth in 2015, the Old Continent recorded a slowdown during this period (-12%) that is also attributable to the decline in Chinese tourists. The Global Blue figures show that the general decline in tax-free sales already indicate a slight improvement if we only look at sales in the month of September (-8%). The lower flow of Chinese tourists in Europe is linked to various exogenous and endogenous factors. Introduction of the visa with biometric data, weakening of the exchange rate against the euro, starting from March 2016, weakening of the national economy and the fear of terrorist attacks have inevitably modified the "trip behaviour" of this nationality.

2. *Altagamma Consensus 2017*. By *Fondazione Altagamma* with the contribution of leading specialised international analysts.

Forecasts for 2017: apparel (+3%) and accessories (3%) showing solid growth after two years of stagnation, as well as perfume and cosmetics (+4%). The trend in Hard Luxury is slightly negative (-1%), particularly watches. *Art de la Table* stable. All markets are expected to grow, with the exception of Japan (-1%), where the new Abenomics on the yen are driving the Japanese to purchase abroad and discouraging purchases by tourists. Europe and the Americas are expected to grow by 3%, the Middle East by 2%, and Asia by 4%, driven by recovery of domestic consumption in China. Ebitda is expected to grow by 5%.

3. *Altagamma Worldwide Luxury Market Monitor*. By *Bain & Company*

The total luxury goods market rose 4% to 1,081 billion Euro in 2016, with a clear trend in favour of experiential luxury, in a scenario of greater consumer sophistication and new status symbols in the era of social media. The global market of personal luxury goods dropped by one percent in 2016 to 249 billion Euro, penalised by a negative exchange rate, but stable at constant rates, despite the climate of significant geopolitical uncertainty. Despite the slowdown in recent years, the trend in 2016 was sharply impacted by the trend of Chinese consumers, down for the first time as a result of diminished purchases in Europe, not offset by domestic consumption, which shows a recovery (+4% at constant rates) after 3 years of stagnation. The European consumers trend is positive, with the recovery in consumption offsetting the substantial decline in tourist purchases due to fears of terrorist attacks. Overall market growth is driven by the online channel (7% of the total market), while physical retail is seeing a decline in organic performance and a sharp slowdown in the scope of expansion. The top category based on growth is beauty (+4% at current rates), an entry point into this market in terms of price, followed by footwear, jewellery and leather goods (+2% at current rates). This flattening of the trend is the result of increasing polarisation of the performance of brands based on categories and segments. In fact, in a scenario of market stability, we can identify both excellent and poor brand performance; there is no longer a clear and obvious market trend. Some are able to innovate and therefore stimulate interest and consumption, while others who are incapable of adapting to the new market scenario are left behind and lose market share. However, market forecasts are still positive, with an initial recovery in 2017 (+1/+2% at constant rates) and a subsequent acceleration (+3/+4% at constant rates), reaching 280-285M€ in 2020. Expansion of the Chinese consumer base, particularly in the middle class, will be among the top drivers of future growth.



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