The Digital Frontier for Luxury Goods

May 25th 2017, Milan
Luca Solca, Managing Director, Global Luxury Goods
Exane BNP Paribas
The luxury industry is recognising that digital is strategic - Retail expansion and Price inflation are far less supportive (1)

Luxury mega-brands retail network (# of stores)

<table>
<thead>
<tr>
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</thead>
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<tr>
<td>Hermès</td>
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<td>237</td>
<td>287</td>
<td>323</td>
<td>307</td>
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<tr>
<td>Louis Vuitton</td>
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<td>340</td>
<td>425</td>
<td>461</td>
<td>450</td>
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<tr>
<td>Prada</td>
<td>173</td>
<td>195</td>
<td>302</td>
<td>412</td>
<td></td>
</tr>
</tbody>
</table>

**CAGR**

|      | 7%  | 9%  | 5%  | 2%  |

Source: Company reports, RE-Analytics
Note: Includes DOS and franchises except for Gucci, which includes only DOS. Burberry excludes outlets 2016 = Mar17 for BRBY and CFR
The luxury industry is recognising that digital is strategic - Retail expansion and Price inflation are far less supportive (2)

Change in global median USD-adjusted price, by brand - Global

Scope: all full price products in the BenchMarque database which are listed in the domestic currency of the region of sale. "Total" refers to the median USD-adjusted price, across all regions, of items listed for that brand. Where the same item is listed in multiple countries, each listing is incorporated into the median.

LUXURY GOODS: BenchMarque (#4) : The Advent of Price Forbearance

Exane BNP Paribas | THE DIGITAL FRONTIER FOR LUXURY GOODS
The luxury industry is recognising that digital is strategic - Digital and Travel offer opportunity

LUXURY GOODS: Digital Frontier 2016: Digital Luxury is turning Mainstream

Source: Contactlab, Exane BNP Paribas estimates, Bain & Co./Altagamma

Ecommerce Growth

Source: World Bank, Boeing, IHS economics, Exane BNP Paribas estimates
The luxury industry has gone through a U turn and has jumped on the digital bandwagon.
Luxury players are launching a wide array of digital initiatives

YNAP has discontinued, over the past few months...

DIESEL

sergio rossi

DIRK BIKKEMBERGS

DOLCE & GABBANA

Ermenegildo Zegna

...but it has also launched

ISABEL MARANT

Chloé

dunhill

ARMANI EXCHANGE

LVMH goes digital with all its brands under one luxury goods site

Le Bon Marché portal will also sell rival labels in scramble to capture slice of online luxury sales
In theory, e-commerce should benefit the luxury goods industry...

LUXURY GOODS: ROIC Scorecard - Confronting the 'old normal'

Exane BNP Paribas | THE DIGITAL FRONTIER FOR LUXURY GOODS
In fact, ROIC improvement and superior TSR go hand in hand.

**ROIC improvement vs TSR (2006-2016)**

- **UHR**
- **CFR**
- **LUX**
- **KER**
- **LVMH**
- **BRBY**
- **HER**

**Source:** Exane BNP Paribas estimates, Company reports, Factset

**LUXURY GOODS: ROIC Scorecard - Confronting the 'old normal'**
...as long as brands have a tight grip on their physical distribution (1)

Channel mix by brand

Source: Exane BNP Paribas estimates, Company reports

Note: Tod’s refers to Tod’s group

LUXURY GOODS: The Dark Side of Digital Luxury
as long as brands have a tight grip on their physical distribution (2)

Ray-ban New Wayfarer Classic
ray-ban.com: 140$
amazon.com: 90.19$ (-36%)

Tissot PRC 200 Quartz Chronograph
tissotwatches.com: 575$
amazon.com: 340.49$ (-40%)
The Digital Frontier: we see five levels of digital proficiency

**Proficiency**

**Level 5**
- Integrate CRM activities

**Level 4**
- Articulate online commercial presence
  - Monobrand website +
  - Online department store concessions +
  - Online mega-mall concessions +
  - Online fashion magazines concessions + ...

**Level 3**
- Integrate physical & online retail
  - Reserve online / pick-up in-store
  - Buy online / return in-store
  - Buy in-store from upstream stock (accessible through iPad / kiosk / ...) receive at home

**Level 2**
- Sell online
  - Mono-brand website (laptop, tablet, mobile version)
  - Direct ownership of online commercial transaction

**Level 1**
- Be seen
  - Brand site: fast page load time, clear navigation, product/store info
    - Web search engines
    - Social media
    - Online communication

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LUXURY GOODS: Digital Frontier 2016: Digital Luxury is turning Mainstream

Exane BNP Paribas | THE DIGITAL FRONTIER FOR LUXURY GOODS
Everybody likes social media … because it’s easier

Anna Wintour

Chiara Ferragni
Analysis of social media effectiveness reveals widely different levels of performance and brand momentum.

LUXURY GOODS: The Social Media Boxing Ring - Two Years After

Exane BNP Paribas | THE DIGITAL FRONTIER FOR LUXURY GOODS
E-commerce involvement is apparently plateauing already, at least when we measure this by number of products available for purchase online.

Offer available for purchase on line (including Pre-Order, US, FW16/17 vs. FW15/16) [Styles only]

Source: Contactlab analysis

LUXURY GOODS: Online Offer Dive & Online Pricing Landscape FW16

Exane BNP Paribas | THE DIGITAL FRONTIER FOR LUXURY GOODS
E-commerce laggards are catching up with the pioneers - Performance is lumpy and driven by a handful of players upgrading their websites.

### Digital Customer Experience Axis (LFL, FW16/17 vs. FW15/16)

<table>
<thead>
<tr>
<th>Brand</th>
<th>FW16 Score</th>
<th>Ranking</th>
<th>FW15 Score</th>
<th>Ranking</th>
<th>Weight Delta score %</th>
<th>Delta Ranking</th>
<th>FW16 Rank</th>
<th>FW15 Rank</th>
<th>Weight Delta score %</th>
<th>Delta Ranking</th>
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</thead>
<tbody>
<tr>
<td>Louis Vuitton</td>
<td>131</td>
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<td>137</td>
<td>1</td>
<td>-4%</td>
<td>=</td>
<td>1</td>
<td>1</td>
<td>-4%</td>
<td>=</td>
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<tr>
<td>Tory Burch</td>
<td>130</td>
<td>2</td>
<td>124</td>
<td>5</td>
<td>4%</td>
<td>↑↑ (+3)</td>
<td>2</td>
<td>5</td>
<td>4%</td>
<td>↑↑ (+3)</td>
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<tr>
<td>Gucci</td>
<td>127</td>
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<td>127</td>
<td>3</td>
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<td>=</td>
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<td>3</td>
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<tr>
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<tr>
<td>Hugo Boss</td>
<td>123</td>
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<td>89</td>
<td>19</td>
<td>25%</td>
<td>↑↑↑ (+14)</td>
<td>5</td>
<td>19</td>
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<tr>
<td>Michael Kors</td>
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<td>101</td>
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<td>12%</td>
<td>↑↑ (+5)</td>
<td>6</td>
<td>11</td>
<td>12%</td>
<td>↑↑ (+5)</td>
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<tr>
<td>Chanel</td>
<td>113</td>
<td>7</td>
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<td>↑↑↑ (+11)</td>
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<td>18</td>
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<td>↑↑↑ (+11)</td>
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<tr>
<td>Ralph Lauren</td>
<td>113</td>
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<td>130</td>
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<td>-13%</td>
<td>↓ (-5)</td>
<td>8</td>
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<tr>
<td>Fendi</td>
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<td>↓ (-1)</td>
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<td>8</td>
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<tr>
<td>Cartier</td>
<td>109</td>
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<td>11</td>
<td>9</td>
<td>2%</td>
<td>↓ (-1)</td>
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<td>114</td>
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<td>-7%</td>
<td>↓ (-6)</td>
<td>12</td>
<td>6</td>
<td>-7%</td>
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<tr>
<td>Hermès</td>
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<td>=</td>
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<td>↑ (+2)</td>
<td>15</td>
<td>17</td>
<td>6%</td>
<td>↑ (+2)</td>
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### Total

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<thead>
<tr>
<th>FW16 Score</th>
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<th>Weight Delta score %</th>
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<tr>
<td>1,714</td>
<td>1,654</td>
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### Source:
Contactlab analysis

**LUXURY GOODS: Digital Competitive Map: Mar 2017 - Laggards are Catching Up**
The experience of buying luxury products online is still fraught with widely different quality of execution.

### PHYSICAL CUSTOMER ENGAGEMENT TOUCH POINTS

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### DIGITAL CUSTOMER ENGAGEMENT TOUCH POINTS

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### PHYSICAL CUSTOMER ENGAGEMENT TOUCH POINTS

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<tr>
<td>Swatch</td>
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### DIGITAL CUSTOMER ENGAGEMENT TOUCH POINTS

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<th>BRAND</th>
<th>RANKING</th>
<th>SCORE</th>
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<tbody>
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<td>37.0</td>
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<tr>
<td>Swatch</td>
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<td>37.0</td>
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<td>Michael Kors</td>
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<td>Prada</td>
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<td>30.0</td>
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<td>30.0</td>
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<td>Bulgari</td>
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<td>27.0</td>
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### Source: Contactlab analysis

**LUXURY GOODS: The Online Purchase Experience Ranking: From Milan to New York City**

Exane BNP Paribas | THE DIGITAL FRONTIER FOR LUXURY GOODS
We see digital and physical retail integration as luxury retail’s “holy grail”

Virtual try-on in a Sunglass Hut store

My Look “Magic Mirror” in a Lenscrafters store

Source: Twitter – Oracle Retail
Source: Adforum
European luxury brands are still far

<table>
<thead>
<tr>
<th></th>
<th>Buy online pick-up in store</th>
<th>Buy online return in store</th>
<th>Order in store for home delivery</th>
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</thead>
<tbody>
<tr>
<td>Bottega Veneta</td>
<td>✗</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>Burberry</td>
<td>✓</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>Louis Vuitton</td>
<td>✓</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>Gucci</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Hermès</td>
<td>✓</td>
<td>✗</td>
<td>✓</td>
</tr>
<tr>
<td>Hugo Boss</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Prada</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Galeries Lafayette</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Harrods</td>
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<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>La Rinascente</td>
<td>✓</td>
<td>✗</td>
<td>✓</td>
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<tr>
<td>Saint Laurent</td>
<td>✓</td>
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</tr>
<tr>
<td>Selfridges</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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</table>

Source: Company websites (Europe)

LUXURY GOODS: The Counter-standardisation of Luxury Retail
Consumer engagement is still basic – and largely confined to pure e-commerce

Web Catalogue Split by Purchasing Option (% Model, US, FW16/17)

Available for purchase online  Pre-Order Online  Out of Stock Online  Call to Purchase  Call for Availability  Only in Store

Source: Contactlab analysis

LUXURY GOODS: Online Offer Dive & Online Pricing Landscape FW16

Exane BNP Paribas | THE DIGITAL FRONTIER FOR LUXURY GOODS
Having a direct line to consumers creates the problem of what to say, when and how (1)

Corrado Guzzanti, 1998
Having a direct line to consumers creates the problem of what to say, when and how (2)

LUXURY GOODS: The Dawn of Luxury CRM E-mail dos and don'ts
CRM has existed long before digital – digital allows “intelligent industrialisation”

Very few clients + High spend / client = High touch CRM

Many clients + Low spend / client = Low touch CRM

A thousand different shades in between, with each brand having to work out the right combination and tools

LUXURY GOODS: The Dawn of Luxury CRM E-mail dos and don'ts
LUXURY GOODS: Digital Frontier 2016: Digital Luxury is turning Mainstream

Exante BNP Paribas | THE DIGITAL FRONTIER FOR LUXURY GOODS

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LUXURY GOODS: The Advent of Price Forbearance

**Key valuation metrics**

<table>
<thead>
<tr>
<th>Metric</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA Margin</td>
<td>15%</td>
<td>16%</td>
</tr>
<tr>
<td>ROIC</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>P/E</td>
<td>25</td>
<td>24</td>
</tr>
</tbody>
</table>

We position this in our Benchmark series, building on our recent partnership with Diverse, “target pricing power,” “price benchmarking” in a new normal.

Luxury goods brands are being on a product platform in 2% price increases. Multi-border have set in place a 2% bias for the past two months. Megazines have been out front of the issue, with 2% bias on the US, with 2% bias on the UK, and 2% bias on the China. Butcher has included price at 2% with BNP Lahmier, and UBS at 2%.

Three market segments emerge, where price is featured in product and category mix changes:
- The high-growth segment retains to strong growth, as Under Armour, Tesla, or lululemon.
- The mid-growth segment continues to see strong growth, as Nike, Under Armour, or lululemon.
- The high-growth segment continues to see strong growth, as Apple, Tesla, or lululemon.

Growth rates have been drastically reduced to 2% price increases, with 2% bias on the US, 2% bias on the China, and 2% bias on the UK. Butcher has included price at 2% with BNP Lahmier, and UBS at 2%.

We expect price forbearance to continue in 2017.

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LUXURY GOODS: The Retail Network Monitor 1Q 2017

**Key valuation metrics**

<table>
<thead>
<tr>
<th>Metric</th>
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<th>2016</th>
</tr>
</thead>
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<tr>
<td>EBITDA Margin</td>
<td>15%</td>
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<td>ROIC</td>
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<td>13%</td>
</tr>
<tr>
<td>P/E</td>
<td>25</td>
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</tr>
</tbody>
</table>

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LUXURY GOODS: ROIC Scorecard – Confronting the “normal”

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LUXURY GOODS: BenchMarque (4#): The Advent of Price Forbearance

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LUXURY GOODS: ROIC Scorecard – Confronting the ‘old normal’

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Exante BNP Paribas | THE DIGITAL FRONTIER FOR LUXURY GOODS

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Exante BNP Paribas

THE DIGITAL FRONTIER FOR LUXURY GOODS

Extensive Research and Coverage of Luxury Goods (2/3)

LUXURY GOODS

The Dark Side of Digital Luxury

We have published a lot of research demonstrating that digital development is appropriate for luxury goods companies and can help them grow. But we do not think that there is necessarily an opposite trend that luxury is a unique opportunity for luxury goods companies. The impact of the "dark side" of digital luxury has been a recent focus of our research.

Key valuation metrics

- Revenue
- Net income
- EPS
- P/E ratio
- P/B ratio
- Dividend yield
- Return on equity
- Free cash flow
- Current ratio
- Debt-to-equity ratio
- ROA

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LUXURY GOODS: The Social Media Boxing Ring – Two Years After

We continue our collaboration with Transmedia, the social media firm, to bring a new perspective on the development of social media in the luxury goods sector.

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LUXURY GOODS: Online Offer Dive & Online Pricing Landscape FW16

In cooperation with Contactlab, we publish an update of the online product offer in the US for the luxury segment. The focus is on the Digital Competitive Map, the "luxury laggards" and the "luxury laggards" are catching up. We also analyze the online product offer of the luxury segment at a detailed level to show how luxury brands are performing online.

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LUXURY GOODS: Digital Competitive Map: Mar 2017 – Laggards are Catching Up

Why you should read this report

Digital luxury performance is up 15% y/y. That's a new perspective on the digital luxury sector. The report explores the digital landscape of luxury brands and provides an in-depth analysis of the products and services offered online.

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**The Online Purchase Experience Ranking:**
From Milan to New York City

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Digital and Physical Integration: Luxury Retail's Holy Grail

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The Counter-standardisation of Luxury Retail

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The Down of Luxury CRM E-mail dos and don’ts

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Extensive Research and Coverage of Luxury Goods (3/3)
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