February 16th 2017, Milan
Luca Solca, Managing Director, Global Luxury Goods
Exane BNP Paribas
Luxury mega-brands are in consolidation mode

### Luxury mega-brands retail network (# of stores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Burberry</td>
<td>34</td>
<td>83</td>
<td>200</td>
<td>271</td>
<td>260</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cartier</td>
<td>150</td>
<td>180</td>
<td>205</td>
<td>224</td>
<td>275</td>
<td>288</td>
<td>279</td>
</tr>
<tr>
<td>Gucci</td>
<td>141</td>
<td>198</td>
<td>258</td>
<td>429</td>
<td>520</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hermès</td>
<td>197</td>
<td>237</td>
<td>287</td>
<td>323</td>
<td>314</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Louis Vuitton</td>
<td>284</td>
<td>340</td>
<td>425</td>
<td>461</td>
<td>476</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prada</td>
<td></td>
<td></td>
<td></td>
<td>302</td>
<td>384</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CAGR</strong></td>
<td>5%</td>
<td>3%</td>
<td>6%</td>
<td>8%</td>
<td>9%</td>
<td>2%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company reports, RE-Analytics
Note: Includes DOS and franchises except for Gucci, which includes only DOS. Burberry excludes outlets

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LUXURY GOODS: The Retail Network Monitor: 4Q 2016
A « Darwinian selection » in Chinese luxury shopping malls is ongoing

<table>
<thead>
<tr>
<th>Brand</th>
<th>Jan-16</th>
<th>Jan-17</th>
<th>Delta # POS</th>
<th>Growth %</th>
<th>% of total Growth</th>
<th># POS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Versace</td>
<td>30</td>
<td>49</td>
<td>19</td>
<td>63%</td>
<td>86%</td>
<td></td>
</tr>
<tr>
<td>Gucci</td>
<td>59</td>
<td>69</td>
<td>10</td>
<td>17%</td>
<td>45%</td>
<td></td>
</tr>
<tr>
<td>Bulgari</td>
<td>31</td>
<td>33</td>
<td>2</td>
<td>6%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Dolce&amp;Gabbana</td>
<td>47</td>
<td>49</td>
<td>2</td>
<td>4%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Givenchy</td>
<td>18</td>
<td>20</td>
<td>2</td>
<td>11%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Moncler</td>
<td>22</td>
<td>24</td>
<td>2</td>
<td>9%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Valentino</td>
<td>20</td>
<td>22</td>
<td>2</td>
<td>10%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Saint Laurent</td>
<td>16</td>
<td>18</td>
<td>2</td>
<td>13%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Ferragamo</td>
<td>74</td>
<td>75</td>
<td>1</td>
<td>1%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Hermes</td>
<td>24</td>
<td>25</td>
<td>1</td>
<td>4%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Michael Kors</td>
<td>36</td>
<td>37</td>
<td>1</td>
<td>3%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Miu Miu</td>
<td>24</td>
<td>25</td>
<td>1</td>
<td>4%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Alexander McQ</td>
<td>5</td>
<td>6</td>
<td>1</td>
<td>20%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Tod's</td>
<td>38</td>
<td>39</td>
<td>1</td>
<td>3%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Giorgio Armani</td>
<td>19</td>
<td>19</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Burberry</td>
<td>59</td>
<td>59</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Loro Piana</td>
<td>15</td>
<td>15</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Louboutin</td>
<td>9</td>
<td>9</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Tiffany</td>
<td>31</td>
<td>31</td>
<td>0</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Celine</td>
<td>23</td>
<td>20</td>
<td>-3</td>
<td>-13%</td>
<td>-14%</td>
<td></td>
</tr>
<tr>
<td>Prada</td>
<td>40</td>
<td>36</td>
<td>-4</td>
<td>-10%</td>
<td>-18%</td>
<td></td>
</tr>
<tr>
<td>Bottega Veneta</td>
<td>40</td>
<td>35</td>
<td>-5</td>
<td>-13%</td>
<td>-23%</td>
<td></td>
</tr>
<tr>
<td>Louis Vuitton</td>
<td>51</td>
<td>45</td>
<td>-6</td>
<td>-12%</td>
<td>-27%</td>
<td></td>
</tr>
<tr>
<td>Zegna</td>
<td>74</td>
<td>67</td>
<td>-7</td>
<td>-9%</td>
<td>-32%</td>
<td></td>
</tr>
<tr>
<td>Total / Average</td>
<td>805</td>
<td>827</td>
<td>22</td>
<td>3%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Source: RE-Analytics Note: Red indicates % chg < -15%, Green indicates % chg > +15%

LUXURY GOODS: The Retail Network Monitor: 4Q 2016
A handful of brands is driving the bulk of retail network expansion

<table>
<thead>
<tr>
<th>Luxury retail network development</th>
<th>2013</th>
<th>2016</th>
<th>Delta</th>
<th>2013-2016 CAGR</th>
<th>% GROWTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coach</td>
<td>953</td>
<td>1,029</td>
<td>76</td>
<td>3%</td>
<td>9%</td>
</tr>
<tr>
<td>Michael Kors</td>
<td>304</td>
<td>668</td>
<td>364</td>
<td>30%</td>
<td>43%</td>
</tr>
<tr>
<td>Tory Burch</td>
<td>59</td>
<td>164</td>
<td>105</td>
<td>41%</td>
<td>12%</td>
</tr>
<tr>
<td>Lancel</td>
<td>142</td>
<td>86</td>
<td>-56</td>
<td>-15%</td>
<td>-7%</td>
</tr>
<tr>
<td>TOTAL ASPIRATIONAL</td>
<td>1,458</td>
<td>1,947</td>
<td>489</td>
<td>10%</td>
<td>57%</td>
</tr>
<tr>
<td>Gucci</td>
<td>474</td>
<td>520</td>
<td>46</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>LV</td>
<td>470</td>
<td>472</td>
<td>2</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Prada</td>
<td>354</td>
<td>411</td>
<td>57</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Burberry</td>
<td>330</td>
<td>320</td>
<td>-10</td>
<td>-1%</td>
<td>-1%</td>
</tr>
<tr>
<td>TOTAL MEGA-BRAND</td>
<td>1,628</td>
<td>1,723</td>
<td>95</td>
<td>2%</td>
<td>11%</td>
</tr>
<tr>
<td>Hermès</td>
<td>305</td>
<td>314</td>
<td>9</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Chanel</td>
<td>289</td>
<td>310</td>
<td>21</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>BV</td>
<td>221</td>
<td>255</td>
<td>34</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Dior</td>
<td>217</td>
<td>197</td>
<td>-20</td>
<td>-3%</td>
<td>-2%</td>
</tr>
<tr>
<td>Celine</td>
<td>104</td>
<td>178</td>
<td>74</td>
<td>20%</td>
<td>9%</td>
</tr>
<tr>
<td>Saint Laurent</td>
<td>91</td>
<td>173</td>
<td>82</td>
<td>24%</td>
<td>10%</td>
</tr>
<tr>
<td>TOTAL HIGH-END</td>
<td>1,227</td>
<td>1,427</td>
<td>200</td>
<td>5%</td>
<td>23%</td>
</tr>
<tr>
<td>Dunhill</td>
<td>156</td>
<td>221</td>
<td>65</td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td>Fendi</td>
<td>199</td>
<td>217</td>
<td>18</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Miu Miu</td>
<td>158</td>
<td>181</td>
<td>23</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Chloe</td>
<td>123</td>
<td>143</td>
<td>20</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>Balenciaga</td>
<td>82</td>
<td>136</td>
<td>54</td>
<td>18%</td>
<td>6%</td>
</tr>
<tr>
<td>Marc Jacobs</td>
<td>207</td>
<td>95</td>
<td>-112</td>
<td>-23%</td>
<td>-13%</td>
</tr>
<tr>
<td>TOTAL CHALLENGERS</td>
<td>925</td>
<td>993</td>
<td>68</td>
<td>2%</td>
<td>8%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>5,238</td>
<td>6,090</td>
<td>852</td>
<td>5%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Exane BNP Paribas estimates, Annual reports, RE-Analytics, Exane Proprietary POS Database
Note. Includes DOS and franchises except for Gucci, which includes DOS only
More moderate retail growth protects returns, given more moderate demand growth

LVMH - ROCE vs Organic Sales / Store network growth

ROCE (y/y % growth)

Organic sales (y/y % chg) / Store network (y/y % chg)

Source: Exane BNP Paribas estimates, Company reports

LUXURY GOODS: Digital and Physical Integration: Luxury Retail's Holy Grail
ROIC trends continue to drive TSR

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

Source: Exane BNP Paribas estimates, Company reports, Datastream
We expect all luxury brands to adopt digital as a priority and integrate physical and digital retail.
Digital & Physical integration is in progress

In-Store Digital Proficiency, New York, December 2015

Source: Contactlab analysis

LUXURY GOODS: Digital and Physical Integration: Luxury Retail's Holy Grail

Exane BNP Paribas | RETAIL EVOLUTION 2017
Digital execution in China is behind

Cracking digital in China is vital for luxury goods

- The Chinese are the most important luxury goods nationality
- Chinese consumers are also the most digitally advanced in the world
- The online shift in FMCG is dramatic - causing the demise of “big box” retailing

But digital in China is different

- It is almost entirely mobile driven
- Minimum requirement logistics expectations are impossibly high
- Local champions dominate

Western luxury brands are still under-represented

- Direct e-commerce presence is rare
- Grey market activity prevails
- Concerns on product (and store) authenticity remain
The next step is a change of paradigm in retail development

From Cookie Cutter

Same retail environment everywhere (“the retail concept”)

Standardised service (“the selling ceremony”)

Store size escalation (“bigger is better”)

Emphasis on aesthetics (“steel and white marble”)

To Counter Standardisation

Multiple retail concepts:
- by consumer group (e.g. VIC vs. aspirational consumers)
- by product offer (e.g. full range vs. single category)
- by function (e.g. store as showroom)

De-averaged service levels (“many different selling ceremonies”)

Smaller stores (higher productivity → lower SG&A)

Opportunity of “DNA driven” differentiation (“Retail as DNA”)
Retail as DNA – the Apple store (1)
Retail as DNA – the Apple store (2)
Retail as DNA – the Fendi “fur atelier” in Rome

Palazzo Fendi, Rome

Source: Google images, interiordesign.net

LUXURY GOODS: The Counter-standardisation of Luxury Retail
VIC stores - the Moët-Hennessy “secret apartment”

Source: Instagram
BONOBOS “Guide Shop” is a new store concept, similar to a Showroom:

- **1-on-1 Attention**: A guide will walk each customer through the entire Bonobos assortment
- **Find the perfect fit**: A guide will help each customer to find the perfect fit from all available options
- **Walk Out Hands-Free**: Any purchase will be shipped directly at home/office for free
- **Returns and Exchanges**: Can be made both in store and online
- **Specialised events**: i.e. Fittings for wedding parties

Source: Company website, Exane BNP Paribas “Disrupting the Luxury Goods Business Model”
Product specific stores – Tiffany @ Harrods

Source: Exane BNP Paribas field research
The 2017 outlook for luxury goods
Luxury demand is currently very strong …

<table>
<thead>
<tr>
<th>Nationality</th>
<th>Flag</th>
<th>Global Luxury Consumption</th>
<th>Trend in 1H17e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese</td>
<td>🇨🇳</td>
<td>30%</td>
<td>🟢🟢</td>
</tr>
<tr>
<td>Americans</td>
<td>🇺🇸</td>
<td>23%</td>
<td>🟢</td>
</tr>
<tr>
<td>Europeans</td>
<td>🇪🇺</td>
<td>19%</td>
<td>=/=🟢</td>
</tr>
<tr>
<td>Japanese</td>
<td>🇯🇵</td>
<td>11%</td>
<td>=/=颏</td>
</tr>
<tr>
<td>Middle Eastern</td>
<td>🇱🇧</td>
<td>8%</td>
<td>🟢🟢</td>
</tr>
<tr>
<td>Russians</td>
<td>🇷🇺</td>
<td>4%</td>
<td>🟢🟢</td>
</tr>
</tbody>
</table>
Risk in 2017 seems largely political

Protectionism in the USA

- Sino-American relationship degradation
- Border adjustment tax in the USA
- EUR breakup

Populism in Europe
Luxury Goods: Trading Meets Fundamentals: How to invest in Luxury Goods after the Rally

Best in the “toppish” zone (LMV = 140X), while folding in lower LMV Fisher scores with solid results by Bally, Tod’s, and Furla. For example, Tod’s is a strong retailer, with a strong financial position, and a strong brand. Bally, on the other hand, is a strong financial position, with a strong brand. Furla is a strong financial position, with a strong brand.

High quality, self-help stores: Pernod Ricard and LVMH are both strong performers on this scale. These companies are both strong performers on this scale. Pernod Ricard is a strong financial position, with a strong brand. LVMH is a strong financial position, with a strong brand.

Luxury, not self-help stores: Ferragamo is a strong performer on this scale. The company is not self-help stores, but it is a strong performer on this scale. The company is not self-help stores, but it is a strong performer on this scale.

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LUXURY GOODS

All you ever wanted to know about… (2) Luxury goods competitive dynamics

W@Y YOu SHOULD READ THIS REPORT

This is the second in a new series of reports on Luxury Goods demand, competitive dynamics and future trends.

LUXURY GOODS: Disrupting the Luxury Goods Business Model

The pace of the luxury market is being disrupted.Brands have to be more innovative than ever to retain their allure and overcome the challenges of a globalized and digitalized new consumer. The rise of millennials is changing the game. The future of luxury is not just a new generation of consumers but also a new form of retail. The luxury business model is evolving, and disruptive forces are at play. The traditional luxury goods business model is facing significant challenges, from changing consumer habits to increased competition from emerging markets. The luxury market is adapting to new trends, and traditional luxury brands need to reposition themselves to remain relevant in the digital age.

LUXURY GOODS: All you ever wanted to know about… (3) The future of luxury goods

The demand for luxury goods is continuously evolving. Consumers are becoming more price-sensitive and are more likely to switch brands based on value. Brands need to focus on creating unique value propositions and delivering exceptional customer experiences to remain competitive. The future of luxury goods is likely to be more digital and data-driven, with a greater emphasis on sustainability and transparency. Luxury brands need to adapt to these changes to remain relevant in the modern market.

LUXURY GOODS: All you ever wanted to know about… (1) Luxury goods demand dynamics

LUXURY GOODS: All you ever wanted to know about… (2) Luxury goods competitive dynamics

LUXURY GOODS: All you ever wanted to know about… (3) The future of luxury goods
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