

OSSERVATORIO ALTAGAMMA 2022: A RECORD YEAR, WITH GROWTH OF 21% AND POSITIVE FORECASTS FOR LUXURY GOODS AND SERVICES

The Altagama Foundation's annual conference confirms the full recovery of the global luxury market, which rises to approximately €1,400 billion, an increase of 21%.

The forecasts are also positive for 2023, with EBITDA up 6%

Milan, 15 November 2022. The 21st edition of **Osservatorio Altagama**, which took place today in Milan and was attended by the **Minister for Business and Made in Italy, Adolfo Urso**, confirmed the strong tendency for growth in all areas of the luxury sector worldwide. Despite the ongoing economic turbulence, **the global luxury market will grow by 21% in 2022**, reaching **€1,400 billion**, while **personal luxury goods** are estimated to rise **22% to €353 billion**. The outlook is also positive for **2023**, with a projected **6% rise in profitability for luxury brands**.

These figures are set against a backdrop in which growth is also expected in the long term: **by 2030 the value of the personal luxury goods market is forecast to rise to approximately €540-580 billion**, an increase of at least 60% compared to 2022.

The figures on the current market situation and future expectations are taken from the **Altagama Consensus 2023**, presented by **Stefania Lazzaroni, Director General of Altagama**, and carried out with the backing of major financial analysts, and the **Altagama-Bain Worldwide Luxury Market Monitor**, presented by **Claudia D'Arpizio and Federica Levato, Senior Partners at Bain & Company**.

The results of the research were discussed with **Francesca Bellettini**, President and CEO of Yves Saint Laurent; **Sabina Belli**, CEO of the Pomellato Group; **Pier Francesco Nervini**, COO for Northern and Central Europe and Global Accounts at Global Blue; **Cristina Scocchia**, CEO of illycaffè; **Daniel Talens**, CEO of Alessi and **Stephan Winkelmann**, Chairman and CEO of Automobili Lamborghini.

“Following the deep decline due to the pandemic, the luxury sector has completed its journey to recovery, with a record-breaking increase of 21% globally in 2022”, according to Altagama’s President Matteo Lunelli. “In this scenario, Italian brands continue to excel, despite the current situation of profound uncertainty and numerous challenges. As Minister Urso - here at Altagama Monitor today - recently said, we must not only protect, but grow our fantastic Italian companies and the excellent production chains that are a driving factor for entire sectors. Ultimately, luxury goods and services can be an engine for the growth of the Italian economy”.

The **Minister for Business and Made in Italy, Adolfo Urso**, highlighted the importance of the luxury sector: *“The change in name to Minister for Business and Made in Italy is not merely lexical, but a clear indication of the new mission this government is committed to: to promote, protect and valorise our brand in the world. The Made in Italy excellence represented by Altagama is the crowning glory of our manufacturing industry, and has succeeded in retaining its leading role in the world during an extremely challenging period, contributing significantly to our GDP. There is still plenty of room for growth, and we therefore plan to work jointly with intermediary bodies and associations in order to strengthen the foundations of our exceptional industries, support their development and promote them worldwide”.*

“The new upsurge which is affecting the luxury industry and shaping new trends will require change in the sector’s businesses, which will need to improve their preparedness for uncertainty and focus on creativity in every aspect of their operations. Looking to 2023, luxury brands will need to leverage their position at the cultural cutting edge and the excellence that has always distinguished them, and find new applications. Just as they have always done by their very nature, and in recent times too, with highly creative products and customer care, in order to overcome the challenges they face, luxury businesses need to target investment to where most opportunities lie: ESG, creativity, technology and data. Their growth has no

*choice but to rely on these drivers, whose potential is enormous”, commented **Claudia D’Arpizio** and **Federica Levato**, Senior Partners at **Bain & Company** and authors of the research.*

FOLLOWING THE EVIDENCE EMERGING FROM THE STUDIES.

Altgamma Consensus 2023, created by Altgamma with the contribution of 21 of the leading specialized international analysts.

After a record 2022 compared to other sectors and decisively surpassing pre-Covid-19 levels, solid and positive growth is still expected for 2023, despite macroeconomic uncertainty. The increase in energy costs, rising inflation, the shortage of raw materials, geopolitical tensions and the drop in the purchasing power of some consumer groups will partially affect performance, which will however remain high. **Average EBITDA for 2023 is expected to grow by +6%.**

Markets. Europe is expected to grow by 5%, thanks to the increase in international travels (especially from the USA, thanks to the favorable euro-dollar exchange rate, but also from Arab countries) which will compensate for the weaker domestic demand. Also for the United States, with the development of new territories and a stronger domestic demand than in Europe, growth of 5% is forecast. Latin America and Japan also grew (+6%) thanks to the development, beyond the capitals, of important cities driven by real estate development. China and Asia are more difficult to estimate: in particular in China, the lockdown policies for the containment of Covid-19 could bring unexpected effects. The market should still benefit from an opening and thanks to the rebound effect, consumption could grow by 9%. In the long run, China remains the largest luxury market, driven by the prosperity of the middle class, new generations and the development of new poles. A +7% is expected for the Middle East, with areas such as the United Arab Emirates (but also Turkey) which - not having imposed sanctions - are taking advantage of Russian consumption.

Consumers. The world macro-economic situation favors polarization between richer and less well-off sections of the population: worldwide, the middle class suffers, with the exception of the Chinese which, thanks to the "Common Prosperity" policies implemented by the Government, tends to strengthen and drive consumption: Chinese consumers will be the best performers in 2023 with a +10%. The rebound effect of consumption will benefit Asian consumers in general, who will see an increase of 8%. On the other hand, Japanese consumption will be less brilliant (+5%). American consumption will stand at +5%. In the US, high-end consumers are less affected by cost increases thanks to a stronger labor market and accumulated savings. European spending is cautious, which stands at +4%: the increase in inflation and costs will have a significant impact on consumption, in particular of luxury goods.

Product categories. All categories will see an increase in sales not only thanks to an increase in prices, but also an increase in volumes. Therefore, grow in value. The leadership of accessories is reconfirmed, continuing their positive trend: +8.5% for leather goods and +7% for footwear. However, due to the widening of the social gap, the entry price suffers and demand is weaker for aspirational products. Apparel (+6%) and cosmetics (+5.5%) confirm the growth rate of 2022. Cosmetics in particular is driven by Asia, while Apparel will see a clear contrast between accessible and luxury. Hard luxury continues its positive trend, particularly in jewelry with +8%: jewelry remains a safe haven and investment asset. The growth of watches was lower, marking +5% and continuing to strengthen the "handmade" or the search for the unique piece.

Distribution channels. The retail channel, both physical and digital, will continue to thrive, allowing a direct relationship with consumers and greater control of all touchpoints, allowing brands to strengthen an omnichannel strategy. Growth of 8% is expected for digital retail, therefore expanding, but more moderate than in previous years marked by the online boom due to the pandemic. Physical stores mark a +7% and continue to be relevant for the sector thanks to increasingly personalized and phygital approaches that improve consumer engagement. Many luxury brands also look to secondary cities and new territories that are developing in expanding markets (for example in the USA and the United Arab

Emirates). The physical wholesale remains fragile with a +3.5%, while after the double-digit growth of the past years the digital wholesale will see a normalization of the channel with a +5.5%.

Margins. In 2022 some companies raised their prices, keeping the increase in costs under control, generating higher margins than those expected for next year. In 2023, growth will be driven mainly by higher prices and improved sales mixes. Volumes will have a more contained growth compared to previous years and the possible difficulty in keeping costs under control will limit the potential growth of EBITDA (expected 6%). For companies whose target is made up exclusively of higher-end consumers, the Ultra High-Net Worth Individuals, EBITDA is estimated to be higher: +8%.

Altagamma–Bain Worldwide Luxury Market Monitor 2022. By Altagamma and Bain & Company.

The global luxury goods industry overall is projected to achieve a market value of some €1.4 trillion in sales revenue this year, growing by 21% from 2021 (at current exchange rates).

The **personal luxury goods** industry, in particular, saw a further growth acceleration this year, coming on the heels of the V-shaped rebound enjoyed in 2021, the research shows. Boosted by a strong market performance across quarters, and despite macro-economic indicators worsening globally as well as specific challenges in China, the personal luxury sector is set to see the value of its sales jump to €353 billion in 2022, marking an advance of 22% at current exchange rates (or 15% at constant exchange rates) versus the previous year. The performance of the last quarter of this year, in determining the final outcome for 2022, will largely depend on the progressive lifting of Covid-19 pandemic restrictions in China, as well as evolution of European and American luxury consumer confidence in the face of rising inflation and cost of living pressures, and potential recession in the US and European economies.

But despite present and continuing economic challenges, the luxury market continued to perform strongly throughout this year to date, with winners for brands across the board, and **positive growth for some 95% of brands.**

Tech-enabled profit pools and strong generational trends to drive 60%+ market growth to 2030

Prospects for personal luxury goods market out to 2030 are also highly positive, today's analysis concludes. It finds that solid market fundamentals and new tech-enabled profit pools, are set to boost the market's value to €550-570 billion by the end of the present decade, from €353 billion estimated for 2022 – a rise of 60% or more.

A powerful factor for sector growth in the rest of the decade will be generational trends, the analysis reports. 'Gen Y' and 'Gen Z' accounted for the entire growth of the market in 2022, it notes. In coming years, the spending of Gen Z and 'Gen Alpha' is set to grow some three times faster than for other generations until 2030, making up a third of the market. This is, in part, driven by a more precocious attitude towards luxury, with Gen Z consumers starting to buy luxury items some 3 to 5 years earlier than Millennials (at 15 years-old, versus at 18-20), and Gen Alpha expected to behave in a similar way. This generational factor is one of the **critical trends affecting the development of the luxury market in 2022,** and for the rest of the decade.

Old continents are still leading, but new markets are surprising

While US luxury market is still strong, and Europe managed to recover beyond 2019 thanks to solid local demand alongside an extra-boost from US and Middle Eastern tourist shoppers, new markets are surprising the industry. South-east Asia and Korea are winning in terms of growth and potential.

Although there will never be "another China" in terms of growth' contribution to the industry, India and emerging Southeast Asian and African countries have a significant potential nevertheless. Yet, they still require an infrastructure catch-up to facilitate the expansion locally. Among the rising stars, India stands out for growth potential, which could see its luxury market expand to 3.5 times today's size by 2030, propelled by an increasing interest and evolving attitudes and behaviors among (young) customers

towards luxury goods. Meanwhile, China itself, which remains crucial to the long-term of the luxury market, continue to confront a challenging phase due to Covid lockdowns and is still performing below 2021 figures. China's luxury market is expected to recover between H1 and H2 2023.

Stores are winning back their role

Retail continues to dominate, while online channels are seeing a normalization in their growth. The coming years will see a further blurring of the boundaries between 'mono-brand' and ecommerce, which will increasingly push brands to take an Omnichannel 3.0 approach, enabled and enhanced by new technologies.

Expanding customer base, yet elevated

The luxury market's consumer base is broadening with some 400 million consumers in 2022 expected to expand to 500M by 2030. This market growth is driven by factors that go beyond aspiration, with consumers becoming more knowledgeable and choosy, and intensified competition for loyalty and advocacy. The higher and top end of the luxury market is also expanding at the same time and accounted for some 40% of market

value in 2022 compared with 35% last year, with these consumers hungry for unique products and experiences, and putting brands VIC (Very Important Client) strategies into overdrive.

Over-performance of all categories, restocking wardrobe in the rising "post-streetwear" era

All luxury categories have now recovered to 2019 levels or better, with hard luxury, leather and apparel leading the resurgence following the pandemic. A deliberate (and effective) 'elevation strategy' has driven a progressive price increase across the industry (driving around 60% of the 2019-2022 growth) without damaging volume growth. This trend has also been reflected in product categories, through the shift to the 'post-streetwear' era, which maintains some elements of so-called streetwear (such as gender fluidity, occasion-less apparel, inclusivity and sports-driven inspiration) but goes beyond its style codes through new and enhanced techniques, materials and functionalities.

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