THE US AND EUROPE DRIVE THE RECOVERY OF THE LUXURY INDUSTRY

2022 confirms the forecasts for the overall growth of the luxury industry (EBITDA +9%). The US and European markets are leading the way, with a good outlook for the Middle East and South Korea. China is being held back by its continued lockdowns.

Milan, June 21st, 2022 - The updates for the **Altagamma Bain Monitor on the Worldwide Market for Personal Luxury Goods**, produced by Bain & Company in collaboration with Altagamma, and the **2022 Altagamma Consensus**, prepared by the Foundation with the input of international analysts and partners, were presented today.

After the post-covid rebound of 2021, and despite the impact of the war between Russia and Ukraine, and the strict lockdowns in China, **2022 saw a very positive first quarter: up 17-19%[1] on the same period of 2021**, which was still affected by the pandemic. Consumer confidence proved solid in the US and Europe, and spending was helped by the fact that there were no major new outbreaks of covid.

The **Chairman of Altagamma, Matteo Lunelli**, commented: *"in a scenario of strong macroeconomic uncertainties, the Altagamma Consensus estimates that companies in the industry will see EBITDA rising by an average of 9%, confirming the path of rapid recovery that began in 2021. With China being held back by lockdowns due to its zero-Covid policy, growth will be driven by strong US consumer demand and the accelerating recovery in Europe, despite the war in Ukraine. Brands' digital presence (including the metaverse and gaming) is now increasingly important, along with their stance on sustainability issues: a commitment that our member companies wanted to confirm this year, on the 30th anniversary of the Foundation, by adopting the first Altagamma Charter of Values."*

The **ALTAGAMMA-BAIN MONITOR** highlights the V shaped recovery of the personal luxury goods market in 2021, after its worst ever recession in 2020. Thanks also to a strong fourth quarter (+7% compared to the same period of 2019), the year closed at around €288 billion, a 3% growth in value compared to 2019.

2022 began with a very positive first quarter (+17/+19% compared to the same period in 2021 at current rates, +13/+15% at constant rates), boosted by:

- solid local consumer confidence in both the US and Europe (despite the macroeconomic challenges that have emerged in recent months, from inflation to the war in Ukraine)
- China's momentum (before the new lockdowns curbed growth, above all in the second quarter)
- the effectiveness of vaccination campaigns, which prevented new outbreaks in the West.

"Despite significant macroeconomic challenges, including hyperinflation, slower growth of GDP and the Russian-Ukrainian conflict, the luxury personal goods market has once again proven resilient," said **Claudia D'Arpizio**, Partner at Bain & Company and lead author of the study. *"Luxury goods brands began this year showing particularly strong growth, and playing a leading role in the sustainable and digital transformation taking place around the world."*

[1] At current rates (+13/15% at constant rates)

The mature markets - the US and Europe – continue to be two mainstays for the industry. In **Europe** the recovery has picked up speed, and the market is expected to **return to 2019 levels a year ahead** of previous forecasts.
The **United States** is experiencing unprecedented growth, with brands leveraging diversity and inclusion, maximizing the potential of the entire US customer base. New urban areas are coming to the fore, with highly dynamic areas such as the Midwest.
In **China** (after a bright start in the first quarter) the **"zero-Covid" policy** introduced in major cities is slowing down consumption. Yet Chinese consumers continue to show strong interest in luxury goods, and the country is expected to return to 2021 levels between the end of this year and the beginning of next.
Finally, while Japan is doing less brilliantly, impacted more by Covid-19 and the absence of tourists, **South Korea** has undergone a profound transformation in the past two years, redefining its consumer base from tourists to locals, and gaining cultural relevance both in Asia and globally.

In this context, **high-end brands** need to get ready to tackle **future opportunities and challenges:**

- expanding and enhancing their value propositions, through **digital assets** that extend the scope of business from traditional products to the virtual world (the metaverse, social media and gaming); it is estimated that digital assets could account for up to 5-10% of the luxury market by 2030, and in this scenario luxury brands have the opportunity to shape the emerging virtual worlds, acting as their "creators"

- the growing importance of direct-to-consumer channels, facilitated by disruptive technology that enables luxury brands to adopt "uber-channel" approaches to build new levels of consumer engagement, both by **evolving existing touchpoints** (e.g. new customer-care models) and **creating new ones** (e.g. instant messaging, interactions in the metaverse, etc.)

- the increasingly important role of sustainability (attention from end customers is growing, yet there continues to be a lack of clear, unambiguous standards). This is an area where high-end brands will need to innovate to build a competitive advantage, rethinking materiality with a forward-looking approach

- the advent of **new occupational needs and priorities** (especially for the younger generation), which requires **high-end companies to expand their value proposition** toward their employees, embracing and making the switch from being "talent takers" to "talent makers."

"In recent months, luxury brands have been forced to rethink their future," said **Federica Levato, Partner at Bain & Company** and coauthor of the study. *"The companies capable of embracing change rapidly and making sure they fully understand the implications of the new geopolitical dynamics and cultural trends for all their stakeholders - consumers, investors, employees and society at large - will succeed. Those that take advantage of the opportunities presented by the virtual world, sustainability transformation and the tastes of the younger generations will come out on top."*

The general medium-term trend for the personal luxury goods market is not expected to change (€360-380 billion by 2025), while two possible scenarios are envisaged for 2022:

- an **"optimistic" scenario**, in which the growth of the first six months continues for the rest of the year, reaching about €320-330 billion in 2022, with an expected growth of 10/15% compared to 2021;

- a **more conservative scenario**, in which growth is more subdued due to a slower recovery in China and a possible decline in spending in mature markets, translating to around €305-320 billion in 2022 (up 5/10% on 2021).

The update of the **2022 ALTAGAMMA CONSENSUS**, the 13th edition, has been produced in collaboration with 19 international analysts and partners**:** BAIN & COMPANY, BANCA AKROS, BCG, BERNSTEIN, BRYAN GARNIER&CO, EQUITA, EXANE BNP PARIBAS, EY, GOLDMAN SACHS, INTERCORPORATE, J.P. MORGAN, KEPLER CHEUVREUX, MCKINSEY&COMPANY, MEDIOBANCA, MORGAN STANLEY, ORTELLI&CO., RBC CAPITAL MARKETS, SOCIÉTÉ GÉNÉRALE, VONTOBEL.

The study downgrades the luxury market **recovery forecast for 2022** slightly, while still predicting positive growth in all markets, despite the political and economic situation, with the Russia-Ukraine war, inflation, and the cost of raw materials and sourcing challenges likely to slow recovery.

MARKETS

The growth forecast for **Europe (+12%)** and the **United States (+10%)** has been upgraded, thanks to local consumption and the resumption of international tourism. Stable growth rates are predicted for **Latin America (+7%)** and **Japan (+7.5%). Asia (+5%)**, which drove the industry during the pandemic and in 2021, is being held back due to China's anti-Covid measures.

DISTRIBUTION CHANNELS

Digital retail (+11%) is normalizing after skyrocketing in the last two years, but brands are continuing to invest in this channel, consequently penalizing **digital wholesale (+9%). Physical retail (+9%)**, after two challenging years which saw many changes, is back in the game, with a more experiential vision of the bricks and mortar store. **Physical wholesale (+4%)** is being affected by the drop in tourism.

PRODUCT CATEGORIES

Organic growth is confirmed, as stores reopen and international travel resumes. Top performers are expected to be **jewelry (+9%), leather goods (9.5%) and footwear (+7.5%),** but **clothing (+7%)** should also do well: dressier attire is making a return as people go back to the office and start socializing again**. Cosmetics too (+7%).** Finally, after their recent boom, **watches (+6.5 %)** are slowing down.

The EBITDA of high-end companies is expected to rise by 9 percent.

Stefania Lazzaroni, Director General of Altagamma commented: *"According to the analysts who worked on the Altagamma Consensus, European and American consumers will lead the growth of the personal luxury market for 2022, offsetting the slower pace of Asia. We expect to see a steady rate of growth, albeit less impressive than previously forecast, due to* ***the normalization of the market and some new elements of uncertainty*** *(inflation, high energy prices and lack of raw materials), which are likely to have an impact in 2023 too. The rising dollar could favor European brands. The biggest question mark remains the performance of the Asian and Chinese markets – now 50% below the growth rate predicted in November – along with the outcome of the Russia-Ukraine conflict and upcoming possible lockdowns."*

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