THE FUTURE OF LUXURY:
A LOOK INTO TOMORROW TO UNDERSTAND TODAY

CLAUDIA D'ARPIZIO | FEDERICA LEVATO

ALTAGAMMA 2018 WORLDWIDE LUXURY MARKET MONITOR

BAIN & COMPANY
METHODOLOGICAL FOREWORD – SCOPE REVISION, TO FOCUS PERSONAL LUXURY GOODS MARKET ON CORE CATEGORIES

Personal luxury goods market | €B

- Market definition as per Bain luxury study 2017 (May-18)
- Excluding art-de-la-table (now included into High-Quality Design and Homeware) and other residual categories
- Restated new personal luxury goods market

€260B

-€6B

€254B

GLOBAL PERSONAL LUXURY GOODS MARKET RESTATEMENT

Note: (1) Personal luxury goods market includes Apparel, Accessories, Hard luxury and Beauty
GLOBAL LUXURY MARKETS: ~1.2T€, WITH 5% REAL-TERM GROWTH IN 2018

Global luxury goods markets | €B

@K: Growth at constant exchange rates

<table>
<thead>
<tr>
<th>Segment</th>
<th>2018</th>
<th>Growth '17-'18E</th>
<th>@K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Luxury Goods</td>
<td>€260B</td>
<td>2%</td>
<td>6%</td>
</tr>
<tr>
<td>Luxury Cars</td>
<td>€71B</td>
<td>1%</td>
<td>5%</td>
</tr>
<tr>
<td>Luxury Hospitality</td>
<td>€50B</td>
<td>-1%</td>
<td>5%</td>
</tr>
<tr>
<td>Fine Wines &amp; Spirits</td>
<td>€495B</td>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td>Gourmet Food &amp; Fine Dining</td>
<td>€41B</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>Fine Art</td>
<td>€41B</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>High Quality Design Furniture &amp; Homeware</td>
<td>€21B</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Private Jets &amp; Yachts</td>
<td>€2B</td>
<td>-7%</td>
<td>-3%</td>
</tr>
<tr>
<td>Luxury Cruises</td>
<td></td>
<td>3%</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Total 2018E</strong></td>
<td>€1,171B</td>
<td>+5%</td>
<td>@K</td>
</tr>
</tbody>
</table>
PERSONAL LUXURY GOODS MARKET OVERPERFORMING OTHER LUXURY SEGMENTS IN 2018

Global luxury market by category | %

- **Personal luxury goods** gaining traction in the last year
- **Intimate** and less “showy” experiences are expected to be more valued by consumers, in particular younger ones
- **Luxury Toys** and Out-of-home experiences keeping a positive trend, but slowing down vs. the past, approaching a maturation phase

@K: Growth at constant exchange rates

Note: At-home luxury includes Fine Art, High-quality design furniture & homeware, Fine Wines & Spirits and Gourmet Food; Out-of-home luxury includes Luxury hospitality, Cruises and Fine dining; Luxury Toys includes Luxury cars, Private Jets and Yachts

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• Positive (but softening) luxury cars market; Aspirational segment outperforming

• Lackluster trend for luxury yachts, despite surging interest among Chinese consumers

• Private jets market on the decline, hit by cannibalization from second-hand segment

• Recovery of public auctions boosting fine arts market, online penetrating higher price ranges

• Solid growth in real terms for high quality design furniture, sustained by living & bedroom and outdoor; direct channel thriving; ongoing consolidation trend

• Continuing positive momentum for Spirits, boosted by increasing demand for exclusive clubs and craft spirits

• Low single-digit growth for Wines

• Strong Food market; “ethical eating” paramount trend, with constant quest for transparency on food quality and origin

• Positive growth in real terms for luxury hotels; travel becoming a “state of mind” with hotel evolving into social venues in-sync with the city

• Booming demand for luxury cruises – best performing luxury market segment in 2018 in real terms, with expedition segment confirmed as star performer
PERSONAL LUXURY GOODS MARKET IN 2018 CONFIRMED THE “NEW NORMAL” STARTED IN 2017

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SOLID MID-TERM GROWTH TO 2025, DRIVEN BY POSITIVE FUNDAMENTALS, WITH SOME POSSIBLE BUMPS ALONG THE ROAD

Personal luxury goods market forecast | €B

SOLID MID-TERM MACRO FUNDAMENTALS
- Comforting mid-term macroeconomic outlook going forward, which will sustain a positive consumer confidence

BUMPY ROAD
- Possible bumps along the road (e.g. socio political issues, government commercial policies, possible short-term soft recessions,...) could make the path less smooth

@K: at constant exchange rates

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LUXURY IN 2025 WILL BE A DIFFERENT PLACE

1. MORE CHINESE-DRIVEN PURCHASES
   ...HAPPENING IN CHINA

2. E-COMMERCE, ONLINE, DIGITAL
   ...PERMEATING EVERY SINGLE PURCHASE

3. FOOTPRINT CONSOLIDATION
   ...RESHAPING THE STORE OF THE FUTURE

4. A YOUTHFUL MARKET
   ...DISRUPTING GROWTH PATHS

5. CULTURES AND (SUB)CULTURES
   ...TAKING OVER CONSUMPTION TRENDS

6. ONE MARKET
   ...SERVING MARKETS OF ONE

DIFFERENTLY PROFITABLE BRANDS
   ...NIMBLE IS THE NEW BLACK
Chinese customers will account for 45%+ of the market... and half of their luxury purchases will happen in their home country.
CHINA AND CHINESE CONSUMERS TO CONTINUE DRIVING THE INDUSTRY: LION’S SHARE IN 2025; MATURE MARKETS DECREASE THEIR RELEVANCE

Personal luxury goods market by geography | €B

<table>
<thead>
<tr>
<th>2017</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>€254B</td>
<td>€320-365B</td>
</tr>
<tr>
<td>RoW 5%</td>
<td>5%</td>
</tr>
<tr>
<td>Rest of Asia 14%</td>
<td>16%</td>
</tr>
<tr>
<td>M.China 8%</td>
<td>22%</td>
</tr>
<tr>
<td>Japan 8%</td>
<td>7%</td>
</tr>
<tr>
<td>Americas 32%</td>
<td>7%</td>
</tr>
<tr>
<td>Europe 33%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Note: RoW = Rest of the World

TREND 17-25E @K: At constant exchange rates

Personal luxury goods market by consumer nationality | €B

<table>
<thead>
<tr>
<th>2017</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>€254B</td>
<td>€320-365B</td>
</tr>
<tr>
<td>RoW 7%</td>
<td>6%</td>
</tr>
<tr>
<td>Other Asian 11%</td>
<td>10%</td>
</tr>
<tr>
<td>Chinese 32%</td>
<td>46%</td>
</tr>
<tr>
<td>Japanese 10%</td>
<td>8%</td>
</tr>
<tr>
<td>American 22%</td>
<td>17%</td>
</tr>
<tr>
<td>European 18%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Trend at constant exchange rate (increasing, decreasing, flat)
CHINA IS EXPECTED TO REMAIN THE MAIN GROWTH ENGINE OF THE LUXURY MARKET IN THE COMING YEARS

Personal luxury goods market by nationality and consumption location | €B

- **Chinese consumers continuing to grow their purchases:** both enthusiastic international shoppers and local consumers
  - **Chinese local consumption booming** and expected to grow rapidly going forward, due to healthier fundamentals
    - Lower price differentials
    - Improved customer experience and reach (safer to buy also online vs. the past)
    - Possibly reduced import taxes
    - Chinese government policies on boosting internal consumption (e.g. Daigou channel crack down)
POSITIVE GROWTH ACROSS THE BOARD IN 2018. CHINA AND CHINESE CONSUMERS LEADING THE GROWTH

### Personal luxury goods market by geography | €B

<table>
<thead>
<tr>
<th>Region</th>
<th>2017</th>
<th>2018</th>
<th>TREND 17-18E @K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>33%</td>
<td>32%</td>
<td>+1%</td>
</tr>
<tr>
<td>Americas</td>
<td>32%</td>
<td>31%</td>
<td>-1%</td>
</tr>
<tr>
<td>Japan</td>
<td>8%</td>
<td>8%</td>
<td>+3%</td>
</tr>
<tr>
<td>M. China</td>
<td>8%</td>
<td>9%</td>
<td>+18%</td>
</tr>
<tr>
<td>Rest of Asia</td>
<td>14%</td>
<td>15%</td>
<td>+7%</td>
</tr>
<tr>
<td>RoW</td>
<td>5%</td>
<td>5%</td>
<td>-6%</td>
</tr>
</tbody>
</table>

Note: RoW = Rest of the World

### Personal luxury goods market by consumer nationality | €B

<table>
<thead>
<tr>
<th>Region</th>
<th>2017</th>
<th>2018</th>
<th>TREND 17-18E @K</th>
</tr>
</thead>
<tbody>
<tr>
<td>European</td>
<td>18%</td>
<td>18%</td>
<td>+3%</td>
</tr>
<tr>
<td>American</td>
<td>22%</td>
<td>22%</td>
<td>+5%</td>
</tr>
<tr>
<td>Japanese</td>
<td>10%</td>
<td>10%</td>
<td>-1%</td>
</tr>
<tr>
<td>Other Asian</td>
<td>11%</td>
<td>11%</td>
<td>+7%</td>
</tr>
<tr>
<td>Chinese</td>
<td>32%</td>
<td>33%</td>
<td>+18%</td>
</tr>
</tbody>
</table>

Trend at constant exchange rate (increasing, decreasing, flat)
OVER THE LAST 3 YEARS, CHINESE SPENDING IN CHINA HAS CONTRIBUTED TWICE AS MUCH GROWTH AS CHINESE SPENDING ABROAD

Chinese spending growth contribution: Locally vs. abroad | €B

<table>
<thead>
<tr>
<th>Year</th>
<th>Spending Abroad</th>
<th>Local Spending</th>
<th>2018E</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>€76B</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>€85B</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Local Spending major drivers: Price-Volumes effects

- Price harmonization
- Global price evolution
- Product mix effect
- Currency effect
- New-to-market customers (Mid-class and Gen Z)
- Government import tax reduction

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EUROPE LAGGING BEHIND DUE TO STRONG CURRENCY; SOLID AMERICA (IN REAL TERMS); ASIA AND CHINA OUTPERFORMING

China
- Lion’s share of the growth
- Consumers valuing trendy products and tailored initiatives
- Online booming, supported by increased investments

Asia
- Good performance of HK and Macau, benefitting from Chinese purchases
- Dynamic S. Korea, with strong local consumption
- Brisk growth in other Asian countries (Singapore, Thailand & Taiwan)

Japan
- Soft local purchases, increasingly pushing brands to find new solutions to bring them back to stores
- Brands starting to rethink distribution model in light of increased touristic consumption

Europe
- Mildly positive local consumption, with mixed country performance
- Strong currency impacting tourist spending

Americas
- Boost of local purchases, driven by positive US economic cycle; yet brands are mindful of a possible short-term soft recession
- Strong dollar impacting Asian and Latam tourists
- Canada and Mexico strong; Brazil impacted by political uncertainties

RoW
- Negative Middle East due to low local consumer confidence, hit by government spending restriction

Note: RoW = Rest of the World
@K: Growth at constant exchange rates

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### AMERICAS AND ASIA ENJOYING ROBUST LOCAL DEMAND, WHILE EUROPE AND JAPAN CONTINUING ON A SOFT TREND

<table>
<thead>
<tr>
<th>2017-2018E Personal luxury goods market by consumers: local vs. tourists</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EUROPE</strong></td>
</tr>
<tr>
<td>↑</td>
</tr>
<tr>
<td><strong>LOCALS</strong></td>
</tr>
<tr>
<td><strong>MAIN DRIVERS</strong></td>
</tr>
<tr>
<td>• Strong Euro affecting tourists’ purchasing power</td>
</tr>
<tr>
<td>• US West Coast still “hot destination” for tourists, yet offset by drop of tourists elsewhere</td>
</tr>
</tbody>
</table>

**GROWTH TREND 17-18E**

<table>
<thead>
<tr>
<th><strong>17-18E GROWTH</strong></th>
<th><strong>LOCAL SPEND</strong></th>
<th><strong>TOURIST SPEND</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>+4%</td>
<td>+0%</td>
<td></td>
</tr>
</tbody>
</table>
STRONG EURO IMPACTING TOURIST SHOPPING, EXCEPT FOR FRANCE; AVERAGE TICKET INCREASE PARTIALLY OFFSETTING VOLUME REDUCTION

2017-2018E European personal luxury goods tax free shopping growth in local currencies

FRANCE: +2%
ITALY: -5%
SPAIN: -9%
UK: -10%
GERMANY: -13%

AVERAGE TICKET

TRANSACTIONS

NOTE: figures refer to Jan-Sep period
ONLINE CHANNEL WILL REPRESENT 25% OF THE MARKET VALUE.

100% OF LUXURY PURCHASES WILL BE INFLUENCED BY AN ONLINE INTERACTION
ONLINE FASTEST GROWING CHANNEL, CONTINUING ITS FULL INTEGRATION WITH PHYSICAL: FROM 10% IN 2018 TO 25% BY 2025

<table>
<thead>
<tr>
<th>Channel</th>
<th>2014</th>
<th>2017</th>
<th>2018E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airport 5%</td>
<td>€219B</td>
<td>€254B</td>
<td>€260B</td>
<td>€320-365B</td>
</tr>
<tr>
<td>Off-price stores 9%</td>
<td>6%</td>
<td>12%</td>
<td>6% +7%</td>
<td>7% ~</td>
</tr>
<tr>
<td>Dept stores 26%</td>
<td>21%</td>
<td>20%</td>
<td>22% -4%</td>
<td>13% ~</td>
</tr>
<tr>
<td>Specialty stores 24%</td>
<td>22%</td>
<td>22%</td>
<td>22% +1%</td>
<td>17% ~</td>
</tr>
<tr>
<td>Monobrand stores 32%</td>
<td>30%</td>
<td>29%</td>
<td>0% +0%</td>
<td>25% ~</td>
</tr>
</tbody>
</table>

### Personal luxury goods market by channel | €B

- **Online** accelerating and gaining share toward physical channel: ecosystem of business models, going beyond regional boundaries
- New technologies will further enrich shopping experience and connectivity: mobile and beyond
- Physical channels will re-shape their purpose and mission, focusing on the core elements of value: Airport retailing and Off-price to reach full-potential; more traditional channels downsizing and evolving their roles

Trend at constant exchange rate (increasing, decreasing, flat)
IN 2025 ONLINE WILL INFLUENCE EVERY SINGLE LUXURY PURCHASE AND DIGITAL WILL ENABLE ~50% OF THEM

<table>
<thead>
<tr>
<th>Online-INFLUENCED purchases in the luxury market</th>
<th>Digitally ENABLED purchases in the luxury market</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Diagram" /></td>
<td><img src="image" alt="Diagram" /></td>
</tr>
<tr>
<td>Continuous integration and convergence between e-commerce websites and digital content/marketing platforms:</td>
<td>Implementation of technologies throughout the entire value chain to support the digital enabling:</td>
</tr>
<tr>
<td>- Social media enhanced with E-commerce capabilities</td>
<td>- Virtual Reality</td>
</tr>
<tr>
<td>- E-commerce website enriched with editorial content</td>
<td>- Internet-of-Things</td>
</tr>
</tbody>
</table>

- ~50% 2025
- 70% 2018
- ~100% 2025
- 15-20% 2018
- ~50% 2025
### Personal luxury goods online market by key segment | €B

<table>
<thead>
<tr>
<th>Region</th>
<th>Category</th>
<th>Business Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia &amp; RoW</td>
<td>€27B</td>
<td>Brand.com 31%</td>
</tr>
<tr>
<td>Europe</td>
<td>€27B</td>
<td>E-tailers 39%</td>
</tr>
<tr>
<td>Americas</td>
<td>€27B</td>
<td>Retailer.com 30%</td>
</tr>
</tbody>
</table>

- **Asia** still the **main growth engine**, yet with **room to further grow** in some countries
- **Europe** with **positive** trend; **US** growing slower than other regions
- **Booming hard luxury**, enjoying the **initial focus** of specialized players on the channel
- **Accessories** and **beauty** confirming to be “ideal” categories for an online purchase (e.g. no fit issues)
- **Apparel lagging behind**, penalized by the category slowdown in the market
- **Brands** implementing dedicated strategies to take the channel at full potential through their own websites
- **E-tailers** continuously innovating their value proposition also leveraging **exclusive partnerships** with brands

**TREND 17-18E**

- ONLINE '13-'17 CAGR: 24%
- ONLINE '17-'18E YOY: 22%
DIGITAL PENETRATION WILL LEAD TO PHYSICAL DISRUPTION: NETWORK CONSOLIDATION. STORES WILL INEVITABLY CHANGE: FROM POINT OF SALES TO POINT OF TOUCH
MONOBRAND NET STORE OPENINGS IN CONTRACTION – DUE TO IN-STORE TRAFFIC DECLINE – RESHAPING THE ROLE OF PHYSICAL STORES

Fashion & Accessories same-store traffic declining in recent years…

Fashion & Accessories same store traffic YoY change | %

...impacting future luxury retail net store openings

Luxury retail net openings evolution (#DOS)

Source: ShopperTrak and Wells Fargo Securities

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DIGITAL PENETRATION WILL LEAD TO FOOTPRINT CONSOLIDATION WITHIN LUXURY INDUSTRY, AS ALREADY HAPPENED IN OTHER SEGMENTS

Real estate disruption index by internet penetration level

Source: Bain elaborations on Cushman & Wakefield data
Note: Real estate disruption measured along different dimensions (real estate vacancy rate, rent/sqm, store closings rate,...)
ROLE OF THE STORE TO INEVITABLY CHANGE: FROM POINT OF SALES TO POINT OF TOUCH, A 360° CHANGE IN THE APPROACH TO CUSTOMERS

<table>
<thead>
<tr>
<th>Strategic focus</th>
<th>TODAY</th>
<th>TOMORROW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regions</td>
<td></td>
<td>Cities</td>
</tr>
<tr>
<td>Siloes</td>
<td></td>
<td>Eco-system</td>
</tr>
<tr>
<td>Passively following the customer</td>
<td></td>
<td>Proactively intercepting the customer</td>
</tr>
<tr>
<td>By format</td>
<td></td>
<td>Curated</td>
</tr>
<tr>
<td>Regional P&amp;L vs. e-commerce P&amp;L</td>
<td></td>
<td>City P&amp;L integrating digital and physical</td>
</tr>
</tbody>
</table>

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IN 2018 SUSTAINED RETAIL PACE, DRIVEN BY ORGANIC GROWTH; WHOLESALE SLOWED DOWN DUE TO WEAK DEPT. STORES & SPECIALTY

Personal luxury goods growth by channel | %

**WHOLESALE**
- High-end department store under recovery, accessible segment struggling
- Specialty stores slowing down suffering from tough online competition

**RETAIL**
- Like-for-like performance driving 2/3 of retail channel growth
- Perimeter expansion sustained also by network buybacks in specific geographies

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale</td>
<td>63%</td>
<td>62%</td>
</tr>
<tr>
<td>Retail</td>
<td>37%</td>
<td>38%</td>
</tr>
<tr>
<td>L-f-L</td>
<td>38%</td>
<td>37%</td>
</tr>
<tr>
<td>Perimeter</td>
<td>62%</td>
<td>63%</td>
</tr>
</tbody>
</table>

XX% Incidence on total market

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NEW GENERATIONS WILL DELIVER ~130% OF THE MARKET GROWTH... WITH GEN Z SHOWING ORIGINAL TRAITS VS. GEN Y, TO BE PROPERLY ADDRESSED
Younger customers will represent ~55% of the market in 2025 and would deliver ~130% of total growth over the 2018-2025 period.

Personal luxury goods market by generation | €B

<table>
<thead>
<tr>
<th>Generation</th>
<th>2017</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baby boomers</td>
<td>€254B</td>
<td>€320-365B</td>
</tr>
<tr>
<td>Gen X</td>
<td>~45%</td>
<td>~45%</td>
</tr>
<tr>
<td>Gen Y 30%</td>
<td>~10%</td>
<td>~10%</td>
</tr>
</tbody>
</table>

Personal luxury goods market growth by generational contribution | €B

- Earlier Generations: ~ -30%
- Gen Y and Gen Z: ~ +130%
- Total Growth 17-25F: + €65-110B
GEN Z ALREADY SHOWING ORIGINAL TRAITS vs. MILLENNIALS, WITH LOCAL SPECIFICITIES EMERGING

- FLUID
- UBIQUITOUS
- UNIVERSAL
- SOCIAL
- NOMAD
- MINDFUL

INDIVIDUALISTS
- BACK IN THE STORE (BUT CONNECTED)
- LOGO-LOVERS (BUT NO BRAND LOYAL)
- LUXURY-ATTITUDE
- SOCIAL CONSUMERS
- CHINESE PRIDE

GEN Z

CHINESE GEN Z

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YOUNGER GENERATIONS DELIVERED THE ENTIRE MARKET GROWTH IN 2018; GEN Y WITH A LEADING ROLE; GEN Z READY TO TAKE OFF

- Younger generations are the key driver of "changes" in the industry, forcing brands to evolve and innovate across different dimensions (e.g. product offering, communications territories and media, ...)

<table>
<thead>
<tr>
<th>Personal luxury goods consumers by generation</th>
<th>€B</th>
<th>Personal luxury goods millions of consumers by generation</th>
<th>Contribution to total market growth of Gen Z and Gen Y (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baby boomers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gen X 38%</td>
<td>39%</td>
<td>26%</td>
<td>~100%</td>
</tr>
<tr>
<td>Gen Y 30%</td>
<td>31%</td>
<td>38%</td>
<td>~85%</td>
</tr>
<tr>
<td>Gen Z 2%</td>
<td>2%</td>
<td>6%</td>
<td>2017</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td>2017</td>
<td></td>
</tr>
<tr>
<td>2018E</td>
<td></td>
<td>2018E</td>
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2018

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CULTURES AND (SUB)CULTURES... TAKING OVER CONSUMPTION TRENDS

CULTURES/SUB-CULTURES AND NEW CONSUMPTION PATTERNS WILL ARISE...
CATEGORIES WILL BLEND: BRANDS MUST BE DYNAMIC AND RESPONSIVE TO ADAPT
CULTURES AND SUB-CULTURES ARE TAKING OVER THE CONSUMPTION

CULTURES WILL EAT (PRODUCT) STRATEGY FOR BREAKFAST

(Sub)cultures and ideas will become mainstream

FASHION 2025

Culturally inclusive models

New shapes embracing body diversity

(NEW) Channels fostering 2nd life of luxury
...CURRENTLY GENERATING MATERIAL RESULTS

CULTURES WILL EAT (PRODUCT) STRATEGY FOR BREAKFAST

(SUB)CULTURES AND IDEAS WILL BECOME MAINSTREAM

THE RISE OF FASHION M-MILLENNIALS

THE LIBERATION OF WOMEN AND DEMOCRATISATION OF SHAPES

~40%

SHARE OF MODEST «ACCEPTED» FASHION IN TOTAL WOMAN LUXURY READY-TO-WEAR

~20%

SHARE OF «INCLUSIVE» LUXURY APPAREL ON TOTAL WOMAN LUXURY READY-TO-WEAR

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LUXURY 2^ND-HAND MARKET SURGING SPECIALLY IN EUROPE, ONLINE AND HARD LUXURY; STRONG TRACTION AMONG YOUNGER GENERATIONS

**Personal luxury goods second-hand market | €B**

<table>
<thead>
<tr>
<th>By Product</th>
<th>By Channel</th>
<th>By Geography</th>
</tr>
</thead>
<tbody>
<tr>
<td>Watches &amp; Jewellery</td>
<td>Physical</td>
<td>Europe</td>
</tr>
<tr>
<td>~80%</td>
<td>~75%</td>
<td>~55%</td>
</tr>
<tr>
<td>Fashion &amp; accessories</td>
<td>Online</td>
<td>RoW</td>
</tr>
<tr>
<td>~20%</td>
<td>~25%</td>
<td>~20%</td>
</tr>
</tbody>
</table>

**CAGR ’15-18E**

9%

**PRODUCT**
- Hard luxury (watches mainly) & Accessories (bags)
- Strong presence of Limited editions & Iconic items

**CHANNELS**
- Still mainly physical (small local stores)
- Online fastest growing, boosted by emerging specialized platforms

**GEOGRAPHIES**
- Europe key geography, followed by US
- Dynamism in Japan, while China (still) marginally present

**GENERATIONS**
- Strong traction from younger generations, particularly “opinionated” millennials

**BENEFITS FOR LUXURY PLAYERS**
- New customers acquisition and brand awareness
- Sellers reinvesting their gains in new luxury purchases
SHOES AND JEWELRY CONFIRMED GROWTH DRIVERS IN 2018, FOLLOWED BY ACCESSORIES AND BEAUTY; APPAREL SUFFERING

**Shoes**
- Still on the rise, on the tailwind of the ongoing *casualization* trend

**Jewelry**
- Confirmed among top performing category, sustained by Asians and growing younger customers

**Bags**
- Confirmed brisk growth, sustained by entry and trendy items

**Beauty**
- Cosmetics driving growth, with make-up maintaining a positive growth, and *skincare* booming
- Beauty at the forefront of *high-tech innovation*
- *Indie brands* (skin care and make-up) on the rise thanks to new business models
- Flattish performance of *fragrances*

**Watches**
- Flat performance of watches, with mixed regional trends (lackluster Europe, more dynamic Asia)
- Women watches gaining share, mainly on jewel-watches

**Apparel**
- Womenswear positive growth offset by negative menswear performance (particularly from US & European giants)

**'18E vs '17**
- 7% growth

**€19B**
- **€18B**
- **€51B**
- **€56B**
- **€37B**
- **€60B**

-1%
GROWTH MODEL WILL OVERCOME CURRENT BOUNDARIES, SHAPING NEW COMPETITIVE MAPS. BRANDS WILL BECOME EXCELLENCE/IDEA PLATFORMS, ENLARGING THEIR RELEVANCE
BRANDS WILL CROSS-OVER TYPICAL COMPETITIVE BOUNDARIES, CONVERGING INTO ONE MARKET

2017 Global personal goods market: soft (apparel, shoes, leather goods, accessories) and hard (watches and jewelry)
THE GROWTH MODEL WILL EVOLVE LEADING TO THE RISE OF MONOGRAPHIC BRANDS AND ANTHOLOGICAL BRANDS…

MONOGRAPHIC BRANDS

EXTENSION

SPÉCIALISATION

SPECIALIST BRANDS

TODAY

LIFESTYLE BRAND

ANTHOLOGICAL BRANDS

TOMORROW
...DRIVEN BY A CONSOLIDATION OF THE POST-ASPIRATIONAL VALUE DRIVERS: THE REDISCOVERY OF EXCELLENCE AND THE GROWING POWER OF IDEAS

EXCELLENCE

EMOTIONS

IDEAS

EXPERTISE

MATERIALS

STATUS

AESTHETIC

EXPERIENCE

POINT OF VIEW
ALREADY CLEAR SIGNS OF THIS TRAJECTORY AS COMPANIES ARE RATHER DEFINED BY THEIR CORE COMPETENCES THAN THEIR CONTINGENT OFFER

FROM  

“IT BAG”
  
CORE OFFER
  
POSITIONING

TO  

“IT (***)”
  
CORE COMPETENCES
  
ONE MARKET
AS SIGN OF THIS ERA, THE TWO CENTRAL FUNCTIONS OF THIS INDUSTRY ARE CONVERGING, DESPITE IN CONSTANT TENSION
DIGITAL DISRUPTION CHANGING PROFILE AND NATURE OF OPEX AND CAPEX... NIMBLE APPROACH TO SUSTAIN MARGINS
DIGITAL DISRUPTION SHIFTING PROFILE AND NATURE OF EXPENDITURE ITEMS; PROFITABILITY LIKELY TO STABILIZE IN THE COMING YEARS

Evolution of EBIT of selected personal luxury goods brands | % of revenues

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2012</th>
<th>2016</th>
<th>2017</th>
<th>2018E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>18%</td>
<td>19%</td>
<td>20%</td>
<td>~20%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

WHAT COULD IMPACT PROFITABILITY GOING FORWARD?

- **Network consolidation** reducing “brick-and-mortar” investments, changing Capex into “rolling” maintenance needs

- **Increasing headquarter Capex** (e.g. systems, infrastructure, logistics…) to align toward omnichannel environment

- **Lower Opex** on physical retail network following consolidation (e.g. rents)

- **Higher Opex** on digital channel (e.g. digital marketing,…)

- **Slightly higher Central Opex** (e.g. brand/marketing/merchandising competences,…)

Impact on profitability (positive, negative, neutral)
LUXURY BRANDS WILL NEED TO ADOPT A MORE “NIMBLE” APPROACH IN ORDER TO SUSTAIN THIS PROFITABILITY LEVEL

A MORE “NIMBLE” APPROACH

“TEST & LEARN” PROCESS

- Manage processes and spending through a “micro battle” approach
- Testing for results to enable a “smart” spending and allocation of budget

CASH LIGHT

- Progressively switch to a demand-driven model, with faster lead times
- More efficiently manage inventory and logistics (e.g. Stock mutualization, Mega-City hubs,…)

“CIRCULAR” OPERATING MODEL

- Transition from a cascade operating model (from market insight, to design, to manufacturing,...) to a circular approach, based on real time data, impacting cross-functional learnings and improvements

INCREASED PERFORMANCES

INCREASED CASH GENERATION

INCREASED EFFICIENCY
### LUXURY IN 2025 WILL BE A DIFFERENT PLACE

| 1 | CHINESE CUSTOMERS WILL ACCOUNT FOR 45%+ OF THE MARKET…
| 2 | ONLINE CHANNEL WILL REPRESENT 25% OF THE MARKET VALUE
| 3 | DIGITAL PENETRATION WILL LEAD TO PHYSICAL DISRUPTION: NETWORK CONSOLIDATION
| 4 | NEW GENERATIONS WILL DELIVER ~130% OF THE MARKET GROWTH…
| 5 | CULTURES/SUB-CULTURES AND NEW CONSUMPTION PATTERNS WILL ARISE
| 6 | GROWTH MODEL WILL OVERCOME CURRENT BOUNDARIES, SHAPING NEW COMPETITIVE MAPS

1. **Chinese customers** will account for 45%+ of the market…

   …and half of their luxury purchases will happen in their home country.

2. **Online channel** will represent 25% of the market value.

   100% of luxury purchases will be influenced by an online interaction.

3. **Digital penetration** will lead to physical disruption: network consolidation.

   Stores will inevitably change: from point of sales to point of touch.

4. **New generations** will deliver ~130% of the market growth…

   …with Gen Z showing original traits vs. Gen Y, to be properly addressed.

5. **Cultures/sub-cultures** and new consumption patterns will arise.

   Categories will blend: brands must be dynamic and responsive to adapt.

6. **Growth model** will overcome current boundaries, shaping new competitive maps.

   Brands will become excellence/idea platforms, enlarging their relevance.

### Digital Disruption

**Changing profile and nature of OPEX and CAPEX…

…nimble approach to sustain margins**
<table>
<thead>
<tr>
<th>#</th>
<th>Topic</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>More Chinese-driven purchases... happening in China</td>
<td>Dynamic pricing and advanced merchandising strategy to overcome international differences and capitalize on consumption back in local borders.</td>
</tr>
<tr>
<td>2</td>
<td>E-commerce, online, digital... permeating every single purchase</td>
<td>Optimization of shopping experience (e.g. haptic feedback) overcoming digital barriers and fully integrating physical and digital channels.</td>
</tr>
<tr>
<td>3</td>
<td>Footprint consolidation... reshaping the store of the future</td>
<td>Big data and advanced analytics to drive retail excellence – tracking consumers in a purely omnichannel setting; augmented reality to provide them with a tailored experience.</td>
</tr>
<tr>
<td>4</td>
<td>A youthful market... disrupting growth paths</td>
<td>CRM and CXM to be taken to the next level: big data, affective tech and emotional advertising to customize customer experience by taste, touchpoint preferences and emotional specificities.</td>
</tr>
<tr>
<td>5</td>
<td>Cultures and (sub)cultures... taking over consumption trends</td>
<td>“Smart and agile” processes responsive in capturing emerging cultures and sub-cultures and timely adapting value propositions accordingly.</td>
</tr>
<tr>
<td>6</td>
<td>One market... serving markets of one</td>
<td>Extreme personalization technologies (e.g. 3D printing) together with online customization and fitting to deliver unique products, result of a co-creation with consumers.</td>
</tr>
<tr>
<td>7</td>
<td>Differently profitable brands... nimble is the new black</td>
<td>Predictive advanced analytics and robotic process automation to optimize cost structure, supply chain and inventory, increasing performance and efficiency.</td>
</tr>
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AS WE LOOK AHEAD: 3 STRATEGY MANTRAS AND 1 FUNDAMENTAL ENABLER TO BEAR IN MIND

**BE PROACTIVE...**
- Win by developing *dedicated* and *proactive strategies* for customers

**DISTINCTIVE...**
- Stand-out by designing a *“unique” winning formula* shaped around consumer needs

**NEXT GEN MINDED...**
- Focus effort and strategy on *winning younger generations* as key engine of future market growth

**AND NEW TECH ENABLED**
- Leverage *new advanced technologies* as fundamental enabler of the strategy

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**Personal luxury goods market forecast | €B**

- **€320-365B**
- **+3/5% 18E-25F CAGR**
- **+2% YoY**
- **+6% @k**

**€254B** - **€260B** - **2017** - **2018E** - **2025F**

@K: Growth at constant exchange rates

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PEOPLE PASSION RESULTS!
Claudia D’Arpizio, Partner
Bain & Company Luxury goods vertical

Claudia has spent 24 years advising multinational luxury and fashion clients on everything from strategy and new product development to innovation and organizational change. She is the lead author of the Bain Luxury Study, one of the most cited sources of market information in the luxury industry. In 2009, Claudia was also recognized as one of the ‘Top 25 Consultants in the World’ by Consulting Magazine.

Federica Levato, Partner
Bain & Company Luxury goods vertical

Over the last 14 years, Federica has led more than 200 assignments in the fashion and luxury industry on issues relating to corporate and brand strategy, portfolio management, merchandising, retail and wholesale excellence, digital acceleration, millennial strategies, marketing and communication, and more.

Alongside Claudia D’Arpizio, Federica is the co-author of the Bain Luxury Study, one of the most cited sources of market information in the luxury industry.
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METHODOLOGY OF THE STUDY

Revenues at retail equivalent value

- Revenues at retail value represent total sales valued at retail price.
- Each player consolidated sales are retailized through the following methodology:

\[
\text{Player Consolidated Sales} = \text{Retail} + \text{Wholesale} + \text{Licenses}
\]

Bottom-up and top-down estimates

Bottom-up

- We add brands individual retail values...

Top-down

- Industry-specific (e.g. watches vs. beauty) data in the main geographical markets
- Comparison between market breakdown and turnover breakdown for key players
- Tens of industry experts interviews (top management of brands, distributors, department stores, …)
- Consistency check on the data and fine tuning

...we cross check results
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