BAIN-ALTAGAMMA 2020
WORLDWIDE LUXURY MARKET MONITOR

SLOW MOTION BUT FAST FORWARD

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18 NOVEMBER 2020

BAIN & COMPANY
Foreword on content and sources

Content of this document

- This document contains an update on the global luxury goods markets, in particular:
  - An insight on the performance of the market for the first three quarters of 2020 with expectations for the last quarter
  - Estimates for how the luxury market will evolve beyond 2020, with related macro-trends emerging
  - Bain point of view for how luxury players can face the current situation and succeed in the recovery during the coming years

Sources for this document

- The insights are based on Bain’s triangulation of information and sources, available as of November 12, 2020, including:
  - Data regarding the outbreak of Covid-19 and consequential lockdown across countries
  - Macroeconomic data (e.g., GDP, consumer confidence index, airflow traffic…) and their latest forecasts
  - Current trading performance from relevant luxury industry players
  - Annual reports, quarterly results and analyst reports
  - Consensus of 100+ expert interviews

- The scenarios do not consider disruptive changes in Covid-19 status quo beyond 2020 (e.g., other global waves of Covid-19 or the sudden introduction of a vaccine)
The “new normal” trajectory of the personal luxury goods market was interrupted by the rude awakening of 2020, leading to the first decrease in more than 10 years.
2020: Timeline of a pandemic (and beyond)

First cases of Covid-19
December 2019–present
Subsequent spread throughout the year

Stock market crash
March 2020–present
Worst single-day point drop ever for Dow Jones on March 9

Beirut explosion
August 4, 2020
Leading to uprising rebellion

Second wave of Covid-19 in Europe
October 2020–present
Leading to second lockdowns in France, Switzerland, UK and Italy

Persistent social tensions related to US election year
January 2020–December 2020

Note: (*) including Japan and South Korea did not adopt a full lockdown but several guidelines / restrictions | Source: Press Search
After Q2, the worst quarter ever for luxury market, and good signs of recovery in Q3, uncertainty is still the keyword for holiday season.

## Personal luxury goods market evolution per quarter 2020E (% | 2019 vs. 2020E QoQ)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>QoQ growth '19-'20E</td>
<td>~-22%</td>
<td>~-50%</td>
<td>~-12%</td>
<td>MOST LIKELY CASE: ~-23%</td>
</tr>
<tr>
<td>Best</td>
<td>~-5%</td>
<td>~-10%</td>
<td>-20%</td>
<td>-21%</td>
</tr>
<tr>
<td>Worst</td>
<td>-21%</td>
<td>-25%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

• Market performance in Q4 expected at different pace
  – China at full speed, while Asia in recovery
  – Americas sluggish (though on the right track), while Europe still struggling

• Variation in Q4 performance driven by:
  – Performance during holiday season
  – Evolution of Covid-19 and associated additional restrictions/lockdowns (especially in Europe/Americas)
  – Possible additional socio-economic tensions (e.g., post-US elections, for government measures in Europe...)
  – Macroeconomic evolution

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# 2021: The year of (partial) recovery

## Beyond 2020

<table>
<thead>
<tr>
<th>Fast recovery</th>
<th>Paced recovery</th>
<th>Slower come-back</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Macro-economics</strong></td>
<td><strong>Local customers</strong></td>
<td><strong>Tourists</strong></td>
</tr>
<tr>
<td>• Positive recovery of macroeconomic fundamentals (e.g., GDP) according to latest estimates available, differentiated by area</td>
<td>• Full recovery of lost sales in 2020 due to store closures across all regions</td>
<td>• Half of 2019 tourist spend is back</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Lower repatriation of spend in Asia (especially China)</td>
</tr>
<tr>
<td></td>
<td>• APAC, led by China, with highest real GDP growth</td>
<td>• Only 30-45% of 2019 tourist spend is back</td>
</tr>
<tr>
<td></td>
<td>• EMEA bouncing back with a higher growth rate (but hit harder in 2020) vs. North America</td>
<td>- Higher repatriation of spend in Asia (especially China)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Only 25-40% of 2019 tourist spend is back</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Higher repatriation of spend in Asia (especially China)</td>
</tr>
</tbody>
</table>

### YoY ‘20E–’21F

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+17/+19%</td>
<td>91-92</td>
</tr>
<tr>
<td></td>
<td>+13/+15%</td>
<td>87-89</td>
</tr>
<tr>
<td></td>
<td>+10/+12%</td>
<td>85-87</td>
</tr>
</tbody>
</table>

### 2021F market (indexed 2019=100)

91-92

87-89

85-87

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Top-line drop impacts **profits** more than proportionally: nearly **60% reduction vs. 2019**, of which potentially **50% to be recovered in 2021**

### Evolution of EBIT of personal luxury goods market (indexed 2019=100 | 2019–2021F)

<table>
<thead>
<tr>
<th>Year</th>
<th>EBIT (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>~21%</td>
</tr>
<tr>
<td>2020E</td>
<td>~12%</td>
</tr>
<tr>
<td>2021F</td>
<td>16-18%</td>
</tr>
</tbody>
</table>

**-60%** of 2019 €M profit loss in 2020

**+50%** of €M profit

### 2020 spending direction per key cost bucket

- **Marketing Expenses**: Continued investments with a **spending shift** (more digital and clienteling)
- **Retail OpEx**: Optimization of expenses (i.e., rent negotiations, flexibilization of personnel) **not proportional** to sales drop
- **Digital OpEx & CapEx**: Investments in **systems for remote/virtual selling**, new websites and additional logistics costs
- **CapEx (B&M and HQ)**: Store **openings blocked** (when possible), **nonstrategic investments** postponed

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**B E Y O N D  2 0 2 0**

**BASE CASE 2020/2021**
#Throwback to 2019 depends on numerous market drivers and is likely to occur between end of 2022 and 1H2023

**Personal luxury goods market (€B | 2019–2023F)**

<table>
<thead>
<tr>
<th>2019</th>
<th>2020E</th>
<th>2021F</th>
<th>2022F</th>
<th>2023F</th>
</tr>
</thead>
<tbody>
<tr>
<td>281</td>
<td></td>
<td></td>
<td>260-290</td>
<td>280-320</td>
</tr>
<tr>
<td>217</td>
<td></td>
<td>240-260</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Recovery** of the market to pre-Covid-19 levels will likely happen **between 2022 and 2023**, depending on:
  - **Real economy** trends
  - **Consumer confidence** in response to the sanitary crisis, recession, socio-political turmoil
  - **Tourism** flows

Luxury brands’ **ability to win** will be correlated to their capability of foreseeing customer needs in a timely manner and thus retooling their **value proposition**, route-to-market and business model.

Q: When do you expect revenues to recover to the same level as 2019?

<table>
<thead>
<tr>
<th>10%</th>
<th>70%</th>
<th>20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>By Q4 2021</td>
<td>H2 2022 / H1 2023</td>
<td>By Q4 2023</td>
</tr>
</tbody>
</table>

Source: Consensus of 100+ luxury executives

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Even though times are troubled, the luxury market will flourish again as companies take a front seat in transforming the industry on behalf of the customer.

**Beyond 2020**

**Personal luxury goods market evolution (€B | 2019–2025F)**

<table>
<thead>
<tr>
<th>Year</th>
<th>CAGR '19–'25F</th>
<th>CAGR '20E–'25F</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>+3/ +4%</td>
<td>~10%</td>
</tr>
<tr>
<td>2020E</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021F</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2025F</td>
<td>330-370</td>
<td></td>
</tr>
</tbody>
</table>

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Covid-19, despite hitting the brakes on the market, has fast-forwarded important dynamics which are reshaping this industry.
Covid-19, **despite hitting the brakes** on the market, **has fast-forwarded important dynamics** which are reshaping this industry.

**LOCAL CUSTOMERS EVERYWHERE**

With quasi-frozen touristic flows in 2020, the burden of future short-/mid-term growth will be on local customers: Chinese in China, Europeans in Europe and Americans in America.

**GENERATIONAL SHIFT**

Accelerated shift of spending power from parents to children: younger customers more resilient during 2020. GenZ increasingly positioning itself as the “new” luxury customers: promoting new cultures/subcultures, first to be back to stores, driving the rebound.

**DIGITAL BLAST**

Online channel **skyrocketing** in 2020, growing at a pace equivalent to **five years of growth** in a single year. Magnification to continue up to **2025**, when online reaches 1/3 of total market value, leveraging a truly omnichannel environment.

In 2020, **high-low** performing categories: shoes, accessories and jewelry performing better than market, while watches and apparel hit the hardest; **entry prices** increasingly relevant; rules of the game and business models rapidly changing accessible luxury as we knew it. Current crisis accelerated shift in brand’s role: from producers to broadcasters.

**DISTRIBUTION ECOSYSTEM TRANSFORMATION**

2020 drastically hit the **Brick and mortar** channels (-21% in retail; -40% in wholesale), accelerating the shifting of the distribution ecosystem. **DOS** network to be reengineered around customers (new role, footprint, experiential content and ergonomics). Within wholesale, the contraction in perimeter, the polarization in performance and the fiercer competition will lead luxury brands to increase control over the channel.

**“SAME” PRODUCT AUGMENTED CONTENT LARGE BROADCASTING**

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**China vs. Europe**, flip sides of the same coin

**Americas** showing faster-than-expected recovery given the complex year

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**M. China**
- Roaring local consumption across channels, categories, price points and generations
- Travel retail with a resounding echo thanks to Hainan

\[+45\%\]

\[@K:\] +48\%

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**RoW**
- Middle East less impacted thanks to shorter lockdown and repatriation of Middle Eastern spending, yet with contrasting trends among countries (UAE most impacted)
- Australia contracted earlier due to wildfires, then worsened by decline in tourism

\[\text{2020E vs. '19 (%)}\]
-20\%  
-21\%  
-24\%  
-26\%

**Japan**
- Japanese customers withholding from spend during crisis
- Polarized performance among brands and products, with higher resilience for those deemed timeless and seen as long-term investment

**Americas**
- Despite lockdown and political uncertainty, good signs of restart in Q3 thanks to stimulus
- Consumption moved from city centers to unusual destinations: new luxury map in US?
- Department stores at point of no comeback
- Brazil showing good resilience

**Asia**
- Hong Kong and Macau worst performers globally
- South Korea showing good resilience and big appetite for luxury consumption, yet slumping duty-free market
- Southeast Asia: small and developing local customer base not offsetting tourist collapse

**Europe**
- Frozen in Q2 (worst performing region): zero tourism, lockdowns and low consumer confidence
- Local consumption moving to wealthy areas and online (biggest shift globally)
- Russia best performing country (yet small local consumption)

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

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**China**: The best performing country, the most affected customer (not travelling)

**Europe**: The most affected region, the best performing customer (locally)

### Local Customers Everywhere

Personal luxury goods market by country and nationality (% | 2019-2020E)

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>Chinese customers</th>
<th>Europe</th>
<th>European customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinals</td>
<td>+45%</td>
<td>-30/-35%</td>
<td>-36%</td>
<td>-10/-15%</td>
</tr>
</tbody>
</table>

**China**
- Outstanding local market rebound, constantly accelerating week after week

**Chinese Customers**
- Deepest tourist consumption drop (-70%+), far from fully recovered based on local consumption

**Europe**
- Tourism halt (international and intra-regional) drastically driving down region performance

**European Customers**
- The most resilient customer (together with Americans) despite physical (and psychological) brakes throughout the year

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2020 boosted **China’s path toward biggest market by 2025**; Chinese consumers will make up close to 50% of luxury purchases globally.

### Personal luxury goods market by consumer nationality (€B | 2019–2025F)

<table>
<thead>
<tr>
<th>Nationality</th>
<th>2019</th>
<th>2020E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese</td>
<td>33%</td>
<td>27-29%</td>
<td>46-48%</td>
</tr>
<tr>
<td>Other Asian</td>
<td>13%</td>
<td>11-13%</td>
<td></td>
</tr>
<tr>
<td>Japanese</td>
<td>10%</td>
<td>7-9%</td>
<td></td>
</tr>
<tr>
<td>American</td>
<td>22%</td>
<td>16-18%</td>
<td></td>
</tr>
<tr>
<td>European</td>
<td>17%</td>
<td>12-14%</td>
<td></td>
</tr>
<tr>
<td>RoW 6%</td>
<td>6%</td>
<td>5-7%</td>
<td>3-5%</td>
</tr>
</tbody>
</table>

### Personal luxury goods market by region (€B | 2019–2025F)

<table>
<thead>
<tr>
<th>Region</th>
<th>2019</th>
<th>2020E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>China 11%</td>
<td>20%</td>
<td></td>
<td>26-28%</td>
</tr>
<tr>
<td>Rest of Asia 15%</td>
<td>13%</td>
<td></td>
<td>15-17%</td>
</tr>
<tr>
<td>Japan 9%</td>
<td>8%</td>
<td>28%</td>
<td>7-9%</td>
</tr>
<tr>
<td>Americas 30%</td>
<td></td>
<td>26%</td>
<td>22-24%</td>
</tr>
<tr>
<td>Europe 31%</td>
<td></td>
<td></td>
<td>22-24%</td>
</tr>
</tbody>
</table>

Note: RoW = Rest of the World
The luxury market, traditionally tourist-driven, will consolidate its **local nature globally in the coming years**

**Personal luxury goods market – Local vs. tourist (€B | 2019–2025F)**

- **Covid-19 crisis** has forced luxury spending to shift from *“when travelling”* to *“at home”*
- **By 2025**, despite a progressive **recovery** in tourism, **domestic purchases** will gain higher relevance vs. precrisis levels
  - **Repatriation** of spending will occur primarily **in Asia** (China first) vs. more mature countries, increasingly moving the **barycenter** of the luxury market from **West to East**

<table>
<thead>
<tr>
<th>Year</th>
<th>Tourist</th>
<th>Local</th>
<th>Total</th>
<th>Repatriation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>~50%</td>
<td>~50%</td>
<td>~40%</td>
<td>245</td>
</tr>
<tr>
<td>2019</td>
<td>~60%</td>
<td>~40%</td>
<td>~60%</td>
<td>281</td>
</tr>
<tr>
<td>2020E</td>
<td>15-20%</td>
<td>80-85%</td>
<td>65-70%</td>
<td>217</td>
</tr>
<tr>
<td>2025F</td>
<td>30-35%</td>
<td>65-70%</td>
<td>330-370</td>
<td></td>
</tr>
</tbody>
</table>
During 2020, GenZ increasingly emerging through distinctive traits and habits, setting their relevance as luxury consumers

**GENERATIONAL SHIFT**

**PROMOTING CULTURES & SUBCULTURES**

In 2020 younger generations strongly contributed to the rising importance of new cultures and subcultures, creating new «personae» complementing the traditional luxury consumers.

**DRIVING THE REBOUND**

GenZ showed resilience and overindulgence toward luxury purchases during/after Covid-19 crisis, through both online and physical channels, being the first to reenter the stores after the lockdowns.

**DIVERSELY PURCHASING**

GenZ luxury purchases showed different attitudes in terms of spending according to geographies: focus on entry creative offer in Europe and US, with spread from entry-to-top in China.
Generational shift accelerated in 2020: GenZ and GenY will contribute 180% of market growth up to 2025, making up ~2/3 of the market.

### Personal luxury goods market by generation (€B | 2019-2025F)

<table>
<thead>
<tr>
<th>Generation</th>
<th>2019</th>
<th>2020E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>S.Gen Baby Boomers</td>
<td>281</td>
<td>217</td>
<td>330-370</td>
</tr>
<tr>
<td>GenX 30%</td>
<td>27%</td>
<td></td>
<td>45-50%</td>
</tr>
<tr>
<td>GenY 36%</td>
<td>44%</td>
<td></td>
<td>&gt;20%</td>
</tr>
<tr>
<td>GenZ 8%</td>
<td>13%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Effect of 2020** strongly accelerated growth of GenZ with earlier onset of wealth shift.
- **GenY expansion path** also dynamized by the effects of 2020, accounting for nearly half of the market in 2025.
- **GenX** showing lower resilience to the ecosystem transformation, being directly hit by socioeconomic uncertainties in Europe and US.
- **Baby Boomers**, an ageing population still holding a significant portion of wealth, will account for a smaller share of the market.

Online luxury doubled its weight in the total market in 2020, a skyrocketing performance worth five years of growth; clear road to 2025

**DIGITAL BLAST**

Evolution of the online personal luxury goods market (€B | 2015–2025F)

What happened in 2020:

- “Brand.com” flourishing (+80% growth vs. 2019) as brands increase investments
- Asia (China) with the steepest growth (~1.5x the average 2020 online market growth), although Europe & Americas also shook up
- Stellar performance for accessories (shoes) and beauty (mainly skin care) increasing by ~60%
  - Digital is cracked for the first time for most players/categories (including hard luxury)
All brick-and-mortar channels dramatically hit in 2020, leading to a distribution eco-system transformation

**DISTRIBUTION ECOSYSTEM TRANSFORMATION**

Personal luxury goods market by channel | (2019–2025F | €B)

<table>
<thead>
<tr>
<th>2019</th>
<th>2020E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>281</td>
<td>7%</td>
<td>217</td>
</tr>
<tr>
<td>18%</td>
<td>14%</td>
<td>13-15%</td>
</tr>
<tr>
<td>20%</td>
<td>16%</td>
<td>27-29%</td>
</tr>
<tr>
<td>13%</td>
<td>14%</td>
<td>&gt;30%</td>
</tr>
<tr>
<td>31%</td>
<td>31%</td>
<td>5-7%</td>
</tr>
<tr>
<td>12%</td>
<td>23%</td>
<td>9-11%</td>
</tr>
</tbody>
</table>

**2020 ...**

- **Monobrand stores & outlets** suffered due to closures
- **Department stores** and **specialty stores**: survival of the fittest
  - European department stores also deteriorated due to lack of tourism
- **Travel retail** heavily impacted from world travel freeze

**... and beyond**

- **Online** to become #1 channel, fueling omnichannel transformation
- **Outlet** weight increase given value-driven purchases and spur from Chinese middle class
- **Monobrand stores** to be reinvented as a g-local touchpoint with a new role of the store
  - Physical networks disruption (i.e. resized footprint & format)
  - Integration of digital in the physical
- **Department** and **specialty stores** losing relevance (and surface) in ecosystems
  - Winners vs. losers game: sharp opinion, new calendar and updated business model key to thrive
- **Travel retail** expected to recover to historical levels
Retail networks will need to be **redesigned around customers**: store role, global and local footprint, experiential customer experience and ergonomics

### DOS weight on total market* (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2020E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>41%</td>
<td>48%</td>
<td>55-60%</td>
<td></td>
</tr>
</tbody>
</table>

-21% Y-o-Y growth

### DOS yearly net openings (#)

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019E</th>
<th>2020F</th>
<th>2021 and beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td>~350</td>
<td>~200</td>
<td></td>
<td></td>
<td>Almost flat</td>
</tr>
</tbody>
</table>

**Evolve the role**

One size DOES NOT fit all: evolve role of the store according to specific **business objectives** and **target customers**

From BOUTIQUES to CUSTOMER-TAILORED SPACES

**Rethink the ergonomics**

Rethink **store spaces** to power the interaction with customers based on their **individual needs** (virtual sales rooms, VIP lounge, storage/logistic spaces,…)

From DISPLAY SPACE to RIGHT-SIZED SPACE

**Adjust the footprint**

Revise the footprint to intercept wealth **ruralization trends** and changing **shopping habits** (intimate at-home shopping)

From MEGACITY to WEALTHY SUBURBS and “MY PLACE”

**Maximize the experience**

Redesign the customer journey to **satisfy, stupefy, engage** them, leveraging operational **digital excellence** and upgraded **sales plays**

From TRANSACTION to EMOTION

**Note:** (*) Excluding online. DOS = Directly Operated Stores.
Wholesale channel faces opposing forces: perimeter and relevance contraction, performance polarization, entry of new players, increased control from brands

**DISTRIBUTION ECOSYSTEM TRANSFORMATION**

**WHOLESALE**

**Physical wholesale on total market** (%)

- **2019**: 59%
- **2020E**: 52%
- **2025F**: 40-45%

**Contraction**
- Reduction of physical footprint
- Digital accelerating and eliminating the need of proximity

**Polarization**
- Wholesale polarization with clear winners and losers
  - Among channels (dept. store and specialty vs. e-tailers)
  - Within channels (“champions” vs. “mid-tail”)

**New entrants & new models**
- New “disruptors” and accelerating champions
- Old players converting to new models (e.g., B2B, “scale franchisee”)

**Brands increasing control**
- Stepping in to preserve key doors
- Brand increasing their level of control and integrations across channels with different degrees of intervention

Note: (*) Excluding online
High-low performing categories in 2020: from Shoes and Accessories to Jewelry; Watches and Apparel the hardest hit ones, still showing a good resilience

**Shoes**
- Decrease in shoes purchases mainly in terms of **formal/classic offer**, while **casual** (including sports/functional items) and **sneakers** experienced a smaller contraction, **driving the rebound in H2**

**Jewelry**
- Relatively lower decrease vs. market thanks to **sustained growth** in APAC (mainly China) and acceleration in **online**
- High-low relevance across nationalities and generations: **high jewelry** and **iconic entry prices** leading the recovery

**Leather**
- Despite negative performance, **rebound driven** by both **entry items** (supported also by e-commerce) and **icons**, key "destination" products for high-spending consumers (particularly in Asia)

**Beauty**
- Strongly affected by the **shutdown** of dedicated physical distribution and **travel retail**; online (and APAC) only "lung" growth
- Cosmetics (and skin care in particular) relatively over-performing vs. fragrances

**Apparel**
- **Formal** taking a strong hit, while **streetwear/athleisure** have a better “surviving” mechanism thanks to more time “at home” and **online channel boost**
- Strong competition from DTC brands with values
- Aligned decline men vs. women, despite different trends by region

**Watches**
- Covid-19 crisis worsening the already critical secular consumption pattern shifts from the category
- Poor performance mitigated by sound resilience of online, China and most iconic brands/models

€19B -> -12%
€18B -> -15%
€47B -> -18%
€48B -> -20%
€45B -> -30%
€27B -> -30%

'20E vs. '19

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Entry-prices get the lion’s share in 2020: In the pricing relevance quest, rules of the game and business models are rapidly changing accessible luxury as we knew it.

Entry prices across brands and products accounting for 50%+ of 2020 market (volumes)
2020 was a disruption (and acceleration) into an ongoing change, transforming the role of luxury brands from producers to broadcasters

“SAME” PRODUCT, AUGMENTED CONTENT, LARGE BROADCASTING

Traditional product-centric role of luxury brands

Evolved and augmented role of luxury brands (accelerated by Covid-19)

<table>
<thead>
<tr>
<th>Brand as a producer</th>
<th>Brand as a broadcaster</th>
</tr>
</thead>
<tbody>
<tr>
<td>All levers serving product</td>
<td>All levers (including product) serving interaction</td>
</tr>
<tr>
<td>The brand speaking <em>(my content, my rules)</em></td>
<td>The brand curating <em>(own and third-party content)</em></td>
</tr>
<tr>
<td>Raised podium <em>(listen to me)</em></td>
<td>Open platform <em>(anybody can pitch in)</em></td>
</tr>
</tbody>
</table>
Confirmed growth drivers to reach €330–€370 billion in 2025: Chinese consumers (in China), online channel and younger generations

### Personal luxury goods market main breakdowns (€B | 2019-2025F)

#### Nationality
<table>
<thead>
<tr>
<th>Nationality</th>
<th>2019</th>
<th>2020E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>RoW 6%</td>
<td>281</td>
<td>217</td>
<td>330-370</td>
</tr>
<tr>
<td>RoAsians 13%</td>
<td>17-19%</td>
<td>24-26%</td>
<td>46-48%</td>
</tr>
<tr>
<td>Japanese 10%</td>
<td>12-14%</td>
<td>16-18%</td>
<td></td>
</tr>
<tr>
<td>Europeans 17%</td>
<td>11-13%</td>
<td>13-15%</td>
<td></td>
</tr>
<tr>
<td>Americans 22%</td>
<td>13-15%</td>
<td>13-15%</td>
<td></td>
</tr>
</tbody>
</table>

#### Region
<table>
<thead>
<tr>
<th>Region</th>
<th>2019</th>
<th>2020E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>RoW 4%</td>
<td>281</td>
<td>217</td>
<td>330-370</td>
</tr>
<tr>
<td>Japan 9%</td>
<td>11-13%</td>
<td>6-8%</td>
<td>12-14%</td>
</tr>
<tr>
<td>China 11%</td>
<td>20%</td>
<td>26-28%</td>
<td></td>
</tr>
<tr>
<td>RoAsia 15%</td>
<td>13%</td>
<td>15-17%</td>
<td></td>
</tr>
<tr>
<td>Americas 30%</td>
<td>28%</td>
<td>22-24%</td>
<td></td>
</tr>
<tr>
<td>Europe 31%</td>
<td>26%</td>
<td>22-24%</td>
<td></td>
</tr>
</tbody>
</table>

#### Channel
<table>
<thead>
<tr>
<th>Channel</th>
<th>2019</th>
<th>2020E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online 12%</td>
<td>281</td>
<td>217</td>
<td>330-370</td>
</tr>
<tr>
<td>B&amp;M 88%</td>
<td>217</td>
<td>77%</td>
<td>~70%</td>
</tr>
<tr>
<td>~70%</td>
<td>330-370</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Generation
<table>
<thead>
<tr>
<th>Generation</th>
<th>2019</th>
<th>2020E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>S.Gen</td>
<td>281</td>
<td>217</td>
<td>330-370</td>
</tr>
<tr>
<td>Baby Boomers</td>
<td>45-50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GenX 30%</td>
<td>44%</td>
<td>13%</td>
<td>&gt;20%</td>
</tr>
<tr>
<td>GenY 36%</td>
<td>44%</td>
<td>13%</td>
<td>&gt;20%</td>
</tr>
<tr>
<td>GenZ 8%</td>
<td>13%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Back to the broader perspective, **global luxury markets** contracting to ~€1T, with -20/-22% decrease vs. 2019

**GLOBAL LUXURY MARKETS**

Overall luxury market, globally (2020E | €B)

<table>
<thead>
<tr>
<th>Year-over-year (YoY) growth, 2019-2020E</th>
<th>Personal Luxury Goods</th>
<th>Luxury Cars</th>
<th>Luxury Hospitality</th>
<th>Fine Wines &amp; Spirits</th>
<th>Gourmet Food &amp; Fine Dining</th>
<th>High-Quality Design Furniture &amp; Homeware</th>
<th>Fine Art</th>
<th>Private Jets &amp; Yachts</th>
<th>Luxury Cruises</th>
<th>Total 2020E</th>
</tr>
</thead>
<tbody>
<tr>
<td>At current exchange rates</td>
<td>-21/-25%</td>
<td>-8/-10%</td>
<td>-55/-65%</td>
<td>-10/-13%</td>
<td>-15/-17%</td>
<td>-10/-12%</td>
<td>-35/-40%</td>
<td>-10/-12%</td>
<td>-65/-75%</td>
<td>~1.000</td>
</tr>
</tbody>
</table>

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CARS, YACHTS, JETS

- Luxury cars showing nuanced performance across brands, with acceleration in the transition to green-powered trains
- Luxury yachts sustained by customers’ willingness to secure “intimate” luxury experiences for upcoming years
- Private jets expected to rebound faster than previous crisis in order to avoid commercial travel

FINE ART & DESIGN FURNITURE

- Fine art suffering from supply shrinkage in light of global uncertainty, yet with growing interest toward Black and Latino artists as personification of social movements
- High-quality design sustained by spending refocus toward personal “cocoon”, with blur between home/office giving traction to lighting and functional products

FOOD & BEVERAGE EXPERIENCES

- Wine market over-impacted in sparkling, as traditionally linked to celebratory occasions; Spirits more resilient thanks to historical higher weight of at-home consumption (to avoid “drinking and drive” issue)
- “Locavore” eating fueling Gourmet Food, while fine restaurants face challenging conditions in light of forced closures, yet experimenting with innovative ways to keep touch with clients (e.g., “DIY” kits)

OUT-OF-HOME EXPERIENCES

- Luxury hotels, which will have to win back their clientele upon travel restart, experimenting alternative forms of stay (e.g., “work-from-hotel”) to maintain relevance in customers’ minds
- Luxury cruises, despite forced stop, show strong order book for 2021, signalling continued customer interest; yet traditional players challenged by growth of luxury charters
High-low performing luxury markets in 2020: from more resilient cars and “at-home” experiences to sharp impacts on hotel and cruises (1/2)

**LUXURY CARS**
- Nuanced impact across segments and brands, with selected players in aspirational and absolute segments performing significantly better than market average.
- Acceleration in transition toward green powered-trains across countries but US, slowed-down by policy-led actions revamping share of fossil-fuels.
- Pandemic outbreak postponing investments and evolution of autonomous-drive vehicles.

**HIGH QUALITY DESIGN FURNITURE & HOMEWARE**
- Core high quality design market sustained by growing role of home as personal "cocoon", with rising needs for personalization, self-expression and functionality.
- Acceleration of “resimercial” trend fueled by blurring boundaries between living and working spaces, with comfort increasing relevance among key purchasing criteria alongside pure design.
- Slowdown of contract, mostly impacted on hospitality and retail segments.

**PRIVATE JETS & YACHTS**
- Luxury yachts market showing resilience in deliveries, with flat trend vs. 2019, favored by strong order book, with some shipyards increasing deliveries vs. 2019.
  - Order intake slowing down affected by global economic uncertainty, yet at lower paces vs. other luxury segments sustained by customer willingness to secure “intimate” luxury experience for upcoming years.
  - Continue interest toward sustainable solutions in design.
- In Private Jets, nuanced performance across brands depending on backlog, alongside continue surge in used jets.
- UHNWI expected to sustain the segment as it represents a viable alternative to commercial travel.

**FINE WINES & SPIRITS**
- In Wine, super high-end brands segment resilient than entry-to-luxury as mostly linked to personal gratification and collection vs. out-of-home consumption.
  - Across categories, sparkling over-impacted as consumption is more linked to celebration occasions.
- Spirits more resilient thanks to historical higher weight of at-home consumption (to avoid “drink-and-drive” issue).
  - Gin still on-trend, tapping into new geographies (e.g., Africa) with rise of local craft brands.
- Sophistication still key trend, as customers prefer quality in both wines, cocktails and sipping spirits over quantity.

~€503B
-8/-10%
'20E vs. '19

~€38B
-10/-12%

~€22B
-10/-12%

~€68B
-10/-13%
High-low performing luxury markets in 2020: from more resilient cars and “at-home” experiences to sharpen impacts on hotel and cruises (2/2)

<table>
<thead>
<tr>
<th>GOURMET FOOD &amp; FINE DINING</th>
<th>FINE ART</th>
<th>LUXURY HOSPITALITY</th>
<th>LUXURY CRUISES</th>
</tr>
</thead>
</table>
| • Luxury food market showing significant difference in performance  
  – Fine restaurants sharply impacted by closures and tourism contraction  
  – Conversely, gourmet food capturing share of out-of-home consumption albeit not enough to counter-balance |
| • “Locavore” eating strengthening as key trend for the future, both “at-home” and to reshape restaurants’ offering |
| • Fine restaurants experimenting innovative ways to keep touch with clients (e.g., “DIY” kits) |
| • Sharp impacts on both auctions and private sales, as supply shrinks in light of global uncertainty  
  – Challenging conditions for small and medium galleries, lacking the scale to shift the business online  
  – Proportional higher impact in the high-price segment, characterized by scarcity of available artworks due to prices drop |
| • Growing interest toward Black and Latino artists as personification of social movements |
| • Increasing digital penetration enlarging the spectrum of potential buyers to new customers/generations |
| • Luxury Hotel market significantly impacted by lockdowns, with occupancy rates decreasing by >30 p.p.  
  – Hotels fulfilling “medical” function across countries hosting people in quarantine |
| • Luxury hotels, which will have to win back their clientele upon travel restart, experimenting alternative forms of stay (e.g., “work-from-hotel”) to maintain relevance in customers’ minds  
  – Safety-related concerns fueling brand role as quality assurance |
| • Increasing role of high-quality intermediation as customers expected to shift from “inner searches” on offer of hotels chains to “outer searches” on travel destinations in the future |
| • Cruises market severely impacted by Covid-19, with most of cruising companies forced to stop travels since mid March |
| • Despite order book for 2021 already above 2019 levels, several cruise lines has accelerated phase out of ships previously expected to be sold over ensuing years to optimize fleet capacity |
| • Moreover, relevant challenge to traditional luxury cruise lines from luxury charters, able to offer a more “intimate” luxury experience |

~€45B | ~€23B | ~€85B | ~€1B

-15/-17% | -35/-40% | -55/-65% | -65/-75%

'20E vs. '19

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Experience-based goods expected to recover at a faster pace vs. personal luxury goods, while experiences will be the last to recover given reliance on tourism

Global luxury markets (2010–2025F | Index = 2010)

<table>
<thead>
<tr>
<th>Year</th>
<th>Experience-based goods</th>
<th>CAGR '10-'19</th>
<th>YoY '19-'20E</th>
<th>CAGR '20E-'25F</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>8%</td>
<td>-10%</td>
<td>5/9%</td>
<td></td>
</tr>
<tr>
<td>2022/23</td>
<td>9%</td>
<td>-56%</td>
<td>17/21%</td>
<td></td>
</tr>
<tr>
<td>2024/25</td>
<td>6%</td>
<td>-21%</td>
<td>7/11%</td>
<td></td>
</tr>
</tbody>
</table>

- Experience-based goods will recover rapidly from 2020 shock, favored by positive consumption dynamics across categories
- Experiences disproportionately impacted, will be last to recover based on dependence from tourist flows and possibility of aggregations
- Personal goods expected to recover in three years, thanks to favorable fundamentals

Note: At current exchange rates; Personal goods include High-quality design furniture and Personal luxury goods; Experience-based goods include Fine Art, Luxury cars, Private Jets and Yachts, Fine Wines & Spirits and Gourmet Food; Experiences include Luxury hospitality, Cruises and Fine dining

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Important transversal consumer trends define this market asking for **larger and more purposeful brands**

- **Self expression**
- **Upgraded @home**
- **Hybridization everywhere**
- **Natural, Organic, Functional**
- **Cultural Humanism**
- **Health! Health! Health!**
- **Polarized Overindulgence**
- **Meaningful Time & Space**
- **Personal** *

  (same, same but personal)
In particular, **urgency for social impact is growing**, with younger generations increasingly valuing **diversity, equity and inclusion** when choosing to buy...
Role of (luxury) brands needs to expand from that of «signifier» and «symbol» to include «friend» and «inspiration» while ensuring excellence in the basics.
Envisioning 2030
From Luxury to Insurgent Cultural and Creative Excellence

Reaffirm excellence

The customer is present!
Reaffirm your leadership in quality, creativity and innovation excellence to win them

Imagine the future

Leverage superior imagination and innovation, either ethical, aesthetical and functional, to shape our future

Rediscover insurgency

Fully reach your potential through competitive advantages: brand platforms, networks of interests and passions, and customer obsession

Luxury Markets

2020 €1T

2030 €2T

The Market of Insurgent Cultural and Creative Excellence

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From Luxury to Insurgent Cultural and Creative Excellence

CEO Agenda

**Insurgency**
- Diffused creativity
- Meaning and Purpose

**Culture**

**Brand**
- Cultural relevance
- New Elements of Value
- Inspiration
- Higher voice

**Product**
- Episodic
- Multi-seasonal
- Enduring relevance
- New icons
- Circularity
- Personal
- Product virtualization
- Strategic pricing

**Innovation**
- Signifiers beyond brand/logo
- Cultural spillovers (new categories)
- Open-source creativity
- End-to-End sustainability
- Diffused creativity

**Marketing**
- Always on
- Conversational
- Enriched
- Broadcasted
- Transmedia
- ROI friendly

**Customer Experience**
- Life journey
- High-value episodes
- Omnichannel
- Engagement
- Wow “in-real-life” experience
- Immersion

**Distribution**
- Global and forward-thinking architecture
- Local ecosystem
- Omni-relevance

**Business model**
- Platform
- Network of interests
- 2nd life

**Organization and Enablers**
- Global Sourcing excellence
- Sustainable, resilient, controlled and connected supply chain
- Zeitgeist talent model
- Centers of Excellence
- Omnichannel logistics

**Process virtualization**

Freedom in shaping one’s own rules of the game will be key to win in the Insurgent Cultural and Creative Excellence of tomorrow
Claudia D’Arpizio, Senior Partner
Bain & Company Luxury Goods vertical

Claudia has spent more than 26 years advising multinational luxury and fashion clients on everything from corporate and BU growth strategy and performance improvement, M&A, brand and marketing and innovation strategy, channels’ full potential and operating model re-design.

She is the lead author of the Bain Luxury Study, one of the most cited sources of market information in the luxury industry, and leads the firm’s global Fashion and Luxury vertical.

In 2009, Claudia was also recognized as one of the ‘Top 25 Consultants in the World’ by Consulting Magazine.

In 2020, Claudia joined Bain & Company’s global Board of Directors.

Federica Levato, Partner
Bain & Company Luxury Goods vertical

Over the last 16 years, Federica has led more than 300 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.

Federica leads the firm’s Fashion and Luxury vertical at the European level.
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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's consolidated sales are *retailized* through the following methodology:

  ![Retail Sales Diagram]

  ![Top-down Sales Diagram]

  **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
  - Interviews with industry experts (top management of brands, distributors, department stores, …)
  - Consistency check on the data and fine tuning

  ... we cross-check results

Application of estimated markups by geography and category
Application of estimated royalty rates and markups by geography and product category