Luxury is back…

to the future

Figures, trends and actions

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11TH NOVEMBER 2021
Content of this document

- This document contains an update on the luxury goods market, in particular:
  - Insight to the performance of the market for the first three quarters of 2021, with expectations for the last quarter
  - Estimates for how the luxury market will evolve beyond 2021, with related macro-trends emerging
  - Bain’s recommendations for how luxury players can steer the next phase of growth

Sources of this document

- The insights are based on Bain’s triangulation of information and sources, available as of November 5th 2021 and includes:
  - Data regarding the outbreak of the Covid-19 and consequential lockdown across countries
  - Macroeconomic data (e.g., GDP, consumer confidence index) and the 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 (e.g., potential future waves of Covid-19 related to variations of the virus)
Global luxury markets: shift from experiences to goods compensates half of the gap vs 2019

Global luxury markets (€B | 2021E)

Year-over-year (YoY) growth, at current exchange rates

<table>
<thead>
<tr>
<th>Segment</th>
<th>YoY '20-21E</th>
<th>YoY '19-21E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Luxury Goods</td>
<td>+29%</td>
<td>+1%</td>
</tr>
<tr>
<td>Luxury Cars</td>
<td>+7/9%</td>
<td>+0/1%</td>
</tr>
<tr>
<td>Luxury Hospitality</td>
<td>+20/22%</td>
<td>-58/62%</td>
</tr>
<tr>
<td>Fine Wines &amp; Spirits</td>
<td>+12/14%</td>
<td>+0/2%</td>
</tr>
<tr>
<td>Gourmet Food &amp; Fine Dining</td>
<td>+8/10%</td>
<td>-7/9%</td>
</tr>
<tr>
<td>High-Quality Design Furniture &amp; Homeware</td>
<td>+13/15%</td>
<td>+6/8%</td>
</tr>
<tr>
<td>Fine Art</td>
<td>+18/20%</td>
<td>-6/8%</td>
</tr>
<tr>
<td>Private Jets &amp; Yachts</td>
<td>+1/3%</td>
<td>-6/8%</td>
</tr>
<tr>
<td>Luxury Cruises</td>
<td>-40/42%</td>
<td>-80/85%</td>
</tr>
<tr>
<td>Total 2021E</td>
<td>+15/17%</td>
<td>+13/15%</td>
</tr>
<tr>
<td></td>
<td>@K vs. 2020</td>
<td>-9/11% vs. 2019</td>
</tr>
</tbody>
</table>
Luxury cars
(partially suffering supply scarcity in key components) experiencing nuanced performance across brands, with newcomers entering the game.

Luxury yachts
continue on positive tailwind as customers’ interest for intimate luxury experiences continues to surge.

Private jets
rebound favoured by perceived benefits of safety, convenience and efficiency.

Fine art
sustained by reopening of public auctions and art fairs, with global uncertainty favouring mid-priced segment over high one, recording increasing participation of new (younger) consumers and artists (Women, Afro-American, …)

High-quality design
sustained by new pivotal role of home, with intermingling spaces between living and working fuelling ‘resimercial’ solutions.

Food & beverage experiences

Wine
brands’ recovery speed driven by brand awareness and recognition.

Spirits
driving market, favored by increasing interest for “status” spirit as out-of-home spending turns at-home.

Gourmet food and fine restaurants
experiencing three-shaped forces at play: driving continued resilience: pantry-meals (at home), ghost kitchens rise (from ‘out-of’ to at-home) and gradual ease of lockdowns and revenge conviviality.

Luxury hotels
recovering through mid-year travel resumption, favouring digitalization and customization of experiences as vital pathways to capture evermore demanding consumer.

Luxury cruises
jeopardized by forced travel halt for first half of year, yet glimmers of hope for upcoming seasons given strong order book.
### Design furniture top performing category due to everything@home trend

Strong recovery also for wine and spirits and luxury cars

<table>
<thead>
<tr>
<th>High quality design furniture &amp; homeware</th>
<th>Fine wine &amp; spirits</th>
<th>Luxury cars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core high quality design market, already showing stronger-than-forecasted performance in last quarters of 2020, <strong>continuing on its growth path</strong> sustained by continued refocus of consumer spending on home, in particular on Living&amp; Bedroom, outdoor and lighting</td>
<td>‘Revenge conviviality’ sustaining recovery across segments</td>
<td>Market favored by positive consumption tailwinds, yet partially slowed-down by disruption across the supply chain</td>
</tr>
<tr>
<td>Intermingling of living and working spaces fueling the growth of ‘resimercial’, with consumers seeking for increased comfort, functionality as well as flexibility in design solutions</td>
<td>Spirits driving market recovery, mostly on account of:</td>
<td>(Policy-led) shift towards green power-trains continues, although its long-term financial sustainability at issue</td>
</tr>
<tr>
<td></td>
<td>– Growth in (local) consumers interest for <strong>Asian spirits</strong> (mostly baijiu)</td>
<td>– Asia outperforming other geographies, partially fueled by growth of local premium players outpacing traditional European ones in the ‘accessible’ segment</td>
</tr>
<tr>
<td></td>
<td>– Increasing interest for “status” spirits, as out-of-home spending is shifted at-home, favoring mostly those categories traditionally lower penetrated by high-end brands (e.g., tequila, rum)</td>
<td>– Niche players looking at potential avenues to pool resources required for investments, today almost fully prerogative of largest groups</td>
</tr>
<tr>
<td></td>
<td>– Better ability vs. wine brands in <strong>catering interest of younger generations</strong>, leveraging marketing messaging centered around key topics of interest (e.g., inclusivity, sustainability)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>– In wine, <strong>sparkling</strong> (over-impacted in 2020) recovering better than other categories,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>– Brand awareness and recognition playing central role in defining recovery path</td>
<td></td>
</tr>
</tbody>
</table>

#### ‘21E vs. ’19 (%)

<table>
<thead>
<tr>
<th>High quality design furniture &amp; homeware</th>
<th>Fine wine &amp; spirits</th>
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<tr>
<td>+6/8%</td>
<td>+4/6% @K</td>
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</tr>
<tr>
<td>+13/15%</td>
<td>+12/14%</td>
<td>+8/10% @K</td>
</tr>
</tbody>
</table>

**Market size 2021E (€B)**

- Design furniture: ~€45B
- Fine wine & spirits: ~€77B
- Luxury cars: ~€551B
Luxury toys, fine art and food (at- and out-of-home) on the path to recover to 2019 levels, with different sub-segment trends shaping growth

**Private jets & yachts**
- Luxury yachts confirming positive momentum, with growth in deliveries (partially benefitting from delays occurred in 2020) paired with sharp growth in order books
  - Interest from HNWI surging in response to willingness to secure “intimate” luxury experience for upcoming years and suspension of social activities
  - Growth of market niches with focus on sustainable solutions (among which hybrid propulsion)
- In Private Jets, demand stable vs. 2020 levels, with purchases driven by perceived benefits from target customers related with safety, convenience and efficiency
  - Slowdown in used market jets, as availability narrows vs. past years

**Fine art**
- Fine art market rebounding thanks to gradual reopening of public auctions and art fairs
  - Greater growth in medium-priced segment favored by global uncertainty discouraging bids on high-priced items
  - High-end galleries experiencing progressive concentration through M&A, aimed at exploiting scale and scope economies
- Macro-trends embedded within Zeitgeist of today’s consumer (diversity, equity and inclusivity) definitely stepping into fine arts
- Increasing acknowledgment of NFTs among younger gens and segment fanatics, yet still uncertain potential impact on broader market

**Gourmet food & fine dining**
- Driven by dichotomic impact of pandemic outbreak in 2020, luxury food market showing significant difference in growth rates within its components
  - Fine restaurants (sharply impacted last year) showing significant rebound as lockdowns eases
  - Gourmet Food continuing on its mild growth path, although at lower rate vs. previous year
- “Pantry meals” tapping into the luxury space, as consumers familiarity with at-home cooking is raised significantly, with side benefits on specialized appliances
- Ghost kitchens serving food-delivery market engaging into the luxury segment

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**Market size 2021E (€B)**

- **Private jets & yachts**: 
  - 20-21: -6/8% @K
  - ‘21E vs. ’19 (%): ~€22B

- **Fine art**: 
  - 20-21: -6/8% @K
  - ‘21E vs. ’19 (%): +18/20%

- **Gourmet food & fine dining**: 
  - 20-21: -7/9% @K
  - ‘21E vs. ’19 (%): +8/10%

~€34B
~€49B
Luxury Hotel market recovering at good pace starting mid-Q2, favored by progressive increase in occupancy rates
  – Chained hotels outpacing independent ones, favored by higher ability to adapt to shifting consumers' needs
  – Brand and/or chain-level offer standardization deemed no longer valid as adaptation to consumers sought for customization and service tailoring proved to be vital to accelerate recovery

Surge in property digitalization to satisfy needs of younger generations and favor process automation and contactless interactions

Luxury cruises

Sharp impact of COVID-19 on cruises market lasting throughout the year, with cruising companies forced to cancel travels until Q3
  – Players delaying vessel investment and working at debt restructuring to sustain short-term cash needs

Nonetheless, order book for 2022 is approaching 2019 levels, with consumers signaling strong interest for luxury experiences that will likely drive accelerated market recovery in future years
  – Expedition segment expected to grow above traditional cruises also in future years

Experiences still significantly below pre-pandemic levels, jeopardized by restrictions to international travel

Market size 2021E (€B)

‘21E vs. ’19 (%)

Luxury hospitality

Luxury cruises

-58/62%  -56/60% @K  -80/85% @K

20-21:

+20/22%

~€79B  ~€0,4B

-80/85%

-40/42%
Consumers overindulged on products, but the willingness to go back to experiences is at an all-time high.

Expected year of recovery to pre-covid level (e.g., 2019)

Global Luxury markets (Index = 2010 | 2010-2025F)

- **Experiences**
  - Experiences disproportionately impacted, will be last to recover as strongly dependent on revamp of touristic flows and business travel

- **Experience-based goods**
  - Experience-based goods almost fully recovering to 2019 levels, favored by positive consumer traction across categories

- **Luxury products**
  - Products first to recover 2019 levels, driven by earlier onset of ease of restrictions

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; (*) 2023 acceleration driven by (hoped) end of supply chain disruption in cars market.
After its worst dip in history, the personal luxury goods market experienced a V-shaped rebound in 2021.
Market constantly improving from Q3 20;
Some uncertainty on next holiday season remains

PERSONAL LUXURY GOODS MARKET

PERSONAL LUXURY GOODS MARKET EVOLUTION BY Q (% | VS 2019)

2020

Q1 | Q2 | Q3 | Q4
---|---|---|---
-22% | -12% | -6% | -50%

2021

Q1 | Q2 | Q3 | Q4
---|---|---|---
+2% | +1% | -1% | 1%

BEST CASE
~+3%

WORST CASE
~5%

FIVE SCENARIOS

• China sustaining growth
• Strong holiday season in US and EU
• Continued fast-paced vaccination in Japan
• Sustained macroeconomics and ease of restrictions (e.g. intraregional flights, limited lockdowns)
• Softening in China (consumer confidence, real estate financial tensions, potential further lockdowns)
• Winding down of US public relief programs

Timeline of the year

Developed countries vaccination campaign
Dec '20–Present

50% US adults fully vaccinated
May '21

58% EU citizens with 1+ shot
Jul '21

Xi Jinping “Common Prosperity” speech
Aug '21

End of US “stimulus checks”
Sep '21

Note: @K: growth at constant exchange rates
2021 rebound as a **strong predictor** of healthy growth of the luxury market in the midterm

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

- '19-25F CAGR: 4/5%
- '20-25F CAGR: 10/12%
- '21E-25F CAGR: 6/8%

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (€B)</th>
</tr>
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<tbody>
<tr>
<td>2019</td>
<td>281</td>
</tr>
<tr>
<td>2020</td>
<td>220</td>
</tr>
<tr>
<td>2021E</td>
<td>283</td>
</tr>
<tr>
<td>2022F</td>
<td>300-310</td>
</tr>
<tr>
<td>2025F</td>
<td>360-380</td>
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After 20 years of large expansion and deep evolution, Covid-19 has fast forwarded and anticipated some of the key changes for the next 20 years of global luxury market

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<th>Changed fundamentals</th>
<th>Multifaceted behaviors</th>
<th>Polarized paradigms</th>
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<tr>
<td>Morphing Luxury map</td>
<td>Local as new normal</td>
<td>Nextgen is now</td>
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<tr>
<td>Customer of the future</td>
<td>Touchpoints over channels</td>
<td>New cycle of desire</td>
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<td>Extended product lifetime</td>
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<tr>
<td>Clear overperformance drivers</td>
<td>Consolidating universe, yet with small rising stars</td>
<td>Full recovery of profitability</td>
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### 2021

The first year of the new luxury "twentennial"

After 20 years of large expansion and deep evolution, Covid-19 has fast forwarded and anticipated some of the key changes for the next 20 years of global luxury market

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#### Changed fundamentals

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<td>China and Americas lungs of the market, ramifying into many new alveoli/luxury locations</td>
<td>Luxury gone local, with big opportunities to accelerate/recovery ahead</td>
<td>Strong demographic shift leading to renewed customer base</td>
</tr>
</tbody>
</table>

#### Multifaceted behaviors

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<th>Touchpoints over channels</th>
<th>New cycle of desire</th>
<th>Extended product lifetime</th>
</tr>
</thead>
<tbody>
<tr>
<td>New personas, updated values, proactive engagements</td>
<td>Distribution ecosystem at a point of no return</td>
<td>Product winning over brands winning over categories</td>
<td>Boom of second-hand luxury</td>
</tr>
</tbody>
</table>

#### Polarized paradigms

<table>
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<tr>
<th>Clear over performance drivers</th>
<th>Consolidating universe, yet with small rising stars</th>
<th>Full recovery of profitability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long standing focus on local customer globally, presence in Asia, multi-touch and price value proposition</td>
<td>Increasing market concentration, yet with small players explosion thanks to new values and consumption patterns</td>
<td>EBIT % back to 2019 thanks to 2020 efficiencies and sales rebound</td>
</tr>
</tbody>
</table>
China doubling and Americas booming; Europe and Japan still in recovery mode

### M. China
- Strong cross-category, generation and price growth
- After softening in Aug-Sept, consumption re-started strong in October despite scattered lockdowns
- Hainan the key touristic luxury hub
  - +97%

### Americas
- Solid rebound, polarized between entry prices and top items
- Strong market share shift towards European brands
- Evolving luxury map: new cities emerging, large cities back and persisting suburban areas
- Blasting Brazil
  - +41%

### RoW
- Middle East very strong throughout markets (with Dubai and Saudi Arabia leading growth)
- Struggling Australia which only recently reopened (after months of lockdowns)
- +34%

### Japan
- Local consumptions impacted by the slow vaccine adoption
- Fukuoka emerging as rising star
- Continued focus for large established brands, with few exceptions intercepting the next gen of customers
- +10%

### Europe
- Local consumptions strong everywhere
- Some tourist bounce back over the summer (i.e. Middle-Eastern and American)
- London (and UK) suffering the most, while Russia championing thanks to strong repatriation
- +20%

### Asia
- Weak Hong Kong (ongoing network review) vs. mixed play in Taiwan and Macau
- S. Korea back to 2019 levels: full repatriation of local customers over-compensate lack of tourism
- SEA still suffering lack of tourism
- +19%

<table>
<thead>
<tr>
<th>geographic region</th>
<th>20-21:</th>
<th>'21E VS. '19 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>M. China</td>
<td>+36%</td>
<td></td>
</tr>
<tr>
<td>Americas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RoW</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RoW</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Market size 2021E (€B)
- M. China: €60B
- Americas: €89B
- RoW: €12B
- Europe: €20B
- Asia: €71B
- RoW: €32B

Note: RoW = Rest of the World

@K: Growth at constant exchange rates
The market is local, locally driven and increasingly sub-urban in 2021

### Personal luxury goods – Growth in luxury spending by nationality

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Americans</td>
<td>+30/35%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Europeans</td>
<td>+15/20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Chinese</td>
<td>-20/25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total RoW</td>
<td>0/+5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Rest of Asians</td>
<td>0/-5%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Locals**
  - ’19 – ’21E: +50/60%
  - Total Americans: +30/35%
  - Total Europeans: +15/20%
  - Total RoW: 0/+5%
  - Total Rest of Asians: 0/-5%

- **Tourists**
  - ’19 – ’21E: -80/90%
  - Total RoW: 0/+5%
  - Total Rest of Asians: 0/-5%

### Top 10 cities relevance

- **Japanese**
  - Total Japanese: -15/20%
  - Total RoW: 0/+5%

- **Chinese**
  - Total Chinese: -20/25%
  - Total RoW: 0/+5%

- **Rest of Asians**
  - Total RoW: 0/+5%
Awaited great recoveries: Chinese customers will be back by 2022-23; Japan by 2023 and Europe in 2024

Recovery Curves (market value indexed 2019 | 2019-2025F)

Europe Region

Japan Region

Chinese Customers worldwide

REAL TERM TREND '19-25F

Locals:

Tourist flows:
( expected resume)

Within Asia
H2 22

Global:
H2 23 / H1 24
Some of the consumption fundamentals of China will go through change

Common prosperity potential impacts on luxury

**TAILWINDS**

- Acceleration of middle class and consumption upgrade
- Persistent strong demand

**QUESTION MARKS**

- Showing status (role of logo and aesthetic in product, role of KOL)
- Consumption localization (local or abroad)

**HEADWINDS**

- Pressure on uber-wealth
- Delayed spending given current uncertainty

*The policy has the goal to build an olive-shaped society*

Note: KOL = Key Opinion Leader

Luxury brands can secure (common) prosperity, but they will need to challenge (and adapt) their strategy.
2021 confirms China’s growing importance in luxury; bright evolution for European and American customers

By customer nationality

<table>
<thead>
<tr>
<th>Nationality</th>
<th>2019</th>
<th>2021E</th>
<th>2025F</th>
<th>REAL TERM TREND</th>
</tr>
</thead>
<tbody>
<tr>
<td>RoW 6%</td>
<td>281</td>
<td>283</td>
<td>360-380</td>
<td></td>
</tr>
<tr>
<td>Other Asian 13%</td>
<td>10-12%</td>
<td>10-12%</td>
<td>5-7%</td>
<td></td>
</tr>
<tr>
<td>Chinese 33%</td>
<td>21-23%</td>
<td>40-45%</td>
<td>6-8%</td>
<td></td>
</tr>
<tr>
<td>Japanese 10%</td>
<td>30-32%</td>
<td>5-7%</td>
<td>21-23%</td>
<td></td>
</tr>
<tr>
<td>American 22%</td>
<td>21-23%</td>
<td>16-18%</td>
<td>10-12%</td>
<td></td>
</tr>
<tr>
<td>European 17%</td>
<td>21-23%</td>
<td>40-45%</td>
<td>5-7%</td>
<td></td>
</tr>
</tbody>
</table>

By geography

<table>
<thead>
<tr>
<th>Region</th>
<th>2019</th>
<th>2021E</th>
<th>2025F</th>
<th>REAL TERM TREND</th>
</tr>
</thead>
<tbody>
<tr>
<td>RoW 4%</td>
<td>281</td>
<td>283</td>
<td>360-380</td>
<td></td>
</tr>
<tr>
<td>Rest of Asia 15%</td>
<td>11%</td>
<td>21%</td>
<td>25-27%</td>
<td></td>
</tr>
<tr>
<td>China 11%</td>
<td>21%</td>
<td>13-15%</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>Japan 8%</td>
<td>7%</td>
<td>6-8%</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>Americas 30%</td>
<td>31%</td>
<td>23-25%</td>
<td>21%</td>
<td></td>
</tr>
<tr>
<td>Europe 32%</td>
<td>25%</td>
<td>23-25%</td>
<td>21%</td>
<td></td>
</tr>
</tbody>
</table>

Note: RoW = Rest of the World
Sustained acceleration of “under 40” in 2021, still main drivers for growth up to 2025

GenY and GenZ expected to contribute ~180% of the total growth from 2019 to 2025F
Two complementary forcesfueling luxury during Covid: strong renewal of customer base and top customer growth

Renewed customer base 2019-2021

Lost consumers
 Mostly in 2020 due to COVID crisis

New consumers
 Mostly younger gens (Gen Y and Gen Z)

In 2021

~30% of new customers that entered the market since 2019

Accounting for

~25% of the Personal Luxury Goods market

Top customer base 2019-2021

UHNWIs incidence on total market (€B | 2019–2021E)

2019

2021E

~30%

~35%

TREND ‘19–’21

#UHNWI

Avg. spending

Note: *UHNWI = Ultra-High-Net-Worth Individual
Within this shift, new luxury-relevant personas are establishing as key targets for the industry.

Ever more complex customer map calling for proactive management.
C U S T O M E R O F T H E F U T U R E

Cultural relevance and evolving values ask for new value-creation model in customer engagement

New value creation model

**High tech & high touch**

Digital & Human

Emotional & Functional

Inspiring

New KPIs to track

**Earned growth rate**

- Earned growth rate Y1
- Net Revenue Retention (NRR)
- Earned New Customers (ENC)
- Retained Y0 customers
- Referred new customers
- Lost Y0 customers
- Bought new customers
- Total growth rate Y1

...and clear positive results

**Churn rate reduction**

- Lower spenders: 20%
- Mid spenders: 30%
- Top spenders: 80%

**Customer value growth**

- up to 3x more likely to increase spending level (by +50%)

(engaged vs. non-engaged customers with personalization and human touch)

Earned New Customers (ENC)

Retained Y0 customers

Lost Y0 customers

Referred new customers

Bought new customers

Net Revenue Retention (NRR)

Engaged vs. non-engaged customers with personalization and human touch
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.

**TOUCHPOINTS OVER CHANNELS**

**Online and monobrand**, the key channels for 2021 recovery, will lead the mid term growth of the industry.

**PERSONAL LUXURY GOODS MARKET BY CHANNEL**

<table>
<thead>
<tr>
<th>Channel</th>
<th>Delta '19 – 21E</th>
<th>CAGR '19 – '25F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel retail</td>
<td>-61%</td>
<td>360-380</td>
</tr>
<tr>
<td>Department store</td>
<td>-16%</td>
<td>10-12%</td>
</tr>
<tr>
<td>Specialty</td>
<td>-19%</td>
<td>10-12%</td>
</tr>
<tr>
<td>Outlet</td>
<td>-5%</td>
<td>13-15%</td>
</tr>
<tr>
<td>Monobrand</td>
<td>+6%</td>
<td>26-28%</td>
</tr>
<tr>
<td>Online</td>
<td>+89%</td>
<td>28-30%</td>
</tr>
</tbody>
</table>

**2021...**

- Jump of directly operated channels, with online and monobrand positively growing
- Outlets recovering (eased restrictions) but still lagging
- Department and specialty stores regaining (local) footfall yet behind 2019 levels

**...and beyond**

- Further focus on retail across channels
- Online on track to be #1 channel (also with virtuous omnichannel circle)
- Monobrand still key, yet to be rethought in phygital ecosystem (format / size / location)
- Outlets relevant for value-driven purchases and Chinese middle class
- Survival of the fittest for department and specialty stores
- Travel retail back to historical levels

**Wholesale %**

- 2019: 60%
- 2021E: 51%
- 2025F: 45-50%

**Retail %**

- 2019: 40%
- 2021E: 49%
- 2025F: 50-55%
Online with dual role of widening reach (e.g. to 3rd+ tier cities / suburban areas) and supporting cross-channel sales.

Over-investments in Brand.com paying off, together with capitalized omnichannel and tech-enabled sales.

Accelerated adoption with new online customers across generations (previously would not have considered).

Increasing e-concession adoption.

Leather goods, sneakers and skin care still top categories.
From channel to touchpoint ecosystem: redefining role of channels through upgraded competences and KPIs

**Yesterday’s Role**

- **Proximity**
  - Touchpoint as a point of sale

**KPI**

| Sales / POS | Sales / SQM |

---

**Tomorrow’s Role**

- **Brand booster**
  - Touchpoint as media investment

- **Omni Enabler**
  - Touchpoint as a commercial facilitator

- **Customer explorer**
  - Touchpoint as service to a catchment area

**Customer funnel**

- **Awareness / consideration**
  - (digital) Traffic

  - **85%+** Online influenced purchases

- **Conversion**
  - Transactions

  - **50%+** Digitally enabled purchases

  - **10%+** Store-enabled online purchases

- **Loyalty**
  - Engagement

  - **30%+** Remote selling in 2021

New capabilities, competences and talents required to provide seamlessly integrated experience across touchpoints
Best-performing categories of 2020 are already beyond 2019 in 2021, watches and beauty on par, apparel still lagging

<table>
<thead>
<tr>
<th>Shoes</th>
<th>Leather</th>
<th>Jewelry</th>
<th>Watches</th>
<th>Beauty</th>
<th>Apparel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross geography overperformance</td>
<td>Iconic models and new heroes, ruling, especially in young gen</td>
<td>Branded luxury jewelry culture growing in traditionally non core markets</td>
<td>Solid demand for Uber-lux and iconic pieces</td>
<td>Continued self-indulgence trend driving skincare</td>
<td>Womenswear faster than menswear, also pushed by recent acceleration of occasionwear</td>
</tr>
<tr>
<td>Continued tilt to casual (i.e. sneakers, boots vs. formal), impacted by “new normal” habits especially for men</td>
<td>Belt as new/old object of desire</td>
<td>Unisex jewels encountering success</td>
<td>Genderless watches growing</td>
<td>Make-up and fragrances still affected</td>
<td>Comfortwear now normalized vs formalwear not recovering</td>
</tr>
<tr>
<td>Women occasion-shoes accelerating</td>
<td>Logo is back yet in connection with brand heritage</td>
<td>Ecommerce relevant for entry prices and costume pieces</td>
<td>New digital relevance (especially for Asia and NextGen)</td>
<td>Weak travel retail still impacting entire category</td>
<td>Logo is back also in apparel</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>'21E VS. '19 (%)</th>
<th>'20-'21</th>
<th>+25%</th>
<th>+8%</th>
<th>+7%</th>
<th>+0%</th>
<th>+26%</th>
<th>+26%</th>
</tr>
</thead>
<tbody>
<tr>
<td>€23B</td>
<td>€62B</td>
<td>€22B</td>
<td>€40B</td>
<td>€60B</td>
<td>€57B</td>
<td></td>
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</tr>
</tbody>
</table>

- Continued self-indulgence trend driving skincare
- Make-up and fragrances still affected
- Weak travel retail still impacting entire category
- Logo is back also in apparel

New cycle of desire

Best performing categories of 2020 are already beyond 2019 in 2021, watches and beauty on par, apparel still lagging

- Womenswear faster than menswear, also pushed by recent acceleration of occasionwear
- Comfortwear now normalized vs formalwear not recovering
- Logo is back also in apparel

- Market size 2021E (€B)
New cycle of desire: luxury post-consumerism?

**Waterfall**

“*I aspire to become***”

**Icons (and heroes) before brands**

- **Brands before icons**
  - **Brand** obsession, purchasing width and **fragmentation**
  - **High vs. Low**
    - **Exclusive** creativity, **simplification** in the entry offer
  - **Logo as badge of wealth**
    - **Achievement** and **success** in life

**Osmosis**

“I express to be(long)”

- **In 2021 overperform reference market by 2x+**
  - **Categories**
    - UBER LUXURY ENTRY PRICE
      - 2018: ~15%
      - 2021E: 20%
    - ~25%: 30%
  - **Logos**
    - 3x

**Note:** *Icons based on leather goods and watches markets; **DEI = Diversity, Equity, Inclusion; Entry price and uber luxury excludes beauty and eyewear; Logo based on soft luxury goods market excluding shoes, eyewear and silk*
In the renewed digital disruption, an even larger role for luxury into the next frontiers for socio-cultural relevance

**Digital**
as strategic channel and opportunity, yet under new forms:
Data strategy, NFT, metaverse, network and connection economies

**Cultural value**
- Expanded value proposition (contribution to generation of “meaning”)
- New marketing frontier (from “persuasion” to co-creation of cultural value)

**Social value**
- Environmental sustainability
  - Demanded by consumers, especially new generations
  - Progressively, needed condition for the right to operate (e.g. regulatory, …)
- Diversity equity and inclusion
  - Demanded by consumers
  - A proven source of competitive advantage (business effectiveness, creativity, …)
  - A driven to attract and retain best talent

**New Cycle of Desire**

- Data strategy, NFT, metaverse, network and connection economies
- Environmental sustainability
- Diversity equity and inclusion
- Demanded by consumers, especially new generations
- Progressively, needed condition for the right to operate (e.g. regulatory, …)
- A driven to attract and retain best talent
Traditional market segmentation lost relevance: now brands are multi-price point to answer to different customer (needs)

**Pricing pyramid**
- **Absolute**
- **Aspirational**
- **Accessible**

**Personal luxury goods market growth**
- '94-'07: +7%
- '07-'09: -4%
- '09-'14: +8%
- '15-'16: 0%
- '16-'19: +5%
- '19-'20: -22%
- '20-'21: +29%

**Consumers (M)**
- 1985: 40
- 1995: 80
- 2005: 250
- 2015: 340
- 2025: 440-450
Second-hand vs. first-hand luxury goods market (indexed 2017 = 100)

Driven by an expanding demand (customer base) and expanding supply (enlarging competitive arena)

33 B€ of market value in 2021

A growing opportunity for...

- **BRANDS**
  - Enter a growing market
  - Develop a network-based business model
  - Show commitment to sustainability

- **FASHION PLATFORMS**
  - Gather data on customers
  - Add a distribution channel
  - Boost hype and tighten control

- **INVESTORS**
  - Understand the winning value proposition
  - Crack operational complexity (e.g. authentication, start up stock, margins)
  - Define logo and (re)branding strategy
  - Manage customer cannibalization
  - Value (re)appraisal and management

EXTENDED PRODUCT LIFETIME

Booming secondhand market, to extend lifetime of luxury products
Polarization and Profitability

2021, polarized growth back to “new normal”

Global personal luxury goods market CAGR

-85% ~ 40-45%
Clear overperformance drivers: focus on local customer, exposure to China, multi-touch and price value proposition

**Top drivers of resilience**

01. Exposure to Asia (China)
02. Focus on local customers everywhere
03. High-low value proposition
04. Multi-touchpoints engagement model

**Not-drivers of resilience**

**No matter what, but make it right**

- Product categories not a top driver of the over/underperformance

**A world for (scale) insurgents**

Both big and small players were able to succeed

- Scale is a competitive advantage, still insurgency remains the fundamental success factor for players of any size
CONSOLIDATING STRENGTHS

Increasing market concentration, yet with high dynamism from rising stars

Top brands

Market share in soft+hard luxury market* (% | 2000-2021E)

2000  ~(17%)  2010  ~(23%)  2019  ~(29%)  2020  ~(32%)  2021E  Top Brands ~(33%)

~7x  ~11x  ~15x  ~17x  17-18x

Rising stars

Small / new-born (<200M€@RTL)

Fast growing (2x market CAGR)

Intercepting the Zeitgeist

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Fast growing (2x market CAGR)

Intercepting the Zeitgeist
In 2021, profits are already back at 2019 levels

**EBIT of selected personal luxury goods brands by era (%) | 2007 – 2021E**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Crisis</td>
<td>18%</td>
<td>23%</td>
<td>19%</td>
<td>21%</td>
</tr>
<tr>
<td>Chinese acceleration</td>
<td>16%</td>
<td></td>
<td></td>
<td>12%</td>
</tr>
<tr>
<td>Reboot &amp; New Normal</td>
<td></td>
<td></td>
<td>21%</td>
<td>20-21%</td>
</tr>
<tr>
<td>Covid Crisis &amp; Rebound</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

**Spending trend per key bucket (%) revenues | 2021E vs 2019**

- **Gross margin**
  - Shift to direct channels

- **Marketing expenses**
  - Increase in spending (shifted to digital and clienteling)

- **Other Opex**
  - Optimized expenses (occurred in 2020)

- **Digital Opex & CapEx**
  - Investments in systems and digital done in 2020

- **CapEx (B&M and HQ)**
  - Resume of selective store openings in 2021

Prompt profit hunt run during 2020 and immediate market rebound led by direct channels driving up industry profitability.
The growth drivers are Chinese consumers (in China), online channel and younger generations.

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

<table>
<thead>
<tr>
<th>Nationality</th>
<th>Region</th>
<th>Channel</th>
<th>Generation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>281</strong></td>
<td>281</td>
<td>281</td>
<td>281</td>
</tr>
<tr>
<td>RoW 6%</td>
<td>RoW 4%</td>
<td>RoW 4%</td>
<td>S. Gen</td>
</tr>
<tr>
<td>Other</td>
<td>Rest of</td>
<td>China</td>
<td>Baby</td>
</tr>
<tr>
<td>Asian 13%</td>
<td>Asia 15%</td>
<td>11%</td>
<td>boomer</td>
</tr>
</tbody>
</table>
| Chinese 33% | Japan 8%| 21%     | Generation |%
| Japanese 10%| Americas| 7%      | X 30%      |
| American 22%| Europe 32| 1%     | Y 36%      |
| European 17%|        | 25%     | Z 8%       |

<table>
<thead>
<tr>
<th>+4/5%</th>
<th>2019</th>
<th>2021E</th>
<th>2025F</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-5%</td>
<td>4-6%</td>
<td>5-7%</td>
<td></td>
</tr>
<tr>
<td>10-12%</td>
<td>11%</td>
<td>13-15%</td>
<td></td>
</tr>
<tr>
<td>21-23%</td>
<td>25-27%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>40-45%</td>
<td>5-7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6-8%</td>
<td>6-8%</td>
<td>23-25%</td>
<td></td>
</tr>
<tr>
<td>6-8%</td>
<td>31%</td>
<td>23-25%</td>
<td></td>
</tr>
<tr>
<td>21-23%</td>
<td>25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16-18%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note:**
- **CAGR:** Compound Annual Growth Rate
- **'19-25F**
- **Online 12%**, **B&M 88%**
- **2019**, **2021E**, **2025F**
- **>50%**, **>20%**, **>17%**
Luxury market has been deeply changed in last 20 years, with evolving keywords and macro-trends
2020-21 turning point for establishing the keywords for the next 20 years of luxury

expanded MISSION

Contribute to CULTURAL development
Creativity, meaning

Foster & role model SOCIAL progress
Environmental sustainability, DEI (diversity-equity-inclusion)

Generate ECONOMIC growth
(the business of) excellence, network economy

Value creation focus

Sustainability
Inclusion
Customer scale
(process customers, personalization at scale)
Excellence
(product, service, people)
Creativity
Culture
Diversity
People
Connections

Operating model

Insurgent at scale
Resilient & emergent
Clienteling centric
Agile/Adaptable

Digital enabled
Platform based

Tech-stack
Metaverse
Data
Math & magic

Connections

Competitive advantage

ECONOMIC growth

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expanded MISSION
Claudia D’Arpizio,
Partner Bain & Company
Leader Global Fashion-
Luxury Goods vertical

Claudia has spent more than 25 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
Leader EMEA Fashion-
Luxury Goods vertical

Over the last 17 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's consolidated sales are *retailized* through the following methodology:

\[
\text{PLAYER CONSOLIDATED SALES = Retail + Wholesale + Licenses}
\]

\[
\text{PLAYER SALES AT RETAIL VALUE = Retail + Wholesale at retail value + Licenses at retail value}
\]

Bottom-up and top-down estimates

Bottom-up

- 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 add brands’ individual retail values...

...we cross-check results