BAIN & COMPANY

Fondazione Altagamma

Altagamma 2014 Worldwide Markets Monitor

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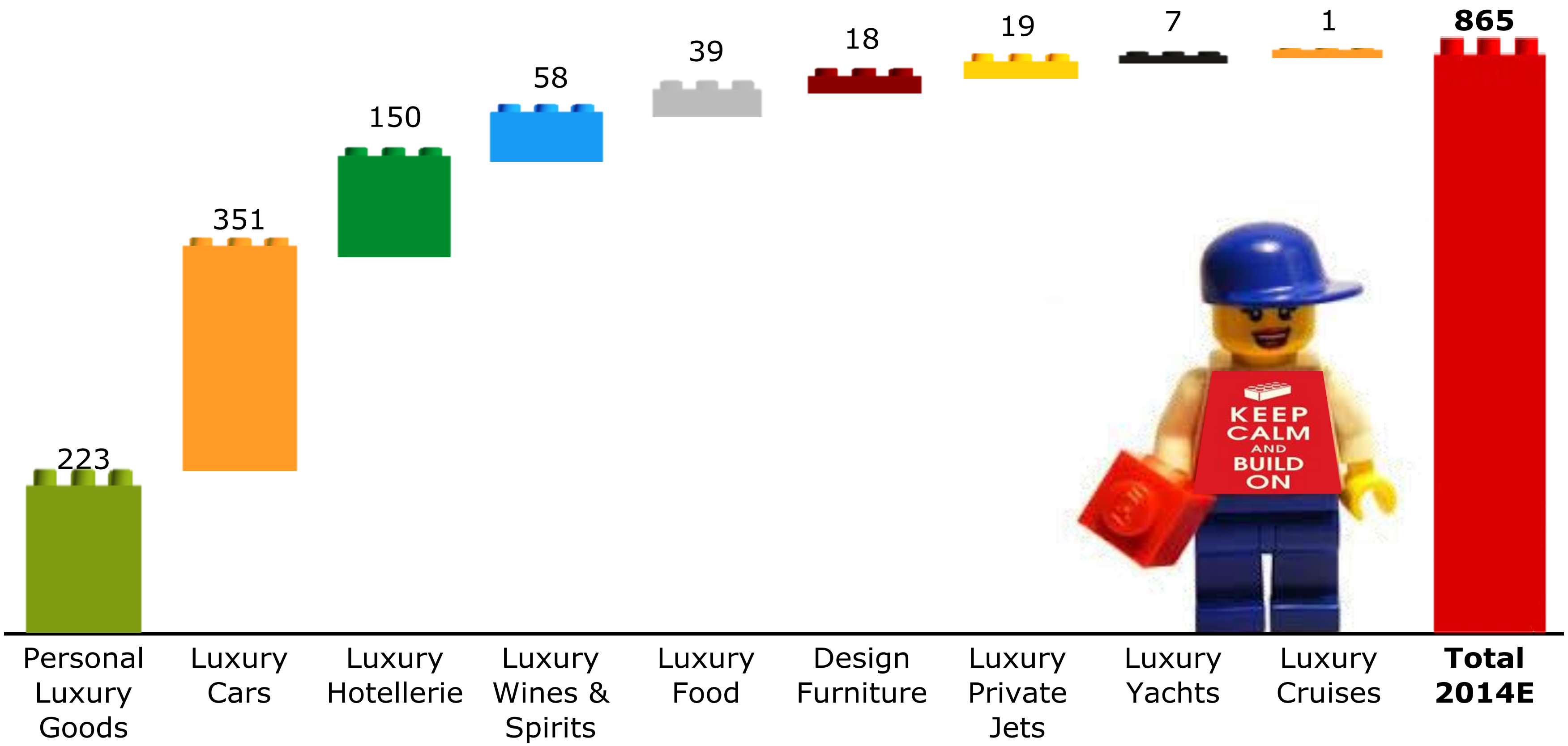
Milan, 14th October 2014

Luxury consumption spans across several categories

Worldwide luxury markets approaching the trillion in 2014!

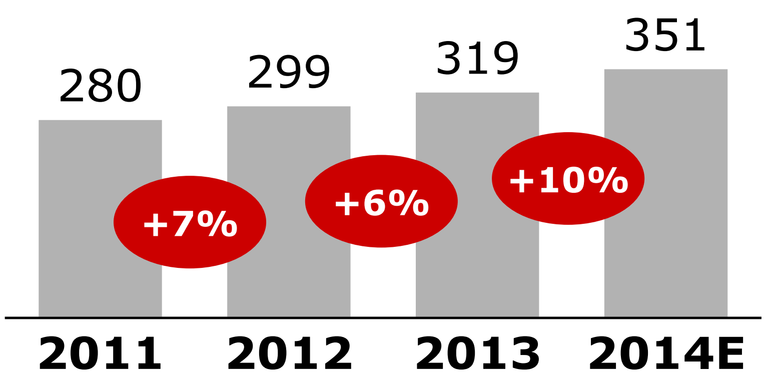
WORLDWIDE LUXURY "MARKET OF THE MARKETS" (2014E|€B)



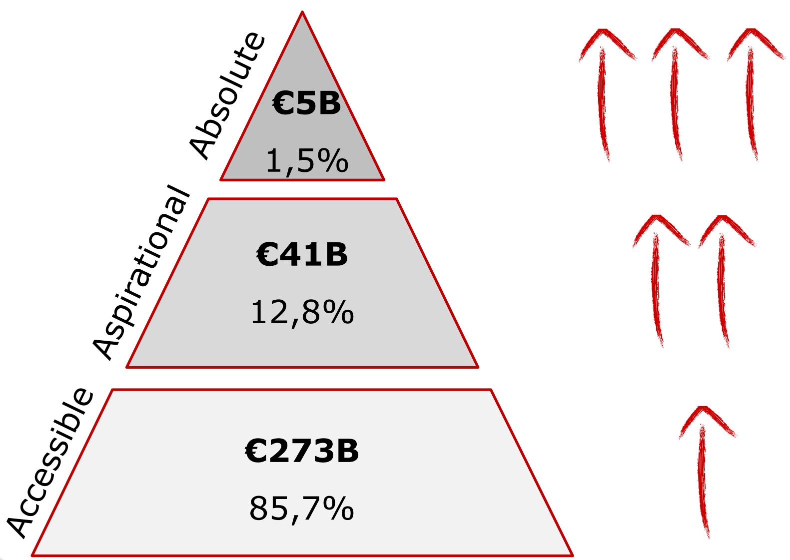
	Personal Luxury Goods	Luxury Cars	Luxury Hotellerie	Luxury Wines & Spirits	Luxury Food	Design Furniture	Luxury Private Jets	Luxury Yachts	Luxury Cruises	Total 2014E
Growth '13-'14E	**2%**	**10%**	**9%**	**5%**	**2%**	**-1%**	**9%**	**2%**	**5%**	**7%**

Luxury Cars accelerating in 2014 with the "supercar" segment still outperforming

Luxury Cars Market Trend (€B)



Trends by Segment (2013)

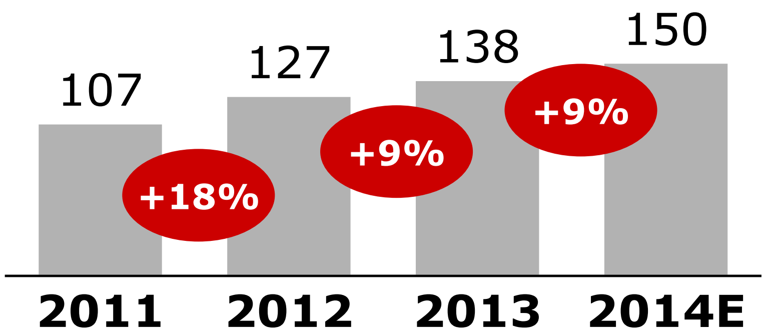


Key Industry Macro-Trends

- Luxury car market **projected to post solid growth**, driven by **"supercar" segment** and **emerging markets**
  - Especially **Brazil, India, Middle East** and **China** where luxury cars are **still perceived as "social enablers"**
- **360° customization trend: from product to services**
  - Customers are **choosing to customize their vehicles doubling** or even **tripling the basic price tag**
  - **Personalization** extended also to **financing structure** and **after-sales services**
- **Super luxury SUV's** as a **new emerging segment** in which several **high-end carmakers will compete** in the **coming years**
- **Connectivity** and **ergonomics** as **"the two hot topics"** in the industry

Hôtellerie keeping pace with the recovery of construction industry, Cruises continuing to grow

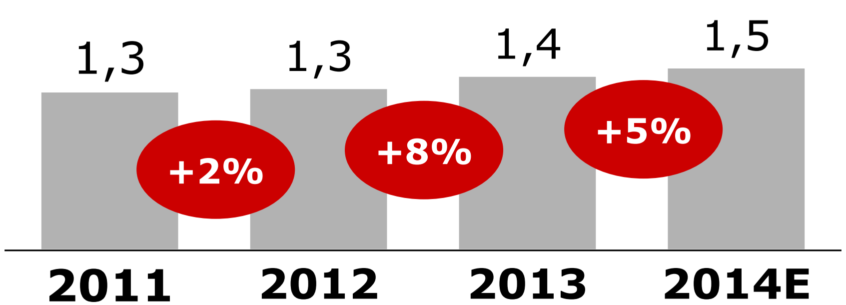
Luxury Hôtellerie Market Trend (€B)



Key Hôtellerie Macro-Trends

- **Steady growth expected** in 2014
  - Resilient **transient demand** coupled with a **resurged group demand**
  - Construction activity picking up **after several years** of **almost stagnation**
- **Different performances** across **regions**
  - **Outstanding performance** in **Mexico; China** still **marginally impacted** by **recent ban** on **official spending** at 5-star hotels
  - **Germany** and **UK gathering momentum**

Luxury Cruises Market Trend (€B)

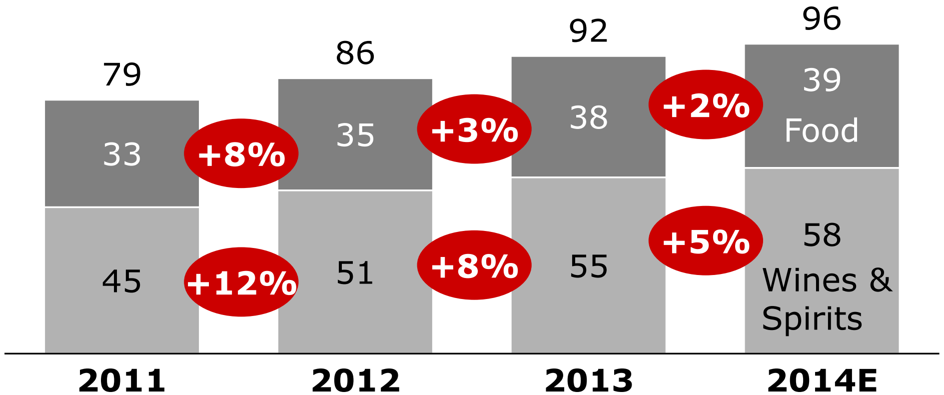


Key Cruises Macro-Trends

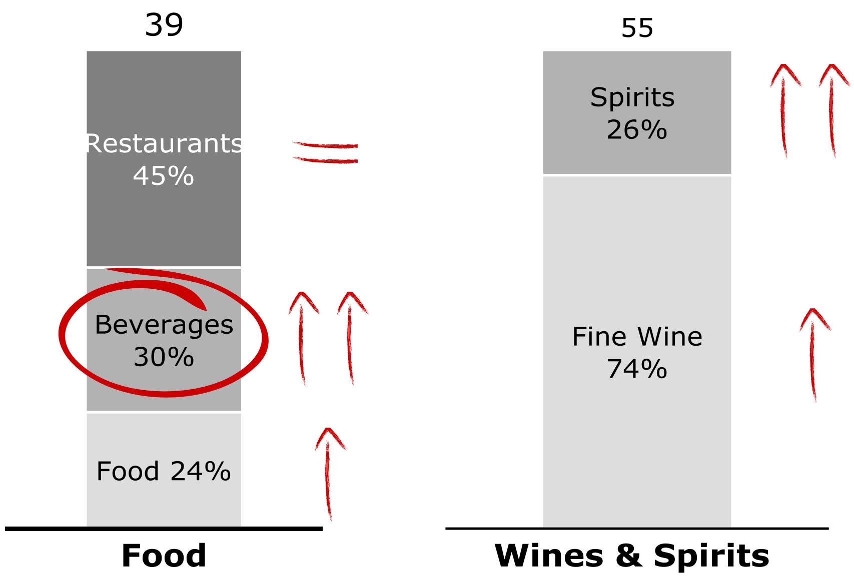
- **Healthy outlook going forward**
  - **Additional investments** in capacity to **fulfill solid demand**
- **New generations** (30+) **approaching luxury cruise** asking for a **superior lifestyle experience**
- **River luxury cruising** as a **niche but fast growing segment**

Sparkling wines fuelling Wines & Spirits momentum; non-alcoholic beverages also posting good growth

Luxury Food and Wines & Spirits Market Trend (€B)



Trends by Segment (2013)

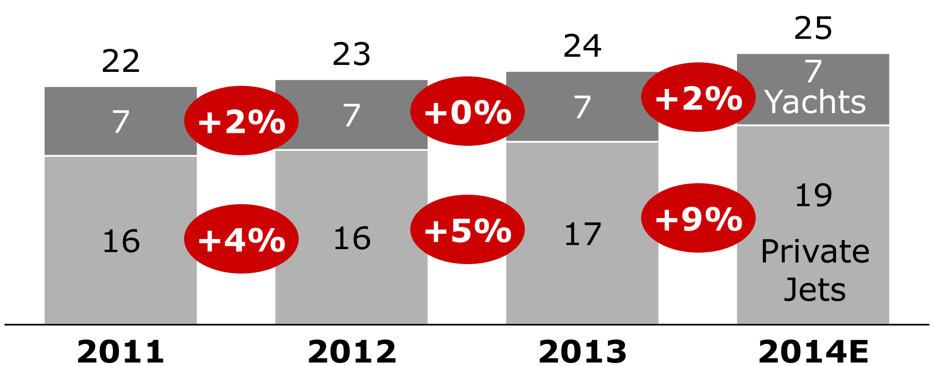


Key Industry Macro-Trends

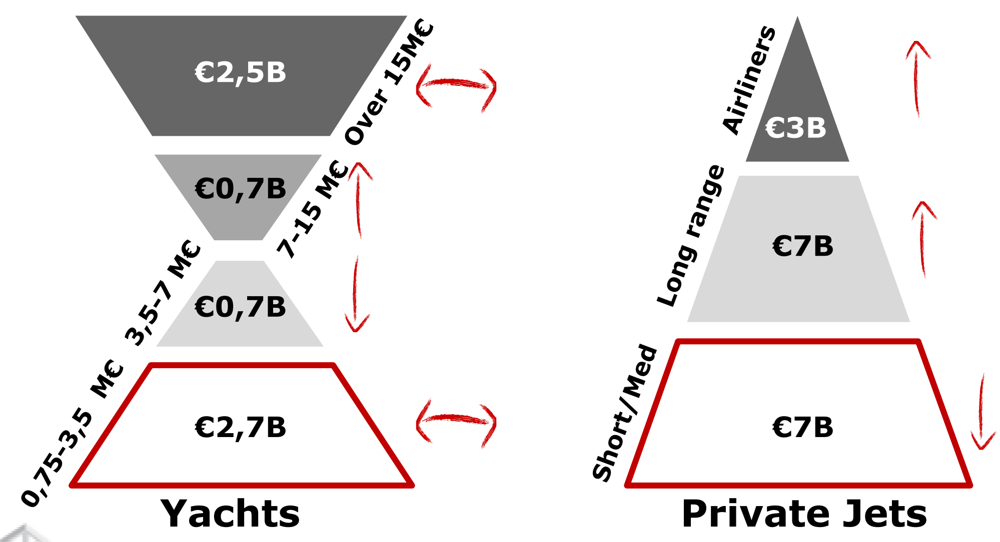
- **Fine wine forecasted to outpace high-end spirits**
  - **Spirits slowdown** in **emerging market**
  - **Champagne regaining share pushed** by both **positive volume** and **price effects**
- **Very disparate** performance by **geography/product category** in **spirits**
  - **Vodka becoming the trendy drink** of choice in **Asia** showing up at exclusive after-parties
  - **Anti extravagance** measures in **China negatively impacting high-end spirits**
- **Luxury restaurants** still **suffering**, positive trends limited to **niche segments**
- Beverages **strong momentum**
  - ***"Wine-ification"* of water**
- **Gourmet food** exploiting **new channels**
  - Fine food in **travel retail** filling a gap for innovative **gifting products**

Yachts market back in business, Luxury Jets industry continuing to show robust growth

Luxury Yachts and Private Jets Trend (€B)



Trends by Segment (2013)

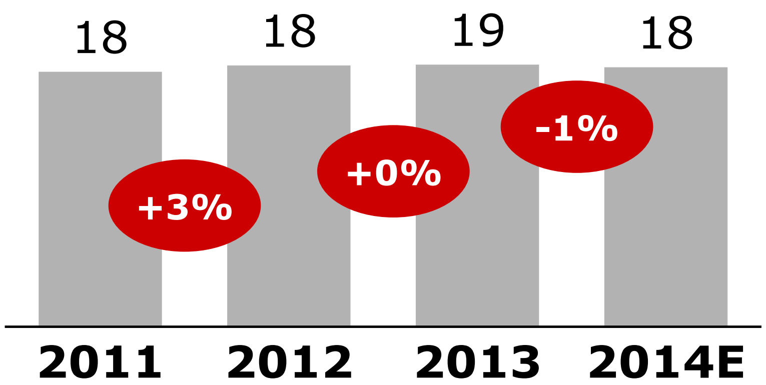


Key Industry Macro-Trends

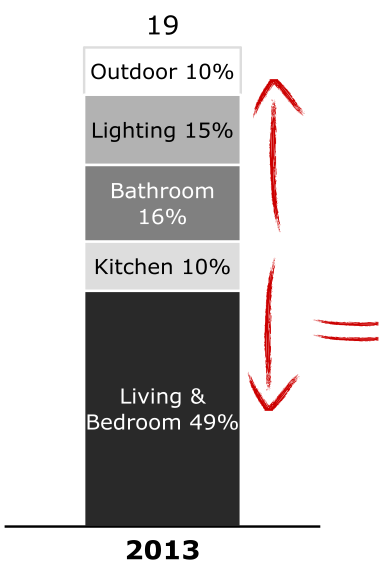
- **Yachts** market back to growth at a **low single-digit pace**
  - **China** as the market with the **highest potential due to very limited penetration**
- **Very polarized** approach **towards consumers**
  - **Super yacht brands** leveraging all **touch-points** and delivering a superior experience
  - Other **brands** still **more product** rather **than customer-oriented**
- **Positive trend in jet sales** boosted by **emerging markets**
  - **Brazil** and **Hong Kong** growing steadily
  - **China** and **Russia** having still limited role due to **strict bureaucratic rules** and **military control of national airspace**
- **Demand** for the **most expensive** private **jets steadily growing** together with **price**

Tough 2014 for high-end furniture but positive outlook going forward, also thanks to new markets

High-End Furniture Market Trend (€B)



Trends by Segment (2013)



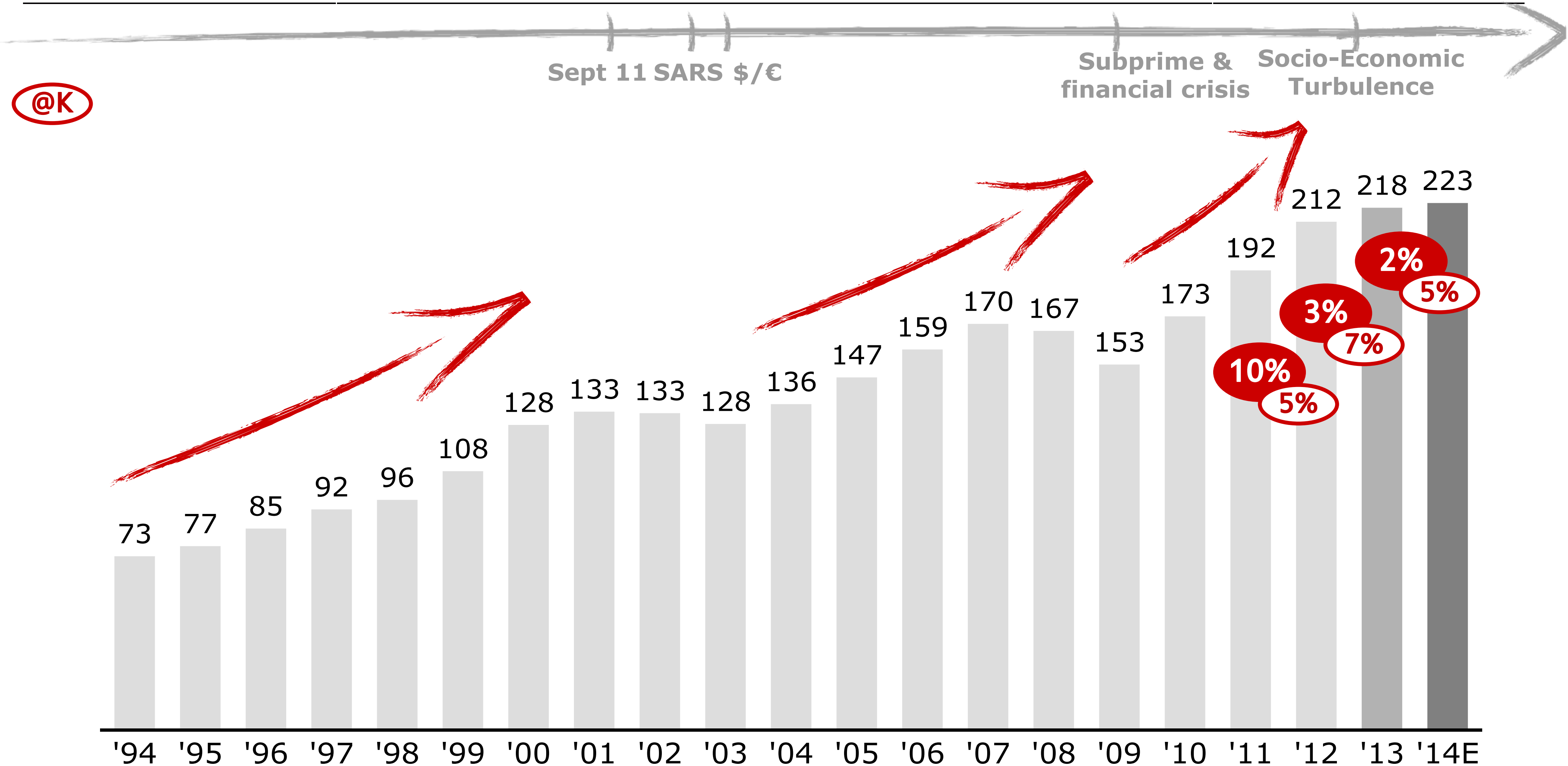
Key Industry Macro-Trends

- Design furniture market in a **slow downward trend** still impacted by **poor fundamentals**
  - **Weak real estate activity** in key markets
- **Opportunities** in **foreign markets** leading to **positive expectations for 2015**
  - **China:** easing of one child **policy to further push children's furniture**
  - **Solid fundamentals** in **US**
  - **Russia** and **ME** major areas of interest also boosted by the **contract** segment
  - **Kazakhstan, Morocco** and **India gaining momentum**
- **Macro-trends** in the sector:
  - **Very promising prospects** from **online**
  - **Home staging:** tenants seeking ever more **partially or fully-furnished apartments** and becoming **more *Opinionated*** about **the design of the rental space**

Luxury consumption spans across several categories

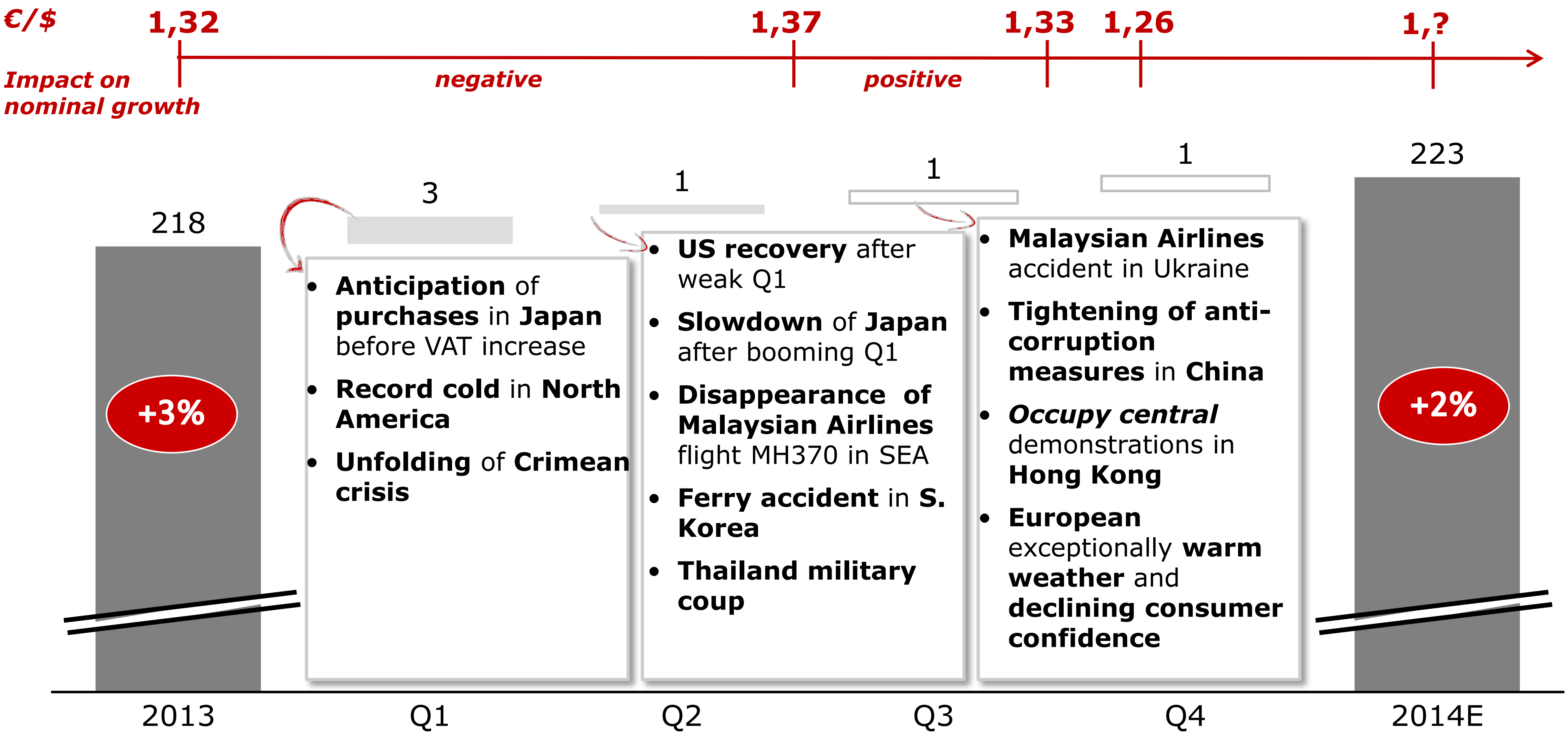
Global luxury reaching €223B in 2014 despite slowdown, cumulated retail sales of the last 20 years surpassing €3T

GLOBAL PERSONAL LUXURY GOODS MARKET TREND (1994-2014E|€B)



2014 overall market trend impacted by several exceptional exogenous events

GLOBAL PERSONAL LUXURY GOODS MARKET TREND (2013-2014E|€B)



	Q1	Q2	Q3	Q4
QoQ growth	4%	2%	1,5%	1,5%

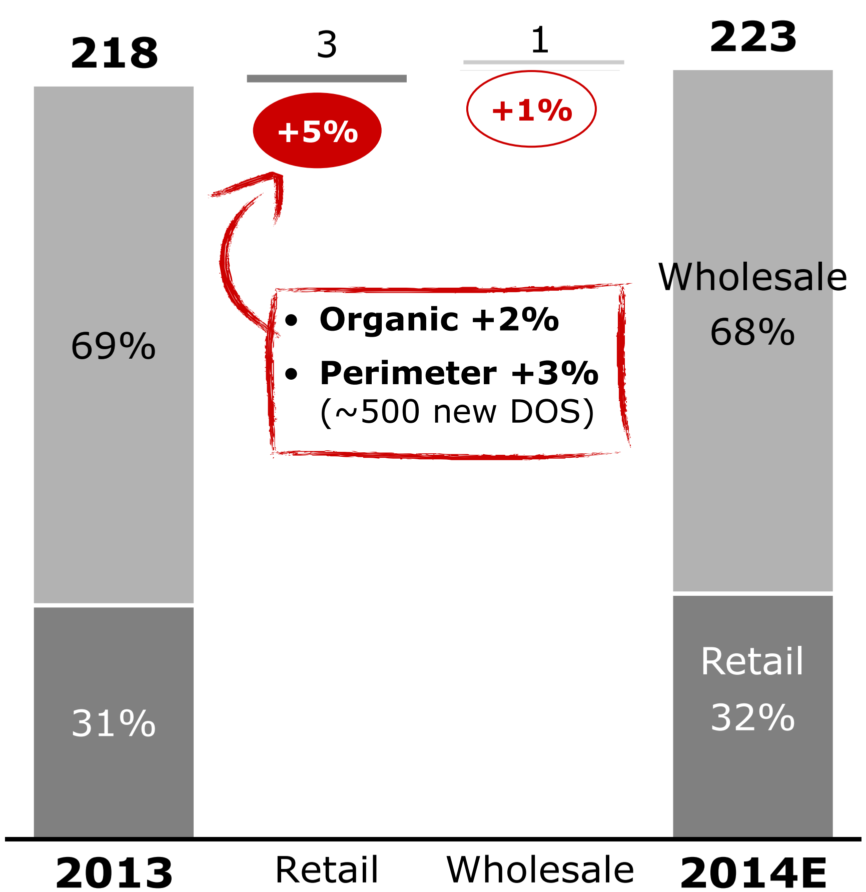
Based on listed companies results
Based on Bain estimates

Luxury watchwords for 2014: Retail, Chinese, Americas and Shoes

HOW **Trends by channel and format**	• **Retail** still the **main growth engine**; **monobrand format** generating more than **half of the market** • **Online** fastest growing channel with an **outstanding sales jump** (+28% '14E-'13 growth)
WHO **Trends by consumer nationality**	• **Chinese** confirmed **top nationality**, with evolving **shopping preferences** and **spending patterns** • **Luxury appeal on the rise** among **Americans** and **Japanese**; **Europeans** still **lagging behind**
WHERE **Trends by geographic area**	• **Americas best performing region** (+3% '14E-'13 growth), followed by **Japan** (+2%) and **Europe** (+2%) • **APAC** posting a soft and decelerated **1% growth**, also **impacted** by **extraordinary circumstances** and **negative currency effect**
WHAT **Trends by product category**	• **Accessories retaining** the **top position**, fuelled by **brisk growth of shoes** • **Hard luxury slowing down**, hit by watches deceleration • **Apparel** showing **positive trend**

Retail main growth driver, despite decelerating organic trend and new focus of perimeter expansion

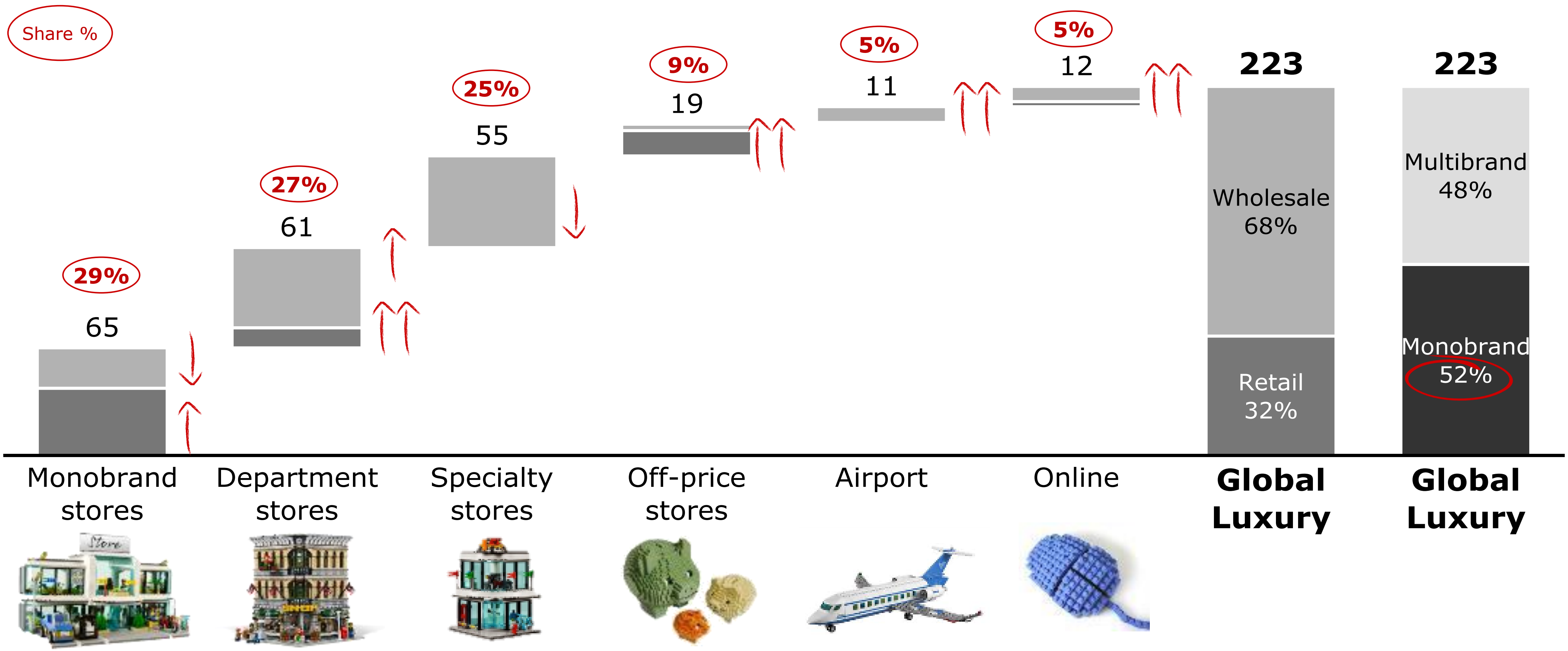
GLOBAL PERSONAL LUXURY GOODS MARKET TREND BY CHANNEL (2013-2014E|€B)



- **Ongoing *retailization* of historical wholesale formats** and **markets**
  - **Middle East shifting** from **distribution** to **joint ventures**
  - **US department stores conversion continuing but decelerating**: economic sustainability of direct operations unlikely to go beyond top 4-5 doors, strategic rethinking needed going forward
- **Slight slowdown** in **new DOS openings**, **especially** in **emerging markets**
  - **Strategic maintenance** of **oversaturated Asian hubs** (e.g. Hong Kong, Shanghai)
  - **Men-only format increasingly popular**: e.g. Chinese malls focusing on gender-specific stores
- **Wholesale** showing first signs of **recovery**
  - **US Department stores performing well**, especially on the **shoe floor**
  - **Fashion specialty store rationalization** in **Europe** leading to a **stronger client base**
  - **Hard luxury overstock** undermining growth

Retail growing across formats, while monobrand distribution already representing over 50% of the market

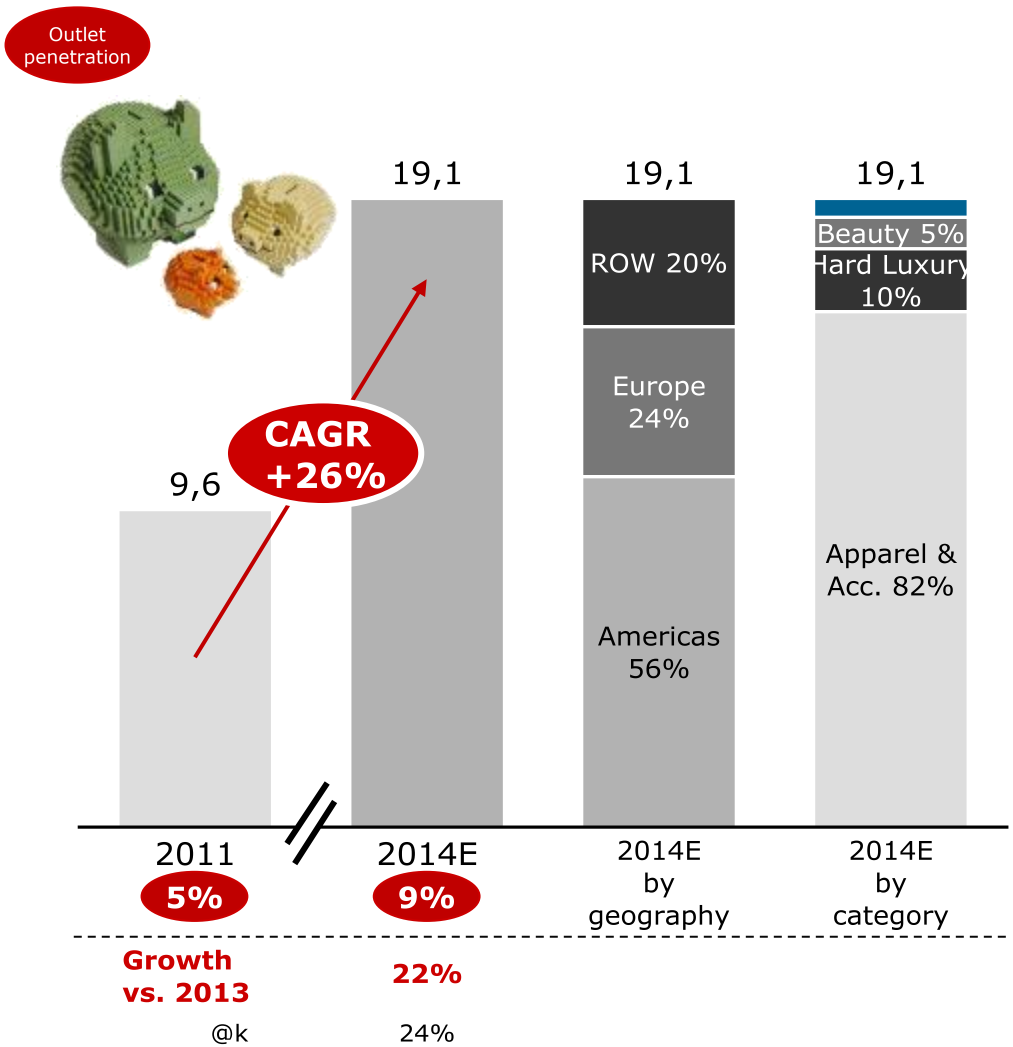
GLOBAL PERSONAL LUXURY GOODS MARKET BY CHANNEL & FORMAT (2014E|€B)



	Monobrand stores	Department stores	Specialty stores	Off-price stores	Airport	Online
Monobrand	100%	50%	0%	80%	15%	35%
Multibrand	0%	50%	100%	20%	85%	65%

Off-price channel nearly doubling penetration in 3 years sustained by demand for value-for-money in luxury

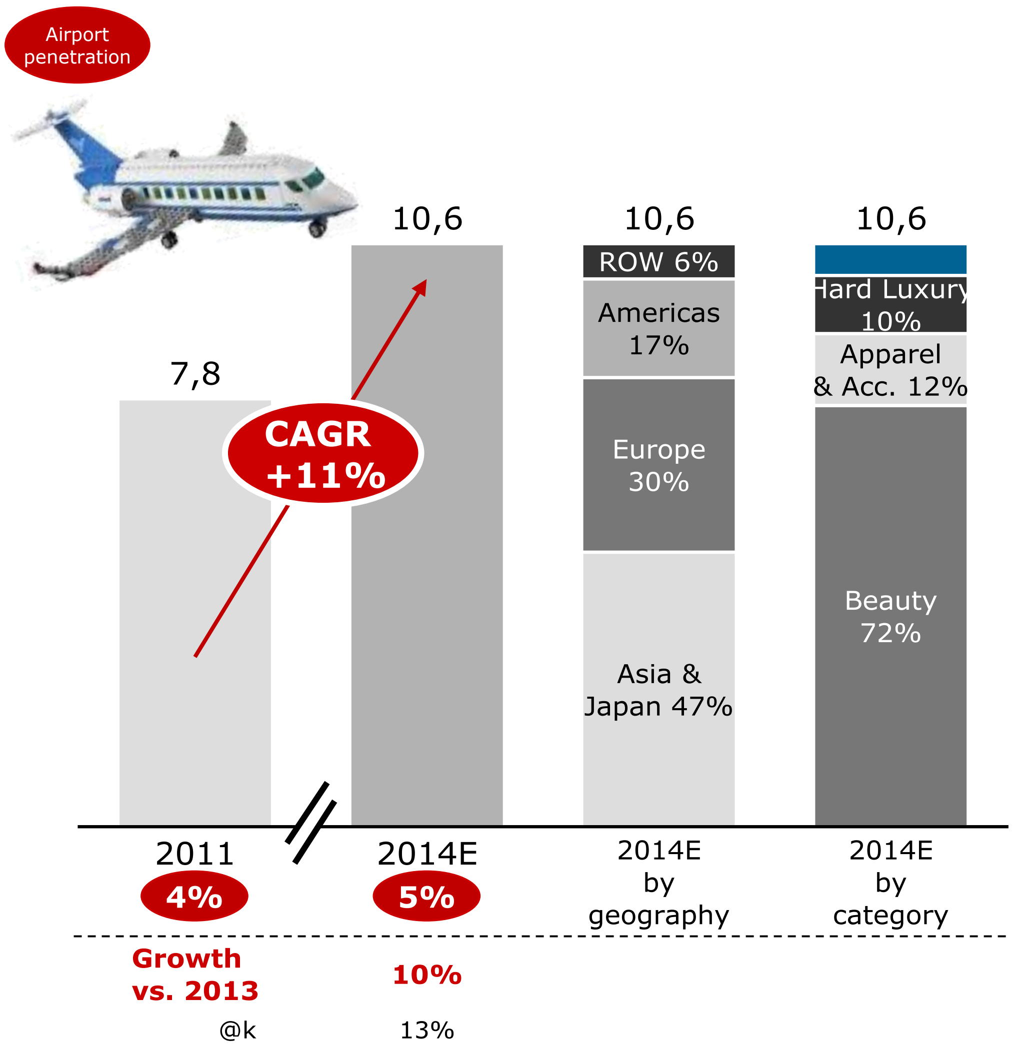
OFF-PRICE PERSONAL LUXURY GOODS MARKET TREND (2011-2014E|€B)



- **European centers** increasingly **sustained** by **touristic consumption**
  - Chinese top spenders and major growth driver
- **Several** new openings in **North America** strategically **planned** to capture **Chinese tourists** and **residents**
- **Outlet channel booming in China** with **international developers** openings **several centers mainly in 2nd tier cities**
  - Mainlanders **get luxury bargain closer**
  - Nevertheless, **presence** in **off-price channel** undermining **perceived exclusivity more** than **end-of-season discounts**
- **Outlet "premiumization"** with more **sophisticated store design and customer service** aiming at replicating a **full-price shopping experience**
  - **Personal shoppers** and **private sales as** key tools to **engage consumers providing an authentic luxury experience**

Turning impulse buying into planned shopping: the new global challenge for luxury brands at airports

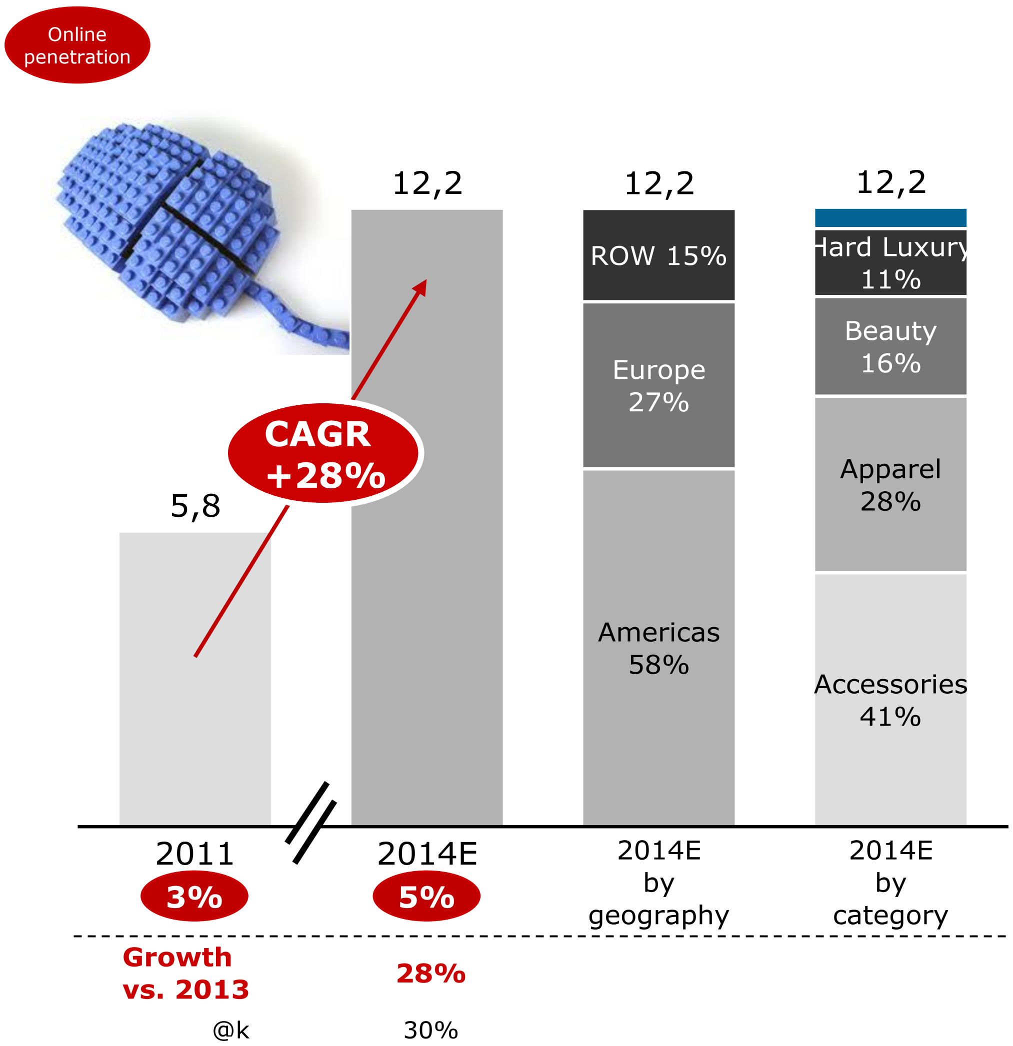
AIRPORT PERSONAL LUXURY GOODS MARKET TREND (2011-2014E|€B)



- **Airport channel** has **always been** a **fundamental one** for **beauty products**…
  - The **channel** is the **'6th continent'** for beauty brands and has a fully dedicated organization
- …now **increasingly attracting fashion brands investments** to intercept tourists
  - **Infrastructural improvements** turning airports into **shopping malls** (US still lagging behind)
- **Wholesale model** still representing the **distribution backbone** of the channel but **ever more brands entering directly** when tender do not require partners
  - **Direct management** guarantees far **higher performance** but **requires channel-specific capabilities** and **OPEX/CAPEX tight control**
- **Few multibrand concepts** and **department stores** have **attempted** to **penetrate the channel** (beyond core categories) and with **mixed results**

Evolving e-commerce dynamics changing the rules of the game for the entire distribution

ONLINE PERSONAL LUXURY GOODS MARKET TREND (2011-2014E|€B)

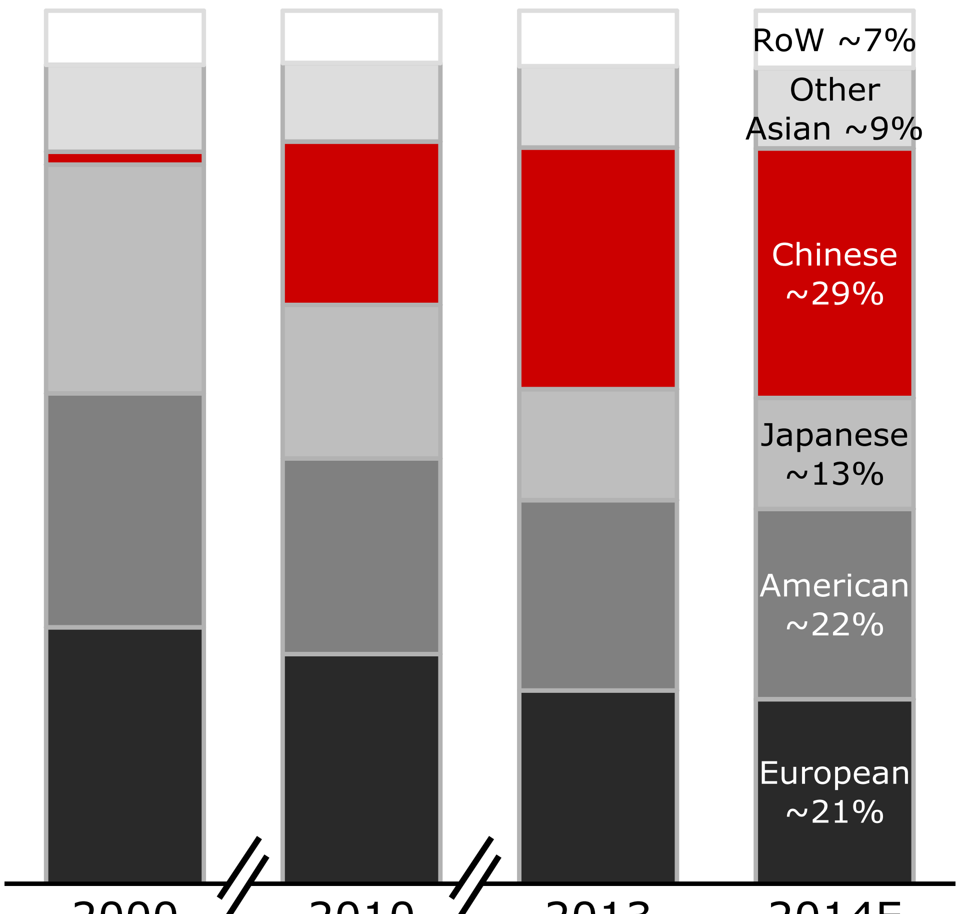


- E-commerce undergoing **structural changes**
  - **Shortening delivery time** increasing channel **competitiveness vs. brick and mortar**
  - **M-commerce gaining share**: real-time ***showrooming*** becoming the standard
  - First brands **direct concessions on *e-tailers*** replicating the department stores model online
  - ***Buy-now-wear-now*** trend pushing brands to offer online items one season in advance
- ***E-tailers* outperforming** the market globally; **flash-sales particularly dynamic**
  - **Bargain-hunt key driver** pushing off-price online channel and discounted sales
- **Asia growing** the **fastest** on the impulse of **local *e-tailers*** looking for global expansions
  - Online *Daigou* in China still undermining *brands.com* performance thanks to lower prices
- **Shoes top performing category** (>10% share); hard luxury opening to the channel

Opinionated Chinese consumers changing behavior, while *Wannabe* ones approaching luxury their own way

WHO

GLOBAL PERSONAL LUXURY GOODS MARKET BY CONSUMER NATIONALITY (2000-2014E|€B)

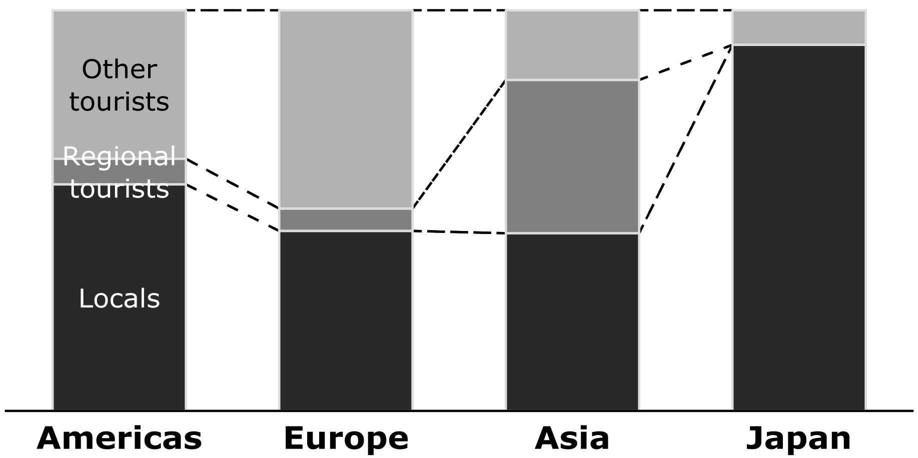


- **Chinese** confirmed **top nationality**, **different trends** behind a **decelerating growth**
  - -**Declining local spending** especially on watches
  - -**Growing outbound flows** of ***Wannabe*** **consumers** with **lower spending power**
  - -**Wealthy *Opinionated* consumers** increasingly opting for **more experiential luxury when travelling abroad**, especially if recurring travelers
  - -**Stricter custom control at arrival reducing multiple purchase abroad**
- **Western European** ever more **looking for value-for-money** and **getting *Disillusioned*** about an **industry** that is **cutting them off** with **continuous price increase**
- **American growing spending** pushed by a **rediscovered interest** for **luxury products** especially in **younger generations**
  - -**2nd** and **3rd generations** of **Asian American** and **Latin American** providing **extra dynamism**
- **Japanese increasing spending locally**

With the exception of Japan, China and South America, all markets are now driven by touristic spending

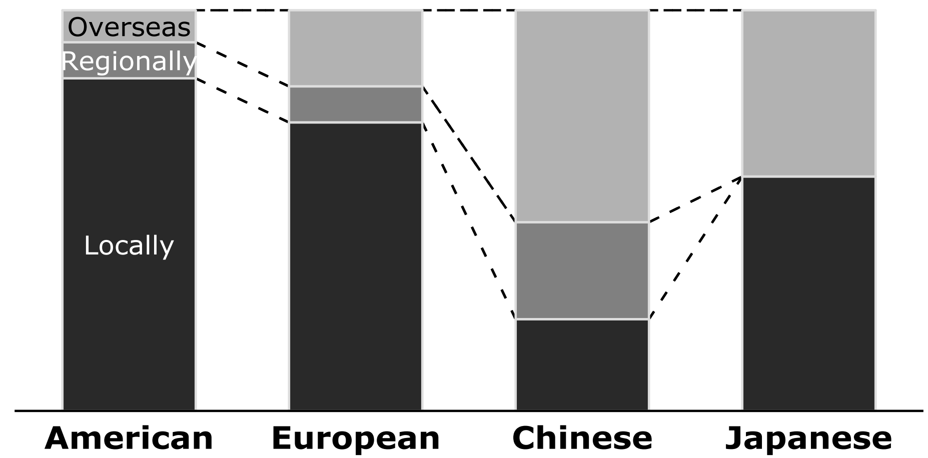
LUXURY GOODS SPENDING PATTERNS BY MARKET (2014E|€B)

Luxury goods are bought by...



- **Europe** is the **region** most **dependent on touristic spending**
- In the **Americas tourists** are also **increasingly relevant**

Luxury shopping is done...



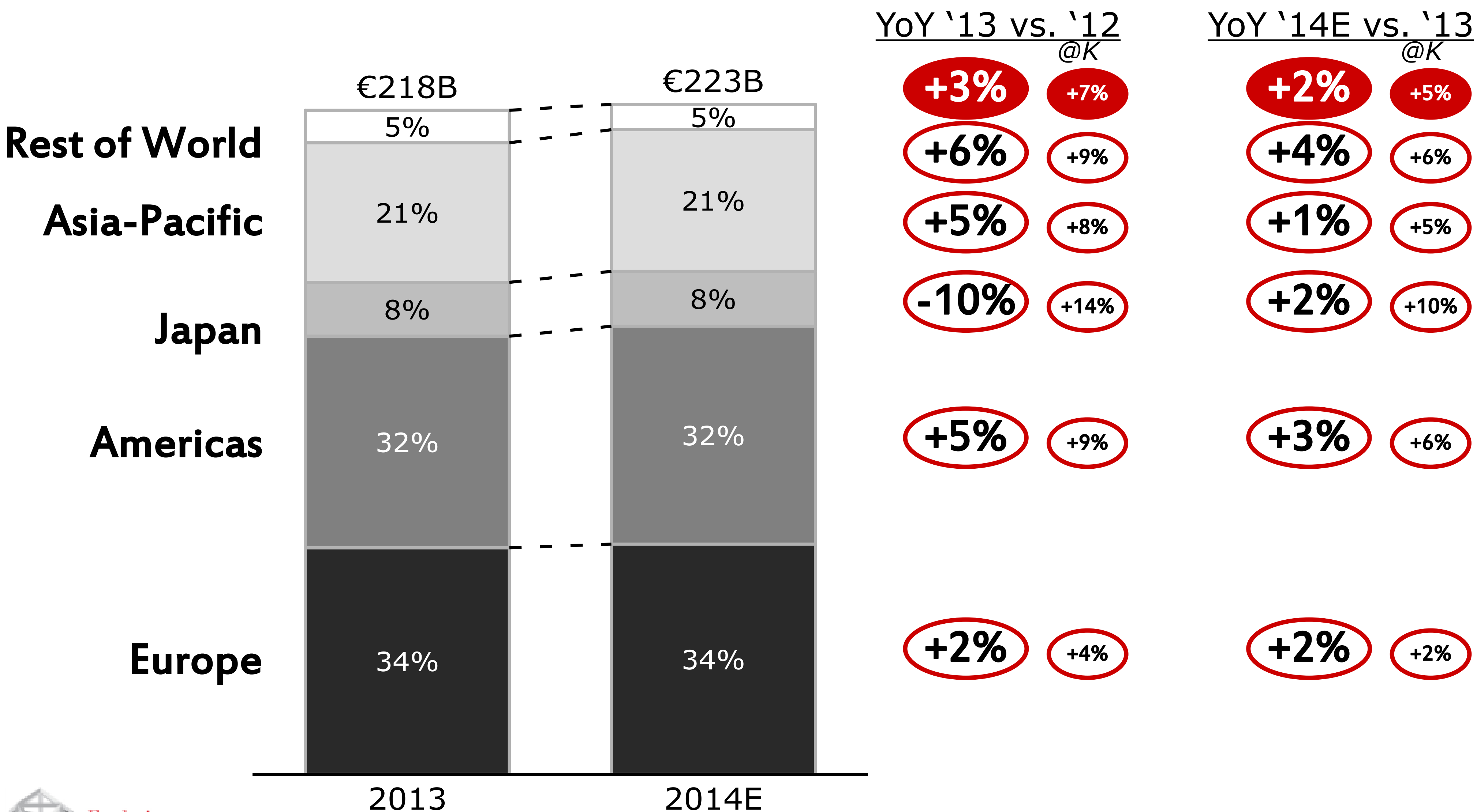
- **American** and **European** are the most local shoppers enjoying a broad offer at good price
- **Chinese spend abroad** over **3 times** what **they spend locally**

US: luxury superhero came to rescue an increasingly challenging market

In 2014 Americas confirmed as key growth driver; Asia compromised by unexpected events and currency effect

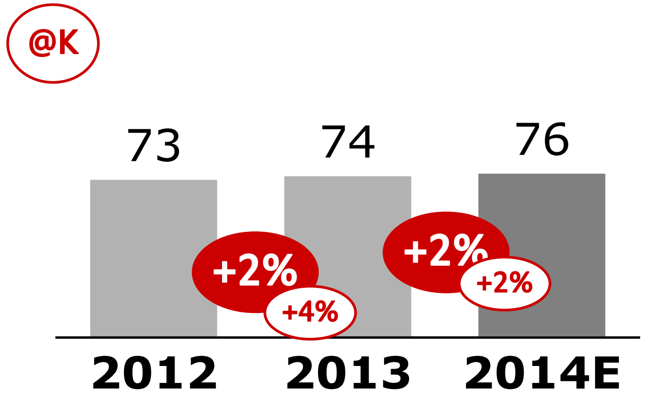
WHERE

GLOBAL PERSONAL LUXURY GOODS MARKET BY AREA (2013-2014E|€B)



Slowdown of touristic consumption and only partial recovery of local spenders confirming 2013 trend in Europe

EUROPEAN PERSONAL LUXURY GOODS MARKET (2012-2014E|€B)



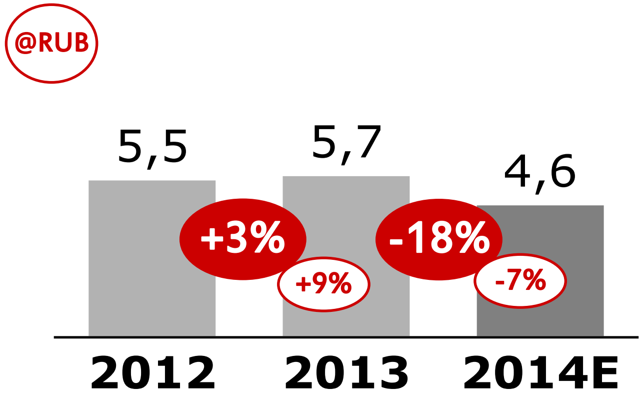
European luxury goods market – Key touristic shopping trends (2014E)

	TRAFFIC	CONVER-SION	AVG TICKET	TOTAL
CHINESE	↑↑	↓	↔	↑
RUSSIAN	↑	↓↓	↑	↓
MIDDLE EASTERN	↑↑	↔	↔	↑↑
JAPANESE	↔	↓↓↓	↑	↓↓

- **Trend in line with 2013** despite a **persisting difficult economic situation** worsened by **socio-political tensions** in Eastern Europe
  - **Tourists spending still fundamental** driver but **slowing down** across most nationalities
  - **Local consumption uneven** among countries and **compromised** by **deteriorating consumer confidence** over the last few months
- **Fall/winter** performance **struggling to take off** due to **unusually high temperatures**
- **Differentiated performance across markets** with **Western Europe outpacing Eastern**
  - **UK** and **Germany solid performance**
  - **France** still **sound in Paris** but **suffering** in resort locations for the **reduction** of **Russian spending**
  - **Italy suffering** in **2nd-3rd tier cities retail**, while **multibrand contraction reaching** the **minimum**
  - **Eastern Europe performance compromised** by **reduction** of **Russian spending** also for the **increased competition from Dubai** thanks to increasing direct connections

In 2014 Russia has seen a double-digit negative trend in euro terms following a decelerating performance in 2013

RUSSIAN PERSONAL LUXURY GOODS MARKET (2012-2014E|€B)



2014E Eastern Europe Personal Luxury Goods market trends

- **2013 slowdown** and **2014 contraction, further penalized** by **currency devaluation**
  - **Crimean crisis worsening** a **market** in a **downward trend** due to **deteriorating economy** coupled with **lowering consumer confidence**
  - **Disappointing** effect of **Sochi** Olympic games
- **Wholesale clients strongly hit**
  - **Limited access to credit** and **disappointing sales trend** (lack of liquidity) **compromising ability** to **respect payment conditions**
  - **Limitations** on **off-shore operations** and **currency transactions** restricting players actions
  - **Up to 30% budget cut expected** for **SS15** due to sales contraction and ongoing currency devaluation
- Overall **low consumer confidence** driven by generalized **uncertainty about the future**
- **Wealthy Russian** keep spending in luxury in other countries: **Dubai** among favorite destinations

Key foreign shopper profiles evolving in Europe: from boom to relentless decline, from polarization to democratization

WHERE

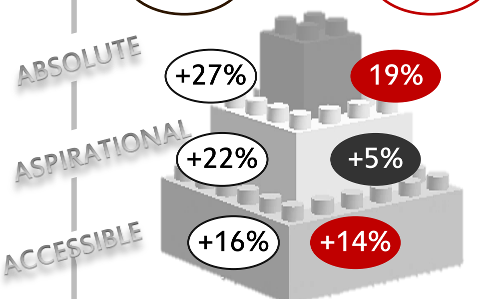
Global Blue

EUROPEAN TAX FREE SHOPPING TREND BY NATIONALITY ('14 vs. '13)

CHINESE

DEMOCRATIZING POLARIZATION

'13-'12	'14-'13
+20%	+10%

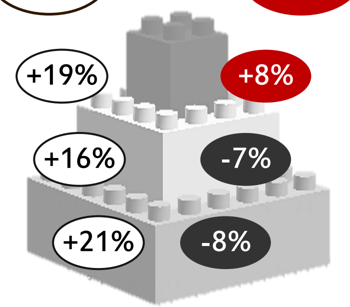


- **Overall slowdown**
- ***Absolute* growing in transactions** with **stable AVG ticket**
- Lackluster *Aspirational*
- *Accessible* **increase in transactions** coupled with **declining AVG ticket** indicating sharp **democratization**

RUSSIAN

LUXURY FOR FEW

'13-'12	'14-'13
+18%	-3%

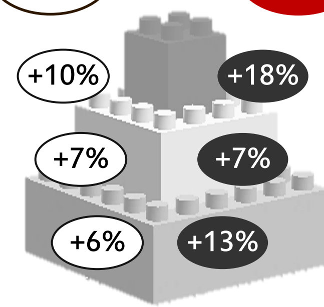


- **Russian contracting on all segments but *Absolute***
- **Transactions declining** across the board
- **AVG ticket** increasing in ***Absolute*** and ***Aspirational*** indicating consumer **polarization towards top spenders**

MIDDLE EASTERN

BOOM ACROSS THE BOARD

'13-'12	'14-'13
+8%	+11%

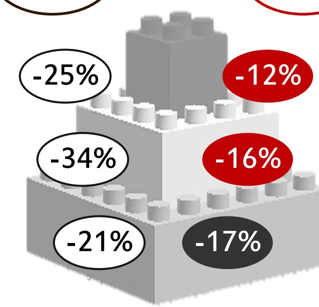


- **Middle Eastern growing across segments** despite **certain polarization**
- **Trend driven** by **transaction volume increase** with **minor change** of ticket: **growing consumer base** with relatively **stable profile**

JAPANESE

LUXURY FOR FEW(ER)

'13-'12	'14-'13
-31%	-15%



- **Transaction volume reduction** resulting from **Yen devaluation**, somehow **decelerating in 2014**
- **AVG ticket increase** in *Absolute* and *Aspirational* **indicating** that the **wealthiest** are **buying more**, but still **unable to offset general trend**

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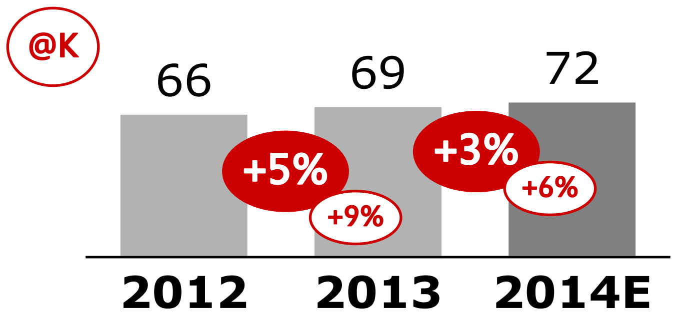
NOTE: figures refer to Jan-Aug period

US and Japan driving global positive trend: mature markets gaining back their key role

Americas

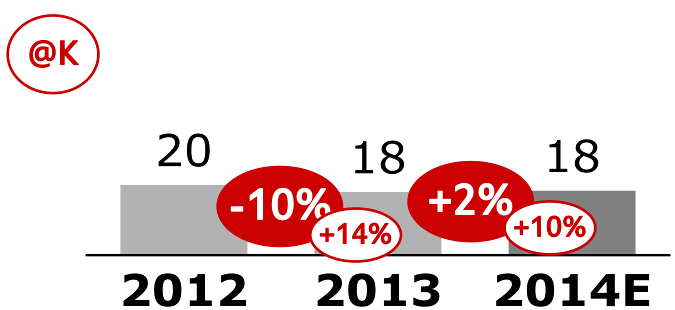
American Personal Luxury Goods Market Trend (2012-2014E|€B)



- **US** (~€65B) growth **slightly decelerating** vs. 2013 also due to the **bad weather conditions in Q1**
  - **Chinese**, both tourists and residents, **increasingly relevant consumers** in both 1st and 2nd tier cities
  - **Locals showing sound trend**
  - **Men's categories outperforming** thanks to **cultural twist** fostered by **music and sport celebrities**
- **Canada** (~€1,5B) maintaining **positive momentum** despite decelerating Chinese inbound flows
- **Latin America** (~€5B) **slowing down** with **good performance of Mexico** offset by **Brazilian disappointing local trend** in euro terms

Japan

Japanese Personal Luxury Goods Market Trend (2012-2014E|€B)

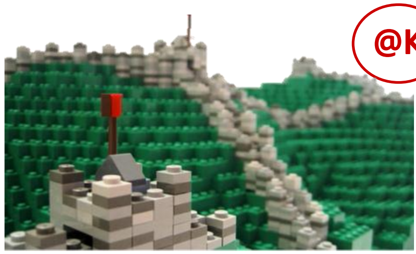


- **Best performing market in real terms**
- **Local consumption** maintaining **very positive momentum** despite price increase re-stablishing differentials vs. Europe
- **Growing Chinese flows** providing **extra impulse**
- After **2 years of lackluster trend**, **Osaka regaining traction**, but still outperformed by Tokyo
- **April VAT increase boosting sales** in **Q1** but with **limited impact over full year performance**
  - Among **future threats** the possible **further increase in sales tax in 2015**

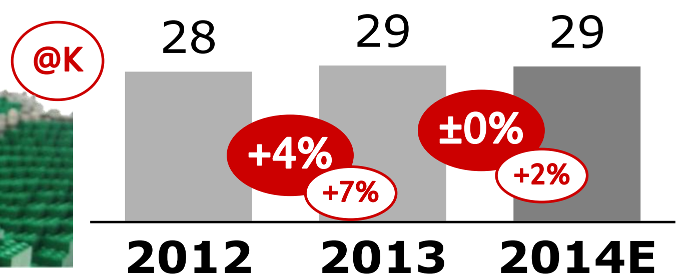
Exogenous and exceptional events compromising 2014 Asian key markets performance

WHERE

Greater China



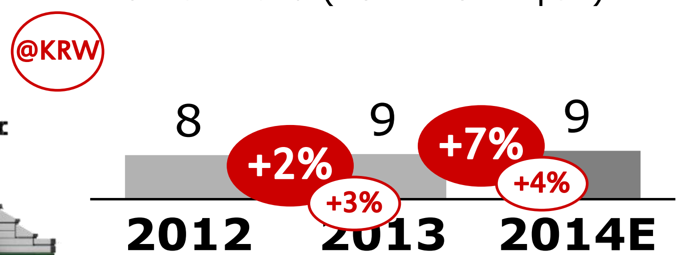
Greater China Personal Luxury Goods Market Trend (2012-2014E|€B)



- **Mainland China contracting** for the first time
- **Hong Kong decelerating significantly**, affected by the 'Occupy Central' demonstrations
- **Macau** maintaining **strong performance** despite new visa regulation for Mainland Chinese
- **Taiwan** still **unable to take-off** despite brands efforts, also lacking Mainland Chinese propulsion

South Korea

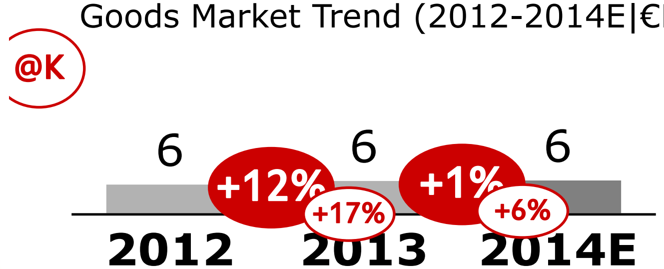
South Korean Personal Luxury Goods Market Trend (2012-2014E|€B)



- **South Korea strengthening** position of **trend-setter** and **influencer** in fashion and luxury
- Despite **uneven performance** the **market** is **growing** also thanks to **duty free acceleration**
  - Increasingly popular destination for Chinese shoppers
  - The ferry foundering caused a contraction of up to 20-30 pp during the month of the accident
- **Dept. stores renovations** providing new vigor

S.E. Asia

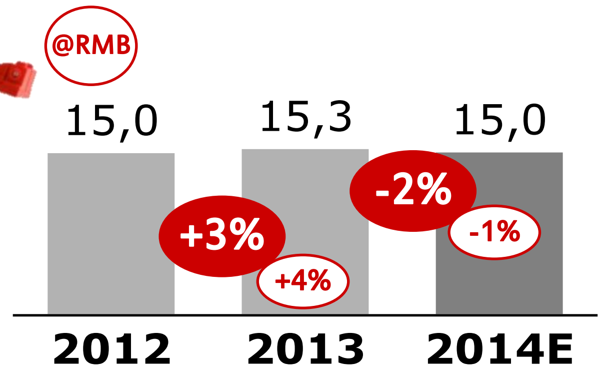
South East Asian Personal Luxury Goods Market Trend (2012-2014E|€B)



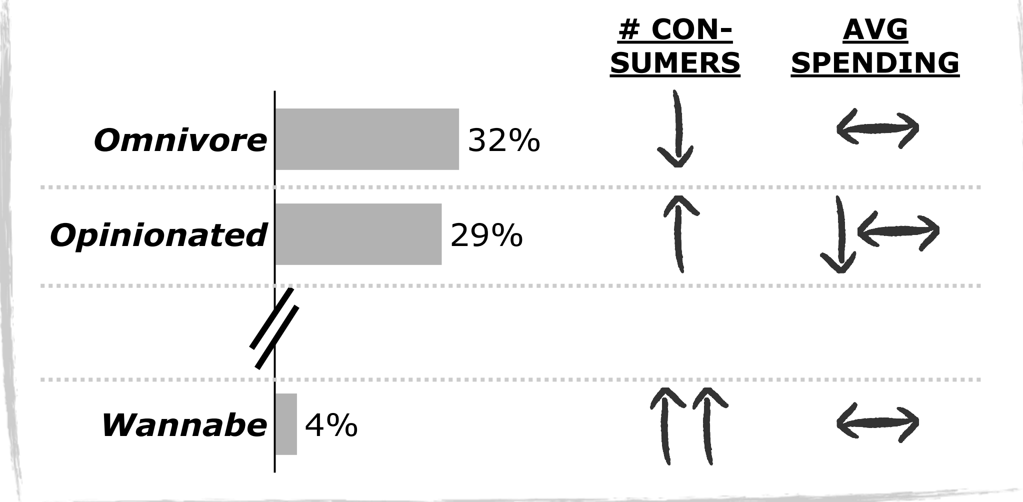
- **Malaysian Airline accidents undermining** both **local** and **Singapore markets**
  - Traffic decreasing by up to 20% in Singapore
- **Rest** of **SEA** continuing to post **brisk growth**, **Indonesia** confirmed as **top priority** for **locals potential**, despite infrastructural and corruption challenges

Mainland China market contracting in 2014, but hiding very different performance across categories and brands

MAINLAND CHINA PERSONAL LUXURY GOODS MARKET (2012-2014E|€B)



2013 Chinese Consumers by cluster (%) and 2014 Trends



- **Market contracting** also **in real terms**
  - -**Control** on **luxury spending** now **extended beyond public officials**: **watches** and **men's RTW** still **categories hit the most**
  - -**Openings slowing down** and **lackluster like-for-like trend**, even **negative** for some brands
  - -***Daigou*** agencies still representing a **threat** not yet properly addressed by government actions
  - -**Real estate oversupply** (tier 1 cities) leading to unprecedented rents downward renegotiation
- ***Accessible* overwhelming** wave
  - -**Affordable, less established** and **younger brands** meeting the **favor** of the **growing *Wannabe* upper middle class**, expected **to double by 2017**
- **Consumer sophistication** asking for talent
  - -**Growing share of personal purchase vs. gifting**, the latter being an **easier sale**
  - -**Lack of effective sales force** coupled with high **turnover undermining training results**

Chinese confirmed the most dynamic and unpredictable cluster among luxury consumers

Opinionated at 360°

- **Global** and **sophisticated**, **young**, **rich** and **fast-learners**, Chinese consumers increasingly living **luxury** as **expression** of **their identity** more than social status
  - -**Seeking to experience the full spectrum of luxury world**, especially while **travelling** abroad: **food**, **nature** and **cultural activities** are **attracting interest and spending**
  - -**Expecting** superior **product quality** and **service from personal luxury** goods
  - -Fueling a **rise of local luxury** closer reflecting **local identity,** after years of Western brands domination

The new comers: Wannabe

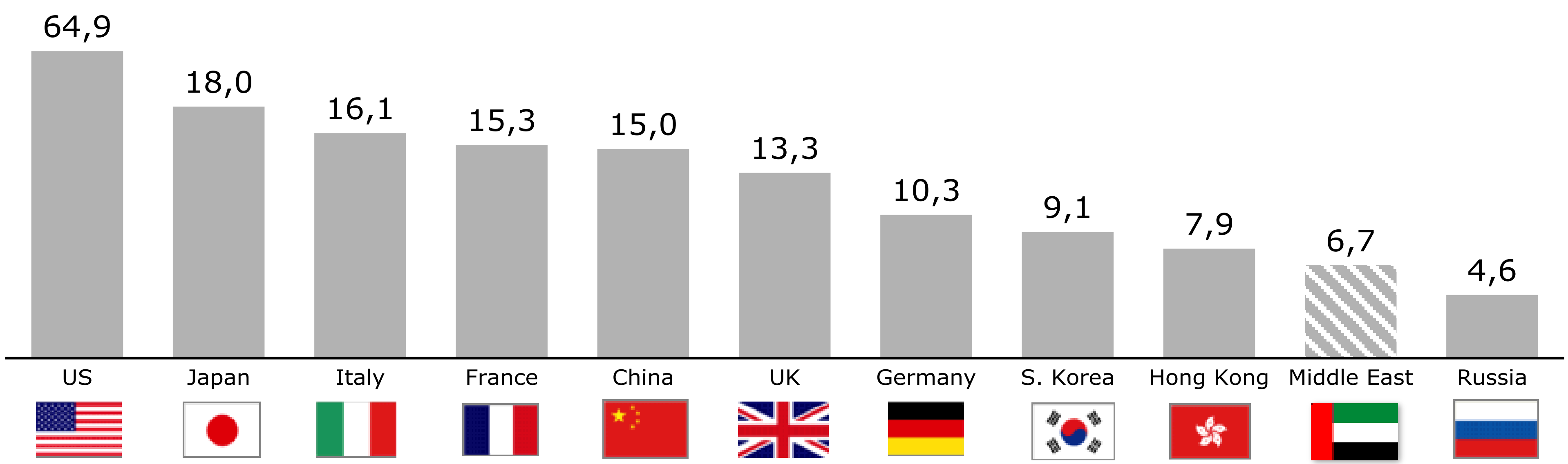
- The **growth** of the **upper middle-class** is paving the way to a **new wave of luxury consumers**: aspirational and enthusiastic *fashionistas*
  - -**Social networks**, **online forums**, **blogs**, **online ads** and **retailers' websites** becoming important reference when it comes to luxury, especially for these consumers

Price (delta) sensitive

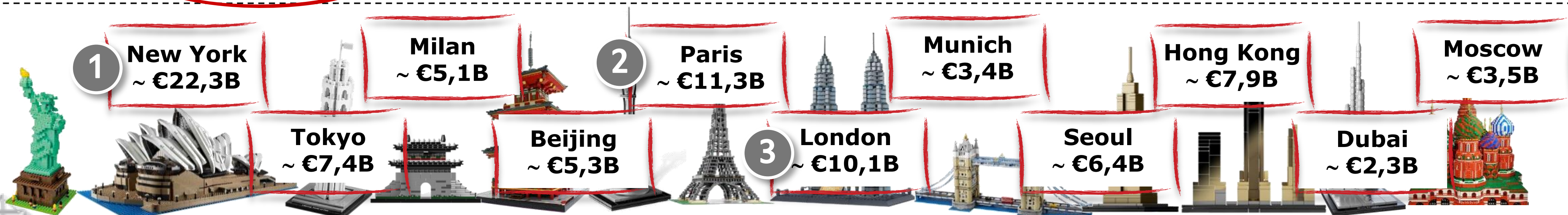
- **Regardless their spending power**, **Chinese** are **paying more attention** to **price** and **price differentials**, looking for **saving opportunities**
  - -**Off-price channel** and **end of season sales gaining traction** (both locally and overseas)
  - -**VIP clients expecting discount**
  - -***Daigou* expanding relentlessly**

US and Japan, top 2 luxury markets globally, growing the most in real terms thanks to local and touristic consumption

PERSONAL LUXURY GOODS MARKET – TOP COUNTRIES (2014E|B€)



	US	Japan	Italy	France	China	UK	Germany	S. Korea	Hong Kong	Middle East	Russia
€ Growth 13-14E	**3%**	**2%**	**-1%**	**3%**	**-2%**	**9%**	**4%**	**7%**	**1%**	**3%**	**-18%**
Local currency growth 13-14E	5%	10%	-1%	3%	-1%	4%	4%	4%	3%	6%	-7%

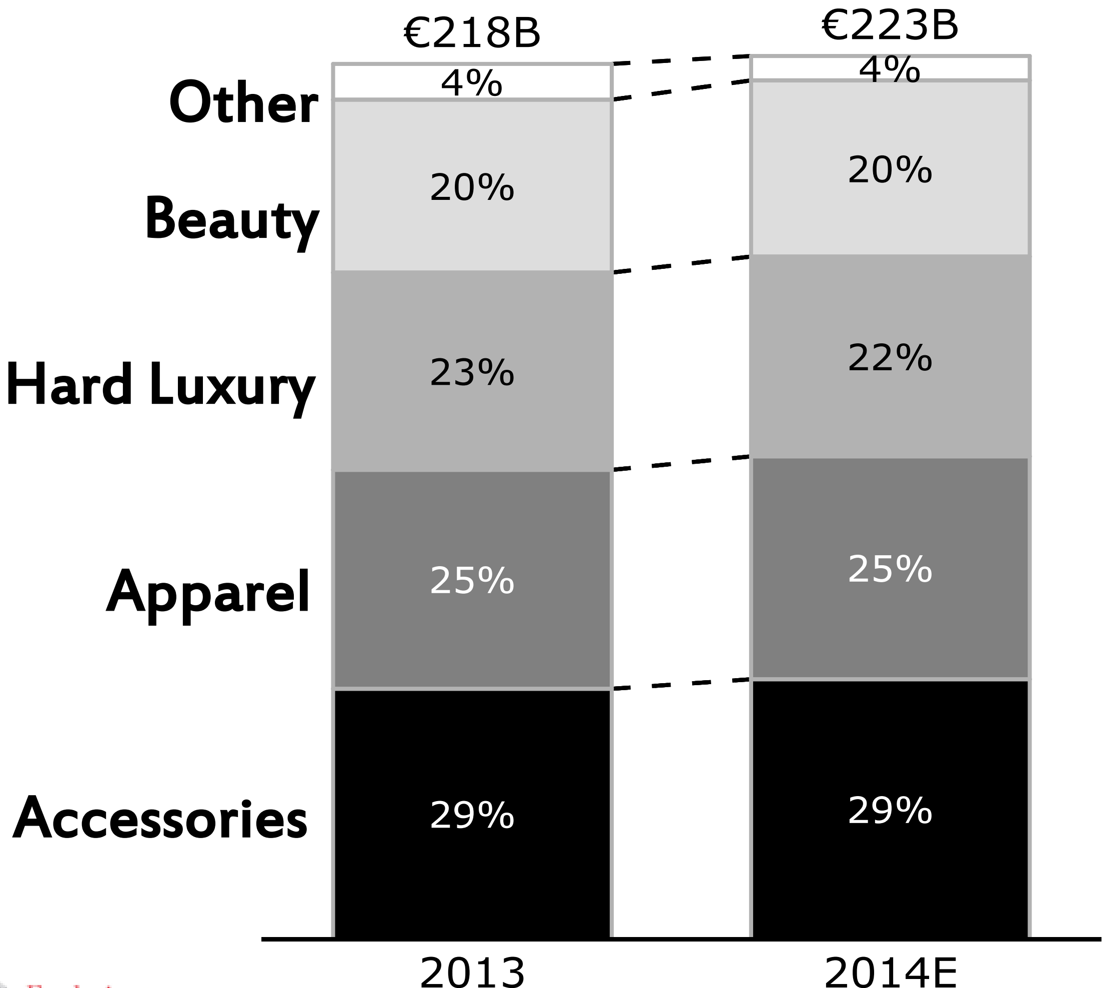


Market limping trend…does not depend on bad shoes!

Accessories confirming market leadership for both turnover and trend

WHAT

GLOBAL PERSONAL LUXURY GOODS MARKET BY CATEGORY (2013-2014E|€B)



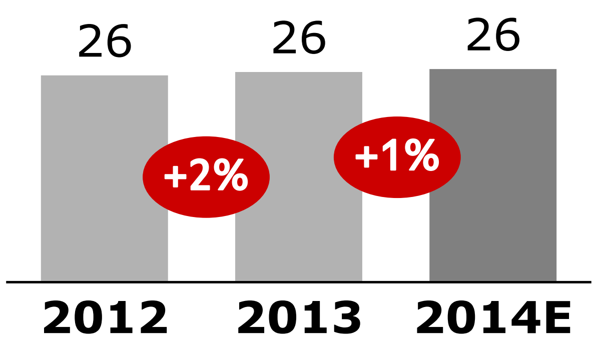
	YoY '13 vs. '12	YoY '14E vs. '13
Total	+3%	+2%
Other	+0%	+0%
Beauty	+1%	+2%
Hard Luxury	+2%	+1%
Apparel	+2%	+2%
Accessories	+6%	+4%

Relatively sluggish RTW trend hiding high-growth niches in both men's and women's segments

WHAT

Men's RTW

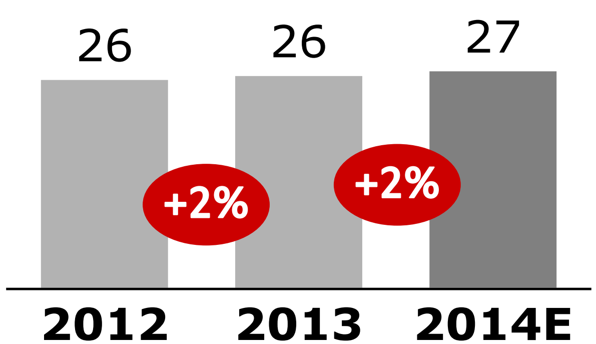
Luxury men's RTW Market Trend
(2012-2014E|€B)



- **Despite** an **overall** dull trend, differences emerge across sub-segments
  - **Very dynamic trend** for the **outerwear** segment
  - **Double digit growth** of **'coolest**' and **most precious materials**: **denim** and **cashmere**
  - **Low single digit growth** of **both daywear** and **formalwear** driven by **mixed performance**
- **Chinese market penalizing** the trend
- **Casualwear maintaining momentum**, also favored by the ***sneakerization*** **phenomenon in shoes, especially in the US**
  - Urban style pushed by music and sport celebrities

Women's RTW

Luxury women's RTW Market Trend
(2012-2014E|€B)

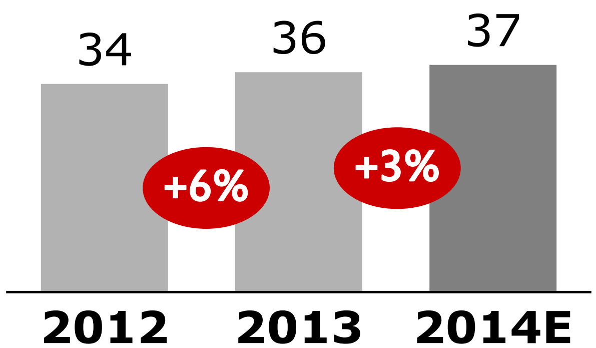


- **Sub-segment trends in line** with **men's RTW** with the exception of a **dynamic daywear**
  - **Outperformance** of **women's** in **outerwear** as a result of brands investing in the segment
- ***Absolute*** segment and first lines **outperforming**
  - **Entry-items** are **reintroduced** in response to **mature markets down-trading** trend
  - **Logos** playing new **role** with **ironic acceptation**
- ***Childrenswear*** **positive momentum especially** in **Japan** and **S. Korea**
  - **Eastern Europe contraction** compromising total performance given the high relevance of Russia

Renovated enthusiasm for shoes: the accessible status symbol growing faster than leather goods in 2013 and 2014

Leather

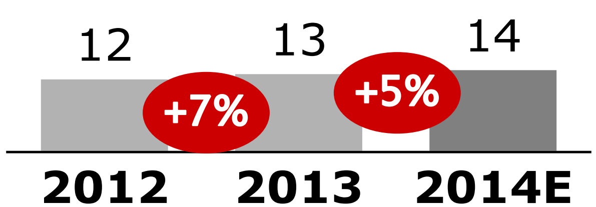
Luxury leather goods Market Trend
(2012-2014E|€B)



- **Men's segment maintaining momentum** on **both large** and **small leather goods**
  - Trend consistent from *Accessible* to *Absolute* and across geographies
- **Women's segment** headed to a **new maturity phase**
  - **Polarization trend far from reversing**
  - **Mid-size brands outpacing mega-brands**
  - **Heritage brands repositioning upward** almost completely **abandoning** the **logo/canvass** offer
- **2014 price levels** on **comparable items from 60 to 130% higher** than **2008**
  - Relevant white space left for the entry offer

Shoes

Luxury shoes Market Trend
(2012-2014E|€B)



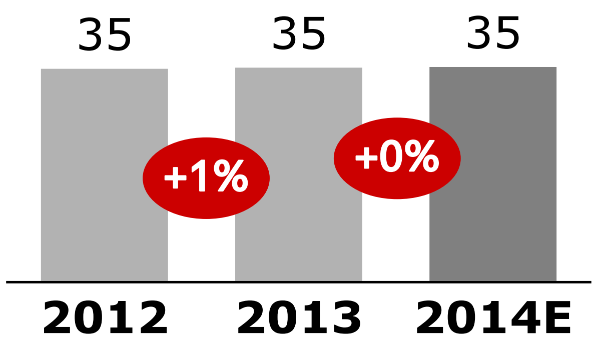
- **Shoes** outperforming **leather goods first time since 2007**
  - Most noticeable accessory after leather goods, yet at a lower average ticket, key in the <1.000€ range
- **Men's shoes consistently outperforming** the **market since 2011**
  - **Unprecedented fashion sneakers** phenomenon
- **Shoe specialists outpacing lifestyle brands, especially in men's**
- **Growing bespoke** and **personalization** trend
  - **Made-to-measure enthusiasm** affecting shoes

Watches highly impacted by Asian negative trend, while jewels continue on a positive path at all price points

WHAT

Watches

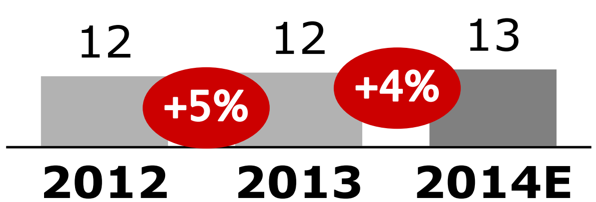
Luxury watches Market Trend
(2012-2014E|€B)



- **Asian negative performance** still offset by **US**, **Middle East** and **Japan trends** in **2014**
  - **Key watches brands reducing production** fearing **over-supply risk**
- **Mechanical watches more resilient** even at **ever higher entry-price**, seldom below €2K
  - Electronic **segment** expected **to be further impacted** by **smart watches**
- **Increasing offer dedicated to women**
  - **Quartz movements** representing the **bulk** of the **offer** but **demand** for **automatic** ones is **growing**
  - **Rebound** of "**mini-watches**" and **positive performance** of **jewelry-watches**

Jewels

Luxury jewels Market Trend
(2012-2014E|€B)

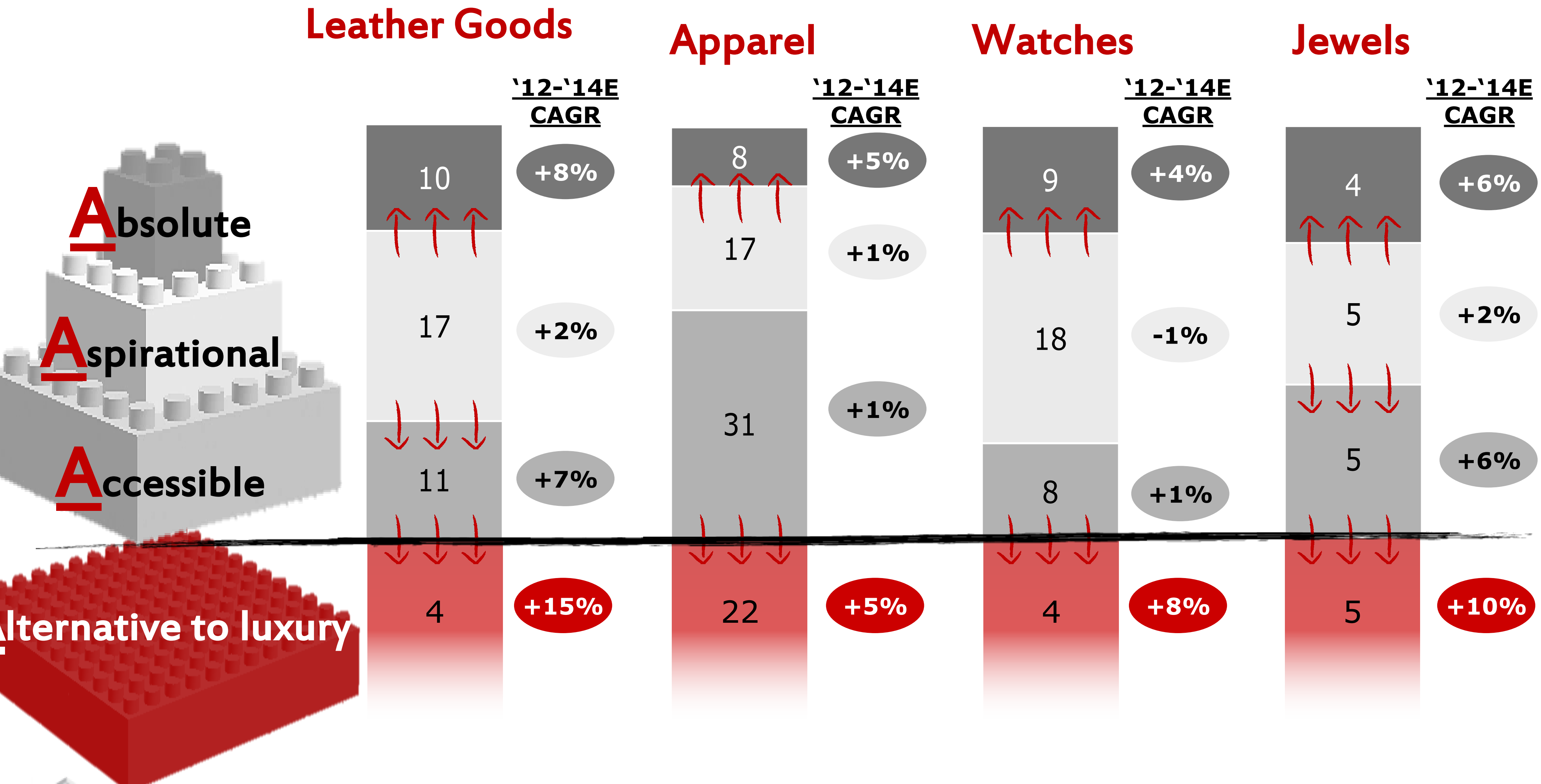


- **Luxury branded jewelry continuing** to **outperform** the overall market
- Global demand for **diamonds registering strong growth** fueled by **US market** and a **booming China**, which on the other hand is penalizing gold jewelry trend
- ***Haute joaillerie*** experiencing **positive trend**
  - Jewelry among top **preferred investment of passion for wealthy** in **emerging countries**
- **Accessible** and **fashion offer sustained by growth** of ***Wannabe*** consumers globally

Expanding the perspective an extreme polarization emerges: a wave of democratization benefiting *Alternative to luxury*

WHAT

WORLDWIDE LUXURY GOODS MARKET BY SEGMENT (2014E|€B)



NOTE: Alternative to luxury represents the upper segment of the premium market, i.e. not included in Personal luxury goods perimeter and figures

…while second-hand is also increasingly meeting a growing demand for value-for-money without giving up top names

WHAT

WORLDWIDE LUXURY GOODS SECOND HAND MARKET

~€16B
Second-hand branded luxury goods market in 2014E

~80%
Distributed by physical channels, but online is growing fast

~80%
Share of hard luxury, especially watches

>50%
Share of Europe over total sales

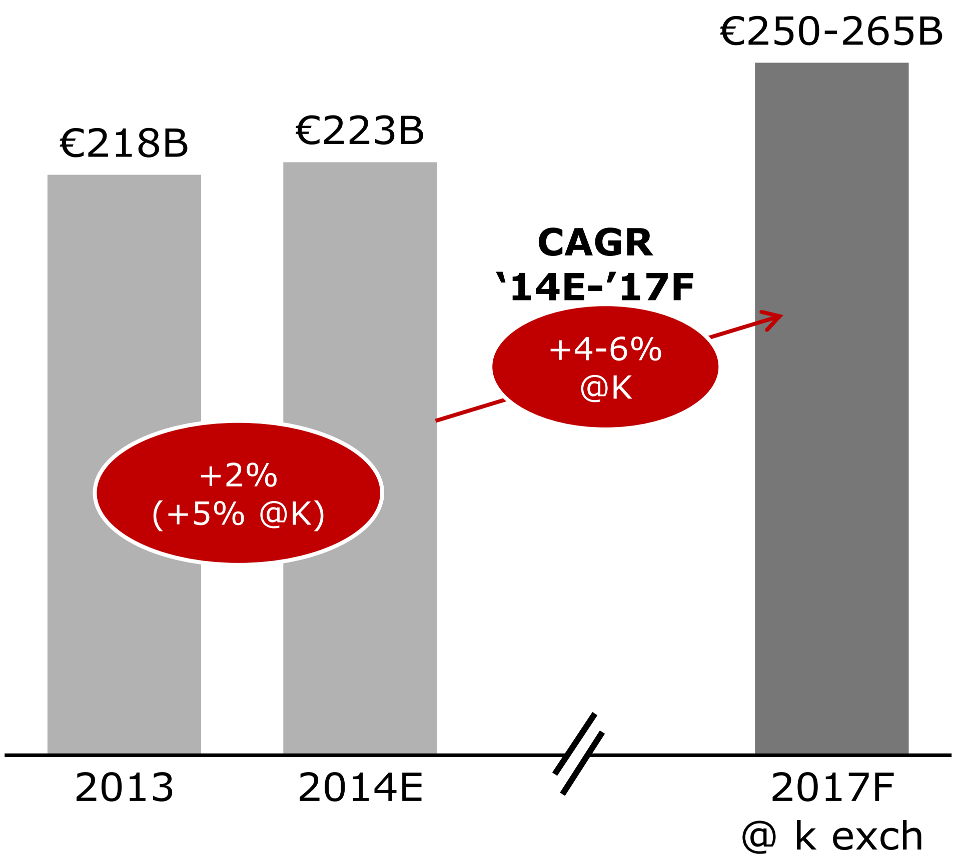
Out of **€3T worth of luxury products sold** in the last **20 years, the value of goods suitable** for **second-hand sale** corresponds to a **potential market value** of **€500B**

If **on one hand** this market **cannibalizes new products sales, on the other** is **turning luxury goods** into **durables** with an **increasingly defined re-sell price**, thus **increasing** their **perceived value**

- In **watches**, **brands** with big marketable names are the **most sought-after** while **accessories** are **skewed** to **leather icons**
  - **Nearly no market** for ***Accessible*** **brands**
- **Internet gaining share** thanks to **larger reach** and **product availability**
  - **Unprecedented focus** on **aligning shopping experience** to best in class level
  - **High attention** paid to products **authenticity certification**, with mixed results so far
  - **Off-line** channel fundamental for **hard luxury**
- **Asian** growth driven by expanding middle-income **white-collar workers**, **looking for top luxury names** at affordable prices

Luxury *'new normal'*: relentless perimeter growth leaving space to lower but more solid and sustainable trend

LUXURY GOODS MARKET TREND



KEY TRENDS

- **Emerging consumers** consistently **supporting market growth**
  - Booming **upper middle class** especially **benefiting** the ***Accessible* segment**
- **Americans** and **Japanese** continuing on their **positive path** while **European** eventually **recovering**

- **US** and **Japan top of mind markets**…
  - …while a **new strategy** needs to be put in place to **intercept** the **next wave of Chinese *Wannabe*** in China and abroad

- **Accessories** and **men's categories** in general to **keep outperforming** the market while a **tough time** is **ahead** for **luxury watches**

So...what’s happening?

- **Luxury** undertaking a **new path**, a **'new normal'** with **some clear outperformers**
  - The **pursue** of **self-indulgence** and **experience** drive the positive trend of **hotels**, **cruises** and **food & wines** (especially among *Baby Boomers*) and **travel retail channel** in general
  - ***'Accessorization'*** benefiting **leather goods**, **shoes** and **precious** and **fashion jewelry**
  - Growing **concentration** of **wealth driving brilliant growth** of **private jets**, **recovery** of **yachts** and **boom** of ***Absolute*** **cars**
- **It's all about consumers**, much **less** about **markets**
  - **Chinese** confirmed as **top** and **fastest growing nationality** despite significant **deceleration** of **domestic consumption...**
  - ...but also **mature consumers** in **US** and **Japan** are **strongly contributing to market growth** also **thanks to new generations**
  - **Rebound** of **women's segment fuelled by emerging markets**
- **Looking** for **value-for-money** at **360°**
  - **Down-trading mature consumers** and **mid-income aspirational emerging ones fostering growth** of **off-price** channel (both physical and online), **upper premium** brands and **second-hand** market

Low-hanging fruits have already been harvested...

...but the seeds for long-term growth are to be planted now!

The future will be marked by disruptive innovations that will completely change luxury paradigms

YESTERDAY 1990s	YESTERDAY 2000s	Today 2014	TOMORROW 20XX
Monochannel	Multichannel	omnichannel	NO CHANNEL
Monoproduct	Multiproduct	lifestyle product offer	LIFESTYLE COACH
Local footprint	Multilocal footprint	global footprint	GLOBAL CONSUMER
Baby boomers	Baby boomers Gen X	baby boomers – gen X gen Y	GEN Y – GEN Z SPACE GEN
Licensing partnership	Distribution Partnership	internalization (no partnership)	CONSUMERS AS PARTNERS
Seasonal	Tran-seasonal	Buy-now, wear-now	THINK-NOW, WEAR-NOW
Product	Brand	Exclusivity	INDIVIDUAL IRONY

3-4D Printing
Arrested
In Real Life Drones
Development
Virtual Reality
Cashless
Society
Telepathic Technology
Ambient Commerce
Self-Driving Cars
Facial
Recognition
Space
Holidays

Claudia D'Arpizio, Partner
Bain's Luxury Goods Vertical

Claudia D'Arpizio

Claudia D'Arpizio is a **Partner at Bain & Company Milan office**. She is a leading member of the firm's Global Consumer Products and Retail Practices, and leads **Bain's Luxury Goods Vertical**.

For 20 years, Claudia has advised multinational clients, mainly in luxury and fashion goods. She has extensively worked on issues relating to corporate and business unit strategy, sales and marketing, product and service adjacencies, channel and omni-channel strategy, new product development, innovation, acquisitions and divestitures, performance improvement and organizational changes.

Claudia is the lead author of the Bain's Yearly Luxury Study, developed since 1999 in cooperation with Altagamma, the trade association of the Italian luxury brands. This study, based on the analysis of an extensive panel of worldwide luxury brands, is periodically updated and has become one of the most valued and cited sources of market information in the luxury industry.

Claudia is a globally recognized expert in luxury and in 2009 **was named by the Consulting Magazine one of the "Top 25 Consultants in the World".**

Claudia is frequent speaker and writer on luxury goods strategy and she is extensively quoted in Italian and international media: Il sole 24 ore, La Repubblica, Il Corriere della Sera, The Wall Street Journal, US, Europe and Asia editions, Financial Times, New York Times, The Economist, Newsweek, Reuters, Bloomberg, Associated Press, WWD, Fortune, Washington Post, International Herald Tribune, National Post Business Magazine, Boston Globe, The Time and Dow Jones Newswire.

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Methodology

1 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:

Retail
+
Wholesale
+
Licenses

PLAYER CONSOLIDATED SALES

→

Retail
+
Wholesale at retail value
+
Licenses at retail value

PLAYER SALES AT RETAIL VALUE

Application of **estimated mark ups** by geography and category

Application of **estimated royalty rates** and **mark ups** by geography and product category

2 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, distributor, department stores, …)
- Consistency check on the data and fine tuning

…we cross check results