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Luxury Goods Worldwide Market Study: Spring 2010 Update

April 16, 2010

Bain Luxury Market Update (April 16, 2010)

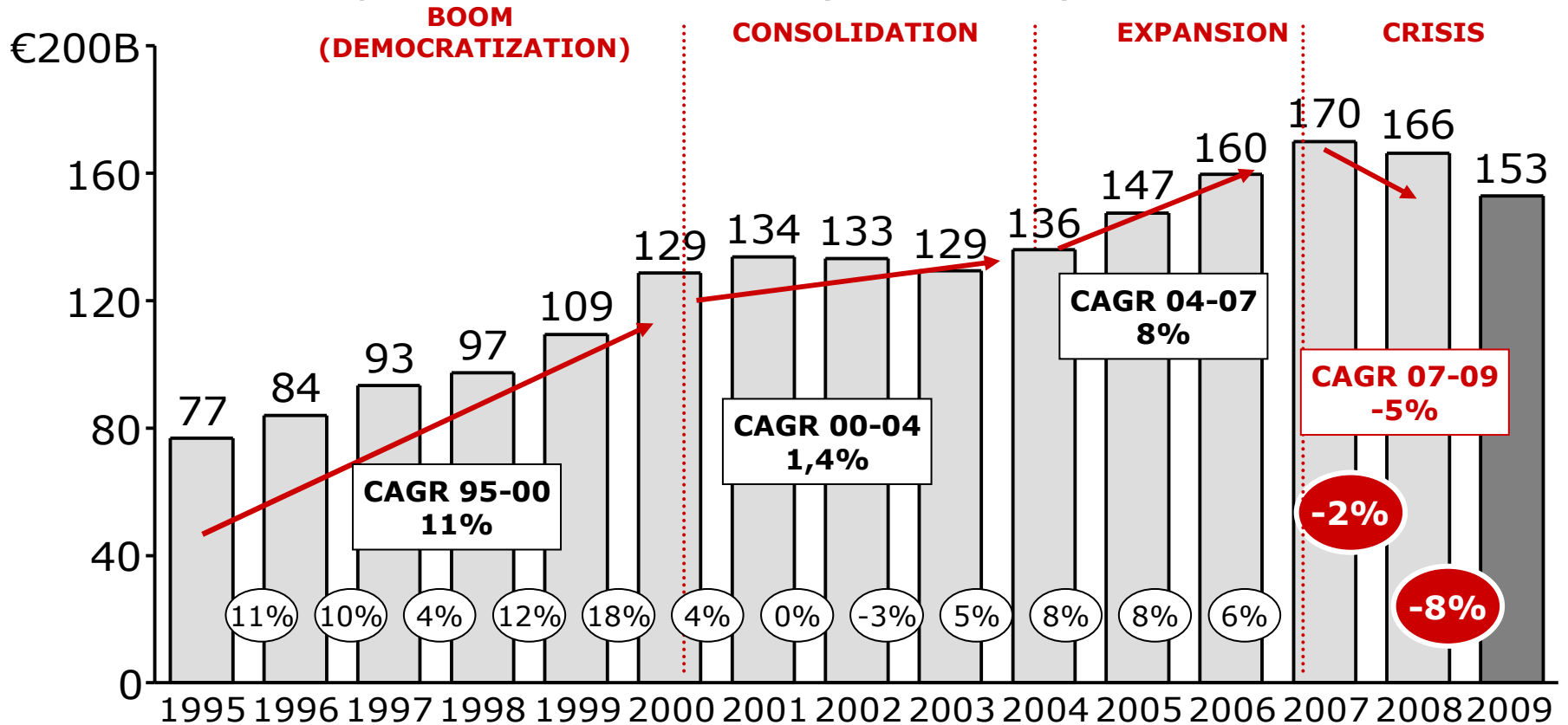
- **2009** was the **worst year** ever for the luxury market with a **-8% decrease**
- Results **began to improve** only at the **end of the year**, after 3 negative quarters
 - **Holiday season better** than expected
 - **Inventory reduction**: end of de-stocking
- Bain forecasts **+4% for 2010** (current exchange rates)
 - Growth spread across **all geographies except Japan**
 - **Asia** and **especially China** driving growth
 - **All categories recovering** after a terrible 2009
 - **Retail** becoming more and **more important** over wholesale
 - **Online channel** speeding up its growth
- The crisis is **structurally changing the market**
 - Market is concentrating: larger brands gaining market share
 - New wave of M&A and IPO operations
 - No compromise on quality and top-of-mind brands



***"Tell me the
fairytale about the
economy"***

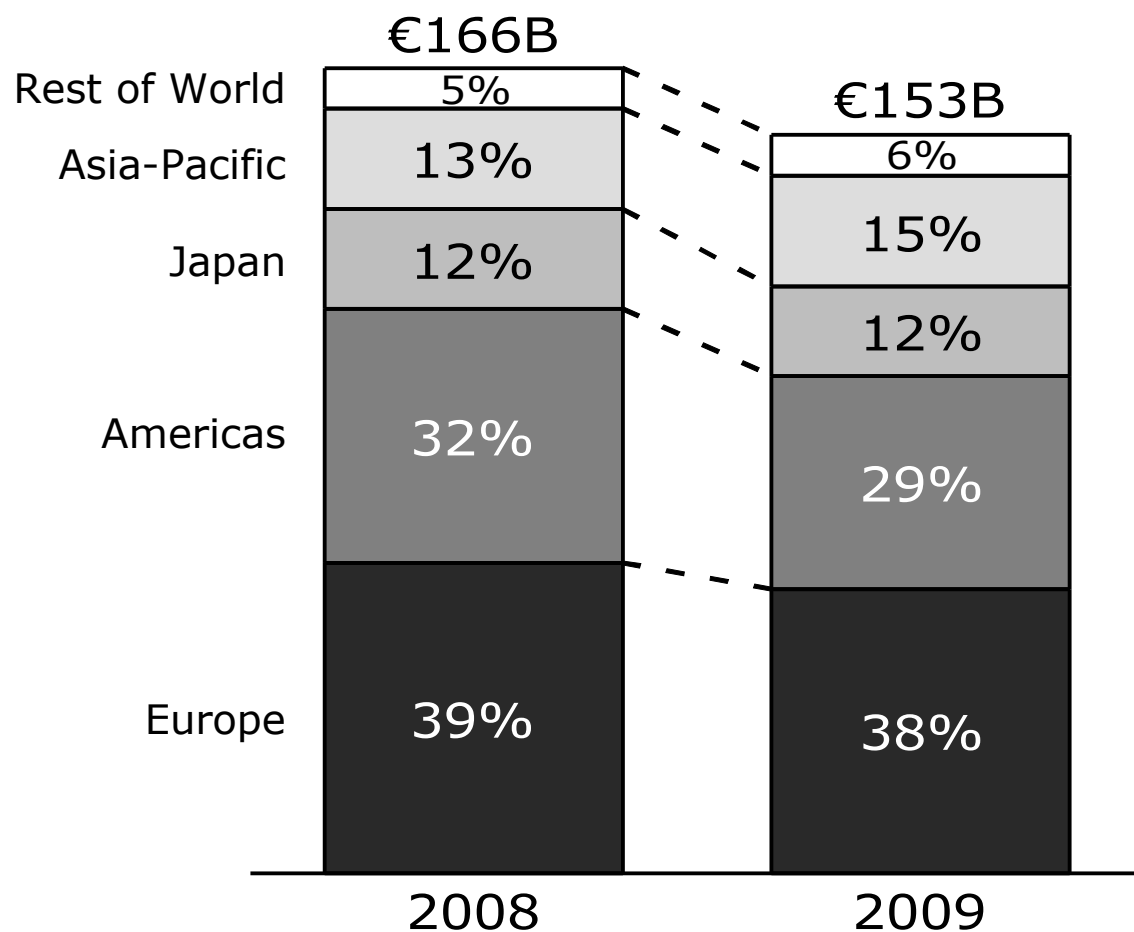
2009: Luxury market saw severe shrinking

Worldwide Luxury Goods Market trend (1995-2009)



America and Europe hit hardest, Japan continues its unrelenting decrease

Worldwide Luxury Goods Market by Area



YoY '09E vs '08

-8%

+1%

+10%

-10%

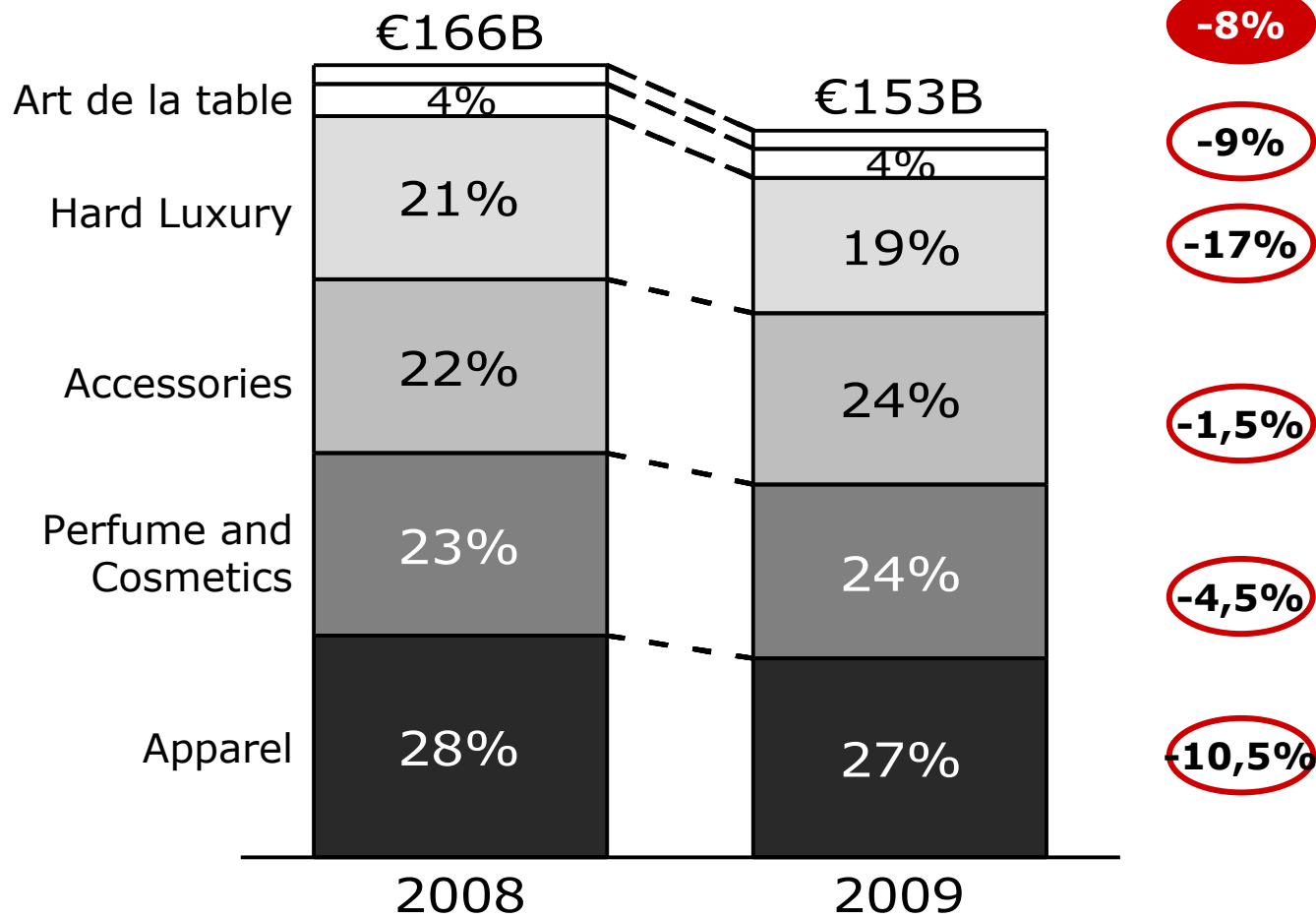
-16%

-8,5%

Hard luxury deeply impacted by consumer spending reduction and channel de-stocking

Worldwide Luxury Market by Category

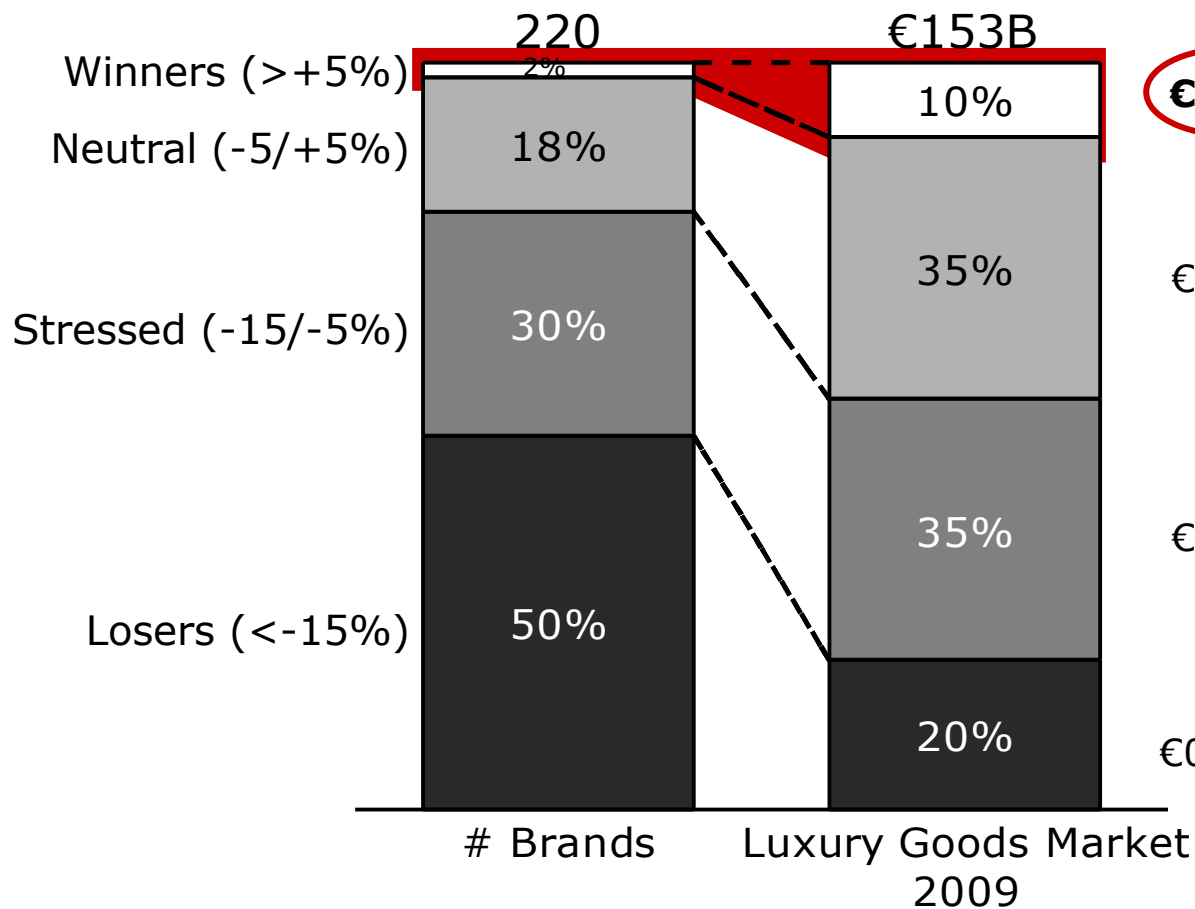
YoY '09E vs '08



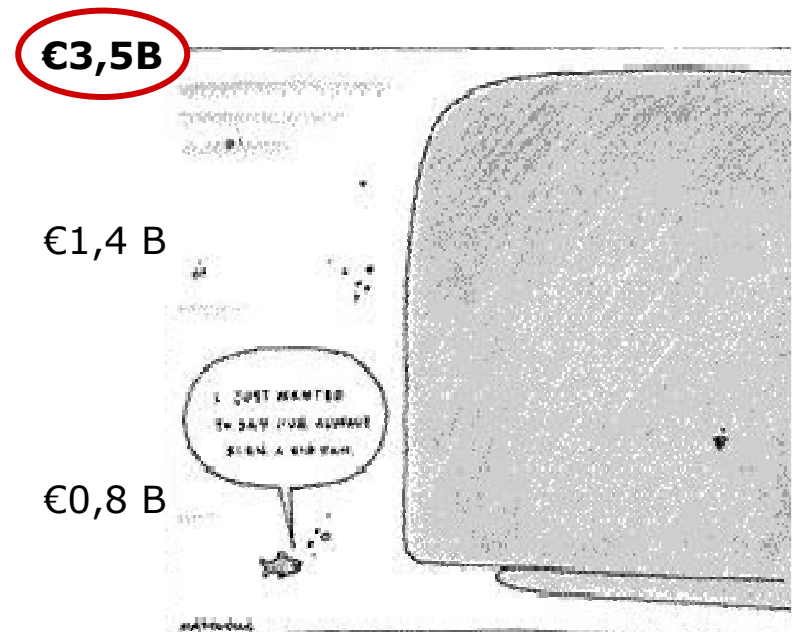
Tenth circle: Ladies Shoes

Crisis is confirming that big is better!

Worldwide luxury market by growth rate ranges



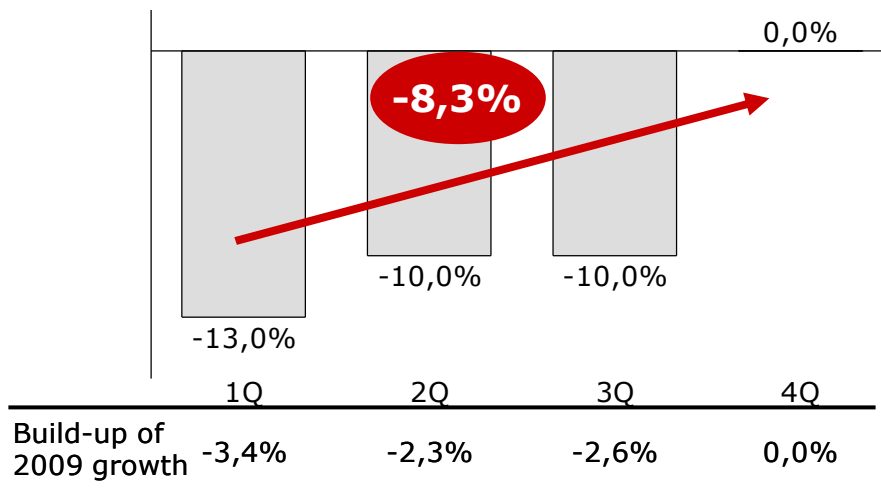
Average brand size



Holiday season showed first signals of recovery

Consumption performance

Luxury Goods Market growth by quarter (2009, QoQ growth)



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Main Trends (Industry Quotes)

"On Christmas Eve we went home **with big smiles** on our faces."

"**New York's Fifth Avenue**, like much of the Northeast, **was a wet, sloppy sea of shoppers** dodging umbrellas and skipping over puddles to get into gift destinations. "

"November and December were **so strong** that I see them as a **harbinger for 2010.**"

"It was **so busy** on our shoe floor that we actually had to close it for awhile to reorganize the assortment. It was a good day, a strong day."

"Was anyone working? **Cyber Monday seen bigger than 2008.**"

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2010: results to date are very positive

Sell-out 1Q 2010

- **Strong results** in first months of 2010 **for listed players** (LVMH, Dior Couture, Tiffany)
- Luxury **retail stores** show **impressive** like-for-like **growth** (+15-20%)
- **US department stores** positive sell-out trends: **+8%** in January, **+6%** in February, **+13%** in March
- **Inventory de-stocking is over**

Sell-in FW 2010

"We are **optimistic for FW, and have increased budgets accordingly**. Our business is most buoyant in the top-end luxury."

"FW10 sell-in is around no **more than +1% +2%** compared to previous year."

"We are **predicting business will come back strong in the fall**. We are seeing the return of our classic customer."

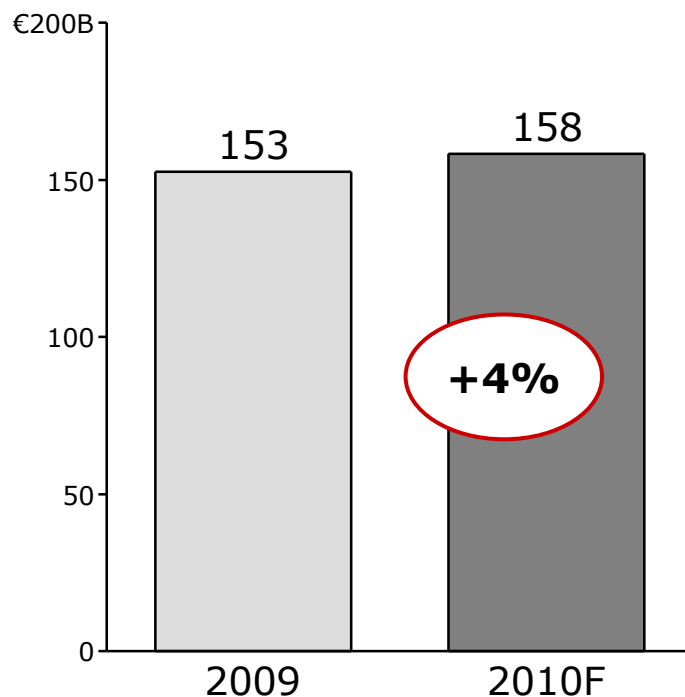


"She is out stimulating the economy – can I take a message?"
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2010 will be the inflection point for the restart of growth

ESTIMATES

Bain Forecast at 04/16/10



Source: Bain analysis

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Main Assumptions

By semester

- **First semester** average market trend shows strong recovery: 5% - 10% across all regions
- Slower growth in **second half of the year**

By channel

- **Retail L4L sees strong improvement**, especially thanks to traffic increase (10% - 15%)
- **New openings will remain cautious**, mainly driven by expansion in **Asia and Latin America**
- **Wholesale regaining momentum after 2009**; more controlled **mark-down** campaigns



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The recovery will be spread across (almost) all geographies and categories

ESTIMATES

Geographic areas

Europe	+3%
Americas	+4%
Japan	-3%
Asia Pacific ex-China	+10%
China	+15%
RoW	+2%

Total

+4%

Product categories

Apparel	+4%
Leather, Shoes & Accessories	+5%
Perfume and cosmetics	+2%
Watches and Jewelry	+4%
Art de la table	+0%
Other	+0%

Total

+4%

Source: Bain analysis
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Drivers for 2010 recovery have a twofold root

Hard roots

- **Macroeconomic indicators recovering worldwide**, even if at different speeds
 - **GDP** projections for 2010: +4,3%
 - **Growth driven by China +10%**
- Strong **urbanization and infrastructure investments** in Asia, especially in China
- **International passenger traffic increasing by 4.5%** in 2010, after a -4.2% in 2009
- **Political stability in US** enhancing consumer confidence
- Slight **decrease of unemployment rate**

Soft roots

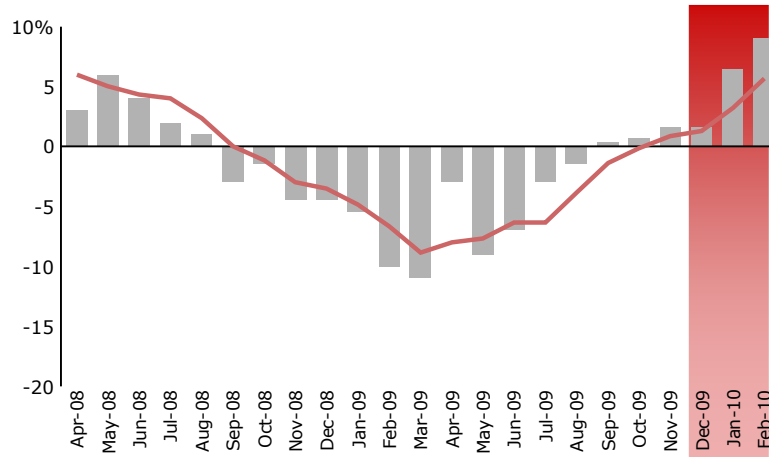
- **Consumer attitude improving:** Confidence Index expected to increase in 2010
- **Recovery in footfall and conversion rates**
- Boom of **e-commerce sales**
- **Chinese** consumers continue to spend heavily in luxury



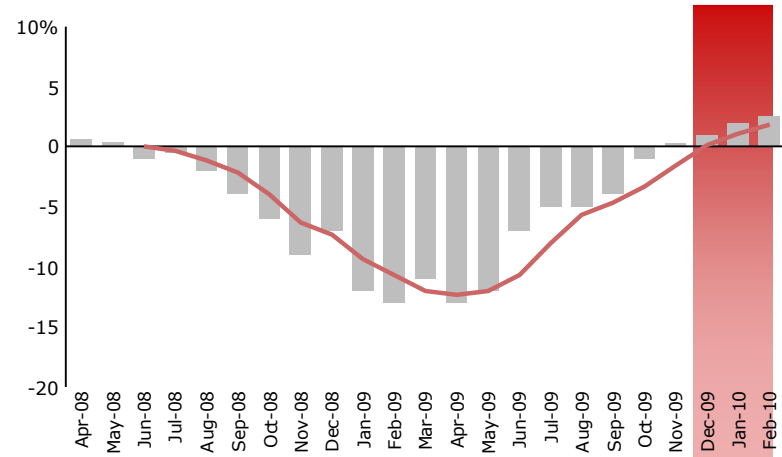
"I see your consumer confidence remains undeterred"
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All luxury indicators are showing signs of recovery

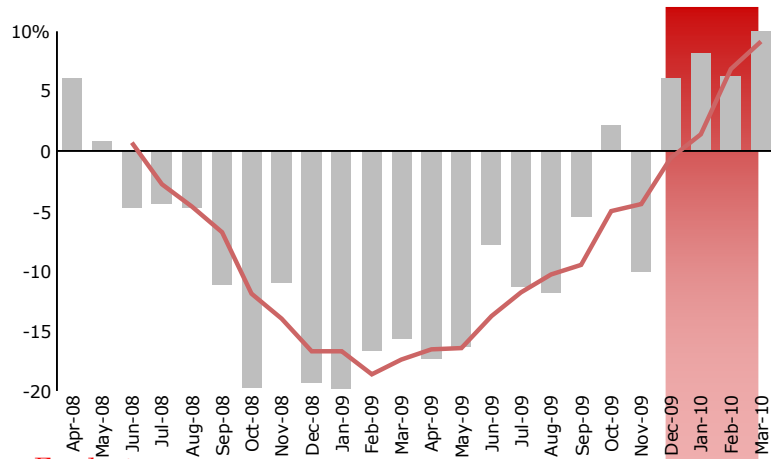
International air traffic



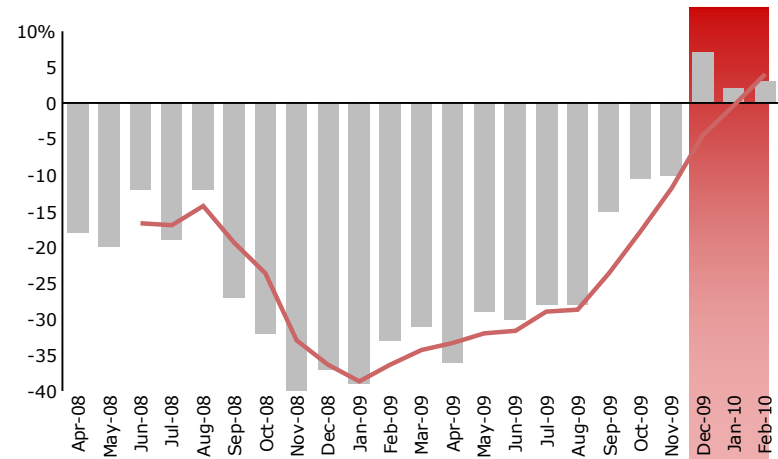
Luxury hotel occupancy



US Luxury Department Stores

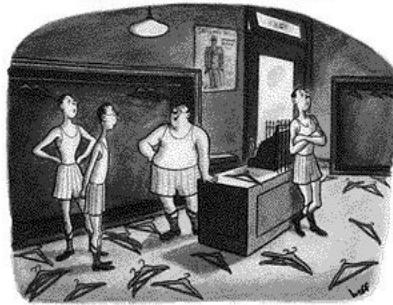


Luxury car global sales



The good news: consumers are shopping again!

- **End of luxury shame** for local consumers in mature markets: luxury brands are gaining appeal again



"Most successful suit sale we ever had, I should say"

- **Recovery in footfall and conversion rates** thanks to **marketing and promotional activities**



- **Asia "optimism" boosted Europe and US market** as well: consumers are spending heavily abroad



"New timetable... all in Cantonese!"

- **New channels** are bringing vitality to luxury environment: **online sales booming!**



"She'll have to get back to you- she's off shopping now"

“Post-war” we are assisting to some structural changes in the market

Geography

- Asia becoming the key market
- Chinese consumers driving global market growth
- Japan structurally deflating

Competition

- Polarization and concentration...
 - Mega-brands taking share
 - Failures and bankruptcies (but brands do not disappear)
 - Restart of M&A activity and IPOs
 - Acceleration in generational shifts and managerialization
- ...but consumers always want and need newness

Channels

- Retail overperforming wholesale but not still at full potential
- Concentration of wholesale distribution
- Strategic rethinking of Department Stores formats
- New opportunities from web and digitalization of experience

Consumer behaviour

- Increasing attention for value for money but new and diverse value drivers:
 - Cheap & chic not still at full potential
 - Customization widely spread across categories and products
 - Customer experience and service
 - Innovation
 - Need to “justify” the premium price... brand is not enough
- Huge consumer diversity along all segmentation axes

Strategic pay-offs going forward!

Year of the



***Because they
are worth it!***



Winners take it all



Store sweet



***Breakfast @
Ti***

