Luxury consumption spans across several categories:

- Yacht
- Car
- Cruise
- Private jet
- Hôtellerie
- Design
- Personal luxury goods
- Food
- Wines & Spirits
Worldwide luxury markets approaching the trillion in 2014!

**WORLDWIDE LUXURY “MARKET OF THE MARKETS” (2014E|€B)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Growth '13-'14E</th>
<th>2014E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Luxury Goods</td>
<td>2%</td>
<td>223</td>
</tr>
<tr>
<td>Luxury Cars</td>
<td>10%</td>
<td>351</td>
</tr>
<tr>
<td>Luxury Hotellerie</td>
<td>9%</td>
<td>150</td>
</tr>
<tr>
<td>Luxury Wines &amp; Spirits</td>
<td>5%</td>
<td>58</td>
</tr>
<tr>
<td>Luxury Food</td>
<td>2%</td>
<td>39</td>
</tr>
<tr>
<td>Design Furniture</td>
<td>-1%</td>
<td>18</td>
</tr>
<tr>
<td>Luxury Private Jets</td>
<td>9%</td>
<td>19</td>
</tr>
<tr>
<td>Luxury Yachts</td>
<td>2%</td>
<td>7</td>
</tr>
<tr>
<td>Luxury Cruises</td>
<td>5%</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total 2014E</strong></td>
<td><strong>7%</strong></td>
<td><strong>865</strong></td>
</tr>
</tbody>
</table>
Luxury Cars accelerating in 2014 with the "supercar" segment still outperforming

**Luxury Cars Market Trend (€B)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>280</td>
<td>299</td>
<td>319</td>
<td>351</td>
</tr>
<tr>
<td>Growth</td>
<td>+7%</td>
<td>+6%</td>
<td>+10%</td>
<td></td>
</tr>
</tbody>
</table>

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

**Luxury Hôtelerie Market Trend (€B)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (€B)</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>107</td>
<td>+18%</td>
</tr>
<tr>
<td>2012</td>
<td>127</td>
<td>+9%</td>
</tr>
<tr>
<td>2013</td>
<td>138</td>
<td>+9%</td>
</tr>
<tr>
<td>2014E</td>
<td>150</td>
<td></td>
</tr>
</tbody>
</table>

**Key Hôtelerie 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)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (€B)</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1,3</td>
<td>+2%</td>
</tr>
<tr>
<td>2012</td>
<td>1,3</td>
<td>+8%</td>
</tr>
<tr>
<td>2013</td>
<td>1,4</td>
<td>+5%</td>
</tr>
<tr>
<td>2014E</td>
<td>1,5</td>
<td></td>
</tr>
</tbody>
</table>

**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

### 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

---

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Food</th>
<th>Wines &amp; Spirits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>33</td>
<td>45</td>
</tr>
<tr>
<td>2012</td>
<td>35</td>
<td>51</td>
</tr>
<tr>
<td>2013</td>
<td>38</td>
<td>55</td>
</tr>
<tr>
<td>2014E</td>
<td>39</td>
<td>58</td>
</tr>
</tbody>
</table>

### Trends by Segment (2013)

<table>
<thead>
<tr>
<th>Segment</th>
<th>Percentage</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restaurants</td>
<td>45%</td>
<td>39</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beverages</td>
<td>30%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>24%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spirits</td>
<td>26%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fine Wine</td>
<td>74%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Yachts market back in business, Luxury Jets industry continuing to show robust growth

Trends by Segment (2013)

Luxury Yachts and Private Jets Trend (€B)

<table>
<thead>
<tr>
<th>Year</th>
<th>Yachts</th>
<th>Private Jets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>22</td>
<td>16</td>
</tr>
<tr>
<td>2012</td>
<td>23</td>
<td>16</td>
</tr>
<tr>
<td>2013</td>
<td>24</td>
<td>17</td>
</tr>
<tr>
<td>2014E</td>
<td>25</td>
<td>19</td>
</tr>
</tbody>
</table>

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 **touchpoints** 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)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>18</td>
<td>18</td>
<td>19</td>
<td>18</td>
</tr>
<tr>
<td>Trend</td>
<td>+3%</td>
<td>+0%</td>
<td>-1%</td>
<td></td>
</tr>
</tbody>
</table>

**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

**Trends by Segment (2013)**

- Outdoor 10%
- Lighting 15%
- Bathroom 16%
- Kitchen 10%
- Living & Bedroom 49%

**2013**
Luxury consumption spans across several categories:

- Yacht
- Cruise
- Car
- Design
- Food
- Wines & Spirits
- Private jet
- Hôtellerie
- Personal luxury goods
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)

@K

Sept 11 SARS $/€
Subprime & financial crisis
Socio-Economic Turbulence

73 77 85 92 96 108 128 133 133 128 136 147 159 170 167 153 173 192 212 218 223

5% 7% 10% 5% 3% 2%
2014 overall market trend impacted by several exceptional exogenous events

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

Impact on nominal growth

C/$

1.32

1.37

1.33

1.26

1.?

+3%

+2%

218

223

2013

2014E

Q1

Q2

Q3

Q4

QoQ growth

4%

2%

1.5%

1.5%

• Anticipation of purchases in Japan before VAT increase
• Record cold in North America
• Unfolding of Crimean crisis

• US recovery after weak Q1
• Slowdown of Japan after booming Q1
• Disappearance of Malaysian Airlines flight MH370 in SEA
• Ferry accident in S. Korea
• Thailand military coup

• Malaysian Airlines accident in Ukraine
• Tightening of anti-corruption measures in China
• Occupy central demonstrations in Hong Kong
• European exceptionally warm weather and declining consumer confidence

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)**

<table>
<thead>
<tr>
<th></th>
<th>Retail</th>
<th>Wholesale</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>218</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>69%</td>
<td>+5%</td>
</tr>
<tr>
<td>2014E</td>
<td>223</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>+1%</td>
<td></td>
</tr>
</tbody>
</table>

- **Organic +2%**
- **Perimeter +3%** (~500 new DOS)

### HOW

- **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
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 2\(^{nd}\) 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 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

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.

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

2013: €218B
- Rest of World: 5%
- Asia-Pacific: 21%
- Japan: 8%
- Americas: 32%
- Europe: 34%

2014E: €223B
- Rest of World: 5%
- Asia-Pacific: 21%
- Japan: 8%
- Americas: 32%
- Europe: 34%

YoY '13 vs. '12 @K:
- Rest of World: +3%, +7%
- Asia-Pacific: +5%, +9%
- Japan: -10%, +14%
- Americas: +5%, +9%
- Europe: +2%, +4%

YoY '14E vs. '13 @K:
- Rest of World: +2%, +5%
- Asia-Pacific: +4%, +6%
- Japan: +1%, +5%
- Americas: +3%, +6%
- Europe: +2%, +2%

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

• 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)**

- **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

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

<table>
<thead>
<tr>
<th></th>
<th>CHINESE</th>
<th>RUSSIAN</th>
<th>MIDDLE EASTERN</th>
<th>JAPANESE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DEMOCRATIZING</strong></td>
<td><strong>POLARIZATION</strong></td>
<td><strong>LUXURY FOR FEW</strong></td>
<td><strong>BOOM ACROSS THE BOARD</strong></td>
<td><strong>LUXURY FOR FEW(ER)</strong></td>
</tr>
<tr>
<td>'13-'12</td>
<td>'14-'13</td>
<td>'13-'12</td>
<td>'14-'13</td>
<td>'13-'12</td>
</tr>
<tr>
<td>+20%</td>
<td>+10%</td>
<td>+18%</td>
<td>-3%</td>
<td>-31%</td>
</tr>
<tr>
<td>+27%</td>
<td>19%</td>
<td>+19%</td>
<td>+8%</td>
<td>-25%</td>
</tr>
<tr>
<td>+22%</td>
<td>+5%</td>
<td>+16%</td>
<td>-7%</td>
<td>-34%</td>
</tr>
<tr>
<td>+16%</td>
<td>+14%</td>
<td>+21%</td>
<td>-8%</td>
<td>-21%</td>
</tr>
<tr>
<td><strong>Overall slowdown</strong></td>
<td><strong>Russian contracting on all segments but Absolute</strong></td>
<td><strong>Transactions declining across the board</strong></td>
<td><strong>Middle Eastern growing across segments despite certain polarization</strong></td>
<td><strong>Transaction volume reduction resulting from Yen devaluation, somehow decelerating in 2014</strong></td>
</tr>
<tr>
<td><strong>Absolute growing in transactions with stable AVG ticket</strong></td>
<td><strong>Transactions declining across the board</strong></td>
<td><strong>Trend driven by transaction volume increase with minor change of ticket: growing consumer base with relatively stable profile</strong></td>
<td><strong>AVG ticket increase in Absolute and Aspirational indicating that the wealthiest are buying more, but still unable to offset general trend</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Lackluster Aspirational</strong></td>
<td><strong>Avg ticket increasing in Absolute and Aspirational indicating consumer polarization towards top spenders</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Accessible increase in transactions coupled with declining AVG ticket indicating sharp democratization</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*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)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>66</td>
<td>69</td>
<td>72</td>
</tr>
<tr>
<td>Growth</td>
<td>+5%</td>
<td>+3%</td>
<td>+6%</td>
</tr>
</tbody>
</table>

- **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**


<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>20</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Growth</td>
<td>-10%</td>
<td>+2%</td>
<td>+10%</td>
</tr>
</tbody>
</table>

- **Best performing market in real terms**
- **Local consumption** maintaining **very positive momentum** despite price increase re-establishing 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

**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)**

- 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

<table>
<thead>
<tr>
<th>Cluster</th>
<th># Consumers</th>
<th>Avg Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Omnivore</td>
<td>32%</td>
<td></td>
</tr>
<tr>
<td>Opinionated</td>
<td>29%</td>
<td></td>
</tr>
<tr>
<td>Wannabe</td>
<td>4%</td>
<td></td>
</tr>
</tbody>
</table>
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.
Market limping trend...does not depend on bad shoes!
Accessories confirming market leadership for both turnover and trend

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

<table>
<thead>
<tr>
<th>Category</th>
<th>2013</th>
<th>2014E</th>
<th>YoY '13 vs. '12</th>
<th>YoY '14E vs. '13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accessories</td>
<td>€218B</td>
<td>€223B</td>
<td>+3%</td>
<td>+2%</td>
</tr>
<tr>
<td>Apparel</td>
<td>29%</td>
<td>29%</td>
<td>+6%</td>
<td>+4%</td>
</tr>
<tr>
<td>Hard Luxury</td>
<td>23%</td>
<td>22%</td>
<td>+2%</td>
<td>+1%</td>
</tr>
<tr>
<td>Beauty</td>
<td>20%</td>
<td>20%</td>
<td>+1%</td>
<td>+2%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
<td>4%</td>
<td>+0%</td>
<td>+0%</td>
</tr>
</tbody>
</table>

YoY = Year-over-Year
13 = 2013
14E = 2014 estimates

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

**Men's RTW**

<table>
<thead>
<tr>
<th>Year</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>+2%</td>
</tr>
<tr>
<td>2013</td>
<td>+1%</td>
</tr>
<tr>
<td>2014E</td>
<td></td>
</tr>
</tbody>
</table>

- 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**

<table>
<thead>
<tr>
<th>Year</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>+2%</td>
</tr>
<tr>
<td>2013</td>
<td>+2%</td>
</tr>
<tr>
<td>2014E</td>
<td></td>
</tr>
</tbody>
</table>

- 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/canvas 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

**Watches**

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>35</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>% Change</td>
<td>+1%</td>
<td>+0%</td>
<td></td>
</tr>
</tbody>
</table>

- **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**

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>12</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>% Change</td>
<td>+5%</td>
<td>+4%</td>
<td></td>
</tr>
</tbody>
</table>

- **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*

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

<table>
<thead>
<tr>
<th>Segment</th>
<th>'12-'14E CAGR</th>
<th>'12-'14E CAGR</th>
<th>'12-'14E CAGR</th>
<th>'12-'14E CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leather Goods</td>
<td>10 (+8%)</td>
<td>17 (+2%)</td>
<td>11 (+7%)</td>
<td>11 (+15%)</td>
</tr>
<tr>
<td>Apparel</td>
<td>8 (+5%)</td>
<td>31 (+1%)</td>
<td>17 (+1%)</td>
<td>22 (+5%)</td>
</tr>
<tr>
<td>Watches</td>
<td>9 (+4%)</td>
<td>18 (+1%)</td>
<td>8 (+4%)</td>
<td>4 (+8%)</td>
</tr>
<tr>
<td>Jewels</td>
<td>4 (+6%)</td>
<td>5 (+1%)</td>
<td>5 (+1%)</td>
<td>5 (+10%)</td>
</tr>
</tbody>
</table>

**Absolute**

**Aspirational**

**Accessible**

**Alternative to luxury**

**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

**WORLDWIDE LUXURY GOODS SECOND HAND MARKET**

| ~€16B | Second-hand branded luxury goods market in 2014E |
| ~80% | Share of hard luxury, especially watches |
| >50% | Share of Europe over total sales |

- 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

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

LUXURY GOODS MARKET TREND

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
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<tbody>
<tr>
<td>2013</td>
<td>€218B</td>
</tr>
<tr>
<td>2014E</td>
<td>€223B</td>
</tr>
<tr>
<td>2017F</td>
<td>€250-265B</td>
</tr>
</tbody>
</table>

CAGR '14E-’17F +4-6% @K

+2% (+5% @K)

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.

<table>
<thead>
<tr>
<th>YESTERDAY</th>
<th>TODAY</th>
<th>TOMORROW</th>
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<tbody>
<tr>
<td>1990s</td>
<td>2014</td>
<td>20xx</td>
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<tr>
<td>Monochannel</td>
<td>Multichannel</td>
<td>No Channel</td>
</tr>
<tr>
<td>Monoprod</td>
<td>Multiproduct</td>
<td>Lifestyle Coach</td>
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<tr>
<td>Local</td>
<td>Multilocal footpr</td>
<td>Global Consumer</td>
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<tr>
<td>footprint</td>
<td>footprint</td>
<td>Gen Y - Gen Z</td>
</tr>
<tr>
<td>Baby boomers</td>
<td>Baby boomers - Gen X</td>
<td>Space Gen</td>
</tr>
<tr>
<td>Licensing</td>
<td>Distribution</td>
<td>Consumers As Partners</td>
</tr>
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<td>partnership</td>
<td>Partnership</td>
<td>Think - Noh, Hear - Noh</td>
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<tr>
<td>Seasonal</td>
<td>Tran-seasonal</td>
<td>Individual Irony</td>
</tr>
<tr>
<td>Product</td>
<td>Brand</td>
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Claudia D’Arpizio, Partner
Bain’s Luxury Goods Vertical

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”.

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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**
     - **Application of estimated mark ups by geography and category**
     - **Retail + Wholesale at retail value + Licenses at retail value**
     - **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