



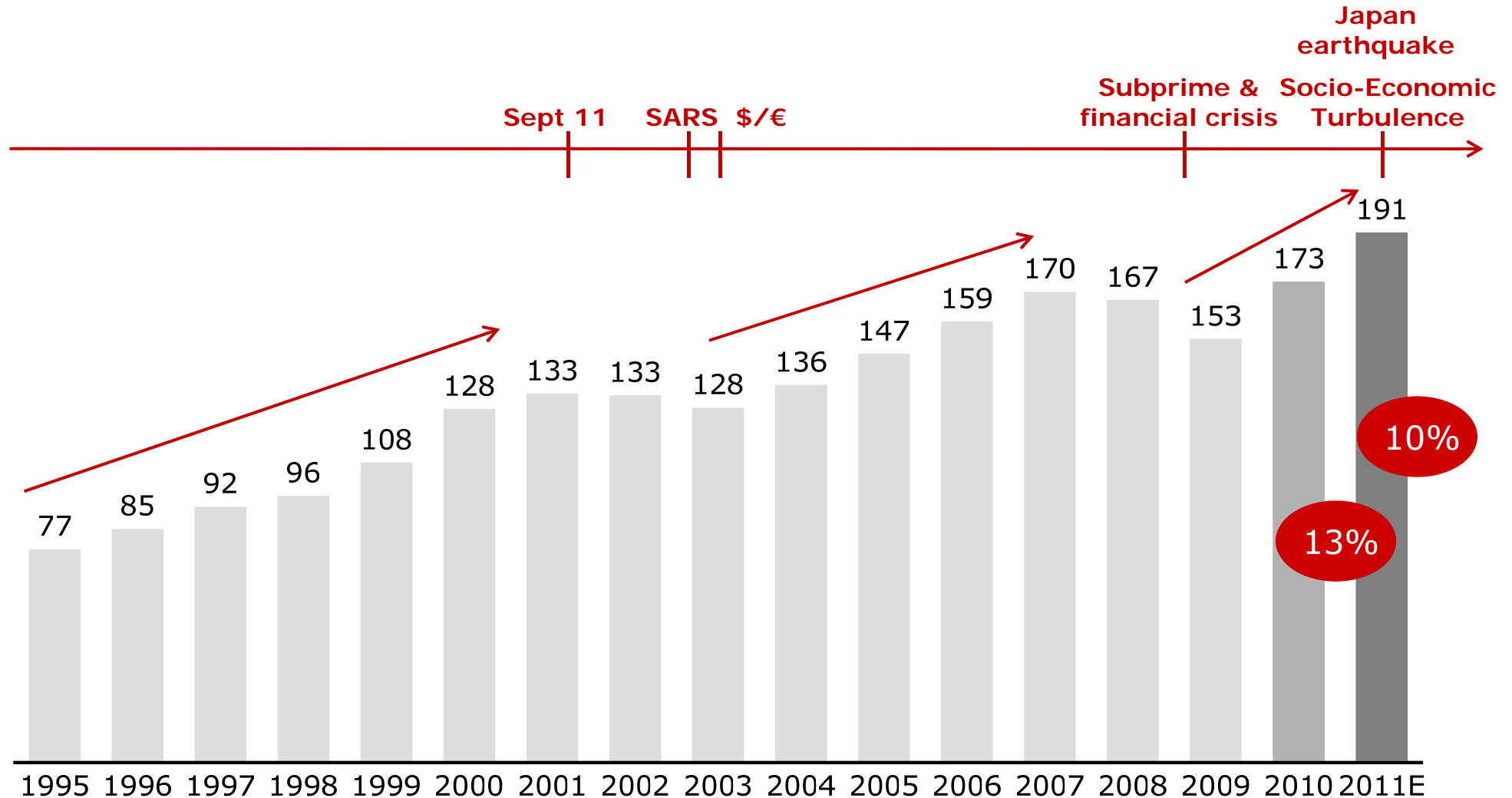
Fondazione
Altagamma

Luxury Goods Worldwide Market Study, 2011

10th Edition, October 2011

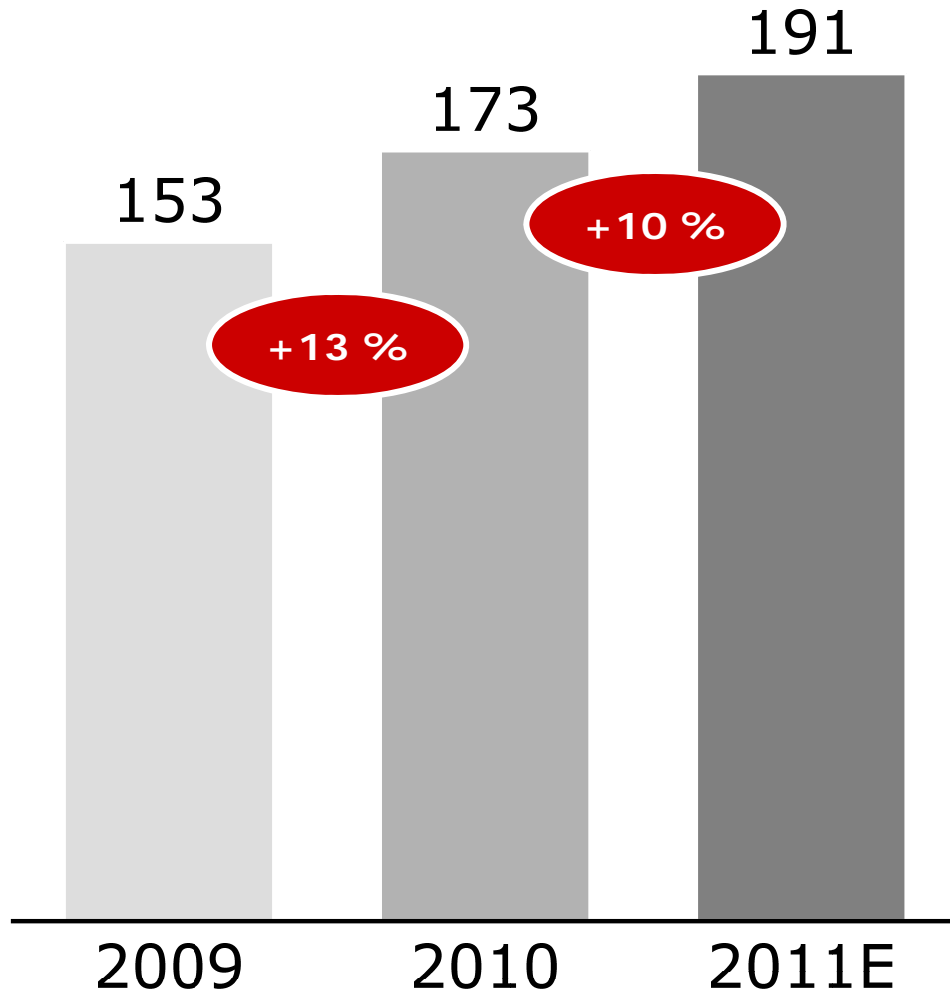
2010-2011: two phenomenal years for personal luxury goods despite global events

Worldwide Personal Luxury Goods Market trend (1995-2011E, €B)



2011: yet another peak in personal luxury goods

Worldwide Personal Luxury Goods Market Trend (2009-2011E, €B)



2009: CRISIS

- Economic downturn
- Lowest consumer confidence ever
- Strong consumption reduction in mature markets, only China growing

2010: REBOUND

- First signs of economic healing
- Strong rebound in consumer confidence of luxury consumers
- Channel & wardrobe restocking
- Chinese customers driving growth

2011: NEW DEAL

- New growth phase for local consumption in mature markets
- China, again, surging
- Japan earthquake effect milder than expected



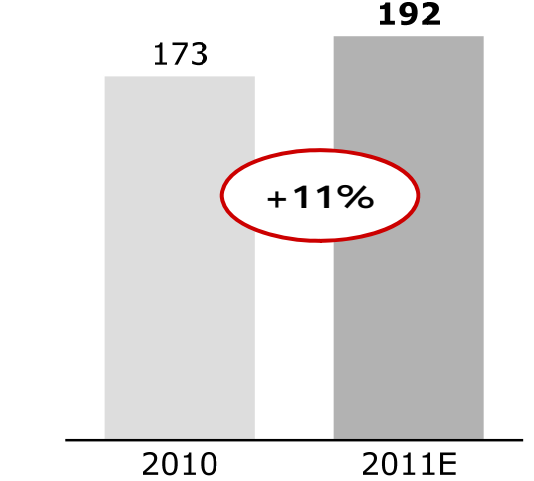
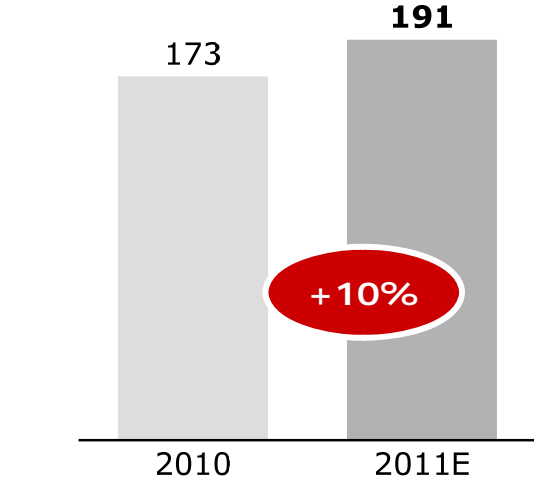
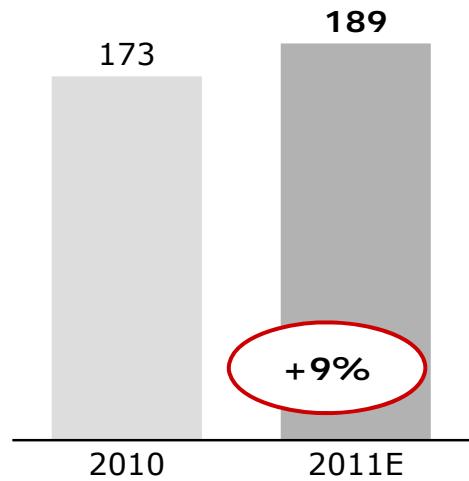
No slow down expected for the 2011 holiday season

Worst scenario

Base scenario

Best scenario

Worldwide Personal
Luxury Goods 2011
Scenarios €B



**Main
assumption**

- Holiday season in line vs. 2010 (+3% vs last year)

- Holiday season growing vs. 2010 (+7% vs last year)

- Holiday season over-performing (+10% vs last year)

**Assumed
Probability**

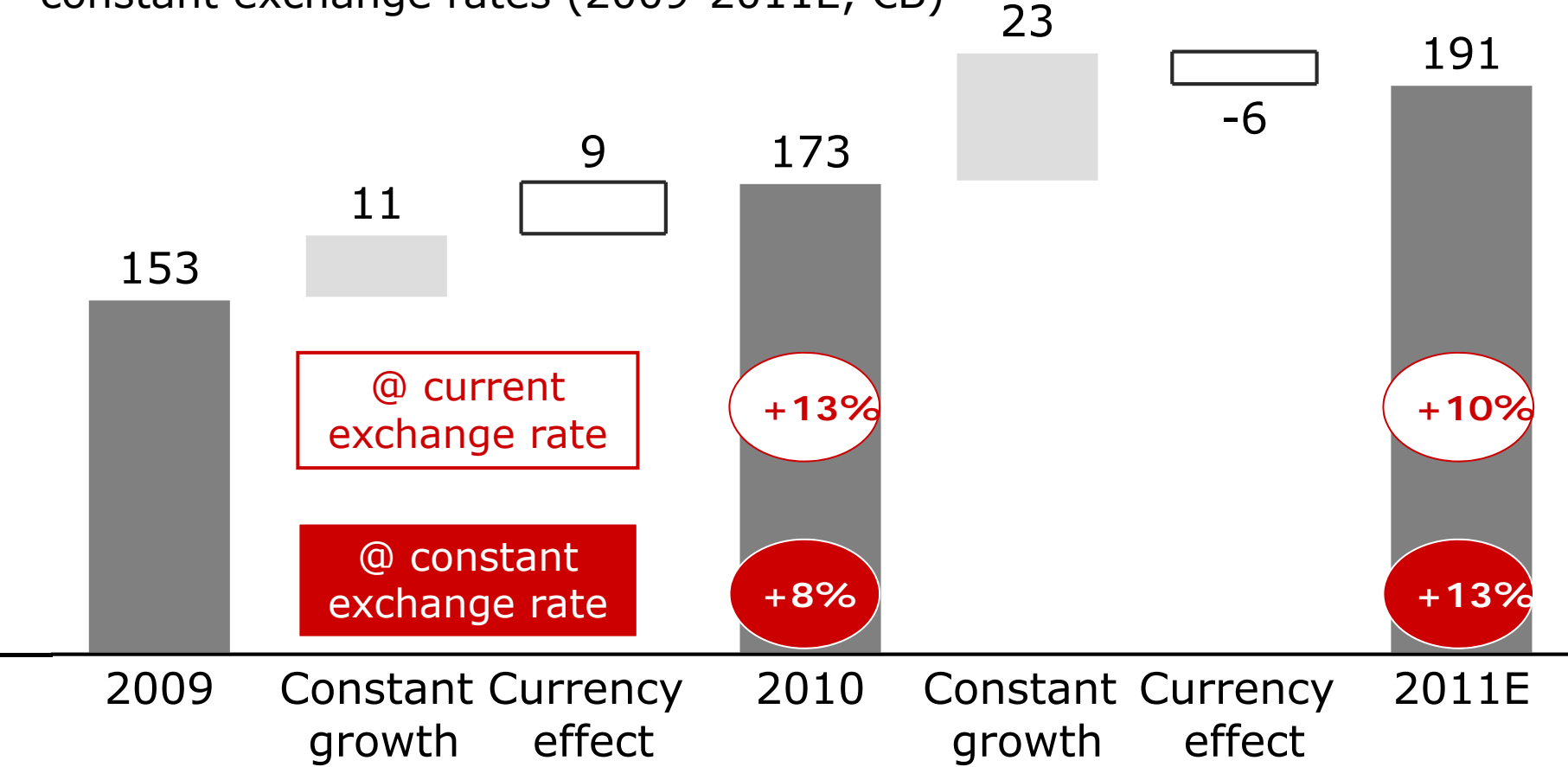
10%

70%

20%

In real terms, the market is growing consistently at a double-digit rate

Worldwide Personal Luxury Goods Market trend @ current and constant exchange rates (2009-2011E, €B)



@ current exchange rate

@ constant exchange rate

+13%

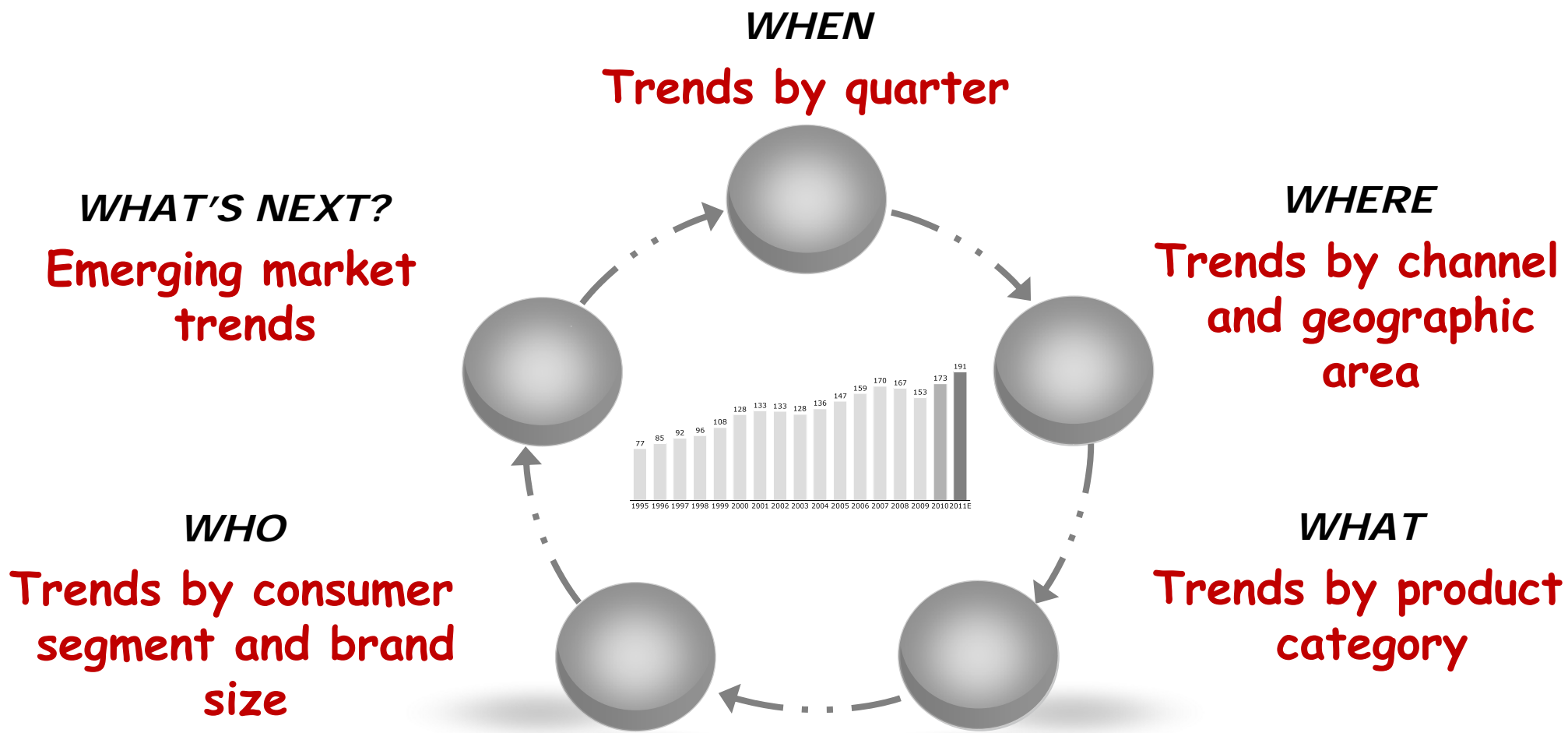
+8%

+10%

+13%

€/\$	1.4	5% US dollar appreciation	1.3	-5% US dollar depreciation	1.4
€/Y	130.0	12% Yen appreciation	116.1	3% Yen appreciation	112.7

"5 W's" for analyzing 2010-2011 Personal Luxury Goods Market performance

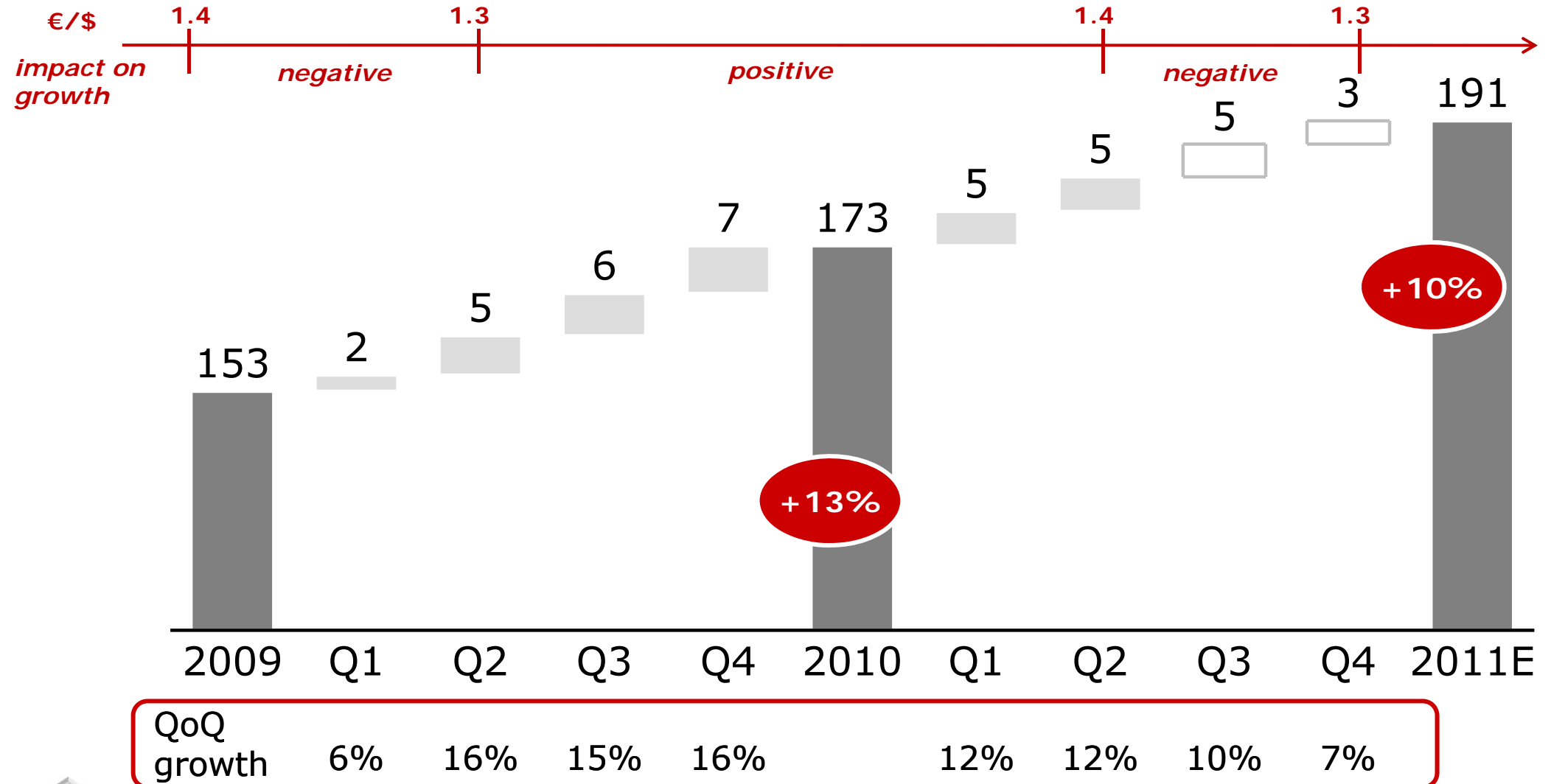


The positive effect of exchange rates on revenue shifted to negative in the second half of 2011



Worldwide Personal Luxury Goods Market trend (2009-2011E, €B)

Based on listed companies results
 Based on Bain estimates



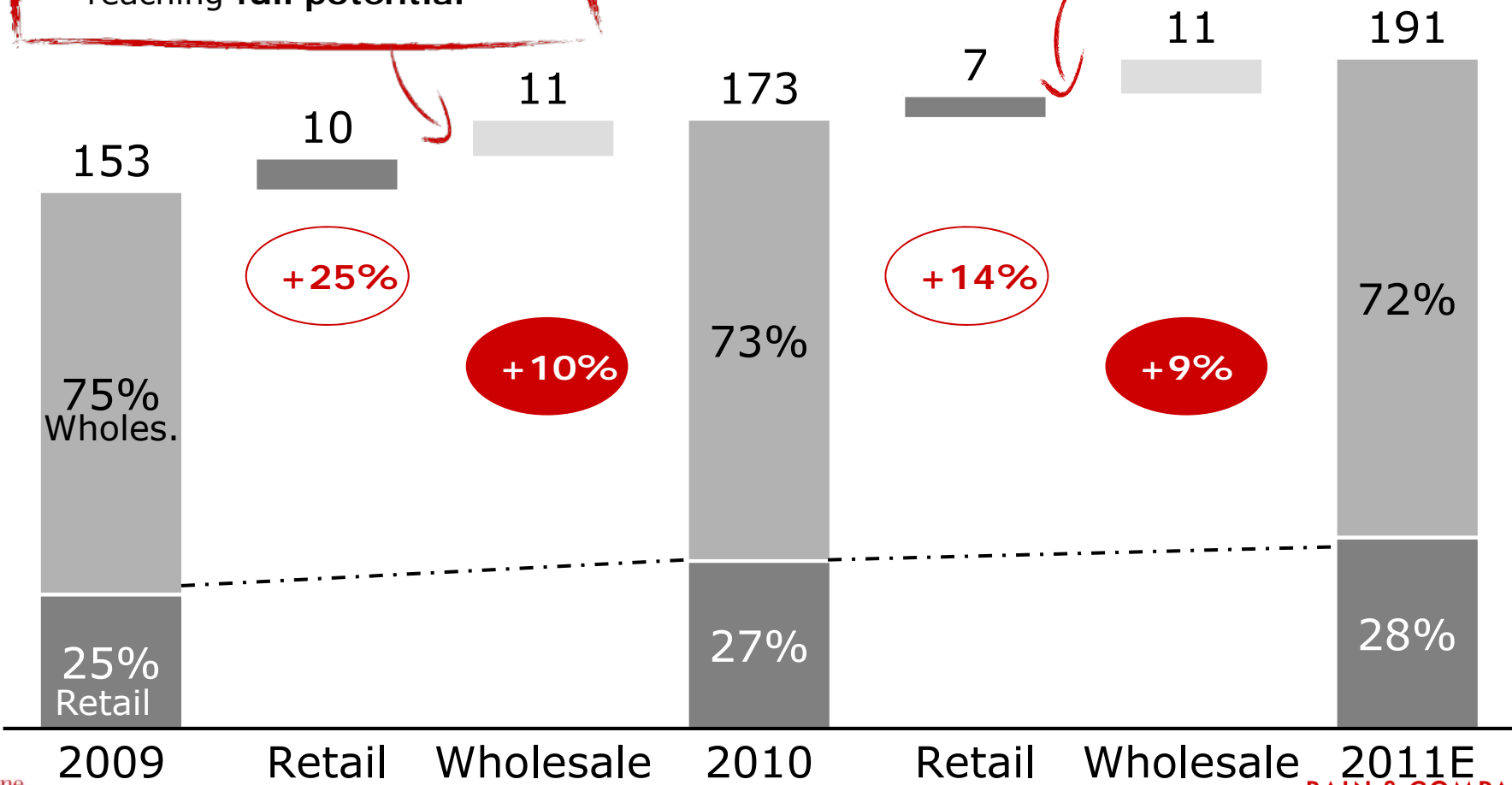
Retail is still over-performing wholesale, but the gap is narrowing



Worldwide Personal Luxury Goods Market trend by channel (2009-2011E, €B)

- US Department stores recovering and re-stocking
- Past years' openings reaching full potential

- Wholesale channel gaining confidence after downturn
- Slow down of new direct-owned store openings



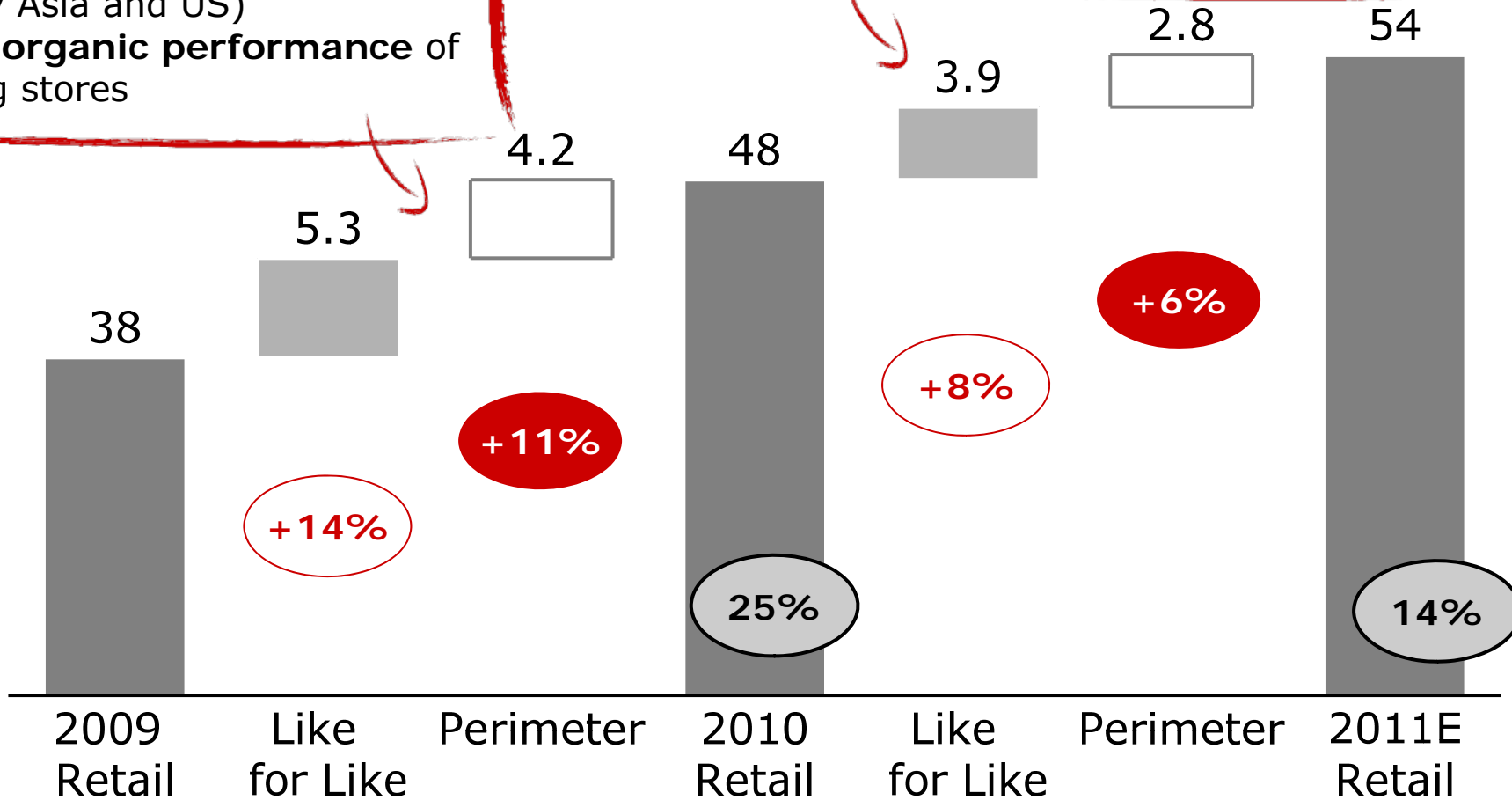
Perimeter growth slowing down in 2011: players are reducing the pace of new openings



Worldwide Personal Luxury Goods Market trend – Retail channel (2009-2011E, €B)

- **500 new openings** in 2010 (mainly Asia and US)
- Strong **organic performance** of existing stores

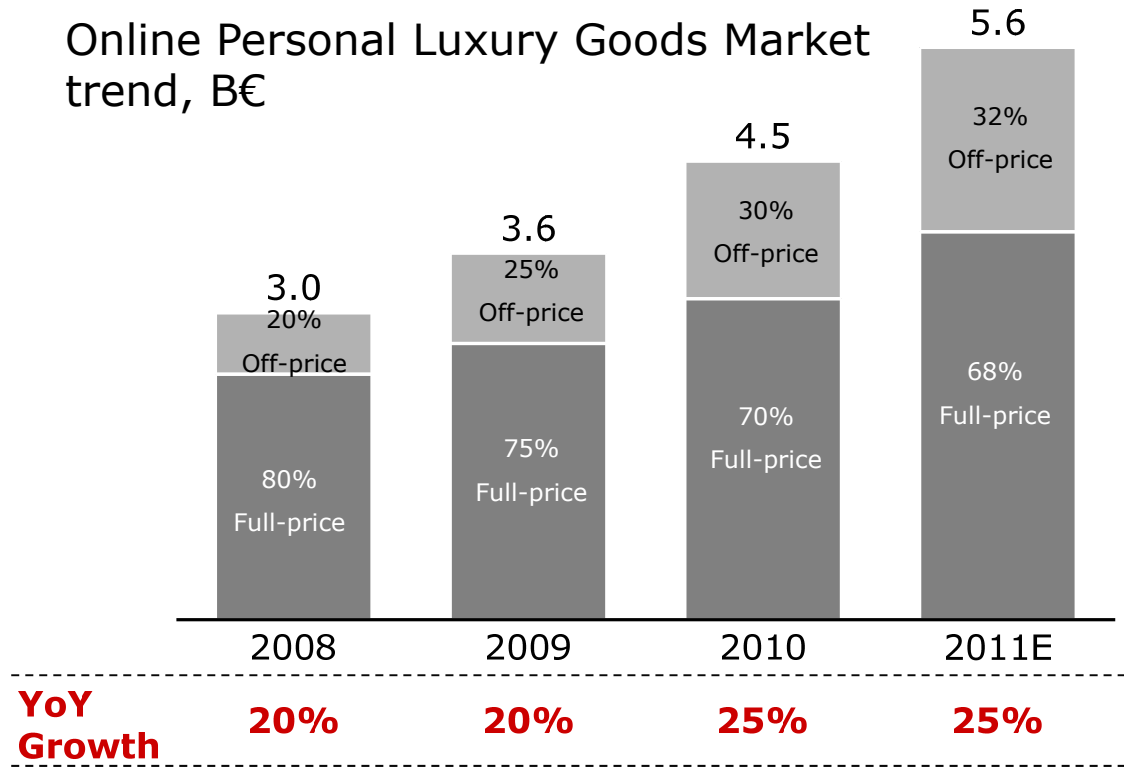
- **Slow down of new openings:** Investment reductions planned during the crisis
- **Network maintenance:** relocation and refurbishment of current stores



Online is becoming a more relevant channel each year



Online Personal Luxury Goods Market trend, B€

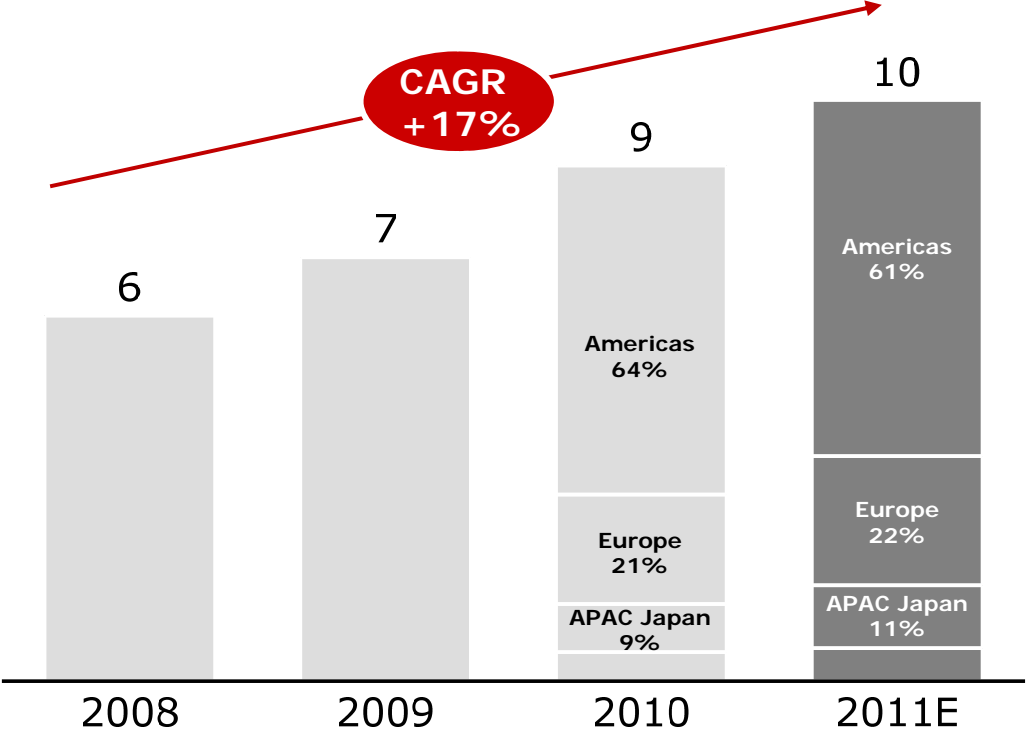


- **Online luxury shopping accounts for 3% of total sales**
- **Increasing influence of social media and digital marketing activities** improve customer experience and positively affect online sales of luxury goods
- Not only mono-brand websites, **but especially very powerful multi-brand sites:** convenience, strong editorial content and excellent service level are enhancing loyalty
- **Private sale websites** gaining share within off-price segment

Off-price channel still growing in 2011 despite higher sell-through and fewer remainders in the system



Off-price Personal Luxury Goods Market, B€



- **Off-price channel** now accounts for ~5% of overall market
- **Different stages of development** for the various regions:

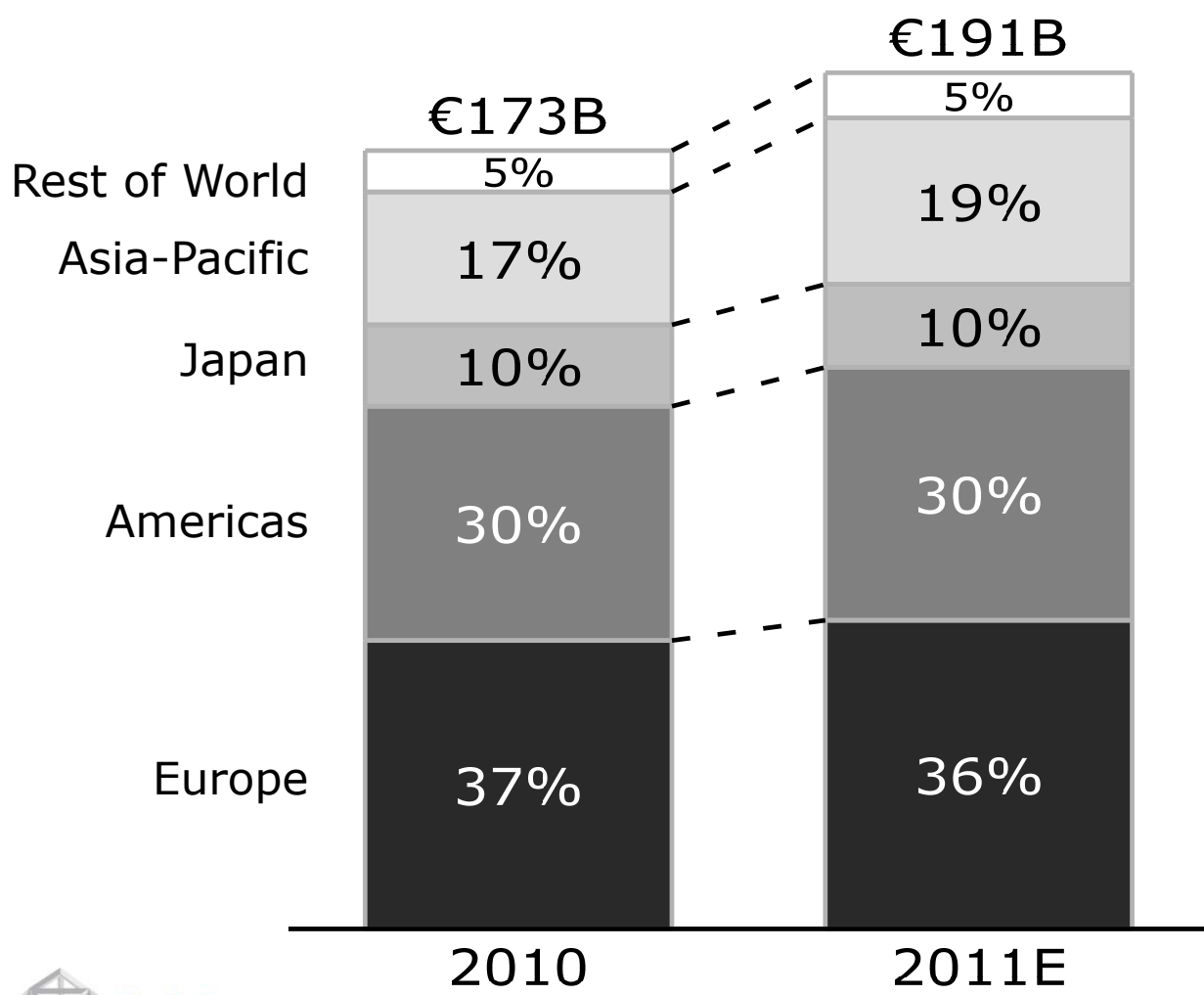
- **North America & Japan: mature and consolidated market** with limited growth perspectives
- **Europe: highly fragmented market** with **new developments** in pipeline
- **APAC (ex. Japan) & Latin America: Emerging and fast growing** phenomenon, in search of the most suitable format

	2008	2009	2010	2011E
YoY Growth	3%	16%	22%	13%
Growth @ K exch.	8%	10%	16%	19%

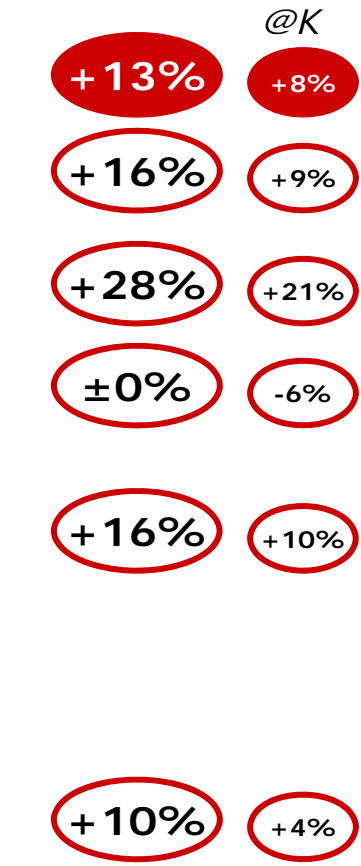
No signs of slow down for the booming Asian market, but mature markets show real strength



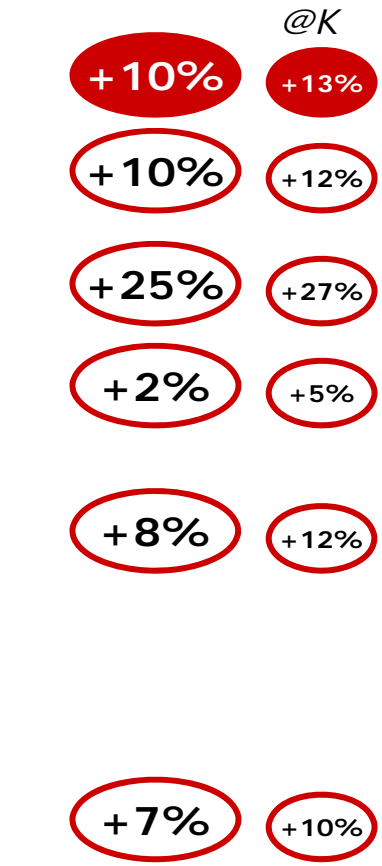
Worldwide Luxury Goods Market by area



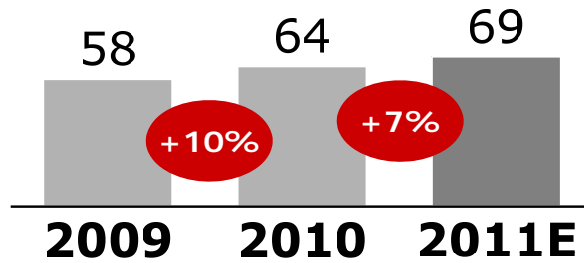
YoY '10 vs '09



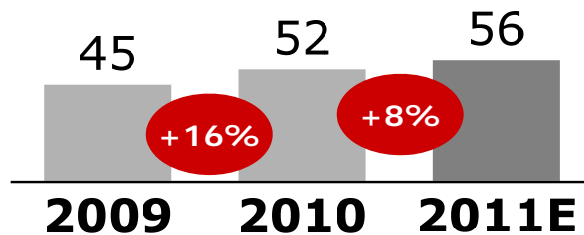
YoY '11E vs '10



Mature markets: two years of strong organic growth after the crisis



- **2010** recovery guided by **tourism**, encouraged by **weaker €** and **hard luxury's** growth
- **In key cities** (e.g. Milan, Paris), sales to **Chinese tourists** are estimated to account up to **50% of total**
- **Eastern Europe** slowed down its growth (Russia accounting for 4.7 €B in 2010, +4% vs. 2009)
- Fast-growing **Turkey** and **Central Europe** are gaining momentum



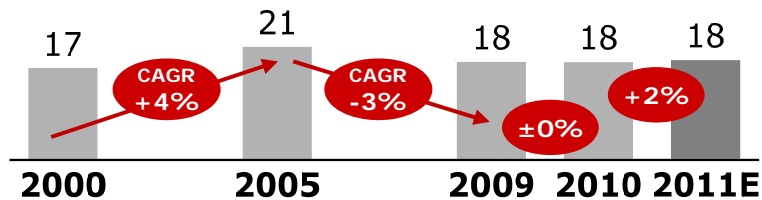
- **2010** growth driven by **women categories** and **full recovery** of **jewelry** and **watches**
- **New openings** in **2nd** and **3rd** tier cities and locations
- General trend of **turning department stores into concessions** in order to gain control over a strategic channel
- **Growing Chinese tourists' consumption** in **NYC** and **Hawaii**
- **Brazil** driving South American growth

Japan: is the dark period over?

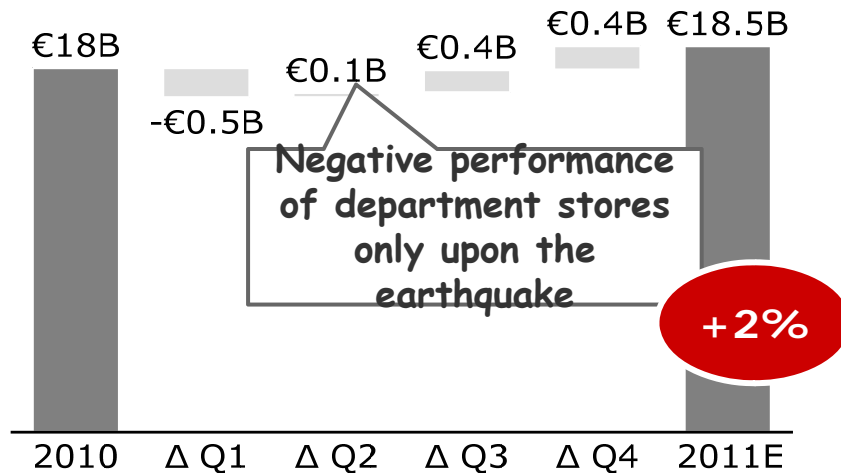


Japan

Japan Personal Luxury Goods Market, €B



Japan Luxury by quarter (2010 -2011E, €B)



QoQ growth	2010	Δ Q1	Δ Q2	Δ Q3	Δ Q4	2011E
QoQ growth	-12%	2%	8%	8%		

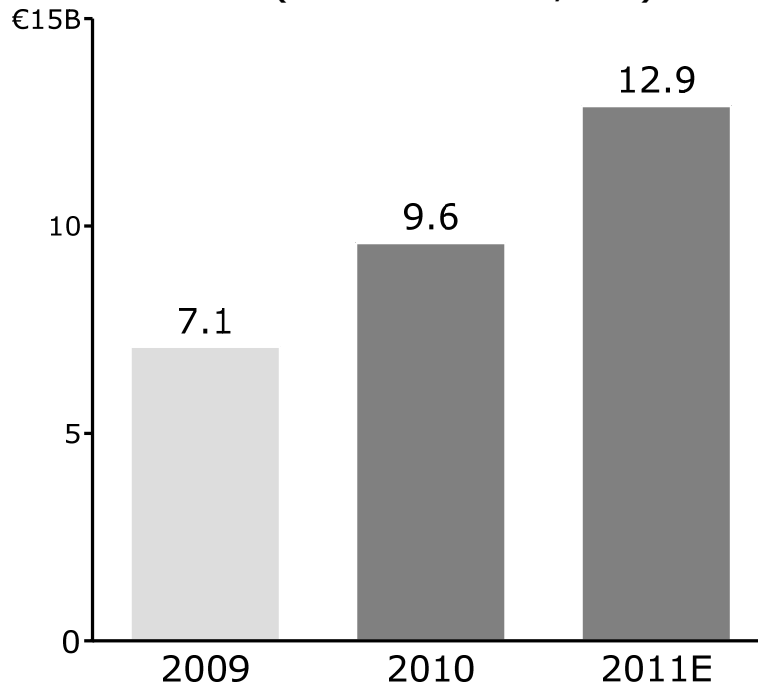
- Japan finally **reverses a negative trend** ongoing since 2007, with a **flat market in 2010** and **timid growth in 2011**
- In **2010**, **positive effect of exchange rate** (+12% JPY appreciation vs. euro) has counterbalanced stagnating organic growth of stores
- In 2011, Japan was impacted by **the earthquake** on 11 March, but effects on luxury consumption were milder than expected
 - **Nuclear risks** made luxury brands **close Tokyo stores for almost 2 weeks**, but consumption in other areas (e.g., **Osaka**) maintained good performance
- **Brands and department stores** started posting **growth in second half of the year** (starting June/July)

Impressive and healthy growth in China



Mainland China

Chinese Personal Luxury Goods
Market trend (2009-2011E, €B)



YoY growth **20%** **35%** **35%**

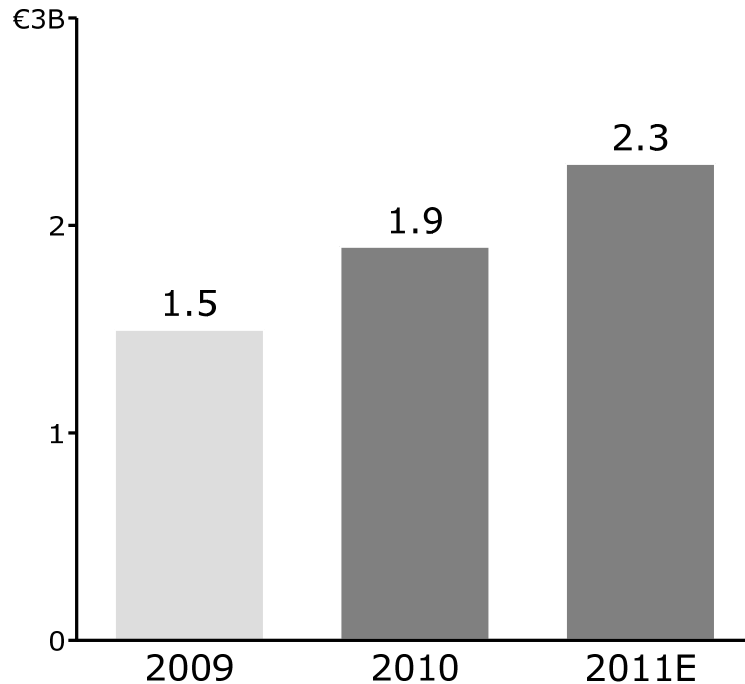
- **2010 growth** fuelled by **new openings** (China alone had almost as many new openings as all of the Americas or Europe)
- In **2011**, **organic growth** finally becomes a relevant phenomenon while **perimeter expansion** focuses more on **tier 2 and 3 cities**
- **Many players buying back** their **distribution** and **licenses** to regain control
- Ongoing **real estate development** turns shopping destinations into entertainment spots

Brazil: a small but fast-growing market



Brazil

Brazilian Personal Luxury Goods
Market trend (2009-2011E, €B)



YoY
growth **20%**

25%

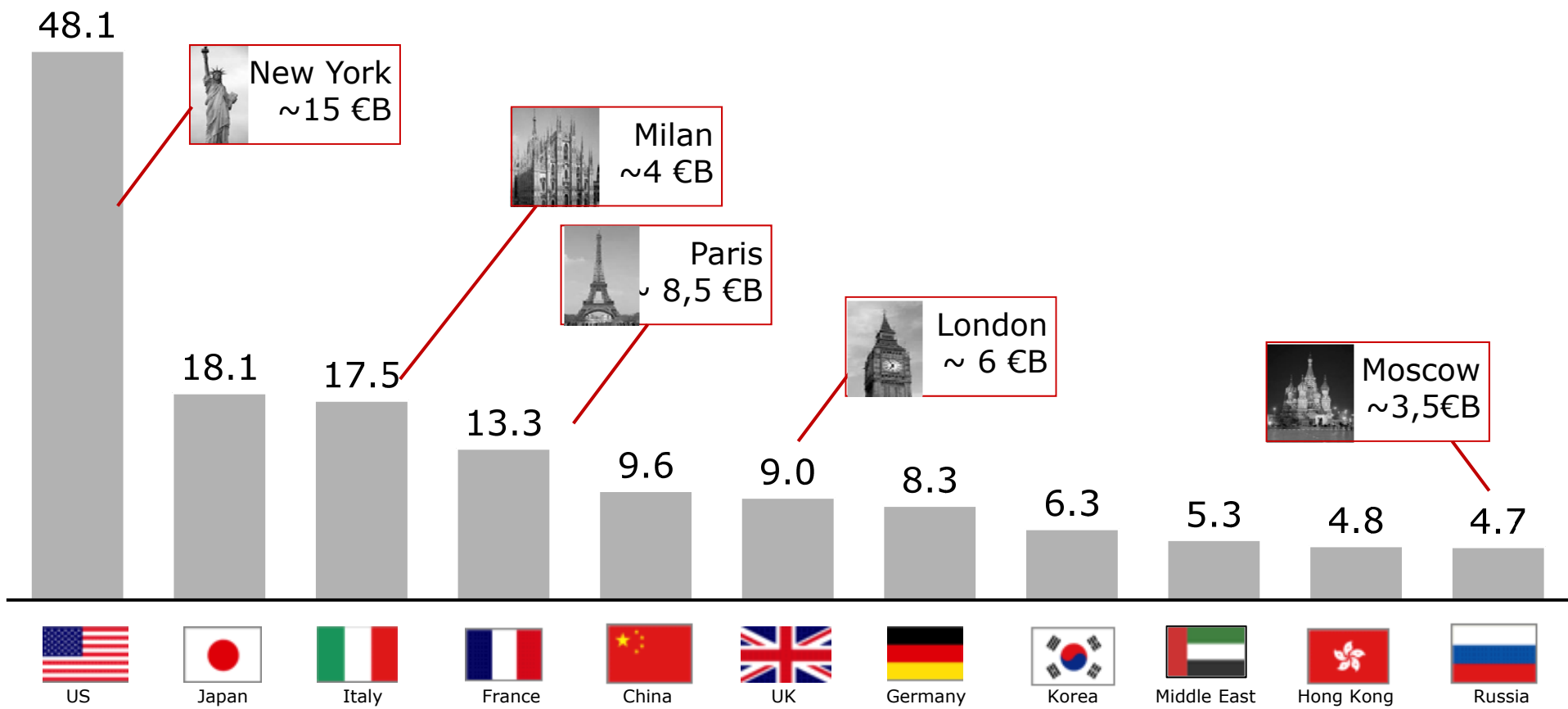
20%

- **Luxury players** are focusing more and more **in Brazil**
- **“Retailization”**: new openings and also **buy-back of distribution** and **franchising** agreements
- Fragrances and Cosmetics are the main luxury categories, but are growing at a lower pace
- **Hot spots** for luxury in Brazil are definitely **Sao Paulo** and **Rio de Janeiro**; other cities still lagging behind
- **Very high duties** are still a strong obstacle to customer base enlargement



Ranking by country: Mainland China has overcome the U.K.; Hong Kong is bigger than Russia

Personal Luxury Goods - Ranking by Country (2010, B€)



Chinese customers, at home and abroad, account for more than 20% of global luxury consumption



Asia Personal Luxury Goods Market by Country (2011, B€)

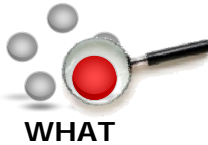


Greater China

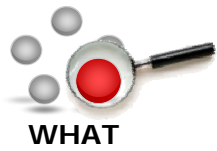
- +29%
- 23.5 €B

Chinese consumers also purchase another ~ 12-15 €B worth of luxury goods outside Greater China

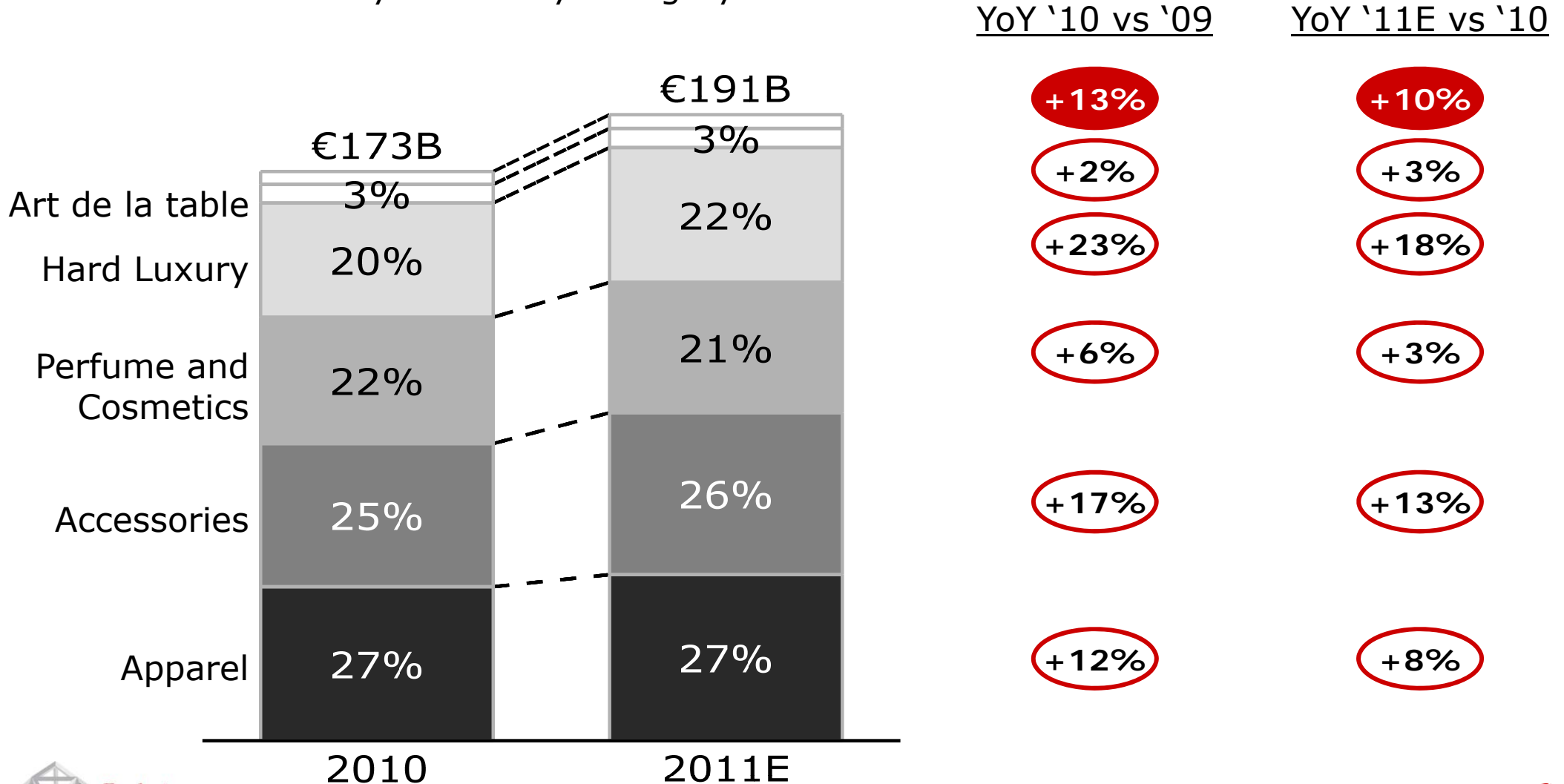
Watches: an old yet very contemporary category, leading the wave of growth



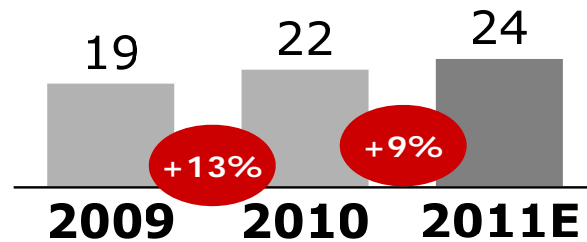
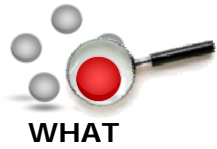
Hard luxury's rebound is a key contributor to growth in 2011



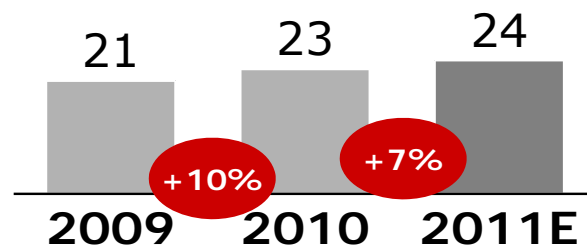
Worldwide Luxury Market by Category



New interpretations of formalwear and overall “casualization” drive growth in apparel

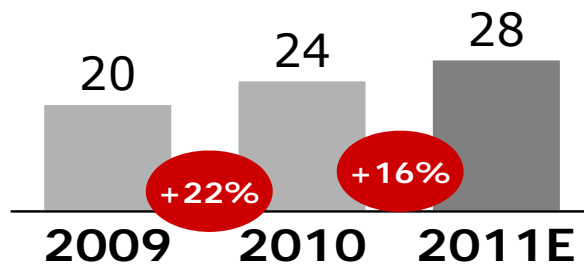
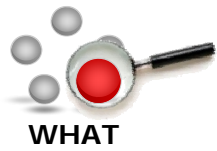


- Menswear **outperforming** the overall **apparel market**, mainly driven by “**new formal**” (mature markets) and “**upper casual**” (China)
- Many lifestyle brands investing in **men’s-only stores** in key locations
- **Increasing polarization in 2010**
 - Accessible brands +17%
 - Aspirational brands +6%
 - Absolute brands +13%
- Big opportunity for **luxury branded denim in China**

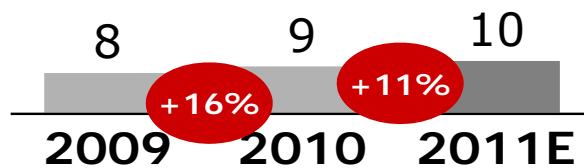


- **Rebound** of products and brands with **high fashion content** for special occasions in the high-end segment
- Progressive “**casualization**” of **everyday dressing**
- **Strong competition** from “**premium champions**” and **fast-fashion** retailers makes luxury womenswear **underperform** the market

Leather accessories maintain high growth rates in 2011 after a booming 2010

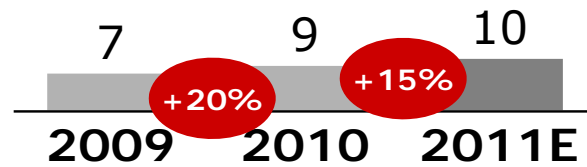
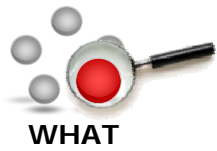


- **Strong growth across all geographies**
- **Increasing men's spending**, especially in Asia, with China having the largest share of male consumers
- **Consumer consciousness** at all price levels
 - Clear positioning of top-ranked brands in the mindset of consumers
 - No compromise on **quality, craftsmanship, and durability**

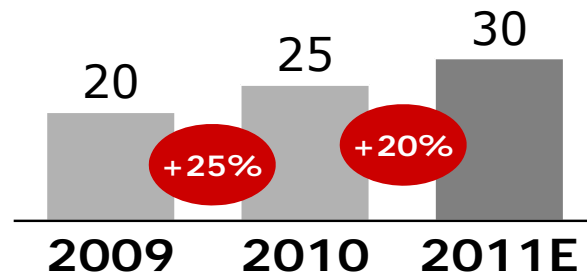


- **Big brands heavily investing** in this category, driving **growth** in the **aspirational segment**
- **Men shoes outperforming the market**
- **2011 confirms the trend** towards the **launch of products with lower price points** (e.g. tubular) already anticipated in 2010 by the boom of **sneakers**

Brilliant performance of jewelry and watches fueled by channel restocking and “retailization”

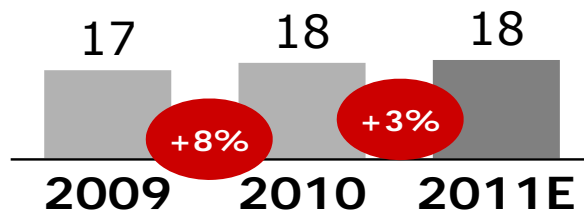
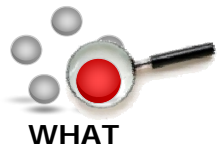


- Very good performance of **accessible segment** in **2010** (silver jewelry)
- Benefits from “**brandization**” of the entire industry
- Ongoing **expansion** of **directly-operated stores** in 2011
- **New entries** of **lifestyle brands**

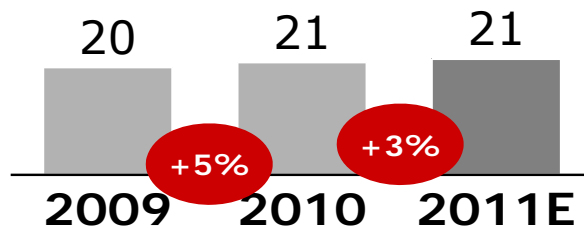


- In **2010**, **Swiss watch exports** finally recovered after financial turmoil
- **Growth** spread across **geographies** and **price segments**
- Watches segment, traditionally wholesale driven, is **starting to invest heavily in retail**, especially in **Asia**
- **Growing female consumption** (jewel-watches) also in emerging markets

Prudent growth for fragrances after restocking; in skincare innovation is driving growth



- **Channel restocking** and **new launches**, and advertising budgets **postponed to 2010** drove the **rebound**
- 2010 and 2011 launches following a prudent **franchise strategy** (line extensions): **successful products are enlarged in breadth** instead of launching truly new products
- **Lifestyle brands** outperforming specialist ones

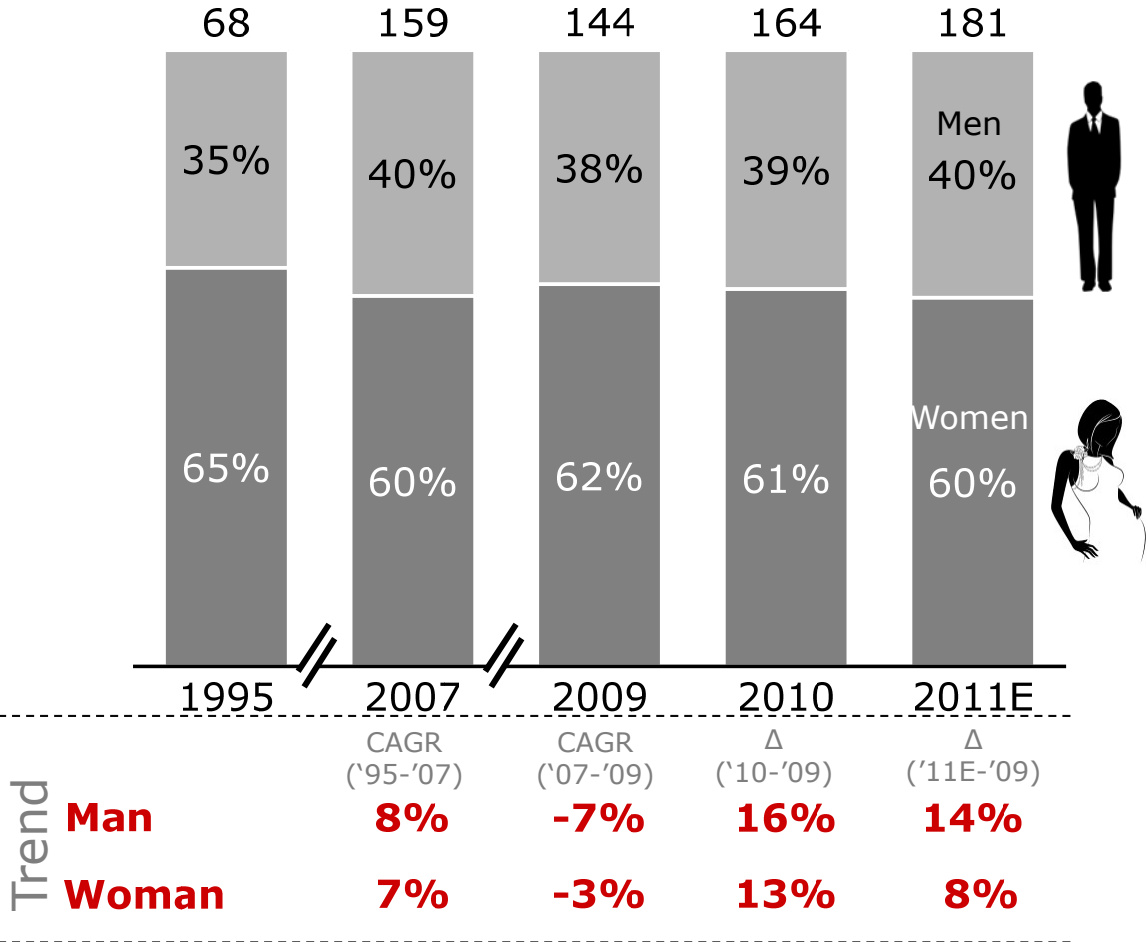


- **Innovation** reshaping category, with new products (e.g., *serums*) a large segment of anti-aging in **skincare**
- Different trends across regions: **China and Latin America growing at double digit**, whereas **mature markets stay rather flat**
- **Large international players** confirming their **dominance in makeup** worldwide, even though lifestyle brands are increasingly diversifying into this category

Men's market is over-performing women's in all categories



Luxury goods market by gender, B€



- In 2009, men hit strongly by the downturn especially due to postponed purchases, high-ticket items, and formalwear
- In 2010-2011, new wave of Masculinization of the market, pushed by male consumers' purchases in emerging markets, especially Asia
- All luxury players are focusing more and more on men's categories, with ad hoc formats and targeted Asian product offers

Strong market momentum: 80% of brands grew and the number of stars is the highest ever

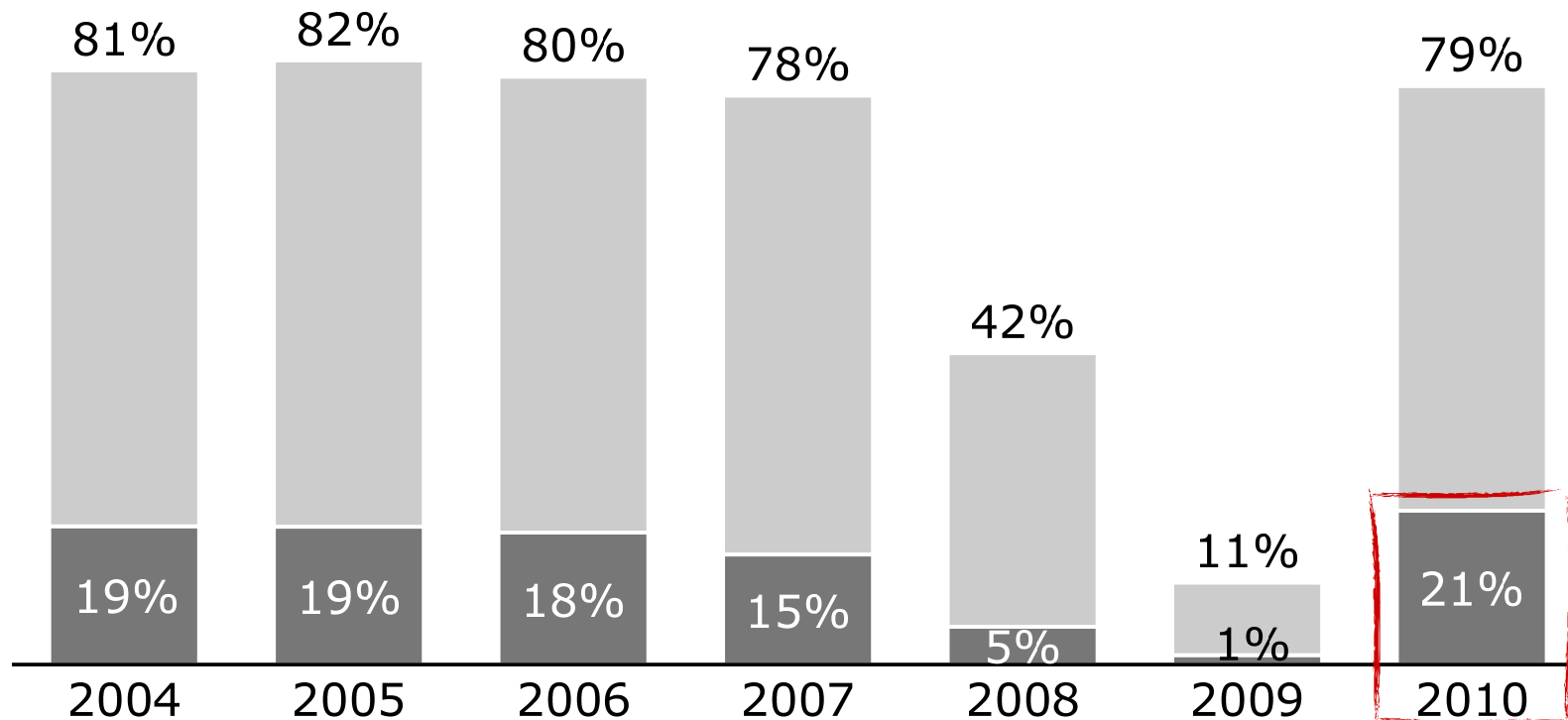


MARKET GROWTH QUALITY INDEX

Analysis @ 1995 fixed rates

■ Weight of "stars"
(players with growth rates above 20%):

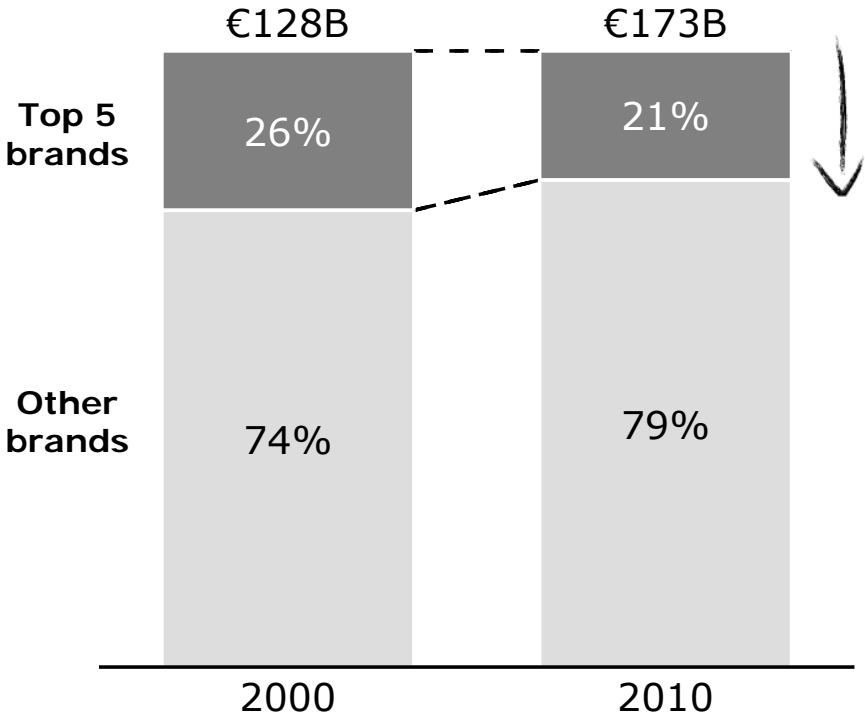
% players with positive year-on-year growth



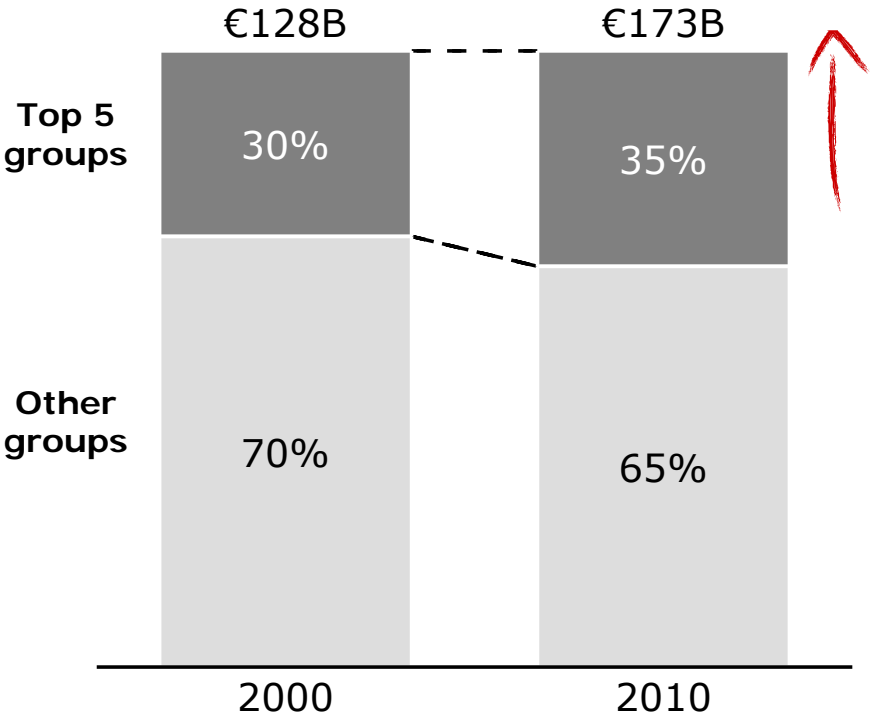
Strong competition at the brand level drives increasing concentration at the group level



Trend of Top-5 Luxury Brands' Share



Trend of Top-5 Luxury Groups' Share



Increasing competition at brand ... super-power of luxury groups level...

The market outlook is still positive in 2012 notwithstanding socio-economic turmoil

Trend by Region

Europe

+



Americas

++



Japan

+



Asia Pacific
ex China

++



China

+++



ROW

++

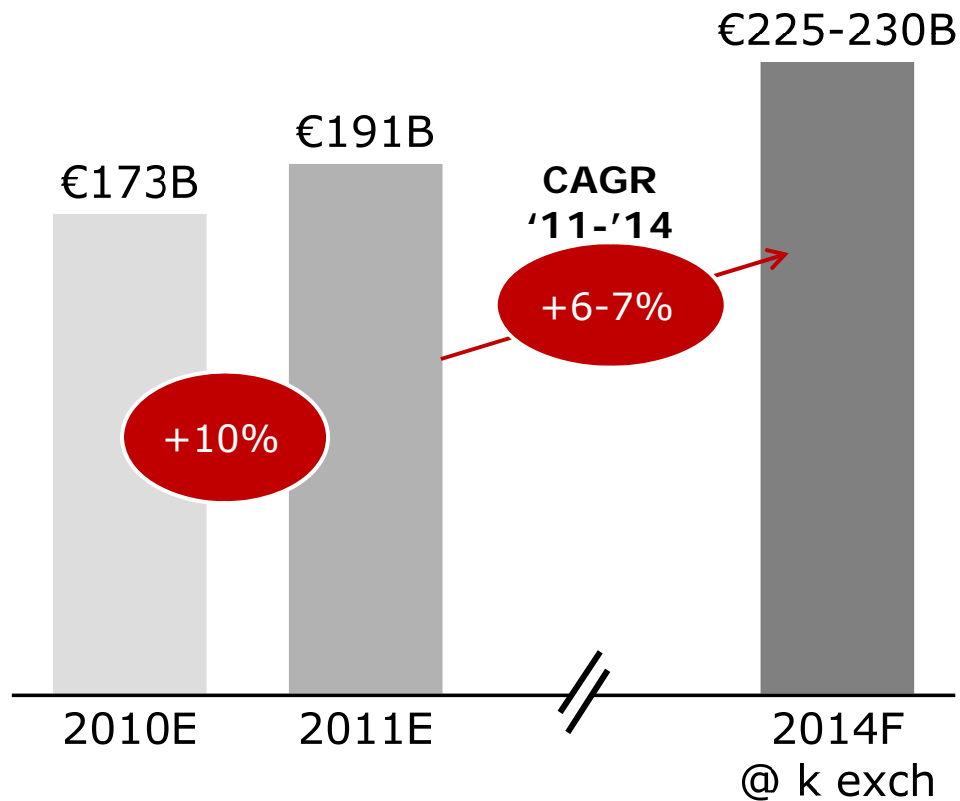


Worldwide Luxury Market

- In 2012, market will continue to grow, driven by emerging markets
- Not only China but also, Latin America, especially Brazil and Mexico
- Question mark on European local consumption
- Retail remains key, although perimeter growth will slow down
- Hard Luxury and Accessories outperforming other categories

Luxury fundamentals will remain strong in the medium term

Worldwide Luxury goods market trend



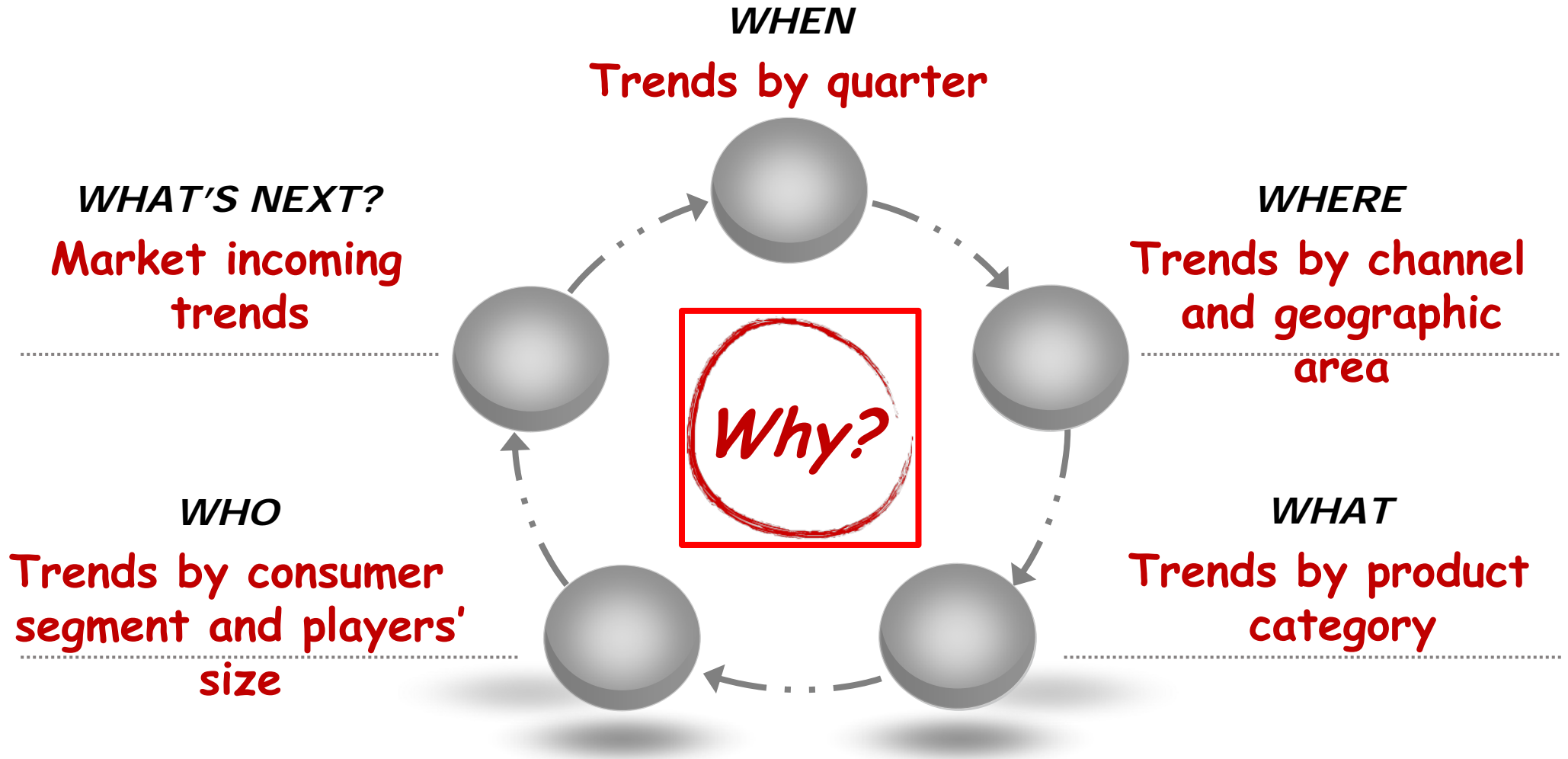
Note that growth from 2011 and 2014 is at constant exchange rates

Key trends

- Asia-Pacific growth, and especially **China's booming economy and demographics**, will drive luxury goods consumption
 - Mainland and Greater China
 - **Touristic destinations** in Asia and worldwide (Europe)
 - Continuous investment in **luxury stores in 3rd and 4th tier locations**
- Consolidation of mature markets (US and Europe) which still hold the majority of personal wealth
 - **"Retailization"** of the wholesale channel
 - Penetration into **2nd tier cities**
- New emerging markets becoming significant: **Central Europe, Brazil and Middle East (Saudi Arabia)**
- Japanese market recovering



An final "W" is fundamental for the future: Why?



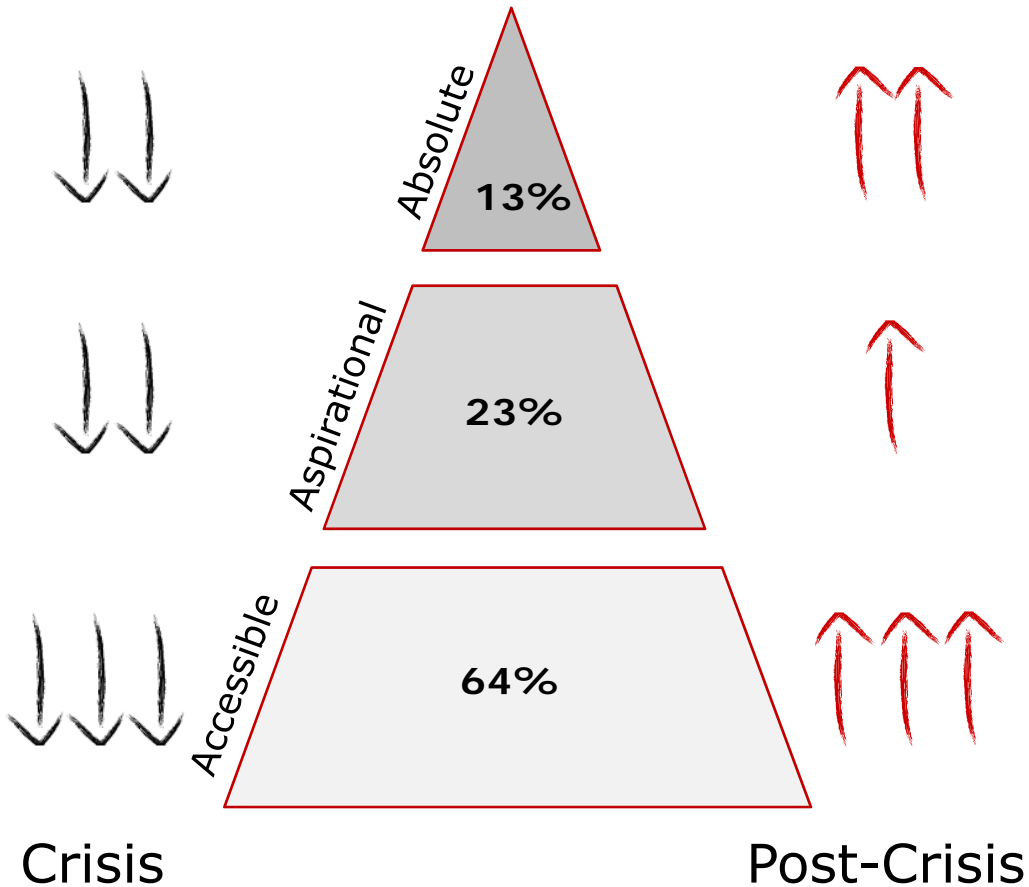
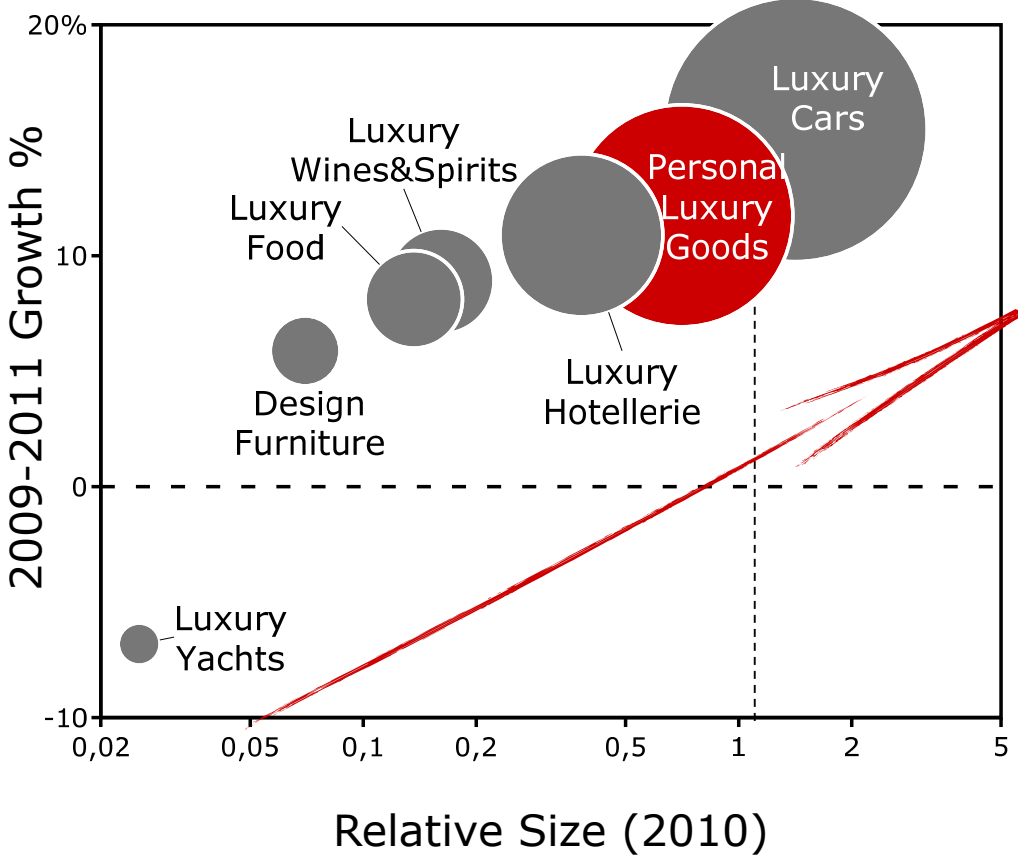
Polarization megatrend impacts markets differently at different stages of maturity/democratization



Worldwide Luxury "Market of the Markets" trend by segment and positioning

Trends by market (2009-2011, €B)

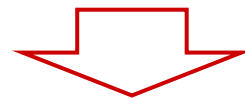
Trends by segment (crisis and post-crisis)



So...what's happening?



- **Luxury**, in all its different segments, is a **huge and growing** market
- **Emerging markets** are playing a fundamental role
- **Convergence in female and male luxury** consumptions:
 - **Fashionization** of men, becoming compulsive luxury buyers
 - **Feminization of luxury toys**: power-women approaching super luxury cars and spirits
- **Some megatrends span all markets, categories and segments**:
 - **Retailization** and **brandization** of all market segments
 - **Technology** is driving innovation and enhancing customer experience at all levels
 - Strong demand for **eco-health** savvy products (when authentic and innovative)
 - **Self-indulgence** always relevant despite economic environment
 - **Younger generations** are more conscious, more impatient and more likely to cherry-pick



Increasing complexity demands **excellence** in execution, to create a **luxury experience**



Talent, Technology and Trust will drive excellence in Luxury

Experience

Social
Retail Omnichannel
Stores
Digital
24/7

Both-brain organization
Talent management
Creativity 360°
Strategic talent sourcing
Customer centric

Innovation

Delight
Customer Intimacy
Relationship
Loyalty
Promotership
Segmentation
Advocacy

Insight
Y Generation
Retain
Attract

