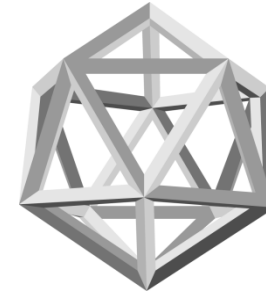


BAIN & COMPANY



**Fondazione
Altagamma**

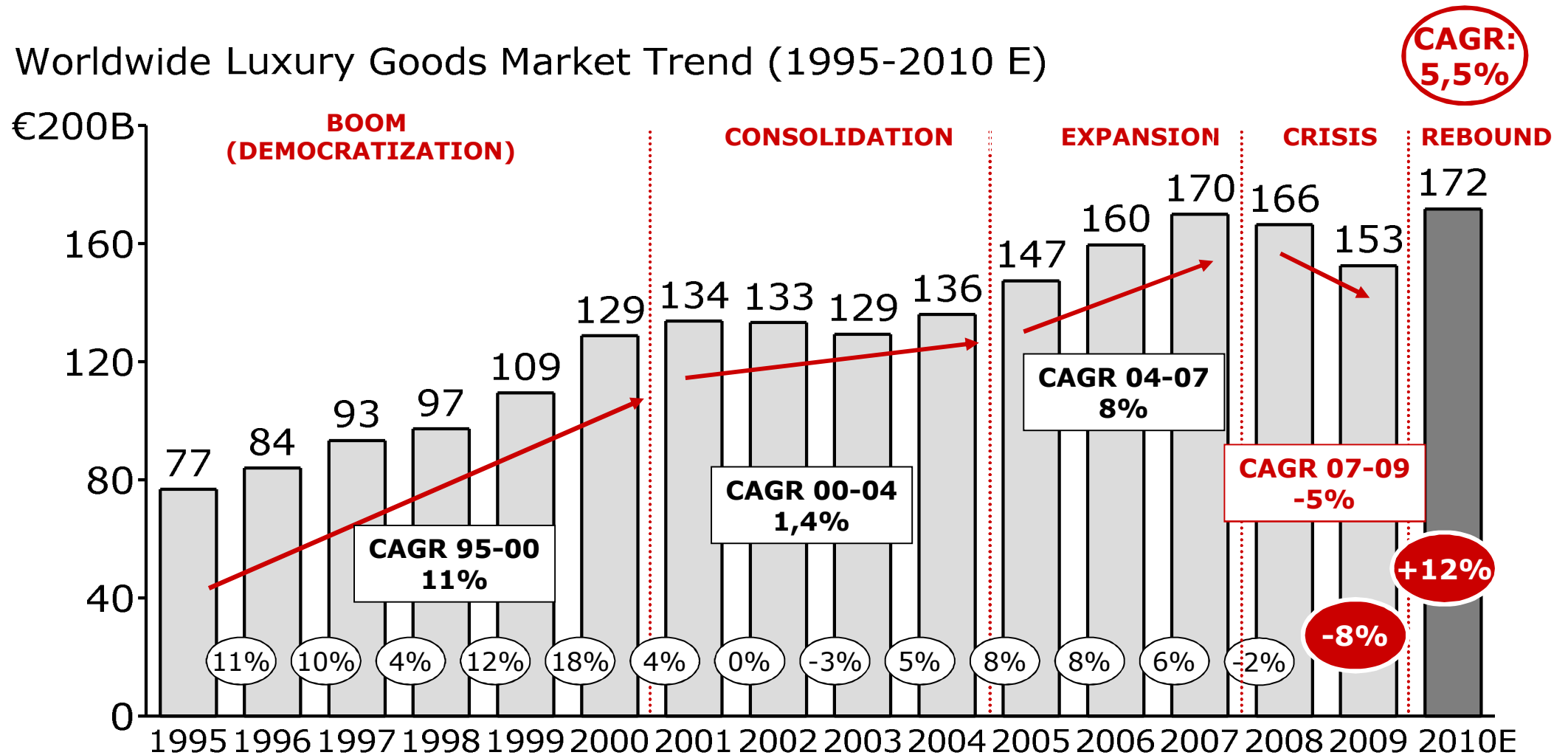
Luxury Goods Worldwide Market Study

Spring 2011 Update

Milan, 3rd May 2011

2010: A new peak for luxury goods consumption

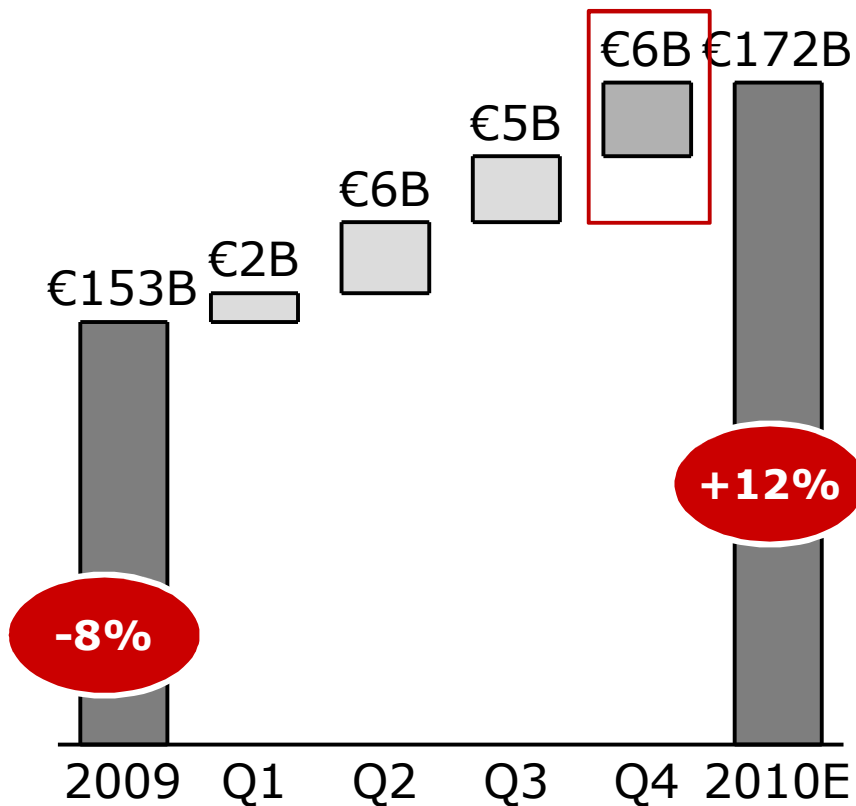
Worldwide Luxury Goods Market Trend (1995-2010 E)



Note: 2010 data continues be estimated (E) in this report as some privately-held companies do not finalize and report 2010 data until June or July 2011.

2010 Holiday Season fared better than expected

Worldwide Luxury Goods Market by Quarter



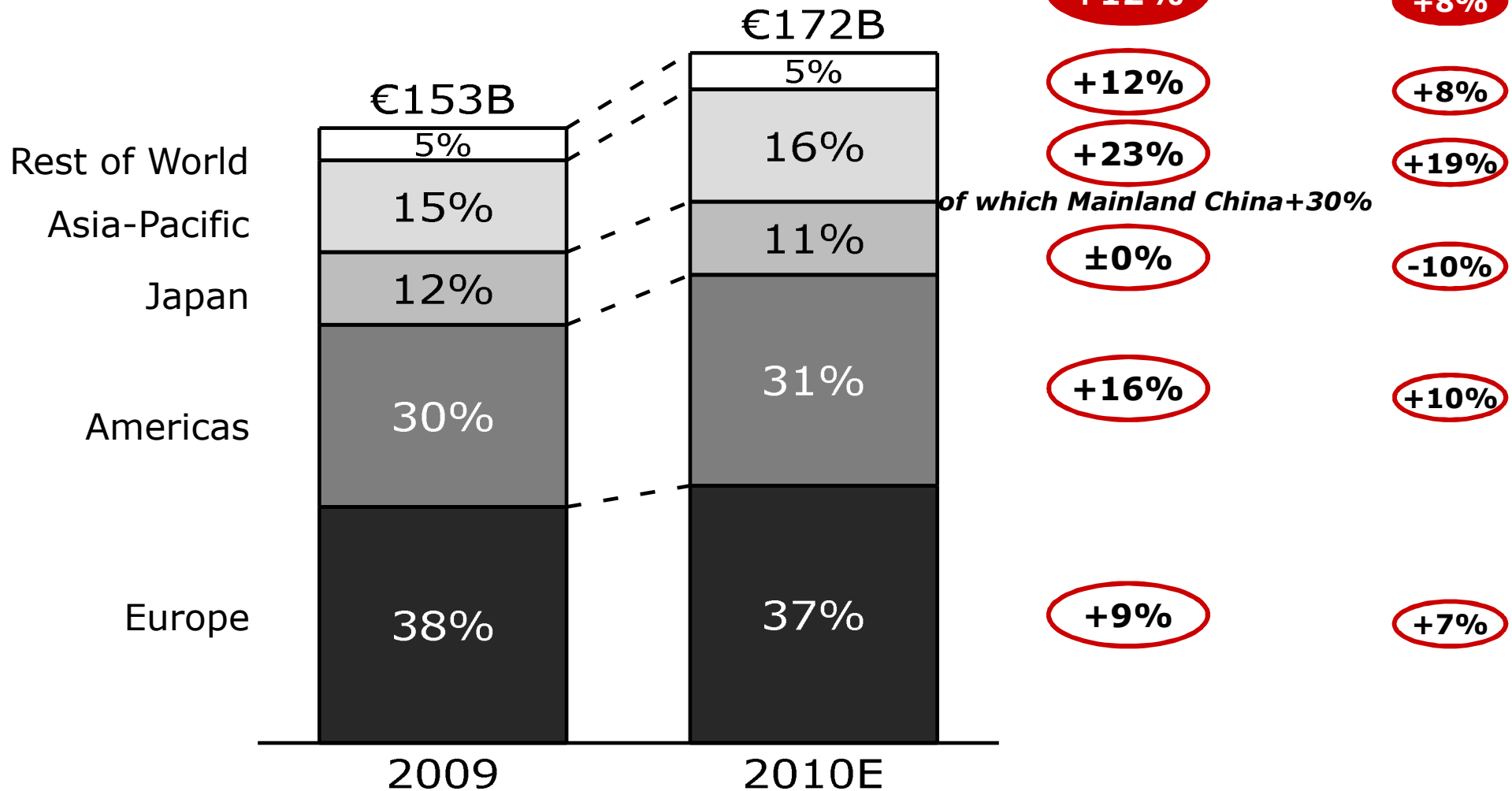
QoQ growth	6%	16%	13%	14%

Holiday Season

- **Traffic** reach its **highest level** of 2010
- **Consumers regaining confidence** and showing a more positive attitude
- Strongest performance of **top-end luxury categories**
- **Internet sales** increasing shares over traditional channels
- Strong results for **US department stores: double digit growth** at comparable store level

Strong growth across the board except Japan, with Mainland China the rising star

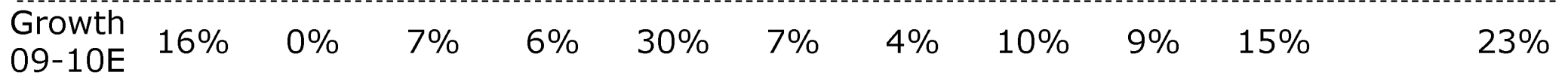
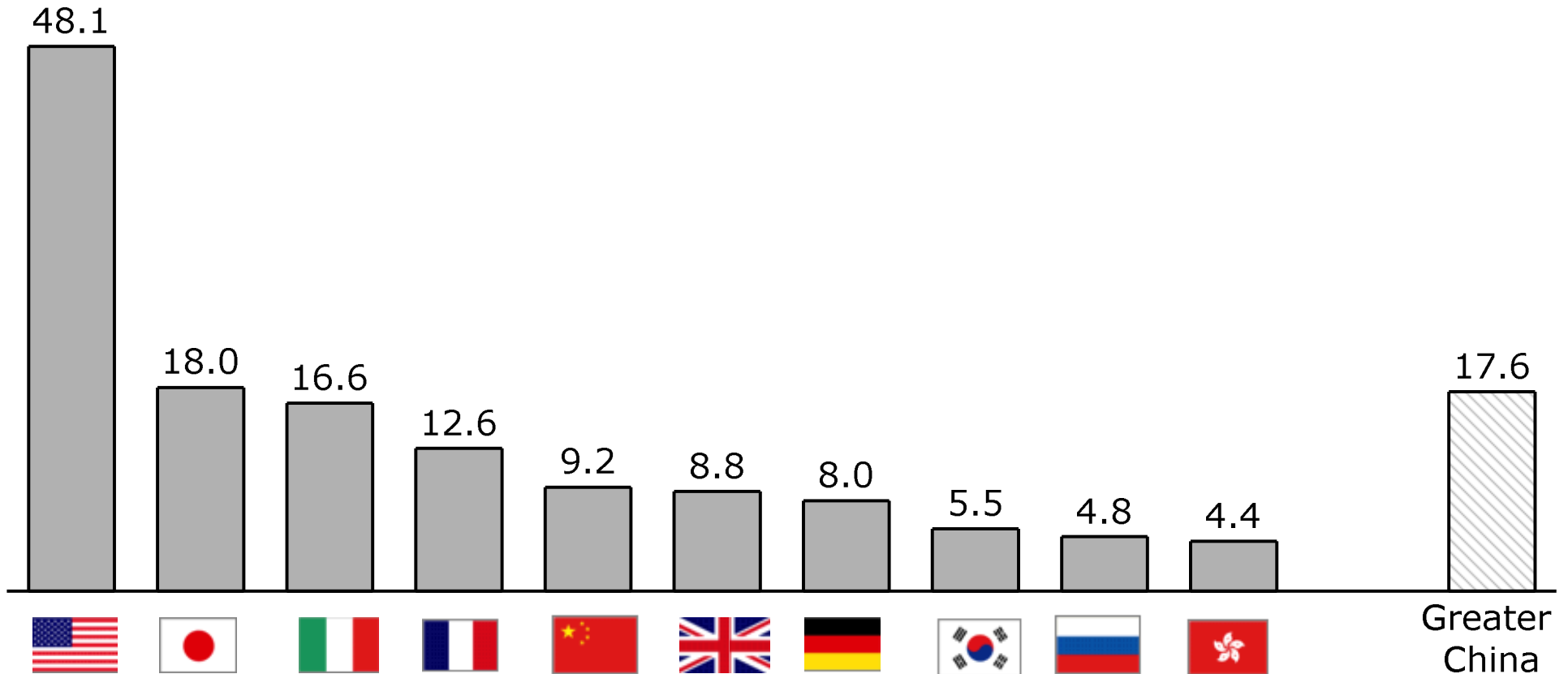
Worldwide Luxury Goods Market by Area



YoY '10E vs '09
YoY '10E vs '09
@ K exch. rates

US an undisputed leader; Greater China closing the gap with respect to Japan

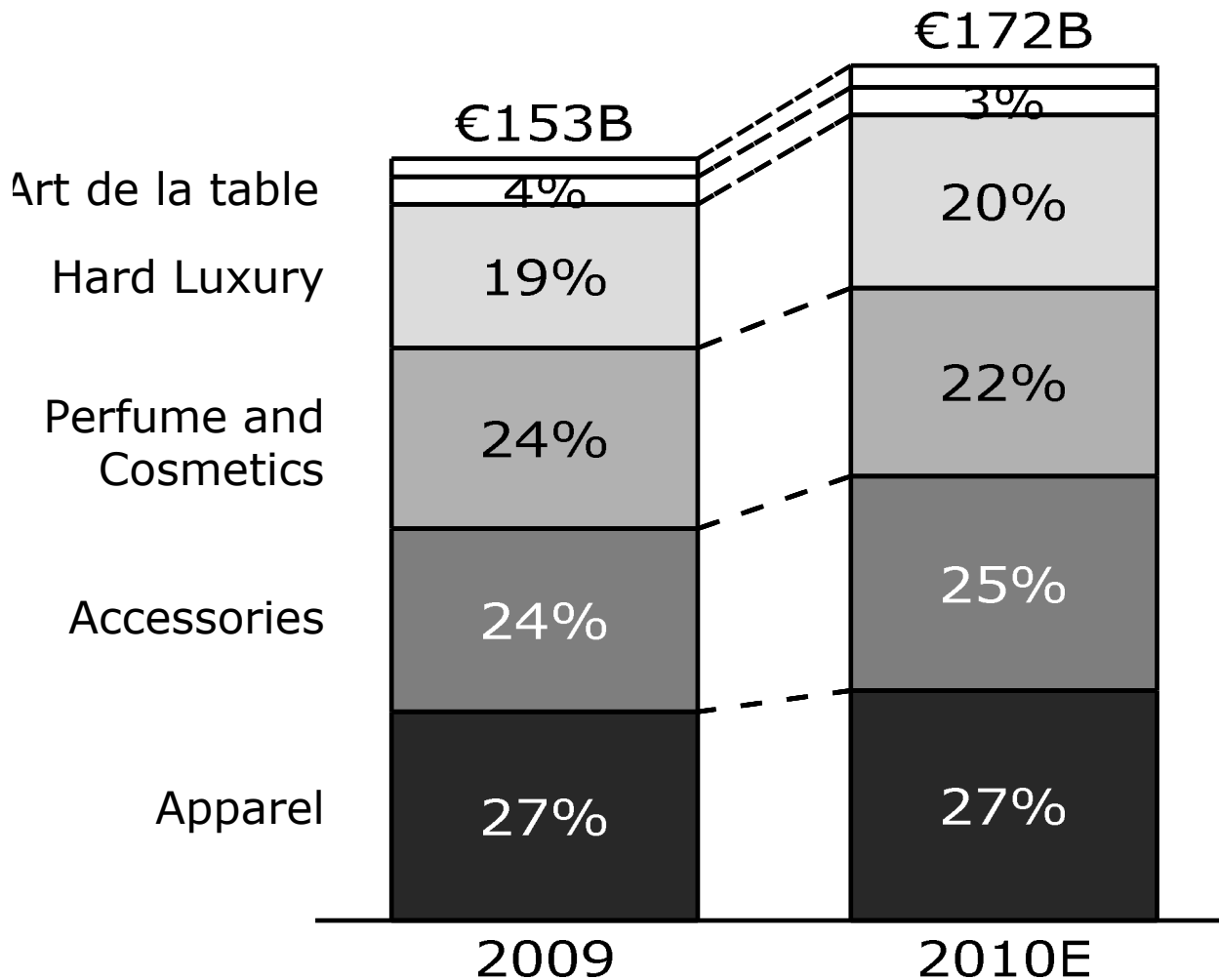
Market Ranking by Country (2010E, B€)



Note: Greater China is made up by China, Hong Kong, Macau and Taiwan

Re-stocking drives hard luxury growth; accessories still growing fast

Worldwide Luxury Goods Market by Category



YoY '10E vs '09

+12%

-1%

+21%

+4%

+17%

of which Leather Goods+20%

+10%

Key drivers of luxury goods market for 2011

1 Europe, USA

- **Retail:** Strong results in first months of 2011 for all players
- **Wholesale:** Boost in Fall/Winter '11 orders; restocking after the stock-out holiday season

2 Japan

- **Still stagnating and deflating market**
- **11th March earthquake** is impacting macroeconomic conditions and luxury market dynamics
- Recovery expected by year-end, also fueled by **GDP growth due to reconstruction**

3 China

- **Growth expected** both in like-for-like and in terms of perimeter. Players are increasingly taking **direct control over distribution**
- **Used as a "test market"** for innovative retail experiments

4 Other "fast growing" markets

- Lifestyle changes drive luxury goods sales increase in **Russia**
- **Perimeter** growth expected for the **Middle Eastern** region
- **Brazil** continues its growth pace, with international brands starting to invest heavily in retail

Excellent results in Europe and US to date

Sell-out Retail Spring/Summer '10

- Strong results for **Q1 2011**
 - Booming performance of **flagship stores**
 - **Russia** recovering from consumption decrease
- **Double digit like-for-like** growth
 - Increase of in-store **traffic**
 - Higher average **ticket**
- Strong impact of Asian **tourist flows** to Europe, especially Chinese
- **US department** stores see positive sell-out trends: **+6% Jan, +12% Feb '11, +13% Mar '11**
- **"Re-stocking effect"** after a strong holiday season

Sell-in Wholesale Fall/Winter '12

*"All categories are growing incredibly, especially **leather goods** and **women's shoes**."*

*"After two very low sales campaign **menswear has come back** to pre-crisis level, even better."*

*"We are receiving orders **from partners that have not shown up last years**: they are starting to buy and stock again."*

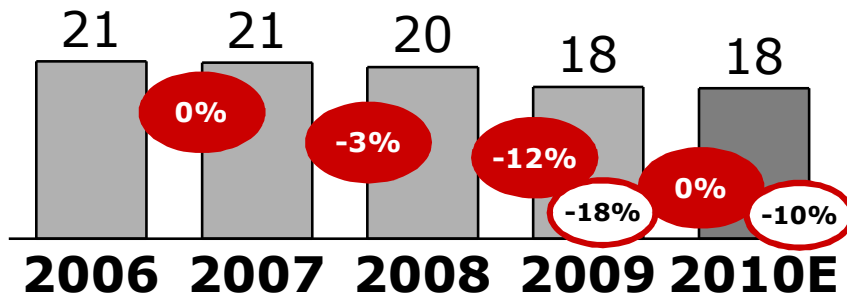
*"Our **wholesalers are continuing to increase** their budget, but we are **rationalizing our network**."*

2

Japan: slack consumption further weakened by the earthquake

Japan

Japan Luxury Goods Market Trend (B€)



K @ Constant exchange rate

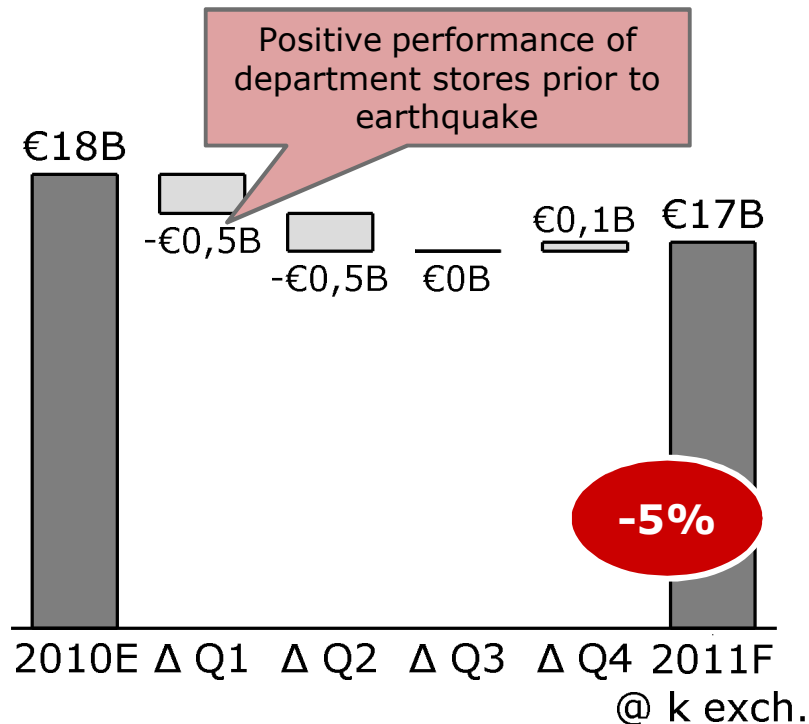


- **Japanese market has been losing share** since 2007, driven by macro-economic and demographic drivers
 - Mature consumers reducing their spending in luxury goods (baby boomers retiring)
 - Young generations rejecting global brands
 - Lower purchasing power than previous generations
 - Less dependence on Western trends
 - Digitalization of experience (less is more)
- Despite **positive effect of JPY appreciation** in 2010 (+12% vs €), the market **stagnated** in 2010
- In **2011** the market will also be **affected by the March 11 earthquake**

... leading to a strong drop in first quarter; partial recovery expected by year-end

Japan: Earthquake Effect

Japan Luxury by Quarter
(2010E -2011F)



QoQ growth -12% -12% 0% 3%

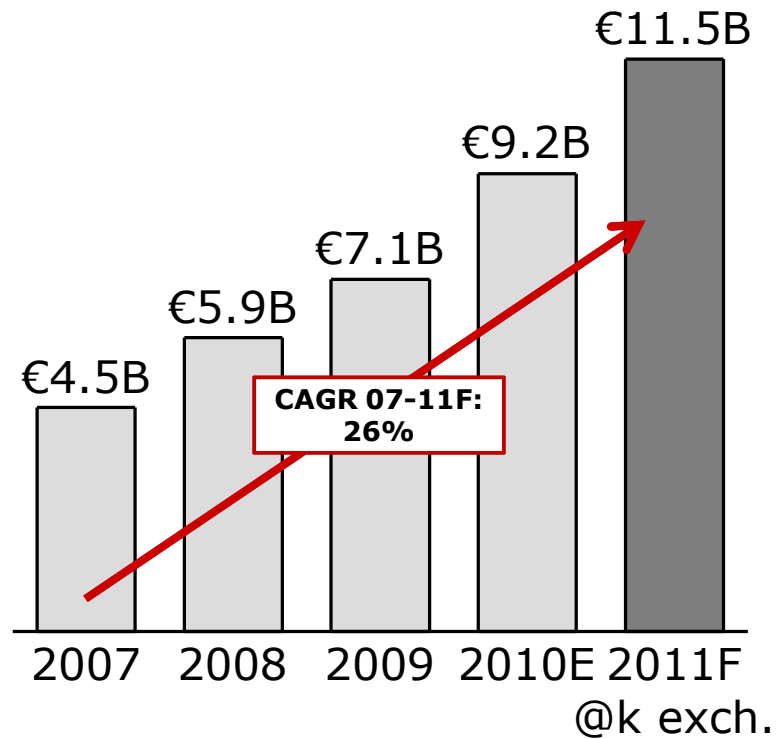
- **March 11th earthquake** devastated Japan's northern regions
- **Nuclear risks** forced luxury brands to **close Tokyo stores for over 10 days**
 - Stores in the Osaka area not really impacted and maintaining previous year performances
- **Strong performance of luxury brands** immediately after store re-openings
- **First signs of recovery** are expected starting in **the 3rd quarter, also fueled by growing GDP due to the reconstruction**
- **Impact of earthquake** also felt in **mature markets**: Japanese consumers account for ~5% of EU sales through tourism
- **Long-term impact** not expected to be significantly negative
 - Previous natural disasters (e.g. Kobe earthquake of 1995) had low impact on luxury

3

Mainland China continues to be the fastest growing market for luxury

Mainland China

Chinese (Mainland) Luxury Goods Market Trend (2007-2011F, €B)



YoY growth	2007-08	2008-09	2009-10E	2010E-11F
	29%	31%	20%	30%
				25%

- **China** will continue to be the **fastest growing market for luxury**
- It will become the **third luxury market** worldwide **in 5 years**
- **Tier 2/3 cities** will be the new battleground for luxury brands, but growth also driven by strong **organic growth**
- **Overseas** luxury market will still account for >50% of total Chinese luxury spending
- Consumers becoming **more and more sophisticated** and **selective**: in-store experience and after-sales service will become a key success factor
 - Players are **testing** new store **innovative solutions** and **digital initiatives** in China

Chinese luxury consumers are increasingly sophisticated and demanding

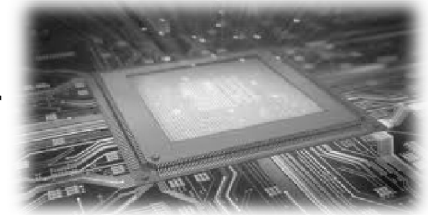
Retail-tainment

- **Big Shoppin-land:** new multi-format retail spaces are making shopping a real entertainment activity



Digitalization

- Strong investments in **digital marketing:** luxury consumer younger than in other markets
- Fast growth of the **e-commerce channel**



Fake? No, thanks!

- **No compromise on luxury:** demand for counterfeit products is decreasing fast; consumer too sophisticated



Brand loyalty

- Chinese are becoming more **attached to Western brands.** Brand loyalty is no longer a Western phenomenon



4

Emerging markets increasingly important on the global chessboard



Brazil



Luxury goods market 2010E: 1.8 €B

Key luxury cities: Sao Paulo

CAGR 10-13: +10-15%



Russia



Luxury goods market 2010E: 4.8 €B

Key luxury cities: Moscow, St. Petersburg

CAGR 10-13 : +5-10%



India



Luxury goods market 2010E: 0.8 €B

Key luxury cities: Mumbai, Delhi

CAGR 10-13 : +5-10%



M. East



Luxury goods market 2010E: 4.1 €B

Key luxury cities: Dubai, Abu Dhabi, Doha, Kuwait City

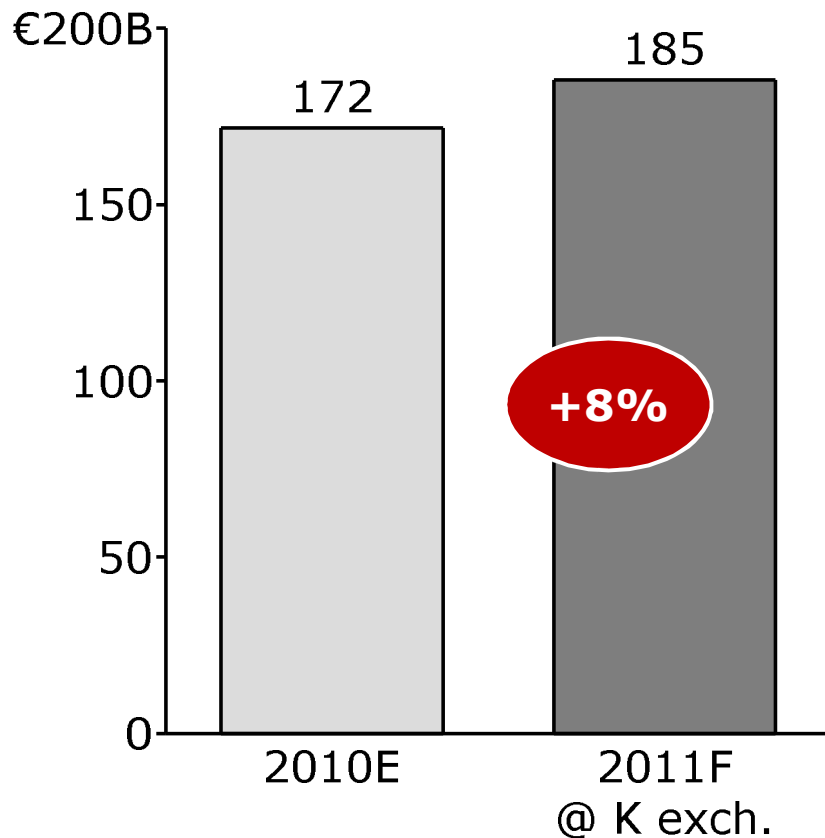
CAGR 10-13 : +10-12%

In 2011, luxury goods market will continue to enjoy strong momentum

ESTIMATES

Bain Forecast at 05/03/11 @ constant exchange rates

Worldwide Luxury Goods Market (B€)



Growth by Geographic Areas @ constant exchange rates

Europe	+7%
Americas	+8%
Japan	-5%
Asia Pacific ex-China	+15%
China	+25%
RoW	+7%
Total	+8%

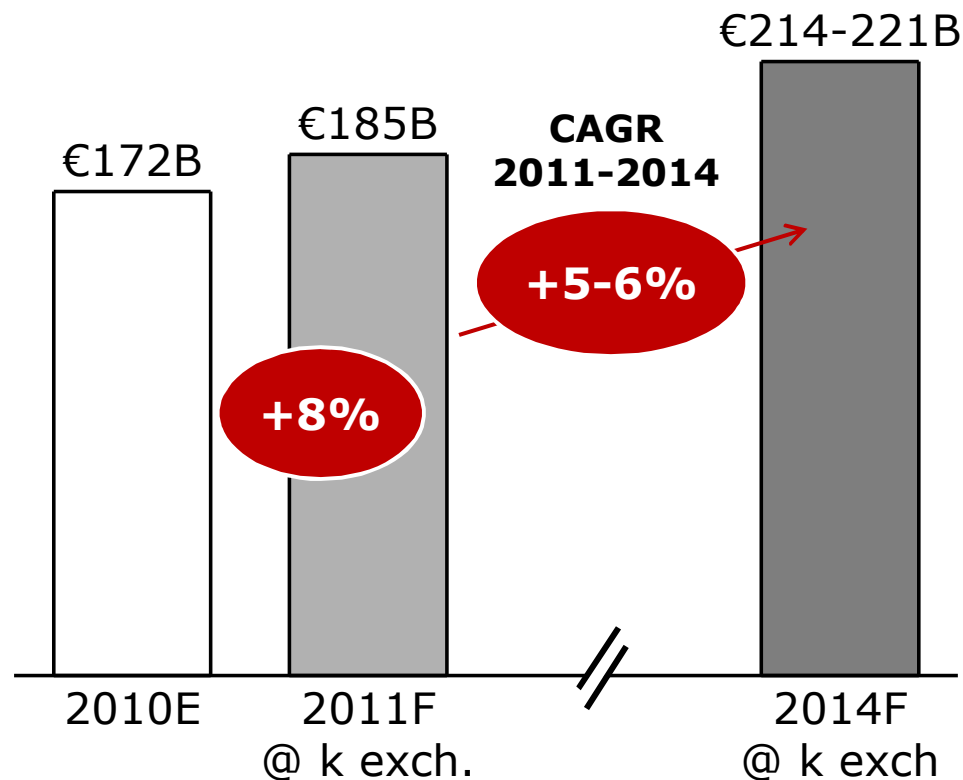
Good basics will fuel medium term growth

ESTIMATES

Bain Forecast at 05/03/11

@ constant exchange rates

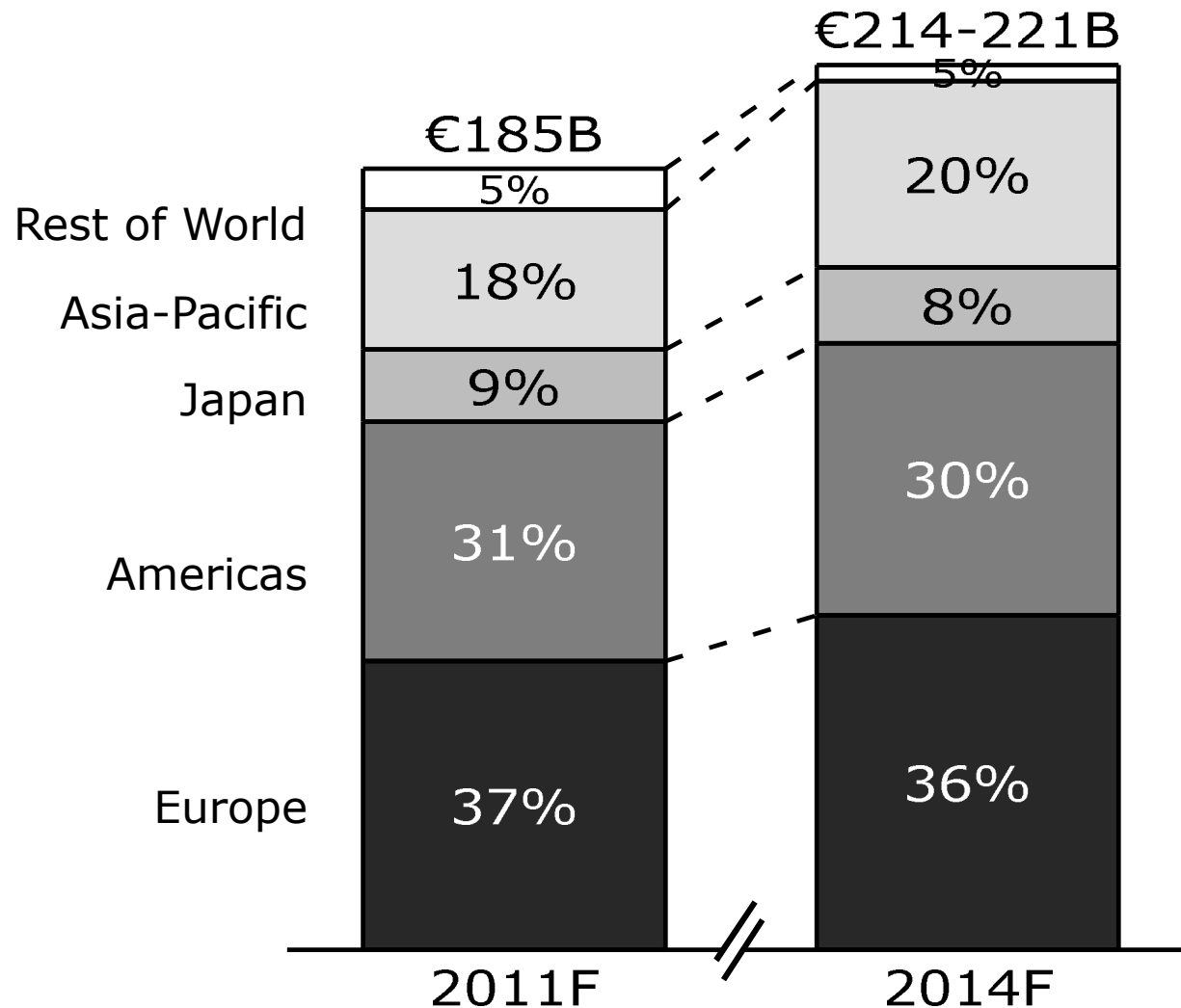
Worldwide Luxury Goods Market



- **Asia-Pacific**, and especially China's booming economy, will drive luxury goods consumption
 - Mainland and Greater China
 - Touristic destination in Asia and Worldwide
- **Consolidation of mature markets** (US and Europe) which still hold the majority of personal wealth
- New **emerging markets** becoming material: **Brazil** and Middle East (Saudi Arabia)
- **Japanese market recovery** and stabilization

The overall global balance will not change significantly, but Asia will keep gaining share

Worldwide Luxury Goods Market by Area



CAGR '11-'14E

ESTIMATES

+5/6%

+6/7%

+10/11%

+1/2%

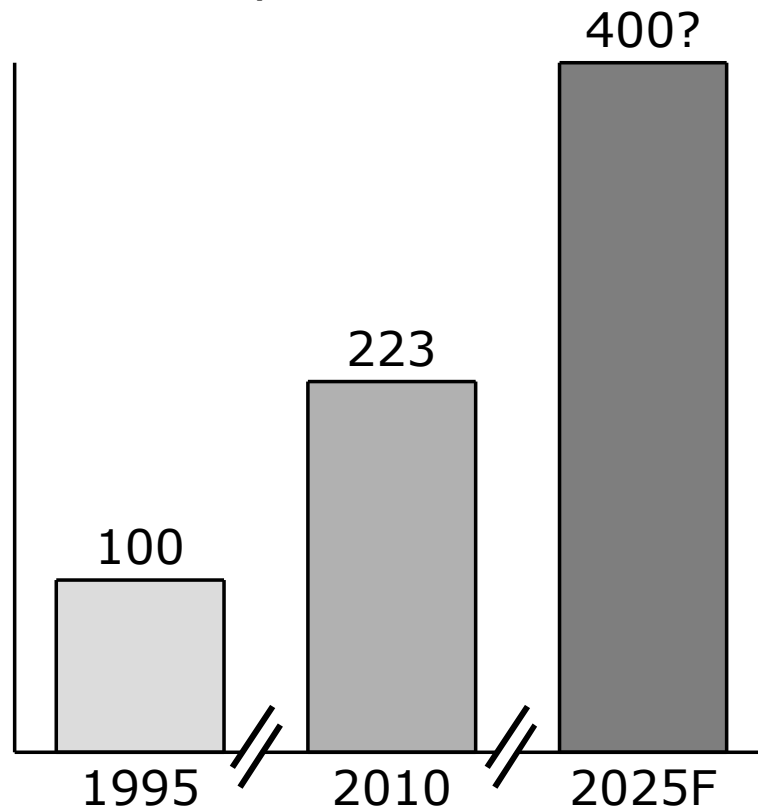
+4/5%

+4/5%

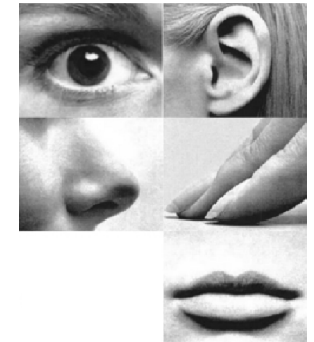
Great job to date... How to succeed in the next 15 years?

What you have to get right

Worldwide Luxury Goods Market trend
(indexed 1995)



- **China (as a symbol for all emerging markets)**
 - Penetration
 - Route to market
 - Tailored value proposition
- **Generational shift**
 - Baby-boomers retirement
 - Japanese teenagers
 - Generation Z (always connected)
- **Enhanced customer experience**
 - Low loyalty and satisfaction
 - Integrated online and offline experience
 - Service



Choose your own formula... but get it right!

