



Fondazione
Altagamma

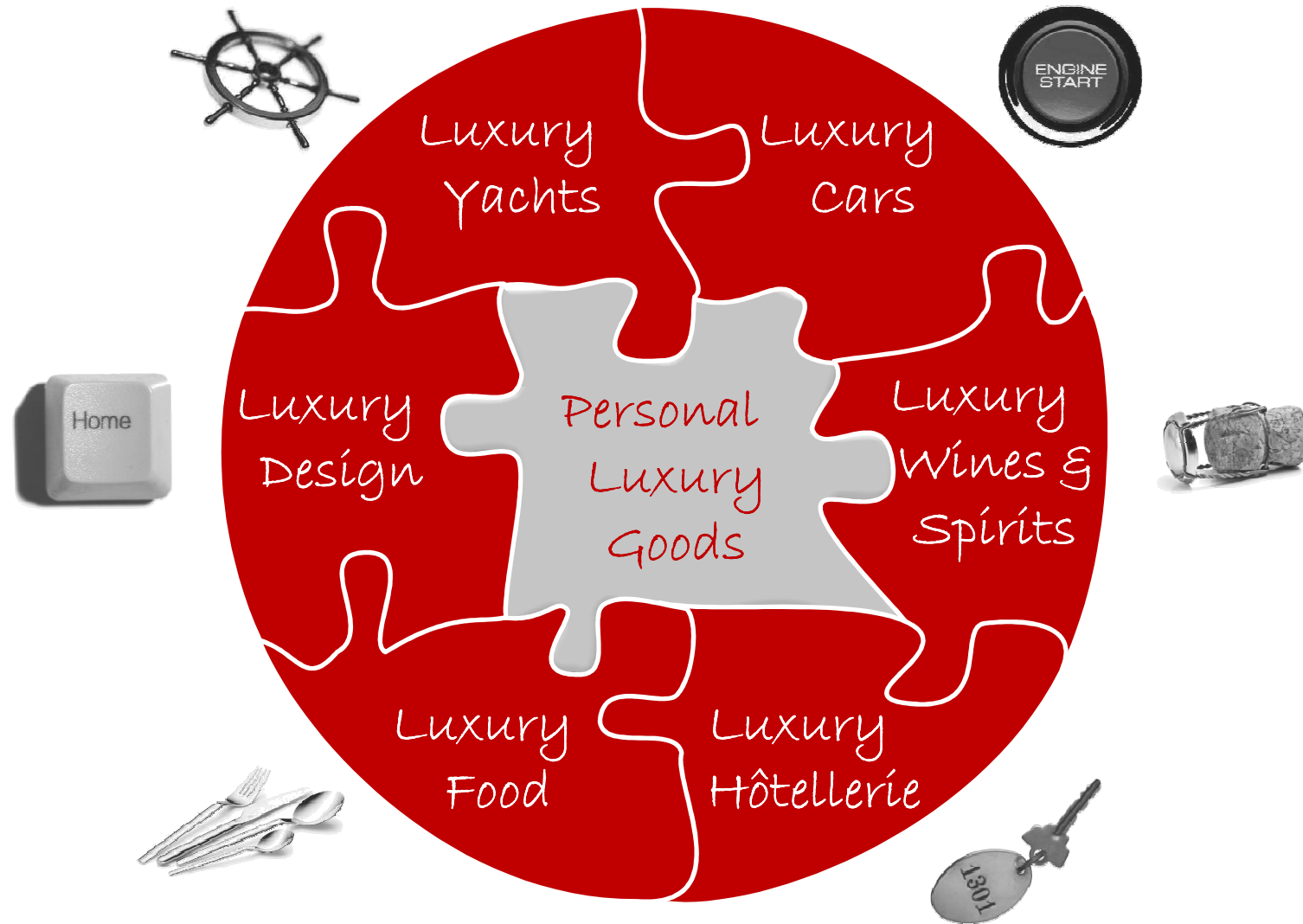
Altagamma 2011

Worldwide Markets Monitor

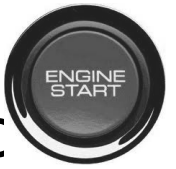
Claudia D'Arpizio

Milan, 17th October 2011

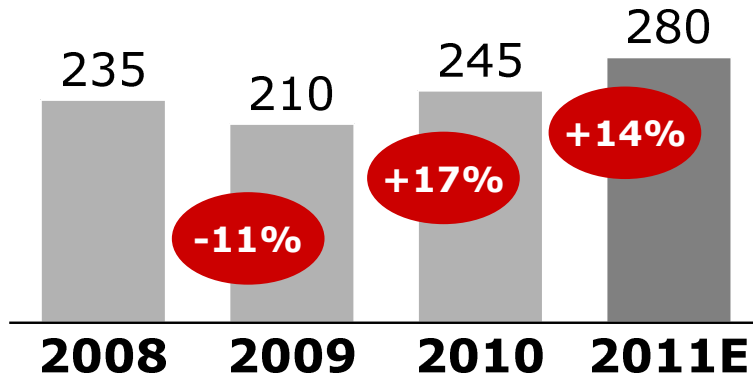
Luxury consumption spans across several categories



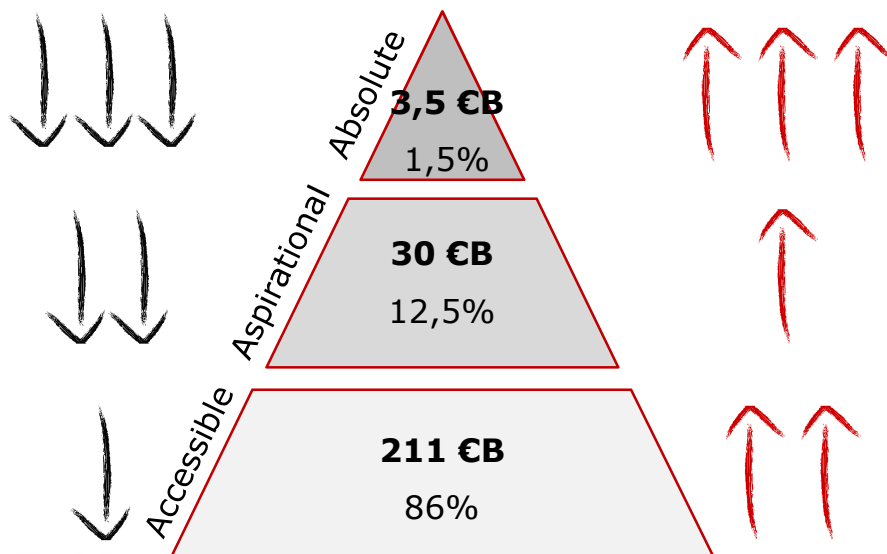
Luxury Cars: large and cyclical market. New consumers making the absolute segment very dynamic



Luxury Cars Market trend (€B)



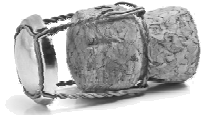
Trends by segment (crisis and post crisis)



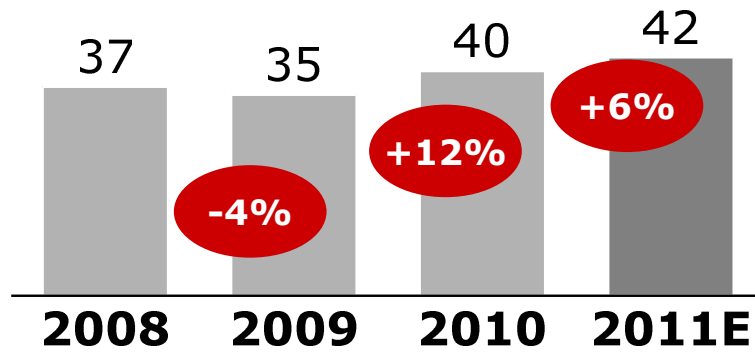
Key industry macro-trends

- Severely hit by the **crisis** with **strong positive rebound** in 2010 and 2011; **absolute** segment the most volatile
- **China**, especially tier 2 and 3 cities, driving the growth for all price segments
 - Strong female consumption (**power women**) in the absolute segment
- **Eco-friendly** and **green** cars on the rise:
 - Proliferation of hybrid and electric models, and low emissions engines
 - Overall downsizing of engine capacity
- **Luxury** brands looking for 360° excellence:
 - **Vertical integration**, with directly managed distribution
 - Highest product differentiation, to satisfies consumer needs for **customization**

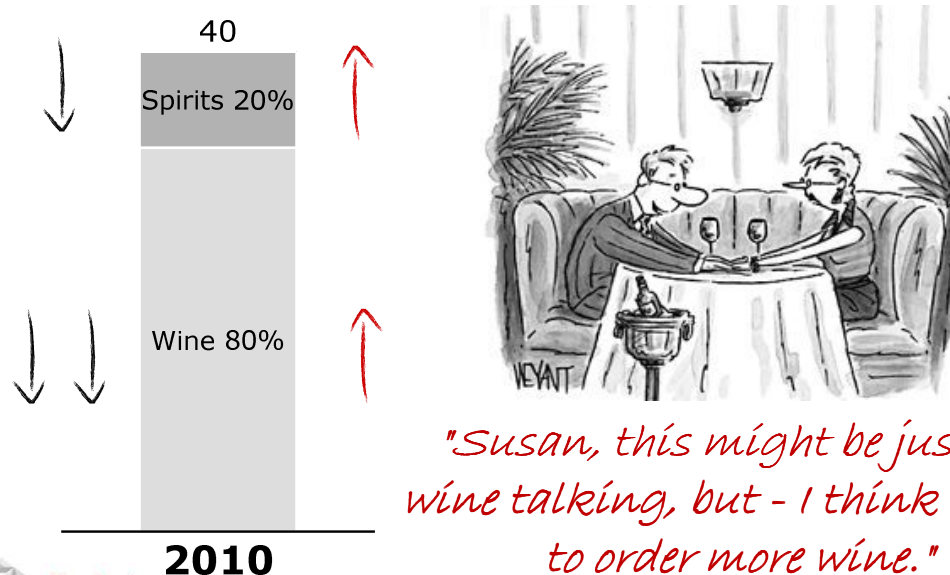
Strong momentum for luxury wines and spirits



Luxury Wines & Spirits Market trend



Trends by segment (crisis and post crisis)



"Susan, this might be just the wine talking, but - I think I want to order more wine."

Key industry macro-trends

• Wines

- **Strong brands getting stronger**
- **Quality** and **tradition** are leveraged to educate consumers, and **Italian wines** are riding this wave
- **Champagne** represents around **30%** of total luxury wine market
- Booming consumption of European luxury wines in **Brazil**

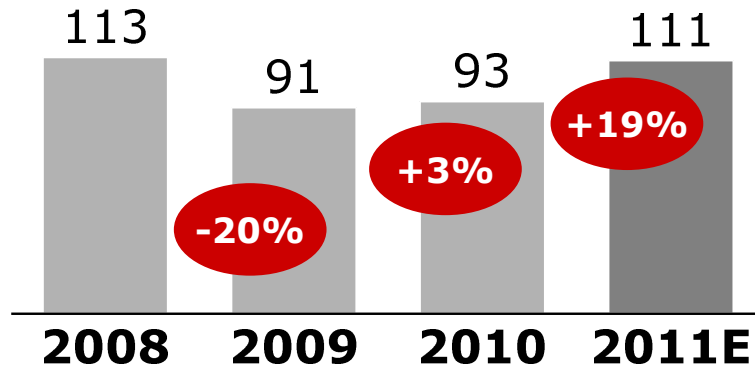
• Spirits

- Great **regional differences** between mature and booming emerging markets (e.g, Spirits bottle service in China)
- **Multicultural segmentation** of the product offering
- The **health** value proposition has an answer to increasing calories-awareness of Western consumers

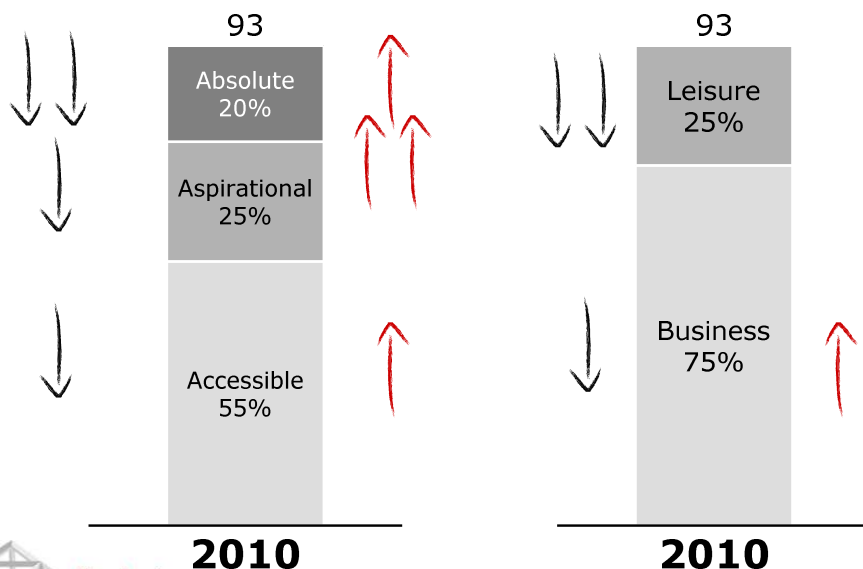
Luxury Hôtellerie deeply impacted by low occupancy during crisis, recovering since 2011



Luxury Hôtellerie Market trend (€B)



Trends by segment (crisis and post crisis)



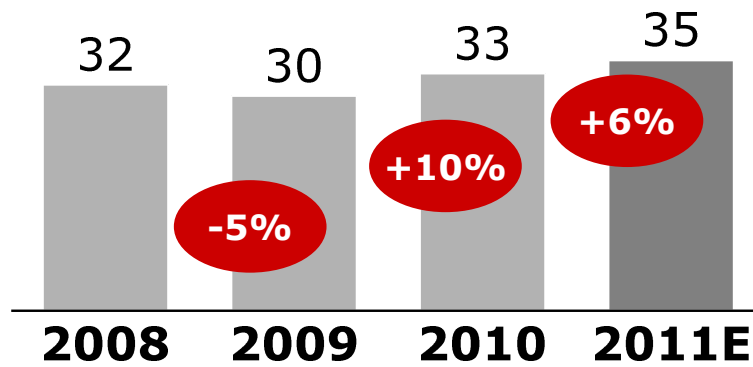
Key industry macro-trends

- **Around 2M rooms worldwide**, US is the biggest market (more than 40% share), followed by Europe with 700k rooms
- Market deeply impacted by economic downturn in 2009, especially the **super luxury segment** with a **25% decrease**
- **2010 has seen the inflection point**: from second quarter market has started to grow
- **Occupancy strongly recovered** in all segments, from ~60% in 2009 to ~70% in 2011
- Business travel accounts for more than 75% of total market
- Pipeline of around **300K new room openings**, especially in Asia
- In 2011, **demand** of luxury accommodation will grow at **3x faster** than supply

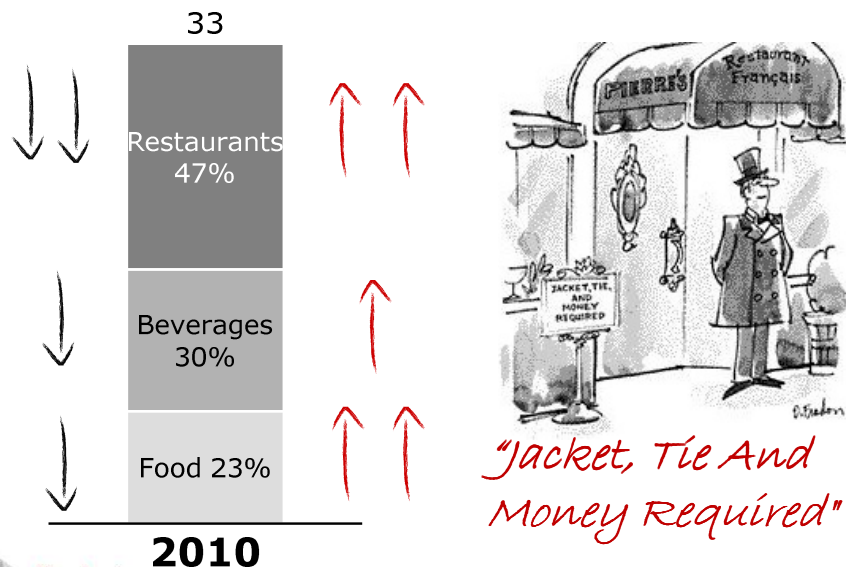
Self-indulgence in high priced restaurants is driving luxury food market growth in 2011



Luxury Food Market trend (€B)



Trends by segment (crisis and post crisis)



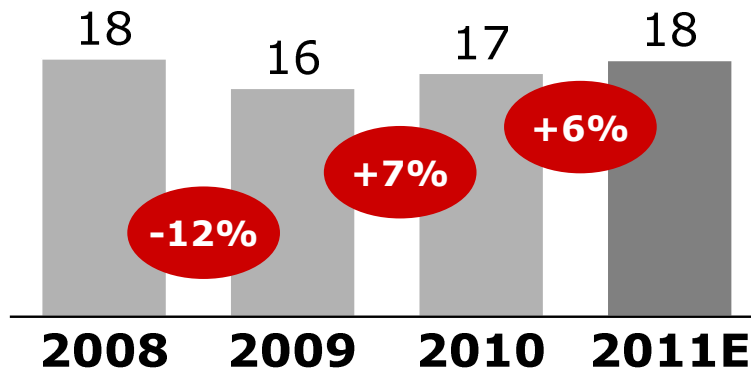
Key industry macro-trends

- After a slight **reduction in gourmet food** in 2010, luxury food is recovering: **consumers do not abdicate self indulgence**
- Cheese, Chocolate, Olive Oil and Caviar are the key gourmet food products for **"self indulgence at home"**
- **Upscale bottled water** is the biggest category in food expenditure
- **Technology** is revolutionizing also the food industry: location-based social media and mobile applications becoming new marketing instruments and branding tools
- More than **10.000 upscale restaurants** all around the world, despite a reduction during 2008 and 2009 (i.e. several went bankrupt)

High-end design furniture market is back to 2008 levels



High-End Furniture Market trend (€B)



"If you're on a budget, I have something uglier."

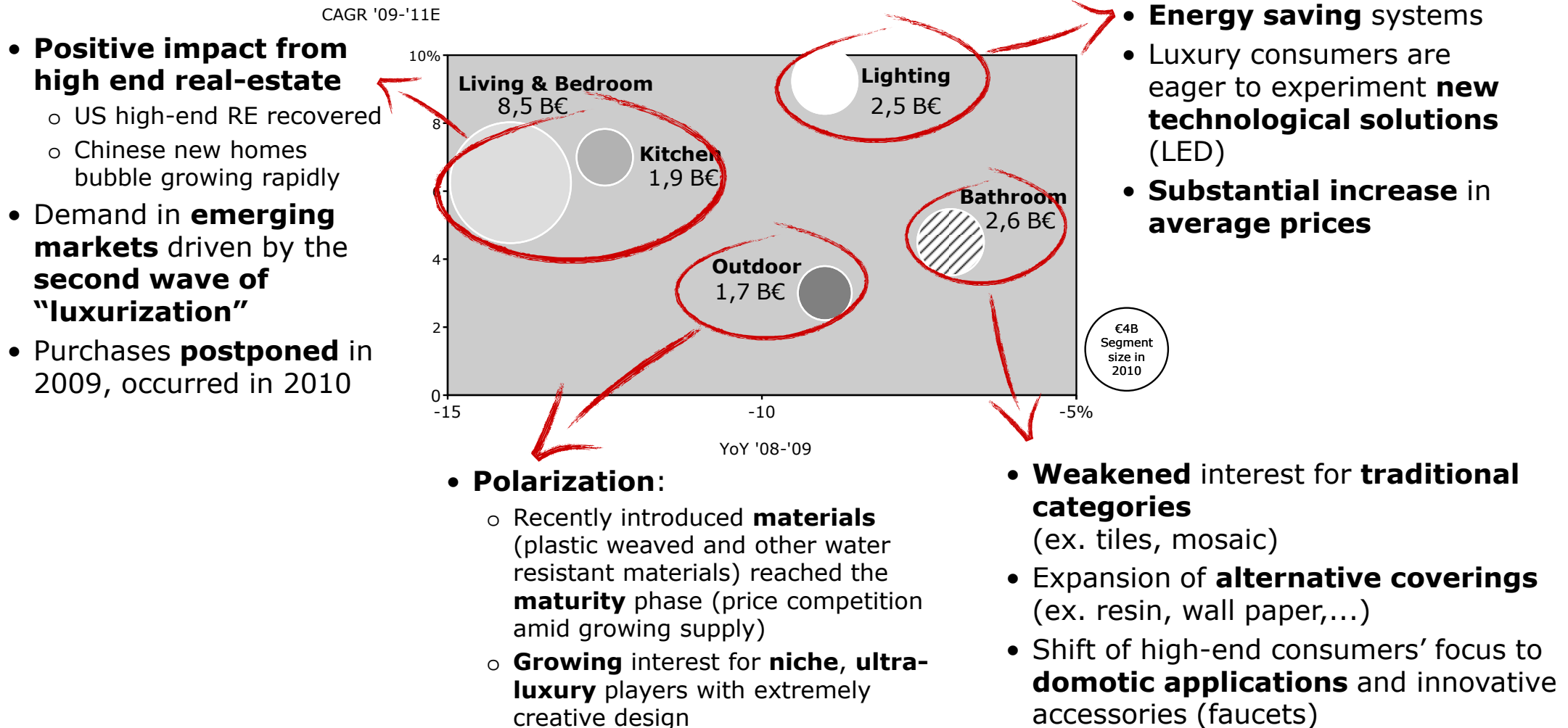
Key industry macro-trends

- After a gloomy 2009, **market** growth **picked up** already in 2010
- Market embraces **new lighting technologies** and innovative designs
 - **LED** technology is the new "must-have"
 - "**Home scenography**" trend
 - **Energy saving** part of consumers' mindset
- **Different trends in emerging markets:**
 - **Second wave of "luxurization"** in Brazil, India and Middle East (after luxury personal goods, now cars and furniture are in the consumers' shopping list)
 - **China still at an early stage**, offering significant white space for growth
- **Core segments recover** the lost ground
 - Positive trend in **new high-end real estate**
 - Purchases delayed during crisis stimulate demand for L&B and kitchen

Key trends underpinning the recovery of the market, lighting segment leading the trend



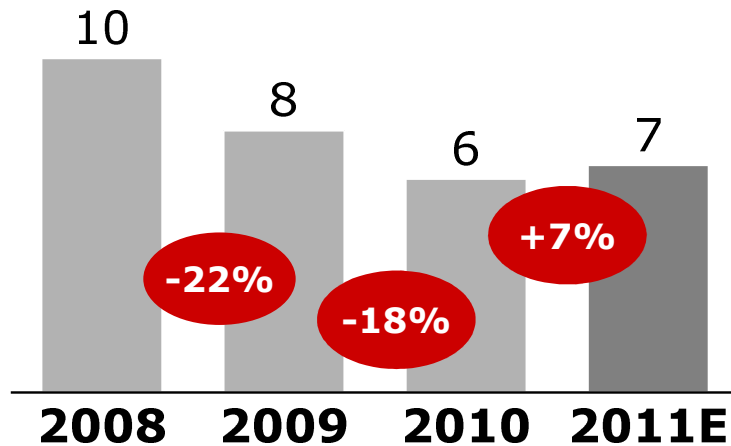
MARKET GROWTH BY PRODUCT SEGMENT, 2008-2011E (%)



Yachts market: first signals of recovery in 2011 after 2 years of steep fall



Luxury Yachts Market trend (€B)



"It's a little present I gave myself for being so rich."

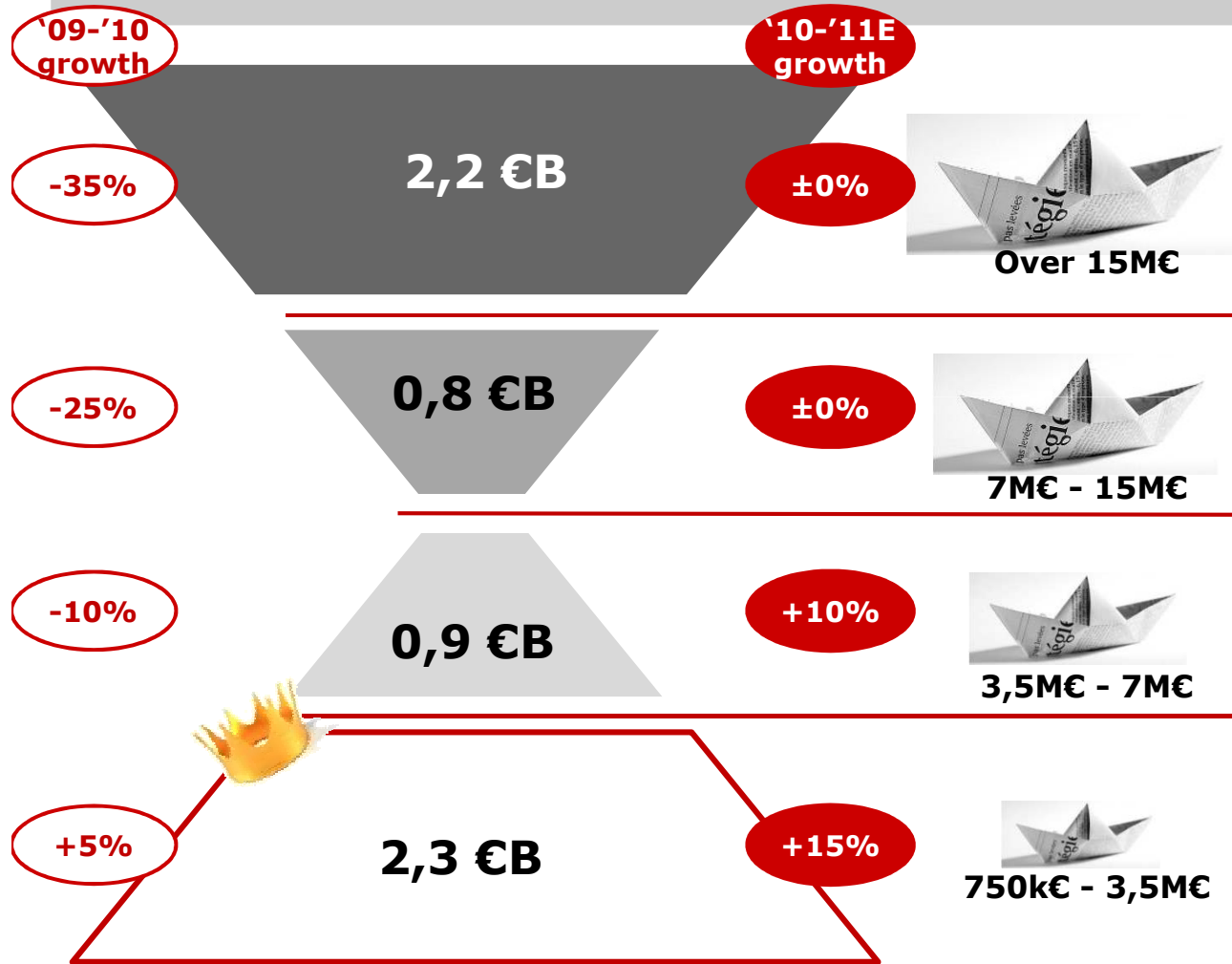
Key industry macro-trends

- In **2010**, the market maintained a **negative trend** because of a **contraction in demand** and **overstocking** problems on the supply side
- **2011** is expected to show the first signs of a **slow recovery** thanks to an increase in the order taking
- **Macroeconomics** conditions are not favoring a faster rebound
 - Fiscal policy (i.e. luxury taxes)
 - Leasing difficulties
- More **positive growth expectations** from **emerging markets** where **fractional ownership** and **time sharing** are becoming ever more popular

A hourglass slowly reshaping into a pyramid after this long crisis for the sector



2010 Luxury Yachts market



Key industry macro-trends

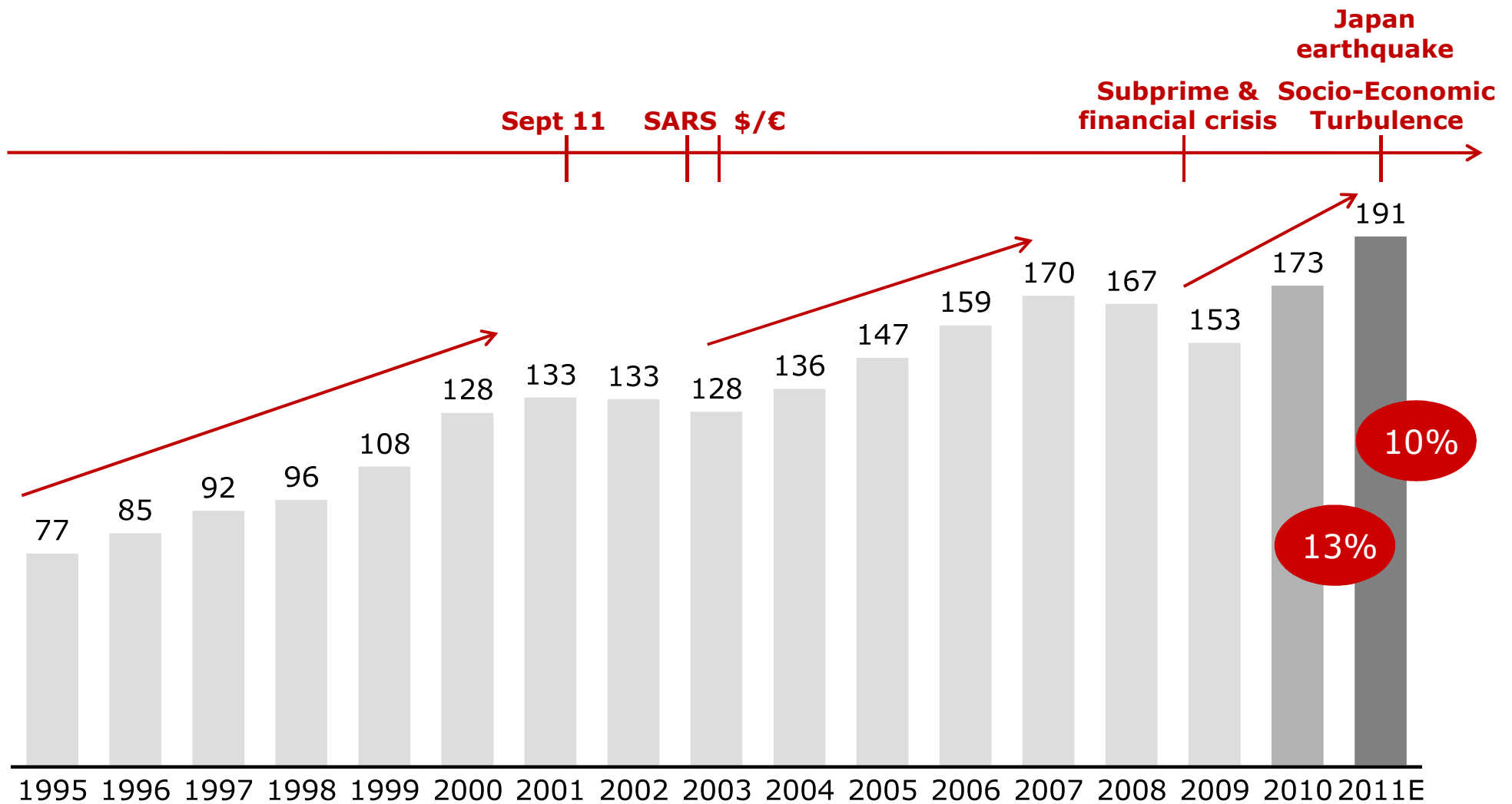
- In **2009**, up-to **3,5M segment** was hit the most by the crisis (i.e. **-40%** vs. 2008)
- In **2010**, the **trend** seems to have been **inverted** turning the same segment in the only one growing
- **2011** outlook confirms this trend with **double digit growth** of **segments up to 7M€** and **flat trend** for the highest ones

Luxury consumption spans across several categories



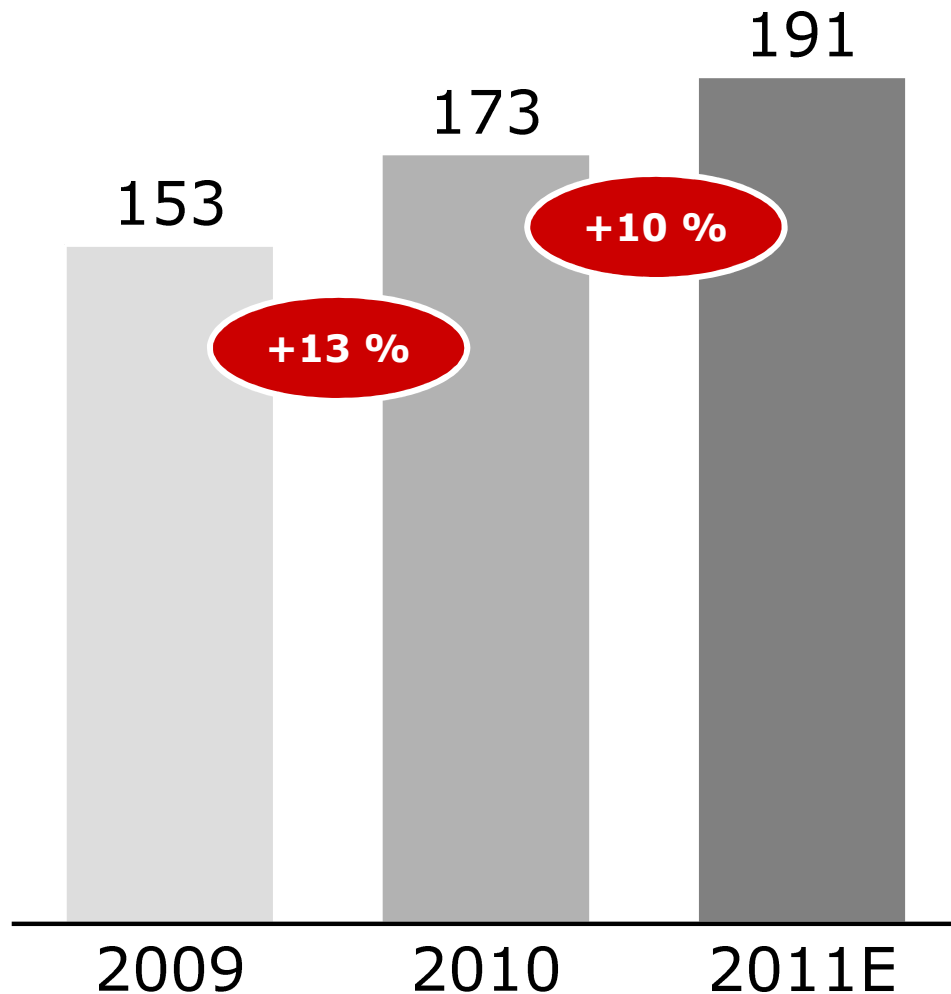
2010-2011: two phenomenal years for personal luxury goods despite exogenous events

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

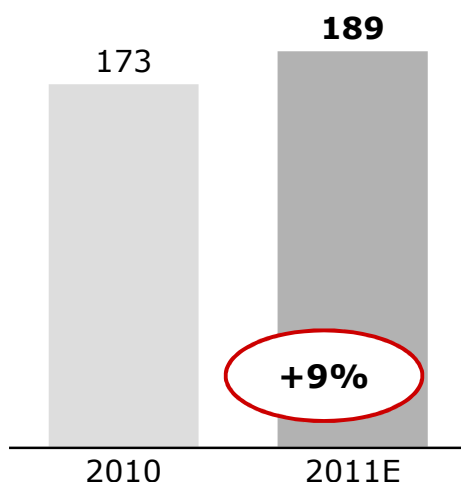
- New growth phase for local consumption in mature markets
- China, China, China!
- Japan earthquake effect milder than expected



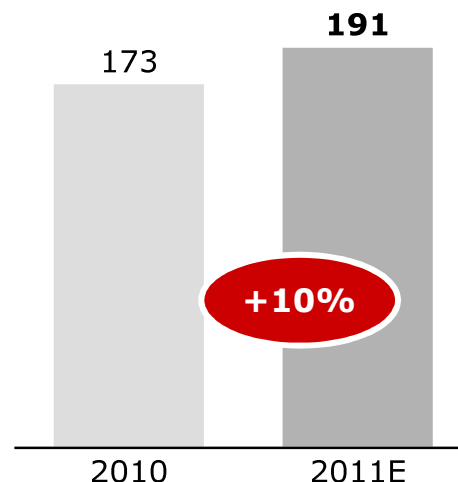
No slow down expected for the up-coming holiday season

Worst scenario

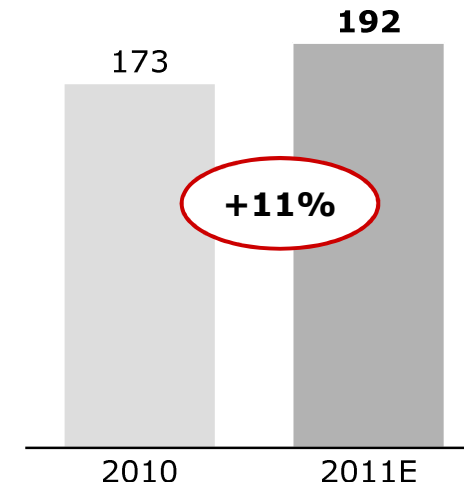
Worldwide Personal
Luxury Goods 2011
Scenarios €B



Base scenario



Best scenario



**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**

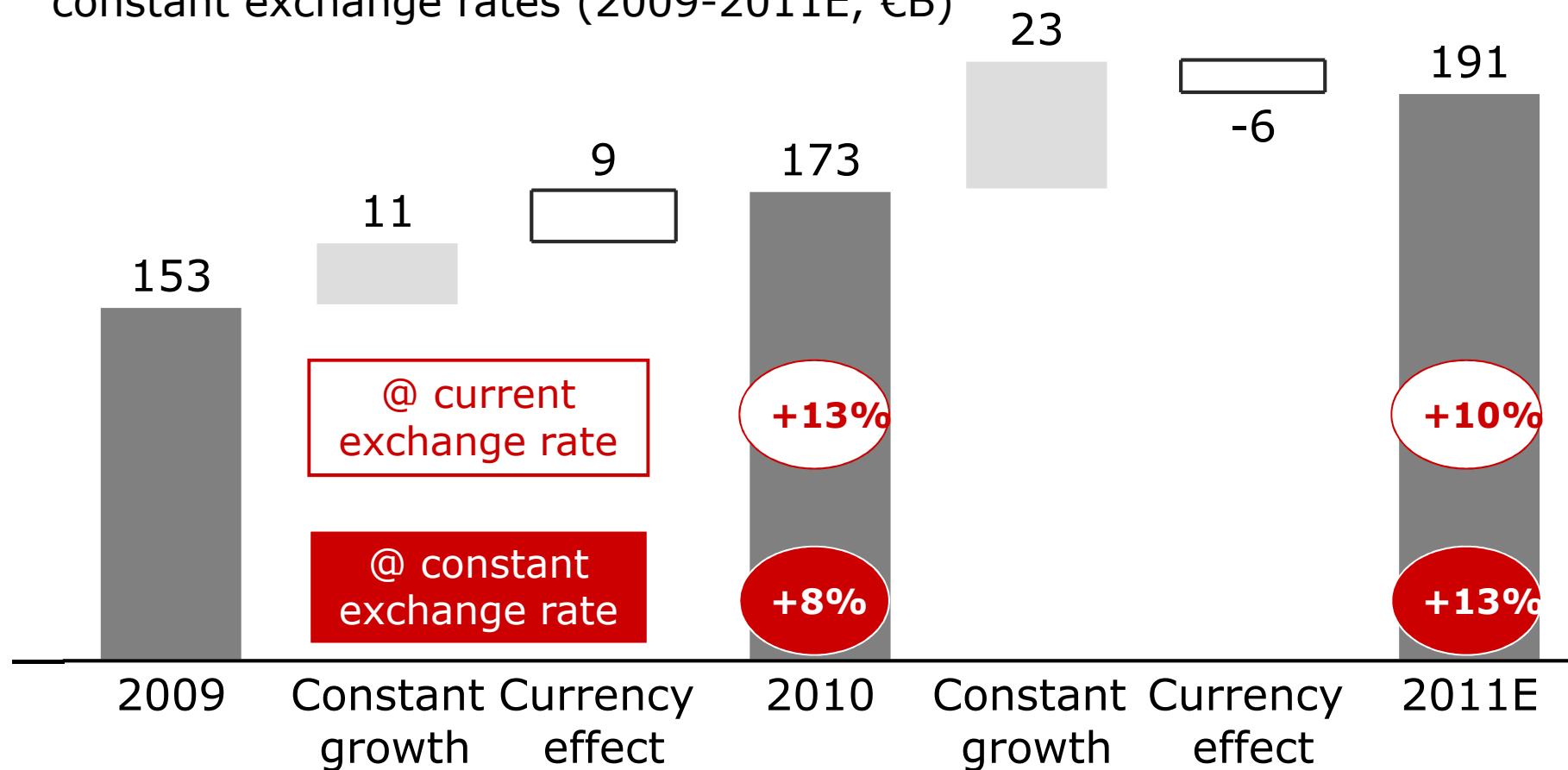
10%

70%

20%

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

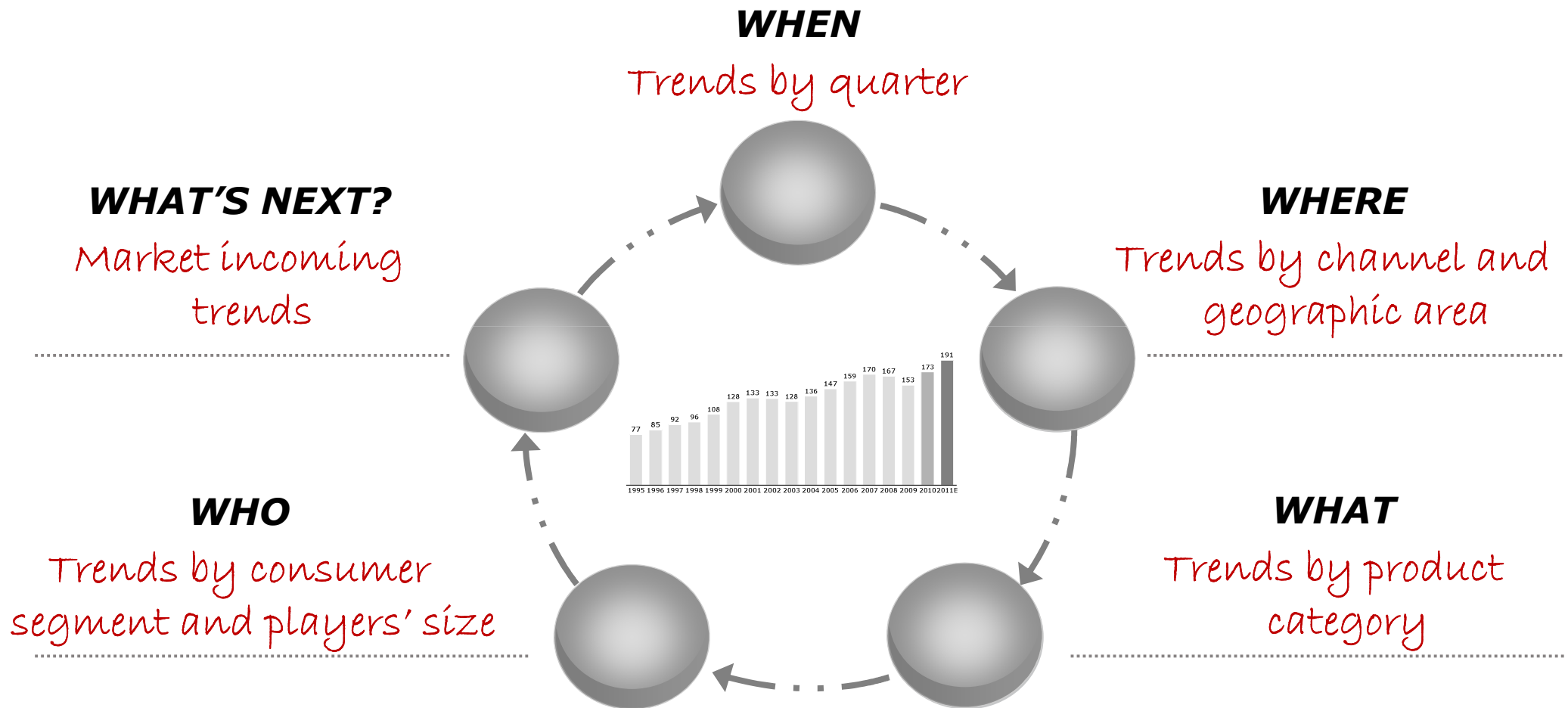
Worldwide Personal Luxury Goods Market trend @ current and constant exchange rates (2009-2011E, €B)



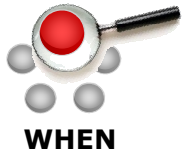
€/\$	1.4	5% US dollar appreciation	1.3	-5% US dollar depreciation	1.4
€/Y	130.0	12% Yen appreciation	116.1	3% Yen appreciation	112.7

What happens in the Personal Luxury Goods Market?

"5 W's" for analyzing 2010-2011 performance

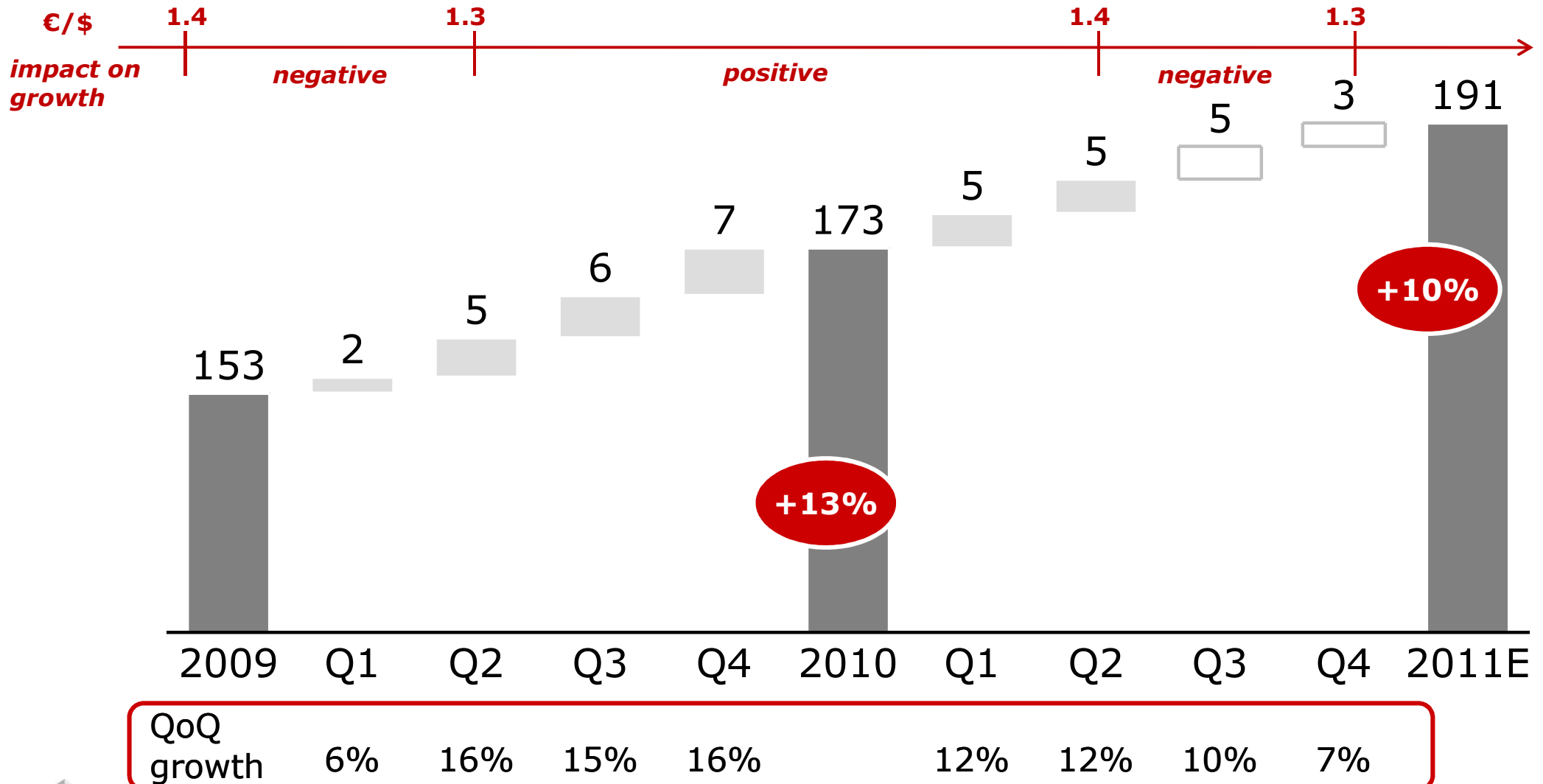


Exchange rates fluctuations impacting differently 2010 and 2011



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

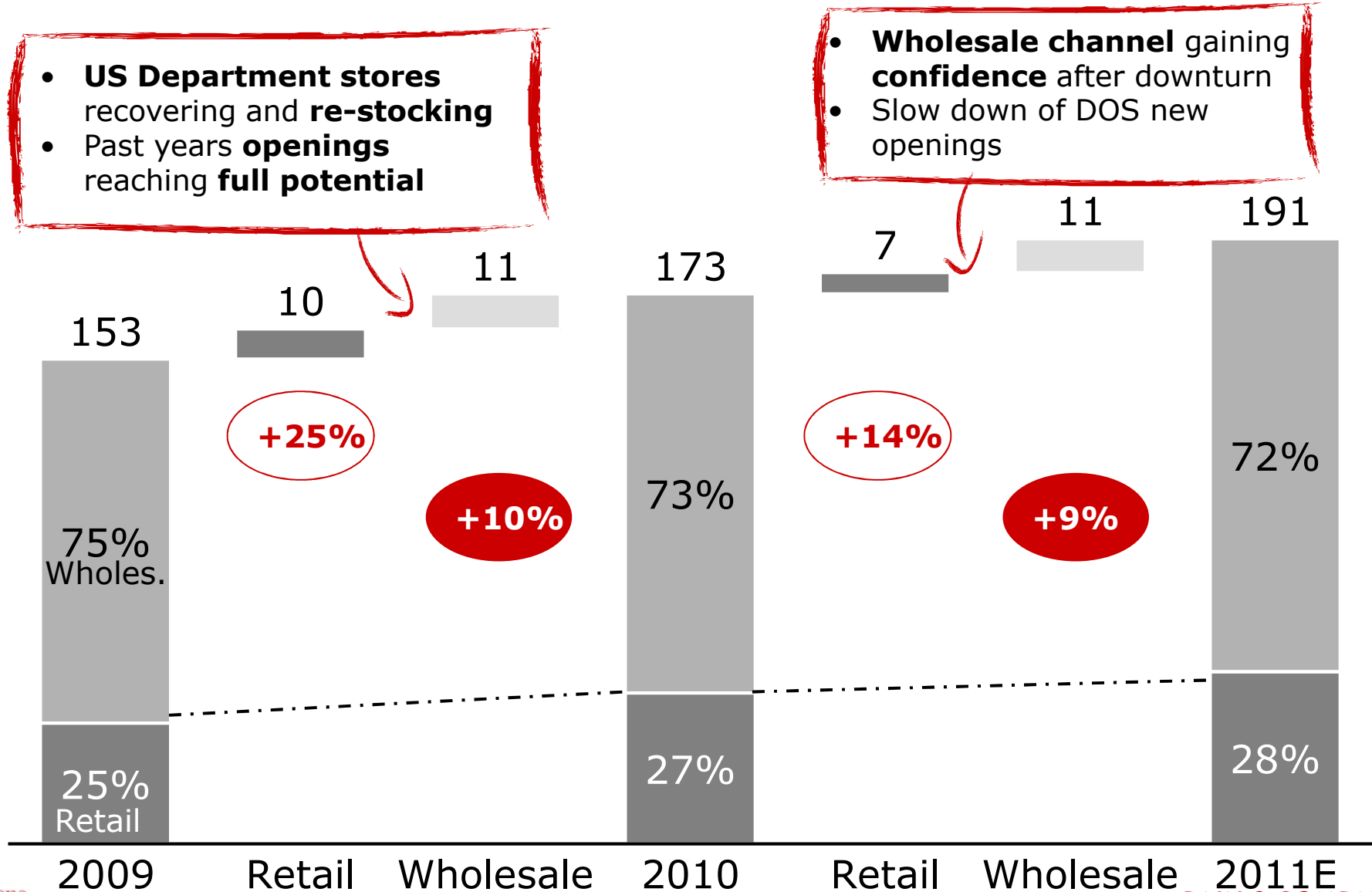
Based on listed companies results
 Based on Bain estimates



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



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



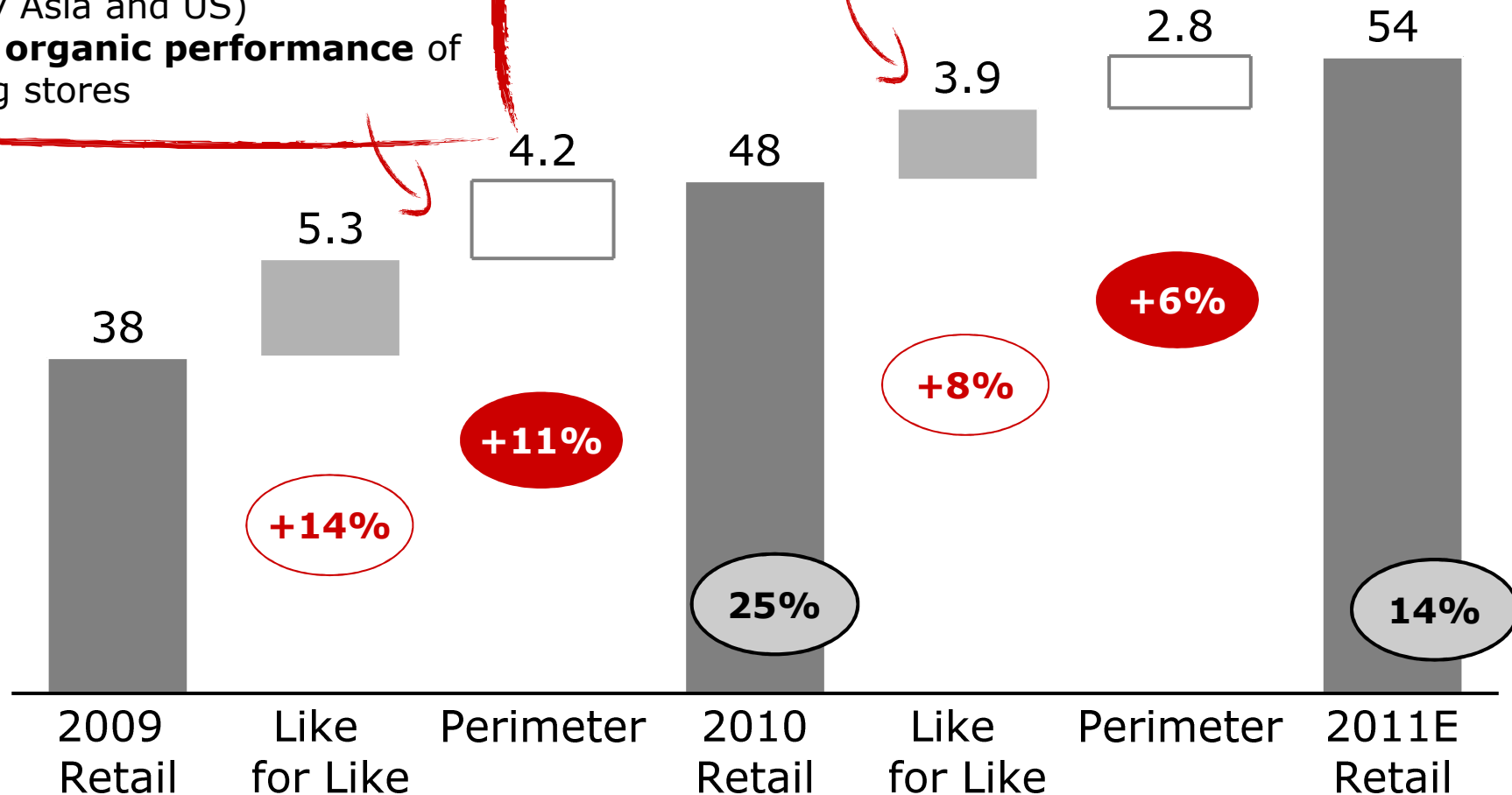
Perimeter growth slowing down in 2011: players are reducing the pace of new openings



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

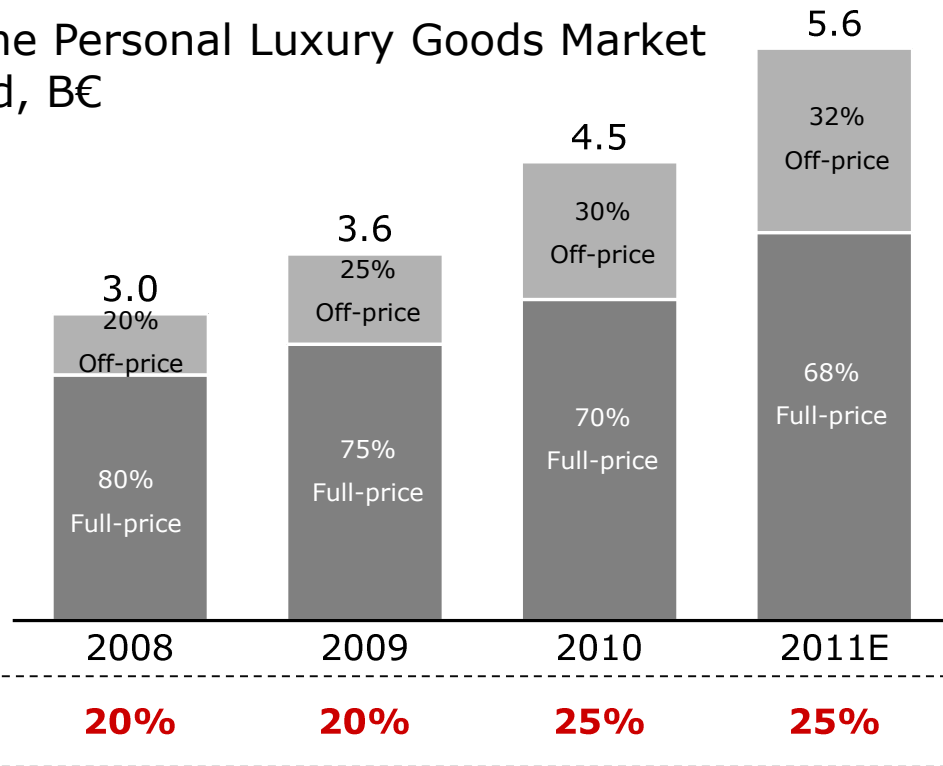
- **Slow down of new openings:** reduction of investments planned during the crisis
- **Network maintenance:** relocation and refurbishment of current stores



Online is becoming a truly relevant channel



Online Personal Luxury Goods Market trend, B€



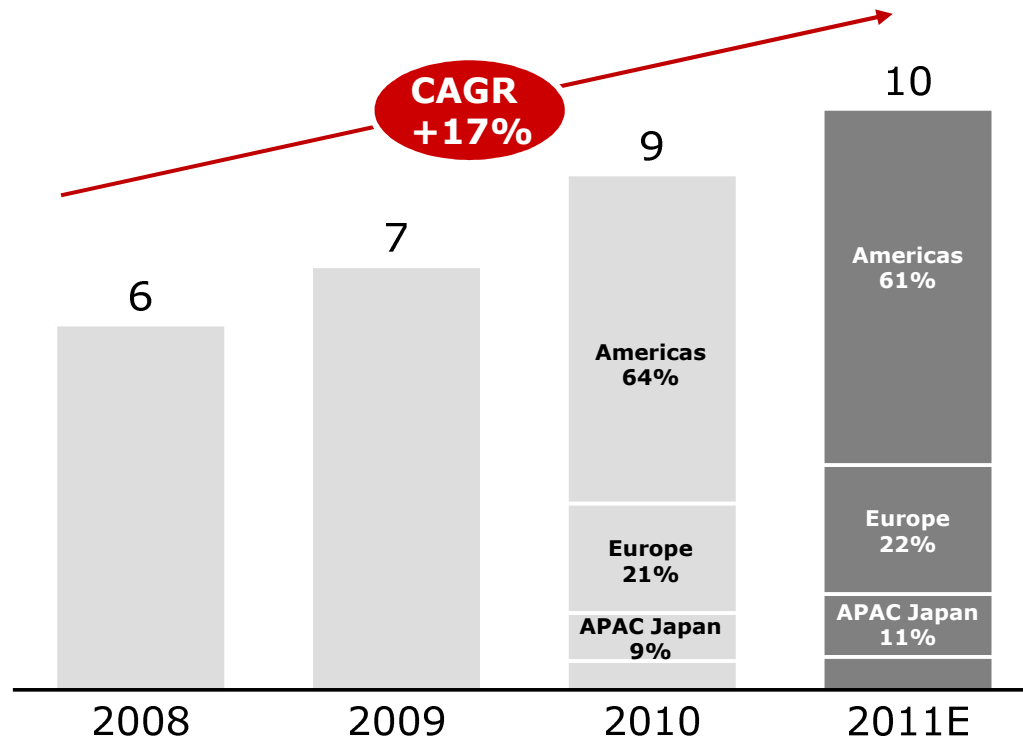
"First, they do an on-line search."

- **Online** luxury shopping accounting 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 sales websites** gaining share within off-price segment

Off-price channel growing even in 2011 despite higher sell-thrus and less left-overs in the system



Off-price Personal Luxury Goods Market, B€



YoY Growth	3%	16%	22%	13%
Growth @ K exch.	8%	10%	16%	19%

- **Off-price channel** 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

China China China!



No sign of slow down from the Asian giant



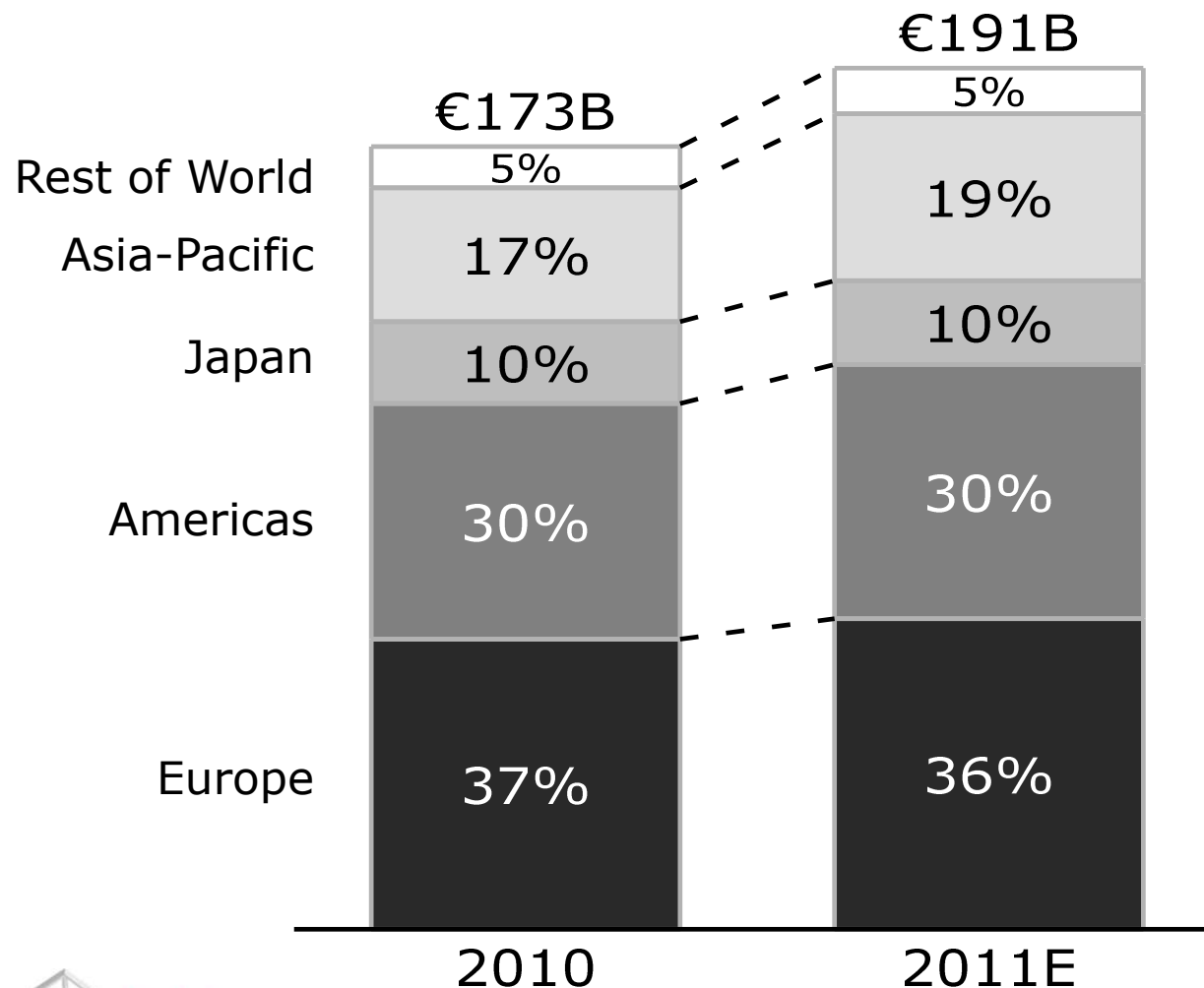
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BAIN & COMPANY 

No signs of slow down for the booming Asian market



Worldwide Luxury Goods Market by area



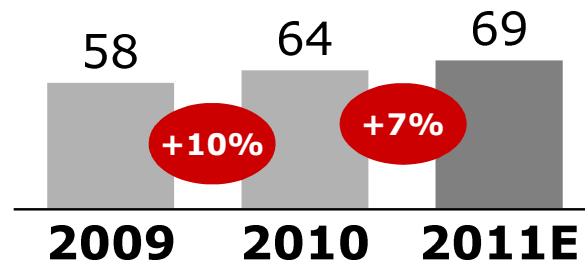
YoY '10 vs '09

	@K
Rest of World	+13%
Asia-Pacific	+16%
Japan	+28%
Americas	±0%
Europe	+16%
	+10%

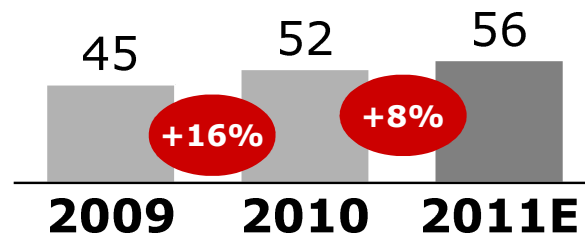
YoY '11E vs '10

	@K
Rest of World	+10%
Asia-Pacific	+10%
Japan	+25%
Americas	+2%
Europe	+8%
	+7%

Mature markets: 2 years of strong organic growth after the crisis



- **2010** recovery driven by **tourism** encouraged by **weaker €** and growth of **hard luxury**
- **Strong organic growth** of local customers
- **In key cities** (e.g. Milan, Paris) sales to **Chinese tourists** are estimated to account up to **50% of total**
- Growth in **Eastern Europe slowed** (Russia accounting for 4,7 €B in 2010, +4% vs. 2009)
- Fast growing **Turkey** and **Central Europe** 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
- Emerging trend of **turning department stores doors into concessions** so as to gain control over a strategic channel
- **Growing Chinese** tourists' **consumption** in **NYC** and **Hawaii**
- **Brazil** driving South American growth

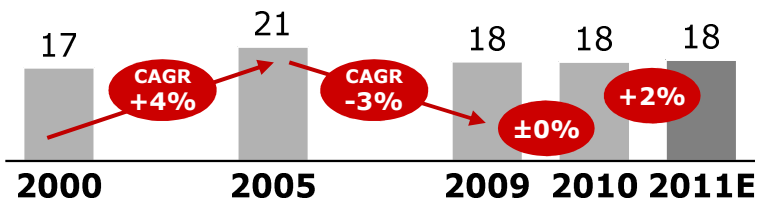
Japan, is the dark period over?



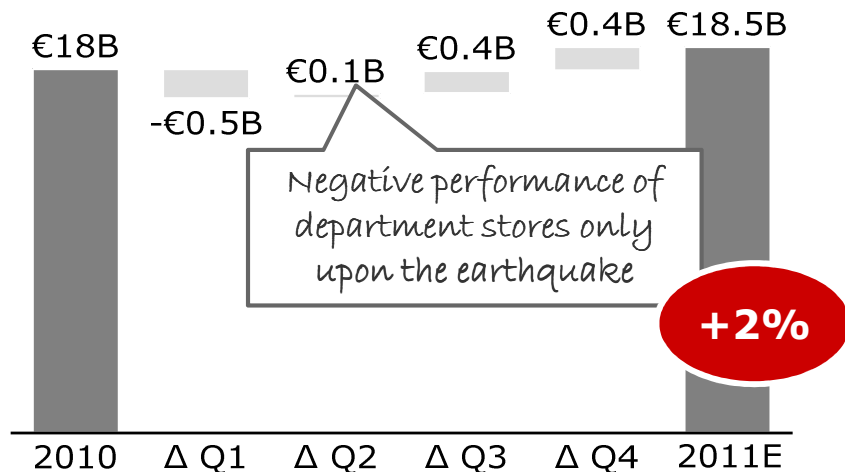
Japan



Japan Personal Luxury Goods Market, €B



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



QoQ growth	-12%	2%	8%	8%
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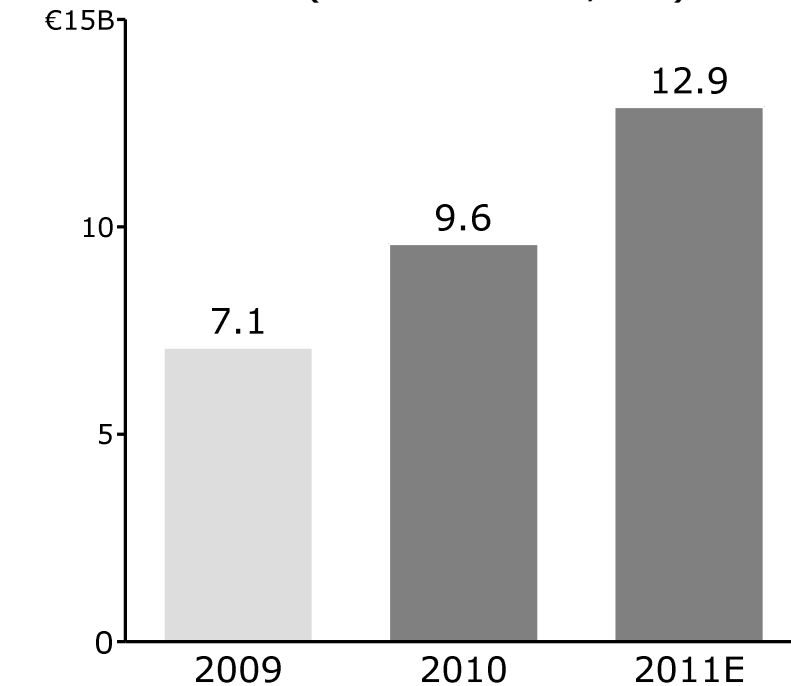
- Japan finally **inverts the negative trend** ongoing since 2007 with a **flat market in 2010** and a **timid growth in 2011**
- In **2010**, **positive effect of exchange rate** (+12% JPY appreciation vs. euro) has counterbalanced stagnating organic growth of stores
- In 2011, Japan has been hit by **the earthquake** on 11th March but effects on luxury consumption were milder than expected
 - **Nuclear risk** forced brands to **close Tokyo store for almost 2 weeks**, but consumption in other areas (i.e. **Osaka**) has maintained good performances
- **Brands and department stores** have started posting **growth in second half of the year** (June/July)

Impressive and healthy growth in China



Mainland China

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



YoY growth 20% 35% 35%

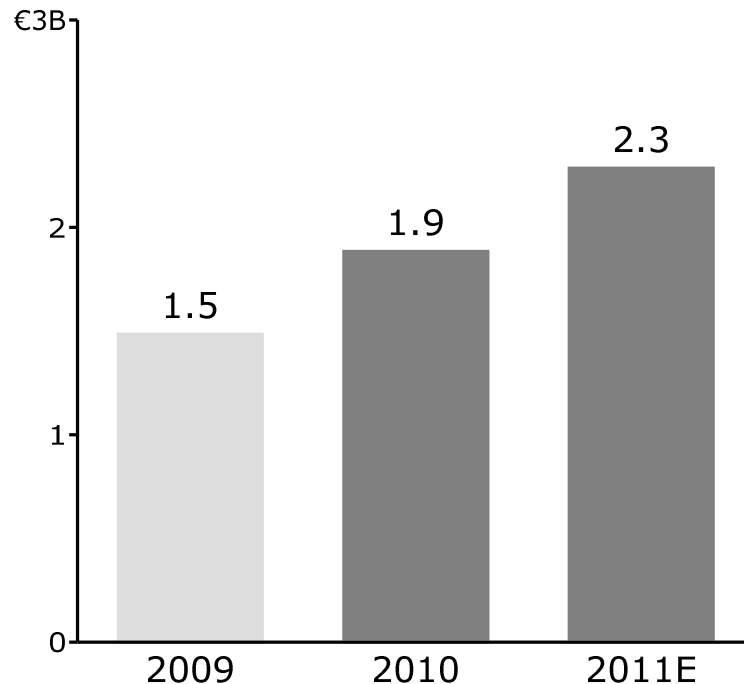
- **2010 growth** fuelled by **new openings** (China alone had almost as many new openings as the entire America or Europe)
- In **2011**, **organic growth** finally becomes a relevant phenomenon while **perimeter expansion** focuses more on **tier 2 and 3 cities**
- **Many players buying back** their **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)



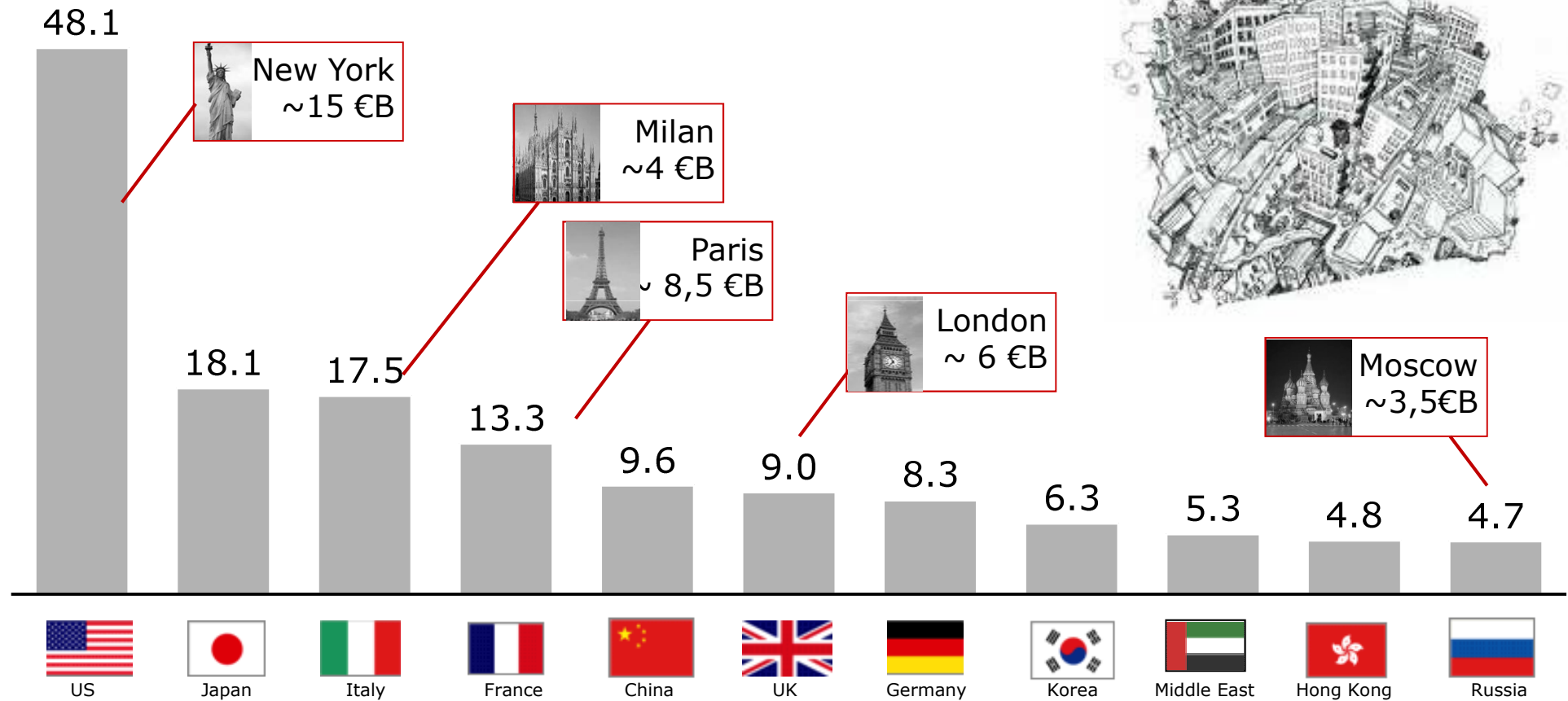
- **Luxury players** are focusing more and more **in Brazil**
- **Retailization: new openings** and also **buy back of distribution** and **franchising** agreements
- Fragrances and Cosmetics are the main “luxury” categories, but are growing at a lower pace
- **Hot spots** for luxury in Brazil are definitely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

YoY growth 20% 25% 20%

Ranking by country: Mainland China has overcome UK. Hong Kong bigger than Russia



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



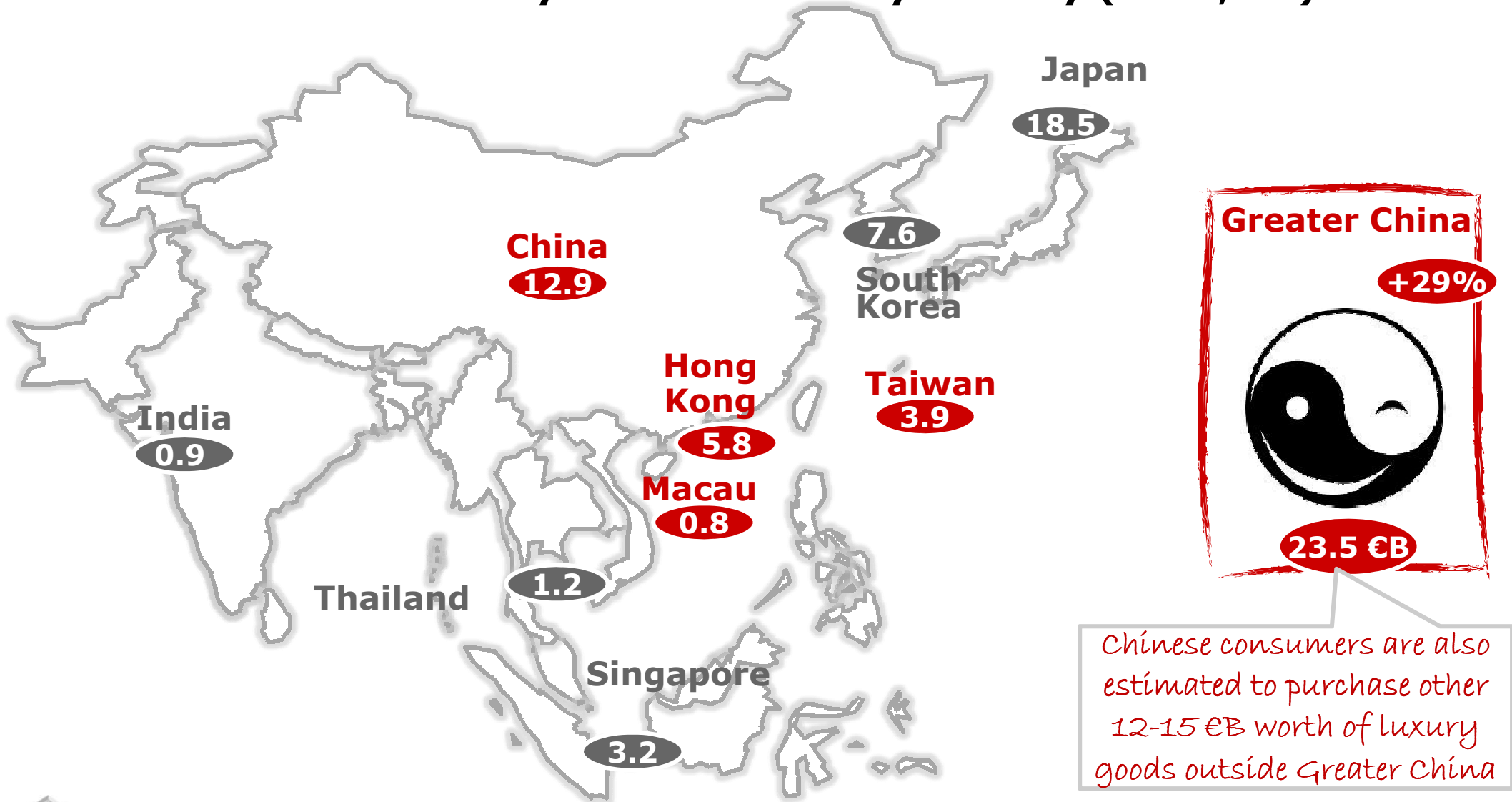
**Growth
09-10**

15% 0% 13% 12% 35% 9% 9% 25% 12% 30% 4%

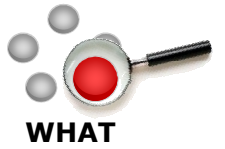
Chinese customers account for more than 20% of the global luxury consumption



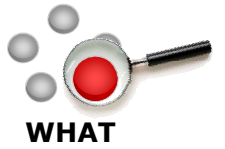
Asia Personal Luxury Goods Market by Country (2011, B€)



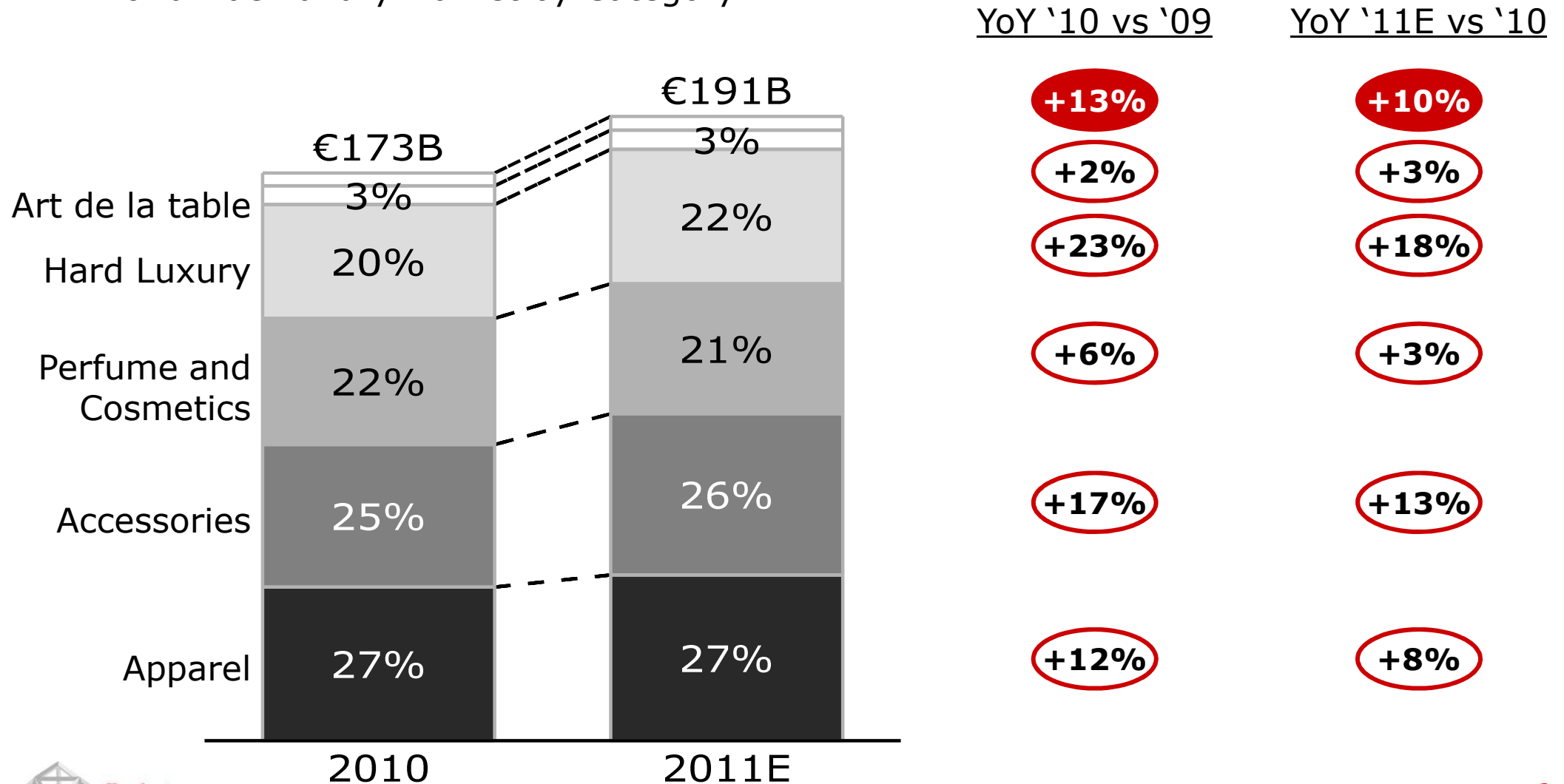
Watches, an old yet very contemporary category, leading the wave of growth



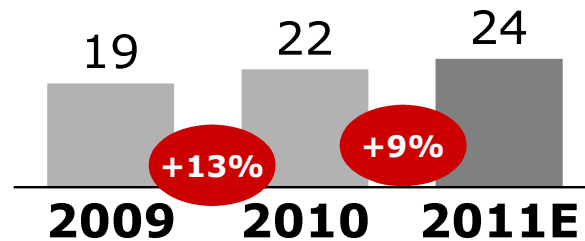
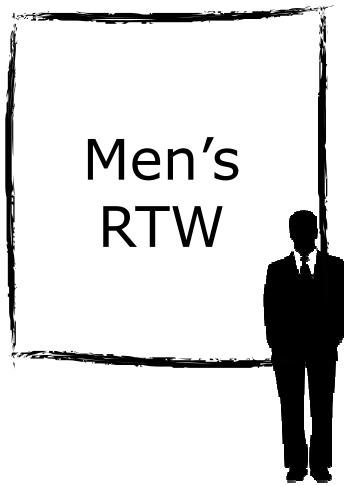
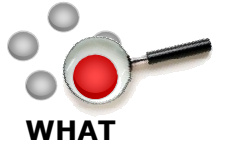
Hard luxury's rebound and the evergreen leather accessories are driving growth also in 2011



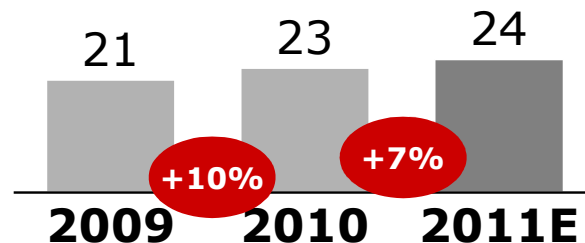
Worldwide Luxury Market by Category



New interpretation of formalwear and overall “casualization” drive category growth

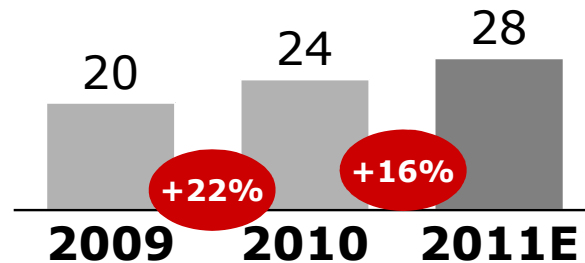
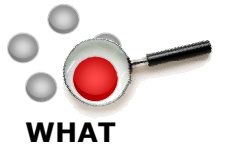


- Menswear **outperforming** the **apparel market**, mainly driven by “**new formal**” (mature markets) and “**upper casual**” (China)
- Many lifestyle brands investing in **men-only stores** in key locations
- **Increasing polarization in 2010**
 - **Accessible** brands +17%
 - **Aspirational** brands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

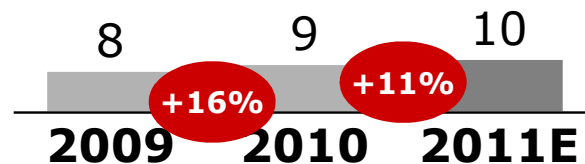


- **Rebound** of products and brands with high **fashion** content for special occasions in the high-end segment
- Progressive “**casualization**” of **every day dressing**
- **Strong competition** from “**premium champions**” and **fast-fashion** retailers makes luxury womenswear **underperform** the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

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

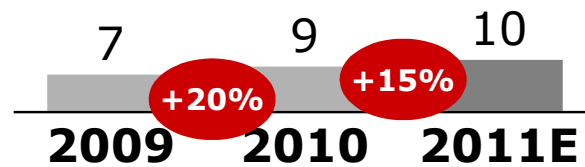
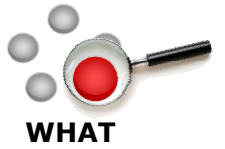


- **Strong growth across all geographies**
- **Increasing men spending** especially in Asia with China having the largest share of male consumers
- **Consumer consciousness** at all price levels
 - **Clear positioning** of **top ranked brands** in the mindset of consumers
 - No compromise on **quality,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

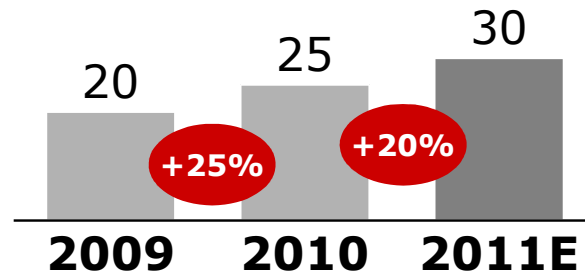


- **Big brands heavily investing** in this category driving **growth** in the **aspirational segment**
- **Men shoes outperforming the market**
- **2011** confirms the **trend** towards the **launch** of **products** with **lower price points** (e.g. tubular) already anticipated in 2010 by the boom of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

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

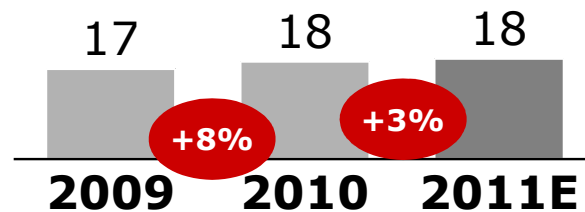
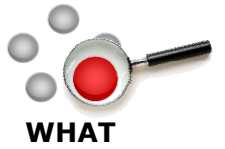


- Very good performance of **accessible segment** in **2010** (silver jewelry)
- Benefits from “**brandization**” of the entire industry
- Ongoing **expansion** of **directly operated stores** in **2011**
- **New entry** in jewelry of **lifestyle brands**

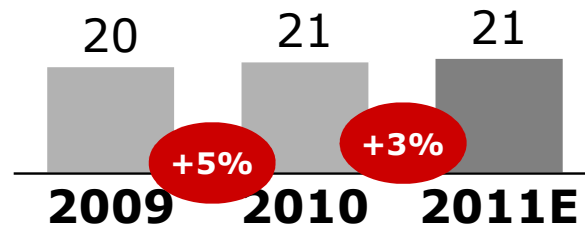


- In **2010**, **Swiss watches’ exports** finally recovered after financial turmoil
- **Growth** spread across **geographies** and **price segments**
- Watches segment, traditionally wholesale driven, **is starting to invest heavily in retail, especially in Asia**
- **Growing female consumption** (jewel-watches)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

Prudent growth for fragrances after restocking, in skincare innovation is rewarding



- **Channel restocking** and **new launches**, and relative advertising budgets, **postponed to 2010** drove the **rebound**
- 2010 and 2011 launches following a prudent **franchise strategy** (line extensions): **successful products** are **broadened** instead of launching really new products
- **Lifestyle brands** outperforming specialists

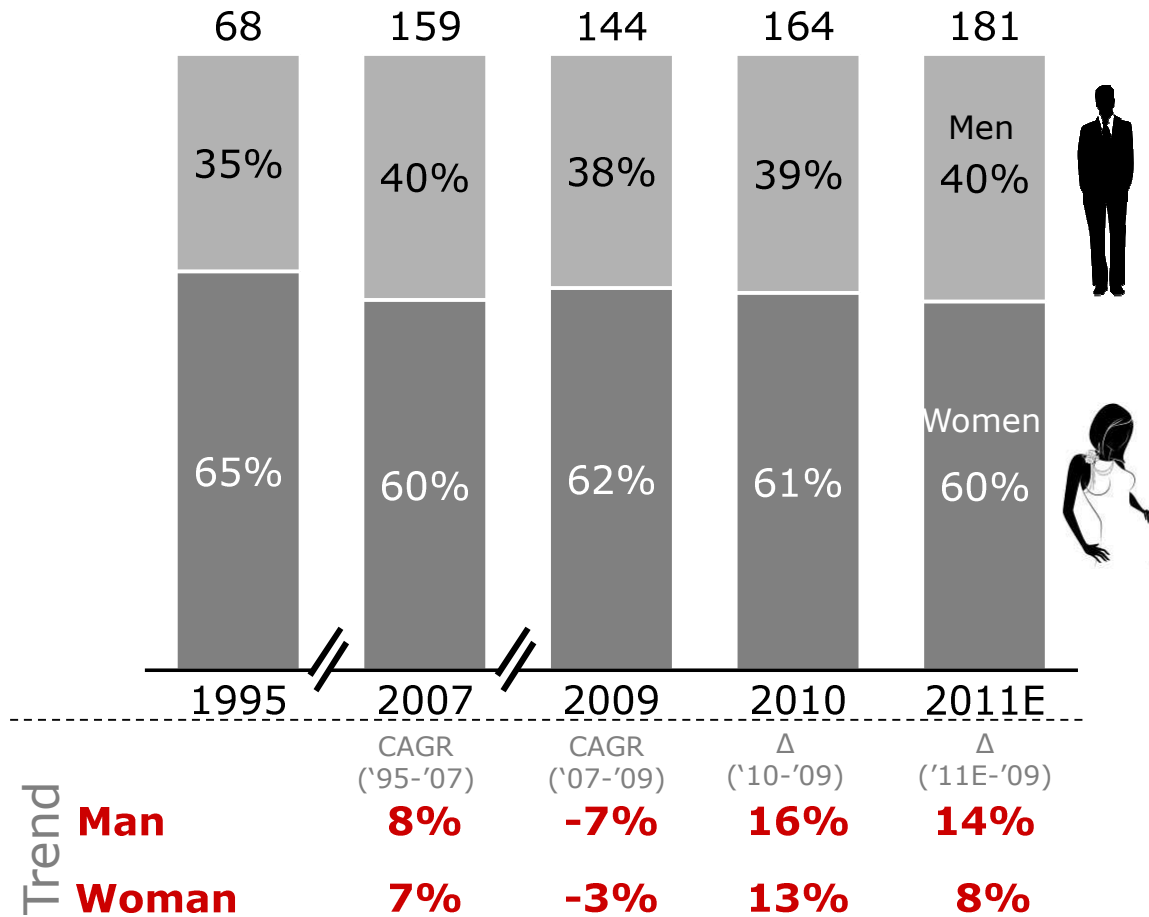


- **Innovation** reshaping with new products (i.e. *serums*) the large segment of anti-aging in **skincare**
- Different trends across regions: **China and Latin America growing at double digit**, whereas **mature markets remain rather flat**
- **Large international players** confirming their **dominance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

Male 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 related to high ticket items and formalwear
- In 2010-2011, new wave of **"Men-ization" of the market**, pushed by male consumers' purchases in emerging market and especially Asia
- **All luxury players** are focusing more and more **on men categories**, with **ad hoc format** and **targeted Asian product offer**

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

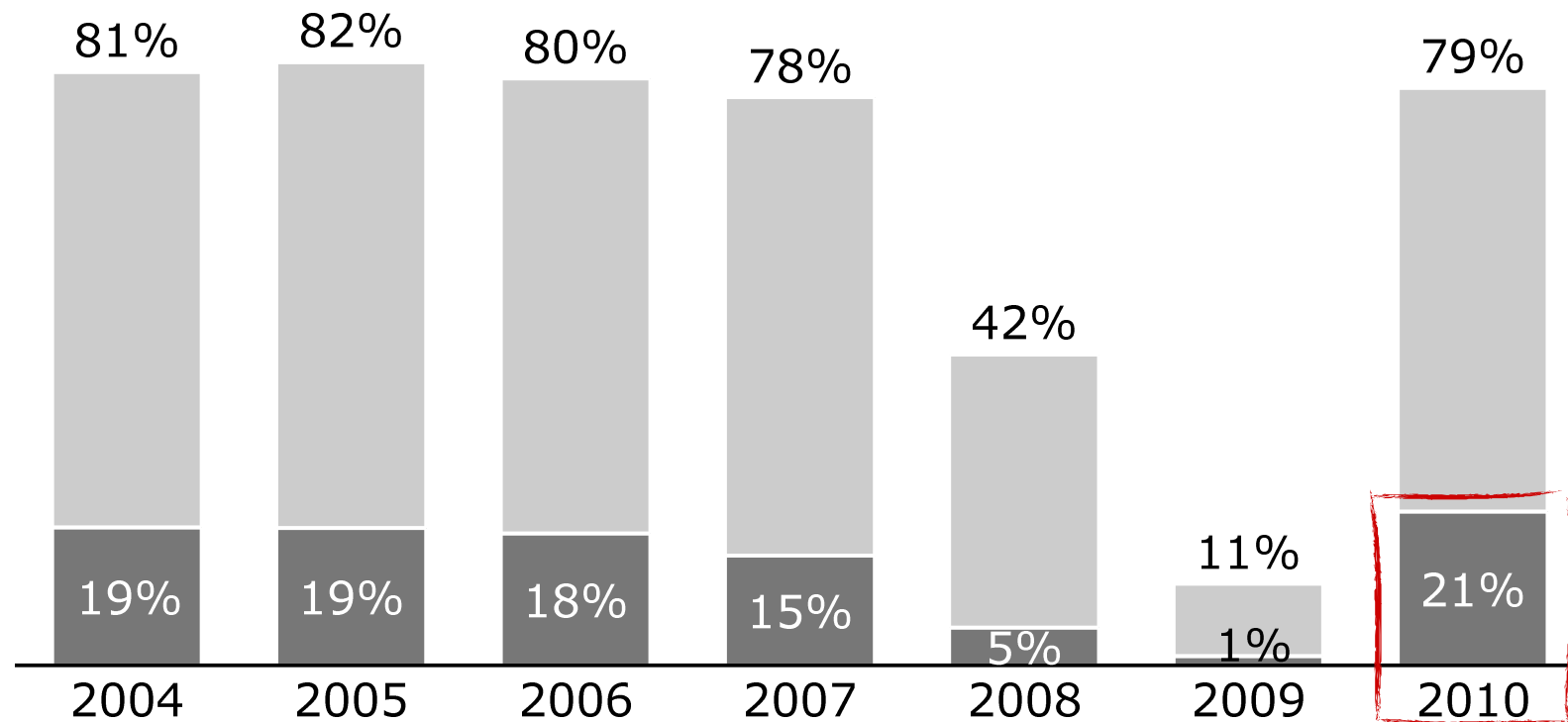


MARKET GROWTH QUALITY INDEX

Analysis @ 1995 fixed rates

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

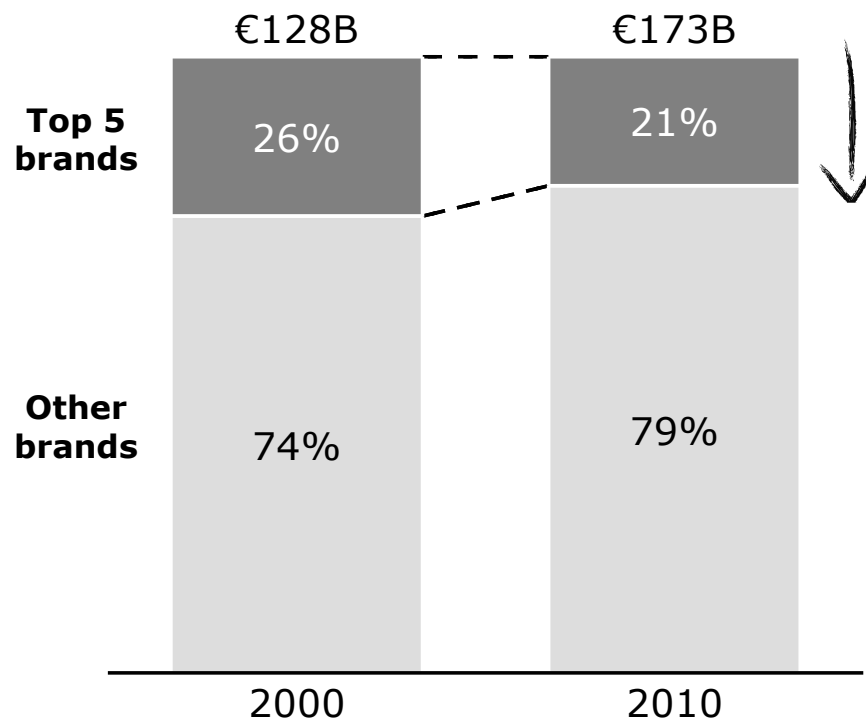
% players with positive year on year growth



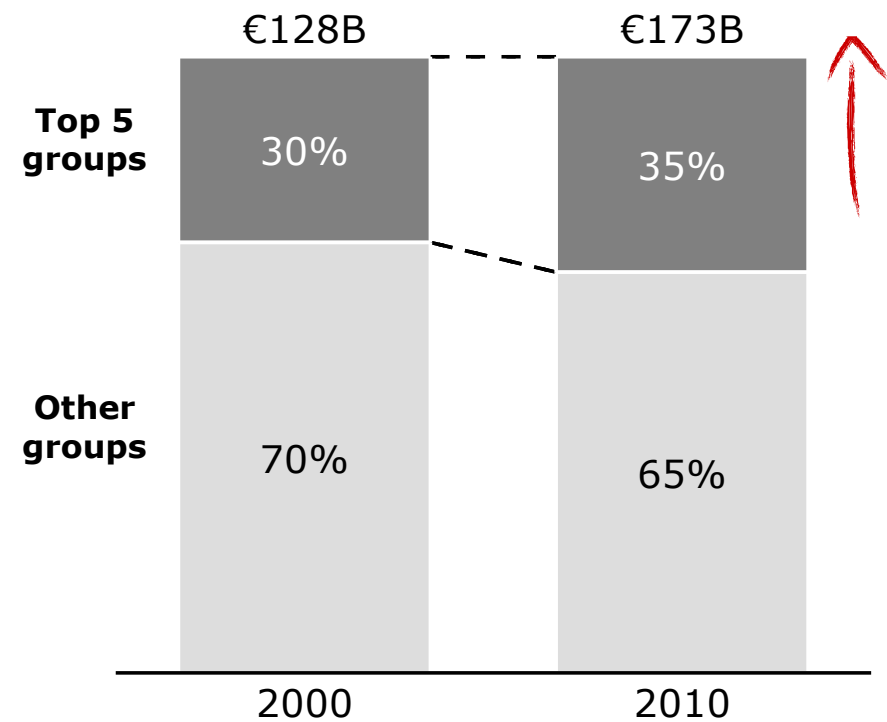
Strong competition at brand level drives increasing concentration at group level



Trend of Top-5 Luxury Brands' Share



Trend of Top-5 Luxury Groups' Share







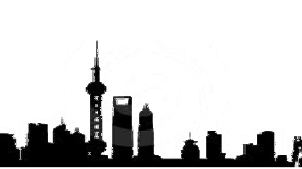
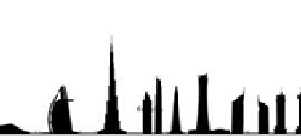
Increasing competition at brand level...

... super-power of luxury groups

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



Trend by Region

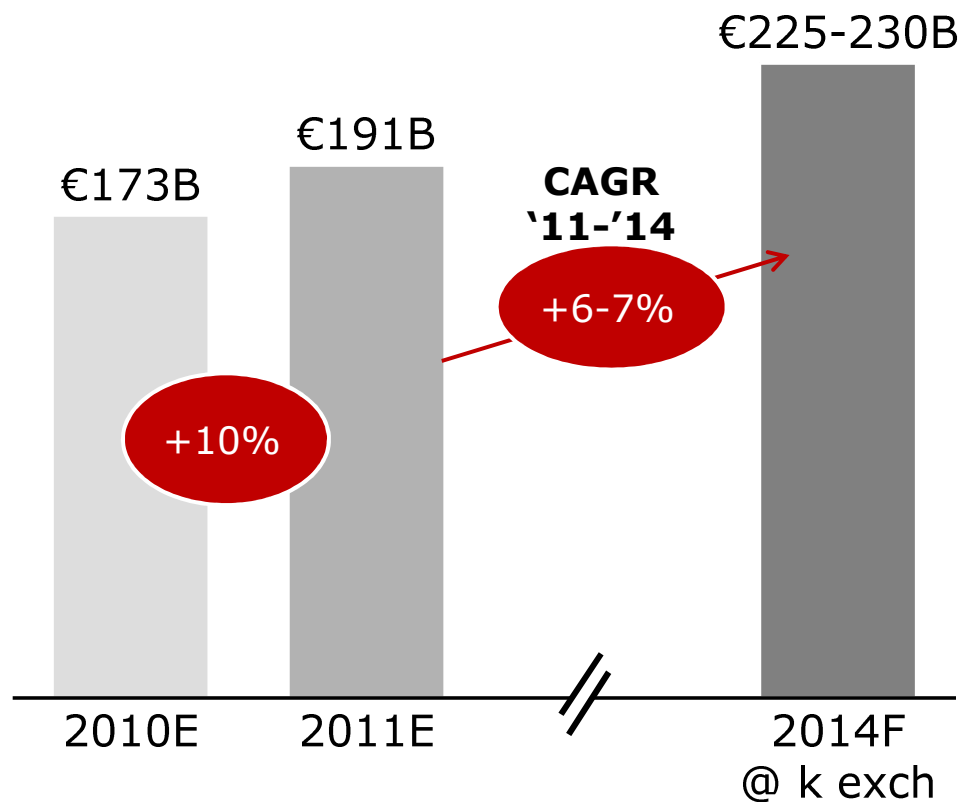
Europe	+	
Americas	++	
Japan	+	
Asia Pacific ex China	++	
China	+++	
ROW	++	

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 consumptions**
- **Retail remains key**, although **perimeter growth** will **slow down**
- **Hard Luxury and Accessories outperforming** other categories

Basics will remain strong in the medium term

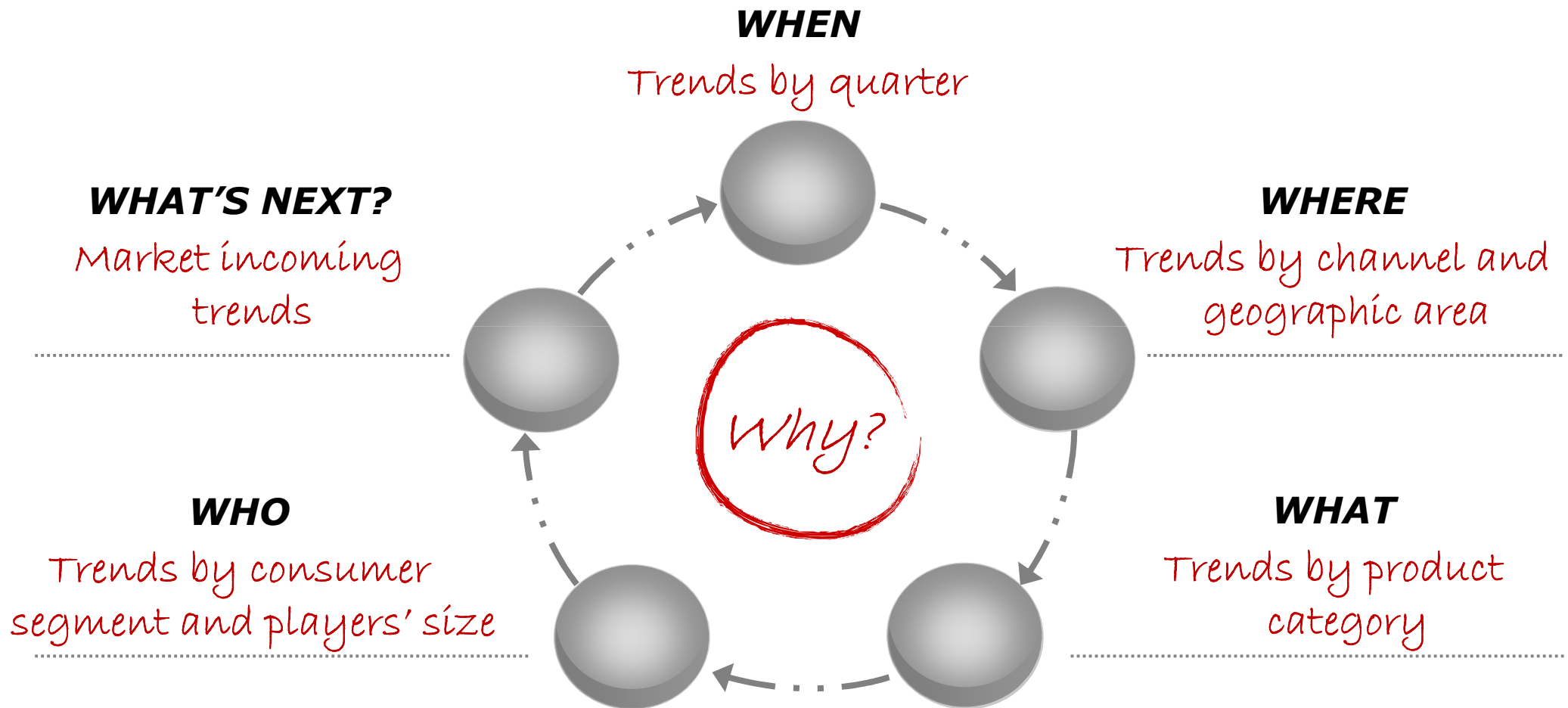
Worldwide Luxury goods market trend



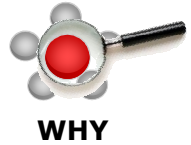
Key trends

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

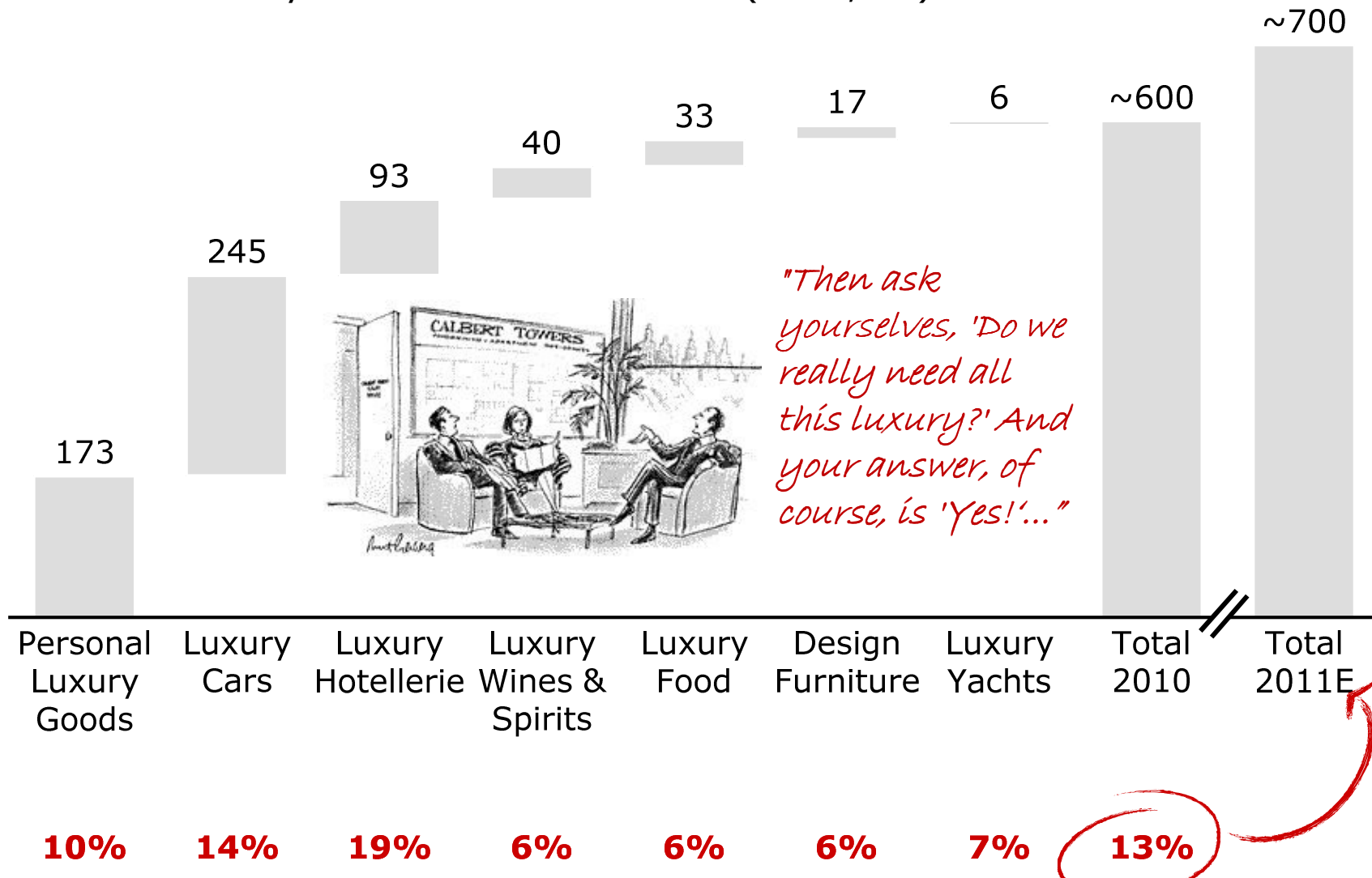
An additional “W” is fundamental to look ahead



In conclusion, luxury goods is a huge and growing market



Worldwide Luxury "Market of the Markets" (2010, €B)



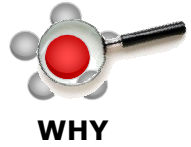
**Growth
10-11E**



Fondazione
Altagamma

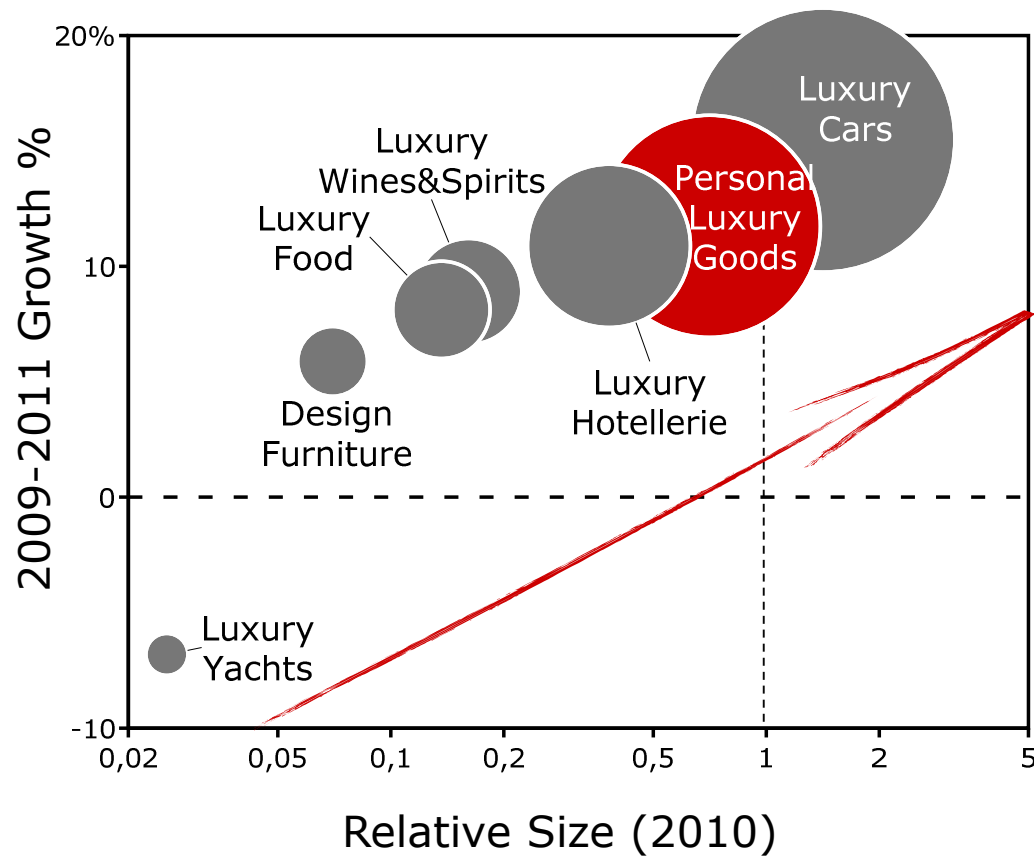
BAIN & COMPANY

Polarization mega-trend impacting differently markets at different stages of maturity/democratization

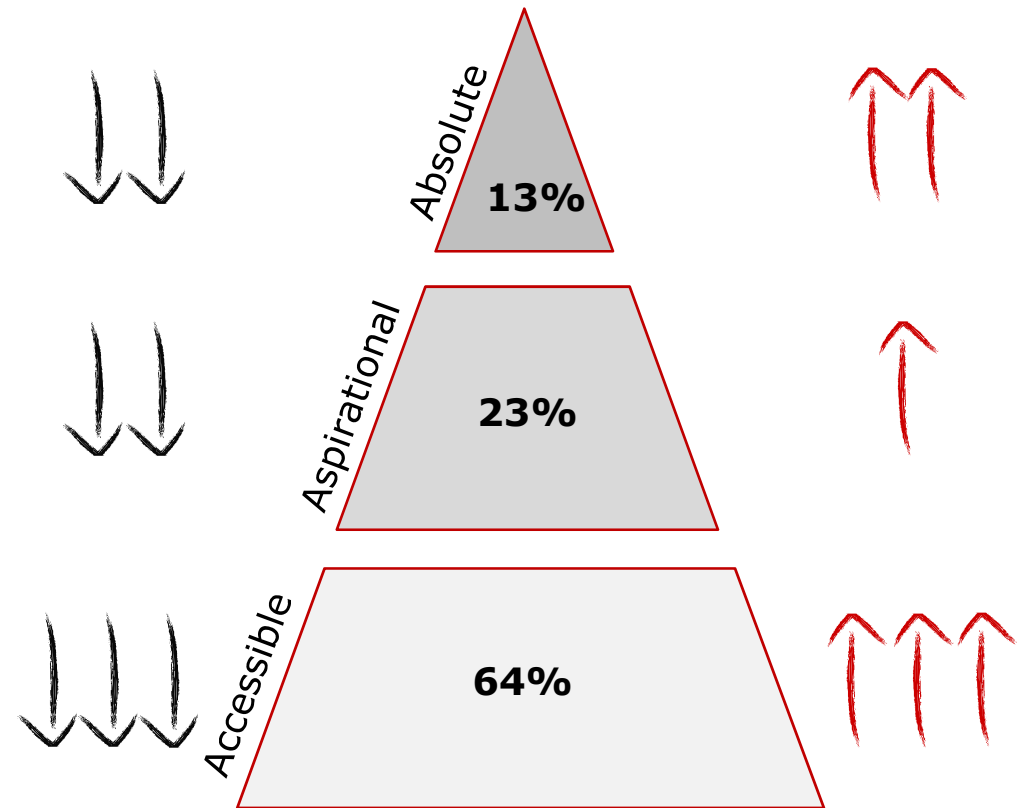


Worldwide Luxury “Market of the Markets” trend by segment and positioning

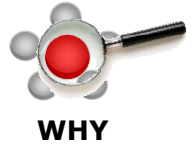
Trends by market (2009-2011, €B)



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, with relevant specificities:
 - **China/Asia** more relevant for cars, hotels and personal luxury
 - **Brazil** is a golden land for luxury wines
 - In **Russia** high-end spirits and gourmet food are booming
 - **India** increasingly interesting for design furniture
- **Convergence in female and male luxury** consumption:
 - **Fashionization** of men, becoming compulsive luxury buyers
 - **Feminization of luxury toys**: power-women approaching super luxury cars and spirits
- **Some common mega-trends**:
 - **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-indulgency** always relevant despite economic environment
 - **Young generations** more conscious, impatient and cherry-pickers



Increasing complexity demands **excellence** across levers for an upgrade of **luxury experience**

Talent, Technology and Trust will drive excellence in Luxury

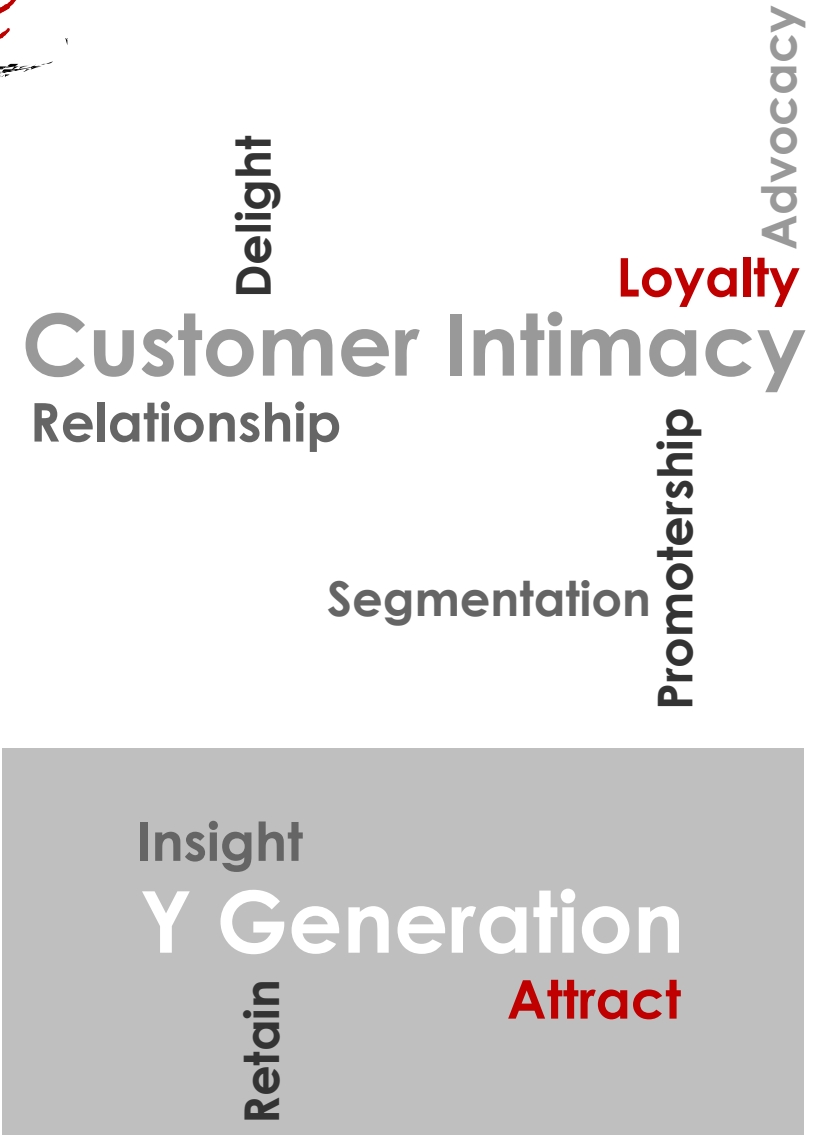
Experience



Talent management
Both-brain organization
Creativity 360°

Strategic talent sourcing
Customer centric

Innovation



Claudia D'Arpizio, Partner Head of Bain's Fashion & Luxury Practice



**Fashion and Luxury
Goods Practice**

Bain & Company

Claudia D'Arpizio is a partner in the Milan office. She is a leader in the firm's Global Consumer Products and Retail Practices, in particular she specializes in Luxury Goods and Fashion.

For over 15 years, Claudia has advised multinational clients, mainly in the consumer products, retail and luxury goods industries. She has helped companies with business unit strategy, sales and marketing, product and service adjacency, multi-channel distribution strategies, new product development and innovation, acquisitions and divestitures, performance improvement, organizational changes.

In addition, Claudia has developed an extensive worldwide industry database in cooperation with Altagamma, the trade association for the Italian luxury industry. This survey, known as the "Luxury Goods Worldwide Market Observatory", is periodically updated and has become one of the most valued and studied market sources in the international luxury goods industry.

Claudia has become a worldwide-recognized expert in luxury goods and in 2009 she **has been awarded by Consulting Magazine as one of the "Top 25 Consultants in the World"**

Claudia is extensively quoted in Italian media, such as *Il sole 24 ore*, *La Repubblica*, *Il Corriere della Sera* and in International media, as *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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