THE BRIDGE TO LUXURY

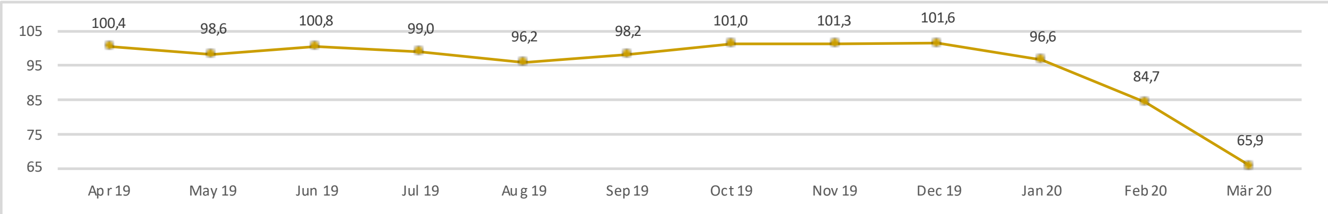
TBTL LUXURY INDUSTRY PERFORMANCE INDEX (LIPI)

March 2020 (# 3)

TBTL's Luxury Industry Performance Index (LIPI) is a monthly published indicator, providing a quick overview of the high-end industry's current status and an outlook on its development over the next months. The LIPI is distributed as a free e-newsletter edited by international strategy consulting firm The Bridge To Luxury (www.thebridgetoluxury.com).

TBTL's Luxury Industry Performance Index (L I P I):

65,9 (02/2020: 84,7)



INDUSTRY STATUS AND MAJOR TRENDS:

- In March, the LIPI lost another 18,8 basic points in anticipating the increasingly visible long-term repercussions covid-19 will cause onto the luxury industry. The industry's main outlook indicator closed at 65,9 basic points which is a downfall of 35,2% compared to 2019's peak (101,7 bp).

- Since December 2019, market capitalization of stock listed luxury companies dropped by -22,2% or US$ 228bn.

- Despite first encouraging developments of slowing or even halting growth rates of infections and a gradual reopening of businesses coming along with it, TBTL believes that pre-coronavirus global sales will be reached again in the middle of 2022. For this year, depending on segments, regions and product categories, TBTL estimates revenues to be between 25% to 60% of last year (2021: 50% to 80%).

- This for four principal reasons:
  - Fighting the coronavirus will last longer: It will take time until infection tests, antibody detectors, therapies and finally vaccines will be globally and widely available (autumn/winter 2020 to spring/summer 2021). Given different expert estimates of ultimate infection rates among whole populations ranging from 20-70%, the task of health policy will be to manage a controlled self-immunization of larger and potentially less risked age groups, regions, professions if the current situation of an economy on hold is envisioned to end or at least to be eased. Yet, in absence of vaccines and therapies, this process will have to be adapted to indeed growing, but in the months to come still not sufficient hospital capacities – as a significant amount of infected people do need icu support. An immediate and complete relaunch of social life and business activities ("big bang") is unlikely. Having cut the peak of covid-19's first wave, partial or even complete confinements will be maintained respectively reintroduced once next virus tides occur. Hence, policy makers will try to circumvent possible breakdowns of health systems while permitting a revitalization of business in a back-and-forth process only wherever and whenever it is possible.
  - Consumer purchasing power and confidence: Luxury is a good mood's business and needs consumer trust in stable employment and regular income as well as sufficient savings. Former crises such as Lehman provide benchmarks: It took the Swiss luxury watch industry, for instance, 2,5 years to overcome the impact – at times when Chinese GNP still grew at annual rates of +9% thus helping to compensate for a decline in demand in Europe and the USA.
  - Industry's readiness: The current crisis and looming recession will result in employees being laid-off, minimized stocks, postponed investments, reduced r&d activities, tight cash positions etc. Getting back to normal will demand a time consuming, sensitive and flexible entrepreneurial reaction to dynamically changing circumstances.
  - International holiday related traveling will not resume soon. Especially important Chinese spending abroad will take time to come back.

- It is too early to assess the long-term impact of covid-19 on the luxury industry's future. However, first scenarios emerge:

    1. Shock impressed consumers could react in two different ways: customers following an intensified "carpe diem" attitude to engage perhaps even stronger than in times prior to covid-19; customers allocating their regained purchasing power towards more sustainable goods and services as a trend of a new mode of modesty.
    2. Disappearing market players and merging companies will accelerate an already speedy process of industry reshuffle that will result in more oligopolistic structures. Classical wholesale will be particularly hit as the crisis intensifies the consumers' positive online shopping experience.
    3. With the loss of hundreds of thousands of jobs in the luxury industry (e.g. Chinese OEM business, manufacturers in northern Italy, the Swiss watch and the German car industry) a rich culture and ages old savoir-faires in terms of traditional artisanal craftmanship will vanish. This accounts especially for small suppliers and manufacturing brands.
    4. Luxury brands will come under pressure to better justify their social relevance as their raison d'être in times of crisis is much questioned. This will imply a) stronger efforts to build attractive and credible positionings and b) more engagement with consumers on a personal (human) level (wholesale, retailing, events, fairs, factory tours versus non-personal online activities).
    5. The importance of the digital will grow: buying behaviour of luxury consumers have already been shifting towards the online phenomena - covid-19 will accelerate that process.
    6. Yet, small brands and start-ups will have to focus more on creative branding efforts. Successful online presences require first strong brand images.
    7. In the painful process of industry restructuring, there will be nevertheless space and opportunities for new start-ups and niche players in luxury.
    8. Resistibility over risk: The luxury industry will give more importance to long-term goals such as healthy equity and adequate liquidity at the expense of short-term sales and profit ambitions.
    9. More realistic planning and budgeting procedures. Since 2000, more than seven major crises have impacted the luxury industry. Often linearly or even exponentially extrapolated forecasts with time horizons of just three years will be replaced by more realistic prognosis tools and procedures.
    10. The industry will geographically shorten distances in its supply chains to secure delivery in times of crisis and to enhance local brand credibility.

- Covid-19 puts enormous pressure on companies and brands who will have to act fast and professionally to minimize damages and to secure survival. There are short, medium and long-term measures to be taken that apply to three clusters of market players to various degrees: a) small and young, b) medium sized and independent, c) large and group belonging. These clusters consist of suppliers, brands, distribution companies and service providers such as, for instance, communication agencies, bloggers, or freelance designers. The frame of possible actions depends the financial strengths of each company also.

- On a short-term level companies especially need to save liquidity (reducing salary and administration expenditures, postponing investments, reducing stock, renegotiating payment terms, terminating lease agreements etc.). Also, efforts concentrate on securing revenues (discount and bonus programs, payment terms, buyback schemes for new products being swapped for old inventory, special offers of after-sales-services etc.). Additionally, getting financial support from government or banks is vital. Besides such classical measures, TBTL also recommends focusing on other activities. For example:

    1. Brands should take advantage of their CRM programs to maintain 1-to-1-communication with consumers to strengthen bounds in times of mutually experienced crisis.
    2. Even though sales into grey market channels and discounting are tempting, they should be minimized to avoid too strong devaluations of brand images.
    3. R&D efforts should continue to be able to offer attractive products and services once consumers come back. Yet, important novelties should be introduced only when consumers are more receptive again.
    4. Big market players ought to support crucial suppliers in their struggle for survival to ensure that traditional and special manufacturing technics and knowledge do not get lost.
    5. As much as it hurts, owners of weak companies have to prepare exit scenarios, while strong players could seize attractive m&a opportunities.

- There will be no status quo ex ante for the luxury industry after civid-19. If the high-end industry wants to survive, an honest analysis about its weaknesses and threats needs to be undertaken. TBTL believes that the following topics merit particular attention in the mid and long-term perspective:
  - The opportunities provided by the digital and online revolution should not narrowly be interpreted as an opportunistic mean of incremental revenues. Digital brand activities have to represent the high level of luxury in terms of emotional story-telling, individual experiences, service quality and so on.
  - However, despite the success of online selling, luxury needs to reconsider the importance of classical wholesale and retailing. Luxury brands cannot be created online alone. Regaining the consumers' trust in investing into the real human relationship will be primordial.
  - That includes a renaissance of strong branding approaches to justify social relevance to consumers.
  - The luxury industry as such is challenged by other industries. Hence, team playing becomes important. In particular, strong groups should consider generic actions (shared advertising campaigns, museums, hall of fames, shows, fairs, events, factory tours etc.) to promote on a general level the essence of high-end goods and services being elements of a beautiful life of culture and sophistication.
  - The consumer needs to be rediscovered after covid-19. This creates an opportunity to invest more into professional market research.
  - The industry needs to prepare better for the crises of the future: strong funding, realistic commercial targets, professional planning and budgeting tools, sustainability and social relevance.

COMPANY SNAPSHOTS:

- Kering expects a decline of revenues for Q1 2020 of -13 to -14% vs. last year (-15% at const. rates), while LVMH predicts a drop of -10% to -20%.
- Mercedes-Benz' revenues declined -14,9% in Q1 2020 but continued to generate profits. In Germany, production is said to resume on April 20th. BMW reports a drop of -20,6%.
- As in former crises, The Swatch Group (Breguet, Omega) is intending not to lay off employees but to introduce short-working hours instead.
- Rough diamond producer Russian Alrosa is considering online auctions as classical sales event are cancelled due to travel restrictions.
- Ralph Lauren has been joining the list of luxury companies to use production resources to manufacturing protective gear, disinfectants or ventilators: LVMH, YSL, Balenciaga, Canadian Goose, Prada, Gucci, Dior, Chanel, Pernod Ricard, GM, Tesla, Ford, FIAT or BMW.
- EssilorLuxottica, like other stock listed groups, suspends dividends, postpones annual share-holder meetings and stops share bayback program
- Eyewaer manufacturer Safilo estimate Q1 revenues down -11% to -13% y-to-y.
- The Court of Justice of the European Union has ruled that Amazon is not liable for stocking goods of resellers infringing skin care brand Coty's trademarks. This decision will have far reaching and challenging consequences for luxury brands seeking to protect their exclusivity.
- LVMH is not intending to acquire Tiffany shares on the open market avoiding to take advantage of lower share prices.
- Danish high-end audio brand Bang & Olufsen reports losses for the 4th quarter in a row.
- Marriott USA will provide rooms to medical workers battling the coronavirus crisis.
- Covid-19 has caused Salvatore Ferragamo's revenue to drop -30,6% in Q1.
- After public criticism, LVMH and Kering have stepped back from inital plans to seek government aid for their staff.
- Reacting to covid-19, Sotheby's collected US$4m in an online only auction for 20th century design - the best-ever result for an online sale of this category.
- Manhattan's district attorney ruled Christie's to pay a US$17m fine for failing to collect international sales taxes.
- Despite being impacted by covid-19 as well, German sports car maker Porsche will pay its staff a 9.700€ bonus for 2019.

SELECTED UP-COMING LUXURY INDUSTRY EVENTS:

- The listing of events will resume once new dates are announced.

TBTL LUXURY INDUSTRY PERFORMANCE INDEX (03/2020)

(A) Development share prices in the luxury industry (in %)

Company	MoM	YoY	5Y-o-5Y	CAGR 5Y	Category
Hermès	-0,2%	6,9%	91,5%	13,9%	Luxury group
Kering	-5,9%	-6,9%	181,6%	23,0%	Luxury group
LVMH	-8,7%	3,2%	106,2%	15,6%	Luxury group
Chow Tai Fook	-18,7%	-30,9%	-20,2%	-4,4%	Watches & Jewelry
Hengdeli	3,3%	-20,5%	-66,3%	-19,6%	Watches & Jewelry
Lao Feng Xiang	-9,4%	-9,8%	-11,6%	-2,4%	Watches & Jewelry
Movado	-19,6%	-67,5%	-58,6%	-16,2%	Watches & Jewelry
Richemont	-18,9%	-26,9%	-32,2%	-7,5%	Watches & Jewelry
Swatch Group	-12,8%	-32,1%	-53,1%	-14,0%	Watches & Jewelry
Alrosa	-9,5%	-30,1%	-10,3%	-2,1%	Watches & Jewelry
Hugo Boss	-41,6%	-62,0%	-79,6%	-27,2%	Fashion
Burberry	-19,6%	-32,2%	-23,5%	-5,2%	Fashion
Brunello Cucinelli	-7,7%	-9,7%	69,1%	11,1%	Fashion
Ferragamo	-15,3%	-36,7%	-59,4%	-16,5%	Fashion
Capri (Michael Kors)	-58,2%	-76,4%	-83,6%	-30,3%	Fashion
Ralph Lauren	-36,7%	-48,5%	-49,2%	-12,7%	Fashion
Moncler	-5,5%	-7,3%	113,3%	16,4%	Fashion
Mulberry	-34,0%	-45,7%	-81,3%	-28,5%	Fashion
Prada	-10,3%	-2,8%	-51,7%	-13,5%	Fashion
Tapestry (Coach)	-44,8%	-60,1%	-68,7%	-20,8%	Fashion
Tod's	-1,8%	-26,2%	-63,9%	-18,4%	Fashion
Coty	-44,1%	-55,1%	-72,9%	-23,0%	Skin care
Estée Lauder	-13,2%	-3,8%	91,6%	13,9%	Skin care
Shiseido	-0,6%	-20,1%	199,2%	24,5%	Skin care
BMW	-20,0%	-31,5%	-59,5%	-16,6%	Cars
Ferrari	0,0%	18,5%	- -	- -	Cars
Aston Martin	-41,3%	-80,4%	- -	- -	Cars
Tesla	-21,6%	87,2%	177,6%	22,7%	Cars
Porsche	-31,3%	-30,9%	-57,7%	-15,8%	Cars
Marriott	-39,7%	-40,2%	-6,9%	-1,4%	Travel
Norweg. Cruises	-70,6%	-80,1%	-79,7%	-27,3%	Travel
Luxottica	-20,2%	0,9%	-8,0%	-1,6%	Eyewear
Safilo	-23,2%	7,0%	-91,6%	-39,1%	Eyewear
Kweichow Moutai	5,1%	30,1%	524,2%	44,2%	Spirits
Bang & Olufsen	-30,1%	-60,7%	-63,8%	-18,4%	Audio
S&P Global Luxury	-19,0%	-19,9%	-2,8%	-0,6%	Index
Euro Stoxx 50	-16,3%	-16,9%	-24,6%	-5,5%	Index
Nikkei 225	-10,5%	-10,8%	-1,5%	-0,3%	Index
S&P 500	-12,5%	-8,9%	24,8%	4,5%	Index
Shanghai Composite	-4,5%	-11,0%	-26,6%	-6,0%	Index

Sources: Reuters (monthly average), S&P

(B) Development selective industry indexes

(B1) Luxury cars: Quarterly growth rates (units sold in %) Q4 2019

Company	roll. 4 Qs	5Y-o-5Y	CAGR 5Y
Mercedes-Benz Cars	1,4%	19,2%	3,6%
BMW	2,9%	14,7%	2,8%
Rolls-Royce	24,2%	34,7%	6,1%
Audi	1,8%	2,3%	0,5%
Bentley	4,8%	9,0%	1,7%
Lamborghini	42,7%	152,9%	20,4%
Porsche	9,6%	24,7%	4,5%
Bugatti	6,6%	252,2%	28,6%
Ferrari	9,5%	32,2%	5,7%
Tesla	49,8%	625,8%	48,6%
Aston Martin	-9,0%	62,4%	10,2%
All	3,7%	17,3%	3,2%

Source: company reports and press releases

(B2) Swiss watch exports growth rates (value in %)

Price Category	roll. 12 M	5Y-o-5Y	CAGR 5Y
Export value 0-200 CHF/unit	-13,6%	-34,4%	-8,1%
Export value 201-500 CHF/unit	-9,2%	-16,9%	-3,6%
Export value 501-3.000 CHF/unit	-5,2%	3,6%	0,7%
Export value > 3.000 CHF/unit	7,1%	6,8%	1,3%
All	2,3%	2,0%	0,4%

Source: Swiss Watch Federation

(B3) Current production of superyachts

	2019	2018	2017
number of superyachts	807	830	773

Source: Global Order Book, 2020, Boat International Media

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(B4) Precious metals and diamonds (growth in %)

Metal	MoM	YoY	5 Years	CAGR 5Y
Gold	-1,3%	24,3%	26,7%	4,8%
Silver	-13,9%	-6,3%	-22,6%	-5,0%
Diamonds	-1,7%	-4,8%	-8,3%	-1,7%

Sources: Macrotrends (monthly quotes); IDEX

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(B5) Fine wines

	MoM	YoY	5Y-o-5Y	CAGR 5Y
Fine wines	-2,0%	-4,8%	26,6%	4,8%

Source: Li-ex 500 wine index (per previous month)

(C) GDP annual growth rate (in %)

Country	2017	2018	2019E	2020E	2024E
Brazil	1,1%	1,1%	0,9%	2,0%	2,3%
China	6,9%	6,6%	6,1%	5,8%	5,5%
France	2,3%	1,7%	1,2%	1,3%	1,2%
Germany	2,5%	1,5%	0,5%	1,2%	1,2%
Hong Kong	3,8%	3,0%	0,3%	1,4%	2,9%
India	7,2%	6,8%	6,1%	7,0%	7,3%
Italy	1,7%	0,9%	0,0%	0,5%	0,6%
Japan	1,9%	0,9%	1,2%	0,5%	0,5%
Russia	1,6%	2,3%	1,1%	1,9%	1,8%
Spain	3,0%	2,6%	2,2%	1,8%	1,6%
Switzerland	1,7%	2,5%	0,8%	1,3%	1,6%
UAE	0,8%	1,7%	1,6%	2,5%	2,5%
Great Britain	1,8%	1,4%	1,2%	1,5%	1,5%
USA	2,4%	2,9%	2,3%	2,1%	1,6%
World	3,4%	3,8%	3,0%	3,4%	3,6%

Source: IMF, 10.2019

(D) Currencies exchange rates: the Euro's performance (change in %)

Currency	1 Month	6 Months	12 Months
US $	-0,6%	0,5%	-2,3%
BRL	16,2%	26,3%	31,2%
CNY	0,9%	-0,2%	3,3%
HK $	-1,1%	-0,6%	-3,5%
JPY	-1,1%	-0,1%	-5,6%
INR	4,2%	7,4%	6,7%
RUB	17,3%	21,6%	17,7%
CHF	-0,6%	-2,8%	-5,4%
GBP	2,9%	-0,3%	3,2%

Source: Oanda, per first of month

ABOUT US:

The Bridge To Luxury (TBTL) is an international strategy consultancy firm, focusing exclusively on high-end brands, products and services. TBTL and its global network support owners, management and investors on luxury related topics: market assessments and research, strategy and branding, product development, communications including social media, distribution and internationalization, organization and restructuring, business modelling and evaluation, m&a.

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TBTL appreciates any suggestion for additional performance indicators of the luxury industry to be incorporated into this monitor.

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