

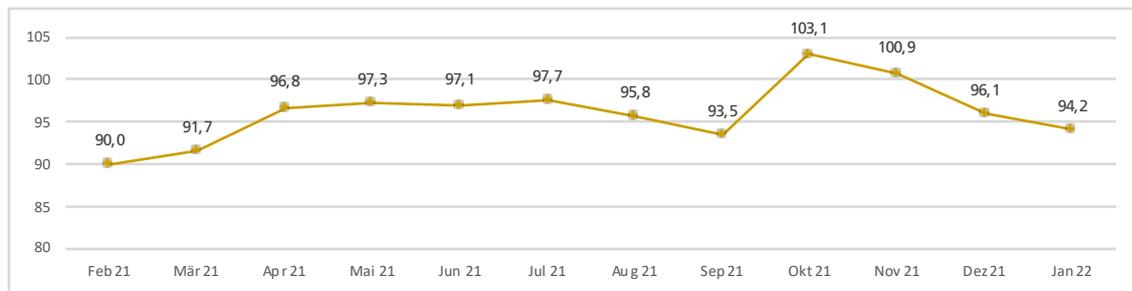
TBTL LUXURY INDUSTRY PERFORMANCE INDEX (LIPI)

January 2022 (# 1)

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 (LIPI):

94,2 (12/2021: 96,1)



INDUSTRY STATUS AND MAJOR TRENDS:

Recap 2021:

- ◆ In May 2020, TBTL predicted that Covid19 would keep the luxury industry in suspense until at least summer 2022. Unfortunately, this projection has come true. Overall, the industry has nonetheless shown resilience over the past two years against the backdrop of the pandemic's severity and other challenges. This is reflected in the Luxury Industry Performance Index (LIPI). It closed December 2021 at 96.1 points (December 2020: 87.0; December 2019: 101.6).
- ◆ The market cap of high-end stock-listed companies calculated by TBTL grew by 40% to US\$ 2,585 billion in 2021 and by 142% compared to 2019. Hence, investors continued to put their trust in the industry. Benchmarks: EuroStoxx: +21% vs 2020; +15% vs 2019 / Nikkei +5%; +22% / S&P 500 +28%; +48% / Shanghai Composite +6%; +19%.
- ◆ Indicators such as the S&P Global Luxury also confirm the positive demand for shares in the luxury industry. The index won +22% in 2021 (+66% vs 2019).
- ◆ The top 5 stock market winners and losers since the end of 2019 were Tesla (+1,163%), Hermès (+130%), Brunello Cucinelli (+92%), Movado (+92%), Chow Tai Fook (+88%) respectively Norwegian Cruise (-64%), Aston Martin (-59%), Shiseido (-17%), Burberry (-17%), Hengdeli (-13%).
- ◆ Compared to the end of 2019, the percentage of the market capitalization of luxury car manufacturers within the total of high-end values increased by 26 basis points to 49%. The category was primarily driven by demand for Tesla shares. Tesla's market cap surpassed US\$ 1 trillion at the end of 2021. The three luxury groups, Hermès, LVMH and Kering, accounted for 26% of the market cap (+6 basis points vs 2019).
- ◆ In consequence, the other listed luxury companies lost 17 basis points in the total luxury market capitalization since 2019.
- ◆ The category that suffered the most was the one that still showed the highest growth dynamics before the appearance of Covid19: the luxury experience. Due to lockdowns and travel restrictions, top restaurants, cruise operators, airlines, and hotels have fought for their existence.
- ◆ The UN World Travel Organization reports that although international tourist arrivals in 2021 increased by 4% compared to the previous year, they are still below pre-pandemic levels at -72%.
- ◆ For the luxury industry of personal goods (fashion, jewellery, audio, etc.), consulting firm Bain now sees a V-shaped economic recovery and estimates its volume for 2021 at EUR 283 billion (+1% vs 2019). Overall, Bain estimates the high-end industry at a volume of EUR 1.1 trillion.

- ◆ There were already signs of a business recovery in the 2021 half-year balance sheets, which, however, was mainly supported by three factors only: strong sales growth of some car manufacturers (Tesla, Porsche and Mercedes-Benz), the stable consumer market in China and for some sectors resp. companies a good US business (e.g. watches, Kering).
- ◆ The dependence of the luxury goods industry on consumption in China has continued to increase over the past two years and, according to estimates by TBTL, will be almost 30% for 2021. Europe's market share fell below 30% for the first time.
- ◆ The real estate industry is among the winners of the pandemic. For example, the international broker Engel&Völkers reports transaction growth of +97% for 2021 in the segment of properties with a value between EUR 5 and EUR 10 million. In the top segment (> EUR 10 million), transactions increased by +90%.
- ◆ Investments by luxury brands in e-commerce, which had already increased sharply in 2020, continued to gain momentum last year. Providers who had already diversified their distribution channels before the crisis benefited particularly. Some specialists, such as jeweller Leibish & Co. (USA/ISR), which has been operating exclusively online since 1998, have recorded sales growth of more than +100% p.a. in the last two years.
- ◆ The fact that online is not a sure-fire success is shown, for example, by the continuous problems of Net-à-Porter (Richemont), which did not make it into the profit zone in 2021 again, despite a globally very online-savvy consumer climate.
- ◆ In terms of currency exchange rates, the past year was again a complex one. The euro lost almost -10% against the RMB and -7% against the US\$ over the year. Deliveries from Asia became more expensive, which hit the textile industry in particular. At the same time, European manufacturers with strong local added value benefited from currency-related cheaper exports (e.g. watches and jewellery).
- ◆ While gold and silver prices fell as commodities (-3 and -11% respectively), diamonds rose (+14%).
- ◆ In addition to the dominant challenge Covid19, there were a number of other positive and negative developments:
 - ◆ uncertain global supply chains;
 - ◆ difficult brand communication in times of value change (e.g. Dolce & Gabbana in China, Lacoste and brand ambassador Djokovic);
 - ◆ the continued strong growth of the 2nd hand (vintage, retro) and repro markets;
 - ◆ the growing importance of the digital universe such as gamification (Jimmy Choo, Chanel), AI, VR and MR;
 - ◆ the increasing relevance of Blockchain, NFTs, crypto currencies (Tesla) etc.

Outlook 2022:

- ◆ The IMF recently revised its global GDP growth forecast for 2022 downwards from 4.9% to 4.4%. Also, China's outlook was reduced 0.8 basis points from 5.6% to 4.8%.
- ◆ This year also, exogenous, i.e. non-controllable factors, will keep the luxury industry in suspense. A selection issues:
 - ◆ Covid19: Omicron and China's zero infection policy, possibly new and recurring virus variants, the status of national vaccination rates;
 - ◆ politics: the Russian-Ukraine conflict, Brexit, elections in France;
 - ◆ inflation: e.g. the development of gas and oil prices, central banks' measures of monetary and interest rate policies;
 - ◆ China: GDP development, real estate crisis (Evergrande);
 - ◆ supply chains and logistics: e.g. availability of chips, container shipping;
 - ◆ tourism: the development of international travel;
 - ◆ global employment rates; consumer savings and incomes.
- ◆ If there is no war in Ukraine and China's economy does not experience a major downturn, then TBTL forecasts the Luxury Industry Performance Index (LIPI) in a corridor of 100 to 104 points by the end of 2022 (+4 to 8% vs 2021). The European consumer market, in particular, should contribute to the further recovery of the industry in the second half of the year.

... and beyond:

- ◆ In the long term, luxury players have to adjust to an increasingly complex business. Covid19 has dynamized the industry's structural change that was already underway before 2020.
- ◆ TBTL believes the golden age of the industry is coming to an end. The last three decades have given the brands an impetus that is no longer reproducible in terms of its strength. Revenues and profits will grow much slower on average in comparison to the last 25 years, especially with regard to many independent and smaller brands.

- ◆ The reasons:
 - ◆ The internationalization potential of previously underdeveloped markets such as China, Russia or the Middle East is decreasing; other countries and regions (India, Africa) will not compensate for this.
 - ◆ The margin shift from wholesalers, distributors, and agents to the brands (retailing via owned boutiques and e-commerce) offers less room for sharply increasing profitability.
 - ◆ In more saturated and stagnant markets and with rising costs, concentration processes continue to accelerate - the power play of the big groups will further marginalize independent brands.
 - ◆ In the struggle for market shares, incremental sales and profits, the trend towards "total fusion" will intensify:
 - increase in multi-category offerings of luxury brands (keyword: line-extensions);
 - vertical integration of a large number of market players (brands, wholesalers, online retailers, suppliers) at product and distribution level resulting in an "everyone does everything";
 - an increase in acquisitions & mergers.
 - ◆ Competitive pressure and commercial ambition drive players further into offline and e-commerce grey and parallel markets; discounting will remain a problem.
 - ◆ China's population has shrunk for the first time in 2021 and will continue to fall. This development applies to almost all industrialized countries. It is not yet possible to foresee whether increases in wealth and income of the new upper and middle classes in the developing countries or the spending of future generations of heirs in the old world will compensate for a globally hardly growing population.
 - ◆ Value change, especially among young consumers, is increasingly questioning luxury as a desirable consumer goal (buzzwords: sustainability, #MeToo, cancel culture ...); political correctness breaks the golden tip of the elite luxury product pyramid.
 - ◆ Other factors contribute to the demystification and thus democratization of luxury:
 - down-grading of brands for more incremental revenues and economies-of-scale (objective "affordable luxury");
 - further advancing digitization for global brand omnipresence (social media, metaverse, blogging etc.);
 - opportunistic brand alliances (e.g. Apple-Hermès, Louis Vuitton-Nike);
 - NFTs, which "immaterializes" ownership of luxury goods (share holding on product level);
 - Efficiency innovations result in a substitution of craftsmanship (e.g. 3D printing) and exclusivity (e.g. lab-grown diamonds).

15 major opportunities:

- ◆ Strategically, market players will have to adapt to new competitive conditions. Companies ought to avoid stuck-in-the-middle positions by consistently focusing their business models either as prestige brands (embodiment "perfume on department stores' ground floor") or as true luxury providers in high-end niches.
- ◆ Strategic focus on branding ("product is King but positioning is Queen") that conveys credible values and is authentically embedded in the lives of target groups. Big brands will find it increasingly difficult to address millions of heterogeneous customers worldwide while telling an attractive, socially relevant and unique story that goes beyond interchangeable campaigns with film and sports stars or bloggers as testimonials.
- ◆ The historical character of luxury was characterized by exclusivity and elitism as a social provocation and incentive. For niche brands in particular, "not for everyone" continues to be a possible positioning option.
- ◆ Hyper-segmentation of clearly targeted consumers with a strategic focus on older age groups.
- ◆ Shift from pure product selling to selling systems with more service and experience character.
- ◆ Balance of sales markets - a rediscovery of the old world.
- ◆ Balance in omnichannel management with the promotion of classic multi-brand wholesale.
- ◆ Realistic budget targets and precise forecasting systems that better anticipate regularly occurring global crises (since 2000: SARS, 9/11, Lehman, Euro-Crisis, Covid19 etc.).
- ◆ Associated with this: Discipline in sales to avoid overdistribution and discounting.
- ◆ Organization 3.0: dynamic, flexible, modern. For example, reformed remuneration systems in sales not being based exclusively on sales targets but also on other KPIs such as gross margins.
- ◆ Controlled, efficient, and, if necessary, re-integrated value chains for delivery capability, quality, and cost control.
- ◆ Long-term and timely secured funding.

- ◆ Generic campaigns by the industry and its sectors to better and broader explain luxury's cultural, artistic, historical, economic, and social raison d'être to the consumer.
- ◆ More cooperation between companies and state institutions, e.g., promoting traditional handicrafts in schools.
- ◆ Only luxury relevant and intrinsic innovation - no disruption for the sake of disruption.

COMPANY SNAPSHOTS:

- ◆ Hermès has introduced legal actions against American artist Mason Rothschild over selling NFTs being inspired by Birkin bags.
- ◆ Retailer Signa Holding and property company Central Group have acquired luxury retail group Selfridges for GBP 4.0 billion. The traditional department store with its 18 outlets will complement the investors' portfolio of other entities such as Rinascente (Italy), KaDeWe (Germany), Globus (Switzerland) and Illum (Denmark).
- ◆ Following the spin-off of its truck division in October 2021, Daimler has formally renamed itself into Mercedes-Benz Group AG per February 1. In 2021, the luxury car manufacturer sold 2.05 million vehicles (-7%) while competitor BMW was able to deliver 2.21 million units (+9%); Ferrari +22%, Porsche +11%, Audi -1%.
- ◆ Great Wall Motor intends to invest US\$ 1.8 billion to manufacture electric cars in Brazil in a former Mercedes-Benz factory.
- ◆ LVMH reports recorded revenue of EUR 64.2 billion in 2021, up 44% compared to 2020 and up 20% compared to 2019. Profits from recurring operations increased to EUR 17.1 billion (+106%) to yield an operating margin +26%.
- ◆ Fashion labels Hugo and Hugo Boss generated 1.9bn impressions and 75m interactions on social media on January 26, introducing their new respective media campaigns #BeYourOwnBoss.
- ◆ Dolce & Gabbana is the latest fashion house to join Armani, Gucci, Prada and Moncler to ban fur.
- ◆ Salvatore Ferragamo reports revenues ex fragrances of EUR 1.13 billion for 2021 (+29% vs 2020, -14% vs 2019). Brunello Cucinelli generated EUR 712.0 million sales in 2021 (+30% vs 2020, +17% vs 2019).
- ◆ Revenues of Italian Zegna branded products grew 33% to EUR 847 million.
- ◆ Prada reports revenues of EUR 3.3 billion in 2021 (+41% vs 2020, +8% vs 2019) at constant exchange rates.
- ◆ Hugo Boss has increased revenues by +43% to EUR 2.7 billion in 2021. Compared with 2019, sales declined by -1%. Profits grew from EUR -236 million to EUR 228 million.
- ◆ Kering, Burberry and Estée Lauder have been included in the Bloomberg Gender-Equality Index (GEI) recognizing their inclusivity efforts. The list contains 418 companies across 45 countries.
- ◆ Amazon reports a decline of profits in its core business of -32% while sales jumped +20% to US\$ 407.6 billion, while the company's web services (cloud) increased revenues (US\$ 62,2 billion) and profits (US\$ 18,5 billion) +37% each.
- ◆ Farfetch is taking over beauty retailer Violet Grey in preparation of its launch of a new product category in 2022.
- ◆ Watch manufacturer Hublot increases its prices between 3 to 4% due to rising cost.
- ◆ Kering has announced the de-investment of its watch activities. Luxury brands Ulysse Nardin and Girard-Perregaux will be sold in a management-buy-out.
- ◆ Swatch Group posted a jump in revenues of CHF 7.3 billion (+30% vs 2020, -1% vs 2019); after a loss of CHF -53 million, last year the group turned profitable again generating CHF 774 million.
- ◆ According to the Bank of Botswana, Debswana's rough diamond exports amounted for US\$ 3.4 billion in 2021 compared with US\$ 2.1 billion in the previous year (+63%).

SELECTED UP-COMING LUXURY INDUSTRY EVENTS:

◆ Paris Fashion Week (Women)	February 28-March 8	Paris	Fashion
◆ HKDTC Diamond Show	March 1-5	Hong Kong	Diamond, gem & pearl
◆ HKDTC Jewellery Show	March 3-7	Hong Kong	Jewellery
◆ TEFAF Maastricht	March 12-20	Maastricht	Arts
◆ Watches & Wonders (former SIHH)	March 30-April 5	Geneva	Watches & jewellery
◆ Salone del Mobile	April 5-10	Milano	Furniture
◆ Inhorgenta	April 8-11	Munich	Watches & jewellery
◆ Luxe Pack	April 14-15	Shanghai	Packaging
◆ TEFAF Maastricht	May 6-10	New York	Arts
◆ Oroarezzo	May 7-10	Arezzo	Jewellery

TBTL LUXURY INDUSTRY PERFORMANCE INDEX (01/2022)

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

Company	MoM	YoY	5Y-o-5Y	CAGR 5Y	Category
Hermès	-14,1%	56,5%	227,7%	26,8%	Luxury group
Kering	-7,2%	21,2%	220,6%	26,2%	Luxury group
LVMH	-0,6%	45,0%	287,2%	31,1%	Luxury group
Chow Tai Fook	-2,7%	45,9%	118,6%	16,9%	Watches & Jewelry
Hengdeli	-5,3%	0,0%	-56,5%	-15,3%	Watches & Jewelry
Lao Feng Xiang	-0,7%	-0,2%	11,6%	2,2%	Watches & Jewelry
Movado	-11,4%	79,4%	36,5%	6,4%	Watches & Jewelry
Richemont	-2,9%	60,4%	73,3%	11,6%	Watches & Jewelry
Swatch Group	-3,8%	4,4%	-23,2%	-5,2%	Watches & Jewelry
Alrosa	-7,0%	14,7%	7,7%	1,5%	Watches & Jewelry
Hugo Boss	4,2%	89,7%	-6,0%	-1,2%	Fashion
Burberry	2,8%	8,7%	13,9%	2,6%	Fashion
Brunello Cucinelli	-15,7%	54,8%	144,5%	19,6%	Fashion
Ferragamo	-16,0%	17,8%	-22,6%	-5,0%	Fashion
Capri (Michael Kors)	-7,5%	44,2%	40,3%	7,0%	Fashion
Ralph Lauren	-6,7%	9,7%	25,3%	4,6%	Fashion
Moncler	-12,0%	20,9%	216,5%	25,9%	Fashion
Mulberry	-6,3%	35,7%	-72,7%	-22,8%	Fashion
Prada	-4,9%	-0,7%	46,9%	8,0%	Fashion
Tapestry (Coach)	-6,5%	20,0%	1,6%	0,3%	Fashion
Zegna	-2,3%	--	--	--	Fashion
Tod's	-3,2%	84,6%	-28,5%	-6,5%	Fashion
Coty	-19,2%	33,1%	-55,8%	-15,1%	Skin care
Estée Lauder	-15,8%	31,8%	283,9%	30,9%	Skin care
Shiseido	-10,2%	-15,1%	82,5%	12,8%	Skin care
Givaudan	-20,3%	6,2%	114,6%	16,5%	Flavours & Fragrances
Symrise	-18,7%	3,2%	90,4%	13,7%	Flavours & Nutrition
BMW	5,0%	32,8%	10,4%	2,0%	Cars
Ferrari	-10,8%	17,8%	251,6%	28,6%	Cars
Aston Martin	-12,1%	-41,4%	--	--	Cars
Tesla	-11,4%	18,1%	1759,5%	79,4%	Cars
Porsche	-1,2%	43,3%	48,5%	8,2%	Cars
Mercedes-Benz	3,5%	43,7%	20,4%	3,8%	Cars
Marriott	-2,5%	38,5%	90,4%	13,8%	Travel
Norwegian Cruises	0,4%	-8,0%	-55,7%	-15,0%	Travel
EssilorLuxottica	-10,9%	42,6%	53,9%	9,0%	Eyewear
Safilo	-5,1%	65,6%	-64,9%	-18,9%	Eyewear
Kweichow Moutai	-8,0%	-10,8%	448,5%	40,6%	Spirits
Bang & Olufsen	-17,6%	-23,2%	-48,8%	-12,5%	Audio
S&P Global Luxury	-8,2%	15,0%	121,6%	17,2%	Index
Euro Stoxx 50	-0,2%	23,5%	33,0%	5,9%	Index
Nikkei 225	-5,6%	-2,0%	43,0%	7,4%	Index
S&P 500	-5,6%	21,5%	98,0%	14,6%	Index
Shanghai Composite	-7,6%	-3,5%	6,4%	1,2%	Index

Sources: Reuters (monthly average), S&P

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(B) Development selective industry indexes

(B1) Luxury cars: Quarterly growth rates (units delivered in %) Q3 2021

Company	roll. 4 Qs	5Y-o-5Y	CAGR 5Y
Mercedes-Benz Cars	-0,5%	-2,6%	-0,5%
BMW	14,6%	15,8%	3,0%
Rolls-Royce	36,5%	42,5%	7,3%
Audi	10,6%	-0,6%	-0,1%
Bentley	29,1%	41,9%	7,2%
Lamborghini	18,9%	154,7%	20,6%
Porsche	10,3%	29,3%	5,3%
Bugatti	0,0%	1440,0%	72,8%
Ferrari	23,5%	34,5%	6,1%
Tesla	87,6%	1030,1%	62,4%
Aston Martin	75,1%	94,4%	14,2%
All	13,1%	15,3%	2,9%

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	19,1%	-47,3%	-12,0%
Export value 201-500 CHF/unit	8,7%	-37,0%	-8,8%
Export value 501-3.000 CHF/unit	21,2%	-4,9%	-1,0%
Export value > 3.000 CHF/unit	36,9%	20,3%	3,8%
All	31,6%	6,6%	1,3%

Source: Swiss Watch Federation

(B3) Current production of superyachts

	2022	2021	2020
number of superyachts	1024	821	807

Source: Global Order Book, 2021, Boat International Media

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

Metal	MoM	YoY	5 Years	CAGR 5Y
Gold	-1,8%	-2,9%	42,8%	7,4%
Silver	-4,1%	-16,8%	23,0%	4,2%
Diamonds	5,7%	21,7%	22,6%	4,2%

Sources: Macrotrends (monthly quotes); IDEX

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(B5) Fine wines

	MoM	YoY	5Y-o-5Y	CAGR 5Y
Fine wines	1,1%	11,2%	21,4%	3,9%

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

(C) GDP annual growth rate (in %)

Country	2019	2020	2021E	2022P	2023P
Brazil 	1,4%	-4,1%	5,2%	1,5%	2,0%
China 	6,0%	2,3%	8,0%	5,6%	5,3%
France 	1,8%	-8,0%	6,3%	3,9%	1,8%
Germany 	1,1%	-4,6%	3,1%	4,6%	1,6%
Hong Kong 	-1,7%	-6,1%	6,4%	3,5%	3,1%
India 	4,0%	-7,3%	9,5%	8,5%	6,6%
Italy 	0,3%	-8,9%	5,8%	4,2%	1,6%
Japan 	0,0%	-4,6%	2,4%	3,2%	1,4%
Russia 	2,0%	-3,0%	4,7%	2,9%	2,0%
Spain 	2,1%	-10,8%	5,7%	6,4%	2,6%
Switzerland 	1,2%	-2,5%	3,7%	3,0%	1,4%
UAE 	3,4%	-6,1%	2,2%	3,0%	3,0%
Great Britain 	1,4%	-9,8%	6,8%	5,0%	1,9%
USA 	2,3%	-3,4%	6,0%	5,2%	2,2%
World 	2,8%	-3,1%	5,9%	4,9%	3,6%

Source: IMF, 10.2021

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

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

Source: Oanda, per first of month

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ABOUT US:

The Bridge To Luxury (TBTL) is an international strategy consultancy firm, focusing exclusively on high-end brands, products and services related to product categories and services such as fashion, hifi, watches & jewellery, food, hospitality, cars, interior fittings, or photography. 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. TBTL is serving clients in the USA, Europe, Russia, China, Japan, Israel, UAE, and Northern Africa.

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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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