Key insights from luxury goods industry
to inspire wealth management

CLAUDIA D'ARPIZIO
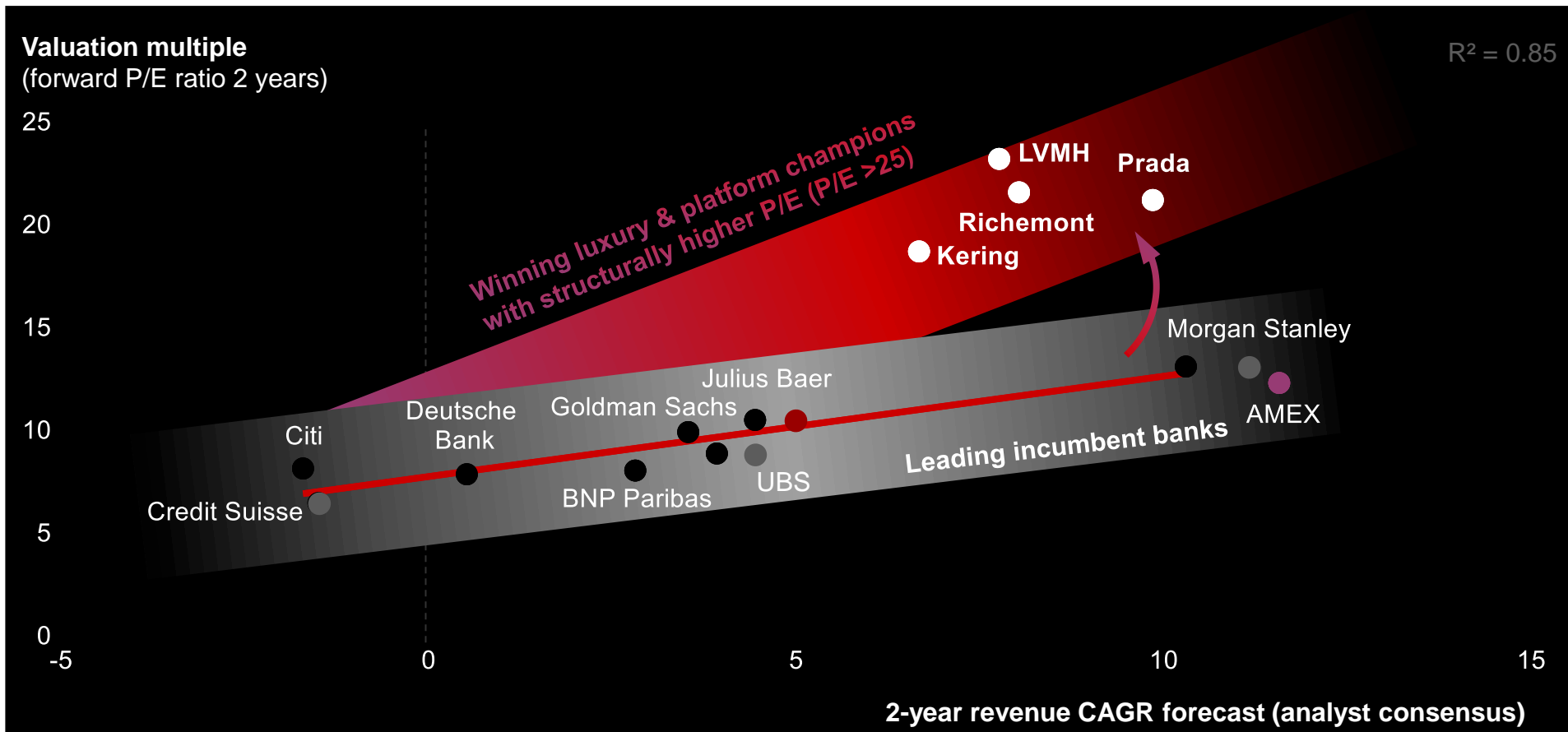
NOVEMBER 23, 2022

BAIN & COMPANY

Strong overlap of **reference customer**, different **value creation** model

Causality of top-line growth impact on valuation

Valuation multiple
(forward P/E ratio 2 years)

R² = 0.85

Winning luxury & platform champions
with structurally higher P/E (P/E >25)

- LVMH
- Prada
- Richemont
- Kering

Morgan Stanley

Julius Baer

Goldman Sachs

Deutsche Bank

Citi

BNP Paribas

UBS

AMEX

Credit Suisse

Leading incumbent banks

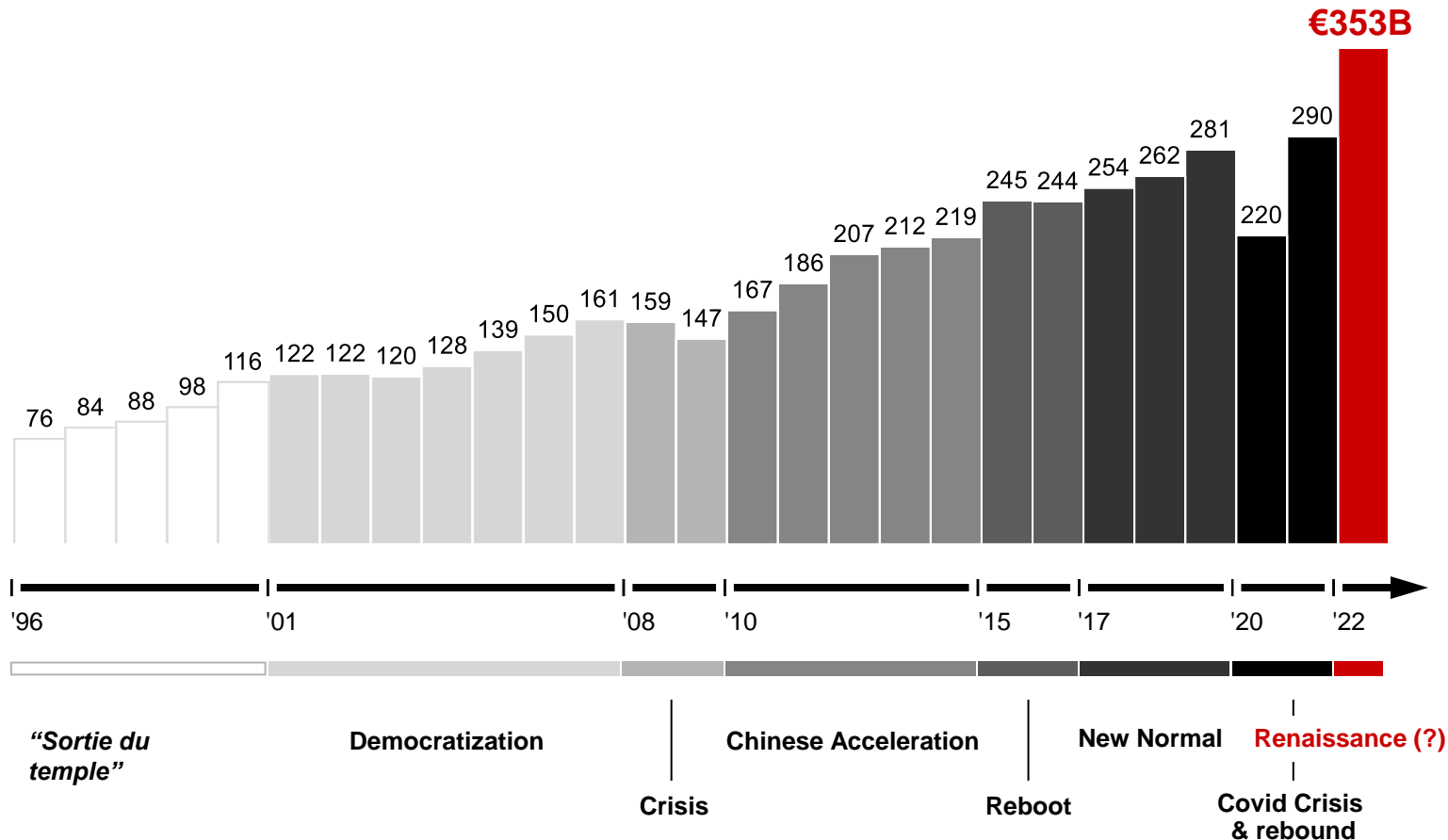2-year revenue CAGR forecast (analyst consensus)

Legend:
- Small exposure to WM (WM accounting for <30% of revenues)
- Medium exposure to WM (WM accounting for ~30-60% of revenues)
- Large exposure to WM (WM accounting for >60% of revenues)
- Luxury player
- Payment provider

Note: Figures display performance of entire company (incl. other divisions besides WM, if existent); figures for WM have been sourced from CapIQ and are as on November 29, 2021; sample within marked band used for calculation – outliers from Julius Baer peer group removed; figures for luxury companies as of January 31, 2022; Source: CapIQ, companies´ annual reports, Bain analysis as of January 2022

An ever-growing market (also) thanks to the ability of brands to create value and relevance
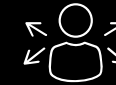
GLOBAL PERSONAL LUXURY GOODS MARKET (€B)

€353B

76 · 84 · 88 · 98 · 116 · 122 · 122 · 120 · 128 · 139 · 150 · 161 · 159 · 147 · 167 · 186 · 207 · 212 · 219 · 245 · 244 · 254 · 262 · 281 · 220 · 290

'96 · '01 · '08 · '10 · '15 · '17 · '20 · '22

"Sortie du temple" — Democratization — Crisis — Chinese Acceleration — Reboot — New Normal — Covid Crisis & rebound — Renaissance (?)

Source: Bain Luxury Study

Expand the customer base and its value…

- **Growing** customer base
- Incresing relevance of **top customers**
- Engaging and serving a **diversified audience**

…by being relevant and creating value for the customer

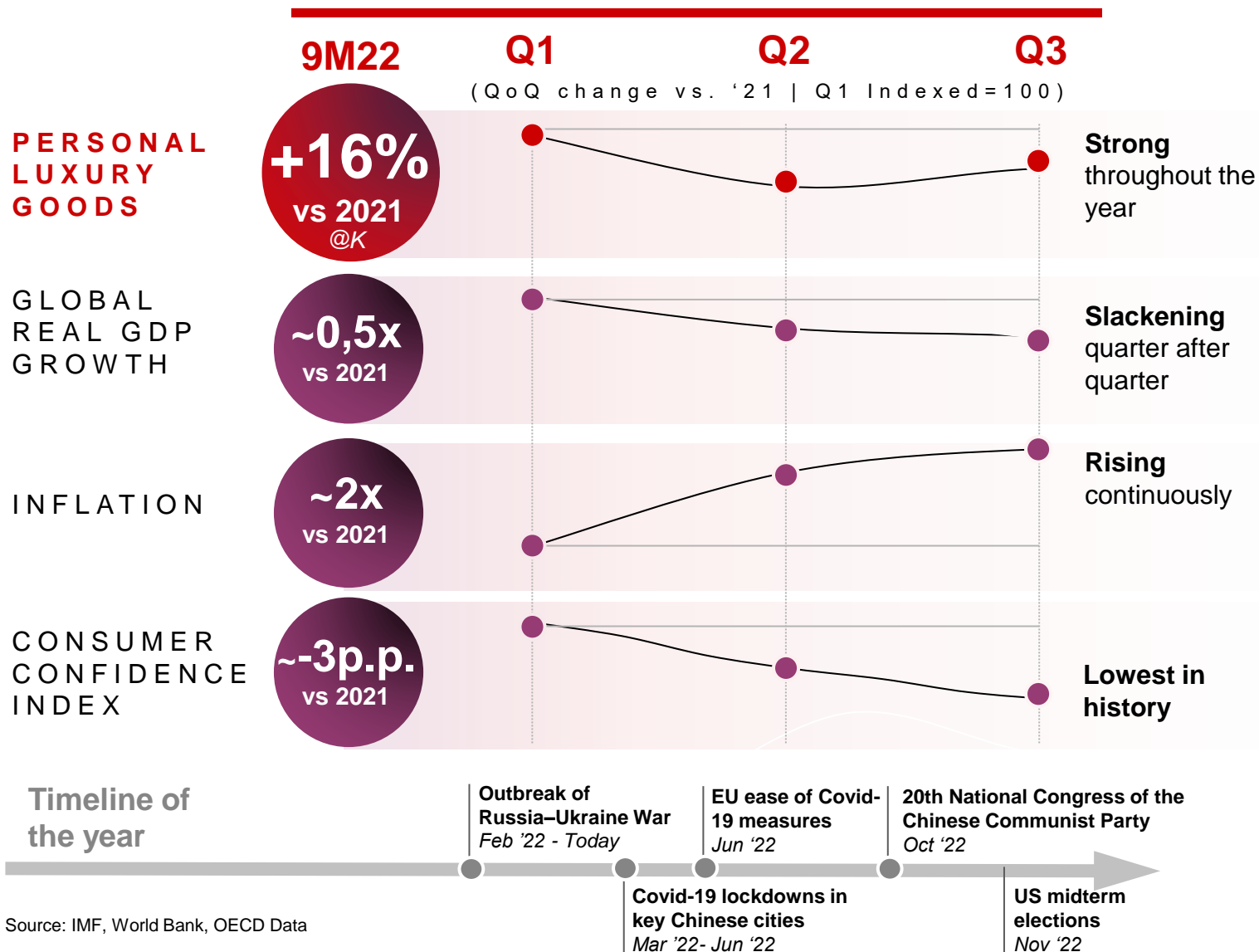- **Extending** to be universal
- Reaching them **where they are**
- **Standing by them** when and how it matters (not just to sell)

Market proving resilient also **against plummeting macroeconomic indicators**

Luxury market resiliency drivers

9M22

Q1   **Q2**   **Q3**

(QoQ change vs. '21 | Q1 Indexed=100)

PERSONAL LUXURY GOODS

+16%
vs 2021
@K

Strong throughout the year

GLOBAL REAL GDP GROWTH

~0,5x
vs 2021

Slackening quarter after quarter

INFLATION

~2x
vs 2021

Rising continuously

CONSUMER CONFIDENCE INDEX

~-3p.p.
vs 2021

Lowest in history

Timeline of the year

Outbreak of Russia–Ukraine War
Feb '22 - Today

EU ease of Covid-19 measures
Jun '22

20th National Congress of the Chinese Communist Party
Oct '22

Covid-19 lockdowns in key Chinese cities
Mar '22- Jun '22

US midterm elections
Nov '22

Source: IMF, World Bank, OECD Data

Covid-19 savings
Boost in **savings accumulated during** covid

YOLO culture
Desire for **living (missed) experiences** despite future uncertainty
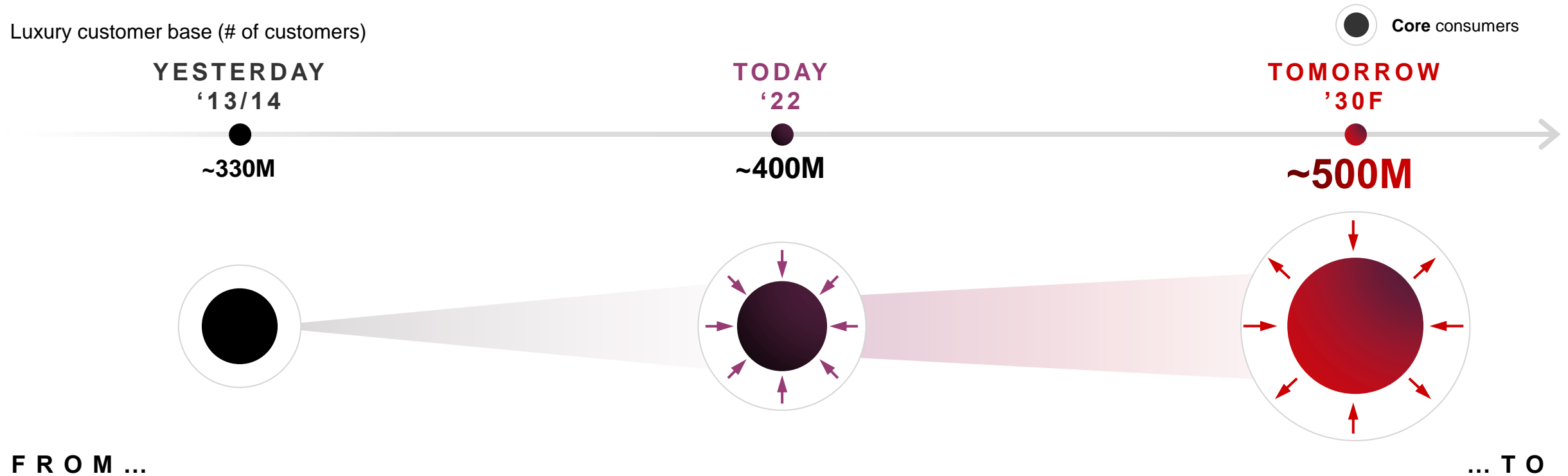
TUNA resilience
Reduced impacts of "TUNA" after 2008-09 crisis

Luxury as an asset class
Purchase of luxury products with **investment purposes** and **resale opportunities**

Consumer base is **large and broadening**, with new emerging drivers beyond aspiration fueling luxury purchases

Luxury customer base (# of customers)

● **Core** consumers

YESTERDAY
'13/14
~330M

TODAY
'22
~400M

TOMORROW
'30F
~500M

F R O M ...

... T O

Influx from below, with evolving 'aspirationality' drivers

Broader base, increasingly finicky and knowledgeable

Aspiration

Inspiration

'I aspire to BECOME'

'I express to BELONG'

Aspirational and **wannabe** consumers buying **into personal luxury goods as entry customers**

More **opinionated** consumers, intentionally buying **beyond personal luxury categories** and towards **more appealing** and **new value propositions**

Top customer base expanding as well, hungry for unique products and money-can't-buy experiences, putting brands' VIC strategies into overdrive

Top customer incidence on total market
(€B | 2021–2022E)

~35%
of market value
in 2021

~40%
of market value
in 2022E
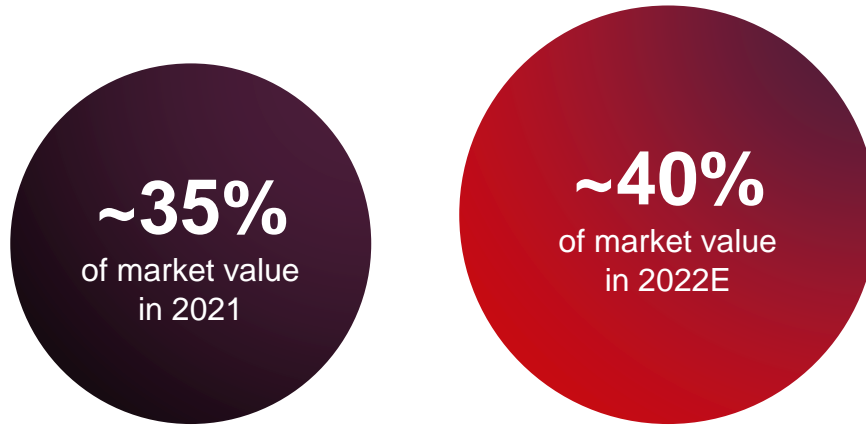
TREND

Incidence on total market
(# customers)

~1,5%

~2%

Avg. spending

⬆⬆
vs 2019

⬆
vs 2021

Dedicated product offer
Personalized, exclusive, highly creative

Unique distribution
Dedicated and selective touchpoints, exclusive formats
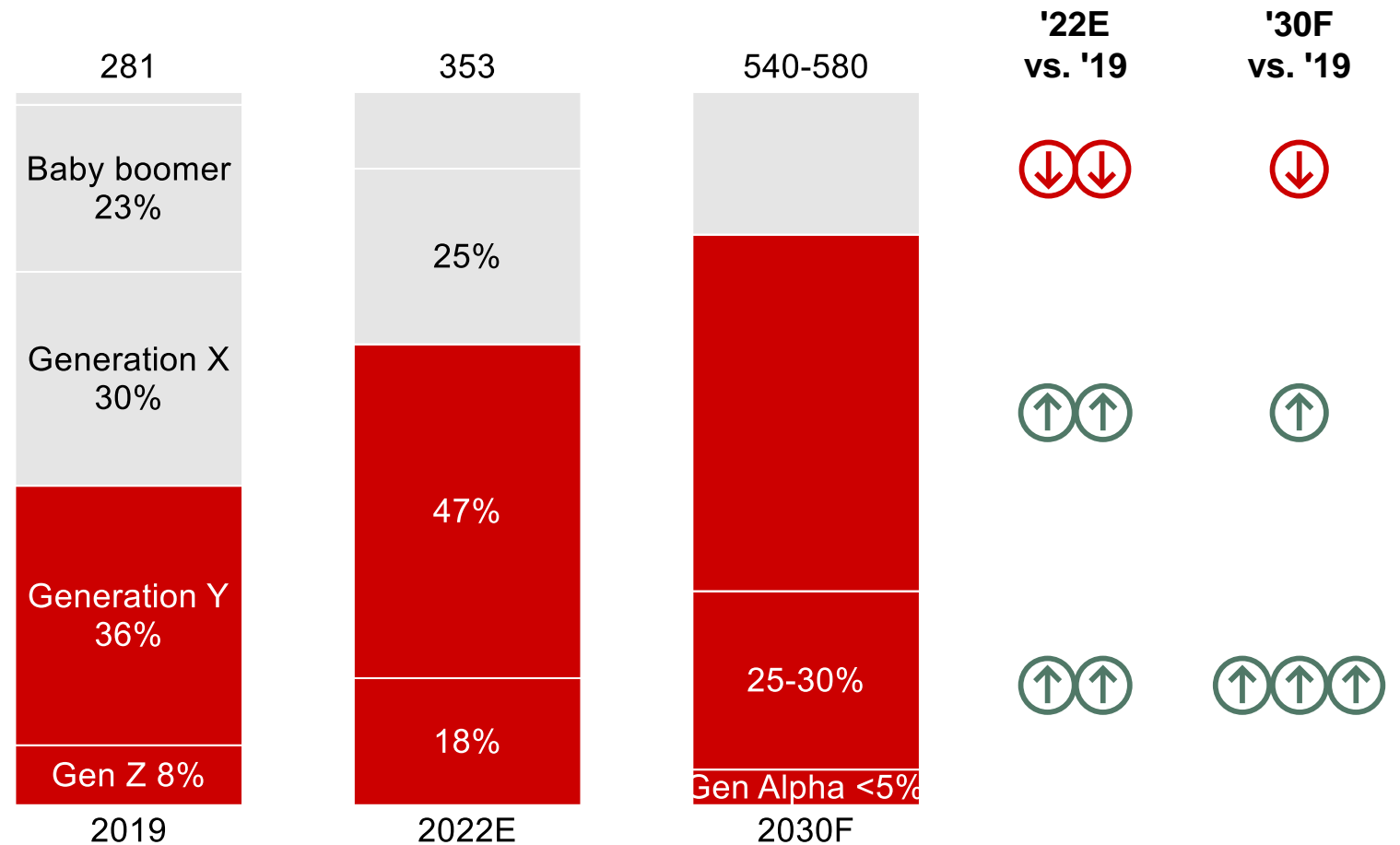
Enhanced and specific CX
Elevated, one-of-a-kind

Generations of luxury consumers have **different values and shopping styles**
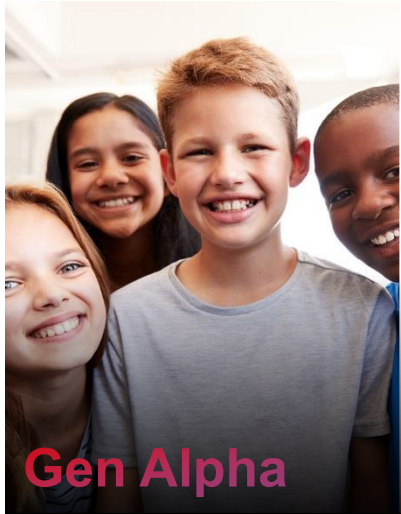
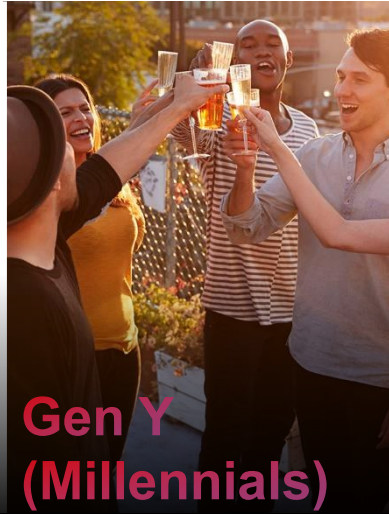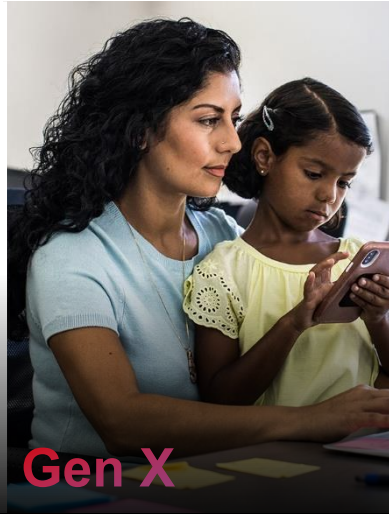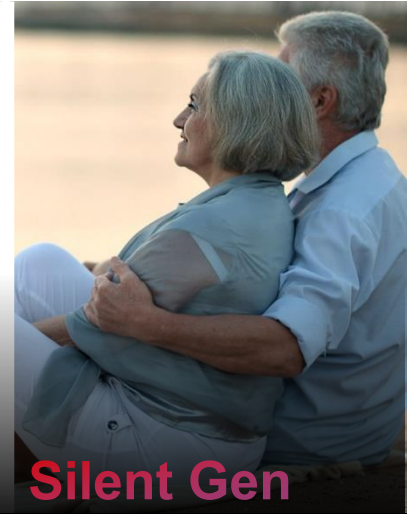| Gen Alpha	Gen Z	Gen Y (Millennials)	Gen X	Baby Boomers	Silent Gen
Independence Social impact	Fluidity Entrepreneurial	Experiences Conveniency	Self-reliance Global mindset	Optimism Success	Conformity Deliberate
Raised on screens (born same year as or after iPad) and prefer video formats for engagement with people & brands	Digital natives (~35-40% bought first luxury piece online) with new value system (fluidity, activism); outsized impact on other generations	Brand-conscious (more so than any other generation) and influenced by social media; champions of counter-narratives and diversity	Loyal towards treasured brands	Search for value: price and quality ranked top purchase decision drivers more than any other generation	Prefer in-person shopping

70% Gen Z who said they **influence family purchase** decisions[1]

85% **Parents** who said their Gen Z (and Alpha) children **influence purchase** decisions
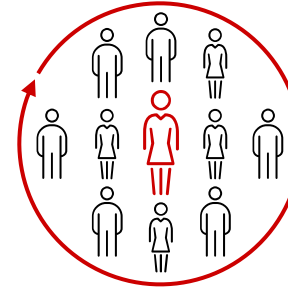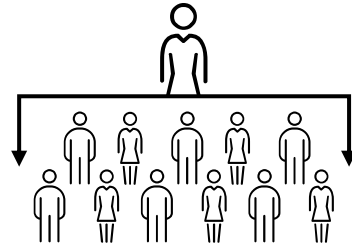
Led by Next Gen mindset, consumers are beginning to purchase luxury goods for new reasons – as a means to express themselves vs. aspiring for status

10 YEARS AGO...   ...TODAY'S EVOLUTION

Aspiration
"I aspire to BECOME"

Inspiration
"I express to BELONG"

Historically, luxury trends **trickled down from the top**

Brands set the tone of what was fashionable imposing a strong point of view

Luxury transitioning to be **complex and multi-lateral**, with **influences flowing in every direction**

Brands today are **in conversation** with contemporary **culture and society**

Status currency

" My **luxury choices** express my **affiliation to a social class**

All my choices express **myself** and my **affiliation to a social and cultural group** "

Social currency

Besides generations, today's luxury consumer map is **much more complex than in the past**

10 YEARS AGO...   ...TODAY'S EVOLUTION

Conservative
I buy it safe

Opinionated
I know it!

Hedonist
I love it!

Disillusioned
I'm so over it!

Omnivore
I want it all!

Investor
It's worthy? I buy it!

Wannabe
I desire it!

Cultures

Generations

Young urban Chinese

Historically excluded

American next gen

Equality warrior

Chinese Female leader

"Modest" woman

New personas

Investor/ reseller

High Tech Worth

Products

Collector of collectibles

Values

Source: Bain Luxury Study (2021); Lens on the Worldwide Luxury Consumer – Bain report (2014)

New meaning and role of Luxury will include **cultural, emotional & social elements**

Brand as an activist
(helps building a better me/world)

Brand as a code/language
(helps me define who I am and communicate to others)

**Brand as a friend
(intimate and positive)**
(makes me feel good)

Brand as status
(validates me)

Inspiration & social impact

Identity & self-expression

Emotional experience

Aspirational emotions

Functional experience

Product excellence

Self transcendence

Provides hope   Self actualization

Motivation   Affiliation & belonging   Heirloom

Reduces anxiety   Wellness   Fun/ Entertainment   Attractiveness   Badge value

Rewards me   Therapeutic Value   Provides access   Design/ Aesthetics   Nostalgia (Heritage)

Saves time   Simplifies   Reduces risk   Connects   Quality   Variety   Sensory appeal

Reduces effort   Avoids hassles   Organizes   Integrates   Informs   Makes money   Reduces cost

Platform

Brand as a network
(generate more value for me, by giving me access to a network of integrated & connected products/ services/ content/ brands/ people)

Source: Bain consumer survey January 2019

Evolving **Elements of Value**®: brand aesthetic overtaken by brand ethic and hero product design as ways to self-express, belong and make a social impact

What fashion-luxury consumers want: top Elements of Value® evolution

So far… | **…what's accelerating Post-Covid**

So far…

- QUALITY
- BRAND AESTHETIC/DESIGN
- FUN & ENTERTAINMENT
- VALUE FOR MONEY
- SELF-EXPRESSION
- SEAMLESS EXPERIENCE*
- CONFIDENCE / REASSURANCE
- HERITAGE
- INVESTMENT
- SUSTAINABILITY
- STATUS
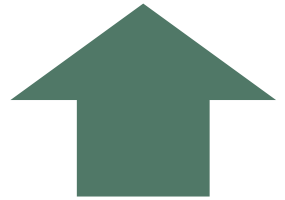- AFFILIATION & BELONGING

…what's accelerating Post-Covid

From brand aesthetic to **hero products aesthetic**

Increased willingness to **affirm one own identity and values** (through style and brand choices)

Leapfrog of the importance of social commitment on **sustainability and Diversity Equity and Inclusion**

Increased need to **feel connected** to **humans**

Emerging "**platform**-related Elements of Value" (integrates, connects, …)

Note: for simplicity does not include all 30 Elements of Value, names have been adjusted to be adapted more clearly to the industry context; (*) Seamless experience includes more EoVs such as simplify, reduce effort, avoid hassles, …

How are luxury brands responding?
They stand by the customer, becoming **customer-centric**

In an uncertain world, full of disruptions...

...**Brands commit by taking a social stand and providing entertainment and empathy**

LOEWE EN CASA

Balenciaga Officially Cuts Ties With Kanye West

Fashion label no longer has "any relationship nor any plans for future projects related to this artist," parent company says

BY JON BLISTEIN   OCTOBER 21, 2022

Source: Bain Luxury Study, Lit. Search, Expert Interviews
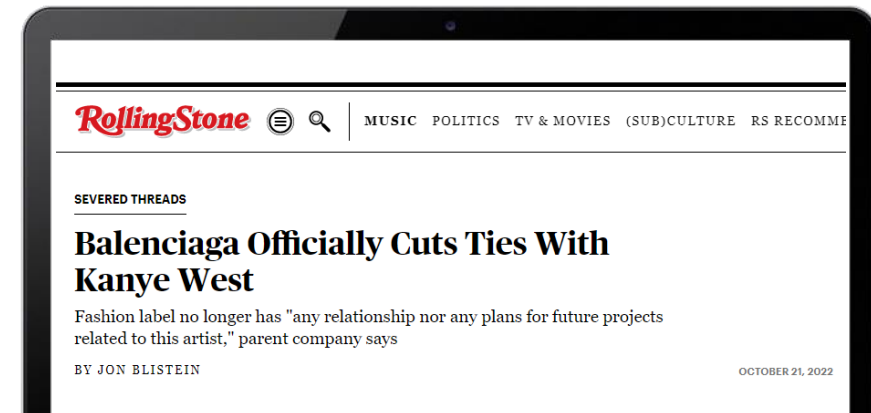
Brands are balancing inclusiveness and exclusiveness, stretching themselves to redefine boundaries of their customer reach (and of the sector)

High-low strategy within a category

High-low strategy between categories

POSITIONING
(within luxury)

HIGH

Exclusive core high-end positioning

~$3300 — Goya padded leather bag

Inclusive offering through **"creative" entry price products**

~$1990 — Mini gate dual leather shoulder bag

~$390 — Leather mini bag

LOW

Exclusive categories for top customers

~$10,000 — Emaux de longwy panther ball vase

~$5400 — Double-breasted wool peacoat

~$1900 — Monogram small Kate bag

~$75 — Set of 12 colored pencils

Inclusive categories for the broader audience

Exclusiveness of the core offering balanced by creative inclusiveness of entry products

Relative price positioning of different categories expanding the reach of the brand

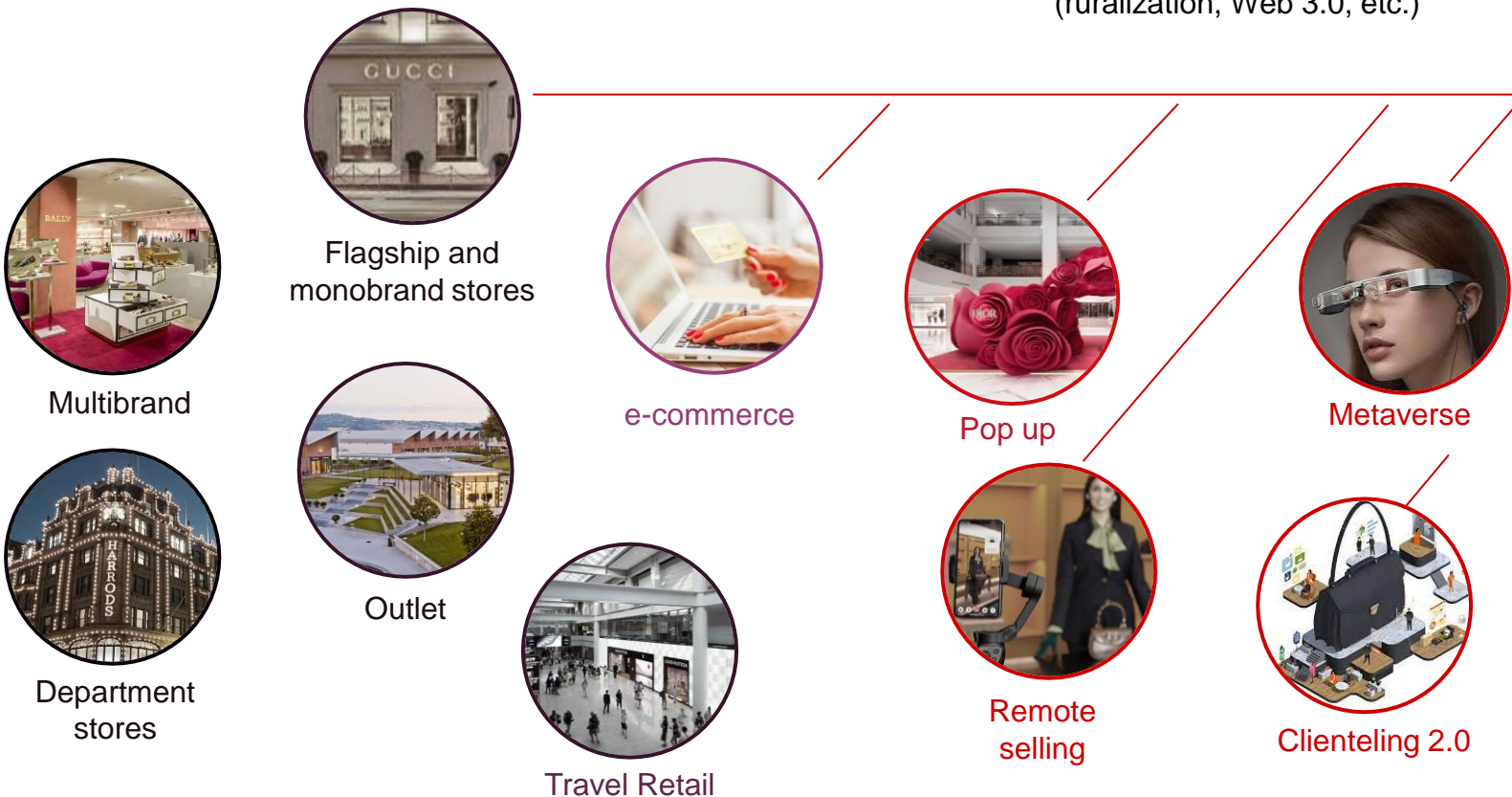# Customer touchpoints are multiplying, to reach the customers **where they are**

Progressive evolution of the touchpoint ecosystem

Wealth "ruralization" trend impact on luxury sales

Luxury destinations	Digital	Wherever hey want

(ruralization, Web 3.0, etc.)

Channels also addressing progressive "wealth ruralization"

Flagship and monobrand stores

Multibrand

e-commerce

Pop up

Metaverse

Outlet

Remote selling

Clienteling 2.0

Department stores

Travel Retail

Share of top 10 cities on total personal luxury market value

35%

25-30%

2019

2021
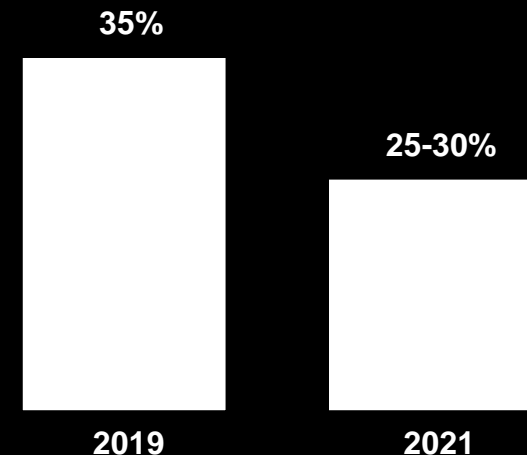
Doubling down on human-led touchpoints maintaining a critical role for customers' loyalty, despite digital continuously increasing its influence over luxury purchases

The customer funnel

Advocacy

| Awareness | Education | Consideration | Conversion | Loyalty |

DIGITAL TOUCHPOINTS

Online influence on luxury consumers purchases (2016 – 2022E | % of consumers)

~65-70%
2016

~75-80%
2019

>85%
2021-22E

HUMAN TOUCHPOINTS (in-store and remote)

1-to-1 **remote selling sessions** from **stores**

Virtual appointments with store sales associates

Direct remote support from store personnel to customers

Up to 50%
Of sales during 2021 performed remotely from monobrand stores
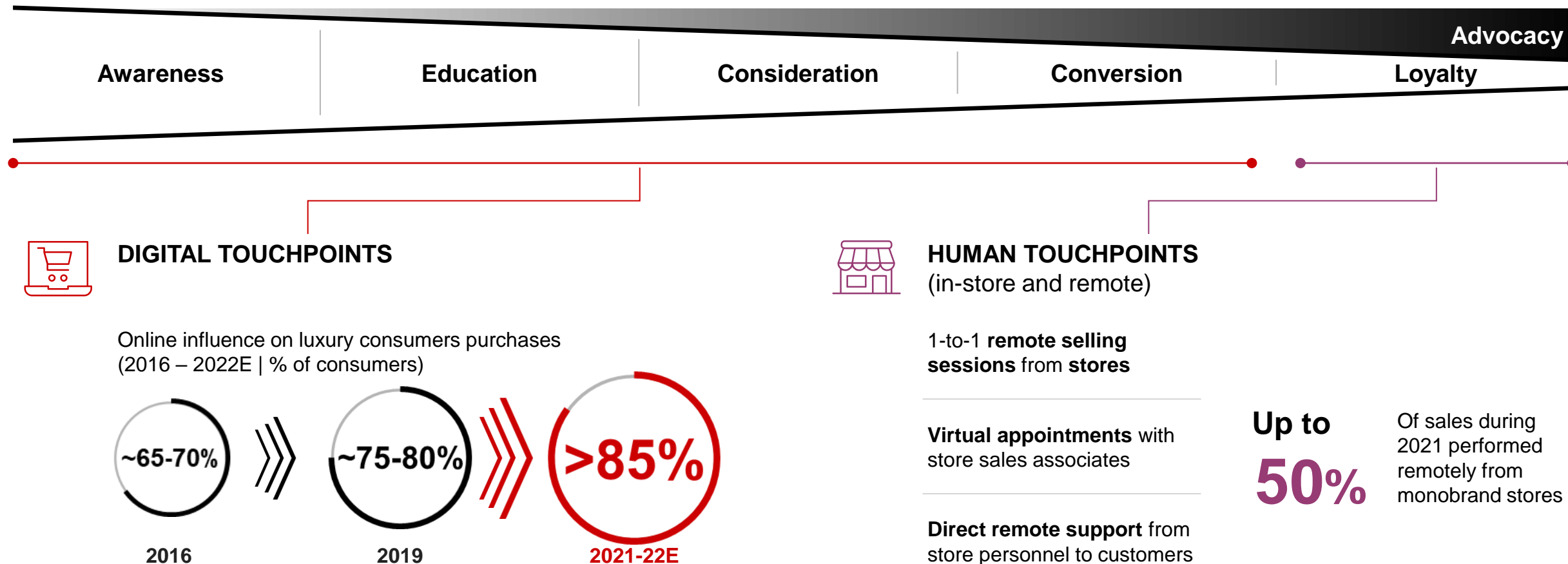
Brands have also shifted content creation from narratives based on independent silos to **narratives based on episodes** to better tell the brand's story

HOLLYWOOD

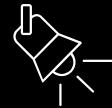**Narrative based on independent silos**

Brand story defined by seasonal campaign or new product drop

The Set

Interest in having a privileged POV in the day-by-day of the brand (formats such as "making of", "behind the scenes")

The Special Guests

Penchant for "local" influencers vs. big celebrities and "mass" influencers

The Content

Gradual displacement in favor of "liquid" and entertaining content-value rather than product-related

NETFLIX

Narrative based on episodes

Brand story develops and grows with time, adopting an episodic structure, always guaranteeing coherence with the brand's DNA

LV has become a "**universal**" **brand reaching different customers segments** independently from income, geographies, tastes and interest

From aspirational customers to UHNWIs

Revenues breakdown by customer tier (2019 | €B, %)

VVIC + VIC
Others

LOUIS VUITTON

From west to east

Revenues breakdown by nationality (2019 | €B, %)

RoAsians
Chinese
Japanese
Americans
EMEAns

LOUIS VUITTON

From young to mature, from male to female

From conservative to fashion forwards

Note: (*) estimated based on analyst reports
Source: Bain proprietary database, annual reports, analyst reports
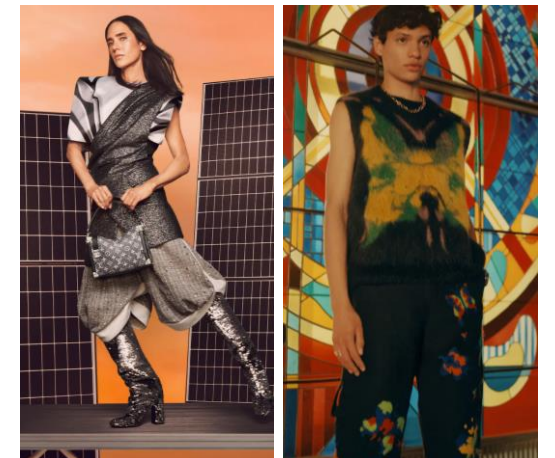
LOUIS VUITTON

Louis Vuitton continuously **innovated** also the **way it communicates with consumers** to reach a larger audience, beyond its traditional customer base

Innovative Partnerships

Designed the **trunk that contained the championship cup** for a League of Legends tournament and designed an **in-game outfit**

Streaming

Launched **LV TV** in 2019, producing **streaming content** to **engage Millennials**, always connected and used to streaming content

Experiential retail

Installed an exhibition space within Bond Street flagship **to inject novelties beyond the product** and ensure traffic generation - especially effective on Gen Z

Video game fans

Millennials

Gen Z

Relevant changes are happening also in wealth management (not as fast)

Sustainability
still represents 1% of total investments in the average portfolio

Women and younger investors
have 2x investments in sustainability vs. average

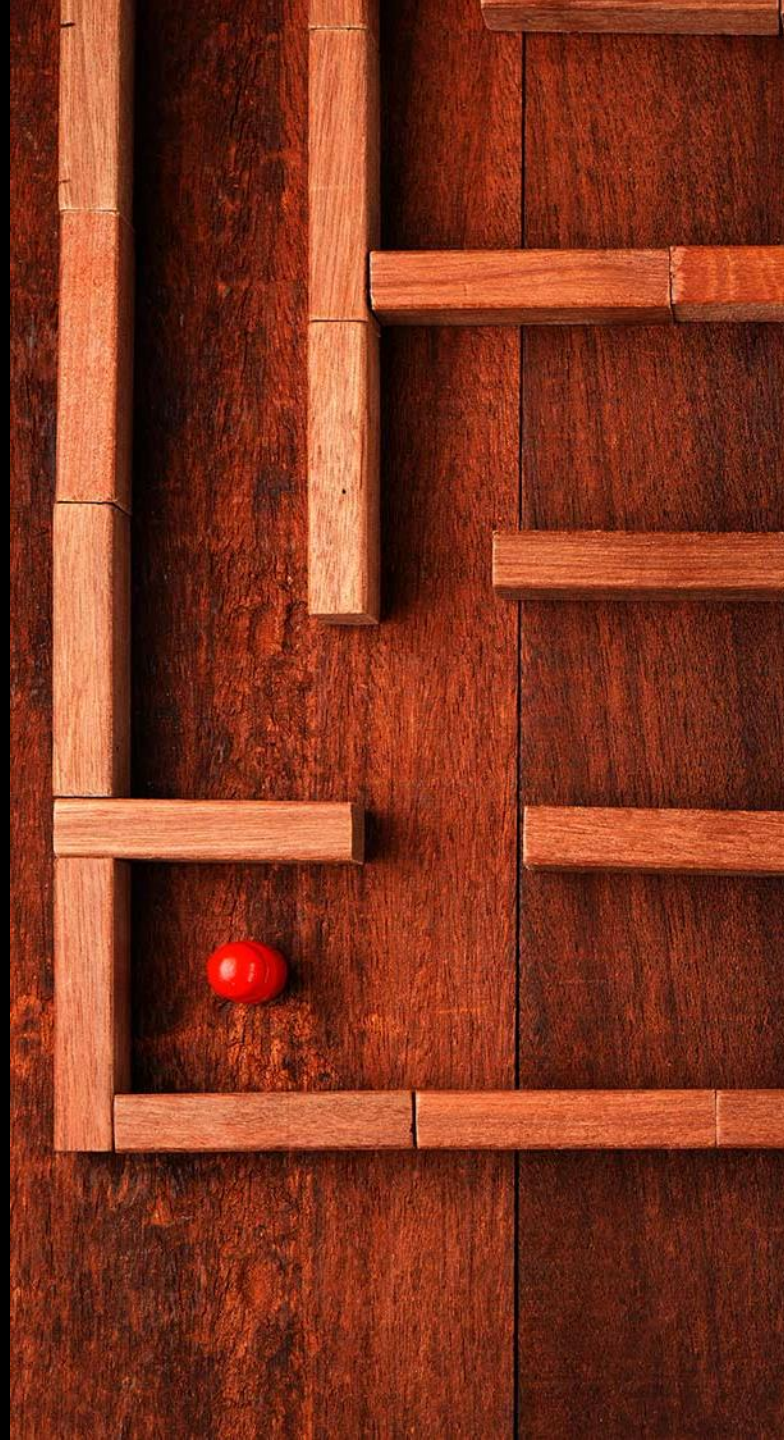**>1%** Incidence of sustainability related investment in the portfolio

2x Penetration for Women and younger investors vs. average

The challenges to address

Expand
the customer base
(high & low)

Serve
a diverse customer base "under the same umbrella"

Tailor
the service and engagement model (location, touchpoint, human-touch) based on individual customer needs

Be relevant
"beyond the product"

THANK YOU