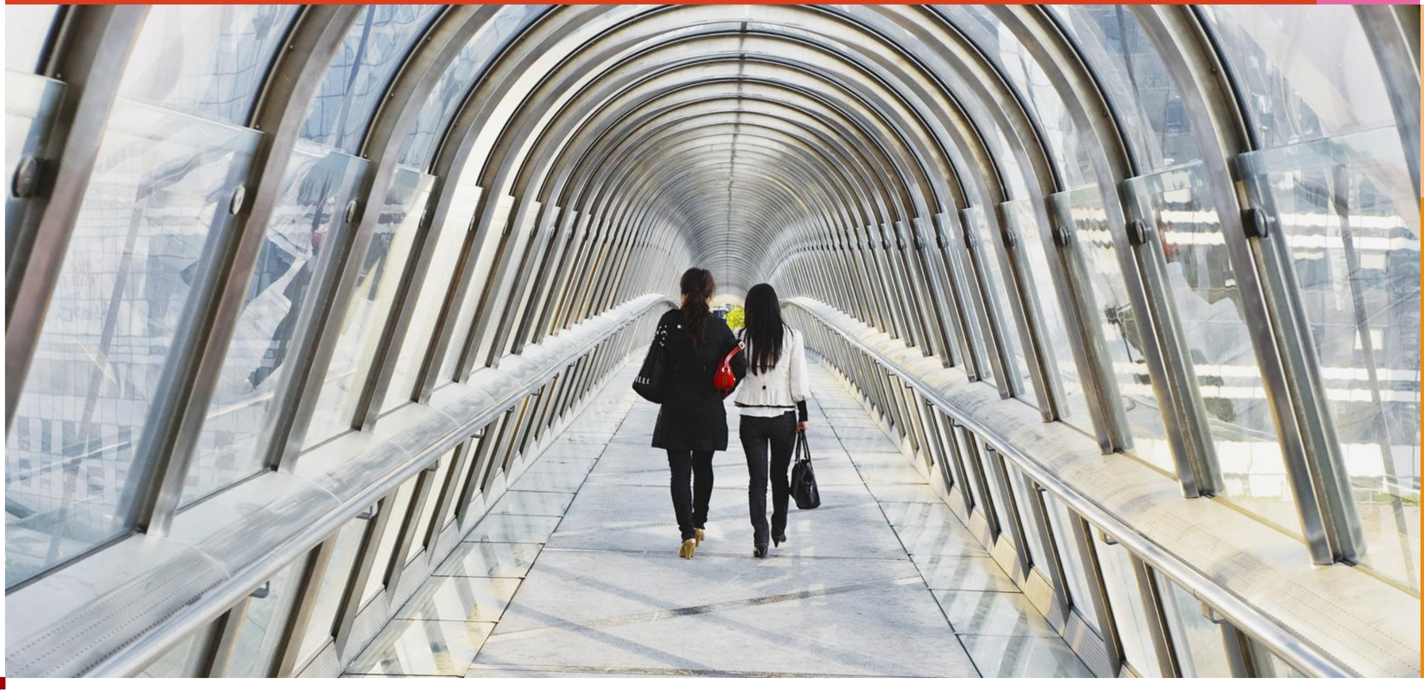
2012

Market Vision Luxury

Challenges and opportunities in the new luxury world: winners and strategic drivers



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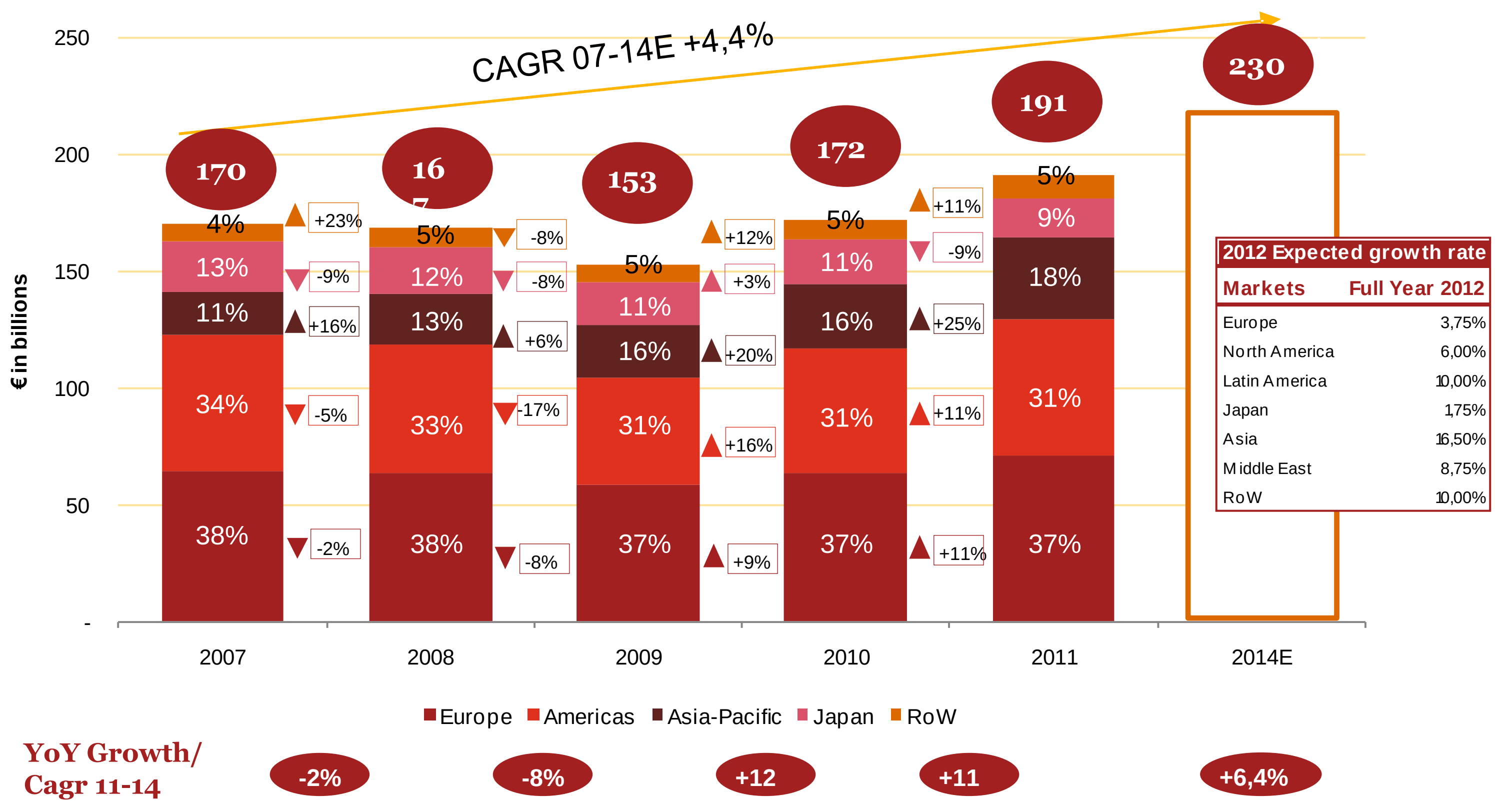
An Overview of the Luxury Market

1

Worldwide spending in luxury product rose by 13% in 2010 and 10% in 2011 led by Emerging Markets exceeding the previous results recorded before financial market collapsed

Worldwide Luxury Goods Market trends by geography 2007-2014E



2012 Expected growth rate	
Markets	Full Year 2012
Europe	3,75%
North America	6,00%
Latin America	10,00%
Japan	1,75%
Asia	16,50%
Middle East	8,75%
RoW	10,00%

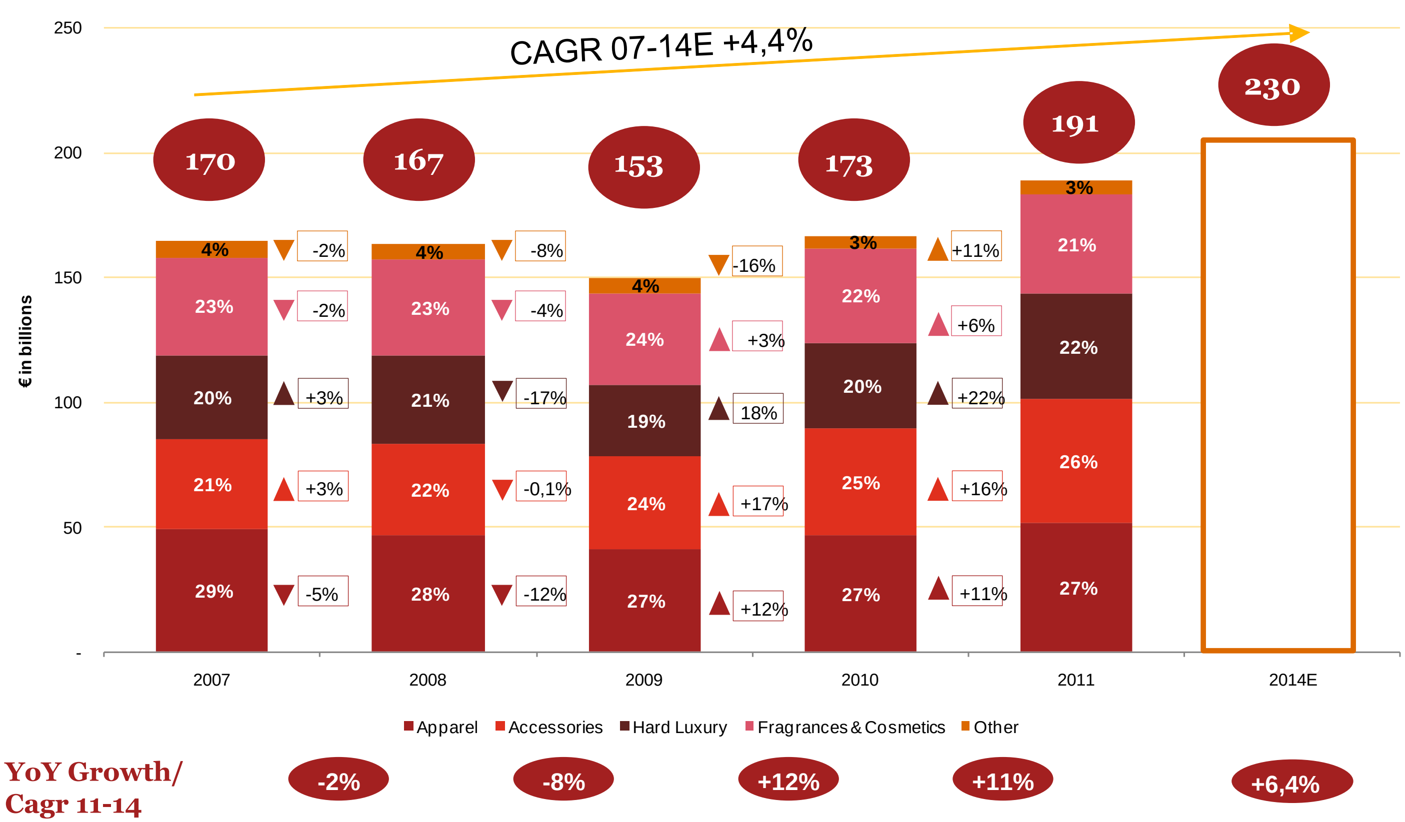
Source: PwC's analysis Altagamma report

Main strategic drivers

- ✓ Emerging Markets Growth Potential (+25% in 2011 vs 2010)
- ✓ Half of luxury goods sales are made to customers in Emerging markets led by China.
- ✓ Mature Market growth is mainly led by the increasing travelers flow
- ✓ Retail network consolidation and upgrading is key. Perimeter expansion is mainly driven by new openings in China

Accessories and the rise of Men's luxury are two trends that could dominate the market in the near future

Worldwide Luxury Goods Market trends by product 2007-2014E



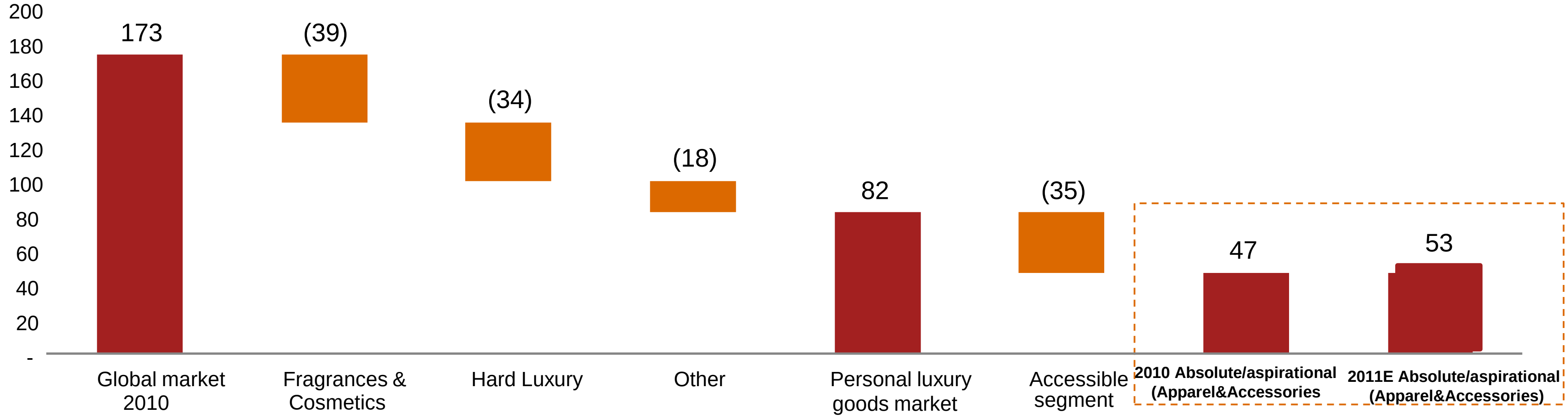
Main strategic drivers

- ✓ Accessories highlights the best performance over the period 2007-2011 led by the Emerging Markets customer 's preferences with respect to luxury accessories
- ✓ Within the apparel the men's luxury sales rose by 16% in 2011 outpacing sales to woman.
- ✓ Men's in 2011 account for 40% of the global luxury market up from 35 % in 1995.

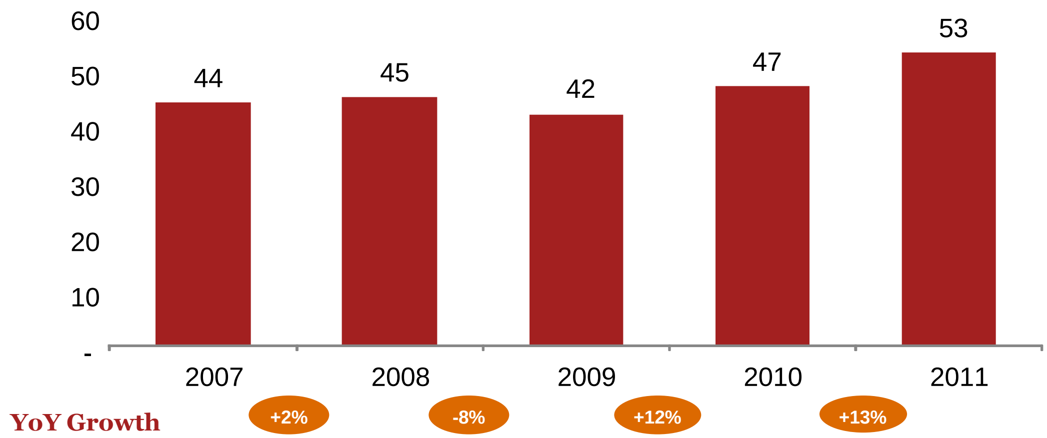
Source: PwC's analysis Altagamma report

Absolute/Aspirational luxury market segment related only to personal luxury goods (apparel and accessories) accounts for about €53bn in 2011 (ca 30% of the total luxury market)

Breakdown luxury market value by category, 2010-2011



Absolute/Aspirational (apparel&accessories) market value 2007-2011



Absolute Luxury

- Highest price segment (e.g. €2,000 handbag)
- Tightly controlled production (e.g. some handmade items)
- Exclusive brand distribution strategy, e.g. luxury locations, mono-brand stores, etc.

Aspirational Luxury

- High price segment (e.g. €650 handbag)
- Selective brand distribution strategy: marketed only in major locations

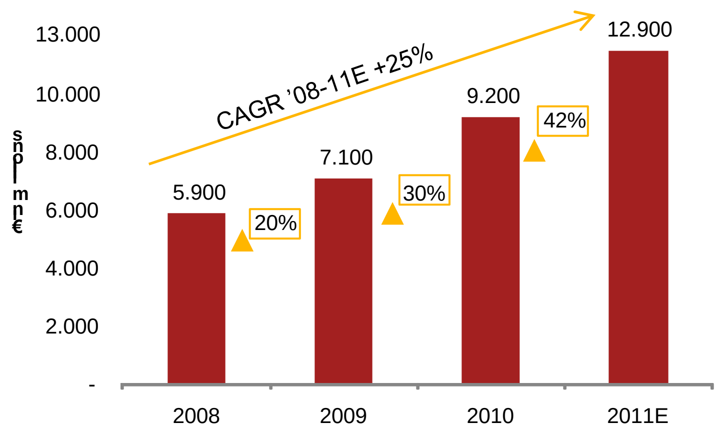
Acccessible Luxury

- Premium prices (e.g. €200 jeans)
- Industrial manufacturing
- Wider distribution strategy: high street and wholesale presence

Source: PwC's analysis Altagamma report

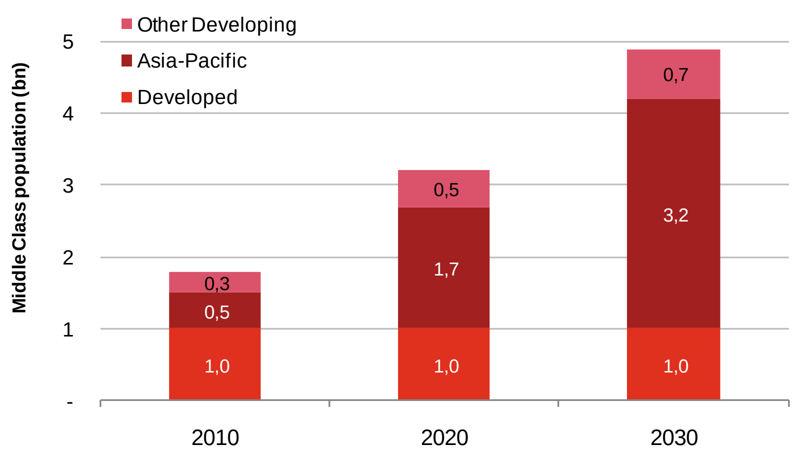
Chinese market for luxury goods is rapidly growing and is expected to overtake the US as the biggest luxury goods market. India and Brazil growth-to-date have been somehow hindered by regulatory issues

Luxury Market Value in China



Source: Source: PwC's analysis Altagamma report

Global Middle Class Population 2010 - 2030

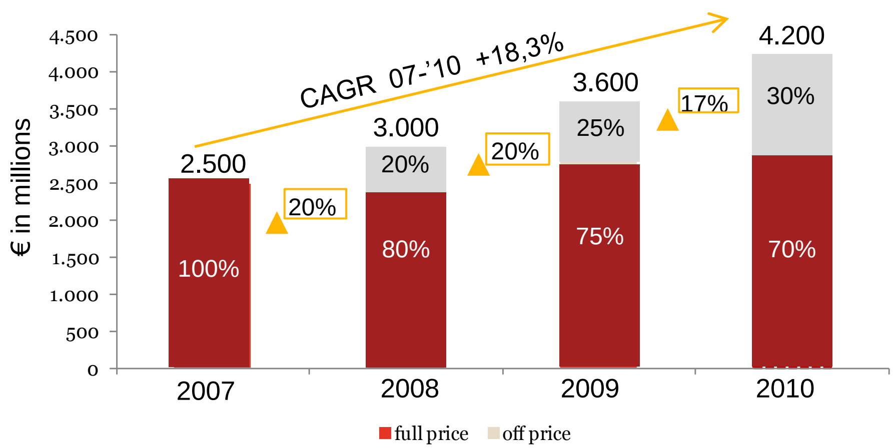


Source: Global Harvest Initiative, UN Department of Economic and Social Affairs, OECD (report by The Brookings Institution)

- **Chinese** GDP is **rapidly growing** at nearly 10% per year therefore multiplying the domination of wealthy Chinese rapidly. According to Huron Report (Shanghai based magazine) there were 271 billionaires in China in 2010 which is double the number in 2009.
- Chinese shoppers account for approximately €40bn in 2011
- India and Russia also have a steady boost in demand for luxury. Based on Forbes 2011, Moscow alone had 79 billionaires, displacing New York City as the largest. By the end of the next decade, 60% of luxury sales is expected to come from these emerging markets.
- In **India** and **Brazil**, **growth to date** have been somehow **hindered** by high **import duties**, restrictions to harvest the profits on luxury goods and (this is mainly true for India) the lack of high end luxury malls to create a bridge-to-luxury.
- **Chinese investor** are expected to become increasingly interested in purchasing companies in the luxury arena from 2012. This will help creating **liquidity in the Luxury M&A market** albeit it will possibly **increase the market multiples**.

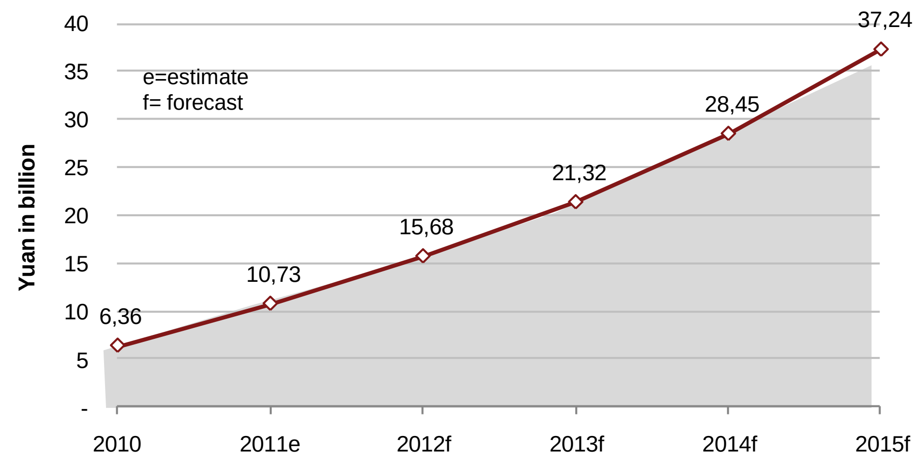
Online Sales worldwide show a superior performance compared to the overall luxury market

Value of E-Commerce Luxury Market FY07-10



Source: Altagamma 2011

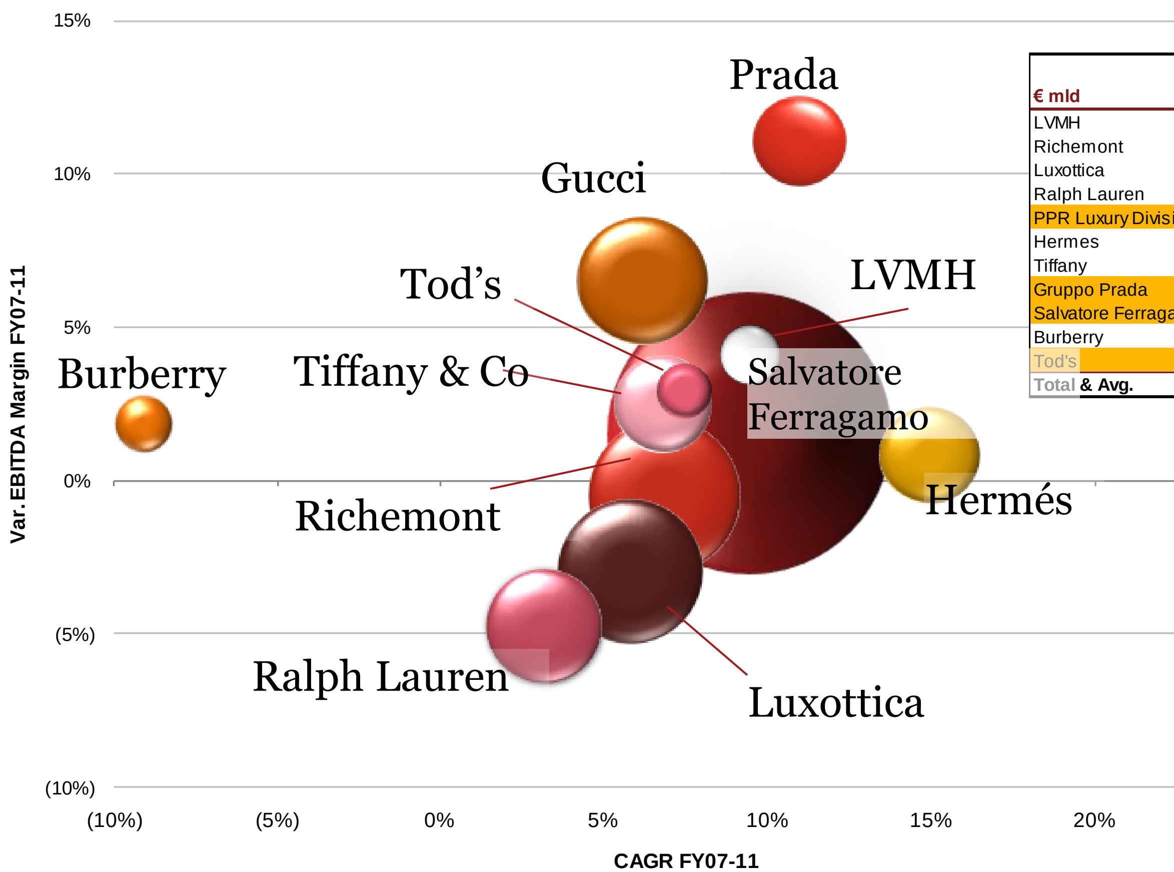
Online purchases of luxury goods by Chinese consumers



Source: Iresearch.com.ch

- The percentage of expenditure on "off-price" goods is steadily increases year to year which shows that the customer is interested in e-commerce to gain an advantage in terms of price.
- The e-commerce channel in the luxury sector increasing and gaining importance within the retail channels. The luxury sector has reached, in the e-commerce, a significantly higher performance (+20%) than that the overall market (+8%) in 2010.
- With current technology innovations, more luxury shopping websites are emerging allowing luxury fashion brands to reach more customers through online platforms. A growing market coupled with more digital consumers translates into an exponential revenue growth.

During the period 2007-2011 big internationally listed groups are confirmed as winners in the global luxury competition over performing market trends and pre-crisis results



Note:
(*)= Compound annual growth rate.

Source: PwC's analysis public consolidated financial statements, Bloomberg and Merger Market

€ mld	Revenues '11	EBITDA Margin'11	Sales CAGR '09-11	Var. EBTDA Margin '09-11	Sales CAGR '07-11 (vs pre-crisis figures)	Var. EBTDA Margin '07-11 (vs pre-crisis figures)
LVMH	23,66	26%	18%	2%	9%	2%
Richemont	6,89	24%	15%	3%	7%	-1%
Luxottica	6,22	18%	11%	2%	6%	-3%
Ralph Lauren	3,91	15%	5%	9%	3%	-5%
PPR Luxury Division	4,92	29%	20%	5%	6%	6%
Hermes	2,84	31%	22%	3%	15%	1%
Tiffany	2,76	25%	19%	3%	7%	2%
Gruppo Prada	2,52	30%	27%	11%	16%	7%
Salvatore Ferragamo	0,99	19%	26%	9%	9%	5%
Burberry	0,97	24%	-18%	3%	-9%	2%
Tod's	0,89	26%	11%	4%	7%	3%
Total & Avg.	**57**	**25%**	**15%**	**4%**	**8%**	**1%**

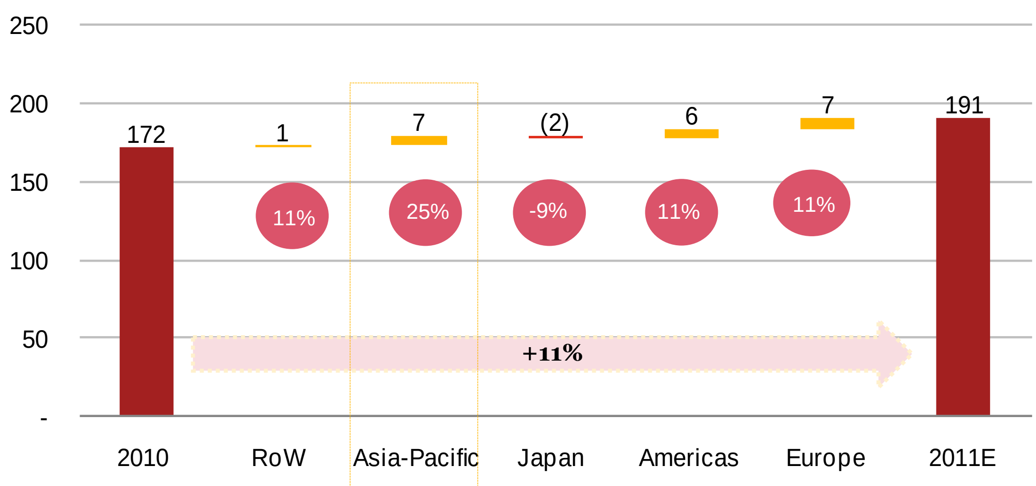
= HIGHER REVENUES GROWTH
= HIGHER PROFITABILITY INCREASE

Strategic hints:

- ✓ Emerging Markets
- ✓ Retail Development
- ✓ Focus on key brand
- ✓ Optimization of product and geographical mix
- ✓ Increase scale to improve margins

Asia is becoming one of the main markets for the main luxury operators after Europe

Luxury Market Value in 2011 (€ in billions)



Source: e-commerce B2cC in Italy – MIP School of management, www.osservatorio.net

Top Luxury Companies sales split by geographic region

Region	Var % FY11-10	Revenue % FY11	Revenue % FY10
Europe	12.4%	33%	34%
Americas	15.2%	22%	22%
Japan	7.6%	10%	11%
Asia (incl.China)	32.6%	29%	26%
Other (incl Russia)	8.8%	6%	7%
Total		**100.0%**	**100.0%**

Source: Statutory Financial Statements

Main strategic drivers

- ✓ Luxury Market of 2011 has grown (11% in 2011 vs. 2010) despite the recent global recession. Asia-Pacific is the best performer with 25% growth in 2011 vs. 2010.
- ✓ In terms of performance by geographic region, Asia (+33% in FY11 vs. FY10) is becoming one of the main markets (accounting for about 29% of revenues in FY11) for the luxury operators after Europe (33% of revenues in FY11) and is firmly established as a focus of growth.

Retail is confirmed the best performer channel for the top luxury operators in 2011 (+22,8% vs. FY10) and China appears to be the main destination market for new DOS openings

Top Luxury Companie Revenue split by Channel

Chanel	Var % FY11-10	Weight (%) 2011	Weight % 2010
Retail	22.8%	57.8%	56.4%
Wholesale	17.3%	41.5%	42.8%
Other		1%	1%
Total		**100%**	**100%**

Source: Statutory Financial Statements

2011 - Luxury Top Players Retail Development

- In terms of performance by distribution channel, Retail in the FY11 has shown the best result (+22,8% with respect to FY10) compared to the wholesale channel(+17,3% with respect to FY10) supported by the strong DOS network expansion into the Asian markets.
- **China along with other Asian regions accounted for about 70% of the overall new openings realised by the main luxury operators during 2011**. For example, almost 50% of the new openings for Gucci and Tiffany's in emerging countries (BRIC) relate to China, while all the Prada and Tod's 2011 new DOS openings in BRIC countries have been realised in China.

Consumers in traditional markets are looking for both product and service quality… whilst consumers in emerging markets are still looking for status symbols and social acknowledgement

Emerging

- Excess
- Extravagance
- Tradition and Ostentation
- Research of status
- Push strategy
- Shopping exeperience on site
- Target brand loyalty

Traditional

- Quality
- Innovation
- Exclusivity
- Service
- Shopping experience
- CRM
- Direct interaction

What are the main strategies underline performances over the period 2009-2011? : the example of Prada

PRADA

PRADA Group

GOALS

- **Sales Growth: 2009-2011 CAGR 27%**
- **Profitability: Ebitda 2011 (30% on revenues) ; Var. 09-11 +11 bp**

Capital For Growth – IPO

IPO led to 19% of the shares in PRADA spa being listed on the Hong Kong Stock Exchange. The operation involved the sale of existing and newly issued shares and raised a net amount of Euro 206.6 million for the Group.

STRATEGIC HINTS

Distribution Channel

- Retail accounts for over 70% in 2011 recording a +39% in 2011 vs 2010 mainly driven by LFL (+ 23% vs 2010). In 2009 Retail accounted for 54.3% of total revenues
- Dos network grew from 265 in 2009 to 388 in 2011
- In the future selective new openings in European touristic cities. Focus on retail expansion in Far East (China and Korea)
- Wholeasale channel selective approach

Geography

- Europe and US not considered as Mature Market because of increasing travellers flow (EU and US accounts for over 50% of total revenues in 2011)
- In 2011 all markets grew double digit

Brand

- Focus on key brands Prada and Miu Miu – no acquisition during the the last years

Product

- Accessories (leather goods and footwear) accounts for over 80% of revenues in 2011 whilst in 2009 about 70%.

Profitability Improvement

- Scale growth and continuing shift toward Retail channel enable a strong increase in EBITDA margin
- Impact on margins of a more favourable geographical and product mix

Key Figures – Pre/Post IPO

	2011	2010	2009
Revenues growth	+25%	+31%	-3%
Ebitda Margin	29.7%	26.2%	18.6%
Net Financial Debt (€ mln)	(16)	407	485
Net Financial Debt/ Ebitda	na	0.8x	1.7x
New DOS openings	+69	+56	+31
Capex (€ mln)	279	207	135
Advertising&Comm *(% on revenues)*	5.1%	4.2%	4.9%

Successful IPO – 24 June 2011

Enhancing Company's reputation, brand awareness providing capital for further expand the Retail Network
(planned 80 new openings per year)

Source: PwC's analysis on financial statements,

What are the main strategies underline performances over the period 2009-2011? : the example of Ferragamo

Salvatore Ferragamo

GOALS

- **Sales Growth: 2009-2011 CAGR +26%**
- **Profitability: Ebitda 2011 (19% on revenues) ; Var. 09-11 +9 bp**

Capital for Growth – IPO

- **IPO led to 25% of the shares in Ferragamo being listed on the Milano Stock Exchange. The operation involved the sale of existing shares and raised a net amount of Euro 344 million for the Group.**

STRATEGIC HINTS

Distribution Channel

- Retail accounts for about 67% over the period 2009-2011
- In the future retail development mainly in China, store renovation and enlargement in Mature Market
- Expansion on E-commerce activity

Geography

- Greater China as Group # 1 Market. Asia Pacific region in 2011 accounts for about 36% ot total revenues (31% in 2009)
- Europe as an "emerging" market driven by travellers and successfull operational improvement

Brand

- Continuing rejuvenation of brand's image

Product

- Accessories (leather goods and footwear) accounts for over 80% over the period 2009-2011.

Profitability Improvement

- Scale growth enable an important increase in EBITDA margin of +4 basis points (2009 vs 2011)
- Improved coordination and sinergyes across product collections

Key Figures – Pre/Post IPO

	2011	2010	2009
Revenues growth	+26.2%	+26%	-10%
Ebitda Margin	18.6%	14.5%	10.0%
Net Financial Debt (€ mln)	29	18	80
Net Financial Debt/ Ebitda	0.2x	0.2x	1.3x
New DOS openings	+11	+13	+26
Capex (€ in mln)	42,3	21,8	20,9
Advertising&Comm *(% on revenues)*	5,9%	5,6%	5,1%

Successful IPO – 24 June 2011

Enhancing Company's reputation, brand awareness providing capital for further expand the Retail Network

Source: PwC's analysis on financial statements,

What are the main strategies underline performances over the period 2009-2011?: the example of PPR (luxury division) and Tod's

GUCCI · BOTTEGA VENETA · YVES SAINT LAURENT · MCQUEEN · BALENCIAGA · sergio rossi · GP · STELLA McCARTNEY · BOUCHERON · Brioni

Luxury Division - PPR

GOALS

- **Sales Growth: 2009-2011 CAGR +20%**
- **Profitability: Ebitda 2011 (29% on revenues) ; Var. 09-11 - +5 bp**

STRATEGIC HINTS

Distribution Channel
- Strong retail improvement mainly driven by Emerging Countries (+222 DOS in Asia and RoW 2007 vs 2011)
- Mature markets retail consolidation (+85 DOS 2007 vs 2011 of which 48 DOS in Europe)
- Expansion on E-commerce activity

Geography
- Asia Pacific is the Group key Market (31% ot total revenues in 2011)

Brand
- Focus on key brands Gucci, Bottega Veneta and Yves Saint Laurent
- Acquisition of Brioni in 2011

Product
- Strong focus on Shoes and Leather Goods (about 70% of total revenues in 2011)

Profitability Improvement
- Scale growth and cost cutting policy enable an important increase in EBITDA margin of +5 basis points (2009 vs 2011)

TOD'S

Tod's

GOALS

- **Sales Growth: 2009-2011 CAGR +11%**
- **Profitability: Ebitda 2011 (26% on revenues) ; Var. 11-07 +4 bp**

STRATEGIC HITS

Distribution Channel
- Retail accounts for about 53% of total revenues in 2011 (49% in 2009)
- Retail improvement mainly driven by Emerging Countries (+38 DOS in Asia and RoW 2007 vs 2011)

Geography
- Italy is the Group key Market (50,2% in 2011)
- Emerging Markets grew considerably in the last years (22.4% in 2011 vs 15.6% in 2006)

Brand
- Focus on key brands Tod's, Hogan and Fay and refocusing effort on Roger Vivier brand (+22,9% 2007 vs 2011);

Product
- Strong focus on Shoes and Leather Goods (about 90% of total revenues in 2011)

Profitability Improvement
- Scale growth enable an important increase in EBITDA margin of +4 basis points (2009 vs 2011)

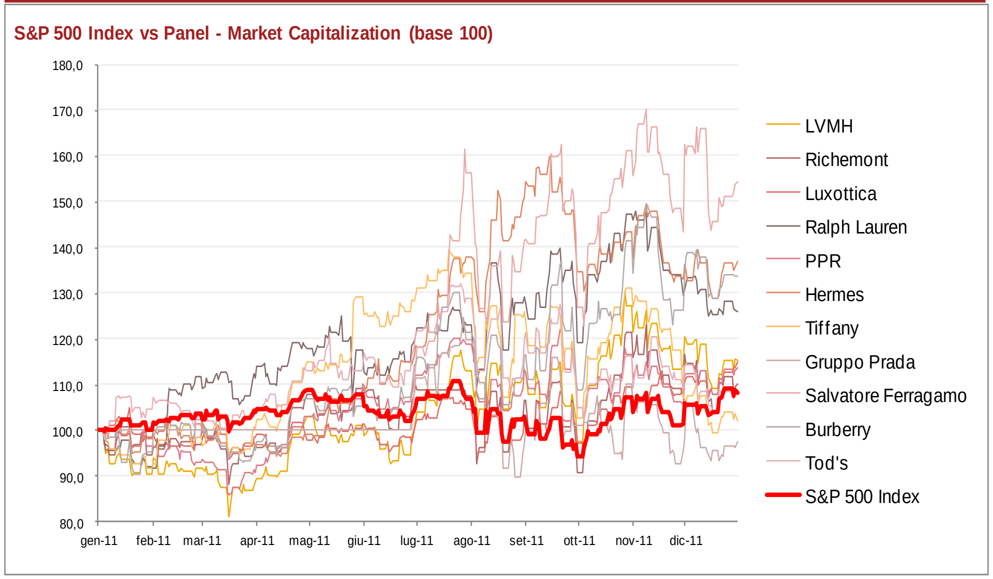
Source: PwC's analysis on financial statements,

Luxury indices have outperformed general market index in the last year

Luxury Multiple – EV/Ebitda; P/E

Company	Equity Value	Enterprise Value	P/E 2011	EV/EBITDA 2011
LVMH	80.969	85.932	**26,4 x**	**14,0 x**
Richemont	29.353	26.757	**25,4 x**	**12,7 x**
Luxottica	10.051	12.082	**22,2 x**	**10,7 x**
Ralph Lauren	12.367	11.431	**18,7 x**	**1,7 x**
PPR Luxury Division	15.194	18.601	**15,4 x**	**9,7 x**
Hermes	21.179	20.169	**35,6 x**	**20,2 x**
Tiffany	8.711	8.981	**19,8 x**	**10,5 x**
Gruppo Prada	9.994	9.978	**23,1 x**	**13,2 x**
Salvatore Ferragamo	1.898	1.947	**23,3 x**	**n.a.**
Burberry	5.561	5.386	**22,9 x**	**12,9 x**
Tod's	2.414	2.303	**n.a.**	**9,8 x**
	Average -->		**23,3 x**	**11,5 x**
	Average adj -->		**22,8 x**	**11,7 x**
	Min -->		**15,4 x**	**1,7 x**
	Max -->		**35,6 x**	**20,2 x**

Luxury MarketCap vs S&P 500 - 2011



Source: PwC's analysis on financial statements,

Source: PwC's analysis public consolidated financial statements, Bloomberg and Merger Market

Size does matter: aggregation to emerge in the global competition should be a must for Italian luxury companies

Major Luxury Italian Companies (turnover > €50m)

€ in thousands	CAGR revenues FY10-FY08	EBITDA margin (%) 2010	EBITDA margin (%) 2009	Var. EBITDA margin FY08-FY10
Inter national	9.2%	23.8%	21.6%	1.1%
Cluster A (revenues >1bn)	6.5%	15.4%	8.1%	0.2%
Cluster B (revenues 500bn < x < 1bn)	0.9%	15.7%	12.6%	2.6%
Cluster C (revenues 100mln < x < 500mln)	-2.0%	10.4%	8.0%	-2.4%
Cluster D (revenues < 100mln)	-1.0%	9.6%	6.8%	0.5%
Average	1.6%	13.4%	9.1%	0.1%

EBITDA: Earning Before Interest Tax Depreciation

EBITDA Margin: EBITDA/Revenues

Large companies experience much higher margins, therefore the biggest opportunity in luxury brands exist in these large fashion houses. Higher profitability is primarily attributable to:

- **Brand Recognition** (this is particularly true for **emerging markets**);
- Optimal **brand portfolio management;**
- **Economies of scale** (e.g. advertising costs).

PwC Deals Advisory – Strategy Team

2

2012

What's unique about PwC Strategy?

- **Cumulative industry expertise of team and dedicated team by industry**- We involve senior dedicated industry experts from the beginning of the project, and we work to ensure that potential industry issues are raised early in the process.
- **Our international structure and knowledge – The Retail & Consumer Center of Excellence** is a WorldWide PwC R&C Network composed by Senior Strategy people with a broad expertise in the sector
- **Extensive transactional experience** in Italy and across the world, having been involved in many deals and project in the Retail & Consumer Sector which have taken place.
- **Business driven approach** to analysis structured around value drivers. We will fully understand your priorities and set the scope accordingly.
- **We have a strong track record of delivering on time.** Partner and Director time is not limited to sign off of the work, but rather is used to assist in the examination of the company for value drivers and other occurring issues
- We are committed to **confidentiality** during the project.

Commercial and market due diligence Team of the Year

pwc

Richard Sharp, head of principle investment, Goldman Sachs and Matthew Alabaster, Director, PwC Strategy Group

"PwC received the award for Commercial and Market Due Diligence. PwC's due diligence team, which is run out of its transaction services strategy department, is more than 100 people strong in London alone. It worked on more than 160 transactions in the last financial year, three quarters of which were buyside mandates. They included advising Permira and KKR on the acquisition of SBS Broadcasting, a deal which had an enterprise value of €2.1bn."

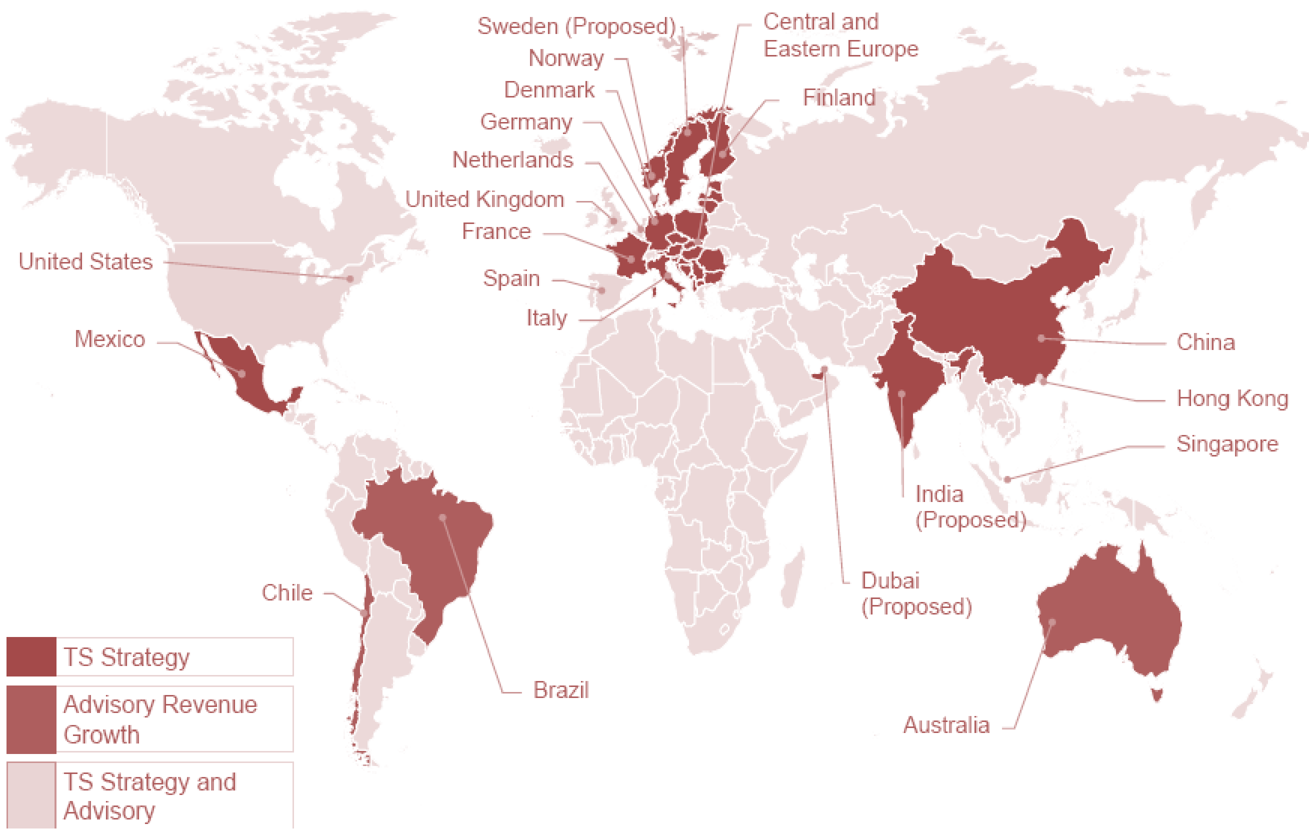
Private Equity News, 9 October 2006

- Nel 2009 e 2010, PwC è stata premiata come Market & Commercial Due Diligence Team of the Year in Europa dalla rivista Private Equity News.

The global presence of the PwC Strategy Team

The PwC Strategy Group has more than 300 professionals in Europe, with its main offices in London, Milan, Paris, Frankfurt and Madrid. Over the last years , other offices have been opened in New York, Shanghai, Dubai, Hong Kong and Singapore to allow a better global coverage for our clients.

The Strategy Group in Italy offers Business & Strategic Planning services, Market & Commercial Due Diligence (vendor-side and buy-side), M&A Strategy, Commercial Planning, IPO Advisory and Deal



PwC Strategy - Retail & Consumer– Luxury Sponsorship and Publishing

Sponsorships and Speaking Engagements

Il Sole24Ore – Publishing


Stili & Tendenze

Bilanci

Performance a confronto: piccole imprese spiazzate

Dall'analisi PwC emerge che i player minori soffrono su redditività e indebitamento

TREND

OGGI ONLINE

Luxury24


IL BUSINESS È MONOMARCA

I RICAVI DEI DODICI MAGGIORI GRUPPI QUOTATI METTONO A SEGNO PERFORMANCE MIGLIORI (+27,3%) RISPETTO AL CANALE WHOLESALE (+17,3%). IN VISTA UNA VALANGA DI APERTURE IN EUROPA E ASIA

Our Italian Team – Who we are?

Nicola Anzivino
Partner
PwC Advisory – Strategy Leader

Mobile: +39 348 8519 842
nicola.anzivino@it.pwc.com

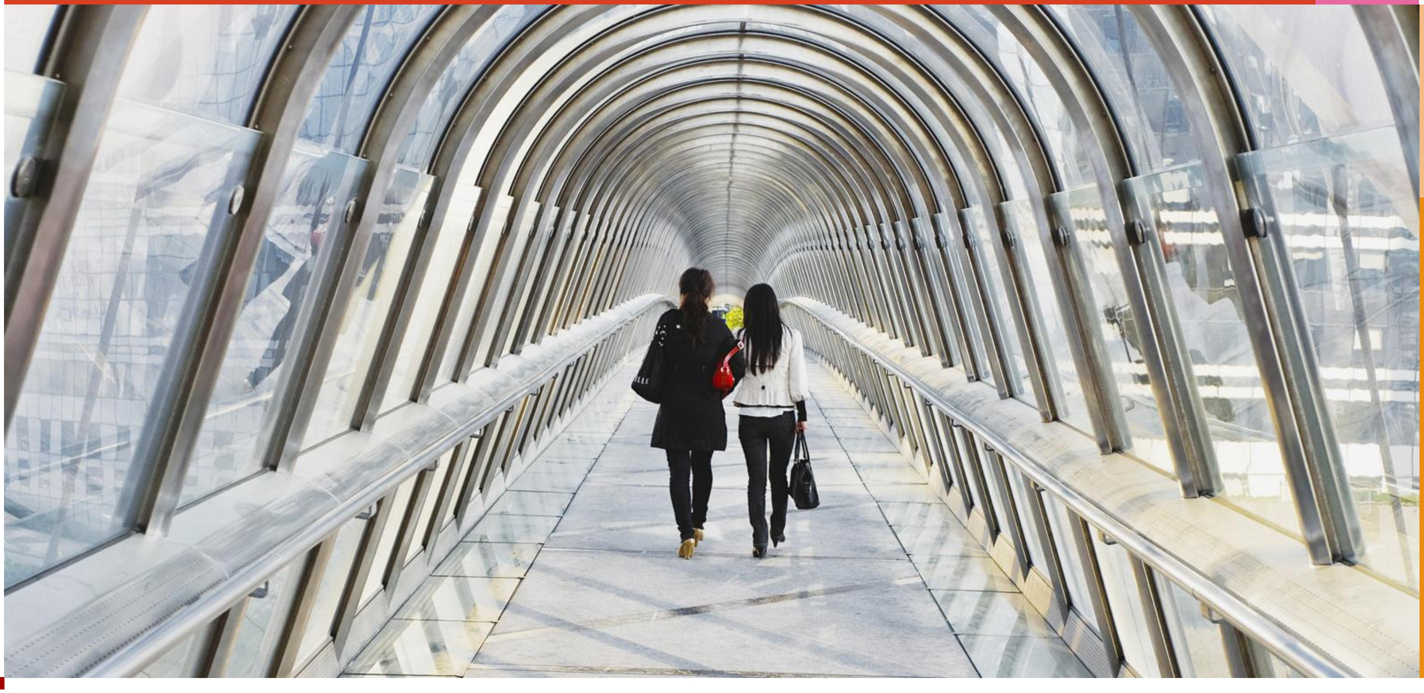
Marco Lazzaro
Senior Manager
PwC Advisory – Retail&Consumer Expert

Mobile: +39 348 1554541
marco.lazzaro@it.pwc.com

2012

Market Vision Luxury

Challenges and opportunities in the new luxury world: winners and strategic drivers



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