

Passport

# THE IMPACT OF CORONAVIRUS ON LUXURY GOODS

May 2020

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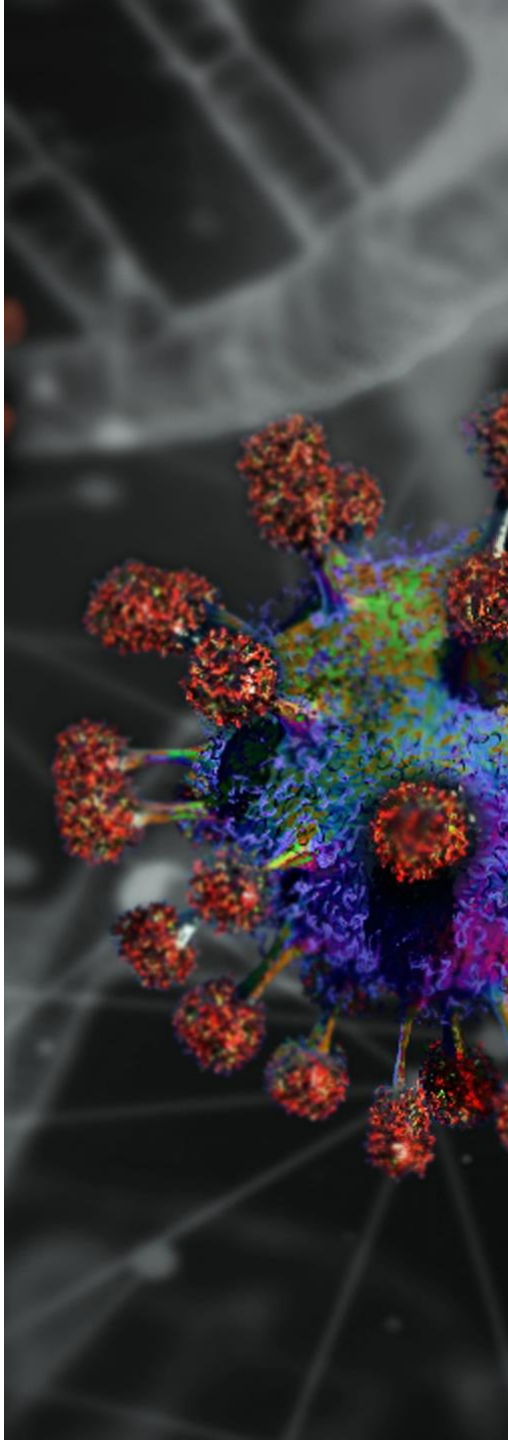
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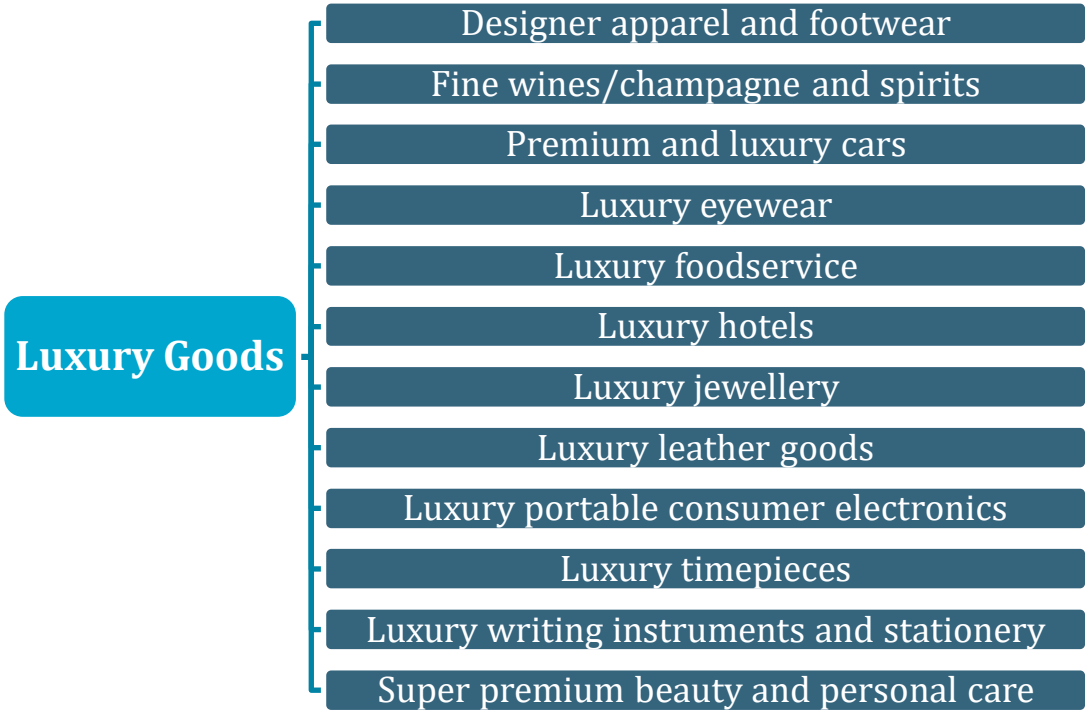
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# Scope

- The data reflects research conducted in summer 2019 and published in November 2019. The insights throughout the report are meant to serve as an early guide to forecasting the impact of COVID-19, with insights on consumer and category trends, and scenarios for understanding the virus's impact. All values expressed in this report are in US dollar terms, using a fixed exchange rate (2019). All forecast data are expressed in constant terms; inflationary effects are discounted. The historic period refers to 2014-2019; the forecast period is 2019-2024."




Disclaimer

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***This report examines the impact of the Coronavirus (COVID-19) global pandemic on the luxury goods industry. Luxury shopping behaviour, channel dynamics and travel plans are seeing inevitable shifts as a result of lockdowns, as well as the closure of select retailers, businesses, luxury hotels and hospitality services, alongside travel restrictions. With the pandemic having a huge economic and psychological impact, consumer sentiment will be severely dampened, and large ticket items affected.***

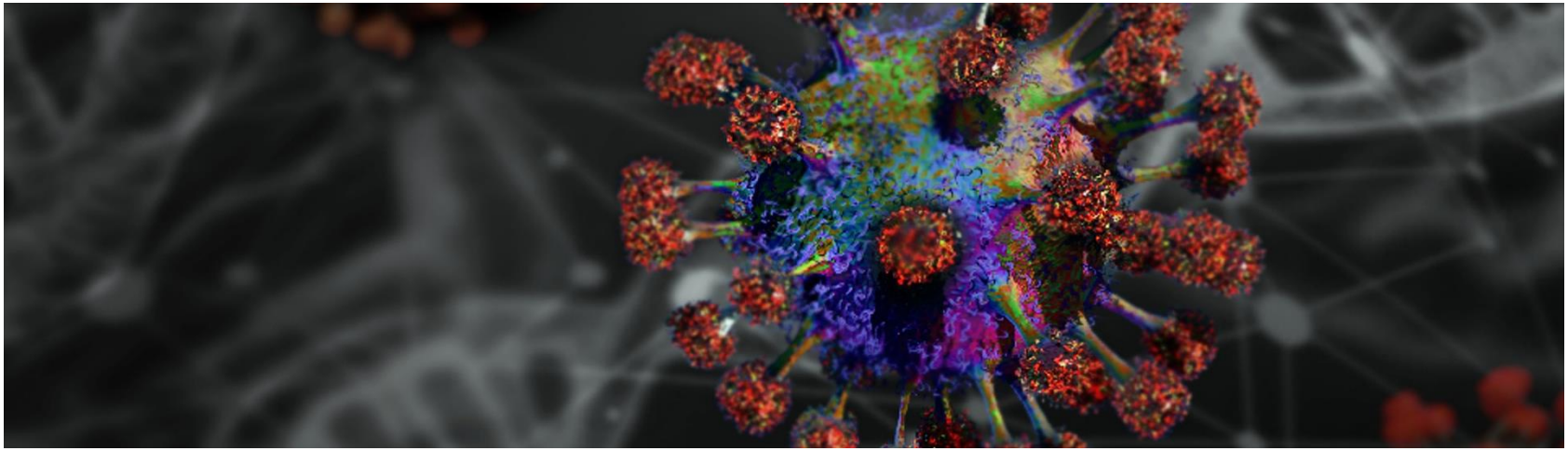
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# Key findings

| | |
|---|---|
| Luxury goods hit from every angle | Whilst some luxury goods categories and retail channels may be less negatively affected than others, the pandemic represents an absolutely unprecedented shock to all areas, and no luxury goods category is likely to "benefit" from the COVID-19 crisis, with all categories affected in the short term. |
| Consumer confidence hit, whilst fear of contagion rises | Consumers fear contagion in the luxury retail space, whilst others see little point in buying personal luxury goods, such as leather goods, apparel and footwear, timepieces or jewellery. Owing to the conspicuous nature of some products many feel there is little opportunity to wear or use them in the foreseeable future. In addition, consumer confidence has been hit and spending on "on-essentials" has been put on hold. |
| Luxury hotels and hospitality hit hard | The ongoing COVID-19 outbreak is hitting the luxury travel market hard. Luxury hotels, travel, high-end travel retailers and hospitality services have all already suffered significant losses due to falling global demand with the long-term outlook looking uncertain as consumer spending on all such services is pulling back dramatically. |
| Experiential luxury but not as we know it | Whilst luxury foodservice has been severely impacted by the challenges of COVID-19, with all of the world's luxury foodservice operators facing mandated shutdowns, many luxury hotels are now focused on home delivery services and providing online tutorials on how to replicate luxury hotel services at home, with lessons on services such as bed-dressing, creating the perfect "turn-down service", flower arranging and fine-dining. |
| COVID-19 and business with purpose | Despite the extremely difficult times that luxury businesses are facing, many brands have been able to shift their focus and support local communities. These shifts include the reworking of supply chains to make the products consumers and the health industry currently needs as well as providing special discounts, food and shelter to healthcare workers. |

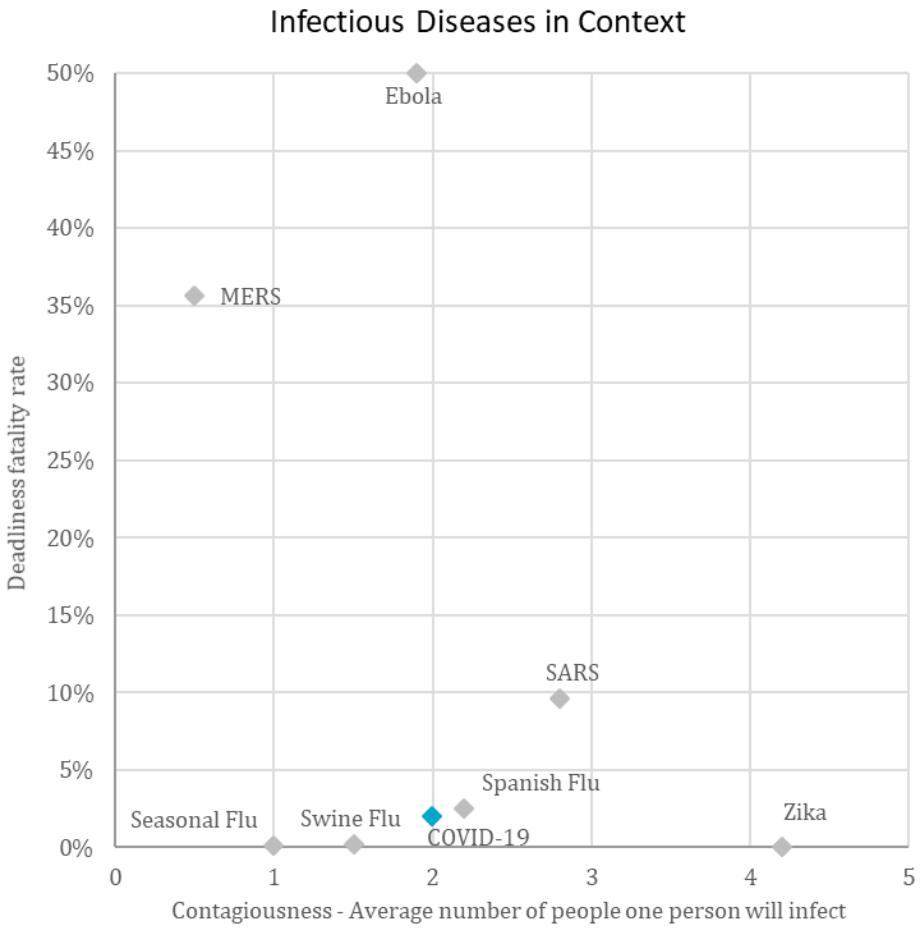
# Luxury goods and COVID-19

- The global luxury goods industry has seen significant shifts and faced unprecedented headwinds in recent years thanks to looming threats of a trade war, increased global economic uncertainty, and shifts in consumer behaviour and values. However, dark clouds are gathering over the global economy, impacting consumer confidence in all economies, and nothing in the modern evolution of the industry (including the global financial crisis) compares to the global disruption caused by the COVID-19 pandemic.
- Efforts to stem the spread of the virus have centred on controlling public gatherings, from encouraging consumers to practise “social distancing” all the way up to luxury businesses, hotels and services being ordered to shut down for weeks.
- Whilst some luxury goods categories and retail channels may be less negatively affected than others (pure online luxury retailers will likely see less-dire sales declines than store-based luxury retailers), the pandemic represents an unprecedented shock to global demand.



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# COVID-19 in context




*Source: Centers for Disease Control, World Health Org, CIDRAP, studies*

- Despite lower mortality rates than other recent epidemics, the impact of COVID-19 on the global economy and consumer markets has the potential to be significant for many reasons:
- Geographic spread, with transmission centres across most regions globally. The impact globally is also likely to be protracted, affecting different countries and regions at different times;
- Contagiousness, as COVID-19 is more transmissible than seasonal flu, for instance;
- The global economy was already weakened, many governments have limited room for manoeuvre fiscally (without incurring heavy debt) and in monetary policy, and the impact of these measures is not clear cut;
- The impact on China and therefore global supply chains has been severe;
- Currently, the seasonality of the virus is unclear, as is the number of unreported cases, meaning many uncertainties remain.

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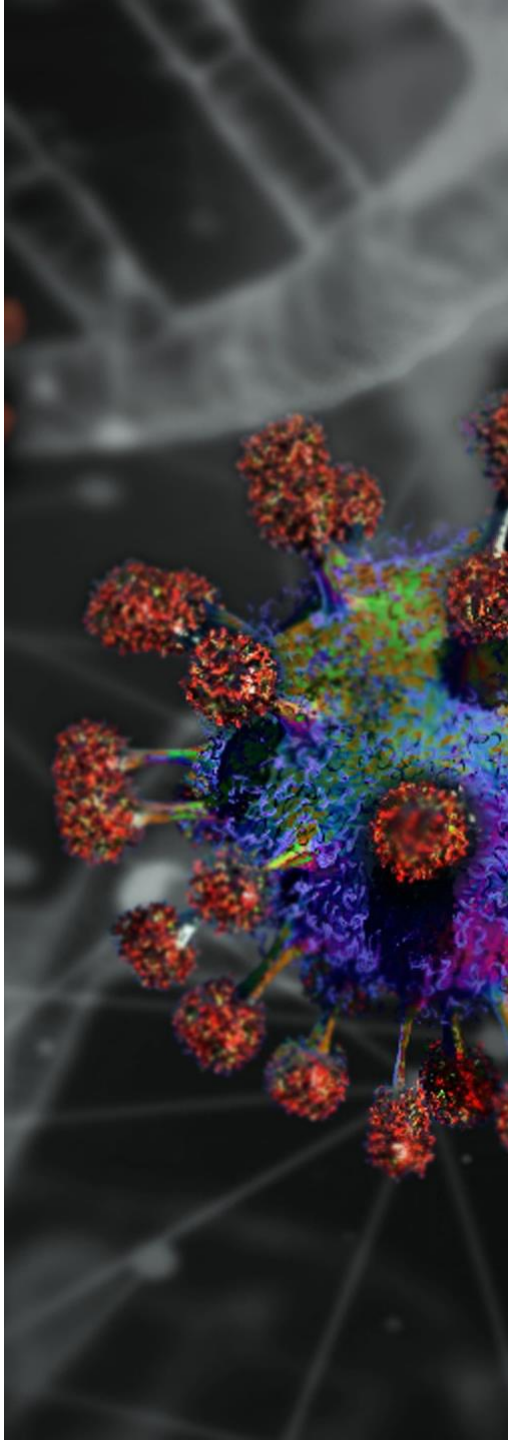
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# Global GDP is likely to contract in 2020 under the baseline scenario

- The COVID-19 pandemic has forced governments to quarantine entire countries, disrupted global supply chains, slashed business and consumer confidence and affected financial markets. The effects on the global economy are already being felt, and will be substantial, but the exact magnitude will depend on the length of COVID-19 restrictions.
- COVID-19 will severely impact both the supply and demand sides of the economy. At the same time, monetary policy tools are almost exhausted due to the slow recovery from the Global Financial Crisis. Interest rates have not recovered, so central banks have to resort to Quantitative Easing programmes (QEs), but QEs have limited effect on labour markets, consumer spending and other aspects of the real economy.
- Thus, countries have to turn to fiscal stimulus. However, the response to fiscal stimulus will be limited too as long as people are quarantined in their homes. In the meantime, governments are helping businesses and citizens by providing emergency loans to cover expenses and lower the spillover effects through economies, but uncertainty surrounding the pandemic limits economic activity.
- Our baseline forecast for global real economic growth in 2020 is in the -1.5 to 0.5% range, placing it in the bottom three growth rates for all years since 1961.




*Source: Euromonitor International Macro Model*

# The COVID-19 pandemic impacts both supply and demand



## How is the virus being contained?

- Testing and tracing of people who have come into contact with the sick person in order to prevent community transmission.
- Closure of public areas (cafés, restaurants, shopping centres, gyms, cinemas, etc) and large-scale events (Tokyo Olympics have been postponed).
- Quarantine: People have to stay home, and non-essential travel is prohibited. International flights are cancelled as countries close their borders.



## How is demand affected?

- Individuals are stockpiling essential goods and turning to online purchases with delivery or streaming services.
- Social distancing measures are lowering consumption demand by limiting spending on leisure and entertainment services.
- Uncertainty about the future makes consumers more cautious about discretionary purchases.
- Consumers are wary of setting up travel plans due to uncertainty about the end of quarantine across countries.



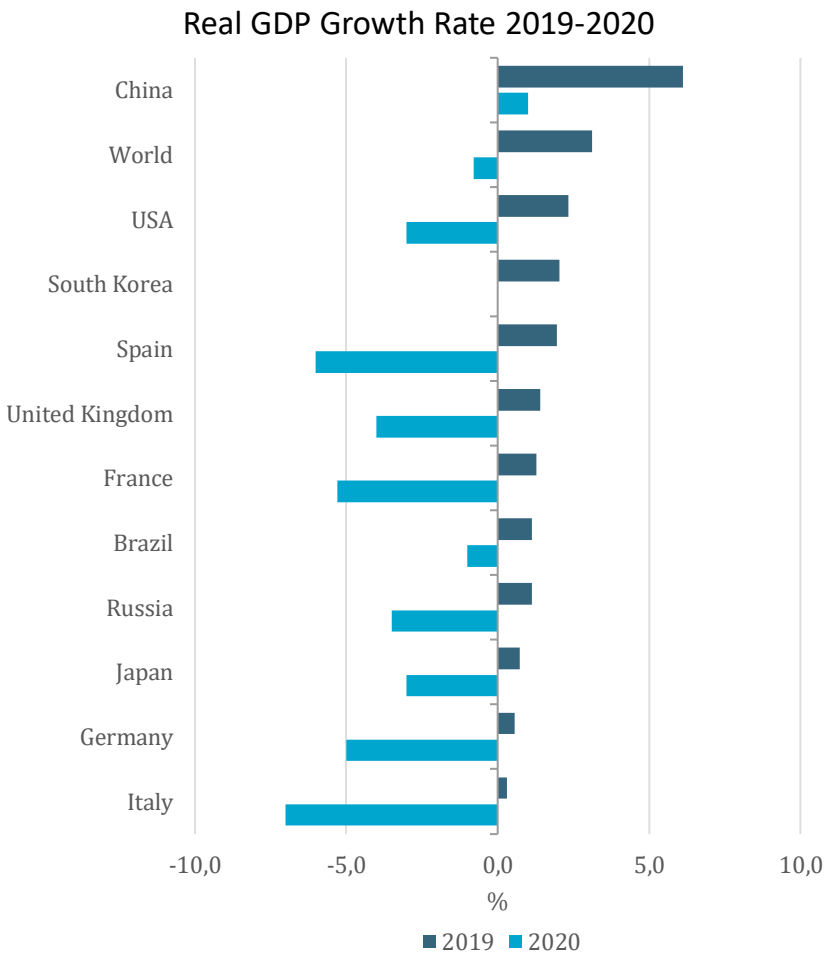
## How is supply affected?

- Supply chain disruptions arise due to global interconnectivity of industries.
- Factories are being temporarily closed all over the world (eg most of the carmakers are closing factories in Europe and the US).
- Uncertainty over the length of the restrictions limits productivity investments.
- Stockpiling by consumers leads to shortages of essentials, medical products and pharmaceuticals sold through retailers.

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# In our baseline view, the pandemic peaks in June 2020

- Under our baseline forecast scenario, the COVID-19 pandemic peaks in late May/early June. Following on from this, restrictions to contain the virus are relaxed, and the economy rebounds.
- In total, around 1-10% of the global population gets infected, although not all are tested and confirmed.
- The mortality rate for the virus averages 0.8% globally. Most healthcare systems around the world cope relatively well with the virus and do not get overloaded, with only a handful of exceptions, as social distancing measures help relieve the pressure.
- Fiscal policies effectively support aggregate demand by saving businesses with emergency loans and temporarily increasing unemployment benefits.
- The economic upheaval induced by restrictions to contain COVID-19 do not spill over to a large number of bankruptcies, limiting the length and depth of the recession in most countries. Financial crisis is similarly avoided. Therefore, once restrictions are lifted, economies quickly rebound.




*Source: Euromonitor International Macro Model, National Statistics*

# Three scenarios examine the impact of a more severe outbreak

## COVID-19 Deep Recession: Global GDP growth of -3.5% to -1.5% in 2020

- In this scenario, the pandemic lasts until June/July 2020, during which time around 15% of the global population is infected.
- The healthcare sector is overloaded only in a few regions and the mortality rate remains close to 1.0%. We estimate the mortality from all infected people, not only from confirmed cases.
- Global supply chains become disrupted and cashflow mismatches lead to a rise in bankruptcies.
- However, the number of bankruptcies is contained by significant government policies.

## COVID-19 Crisis: Global GDP growth of -5.5% to -3.5% in 2020

- In this scenario, the pandemic slows down in the summer but returns in September. Nevertheless, it is relatively contained by around November.
- In total, up to 25% of the global population is infected but not all of them are tested. The mortality rate rises compared to a less severe scenario and reaches around 1.5% as a significant portion of hospitals becomes overcrowded and healthcare systems struggle to cope, leaving some patients without the treatment they need.
- A significant portion of businesses go bankrupt.

## COVID-19 Deep Crisis: Global GDP growth of -9.0% to -5.5% in 2020

- In this most extreme scenario, the pandemic returns with larger presence in the autumn and lasts until spring 2021.
- More than one third of the global population gets the virus, and healthcare systems across some countries completely collapse: hospitals cannot admit most of the patients and the mortality rate rises to around 2.5% globally.
- Fiscal and Monetary stimulus packages are inadequate, and a significant number of businesses go bankrupt, leading to a skyrocketing of the unemployment rate around the world.

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# Our view in short

| | Global infection rate | Mortality rate | Pandemic duration | Stock prices decline by | Private vs Government interest rate spreads rise by | Probability | Global real GDP growth in 2020 |
|---|---|---|---|---|---|---|---|
| **Baseline** | **1-10%** | **0.3-1.3%** | **1-2 quarters** | **Rebound by 0-30% in H2 2020** | **Around current level** | **40-50%** | **[-1.5%, 0.5%]** |
| COVID-19 Deep Recession | 5-25% | 0.5-1.5% | 1-3 quarters | 10-30% | 1-2 percentage points | 20-30% | [-3.5%, -1.5%] |
| COVID-19 Crisis | 15-35% | 1.0-3.0% | 2-4 quarters | 25-45% | 2-4 percentage points | 15-25% | [-5.5%, -3.5%] |
| COVID-19 Deep Crisis | 20-50% | 1.5-3.5% | 2-6 quarters | 30-70% | 3-6 percentage points | 2-10% | [-9.0%, -5.5%] |

*Source: Euromonitor International*

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# Forecasts for Real GDP growth in 2020 under different scenarios

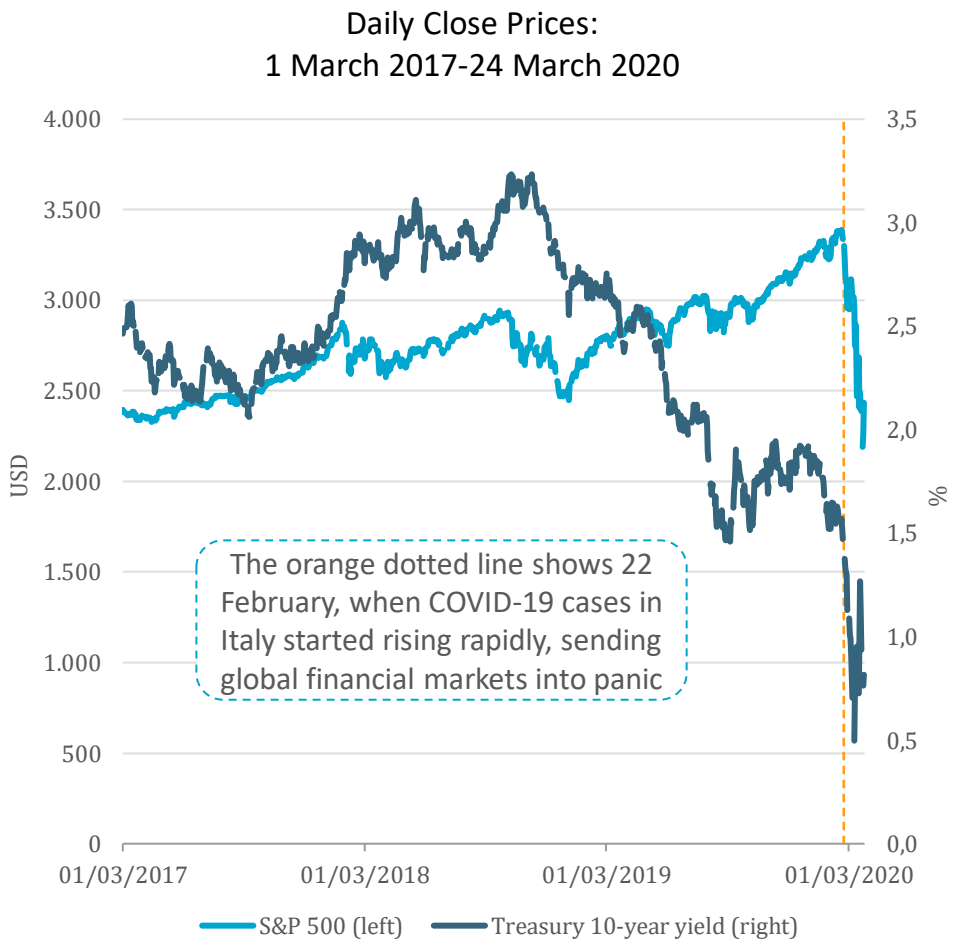
| Country | Baseline | Change in Baseline since January 2020 | COVID-19 Deep Recession | COVID-19 Crisis | COVID-19 Deep Crisis | Real GDP growth in 2009 (the worst year of the Global Financial Crisis) |
|---|---|---|---|---|---|---|
| China | 1.0% | -4.8% | -0.4% | -2.6% | -5.4% | 9.2% |
| US | -3.0% | -4.7% | -4.1% | -5.8% | -7.9% | -2.5% |
| South Korea | 0.0% | -2.0% | -1.8% | -4.5% | -7.9% | 0.8% |
| Japan | -3.0% | -3.6% | -4.5% | -6.6% | -9.4% | -5.4% |
| Italy | -7.0% | -7.4% | -8.7% | -11.2% | -14.3% | -5.3% |
| Germany | -5.0% | -5.7% | -6.3% | -8.2% | -10.6% | -5.7% |
| France | -5.3% | -6.4% | -6.4% | -8.1% | -10.3% | -2.9% |
| UK | -4.0% | -5.1% | -5.2% | -6.9% | -9.2% | -4.2% |
| Spain | -6.0% | -7.5% | -7.6% | -9.9% | -12.9% | -3.8% |
| Russia | -3.5% | -5.2% | -5.2% | -7.8% | -11.0% | -7.8% |
| Brazil | -1.0% | -3.1% | -2.7% | -5.3% | -8.6% | -0.1% |

*Source: Euromonitor International Macro Model and National Statistics*

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# Financial markets on risk-off mode as COVID-19 entered Italy

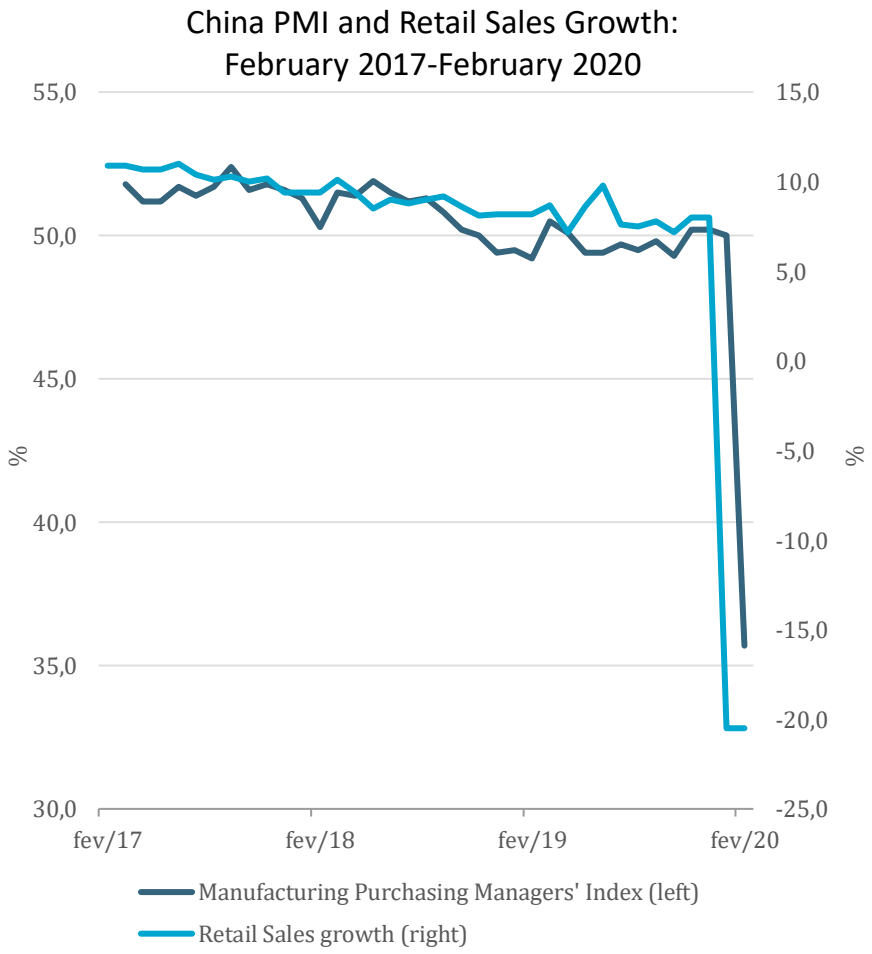
- Data from financial markets provides two-fold insights: it leads real economy indicators such as GDP growth and shows liquidity or difficulty for companies to raise cash to cover their short-term needs.
- As COVID-19 cases hit Italy, financial markets around the world went into risk-off mode, with a significant spike in volatility. VIX index futures, which are sometimes called "Fear Index", skyrocketed from around 15 at the beginning of February to more than 60 in late March.
- S&P 500 index prices fell by 27.1% from 21 February to 24 March this year, while in the same period, Treasury yields fell by 65.5 basis points, as investors turned to safer assets.
- The uncertainty surrounding the spread of the virus, as well as fiscal and monetary stimulus that countries will implement, will keep the volatility in financial markets elevated at least until the summer.




*Source: Yahoo! Finance*

# China: an early glimpse into the economic cost of the virus

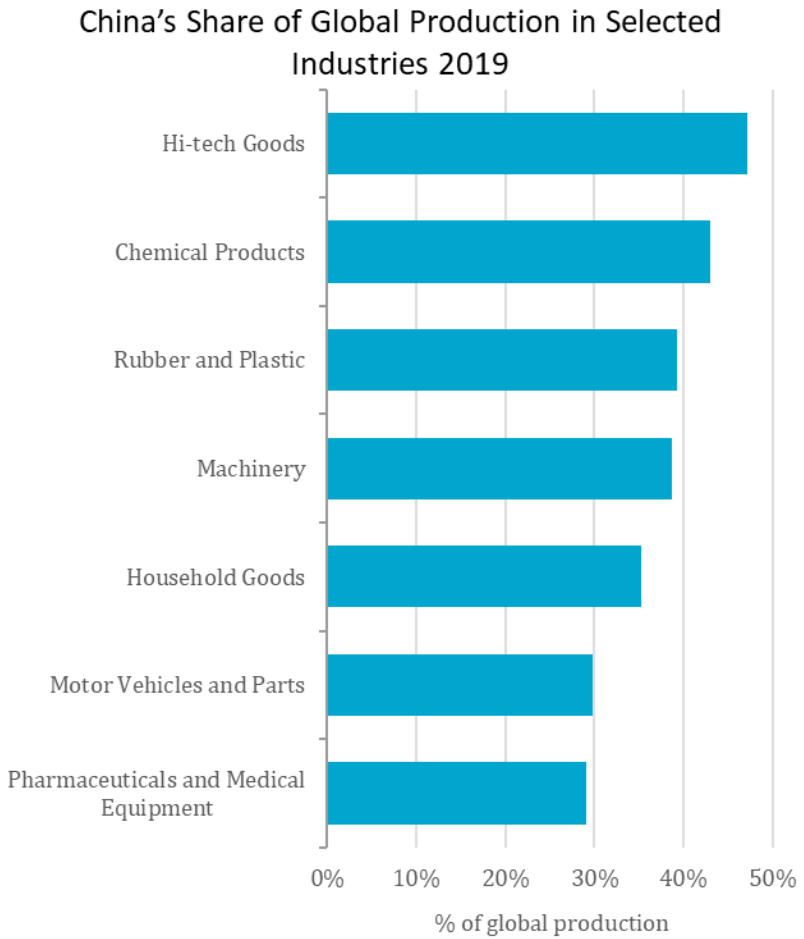
- As China was the first economy where COVID-19 hit and the government introduced strict measures, data from the country give an early glimpse into what is to come in other severely affected regions.
- The COVID-19 pandemic started in China in late November 2019. It began rapidly spreading in January and February 2020, forcing the Chinese government to implement strict quarantine measures, which severely affected the economy.
- Manufacturing Purchasing Managers' Index data showed a significant drop from 50.0% in January 2020 to 35.7% in February 2020. Values below 50% in the index indicate that manufacturing activity in the economy is contracting.
- Retail sales in China contracted by 20.5% in the first two months of 2020 compared to the same period in 2019 in nominal terms. Most retail outlets were closed in the country, with only grocery and other essential stores open, which caused a dramatic decline in activity.




*Source: National Bureau of Statistics of China*

# COVID-19 highlights need for supply chain diversification

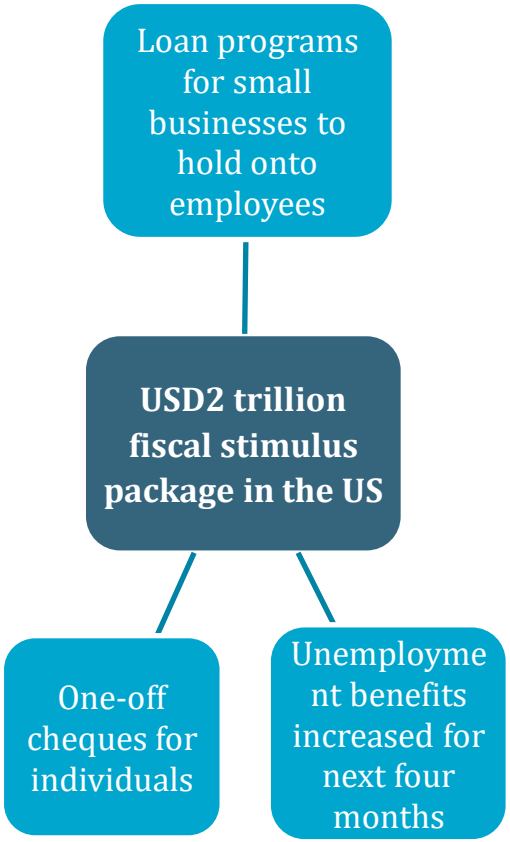
- Global manufacturing supply chains were extremely effective and streamlined before COVID-19 hit the world. But the pandemic has exposed the vulnerability of the system in which components are manufactured by one major country, with no global alternatives to switch to quickly.
- The supply chain disruption started in China, when numerous factories across industries were shut down and restrictions on transportation were imposed. The first to feel the effects were global manufacturers of hi-tech goods, chemicals, machinery and motor vehicles and parts.
- Now China is restarting its economy; however, Europe and North America are shutting down some of their factories to fight the spread of COVID-19. This will result in further disruptions to industries and an overall slowdown in manufacturing.
- There is no doubt manufacturers around the globe will have to rethink their supply and logistics strategies. We expect to see more diversification in supply chains, with more emphasis on having alternative suppliers.




*Source: Euromonitor International from National Statistics*

# Fiscal stimulus a challenge with restrictions on expenditure

- Governments around the world have started announcing their stimulus packages to aid economic recovery. However, the exact size of the response globally remains in constant flux.
- Given a novel global supply and demand shock, it is not currently clear how economies will react to fiscal or monetary stimulus. In light of the pandemic, people will not increase their demand for many items and services, and companies cannot produce more when people are isolated in their homes. It is important that governments around the world provide safety nets for individuals and companies in the form of delaying payment of taxes, insurance for people losing their jobs, etc.
- Another potential issue for the global economy is liquidity constraints on company debts. For example, shale oil industry debts or sky-high student loans in the US or corporate debts in Asia. The problem is that while recovery from the national disaster could be swift once the pandemic is over, the lack of liquidity in the system could trigger larger and longer lasting economic shocks when companies default.
- The response from governments will likely be unprecedented. The US will send cheques directly to individuals to help them cover shortfalls as part of its USD2.0 trillion proposed stimulus package. The UK will make GBP330 billion available to companies needing emergency loans, France has allocated EUR300 billion to businesses in a similar situation.



# What could alleviate the economic effects of the pandemic?

A **coordinated global response** limits the spread of the virus. Advanced economies help emerging economies with their response and this limits the spread and length of the pandemic.

**Effective treatment, widespread testing and a vaccine** help to curtail the pandemic. The vaccine provides certainty that the virus will not return at pandemic levels, which gives people security. The economy quickly rebounds.

**Fiscal and monetary policy stimulus** helps companies and consumers stay afloat and supports demand through uncertain times. Once the pandemic passes, the economy quickly and fully rebounds because no financial crisis with a considerable number of defaults and bankruptcies was triggered.

It becomes evident that **COVID-19 cannot survive in higher temperatures,** leading to a significant slowdown of the pandemic in warmer months. Countries are able to safely remove the severe quarantine measures before the summer, which leads to economic recovery. The virus does not return at a similar presence for a second wave in autumn 2020.

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# What could exacerbate the economic impact of the pandemic?

Declining private sector income and sentiment, lower employment and tightening credit conditions cause **declining consumption and investment**. Lack of investment in infrastructure lower the potential economic growth.

Current short-term travel bans grow out into **long-term protectionist policies** and decoupling gets an additional boost – global trade declines and remains low in the long-term future too.

High-debt companies (eg shale industry in the US) cannot roll over debts due to a slowdown in business, which gives rise to **bankruptcies, triggering a financial crisis**.

**The pandemic lasts longer and infects more people** than in the baseline forecasts. Social-distancing measures have little impact to curtail the spread of the virus.

**Cashflow mismatches** between business costs and revenues cause business liquidity problems and a rise in bankruptcies.

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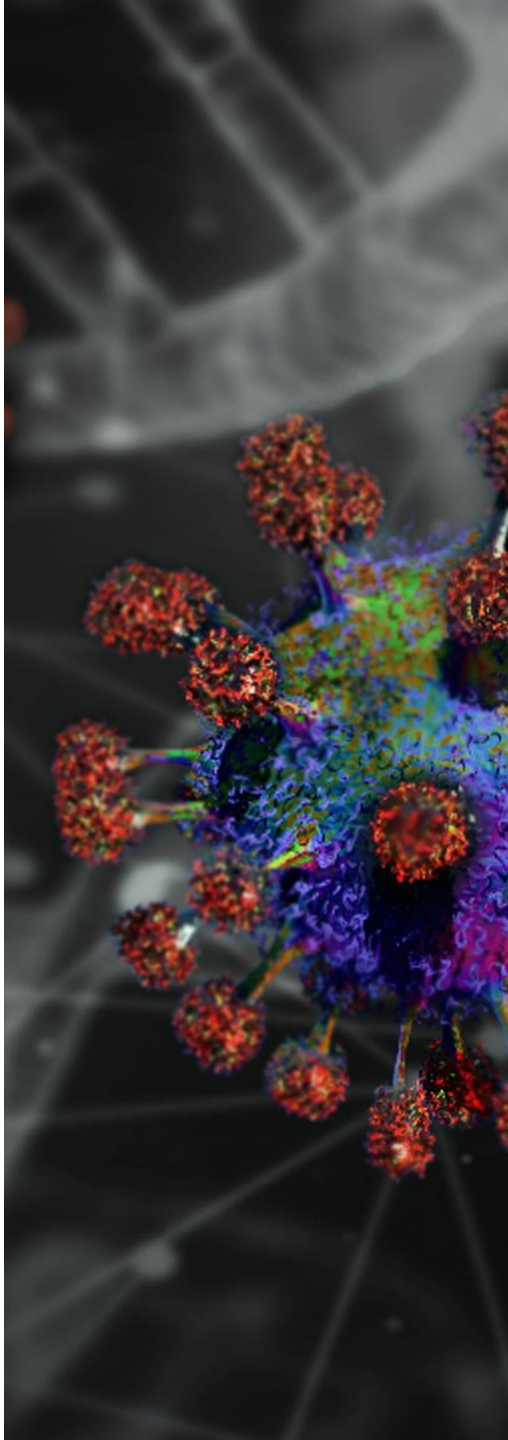
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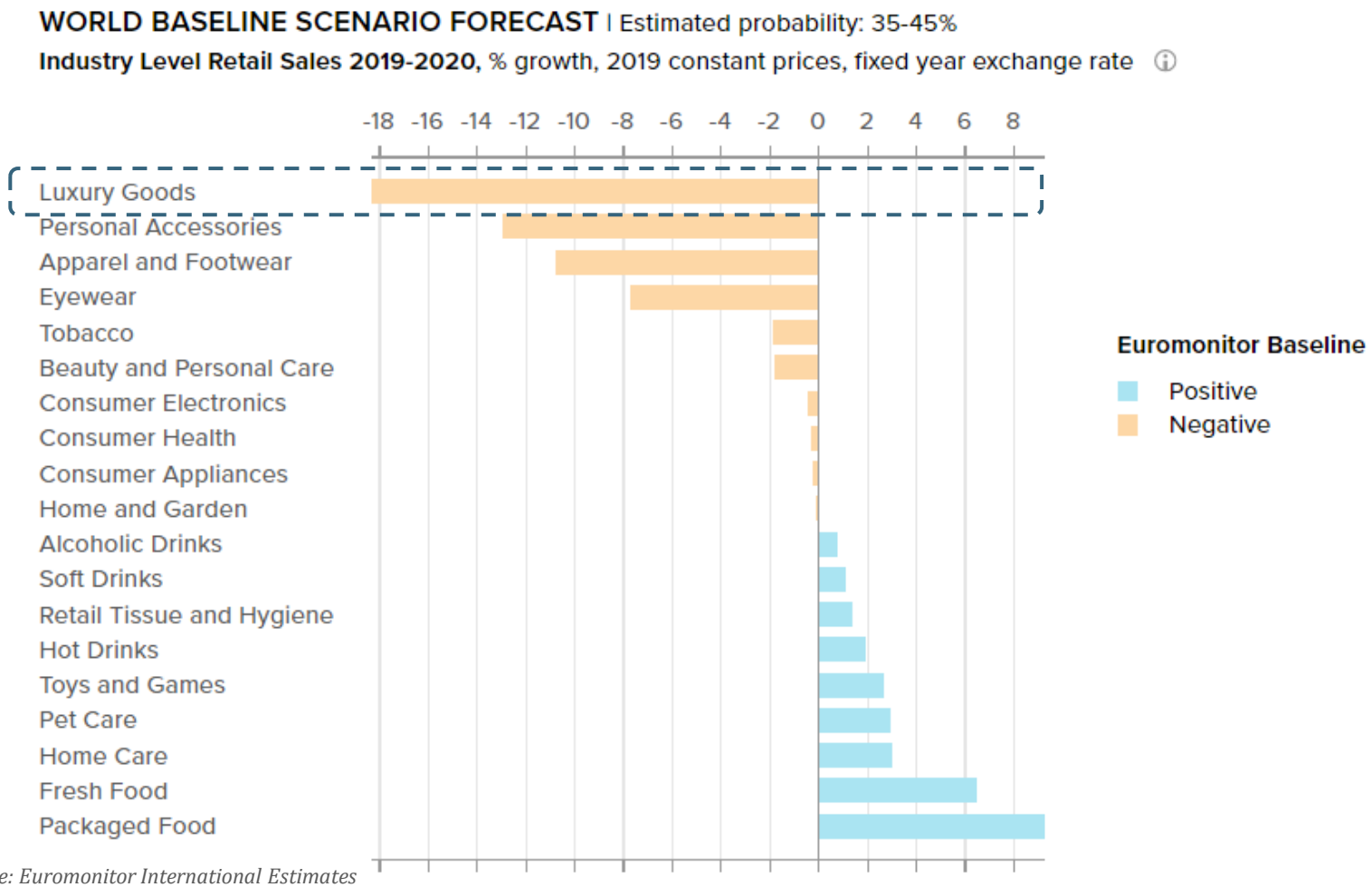
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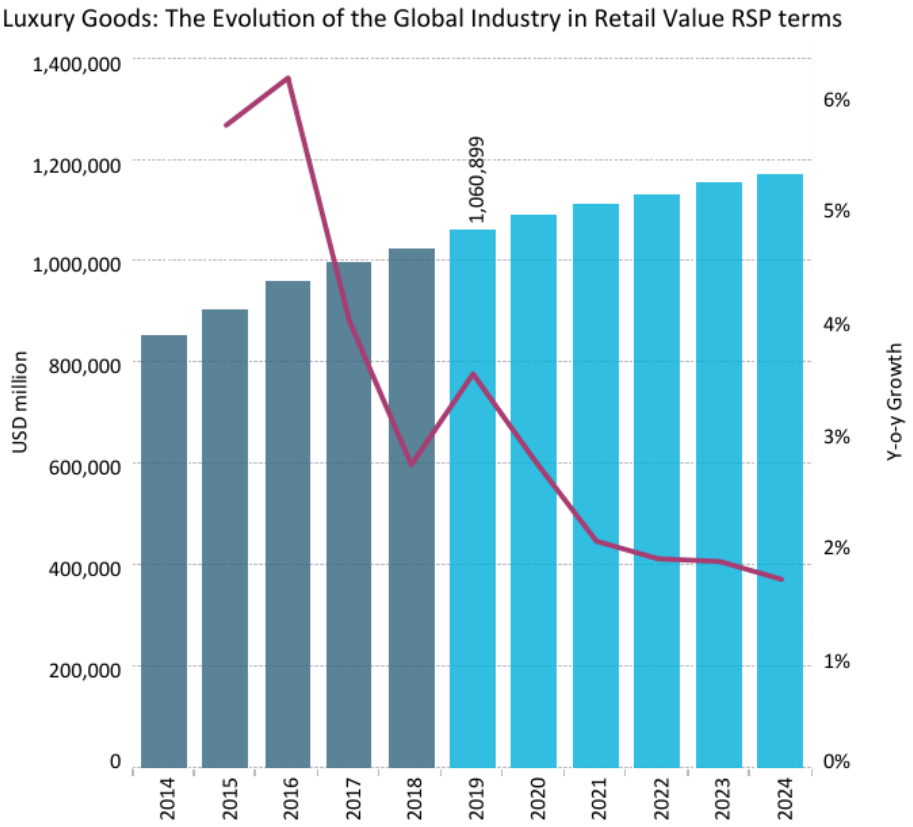
# Luxury goods expected to be hardest hit across all fmcg markets




*Source: Euromonitor International Estimates*

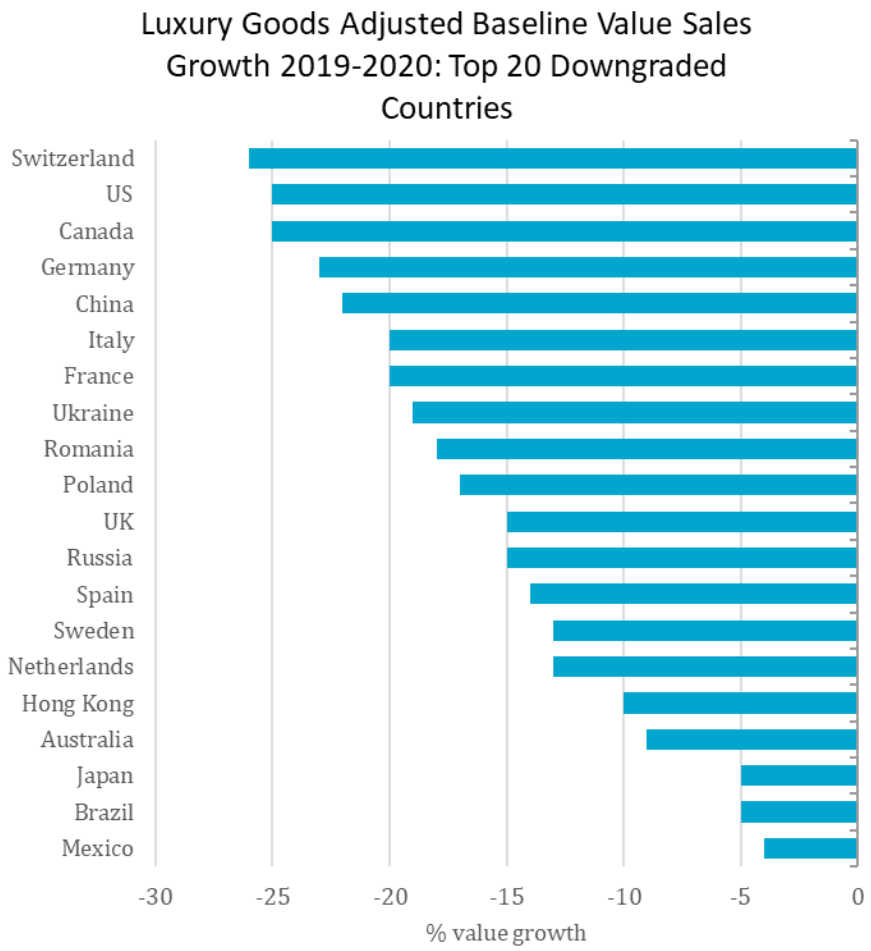
# COVID-19 poses huge threat to USD1 trillion luxury goods industry

- According to Euromonitor International's latest data, the luxury goods market was set to grow by 3% in 2020, at constant prices, to reach over USD1 trillion, slightly lower than the 2019 increase, which was around 4%.
- This growth was already impressive against a global backdrop of macroeconomic uncertainty, difficult trading conditions in major markets, shifts in consumer values and expectations and bigger changes taking place in manufacturing and legislation around the world.
- However, nothing in the modern evolution of and challenges facing the luxury goods industry (including the global financial crisis) will compare with the global disruption caused by the COVID-19 pandemic.
- Uncertainty remains the new rule, but the impact of the current crisis offers clues to the kind of strains the global luxury goods industry will be facing in the short term.




*Source: Euromonitor International*

# All luxury goods markets downgraded due to impact of COVID-19




*Source: Euromonitor International Estimates*

- The baseline market forecast for luxury goods was researched in summer 2019 and published in November 2019. In March 2020, our economic forecasts were updated to take into account the unfolding impact of COVID-19.
- The Q1 2020 quarterly update reveals a significant change to the Passport baseline, underscoring the stability, vulnerability and global exposure of the luxury goods industry over the past quarter, with a deepening decline forecast for Q2 2020.
- Based on the Passport baseline, global value sales of luxury goods were expected to grow by 3% in 2020, while the latest quarterly update forecasts a decline of -18% due to COVID-19.
- Within the top 10 countries that are contributing the most to the downgrades, four are in Western Europe (namely Switzerland, Germany, Italy and France), two are in the Americas (the US and Canada), three are in Eastern Europe (Ukraine, Romania and Poland), whilst, possibly somewhat surprisingly given that that is where the pandemic started, just one is in Asia Pacific (China).

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# COVID-19 impact at a glance

| | Immediate spike in growth followed by normalisation | Immediate spike in growth followed by long-term shift | No impact | Immediate drop followed by normalisation | Immediate drop followed by long-term shift |
|---|---|---|---|---|---|
| Designer apparel and footwear | - | - | - | x | - |
| Fine wines/champagne and spirits | - | - | - | - | x |
| Luxury leather goods | - | - | - | x | - |
| Luxury eyewear | - | - | - | x | - |
| Luxury foodservice | - | - | - | - | x |
| Luxury hotels | - | - | - | - | x |
| Luxury jewellery | - | - | - | x | - |
| Luxury portable consumer electronics | - | x | - | - | - |
| Luxury timepieces | - | - | - | x | - |
| Luxury writing instruments and stationery | - | - | - | x | - |
| Premium and luxury cars | - | - | - | - | x |
| Super premium beauty and personal care | - | - | - | x | - |

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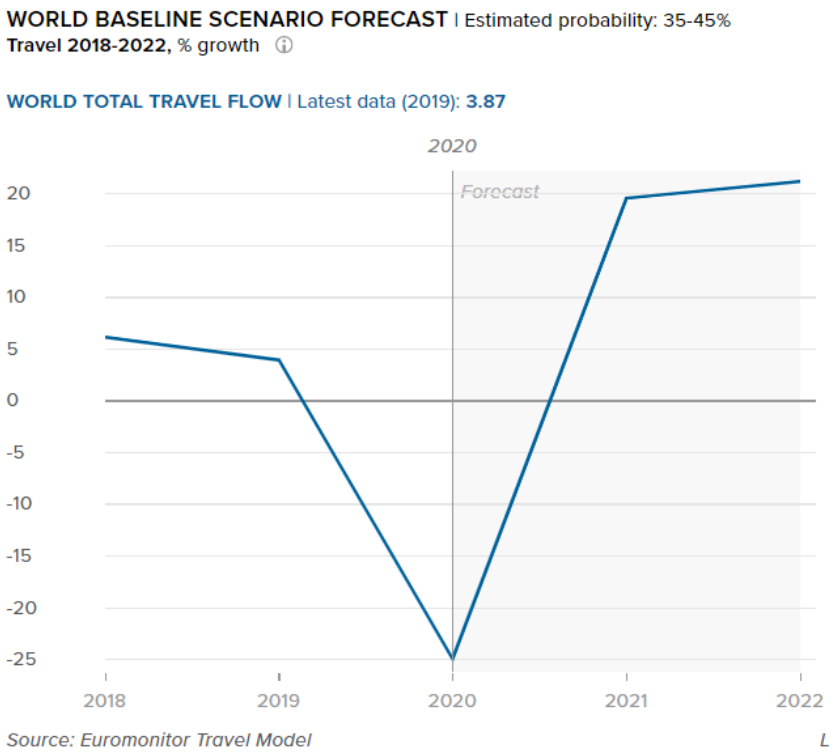
# No category in luxury goods immune to effects of COVID-19 storm

- No luxury goods category is likely to "benefit" from the COVID-19 crisis, certainly not in the short term. Based on available evidence, the cascading global measures to combat the spread of the virus will drive an unavoidable drop in overall luxury goods spending in all key luxury goods markets, likely lasting at least until the end of 2020. That said, some categories and players are likely better-placed to weather the storm than others.
- Flexibility, resources and healthy supply chains will determine which players remain viable. Large luxury goods conglomerates have substantially more capitalist resources, whilst luxury brands with significant equity in digital sales and a strong online presence will be better-placed to serve homebound consumers. Even for these players, however, the next 2-3 months will prove hugely challenging, with all spending on luxury goods expected to contract significantly in the short to medium terms.
- Owing to the forced closure of hotels, restaurants and services, teamed with the cull on all travel flows, experiential luxury will likely feel the biggest brunt of the outbreak. Other luxury categories that may feel the impact more than others will be premium and luxury cars and fine wines/champagne and spirits.




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# Outlook for luxury travel bleak for key players in luxury hospitality



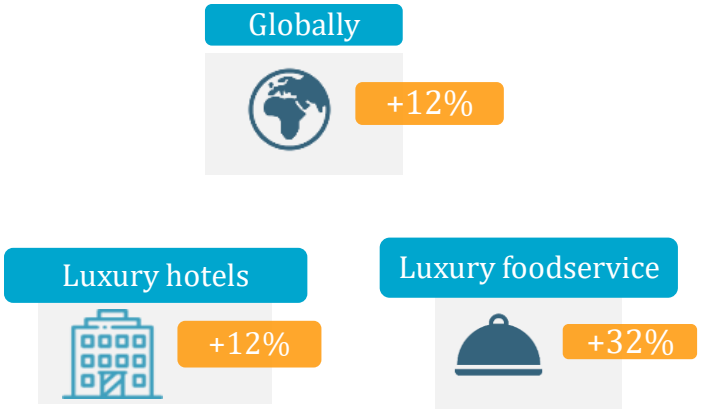

- The ongoing COVID-19 outbreak is hitting luxury travel hard. Luxury hotels, first class travel, high-end travel retailers and luxury hospitality services have all already suffered significant losses due to falling global demand throughout Q1 2020. As the virus continues to spread from East to West, with Europe currently at the epicentre, the outlook for Q2 2020 is now looking increasingly bleak, with overall global travel flows now forecast to fall by 25% during 2020 as a whole.
- Business travel, a mainstay of luxury accommodation and transportation demand, has ground to a halt as companies and individuals are asked to work from home where possible and all commercial flights have been grounded.
- The main global challenges in luxury travel overall will stem from political uncertainty, a potential increase in protectionism, and the risk of a sharper slowdown in growth in China. However, this is precisely where the key concerns lie, as Chinese consumers, who account for over a quarter of all global luxury goods spending, whether shopping for luxury at home in Mainland China or indeed abroad, are paramount to the health of key players.

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# Experiential luxury forecast to be hit hard following rapid growth

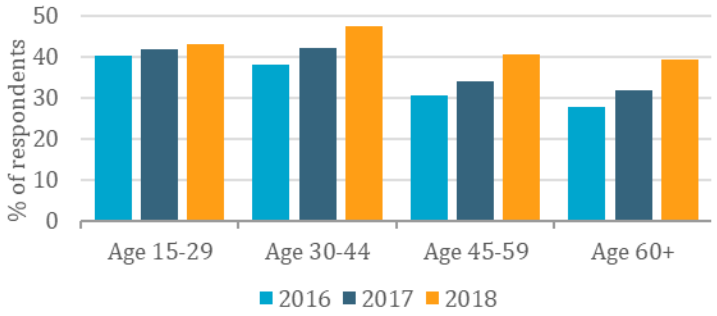
- Global sales of experiential luxury had been going through a period of rapid growth as we reached "peak stuff", and consumers across regions and demographics began to gravitate towards experiences.
- According to Euromonitor International's latest data, global experiential luxury sales grew to exceed USD60 billion in 2019, led by luxury hospitality giant Marriott Group.
- Indeed, experiential luxury players enjoyed rapid growth as more consumers moved from "owning" to "being" in 2019, as a growing number of consumers worldwide claimed that they preferred experiences over owning things. This trend was clearly led by millennials and younger consumers.
- Luxury was increasingly becoming less about material goods and more about acquiring meaningful experiences. But whilst luxury foodservice was severely impacted by the global financial crisis, the challenge of COVID-19 is of a different order altogether, with all of the world's luxury foodservice and luxury hotel operators now facing mandated shutdowns lasting several weeks.
- However, whilst food delivery and takeout services for consumers on lockdown will prove a lifeline for many operators, consumer spending on all luxury foodservice is pulling back dramatically.

Experiential Luxury Value Growth 2014-2019




*Source: Euromonitor*

"I prefer to spend money on experiences, rather than things" (Agree/Strongly Agree)

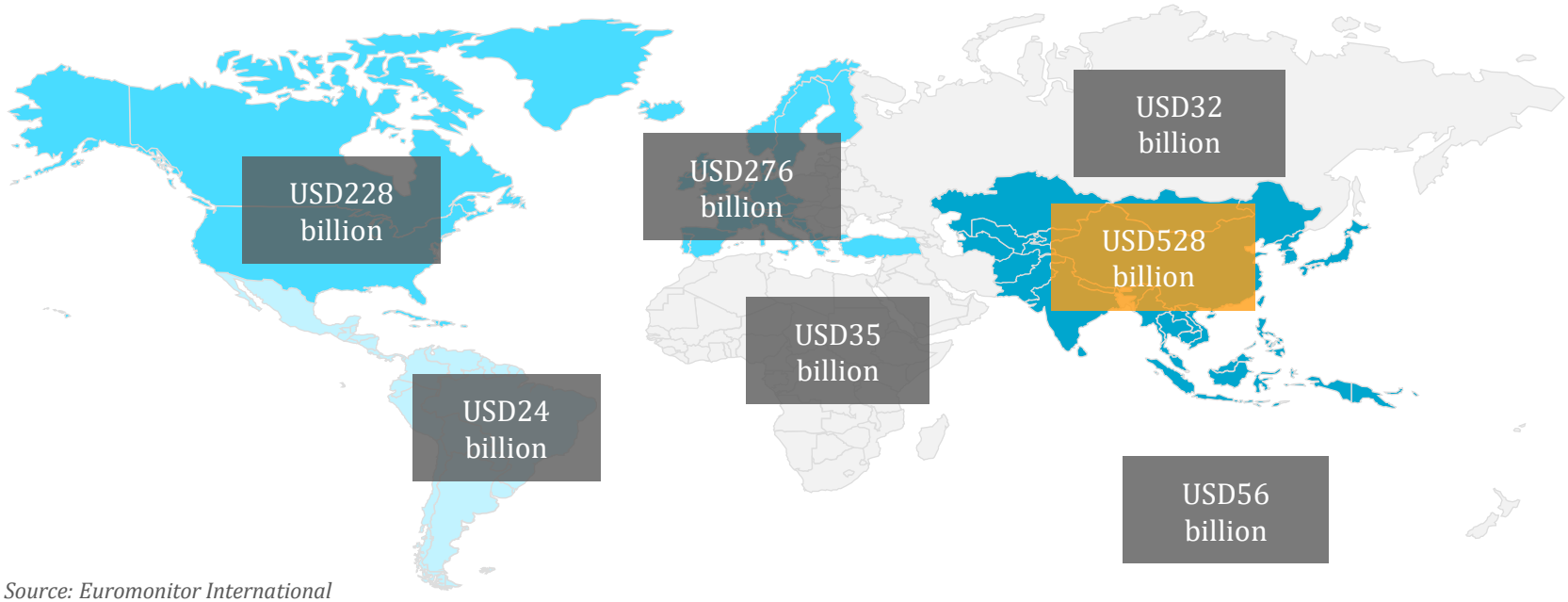



*Source: Euromonitor Lifestyles Survey 2019*

# Health of luxury market heavily reliant on the Chinese shopper

- The COVID-19 outbreak has notably undermined local demand for luxury goods in Mainland China. Despite China's mature online sales distribution model and its plethora of digital retail platforms, store-based shopping and face-to face customer service continue to play a crucial role in terms of the luxury goods retail landscape and shopping culture of local Chinese consumers.
- However, the strict virus containment measures kept would-be luxury consumers at home during one of China's busiest shopping holidays in the year, namely Chinese New Year. Added to that, all local luxury retailers had to close their premises and/or reduce working hours.

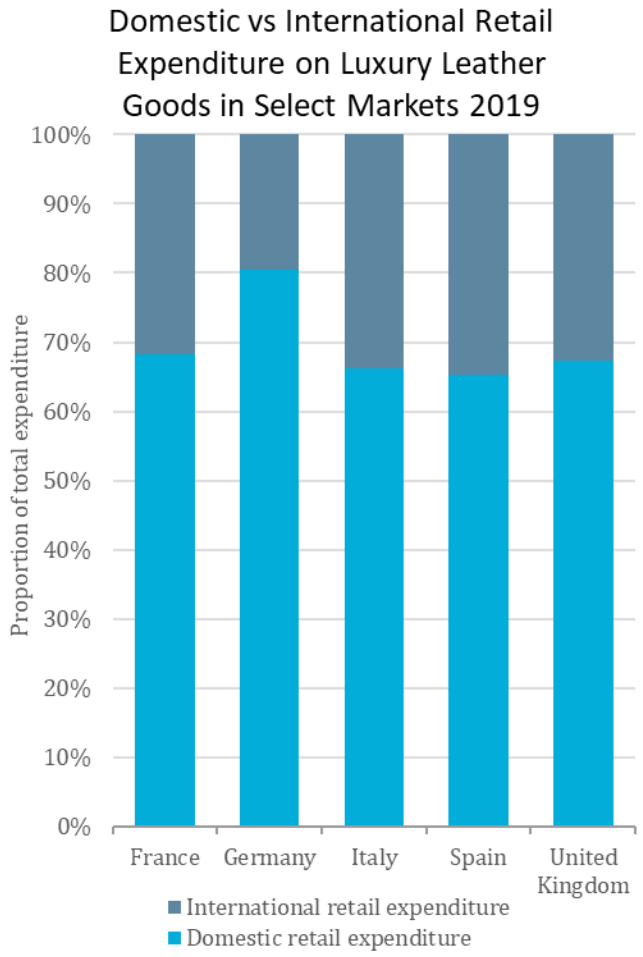
Value Sales of Luxury Goods 2019




*Source: Euromonitor International*

# Sales of luxury leather goods set to be impacted by COVID-19

- Luxury leather goods continued to post a strong performance in 2019, boosted in particular by international luxury shopping and spending by wealthy tourists.
- While the share of international expenditure varies from market to market, it is clear that the influx of wealthy tourists, particularly those coming from Mainland China, has been paramount and played a key role in the positive performance of luxury handbags in Western Europe.
- In France, Italy, the UK and Spain, for example, which are currently amongst three of the worst hit markets in terms of COVID-19 cases and related deaths, international sales of luxury leather goods accounted for over one third of all sales in 2019.
- For this reason, the outbreak of COVID-19 and subsequent travel restrictions are expected to put significant pressure on sales in the short term, while leading brands will resort to technology to continue engaging with their consumers worldwide, as evidenced by the Milan and Paris Fashion Weeks' catwalks being live streamed from empty rooms.
- If the epidemic is contained before the end of Q3 2020, the rebound in shopping and global travel could drive luxury sales during the rest of the year, thereby increasing spending on luxury leather goods, but the outlook for 2020 remains pessimistic.




*Source: Euromonitor International*

# Routes to disruption

| | Short-term impact (Q1-2) | Medium-term impact (Q3-4) | Long-term impact (2021 onwards) |
|---|---|---|---|
| Macro-environment + Legislation | • Consumer expenditure growth on luxury goods declines (down 1.0% in 2020 vs up 5.7% in 2019) | • Unemployment rates rise (from 5.0% in Q1 2020 to 8.7% in Q2 2020 in the US)<br>• Disposable income down | • Slow return to normality<br>• Consumer shifts in share of wallet and lower consumption still prevalent |
| Supply Chain | • Production, transportation and imports from China, Italy, the US, France and the UK disrupted, and costs up<br>• Increased demand for luxury portable consumer electronics | • Luxury companies expand capacity to produce hand sanitisers, protective equipment and ventilators<br>• Pressure on e-commerce infrastructures | • Localising production and automated supply chains<br>• Focus on sustainability transparency/safety, natural 'contact-free' packaging |
| Channel | • Bricks-and-mortar, luxury hotels and luxury foodservice closures<br>• Luxury travel and travel retail severely hit<br>• Digital sales and pure online sales benefit | • Spike in online demand and e-commerce livestreaming<br>• Discounting/promotions to tackle excess inventory<br>• Non-essentials sidelined | • Online sales penetration deepens, in-store experience paramount<br>• Luxury brands expand channel mix<br>• Subscription models increase |
| Consumer + Consumption | • Tourist spending down<br>• Consumer confidence down<br>• Consumer sentiment moves away from big ticket luxury items<br>• Digital marketing increases | • Uptake in digital, AR/VR engagement, virtual assistance<br>• Self-care attitudes come to the fore, lipstick effect takes hold<br>• Discretionary spend down on big ticket items | • Digital influence reinforced<br>• Wellness-centred, health attributes, clean and conscious beauty, and rise in sustainable luxury<br>• Quality over quantity, rise in importance of luxury heritage |

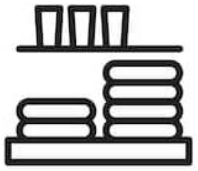
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# The five-step consumer progression of COVID-19



## Focus on preventative health

- Immunity-boosting H&W items
- Hygiene products (sanitisers/masks)
- Vitamins and dietary supplements (vitamin C)
- Disinfectants (wipes)



## Stockpiling grocery essentials

- Sanitisers, liquid soap, toilet roll, bottled water
- Dried (pasta), canned/preserved, long-life (UHT milk) and preserved food, isotonic/functional beverages
- Baking ingredients (flour, yeast)
- Online sales surge




## Avoidance of non-essential shops and services

- Foodservice closed
- International travel restricted
- Shopping centres, gyms, leisure centres, theme parks, etc, closed
- Home alternatives to compensate for reduced visits to restaurants, theatres, spas, beauty services clinics



## Home seclusion

- Virtual living via virtual gyms/online gaming and socialising
- Home schooling (educational toys/books)
- Online shopping , home delivery and streaming
- Wider take-up of technology by older consumers
- Cocooning – DIY, gardening, home as wellbeing hub

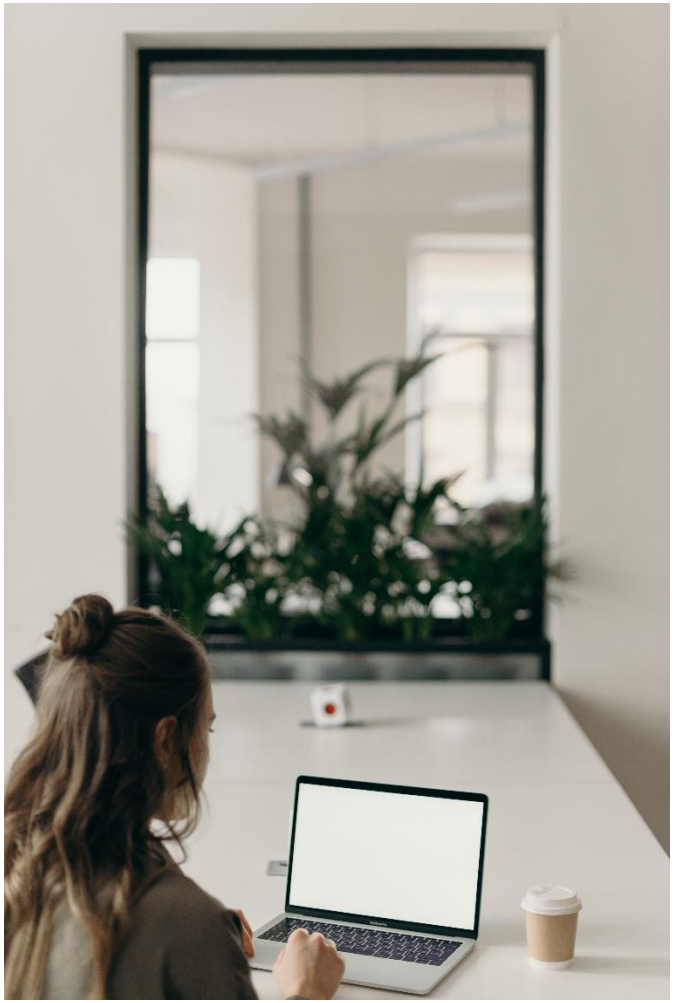


## A new normal?

- Globalisation knocked, return of local supply
- Premiumisation subdued
- Health paramount
- Mental wellbeing at forefront
- Strengthening of online
- Consumer re-set: city living diminished
- Sustainability shifts focus from anti-plastic to rewilding

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# Consumer behaviour and consumption patterns shift to digital



- Consumers' inevitable shift to the digital and online world as an immediate impact to the virus outbreak should be seen as a longer-term opportunity for brands to elevate their omnichannel technologies, not just to push digital sales, but also to create platforms and communities for product discovery, advice and sharing at a time of heightened uncertainty, insecurity and anxiety.
- Driving one-on-one digital conversations could prove a crucial factor in sustaining brand loyalty and sales, especially in more vulnerable luxury goods categories.
- The emotive and human element of virtual conversations is not to be ignored as this will ultimately create long-lasting connections with brands and, as an extension, stronger brand equity. Many luxury beauty brands have been adopting virtual engagements, which has proven to be very successful.
- Beyond more traditional social media platforms, beauty content, videos and livestreaming on TikTok will be vital for engaging the Gen-Z cohort, not just as an immediate priority but as an investment in a generation that will likely see long-lasting shifts to digital in the future.

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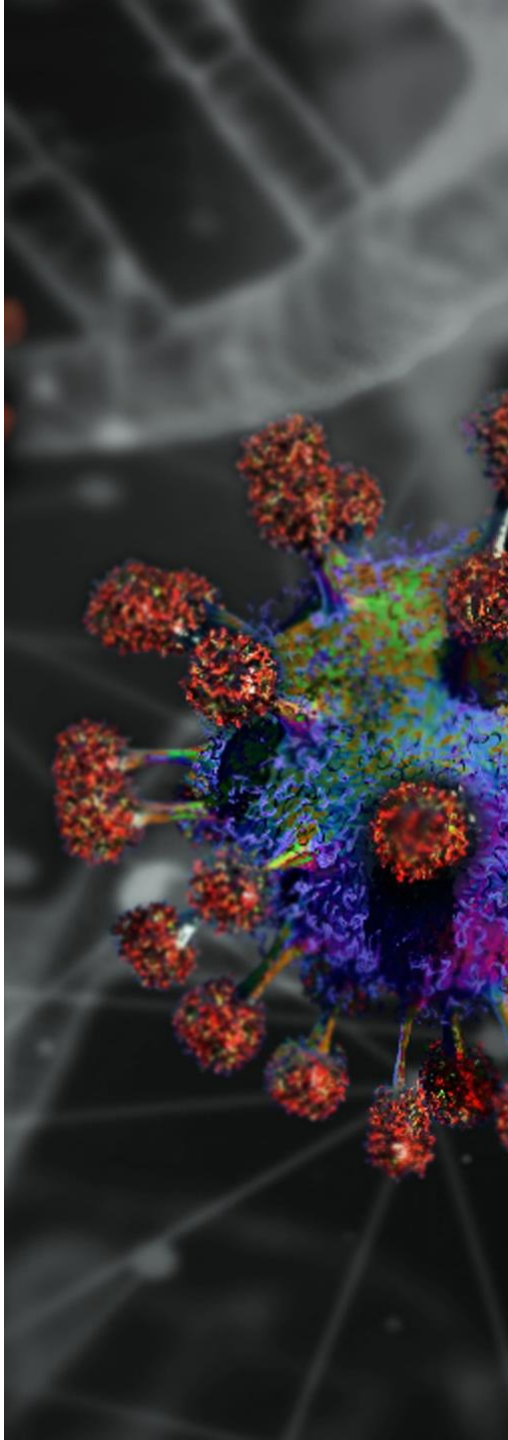
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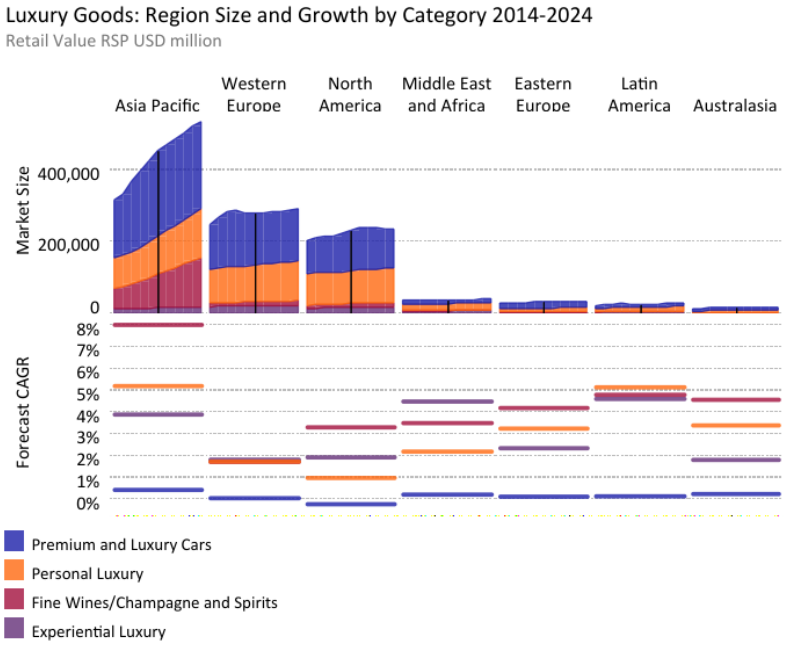
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# Luxury sales in Asia Pacific heavily exposed to COVID-19 outbreak

- Asia Pacific's luxury goods sales are the most exposed and impacted by the COVID-19 pandemic, with China the most severely hit country in the region.
- Regional sales were valued at USD451 billion at the end of 2019 and were set to surpass USD600 billion by 2024. Whilst China's efforts to combat COVID-19 accelerated in January and February 2020, with sweeping, nationwide restrictions on citizens and business, including the total lockdown off Hubei, the province at the epicentre of the initial outbreak, the impact on the luxury goods industry has been severe.
- In 2019, China accounted for 68% of sales in Asia Pacific and ranked as the most important market globally. Private domestic consumption was on the rise, with global players such as LVMH, Burberry and Kering all reporting unprecedent sales increases in China in recent years.
- Whilst there are signs that the virus is moving from East to West, Singapore, Hong Kong, Japan and South Korea have also been severely hit, with uncertainty facing all key markets in the short to medium term, and Japan now facing tough restrictions in Q2.




*Source: Euromonitor International*

# China’s once robust economy now set to downgrade luxury goods sales



- Luxury goods spending in Mainland China accounted for almost a third of global spending in 2019. Winning in this market was a key strategy for the leading luxury goods players as 18% of the world’s millennial population originates from China, but the outlook is increasingly uncertain as the COVID-19 pandemic takes further hold across the globe.
- Whilst China’s emergence as a global economic powerhouse made it a significant engine of ultra-wealthy, wealthy and affluent population growth, what is now of particular concern is that consumers at all income levels are feeling less confident, which will have a significant impact on luxury shopping. Similarly, all consumers, regardless of income, are facing the same level of social distancing measures, and shopping for anything non essential has taken a back seat.
- While we have witnessed many consumers taking to panic-buying items like food and household goods, there is concern that many wealthy consumers have shunned shopping altogether. This is most acute in China, which accounts for a large chunk of the global luxury goods industry.
- Under our new baseline forecast scenario for 2020, sales of luxury goods in China are set to be down by 22% during the year. Whilst this places China at number five in terms of global severity of downgrades, in actual terms this equates to USD68 billion, making it the worst hit market overall.

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# COVID-19 and the impact on China’s outbound travel

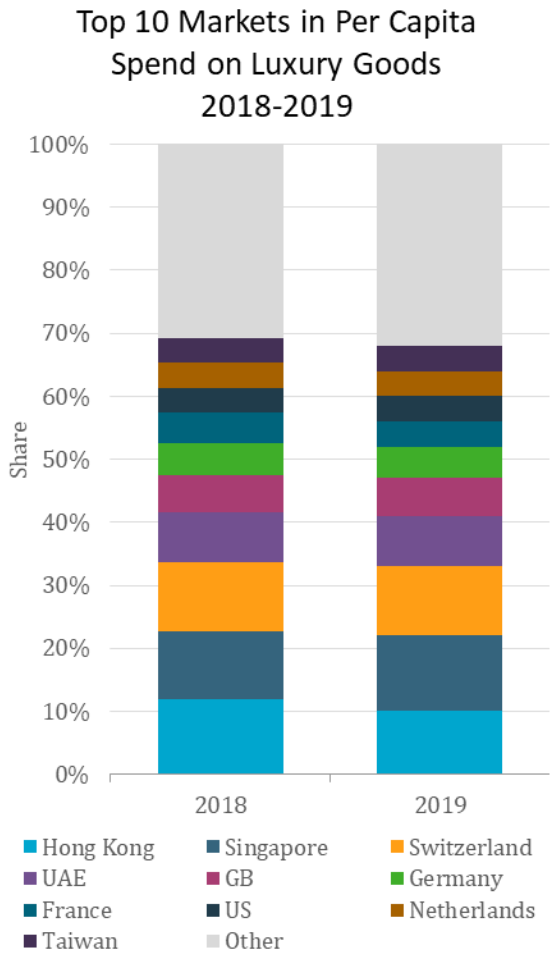
- Due to the government shutdown and lockdown in regions like Hubei, along with the extended holiday period and closure of businesses, it is expected that the Chinese economy and its luxury goods market will experience a major downturn. Notwithstanding the current ban on both outbound and inbound travel, the economic effects would lead to departures from China falling by 86 million compared to the original baseline during 2020 overall. This translates to a total decline of just over 16% in percentage terms.
- Luxury shopping destinations around the world were already feeling the negative effects of falling numbers of Chinese visitors, especially those that were heavily dependent on China for tourism, such as Japan, Hong Kong, the US, France, Italy and South Korea.
- Major events such as the Formula One Chinese Grand Prix were postponed and the Mobile World Conference in Barcelona was cancelled, with a cloud now hanging over all future events and meetings in the months to come. In Macau, the government ordered that casinos close for two weeks, which has had a similar negative impact on luxury shopping, given the cull in footfall in Macau's’ luxury shopping centres, which act as a major tourist attraction and tend to go hand in hand with visits to its luxurious and world-leading casinos.




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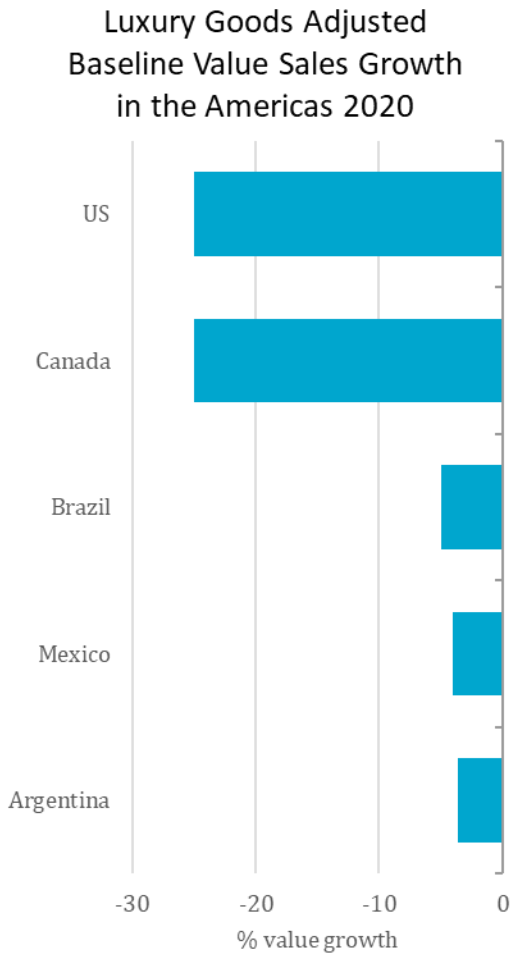
# Hong Kong, once a luxury tourism hub, faces further headwinds

- Hong Kong's luxury goods market had already being negatively impacted by widespread protests against reduced freedoms. Furthermore, its luxury goods market is highly reliant on China, making it vulnerable to demand shocks arising within its larger neighbour. Nevertheless, Hong Kong was the third largest luxury goods market in the world in per capita spending terms in 2019.
- Many luxury brands such as Burberry, Cartier and Prada had already reported double-digit declines for sales in Hong Kong in 2019, with the outlook for the year overall looking less optimistic.
- Despite all of this, Hong Kong continued to showcase itself as a hotspot for tourism in 2019, with overall year-on-year inbound arrivals showing positive growth, demonstrating the strength of Hong Kong as a tourist destination.
- However, the outbreak of COVID-19 now tells a very different story, and Hong Kong, which saw 24 million tourist arrivals in 2019, adding USD22 billion to its economy, is now facing strong headwinds. To make matters worse, of these tourist numbers, China alone accounted for almost 70% of arrivals and over 80% of all tourist spending.
- At the end of March 2020, much like other markets around the world, Hong Kong put a ban all tourists in order to contain the spread of COVID-19. The city's chief executive also announced that people coming from Taiwan and Macao, including Hong Kong residents, would need to be quarantined.




*Source: Euromonitor International*

# The US set to experience USD52 billion loss in sales in 2020




*Source: Euromonitor*

- Valued at over USD210 billion at the end of 2019, the US is the world's second biggest luxury goods markets, after China, and the world's biggest personal luxury goods market. It similarly plays a hugely important role in luxury travel and hospitably, as well as in premium and luxury cars. To this end, any shock in the market would lead to notable changes across the entire luxury goods ecosystem.
- With the US now at the epicentre of the pandemic, current forecast projections suggest that the overall luxury goods market is likely to decline by 25% in 2020 and by a staggering 25% in a COVID-19 deep crisis scenario. Taking the baseline growth alone, this would result in a massive loss of USD52 billion in 2020. The outlook for Canada also remains bleak with downgrades close to that of the US
- Like other markets, the epidemic will likely accelerate the digitalisation of the luxury goods industry in future; it may not take the form of fast expansion in sales due to the uniqueness of the industry, but more as an effective way to increase customer loyalty and stickiness as well as to build brands' profiles amid their rejuvenation strategies.
- Mexico, Brazil and Argentina in Latin America are set to fare somewhat better, owing to the dynamic growth they were experiencing pre-COVID-19, Mexico and Brazil, in particular, are key developing luxury goods markets, and, to this end, will suffer great losses.

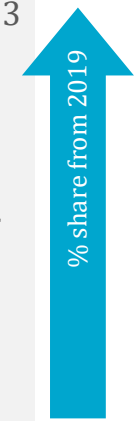
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# Expectations for US luxury goods further hit by cull on arrivals

Tourist Spend on Personal Luxury Goods
as a % of all Luxury Goods Spending 2013/2019

| 2013 | | 2019 | |
|---|---|---|---|
| US | 30 | US | 33 |
| France | 6 | France | 8 |
| Italy | 4 | Italy | 5 |
| UK | 3 | UK | 5 |
| Hong Kong | 7 | Hong Kong | 4 |
| Germany | 2 | Germany | 3 |
| Spain | 2 | Spain | 2 |
| UAE | 2 | UAE | 2 |
| Japan | 0 | Japan | 2 |
| Switzerland | 2 | Switzerland | 2 |
| Other | 8 | Other | 12 |



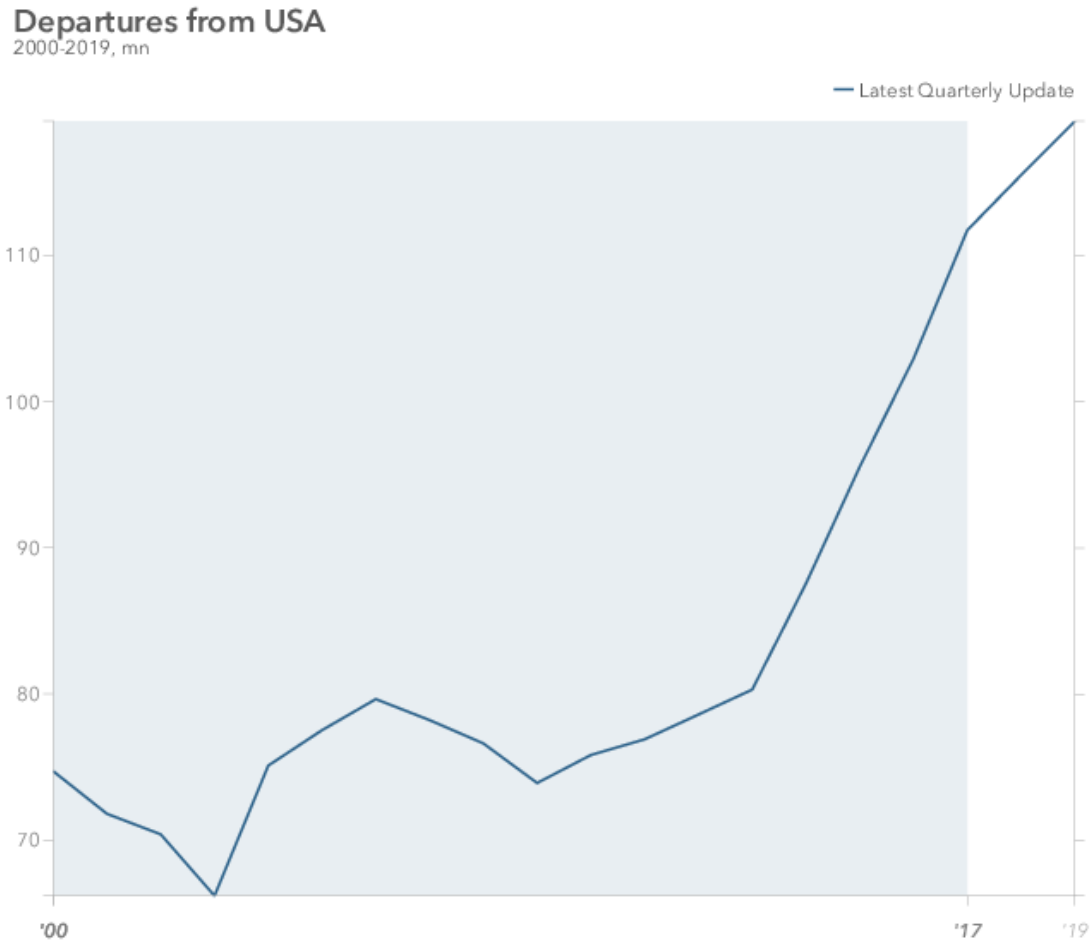




*Source: Euromonitor International*

- Luxury shopping has been a major driver in terms of holiday destinations chosen by many wealthy tourists, and has greatly influenced the luxury goods market. Total global tourist spending on personal luxury goods increased by 7% over 2013-2018.
- However, as many key shopping destinations, like Paris, New York City, London and Milan, are expected to record poor tourism flows in the coming months, this will likely have a negative impact on sales of luxury goods by international tourists.
- In terms of in-country spending, the US accounts for almost half of all international spending on personal luxury goods (44%), but in terms of nationality, the Chinese are the biggest single international spenders in the world and make up over a quarter of all tourist spending on personal luxury goods.
- Under our new baseline forecast scenario for 2020, international arrivals into the US are set to be down by 25% by the end of the year. This will have a huge impact on international spending in key shopping cities such as New York City, Miami, Las Vegas and Los Angeles.

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# US departures in previous crises




*Source: Euromonitor International*

## Impact on travel following 9/11

- Following the 9/11 terrorist attacks in 2001, departures from the US fell by 8% between 2001 and 2003.
- It took three years for the industry to recover to pre-crisis levels, with a 31% drop in US air travel demand in the five months immediately after the attacks.

## Impact on travel following the 2007-2009 downturn

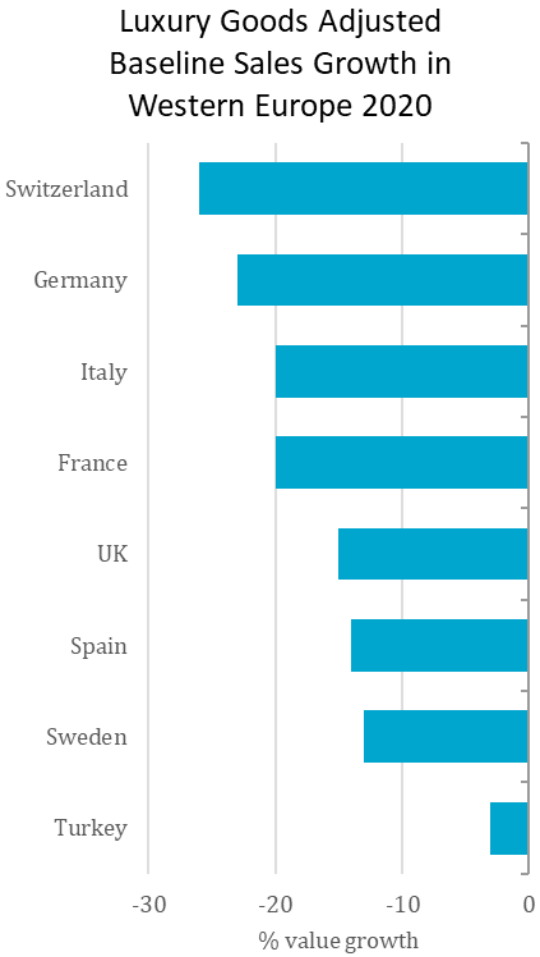
- During the global financial crisis that took place between 2007 and 2009, the overall travel and tourism industry saw a 5% decline, and it took years to recover to pre-crisis travel-flow levels.

## Possible impact on travel following COVID-19

- Under our new baseline forecast scenario, departures from the US are set to be down by 32% in 2020.

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# All key markets in Western Europe downgraded due to COVID-19




*Source: Euromonitor International*

- Home to many of the word's leading personal luxury goods companies, such as LVMH, Kering and Richemont, a global leader in luxury car manufacturing, with leading German behemoths Volkswagen, AUDI, Mercedes-Benz, Porsche and BMW, and a contender for some of the world's leading luxury shopping and travel destinations, the luxury goods market in Western Europe is set to be impacted from all corners by COVID-19.
- Whilst Switzerland and Germany look to be the worst hit thanks to a cull in both luxury watch buying and luxury car manufacturing, the outlook for leading fashion markets like Italy, France and the UK remains bleak for 2020, as they all play an integral role as both key producers of luxury goods and key luxury-buying hotspots for wealthy global tourists.
- Indeed by Q2, Europe was at the epicentre of the pandemic. Western Europe is the world's largest source market for travel, accounting for over one third of global departures in 2019, of which 70% were intra-regional trips. However, as a result of the COVID-19 outbreak, demand in travel flows could drop by 10% by 2021.
- The UK's luxury goods industry, which only last year was benefiting from the weakening pound on the back of Brexit, which acted as a magnet for international tourists, may now feel stronger aftershocks as it has both COVID-19 and post-Brexit issues to contend with.

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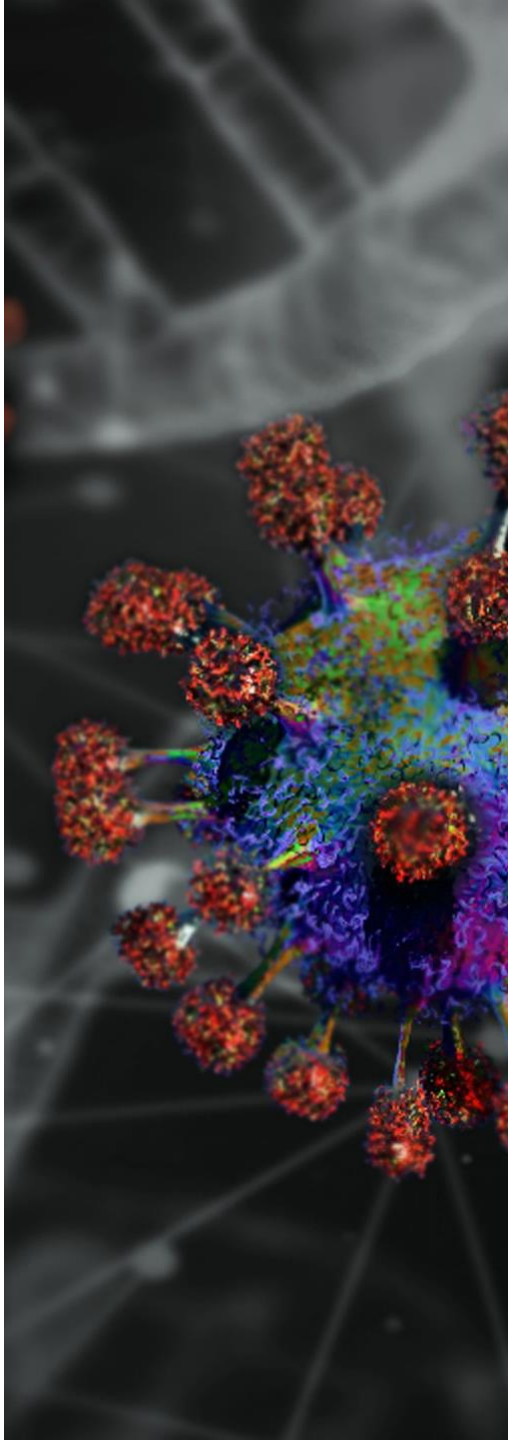
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# How the global top 10 rides this storm sets outlook for industry




*Source: Euromonitor International*

- The chart (left) shows the growth trajectory in value sales of global luxury goods over 2010-2024 against the growth witnessed in combined sales generated by the world's top 10 luxury goods companies over 2010-2018 (latest share data).
- Given this relationship and the strong correlation between the performance of the world's top 10 luxury goods companies and the overall health of the luxury landscape, we can deduce that the two are intrinsically linked
- These datasets can act as a benchmark to gauge the outlook for the overall market on the back of the COVID-19 pandemic. As we move further into 2020, this outlook will become clearer.

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# COVID-19 and impact on luxury goods' supply chains from china

- Chinese and multinational companies have already started to feel disruption to their supply chains, despite the Chinese government starting to reopen factories and businesses, as COVID-19 continues to spread across the globe and airlines have cancelled many routes in and out of China..
- The full impact of COVID-19 on sales of luxury goods is yet to be seen, but production disruptions could start to affect key categories such as luxury portable consumer electrics, premium and luxury cars and luxury apparel and footwear, where China plays a key role in the global supply chain. Production disruptions could have an adverse effect on the supply chain as luxury companies would struggle to find alternative suppliers.
- Luxury portable consumer electrics is likely to be one of the most-affected categories in supply chain as China remains the world's largest producer and exporter. Premium and luxury cars is another category which is likely to be adversely affected. For example, Volkswagen Group, which owns luxury brands Audi, Bentley, Bugatti, Lamborghini and Porsche, and is one of the largest players in China, asked its employees to work from home as its plants were forced to close down in the Chinese markets earlier in 2019. BMW, Mercedes Benz and Jaguar Land Rover also announced that the outbreak will hinder their production in China. Indirectly, car companies will also suffer from reduced production output in hi-tech goods, rubber and plastic and chemical products which are among the industry's core suppliers.

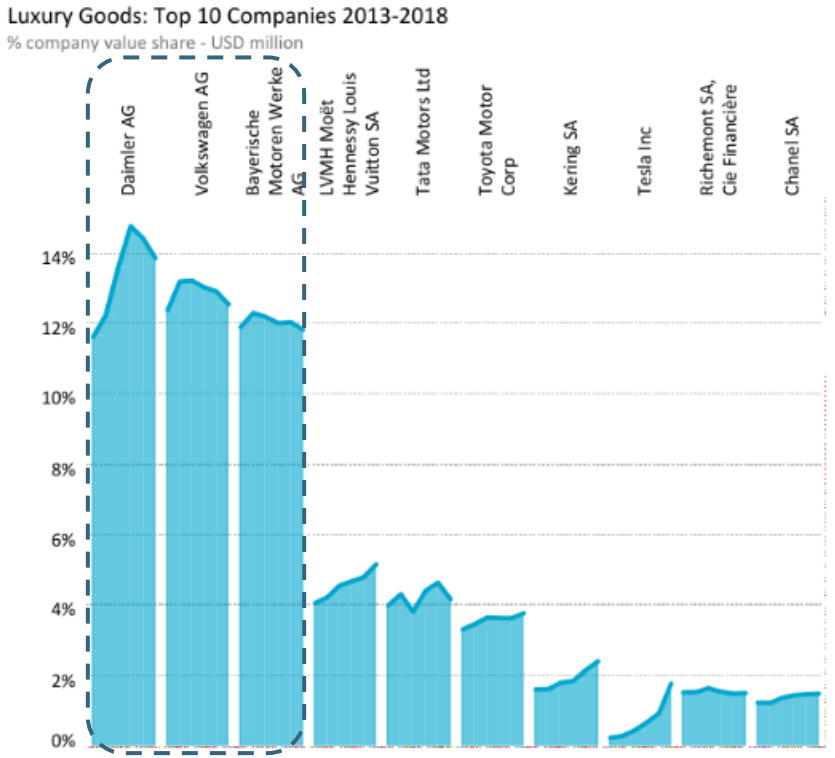
China's Production Share in Selected Industries 2018

| Industry | % Share of global production in china, 2018 | Industry's exports share, % of total 2018 | Impact on global supply chain |
|---|---|---|---|
| Household Goods | 35% | 33% | High |
| Hi-tech Goods | 46% | 27% | High |
| Textiles and Apparel | 54% | 23% | High |
| Machinery | 38% | 14% | Moderate |
| Rubber and Plastic | 38% | 8% | Moderate |
| Pharma-ceuticals and Medical Goods | 29% | 8% | Moderate |
| Chemical Products | 42% | 7% | Moderate |

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# Premium and luxury car manufacturers set for further derailment?

- The most exposed luxury goods category in value terms is undeniably premium and luxury cars, which in 2019 accounted for over half of all luxury sales. The global top 10 premium and luxury car players account for 96% of category value, with leading luxury brands such as Mercedes-Benz, Porsche, BMW and Audi taking the lion's share of sales.
- The category was already going through a period of disruption, with prospects for sales looking somewhat uncertain as attitudes towards car ownership was shifting and consumers looked towards other business. Sales in China were already falling and the ongoing US/China trade war, tough trading conditions, particularly in the UK and Europe, and a slump in diesel sales in Europe were causing further disruption
- The automotive industry has one of the most diverse supply chains, with the US, Japan, Europe and South Korea the largest export destinations of auto parts from China. While factories are now reopening in China, the spread of the virus has resulted in major demand slashes and factory closures in Europe and the US.



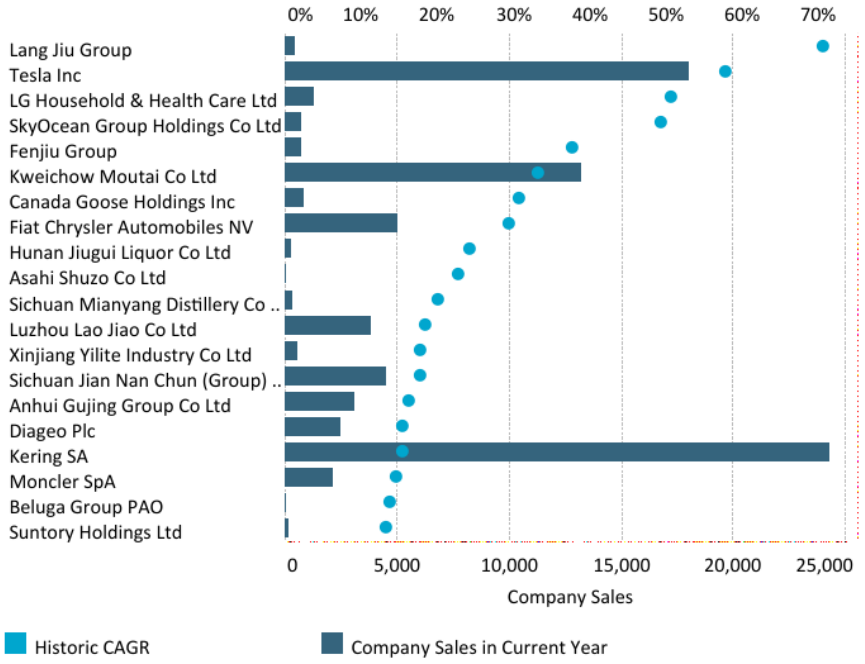

*Source: Euromonitor International*

# But is Tesla's digital model set to become more competitive?

- Premium and luxury cars are set to witness a major shift in consumer attitudes to the concept of purchasing a luxury vehicle online. Whilst to date, the car industry has remained largely off-line, a few companies, such as the Californian-based luxury electronic car manufacturer Tesla, have already decided to venture into the e-commerce space to capture the untapped consumer base. Such companies may now be set to reap the benefits.
- Tesla was the world's first fully electric sports car, making green cars not only fashionable, but also giving them luxury appeal. With both digitisation and digitalisation at the forefront of Tesla's business model, the companies CEO Elon Musk announced in 2019 that it would be shifting to online-only sales, and showrooms would only be used for marketing and experiential purposes.
- Nevertheless, with a prolonged global lockdown, all businesses and industries are set to be highly impacted, and high spending on luxury vehicles might not be in keeping with the current customer sentiment.

Luxury Goods: Top Companies Sales in 2018 and 2013-2018

% CAGR historic growth - USD million




*Source: Euromonitor International*

# Digital sales explode as full potential of omnichannel retailing unlocked

Possible Growth Scenario for Personal Luxury Goods in Retail Channels 2020



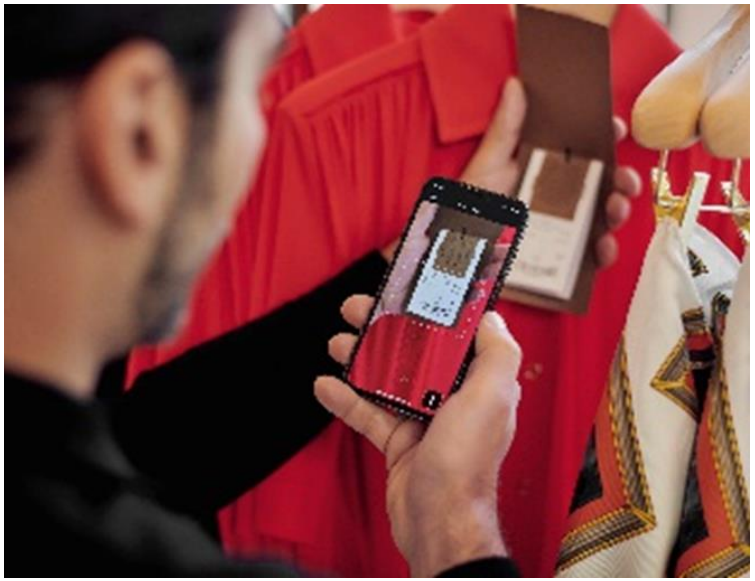

*Source: Euromonitor International Estimates*

- Connectivity has been a major game changer across the whole of the luxury landscape and has been paramount to the success of the luxury goods industry in the last 10 years.
- According to Euromonitor International's latest data, store-based value sales grew by just 2% between 2014 and 2019, while E-commerce sales witnessed substantial growth of 63% over the same period.
- Global online sales of personal luxury goods accounted for 12% of all luxury goods sales in 2019. However, as drastic measures by governments are being taken across the world to help to stop the spread of COVID-19, and more consumers are forced to stay at home, this share of E-commerce sales is expected to increase exponentially in Q1 and Q2 2020 as more luxury consumers look towards alternative channels to physical bricks and mortar stores. Based on our estimates, E-commerce sales of personal luxury goods could increase by 694% in 2020 as consumers move online and our hopping behaviour changes.
- According to Euromonitor International's latest data, for the first time in history, a majority (51%) of the global population is digitally connected, and there are over five billion mobile phone users today. This will go a long way to help consumers overcome some of their challenges as we navigate through this difficult period.
- E-commerce retailers such as Farfetch, which is heavily dependent on China (currently accounting for 28% of business), are likely to suffer less than other luxury retailers reliant on in-store sales because Farfetch is a pure E-commerce company as well as a provider of e-commerce platforms and knowhow.

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# Super apps become more pronounced as need for human contact rises

- A “super app” is a multifunctional mobile app which can combine several features, such as communication, lifestyle, social and retail, in a single platform. Such super apps have been shown to increase consumer engagement and add more revenue streams.
- Luxury retailers are increasingly using in-store apps and text messaging services to make the most of their omnichannel offerings, as well as optimising the role of the sales assistant. These apps can, amongst other things, display inventory and customer information, with many brands now placing a bigger focus on in-store staff by ensuring they have the right digital tools to best serve the customer.
- Amongst other things, these apps allow for better customer service, as well as personalised recommendations. To this end, at a time when many luxury retailers around the globe will have closed their physical stores for the foreseeable future, owing to the need for social distancing and isolation on the back of the outbreak of COVID-19, many retailers will now be relying purely on their digital presence (including such apps) and online platforms to engage with customers and continue trading where physically possible.



- Chat-based commerce, such as chat-bots, will also be gaining further ground, particularly when it comes to servicing affluent consumers who expect a rapid, one-on-one service.
- UK-based luxury brand Burberry has been placing a bigger focus on such digital tools to enable it to offer more personalised recommendations whilst also offering a better customer service. Having access to such tools could not have come at a better time.

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# Burberry uses its innovative technology to stay connected with shoppers



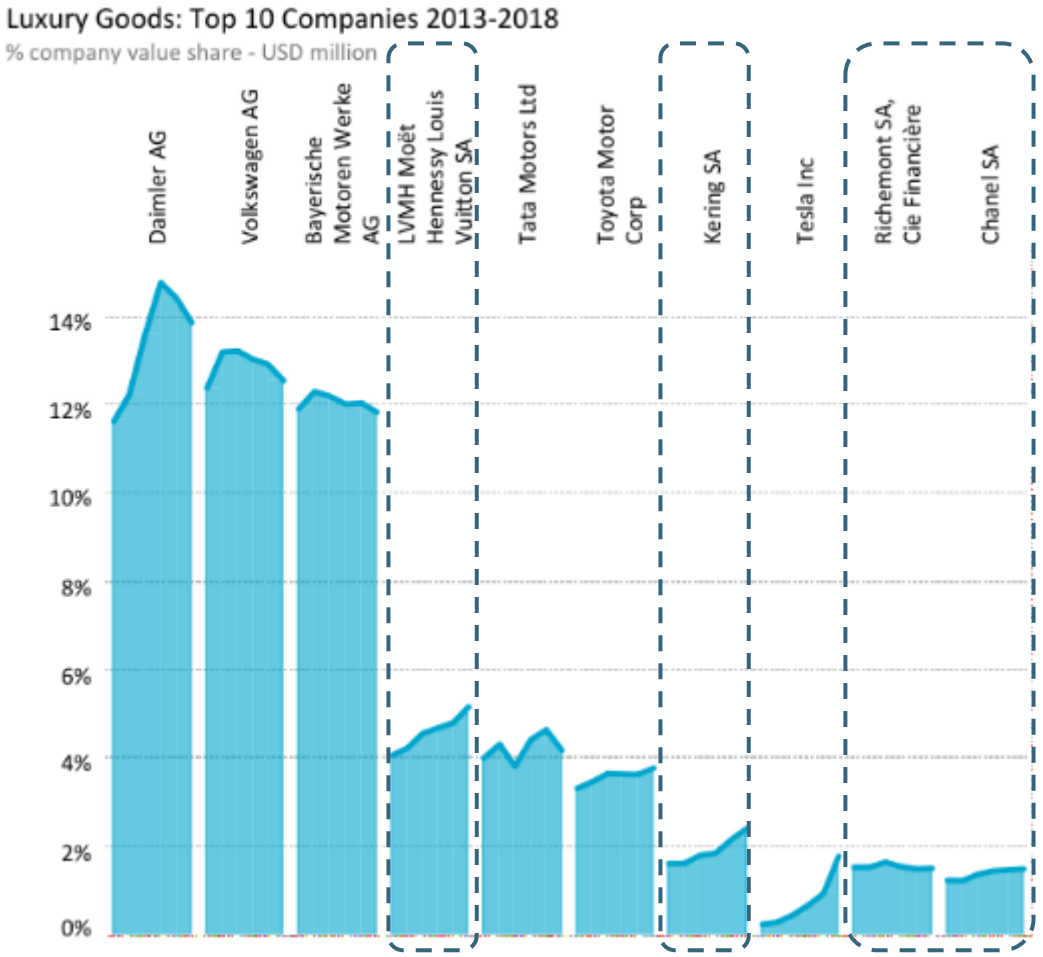

Burberry to supply surgical masks and use its Yorkshire factory to make non-surgical gowns and masks, whilst also funding research into single-dose vaccines and helping to tackle food poverty across the UK

- Whilst, for many years, Burberry was a pioneer in bringing digital into the luxury in-store experience, the UK-based fashion brand has been moving away from using technology in-store for this purpose and transformed it into something useful to enhance the customer's relationship with the company both for online and IRL purposes
- In light of the COVID-19 outbreak, this could not have come at a better time for the luxury fashion brand as so many luxury retailers are looking to create ways to stay connected with their consumers whilst maintaining good customer service.
- Following the successful launch of R World, Burberry introduced R Message, which is its latest messaging function. It is designed for selected customers, thus access is by invitation only. It operates across geographies, treating customers as an individual to cater to their needs.
- The expansion of digital has created a craving for authentic, genuine and trustworthy human connections. With the outbreak of COVID-19, this need for human connection is greater than ever. More companies may have to use digital to deploy more personalisation efforts in the coming months.

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# Global luxury powerhouses now victims of their own success?

- Global luxury powerhouses remain the most important players within the personal luxury goods space, but in the face of the current COVID-19 pandemic, could they now be victims of their own success?
- The wide product portfolios and geographic reach of players such as LVMH Moët Hennessy Louis Vuitton SA, Kering SA and Richemont SA helped them to maintain their leading positions in the personal luxury goods space.
- Their rapid expansion in Asia Pacific initially allowed them to counterbalance the weaker performances of some key regions such as Western Europe and North America. However, given their dependence on China and Asia Pacific for 32% and 29% of their revenues respectively on average, the outlook for this region looks less optimistic.



# Luxury goods corporates' exposure to COVID-19




*Source: Euromonitor*

- On examining the exposure of the world's top five leading luxury goods conglomerates across the key regions of Asia Pacific, North America and Western Europe, we can appreciable how vulnerable these companies are to the current shock in the markets and long-term impact that COVID-19 may have on both the industry as well as consumer behaviour and our attitudes towards spending.
- In particular, LVMH comes out at as the most exposed company across all regions, with Asia Pacific of particular note. Indeed, in 2018, the company, with leading flagship brands such as Louis Vuitton and Dior, had a 14% share of sales of personal luxury goods in the region. This was followed by Kering (8%), with its leading flagship brand Gucci, and Richemont (7% share of personal luxury), thanks to its lucrative position in luxury timepieces. Whilst North America and Western Europe pose a similar threat to revenue, it is clear that these companies are most at risk across Asia Pacific.
- Luxury goods conglomerate LVMH (holding company of Louis Vuitton, Dior, and Fenty Beauty) has already announced a 10-20% drop in global revenue for Q1 2020 compared to the same period in 2019.
- Whilst LVMH, Kering and Richemont are all vulnerable to external shocks in these core regions, thanks to their weight in sales, US companies Capri Holdings (owner of Michael Kors and Versace) and Tapestry (owner of Coach, Kate Spade and Stuart Weitzman) may also face strong headwinds in the short to medium term in North America.

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# Main challenges for luxury fashion players

- There is no denying that the luxury goods industry and its leading players have already been showing signs that they are struggling to adapt to the knock-on effects of the COVID-19 pandemic.
- With many physical stores closing their doors to the public for the foreseeable future, and one of the industry's key target audiences and most lucrative markets – namely the Chinese and its domestic market – holding back from spending on luxury items, the outlook for the short to medium term for world-leading luxury goods companies is challenging.
- The cycle of fashion weeks in the global fashion calendar has also been hugely disrupted, with shows either having been cancelled altogether or postponed until later in the year. Added to which, key industry fashion events, such as the Met Gala, have also been postponed indefinitely. Together, this has led to the future of the fashion industry as it is known appearing hugely uncertain and precarious for the short to medium term.
- However, amongst the negative impact that the effects of the COVID-19 pandemic is creating, many luxury companies, brands and those working in the luxury hospitality area have found great comfort and solace by turning to philanthropic and CSR projects and by using their position, skills and hugely capable workforce for the better good by doing what they can to help combat COVD-19 in various ways around the globe.




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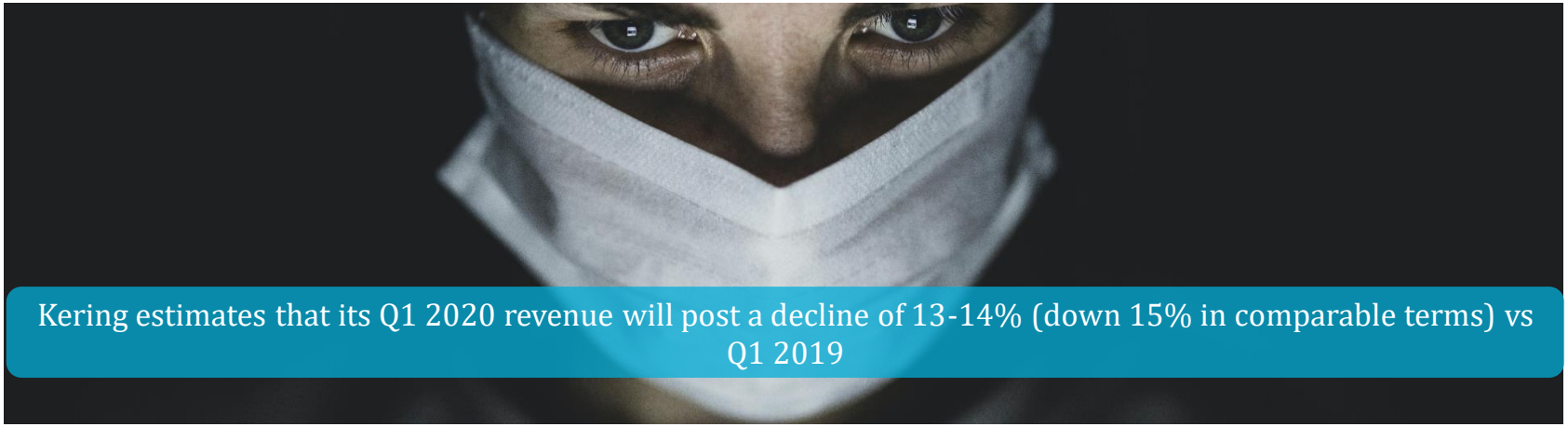
# LVMH first to step up to help in fight against COVID-19




- LVMH, the French luxury goods conglomerate, which, amongst others, owns luxury brand Louis Vuitton, was one of the first luxury companies to pledge to help in the fight against COVID-19. In March 2020, its CEO Bernard Arnault instructed its perfumes and cosmetics division to begin making large quantities of alcohol hand gel sanitiser to help French hospitals.
- LVMH also has a reputation for stepping up in times of crises. In 2019, following the fire that ravaged the Parisian landmark, Notre Dame Cathedral, the company pledged EUR200 million to help with its restoration.
- Thanks to the company's impressive global distribution network, LVMH announced in March 2020 that it had sourced over 10 million face protection masks from a Chinese industrial supplier and that it would continue to order similar quantities until the end of April 2020 at least.
- LVMH has always been highly conscious and generous in its philanthropic gifting and CSR practices. The brand has over 50 employees committed to the quality of its business practices as underpinned by UN Sustainable Development Goals.

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# Kering plays its role in helping to combat COVID-19



Kering estimates that its Q1 2020 revenue will post a decline of 13-14% (down 15% in comparable terms) vs Q1 2019

- The world's second largest personal luxury goods company, Kering Group is also playing its part in helping to combat the COVID-19 pandemic.
- In March 2020, Kering announced that it was planning to provide the French healthcare service with three million surgical masks. Whilst these masks would initially be bought from China, the company also announced that the workshops of two of its key fashion houses, namely Balenciaga and Yves Saint Laurent, were making plans to manufacture their own masks, while complying with strict health protection measures for their staff.
- Kering also made a generous philanthropic donation to the Institute Pasteur to support its research into COVID-19, whilst its fashion houses in Italy made donations to four major foundation hospitals in Lombardy, Veneto, Tuscany and Lazio. Similarly, it donated to the Hubei Red Cross in China.
- The company's flagship brand, Gucci, responded to a call for fashion companies in Italy to help supply surgical masks and medical overalls. It hopes to donate over a million surgical masks and 55,000 medical overalls in the coming months.

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# Miller Harris holds back on trading and gifts its stock to Age UK




Miller Harris donates 11,000 units of its stock to help the vulnerable through working with the UK charity for the elderly, Age UK

- With the slogan "Let's Get Soap Moving", London-based luxury perfumer Miller Harris has partnered with Age UK to address demand from the most at-risk consumers by donating its entire stock of hand wash, hand lotion and soap to the most vulnerable in the UK, whilst urging other businesses who can help to also act now.
- According to Euromonitor International, there were 8.9 million people over the age of 70-years living in the UK at the end of 2019. This equates to 15% of the population. According to Age UK, more than two million people in England aged over 75 years live alone.
- Despite being a relatively small and niche brand, Miller Harris was able to donate 11,000 units to Age UK. During this time the brand also learnt that foodbanks across the UK do not generally include soap, so started including this in its actions.
- Whilst Miller Harris sent out a Mother's Day message on 22 March to its customers to mark this day in the UK calendar, the company's CEO Sarah Rotheram made a point in a recent interview that this is "..not really the moment to be selling", but rather about "building a relationship and dialog with our customers".

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# Luxury hotels open doors to care workers and bring luxury home




- The outbreak is hitting the luxury travel market hard, with luxury hotels and all hospitality services already suffering significant losses due to falling global demand.
- However, in a philanthropic move, many luxury hotels around the globe have been opening their doors to health workers and using their kitchens to supply food either to hospitals or those more vulnerable people like the homeless or the elderly. The Four Seasons Hotels and Resorts was one of the first to announce this, whilst The Plaza Hotel, Claridge's London, The Rosewood and The St Regis, amongst many others, soon followed suit.
- In a similar fashion, whilst luxury foodservice has been severely impacted by COVID-19, with all of the world's luxury foodservice operators now facing mandated shutdowns, many luxury hotels are now offering home delivery foodservice, as well as donating food boxes and free ready-made meals to frontline COVID-19 workers.
- For those missing luxury hotel services, some are also providing online tutorials explaining how to replicate these services at home, whilst Six Senses has introduced the At Home With Six Senses project, which details proactive and pragmatic ways for people to care for themselves.

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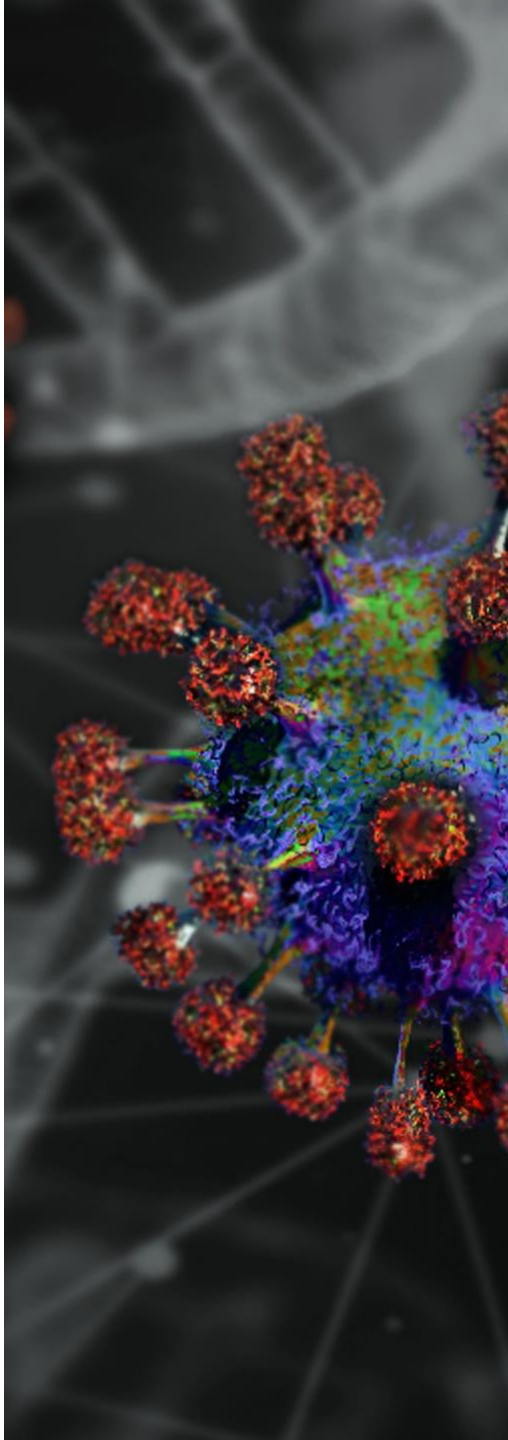
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# Outlook for the luxury goods industry

## Short term (Q1-2)

- Nothing in the modern evolution and challenges facing the luxury goods industry will compare with the global disruption caused by the COVID-19 pandemic. Uncertainty remains the new rule for the short term, but the impact of the current crisis offers clues to the kind of strains the global luxury goods industry will be facing as we move further into Q2. Digital sales of luxury have soared, as consumers the world over have been self-isolating and following social distancing measures, and luxury retailers have closed their bricks and mortar stores. Uncertainty about the future is making consumers more cautious about discretionary purchases, with large ticket items such as luxury goods, luxury holidays and luxury cars in particular taking a back seat. Whilst the HNWIs of the world may not be feeling as squeezed as consumers in lower-income groups, with a prolonged global lockdown, big spends on luxury might not be in keeping with the current customer sentiment.

## Medium term (Q3-4)

- The surge in e-commerce shopping for luxury goods will hold up, with social distancing caution persisting and the convenience of online shopping converting prior sceptics. Even if travel restrictions are lifted, many may choose to stay at home as consumers cut costs in what will be financially straitened times. We may see a small uptick in more affordable luxury goods such as beauty and fragrances and affordable leather goods as pent-up demand takes hold and consumers feel the need to “treat” themselves.

## Long term (2021 onwards)

- Global economic conditions will reduce consumer spending power, and many consumers will continue to look at ways to trade down. While luxury travel will return, and we may see an initial surge in demand, consumers overall may continue to err on the side of caution. With this, growth in luxury hotels and hospitality will remain slow, and luxury retailers in key shopping hotspots will continue to feel pinched, owing to lack of international in-store footfall. However, affordable treats will continue to be popular, and we expect to see more focus on localism in terms of manufacturing but also consumers choosing to support local luxury brands. In many markets, the move towards online luxury shopping will continue to be popular, and sales in the e-commerce channel may start to compete long term with store-based sales.

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# Purpose driven brands are better placed to ride the wave

- This current pandemic has clearly exposed the gaps for profit driven brands. Generally these are luxury companies that are focused on short-term financial returns and are more vulnerable to sudden social and environmental disruption and shocks in the global market.
- Luxury businesses with purpose may be more resilient to unexpected situations- such as the ongoing lockdown - and the reason for this is that they have more experience in putting people ahead of profits. They know about creating partnerships, redesigning products and supporting communities. In the long terms this will translate to employee and brand loyalty
- That said, this momentum is something that we were already experiencing as the need for sustainability had been shaping how luxury companies did business and how consumers showed brand loyalty pre COVID-19 outbreak. 2019 was undeniably a year of innovation and according to one of Euromonitor's Lifestyles Surveys carried out in early 2020 over a quarter of consumers agreed that they only buy from purpose-driven brands and boycott those that don't share their social and political values.
- So whilst these companies are playing a key role now, moving forward luxury consumers will more than likely reward businesses that were ready to act. To this end there is hope moving forward that this crisis will inspire the world to work together to find a long-term solution to both environmental, economical and global health problems



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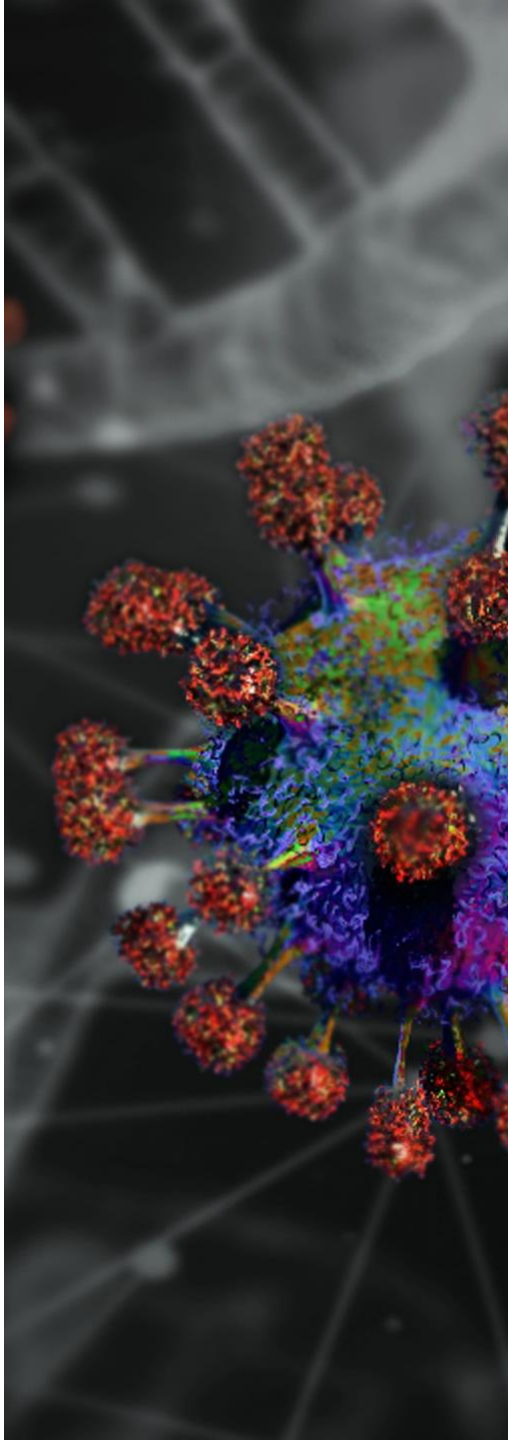
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# About Euromonitor International's Macro Model

- Euromonitor International's Macro Model allows us to regularly update key macro indicators like real GDP growth, as well as create hypothetical scenarios that simulate potential macro shocks. In turn, this ability to change macro forecasts like GDP growth allows us to create multiple retail category or income/wealth band forecasts.
- Our macro forecasts are produced as a combination of:
  - A global macroeconomic model (Euromonitor International's Macro Model) that uses data from multiple sources on GDP growth, inflation, interest rates, exchange rates and unemployment rates to forecast those variables.
  - Further adjustments via model shocks/scenarios to reflect other variables and information that is not taken into account directly by the pure model forecast. For example, other credit market or confidence measures, as well as the macro views of policy institutions and other private sector forecasters.
- Euromonitor International's Macro Model itself is an extended version of one of the main forecasting and scenario analysis models of the IMF (International Monetary Fund). The benchmark model has five observable variables for each economy. These are real GDP, the consumer price index, a short-term interest rate, the unemployment rate, and the exchange rate against the US dollar.

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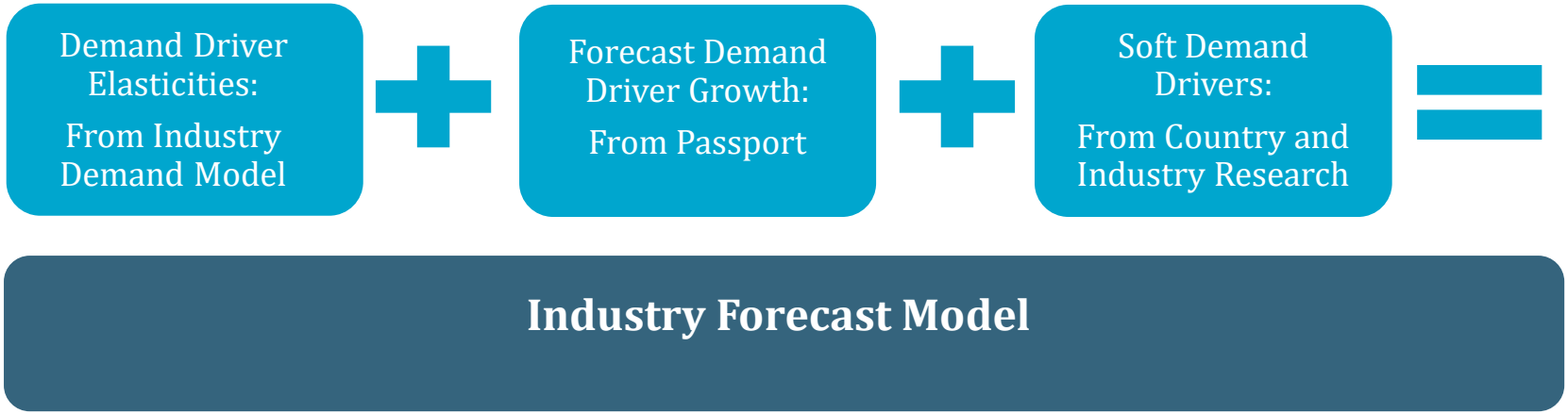
# About Euromonitor International's Industry Forecast Model

- The Industry Forecast Model is a new tool from Euromonitor International that integrates intuitive, judgment-based forecasting with the quantitative techniques of an econometric Industry Demand Model.
- The Industry Demand Model assesses the relationships between several historic quantifiable independent variables (demand drivers) and historic retail volume sales for different markets that Euromonitor International tracks.
- In identifying these relationships, the model estimates elasticities for each statistically significant demand driver, including income growth, changing retail prices, demographic trends and retail channel trends.
- Multiplying these elasticities by corresponding year-on-year growth forecasts for each demand driver allows the Forecast Model to build annualised retail volume and value forecasts for a market in a given year.
- While estimated demand driver elasticities are constant, forecast demand driver growth can change over time. For example, forecast GDP growth for a given year is regularly upgraded or downgraded in Euromonitor International's Macro Model to reflect changing economic and socio-political conditions.
- In turn, changing only forecast growth for GDP in this example allows the Alcoholic Drinks Forecast Model to create multiple retail forecasts that capture the impact of these changing macroeconomic conditions.

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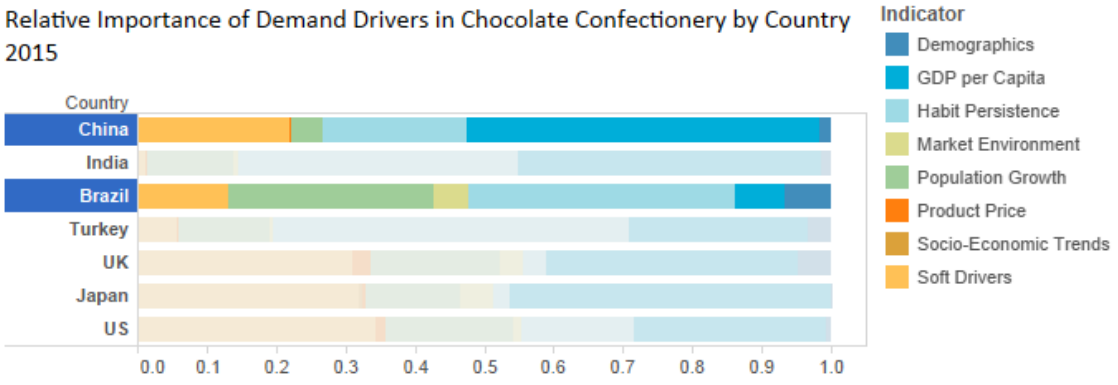
# Soft drivers and the Industry Forecast Model

- The power of Euromonitor International's forecasting methodology is that it blends statistical modelling with local market observations reflecting local industry consensus. As such, retail market forecasts also rely on the insights and expertise of Euromonitor International's global analyst network. Euromonitor International's analysts work closely with the Industry Demand Model to ensure that it remains consistent with their empirical observations, guaranteeing that quantitative and intuitive expectations fully complement each other.
- Euromonitor International analysts also capture demand drivers beyond the scope of the Industry Demand Model. These "soft drivers" remain critical to future retail sales, but are either fundamentally unquantifiable or have no globally comparable data with which to measure them.
- Soft drivers are captured and measured exclusively by empirical research from Euromonitor International analysts, and their overall positive or negative impact is estimated on top of the results of the Industry Demand Model.



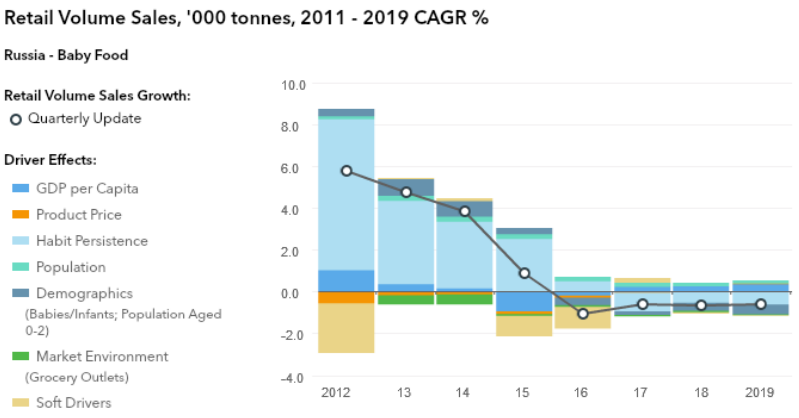
# Growth decomposition explained

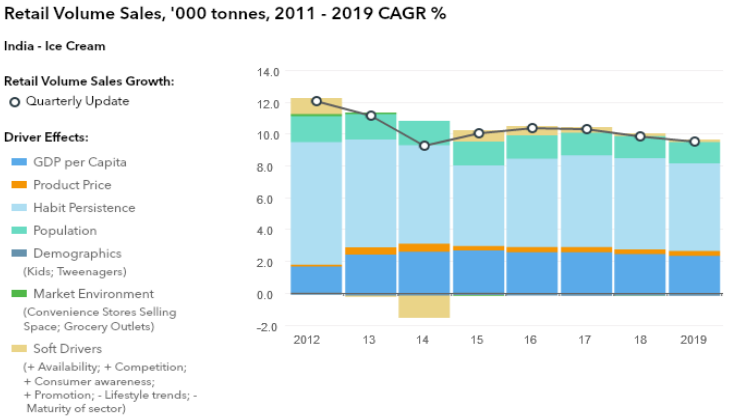
- To help understand and illustrate the impact of each demand driver to a market's retail growth performance and prospects, Euromonitor International employs a graphical tool called "growth decomposition".
- The fundamental idea behind growth decomposition is that a product category's retail sales performance and future prospects can be explained through changes in underlying demand factors.
- As explained above, the impact of demand driver change to retail market sales can be calculated by multiplying a demand driver's observed elasticity by that demand driver rate of change over a period of time. Multiplying demand driver elasticity by forecast demand driver growth yields the percentage points of overall retail growth that that specific demand driver is contributing to the market forecast under review.
- In addition, Euromonitor International analysts estimate the impact of "soft drivers" to overall retail growth via their empirical research. The relative impact and importance of "soft drivers" can be shown alongside that of the measurable demand drivers identified by the Industry Demand Model.
- In the growth decomposition visual below, the percentage points of growth that each demand driver is contributing to overall market growth are illustrated in the coloured segments of the stacked bar charts.



# Significance and applications for growth decomposition

- By attributing a fraction of overall retail growth to each contributing demand driver, overall category growth can be "decomposed". In doing so, an extensive picture of underlying market fundamentals and processes on a category-by-category and country-by-country basis can be provided.
- Ultimately, growth decomposition allows Industry Forecast Model users to:
  - Identify different demand drivers that affect historic sales, and will likely impact future market prospects;
  - Evaluate the relative importance of different demand factors over time and then identify which factors generate the highest deviations in historic – and ultimately future – consumption;
  - Illuminate the underlying market dynamics for each product category;
  - Measure and predict the effects of demand driver shocks, either expected or hypothetical;
  - Facilitate scenario analysis by generating understanding of which demand factors can be influenced by a manufacturer or retailer and which are beyond their control.




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# Key applications for Industry Forecast Models

1. Quarterly Forecast Restatements
   - Regularly updated retail market forecasts to reflect latest macro expectations (eg, quarter-on-quarter real GDP growth revisions) for all markets.
2. "What If?" Scenario Analysis
   - See and compare how a hypothetical event (ie Eurozone recession, China hard landing, Brexit) stands to impact different market forecasts.
3. Growth Decomposition and Demand Driver Elasticities
   - Understand, compare and respond to the forces driving expected market growth across different product categories and countries.
4. Assess Market Potential
   - See the ceiling on retail volume or value sales and growth, regardless of a specific forecast scenario. How much more can that market really grow?

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