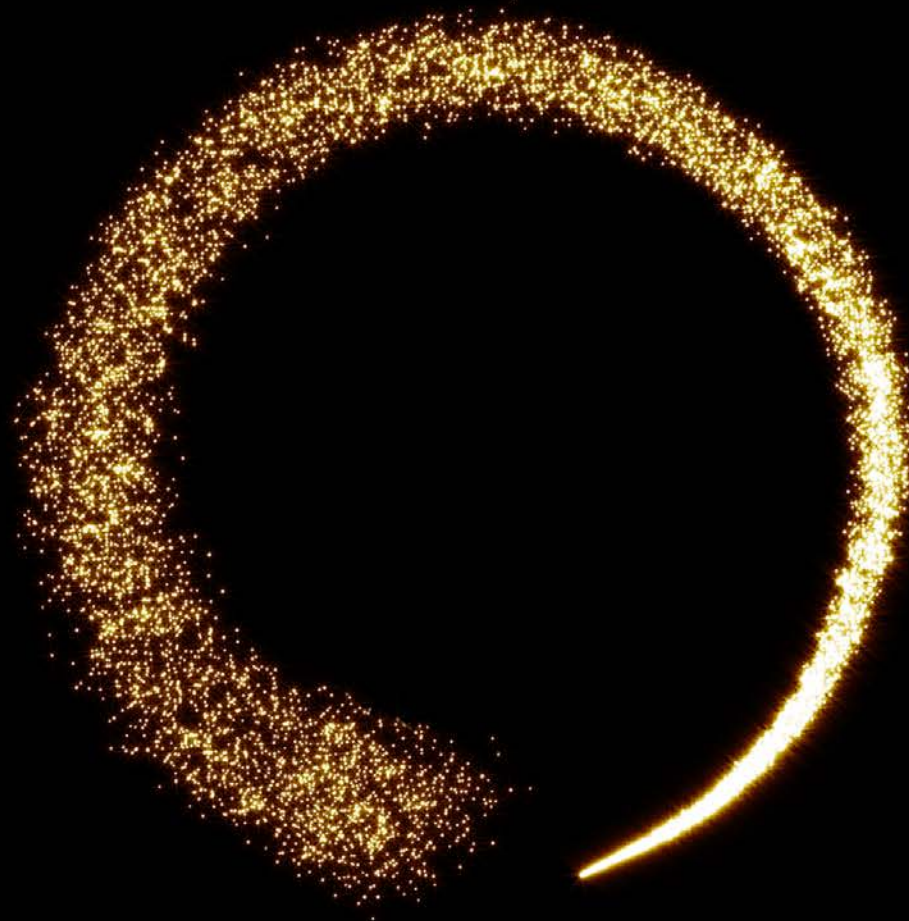


**Deloitte.**



**Fashion & Luxury Private Equity and Investors Survey 2017**  
Global report



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# Preface

In 2016 several global economic and geopolitical trends had a deep impact on the Fashion & Luxury industry.

Rising commodity prices, trade stagnation, new monetary policies and their influence on exchange rate dynamics, financial stimulus measures in major economies and continuous digitalization have been the main factors influencing business models in the industry.

Key players are now ready to divest and re-organise their underperforming and peripheral brands, diversifying their business models in order to boost or at least sustain profits.

Against this background, global investors interested in the Fashion & Luxury industry are reviewing their future expectations and strategies.

In order to analyse market trends and expectations with regards to M&A activities, Deloitte has launched the second edition of the **“Global Fashion & Luxury Private Equity and Investors Survey”**.



# Methodology

Contents	F&L Industry business performance analysis	M&A Deal Monitor 2016	Private Equity and Investors Survey 2017
Geo Scope	Global	Global	Global
Data source	<ul style="list-style-type: none"> <li>Company annual financial reports and presentations</li> <li>Deloitte expertise</li> </ul> <p>Primary data level</p>	<ul style="list-style-type: none"> <li>News and reports from major media providers</li> <li>Investor press releases</li> <li>Company press releases</li> </ul> <p>Primary data level</p>	<ul style="list-style-type: none"> <li>Online survey based on Computer Assisted Web Interviewing (CAWI)</li> <li>Interviews with Private Equity funds top management</li> </ul> <p>Primary data level</p>
Remarks	<ul style="list-style-type: none"> <li>The study has been conducted with the support of Deloitte offices in: China, France, Germany, Hong Kong, Italy, Luxembourg, Singapore, Spain, Switzerland, United Kingdom, United States</li> <li>The survey targeted senior members within investment funds, with a substantial knowledge of the F&amp;L industry</li> </ul>		

○ Full secondary data    ● Full primary data

## Sectors covered

### Personal Luxury Goods



Apparel & accessories



Cosmetics & fragrances



Watches & jewellery



Furniture



Private jets



Yachts



Luxury cars



Luxury hotels



Luxury cruises



Digital luxury<sup>1</sup>

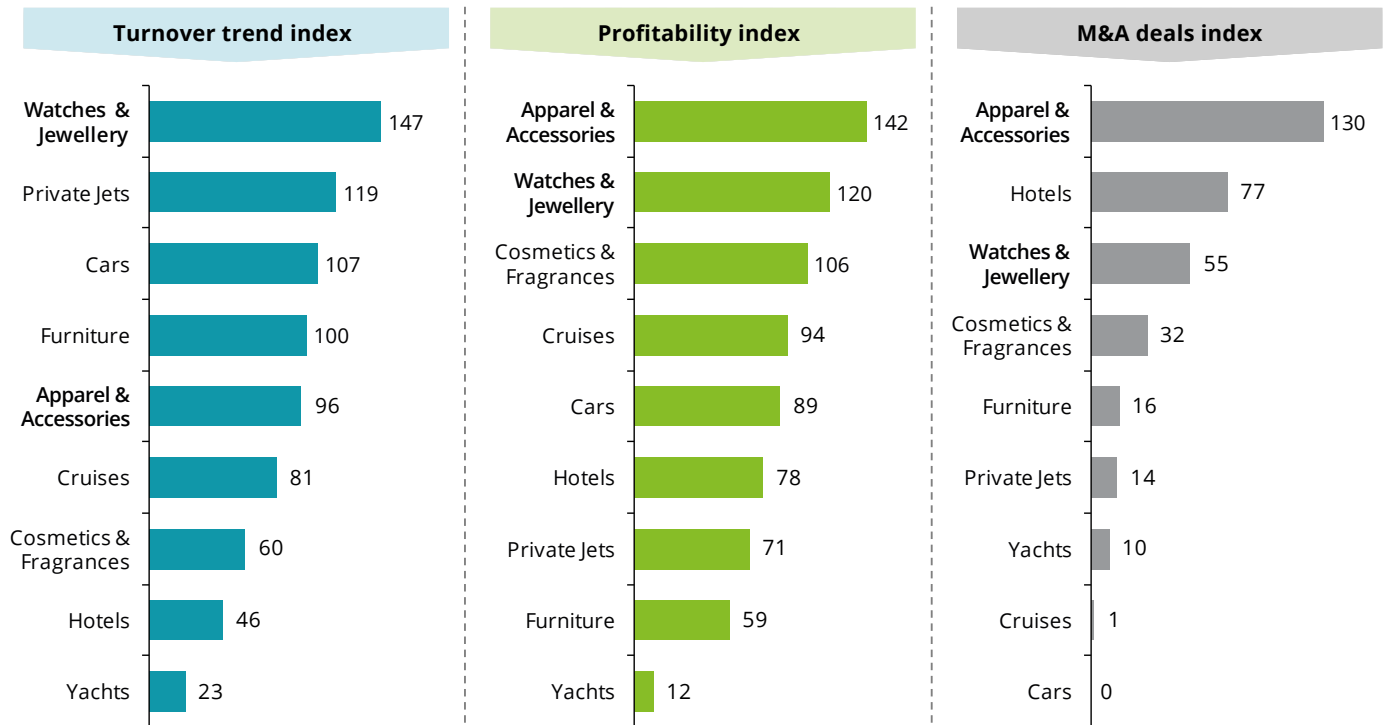
<sup>1</sup> Covered only in the Private Equity and Investors Survey chapter



# Key takeaways

## Deloitte F&L Market and M&A index

Apparel & Accessories and Watches & Jewellery are the most attractive sectors for F&L investors with strong turnover growth, profitability and increasing M&A activity.



Note: The Index has been computed as the variance of sectors' value on the F&L industry weighted average

# Overview of M&A deals in 2016 by sector



Sector	2015	2016	Growth
Apparel & Accessories	33	69	+36
Hotels	51	53	+2
Watches & Jewellery	15	38	+23
Cosmetics & Fragrances	19	22	+3
Furniture	7	11	+4
Private Jets	7	10	+3
Yachts	9	7	-2
Cruises	0	1	+1

## Top luxury deals of 2016

Month	Target	Bidder	Value (\$m)
Sep.	Starwood	Marriott	12,893
Mar.	Strategic Hotels & Resorts	Anbang	6,500
Oct.	Hilton	HNA Tourism	6,497
Jun.	Diamond Resorts	Apollo Global	2,224
Mar.	Tumi	Samsonite	1,809
Nov.	Too Faced	Estée Lauder	1,450
Oct.	Goodwood Hotel	Hotel Holdings	1,389
Jul.	It Cosmetics	L'Oréal	1,200
Aug.	Whistler Blackcomb.	Vail Resorts	1,051
Oct.	RIMOWA GmbH	LVMH	716
Jul.	Donna Karan	G-III Apparel	650

Note: the analysis considers both closed and announced deals during 2016  
Source: Elaboration on Deloitte intelligence data



# Business Performance of F&L Industry

## Fashion & Luxury industry performance trend

The analysis of top Fashion & Luxury (F&L) Groups' economics shows that industry turnover is 1.7 times the value it was in 2010 (at constant exchange rates), with Personal Luxury Goods (PLG) decelerating in the last three years and Experiential & Other Luxury maintaining their growth rates.

Industry profitability is stable, with an average EBITDA margin of 17 per cent (+0.7 percentage points vs FY 2010). Watches and Jewellery proved to be the most attractive sector for F&L investors, with outstanding sales growth and margins, while Apparel and Accessories outperformed in terms of profits generation.

## Personal Luxury Goods focus

The slowdown of PLG (+13.3 per cent CAGR 2010-14 vs +4 per cent year-on-year in 2014-15) was mostly driven by Apparel & Accessories and Watches & Jewellery which are both affected by a decline in consumption (mainly in the Asian market) and by an increase in competition from new entrants (e.g. contemporary brands). However, Cosmetics & Fragrances is maintaining a stable growth

rate thanks to the development of the prestige segment in the Americas and Asia, as well as stimulus from the digitalisation of the sector. While the sales performance of PLG is flattening, margins are becoming larger (EBITDA margin of 21.7 per cent in 2015), due to gains registered by Cosmetics & Fragrances' players (+2.9 percentage points from 2010).

## Other Luxury Sectors key trends

Different patterns are shown within "Other Luxury" segments:

- cars have been growing steadily, with premium players gaining market share and new technologies reshaping the sector
- cruises boomed, sustained by increasing demand in all destinations, excluding the Mediterranean
- hotels shrank, mainly in Europe, influenced by recurring terrorist attacks
- furniture improved, with European players consolidating their global leadership
- finally, Yachts showed a recovery, mainly in the Superyachts segment, while Private Jets decelerated.



# M&A Deal Monitor 2016

## M&A deal overview

The Fashion & Luxury industry proved to be fertile soil for M&A activities with 211 deals registered in 2016, an increase of 70 deals compared to the previous year. Deals involving Personal Luxury Goods steadily increased (62 more deals than in 2015), with both Apparel & Accessories (33 per cent of the total) and Watches & Jewellery (18 per cent of the total) driving growth by +36 and +23 deals respectively. On the other hand, M&A deal volumes in other sectors did not radically change compared to the previous year (+8 deals).

Despite an increase in the number of transactions, the average deal value has downsized, from \$582 million to \$449 million in 2016 (-23 per cent), due to the reduction of achieved multiples.

2016 saw an increase of M&A deals in Asia Pacific and North America (+22 and +24 deals), driven by Apparel & Accessories (+8 and +11 deals) and Watches & Jewellery (+5 and +6 deals). In addition, there were 14 more deals in Europe, with Personal Luxury Goods acting as a major contributor.

## Top deals

Acquisitions of Hotels drove numbers in 2016:

- Starwood Hotels & Resorts Worldwide acquired by Marriott International (~\$12.9 billion for 100 per cent ownership)

- Strategic Hotels & Resorts by Anbang Insurance Group (~\$6.5 billion for 100 per cent)
- Hilton Worldwide Holdings by HNA Tourism Group (~\$6.5 billion for 25 per cent).

Other relevant deals involved the Apparel & Accessories and Cosmetics & Fragrances segments:

- Tumi acquired by Samsonite (~\$1.8 billion for 100 per cent)
- Too Faced by Estée Lauder (~\$1.5 billion for 100 per cent)
- It Cosmetics by L'Oréal (~\$1.2 billion for 100 per cent)
- RIMOWA by LVMH (~\$700 million for 80 per cent)
- Donna Karan by G-III Apparel (~\$650 million).

## M&A features and strategies

Of the M&A deals completed, 68 per cent were carried out by strategic investors, an increase of 73 deals compared to 2015. Financial investors, on the other hand, did not carry out more deals when compared to 2015.

Strategic sellers were involved in 77 per cent of transactions (+10 percentage points versus 2015). Generally, bidders' investments focused on a turnaround strategy (+42 deals versus 2015).



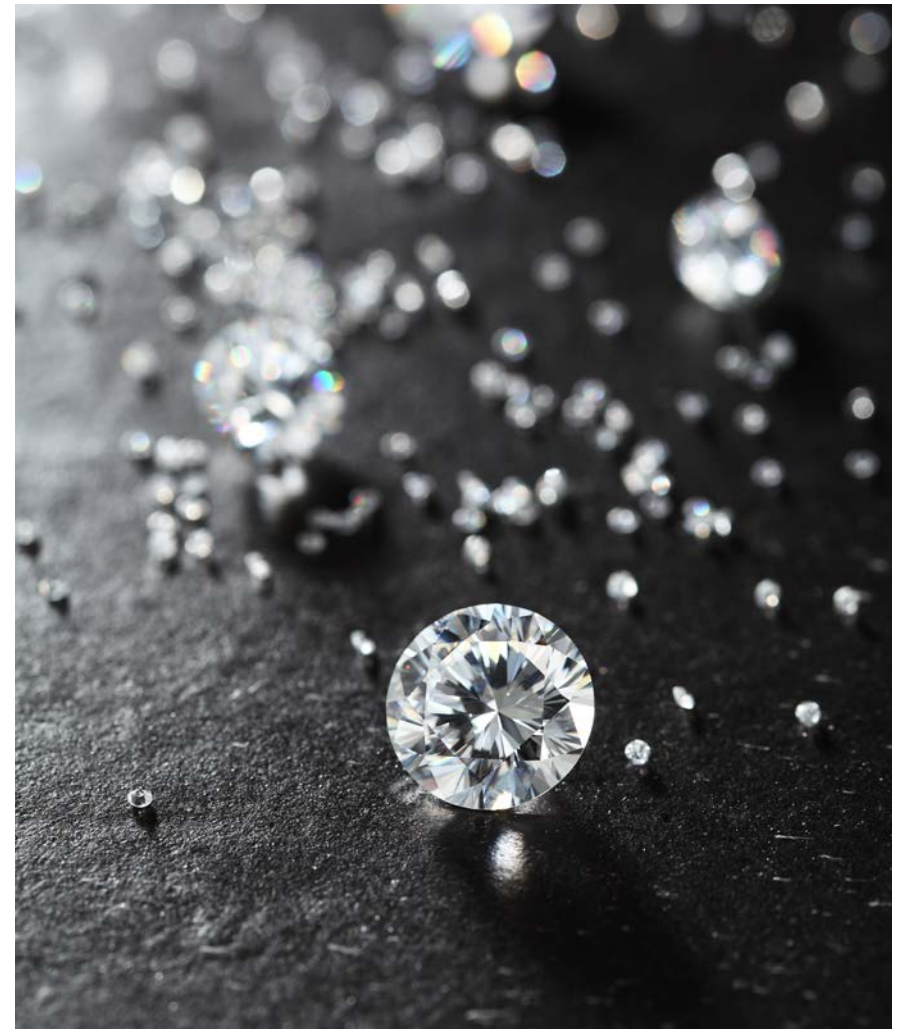
# Private Equity and Investors Survey 2017

## Fashion & Luxury market outlook

Within its Private Equity Survey, Deloitte focused on understanding investors' perceptions of the potential growth in the F&L market in coming years. The consensus view is that major players in Personal Luxury Goods (PLG) are projected to achieve 1.3 times their current sales index by 2018 (~ +8 per cent CAGR FY 2015-18), while other Luxury sectors are expected to achieve 1.2 times their value (~ +6 per cent).

Within the next three years, investors forecast that the F&L industry will continue to grow by 5-10 per cent annually. Digital Luxury and Cosmetics & Fragrances are projected to outperform strongly, growing by more than 10 per cent per year. Apparel & Accessories, Hotels and Furniture are consolidating (with expected annual growth of 5-10 per cent), while Watches & Jewellery and Yachts are projected to remain stable (0-5 per cent annual growth). Growth in the Selective Retailing segment is expected to decrease in the short run.

Investors have formed a more positive consensus view on both Asia and the Middle East compared to 2016 as the forecast sees these sectors stimulating the growth of the F&L industry. Expectations for North America are positive (5-10 per cent annual growth), but sentiment has fallen considerably compared to 2016 (-48 per cent). Latin America will remain stable, while sentiment concerning the European market has deteriorated. Finally, Japan is forecast to experience a decrease in coming years though investor sentiment towards the country is improving slightly.



# Private Equity and Investors Survey 2017

## Exit strategy

The report considers potential strategies investors will undertake in 2017 to enhance or disinvest their Fashion & Luxury portfolios. About 36 per cent of funds are considering divesting an F&L asset in 2017, a slight decrease from the previous year (-8 percentage points). Generally, an investor's exit is motivated by an opportunity for high returns, the closing of the investment period, market trends mismatches or concerns related to the shrinking of multiples.

## Investment strategy

During 2017, 90 per cent of funds are considering investing in an F&L asset, with notable interest rising in: Apparel & Accessories (where 68 per cent intend to invest), Cosmetics & Fragrances (49 per cent), Selective Retailing (30 per cent), Furniture (26 per cent), Watches & Jewellery (21 per cent) and Digital Luxury (15 per cent).

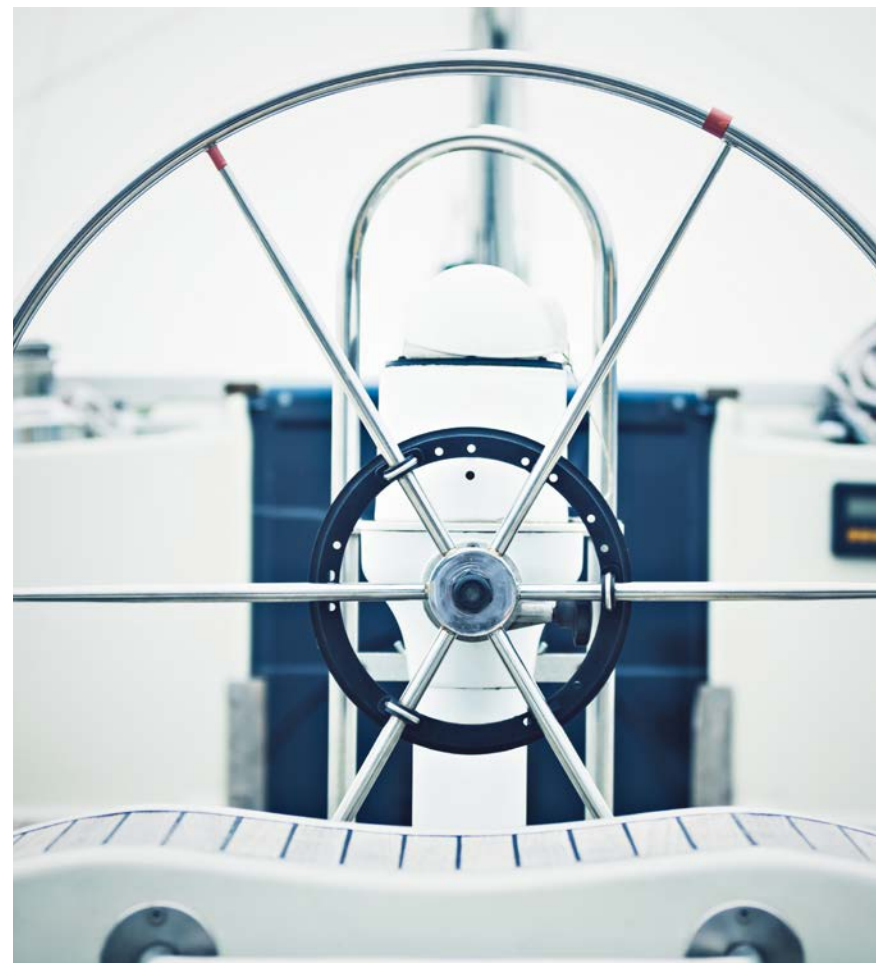
Even though interest is declining relative to the previous year, Apparel & Accessories, Selective Retailing and Furniture remain remarkably attractive to investors. Virtualization trends in the consumer purchasing process are leading to the creation of a new cluster of firms focusing on Digital Luxury, mostly within the Cosmetics & Fragrances segment.

Despite a slowdown in the Asian market, investors' attraction to Watches & Jewellery remains stable due to their appeal as less volatile assets.

While current investors, mainly in the EMEA area, are more attracted to innovative segments (such as Digital Luxury), newcomers prefer consolidated sectors within the F&L industry (e.g. Cosmetics & Fragrances) where market knowledge is widespread.

With respect to 2016, the continuous consolidation of the F&L industry is moving investments towards larger-sized companies (+10 percentage points), where investors plan to boost performance by implementing internationalisation, digital and restructuring strategies.

The consensus is that forecast returns will range from 21 to 30 per cent, with Selective Retailing and Furniture representing the top performers (>30 per cent); EMEA investors expect higher internal rates of return (IRR) compared to the US and China.



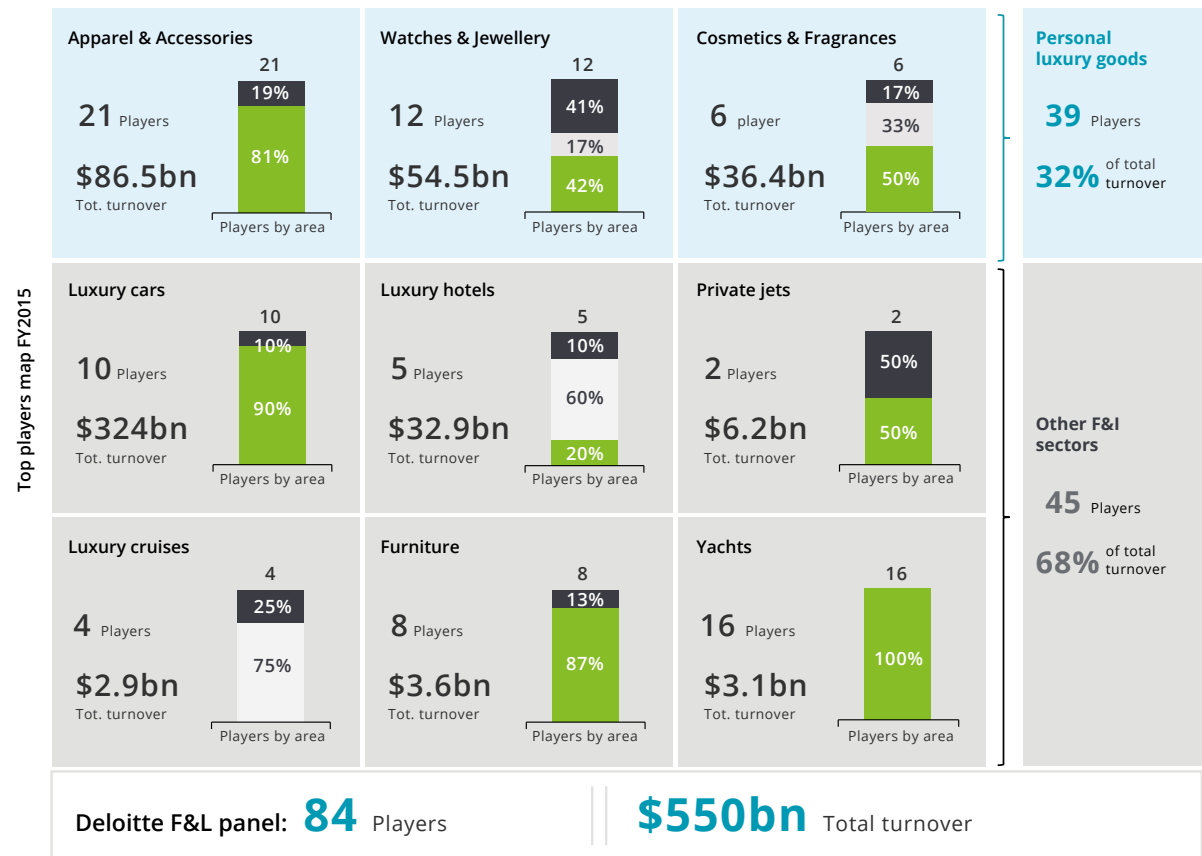




# Business Performance of F&L Industry

## The Deloitte Fashion & Luxury panel

The Fashion & Luxury industry business performance analysis was conducted on a panel of 84 companies with a total of \$550bn in sales.



Notes: Values reported at constant exchange rate  
 Source: Elaboration on Company Financial Report data

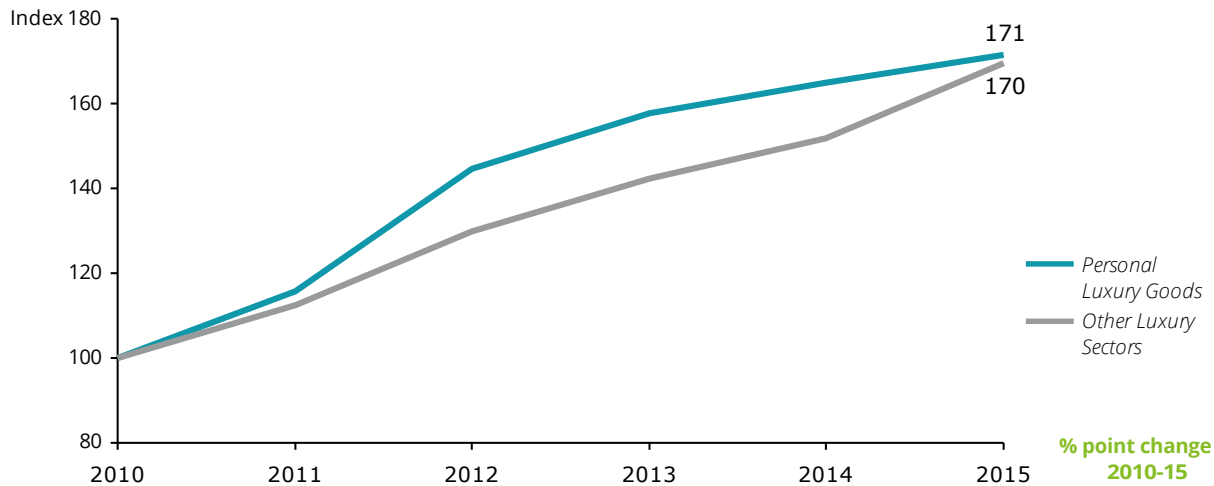
Rest of the World North America Europe

# Sales index trend

The F&L top players sales index is 1.7 times the 2010 value. Personal Luxury Goods have decelerated in the last three years (but with improving margins). Other luxury sectors have maintained their growth rates.

**FY2010-15 F&L sales index evolution**

(Index of Sales 2010=100; Percentage)



	2010	2011	2012	2013	2014	2015
EBITDA % PLG	20.4%	20.8%	21.4%	21.5%	21.3%	21.7%
EBITDA % Other Lux	14.2%	14.2%	14.3%	14.5%	15.0%	14.6%

**% point change 2010-15**

**+1.3**

**+0.4**

**CAGR 2010-15**

**11.4%**

**11.1%**

## Key findings

The F&L industry has grown consistently in recent years, reaching a value 1.7 times higher than 2010. PLG grew at a CAGR of 11.4 per cent in 2010-15, despite decelerating since 2012. Other Luxury sectors have maintained steady growth rates in the same period (+11.1 per cent).

The EBITDA of PLG players are about 7 percentage points higher than the average operating margins for other sectors and demonstrate constant growth since 2010 (+1.3 percentage points).



Notes: Values reported at constant exchange rate  
Source: Elaboration on Company Financial Report data and Deloitte survey

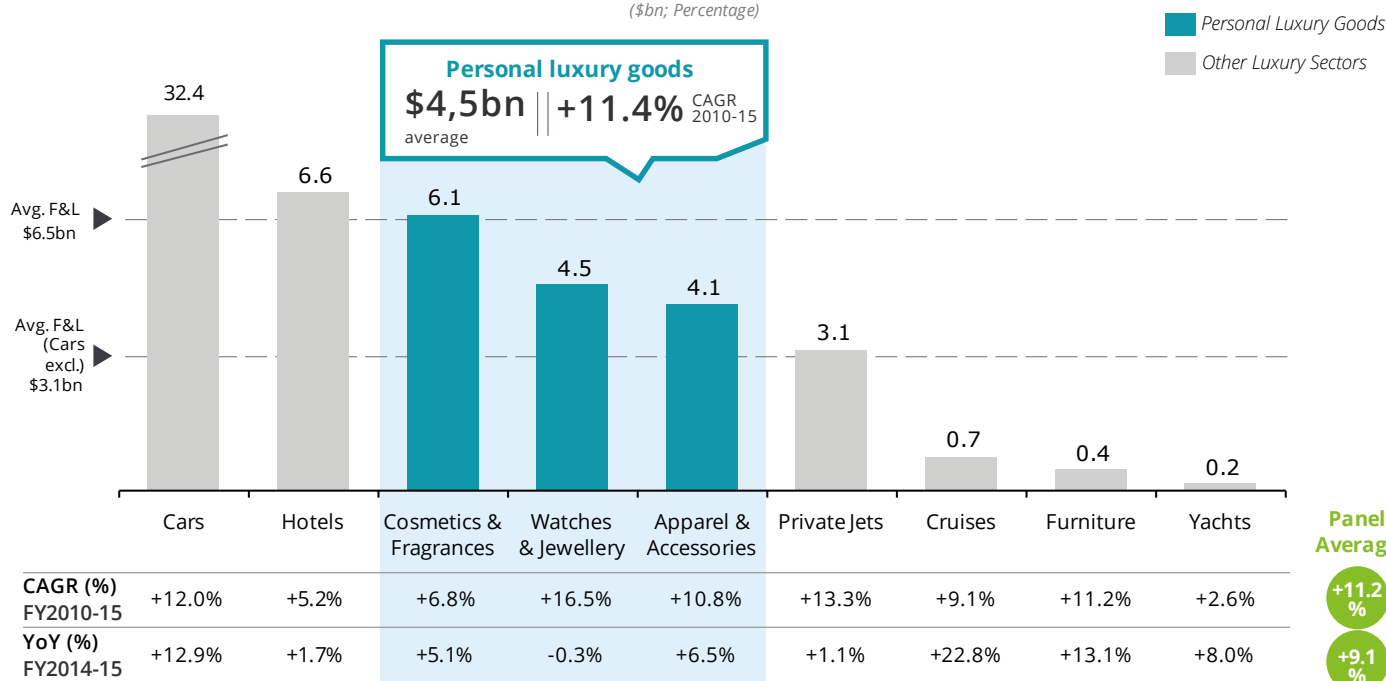


# Sales by sector

F&L company sales (excluding Cars) averaged \$3.1bn in FY 2015. 11 per cent annual growth since 2010. 9 per cent growth in 2015.

FY2015 average sales by F&L sector

(\$bn; Percentage)



## Key findings

Watches & Jewellery and Private Jets outperformed other sectors (respectively CAGR of 16.5 per cent and 13.3 per cent in FY 2010-15), but in FY2014-15 they decelerated.

PLG sales on average hit \$4.5bn, growing at around an 11 per cent rate (+4.0 per cent YoY FY2014-15).

Yachts are recovering after the post-crisis fall (+8 per cent FY2014-15).

Panel Average

+11.2%

+9.1%

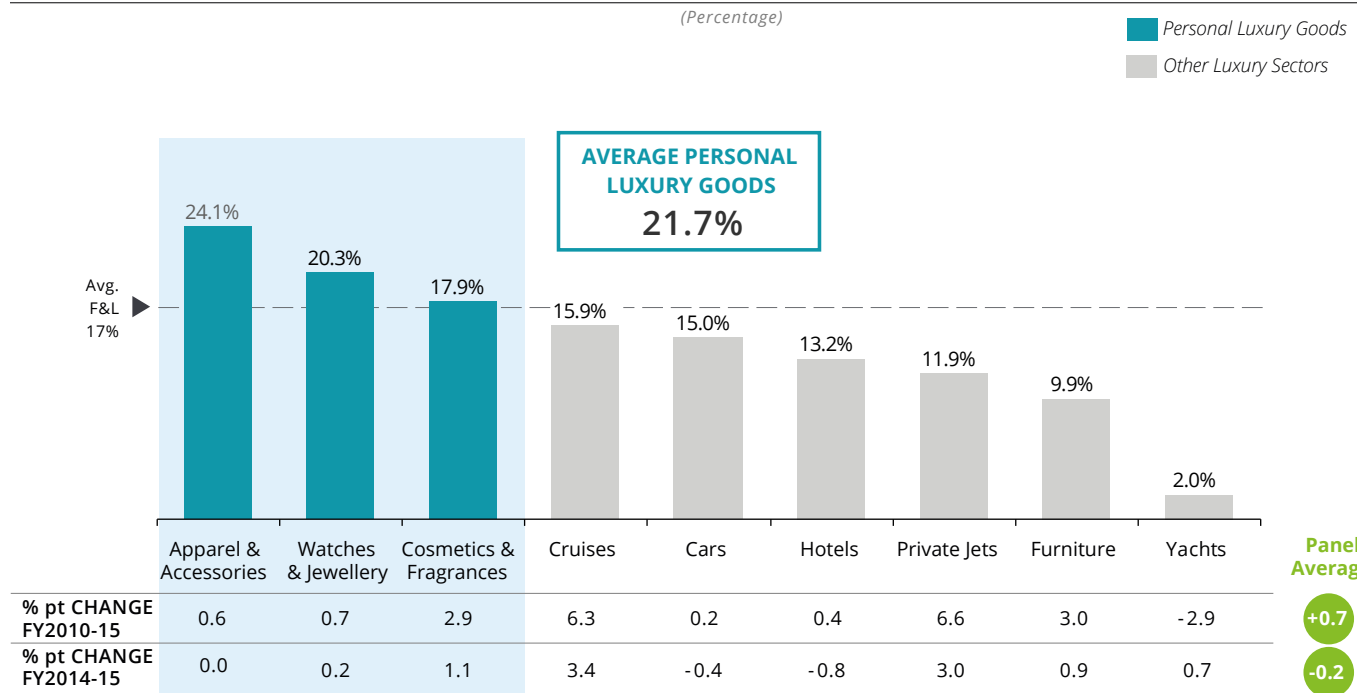
Notes: Values reported at constant exchange rate  
Source: Elaboration on Company Financial Report data

# Sector profitability

The average EBITDA margin in Luxury Sectors was 17 per cent in FY2015 (+0.7 percentage points vs FY2010), with Personal Luxury Goods (21.7 per cent) outperforming the industry. Since 2010 Private Jets and Cruises are the top growing sectors in terms of profitability.

**FY2015 average EBITDA margin by sector**

(Percentage)



## Key findings

Personal Luxury Goods are the most profitable segments, all with an EBITDA margin higher than the industry average of 17 per cent in FY2015.

The operating margin in F&L sectors has increased by 0.7 percentage points compared to its 2010 value, though it decreased in the past year by 0.2 percentage points due to the slowdown in the Cars and Hotels segments.

Cruises and Private Jets are the sectors showing the highest growth in terms of profitability, 6.3 and 6.6 percentage points respectively, compared to 2010.

Panel Average

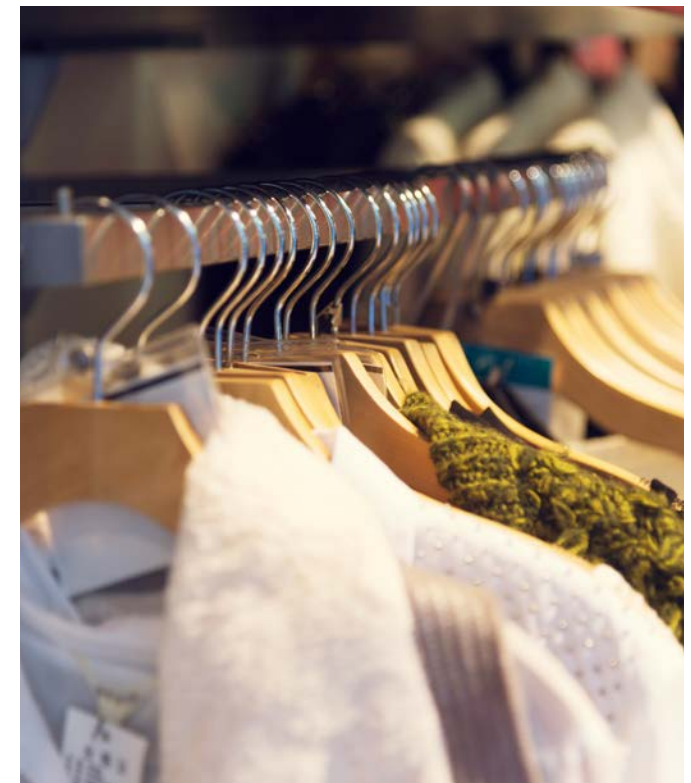
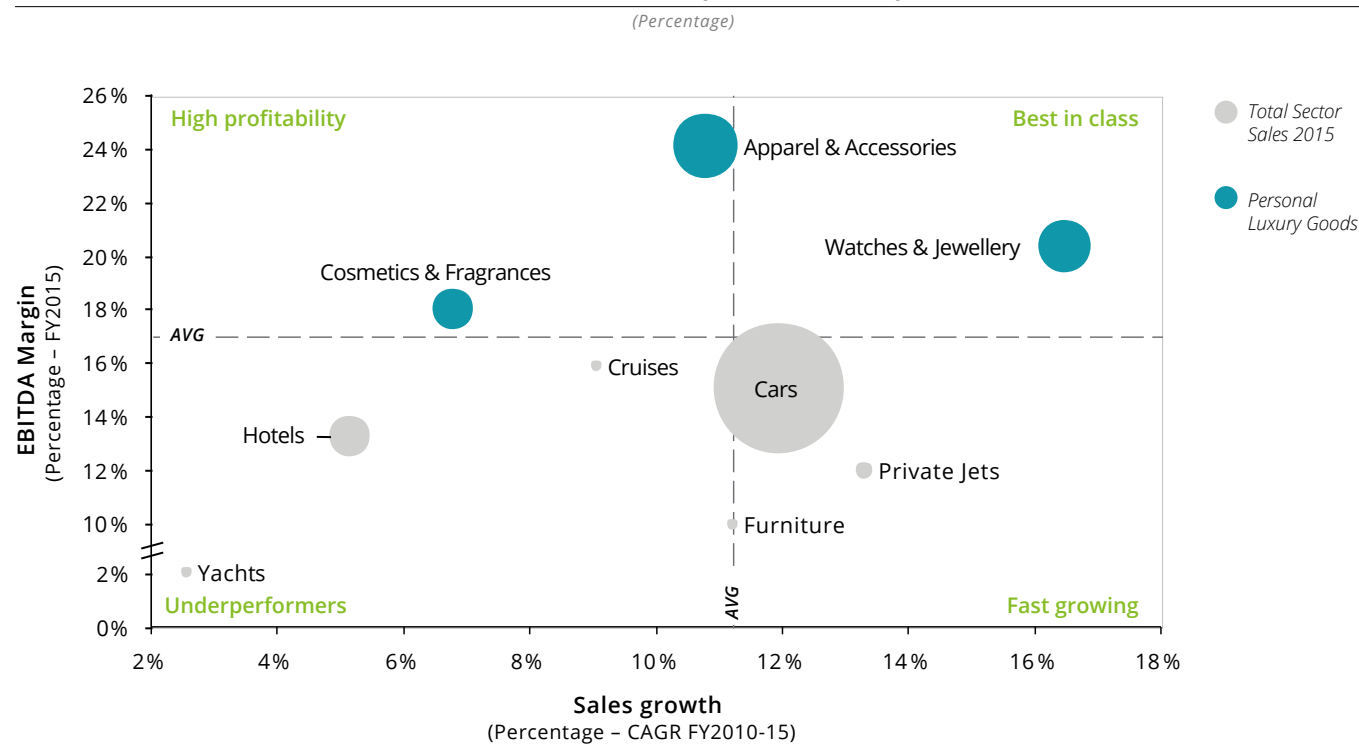
+0.7  
-0.2

Notes: Values reported at constant exchange rate  
Source: Elaboration on Company Financial Report data

# Sectoral performance analysis

Watches & Jewellery is the most attractive sector for F&L investors, with outstanding sales growth and margins. Apparel & Accessories is still best in terms of profits generation.

**F&L sectors business performance map**



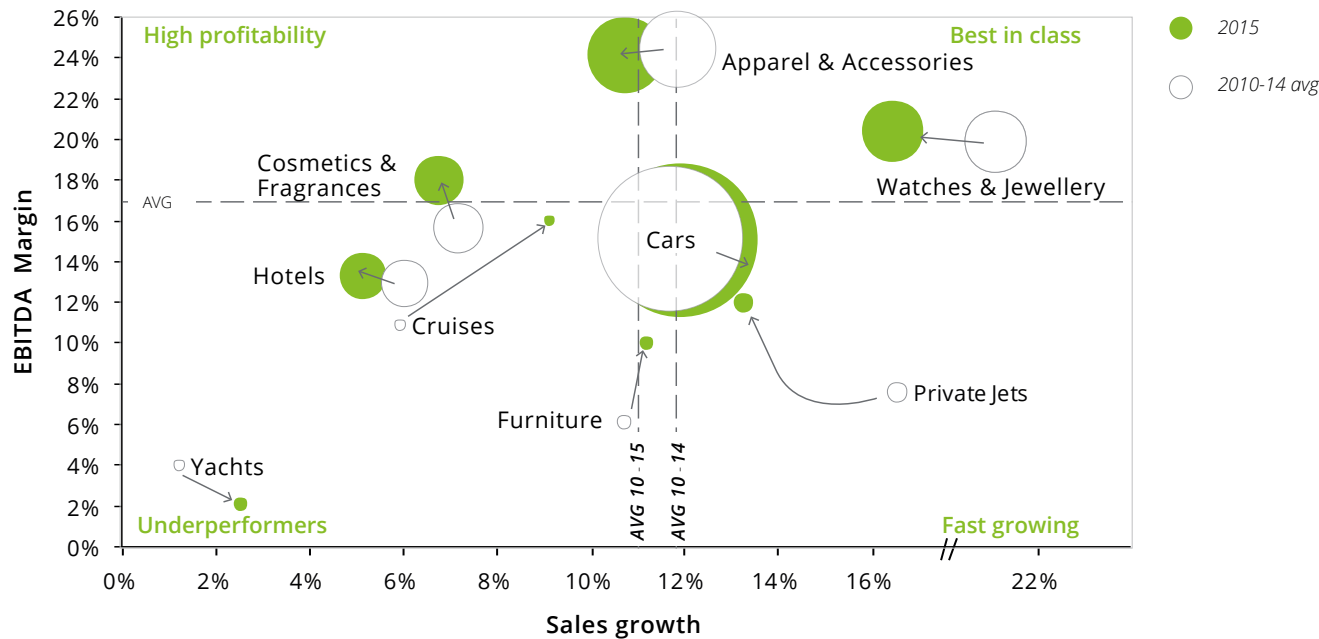
Notes: Values reported at constant exchange rate  
 Source: Elaboration on Company Financial Report data

# Sectors' performance evolution

F&L growth has slowed slightly (down 0.6 percentage points in FY2015 vs FY2010-14). Margins have been preserved (averaging ~17 per cent).

F&L sectors business performance map

(Percentage)



## Key findings

The sales CAGR of F&L sectors decreased from 11.8 per cent in FY2010-14 to 11.2 per cent in FY2010-15.

Margins seem unaffected by slower sales performance (16.7 per cent in FY2010-14 vs 16.9 per cent in FY2015).

Notes: Values reported at constant exchange rate; the bubble size represents the total sector sales  
 Source: Elaboration on Company Financial Report data

# A window on key market trends

## Apparel & Accessories ●

- Slower due to a decline in Apparel luxury products consumption, mainly in the US and China
- Increased competition for luxury groups from “contemporary brands”
- Accessories are growing through consolidation in leather goods and shoes

## Watches & Jewellery ●

- After years of strong growth the sector is showing signs of fragility as Asian markets contract
- Decreased consumption and intensified competition are reducing top players’ market share

## Cosmetics & Fragrances ●

- The prestige segment is growing mainly through make-up and fragrances
- North America, South America and Asia consumption are driving the market
- Sector digitalisation is speeding through acquisitions of specialised players

## Luxury Cars ●

- Steady recovery in the automotive market, growing for the past six years
- Premium players are gaining market share on luxury car manufacturers
- The sector continues its rapid technological development (e.g. Electric Vehicles, Automation, etc.)

## Luxury Hotels ●

- The Hotels sector is decelerating as tourist flows in major European cities fall
- The sector’s performance is influenced by terrorist attacks and disruptive innovations (e.g. the sharing economy, peer-to-peer lodging, etc.)

## Private Jets ●

- Luxury Private Jets players’ performance is decelerating due to the market entry of firms extending services to aspirational consumers
- Development of new offer segments is favoured by digital trends (e.g. charter booking apps)

## Luxury Cruises ●

- The sector has boomed in the past year, boosted by prices, capacity and the rise in global demand
- The Mediterranean business is shrinking
- Outstanding growth for river cruises and non-stop itineraries (e.g. Antarctica)

## Furniture ●

- Improving performance overall
- European players are driving growth through acquisition of major shares in developing markets (e.g. Asia)
- The living and bedroom segments are stimulating the market

## Yachts ●

- Yachts’ ongoing recovery is favoured by:
  - Superyachts, with more sales to high net worth individuals
  - Success of the speculative production model
  - Development of the small boating market
  - Access to financing (e.g. leasing)

Notes: Values reported at constant exchange rate  
Source: Elaboration on Company Financial Report data

● Negative trend ● Stable trend ● Positive trend



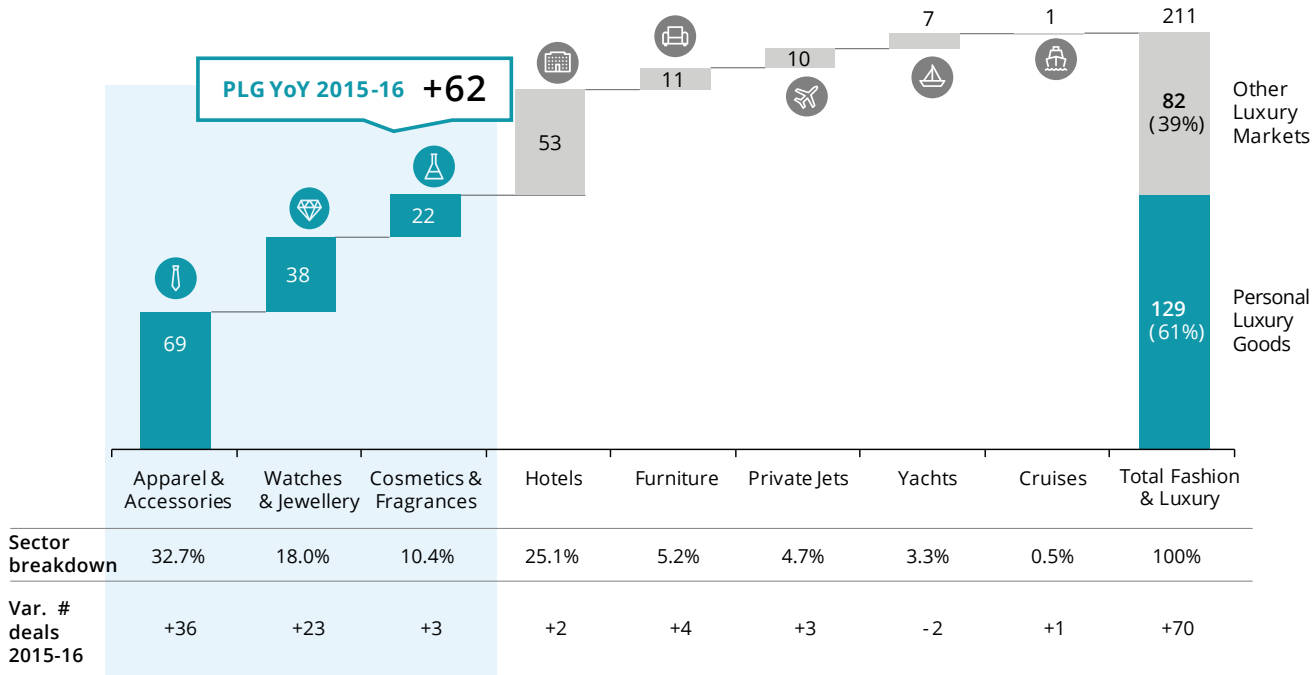
# M&A Deal Monitor 2016

## Size of main M&A deals

The F&L soil has been fertile. 211 M&A deals in 2016, up 50 per cent on 2015. Personal Luxury Goods (+93 per cent YoY) represent more than 60 per cent of the total.

Number of deals in 2016 - Breakdown by sector

(Number of deals, Percentage)



Source: Elaboration on Deloitte intelligence data



### Key findings

Watches & Jewellery registered 23 more deals compared to 2015.

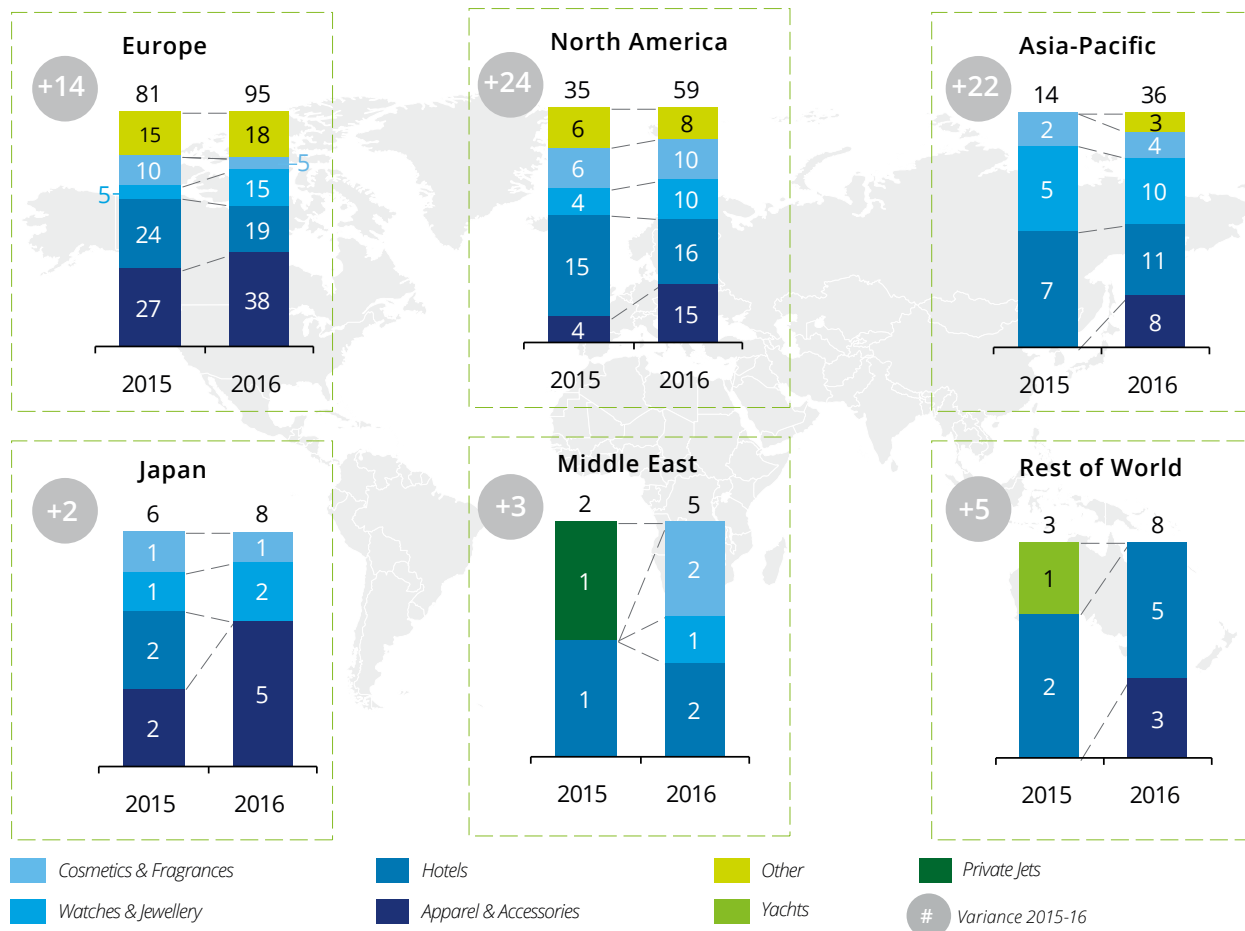
Apparel & Accessories and Hotels deals have grown by +36 and +2 respectively.

Furniture, Private Jets, Yachts and Cruises have proven less attractive to investors during 2016.

# M&A deals by region and sector

## Overview of deals in 2016 by region

(Number of deals)



Source: Elaboration on Deloitte intelligence data



## Key findings

Europe, North America and Asia Pacific showed a significant increase in M&A activity oriented towards Fashion & Luxury players during 2016, with 14, 24 and 22 more deals respectively than in 2015, driven by Apparel & Accessories and Watches & Jewellery.

There is consistent investor interest in luxury hotels as the main target industry for each region.

A slight decrease in interest from funds investing in Private Jets and Yachts, where fewer deals have been registered.

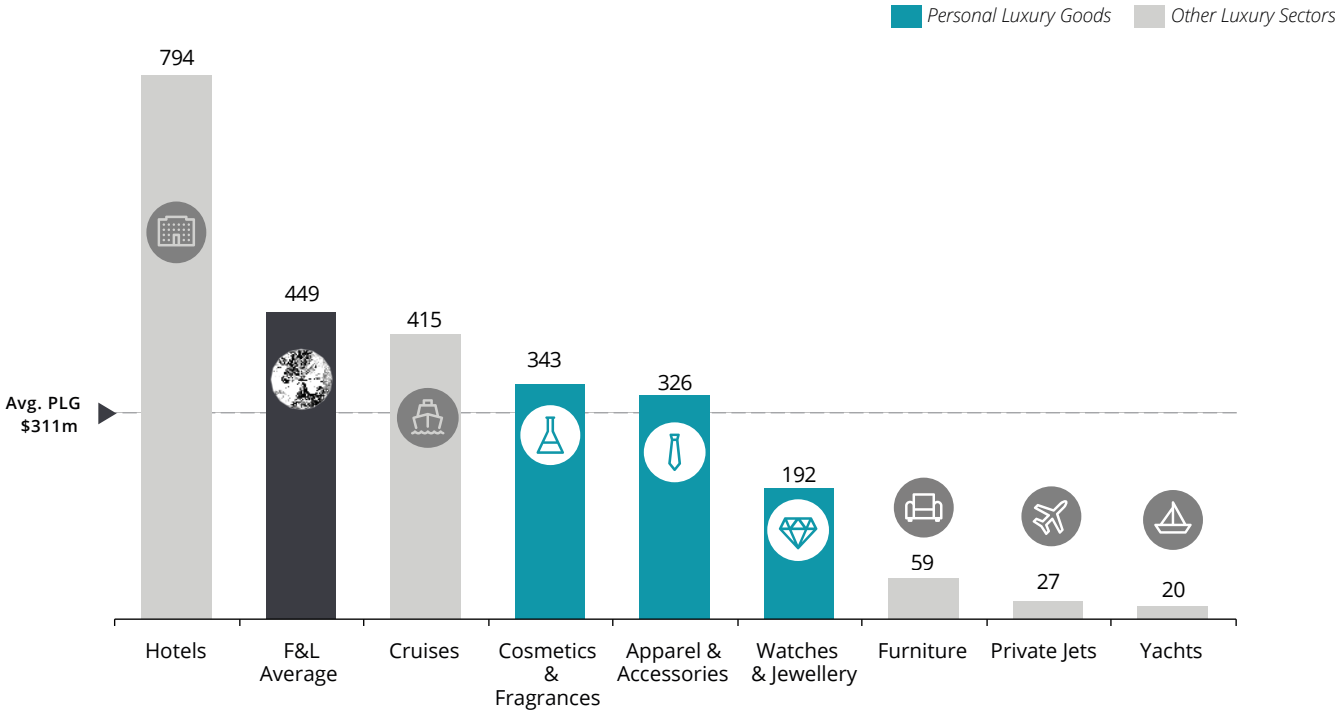


# Average value of main deals by sector

Despite an increase in the number of transactions, the average deal value has decreased, from \$582m to \$449m in 2016 (- 23 per cent).

Average value per deal in 2016 – Breakdown by sector

(\$m; Percentage)



## Key findings

In most F&L sectors the average deal value fell in 2016.

Only Apparel & Accessories, Watches & Jewellery and Yachts recorded YoY 2015-16 increases (+9.9 per cent, +111.5 per cent and +11.1 per cent respectively).

Notes: The average deal value has been calculated based upon data of disclosed transactions  
 Source: Elaboration on Deloitte intelligence data

# Target company features

In 2016 funds preferred to invest in larger and mid-sized companies.  
 In 34 per cent of cases paid multiples were 11-15 times EBITDA; in 37 per cent, more than 15 times.

## Target company features - Sales class and multiples

(Percentage; Enterprise value (EV)/EBITDA multiples)

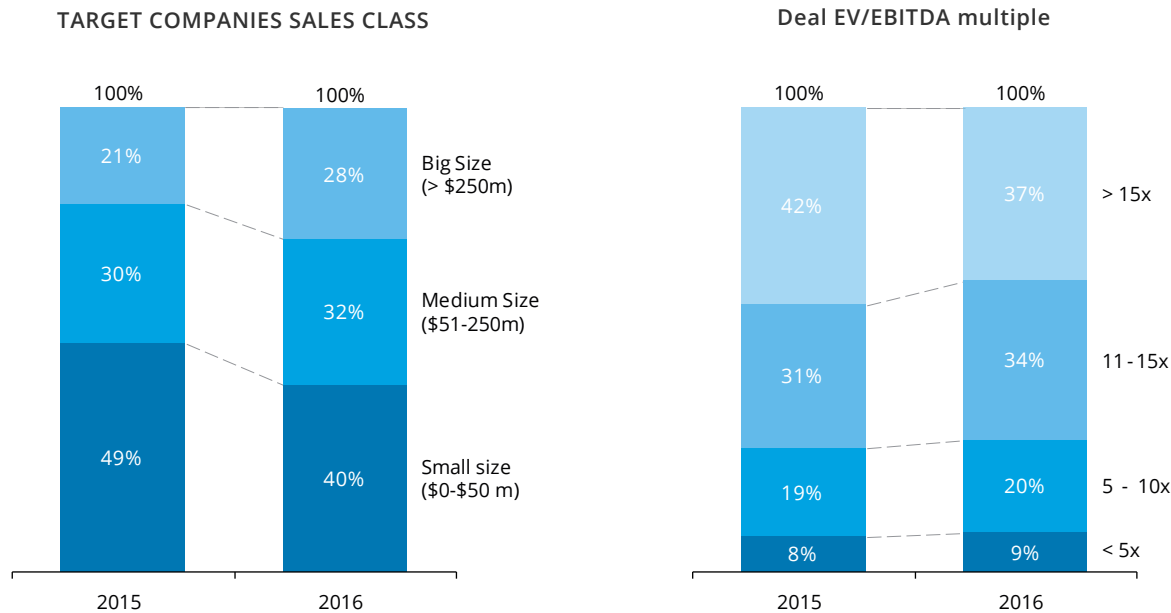


### Key findings

In 2016, investors were mostly oriented towards larger-sized firms (>\$250m) which accounted for 28 per cent of deals in the year, compared to 21 per cent in 2015.

There was a marked decrease in deals involving small businesses (-9 percentage points 2016 vs 2015).

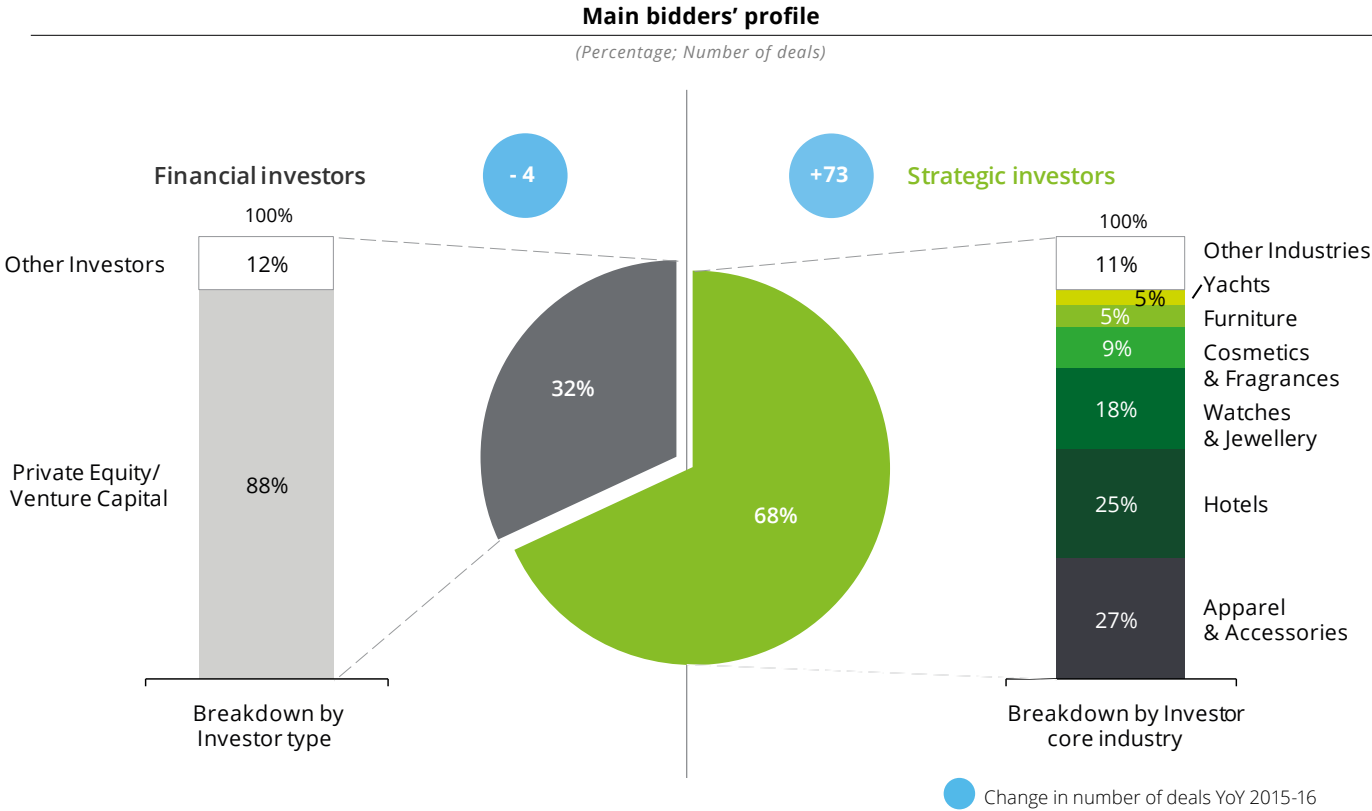
Deals with an EBITDA multiple of x15 decreased, while those with a multiple between x11-15 increased between 2015 and 2016.



Notes: The target sales class has been calculated for all companies with financial data which is publicly available  
 Source: Elaboration on Deloitte intelligence data

# Investor profiles

In 2016, 68 per cent of investors were strategic buyers, mainly active in Apparel & Accessories, Hotels, and Watches & Jewellery. Deals completed by financial investors decreased.



Source: Elaboration on Deloitte intelligence data



## Key findings

Deals conducted by strategic investors, mainly operating in the Apparel & Accessories, Hotels and Watches & Jewellery sectors, represent 68 per cent of the total deals. This is an increase compared to the previous year (+73 deals).

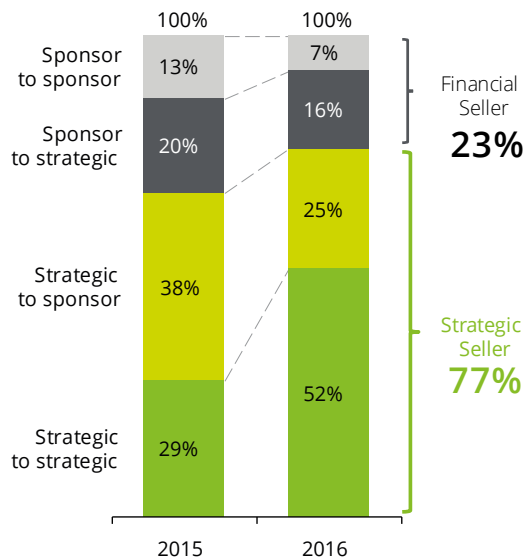
There was a slight reduction in deals conducted by financial investors (-4 deals compared to 2015).

# Portfolio exit strategies

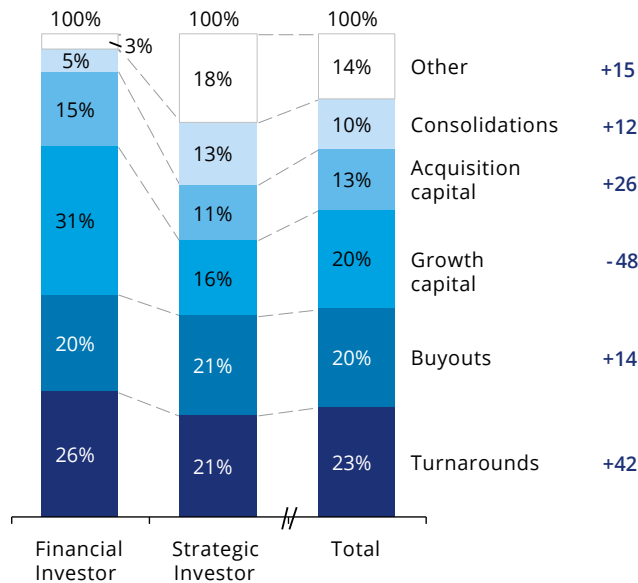
In 2016, 77 per cent of the deals had a strategic seller whose aim, in about 25 per cent of cases, was effecting a turnaround. There were 42 more deals with this purpose than in 2015.

## Exit types vs investment strategies

**Exit types patterns**  
(Percentage)



**Investment strategy by bidder type**  
(Percentage)



**YoY 2015-16**  
(Number of deals)

## Key findings

There was a strong increase in M&A operations carried out by 'strategic' sellers in 2016 (77 per cent). In 2015 only 57 per cent of investors were 'strategic'. Furthermore, the exit patterns of financial investors decreased from 33 per cent in 2015 to 23 per cent in 2016.

There was growth in investments aimed at a strategic turnaround (+42 deals) and acquisition capital (+26 deals). Growth capital oriented deals, mainly enacted by financial investors, decreased sharply.

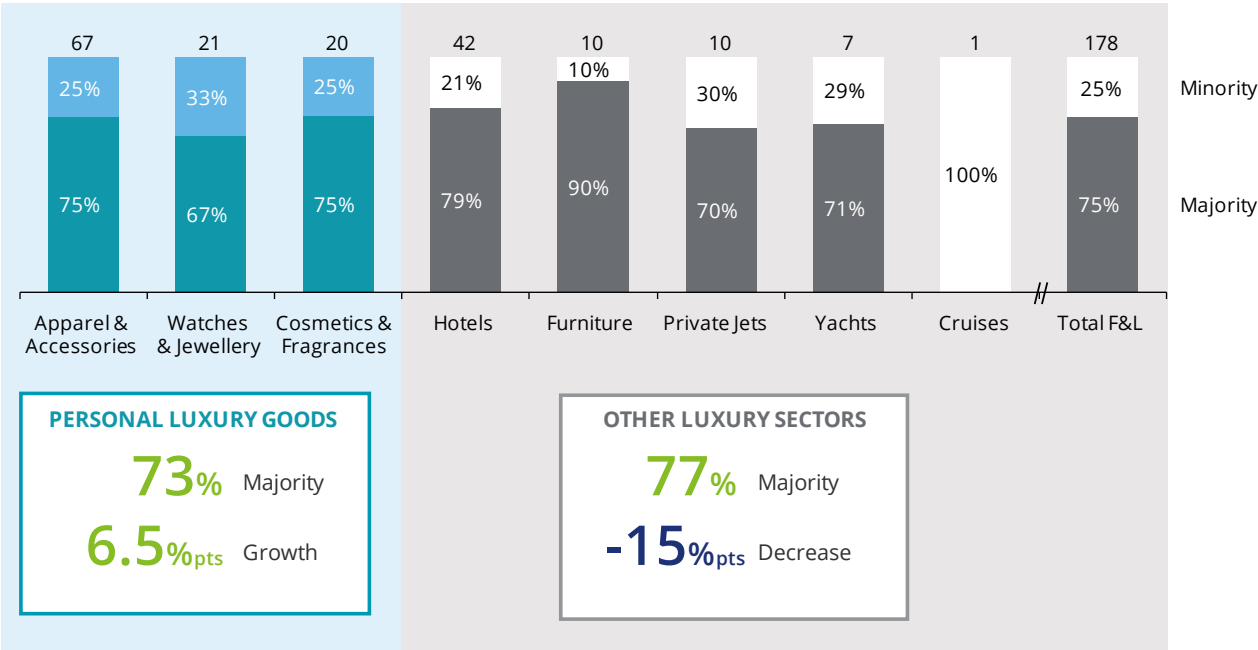
Notes: The deal strategy analysis has been performed based upon data of disclosed transactions  
Source: Elaboration on Deloitte intelligence data

# Bidders' investment stake

75 per cent of deals in F&L sectors aim to obtain a majority stake in the target company. In PLG majority stake transactions are increasing.

Investment stakes by sector

(Percentage)



Source: Elaboration on Deloitte intelligence data

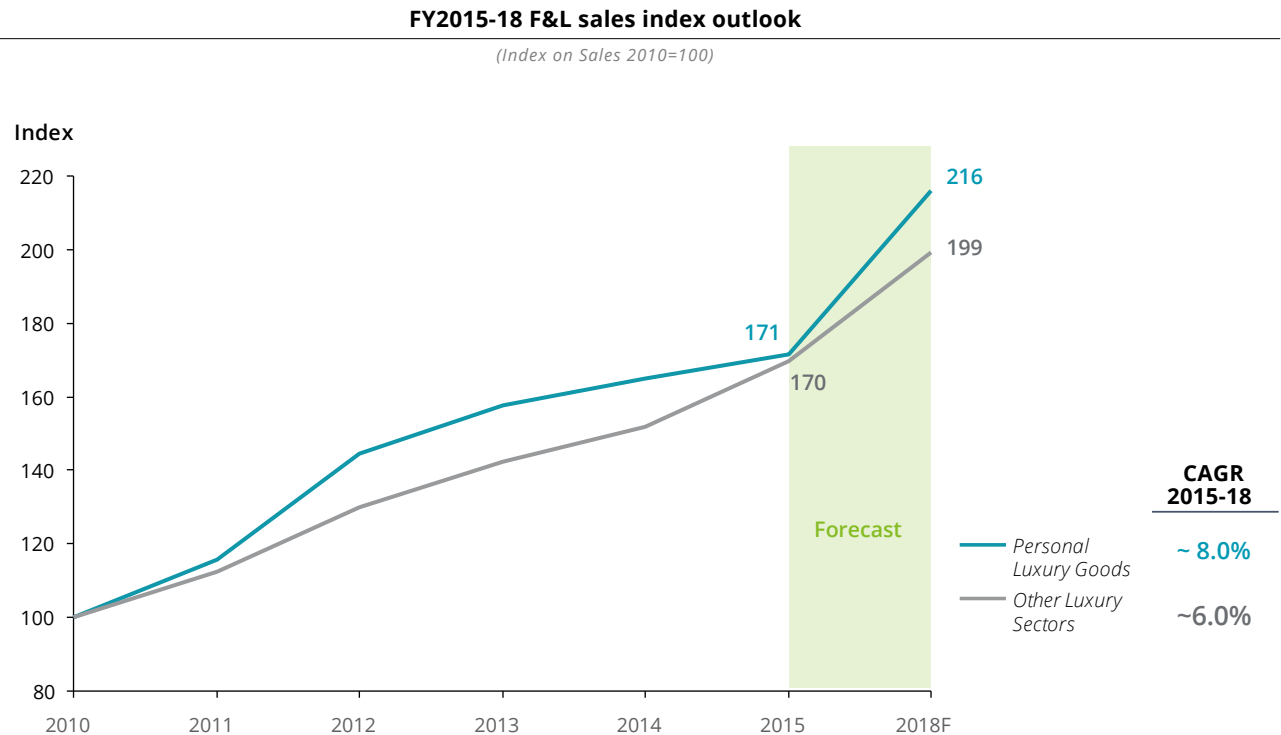


# Private Equity and Investors Survey 2017

## Fashion & Luxury Market Outlook

### Rising sales forecast

Investors expect PLG top players to achieve 1.3 times the 2015 sales index by 2018, an 8 per cent CAGR. Other luxury sectors are expected to be at 1.2 times the current value (about 6 per cent CAGR).



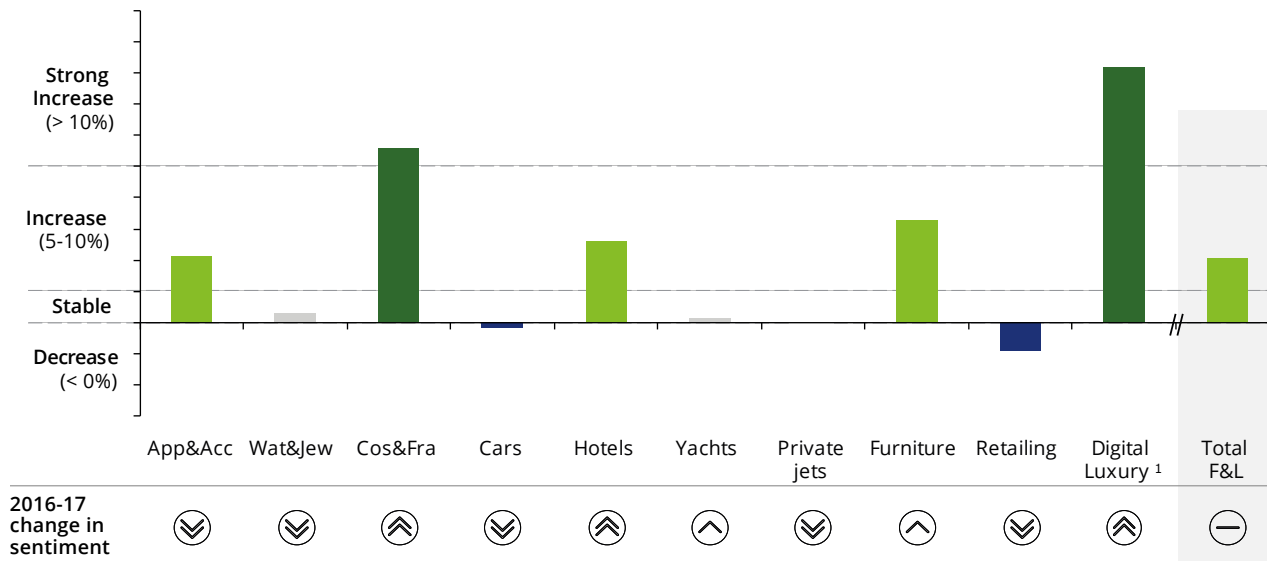
Notes: Values reported at constant exchange rates  
 Source: Elaboration on Company Financial Report data and Deloitte survey

# Trend by F&L sector

In the next three years investors expect the F&L industry to grow by 5-10 per cent annually, driven by Cosmetics & Fragrances and Digital Luxury. Apparel & Accessories, Hotels and Design are consolidating. Cars, Private Jets and Retailing are forecast to shrink.

**Expected F&L market trends for the next 3 years – Breakdown by sector**

(Index on responses)



## Key findings

Private Equity funds expect the F&L industry to grow by around 5-10 per cent annually in the next three years, confirming last year's sentiment.

The main sectors that will drive this growth are Cosmetics & Fragrances and Digital Luxury, with growth rates higher than 10 per cent and continuously improving sentiment. A slower trend is predicted for Apparel & Accessories, Hotels and Furniture (between 5-10 per cent annually), while Watches & Jewellery and Yachts will remain stable.

Forecasts are less favourable for Cars, Private Jets and Selective Retailing, where the growth rates might be negative and Private Equity sentiment is weakening markedly.

Notes: (1) "Digital Luxury" option wasn't available in the 2016 survey edition  
Source: Elaboration on Deloitte survey

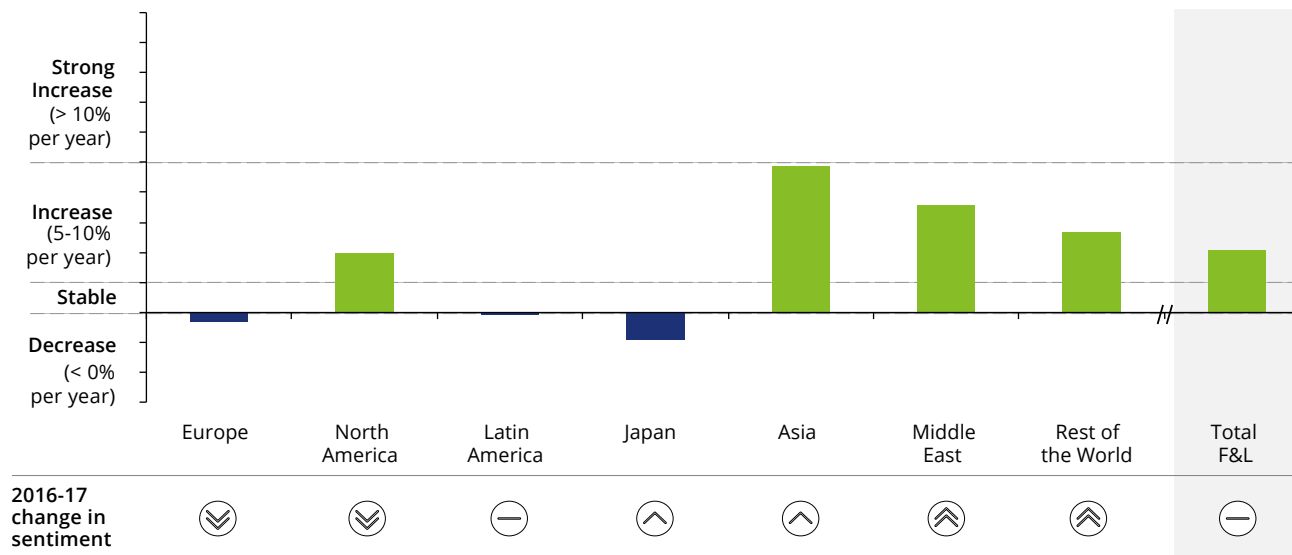


# Trend by geographical area

Asia and the Middle East will stimulate growth of the F&L industry. Though expectations remain positive, sentiment on North America is weakening. Europe and Japan are expected to decrease though sentiment on Japan is improving somewhat.

**Expected F&L market trends in the next 3 years - Breakdown by region**

*(Index on responses)*



## Key findings

Asia and the Middle East Fashion and Luxury markets will drive the industry's growth in the coming three years, with growth rates of between 5 and 10 per cent annually.

There is a marked fall in investor sentiment towards more developed markets such as Europe and North America, though growth is still forecast in North America.

Expected reduction in sales in Japan has not prevented an improvement in sentiment towards the market.

Source: Elaboration on Deloitte survey



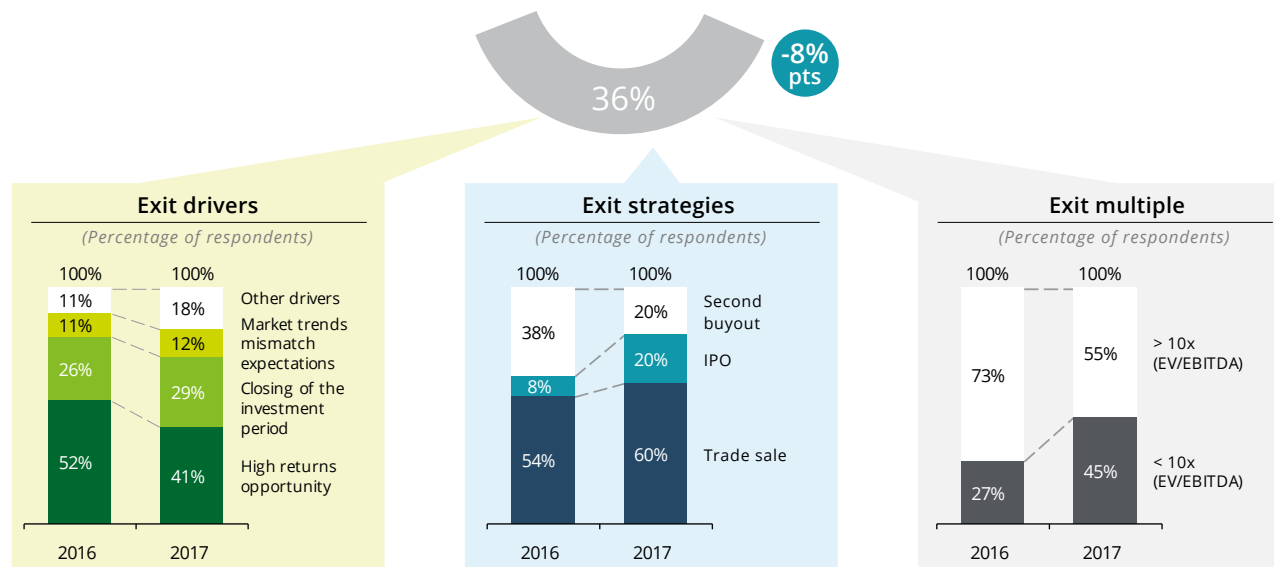
# 2017 Exit and Investment Strategy

## Funds' F&L exit strategy for 2017

Funds considering divesting an F&L asset in 2017 decreased by 8 percentage points. The main drivers of exit are the prospect of high returns, closing of the investment period and market trend mismatches. Smaller multiples are expected by investors.

### Funds that are going to divest at least one asset in 2017

(Percentage of respondents)



### Key findings

36 per cent of funds participating in the survey expect at least one disinvestment within their F&L portfolio, a strong decrease compared to the results of the survey carried out last year (-8 percentage points).

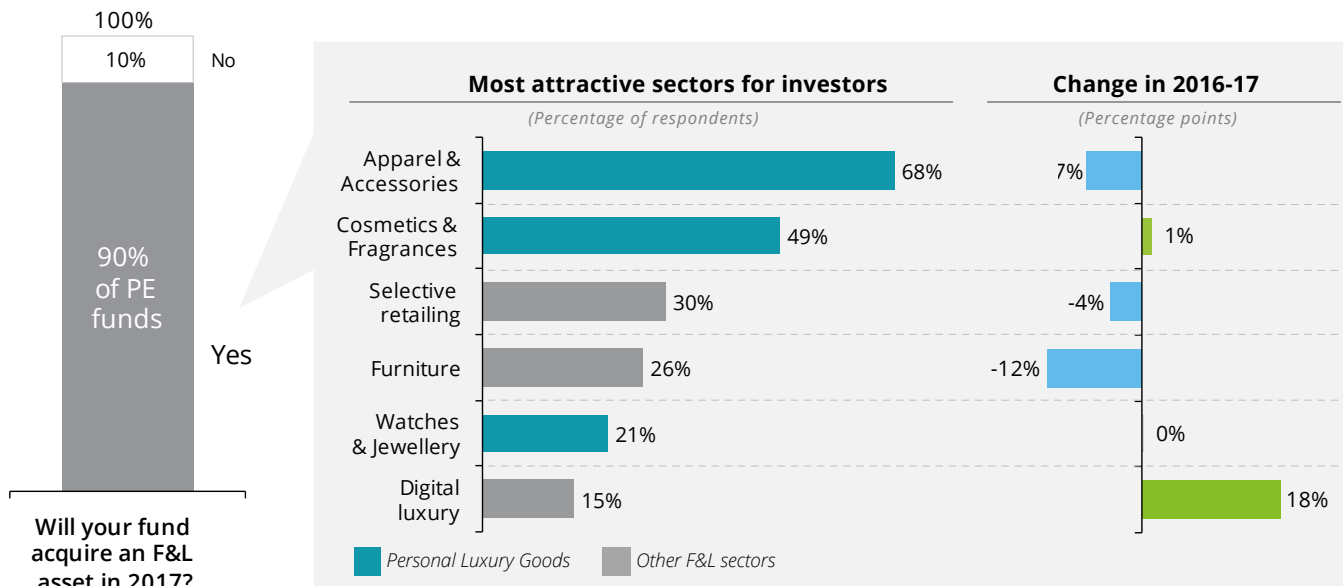
The main drivers to influence exits will be: high returns opportunities (41 per cent), the closing of the investment period (29 per cent) and mismatches in market trends (12 per cent).

In 60 per cent of cases, the exit will be completed through trade sales operations, with 55 per cent of investors paying an EBITDA with a multiple higher than 10 times, a strong decrease compared to expectations in 2016 when 73 per cent expected multiples greater than 10 times.

Source: Elaboration on Deloitte survey

# Expected new investments in 2017

Personal Luxury Goods remain the most attractive sectors for investors, with Apparel & Accessories and Cosmetics & Fragrances becoming more prominent. The disruptive trend of Digital Luxury is becoming focal.



## Key findings

Survey respondents identified the following sectors as the most attractive: Apparel & Accessories (68 per cent), Cosmetics & Fragrances (49 per cent), Selective Retailing (30 per cent) and Furniture (26 per cent).

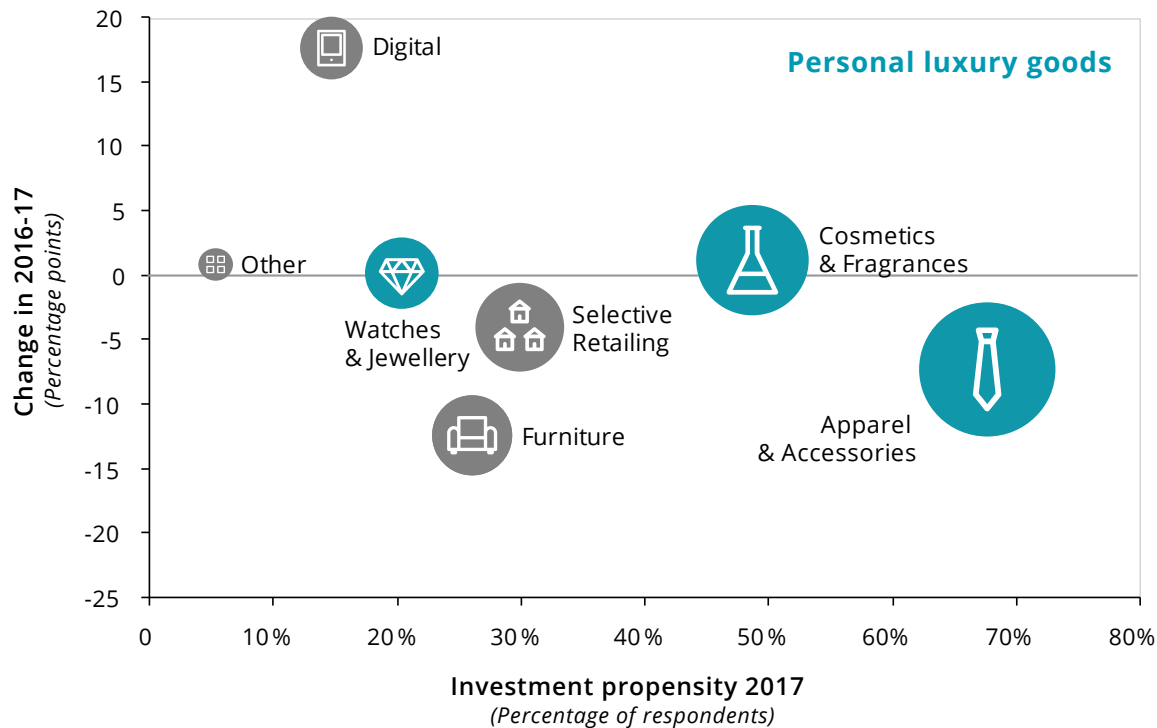
Interest in Watches & Jewellery is stable, with 21 per cent of funds ready to invest.

Digital Luxury is the new entry, attracting 15 per cent of investors.

# F&L sector attractiveness

Both Apparel & Accessories and Cosmetics & Fragrances are remarkably attractive to investors, yet the appeal of Apparel & Accessories has declined. Market and consumer dynamics are creating interest in Digital Luxury.

Map of investor attraction in F&L sectors



Notes: The bubble size represents the general investory propensity  
 Source: Elaboration on Deloitte survey

## Key findings

Virtualization trends in the consumer purchasing process are leading to the creation of a new cluster of firms focusing on Digital Luxury, mainly in the Cosmetics & Fragrances sector.

The attraction of Watches & Jewellery remains stable, despite the slowing Asian market, given that they are less volatile.

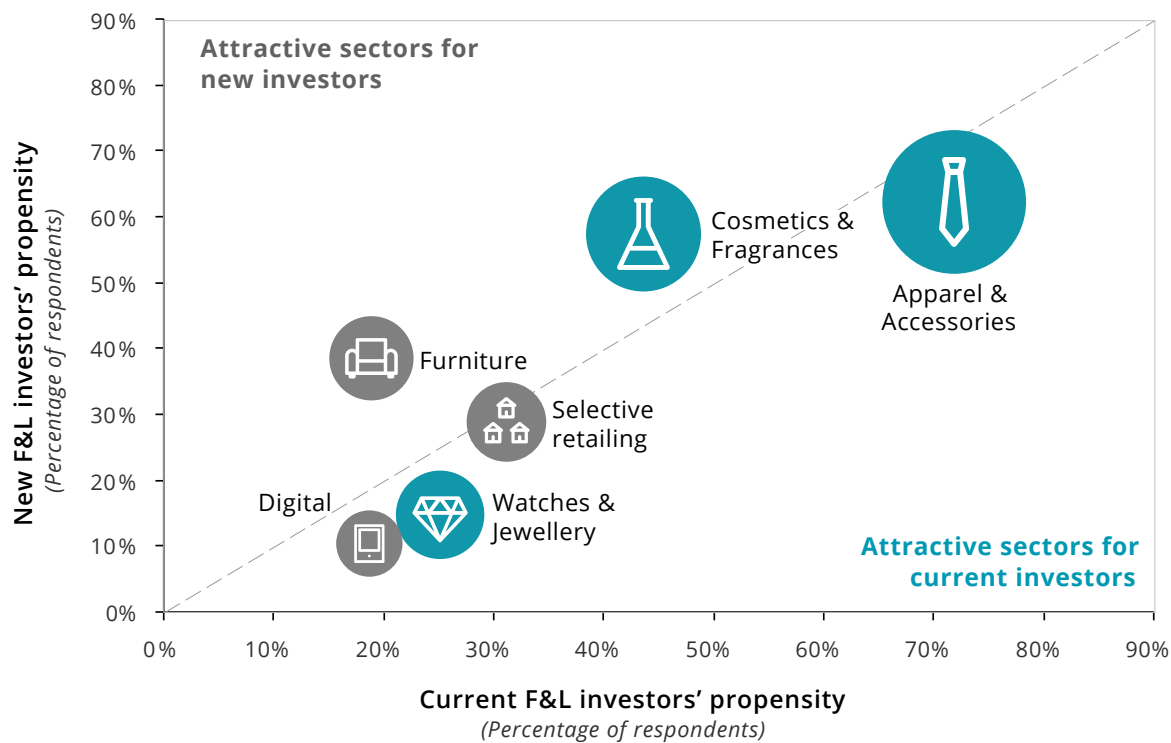
The appeal of Apparel & Accessories has fallen, yet the sector remains the primary choice for investors, attracted by higher margins performances.



# Sector attractiveness: current vs potential investors

While current investors are more attracted to innovative segments such as Digital Luxury, newcomers prefer to invest in more established F&L sectors.

Map of investor attraction in F&L sectors - Current vs potential investors



## Key findings

As the most established sector, Apparel & Accessories remains the main target for all investors.

Funds with higher specialisation in the industry tend to be more attracted to innovative sectors such as Digital Luxury.

New potential investors focus on more traditional sectors such as Apparel & Accessories and Cosmetics & Fragrances.

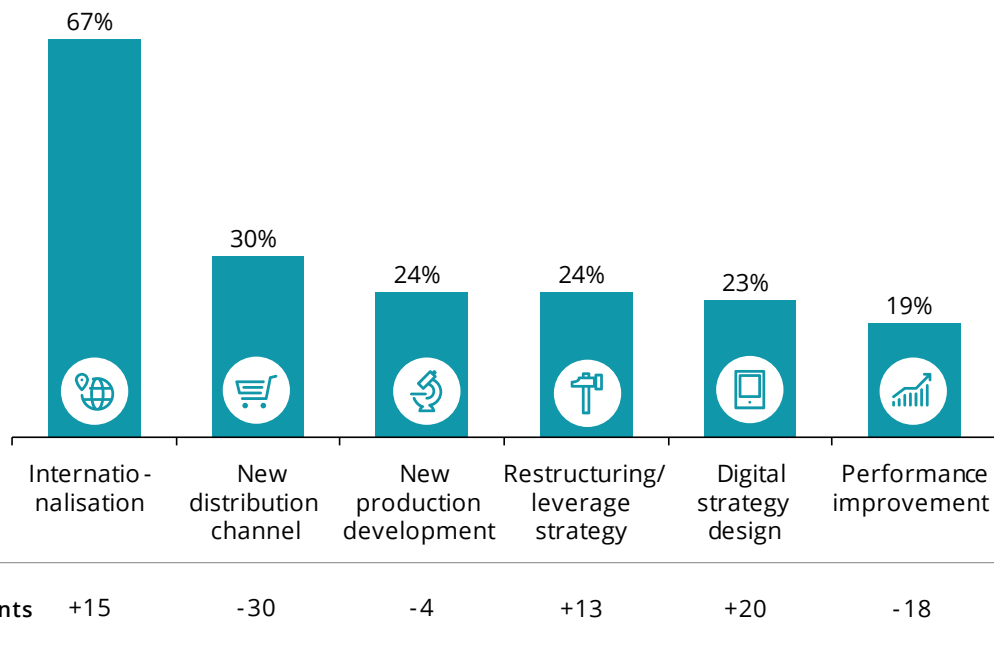
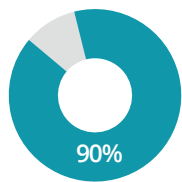
Notes: The bubble size represents the general investory propensity  
 Source: Elaboration on Deloitte survey

# Growth strategies for the F&L portfolio

Internationalisation, digital strategies and restructuring are becoming more important drivers of F&L portfolios.

## Main adopted strategic drivers for the F&L portfolio

(Percentage of respondents, Percentage)



### Key findings

Internationalisation is now the main strategic lever (67 per cent) adopted by F&L investors to grow their asset value.

According to investors, Digital Strategy Design (23 per cent) is becoming a priority topic for F&L companies seeking faster growth.

Frequently funds acquire underperforming companies, aiming to bring sales growth and margins up to the average sector performance.

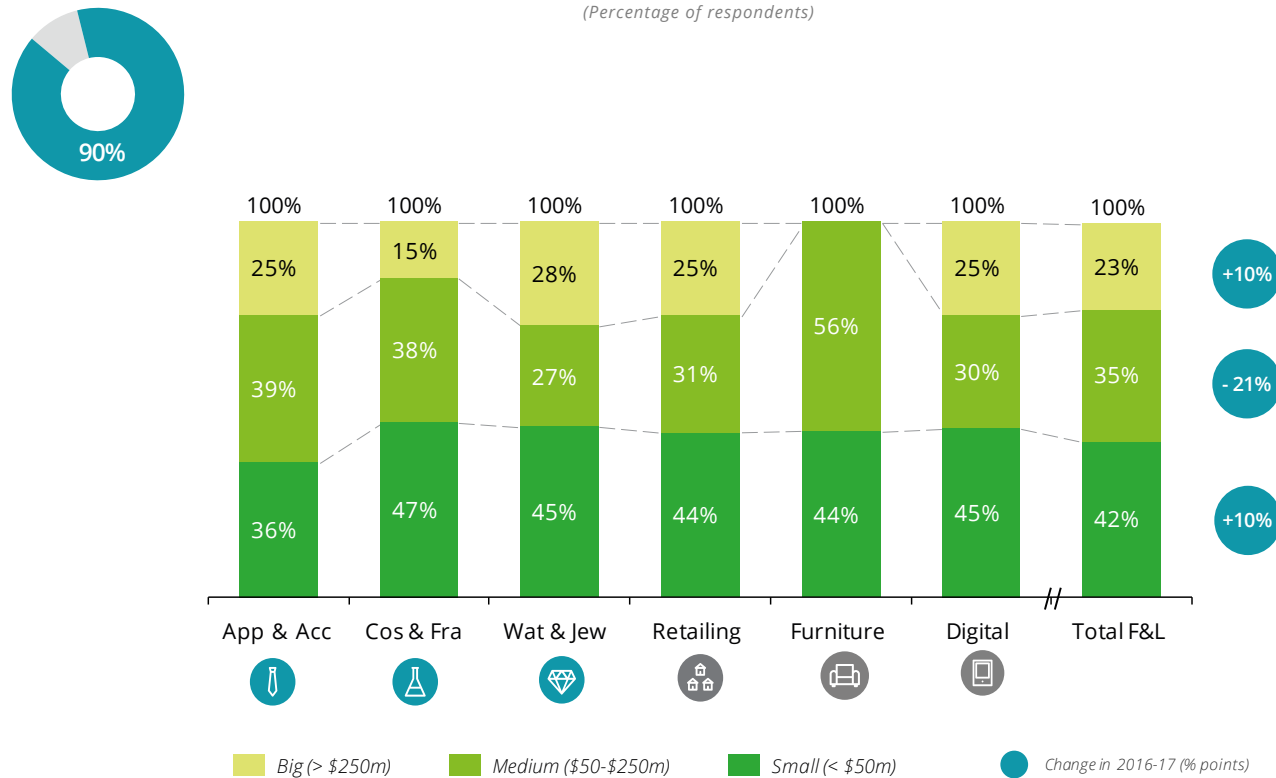
Source: Elaboration on Deloitte survey

# Size of potential investment in F&L

Investors are more inclined to acquire small and medium-sized firms. However, F&L industry consolidation is provoking investments in larger-sized targets.

**Average sales of potential target companies**

(Percentage of respondents)



## Key findings

Investors are typically attracted to small (42 per cent) and medium-sized (35 per cent) businesses.

But the continuous consolidation of the F&L industry also led investors in 2016 towards larger companies (+10 percentage points)

Target companies in Cosmetics & Fragrances, Watches & Jewellery, Furniture and Digital Luxury tend to be smaller (<\$50m), while in Apparel & Accessories the average target turnover is higher.

Source: Elaboration on Deloitte survey

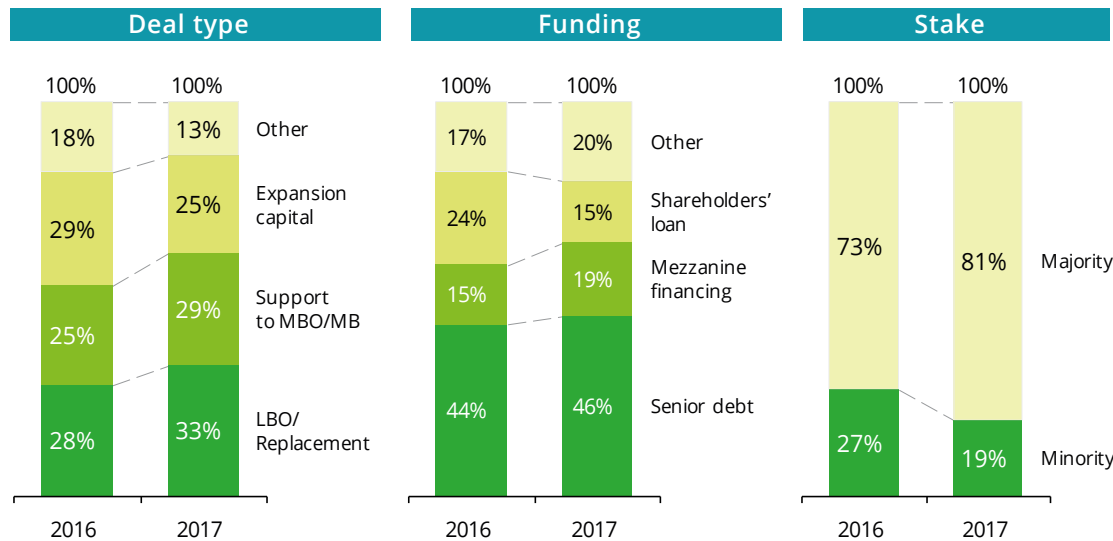
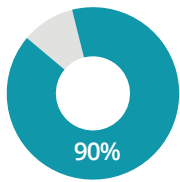


# Main features of the M&A deal

The preferred deal strategies are Leveraged Buyout (LBO), Expansion Capital and Management Buyout (MBO), financed mostly through senior debt, aimed at acquiring a majority stake in the targeted companies.

**Structure of the new F&L investment deals**

(Percentage of respondents)



## Key findings

The main deal strategies adopted by investors in 2017 are: LBO/Replacement (33 per cent), Support to the MBO (29 per cent) and Expansion capital (25 per cent).

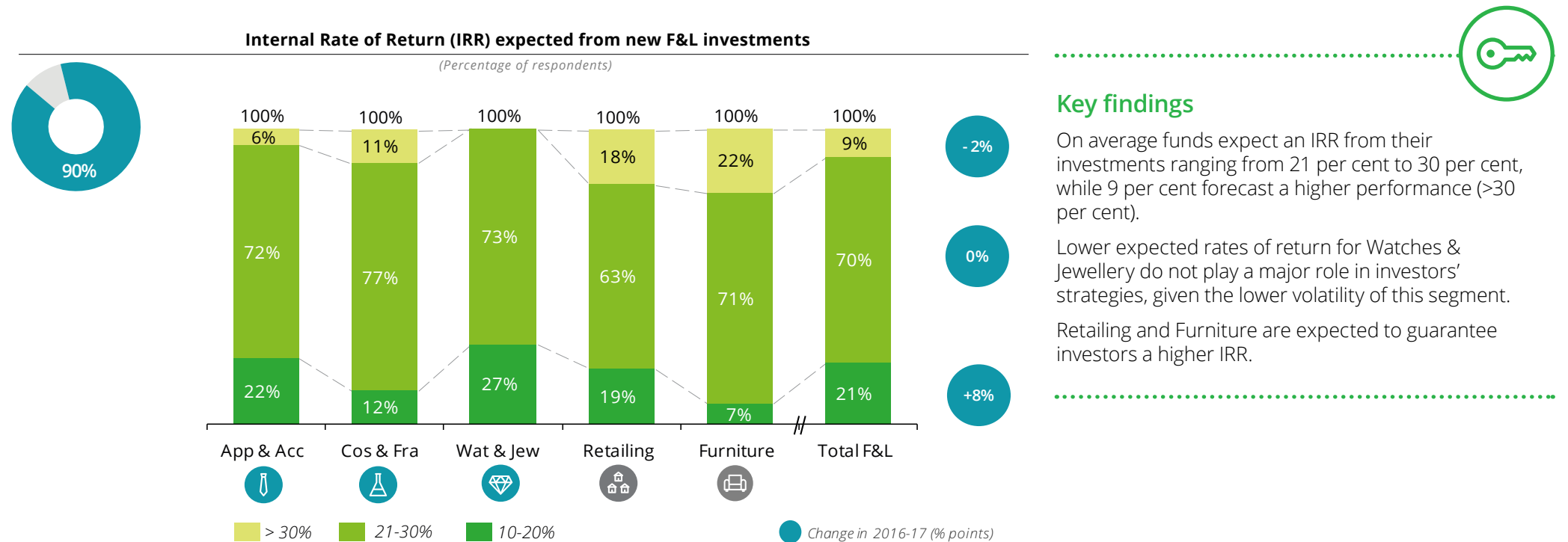
Operations financed through senior debt have been increasing at the expense of shareholder loans. Mezzanine financing has become one of the most used sources.

Most deals focus on acquisitions of majority stakes.

Source: Elaboration on Deloitte survey

# Return expected from new investments

Investors forecast rates of return from their assets ranging from 21 per cent to 30 per cent, with Selective retailing and Furniture the expected top performers (>30 per cent).



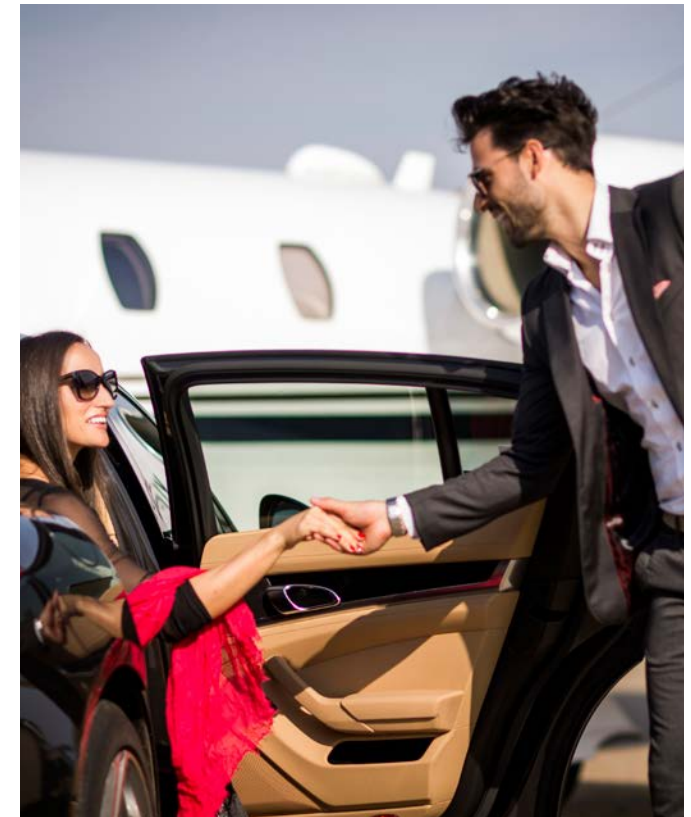
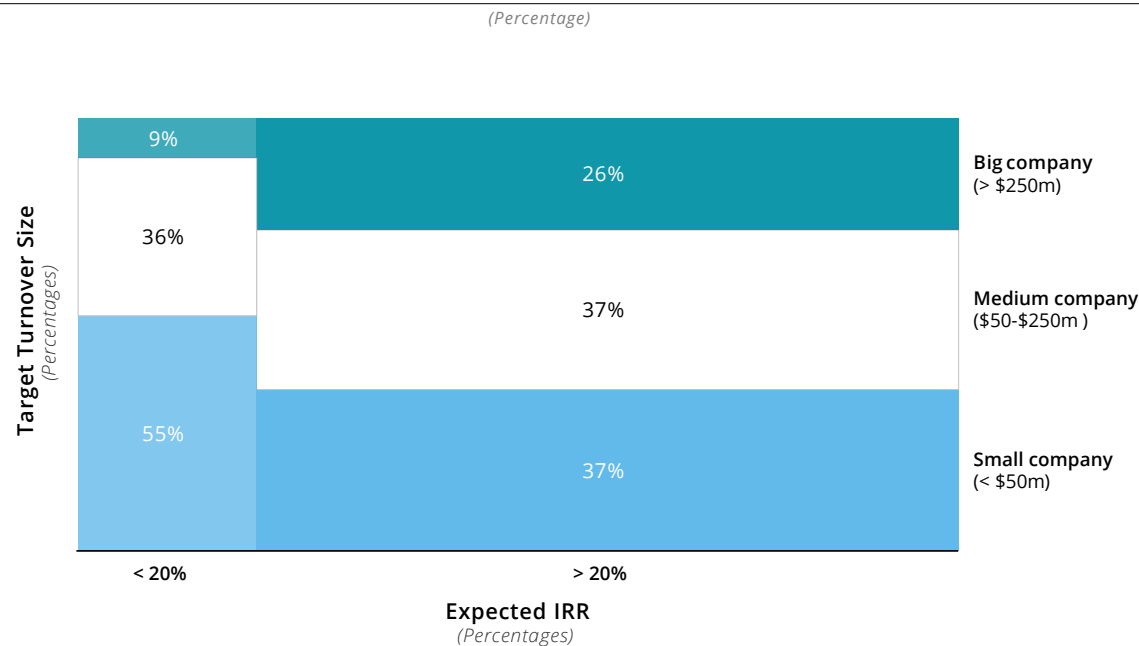
Source: Elaboration on Deloitte survey

# Return from new investments: small yields more

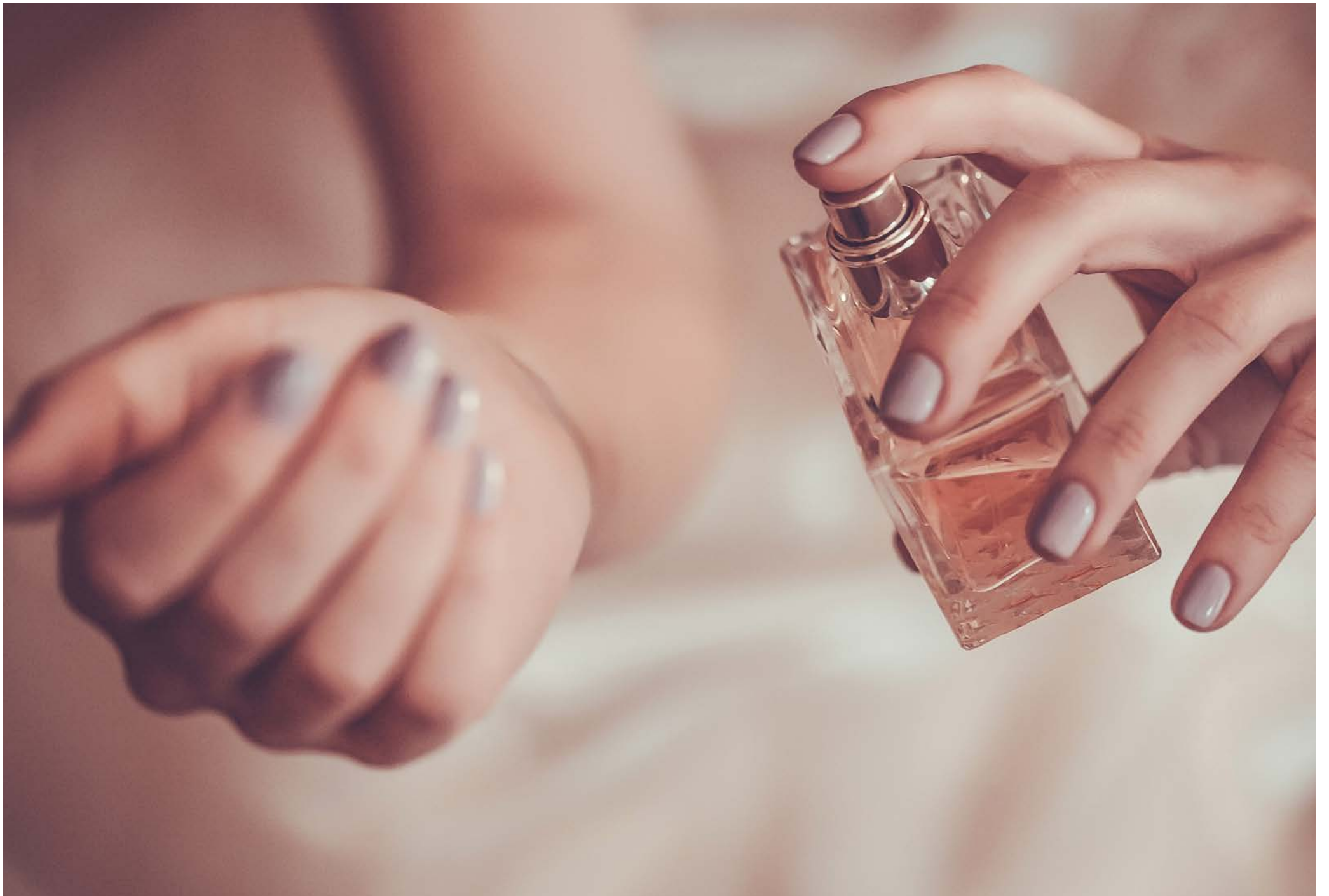
Respondents confirm the existence of a correlation between a target firm's size and the expected rate of return from investment.

A return greater than 20 per cent is more likely from mid-sized and small firms.

**IRR expected from new F&L investments – Breakdown by target company size**



Source: Elaboration on Deloitte survey



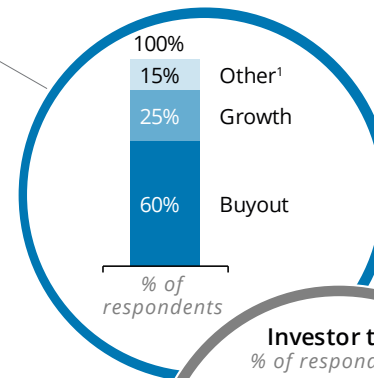
# Profile of Survey Respondents

## Funds' key features

95 per cent of survey participants are medium-large Private Equity Funds. In 31 per cent of cases, they hold a portfolio of net assets greater than \$1bn.

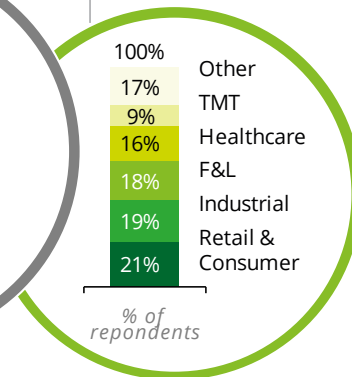
### Fund strategy

The main strategic approach of the involved funds are: buyout (60 per cent) and growth (25 per cent) strategies



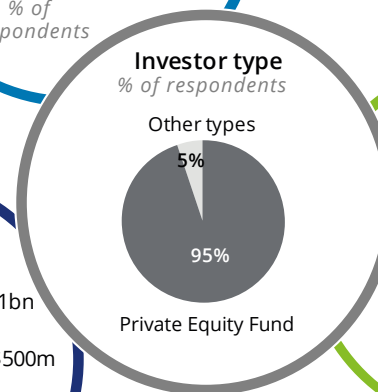
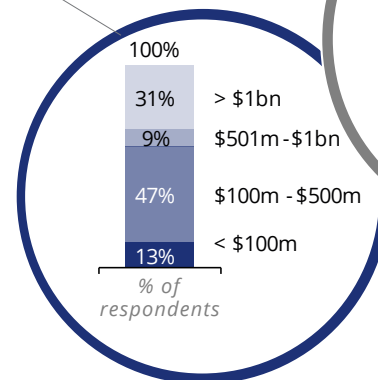
### Fund core industries

The main industries represented in investors' portfolios are: Retail & Consumer (21 per cent), Industrial (19 per cent), F&L (18 per cent) and Healthcare (16 per cent)



### Fund net assets

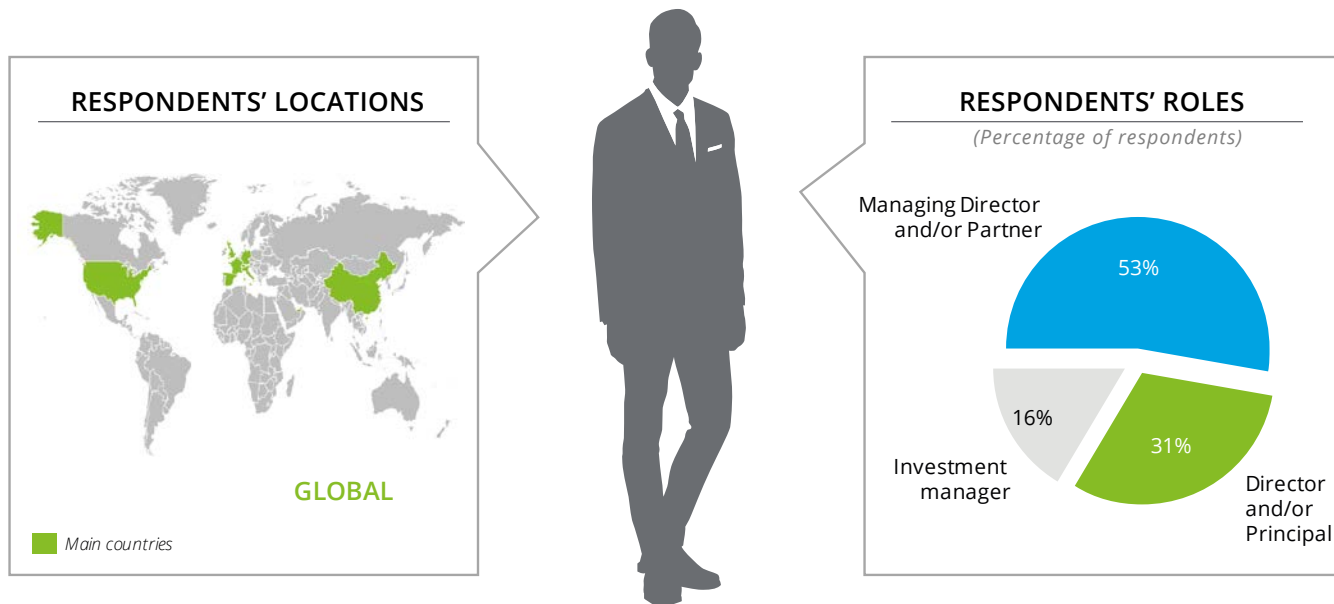
About 47 per cent of funds participating in the survey have net assets ranging from \$100m-500m, while 31 per cent have full net assets greater than \$1bn



Note: (1) Other investors: Family offices, Luxury Holdings and Sovereign Wealth funds  
Source: Elaboration on Deloitte survey

# Profile of survey respondents

Respondents are senior members of their funds, with substantial knowledge of F&L.



Source: Elaboration on Deloitte survey

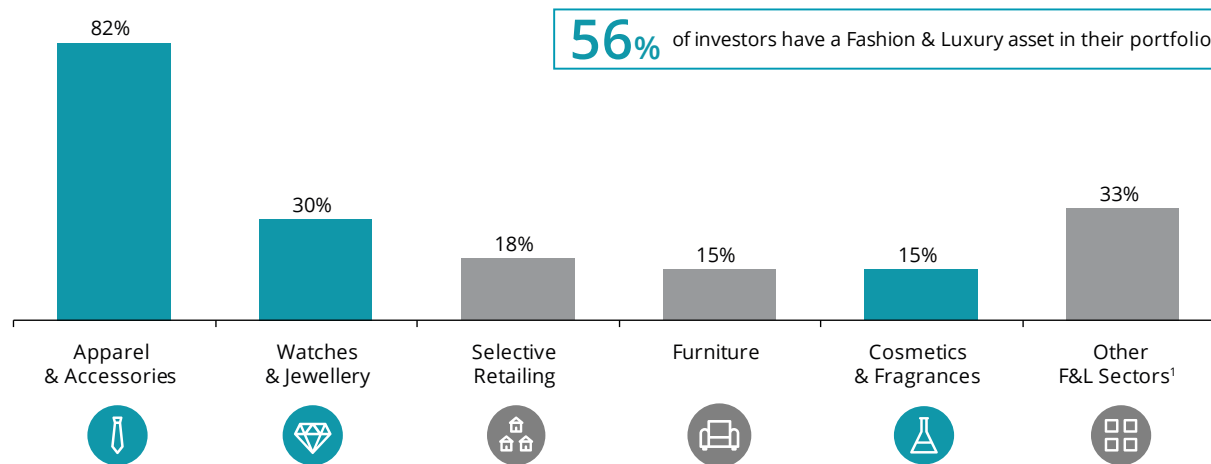
# Funds' current F&L portfolio

## Main sectors

Investors mainly manage assets in Apparel & Accessories (82 per cent) and Watches & Jewellery (30 per cent), Retailing (18 per cent), Furniture (15 per cent) and Cosmetics & Fragrances (15 per cent).

### Main F&L assets managed by investors

(Percentage of respondents)



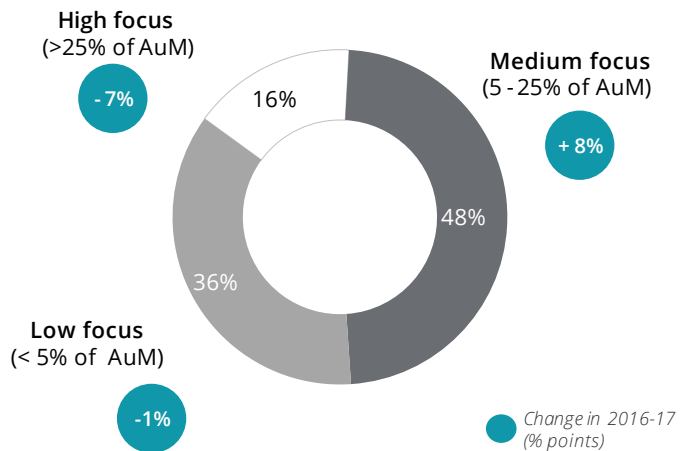
Note: (1) "Other F&L Sectors" includes mainly: Yachts (9 per cent), Hotels (6 per cent), Cruises (3 per cent) and Digital luxury (6 per cent)  
 Source: Elaboration on Deloitte survey

# Funds' current F&L portfolio Structure

84 per cent of current F&L investors focus 25 per cent or less of their overall portfolio on the F&L industry. Investors usually hold their F&L assets for less than 5 years, with a majority stake.

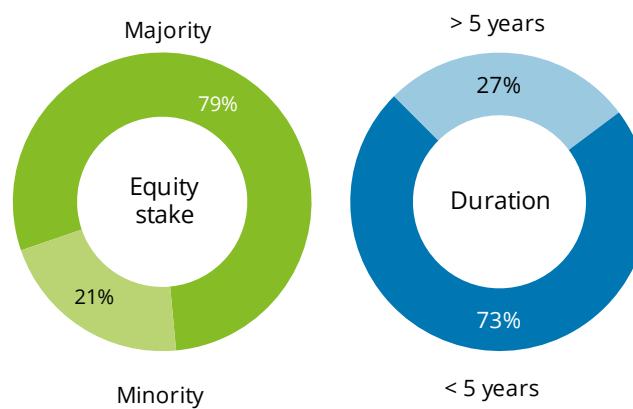
**Portfolio focus in F&L industry**

(Percentage of respondents)



**Portfolio equity stake and duration**

(Percentage of respondents)



Source: Elaboration on Deloitte survey



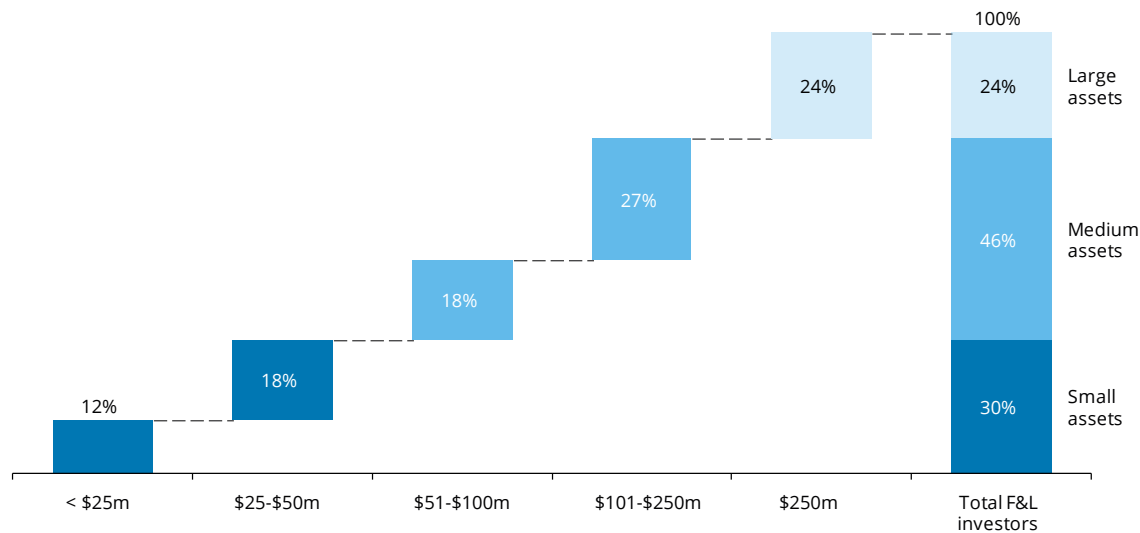
# Funds' current F&L portfolio

## Average asset size

46 per cent of respondents' assets have a turnover of between \$51m and \$250m. Large-sized assets (>\$250m) represent 24 per cent of the average portfolio.

**Average turnover of F&L assets in investors' portfolio**

*(Percentage of respondents)*



Source: Elaboration on Deloitte survey



# Glossary

## Main Terms and Abbreviations

<b>Personal Luxury Goods</b>	Personal Luxury Goods include the following sectors: Apparel & Accessories, Cosmetics & Fragrances and Watches & Jewellery
<b>App&amp;Acc</b>	Abbreviation for Apparel & Accessories
<b>AuM</b>	Acronym for Assets Under Management
<b>CAGR</b>	Acronym for Compound Annual Growth Rate
<b>Cos&amp;Fra</b>	Abbreviation for Cosmetics & Fragrances
<b>F&amp;L</b>	Abbreviation for Fashion & Luxury
<b>IRR</b>	Acronym for Internal Rate of Return
<b>PE</b>	Acronym for Private Equity
<b>PLG</b>	Acronym for Personal Luxury Goods
<b>RoW</b>	Acronym for Rest of the World
<b>Wat&amp;Jew</b>	Abbreviation for Watches & Jewellery

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