



Fashion & Luxury
Private Equity and
Investors Survey 2020

Global report



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Preface



During 2019, Fashion & Luxury (F&L) continued to grab the attention of PE funds and Investors. Some have raised special vehicles to be on top of trends and to recognize the best assets in the industry.

During 2019 **we oversaw a globalization slowdown, the rise of populism in developed nations and prominent geo-political instabilities affecting the global economic scenario.**

In this context, despite market challenges and record high valuations, the F&L industry remained a major priority for PE funds and Investors.

COVID-19 spread will strongly affect the balance for 2020, which will likely be one of the most testing years in recent memory; not since financial crisis of 2008/09 has so much uncertainty pervaded the market so quickly. The unstable global trading, political and macroeconomic environments, provide a major challenge for Fashion & Luxury players, whose strategies, sales channels, supply chain and employees will likely be stressed to varying degrees. The repercussions of this changing global landscape are quickly setting the bases for **sharp changes in the F&L industry**, where the increasing **presence of disruptive**

technologies and the digitalization of the business and luxury worlds are already affecting its key players and their business models.

In this context, global investors interested in the Fashion & Luxury industry are reviewing their expectations and strategies for the next years.

In order to analyze and measure market trends and expectations on M&A activities, Deloitte has launched the fifth edition of the **“Global Fashion & Luxury Private Equity and Investors Survey”**.

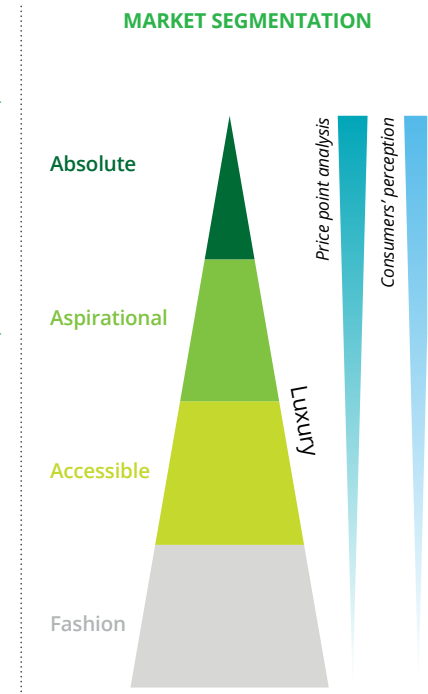
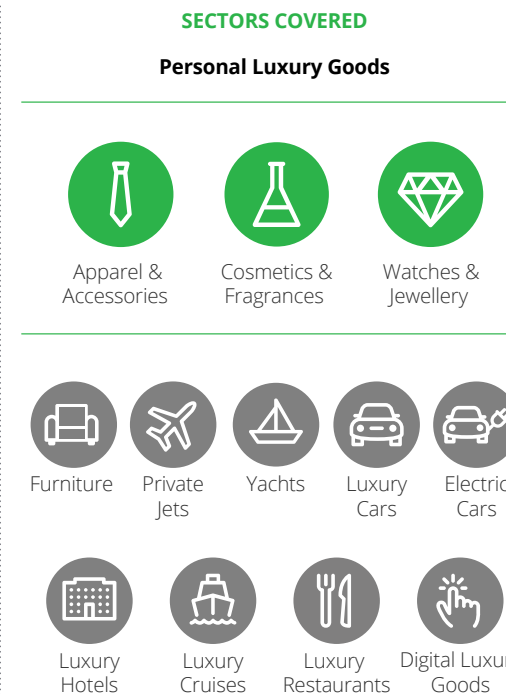


Methodology and contents

The study considers more than ten sectors of the F&L industry, of which three are Personal Luxury Goods.

CONTENTS	F&L INDUSTRY BUSINESS PERFORMANCE	M&A DEAL MONITOR 2019	PRIVATE EQUITY AND INVESTORS SURVEY 2020
	<ul style="list-style-type: none"> Sales and margins performance by sector Analysis of F&L sectors' attractiveness for investors Covid impact assessment by sector, focusing on Personal Luxury goods 	<ul style="list-style-type: none"> Size of M&A deals by F&L sector Target company profiles Investor profiles Analysis of global deals 	<ul style="list-style-type: none"> F&L market outlook and Covid-19 impact Exit and investment strategies in 2020 Investors' current portfolio of F&L assets
GEO SCOPE	Global	Global	Global
DATA SOURCE	<ul style="list-style-type: none"> Company annual financial reports and presentations Interviews with C-level industry experts Deloitte expertise <p>Primary data level</p>	<ul style="list-style-type: none"> News and reports from major media providers Investor press releases Company press releases <p>Primary data level</p>	<ul style="list-style-type: none"> Online survey based on Computer Assisted Web Interviewing (CAWI) Interviews with Private Equity funds' top management <p>Primary data level</p>
REMARKS	<ul style="list-style-type: none"> The investors' survey targeted senior members within private equity funds, with a substantial knowledge of the F&L industry 		

○ Full secondary data ● Full primary data



The study considers more than ten sectors of the F&L industry, of which three are Personal Luxury Goods



Key takeaways

Market Insights and Perspective of F&L Industry

Business Performance of the F&L industry in 2019

Within its analysis on F&L industry business performance, Deloitte aims at assessing sales and profitability growth by each segment to highlight the most attractive sectors for investors. The analysis has been conducted on a panel of 81 players with a total sales of 633B\$, 44 of them operating in the Other Luxury sector and generating ~66% of sales, while the other 37 players belonging to the Personal Luxury Goods sector and generating ~34% of sales.

Overall, the panel of companies in the Personal Luxury Goods sector reached in 2019, 1.3 times the 2015 sales level, growing at a +5.7% CAGR 2015-19, with a slight increase in profitability (+0.1%). On the other hand, companies in the Other Luxury sector, reached in 2019, 1.2 times the 2015 sales level, growing at a +4.1% CAGR 2015-19, with a slight decrease in margin of -0.2%.

Average EBITDA margin in Luxury sectors was +15.2% in 2019 (-0.1% vs 2015), with the Personal Luxury Goods sector outperforming the industry (+19.1% avg. EBITDA margin). Apparel and Cruises are the top performing sectors in terms of profitability (+24.6% and +23.3% EBITDA margin), confirming with Cosmetics, the highest sales growth in the F&L industry in 2015-19 period.

Fashion & Luxury outlook from market perspective

The Covid-19 pandemic is expected to have a significant impact on F&L industry with different immediate effects between Personal Luxury Goods (PLG) and Other Luxury sectors. For the Personal Luxury Goods



(PLG) the impact of Covid will be initially less severe with market projected to achieve 1.1 times the 2019 level by 2025 (~ +1.9% CAGR 2019-25F). The Other Luxury sectors are instead expected to suffer more the Covid-19 impact (especially luxury Hotel and Cruises), with an average drop of -25% in 2020/21, followed by a robust recover that will bring the market to 1.2 by 2025 (~ +2.4% CAGR 2019-25F).

In terms of sectors, the market expects Luxury Hotels, Cruises, Watches & Jewellery and Furniture to be the most affected sectors by the pandemic, while Cosmetics & Fragrances and Private Jets will be the least affected. In terms of post Covid recovery speed, Luxury Hotels, Apparel & Accessories and Cosmetics & Fragrances will be at the forefront, benefiting from the re-open of borders and the increased focus on online sales.

Within the PLG sector, the market expects Europe and the Americas to suffer a longer demand contraction with an expected drop in sales from 30 to 40% and expected recovery time from 12 to 18 months. The mostly adopted strategies to overcome the crisis will be online distribution channels focus, digital marketing and promotion and environmental sustainability.

M&A Deal Monitor 2019

2019 Global M&A deal overview

The Fashion & Luxury industry proved to be fertile soil for M&A activities with #271 deals registered in 2019, presenting a slight but stable increase of #6 deals compared to the previous year. Personal Luxury Goods deals have decreased (-53 deals versus 2018) with Cosmetics & Fragrances (12,5% of total) decreasing by #10 deals, and both Watches & Jewellery (4%) and Apparel & Accessories (17%) decreasing by #17 and #26 deals respectively. The Hotels sector, which represents 43% of total, was the best segment in terms of deals growth with respect to the previous year, increasing by #40. M&A deal volumes in other sectors increased, with activity in Restaurants (+7) and Jets (+2) growing compared to the previous year. The average deal value has decreased at \$164m in 2019, with a \$69m decrease from 2018.

M&A deals in Europe slightly decreased (-4 deals), whilst North America increased (+5 deals) and Asia-Pacific remained almost flat.

Luxury Cars deals significantly increased during 2019 (+6 deals), driven by the very active electric car's industry.



Top deals in 2019

Acquisitions in **Watches & Jewellery, Hotels and Automotive** sectors drove numbers in 2019:

- Tiffany & Co. by LVMH (~16B\$ for 100%).
- Strategic Hotels & Resorts by Mirae Asset Global Investments Co (~5.8B\$ for 100%).
- Rivian Automotive, LLC by 4 round fundings (~2.9B\$ for 100%).

Other relevant acquisitions in 2019 involved **Cosmetics & Fragrances, Restaurants and Apparel & Accessories** companies:

- Coty, Inc. by JAB Holdings B.V. (~1.7B\$ for 20%).
- Cooper's Hawk Winery & Restaurants (~700M\$ for 100%).
- Roberto Cavalli SpA by Damac Properties Co. LLC (~160M\$ for 100%).

M&A features and strategies

Of the M&A deals completed, 55% were carried out by Strategic investors (1%pts less than in 2018). Financial investors, involved in 45% of the total, increased only slightly the number of deals (+5 YoY).

Strategic sellers were involved in 67% of the transactions (vs.56% in 2018). Generally, bidders' investments focused equally on a buyout and consolidation strategy (32% and 34% of the times respectively).

Private Equity and Investors Survey 2020

COVID-19 Impact from investors' perspective

Within its Private Equity Survey, Deloitte focuses on understanding investors' perceptions of the potential growth in the F&L market in coming years. Due to the spread of Covid-19, investors expect to make changes in the way they invest. In terms of sectors, in the next three years investors expect Cars, Hotels, Restaurants, Cruises and Retailing to be the most affected sectors by the pandemic. Apparel, Watches, Yacht and Private jets are foreseen to remain stable while Cosmetics & Fragrances and Furniture will show a slight increase. Digital Luxury will be the sector most benefitting from the pandemic and that is expected to sharply grow in the next three years

In terms of geographical areas, Asia and Middle East are expected to have a strong growth in the F&L industry, thanks also to a faster recovery from Covid-19 pandemic. North America and Japan are expected to remain stable in the next three years, while Europe and Latin America are foreseen to suffer more from Covid-19 impact and therefore to have a decrease phase.

2020 investment strategy

70% of funds are considering investing in an F&L asset in 2019, with notable interest rising in: Apparel & Accessories (+28 pts), Cosmetics & Fragrances (+15 pts), Digital Luxury (+53 pts) and Furniture (-17 pts).

Interest across these categories is increasing compared to previous year, mostly noticeable at Digital Luxury Goods.

Both current investors and newcomers are more attracted to consolidated sectors within the F&L industry (such as Apparel & Accessories and Cosmetics & Fragrances) where market knowledge is widespread. Newcomers seem more interested in Digital Luxury Goods. With respect to 2019, the continuous consolidation of the F&L industry is moving investments towards medium-sized companies (+17 percentage points), where investors plan to boost performance by implementing internationalization, new production development (+14 percentage points) and digital strategy design (which grew by 11 percentage points).

The consensus is that forecast returns will range from 21 to 30%.



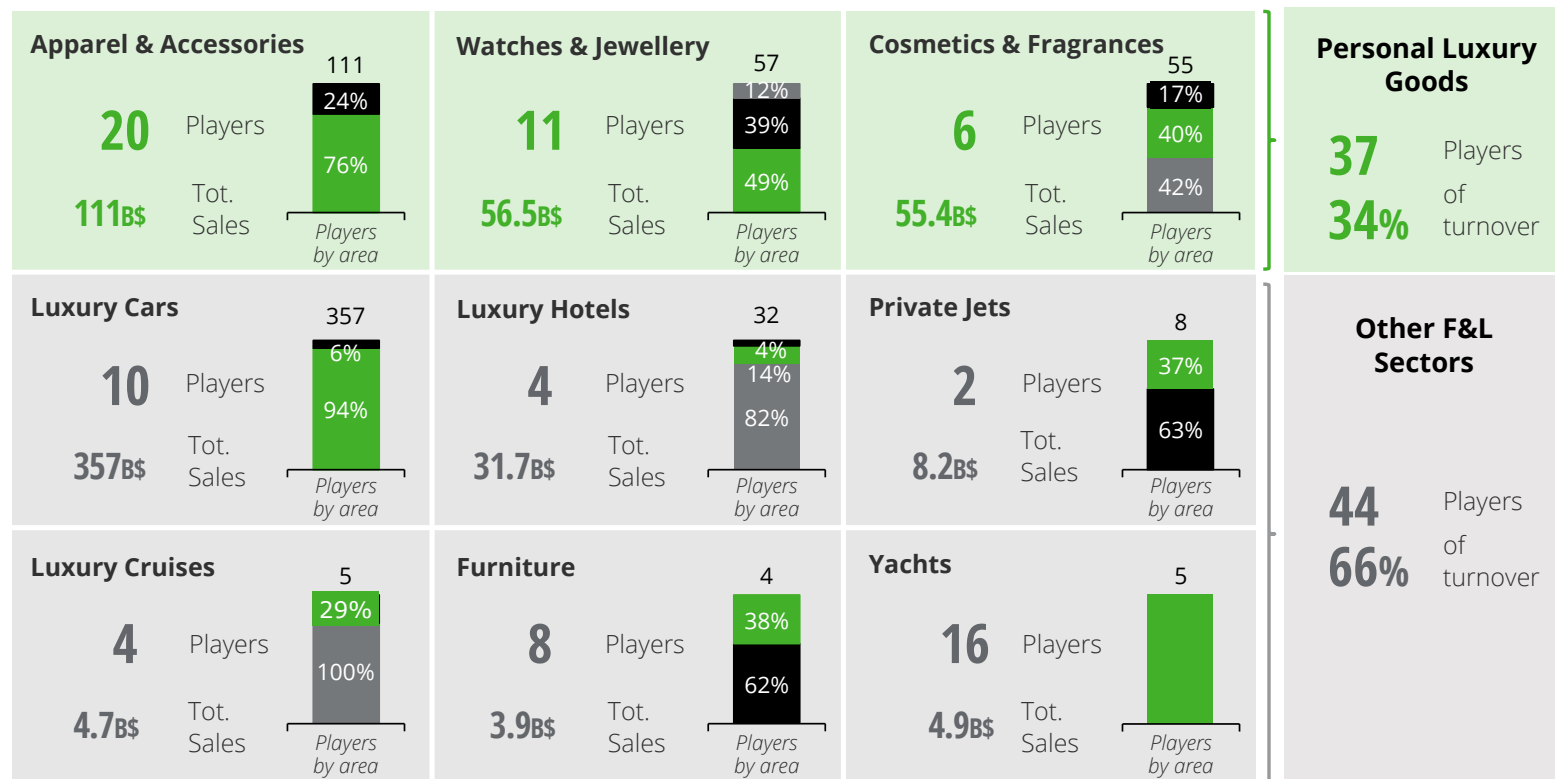


Market Insights and Perspective of F&L Industry

Market Insights: Deloitte Fashion & Luxury panel in 2019

The Fashion & Luxury industry business performance analysis was conducted on a panel of 81 companies, totalizing almost 633B\$ of sales.

Top Players Map FY2019



Rest of the World
North America
Europe

Deloitte F&L Panel: 81 Players | ~ 633B\$ Turnover

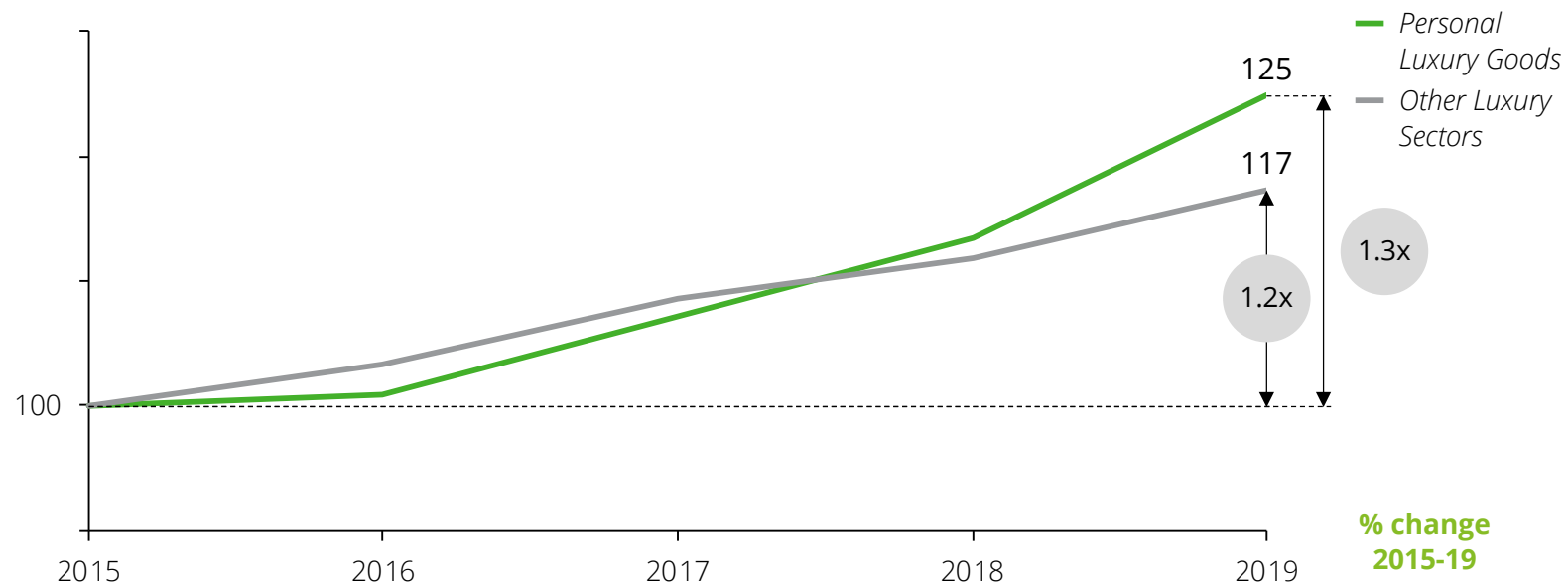
Notes: Values reported at constant exchange rate
Source: Elaboration on Company Financial Report data

Market Insights: Sales performance 2015-19

The F&L top players sales index in 2019 is 1.3x the 2015 value. Personal Luxury Goods show a positive growth (+5.7% CAGR 2015-19) with a stable EBITDA %. Other luxury sectors are growing less (+4.1% CAGR 2015-19), with a slight decrease in profitability.

2015-19 F&L Sales Index evolution

(Index of Sales 2015=100, Percentage)



**CAGR
2015-19**

+5.7%

+4.1%

**% change
2015-19**

+0.1

-0.2

	2015	2016	2017	2018	2019
EBITDA % PLG	19.0%	18.5%	17.3%	18.4%	19.1%
EBITDA % Other Lux	13.4%	12.6%	12.6%	13.1%	13.2%

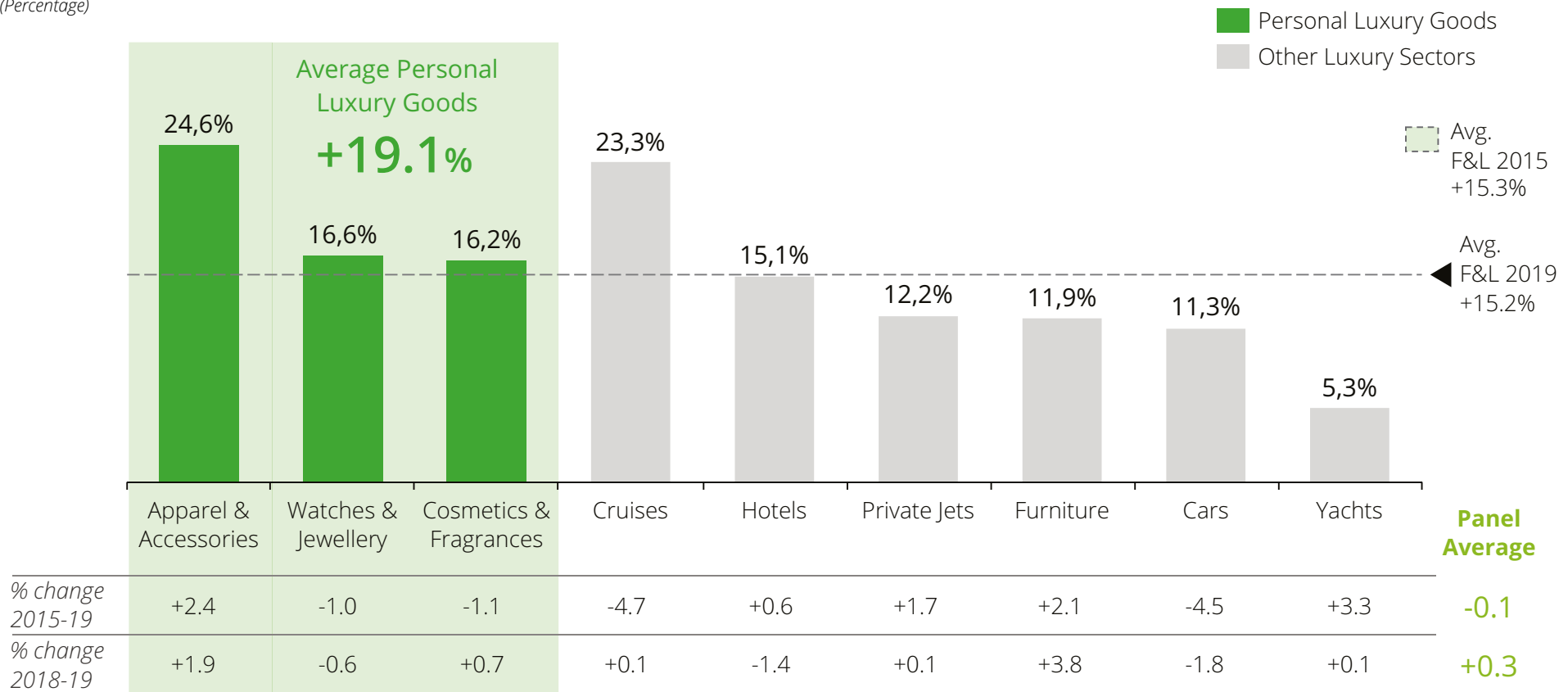
Notes: Values reported at constant exchange rate
Source: Elaboration on Company Financial Report data and Desk analysis

Market Insights: itability performance 2015-19

Average EBITDA margin in Luxury Sectors is 15.2% in 2019 (-0.1% vs 2015), with Personal Luxury Goods (+19.1%) outperforming the overall industry. Apparel and Cruises are the top growing sectors in terms of sales growth and those with the highest profitability.

2019 Average EBITDA Margin by Sector

(Percentage)



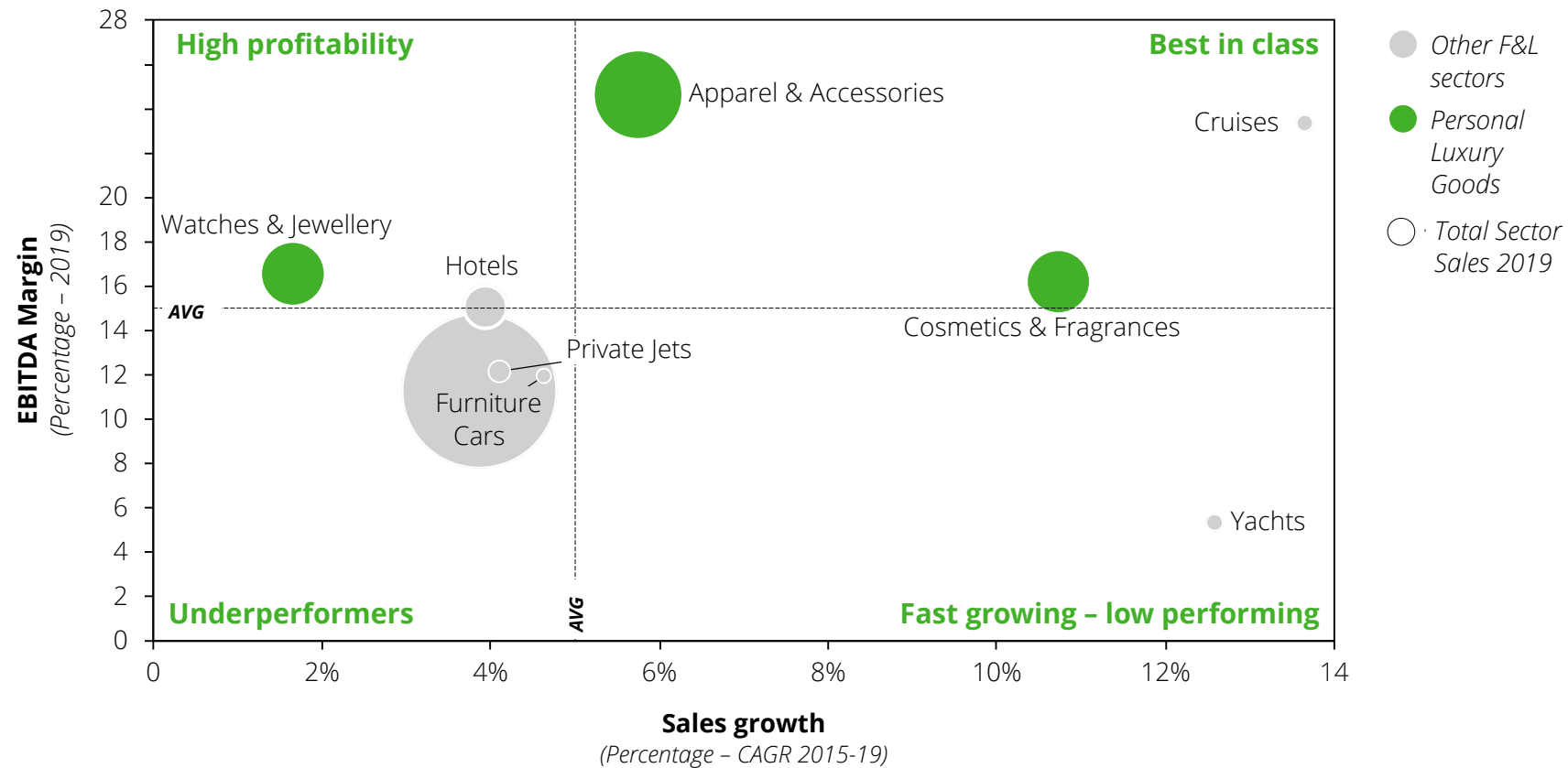
Notes: Values reported at constant exchange rate
Source: Elaboration on Company Financial Report data

Market Insights: Business performance analysis 2015-19

Cruises and Cosmetics are the most attractive sector for F&L investors, with the highest sales growth and margin. Apparel & Accessories is still the top performing category in terms of marginality.

F&L Sectors business performance map

(Percentage)



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

Covid impact on Luxury sectors – Market perspective

SECTOR	PRE-COVID TREND	COVID IMPACT	POST COVID RECOVERY
Apparel & Accessories		Global sales expected to drop significantly in 2020 (-20%) because of store closing and economic slowdown during Covid pandemic	Apparel and accessories is the category that most benefit from online sales , driving the growth in the after Covid recovery period
Watches & Jewellery		High Covid impact (-20/25% on sales) during the lockdown phase, since this category has not benefitted from online sales	Slow recovery is expected, since this category rely a lot on tourists flow and on a consolidate in-store purchasing process
Cosmetics & Fragrances		Covid negative impact on Cosmetics has been slower with respect to other Personal Luxury Goods categories (-11%), with major effects in Europe	Fast recovery focusing on online sales-channels and skin care products Customers will be more aware of natural ingredients , with more attention on healthcare
Luxury Cars		The luxury segment is expected to be less impacted from Covid thanks to a non-Chinese based value chain and high-level target customers	After Covid it is expected a solid recovery , in line with pre-Covid trend
Luxury Hotels		Hospitality is the most affected sector by Covid and also the luxury hospitality segment is suffering a lot from travel limitations	The luxury segment is expected to boost fast as borders re-open and people will be allowed to travel
Private Jets		Expected increase in demand due to the shutdown of commercial aviation because of Covid restrictions	The growth is expected to continue . Customers will prefer private means of transportation to avoid law restrictions and preserve health
Luxury Cruises		High impact from Covid due to travel restrictions and health security issues related to this business	The impact of Covid is expected to affect sales for a long time , particularly in the Asian market
Furniture		The industry is highly suffering the impact of Covid	It is expected a longer recovery time with some concerns as expressed by some Luxury interior designers and furniture brands
Yachts		Immediate negative impact due to travel restrictions Potential positive impact on demand due to prices lowering from suppliers	After Covid , it is expected an increasing interest in private charters over group charters or cruise holidays, boosting the recover

Historical market trend: Negative Stable Positive

Post-Covid recovery: Strong Fast Gradual Very slow

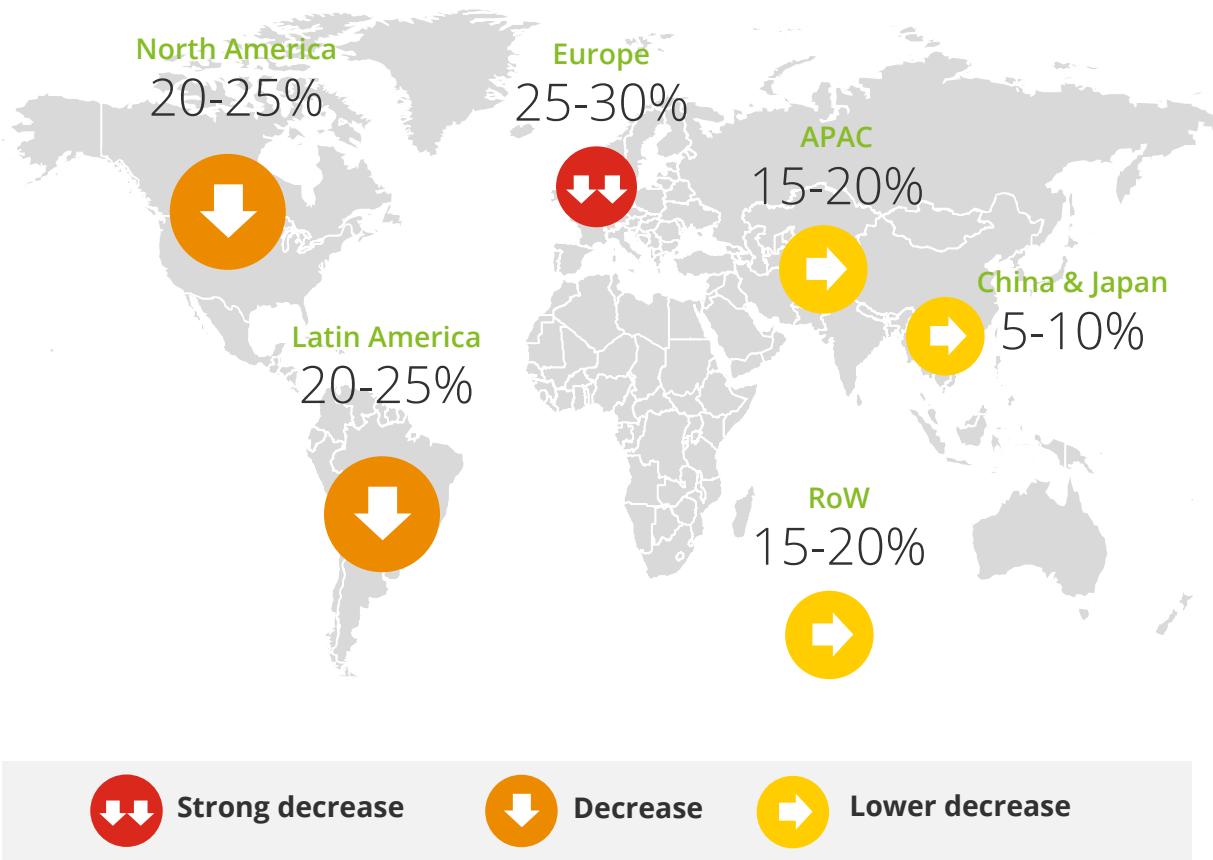
Covid impact: High Low

Source: Elaboration on Desk analysis and interviews with industry experts

Covid-19 impact on Personal Luxury Goods (1/4) – Market perspective

“How do you think Covid will affect demand and offer in your sector by 2020?”

(Percentage range)



KEY INSIGHTS FROM C-LEVEL OF PLG COMPANIES

“... **Europe** and **Americas** will **suffer longer** the impact of Covid leading to a **demand contraction** because of the pandemic lockdown and the economic downturn ...”

“... As part of the Spring Summer collection is still unsold in store, we are **reducing** the **production** for the **Fall Winter** anticipating the expected **decrease in demand**, until the business will recover ...”

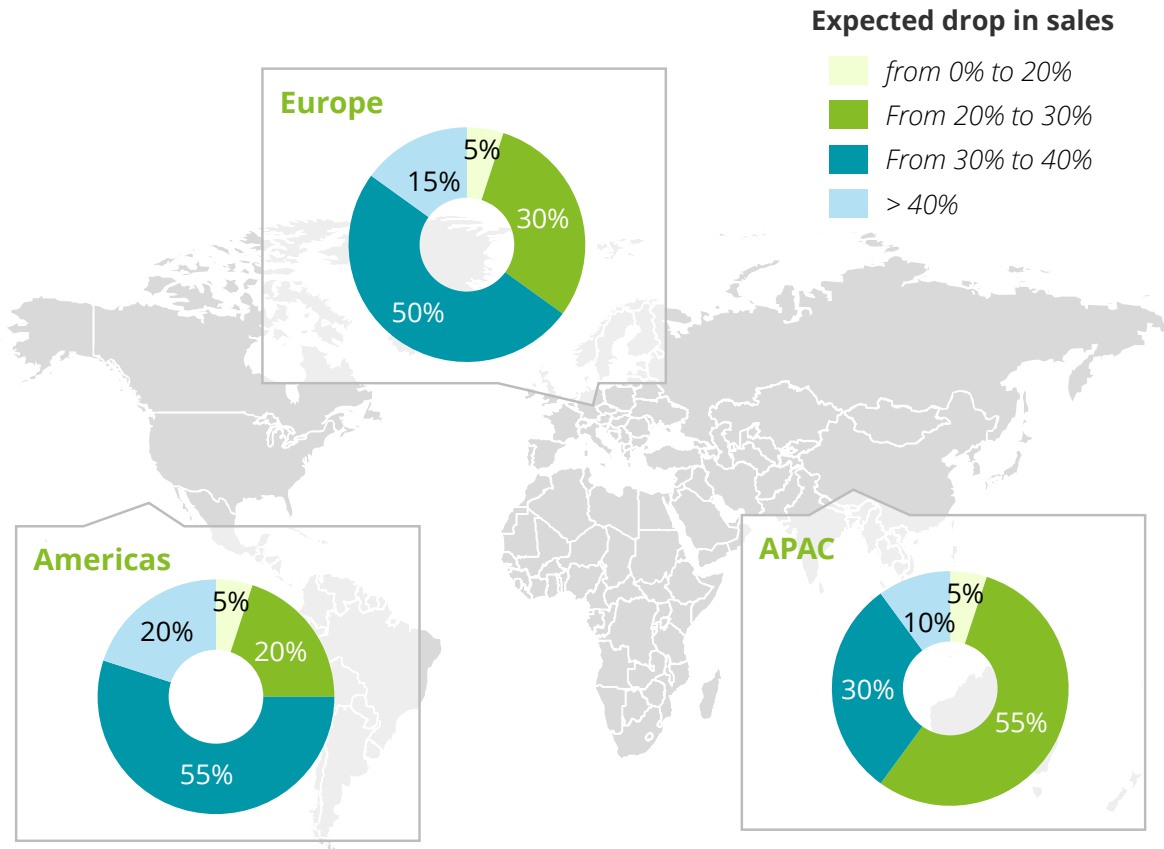
“... Our company, which is more focused on **accessories and leather goods**, is **not reducing** the **production** since we can count on a **rising demand** from the **online sales channel** ...”

“... Since luxury companies could no longer count on the high flow of tourists' consumption, we are **dedicating more attention on local customers** ...”

Covid-19 impact on Personal Luxury Goods (2/4) – Market perspective

“How do you think Covid will impact your business in 2020 in terms of sales’ contraction?”

(Percentage on respondents)



KEY INSIGHTS FROM C-LEVEL OF PLG COMPANIES

“... We expect **sales** to be **more affected** in the **European** and **American market**, while the **APAC** market will suffer less due to a faster recovery time ...”

“... It is expected a **boost** in the **online sales channel**, that will sustain the market demand especially during the lockdown pandemic phase ...”

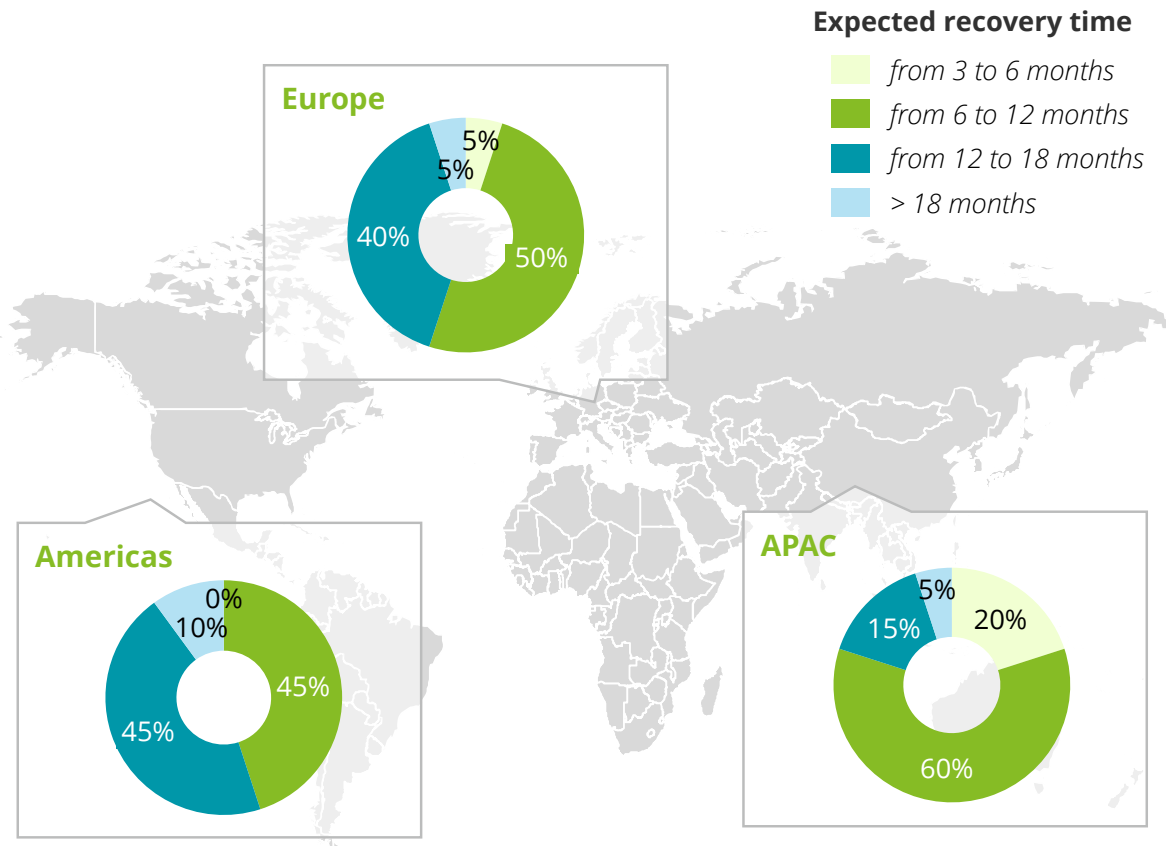
“... Companies that don’t have a fragmented footprint and build **solid relationships** with **suppliers** will be capable to better sustain their business during the Covid period ...”

“... Store closing in Covid phase 1 and sanitary precautions that will be taken in phase 2, will have a **strong impact** on physical **retail and wholesale** channels (-20% to -30% on sales). However it is expected a **boost** on **digital retail** (+16%) and **digital wholesale** (+12%) channels...”

Covid-19 impact on Personal Luxury Goods (3/4) – Market perspective

“When it is expected the normalization period and how Covid will affect the Geographical footprint?”

(Percentage on respondents)



KEY INSIGHTS FROM C-LEVEL OF PLG COMPANIES

“... **Normalization** period in **Europe** is expected gradually in **6 to 12 months**. In **America** we forecast a longer recovery period (**over the year**) while the **Asian** market will **recover faster**.

However a pre-Covid situation will be possible only with the vaccine ...”

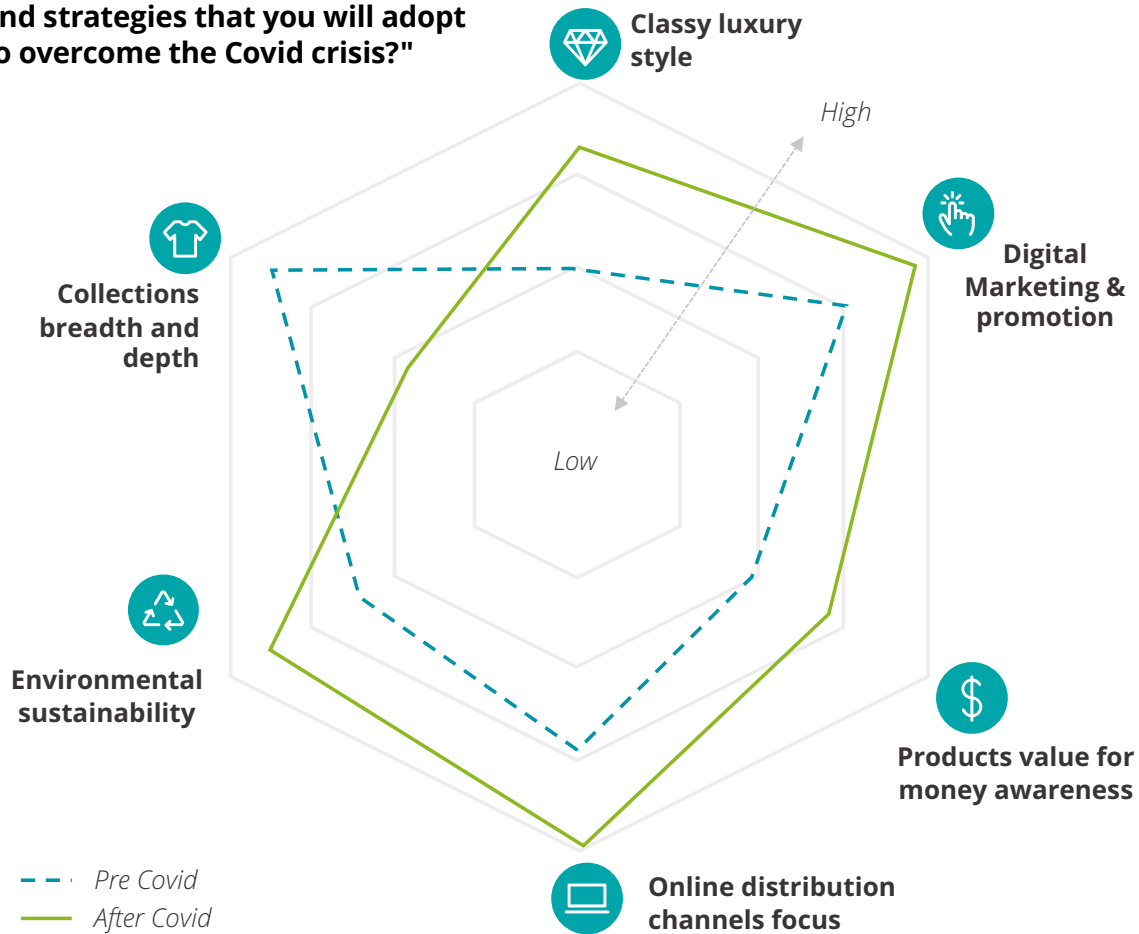
“... In **Europe**, companies more focused on **Northern countries** that have been less impacted from Covid, will have **higher benefits** ...”

“... Luxury shopping is likely to **restart first in China** if the virus remains under control there. Continued restrictions on travel will also mean that **many purchases that would have been made abroad will happen in China**, since Chinese shopping counts a significant slice of luxury consumption ...”

Source: Elaboration on Desk analysis and interviews with industry experts

Covid-19 impact on Personal Luxury Goods (4/4) – Market perspective

“Which will be the major drivers and strategies that you will adopt to overcome the Covid crisis?”



KEY INSIGHTS FROM C-LEVEL OF PLG COMPANIES

“... There won't be a disruption in product categories but we expect a **revamping** of **brand identity** and the valorization of **classy luxury**, with customers seeking for elegant shapes and neutral tones, reflecting a sober life consciousness ...”

“... We are pushing more on the online sales channel, signing **partnerships with e-commerce platforms** ...”

“... We are **pushing** a lot on **digitalization** to ensure the business continuity, launching the first **virtual showroom** to collect sales orders ...”

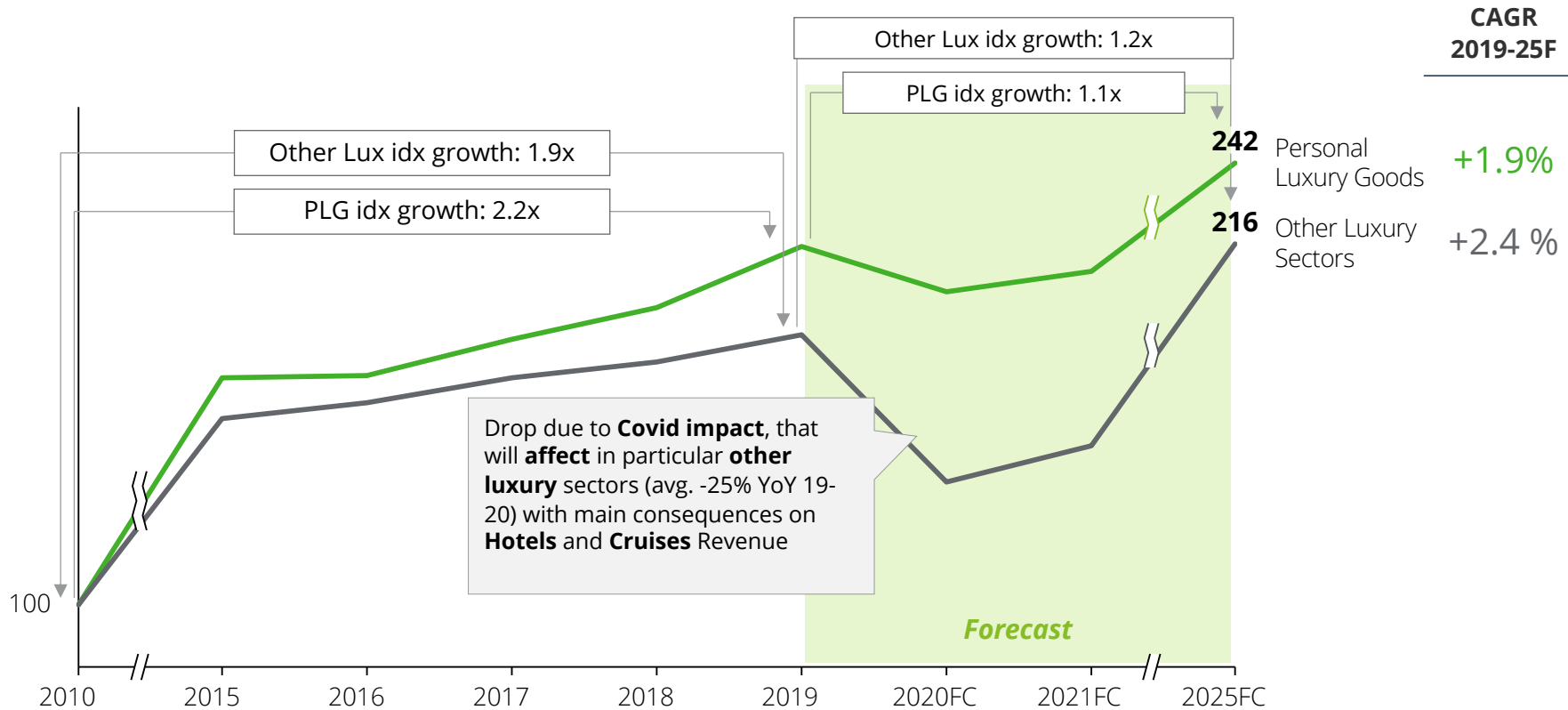
“... It is necessary to anticipate shifts in consumer sentiment and behavior being more aware of **sustainability** and of **responsible consumption**. Under this new framework, we are rationalizing collections and balancing prices ...”

Market Outlook: Sales forecast – Market perspective

After the drop in 2020 due to Covid impact, PLG is expected to achieve by 2025, 1.1 times the 2019 sales level (+1.9% 2019-25F CAGR). Other luxury segment will initially suffer more from Covid impact, and will reach by 2025, 1.2 times the 2019 sales level (+2.4% CAGR 2019-25F) thanks to a robust and faster recover.

2010-25F F&L sales index outlook

(Index on Sales 2010=100)



Notes: Covid assumptions under a basic scenario

Source: Elaboration on Company Financial Report data, Desk analysis and interviews with industry experts


















M&A Deal Monitor 2019

Fashion & Luxury M&A deals

Overview of deals in 2018 by sector

Sector	2018	2019	Growth
 265 DEALS IN 2018	➔		+6 DEALS
 Personal Luxury Goods (PLG)			
 Apparel & Accessories	73	47	-26
 Hotels	75	115	+40
 Watches & Jewellery	28	11	-17
 Cosmetics & Fragrances	44	34	-10
 Furniture	14	19	+5
 Private Jets	9	11	+2
 Yachts	8	4	-4
 Cars (including Electric Cars)	6	12	+6
 Cruises	4	2	-2
 Restaurants	4	11	+7
 Digital Luxury Goods	0	5	+5

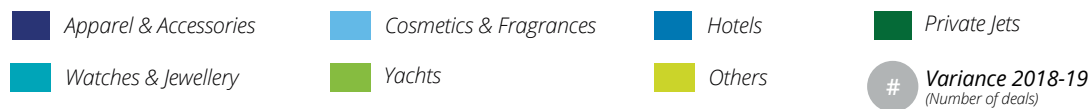
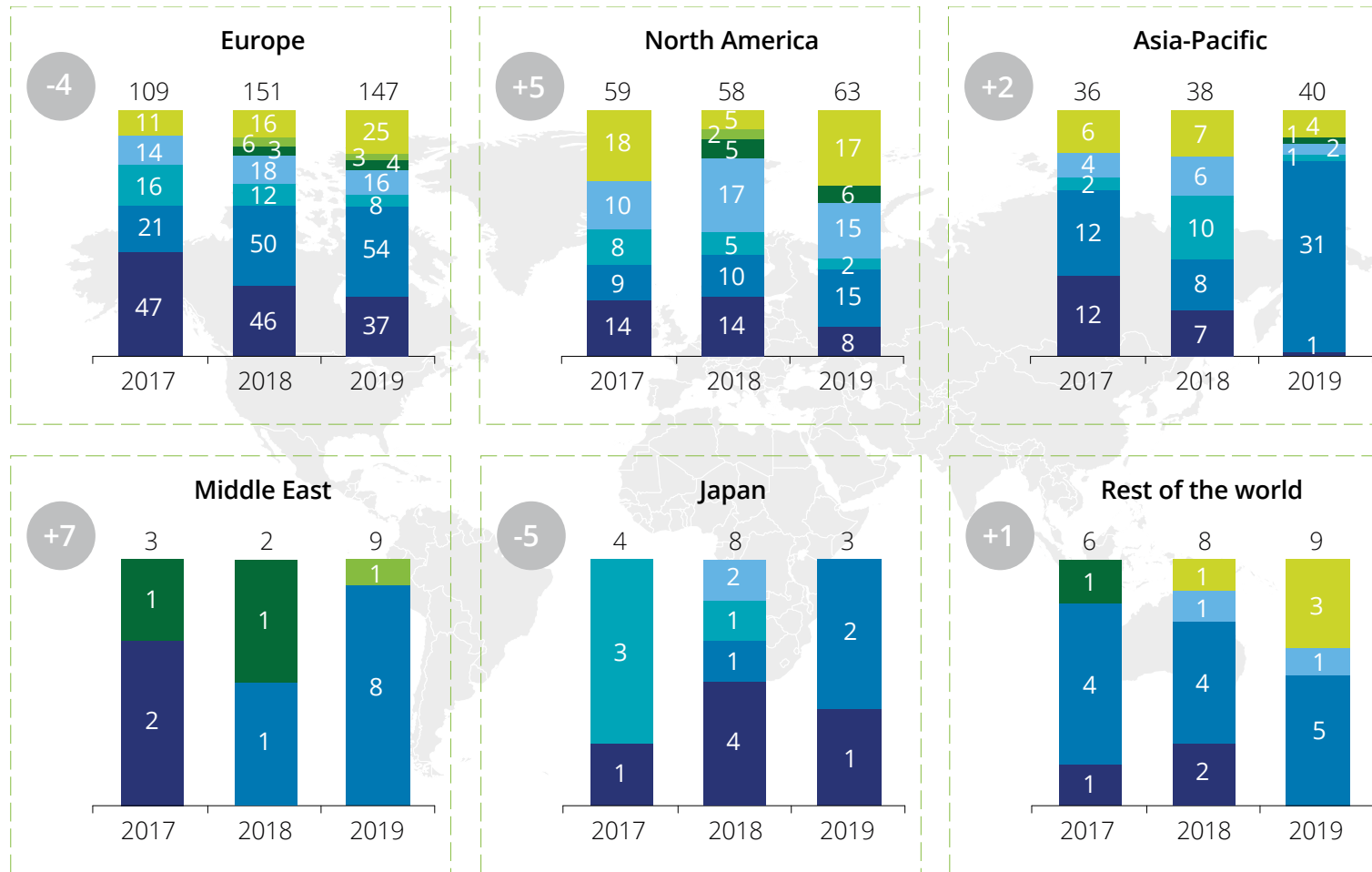
Top luxury deals of 2019

Month	Target	Bidder	Stake (%)	Value (\$m)
Nov. ¹	Tiffany & Co.	LVMH Moët Hennessy Louis Vuitton SE	100	16,192
Sep.	Strategic Hotels and Restaurants Inc.	Mirae Asset Global Investemnts Co., Ltd.	100	5,800
Dec.	Rivian Automotive, LLC.	4 funding rounds (1 st led by Amazon.com, 2 nd by Ford Motors, 3 rd by Cox Automotive and 4 th T. Rowe Ass)	100	2,850
Feb.	Coty Inc.	Jab Holdings B.V.	20	1,747
Jun.	Millenium & Cophorne Hotels Plc.	City Developments Limited	35	987
Nov.	Deutsche Hospitality	Huazhu Group Limited	100	780
Jul.	Cooper's Hawk Winery & Restaurants	Ares Management LLC.	100	700
May.	Crown Resorts Limited	Melco Resorts & Entertainment Limited	20	608
Nov.	Kylie Cosmetics, LLC.	Coty, Inc.	51	600
Sep. ¹	Byton, Ltd.	China FAW Group Corporation Limited	100	500
Jun.	Tatcha, LLC.	Unilever Plc.	100	500
Oct.	Sykes Cottages Limited	Vitruvian Partners LLP.	100	481
Oct.	Andaz Singapore	Hoi Hup Realty Pte Ltd.	100	475
Aug.	Dream Cruises Holding Limited	TGP Capital LP.	35	454
Jul.	Freehand Hotels	Queensgate Investments LLP.	100	400

¹) Still Pending | Note: the analysis considers both closed and announced deals during 2019 | Source: Elaboration on Deloitte intelligence data

M&A deals by region and sector 2019

Overview of deals in 2019 by Region



Source: Elaboration on Deloitte intelligence data

KEY FINDINGS



Japan and Europe were the regions which saw the higher decrease of Fashion & Luxury deals in 2019, with 5 and 4 less deals respectively.

North America presented a slight increase (+5 deals) and Asia-Pacific remained almost flat with respect to 2018.

Luxury Hotel and Apparel deals were present in all major regions, and were notable drivers of M&A activity globally in 2019.

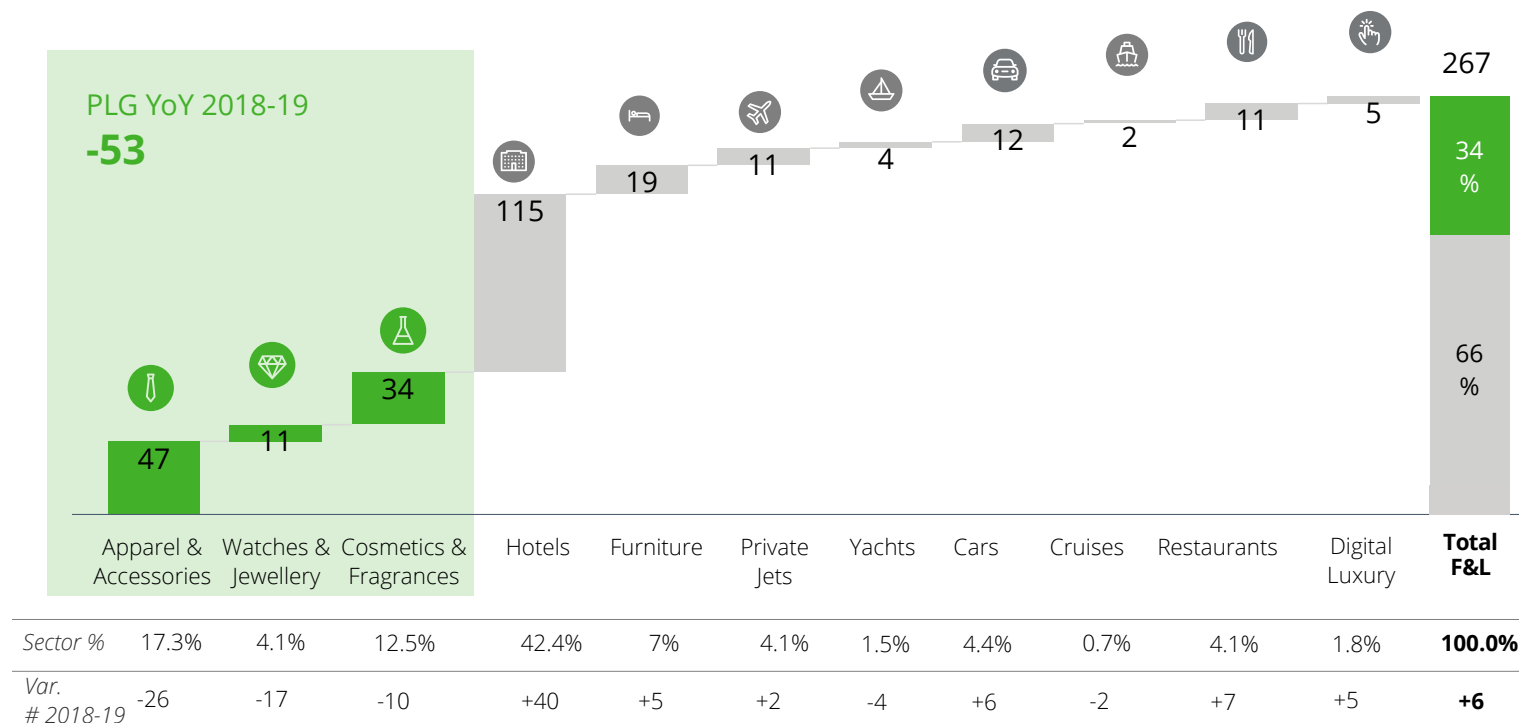
Middle-East presented a good increase (+7) in F&L deals since 2018, thanks to the Hotels segment.

Size of main M&A deals

The F&L soil has continued to be a fertile one, with 271 M&A deals in 2019, showing a 2,3% increase from 2018. Personal Luxury Goods (-11% pts YoY) represent 34% of all deals.

Number of deals in 2019 – Breakdown by sector

(Number of deals, Percentage)



Source: Elaboration on Deloitte intelligence data

KEY FINDINGS



Cars and Restaurants registered #6 and #7 deals more respectively compared to 2018.

Apparel and Watches & Jewellery deals decreased by #26 and #17 respectively.

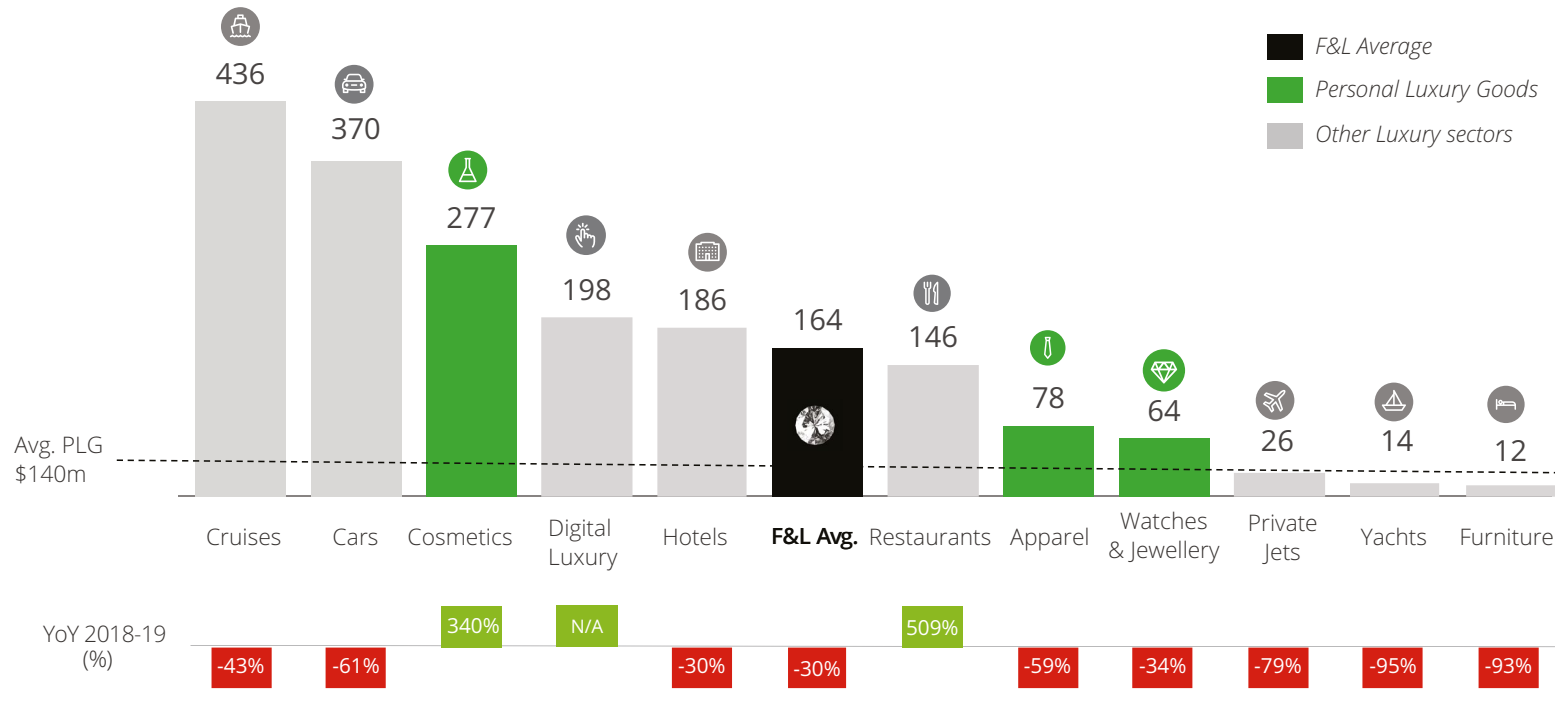
The Hotel sector has become more attractive to investors during 2019, becoming the top gainer in terms of deal number (+40).

Average value of main deals by sector

Deals related to the Cruises industry were the largest in 2019 as in 2018 with an average value of \$436m. Cars and Cosmetics were the next largest with average value of \$370m and \$277m respectively. The average deal value of PLG's in 2019 was \$140m*.

Average value per deal in 2019 - Breakdown by sector

(\$m, Percentage)



Note: The average deal value has been calculated based upon data of disclosed transactions

Source: Elaboration on Deloitte intelligence data

* Tiffany & Co. Deal has not been taken into account for the calculations but it was the largest one (around \$16bn).

KEY FINDINGS



Apparel saw their average deal value fall in 2019, while Cosmetics (+340%YoY) and Restaurants (+509%) saw their average value increase.

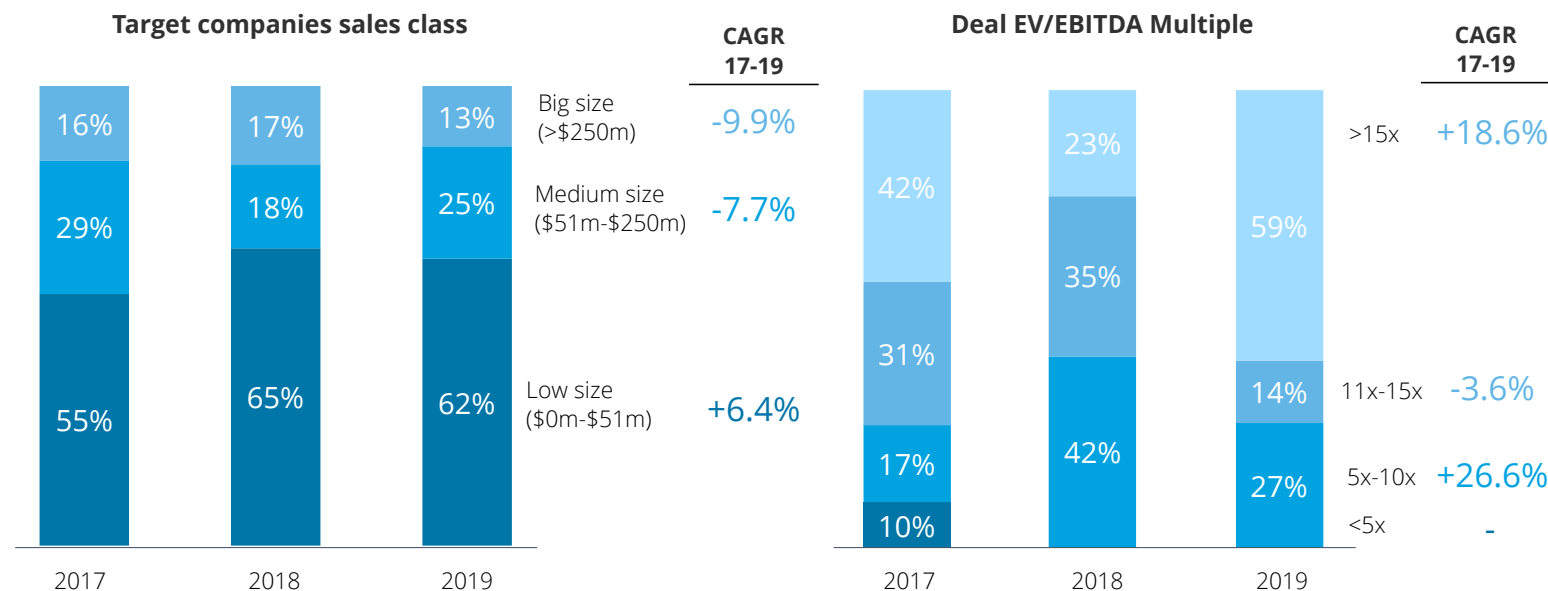
Cruises (-43%YoY), Automotive (-61%YoY), Hotels (-30%YoY), Furniture (-93%), Private Jets (-79%) and Yachts (-95%) recorded remarkable decreases.

Target company features

Compared to the previous year, buyers slightly decreased the number of deals related to smaller sized firms, delivering higher average multiple, with a significant increase of the >15x EV/EBITDA multiple (59% of deals in 2019, vs. 23% in 2018).

Target company features - Sales Class and Multiples

(Percentage, Enterprise value - EV/EBITDA multiples)



KEY FINDINGS



In 2019, investors were still oriented towards lower-sized firms (\$0-\$51m) which accounted for 62% of deals in the year, but less than in 2018 (65%).

There was a slight increase in deals involving players in the Medium Size market, between \$51m and \$250m, by 7% pts (-7.7% CAGR 2017-19).

Deals involving multiples superior higher than 15 times the EBITDA increased (representing 59% of the total), while there was a decrease in deals positioned on EBITDA multiples of both 5-10x between 5x and 15x.

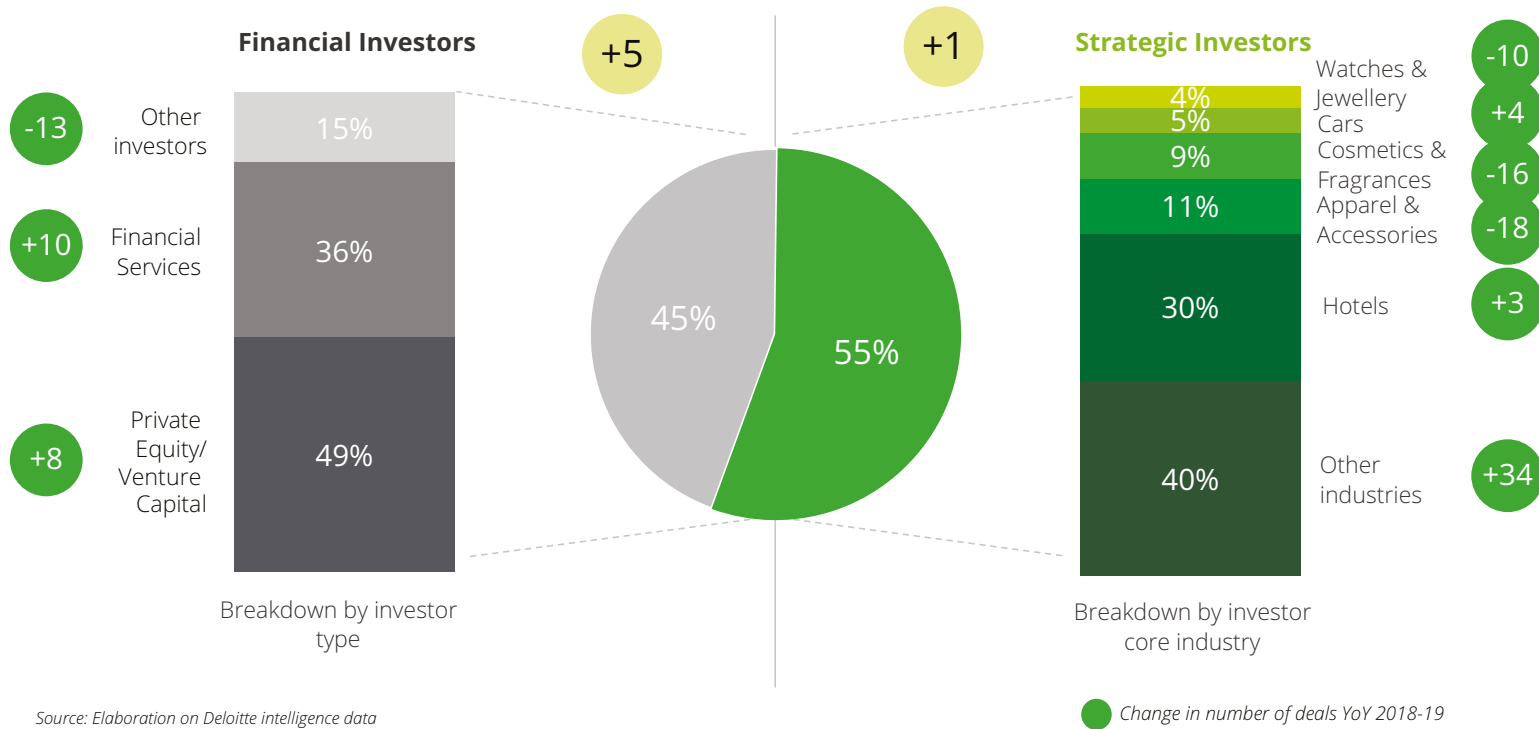
Notes: The target sales class has been calculated for all companies with financial data which is publicly available
Source: Elaboration on Deloitte intelligence data

Investor profiles

Financial investors were 45% of total bidders with Private Equity/Venture Capital representing 49% of them, while the majority of Strategic investors (70%) were involved in Other Industries or Hotels related deal in 2019.

Main bidders' profile

(Percentage, Number of deals)



KEY FINDINGS



Deals conducted by Strategic investors, mainly operating in the Apparel & Accessories, Hotels and Other sectors, represent 81% of total deals.

The growth in the number of deals with respect to the previous year was mostly driven by Financial investors (+5 deals).

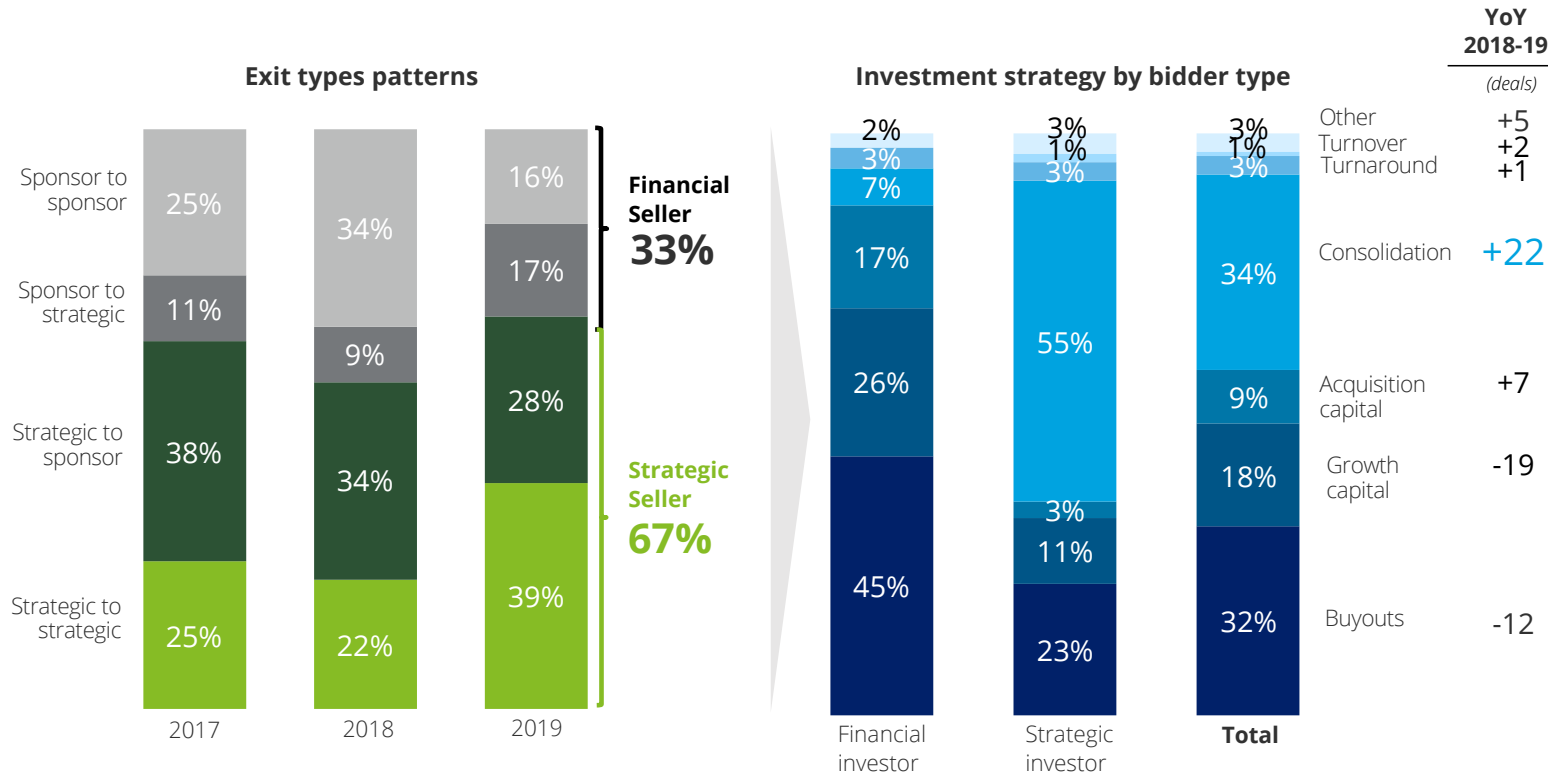
Source: Elaboration on Deloitte intelligence data

Portfolio exit strategies

In 2019 there has been a slight decrease in financial sellers (33% vs 43% of 2018), with the most significant part of the acquisitions carried out through buyouts and consolidations (32% and 34% of total respectively).

Exit types vs Investment strategies

(Percentage, Number of deals)



KEY FINDINGS



There was a slight increase in M&A transactions carried out by “strategic” sellers in 2019 (67% vs. 57% in 2018). Furthermore, the exit patterns of Financial investors slightly decreased from 43% in 2018 to 33% in 2019.

There was a good growth in investments through Consolidation (+22 deals) and Acquisition Capital (+7), reflecting the higher number of deals carried out by Strategic investors.

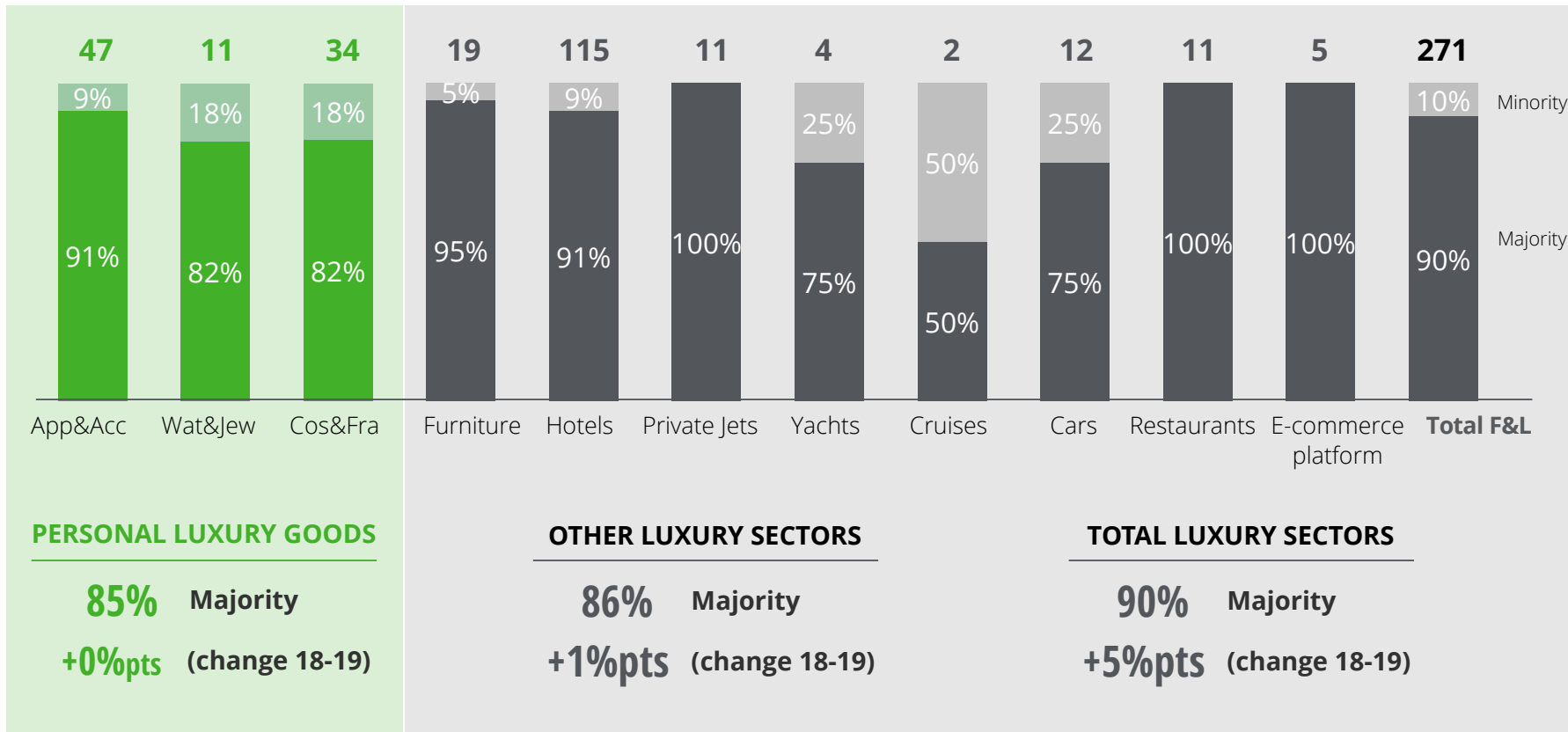
Notes: The deal strategy analysis has been performed based upon data of disclosed transactions
Source: Elaboration on Deloitte intelligence data

Bidders' investment stake

Majority stake in the Personal Luxury Goods deals remained the same in 2019 reaching 85%, while both the Other luxury sectors (86%) and the Total F&L (90%) increased in 2019. The growth was driven by a larger percentage of Strategic investors.

Investment stakes by sector

(Percentage)



Note: Undisclosed investment stakes deals have been excluded from the analysis
 Source: Elaboration on Deloitte intelligence data





Private Equity and Investors Survey 2020

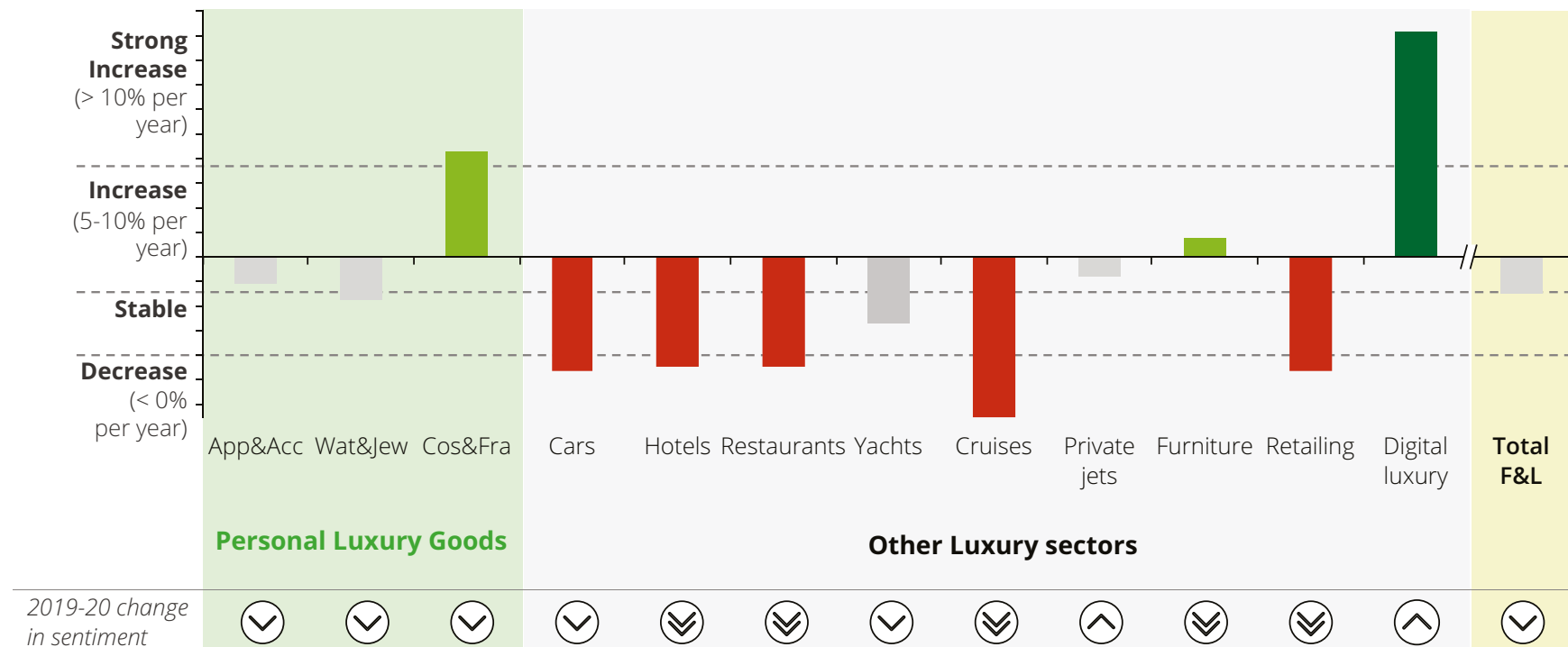
Fashion & Luxury market outlook from investors perspective

Market Outlook: Key trends by sector – Investors perspective

Investors foresee a significant Covid impact in the next three years with Cars, Hotels, Restaurants, Cruises and Retailing as the most negatively affected sectors. Apparel, Watches, Yacht and Private jets are expected to remain stable, while Cosmetics & Fragrances and Furniture will show an increase. Digital luxury will be the sector reaching the strongest increase thanks also to a positive effect of the pandemic.

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

(Index on responses)



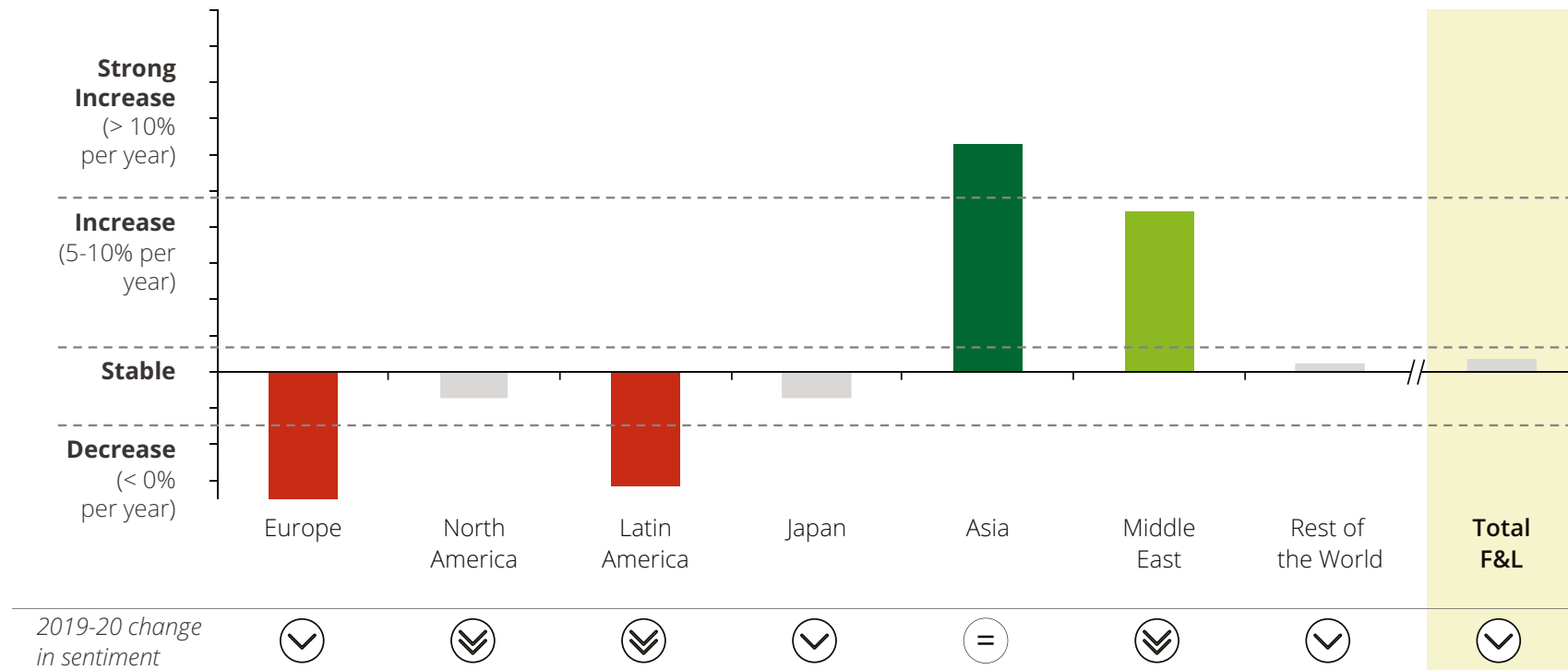
Source: Elaboration on Deloitte survey and interviews with industry experts

Market Outlook: Key trends by geographical area - Investors perspective

Investors expect the Asian and the Middle Eastern areas to have a faster recover after the negative Covid impact, with a growth of the F&L industry. On the other hand, Europe and Latin America are expected to suffer more, showing a decrease in the next years.

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

(Index on responses)



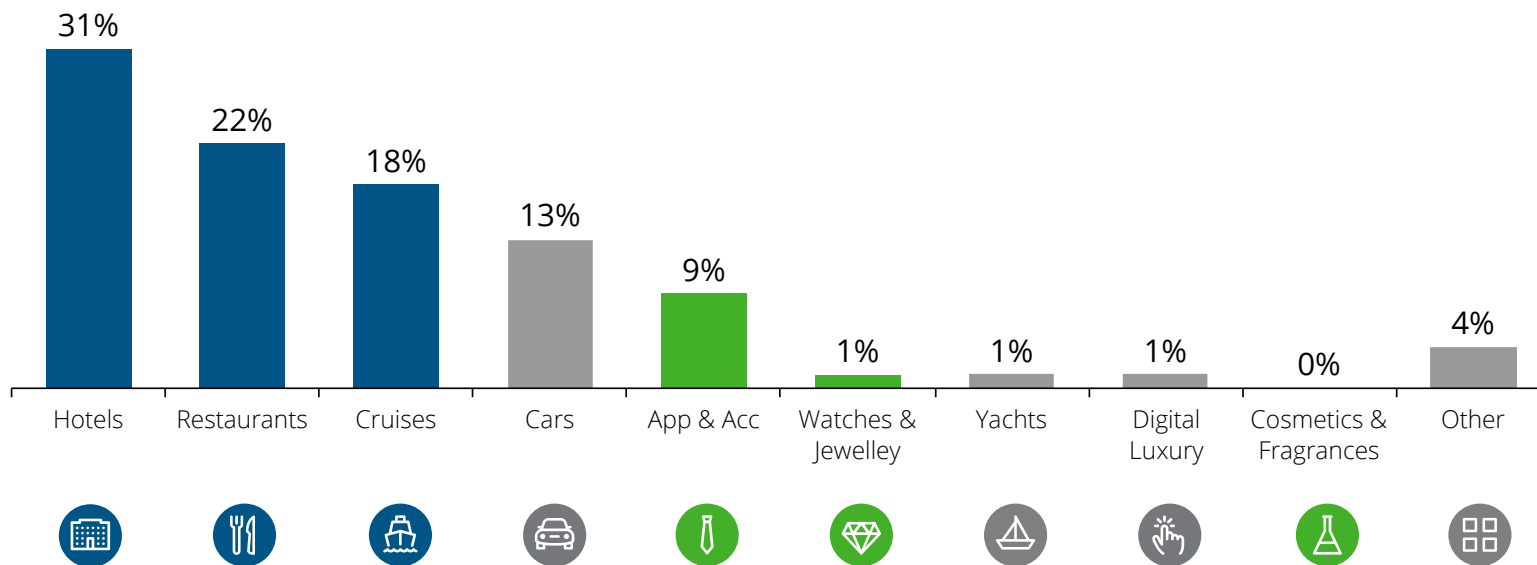
Source: Elaboration on Deloitte survey and interviews with industry experts

Market Outlook: Covid-19 impact on F&L sectors – Investors perspective

F&L sectors that will be mostly affected by the spread of Covid-19, will be Hotels (31%), Restaurants (22%), Cruises (18%), Cars (13%) and Apparel & Accessories (9%). As it is predictable, those sectors related to tourism will be the most affected ones.

Main F&L sectors affected by Covid-19

(Percentage of respondents)



Source: Elaboration on Deloitte survey

KEY FINDINGS



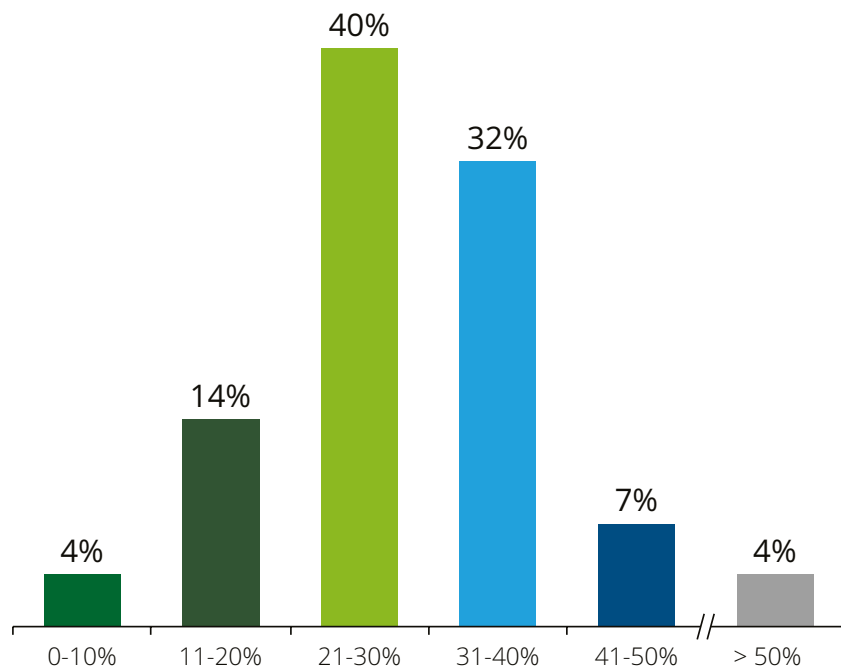
“Out of the home” luxury experiences as Luxury Hotels, Restaurants and Cruises will be the most affected by the spread of Covid-19, respectively according to 31%, 22% and 18% of respondents. Cars and Apparel & Accessories will also be affected but with a lower impact (13% and 9%). Other luxury sectors as Digital Luxury Goods, Cosmetics & Fragrances, Yachts, Watches & Jewellery, Private jets and Furniture will be the least affected by the spread of Covid-19.

Market Outlook: Covid-19 negative impact on 2020 revenues and future investments – Investors perspective

Despite the fact that for 40% of investors the impact on revenues will be between 21 and 30%, and that for 32% of them will be between 31 and 40%, 79% of them will continue investing or scouting in the F&L industry in the future.

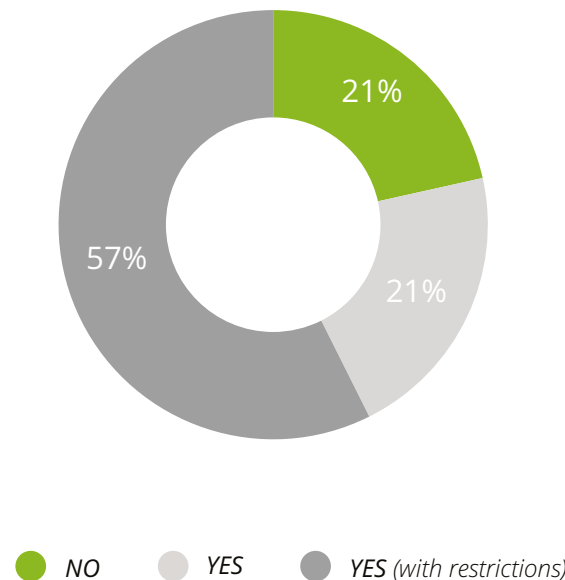
Impact on 2020 Revenues of F&L Companies

(Percentage of respondents)



Will continue investing in F&L industry

(Percentage of respondents)



KEY FINDINGS



Covid-19 is expected to have heavy impacts on companies' revenues, 40% of investors will have an impact between 21 and 30% and 32% of them predict to have an impact on revenues between 31 and 40%. Despite these high impacts, 79% of investors admit they will continue investing in the F&L industry.

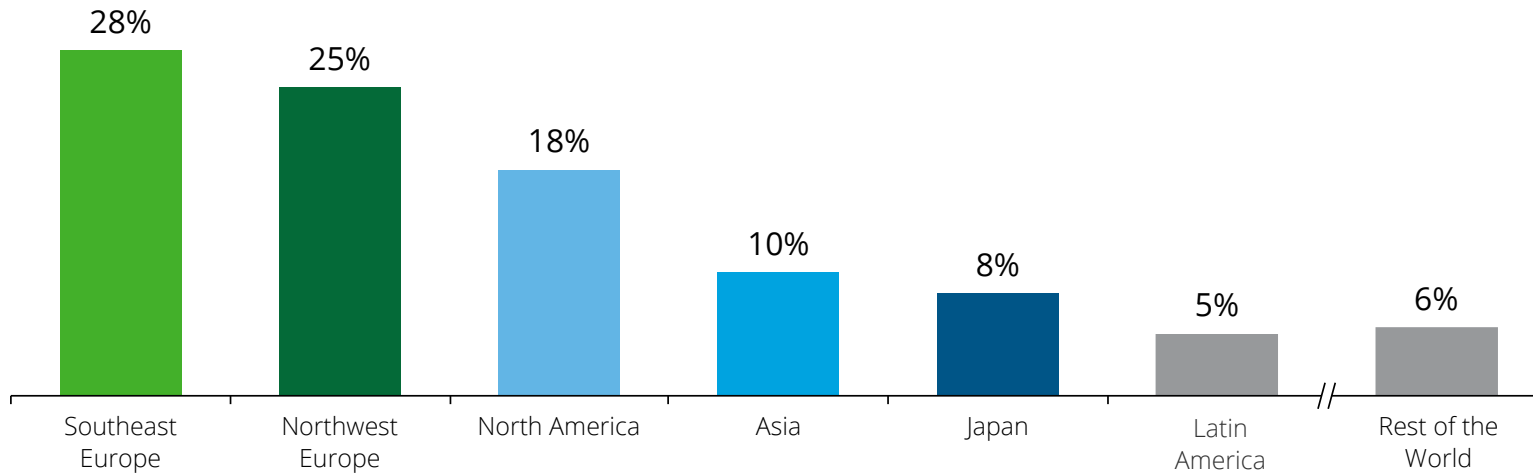
Source: Elaboration on Deloitte survey

Market Outlook: Covid-19 impact by geographical area – Investors perspective

F&L geographies that will be mostly affected by the spread of Covid-19, will be Europe (53%) which is predictable, due to the fact that a large amount of the F&L companies are based in this region, North America (18%), Japan (8%), Asia (10%) which is an growing geography for F&L and Latin America (5%).

Main geographies affected by Covid-19

(Percentage of respondents)



Source: Elaboration on Deloitte survey

KEY FINDINGS

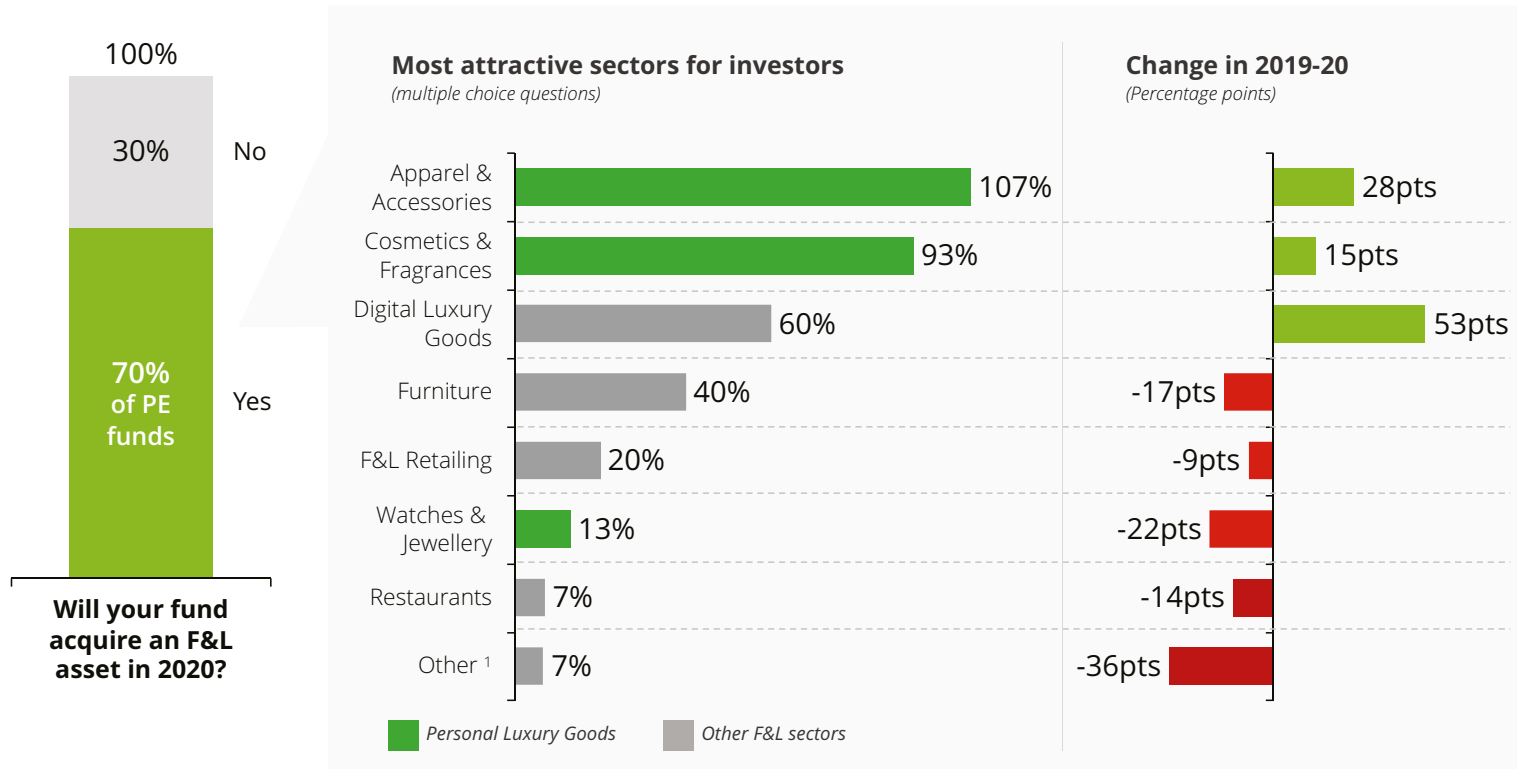


Europe and North America are expected to be the regions most affected by the spread of Covid-19, respectively with 53% and 18%. These results are predictable due to the fact that a large portion of the Fashion and Luxury companies are based in these regions. Japan is also expected to be affected although on a smaller percentage.

2019 Investment and Exit Strategy

Expected new investments in 2020

Personal Luxury Goods remain the most attractive sectors for investors, with Apparel & Accessories and Cosmetics & Fragrances being the most prominent ones. Investments in Digital Luxury Goods are expected to increase.



KEY FINDINGS



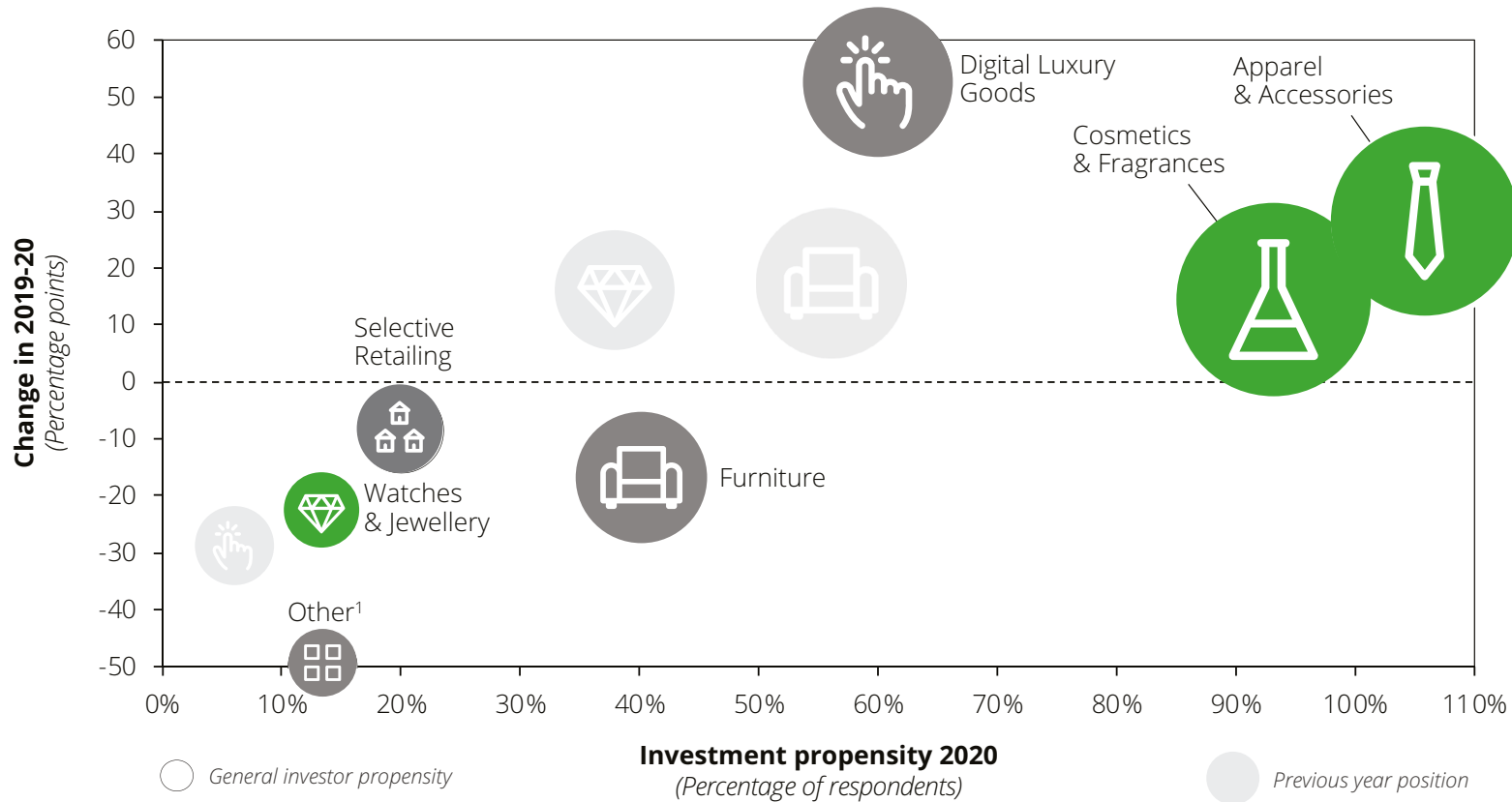
The sectors considered to be most attractive based on survey respondents are: Apparel & Accessories (107%), Cosmetics & Fragrances (93%), Furniture (40%) and Digital Luxury Goods (60%). Interest across sectors is decreasing compared to last year across almost all the sectors. Digital Luxury Goods on the other hand (60%) increased by 53 percentage points.

Notes: 1) Other includes Hotels, Private Jets, Cruises, Yachts and Cars | Source: Elaboration on Deloitte survey

F&L sector attractiveness

Both Apparel & Accessories and Cosmetics & Fragrances are remarkably attractive to investors. Digital Luxury has shown a notable increase since previous years, becoming a star sector for potential investments in the coming year.

Map of investor attraction in F&L sectors



Note: 1) Other includes Hotels, Private Jets, Cruises, Yachts and Cars
Source: Elaboration on Deloitte survey

KEY FINDINGS

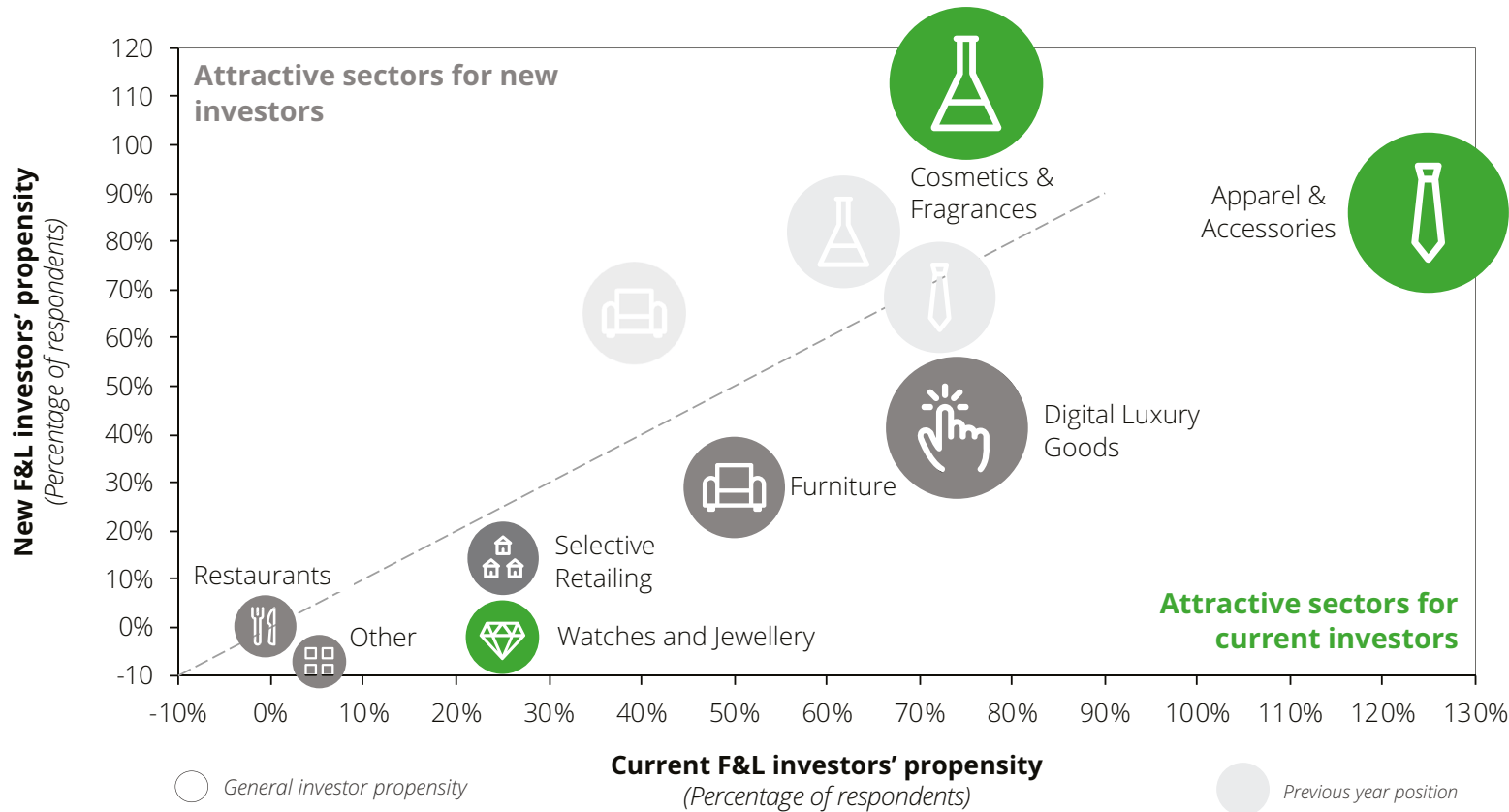


The Digital Luxury Goods sector seems to attract more investors compared to last year, resulting in a positive delta from last year's result. Apparel & Accessories, as well as Cosmetics & Fragrances are the two sectors that remain the primary choice for investors, attracted by higher margins. Both sectors show an investment propensity above 90% in 2020.

Sector attractiveness: current vs potential investors

Both current and new F&L investors are willing to invest in consolidated sectors such as Cosmetics & Fragrances and Apparel & Accessories. Even though newcomers seem attracted also by other segments such as Digital Luxury and Furniture.

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



KEY FINDINGS



As the most established sectors, Cosmetics & Fragrances and Apparel & Accessories remain the main target for all investors. Furniture has become a highly attractive sector for new investors in 2020, in line with previous year's trend. New investors will especially target innovative segments such as Digital Luxury.

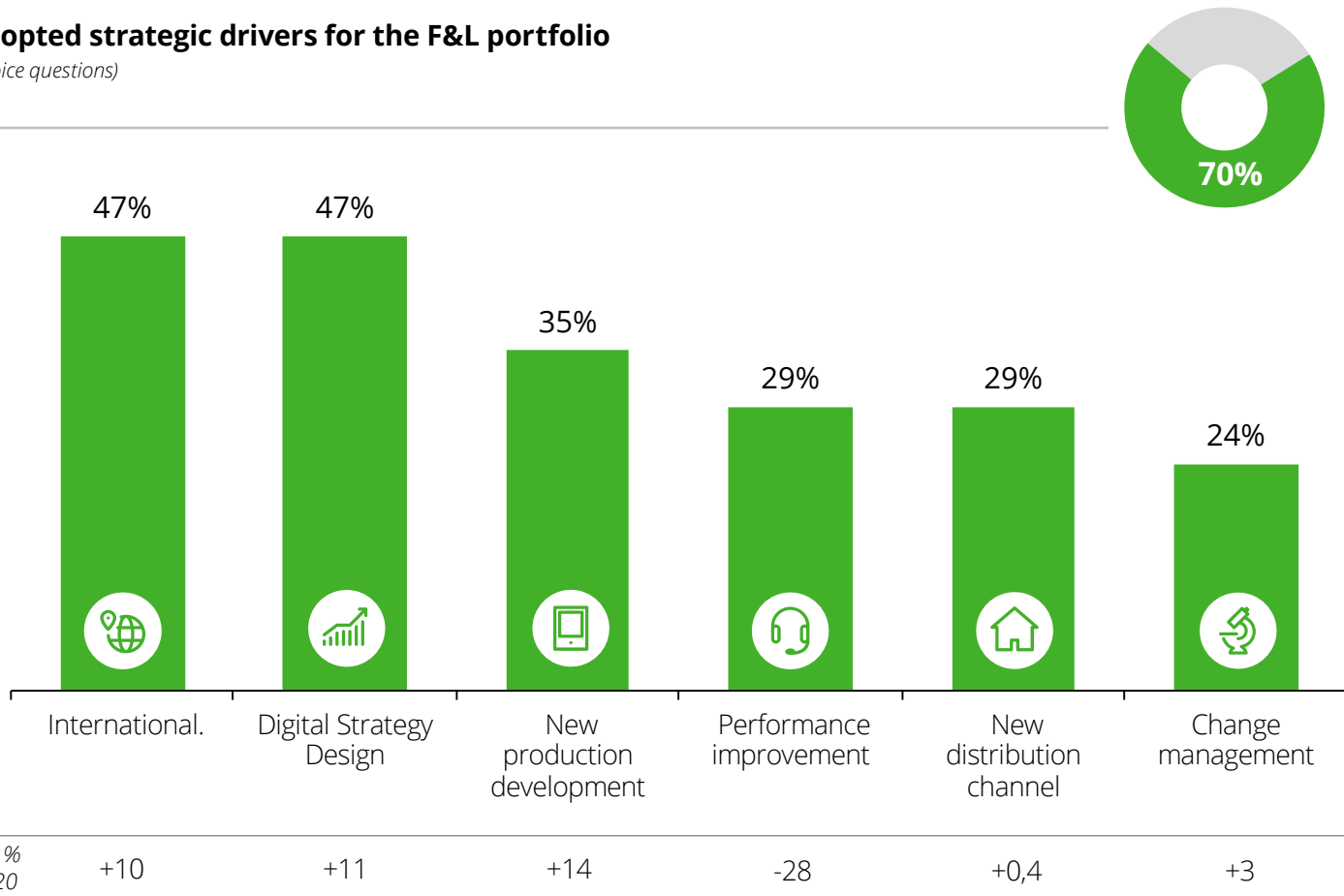
Source: Elaboration on Deloitte survey

Growth strategies for the F&L portfolio

Internationalization and Digital Strategy Design are the key strategic investment drivers for 2020. New Production development is becoming prominent as well, and Performance Improvement shows the highest negative change in sentiment from the previous year.

Main adopted strategic drivers for the F&L portfolio

(multiple choice questions)



Source: Elaboration on Deloitte survey

KEY FINDINGS



Internationalization and Digital Strategy design are now the main strategic levers (47%) adopted by F&L investors to grow their asset value. New technologies will further enrich shopping experience and connectivity: mobile and beyond.

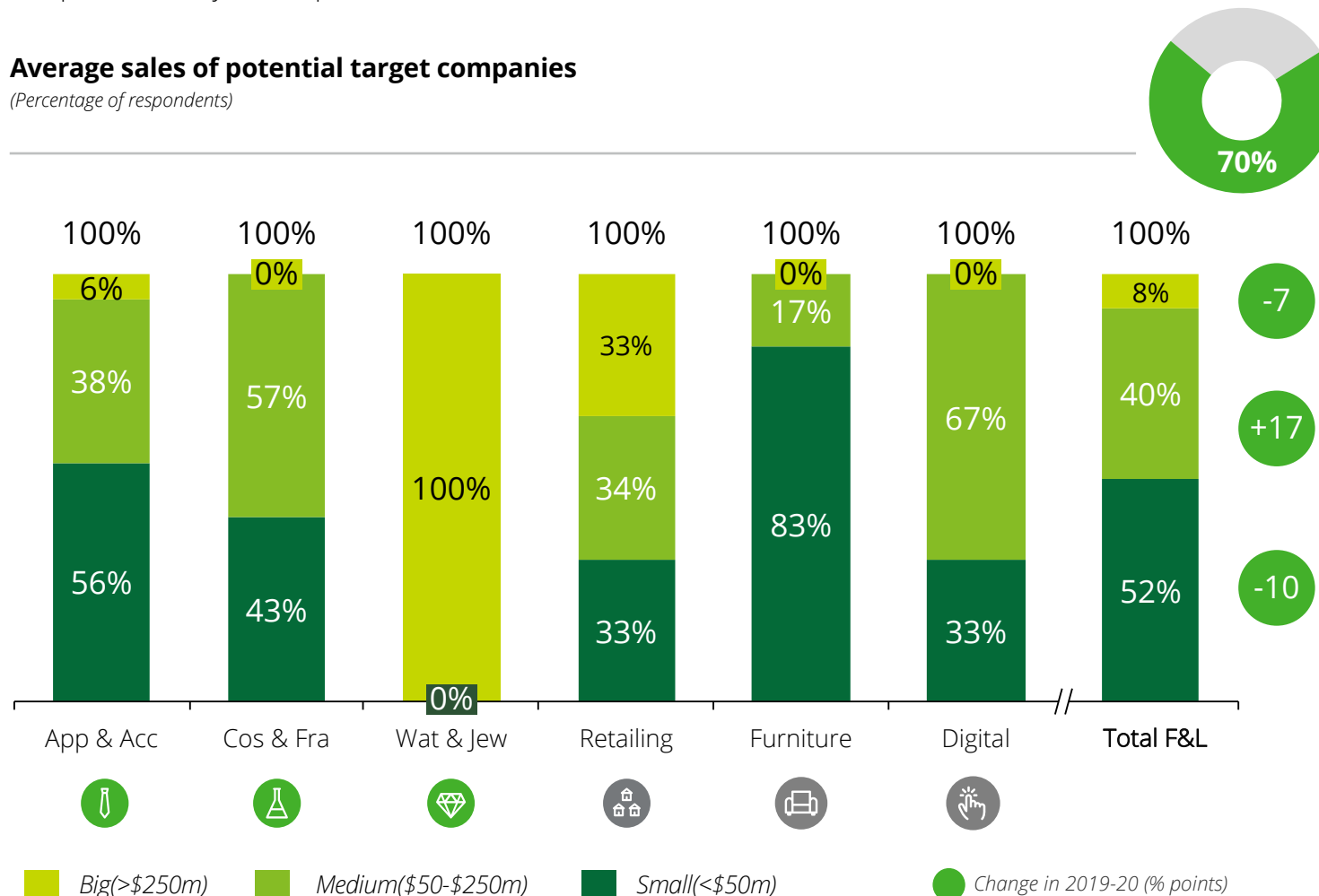
New Production development (35%) is becoming a relevant topic for F&L companies seeking growth and synergies opportunities (+14pts with respect to 2019).

Size of potential investment in F&L

The F&L industry is polarizing on investors looking to acquire small sized firms. The expected investment in small sized companies still has the highest share (52%) and the interest in medium-large companies is also increasing compared to last year(+17 pts).

Average sales of potential target companies

(Percentage of respondents)



KEY FINDINGS



Investors are typically attracted by small (52%) and medium-sized (40%) businesses.

Investments in 2020 oriented towards larger sized companies have declined, in favor of small and medium sized companies.

Target companies in Apparel & Accessories and Furniture tend to be smaller (<\$50m), while Cosmetics & Fragrances and Digital tend to be medium sized (>\$50m).

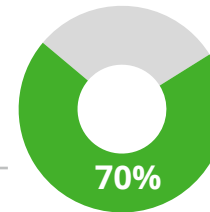
Source: Elaboration on Deloitte survey

Main features of the M&A deal

The preferred deal strategies are Expansion capital, Leverage Buyout (LBO) and Management Buyout (MBO). They are financed mostly through senior debt (59%), aimed at acquiring a majority stake in the targeted companies (84% compared to 75% in 2019).

Main adopted strategic drivers for the F&L portfolio

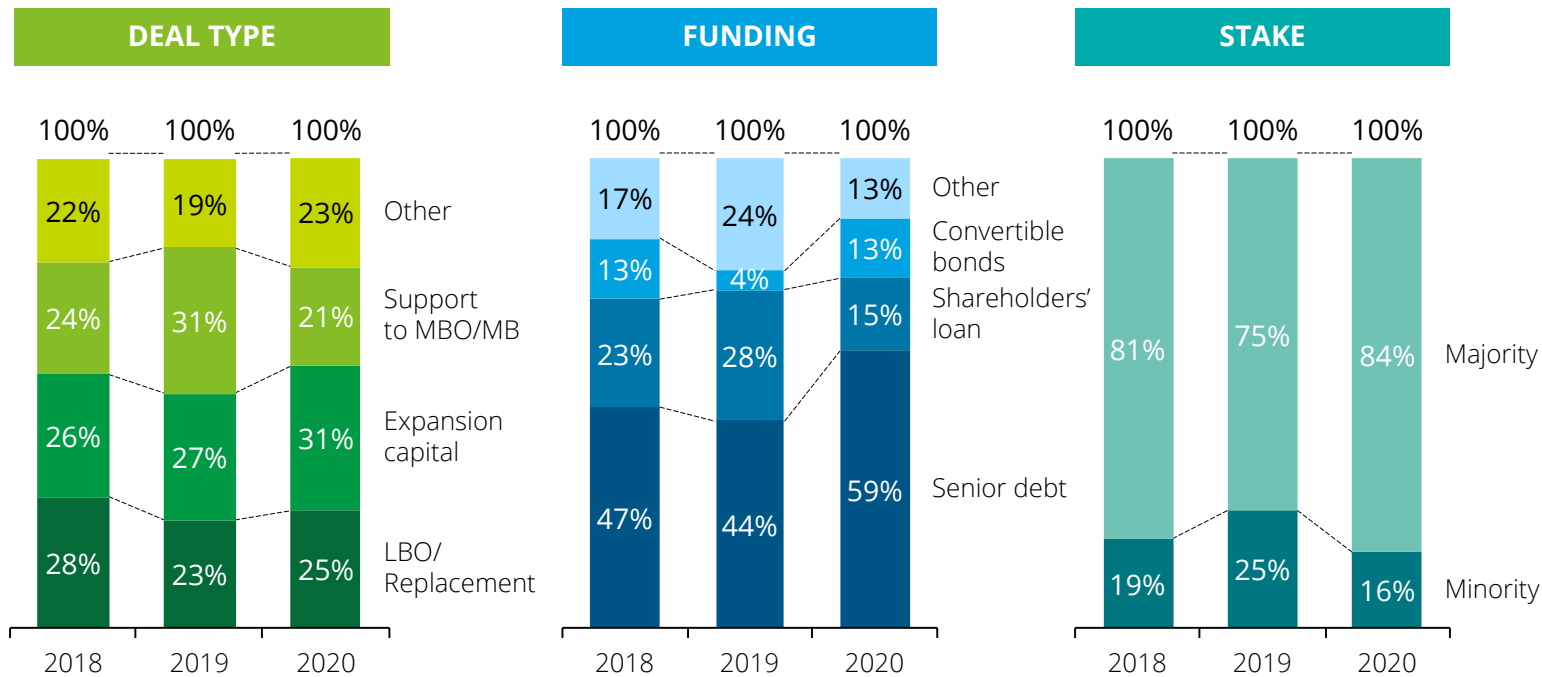
(multiple choice questions)



KEY FINDINGS



The preferred deal strategies are Expansion capital, Leverage Buyout (LBO) and Management Buyout (MBO). They are financed mostly through senior debt (59%), aimed at acquiring a majority stake in the targeted companies (84% compared to 75% in 2019).



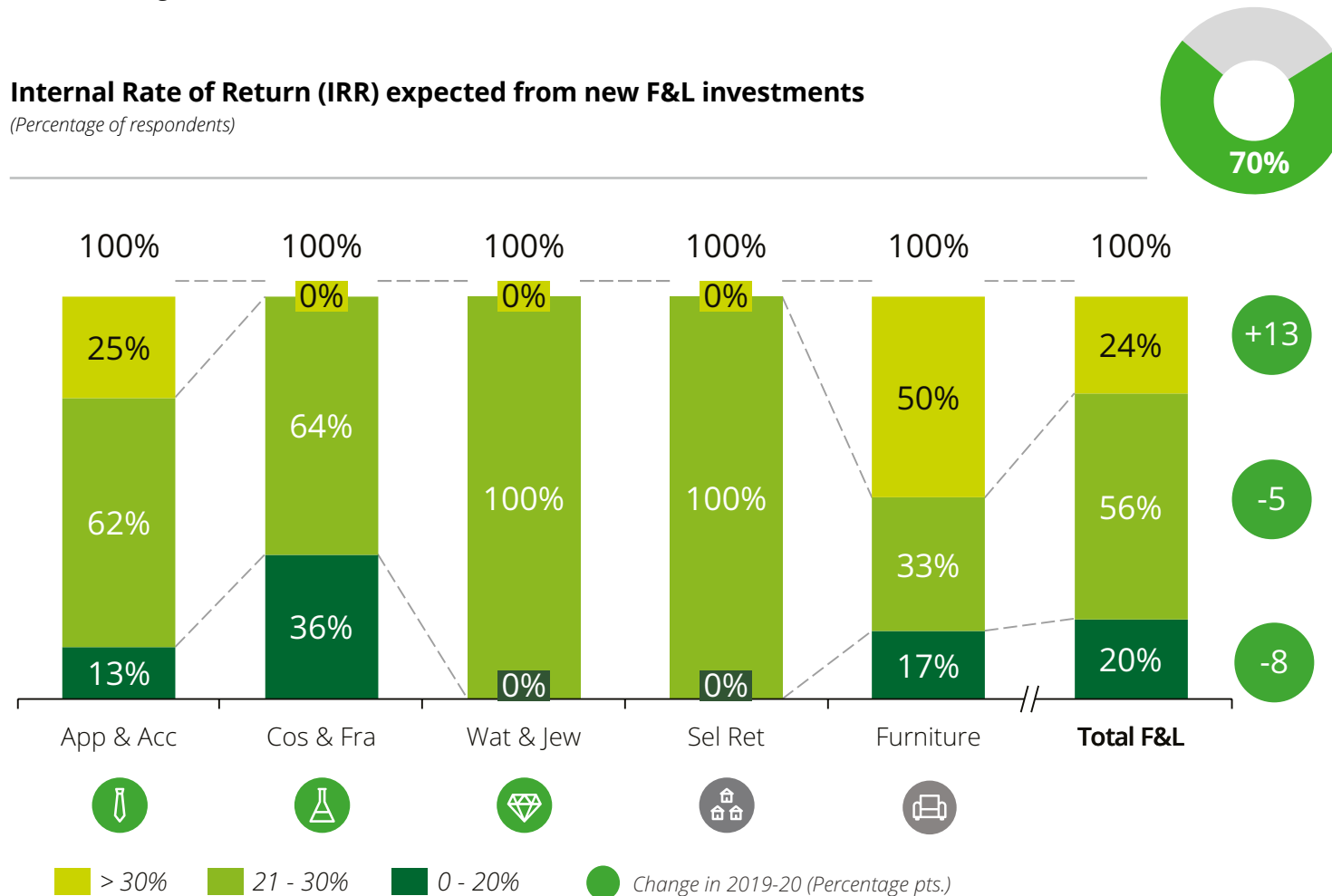
Source: Elaboration on Deloitte survey

Return expected from new investments

The vast majority of investors (56%) forecast that rates of return from their assets will range from 21% to 30%, while 24% forecast a higher performance (>30%); Apparel & Accessories and Furniture industries are expected to achieve highest IRR.

Internal Rate of Return (IRR) expected from new F&L investments

(Percentage of respondents)



KEY FINDINGS



On average, funds expect an IRR from their investments ranging from 21% to 30%, while 24% forecast a higher performance (>30%).

Expected rates of return for Watches & Jewellery converge to 21-30% range, due to the lower performance volatility of this segment.

Apparel & Accessories and Furniture are expected to guarantee investors a higher IRR.

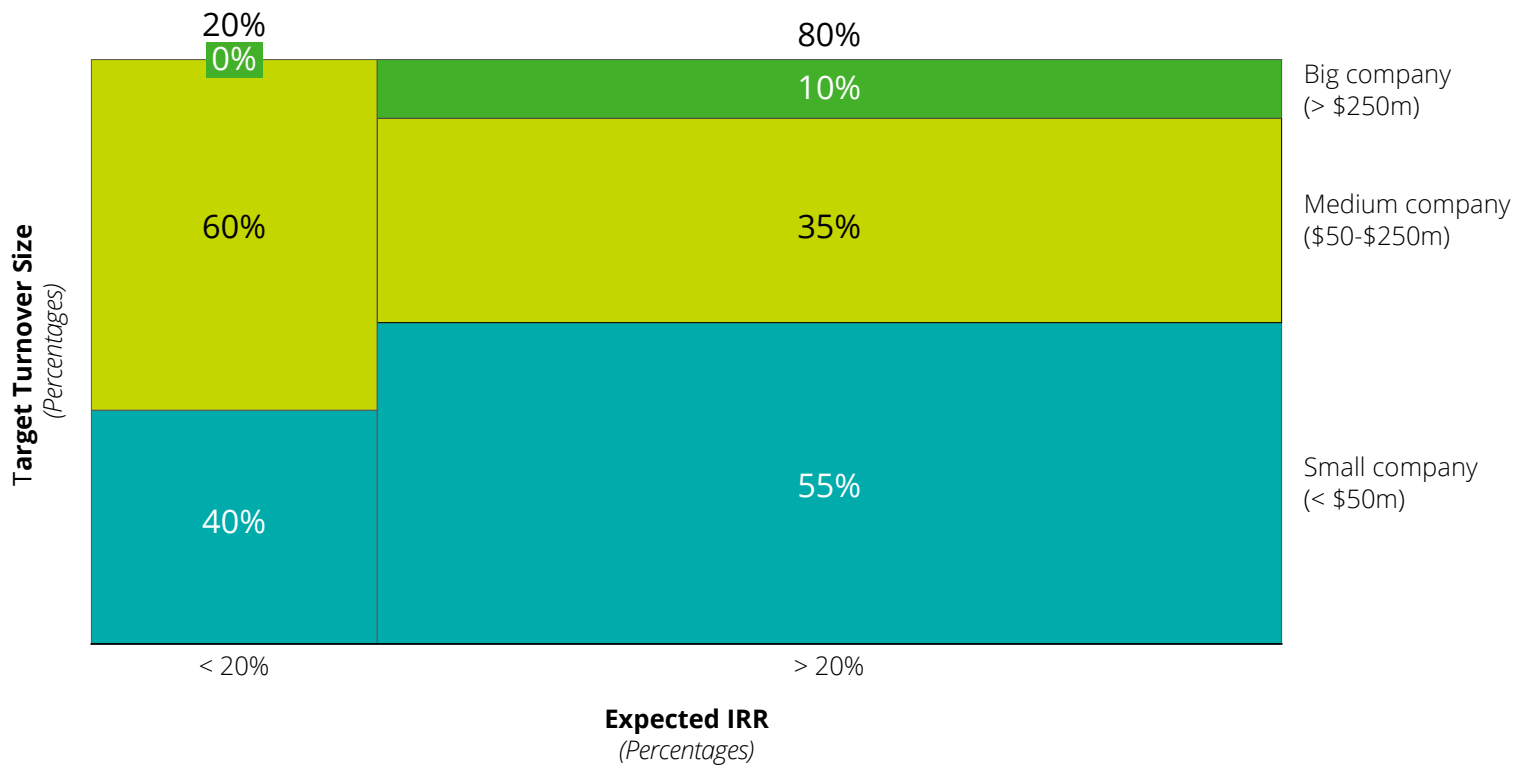
Source: Elaboration on Deloitte survey

Return expected from new investments

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% is more likely from small and big companies.

IRR expected from new F&L investments - breakdown by target company size

(Percentage)



Source: Elaboration on Deloitte survey

KEY FINDINGS



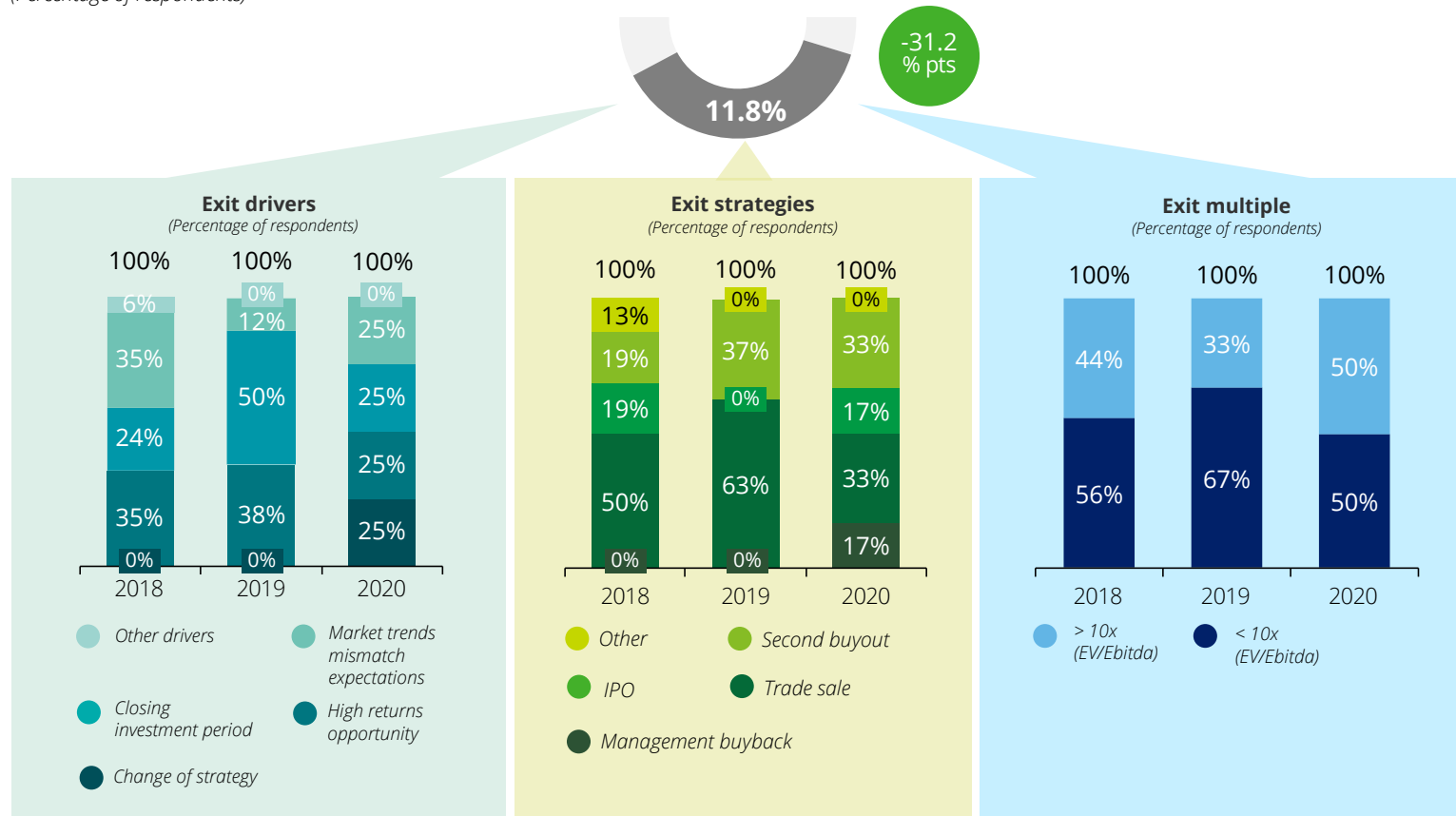
80% of investors expect an IRR >20%, causing also a high competition in investing in the F&L sector for the incoming years.

Funds' F&L exit strategy for 2020

Funds considering divesting an F&L asset in 2020 are decreasing in number (-31.2 pts). The drivers of exit are equally distributed between the options and multiples are also equally distributed between higher and lower than 10x (EV/EBITDA).

Funds that are going to divest at least one asset in 2020

(Percentage of respondents)



Source: Elaboration on Deloitte survey

KEY FINDINGS



11,8% of funds participating in the survey are going to exit at least one company within their F&L portfolio in 2020, a decrease compared to the results of last year (-31.2 percentage points).

The drivers that will influence exits are equally distributed among: market trends mismatches, closing investment period, high returns opportunity and change of the general investment strategy.

In 33% of cases, the exit will be completed through trade sale, in which 50% of investors will pay an EBITDA multiple higher than 10x.

In 17% of the cases, the exit will be completed through a Management Buyback, which was not present as a strategy in the last two years.

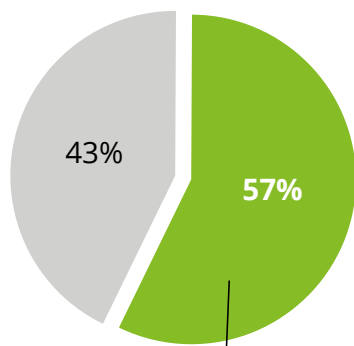
Impact of Disruptive Technologies

Disruptive technologies in Fashion & Luxury

57% of respondents will probably invest in disruptive technologies in order to benefit from potential synergies and pursue an omni-channel strategy, compared to only 43% in 2019. Big Data & Analytics will have the largest impact on investors' portfolios according to respondents in 2020, followed by Artificial Intelligence and Internet of Things.

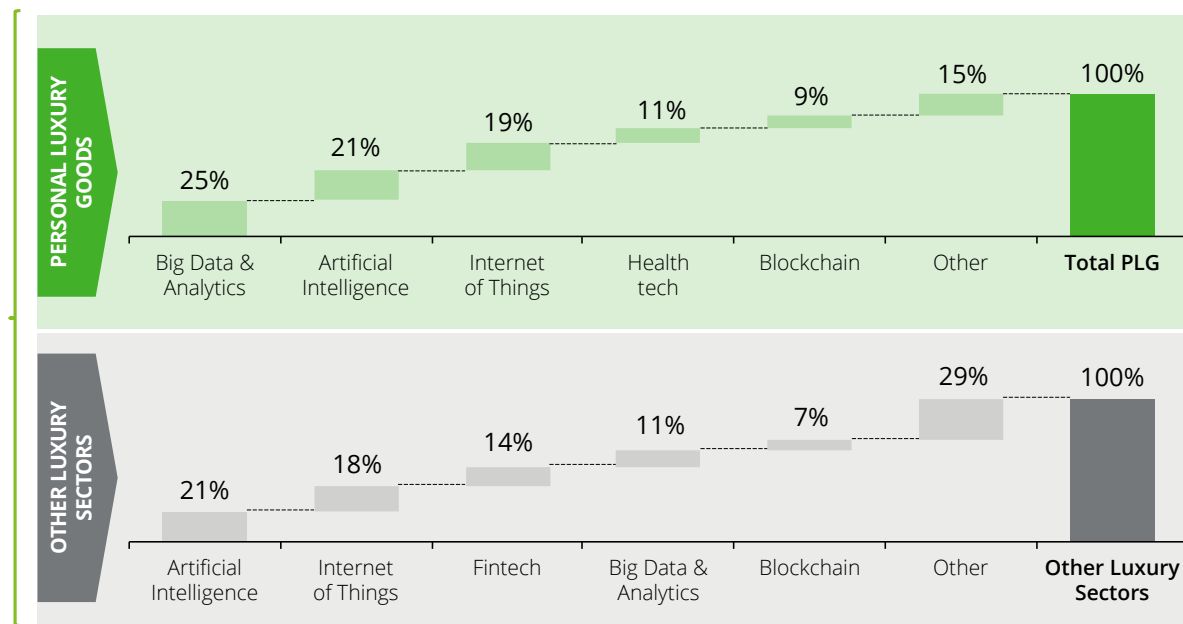
Fund likelihood of Investment in Disruptive Technologies firms

(Percentage)



Will probably invest in disruptive technologies

Impact of Disruptive Technology based on Portfolio Type
(Percentage)



KEY FINDINGS



The majority of respondents (57%) will invest in disruptive technologies, in order to benefit from potential synergies and accelerating the innovation trend due to the spread of Covid-19.

The disruptive technologies considered to be of most impact on portfolios relevant to Personal Luxury goods are: Big Data & Analytics (25%), Artificial Intelligence (21%), Internet of Things (19%), Healthtech (11%) and Blockchain (9%).

Considering other luxury sectors, the main disruptive technologies perceived by F&L investors are: Artificial Intelligence (21%), Internet of Things (18%), Fintech (14%), Big Data & Analytics (11%) and Blockchain (7%).

Source: Elaboration on Deloitte survey

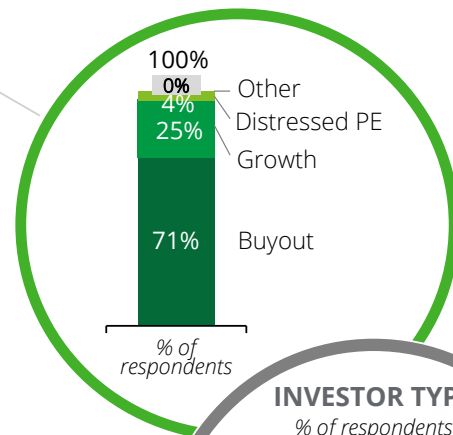
Profile of survey respondents

Funds' key features

85% of survey participants are small-medium investors. In 15% of cases, they hold a portfolio of net assets greater than \$1bn.

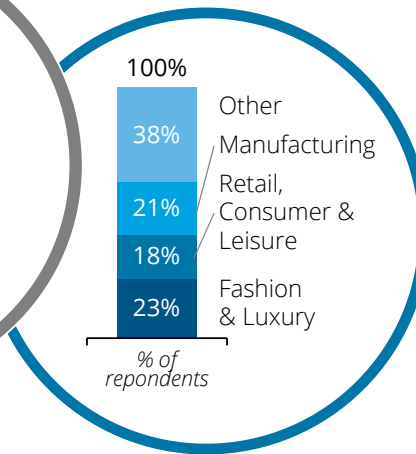
FUND STRATEGY

The main strategic approach of the involved funds is: Buyout (71%) and Growth (25%) strategies



FUND CORE INDUSTRIES

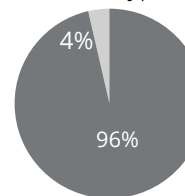
The main industries represented in investors' portfolios are: F&L (23%), Retail, Consumer & Leisure (17%), Industrial (20,6%) and Healthcare (15%)



INVESTOR TYPE

% of respondents

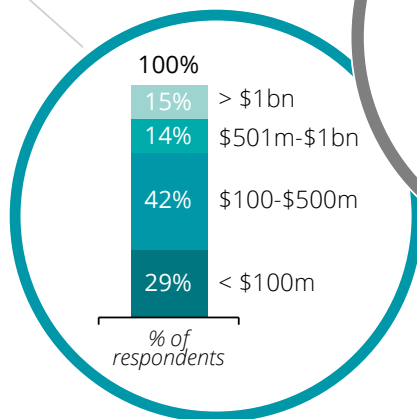
Other types



Private Equity Fund

FUND NET ASSETS

43% of funds participating in the survey have net assets ranging \$100m-\$500m, while 15% have full net assets greater than \$1bn

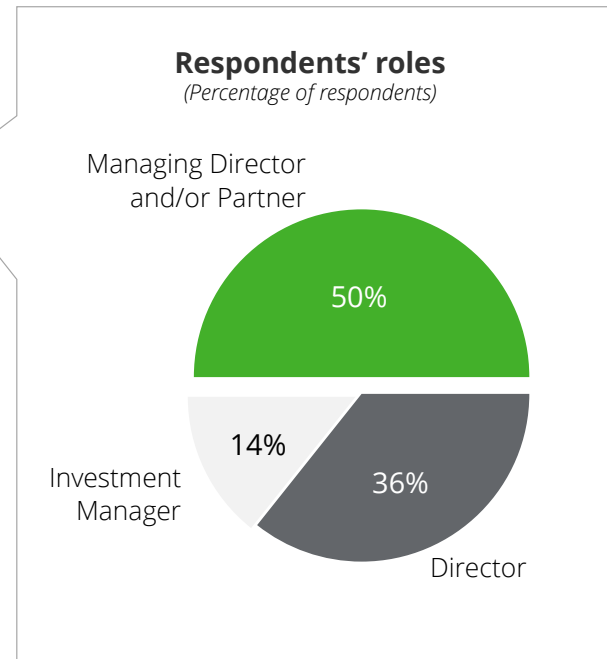
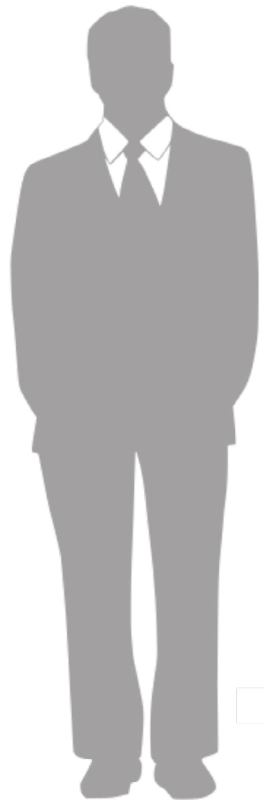


Note: 1) Other investors: family offices, luxury holdings and sovereign wealth funds

Source: Elaboration on Deloitte survey

Profile of survey respondents

Respondents are mainly Managing Director/Partner or Investment Managers.



Source: Elaboration on Deloitte survey

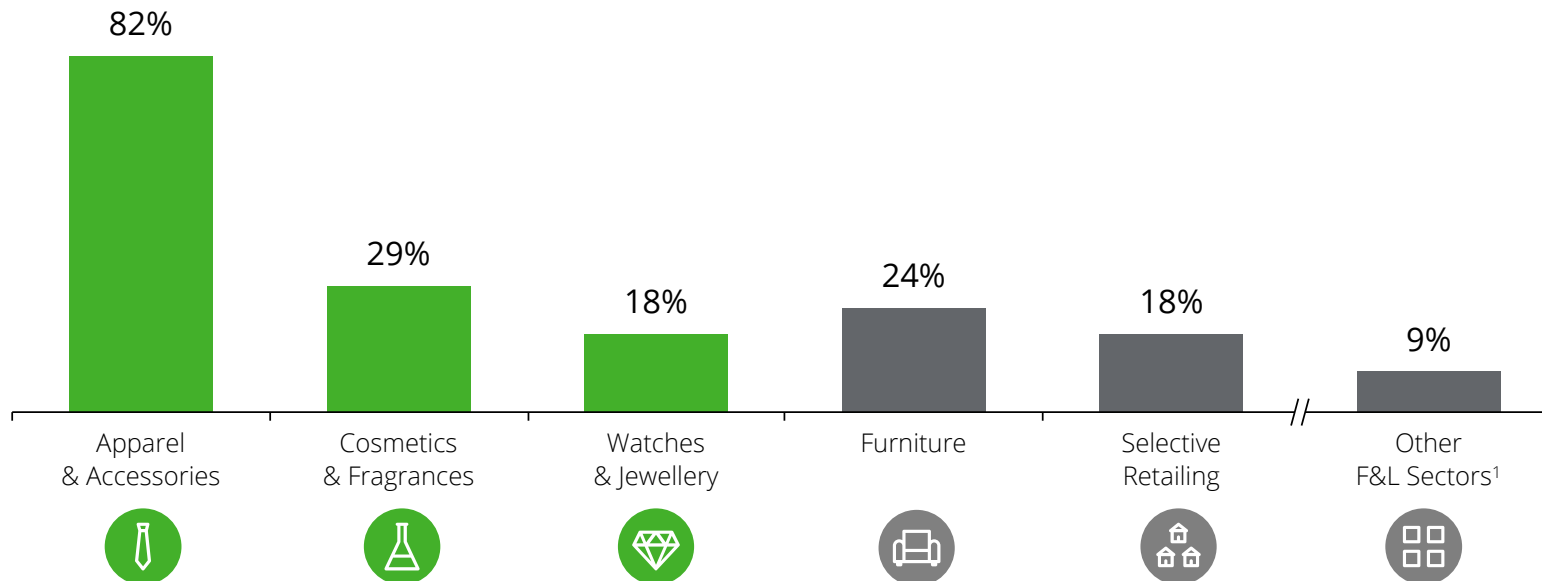
Funds' current F&L portfolio: main sectors

Investors mainly manage assets in Apparel & Accessories (82%) and Cosmetics & Fragrances (29%), Furniture (24%), Watches & Jewellery (18%) and Selective Retailing (18%).

60% of investors have a Fashion & Luxury asset in their portfolio

Main F&L assets managed by investors

(multiple choice answer)



Note: 1) "Other F&L sectors" includes mainly: Digital Luxury Goods, Hotels, Yachts and Cars
Source: Elaboration on Deloitte survey

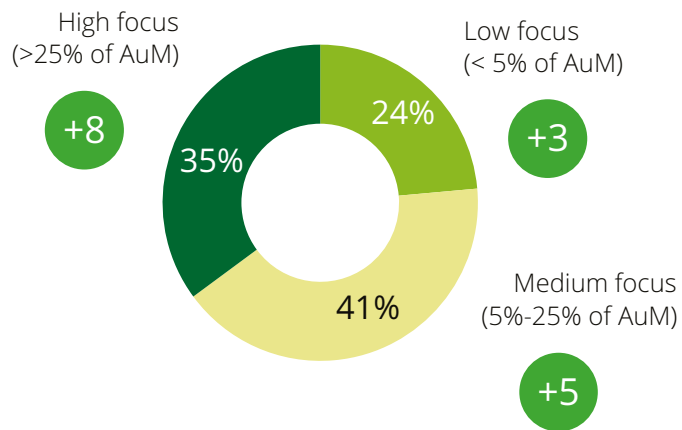
Funds' current F&L portfolio: structure

35% of current F&L investors focus 25% or more of their overall portfolio on the F&L industry. Investors usually hold their F&L assets for less than 5 years, mostly with a majority stake (77%).

60% of investors have a Fashion & Luxury asset in their portfolio

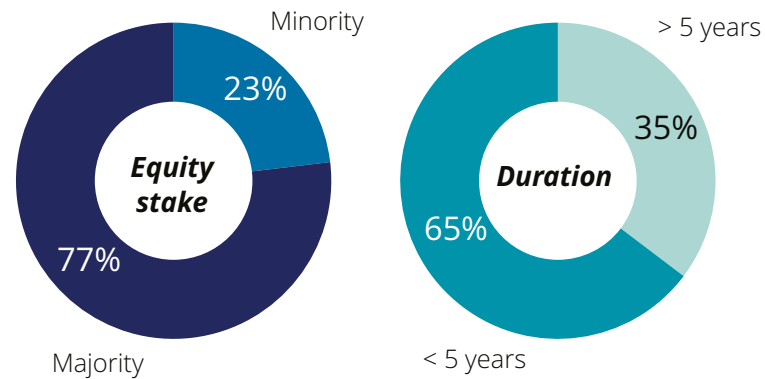
Portfolio focus in F&L industry

(Percentage of respondents)



Portfolio equity stake and duration

(Percentage of respondents)



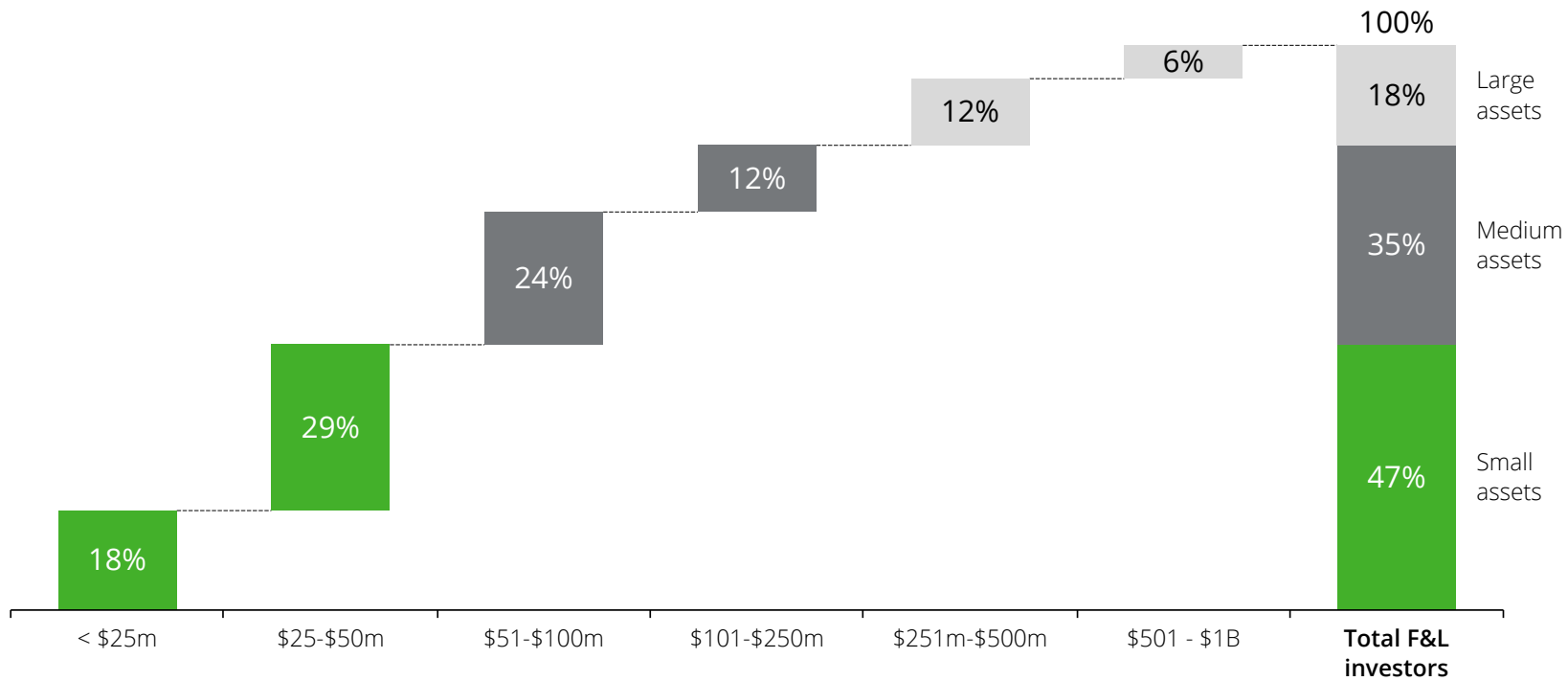
Source: Elaboration on Deloitte survey

Funds' current F&L portfolio: average asset size

47% of respondents have assets with an average turnover which is less than \$50m. Large-sized assets (>\$250m) represent 18% 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

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

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