Warsaw

Luxury brands' new destination

KULCZYK SILVERSTEIN PROPERTIES

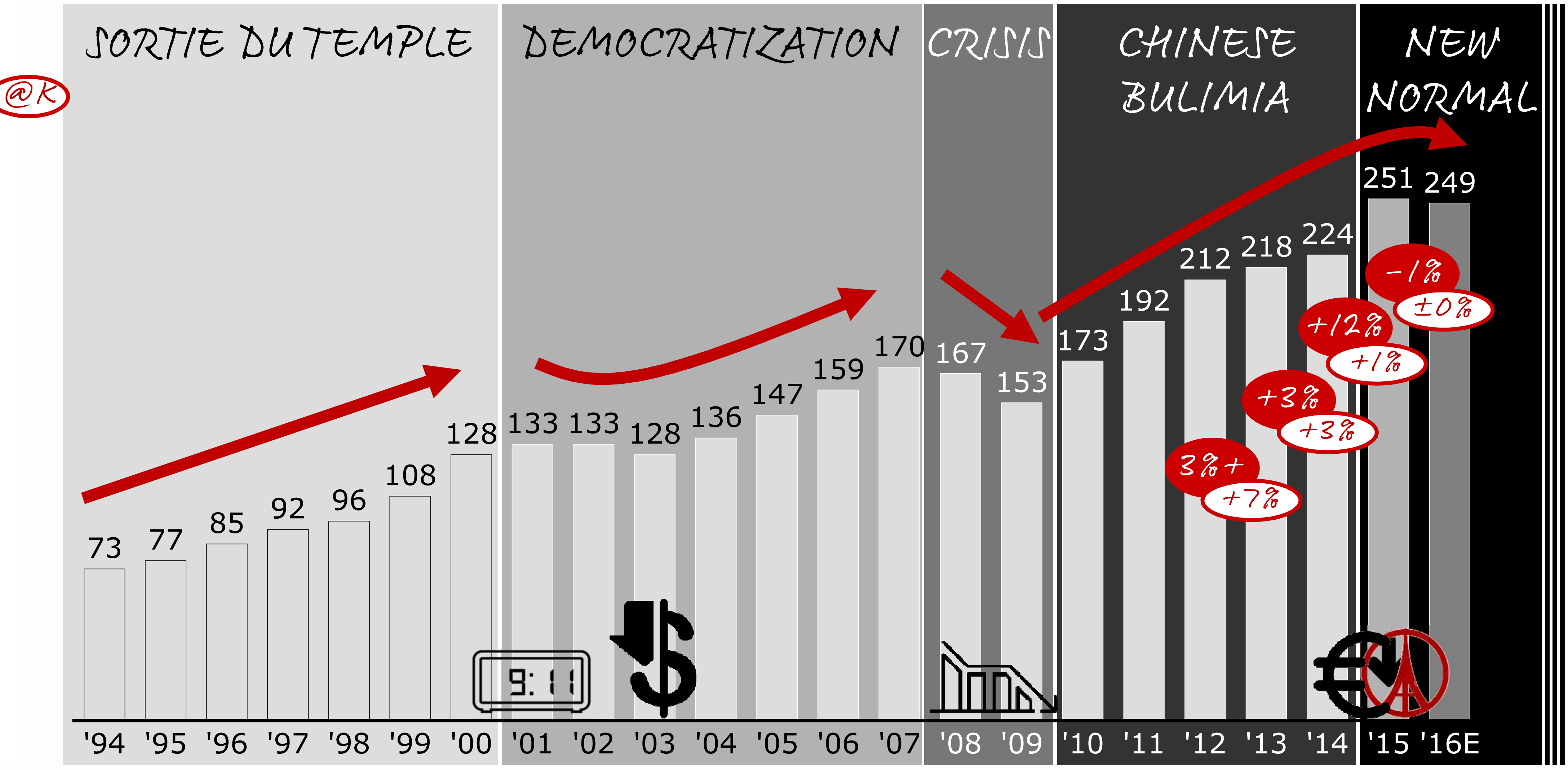
BAIN & COMPANY

Daniele Zito

Milan, 24th November 2016

After slowing down for 3 years, flat personal luxury goods market in 2016, amidst growing uncertainty and volatility

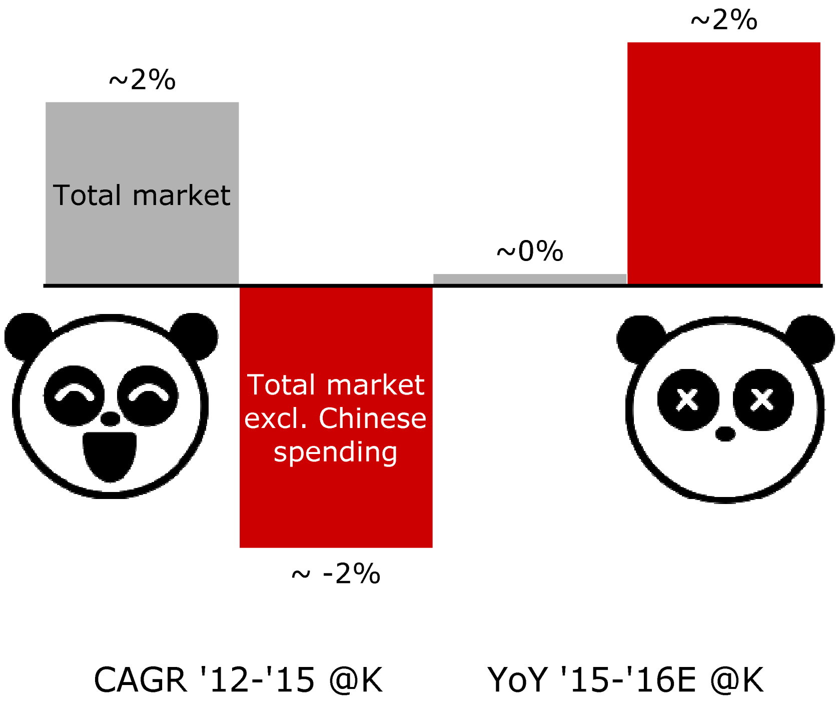
GLOBAL PERSONAL LUXURY GOODS MARKET TREND (1994-2016E|€B)



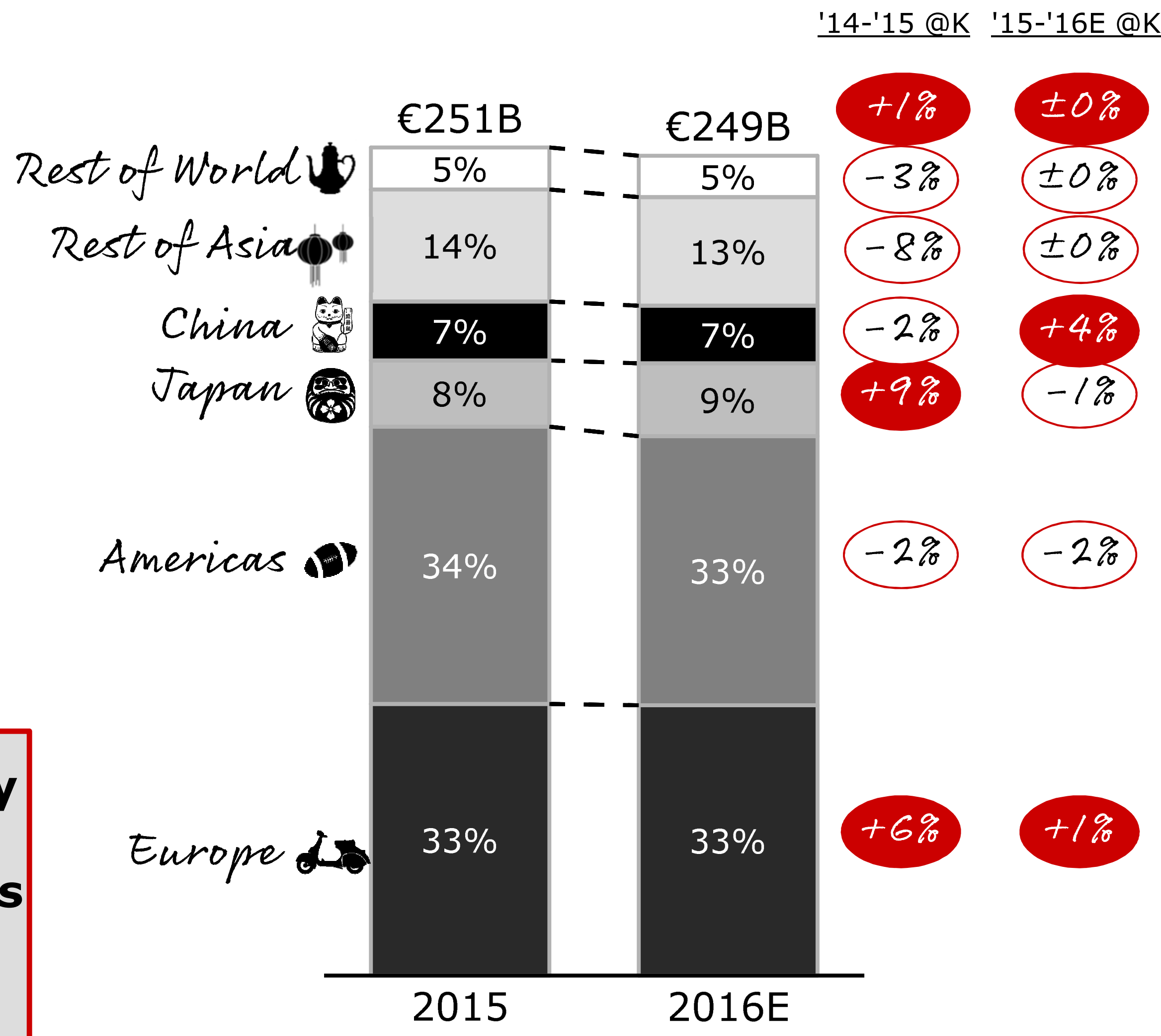
After growing only thanks to Chinese for years, the industry in 2016 has been impacted by their trend across markets

GLOBAL PERSONAL LUXURY GOODS EVOLUTION (€B)

2012-2016E BY NATIONALITY



2015-2016E BY REGION

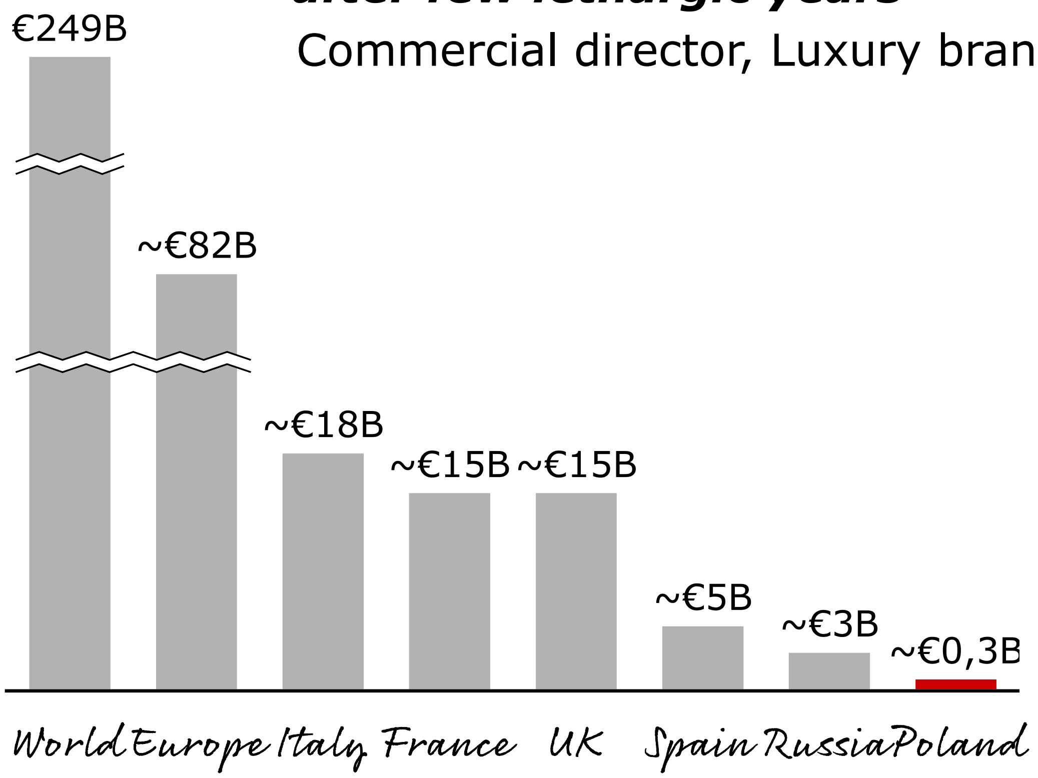


- Total personal luxury goods **market slightly contracting** in the **2012-15** period **if excluding** spending of **Chinese consumers**
- **Chinese consumers' spending reduction** has led to **stagnation in 2016**

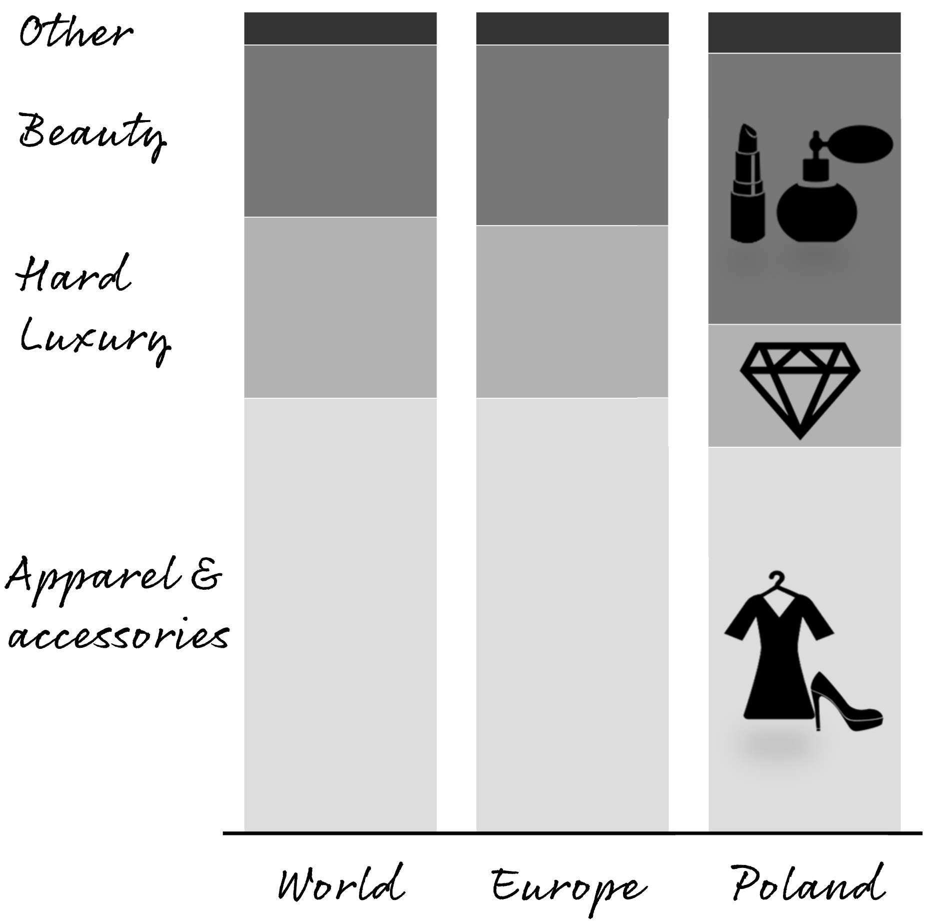
Polish Personal Luxury Goods market reaching 0,3B€ in 2016E, showing certain dynamism in recent years

PERSONAL LUXURY GOODS MARKET BY REGION (2016E | €B)

"Poland is experiencing a dynamic period since 2014, after few lethargic years"
Commercial director, Luxury brand

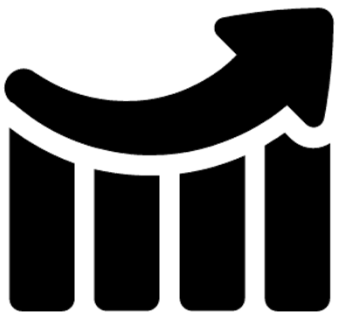


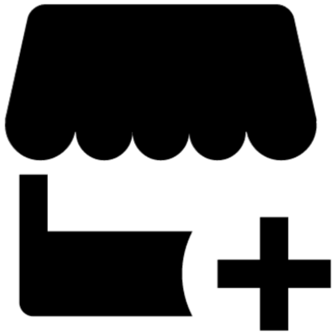
PERSONAL LUXURY GOODS MARKET BY PRODUCT CATEGORY (2016E)



The Polish market is accelerating on sound fundamentals and supportive trends on demand and supply side

Sound market fundamentals	Growing demand… (consumer trends)	…and supply (distribution trends)





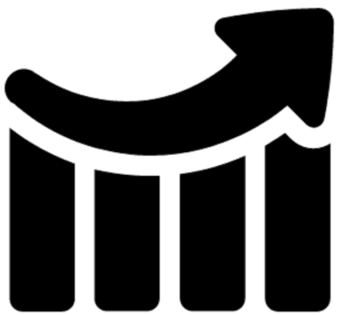
- **Steady economic growth**
- **A large population** with **growing disposable income** and **consumer expenditure**
- **Increasing international touristic flows, Warsaw the main destination**

- **Growing interest** for international **luxury brands**
- **Evolving consumer profiles** embracing a **broader luxury consumption** in terms of brands, styles and categories

- **Increasing international luxury brands' penetration** with evolving format and business model approach
- **Expansion of the luxury real estate infrastructure**

The Polish market is accelerating on sound fundamentals and supportive trends on demand and supply side

Sound market fundamentals

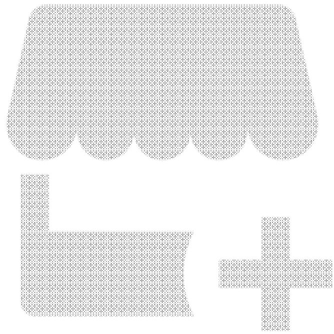


- **Steady economic growth**
- **A large population** with **growing disposable income** and **consumer expenditure**
- **Increasing international touristic flows, Warsaw the main destination**

Growing demand… (consumer trends)

- **Growing interest** for international **luxury brands**
- **Evolving consumer profiles** embracing a **broader luxury consumption** in terms of brands, styles and categories

…and supply (distribution trends)



- **Increasing international luxury brands' penetration** with evolving format and business model approach
- **Expansion of the luxury real estate infrastructure**

Poland is one of the biggest European economies and among fastest growing ones since 2013

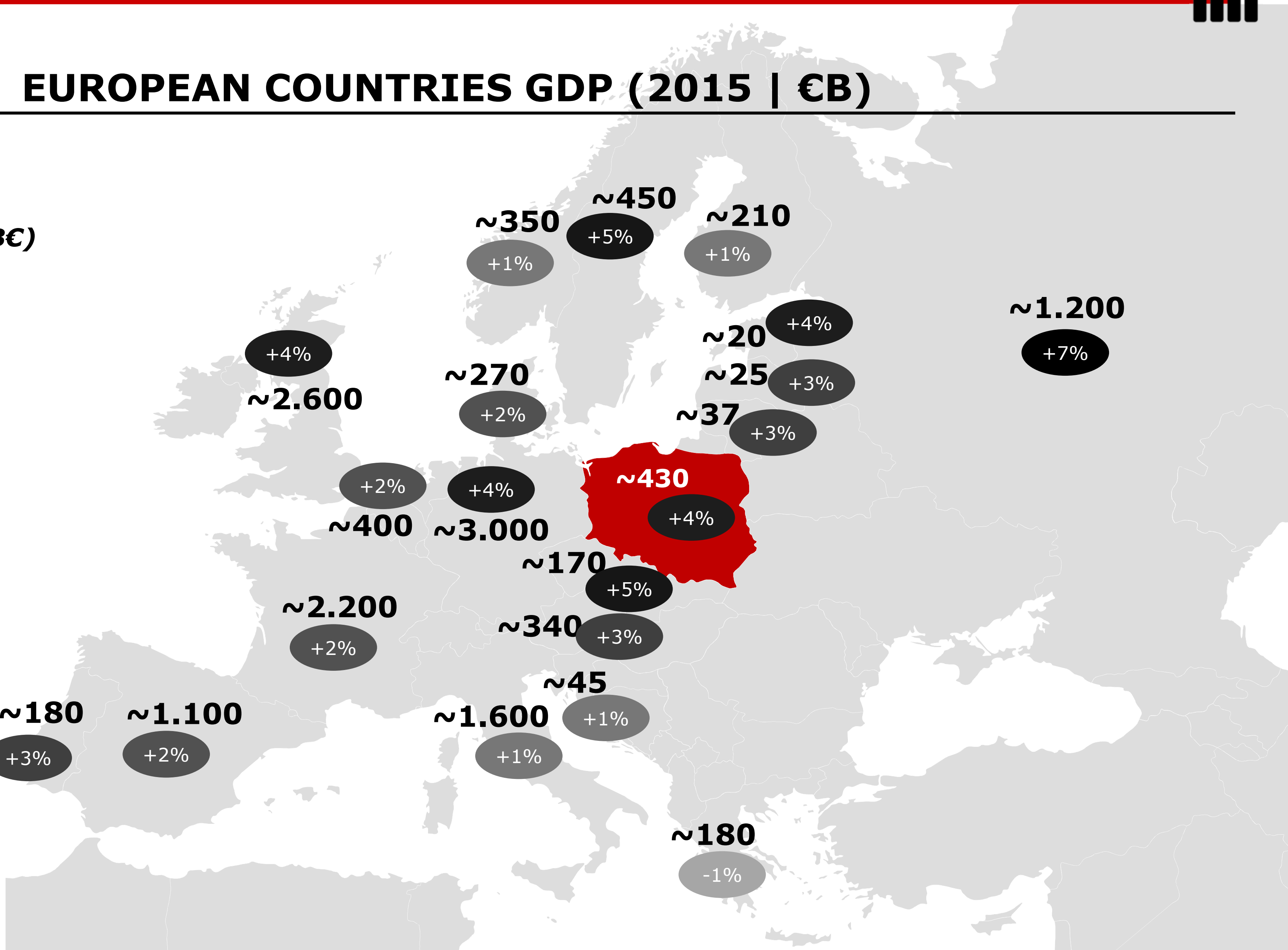
EUROPEAN COUNTRIES GDP (2015 | €B)

xx *2015 GDP Value (B€)*

xx% *GDP CAGR '13-'15 (in local currency)*

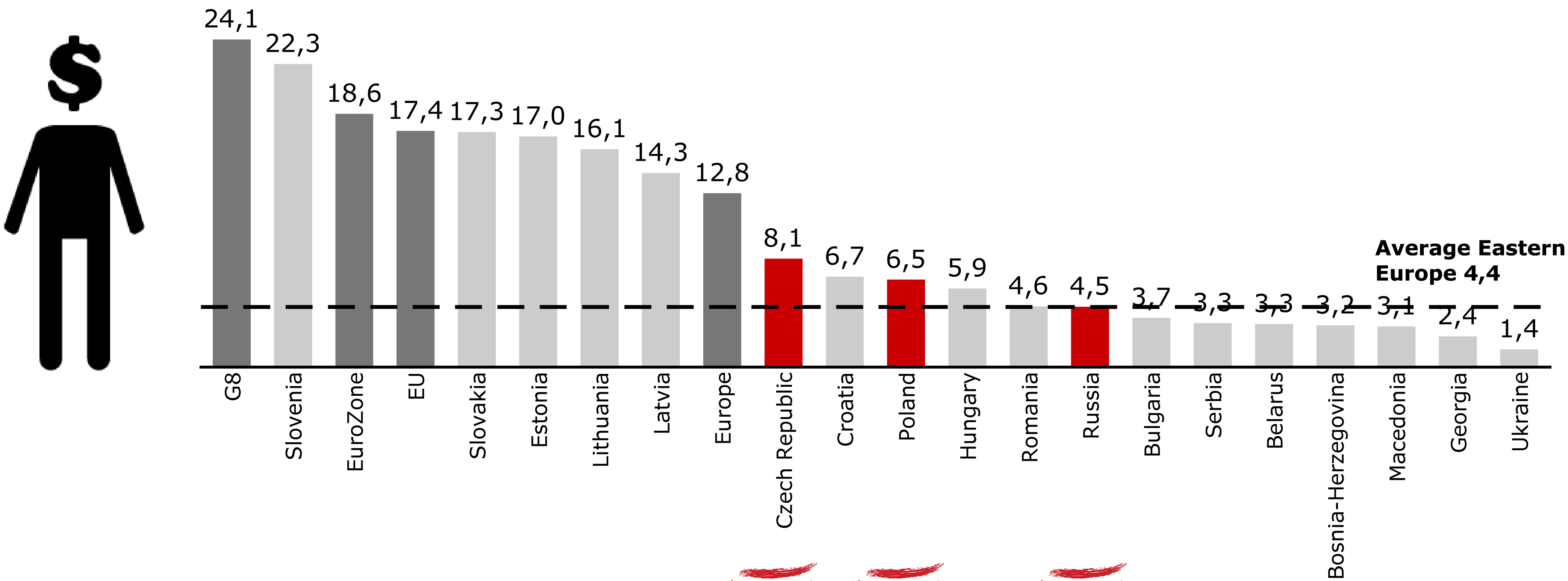
Higher GDP growth

Lower GDP growth/ decline



Poland disposable income per capita higher than Eastern Europe avg. and growing more than Russia and Czech Rep.

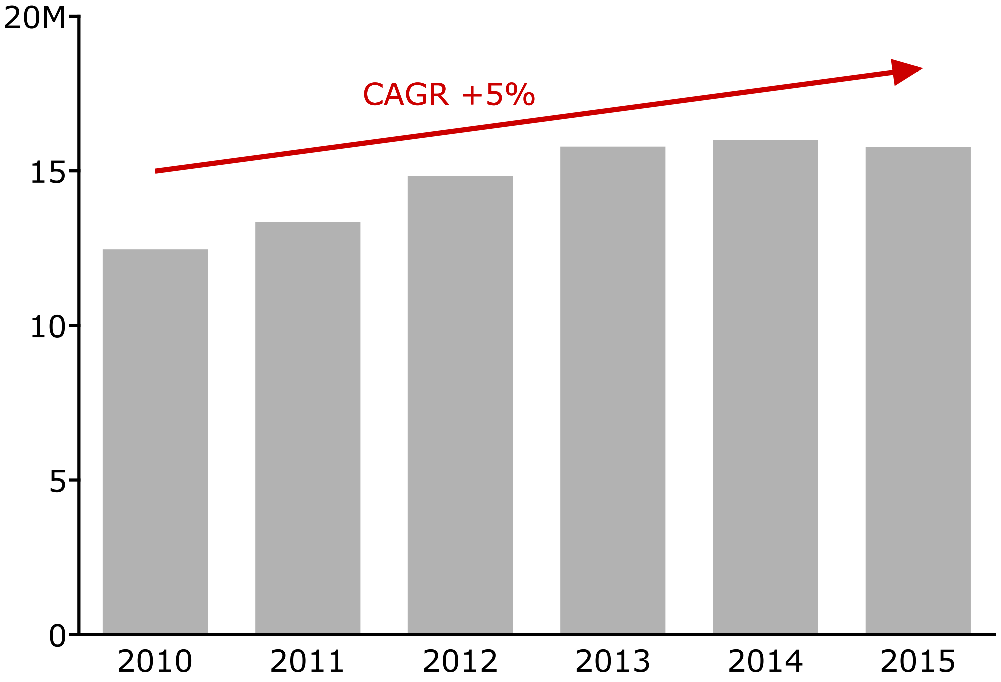
DISPOSABLE INCOME PER CAPITA BY COUNTRY (2015 | €K)



	G8	Slovenia	EuroZone	EU	Slovakia	Estonia	Lithuania	Latvia	Europe	Czech Republic	Croatia	Poland	Hungary	Romania	Russia	Bulgaria	Serbia	Belarus	Bosnia-Herzegovina	Macedonia	Georgia	Ukraine
CAGR 10-15	4%	0%	1%	2%	2%	6%	5%	5%	2%	0%	0%	2%	2%	4%	-1%	5%	2%	4%	2%	3%	7%	-4%
CAGR 15-20F	1%	2%	1%	1%	3%	4%	5%	4%	1%	2%	2%	3%	3%	7%	0%	6%	4%	2%	4%	4%	5%	1%
Gini Index (%)	0	34	0	0	26	35	39	36	0	25	38	33	31	35	42	37	36	34	38	37	42	35

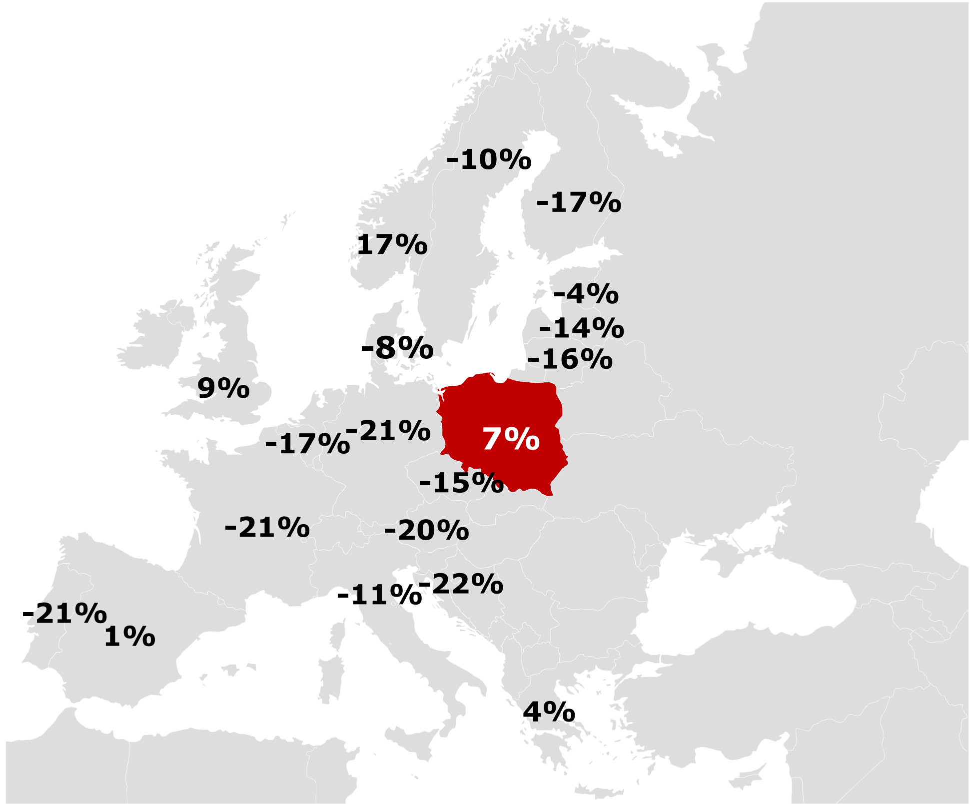
International tourism experiencing positive trend in the country, Warsaw the main destination also for locals

POLAND INTERNATIONAL TOURISTS ARRIVALS (2010-2015F)



- **International tourism** in Poland **growing at 5%** CAGR 10-15F, **Warsaw the most attractive city**
  - **In 2015** 4,2M tourists visited Warsaw, of which **1M shopping tourists**, **especially Asian**
- **Also domestic tourism** plays an important role, **especially on the capital Warsaw**

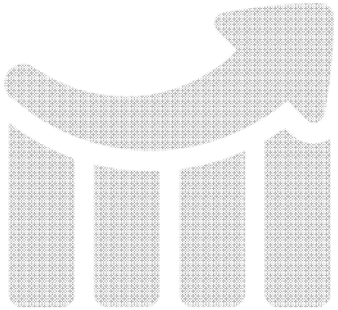
TAX FREE CONSUMPTION TREND (JAN-SEPT 2016 | %)



- **Poland** among the few countries in Europe **recording a positive tax free sales growth** in last months **(+7%)**, together with UK, Norway, Spain and Greece

The Polish market is accelerating on sound fundamentals and supportive trends on demand and supply side

Sound market fundamentals

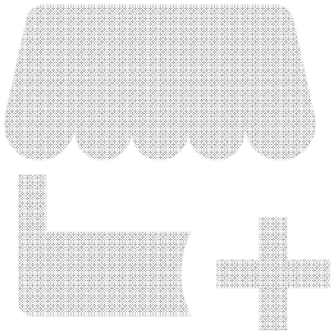


- **Steady economic growth**
- **A large population** with **growing disposable income** and **consumer expenditure**
- **Increasing international touristic flows, Warsaw the main destination**

Growing demand… (consumer trends)

- **Growing interest** for international **luxury brands**
- **Evolving consumer profiles** embracing a **broader luxury consumption** in terms of brands, styles and categories

…and supply (distribution trends)



- **Increasing international luxury brands' penetration** with evolving format and business model approach
- **Expansion of the luxury real estate infrastructure**

There are 7 key segments to describe worldwide luxury consumers

Conservative

I buy it safe

These are mature and mainstream shoppers, both men and women. They favor watches and jewelry from big-name brands.

Opinionated

I know it!

Highly educated Generation X and Y shoppers. They favor leather goods and watches, and are highly aware of the differences between brands

Disillusioned

I'm so over it!

These are mature consumers, started to be detached vs. luxury and looking for products from different segments and/or experiences rather than goods

Hedonist

I love it!

These shoppers are infatuated with luxury goods and the luxury shopping experience. They have a high affinity for brand logos and much of their purchasing is in accessories

Omnivore

I want it all!

These shoppers are typically new entrants to luxury, on average younger than the other clusters, they have high willingness to experiment with products and brands

Wannabe

I desire it!

These predominantly female shoppers look for entry-level items in beauty and shoes, valuing affordability, and highly likely to mix and match outside of the luxury spectrum

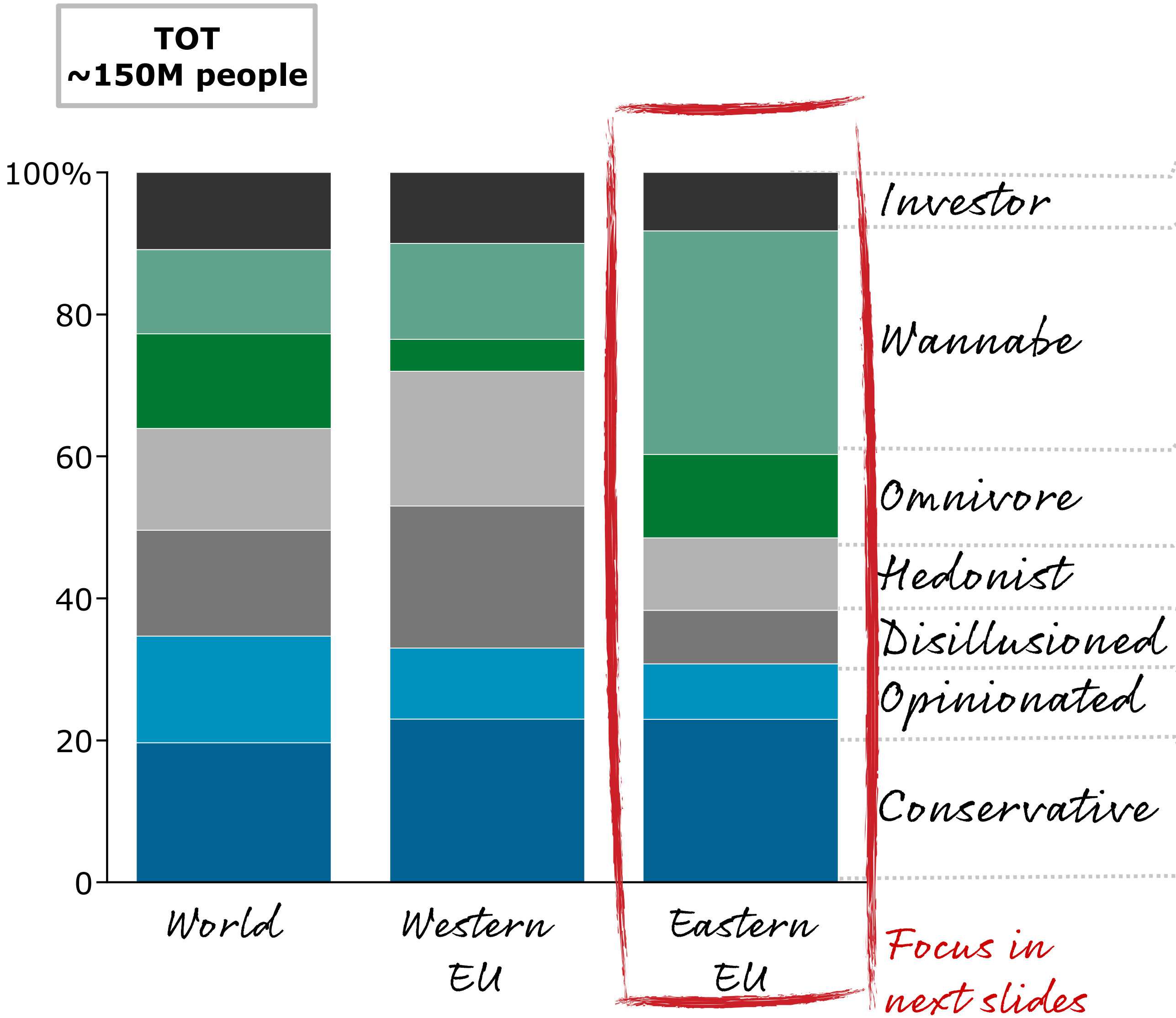
Investor

It's worthy? I buy it!

These shoppers pay the greatest attention to the quality and durability of luxury materials. They favor long-lasting leather goods and watches

The relative weight of individual consumer clusters varies across regions - E. European more skewed to *Wannabe*

TRUE LUXURY CONSUMERS BY NATIONALITY AND CLUSTER (M PEOPLE)



Top cluster among **Middle Eastern** but also very **relevant** in **Japan** and in **mature markets** where discretionary **spending** is more **cautiously allocated**

Top cluster for **Eastern European** but also relevant among **less wealthy** Western **European** and North **Americans**

Top cluster for **Chinese** representing almost **half of the *Omnivore* segment worldwide**

The most "global" segment, showing a consistent weight across nationalities

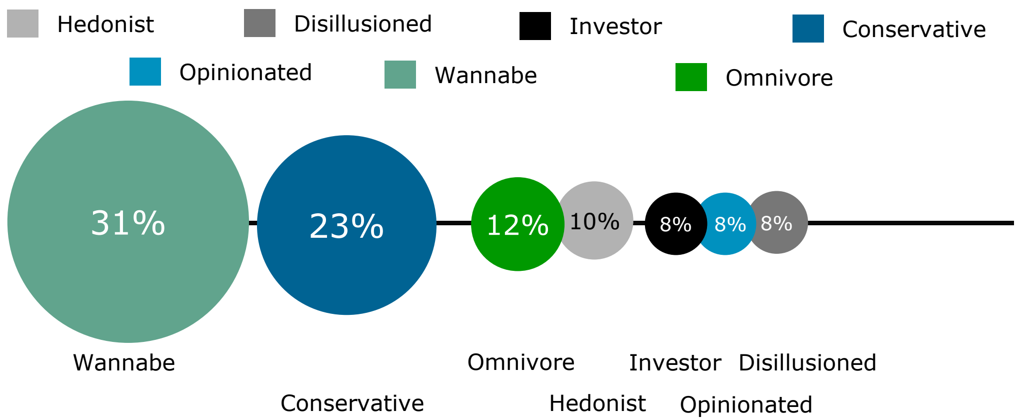
Top or 2nd top cluster in **mature markets** where consumers have been **exposed to luxury** for **long**

2nd top cluster for **Chinese** also relevantly **represented** in **mature markets** but on average by older generations

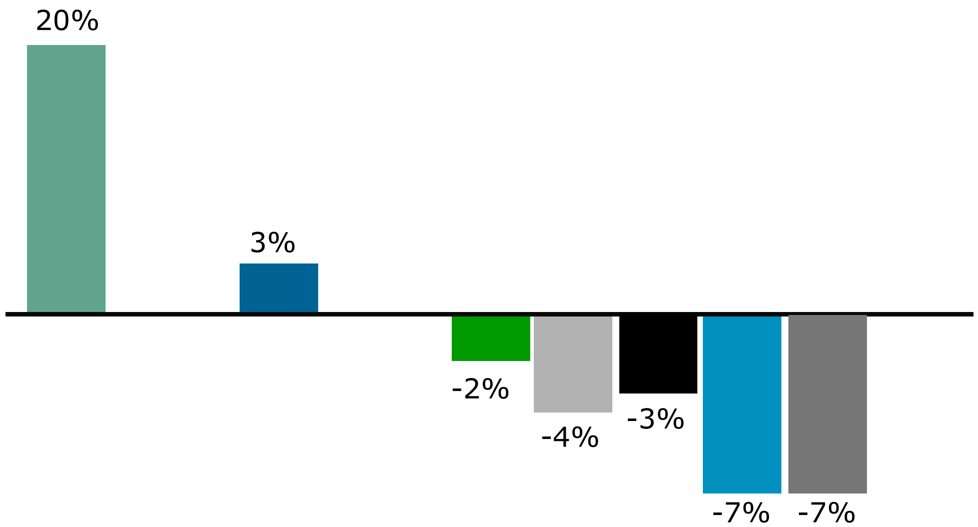
Overall the largest cluster worldwide, but ranks first only in **Europe** and **Japan**

Eastern Europeans represent a luxury enthusiastic consumer group!

Luxury consumers by cluster



Concentration index vs. global average



Behaviors and Habits

- **Wannabe** most relevant cluster, strongly **above global average** at the expense of especially **Opinionated** and **Disillusioned**, confirming an **enthusiastic** and **aspirational luxury community**
  - Overall **appreciate logo** and **visible, recognizable items**
  - Appreciate **rich product content**
  - **Colors are key** from fabric from RTW to gemstones
  - Still looking for **total look** of preferred brands
- **Different stylistic attitudes** between **men and women**
  - Women like dressing up without any particular occasion while men preferred casual/sporty looks
- **Younger generations** are **more brand aware** and **more sophisticated** when showing an **international profile** (e.g. studied/worked abroad)
- **Very different attitude to luxury** between **old rich** (e.g. regime heirs) **and new rich**

Polish consumers confirm price sensitivity, but show higher fashion consciousness yet unevenly within the country

POLAND

Value sensitive

- Culturally rooted **value for money**
- More sensitive to brand **promotional activities**

*"**Means** and **culture** have a strong impact on Polish luxury consumers […] they favor fast fashion/mass and accessible brands* and are **sensitive to brands and fashion players promotion activities**"

Head of distribution, Luxury brand

*"Minimalist brands are not very appreciated, **luxury customers prefer rich items**, […] **streetwear style** fashionable **among men** […] **leather goods** very strong selling category"*

Executive, Luxury brand

Fashionistas

- **More fashion-oriented** than other consumer groups in center/eastern Europe, especially on men's

Polarized

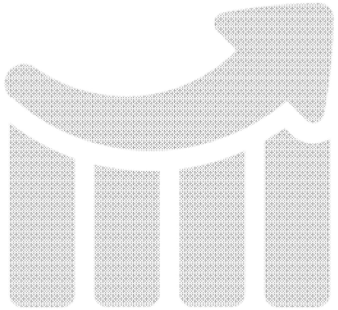
- **Very polarized level of sophistication** and **consumption traits** between **Warsaw citizens** and those from other cities

*"**Warsaw only true luxury center** […] Poznan high level customers prefer to shop in Warsaw because of larger offer"*

Executive, Luxury brand

The Polish market is accelerating on sound fundamentals and supportive trends on demand and supply side

Sound market fundamentals

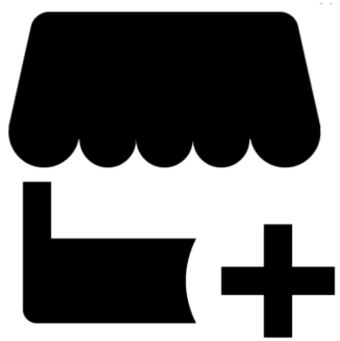


- **Steady economic growth**
- **A large population** with **growing disposable income** and **consumer expenditure**
- **Increasing international touristic flows, Warsaw the main destination**

Growing demand… (consumer trends)

- **Growing interest** for international **luxury brands**
- **Evolving consumer profiles** embracing a **broader luxury consumption** in terms of brands, styles and categories

…and supply (distribution trends)



- **Increasing international luxury brands' penetration** with evolving format and business model approach
- **Expansion of the luxury real estate infrastructure**

Many international luxury brands still distributed only through multibrand, yet monobrand gaining share

INTERNATIONAL BRANDS PRESENCE IN POLAND (EXAMPLES)

ABSOLUTE

ASPIRATIONAL

ACCESSIBLE

MULTIBRAND ONLY

Dior
VALENTINO
TOM FORD
BRUNELLO CUCINELLI
JIMMY CHOO
VERSACE
GIVENCHY
FENDI ROMA
PRADA
DOLCE & GABBANA
miu miu
Salvatore Ferragamo
Chloé
MONCLER

ALSO MONOBRAND

BOTTEGA VENETA
SAINT LAURENT PARIS
LOUIS VUITTON
GUCCI
Ermenegildo Zegna
Calvin Klein
BOSS HUGO BOSS
TRUSSARDI
BURBERRY ESTABLISHED 1856
MICHAEL KORS

Focus in next slides

Although most stores are operated through franchise agreements, growing interest for direct management

MONOBRAND BUSINESS MODELS PERFORMANCE COMPARISON (COMPARABLE BRANDS)

*"**Our franchising store in Poland is performing very well recently** and we are **thinking to expand our presence** in the country **with the same partner**"*

Executive, Luxury brand

*"We **exited** the Polish market **due to misalignment with our local partner**"*

Head of distribution, Luxury brand

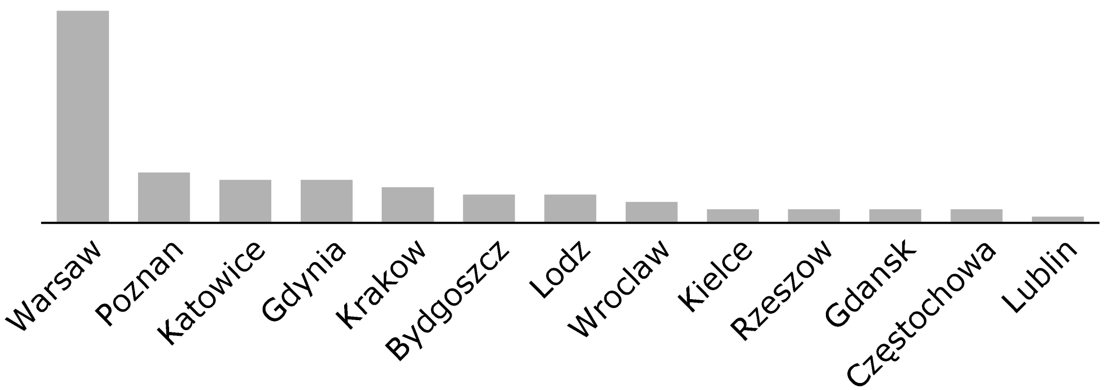
*"**Several brands are currently discussing about a direct entrance** in the market in the next 2-3 years, and **some others** are **thinking to switch** from an indirect business model **to a direct one**"*

Executive, Mall management company

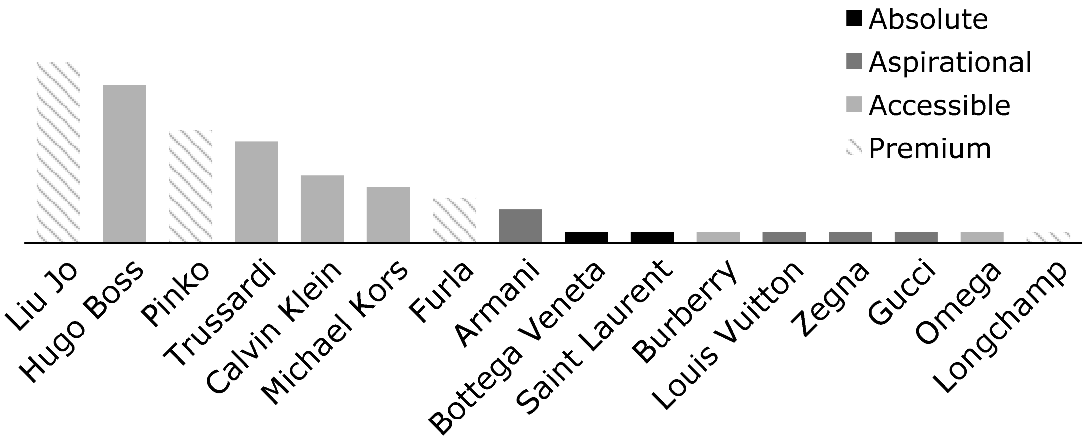
Warsaw concentrates ~40% of Poland monobrand stores, *Accessible* brands the most distributed (~50%)

= Luxury *monobrand 1 store*

LUXURY MONOBRAND STORES BY CITY (2016 | #)



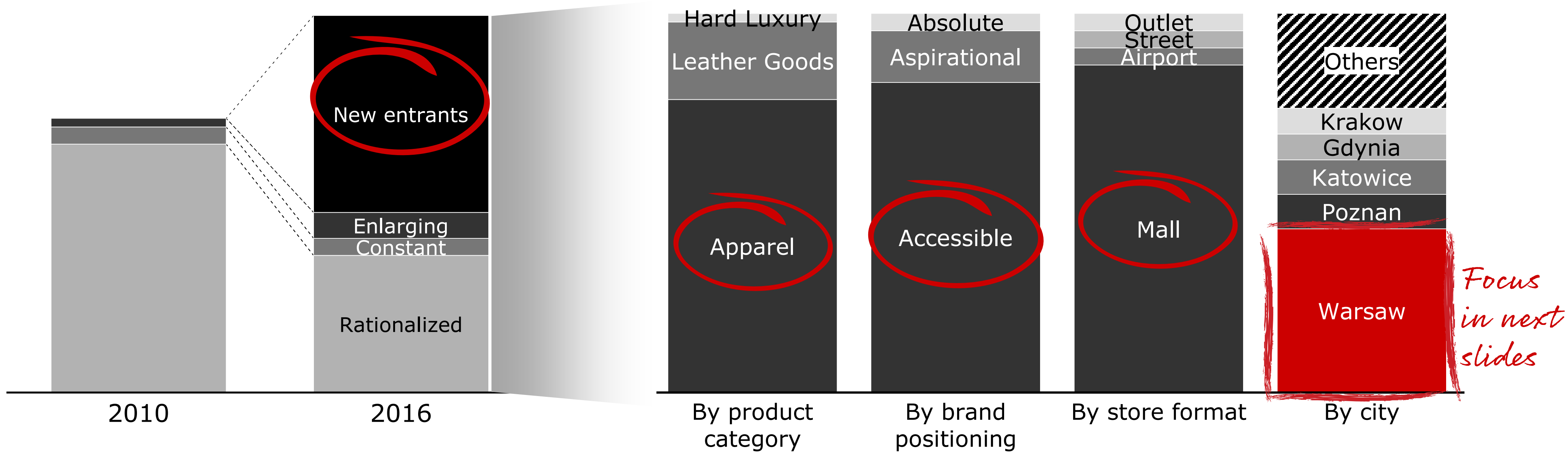
EXAMPLES OF BRAND BY MONOBRAND STORES (2016 | #)



Growing and evolving distribution footprint in the country, focused on apparel, *Accessible* brands mainly in malls

MONOBRAND BY BRAND TYPE (2010-2016 | #)

CURRENT MONOBRAND FOOTPRINT SEGMENTATION (2016 | #)

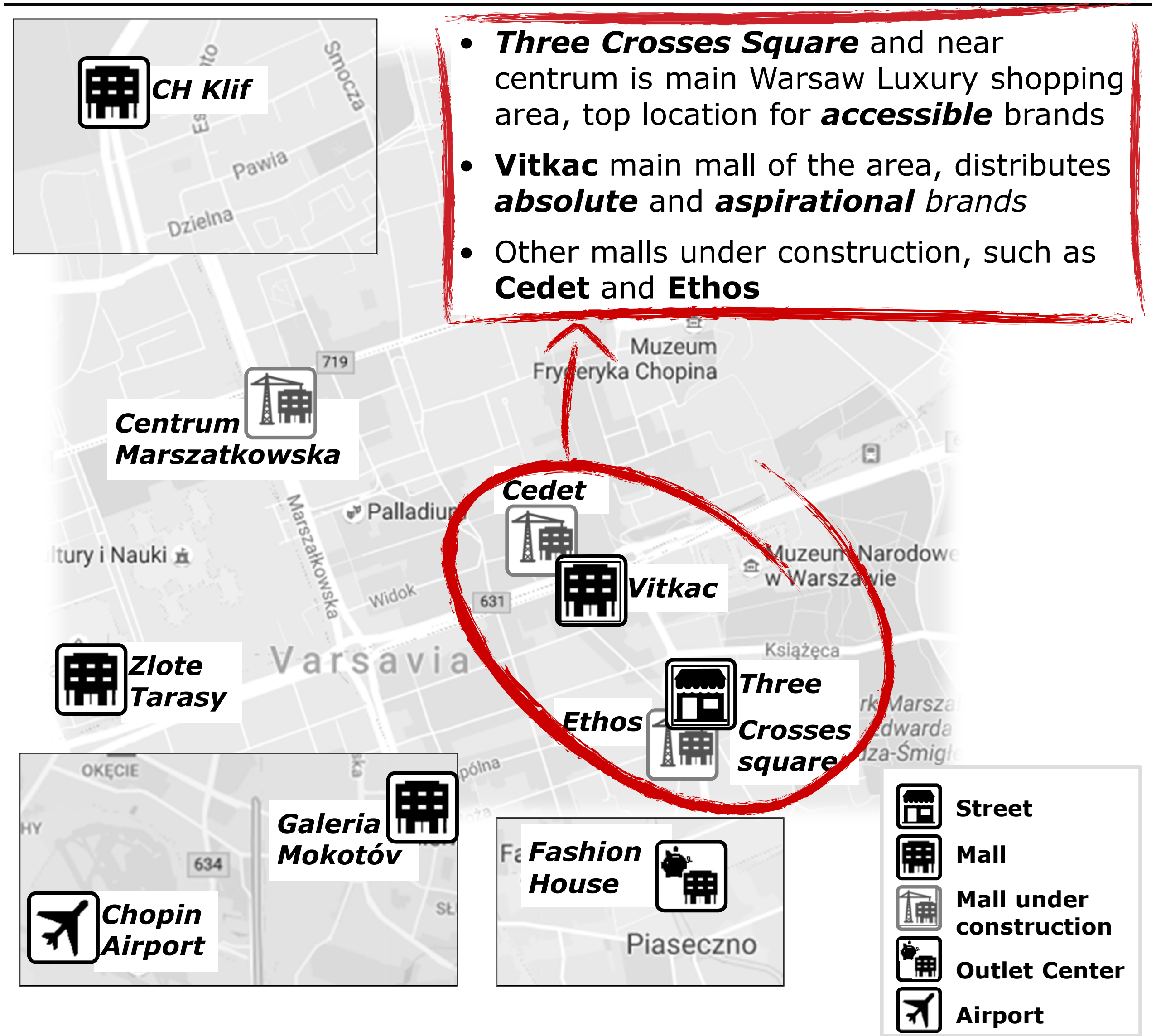


- **Substantial brands redistribution** in Poland **between 2010 and 2016**, with several **new entrants**
  - Significant **rationalization** mainly by **accessible apparel brands** (e.g. Hugo Boss)
  - **A number of new entrants**, such as Louis Vuitton and Bottega Veneta
- **Local arena** still **exposed to *Accessible* apparel brands**
- **Limited format variation** with presence concentrated in malls
- **Warsaw** concentrating **40%** of **total international luxury brands' stores in the country**

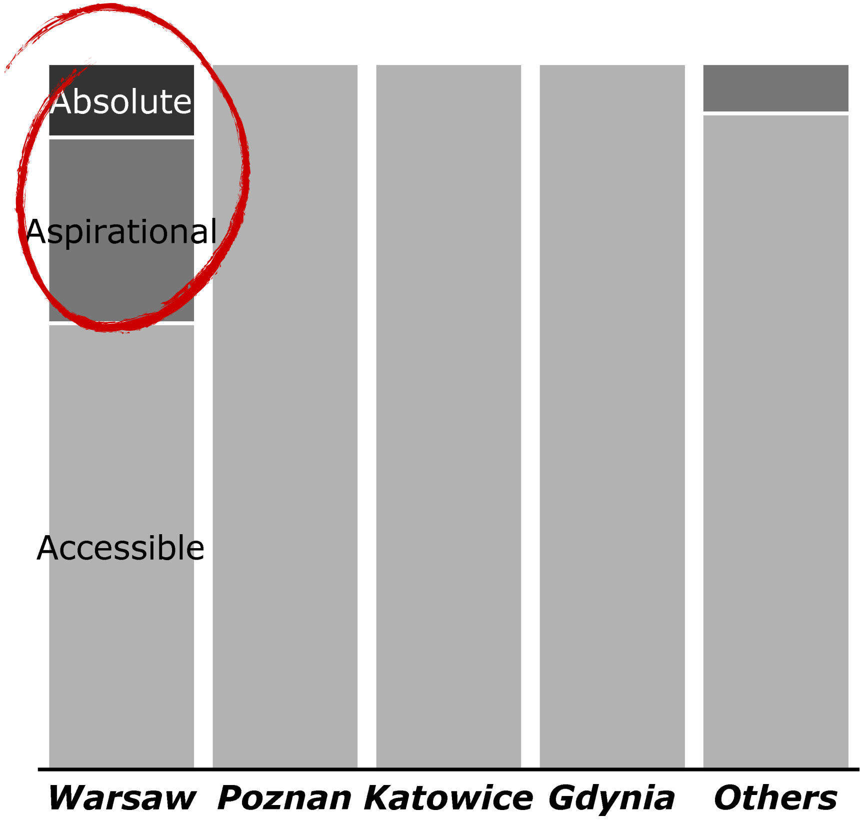
Aspirational and *Absolute* luxury brands concentrated in Warsaw, especially in the Three Crosses Square area

WARSAW LUXURY MONOBRAND LOCATIONS (2016 | #)

- ***Three Crosses Square*** and near centrum is main Warsaw Luxury shopping area, top location for ***accessible*** brands
- **Vitkac** main mall of the area, distributes ***absolute*** and ***aspirational*** *brands*
- Other malls under construction, such as **Cedet** and **Ethos**

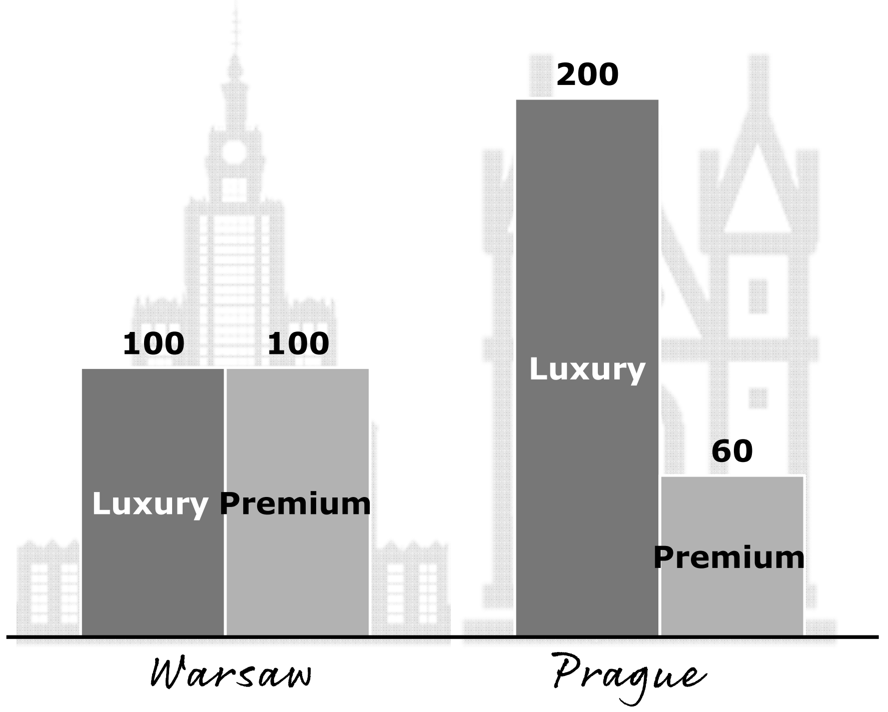


POLAND LUXURY MONOBRAND POSITIONING BY CITY(2016 | #)



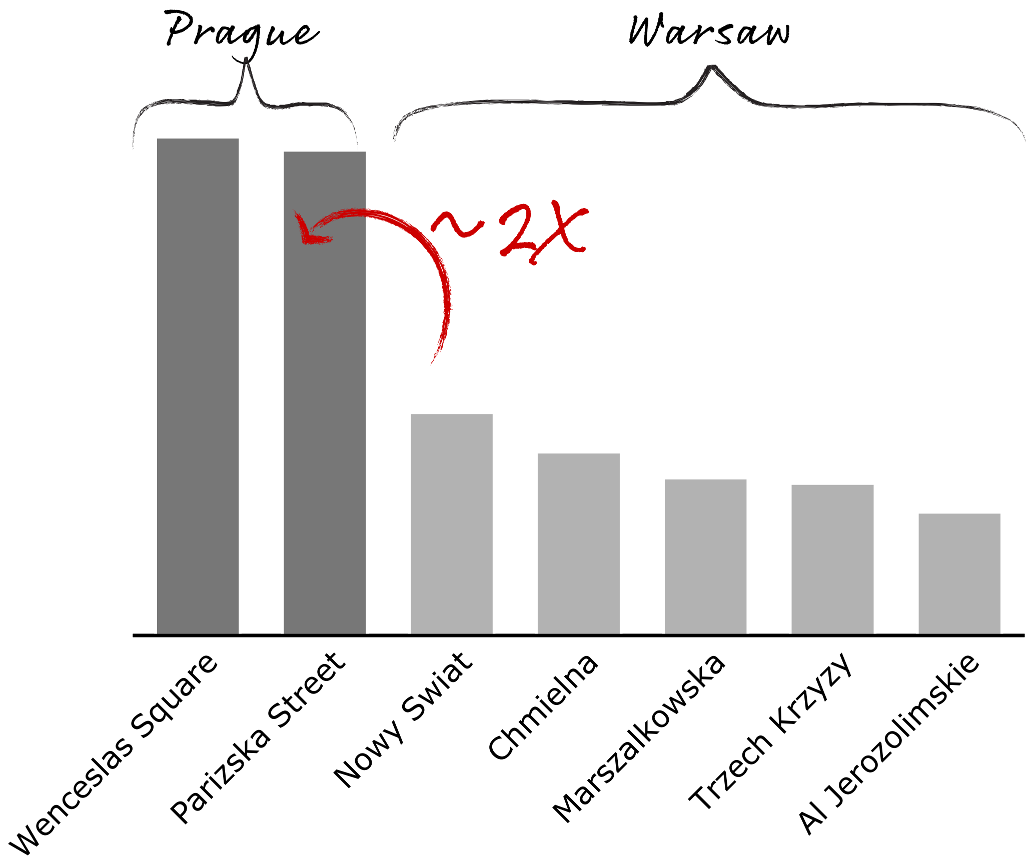
Warsaw still at early stage of "luxury development", whose progress is facilitated by (still) 'cheap' real estate

INDEXED MONOBRAND STORES BY CITY (2016 | #)



- **Prague more penetrated than Warsaw**, yet **slowing down** in terms of new openings **in recent years**
- **Warsaw accelerating in last 2/3 years, starting to catch up vs. Prague,** already broader presence of premium brands

MONOBRAND STORES BY CITY (2016 | #)



- **Warsaw commercial real estate still 'at a bargain' compared to Prague**

…representing only one of the elements driving growing interest from the international luxury brands

"Poland is experiencing a dynamic period since 2014, after few lethargic years"

Executive, Luxury brand

*"**Our franchising store in Poland is performing very well recently** and we are **thinking to expand our presence** in the country **with the same partner**"*

Executive, Luxury brand

*"**Warsaw is the true luxury center of Poland**, main destination of both local and international tourists"*

Executive, Luxury brand

*"**A few years ago there was no space** in Poland **for a brand like ours**, **today interesting locations are emerging**"*

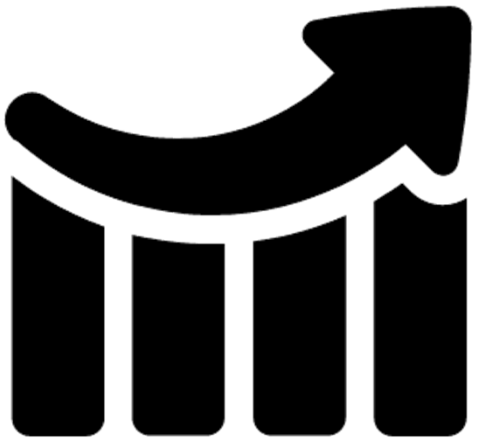
Executive, Luxury brand

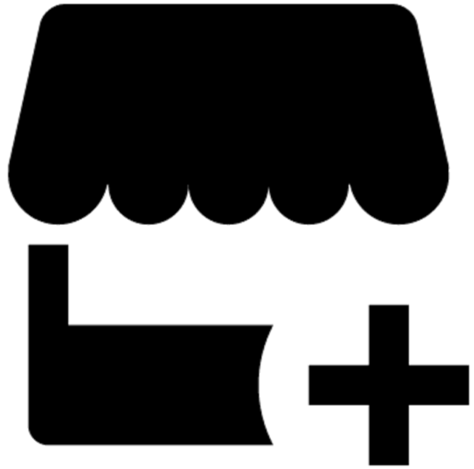
"Polish luxury consumers are ever more sophisticated and fashion conscious"

Executive, Luxury brand

The Polish market is accelerating on sound fundamentals and supportive trends on demand and supply side…

Sound market fundamentals	Growing demand… (consumer trends)	…and supply (distribution trends)





…making Warsaw, luxury brands new destination

BAIN & COMPANY

People, Passion, Results!