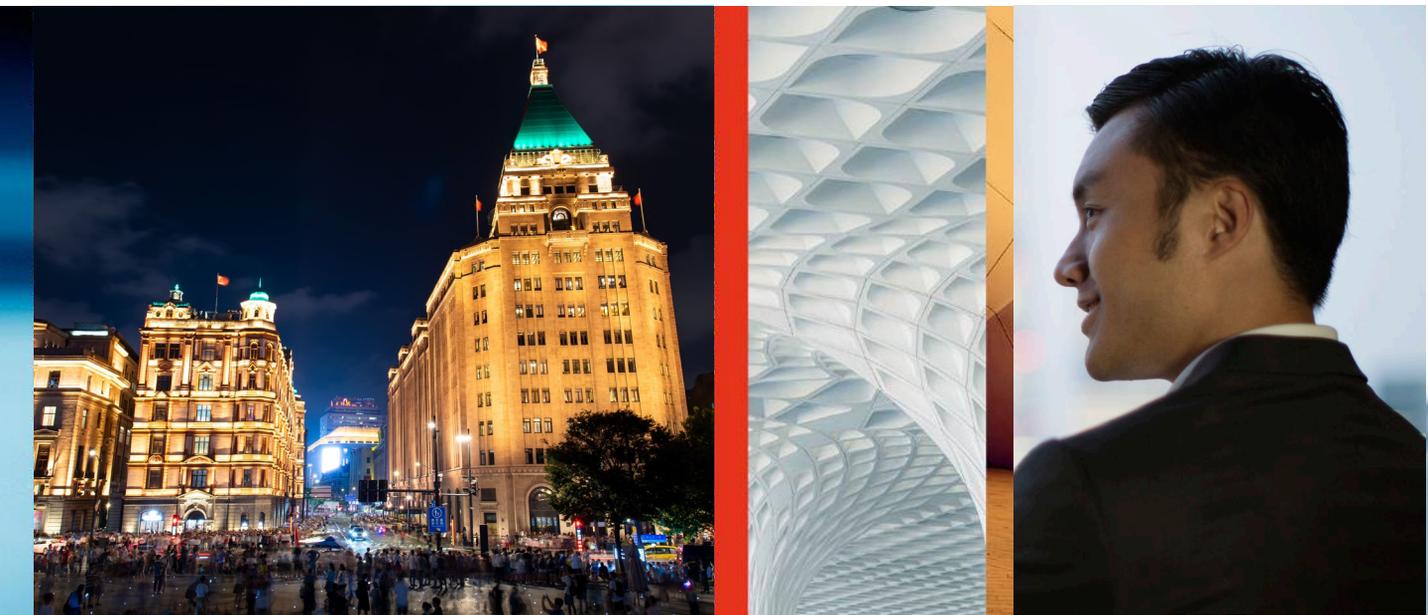


The luxury market in China is roaring again

May 2023



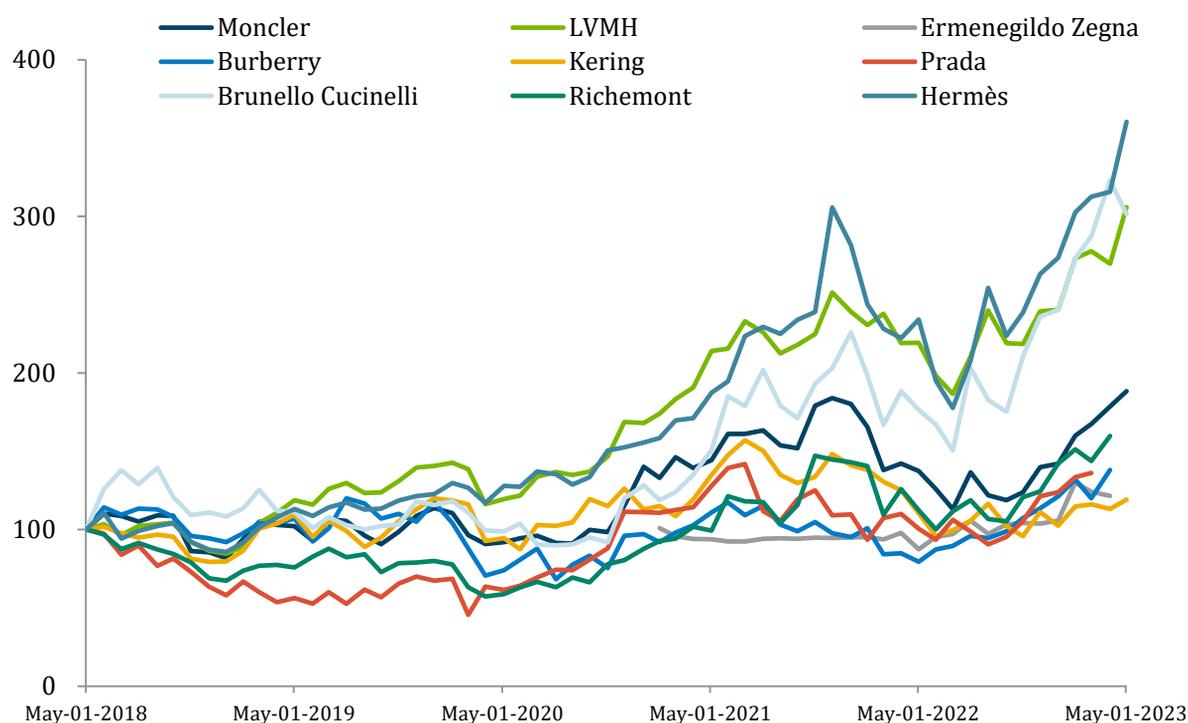
The luxury market in China is roaring again

As we approach the half-way point in 2023, it's clear that the luxury goods market in China and Asia is thriving, fuelled by the opening of borders post-COVID, an increasing number of affluent consumers, and a growing middle class. In recent years, the region has seen significant growth in the luxury goods market, with China alone accounting for over one-third of global luxury sales.

LVMH, Moncler, Ermenegildo Zegna, Kering, Brunello Cucinelli, Burberry, Prada, and Cartier-owner Richemont have all seen their share price rise by double-digit percentages in 2023. LVMH's latest results sent shares of the owner of Christian Dior and Tiffany to a new record. The rally has lifted the French luxury powerhouse into an exclusive club of the world's 10 most valuable companies and made billionaire CEO Bernard Arnault the richest man in the world.

The taste for premium products has been driven by three factors, a rebound in the Chinese economy, the millennial generation, and changing consumer preferences.

Five-year stock price of luxury goods companies



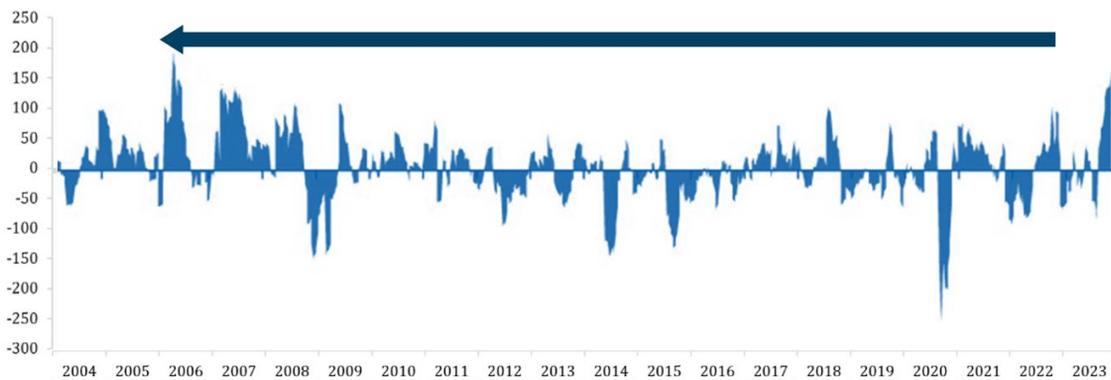
Note: 30-day average of stock price evolution, Ermenegildo Zegna was listed on Dec 2020
Source: Capital IQ, 01/05/2023

Strength in numbers

Chinese economic data continues to beat expectations reflecting a strong comeback for the Asian giant, finally emerging from the world's most restrictive pandemic lockdowns. The strong GDP growth is positive for industries and sectors across the board, but analysts are watching luxury goods, air passenger demand, and container shipping in particular.

China's Q1 GDP grew at a brisk 4.5% YOY, exceeding consensus forecasts. Retail sales in March alone jumped 10.6% YOY, a speed unseen in two years. As a result, the Citi China Economic Surprise Index, which measures data surprises relative to market expectations, hit a 17-year high. Banks raised their 2023 GDP forecast to "at least" 5.7%, with analysts predicting that consumption will remain the main driver of China's recovery this year.

Citi China economic surprise index



Source: Bloomberg, US Global Investors, 01/04/23

Consumer trends

Another driving force behind the growth of the luxury goods market in China and Asia is the rise of millennials as a key consumer group. Younger consumers in the region are increasingly interested in luxury goods. They are buying luxury at an earlier age, starting with high-end streetwear, and they are willing to spend more on products that align with their values, such as sustainability and social responsibility. This trend has led to the emergence of new luxury brands that cater specifically to these consumers, offering products that are both hip and socially conscious.

The digital economy

E-commerce is driving the growth in the luxury goods market in China and Asia. Online sales of luxury goods in the region have skyrocketed in recent years, and luxury brands have invested heavily in digital marketing and ecommerce platforms. This has made luxury goods more accessible to consumers in remote areas, and it has also helped to boost sales among younger consumers who are more comfortable shopping online.

Bright outlook for luxury in Asia

Chinese consumers, at home and abroad, represented one-third of the total global personal luxury goods spend before Covid. And, according to Bain & Co, the Asia-Pacific is expected to account for two-thirds of the global luxury market by 2025.

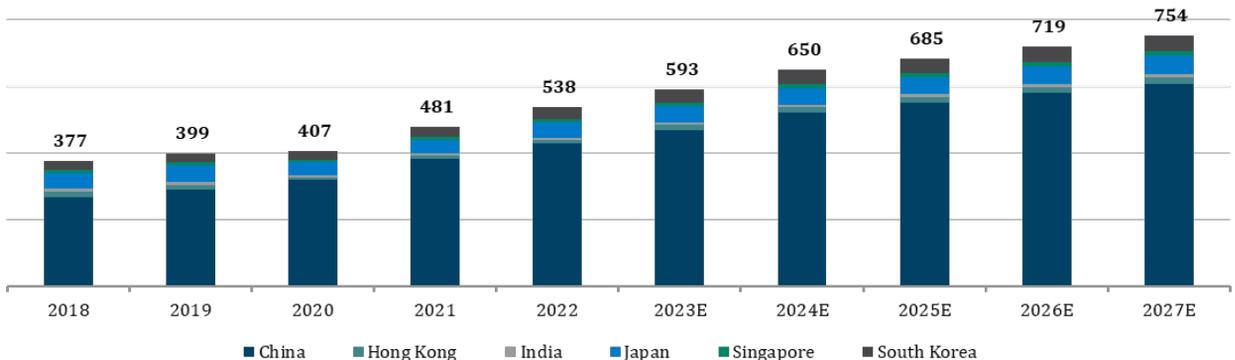
China, in particular, is a major driver of growth in the luxury industry for the region. The country is already the world's largest luxury market, and it is expected to continue to grow at a healthy rate. BDA expects the growth rate of the luxury industry in China to be 8%-9% per annum in the coming five years, based on industry interviews and shopper surveys.

With a population of just 51 million, Korea is now as important as Japan, which has a population of 125 million, for luxury goods makers. Korean nationals account for 10% or more of total retail sales by brands such as Prada, Moncler, Bottega Veneta and Burberry. Studies have shown that financial success tends to be highly valued in Korea, so personal luxury goods can be an important tool to project social status.

Other countries in Asia, such as India and Indonesia, are also expected to see strong growth in the luxury industry. These countries have large populations with growing incomes, and they are becoming increasingly important markets for luxury brands.

Overall, BDA expects the luxury industry across Asia to grow at 7%-9% per annum until 2030.

Luxury goods market size in Asia (US\$bn)



Source: Euromonitor

Which subsectors will thrive?

1. Fashion and Apparel: Asia is home to some of the world's largest fashion markets, including China, Japan, and Korea. Louis Vuitton, Chanel, and Gucci have seen significant growth in sales in the region.

2. Beauty and Personal Care: The demand for luxury beauty products in Asia is growing rapidly, driven by an increasing focus on personal grooming and wellness. Brands such as Estée Lauder, L'Oréal, and Shiseido have reported strong sales growth in the region, with China being the largest market.

3. Watches and Jewellery: Luxury watches and jewellery are highly sought after in Asia, especially in markets such as Hong Kong, Japan, and Singapore. Rolex, Cartier, and Omega have seen strong sales growth in the region.

4. Fine Dining and Hospitality: Asia has become a hub for luxury hospitality and fine dining, with many high-end hotels and restaurants opening in major cities such as Tokyo, Hong Kong, and Singapore. Brands such as Ritz-Carlton, Four Seasons, Mandarin Oriental, and Aman have reported strong demand for their services in the region, driven by the growing number of luxury travelers and the increasing popularity of experiential luxury.

Overall, the luxury market in Asia is expected to continue to grow faster than GDP in the coming years, driven by the region's increasing affluence, growing middle class, and increasing demand for both goods and services.

BDA Consumer & Retail transactions

Investment in the consumer and retail markets continues to escalate as retail customers show a growing interest in a broader variety of products and services.

Asian consumers are spending more on retail, beauty, food, lifestyle, and luxury items than ever before. This increase in demand opens the door to opportunities for foreign investors and companies to reach an eager and widespread Asian market.

We are proud to have advised our clients on successful transactions in the beauty & personal care, lifestyle & entertainment, mother & baby care, apparel & accessories, and food and beverage industries.

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BDA Partners has strategic partnerships with William Blair, a premier global investment banking business, and with DBJ (Development Bank of Japan), a Japanese Government-owned bank with US\$150bn of assets. bdapartners.com

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