AREA STUDI MEDIOBANCA

THE FASHION INDUSTRY: SLOWDOWN AND CONSOLIDATION EXPECTED IN 2024 AFTER RECORD 2022 AND MODERATE GROWTH IN 2023 SECTOR PERFORMANCE DRIVEN BY TOP-END AND MADE IN ITALY SEGMENTS ITALIAN FOOTWEAR INDUSTRY LEADS THE WORLD

Global level: European groups more sustainable than those based in North America

In Italy: international firms in charge of luxury production

Focus on footwear segment: Italy top manufacturer in EU and world leader in top-end segment

Milan, 1 February 2024

The **Mediobanca Research Area** has today presented its new report on the **fashion industry,** which analyses the financial and sustainability data of the **80 largest fashion industry multinationals** with annual revenues of over €1bn (37 of which based in Europe, 29 in North America, 12 in Asia, and two in Africa) and the **175 largest fashion industry operators in Italy** with individual turnover of over €100m. The report also contains a **focus on the footwear sector** which analyses the **162** Italian manufacturers with annual revenues of over €15m, looking indepth at the sector trends at world level.

The full survey is available for download from www.areastudimediobanca.com.

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Fashion industry multinationals

Softer growth in 2023 and 2024

The 9M 2023 figures posted by the world's largest fashion industry players show an 8% increase in their aggregate revenues, with the Asian and European markets aligned (revenues up 9% and 8% respectively) but North America struggling as the only geography to report declining sales, after outperforming in 2022. The first estimates for **FY 2023** point to another year of growth (**up 7% on 2022**), albeit at a slower rate than the previous year, with **the luxury groups reporting a more pronounced increase of 9%.**
The macroeconomic scenario, the sector's solid fundamentals, coupled with growth stabilizing after the outstanding post-Covid results, all point to **future sector consolidation,** with further investments in the supply chain by the multinationals and stronger governance of the entire *filière*. **For 2024 growth is expected to slow to 4%**, driven in part by the rising prices implemented in recent months and by the acceleration in tourist flows.

2022 a record year for the fashion industry, with all indicators back above pre-crisis levels

In 2022 the **80 leading fashion industry multinationals** posted aggregate turnover of **€566bn** (up 11.7% on 2021, and 21.6% higher than the pre-Covid levels), 58% of which generated by the European players and 33% by the North American groups. The Italian firms reflect the entrepreneurial variety and creativity for which the country is famous, so there are more of them but they are also smaller in size. Of the 37 European operators, **Italy with its big twelve is the most represented country** in numerical terms, but **France**, with 43% of the aggregate turnover, ranks first by total sales, followed by Germany (11%), Spain and the United Kingdom (10% each), with Italy accounting for 7%. **The luxury groups grew faster than the mass market firms,** with revenues up 19.3% (vs 8.3% in 2021), including when measured against pre-Covid levels (growth of 32.7%, vs 13.8%).

The top-ranking company by total revenues is again **LVMH** (€79.2bn). Some way behind LVMH were **Nike** (€48.0bn), **Inditex** of Spain (€32.6bn) which owns Zara, **EssilorLuxottica** (€24.5bn), German group **Adidas** (€22.5bn), the other French luxury group **Kering** (€20.4bn, €10.5bn of which generated by Gucci, €3.3bn by Yves Saint Laurent, and €1.7bn by Bottega Veneta), Swedish company **H&M** (€20.1bn), Swiss group **Richemont** (€20.0bn), Japanese multinational **Fast Retailing** which owns Uniqlo

(€16.4bn), and **Chanel** (€16.1bn). The leading Italian company is **Prada** (€4.2bn), in 33rd position overall, followed by **Oniverse** (44th), **Moncler** (50th), and **Giorgio Armani** (54th). Overall **turnover is fairly concentrated**: the top ten multinationals account for over half the aggregate revenues, with **LVMH** alone representing 14%.

Profitability too has exceeded pre-crisis levels: the aggregate Ebit margin for 2022 is **15.1%** (vs 13.1% in 2019), representing the balance between two different clusters: on the one hand, the **luxury** industry giants, which posted an Ebit margin of **24.4%**, less profitable only than the pharmaceutical industry operators (25.1%), and on the other, the **mass market** players which reported a margin of **9.7%**. **Hermès** is again the most profitable operator, with an Ebit margin of 41.5%, ahead of **Chanel** (34.1%) and **LVMH** (31.5%, net of the Selective Retailing division), followed by **Moncler** (29.8%), the top-ranking Italian company, and **Kering** (27.5%).

Investments also grew to above their 2019 levels: up 29.4% on 2021, and **up 24.8% vs 2019.** The luxury groups reported strong levels of investment, more than twice the rate of the mass market operators: **the capex to sales ratio for the two segments was 9.4% vs 4.5%**. The Italian companies stand out for their higher average **investment rate** of **13.5%**, more than twice the sector average (6.4%), and higher than the French companies (9.9%). All the top three positions were occupied by Italian firms: **Valentino** (23.6%), **OTB** (20.2%), and **Prada** (17.2%).

Share buybacks too have stepped up and exceeded their pre-Covid levels (up 81.5% on 2019), recording record levels in 2022, with the European groups' rate faster than that of the US groups (135.4% versus 66.6%), even though the latter are responsible for 68.7% of the total purchases.

In 2022 the fashion industry giants distributed **dividends** worth €24.8bn, this too the highest figure recorded in the four-year period, 17.5% higher than in 2021 and 15.4% higher than in 2019.

On the balance-sheet front, the fashion industry multinationals stand out for having a **more solid financial structure** than the other large-scale manufacturing industries, with a borrowings/equity ratio of 67.1% (compared with 71.0%), and the largest European groups better capitalized than the US ones (57.0%, vs 115.7%).

Workforce younger and more flexible in the US and German companies; more women on the Boards of the French groups

At the fashion industry multinationals included in the survey, **36% of the workforce is aged under 30**. The US companies have the highest concentration of younger employees (48%), while the European companies are aligned with the figure at global level: the German and UK multinationals are above average in this respect (43% and 41% respectively), and the Italian firms below average (25%). The US and German groups also make more use of **part-time work** (51% and 41% respectively), whereas the Italian companies post the lowest total of all (9%) apart from the Chinese companies (1%).

With regard to gender representation, **female employment levels decline as the level of company responsibility increases**: on average women account for 66% of the total workforce, decreasing to 45% for management roles and to 33% at Board level. The US groups have more women directors (40%) than the European groups do (34%). **The French groups are comfortably above the European average** in this respect, with almost half their directors female; while the corresponding figures for the German and Italian groups are 29% and 31% respectively. The French giants also report the highest percentage of women in management positions (56%), followed by the Italian companies (49%) and the Us-based groups (47%). Overall Japanese women are the least represented at Board level, with just one in ten directors and 22% of management positions occupied by women. **Chinese companies are most likely to employ women**: 76% of their aggregate headcount is female.

Trends in employment and production chain

The majority of the fashion industry multinationals' workforce is employed in the **sales network and logistics (57%)**, and to a lesser degree, in the administrative offices (24%) and production facilities (19%). At the so-called "no-factory" groups, whose main activity consists of creating, designing and selling the products, the production processes have been entirely outsourced; whereas they play a more substantial role in the groups that adopt an inhouse production strategy, where one staff member out of three is involved in production.

With reference to the **supply chain**, 62% of the leading global fashion industry players' suppliers are located in Asia, 29% in Europe, and 7% in the Americas, with highs of over 90% in Asia for sports footwear. The use of Asian suppliers is more pronounced for the North American groups than it is for the European multinationals (73%, vs 43%), with more than half the latter's suppliers based in Europe (53%), in pursuit of a strategy based on geographical proximity and higher quality. For the multinationals which operate at the **top end of the market, production is perceptibly more concentrated in Europe**: 77% of these groups' suppliers are European, compared to 13% for the players at the cheaper end of the spectrum. Only 19% of the top-end operators are Asian, a figure which rises to 76% for the players serving the mass market. One clear sign of the **excellence of Made in Italy products** is the fact that 29% of the European groups' suppliers are based in Italy, rising to two-thirds for the luxury players. **Italy** is therefore **the world's leading producer of top-end fashion**.

In 2022, nearly 2,250,000 people worked directly for the world's 80 largest fashion groups, more than 48,000 more than in 2019 (up 2.2%), with the European groups stepping up their employment levels (up 8.5% on 2019) while their North American counterparts have been trimming their headcounts (down 7.4%). On average 53% of the European multinationals' employees work in Europe itself, 23% in Asia, 15% in North America, 6% in Latin America, and 3% in Africa.

Environmental sustainability: European groups lead the way in terms of commitment to green issues

The systemic data obtained from the companies' sustainability reporting shows the increasing attention being focused on **ESG** issues by the world's largest fashion groups, which are addressing the need to create a more sustainable future and to safeguard the environment in particular more effectively. Average **CO2 emissions** have decreased (from 1,239 tons of CO2 per €1m of revenues in 2021, to 1,055 per €1m in 2022, a reduction of 15%), with the European firms outperforming their North American counterparts (emissions down 30% and 11% respectively). Waste produced has also decreased (from 2.8 tons per €1m reported in 2021, to 2.5 tons in 2022; down 11%), with the European groups more virtuous in this respect also than the North American companies, with a reduction of 19% (compared to an increase of 2%). The share of **waste recycled** has increased (from 70.1% in 2021 to 73.9% in 2022), and stands at 72.8% for the European groups (up 3.5 p.p. on 2021) and at 84.9% for the North American companies (up 0.2 p.p. on 2021). The **use of renewable resources** also increased, from 55.6% in 2021 to 60.6% in 2022, with the European giants once again ahead of their North American counterparts with a rate of 70.5% (vs 50.0%) in 2022. **Water consumption** decreased, from 316 m^3 of water consumed per €1m in 2021 to 258 m^3 in 2022: in this case it was the US groups that were more virtuous, reporting a decrease in water consumption of 19%, whereas that of the European companies was down 16%.

The leading Italian fashion industry companies

Preclosing data for 2023 and expectations for 2024

After an outstanding two years, the preclosing data for **2023** point to **growth in the aggregate turnover posted by the leading Italian fashion industry companies of 6% vs 2022** coupled with **higher dispersion** than in the past, confirming the **strongly uncertain** scenario. Total revenues have been driven by exports (up 7%): the Asian market has been the most dynamic, although the European market has also been buoyant, due to the contribution from visiting tourists, while the North American market has been struggling. **Investments** should increase by around 17%.

Moderate growth in sales of 3% is expected for 2024, which should take the aggregate turnover posted by the largest Italian fashion industry operators to nearly **€94bn**, against a backdrop of declining interest rates and inflationary pressures which, combined with the financial solidity and the high quality of the products and services offered, will be a success factor in 2024 for supporting growth both through organic investments (one-third of the companies expects to increase these) and M&A activity.

Overview of the leading Italian fashion industry companies: ownership structure and digitalization

The value added by the 175 leading fashion companies based in Italy represented 1.5% of the country's GDP in 2022. Of the various manufacturing segments, **clothing** accounts for 40.6% of the aggregate 2021 revenues, followed by **leather, hides and footwear** (30.4%). **Top-end products** account for 67.0% of the total sales in the clothing, leatherwear and textile segments. **Non-Italian groups** retain an important footprint **in the Italian fashion industry**: 62 of the 175 companies have non-Italian ownership, which controls **41.6%** of the aggregate turnover (**23% of which French**), confirming the popularity of "Made in Italy" products beyond the nation's own borders. **Non-Italian investors evidently prefer the top end of the range**: 76.2% of the aggregate sales by the non-Italian-owned companies are generated by the luxury bracket (60% of which French).

One of the most representative features of the fashion industry manufacturing companies is their **international dimension**: 65% of the total revenues are generated from exports, with eyewear leading the way (76.8%), followed by leatherwear (75.2%). The top-end producers post higher export levels than those positioned in the cheaper bracket (75.1%, vs 42.1%), reflecting their enhanced capability in terms of coverage of international markets.

The fashion industry companies have a predominantly Italian production base: 76% of the manufacturing facilities are located in Italy, and the other 24% elsewhere: 14% in Europe, 4% Asia, 4% Africa, and 2% the Americas. The eyewear, jewellery and textiles operators are the ones that are most geared towards a relocation strategy. **The top-end companies again show a higher concentration of production in Italy**: 89% of their production base is within national confines, with just 11% elsewhere (two-thirds of which in Europe). Overall a gradual reshaping of the globalization of the Italian fashion industry manufacturing fabric is becoming evident, in accordance with the trends in near-shoring and especially friend-shoring.

By applying the proprietary rating system developed by Mediobanca Research in collaboration with Google to measure companies' **degree of digital maturity**, the fashion industry SMEs show higher digitalization levels than the average for Italian manufacturing industry generally: **30% (vs 39%)** of the companies analysed in the survey were classified as **nascents**, i.e. still at the early stages of the digitalization process, and **65% (vs 56%)** of them as **experimenters**, with a clear digital vision but which could still exploit the opportunities offered by technology more effectively. Only **5%** of the companies included in the survey were **innovators**, with a solid infrastructure, innovative organizational processes, and a digitally qualified workforce.

2022: all indicators back to above their pre-Covid levels, high quality continues to repay

In 2022 the 175 companies included in the survey posted **total sales of €85.9bn**, **19.1% higher than in 2021**, and 20.4% above their pre-pandemic levels, employing a headcount of almost **296,000 employees** (7.0% higher than in 2021, and 3.3% higher than in 2019). In 2022 the return of inflation affected the fashion industry as well, albeit less drastically than the rest of the Italian manufacturing industry. The growth in total sales was still positive and indeed double-digit, **even accounting for the inflation: total sales were up 12.9% on 2021**, with exports up 13.3% and domestic sales up 12.2%.

The top-end producers recovered more strongly than the mass market operators, posting sales that were 20.3% higher than their 2019 levels, while for the latter the increase was limited to 11.0%. The **Medium-Sized Enterprises bounced back more quickly**, with total sales up 32.9% vs 2019, confirming that this size category is more dynamic and flexible, and that MSEs are the pride and joy of the Italian industrial system.

Profitability reflected an **increasing trend**: the Ebit margin decreased from 11.8% in 2019 to 10.4% in 2021 before increasing to **12.2% in 2022**, following the dramatic impact in 2020, when profitability got no higher than 4.3%. Hence in addition to reporting significant growth in sales in real terms in 2022, the fashion industry also showed strong capability in managing the effects of inflation, absorbing its impact, and still managing to post a material increase in profitability. The leather, hides and footwear segment posted the best results in terms of margins, with 18.3% in 2022, followed by eyewear, which also recorded above average and double-digit growth (16.5%). **High-quality products continue to be profitable**, posting an Ebit margin for 2022 of 16.4%, almost 3x the figure for mass market productions (6.1%). **Bulgari** (43.4%) and **Fendi** (36.0%) were the top-ranking firms by profitability, ahead of **Gingi** (34.6%, whose main brand is Elisabetta Franchi).

Investments also recovered strongly, up 17.8% vs 2021, and are now **26.5% above pre-crisis levels** (over €1bn higher than in 2019). Of the manufacturing companies, the jewellery segment posted the highest increase in investments (up 66.1%).

On the balance-sheet side, the fashion industry companies have strengthened their **financial structure**, with borrowings representing 52.0% of their equity in 2022 (versus 62.1% in 2019), with the top-end operators reporting lower levels of leverage than their mass market counterparts at 49.9% (63.7%), and the eyewear segment the most capitalized. **Cash and liquid assets** at the aggregate level represented 40.0% of borrowings in 2019 and 49.0% in 2021.

The fashion industry and the stock market

Much of the Italian fashion industry seems to eschew the stock market: only 18.4% of the aggregate turnover (€15.8bn) is produced by the **twelve listed companies included in the panel.** The listed companies posted an average turnover of €1.3bn, almost double that of the unlisted companies (€0.7bn), superior profitability (Ebit margin 14.6%, vs 10.4%), and international dimension (75.0% exports, vs 62.0%). **At year-end 2023**, the aggregate **market capitalization** of the listed fashion industry companies was **€42.1bn** (up 5.3% on 2022), equal to **3.8% of the Euronext Milan stock market's value** (2.9% in 2019), excluding Ermenegildo Zegna and Prada, both of which are listed outside Italy. As 31 December 2023 the top-three ranking companies by market cap were **Moncler** (€15.3bn), **Prada** (€13.2bn) and **Brunello Cucinelli** (€6.0bn), with **Ermenegildo Zegna** in fourth position with (€2.6bn), followed by **Salvatore Ferragamo** (€2.1bn).

Focus on the footwear sector

Preclosing data for 2023 and expectations for 2024

After two years of double-digit increases, the preclosing data for **2023** point to moderate **growth in turnover of 2% vs 2022,** driven primarily by the domestic market, with exports declining (down 2%), mostly due to the slowdown in demand from the United States; sales in China are better but are primarily linked to the luxury multinationals' performances, in a market that is not easy for companies to enter with proprietary brands. The slight increase in sales for 2023 seems to be attributable to the way two different segments with profoundly different market visions coexist within the same industry, providing confirmation that the challenge to improve quality is the only market niche in which Italian companies will be able to achieve satisfactory results over the long term: the **top-end footwear segment is expected to see sales increase by 6%**, whereas for the mass market operators a 6% reduction is expected.

For 2024 an adjustment is on the cards, estimated as an approx. 1% reduction in turnover, on investments virtually aligned with those of the previous year.

The Italian footwear industry: situation and performance

In 2022 the 162 Italian footwear manufacturers (which account for 83% of the country's total revenues based on Istat data) generated an **aggregate turnover of €12bn**, some 16.8% higher than their pre-crisis totals, and employed **more than 54,000 staff** (1.9% more than in 2021 and 3.7% more than in

2019). Growth in **nominal sales of 20.3% vs 2021** corresponds to **real growth of 13.4%,** which is lower but still double-digit. Factoring in the respective changes in production prices, exports almost doubled the performance of domestic sales: the former were up 16.9% on 2021 while the latter were up 9.9%. As for the different areas of specialization, firms operating in components, sports footwear and women's footwear segments all posted higher than average increases compared to their pre-Covid levels, up 39.7%, 34.2%, and 17.2% respectively. Outsourcers saw their turnover increase by more than own brand manufacturers, up 21.8% vs 2019 (compared with 13.8%), driven by the outstanding performances recorded by the large international groups that provide their own products. **Medium-Size Enterprises** grew faster than the other sizes, with total sales up 47.0% on 2019, compared with the 6.9% growth posted by the medium-large companies, and the 11.1% reduction seen by the small firms, confirming once again that MSEs are the most dynamic and flexible size category. The firm that ranked first in 2022 for total revenues was **Salvatore Ferragamo** (€1.2bn), ahead of **Tod's** (€1.0bn) and **Lir-Geox** (€0.9bn). These were followed by **Tecnica Group** (€561m) and **Golden Goose** (€501m), with the latter soon to be listed on the stock market.

Profitability reflected an **upward trend**: the Ebit margin decreased from 7.1% in 2019 to 8.0% in 2021 before increasing to **8.7% in 2022**, following the dramatic impact in 2020, when profitability got no higher than 1.4%. In terms of size, the MSEs once again performed best (8.8%), outperforming both the large companies (8.7%) and especially the small firms (5.4%) which struggled most, with margins still below their pre-Covid levels. The top-three ranking companies by profitability were **Tailor Made International** (29.7%), a top-end men's footwear outsourcer, **Autry International** (27.9%) and **Fin Reporter** (24.6%, whose main operating company is U-Power, which makes safety footwear).

The footwear industry is **strongly district-based** in nature: 129 of the companies are based in industrial districts, representing 80.8% of the aggregate total sales, with a significant presence in the provinces of Treviso, Florence and Fermo.

Generally speaking the Italian-owned firms dominate, generating 83.6% of the aggregate total sales, whereas the **non-Italian-owned** companies are responsible for just 16.4% of the total (7.4% of which French, in particular LVMH, Kering and Hermès), and make up just 22 of the 162 firms. Non-Italian ownership is of absolute importance in the **top-end segment**, confirming the appeal of Made in Italy footwear to international investors, French in particular, because of their high quality: 88.6% of the revenues generated by non-Italian-owned companies is attributable to firms operating at the top end of the market.

One of the most representative features of the footwear companies is their **international dimension**: 64.6% of the total revenues are generated from exports, with sports footwear leading the way (82.7%). The main end markets for Italian companies are Europe, which accounts for almost half of the cross-border revenues (45%), followed by Asia, driven by China (with 30%) and the Americas, driven by the United States (25%).

The companies have a predominantly Italian **production base**: 73% of the production base is located in Italy, and the other 27% elsewhere: 22% in other European countries (mostly in Eastern Europe), 2.5% Africa, 1.8% Asia and 0.75% in the Americas. For the top-end companies, the concentration of Italian production is even higher: 89% of their production base is located in Italy.

Italy's leading role in the global scenario

The aggregate turnover posted by the global footwear industry has been quantified at $318bn based on retail prices in 2022, and the expectation is that this will exceed $330bn in 2022, with annual average growth in the region of 4% over the longer term, to reach a total value of approx. $375bn in 2026. In 2022 the average price of a pair of shoes at world level was approx. $13, with **3 pairs of shoes purchased per person each year,** ranging from one pair per person in Africa to five in Europe and six in North America.

Global production of footwear reached 23.9 billion pairs in 2022 (up 7.6% on 2021), closed to the record of 24.3 billion produced in 2019. Asia was the largest producer: it accounts for almost nine out of every ten pairs of shoes produced in the world (87.4% of the total). A long way behind come Latin

America with 4.8%, Africa with 3.7%, Europe with 2.7%, and North America with the other 1.4%. China ranks first: it accounts for more than half of global production (54.6%), ahead of three other Asian countries: India (10.9%), Vietnam (6.3%), and Indonesia (4.3%). **Italy has a leading position: it is the twelfth largest manufacturer in the world and the largest in the European Union**, being responsible for one-third of the footwear produced in the EU (32.6%, or 162 million pairs of shoes), ahead of Portugal (16.9%) and Spain (16.7%).

Italy also has an important role in the map of global exporters; **it is the third exporter worldwide in value terms**, with 7.6% of the total exports, preceded by China (32.9%) and Vietnam (17.1%), and the eighth exporter in volume terms. Italy is also one of the leading manufacturers of top-end footwear: the average price of Italian exports ($61.66 per pair of shoes) is by far the highest in the world, ahead of French shoes ($39.37 per pair) and more than ten times higher than that of Chinese shoes ($6.19 per pair).

Italy had a **positive trade balance** of $5.7bn in 2022, the highest of any European country and behind only the three leading Asian countries (China, Vietnam and Indonesia). This derives from a peculiar feature of the Italian footwear industry, whereby the **top end of the market** benefits from the large gap between average export and import prices: finishing work on finished or semi-finished products plus the export of top quality products means that in practice **in Italy average export prices are 3.1x higher than average import prices**, a multiple far in excess of France (2.1x) and which has no equal in Europe (in China the difference is 0.2x). **Italy** is also unusual in that its domestic production is not sufficient to meet its own demand, resulting in major flows of imports which, however, at the same time happily coexist with its significant activity as an exporter, at values that are markedly higher than those of the other manufacturers: the very top end of Italian footwear production serves to meet the strong demand from other countries, whereas the gap in domestic demand is addressed by importing goods with much lower unit prices.

The data compiled by the Confindustria Fashion research centre for Assocalzaturifici confirms once again that now the post-Covid rebound has ended, the slowdown which began in the spring months of 2023 and became more marked in the second half-year due to the uncertain geopolitical scenario and the weak economy in several major global regions will affect the full year figures.

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