



FOOTWEAR SECTOR RETURNS TO GROWTH IN 2021 PARTICULARLY IMPRESSIVE PERFORMANCE DELIVERED BY TOP-END MADE IN ITALY SEGMENT

*Total revenues in global footwear sector set to exceed €320bn in 2022
Global production strongly concentrated in Asia, with Italy top in the European Union
Italy the world's third largest exporter by value and leader in the top-end segment
Italian companies: total sales soared by 21% in 2021, not enough to return to pre-crisis levels
Production base for top-end footwear: 84% Made in Italy
Non-Italian ownership concentrated in luxury products
Segment strongly geared towards exports*

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The **Mediobanca Research Area** has unveiled its first report on the **footwear sector**, to coincide with Micam (the international footwear salon promoted by Assocalzaturifici, to be held between 13 and 15 March 2022). The report analyses the financial data of 170 Italian footwear manufacturers, and provides comment on the global industry production map and performance. The survey also includes a contribution from the Confindustria Fashion research centre on Italian produce and balance of trade. The full report is available for download from www.areastudimediobanca.com.

Italian footwear industry performance

In **2021** the **aggregate turnover reported by Italian footwear manufacturers** (170 companies with total sales of over €10m) showed a V-shaped recovery to reach €9.5bn, **up 21%** on 2020 but still below the result posted in 2019 (down 6%). The scenario of a return to pre-crisis levels, expected in **2022**, has been jeopardized by the current Russia-Ukraine conflict, with implications for prices of energy and raw materials, as well obviously as trade flows to both countries involved. Exports to Russia represent only a minor percentage of the footwear sector's total revenues (2.7%), but the sanctions being imposed could curb Russian consumers' spending, in particular for High Net Worth Individuals who are primarily interested in luxury footwear.

In 2021 it was the top-end operators that bounced back best, with total sales up 32%, as opposed to those operating at the value end (which reported growth of 13%), coming close to their pre-crisis levels (down just 2% on 2019). Progress was also made in 2021 in the area of **investments**, expected to be 15% higher than in 2020: here again the growth by the top-end players (of 26%) is more pronounced than those operating at the mass market end (up 10%).

In 2020 the 170 Italian footwear manufacturers (which account for 73% of the national total revenues based on Istat data) generated an aggregate turnover of €7.8bn (down 22.4% on 2019 and down 20.9% on 2018), employing more than 46,000 staff (down 1.5% on 2019 and down 0.5% on 2018). The following segments at least outperformed the sector average: safety shoes for work (down 9.1%), sports shoes (down 11.2%), children's footwear (down 12.3%), slippers (down 13.8%), and components (down 15.3%). The medium-sized enterprises were more resilient, posting a reduction in total sales (down 18.7%) which was smaller than that reported by the small firms (down 20.9%) and the medium-large companies (down 25.7%), confirming that this size class performs better and is more flexible. The impact of the crisis is more evident for the Italian-owned firms than those owned by non-Italian investors (down 23.4%, vs 17.2%).

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The majority of the 170 footwear manufacturers analysed are located in North East Italy (73 firms), followed by Central Italy (54 firms). The footwear industry is **strongly district-based** in nature: 140 of the companies are based in industrial districts, representing 85.9% of the aggregate total sales, with a significant presence in the provinces of Treviso, Florence and Fermo. Multi-product operators are the most represented category, with €4.7bn of turnover (60% of the total), followed by the sports shoes manufacturers (€1.2bn) and the women's shoes manufacturers (€0.8bn). The turnover posted by manufacturers of safety shoes, components and men's footwear is lower (total sales of approx. €0.3bn for each of them), while the companies which produce only slippers or children's footwear post an aggregate turnover of just under €100m. **Top-end products** generated total sales of €4.2bn, more than half the overall total. Own brand manufacturers account for almost €6bn of the revenues (76.4% of the total), whereas sub-contractors are responsible for just €1.5bn and are smaller in size (these are typically companies which supply the large international brands, mostly in the luxury segment).

Generally speaking the Italian-owned firms dominate, generating 82.3% of the aggregate total sales, whereas the **non-Italian-owned companies** are responsible for just 17.7% of the total (10% of which French, in particular LVMH, Kering, Chanel and Hermès), and make up just 25 of the 170 firms. Non-Italian ownership is of absolute importance in the top-end segment, confirming the appeal of Made in Italy products to international investors, French in particular, because of their outstanding quality: 84.6% of the revenue generated by non-Italian-owned companies is attributable to firms operating at the top end of the market.

One of the most representative characteristics of the companies' operating in the footwear sector is their **international dimension**: 66.7% of the total sales come from exports, with sports shoes leading the way (82.1%) followed by men's footwear (72.4%). The leading end markets for Italian companies are Europe, which accounts for more than half of the cross-border revenues (52%), followed by Asia (driven by China, with 35%) and the Americas (driven by the United States; 13%).

The **production base** of the companies analysed is predominantly Italian: 73% of the manufacturing facilities are located in Italy, while the other 27% are located elsewhere: 20% in other European countries (mostly in Eastern Europe), 4% Africa, 2% Asia and 1% in the Americas.¹ For the top-end companies, the concentration of Italian production is even higher: 84% of their production base is located in Italy, and only 16% elsewhere (11% in other European companies and 5% in Africa).

Italy's role in the global scenario

The aggregate **turnover** posted by the global footwear industry has been quantified at €298bn based on retail prices in 2020, and the expectation is that this will exceed €320bn in 2022 (up 7.5% on 2020), with average growth in the region of 4% per annum over the longer term, to reach a total value of approx. €375bn in 2026. The top-end segment accounts for approx. 10% of the global market. In 2020 the average price of a pair of shoes at world level was approx. \$15, with 2.6 pairs of shoes purchased each year per capita, giving individual spending of around \$40. In Italy the average price of a pair of shoes has been estimated at €42.6, with four pairs of shoes purchased each year per capita, giving individual spending of around €170.

Global **production** of footwear was down 15.8% in 2020, with a total of 20.5 billion pairs of shoes produced. Asia was the largest producer: it accounts for almost nine out of every ten pairs of shoes produced in the world (87.6% of the total). A long way behind Asia come Latin

¹ In particular, given the current geopolitical situation, it should be noted that there are two production sites located in Ukraine (2.7% of the total non-Italian production facilities), and six commercial companies located in Russia (2.1% of the total non-Italian service companies).

America with 4.6%, Europe with 3.2%, Africa with 3.1%, and North America with the other 1.5%. China ranks first: it accounts for more than half of global production (54.3%), ahead of three other Asian countries: India (10.2%), Vietnam (6.4%), and Indonesia (5.1%). **Italy has a leading position: it is the thirteenth largest manufacturer in the world and the largest in the European Union**, being responsible for almost one-third of the footwear produced in the EU (32.2%, or 131 million pairs of shoes), ahead of Spain (17.7%) and Portugal (16.2%).

Italy also has an important role in the map of global exporters; **Italy is the third exporter worldwide in value terms**, with 8% of the total exports, preceded by China (28.2%) and Vietnam (17.6%), 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 (\$60.43 per pair of shoes) is the highest in the world, ahead of French shoes (\$36.44 per pair) and more than twelve times higher than that of Chinese shoes (\$4.79 per pair).

The **upward trend in shoe prices** shows no signs of slowing in 2021, and looks set to continue for the new future. This is the result of several contributing factors: the increase in the price of raw materials and transport costs, higher labour costs (manufacturing and retail), and inflationary pressures.

Italy is the leading country in the European Union in terms of productivity per employee (€69,300 per capita), followed by Germany (€64,800) and France (€46,900). Such high productivity levels make Italian footwear manufacturing extremely competitive, posting a value added per staff member and related labour costs ratio of 163.1%, ahead of both Germany (158.3%) and France (92%).

Production and balance of trade

According to the data recorded by the Confindustria Fashion research centre, the footwear industry accounts for 2.1% of Italian manufacturing exports in 2020. The market where Italy is best positioned is France, where it represents 22.1% of the imports and continues to consolidate its traditional appeal.

In 2021, Italian footwear production is expected to grow by 13.8% in volume terms, which is 148.7 million pairs of shoes manufactured (18 million more than in 2020, but still 30.4 million below 2019 levels). In value terms the output is estimated at €7.1bn (up 16.8%).

In 2021, Italian exports recorded their second-best result in value terms (€10.3bn), after 2019, including net of inflation.

The trend for the two principal end-markets for Italian footwear exports, i.e. Switzerland and France, is also upward, with the former up 16.2% in value terms on 2020 in the first 11 months of 2021, and the latter up 24.0%, both due to the sub-contracting flows for the luxury multinationals. The trend is also healthy for the United States (up 41.8%) and China (up 37.5%). The trend for Russia, meanwhile, is less impressive: exports up 8.2% in value terms, with a gap of 11% versus 2019 (down 21% in volume terms). **Russia accounts for 2.7% of Italian footwear exports** and is the tenth end-market, while Ukraine accounts for just 0.4% (26th). Future developments in these markets and the entire former Soviet bloc area are of course dependent on the unknown factors related to the current conflict.