HAVING ALREADY EXCEEDED PRE-COVID LEVELS IN 2021, THE WORLD'S LEADING FASHION GROUPS CONTINUE TO GROW: DOUBLE-DIGIT GROWTH IN 2022, EUROPEAN MARKET ACCELERATING
SUSTAINABILITY INCREASINGLY A STRATEGIC ISSUE

Workforce: younger and more flexible in the US multinationals, more women in the Chinese companies

Diversity: more women on the Boards of French groups

Supply chain: North American groups more established in Asia

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The **Mediobanca Research Area** has presented its new report on the **Global Fashion Industry**, which analyses the financial data of the **78 largest fashion industrials** with revenues of over €1bn, 35 of which are based in Europe, 29 in North America, 12 in Asia, and two in Africa. The survey also includes a focus on sustainability.

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

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Double-digit growth in turnover in 2022, European market accelerating

The figures for the first six months of 2022 show that the leading fashion industry players have reported a 15% increase in their total sales. The European market grew fastest (revenues up 24%), together with North America (up 19%, driven by the United States), while Asia was affected by the ongoing Covid-19 restrictions (with growth limited to 3%).

Despite the current macroeconomic scenario, **the expectations for FY 2022 remain positive**: preliminary data released in recent days point to average growth in turnover of **18% (15% at constant exchange rates) for 9M 2022**. The fashion industry multinationals have strong fundamentals, and are raising their prices (which are expected to rise by 6% on average in 2022) in response to the increase in production costs (raw materials, labour and logistics) and exchange rate pressure. Innovation and sustainability are again the main drivers of growth in the sector, and the Asian market remains of primary importance, with a particular focus on the younger generations and on Chinese consumers.

Rebound in 2021: all figures back above pre-crisis levels, with the exception of investments

In 2021, the **78 largest fashion industry multinationals** reported an aggregate turnover of **€497bn** (26.0% higher than in 2020, and 8.5% above pre-pandemic levels), 57% of which generated by the European players and 33% by the North American groups. Of the 35 European operators, **Italy with its big nine is the most represented country in numerical terms**, but **France,** with 40% of the aggregate turnover, ranks first by total sales, followed by Germany (12%) and the United Kingdom (11%), with Italy accounting for just 6%.

The top-ranking company by total revenues is **LVMH** (€64.2bn), followed by **Nike** (€41.2bn), **Inditex** of Spain (€27.7bn), which owns Zara, German group **Adidas** (€21.2bn), **EssilorLuxottica** (€19.8bn), Swedish company **H&M** (€19.4bn), and Swiss group **Richemont** (€19.1bn). The leading Italian company is **Prada** (€3.4bn), in 33rd position overall, followed by Calzedonia Holding (46th), Moncler (52nd), and Giorgio Armani (54th). The highest increase in 2021 revenues relative to pre-Covid levels was reported by UK company **Farfetch** (up 90.5%), followed by **Crocs** of the United States (up 87.9%). **Farfetch**, founded in 2007, is also the newest company featured, followed by **Boohoo** (2006) and **Asos** (2000), also UK-based, and again by **Crocs** (1999).

Profitability too has exceeded pre-crisis levels: the aggregate Ebit margin for 2021 is 15.8%, compared with 9.1% in 2020 and 13.1% in 2019. **Hermès** is again the most profitable operator, with an Ebit margin of 40.1%, ahead of **Chanel** (35.3%) and **LVMH** (31.7%, net of the Selective

Retailing division), followed by **Crocs** (29.6%), **Kering** (28.4%) and **Moncler** (28.3%), which was the highest-ranking Italian group in the list.
Investments also grew but remain below 2019 levels: up 20.6% on 2020, but down 5.9% on 2019. Only the Asian groups report higher investment, with capex up 22.7% on 2019, while the European players were still 6.0% short of their 2019 levels, and the North American firms more than three times as much as the Europeans (down 22.6%).
Conversely, **share buybacks** have stepped up and have exceeded their pre-Covid levels (up 31.6% on 2019), with the European groups' rate increasing twice as fast as the US groups (51.7% versus 26.8%), even though the latter are responsible for 71% of the total purchases.
Dividend distributions remain in line with pre-crisis levels, with the exception of the European groups, whose shareholder remuneration was slightly higher than two years ago (up 3.3%).
On the balance-sheet front, the fashion industry multinationals stand out for their **financial structure** which is **more solid** than the average of other large-scale manufacturing industries, with a net debt/equity ratio of 68.3% (compared with 88.0%), and the largest European groups better capitalized than the US ones (59.7%, vs 106.9%). **Swatch** of Switzerland and Danish group **Bestseller** are the most solid of all, both with net debt/equity ratios of 0.9%.

Workforce younger and more flexible in the US companies, more women on the Boards of the French groups
At the 78 fashion industry multinationals included in the survey, **39% of the workforce** is on average **aged under 30**. The US companies have the highest concentration of younger employees (55%), while the percentage for European companies is 37%, and the Italian firms are below the European average (32%).
The US-based groups also make more use of **part-time** work (50%), more so than the European multinationals (22%). Here again the Italian companies post the lowest total of all (8%), along with the French companies (9%). The European companies are more likely to employ staff on **permanent contracts** (85%) than the US groups are (79%).
Analysis of gender diversity at Board level for the multinationals shows that **female employment levels decline as the level of company responsibility increases**: on average women account for 64% of the total workforce, but this decreases to 44% for management roles and to 33% at Board level. The US groups have more women directors (38%) than the European groups do (33%). The French groups are comfortably above the European average, with half their directors female; while the corresponding figures for the German and Italian groups are 29% and 28% respectively. Overall Japanese women are the least represented at Board level, with just one in ten directors female. **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 (64%)**, and to a lesser degree, in the administrative offices (19%) and production facilities (17%). 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 manufacturers, where one staff member out of three is involved in production.
The 78 fashion industry multinationals employed almost **2.2 million people in 2021**, down 1.4% on 2019 (up 3.4% for the European groups, and down 8.1% for the US companies). By contrast, there was an increase in the number of staff employed in the companies' home countries (up 52%), rising to 38% of the aggregate headcount in 2021 (compared with 31% in 2019), confirming the recent trend in **vertical integration,** to strengthen control of the local production chain, an issue that has increased in importance given the current macroeconomic scenario.
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 the fast fashion segment and for sports footwear. The use of Asian suppliers is more pronounced for the North American groups than it is for the European multinationals (76%, vs 44%), with more

than half the latter's suppliers based in Europe (52%), in pursuit of a strategy based on geographical proximity and higher quality. One clear sign of the **excellence of Made in Italy products** is the fact that over one-quarter of the European fashion groups' suppliers are based in Italy itself, with highs of over 80% for the top end of the market.
As for the **distribution network**, in 2021 the number of POS at world level increased slightly, up 0.7% on 2020), driven by the Asian region (up 4.2%), with decreases in the number of POS in Europe (down 1.9%) and North America (down 1.6%).

Environmental sustainability: European groups lead the way in terms of commitment to green issues
Analysis of the companies' sustainability disclosures reveal increasing attention being focused on **ESG** (Environment, Social and Governance) issues. The fashion industry multinationals are strongly committed to a sustainable future and to safeguarding the environment. **Average CO^2 emissions have decreased** (from 1,654 tons of CO^2 per €1m of revenues in 2020, to 1,194 per €1m in 2021, a reduction of 28%) as has **waste produced** (from 2.9 tons per €1m reported in 2020, to 2.4 tons in 2021; down 17%), while the **use of renewable resources has increased** (from 51.3% in 2020 to 59.3% in 2021), as has the share of **waste recycled** (from 67.1% in 2020 to 70.4% in 2021). Conversely, the only critical issue is the increase in **water consumption** (which rose from 328 m^3 of water consumed per €1m in 2020 to 346 m^3 in 2021; an increase of 5%), largely due to the US groups (whose consumption increased by 12%), while the European companies' water consumption decreased by 11%. Overall, then, the European fashion multinationals appear to be more sustainable than the US-based ones.

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