BAIN–ALTAGAMMA
HIGH-END DESIGN MARKET MONITOR

Unlocking the potential of High-End Design Furnishing

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JUNE 9th, 2022

BAIN & COMPANY

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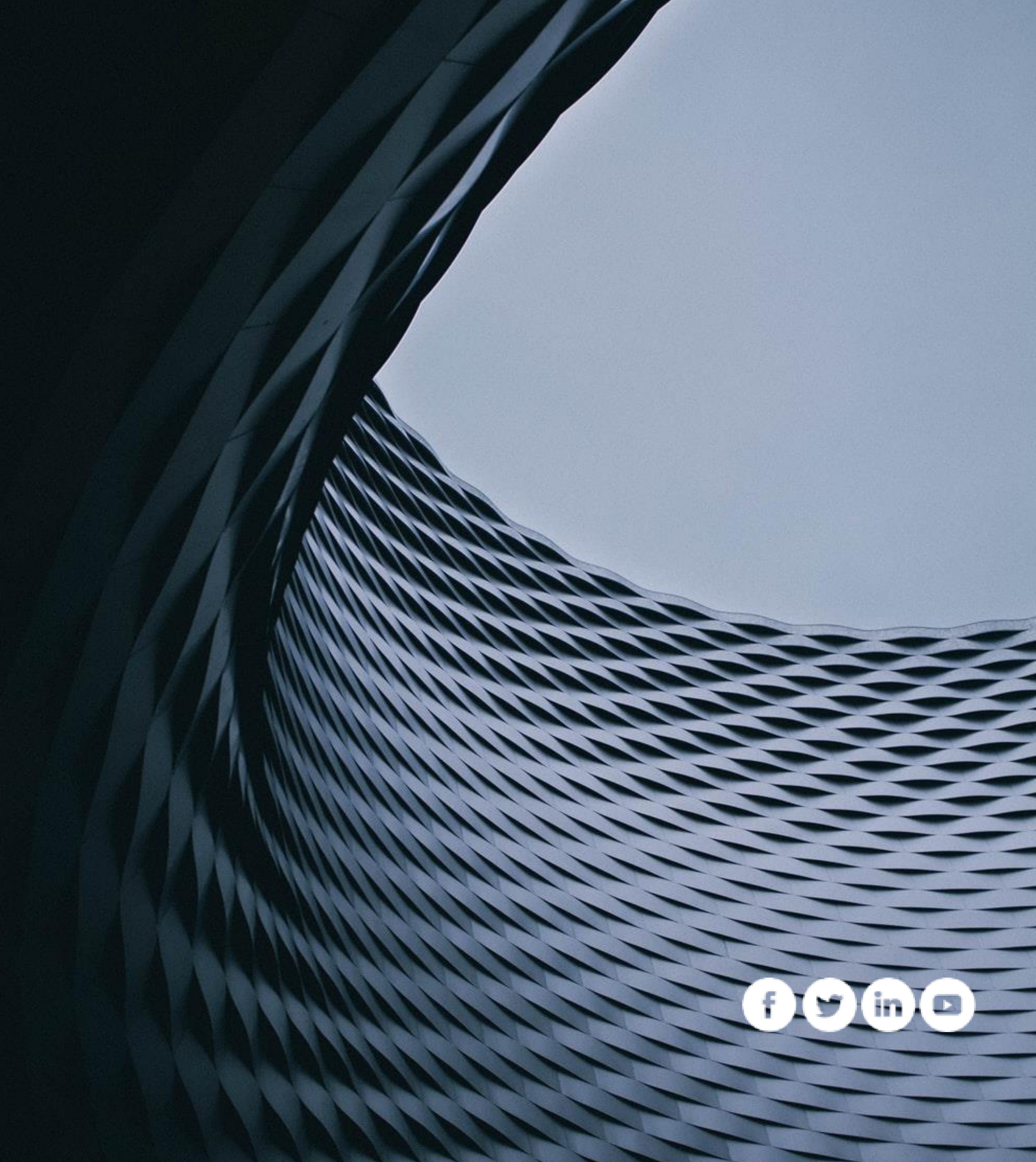
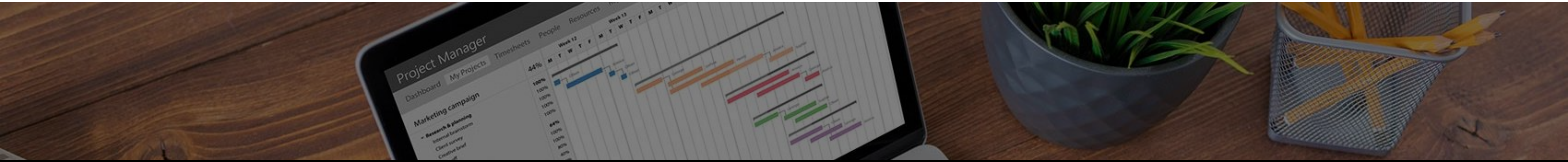


Foreword on methodology, content, and sources



Methodology of this document

Market sizing based on bottom-up quantification

- High-Quality Design **market sizing** is based on **bottom-up quantification** of **500+ players** analyzed by
  - **Channel**
  - **Geography** (from ~30 countries)
  - **Product categories**

Projections based on macro data and mega-trends

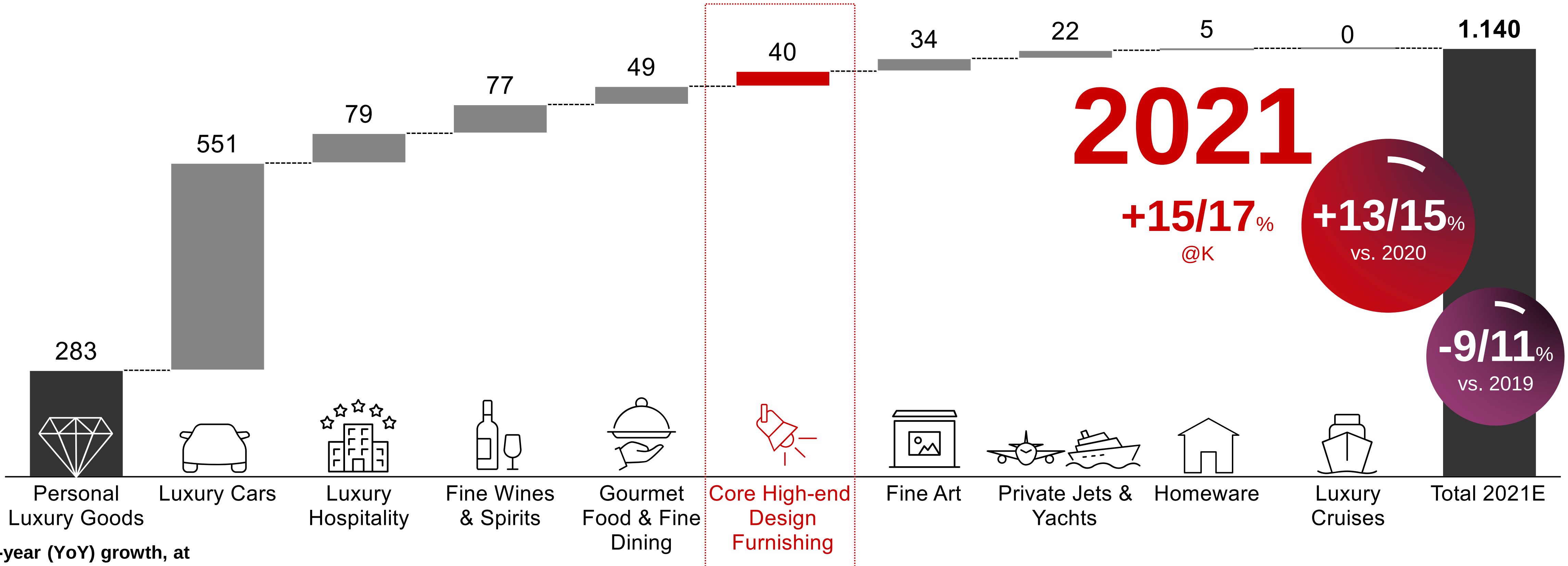
- Projections based on analysis of **quantitative** (regression of key market drivers) and **qualitative elements** (industry participant interviews and market trends)

Sources of this document

- The **insights** are based on **Bain's** triangulation of **information** and **sources**, available as of **May 31st, 2022**, and include:
  - **Macroeconomic data** (e.g., GDP, construction market, consumer confidence index) and the latest **forecasts**
  - **Current trading performance** from relevant High-Quality Design industry players
  - Annual **reports**, quarterly **results,** and analyst reports
  - **Consensus of several expert interviews**
- Market projections do not reflect mid-term continuation/escalation of the conflict
  - An assessment of the **potential sources of disruptions** caused by the Russia-Ukraine conflict is provided, although a **continuation/escalation of the conflict is not factored into the market growth estimates** given **low level of visibility of the duration and magnitude of the impact**
- The scenarios **do not consider disruptive changes** in Covid-19 **status quo** (e.g., potential future **waves** of Covid-19 related to variations of the virus)

Core High-End Design Furnishing (HEDF) is a relevant component of the **large and growing luxury market**

Global luxury markets (€B | 2021E)



Year-over-year (YoY) growth, at current exchange rates

	Personal Luxury Goods	Luxury Cars	Luxury Hospitality	Fine Wines & Spirits	Gourmet Food & Fine Dining	Core High-end Design Furnishing	Fine Art	Private Jets & Yachts	Homeware	Luxury Cruises
YoY '20-'21E	+29%	+7/9%	+20/22%	+12/14%	+8/10%	+14%	+18/20%	+1/3%	+18/20%	-40/-42%
YoY '19-'21E	**+1%**	**+0/1%**	-58/62%	**+0/2%**	-7/9%	**+7%**	-6/8%	-6/8%	**+7/9%**	-80/85%

Broad luxury market is characterized by **6 macro-trends** shaping its dynamics and relevant for each sub-segment

Increasingly complex, diverse and young(er)

More Eastern, still American powered

Global aesthetic convergence, yet local cultural relevance

Growing share and expanded role of brands

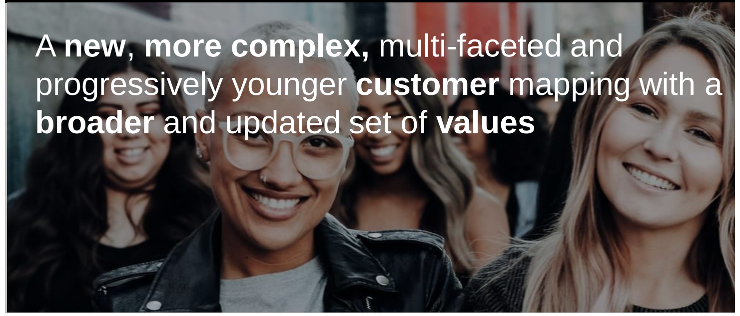
Connected by an omni-system of touchpoints

Embracing higher causes beyond product excellence

Broad luxury market is characterized by **6 macro-trends** shaping its dynamics and relevant for each sub-segment

Increasingly complex, diverse and young(er)

A **new, more complex,** multi-faceted and progressively younger **customer** mapping with a **broader** and updated set of **values**

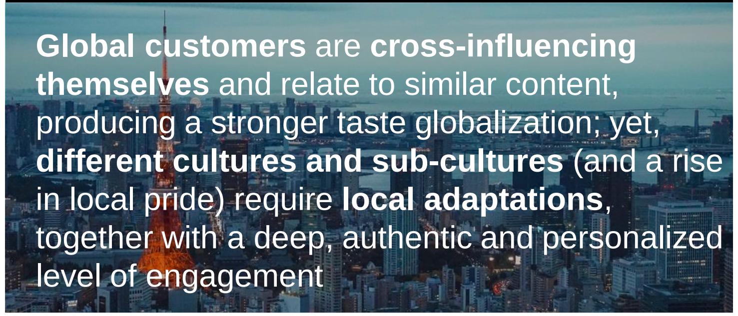


More Eastern, still American powered

The economic center of the world is shifting eastward due to **Chinese economic pull**, yet **America remains relevant**, especially in terms of diverse wealth and consumers dynamics providing traction to the market

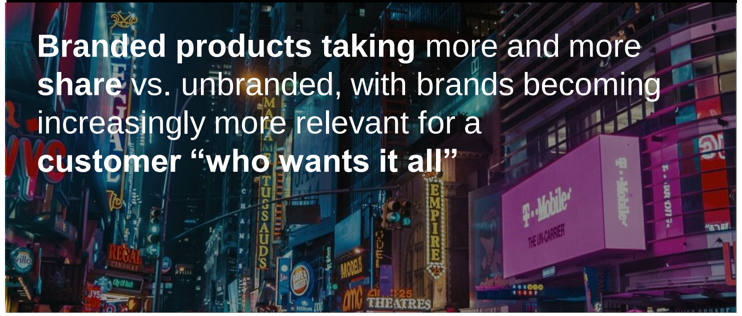
Global aesthetic convergence, yet local cultural relevance

Global customers are **cross-influencing themselves** and relate to similar content, producing a stronger taste globalization; yet, **different cultures and sub-cultures** (and a rise in local pride) require **local adaptations**, together with a deep, authentic and personalized level of engagement



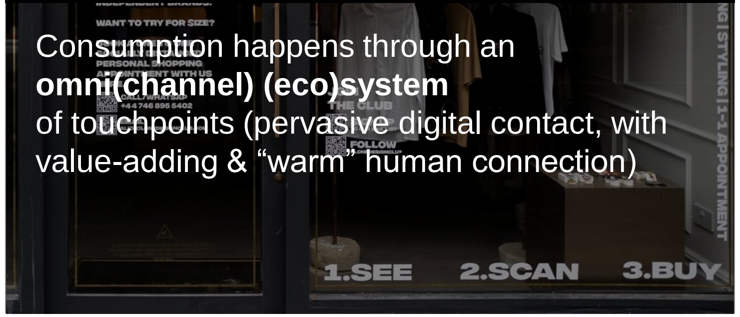
Growing share and expanded role of brands

Branded products taking more and more **share** vs. unbranded, with brands becoming increasingly more relevant for a **customer "who wants it all"**



Connected by an omni-system of touchpoints

Consumption happens through an **omni(channel) (eco)system** of touchpoints (pervasive digital contact, with value-adding & "warm" human connection)



Embracing higher causes beyond product excellence

Brands **enlarging their focus beyond product excellence,** embracing consumers values and passions often **becoming ambassador of emerging social causes**, from sustainability to diversity, equity and inclusion

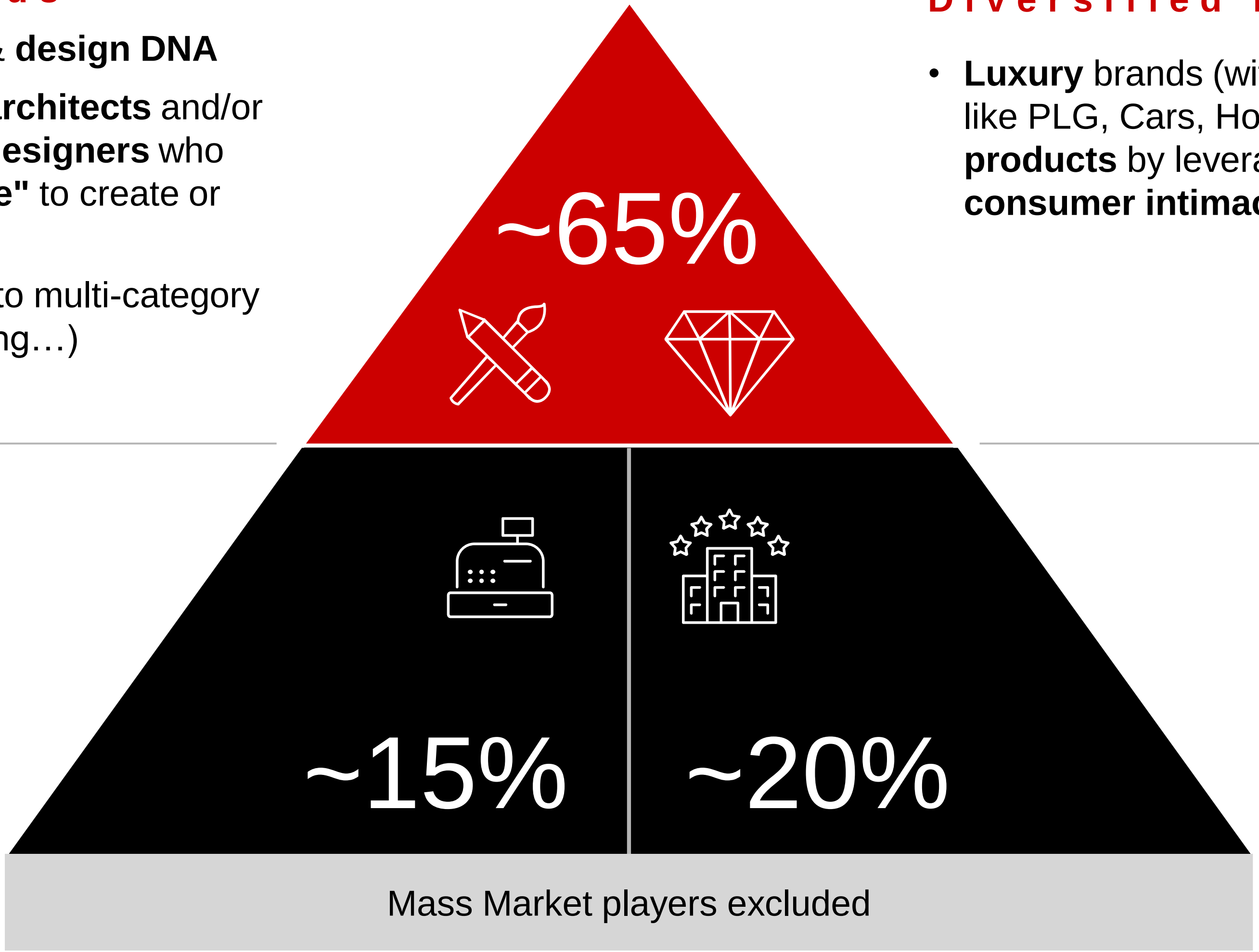
Within Core HEDF market, Native Design and Diversified Luxury brands coexist with Branded Retailers & Premium brands

Native Design Brands

- **Strong product know-how** & **design DNA**
- Collaborations with **top/star architects** and/or Presence of **iconic/renown designers** who **leveraged their "brand/name"** to create or develop a furniture brand
- **From category** specification to multi-category lifestyle approach (L&B, lighting…)

Diversified Luxury Brands

- **Luxury** brands (with core in other luxury segments like PLG, Cars, Hospitality) diversified in **home products** by leveraging on their **brand power and consumer intimacy**



Branded Retailers

- Native mono-brand retailers with an upper-premium positioning

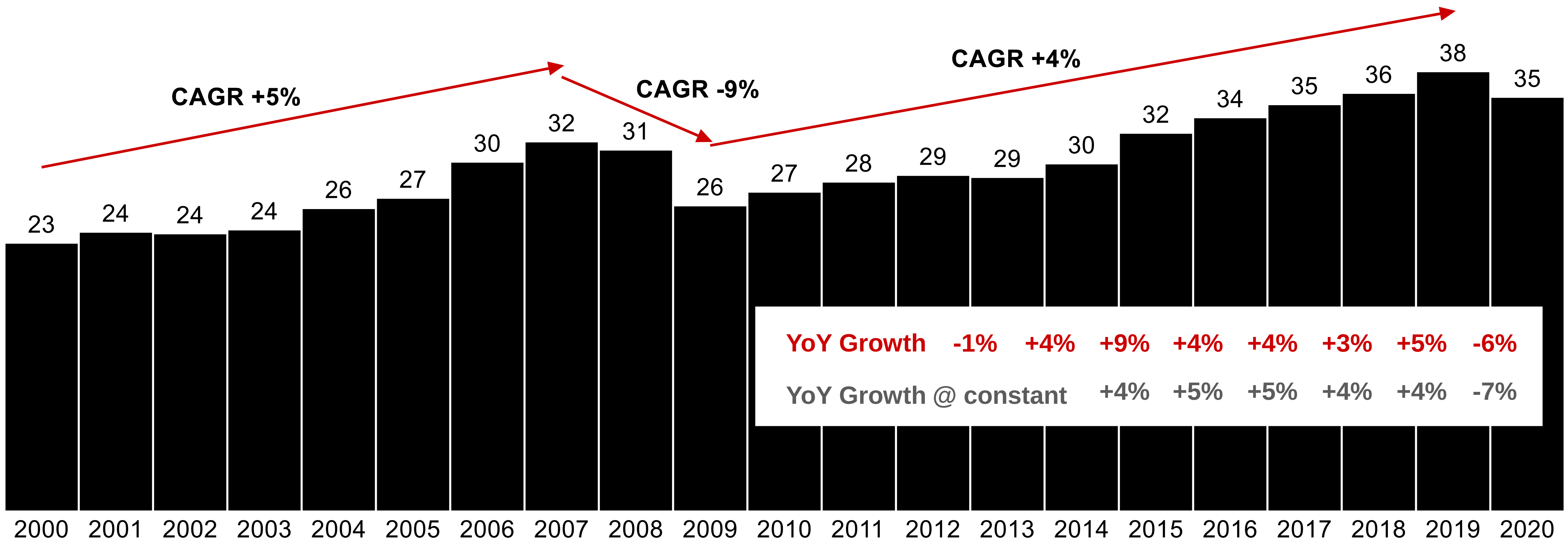
Premium Design Brands

- Players with upper-premium positioning (with differences among geographies)
- Upper-premium lines of mainstream brands

~X% Segment's share

The Core High-End Design furnishing market experienced a **steady growth path** in recent years, before the Covid bump

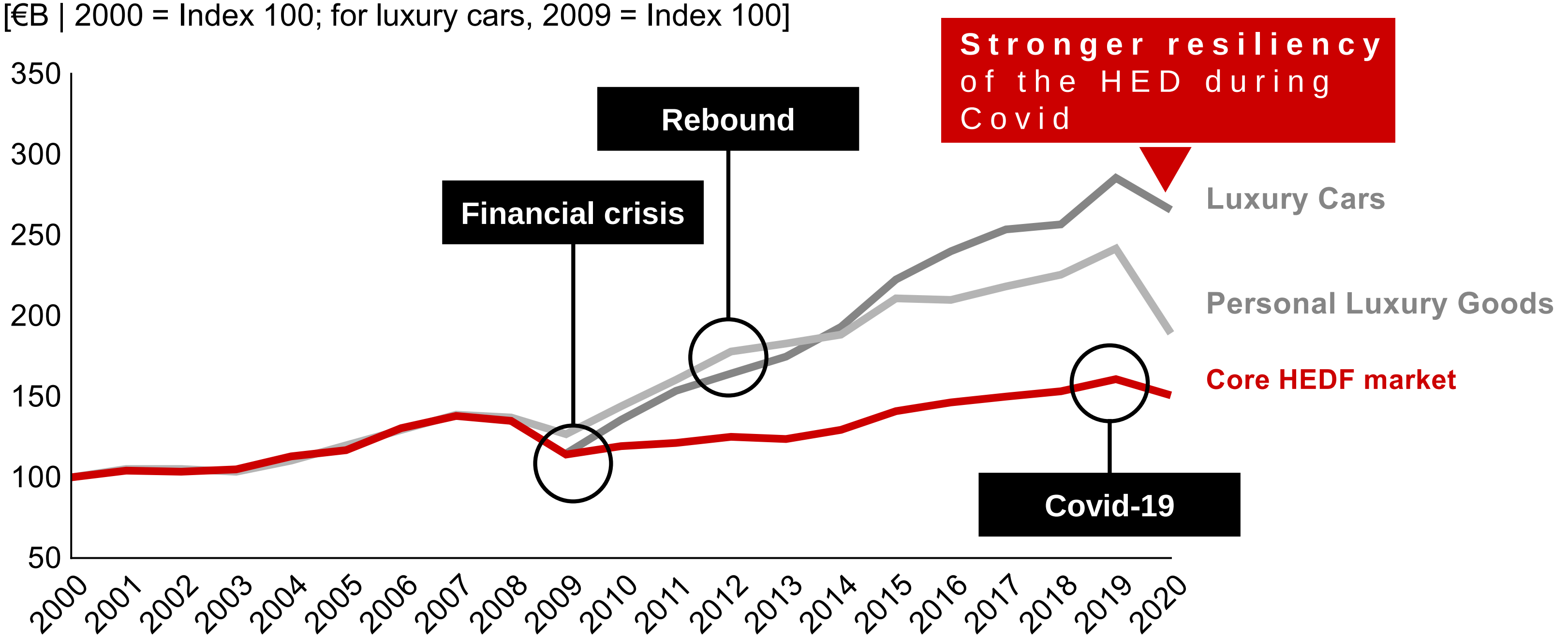
Core HEDF evolution (€B | 2000-2020)



Pre-Covid, Core HEDF experienced slower growth vs. other luxury markets, not fully capturing some important trends. Unlocking them is key

Core High-End Design Furnishing market vs. other luxury markets

[€B | 2000 = Index 100; for luxury cars, 2009 = Index 100]



Reasons for slower growth of Core HEDF vs. other Luxury markets

- **Smaller**, less **consolidated** players
- **Less globalized** and with limited penetration of **Asian regions** and exposure to **Chinese consumption**
- Lower level of market **brandization**
- **Less controlled distribution** and **distance from end customer,** with **lower share of DtC business**

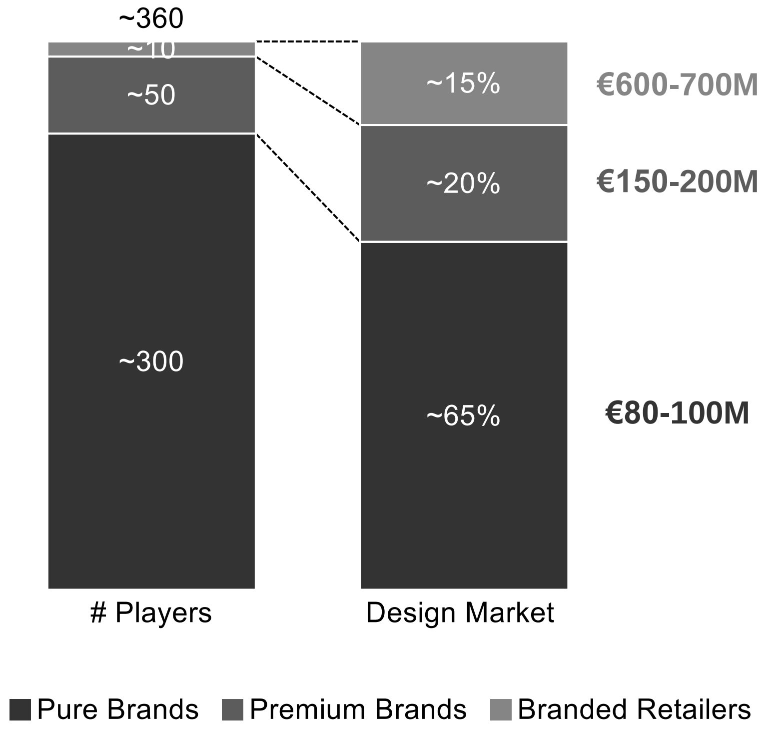
The main challenge of the following years will be to intercept and unlock these market opportunities, allowing Core HEDF players to reach their full potential

The Core HEDF market is largely **fragmented**, led by category **specialists**, and still mostly **intermediated**

Fragmented

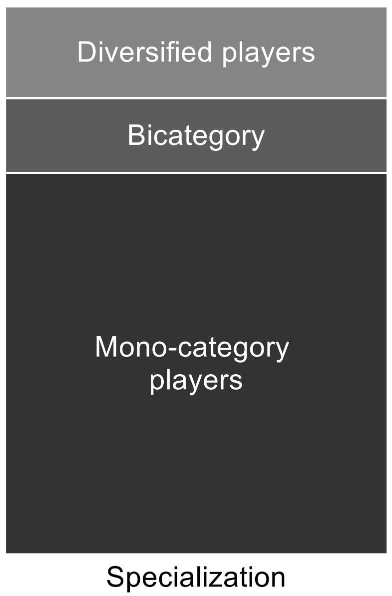
Core HEDF market by segment
(#players, % on revenues | 2021E)

Average player size[1]



Specialized

Core HEDF market by player type
(% on revenues | 2021E)



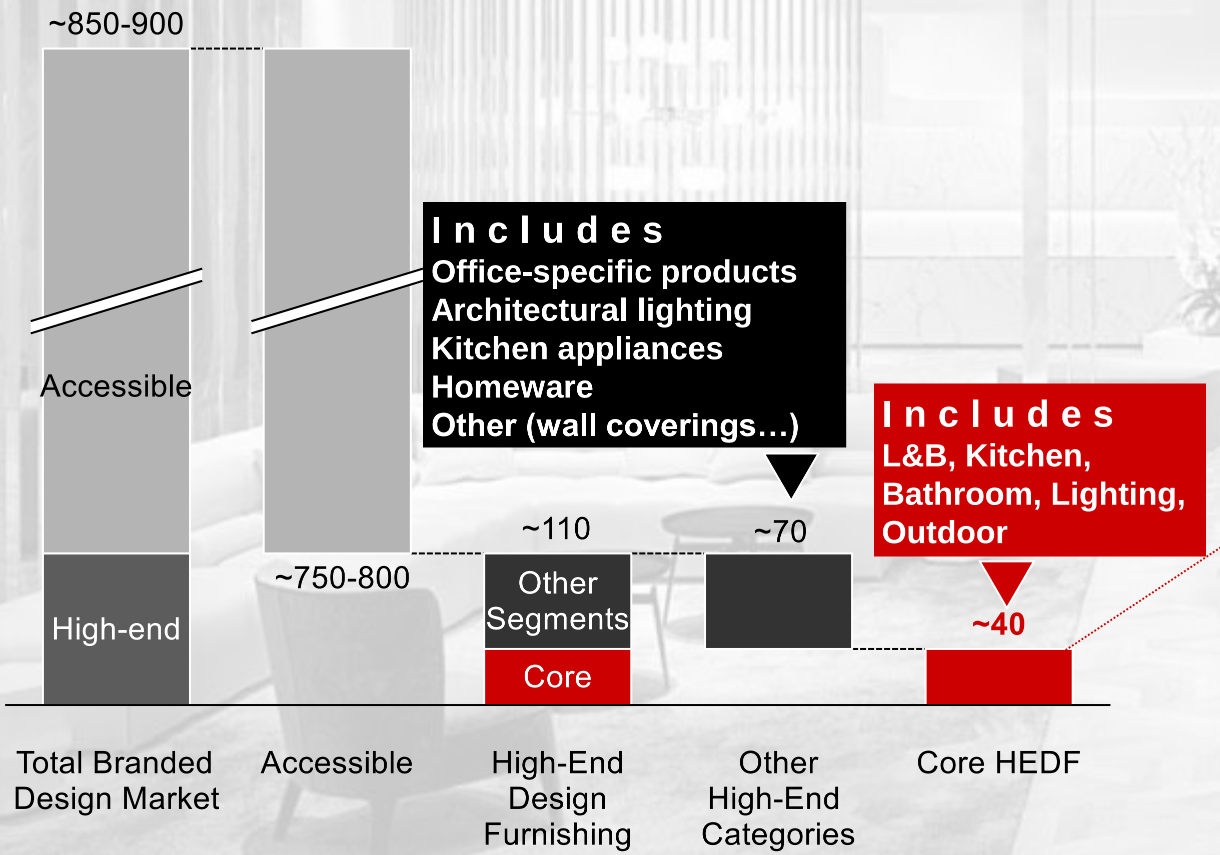
Wholesale dominated

Core HEDF market by channel
(% on revenues | 2021E)

Note: (1) Revenues at retail equivalent value; pure players include native design brands and diversified luxury brands operating in furniture sector

High-end Design Furnishing has still a big **potential** of further "**brandization**" if compared to other luxury categories

Global Branded Design Furnishing Market
(€B | 2021E)

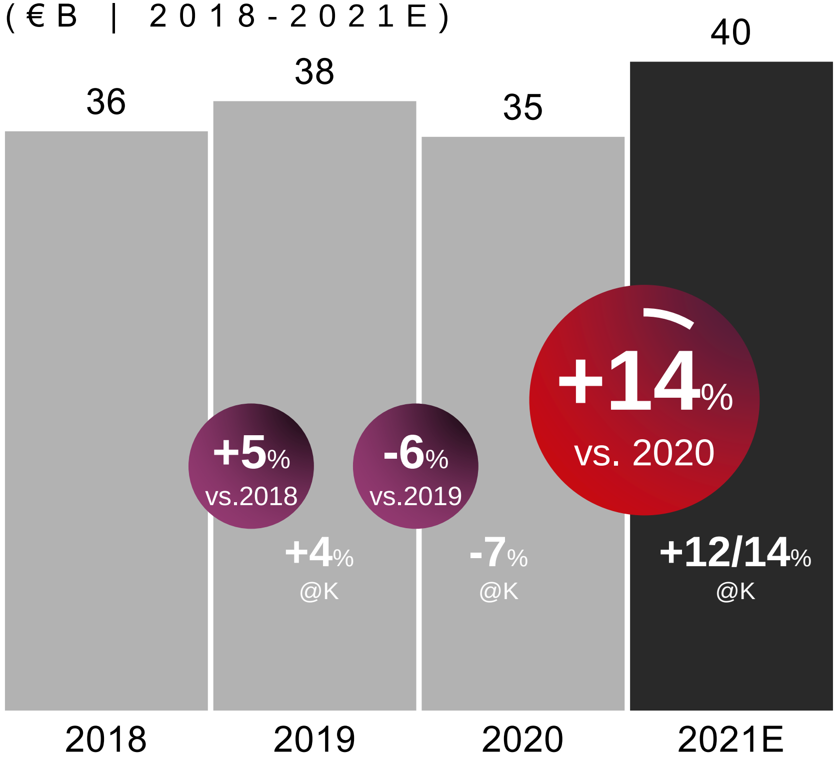


Share of branded products by **luxury market**
(%)

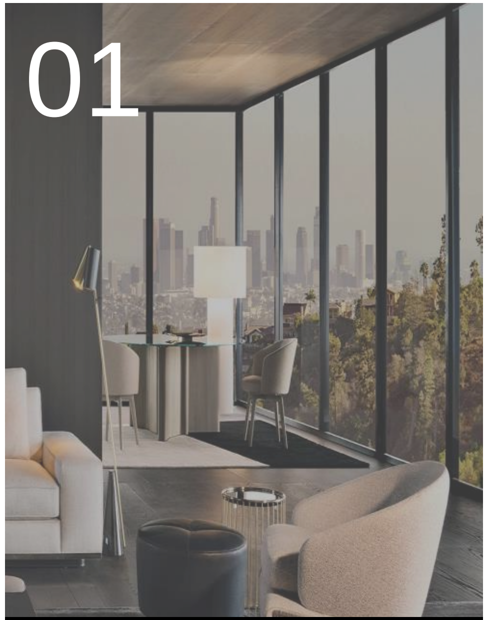
CORE HEDF MARKET

The Core HEDF market has shown outstanding resilience during Covid outbreak, being able to **recover rapidly from downturn**

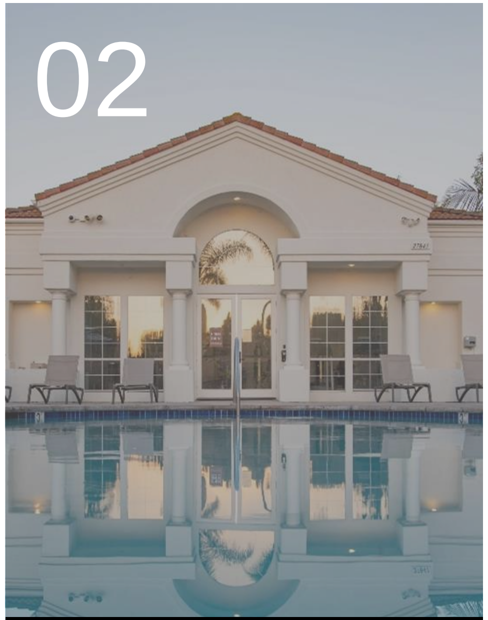
Core High-End Design Furnishing market evolution
(€B | 2018-2021E)



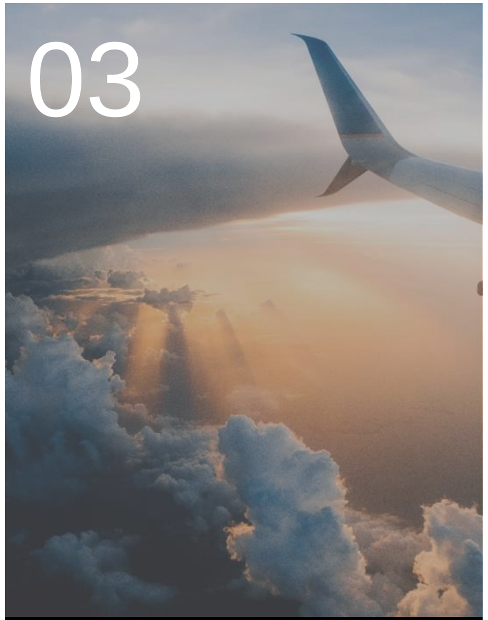
Key drivers of growth



(Re)discovery of home



Booming Luxury Real Estate



Sustained by “be local” consumption

(Re)discovery of home

SHIFTED **DISCRETIONARY** SPENDING

- Luxury consumers redirected their discretionary spending from **travel and out-of-home experiences** toward physical goods, accelerating investments in their homes to make them better places to live in

EVOLVING **NEEDS** AT HOME

- Rising needs for **functionality** and **ergonomics** driving investment growth, with positive tailwind especially for **lighting** (with "technical" side gaining importance) and **sittings**

Booming Luxury Real Estate

HOUSING **STARTS** AND EXISTING HOME **SALES**

- **Plummeting mortgage rates** since the pre-Covid period already spurred real estate market
- Further cuts in mortgage rates during the pandemic, together with **surging rent prices** and **inflationary environment,** continued **boosting** real estate investments

GOVERNMENT **INCENTIVES**

- **Stimulus plans** to relaunch personal investments favoring **revamp of renewal market** and further **nurturing investments in furniture** across categories

Sustained by "be local" consumption

BOOSTED **DOMESTIC** CONSUMPTION

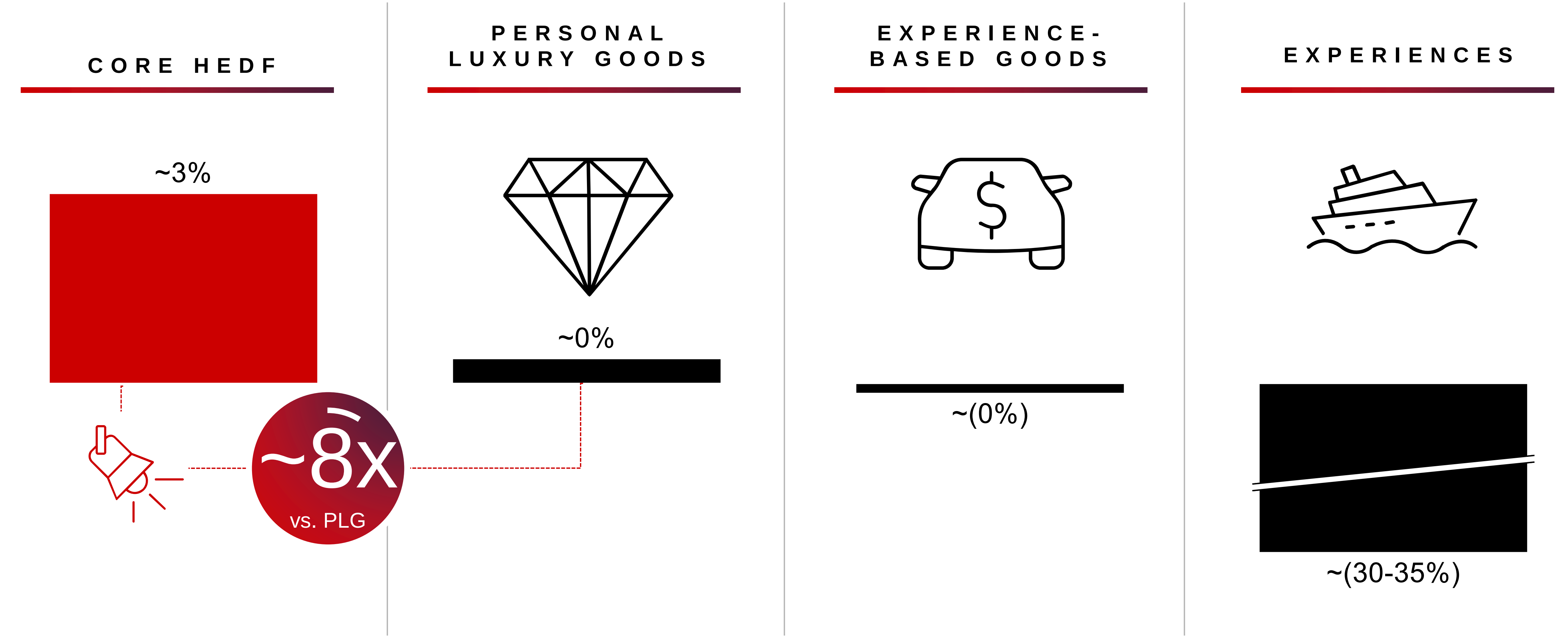
- Traditionally known as a **domestic** market, the Core HEFD was **not impacted** by the halt of **touristic flows** which **jeopardized other luxury segments**

INCREASED **FOCUS**

- Global constraints to travel increasing the **time dedicated** to the **development of personal "projects",** among which **home improvement,** further nurturing redirection of **discretionary spending from** (luxury) **travel** and **experiences** to personal houses

…and **rebounding faster** than any other luxury segments in 2021

Global Luxury markets (%CAGR | 2019-2021E)

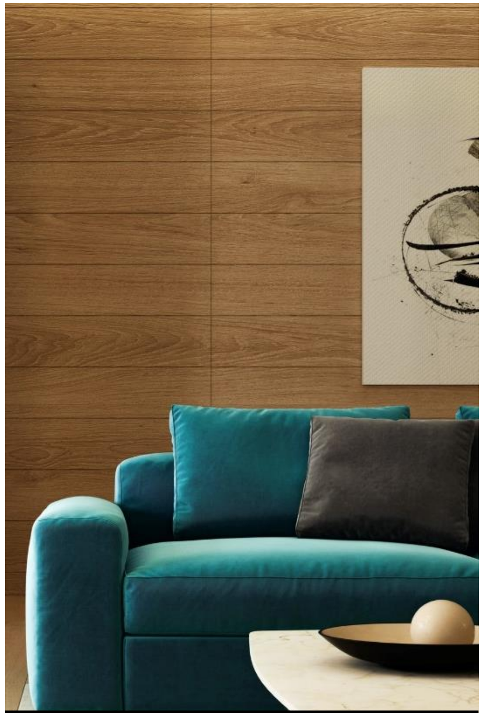


Note: At current exchange rates, Experience-based goods include Fine Art, Luxury Cars, Private Jets and Yachts, Fine Wines & Spirits, and Gourmet Food; Experiences include Luxury Hospitality, Cruises and Fine dining

Five key trends will shape market in the upcoming years, pushed by evolving **customer needs, urban planning, and strong real estate**

Customer-related

Construction-related



Cocooning & Self-Expression

Space Hybridization

Wealth Ruralization

Everything…but Better

Further Urbanization
(emerging markets)

Covid-19 has reshaped the relationship between individuals and interiors, igniting demand across home categories

Increasing time spent at home **favoring**

COCOONING

Interior design as **aesthetic aid** to **inner peace** and **well-being**

Home to represent a focal point for everyday life activities, steering lifestyles toward a new equilibrium and providing a personal ‘safe(r)’ shelter

SELF EXPRESSION

Furniture as mean for **self-expression** toward increased **‘at-home’ conviviality**

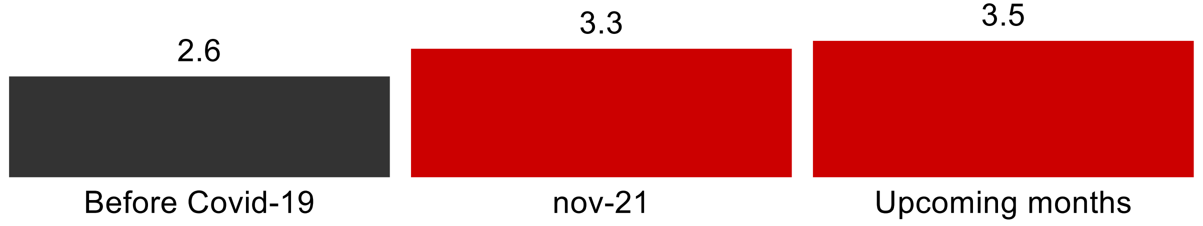
Enlarged groups of people entering our houses through work video-conferencing and at-home social moments

Waking time spent at home
(% | US based)

50%
2019

65%
2020

Avg. number of days working from home per week[1] (# days | US-based)



Made **changes to their homes** during the pandemic

2/5

Note: (1) Excl. those not allowed to WFH

Home is broadening its role, merging environments to create hybrid spaces

MERGING

SHARING

Living spaces are transforming into **“multi-purpose” areas**, designed and equipped to answer several functions alternately

Within-home spaces intermingling

Kitchen conviviality ~60%

of kitchen renovators upgraded or added an island

Spa-feel bedroom ~50%

of bathroom renovators opted for a freestanding tub

Out-of-home spaces entering houses

Home office ~60%

of those who work from home have a separated home office space

Gym at home +15%

Time spent exercising at home vs. pre-Covid-19 level

Outdoor “interiorization”

Mirroring interiors’ aesthetic to create boundless environments

Rebalancing private-shared spaces

Private spaces essentiality ~5%

Reduction in average apartment size since 2010

While common areas take share ~6%

Growth of global co-living market in 2020

Major metropolitan areas to remain central, although **dispersion across suburban areas** will further accelerate

New Flexibility

Remote work

Progressive "ruralization"

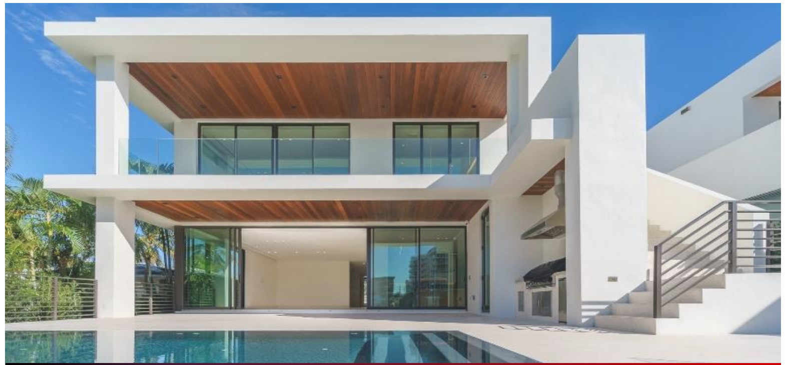
Covid-19 pandemic **further boosted population relocation outside major metropolitan areas**

39%	50%+
2018	TODAY

% of adults declaring they would prefer to live in small towns/rural areas

Growing **luxury epicenters** in the US in Tier 2 locations

Second houses gaining role



Increase in time spent in second homes

- Wealthy individuals are living larger portions of their lives in **several homes**, preferring **larger and outdoor environments**
- Holiday houses becoming **extension of first homes**, driving increased **investments in furnishing**

Across commercial spaces, design consumption to be driven by **continuous appetite for high-end design and refined aesthetic**

EVERYTHING…BUT BETTER

RESIMERCIAL

Progressive evolution of **commercial spaces** toward **residential aesthetics**

+3 p.p.

Resimercial players' **yearly growth rate above Core HEDF** market in pre-Covid decade

PREMIUMIZATION

Seek for **improved quality** and **refined aesthetic** of spaces

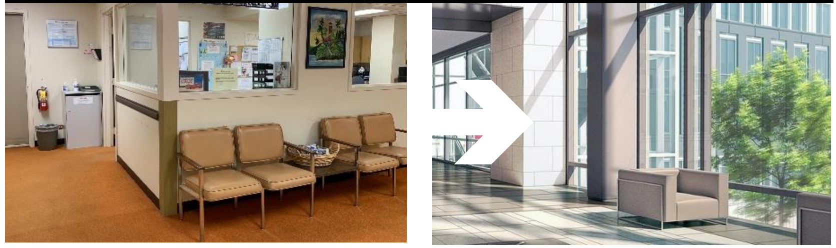
~20%

2010-2020F global **GDP increase** driven by **infrastructure renovation**

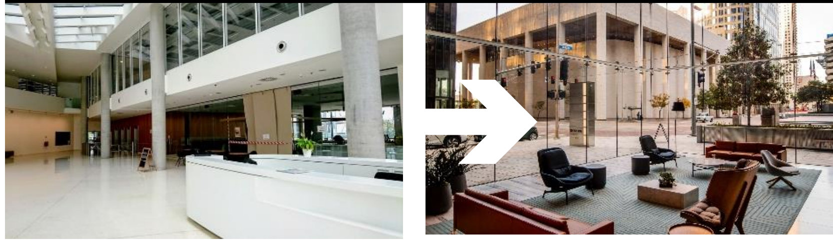
EXAMPLES

Transportation

Healthcare



Commercial

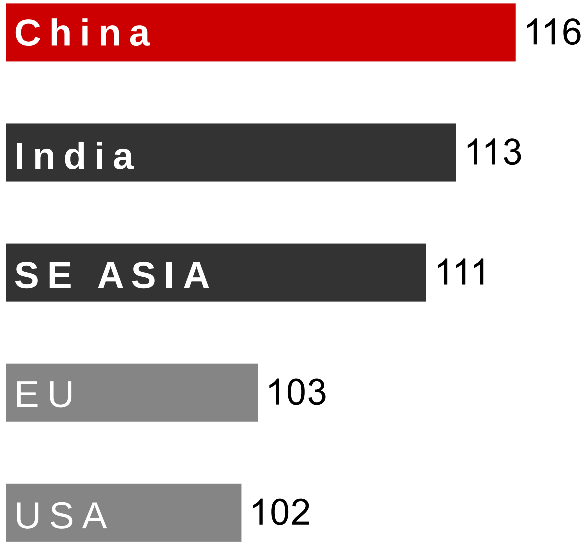


Both trends **expanding addressable market** for Core HEDF players **beyond home segment**

Emerging countries still characterized by **strong urbanization**; China expected to further accelerate

Urbanization still going strong in emerging countries

Urbanization index[1]
Urban / Total Population
(2016=100 | 2025E)



Chinese Construction Market

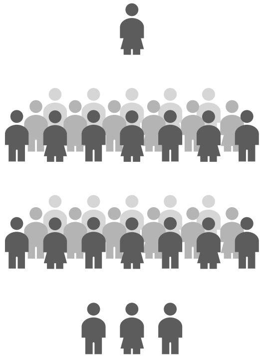
A Second Wave of Urbanization will be driving the growth of Chinese construction market going forward

(€T | 2015-2026E)

~0,3M **High-end residential units** *sold in 2018*

Common prosperity potential impact on luxury

The policy has the goal to build an olive-shaped society

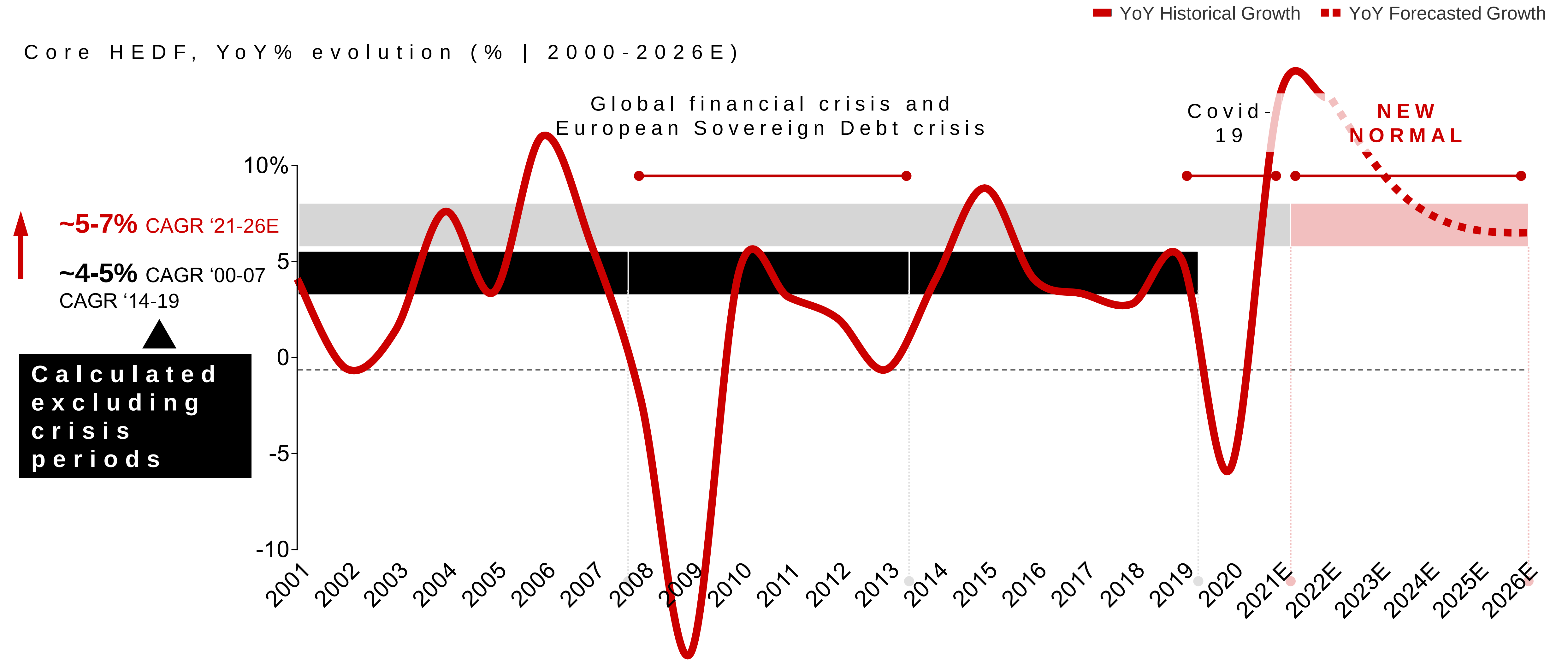


Common prosperity expands Chinese middle class and can be a **catalyst** for **Core HEDF product demand**

Note: (1) South-East Asia = Indonesia, Thailand, Laos, Cambodia, Philippines

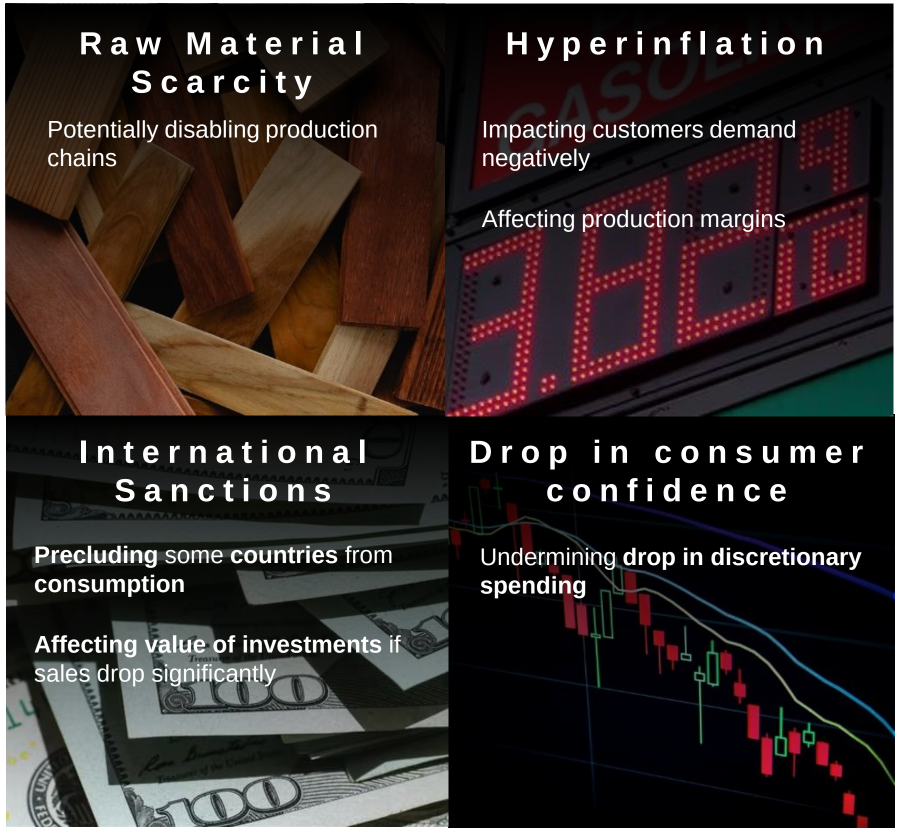
Covid-19 has fast-forwarded and anticipated some of the key trends, pushing Core High-End Design market to a higher new normal

Core HEDF, YoY% evolution (% | 2000-2026E)



The Russia-Ukraine conflict reduces visibility on potential negative effects, yet some upsides could counterbalance the effect

The current Russia-Ukraine conflict implies potential negative impact



Potential upsides may counterbalance the negative economic impact

Hyperinflation expectations
fueling real estate market

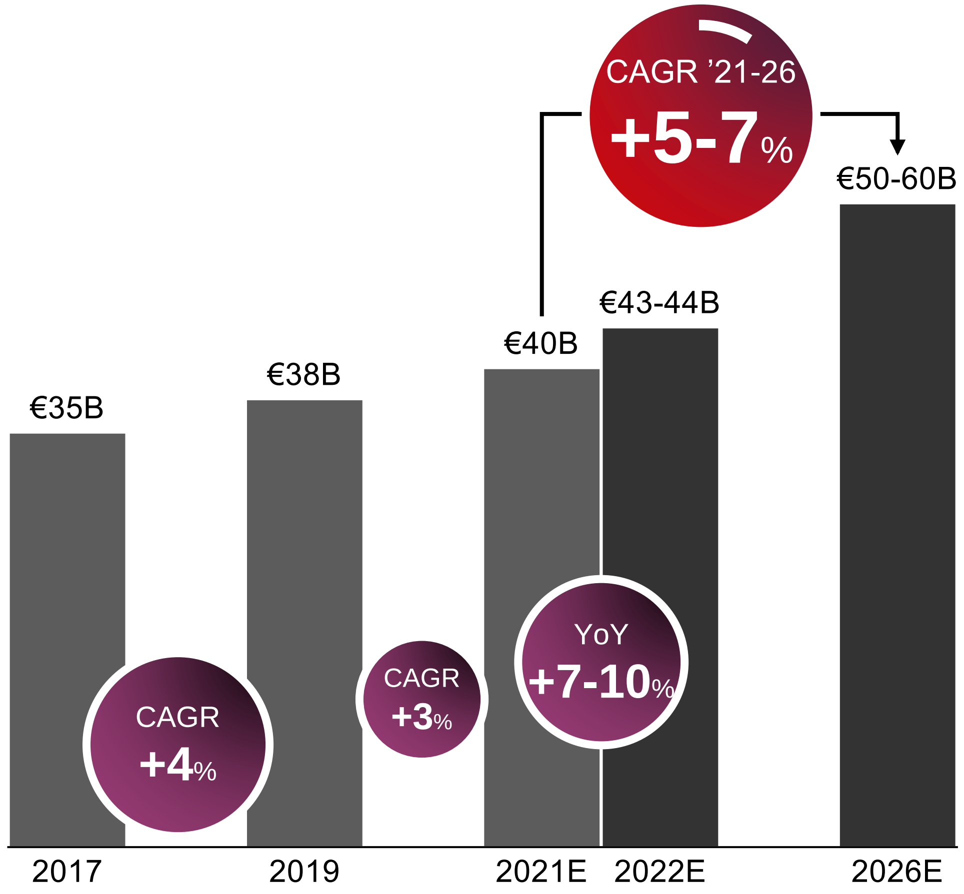
High pass-through rate
sustaining margin expansion in the mid-term

Design specific trends
boosting the market by accelerating their path

FUTURE PROJECTIONS

Core HEDF market **expected to grow up to €50-60B**, sustained by strong customer-and construction-related drivers

Core HEDF market evolution
(€B | 2017-2026E)



Potentially BUMPY ROAD AHEAD
driven by short-term macroeconomic headwinds and abrupt shocks to supply chains

However, with **clear growth pathways for upcoming years**

SOUND L&B AND LIGHTING
favored by increasing 'brandization', space hybridization, and search for functionality

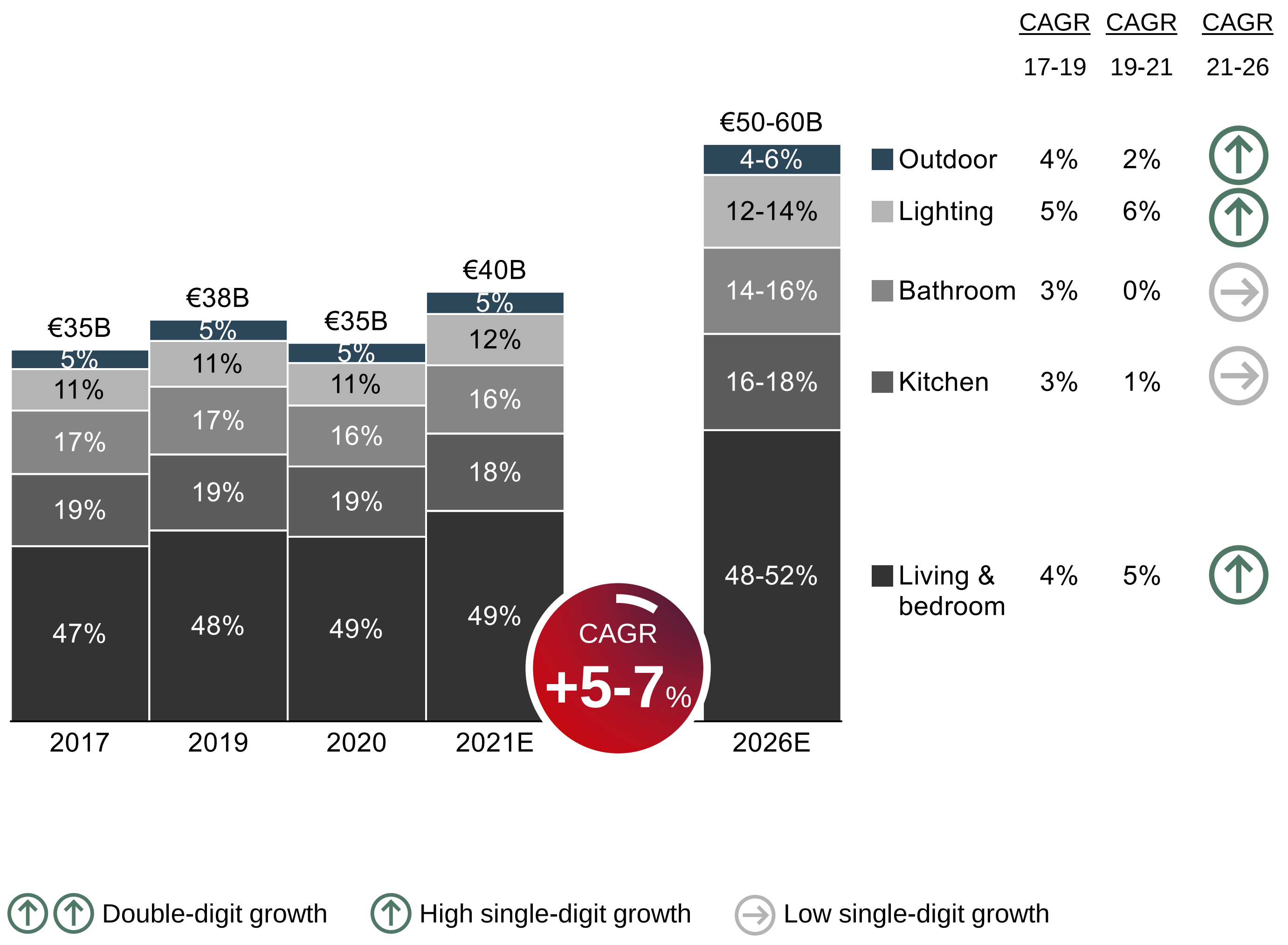
INCREASING ONLINE PENETRATION
across product categories and geographies

EXPANSION IN NEW GEOGRAPHIES
(North America, China, Middle East) while consolidating established ones

DEMAND-DRIVEN DESIGN TRENDS
customer and construction-related, potentially gaining further foothold

Living & Bedroom and Lighting driving growth fueled by new consumer trends

Core HEDF market evolution by Category (€B | 2017-2026E)



Living & Bedroom consolidation fueled by rising 'brandization' and 'everything at home' trends, boosted by post-pandemic living habits

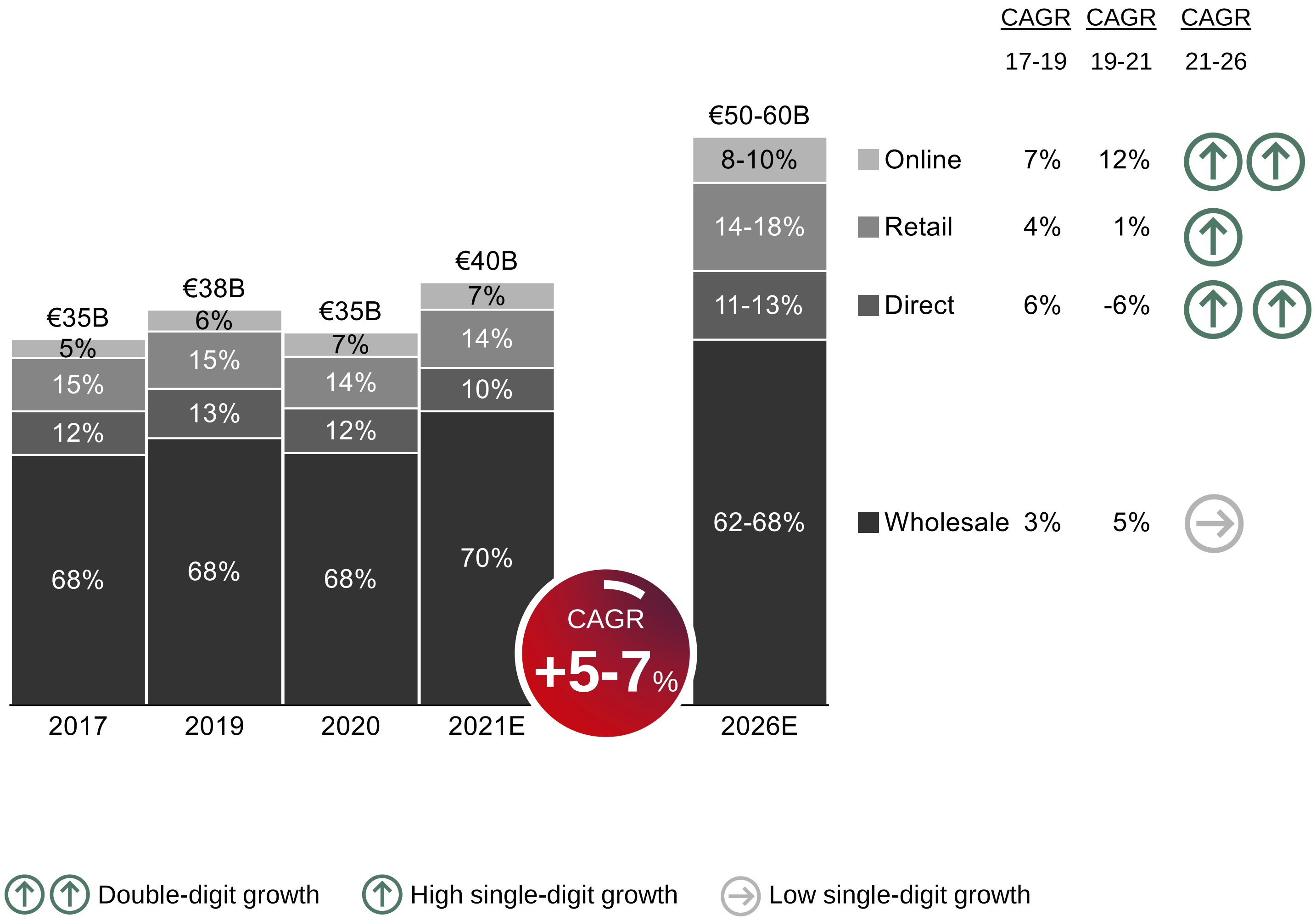
Lighting growth sustained by smart-tech solutions and growing interest for technical features beyond pure aesthetic

Kitchen & Bathroom posting lower growth, as more tightly linked to real estate market, although partially favored by space hybridization

Outdoor expected to reach a "new normal," achieving higher growth compared to pre-pandemic levels

Still wholesale-led market, although **direct-to-consumer channels taking share**

Core HEDF market evolution by Channel
(€B | 2017-2026E)



Online growth to take place across sub-channels, enhanced by **new digital innovations** unlocking business opportunities

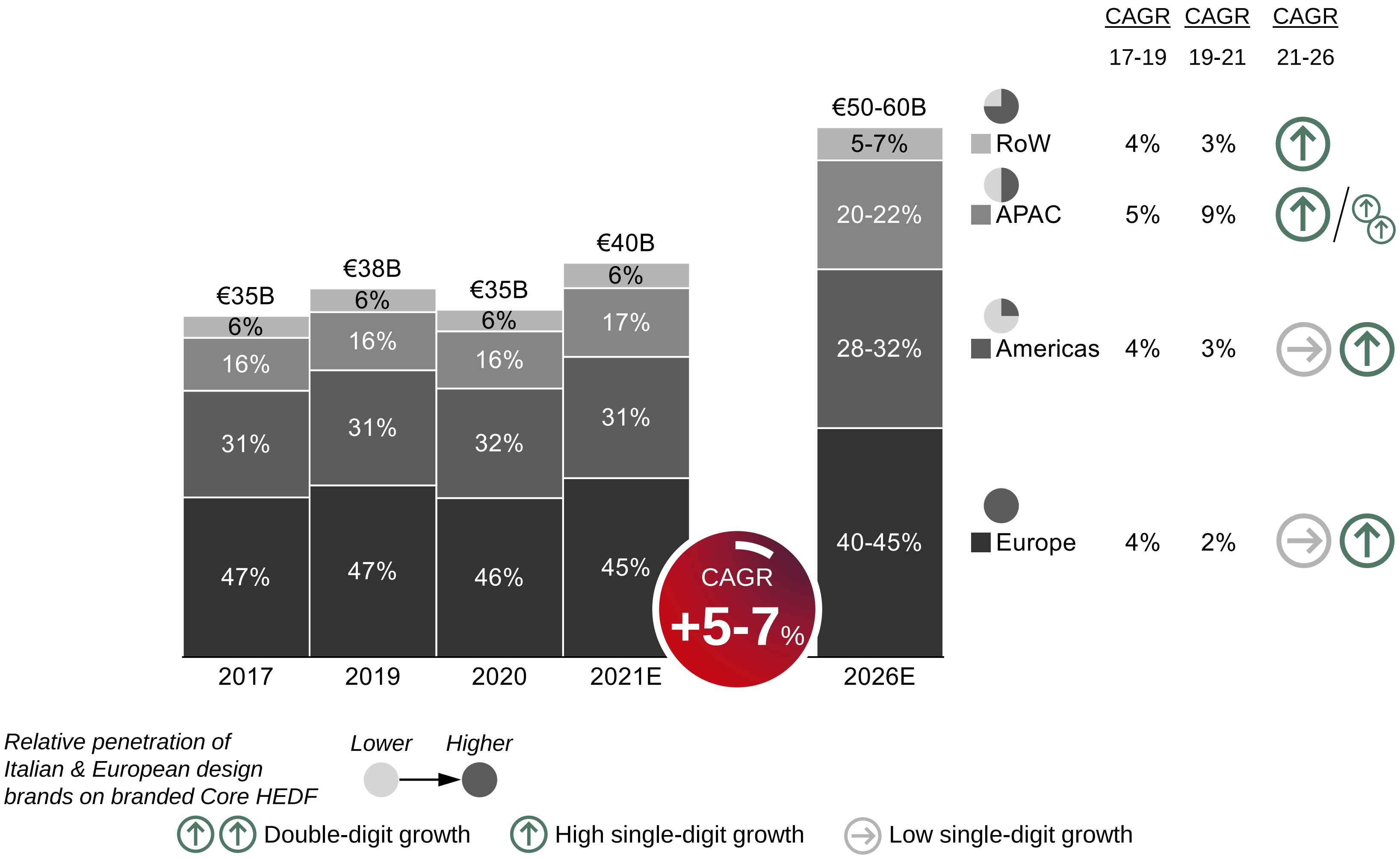
Retail acceleration driven by willingness to strengthen relationship with target customers and support enhanced **brand narratives**

Direct sales strongly hit by the pandemic, rebounding from 2022 onward favored by “resimercial” and space premiumization

Wholesale consolidating its growth, supported by lead-to-store omnichannel models

APAC expected to keep growing double-digit Similar pace growth for Europe and Americas

Core HEDF market evolution by Geography
(€B | 2017-2026E)



Europe records the highest impact and the slightest rebound due to prolonged **lockdowns** and limited **online** penetration**. Real estate** rebound to fuel next years' growth

Americas fueled by **online channel** maturity, to continue feeding future growth alongside large furniture retail chains and contract business recovery

Asian government strict **controls** to curb the spread of virus **soften 2020 impact.** Upcoming second wave of **urbanization** in key Tier 2-3 cities driving the next years' growth

HEDF European brands will need to **double down in US and China**

UNITED STATES

Market stage

ESTABLISHED

- **Largest end-market** in the Core HEDF, representing ~30% of total sales

Competitive arena

PREMIUM LOCAL PLAYERS

- **Large furniture retail players** (mostly premium) **dominating** the market, with low consumers education **toward high-end design brands**

Distribution approach

MULTI-CHANNEL/MULTI-LOCAL

- Complex distribution ecosystem, encompassing combination of **mono-brand stores**, **multi-brand chains**, and online e-tailers
- Presence of **capable partners** able to provide luxury-level services to end customers
- High relevance of **New York** area, **Miami**, and **Californian** key cities as centers for architects and specifiers
- **Growing number of relevant cities** where wealthy Millennials chose to live

Winning moves

- Double down in **upper-funnel marketing,** focusing efforts on **educating consumers to** (Italian) high-end design
- **Intercept customers across multiple touchpoints** (digital and physical), while strengthening relationship with key specifiers

GREATER CHINA

Market stage

EMERGING

- **Limited penetration** of HEDF considering region potential, **especially compared to penetration in other luxury segments** (e.g., PLG)

Competitive arena

UNBRANDED PLAYERS

- Role and importance of 'brand' name in home furnishing still not widespread, with **higher-than-average penetration from unbranded players**

Distribution approach

SOFT-CONTRACT AND MONO-BRAND

- **Significant relevance o**f soft-contract projects in **residential business**
- High importance of branded point-of-sales to **drive consideration** within **target clientele**
  - Key success factor linked with **selection of right local partner** to operate the stores
- **Rising importance of new cities** (Guangzhou, Shenzhen, Chengdu…) alongside Beijing and Shanghai

Winning moves

- Focus marketing effort in **building 'brand'** and **category-culture jointly**
- Develop **local branded presence in key areas** while **building direct presence** in **main specification HUBs**

Design brands will have to **rethink** how they **conceive and distribute** their products to intercept evolving living habits

1 Emerging business models

High-end furniture rental and short-term leases

Shifting barycenter from manufacturer to brand

2 Upgrading product value proposition

Technology-embedded solutions

Hyper-personalization and custom-made obsession

3 Rising call for sustainability

Raw materials impact and traceability

Circularity and end-of-life (e.g., design for disassembly)

Within this environment, CEOs' agendas **should accommodate space to intercept market tailwinds**

KEY PRIORITIES WITHIN HEDF CEOS' AGENDAS

BROADEN SOLUTIONS

Enlarge product portfolios **to be legitimized in more spaces,** while developing **turnkey solutions** to **win customers** across geographies

REDESIGN ENGAGEMENT

Invest to **improve know-how of customers**, narrowing gap toward them through direct distribution and digital channels while **conveying brand history, mission, and core values**

SPOTLIGHT CONTRACT

Double down on contract business to engage in **360° furnishing projects** for living, commercial, and working spaces, **nurturing the premiumization wave**

CHAMPION SUSTAINABILITY

Bring **sustainability topics** to every discussion, leveraging it as a source to **create competitive advantage**

DOUBLE DOWN ON TALENT

'Up-the-game' injecting **new managerial competences** alongside founders with **fresh perspectives on the industry** to **tackle upcoming challenges** with a more sophisticated approach

EMBRACE AGILITY

Develop a new **flexible approach**, focused on the **ability to adapt and quickly react to change**, maintaining **optionality for the future**

Always remembering some **distinguishing features where Luxury Brands,** that have proven prosperous and long-lived, **lead on**

Key Success Factors of **Winning Luxury Brands**

BRAND

Broader Mission

Adapt to a changing world, assuming multiple roles: manufacturer, retailer, publisher, platform, digital innovator and socio-cultural actor (e.g., sustainability, …)

Brand beyond Product

Expand toward a 360-degree marketing strategy that goes beyond the product, elaborating narratives that engage customers from a lifestyle, experiential and emotional perspective

CUSTOMER

Customer Obsession Mentality

Follow the customer over its lifetime and reduce the frictions in its customer experience, containing churn and enabling superior results

Multi-focal Customer Strategy

Maintain focus on top customers as well as on aspirational ones, developing strategies targeted to the customer personas that are actually relevant for the brand

PRODUCT

Product Heroes

Develop a product strategy based on "heroes," laying a strong foundation to harvest recurring business, as well as helping driving customer recruitment and loyalty

ROUTE TOMARKET

Selective& Controlled Distribution Ecosystem

Enhance quality of distribution, tightening control over the customer experience while building a clear engagement and a vibrant relationship

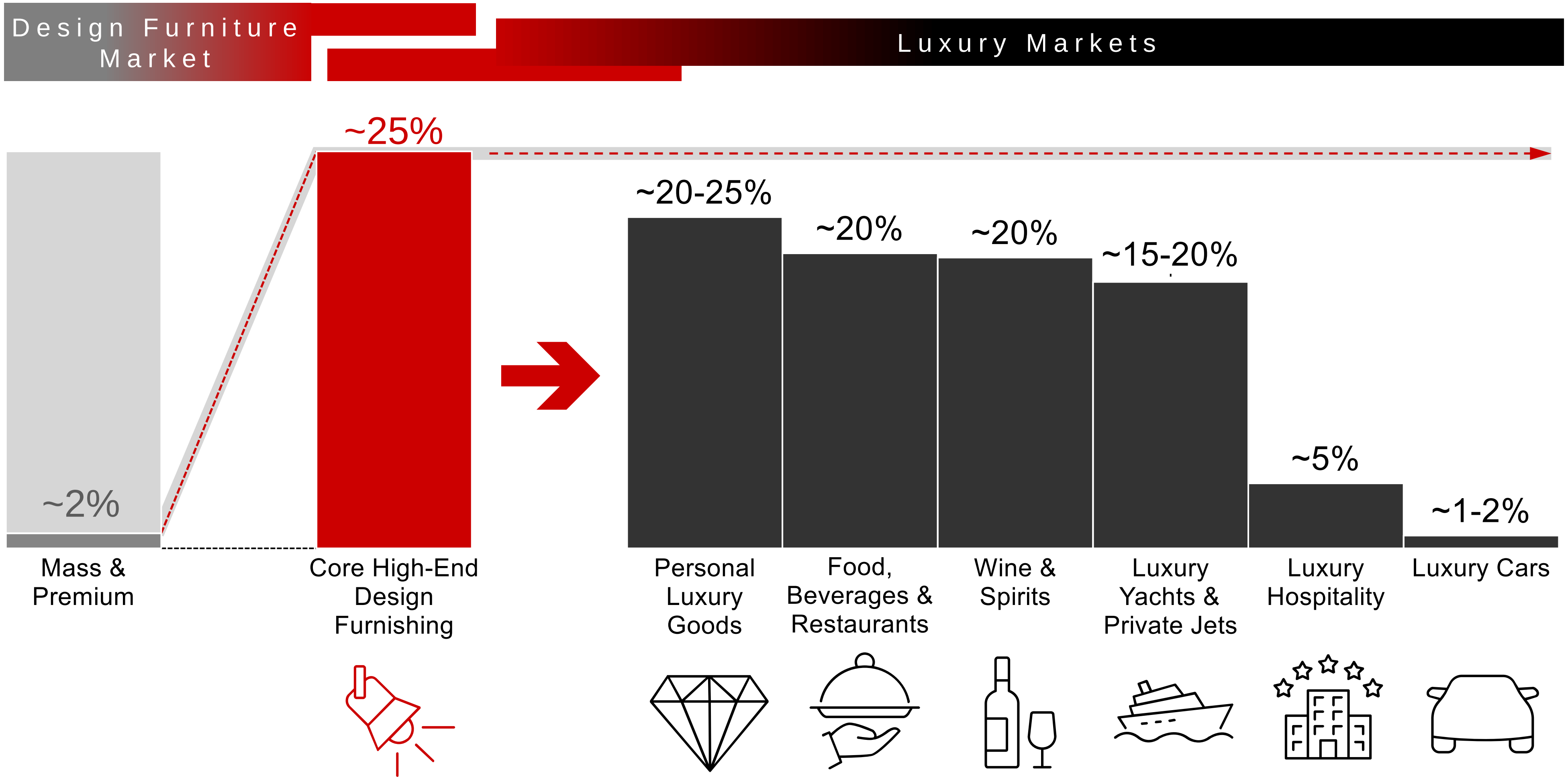
SCALE

Insurgent& Founder's Mentality at Scale

Build scale to extract competitive advantage, yet maintaining a "founder's mentality," insurgent attitude and agility

Considering their leading role in the market, **Italian** players should be the **trailblazers** to drive change

Share of Italian brands on total market value (% | 2021E)



KEY TRAITS

Of Design Italian brands

THANK YOU

Claudia D’Arpizio,
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Leader Global Fashion-Luxury Goods vertical

Claudia has spent more than 28 years advising multinational luxury and fashion clients on everything from strategy and new product development to innovation and organizational change.

She is the lead author of the Bain Luxury Study, one of the most cited sources of market information in the luxury industry.

In 2009, Claudia was also recognized as one of the Top 25 Consultants in the World by Consulting Magazine.

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Over the last 18 years, Federica has led more than 200 assignments in the fashion and luxury industry on issues relating to corporate and brand strategy, portfolio management, merchandising, retail and wholesale excellence, digital acceleration, millennial strategies, marketing and communication, and more.

Alongside Claudia D’Arpizio, Federica is the co-author of the Bain Luxury Study, one of the most cited sources of market information in the luxury industry.

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Andrea has built experience in the fashion and luxury industry over 35+ assignments relating to corporate and brand strategy, customer and marketing, retail and commercial excellence, and private equity.

Alongside Claudia D’Arpizio and Federica Levato, Andrea is the co-author of the Bain Design Market Monitor.

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