



GROWTH IN THE ITALIAN FASHION INDUSTRY: FAMILY-RUN LISTED COMPANIES ARE THE MOST PROFITABLE

Listed companies are the most profitable; family-run listed companies the most profitable of all

Sales and employment levels rose again in 2018, with strong growth in exports

Diversity: dynamic firms have the greatest number of women in leadership positions

Prometeia: excellent outlook for 2019-21, Italian brands popular online

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Mediobanca Research Area has completed its latest survey of the Italian fashion industry, examining trends across **173 Italian fashion companies**, which had a combined turnover of more than €100bn in 2018, also looking at **leading European groups** operating in the sector. The survey concludes with predictions for 2019-21 and **Prometeia's** analysis of Italian fashion brands' cyber reputations.

The full survey can be downloaded from www.mbres.it.

Fashion in Italy: growth in sales and employment. Profits: family-run companies are the best performers, even better when listed

The Italian fashion industry continued to grow in 2018, with **aggregate sales** of **€71.7bn** (up 22.5% on 2014 and up 3.4% on 2017). This material growth reflects a particularly impressive performance in 2015 (up 9.4%). Despite a slowdown in growth over more recent years, growth has never fallen below 3.4% per annum. In addition to growth in aggregate sales, **the fashion industry's contribution to Italian GDP also increased** to 1.2% (versus 1.1% in 2014). The fashion sector has **grown at almost double the rate** of the country's GDP over the last five years. The sector's performance was also impressive in terms of **net profit**, which totalled €3.7bn in 2018 (25.2% higher than in 2014).

In the fashion sector, the most important division is **clothing**, which accounts for 42.6% of aggregate sales, followed by **leatherwear** (23.1%) and **eyewear** (15.6%). In terms of the **annual average growth rates of sales in 2014-18**, **jewellery** was the standout performer, reporting growth of 10.9%, followed by **leather and footwear** (up 6.2%), **textiles** (up 5.7%), **distribution** (up 4.9%), **clothing** (up 4.5%) and **eyewear** (up 3.7%).

The number of **large, non-Italian groups operating in the Italian fashion industry remains high**. 70 out of the 173 companies have non-Italian ownership, and are responsible for **34.7%** of the **aggregate turnover** (14.2% is French, with groups including LVMH and Kering, which are responsible for 5.4%). This marks a substantial increase from 2014, when non-Italian groups accounted for only 23.9% of total sales, mostly because they have been **growing almost four times faster** than the Italian-controlled companies.



Despite this, Italian firms have performed better than non-Italian firms in terms of **profitability** (Ebit margin of 9.3% vs 6.2%). **Listed companies where families are the primary shareholder** posted the best Ebit margin (13.4%) of all, and were also the most likely to export their goods (86.1% of their turnover is international). Overall, **Italian Fashion Companies** delivered an **Ebit margin** of 8.2% in 2018, with standout performances in **eyewear** and **leatherwear** divisions (12% and 10.2% respectively).

Only **15** of the 173 companies analysed **are listed on the stock market**. However, they account for a good 29% of the aggregate turnover and have a higher **Ebit margin** of 11.7% (compared with 6.8% for the others). This demonstrates that opening company ownership to investors on the stock market can drive profitability and strengthen companies' international status. In particular, an international outlook is defining characteristic of the Italian fashion industry: 72.2% of aggregate sales come from exports, which is significantly higher than in the manufacturing industry (58.3%). Once again, **eyewear** leads the way, accounting for 89.6% of exports.

Employment levels have increased too, with 45,300 new staff taken on in 2018 (14.1% higher than in 2014 and 1.7% higher than in 2017), and a total workforce of around 366,000 staff. The greatest increases in employment were recorded in **jewellery** (32.7% higher than in 2014), **leatherwear** (24.6% higher) and **distribution** (22.6% higher).

Once again, the Italian fashion sector demonstrated that it is well-positioned financially, with a **low debt to equity ratio** (34% in 2018), high **liquidity** with a **cash debt coverage ratio** of 79.4%.

Female leaders: dynamic companies have more women in leadership

Our analysis of gender equality on the Boards of the 173 Italian fashion companies showed a direct correlation between gender representation, company earnings, and financial performance. At **dynamic companies**, companies which recorded above-average Ebit margins and sales growth rates, **22%** of Board members are women. At **other companies**, however, that percentage decreases to **17.9%**.

Fashion companies in Europe

In 2018, the 46 largest European groups posted total sales of €251.5bn (33.6% higher than in 2014, and 6.3% higher than in 2017). With its fourteen fashion giants, **Italy** boasts the greatest number fashion groups. Despite this, **France** ranks first in terms of turnover, accounting for 34.6% of aggregate sales, followed by **Germany** (12.2%), **Spain** and the **United Kingdom** (both of which account for 11.3%). Italy's contribution declined to 8.3%, largely as a result of the merger between **Luxottica** and **Essilor** to form the Paris-based holding company, **EssilorLuxottica**.

Once again, **LVMH** ranked first among the European fashion giants (€46.8bn). Then came **Inditex**, which controls Zara (€26.1bn), **Adidas** of Germany (€21.9bn), **H&M** of Sweden (€20.5bn), and **EssilorLuxottica** (€16.2bn). **Prada** comes first (€3.1bn) out of the Italian firms, ranking fourteenth overall. The fourteen Italian giants tend to be **growing at a slower annual average growth rate than their peers** (0.9%, compared with 8.2% for non-Italian competitors), and are **less profitable** (Ebit margin: 9.0%, vs 16.1%). However, they are **better capitalised**



(leverage ratio: 20.6%, vs 26.9%) and have **better liquidity (cash debt coverage ratio: 168.0%, vs 95.2%)**.

British company **ASOS** leads the **annual average growth rate for total sales in 2014-18**, with growth of 25.5%, followed by Italian group **Moncler** (19.6%), **SMCP** of France (18.9%), and Danish company **Pandora** (17.6%). At a European level, sales increased on average by 7.5% per annum over the same period, outperforming manufacturing industry giants, which recorded annual average growth of 3.1%.

Moreover, 2018 was a good year for the fashion industry in terms of **employment**, with 190,000 new staff taken on (an increase of 20%). Spanish companies were the most impressive in this area, with 47,000 new employees (up 37.8%, most of which due to Inditex), followed by French companies (43,000 new jobs, up 13.1%). Italian fashion industry giants created 11,200 new jobs, an increase of 11%.

At the European level, **listed companies** (27 out of the 46) have a decisive impact on the sector: they account for 83.3% of aggregate sales, are more profitable (Ebit margin 16.7%, vs 11%), and grow faster (by 39.7% vs 6.4% in 2014-18).

Estimates for 2019-21 and the Italian fashion industry's digital strategy

According to data collected by **Prometeia** up to 2021, the turnover generated by the Italian fashion industry should continue to increase, reaching **€80bn** (up 8% in two years, double the speed expected in other sectors). This means more growth, but **higher margins**: in 2021 the Ebit margin will be almost six percentage points higher than the average in other sectors.

This will undoubtedly be driven by the fashion industry's online presence. The 559 different brands owned by the 173 companies **attract around 300m internet searches per month**, with 57 brands recording over a million searches each. This reflects the growth in **demand**, which will be estimated to increase by **€1.7bn** over just two years. **Germany** and the **United States** conduct the most online searches for Italian fashion, followed by **China** and **Russia**. There is great potential for Italian brands here, with untapped markets in **Australia, Brazil, India, Poland, Canada** and **Mexico**, where export volumes are lower than the brands' popularity. Despite the fact that young consumers seem to be less interested in Italian fashion than generations before them, particularly in the United States, **the most famous Italian brands still top the online search rankings** for this sector.

Some of the most common keywords associated with Italian brands in online searches include **quality, authenticity** and **reliability**. Other keywords include **sustainability, online shopping, cruelty** and **conflict-free**, reflecting new global consumer trends that Italian brands have been quick to tap into.

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