

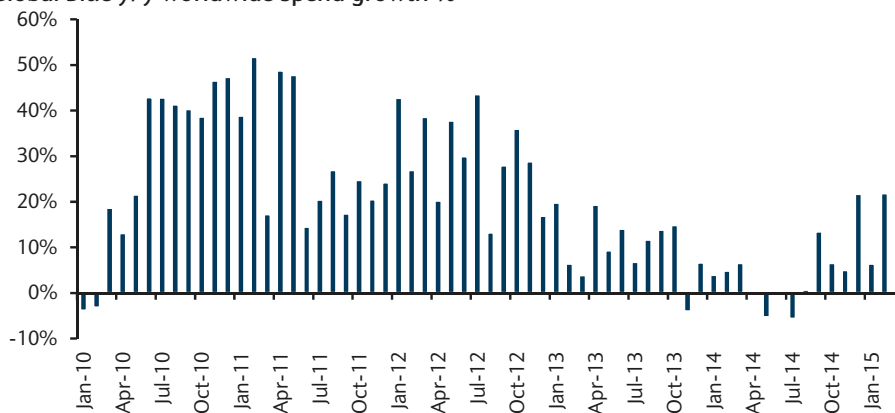
## European Luxury Goods

# Global Blue data +47% in March: Chinese increase record +122%

March's Global Blue data recorded a record increase in Chinese tourism spending +122.4% y/y following +51.9% in February on broadly similar comps. This is an exceptional step-up and brings Chinese spending up 67% y/y in Q1 compared to +32% in Q4 and +18% in 2014. This continues to reflect the redirection of Chinese spending from Hong Kong towards Europe in particular (+115.5%) given the widening of the price differentials, which is a much-discussed theme during the ongoing reporting season and that we detailed in our report *Price cuts a key risk for soft luxury*, of 1 April. The specific March datapoint could have also benefitted from some refunds related to the later Chinese New Year. In the context of weak Chinese GDP figures and ongoing disruption in HK/Macau, the strong European reading provides evidence as to why luxury brands may be reticent to narrow price differentials – it raises the question of the elasticity of demand that is seen after the price moves in particular given the unstable FX environment. However, the increase of the grey market remains a key issue. Global tourism spending increased +47.4% y/y in March, its highest level since May 2011 despite the continued decline of Russian spending (-39% y/y).

**Global tourism spending +47.4%:** This follows +21.8% in February and brings Q1 to +23.9%. Watches & Jewellery again performed the best (+66.9% vs +32.0% in Feb) driven by +80.1% spending in Europe and the fact that Hong Kong's greater exposure to hard luxury means it is the main beneficiary of any redirection of Chinese spending. Leather goods increased +49.7% (vs 23.9% in Feb) and fashion & clothing, despite underperforming for the 7<sup>th</sup> consecutive month given its higher exposure to Russian spending, continued its sharp upward trajectory +21.6% (2.6% in Feb and -5.7% in Jan).

FIGURE 1  
Global Blue y/y worldwide spend growth %



Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

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### INDUSTRY UPDATE

European Luxury Goods  
**NEUTRAL**  
Unchanged

### European Luxury Goods

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*Global Blue is the leader in VAT refunds and is a good gauge of the growth rates for tourism spending in the luxury industry. Tourism spending accounts for more than 50% of European sales for the luxury companies.*

## Sector valuation

We show the latest sector valuations in the table below:

FIGURE 2

### Current sector valuations (calendarised)

	EV/SALES			EV/EBITDA			EV/EBIT		
	2014A	2015E	2016E	2014A	2015E	2016E	2014A	2015E	2016E
Burberry	3.0	2.7	2.4	12.3	11.0	9.7	16.2	14.9	13.4
LVMH	3.1	2.6	2.5	13.3	11.5	10.5	16.4	13.9	12.6
Kering	2.7	2.4	2.2	13.6	12.4	11.2	16.3	14.8	13.3
adidas	1.1	1.1	1.0	12.5	11.2	10.5	16.7	16.5	15.2
Puma	0.8	0.7	0.7	14.0	13.1	10.4	19.6	18.8	14.0
Luxottica	4.3	3.5	3.2	21.5	16.8	15.2	28.7	22.0	19.7
Swatch	2.6	2.5	2.3	10.5	10.2	9.2	12.7	13.0	11.6
Richemont	3.6	3.2	2.9	13.6	12.5	11.0	16.1	14.7	12.9
Mulberry	3.4	3.3	3.0	26.5	32.3	24.1	72.9	98.7	49.0
Ferragamo	3.9	3.4	3.1	17.9	15.1	13.2	21.3	18.0	15.7
Tod's	2.6	2.4	2.3	12.9	12.1	10.9	16.9	15.6	14.0
Hugo Boss	3.2	2.8	2.6	13.9	12.7	11.4	18.2	16.1	14.4
Prada	3.8	3.4	3.2	14.1	12.7	11.5	18.9	17.4	15.7
Sector average	2.9	2.6	2.4	15.1	14.1	12.2	22.4	22.3	17.1
Weighted average - European Luxury	3.2	2.8	2.6	13.3	11.9	10.7	16.4	14.6	13.0

	P/E			FCF yield			Dividend yield		
	2014A	2015E	2016E	2014A	2015E	2016E	2014A	2015E	2016E
Burberry	23.7	22.0	20.2	4.9%	5.1%	5.7%	1.8%	1.9%	2.1%
LVMH	30.3	20.6	18.5	3.3%	3.7%	4.6%	1.9%	2.4%	2.7%
Kering	18.8	17.4	15.3	2.9%	4.2%	5.0%	2.3%	2.5%	3.1%
adidas	28.4	22.8	19.8	1.2%	2.9%	3.1%	2.0%	2.2%	2.2%
Puma	45.4	39.8	29.1	2.0%	0.6%	2.8%	0.3%	0.3%	0.4%
Luxottica	45.3	33.2	30.0	2.4%	2.6%	3.0%	2.4%	1.5%	1.7%
Swatch	17.3	17.9	16.0	3.4%	3.3%	1.7%	1.7%	1.9%	2.2%
Richemont	22.4	20.6	18.6	2.8%	2.8%	4.2%	1.9%	2.2%	2.5%
Mulberry	134.8	191.4	74.5	-1.9%	-0.8%	0.8%	0.1%	0.0%	0.3%
Ferragamo	32.4	27.2	24.2	1.2%	2.9%	3.6%	1.4%	1.7%	1.9%
Tod's	27.1	24.4	22.0	1.0%	2.7%	3.1%	2.3%	2.5%	2.7%
Hugo Boss	24.4	21.2	19.1	3.6%	4.1%	3.7%	3.1%	3.5%	3.9%
Prada	29.8	26.7	24.2	1.1%	3.7%	2.9%	2.1%	2.1%	2.3%
Sector average	36.6	36.5	25.4	2.3%	3.0%	3.5%	1.7%	1.8%	2.1%
Weighted average - European Luxury	25.9	20.7	18.6	3.0%	3.6%	4.2%	2.0%	2.3%	2.6%

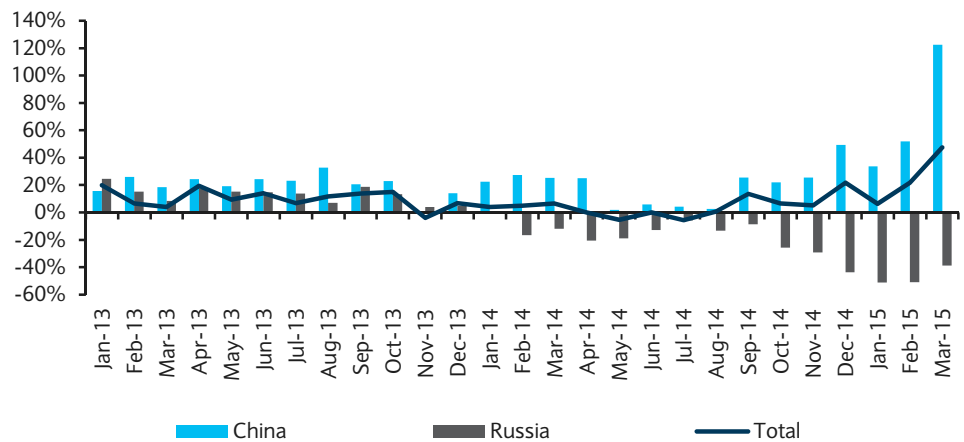
Source: Company data, Barclays Research, DataStream – priced at 16th April 2015.

## Global Blue shows tourism spending up +47.4% in March

In Figure 3 we show the monthly changes in VAT refunds by tourist. March witnessed tourism spending +47.4% y/y, its highest level since May 2011 and representing the eighth consecutive month of growth (vs +21.8% in February). Chinese spending once again was the key driver of the increase with an exceptional +122.4% y/y following +51.9% in February on comps that were 2ppt easier. This is a remarkable step-up in Chinese spending and is likely driven by the confluence of a number of factors including the redirection of Chinese spending from Hong Kong, the weak euro and resultant high premiums between European and Chinese pricing, and the ongoing benefits of the late Chinese New Year (19<sup>th</sup> February 2015 vs 30<sup>th</sup> January 2014). Global Blue measures the point of refund rather than purchase (typically 2-weeks post sale) and so there could have been a boost from purchases made during the travel period post New Year.

In the context of weak Chinese GDP figures and ongoing disruption in HK/Macau, the strong European reading (Chinese spending up +115.5% in March, Q1 +57.4%) provides evidence as to why luxury brands may be reticent to narrow price differentials – it raises the question of the elasticity of demand that is seen after the price moves in particular given the unstable FX environment. However, the increase of the grey market remains a key issue.

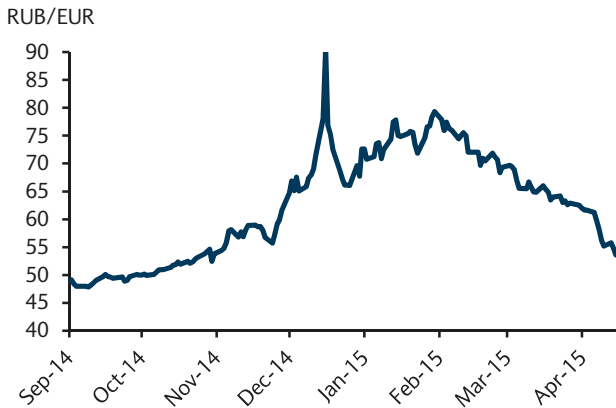
FIGURE 3  
Global Blue y/y spend growth by tourist



Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

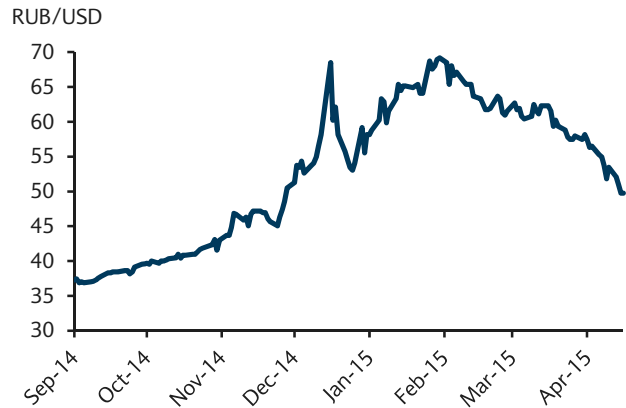
Russian tourism spending declined -38.7% y/y, a relative improvement from -51.0%, on 5ppt tougher comps although it was the fifteenth consecutive decline and remains less than 7% of total spending. Despite this, the comps are getting easier (9ppt easier in April than March) and if the recent recovery in the Rouble is sustained (Figure 4 and Figure 5) there could be some relative improvement in Russian tourism spending despite the ongoing sanctions. Global Blue will have delayed visibility due to the time lag of both booking travel and the registering of receipts.

FIGURE 4  
Russian Rouble to Euro Exchange Rate



Source: Datastream, Barclays Research

FIGURE 5  
Russian Rouble to USD Exchange Rate

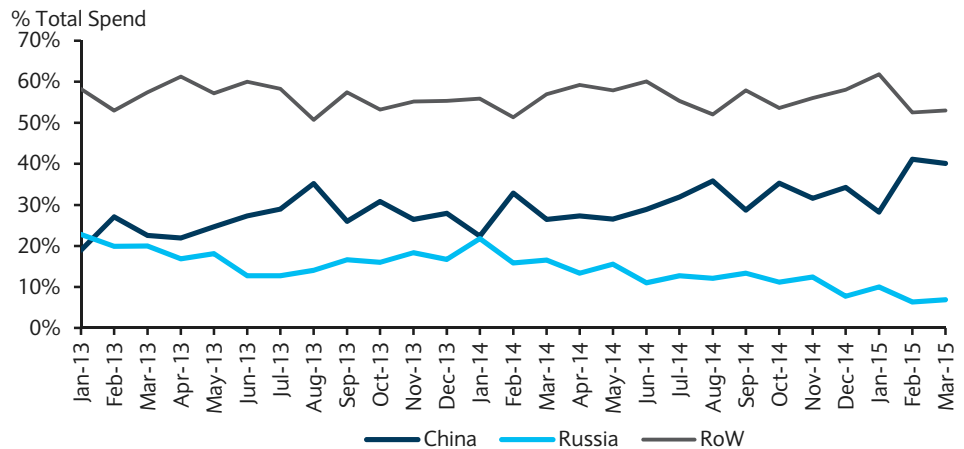


Source: Datastream, Barclays Research

The outperformance of Chinese spending has led to a significant increase in the Chinese tourists' relevance to luxury spending, representing:

- Global tourism spending: 40.1% in March (vs. 26.5% in March 2014 and 22.6% in March 2013).
- European tourism spending: 36.9% in March (vs 24.0% in March 2014 and 21.2% in March 2013)

FIGURE 6  
Chinese, Russian and RoW tourist spend as % of global spend



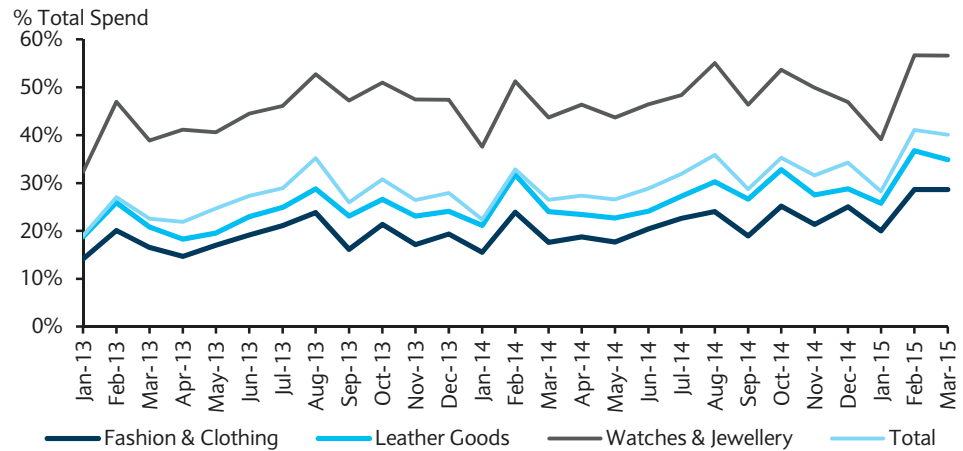
Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

Analysing the increase Chinese tourism spending by product since 2013, it is interesting to note that while there is strong monthly correlation over period, watches & jewellery has been the outperformer (Figure 7):

- Fashion & clothing: +11.1% share since 2013 (March 2013: 16.5% of total spend; March 2014: 17.6%; March 2015: 28.7%)
- Leather goods: +10.9% share since 2013 (March 2013: 20.8%; March 2014: 24.0%; March 2015: 34.9%)

- Watches & jewellery: +17.7% share since 2013 (March 2013: 38.9%, March 2014: 43.7%; March 2015: 56.6%)

FIGURE 7  
Breakdown of Chinese spending as % of total spend in each category



Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

For March, we show the main monthly changes in Figure 8 with the most important figures showing:

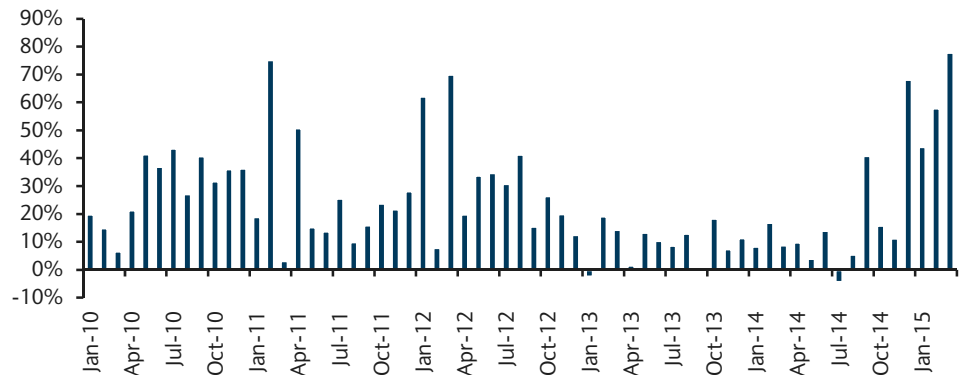
FIGURE 8  
Global Blue key figures

% growth y/y	Q1 14	Q2 14	Q3 14	Q4 14	2014	Jan-15	Feb-15	Mar-15	Q1 15
Worldwide spending	5.2%	-1.7%	2.8%	11.1%	4.3%	6.4%	21.8%	47.4%	23.9%
Watches & Jewellery	1.9%	-7.7%	0.8%	9.6%	1.4%	5.2%	32.0%	66.9%	33.3%
Leather goods & bags	7.7%	-3.6%	2.8%	14.5%	4.8%	8.6%	23.9%	49.7%	26.7%
Fashion & Clothing	1.8%	-3.5%	1.7%	1.6%	0.6%	-5.7%	2.6%	21.6%	5.3%
Chinese spending	25.1%	10.9%	10.8%	32.3%	18.3%	33.7%	51.9%	122.4%	67.5%
Russian spending	-9.8%	-17.5%	-9.3%	-32.9%	-16.8%	-51.2%	-51.0%	-38.7%	-47.6%
Spending in Europe	3.8%	-4.0%	1.3%	6.2%	1.9%	-1.5%	12.1%	40.5%	15.7%

Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

- Total spending increased +47.4% y/y in March. In terms of nationality:
  - Two speeds again by nationality with Chinese spending up an exceptional +122.4% while Russian declined by -38.7%. We calculate the other nationalities up +c.2%.
  - Spending in Europe was 40.5% higher after +12.1% in February, the region posted its highest growth rate since July 2012 reflecting in part the acceleration of Chinese spending (+115.5%) and the diminished influence of Russia which was weighing on the figure.
  - We calculate RoW at a very strong +c.78%, likely driven by South Korea and Japan, marking the eight consecutive month of growth and very strong performance since the end of 2014 (December +68.2%, January +44.0%, February +57.9%).

FIGURE 9  
Global Blue y/y RoW spend growth %

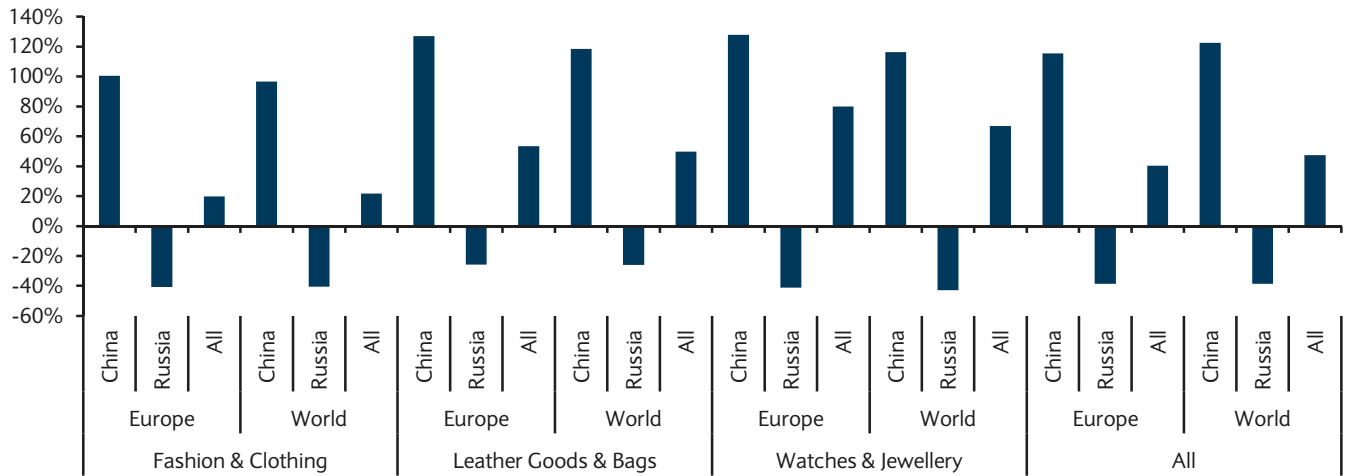


Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

- Analysing the data by category:
  - Watches & jewellery performed the strongest across destinations (+66.9% vs +32.0% in February) largely driven by a +116.2% increase in Chinese spending in Europe (vs a still remarkable +74.0% in February). As shown by figure Figure 7, watches & jewellery is the most exposed category to Chinese spending.
  - Leather goods was up +49.7%, driven again by a +118.5% increase in Chinese spending.
  - Fashion & clothing continued its upward trajectory, despite underperforming the other two categories for the seventh consecutive month, with +21.6% y/y in March (vs +2.6% in February), with Chinese spending +96.7%, while Russian spending declined -40.6%.

Interestingly, the price differential in hard luxury is at a more normalised c30% premium between Mainland China and Europe (with HK virtually in line) vs soft luxury premium of c.60-70%. Therefore it is somewhat counterintuitive that watches & jewellery continues to outperform, particularly in Europe +80.1% (vs +19.9% in fashion & clothing and 53.3% in leather goods). We believe that this reflects firstly the higher saving through VAT refund in absolute terms as well as the segment's higher exposure to Chinese spending, but also the greater benefit from the dislocation in Hong Kong, a jurisdiction not captured in Global Blue data and for which hard luxury represents an outsized proportion of sales.

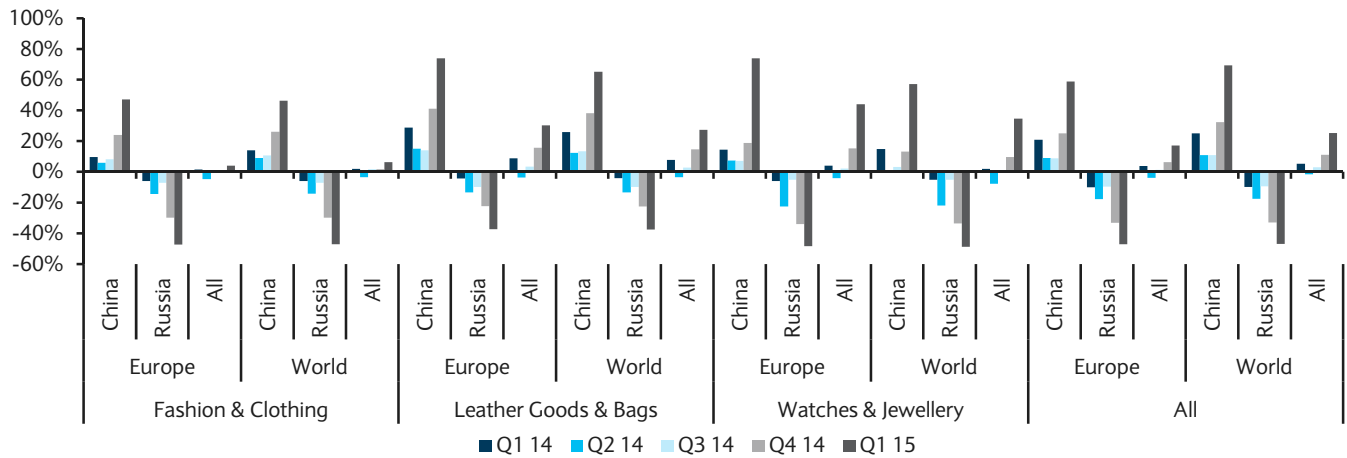
FIGURE 10  
March growth by product, region and tourist %



Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

The following chart shows the quarterly progression:

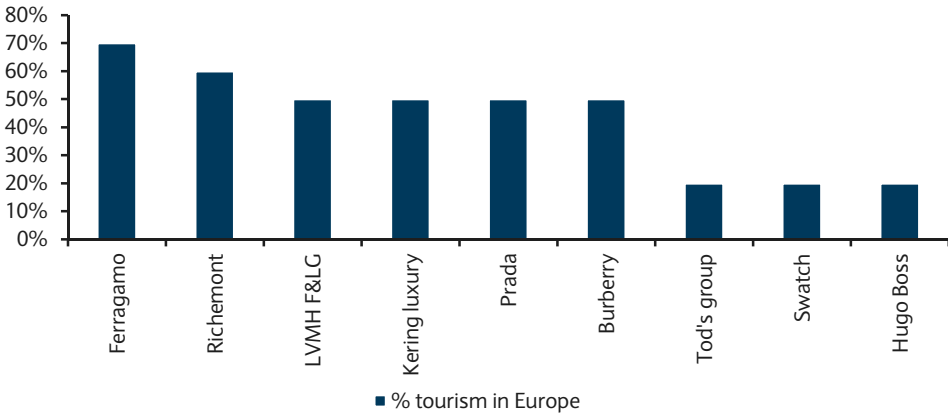
FIGURE 11  
Global growth by product %



Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

The importance of tourism sales for the sector is best demonstrated in the following chart that shows it can account for as much as 70% of sales in Europe and typically around 50%.

FIGURE 12  
Estimate of tourism as % of sales in Europe



Source: Company data, Barclays Research



## Global growth charts

FIGURE 13

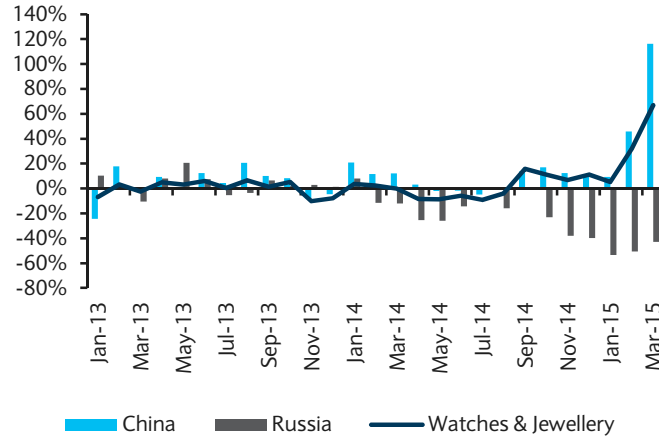
Global growth by product



Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

FIGURE 14

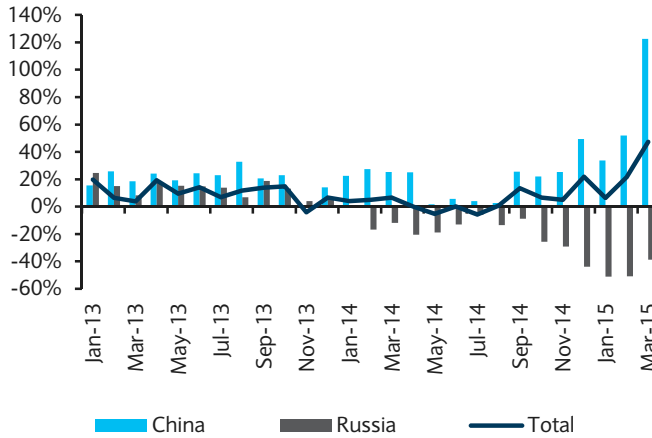
Global watch & jewellery growth by tourist



Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

FIGURE 15

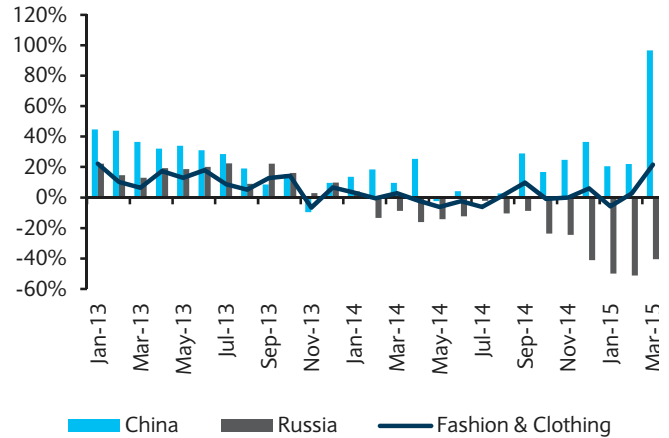
Global leather goods & bags growth by tourist



Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

FIGURE 16

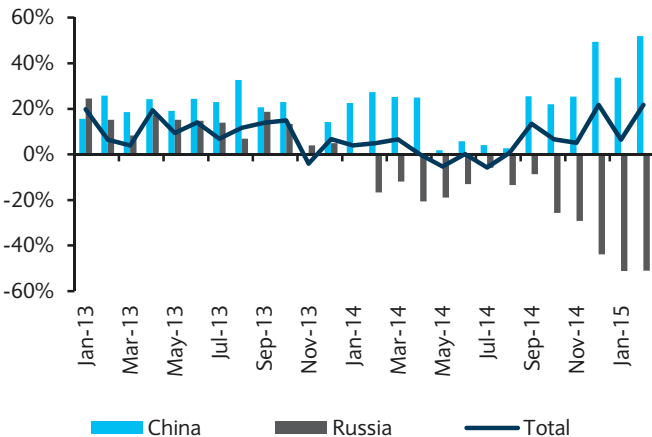
Global fashion & clothing growth by tourist



Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

FIGURE 17

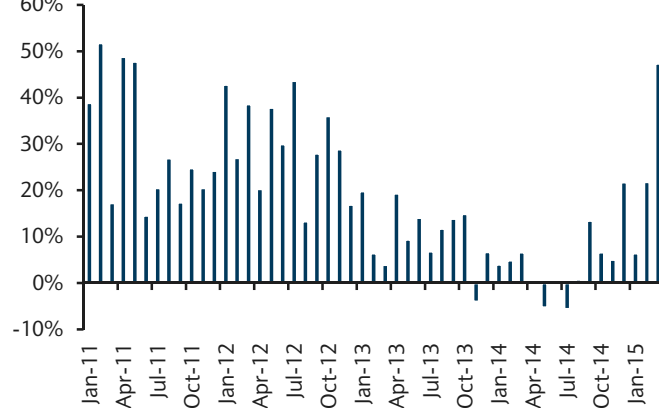
Total global growth by tourist



Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

FIGURE 18

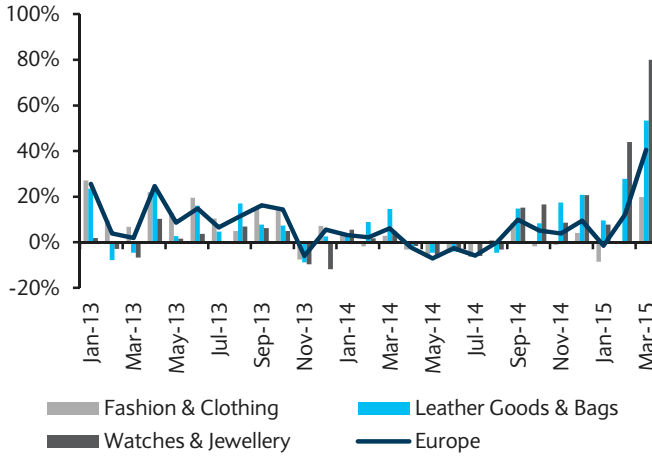
Long-term tourism spending growth



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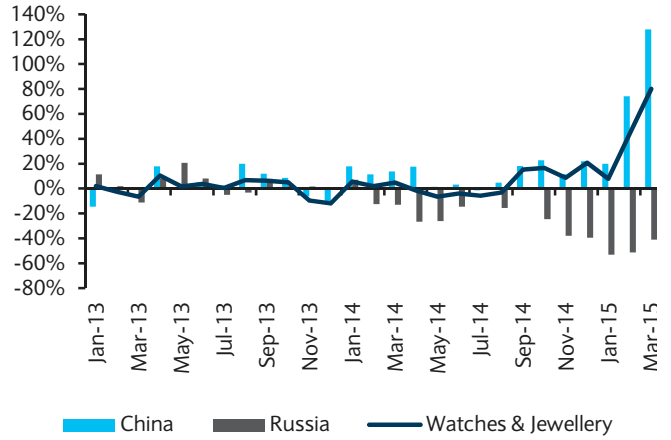
## European growth charts

FIGURE 19  
Europe by product



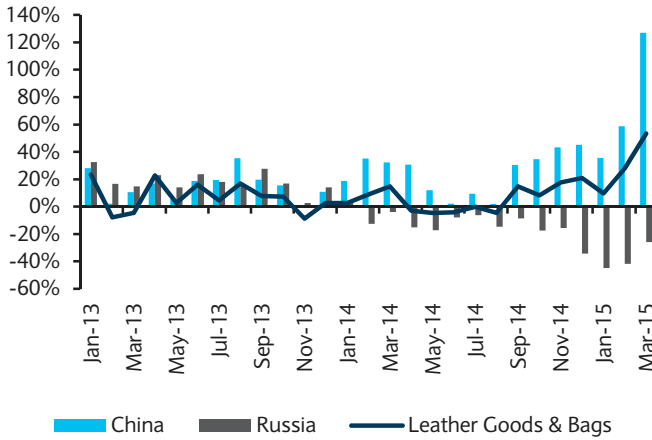
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FIGURE 20  
European watches & Jewellery by tourist



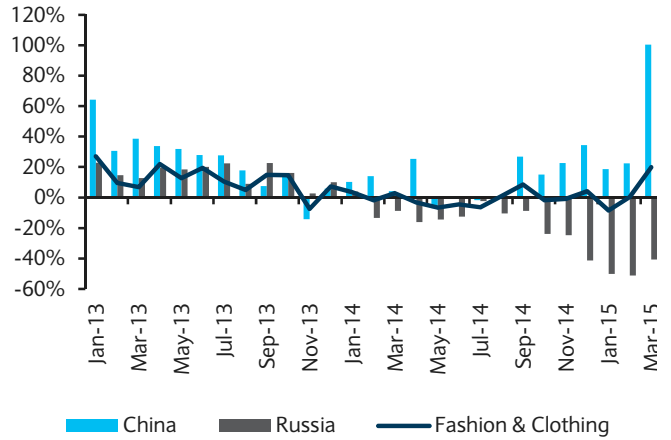
Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

FIGURE 21  
European leather goods & bags by tourist



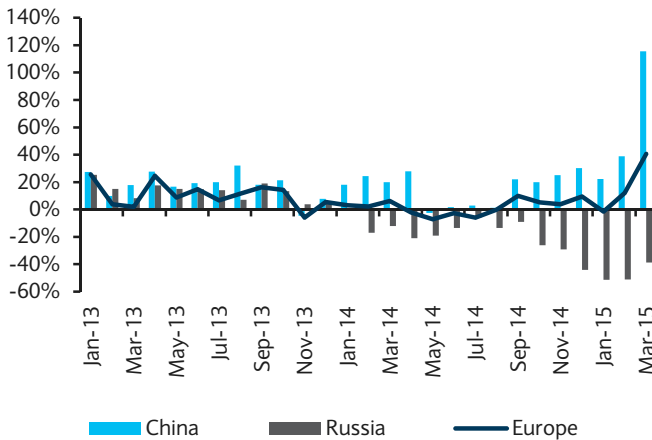
Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

FIGURE 22  
European fashion & clothing by tourist



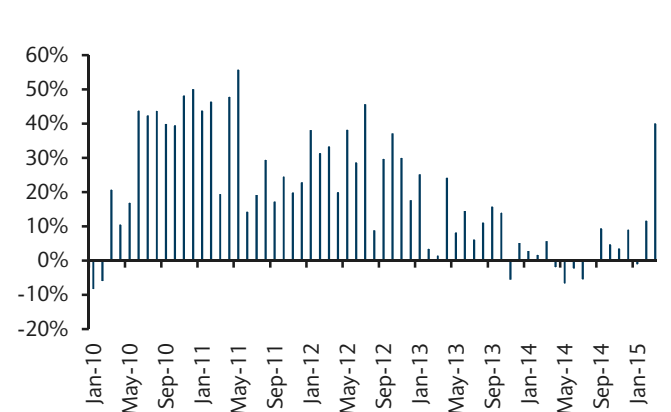
Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

FIGURE 23  
Total Europe by tourist



Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

FIGURE 24  
Long term European tourism spending growth



Source: Global Blue Analytics © copyright Global Blue (2015), Barclays Research

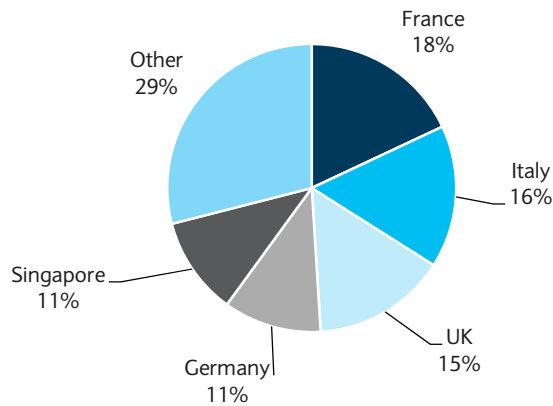
## Global Blue data

The breakdown of global data shows that Europe is the most important region, accounting for 84% of sales due to the more generous tax refund payments in the region. Outside of Europe, Singapore is the largest destination, accounting for 12% of total tax-free spending in 2012 (c75% of the non European business). As a reminder, tourism spending in the US, Hong Kong and Dubai is not captured by Global Blue as those countries do not have VAT refund systems in place.

Global Blue estimates that the overall travel retail market is worth over €48bn and accounts for 60% of the overall luxury market.

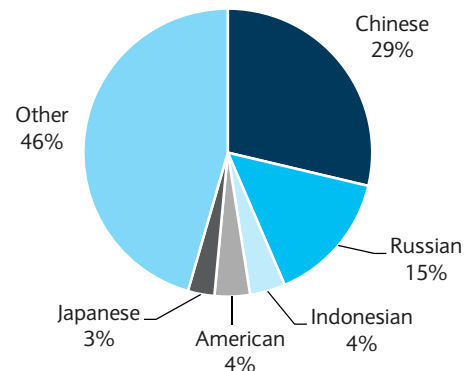
- Globally, Chinese customers account for 29% of spending and Russians 15% - these are the most important consumers by some way.

FIGURE 25  
Sales by region



Source: Global Blue Analytics © copyright Global Blue (2013), Barclays Research

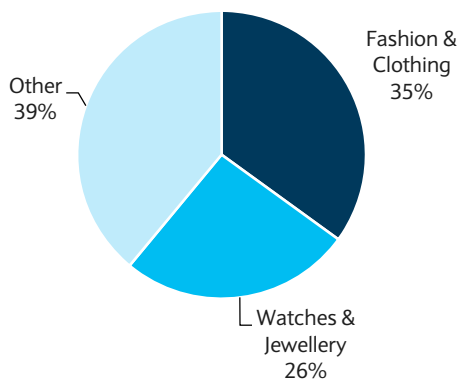
FIGURE 26  
Sales by shopper



Source: Global Blue Analytics © copyright Global Blue (2013), Barclays Research

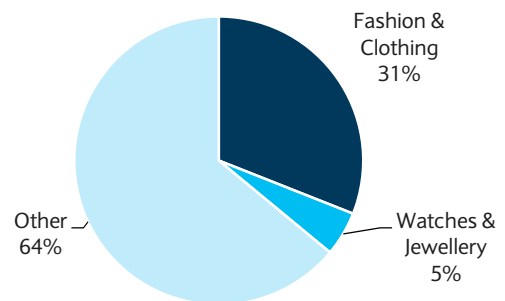
- Chinese tourism spending is more skewed towards Fashion & Clothing as well as Watches & Jewellery while Russian spending is mainly on Fashion & Clothing.

FIGURE 27  
Chinese spending by product category



Source: Global Blue Analytics © copyright Global Blue (2013), Barclays Research

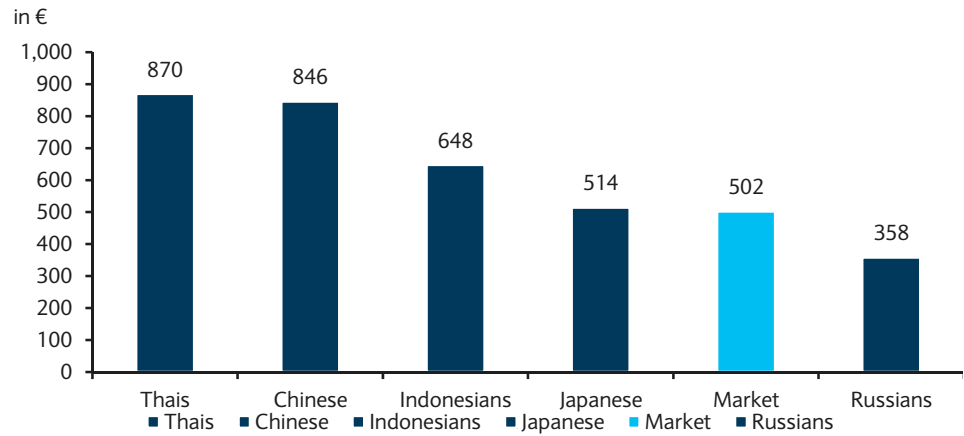
FIGURE 28  
Russian spending by product category



Source: Global Blue Analytics © copyright Global Blue (2013), Barclays Research

- Global shoppers spend on average seven times more than domestic customers with an average spending of £3,400 on shopping abroad per year. We show the average spending per single transaction below – the Thais and Chinese are the highest spenders, followed by Indonesians.

FIGURE 29  
Average spending per single transactions (in €)



Source: Global Blue Analytics © copyright Global Blue (2013), Barclays Research

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In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

### Stock Rating

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

### European Luxury Goods

adidas AG (ADSGn.DE)

Burberry (BRBY.L)

GrandVision BV (GVNV.AS)

Hugo Boss (BOSSn.DE)

Kering (KER.PA)

Luxottica Group SpA (LUX.MI)

LVMH (LVMH.PA)

Mulberry (MULL.L)

Puma SE (PUMG.DE)

Richemont (CFR.VX)

Salvatore Ferragamo (SFER.MI)

Swatch Group AG (UHR.VX)

Tod's (TOD.MI)

## IMPORTANT DISCLOSURES CONTINUED

### Distribution of Ratings:

Barclays Equity Research has 2691 companies under coverage.

43% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 54% of companies with this rating are investment banking clients of the Firm.

41% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 46% of companies with this rating are investment banking clients of the Firm.

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Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

### Top Picks:

Barclays Equity Research's "Top Picks" represent the single best alpha-generating investment idea within each industry (as defined by the relevant "industry coverage universe"), taken from among the Overweight-rated stocks within that industry. Barclays Equity Research publishes global and regional "Top Picks" reports every quarter and analysts may also publish intra-quarter changes to their Top Picks, as necessary. While analysts may highlight other Overweight-rated stocks in their published research in addition to their Top Pick, there can only be one "Top Pick" for each industry. The current list of Top Picks is available on <https://live.barcap.com/go/RSL/servlets/dv.search?pubType=4526&contentType=latest>.

To see a list of companies that comprise a particular industry coverage universe, please go to <http://publicresearch.barclays.com>.

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