FASHION INDUSTRY SURVEY: MADE IN ITALY PRODUCTS TAKE THE PLAUDITS ON THE CATWALK

One-third of the European fashion giants is Italian, but the French groups are still larger in size.
Sales and profits continue to rise, with profitability declining slightly.
The top fifteen companies by turnover are the most profitable and solid, but those close behind are growing quicker

Milan, 13 February 2019

The **Mediobanca Research Area** has presented the new edition of its survey of the fashion industry, examining the trends reflected by the **163 Italian fashion companies** with a turnover of more than €100m in 2017 and the **large European groups** operating in this sector.
The full survey is available for download from www.mbres.it.

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Fashion in Italy: sales, employment and profits continue to grow

The growth trend in the fashion sector in Italy continued in 2017. **Aggregate sales**, of **€70.4bn,** showed a healthy increase on 2013 (up 28.9%), due largely to the impressive performances in 2015 (up 9.9%) and 2014 (up 7%). The growth rate in the last year was slower but still significant (up 4.5%). The sector is becoming increasingly important for Italy: in 2017 it accounted for **1.3% of Italian GDP**, compared with 1.1% in 2013. Among the various segments, the most important is **clothing**, which accounts for 40.5% of total revenues, followed by **leatherwear** (20.9%) and **eyewear** (16.2%).

Jewellery stands out for the **annual average growth rates of its sales in 2013-2017**, up 13.3% higher than the 11% posted by the **distribution** industry and the 6.3% posted by **textiles**. Overall, the Italian fashion companies have seen their sales **grow on average by 6.6% in 2013-2017**, despite a slight reduction in margins (the Ebit margin declined from 9.6% in 2013 to 8.9% in 2017).

Non-domestic sales, which are gaining increasing importance in the accounts of the companies analysed, in 2017 accounted for **63% of the total sales** (up 22.9% on 2013), much higher than the share for the other large Italian manufacturing companies (56.7%). The sectors most geared towards international markets are **eyewear** (89.8%), **textiles** (72.5%) and **leatherwear** (66.1%).

The impressive performances in the fashion sector in Italy and elsewhere have driven an increase in employment levels as well, with a **workforce** which in 2017, with 59,800 new staff (up 19.7% on 2013 and up 4% on 2016), now numbers almost 363,000 employees. The segments which have increased their headcounts most are **distribution** (up 26.8%, with 8,000 new staff), **leatherwear** (up 26.7%, with 11,000 new staff) and **clothing** (up 22.4%, with 28,000 new staff).

As for **profits**, the Italian companies reported an increase in **net profit as a percentage of sales**, which climbed from 4.2% in 2013 to reach **5.3%** in 2017, due to a reduction in the tax rate (from 41% in 2013 to 25.1% in 2017). In general terms, **cumulative net profits** earned by the Italian companies in 2013-2017 totalled €15.8bn, representing consistent growth through the five years under review. In 2017 record profits of €3.8bn were posted, with **net daily average profits per company** of €63,000 (versus €38,000 in 2013).

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The **low borrowings/net equity ratio** (33.7% in 2017) makes the Italian fashion sector companies extremely solid, with **clothing** and **leatherwear** reflecting the best indicators (of 28.9% and 34.3% respectively). The same segments were also notable in terms of liquidity: the liquidity-to-borrowings ratio stood at 125.2% for **clothing** (higher than the 86.2% average for the fashion system as a whole), and 85.2% for **leatherwear**.

Are the top 15 being caught up by the followers?

Of the 163 Italian fashion companies, fifteen report sales in excess of €900m and are included in the survey of large European fashion operators. Comparison between the **top fifteen** and the other **148 Italian companies** provides some interesting data. In general terms, the top fifteen leverage their competitive advantage over the other companies, standing out by **profitability** (Ebit margin of 11.6%, as against 6.8% for the other companies) and **liquidity** (cash and liquid assets stand at 139.8% of borrowings for the top fifteen companies, compared with 52.2% for the others). The 148 followers, however, delivered **higher annual average growth rates in sales for the 2013-2017 period** (up 9.5%, as against 3.5% for the top fifteen).

Furthermore, the top fifteen, which in 2013 benefitted from an **exceptionally high concentration of profits** (in the sense that they generated 77.7% of the aggregate profits), have lost much of this advantage. In 2017 their share of the **aggregate profits** had reduced to 56.2%, leading to a roughly equal distribution in terms of net profits between leaders and followers.

The data on **credit scoring** shows that the disparity between the Italian fashion system companies is weakening. Between 2013 and 2017 the share of fragile companies declined by 32%, and the share of investment-grade companies increased by 15%. The default probability of the fragile companies also decreased (by 20%), whereas that of the investment-grade companies rose by 12%. In other words, the solid companies are a bit less solid, and the riskier companies a bit less risky, meaning the overall picture is more even.

Fashion companies in Europe

In the 2013-2017 period, the 43 leading Italian fashion groups reported **aggregate revenues** of €226.2bn (up 33% on 2013). Although **Italy**, with its top fifteen companies, is the best represented country numerically (with more than one-third of the total), **France** has the largest share of the aggregate turnover with 30.3%, helped by the strong contribution of Italian brands acquired by the French giants. **Italy and Spain** rank second and third, with 13.4% and 13% respectively, although neither had even half as much as **France**.

Among the leading groups, French giant **LVMH**, with seventy brands in five different segments, confirmed its position as the outright leader by size (with sales of €42.6bn). A long way behind are Spanish group **Inditex** which controls Zara (€25.3bn), German company **Adidas** (€21.2bn), **H&M** of Sweden (€20.3bn) and the other French company **Kering,** owner of Gucci and Bottega Veneta among others (€15.5bn). **Luxottica** (€9.2bn), the highest-ranking of the Italian operators, came in seventh, while the **Prada** group, with €3.1bn, ranked fourteenth. The **annual average growth in sales** in the 2013-2017 period favoured the Italian companies: **Valentino** (up 22.2%) and **Moncler** (up 19.7%) came second and fourth in the rankings respectively, which were dominated by Danish company **Pandora** (up 26.1%). French company **SMCP** was in third place (up 21.5%).

Europe achieved an **annual average growth rate in sales** of 7.4% in 2013-2017. **Denmark** (up 13.6%) and **Spain** (up 10.1%) stood out in this respect as the only countries to record double-digit growth rates, whereas the **United Kingdom** (up 5%) and **Italy** (up 3.5%) were below the European average. **Profitability declined**, with the European **Ebit margin** at 15.3% in 2017 (versus 17% in 2013). Here again the **Danish** groups led the rankings, with a margin of 22.6% in 2017, followed this time by the **French companies** with 19.6%. The **Italian** players (11.6%) were forced to follow on this occasion, but still ahead of the **German firms** which ranked last (10%).

A distinctive feature of the largest European fashion groups is their **international dimension**. In 2017, an average of 85.2% sales was generated outside the respective country of origin. The **French**, with 87.7%, are ahead of the **Germans** (83.6%) and **Spanish firms** (82.3%). **Italy**, with 78.3%, shows that its exports still have good margins for growth at the global level. The UK companies were well below average, with 52.8%, influenced by the presence of groups such as **Arcadia** and **New Look** which mostly operate on their own domestic markets.

At the European level the sector has a workforce of nearly a million **employees**. In 2017, the 43 European operators created jobs for almost **990,000 people** (190,000 more than in 2013). The **Italian** groups distinguished themselves for having increased their **workforce** by over 30,000 employees, second only to the **Spanish firms** which expanded their headcount to include a further 48,000 staff (attributable for the most part to the **Inditex** group, with 44,700 new recruits), but ahead of the French (20,300 more staff).