PwC Strategy

The UK "premium lifestyle" clothing, footwear and accessories market

February 2016





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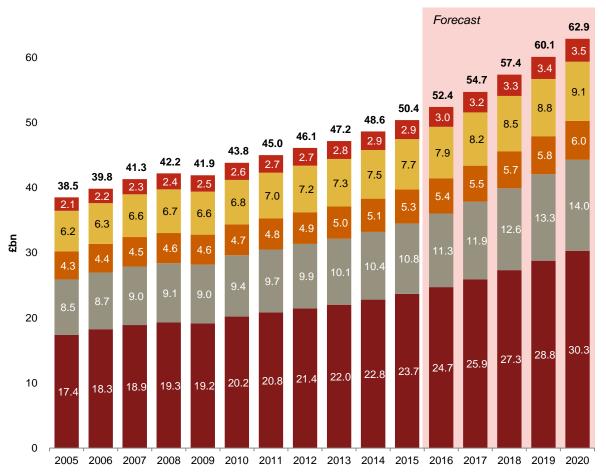
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The UK "premium lifestyle" clothing, footwear and accessories market

- The UK "premium lifestyle" segment of the clothing, footwear and accessories market contains brands characterised by a strong brand ethos that can be stretched across multiple product categories and channels, generating customer affinity and loyalty
- The "premium lifestyle" market was estimated to be worth c.£2.7bn in 2014, and has been outperforming the overall clothing, footwear and accessories market in the UK
- PwC has modelled growth in the segment of 6.6% p.a. between 2014 and 2020...
- ...with growth likely to be driven by a number of factors, including:
 - Ongoing polarisation in the UK clothing market both in terms of price and fashion
 - The shift to more casual attire, both at work, but also at more formal 'dress-up' events
 - Consumers' desires for brands to provide a sense of identity and belonging
 - Growth of online shopping and social media
 - New international entrants, as well as smaller UK brands scaling

The UK clothing, footwear and accessories market is currently estimated to be worth c.£50bn and is forecast to grow at c.4.5% p.a. between 2015 and 2020





	CAGR				
	'05-'08	'08-'09	'09-'15	'15-'20	
Total	3.1%	(0.7%)	3.1%	4.5%	
■ Accessories	6.0%	3.1%	2.6%	3.6%	
Footwear	2.6%	(1.8%)	2.6%	3.4%	
■ Childrenswear	2.4%	(0.1%)	2.1%	2.6%	
■Menswear	2.2%	(1.3%)	3.1%	5.3%	
■Womenswear	3.5%	(0.6%)	3.6%	5.0%	

- The overall clothing, footwear and accessories market has grown steadily between 2009 and 2015, with menswear and womenswear outperforming other categories
- The market is forecast to grow at an increased rate, driven primarily by volume growth
 - Verdict's 2015-2020 forecast growth of 4.5% p.a. for the overall market is ahead of other sources,
 Euromonitor (2.2% p.a.) and Mintel¹ (3.7% p.a.)
- Menswear expected to outgrow other segments of the market, driven by brands and retailers' investment in their menswear offering
- Niche ranges are expected to drive incremental growth in womenswear, including plus-size, petite, tall and maternity clothing

Note: Numbers may not add up due to rounding ¹Mintel market forecasts exclude footwear Source: Verdict (2015), Euromonitor (2016), Mintel (2015)

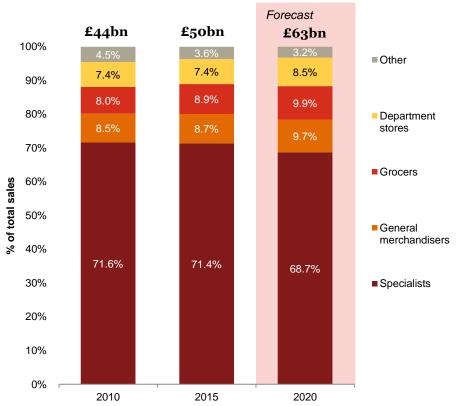
The online channel is expected to continue to take share from traditional channels and is forecast to account for c.29% of the market by 2020

The UK clothing, accessories and footwear market has historically been dominated by clothing specialists, with limited change in channel mix expected

UK clothing, footwear and accessories market channel mix, 2010-2020

However, the proportion of online sales has risen significantly, and is expected to rise to 29% by 2020

UK clothing, footwear and accessories market channel mix, 2010-2020



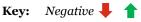
Forecast £44bn £50bn £63bn 100% 9.3% 90% 20.0% 28.8% 80% Online 70% Offline 60% % of total sales 50% 90.7% 40% 80.0% 71.2% 30% 20% 10% 0% 2010 2015 2020

Note: "Other" captures sales for variety stores, second hand stores and street markets

Source: Verdict (2015)

Market growth is expected to be driven by rising disposable income, improving consumer confidence and growth in consumer sub-segments

UK clothing, footwear and accessories market drivers



POsitive

Drivers of the clothing, footwear and accessories market value

Rising disposable income and consumer confidence

- The clothing market suffered a decline during the recession but has since recovered
- The UK macro-economic outlook appears positive, with rising disposable incomes and consumer confidence driving discretionary spending, which should support further growth in spend on clothing, footwear and accessories

Shift towards spending on experiences

- While consumer confidence and discretionary spending continue to increase, consumers are looking to focus their spending more on experiences (e.g. holidays) rather than shopping
- In addition, consumers prioritising spending on the home (e.g. paying down mortgages, home improvements)
- This is likely to put pressure on spending on clothing, footwear and accessories

Clothing price deflation

- Following a period of high clothing inflation (2010-12), price growth has slowed
- · Forecast growth in the clothing and footwear market is primarily expected to be volume driven, with deflation expected from 2018 onwards, driven by lower supply chain costs and discounting by mass market brands

Clothing retailer innovation

- UK high street retailers are looking for new sources of growth including:
 - New categories
 - New fascias
 - New concepts
 - New channels
 - New partnerships
- Retailers are therefore generating more awareness to drive footfall and traffic, which is growing the overall market

Historical impact









Future impact (15-20)





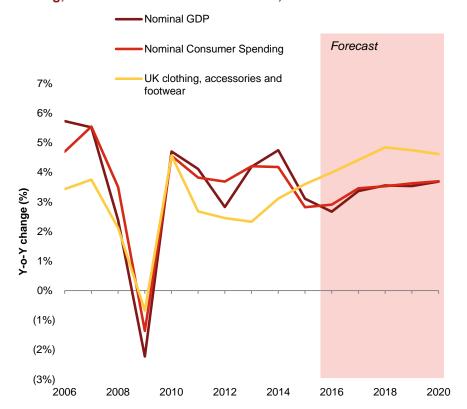




Forecast growth of the UK economy and increased consumer confidence supports growth in the market going forward

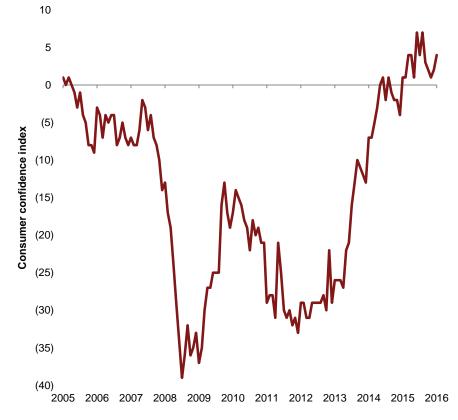
Historically, the UK clothing, accessories and footwear market has moved in line with the economy

Nominal GDP vs. Nominal consumer spending vs. UK Clothing, accessories and footwear market, 2006-2020



Consumer confidence has reached pre-recessionary levels

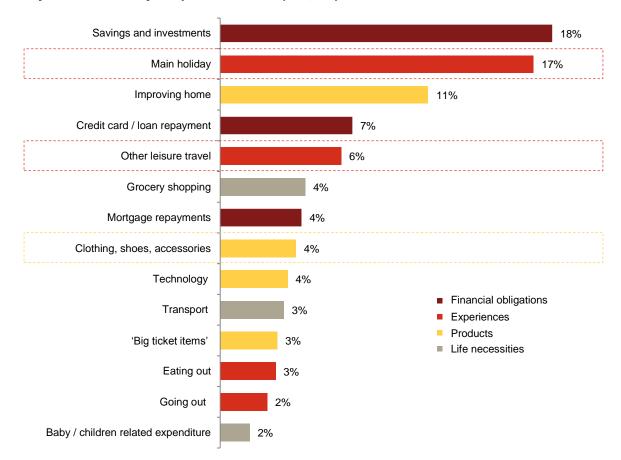




Source: Verdict (2015), ONS (2015), HM Treasury (2015), GfK (2016)

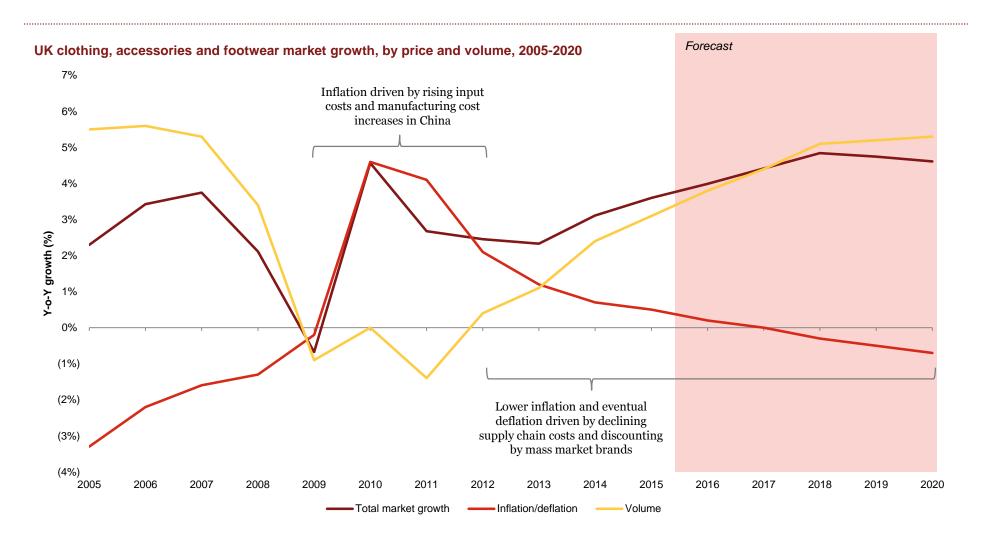
While consumer confidence and discretionary spending continue to increase, consumers are looking to focus their spending more on experiences, which may put pressure on clothing spend

If your financial situation improves, which of the following categories would you be most likely to spend more on? (n=2,051)



- During the recession consumers cut back on leisure spend, but this spend is now a priority
- This has been supported by technological developments that have improved consumers' access to experiences (e.g. the growth of the sharing economy)
 - Platforms such as AirBnB (holidays), Uber (transport), Just Eat (food delivery) and Netflix (entertainment) have made spend on entertainment easier and in some cases more affordable
- The growth of social media sites (e.g. Facebook, Instagram and Snapchat) has allowed consumers to share their experiences more widely, in turn creating more demand for experience to share

Market growth is primarily expected to be volume driven, with deflation expected from 2018 onwards



Source: Verdict (2015)

UK high street retailers are looking to innovate their proposition as they look for new sources of growth

Overview of UK high street retailers' strategies to drive growth

Retailers are extending into new categories...

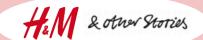






Beauty ##

...opening new fascias...







...developing new concepts...



John Lewis at the Bullring in Birmingham features a coffee shop, food emporium and beauty salon



Jigsaw Duke St. Emporium combines shopping, coffee and culture



Oasis flagship store in Tottenham Court Road has a café and beauty station

...entering new channels...



Finery
Announced the openings of 6
concessions in John Lewis after testing
the concept with a pop up store

NET-A-PORTER. COM Virtual pop-up "shopping walls" that consumers can engage with via Window Shopping app

...and forming new partnerships

Rihanna designed two collections inspired by her personal style for River Island

 $\frac{\text{RIHANNA}}{\text{for RIVER ISLAND}}$



Kate Moss has designed multiple collections for Top Shop, with the first in 2007



Launch of Burberry dedicated music channel on Apple streaming

Source: Trade Press, Retail Week, Verdict

The "premium lifestyle" segment of the market contains brands characterised by a strong brand ethos that can be stretched across multiple product categories and channels, generating customer affinity and loyalty

Overview of the UK "premium lifestyle" segment

Illustrative

Clothing heritage

Joules
Superdry.

CREW Boden

Chicerity Outliers

WHITE
STUF

GANT

CLOTHING Co.

seasalt
TOMMY THILFIGER

RALPH 🐂 LAUREN

Single product heritage



Barbour



Rapha

MUSTO

Accessories and homeware heritage



THE WHITE COMPANY

OLIVER BONAS

LAURA ASHLEY

Strong brand ethos

Premium lifestyle brands are unified by a distinctive brand and signature handwriting that is recognised by customers

Multiple product categories and channels

The strong brand ethos enables premium lifestyle brands to stretch across multiple categories (e.g. menswear, womenswear, childrenswear, footwear, accessories, home) and multiple channels (e.g. stores, 3rd party channels, events)

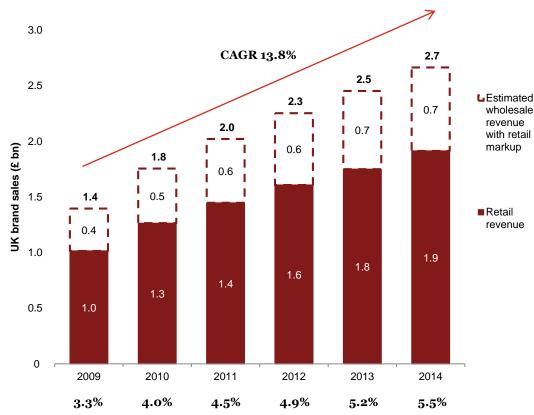
Customer affinity and loyalty

Premium lifestyle brands are front of mind, featuring high on consumers' shopping repertoire. As a result, customers remain loyal, shopping with the brand for many years

Source: Company Websites

The UK "premium lifestyle" clothing market was estimated to be worth c.£2.7bn in 2014, and has been increasing market share of the overall clothing, accessories and footwear market

PwC's estimate of the UK "premium lifestyle" clothing market, 2009-2014



Premium lifestyle as a % of UK clothing, footwear & accessories market

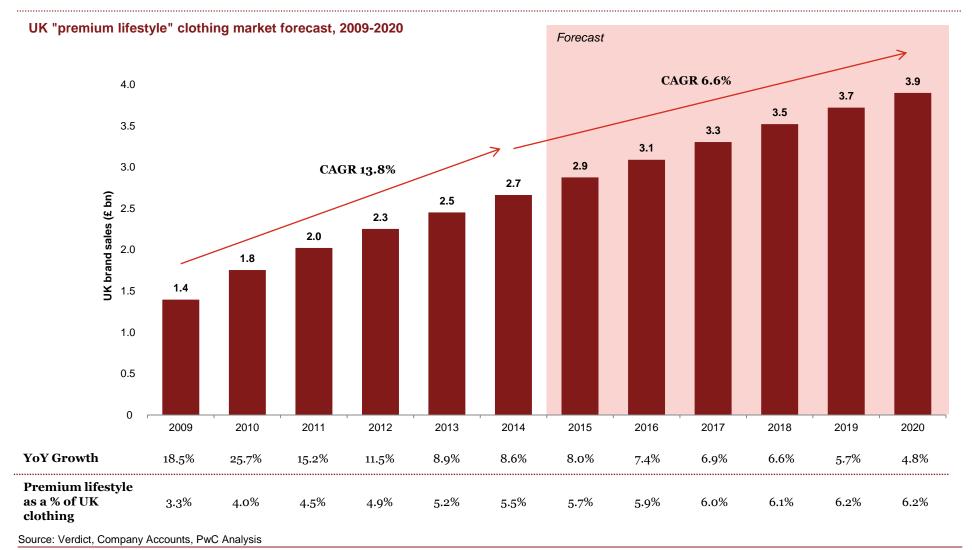
Segment sizing methodology:

• PwC has estimated the size of the UK premium lifestyle segment based on the 'brand sales' of 21 selected brands:

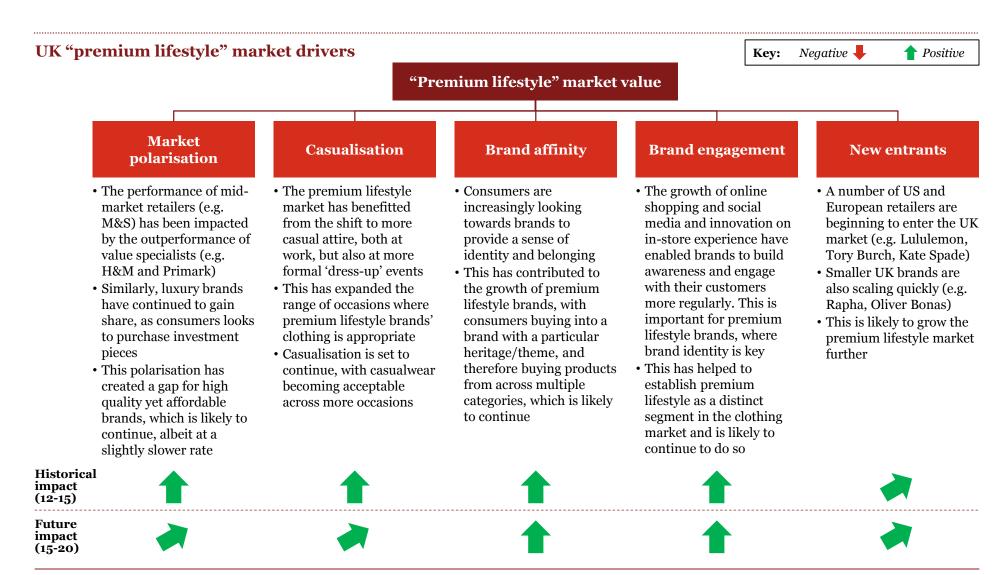


- For clothing specialists: Given the broad mix of operating models across these players, where some brands have a large wholesale presence, PwC has estimated 'brand sales' to give a more realistic size for the overall segment at consumer prices
 - A retail multiple of 2.5 (based on PwC experience) has been applied to the wholesale revenue of selected brands to estimate the brand sales
 - Where there is no public information on wholesale revenue, estimates have been applied
- For non-clothing specialists: Given that these brands operate in the premium lifestyle segment, including Cath Kidston, Oliver Bonas and Laura Ashley, we have estimated the share of clothing to size a like-for-like market

Note: Numbers may not add up due to rounding Source: Verdict, Company Accounts, PwC Analysis PwC has modelled growth in the "premium lifestyle" segment of 6.6% p.a. between 2014 and 2020, with a slower growth rate expected as the market evolves...



...driven by consumers' attitudes towards clothing and brands' ability to engage with their customers



There is ongoing polarisation in the UK clothing market both in terms of price and fashion, which has supported the growth of the premium lifestyle segment

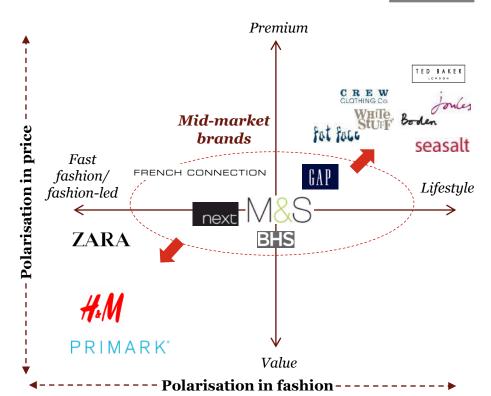
Polarisation in price and fashion has created a gap in the market as mid-market retailers focus more on value and fashion offers...

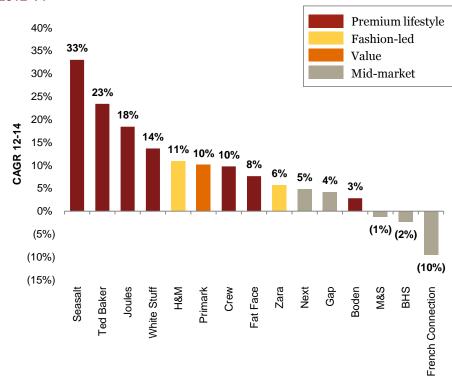
...which has allowed premium lifestyle brands to grow, establishing this as a distinct segment

Brand positioning of selected clothing brands

ILLUSTRATIVE

UK Revenue growth of selected clothing retailers¹, 2012-14



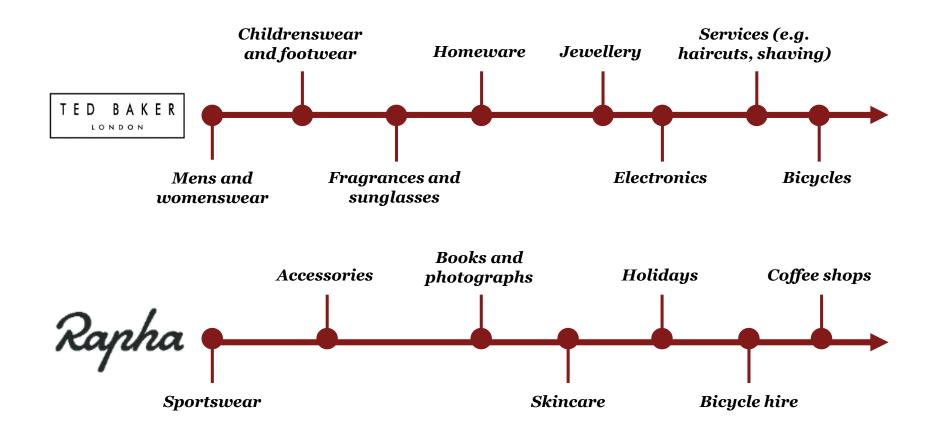


Note: ¹CAGR's shown reflect financial calendar years; GAP/French Connection revenues are Europe segment (no further split available), MS revenue is UK General Merchandise revenue only Source: Company accounts, Annual reports

UK "premium lifestyle" brands have been able to stretch across categories, benefitting from customer affinity, to drive incremental sales

Examples of "premium lifestyle" brands' stretch across categories

ILLUSTRATIVE TIMELINE



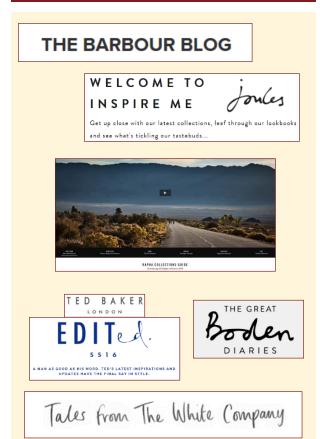
Source: Retail Week, Company websites, Trade press

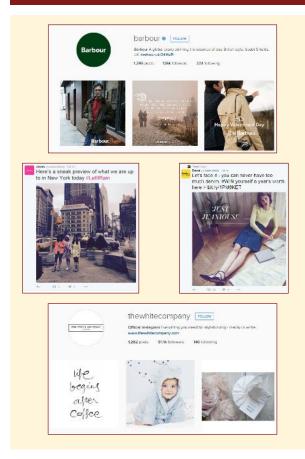
Premium lifestyle brands have benefitted from the growth of internet shopping and social media, which has helped them to build customer engagement, loyalty and affinity online

A number of premium lifestyle brands are using content on their website to inspire customers...

...as well as building engagement across social media platforms...

...and being featured on fashion and lifestyle blogs







Source: Company websites, Trade press

New premium lifestyle entrants, and the growth of smaller brands, is likely to support volume growth

Large international premium lifestyle brands have begun to enter the UK market...

• Lululemon is a leading US lifestyle brands with an ethos focused on self-improvement and experiences to reach personal goals. Yoga remains at the core of the brand



• The company entered the UK in 2012 with a London store

The brand now has five stores in London and one in Edinburgh, as well as four showrooms (Glasgow, Manchester, Bath, Guildford)

 28 UK partners offer products in gyms, yoga studios and wellness centres

"We are passionate about sweating every day and we want the world to know it"

J. Crew

Lululemon

• J.Crew is an American lifestyle brand that stands for the perfect mix of classic styles and bold fashion forward pieces

 First entered the UK market in 2013 with a launch in London

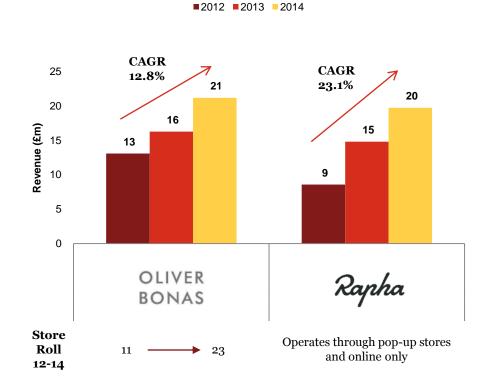
- · Higher pricing compared to US
- 7 stores in the London area

"We side with style over fashion"

J.CREW

Smaller UK brands have started to scale quickly, growing market volumes

Small UK brands revenue and store roll out, 2012-2014

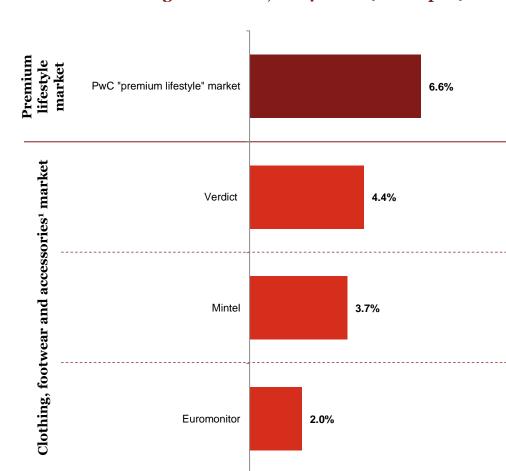


Source: Company websites, Company accounts

Appendix

PwC believes the "premium lifestyle" market will continue to outperform the overall clothing, footwear and accessories market in the UK

Forecast market growth rates, 2014-2020 (CAGR p.a.)



Forecast methodology

PwC's forecast is built using the historical rate of market share gain of the premium lifestyle market against the overall UK clothing, footwear and accessories market. The forecast takes into account the increasing maturing of the market segment and the increased rate of growth of the overall market based on Verdict

Verdict's market forecast is built using retailers' reported and forecast sales. Forecasts supported by macroeconomic forecasts, individual retailers' expansion plans and the competitive environment

Mintel's market forecast is built using the ONS retail sales survey and proprietary Mintel data for consumer spending across clothing and accessories. Mintel's market definition excludes footwear

Euromonitor's market forecast is built using qualitative insights from individual retailer data and interviews. This is supported by store checks, trade surveys, desk research and company analysis

Note: 1Mintel market forecast excludes footwear

Source: Verdict (2015), Euromonitor (2016), Mintel (2015), Company Accounts, PwC Analysis

To estimate the size of the UK "premium lifestyle" clothing market, PwC has made assumptions on what share of total revenue for each brand is from premium lifestyle products, and the wholesale proportion for each brand

Brand	FY end	2014¹ UK revenue (£m)	% addressable products	% wholesale	Comments
Aigle	Dec	5.0	100%	90%	Based on lack of UK store locations/limited e-commerce
Barbour	Dec	90.6	100%	90%	Based on limited UK store presence/limited e-commerce
Boden	Dec	126.3	100%	ο%	Based on lack of wholesale partners
Cath Kidston	Mar	84.9	20%	25%	Based on Retail Week estimates and company accounts
Crew Clothing	Oct	57.7	100%	20%	PwC estimate
Fat Face	May	201.1	100%	20%	PwC estimate
Gant	Dec	47.7	100%	57%	Based on company accounts
Hunter	Dec	36.8	100%	90%	Based on company accounts/limited e-commerce
Jack Wills	Feb	120.9	100%	ο%	Based on lack of wholesale partners
Joules	May	105.9	100%	20%	PwC estimate
Laura Ashley	Jan	273.9	17%	5%	Based on annual report
Musto	Dec	21.8	100%	78%	Based on company accounts from 2008 (constant level assumed)
Oliver Bonas	Nov	30.3	70%	о%	PwC estimate based on store visits
Ralph Lauren	Mar	205.0	100%	40%	Based on press releases
Rapha	Feb	19.7	100%	ο%	Based on lack of wholesale partners
Seasalt	Jan	28.2	100%	25%	Based on company accounts from 2010 (constant level assumed)
Supergroup	Apr	285.0	100%	31%	Based on annual report
Ted Baker	Jan	297.8	100%	21%	Based on annual report
The White Company	Mar	152.9	100%	0%	Based on lack of wholesale partners
Tommy Hilfiger	Jan	49.7	100%	0%	Only UK retail sales reported in accounts
White Stuff	May	126.5	100%	20%	Based on company accounts from 2010-11 (constant level assumed)

Note: ¹Annual revenue matched to calendar year where year end falls part way through a calendar year (e.g. May 2014 year end allocated to 2013, Nov 2014 year end allocated to 2014) Source: Company accounts, Retail Week, Trade Press

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