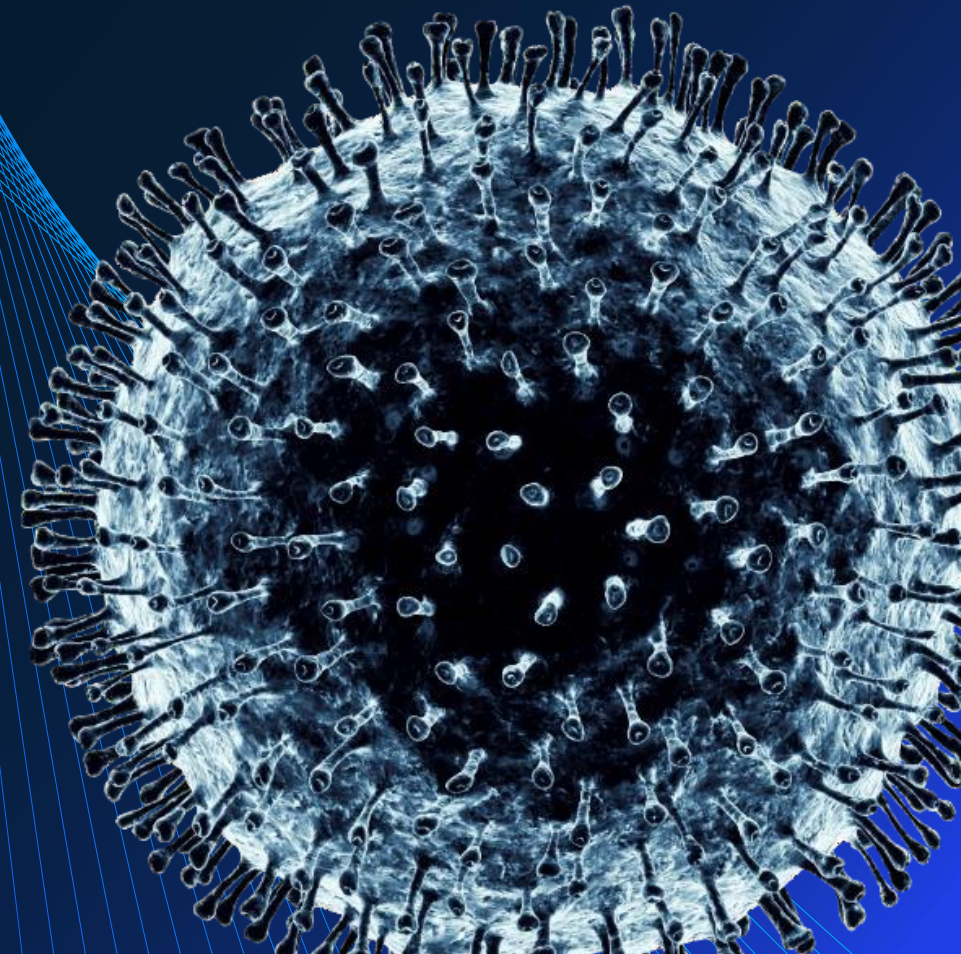


COVID-19 response strategies in Apparel & Fashion

A European perspective on how leading companies
act now and how this crisis will change the industry

Edition II



COVID-19 represents unique challenges

Context

The current COVID-19 **situation remains fluid and is changing rapidly** from one to day to the next

As of now, the medium term implications for our industry, best actions and required tradeoffs remain far from clear, but despite the ambiguous situation **companies are beginning to take decisive action**

In order to support the industry, we have reached out to a large number of players to both connect them and **synthesize key learnings on what is working**

In the upcoming weeks, we will continue to evolve this insight, consolidate learnings across the industry globally and will provide further perspectives on how to navigate in these uncertain times as well as prepare for a successful ramp-up beyond COVID-19.

This document summarizes current and directional views as of March 23rd, 2020

Inputs into this document



Consolidated and sanitized perspective on demand impact and key actions taken by European apparel & fashion companies.

The analysis is based on interviews with senior executives of **30+ apparel & fashion players across Europe** – including leaders of brands in sports apparel, fast fashion & value fashion and eCommerce

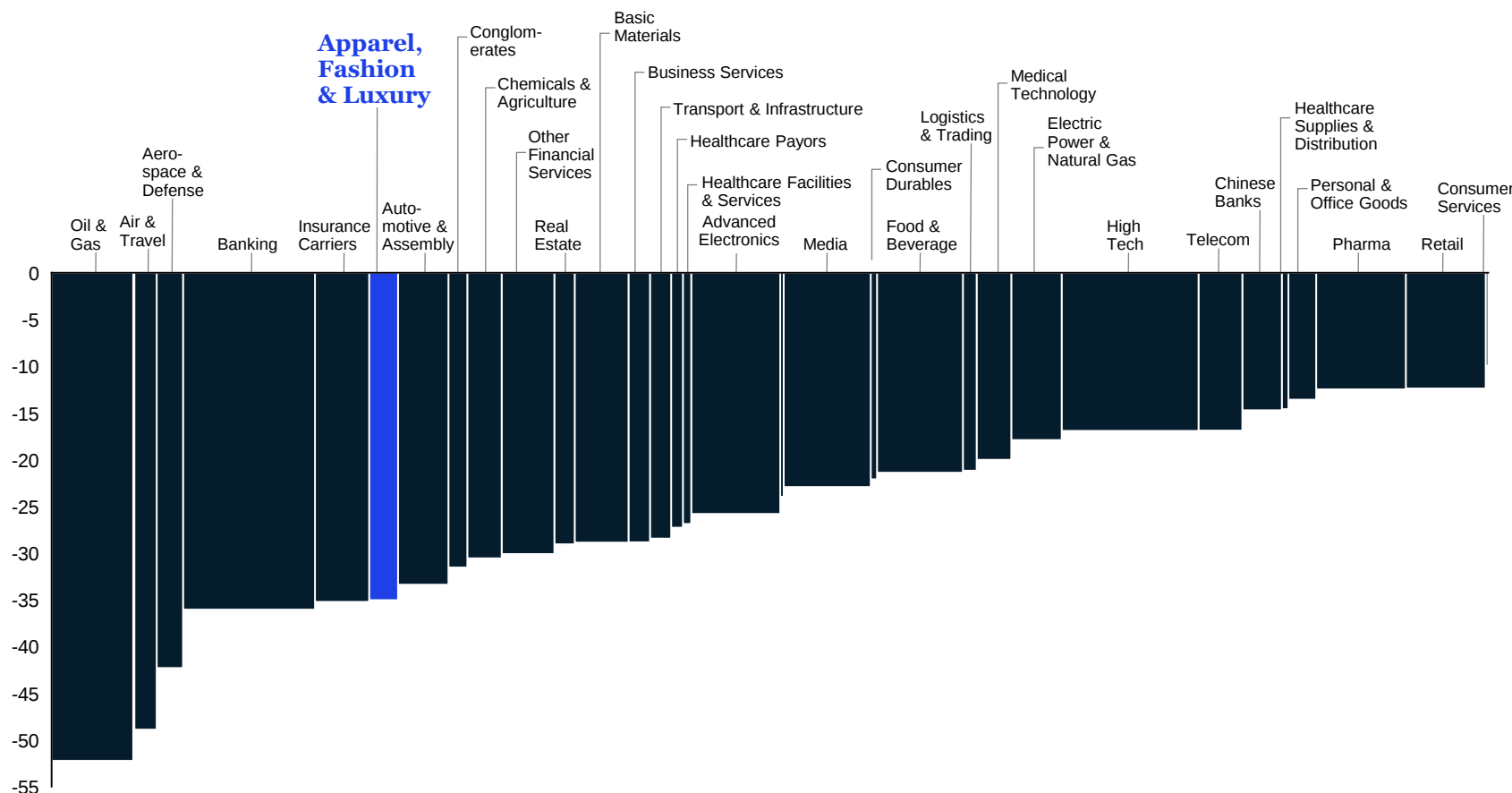


Data and insight from Chinese, South Korean and Italian markets to understand developments in countries that are "ahead" of the curve

Stock markets foresee tough times for apparel, fashion and luxury players

Market capitalization evolution JAN 1st – MAR 18th 2020

Weighted avg. YTD local currency shareholder returns by industry in %¹. Width of bars based on market cap on Jan 1



Average **market capitalization** of apparel, fashion and luxury players has **decreased by 35%** since January 1, 2020

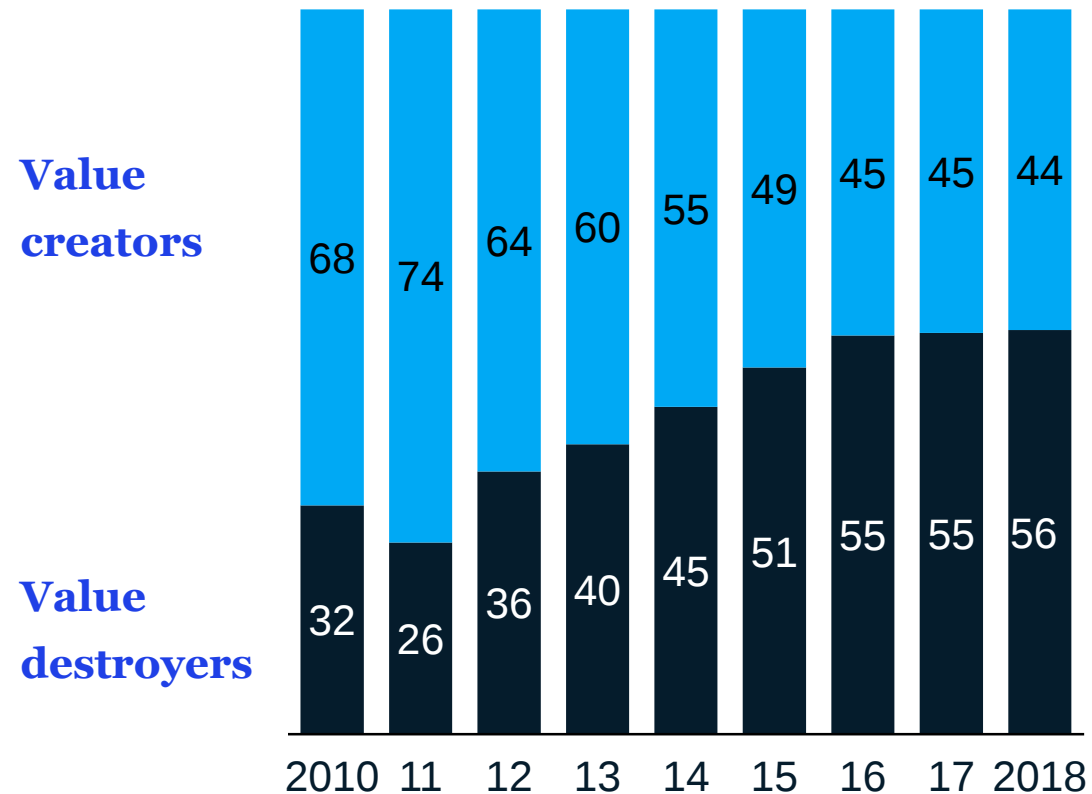
This reflects **investors' expectation of future earnings** due to COVID-19

As highly discretionary good, apparel, fashion & luxury is **heavily affected**

1. Data set includes global top 3000 companies by market cap in 2019, excluding some subsidiaries, holding companies and companies who have delisted since

Already pre COVID-19-crisis, 56% of all listed apparel, fashion & luxury players were value destroyers

Share of value creators vs. value destroyers, %



- Over the last 8 years, the **share of players destroying value has almost doubled**
- Luxury has driven** most of the increase in **value creation** since 2016
- Value creation in the industry is driven by few “Super-winners”** that account for 177% of industry economic profit

Value creators = listed firms whose profit exceeds their estimated cost of capital

Source: McKinsey Global Fashion Index (MGFI)

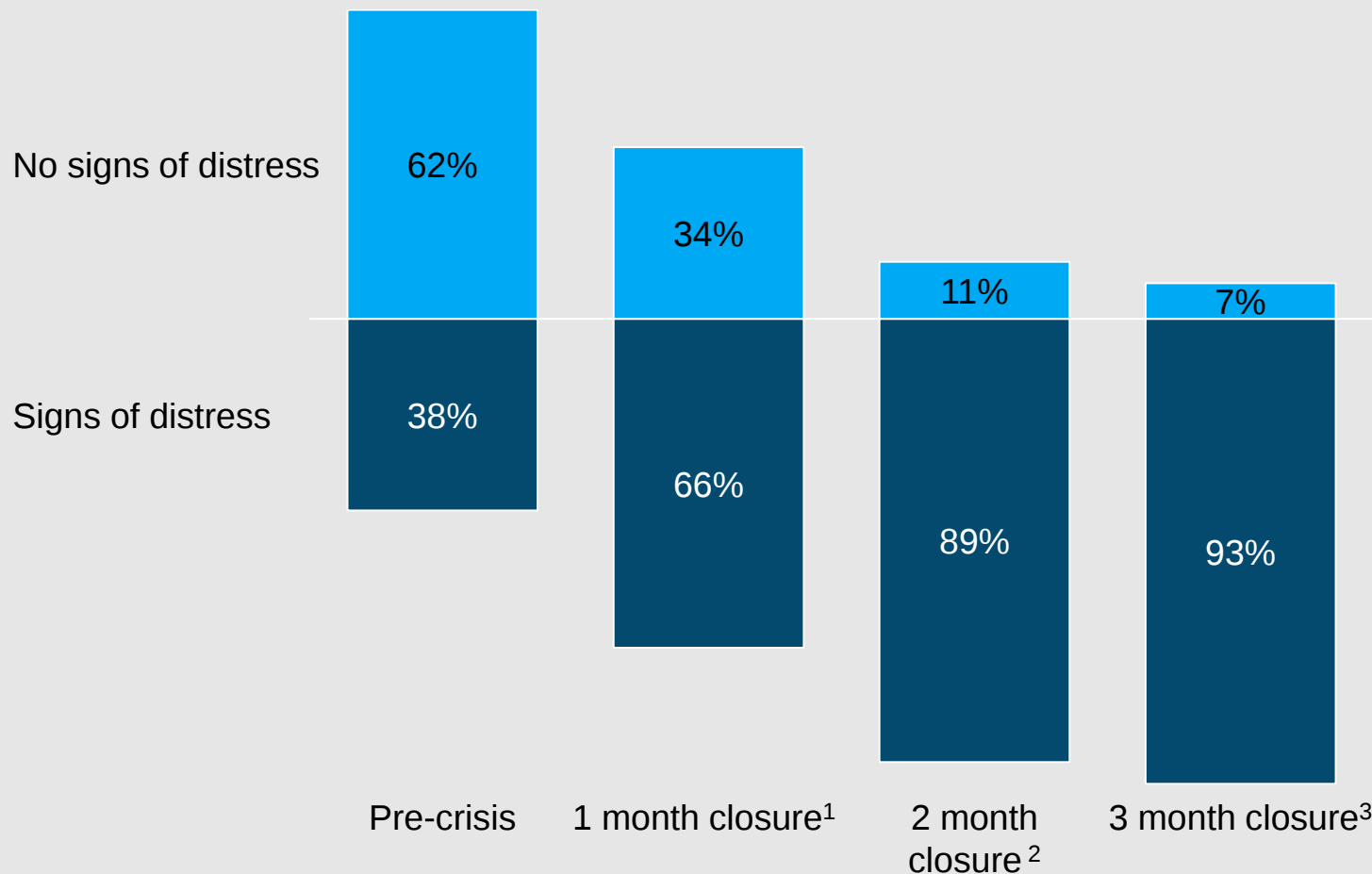


A 2-3 months lock down would bring a majority of players into financial distress situation

Analysis on correlation of offline retail lock down duration and share of companies in distress

Distress meaning negative EBITDA or net debt/EBITDA > 4

Includes 71 listed EMEA apparel & fashion companies, >250mn net sales



1. 1 month store closure and 1 month lost sales in ramp-down, ramp-up - equivalent to 17% FY revenue decline
2. 2 month store closure and 2 month lost sales in ramp-down, ramp-up - equivalent to 33% FY revenue decline
3. 3 month store closure and 2 month lost sales in ramp-down, ramp-up - equivalent to 42% FY revenue decline

What is happening?

Current situation in Europe and learnings from China

What to do now?

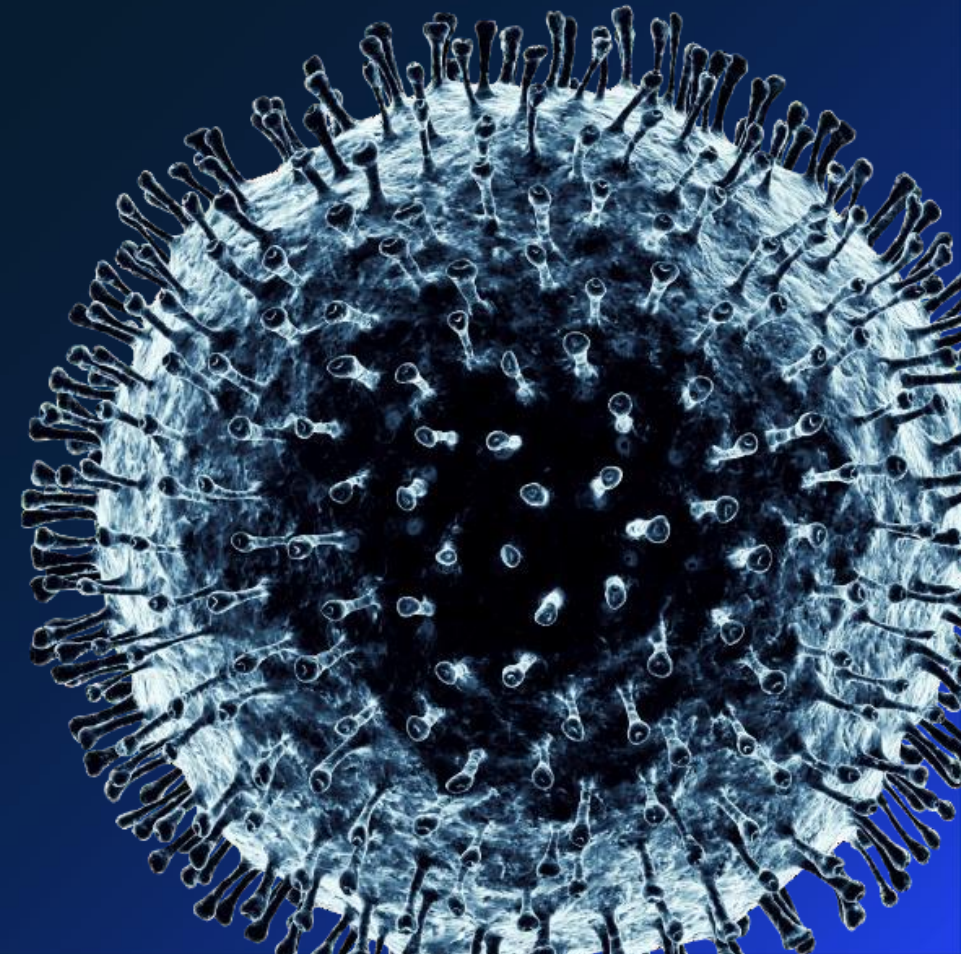
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Current sales performance across Europe shows offline channels are heavily impacted even before store closures – spending does not shift online

1 Offline sales dramatically declined

Spending already **dropped at the onset of lock downs**, regardless of the actual rate of COVID-19 infection in a local market

Minus **30-40%** decline in revenue reported across European offline apparel

Areas with especially high infection rates report up to **80%** decline before store closures

Certain consumer segments more affected than others, e.g., apparel for elderly consumers

"We realize now more than ever that apparel & fashion is a discretionary good"

2 Online mostly not growing either

Online revenues **remain largely stable on average**, we **observe differences in trends between players**

Few strong brands report increased eCom revenues, similarly **emotional purchasing** is increased vs. functional transactions – however on **average**, analysis across European market shows **decline of online traffic**

Some players report decrease of **5-20%**

Companies with **high eCom shares are at an advantage** at this point, small players now quickly set up eCom stores, new digital formats keep emerging



Offline retail is gradually coming to a complete shut down across Europe – longer closures than initially announced are expected

Closed

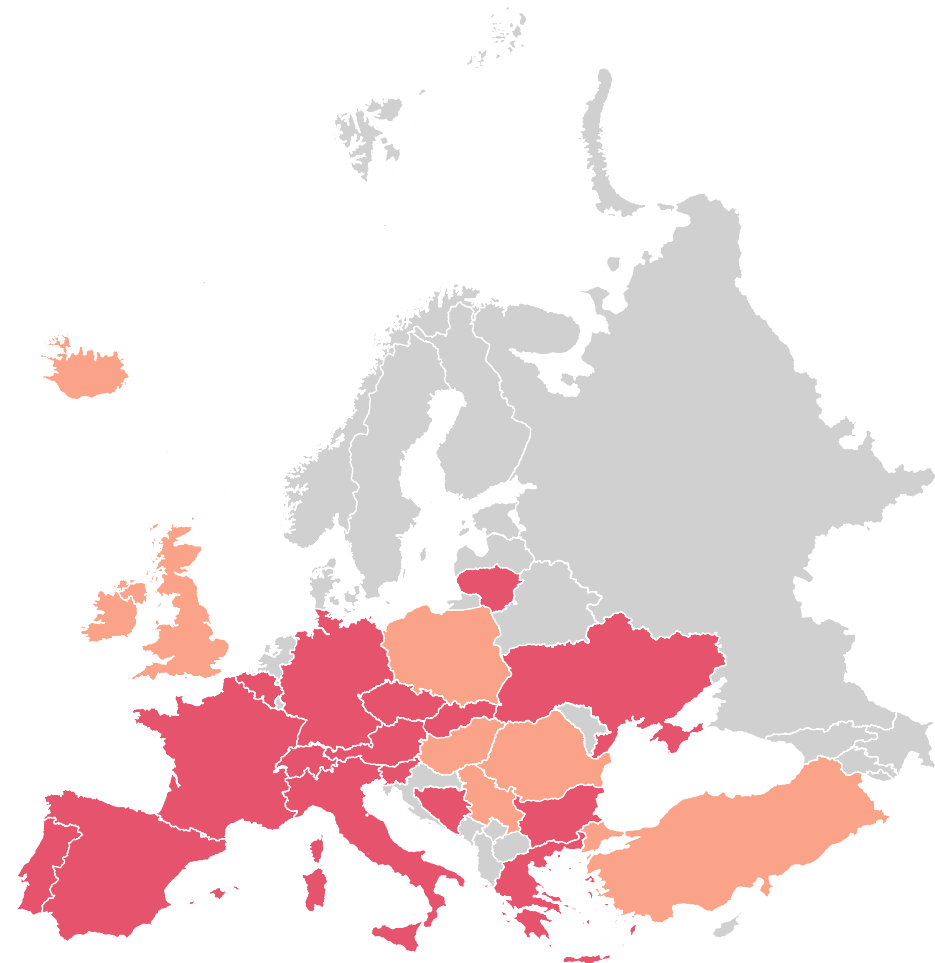
Country	Shut since	Duration, days	Shut until
Italy	Mar 11	n/a	Tbd
Bulgaria	Mar 14	n/a	Tbd
Czech Republic	Mar 14	10	Mar 24
Greece	Mar 14	15	Mar 29
Spain	Mar 14	15	Mar 29
Slovenia	Mar 15	n/a	Tbd
Austria	Mar 16	30	Apr 13
France	Mar 16	21	Apr 6
Lithuania	Mar 16	n/a	Tbd
Slovakia	Mar 16	n/a	Tbd
Ukraine	Mar 16	14	Mar 30
Germany	Mar 17	n/a	Apr 5
Switzerland	Mar 17	33	Apr 19
Belgium	Mar 18	19	Apr 5
Portugal	Mar 18	19	Apr 5
Bosnia and Herzegovina	Mar 21	n/a	TBD

Partially closed / with restrictions

Hungary (close by 3pm)
 Iceland (limited number of visitors)
 Ireland (limited number of visitors)
 Poland (all indoor shopping)
 Romania (stores in shopping malls)
 Serbia (shopping malls)
 Turkey (some retailers closed)
 UK (increasing number of retailers closing their physical locations)

No restrictions (yet)

Belarus
 Estonia
 Finland
 Latvia
 Netherlands
 Norway
 Russia
 Sweden

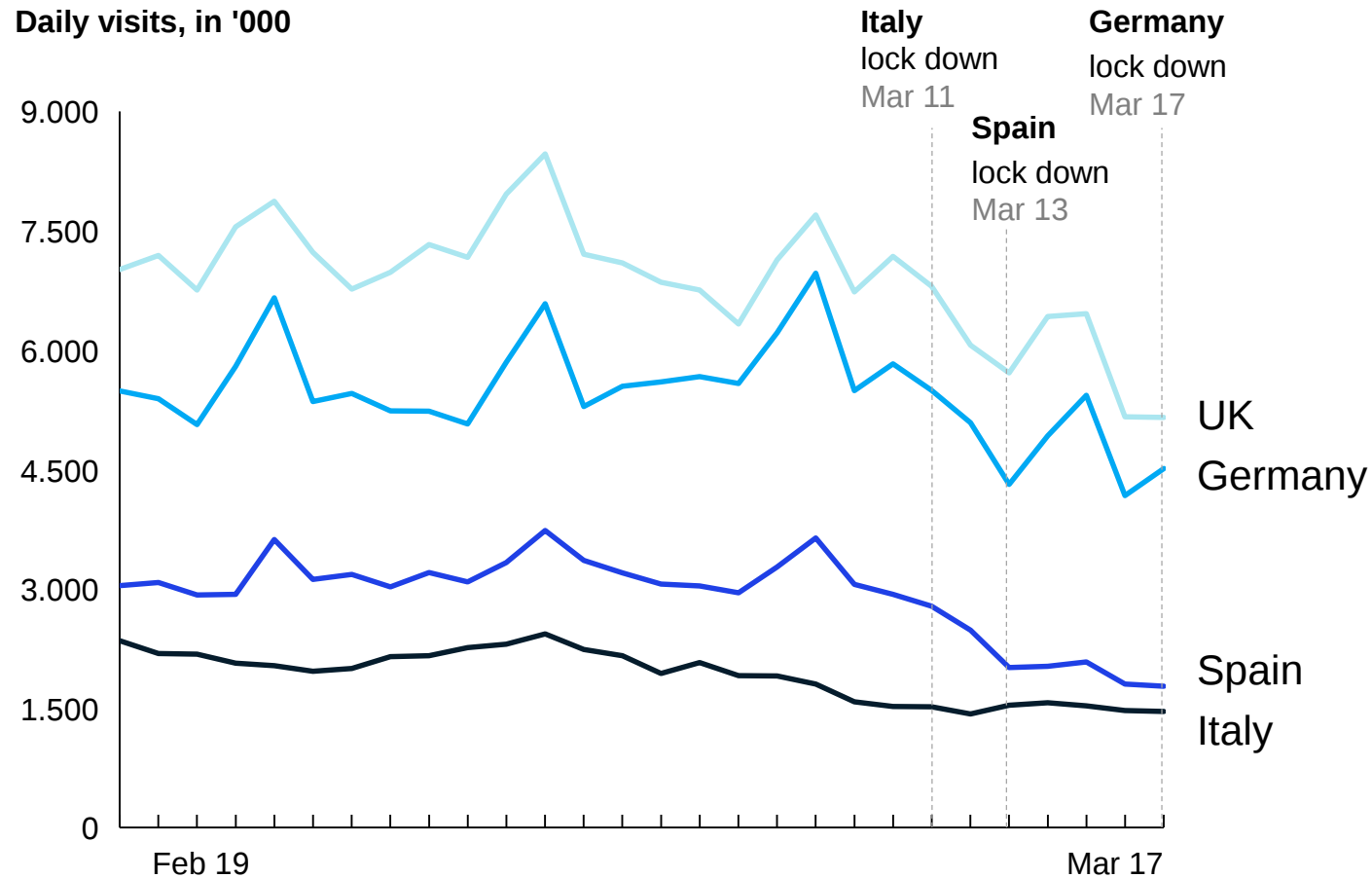




2 E-Com is not immune to this effect – traffic is gradually declining after lock down

Traffic development in apparel and fashion per country

Daily visits, in '000



Traffic decline

-27%

-18%

-42%

-38%

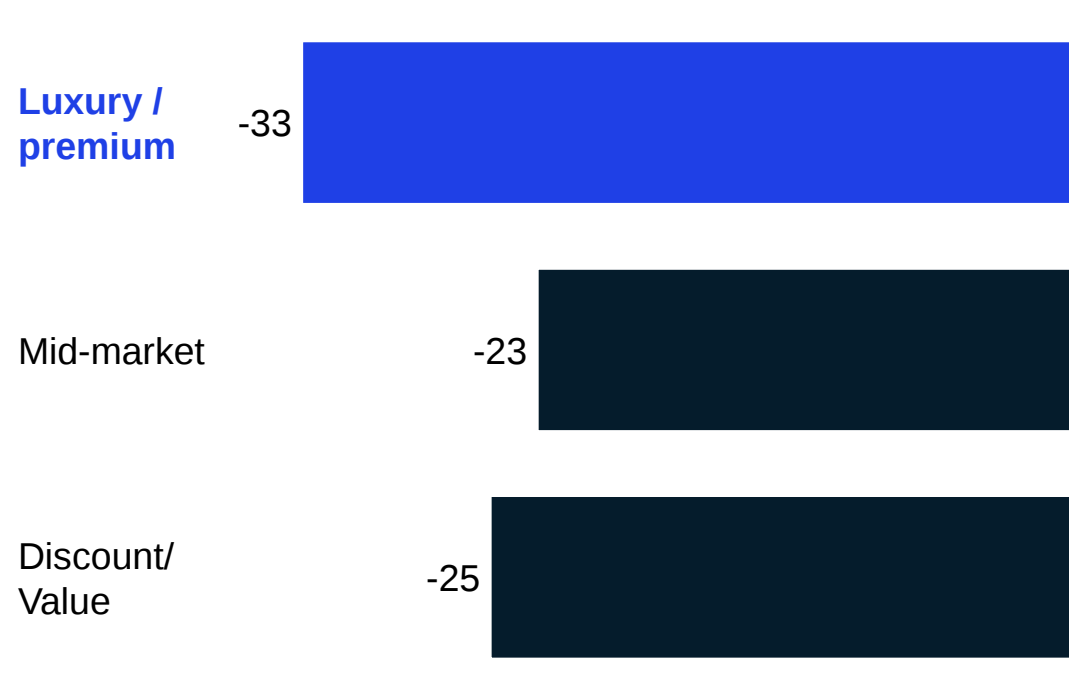
Some brands report **increased eCommerce activity** in response to **promotions on site**

Yet overall, traffic to apparel & fashion eCom stores has **decreased steadily since early onset** of COVID-19 crisis, specially in the countries that are more affected

Looking at different industry segments, luxury is strongest affected

First evidence from Europe suggests that higher price points will experience sharpest declines...

Revenue decline in % in Germany (survey based), week 11, 2020 vs. LY



Source: Textilwirtschaft, McKinsey Chinese iConsumer survey 2019, Forrester, Altagamma WW Luxury Market Monitor 2017, World Bank

...which is driven by a conjunction of factors that are unfavorable in the current market environment

Sensitivity to consumer confidence

Luxury is most sensitive to sentiment – e.g., 8% contraction of luxury market during financial crisis of 2007-08 vs. 5% overall

Reliance on tourism

Luxury is heavily reliant on tourists – e.g., 70% of Chinese luxury consumption accounted for via tourism (\$1.1bn spent in Russia alone),

Limited eCom penetration

Luxury generally with low eCom shares, thus low ability to compensate revenues lost in offline channel – e.g., 10% luxury eCom share in Europe in 2019 vs. 27% for global fashion overall

High share of wholesale

Small wholesalers are most likely to experience liquidity shortfalls and potentially existential threat – yet this channel accounted for 61% of global luxury market in 2019

Reliance on experiential retail

Experiential retail is key driver of luxury sales and is for the most part reliant on offline channels

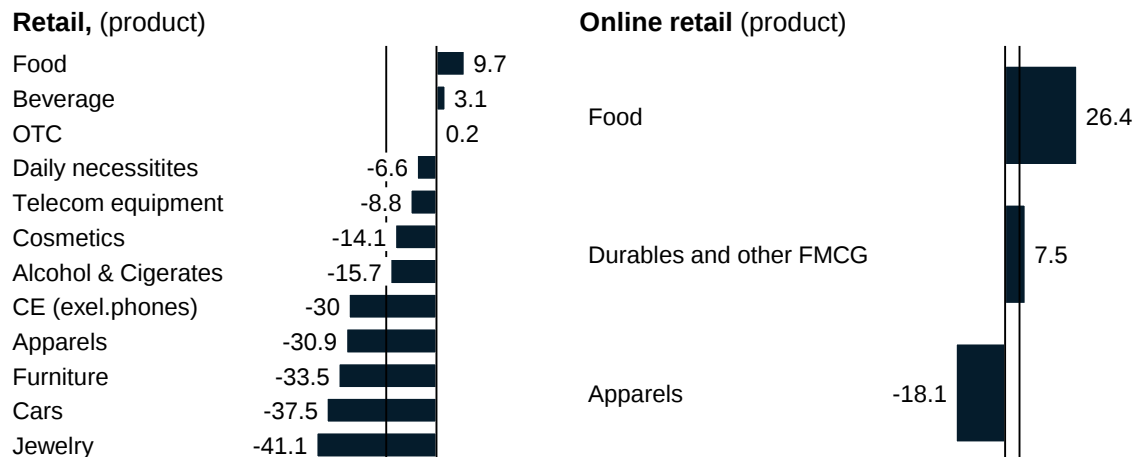


Learnings from China confirm apparel & fashion is disproportionately affected

Revenues decline severely ...

- Apparel & fashion has proven to be highly discretionary spend – revenue in this category is hit very strongly, effect even more severe for higher price points
- Digital commerce increases overall, yet not in apparel & fashion – consumers cut apparel & fashion spend across channels
- First improvement is expected for April, though significant lag in performance YoY; strong upwards trends expected from May due to warmer weather IF recession is avoided

Category revenue development Jan & Feb 2020, Greater China



Source: Interviews with apparel & fashion players, Chinese consumer sentiment survey in light of COVID-19 (Feb 2020), NSB, 2020 March retail China report

... consumer sentiment shows mixed results

General optimism ...

64% of consumers in China state they will resume **same or higher levels of spending** after the COVID-19 crisis

43% of Chinese consumers are **optimistic that the economy will recover** well from the pandemic

... yet indicators for apparel & fashion show challenges

50-70% of consumers report reduction in consumption for discretionary products, 30-40% have not purchased at all

Shopping malls rank as **#1 location** Chinese consumers will **avoid** if crisis continues, corresponding to **74% of respondents**, surveyed end of Feb 2020

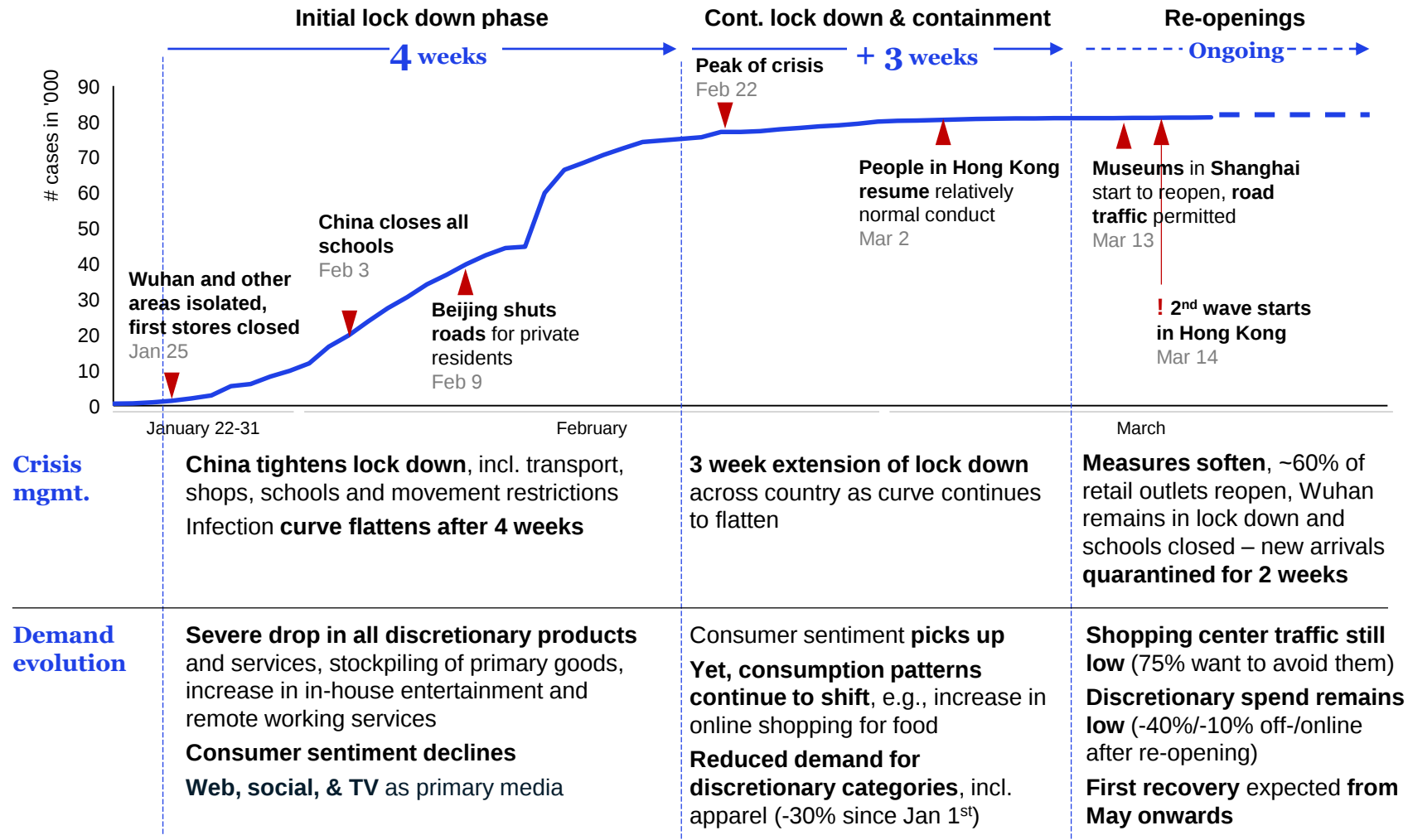
>75% want to pay **more attention** to product **safety & sustainability** post crisis

Confidence and spend attitudes can differ based on region – **lower-tier cities and severely affected areas** such as Hubei are **less optimistic** and say they will spend less



Re-opening phase in China shows that recovery after lock down is gradual and takes time

Development of COVID-19 crisis in China



Key insights

- Overall, a **shutdown of 7 weeks was required** to contain the virus
- Physical retail has largely reopened (84%), yet schools remain closed and continued **restrictions are kept in place**
- **Consumers do not revert to original spending behavior** after lock down
- Hong Kong reports **2nd wave of infections 10 days after** restrictions were lifted

Key learnings for Europe

- **More time for containment to be expected** – beyond lock down times currently communicated by governments
- **Re-opening of stores does not mean "back to normal"**

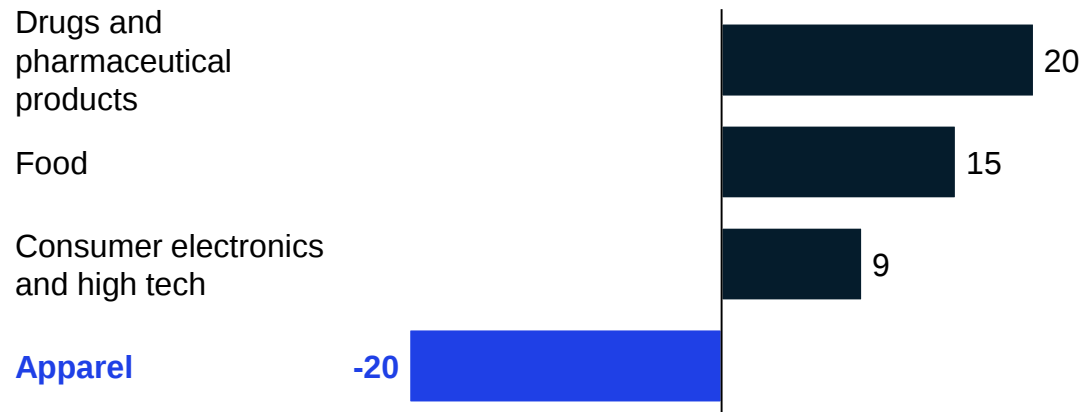


Similarly, first evidence from Italy confirms heavy blow to apparel & fashion – companies start taking action

Similar to China, revenues in Italy have declined sharply as the pandemic continued to spread...

- ! Apparel with sharp 20% decline in sales from first red zone to full lock down, and even greater decline since then (e.g., zero stationary retail sales) – effect even more **severe for higher price points**
- ! Domestic production halted entirely as the government announced a shutdown of all non-essential industrial lines on Mar 21

Change in revenue from 1st red zone (Feb 23) to day before full lock down (Mar 11), in %



Source: Press reports, selected trade interviews

...and local apparel & fashion players are amongst the first taking action to navigate the turmoil

Seasonal outlook

- | | |
|-------------|--|
| SS20 | <ul style="list-style-type: none"> ▪ Cut productions/volumes ▪ Sustain high markdowns for full season and run "Black Friday"-like actions on reopening |
| <hr/> | |
| FW20 | <ul style="list-style-type: none"> ▪ Adjust product mix to reduce variety/range (e.g., fewer "transitional" items, extension of heavier summer items) ▪ Postpone product delivery (e.g., 1-2 months) |
| <hr/> | |
| SS21 | <ul style="list-style-type: none"> ▪ Reduce capacity (-3% to -5%) ▪ Postpone product delivery (mid-May to mid-June) |

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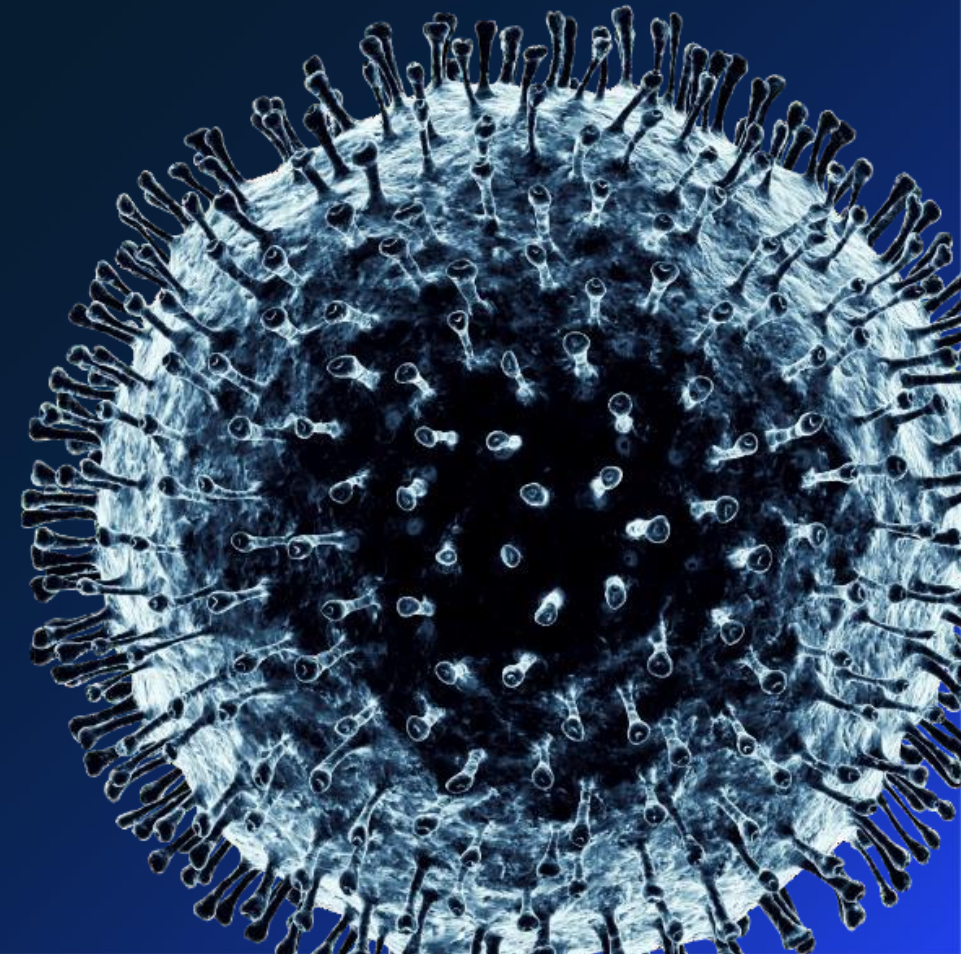
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Apparel & fashion players take action in 6 key areas

Identified based on first conversations with > 30 players

We continue to update this as the situation evolves to enable mutual learning in times of uncertainty

#1

Staying **OPERATIONAL** in HQs & setting up **CRISIS MANAGEMENT** teams

#2

Securing **CASH** and **LIQUIDITY**

#3

Aggressively cutting down on **COSTS**

#4

Developing **DEMAND** scenarios and trying to optimize top-line

#5

Reducing **STOCK** purchasing commitments and reviewing **COLLECTIONS**

#6

Keeping **SUPPLY CHAIN** operational and increasing agility

#1 Staying OPERATIONAL in HQs & setting up CRISIS MANAGEMENT teams

Headquarters are setting up remote operations to sustain through this crisis

Key trends and insights from interviews with >25 apparel & fashion players

Accelerate implementation of remote work	Implement Work from Home practices and equip employees with resp. infrastructure	●
	Develop training materials and tutorials for employees, e.g., on remote working tools	◐
	Maintain leadership teams on site at HQ with safety measures	◐
	Establish hotlines for remote support of employees	◐
Enable specific key functions, particularly Product & Merch teams	Reduce number of Product Development team members visiting HQ site to a minimum	●
	Change merchandise & retail calendar , incl. extended markdown periods and reduced number of product launches	◐
	Introduce virtual sampling process , incl. 3D samples, vendor samples, photographs	◐
	Move product approval processes to Sourcing offices	◐
Set up crisis management approach	Create digital workflows for product & merchandise teams	◐
	Shift resources to immediate crisis response	●
	Increase frequency of COVID-19 update meetings and team check-ins	●
	Introduce central structure to manage functional response teams	◐
	Install fully staffed, centralized nerve center to manage company's crisis response	◐

- Consistently enacted by majority of players
- ◐ Only enacted by minority of players
- ◻ Change since Edition I shared March 18th

Key elements for reflection

Do you need central or decentral crisis management teams?

Can you use this as trigger to restructure your operating model to a leaner set-up?

Can you move responsibilities to sourcing offices for the long run?

How can you benefit from digitized workflows and remote work longer term?

How can you use the situation to anchor new ways of working in the organization, incl. in the product function?

"As with everything in leadership, the new remote working is all about role-modeling. We as an exec team use VC technology in a natural and social way and are now seeing it adopted across the organization"

#1 Staying OPERATIONAL in HQs & setting up CRISIS MANAGEMENT teams

"We have created a dedicated team around the exec. board, working in daily sprints. We currently run 8 different scenario projections."

"There is something positive in this crisis mode: Suddenly we see that we can live with simplifications we always thought were impossible. E.g., we now do the approval of samples in the sourcing office."

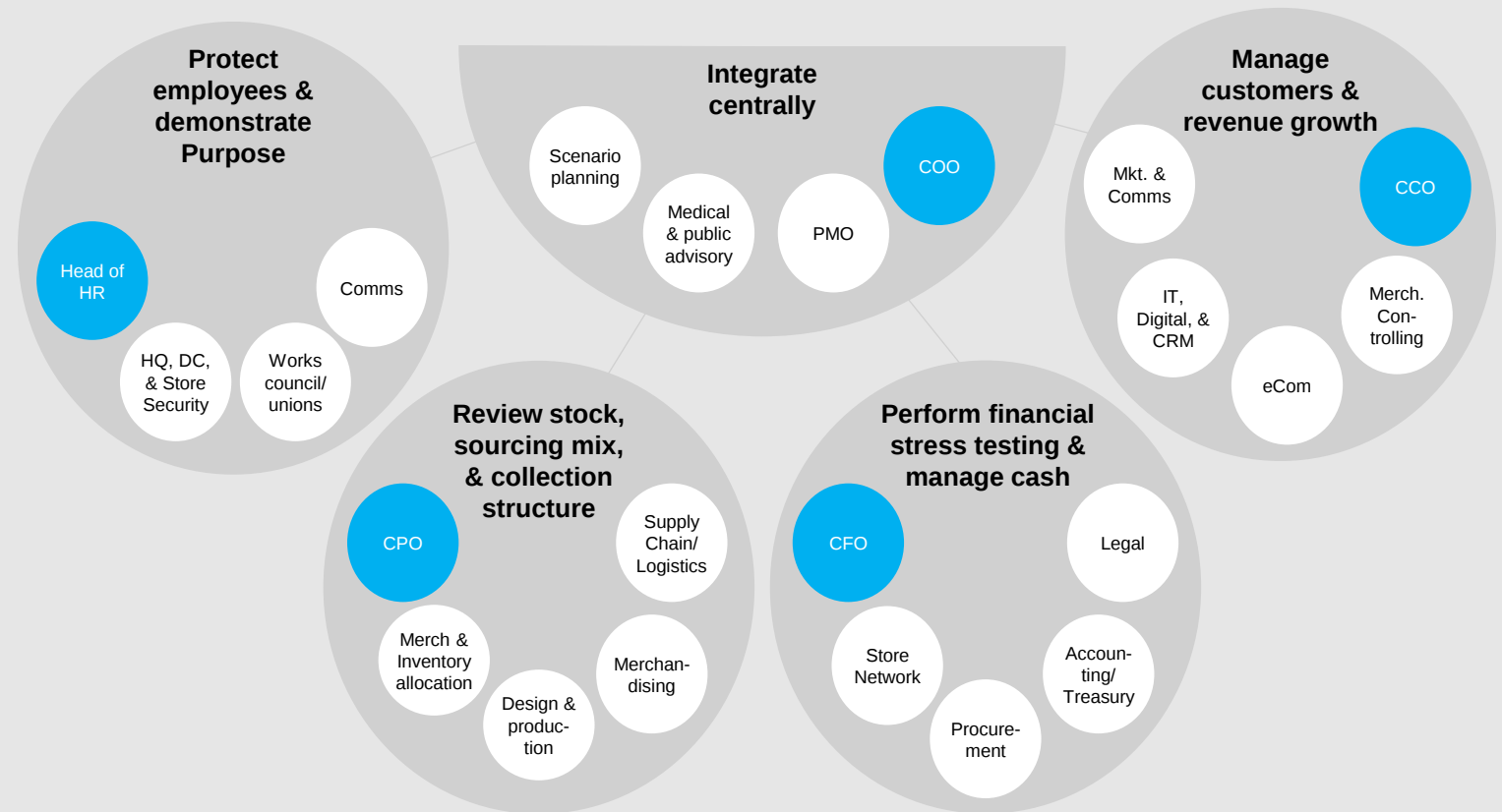
"We are pulling together resources cross-functionally to focus on the most pressing topics, particularly demand protection and scenario planning"

Voices from the industry

All players have set up response units – ideally all key functions are connected for quick alignment

Case example of response center of apparel & fashion player

- ✓ Organized in **4 workstreams**, each managed by a **member of executive team** ● Head of workstream
- ✓ Interactions driven via **daily check-ins** and 48h sprints
- ✓ **Overall response centrally overseen by PMO** led by COO, with C-suite leadership reporting jointly to CEO



#2 Securing CASH and LIQUIDITY

Central cash management with frequent updates and forecasting is implemented

Key trends and insights from interviews with >25 apparel & fashion players

Safeguarding cash	Extend payment terms and negotiate payment extensions	●
	Set up " cash control tower " to scrutinize timing of every payment	◐
	Suspend not survival or recovery relevant spending	◐
	Step up collection of AR with expected risks or terminate deliveries to risk customers	◐
	Suspend dividend payments	◐
Cash management	Set up rolling 13-week cash forecasting	●
	Develop potential scenarios (drawing on the lessons from China and Italy) and calculate impact on cash and liquidity position	◐
	Tighten (and centralize) approval rights to issue payments and centralize treasury	◐
Financing	Expand credit lines , incl. use of government guarantee programs	◐
	Reassess FX risks and adapt hedging strategy	◐
	Secure credit insurance coverage	◐
	Prevent closure of credit lines and completely draw free credit lines and 'park' cash	◐

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Key elements for reflection

What is the absolute minimum level of expenses that you can achieve in a lockdown scenario?

How long can you survive a shut-down and what is the risk of insolvency?

How can you use all available government support and liquidity programs, esp. when you are operating in multiple jurisdictions?

How can you secure access to your financing even when banks get stressed?

What is the risk posture that you are willing to take in improving cash position vis-à-vis customers and suppliers?

"We should have been faster to realize that our cash management in this crisis needs to be radically different for our normal processes – no levers are out of scope, we run in daily sprints"

#2 Securing CASH and LIQUIDITY

Companies take action ...

Checklist for cash management

- ✓ Install tight **liquidity monitoring** (13-week cash forecast) and **cash control tower**
- ✓ **Plan scenarios** and assess potential liquidity burden and mid- and long-term risk
- ✓ Maintain **supplier payment terms** and secure **credit insurance** coverage
- ✓ Assess **capital structure risk** factors (leverage, covenants, maturities, refinancing options)
- ✓ Secure **access to credit lines** and potentially draw existing credit lines
- ✓ Explore **monetization of non-core assets**
- ✓ Tap **additional financing sources**, esp. based on state guarantee and support programs
- ✓ Reduce/stop **dividend payments** to increase resilience

... yet may require support from public and private stakeholders

Systemic support partially provided by governments and some interdependent industries

First examples of reactions from landlords

Some real estate investors announce support ...



Global mall operator Ingka Centres (part of Ikea group) announces to waive all rent payments and incidentals



Apsys in France announced to suspend rent for the whole confinement period regardless of durations and suspends building of a new retail park



Napollo, operator of several shopping malls in Poland offered rent reduction by 10% and 2 week „rent holidays” in April

... others remain on the defense



Unibail Rodamco reports the situation remains unclear and is seeking legal council to determine its strategy



GTC, mall operator in Central and Eastern Europe claimed it is too early to talk about rent renegotiations – as decision on store closures was government decision and retailers should ask the state of support

#3 Aggressively reduce COST

Companies are moving aggressively to cut and suspend expenses

Key trends and insights from interviews with >25 apparel & fashion players

Actions along value chain ↓	Marketing	Cancel offline and online marketing campaigns	●
		Shift offline budgets to online and move timing of marketing slots where possible	◐
	Supply chain	Reduce shipment frequencies to stores	●
		Reduce working hours in warehouses , e.g., reducing shifts	◐
		Reduce warehouse capacity and service levels (when outsourced)	◐
	In-store labor	Implement short-time work for permanent store personnel and remove temporary labor	●
		Request government support programs (direct contribution, e.g., for short-term labor)	◐
		Consume overtime accounts and send employees on paid vacation	◐
		Cancel all contractors and temporary workforce	◐
		Reallocate store labor , e.g., to fulfilment of online orders	◐
	Store rent	Suspend rent payments as of day of store closure	◐
		Prepare for renegotiating leases and review close network	◐
		Pull forward planned store closures	◐
	Head office labor	Freeze hiring	◐
		Implement short-time work for selective functions applying to governmental special rules	◐
		Cut bonus payments	◐

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Key elements for reflection

How far can you cut cost to minimize your cash outflow in the short term?

Which elements do you need to preserve to enable reopening?

How can you use this cost "cutting" exercise to implement a structural leaner operation?

Are you preceding government actions and esp. close stores, before you are forced to?

"In hindsight we seemed to have been naive that we have not been more decisive in our actions"

#4 Developing DEMAND scenarios and trying to optimize top-line

We are already observing re-invented marketing & high promotional activity

Key trends and insights from interviews with >25 apparel & fashion players

Marketing and consumer engagement	Launch purpose-driven communication around health & safety as well as community building to show you care	
	Shift marketing spend from mass (e.g., TV/radio) to digital (e.g., lower and mid-funnel)	
	Stop marketing given decreasing effectiveness and prohibitive acquisition costs in eCom	
	Launch new digital formats and special incentives to compel online consumers who may be largely homebound	
Proactive channel shifts	Offer deferred payment terms to customers and offer postponed delivery options for eCom sales	
	Shift sales focus to online touchpoints (own eCom social media) and re-allocate resources to digital channels , incl. inventory as well as marketing spend	
	Hold back resources where possible to flexibility re-allocate later , after more clarity has been created in market	
Markdowns & promotions	Leverage off price channels and shopping clubs to clear stock	
	Plan for extra-ordinary markdowns after crisis - 70% FPST expected	
	Offer promotions and reductions in the onset of the crisis	
	Introduce free shipping with contactless delivery , removing barrier for price-sensitive consumers	
Wholesale	Participate in mid-season sale	
	Carefully review credit score of wholesale partners and potentially limit collaboration (retain deliveries, stop NOS programs) to manage credit risk of payment default	
	Provide more favorable prices to wholesale partners in exchange for later fulfillment 10-15% discount	
	Set up digital show-room to enable remote sell-in for wholesale customers	

-  Consistently enacted by majority of players
-  Only enacted by minority of players
-  Change since Edition I shared March 18th

Key elements for reflection

What approach do you want to follow with your marketing spend – stop vs overinvest?

How can you take advantage of consumers spending more time online?

What is the elasticity of demand to discounts and promotions at the moment?

How can you fully exploit online while offline is closed and supply chains are still operating?

How will you best collaborate with wholesale partners through the crisis?

"We expect major defaults among our wholesale accounts and hence are running active risk segmentations and taking full control of our stock"

#5 Reducing STOCK purchasing commitments and reviewing COLLECTIONS

Beyond cancelling and postponing orders, collections are also simplified

Key trends and insights from interviews with >25 apparel & fashion players

Reduction of buying commitment	Aggressively postpone or cancel orders for Summer 2020 (June/July) ¹	- 50-60%	●
	Remove and postpone aggressively orders for Fall 2020 (August/October)	- 20-30%	●
	Remove selectively orders for Winter 2020 (November/December)	- 10-30%	●
	Introduce a conservative approach and reduce sourcing budget for Spring Summer 2021	- 5-10%	●
Collection structure (incl. private label)	Conduct detailed review of the collection structure to do targeted cancelations		●
	Reduce commitments on NOS		●
	Increase transferability of products between collections and plan with a 12 months perspective (e.g., identify product FW products that could be integrated in spring)		◐
	Increase in-season OTB	+ 10-20%	◐
	Simplify collections (e.g., repeat models from previous season to facilitate wholesale sale) and eliminate collections drops		◐
	Increase share of continuity products and reduce share of fashion products		◐
Stock management for multi-brand formats	For luxury players: Limit runway collections and focus on commercial goods only		◐
	Stop receipt of new stock to the extent possible, renegotiating stock commitments with vendors		●
	Agree extension of payment terms with vendors for shipments that will be accepted		◐
	Return existing stock to vendors wherever possible		◐
	Negotiate discounts on upcoming stock service orders		◐

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Key elements for reflection

What are your scenarios of demand development for the next 3/6/12 months?

How do order cancellations affect the collection structure?

What is your approach for clearance of Spring Summer 2020?

How did you cluster your partners and which product sell-in/delivery do you plan to maintain?

"Product development will be very difficult and the sell-in process a real challenge – we will probably just repeat models next season"

1. Effect limited as most of stock on its way to Europe at the moment

#6 Keeping SUPPLY CHAIN operational and increasing agility

Priorities are stock reallocations, new storage capacity, and online fulfillment

Key trends and insights from interviews with >25 apparel & fashion players

Maintain central DC in operation	Increase substantially hygiene measures and control in DCs (e.g., closed shift, reduced teams, masks)	●
	Reduce capacity in DC by almost 50% , but maintain operation	●
	Cancel contractors and temp staff , and implement short-term labor	◐
	Stagger staff scheduling to avoid personnel overlap between shifts	◐
Adapt stock distribution	Reallocate stock from offline to online operation, decentralizing stock to countries	◐
	Move Spring articles for distribution to stores by beginning of Autumn season	◐
	Keep selected styles in Far East warehouses for Summer 2021 season	◐
	Increase storage capacity to secure incoming goods	◐
Increase online fulfillment capacity	Quickly re-allocate inventory between geographies to sell off high-performing products in markets operating still/again	◐
	Ensure current delivery of online volumes with reasonable service levels	●
	Prepare plan to accelerate online growth based on different scenarios	◐
Manage supplier & logistics network	Explore new network options to improve delivery services (e.g., other forms of customer pickup)	◐
	Minimize share of air freight inbound transportation	●
	Create risk matrix to segment suppliers and review credit extensions to suppliers/vendors	◐
	Consider alternative routing (e.g., backup plans if drivers decline to deliver in high-risk areas)	◐

- Consistently enacted by majority of players
- ◐ Only enacted by minority of players

Key elements for reflection

Where is your supply chain most exposed to risk of collapse?

What do you need to do to fulfill online deliveries in the next 6 months?

Which additional capacity do you need to deal with excess stock over the next 6 months?

What is your distribution strategy for the store reopening phase and how do you need to prepare?

"We are now coordinating daily stand-ups with our suppliers to ensure that we are able to adapt production and delivery frequencies"

What is happening?

Current situation in Europe and learnings from China

What to do now?

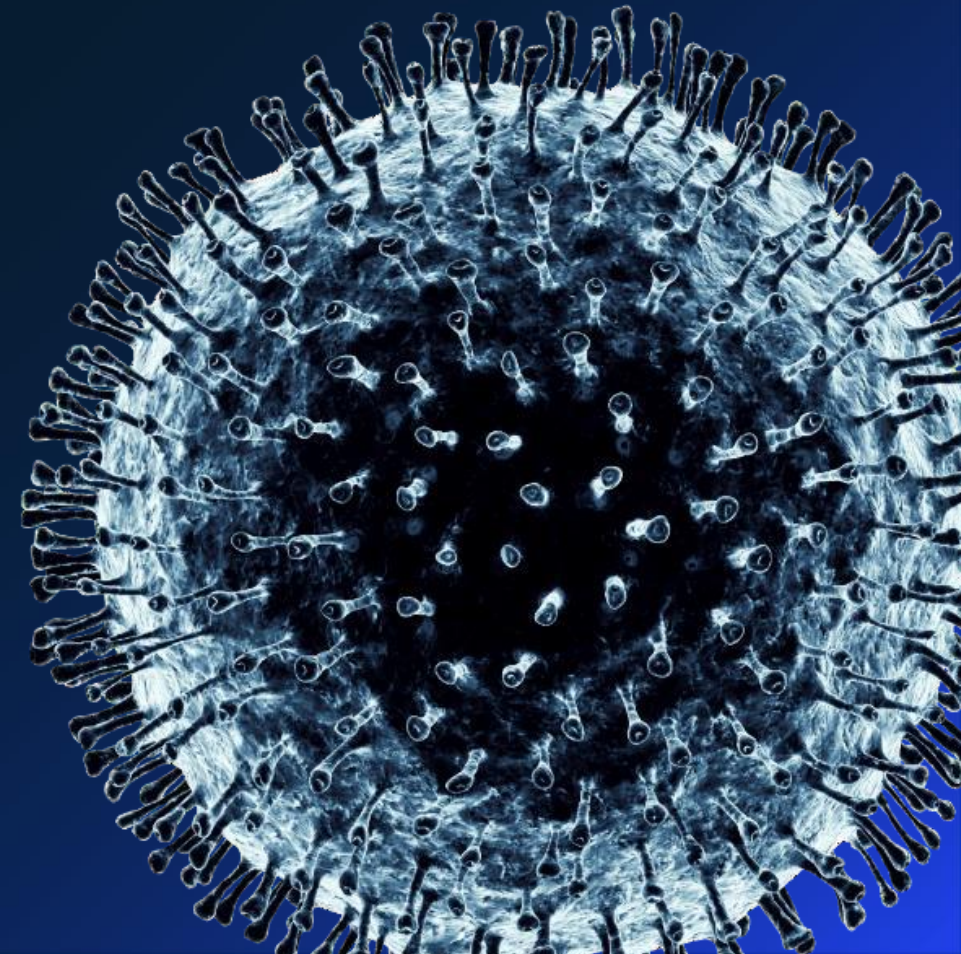
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Looking ahead, we can derive multiple scenarios by drawing from different plays on pandemic containment and economic response policy

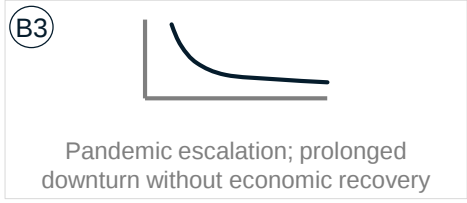
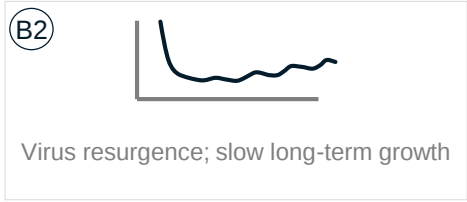
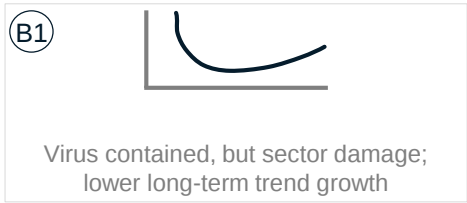
GDP Impact of COVID-19 Spread, Public Health Response, and Economic Policies

Discretionary Apparel & Fashion industry will be disproportionately impacted

Pandemic containment

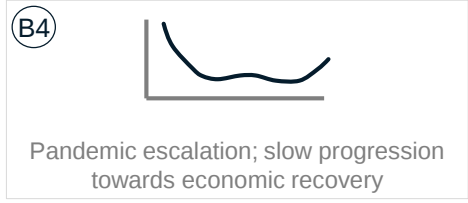
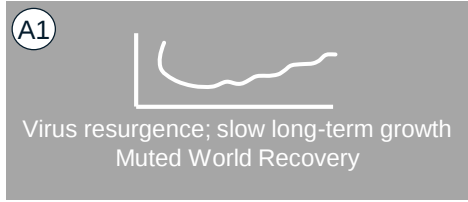
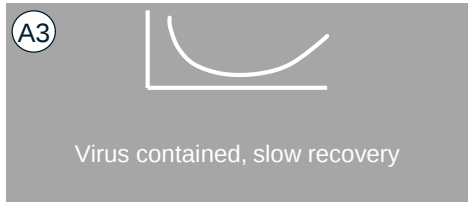
Effectiveness of the public health response in controlling the spread and human impact of COVID-19

- Rapid and effective Control of Virus Spread**
Strong public health response succeeds in controlling spread in each country within 2-3 months
- Effective Response, but (regional) Virus Resurgence**
Public health response initially succeeds but measures are not sufficient to prevent viral resurgence so social distancing continues (regionally) for several months
- Broad Failure of Public Health Interventions**
Public health response fails to control the spread of the virus for an extended period of time (e.g., until vaccines are available)



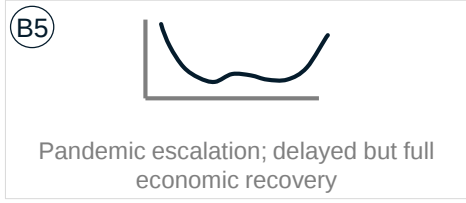
Ineffective Interventions

Self-reinforcing recession dynamics kick-in; widespread bankruptcies and credit defaults; potential banking crisis



Partially Effective Interventions

Policy responses partially offsets economic damage; banking crisis is avoided; recovery levels muted



Effective Interventions

Strong policy response prevents structural damage; recovery to pre-crisis fundamentals and momentum

Economic Policy Response

Speed and strength of recovery depends on whether policy moves can mitigate self-reinforcing recessionary dynamics (e.g., corporate defaults, credit crunch)

Example of similar situations impact on consumer confidence: Recovery took up to 2 years in the past

Previous unprecedented incidents impacting consumer sentiment give indication on time to recovery

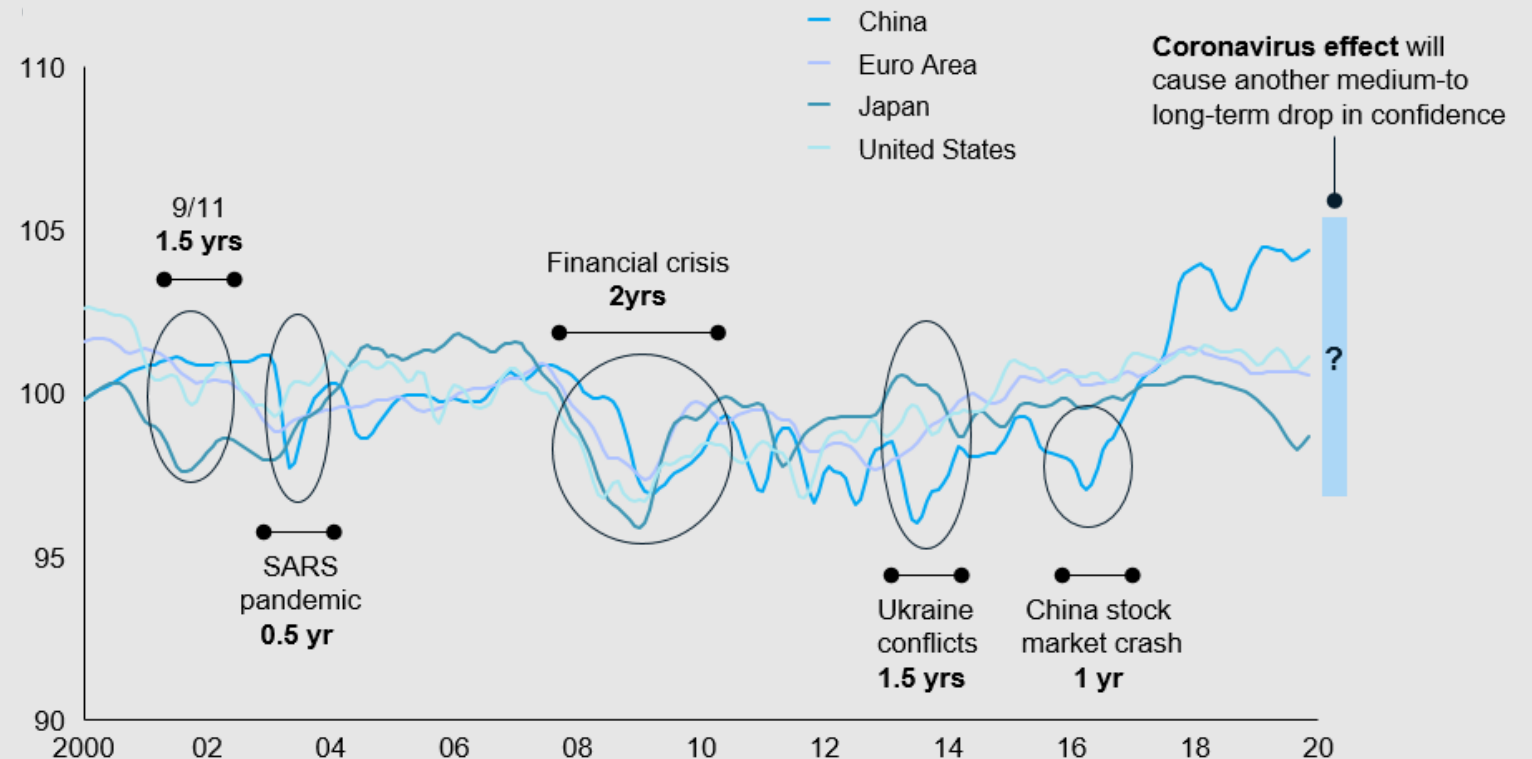
Crises in the past show it **may take up to 2 years to fully recover** consumer sentiment

Consumer confidence is regularly **reacting stronger than actual GDP** and capital market performance – **IF severe recession can be avoided**

Different **consumer clusters might react differently** during and after the crisis – older, high risk consumers impacted more than Gen Z & Millennials

“ **Already two weeks before the lock down we observed a disproportionate decline of traffic from older customers**”

Monthly consumer confidence index & time to recovery after crises



Speed of recovery will vary by country, depending on local industry structure and economic indicators beyond consumer confidence

Exemplary determinants of scenario development in local context

Local public & economic disparities

- ✓ **Immediate response** to COVID-19 outbreak
- ✓ **Healthcare and medical** system
- ✓ **Consumer confidence** despite coronavirus crisis
- ✓ Average **income level** of population in cross-country comparison
- ✓ **Governmental subsidies** for affected businesses, families, and individuals
- ✓ ...



Local industry-specific factors

- ✓ **Share of eCom penetration** and compensation of lost offline sales
- ✓ **Relevance** of apparel & fashion items for individual expression
- ✓ Level of **concentration and consolidation** of market
- ✓ **Product offering per price point** and ability to capture shift to lower-price categories
- ✓ **Ties across interdependent industries** to collaborate in response
- ✓ ...

What is happening?

Current situation in Europe and learnings from China

What to do now?

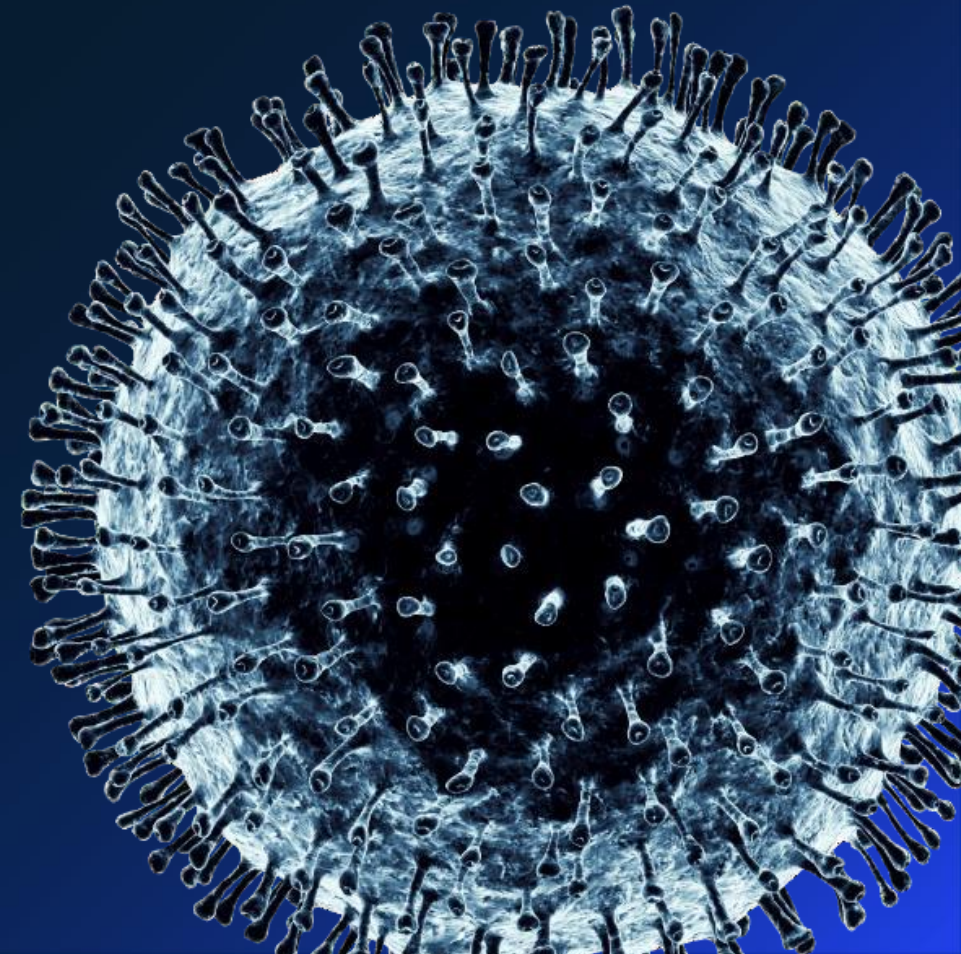
Crisis response actions to take today

Where is this going?

Scenario projection and underlying dynamics

What happens after?

Outlook beyond the crisis



**Troubleshooting is
important and right
thing to do**

—

**At the same time
there is opportunity
in looking ahead**

-
- 1 How can you prepare for the recovery phase after the lock-down?**
 - 2 How will the apparel & fashion industry change in the long run?**

1 Even though time frames remain uncertain for now, companies need to start thinking about successful recovery after stores openings

Checklist of key questions to ask today to prepare for recovery

Understand your consumers

- ☐ How will we regain sales when consumer confidence is down after the crisis?
- ☐ How should our product offering change to meet post-crisis consumer needs?

Digital first

- ☐ What does our new customer journey look like?
- ☐ How can we benefit from a further increased online share on the long term?
- ☐ How can we drive customers from online to back to store?

Communication & creating demand

- ☐ Can we engage your communities with relevant content?
- ☐ What is the right approach to pricing?
- ☐ How should we target each consumer segment post-crisis?

Sustained Operations

- ☐ How will we resume store operations, do we expect to have a gradual ramp-up or big-bang return to operations?
- ☐ How can you increase online operational capacity?

Collection structure and clearance

- ☐ What stock can you integrate in future collections?
- ☐ What is your strategy for mark-downs?
- ☐ What new clearance channel can you activate?

Network optimization

- ☐ Can you optimize store locations footprint now?
- ☐ Is there an opportunity to aggressively renegotiate with landlords?

Cash management

- ☐ What do different recovery scenarios mean for your liquidity over time?
- ☐ Can you make permanent changes to payment terms with suppliers?

Strategic outlook

- ☐ How does the company's strategy need to be adjusted to reflect "the new normal"?
- ☐ If you are financially strong: What could be attractive acquisition opportunities?

75% of players interviewed do not yet allocate strategic resources to topics other than crisis management

1 Learnings from other countries show, we will likely not return to pre-crisis physical store operations after the strict containment phase

In China, South Korean and Japan, customers are still partially restricted and have adapted their behavior – even after store re-openings



Learning from this, operations of physical stores in Europe will have to be different as we transition out of the lockdown phase, e.g.,

- **Elderly and ill consumers** continue to be contained
- **Travel** in and out of, but also within the countries is **restricted**
- **Consumer** behavior remains impacted:
 - Avoiding **high-frequency locations**
 - Avoiding close **contact** to store staff



Reduced opening hours because of low traffic



"Smart" staffing models to serve store openings despite potential infections



Higher hygiene standards (e.g., masks, hand sanitizers, more frequent cleaning rhythms)



Alternative solutions for lack of new merchandise due to supply chain disruptions

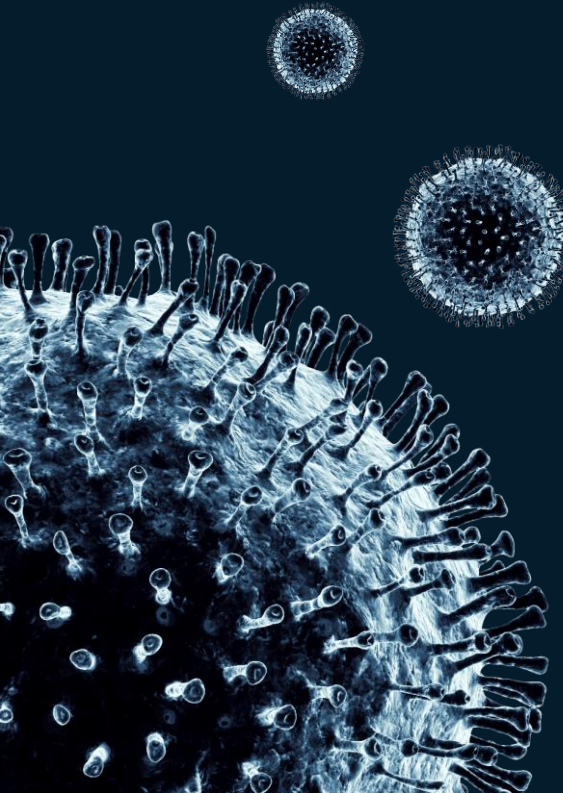


More active outreach to consumers (CRM)

2 Beyond COVID19: This crisis may accelerate the path to "the new normal" in fashion

-  Accelerated **winner/loser proliferation** – consolidation of the industry due to significant distress and discontinuation of challenged players, esp. among midmarket fashion brands and multi-brand retailers/department stores
-  Accelerated **digitization of consumer journeys** – only partial change back to offline touch points due to increased consumer acceptance of digital touchpoints. New normal in digital across categories (online grocery vs. offline, digital banking vs. offline, digital payments)
-  Accelerated **health consciousness**, creating opportunities in health/sports related products and wearable technologies
-  Acceleration of **purpose-driven consumption** – increased awareness for health and sustainability. While sustainability is short term not top of mind further acceleration of consumer relevance
-  Accelerated **off-price dominance** – 2020 becoming a year with hardly any "full-price" retail educating consumer to expect new levers of promotionality and mark-downs
-  Accelerated **drop in consumption in low-income segments** – population groups impacted most (e.g., those losing jobs) will further lose confidence and be more cautious in spending
-  Accelerated **supply chain digitization** – virtual sampling and digital approvals are becoming the norm
-  Acceleration of **new business models** addressing changes in consumer behavior, e.g., subscription models for high quality/sustainable basics
-  Accelerated **store network optimization**, store closures and reduction of total sales space, esp. in "B" locations, with a resulting decrease of customer traffic
-  Adoption of **new ways of working as a standard**, esp. for product development teams, fully incorporating digital tools, simplification of processes, and decentralization of decision making

Closing thoughts



Two things to take away ...

Important to act differently, quickly: Most apparel & fashion companies set their annual plans long ago, but these plans are now largely obsolete and will not lead to success. While we don't know how COVID-19 will play out long-term, many of the short-term implications are apparent and could be acted on now

Govern like a major change program: The reach and impact of COVID-19 will likely match that of other major disruptions like a merger integration or a broad transformation program and apparel & fashion companies could govern with a similarly experienced and dedicated team of leaders by setting up and leading through a crisis “nerve center” – to survive now and grow later

... and two to look for in a follow up to this note in the coming weeks

Sub-sectors and regions will be uniquely impacted: while this perspective is based largely on a typical apparel & fashion companies, the impacts will be meaningfully different by sub-sector (e.g., value vs. premium market) and regional exposure (e.g., national champion vs. international brand)

Consumer sentiment & behavior will hold many signals: A thorough understanding of consumer sentiment – the patterns in markets that have started to recover and the trends in those whose situations are becoming worse – will help apparel & fashion players plan and react more effectively

Disclaimer

These are suggested practices, in many cases adopted by companies across sectors.
We do not offer recommendations on sufficiency, adequacy or effectiveness of these measures.
You can derive no rights or make decisions based on this material.

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