



LUXURY SENTIMENT SURVEY REPORT

WEALTH-X INSTITUTE SPECIAL REPORT

VOLUME. 2: Q2 2014

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A NOTE TO THE READER

We at Wealth-X are proud to present the second volume of the Wealth-X Luxury Sentiment Survey Report. This report is essential reading for those who want to gauge the level of optimism in the luxury industry with regards to the future of its relationship with ultra high net worth (UHNW) individuals, and understand the reasons behind this sentiment. The sentiment at the end of Q1 2014 was slightly less optimistic than at the beginning of the quarter: the Luxury Industry Sentiment Index (LISI) dipped from 100 to 97.6 – predominantly due to concerns over increased competition. Concurrently, however, respondents showed an increased interest in expanding their current businesses (either by launching new stores, new products or new marketing initiatives) indicating that they are making adjustments to overcome perceived barriers to growth.

Responses to Wealth-X's Luxury Sentiment Survey Q1 2014 prompted us to ask not only about the industry's sentiment regarding Q2 2014, but also its engagement with UHNW individuals. Specifically, we wanted to find out how the luxury industry makes use of digital platforms in its marketing and sales efforts. Indeed, 75% of respondents in the previous survey appeared not to engage with their UHNW clients via online portals. In this volume, the Luxury Sentiment Survey Report delves deeper into why that was the case, and also examines alternative uses of digital marketing employed by the luxury industry when engaging with UHNW clients.

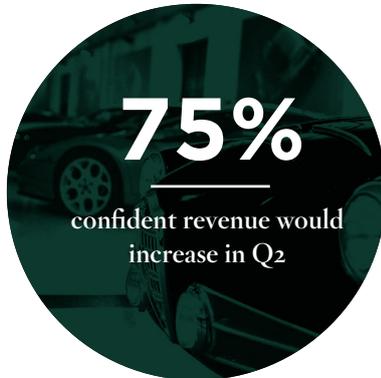


Mykolas D. Rambus
Chief Executive Officer



David S. Friedman
President

KEY FINDINGS



The industry appears less optimistic for Q2 2014 than it had for Q1 2014.

- The industry appears slightly less optimistic with the Luxury Industry Sentiment Index (LISI) falling to 97.6 based on the luxury industry's expectations for Q2;
- UHNW individuals are most commonly defined as having a net worth in excess of US\$30 million. Providers of big luxury items tend to define UHNW individuals as having net worth in excess of US\$50 million;
- 11% of respondents said that over 75% of their revenue came from UHNW individuals;
- For 34% of respondents, the biggest challenge in Q1 2014 was personnel issues;
- Almost 75% of respondents felt that revenue would increase in Q2 2014, as opposed to 78% in Q1 2014.
- 6% of respondents expect their market share to decrease in Q2 2014, while none had in the previous survey;
- 92% of respondents are planning on expanding their current footprints; only 71% of respondents in the last survey planned on doing so;
- 64% of respondents said that more than 50% of their total marketing budget was used to target the UHNW sector specifically;
- 84% of respondents said that digital marketing methods are used not to increase sales or even increase total number of clients, but rather to increase brand awareness;
- 68% of respondents felt that UHNW clients do not respond to digital marketing campaigns;
- 53% of respondents did not use any social media as digital marketing platforms;
- Over 90% of respondents agreed or strongly agreed that "Experiential marketing is crucial to the luxury industry's ability to connect with UHNW clients".

THE LUXURY INDUSTRY & UHNW INDIVIDUALS

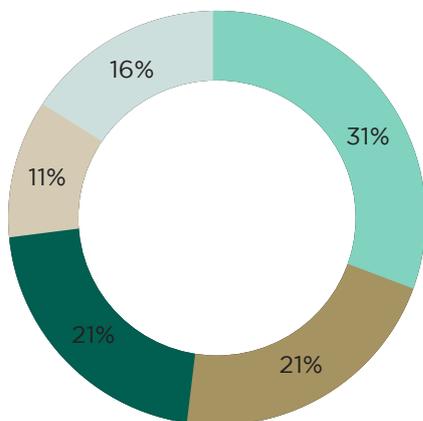


Only 15% of respondents did not have a specific definition for UHNW individuals. Within this 15%, just over 50% answered that the majority of their clientele are UHNW individuals. In other words, UHNW individuals are not defined because they constitute essentially the only type of clients these respondents have. The majority of respondents defined UHNW as having net worth, not investible assets, in excess of US\$30 million. The main outliers were providers of big luxury items such as yachts,

planes and helicopters, for whom a net worth in excess of US\$50 million was deemed more appropriate.

Although 85% of respondents defined UHNW individuals, 16% of respondents said that revenue was not differentiated between types of consumers. Nonetheless, 32% of respondents said that more than half their total revenue came from the UHNW population.

Proportion of Total Revenue Derived from UHNW Clients¹



11% of respondents said that 75-100% of their revenue was derived from UHNW clients. These respondents were mainly involved in the big luxury items industry, while those with 0-25% were predominantly in the traditional luxury category.

¹ This graph is representative of the respondents in the survey and may not apply to the entire luxury industry.

LUXURY INDUSTRY SENTIMENT INDEX



The Luxury Industry Sentiment Index (LISI) stands at 97.6 for Q2 2014, a decrease of 2.4 points from Q1 2014.

Despite this small decline, almost 75% of respondents still felt that revenue would increase in Q2 2014, as opposed to 78% in Q1 2014.

83% of respondents expect their market share to increase in Q2 2014, a decline from the 94% in the previous quarter. More than 6% of respondents expect their market share to decrease in Q2 2014, while none had in the previous survey.

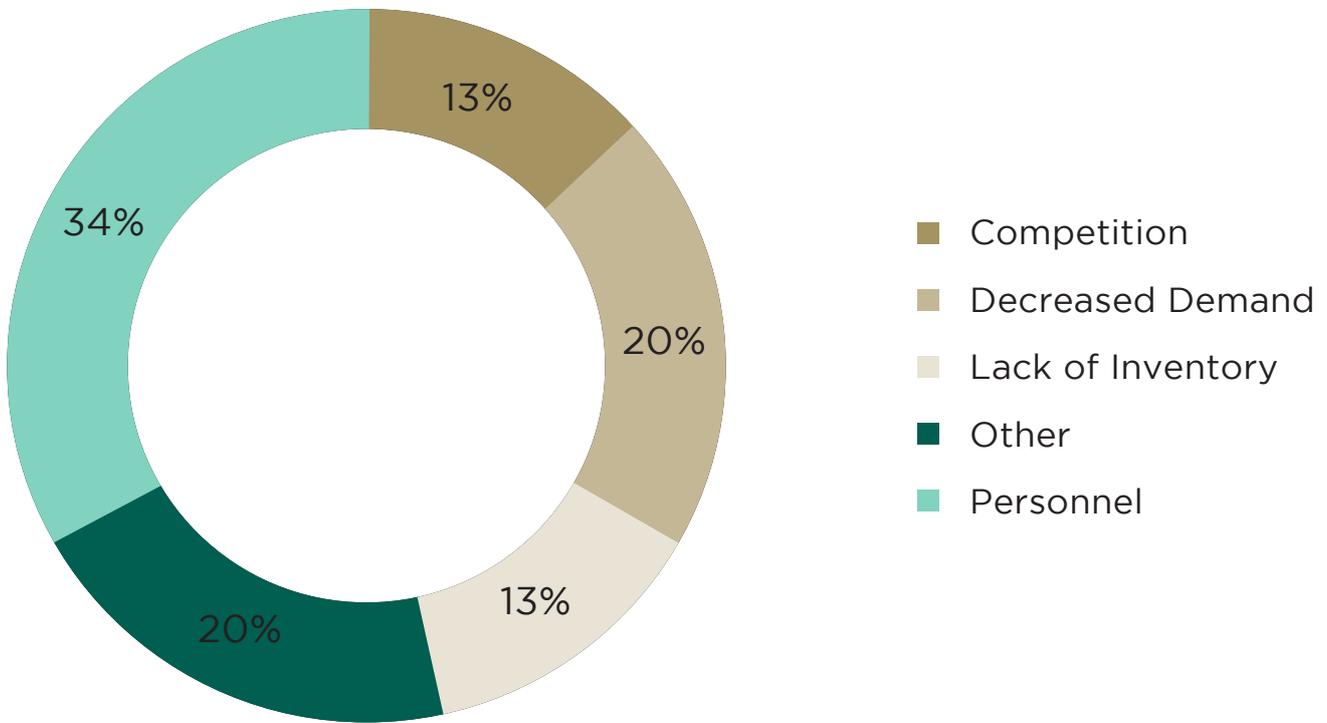
The increase in respondents' belief that their market share would decrease could indicate that personnel issues are intertwined with concerns over growth prospects. At the end of Q1 2014, only 63% of respondents felt that there had been an increase in the number of enquiries for their products, compared to 77% in the previous quarter. Another positive sign for the long-term prospects of the industry, despite the decline in the LISI, is that 92%, as opposed to 71%, of respondents are planning

on expanding their current footprints. Nonetheless, only 52% of the respondents plan on increasing their marketing initiatives targeted at UHNW individuals.

47% of respondents said that the majority of their UHNW clients came from North America, and only 13% of respondents stated that the majority of their UHNW clients came from the Middle East². None of the respondents believed that UHNW individuals from Africa, Latin America or Oceania accounted for a majority share of their UHNW clientele. This is unsurprising considering that less than 10% of the world's UHNW individuals have primary businesses in these three regions. However, it is surprising that only 20% of respondents considered Asian UHNW individuals to be their dominant consumers, despite 74% of respondents being involved in their respective companies' operations in this region.

² This does not indicate that 47% of revenue comes from North American UHNW individuals, but rather that 47% of respondents considered that the majority of their UHNW clients came from this region.

Challenges in Q1 2014



For 34% of respondents, the biggest challenge in Q1 2014 was personnel issues, followed by decreased demand, unlike in Q4 2013 where competition and decreased demand were the main challenges for 58% of respondents. Within the “other” category, the dominant difficulty was client indecision or the slow speed of client decisions.

TRADITIONAL LUXURY*



In this survey, respondents from the traditional luxury sector were the least likely group to define UHNW individuals by net worth or investible assets. In this subsector of the luxury industry, the majority of UHNW clients were perceived to originate from Europe. More than 70% of the respondents in this subsector expect to see an increase in both the number of UHNW clients in Q2 2014 and in their share of the UHNW market. However, just over half of the respondents believed that revenue would increase in Q2 2014, and 33% expected revenue from UHNW consumers to increase slower than total revenue.

Respondents in this category suggested two main growth strategies to help improve their performance: increased digital marketing and new product launches, although only 12% of respondents plan to increase the share of the marketing budget going specifically to UHNW clients.

The respondents in the traditional luxury subsector of the luxury industry had the strongest digital presence, with almost 70% of respondents using social media and almost 100% using digital marketing campaigns to increase brand awareness. Despite this involvement with digital marketing, in-person interaction with UHNW individuals was the dominant strategy.

* Traditional Luxury include Apparel, Shoes & Leather Goods, Jewellery & Timepieces.

BIG LUXURY ITEMS*



Only 16% of respondent providers of big luxury items do not define UHNW clients, and 90% of these respondents said that more than 75% of their clients are UHNW individuals, thus eliminating the need to define them. Furthermore, 88% of respondents argued that more than 50% of their revenue comes from UHNW individuals.

Unsurprisingly, in this subsector of the luxury industry, the majority of UHNW clients were perceived to have come from either North America or Europe, with only 10% of respondents reporting that the majority of their UHNW clients came from other regions.

Although 90% of respondents expect to see an increase in the number of their UHNW clients and 78% expect to see an increase in market share as well as revenue, just over

30% of respondents experienced a decrease in enquiries for their goods during Q1 2014 (compared to Q4 2013). Nonetheless, this subsector is particularly optimistic with more than 35% of respondents expecting a higher than 10% increase in revenue, both with regards to UHNW revenue and total revenue.

Over 65% of the respondents in this subsector of the luxury industry spend more than 50% of their marketing budget on activities and initiatives that specifically target UHNW individuals and 33% of respondents plan on increasing this budget. The focus in this industry is on attracting new clients and 58% expect to increase their digital marketing as part of this growth strategy, despite 88% stating that 0% of their revenue came from online sources.

* Big Luxury Items include planes, helicopters, yachts and motor vehicles.

HOSPITALITY & SERVICES



Respondents in the Hospitality & Services subsector of the luxury industry all reported that their UHNW clients and the average share of revenue from UHNW clients in this subsector was between 50-75% of total revenue. In other words, UHNW clients are particularly important in this subsector.

Respondents in this subsector were the most geographically diverse, with the majority in charge of more than five different regions.

This industry was particularly optimistic: with more than 89% having experienced increased enquiries for

their goods/services. Consequently, more than 78% of respondents expect to see an increase in the number of their UHNW clients, an increase in their market share and an increase in revenue from UHNW clients. In fact, 30% of respondents expect revenue from UHNW clients to increase faster than total revenue, suggesting UHNW clients are increasingly relevant to this sub-sector.

Although most of the respondents in this survey made use of social media and other digital platforms to increase brand awareness, 40% argued that online shopping is not something UHNW individuals engaged in.

HOSPITALITY & SERVICES



On average, respondents in the alternative luxury subsector of the luxury industry reported that 50% of their revenue came from UHNW clients. On a whole, this industry is quite optimistic when it comes to total revenue projections, but expectations with regards to growth in revenue from UHNW clients are conflicted.

Just over 40% are expecting growth in revenue from this segment of their clientele to grow slower than total revenue. An almost equal share of 38% of respondents expects revenue derived from UHNW clients to grow faster than total revenue.

Despite these conflicting results, 100% of respondents plan to increase digital marketing in Q2 2014 and for 95% of respondents, the main reason is to increase brand awareness.

On average, 50% of respondents' marketing budget was used to target UHNW individuals. This matches their perceived share of UHNW revenue to total revenue. The 38% of respondents who expect growth in UHNW-derived revenue are the only ones intending to increase the share of their marketing budget directed to UHNW clients.

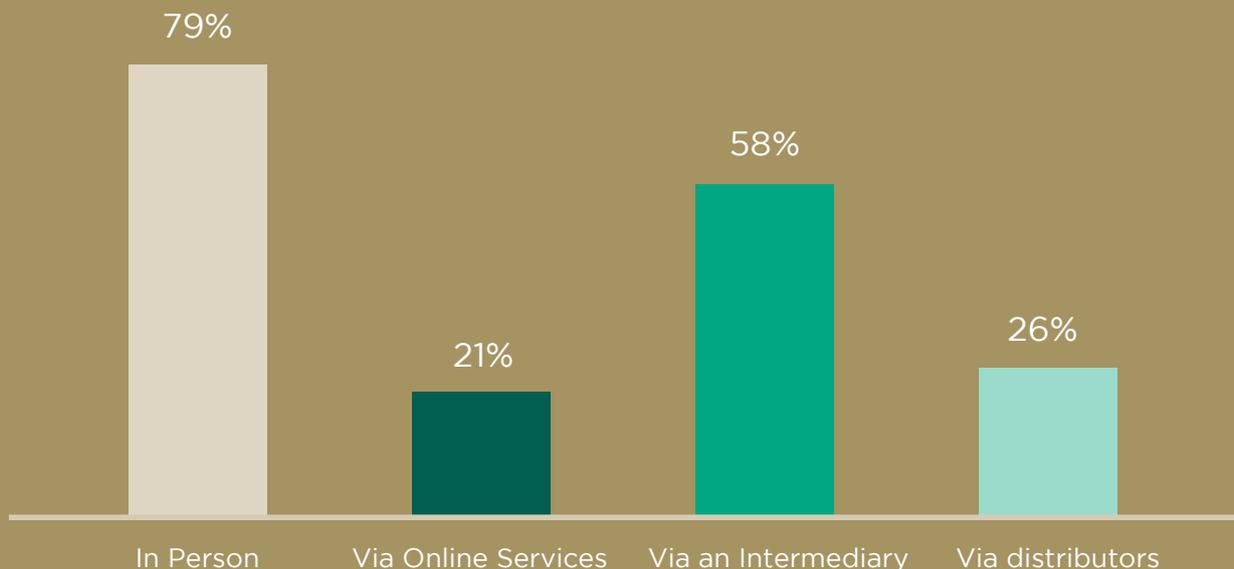
* Alternative Luxury includes Spirits & Wines, Art & Collectibles.

ENGAGING WITH UHNW INDIVIDUALS: DIGITAL MARKETING

“Customer Relationship Management (CRM) is an essential tool for the luxury industry to improve its engagement with UHNW clients”

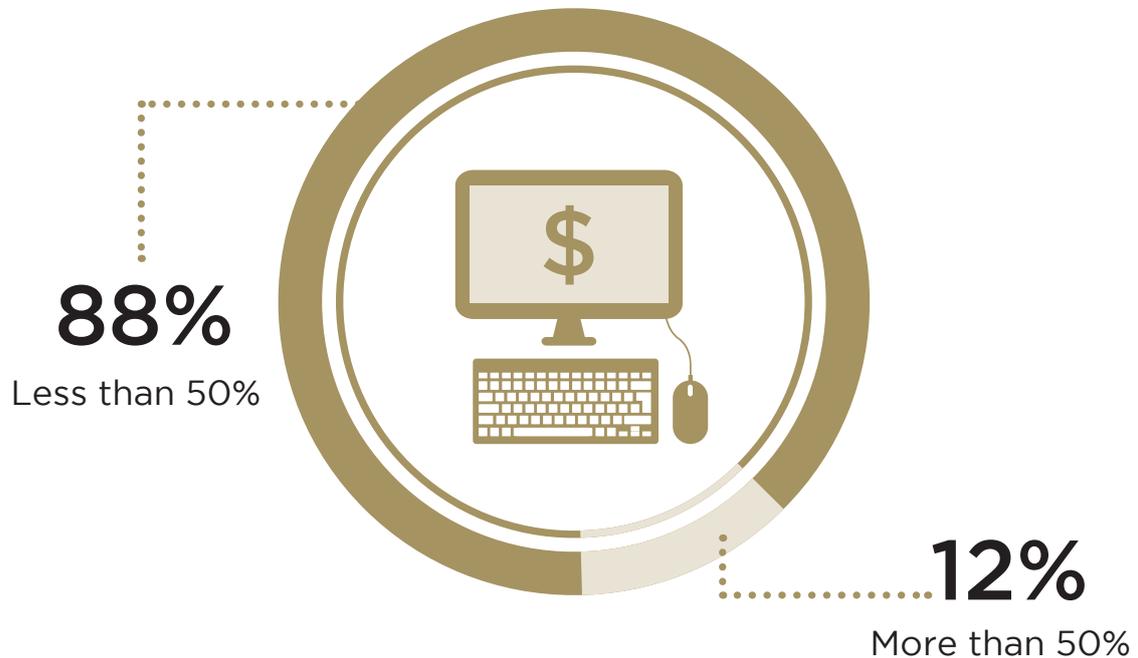
— Just under **90%** of respondents agreed or strongly agreed with this statement.

How the Luxury Industry Engages with UHNW Clients



The luxury industry places a heavy emphasis on UHNW clients: 64% of respondents said that more than 50% of their total marketing budget was used to target the UHNW segment specifically.

Share of Revenue from Online Purchases



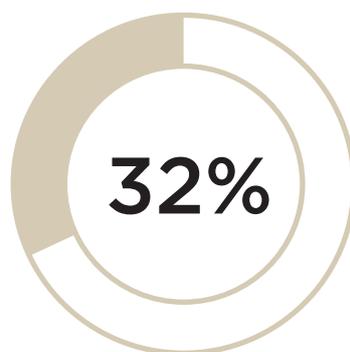
UHNW individuals typically purchase luxury goods and services in-person and online services do not play a significant role in the industry as a whole, in terms of sales and revenue. Only 12% of respondents said that more than 50% of their total revenue came from online purchases.

In fact, the luxury industry's use of digital marketing is not to increase sales or even their total number of clients, but rather to increase brand awareness.

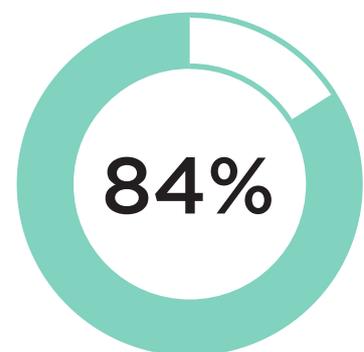
Why the Luxury Industry Uses Digital Marketing



No Digital Marketing



Increase Clientele



Increase Brand Awareness



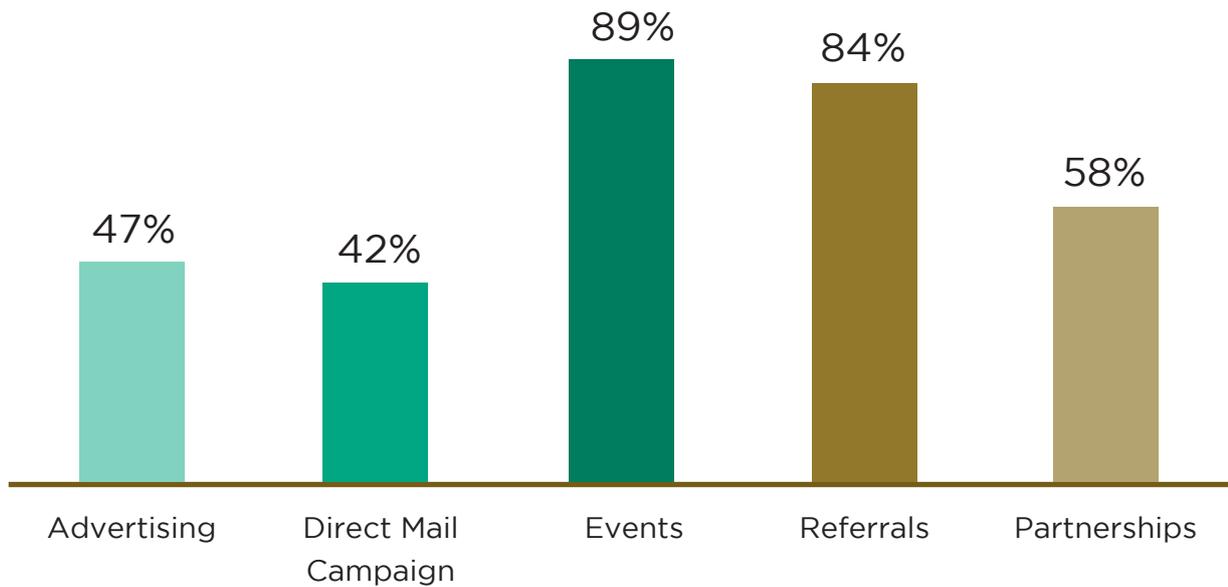
A large majority relied on events, word of mouth and partnerships when marketing to the UHNW segment

There are two main reasons for the limited use of digital marketing when targeting the UHNW population: for 11% of respondents, it is incompatible with the luxury industry, and for another 26% the consensus is that UHNW individuals do not use online shopping while 68% felt that UHNW clients do not respond to such campaigns. A further 37% of respondents were frustrated

by gatekeepers when engaging in digital marketing towards UHNW.

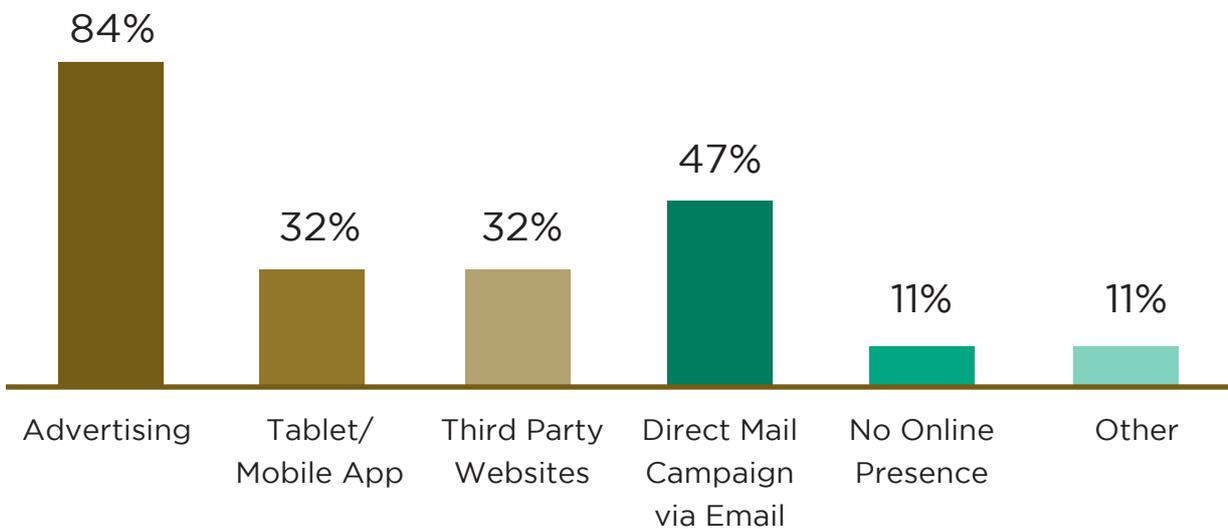
In line with the previous volume of this report, a large majority of respondents relied on events, referrals (word of mouth) and partnerships when marketing their goods and services to the UHNW segment.

Non-Digital Marketing Methods*



* Respondents could choose more than one option.

Digital Marketing Methods*



Non-digital marketing methods were more popular than digital marketing methods in the luxury industry: only 32% of respondents allow online shopping through their website and of these, 33% expect in store collection and another 33% permit customisation of products through

online services. Furthermore, 53% of respondents did not use any social media as digital marketing platforms. A possible reason for the dominance of non-digital marketing methods such as events is that they tend to be more personal and experiential.

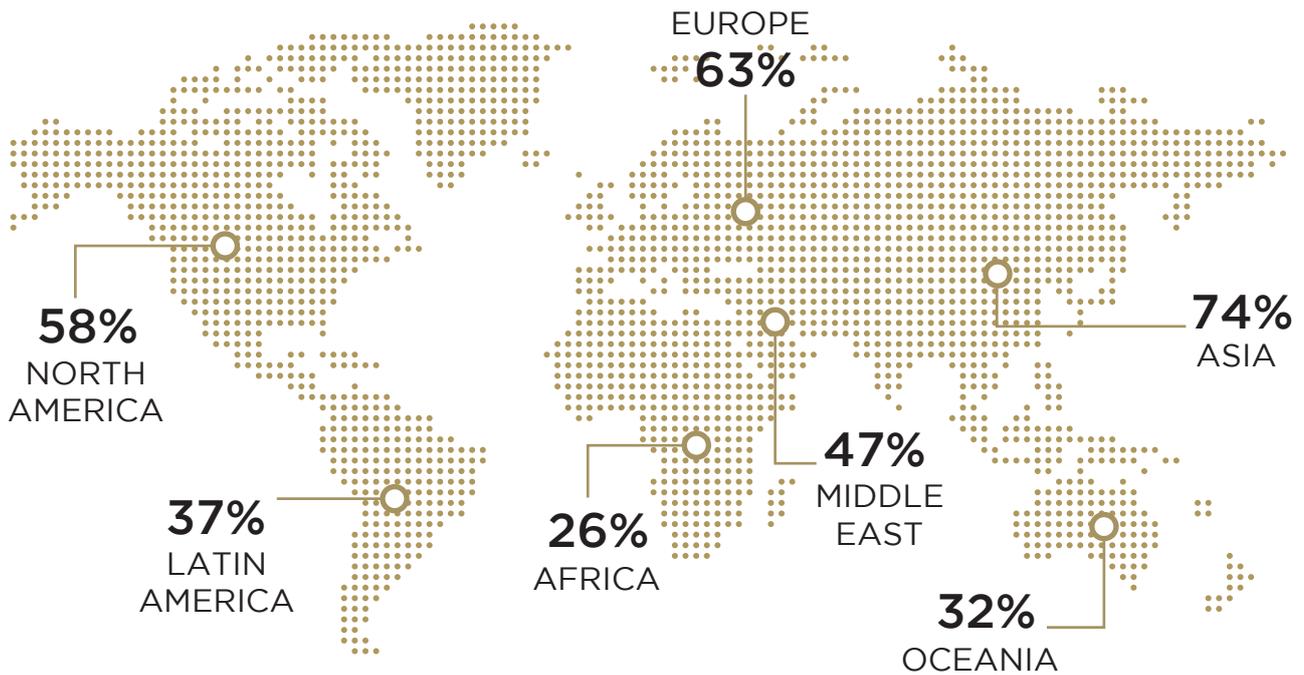
* Respondents could choose more than one option.

“Experiential marketing is crucial to the luxury industry’s ability to connect with UHNW clients”

————— Over **90%** of respondents agreed or strongly agreed with this statement.

THE SURVEY: METHODOLOGY

Proportion of Respondents Responsible for Specific Regions*



* Respondents could choose more than one option.

Respondents to our survey come from various sectors within the luxury industry including Clothing, Shoes & Leather; Watches & Jewellery; Household Furnishings; Electronics; Spirits & Wines; Art & Collectibles; Hospitality & Services; Planes & Helicopters; Yachting & Boating and Motor Vehicles. The survey was conducted between March 18th 2014 and March 31st 2014. The survey was sent to over a thousand different brands across all sectors of the luxury industry as listed above.

These respondents, in their positions at their respective firms, are typically responsible for numerous regions. On average, each respondent's role was responsible for three regions, a constant since last quarter's survey. The resulting diversity in our results enables us to draw unique, global insights into where revenue in the luxury industry was generated in Q1 2014, where growth is more likely to come from in the future and what the luxury industry expects during Q2 2014.

The third edition of Wealth-X Luxury Sentiment Survey will be conducted between 17 June and 30 June 2014. If you would like to take part in the next Luxury Sentiment Survey, please email press@wealthx.com. Alternatively, an invitation link will be distributed through the Wealth-X newsletter on 18 June and 25 June 2014.

WEALTH-X SOLUTIONS

Our Vision is to create a perfect market between those individuals with substantial financial means and those with authentic reasons to engage them.

We do this by developing deep insights through detailed research on Ultra High Net Worth (UHNW) individuals.

Our team of researchers and analysts, speaking more than 35 languages, have compiled an unrivalled, proprietary database of over 100,000 global ultra high net worth (UHNW) individuals that is the largest in existence. Our data pave the way for our unique insights: 180 variables & 10 million data points across 160 countries.

PROFESSIONAL

Wealth-X Professional is an online collection of global UHNW individual dossiers, highlighting their financial profile, passions and interests, known associates, affiliations, family members, biographies, news and much more.

Elegantly crafted to help expand our client's business, Wealth-X Pro supports private bankers, business development professionals, fundraisers and luxury brand marketers in spending less time researching prospects and more time winning relationships.

INTEGRATION

A full integration of Wealth-X data within our client's CRM system enables the big data automation of new UHNW client identification and business development.

Our intelligence is delivered to reside within our client's IT infrastructure through a bespoke API, Salesforce or Pythagoras interface. Customer and prospect data never leaves the local environment and provides clients with all the benefits and functionality of Wealth-X Professional to multiple users through a single access point.

DILIGENCE

Expanding on the standard dossier, Wealth-X Due Diligence provides in-depth intelligence on UHNW individuals to meet regulatory requirements and mitigate reputational and commercial risk.

Client's gain a comprehensive view of the individual's business activities and asset holdings in order to understand the source of wealth or funds. As a solution designed for KYC compliance, the dossier also includes their politically exposed status, close associates including senior government officials, significant litigation or sanctions, and adverse media.

ADVISORY

Wealth-X offers bespoke advisory that provides intelligence on evolving global wealth creation trends and dynamics through advisory projects and reports for our clients, led by our Institute. The Institute supports leaders in the banking, luxury, and non-profit sectors in making the best informed decisions.

Our advisory has produced dozens of high profile reports including the World Ultra Wealth Report and the Billionaire Census in partnership with UBS, Around the World in Dollars and Cents with Savills, the Wealth Report 2013 with Knight Frank and several others.

SCREENING

Wealth screening unlocks the potential in your customer or prospect data using our unparalleled coverage on UHNW individuals and expertise in matching and identity resolution.

Wealth-X Screening complements your knowledge on the ultra-wealthy and their relationship networks and provides powerful client analytics for new UHNW client or donor initiatives.

- Assess market and wallet share;
- Drive new business cases;
- Leverage market segmentation through UHNW characteristics;
- Perform statistical analyses on UHNW consumer spend or philanthropic giving.

ABOUT WEALTH-X INSTITUTE

Established in 2012, the institute is the wealth and economics research arm of Wealth-X.

Using the wealth of data collected by Wealth-X's team of researchers, the Institute quantitatively analyses the UHNW population. Variables that can be used in determining clusters and market size include asset analysis, wealth source, net worth, liquid assets, source of wealth, education, interests, age, gender, marital status, location.

This analysis provides valuable insight that can then be identified and explored for a variety of purposes.

The Institute provides leaders and decision makers in the private banking, luxury, and philanthropy sectors with data and insights to help inform decisions. By bringing internal and external thought leaders together, the Institute illuminates issues that matter to these stakeholders today, as well as those that will in the future.



WEALTH-X AND UBS WORLD ULTRA WEALTH REPORT 2013



WEALTH-X AND UBS BILLIONAIRE CENSUS 2013

For the last three years, Wealth-X has published an annual report: the World Ultra Wealth Report.

As of 2013, this work has been published in partnership with UBS. In addition, 2013 saw our inaugural Billionaire Census Report, another partnership with UBS.

In addition to these reports, the Wealth-X institute publishes insights on the UHNW across the financial services, luxury and non-profit sectors.

CONNECT WITH US

For more information, contact press@wealthx.com

WEALTH-X AND UBS BILLIONAIRE CENSUS 2013
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