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2022 Essencional Observatory

Economic trends: the artistic perfumery market throughout and after the pandemic

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A research conducted by: **essencional:**

THROUGH
THE MIRROR

essencional:

Promoting innovation and high creativity in the development of Niche Perfumery and Cosmetics



Esxence Strategic Partner

April 2019: “Whispers about artistic perfumery”
Definition of Workshops for conference-hall and Webinars

Online, Essencional.com

April 2020: launch of essencional.com
Spreading knowledge about artistic perfumery: Original Content and Reposting of news and articles

Study Center

Continuous monitoring, Surveys and analyses.

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Key research questions

- 01 – How strong was the impact of the pandemic on sales and profit margins?**
- 02 – The Italian market: what is the geography of the impact**
- 03 – The recovery challenge: how fast, what risks?**

How we analysed the artistic perfumery economic trend

#FINANCIAL ANALYSIS: the impact of the pandemic

Financial data (balance sheets) have been collected for a large sample of producers and traders in 5 European Countries (Italy, France, UK, Germany and Spain).

A permanent database of companies' balance sheets has been created

A group of 91 companies with full availability of data from 2016 to 2020 were selected for the analysis and parted in 3 sub-groups:

Big brands, sales > €15mln

Medium sized, sales €1-15 mln

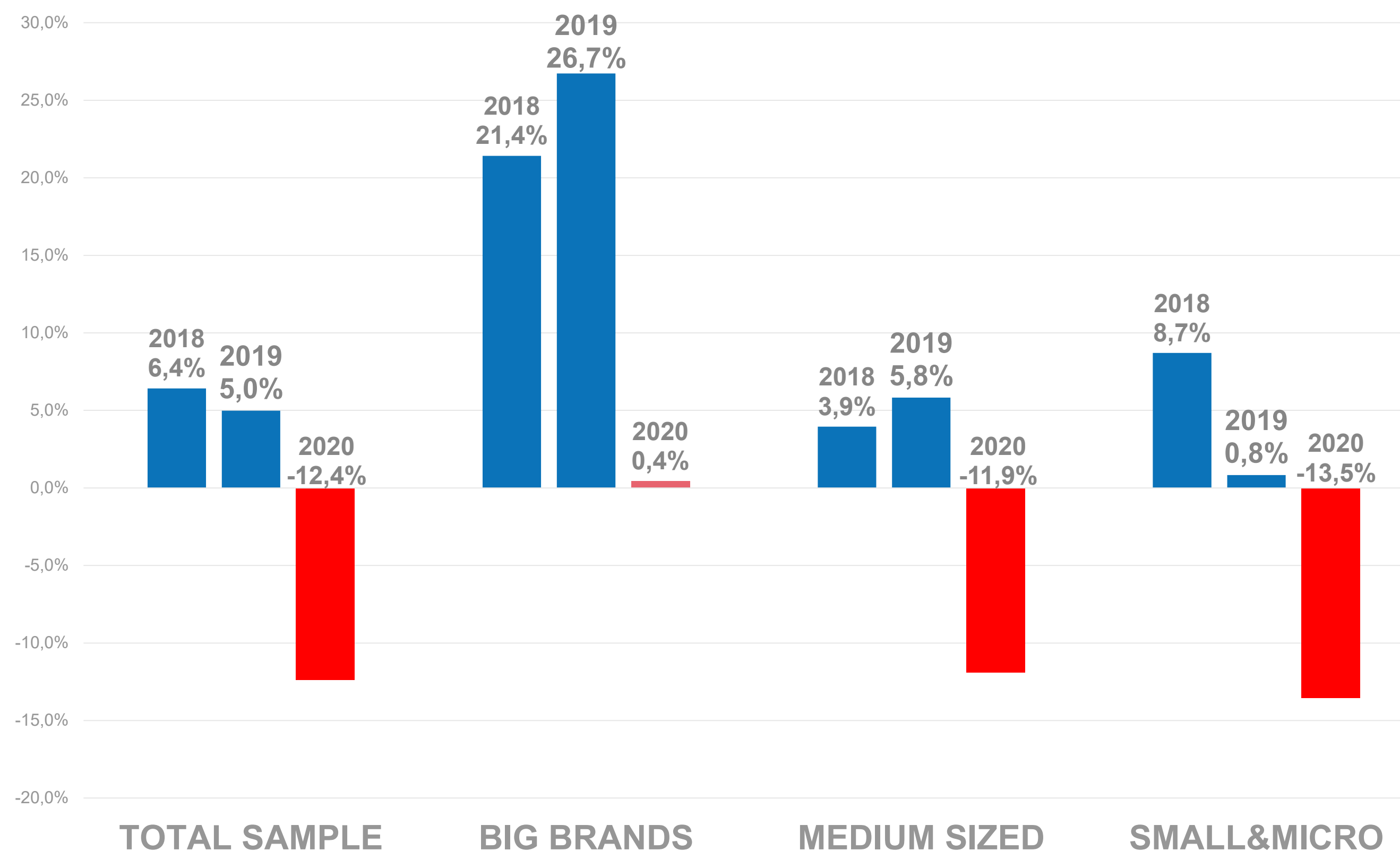
Small and micro enterprises, sales <€1mln

#NOWCAST: the recovery speed

Analysis of quantitative and qualitative market information, limited to the Italian market, for a large sample of brick and mortar retailers.

The data analysis was complemented by experts opinion.

The impact of the pandemic on sales y/y % change – sample median values



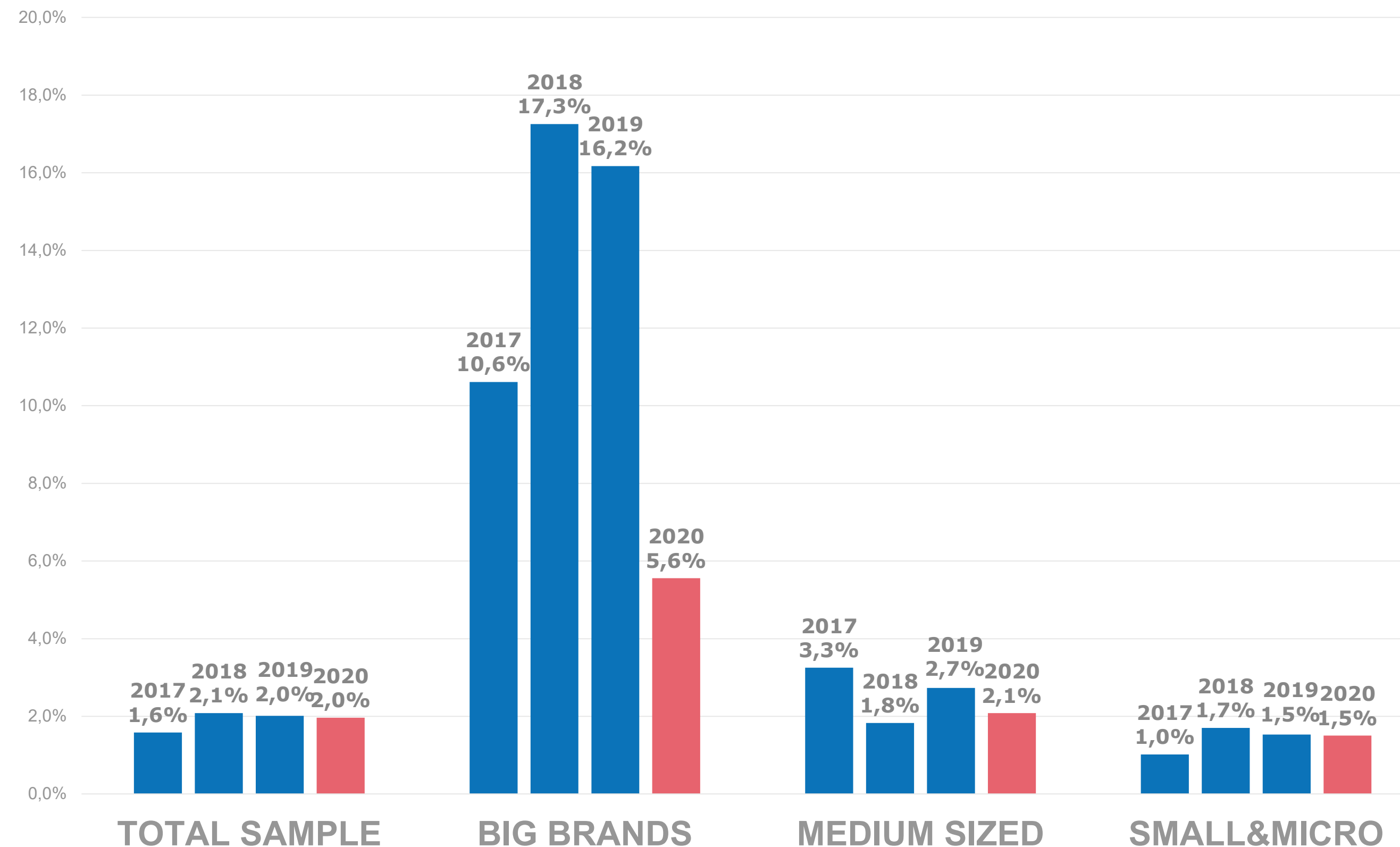
THE CUT IN 2020 WAS STRONG, BUT MILDER THAN FEARED

The 91 companies in the sample suffered a **12,4% median** decrease in sales in 2020. However, the overall sales of the sample were down **just by -3.7%** as Big Brands sales were more stagnating than decreasing.

The **-3.7%** overall drop in the sample must be compared to the **12%** of the overall Italian cosmetics industry.

The impact of the pandemic on net profit margins

Net profit/sales % – sample median of values



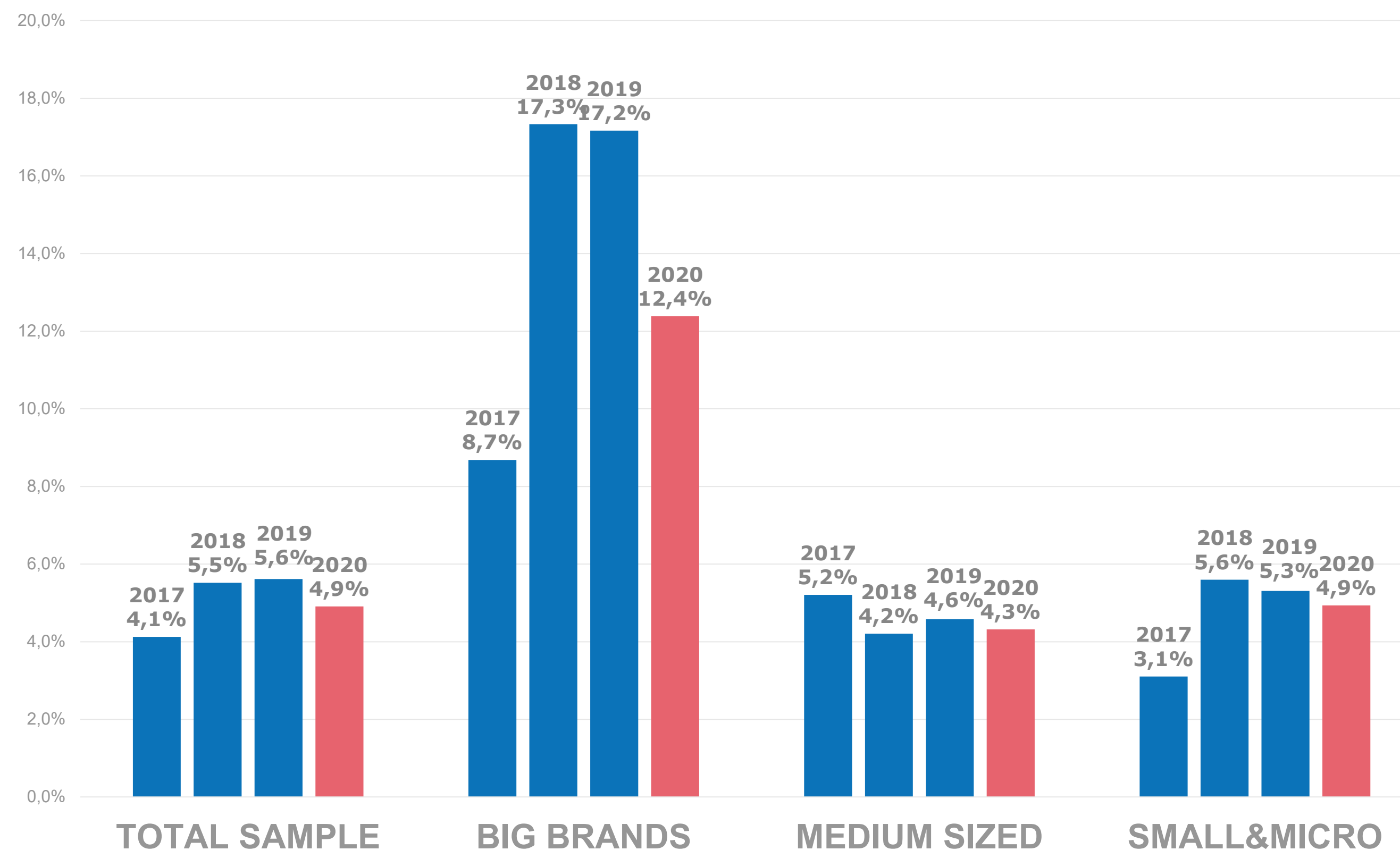
PROFITS DECREASED BUT THE MEDIAN REMAINS POSITIVE

Net profits drop in 2020 was huge, however most of the companies' profits held positive.

Indeed, the overall cut in profit for the 91 companies of the sample was of around €39million compared to 2019, Most of the decrease was concentrated in Big Brands.

The impact of the pandemic on operating profit margins

Operating profit/sales % – sample median of values



THE OPERATING PROFIT CUT WAS REMARKABLE FOR BIG BRANDS

The cut of profits in 2020 was mostly generated by the operations.

The operating revenue of the 91 companies was reduced by €21million compared to 2019.

While keeping the sales stable, Big brands suffered from a remarkable cut in profits.

On the other hand medium sized and small companies managed to minimise the cut in profits %, most likely by selling from stocks and minimising production cost as well as the launch of new items

The geography of the impact in Italian cities

MEDIAN OF 2020/2019 Y/Y CHANGE IN SALES OF ARTISTIC PERFUMERY IN BRICK&MORTAR PERFUMERIES, BY TYPE OF CITY

SUMMER / WINTER TOIRISM CITIES

-29,5%

AGRIGENTO, CAPO D'ORLANDO, CATTOLICA, CERVIA, MILANO MARITTIMA, CORTINA D'AMPEZZO, COURMAYEUR, FORTE DEI MARM, JESOLO MADONNA DI CAMPIGLIO, ARONA MODICA, MONTECATINI, OSTUNI, SAN MARINO, RICCIONE, RIMINI, SABAUDIA, SANTA MARGHERITA, SORRENTO, TAORMINA, VIAREGGIO, LIVIGNO (...)

CULTURE/ART TOURISM CITIES

-37,8%

FIRENZE, MILANO, NAPOLI, ROMA, VENEZIA, TORINO, MATERA, SPOLETO

ALL OTHER CITIES

-15,8%

THE FREEZING OF THE TOURISM MARKET

The analysis of information from the Italian market reveals that **the freezing of tourism flows, and of the sales in tourism locations, as the main origin of the decrease in revenue for the artistic perfumery sector.**

We estimate the drop of artistic perfumery in top tourists' destination **ranging between -30% and -40%.**

The recovery challenge: how fast, what risks?

In 2021 the market quickly caught-up to the pre-pandemic levels

We estimate that in the year 2021 the median volume of sales (sell-in of stores) **is up by 3%-6% compared to the pre-pandemic year (2019)**. More than half of the specialized stores (perfumeries) are expected to have at least recovered the 2019 level.

The artistic perfumery market is recovering quicker than the fashion sector that, at the end of 2021, was still below the 2019 level of sales.

The recovery challenge: how fast, what risks?

The potential growth of sales is limited by supply side disruptions

Many risk are currently emerging that can stop the recovery and trigger a slowdown (raw material and intermediate goods sourcing difficulties, energy and other raw materials price spikes, inflation & monetary policy, worsening of the confidence climate, growth).

We also see from our financial sample data that many artistic perfumes producers and traders have reacted to the pandemic in 2020 and 2021 by reducing the production and the launch of new items, mostly relying on selling from stocks that are currently very low.

We expect that the rebuilding of stocks to normal levels can be an issue for companies that adds up to other risks in catching-up the strong demand from retailers and consumers in 2022.

KEY TAKEAWAYS

- ✓ The impact of the pandemic was strong but milder than feared. The divergence between winners and losers has increased. However, the overall, median profit margin remained positive
- ✓ Considering the Italian market, the freeze of tourist's flow was a main origin of the drop in sales
- ✓ The recovery of sales was fast in 2021. The catch-up of the pre pandemic level of sales was completed in the first year of recovery.
- ✓ The macroeconomic landscape and the low level of stocks can limit the growth of the market in the next months