# Heathrow Airport Limited

## Commercial Review

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**Prepared for**

Heathrow Airport Limited

**Prepared by**

Pragma Consulting

This report was commissioned by Heathrow Airport Limited as part of a retail trend analysis and impact on airport commercial.

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Heathrow Airport Limited are currently in the process of evaluating and assessing how retail market trends and legislative changes may impact the demand for, and optimum utilisation of commercial space at the airport. Pragma have been commissioned to undertake an external study to review and assess the potential impact

## PRAGMA SCOPE OF WORK

| | Scope of Work | Methodology |
|---|---|---|
| Stage 1<br>Retail Category Trends | ☐ What are the evolving airport retail category trends and forecasts for 2022-2026?<br>☐ Where does Pragma see future growth and decline across different current Heathrow retail categories?<br>☐ What are these growth decline / uplifts predicted to be, and how will this effect global retail, travel retail, and UK retail / travel retail? | ☐ Review of desktop research and published market reports<br>☐ Expert interviews conducted with executives with experience of: [redacted]<br>☐ Analysis of sales trends across UK retail, global airport retail, and Heathrow<br>☐ Review of Heathrow forecast passenger mix composition changes<br>☐ Assessment of Heathrow retail mix composition of selected other airport and downtown assets |
| Stage 2<br>Heathrow Retail Mix and Space Demands | ☐ Based on the category and market trends observed, what is the likely impact on the future composition of the retail and space mix at Heathrow?<br>☐ Which categories may see an increase in space vs. a decrease?<br>☐ To what extent may the UK Government VAT legislation changes impact the suitable retail mix composition?<br>☐ How may the forecast changes in the Heathrow passenger destination mix impact consumer demand and space composition across different categories?<br>☐ To what extent are retail sales trends influenced by fluctuations in currency exchange rates? | |
| Stage 3<br>Tenant Mix Benchmarking | ☐ How does the retail mix composition in other airports and downtown assets vary according to the price positioning / tax free saving?<br>☐ How does the current retail mix at Heathrow compare to other benchmark assets? | |

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## Executive Summary

| Hypothesis | Source | Potential Impact on Heathrow Retail Revenue to 2026 | |
|---|---|---|---|
| 1) General consumer expenditure has been challenged by the economic pressures of Covid, and whilst recovering, will present challenging market conditions for high-street and airport retail | • Whilst growth is forecast to recover in the UK, the medium-term outlook to 2026 is relatively benign, with real GDP growth forecast to be under 2% year on year compared to higher rates in the USA and China<br>• In Q3 2021 both the GfK Consumer Confidence Index and quarterly UK consumer spending remained below pre-pandemic levels | • The low domestic growth rates in the UK will limit the scale of UK-passenger demand for retail, with passengers from international markets experiencing higher domestic GDP growth likely to generate higher demand for retail | Moderate +ve |
| 2) The rapid growth of online retail, accelerated by Covid, creates further challenges for high-street and airport retail | • UK internet sales as a percentage of total retail sales experienced a rapid increase in market share during lockdown to a high of 37% in January 2021. This subsequently reduced to 27% in October 2021 as stores re-opened, but the share is forecast to continue rising over time<br>• China has the highest proportional share globally, of c.34% in 2019, the USA and France experiencing relatively low shares of 11% and 9% respectively, compared to 22% for the UK | • Globally, the continued growth in the proportional share of online retail over physical stores creates pressures on sales growth for Heathrow's proposition<br>• However, investment in a strong digital retail offer at Heathrow also presents opportunities for increased customer engagement and expansion of the product offer to drive new sales opportunities | Neutral |
| 3) Airport physical retail maintains a degree of resilience to online sales growth supported by price advantages and the convenience of on-journey purchasing | • Despite the rapid growth of online as a proportion of total retail sales in both the UK and China, sales per passenger at Heathrow has remained stable, demonstrating a degree of resilience of travel retail to the growth of online<br>• The attractiveness of purchasing at Heathrow has been supported by the different purchase motivations for airport retail, including the price advantage, as well as the demands from the international customer base | • Whilst the strength of Heathrow's retail offer and benefits of convenient purchasing will continue to motivate on-site sales, the loss of price advantage from changing VAT legislation risks significantly diminishes a key point of attractiveness for purchasing in the airport | Neutral / moderate -ve |
| 4) The relationship between exchange rate fluctuations and airport retail sales demonstrates the importance of price in stimulating sales | • The GBP sterling experienced significant depreciation against the major currencies of the USD, Euro, and Yuan following Brexit<br>• The spend per passenger of retail sales profiles at both Heathrow and the Paris Airports in relation to exchange rate fluctuations demonstrate the sensitivity of consumer spend to changes in price | • The general trend of the GBP depreciating against major currencies will help to stimulate retail demand at Heathrow<br>• However, the diminished price advantage from removal of VAT savings risks impacting the upside | Neutral / moderate -ve |

# Executive summary (2) – category and expenditure trends

## Executive Summary

| Hypothesis | Source | Potential Impact on Heathrow Retail Revenue to 2026 | |
|---|---|---|---|
| 1) The movement amongst consumers towards higher spend on experiences (e.g. F&B and leisure) over retail, creates challenges for key high-street and airport retail categories | • Over the past 20 years there has been a general trend seen, in the UK and globally, of consumers shifting their household spending towards experience-led purchases of recreation and culture, and eating out, over traditional consumer product categories such as clothing, alcohol and tobacco – traditional drivers of airport retail sales | • The trend creates downward pressures for Heathrow in key categories such clothing, alcohol and tobacco, but upside for F&B and other growth categories, such as beauty | Moderate - ve |
| 2) The role of physical retail for certain categories and brands is shifting away from transactions towards brand experience and showrooming | • The combination of increased consumer demand for experiences and growth of online sales is changing the role of the physical retail store more towards customer acquisition and brand experience, and away from traditional on-site transactions | • The trend towards experiences puts pressures on the conventional commercial model of linking store value and Heathrow retail income directly to in-store sales | Moderate -ve |
| 3) Price plays a fundamental role in purchase motivations for consumers | • After quality of product, price is clearly a fundamental component in influencing consumers' purchase considerations for luxury goods, cited by 69% of consumers, with brand name the third highest component, cited by just 28%. This demonstrates the potential sensitivity of price changes in luxury goods to consumer demand | • The removal of the VAT advantage poses a clear risk to the attractiveness and incentive to purchasing at Heathrow, particularly for higher value luxury items | Strong -ve |

# Executive summary (3) – passenger spend dynamics

## Executive Summary

| Hypothesis | Source | Potential Impact on Heathrow Retail Revenue to 2026 | |
|---|---|---|---|
| 1) The duty / tax free incentive creates a strong incentive to spend | • Passengers flying to Non-EU destinations have higher median spend than EU, reflective of both the duty and tax free saving offered to Non-EU destinations, as well as the characteristics of the passenger profile and destinations | • Following Brexit, passengers flying from Heathrow to European destinations benefit from duty free savings on alcohol and tobacco, which will help support sales in these categories; however, the Non-EU flights will no longer benefit from the VAT saving which will put significant downward pressure on high ATV categories, such as luxury | Strong +ve for duty free<br>Strong –ve for tax free |
| 2) The forecast passenger mix share changes at Heathrow will impact demand for retail space and revenue potential | • [redacted]<br>• At Heathrow between 2013 to 2018, destinations to Emerging East Asia had the highest average SPDP, whilst the UK and Europe had the lowest SPDP | • The mix change composition will be negative for retail spend in the near term, but more favourable by 2026 | Strong –ve short term<br>Moderate –ve longer term |
| 3) The VAT tax reforms will decrease the attractiveness of retail purchases, particularly luxury at Heathrow | • The VAT tax reforms make the UK the only country in Europe not to offer tax-free shopping to international visitors<br>• The absolute value of VAT rises as an item price point increases. For a luxury Bulgari watch with a retail price inc. VAT of £41,600, the associated VAT is £8,320, illustrating the strength of the VAT-free incentive to purchase; this compares to an £11 saving on a £55 pair of mid-market Superdry trainers<br>• Global luxury brands have similar retail price structures across Paris and London, but without VAT rebates in the UK, purchasing in France becomes more attractive | • The higher-priced point luxury items risk a significant reduction in demand, leading to a lower level of luxury fashion space being supportable, and a movement towards increasing the allocation to upper and mid-market fashion which is less sensitive to VAT changes<br>• This risks being further exacerbated by Heathrow losing market share in visitors and spend to competing EU destinations | Strong –ve |

## Executive Summary

| Hypothesis | Source | Potential Impact on Heathrow Retail Revenue to 2026 | |
|---|---|---|---|
| 1) China will continue to be the key driver of luxury spend globally, but the spend is likely to soften and become more price sensitive over time | • Chinese personal luxury spend has surpassed American spend, and is set to account for half of the global luxury goods market in the next 10-15 years<br>• Although Chinese passengers will continue to over-index on spend per head at airports, spend to date has largely been driven by the higher incomes, which will dilute as volumes from lower incomes rise<br>• This trend has already led to reductions in average spend per trip and risks being further constrained by government initiatives to increase domestic retail spend and tourism, demonstrated by the substantial growth of spend in Hainan and increased duty free allowances | • The forecasted lower proportion of Chinese passengers in the mix share at Heathrow will put downward pressure on spend and demand for luxury space<br>• Aside from mix composition, Chinese spend potential in general at Heathrow and other international markets is likely to soften over time (but potentially more acutely at Heathrow due to reduced price advantage) | Strong -ve short term<br><br>Moderate –ve long term |
| 2) The UK retail market has become less attractive for high-end consumers and luxury brands | • Views from industry executives suggest that the UK retail market may be permanently changed because of Brexit and the changes to the VAT legislation, with the risk of consumers shifting behaviours to take advantage of price advantages in other European destinations and retailers following suit | • The reduced relative attraction of UK and airport luxury, compared to other markets, is likely to increase the likelihood of consumers and brands focussing attention in other markets | Moderate -ve |
| 3) Heathrow has become a less attractive proposition for luxury brands | • Prior to the VAT changes, units at Heathrow typically generated high sales. However, very high operating costs led to low operating margins. Retailers are now showing hesitancy at remaining at Heathrow if the same rental model is to remain in place, when combined with the risk of lower pax volumes and the removal of the VAT rebate<br>• [redacted] | • There is a risk that luxury brands will seek to pull out of retailing at Heathrow as the combination of lower sales driven by reduced passenger volumes and lower spend reduces profitability | Strong -ve |
| 4) The structural changes to the market will increase the suitability of a more mid-market retail mix positioning at Heathrow | • Heathrow has the highest proportional share of luxury units within the retail mix compared to other leading airports. Where the passenger mix is less suitable for luxury, and the price advantage from tax free lower, upper and mid-market price positioning takes a higher share at airport and downtown locations | • The market pressures lead to a likelihood that luxury sales and supportable space will decrease and upper and mid-market at Heathrow will increase | Moderate –ve |

## Executive Summary

| | | Pragma View on Heathrow Impact 2022-2026 | | | |
|---|---|---|---|---|---|
| Category | Comments | VAT Impact | PAX Mix Impact | Nominal Growth Forecast | Nominal Growth Forecast |
| [redacted] | • [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | • [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | • [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | • [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |

*Notes: *The growth opportunity does not include any potential growth for an arrivals duty free offer as this is currently not possible under UK law*

## Executive Summary

| | | Pragma View on Heathrow Impact 2022-2026 | | | |
|---|---|---|---|---|---|
| Category | Comments | VAT Impact | PAX Mix Impact | Nominal Growth Forecast | Retail Mix Impact |
| [redacted] | • [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | • [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | • [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | • [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |

# Executive summary (7) – category summary – speciality retail fashion

## Executive Summary

| | General Comment |
|---|---|
| [redacted] | • [redacted]<br>• [redacted]<br>• [redacted] |

| | | Pragma View on Heathrow Impact 2022-2026 | | | |
|---|---|---|---|---|---|
| Category | Comments | VAT Impact | PAX Mix Impact | Nominal Growth Forecast | Retail Mix Impact |
| [redacted] | • [redacted]<br>• [redacted]<br>• [redacted]<br>• [redacted]<br>• [redacted]<br>• [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | • [redacted]<br>• [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |

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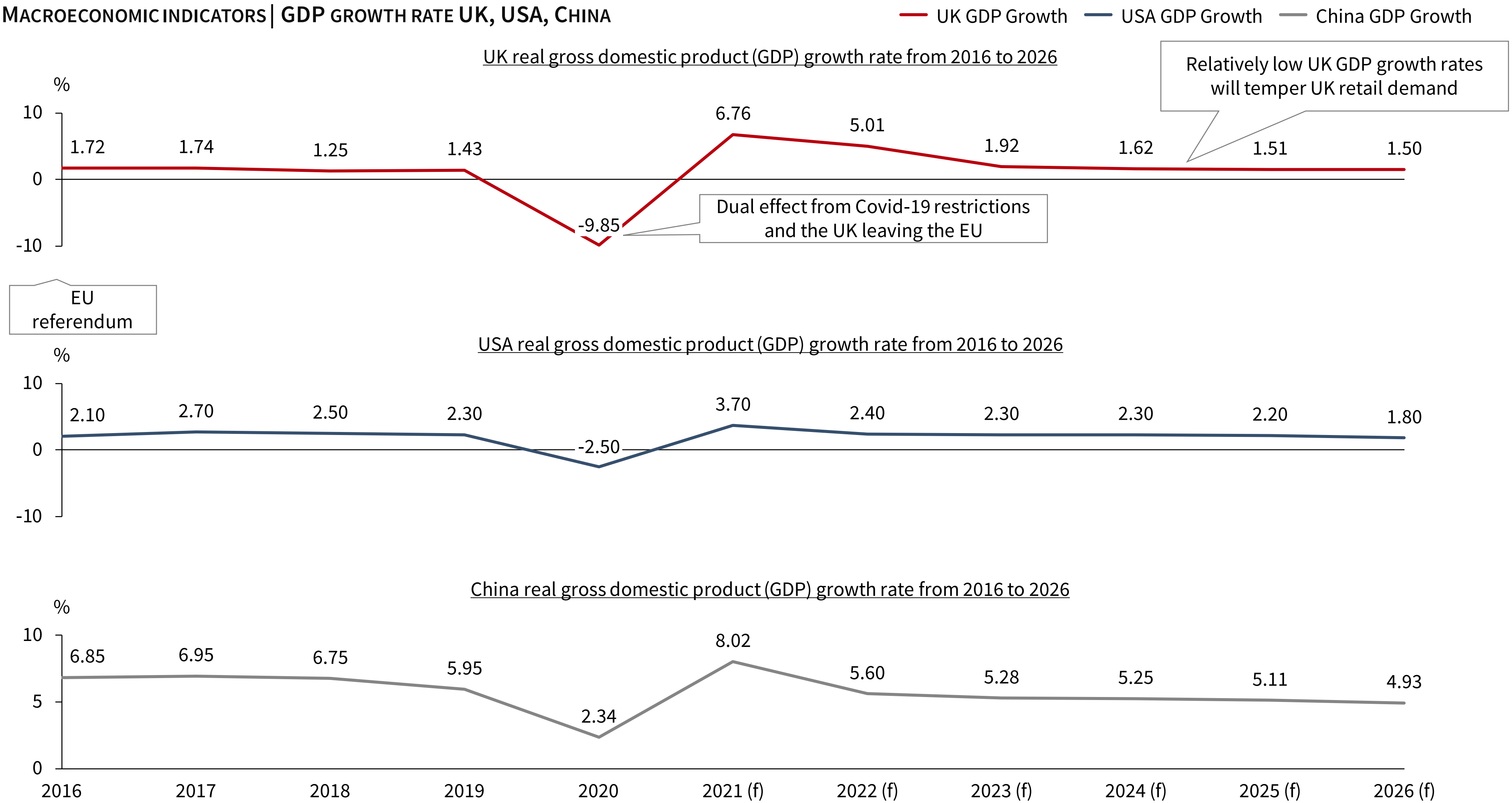
Prior to Covid-19, the UK experienced the lowest rate of real GDP growth relative to the USA and China, and also experienced the largest contraction in 2020. Whilst growth is forecast to recover in the UK, the medium-term outlook to 2026 is relatively benign, at under 2% year-on-year compared to higher rates in the USA and China

**MACROECONOMIC INDICATORS | GDP GROWTH RATE UK, USA, CHINA**



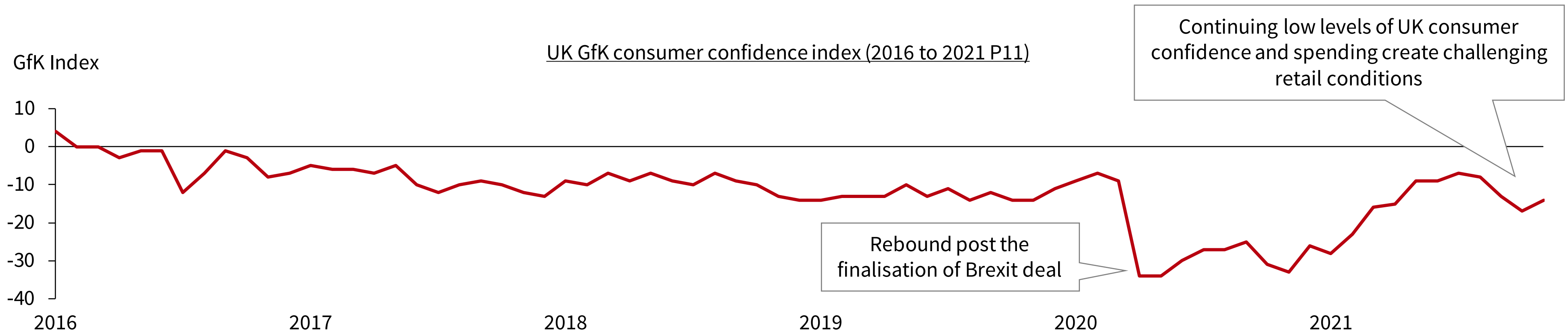

*Source: Pragma analysis; Statista, IMF; Congressional Budget Office*

By historic standards, the UK's GfK Consumer Confidence Index has been relatively low since a high in 2016, decreasing sharply due to the pandemic, and then rebounding in 2021, but currently still below pre-pandemic levels. Similarly, quarterly UK consumer spending for Q3 2021 had declined by 4% below the prior high of Q2 2019

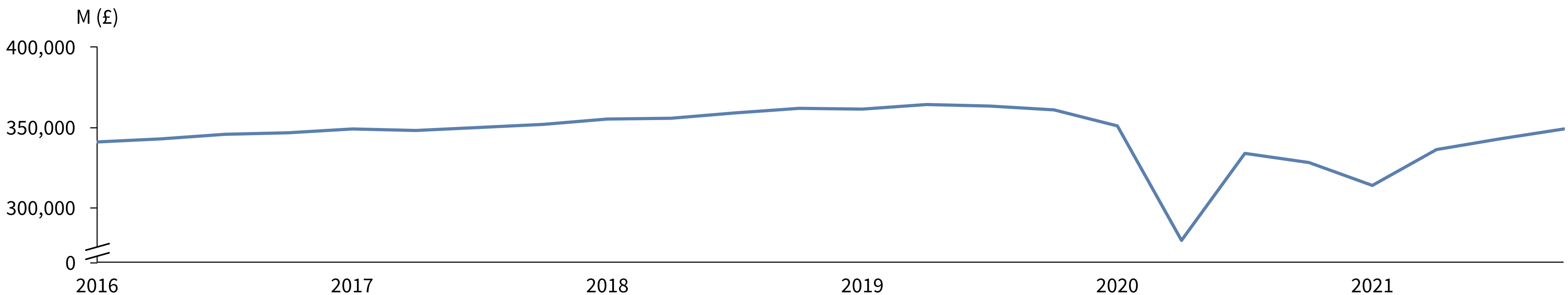
## MACROECONOMIC INDICATORS | UK CONSUMER CONFIDENCE AND CONSUMER SPENDING

UK consumer confidence — UK consumer spending

UK GfK consumer confidence index (2016 to 2021 P11)




UK quarterly consumer spending GBP £m (2010 Q1 to 2021 Q3)

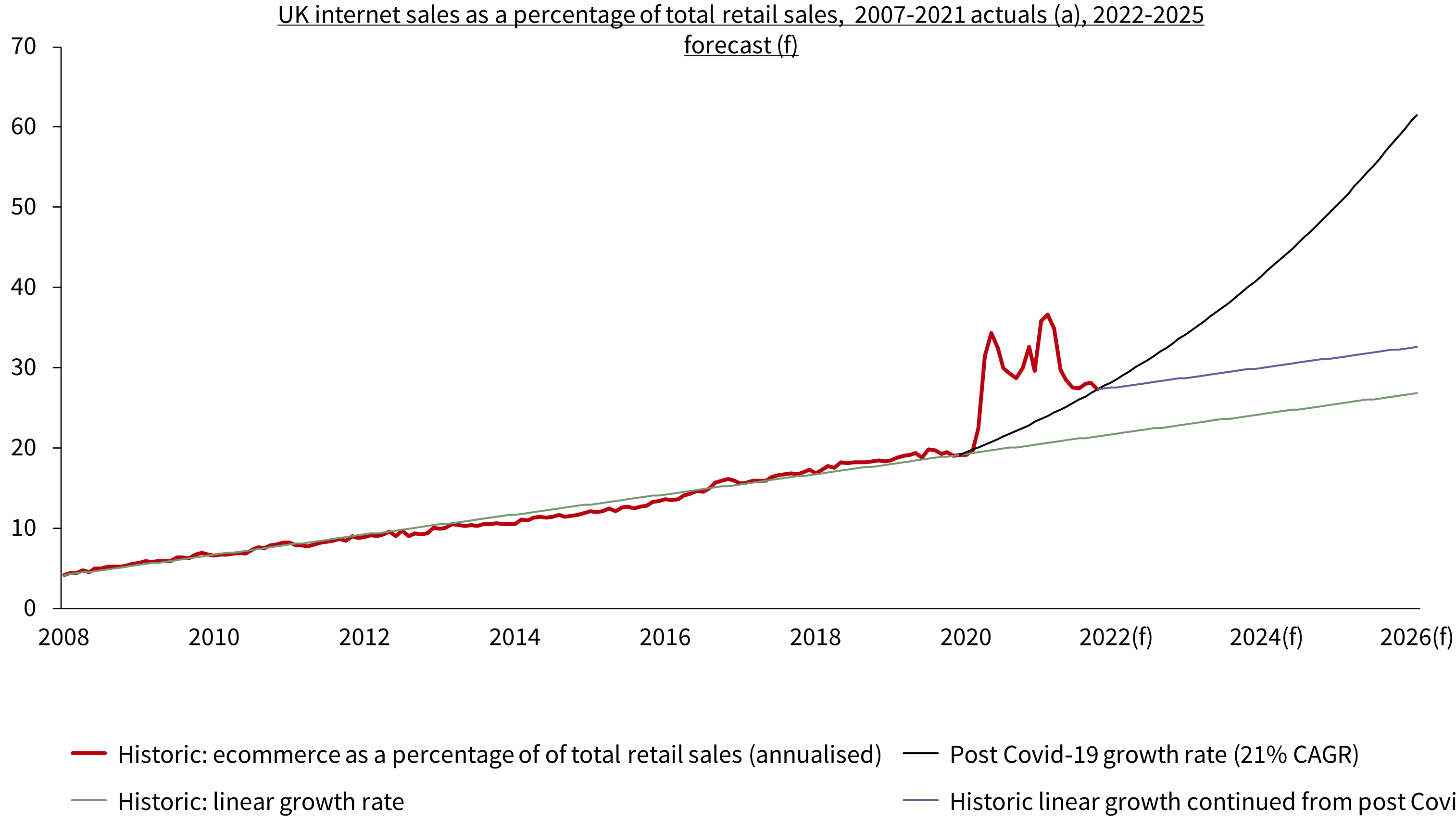





*Source: Pragma analysis; Tradingeconomics.com; Office for National Statistics*

UK internet sales as a percentage of total retail sales were growing steadily prior to Covid-19, then experienced a rapid increase in market share during the months of lockdown to a high of 37% in February 2021. This subsequently reduced to 27% in October 2021 as stores re-opened, but the share is forecast to continue rising over time

## MACROECONOMIC INDICATORS | UK INTERNET SALES AS A SHARE OF TOTAL RETAIL SALES




- Limited post-lockdown data means the longer-term effects of the pandemic on future growth rates of internet sales are still uncertain
- Certainly, greater emphasis and investment has been put into ecommerce strategies by most retailers, and ecommerce purchasing across consumers of all demographics and age groups has risen
- Overall, this will continue to put pressure on the sales potential of physical stores on the high street and airport retail environments, as online purchases count for an increasingly larger share of retail spend

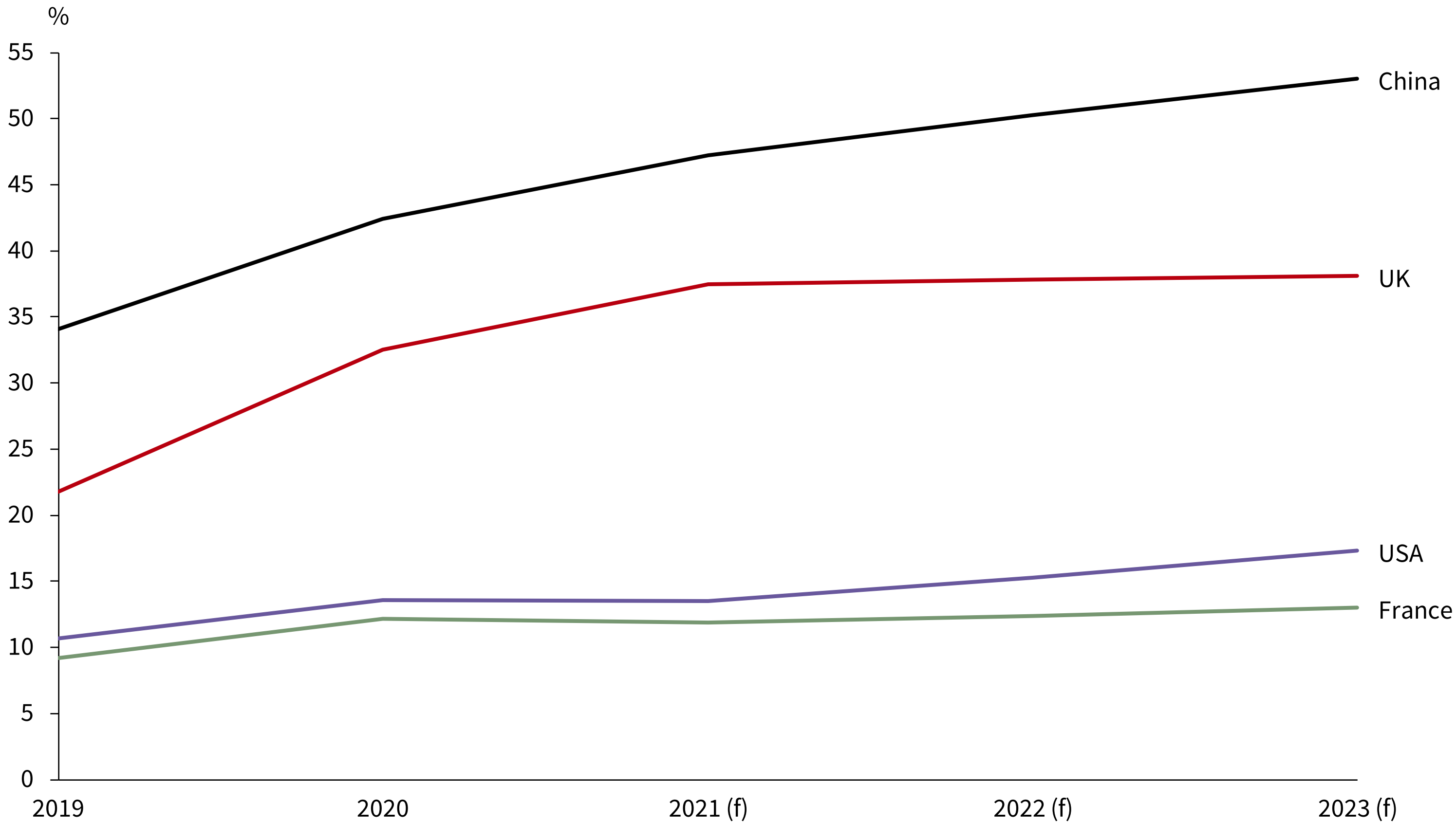
*Source: Pragma analysis, ONS*

*Forecasts are projections of historic growth rates and for indicative purposes only, as ecommerce adoption rises growth rates may subdue*

Ecommerce penetration by country varies significantly, with China reporting the highest share of 34% of sales in 2019, rising to an estimated 53% in 2023. The UK also has a high penetration, significantly above that of both the USA and France. This demonstrates the importance of Heathrow delivering an effective digital retail proposition

## MACROECONOMIC INDICATORS | UK INTERNET SALES AS A SHARE OF TOTAL RETAIL SALES

Ecommerce as a percentage of total retail sales for the UK, France, and China, 2019-2020 (a), 2021-2023 (f)




Key UK ecommerce statistics

**£77bn**
net sales in UK ecommerce in 2020 (£60bn in 2019)

**Fashion**
is the biggest ecommerce category based on UK net sales (2020)

**UK ranks 3rd**
in terms of the value of ecommerce sales, only behind China and the US

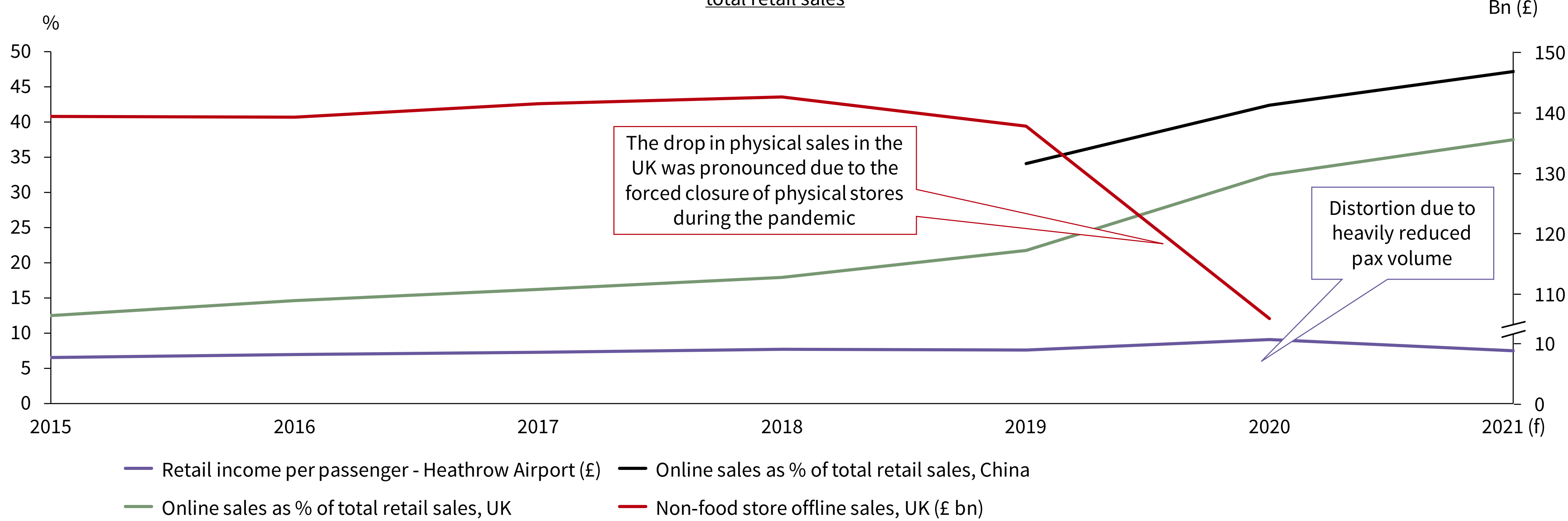


*Source: Pragma analysis, Pragma desk research, Luxury Society, eMarketer, US Census Bureau*

Despite the rapid growth of online as a proportion of total retail sales in both the UK and China, sales per passenger at London Heathrow has remained stable, demonstrating a degree of resilience of travel retail to the growth of online, supported by the different purchase motivations for airport retail and an international customer base

## MACROECONOMIC INDICATORS | RESILIENCE OF AIRPORT RETAIL TO ONLINE GROWTH

Retail income per passenger at Heathrow [2015-2021 (f)] vs. historical UK online sales as a % of total retail sales



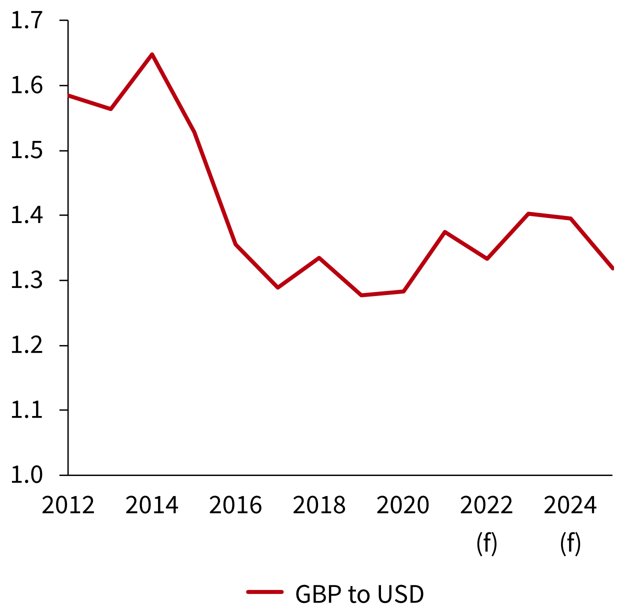

| Commentary |
|---|
| • Despite the share of online retail increasing and having a negative impact on high-street retail, this trend is less apparent in relation to airport retail<br>• At Heathrow, airport IPP (income per passenger) broadly increased to 2019, despite UK online sales increasing significantly over the same period<br>• International airports such as Heathrow rely heavily on Chinese travellers. Although Chinese retail spend has been increasingly moving online, retail income per passenger at London Heathrow has also continued its upward trend, suggesting that Chinese travellers continue to spend offline in the airport environment |

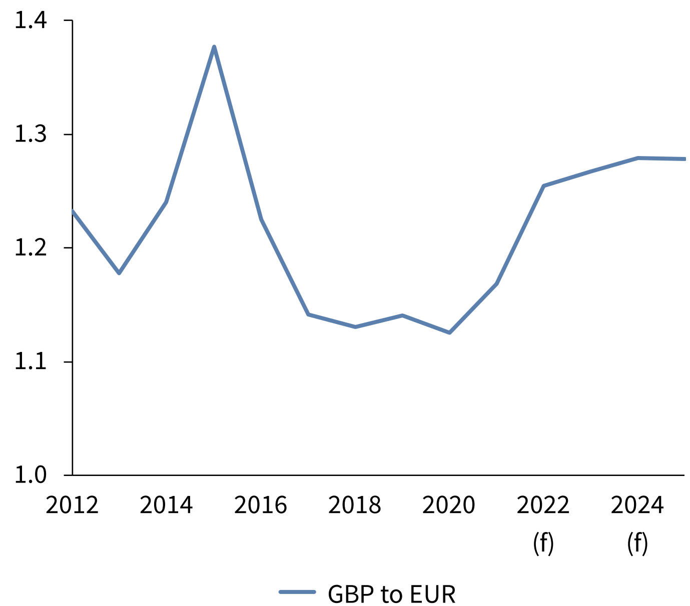


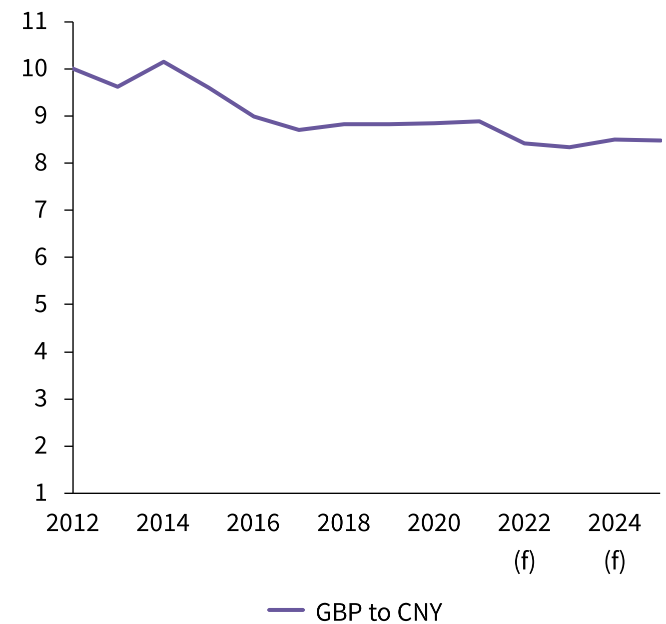
*Source: Source: Pragma analysis; Heathrow airport annual report; ONS; eMarketer*

Following the announcement of the EU referendum, the strength of the GBP depreciated against the major global currencies. Since 2020, the GBP has appreciated against the USD and Euro, but remained on a largely downward trend against the Chinese Yuan, increasing the attractiveness of purchasing in the UK

## MACROECONOMIC INDICATORS | IMPACT OF EXCHANGE RATES – GBP




- Having depreciated significantly in 2016, the USD is forecasted to become stronger compared to sterling by the end of 2022
- However the overall forecast until the end of 2024 shows sterling depreciating against the dollar, remaining low by historic standards

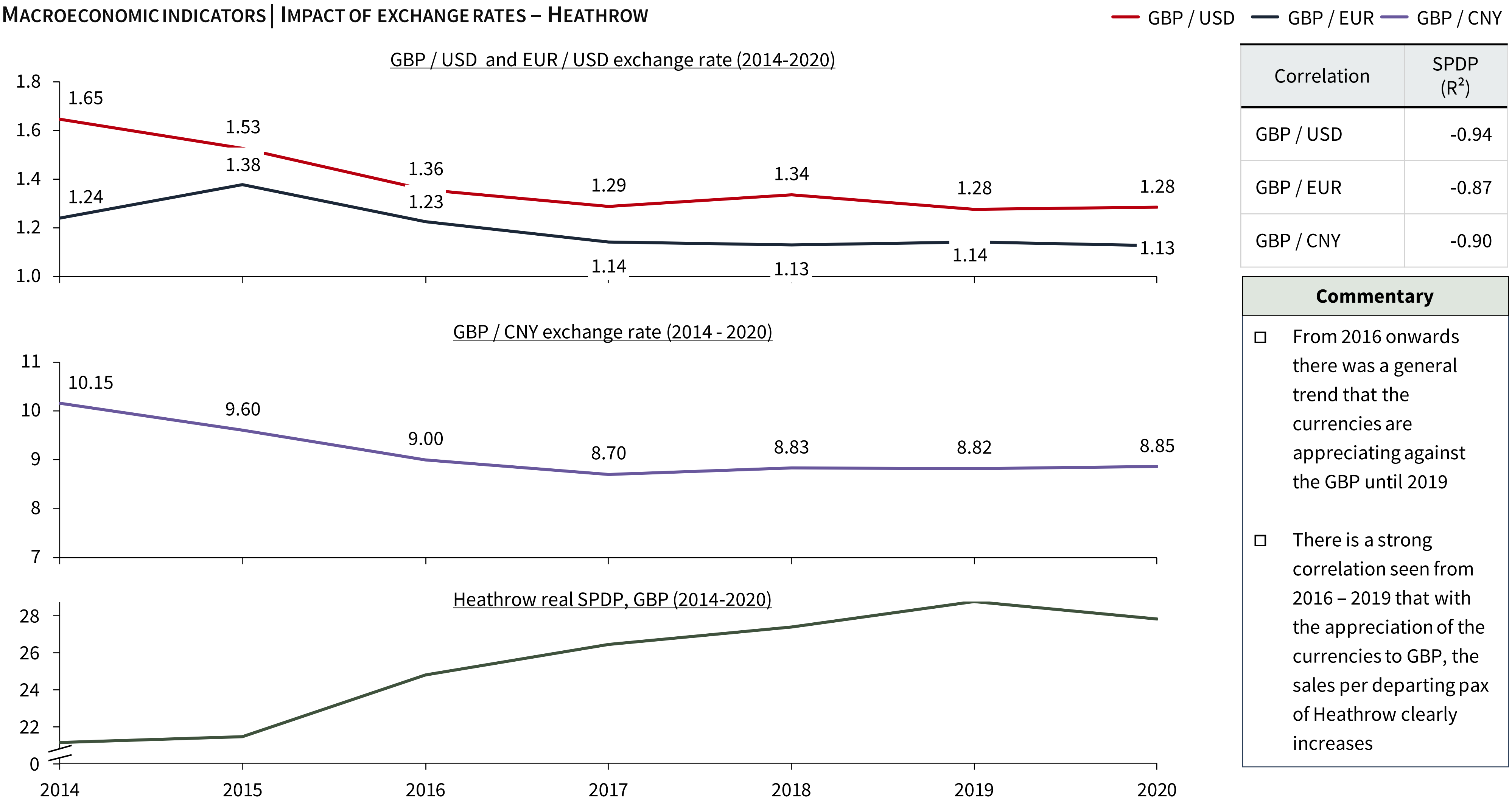
- Sterling depreciated significantly in 2016, and then has shown growth against the Euro from 2021 onwards, supported by a stabilising of the situation following Brexit

- The CNY has been steadily appreciating against sterling, which presents a more attractive retail environment for Chinese travellers to increase their spending within the UK

*Source: Pragma analysis, OFX, Poundf*

A high level of negative correlation of SPDP at Heathrow from 2016 to 2019 can be seen against the appreciation of major currency values against the GBP in the same period. This demonstrates the sensitivity of retail sales to relative currency prices and the variable attractiveness to foreign travellers of purchasing at Heathrow

## MACROECONOMIC INDICATORS | IMPACT OF EXCHANGE RATES – HEATHROW




| Correlation | SPDP ($R^2$) |
|---|---|
| GBP / USD | -0.94 |
| GBP / EUR | -0.87 |
| GBP / CNY | -0.90 |

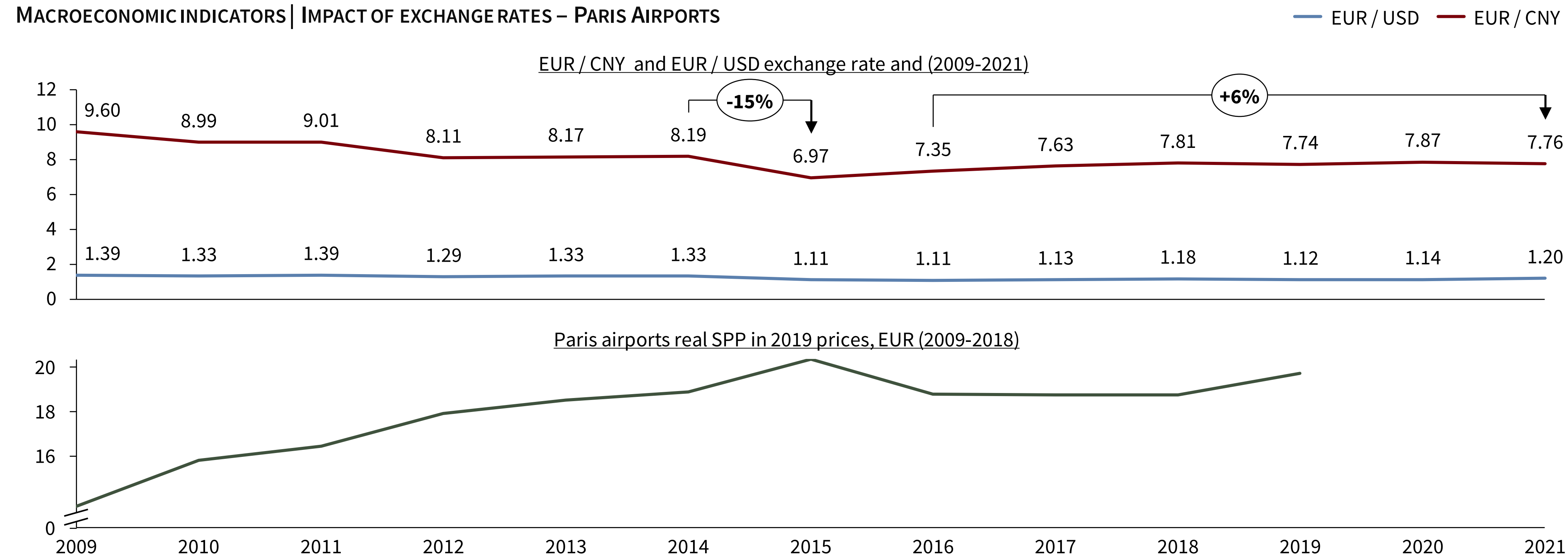
**Commentary**

- From 2016 onwards there was a general trend that the currencies are appreciating against the GBP until 2019
- There is a strong correlation seen from 2016 – 2019 that with the appreciation of the currencies to GBP, the sales per departing pax of Heathrow clearly increases

*Source: Pragma analysis, Pragma desk research, OFX; Heathrow annual reports*

France is a particularly attractive destination for travelling Chinese tourists. In 2014 / 15 when the Euro devalued by 15% against the Renminbi, this correlated with a significant increase in spend per passenger at the Paris airports. Since 2015, the Euro has strengthened and stabilised, leading to an initial drop in SPP, followed by limited growth

## MACROECONOMIC INDICATORS | IMPACT OF EXCHANGE RATES – PARIS AIRPORTS




**Commentary**

- China pegs the Yuan to the USD at a daily reference rate set by the PBOC and allows the currency to fluctuate within a fixed band (1% as of January 2014) on either side of the reference rate
- The Chinese Yuan tracked the gradual strengthening of the USD against the Euro between 2009 and 2015, followed by a period of soft weakening between 2015 and 2021. The CNY weakened against the EUR in the past few years, from 6.97 per Euro in 2015 to 7.76 per Euro in 2021
- A strengthening of the Yuan against the Euro would benefit European luxury retailers and Paris Charles de Gaulle as Chinese consumers acquire stronger buying power. With Chinese consumers being among the top spenders in Paris airports, a stronger Yuan would potentially drive higher sales at these locations, at the detriment of the UK. While a relative weakening of the Euro would likely benefit French airport retail, other European airports, such as in Italy and Spain, would also be positioned to benefit

*Source: Pragma analysis, Pragma desk research, OFX; ADP annual reports*

*Notes: 1) For the period of 2009-2020, figures are yearly averages based on monthly data. Average for 2021 is based on data until August 2021*

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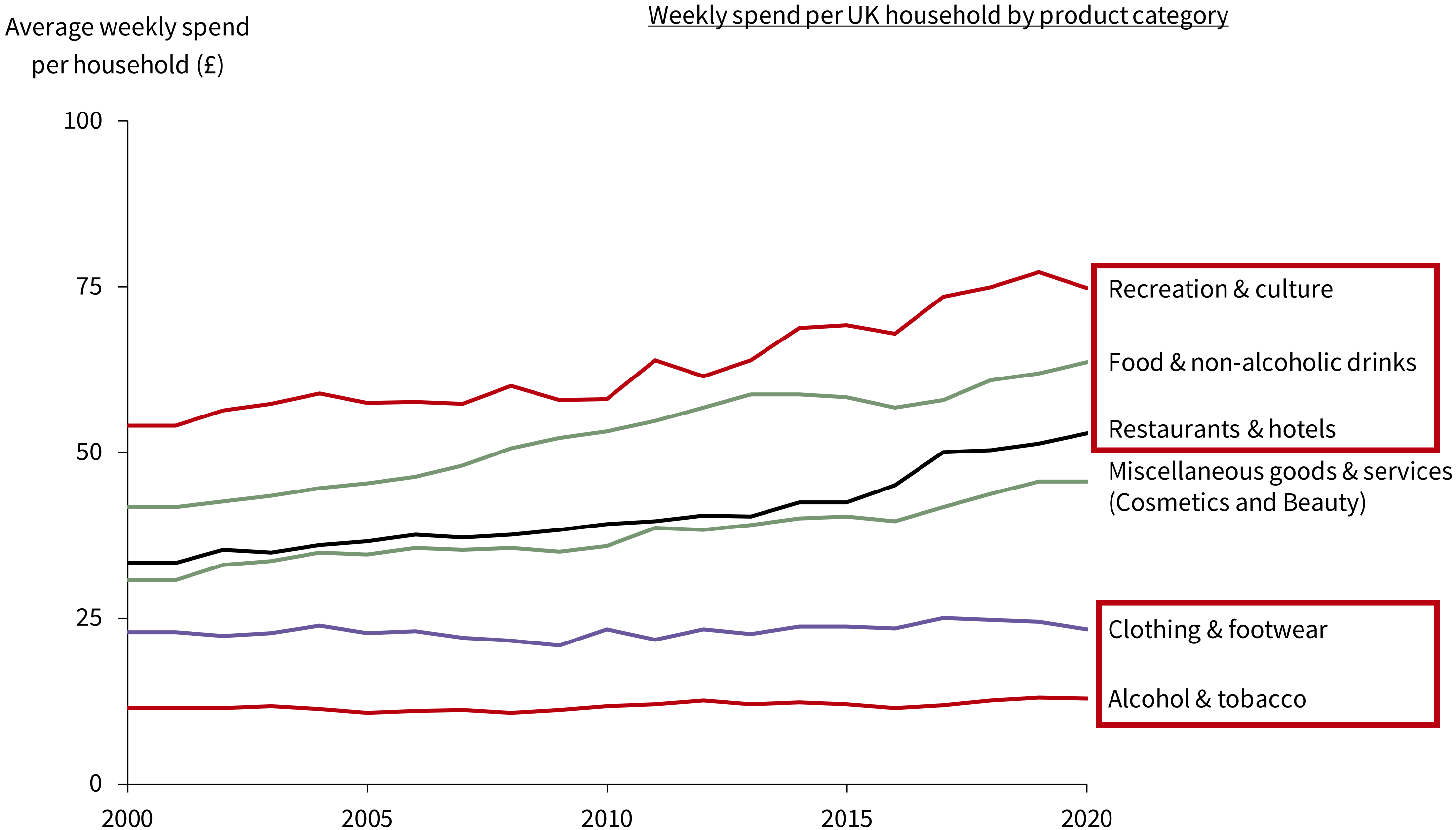
Over the past 20 years, there has been a general trend experienced in the UK and globally, of consumers shifting their household spending towards experience-led purchases of recreation and culture, and eating out, over traditional consumer product categories such as clothing, alcohol, and tobacco – traditional drivers of airport retail

## CATEGORY TRENDS | CONSUMER PURCHASING TRENDS




| Sub-Category | % Change from 2001 to 2020 |
|---|---|
| Recreation & culture | 38% |
| Food & non-alcoholic drinks | 52% |
| Restaurants & hotels | 58% |
| Miscellaneous goods & services | 49% |
| Clothing & footwear | 2% |
| Alcohol & tobacco | 13% |

*Source: : Office for National Statistics*

In line with both the increasing demands of consumers for experience-led retail environments, and the rise of online shopping changing the primary role of the store from transactions to brand building, leading retailers and brands are widening the range of activities on offer within their retail footprints beyond purely purchasing goods

## CATEGORY TRENDS | MOVEMENT TOWARDS BRAND EXPERIENCE AND SHOWROOMING

**Selfridges, London** have changed traditionally high productivity retail floor space to experiential-led activities, such as the skate bowl in the luxury streetwear zone, as well as including more F&B within the offer

**Burberry Social Retail Store, Shenzhen, China** have created an immersive omni-channel retail experience, that combines an interactive digital interface with a café proposition, to encourage socialising and brand engagement

**Alexander McQueen's, London** new flagship store on Old Bond Street has been made with sustainable materials. The second floor of the store has been created as a museum to Alexander McQueen with famous collections, photographs and artworks housed. The space will also serve as a venue for exhibitions and hosting talks.

*Source: Desk research; Company websites*

[redacted]

## Category Trends | Consumer Purchase Motivations

Proportion of factors influencing consumer purchasing of luxury goods in the UK - 2019

Chart redacted

[redacted]

## UK RETAIL SALES | BEAUTY

UK beauty sales, 2016-2020 (a), 2021-2026 (f)

Chart redacted

[redacted]

| Sub-category | CAGR 2016-2019 | CAGR 2022-2026 |
|---|---|---|
| Cosmetics | [redacted] | [redacted] |
| Fragrances | [redacted] | [redacted] |
| Personal care | [redacted] | [redacted] |
| Skin care | [redacted] | [redacted] |
| **TOTAL** | [redacted] | [redacted] |

[redacted]

## UK RETAIL SALES | TOBACCO

UK tobacco sales (2016 to 2026)

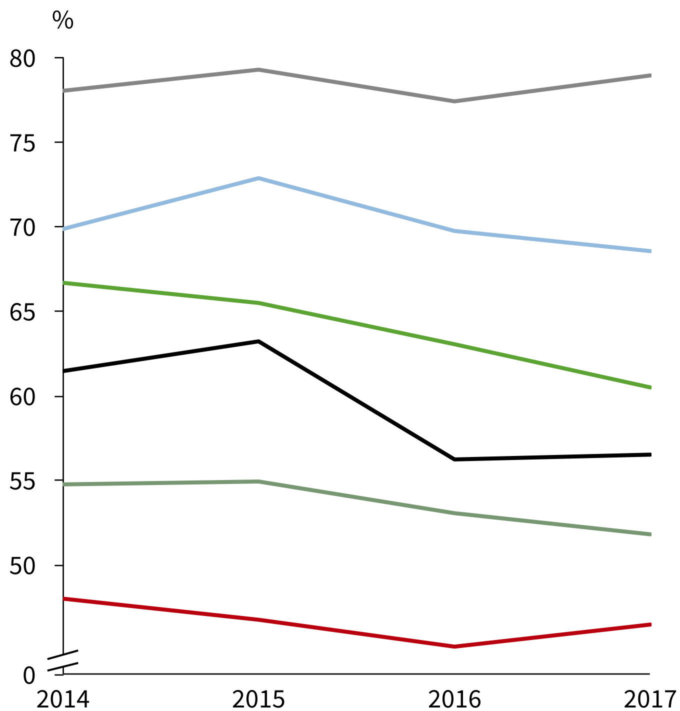
Chart redacted

| Sub-Category | CAGR 2016-2019 | CAGR 2022-2026 |
|---|---|---|
| Cigarettes | [redacted] | [redacted] |
| Cigars | [redacted] | [redacted] |
| E-Cigarettes | [redacted] | [redacted] |
| Smoking tobacco | [redacted] | [redacted] |
| **TOTAL** | [redacted] | [redacted] |

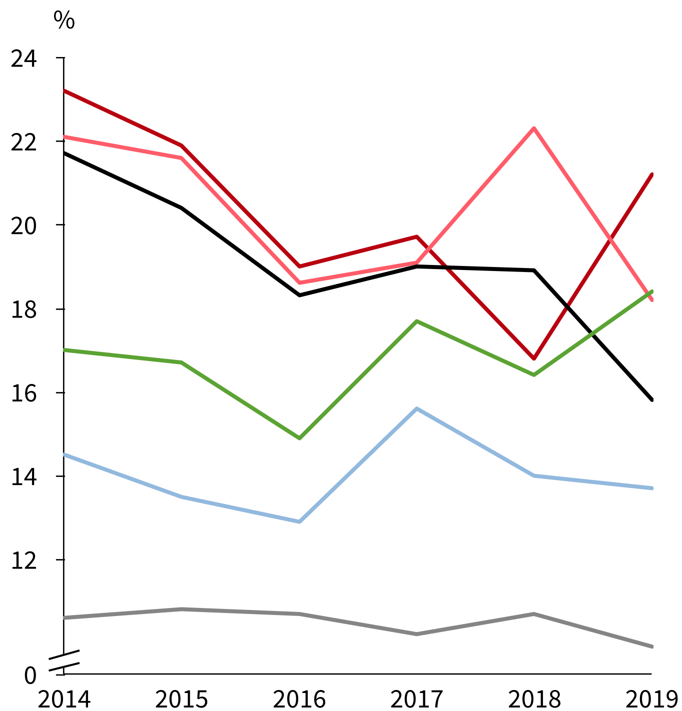
Since 2014, alcohol consumption in the UK has been largely stable in higher income demographics, but declining in in lower incomes. The trend in smoking is more varied, with the majority of income bands experiencing a decline to 2016, but then some increases in subsequent years. Overall, the conditions are challenging for both categories

## UK RETAIL SALES | ALCOHOL & TOBACCO | DEMOGRAPHIC TRENDS

Alcohol consumption by income band, %, UK




Cigarette smokers by income band, %, UK




- Alcohol consumption in the income bands of £30-£39.9k and £40k+ has largely been stable in recent years (a decrease of c.1% in the £30-£39.9k income band neutralised by an increase of c.1% in the £40k+ income band) – these higher income demographics are more aligned to the profile of Heathrow passengers
- The rise of premium spirits as well as the introduction of non-alcoholic spirits has been a key trend in the market
- Cigarette consumption in the higher income bands has seen a slightly faster decline, registering a CAGR of -1% and -1% respectively for the £30-£39.9k and the £40k+ income bands, between 2014 and 2019
- A declining cigarette consumption trend is likely to continue to put downward pressure on tobacco sales for passengers at Heathrow
- However, both categories will benefit from the return to duty free savings and allowances for EU-bound passengers

*Source: Pragma analysis; ONS*

*Notes: 1) % of respondents that had drank alcohol within the last week*

[redacted]

## UK RETAIL SALES | ACCESSORIES

UK accessories sales (2016 to 2026)

Chart redacted

| Sub-Category | CAGR 2016-2019 | CAGR 2022-2026 |
|---|---|---|
| Luggage & bags | [redacted] | [redacted] |
| Watches & jewellery | [redacted] | [redacted] |
| **TOTAL** | [redacted] | [redacted] |

[redacted]

## UK Retail sales | Apparel total sales

UK total apparel sales (2016 to 2026)

Chart redacted

UK Apparel Sales by Gender (2016 to 2026 )

Chart redacted

[redacted]

## UK Retail sales | Apparel growth rates

UK total apparel sales by gender CAGR
(2016 to 2019)

Chart redacted

UK total apparel sales by gender CAGR
(2022 to 2026 forecast)

Chart redacted

[redacted]

## UK RETAIL SALES | LUXURY GOODS

UK luxury goods sales (2015 to 2025)

Chart redacted

| Sub-Category | CAGR 2016-2019 | CAGR 2022-2025 |
|---|---|---|
| Eyewear | [redacted] | [redacted] |
| Leather goods | [redacted] | [redacted] |
| Fashion | [redacted] | [redacted] |
| Watches & jewellery | [redacted] | [redacted] |
| Prestige cosmetics & fragrances | [redacted] | [redacted] |
| **TOTAL** | [redacted] | [redacted] |

[redacted]

## UK RETAIL SALES | CONSUMER ELECTRONICS

UK consumer electronics sales (2016 to 2025)

[redacted]

Chart redacted

| Sub-Category | CAGR 2016-2019 | CAGR 2022-2025 |
|---|---|---|
| Drones | [redacted] | [redacted] |
| TV peripheral devices | [redacted] | [redacted] |
| TV, radio & multimedia | [redacted] | [redacted] |
| Computing | [redacted] | [redacted] |
| Telephony | [redacted] | [redacted] |
| **TOTAL** | [redacted] | [redacted] |

[redacted]

## UK RETAIL SALES | F&B

UK F&B sales (2017 to 2025)

Chart redacted

UK F&B sales channels, online and offline split (2017 to 2023)

Chart redacted

# Contents

Prior to the pandemic, retail sales per total pax at Heathrow were on the rise for all categories. [redacted]

**AIRPORT CATEGORY SALES | HEATHROW**

[redacted]

Chart redacted

[redacted]

Chart redacted

[redacted]

Chart redacted



Source: *Pragma analysis; Heathrow trading data*

[redacted]

## HEATHROW RETAIL SALES | CORE CATEGORIES

Sales — Spend per topax

[redacted]

Chart redacted

[redacted]

Chart redacted

[redacted]

Chart redacted

[redacted]

| [redacted] | [redacted] | | | |
|---|---|---|---|---|
| | [redacted] | [redacted] | [redacted] | [redacted] |
| | [redacted] | | [redacted] | |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |

*Source: Pragma analysis; Heathrow trading data; CAA*

## Prior to the pandemic retail spend was growing, [redacted]

### AIRPORT CATEGORY SALES | HEATHROW

[redacted]

Chart redacted

[redacted]

Chart redacted

*Source: Pragma analysis; Heathrow trading data*

[redacted]

## HEATHROW RETAIL SALES | SUB CATEGORIES OF SPECIALITY RETAIL | [redacted]

[redacted]

Chart redacted

[redacted]

Chart redacted

Source: *Pragma analysis; Heathrow trading data; CAA*

[redacted]

**HEATHROW RETAIL SALES | SUB CATEGORIES OF SPECIALITY RETAIL |** [redacted]

[redacted]

[redacted]

Chart redacted

Chart redacted

Source: Pragma analysis; Heathrow trading data; CAA

[redacted]

## HEATHROW RETAIL SALES | SUB CATEGORIES OF SPECIALITY RETAIL | [redacted]

[redacted]

Chart redacted

| Specialty Retail Sub-Category | CAGR SPTP 2016-2019 | CAGR SPTP 2019-2021 |
|---|---|---|
| [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] |
| **TOTAL** | [redacted] | [redacted] |

*Source: Pragma analysis; Heathrow trading data; CAA*

[redacted]

## HEATHROW RETAIL SALES | SUB CATEGORIES OF FASHION & ACCESSORIES | [redacted]

[redacted]

Chart redacted

[redacted]

Chart redacted



Source: Pragma analysis; Heathrow trading data; CAA

[redacted]

## HEATHROW RETAIL SALES | SUB CATEGORIES OF FASHION & ACCESSORIES | [redacted]

[redacted]

Chart redacted

| Fashion & accessories Sub-Category | CAGR SPTP 2016-2019 | CAGR SPTP 2019-2021 |
|---|---|---|
| [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] |
| **TOTAL** | [redacted] | [redacted] |

*Source: Pragma analysis; Heathrow trading data; CAA*

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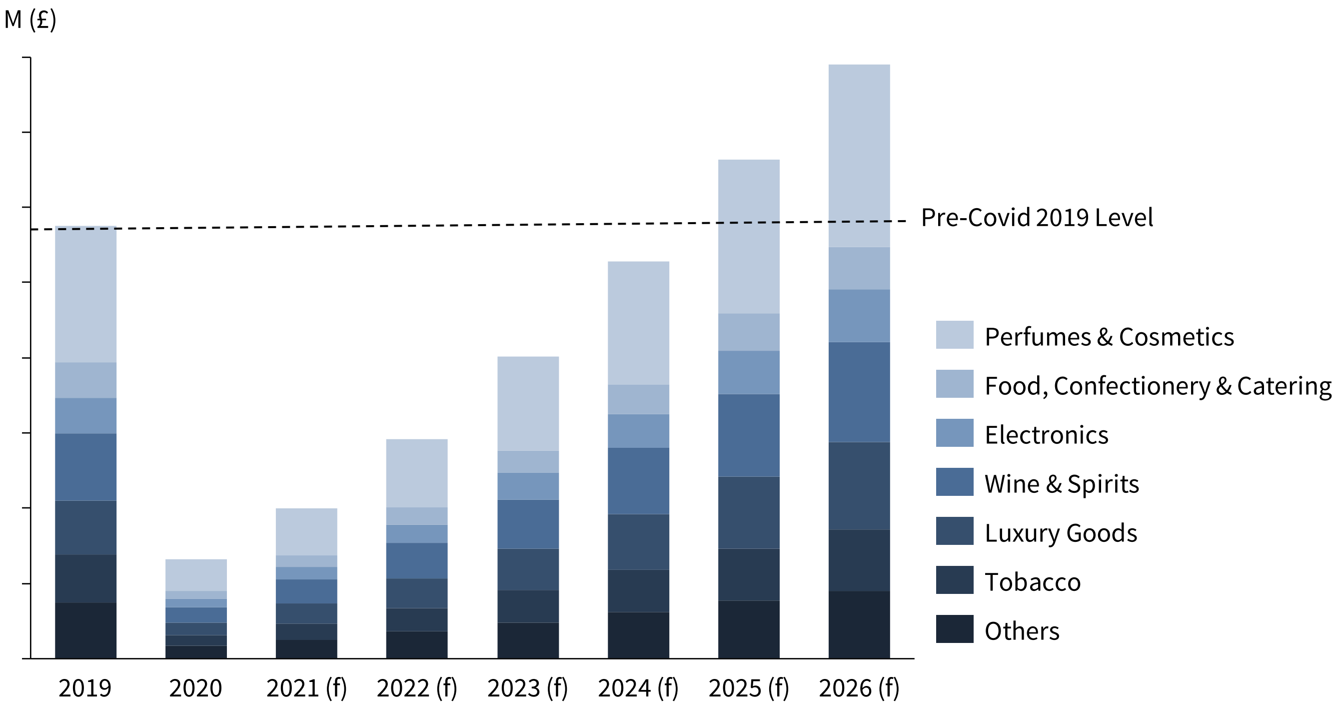
The global travel retail market experienced a reported decline of 77% between 2019 and 2020, driven by the reduction in global passenger numbers due to the travel restrictions related to Covid-19. Growth for 2022 to 2026 is forecast at +28%, with luxury goods, wines & spirits forecast to achieve the highest growth rates

## TRAVEL RETAIL SALES | GLOBAL SHARE OF CATEGORIES AND GROWTH TRENDS

Global travel retail – category sales, 2019-2020 (a), 2021-2026 (f)



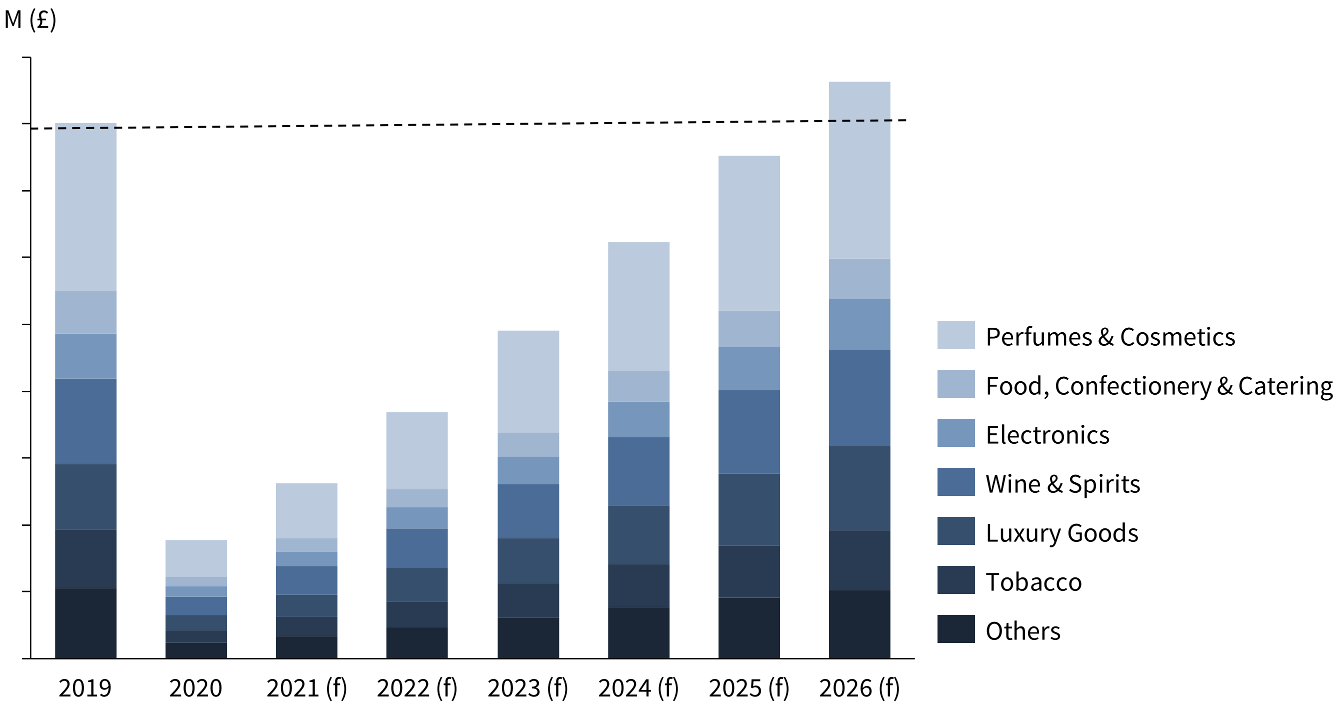

| Category | CAGR 2022-2026 |
|---|---|
| Perfumes & cosmetics | [redacted] |
| Food, confectionery & catering | [redacted] |
| Electronics | [redacted] |
| Wine & spirits | [redacted] |
| Luxury goods | [redacted] |
| Tobacco | [redacted] |
| Others | [redacted] |
| **TOTAL** | [redacted] |

*Source: Pragma analysis, NextMSC*

Travel retail sales in the UK decreased by 78% between 2019 to 2020 (similar to the levels experienced by Heathrow). Sales are forecast to grow at a CAGR of 24% between 2022 and 2026, with luxury goods being the highest growing category

## TRAVEL RETAIL SALES | UK SHARE OF CATEGORIES AND GROWTH TRENDS

UK travel retail – category sales, 2019-2020 (a), 2021-2026 (f)



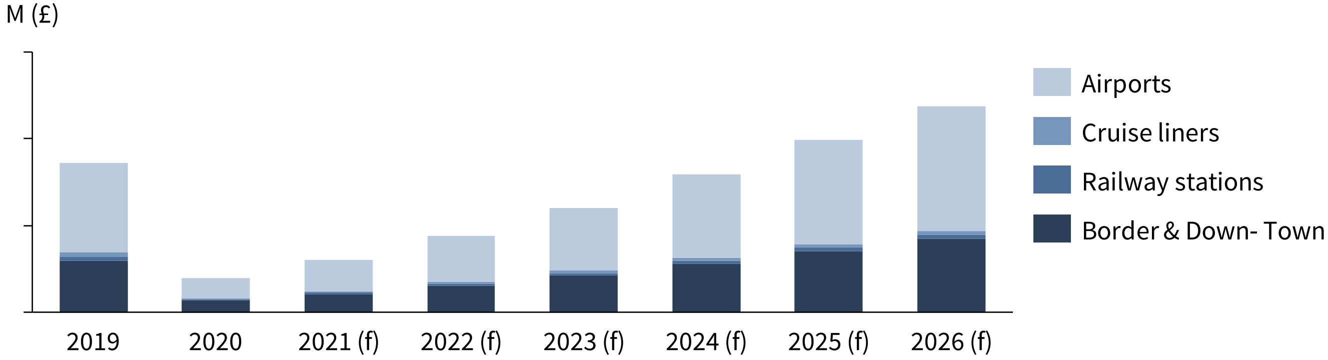

| Category | CAGR 2022-2026 |
|---|---|
| Perfumes & cosmetics | [redacted] |
| Food, confectionery & catering | [redacted] |
| Electronics | [redacted] |
| Wine & spirits | [redacted] |
| Luxury goods | [redacted] |
| Tobacco | [redacted] |
| Others | [redacted] |
| **TOTAL** | [redacted] |

*Source: Pragma analysis, NextMSC*

From a travel retail perspective, airports account for the majority of sales (c.60%). Border and downtown the majority of the balance at c.34%. Border and downtown is forecast to grow at the highest rate from 2022 to 2026, driven by a particularly high growth rate in Asia-Pacific of 32%

## TRAVEL RETAIL SALES | MARKET VALUE BY CHANNEL

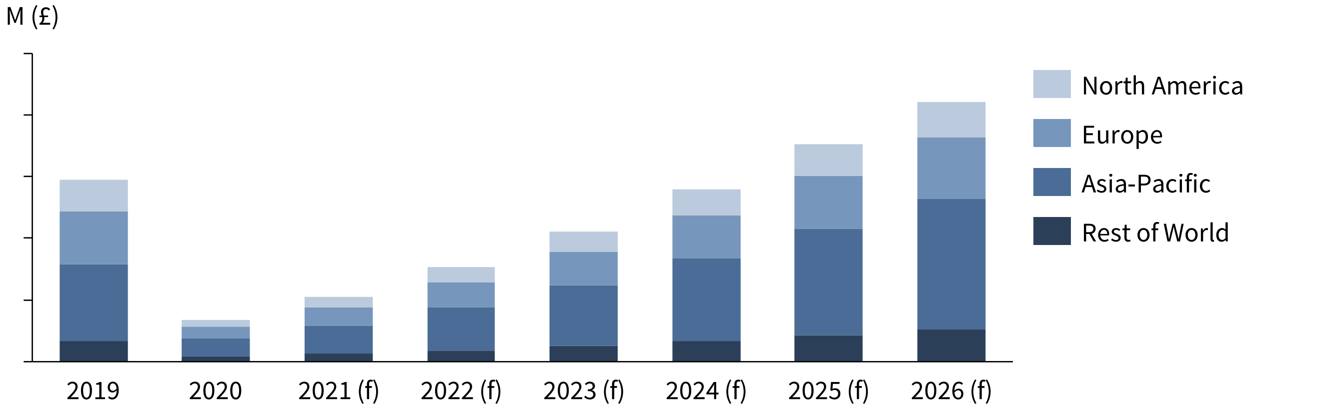
Travel retail sales – market value by channel, 2019-2020 (a), 2021-2026 (f)




Travel retail sales – market value by channel, 2019-2020 (a), 2021-2026 (f)

| Channels | CAGR 2022-2026 |
|---|---|
| Airports | [redacted] |
| Cruise liners | [redacted] |
| Railway stations | [redacted] |
| Border & down-town | [redacted] |
| **TOTAL** | [redacted] |

Travel retail sales – border & down-town by region, 2019-2020 (a), 2021-2026 (f)




Travel retail sales – Border, down-town & hotel shops by region, 2019-2020 (a), 2021-2026 (f)

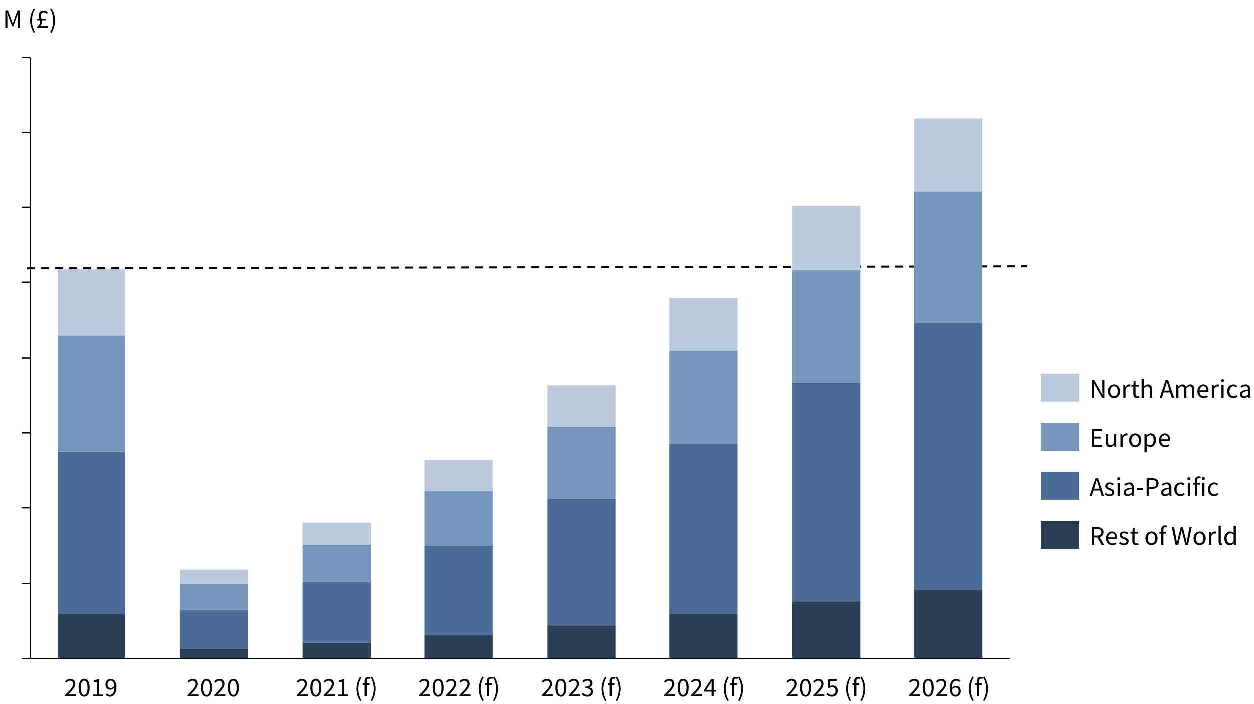
| Region | CAGR 2022-2026 |
|---|---|
| North America | [redacted] |
| Europe | [redacted] |
| Asia-Pacific | [redacted] |
| Rest of world | [redacted] |
| **TOTAL** | [redacted] |

*Source: Pragma analysis, NextMSC*

Global airport travel retail, which accounts for c.64% of all travel retail channels, decreased significantly by 77% between 2019 and 2020. Growth is forecast to achieve a c.29% CAGR between 2022 and 2026, with the largest region - the Asia-Pacific - accounting for the highest growth of 32%, compared to c.25% for Europe

## TRAVEL RETAIL SALES | AIRPORTS MARKET VALUE BY GLOBAL REGION

Airports market value – by region, 2019-2020 (a), 2021-2026 (f)



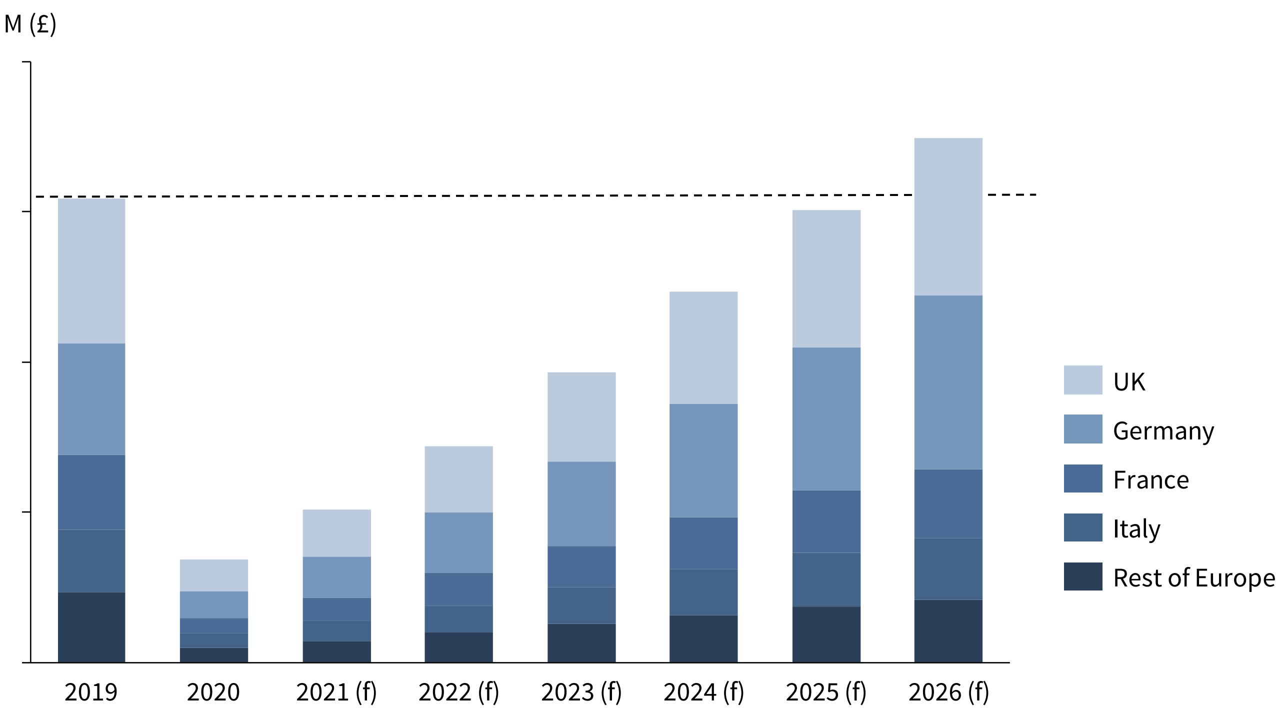

| Region | CAGR 2022-2026 |
|---|---|
| North America | [redacted] |
| Europe | [redacted] |
| Asia-Pacific | [redacted] |
| Rest of World | [redacted] |
| **TOTAL** | [redacted] |

*Source: Pragma analysis, NextMSC*

Within Europe, the UK is estimated to account for the largest share of airport travel retail sales of c.31%. However, this proportion is forecast to decrease slightly between 2022 and 2026, as a result of Germany growing at a faster rate of 30% over the period compared to 24% for the UK

## TRAVEL RETAIL SALES | AIRPORTS MARKET VALUE BY EUROPE

Airports market value – Europe, 2019-2020 (a), 2021-2026 (f)



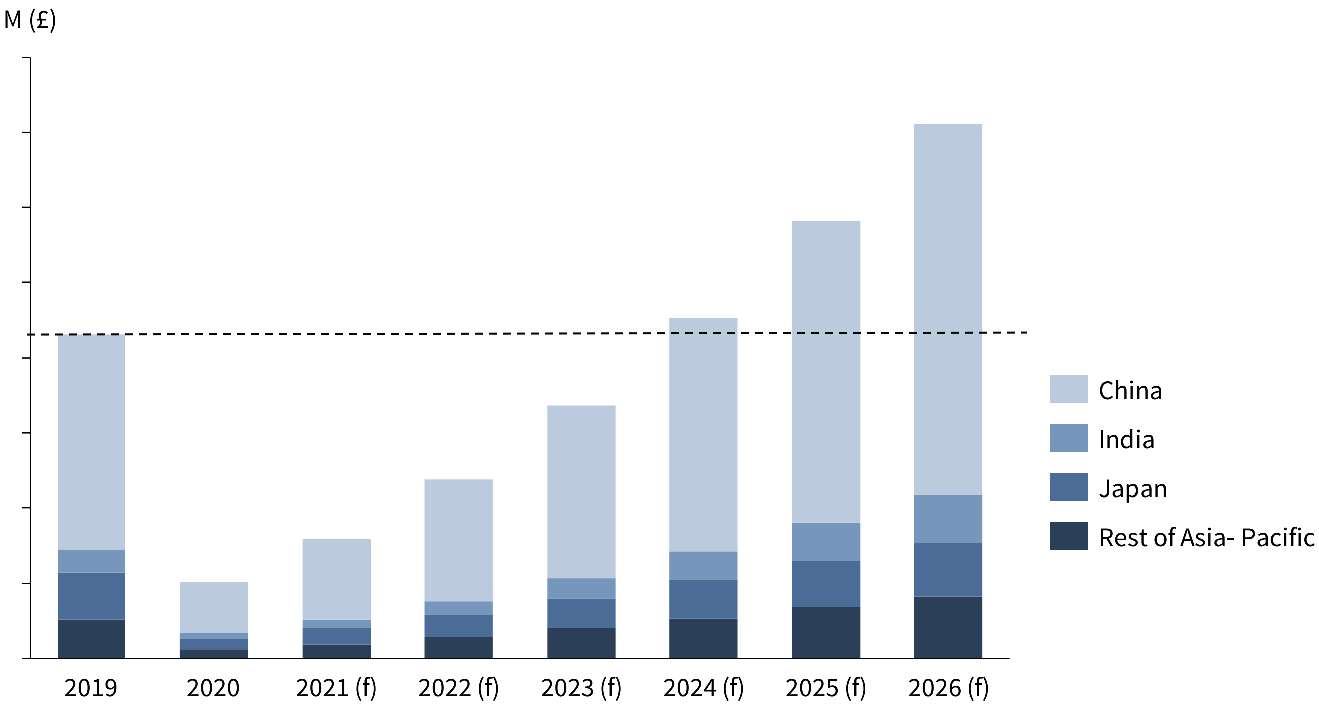

| Region | CAGR 2022-2026 |
|---|---|
| UK | [redacted] |
| Germany | [redacted] |
| France | [redacted] |
| Italy | [redacted] |
| Rest of Europe | [redacted] |
| **TOTAL** | [redacted] |

*Source: Pragma analysis, NextMSC*

In the Asia Pacific, China has the largest market share, accounting for c.66% in 2019, the next largest being Japan with just 14%. Overall, the forecast growth rates are significantly higher than the European region, with India forecast to achieve the highest growth, of 35% CAGR from 2022 to 2026, followed by China at 32%

## TRAVEL RETAIL SALES | AIRPORTS MARKET VALUE BY ASIA PACIFIC

Airports market value – Asia Pacific, 2019-2020 (a), 2021-2026 (f)



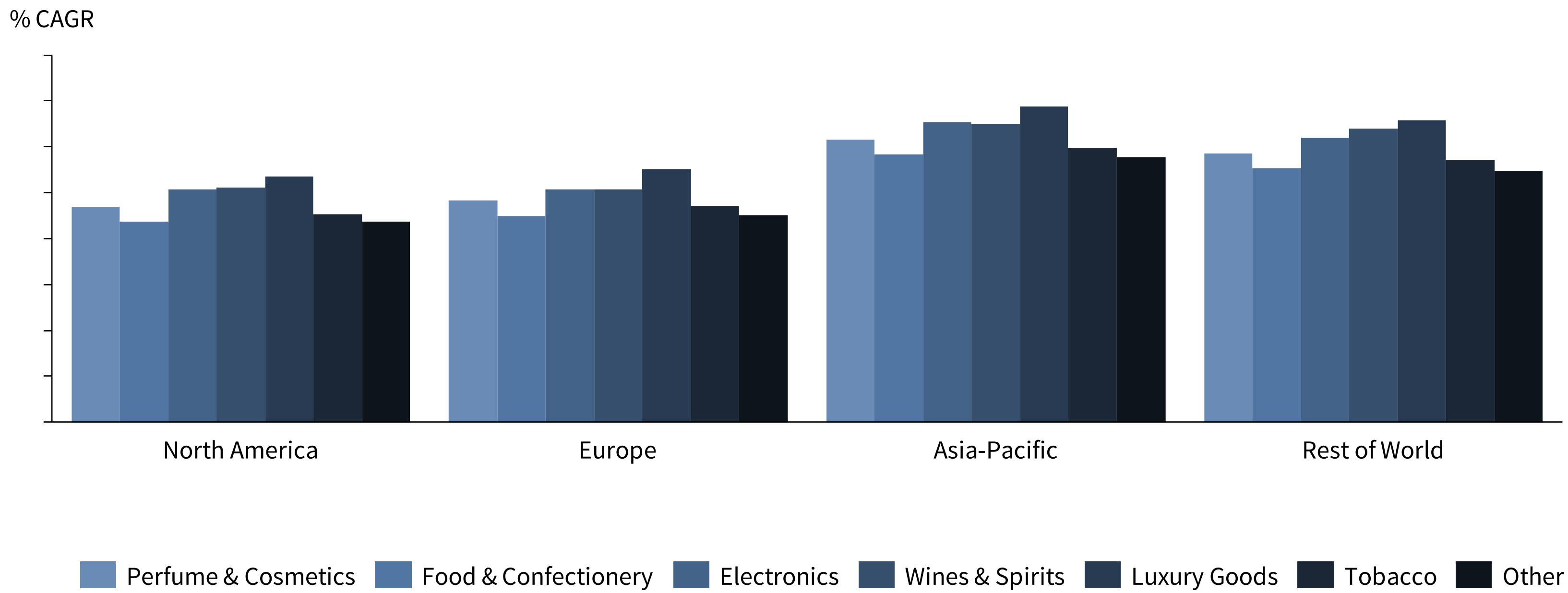

| Region | CAGR 2022-2026 |
|---|---|
| China | [redacted] |
| India | [redacted] |
| Japan | [redacted] |
| Rest of Asia Pacific | [redacted] |
| **TOTAL** | [redacted] |

*Source: Pragma analysis, NextMSC*

On balance, the emerging markets in the Asia Pacific and the Rest of World are forecast to achieve the highest growth rates between 2022 and 2026, with Europe achieving lower rates similar to North America.  In each market, luxury goods are forecast to achieve the highest growth rate

**TRAVEL RETAIL SALES | TOTAL TRAVEL RETAIL MARKET VALUE GROWTH**

Total travel retail market value – forecast CAGR growth by region and category, 2022-2026 (f)






*Source: Pragma analysis, NextMSC*

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## Analysis of the typical spend per passenger of EU / Domestic destinations vs. Non-EU destinations, illustrates the significantly higher median spend achieved by Non-EU destinations, which is reflective of both the duty and tax free saving offered to Non-EU destinations, as well as the characteristics of the passenger profile and destinations

### PASSENGER SPEND DYNAMICS | ILLUSTRATIVE SALES DEPARTING PAX BY PASSENGER TYPE

Benchmark of spend per departing passenger from a selection of data points – EU / Domestic destinations vs. Non-EU destinations

Chart redacted

The chart shows the range of the spend per pax within duty free and speciality retail for domestic & EU destinations, against that for Non-EU destinations for a range of airports. The median value for Non-EU destinations had a median spend [redacted] greater than that for EU destinations

Benchmark of spend per departing passenger index against proportional share of Non-EU passengers within the overall passenger mix for a selection of European airports

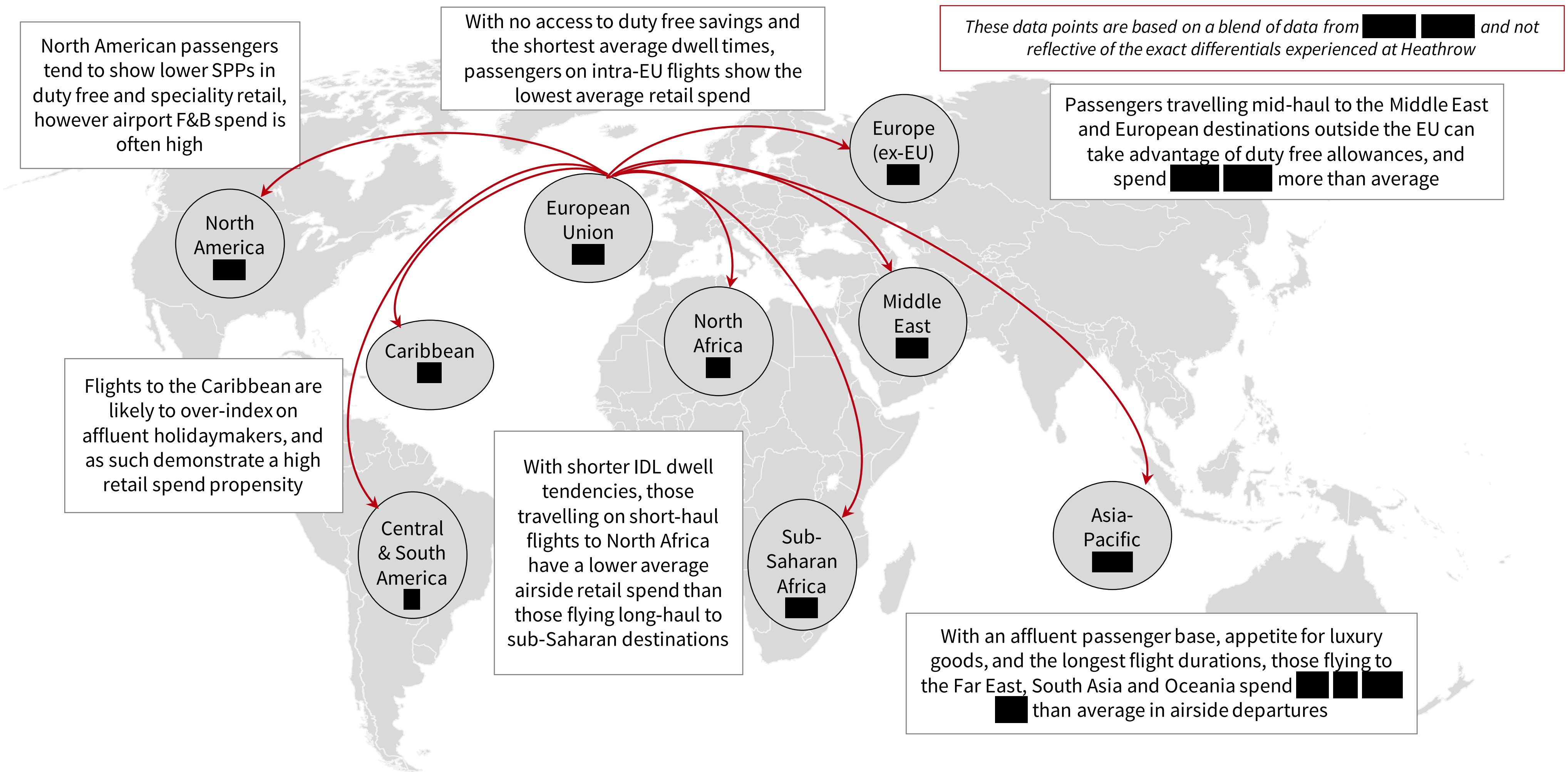
Chart redacted

European airports that have a higher share of Non-EU passengers typically demonstrate a higher average spend per passenger

*Source: Pragma database; ARN database*

General airport datasets further illustrate that EU and domestic pax typically under-index on retail spend, while passengers travelling to the APAC region [redacted] in airside departures. The future passenger mix composition at Heathrow will therefore have a significant impact on retail sales achieved

**PASSENGER SPEND DYNAMICS | ILLUSTRATIVE DUTY FREE AND RETAIL SPEND BY DESTINATION | SPP DIFFERENTIALS BY REGION FROM A RANGE OF DATAPOINTS**




*Source: Pragma database analysis*

*Notes:* [redacted]

[redacted]

## PASSENGER SPEND DYNAMICS | HEATHROW PASSENGER MIX COMPOSITION

[redacted]

Chart redacted

*Source: Pragma analysis, Heathrow Data*

Over the period of 2013 to 2018, Emerging East Asia had the highest average SPDP and East Asian destinations had driven 1ppt. of SPDP growth at the aggregate total level. The UK and Europe has the lowest SPDP over the period. The mix change composition will be negative for retail spend in the near term, but more favourable by 2026

**PASSENGER SPEND DYNAMICS | HEATHROW RETAIL SALES DRIVERS**

[redacted]

Chart redacted

[redacted]

Chart redacted

*Source: HAL Profilers 2013-2018*

Business travel was a key sector for the travel industry, accounting for c.30% of airline revenues and up to 70% of hotel bookings. The forced stop on travel from the pandemic has made many corporations reconsider the need for some business travel and levels are expected to remain at reduced levels going forward

## PASSENGER SPEND DYNAMICS | POST COVID-19 BUSINESS TRAVEL

### Revenues from business travel

- The UK is the fourth largest economy in terms of business travel
- Seats in business or first class are on average five times more expensive than in economy
- Premium seats account for around c.30% of airline revenues. For some international flights, business travel can generate as much as 75% of an airlines' revenue
- Marriott, the world's largest hotel group, estimates that in 2019 around 70% of its hotel nights were business-related
- International business growth has been slowing, with an annual growth rate of 0.2% between 2000 and 2019, compared to 3.4% for leisure travel over the same period

### Pandemics effect on business travel

$710bn

Travel restrictions resulted in a $710bn loss of revenue for the travel sector between 2020 and 2019

### Will business travel return?

**Growth of digital substitutes**

Zoom saw a 485% year-on-year increase in clients with more than 10 employees in 2020

- As frequent travellers have not been able to travel, they have realised that video conferencing is a substitute for many occasions, and despite the return to office-based work, are likely to cut back on the frequency of business travel
- Post-pandemic many financially strained companies have started to engage in cost cutting measures - a survey of 90 finance directors across the UK's largest companies showed that 44% expected to reduce discretionary spending such as travel even further

**Divided opinion on how much business travel will return**

"There will be a structural change in terms of the business travel segment that could leave the sector up to 30% smaller" *Jeffrey Goh, Chief Executive of Star Alliance*

"Over 50% of business travel will go away" *Bill Gates*

"Business travel is set to return quickly. Whenever I talk to corporate customers, there's such a backlog of travel needs" *Carsten Spohr, chief executive of Lufthansa*

**Sustainability**

- Empty skies contributed to a fall in pollution levels in 2020 and with sustainability driving up the corporate agenda, many executives are pushing a narrative of environmental concerns behind travel cost cuts

*Source: Pragma analysis, Statista, FT*

The restrictions on business travel are forcing associated businesses to adapt their business model. Sustainability concerns are also making flight a less preferred method of transport where other options are available

## PASSENGER SPEND DYNAMICS | MOVEMENTS IN BUSINESS TRAVEL

**Further investment in technology**

Airlines and travel players have furthered invested in technologies such as real-time updates on restrictions and health requirements and biometric enabled self check-in facilities upon which uptake of travel has increased

**Shift in business model**

Hilton and Marriott have started marketing empty hotel rooms as space for workers who don't have the luxury of a home office

Many in the travel industry are predicting a robust recovery in leisure travel once borders can properly reopen. With the fall in business revenues, leisure passenger may need to take a greater burden of airline costs

**Growth in rail**

One of the beneficiaries of reduced air travel could be rail:

- The UK has been heavily investing in its high speed rail capabilities
- The air bridge between Barcelona and Madrid, operated by Iberia, is also under threat of being cancelled by officials in favour of trains
- In its state aid package to Air France, the French government stipulated a 50% reduction in $CO_2$ emissions on medium and long-haul routes by 2030 and required the airline cut emissions by half on short haul routes where trains could offer a journey time of two-and-a-half hours or less

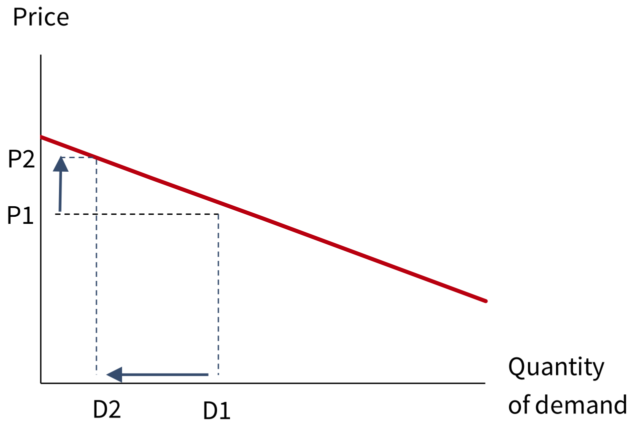
*Source: Desk research*

The VAT tax reforms make the UK the only country in Europe not to offer tax-free shopping to international visitors. This is likely to reduce demand for goods in the country and reduces the potential opportunity for the UK to benefit from increased spend by making the UK less attractive compared to European destinations

## PASSENGER SPEND DYNAMICS | TERMINATION OF THE VAT RETAIL EXPORT SCHEME

### 1 Demand is sensitive to relative price changes in comparison to substitutes

**Price elasticity of demand model**



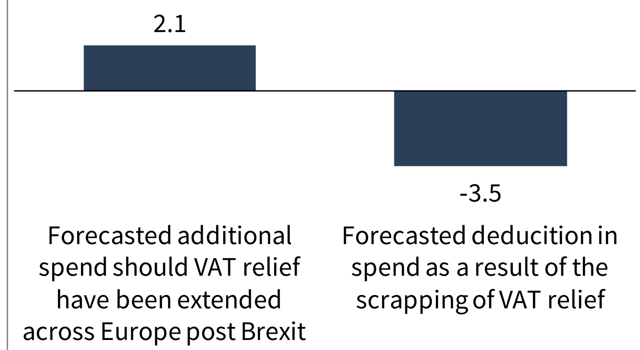

- Consumers can often easily compare prices in different regions over the internet. Because of this, many luxury retailers have enlisted pricing strategies to ensure consistency in different regions
- International consumers no longer being able to reclaim VAT in the UK, puts a surcharge on goods bought in the country against other European destinations, which act as potential substitute purchase destinations

### 2 Withdrawal from VAT retail export scheme is expected to reduce international spend and investment in the UK

- A study by overseas tax refund firm Planet revealed that more than half of Chinese tourists claim they will divert their spending to other European destinations in light of the changes to the UK's VAT refund scheme
- Value Retail (parent company to Bicester Village) state that cutting the VAT relief for tourists could result in £1 billion of lost investment
- Key issues stated by the treasury for the scrapping of the VAT relief is its susceptibility to fraud. A possible solution to this would be the UK government working with key industries to implement a digital system to administer tax relief - this would bring greater efficiency, and ensure that UK tourism remains competitive with other European markets

### 3 The fall in international tourist numbers and spending in the UK is expected to negatively impact the UK economy

**Forecasted change in spend (£bn) corresponding to change in VAT laws**




- The New West End Company (a partnership of 600 retailers, restaurateurs, and hoteliers in London) forecast that extending VAT relief to Europe would have led to an additional £2.1bn of spend within the UK
- Instead, withholding tax relief incentives will reduce sales by £3.5bn – resulting in a £5.6bn opportunity cost

*Source: Pragma analysis; FT.com,*

The absolute value of VAT rises as an item price point increases. Across the various brands purchased in jewellery and watches, the VAT savings can be significant. For a luxury Bulgari necklace with a retail price inc. VAT of £41,600, the associated VAT is £8,320, illustrating the strength of the VAT-free incentive to purchase

**PASSENGER SPEND DYNAMICS | RRP AND ASSOCIATED VAT OF VARIOUS WATCHES & JEWELLERY SOLD AT HEATHROW**

Accessorize

Celestial Pendant Necklace
Price Inc VAT: £4.50
VAT: £0.90

LONGINES

La Grande Classique
Price Inc VAT: £1,000
VAT: £200

TAG Heuer

Carrera
Price Inc VAT: £2,600
VAT: £520

TIFFANY & CO.

Tiffany Victoria® earrings
Price Inc VAT: £5,425
VAT: £1,085

OMEGA

Constellation Manhattan
Price Inc VAT: £8,250
VAT:£1,650

***Value***

***Luxury***

BVLGARI

Serpenti necklace
Price Inc VAT: £41,600
VAT:£8,320

HUBLOT

Spirit of Big Bang
Price Inc VAT: £33,900
VAT:£6,780

TIFFANY & CO.

Wide diamond hinged bangle
Price Inc VAT: £25,800
VAT: £5,160

IWC

Ingenieur
Price Inc VAT: £17,000
VAT: £3,400

JAEGER-LECOULTRE

Rendez-Vous Night & Day
Price Inc VAT: £12,800
VAT: £2,560

*Source: Desk research; Company websites*

The situation is similar in fashion footwear – with relatively limited savings for VAT-free items, of under £50 for mid-market and upper mid-market brands such as Superdry and Ted Baker. The savings increase substantially for luxury brands such as Church's (£380) or John Lobb (£2,491), that lower price items are less impacted

**PASSENGER SPEND DYNAMICS | RRP AND ASSOCIATED VAT OF VARIOUS SHOES SOLD IN THE UK**

**Superdry**

Vegan Retro Sleek Trainers
Price Inc VAT: £55
VAT: £11

**Barbour**

Langley trainers
Price Inc VAT: £109
VAT: £22

**TED BAKER**

Jarrno
Price Inc VAT: £185
VAT: £37

**Paul Smith**

Painted Stripe Hansen
Price Inc VAT: £285
VAT: £57

**JOSEPH CHEANEY & SONS**

Pennine III C
Price Inc VAT: £460
VAT: £92

*Value*

*Luxury*

**JOHN LOBB**

Bespoke Polo boots
Price Inc VAT: £ 12,455
VAT: £2,491

**Church's**

Eliot
Price Inc VAT: £ 1,900
VAT: £380

**EDWARD GREEN & Co. Ltd. Estd. 1890**

Cranleigh
Price Inc VAT: £1,450
VAT: £290

**PURDEY**

Twin strap boots
Price Inc VAT: £945
VAT: £189

**BURBERRY**

Technical Arthur
Price Inc VAT: £670
VAT: £134

*Source: Desk research; Company websites*

For certain European luxury brands, Chinese nationals pay a significant premium on the retail price if purchased domestically. Even without a VAT refund, they can make large savings by purchasing in the UK. However, there is a significant risk that purchasing in France becomes more attractive when the UK VAT saving is removed

## PASSENGER SPEND DYNAMICS | PRICE COMPARISON ACROSS SELECTED PRODUCTS FROM CHOSEN EUROPEAN LUXURY BRANDS

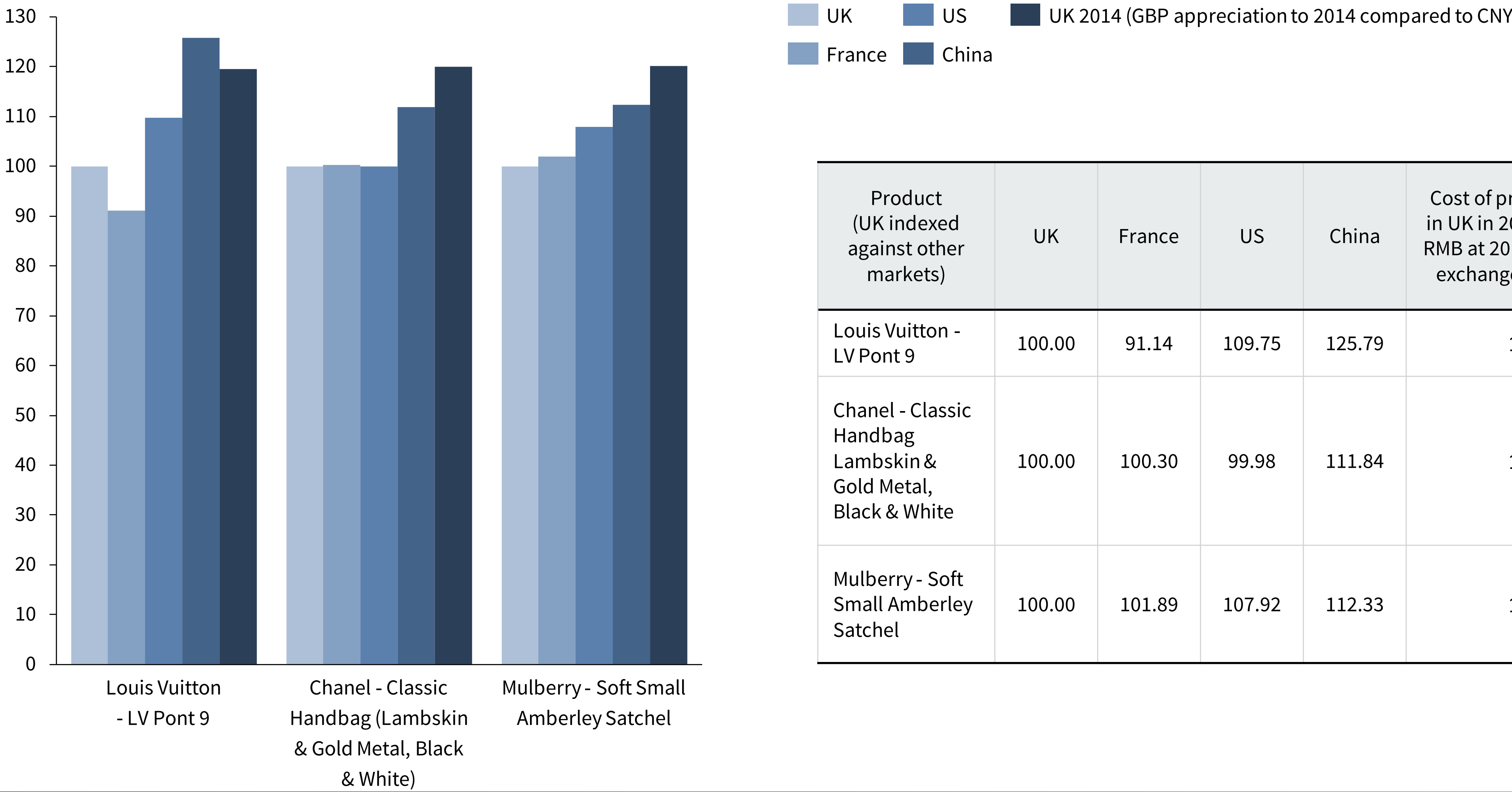
| Product | | UK | France | US* | China | China** (ex VAT) | Cost of product in UK in 2021 for RMB at 2014 GBP exchange rate |
|---|---|---|---|---|---|---|---|
| Chanel - Classic Handbag Lambskin & Gold Metal, Black & White | Price (VAT inc.) | £6,630 | £6,650 (€7,800) | £6,629 ($9,778) | £7,415 (¥62,700) | £6,451 (¥54,549) | £7,958 |
| | Δ VAT inc. price against Chinese price | -£785 | -£765 | -£786 | *Item compared* | £0 | £543 |
| | Δ VAT exc. price against Chinese price | -£2,111 | -£2,095 | n/a | *Item compared* | -£964 | -£1,048 |
|  | Δ VAT inc. price against Chinese exc. VAT price** | £179 | £199 | £178 | £964 | *Item compared* | £1,507 |
| | Δ VAT exc. price against Chinese exc. VAT price** | -£1,147 | -£2,638 | n/a | £0 | *Item compared* | -£84 |
| | Δ VAT inc. price against UK cost in 2014 | -£1,328 | -£1,308 | -£1,329 | -£543 | -£543 | *Item compared* |
| | Δ VAT exc. price against UK cost in 2014 | -£2,654 | -£2,638 | n/a | -£1,507 | -£1,507 | *Item compared* |

*Source: Pragma analysis; Desk research; Company websites*

*Exchange rate as of 01/12/2021*
*VAT rates: UK 20%, France 20%, China 13%;*
*Exchange rate at 1GBP = 10.15CNY as average of 2014 exchange rates*

Comparison of the indexed prices to UK current pricing of the three luxury products shows that VAT included prices among the compared countries indicates that UK prices are generally more favourable to consumers if all countries have VAT included prices, albeit the pricing is relatively similar across the UK and France

## PASSENGER SPEND DYNAMICS | PRICE INDEX OF VAT INCLUDED PRICES OF CHOSEN EUROPEAN LUXURY BRANDS



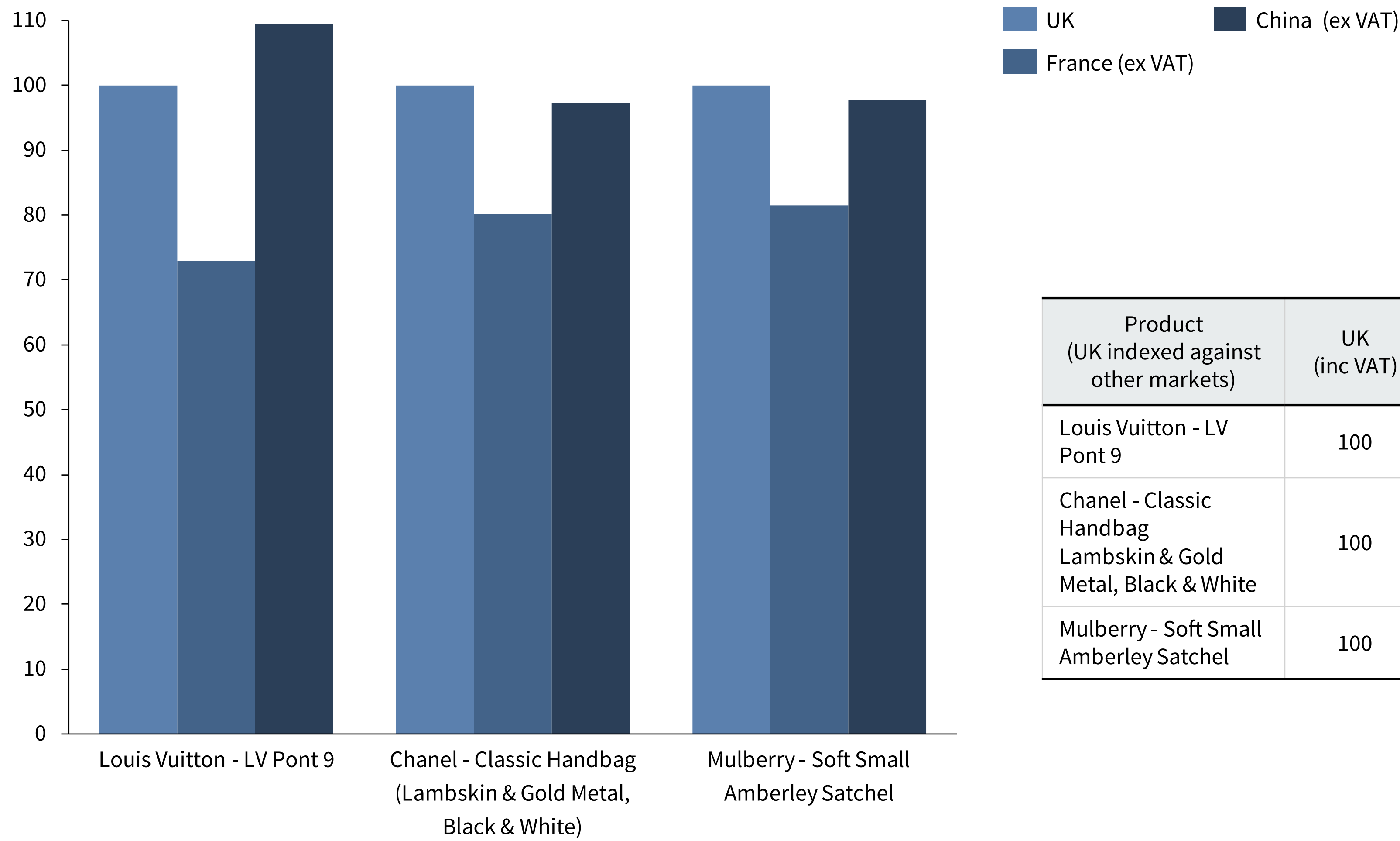

| Product (UK indexed against other markets) | UK | France | US | China | Cost of product in UK in 2021 for RMB at 2014 GBP exchange rate |
|---|---|---|---|---|---|
| Louis Vuitton - LV Pont 9 | 100.00 | 91.14 | 109.75 | 125.79 | 119.56 |
| Chanel - Classic Handbag Lambskin & Gold Metal, Black & White | 100.00 | 100.30 | 99.98 | 111.84 | 120.04 |
| Mulberry - Soft Small Amberley Satchel | 100.00 | 101.89 | 107.92 | 112.33 | 120.05 |

*Source: Pragma analysis; Desk research; Company websites*

*Exchange rate as of 01/12/2021*
*VAT rates: UK 20%, France 20%, China 13%;*
*Exchange rate at 1GBP = 10.15CNY as average of 2014 exchange rates*

Comparison of the indexed prices to the UK VAT included price of the three luxury products against the compared countries offering VAT exclusive pricing of the same products, puts the UK at a high disadvantage, particularly when compared to France, demonstrating the higher attractiveness of tourists shopping in France vs. the UK

## PASSENGER SPEND DYNAMICS | PRICE INDEX OF VAT EXCLUDED PRICES OF CHOSEN EUROPEAN LUXURY BRANDS



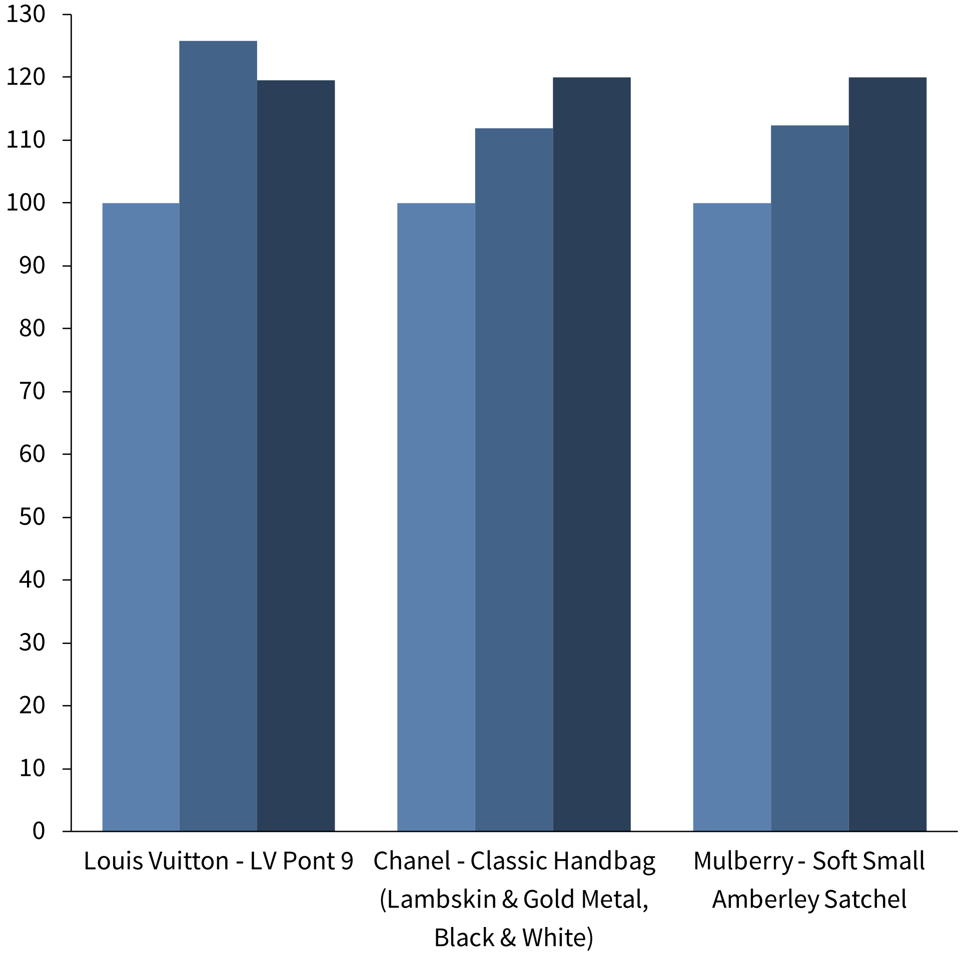

| Product (UK indexed against other markets) | UK (inc VAT) | France (ex VAT) | China* (ex VAT) |
|---|---|---|---|
| Louis Vuitton - LV Pont 9 | 100 | 72.91 | 109.43 |
| Chanel - Classic Handbag Lambskin & Gold Metal, Black & White | 100 | 80.24 | 97.30 |
| Mulberry - Soft Small Amberley Satchel | 100 | 81.51 | 97.72 |

*Source: Pragma analysis; Desk research; Company websites*

*Exchange rate as of 01/12/2021*
*VAT rates: UK 20%, France 20%, China 13%;*
*Exchange rate at 1GBP = 10.15CNY as average of 2014 exchange rates*

If the sterling appreciates to the higher exchange rates experienced in 2014, then the amount spent by Chinese passengers purchasing in the UK would be higher than what they would be spending locally for the same product. This further demonstrates the risk of Chinese shopper spend switching from the UK to the domestic market

## PASSENGER SPEND DYNAMICS | PRICE INDEX OF VAT INCLUDED PRICES OF CHOSEN EUROPEAN LUXURY BRANDS | STERLING APPRECIATION




| Product (Indexed at current GBP 2021 price) | UK current pricing 2021 (inc VAT) | Cost of product in China in 2021 RMB indexed against GBP 2021 price | Cost of product in UK in 2021 for RMB at 2014 GBP exchange rate |
|---|---|---|---|
| Louis Vuitton - LV Pont 9 | 100 | 125.79 | 119.56 |
| Chanel - Classic Handbag Lambskin & Gold Metal, Black & White | 100 | 111.84 | 120.04 |
| Mulberry - Soft Small Amberley Satchel | 100 | 112.33 | 120.05 |

*Source: Pragma analysis; Desk research; Company websites*

*Note: Current exchange rate at 1GBP = 8.4 CNY as average of 2021 exchange rates ; Exchange rate at 1GBP = 10.15CNY as average of 2014 exchange rates*

It is likely that Chinese passengers will continue to be an important source of global demand for travel retail, especially in appealing European destinations, such as Paris, Rome, and London. The wealthiest Chinese citizens have the purchasing power and appetite to spend both domestically and when they travel abroad

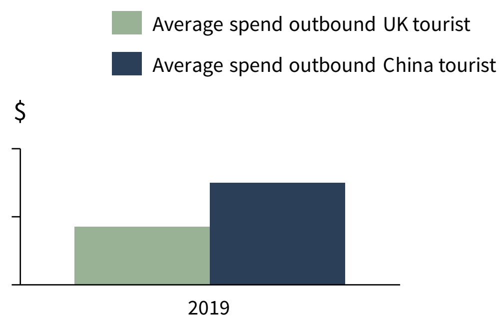
## PASSENGER SPEND DYNAMICS | CHINESE LUXURY SPEND – KEY COMPONENTS SUPPORTING SPEND IN INTERNATIONAL MARKETS

### 1 Seeking the international shopping experience

- Although the Chinese government is increasingly encouraging luxury shopping at home, international luxury stores are expected to maintain their appeal, notably driven by a strong experiential offering, personalised experience when shopping in-store, and the prestige of buying in Europe vs. luxury brand stores in China
- Although the Chinese are increasingly prioritising experiences, shopping is expected to remain a high priority for travellers seeking to complement their trip activities with traditional shopping that blends elements of local culture, personalisation, art and digital experience

### 2 The Chinese traveller is a high spender

Spend per outbound trip, Chinese vs British




- The Chinese continue to over-index other nationalities when it comes to spend per trip. In 2019, average Chinese spend on outbound trips was [redacted] higher than that of UK nationals
- Chinese demand for long haul travel is expected to ramp up, with outbound travel spend in Western Europe forecast to grow from c.$8bn in 2013 to c.$28bn in 2023

### 3 Impact of redistribution of households

- Redistribution of Chinese households towards the middle and upper-income classes will raise the value of Chinese travellers to international destinations, as preferences continue their **shift** towards **long-haul travel, higher-cost accommodation** and **upscale shopping**
  - The number of middle-class households earning over £35k and able to afford long-haul travel is expected to increase by 61m between 2013 and 2023
- A new target group dubbed "Young Free Spenders" constitutes **25% of the population** in China but **60% of total spending growth** (2017-2018). These reside in Tier 2 and 3 cities, have higher-than-average disposable income and value more expensive products as better quality, suggesting they are an ideal new target group for luxury brands

*Source: Pragma analysis; Oxford Economics; UNWTO; China Outbound Tourism Research Institute; McKinsey & Company*

Whilst there is a risk to the distribution of luxury spend outside of China as the strength and attraction of the domestic market improves, Chinese nationals are forecast to account for an increasingly large share of the global luxury market, with younger consumers increasing their share of the luxury consumer base

## PASSENGER SPEND DYNAMICS | CHINESE LUXURY SPEND – GLOBAL SHARE AND DEMOGRAPHIC PROFILE

### Increasing dominance of Chinese luxury spend in the global market

<u>Personal luxury goods market by consumer nationality (%)</u>

Chart redacted

- Chinese personal luxury spend has surpassed American spend, and is set to account for half of the global luxury goods market in the next 10-15 years
- While an increasing proportion of this is being captured domestically, it is reported that only 10% of Chinese residents have a passport, creating an opportunity for growth in international spend by more Chinese travellers
- A high proportion of Chinese luxury spend is undertaken in foreign markets, and relative cost of purchase luxury products in each market will have a significant impact on where the Chinese travellers choose to spend their time and money

### Key target market for Chinese luxury shoppers

<u>Total no. luxury consumers by generation (m,%)</u>

Chart redacted

- Chinese consumers born post 80's are still the largest group in terms of volume and spend, with this demographic being a key driver behind the growth of luxury fashion into urban streetwear
- The dominance of social media in Chinese retail is expected to be a key driver of increased spend from these younger age groups, who have a very high use of digital retail and are very aware of the latest trends and prices globally
- The changes to VAT are likely to have a significant impact on the relative appeal for these consumers to travel to London compared to other European and global destinations for shopping, which will lessen the appeal of purchasing luxury products in London and at Heathrow



*Source: Pragma analysis; Pragma desk research; Bain; McKinsey*

While the online sales share of the luxury market in China is rapidly increasing, so are offline sales, illustrating the appeal of shopping in-store. This is particularly true in the luxury goods sector, where the shopping experience and customer service is particularly valued, leading to online penetration of 23% for luxury vs. 42% for general retail

## PASSENGER SPEND DYNAMICS | CHINESE LUXURY SPEND

Luxury market in China, RMB bn (2015-2020E)

Chart redacted

- The luxury goods market in China appears to be resilient to the increasing penetration of online shopping within the same market
- Growth of the luxury market in China was driven by four main pillars: **rapid repatriation of luxury spend** boosted by COVID-19 travel restrictions and a reduction of import duties; **millennial and Gen Z shoppers** who have a powerful influence on increased digitalisation; **faster digitalisation** driven by the younger luxury goods consumers; and finally **the Hainan island duty-free stores** which have seen increased interest from local shoppers during the pandemic
- Offline luxury goods sales grew at an 18% CAGR between 2015 and 2019 vs a 46% CAGR for online sales, showing that online is outgrowing physical. The focus of retailers moving forward is an omni-channel strategy as they continue to expand their footprint in Tier 2 cities and bring enhanced in-store experiences to their consumers
- Despite the fast growth of the online channel, luxury brands in China are escalating store openings and upgrades, buoyed by a rapidly growing luxury market that cannot be fully addressed by the existing store footprint
  - “The physical store is the only place luxury shoppers can enjoy the tech-forward experiences they clearly crave” – Elisa Harca, Co-founder, Red Ant Asia

*Source: Pragma analysis; eMarketer; Statista; Bain & Company; Jing Daily*

Although Chinese passengers will continue to over-index on spend per head at airports, spend to date has largely been driven by the higher incomes, which will dilute as volumes from lower incomes rise. This trend has already led to reductions in average spend per trip, and risks being further constrained by government initiatives

## PASSENGER SPEND DYNAMICS | CHINESE LUXURY SPEND – KEY COMPONENTS THAT MAY DIMINISH SPEND IN INTERNATIONAL MARKETS

### 1 The rise of low-cost carriers

- The rise of low-cost carriers has opened the doors to travel for many more Chinese. With **affordability** being the main barrier to travel, those accessing the travel market will typically fly locally, then upgrade to travel regionally in Asia, followed by long-haul travel (Europe and the USA) for the upper middle class
- Easier visa regulations for long-haul destinations have made it more possible for affording Chinese to travel
- More people accessing passports should also contribute to the increase of Chinese travellers, with the estimated number of **passport-holding Chinese** expected to reach **300 mn** (20% of the Chinese population) in 2027
- An increasing volume of lower-cost Chinese traveller will dilute the historically high spend rates driven by the high-net worth travellers

### 2 A reducing spend

Spend per outbound trip, Chinese

Chart redacted

- Average spend per trip is decreasing for Chinese travellers, registering a drop of [redacted] between 2015 and 2019. The growth in outbound spend is mostly driven by volume rising at a higher rate than spend
- Between 2016 and 2018, shopping spend as a proportion of budget also went down from [redacted], with the average shopping budget reducing from [redacted]
- This will exert downward pressure on average spend per Chinese traveller in locations such as London and Heathrow

### 3 Government crackdown on wealth inequality

- The Chinese government announced in August 2021 a crackdown on wealth inequality, risking a negative impact on the luxury market
- The main risks that could clamp down demand include higher taxes on luxury goods, further customs control on personal shoppers and online advertising regulations
- In August 2021, LVMH and Kering's market capitalisations dropped by a combined €40 bn as a result of the announcement
- The Chinese are also **increasingly spending at home**. According to Bain, high-end purchases in mainland China grew twice as much as spending abroad between 2015 and 2018, encouraged by the increase in tax-free allowance on personal international e-commerce purchases
- This significant impact of the changing tax-free allowance demonstrates the high-sensitivity to price, and the strong negative influence that the diminished price advantage in the UK will have on Chinese spend on luxury in London and Heathrow

*Source: Pragma analysis; Oliver Wyman; UNWTO*

The Chinese government is making significant attempts to increase retail spend and tourism within its borders, demonstrated by the substantial growth of spend in Hainan and increased duty free allowances. Whilst this will have been accelerated in the short term by Covid restrictions, it risks diluting international Chinese spend over time

## PASSENGER SPEND DYNAMICS | CHINESE LUXURY SPEND

### Hainan, China


### Overview

- In early 2020, the Chinese government planned to transform the island province into the world's largest Free Trade Port by increasing duty free allowances to $15,000
- Sales have continued to grow and luxury spend in Hainan alone is expected to reach $46.5bn in 2025. Almost half of all duty free sales in Hainan are comprised of beauty and cosmetics products, with luxury goods making up a third of sales
- Alongside favourable regulations, increased price harmonisation between offerings in Hainan and locations outside of mainland China has increased the attractiveness of Chinese consumers to purchase at home

### Potential Impact

- Significant domestication of luxury spend within China
- Potentially reduced spend internationally by Chinese pax, as government intends; although precise impact difficult to quantify
- Requirement that international duty free differentiates from standard Hainan offer

### % of Chinese luxury spend within mainland China, 2015-2025F

Chart redacted

### Hainan duty free sales, 2018-2030(f)

Chart redacted

*Source: Pragma analysis, Pragma desk research; Bain; Bernstein / Hainan customs*

# Contents

Since 2012, the luxury and value sectors for UK retail have experienced robust growth - mid-market retail has been squeezed. Value retail has largely been driven by the domestic market, whereas the luxury market has experienced significant growth from overseas visitors, particularly the influx of Chinese tourists

## EXPERT INTERVIEWS | EVOLUTION OF UK RETAIL TRENDS AND GLOBAL RETAIL TRENDS

### Growth in value and luxury have come at a decline in mid-market

**Retail market changes, 2012 - present**

Luxury retail

Harrods, Selfridges&Co, Fendi, Rolex, Louis Vuitton

Mid-market retail

Debenhams, Topshop, John Lewis & Partners, House of Fraser (Since 1849)

Value retail

Primark, asos, PrettyLittleThing, boohoo

### Forces behind retail movements

**Luxury**

- Proliferation of Luxury has been seen throughout the UK but has largely been concentrated in London
- Increase spend in luxury has in some part been driven by the increase in Chinese tourists. In 2012, the US was the biggest tourist market, however, in 2019 the Chinese tourist market was 3 times that of the American market. Total global spend for Chinese tourists in 2012 was $100bn, in 2019 this had increased to $255bn

**Mid-Market**

- The fall of mid-market is largely to do with the brands' product offering rather than macroeconomic forces - value retailers, like Primark were constantly changing offers, whereas players like Debenhams and Topshop were not offering such a dynamic offer

**Value retail**

- Players outside of fashion, such as Aldi and Lidl, introduced new connotations surrounding value for money, rather than cheaper products, which has led to value offerings in other sectors flourishing.
- The bulk of sales in value retail has come from domestic market

### Looking forward

**Push towards experiential**

Cafes Hotels Events

**Embrace of omni-channel**

Click-and-collect Delivery

**Department store**

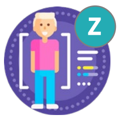
i.e. Harrods, Selfridges

Source: Pragma analysis, expert interviews

The luxury consumer is becoming younger, with greater numbers of the Gen Z demographic embracing the category. In response to this, many luxury retailers are adopting global pricing and are starting to embrace digitisation and ecommerce to a greater extent

## EXPERT INTERVIEWS | CHANGING DYNAMICS OF LUXURY

### The growth of Gen Z's




- The age range of luxury consumers is getting younger, and many small items are sold as aspirational entry point items for the younger, less affluent generation

### Global Pricing

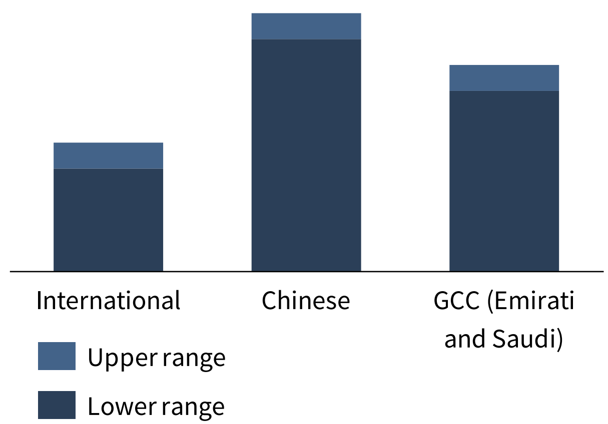
- Many luxury retailers are adopting global pricing. This in part is being pushed by Gen Z's desire for greater transparency
- Some luxury purchases within China can

After introducing global pricing, a UK luxury brand saw [redacted] growth of its Chinese sales (as a result of the movement to a cheaper price point in China) - [redacted]

### Spend across different demographics

- The level of spend on luxury goods amongst different demographics differs by the category of purchase and the brand

**Average range of luxury brand spend across different international visitors**




Spend from the GCC visitors tends to be more focused on jewellery and watches

### Digitisation of Luxury

- Luxury has traditionally been a laggard in embracing digital, with retailers believing its experience to be inferior to the bricks and mortar in-store experience
- The pandemic forced luxury brands online. Consumer adoption has been strong and the consensus view is that while digital cannot replace in-store experience it can complement the offering
- A previous pain-point was delivery but this has significantly improved. Consumer trust in delivery has also risen but there is a price threshold above which people are reluctant to purchase online

### Drivers of luxury sales

**Handbags & accessories**
These are statement pieces that can be used more regularly than garments

**Beauty**
A more accessible category of luxury. Growth in beauty has coincided with greater emphasis on experience

**Jewellery & watches**
Luxury brands have seen this category as a gap in their product offer, and have been increasing their breadth of offer to capture market share from traditional brands



*Source: Pragma analysis, expert interviews*

Views from industry executives suggest that the UK retail market may be permanently changed because of Brexit and the changes to the VAT legislation. Effects will be most prevalent in the luxury sector, as consumers risk shifting behaviours to take advantage of price advantages in other European destinations and retailers follow suit

## EXPERT INTERVIEWS | IMPACT OF VAT ON RETAIL CATEGORIES IN UK AND GLOBALLY

### Impact on the market

**Forecast market changes, resulting from VAT changes**

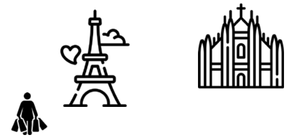
↓ Luxury retail

- As international travel resumes the impact of the VAT change will start to be seen. Due to the heavy reliance on tourist spend in London, the luxury market will be impacted. Whilst not expected to decline, the rate of growth is forecast to slow significantly from pre-pandemic levels
- Luxury categories such as beauty may continue to perform well, due to their lower average transaction value, thus their marginal increase in cost as a result of not having the VAT saving, is not as large as higher priced fashion items

↑ Value retail

- Due to its basis in the domestic market and the less pronounced effects of VAT, value retail will be less effected and is likely to continue to grow

### Effects on the consumer



- High net worth shoppers are very informed and will consider VAT effects when purchasing. While tourists may continue to visit London, places like Paris and Milan may become the preferred destinations on their trip for luxury spend
- Information spreads fast globally - for instance, when the sterling depreciated during Brexit there were immediate messages on Chinese social media, and positive spikes in UK luxury sales
- High net worth individuals can spend over £60,000 on shopping trips and thus they stand to save significantly by diverting spend to Paris

### Effects on retailers


- The draw of London as global magnet of luxury won't be as strong - the UK will potentially see a withdrawal of some luxury brands and deliberate avoidance from others
  - This may come in the form of global brands decreasing the size or number of units in London and increasing investment in more favourable locations like Paris, Milan, Madrid, and China
  - Brands such as LV, which used to trial unique products in London first, are also less likely to do so going forward
- Some retailers have started lobbying the French government to publicly announce the tax savings seen in France over the UK
- UK luxury brands will be hit the hardest and it is likely that if a decision needs to be made, luxury brands may pull out of airports

*Source: Pragma analysis, expert interviews*

Prior to the VAT changes, units at Heathrow typically generated high sales. However, very high operating costs led to low operating margins. Retailers are now showing hesitancy at remaining at Heathrow should the same rental model remain in place, when combined with the risk of lower pax volumes and the removal of the VAT rebate

## EXPERT INTERVIEW | EFFECTS ON HEATHROW RETAIL

### Strengths of Heathrow's retail prior to VAT change

**High sales**

- Heathrow has a captive audience, whom usually have high dwell time, which combined with the wealthy passenger mix , creates an environment for high sales performance

> [redacted] of a UK luxury brands' sales came from Heathrow

**High sales density**

- Sales densities in airports and Heathrow are usually far higher than other destinations

> While operating, a UK luxury brand's Heathrow T5 store achieved its 2nd best sales density of all stores globally

**Opportunity for click-and-collect**

### Weakness of Heathrow's retail prior to VAT change

**High costs**

- High rents were putting a large strain on profitability of operating at the airport. This is especially the case for smaller brands that do not have the negotiating leverage of the large brands

**Operational restrictions**

- Heathrow's influence on the pricing strategy of smaller brands through contract restrictions – a policy that was reported to be less consistently applied to the larger brands who had more significant negotiating power

**Space restrictions**

- Limited space makes an airport less suited to a department store type concept. The high-street trend is for luxury brands to create experience driven customer engagement over relatively large spaces, and this is much more challenging to deliver within a smaller airport store footprint, which also has the constraint of a more limited stock range and choice

### Effects of VAT changes on Heathrow's retail

**Brands may pull out of airport retail first**

- High-street and flagship stores are viewed as brands to be more strategically important for driving brand engagement and prestige, whereas with airport stores are typically perceived to be revenue generators. If the tourist customer base doesn't return, combined with the lack of VAT refund, brands may look to pull out of airports

**Future demand of airport retail**

- There will be a lot of opportunity in airports globally – dependent on how fast tourism (specifically Chinese tourists) come back

**Future category mix at Heathrow**

> **Beauty** Beauty is a lower ticket luxury item that has shown resilience to price changes. Creating engaging experiences within beauty is considered to be a good opportunity for airports.

*Source: Pragma analysis; expert interviews*

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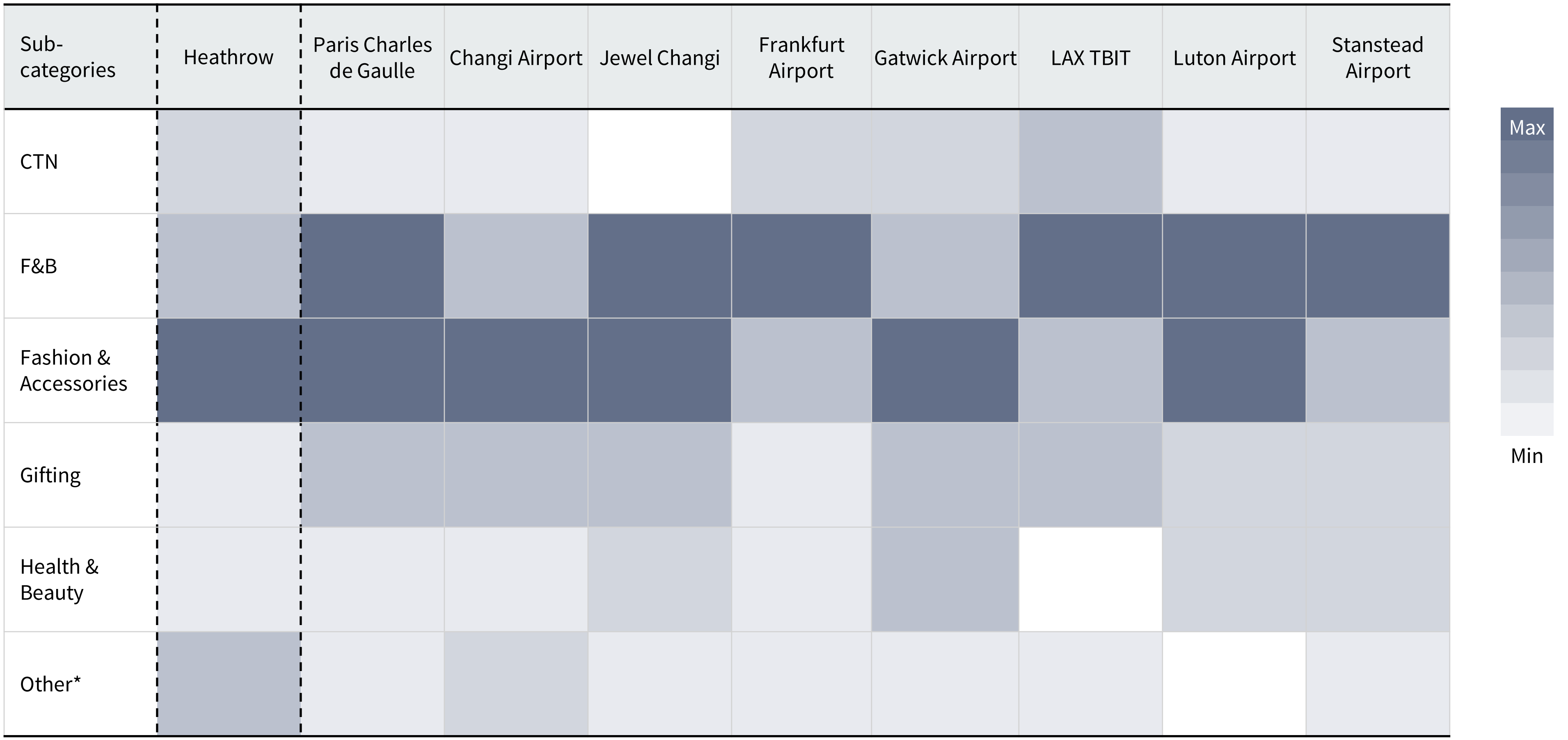
From a retail mix perspective, fashion accounts for the largest proportional share of units at Heathrow, consistent with the benchmark airports. The next highest share amongst most airports is F&B, followed by gifting

## RETAIL MIX BENCHMARKING | AIRPORTS | PROPORTION OF RETAIL UNITS BY SUBCATEGORIES

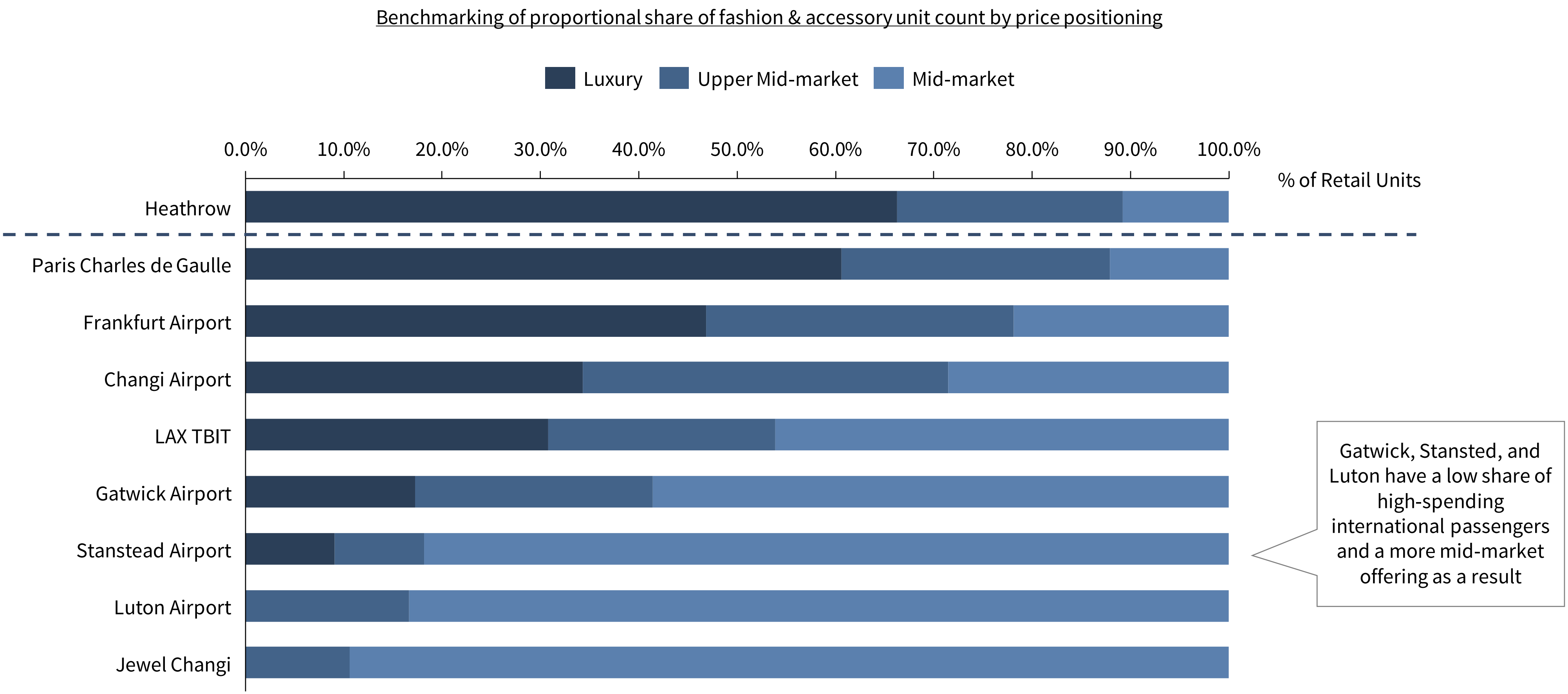



*Source: Pragma analysis; Desk research, HAL data; Company websites*

*Note: Other subcategories consist of a mix of Entertainment, Luggage & Technology*

Heathrow has the highest proportional share of luxury units within the retail mix compared to other leading global and UK airports, demonstrating the key influence on Heathrow retail. Where the passenger mix is less suitable for luxury, and the price advantage from tax free lower, upper and mid-market price positioning takes a higher share

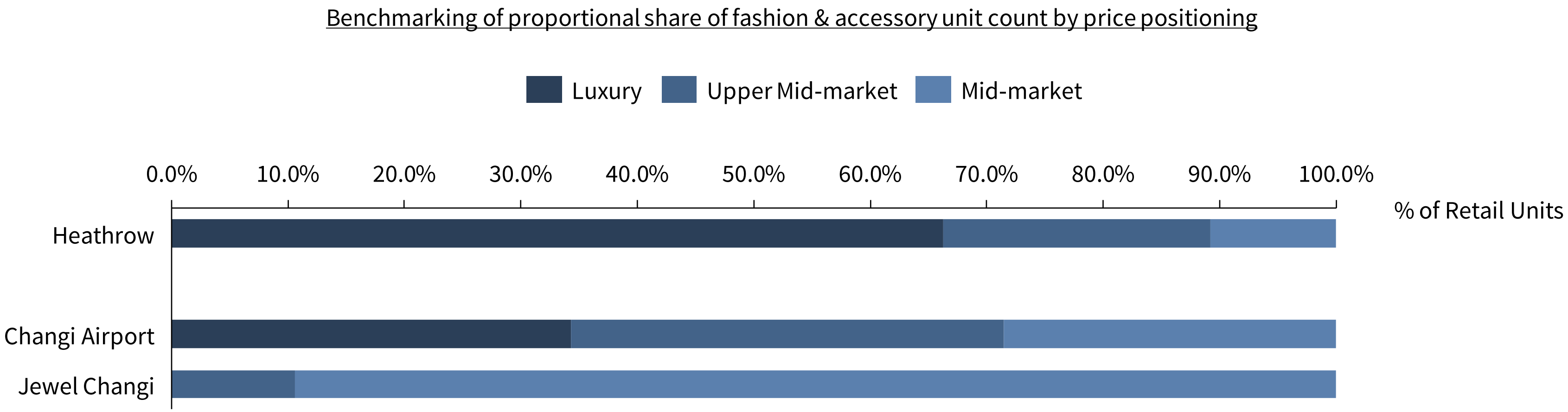
**RETAIL MIX BENCHMARKING | AIRPORTS | PROPORTION OF FASHION AND ACCESSORIES BY SUBCATEGORIES**



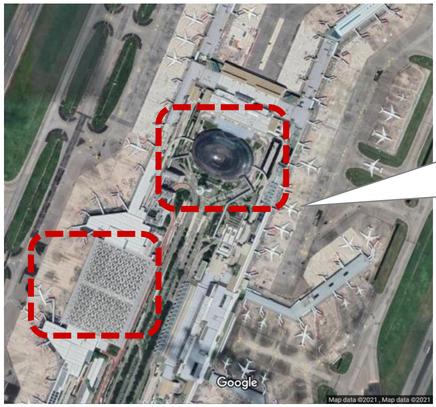

*Source: Pragma analysis; Desk research, HAL data; Company websites*

The influence that a tax price advantage has on the price positioning of the retail mix is illustrated by the difference between the Changi terminals and the Jewel. The terminals operate tax free, and have a higher proportional share of luxury brands, compared to the Jewel which does not offer tax savings to local resident shoppers

## RETAIL MIX BENCHMARKING | AIRPORTS | PROPORTION OF FASHION AND ACCESSORIES BY SUBCATEGORIES




The airport terminals offer a tax saving and have a higher share of luxury brands within the retail mix

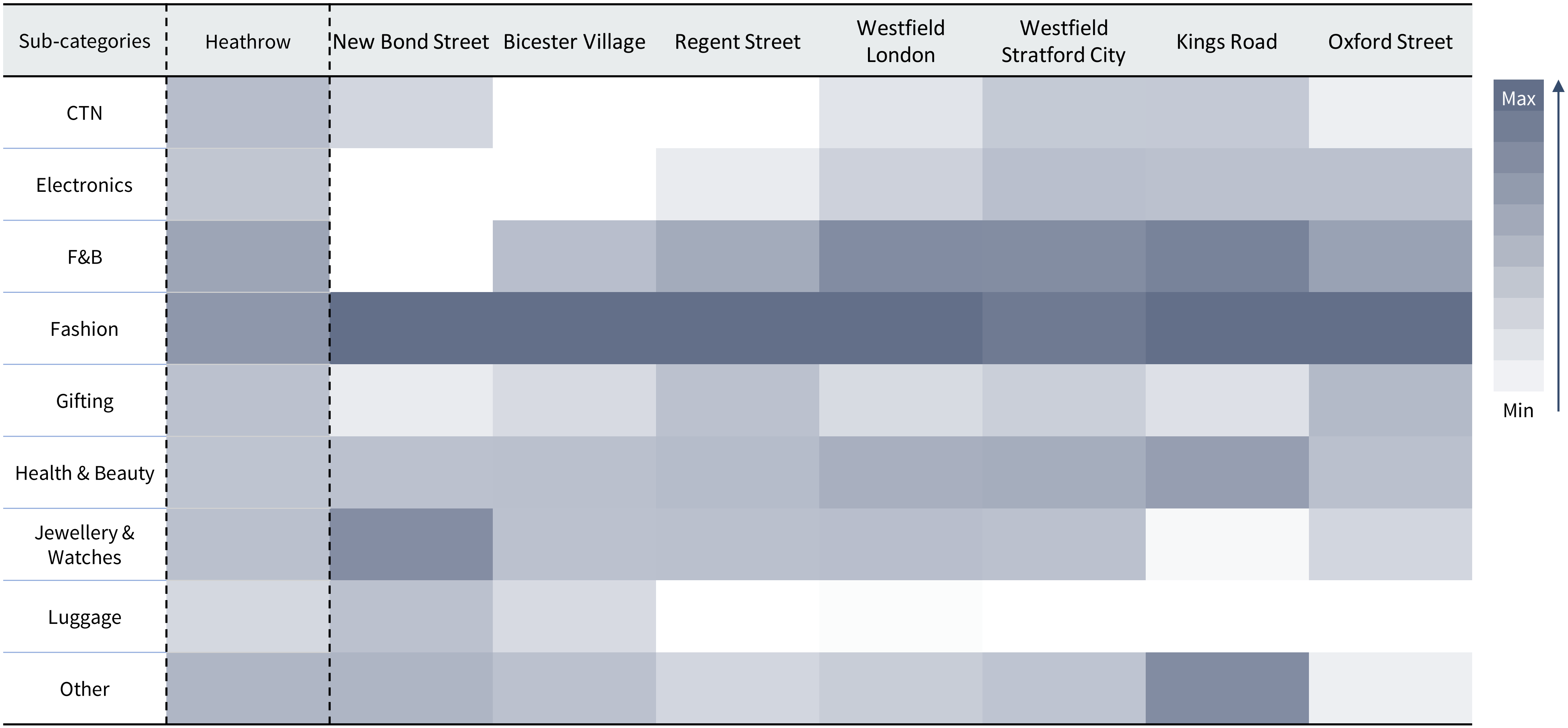



As Jewel Changi is located on the landside of Singapore Changi Airport, the GST (tax) waiver is not applicable in Jewel. However, GST refunds for tourists can be processed at the Changi Lounge. However, given that a large share of shoppers at Jewel are local residents who cannot benefit from the savings, the retail mix has a higher proportion of mid-market brands

*Source: Pragma analysis; Desk research, HAL data; Company websites*

When comparing the Heathrow retail mix to a selection of UK streetscapes and malls, fashion again counts for the largest share. Beyond F&B, healthy & beauty tends to be the retail category with the next highest share

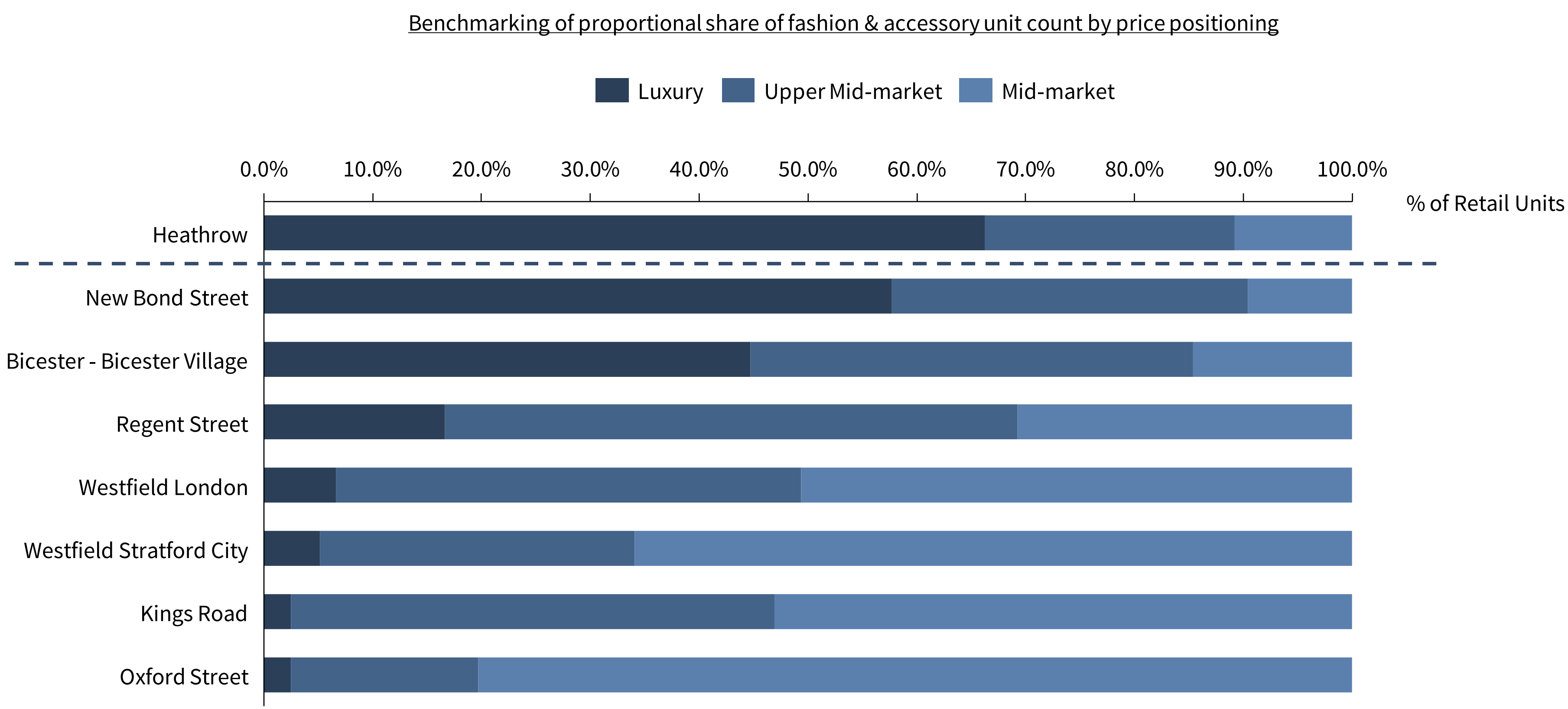
## RETAIL MIX BENCHMARKING | DOWNTOWN MALLS | PROPORTION OF RETAIL UNITS BY SUBCATEGORIES




Source: Pragma analysis; Desk research, HAL data; Company websites

In comparing the price positioning of Heathrow to other downtown locations, Heathrow's weighting towards luxury at 66% is above even that of New Bond Street at 58%. Bicester Village Outlet, which benefits from the price advantage vs. full price locations also has a far higher luxury share, demonstrating the impact on retail mix

## RETAIL MIX BENCHMARKING | DOWNTOWN MALLS | PROPORTION OF FASHION AND ACCESSORIES BY SUBCATEGORIES




*Source: Pragma analysis; Desk research, HAL data; Company websites*

Across the typical categories in an airport environment, both luxury and technology over-index on the sales densities, indicating the relative contribution and importance of those categories to driving spend at an airport. The lower ATV categories of high-street fashion and F&B typically drive much lower sales densities

## RETAIL MIX BENCHMARKING | INDICATIVE SALES DENSITIES - AIRPORTS

Sales density by core commercial category and sub-category indexed against total sales density for a selection of terminals

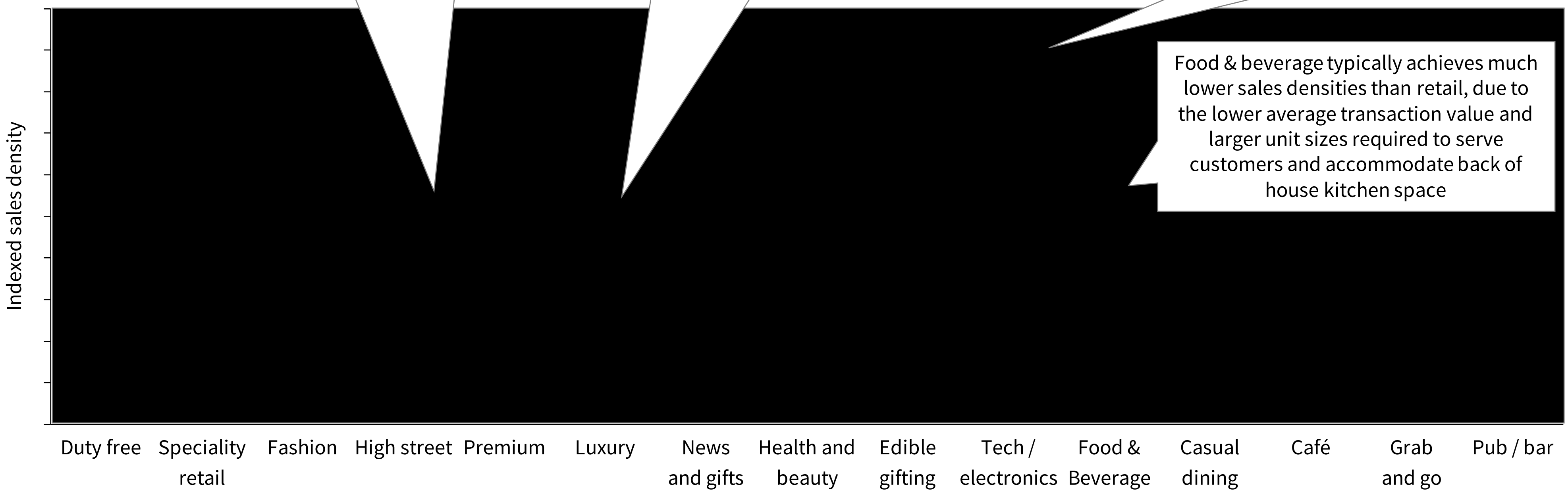
*Sales density (sales per square meter) = annual store sales turnover / floor space (leasable area m²)*

High-street brands, with their lower average transaction value typically achieve relatively low sales densities compared to other categories, and require high volumes to drive strong performance

Luxury units on average yield the highest sales densities, however the overall space allocated to luxury (as well as other categories) must be centred around its relevance to the passenger mix

Whilst electronics typically drive a high sales density due to the high average transaction value, income to the airport is typically relatively low, due to the low concession margins in this category

Food & beverage typically achieves much lower sales densities than retail, due to the lower average transaction value and larger unit sizes required to serve customers and accommodate back of house kitchen space




Source: Pragma analysis; Desk research, airport data

Typical fashion sales densities achieved across airport, high-street, malls, and designer outlets, demonstrates the range in performance achieved with increasing price positioning from mid-market to luxury.  Similarly, for Heathrow, this illustrates that the less luxury the proposition, the lower the sales density is

## RETAIL MIX BENCHMARKING | INDICATIVE SALES DENSITIES – AIRPORTS VS. DOWNTOWN (FULL PRICE & OUTLET)

Luxury | Upper mid-market | Mid-market

Low £2,000/m² — Indicative scale of sales density for fashion — High £60,000/m²

| Asset | Price positioning | Example annual average sales density (£ /m²) |
|---|---|---|
| [redacted] | [redacted] | [redacted] |
| | [redacted] | [redacted] |
| | [redacted] | [redacted] |
| [redacted] | Luxury | [redacted] |
| London Luxury (Full Price) | Luxury | [redacted] |
| UK Average Luxury (Full Price) | Luxury | [redacted] |
| Regional Mall (Full Price) | Upper mid-market | [redacted] |
| Primary Mall – Major City (Full Price) | Upper mid-market | [redacted] |
| UK High-street (Full Price) | Upper midmarket | [redacted] |
| Primary Mall – Regional City Centre (Full Price) | Mid-market | [redacted] |
| UK Outlet Centres (Discount Outlet) | Mid-market | [redacted] |

Source: Pragma analysis; Desk research

Note: Heathrow annual sales density calculated for full year 2019.

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# Analysis of price impact for a Louis Vuitton handbag

## PASSENGER SPEND DYNAMICS | PRICE COMPARISON ACROSS SELECTED PRODUCTS FROM CHOSEN EUROPEAN LUXURY BRANDS

| Product | | UK | France | US* | China | China** (ex VAT) | Cost of product in UK in 2021 for RMB at 2014 GBP exchange rate |
|---|---|---|---|---|---|---|---|
| Louis Vuitton - LV Pont 9  | Price (VAT inc.) | £2,800 | £2,552 (€3,000) | £3,073 ($4,556) | £3,522 (¥29,900) | £3,064 (¥26,013) | £3,348 |
| | Δ VAT inc. price against Chinese price | -£722 | -£970 | -£449 | *Item compared* | £0 | -£174 |
| | Δ VAT exc. price against Chinese price | -£1,282 | -£1,480 | n/a | *Item compared* | -£458 | -£844 |
| | Δ VAT inc. price against Chinese exc. VAT price** | -£264 | -£512 | £9 | £458 | *Item compared* | £284 |
| | Δ VAT exc. price against Chinese exc. VAT price** | -£824 | -£1,306 | n/a | £0 | *Item compared* | -£386 |
| | Δ VAT inc. price against UK cost in 2014 | -£548 | -£796 | -£275 | £174 | £174 | *Item compared* |
| | Δ VAT exc. price against UK cost in 2014 | -£1,108 | -£1,306 | n/a | -£284 | -£284 | *Item compared* |

*Source: Pragma analysis; Desk research; Company websites*

*Exchange rate as of 01/12/2021; VAT rates: UK 20%, France 20%, China 13%*
** US sales tax varies by state*
***It is assumed that China ex VAT price is Hainan pricing*

# Analysis of price impact for a Mulberry handbag

## PASSENGER SPEND DYNAMICS | PRICE COMPARISON ACROSS SELECTED PRODUCTS FROM CHOSEN EUROPEAN LUXURY BRANDS

| Product | | UK | France | US* | China | China** (ex VAT) | Cost of product in UK in 2021 for RMB at 2014 GBP exchange rate |
|---|---|---|---|---|---|---|---|
| Mulberry - Soft Small Amberley Satchel | Price (VAT inc.) | £795 | £810 (€950) | £858 ($1,139) | £893 (¥7,550) | £776 (¥6,568) | £954 |
|  | Δ VAT inc. price against Chinese price | -£98 | -£83 | -£35 | *Item compared* | £0 | £61 |
| | Δ VAT exc. price against Chinese price | -£257 | -£245 | n/a | *Item compared* | -£117 | -£129 |
| | Δ VAT inc. price against Chinese exc. VAT price** | £19 | £34 | £82 | £117 | *Item compared* | £178 |
| | Δ VAT exc. price against Chinese exc. VAT price** | -£140 | -£306 | n/a | £1 | *Item compared* | -£12 |
| | Δ VAT inc. price against UK cost in 2014 | -£159 | -£144 | -£96 | -£61 | -£61 | *Item compared* |
| | Δ VAT exc. price against UK cost in 2014 | -£318 | -£306 | n/a | -£178 | -£178 | *Item compared* |

*Source: Pragma analysis; Desk research; Company websites*

*Exchange rate as of 01/12/2021; VAT rates: UK 20%, France 20%, China 13%*
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