Luxury Downturn Appears Cyclical, Not Structural

Demand from China and US to drive growth as brand moats intact.

Morningstar Equity Research
September 16, 2025

Contents

Jelena Sokolova, CFA
Senior Equity Analyst
+31 20 311 90 94
jelena.sokolova@morningstar.com

Svetlana Menshchikova
Equity Research Associate
svetlana.menshchikova@morningstar.com

Executive summary

After an exceptional postpandemic recovery, the luxury sector entered a slowdown in 2024 as a tough comparison base, price increases, and weaker spending from the two large consumer clusters, Chinese and Americans, weighed on sales. We view this slowdown as cyclical rather than structural, as long-term demand drivers and brand strength remain intact. We view the sector's fundamentals as strong, underpinned by enduring brand appeal, increased barriers to entry, and concentrated market share among a few global leaders.

In the US, a favorable tax regime, strong equity markets, and an easier comparison base should support the recovery. In China, near-term stabilization of real estate prices should help restore consumer sentiment, as high household savings accumulated during the pandemic can be used to fuel demand. In the long term, economic growth and high-wage employment are expected to drive spending. Brands are also actively trying to restore demand by re-engaging consumers through stable prices, introducing more accessible products, changing creative leadership, and focusing on their core strengths.

We see the current downturn as an attractive entry point into strong, moaty luxury names. Our top picks are wide-moat LVMH and Richemont, which suit a defensive strategy with around 15% upside to our fair value estimate, and narrow-moat Kering, which offers deeper value at around a 30% discount but requires patience on Gucci's turnaround and overall cyclical recovery of the luxury sector.

Key Takeaways

- The luxury industry should resume growth at 5% long-term, driven by US and Chinese consumption.
- Near-term pricing will be subdued, but operating leverage on fixed costs should help margin expansion.
- Luxury brands with scale and strong brand equity should deliver better growth during the recovery.

Companies Mentioned

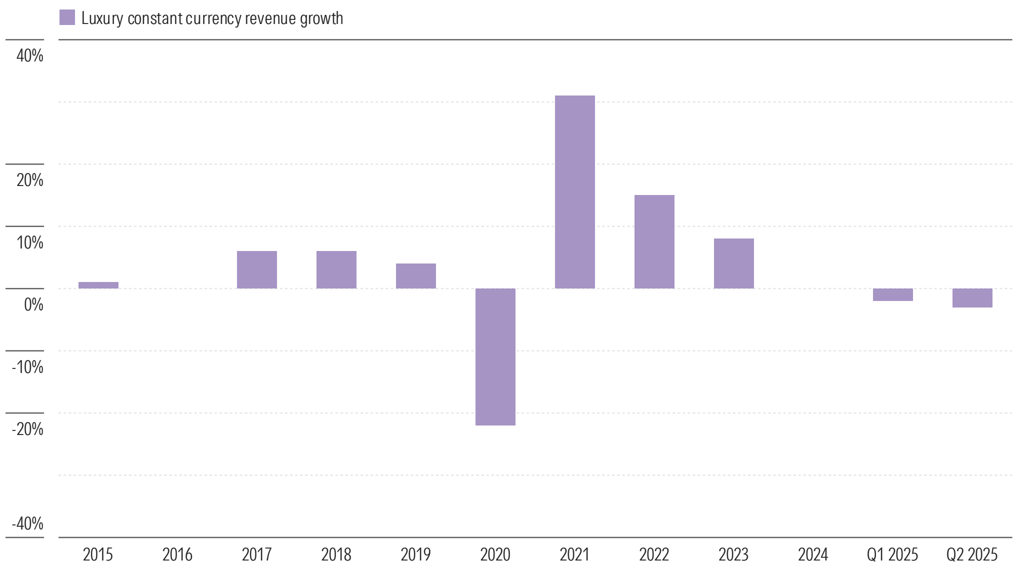
Name/Ticker	Economic Moat	Currency	Fair Value Estimate	Current Price	Uncertainty Rating	Morningstar Rating	Market Cap (Bil)
LVMH (PAR: MC)	**Wide**	**EUR**	**620**	**491**	**Medium**	★★★★	**250**
Richemont (SWX: CFR)	**Wide**	**EUR**	**164**	**153**	**Medium**	★★★	**90**
Kering (PAR: KER)	**Narrow**	**EUR**	**360**	**241**	**Medium**	★★★★★	**31**
Swatch (SWX: UHR)	Narrow	CHF	214	151	Medium	★★★★★	8
Prada (HKG: 01913)	Narrow	EUR	57	45	High	★★★★	115
Hugo Boss (ETR: BOSS)	None	EUR	53	41	Medium	★★★★	3
Salvatore Ferragamo (MIL: SFER)	None	EUR	6	5	High	★★★★	1
Burberry (LON: BRBY)	Narrow	GBP	1,370	11	High	★★★★	4
Moncler (MIL: MONC)	Narrow	EUR	48	49	Medium	★★★	14
Hermes (PAR: RMS)	Wide	EUR	1,580	2,090	Medium	★★	222
Brunello Cucinelli (MIL: BC)	Narrow	EUR	68	98	Medium	★	7

Topic	What the market is saying…	…How we're differentiated
Demand drivers	• Chinese demand is weak and is unlikely to rebound to its former glory.	• Chinese consumers are sitting on substantial savings accumulated during the pandemic that have not been spent due to poor consumer sentiment. There is potential for pent-up demand once real estate prices stabilize and sentiment improves. In the long term, economic growth and transition to high-wage professions should support luxury growth.
	• US demand is weak and is likely to be hit by tariffs.	• We rightly anticipated weakness of US demand in 2023-25, as it came after postpandemic spending boom, boosted by nonrecurring tailwinds. The underlying drivers behind US demand are supportive of decent GDP growth, strong equity markets, and tax initiatives that benefit the middle class. Those could offset the tariff impacts as demand returns to growth from a normalized base.
	• Luxury pushed increased prices too much; a meaningful portion of consumers are not going to resume consumption.	• Pricing is an integral part of luxury growth, although we concede that the last few years have seen more aggressive than usual price increases. Broadening the range across product categories, less aggressive pricing in the future, and improving the economic situation of younger consumers should bring aspirational consumers to luxury.
Competitive advantages	• Consumers, especially younger cohorts, are not interested in luxury brands anymore.	• Customer polls and brand rankings suggest a continued appeal of the top luxury brands, although affordability is more of an issue.
	• Established brands are ceding ground to new entrants, especially domestic players in China.	• Entry barriers to luxury have increased in recent years, with a reduction in wholesale channels (brick-and-mortar and online) and increased costs to compete (rental and marketing), which benefits the established brands. We found no evidence of top foreign luxury brands losing share in China. On the contrary, their market share is more concentrated and growing, despite intensifying local competition in other areas, such as sports apparel.
Top Picks	• **LVMH:** The market is concerned about both the industry slowdown and LVMH faring worse than some wide-moat peers, such as Hermes. There are concerns about the ubiquity of LVMH's brands and excessive pricing.	• We believe LVMH is well-positioned to maintain the desirability of its brands that remain the biggest and most profitable in leather, through its access to financial resources and management talent unmatched in the industry. We believe LVMH should outgrow the luxury industry over time through the superior strength of its brands.
	• **Kering:** Doubts mount over Kering's ability to turn Gucci around.	• We believe that with its strong brand recognition, very significant marketing resources, and control over distribution, Gucci should be in a position to regain its pricing and desirability in the long run. Although the catalysts are unclear, we have yet to see a brand of Gucci's global recognition and scale fall permanently out of fashion.
	• **Richemont:** Although Richemont's fundamental performance is resilient in this downturn, the share price fell alongside peers, and higher tariffs on Swiss exports in the US.	• Richemont benefits from strong pricing power and exposure to more resilient, more affluent clientele versus peers. Luxury jewelry enjoys high entry barriers and good growth prospects, driven by a shift from nonbranded alternatives, brand marketing, and economic growth. The watch business (Swiss export) is more cyclical, but it contributes a small part of the overall profit.

Luxury Revenue and Profits Come Under Pressure, Sending Share Prices Lower

After growing at a strong, double-digit clip postpandemic, luxury industry revenue came to a halt in 2024 and began declining in the first half of 2025.

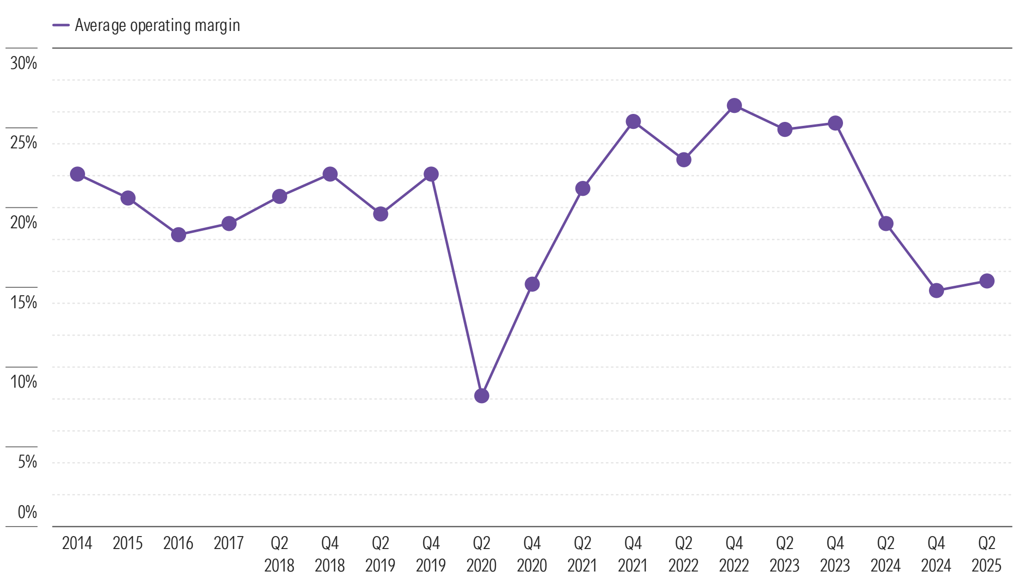
Exhibit 1 After Years of Strong Growth Postpandemic, Luxury Revenue Flattened and Declined in 2024/25



Source: Morningstar; Bain; Company data. Data as of June 30, 2025.

The industry's margins came under increasing pressure from the lower demand, given the high share of fixed costs in the business, falling to the lowest levels since the pandemic in the first half of 2025.

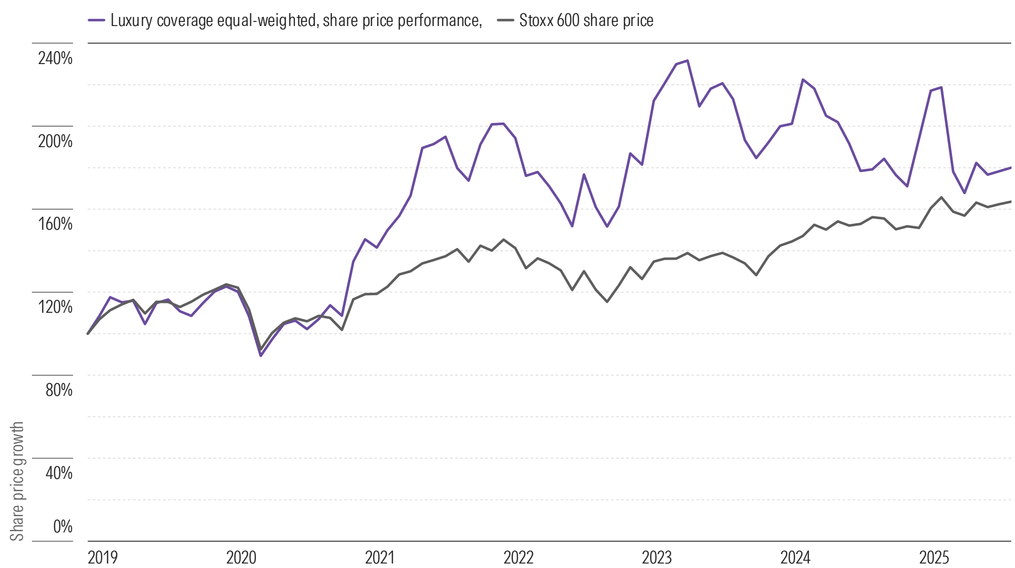
Exhibit 2 Operating Margins at the Lowest Levels Since the Pandemic



Source: Morningstar; Company data. Data as of June 30, 2025.

As a result of weak financial performance, share prices of luxury names began falling from their 2023 peaks, underperforming the Stoxx 600 Index and relinquishing postpandemic relative gains.

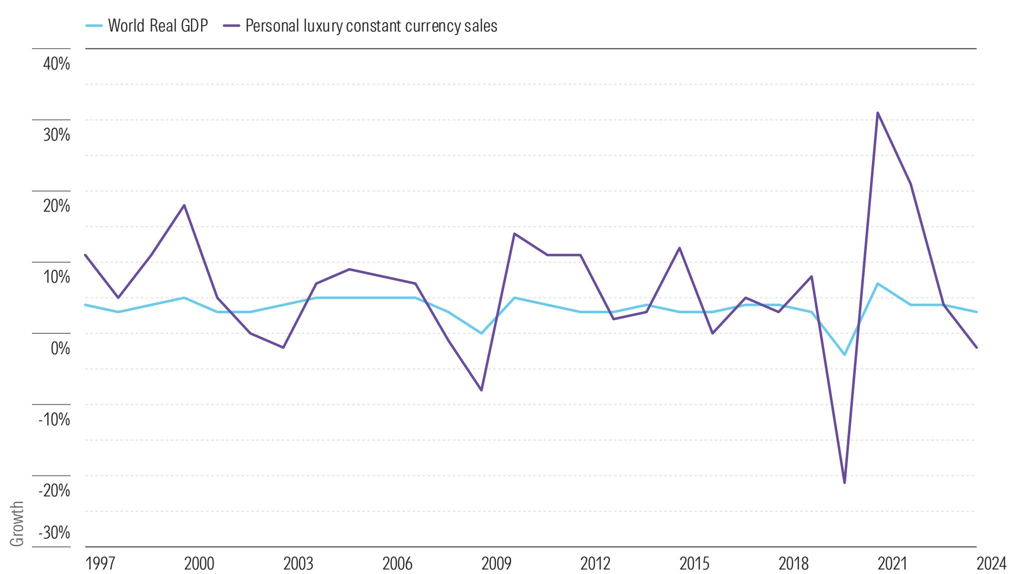
Exhibit 3 Luxury Sector Outperformed Broader Stoxx 600 Index Until Losing Most of Its Outperformance Last Year



Source: Morningstar; PitchBook; Morningstar Direct. Data as of Aug. 31, 2025.

Luxury has historically been a cyclical industry, growing at a 6% annualized rate since 1996, compared with 3% real GDP growth, but with pronounced cyclicality, as Exhibit 4 illustrates.

Exhibit 4 Luxury Delivered Above GDP Growth Historically but With Pronounced Cyclicality



Source: Morningstar, Bain, World Bank.

Previous downturns suggest that luxury demand is due to rebound after two years of weakness. Common concerns from investors are whether there are structural changes hiding under the mask of cyclicality, and whether "this time is different?"

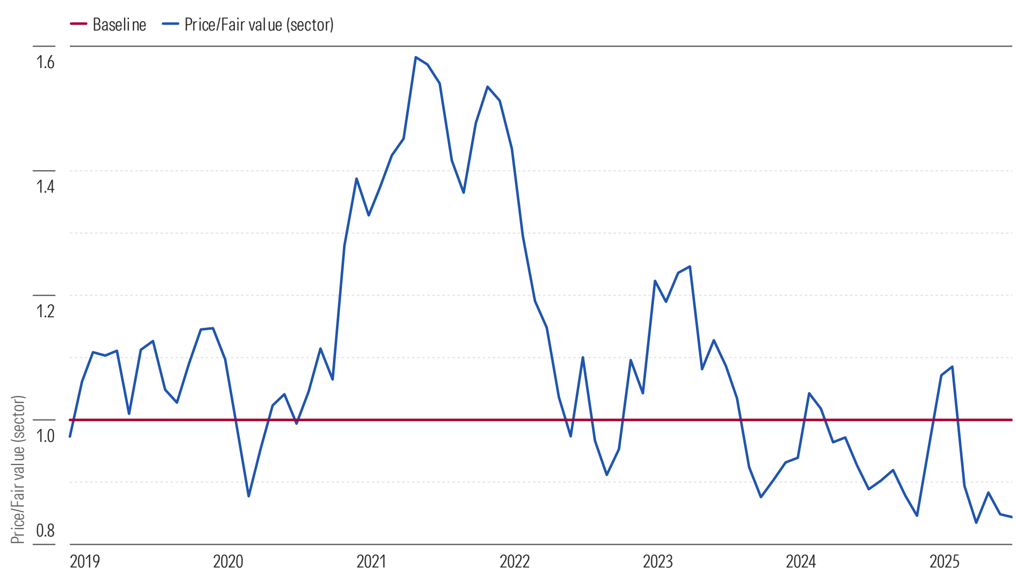
We address the two major investor concerns:

- Are the demand drivers still intact?
- Are luxury moats intact? (that is, are luxury brands still desirable and how has the competitive landscape changed?)

What Went Wrong?

We correctly recognized the overvaluation of the sector in 2021 and 2023. As we outlined in our 2021 industry deep dive in November 2021[1], we saw postpandemic tailwinds as largely transitory, hence most luxury names in our coverage looked overvalued.

Exhibit 5 We Viewed Luxury Names to be Significantly Overvalued in 2021 and 2023



Source: Morningstar; PitchBook. Data as of July 31, 2025.

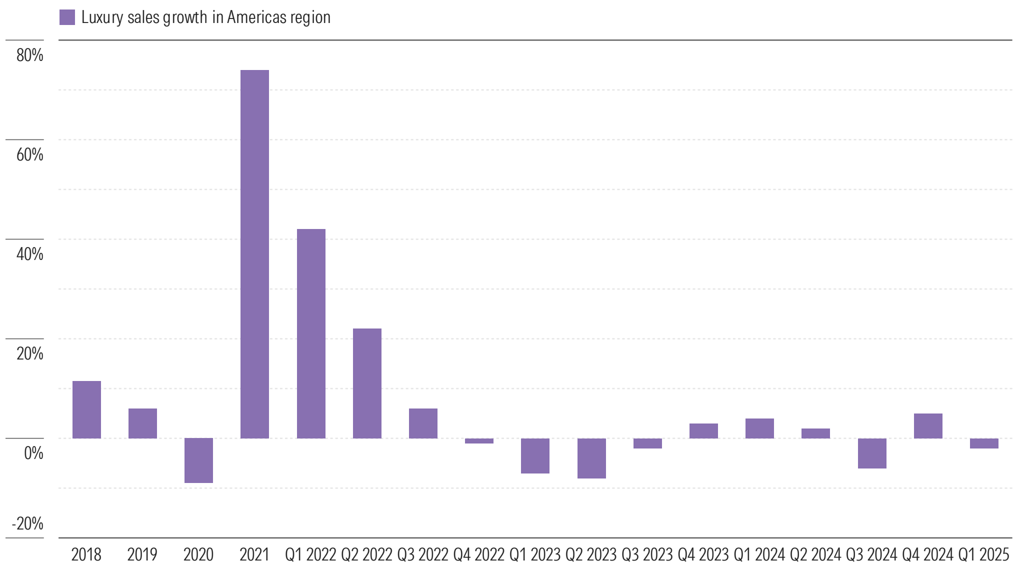
The main argument of our postpandemic bear thesis on luxury was that demand was helped by several nonrecurring tailwinds, including extra savings from foregone travel and other luxury experiences during covid globally, as well as additional payment checks in the US.

1 Sokolova, J. 2021, Morningstar Select Presentation, "Do Post-COVID-19 Structural Changes Justify Luxurious Valuations?" PitchBook, Nov. 3, 2021.
https://my.pitchbook.com/research-center/report/ae90c6ae-05fe-35ab-b26b-85f1caebef39

American Consumer Demand Weakened From Unsustainable Highs, as We Forecast

In line with our expectations, US consumer demand started to weaken in late 2022 and continued this sluggish pace well into 2025.

Exhibit 6 As We Expected, Luxury Sales in the Americas Declined After Postpandemic Explosive Growth

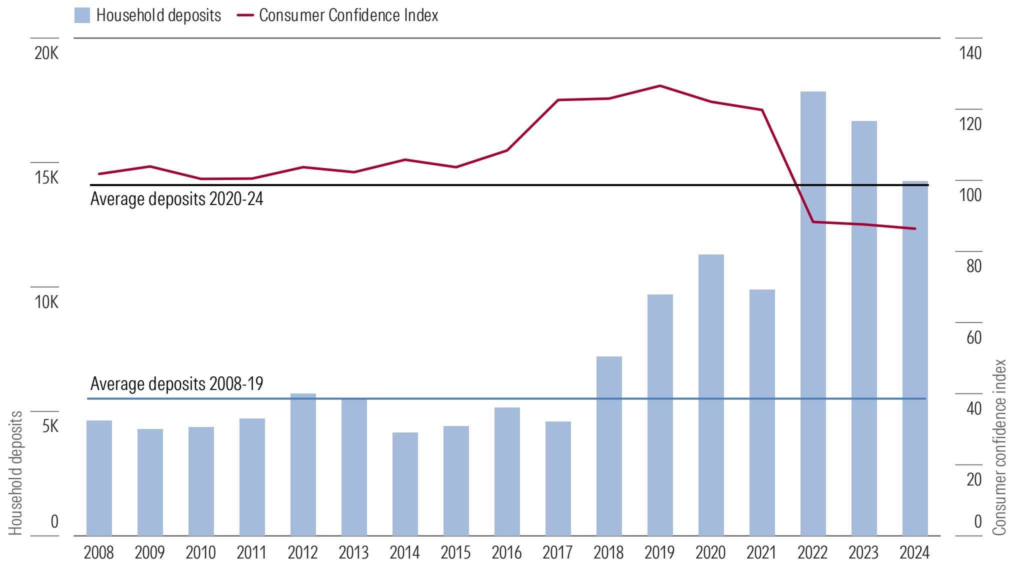


Source: Morningstar; Company data. Data as of June 30, 2025.

Chinese Demand Dampened by Slower Economic Growth and Real Estate Price Weakness

We had higher expectations for the Chinese consumer demand rebound, as Chinese consumption remained (and still is) below prepandemic levels. Nevertheless, there are structural drivers for higher demand, resulting from an increase in the affluent population in the region, driven by high-wage employment in sectors like technology and science. We were nonetheless concerned about the impact of the Common prosperity program on luxury consumption. Whereas Common prosperity didn’t seem to have directly hit luxury consumption, depressed real estate prices are likely weighing on the sentiment in the market and making Chinese consumers reluctant to part with their extra savings accumulated during the pandemic (Exhibit 7).

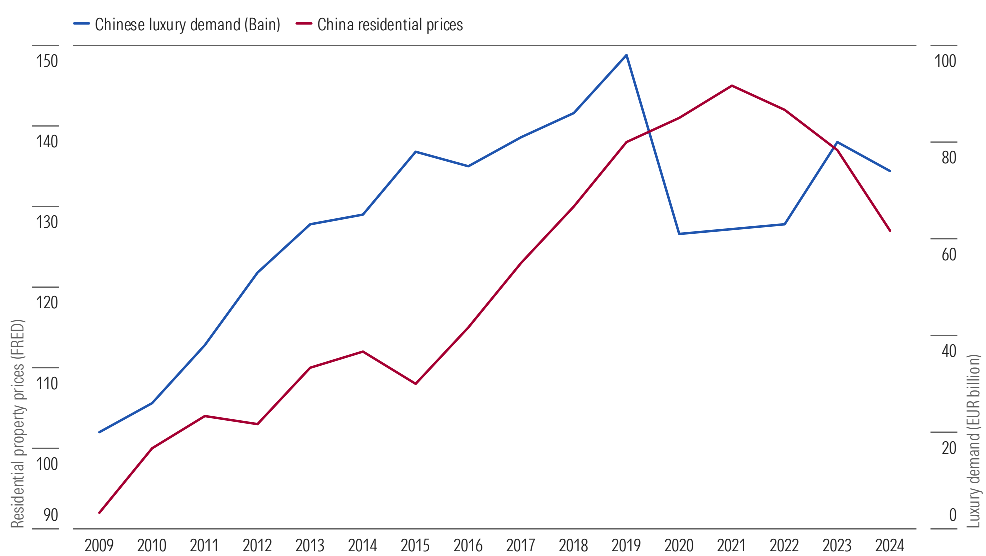
Exhibit 7 Chinese Consumers Still Sitting on Savings Accumulated During Covid, but Confidence Lags



Source: Company data. Data as of June 30, 2025.

Real estate price weakness is a likely cause for Chinese luxury consumer skittishness, as roughly 50%-60% of household invested wealth is invested in predominantly residential real estate. This share is higher than that for European households (around 40%-50%) and significantly above the US (20%-30%). Real estate price weakness in China in 2015 also preceded the luxury demand downturn with these consumers in 2016, as Exhibit 8 illustrates.

Exhibit 8 Residential Real Estate Prices in China Continue to Decline

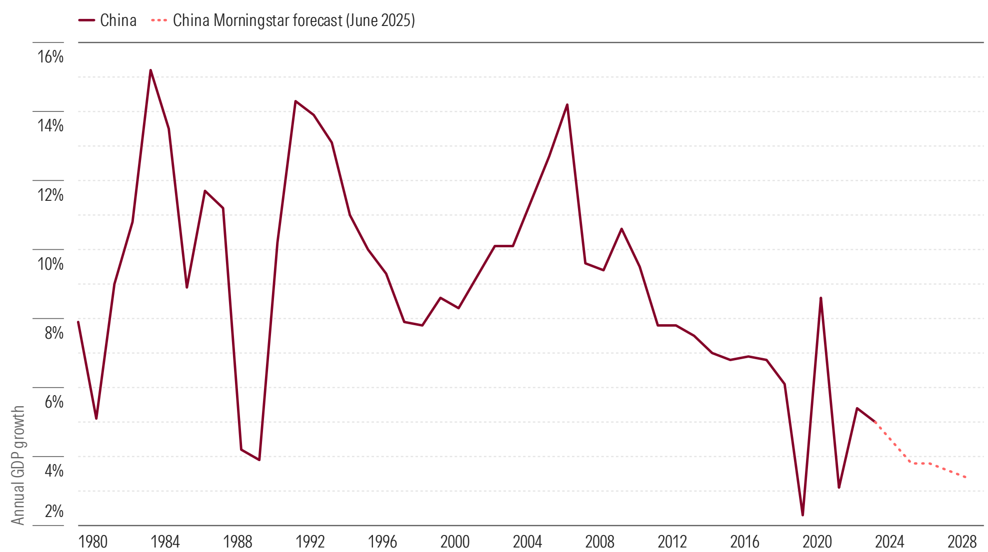


Source: Morningstar; Bain; Federal Reserve Bank of St. Louis. Data as of January 2025.

In addition to real estate price weakness, the unemployment rate among young professionals has increased to 17% over the last 36 months, compared with 14% 36 months prior and around 11% before the pandemic, according to the National Bureau of Statistics of China. Young professionals, defined as workers aged 16-24 (excluding students), are a significant driving force in Chinese luxury consumption. In 2019, Gen Z's share in the personal luxury market was around 8%, while in 2023 it reached 20%[2], and it is expected to grow up to 25%-30% by 2030[3]. According to Hong Kong-based marketing research firm CSG, the average age of mainland China consumers for their first luxury purchase is 26 years, and for Hong Kong, it is 23 years, indicating that young adults' unemployment issues weigh on overall luxury demand in the region.

GDP growth has also slowed from the explosive rates that previously fueled consumer spending and made China a major force in luxury consumption growth. The IMF forecasts an average GDP growth of around 4% over the next five years, compared with roughly 8% over the preceding two decades, as Exhibit 9 shows, which is a meaningful moderation, albeit from a high base.

Exhibit 9 Chinese GDP Growth Is Expected to Be Slower



Source: Morningstar; International Monetary Fund. Data as of April 2025.

Luxury Companies Made Their Products Unaffordable by Aggressive Price Increases

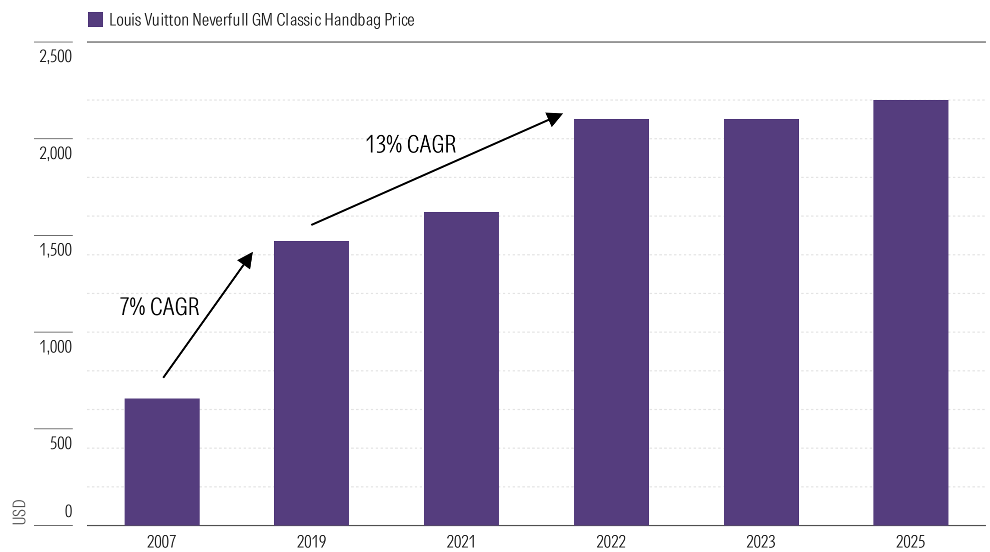
Frequent arguments from luxury bears include that the industry's products have become unaffordable to large swathes of the population due to excessive price increases. We tend to agree in part, given that

2 Altagamma-Bain 2024. "Luxury Goods Worldwide Market Study" 23rd Edition, Fall 2024. https://www.bain.com/insights/luxury-in-transition-securing-future-growth/

3 Bain 2024. "Long Live Luxury: Converge to Expand through Turbulence' Report." 2024 https://www.bain.com/insights/long-live-luxury-converge-to-expand-through-turbulence

around 80% of the industry's growth was driven by pricing from 2019 to 2023[4] and the prices of some iconic handbags increased by 40% to 100% during this time span, as shown in Exhibit 10.

Exhibit 10 Louis Vuitton Neverfull GM Classic Handbag Price Increased by Over 40% From 2019 to 2022



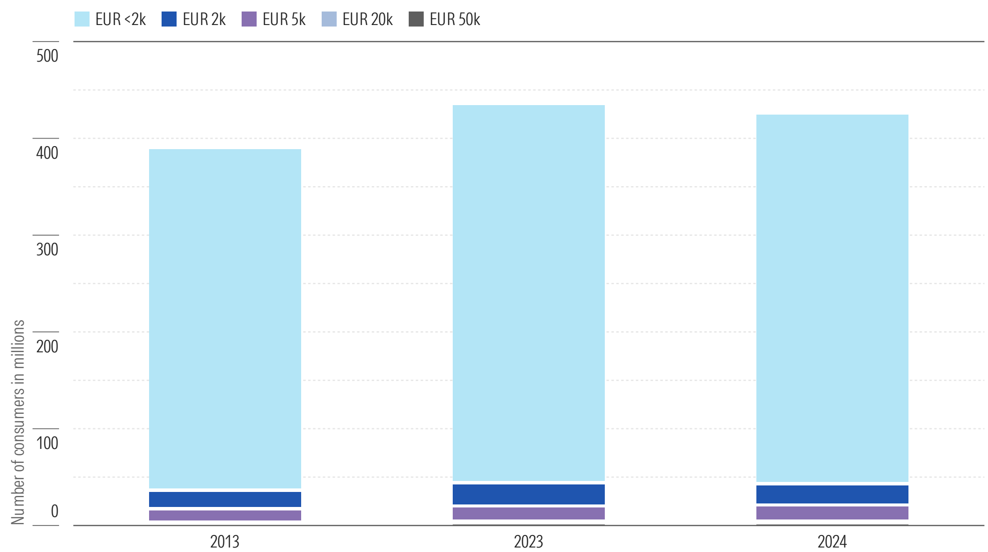
Source: Morningstar; Louis Vuitton (www.louisvuitton.com). Data as of August 2025.

Another relevant data point is the increasing number of consumers being "priced out" of the luxury market, which is also reflected in the shrinkage of the total number of consumers, particularly among aspirational consumers. The total number of aspirational consumers (those who spend less than EUR 5,000 on luxury annually) declined by 2.6% from 2023 to 2024, and their spending was down by 1.9%[5].

4 McKinsey, Business of Fashion 2025. "The State of Fashion. Luxury". January 13, 2025. https://www.businessoffashion.com/reports/state-of-luxury-fashion-industry

5 BCG-Altagamma. 2025. "True-Luxury Global Consumer Insights" 11th Edition. July 2025. https://web-assets.bcg.com/92/3b/ddee2869448a9f7561bb436351fe/summary-eng.pdf

Exhibit 11 Numbers of Aspirational Consumers[6] (Less Than EUR 5,000 Annual Luxury Spending) Declined Recently



Source: Morningstar; BCG-Altagamma. Data as of June 2025.

That said, pricing in luxury is a nuanced subject. Market participants are eager to tout it as a symbol of brand strength and a way to (profitably) grow without overexpanding the brand in good times and chastise it as unnecessary greed in bad times.

We view sustained pricing power as a key indicator of brand strength and durability within our framework for luxury brand power. However, we concede that the pricing power of any product is not infinite, and it is an area where one should tread carefully. In our view, growth through pricing is good; however, it requires patience and investments behind the brand (namely in communications and product quality, which is reflected not in pure pricing but rather in the mix effect).

We believe postpandemic price increases have been excessive, specifically for leather goods players. Hermes and jewelry players like Richemont have been less aggressive in price increases and are now benefiting from stronger demand, as well as a tailwind from being exposed to a more affluent consumer cluster that has been more resilient.

Less affluent, or so-called aspirational buyers, are the most cyclical part of luxury demand. Unlike high-net-worth consumers, whose wealth is largely tied to long-term capital appreciation, aspirational buyers rely primarily on wages, business income, and credit. Their disposable income is directly linked to GDP growth, employment levels, and consumer confidence[7].

This dynamic makes the aspirational segment a leverage point for luxury growth in upcycles with rising wages and better job security, but also a swing factor in downturns when they are the first to cut back or delay purchases, often trading down or waiting for discounts.

6 BCG-Altagamma. 2025. "True-Luxury Global Consumer Insights" 11th Edition. July 2025. https://web-assets.bcg.com/92/3b/ddee2869448a9f7561bb436351fe/summary-eng.pdf

7 BCG-Altagamma. 2025. "True-Luxury Global Consumer Insights" 11th Edition. July 2025. https://web-assets.bcg.com/92/3b/ddee2869448a9f7561bb436351fe/summary-eng.pdf

Are the Demand Drivers for Luxury Spending Still Intact?

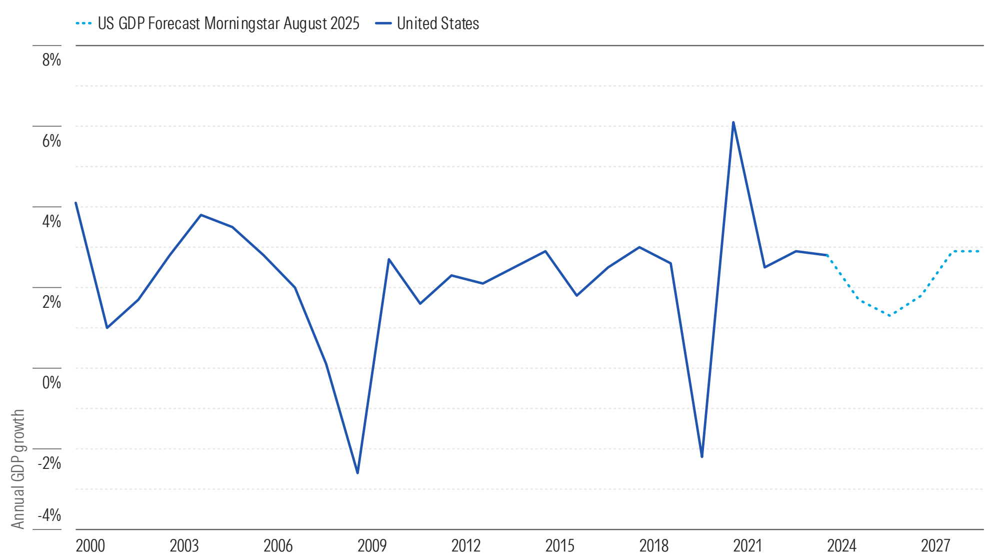
US Demand Should Stabilize and Grow Off Normalized Base

We believe that despite the negative headlines and weak recent trends, US luxury demand fundamentals remain resilient. The recent slowdown appears more a function of normalization than structural weakness, following the post-covid surge when consumers deployed excess savings and payment checks to fund luxury purchases.

Importantly, in our view, American luxury consumer incomes are resilient. Unemployment rates during the pandemic were significantly lower for educated and higher-income workers than for those with less education and lower wages, and their recovery was faster. In 2020, unemployment for individuals with a bachelor's degree or higher education level and weekly earnings of over $1,300 ranged from just 2.5% to 5.5%, compared with 7% to 12% for lower-income, less-educated cohorts. By 2024, unemployment among higher-income and better-educated workers had further declined to 1%–2.5%, while unemployment rates for lower-income groups had dropped to 3%–6%.[8]

We expect the US economy to remain resilient, as illustrated in Exhibit 12, supporting luxury consumption.

Exhibit 12 US GDP Growth Is Expected to Remain Resilient, Supporting Luxury Buying

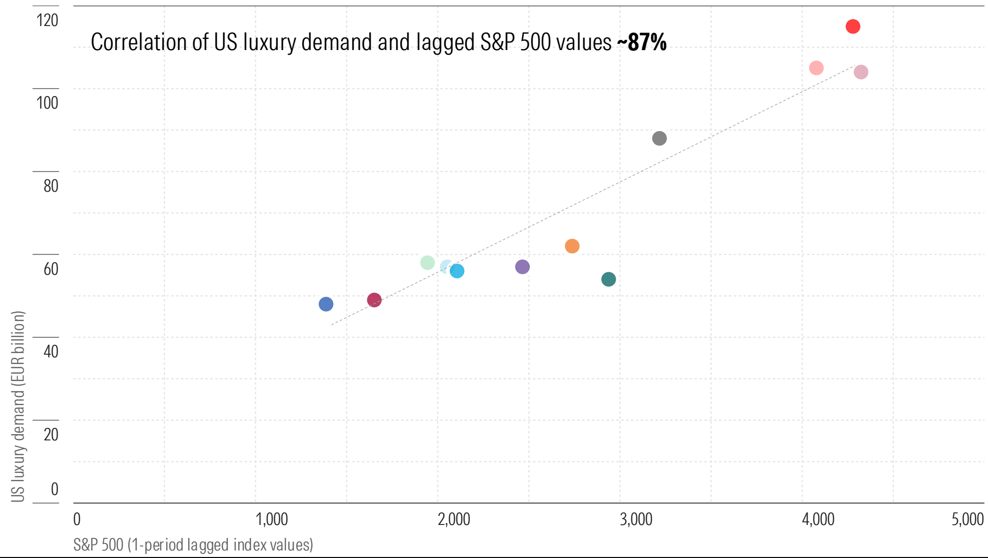


Source: Morningstar; International Monetary Fund. Data as of April 2025.

We also found that the stock market's performance has historically had a significant impact on luxury consumer sentiment and demand in the US. The correlation between luxury spending in the US and the S&P 500 index price development is roughly 87%, increasing to 92% when measured against a one-period-lagged index, showing its predictive power. Should the performance of the S&P 500 remain on a strong footing as it is now, it will be supportive of future luxury consumption.

8 US Bureau of Labor Statistics, 2020-24

Exhibit 13 Stock Market Performance Has Historically Had High Predictive Power for Luxury Buying in the US



Source: Morningstar; Morningstar Direct. Data as of July 2025. Bain as of 2023.

The 'Big Beautiful Bill' Is a Positive for US Luxury Consumers

Policy tailwinds could provide incremental support to US luxury demand. The recently enacted "One Big Beautiful Bill" is delivering beneficial tax changes both for individual workers and entrepreneurs, which should increase their paychecks. The bill makes several tax cuts that should benefit small businesses by making the tax deduction of 20% on qualified business income permanent, restoring the immediate expenses of research and development, increasing the cap for interest deductions, and providing a few more benefits on depreciation and expensing business buildings. It also removes tax on social security, tips, and overtime.

The magnitude of benefits is higher for bigger entrepreneurs and affluent households. For a business owner reporting around $250,000 of qualifying income, the permanent deduction could add $15,000–$20,000 in annual tax relief. For top earners with $1 million or more in income, the benefit can be approximately $70,000–$100,000 per year. These windfalls translate into incremental disposable income, some of which could be channeled into luxury spending. While it remains uncertain whether the economic effects will persist beyond the current US administration, in the near term, they are likely to support purchasing power at the top end and may help sustain luxury consumption.

Direct Tariff Impact on Luxury Is Limited

We believe the direct impact of tariffs on luxury goods is limited, although Swiss watch imports so far remain the most affected, with a 39% tariff applied. The luxury sector is characterized by strong pricing power and high gross margins. We believe tariffs can be passed on to consumers over time, and it is easier to do so for brands exposed to more affluent consumers (Hermes has already made relevant price increases in the US ahead of tariff implementation). Further, luxury consumers are global buyers, and around 30%-35% of luxury purchases occur while traveling. Tariffs and higher prices in the US could induce American consumers to shift their luxury purchases to Europe if their confidence remains strong.

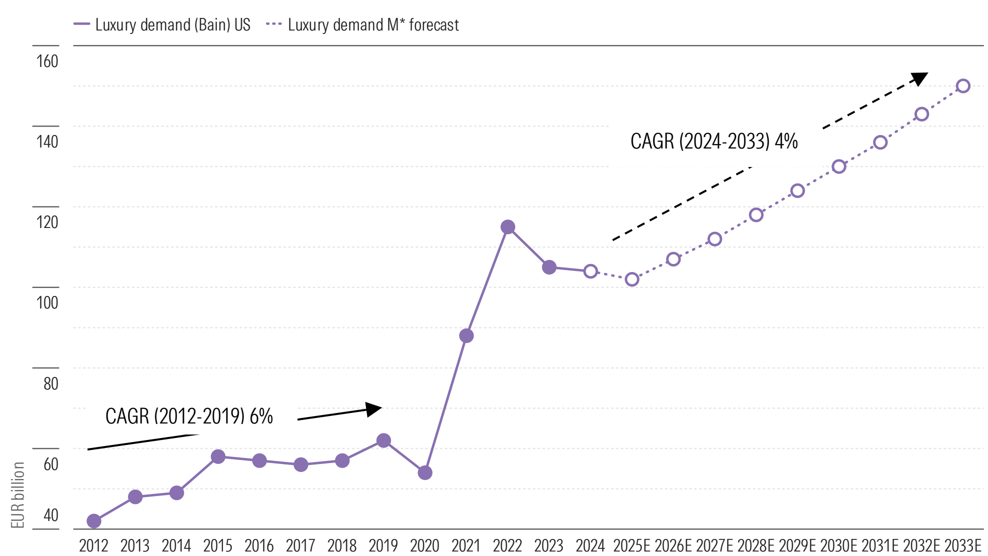
China, for instance, has always been a high tax area for luxury, which didn't preclude Chinese consumers from increasing from 12% of luxury buying in 2008 to 35% prepandemic, as most of their purchases are done abroad.

That said, luxury sector growth is linked to GDP growth and consumer sentiment, which in turn is affected by stock market performance. Slower growth of GDP in the long term, due to deglobalization is the biggest threat to luxury demand in our view. We address this risk in the later risk section, but we don't see it as very likely at the current junction.

US Luxury Demand to Increase at Mid-Single-Digit Pace, in Line With Prepandemic Trends

Considering the long-term drivers, we expect US luxury demand to resume growth from a normalized postpandemic base, averaging around 5% annually over the next decade. This growth is supported by the continued resilience of the US economy, the growth of the high-wage technology sector, and the added near-term support of tax incentives. Nonetheless, we concede that near-term consumer sentiment might be volatile in response to import taxes and policy changes.

Exhibit 14 We Expect US Luxury Demand to Resume Growth From a Lower Base After the 2022 Peak



Source: Morningstar; Bain. Data as of Dec. 31, 2023.

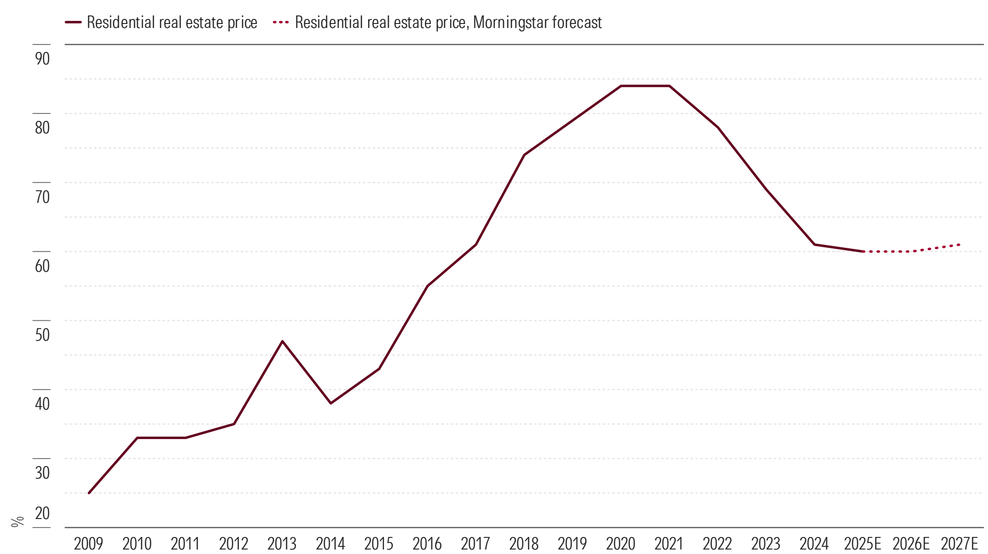
Chinese Luxury Demand Benefits From Pandemic Savings as Real Estate Prices Stabilize

Although Chinese luxury demand is currently under pressure, we believe the long-term structural growth drivers remain intact. Chinese luxury consumption sits below prepandemic levels, in contrast to the US and Europe, where demand has well exceeded pre-covid levels. Household savings in China are at record highs (Exhibit 7), suggesting that purchasing power has not deteriorated. This leaves room for a recovery in luxury buying once confidence improves. We think real estate price normalization should support consumer sentiment improvement, which could lead to spending of some of the savings accumulated during covid.

We expect Chinese real estate prices to stabilize over the next couple of years, followed by a return to slow but positive growth as government stimulus measures begin to take effect. The People's Bank of China reduced its policy rate to 3% in May 2025, compared with 3.8% at the end of 2021, providing broad monetary support to the property sector and households. In addition to rate cuts, authorities have removed minimum down-payment requirements for mortgages in many cities, significantly lowering barriers to entry for homebuyers.

Other supportive measures include easing restrictions on home purchases in Tier 1 and Tier 2 cities, extending repayment terms, and expanding credit lines to developers to ensure project completions. Banks received a lower reserve requirement, and Chinese corporates have already increased their borrowing in the local currency, which has historically been less preferred than the USD. Greater reliance on renminbi lending helps keep capital within the domestic market, supports the currency, and reduces risks associated with local currency depreciation for corporates and developers. This shift is expected to provide a boost to local economic activity while also helping to stabilize housing demand. With residential real estate historically representing a key driver of household wealth and consumer sentiment in China (correlation 95% before covid)[9], a gradual normalization of the property market should provide a foundation for renewed consumer confidence and luxury consumption recovery.

Exhibit 15 Real Estate Price Stabilization Should Help Boost Confidence and Luxury Demand



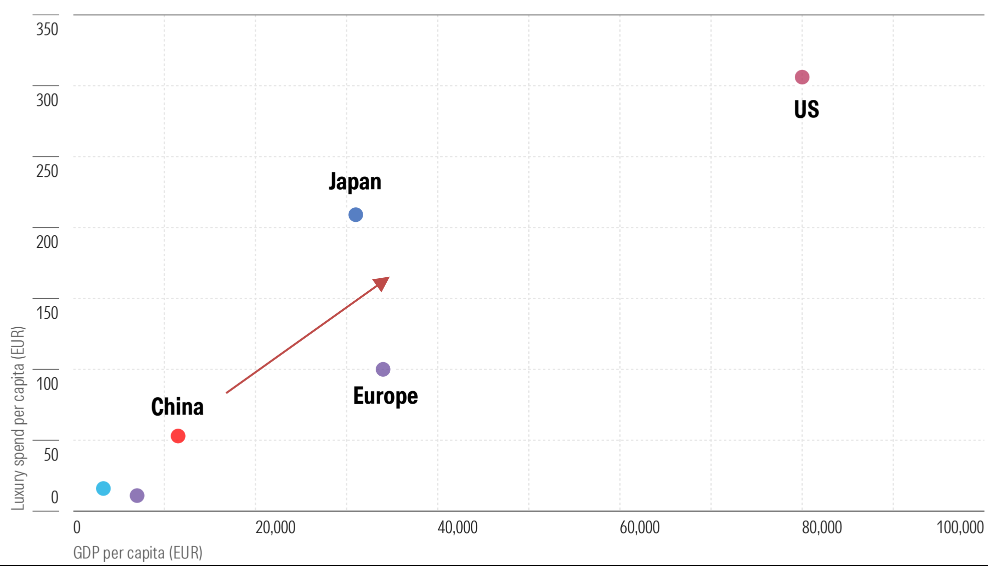
Source: Morningstar; Federal Reserve Bank of St. Louis (FRED). Data as of January 2025.

9 Federal Reserve Bank of St. Louis (FRED).

Long-Term Demand Drivers, GDP Growth, and Transition to High-Wage Employment Intact
While China is no longer a high-single-digit growth economy, it continues to entrench its role in the global economy. According to McKinsey, China surpassed Japan, Mexico, and Germany to become the world's largest exporter of passenger cars in 2024, with around 40% of its exports coming from electric vehicles.

In the long term, we believe that GDP per capita growth in China will remain the primary driver of increased luxury consumption. Luxury consumption is highly correlated to GDP per capita, as Exhibit 16 illustrates, and China remains well below the developed markets on both accounts.

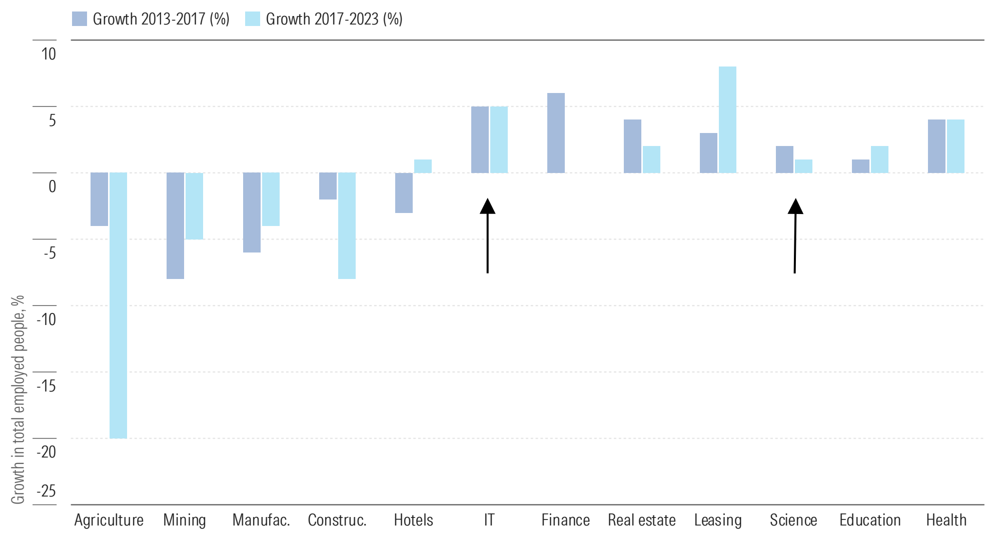
Exhibit 16 Growth in GDP Per Capita Should Drive Luxury Demand in the Long Term



Source: Morningstar; Bain; World Bank. Data as of 2023.

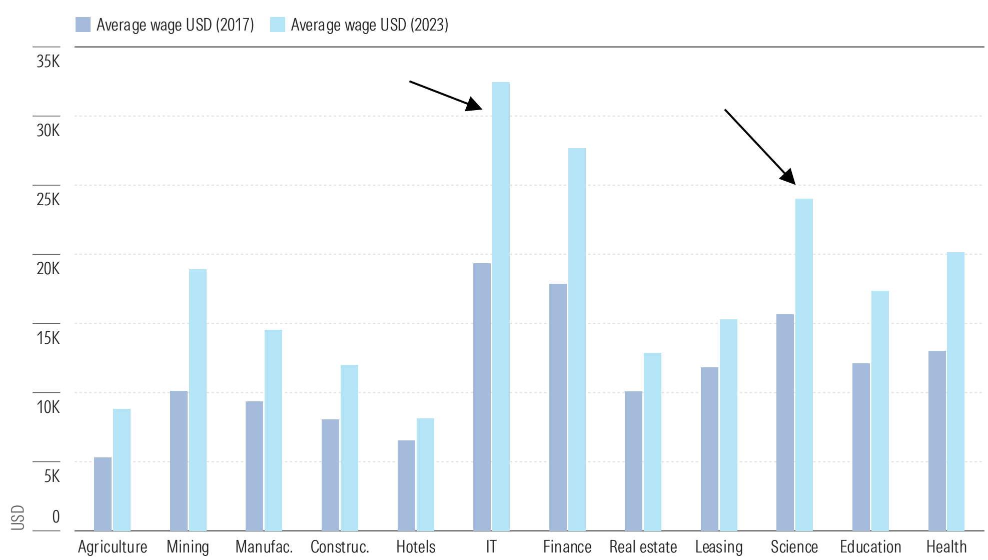
China continues to undergo economic transformation, with consistent growth in high-wage employment sectors such as technology and science, as illustrated in Exhibit 17, as well as advanced manufacturing, which we expect to continue.

Exhibit 17 Continued Growth in Employment in IT, Science, and Education



Source: Morningstar; National Bureau of Statistics of China. Latest available data as of Dec. 31, 2023.

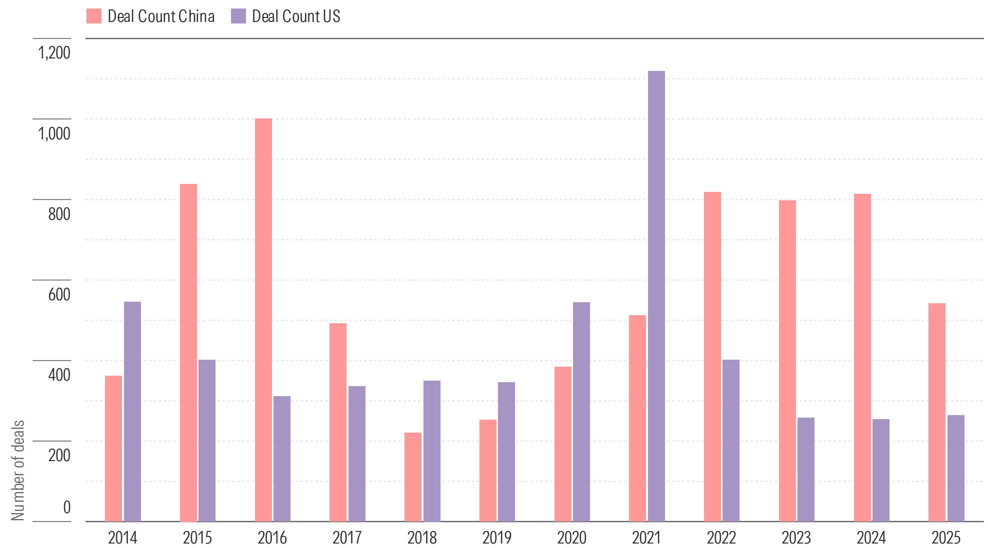
Exhibit 18 IT, Finance, and Science Are Key High-Wage Employment Industries That Support Luxury Consumption



Source: Morningstar; National Bureau of Statistics of China. Latest available data as of Dec. 31, 2023.

Finally, entrepreneurship in China remains buoyant, with the number of IPOs by companies domiciled in China surpassing that of companies domiciled in the US, according to PitchBook data, as shown in Exhibit 19. New wealth created through entrepreneurial endeavors should support luxury consumption in the region.

Exhibit 19 China's IPO Market Remains Vibrant, Providing for New Wealth Creation



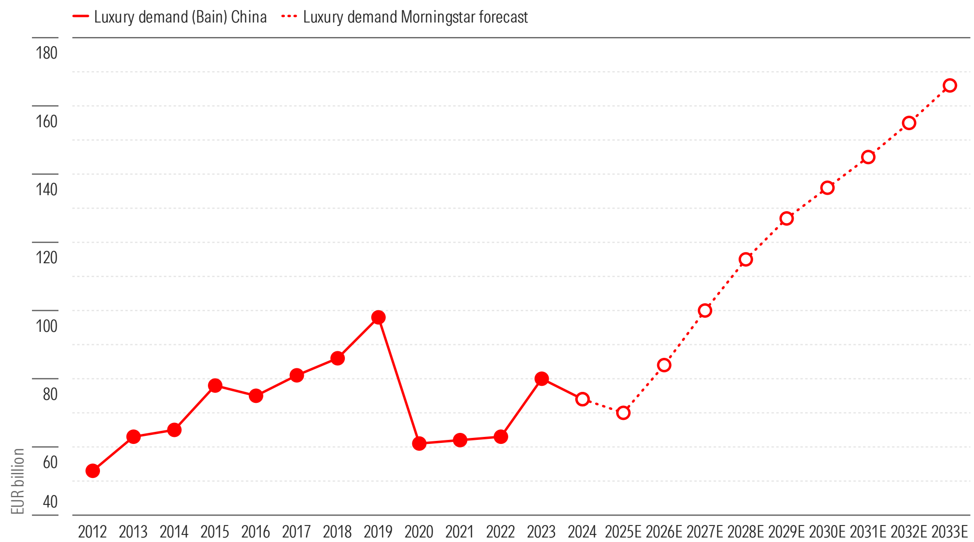
Source: PitchBook.

China's affluent population is growing at a faster rate than anywhere else in the world. According to Knight Frank, individuals in China with a net worth of $10 million or more now account for approximately 20% of the global total, second only to the US, which accounts for around 39%. This rapid expansion of high-net-worth individuals underscores why China is expected to contribute significantly to the industry's future growth.

Even as GDP growth moderates, it is expected to remain above global and advanced economy averages based on IMF estimates. Given the historically strong correlation between GDP growth and luxury spending—around 80%—we expect Chinese luxury demand to increase over the medium term, underpinned by both cyclical recovery and structural tailwinds.

Over the coming years, we expect Chinese luxury demand to return to its prepandemic growth trajectory, with Chinese luxury spending reaching the 2019 peak by 2027. We expect the rebound to be fueled by savings accumulated during and in the aftermath of the pandemic, as real estate prices stabilize and consumer sentiment improves. Our forecasts imply only 3%-4% annual growth from the 2019 peaks to 2033, which reflects a more mature state of the Chinese economy and its slower growth.

Exhibit 20 We Expect Chinese Demand to Rebound Toward Its Prepandemic Trajectory



Source: Morningstar; Bain. Data as of 2023.

Are Luxury Brands Still Desirable? How Has the Competitive Landscape Changed?

With luxury, as with any discretionary purchase, the two key questions are: 1) Can consumers afford it? 2) Do consumers want it? We have addressed the question of the affordability of luxury brands in the prior section; here, we will address their desirability and competitiveness. We are looking to establish if luxury brands remain desirable by looking at brand rankings and consumer polls, examining how the competitive landscape in luxury has changed over the past five years, and exploring whether Western luxury brands remain desirable in China, or whether they are falling victim to local competition.

Consumer Surveys Suggest Brand Appeal Is Intact, but Affordability Is an Issue

In the age of social networks, brand desirability can often feel fleeting or hype-driven. Yet prominent luxury houses benefit from marketing investments that keep them top of mind. We have examined several brand appeal rankings and opinion polls to determine whether the established luxury brands maintain their positions.

The Lyst Index, a quarterly ranking of the hottest fashion products, is widely cited by the media, although it tends to skew toward fashion-oriented and online shoppers.-The Vogue Business Index is a well-known tool that measures consumer sentiment, brand awareness, and purchase intent on a biannual basis for the top 60 luxury brands by revenue.

Out of the 20 hottest brands listed by the Lyst Index, more than 70% are major established luxury houses, while only around 30% are occupied by younger and more affordable labels. According to Vogue, for the first half of 2025, Louis Vuitton remains the leader, despite declining sales reported by its parent LVMH. Dior, the group's second-most important brand, returned to second place after 1.5 years in third. Third place goes to Kering's long-struggling Gucci. Although not a holistic measure, the Vogue

Business survey is influential. It captures the preferences of 1,500–2,000 affluent and aspirational luxury consumers in each key geography, providing a valuable snapshot of brand desirability across leading luxury names.

A Vogue Business survey of 1,000 consumers found the top three reasons for reduced luxury spending were: no longer worth the price, spending on other things like holidays, and no longer affordable. At the same time, 66% of respondents said they are now more likely to wait for discounts than they were a year ago. This suggests that the desire for luxury purchases has not disappeared, but rather that consumers are adapting to tougher macroeconomic conditions.

Another Vogue Business survey highlighted signs of consumer sentiment recovery: in 2024, 24% of consumers said they would switch to less expensive brands, down from 26% a year earlier. Younger consumers also remain engaged: 33% of respondents under 35 reported their luxury purchases increased year over year, compared with 21% among those over 35. However, their approach to shopping is shifting. Secondhand luxury has grown, with affordability cited as the primary driver (67%), and two-thirds of consumers confirm that they are more likely to wait for discounts than they were last year.

Overall, these trends indicate that consumers, particularly younger buyers, continue to be interested in luxury fashion. The cooling of demand is driven less by fading desire and more by affordability constraints and a growing mismatch between price points and perceived value.

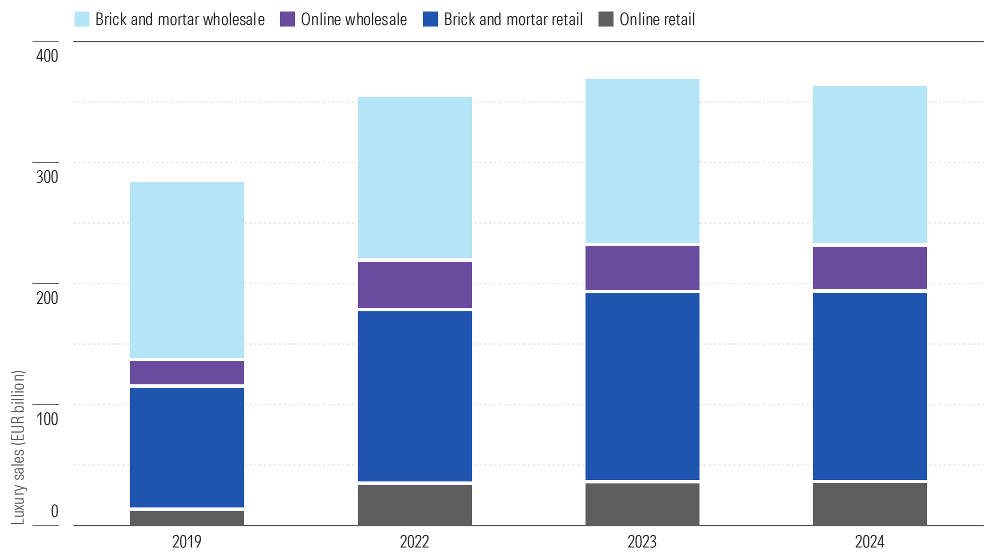
Entry Barriers in Luxury Have Increased, Benefiting Established Brands With Deep Pockets

We believe that the entry barriers for emerging luxury brands have increased in recent years, thereby supporting the established brands' standing and reducing competition.

While brand recognition, which should be wider than ownership to showcase its position as a status symbol, perception of product quality, and brand appeal durability are already difficult to achieve, it is now amplified by the shrinkage of distribution channel access.

Luxury is increasingly being sold in a brand-controlled environment both online and offline (Exhibit 21). According to Bain, by the end of 2024, 53% of luxury sales happened in own retail channels, compared with only 40% in 2019.

Exhibit 21 Both Online and Offline Luxury Distribution Happen Increasingly in Brand-Controlled Channels



Source: Morningstar estimates; Bain & Company. Data as of December 2024.

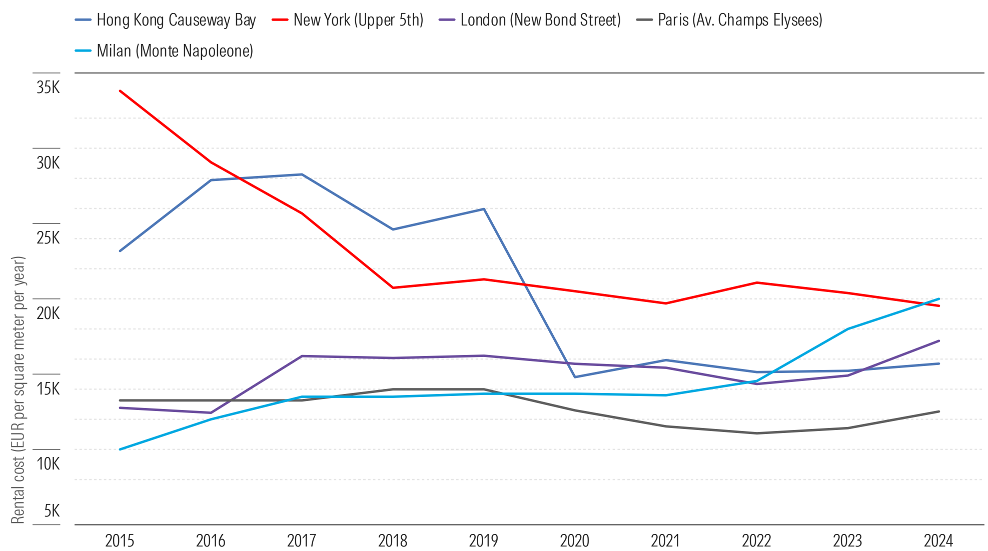
Emerging brands are best launched and discovered in multibrand environments, given the channel's low capital intensity and strong access to traffic. While department stores have been struggling and ceding share for a long time, third-party online platforms like Farfetch, Net-a-porter, and Mytheresa have been growing strongly in years prior to the pandemic—providing consumers with access to wide range of brands (online's unlimited aisle allows for higher risk taking in inventory, especially for platform players that don't carry inventories themselves, like Farfetch) and brands with access to younger consumers and adjacencies to established luxury names (for example, Gucci and Prada).

These channels are now significantly curtailed after overexpanding during covid. According to Bain, luxury online sales declined by 2% from their peak in 2022-2024. We believe that multibrand luxury platforms experienced steeper declines, underperforming mono-brand channels. Weak revenue trends were exacerbated by financial problems. Farfetch was acquired out of bankruptcy in 2023 and massively curtailed; MatchesFashion wound down; Chronext filed for Chapter 11; and Mytheresa participated in consolidation by acquiring YNAP from Richemont. Ssense was the latest online luxury platform to declare bankruptcy. Big brands (that provide credibility and luxury standing to platforms) are likely to be cautious about exposure to the channel in the future. As a result, emerging brands' distribution channels are increasingly limited to their own online presence. Department stores have limited aisle space and are struggling. Having their own brick-and-mortar stores is prohibitively expensive for an unknown brand.

Own online channels remain an attractive and low-capital-intensity channel; however, with online marketing platforms, such as Meta's Instagram and ByteDance's TikTok, increasingly crowded and concentrated, emerging brand discovery and scaling are more challenging than before.

Own brick-and-mortar retail remains prohibitively expensive for emerging brands. Although luxury main street rentals have not increased significantly over the past 10 years, they still command prices as high as EUR 20,000/square meter/year. With rental costs accounting for anywhere from 5% to 22% of total sales of established luxury players, they are prohibitively expensive for an emerging brand, which does not benefit from the same level of recognition and traffic.

Exhibit 22 Rental Costs in Luxury Main Streets Remain Prohibitively Expensive for Emerging Brands

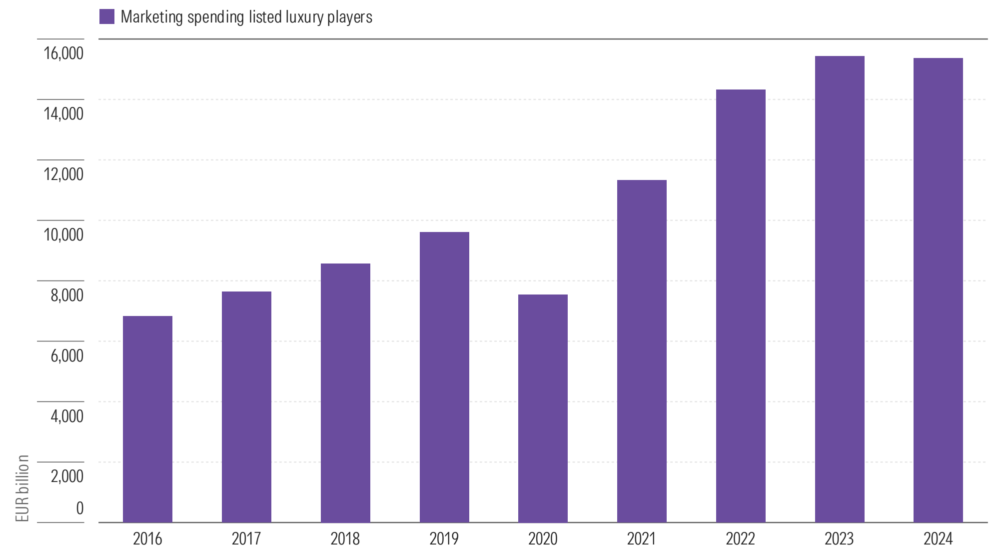


Source: Knight Frank. Data as of December 2024.

Furthermore, smaller brands are becoming increasingly unlikely to match the marketing spending of established brands, ensuring that the established players remain at the forefront of consumers' minds.

Marketing spending by big, listed luxury groups has exploded, thanks to growing revenue, increasing by 60% since 2019. LVMH now spends EUR 10 billion annually in communications, up from around EUR 5.5 billion in 2018. Although spread across all brands of the group, it is significantly higher than most independent brand revenue. Big groups can invest disproportionately in their smaller brands (for example, LVMH's Loewe or Prada's Miu Miu), achieving faster growth compared with independents.

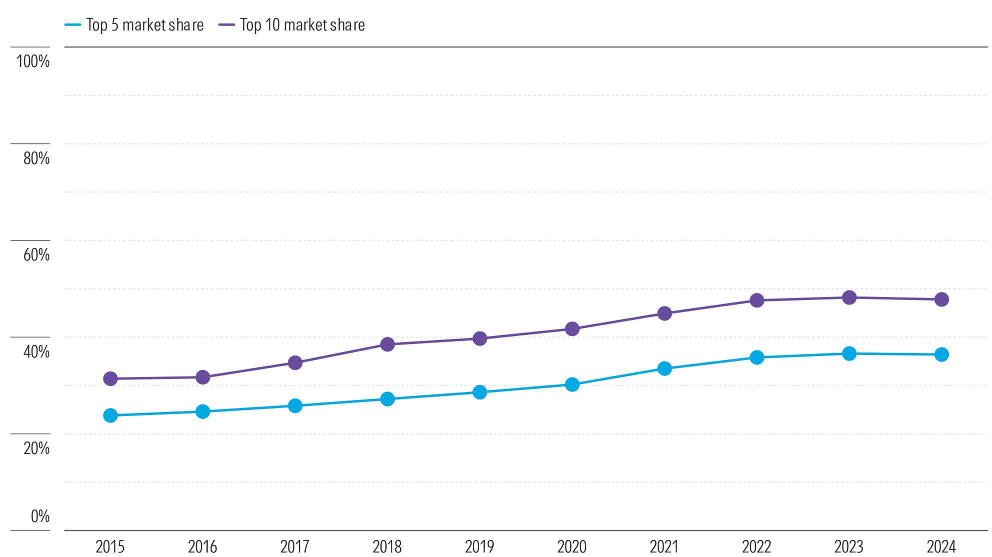
Exhibit 23 Marketing Spending of Luxury Listed Players Up by Around 60% Since 2019



Source: Morningstar estimates; Company data. Data as of December 2024.

Evidence of high entry barriers is reflected through the market share growth of the top 5 and top 10 personal luxury groups by revenue over the last 10 years and increasing market concentration, even though 2024 saw some flattening of growth (largely attributed to poor performance of the Kering group, which we view as transitory).

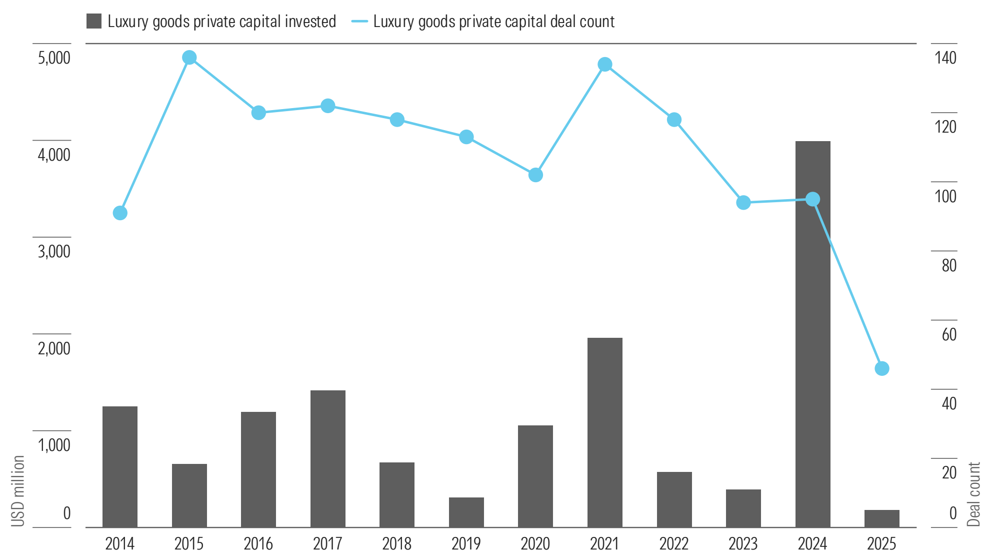
Exhibit 24 Top Luxury Groups Have Been Gaining Market Share Over the Past 10 Years



Source: Euromonitor. Data as of December 2024.

There seems to also be less private capital flowing into the sector as the number of private deals, in the sector have been declining since the peak in 2021. Less private capital in the sector bodes well for reduced competition from the new entrants.

Exhibit 25 Number of Private Capital Investments in Luxury Has Been Declining Since the Peak in 2021



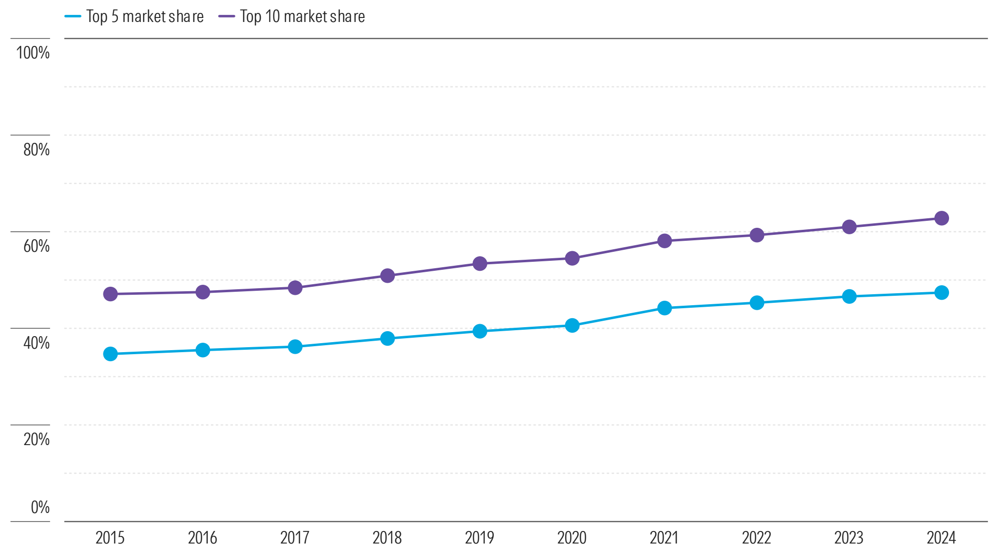
Source: Euromonitor. Data as of December 2024.

Western Luxury Brands Retain Their Lead in China

We have observed increased sophistication, popularity, and globalization of Chinese local brands in several industries, from electric vehicles to artificial intelligence to collectible toys such as Pop Mart's Labubu. Amid increasing political tensions between China and the West, Chinese consumer preference for local brands and designs that express national culture has been on the rise. This raises a question of whether there have been preference shifts from European luxury brands toward local competition, and whether global luxury brands of Chinese origin could emerge to rival Western alternatives.

Euromonitor data suggests an even more concentrated personal luxury market in China than globally, with the top 10 luxury groups accounting for over 60% of revenue in the country (48% globally), and the top 5 luxury groups account for 47% compared with 36% globally. All these groups are foreign, namely: LVMH, Richemont, Rolex, Kering, Chanel, Hermes, L'Oreal, Swatch, Tapestry, and Capri. Further, big groups have been increasing their leadership in the market over the past 10 years, as illustrated in Exhibit 26.

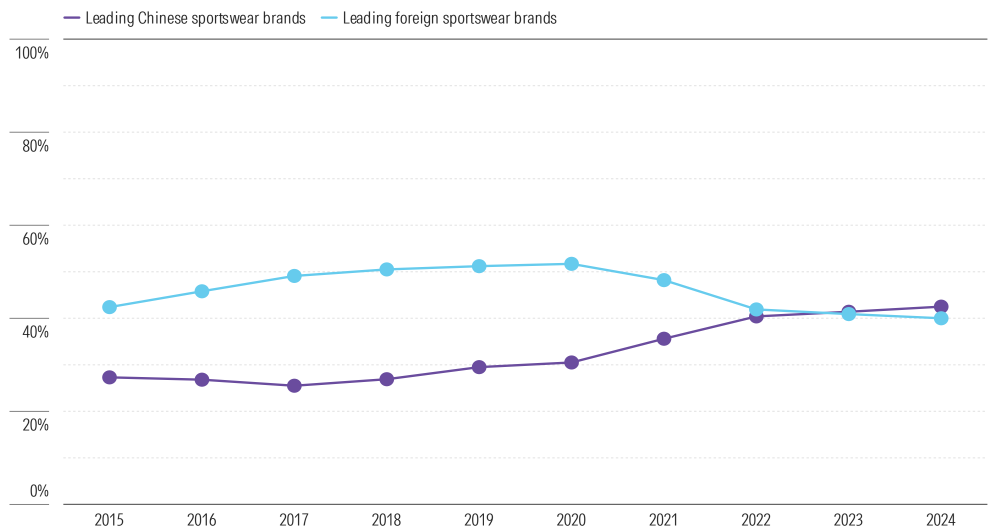
Exhibit 26 Leading Foreign Luxury Groups Continue Gaining Share in China



Source: Euromonitor. Data as of December 2024.

This is in stark contrast with general apparel and footwear in China, where six of the top apparel players by market share are domestic, including Anta, Li-Ning, HLA, Bosideng, Semir, and Xtep. These brands increased their market share from an aggregate 4% in 2015 to 9.4% in 2024, while Western peers in the top 10 only improved their aggregate market share to 7% from 5%. This trend toward domestic brand preference is even more pronounced in the more concentrated sports apparel market, where Chinese brands in the top 10 by market share, saw their aggregate share rise from 27% in 2015 to 42% in 2024, while large European and American player share declined to 40% from 42% in the same time span, as illustrated in Exhibit 27.

Exhibit 27 Chinese Brands Gained Share Against Western Competitors in the Domestic Market in Recent Years



Source: Euromonitor. Data as of December 2024.

We believe the persistent dominance of mostly European luxury brands in the Chinese market is due to high entry barriers in this industry, as explained in our luxury brand moat framework.

According to a 2022 Daxue Consulting report, 73% of 1000 survey respondents cited brand name as the main reason for purchasing luxury items. To communicate its status, a luxury brand must be recognized by a significantly wider audience than the one that can afford and owns these items. Domestic Chinese luxury brands, such as Guo Pei, still significantly lag foreign brands like Gucci and Armani in terms of local recognition, as the Baidu Index, presented in the Daxue Consulting report, suggests, indicating their lower ability to convey status. Wide brand recognition takes time and significant resources to build.

Luxury is not a technological product; hence, its products are not prone to technological disruption (unlike the automotive sector, affected by the shift to electric vehicles and the increasing technological content within cars). Majority shareholder and chairman of Richemont, Johann Rupert, explained this at the annual results call with analysts, “Cartier is in the vault.” The enduring value of certain luxury items, for example, watches, jewelry, and Hermes handbags, is hard for new entrants to replicate, as it is supported by an active secondary market, which proves that those items retain (or even increase) in value over time. An emerging brand does not provide such reassurance.

Although it is conceivable to see more emerging Chinese luxury brands in the future, so far, the risk to European luxury brand dominance remains remote, in our view. Industries that are more prone to emerging competition, in our view, could be fragmented ones, such as those with a long local tradition of craftsmanship, like the jewelry industry. The early successes of players like recently publicly listed Laopu Gold, could provide insight into what is to come. Given the fragmentation and largely unbranded nature of the jewelry industry, though, we believe there would be space to grow for both domestic and foreign brands like Richemont's Cartier, Van Cleef & Arpels, and LVMH's Bulgari and Tiffany.

Change in Creative Leadership, Pricing, and Refocus on Brand Strengths Could Boost Performance
Beyond waiting for the macroeconomic situation to improve, luxury brands could, and in some cases are, taking action to boost demand. In fact, we see a lot of parallels between the current market downturn and one observed in 2015/16. Back then, the industry was also criticized for pushing prices up excessively, lacking creativity, and concentrating bets on the ever-growing Chinese market.

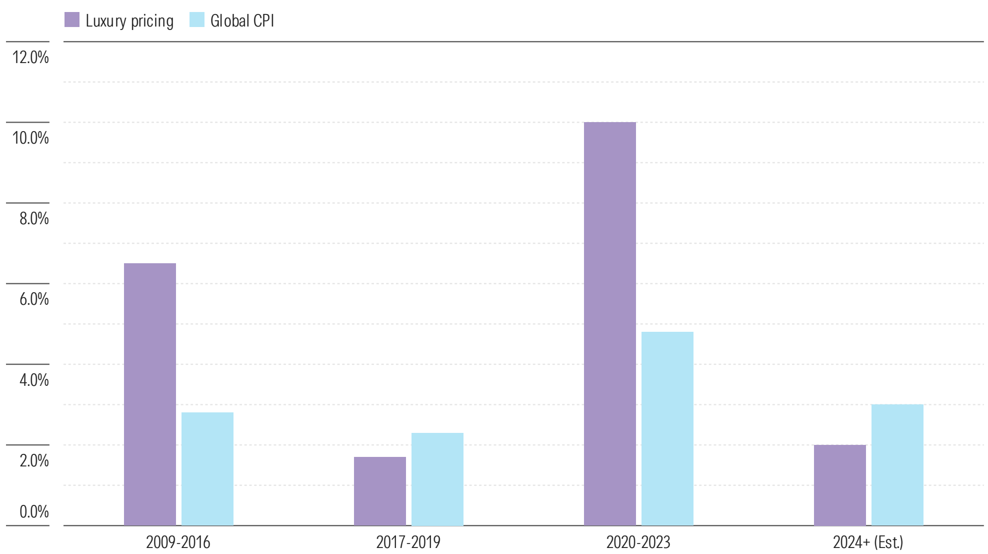
One response aimed at bringing excitement to luxury consumption was the change of creative directors. Ten years ago, this strategy was a remarkable success for Kering's Gucci, following Alessandro Michele's appointment, which resulted in sales more than doubling in three years. This strategy was also a marked success at Kering's Balenciaga and Bottega Veneta in 2019. However, it failed to revive performance for Burberry, Ferragamo, and Kering's Gucci again in 2021. We deem the success rate of creative director changes to be mixed. Results typically start showing five to six quarters into the appointment, making this a big bet with little room for error or testing ability. Currently, this move is being implemented by LVMH's Dior, its second-largest brand, accounting for a low-teens percentage of profits, by our estimates, and by Kering's all-important Gucci. It is too early to judge whether it will be a success, as the early uptake of new collections (Gucci's collections and Dior women's wear have yet to be shown) will be seen only next year.

Another way brands engaged specifically with younger and aspirational consumers in mid-2010 was by introducing entry-priced products and broadening their product ranges. Footwear (especially sneakers), streetwear, smaller bags, and even bag charms, belts, and keychains were launched to appeal to the millennial generation. Given recent price increases, there are arguably fewer places the industry can turn to for entry-level products, as even sneakers are retailing for EUR 1,000. That said, brands like Burberry are boosting their entry-level price handbag offering, and Louis Vuitton launched a EUR 150 lipstick to much controversy. Perfume and eyewear remain a typical entry-level licensed product (for example, Miu Miu's launch of fragrance Muitine), which usually cater to a different audience and doesn't move the needle for the brand, given their small contribution to revenue.

Expanding entry-level categories should be done with care in our view, and without detriment to the brand positioning. It remains essential to cater to more affluent clientele, to maintain brand status and for reduce cyclicality to economic conditions (these consumers tend to be more economically resilient and have been increasing their share of luxury spending over the past few years). As a manifestation of this, Prada launched its first fine jewelry collection in 2022. We don't think it's easy for brands to shift their focus entirely to HNWI, since brand's positioning and perception in consumers' mind takes time and investment to change.

Overall, we expect less contribution from pricing to growth over the coming years, just as we've seen a pullback of pricing in 2015-19 after strong post-global financial crisis increases (Exhibit 28). We have already seen a meaningful slowdown in price increases from big fashion and leather brands in 2024 and 2025.

Exhibit 28 We Expect Pricing in the Industry to Moderate Over the Coming Years



Source: World Bank; Morningstar estimates.

Given that the luxury industry is now in a more mature state, market share gains and self-help initiatives play a key part in brand performance, as divergence between outperforming and underperforming brands has increased, as seen since 2014 in Exhibit 29 (although it is not always persistent).

Exhibit 29 Variance in Brand Performance Increased as the Luxury Industry Matured

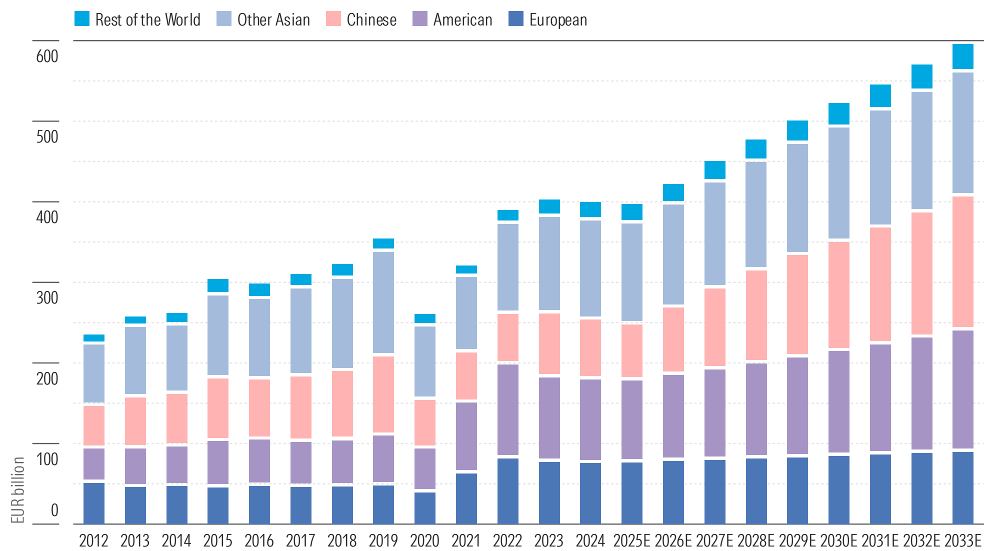
Source: Morningstar; Company data.

Burberry is a good example of self-help initiatives that show green shoots of success. During the past three quarters, the constant-currency retail sales decline was contained, dropping from 20% to only negative 2%, despite persistent challenging market conditions. Burberry refocused marketing and merchandising efforts on areas where the brand is the strongest and differentiated—notably outerwear and scarves, introduced lower-price handbags (Burberry brand is less strongly established in leather versus its peers, and its 10-year efforts to build a leather goods business had a lackluster success). The initiative was supported by marketing campaigns that highlighted the brand's British roots, featuring relevant landmarks and celebrities. While the brand is not yet among industry outperformers, we view its strategy as very credible.

Growth for Luxury Demand, Margins Driven by Operating Leverage, Little Tailwind From Pricing

We expect luxury demand to grow at a mid-single-digit pace over the long term (Exhibit 30). We construct our luxury forecast based on demand by nationality rather than geography, given that luxury consumers are globally mobile (approximately 30% of luxury purchases are made while traveling) and travel patterns can be volatile, affected by currency fluctuations and consumer preferences, among other things.

Exhibit 30 We Expect Luxury Demand to Grow at a Mid-Single-Digit Pace Over the Long Term



Source: Bain & Company; Morningstar estimates.

As mentioned in the preceding sections, we expect Chinese consumers to drive growth in both the near term and the long term. In our view, there is significant potential for pent-up demand for Chinese luxury spending, given the substantial savings accumulated during the pandemic, should sentiment improve. Chinese luxury spending remains around 25% below 2019 levels. After normalization to 2019 levels, we expect Chinese luxury demand to grow at a 6% pace, contributing somewhat under 30% of luxury spending. This compares with 17% compound annual growth between 2009 and 2019 (prepandemic) and is explained by a more mature state and slower growth of the Chinese economy and its luxury consumption.

We expect US demand to return to mid-single-digit growth, in line with its pre-covid trends, after a natural pullback that flushes out pandemic-era excesses. We expect similar trends in demand for Europe and Japan, although here we expect low-single-digit growth and flat development, respectively, given the maturity of those regions and unfavorable demographics in Japan. We expect other Asian countries and the rest of the world to show mid- to high-single-digit growth fueled by wealth creation in the Middle East, South Korea, Indonesia, and Vietnam. India remains a high-potential market with its favorable demographics and massive population; however, the luxury market there is still in its early development phases, which is insufficient to move the needle for the industry. Chinese and American consumers are likely to remain the dominant purchasing nationalities, accounting for 55%-60% of the total by the end of our forecast.

As mentioned in the previous section, we expect pricing to make a somewhat muted contribution to the industry's growth over the next five years, following strong double-digit increases over the past five. We expect the luxury goods industry to retain its moderate pricing power over time. Since most brands have mature regional presence and store footprint, we expect growth to come through volumes from the same stores and, in some cases, a positive mix effect. The growth of the existing store-based business, with 50%-70% fixed costs, should provide operating leverage over time, resulting in modest margin expansion. That said, we don't expect companies to exceed the 2022 peak margins as soon as those that benefited from unique tailwinds of very strong demand off the same cost base and pricing tailwinds.

Risks to Our View Are Lower Growth in GDP and High-Wage Professions

We have also reviewed the risks to our view of continued mid-single-digit growth in luxury consumption. Since luxury demand is strongly correlated with economic growth and wealth creation, any permanent hindrance to economic growth, such as deglobalization, presents a risk. We don't see a permanent shift toward deglobalization as a likely result of increased US foreign tariffs.

Another possible risk is permanently weaker growth in China with continued decline in asset prices (specifically, real estate prices), not unlike Japan's "lost decade." It is remarkable, though, that demand for luxury goods in Japan was surprisingly resilient in the 1990s, even as the economy struggled[10]. Luxury sales overall (as proxied by Bain) increased by a healthy 11% annual pace between 1995 and 2000.

Finally, the impact of technological change and AI adoption on the sector is unknown. It is unclear whether AI adoption will result in significant job reductions and displacement, but if it does, the jobs lost are likely to be in white-collar, well-paid sectors that employ emerging luxury consumers. It is possible that this would lead to further polarization of luxury demand—stronger growth for high-net-worth individuals, who will reap the benefits of the AI transition, while the aspirational consumer count and purchasing power continue to erode. We believe it is too early to forecast this explicitly, as there is a substantial uncertainty around the adoption of AI and its impact on jobs and wealth.

10 Salsberg, B. 2009. "Japan's Luxury Consumers Move On," *McKinsey Quarterly*, August 1, 2009. https://www.mckinsey.com/industries/retail/our-insights/japans-luxury-shoppers-move-on#/

We See Value in High-Quality Luxury Names

Cyclical downturns are typically a good time to build positions in strong, moaty names trading attractively. We are now seeing a number of these opportunities in the luxury space. Our top picks in the sector are two wide-moat names: LVMH and Richemont, trading at about a 15% discount to our fair value estimate, and narrow-moat Kering, which is trading at over 30% discount. We view the former two to be more defensive buys, while investment in Kering still bears significant uncertainty over Gucci's turnaround and demands patience from investors.

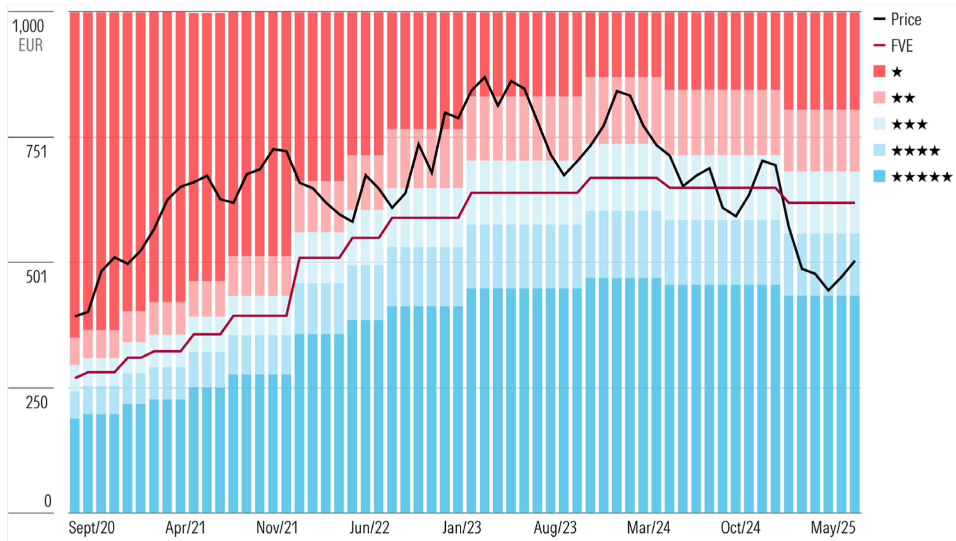
LVMH

LVMH is the diversified market leader in global luxury, with the largest portfolio across fashion and leather goods (Louis Vuitton, Dior), jewelry (Tiffany, Bulgari), and wines and spirits (Moët & Chandon, Hennessy). We believe the strength of its brands, scale advantages in distribution and marketing, and the size of capital investments underpin a wide economic moat, ensuring sustained profitability well into the future. The recent sales declines are largely tied to the broader luxury downcycle, a high post-covid comparison base, and product price increases. We do not see this as evidence of structural weakness or diminished brand power. Looking ahead, stronger macroeconomic fundamentals and a recovery in the global consumer sentiment should benefit LVMH, positioning it to emerge as a winner in the next luxury upcycle[11].

We think the market is overly pessimistic about LVMH's long-term earnings growth, leaving the current valuation at an attractive entry point for long-term investors (Exhibit 31). We believe LVMH would be able to expand its largest and most profitable fashion and leather segment at a slightly higher pace than the 5% expected for the overall luxury industry over the next decade and the division's currently depressed operating margins should reach 39% during 2026-28, while still below 2021 peaks.

11 Sokolova, J. 2025, Morningstar Stock Pitch "LVMH Moet Hennessy Louis Vuitton" PitchBook, July 2, 2025. https://my.pitchbook.com/research-center/report/3f372e03-7004-3a92-bbd2-ac297f19e7be

Exhibit 31 Years After Being Overvalued, LVMH's Share Price Now Offers Value



Source: Morningstar estimates; Morningstar Direct.

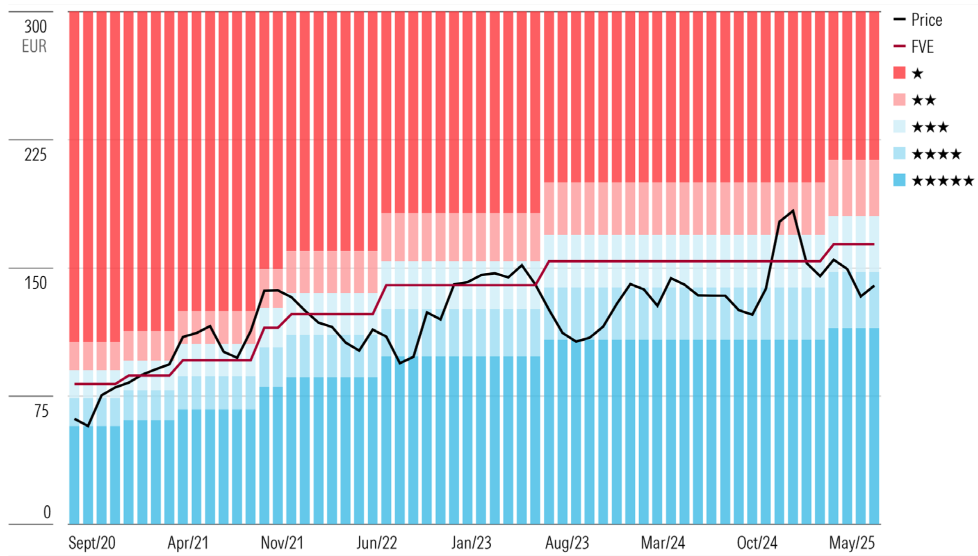
Richemont

Richemont group is the owner of one of the strongest and most profitable brands in luxury jewelry. Cartier and Van Cleef contribute over 90% of EBIT with an operating margin above 30%. The luxury jewelry industry benefits from high barriers to entry (working capital requirements, gifting and investment demand that favor incumbents) and good growth prospects, driven by a shift from nonbranded alternatives, brand marketing, economic growth (high-single-digit growth for jewelry in recent years versus mid-single digit luxury industry growth).

In the current downturn, Richemont performs resiliently, thanks to exposure to more affluent, less economically sensitive clientele. Richemont has also been less aggressive in pricing during the pandemic and its aftermath, making jewelry an affordable and durable alternative to ever more expensive leather goods.

While the 39% tariffs applied to Swiss exports to the US is a drag on Richemont, the impact is limited, in our view. Swiss-made watches, including those produced by specialist watchmaker divisions and those by Cartier, account for 32% of the company's total sales. Exposure of the specialist watchmaker division sales to the US is 17%, and for Jewellery Maisons, where Cartier is placed, it is 23%. Both watchmaking brands and Cartier have exposure to affluent clientele who are less sensitive to price increases. As a signal of Richemont brands' strength in North America, they have been growing at a double-digit pace in this market for the past six quarters, even as the market remained difficult for its peers.

Exhibit 32 Richemont's Shares Offer 16% Upside to Our Fair Value Estimate



Source: Morningstar estimates; Morningstar Direct.

Kering

Kering is the third-largest luxury group by revenue, trading at 35 times consensus earnings. We believe they are close to trough levels, affected by a triple blow—industry downturn, low brand momentum for Gucci, and increased investments to relaunch it. Although Kering's flagship Gucci brand is experiencing a worsening momentum, we anticipate that its strong brand recognition, significant marketing resources, control over distribution (greater than 90%), and access to top managerial and creative talent should help Gucci regain its pricing and desirability in the long run.

The current weakness is not a result of brand value erosion but rather a negative spot in the fashion cycle. Gucci is more exposed to fashion risk, but it is now more than priced in, in our view.

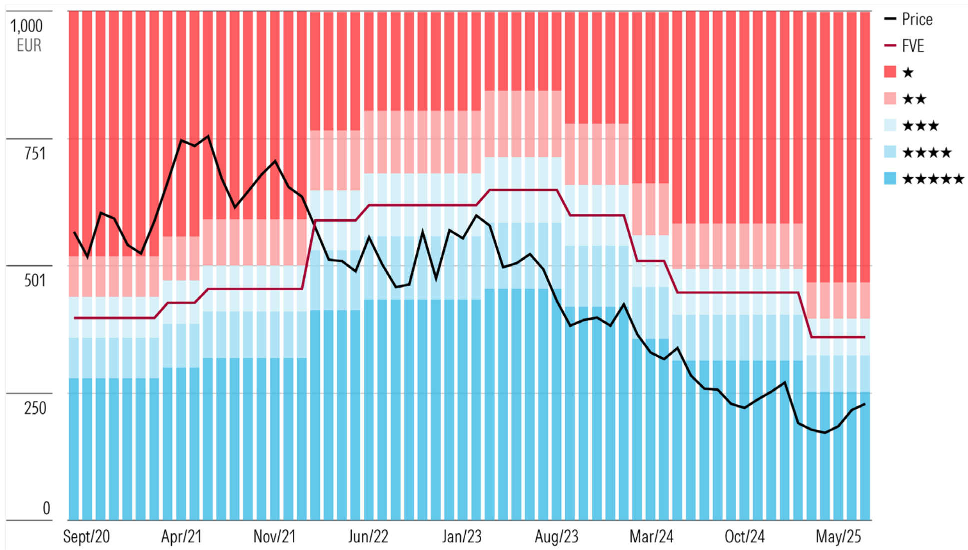
We concede that the catalysts for Kering's recovery are unclear: group CEO Luca de Meo is new, new Gucci creative director Demna's collections will take quarters to hit the shelves, and there is a lack of clarity regarding the management continuity at the helm of Kering's biggest brands. That said, luxury brands go through cycles of popularity, as our research shows[12], and we have yet to see a brand of Gucci's global recognition, scale, and stature permanently lose appeal. The current weakness is not a result of brand value erosion, but rather a temporary setback in the fashion cycle. Gucci is more exposed to fashion risk, but it is now more than priced in, in our view. Our assumptions imply Gucci's eventual return to growth and industry outperformance.

---

12 Sokolova, J. 2024, Morningstar Select Presentation "Kering Shares Should Not Belong on a Discount Rack," PitchBook, June 17, 2024.

https://my.pitchbook.com/research-center/report/d0ab1dce-2f6d-3ab2-8bc9-7fafb8200ebf

Exhibit 33 After Steep Recent Year Declines, Kering Shares Look Cheap



Source: Morningstar estimates; Morningstar Direct.

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (mines, for example), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's Equity Research Group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating:

- our assessment of the firm's economic moat.
- our estimate of the stock's fair value.
- our uncertainty around that fair value estimate.
- the current market price.

This process ultimately culminates in our single-point star rating.

Economic Moat

The Morningstar Economic Moat Rating is a structural feature that Morningstar believes positions a firm to earn durable excess profits over a long period of time, with excess profits defined as returns on invested capital above our estimate of a firm's cost of capital. The economic moat rating is not an indicator of the investment performance of the investment highlighted in this report. Narrow-moat companies are those that Morningstar believes are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those that Morningstar believes will earn excess returns for 10 years, with excess returns more likely than not to remain for at least 20 years. Firms without a moat, including those that have a substantial threat of value destruction-related risks related to environmental, social, and governance; industry disruption; financial health; or other idiosyncratic issues, are more susceptible to competition. Morningstar has identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Fair Value Estimate

Each stock's fair value is estimated by using a proprietary discounted cash flow model, which assumes that the stock's value is equal to the total of the free cash flows of the company is expected to generate in the future, discounted back to the present at the rate commensurate with the riskiness of the cash flows. As with any DCF model, the ending value is highly sensitive to Morningstar's projections of future growth.

Fair Value Uncertainty

The Morningstar Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, exposure to material ESG risks, and other company-specific factors. Based on these factors, analysts classify the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases.

Market Price

The market prices used in this analysis and noted in the report come from exchanges on which the stock is listed, which we believe is a reliable source.

Morningstar Rating for Stocks
The Morningstar Rating for Stocks is a forward-looking, analyst-driven measure of a stock's current price relative to the analyst's estimate of what the shares are worth. Stock star ratings indicate whether a stock, in the equity analyst's educated opinion, is cheap, expensive, or fairly priced. To rate a stock, analysts estimate what they think it is worth (its "fair value"), using a detailed, long-term cash flow forecast for the company. A stock's star rating depends on whether its current market price is above or below the fair value estimate. Those stocks trading at large discounts to their fair values receive the highest ratings (4 or 5 stars). Stocks trading at large premiums to their fair values receive lower ratings (1 or 2 stars). A 3-star rating means the current stock price is close to the analyst's fair value estimate.

Risk Warning
Please note that investments in securities are subject to market and other risks, and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not continue in the future and is no indication of future performance. A security investment's return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost.

A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating is a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

General Disclosure

"Morningstar" is used throughout this section to refer to Morningstar, Inc., and/or its affiliates, as applicable. Unless otherwise provided in a separate agreement, recipients of this report may only use it in the country in which the Morningstar distributor is based. Unless stated otherwise, the original distributor of the report is Morningstar Research Services LLC, a USA-domiciled financial institution.

This report is for informational purposes only, should not be the sole piece of information used in making an investment decision, and has no regard to the specific investment objectives, financial situation, or particular needs of any specific recipient. This publication is intended to provide information to assist investors in making their own investment decisions, not to provide investment advice to any specific investor. Therefore, investments discussed and recommendations made herein may not be suitable for all investors; recipients must exercise their own independent judgment as to the suitability of such investments and recommendations in the light of their own investment objectives, experience, taxation status, and financial position.

The information, data, analyses, and opinions presented herein are not warranted to be accurate, correct, complete, or timely. Unless otherwise provided in a separate agreement, neither Morningstar, Inc., nor the Equity Research Group represents that the report contents meet all of the presentation and/or disclosure standards applicable in the jurisdiction the recipient is located.

Except as otherwise required by law or provided for in a separate agreement, the analyst, Morningstar, Inc., and the Equity Research Group and their officers, directors, and employees shall not be responsible or liable for any trading decisions, damages, or other losses resulting from, or related to, the information, data, analyses, or opinions within the report. The Equity Research Group encourages recipients of this report to read all relevant issue documents—a prospectus, for example) pertaining to the security concerned, including without limitation, information relevant to its investment objectives, risks, and costs before making an investment decision and when deemed necessary, to seek the advice of a legal, tax, and/or accounting professional.

The report and its contents are not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country, or other jurisdiction where such distribution, publication, availability, or use would be contrary to law or regulation or that would subject Morningstar, Inc., or its affiliates to any registration or licensing requirements in such jurisdiction.

Where this report is made available in a language other than English and in the case of inconsistencies between the English and translated versions of the report, the English version will control and supersede any ambiguities associated with any part or section of a report that has been issued in a foreign language. Neither the analyst, Morningstar, Inc., nor the Equity Research Group guarantees the accuracy of the translations.

This report may be distributed in certain localities, countries, and/or jurisdictions ("territories") by independent third parties or independent intermediaries and/or distributors ("distributors"). Such distributors are not acting as agents or representatives of the analyst, Morningstar, Inc., or the Equity Research Group. In territories where a distributor distributes our report, the distributor is solely responsible for complying with all applicable regulations, laws, rules, circulars, codes, and guidelines established by local and/or regional regulatory bodies, including laws in connection with the distribution of third-party research reports.

Conflicts of Interest

- No material interests are held by the analyst or their immediate family with respect to the securities subject of this investment research report.
- Morningstar, Inc., may hold a long position in the securities subject of this investment research report that exceeds 0.5% of the total issued share capital of the security. To determine if such is the case, please click https://www.morningstar.com/company/disclosures/holdings.
- Analysts' compensation is derived from Morningstar, Inc.'s overall earnings and consists of salary, bonus, and in some cases restricted stock.
- Morningstar's overall earnings are generated in part by the activities of the Investment Management and Research groups, and other affiliates, that provide services to product issuers.
- Neither Morningstar, Inc., nor the Equity Research Group receives commissions, compensation, or other material benefits in connection with providing research, nor do they charge companies to be rated.
- Morningstar employees may not pursue business or employment opportunities outside Morningstar within the investment industry (including, but not limited to, working as a financial planner, an investment professional or investment professional representative, a broker/dealer or broker/dealer agent, a financial writer, reporter, or analyst) without the approval of Morningstar's Legal and if applicable, Compliance teams.
- Neither Morningstar, Inc., nor the Equity Research Group is a market maker or a liquidity provider of the securities noted within this report.
- Neither Morningstar, Inc., nor the Equity Research Group has been a lead manager or co-lead manager over the previous 12 months of any publicly disclosed offer of financial instruments of the issuer.
- Morningstar, Inc.'s Investment Management group has arrangements with financial institutions to provide portfolio management/investment advice, some of which an analyst may issue investment research reports on. In addition, the Investment Management group creates and maintains model portfolios whose underlying holdings can include financial products, including securities that may be the subject of this report. However, analysts do not have authority over Morningstar's Investment Management group's business arrangements or allow employees from the Investment Management group to participate or influence the analysis or opinion prepared by them.
- Morningstar, Inc., is a publicly traded company (ticker: MORN) and thus a financial institution the security of which is the subject of this report may own more than 5% of Morningstar, Inc.'s total outstanding shares. Please access Morningstar, Inc.'s proxy statement, "Security Ownership of Certain Beneficial Owners and Management" section at https://shareholders.morningstar.com/investor-relations/financials/sec-filings/default.aspx.

Morningstar may provide the product issuer or its related entities with services or products for a fee and on an arm's-length basis, including software products and licenses, research and consulting services, data services, licenses to republish our ratings and research in their promotional material, event sponsorship, and website advertising.

Further information on Morningstar's conflict-of-interest policies is available at http://global.morningstar.com/equitydisclosures. Please note analysts are subject to the CFA Institute's Code of Ethics and Standards of Professional Conduct.
For a list of securities the Equity Research Group currently covers and provides written analysis on, or for historical analysis of covered securities, including fair value estimates, please contact your local Morningstar office. Morningstar Equity Research methodologies can be found at Investor Relations | Morningstar, Inc.

For recipients in Australia: This report has been issued and distributed in Australia by Morningstar Australasia Pty. Ltd. (ABN: 95 090 665 544; ASFL: 240892). Morningstar Australasia Pty. Ltd. is the provider of the general advice ("the service") and takes responsibility for the production of this report. The service is provided through the research of investment products. To the extent the report contains general advice, it has been prepared without reference to an investor's objectives, financial situation, or needs. Investors should consider the advice in light of these matters and, if applicable, the relevant Product Disclosure Statement before making any decision to invest. Refer to our Financial Services Guide, or FSG, for more information at http://www.morningstar.com.au/s/fsg.pdf.

For Recipients in New Zealand: This report has been issued and distributed by Morningstar Australasia Pty Ltd and/or Morningstar Research Ltd (together 'Morningstar'). This report has been prepared and is intended for distribution in New Zealand to wholesale clients only and has not been prepared for use by New Zealand retail clients (as those terms are defined in the Financial Markets Conduct Act 2013).

The information, views and any recommendations in this material are provided for general information purposes only, and solely relate to the companies and investment opportunities specified within. Our reports do not take into account any particular investor's financial situation, objectives or appetite for risk, meaning no representation may be implied as to the suitability of any financial product mentioned for any particular investor. We recommend seeking financial advice before making any investment decision.

For recipients in Canada: This research is not prepared subject to Canadian disclosure requirements.

For recipients in Europe: This report is distributed by Morningstar Holland B.V., a wholly-owned subsidiary of Morningstar, Inc. Morningstar Holland B.V. is not required to be regulatory by the European Securities and Markets Authority for the provision of investment research data. The analyst/s involved in the creation of the report do not take into account any particular investor's financial situation, objectives or appetite for risk, meaning no representation may be implied as to the suitability of any financial product mentioned for any particular investor. Registered address: Haaksbergweg 58, 9th Floor, 1101 BZ Amsterdam, North Holland, Netherlands.

For recipients in Hong Kong: The report is distributed by Morningstar Investment Management Asia Limited, which is regulated by the Hong Kong Securities and Futures Commission to provide investment research and investment advisory services to professional investors only. Neither Morningstar Investment Management Asia Limited nor its representatives are acting or will be deemed to be acting as an investment advisor to any recipients of this information unless expressly agreed to by Morningstar Investment Management Asia Limited.

For recipients in India: Morningstar Investment Research India Private Limited (registered with SEBI as a research analyst, registration number INH000008686) does not engage in research services on securities listed or proposed to be listed on stock exchanges in India.

For recipients in Japan: The report is distributed by Morningstar Japan, Inc. for informational purposes only. Neither Morningstar Japan, Inc. nor its representatives are acting or will be deemed to be acting as an investment advisor to any recipients of this information.

For recipients in Korea: This report is distributed by Morningstar Korea Ltd., which has filed to the Financial Services Committee, for informational purposes only. Neither Morningstar Korea Ltd. nor its representatives are acting or will be deemed to be acting as an investment advisor to any recipients of this information.

For recipients in Singapore: The Report is intended for Institutional Investor audiences and is distributed by Morningstar Investment Adviser Singapore Pte. Limited, which is licensed by the Monetary Authority of Singapore to provide financial advisory services in Singapore. Morningstar Investment Adviser Singapore Pte. Limited is the entity responsible for the creation and distribution of the research services described in this Report.

This content is provided for informational purposes only and may be shared or redistributed by Institutional Investors to their clients or other permitted persons, subject to obtaining the appropriate licence from Morningstar. Redistribution of this content is subject to any applicable conditions or limitations, including those agreed commercially or contractually with Morningstar. The person who shares or redistributes this content shall be solely responsible for compliance with all relevant legal and regulatory obligations in the jurisdictions in which the material is made available.

Investors should consult a financial adviser regarding the suitability of any investment product, taking into account their specific investment objectives, financial situation or particular needs, before making any investment decision.

Morningstar, Inc., and its affiliates rely on certain exemptions (Financial Advisers Regulations, Section 27(1)(e), Section 32B and 32C) to provide its investment research to recipients in Singapore.

For recipients in the United Kingdom: This report is distributed by Morningstar UK Ltd, a wholly-owned subsidiary of Morningstar, Inc. Morningstar UK Ltd. is not required to be registered nor authorized by the Financial Conduct Authority for the distribution of investment research data. The analyst/s involved in the creation of the report do not take into account any particular investor's financial situation, objectives or appetite for risk, meaning no representation may be implied as to the suitability of any financial product mentioned for any particular investor. There are information barriers in place between Morningstar UK Ltd and Morningstar regulated entities based in the UK. Registered address: 1 Oliver's Yard 55-71 City Road London EC1Y 1HQ

About Morningstar® Equity Research™

Morningstar Equity Research provides independent, fundamental equity research differentiated by a consistent focus on durable competitive advantages, or economic moats.

For More Information

+1 312 696-6869
equitysupport@morningstar.com

22 West Washington Street
Chicago, IL 60602 USA