

K E R I N G



Kering Capital Markets Day

Friday, June 7, 2019

Opening Remarks

Speaker: Bonjour à toutes et à tous. Good morning, everyone. I'm very happy to welcome you here at this Kering investor day devoted to digital. For the first time, we decided to dedicate an investor day not to a single house or activity, but to an activity that runs across the brands and all our houses are involved, and we at group level just coordinate and animate the whole thing. You will see that our decision actually reflects the key role that digital has gained into our industry, and if you remember, for those of you who followed us a long time ago, I can see some of them, before Kering was Kering, we were chiefly in distribution. And if you consider how this sector was disrupted by digital, this really taught us a lesson that we do not want to forget.

So, this meeting today is for us a great opportunity to discuss the many initiatives that we have been undertaking, and to share them with you. Indeed, digital has been a key pillar of our transformation. Digital illustrates in very tangible terms the concept of growth platform, which is key to our group. Digital is key to our profitable growth strategy, and very central to our ambition of being the world's most influential luxury group. Before we dive into explaining about this transformation, please allow me to take a step back and reflect on Kering's overall transformation over the past few years. Luxury has gone through a revolution, and from its early stages, at Kering, we focused on turning this revolution into opportunities. First, we went through a dramatic change of scale. Between 2008 and 2018, the personal luxury goods market grew by around 5% each year. This is an average for a loosely defined set of players, and obviously there are huge discrepancies among them. Growth will continue at an estimated rate of 4 to 6% per annum, and we commit to overcome this pace. With scale has come a continued shift in the mix of luxury clients. In its latest report, Bain Altagamma estimates that the share of Chinese spending in our personal luxury sector will jump from 32% in 2017 up to 46% in 2025. Over the same period, the share of generations Y and Z will climb to 55% of the market, compared to just a quarter in 2013. They will also account for 130% of its growth.

Finally, more than 4 billion people will have access to the Internet, and the share of e-commerce carried out on mobile devices should reach 55%.

Against this background, Kering has been through a massive transformation, becoming a luxury pure player while luxury activities accounted for less than 20% of our revenue in 2008. We have enjoyed a sustained pace of growth, with luxury CAGR of nearly 15%, predominantly organic, and significantly higher than our peers in the industry. This overperformance validates our multibrand model and our vision of a modern luxury group based on creativity. We have been transforming Kering to take maximum advantage of this emerging environment. Our clients all expect product availability and a form of instantaneity that is a feature of the digital age. This is why we are putting in place an agile demand-driven supply chain. In an omnichannel world, with clients at home across the globe, our brands must offer a seamless experience, consistent regardless of distribution channel or geography. There are plenty of touch points, so we adapt tools and processes to maintain consistency in marketing, but also to inject personalization and emotions into each contact point, physical or digital. All these factors led us to rethink our entire infrastructure and to build a powerful growth platform to support the operations of our houses and improve their

efficiency. To optimize costs, reduce lead time, improve accuracy of planning and forecast, or inventory productivity. This transformation has enabled us to sustain sharp growth, to become more agile, more personalized and more efficient. All of this will translate into additional revenues, higher profitability and lower working capital. The growth platform we are developing embodies our transformation into an integrated luxury group. We provide this platform to Kering houses so that they can reach their full potential. Our platform builds upon three closely linked dimensions: a complete makeover of our IT infrastructure, harmonized across the group; a fundamental restructuring of our logistical and supply chain organization to accommodate the change of scale and nature of our operations; and finally digital empowerment, which would not be possible without the other two prerequisites, and encompasses internalization of e-commerce, personalization of client experience, and the development of new expertise I outlined in February.

The first component is an IT enabler. Our information systems. We are implementing an ERP that offers us real time access to a single source of data. We are adopting a state-of-the-art and integrated new set of IT solutions. These solutions are more flexible, less costly, and reduce obsolescence. We roll out new agile methodologies, enrich our internal expertise with new skills. We are reinforcing our cyber security systems and procedures. We are already underway as you can see with important milestones ahead of us, notably the gradual worldwide deployment of our ERP system, scheduled to be completed in 2022.

The second component is a logistics and supply chain set of capabilities. In recent years, we have accommodated rapid increases in volumes incrementally, building new warehouses as needs emerged. Now, we are going for a complete rethink, building from scratch with investments in Italy, in the US, and in Asia. We streamline our global logistics footprint. We are establishing a state-of-the-art automated global distribution hub in northern Italy to replace the 20-ish warehouses we are operating in Switzerland.

In the US, our central warehouses are moving this fall to a new, more modern, more efficient location in Wayne, New Jersey. In Asia-Pacific and the Middle East, we should open new hubs by 2022. As you know, earlier this year, Kering Eyewear's fully automated logistic global hub, also located in Italy, came on stream. And thanks to the group's new logistics footprint and to the dissemination across the group of best practices, we are gradually implementing new operating models, taking advantage of shared inventory.

Thanks to these efforts, we will deliver faster across all distribution channels, and ensure better product availability, offer a wide range of omnichannel services, benefit from large and scalable storage capacity, improve working conditions, lower costs per unit, and optimize inventory levels. This is of course not an overnight journey, but hard work for the next three years. By 2022, we expect to operate the most advanced logistics infrastructure in the industry.

I'm not going to spend much time on the third component of our platform, digital empowerment, because it is our topic today. Grégory will tell you more about it. As you know, he joined us one year and a half ago, after an extensive experience in the tech sector, notably at eBay. Thanks to Grégory, we drastically accelerated our digital transformation, galvanizing pre-existing initiatives in e-commerce and client service, and building strong capabilities in CRM and data science. So, before I give the floor to Gregory, let me thank you

again for being here with us today. We hope you will have a great day and a better appreciation of our strategy. Thank you.

Presentation

Grégory Boutté

Chief Client and Digital Officer, Kering

Good morning, everyone. Since I have not met most of you, I thought I would start with a little bit more details on myself. I started my career at Procter & Gamble a few years back. I joined an early-stage start-up which was acquired by eBay, and then I spent most of my career at eBay in a variety of roles, both in Europe, and since 2010 in the Silicon Valley where I moved to San Francisco. I left eBay in 2013 and joined a couple of start-ups, one in the ridesharing space which we ultimately sold to General Motors, and another one in the online learning space which is a very successful company in the US. I moved back to France in 2017 and joined Kering about a year-and-a-half ago to be the Chief client and Digital Officer. And so, during those 20+ years in the tech industry, I got a chance to see the impact that technology has on our lives, but also on our ways of working. It enables us to develop a deep understanding of customers and create incredibly personalized information. And I think this is particularly relevant for the luxury industry. If you think about what we do in luxury, we create beautiful products, we tell amazing stories and create emotions around those products, and we develop unique and luxurious experiences around our customers. And I fundamentally believe, coming out of the tech industry in the past 20 years, that technology and data can actually help us augment the impact we have on our clients and augment the impact of the stories we tell and the experiences we are creating. And so, this investor day today is all about telling you how we at Kering are using technology, data and digital tools to augment the experience of our clients and drive our business more effectively.

So, in the next 45 to 50 minutes, what I am going to try to do is give you a little bit of a sense of our roadmap, and also show you how the combination of the expertise and the platforms we are building at the group level combined with the know-how, the understanding of the customer of the brands, is going to create a sustainable competitive advantage in the future.

And the way I'm going to do this is basically into three sections. I am going to try to go really fast on the first one, because there are a lot of things you already know in there, and plus you have your booklets. I'm going to talk a little bit about how we are thinking about digital disruption, both in general and in the context of the luxury industry specifically. And then second, I will lay out what the key pillars of our digital strategy is, introducing what you are going to see in greater details during the workshops today. And after that I will give a little bit of perspective on the agenda.

So, let's talk a little bit about digital disruption. There has been a lot of talk in a lot of industries about what digital disruption means. From my perspective, it is very much three things. The first thing is a consumer-facing revolution. Customer behaviors are changing dramatically. The second one is more related to the way we do business. Artificial intelligence is now becoming readily accessible for a company like ours, and changing the way companies are going to be working and the way they are going to deliver new experiences to

their customers. And last but not least, there are a bunch of companies, digital natives as we call them, that are emerging and have understood those two trends and are leveraging them very aggressively to scale businesses in ways that have never been seen before, hence disrupting entire industries in the process.

So, I am going to share a bunch of data and I will go really fast because they are in your booklet. Let's talk a little bit about the first one. We all know this that 2020 is going to be a pretty important year where we and our consumers are going to spend more time on the Internet than we actually spend on TV for the first time ever. This time, they spend mostly on social media. You know all those numbers, but these are pretty impressive numbers. One third of the world population is connecting every month to Facebook. If you imagine that Facebook isn't even available in China, these are gigantic numbers. And this is where our customers are spending most of their time, and it is creating two sets of new behaviors and expectations.

One, the way they look for information and the way our consumers discover products is very different from what it was in the past. They are looking for the information that we give as brands, but also looking at what their friends think about the brands and what people they trust and respect think about those brands. So it is changing the dynamic of how we need to communicate to our customers. The second change is that they expect to engage directly with brands, which is something that appears with the development of those social media platforms. The second is the way they shop. This is pretty straightforward. We are seeing this in every single industry and every single region. It varies from one region to the other. Take music. 85% of the revenue is made online and it is also happening in every region. If you look at China, more than 35% of retail is actually happening online. So, a big transformation in the way people behave, both in terms of discovering information and engaging with brands, but also in the way they shop.

Luxury is no exception. The Bain research shows that by 2025, pretty much every single purchase is going to be influenced by an activity happening online prior to the purchase. And when we look at the purchases themselves in the same timeframe, around 50% of the purchasers are going to be influenced by a digital tool, be it e-commerce, be it mobile payments. So a big transformation happening in the luxury space, and the same thing for e-commerce. And though it started relatively slowly, the industry is currently, still based on this Bain research, getting around 9 to 10% of total revenue online. We are seeing an acceleration in the next few years where it is probably going to reach around 20 to 25% of our business by 2025. So, luxury is also seeing that trend.

The second big trend, very important for us, less consumer facing and more sort of how we think about our business, is the way we run our business is about to change fundamentally as a result of the emergence of artificial intelligence. Research done by PwC shows that the impact is going to be around \$15 trillion, and this impact is going to come through one third gains of productivity, so operational excellence, and two-thirds are going to come from consumer-facing experiences that are going to be built which are going to increase conversion. And again, luxury is no exception here. There is an opportunity, even if it is early days, there is an opportunity to use AI at pretty much every single step of our value chain and either create efficiencies or improve the experience of our clients.

And last but not least, you know these are the usual suspects, but they are companies that appeared over the last 20 years that didn't even exist back then that have built an incredible leadership position disrupting entire industries and creating a tremendous amount of value in the process, leveraging those two trends and understanding those customer behaviors, being where customers are, and leveraging artificial intelligence to build amazing businesses.

When we look at luxury specifically, interestingly we do not see the emergence of digital native brands as much as we've potentially seen it in other industries. When you look at the ranking of the top luxury brands, these are the same brands. The positions might have definitely changed over the last few decades, but these are pretty much the same names that you will have seen a few years ago. So, less disruption on the brand side, however, we are seeing on the distribution side digital native players emerging and creating marketplaces and wholesale businesses to deliver a multibrand experience to the client.

So net-net, the luxury industry is subject to that digital revolution as well. Probably not as massively as some other industries, and probably driven by the fact that we are creating unique products that are impossible to replace, and also we are controlling our distribution. So that has probably protected us a little bit versus other industries from that digital disruption. However, those trends that we are seeing here around customer behaviors shifting, artificial intelligence becoming more and more accessible and more and more of a lever for businesses like us to deliver great experiences to customers, and the emergence of digital native players, they will not stop. They will accelerate in the next few years. And we at Kering see this actually as a big opportunity for us. And there are a couple of reasons for this. The first is, we are approaching this digital revolution that is happening from a position of strength. If you think about it, this shift in customer behaviors, the emergence of social media platforms, enables brands and companies to build a direct relationship with customers. And I would argue our brands are world-class at communicating and telling stories to our customers. So that is a huge opportunity for us.

The second big change is e-commerce. What is e-commerce? It is the opportunity for companies to sell directly to customers. What do we do in retail? This is what companies like us do. We know how to do this, and I would argue that we know how to do this better than a lot of industries, so again, it is an opportunity for us. And last, as I mentioned earlier, technology enables to create amazing experiences that were not possible before. And luxury is about creating unique, luxurious experiences. So, technology represents a unique opportunity for us to do our business better and to serve our clients better. And that is why we are making big investments at the Kering level, at the brand level, to capture that opportunity and take the lead in leveraging the digital opportunity in our business.

And the way we do this, and hopefully you will see that you're in this section and hopefully during the workshop, is we are investing in creating expertise in platforms at the group level. And then working very closely with brands to leverage those platforms and this expertise to solve actual business problems and improve the experience in the brand's businesses.

So, let us talk a little bit about how we're going to do this and what are the key pillars of our strategy. There are basically three big pillars, and I'm going to provide a little bit more details on sort of where we stand on each of those. First one, as I said, we are seeing the digital space and social media specifically as a huge opportunity for us to tell our stories and getting a direct relationship with customers. So we will leverage that opportunity to create

the aspirations around our products and tell the stories about our brand. Second, we want to expand online retail. We see this as a huge opportunity for us. You have seen the numbers; it is going to grow to 25% in 2025. We want to be the leader in driving that part of our business.

And third, as I said, the way we do business is about to change fundamentally. And here again, we have started investing in this area to leverage the opportunity of data and artificial intelligence to create more personalized experiences for our customers, and also drive operational efficiencies in the way we do our business. And I will give you some examples of that and you will see even more during the workshops.

So, let's start with digital communication, and creating the aspirations around our products and around our brands in the digital space. This is not something we are starting now. It's been a shift that we have been operating for several years now. And there are basically two ways you create this aspiration online. The first one is through advertising, and the second one is through building your presence on social media. So, in terms of advertising, we have made that shift already. We are now spending at the group level 50% of our media spend is actually spent online. And for those who were at Gucci's investor day a year ago, you know that Gucci is actually ahead of that, spending 55% of its media spend online. So, that shift has happened and we are building on that to reach out to our customers and tell our stories.

The second way to create the aspirations around our brand is to build social presence in our social media. And here again, our brands have been at the forefront of this effort, building strong precedents, developing dedicated content, to be able to communicate and create communities in different social platforms across different regions. And you see that we have built presence, and Gucci has been a pioneer in that space in pretty much every single platform and in pretty much every single region. And the good news is, this is working. Since we started this relatively early, we are now reaping the benefits of those efforts and doubling down on them.

So, I'm going to spend a little bit of time explaining the three next slides, which are critical metrics that we are looking at. So, when we are looking at social media, there are really two types of impact that we are looking at. The first one is what we call owned. So that's the activity our brands do on their social accounts to reach out to their communities and tell their stories. That's what we call the owned activity. The second one, which is pretty much the outcome of this, is the earned. So, things we don't control. These are not the posts we make or the stories we tell. It's how followers and people in social media talk about our brand. And we want to make sure that people talk about our brand, share it with their friends, because we know it's a fantastic way to drive awareness and drive conversion in our business.

So, what we are looking at here, when I told you we built presence, and started early doing this, we looked at first owned. Is it actually working on the things we control? And this number here is we are looking at the number of new followers that our brands acquired in Q1 this year versus the end of last year, versus December last year. And we are looking at who has acquired the most followers across the different social platforms. And what you see here is that Gucci is actually number one, reflecting the enormous investments they've made in terms of building presence early, creating amazing content which are dedicated to every single platform. And what you see is our other brands have also been able to build

disproportionate presence relative to the size of their business in terms of driving acquisition of new followers to which they are going to be able to reach out and tell their stories.

So, that's the owned piece. The owned piece is working really well, reflecting the investment we are making. Then, there is an impact on earned. And earned, again, it is not the post that we do or the communication that we do, it's how people talk about us. And ultimately, this is what we want to achieve: a lot of people talking and sharing stories about our products and about our brands. And the way we look at this is looking at all the posts on all the social platforms that are made by people, by people basically, and we look in a universe of around 15 top luxury brands, and we look at our share. And obviously, we want to increase that share and make sure that we are present in the posts that our communities of clients are actually doing.

And what you see here, looking at Q1 shares, and flags instead of brand names, but what you see is that Gucci is actually really very well positioned, just like our other brands among this universe of top luxury brands, having at the group level a 30% share of all the buzz on noise that is happening around the different luxury brands in the universe. In this universe of 15 brands.

The second piece we are looking at is engagement. It's one thing to have a lot of posts about ourselves. It's another one to have people see it and react on it. So, when we look at engagement, we look at number of retweets, number of likes, number of comments, number of shares, to see how people are actually reacting to the posts they are actually exposed to and the higher the engagement, the higher the appeal of the brand and the excitement around the brand. And what you see here is yet again Gucci is number one taking the number one share of all the retweets, all the likes, all the comments that are happening around in this universe of top luxury brands.

And again, as you see, we're taking as a group this proportionate share of this engagement with around 32% of that share in Q1. So, these are a few of the key metrics that we are tracking on a regular basis to make sure that A, we are active and present, and telling amazing stories on social media, and B, it's translating into actual buzz and appeal across the different social platforms. That's for creating the aspiration, and we are going to have a workshop dedicated to this, and you'll see what the group is doing to help and augment the performance of the brand, and we will have Gucci share some of their examples as they are one of the leaders in that space.

The second big pillar of this whole strategy, and we are very active on this is expanding online retail. And before I get into details of what we do, I want to share with you a little bit how we are looking at online sales, and the short story here is it's not very different from offline retail. We have a retail business and we have a wholesale business, and this is true in the offline world, and the online world, right? You are very familiar with the offline world. The way it works in the online world is like we have our directly operated stores, that's our brand.com site. We have concessions that we are doing with multi-brand players just like we are doing in offline world, and we have wholesale, where we are selling our products to people who sell it on our behalf to the end customer. The only difference is that we see, just like in the parts of retail, we see the emergence of what we call marketplaces like Farfetch, like Toplife back in the days, or like Luxury Pavilion who are aggregating brands to give them access to big pools of customers. But that's pretty much the only difference. What we see in online market

really mimics what's happening in offline retail, to which we have a very clear – in which we have a very clear strategy and we are very familiar with.

So let's take a look now at how our business is split across those different elements. So I am going to spend a little time explaining this number, so take a look on the left-hand side at the group level. So, first when we take all those components brand.com, virtual concessions, you see VC in some areas that's virtual concessions and wholesale. In wholesale, we take the retail price, not the price at which we sell to wholesaler. When you do that at the group level, the total online sales, the sum of those three represent just shy of 10% of our total revenue, which is in line to slightly above market standards, depending on the benchmarks we look at. Now if you look at what we call online retail, which is the sum of our brand.com revenue, so gucci.com, balenciaga.com, ysl.com, and the virtual concessions, we have with some of our multi-brand players, that represents around just shy of 5% of our revenue, 4.7 to be precise.

And what you see is like a pretty – some variation across brands with Gucci leading slightly above 5.4, and Balenciaga being sort of the highest at 8.6. And we'll have Cedric Charbit CEO of Balenciaga come in this afternoon to tell you a little bit more about the growth story of Balenciaga, and specifically how he's looking at ecommerce and technology to help him build experiences for his clients and drive his business. So, that's how the activity is split currently.

Now, looking forward, and looking ahead, our strategy will be to grow primarily and focus a lot of our efforts on driving the online retail piece of our business; which means brand.com plus virtual concessions. And the key reason for this is that we want to offer the best experience possible to our clients. And we feel that brand.com is obviously where we have the most control and virtual concessions is where we have also a lot of control on the assortment, we have the control on the broader experience, on the communication and how we tell the stories around our brand. So this is the area, just like in offline retail as a brand scale, we are increasing the power of retail. We feel we are at the right time now of our developments in the online space to take control of that activity and focus our efforts on driving the online retail piece of our business. So the control on the experience, and the quality of the experience we want to offer to our clients, is the number one driver of this decision.

There are other reasons. The second one is top-line growth. We have experience in moving businesses from wholesale to concessions, and consistently each time we've done this because we have better control on assortments and on the experience, we accelerate growth of those businesses as we transfer to concessions or to directly operated stores. So that we want to replicate that in the online space.

The third reason is data. When we grow our brand.com properties, we have greater access to data, and I'll talk about it in our third period of our strategy. The more data we collect about our customers, the smarter we are about what they need, and the more able we are to deliver sort of very personalized experiences that drive higher conversion. So, in brand.com we have greater access to information not only at a transactional level, but also on a navigation level which is also very precious information to understand what our customers like and don't like, what they are interested in, so that we can offer them more relevant and more personalized experiences.

And the last piece obviously is economics. What we are seeing is that comparing virtual concessions with wholesale first. We are seeing higher value capture in virtual concessions, but lower margins because we incur a lot of costs in virtual concessions because we have greater control on the experience. In wholesale, the margins are higher, but the value capture is much lower as you can imagine, because we are selling at a lower price to the wholesalers who then sell to the end customer. And when we look at brand.com specifically, we'll talk more about this in the workshop dedicated to ecommerce. We are moving from a business that was revenue share based in the joint venture that we have currently with Yoox Net-A-Porter to a business that will have, that are building more fixed costs, but which will have way more operational leverage as we scale the business. So, we are expecting the margins to be accretive starting in 2022, when we'll start to reach the scale at which we'll drive those operational leverage.

So, going forward, we are very excited about our ecommerce activities and going forward, we will focus our efforts primarily on driving what we call the online retail piece of our business, which is a mix of brand.com and virtual concessions. So, how did we do this? It is not something we are starting today, we've been hard at work for several years now, and we've taken basically two different approaches. One was with Gucci very early on, and I'd argue Gucci is probably one of the luxury brands that has launched an ecommerce the earliest, back in 2001 on their own platform. And for the other fashion brands, we've taken a slightly different approach in 2012, creating a joint-venture with Yoox Net-A-Porter, and at that time we had very limited experience in ecommerce, and we wanted the help of a big player in the space to help us scale our ecommerce business. And it's proven very successful, we are very excited about the decisions we made back then. It enabled us to build a really healthy business for our brand.com activities. And we delivered around €600 Million in 2012 growing at an average rate of around 41% across those multiple years, so a huge success in terms of reaching out to customers, selling more products online, but also building a greater understanding of how ecommerce works and what the key levels are.

And it's just the beginning, right. We've first seen in the graph in the previous slide that growth has been accelerating in the last couple of years, and we're excited at the potential going forward. Just looking at the split by region, what you see is that we have a really strong adoption in Europe, and in the US. And we are pretty underpenetrated right now in APAC including obviously China. So there's a huge opportunity there, especially as those customers are incredibly digital savvy and connected. There is a huge opportunity for us to build our online retail channels to reach out to these clients and tell our stories and sell our products. And we have a very strong strategy around this. Again, two different approaches the first one is Gucci. For those who were at the investor day last year you've seen that there is a very ambitious plan around building their brand.com, well gucci.com in that case, activities where they're basically rolling it out to the rest of the world including China extremely successfully. And second one, continuously taking the feedback from clients in terms of improving the experience on the platform, and it's showing a lot of success.

The second one is that the other brands, you've seen that at the end of last year, we've announced that we are going to end the JV with Yoox Net-A-Porter. We are extremely excited about the impact that this joint-venture had both on our business and also our understanding of ecommerce. And we feel that with the growth that we've seen in the last couple of years,

the projected growth in the future where online sales is going to represent around 25% of our revenue, now is the time to bring this activity in-house, and to achieve a bunch of objectives. The first one is we want to offer the best experience possible so that means we want to control the roadmap of those platforms to be able to take the feedback from clients in terms of what they need to have a better experience on our platform and increase the conversion, and then we don't want to be dependent on a third party to develop that roadmap. We want to own it so that we can serve our clients better.

Second one we want to improve financials. I talked about it earlier, there's currently a revenue share in the JV with Yoox Net-A-Porter as we bring it in-house, obviously we incur more – we generate more cost but we will get rid of that revenue share, and we think that the margin can be accretive starting in 2022.

Third, always with the client in mind, we want to scale our omnichannel service. It's a critical expectation from our customers to be able to have a seamless experience during – between the different channels, and we have already have thanks to the partnership with Yoox Net-A-Porter, we have some of the best omnichannel services that we are offering to our customers, but admittedly, they're very manual. So the platform we're building, and you're going to be exposed to this in the ecommerce workshop, is built in the way to sort of make those omnichannel services more scalable and more impactful in the experience of our clients.

And last but not least the fourth reason why we made this decision to internalize and bring our ecommerce activity in-house is to enrich our client understanding. As we build our own ecommerce platform, we'll have real-time access to much more data, which we're going to be able to use to feed our understanding of our clients and develop programs that are even more personalized for them. Again, you will get way more details during the ecommerce workshop we'll have later today. So that's the online retail. Very focused on the brand.com concessions and trying to grow that business which is going to be a big growth driver for our brands in the future.

And last but not least, I mentioned that Artificial Intelligence is about to change forever the way we do business. And I want to spend a little bit of time starting at a reasonably high level to explain why now is the moment this is happening, and why it's relevant for Kering. So why is it happening, and what is Artificial Intelligence? We've been talking about it for decades. There has been a lot of research with frankly limited business applications, but this is changing. There are three reasons for this. The first one is a technological breakthrough that happened with machine learning, which is now enabling companies to deal with massive amount of data and make sense of that, so this is a big breakthrough that makes it relevant today. Second is the volume of data which is unprecedented due to the digital tools that we are all using in our daily lives, the amount of data that algorithms can use to better understand clients and deliver better experiences, has grown exponentially and is now making it possible for companies like ours to improve experiences but also drive efficiencies in our business.

And the third reason why Artificial Intelligence is ready now for us to leverage is computing power. In order to compute all this data, you need tremendous computing power which was not available to non-tech companies in the past, but all the giants have developed sort of services in the cloud that anyone small and big companies can use to process big amounts of data. So the combinations of those three things makes Artificial Intelligence accessible for

companies like ours to create new opportunities in our business. And frankly I think a company like Kering is uniquely positioned to leverage this, right, because of our size. We have multiple brands, we have 46 million customers in our database, we have huge amount of data about our customers, which gives us a unique opportunity to leverage the tools that are readily accessible to drive great understanding of our clients and an understanding that's so great that we can actually personalize experiences to the end user level and drive efficiencies in our business in a massive way. So I'm going to try to show you a little bit how we're thinking about this, and what we're trying to do.

So the last piece of background on Artificial Intelligence, the key pillar of successful Artificial Intelligence as I probably alluded to from my introduction is one, you need to capture a lot of data. Second, you need to structure it within a database, and then you need to have tools to automate to make sense of this data and automate the impact on customers. And our goal here is to create this flywheel where we have data, we already have a ton of data at Kering level. Thanks to this data and the algorithms we build, we build better experiences that attracts more customers and retains more customers which generate more revenue which enables us to invest in more tools and then which will create more data and create that flywheel. And we think we care about size and our scale; we have a unique opportunity in this industry to be the pioneers and deliver big impact on our customers and bring impact on our business.

So how are we doing this? Pretty much structured around those three topics. Every single project we launch now at a digital project is an opportunity to capture more data. We talked about the ecommerce platform. That's an opportunity to capture transaction data, navigation data about our customers, and be smarter about what they like. We'll talk later today about client service. We have – we had since the inception of our client services platform more than 3 million contacts with customers. These are opportunities to not only offer a great experience, but to gather information about our customers. We have a ton of people coming to our stores. That's an opportunity to capture insightful information about our customers, and to use that data to then offer better experiences because we understand them way better.

So the first piece of our strategy is making sure that everything we do, we can collect the relevant data, obviously respecting the privacy rules in every single country where we operate, and once we have this data, the very important thing is to structure it in a way that it's going to be usable. And it's very important to understand that again, Kering has been pretty much at the forefront here – when Francois Henri Pinault made the decision to merge all the databases from our brands who are now on one single database where we're capturing all the information about our customers; very important. The brands have access to only their own data, right, even if it's on one single database, the brands work and every project we do is based on a brand-by-brand basis. We are not sharing data across the different brands.

But having one single database has a lot of advantages, right. We use consistent data, we can use tools and platforms that will help all of the brands, and we can build expertise at the group level to leverage those platforms and help the brands augment their performance. So the second pillar of our AI strategy is making sure we structure the data in the most relevant way. And as we did this, we also realized that that data was not necessary clean, and so we

have – and the team in one of the workshops is going to tell you of all the work we're doing in making that data as clean as possible, removing all the duplicates and making sure that data is actually accessible. It's a lot of work, it requires a lot of expertise, and we are already investing big in this area.

And the third piece is once we have the data and once we have the infrastructure, is to be able to use it. And so we're building at the group level expertise, deep expertise, we're hiring world class experts in data science in CRM, in innovation, in clients services, in digital tools in general to make sense of this data and do basically two things, drive – build deep understanding of our customers to be able to offer them the most personalized experience possible, and second, understand and work with our brands to basically drive operational efficiencies in their business, and I'm going to give you a bunch of examples on that.

Before I do so, a couple of data. You have that in your booklet, so some of those slides are going to be really hard to show here, so I am going try to go quickly on those. But one of the biggest surprise I had coming from sort of a digital native company to Kering, and where 90% to 95% of the business is actually made offline, I was surprised by the amount of personal information we have about our customers because basically 89% of transactions, we have information about our customers, which is actually quite astonishing. And not only that, but we have half of those clients, we have ways to get in touch with them and they gave us their approval to contact them for nearly half of this database, with two different means of contact, which is usually email and phone, and for two thirds or close to close to two thirds of that, we have one single contact method to get in touch with them, which is a huge, huge asset. And the more we acquire customers, the more this asset in terms of deeper understanding of our customers is actually increasing.

You have all this data in your booklet. The key thing is we have 46 million clients in our database, and the more we generate transaction, the more this database is becoming an asset for us, like just looking at 2018, we had 14 million more transactions registered in our database, and 7.3 million new customers. So now that we've built ways to capture data and infrastructure to store it, the more the time passes, the more we're building an asset with this. This is literally impossible to read on the slide, so it's on your booklet, but basically it's to give you a sense of how we're using this data to firm up our understanding of our customers, and we're here as an example comparing sort of the profiles and the client ID of an online customer with an offline customer. And as you'll see, the difference is not that big. There's a big difference – the biggest difference is primarily around average price where people online tend to buy at lower prices or sort of lower price items than in the store.

Now, how are we using this data? And there are specifically three ways we're doing it. Let me go into the first one which is personalizing experiences which is probably – so there's multiple ways we – multiple ways we do this. I'm going to share with you a few examples, and you will have more details during the workshop. The first one is emails and trying to use the deep understanding we are developing around our clients to offer them personalized experiences. So what we did last year and we're in the process of industrializing now, is we compared the performance of the standard email we're sending to every single customer around the looks and the campaigns of one particular collection, and we compare that with emails where we actually take information around the purchase history of a customer, we're

drawing correlations with other customers in our database to offer the full products, or to display the full products that have the highest chance of converting that customer. And we compare the performance of that email versus the control group that didn't receive an email. And what we see when you look at the performance of those two emails A and B versus the control group; we see the incremental repurchase lifts versus control. It's six times, so not six percent, it's six times higher for the personalized recommendation than the regular email. It doesn't mean we should do only the product recommendation because again, our business is a mix of art and science, but the science piece of our business, this shows that we can really improve it in a meaningful way.

The second example is an app we call LUCE. You'll have an amazing demo during one of the workshops. In the beginning of 2018, we've equipped all our store – all our sales associates with an iPhone, and in that iPhone, an app that we developed in partnership with Apple to help augment their performance. What this app does is basically three things. A, it gives real-time access to stock. So instead of having a sales associate talking to you when you are interested in the product and leaving you for 15 minutes to check if the product is available in the store, they can scan the product and immediately know whether that product is available in store, and if it's not, they can tell you well its available in a store in London, do you want me to have it shipped to you. A good example of how we use digital tools data to deliver amazing experiences to our clients.

The second thing it does is product recommendation, so if you're interested in a particular jacket or a particular dress, it will recommend you based on a primary style right now, not so much algorithm but this is going to come, products that would go well with the products you're interested in.

And last, it has all the information about the customers, allowing a sales associate to better prepare their appointment with their key clients. And when we look at again comparing – looking at the performance and the incremental lift associated with this app, we compare transactions that are happening – which involve the transaction with LUCE, which is the name of that app, and transactions that don't, and what we're seeing is we see a 15% to 20% increase in the average ticket for a transaction that involved LUCE, which suggests that this is actually helping the sales associate, not replacing it, but helping the sales associate to deliver a better experience to the client.

And frankly we've been extremely fast and agile in terms of testing this concept and rolling it out. Like in January of 2018, we had only 20 stores testing this feature or this product, and now, a year and a half later, we have 90% of our network across the brands equipped with this iPhone and this app, hence being able to deliver better experiences for customers.

Last but not least, as we look at ways to improve – to use technology and data to improve the experiences of our clients at every single touch point, there's a big touch point, I mentioned it earlier when clients reach out to us because they have questions about our products, questions about our stores, these are opportunities to deliver amazing experiences, right. So we created back at the end of 2017, a platform at the group level, to help to support the brand better address that touch point. And so what we do is equip digital agents with information about the customer, so that when somebody calls with information, we know who that customer is, because we have his or her phone number, we have access to all this information, and as result, the agents answering those phones are able to answer all the

questions, which is way better than the past experience where you would call a store, nobody would reply to that phone call because sales associates are busy selling. Now we not only pick up the phone, but when you have a question about an online order, somebody in the store doesn't have this information if you ordered online. So now we have agents that have access to all the information, hence being able to answer your question, provide you a better experience, and can even sell on the phone if you're interested in that.

So, we've tested this in Europe for a few brands, back in 2017, we rolled it out – it was so successful, we rolled it out in the US in 2018, and we just launched a new hub in Singapore for Asia earlier this year. So that's a success and better experience for our customers.

And to wrap up things on the personal experience, the way we are – we know it works is we are – we want to sort of assess the impact on the experience of our clients, so we're just rolling out the new methodology which is very popular in start-ups and in digital native companies, which is called Net Promoter Score, and we're testing it with a few brands where each time you do a transaction either online or in store, we'll send you a survey with this – which looks like this, which will capture a score but also, and more importantly, insights about what you liked and what you didn't like about the experience, and we're using this data to A, enrich our understanding of the clients, and B, take actions to make sure we are reaching out to people who didn't have a good experience to bring them back and turn them into promoters. So that's the personalized experience piece of how we're using the data.

The second piece is omnichannel. We're building, as I said, a big asset of digital tools and data about our customers. And when we think about omnichannel, we think about it in two ways. One is the services that build bridges between the online and the offline stores. I talked about it earlier, it's basically reserve online, pickup in store; buy online, pickup in store; buy online, return in store... We're building those bridges because we know our customers engage with the brand, they don't really care about the channel there. And one day they're going to buy online, and another day they're going to buy in store, so we want that experience to be as seamless as possible. And so we have that currently with – in the context of our current platform. We're going to build much more automated and scalable services as we move to the new platform. And this works.

A couple of snippets on this. For people who reserve online and go in store, what we see is the average ticket is 70% higher in that case versus when they buy only online. And second, the other way around when we have people like sales associates buying online for a customer that's in store, what we're seeing is that this already represents 5% of total online – of total retail sales, whereas it's available only in 23% of the stores, so we're rolling this out and you can imagine the impact this will have on our business. That's omnichannel services.

The other thing we do with the data, and when we think about omnichannel, is thinking about using this amazing understanding we have with our customers to activate the omnichannel. We don't really – we're not focused only on email, or we're trying to figure out – we use this data to understand what is the best channel to reach out to customers, when is the best time to reach out to them to tell them the story about our products and our brands, and third, what is the most relevant message to do this, with the idea to offer a better experience and higher conversion. And you will get the example of that during the workshop on client engagement.

Last but not least is operational excellence. I said where we're building this asset around data and using it to personalize experience, to drive omnichannel activations and services. We can also have a huge, huge impact on operational excellence, and I will share a couple of examples here. So first, we looked at sort of – I already showed that slide, but we looked at areas where data can have an impact, and we've identified a couple of use cases in the supply chain, primarily around replenishments, which we have been very active at working with Gucci, where we're basically using store data, client data, and product data and seasonality data to try to predict how products are going to sell at the SKU level and at the store level, and providing this information to our planners so that they can replenish their stocks at the central, regional, and store level more effectively than they're doing without this forecast, right.

And what we've done is we compared the new forecast that we developed with the AI factory in this new algorithm that takes all this information with the current forecast that we're using, and we've seen – we've proven that we can deliver 20% greater accuracy between the forecast and the actual sale that is going to happen. So if you can imagine on a business like Gucci which is 8.5 billion Euros, if we can drive that kind of efficiency at every step of the supply chain, this could have an enormous impact. This is very early days, it's been a lot of work to make that happen, and I'm excited that we're actually going to launch this in one category in Europe for Gucci in production, so it's actually going to impact the work that our planners are doing using AI to be more effective. It's a very exciting development.

Again, as I said, our business is – the goal here is not to replace everything we do with AI – it very much augments the performance of our staff and our processes to drive greater efficiencies. And a good example of this is as we think about our algorithms, the next step for us is obviously to feed it with more data, but it's also leveraging the amazing knowledge and expertise that our teams have to inform that algorithm and make it more effective. So the data science – the AI factory we've built has actually built a little tool to capture the feedback on every single product from our buyers and from our planners in terms of what they think is going to work, which one they prefer, to feed this into the algorithm to make it even more effective. So it's a mix of art and science data and sort of human perspective that we're adding to the algorithm to increase its efficacy. So that's what we do around operational experience.

And the other big thing that we're doing as far as the digital team is concerned is not only being very busy at driving impact, better experiences, and better efficiencies short and midterm, we're also looking at the long-term, and we have an innovation team that's very much focused on trying to understand the big upcoming disruptive trends, and try to figure out what they mean for our business and take action on that. We've decided to focus that team on a few topics, and you'll have a workshop later today that's going to give you concrete examples of the type of topics they're working on. But at the highest level, we're very focused on sort of new business models and new materials is an area where we're spending a lot of time trying to understand how new materials and new business models are going to evolve and what we should do about it. We're working with a lot of biotech companies to try to improve that, and also trying to figure out how subscription, how second-hand businesses are going to impact our business and try to form an opinion about that and develop actionable plans.

The second thing is looking at the big technologies and disruptive technologies that are coming like blockchain, like voice, and again trying to work with brands to answer some of the key problem, key business opportunities with those technologies in any test and then roll out if it's proven successful. And last, as we do this, we want to make sure that we create the conditions to know all those technologies and also change the culture around innovation. And I'm going to wrap-up because I'm running a bit late...

Two slides on the impact on our organization. This is trying to describe how we're thinking about going after digital. And I think this is a really important thing because I told you earlier, we think technology is a huge opportunity for the luxury industry to deliver better experiences. I think we're taking an approach that's very specific to us. And this approach is trying to capture that. The first one is we're hiring world-class deep experts in every single digital field at the group level. And what these people do is they work with brands to co-create platforms that are going to address some of their business opportunities, and they operate those platforms at the group level to give the brands leverage, and then they work with the brands to understand what their top business opportunities and priorities are, to see how data, technology and digital tools can help them address those opportunities. This is what we're trying to show here. So we already have a bunch of platforms already in place that are helping augment the performance of our brands.

We have Salesforce, we have one single data base, I talked about, we have Salesforce marketing cloud, Salesforce service clouds, these are all platforms that are built at the group level to augment the performance of the brands. And the approach we're taking here is very much a test-and-learn approach where we're taking a brand, a region, testing an idea and then when it works, we basically rollout to the rest of the brands and the rest of the regions. And as we do this, I kind of really believe we're actually changing and transforming the companies and implementing new ways of working. And we're not doing this via – because – just declaring it or putting posters in the hallways, we're doing this because we're actually running projects with the tech team, with the brands, and with the functions within the group, and each time we do those projects, we implement a bunch of methods that are influencing the rest of the organization.

One is we are breaking down silos between the tech team, the digital team, the group and the brands and working effectively. We had a good example with bringing in-house the ecommerce platform; we're bringing all those people in the same place working in an agile way. We've already trained 50 people in agile development. This is challenging with all the people going through those trainings. We're adding new expertise within the group around data science, around digital tools, around user experience. And then we're taking this method which I think is a little bit new and hopefully you got that from some of the pilots that we're running is we have an idea and we want to test this idea quickly in a small area of our business, and once we see it working, deploy it to other brands and other regions. That's the approach we're doing, and again, it's not something we're declaring, it's something we're doing in every single project, hence influencing the rest of the company.

That's it for the overview of our strategy, and we're now getting into the meat of the day which is going to be the workshops. So we have four workshops that are going to happen now, and the purpose of these workshops was to try to give you more details into all the pillars that I just mentioned. And the way we did this, we're trying in each of them whenever

possible to have somebody from the group and one of those experts that we've hired, to tell you about the platform and the expertise we're building at the group level together with the brands, and how we're partnering with the brands to understand how data technology can help them better serve their customers. So you'll have that in four workshops. One is going to be dedicated to digital communications, and you'll have somebody from the group and Robert from Gucci coming and telling you a little bit what we're doing specifically.

We'll have another one on ecommerce and client services, another one on client experience, and the last one on AI incubation. And you guys are going to split in groups and rotate across those different workshops, and hopefully they will give you the perspective around how the experts we're hiring at the group level are building platforms that augment the performance of the brands. After the workshops, we'll come back to this place to have a couple of sessions. One, we'll have Cédric Charbit, CEO of Balenciaga, coming and sharing with you the story of Balenciaga and a little bit a case study of how they're using digital tools to better serve their customers and drive the growth of their business, and we'll have a Q&A session at the end to answer all of the questions. And during the workshops, you will have 10 to 15 minutes to ask your questions on that specific workshop, and hopefully we'll be able to give you the full perspective on what we're doing.

The last piece of logistics that I think I need to do, we rehearsed this 10 times and I always got it wrong, so you should look at your badge, you have a color on your badge, and so just make sure you have that color. And so there will be people outside who will tell you where to go. So if you make it to your room, you're good for a couple of hours. Thank you very much.