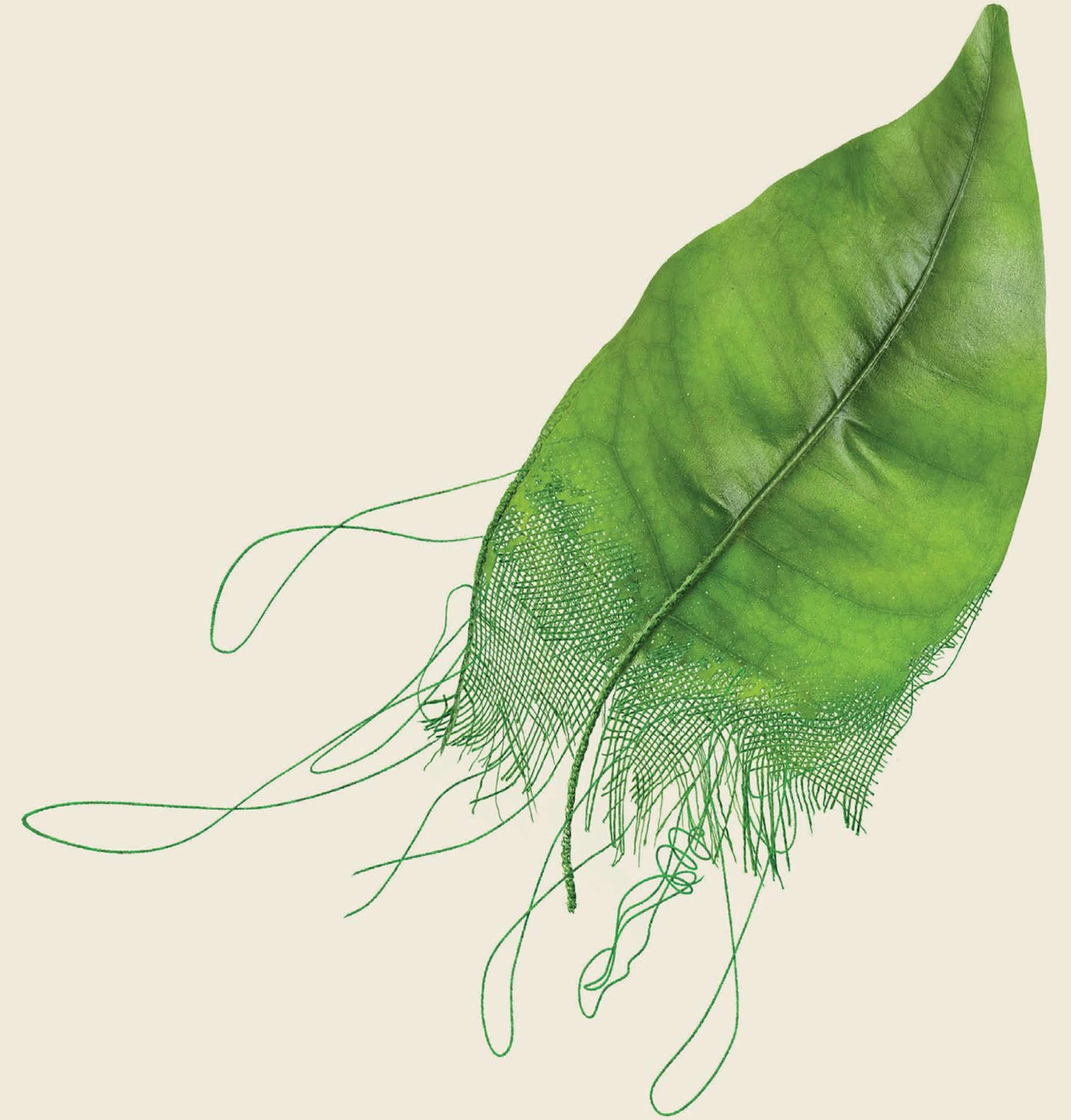


3rd EDITION
VENICE SUSTAINABLE FASHION FORUM
OCTOBER 24th AND 25th, 2024
VENICE, FONDAZIONE GIORGIO CINI

PRESENTATION BY
Carlo Cici

Partner and Head of Sustainability | The European House - Ambrosetti



WITH THE CONTRIBUTION OF



WITH THE PATRONAGE OF



MEDIA PARTNER



DIAMOND PARTNERS



PLATINUM PARTNERS

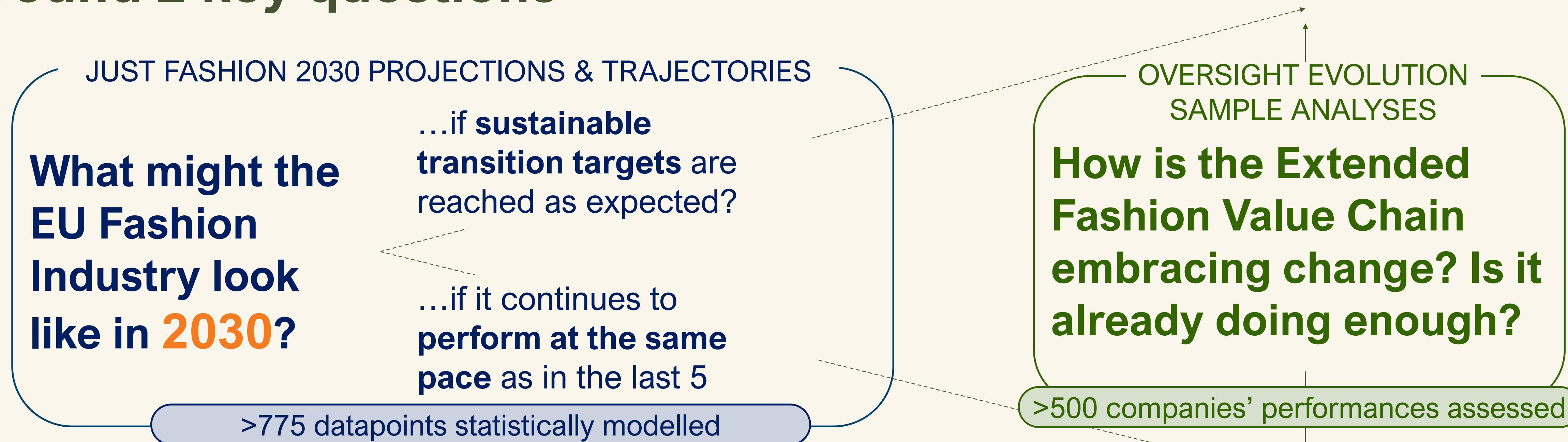


PARTNERS





Goals of the study: a new, forward-looking structure, revolving around 2 key questions



Challenges and opportunities

Proposals for a European Just Fashion Transition 2030



The sources and the analyses the study counts on

PROPRIETARY ASSESSMENTS

373 Italian companies
assessed by a sustainability
assessment questionnaire

100 Largest EU companies
assessed on their ESG
oversight and performance

30 Global retailers
assessed on their
sustainability oversight and
performance

PROPRIETARY ELABORATIONS

>2,9K Economic performances
of companies along Italian supply
chain and EU main fashion
brands analyzed

>26K Global respondents
included in the consumer
statistics sample

>775 Datapoints
on EU fashion industry
performance analyzed to
elaborate 2030 scenarios

PUBLIC SOURCES

>45 Scientific articles
papers, and informative
reports consulted

32 European policies
measures or frameworks
analyzed

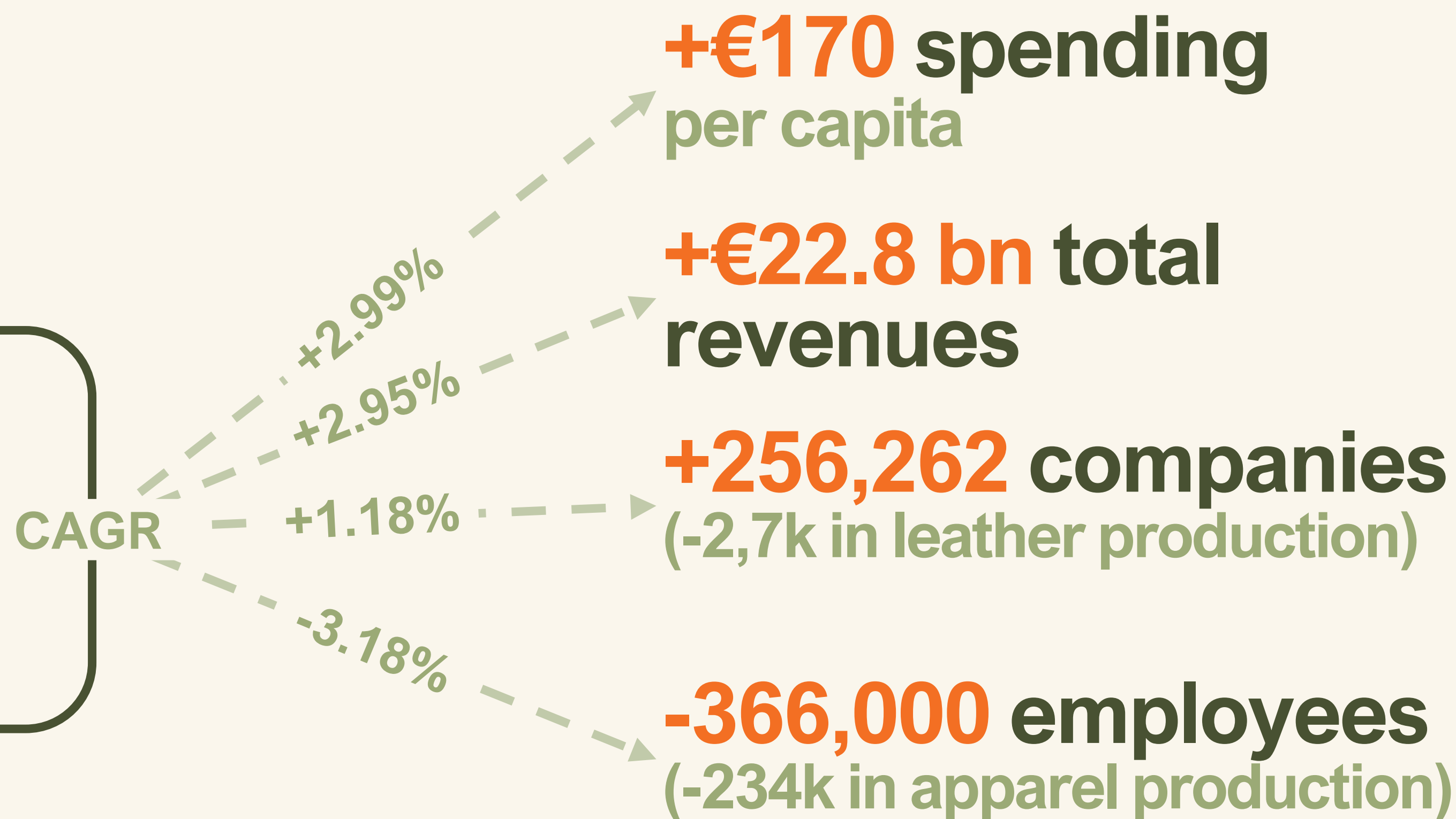
>25 Databases
extracted and analyzed at
European level



At current trends, a decline in employment is forecasted, despite steady growth in both turnover and number of enterprises by 2030.



**European
Fashion
2030 economic
projections**

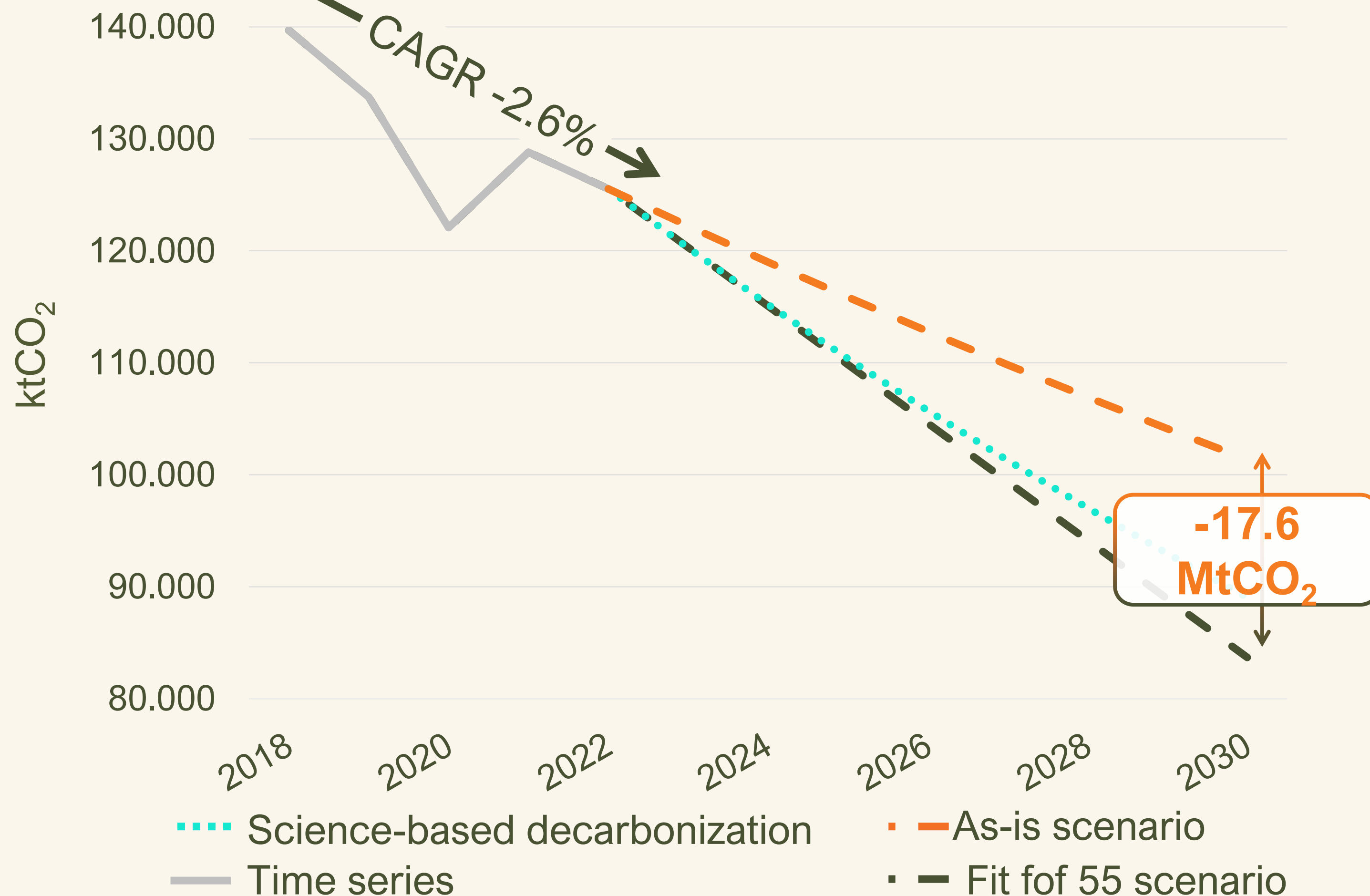




Over the past 6 years, the **EU fashion industry has decoupled economic growth and GHG emissions**, reducing its output's carbon intensity by **9.7% per year**.

Yet, the EU fashion industry may meet its Fit for 55 climate targets **8 years behind schedule**.

Compound EU fashion industry emissions and decarbonization scenarios compared





Additional investments for €24.7 billion by 2030 are needed, or 8-times-higher revenue losses (€156.7 billion) should be expected across the industry.

The cost of carbon abatement could fall by 28% by 2030, dropping from the current €394 per tCO₂ to €284 per tCO₂.

Investments required vs. expected revenue loss in a Fit for 55 scenario



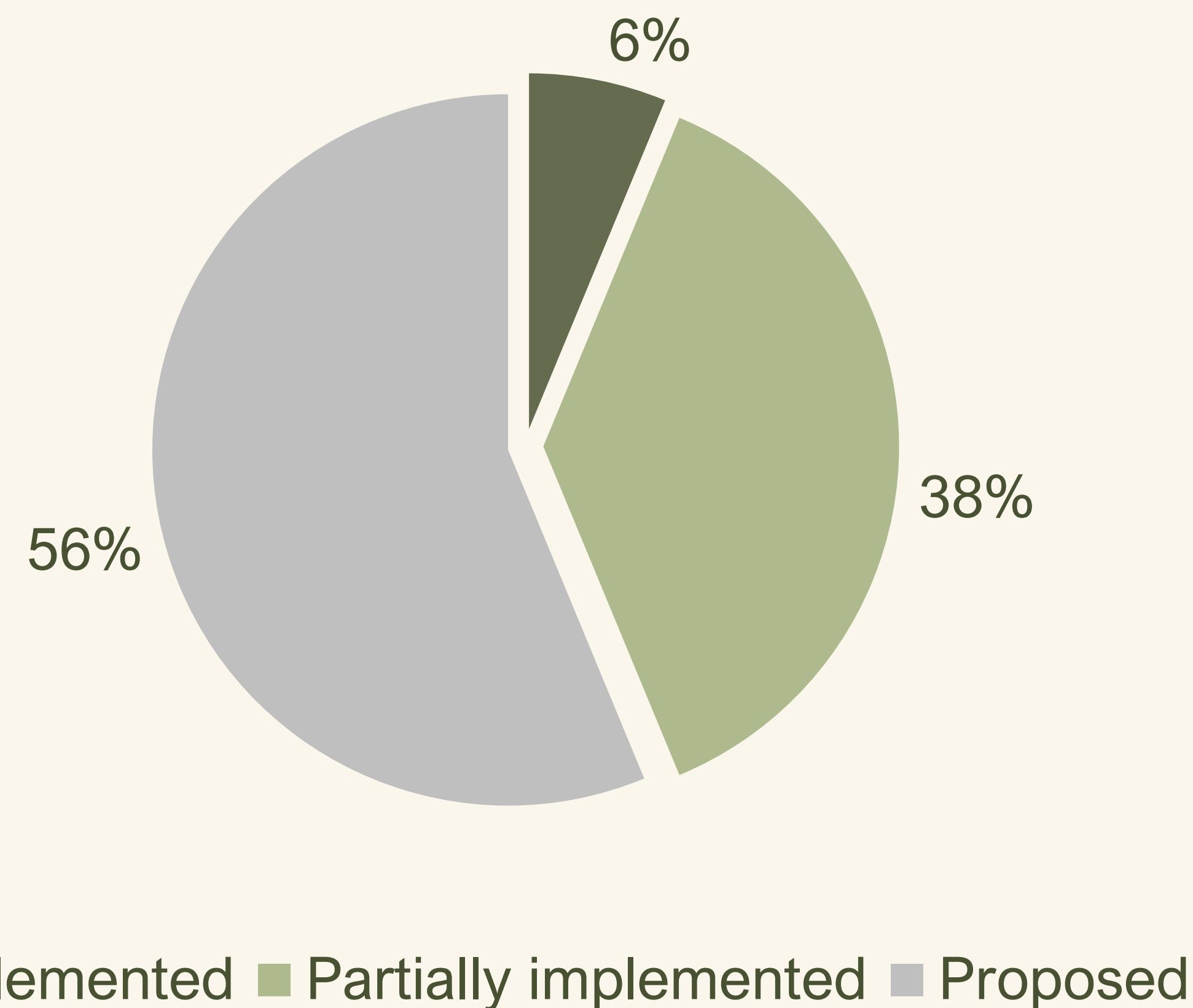


The EU chose to push the transition through regulation, but **full implementation** of Industry policies is not expected for **another 5 years**.

Clear decision-making and **competitiveness** can be held back by **intensive and incomplete regulatory frameworks**.

In contrast, the **US** aims to mobilize over **\$2,400 bn** through the IRA, the **Chips Act** and **private investment**.

Status of EU regulations affecting the Fashion Industry in 2024





The European **financial sector does not have all the levers** to drive a Just Fashion Transition, as al SMEs are excluded from the EU Taxonomy regulation.

Nearly **60%** of European SMEs are already investing in **sustainability**, but only **35%** of their funding comes from external sources and, within this share, just **16%** is actually labelled as sustainable finance.

Sustainable external financing sources among European SMEs



€485 bn

The **EU funds** put in place for all industries and companies to accelerate the European Green Deal implementation



~16%

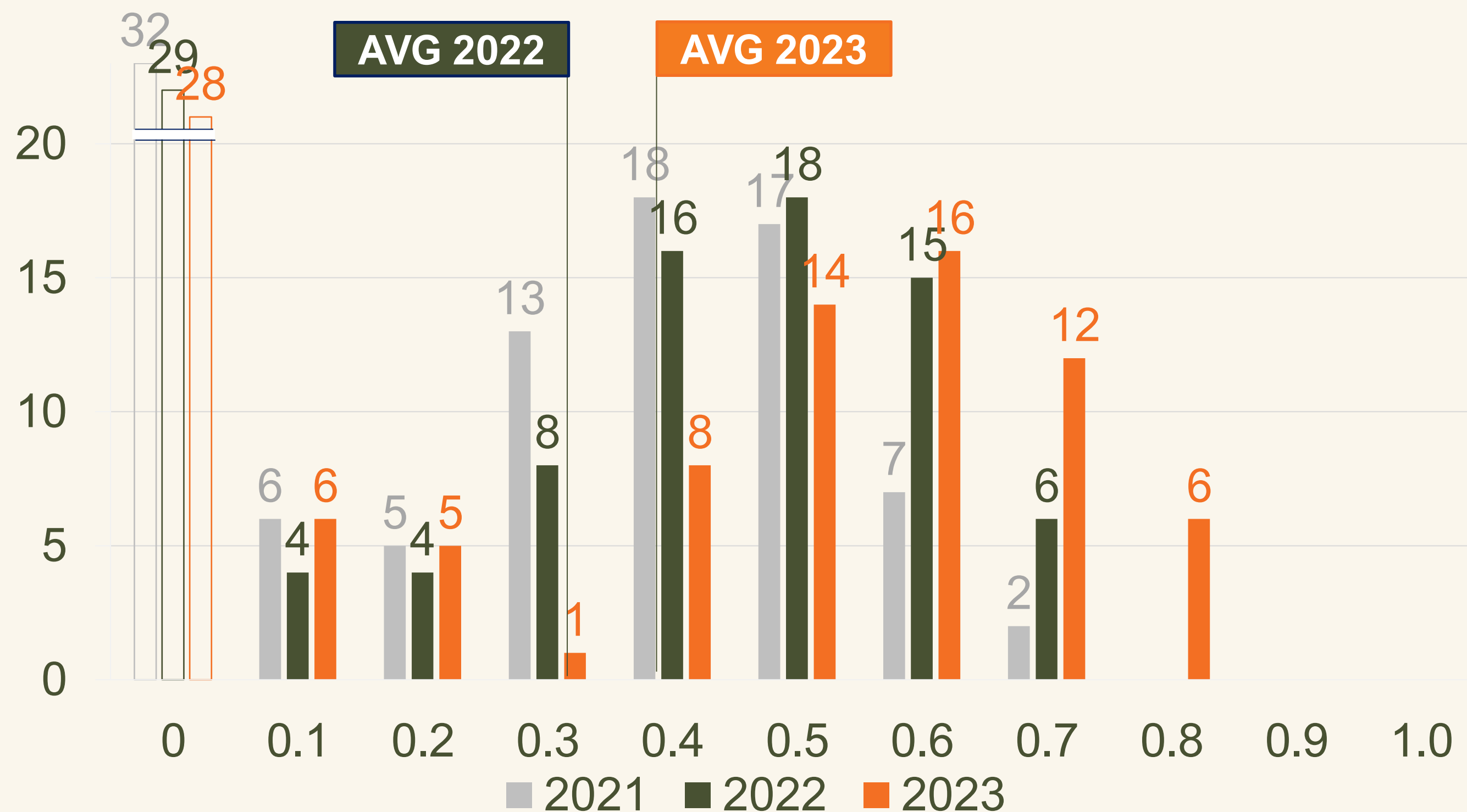
The **average external financing** qualifiable as **sustainable** finance, with a broad definition of the term sustainability



In 2023, an **improvement in ESG oversight** is registered among the 100 EU largest fashion companies (+12%), although 28 still lack sustainability reports.

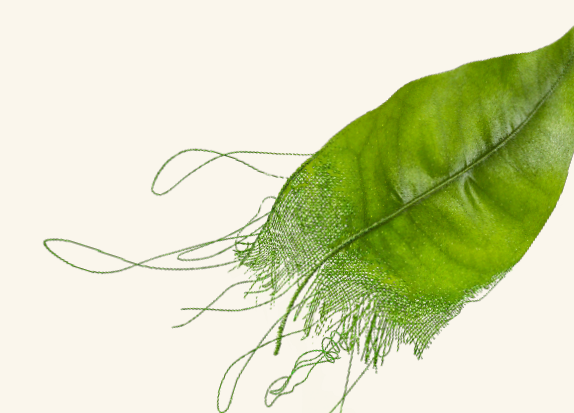
26% of the panel **links executive compensation to ESG metrics** (+8% vs 2021). In EU such share is as high as 93% among large listed companies, 76% in US.

2021-2023 EU largest 100 Oversight Distribution



 **33 improved**
 **35 stable**
 **4 worsened**

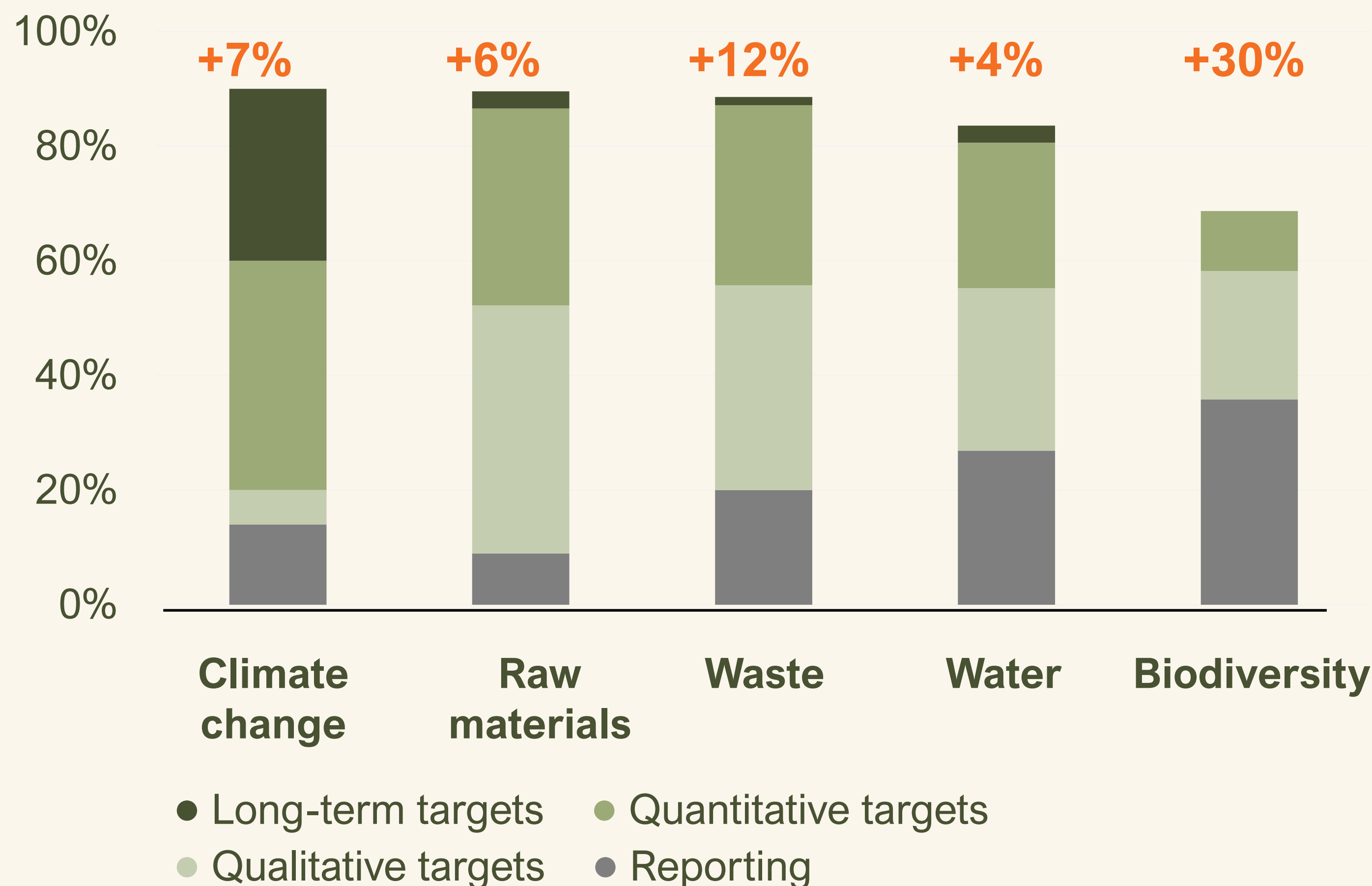
(1) TEHA elaboration on all latest balance sheets and sustainability related publicly available information from European fashion and luxury value chain companies that will be subject to CSRD obligations; (*) To be considered as improved or worsened, the difference between the score of the two years was in absolute value higher than 0.05.



Environmental oversight has improved.

Climate change saw new long-term plans, the approach to **use of raw materials** has shifted to quantitative targets, while **waste management** shows notable gains from new quantitative goals.

Level of companies' reporting and commitment on environmental topics, variation vs. 2021



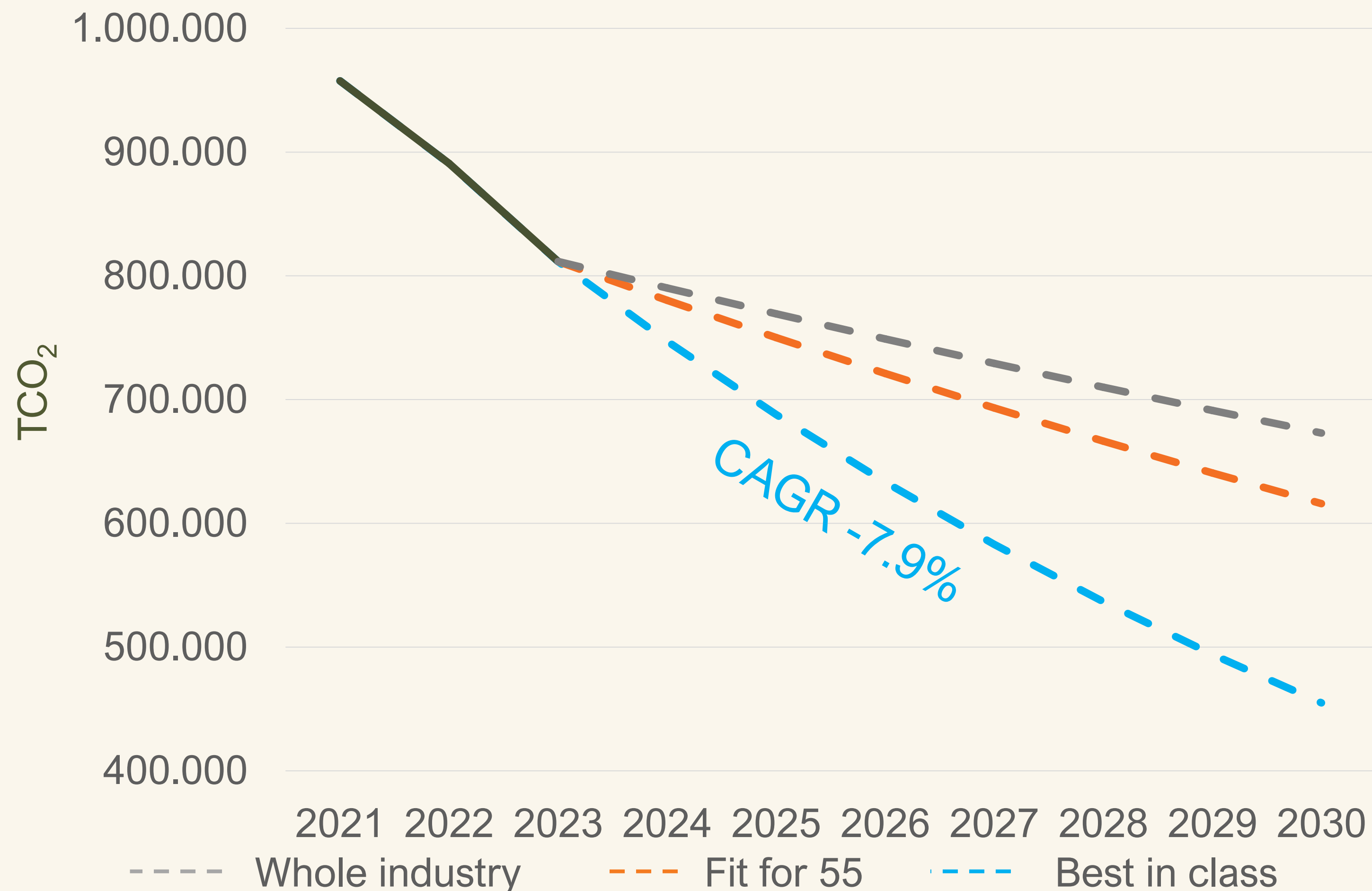
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Decarbonization in EU seems feasible, as 34 among the largest companies are reducing their emissions twice as fast as required by Fit for 55.

Still, this might show a significant lag for the rest of the industry.

Best in class, EU fashion industry emissions and Fit for 55 decarbonization scenarios

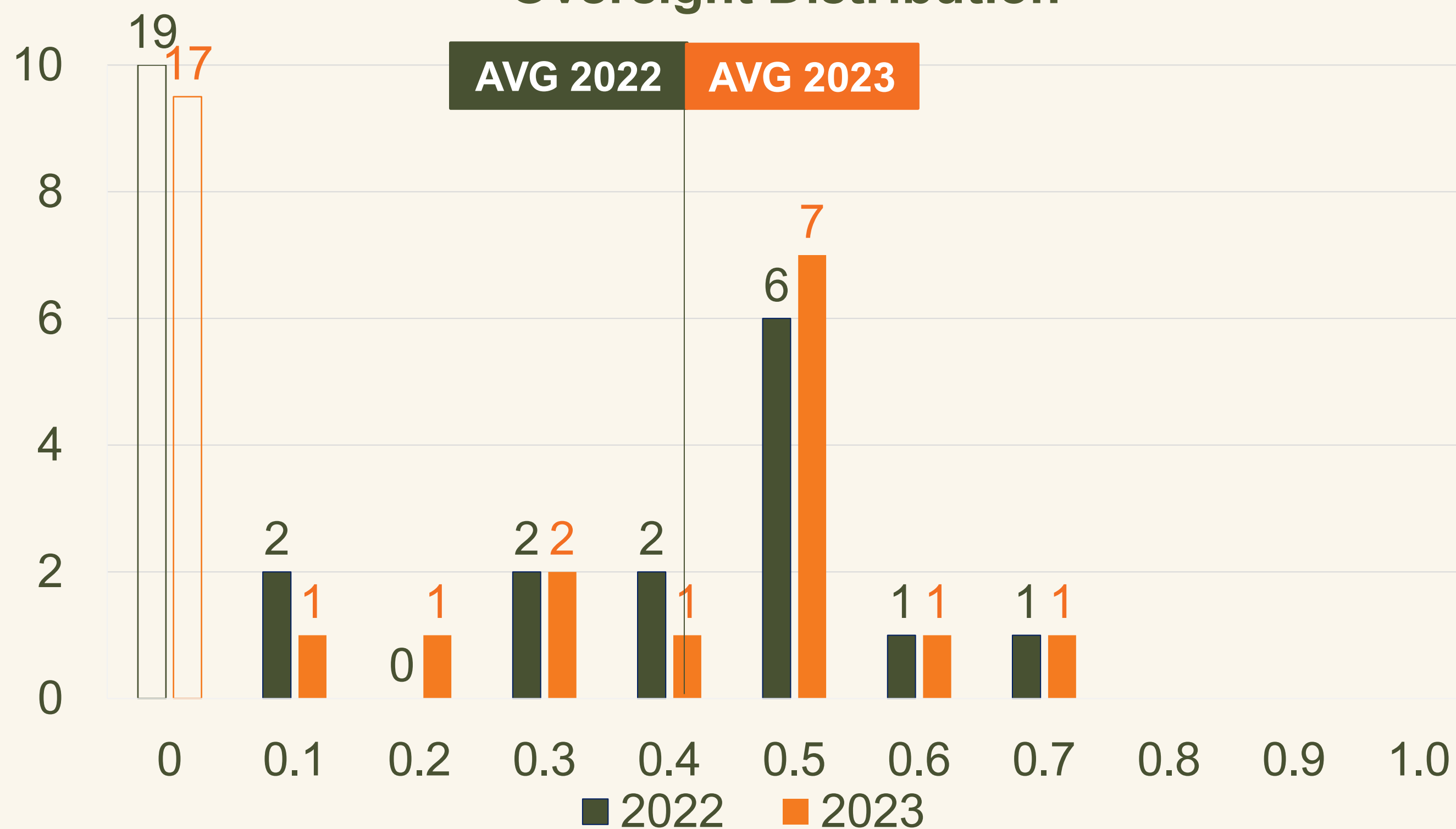




Whereas the broader fashion industry is starting to advance its reporting targets the **Retail sector lags behind**, struggling to improve the quality of its disclosure.

Only **11 out of 31** companies have published a new **sustainability report in 2023**, 3 still rely on a 2022 edition.

2021-2023 Retailers Oversight Distribution



4 improved



10 stable



0 worsened

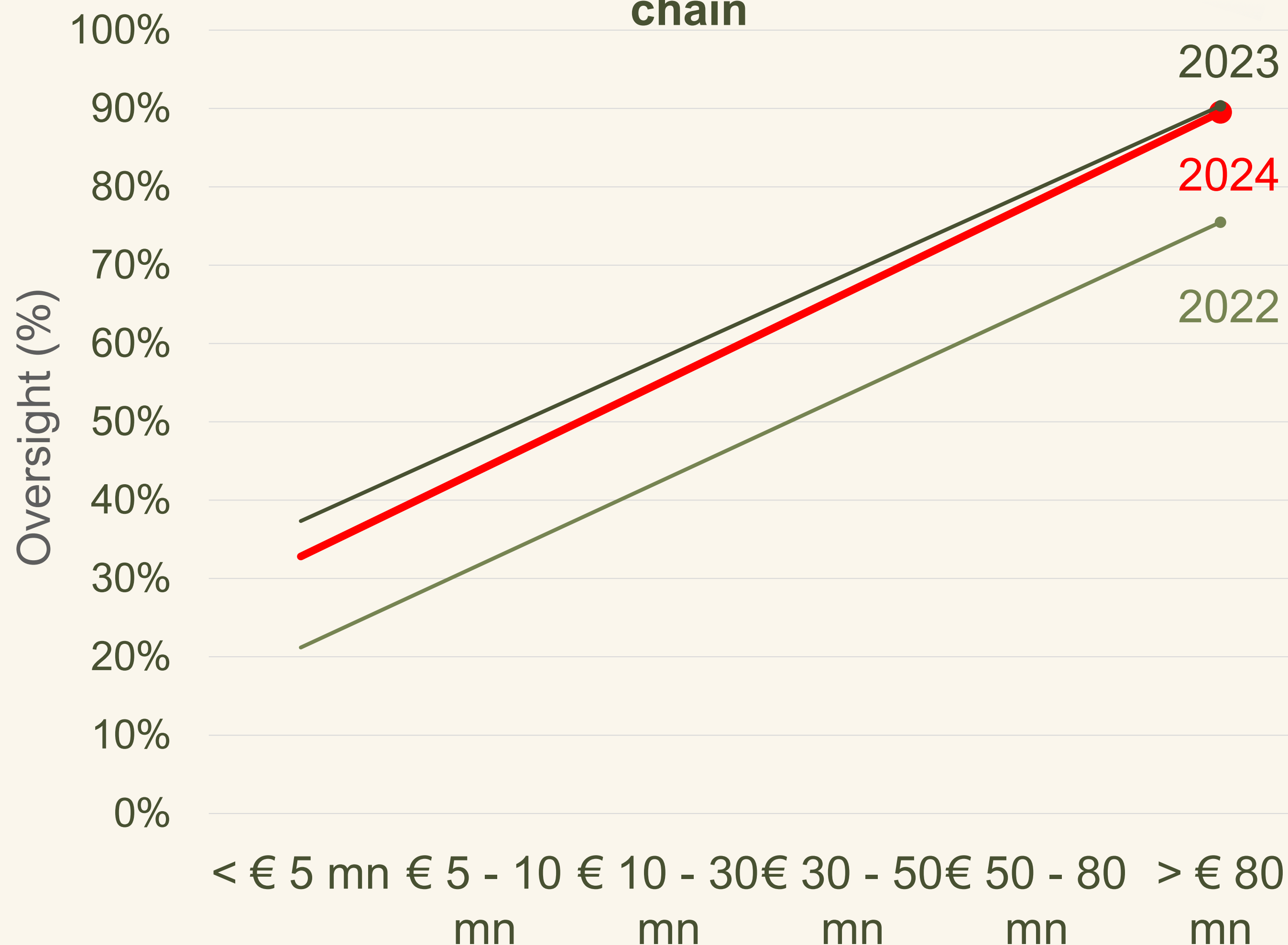
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Larger Italian fashion supply chain companies show **strong sustainability oversight**, but smaller firms (< €30 mn) face challenges, leading to a **3% overall decline in ESG oversight in the last 3 years.**

The gap narrows significantly, almost reaching zero, for companies > €80 mn

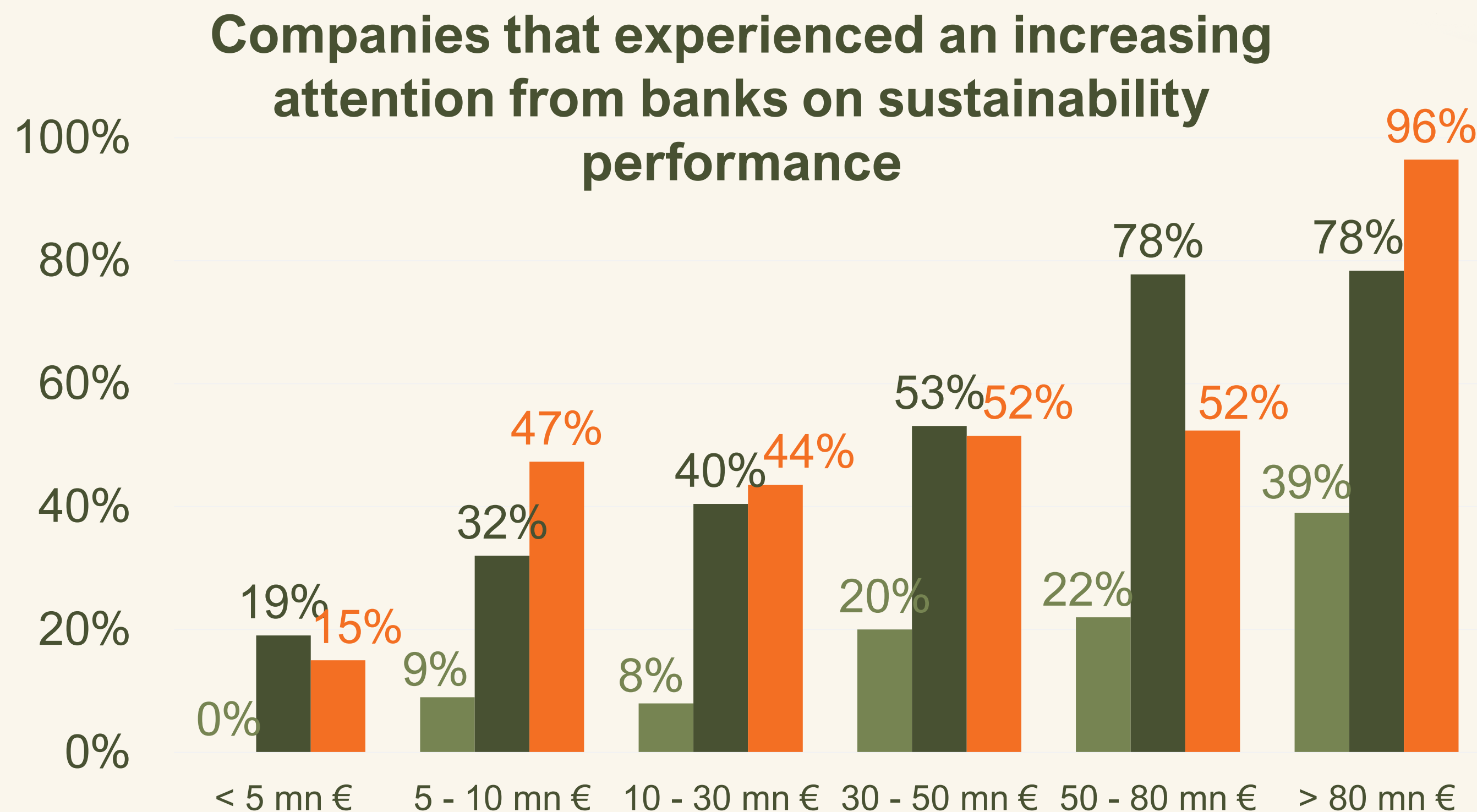
The oversight trendline of the Italian supply chain



(1) TEHA elaboration on Kantar data - Sustainability Sector Index 2023, 26,018 respondents. Total does not equal 100% as companies were able to select multiple options.



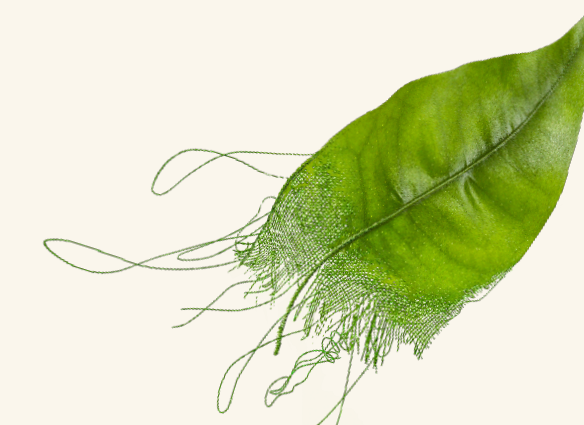
96% of the largest companies reported **heightened scrutiny from financial institutions**, with smaller firms (revenues of €5 million to €50 million) also seeing increased attention (44% to 53%).



- 2022 - Perceived external pressure from banks to implement a sustainability strategy
- 2023 - Experienced an increasing attention from banks on sustainability performance
- 2024 - Experienced an increasing attention from banks on sustainability performance

70% of companies that experienced **increased attention from banks** have implemented a **sustainability strategy**.

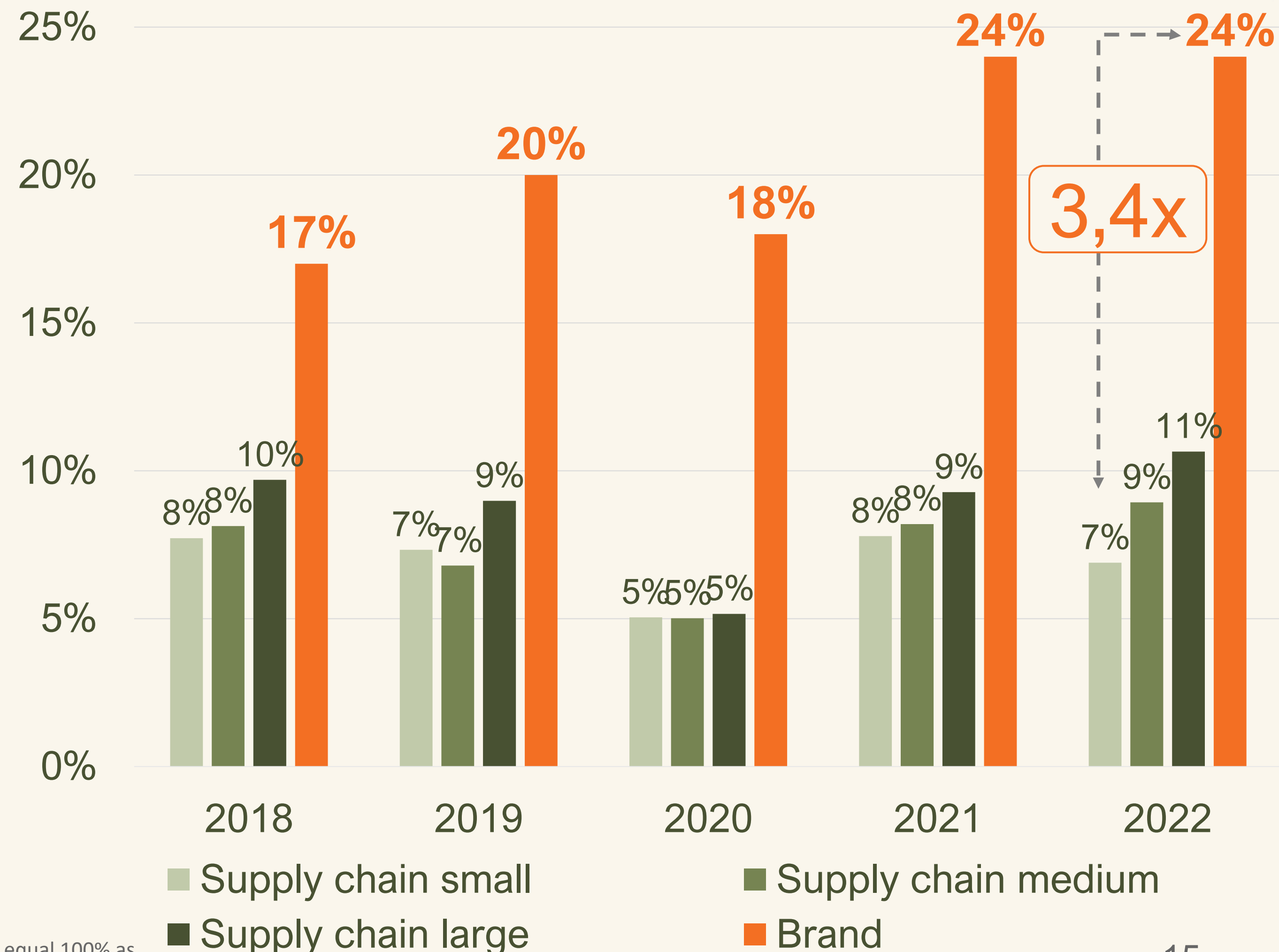
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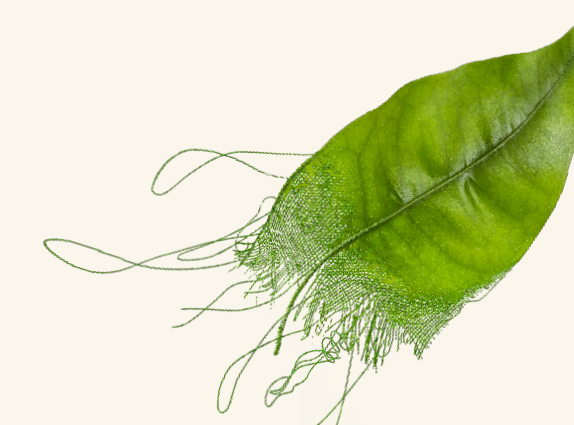
Lack of skills and low margins make Italian supply chains struggle with swift changes.

An average 7-11% profitability – 3.4 times lower than the average recorded among EU biggest brands – make investment in decarbonization hardly affordable for 92% of the companies.

EBITDA-turnover ratio among the value chain (2,686 Italian supply chain companies vs. 281 EU brands)



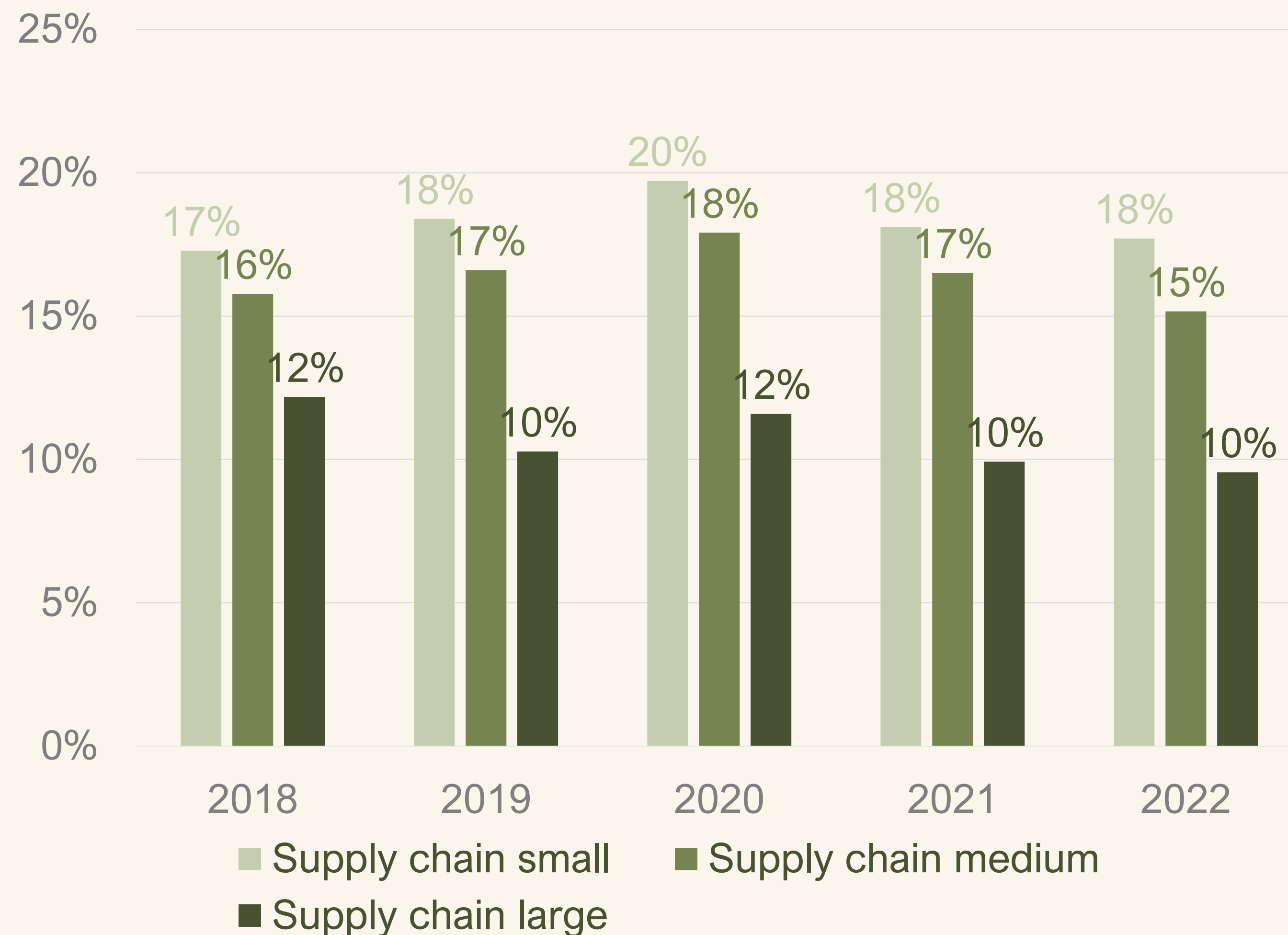
(1) TEHA elaboration on Kantar data - Sustainability Sector Index 2023, 26,018 respondents. Total does not equal 100% as companies were able to select multiple options.



The inability to quit **caporalisation** may be linked with **rising labor costs**, accounting for approximately **14.1% of total revenues**.

On average, **employees net salary is €20,316**, reflecting a **7.3% increase compared to 2018**.

Average labour costs on turnover among the value chain
 (2,686 Italian supply chain companies by segment)

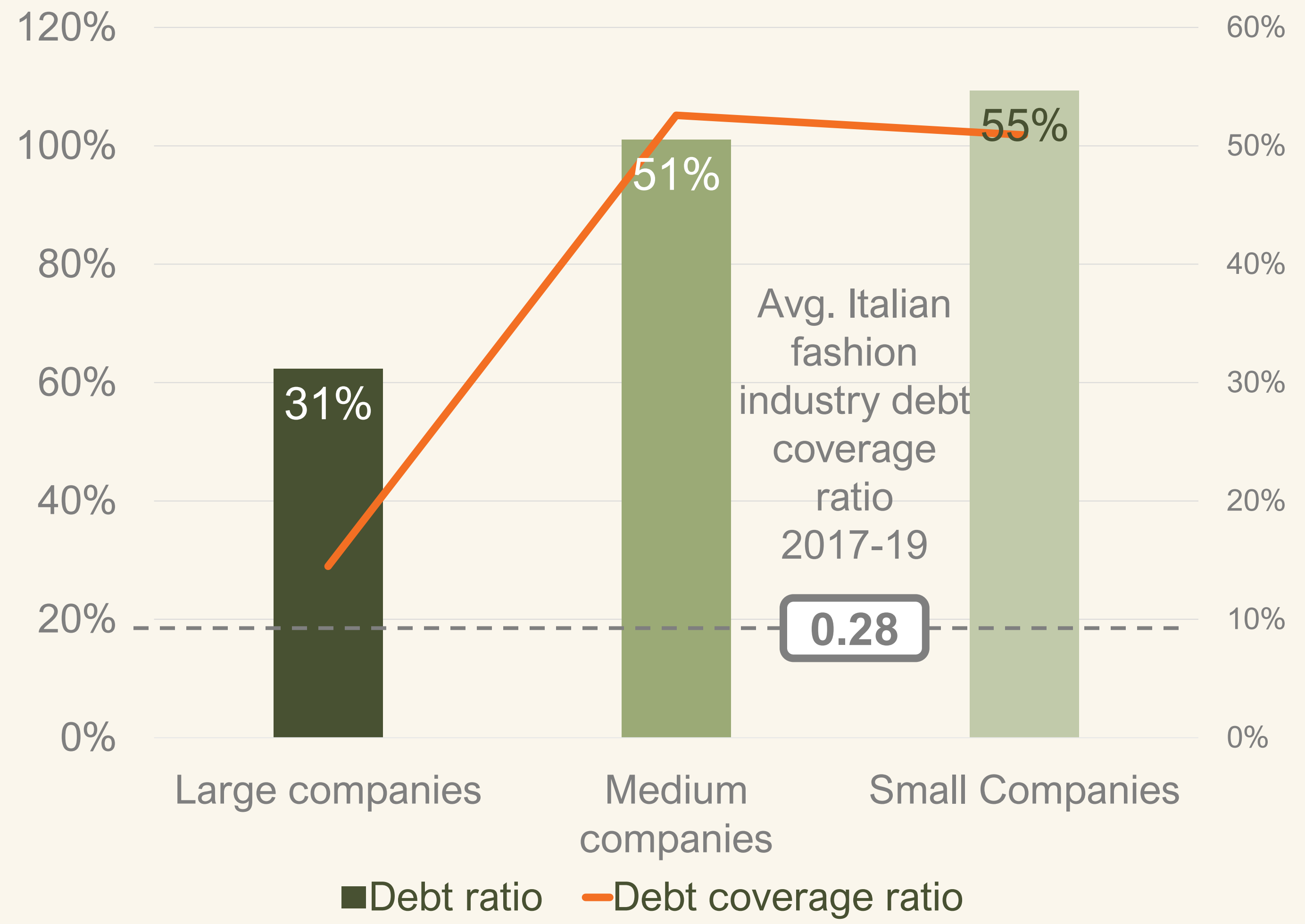


(1) TEHA elaboration on TEHA, Rilanciare la produttività: quale politica industriale per l'Italia e per l'Europa? (2024) and OECD, Productivity profile of Italy (2024); (2) TEHA elaboration on Istat; (3) TEHA elaboration on AIDA.



Italian supply chain SMEs are almost twice as indebted as large ones and will be able to repay their debts three times slower – about 1 year vs. 4 months, with an average value of around 6.5 months – which almost doubled in the last 4 years.

Debt ratio and debt coverage ratio among the value chain (2,686 Italian supply chain companies by segment)

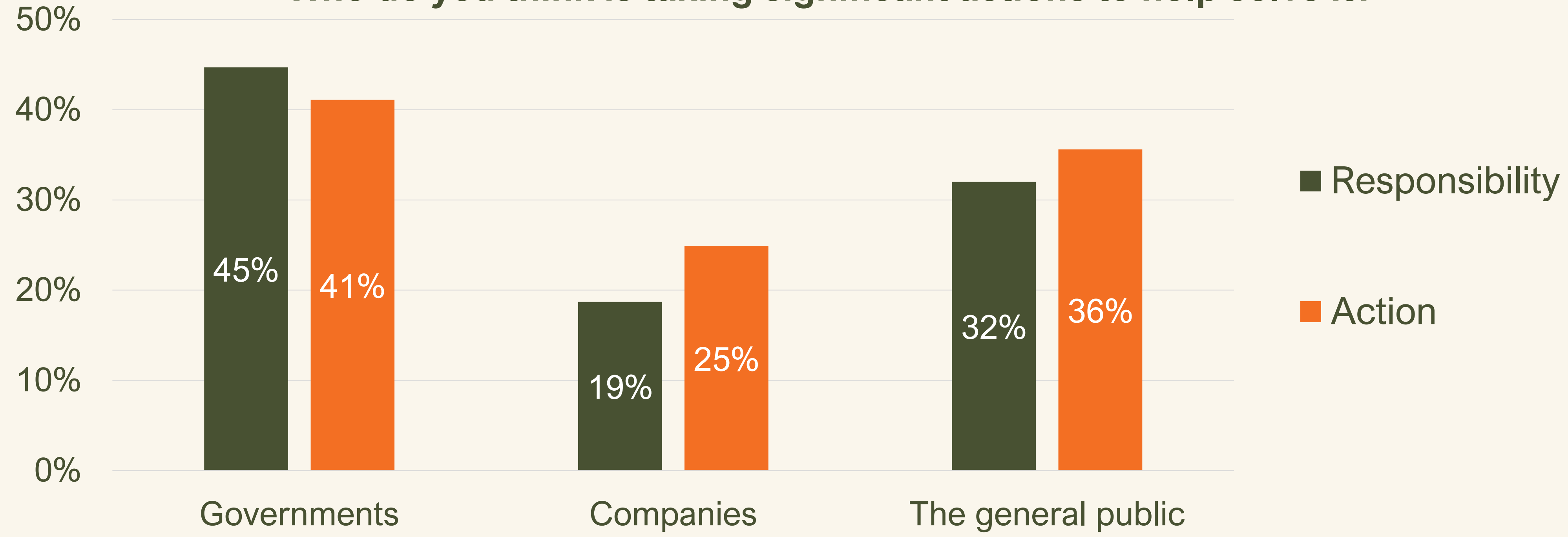


(1) TEHA elaboration on Bureau Vad Dijk AIDA (2024); (2) EY, Settore moda e Covid 19 (2020)



As business and citizens are already doing enough, it is up to governments to play their part, consumers say

Whose responsibility is it to tackle environmental issues?
Who do you think is taking significant actions to help solve it?



(1) TEHA elaboration on Kantar data - Sustainability Sector Index 2023, 26,018 respondents. Total does not equal 100% as companies were able to select multiple options.

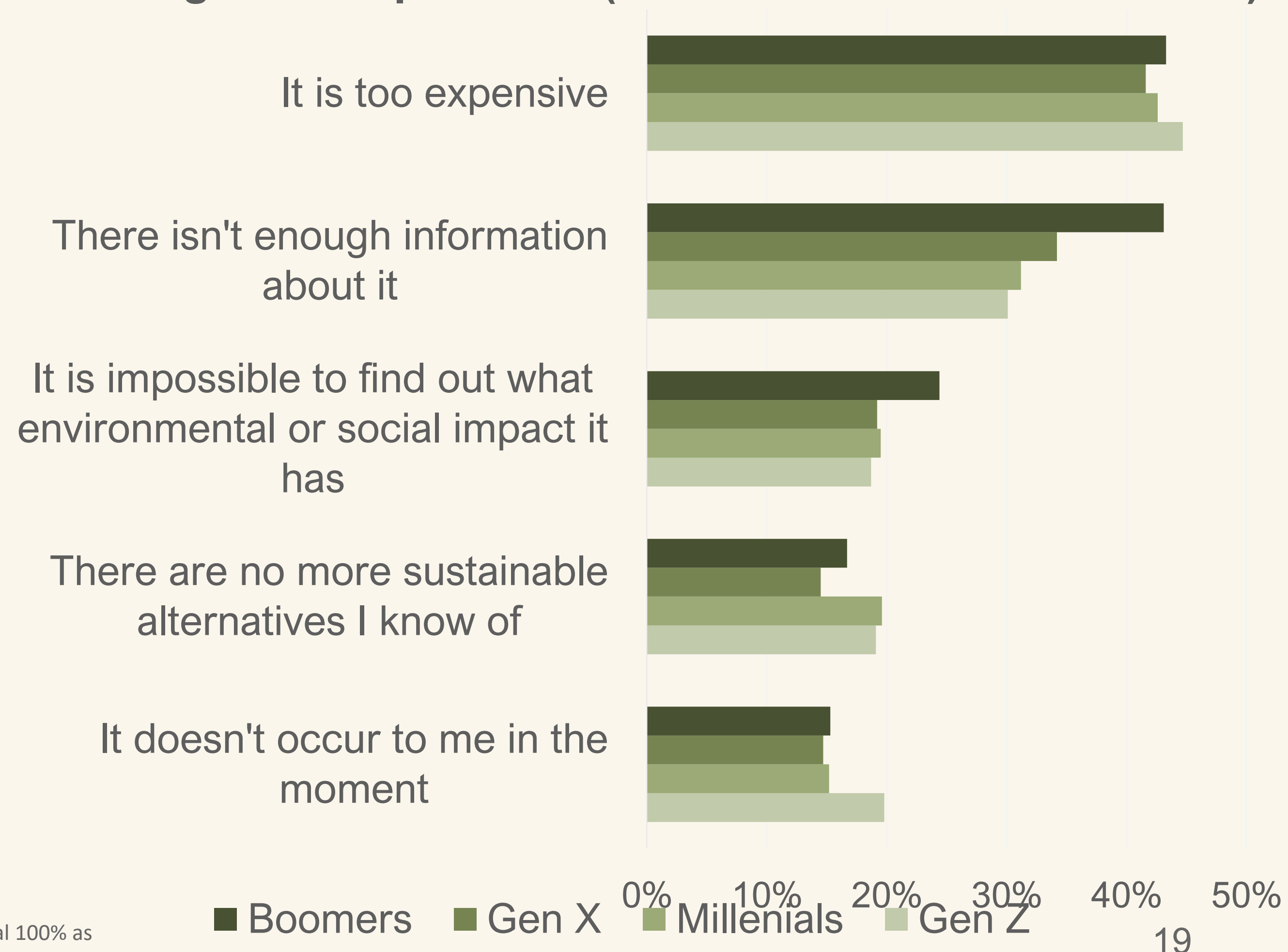


Cost is the main barrier to sustainable fashion for all generations, especially Gen Z with limited finances.

For Boomers, the complexity of sustainability information is a key challenge.

More educated consumers also feel there's a lack of detailed sustainability information on products.

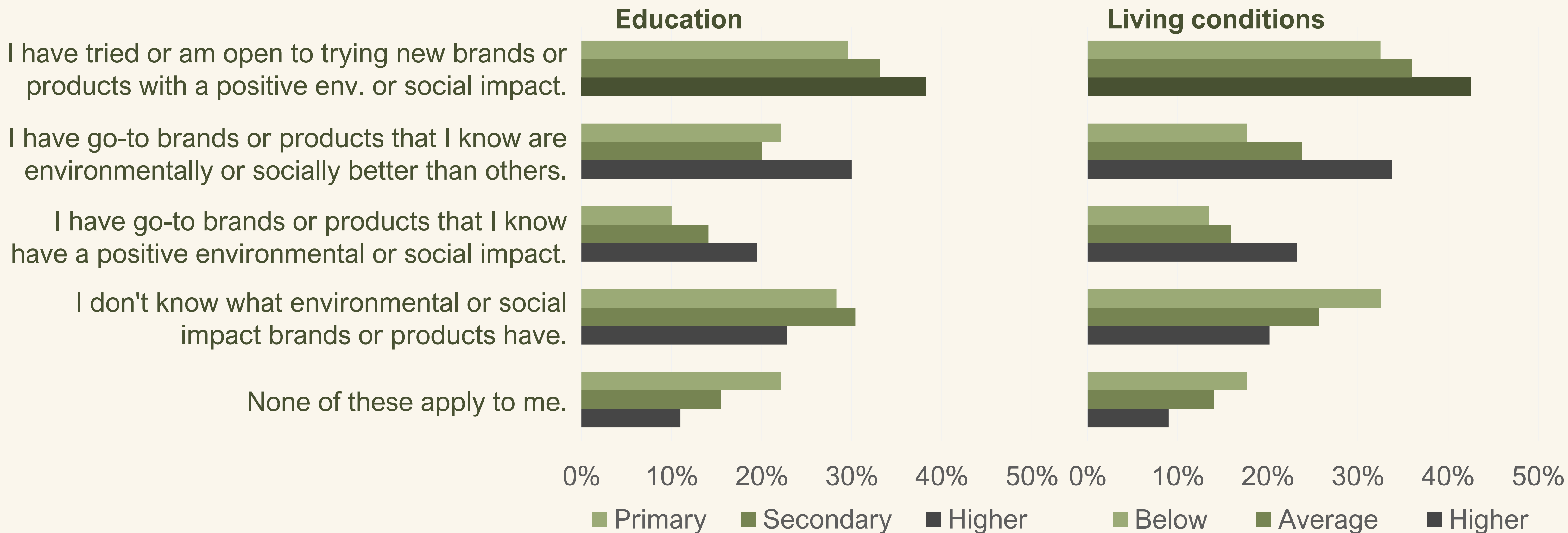
Top 5 reasons that make it difficult to be more sustainable when choosing fashion products (Results based on Generation)¹



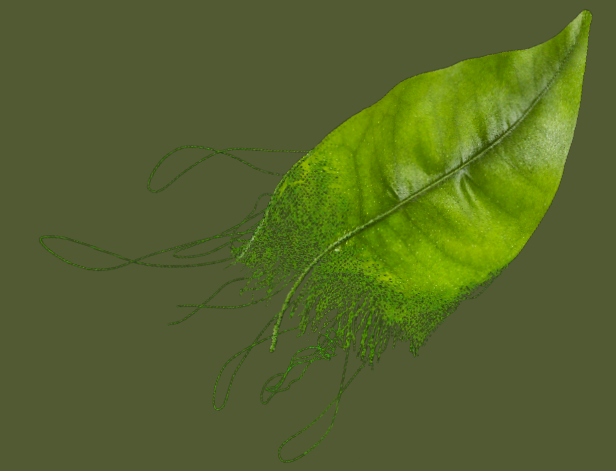
(1) TEHA elaboration on Kantar data - Sustainability Sector Index 2023, 26,018 respondents. Total does not equal 100% as companies were able to select multiple options.



Many consumers, **higher educated** and **wealthy**, say they **actively seek or support more sustainable brands**



(1) TEHA elaboration on Kantar data - Sustainability Sector Index 2023, 26,018 respondents. Total does not equal 100% as companies were able to select multiple options.



No time thrive

(as long as the market is unsustainable)

1. Markets and price systems, as of today, do not reward sustainability

2. Regulation alone is not enough to accelerate the transition

3. The costs of action and inaction cannot be evaluated regardlessly



No time thrive

(as long as the market is unsustainable)

Neither **Markets** nor **Institutions** have achieved the required pace of the Just Transition, yet. And there is no realistic prospect that, without **deeper structural changes**, either of them can “bend the curve” alone.



Reimagine Fashion Industry

Proposals for a EU Just Fashion Transition 2030

To Institutions

I. Promptly close the regulatory gap

#Europe #Long-term decisions

II. Simplify financing for Small and Medium Enterprises

#Bureaucratic burdens for SMEs #Sustainable investments #Access to credit

To Industry Players

III. Boost competencies and R&D

#Capacity building #Innovation #Scalable solutions

IV. Promote Fashion National Industrial Plans

#Sector sustainability strategic plan #Cost of Sustainability into pricing #Needs for funding

V. Concentrate to increase competitiveness

#SMEs #Productivity and investment capacity