



Italian Licensing Industry Survey 2017

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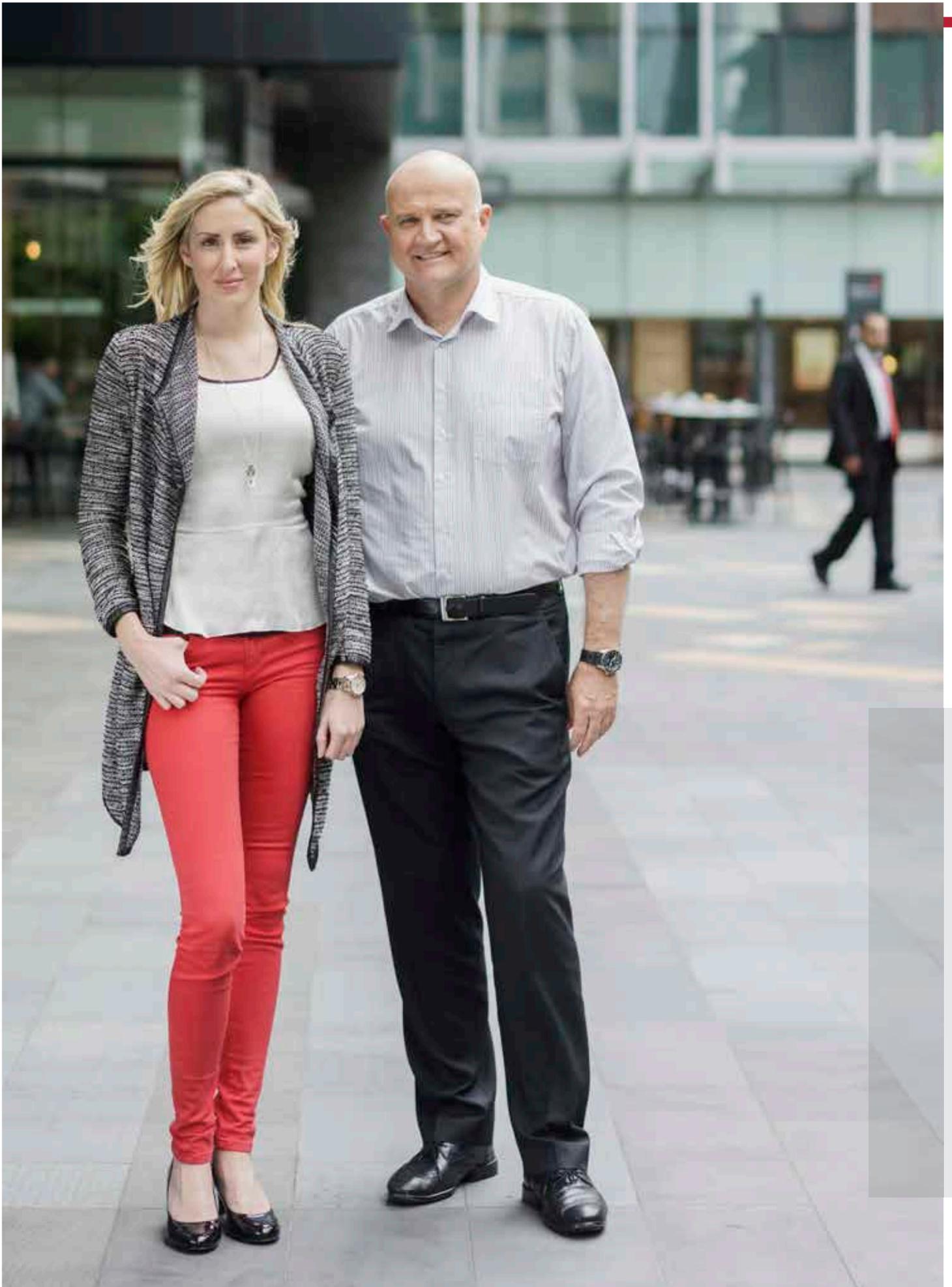
Introduction

We are proud to present the third edition of the **Italian Licensing Industry Survey 2016** (hereinafter “the Survey”) developed by PwC in collaboration with the “Licensing Industry Merchandisers’ Association” (LIMA). The Survey was completed in reference to the period from **1st January 2015 to 31st December 2015**, using a 16 question survey.

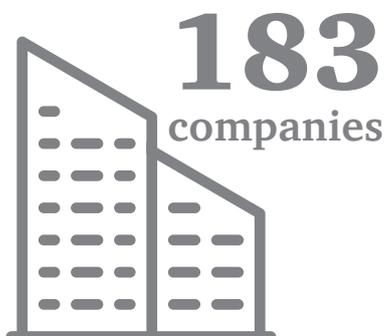
Through the Survey undertaken, we were able to address four key objectives:

- *to understand the trends and Market developments in the Italian Licensing Market, identifying its characteristics;*
- *to assess the Italian Licensing Market through Revenue levels generated by Licensing activities;*
- *to allow knowledge sharing for businesses, providing an understanding of the Italian Licensing Market as well as assisting the market players in their development and implementation of market growth strategies;*
- *to understand the perception of the counterfeiting phenomenon and the royalties audit management.*

A total of **183 Italian Licensors and Licensing Agencies** were requested to take part in completing the Survey, featuring over 20 different business markets, ranging from Fashion and Apparel to Characters, Sport, Automotive, Entertainment & Media, Licensing Agencies, Tourism, Retail & Consumer, Leather goods, Publishing, and Food & Beverage, Toys & Game, Health & Beauty, Software & Technology, etc.



Methodology



A total of 183 companies were contacted to take part in the Survey. Each received an email, which included an anonymous questionnaire.

In order to get the most accurate measurement of the data, our focus was on licensor revenues from licensed goods, i.e., royalty income received. This is a significant departure from other licensing industry studies which focused on total retail sales of licensed products. For each licensor, this data was collected separately for each type of property that was licensed.

Furthermore, we obtain some missing information estimating on several different factors including availability of public records, availability of previous year figures in the public domain, information available on the balance sheets, phone interviews.

The questions of the Survey considered **4 key sections**, as detailed below:

1. Contact Information & Company Profile

Companies were requested to supply information regarding the structure of their business and their licensing involvement. Key data requested included Company Foundation Date, Business Activities Undertaken, Operating Countries, Number of Licensees managed and the Industry types of the Licensees managed.

2. Information on the Licensing Industry in Italy

Information was requested in order to gain an understanding of the Licensing Industry in Italy. Specifically, responses related to Revenues by market distribution, by property types and product type, revenues derived from distribution channels, etc.

3. Anti - Counterfeiting

Companies were requested to provide their perception on counterfeiting. The questions of the Survey were aimed at obtaining information on the assessment of the issue by companies and any solutions that they use to counter the problem, such as holograms, alphanumeric codes and authenticity certificates.

4. Royalties Audit

Companies were requested to provide their experiences relating to royalties audit. The questions of the Survey were aimed at obtaining information on the royalties audit clause, compliance with them and how the audit were performed, by internal or external auditor.

Data collected across these areas have been assessed and analyzed to give an insight into the type of businesses operating within the Italian Licensing Market and their Property Types and product, as shown within our results. The Survey aims to assess the Licensing Market through the indicator of revenues generated by licensing activities.

Privacy

All responses were kept strictly confidential.

The data contained in the Survey was treated separately from the name of the company surveyed. Data analysis and results of the Survey did not make any reference to individual companies to ensure anonymity.

PwC consolidates and treated anonymously the information provided to prepare the present report.

Highlights & Findings



The estimated royalties revenue of the Italian licensing market is

1.2 bln

Our results and analysis have been included in this report after months of collaboration, monitoring, collecting, surveying and interpreting of data received from a wide range of companies.

From the data collected, in relation to the Survey, equal to **55% of the total companies contacted**, we note the following key trends and points which will be analysed in the next pages:

- The estimated **Royalties Revenue** of the Italian licensing market is equal to **Euro 1.2 Billion**.
- **Fashion and Characters** industries produce the highest proportion of revenue for Italian Licensing Market, accounting for Euro 613.9 Millions with a share of **52.8%** and for Euro 178.2 Millions with a share of **15.3%** respectively. This amounts to a total of 68.2% of royalties revenues equal Euro 792.1 Millions in 2015.

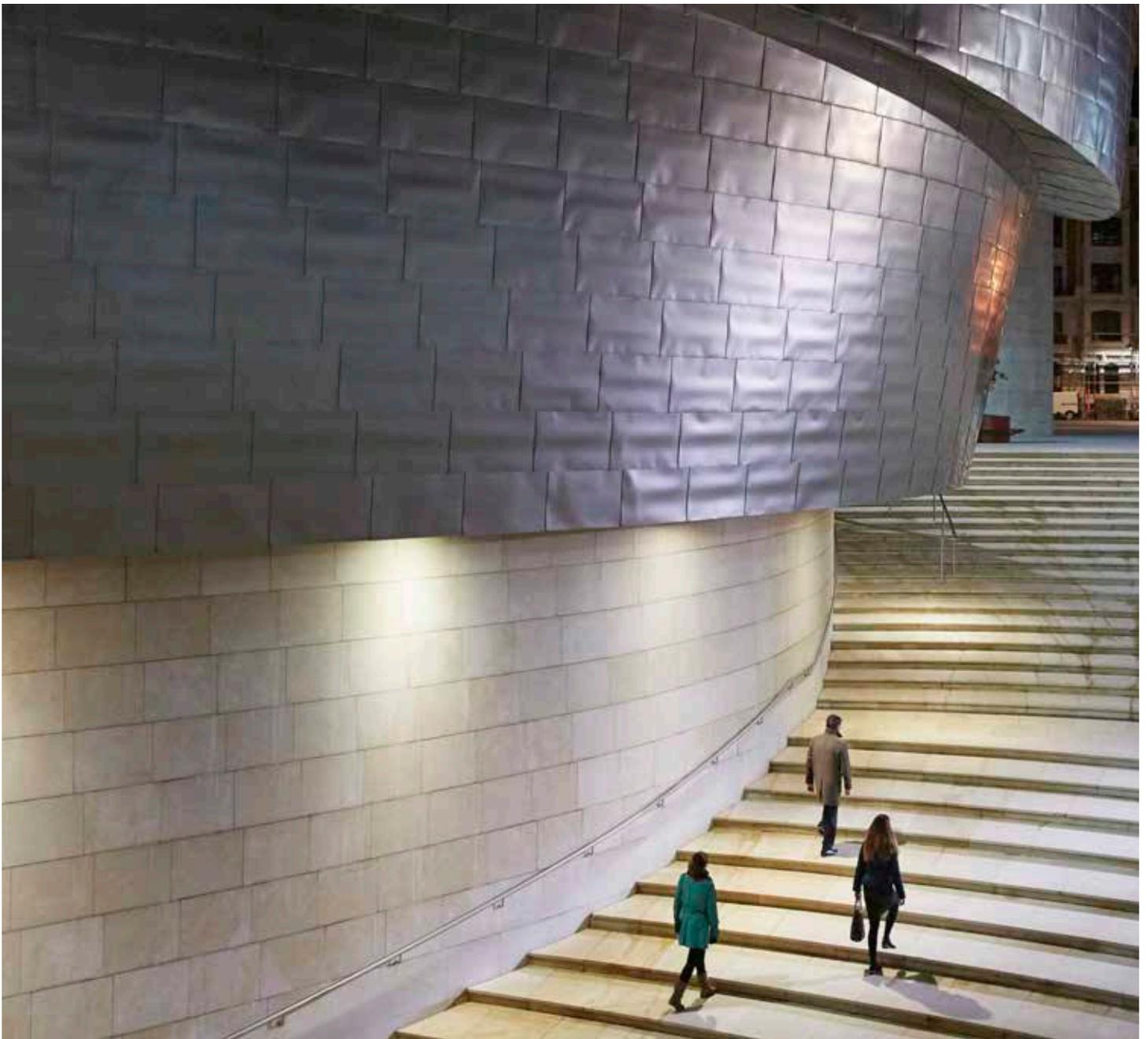
Besides **Automotive** industry follows accounting Euro 101,2 Millions with a share market of **8.7%**, **while Apparel** accounts for Euro 86,4 Millions with a share market of 7.4%.

- In consistency with the results split by product type, we note that the most remunerative products are **Accessories and Apparel**, generating revenues for Euro 329.3 Millions and for Euro 248.6 Millions respectively with a share of the royalties revenues of **28% and 21%**. Following, Health & Beauty represents 11% of royalties revenues, equal Euro 126 Millions.

We note that each property type generates revenue from different product type:

- Fashion and Apparel are largely dominated by Accessories and Apparel; both of them are key product types for Fashion industry;
- Characters is dominated by Apparel and Merchandising;
- Sport is dominated by Sporting goods, following by Accessories and Food & Beverage;
- Automotive is dominated by Toys.

- Italian Licensing Market derives **66.4%** of its revenues, equal Euro 771.4 Millions, from **Europe**, and 41.1%, equal Euro 477.6 Millions, coming directly from **Italy**. The smallest revenue market is South America, which accounts for 4.2% of the royalties revenues.
- Of the companies for which the data were collected, the **77.8%** use Anti - counterfeiting tools and in particular Barcode (37.5%) Holograms (25%) Certificate of authenticity (16.7%) Alphanumeric Codes (12.5%) Radio frequency (8.3%). The **22.2%** of the company surveyed consider that counterfeiting is not a issue.
- The **100%** of the companies for which the data were collected, **have audit clause**, but approximately 70% of the companies **do not perform any audit on its licensees**. However, 50% performs the audit through the internal department, and the missing 50% by an external auditor.



Detailed Findings

Sample & Response Details

A total of 183 companies were contacted to take part in the Survey, of which

55% responded.



The top 5 Property Types in this sample relate to Apparel, Fashion, Characters, Sport and Automotive accounting for 17%, 14%, 9%, 8% and 7% respectively of the total population. **This contributes to a total of 54% of our sampled population.**

Table 1: Companies contacted composition

Property Type	Number	Percentage
Apparel	31	17%
Fashion	25	14%
Characters	16	9%
Sport	15	8%
Automotive	12	7%
Entertainment & Media	12	7%
Others	10	5%
Licensing Agencies	10	5%
Retail & Consumer	8	4%
Leather Goods	6	3%
Publishing	6	3%
Food & Beverage	6	3%
Toys & Games	5	3%
Health & Beauty	5	3%
Software & Technology	4	2%
Jewels	4	2%
Household Goods	3	2%
Celebrity	2	1%
Arts & Design	2	1%
Non - profit	1	1%
Total	183	100%

In total, 101
companies's data
were collected,

55%

of the total companies contacted

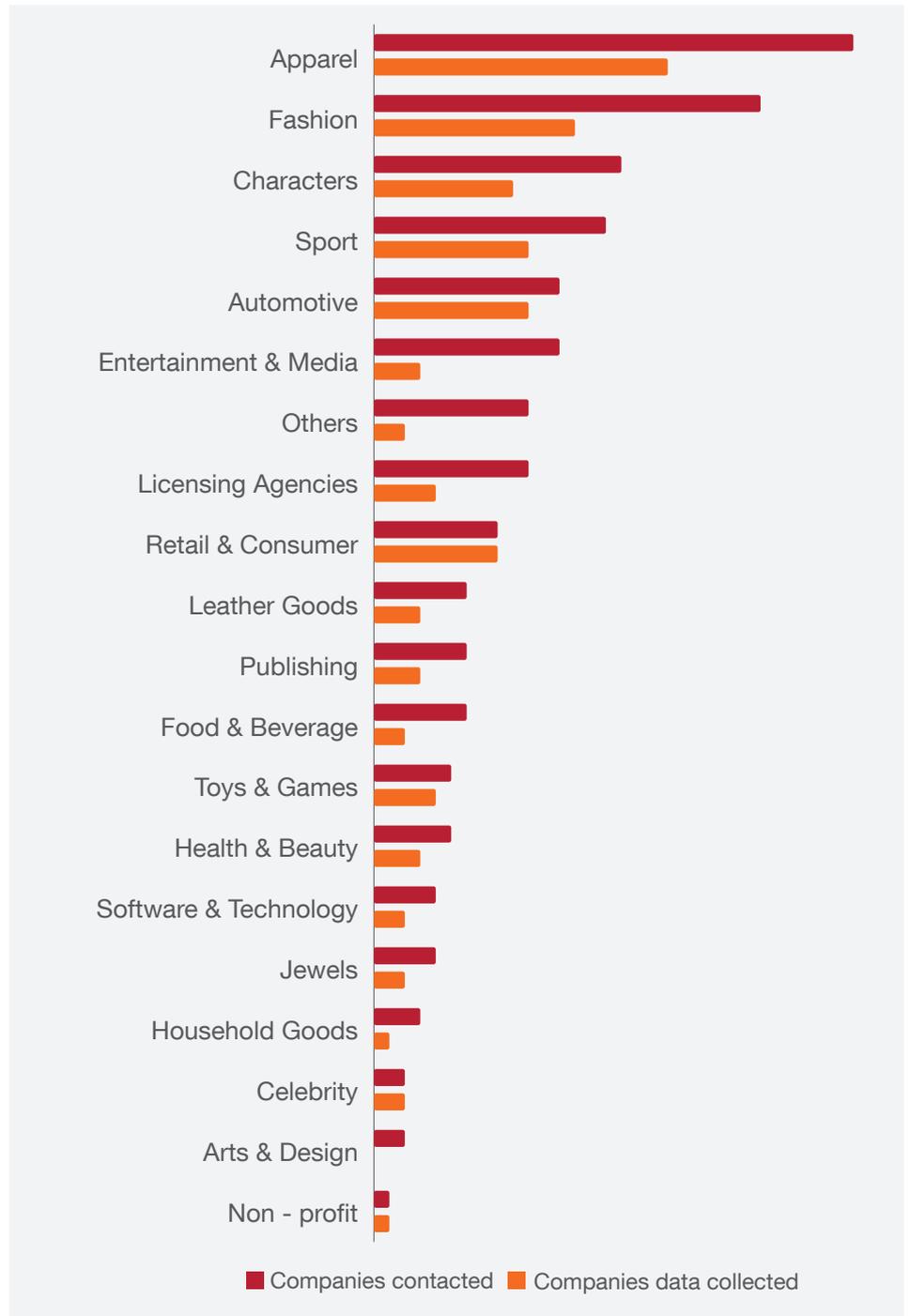


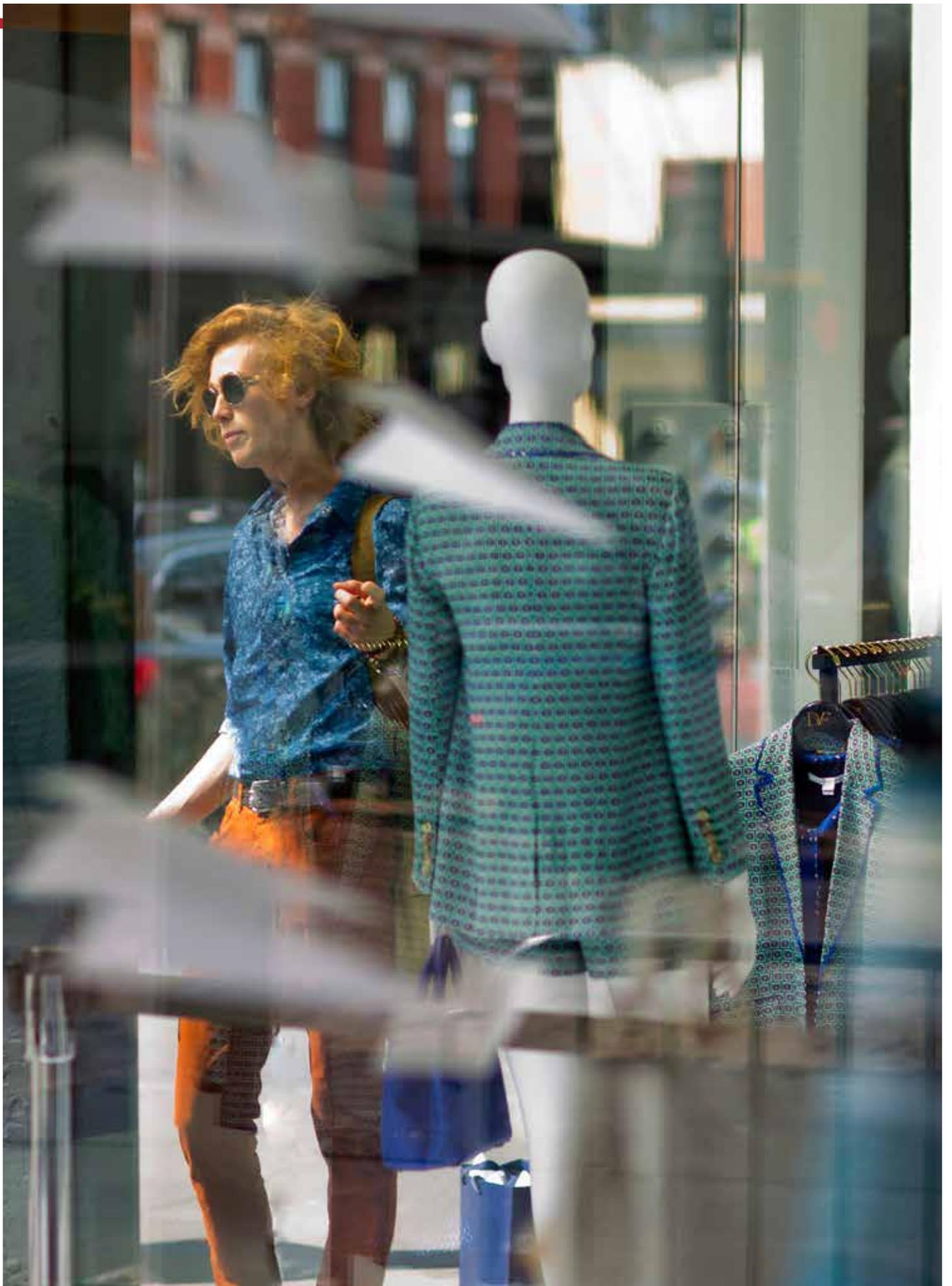
The top 5 Property Types in this sample relate to Apparel, Fashion, Sport, Automotive and Characters accounting for 19%, 13%, 10%, 10% and 9% respectively of the total companies for which the data were collected. This contributes to a total of 60% of our sampled population.

Table 2: Composition of the companies for which the data were collected

Property Type	Number	Percentage
Apparel	19	19%
Fashion	13	13%
Characters	9	9%
Sport	10	10%
Automotive	10	10%
Entertainment & Media	3	3%
Others	2	2%
Licensing Agencies	4	4%
Retail & Consumer	8	8%
Leather Goods	3	3%
Publishing	3	3%
Food & Beverage	2	2%
Toys & Games	4	4%
Health & Beauty	3	3%
Software & Technology	2	2%
Jewels	2	2%
Household Goods	1	1%
Celebrity	2	2%
Arts & Design	-	0%
Non - profit	1	1%
Total	101	100%

Chart 1: Companies contacted vs companies data collected





Revenue Analysis by Property Type

25.8



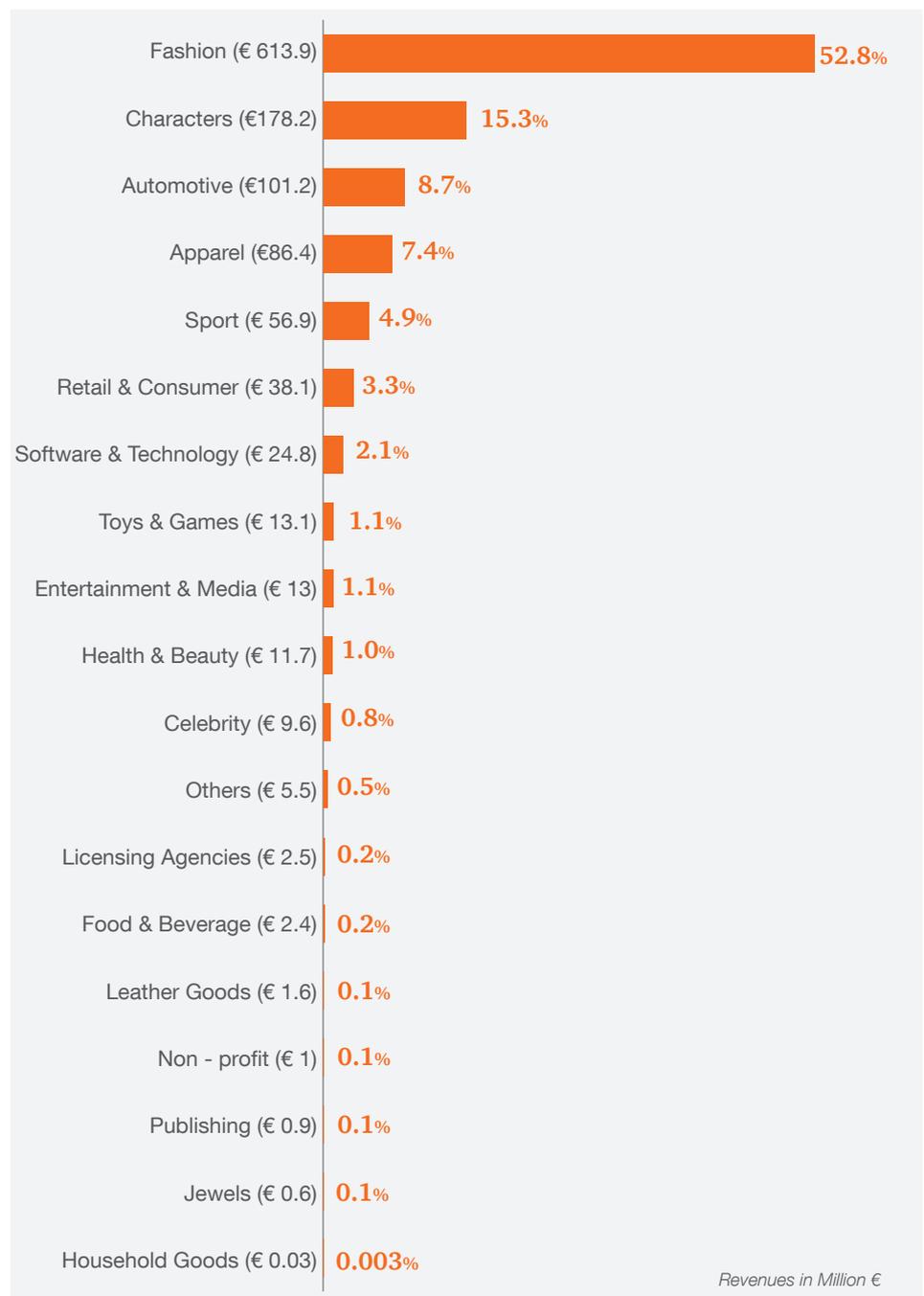
*of Italian Licensing Revenues
arise from the Fashion
Property Type*

Royalties revenues, of the companies for which the data were collected (55% of the total companies reached for the Survey), arising from Italian licensing Market are in total approximately **Euro 1.2 Billion during 2015**.

The revenues were mainly driven from Fashion Property Type, attributing to 52,8% of the total revenues. **We note that the 52.8% of total revenues** are collected by **Fashion Property Type** which accounts for **only 13% of the total** companies responded to the survey.

Following, Characters accounting for 15.3%, Automotive accounting for 8.7%, Apparel accounting for 7.4%, Sport accounting for 4.9%, etc.

Chart 2: Revenues of the Italian licensing market, by Property Type, 2015



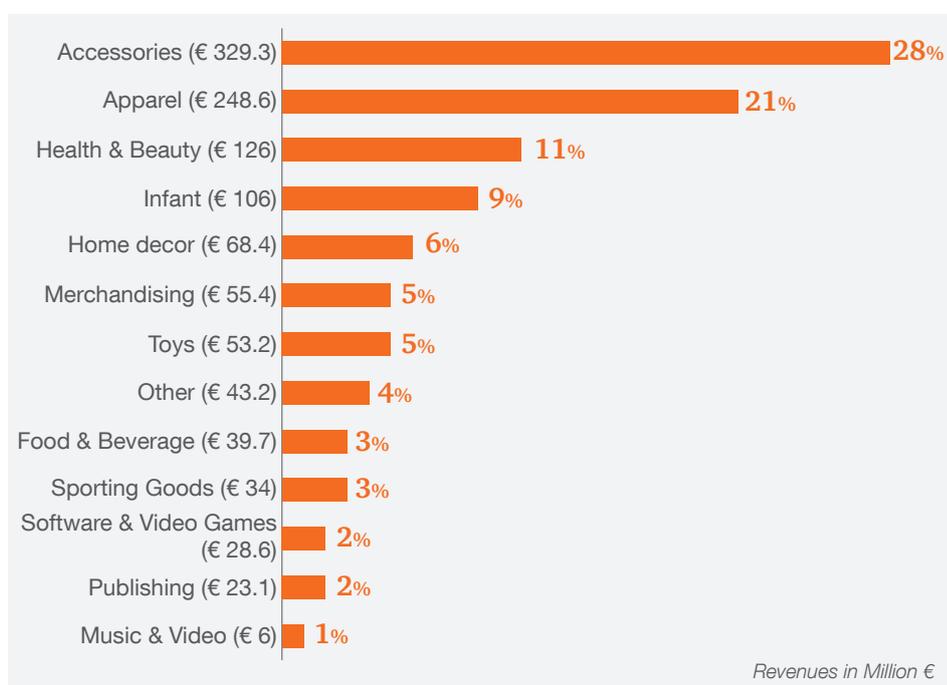
Revenue Analysis by Product Type

Results of Italian Licensing Industry Survey 2016 show that the most remunerative products for Italian Licensing Market are **Accessories and Apparel** accounting for **28% and 21%** respectively of Royalties Revenues.

This result is consistent with the data about the Revenues by Property Type, driven by the Fashion industry.

Following Health & Beauty represents 11% of Royalties Revenues, Infant 9%, Home décor 6%, Merchandising and Toys both 5%, Food & Beverage and Sports both 3%, Software & Video games and Publishing both 2% and the remaining products represent overall 5% of Italian Licensing Revenues.

Chart 3: Revenues of the Italian Licensing Market, by Product Type, 2015



Property Type by Product Type

Using the data relating to Property Types and Product Types, it was possible to assess the nature of the products sold on a Property Type basis.

- As expected, and as per last *Italian Licensing Industry Survey 2014*, the Fashion Property Type is largely dominated by Accessories (39%) and Apparel (26%), key Product Types for the Fashion industry. However, comparing with the last *Italian Licensing Industry Survey 2014*, we note a shift between some Product Type as far as:
 - Accessories: 39% in 2015 vs 44% in 2013;
 - Apparel: 26% in 2015 vs 43% in 2013;
 - Health & Beauty 15% in 2015 vs 1% in 2013;
 - Home Décor 8% in 2015 vs 2% in 2013;
 - and Infant 10% in 2015 vs 2% in 2013.
- As expected, and as per last *Italian Licensing Industry Survey 2014*, the Apparel Property Type is largely dominated by Accessories (30%) and Apparel (30%).
However, comparing with the last *Italian Licensing Industry Survey 2014*, we note a shift between some Product Type as far as:
 - Accessories: 30% in 2015 vs 43% in 2013;
 - Apparel: 30% in 2015 vs 38% in 2013;
 - Health & Beauty: 9% in 2015 vs 5% in 2013;
 - Infant: 24% in 2015 vs 6% in 2013.
- Characters Property Type is dominated by Apparel (16%) and Merchandising (16%). Comparing to the last *Italian Licensing Industry Survey 2014*, these products have increased their relevance (Apparel: 16% in 2015 vs 14% in 2013; Merchandising: 16% in 2015 vs 5% in 2013) reducing Publishing (7% in 2015 vs 15% in 2013) and Toys (12% in 2015 vs 21% in 2013).
- Sport Property Type is dominated by Sporting goods (36%), following by Accessories (13%) and Food & Beverage (13%).
Comparing to the last *Italian Licensing Industry Survey 2014*, Sporting goods and Accessories have increased their relevance (Sporting goods: 36% in 2015 vs 8%, Accessories: 13% in 2015 vs 5% in 2013) reducing Publishing (5% in 2015 vs 39% in 2013), that was the most relevant Product Type for Sport Property Type in 2014.
- Automotive Property Type is dominated by Toys (20%) following by Accessories and Apparel Product Type, both with 14% of share.

In the Table 3 we show the revenues of each Product Type in the various Property Type included in our survey.

Revenue Analysis by Market Destination

Italian licensing market



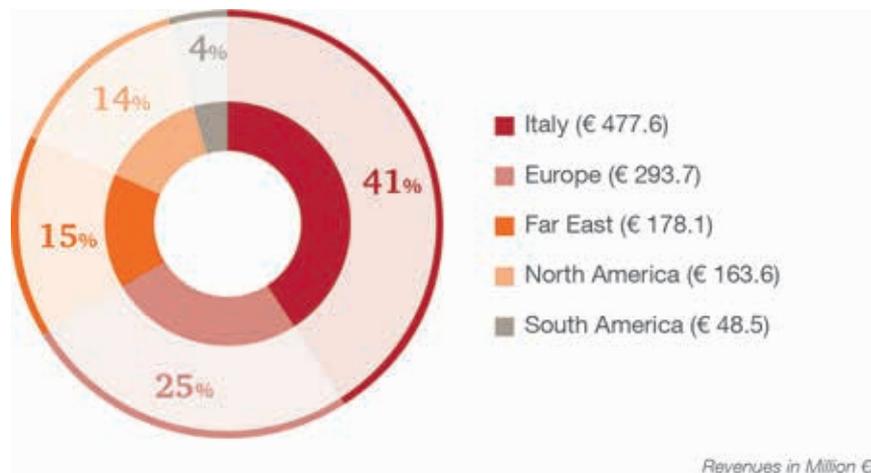
derives 66.4% of its revenues from Europe, with 41.1% coming directly from Italy.

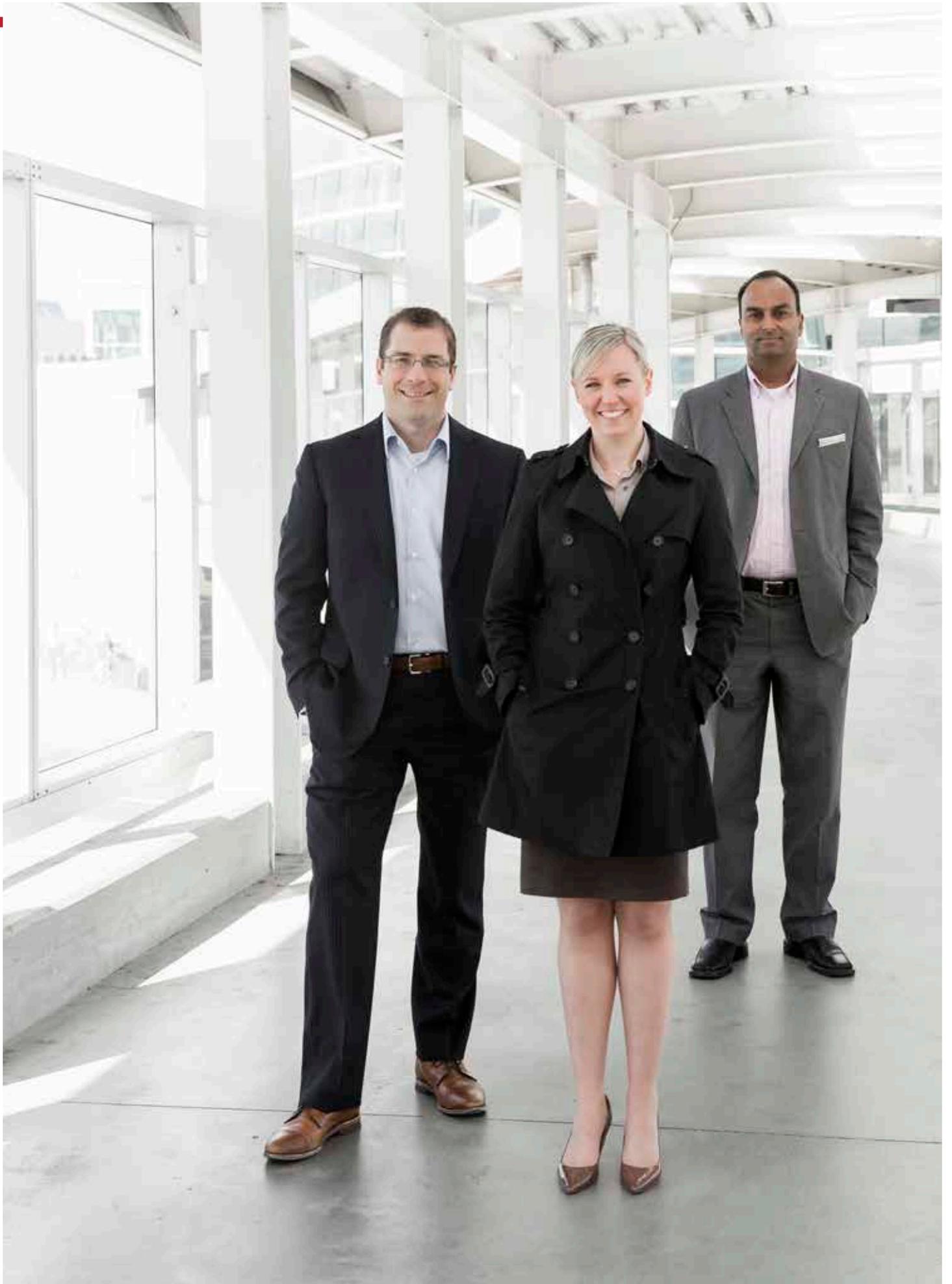
Italian licensing market derives 66.4% of its revenues from Europe, with 41.1% coming directly from Italy.

Following Far East represents 15.5% of Italian licensing revenues and North America 14.1%.

The smallest revenue market is South America, which accounts for 4.2% of royalties revenues.

Chart 4: Revenues of the Italian licensing market, by Market Destination, 2015





Property Type by Market Destination

Using the data relating to Property Types and Market Destination, it was possible to assess the most profitable Market Destination on a Property Type basis.

- Fashion Property Type (substantially constituted by Italian brands) generates revenues mainly from the European market with a 56% share of revenues, with share of 27% coming directly from Italy. As expected, the revenues derived within Extra European market are significant, equal to 44% share of revenues, 20% arises from Far East and North America, 19% from North America and only 5% from South America. “Made in Italy” has strong impact in foreign markets.
- Apparel Property Type (substantially constituted by Italian brands) as the Fashion Property Type, generates revenues mainly from the European Market with a 66% share of revenues, but with share of 42% coming directly from Italy. The revenues derived within Extra European Market, equal to share of 34% (9% arises from Far East and North America, 21% from North America and 4% from South America), lower than in Fashion Property Type. In foreign markets fashion Italian brands have more appeal than Apparel Italian Brands.
- Automotive Property Type (substantially constituted by Italian brands) generates revenues mainly from the European market with a 63% share of revenues, with share of 36% coming directly from Italy. As expected, the revenues derived within Extra European market are quite significant, equal to 37% share of revenues, 12% arises from Far East and North America, 20% from North America and only 5% from South America. The prestige of the Italian car brands has impact in foreign markets.
- Sport Property Type (substantially constituted by Italian soccer clubs) generates revenues mainly in the Italian Market. However this revenues account for only a 52% share of total revenues, due to the Italian teams, including in the sample, are the most famous Italian team, well known and followed also in foreign market. Indeed 48% share of total revenues comes from the foreign markets.
- Characters Property Type generates revenues substantially from the Italian market with a 78% share of total revenues. Indeed, the Characters Property Type in this sample substantially are constituted by Italian subsidiary of multinational company.

Made in Italy

has strong impact in foreign markets.

.....

The prestige of the Italian car, apparel and fashion brands have impact in foreign markets.

Table 4: Revenues of the Italian licensing market: Property Type by Market Destination

	Italy	Europe	Far East	North America	South America	Total
 Fashion	27%	29%	20%	19%	5%	100%
 Characters	78%	18%	1%	1%	2%	100%
 Automotive	36%	27%	12%	20%	5%	100%
 Apparel	42%	24%	9%	21%	4%	100%
 Sport	52%	16%	23%	3%	6%	100%
 Retail & Consumer	44%	19%	32%	3%	2%	100%
 Software & Technology	38%	29%	29%	2%	2%	100%
 Entertainment & Media	94%	3%	1%	1%	1%	100%
 Toys & Games	40%	29%	11%	10%	9%	100%
 Health & Beauty	72%	20%	3%	3%	3%	100%
 Celebrity	100%	-	-	-	-	100%
 Others	65%	29%	3%	2%	2%	100%
 Licensing Agencies	100%	-	-	-	-	100%
 Food & Beverage	76%	20%	-	4%	-	100%
 Leather Goods	37%	33%	4%	22%	4%	100%
 Non - profit	100%	-	-	-	-	100%
 Publishing	86%	14%	-	-	-	100%
 Jewels	48%	26%	6%	14%	6%	100%
 Household Goods	60%	20%	10%	10%	-	100%

Anti - Counterfeiting

The phenomenon of “Anti - Counterfeiting” is largely due to the ease in which fraudsters are able to reproduce licensed intellectual property. Counterfeiting allows production at a low cost without the impact of costs for design, brand maintenance or regulatory compliance.

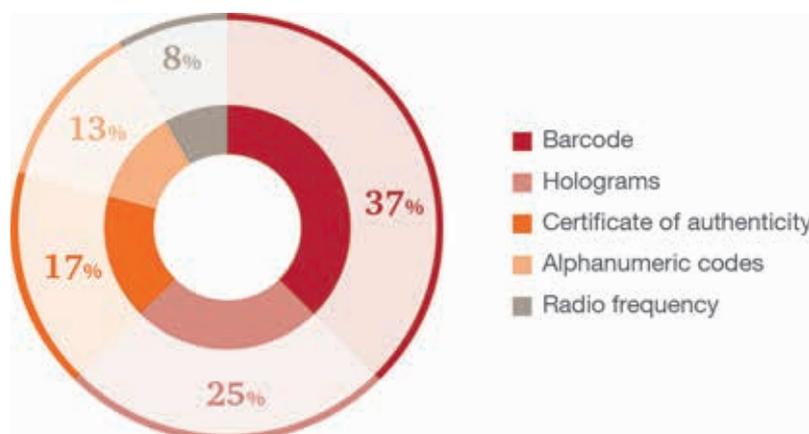
The questions of the Survey were aimed at obtaining information on the assessment of the issue by companies (if counterfeiting is assessed as a issue or not) and any solutions that they use to counter the problem, such as holograms, alphanumeric codes and authenticity certificates.

Results of the “Anti - Counterfeiting” procedures highlight that the **22.2%** of the Companies, for which the data were collected, consider that counterfeiting is **not a issue**.

The **77.8%** of the Companies assess the counterfeiting as a problem and **use different solution** to counter it:

- barcode: 37.5%;
- holograms: 25%;
- certificate of authenticity: 16.7%;
- alphanumeric codes: 12.5%;
- radio frequency: 8.3%.

Chart 5: Remedies adopted by companies in order to reduce the phenomenon of “counterfeiting”



Royalties Audit



50%

performs the audit through the internal department, and the missing 50% by an external auditor.

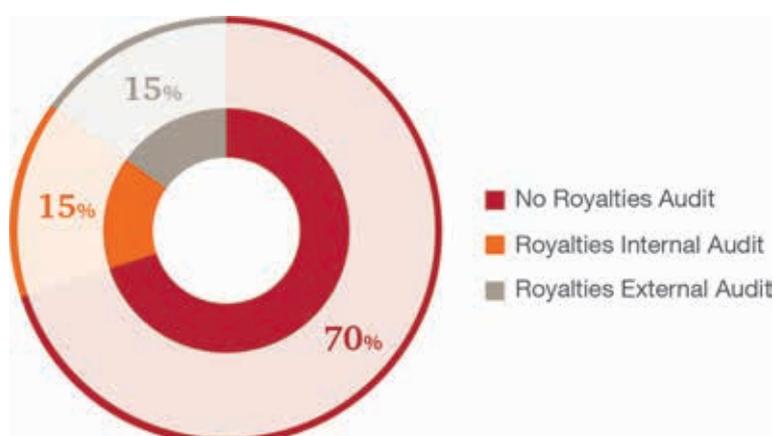
The royalties audit is an opportunity to ensure Licensor about compliance of the Licensing Agreement terms and the correctness of its royalties.

The questions of the Survey were aimed at obtaining information on the royalties audit clause, compliance with them and how the audit are performed, by internal or external auditor, in order to understand the perception of the royalties audit management.

Results of the Survey show that **100%** of the companies, for which the data were collected, **have audit clause**, but approximately **70%** of the companies **don't perform any audit** on its licensees.

However, 50% performs the audit through the internal department, and the missing 50% by an external auditor.

Chart 6: Royalties Audit





Terminology

Licensing

Licensing is the term used to describe transactions where the owner of an intellectual property gives permission to another party to use the property, usually in an exchange for a fee or compensation.

Licensor

The Licensor is the owner of the intellectual property or property rights. They determine which other Third Parties are permitted to use these rights and receive compensation for their usage.

Licensee

The Licensee is the party receiving the rights to use the intellectual property, or property rights for use within their business.

Global Revenues

For the purposes of our Survey, Global Revenues have been classified as actual income from royalties, and not sales of licensed products.

Royalty Revenues

Royalty Revenues are Revenues which are usually based on a percentage of gross or net profit, or on the quantity of goods to which a property owner allows another party (Licensee) to use their property to sell or manufacture goods.

Branches & Overseas Branches

Branches are those Licensees using the Property Type owned by the Licensor. They are classed as Overseas Branches when they are located in a different country to the origins of the Property Type. The Licensor then derives royalties from these overseas operations.

Italian Licensing Market

Italian Licensing Market is composed i) by Italian Company licensing Italian brands owners ii) Italian subsidiary of multinational company licensing foreign brands owner.

Anti - Counterfeiting Measures

Holograms: unique holograms are attached to products which are registered to ensure the authenticity of the products. Counterfeit products are then easily identifiable as they do not possess this unique tag.

Alpha Numeric codes: a unique code is placed upon products, via a bar code or other labelling. This enables authentic products to be monitored and registered, and assist further in identifying counterfeit products.

Certificate of Authenticity: Certificates of Authenticity are usually seals or small stickers included on a product to demonstrate that an item is authentic.

Royalties Audit

The royalties audit, also referred to as either a royalty “inspection” or a royalty “examination,” is the primary method used by a licensor to confirm that its licensees are being compliant with the material terms of their license agreements.

Property Types

Property Types are the forms of Intellectual Property which can be merchandised or licensed to other companies. There can be various different Property Types ranging from brand names and titles, to celebrities and technology.

The following gives a brief description of the Property Types identified from the responses received from the Survey.

Fashion: the licensing of designer fashion brands names, into such categories as apparel and fashion accessories. Designers use their brand as a method to promote awareness of their products. There are a large number of brands within this Product Type given the size and popularity of the fashion Market. The key factors in relation to all licenses of fashion items are design and quality; the public's perception of these criteria can play a huge role on the revenue levels generated from licensing within this market.

Characters: this category of licensing encompasses properties springing primarily from Characters of films, cartons, television shows, books. Characters represent fictional figures created for entertainment or media services, and thus can range in nature, from characters from a popular book to characters on a video game. Their popularity can often lead to the licensing of their image and name across a variety of Product Types

Automotive: the licensing of brands names of automotive industry.

Apparel: the licensing of brands names, into such categories as apparel and fashion accessories.

Sport: Given the popularity of sport, across the various types of popular sports, sport licensing remains a global business. Property Types can relate to both individuals, and associations or leagues. Individuals, such as established athletes in their field of sport, can use their popularity to promote and market a wide range of products; similarly to those noted within "celebrities". Product Licensing for sports associations can work in a similar mode, whereby the association lends itself to a selection of Product Types. Licensing Revenues for associations are usually key to their development.

Retail & Consumer: the licensing of brands names of Retail & Consumer Industry (a service provider fills the small orders of a large number of individuals).

Software & Technology: intellectual property from software involves licensing the technology and the design of a software piece which has been created for a specific use. Users, which can be individuals or companies, pay for the right to use the software for their own personal use, or in conjunction with their business operations.

Entertainment & Media: This category of licensing encompasses properties springing primarily from feature films, television shows, online entertainment and social media.

Toys & Games: This category of licensing encompasses properties springing primarily from Video Games and Toys.

Health & Beauty: The licensing of brands names of Health & Beauty Industry.

Celebrity: This property includes individuals/groups and the estates of individuals who are primarily well known in the fields of entertainment and other fields such as politics and business.

Licensing Agencies: Licensing Agencies are used by brand owners to extend the reach and awareness of their property. Agencies can extend the life of a brand and assist with the identification and penetration of new markets.

Food & Beverage: The licensing of brands names of Food & Beverage industry.

Leather Goods: The licensing of brands names of leather goods industry (general leather goods consisting of handbags, folders, wallets, and premium leather gifts).

Non – profit: Licensing of non-profit organizations such as museums, churches, charity and special interest organizations.

Publishing: This type of property includes any brand or character that exists in print media (magazines, books, newspaper, etc.) Once a publishing property migrates to other media such as movies, TV, apps or video games, the property is re-classified under Entertainment/Characters Properties (e.g., Harry Potter.)

Jewels: The licensing of brands names of Jewel industry.

Household Goods: The licensing of brands names of Household Goods industry. Household Goods are goods and products used within households. They are the tangible and movable personal property placed in the living rooms, dining rooms, kitchens, family rooms, great rooms, bedrooms, bathrooms, recreation rooms, hallways, attics, and basements and other rooms of a house.

Other: E.g. the licensing of brands names of nautical industry.

Product Types

Product Types are the products sold which use Property Types. Hence, they can range from t-shirts and bags, to Mp3 players and food & beverages.

The following gives a brief description of the Product Types identified from the responses received from the Survey.

Accessories: E.g., small leather goods, jewelry, luggage, scarves, gloves, hats, ties, etc.

Apparel: E.g., tops, bottoms, dresses, menswear, outerwear, etc.

Food & Beverage: E.g., coffee, yogurt, cereal, cake mixes, frozen food, spirits, sauces, etc.

Health & Beauty: E.g., fragrances, skin care, shaving goods, hair care, etc.

Home décor: E.g., furniture, wall hangings, kitchen domestics, wall art, floor coverings, etc.

Infant: E.g., layette, diapers, infant apparel, baby care products, etc.

Music & Video: E.g., DVDs, CDs, streams, etc.) *does not refer to the licensing of music itself i.e. for Musak, commercials, etc.

Publishing: E.g., books, comics, magazines, etc.

Software & Video Games: E.g., apps, console-based games, mobile games, etc.

Sporting Goods: E.g., athletic equipment, balls, etc.

Toys: Not Software/Video. E.g. action figures, board games, toy vehicles, etc.

Merchandising: Merchandising consist of goods such as toys and clothes that are liked with something such as film, sport team, pop group etc.

Other: E.g. live events, animation.

Market Destination

Italy

Europe: Europe Countries except Italy

Far East: Asia and Oceania Countries

North America: North America Countries

South America: South America Countries

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Information on PwC Forensics Services

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