

Heathrow Airport Limited

Peer review

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Prepared for

Heathrow Airport Limited

Prepared by

Pragma Consulting

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

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This report is strictly confidential.

Contents

- Assessment of luxury space
- Retail mix review

The assumptions and caveats used to assess the impact of the reduction in luxury space are shown below

LUXURY SPACE ASSUMPTIONS

Data and assumptions

- Sales and transaction data is based on Q3 2019 and 2021 data, and includes the following concessionaires:
 - GUCCI LTD
 - BURBERRY LTD
 - PRADA
 - THE NUANCE GROUP (UK) LTD

- 2026 passenger volumes have not been provided, so the 2026 passenger mix has been applied to 2019 passenger volumes to obtain a proxy mix by region

- The region mix has been calculated using the regions provided by Heathrow and have been aggregated as follows:
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]

Caveats

- 2021 performance data is based on a single quarter, and passenger volumes have been further impacted by Covid restrictions on global travel
- The estimated sales for 2026 have been based on the ratio between 2021 and 2019 for luxury outlets with destination information vs. the total luxury sales

As passenger volumes return, and global travel resumes, there is likely to be a higher conversion rate overall in luxury fashion. ATVs are also likely to change, but are not forecast to reach 2019 levels due to the higher impact of lost savings on high-value items

LUXURY CONVERSION AND ATV ASSUMPTIONS

Chart redacted

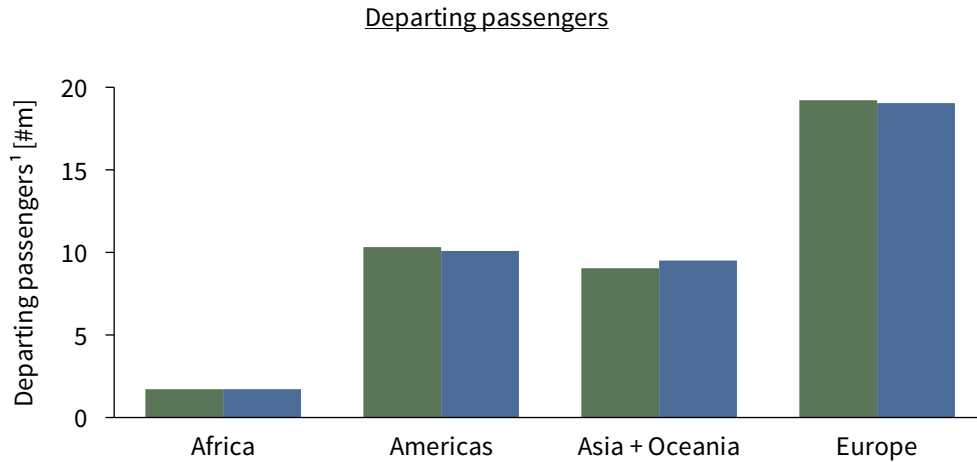
Chart redacted

- Pragma's expectation is that as passenger volumes increase, and as the mix returns to levels similar to 2019, the conversion rate will shift towards the pre-pandemic values
- The change on VAT will mean that prices increase however, so that fewer passengers will convert into buyers

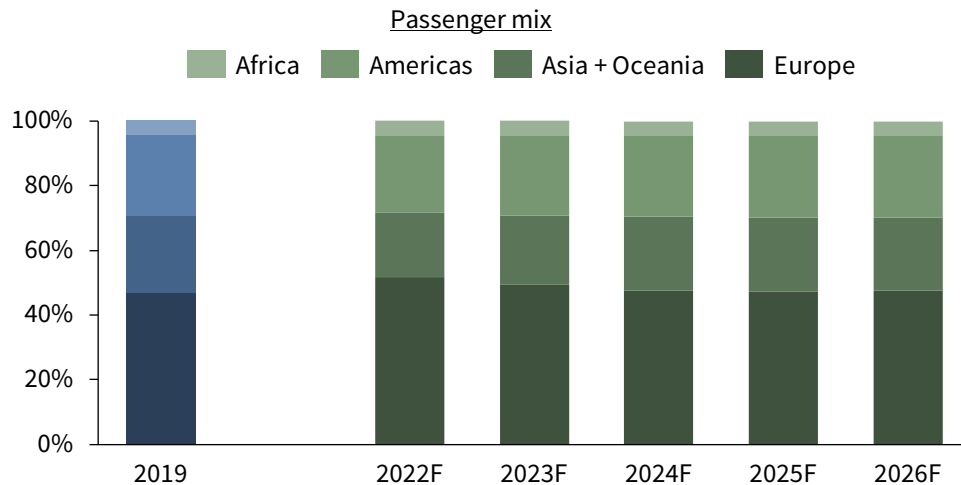
- As with the conversion, Pragma believes that the average transaction values (ATV) will move towards those seen in 2019
- The higher price of goods is likely to lead to higher ATVs in smaller basket sizes (for example purchasing one bag in 2019 vs. 2021 would lead to a higher transaction value in 2021)
- Larger basket sizes are likely to be less common, leading to a reduction in the previously high ATVs seen in Africa and Asia + Oceania

Assuming that passenger volumes return to 2019 levels by 2026, based on the forecast passenger mix shared by Heathrow Airport, there will be 0.5m fewer high-spending (on luxury) passengers and an increase in volumes to lower spending destinations such as Europe and the Americas

PASSENGER VOLUMES AND MIX



- Pragma was not supplied with the 2026 passenger forecast volumes, only the mix
- We have applied the change in passenger mix forecast for 2026 to the 2019 passenger actuals¹ on which to calculate the impact of the VAT changes to the luxury category



- In the early years of the passenger mix forecast, there is a higher share of low-spending Europe bound passengers
- Conversely, the high-spend Asia + Oceania spend group is reduced throughout the forecast period
- These mix changes are likely to have a detrimental effect on luxury spend regardless of any VAT impact

Pragma forecasts a [REDACTED] drop in sales (based on the same volume of departing passengers) caused predominantly by the VAT change impacting both conversion and average transaction values

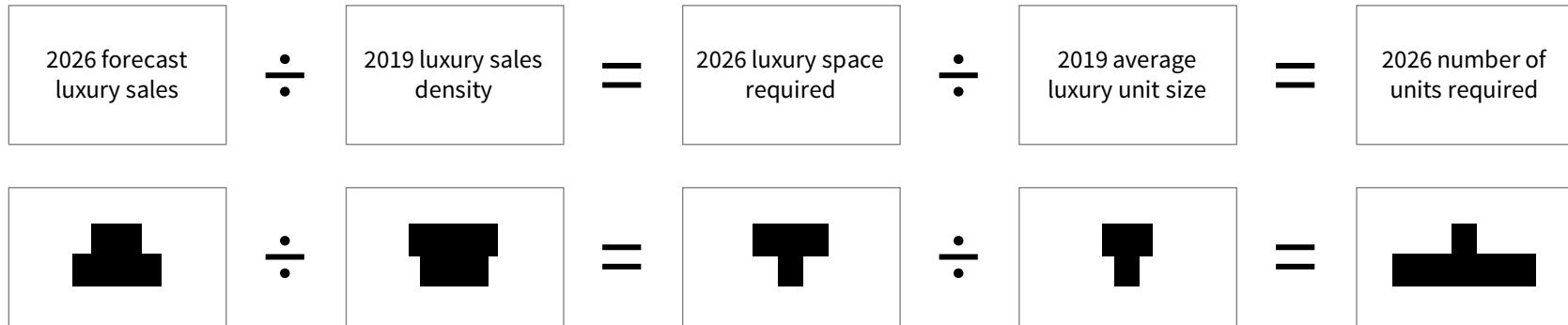
LUXURY SALES FORECAST

Chart redacted

- The geographic sales forecast has been calculated based on the assumptions listed in the preceding pages
- The non-attributable sales are based on the 2019 sales proportion between the geographical sales and the total sales

To calculate the potential impact on space, and the likely number of luxury stores, Pragma have used the methodology set out below. This results in Heathrow requiring 19 fewer units by 2026

IMPACT ON LUXURY SPACE

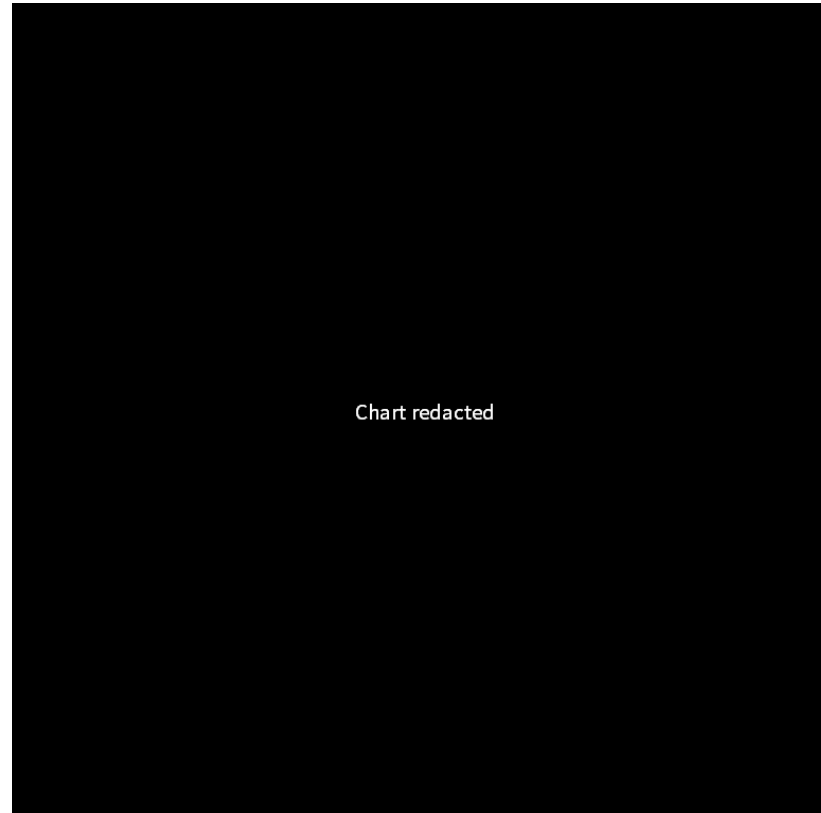


- Heathrow had [redacted] luxury units in 2019
- In order to sustain the previous sales densities, the airport could trade on [redacted]
- [redacted]
- This calculation does not take into account the detrimental mix and volume impact leading up to the 2026 passenger mix
- Although Pragma have taken a different approach on calculating the space impact, we would agree with Heathrow's assessment on the [redacted], particularly as the initial passenger mix and volume impacts in the forecast period on the overall profitability of luxury retailers has not been taken into account

Pragma has forecast a [REDACTED] drop in income to the airport, primarily caused by the ATV, conversion, and margin reduction impacts – all a direct consequence of the removal of VAT savings on items purchased in the airport

IMPACT TO LUXURY INCOME

[REDACTED]



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- Assessment of luxury space
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REVIEW OF HEATHROW FUTURE RETAIL MIX

Category	Sub-category	Value	Description	Value	Value	Value	Value
Food & Beverage	Food	£100m	£100m	£100m	£100m	£100m	£100m
Food & Beverage	Beverage	£100m	£100m	£100m	£100m	£100m	£100m
Food & Beverage	Food & Beverage	£100m	£100m	£100m	£100m	£100m	£100m
Food & Beverage	Food & Beverage	£100m	£100m	£100m	£100m	£100m	£100m
Food & Beverage	Food & Beverage	£100m	£100m	£100m	£100m	£100m	£100m
Food & Beverage	Food & Beverage	£100m	£100m	£100m	£100m	£100m	£100m

REVIEW OF HEATHROW FUTURE RETAIL MIX

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

REVIEW OF HEATHROW FUTURE RETAIL MIX

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

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