

2021 NEW YEAR'S GREETINGS

you for all the time spent behind your screens, connecting online. We will do all we can to be able to meet physically again this year at the 36th World Fashion Convention that will be held in Antwerp, Belgium from June 7-9. The theme of the convention is "Transition in the Global Fashion System" and we will touch upon this in a series of (hybrid) sessions, each tackling a major issue for the global apparel industry, bringing together relevant players in the fashion ecosystem. I sincerely hope to see you in Antwerp.

Meanwhile stay safe.



Dr. Christian Schindler
Director General
ITMF

A happy, prosperous and above all a healthy New Year 2021

I would like to wish you a healthy and prosperous New Year 2021. Amid the worst pandemic in one hundred years, wishing everyone a healthy New Year was never so relevant. The year 2020 has shown brutally that the basis of personal social activities, engagements, meetings, and production is health and a healthy life and work environment. People's health is the foundation everything

else is built on. All of us have experienced first-hand how the Corona-pandemic has restricted and limited our social and business activities. Without knowing whether people are healthy (infectious), social gatherings and personal contacts suddenly became dangerous. Without a safe and healthy work environment the production of goods and services is often limited or even impossible. Without safe and healthy travel and meeting environments in-person business meetings, in-person exhibitions, or in-person conferences are limited or impossible. With shops, hotels, sport facilities, museums, cinemas, restaurants, etc. closed consumption of many goods and services are reduced or impossible.

Digital challenges and opportunities

Of course, each crisis also offers opportunities. The Corona-pandemic has revealed the enormous potential of digital products and services. Online products like streaming music or movies are the most obvious ones. Online services that are enabling digital meetings and conferences or digital teaching covering everything from cooking via music to yoga lessons are now available and have become very popular.

For the textile industry the rapid expansion of online business is of course the most important aspect of the digital transformation of our societies and economies. More and more people – not only young persons – have started shopping online. The pandemic has turbo-accelerated a trend that was already there. Since many years, online platforms like Amazon or Alibaba are offering an increasing number of products. Many brands and retailers have invested in the past years in their online distribution channels. One can only imagine how much worse the pandemic would have hit the global economy if there had not been any kind of e-

commerce.

But the online business could not compensate the offline business entirely. The global share of the online business is between 20 and 30%. With other words, the bulk of products is still sold offline. But brands and retailers that already had a good online business certainly weathered and still weather the current crisis much better than those that had not developed and built any sort of online business.

Slow down since the end of 2018

To a certain extent the Corona-pandemic has contributed to overlook that the global textile industry was already losing steam since the end of 2018. When the ITMF Board met for the traditional ITMF Textile Machinery Workshop in Spring 2019 in Italy with leading textile machinery manufacturers to discuss the results of the ITMF-publication "International Textile Machinery Shipment Statistics (ITMSS)" for the year 2018 as well as the current state of and the outlook for the industry, the overall direction was clear. Order intake by textile machinery companies in the 1st quarter 2019 were in negative territory. Also, the outlook for the 2nd half of 2019 – during which ITMA 2019 was held in Barcelona, Spain – was below the levels in 2018. The only exception – in terms of machinery segment – was the segment of filament spinning/texturing. The main reason for this was that in this segment investments are huge and hence shipments of new machines are taking place over a period of several years.

ITMF's data about new textile machinery shipments in 2019, published in the ITMF-publication "International Textile Machinery Shipment Statistics (ITMSS)" in June 2020 confirmed the expectations in early 2019. In all textile machinery segments covered by the ITMSS, investments in new textile machinery were

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lower in 2019 than they were in 2018. Therefore, when the Corona-pandemic hit the global textile and consequently also the global textile machinery industry in 2020, many companies along the textile value chain were struggling already.

ITMF Corona-Surveys in 2020

In March 2020, when the first lockdowns in the main consumer markets of Europe were announced, the ITMF started the so-called ITMF Corona-Surveys with the objective to see the extent the industry is impacted by the restrictions put in place and by the change in consumer behaviour. The level of cancelled/delayed orders was unprecedented (see Graph 1). The first four ITMF Corona-Surveys revealed how orders were negatively impacted. On average, 42% of orders were cancelled/delayed worldwide during the first wave of the pandemic.

Until the end of 2020, ITMF conducted in total six ITMF Corona-Surveys in which companies were asked what their expectations are regarding turnover in 2020. After a good third quarter with no or very few restrictive regulations (like for example quarantine requirements when traveling) the situation improved somewhat and brands and producers alike had adapted to the new environment ordering and producing smaller lots, respectively. Overall, the textile industry expected in December that on average turnover in 2020 will be around 12% lower than it was in 2019 (see Graph 2).

Expectations for 2021 and beyond

When it comes to 2021 and beyond the 6th ITMF Corona-Survey revealed that on average companies

along the textile value chain are expecting on average a relative slow recovery (see Graph 3). Especially for 2021 the expectations are cautious as the exact end of the pandemic and consequently restrictions are difficult to predict despite the roll-out of vaccination programs in all important consumer markets. Nevertheless, the global textile industry is starting to recover in 2021 from the worst demand slump in recent history.

Lessons learned

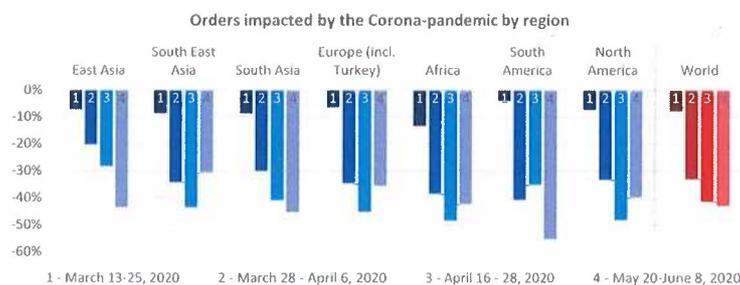
What are the lessons learned from the pandemic? According to the ITMF Corona-Survey, many companies are of the opinion that the most important lesson is that they must improve their digital capabilities ahead of "reducing dependency from few customers", "broadening the products on offer", or "strengthening the balance sheet". There are multiple reasons for this assessment. Companies have realized that digital capabilities have become a necessity in today's business life to stay connected with both customers and suppliers in a fast and cost-effective manner.

Knowing and meeting the demand of your customers is paramount. Too many brand and retailers did not know good enough what their customers are looking for and/or were too slow to adapt to changing preferences of consumers. Making use of digital tools, artificial intelligence, or big data has become the norm during the past twelve months. Companies need to invest in hard- and software as well as in human resources to make things happen.

Climate change

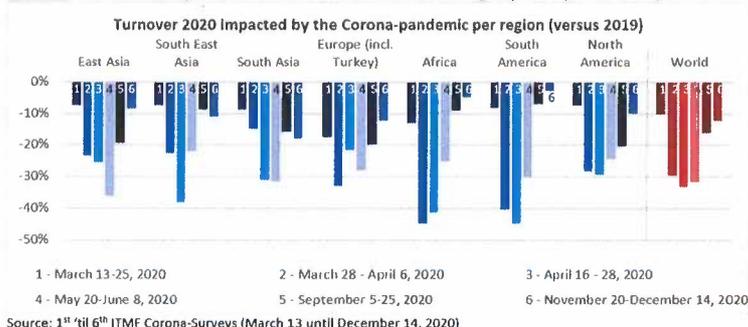
Another important trend the textile value chain must take to its heart is climate change and environmental protection. McKinsey and the Global Fashion Agenda

Graph 1: Worldwide, current orders are down by -42% on average.



Source: ITMF

Graph 2: Worldwide, expected turnover 2020 is down on average by -12% (versus 2019).



Source: 1st till 6th ITMF Corona-Surveys (March 13 until December 14, 2020)

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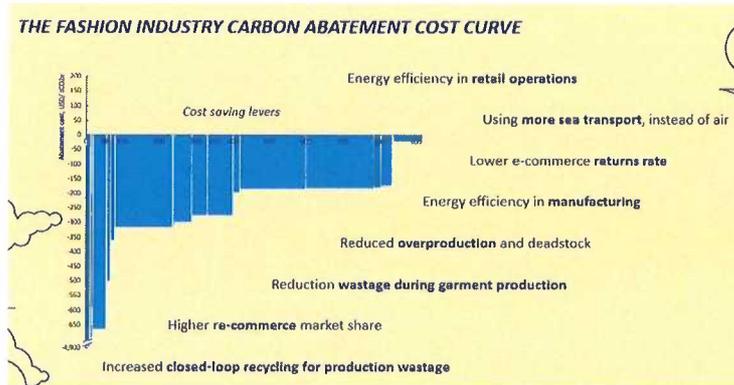
Graph 3: Worldwide, expected turnover to increase by +18% until 2024 (versus 2019).

What is your company's expected turnover from 2020 to 2024 compared to 2019 (regional average)?



Source: 6th ITMF Corona-Survey (November 20 - December 14, 2020)

Graph 4: The fashion industry carbon abatement cost curve



Source: McKinsey/Global Fashion Agenda; presentation at the Hybrid ITMF Annual Conference 2020.

have published a report in 2020, in which they looked at the fashion industry's potential to reduce Green House Gas (GHG) emissions. According to their findings around 20% of the reduction potential lies with brands, around 20% with consumers and around 60% with the textile supply chain. Everyone along the textile supply chain – from fibre producers to the end consumers – must realize that investing in environmental-friendly technologies and processes is not a cost in the medium and longer term but an investment to reduce costs significantly and help to protect the climate (see Graph 4).

Investing in sustainable textile production is indispensable for companies if they want to stay in the business also in the future. Increasingly, brands and retailers – pushed by consumers and NGOs – are demanding the textile supply

chain to produce more sustainably, above all to reduce Green House Gas (GHG) emissions along the supply chain. This means not only to use energy more efficiently but to reduce energy consumption from fossil energy sources (coal, oil, gas) as quickly as possible. Renewable energy sources should be tapped wherever and as quickly as possible.

Therefore, ITMF is encouraging textile companies and national textile associations to engage in national and international platforms like the Fashion Industry Charter for Climate Action. Many brands and retailers are signatories like Adidas, Gap, H&M, Inditex, Kering, Levis Strauss, Nike, PVH, Puma, Target or VF Corporation. Several textile companies have become signatories like DBL (Bangladesh), Chenfeng Group (China), Elevate Textiles (USA),

RT Knits (Mauritius), TAL (Hong Kong, China), or Textil Santanderina (Spain). ITMF is also an active supporting organisation of this charter that has the vision to achieve net-zero emissions by 2050. The China National Textile and Apparel Council (CNTAC) is also a supporting organisation helping companies in China to prepare themselves for the future.

Innovation and value addition

To be successful tomorrow requires courage today and confidence in the future. The future for the global textile industry is bright. Demand for textile products is enormous. The global population will continue to grow and so will global GDP. Considering climate change, the challenge is to produce textile products that can be recycled easily (circularity) and that are requiring fewer resources. Today and even more so in the future, textiles will have to incorporate even more functions (functional textiles). Furthermore, textile demand is rising in new segments like architecture, infrastructure, or mobility. In the future companies will have to concentrate more on value addition and less on volume. To seize all these opportunities, innovation is key. The costs for and complexity of innovation have increased. This requires a better understanding of each other's activities along the supply chain. Therefore, closer partnership between customers and suppliers has become ever-more important.

The pandemic has clearly shown that the textile supply chain is long and complex and that it can only be as strong as its weakest link. Therefore, I would like to encourage all of us to work in 2021 less on transactional and more on cooperative business models. This will help our industry to stay strong and healthy.

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