The 2018
LOS ANGELES FASHION REPORT
EXECUTIVE SUMMARY
CIT COMMERCIAL SERVICES

CIT Commercial Services is one of the nation’s leading providers of factoring and financing to the apparel industry. CIT offers tailored financial solutions that help companies improve cash flow, reduce operating expenses, and significantly reduce customer credit losses. CIT serves apparel companies ranging in size from $2 million to $1 billion in annual sales that sell to a broad range of public and private retailers, wholesalers, and distributors across the nation and abroad. CIT’s Internet-based platform provides clients with real-time credit approvals and accounts receivable information. To learn more, visit cit.com/commercialservices.

THE CALIFORNIA FASHION ASSOCIATION

Additional insight for the report was provided by Ilse Metchek, president of the California Fashion Association. The California Fashion Association (CFA) was organized in 1995 as a non-profit public benefit 501(c)(6) Corporation. The CFA has now been the association for the apparel and textile community for 20 years.

WRITTEN BY JOHN J. BLANK PHD, CHIEF EQUITY STRATEGIST AT ZACKS

John Blank earned a PhD in economics from MIT. Currently, Dr. Blank is the editor of “The International Trader” at Zacks and Chief Equity Strategist. He was the author and lead economist for the 2011, 2014, and 2016 Los Angeles Area Fashion Industry Profiles. The first was done while serving as Deputy Chief Economist of the Los Angeles Economic Development Corp.
EXECUTIVE SUMMARY

Los Angeles is where celebrities, models, executives and designers live, work and interact in ways that influence creative trends around the world.

As a result, the city has become a premier showcase for contemporary fashions, including apparel, accessories and footwear, and an inspiration for designers globally. LA’s fashion industry also continues to play a crucial role in the city’s economy. And it remains a world leader in the fast-moving realm of fashion-related design, social media, online sales, marketing and technology.

With CIT’s sponsorship, the California Fashion Association has once again worked to update current business trends within the LA fashion marketplace by surveying leaders about current issues.

**TOP FINDINGS**

<table>
<thead>
<tr>
<th>45%</th>
<th>33%</th>
<th>54%</th>
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</thead>
<tbody>
<tr>
<td>changing business model to make more profit</td>
<td>using integrated systems (between manufacturing and retailing)</td>
<td>using Instagram as in-house social media dominates</td>
</tr>
<tr>
<td>Speed-to-market and price pressure forces executives to find better and cheaper sourcing</td>
<td>Technology enables virtual sales tools and integrated systems</td>
<td>Consumers are digitally savvy so manufacturers market through social media</td>
</tr>
</tbody>
</table>
THE CREATIVE ECONOMY

Why track the fashion industry? The latest “Report on the Creative Economy” from the Otis College of Art and Design testifies to the major role that fashion continues to play in the economy of the Los Angeles area. Consider these findings from the report:

• LA fashion ranked second behind only the entertainment industry in the number of creative industry jobs in LA county (87,600), far out-pacing third-place publishing and printing.

• In the Los Angeles Region, which includes Orange County, the fashion industry accounted for payrolls totaling $4.4 billion annually.

• For all LA creative industries, the strongest job growth came in digital media: +1,500 jobs added, up 36.9 percent. Many of these digital media jobs involve creative design or promotion for the fashion industry.

• Conversely, domestic apparel manufacturing showed job declines in Los Angeles as offshoring continued. Fortunately, these job losses were largely offset by growth in apparel wholesaling employment.
  - Apparel Manufacturing lost 6,500 jobs, a decline of 13.6 percent.
  - Apparel Wholesaling added 6,000 jobs, an increase of 29.1 percent.

NOTES:

(i) Within the current referenced Otis report, the categories of “Entertainment” and “Visual & Performing Arts” together rank as the #1 industry for employment. However, their data includes agents, lawyers, and trucking (“goods movement”)...yet, the categories of lawyers, accountants, transportation, and showroom sales (specific to the Fashion industry) are NOT included in Fashion Industries statistics.

(ii) Also noted, “Digital Media” has its own NAICS code, therefore, none of the technical support specific to fashion production, distribution, and design is included in the Otis Report’s employment data.

(iii) The vertical integration of wholesale-to-retail is a relatively “new” phenomenon in Fashion Industry reporting. On-Line fashion merchandise sold (including accessories & footwear) represents almost 18% of ALL apparel sold; yet the employee base required for fulfillment is NOT included in the industry statistics. Economists have not yet found the appropriate code profile.
THE 2018 LA FASHION INDUSTRY VALUE CHAIN

The Fashion Value Chain is a combination of the physical steps required for production and the technological and communications capabilities needed to bring the right product to the right market at the right time. Each advance in technology offers a new chance to improve efficiency, leading closer to the overall goal of delivering the maximum value for the lowest cost.

Rapid advances in computing power, particularly microchips that drive graphics processing and artificial intelligence, could have significant impact on the apparel industry going forward. In our review of the LA Fashion Value Chain, we highlight the role of computer technology in enhancing the capabilities of fashion suppliers.

One example is the fast-growing demand for graphics processing units or GPUs. Typically, these are used to turn personal computers into fast gaming devices. But the GPUs also have new applications – notably, in virtual design and in powering artificial-intelligence (AI) programs, which require the availability of the vast quantities of computing power. In addition, rapid advancements in processors, screens and wireless networks mean smartphones are also becoming increasingly powerful and playing a larger role throughout the supply chain.

As you review the value chain model below, consider how increased computing power and enhanced graphics and mobile technologies stand to add increasing value in the “virtual” column at every step of the process.
Our Value Chain — Inside Apparel Making

<table>
<thead>
<tr>
<th>STEPS</th>
<th>ACTIVITY</th>
<th>PHYSICAL</th>
<th>VIRTUAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Inbound Logistics</td>
<td>Ports of Los Angeles &amp; Long Beach, Apparel Importers/Wholesalers</td>
<td>U.S. Customs Cargo Security requirements C-TPAT*</td>
</tr>
<tr>
<td>2</td>
<td>Operations</td>
<td>Apparel Manufacturing, Fashion/Textile Designers, Patternmakers, Accessory Manufacturing</td>
<td>PLM*, ERP*, CAD*</td>
</tr>
<tr>
<td>3</td>
<td>Outbound Logistics</td>
<td>Air, Truck, and Rail Shippers</td>
<td>UPS, FedEx, DHL, Online e-commerce</td>
</tr>
<tr>
<td>4</td>
<td>Marketing and Sales</td>
<td>Showrooms, Trade Shows, Corporate Offices</td>
<td>Online Showrooms, Google, Facebook, Instagram</td>
</tr>
<tr>
<td>5</td>
<td>Services</td>
<td>Accounting, Legal, Financial, Colleges</td>
<td>EDI*, CAD*</td>
</tr>
</tbody>
</table>

- **C-TPAT (Customs Trade Partnership Against Terrorism)** — A voluntary partnership of the private sector with the CBP (US Customs & Border Protection) providing cargo security. Launched in 2001 with 100,000 certified partners.
- **PLM (Product Lifecycle Management)** — Information management system to integrate processes and systems to manage the lifecycle of a product efficiently.
- **ERP (Enterprise Resource Planning)** — Process for inventory management, accounting, CRM (customer relationship management), integrating the various functions across the entire organization.
- **CAD (Computer Aided Design)** — Replaces manual drafting with 2D, and now, 3D images. CAD programs explore ideas and help salespeople show styles to customers without a sewn sample.
- **EDI (Electronic Data Interchange)** — Electronic exchange of business information allowing “trading partners” in sales and production to share information without paper.
Current Realities for the Fashion Value Chain

We applied our physical/virtual value chain analysis to the latest LA data and tossed in a dose of hard-earned expertise to assess some of the latest trends.

VALUE CHAIN TRENDS

- International sourcing raises demand for expertise in inbound logistics to ensure on-time delivery
- Salaries are driven upward by the need for expertise in design and pattern making
- Higher salaries are also driven by the demand for digital and technical expertise
- Faster design cycles and just-in-time delivery requirements require accuracy and consistency in apparel production
- The use of technology helps control inventory, merchandising and product development – all key ingredients for success.
WHAT ‘VIRTUAL’ MEANS FOR THE LA FASHION CLUSTER

Today’s physical Los Angeles fashion cluster uses a myriad of technology-based networks positioned at various steps along the LA Fashion Value Chain. These are the gateways for in-house, out-sourced, and online commercial enterprises.

By leveraging current and future technological advances, Los Angeles is building an even newer fashion marketplace that forges a fresh digital connection between Los Angeles’ apparel manufacturers and designers with the world.

Artificial Intelligence and Big Data Will Reinvent Fashion Retailing

Two companies, NVIDIA, based in Santa Clara, CA, and Broadcom based in Irvine, CA, have made forays into fashion in ways that could be applied from ideation to production to the retail consumer. The companies’ chips have already found use in artificial intelligence (AI) to reinvent fashion retailing.

With enough co-investment, a new e-platform for a virtual/tactile fashion interface can be born in the Los Angeles production cluster, using the latest capabilities of the recent generation of chip technology not available even five years ago.

Today, we have amazing technology that can crunch data and lead us to what the consumer wants.

Data analytics is the tool that will be used to solve the merchandising puzzle.
Three Marketing Identities: Tourism, Sports and Hollywood

Location has always been integral to Los Angeles fashion growth. Three product-inspired, marketing channels — Tourism, Sports, and Hollywood trendsetters — demonstrate why.

Outdoor sport enthusiasts fall in love with LA. It is home to a slew of professional sports franchises and college sports programs. It has held two summer Olympics (1932 and 1984) and it will also host the 2028 games. In addition, Orange County has been a surfing hotbed for decades and continues to draw new enthusiasts. Yoga and martial arts, surfing and skateboarding, track and field, and even indoor sports like ice hockey and basketball, have been inspired by LA’s “blue sky-always” climate and the energy it inspires.

To cap it off, LA’s century-old Hollywood legacy is a gift that no other cosmopolitan center can hope to match. Not only is Hollywood a mecca for tourists and a magnet for entertainment professionals, it also constantly offers up to the fashion industry a wealth of extendible personal “star” brands with global marketing appeal.
How Los Angeles Fashion Can Continue to Compete and Thrive

1. New Los Angeles fashion firms have become more focused on leveraging designer brands digitally than on physical production of fashion apparel, a major difference from the pre-tech era.

2. Once newly successful fashion companies grow their visibility, they are quickly marked for potential acquisition or expansion by private equity, venture capital, self-funded investors, or larger entities such as retailers or conglomerates. Wal-Mart’s latest purchase of the digital-savvy fashion company Bonobos is an example.

3. Fashion is at the pinnacle of U.S. internet sales penetration metrics. Fashion categories, including apparel, footwear, accessories and jewelry, frequently top online retail sales listings. Clearly, any forward-thinking Los Angeles apparel business, wherever it may be in the actual physical production value chain, must incorporate digital marketing opportunities.

4. If a company is to produce goods domestically, its technology must be first rate to compete with companies in the same category that are global and digital.

5. Consumers become the targets. Data analytics allows them to be precisely geo-targeted for continued follow up and interaction with brands and retailers — another way that technology, and artificial intelligence are utilized by the industry.
THE 2017 CFA/CIT LOS ANGELES REGION FASHION SURVEY

Key takeaways driving new directions are:

WHERE ARE YOUR GOODS MANUFACTURED?

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>40%</td>
<td>Internationally</td>
</tr>
<tr>
<td>45%</td>
<td>Combination of the two</td>
</tr>
<tr>
<td>15%</td>
<td>Domestically</td>
</tr>
</tbody>
</table>

In 2017, no change was picked up on where goods are manufactured. A mix of domestic and international sourcing dominates again. (2015 data: Domestic 17%, International 48%, Combo 35%)

WHICH OF THE FOLLOWING BEST DESCRIBES YOUR FIRM?

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>Branded apparel licensor/owner of trademarks</td>
</tr>
<tr>
<td>3%</td>
<td>Branded apparel licensee</td>
</tr>
<tr>
<td>27%</td>
<td>Other</td>
</tr>
<tr>
<td>3%</td>
<td>Textile converter</td>
</tr>
<tr>
<td>17%</td>
<td>Private label manufacturer</td>
</tr>
</tbody>
</table>

In 2017, more licensors of branded apparel trademarks were seen (50% vs. 37%) and fewer licensees (3% vs. 11%) were noted. (2015 data: licensor 37%, licensee 11%, private label 22%, textile conversion 4%, other 26%)
In 2017, integrated systems between manufacturing and retailing picked up steam (33% vs. 24%). (2015 data: Social media 54%, 3D printing 4%, 3D fitting 9%, Integrated systems 24%, Universal measurement 6%)

**WHAT IS THE MOST ENLIGHTENED CONCEPT FOR THE FUTURE OF THE APPAREL INDUSTRY?**

- **50%** Social media
- **4%** 3D printing
- **34%** Integrated systems between manufacturing and retailing
- **4%** Universal measurement for tech pack development
- **8%** 3D fitting

In 2017, multi-channel became more important (46% vs. 35%, no export opportunity was seen (0% vs. 10%), and new entrepreneurial concepts were up big (21% vs. 6%). (2015 data: 7% off price, DTC only 22%, multi-channel 35%, export 10%, new entrepreneurial concepts 6%)

**INDUSTRY-WIDE, WHAT IS THE BIGGEST OPPORTUNITY FOR LA FASHION COMPANIES IN 2018/2019?**

- **46%** Multichannel distribution (online, brick and mortar, click to connect)
- **21%** New entrepreneurial concepts
- **25%** Direct to consumer online sales
- **8%** Off-price retailing
WHAT STEPS WILL YOU TAKE TO MAKE YOUR LA FASHION BUSINESS MORE PROFITABLE IN 2018/2019?

- **46%** Change business model
- **8%** Broaden product lines
- **29%** Other
- **4%** Re-evaluate sourcing opportunities
- **13%** Invest in technology

Are big changes underway? In 2017, changing the business model (45% vs. 20%) dominated, and re-evaluate sourcing fell (4% vs. 22%). (2015 data: Re-evaluate sourcing 22%, broaden product line 25%, change business model 20%, other 19%)

WHAT COULD HAVE A NEGATIVE EFFECT ON YOUR LA FASHION BUSINESS IN 2018/2019?

- **54%** Retail footprint shrinkage (i.e. store closures and consolidation)
- **21%** Change in consumer behavior
- **25%** Increased cost of doing business

In 2017, retail footprint shrinkage dominated again (52% vs. 42%). (2015 data: Product viability 35%, retail consolidation 42%, supply chain 8%, change in consumer 25%, increased cost 47%)
In 2017, the advantages of Pacific Rim proximity fell markedly (29% vs. 53%). (2015 data: Pacific Rim location 53%, image 39%, industry cluster advantages 53%, entrepreneurial opportunities 33%)

**WHAT SPECIFICALLY KEEPS YOUR FASHION BUSINESS IN THE LA AREA?**

- **46%** The LA ports
- **33%** Other
- **25%** Access to fashion designers
- **25%** Access to local suppliers
- **13%** Fast fashion
- **13%** Access to celebrities

Respondents were able to select more than one response for each survey question, meaning the percentages together do not total 100%. In 2017, access to celebrities was up (13% vs. 2%), access to fashion designers was down (25% vs. 37%), and fast fashion was down big (13% vs. 31%). (2015 data: Access to fashion designers 37%, access to local suppliers 20%, access to LA ports 47%, fast fashion 31%, access to Hollywood celebrities 2%).
HOW DO YOU MANAGE YOUR SOCIAL MEDIA STRATEGY?

- **75%** In-house
- **25%** Agency
- **17%** We don’t have one
- **13%** Consultant

Respondents were able to select more than one response for each survey question, meaning the percentages together do not total 100%.

WHAT IS YOUR PREFERRED SOCIAL MEDIA PLATFORM?

- **54%** Instagram
- **21%** None, we don’t engage on social media
- **21%** Other
- **4%** Twitter

Social media is done mainly in-house, with Instagram dominating.
In 2017, creating tax incentives for new hires continued to dominate (42% vs. 47%). It was the most beneficial policy decision. (2015 data: Raise the small business tax exemption 26%, eliminate gross receipts tax 18%, include 3-month training wage 8%, create tax incentives for new hires 47%)

WHAT TOP THREE COUNTRIES DO YOU PLAN TO SOURCE APPAREL OR TEXTILE PRODUCTION FROM IN 2018/2019?

Bangladesh  Indonesia  Peru
China        Italy      Philippines
Guatemala    Japan      Thailand
Honduras     Korea      USA
India        Mexico     Vietnam

In 2017, China still dominated as a source for apparel. No change in that is expected, going forward.
CIT GROUP

Founded in 1908, CIT (NYSE: CIT) is a financial holding company with approximately $50 billion in assets as of March 31, 2018. Its principal bank subsidiary, CIT Bank, N.A., (Member FDIC, Equal Housing Lender) has approximately $30 billion of deposits and more than $40 billion of assets. CIT provides financing, leasing, and advisory services principally to middle-market companies and small businesses across a wide variety of industries. It also offers products and services to consumers through its Internet bank franchise and a network of retail branches in Southern California, operating as OneWest Bank, a division of CIT Bank, N.A. For more information, visit cit.com.
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