



Focus on underlying assets

Market Researches Office

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1. Introduction to the market and its dynamics

The luxury watch market, particularly the secondary market, has experienced astonishing growth in recent years in terms of trading volume and performance.

In recent years, trading activity has increased in a global market environment due in part to the presence of online platforms, which have facilitated the purchase of the asset and attracted the attention of not only collectors but also sophisticated investors seeking alternative forms of investment.

A combination of lockdown savings, rising markets in the post-pandemic phase, revenge spending, and a growing interest in alternative assets meant that demand for the most coveted watches far outstripped the supply from manufacturers. Waiting lists grew longer and prices on the secondary market skyrocketed.

Today, on brands such as Rolex, the supply-demand relationship is highly unbalanced, justifying the resilience of secondary market quotations. It is estimated that Rolex produces about 1.1 million watches a year, while Patek Philippe and Audemars Piguet produce 65,000 and 45,000 respectively: these figures corroborate the sustainability of the price rally; the shortage is structural.

Consider also that there are peculiar dynamics determined by players in the retail channel, who select buyers, given the scarcity of pieces, on the basis of arbitrary criteria of status, marketing purposes and long-established relationships with loyal customers.

The manufacturers' fashion houses are also gradually moving toward opening boutiques and selling online through them: likely, such a store management strategy will make access to exclusive models more democratic, *ceteris paribus* the long waiting times, of course. Indeed, always keep in mind the physiological imbalance intimately embedded in the aforementioned supply-demand relationship.

Stock markets at all-time highs and the surge in cryptocurrencies have not only brought wealth, but also prompted a broader interest in investing in alternative assets, whether non-fungible tokens or watches.

Direct investment in the luxury watches asset class thus becomes difficult to achieve for investors who are not highly capitalized: even assuming the purchase of a few examples of high-end brands, one would be investing significant capital without benefiting from diversification. Moreover, the limited liquidity that characterizes any real asset, the risk of damaging one's watch or buying a counterfeit version constitute fears that may limit one's approach to this market.

High-end watches are universally recognized as investment objects; in fact, over time they have earned and consolidated the status of "safe haven assets." They represent a performing, appealing, resilient, and growing real asset—the ideal underlying asset for every mean-variance investor. ante ideal for every mean-variance investor.

2. Market analysis.

The global market for luxury watches is currently valued at \$47.92b with a compound annual growth rate (CAGR) of 3.25% projected for 2021–2026; the Italian market has reached a value of 1.83 billion in 2021, as witnessed by research conducted by GfK Italy. Today the reselling market is worth between \$18 billion and \$20 billion, with a projected annual growth rate of around 10 percent until 2025. According to Deloitte's report, the second pulse market will increase by 75 percent by 2030.

In 2020, the second-hand market grew by about 15 billion pounds. Luxury watches have beaten traditional asset classes (stocks, bonds, precious metals, real estate market) in recent years according to an analysis conducted by Bob's Watches, an e-commerce retailer of Rolex. Its team analyzed how prices have performed over the past decade compared to the performance of stocks, bonds, real estate, and gold. Assessing the percentage increases for gold and real estate, based on inflation-adjusted gold values from [macrotrends.net](https://www.macrotrends.net) and average sales price data for homes sold in the United States from the Federal Reserve Economic Data (FRED) database, Rolex watches significantly outperformed both. As for the Dow Jones Industrial Average, returns have been comparable over the decade, but Rolex has fared significantly better over the five years. The average price of a used Rolex watch has risen from under \$5,000 in 2011 to over \$13,000 by the end of 2021. This paper is followed by tables with comparative charts highlighting the considerations above.

Generally we can say that over the past decade a combination of locked-in savings, growing markets, and broader interest in alternative assets has meant that

demand for the most sought-after watches far outstripped supply. Waiting lists have lengthened and prices on the secondhand market have skyrocketed. As has been the case throughout the Luxury sector, interest in the watch industry has intensified globally in recent years thanks to strong contributions from collectors and investors from Asian countries (China and Japan first and foremost), Eastern Europe, and Latin America. New technologies, large players in online sales, and the emergence of specialized marketplaces, such as Chrono24, have enhanced market access on a global scale, fueling the channel of buying and selling used and new. Also remember that the three main manufacturers (Rolex, Audemars Piguet, and Patek Philippe) are privately owned, so investors do not have the opportunity to participate in the fortunes of the three houses by investing in equity.

Today, transactions are moving more and more intensively in the digital marketplace especially for used but also on new; however, the offline sales channel remains the one most used by buyers, as can be seen from the attached graphs.

Certainly the stability of prices and their growth is linked to the possible increase in production, but there are no indications from the most prestigious maisons that they are adopting a corporate policy directed in this direction. Consider that Omega, which has increased production in recent years has seen sales double in 2021, compared to 2020. The new trend among emblazoned houses is to use blockchain technology and the issuance of NFTs to guarantee the authenticity of their watches, as unique digital certificates entered into a registry that cannot be changed. This is a strategy geared toward protecting and safeguarding the owner in case of possible counterfeiting and theft. At the same time, the NFTs that accompany the watches become a marketing operation. Panerai, Bulgari, Richard Mille, and Jacob & Co have already linked NFTs to their watches.

3. Reference analysis

Some tables are proposed below aimed at capturing and highlighting the physiological tendency for some references to appreciate. In particular, this dynamic is the result of two distinct components that tend to feed on themselves:

- 1) the arbitrarily and unilaterally sanctioned list price increases by manufacturers and
- 2) the price fluctuations that take their cues from the secondary market. These fluctuations are intuitively unbalanced to the upside because of the imbalance subsisting in the supply-demand relationship referred to in the opening. In the analyses that follow, these effects have been considered separately; in any case, it is an essential key to keep in mind that spreads between retail prices referring to consecutive years produce significant

impacts on resell prices. In general, a "cascading" effect is observed, similarly to what occurs with interest rates, which rise significantly from the interbank market to consumers. Finally, be mindful of the fact that the following returns are discrete, hence not continuous, in spite of those that were instead used to produce the other (more accurate) statistical analyses presented in the paper, with the aim of guarding against log-normality and arriving at a "conservative underestimate" of expected payoffs.

Rolex Submariner

Reference	Retail price 2021 [1]	Retail price 2022 [2]	Listing spread [1] vs [2]	Chrono24 evaluation - proxy secondary market [3]
124060	7.750,00 €	8.850,00 €	12,43%	15.000,00 €
126610LN	8.750,00 €	9.650,00 €	9,33%	16.000,00 €
12610LV	9.150,00 €	10.150,00 €	9,85%	22.000,00 €

Rolex Daytona

Reference	Retail price 2021 [1]	Retail price 2022 [2]	Listing spread [1] vs [2]	Chrono24 evaluation - proxy secondary market [3]
116500LN	12.600,00 €	13.900,00 €	9,35%	42.000,00 €

Audemars Piguet Royal Oak Chrono 50th anniversary

Reference	Retail price 2021 [1]	Retail price 2022 [2]	Listing spread [1] vs [2]	Chrono24 evaluation - proxy secondary market [3]
26240ST.OO.1320ST.0	33.300,00 €	-	-	120.000,00 €

4. Market dataset

In this section, we present some of the quantitative analyses we have used to define our business model, as well as our strategies, and to understand the dynamics at work in our target market, from a proactive perspective and thus with an approach to which traditional watch traders are generally not accustomed to. we present ourselves as "augmented traders."

Source: personal elaboration based on data extracted from Passport Euromonitor.

Market Sizes Historical Growth Index																			
Categories	Geography	Data Type	Unit	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
Luxury Timepieces	World	Retail Volume	million units		100	94	99	103	120	117	115	117	106	106	109	109	86	98	104
Luxury Timepieces	China	Retail Volume	million units		100	110	134	164	173	169	156	150	153	167	174	183	222	268	304
Luxury Timepieces	Hong Kong, China	Retail Volume	million units		100	99	133	161	168	173	183	170	175	191	208	168	85	103	128
Luxury Timepieces	India	Retail Volume	million units		100	111	124	139	156	176	200	225	251	277	305	334	276	286	290
Luxury Timepieces	Japan	Retail Volume	million units		100	81	93	95	151	132	120	123	83	79	81	82	62	72	79
Luxury Timepieces	Singapore	Retail Volume	million units		100	101	106	111	116	120	122	127	120	118	120	121	102	105	108
Luxury Timepieces	Eastern Europe	Retail Volume	million units		100	98	101	109	120	127	130	124	119	118	121	122	115	132	93
Luxury Timepieces	Russia	Retail Volume	million units		100	92	103	125	138	150	154	154	141	133	133	132	151	171	83
Luxury Timepieces	United Arab Emirates	Retail Volume	million units		100	101	104	109	118	129	142	134	130	127	124	126	110	120	128
Luxury Timepieces	North America	Retail Volume	million units		100	88	95	103	108	108	112	104	92	89	92	92	74	98	99
Luxury Timepieces	USA	Retail Volume	million units		100	88	96	104	110	109	114	105	92	88	91	91	73	98	99
Luxury Timepieces	Western Europe	Retail Volume	million units		100	98	100	102	106	106	104	107	104	105	105	106	78	86	91
Luxury Timepieces	France	Retail Volume	million units		100	101	102	105	107	105	104	113	111	109	109	107	79	91	93
Luxury Timepieces	Germany	Retail Volume	million units		100	104	115	126	136	130	114	117	115	111	112	113	88	89	97
Luxury Timepieces	Italy	Retail Volume	million units		100	97	93	88	83	82	84	83	79	76	74	72	47	51	55
Luxury Timepieces	Spain	Retail Volume	million units		100	83	80	77	81	78	78	84	85	87	89	91	60	70	77
Luxury Timepieces	Switzerland	Retail Volume	million units		100	101	102	106	117	124	127	125	107	103	103	103	83	95	95
Luxury Timepieces	United Kingdom	Retail Volume	million units		100	101	102	102	104	107	108	110	117	129	134	138	102	120	131

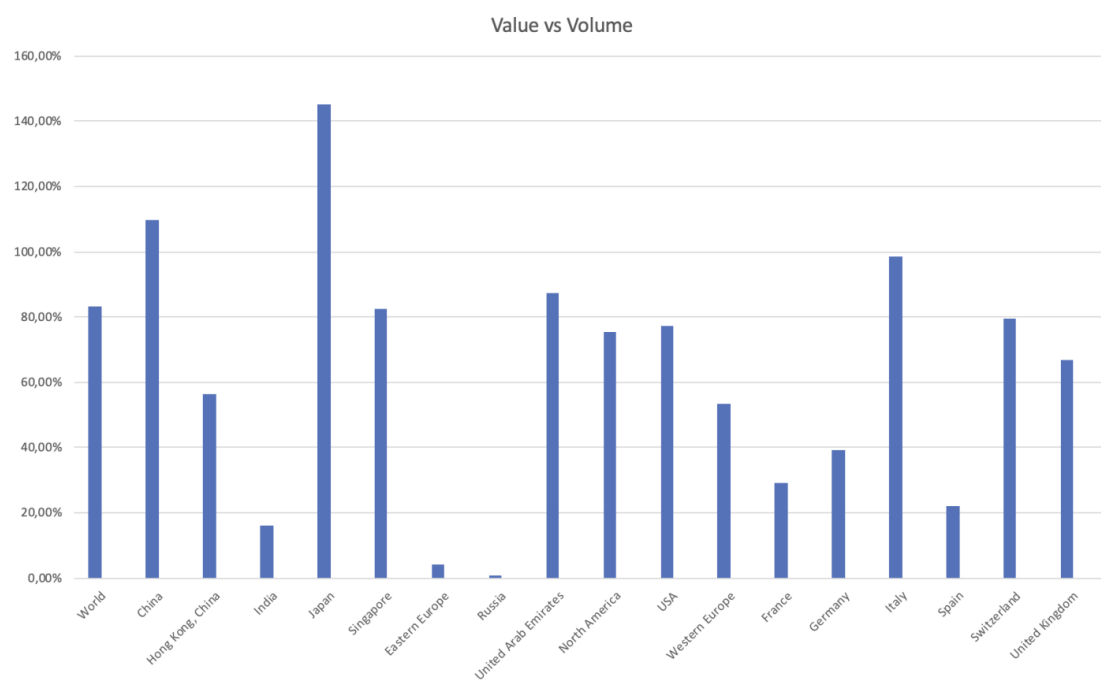
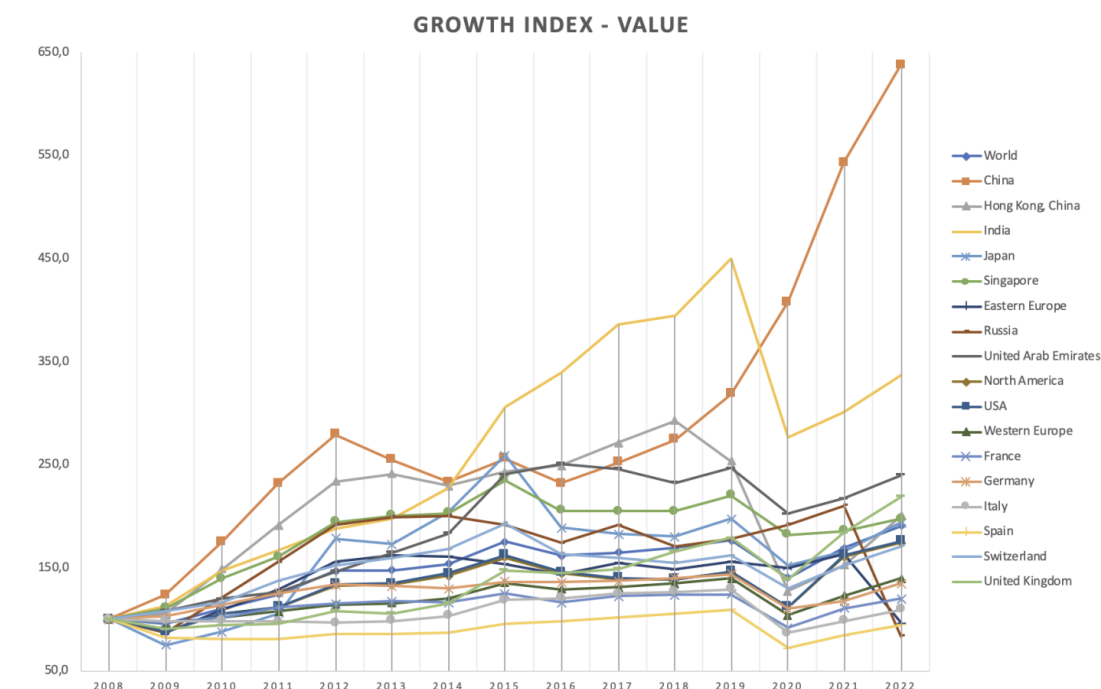
Market Sizes Historical																		
Categories	Geography	Data Type	Unit	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Luxury Timepieces	World	Retail Volume	million units	8,00	7,50	7,90	8,30	9,60	9,40	9,20	9,40	8,50	8,50	8,70	8,80	6,90	7,80	8,30
Luxury Timepieces	China	Retail Volume	million units	0,30	0,30	0,40	0,50	0,50	0,50	0,50	0,50	0,50	0,50	0,50	0,60	0,70	0,80	0,90
Luxury Timepieces	Hong Kong, China	Retail Volume	million units	0,20	0,20	0,20	0,30	0,30	0,30	0,30	0,30	0,30	0,30	0,30	0,30	0,10	0,20	0,20
Luxury Timepieces	India	Retail Volume	million units	-	-	-	-	-	-	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10
Luxury Timepieces	Japan	Retail Volume	million units	1,80	1,50	1,70	1,70	2,70	2,40	2,20	2,20	1,50	1,40	1,50	1,50	1,10	1,30	1,40
Luxury Timepieces	Singapore	Retail Volume	million units	0,20	0,20	0,30	0,30	0,30	0,30	0,30	0,30	0,30	0,30	0,30	0,30	0,20	0,30	0,30
Luxury Timepieces	Eastern Europe	Retail Volume	million units	0,10	0,10	0,10	0,20	0,20	0,20	0,20	0,20	0,20	0,20	0,20	0,20	0,20	0,20	0,10
Luxury Timepieces	Russia	Retail Volume	million units	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10
Luxury Timepieces	United Arab Emirates	Retail Volume	million units	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10
Luxury Timepieces	North America	Retail Volume	million units	1,00	0,80	0,90	1,00	1,00	1,00	1,10	1,00	0,90	0,80	0,90	0,90	0,70	0,90	0,90
Luxury Timepieces	USA	Retail Volume	million units	0,90	0,80	0,80	0,90	0,90	0,90	1,00	0,90	0,80	0,80	0,80	0,80	0,60	0,80	0,90
Luxury Timepieces	Western Europe	Retail Volume	million units	2,80	2,80	2,80	2,90	3,00	3,00	2,90	3,00	2,90	3,00	3,00	3,00	2,20	2,40	2,60
Luxury Timepieces	France	Retail Volume	million units	0,30	0,30	0,30	0,30	0,40	0,30	0,30	0,40	0,40	0,40	0,40	0,40	0,30	0,30	0,30
Luxury Timepieces	Germany	Retail Volume	million units	0,60	0,60	0,70	0,70	0,80	0,80	0,70	0,70	0,70	0,60	0,70	0,70	0,50	0,50	0,60
Luxury Timepieces	Italy	Retail Volume	million units	0,60	0,50	0,50	0,50	0,50	0,50	0,50	0,50	0,40	0,40	0,40	0,40	0,30	0,30	0,30
Luxury Timepieces	Spain	Retail Volume	million units	0,20	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,20	0,20	0,20	0,10	0,10	0,10
Luxury Timepieces	Switzerland	Retail Volume	million units	0,40	0,40	0,40	0,40	0,40	0,50	0,50	0,50	0,40	0,40	0,40	0,40	0,30	0,40	0,40
Luxury Timepieces	United Kingdom	Retail Volume	million units	0,30	0,30	0,30	0,30	0,30	0,30	0,30	0,30	0,30	0,40	0,40	0,40	0,30	0,30	0,40

Trend of historical retail values and construction of relative growth indexes

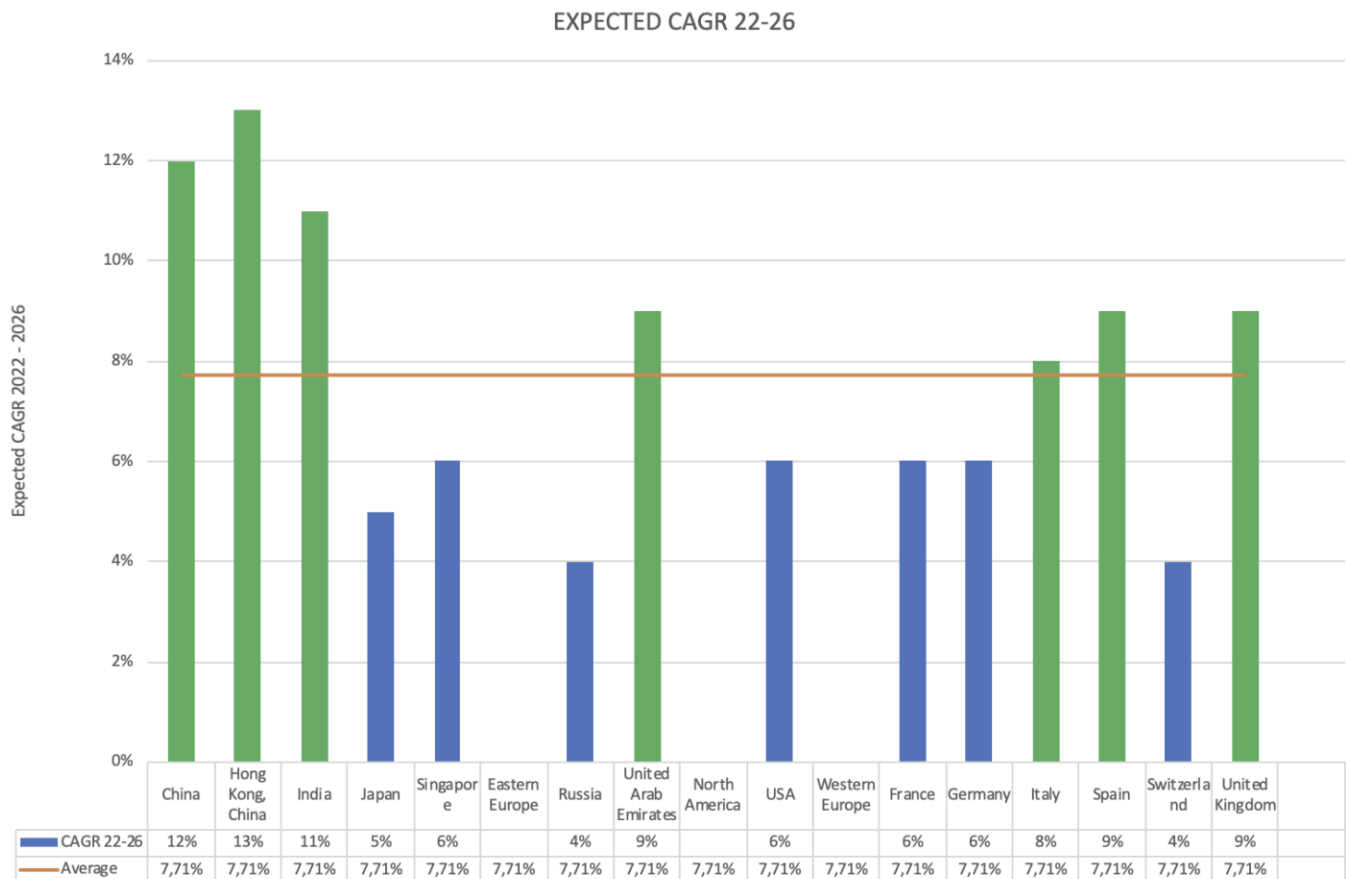
Market Sizes Historical Growth Index																				
Categories	Geography	Data Type	Unit	Currency Conversion	Current Constant	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Luxury Timepieces	World	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	95,8	110,8	124,0	146,9	147,5	153,4	175,5	161,9	164,9	169,0	176,2	140,4	168,9	190,7
Luxury Timepieces	China	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	123,3	175,5	232,0	279,4	254,8	232,8	256,0	231,6	252,0	274,2	318,6	407,6	543,0	637,8
Luxury Timepieces	Hong Kong, China	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	104,9	149,0	191,3	233,5	240,9	229,5	242,8	249,3	271,2	292,4	253,5	127,5	152,6	200,3
Luxury Timepieces	India	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	112,3	147,5	166,7	187,5	197,1	227,7	305,7	339,0	385,4	394,0	449,2	276,1	300,4	336,5
Luxury Timepieces	Japan	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	75,2	87,7	105,6	178,5	172,9	203,5	258,9	168,7	162,6	160,4	197,6	152,1	166,1	193,9
Luxury Timepieces	Singapore	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	110,5	139,4	160,7	194,0	200,4	202,7	234,9	205,1	204,5	204,6	220,0	182,0	165,5	197,3
Luxury Timepieces	Eastern Europe	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	87,2	109,1	128,7	155,5	161,7	161,3	153,4	143,6	154,7	148,4	156,0	149,1	163,8	96,6
Luxury Timepieces	Russia	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	86,9	120,8	155,6	191,5	199,0	200,3	192,0	174,2	191,0	170,0	178,2	192,0	210,5	83,7
Luxury Timepieces	United Arab Emirates	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	108,2	119,9	125,9	146,3	164,6	163,4	240,2	251,1	245,9	232,5	246,3	202,4	217,1	240,0
Luxury Timepieces	North America	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	88,1	105,4	111,6	132,9	133,6	142,1	159,7	144,4	139,2	138,4	145,8	111,2	160,5	173,9
Luxury Timepieces	USA	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	87,6	105,5	111,9	134,0	134,9	144,4	162,4	145,7	139,9	139,1	146,4	111,6	162,2	175,9
Luxury Timepieces	Western Europe	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	96,5	101,1	107,5	114,5	115,8	120,0	135,2	128,8	130,8	134,6	139,3	103,8	123,2	139,7
Luxury Timepieces	France	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	97,1	101,9	111,2	114,9	117,6	116,2	124,5	116,3	122,0	123,4	124,1	91,3	110,7	120,1
Luxury Timepieces	Germany	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	102,5	113,9	125,3	133,1	131,9	129,7	136,5	135,9	137,1	140,4	144,1	110,2	117,3	134,9
Luxury Timepieces	Italy	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	98,6	98,4	97,4	96,5	98,1	103,2	118,5	120,4	124,5	126,9	129,0	86,8	98,1	109,3
Luxury Timepieces	Spain	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	82,6	81,0	81,0	85,7	86,2	87,3	95,2	97,9	101,9	105,9	109,5	72,0	84,4	94,6
Luxury Timepieces	Switzerland	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	107,4	115,9	137,2	152,3	159,4	168,1	193,1	163,6	158,9	154,6	161,5	129,9	152,6	170,9
Luxury Timepieces	United Kingdom	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	100,0	90,2	93,8	95,9	108,0	105,6	115,7	147,6	144,2	148,5	166,1	178,7	138,6	183,8	218,7

Market Sizes Historical																				
Categories	Geography	Data Type	Unit	Currency Conversion	Current Constant	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Luxury Timepieces	World	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	22.311	21.366	24.729	27.675	32.774	32.919	34.234	39.159	36.119	36.782	37.695	39.320	31.327	37.681	42.557
Luxury Timepieces	China	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	1.206	1.486	2.115	2.797	3.368	3.072	2.807	3.086	2.792	3.038	3.306	3.841	4.914	6.545	7.689
Luxury Timepieces	Hong Kong, China	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	1.472	1.544	2.193	2.815	3.436	3.545	3.377	3.573	3.668	3.992	4.303	3.730	1.876	2.245	2.947
Luxury Timepieces	India	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	56	63	82	93	105	110	127	171	189	215	220	251	154	168	188
Luxury Timepieces	Japan	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	2.236	1.682	1.962	2.362	3.991	3.866	4.550	5.788	4.219	4.082	4.034	4.418	3.401	3.715	4.335
Luxury Timepieces	Singapore	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	450	497	627	723	873	901	911	1,056	922	920	920	989	819	834	887
Luxury Timepieces	Eastern Europe	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	513	448	560	661	798	830	828	787	737	794	762	801	765	841	496
Luxury Timepieces	Russia	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	282	245	340	438	539	560	564	541	490	538	478	502	541	593	236
Luxury Timepieces	United Arab Emirates	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	439	475	526	553	642	722	805	1,054	1,102	1,079	1,021	1,081	888	953	1,054
Luxury Timepieces	North America	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	3,278	2,886	3,454	3,657	4,357	4,379	4,659	5,234	4,732	4,562	4,535	4,777	3,643	5,259	5,699
Luxury Timepieces	USA	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	3,024	2,650	3,189	3,384	4,051	4,079	4,366	4,910	4,406	4,231	4,206	4,428	3,376	4,904	5,320
Luxury Timepieces	Western Europe	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	9,877	9,535	9,983	10,617	11,311	11,437	11,848	13,352	12,722	12,923	13,298	13,764	10,248	12,172	13,795
Luxury Timepieces	France	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	1,503	1,460	1,532	1,671	1,728	1,767	1,747	1,871	1,748	1,834	1,856	1,865	1,372	1,664	1,805
Luxury Timepieces	Germany	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	1,743	1,305	1,460	1,505	1,616	1,707	1,745	1,917	1,745	1,817	1,833	1,912	1,449	1,716	1,96
Luxury Timepieces	Italy	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	1,714	1,719	1,716	1,699	1,683	1,710	1,800	2,066	2,100	2,177	2,211	2,249	1,513	1,710	1,906
Luxury Timepieces	Spain	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	683	564	554	555	585	589	596	650	609	619	623	748	492	576	646
Luxury Timepieces	Switzerland	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	1,690	1,815	1,959	2,319	2,573	2,694	2,841	3,263	2,764	2,685	2,613	2,729	2,195	2,578	2,888
Luxury Timepieces	United Kingdom	Retail Value RSP	EUR million	y-o-y ex rates	Current Prices	1,641	1,481	1,539	1,574	1,772	1,733	1,899	2,422	2,366	2,437	2,725	2,933	2,273	3,016	3,588

retail values and volumes. Following are some graphical representations, also the result of personal elaboration, based on the data presented in the tables above, of the above empirical evidence.



As for expected CAGRs, however, they are in line with past trends and are expected to return to pre-covid levels: strategic focus on Asian markets, UAE, Spain and UK.



With respect to distribution channels, pay attention to the explosive growth in market share gained by e-commerce, at the expense of physical and more traditional channels. There is a general shift in sales from the primary market to the secondary market, a phenomenon that our business model is able to take advantage of.

Distribution

