THE GCC LUXURY WATCH MARKET STATUS

A DynaLux Consulting study on the impact of COVID-19 crisis impact on the industry for the Gulf Region.

Study conducted in June 2020

DYNALUX
CONSULTING

The GCC Luxury watch market status – COVID-19 impact

According to the Federation of the Swiss Watch Industry (FSWI), in 2019, the Swiss Watch industry generated a revenue of approximately CHF 22 Billion with the top 30 importing nations. According to industry experts, 78% of this amount was generated with watches that have a recommended retail price of CHF 4,500/- or above, commonly referred to as "Luxury watches". In terms of quantity, the Swiss Watch Industry has produced approximately 24 million units in that year.

This next table can help to understand the weight of each large region in the world when it comes to the consumption of Swiss-made timepieces. The last column on the right of the table shows us the average spent per capita in each region to finance the import of swiss watches.

The FSWI has calculated that 92% of the total Swiss Watch Industry exports are made by 30 countries. For the sake of clarity and for the purpose of the present report, here-after the list of countries that are part of these regions:

Europe:	Austria, Belgium, France, Germany, Greece, Italy, Netherlands, Portugal, Russia, Spain, Sweden, Turkey, and the United Kingdom.
Greater China:	China, Hong Kong, and Taiwan
Japan:	Only Japan
Other Asia:	Australia, India, Singapore, South Korea, and Thailand.
Middle East:	Bahrain, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates.
North America:	Canada, Mexico, and the United States.

Region[i]	Est. Population[ii]	Import Value[iii]	Av. CHF spent per cap.
Europe	623,000,000	CHF 6,164,000,000	CHF 9.89
Greater China	1,441,000,000	CHF 5,253,000,000	CHF 3.64
Japan	124,000,000	CHF 1,608,000,000	CHF 12.96
Other Asia	1,532,000,000	CHF 2,807,000,000	CHF 1.83
Middle East	58,000,000	CHF 1,761,000,000	CHF 30.36
North America	487,000,000	CHF 2,822,000,000	CHF 5.79
Rest of the World	3,366,000,000	CHF 1,265,000,000	CHF 0.37
Total	**7,631,000,000**	**CHF 21,680,000,000**	**CHF 2.84**

Table I

[i] Each Region is limited to the countries they have listed by the FSWI in the top 30 importers worldwide.
[ii] Source: Worldometer.com
[iii] Source: Federation of the Swiss Watch Industry

While the industry did relatively well in the first two months of 2020, the COVID-19 crisis started hitting the global markets towards the end of February and brought the industry to a near complete halt. Manufacturers in Switzerland halted their production for weeks, Retailers and Brand boutiques around the world closed for weeks on end, entire populations were confined for varied periods of time, bringing consumption to a halt. As a result, the imports of Swiss-made watches were stopped in most markets around the world for a good part of March 2020 and most all of April, only to pick up again sometime in May. The next table shows us the importance of this drop by comparing the January-May period of 2020 and the change between both years:

Region	Jan-May 2020	Jan-May 2019	Delta
Europe	CHF 1,412,000,000	CHF 2,409,000,000	-41.38%
Greater China	CHF 1,303,000,000	CHF 2,175,000,000	-40.09%
Japan	CHF 448,000,000	CHF 663,000,000	-32.43%
Other Asia	CHF 737,000,000	CHF 1,132,000,000	-34.89%
Middle East	CHF 471,000,000	CHF 788,000,000	-40.23%
North America	CHF 818,000,000	CHF 1,116,000,000	-26.70%
Rest of the World	CHF 399,000,000	CHF 649,000,000	-38.52%
Total	**CHF 5,738,000,000**	**CHF 8,932,000,000**	**-35.76%**

Table II

The above data shows that the markets that were the worst hit (Europe, Middle East and Greater China) are the regions where the strictest social distancing measures took place. The COVID-19 crisis has forced various government around the world to implement all sorts of measures to stop the spread of the virus and contain the populations for their own safety. As a result, the importation of Swiss-made timepieces has been reduced drastically wherever the measures were the strictest. If we look at individual nations, we will notice a confirmation of this statement. Here-below are the least-hit top five importers around the world:

Country	Jan-May 2020	Jan-May 2019	Delta
Taiwan	CHF 106,600,000	CHF 125,000,000	-14.7%
Netherlands	CHF 83,600,000	CHF 105,000,000	-16.8%
Turkey	CHF 42,200,000	CHF 54,700,000	-22.8%
China	CHF 603,000,000	CHF 799,400,000	-24.6%
United States	CHF 709,800,000	CHF 954,700,000	-25.6%

Table III

The following table displays the ranking at the end of June of these same five nations in terms of number of declared cases of COVID-19 infections:

Country	Confirmed Infections	Death toll	Ranking
Taiwan	447	7	#155
Netherlands	50,223	6,107	#30
Turkey	198,613	5,115	#13
China	83,531	4,634	#22
United States	2,681,811	128,783	#1

Table IV

Notably, in the case of China and Taiwan, both had been the first to take control of the virus spread and were therefore able to quickly re-open for business. The other top three nations that saw the lowest regression in their Swiss Watch Imports are within nations that had delayed or simply refused to implement strict social distancing rules.

After taking this little detour to better understand how the Industry has been doing globally, we wish to dig deeper into the GCC region which is defined by the FSWI as the Middle East Region. As shown in Table I, this region is by far the first in terms of CHF spent per capita on Swiss-made watches, standing in 2019 at CHF 30.36, equivalent to over 10 times the global average.

During the month of June 2020, we conducted a 360-degree study of the Luxury Watch Industry in this part of the world by surveying the following four categories of Industry actors who defined as follows:

- Luxury Watch Collectors
- Authorized Dealers

- Luxury Watch Brands
- Non-Authorized Luxury Watch Dealers and Traders

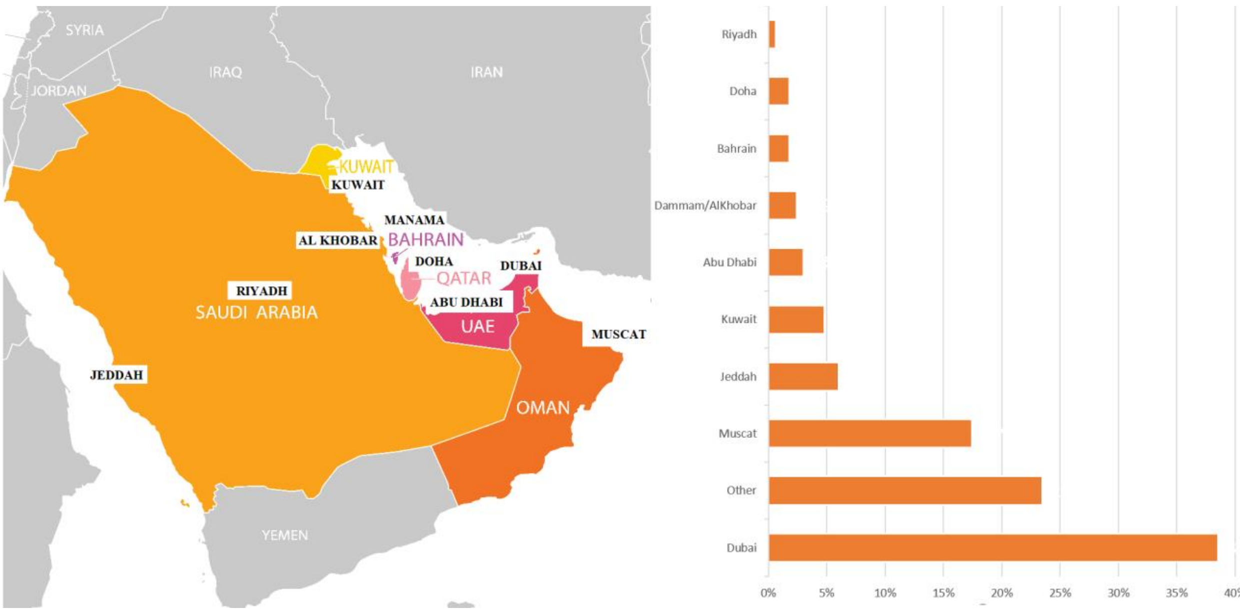
While the latter category is usually shunned or ignored by the industry, their role and importance – especially with Collectors – has been steadily increasing over the last few years. Regardless of what the industry general sentiment may be, they have proven to be on of its vital parts as they help collectors secure discontinued, pre-owned as well as highly sought-after watches that brands or retailers often cannot supply to their customers. They also are a key element in the flow between producers and buyers as they allow brands and retailers alike to manage their inventories and help them reduce their level on slow-moving pieces and old inventories. Lastly, they ease Luxury timepieces access to a population that is not necessarily covered by the standard networks of the brands (i.e. cities or countries where there are no official retailers).

Information captured during this month-long study guaranteed anonymity of the respondents and the present report will be shared with everyone who has participated. They will also be able to access it on our LinkedIn page or download it from our website (www.dynaluxconsulting.com).

Lastly, this study could not have been conducted without the support of a number of people in the industry, most of which will remain nameless, but two in particular who have been instrumental in helping us gain access to the discreet realm of watch collectors: Mr Hassan Al Akhras, founder of Arab Watch Guide and Arab Watch Club as well as Mr Adel Al Rahmani, founder of the Dubai Watch Club. We are grateful to the support and the candor of all club members who have helped us in our research.

The GCC Luxury watch Collectors

Throughout the course of June 2020, we had reached out anonymously to a total of 383 Luxury watch collectors across the Gulf Countries and we asked them a total of 16 questions with the purpose of understanding their profile as well as if, and how, the COVID-19 crisis had impacted their purchase behavior.



GRAPH I

The United Arab Emirates seems to have the largest number of watch collectors given 42% of respondents confirmed that they reside in the UAE. Of those, 93% were based in Dubai. The second country with the largest population of Luxury Watch Collectors surveyed are in Oman as we had 17% stating that their main residence was in Muscat. Saudi Arabia ranks third with 8% of respondents, the majority of which (64%) reside in Jeddah. We then respectively find Kuwait at 5%, Bahrain and Qatar at 2% each. We also account that just about 24% of the surveyed population had answered “other” as their place of residence. This means that, quite likely, we had our survey reach out to watch collectors outside of the GCC.

We thought it would be interesting to see how these percentages fare against the 2019 import of Swiss-made watches and into these respective nations.

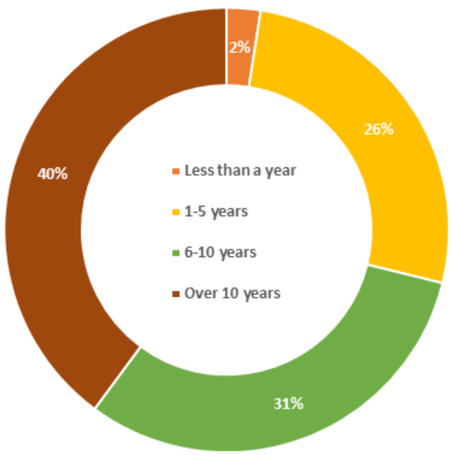
Country	2019 imports	Share vs Total	Identified collectors
United Arab Emirates	CHF 933,600,000	53.01%	41.57%
Saudi Arabia	CHF 322,400,000	18.31%	8.43%
Qatar	CHF 195,000,000	11.07%	2.01%
Kuwait	CHF 148,200,000	8.41%	5.02%
Bahrain	CHF 129,000,000	7.33%	2.01%
Oman	CHF 32,800,000	1.87%	17.47%
Total	**CHF 1,761,000,000**	**100.00%**	**76.51%**

TABLE V

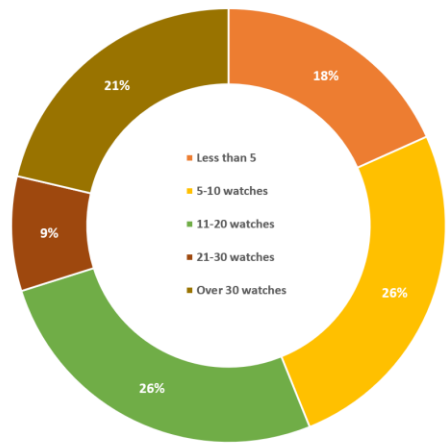
TABLE V tells us that there appears to be a clear disconnect between the weight of each country as an importer of Swiss-Made watches and the subsequent share of collectors based in these countries. We shall of course – in future studies – ensure that we are able to grow our sample, especially in markets such as Saudi Arabia, Qatar, Bahrain, and Kuwait.

Collector's behavior

The next set of data points we examined was related to the behavior of collectors. To the question "*How long have you been active as a watch collector*", we received an interesting set of responses. Indeed, it appears that GCC-based watch collectors can be considered as "seasoned" in the sense that over 71% of respondents confirmed that they have been into collecting watches since 2014-2015 (at least). When compared to the total number of respondents, we see that 40% have been curating their personal collections for 10 years or more. Another 31% have been considering themselves as watch collectors for 6 to 10 years. The newcomers into the hobby stand at 29%, but only a minority of them have been collecting for less than a year (GRAPH II):



GRAPH II



GRAPHI II

The other interesting information (confirming the assumptions that this region has the highest spend per capita on Swiss-made watches i.e.: over 10X the world's average), is that despite the profile of the collector, we have an all-round understanding that the sizes of watch collections are relatively large. GRAPH III (see above) tells us that over 56% of watch collectors own 11 Luxury timepieces or more. Better yet, we can see that the share of voice of what could be considered as "Heavy" watch collectors – owning 30 watches or more – are a larger population (21%) than those collectors who can be considered as "Aspiring" because they own 5 luxury watches or less. The question then becomes - what is the correlation between the size of the collection and the duration of the hobby? The next table allows us a deeper understanding of this phenomenon:

Into watches	< 5 watches	5-10 watches	11-20 watches	21-30 watches	> 30 watches
< 1 year	67%	33%	-	-	-
1-5 years	28%	28%	26%	5%	13%
6-10 years	18%	28%	32%	10%	12%
> 10 years	6%	20%	25%	11%	38%
Total	**17%**	**26%**	**27%**	**9%**	**21%**

TABLE VI

Keeping in mind that the original Bedouin culture of the Gulf countries is based on very strong family and tribal roots, we felt that it would be interesting to see if the surveyed watch collectors had immediate family members who were also into this particular passion. The responses shown in the next chart did not disappoint:

Into watches	SOVi	Father	Mother	Siblings	Children
< 1 year	1%	-	-	100%	-
1-5 years	26%	55%	5%	40%	-
6-10 years	28%	50%	8%	42%	-
> 10 years	45%	28%	5%	51%	16%
Total	**100%**	**42%**	**6%**	**45%**	**7%**

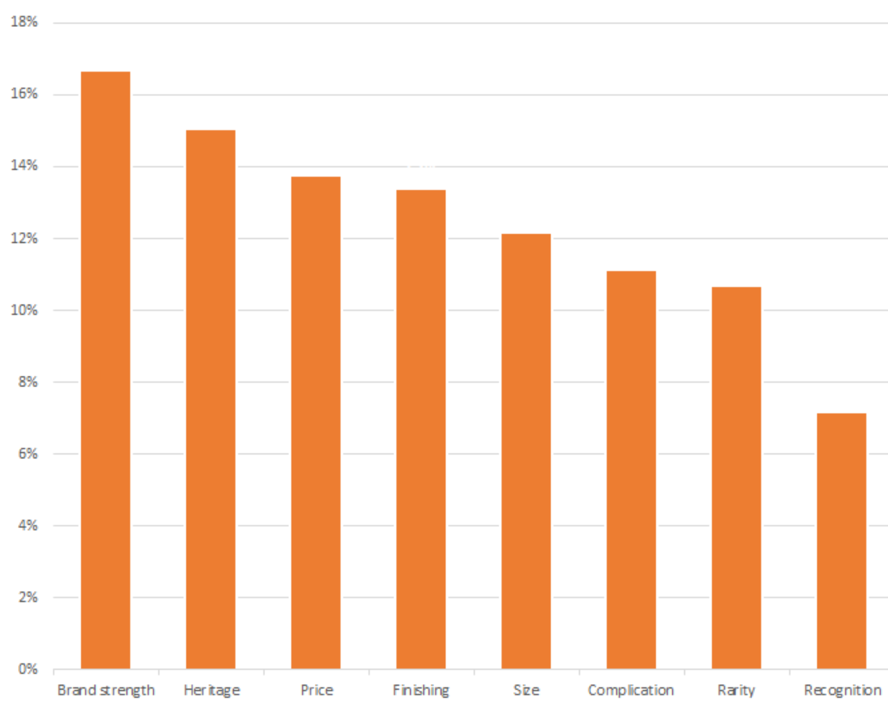
i Share of Voice
TABLE VII

Since we did not inquire about the age of the surveyed watch collectors, we could assume that there is a correlation between age and the length of the collecting behavior. This assumption is supported by the fact that only those who have been collecting luxury watches for a decade or longer have children that are also collecting watches. Similarly, we can see that the "younger" audience – those who have been collecting watches for 5 years or less are the ones who – for 58% of them – have their fathers or mothers into watch collecting as well. Ultimately, we can see through this table that there is a strong impact on the collector's mindset coming from an immediate family member.

Furthermore, we have asked our sample population to rank the features that are most important to them in acquiring a new timepiece. The eight elements that we defined so to grasp the Collector's mind set are linked to criteria that we felt could be the most objective:

- Brand strength (perceived)
- Complication
- Finishing
- Heritage
- Price
- Rarity
- Recognition

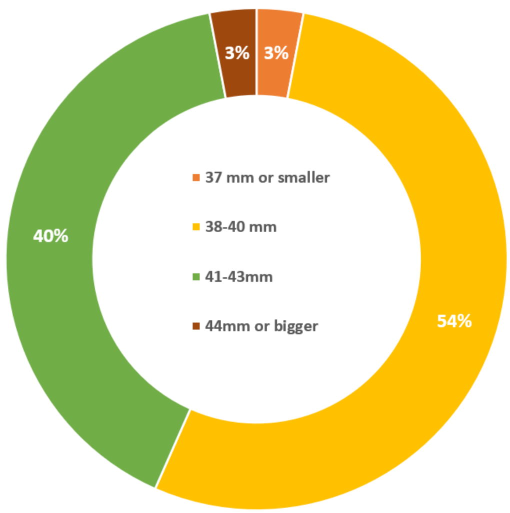
The next chart shows us the ranking as stated by the GCC watch collectors.



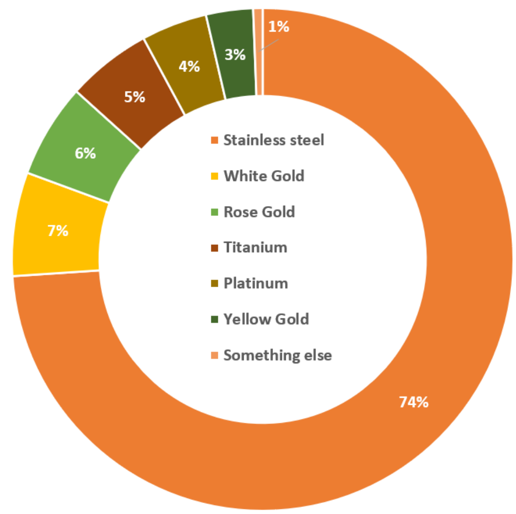
GRAPH IV

Keeping into account the previous comment on the regional culture, it is not surprising to see that the brand strength and brand heritage rank highest. In third position, we can see that the price-sensitivity ranks quite high in terms of priority.

When we look closely at the preferred features into watches, we can see that there is a clear trend towards "smaller watches" and we have confirmation of a clear affinity with "White" metals (stainless steel being the most preferred material). Besides the "religious" reason – men are forbidden to wear gold in Islam – the lower price point of SS timepieces is certainly the cause of such a drastic stand:

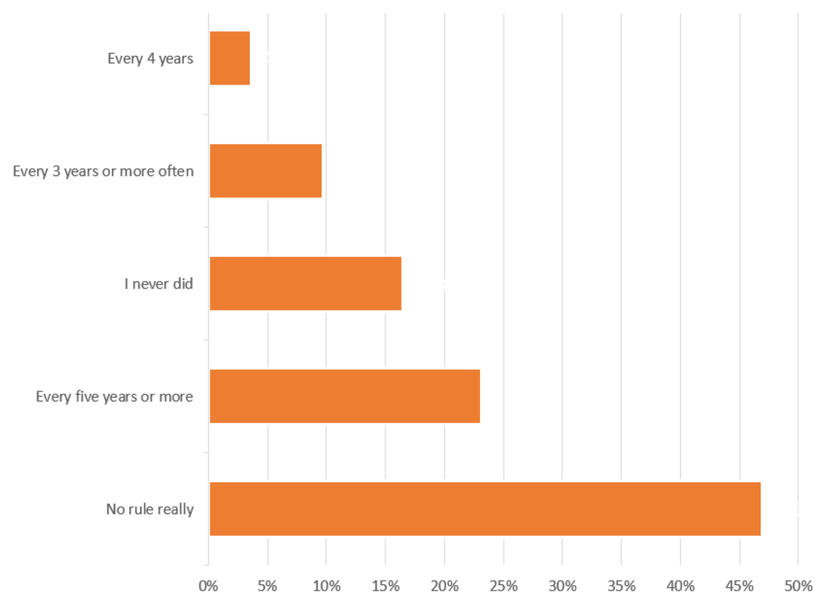


GRAPH V



GRAPH VI

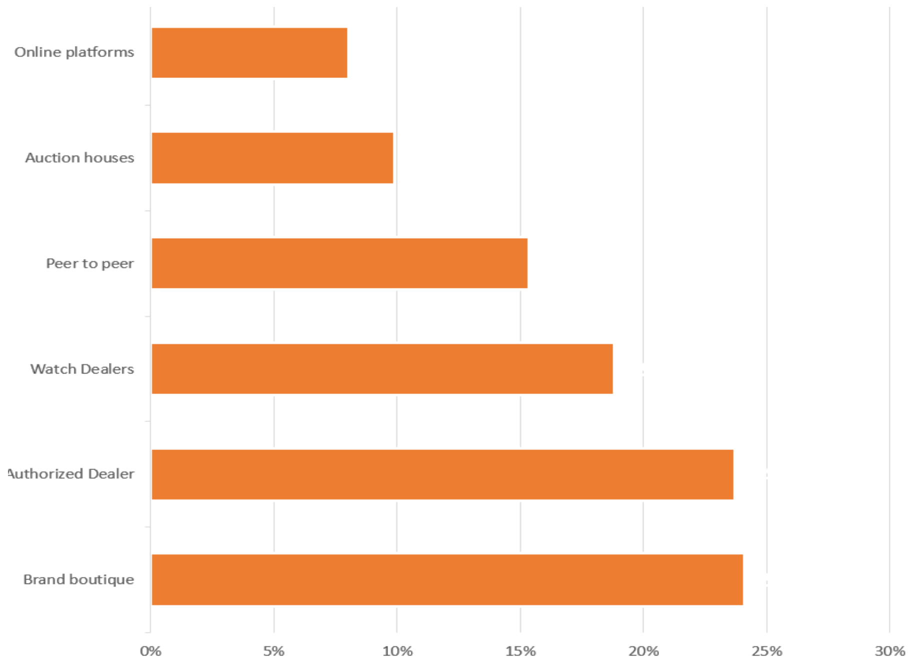
The last behavioral Data point we examined is linked to the "servicing" of watches. It's interesting to see that when it comes to servicing their timepieces, there are no clear rules being followed. To the question "*How often do you service your watches?"* we have a relatively large spreads in terms of habits:



GRAPH VII

Collector’s shopping preferences

The next set of Data points is linked to the shopping preferences of our audience. Despite the global surge of Online Sales during the COVID-19 crisis (as noticed across all markets), the following informs that this option ranks last in terms of preference for our audience. Moreover, despite the global scaling of Brand boutiques over the last decade, Authorized Dealers remain a highly preferred option to shop from:



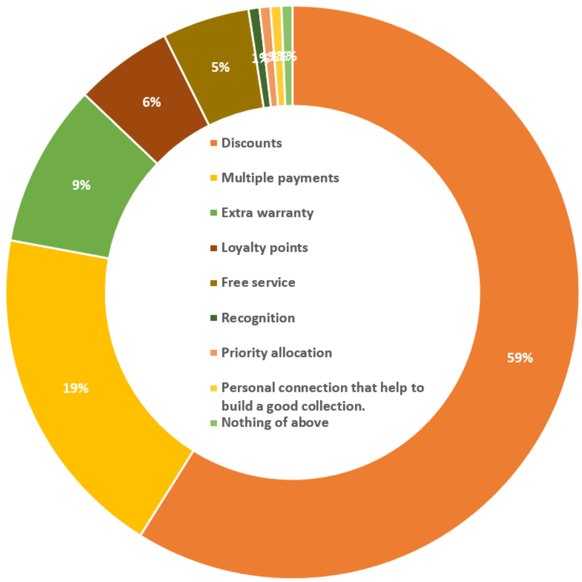
GRAPH VIII

Although ranking at a close second to Brand Boutiques, Authorized Dealers (AD) seem to have the preference of watch collectors for several reasons. As we conducted interviews with an important number of collectors, it, we have learned that the most important reason mentioned was the ability to build a long-lasting friendship and relationship with the AD who is – more often than not – operating as a family business. Combining this comment with what is shown in TABLE VII, we can begin to understand the strong resilience of the Wholesale business model, something that has been the norm in this region since the 1930’s. The question then becomes - How did the Brand Boutiques still manage to rank first? When asked, our audience mentioned three key attributes that they have yet to find with their local AD’s; in terms of importance these are:

- Access to certain limited edition and Boutique edition pieces
- Better trained staff and overall better quality of service at the Boutique level
- Possible access to exclusive brand contents (Events, Manufacture visits, etc…)

As for the strengths of the local AD’s in comparison with Brand Boutiques, the top three attributes as mentioned by the collectors are the following:

- Historical family ties and the ability to build a personal relationship with the AD’s ownership
- Ability to negotiate better terms (payment plans, commercial gestures, etc…)
- Ability to access a wider choice of similar products in a wider range of brands



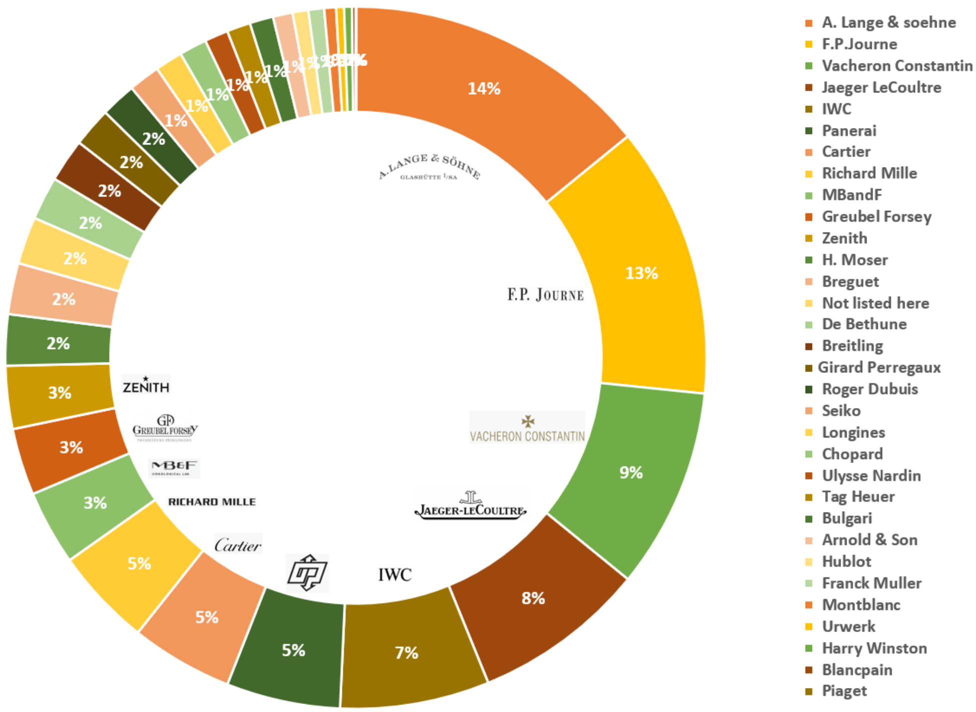
GRAPH IX

As shown in GRAPH IX above, we can see that if "Discounts" are a logical incentive for collectors in their choice of watch sources (59%), there are other important criteria that come into play when deciding where to source their next luxury timepiece. Flexibility on payment ranks second and Personal connections rank third. As stated in the previous paragraph, these are all attributes that can hardly be offered by Brand Boutiques but are certainly in the range of services offered by AD's.

All that has been said so far about AD's can also be said about Watch Dealers/Traders who in turn can offer a more personalized service in comparison to what Brand Boutiques can offer. Indeed, Watch Dealers (as stated in the previous pages of the present report) have an important role to play and often can step in and help collectors acquire that one piece that everyone is after. Albeit with a premium, they manage to deliver a timepiece that neither Brand Boutiques, nor AD's can source.

This is indeed a very sensitive topic for watch collectors in general, but since AD's and brands have to abide by the Recommended Retail Price as announced by the brands, it seems that the only way to secure a highly coveted timepiece for an irregular customer would be by paying a premium to the Watch Dealer. This reality of the Market is accepted by our sampled population as **almost 70% declared that they have accepted to pay a premium in the past** to acquire what they considered as a "Grail" timepiece. **To the credit of the AD's in the region, 59% of all watch collectors have already been offered the opportunity to acquire such a watch**. Of those, a little over half have had that opportunity several times. When we dig deeper, we see this case (almost) exclusively with Watch Collectors who have been into the game for over 5 years and who have several family members into watches as well.

On that note, we tried to understand what brands were considered most attractive to the watch collectors. The question made sure to exclude the three "hottest" brands that would surely be named top-of-mind by every collector in the region. Therefore, the next chart excludes Audemars Piguet, Patek Philippe and of course, Rolex. We have given the choice between 32 luxury watch brands ranging from A. Lange & Soehne to Zenith, and we allowed each respondent to pick and rank amongst their top three favorite brands. Unsurprisingly, the top choices are all that could be considered as "Manufacture" brands. This goes to show how well-educated and seasoned the watch collecting community of the GCC is:

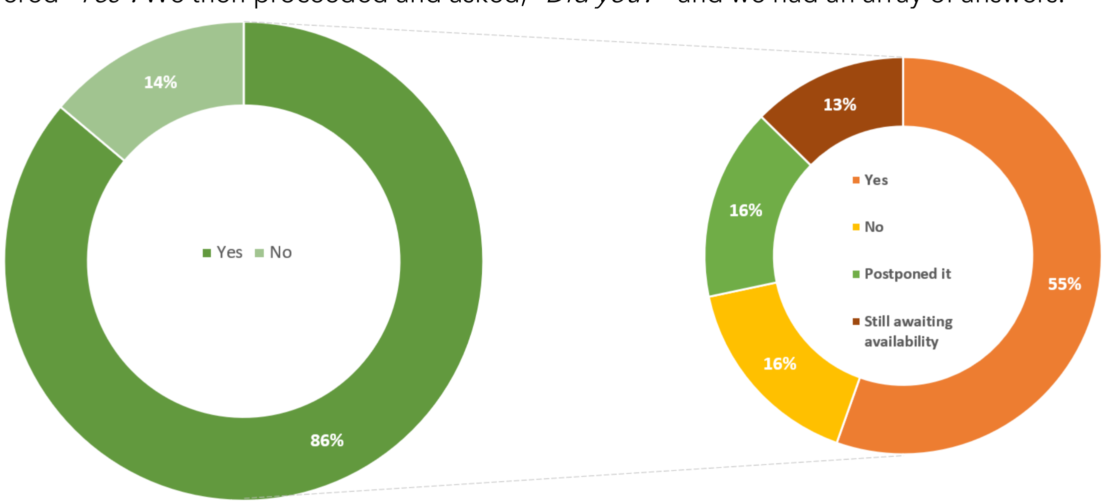


GRAPH X

There are some "surprises" in GRAPH X: We can see that brands such as *Richard Mille, Tag Heuer* or even *Hublot* did not rank as high as one could have expected. Alternatively, we can confirm the sophistication level of the GCC customer as they have given a better ranking to connoisseur's watches such as *MBandF* or *H. Moser* a clear preference against more "established" brands such as *Breguet*, *Breitling* or *Bulgari*.

COVID-19 Impact on GCC-based collectors

We will risk and state the obvious: The COVID-19 has had a profound and lasting impact on the Global Economy and virtually all industries have been affected, one way or another. Watch collectors have also felt the pinch of this crisis obviously, but how? We asked our sample population two questions. The first was *"Were you planning to acquire a new timepiece in 2020?"*. To this, an overwhelming majority answered *"Yes"*. We then proceeded and asked, *"Did you?"* and we had an array of answers.



GRAPH XI

The mood of our collectors is not as grim as one might think. Not only did 55% proceed with their planned purchase but we have another 13% that are still waiting for availability. Only 16% of the population cancelled their plans altogether. The remaining 16% still have the intent of acquiring their dream watch but have postponed the purchase for the moment.

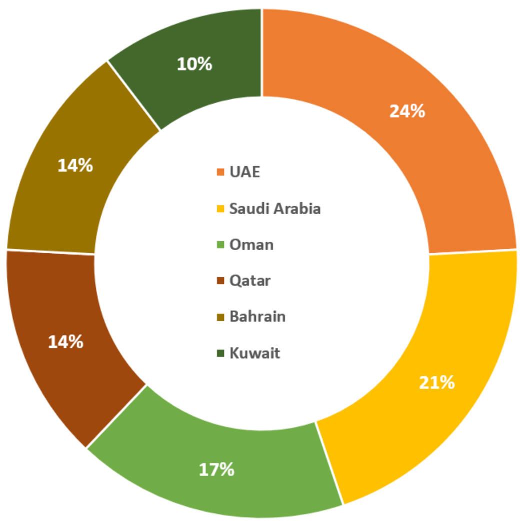
To conclude this first part of our report, we can say – based on the data we have collected and the interviews we have conducted – the sentiment of the watch collectors in the region will remain positive for the foreseeable future. Moreover, there are several elements that are falling into place that appear encouraging for the second half of 2020.

- The Pandemic seems to be under control across the whole region.
- At a mortality rate standing at 0.59%, the GCC is doing much better than the rest of the world where the mortality rate stands at 4.87%
- Travel restrictions will encourage the populations to stay local rather than do their usual summer migration to any outside destination. This should impact regional consumption positively.
- All luxury watch brands have re-opened factories and are in position to ship products to markets.
- The VAT increase in Saudi Arabia planned for July has already impacted positively sales until June, and shall drive Sales in UAE, Bahrain and Kuwait shortly after.

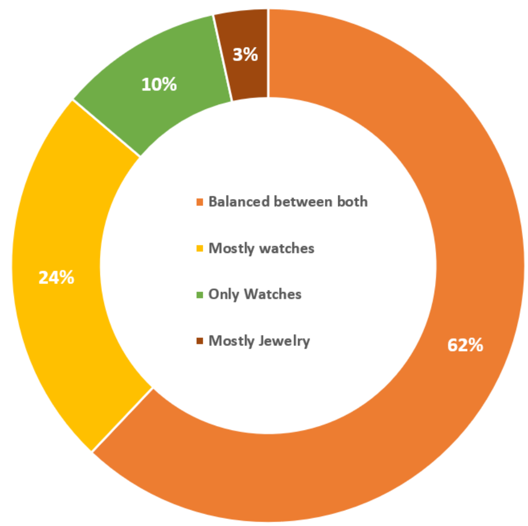
All in all, the expected disaster might be avoided after all!

Chapter II: The GCC Luxury watch Retailers

For the second part of this study, we have approached - through various contacts – a total of 30 different Luxury Watch Authorized Dealers across the Gulf Region.



GRAPH I

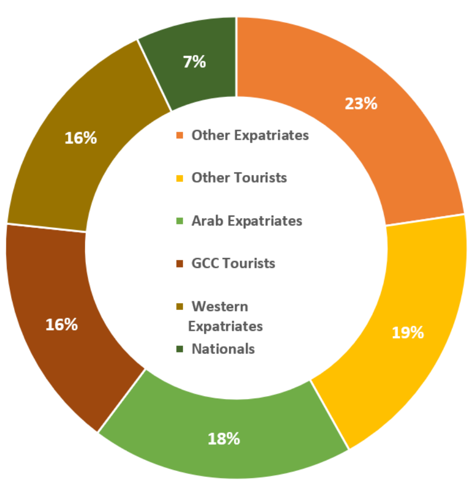


GRAPH II

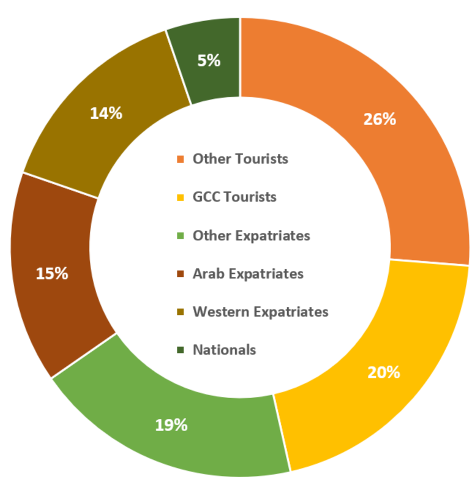
The number of retailers we were been able to reach out is relatively balanced between the six countries of the region with some degree of proportionality. Keeping in mind that the UAE is the first market in terms of Swiss watch imports, it is logical that the UAE retailers represent close to a quarter of all respondents (GRAPH I). Moreover, since we know that traditionally, there are several Luxury watch retailers in the region that are historically jewelers or jewelry retailers, we wanted to understand how focused our sample was on the Luxury watch industry. Accordingly, we asked our panel to tell us what the weight of watches vs jewelry for their business to ensure that the information retrieved would be relevant to this report (GRAPH II).

At this stage, and accounting for the fact that the COVID-19 crisis had caused a serious disruption in the business, we wanted to understand how AD's felt the shift in their audience. Accordingly, we asked them to rank the customer profile from the most to the least important, before and after the crisis hit.

Pre- Covid-19:



During- Covid-19:



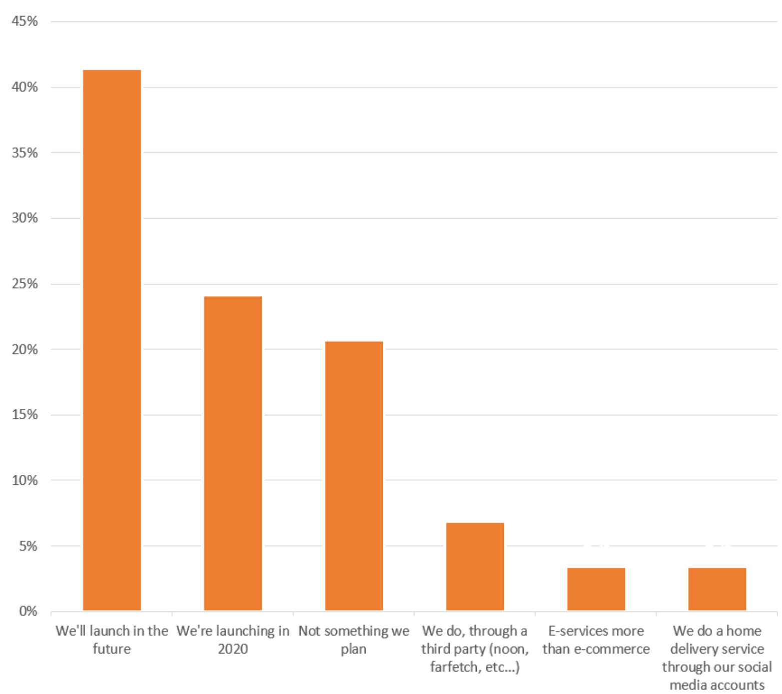
GRAPH III

As we can see on the left Pre-COVID-19 chart, "Other Expatriates" were ranked as the most important Audience, followed by "Other Tourists" and "Arab Expatriates" respectively at 23%, 19% and 18% of cases. Country nationals ranked last at 7%. During the COVID-19 crisis, we had expected to see an important drop in the "Other Tourist" audience and a sharp increase on the "Nationals" audience. As it turned out, our respondents claimed that during the crisis, the top three types of audiences are "Other Tourists", "GCC Tourists" and "Other Expatriates", respectively scoring 26%, 20% and 19%. In fact, "Nationals" dropped by 2%.

<u>Authorized Dealers operations</u>

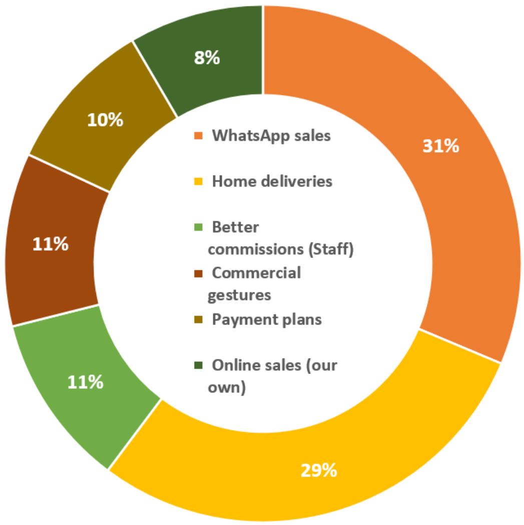
Across all retail industries, one challenge that truly stood out during this crisis was about how Retail operators could continue generating sales despite the restrictions. One obvious answer was to create or improve an e-commerce platform. Whilst in several industries this strategic move had been planned for or even in action for years, it is not necessarily true for the Luxury Watch Industry and even less true for Authorized Dealers. We therefore wanted to find out if the Authorized Dealers in this part of the world were considering making such a drastic move, and if so, how and when.

Only 20% of the respondents still do not consider selling online. This is understandable in relation to their size, their network size as well as their ability – or lack thereof – to secure the approval of their supplier brands to go on the Internet. Moreover, as the next chart tells us, over 40% of the region's Luxury Watch Retailers are considering such a strategic move in the future (that would be after 2020). This is what the larger, more established AD's of the Gulf say in the sense that they consider having the required critical mass to take the leap. Similarly, the most mature of these - almost one out of four AD's - are planning to do so before the end of the 2020.

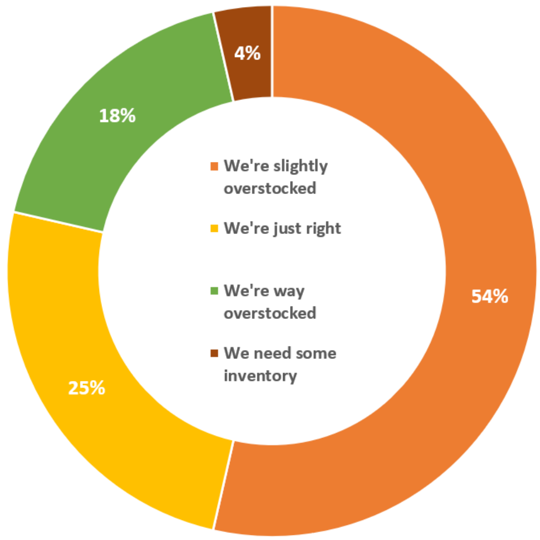


GRAPH IV

Since only 7% of respondents are already selling online, we wanted to probe the AD's ability to conduct remote sales. Accordingly, we asked *"Which of these actions have you implemented to keep selling?".* Whilst WhatsApp sales could be considered an evident move, only 31% of Authorized Dealers have approved their staff to push on WhatsApp sales and 29% are doing home deliveries. We also see that 11% of the respondents have improved the commission scheme of their retail staff as a means of providing incentive. From the end-client perspective, retailers are willing to facilitate as 21% are willing to make some commercial gestures or even offer payment plans to secure transactions (GRAPH V).

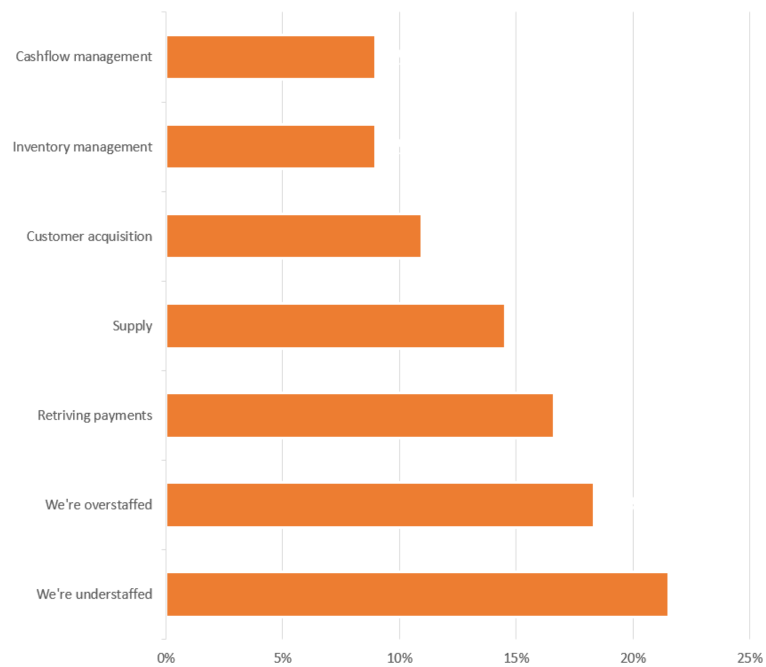


GRAPH V



GRAPH VI

The next operational challenge we were considering to study was that of the inventory level. Indeed, with a relatively strong January and February across the whole region, and keeping in mind that we were still far away from the slow summer months, inventory levels were on the rise everywhere for the 6 month period that preceded this crisis. GRAPH VI (see above) tells us what the overall inventory levels are perceived to be: Most respondents – 72% - consider themselves to be overstocked and a quarter of those claim that they are "Way overstocked". A small minority (4%), as shown above, feels that they need more inventory.

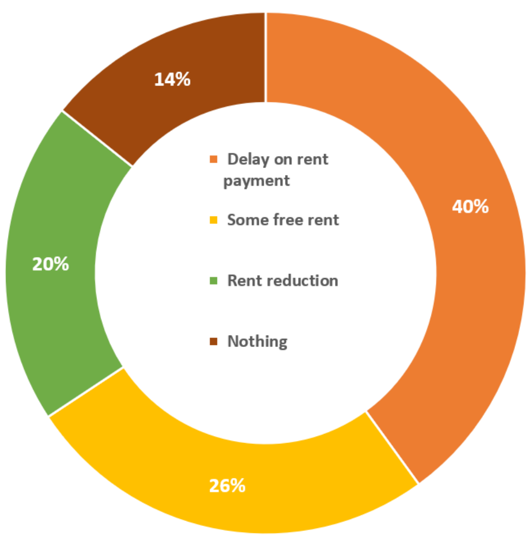


GRAPH VII

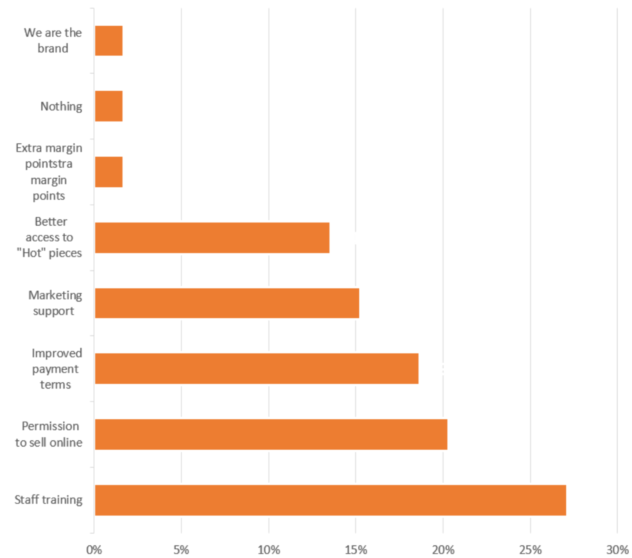
Digging deeper into operations (GRAPH VII), we asked our respondents to *"Rank from the most to the least important challenge that you are facing during this COVID-19 crisis".* Staff-related issues seem to be the most pressing. Those who answered "*Understaffed*" are facing challenges in terms of logistics. Indeed, as a lot of retailers tried to move towards online sales or home deliveries, they are certainly faced with a challenge on that front. Those who answered "*Overstaffed*" were facing the challenge of keeping retail employees on the payroll whilst stores were closed, and sales were down. Payment-related issues seemed to be worrisome as well. As several AD's in the region started granting payment terms to clients, it seems that retrieval of said payments have been challenging. The good news, however, is that everyone seems to agree that Cashflow Management was the least of their challenges. This tells us that the region's Authorized Dealers maintain positive financial health.

Supplier relations

There are two key suppliers working with the Luxury Watch Retailers: Landlords and Brands. On this basis, we wanted to understand if our respondents were able to secure some support from their suppliers and if they were generally satisfied with their strategic partner's response to the situation.



GRAPH VIII

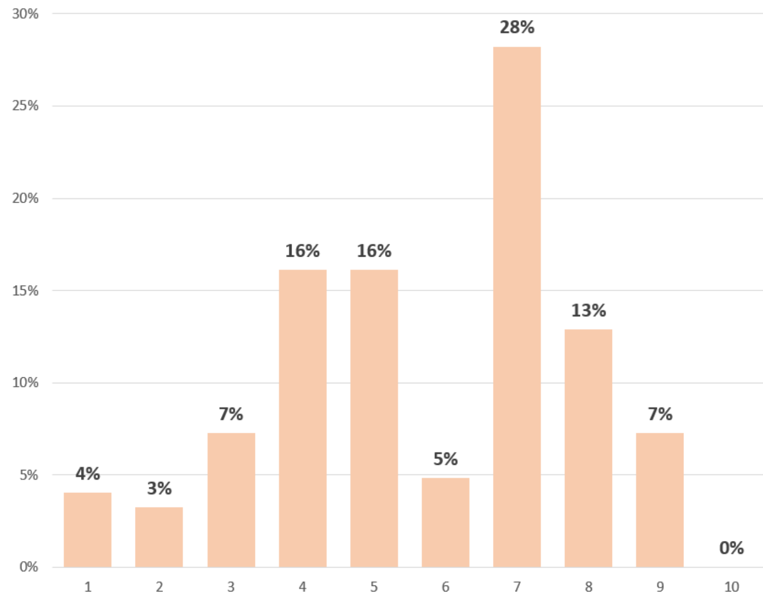


GRAPH IX

We can see that 26% of respondents were able to secure some free rent and 20% were able to negotiate some rent relief (GRAPH VIII). Geographically speaking, both instances happened twice as much in Bahrain, Qatar and KSA than in Kuwait and Oman. The UAE seems to be the market that had the least flexible landlords on this front. Delayed rent payment, however, was offered mostly in the UAE and in Kuwait. Overall – and one-on-one interviews confirmed it - it seems that the retailers were quite disappointed with the support level shown by their landlords as 54% percent of the surveyed AD's were unable to secure a genuine relief on the cost of commercial rent.

When we examine the relationship with the brands (GRAPH IX), they have shown to be quite supportive to the regional retailers. Only 2% of the respondents claim that their suppliers have not done anything to be supportive. Moreover, we can see that the brands have tried to be as flexible as possible with their regional partners. Above and beyond Training and Marketing Support, the brands have offered flexible/improved payment plans as well as access to "hot" products to support the sell-out performance. A small minority even offered an improved margin to their AD's in the region.

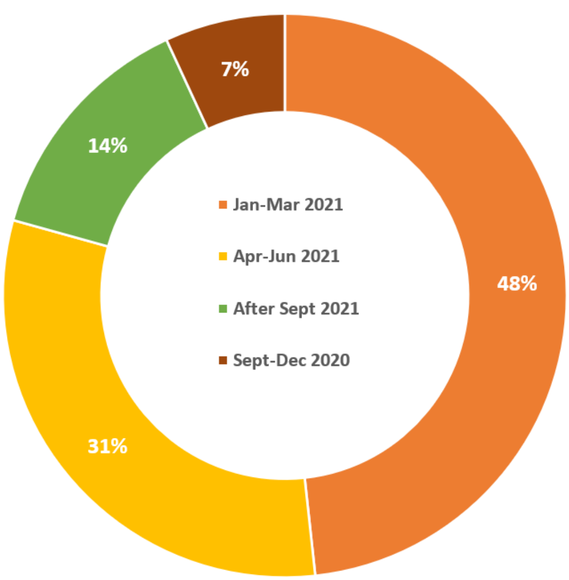
On the same topic, we also asked the Authorized Dealers to "grade" their brand suppliers with regards to support provided during the COVID-19 crisis (on a scale of 1 – 10 where 1 is no support at all and 10 is fully supportive). Overall, it seems that the brands are perceived to be rather supportive as shown in GRAPH X.



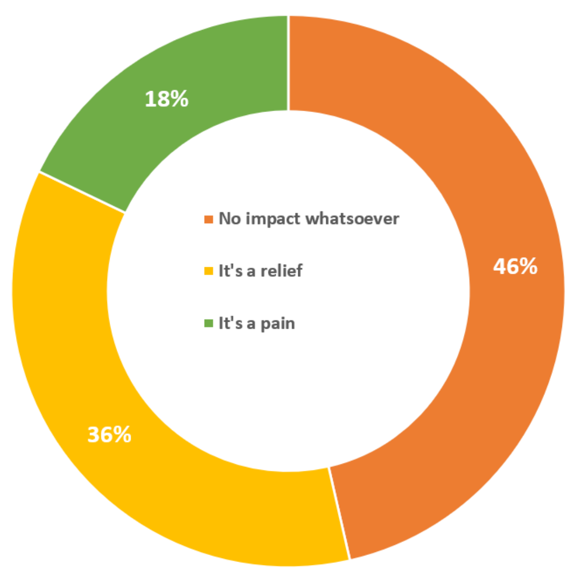
GRAPH X

Retailer's sentiment towards the future

As we noted in the previous study (Watch Collectors), it seems that the region's retailers are also relatively hopeful about the future. We asked them to tell us how soon they believe that the market will return to some state of normality (GRAPH XI). As shown in the following chart, over 50% believe that it will happen sooner rather than later, with a clear majority betting on the first quarter of 2021.



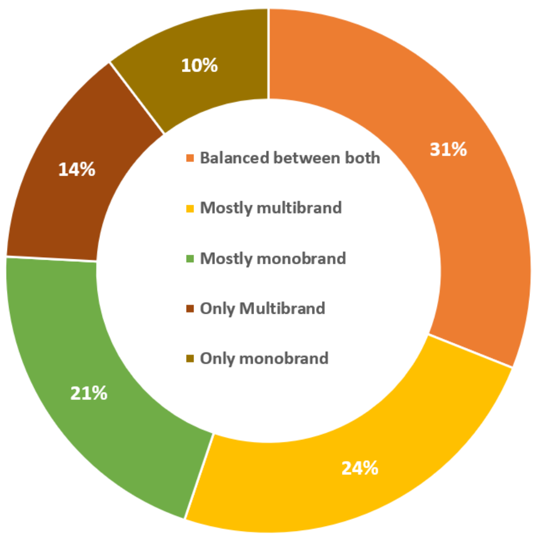
GRAPH XI



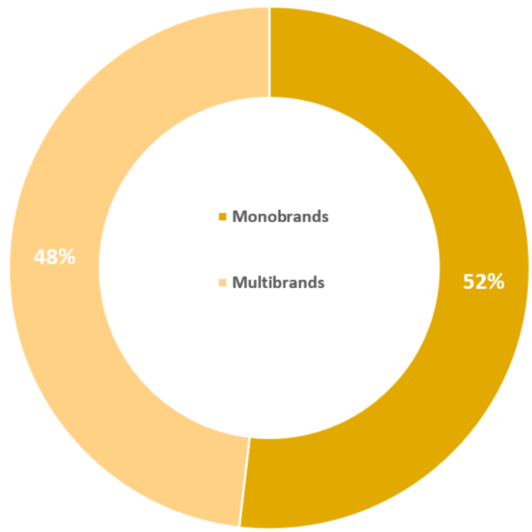
GRAPH XII

The next question we have asked was related to the last-minute cancellation of Baselworld and Watches & Wonders that was due to replace Geneva's SIHH (GRAPH XII). As it turned out, it seems that the region's Authorized Dealers were not so bothered by this move on the part of the industry. Only 18% of the respondents tell us that it was a pain to miss both shows, but twice as much consider it to be a relief. The remainder believe that this industry move did not impact them at all (food for thought for the future of such events). Should this feeling be shared by other retailers around the world then we could be witnessing a radical change on how business is conducted for the Luxury Watch Industry.

The last element we wanted to understand with retailers was about the type of store types they operate (Multi-brand vs Boutique Brand) and which type of store performs best during the crisis.



GRAPH XIII



GRAPH XIV

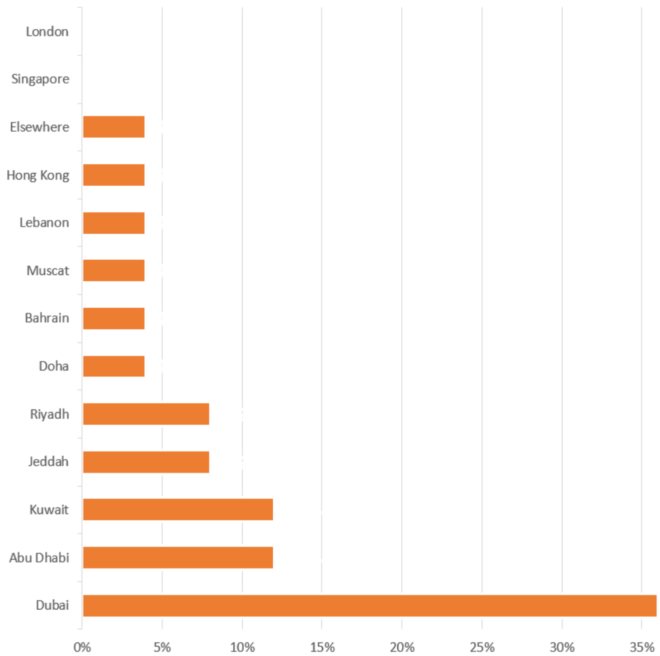
As we see from GRAPH XIII, Multi-brand stores seem to have a clear majority (38% vs 31%), while the balanced networks are at 31%. Yet, Brand Boutiques are apparently doing slightly better.

In conclusion for this chapter, we shall retain the relatively positive feeling of the region's Authorized Dealers who remain hopeful for a quick recovery. While their general feeling is that the Landlords could have been more supportive, they do feel that the Brands they worked with have – at various degrees – shown much appreciated support and empathy. Lastly, as far as the industry is concerned, we can see that the evolution of the Global Exhibitions system that has been around for over half a century – Baselworld and the likes – is less and less attractive to the Gulf's key players.

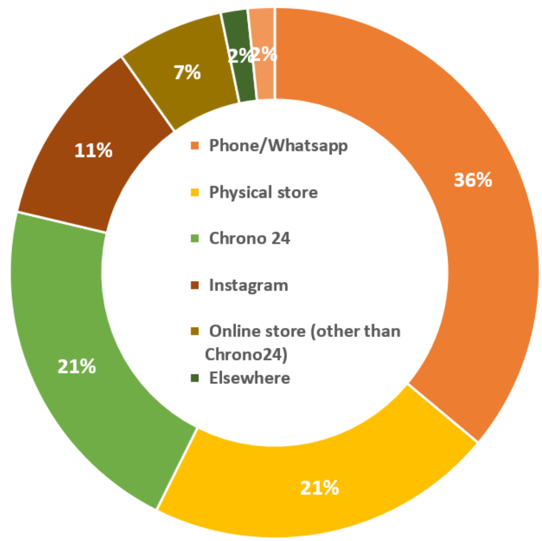
Chapter III: The GCC-based Luxury watch Dealers and Traders

In the introductory pages of this report, we stated the importance of this component of the Industry. For the first time, a market research study has reached out to this specific audience to gauge their opinion and understand how impacted they are in the current turbulences. Whilst several declined to answer the survey (despite our guarantees of anonymity) we successfully managed to gauge 23 Watch Dealers and Traders in the region to complete the survey.

Most dealers are UAE based, Dubai accounting for 2.5 times the number of dealers found in Abu Dhabi. The number of dealers in the UAE surpasses that of all other GCC countries combined.



GRAPH I



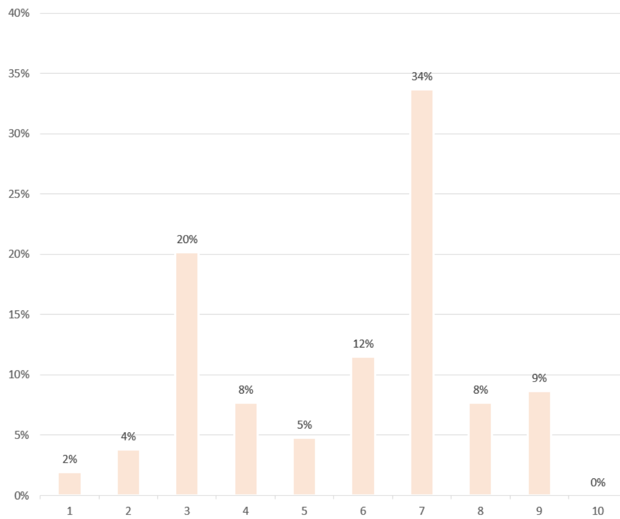
GRAPH II

The next question asked was "*Please rank your top three methods of doing business"*, and so, each dealer gave us three answers in order of importance. As indicated in GRAPHII, Phone/WhatsApp sales are the most preferred medium followed by Physical stores and advertising on Chrono 24. Instagram usage to promote and generate sales is surprising low as it comes fourth in terms of priority.

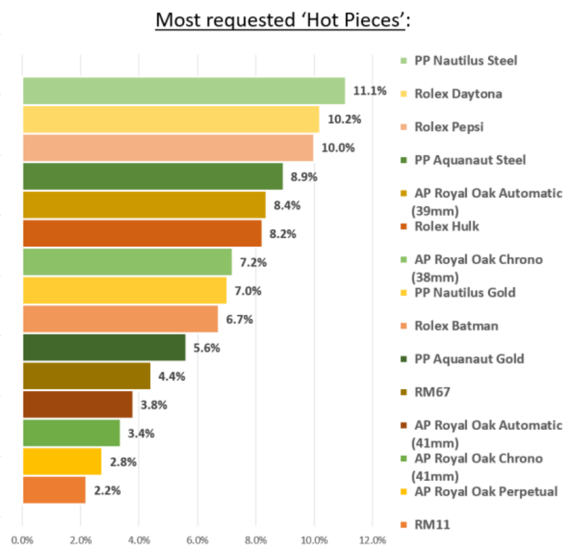
Dealers, customers, and "hot" watches.

Understanding that one of the key roles of these industry players is the sourcing of the "hottest" pieces on behalf of customers, we were curious to find out more about accessibility and desirability. Questions such as - are such pieces easier or more difficult to source? How do they rank today in terms of desirability amongst the end-customers?

We find in the next two charts – as well as in our exchange with some of the Dealers who were kind enough to talk to us - that although the Patek Philippe Nautilus in Steel (mostly 5711 and 5712) ranks atop the list of "hot pieces", the premiums have slightly declined during the COVID-19. The Steel Rolex Daytona model with Ceramic bezels reference 116500LN has seen its premium level stagnate on the "Panda" dial version and slightly increase on the Black Dial version. The notable drop in premium, however, was felt by dealers on Richard Mille watches, especially the RM11, as well as on other Rolex timepieces such as the Pepsi (small drop) and the GMT Master II aka Batman that has decreased.

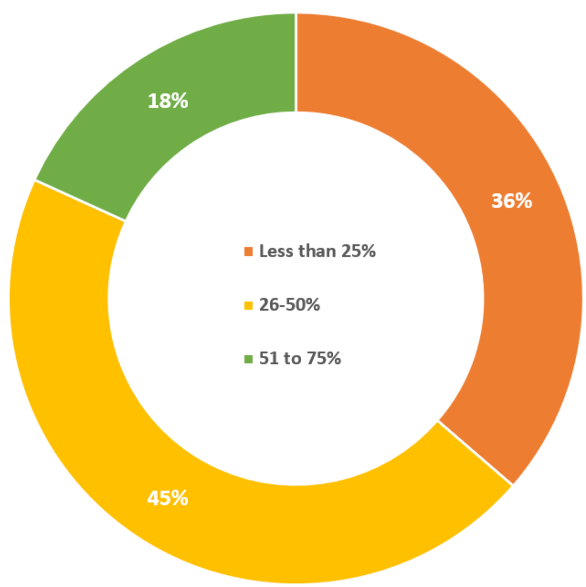


GRAPH III – HOT PIECES SOURCING DIFFICULTY
Very hard → Very easy



GRAPH IV

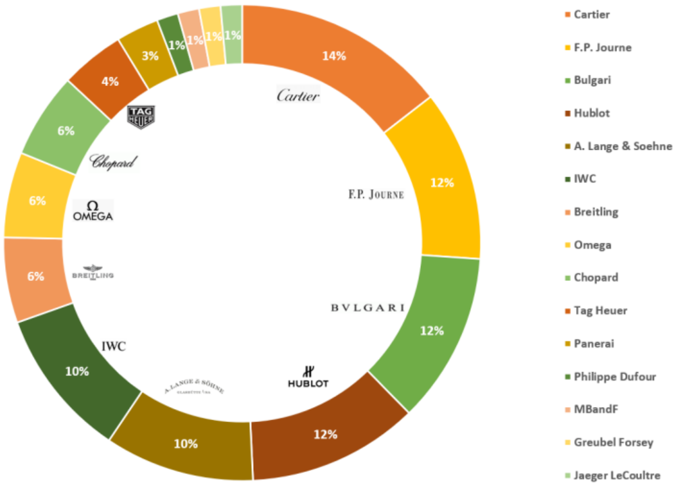
Another interesting find is that all watch dealers do business with other watch dealers, but how much? So, we went ahead and asked, "*what portion of your business is done with other watch dealers?*". It appears that 36% that do less than 25% of their business with their colleagues. This result demonstrates the why and how of the premium inflation situation on rare timepieces.



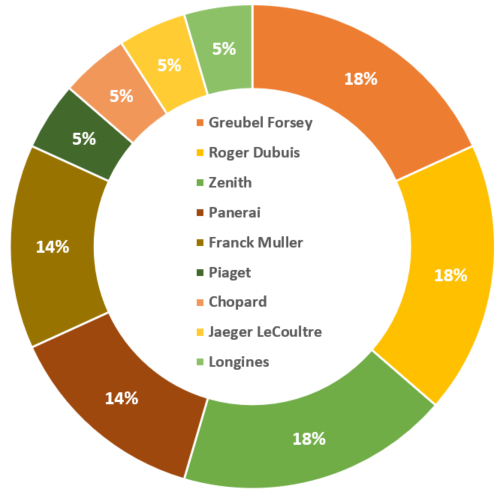
GRAPH V

Dealers and market trends

Watch dealers and traders do not rely exclusively on the so-called "*holy trinity*" for their business. As we have seen in previous charts, the premiums on those brands are high and prices seem to be aligned everywhere. Accordingly, we were curious to understand which brands are the most sought-after by watch dealers and traders in the Gulf region. The question we then asked was "*Which are the top three most requested brands besides Patek Philippe, Rolex, Audemars Piguet and Richard Mille*". It seems that **Cartier**, **FP Journe**, and **Bulgari** rank best in terms of end-customer requests.



GRAPH VI

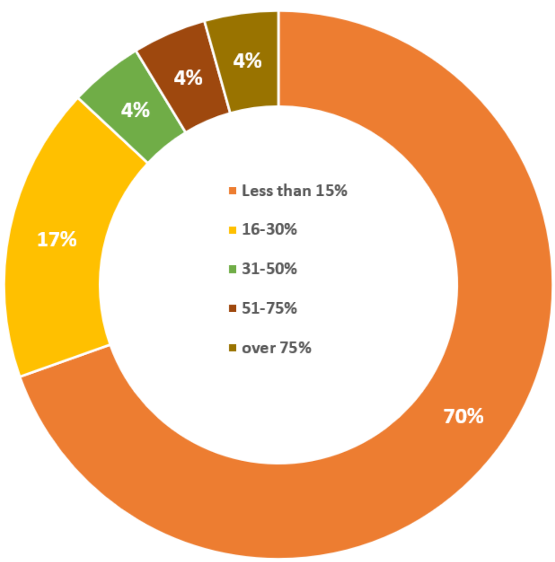


GRAPH VII

In the same way, we were curious to understand what brands were considered the riskiest in terms of inventory investments. As it turned out, **Greubel Forsey**, **Roger Dubuis** and **Zenith** ranked highest in this infamous list.

Still on market trends, we then attempted to understand how dealers conducted business. Indeed, several dealers do business amongst themselves (as shown in GRAPH V), sometimes on consignment and not always on brand new inventory. Moreover, to improve their ability to sell, Dealers tend to offer certain services or incentives to their clientele. Lastly, there is a clear market for pre-owned timepieces that are often fed into the circuit by watch collectors and watch owners as shown in the next set of charts.

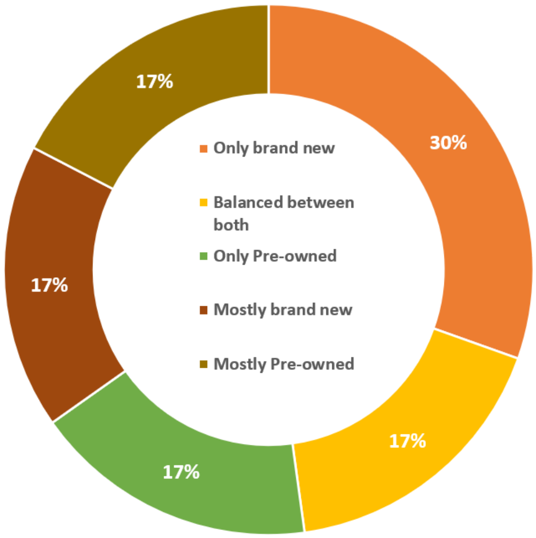
Share of inventory consignment from source



GRAPH VIII

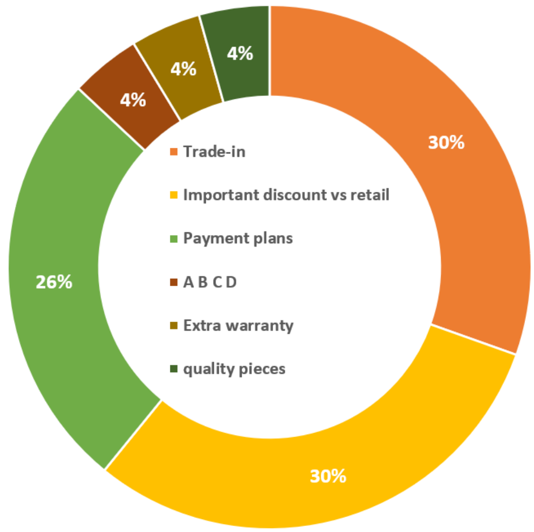
Watch dealers and traders deal mostly with cash transactions and - for roughly 70% of them – with only a small amount of consignment (15% of their inventory or less). It is noticed that only the properly established ones, with a great reputation in the industry can rely on consigned inventory to conduct their business.

Type of timepieces sold by Dealers



GRAPH IX

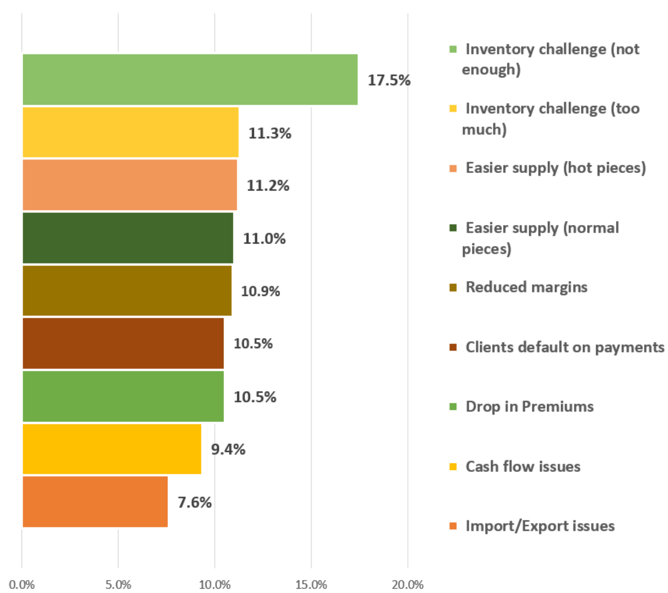
Services offered to customers



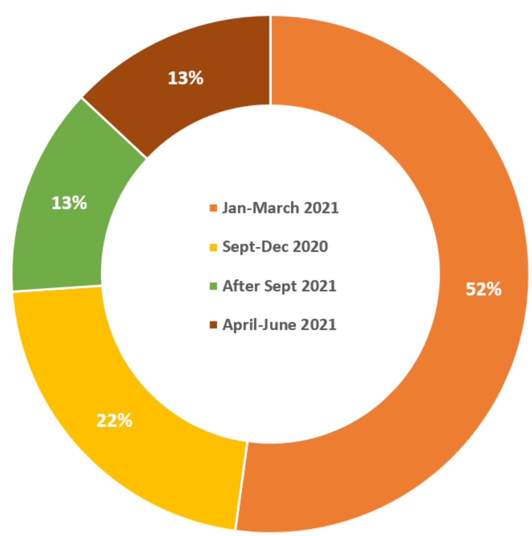
GRAPH X

The strength of the Dealers in comparison with Authorized Dealer stores and Brand Boutiques is that they have flexibility on pricing. Indeed, they can ask for a premium when the watch is "hot", or they can heavily discount when it is not. As it turns out, 30% of dealers claim they can offer important discounts, and 30% are even willing and able to Trade-in watches from their customers. We also see that 26% of the dealers who were surveyed also have the flexibility to offer payment terms to their trusted clients. These are certainly appealing incentives to customers who are always on the look-out for a good deal. This agility that is unique to this population is possible simply because of the Dealers' ability to trade on all types of watches as shown on GRAPH IX. A watch collector can take on (or several) watches to a dealer and "*trade*" them against a newer, pricier watch. This unique feature allows them to be a lot more versatile than the other watch sellers on the market (AD or Brand boutiques).

COVID-19 crisis impact on Dealers



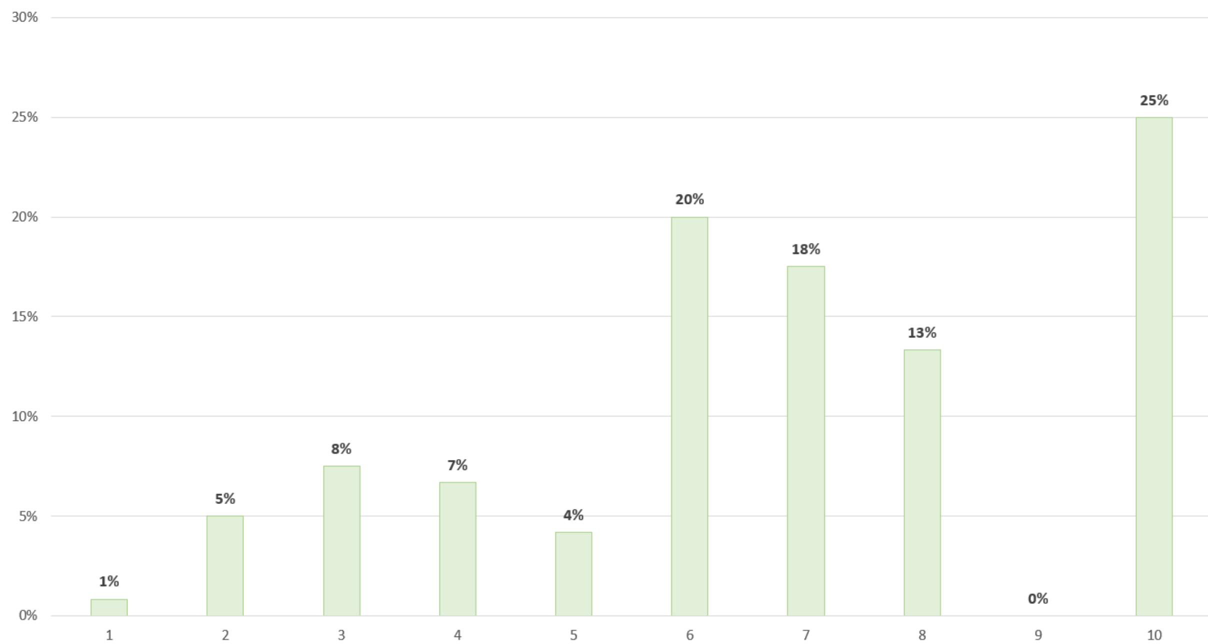
GRAPH XI



GRAPH XII

Like everyone else, watch dealers and traders, have been impacted by the COVID-19 crisis. As shown in the GRAPH XI, it seems that the impact on them is rather positive. This positive impact is also reflected on this groups' positive outlook on the future. We can see in GRAPH XII that 22% believe a comeback to pre-crisis levels as early as Q4 2020, and 52% in Q1 2021. This is in alignment with what we have seen from Official Retailers who are a little less optimistic, but optimistic, nonetheless.

The last element that we checked for in terms of crisis impact was the e-commerce approach. When we ask about the likelihood to move to an e-commerce platform, other than Chrono24, over 75% have confirmed that they are considering such a move, a quarter of those already are online (score of 10)!



GRAPH XIII

On the topic of watch dealers, we feel that we have just scratched the surface. Understandably, this audience that has always been snubbed by the industry is reluctant to "talk" and share information. We will aim for our future studies to build a trusting relationship whereas we shall demonstrate that the free flow of information can be beneficial to all parties.

From the few that have been kind enough to talk to us we understand that if the first 4-6 weeks of the Pandemic were deemed "scary", the market has proven itself to be quite resilient. As a result, Watch Dealers were able to sustain their business and as time goes and populations settle in the "new normal", business is picking up.

Chapter IV: The Luxury Watch Brands

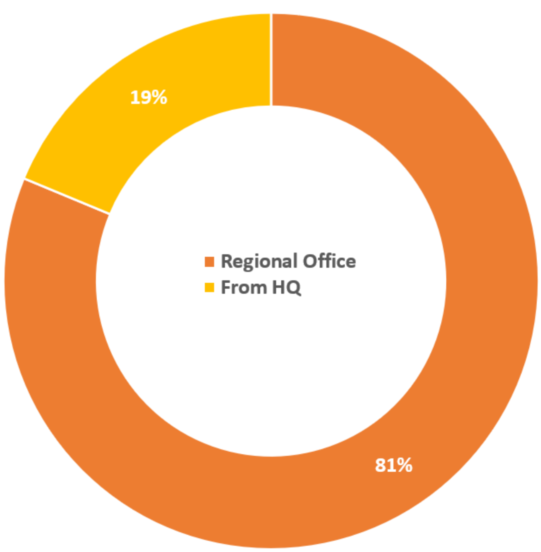
After having gauged Collectors, Authorized Dealers and Traders, in order to capture a holistic understanding and complete the study we believed it was necessary to gauge the feedback of the brands - several of which have developed a retail network as Internal or External boutique in the Gulf region. In total, 17 brands (that shall remain nameless), had agreed to participate in the survey and we are grateful for their support and candor.

For those brands that do have stand-alone boutiques in the region, the ability to do it independently from an Authorized Dealer or not depends on three key factors:

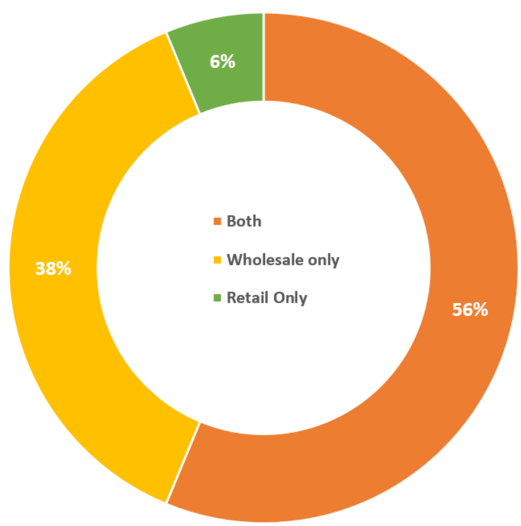
- Legal framework in the country (much easier to do in the UAE than in Kuwait for example)
- Relationship quality with the local AD
- Internal ability to proceed (CAPEX investment, Retail-oriented strategy, Regional management, etc…).

Regional presence

At the turn of the millennium, several brands began investing in developing the GCC region by opening Regional Management Offices in Dubai. Such a move allowed the brands to get a much better grasp of the market's potential and realities, strengthen relationships with partners as well as scout local talents that ultimately improved the relationship of these brands with the Gulf customers in home markets. As shown in Graph I, 81% of the surveyed brands already have a regional presence, and the trend is expected to increase in the future.



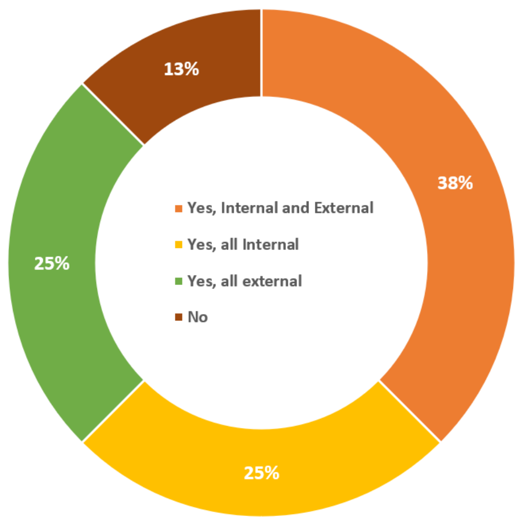
GRAPH I



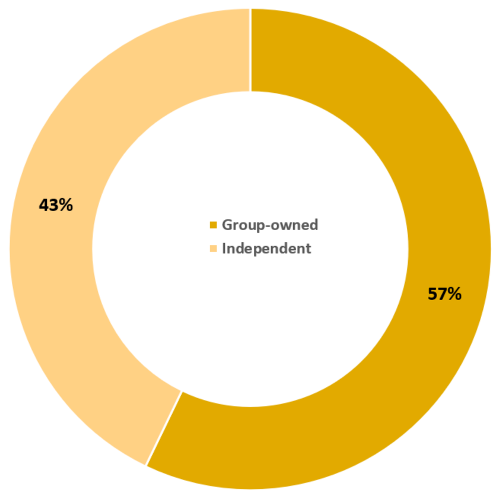
GRAPH II

This regional presence, that has been continuously reinforced this last decade, has translated into an increasing retail presence in the region. If back in the 2000-2005 era the region counted only a handful of internal (brand-controlled) boutiques, the next 15 years witnessed an increased allocation of resources and funds to develop the retail footprint in the region. In the Luxury Watch Industry there has been a steady "*retailisation*" of the brands on a global scale. In the Gulf region, this started in Dubai, and quickly expanded to other markets such as Saudi Arabia, Qatar and Kuwait. Bahrain and Oman however, did not follow suit as strongly, probably because of the markets' relatively small size and the reduced offer of potentially luxurious mall destinations. In GRAPH II, we see this trend's confirmation as we can see that only 38% of the surveyed brands do wholesale exclusively in the region.

Given only 13% of the brands we spoke to do not have a brand-alone boutique in the region, the majority say that they do. This on-going "*retailisation*" of the Luxury Watch Industry was initially (and still is to some extent) financed by the regional Authorized Dealers. As shown in GRAPH III, 25% of the brands have only External boutiques, meaning that these boutiques are financed, owned, managed, and controlled by the local partner rather than the brand. Another 38% of the respondents tell us that they have a mix of External AND Internal (directly owned and managed) boutiques. Most of these brand-controlled boutiques are in the UAE. Lastly, we have another 25% of the surveyed brands who, in the Gulf countries, have full control over their boutiques.



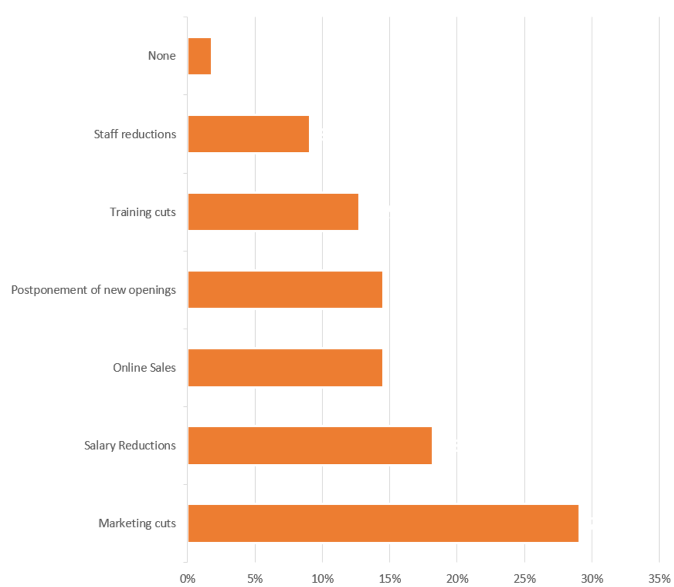
GRAPH III



GRAPH IV

To complete the picture, we wanted to assess if there was a balance between group-owned brands and independents. As shown in GRAPH IV, we see that there is a relatively good balance as 43% of the respondents are privately-owned companies rather than group owned. This piece of information is quite important in the sense that these players do not have the ability to rely on a support system that has access to a multitude of resources.

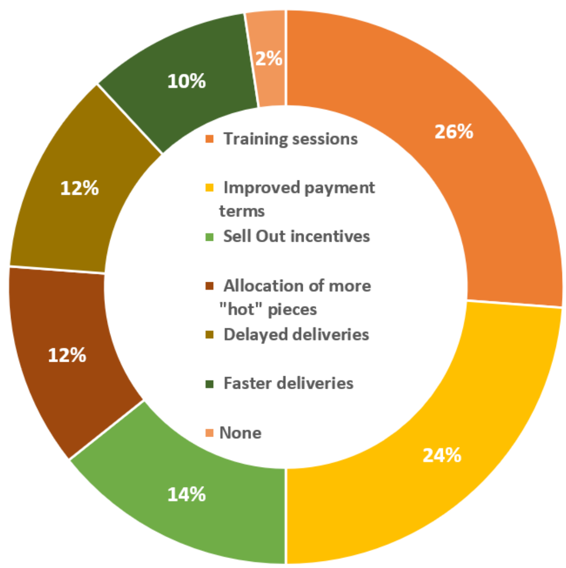
<u>Brands response to COVID-19</u>



GRAPH V

In comparison with regional retailers, the brands do have access to a global view of the market. In the case of the COVID-19 crisis, they were able to quickly see how serious it was as early as February since the crisis was strongly impacting their operations in greater China. This short, yet important, advance notice had allowed the brands to quickly start preparing their response to the impending danger. We asked our respondents the following question: "*What action did you implement to face the COVID-19 crisis?"*. Each brand had the ability to select up to three possible answers, and they ranked them as show in GRAPH V. As cost-reduction actions were deemed an absolute necessity, this chart shows what specific cost-centers were impacted the most. To the credit of these brands, staff reduction was considered by most as a last resort. As a collateral to the Luxury Watch Industry, it seems that financial resources were diverted from planned marketing expenses (Communications, Events, etc…) to support a move towards online sales. Some brands were even able to accelerate the deployment of a regional e-commerce platform within a few months despite a whole year as initially planned.

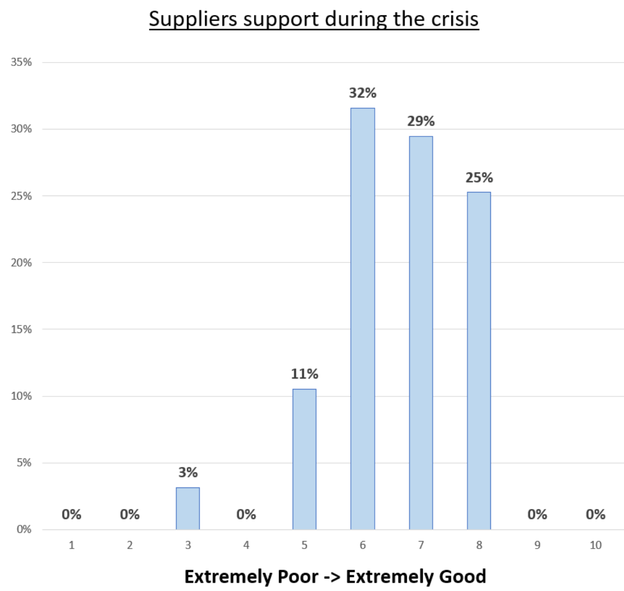
While the afore-mentioned cost-control decisions were being implemented as early as mid-February, the Regional Brand Management teams had also started to act in support of their regional partners. As we had previously witnessed in CHAPTER II, the GCC Authorized Dealers had taken notice and indeed appreciated this support system. Of course, the Brands needed to show flexibility and helpfulness - all the while keeping a strict control on the financial implication of such support. The next chart shows us the weight of each action implemented by the various companies:



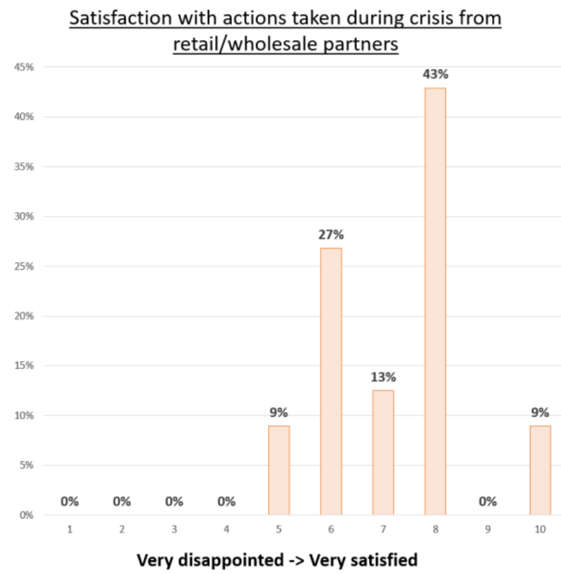
GRAPH VI

As much as the various Luxury Watch Brands had provided a support system to their Regional Retailers and Distributors, they themselves needed in turn to be supported by their regional suppliers. From advertising or PR agencies, to Training providers or other service providers, the brands seemed to be fairly satisfied with the support received here and there. As shown in GRAPH VII, only 3% of the respondents claim that they were disappointed with their suppliers. The overwhelming majority – 86% of the brands stated they were quite satisfied with their suppliers' attitude during these challenging times.

Similarly, and since we have taken feedback from Retailers on their brands, we also chose to ask the Brands about their satisfaction level on the actions implemented by their GCC-based partners. GRAPH VIII tells us that if 9% of the brands are not particularly satisfied or disappointed, most brands are quite happy with the actions implemented by their retailers.

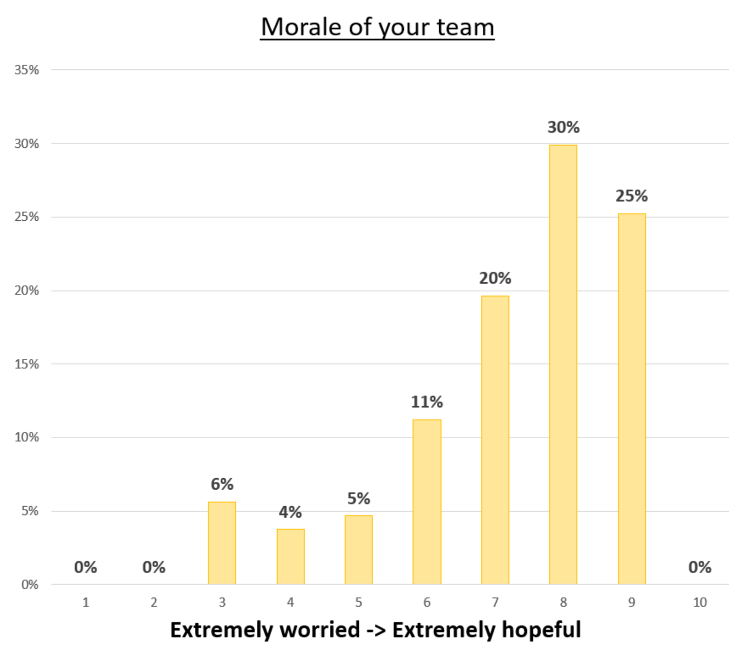


GRAPH VII



GRAPH VIII

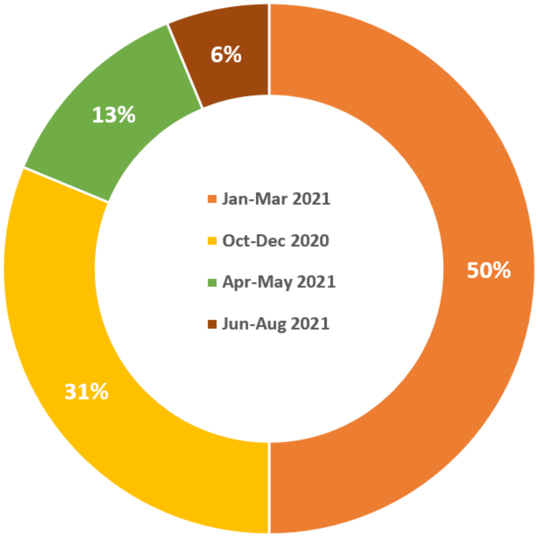
In terms of the perceived market reaction to the crisis and the ability of the brands to respond, we asked our surveyed audience to tell us how they perceived the situation and how they believed the evolution over the next few months was, in their opinion, going to be. One of the key information areas we were eager to acquire was the overall sentiment of the teams in charge of the GCC region. When asked "*Please rate the overall morale of your team*", we see from the answers that only 10% of the answers claimed they were worried, and only 5% were neutral. Everyone else was rather hopeful, with 55% being even more positive (GRAPH IX).



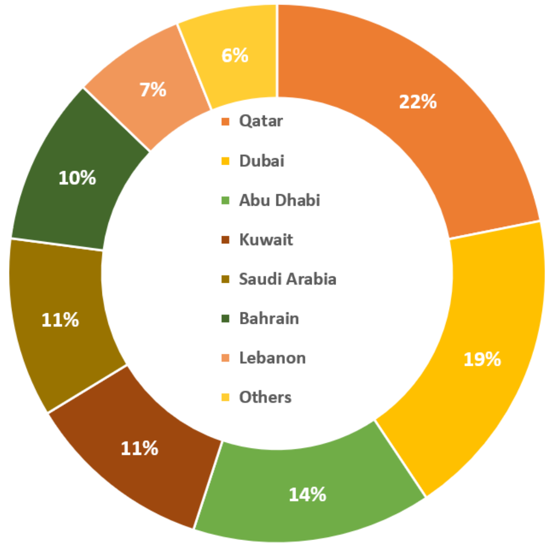
GRAPH IX

The trend shown on this chart is truly a tribute from the brands to the market and its regional players. It translates into a strong belief that the region is resilient with strong and effective players. Another demonstration of this can be seen on the next chart (GRAPH X) where we see that 81% of the brands surveyed foresee that the market will be back to its natural course no later than the end of Q1 2021.

Again, this seems rather in line with what we registered as feedback from the region's Authorized Dealers as well as the various Watch Dealers and Traders.



GRAPH X

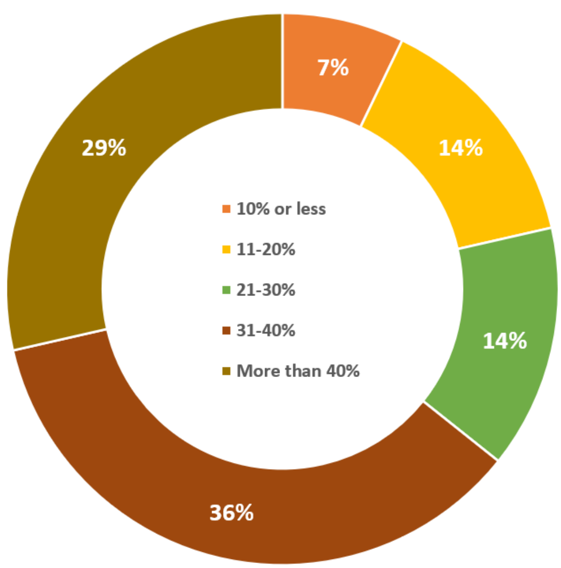


GRAPH XI

As far as Market Resilience goes, from the brand's standpoint, the top three markets that best resisted the crisis are respectively Qatar, Dubai and Abu Dhabi (GRAPH XI)

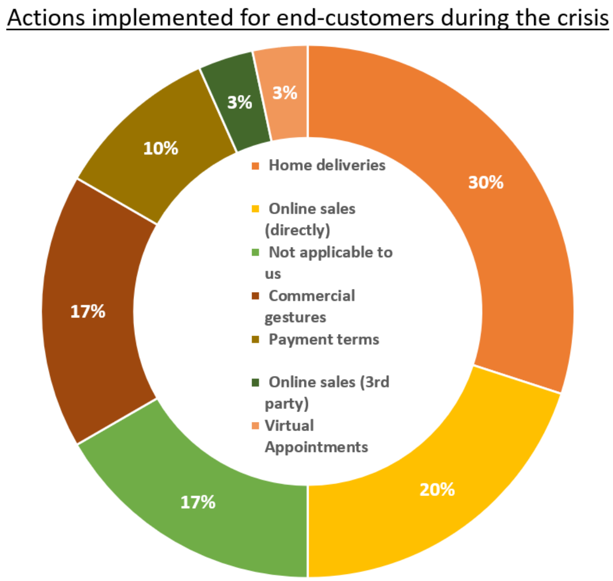
Although the data we analyzed so far looks encouraging, the next piece really is a reality check. Keeping in mind that the crisis hit the region at the worst time for the industry and that the summer months are the toughest, we can see that all brands had to downwardly revise their expectations. Indeed, we asked them to estimate the potential loss of business in comparison with their initial plans for 2020: A majority of 65% expect their loss to be 30% or more in comparison with their initial plans. This belief – although contradictory with the "sentiment expressed" – is in line with the cost-saving actions implemented over these last three months.

Loss expected during this year (based on initial plans for 2020)



GRAPH XII

Lastly, as we did with the Authorized Dealers, we also asked the various brands to share with us the actions that they have implemented with their end-customers, provided of course that they operated retail operations directly.



GRAPH XIII

GRAPH XIII tells us that the brands have been able to go a few steps further than their regional partners to service their clients during the COVID-19 crisis. Indeed, all brands, and especially those that are group-owned, have the ability to draw on the know-how and experiences of other markets as well as a global support system that allows them to roll out quickly proven and tested methods of business ensuring customer satisfaction.

Last words

The study we have conducted is really a snapshot of what the reality of the Luxury Watch Industry is at this point of time for the Gulf Region.

Overall, despite the important loss of business, all industry players and operators seem hopeful when they look forward to the immediate future. It could be safe to assume that the loss of business that is currently felt across all markets is considered by the professionals to be a long overdue necessary adjustment and correction.

As we move to the second half of 2020, we shall keep observing the market trends and will prepare another similar study towards the end of 2020 to see if we can confirm the trends and insights, we were able to identify.

This study could not have been possible without the support and involvement of a large number of industry professionals that – as we guarantee anonymity – will remain nameless, but shall surely recognize themselves. To all of them, we say "Thank you".