CHRONEXT & WatchPro

SPECIAL REPORT

PRE-OWNED LUXURY WATCHES AND THE SECONDARY MARKET

VOLUME 01

Welcome to the first of a series of quarterly Special Reports about the pre-owned and secondary market for luxury watches. I am delighted that CHRONEXT is the official partner for these reports and I would like to express my gratitude to Rob Corder for allowing us to play a small part in this important stepping stone for the Pre-Owned watch world. It is vital that the watch industry and watch-loving consumers have clear and accurate information about how the secondary and primary markets complement and support each other. Our industry is rapidly changing and it is essential that we document and analyze that change through a central authority.

As CHRONEXT we are supporting these quarterly Special Reports, but it is important to note that they are researched and written by WatchPro. We want to make sure that the overview of the market is entirely independent. In a rapidly evolving secondary market, we need reliable and trusted reporting so that people can make informed decisions and plan for the future.

As such in this first report, we hear from founders and CEOs of the major secondary market players that are competing, with us also and, in many cases, cooperating to make the industry as professional and trusted as it can be. We speak about the impact of the Coronavirus pandemic on sales, the way supply and demand for watches has affected prices and speculate on whether rising levels of ecommerce will transform both the primary and secondary markets. The 3 key questions in everyone's mind are of course: how will the retail landscape in the watch industry change? Will there be changes in how we think about the supply chain? And what can the digital world do to help the established players generate sales and importantly preserve brand equity by controlling leakage into unwanted channels.

I hope you find the report informative and interesting. If it inspires you to start buying, selling or collecting watches, then please come and visit us at CHRONEXT.CO.UK and we will gladly help you enter one of the most beautiful hobbies known to mankind.

Sincerely yours and wishing you a great read,

Philipp Man, Co-Founder and CEO, CHRONEXT

HOW PRE-OWNED AND THE SECONDARY MARKET REBOUNDED DURING THE PANDEMIC

NOBODY WILL EMERGE FROM THE GLOBAL COVID-19 PANDEMIC ENTIRELY UNSCATHED BY THE ECONOMIC AND SOCIAL IMPACT OF THE VIRUS, BUT BUSINESSES THAT HAVE BEEN CONCEIVED PRIMARILY AS ONLINE ECOMMERCE OPERATIONS HAVE WEATHERED THE STORM BETTER THAN THOSE RELYING ON BRICK AND MORTAR RETAIL, AND THE LEADING PRE-OWNED AND SECONDARY MARKET PLAYERS HAVE SUFFERED FAR LESS THAN THOSE IN THE PRIMARY MARKET, AS ROB CORDER DISCOVERS IN THE FIRST OF OUR QUARTERLY SPECIAL REPORTS.

The global pandemic has caused brick and mortar stores to close for up to three months in key markets like the United States and Britain, wiping out any walk-up business. There has been some compensation from sales over messaging and phone calls with well-known customers, but the biggest growth area has been ecommerce. The Watches of Switzerland Group, which provides comprehensive financial data as a publicly listed company, was robbed of sales to the tune of around £13 million ($16m) during the first six weeks of lock down from mid-March to the end of April. Over the same period, ecommerce sales rose by 46%.

This spike in ecommerce is from a relatively low base for WoSG, not least because its biggest brand Rolex, which accounts for more than half of its annual turnover, does not allow online sales. Nor do Audemars Piguet or Patek Philippe.

A much greater beneficiary of the shift to online during the pandemic is the secondary market where specialist ecommerce players like CHRONEXT, Watchbox, Watchfinder, Bob's Watches, eBay and Chrono24 have seen their revenues barely dip during the crisis, and customers looking for Rolexes are like kids in a candy store thanks to the massive selection of pre-owned and unworn models for sale.

WatchPro has spoken to all of the major players in Europe and the United States, with the exception of Watchfinder, which appears to have taken a vow of silence since being acquired by Richemont in 2018, and they tell a similar story of how lock down and the fear of Coronavirus that swept the globe affected sales.

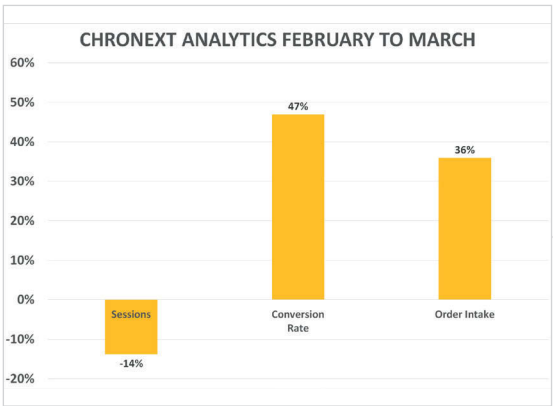
"It was tough the first couple of weeks. Sales dropped 30 to 40% almost immediately. People were just in a frozen state, wondering what to do," recalls Paul Altieri, chief executive of Bob's Watches, a specialist in pre-owned Rolex watches based in Southern California.

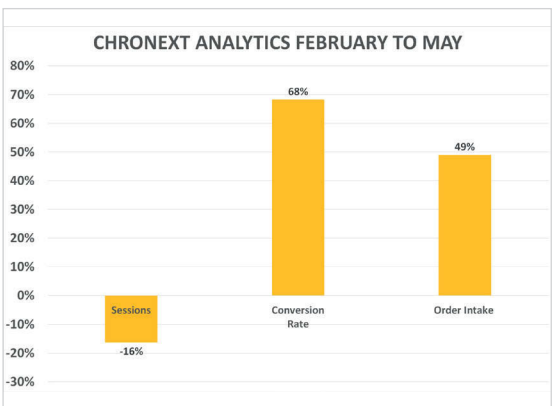
CHRONEXT, based in Germany, saw a similar dip at the start of the outbreak in Europe, but has since returned to pre-crisis levels. "The first two weeks of March we felt it quite a bit and saw a 15% drop in traffic. But we normalised after that. For April and May we were very strong and back to pre-Corona levels. We are optimistic and expect that this will be our strongest year by far in terms of profitability and marketing efficiency – assuming there will not be a second wave ," says Philipp Man, co-founder and CEO of CHRONEXT.

In April, Tim Stracke, CEO of Chrono24, was the first of the major secondary market platforms to share data on its performance during lock down, and it was clear, even at that early stage, that the model was proving more resilient than the wider retail market

for luxury goods. "When we look at transactions taking place, we are hearing from the luxury industry that sales have dropped by 80-100% for retailers, which is a catastrophic drop in demand. That is quite different to what we are experiencing, which is more like a drop of 15-20%, shifting us back to where we were in November 2019, and we are seeing quite a quick recovery in certain markets like Italy and Spain," he told WatchPro at the time.

The secondary market is inseparable from the primary market, and the shutdown of the entire supply chain from component and finished watch manufacturing through to wholesalers and retailers has an impact on the volume and price of watches being offered for sale on the major platforms. During previous downturns, such as the global financial crisis of 2008/9, watchmaking groups continued to push product on their authorised dealers who had no customers for the watches. This lead to a huge wave of watches hitting the grey market and the likes of Chrono24 helped to clear them through by connecting sellers with buyers all over the world with bargain priced pieces.





Above *CHRONEXT saw the number of visitor sessions to its website decline during the pandemic, but the volume of sales rose because of a dramatic rise in the conversion rate from browsing to closing deals.*

This time is different. Although demand has all-but evaporated for three months, so too has supply. Swatch Group brands are thought to have continued manufacturing at much-reduced capacity throughout, but most factories closed for two or three months and have only been ramping up production volumes slowly. Even if Western Europe avoids a second surge of the virus, it seems certain that around 25% of this year's Swiss watch production will have been lost, and demand will therefore remain higher than supply for the most popular watches this year. Chrono24's Mr Stracke said in April he was even seeing the number of listings on his platform decrease by about 5%, suggesting no upturn in activity on the grey market.

Danny Govberg, co-founder of Watchbox, which is headquartered in Philadelphia and has trading offices in Hong Kong, Dubai and Switzerland, thinks the balance of supply and demand will be broadly unchanged, despite the unprecedented times we are living through, because manufacturing has ground to a halt. "I'm not saying it's good that they're shut, just like it's not good that retail stores are shut, but from a market standpoint I believe that there are going to be shortages. To some extent there should be shortages. I don't believe there's going to be as many people wanting to buy a luxury timepiece coming out of this as there were before the pandemic because there's unemployment, business isn't as good, people are scared, so with less product being produced it'll just keep the market tight," he suggests.

Consumers who have been waiting to see whether the pandemic will cause the bubble to burst on prices for the most popular references from Rolex, Patek Philippe and Audemars Piguet are going to be disappointed, at least for now. Analysis of watches listed on Chrono24 shows that prices for steel Royal Oaks, Nautiluses and Daytonas have levelled off this year, and maybe cooled by 10% in the second quarter, but are still well above recommended retail prices with authorised dealers. The only brand that appears to have taken a significant hit is Richard Mille. Asking prices for an RM-011 on Chrono24 peaked at around £145,000 ($180,000) earlier this year but are now on sale for under £120,000 ($150,000).

CHRONEXT is seeing similar trends. "AP has been very stable. Rolex has been mainly stable with a little depreciation. Patek has been mixed. We have seen softness for certain models like the Nautilus, which we started to see before the pandemic. It is continuing to move slowly in that direction. What we can see in the very high end segment — €50,000 upwards — is some downwards movement but the market is quite quiet," Mr Man describes. "When you look at what you call unicorn watches, we are seeing very little price movement with some fluctuation. In general terms it is up. I would not have predicted that at the start of the Corona crisis. We expected some sort of correction, but at the macro level over time we are not really seeing any sort of correction," he adds.

There is additional evidence in the auction market that prices are holding up, or even rising through the pandemic period, with record prices being paid all over the world for watches from across the spectrum. Reporting ever week on these auctions, as WatchPro does, it is obvious that auctioneers are surprised and delighted by the robust demand.

A theory doing the rounds in the early weeks of the pandemic was that trade prices were softening as professional dealers rushed to sell and a buyers' market briefly emerged. "That was the case for the first two weeks of March," agrees Mr Man, "But it has normalised again because demand has normalised. Buying is competitive and customers

have choices for where they sell their watches. We want CHRONEXT be their first choice, so we have to be fair with our pricing. At the moment, you will probably get the same price, potentially even higher than pre-Corona, for many of the unicorn watches. For example, if you look at the white panda dial Daytona, there has been no change to the rising price trend. It is going up and up," he adds.

Before Covid-19 hit, the secondary market was going gangbusters and looks certain to return to the same growth trajectory. Various studies have looked at the overall size of the market and, while there is no consensus answer, a figure of $15 billion per year is widely quoted and is thought to be growing at 10% per year.

The number sounds extraordinary, but it includes everything from new, pre-owned and vintage watches sold through major specialist platforms, eBay, third party sellers on Amazon, trade-in watches being bought and sold through brick and mortar retail, auctioneers, pawn shops and two guys trading watches over a couple of beers or WhatsApp.

$15 billion sounds more plausible when you consider the volume and value of watches that are manufactured and sold every year. The Swiss, alone, export watches with a wholesale value of around $20 billion per year. That generates closer to $50 billion per year at retail prices. Every year, that is another $50 billion-worth of watches being bought by consumers. According to Chrono24, if each of those watches were sold on average every 25 years, it would lead to the $15 billion annual figure for the secondary market.

The watch industry often compares the market for pre-owned watches with second hand cars. Most cars are sold new then sold again at least once — even it if is back to the original dealer. If watches changed hands at that level, there would be no need for new watches for decades.

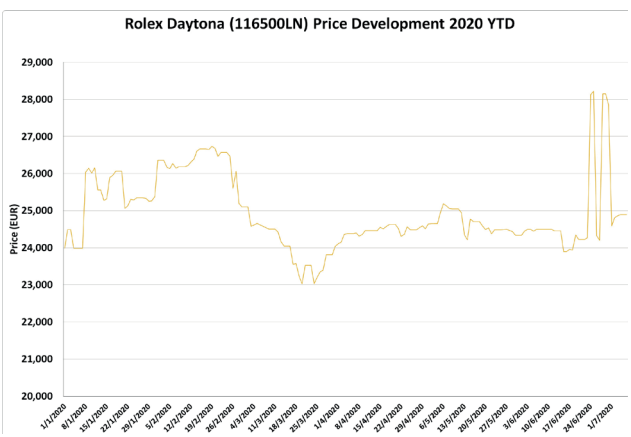
"Every new watch that gets launched this year will be pre-owned next year. Nobody throws away a watch. Watches are like Krugerrands in a way; nobody ever takes a gold Krugerrand and throws it away. So the constant manufacturing of watches is like making more gold for the pre-owned market," Mr Govberg suggests.

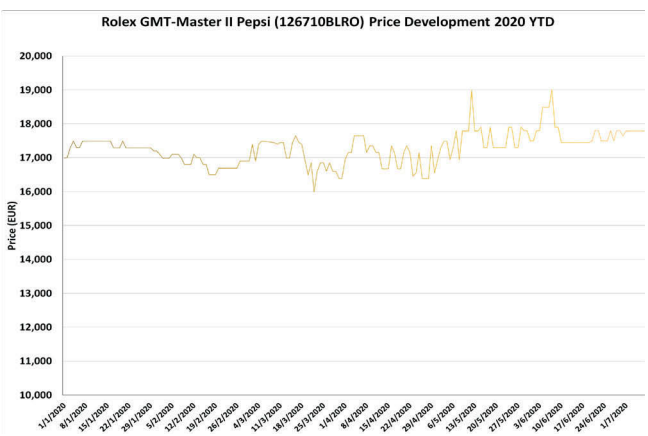
Philipp Man adds: "We are definitely seeing a very strong growth within the pre-owned market. Our internal customer surveys show that 76% of our customers would be willing to buy pre-owned. This was not the case a few years ago. Because of the sustainable aspect of the product and the pricing, we expect the same shift we had in the last decade to happen at a much faster pace within the next 24 months."

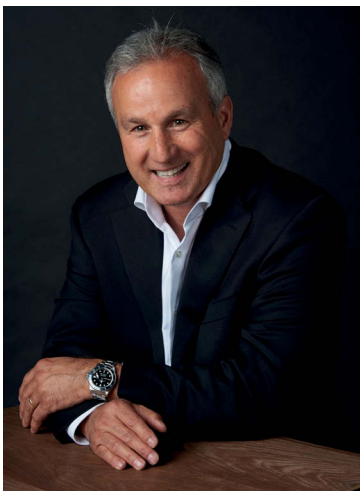
Choice and availability are key drivers for the secondary market. Customers walking into a Rolex dealer as a first time customer have zero chance of walking out with a Batman or Hulk, but they can browse online find hundreds on offer. If the customer wants another brand, they will find far more choice on the secondary market than through authorised dealers or even monobrand boutiques. "If you want to buy an IWC you can go to their boutique or you can go online and pick between a few hundred new ones, but you can buy a pre-owned one and pick out from a thousand

Left
CHRONEXT's state of the art watchmaking workshop brings pre-owned watches back to mint condition.

Below
Hot Rolex models saw an initial dip in prices during the pandemic, but production shut downs have squeezed supply and caused values to rise again on CHRONEXT.COM.







Left to right: *Tim Stracke, CEO of Chrono24, Danny Govberg, chairman of Watchbox and Paul Altieri, CEO of Bob's Watches.*

pre-owned models at half the price of a brand new one. So I think people are learning more, they're getting educated, much more about timepieces than they ever have. So I think you'll see pre-owned become even more and more and more prevalent as time goes on," predicts Mr Govberg.

Another huge driver for the secondary market is the fact that brands including Rolex, Patek Philippe, Audemars Piguet and Richard Mille do not sell directly online to consumers, and do not permit their authorised dealers to do so either. Customers who are increasingly comfortable spending five-figure prices for goods online find it strange that they cannot "add to basket" when they see the watch of their dreams with an official retailer. But, since the major online secondary market platforms have emerged over the past decade, these customers have been a click or two away from finding the watch they were denied on an authorised dealer's site at a WatchBox, CHRONEXT or Watchfinder.

The lock down has turbo-charged this trend. "The pandemic has really served to accelerate it. More and more consumers are feeling comfortable buying online, and I don't I don't see that shift going back. The watch industry, the watch manufacturers, everybody, they all need to find a way to embrace technology, embrace this change that's taking place in front of them, and pre-owned is a big, big part of it. Pre-owned and online. They've got to find a way to participate in it, all the big brands, because it's happening and there's no turning back, Bob's Watches' Paul Altieri predicts.

That may explain why the world's leading watch businesses, which historically viewed the secondary market as a cesspit of crooks and chancers, are not engaging with the biggest players and looking to learn from their ecommerce and Big Data expertise. "A big change we have seen is that brands who would have previously never spoken to us are now very actively working with us and are respectful of what we do. The Swiss watch industry has warmed up to the idea of pre-owned. What is more we are now speaking to many of the major chief executives and are working together on managing the inventory flows. I feel the watch industry has learnt since the last crisis 2008 – it is not about moving watches but about moving them into the right place." reveals Mr Man. "Together with many major brands CHRONEXT is looking at inventory flows with all channels in the mix, including secondary and inventory market and stopping product leakage that undermines the brand equity."

That sort of respectability has unlocked finance for the biggest players. Watchbox was established with a capital injection of $200 million, which has been invested in technology, infrastructure and one of the largest inventories of pre-owned watches in the world. CHRONEXT closed a funding round last year, as did CHRONEXT, with €65 million injected at the end of 2019.

In the case of CHRONEXT, the money will help the business grow faster while improving the experience for customers. Access to serious cash also means the business can compete for the best watches coming onto the market. "We are investing even more into building our pre-owned business. We are spending on upgrading and expanding our watch workshop; we are investing a great among into pre-owned stock because we feel it is really valuable for us to own the watches.

There has never in our lifetimes been a more terrifying crisis — from both a health and economic perspective — than the current Coronavirus pandemic. But not everybody will be affected equally, and it is undeniable that ecommerce businesses like the secondary watch market have weathered the storm far better than the primary players.

They emerge with balance sheets broadly similar to those with which they entered the crisis, which makes them more powerful relative to the primary market than at any time in their history. The major watchmaking groups are responding, but it looks likely they will have to join with the secondary market players in some way, rather than beating them.

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