

MARKET PULSE

After a difficult 1st quarter 2016, the 2nd quarter was slightly better. However, we can't talk of recovery as the performance was once again negative.

We observed a reverse of the trend compared to Q1. The High-end (>\$5'000) and Absolute luxury players (> \$10'000) which had so far demonstrated some resilience suffered more than the entry level (<\$1'000). While we noted a rebound of appetite for the medium range (\$1'000-\$5'000).

In contrast of the market, Thierry Stern, President of Patek Philippe announced that the company confirmed its development strategy. **Patek Philippe forecasts to sell 60'000 watches in 2016, a growth from 1 to 3%.**

The quarter was marked by the publication of the 1st Quarter earnings of the leading companies of the sector. **Confirming the resilience of the jewelry market**, large players such as Signet and Pandora recorded a strong growth (sales: +34% and +4% respectively). On the other hand, Movado (sales -5%) and Fossil (sales -9%) **demonstrated the weaknesses of the watch market.**

EUROPE

Europe experienced an **unexpected recovery at the end of the quarter.** In line with the global trend, the medium brand such as Frederique Constant well performed.

We noted that the outlook was very negative, as the European distributors and retailers **forecast 2016 to be a challenging year.**

Despite the flow of tourists coming in France and its neighboring countries, **the Euro 2016 had no significant impact on the market.**

TOP 5 PERFORMERS

1	HENGDELI	+39.1 %
2	TIMEX	+32.8 %
3	GITANJALI GEMS	+24.3 %
4	ZHEJIANG MING	+19.7 %
5	TITAN	+18.5 %

AMERICAS

Overall, the **jewelry market was resilient** while the **watch market was far more negative** than in Q2 2015.

The medium range was the **only categories to demonstrate some resilience.** The high-end and luxury segment were the most hammered.

Since the beginning of the year, the USA experienced lower-than-expected results. However, **global players such as Movado or Fossil revealed a better outlook for the 2nd half of 2016.**

WORST 5 PERFORMERS

1	FOSSIL	-35.8 %
2	SIGNET JEWEL.	-33.5 %
3	SEIKO	-31.4 %
4	CITIZEN	-22.3 %
5	MOVADO	-21.3 %

MARKET INDEX*



*Composed of 24 W&J global stocks equally weighted
* We changed the index composition method in May

ASIA / PACIFIC - JAPAN

In May, the **Chinese government announced the implementation of new commercial taxes** that will increase the price of imported goods and should **decrease the average order of Chinese tourists.**

In Japan, high-end products suffered but **the entry level recorded positive performance.**

Due to the strengthening of the Yen and the "boycott" of HK by Chinese, **the outlook for the rest of the year is quite pessimistic.**

RAW MATERIALS

	SILVER	+21.2 %
	GOLD	+6.5 %
	PALLADIUM	+5.2 %
	PLATINUM	+3.1 %
	DIAMOND	-0.7 %
	COPPER	-1.5 %

Interview with Gabriele Guidi



On June 30th 2016 we interviewed Gabriele Guidi, founder and CEO of CPL design, a Neuchâtel-based company specialized in the design and distribution of watches, jewelry and accessories. CPL design provides services for high-end as well as fashion brands such as Roberto Cavalli, Just Cavalli, Puma, Rochas and Smalto. Gabriele had 20 years of leading roles in the watch industry as a well-known expert and consultant for many brands before founding CPL Design in 2008. Gabriele is providing us with its latest insights of the global watches & jewelry market.

Overview by region

1 - Europe



In Europe, the strongest markets in the last 20 years were Italy, France, Germany and Spain. However, we recently observed new trends in these countries. Due to geopolitical issues in Spain, the market is now saturated and the only segment which is resilient is the entry level especially the €50 to €100 price range. The Italian market, which was among the best 5 market for watches in the world, is getting more and more difficult. No transaction above €1'000 can be done in cash, which is a major problem for luxury watch retailers in a country where luxury goods are part of everyday's consumption. Nevertheless, thanks to tourism the Italian market is still in a better situation than Spain.

In France, the market is also highly driven by tourism. Consequently brands must adapt to tourist preferences, especially Chinese tourists rather than French consumers tastes. In France for example, a lot of watches are with small dials whereas French consumers prefer large dials and bold shape products. Since the terror attacks in Paris on January and November 2015, the watch market is still suffering from a lower demand and less tourist traffic in luxury stores.

Within Europe, Germany and the UK are clearly the best performing markets (the lower sterling after "Brexit" vote should boost tourism and spending this summer). However, while the UK is a fast-growing market for watches and jewelry, Germany is a changing market with some regional brands disappearing and large players strengthening such as A. Lange & Söhne (Richemont group) or Glashütte Original (Swatch). In the other European countries, we have seen a relative good trend but these countries are too small to have a significant impact on the global market.

To conclude on Europe, overall my feeling is that we are seeing a slight recovery. As a result of a global consolidation of players in the industry, things should stabilize and grow slightly but not a strong growth in the short to medium term. I also notice that some regional brands are disappearing. Also, design is becoming more uniform. About 6 or 7 years ago, the Italian style was very different than the German style, this is no longer the case as we can now sell the same product style in different countries with a lot of success in both countries. On the other hand, we notice that new fashion and accessible luxury brands such as Louis Pion in France or Michael Kors in Europe are gaining market share.

2 - Asia



CITIZEN.
BETTER STARTS NOW



CASIO

There is a lot of contrast among a very interesting market as we see a strong growth in the fashion segment. From my experience, Japanese consumers are more interested by fashion products than traditional products (quartz or mechanical) which are currently market share leaders. In my opinion historical brands are defining different strategies: Casio is well-positioned to benefit from the "millennials" by offering digital watches. On the other hand, Citizen is focusing on traditional products but also offering solar watches that convert any lights into energy (no battery needed).



Secondly, I think that Hong Kong and Macau will once again record a difficult year. From my perspective, there is no recovery in the short term in Hong Kong or Macau as Chinese tourists are still avoiding these destinations and visa requirements are becoming stricter.

In Mainland China, it's still difficult for well-known Swiss watch manufacturers but the fashion and entry level segment did not suffer as much as high-end price ranges.

At the end of the spectrum, South Korea is the fastest growing market in Asia as the country is benefitting from a new stream of Chinese tourists and new shopping centers. I think South Korea is experiencing a growing trend, especially for the fashion brands. For instance, South Korea is the largest market for Armani in the watch segment.

3 – Middle East



The Middle East had a good trend in the recent years. Due to geopolitical tensions and the downtrend oil price fluctuations, we noticed a slowdown in growth within the region (UAE, Saudi Arabia, Qatar, Kuwait and Bahrain).

From my opinion, Iran is offering new opportunities in the near future for the luxury sector. Thanks to a fast growing population (from 20 million inhabitants in 1960 to 80 million in 2013), young consumers and a strong appeal for fashion brands. In the region we also observe a shift of consumer tastes. Indeed, while the Middle East was mostly attracted by absolute luxury watches and jewelry brands, I think the consumers are becoming more "globalized" and are starting to buy fashionable products.

For India and Pakistan, there is no doubt that these countries have a great potential but it's a very complicated market. First of all, the market is flooded by a lot of fake products and copy. Secondly it's a fragmented market, there are no global distributors or retailers who cover the whole Indian or Pakistani region. In addition the brands have to partner as a minority with a local company, hence they are not willing to offer the control of distribution and take the risk to damage their brand image.

4 – Americas



Let's start with the USA which is a peculiar market. Americans like to order directly on the internet and there is less consumption in brick and mortar shops than other markets such as Europe. Thanks to the online distribution, products that didn't exist in the past (too specific to fit for the American style) are now selling through online and they have proven to be successful. The American consumers are loyal to regional brands and we see that the leading brands are Timex, Movado and Fossil. The international players experienced more difficulties than in other regions. From my opinion, thanks to a good economic trend, the US market will start to grow again into positive figures in the short term.

In Central and South America, Mexico is the leading country of the region. It's a country with an interesting trend in the fashion and luxury segment and I believe it will continue to grow in the coming years. There is no other significant market in the region, Brazil and Argentina are difficult markets for watches and jewelry players because of unfavorable laws, taxes and regulations.

New designs & trends

In the watches and jewelry sector, it's not the same process as with the fashion apparel or leather goods. New trends take time to emerge. It's a long and cyclical process which takes months to be implemented and to see new models and designs coming in the market. This is explained by the fact that the creation of products is subject to several steps: design, approval by the brand, ordering new materials, and distribution. Moreover, the new machines, tools and materials must be adjusted for new products.

There is not only one trend leading the market. When we analyze the market, we observe 2 or 3 types of designs or models which are working well. For example, 3 years ago we saw the emergence of new products where the main component was the "pink gold" and at the same time "titanium" products were highly demanded.



From my point of view, most famous brands produce more or less similar products. Customers are mostly attracted by the brand equity, the style of the products than the innovative style. However, some companies stand out and produce innovative and original products such as Richard Miles (absolute luxury segment) with their sapphire watch (left image) or Fendi (right image) with diamonds moving when changing the hours.

Smartwatches

This is a new segment in the market, a sort of revolution. The first smartwatches were created almost 10 years ago by brands such as Garmin or Polar. But these models were exclusively used by consumers doing sports and not for everyday use. The strengths of Apple was to create a casual watch with a lot of communication and expectations around the product. We saw Samsung launching the same type of products several months before Apple but it was a failure.



Today, all brands want to offer smartwatches to follow the current trend. We saw the new model of Movado, Tag Heuer or the future Fossil smartwatch. To me, there are 2 milestones coming in smartwatches:

- ➔ First, there are too many brands in the smartwatch category and the products are becoming identical. I think the brand that will emerge will be offering a product with very specialized features and targeting a specific clientele (Sports, etc).
- ➔ In a second step, one key driver of the smartwatch will be the data collection. Some brands such as Fossil have fully understood the importance of the consumer data. Data collection could help them anticipate customer preferences and the market outlook in order to adapt new products accordingly and gain additional market shares.

New distribution channels

I would like to conclude with internet which has radically changed the story of distribution with new methods (Omni channel) and eliminating the middlemen. Even in the high-end luxury sector, internet has developed new supply and distribution processes, but above all, it has considerably helped designers to reach new consumers and a very large public.

For example, we launched 4 years ago a new brand called SLOW which is exclusively distributed on internet. We thought this brand was very specific and would appeal to only one type of consumers as it has a square shape and no brand name on the product. Thanks to online distribution, we could reach among all types of consumers throughout the world who had an appetite for this product. Whereas in a traditional brick and mortar distribution channel, it would have been very difficult to find distributors as they believe this type of product will only gather a limited interest by their client base, thus limiting the visibility of the product. For a designer or a creator like us, internet offers a great number of opportunities to sell directly to consumers.