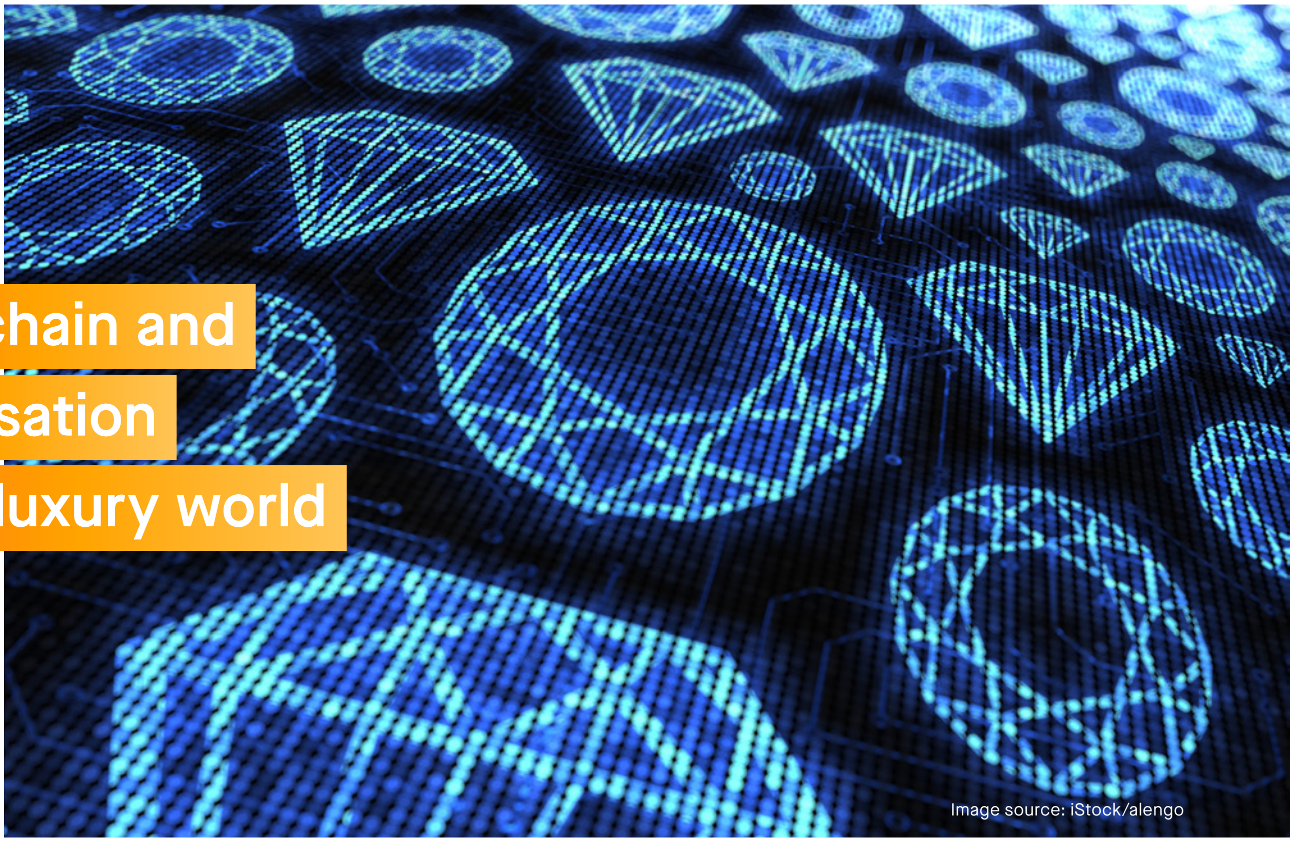


Image source: iStock/alengo

Blockchain and tokenisation in the luxury world

New technologies linked to blockchain are likely to play an important role in the luxury goods industry in the coming years. Overview below with a few case studies.

Charles-Henry Monchau
Chief Investment Officer

PRIVATE BANKING

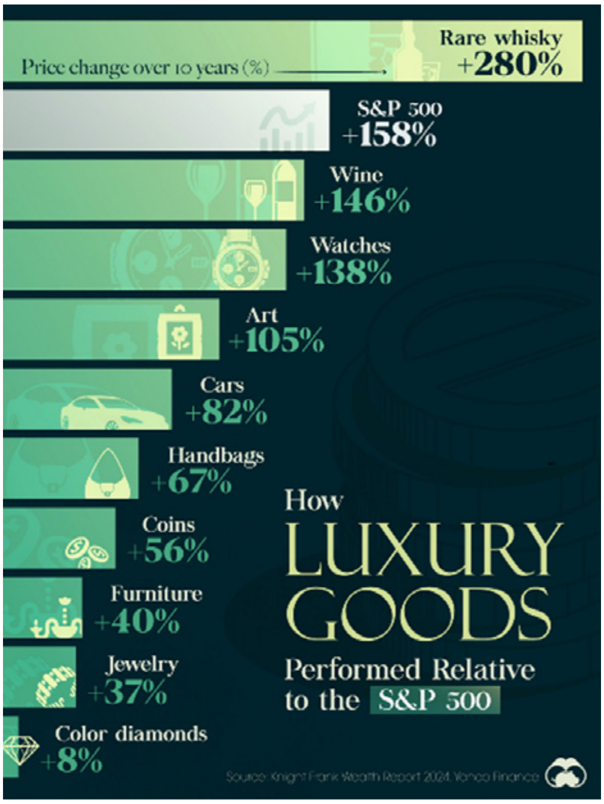
Luxury goods as an asset class

The global luxury goods market has an estimated market value of 1.5 trillion euros, according to Bain & Company. This market - which could reach 2.5 trillion euros by 2030 - thrives in part on its adaptability and constant quest for innovation.

Luxury goods are high-end products distinguished by their quality and exclusivity, such as haute couture, jewellery, watches, automobiles, and spirits. Often dismissed as an extravagance, this category of tangible assets has attracted keen interest from both high-powered consumers and investors alike.

Ultra-High-Net-Worth Individuals (UHNWIs) are the first to recognise the upside potential of luxury goods; studies have shown that around 20% of the share allocated to tangible assets by UHNWIs is made up of luxury goods.

There are three main reasons for this craze. Firstly, high-end luxury products often go hand in hand with the notion of scarcity, and therefore tend to appreciate over time. For example, rare whiskies outperformed the S&P 500 by 122% over a 10-year period. Secondly, luxury goods exhibit low correlation with traditional assets, enabling diversification of multi-asset class portfolios. Thirdly, the most exclusive luxury goods are particularly recession-resistant and act as a hedge against inflation; indeed, their intrinsic value enables them to maintain, or even increase, their value during periods of high inflation. In addition, luxury brand stocks generally perform well over time, thanks to their ability to maintain high operating margins and the use of their free cash flow for strategic acquisitions.

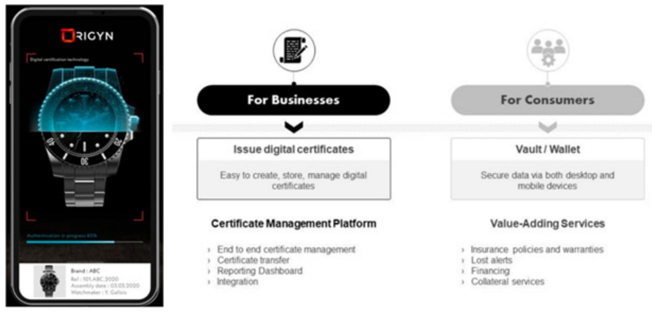


Source: Visual Capture

Blockchain technology for luxury goods

A major problem in the luxury goods market is the spread of counterfeit items, which undermines the exclusivity and prestige of brands, and subsequently lead to a loss of consumer confidence. How can one be guaranteed that the Louis-Vuitton bag offered at half price on Facebook Marketplace is authentic? Blockchain offers an answer to this issue. This digital register securely records transactions in a decentralised and immutable way. By registering luxury goods on the blockchain, it enables detailed provenance tracking, tracing the history of the good from its creation to its current owner. This feature is particularly useful for frequently counterfeited items, such as handbags, cigars, wines, and watches. Unique digital certificates on the blockchain enable buyers to independently verify an item's authenticity, speeding up decision-making and boosting confidence in the market.

The Origyn Foundation oversees the activities of Origyn Entreprise, a Neuchâtel-based company developing a technology for Non-Fungible Tokens (NFT) certificates, non-interchangeable tokens based on the blockchain that can be used to attest the authenticity of a work and associate it with a unique owner. Origyn's technology is based on Dfinity's Internet Computer, a sort of decentralised Cloud 3.0, powered by blockchain. These tokens are not only useful for resale, but also facilitate the use of luxury goods as collateral for loans.



Source: Visual Capture

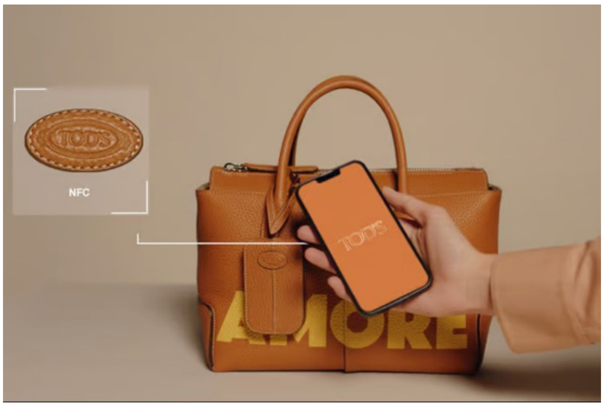
The Gübelin Gem Lab has introduced Provenance Proof Blockchain to trace the journey of each gemstone from raw to finished product, so that customers can trust the authenticity and ethical sourcing of their gems.

In 2021, LVMH, Prada Group, OTB and Richemont founded the Aura Blockchain consortium, a non-profit organisation. Headquartered in Carouge (Geneva), the consortium assigns a "digital passport" during production, as a unique digital identifier and certificate of authenticity. Customers can then follow the product's entire life cycle, from supply chain to in-store purchase. This digital passport also provides proof of possession, and an e-guarantee. Today, Aura Blockchain brings together 40 premium brands such as Mercedes-Benz, Givenchy, Dior, Loro Piana and Tod's, with over 40 million luxury products registered on its platform.

The consortium also enables luxury brands to create NFTs as digital duplicates of physical products. When customers purchase a product, the brand can offer a digital token as a collectible. These tokens can confer various services, such as after-sales services, loyalty rewards and product repair benefits. Brands can also sell tokens with benefits, a solution already offered by Prada with its Timecapsule collection and by Givenchy with its BSTROY x Givenchy collection. By investing in an NFT loyalty card, customers can access exclusive benefits such as the early launch of new products and invitations to exclusive events. But these NFTs can also be traded on electronic marketplaces. Their values can therefore fluctuate over time in 24/7 mode.

Source: Prada Timecapsule NFT

Tod's, a member of the Aura Blockchain consortium, went beyond traceability and added functionalities that enable the owner to access all information concerning the supply chain of his Di-bag, such as the origin of materials, production and compliance processes, quality, sustainability, and transparency-related aspects. Near-field-communication (NFC) technology enables this information to be verified by a simple scan via a smartphone.



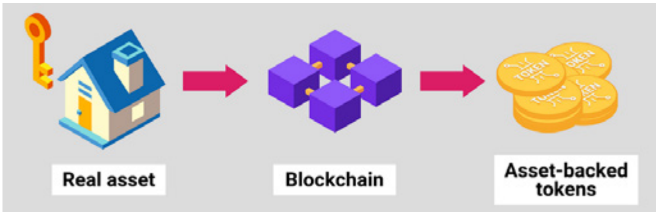
Source: Fashion united

Nike, one of the world's leading sports brands, is also involved in the creation of NFT. Nike began by acquiring RTFKT Studios in 2021. This is a company that uses cutting-edge technologies such as in-game engines, NFTs, blockchain authentication and augmented reality to create virtual products and experiences. Nike then launched .Swoosh, a Web3 platform specialised in the creation of virtual assets such as NFT sneakers and apparel. To expand its Web3 capabilities, Nike forged key partnerships with major players in the digital world, such as Epic Games, the company behind the game Fortnite. Together, they have created an NFT sneaker hunt dubbed "Airphoria". Nike's ultimate goal is to attract Fortnite's 242 million monthly users.

Source: Fashion united

Tokenisation applied to luxury

Tokenisation is the mechanism of converting real assets into digital representations on a blockchain. It provides digital proof of ownership rights, represented by one or more tokens on the blockchain. Assets can be converted into fungible (exchangeable) or non-fungible (NFT) tokens, depending on their nature and desired use. Assets can thus be exchanged, transferred, and managed digitally. The underlying technology can be applied to virtually any asset: cars, clothes, jewellery, works of art, spirits, etc.

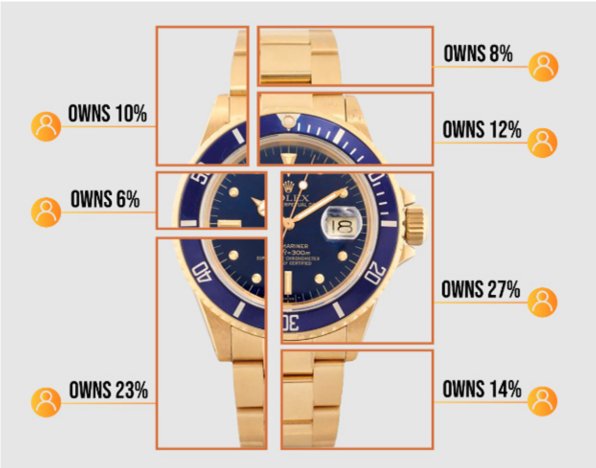


Source: Ebric Blog

Tokenisation offers significant advantages, such as greater accessibility, increased transparency, disintermediation, cheaper and faster transactions, and transaction immutability. By transforming property rights into digital tokens, tokenisation makes it possible to divide assets into smaller, more affordable fractions. It enables anyone to invest in luxury goods without the need for large amounts of capital. Investors can trade their tokens on secondary markets, offering previously unimaginable flexibility. As with other types of alternative investments, tokenised assets could add a layer of uncorrelated diversification, which can improve a portfolio's risk-adjusted return profile.

Source: Coindelta

The Elephants startup has launched a co-ownership platform for luxury watches. In just ten days, Elephants managed to attract co-owners for iconic watches such as the Patek Philippe Nautilus and Rolex Submariner, raising nearly CHF 150,000. Another Cellar DAO initiative makes it possible to invest in rare bottles of wine, whisky, and cognac in the form of NFTs, without needing to acquire the entire product.



Source: Elephants

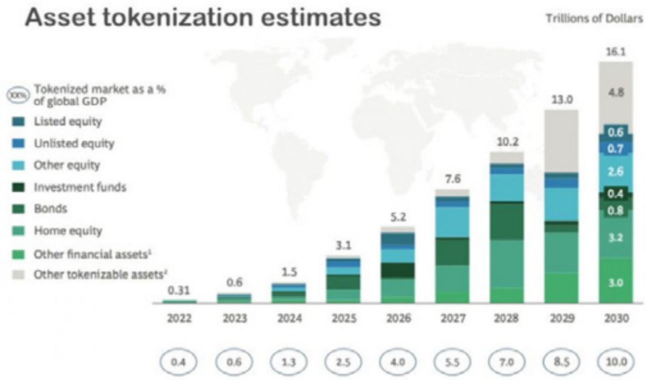
However, it's important to note that tokenisation confers economic rights over the underlying asset, but not necessarily rights of usage. This means that one can benefit from appreciation in its value, receive potential dividends, or trade the tokens on a secondary market, but not necessarily have the right to use or consume the underlying asset. MERJ Exchange and CurioInvest collaborated to tokenise 500 luxury cars, including the Ferrari F12TDF valued at over $1 million, which was tokenised for just $1 per token. In this case, the cars are stored in a safe in Germany and the tokens represent economic shares only. This means that token holders can benefit financially from the investment but cannot physically use the vehicles.

Risk factors

As promising as new technologies are, they also come with their share of obstacles. Regulatory uncertainty, due to a lack of clear guidelines, poses problems for both investors and platforms. Dependence on digital platforms introduces security risks, with potential breaches threatening the integrity and safety of investments. Valuation issues also arise in niche asset classes without established liquid markets, which can lead to unexpected volatility or price discrepancies. In addition, there is an education gap, as many potential investors do not have a sufficient understanding of the tokenisation mechanism, including its risks and benefits, which can hinder adoption and informed decision-making. The operational complexity of blockchain technologies requires a more robust and user-friendly wallet infrastructure to manage the complex processes involved. In addition, the management of underlying physical assets requires secure storage under appropriate conditions, particularly for maturing assets such as wine or whisky, to preserve their quality and value.

Conclusion

Boston Consulting Group predicts that asset tokenisation will become a $16.1 trillion business opportunity by 2030, as the market shifts from stock exchanges to asset exchanges. Certain luxury goods segments are expected to be part of this high growth. For example, the fast-growing market for tokenised luxury cars is expected to reach a value of $10 billion as early as 2025. The currency debasement seen in several G7 countries means that savvy investors will be looking to favour risky assets over cash, particularly as interest rates begin to fall. Luxury assets are well-placed to attract some of this sideline money.



Source: BCG, ADDX

Source: Pandora finance

For further information

Banque Syz SA
Quai des Bergues 1
CH-1201 Geneva
Tel +41 58 799 10 00
syzgroup.com

Charles-Henry Monchau, Chief Investment Officer
charles-henry.monchau@syzgroup.com