



العربية

GCC STATE *of the* METAVERSE

AND ITS POTENTIAL
FOR LUXURY RETAIL



DECEMBER 2022

PREFACE

The following inputs were used to prepare this report:

— **Desk research** reviewing data and insights from publicly available sources

— **Interviews with key stakeholders** in the GCC, including startup community and large enterprises

— **Proprietary consumer survey across the region, with focus on premium/luxury consumers:**

- 1,600 consumers: United Arab Emirates (500), Saudi Arabia (500), Qatar (200), Kuwait (150), Oman (150) and Bahrain (100)
- Age from 16 to 45, split into 4 age groups
- Locals, Western and Arab expats
- 50:50 gender mix
- Monthly household income of more than AED/SAR 10,000
- Bought luxury items in the past 3 months with a minimum spend of AED/SAR 1,000 on a single luxury fashion item, or AED/SAR 200 on a single beauty product

Other external sources are listed at the bottom of each page

All data shown reflects status as of November 2022

DISCLAIMER

This document may contain certain forward-looking statements which are based on certain assumptions, estimations and forecasts, and/or which may not directly relate to a historical or current fact. By their nature, these forward-looking statements are subject to important risks and uncertainties and factors that go beyond control of the Chalhoub Group's ability to predict.

These forward-looking statements should not be considered as a guarantee of future performance: the actual results could differ materially from those expressed or implied by them. The forward-looking statements only reflect Chalhoub Group's views and opinions as of the date of this document, and Chalhoub Group does not undertake to revise or update these forward-looking statements.

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The information in this document does not constitute an invitation or inducement to engage in any investment activities.

5 KEY MESSAGES

- 1** While definitions of Metaverse vary, analysts are aligned that it is currently worth **\$40 - \$65 Bn** and expected to reach \$13 Tn by 2030, with fashion and luxury retail representing \$50 Bn
- 2** Global luxury groups are adopting Metaverse at **varying speeds** with Kering leading the way. However, most brands are **experimenting** with it through **different use cases** from awareness to retention
- 3** The GCC has the **right foundations** to make Metaverse initiatives successful, driven by young and tech-savvy youth, and enabled by favorable regulatory environment. Regional enterprises are already experimenting with Metaverse, and startup scene is booming with over \$500mn of funding
- 4** **Crypto adoption in GCC is relatively high** with 48% of GCC luxury consumers owning cryptocurrencies. **NFT and the Metaverse penetration remains moderate with 23% owners/users**, however additional 57% show interest in it
- 5** The **Metaverse could be a game changer** for the luxury industry, forcing players to **adjust their agenda** on the topic and **test and learn**, with GCC being the perfect testbed

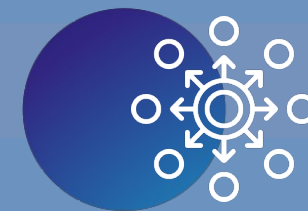


- 1** METaverse MEETS LUXURY RETAIL
- 2** OPPORTUNITY FOR LUXURY RETAIL IN THE GCC
- 3** GCC CONSUMER SENTIMENT
- 4** IMPLICATIONS FOR LUXURY RETAILERS

The “Metaverse” does not have one generally accepted definition

In this report, the term includes the following elements

THE DECENTRALIZED WEB



BLOCKCHAIN

Decentralized network system to issue & manage encrypted records (like transactions), distributed across the entire network and therefore immutably secure.

CRYPTOCURRENCIES

Any digital/virtual currency using cryptography to secure transactions, recording transactions and issuing new units by using blockchain technology (e.g. Bitcoin, Ether, Dogecoin, BUSD).

NFTs - NON-FUNGIBLE TOKENS

Unique digital certificate of authenticity and ownership over any kind of assets (e.g. art, media, property, ...) making them distinguishable from one another.
Cannot be copied, substituted, or subdivided, and are recorded in a blockchain.

THE IMMERSIVE WEB



METAVERSE ENVIRONMENTS

Virtual worlds (often blockchain-based) where players can play games, interact with others, acquire & sell assets, etc.
(e.g. Decentraland, The Sandbox, Spatial)

VIRTUAL REAL ESTATE

Plots of virtual land or properties offered for sale through NFTs by metaverse platforms. Users have the option to resell and/or build upon them.

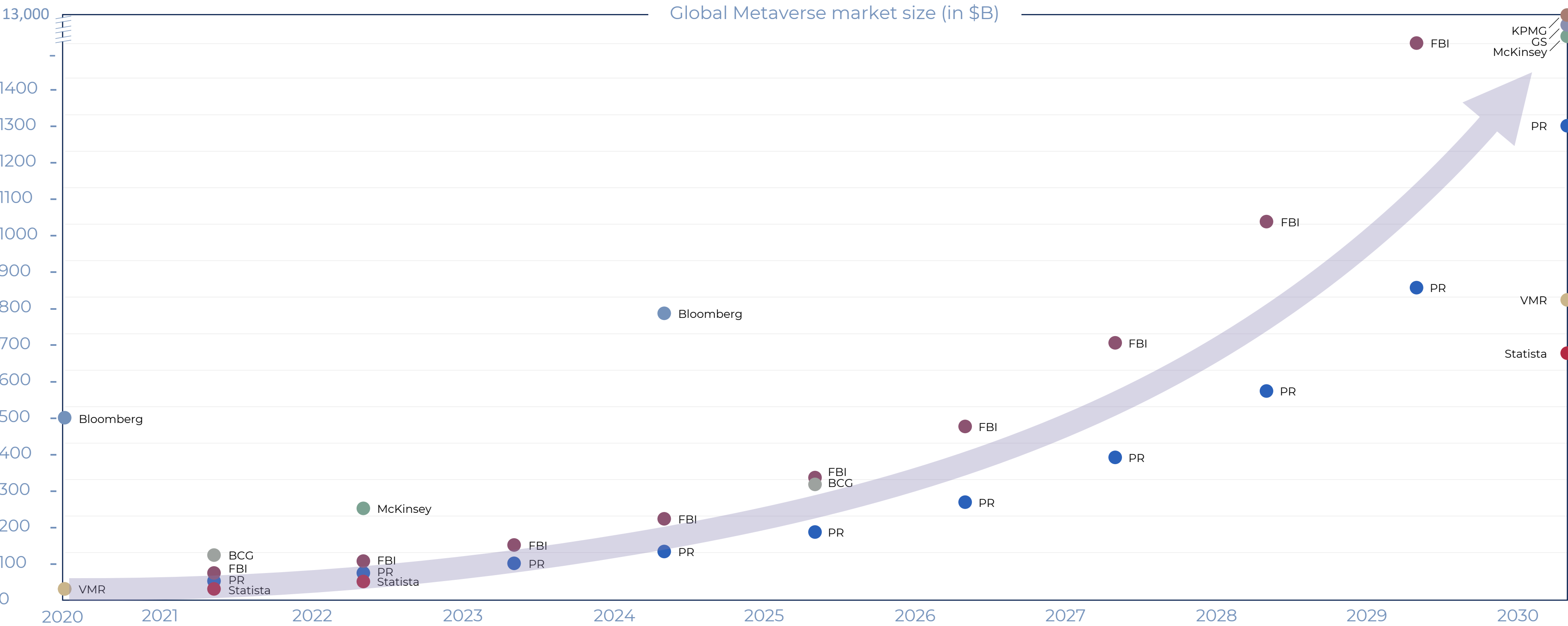
VIRTUAL GOODS

Goods such as clothes, make-up, accessories, decoration, etc. offered in virtual worlds to personalize a user's avatar or experience. Sometimes, these goods can be NFTs.

VR & AR

Technology allowing users to step in a virtually created world via headset. With Augmented Reality, the real world overlays with virtual elements on the user's phone screen, or through smart glasses/lenses.

Analysts are aligned that metaverse is currently worth between \$40 and \$65 billion and growing exponentially



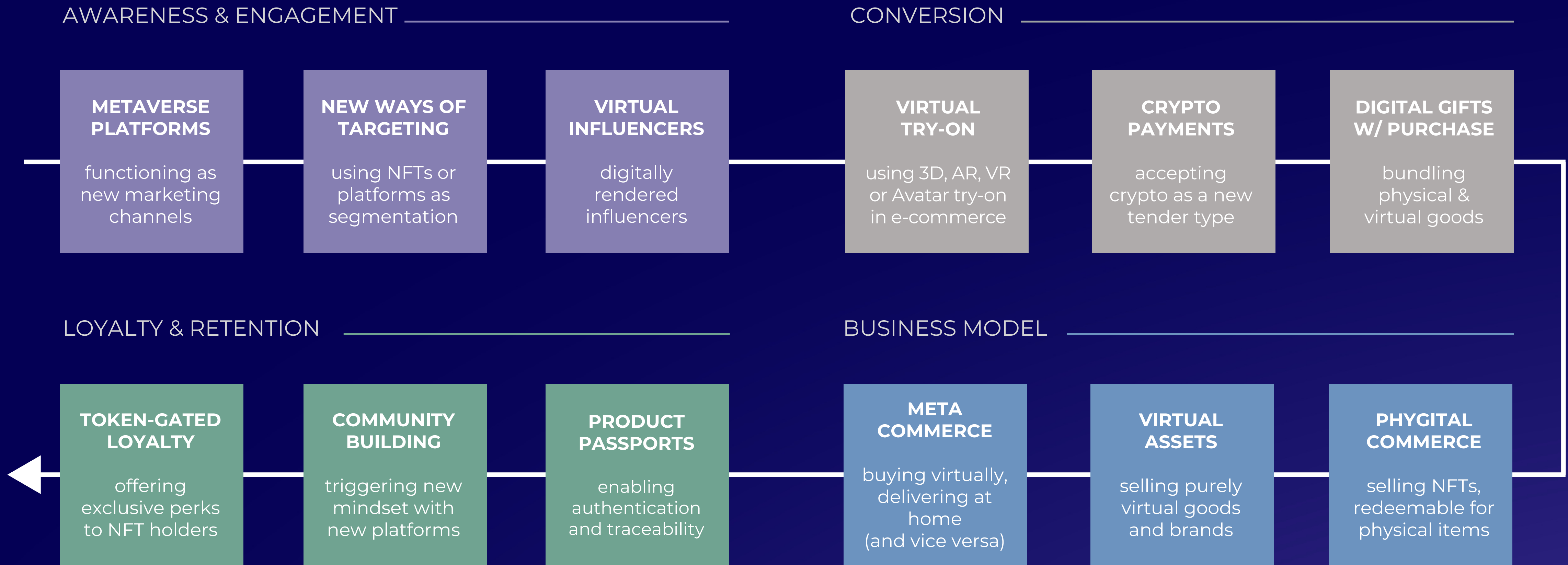
\$50 Bn

revenue
opportunity for
fashion and luxury
coming for the
Metaverse by 2030

(Morgan Stanley)

SOURCE: McKinsey, Value Creation in the Metaverse, June 2022; (PR) Precedence Research, Metaverse Market - Global Industry Analysis, Size, Share, Growth, Trends, Regional Outlook, and Forecast 2022 – 2030; (FBI) Fortune Business Insights, Metaverse Market Size, Share & Covid-19 Impact Analysis, By Component, By Device, By Application and Regional Forecast, 2022-2029; (VMR) Verified Market Research, Global Metaverse Market Size By Product Type, By Applications, By Geographic Scope And Forecast, June 2022; (GS) Goldman Sachs, Understanding the Metaverse and Web 3.0, January 2022; Morgan Stanley; KPMG; BCG, The Corporate Hitchhiker's Guide to the Metaverse; Statista; Bloomberg Intelligence and Chalhoub Analysis

Metaverse use cases for luxury retail exist across the full customer journey, from awareness to retention



METAVERSE PLATFORMS

Gucci Town in Roblox has been visited +35 million times. Players can compete in games to earn GG Gems and buy limited-edition virtual items from Gucci. Bvlgari is present on Zepeto, Christofle has a mini-game in The Sandbox.

NEW WAYS OF TARGETING

Tiffany & Co allowed 250 holders of a CryptoPunk NFT to buy a limited edition pendant, personalized with the visual of their NFT into the jewel. Ralph Lauren announced a partnership with Fortnite to sell virtual skins to the gaming community.

VIRTUAL INFLUENCERS

Virtual influencer Shudu has 185k followers, signed a modeling contract with digital model agency TheDiigitals.com and works as influencer for Balmain. Lil Miquela now has 2.9 million followers.

PRODUCT PASSPORTS

In April 2021, LVMH, Prada Group, Richemont and OTB partnered with Mercedes Benz to create AURA Blockchain Consortium to guarantee the product authenticity with a tagging solution. Players like EON, Arianee and others are helping brands with Product IDs and passports, which enables easy resale a/o after-sales services.

COMMUNITY BUILDING

Lacoste launched their NFT collection earlier in 2022, and welcomed over 60,000 members in the community platform Discord. To date, Lacoste has built one of the biggest communities amongst 'physical brands'.

TOKEN-GATED LOYALTY

Christofle created an exclusive product for their NFT holders. Only those who own an NFT could access & purchase the new product.

VIRTUAL TRY-ON

Better ways of displaying (sizes and looks of) items during the e-commerce journey can increase conversion rates by 94% and reduce return rates by over 5%. Tmall's Luxury Pavilion has AR try-on for +20 brands of watches, jewelry and shoes.

CRYPTO PAYMENTS

Players like Farfetch, Tag Heuer, Hublot & Gucci either accept crypto or have announced they will the coming months.

DIGITAL GIFTS WITH PURCHASE

Level Shoes & Lanvin issued a virtual twin with each of the 100 limited-edition sneakers they co-created. Only customers who bought the shoes in real life could claim the NFT and dress their avatar in metaverse platforms with the same kicks they own in the real world.

PHYGITAL COMMERCE

Rimowa, in partnership with digital studio RTFKT (acquired by Nike), sold 888 NFTs worth \$3,000 each, redeemable against a one-of-a-kind luggage case.

VIRTUAL ASSETS

Nike generated over \$200 million from NFTs, while Dolce & Gabbana auctioned a nine-piece virtual/physical collection for roughly \$6 million. Brands like Auroboros specialize in creating virtual-only fashion, and platforms like DressX or The Fabricant are empowering this new digital-only creator economy.

META-COMMERCE

During the Metaverse Fashion Week in Decentraland in March 2022, people could buy virtual Tommy Hilfiger clothing which was also shipped physically to their doorsteps.

Global luxury groups are adopting metaverse at different speeds

Ranked by adoption of the Metaverse, reflected in organizational structure and initiatives

1	KERING	Dedicated teams for Web 3.0 at Group and brand level for both Gucci and Balenciaga . ~10 initiatives launched under Gucci with aim of being first to market . Appointed a CEO for Gucci Vault and Metaverse Ventures.	6	ESTÉE LAUDER	Appointed a Global IT Innovation, Metaverse & Web3 Leader . Exclusive beauty partner of the Decentraland's Metaverse Fashion Week. Participated in Decentraland's Metaverse Art Week with exclusive POAP .
2	LVMH	Appointed a Head of Metaverse and Crypto leading all Web 3.0 efforts globally. Part of the Aura Blockchain Consortium and launched several initiatives throughout its brands like Louis the Game or NFTiff.	7	COTY	VP Innovation, Beauty Tech & the Metaverse responsible to identify and roll out Web 3.0 initiatives. Gucci Flora fragrance launched in Roblox in Gucci Town with interactive experiences.
3	OTB	Set up BVX , managed by Stefano Rosso, a company dedicated to the Metaverse . Part of the Aura Blockchain Consortium . NFT collection launched by Diesel.	8	PUIG & ESSILOR LUXOTTICA	Puig launched an NFT with Byredo . EssilorLuxottica worked with Meta on smart glasses , but they do not have a dedicated organization for the Metaverse.
4	PRADA GROUP	Launched NFTs and clothes for Meta avatars but does not have a dedicated organization for the Metaverse. Part of the Aura Blockchain Consortium and has launched NFT collections .	9	CHANEL	Chanel indicated to be "interested in the topic" & created the costumes for Le Bal de Paris virtual reality experience but does not have a department dedicated to it yet.
5	RICHEMONT & L'ORÉAL	Appointed a Blockchain Lead . Cartier is part of Aura Blockchain Consortium . L'Oréal has a CDO with Digital & Tech teams working on Web3 initiatives like NYX partnering with The Sandbox to create digital avatars.	10	HERMÈS	Hermès is considering Metaverse for communication purposes, but only filed a trademark application for NFTs, crypto and the Metaverse. No initiatives launched yet.

SOURCE: Vogue Business, Vogue, Companies websites, WWD, Pymnts, Ledger Insights, Fashion Network, Fashion United, Business Wire, Bloomberg

Luxury players have mainly chosen the following five virtual worlds

	ROBLOX	THE SANDBOX	DECENTRALAND	SPATIAL	JOURNEE
	<ul style="list-style-type: none"> Free gaming platform founded in 2004 in California 48% of users under 13 years old Givenchy, Ralph Lauren, Tommy Hilfiger, Nike & Gucci are some of the brands who have their own 'server' in the game Open to join, any brand can develop its own world 	<ul style="list-style-type: none"> Virtual platform founded in 2011 by Animoca Brands, HQ in Hong Kong Own cryptocurrency \$SAND - free to play, only open in 'seasons' Gucci & Adidas have own presence in Alpha Season 3 Required to buy LAND with \$SAND to develop presence 	<ul style="list-style-type: none"> Virtual platform founded in 2015 with HQ in Beijing \$MANA as coin - free to play, always open MV Fashion Week in March 2022 with brands like Etro, Dolce & Gabbana, Elie Saab Required to buy land: Philipp Plein purchased virtual land for \$1.4 million in February 2022 	<ul style="list-style-type: none"> Founded in 2016, allows users and brands to build own virtual spaces In 2022, luxury NFT marketplace Exclusible launched its virtual penthouse on the platform Free to create worlds open for up to 50 people Spatial+ at \$25 per month (<500 people) 	<ul style="list-style-type: none"> Founded in 2019 in Berlin; builds custom, private worlds Working with H&M, Adidas, BMW Vogue Business used the platform for its Metaverse event with panels & keynotes in March 2022 Worlds are custom built by Journee and not open to visit freely
MONTHLY VISITS	1.1 billion	3.3 million	1.1 million	575,000	125,000
VALUATION	\$20 billion	\$4 billion	\$1 billion	\$125 million	n/a

SOURCE: Roblox Q42021 Report, Newzoo, Business of Apps, Similarweb, WWD, L'Officiel, Forbes, The Verge, Dealroom, Companies websites

The GCC has the right foundations to make metaverse initiatives successful

45%

population
under **30 years old**

23.5mn

gamers in Saudi Arabia
(67% of population)

\$553mn

total funding of
Web3 companies in the
GCC **as of October 2022**

\$14,808

average disposable income
in the GCC per capita¹

195%

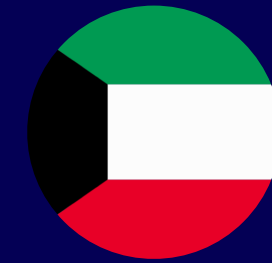
YoY growth of crypto
transactions in
Saudi Arabia²

\$4Bn

increase of Dubai GDP
expected from Metaverse
in the next 5 years

1. In UAE, KSA, Qatar and Kuwait; 2. between 07/20 – 06/21 and 07/21 – 06/22
SOURCE: IMF October 2021, CIA World Factbook 2021, Newzoo, Al Arabiya, Chainalysis, Pitchbook, Chalhoub Group Intelligence

GCC has a favorable environment from a regulatory point of view, with crypto & NFTs allowed for private use in all countries



The **Central Bank of Kuwait** has implemented guidelines to approve digital banks

Although a bit more reluctant than other countries, crypto trading for personal use (and NFTs) are allowed



The **Central Bank of Bahrain** implemented its crypto-asset rules as early as February 2019

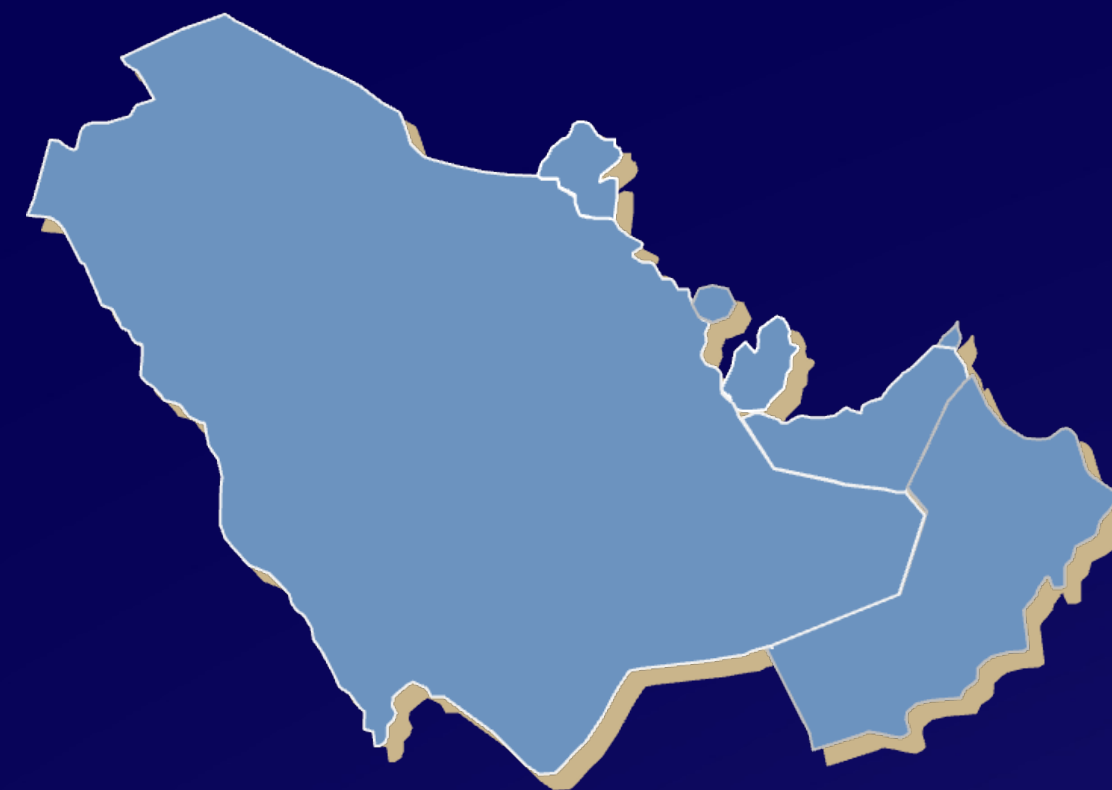
3 platforms allowed to facilitate crypto payments: Binance, Rain, Coin MENA



Saudi Arabia Monetary Authority (SAMA) is working on enhancing its use of emerging technologies by using blockchain to transfer money to local banks

Saudi Central Bank hired a Crypto Chief in September 2022

Crypto-trading allowed via local platforms like BitOasis (private use only)



Qatar announced its **National Blockchain Strategy** and the **Qatar Central Bank** is contemplating launching its own Digital Currency

Crypto-trading allowed via licensed platform CoinMENA



Regulatory framework by **VARA (Virtual Assets Regulatory Authority)** in Dubai and the **Abu Dhabi Blockchain and Virtual Assets Committee (ADBVC)**

Dubai Metaverse Strategy announced in July 2022 aiming at creating 40,000 jobs in the sector and adding \$4Bn to the economy in 5 years

Two platforms **licensed by VARA** for crypto-payments: Binance & FTX



Oman Capital Market Authority is looking at regulating cryptocurrencies and virtual assets

The **Central Bank** is looking to allow crypto to be used

Several regional organizations have started experimenting with the Metaverse

CHALHOUB GROUP

Launched **several initiatives** with Christofle, from an **NFT collection** over **token-gated commerce**, to a **virtual quest** in The Sandbox Alpha Season 3. Launched NFTs for Level Shoes in partnership with Lanvin

ETIHAD AIRWAYS

In July 2022, **launched a collection of 2,003 NFTs** representing 3D aircraft models in different liveries. NFT holders will have access to special events and be part of the NFT Club

NEOM

Plans to launch a **digital twin of the city in the Metaverse**, the first platform that combines digital and physical architecture, integrating seamlessly the two worlds

WARBA BANK

Kuwait-based bank is the **first Islamic bank to be present in the Metaverse** with sites in Decentraland and Sandbox

DAMAC GROUP

Investing \$100 million in its D-Labs division aiming at creating properties in the Metaverse. It also accepts **crypto payments**

MAJID AL-FUTTAIM

Partnership with Binance to launch NFTs and blockchain projects as well as accepting **crypto payments** in its properties

THE SANDBOX

Announced they will be launching **“Dubaverse” as its next “Mega City”** with the presence of local companies like VARA and Khaleej Times

QATAR UNIVERSITY

In August 2022, University partnered with Metavisionaries to enter the Metaverse, **giving students access to courses** in the virtual space

Startup landscape is booming with over 80 startups in the GCC, having secured over \$500 million in funding

	Company name	Type of company	Founded	Funding (\$ million)
1	 Rain	Crypto-exchange platform	2017	140
2	 Sire	Sustainable open-source blockchain	2021	121
3	 BitOasis	Crypto-exchange platform	2015	30
4	 QUINT	Decentralized finance	2021	25
5	 Fasset	Crypto-exchange platform	2019	22
6	 Pyypl	Multi-currency digital wallet	2017	19
7	 Colexion	NFT marketplace	2020	13
8	 HyperSpace	Digital Web3 studio	2020	11
9	 Everdome	Metaverse environment	2021	10
10	 Fluid	Decentralized finance	2018	10

\$553 million

total funding of Web 3 companies in the GCC

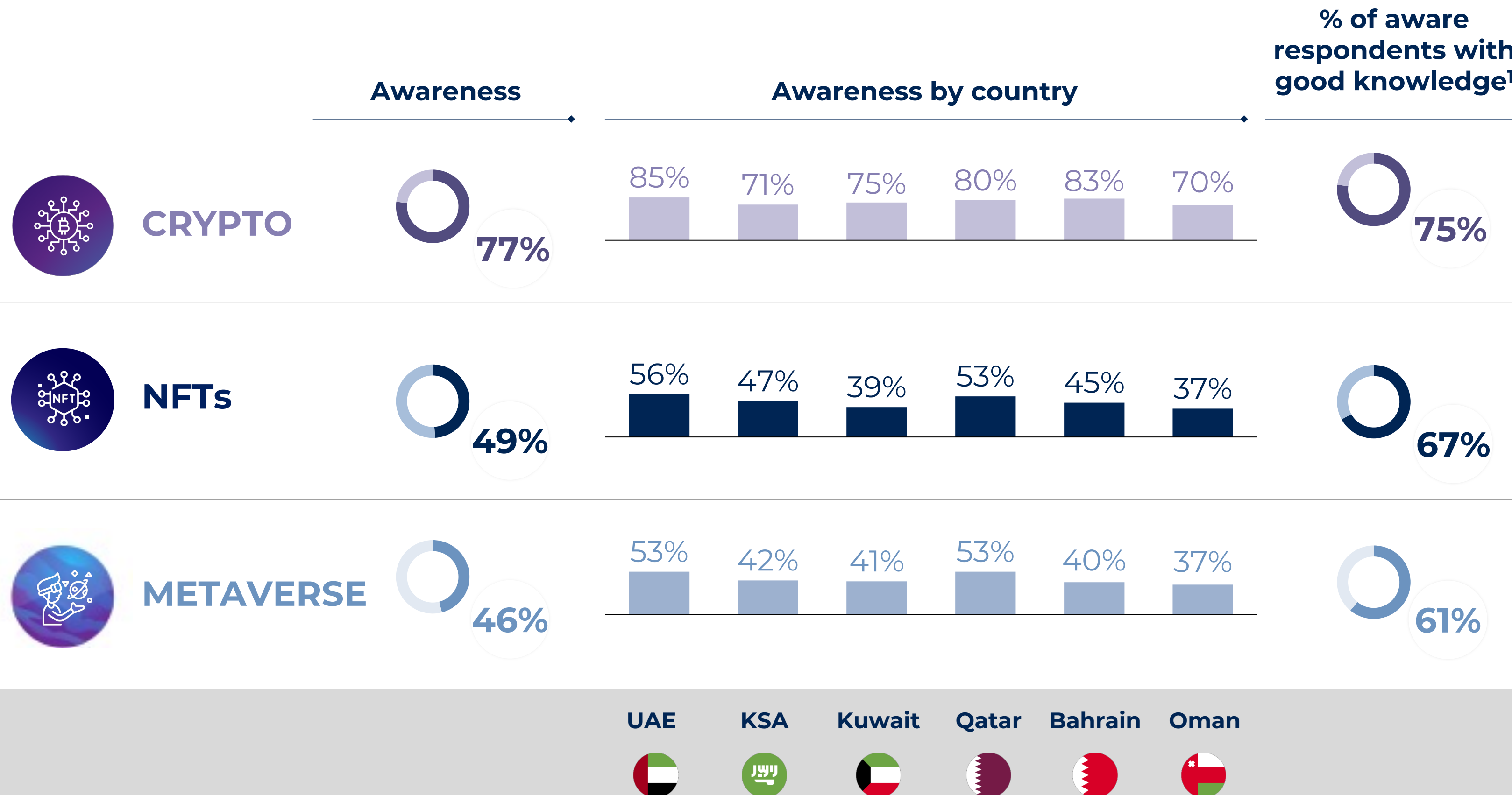
83 startups

registered Web3 companies in the GCC

89% in UAE

74 out of 83 Web3 startups in the GCC are based in the UAE

GCC luxury consumers show strong awareness of Crypto (77%), NFTs (49%) and the Metaverse (46%)

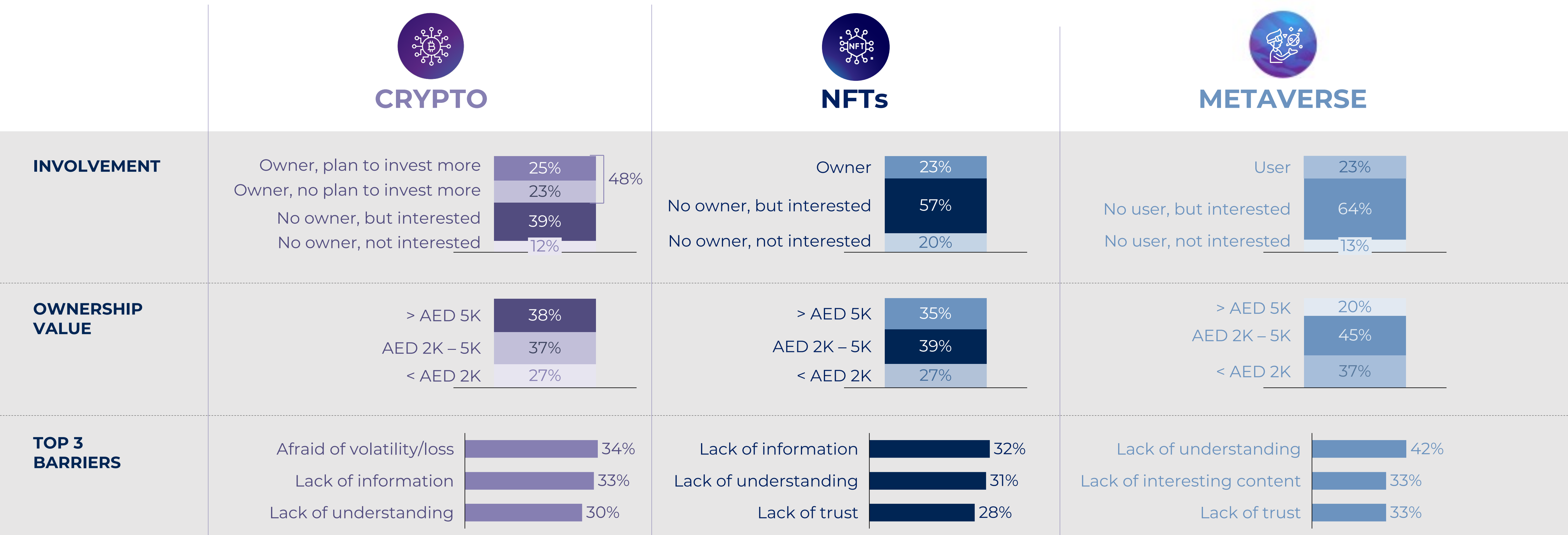


- Crypto offers a **pathway to driving awareness** of other Web3 technologies, as consumers aware of crypto are more likely to be aware of NFTs and the Metaverse
- **Younger, high-income male** show the highest awareness and knowledge
- **UAE, KSA and Oman have the highest knowledge** of NFTs and the Metaverse while Bahrain, Kuwait and Qatar are somewhat lagging

Survey questions: Which of the following technology terms are you aware of or heard about?
Which of these statements best describe how much you know about them?

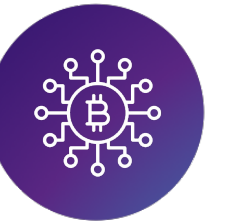
1. Participants indicating to have good or very good knowledge
SOURCE: Chalhoub Consumer Survey

48% have already invested in Crypto, 23% are engaged with NFTs and the Metaverse

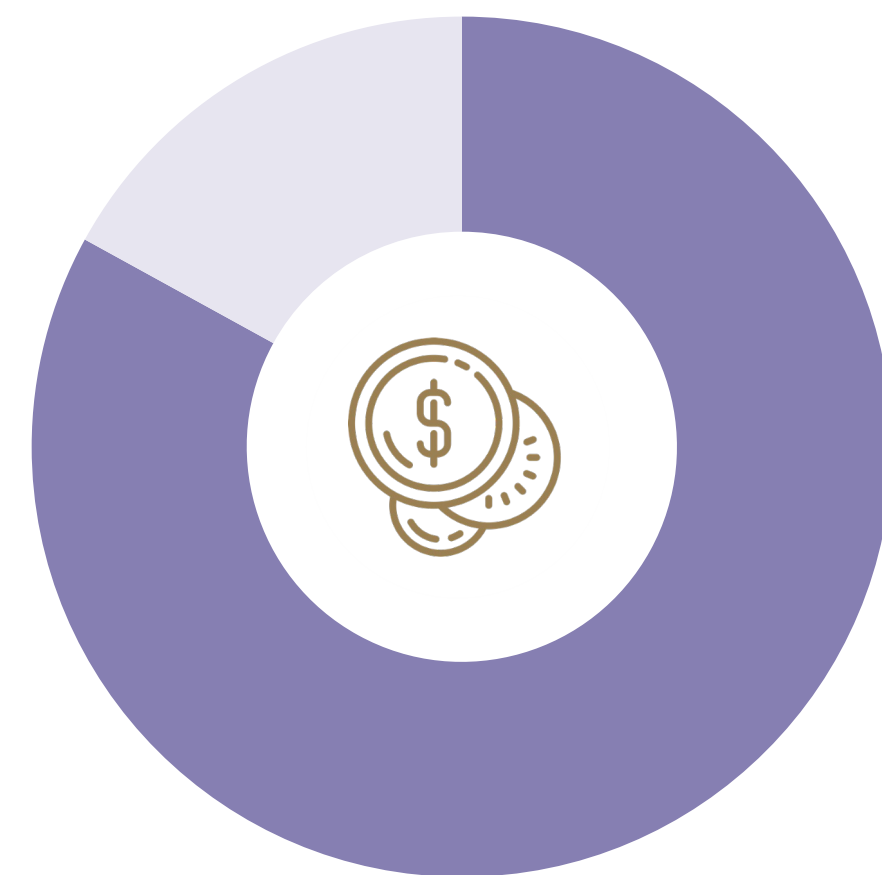


Survey questions: What describes your situation towards Cryptocurrencies/NFTs/the Metaverse best? What is the value of your Cryptocurrencies wallet? How much did you spend on NFTs in the past 12 months? What is the value of your Virtual Goods collection in the Metaverse? What is the main reason why you don't own Cryptocurrencies? What is the reason behind you not owning NFTs? Why have you not purchased any goods in the Metaverse?

CRYPTO | Great interest in buying Crypto in the coming months, with 65% consumers indicating that they prefer global platforms



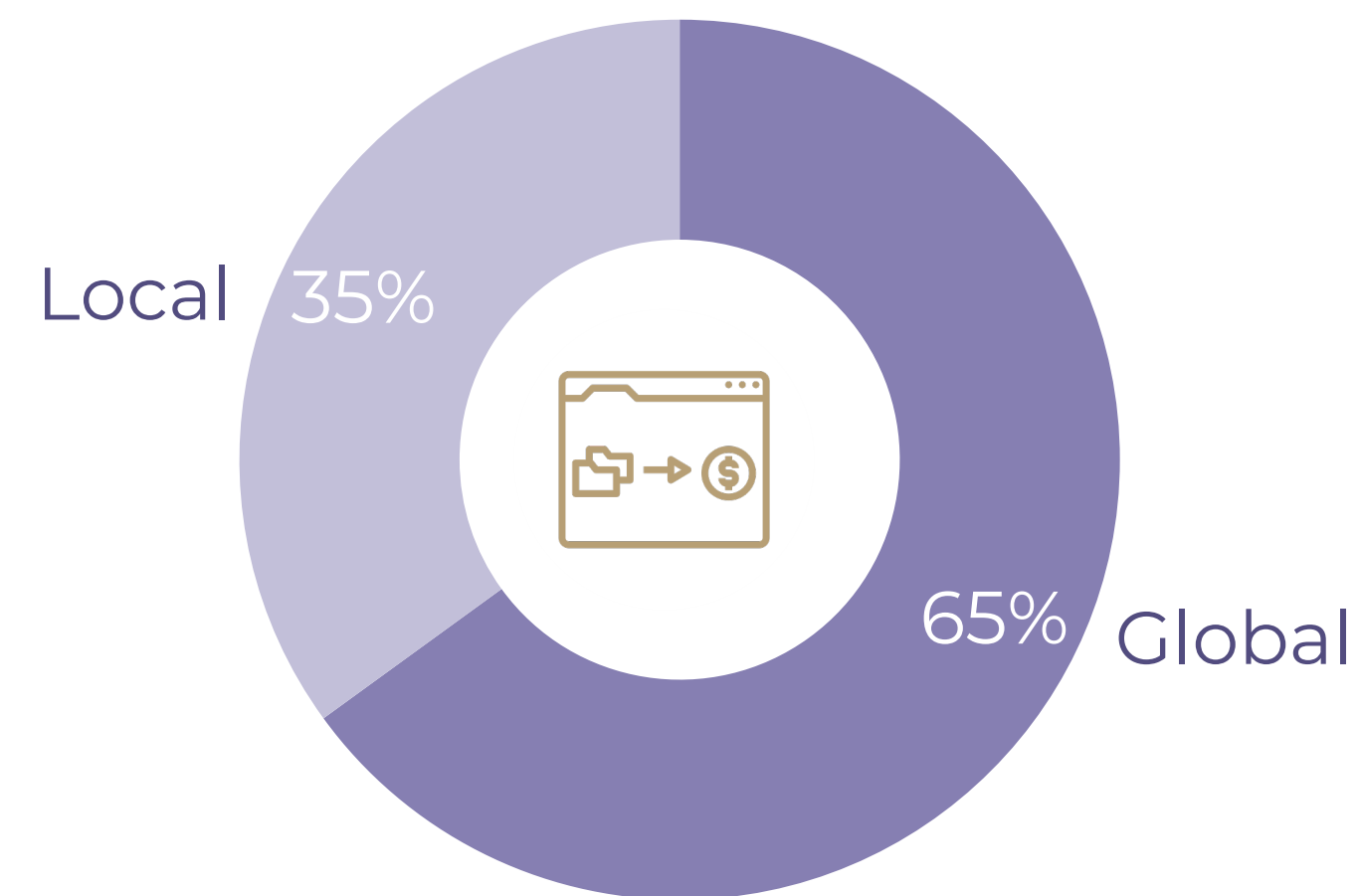
FUTURE PURCHASE INTENTION



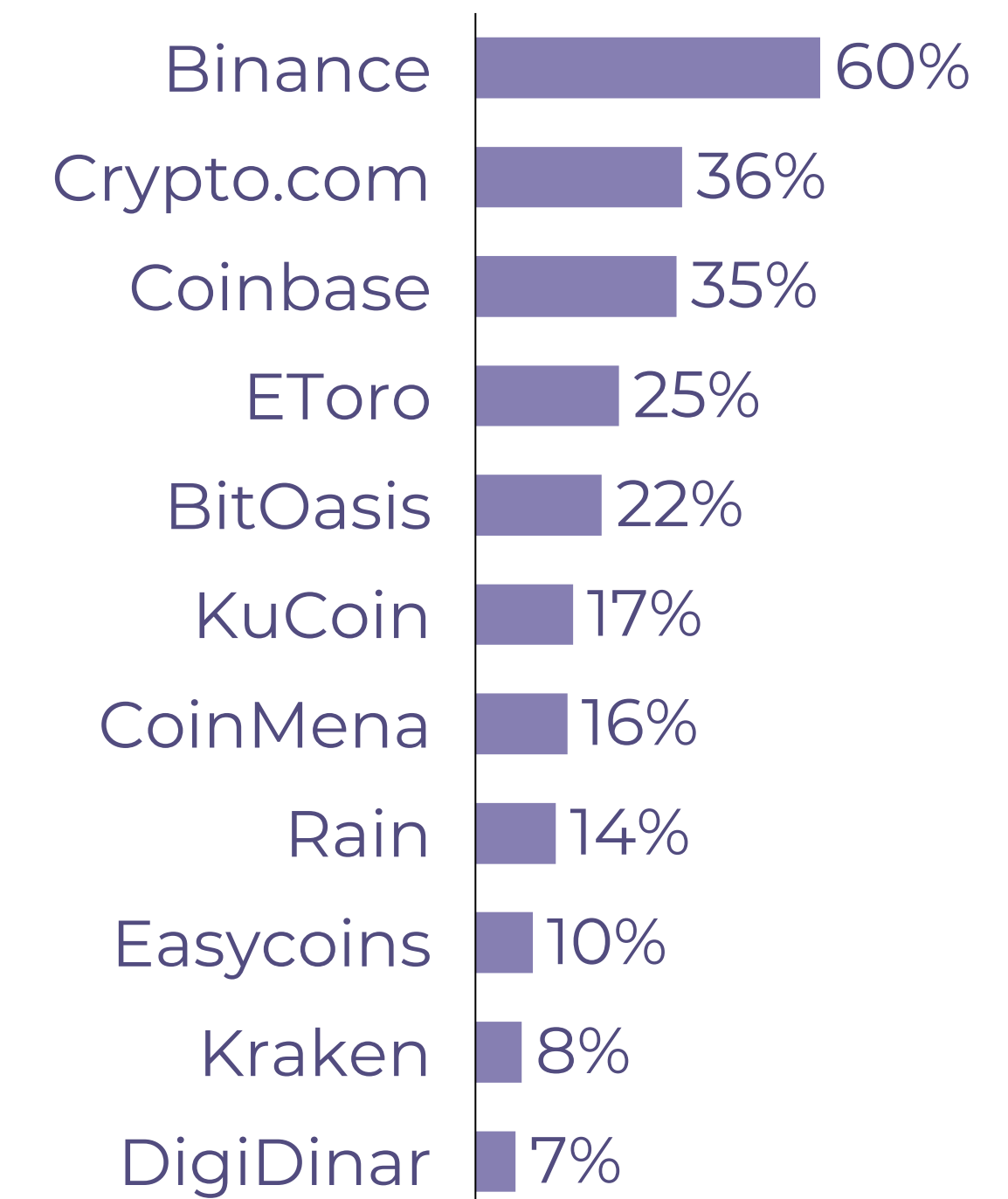
83%

of those who do not own Crypto but are interested and those who have Crypto and aim to invest more, **plan to buy in the next 24 months**

PREFERRED PLATFORMS

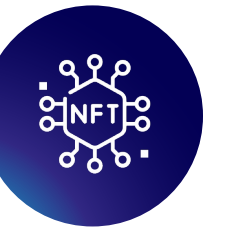


PLATFORMS USED



Survey questions: For those who do not own Crypto but are interested and those who own Crypto and plan to invest more: Do you plan on buying Cryptocurrencies in the next 24 months? Which type of platform do you prefer to use? Which platforms do you use to buy/trade Cryptocurrencies?

NFT | Crypto aids NFT commerce with 69% of respondents purchasing NFTs via Crypto and appetite for local platforms



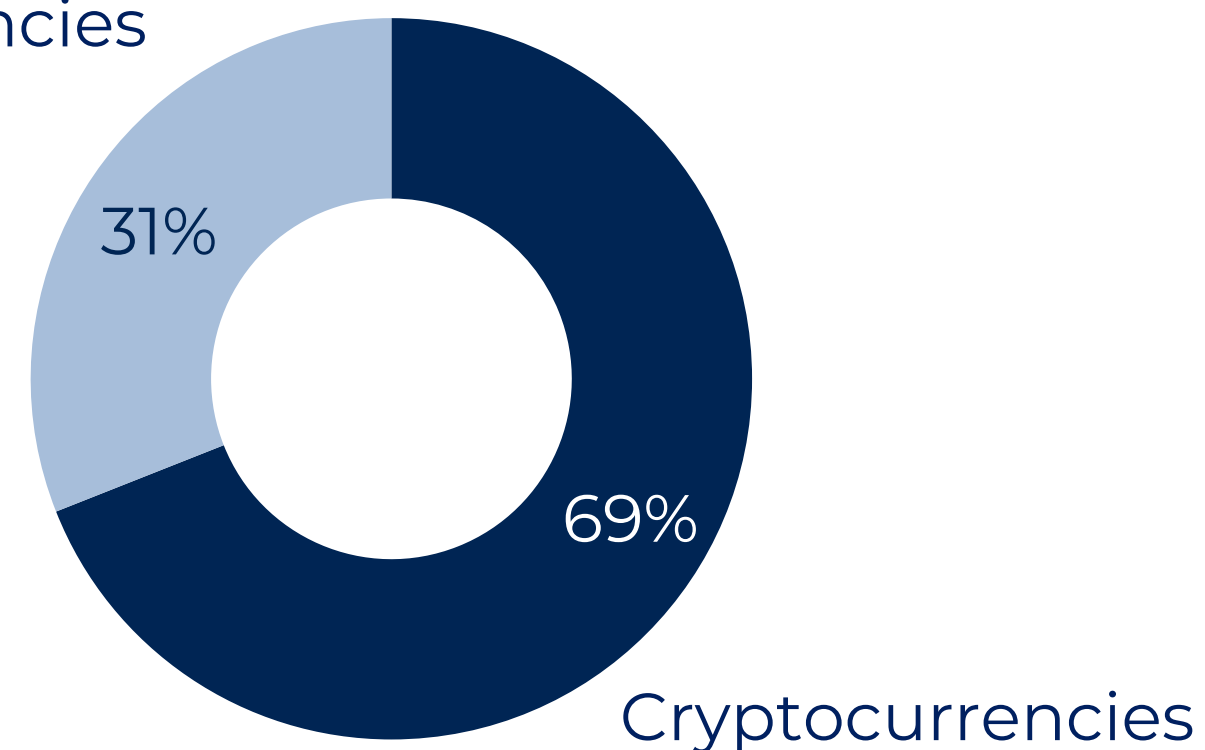
INTEREST IN BUYING

78% LOCAL PLATFORMS

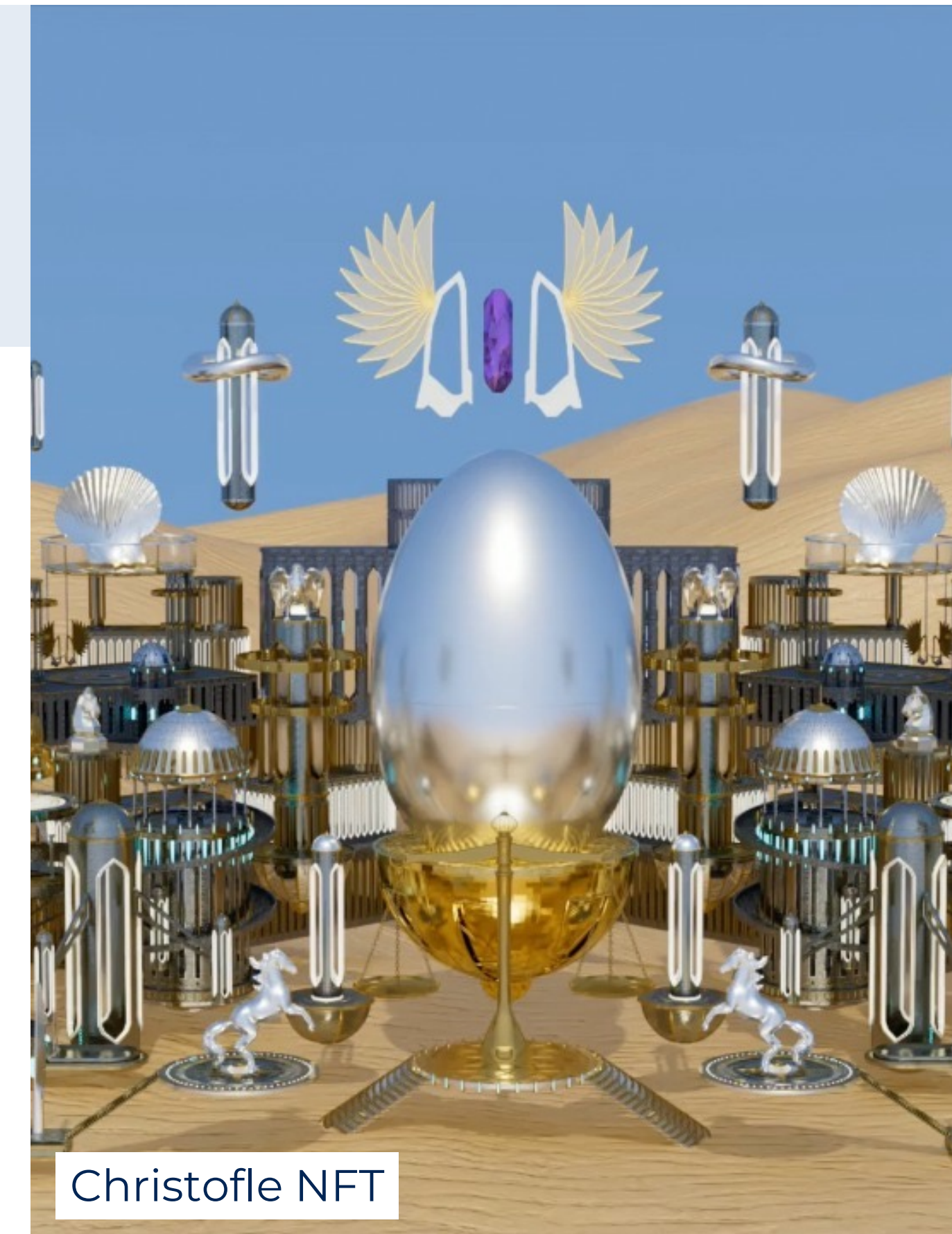
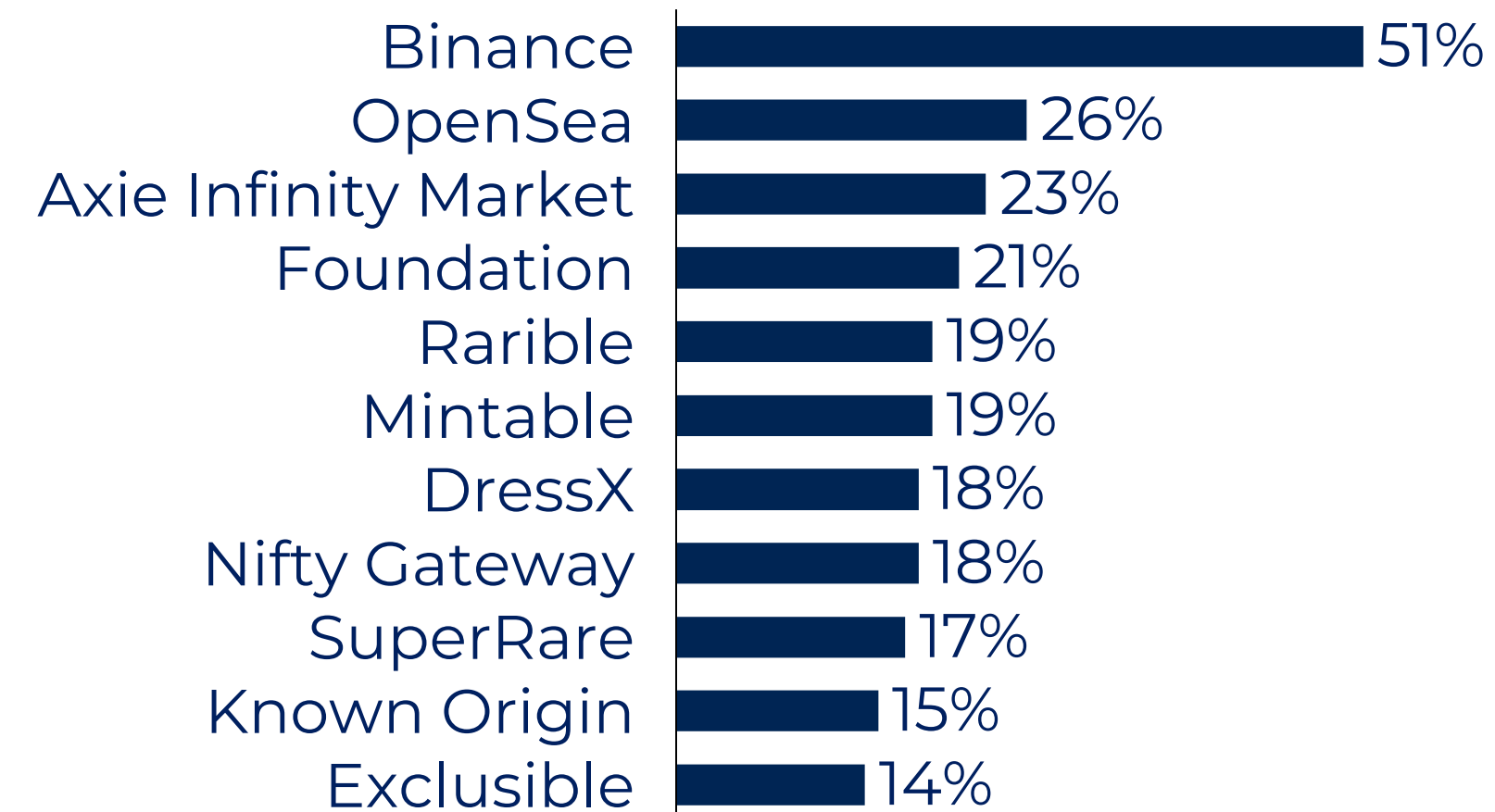
22% GLOBAL PLATFORMS

PAYMENT TYPE

Fiat currencies



PURCHASE PLACE



Christofle NFT

Survey questions: How did you buy your NFTs? Would you be more keen to buy NFTs on a local platform located in the GCC as opposed to a global one? Where did you buy your NFTs from?

NFT | Investment is the key purchase reason with virtual art and sport being the most purchased types



PURCHASE MOTIVATION



66%
INVESTMENT



43%
ARTWORK

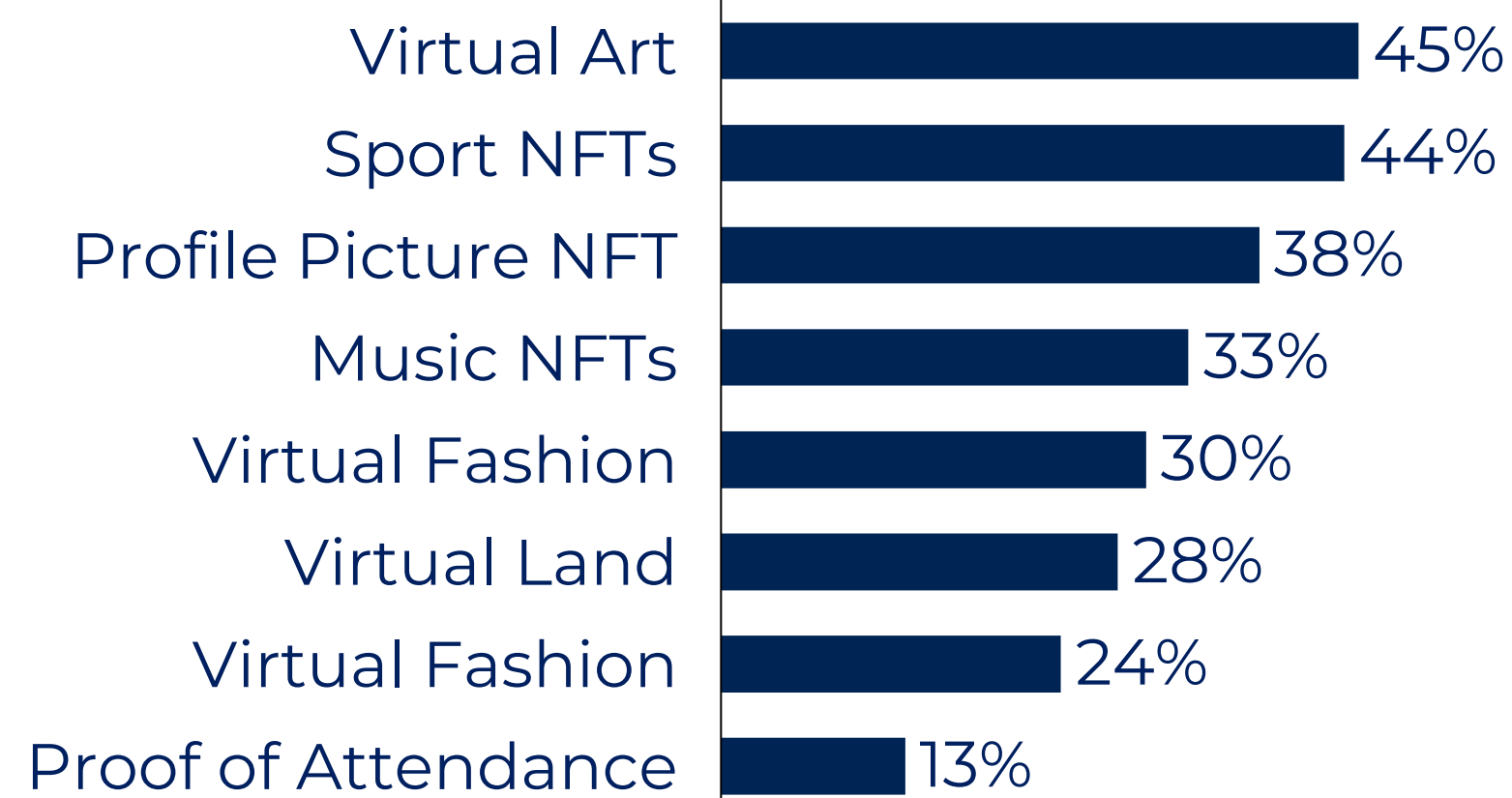


37%
COLLECTIBLE

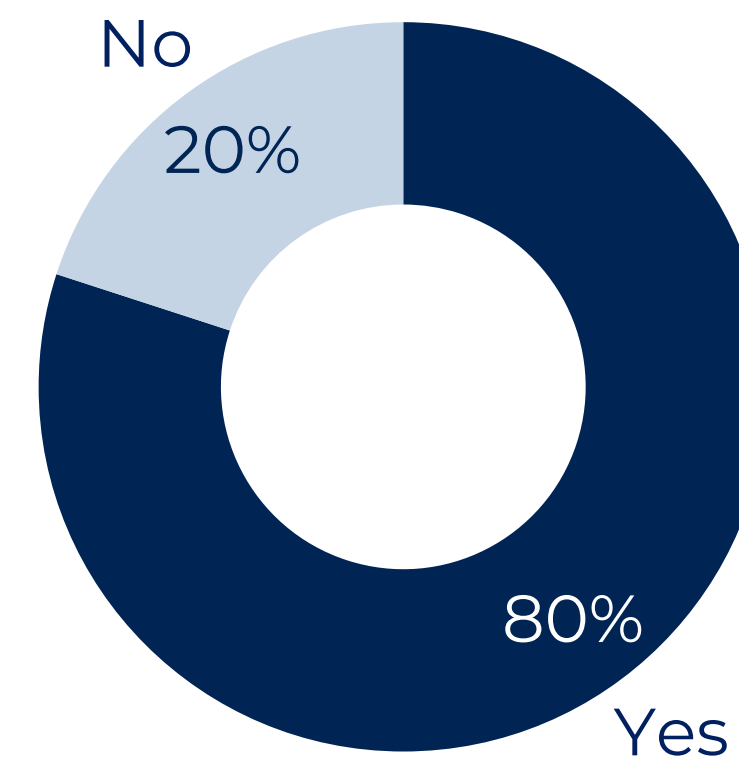


33%
UTILITY

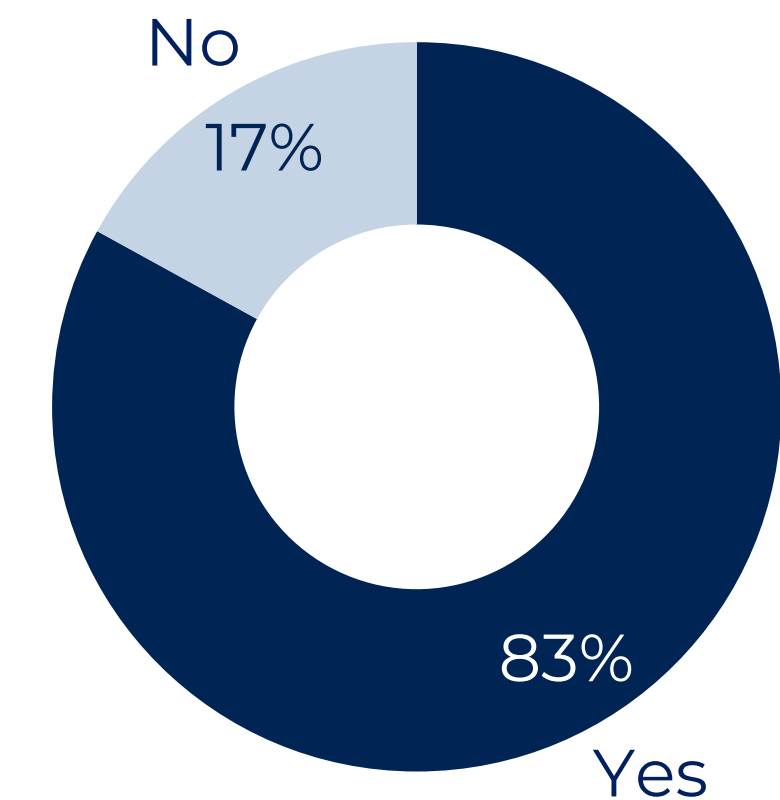
TYPE OF NFTS PURCHASED



CONSIDERATION OF BUYING PHYSICAL PRODUCT THAT INCLUDES NFT



CONSIDERATION OF BUYING NFT THAT ALLOWS REDEMPTION FOR PHYSICAL PRODUCT

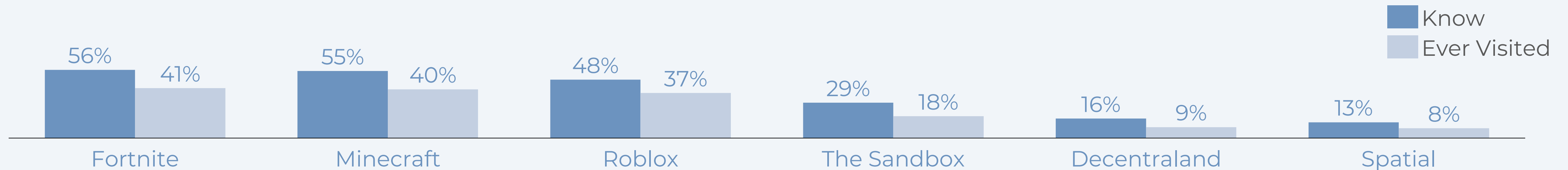


Survey questions: What was your motivation for buying NFTs? Which NFTs did you buy? Would you consider buying a physical product that includes an NFT associated with the product? Would you consider buying an NFT allowing you to redeem a physical product based on that NFT?

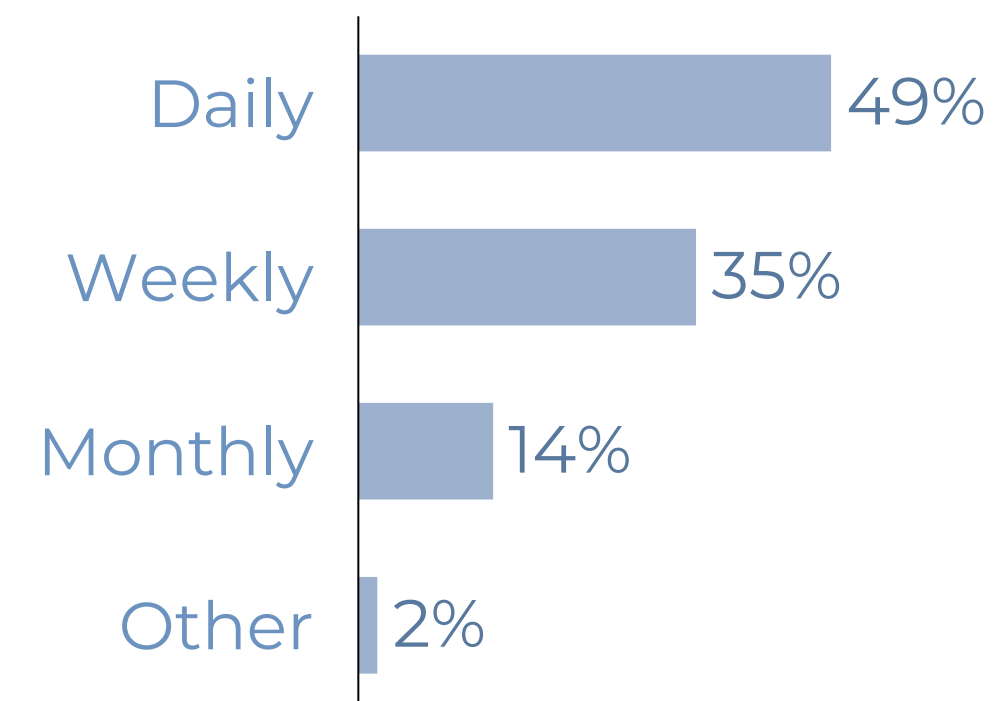
METaverse | Avatar based games like Fortnite and Minecraft are the best-known environments, which 49% of consumer visit daily



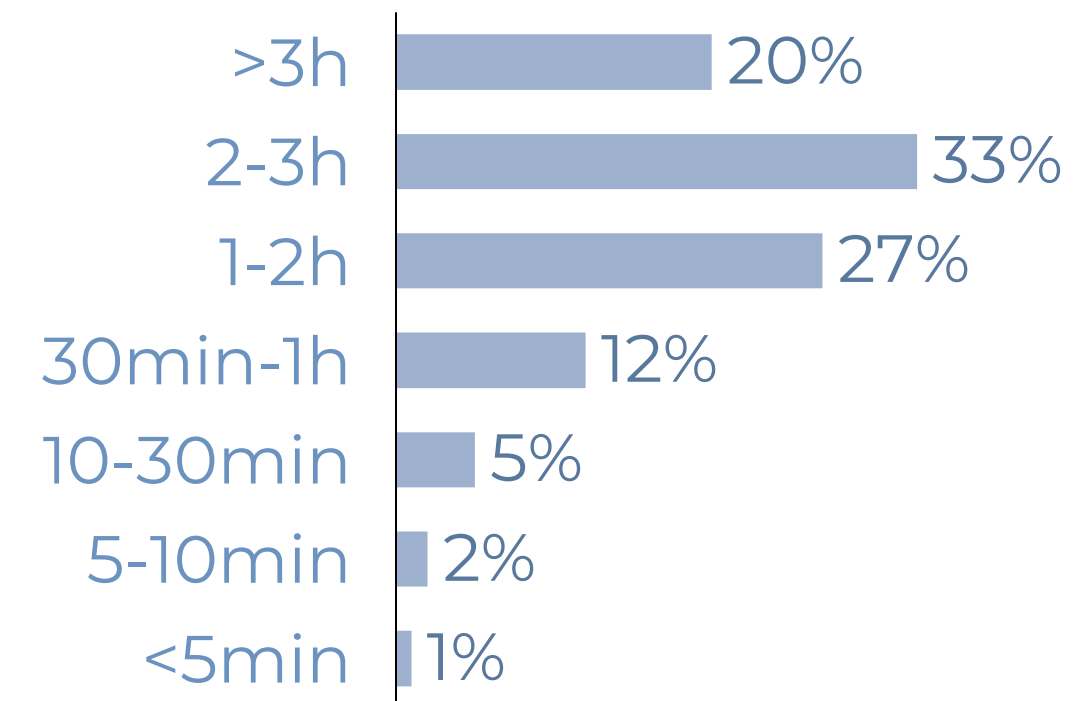
ENVIRONMENT AWARENESS AND USAGE



VISIT FREQUENCY



TIME SPENT



VISIT REASON



Survey questions: Which Metaverse environment do you know, if any? Which Metaverse environment have you ever visited, if any? How often are you visiting the Metaverse as a user/member? On average, how long do you spend in the Metaverse on each visit? What is your main reason for visiting the Metaverse as a user/member?

METAVERSE | 93% of users buy items, whereby in-game purchases and real-world items are the most popular



PURCHASE HISTORY INFORMATION

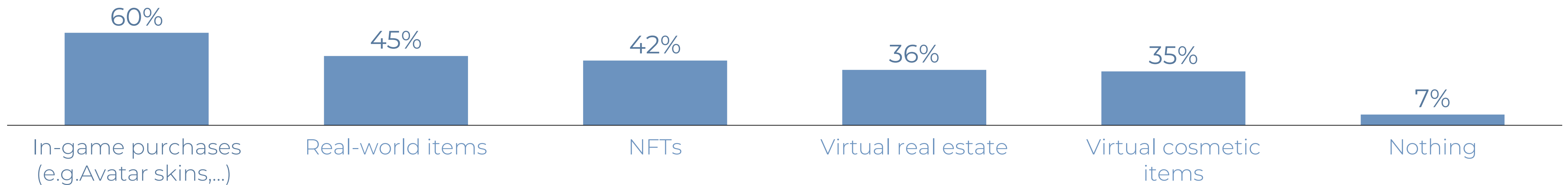
93% of users made purchases in the past 12 months



FUTURE PURCHASES

85% of users plan to buy goods in the next 24 months

ITEMS PURCHASED IN THE PAST 12 MONTHS



Survey questions: When you are participating in activities in the Metaverse, have you made any purchases in the last 12 months? Which of products/services have you purchased in the past 12 months? Do you plan on buying any goods in the Metaverse in the next 24 months?

METaverse | Luxury consumers have clear expectations for the brands to be present in the Metaverse

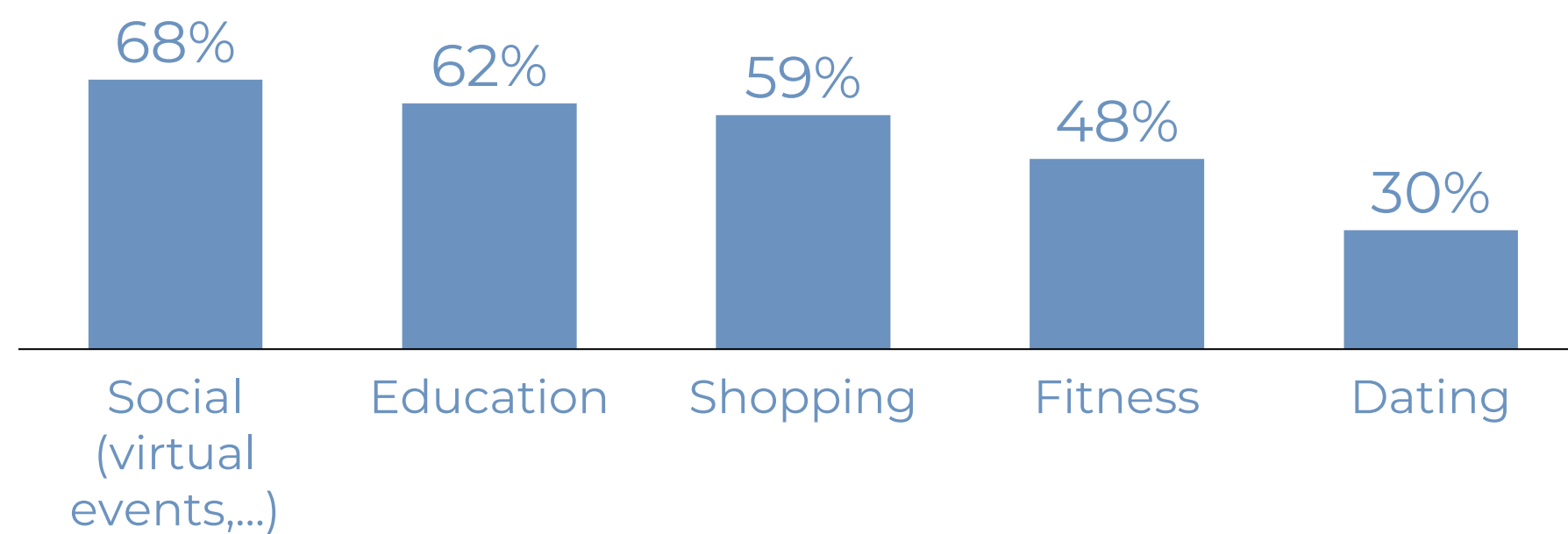


ENGAGED WITH BRANDED VIRTUAL EXPERIENCE

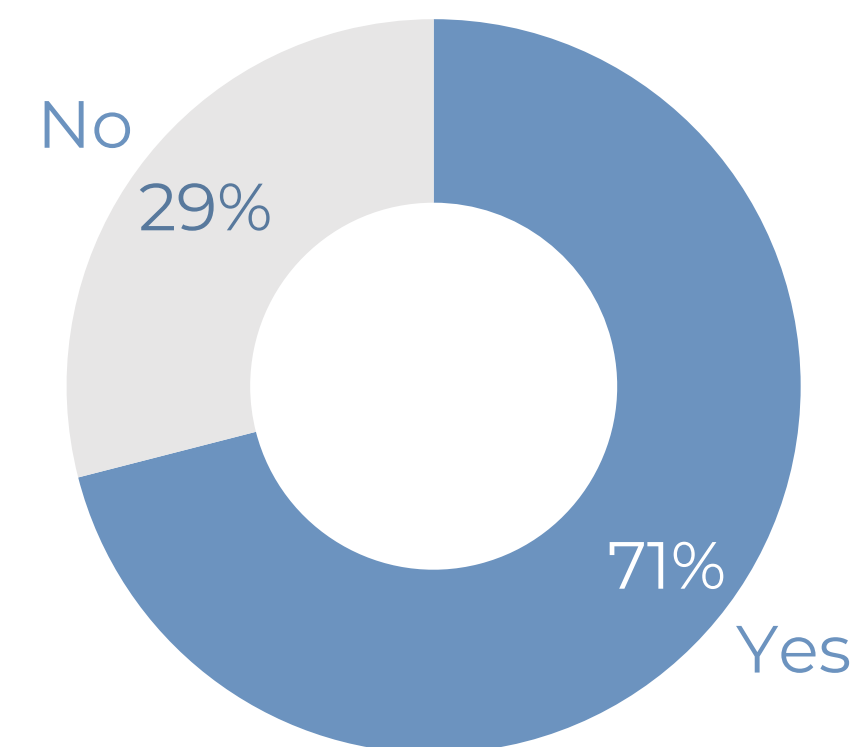
87% expect favorite brands to be in the Metaverse

89% would like to preview products in the Metaverse

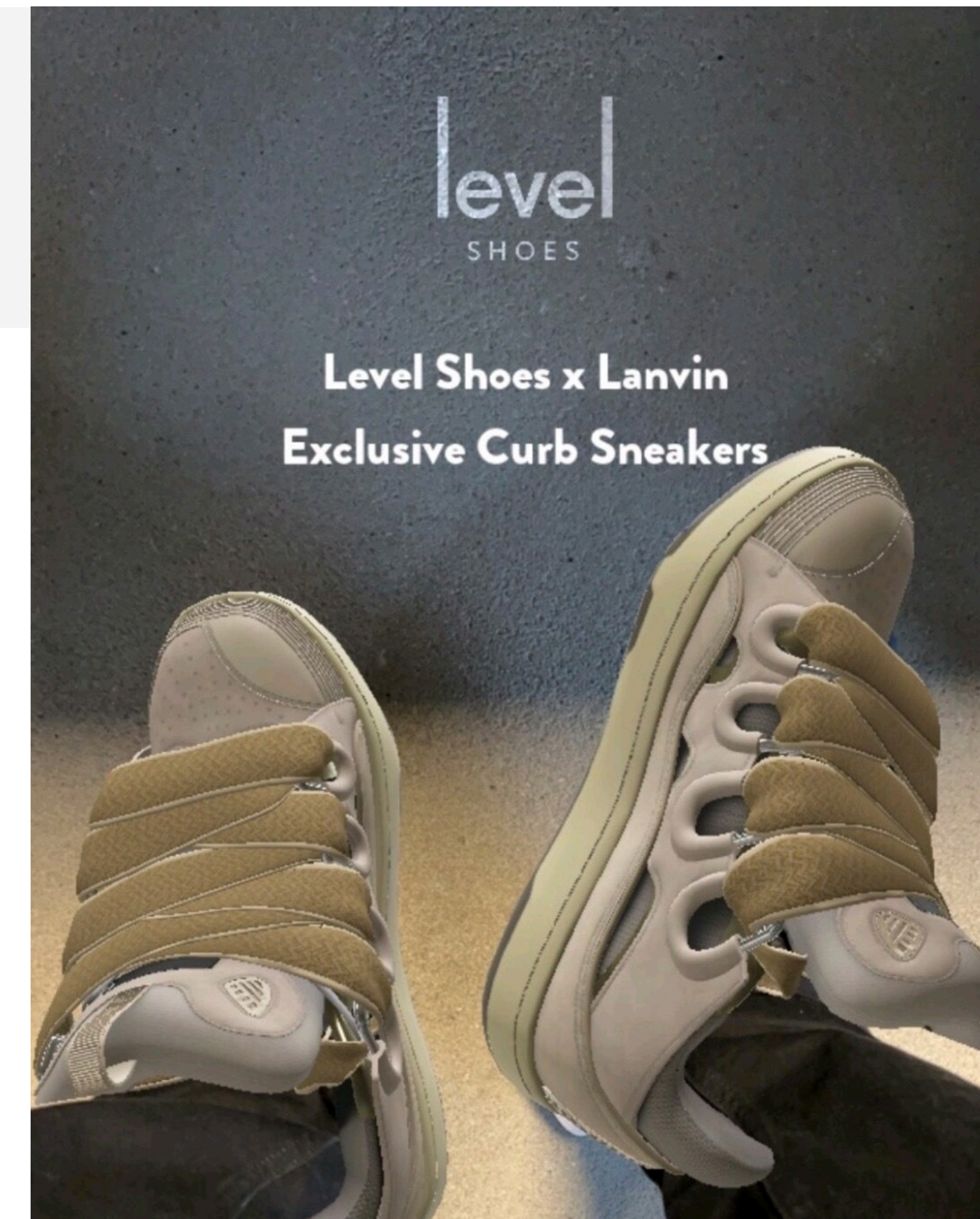
ACTIVITIES CONSUMERS ENJOY MORE IN THE VIRTUAL THAN PHYSICAL WORLD



ENGAGED WITH BRANDED VIRTUAL EXPERIENCE



Survey questions: Compared to traditional, non-immersive digital events or activities, which activities did you enjoy more in the Metaverse? Are you engaged with branded virtual experiences in the Metaverse? Do you expect to have your favourite brands or retailers present in the Metaverse? Would you like to be able to preview a product in the Metaverse before buying it in real life?



Brands and retailers can capitalize upon opportunities the Metaverse offers by:



CRYPTO

further develop awareness and build trust

- Leveraging on crypto's awareness to drive visibility of NFTs and the Metaverse
- Strengthening knowledge about crypto among diverse consumer groups
- Ensuring to address consumers trust and volatility concerns



NFTs

think local, and consider links between NFTs and physical products

- Engaging consumers by appealing to their desire for local platforms and artists
- In the short-term, focusing on art and sport NFTs and tap into the key purchase motivation investment
- Exploring NFT and real-world links with physical products that include NFTs



METaverse

offer experiences catering to consumers' expectations

- Ensuring seamless integration and engaging virtual brand experiences which are fun and allow people to connect
- Exploring product previewing/try-on
- Using avatar-based games as a key first point of contact

Metaverse could transform the luxury industry – players need to adopt an experimentation mindset coupled with a long-term vision

LUXURY INDUSTRY 3.0



NEW TOUCHPOINTS

Importance of metaverse platforms beyond social media to engage with consumers (especially Gen Z)



BOOSTED ONLINE SHIFT

New payment types, virtual try-on, personalized avatars, is likely to rise online sales even further



CURATED DESIGN

Involve customers in the concept stage to test new products virtually before real-life production



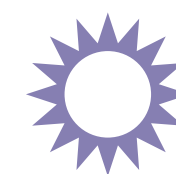
ALTERING CONSUMER NEEDS

New ways to express identity and build community will impact the purpose & display of luxury items



CHANGING COMPETITIVE LANDSCAPE

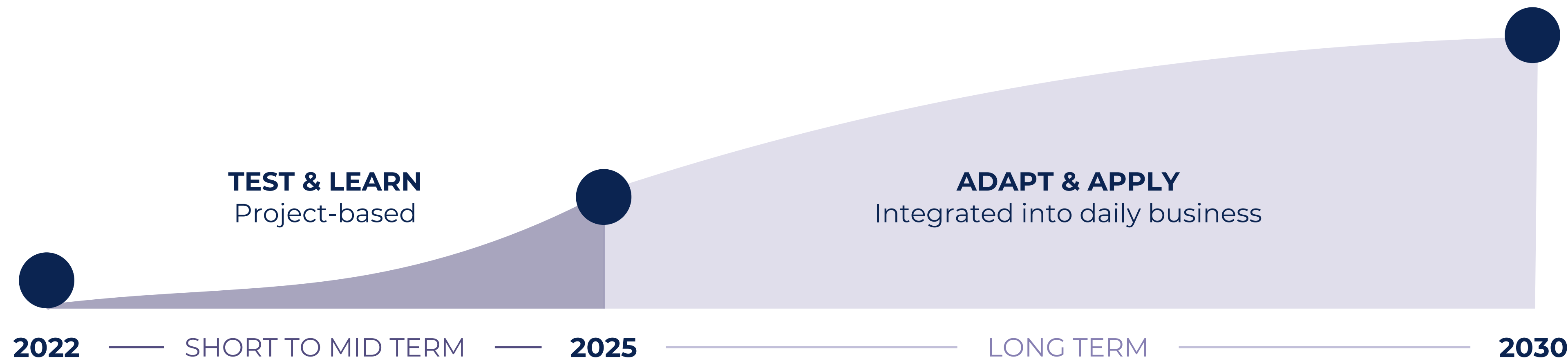
Pure virtual brands can enter the scene, crowd-funded, without being backed by luxury houses



HIGHER SKU COMPLEXITY

Virtual products no longer bound by limitations of material or space, with instant lead-time

PLAYER'S RESPONSE



WHAT IT MEANS FOR GCC LUXURY RETAIL

1/ Young and tech-savvy consumer

2/ High awareness of Web3 technologies and platforms

3/ Active startup community

4/ Favourable regulatory environment

5/ Luxury lovers

... resulting in a perfect testbed for luxury brands



GCC STATE *of the* METAVERSE

AND ITS POTENTIAL
FOR LUXURY RETAIL



DECEMBER 2022

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