THE WATCHES OF SWITZERLAND GROUP

WATCHES OF SWITZERLAND GROUP PLC

WATCHES OF SWITZERLAND GROUP H1 RESULTS Q&A

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TRANSCRIPT

Operator: If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speaker-phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question.

Operator: We will now take our first question from Anne-Laure Bismuth from HSBC. Please go ahead.

Anne-Laure Bism...: Yes. Good morning. I have three questions, please. The first one is regarding your strategy to enter continental Europe. Where do you stand regarding that strategy? Is this something that can come soon, or it is something for later, given that the focus now is also on the US? The second question is about the guidance for profitability for this year. So, you delivered a strong adjusted EBITDA in H1; you were playing in the adjusted EBITDA margin at 1.5%. So, what would prevent you to deliver an adjusted EBITDA, in absolute terms, in H2 broadly similar to H1? And the third question is about the Bvlgari Sunderland store, so can you talk about this opening? Thank you very much.

Brian Duffy: Hi, Anne-Laure. Brian here. So, our strategy in continental Europe that we included, obviously, on our long range plan, we see opportunity there. We see an opportunity for us to introduce our model, our size, our scale, our focus on technology and marketing, and so on, and you know well we view the markets in Europe in comparison to the UK as underdeveloped, and as we expressed in the LRP, it's part of our future plans. What we had in the LRP is we said that by fiscal year '26, it would be 8% of our total group, and we said that we would start to have business in Europe and our fiscal year '23, not fiscal year '22.

Brian Duffy: So that remains our situation. Obviously, we were active when we did the LRP. We're active now. The two main vehicles for development and entry into the market in the EU would be through acquisition and mono brands. We're active in both in terms of discussion and opportunity. So, what we expressed in the LRP remains our objectives. We wouldn't change it at this point.

Brian Duffy: And then I'll take the third one, the Bvlgari store. Delighted. I think it looks fabulous, as you hopefully saw on the presentation on the video. It's a great brand, doing very well, and delighted to be partnering with them. And the store's off to a great start. Anders, do you want to...

Anders Romberg: Yeah, so in terms of our guidance, obviously we put our profit margin out there to be one to one and a half percent up on last year. You're right, this first half obviously came in at one and a half, so we are at the upper end of that. And this half, as we pointed out, has been impacted by the strong performance that we've seen coming through in our non-supply-constrained brands. So, we had a favourable product mix in this first half on last year. So, we're at the upper end at the moment, and we obviously expect our business to come back in Rolex and in [inaudible] in the second half to some degree, selling what we receive. So, it's product mix, predominantly.

Anne-Laure Bism...: Thank you.

Operator: As a reminder, to ask a telephone question, please, number pressing star one. We will now take our next question from Richard Taylor from Barclays. Please go ahead.

Richard Taylor: Yeah. Morning. Can you hear me okay?

Brian Duffy: Yes.

Richard Taylor: Great stuff. It was a question about the non-supply-constrained brands, especially in the US. I think we're well versed on the Rolex stuff and so on, but can you just give us a bit more detail on why you think the opportunity is so great there and how what you are doing can take market share and grow the market overall, and just remind us of some of the initiatives that you're seeing there and why you think that can grow.

Brian Duffy: Hi Richard, it's Brian here. So I mean, obviously we've taken our store designs and philosophy of store design into the US, which is that we present, we do big stores, we present our brands correctly, we believe, and give the appropriate space that's there and have stores that intrigue consumers, first of all, to come in because they're welcoming, they're open and inviting, and then intrigue them to look at everything that's there overall. We were of the view, and I think you'd find this from the entire industry, that the category overall in the US is underdeveloped, and we think that especially so of some of these other major brands, Omega, Breitling, TAG Heuer and so on, and that's what we've experienced: that the growth in these brands has been exceptionally strong and add Cartier to that group as well. Doing fantastically well.

Brian Duffy: Without any doubt, as you know, the way that we're presenting Rolex today is the stock in store is for demonstration and exhibition purposes, not for sale. And therefore, particularly at this time of year when people are looking to purchase for gifting purposes, they need to purchase immediately, so clearly these other brands are in a better supply situation. We continue to chase supply, actually, with all these brands, but overall, we're in a reasonable supply situation in store, and they're enjoying very positive performance, US and the UK, for similar circumstances.

Richard Taylor: And just so I understand it, the LRP, when you say 25-30% top line in the US, would you assume the non-supply-constrained brands grow faster than the supply-constrained? What are your assumptions there?

Brian Duffy: It's a good question. Richard. Probably today it is based upon the great performance that we've seen from these brands in the last six months, where Myra could speak to a little differently, but at the time when we did the LRP we weren't assuming any... If you recall, we'd said we would hold overall on our product margin, and the underlying assumption there is that the mix would not have changed significantly. But the six months of our reporting, these brands have been exceptionally strong.

Richard Taylor: Right. Thank you.

Operator: As another reminder, to ask a telephone question, please signal by pressing star one. We'll pause for just a moment to allow everyone an opportunity to signal. We will now take our next question from Louise Singlehurst from Goldman Sachs. Please go ahead.

Louise Singlehu...: Hi. Morning, everyone. Thank you very much for the details, and great to see the ongoing great progress within the watch category and for yourselves. The quick question I had was I wonder if you can just talk to us a bit about the strategy about the mono-brand stores. It's great to see the Bvlgari opening, but just, one, in terms of the plan and the demand from the brands and where your priorities lie within the mono-brand strategy, but also from a margin perspective as well. Thank you.

Brian Duffy: Yeah. Mono-brands have proven in a very good direction to go with, but what we would emphasise on it is that it's a means by which we effectively can present these brands correctly. We actually showed the visuals, for example, of what we did in Plymouth, where we have three brands adjacent. They are the three strongest brands in that marketplace, and you could take the view that it's almost like a multi-brand presentation, albeit that each of the brands has got their own front doors and the opportunity to build a really strong environment.

Brian Duffy: So, the brands that we've mainly developed our mono-brand strategy with have been Breitling, TAG Heuer and Omega, and we obviously appreciate that elevated format of presentation, being able to do the brands adjacent like that does give some obvious economics in terms of landlord negotiation, sharing back-of-house and sharing management and some other activities. So, we get the benefit of the concentration overall.

Brian Duffy: Our expectation setting up mono-brands was they would be less productive than a typical multi-brand configuration, and that probably remains true at the top line, but we've been very pleased with the progress that we've made with mono-brands in the UK. We've now started the program in the US that's gone well. The Bvlgari one that you referred to, it's the only one store that we have, and it's off a great start. And could there be more potential there? We'd certainly hope so. So, I think it's just all part of the elevation of the category overall. Just naturally it demands this elevated presentation overall from these brands that really are globally very, very strong, with strong imagery, and the mono-brand allows you to present that much better.

Louise Singlehu...: And just in terms of the customer, I mean, obviously across luxury, and particularly within the hard category, we've seen this very strong consumer environment for volumes and pricing, and hearing lots of stories where people are trading up to higher ASPs once they start engaging with sales personnel. Is there anything that you can tell us... Has there been any changes in customer behaviour, willingness to spend? Obviously, the category is very strong, but just trying to make sure we're not missing anything more recently. Thank you.

Brian Duffy: Yeah, no, you're absolutely right. The category is strong, and we're seeing it across the board in watches and in jewellery. We're have an unprecedented positive experience when in jewellery, again, both UK and US. Within all of the brands, there is an ASP increase, so the followers of Omega are buying higher-priced Omega overall. Same again with the Breitling, Cartier and so on. Our overall mix, as you know, these brands have done exceptionally well, just to repeat myself on that, and they've been a higher mix of our total. So, our overall ASP is down because of mix, but within the brands, the ASP is significantly up.

Brian Duffy: So, a willingness in terms of profile or consumer, but not really pointing to any significant change in terms of the overall attitude, confidence of our consumer base. It's clearly positive. People are spending more money. We do point to asset valuations being good, whether it's property or stock market, that helps the confidence, and the fact that the consumers have less opportunity of spending money on travel or hospitality or whatever. So, it's been a positive market situation, and we're really encouraged by the response of the industry of either us as retailers and others, or of the brands, of really investing behind the positive demand momentum that's there. So very encouraged by the trend, and think it's got some way to go.

Louise Singlehu...: Brilliant. Thank you.

Operator: There appear to be no further questions, so I'd like to turn the conference back to Mr. Brian Duffy, CEO, for any additional or closing remarks.

Brian Duffy: Okay. Thanks, Tracy. Thanks, everybody, for joining us. I hope you've found the video that we presented informative and interesting. We are just very happy with the results for this half-year period. Sales growth, I think, has been very strong; profit growth even stronger, as Anders outlined, because of mix leverage; and obviously cash generation has been very strong as well, cash conversion at 123%, and resulting in a record level of return on capital employed of over 23%.

Brian Duffy: Current trading, as we mentioned, we're not going into detail, but we're encouraged. It's a bit of an odd comparison overall, particularly here in the UK this time last year for the Christmas season. We were in lockdown in November, we opened in December and then closed again in around Christmas, so it's a very unusual period to compare against, but people are shopping early, and as we anticipated, overall, we're very encouraged by what we've achieved so far for the season, therefore so far for the quarter.

Brian Duffy: So, confirming our guidance, we think the performance at the moment underpins our guidance. Delighted to closed the Betteridge deal on December the 1st, and our team in the US did a great job, along with our new colleagues in Betteridge, in getting that done, and therefore, we feel we're in very good shape with regards to progressing towards our long-range plan objectives that we sent out. And our teams just continue to amaze me every time: their positivity, their enthusiasm for the job that they do. And undoubtedly, they're ones that are driving the great performance that we have the pleasure of reporting.

Brian Duffy: So, thank you all for joining, and I wish everybody, obviously, compliments of the season, and thanks for your support.