Transcript

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Watches of Switzerland Group's Trading Update

Brian Duffy Good morning, everybody, and thanks for joining our call. We're obviously disappointed to be announcing a downwards revision to our guidance this morning. As widely reported across retail and luxury sectors, Christmas trading was very difficult to predict, and ultimately below projections. This trend continued into January, and I believe that the trend will continue for the remainder of the fiscal year.

Newly refurbished stores traded positively, and pre-owned sales were also positive, but collectively not sufficient to offset the impact of the overall negative consumer sentiment, particularly here in the UK. Similarly, positive sales trends on branded jewellery were not sufficient to offset the negative trends on commodity jewellery, which, once again, was highly promotional.

The global watch market continues to normalise following two years of exceptional growth. A great strength for the category is a cautious and conservative planning approach to production. However, this has impacted on sales too through a higher supply of lower-priced steel products, thereby reducing our ASP in the period, and we now expect this to continue for the balance of the fiscal year.

The fundamentals of the luxury watch category remain very strong, with demand continuing to exceed supply. Registration of interest lists continue to grow. Long-term trends for luxury watches show that this is a very resilient market. Combined trends over the past three years show that, in total, this has been a very positive period overall.

The Watches of Switzerland Group model's working well, evidenced by continuing market share gains in both the US and the UK. We remain fully committed to our Long Range Plan strategy and growth targets that we presented to the market in November. We believe we have a very positive and exciting future to look forward to. Our teams have, as always, been amazing during this more challenging period, and they really are the key strength of our business. So we are very happy to take your questions, and I'll pass back to our operator, Bruno.

Operator Thank you. Ladies and gentlemen, if you'd like to ask a question, please press star one on your telephone keypad, that's star one on your telephone keypad. To withdraw the question, star followed by two. And please do also remember to unmute your microphone when it's your turn to speak. We do have our first question registered, it comes from Jon Cox from Kepler. Jon, you may proceed with your question.

Jon Cox Good morning, guys. On the supply side, my first question, I'm just wondering if you're maybe not seeing as many deliveries from Rolex as you anticipated? I'm picking this up from some of the other retailers maybe taking advantage of a slowdown in the market generally to do various things, and so maybe you guys are not getting as much product as you were expecting, because clearly you've got a lot of store openings and that sort of stuff. That's the first question.

Second question, into the UK and the US, clearly constant currency growth in the US was 11%, you're now talking about the group being 2% to 3% for the year as a whole, is it really the UK minus 3% or 4% constancy currently likely, and then the US is still going to be 6%, 7%, something like that? Is that how we should think about it?

And then just a bit of an add-on, some of us were probably on the Richemont call earlier, they were saying how tricky it is in wholesale, and how they continue to internalise their watch network, and I wondered if you're seeing any pressure from that? Maybe some guys are turning round and saying, well, we don't want you to run that, we're going to do it ourselves, and maybe that's also adding to the overall pressure you're seeing? Thank you.

Brian Duffy Thanks, Jon, for your questions. As always, Rolex deliver on their commitments in terms of units, and they did that in the calendar year UK and US, really spot on the numbers. We did see an impact though that we didn't anticipate that, I mentioned in my opening remarks, was on the average selling price.

And what we've been enjoying over the past few years has been an improvement on average selling price, driven by consumer demand, by more gold, more steel and gold, and less steel globally. That's come off a bit as the market's normalised. Rolex and the other brands are aware of that and, consequently, they produced more steel and less of the precious metal, and that was a surprise to us, and fairly late on in the period. So average selling price has come down but unit supply has been, as it always is, exactly as was committed.

And you're aware, through discussion about next year's allocations, or this year's calendar allocations as well, we're having a normal interaction and discussion on that with various factors of expectations on new product, the level of investments that are getting made, and really no change overall in terms of interaction, as far as we're concerned.

We are looking at the US business being pretty consistently strong for the calendar year, and the biggest area downside that we've adjusted for the year has come from the UK, and we are looking at the UK being a few points, year on year, negative. For the first time in my ten years, the external data for calendar 2023 on the watch market in the UK is that it was negative, it was, year on year, down mid-single-digit. And against that market, we've gained a better share, but watch and jewellery put together, we are looking at a negative full-year trend for the UK, low-single-digit.

With regards to Richemont, overall we saw the numbers this morning, none are a surprise to us. They've got real strength and momentum when it comes to branded jewellery, they lead the market in terms of trend and direction and momentum, and they do a fantastic job. In some ways, that really underwrites our strategy of focusing on branded jewellery for the future.

They also are clearly doing very well in Asia and seeing a good recovery overall in Asia. We continue to have very good partnerships and developments with the Richemont group. They do their mono-brand stores, and they've done so for years, concentrated in the capital, obviously, here in London and New York. So as a result, they've had better performance in retail and wholesale. And again, that was completely predictable, but in the meantime we are developing relationships with them and there's no real change to what we're looking forward to, to what we've experienced in recent years.

Jon Cox Okay. I wonder if I can just have a follow-up, more on the capital allocation side? Because the stock has obviously taken a bit of a walloping this morning, does this change your view in terms of maybe a buyback or a dividend? You've said if you have excess cash, you will do something, but the focus is on M&A and seem to be alluding to a deal coming up in Europe. I'm just wondering, is that still going to go ahead? Is there any news on that at all? But would you think about more buybacks or dividends, given what's happened to the stock this morning?

Brian Duffy No, I think we remain confident that the Long Range Plan capital allocation, as laid out, investment for the growth, is the right way forward here. And yes, of course there is a reaction in the share price today. Opportunistically, you could argue you might get a good return. We think, longer term, this is the best usage of cash within the business.

Jon Cox Thank you.

Brian Duffy Thanks, Jon.

Operator Our next question comes from Melania Grippo from BNP Paribas. Melania, your line is now open.

Melania Grippo Good morning, everyone. This is Melania Grippo from BNP Paribas. I had actually a question on prices, given that also Rolex increased its prices at the beginning of the year. And I wanted to understand if, in your view, the fact that these brands have increased their prices, not only Rolex but also the others, somehow it's played a role in this softer consumer environment that we currently see, not only from Rolex but also from the other brands? And then also I wanted to ask on the CPO programme, if this is still proceeding according to your estimates, or also here you had seen a weaker environment? Thank you.

Brian Duffy Thanks, Melania. I think it's a good point that you make on pricing. If you look cumulatively over the last few years, there's been a like-for-like significant increase in the prices of watches, justified by a strong Swiss franc, justified by increases in the price of gold and other commodities and whatever. So justified but, nevertheless, to the consumer it's a big increase at a time where the cost of living is clearly a major factor around the world, and I'd say again particularly here in the UK. So undeniably pricing you would say have had an impact on consumer sentiment overall.

And again, I think when you look at it and look at the strength of the Swiss franc and so on, I think the brands have been reasonably conservative overall, but nevertheless the cost of product has gone up significantly, and it's been reflected in the price increases. And we expect, therefore, there to be a lot more conservatism going forward, in the next calendar year at least.

CPO is faring well, and the combination of good demand on certified preowned and continual net additions to our registration of interest lists really underlies the continued strength in the category overall. We are rolling out, expanding, the distribution of certified preowned, we are looking to introduce branded furniture and other things, all which we talked about in the Long Range Plan. We'll have, I think, everything positively in place for the start of the new fiscal year, which was always the plan, but it's trading well, as I mentioned in my opening remarks, and we remain on schedule for what we talked about in November.

Melania Grippo Thank you.

Operator Our next question comes from Louise Singlehurst from Goldman Sachs. Louise, your line is now open.

Louise Singlehurst Hi, good morning, Brian and Anders, thank you for taking my questions. Obviously, a really challenging environment, I wonder if you can help us contextualise? Obviously, we spoke to you on 7th December, and it's really just trying to think about that deceleration and that pace that you've seen towards the end of the period, to make us understand the thinking behind the full year guidance to the end of April.

And then I wondered if you could give us a little bit more colour on the demand by price category? You said that the Rolex supply is unchanged by what we can understand, so presumably the high end still remains pretty resilient on that wait-list product, which indicates pressure towards the mid and the lower end range.

And then just finally on the US, the double-digit, presumably if we could have a like-for-like, and I know we don't get the like-for-like but if we strip out the space contribution, presumably that like-for-like is in negative territory? If I could just check that, thank you.

Brian Duffy It's an observation to say that we're clearly projecting a different situation as recently as 7th December. I've got to say, in my years in retail, I don't think a season's ever been more difficult to predict than this one. And the fact that's made it very difficult to predict, everybody knows you look back over the last couple of years, and two years ago Christmas, everybody was shopping very early because they were concerned about availability of product, last year was somewhere in between, this year there are no concerns on availability at all, there are concerns on cost of living or whatever. But clearly everybody was shopping late.

And the other surprise that we see is that consumer sentiment may be more predictable but the consumer preference about where they were spending money, and there's no doubt that travel, leisure, food, beverage, hospitality and so on, beauty, were all favoured categories, and watch and jewellery went down the priority list. And again, if you compare it to a couple of years ago, watch and jewellery was at the top. So we didn't fully anticipate that. We didn't anticipate either the average selling price impact I've referred to a couple of times.

So we came out of Q2 with improving trends we had a lot of good things that we articulated that were going to be positive in the second half of the year, and we felt positive, we'd never have confirmed our guidance back then unless we felt good about it, but the season was very unpredictable. The underlying trend got more negative and we are now anticipating that everything that we looked at over the last several weeks effectively continues through to the end of our fiscal year. Can't say any more than that. It's just reflecting, we're being conservative in what we're looking at, of course, but I'd like to think we always were. But we got some projections wrong for this period, which is very, very evident.

The second question, sorry, remind me again of your second question. Sorry? Oh, price category. Inevitably, when markets are down, higher end is stronger and takes a bigger percentage overall, the higher-end consumer is more unaffected by the cost of living and so on. So yes, your observation of higher-end holding up better, stronger brands taking a bigger share of the mix, absolutely that's happened over the period we're looking at.

The US, I'll tell you what's not like-for-like in the US. Obviously, we've got American Dream that opened in July, looking at the full year, and a Cartier space that opened in September, and we've got the big Rolex store in Millenia in Orlando that we opened, so they're both not like-for-like, they're both increases year on year. Proportionally, it's not a lot, and your suggestion of a negative like-for-like in the US is honestly way off.

The numbers are good in the US. The consumer remains positive overall, and I think again we're definitely gaining share. All of the market information confirms that, the brand information we have confirms that. So like-for-like's definitely positive, however way you would measure it, but there have been a couple of incremental year-on-year projects that are contributing.

Louise Singlehurst Thank you very much.

Brian Duffy No problem.

Operator As a reminder, to ask a question, please press star followed by one on your telephone keypad. Star one on your telephone keypad. Our next question comes from Kate Calvert from Investec. Kate, you may proceed with your question.

Kate Calvert Morning, everyone. Three from me, please. The first question is that you talked about the fact that your Rolex units delivered in 2023 were in line, but that you had more steel which impacted the average selling price. I know you're still in discussions for the current year, but are you expecting a higher proportion of steel in 2024, relative to 2023?

My second question is on the new store pipeline for 2025. How is that looking, and are all your projects on track? And the third question I on the UK, was there much difference in performance between the London stores and the regions, please? Thank you very much.

Brian Duffy The Rolex ASP impact is mostly US and we're projecting it through the balance of the fiscal year, as I've said, and we are also, with our friends at Rolex, trying to get a better understanding of mix for the calendar year. From all of what I look at and see at the moment, it's an adjustment that's happened that's impacting us from December. We're then saying it's going to continue through April.

Do I think there's going to be a huge change in the mix for the whole calendar year? Honestly, probably not, but that's my personal assessment rather than any specific information. We are trying to get a bit better level of detail so that we can calibrate that. Again, I think we're being cautious in saying the mix that we're looking at in recent weeks is going to continue for the calendar year. But we'll see.

The pipeline of projects, everything's on schedule with the exception of Bond Street. We're looking at a further delay in Bond Street. We had a bit of an issue on design affecting the basement area. Just typical, something that happens, the whole area had to be redesigned, and that takes a matter of weeks. And then we're not going to open something in the middle of December, so it's likely now to be spring. So that will be delayed a bit, but other than that, all projects are on schedule. The third question…

Anders Romberg Your question on geographical demand in the UK. London has performed better than the regions.

Kate Calvert Thanks very much.

Operator Our next question comes from Jonathan Pritchard from Peel Hunt. Jonathan, your line is now open.

Jonathan Pritchard Thanks. I wonder, just on the margin front, obviously there's some operational gearing coming through from the lower sales number but was interest-free credit a factor that actually diluted the margin a little bit? I know that's obviously an attractive offer, given where interest rates are, so did that become more a part of the mix than expected?

Anders Romberg No, the biggest part of the mix is actually related to product demand in different segments, with the mid segment taking also the brunt of the decline, as well as the promotional activity in commodity jewellery. So that had a pressure on our product margin, and obviously with a contraction in sales, you get a deleverage on margin in the UK. So those are the main contributors. Yes, interest-free credit, but that was actually built into our projection and hasn't changed in its dynamics but remains in line with what we originally projected as penetration of our overall business.

Jonathan Pritchard Understood, thank you.

Operator As a reminder, if you would like to ask a question, please press star one on your telephone keypad, that's star one on your telephone. We currently have no further questions registered, so I'd like to hand back to Brian for closing remarks. Brian, over to you.

Brian Duffy Thanks, Bruno. And thanks, everybody, again for joining the call. I repeat again, we're disappointed to give you all this news, but the fundamentals, we just really emphasise we're in a great category, we're in a great position, our model is very well positioned competitively. We feel really good about the future, we've got this period to get through and respond to.

We're sorry we didn't see it coming more than we have done. We're adjusting to it, we have got it recalibrated now, we're on for the Long Range Plan. And I appreciate everybody's interest and support, and huge thanks to our team who did an amazing job over the Christmas period in these challenging conditions. And thank you for joining the call.