THE WATCHES OF SWITZERLAND GROUP

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WATCHES OF SWITZERLAND GROUP Q3 TRADING UPDATE

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TRANSCRIPT

Brian Duffy: Good morning, everybody. Thanks for joining us. I'm joined by Bill Floydd who is our CFO appointed at the start of January. Bill joins us from the Rank organisation. We also have Anders Romberg, the former CFO, who will be retiring at the end of February. And Bill and Anders are working at transition over this couple of months. And also Caroline Browne who is our finance director. So, quite a bit of financial fire power on this call, so they can answer your financial questions, or we are in serious trouble. I'm assuming everybody has been through the release and reviewed the numbers. So, I'll just add a wee bit of color to what you have seen already. But overall message obviously is the market is strong, continues to be strong, and characterised by demand exceeding supply. We can never fully evaluate demand overall, but our feeling is, if anything, demand is getting further ahead of supply overall. We delivered 28% growth on last year, 20% in the UK, 45% in the US.

Really important to point out the change in mix that's happening. We have super high demand brands as we're calling them now, Rolex, Patek, and Audemars. And clearly what we sell in those brands reflects what we get in the way of intake from those brands. So, it has been completely in line with what was indicated for the calendar year. And the sales on those brands just reflect the phasing of that intake overall. The other brands that include Cartier, Omega, TAG, Breitling, really great brands. We had a really fantastically strong performance with them, UK up 78%, and the US up 214%. So, tripling of the business that we have with those brands in the quarter. Overall, as a group, those sales more than doubled, 112% on last year.

We also had a great quarter on luxury jewelry in the UK. We were up almost 56%, this great work getting done by our buy and merchandising team and product development and selection. And in the US, we were up a staggering 172%. So, again, almost three times last year. And the US, good underlying numbers from Mayors following the relaunch that we did of the Mayors brands, but also a really important contribution from a new business in Betteridge who do a fantastic business on jewelry, and clearly particularly strong over the holiday season. We also opened our first Bulgari mono-brand store in Miami, which has got off to a fantastic start again. So, overall, jewelry business up at 88.4%. We clearly got to know our new businesses, our new colleagues with the five stores that we announced that we acquired during the year, and very pleased with how that integration and development of those businesses are going and a lot to look forward to from them in the future.

Very pleased to announce our first steps into the EU market. You will all recall our plans, that the EU would become an important part of business in the years ahead. And our strategy is to enter Europe with a combination of acquisitions and mono-brands. And the deals that we are able to announce at this point are mono-brands that we have contracted to open in Stockholm, Copenhagen, and Dublin.

Looking at our outlook and guidance for the balance of the year, we now have around 12 weeks to go. We have visibility on supply for the balance of the year. We have the benefit of pricing, particularly Rolex pricing that was implemented in January. Good, strong performance in Q3. And it's all led to us being able to now improve our guidance to say that we will be at the top end of the previous guidance that we gave, on both sales and profitability. Our teams are doing an amazing job everywhere, an inspiration. Again, I had the pleasure of seeing quite a few of them in the US last week. Doing a fantastic job and we are delighted to give them a wee surprise in December by giving everybody 50 shares in the company. Everybody got 50 shares, UK and US, and we were also pleased to implement and commence a new share sales scheme that went out in January. And a great uptake in participation on that from all of our colleagues. So, really great that all our colleagues are getting the opportunity of being actively interested in our shares.

Also, delighted that we had our foundation fully registered in December. We have had two board meetings with our trustees. We have £3 million of funds that have been given from the company: one and a half from last year, one and a half this year and we have made our first round of donations in December and January to charities in the UK and US including food banks, Prince & Princess of Wales Hospice in Glasgow and also the Princess Trust that we have been working with for many years. So, delighted to be able to have done that. So, I've been delighted with a lot so far. And at this point, I've been delighted to take your questions.

Moderator: Thank you. As a reminder, if you would like to ask a question, please press the star followed by one on your telephone keypads now. If you change your mind, please press the star followed by number two. When preparing to ask a question, please ensure your phone is unmuted locally. And the first question comes from Melania Grippo from BNP Paribas. Please, Melania, your line is now open.

Melania Grippo: Good morning, everyone. This is Melania Grippo from BNP Paribas Exane. I have two questions. First, I would like to ask you if you have seen any changes in the environment in both US and UK. Is there anything that you can tell us? Have you seen any changes in customer behavior or willingness to spend? And my second question is on the entry in the European market. Can you tell us if these stores, these six stores, are multi-brand or they also include mono-brand? And more or less, how much we should account in terms of sales for these stores? Thank you.

Brian Duffy: So, the first one's easy, Melania. We haven't really seen any change. We had a good Christmas season, a bit strong. I think the Christmas season starts early in November. I think people were happy to be spending and maybe just motivated by concerns about availability. But it started early in November, carried on good momentum, both UK and US. And January has carried on with, with good momentum overall. So, we honestly haven't seen any change in sentiment or behavior influencing our business of overall. The EU stores are mono-brand only. They are not multi-brand. We are obviously not providing next year's numbers and we're not given out any specific numbers at this point. But we'll give you an update on our plans and our views of fiscal 23 at our year end.

Melania Grippo: Thank you.

Moderator: Thank you. Our next question comes from Kate Calvert from Investec. Please, Kate, your line is now open.

Kate Calvert: Good morning, everyone. I hope everyone's well. A couple from me. The first one is how did the sales mix in the third quarter compare to history in terms of mix between the super high demand brands and the other brands? My second question is, have you got any views on shortages creeping into other brands? There's been quite a few press articles out there. And my final question is, on the five stores you bought at the end of last year in the US, how much could you actually do to the stores in the third quarter in terms of reformatting them, putting different stock in, or did you sort of basically just sell through the stock that came with them? Thank you.

Brian Duffy: Okay. Will answer that in a slightly different order. Your last question, what were we able to do with the five stores. Both Minneapolis and the store in Texas, we re-badged and we reformatted. They are both Watches of Switzerland stores now. Upgraded the furniture, did change the brand mix somewhat. There's only so much you can do short term, but we were able to change the brand mix with, for example, in Minneapolis. We took jewellery out. It is a Watches of Switzerland store now. The jewelry that was there before was relatively inexpensive and really not making the contribution. And in any event, we're calling it Watches of Switzerland. So, delighted with both of them. Betteridge, we practically couldn't and wouldn't do anything to. It was a very strong season for them. They are beautiful stores in Connecticut and Vale and Aspen. We have plans to expand all three, but this will take time to organise and negotiate and with landlords, with brands and to do all of our own planning and so on. So, big plans for all of them, but Betteridge, at this point, we haven't changed. Anders, you want to comment on the mix?

Anders Romberg: Yes, thanks Kate. So, the abnormally in our sales is predominantly related to last year, where they were disproportionate, we had good supply in of the supply constraint brands and were actively pursuing click and collect. So, the penetration of that segment of our business in last year's number was higher than what we normally see. So, versus FY20, last year spiked up by about 10 points or so. This year, we've gone down further than what we were in FY20. So, the growth that we see coming through is entirely driven by the non-supply constrained brands, as well as the jewellery.

Brian Duffy: And your second question, Kate, shortages. Well, first of all, to help deliver the level of growth that we did on those other brands, we clearly anticipated a strong period and importantly bought in early to good stock levels that enabled us to do that overall. I mean, I think the industry in total is enjoying a good period and inevitably puts some pressure on production and componentry and so on. Nothing that unusual. Could we have done with more Cartier Santos? Yes. Could we have done with more Bond watches? Yes. Could we have done with more Endurance Pro from Breitling? Yes. But none of it's exceptional, and our feeling is that even the shortages that we've had, that production is catching up and we think, by the end of our financial year, we'll be in a good situation. I think really importantly, for us as big partners to these big brands, then we are looking to longer term commitments, longer term forecasting. And I think we've proven the value of that actually with what we've done over this year to date so far. So, not a concern. If anything, getting better overall in terms of supply.

Kate Calvert: Thank you very much.

Moderator: Thank you. Our next question comes from Kathryn Parker from Jefferies. Please, Kathryn, your line is now open.

Kathryn Parker: Good morning, everyone. Thank you for taking my question. So, my first question is on the European expansion. So, you've obviously given the three countries for your mono-brand store rollout. And I wondered if the three same countries would be your prime choices for a multi-brand Watches of Switzerland store and whether there's any chance of that occurring in fiscal year 23 as well. And my second question is on jewellery. I believe that Betteridge has a higher penetration of jewelry than the Mayors network, and has been particularly strong in the quarter. So, I wondered if there's any kind of takeaway from a merchandising perspective or brand mix or price points that you could apply across the rest of the portfolio. And then my final question is on Rolex agencies. So, of these stores that you acquired in the US in the first half, could you confirm how many of those have the Rolex agencies already? And if any don't, if there's potential to integrate Rolex into those stores.

Brian Duffy: So, the expansion I said earlier, the strategy is a combination of acquisition and mono-brands. As we have done continually, you always would be with Rolex agencies looking at acquisitions. So, yes, possible that we would look to represent Rolex in those markets. But obviously it's not completely up to us. We have got to do our work and see how we can effectively we can make that happen. But we would like to make it happen. You might find that Scandinavia or the Nordics being our first move surprising. But what I'd say to that is Anders and I have a good experience of the Nordics as markets with Ralph Lauren and a great success there. They are markets that we think are under invested from a retail standpoint. There is obviously a lot of wealth and affluence there and good market trends. So, we've always felt positive about the combined Nordics market overall. And yes, we will look to be fully representative over time in those markets.

It is a really good point in question on Betteridge. We actually spent all day Friday with them going through the very subject of jewellery and seeing everything that we can learn from the great success that they have. They've been in the markets a long time. We are keeping the Betteridge name. Betteridge has a great reputation in the markets that they are in. Very affluent markets. I don't know if you know, Greenwich, Connecticut, but it is a very, very affluent New York suburb effectively. And they have been there for generations. So, we are learning from them. The average price point, by the way, of what we sold in jewellery was double last year in the US because of Betteridge. So, yes, great things to learn.

The market overall... The US market for jewelry, by the way, is one of the best in the world. Some people would characterise it as being half of the world market when you look at the diamonds. So, a lot of good things to learn. Also delighted with the success that we've had with our first Bulgari store as well. So, the whole subject if jewellery is getting a lot more attention from us based on what we've experienced and the acquisition of Betteridge.

In terms of Rolex agencies and acquisitions, the one in Minneapolis was a Rolex agency. The one in Texas is not, but they have exclusivity for that mall for watches, which we now have. And we had pre-agreed that Rolex would come with us into that mall in Plano, Dallas. Betteridge has two Rolex and two Patek agencies across the three stores. And we are always looking to see where we can expand the representation of Rolex, Patek, Audemars, but also Cartier, Omega and the other brands that we have talked about.

Kathryn Parker: Thank you very clear.

Moderator: Thank you. Our next question comes from Richard Taylor from Barclays. Please, Richard, your line is now open.

Richard Taylor: Thanks very much. Morning all. On the mono-brand, should we read anything into the markets that you've entered there in terms of where you'd like to make acquisitions? Or are they potentially unrelated? And then secondly, on the price increases, Rolex, Patek, and so on, have there been any change in the margins that you achieve on these sales following the price increases? Do you get all the benefit yourselves or does the gross margin change a bit as the price goes up? Thanks very much.

Anders Romberg: So, in terms of priority in acquisitions, I think we are open to an acquisition in the EU that comes at the right price. So, we are not discriminating against any market. It would, of course, be a benefit to get scale in the markets where we are opening up the mono-brands.

In terms of our view on margins obviously we had a margin compression two years ago here in the UK where Rolex took some of the margins back as part of the price increase. In the US with the further consolidation of agencies, driving the productivity and allocation by existing price point, they took another two points out of our margin as part of the price increase this year, from January.

Richard Taylor: Okay. So, sort of net between the price increases and the margin contraction, what does that mean for you as a business if you match the growth?

Anders Romberg: Well, we obviously held our guidance and actually put it up to the high end in terms of profitability for the year. So, we don't see it having an adverse impact on this fiscal year.

Brian Duffy: And obviously our Rolex business is bigger in the UK where there is the price increase and the benefit of ongoing profitability per unit, plus the stock that we have acquired at the previous and in the US. It is a bit more of an offset.

Anders Romberg: This links back to what we said in conjunction with the LRP, that we had not included any sort of pricing in our long range plan as beneficial from a margin perspective, because our belief was that, at various stages throughout that journey, there might be changes as productivity reaches new levels from the brands. And this just proves our theory, I guess.

Richard Taylor: Thank you.

Moderator: Thank you. As a reminder to ask any further question, please, press a star followed by one on your telephone keypads now. The next question comes from Karina Shooter from Goldman Sachs. Please, Karina. Your line is now open.

Karina Shooter: Hi there. Thank you for taking my question. I have two. One is more for follow up on the previous question. We have seen Rolex taking price increases and also Patek Philippe also sites in the press in terms of price increases. Are you seeing some of the other less supply constrained brands, in the traditional sense, following suit in terms of price increases? And just your thoughts on the pricing environment more broadly for this year would be fantastic. And then the second question is to Mr. Floydd, if I may. I know it's early days in you joining the company, but it would be great to hear what excites you most about Watches of Switzerland and the transition. Thank you.

Brian Duffy: That's going to be an easy one for Bill. It's clearly working with us. I think there will be further price movements, by the way. We have had an Omega price increase along with Rolex and Tudor price increases. And the underlying conditions, strong Swiss Franc, increasing commodity prices, increasing gold, diamonds, whatever. So, I think the conditions are such that it would make a lot of sense for all the brands to really look at their pricing. But we'll hear more, I think, in the month ahead. But we have not heard at this point from Richemont, or from the LV group or from Breitling. But we will see. So, all we know about at this point, Rolex, Patek, Tutor, and Omega.

Anders Romberg: Audemars took their pricing up by 6% in the US, but it's obviously only one point of distribution, so not really material.

Bill Floydd: Morning, Karina. Morning, everyone. So, yes, I started beginning of January. First of all, I just want to say it's been great having Anders here to help me through the first couple of months. Been a very, very helpful start from my point of view. I've spent most of my time trying to meet as many of the people in the organisation as I can, get out to of the stores within the US and Florida last week. Getting an early sense of that. And I have to say, it's a fabulous organisation. Brian and the team have done a great job. And what I'm looking forward to most of all is that the scale of the opportunity that we have over the next few years in the UK, in the US, and in Europe is brilliant. And really looking forward to helping everybody execute on that.

Karina Shooter: Okay. That's really helpful.

Moderator: Thank you. We currently only have no further questions. So, I will hand over Brian Duffy for any final remarks.

Brian Duffy: Thanks everyone. Very little to add. Delighted with the quarter. Overall, my view is that uncertainty and disruption is on the way out. We are not expecting any further disruptions. As a matter of fact, normality, we think, is at some point in the horizon and getting closer. What that might mean, we've been through all our budgets now and looking to finalize them and present them to our board in the weeks ahead. And that will form the guidance that we speak to you about at the end of this year. But the market is good. Our momentum is good, we are really committed to the long range plan that we have presented to you all. And just great job done by our teams everywhere. Great to have Bill on board in the transition. I think it's working very well with him and Anders. So, all good. Thanks for your support. Thanks for joining us. And that's all we have to say. Thank you.