THE WATCHES OF SWITZERLAND GROUP

WATCHES OF SWITZERLAND GROUP PLC
WATCHES OF SWITZERLAND OPERATIONS LIMITED
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Q4 FY21 TRADING UPDATE

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Brian Duffy: Good morning, everybody. Thanks for joining us. I'm going to overview the report that we put out today and give a bit more flavour, from my standpoint, on the performance that we've been reporting. Q4 is difficult to get into perspective in comparison to last year because of, obviously, the full lockdown that we were in last year and partial lockdown we're in this year.

But, as far as we're concerned, it was a very strong quarter. Throughout the quarter, we had a very strong online business here in the UK. We had a good click-and-collect business prior to the openings on 12th April and then a very strong response from our markets, beyond our expectation, actually, when the stores reopened and, fundamentally, a very strong continued business in the US where all of our stores were open, trading and doing a great job.

So, we think it was great quarter overall and interesting, if you look at it again, versus year '19, as you'll see in the report, up 24.7% and Luxury Watches up 30% if we compare to fiscal year '19.

Then, we'd focus on looking at the year overall and the year is characterised by what we see as exceptional growth in the US growth in the US market, dollar-to-dollar plus 38.5% despite the business there facing some headwinds. We had lockdown of the beginning of our year.

Stores started to reopen in May and weren't fully reopened through to August and clearly dealing with the subdued traffic, particularly in places like Vegas, where we have a big presence, hugely reduced traffic there. Also, New York where there were fewer people coming to work or socialise or shop.

We overcome a lot of these challenges with great marketing, great use of our technology, great client reach out with our CRM and clienteling methods. We had great reference from customers who were having good experience for other customers to come to us. So, I think we're very proactive and very confident we outperformed the market overall in the US.

The market, at the end of the day, was strong, I think we'd acknowledge that, throughout the year and, if anything, picking up pace as the year went on. Our teams in the US, again, they really are the best and they did a fantastic job throughout the year.

The UK, we're up 3.6%. I'd regard that as equally exceptional as the US when you take into account the headwinds in the UK. We were closed for 26 weeks of the year. Half of the year our shops were unavailable to our consumers. International and airport business was a small fraction of what it typically has been historically.

But, we responded to that by being hugely active on digital. Online business more than doubled, and as you've seen in the last quarter, more than trebled. Click-and-collect that we were able to do in lockdowns two and three were very helpful in keeping our core business going. Then, when our stores were open between lockdowns, including the most recent reopening, business has been very strong.

So, compared to fiscal year '19, again, we're looking at plus 18% overall. The team, again, UK full of enthusiasm, professional, really well-trained, couldn't wait to get back in store again and doing a tremendous job.

Some other headlines to take away. Our domestic sales effectively 95% of our total. We really are a domestic business. If you look back that at the last fiscal year, Luxury Watches is now 87% of our total and the top eight brands that we refer to now representing 81%.

In addition to sales performance, I think we've outperformed on profits. We clearly haven't finished our audit overall but we're confident enough to give the indication that we have there of adjusted EBIDTA of £104-107 million. That represents a 33-37% improvement on AOY, which we're clearly very pleased to report and based on that and the good performance, we're repaying the furlough money for the year.

We've repaid the government financing that we took out as a precaution at the start of the year and we're also really delighted to be announcing the creation of a Watches of Switzerland Group Foundation to whom we'll be contributing £3.0 million, £1.5 million booked this year, £1.5 million committed for next year. We're very pleased and very appreciative of the board's support to do that. Then, the other number we're very pleased to see too is a level of debt that is down at £43.9 million, this time last year £130 million.

So, we feel good about the year. We're really glad it is behind us. Clearly, it was a very challenging year for the world. We know it is not over but I think the perspective is obviously a lot more positive and we share that going into fiscal year '22. Based on that, we've done our plans, we've done our projects. We feel confident on the perspective we're looking at.

We're clearly staying with our proven strategies that are working for us well and we have a really good pipeline of projects, one or two that were delayed, particularly in the US, that are carrying into fiscal year '22.

One assumption we are making is that we're not going to be affected by any further lockdowns in the next year in the UK, the US or Switzerland. We have visibility, as we typically do at this point, in the supply situation from our key brands. We're not including in our guidance any unconfirmed projects. Overall, again, we've been consistent in doing that historically.

It all leads us to say that next year we think we could increase our sales between 16-21%. Overall, that is £1.05-1.10 billion and adjusted EBITDA we think we could leverage potentially a bit, so flat to a 0.5% improvement, means plus 16-26% on profits. So, that's where we are and, with that, will very happily take your questions.

Operator: Ladies and gentlemen, if you would like to ask a question, please press * followed by 1 on your telephone keypad. When preparing to ask your question, please ensure your phone is unmuted locally. Our first question is from Anne-Laure Bismuth, of HSBC. Anne-Laure, your line is open. Please, go ahead.

Anne-Laure Bismuth: Hi. Good morning. Thank you for taking my questions. I have three, actually, My first question is, is it possible to have an idea of the Luxury Watches sales growth this year, the split between price and volume? The second question is about the US market, so any key learnings in the US market so far, in terms of brand preferences in the Luxury Watches? Is it the same in the US as in the UK market?

Finally, on the online performance. Online was obviously very strong, and especially in the UK, but have you observed a change since stores have reopened in the UK and the same about the performance in online in the US? How is it performing? Thank you very much.

Anders Romberg: I'll give the answer. Hi, it is Anders. I'll give the answer on the volume mix question. In terms of Luxury Watches, year-on-year volumes for the group were essentially flat, so it is driven by average selling price improvement and, within that, the vast majority of that is mixed towards, obviously, Rolex, Patek, and Audemars, the higher price point brands.

Brian Duffy: With regards to the US, as you know, our whole contention about the US market is that it was significantly underdeveloped due to a lack of investment in retail. I think we've proven that to be true and the really strong performance has now been overall in the market in the last couple years, with us investing, with other retailers responding as well, and I think there's good support coming from the brands in terms of supply, recognising the potential that there is in the US. Our view is that the US will outperform the global market and the potential is clearly there to do it and it is obviously happening right now.

Online in the UK, clearly, we've got great momentum. Already, we were the market leader. We think we've improved that situation further. We invested further behind driving our online business with traditional marketing and from traditional marketing, advertising what was available online during lockdowns. So, we really got behind the business and it has performed very well. The last quarter, Q4, we were three times last year.

To your question, post the reopening, we've actually continued to show year-on-year growth which we weren't expecting. It's obviously reasonably recent but our expectation was, on store opening, that we would peg down a bit on the level of online that we were doing but, so far, it is not the case. Certainly, there has been a permanent improvement in the online business overall for us and acceleration of a trend that was already there.

The US, we only just really got going online last September/October. It has gone well. We have a great line-up of brands. We're putting marketing behind it. We have a credit provider, good technology. So, we're making really good week-on-week progress and we're looking to increase our marketing behind that business because we see it as having big potential.

Anne-Laure Bismuth: Thank you, very much.

Operator: Thank you, Anne-Laure. Our next question is from Guido Lucarelli, of BNP Paribas. Guido, please proceed with your question.

Guido Lucarelli: Good morning. Thanks for taking my questions. The first one is on the UK sales. I was wondering if you could give us any colour on the performance of the UK market compared to 2019, in the second part of the quarter when stores were open?

The second one is on the US, on the American Dream store. I see in the release that it is planned for FY22. I was wondering if you had move visibility on which quarter should we expect this store to open.

The last one is on capital allocation. With net debt decreasing, you seem to be generating more than enough cash for your capital expenditure requirements. So, I was wondering what's the plan there, if we can expect the use for more acquisitions for the expansion in the US or maybe some policy to give cash back to the shareholders. Thank you.

Brian Duffy: Thanks, Guido. We're not tracking by week against '19, so specifically how we compare to '19 for the second half of April, I don't have to hand as a statistic but overall, for the quarter, we're performing very well against '19 and undoubtedly accelerated when the store reopened in the UK but, if you don't mind, we'll get back to you with that specific later.

The American Dream. We love the project American Dream. We think it is going to be a big success. It is largely open in terms of fun park and some retail. There's quite a lot investment in preparation that's already been done on the luxury side of things.

Our current plan is that we would be open at the earliest for the holiday season this year. There has been a lot of changes in the timing of all this but that's our latest plan, that we would hopefully be open for holiday season in the US, so open by October/November. If it is not then, then it would just after the year-end but it's part of our fiscal year and it's a project that we feel very good about. Capital allocation, Anders?

Anders Romberg: In terms of capital allocation, obviously we closed off, as you've seen, with lower debt, so great headroom. Obviously, we are growth interested and we are in pursuit for acquisition targets, as we haven't made any secret of that. So, we think that, at this point in time, the best way to use the capital is to grow the business at the moment. We are obviously spending capital. As you've seen, we guided up.

We didn't achieve the capital objective of this year because there was a slippage of some of the projects, as Brian pointed out. So, capital next year is a bit up on this year, obviously, as a result but, for now, we're going to keep the cash and we're going to see how we can use this for accelerated growth.

Guido Lucarelli: Great. Thank you very much.

Operator: Thank you, Guido. Our next question is from Louise Singlehurst, of Goldman Sachs. Louise, your line is open. Please, go ahead.

Louise Singlehurst: Hi. Morning everyone. Thank you very much. Just a couple of questions from me, if I may. Just going back to the cash position, the cash conversion and the better than expected net debt. Obviously, lower capex this year. Can you talk about the working capital and the inventory dynamics and where we are? I presume everything has gotten fairly lively with the focus on Rolex but across the rest of the brand portfolio and by price points, in terms of inventory. So, the real question is how that outlook looks in to full-year '22.

Then, just a follow-up on the US, if I may, on the space rollout. Is there any indication you're able to give us in terms of the space component of growth for full-year '22 with the projects that you have talked about? Thank you.

Anders Romberg: On the working capital, we've always said that best way to look at this business is to take 11% of sales and use that as your working capital assumption. Actually, that holds true pretty well as we sit here. Inventory closed down a little bit on last year because, obviously, we had bought for last year, Easter and so forth, and then the lockdown came. So, inventory was actually, as pointed out last year quite high at year-end.

Inventory in this category, we don't have a problem with it. We look at it as an asset rather than a liability, which is quite unusual for retail, but it tends to appreciate in value. The composition of our stock is really good. I wish I had a bit more of some of the brands, actually, like Rolex and Patek and Audemars, specifically but, obviously, that is somewhat supply constrained, but inventory is in in really good shape actually. So, don't think we need to worry that area.

Brian Duffy: I'd just add that we bought confidently, as well, in anticipation of maintaining a good level of business during lockdown and then clearly having a significant step up when our stores open, which I think is proving to have been a wise move overall. The US, we've listed the projects that we are looking at. We have the American Dream, we have Aventura, which has been delayed. We have other projects of investment the Mayors network investment and the big Rolex store.

None of them are actually space increases but they are significant elevations from which, as we know, have always had a very positive impact on sales overall. So, we do not have a number to say space. We will be adding some mono-brands as we did successfully last year, eight mono-brands. We'll have a similar programme this year, so that's additionally. But, as we know, physically they're a lot smaller than our big flagship stores. So, the existing network, investing in it as progressively as we can, plus the other projects that we talked about like the American Dream that is on the RNS.

Louise Singlehurst: Brilliant. Thank you very much.

Brian Duffy: Right, Louise. Thanks.

Operator: Thank you, Louise. Our next question is from Kate Calvert, from Investec. Kate, please go ahead.

Kate Calvert: Good morning, everyone. I'll join everyone else with a couple. Just on the net debt position, can you confirm whether you've actually repaid the furlough at that point or is that to come out and were there any outstanding rents?

In terms of the Mayors conversion plan, could you confirm roughly how many Mayors stores you're planning to convert in FY22? My third question is just on price increases. I don't think Rolex has put one through in the last year. I may be wrong on that but could you confirm when they last put one through or have they put one through in the states and not in the UK?

Anders Romberg: Thanks, Kate. No, the furlough money has not yet been repaid. We have gone through the detail and we will pay it in the first quarter of this year, for sure. So, that, obviously, is a benefit. In addition to that, as I mentioned, we didn't spend all the capital that we had originally planned, so we came in more like £24 million of capex for the year. There is a push into the first quarter of some of the capital that has been delayed as a result of supply disruptions due to the pandemic. So, that's where we are on that.

In terms of pricing, we haven't had any notification of pricing so far this year. Obviously, that is not really in our control. We haven't included any assumptions of pricing in our guidance, so we'll see where that all ends up but, for now, we haven't heard anything in that respect. You could think there should be pressure in it, given the price of gold and where the dollar is going and the strengthening of the Swiss franc, but so far we haven't seen anything.

Brian Duffy: On the refurb programme, we are already in construction for a bit Rolex store in Wynn in Vegas. Aventura, we mentioned should have been finished by now but due problems to do with the pandemic things have been delayed, so that hasn't reopened but hopefully will do in the summertime. The balance of the Mayors network we have scheduled to do over fiscal '22 and '23. It will all be done during that time and we've got to reschedule with Rolex, in particular.

We've had, inevitably, some movement in dates for these projects. We are literally doing them as quickly as we can. We have the capital, we know the results from them, so we're doing them all as fast we practically can and, as Anders said earlier, that results in us having an increase in capex for next year, for the carry into the year, plus hopefully doing everything that we've got scheduled.

Kate Calvert: Great. Thanks you much.

Operator: Thank you, Kate. As a reminder, ladies and gentlemen, if you would like to ask a question, please press * followed by 1 on your telephone keypad. Our next question comes from Frank Manduca, of UBS Asset Management. Frank, your line is open. Please, go ahead.

Frank Manduca: Morning, guys. Just a quick couple of questions about the US, really. Just looking at the split in sales, I'm just wondering whether you're looking at a very similar profile to the UK, so there's quite a big dominance there towards the luxury watch brands. Would Rolex be stronger or weaker out in the US compared to the UK?

Just following on from that, in terms of how you approach the store opening programme, would you approach something like Vegas different from a New York store? Clearly, you've got a bigger resident population in New York and a more transient population in Vegas. I'm just wondering how that fits in with ordering luxury watch brands which can take six months, a year to turn up. I'd like to hear what your approach is there and how you're thinking about this going forward, really. Thank you.

Brian Duffy: Frank, Rolex has historically and remains a bigger proportion of the business in the US than it is in the UK. Having said that, what's really encouraging about the performance this year in the US is that is very broad-based across all of the major watch brands. We also have had a positive experience, actually, in jewellery. We relaunched. The team over there did a great campaign to relaunch Mayors jewellery at the start of the calendar year and have had very positive results from that, so that's encouraging.

Across the boards, obviously Rolex, Patek and Audemars are supply-constrained but other brands who are less supply-constrained, we've had very positive growth with and our view is that the market, overall, is significantly underdeveloped and I think that applies all the major brands that we represent overall.

With regards to is Vegas different from New York? Yes it is, and a major store like that we merchandise very specifically towards the clientele that we know we have. Physically, it inside a resort, as opposed to SoHo being on a street side, but it's a very significant flagship store for us and Rolex that we're opening. It's a beautiful design that they're doing. It's a 3,000 ft store, slightly bigger, and will reopen in October.

It's adjacent to a multibrand store that contains Patek and Blancpain, Jaeger, IWC, Panerai, Hublot, a really wonderful selection of products.

We also have clients who look for differentiated high-end products, so brands like Jacob & Co or Bovet we've sold well in Vegas, where we have clearly some wealthy regular visitors come through. Which is another thing to say in Vegas. It's not that we're constantly dealing with a changing traffic. There are a lot of people who go to Vegas very regularly and, in many cases, several times a year, so they feel as local as a local would do in New York. But, we do merchandise all of our major segments or major stores independently in anticipation of the clientele.

Frank Manduca: Thank you.

Brian Duffy: You're welcome.

Operator: Thank you, Frank. We have a question from Richard Taylor, from Barclays. Richard, please go ahead.

Richard Taylor: Morning. A quick follow-up on furlough. I know you've just said you'll repay the cash in Q1 but is that expense in the numbers for the year just gone or is that for the next financial year? Secondly, are there any other government support schemes that you've repaid that we need to be aware of? Thanks.

Anders Romberg: Obviously, we've accrued 100% of the furlough back into the P&L, so we haven't taken any benefit of that into the numbers of this year, so it's just a cash transaction. So, that's the first one.

The second one, we haven't been charged the tax for real estate here, in the UK, throughout the year and obviously we haven't volunteered to pay it, so we've taken that benefit because obviously we weren't charged rates, so that is part of the benefit that we've had this year in the UK.

Obviously, we expect to normalise next year or this year, I should say, and therefore we've guided towards a flat to marginal improvement in EBITDA ratio next year but, of course, we don't expect that to continue.

Richard Taylor: Thanks. And, the total furlough, that was disclosed at the interims at £3.3 million. Is that the final number?

Anders Romberg: The total furlough that we were eligible for was £6.8 million.

Richard Taylor: So, that's the amount that you've expensed to the accounts?

Anders Romberg: Well, it's not gone through as a benefit. Let's call it that. It's cash that we've received but we have put it in the P&L because we're repaying it, £6.8 million.

Richard Taylor: So, you've not taken any of that benefit. Versus your previous guidance, when you talked about margins being up by 1.5-2.0% or whatever it was, that would have assumed some benefit from furlough, is that correct? And, now you're saying you're no longer taking that benefit.

Anders Romberg: No. What we said in the guidance was that we were going to repay the £3.3 million that we received in the first half, that was disclosed in the half-year. Then, we said subject to no major disruption we will evaluate what we'll do with furlough for the balance of the year and given our underlying performance we've decided that we shouldn't take it.

Brian Duffy: So, since the half-year there has been no furlough benefit in our P&L, including any guidance that we gave then.

Richard Taylor: Thank you.

Operator: Thank you, Richard.

Brian Duffy: Sorry, Richard, just on that, what is additional that we put in, obviously, is a contribution to the Foundation which was in there previously. £1.5 million is booked in fiscal year '21 and £1.5 million is committed for fiscal year '22.

Richard Taylor: Thank you.

Operator: Thank you, Richard. We have a further question from Kate Calvert, of Investec. Your line is open, Kate. Please, go ahead.

Kate Calvert: Hi. I've just got a couple. Just coming back to Richard's question on furlough. In terms of the cash you've got to repay for furlough, is it the £3.3 million or the £6.8 million?

Brian Duffy: The £6.8 million.

Kate Calvert: £6.8 million. Just a couple of others. Capex guidance for FY22 because obviously some of the capex has shifted into next year and you're going to start the Goldsmiths elevation, as well, so what sort of level can we expect?

Anders Romberg: Obviously, as I mentioned, we came out at about £24 million of capex, so we got £6.0 million of carrying capital, which is part of our guidance for next year. If you take that out, it's not that different from what we had guided for this year, a little bit of a step-up but obviously we're now saying £40-45 million, of which £6.0 million is a roll forward from this year.

Kate Calvert: In terms of the Goldsmiths new format you're going to start rolling out, how many do you think might be able to do in the current year?

Anders Romberg: Four.

Kate Calvert: Four. Thank you. Thanks so much.

Operator: Thank you, Kate. We currently have no further questions but as a reminder, ladies and gentlemen, if you do wish ask any further questions, please press * followed by 1 on your telephone keypad now. We currently have no further questions registered, so I will hand back to Brian.

Brian Duffy: Thanks Simona, and, again, just thanks everybody for joining us. We're glad to have that year of such change and uncertainty behind us. We really believe that we optimised the challenging situation to deliver the results that we announced this morning. I think our model has clearly proven to be successful and competitively advantaged.

We were carrying a positive momentum into fiscal year '22 on many fronts. I think we've enhanced our relationship with our brand partners. We've got great support from our teams who have just been fantastic and more and more awareness with the public out there, more and more business getting developed through referral, which is wonderful to see.

So, we go into this year feeling confident. We think market conditions overall are going to be positive, as they currently are now, UK and US, and we're very well-positioned to take advantage of it. I appreciate you all joining us and appreciate your support for investment in our business.

We look forward to seeing you on July 8th. We'll have a further update and our final results. We'll also, then, give a view of what the next few years could look like in terms of strategical. So, I'll look forward to talking to you then. Thank you.