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Transcript

Watches of Switzerland's Q1 FY23 Trading Update

Tuesday, 16 August 2022

Brian Duffy Good morning, everyone. Thanks for joining our call. I'll add some background to our trading performance that we posted this morning, and then Bill Floydd, our CFO, will comment on our outlook. We'll then be happy to take your questions. Q1 FY23 saw strong trading for our group throughout our geographies, our brand and product mix and sales channels, resulting in a 25% growth at constant foreign exchange and 31% in reported sales.

Our US business delivered 76% growth in constant FX, and 58% if we exclude the acquisitions made in FY22 and FY23. Including the benefits of the strong Dollar to Pound foreign exchange rate, the US growth rounded to a very significant 100%. Managing this level of growth is obviously challenging, and David Hurley, President of our North American division, and the US team are doing an excellent job of managing our day-to-day business, integrating new businesses and researching and negotiating new opportunities.

Market conditions remain strong in the US and we see continued expansion of this underdeveloped and fragmented luxury watch market. Additionally, through the application of our pooling investment-based business model, we are growing market share.

In the UK, our sales grew 8% despite very tough prior year comps of strong growth last year resulting from the reopening of retail and a favourable impact in Q1 last year of selling down stock, which we corrected in Q2. Business was strong across all brand and product portfolios. We're pleased also with our first business in the EU, in Stockholm, where our new colleagues have hit the ground running, and initial business is in line with our expectations.

The e-commerce division had a very strong quarter of plus 14%. We've effectively fully consolidated the exceptional e-commerce growth that we had in FY22, and first quarter this year compared to FY20, there's a growth in e-commerce of 140%. Luxury jewellery was again strong at plus 36%, as we expand our presence in this growing market.

I'm delighted to announce a new London Rolex flagship boutique which will be opening in 2023. This will be a spectacular showroom, commensurate with the global status of Bond Street as a luxury destination and the importance of London, where Rolex was founded in the early 1900s.

Our Xenia programme of elevated client experience, based on the high standard of the hospitality industry, is in full flow and is undoubtedly benefiting our sales and market status. Our showroom colleagues have embraced the programme and applied their usual enthusiasm and positivity. In the quarter, we increased our total colleagues' count by 120 overall, and our HR teams are doing an amazing job of recruiting, inducting and training new colleagues, despite the challenges of the labour market dynamics.

We published our annual report for FY22 on 27 July, and well done, and thanks, to all involved in what was a monumental task. The Watches of Switzerland Foundation is now fully registered and active in the US. In total, we have now pledged £2 million of the £4.5 million paid to the Foundation by the group in fiscal year 22.

Looking ahead, we're assuming tougher market conditions impacting the second half of fiscal year 23. We remain very confident in the underlying strength of the watch and jewellery markets and their ability to gain market share. We're therefore very confident to confirm and reiterate our guidance previously issued.

The luxury watch and jewellery markets are strong and, we believe, underdeveloped, and watches demand continues to outpace supply, and we're expanding our list of registrations of interest. There is now a momentum of investment in products, marketing, retail and infrastructure both from the brands and the retail sector that will maintain positive momentum.

We will, as always, remain diligent and focused on short-term performance and market trends, while strategically planning our longer-term goals. At this stage, we're ahead of our long-range plan, presented in July 2021, and we are scheduled to update our LRP in the Spring/Summer of 2023. I will now hand over to Bill.

Bill Floydd Thanks, Brian, and good morning, everyone. Needless to say, we're very pleased with the strong start we've had to the financial year. Our guidance for the full year, as a reminder, reflects our visibility of supply of key brands, and confirms showroom refurbishments, openings and closures, and excludes any uncommitted capital projects and acquisitions.

We're reiterating our guidance today that we gave previously, and this is on an organic, pre-IFRS 16 basis. And we are anticipating potentially more challenging trading in the second half of the financial year, so the revenue range remains at 1.45 to 1.5 billion, and adjusted EBIT of 157 to 169 million. We've also given you today some more colour on foreign exchange and how that impacts the numbers, so hopefully that will help you with your modelling. Lauren, back to you for Q&A.

Operator Thank you. If you would like to ask a question, please press star followed by one on your telephone keypads. If you change your mind, please press star followed by two. When preparing to ask your question, please ensure that your phone is unmuted locally. As a reminder, to ask a question, that is star followed by one. Our first question comes from Eleonora Dani from Shore Capital. Eleonora, please go ahead.

Eleonora Dani Yes, good morning. Thanks for taking my questions. I have three. First of all, could you please break down the volume and price components within the UK growth? Secondly, I appreciate that industry reports do not include brand-owned stores, but they are showing that UK retail sales are declining. Does it mean that you are gaining market share? And lastly, with the company expected to be in a net cash position this year, is there a possibility of a change in dividend policy ahead? Thank you.

Brian Duffy I'll take your middle question, Eleonora, and Bill can take the question on volume, price and cash. We are gaining market share. We know that we're doing that. We don't have totally reliable statistics in either the UK and even less so in the US, but what we do try, as much as we can, is overall brand sales from the individual brands and then our growth levels.

And we can see that we're exceeding overall growth levels, generally, for most brands in the UK and US. So we're undoubtedly gaining share in the market, honestly, as we have done since we went through our transformation several years ago. So, Bill, on volume and…

Bill Floydd Yes. So, Eleanora, on volume and price. So UK growth is 8%, as reported. We have obviously got the tough comps compared to the destocking. And my view is that you could probably add mid-single digits if you made that really like for like.

We've previously said pricing benefit this year is 4% to 5%, and that's where we are through first quarter. And then the balance is a mix of volume and mix, so increasing spec and increasing price point and higher-value products. I'm not going to give exact numbers, but we've got good growth in volume and good growth in average sales price.

On cash, yes, so we're in a good cash position at the moment. We remain focused on executing the long-range plan, which is both refurbishment and expansion of the store network and M&A. We remain active on M&A, and as we've said previously, we'll let you know on those as they land. We obviously maintain a view of our long-term cash position. We review the structure of the balance sheet regularly. As and when the board decides that they want to make a change on how we might do things, then we'll let you know.

Eleonora Dani Thank you. That's very helpful.

Operator Thank you. Our next question comes from Richard Taylor from Barclays. Richard, please go ahead.

Richard Taylor Yes. Morning, team. It's obviously a strong quarter overall, but can you give us a bit more colour on any areas of relative strength or weakness? And in particular, have you seen any softness at this stage in areas such as the non-supply-constrained brands, or is it fairly similar across the board? Thank you.

Brian Duffy Thanks, Richard. I think the great thing, as I said in the remarks, is that the strength is very broad-based overall, in terms of brand, product categories, watch, jewellery, geographies. Obviously, we have very strong growth in the US, but we're equally as pleased with what we've delivered in the UK. So honestly, it is across the board, and as we regularly answer, we have not detected at this point at all any change in demand.

As we've said, our waiting lists continue to expand. We're actually adding more than we're able to take off of the waiting list by supplying happy customers. So no change. As we said, when we came out of a strong fiscal year 22, we carried strong momentum into our first quarter. We feel exactly the same way about the momentum that we're carrying into Q2.

Richard Taylor Thank you very much.

Operator Thank you. Our next question comes from Flavio Cereda from Jefferies. Flavio, please go ahead.

Flavio Cereda Hey. Morning, guys. Brian, I was wondering, with the luxury watches still accounting for 87% of sales, and we know across the supply-constrained brands that that's not the volume, the volume is not a driver there, rather, can you…?

Brian Duffy Yes.

Flavio Cereda Are there any particular brands that you would call out as being…? I know that some of them are waitlisted again, but if there's any particular names that you would like to call out that you're thinking are doing particularly well at this time.

And the other question I had was on this rather remarkable increase in size of the Rolex presence in the Bond Street area, which basically implies more availability, more product at a time when we know there's the issue of, well, duty-free in the UK, which hopefully will be reversed. And do you have a sense that that will be net additions, additional deliveries of Rolexes in the London market, or is that likely to come at the expense of perhaps some of your weaker competitors at the moment? Thank you.

Brian Duffy Thanks, Flavio. I think as you know, we clearly have a great partnership and relationship with Rolex and Patek and Audemars. And pretty much those brands, we're not selling from stock. We're selling to waiting lists overall.

But we have equally had great partnerships with fabulous global brands like Omega, Cartier, Breitling and Tudor, all of which have grown very, very well for us, both in the UK market and in the US. We've undoubtedly gained share in them both, but equally, they have significantly grown in the markets, and particularly very, very evident in the US.

So there's great dynamism behind each of those brands individually, and collectively even more, and, in addition, obviously investment coming from us and other retailers. So I think great momentum. We have a waiting list on Omega. We'd love to get more Snoopys. We'd love to get more of the new products. We'd even love to get more of the Bond watches that are still selling, although the movie was a year ago.

We'd love to get more Cartier Santos. We'd love to get more Tudor. Tudor is very strong, and across the board, we'd love more Tudor. And Breitling, similarly, new products, good success. Navitimer, in particular, we'd love to get more of. Superocean off to a great start as well with the new products. So just, I think, great examples of dynamism that's in the category that we're benefiting from and very much partnering on.

And then the smaller niche brands are making a real contribution. It seems wrong even to call Girard-Perregaux a niche brand. It's a wonderful brand, but the Laureato collection we can't get enough of. We can't get enough Zenith Chronomaster. We just opened MB&F in London for the first time last month, and pretty much all the product we have is sold. So there's this real strength overall across the market.

The second question was on Bond Street. Yes, as we've said before, we make significant investments with our biggest and oldest partner, Rolex, alongside discussion on the volume and supply to make those investments make sense. Totally confident on what will be a very, very successful store in Bond Street.

It will be the only store in Bond Street where you can buy Rolex. As things work their way through, it will be a spectacular store. It will be a destination, and I think very much recognising the importance of London and the history of Rolex and the importance of Mayfair and Bond Street to luxury retailing.

So our view is that at some point, the duty-free situation will change. But for Rolex business, we honestly, it's supply-driven, as we know, and there really wouldn't be any impact overall from that. But we do think that at some point in the future, across the luxury retailing situation, that the duty-free current situation will change. But very confident about the store and very, very pleased that we've got this deal done. And can't wait to open. It will be spectacular.

Flavio Cereda Great. Thank you.

Operator Thank you. As a reminder, to ask any further questions, please press star followed by one on your telephone keypads. Our next question comes from John Cox from Kepler Cheuvreux. John, please go ahead.

John Cox Yes, good morning. John Cox with Kepler Cheuvreux here. Just a couple of questions really on the commentary about H2 and maybe preparing for a bit more softness. But given your statements, at least looking into Q2 being quite positive, just wondering why. Maybe you can talk through that. Is it comparables or anything like that at all? Just on the way the quarter went, I'm particularly interested in July, UK like for likes, and wonder if there's any sort of slowdown there. And I know a lot of your business is to do with the lists and stuff.

I think just the last question. It looks like the secondary market for many of the brands has rolled over. You're seeing declining prices in many cases. I'm surprised this is not having an impact on your waiting lists as such, as maybe people would go back to the secondary market rather than wait for so long if those prices look a bit more attractive, and just what your thoughts may be on that. Thank you.

Brian Duffy Yes. We have incorporated an assumption that there'll be tougher trading conditions for customers in Q4. Overall, I think along with the rest of the world, really, it's cautionary on our part. We are reiterating our guidance, incorporating the fact that there could be some more challenging retail conditions impacting consumer confidence overall. It will only impact the minority of our business if it happens, somewhere around 25% of our business which is traffic dependent.

So that is cautionary on our part. And we're early in the year. There's instability obviously in the country at the moment in terms of leadership and management of the economy. So we're just being, I think, pragmatic and, as I've said, cautionary on it, and we'll see. But it's not a worry, overall. But sitting where we are today, we think it's the right thing to do.

We don't give the monthly numbers out at all, but we'll just reiterate what I said in answer to Flavio. We really aren't seeing any impact. Overall, business continues to be predictable and strong. It's across the board, overall. Any slight variations we get, and we're on top of our numbers four times a day so it's very micro, but any variations we get up or down, we investigate, and they inevitably are about brand deliveries or something specific of that nature.

We haven't ascribed anything at this point to any kind of changing consumer sentiment. So business stays very strong and we're carrying good momentum into Q2 and, as I've said already, just being a bit more cautionary about the second half.

The secondary market is raised often. We're actually pleased to see some of the excessive pricing that was there, that seemed really irrational, being adjusted. You're still looking at huge premium at the end of the day. It's not really a market that we're in. It tends to be a market that's from these trading sites like Chrono24 or whatever.

We are in the pre-owned market. We're going very well in the pre-owned market. Analog:Shift in the US are doing a great job. We have rebranded and done new websites and new brand material. We've supported them with procuring product, and they're growing very nicely, not seeing any impact of challenges on pricing or on margin overall. But also growing our business here in the UK on pre-owned and adding to our resource, again on the procurement side.

And that's growing very well. And our challenge in that business in terms of growth is just getting access to more products and then building a resource in terms of watchmakers to handle refurbishment and so on. So in terms of, I'd say, the more genuine pre-owned market, if we call it that, the one that we are very active in, it stays very strong and there's been no impact or challenge on pricing.

John Cox Thanks, Brian, and congratulations with the figures.

Brian Duffy Thanks, John.

Operator Thank you. Our next question comes from Erwan Rambourg from HSBC. Erwan, please go ahead.

Erwan Rambourg Yes, hi, good morning, and congratulations from my side as well. Three questions, if I can, two on price points. So if you look at your waiting list and the fact that you have more people on the list, I'm wondering if there's a disproportionate amount that's on more elevated price points versus more accessible price points. And then linked to that question, when you talk about a potentially more challenging H2, should we also consider that the risk is more at the entry level than at the higher end? So that's the two questions on price points.

And the third question I have is on the US. I think you said an 18% contribution from acquisition, 58% constant currency growth on the rest. If I look at that 58%, presumably you had a few openings that contributed as well. I'm wondering, I think you don't give same store sales growth, but could you give us an idea of what the growth would have been with a stable perimeter, i.e. in your existing stores that have been open for more than a year, what type of growth did you see in the US? Thank you.

Brian Duffy On that last point, first of all, Erwan, not significantly different, I think is the answer on the 58. There's the openings that we had of our mono-brands. We're partway through the year, so honestly not significant. We are viewing the 58% as pretty much organic. We obviously had the benefit of some refurbishments that were done, Mayors in particular. But if you want to knock a point or two…

Erwan Rambourg Yes.

Brian Duffy Off of that and call it like for like, you wouldn't be far wrong, overall. I'm unaware of any change. What we're experiencing on pricing is increased average selling price at each brand level, and overall in mix. I'm unaware of any pricing dynamics specifically on waiting list.

And therefore, looking ahead, to your question, would it be the lower price points that are impacted, logically, yes, but it's entirely contradictory to what we're experiencing at the moment, because we're experiencing an increase in the average selling price that our consumer is happy and willing to pay.

I think it reflects the attraction and dynamism of the industry. There's a lot more going into product. It does therefore manifest itself in terms of pricing. But consumers are appreciating and wanting and desiring the product, and prices are going up. But yes, logically, if there's an impact on consumer confidence, you would argue that it would impact lower level product more overall, but again, repeating myself, it's not what we're experiencing.

Erwan Rambourg Okay. Okay, excellent. Thank you.

Brian Duffy Thanks, Erwan.

Operator Thank you. As a final reminder, to ask any further questions, please press star followed by one on your telephone keypads. Okay, we currently have no further questions registered, so I'll now hand you back over to Brian Duffy for closing remarks.

Brian Duffy Thanks, Lauren, and thanks, everybody, for your questions. And a particular thanks to our teams for delivering what I think are very, very commendable results for the quarter. I think we've discussed, with your questions and the remarks that we've given, the overall headlines, which are that business remains very good. We're not seeing an impact on consumer demand.

We are being cautionary in saying that with the uncertainty that's ahead, let's build some of that into our thinking. But even having done so, we are very confident about the guidance that we gave that we're happy to reiterate now. So all good, and thanks for joining us, and we'll look forward to speaking to you again when we do our half-year results. Thank you.