THE
WATCHES
OF SWITZERLAND
GROUP

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Q1 FY22 TRADING UPDATE

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TRANSCRIPT

Operator: Good day and welcome to the Watches of Switzerland Q1 Financial Year 2022 Trading Update conference call. At this time, I would like to turn the conference over to Brian Duffy, CEO. Please go ahead, sir.

Brian Duffy: Thank you, and good morning everybody, thanks for joining us. This is Brian Duffy speaking, and I'm joined by our CFO, Anders Romberg, and our director of investor relations, Allegra Perry.

We're very pleased with our first quarter of fiscal year '22 recording growth in constant currency of almost 102% versus last year. Last year, of course was significantly disrupted by lockdowns UK and US. And May and June was actually down 27/28% on the prior year. Consequently, this year's numbers were interesting comparisons against a two-year stack. And against that we're up 46%.

Really encouraged by strong performance in both of our divisions, UK, and US. UK was up 104.7% on a two-year basis, plus 43. US up 95% on a two-year basis, up 53.6%, all on a constant currency. So, both divisions performing very well.

Performance is also encouraging in that it's very, very broad based, all our watch brands performing very well, some exceptionally well. And our jewellery business also coming through well. Luxury watches were up 97.1% versus last year. Overshadowed by luxury jewellery, which was up almost 99%, so that's always good to see.

Our business is almost all domestic, there's obviously very little tourism here in the UK. And whatever there is, we're unable to really measure now because we don't have the tax-free situation that we used to use as a measure of tourist business. But overall tourism insignificantly low and clearly traffic at the airports continued to be low. Although some signs of a pickup in recent weeks.

There are good market conditions prevailing UK and US as everybody would know. But we just want to point out, we think we very much anticipated positive conditions in the market and consequently invested well in all our store projects. Actually, increased our spend in marketing. Continued to invest in training of our teams. And very importantly invested in stocks. And obviously availability of the great products that we sell is a key differentiator. So, we anticipated this period, planned for it, and I think we're seeing the benefits of it.

We are very confident in this market. We're very lucky to be in the world of luxury watches. And also, very confident in our model overall.

Couple of last shout outs on the quarter, our e-comm business up almost 16%. That was a pleasant and positive surprise, we thought there'd be a bit of a negative correction on e-comm overall with the stores open. But we continue to get a lot of e-comm business, perhaps indicating that some of the gain that we made last year is effectively permanent, so that's very positive to see. We've also got cash of 23 million in the bank at the end of the quarter, versus 92 million borrowing last year. So been a very, very strong period of generating cash.

Looking at our outlook. We're confirming the outlook that we gave previously that effectively represents estimated sales numbers of between 16 and 21.5% growth on prior year. Profits between 16 and 27%. We are ahead of what we had used in giving that guidance with Q1. Q1 has benefited from some element of de-stocking overall. We'd also emphasise, everybody looking at the trends, a good part of our business is driven by supply, not demand overall.

And we're just one quarter into the year, we've got nine months ahead of us. And of course, it's a very difficult environment for anybody to predict. So, our conclusion is that we're more comfortable in the guidance and more confident even in the guidance.

We were confident when we give it, and just given the quarterly performance, even more confident in our guidance for the year.

We have a great pipeline of projects that we've listed, all very exciting. In addition to which we've got our Exenia project of elevation of our customer experience that we will implement from September. But also starting our foundation that we're very proud of in September.

And then finally, just a shout out to our teams again, who remain a great source of inspiration and confidence. I had the pleasure of seeing some of our teams in the US last week in New York and Florida. And they are truly inspirational, love what they do, love their customers, and do a fantastic job for us. And as always, they deserve the credit for what's been a very a good quarter. And with that, we'll very happily take your questions.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question at this time, please press star one on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. Thank you. And we take our first question from Antoine Belge with Exane BNP, please go ahead.

Antoine Belge: Yes. Hi, good morning, it's Antoine Belge at Exane BNP. Three questions if I may. First of all, you mentioned this de-stocking of brands, can you give it more precise? So, can you explain why it was the case and should we consider that at some stage later in the year, there could still be an effect of that? Or is it just that it was the situation and you benefited from that in the first quarter?

Second question relates to the US, very strong there, in saying that, it's a slight deceleration. I think it's a market where maybe it's a little bit opposite to the UK, that there is not much products to sell. So, can you maybe tell us which brand you've been able to sell during the quarter to compensate for that?

And thirdly, is it possible to have a bit of an update on your M&A search? Thank you.

Brian Duffy: Thanks Antoine. The de-stocking is just a matter of fact, we sold more products than we got in, and on key brands in particular, just that simple. But we just wanted to point it out, that you can't indefinitely do that effectively. But that's all. So, the quarter just had a benefit of selling a little more product than we actually received during the quarter overall. And obviously particularly on our key brands of Rolex, Patek and now Audemars, that are supply constricted.

The US business, you're right, they too had an impact of de-stocking effectively. But other brands are doing remarkably well, UK and US. And you'd asked specific brands, with brands like Cartier, Breitling, Omega, Tag Heuer, Tudor's doing fantastically well, Hublot. But honestly, across the board, Panerai's had a really good quarter overall. Vacheron in the US went really ... all brands doing well. There's clearly a strong market there.

And as I pointed out earlier, we did anticipate it, we did stock for it, we did plan for it. And we're obviously getting the advantage of it overall.

And the third question was?

Anders Romberg: In terms of the M&A activity, obviously we are in constant dialogue with people and we're actively negotiating. But we can't be more specific than that. Hopefully we'll come to conclusion at some stage.

Antoine Belge: Thank you very much.

Brian Duffy: Thanks, Antoine.

Operator: Thank you. And ladies and gentlemen, if you find that your question has already been answered, you may remove yourself from the queue by pressing star two. We are taking our next question from Richard Taylor with Barclays. Please go ahead.

Richard Taylor: Yeah, morning guys. Just a question on the non-supply constrained brands. I understand the point on inventory on the key brands. And you've alluded in your previous remarks that the other brands have performed strongly in the quarter. But has that made you think about stocking up on those brands for the rest of the year? And I understand you can't change your guidance if your allocations haven't changed. But just interested to know how the performance of the other brands may impact that guidance. And whether that could be an upside risk to your guidance if the current momentum continues. So just thoughts on the non-supply constrained brands for the balance of the year, please.

Brian Duffy: It is a key point, Richard, these brands have, honestly, pleasantly surprised, they've been super strong overall. And we're talking about Cartier, Breitling, Omega, Tag Heuer's been really strong, Tudor, all of which I mentioned earlier.

But they're all brands that we did anticipate, and they're all brands with great depth of product appeal. And we did invest in depth. So were able to respond to what's been a very positive market condition.

I think it'll be very interesting the balance of the year, Christmas period, I personally think it will be very strong. I think there'll be a real willingness and interest in celebrating Christmas, the holiday period in the US. So, I do think it'll be positive. But it's very positive for this quarter. Some of it, pent up, and we're not that far away I guess from reopening in April. You still don't have travel really going on, so everything is being spent domestically. But we'll see. I'm optimistic about the balance of the year. But we're only three months into this one and therefore don't want to anticipate an especially strong trend. But we'll see obviously as the weeks and months go on.

Richard Taylor: Okay. That's useful. Thank you.

Brian Duffy: I like your description of it as an upside risk.

Operator: Thank you. And as a reminder, ladies, and gentlemen, to ask a question please press star one. We take our next question from Katherine Parker with Jefferies, please go ahead.

Katherine Parker: Morning. Just two questions from me on your two smaller product categories. So firstly, on jewellery's, the quarter showed a nice acceleration, and I wondered if you could give an update on the share of bridal versus other categories compared with 2019. So, whether you're seeing just pent-up bridal demand and how you expect that to continue out to the remainder of the year?

And secondly, your other category revenues, which was also up very nicely. And I just wondered what was driving that performance and whether it was watches outside of luxury watches?

Anders Romberg: Other is typically services, and obviously last year with the closure that sector was hit hard. So services predominantly.

Brian Duffy: Jewellery, again a pleasant surprise, really strong performance in jewellery. Bridal, to your point, yes, there obviously is now a lot more weddings and activity, increase in engagement rings, a particular increase in wedding rings as it happens.

But we've also got other activity. We had a relaunch of our jewellery brand in the US with Mayors, with a great campaign, it's had a really nice impact. And our teams here in the UK did a fantastic job of anticipating trends in jewellery. And again, buying into it. And it looks like we're going to have a really nice jewellery year overall.

But I wouldn't spike it out as bridal goods, but also our diamond jewellery business is strong, particularly in the US, good performance as well with the brand partners that we represent. But we love our jewellery business. It's obviously a smaller part of our business and a lot of the competition, but it's really nice to see it do well. And just great credit to our buying teams.

Katherine Parker: Thank you.

Operator: Thank you. And we take our next question from Kate Calvert with Investec. Please go ahead.

Kate Calvert: Morning, everyone. The question I've got is on your two-year growth rates in the UK and the US, is it possible to break that down by like for like growth and new space growth?

Brian Duffy: Not really, Kate. There's not huge change on the two years, we had the, as I say, the Heart acquisitions that would be here.

Anders Romberg: And some Monos.

Brian Duffy: And some Mono brand development as Anders was pointing out. But the bulk of our network was in place. But we haven't been quoting like for like. And obviously in the circumstances we're in, it's been difficult to judge in any event. So no, we can't split it out.

Anders Romberg: Another comment on our growth rate on double LY is obviously that was in 2019, which predated the pandemic with tourism and tax free still in place in the UK. So, when you look at that growth rate, you need to take into consideration that during that period about 30% of the group revenue was driven by those channels versus this year, pretty much non-existent. So, we managed to replace and redirect that demand into domestic markets. So, we're very pleased with the growth rate on double LY obviously.

Brian Duffy: Yeah, which is the biggest single point in it all when you look at it.

Kate Calvert: Great. Thanks so much.

Brian Duffy: Right, Kate, thanks.

Operator: Thank you. And as a reminder, please press star one to ask a question. And we take our next question from Louise Singlehurst with Goldman Sachs, please go ahead.

Louise Singlehurst: Hi, morning, Brian, morning, Anders. Thanks for taking my questions. Just I wonder, rather than looking just at the performance of the brand, if there's anything by price category that you can share with us. I assume it's broad based across all price points, but I wonder if there's any difference in the UK, US, any particular price point observations? And whether you're still getting the benefit of consumers walking into the store or engaging with the customer services and quite easily being traded up to higher price points?

And then secondly, I wondered if you could tell us a little bit about where we are with traffic. So, within the UK, London versus the rest of the UK, just trying to think about obviously traffic very much down, but trying to consider the high conversion rates that you're obviously still seeing with the appointment and online? And how we are with US mall traffic, et cetera? Thank you.

Brian Duffy: Overall, pricing, the mix of our businesses definitely is more broad based, and that will be influencing the average selling price. In terms of consumer attitude towards pricing, we're again seeing a very healthy appetite of trading up. And that to us means more gold or more gold and steel than steel. So, there's definitely a willingness to spend overall that's benefiting the price point by brand.

But for us overall this quarter has got more of an across-the-board mix, which will influence our average selling price more than any other single thing. Our numbers are being driven by a higher conversion of seeing the impact of reduced traffic. But in some ways traffic isn't ... we are not a business that depends upon passing traffic or general traffic. We have destination traffic overall.

The best example of which is you see us appointment making which is I think a very healthy part of our development. And something that's going to be here to stay overall. And clearly our conversion rates on appointments are very, very high. But also, a lot of destination walk in.

Generally speaking, traffic in our stores are much higher than the traffic into the malls overall. Again, just underwriting that we have dedication.

London remains subdued, like 50% down. And obviously no tourism. Equally, there's not the same proportion of people working here, there's not the local regional tourism coming into London to go to the theatre or restaurants or whatever, and at the same time shopping. So, London is probably still, over our entire portfolio, the worst geography from a traffic standpoint, it's still more than minus 50% down.

We think September will be hopefully a step change there when people start returning to work.

The next most affected would be Manhattan still, where again, people are not back working yet. I was there last week and there's certainly plenty of people socialising, the streets are full of al fresco diners now, happened when you could only dine outside. But it looks now that it's going to be a permanent part of the landscape there with people all in restaurants effectively in the street. And actually, it's a really nice atmosphere, particularly in Soho.

But nevertheless, the overall traffic numbers in Manhattan remain again down at around 50%. Vegas traffic is back overall, but conventions aren't quite up to the level that they were historically.

And then you're left with the Mayors group and the regional group. Our regional business in the UK, down somewhere between 20-25% still in overall traffic into the shopping centres. But again, traffic into our stores a bit better than that. And our conversions clearly more than offsetting.

The last is the airports. And obviously Terminal Three just reopened, I flew into Terminal Three on Saturday evening. We were the only flight arriving actually, so it's obviously not buzzing, but nevertheless it's open. And there is indications of an increase in traffic going through the airport overall. But clearly very subdued compared to 2019.

Louise Singlehurst: Very clear, thank you.

Operator: Thank you. And as a final reminder, ladies and gentlemen, please press star one to ask a question. As it seems we have no further questions at this time, I would like to turn the call back over to you for any additional or closing remarks, Mr. Duffy. Thank you.

Brian Duffy: Thanks, and again thanks everybody for joining. I'm just really pleased to get the first quarter of '20 behind us in terms of looking at our five-year plan, which we remain focused on delivering. It is an unpredictable period overall that we are living through, hopefully we're coming at some point to the end of it overall. But we continue to do well in these unusual circumstances. So very pleased with the quarter and just delighted with what our team are doing and looking forward positively to the balance of the year. So, thanks for joining us.