Transcript

Watches of Switzerland Group plc. Q4 2024 Trading Update

Thursday, May 16, 2024

Operator Good morning, everyone, and welcome to today's Watches of Switzerland Group PLC Q4 2024 trading update. My name is Drew, and I'll be your operator today. During today's call, there will be a Q&A session. To register a question, please press star followed by one on your telephone keypad. To withdraw your question, please press star followed by two. If you have joined us online, please type your question in the Q&A tab. I will now turn the call over to Brian Duffy, CEO of Watches of Switzerland. Please go ahead.

Brian Duffy Thank you, Drew. Good morning, everyone, and thanks for joining our call. I'll run through some reflections on trading for our final quarter of FY 24. Then, talk about the year in total. All that is set out in the RNS that we issued this morning. Then our CFO, Anders Romberg, will add some commentary on guidance for FY25 and the LRP updates that we provided this morning. We will then, as usual, open up to any questions that you may have.

So, I'm very pleased with our Q4 results, which we bring to a close FY24, in line with our guidance. FY24 was undoubtedly a year in which we did experience more market challenges, particularly here in the UK, than originally expected, but also one in which we continued to gain market share, both in the UK and in the US, and continued with our successful model of investing in high-quality growth, positioning the business well for the future.

For Q4, our sales were particularly strong in the US, with a year-on-year growth of +14% in US dollars. As we have presented often, the US market is underdeveloped and the US consumer responds very well to both our consumer environment and, in particular, our excellent client service, supporting above market growth. Sales in the US were consistently strong throughout FY24 and were +11% in US dollars for the full year.

In the UK sales for Q4 were 4% down, 5% for the year as a whole. We have continued to experience more challenging conditions in the UK than the US, due to the combined impact of cumulative price increases, due mainly to the strong Swiss franc, and a more challenging consumer environment. Whilst we believe this resulted in consumer deferral of purchase intent, we continue to take market share and outperform the market.

We have been pleased at how the 15 Ernest Jones stores we acquired have traded since being part of our group, and we expect them all to make good contributions to our UK business. Although the UK consumer environment remains subdued, there are some early signs of improving sentiment. We have been delighted with how the pre-owned business has performed, both in the quarter and the year as a whole, and things are currently tracking ahead of expectations in both the UK and the US, with the Rolex certified programme being particularly strong. We are rolling out distribution and increasing resources to support this business momentum.

I'm delighted to have announced last week the acquisition of Roberto Coin Inc. And with this the exclusive distribution rights for the exciting brand in North America, the Caribbean, and Central America. This is a really great opportunity for us with an iconic brand supported by fantastic teams in Italy and in the US, and we see great potential for growth in the years ahead.

We are very impressed that the recent Watches and Wonders fair in Geneva. The brands presented great new products and productions with a clear blend of innovation and commercial focus. The Swiss watch industry overall is taking a more conservative approach to expected sales in calendar 24, which we believe to be both correct and responsible, as the industry emerges from this more volatile period.

You will have seen in our announcement today that we intend to reallocate investment resources from the European market into higher-returning regions of the UK and the US, where we continue to gain market share. What we've experienced in Europe as well, is we have good stores with great teams. We haven't been able to get the scale needed to grow. This market was managed out of the UK, it was very time consuming and resource heavy.

As you know, we take a very disciplined approach to capital allocation, and when looking at all the opportunities we have on the table since November, particularly Rolex CPO, Rolex Old Bond Street, the acquisition of Roberto Coin, Audemars Piguet House are opening in Manchester, and many others. We have plans with our brand partners in the US. This was an appropriate step for us to take. We are in advanced discussions with our brand partners on selling the existing European mono-brand stores to them.

In planning fiscal year 25 and reviewing LRP through fiscal year 28, we start both periods with a very exciting programme of projects with all of our key brand partners in luxury watches and in luxury branded jewellery. We have the incremental business of Roberto Coin in the US. We have strong momentum in the pre-owned category. Great new products from our brand partners and further expansions planned in luxury branded jewellery.

We have also undertaken a robust review of our overheads and discretionary spending in all areas of the organisation, in order to support ongoing profitability and margin expansion. We therefore start the new financial year with real confidence in both the near and medium-term outlooks for the business. My thanks to our amazing teams for their achievements, enthusiasm, hard work and commitment to succeed in fiscal year 24 and beyond. And with that, I'll hand over to Anders.

Anders Romberg Thank you, Brian. I'm going to shortly take you through our LRP update and give you some guidance for FY 25. We remain confident in our LRP target that we set out in November to more than double sales and profits by FY28. Rolex certified pre-owned, as you heard from Brian, is very encouraging, and we found new sources of supply in the UK. So the cap that we referred to when we did our Capital Markets Day is no longer a factor in the UK market. We expect this area to outperform our original expectations in the plan. We also have the strongest pipeline of committed Rolex and other projects, and this alongside the Roberto Coin acquisition, which came in earlier than originally expected, is a further confidence in our LRP ambitions.

Moving to the outlook for FY25, we are cautiously optimistic about trading in FY25. We've seen sales coming in more flattish and the run rate is stabilising at the back end of FY 24. Our guidance reflects current visibility of supply from key brands and confirmed showroom projects. In FY25 we will annualise Ernest Jones showrooms, as you heard from Brian, and we'll have 50 weeks of Roberto Coin in our numbers, as well. We have not assumed any further acquisitions within our guidance for FY25.

Our guidance, as always, is provided on a pre-IFRS 16 basis, and we've assumed an exchange rate of 1.26 to the US dollar. Revenue is expected to come in between £1.67 and £1.73 billion, which implies an underlying constant currency growth of between 9 and 12%. Our adjusted EBIT margin is expected to expand by point 0.2 to 0.6% on this year, and we do plan to spend between £60 and £70 million of Cappex, which is slightly below what we historically have done, because we've taken the hurdle rates up a little bit internally and are more disciplined. Our operating cash flow conversion is expected to come in at around 70%. With that, I'll hand back to Brian for some closing remarks.

Brian Duffy Firstly we are going to take questions.

Operator Thank you. We will now start today's Q&A session. To register a question, please press star, followed by one on your telephone keypad. And to withdraw your question, please press star, followed by two. If you have joined us online, please click the Q&A tab and type in your question.

Our first question today comes from Adrien Duverger from Goldman Sachs. Your line is now open. Please go ahead.

Adrien Duverger Hey, good morning. Thank you very much for taking my question and congratulations on the on the results. This is Adrien Duverger from Goldman Sachs. So, my first question would be on the Rolex deliveries for the full year 25. Are you happy about the allocation you got? And how clear are you on what you will get in terms of value versus volume?

My second question would be on your M&A pipeline and its strength. What product category and geographies does the pipeline for M&A skew to, especially given the fact you mentioned you were relocating investments from Europe to the US and the UK?

And my last question is with regards to your guidance. If we strip out the contribution from the acquisition of Roberto Coin, how do you think about the organic growth rate implied by the full year 25 guidance? Thank you very much.

Brian Duffy Thank you, Adrian. I think an answer is we'll never be happy with allocations. Obviously, there is such demand for a key brand, Rolex in particular, that demand continues to significantly exceed supply, we’re adding a waiting list and so on. But both in the UK and the US, we've got annual processes, we receive allocations and we’re happy with that process. We're happy with the support we're getting for the projects that we're doing and what's happening within the market overall. We obviously continue with what we've always done.

All the numbers that have been indicated and effectively given to us by Rolex and others, and that's what's reflected in our number. So we are happy with the support that we're getting, but the demand that's out there, of course, could substantiate more supply. Further evidence of which is the great success that we’re having with Rolex CPO, so it just confirms the demand that's there for that wonderful brand and some others.

In terms of M&A pipeline, it is predominantly US. In any event, we see further opportunity for consolidation of the market in the US. We have always had a pipeline of discussions going on at any one time at various stages. Things do take, particularly the family businesses, things do take time for people to get comfortable overall with who they’re dealing with and it's an area in which we clearly have to be patient. But we are happy that the level of activity and opportunity that's there, that we've reflected likelihood of delivering in our LRP, and we're happy that all that makes sense. Overall, on the guidance…

Anders Romberg If you take into consideration Roberto Coin, which we obviously disclosed the numbers for, we're not going to have it in for the full year. So, essentially the May month is more about integration and so forth and stock counts and validation of balances to land on the final working capital. So we expect the business to have a little bit of a slowdown in the first month. That would imply that our guidance sits in the mid-single digits for our core business.

Operator Our next question today comes from Richard Taylor from Barclays. Your line is now open, please proceed.

Richard Taylor Morning. Can you talk a bit about the supply and demand dynamics that you see in the market more generally? I note the comment you made about brands behaving quite responsibly from a production point of view, but any thoughts there on inventory levels in the markets amid your competitors and how much discounting you're seeing?

And then secondly, I think you said that the Rolex CPO is going ahead of the long-range plan guidance, it was 10% in the UK and 20% in the US of Rolex sales. Are you saying that the UK could move towards US levels or both moving up? Any indication on that would be great. Thank you.

Brian Duffy The supply demand overall in the market that clearly we have been seeing at the higher end of the market, demand has stayed very strong, nowhere near supply, or supply is nowhere near to demand. And those dynamics are not changing. As we commented when we gave the market announcement, we clearly experienced disappointment with more UK original, more aspirational price points, and so on, which all made sense to us in terms of cost of living and price increases, where it also happens at the lowest price points as well.

So there continues to be, like Anders indicated, some signs of more positive traction with certain brands, very encouraged by what we saw, by Watches and Wonders. It's such a great industry and they do respond to market conditions very long-term in the approach overall, but they do respond to market conditions. And we did see a lot of exciting commercial, new introductions that we think are really going to help, in particular this market in the UK and the year ahead.

As you know, we have very little discounting in the mix of the products that we sell. It's the case for the market overall. I think if you go back, whatever, eight, nine years, it wasn't always the case. There was maybe more stock issues around and other activity like that. But the market for the last, I don't know, seven, eight years, I think has been very disciplined, actually globally disciplined, in terms of stock management and correlation between demand and production. So, we really don't anticipate that as being a problem.

As part of our review of next year's budget and beyond, we have cut back on areas of incentive, whether it's subsidised interest or gift with purchase and that sort of thing, obviously improving profitability. But I think overall for the market, that these are positive moves to make CPO the area where what we said back in November, is the potential in the UK was the same as the US, but supply was more evident in the US than we thought we'd be able to deliver in the UK. We had some real positive developments on sourcing in the UK, and therefore, we have a really good opportunity of getting to the same level of penetration of the market in the UK with CPO, as we indicated in the US.

Adrien Duverger That's great. Thank you.

Brian Duffy Sure.

Operator Our next question today comes from Kate Calvert from Investec. Your line is now open, please go ahead.

Kate Calvert Morning, everyone. A couple for me. First one on Europe. Obviously, this was a key plank of your long-range plan you talked about last year, can you give some background as to why you decided to withdraw now? Has there been any change in the brand distribution strategy that is making it harder to get sites? It would be quite good to get a bit of background colour on that.

The second question is on pre-owned. Could you just update us as to where you are as a percentage of sales in both markets as you exited? And how many more doors do you think you will roll out this financial year in both markets?

And my final question is on the performance of the mid-price watch category. Could you talk about the differences in the performance in the fourth quarter versus the third quarter? Is there any evidence of stabilisation? Thanks very much.

Brian Duffy Hi, Kate. This situation with the EU is firstly we've opened some great stores that are performing well, and we've got some really great colleagues there that have been doing a great job overall. But as we looked at everything, honestly, just a question of priorities. Some great new opportunities have developed, like certified pre-owned, like getting the Roberto Coin deal done, and all the opportunities that that offers. We're adding to our project list of expansion, particularly in the US. And we just have a lot on.

And Europe was getting supported out of the UK. We were a bit behind in where we wanted to be at this stage in terms of size and scale, as we have said quite openly. So we had to allocate a lot of time and resource for our business, but that was not big enough to support that level of resource, and therefore, it was impacting on profit and return on capital. So we have better things to do from a financial viewpoint, in terms of getting return on capital and our big markets of the UK and US simply was a question of priorities. The opportunity is there, still is there. And we hope to revisit Europe at some time, but at this point it just made all the sense in the world. It's profit positive, obviously, moving into next year it's cash positive, as we sell the stores back to the brands. And just the right thing to do at this stage, and delighted that we are selling the stores and with it responsibility for the great teams that we've got in place in these markets. Pre-owned?

Anders Romberg In terms of pre-owned, obviously we haven't disclosed a specific number, but I can share that it's now the second biggest brand within our portfolio, and it's the fastest growing by a mile for that segment of our business. So it's performing, as we said, ahead of where we thought it would be, so very encouraging and obviously 100% within our control. So we're really happy about that.

We haven't specifically spoken about doors, we want to be a little bit cautious on that. But clearly, the training of the teams is a priority. Getting access to the product, which is available online for all doors, whether or not we have it in the store or not, using our technology in terms of web enabled and so forth, is going to help drive productivity in that segment. So, we're really happy about all of that.

Brian Duffy And I did comment mid-price and you're right to single that out. The regional market is mid-price products where we had the biggest challenges from the holiday season onwards. Q4 on Q3, we definitely got an improving performance, even an area like jewellery, that we've performed much better on, which is encouraging. Some developments within what you describe as a mid-price range, we see some positive traction on. And as I said earlier too, there's good products coming into that category as well, at price points that we think will make sense. And obviously we're coming up against what would be a much better comparisons. So we feel that the major correction in that sector is certainly coming to a close.

Anders Romberg Another thing that might be worthwhile to mention on that is, obviously, we're annualising the impact of the pricing that took place during 22 and 23, which actually took prices up quite significantly, as Brian pointed out, on the Swiss franc movement. The consumer base, that reacted adversely to that, from an affordability point of view. We're already annualising that drop off, if you want to call it that.

Kate Calvert Okay. Thank you.

Operator Our next question today comes from Jonathan Pritchard from Peel Hunt. Your line is now open, please go ahead.

Jonathan Pritchard Thanks, and good morning. Two from me. Firstly, on Ernest Jones, just give us a bit more colour on the process, the sort of staff retraining, evolving the range. Just a few comments on that, how that's gone.

And then just following up on the Goldman question at the start on guidance. If we strip out the acquisitions, etc., we're probably a couple of percent, sort of 3% down from where consensus was in terms of expectations for FY 25. If you can go into the granularity, is there any region that is particularly the culprit of that? Are you less bullish of the States or less bullish of the UK versus where consensus was and where guidance has been set?

Brian Duffy Hi, Jonathan. So, in terms of the EJ stores, as I said, we are on track for the trajectory that we had planned for them. We've gone through a sequential process of rebranding the stores, changing all of the systems, starting a process of remerchandising of product, which is a bit of an ongoing process. We've put in products, we make changes, we read and react overall, so that's an ongoing process, which is going fine. And then alongside that, we're getting to know all of our teams and all of the team training and everything else at a personnel level needs to be done. So all going fine, sequential improvement and store performance by week, as we are focussed on and tracking. We review the stores weekly with all of our senior management. So that's good and nice acquisition and all tracking in line with what we expected. The guidance, Anders.

Anders Romberg In terms of the guidance, I guess this is what you've used for our acquisition of Roberto Coin. And we haven't planned that particularly aggressively going into the first year of ownership. We, as I said, are going to have around 11 months rather than 12 months in the numbers. We're also in the process of getting to know our distribution network and so forth, and there might be some that have a view on ownership and so forth. So we planned it relatively conservatively.

In terms of where we sit against the consensus, as I said, we're coming out pretty much at the mid-single digit on the core business, which is a little bit south of where the consensus is at 6.5%, but I think within the tolerance. But it's also impacted on the key brands view, on allocations and so forth. So we have the numbers for this year, and that's what we've incorporated into our business, so that's where we are.

Jonathan Pritchard Lovely, thank you very much.

Operator Our next question comes from Antoine Belge from BNP Paribas. Your line is now open, please go ahead.

Antoine Belge Good morning. It's Antoine Belge at BNP Exane. Three questions. First of all, on that mid-single digit core business guidance. What are the underlying assumptions for the for the US and for the UK?

Question number two is a bit about current trading. Also in your reason for the first quarter to be better or worse than the average of the year, any other quarterly consideration we should have in mind?

And thirdly, on the margin guidance, I understand several moving parts, probably removing some losses from Europe, reintroducing the bonus structure, and also some accretion from the current deal. Is there any way of quantifying those or maybe give a bit of colour? Thank you.

Brian Duffy I'll take the easy one. Current trading we're obviously not going to comment on. We've said Q4 there was some sequential improvement from Q3 in key categories, like jewellery and other more mid-range watch products. And the overall conditions remain, the demand is outstripping supply for our key brands, key products. That dynamic's not changing. The US market remains very strong, and that dynamics are not changing. And some earlier signs about the UK perhaps looking a bit better and obviously we're going to have better comps. You have the headlines and we're really not going to add anything to follow up to that about the quarter or any more detail. Anders.

Anders Romberg As you know, we don't give guidance by markets, so I'm going to duck that question. But you've obviously seen the performance in last year, and we don't expect any major change in economic conditions happening here in the UK, so you can draw your own conclusion from all of that.

In terms of margin guidance, obviously an improved margin is coming. As you said, we get actually margin accretion from exiting Europe, which is helpful. But to your point, we introduce our bonus target incentives, and so forth, which comes at a cost. So lower sales growth, obviously the leverage in the core business is somewhat restricted. We have, as Brian pointed out, taken action on cost, so we've reduced our IFC programs and so forth. We haven't played in any interest cost reduction in our guidance in terms of the cost for the IFC program. We'll see what happens there. And obviously Roberto Coin is accretive, as we pointed out when we released the acquisition data, coming in at around the 20% EBIT margin.

Operator As a reminder, if you would like to ask a question on today's call, please press star, followed by one on your telephone keypad. To withdraw your question, please press star, followed by two. If you have joined us online, please click the Q&A tab and type in your question.

Our next question today comes from Jon Cox from Kepler. Your line is now open, please go ahead.

Jon Cox Thanks. It's Jon with Kepler here. Just a question on the Cappex guidance. Can one of you just elaborate a little bit on that and whether you think that this step down is likely to be not just next year, but actually going forward? Because I was under the impression that you're renovating about 20% of your shop network every year, which leads to a 10% uplift within those stores. Where does that leave that program, if you're talking about maybe 10, 20 million lower than expected CapEx going for the next couple of years? Thank you.

Anders Romberg What we've done, we've obviously looked at all of our investment programs for the next 12 months. And Europe, as Brian pointed out, has come out, so there's obviously a reduction in that space that's not included in the guidance. And then we've looked at some of the smaller projects that aren't Rolex anchored, that we said we might want to take a different view on timing of those until we see conditions improve. So I don't think it's a permanent reset, in that sense. We continue the entire program on anything that is core, that is to say, underwritten by brands that we know will deliver the productivity. So that's what's impacting this year.

John Cox Okay. Just a follow-up back to the Rolex CPO. You've said it's your second biggest brand. Am I right in thinking then that you're moving towards Rolex CPO is somewhere around 10% of group revenue at the moment? I'm talking about on a month to month basis, not for the year that's just gone, FY 24, but that's what you're approaching at the moment.

Anders Romberg Pre-owned in total is not far off that level of penetration, but the curve we can see is accelerating. Quite encouraging, it's somewhat exponential, which is good. But it's now the second biggest category or brand in our portfolio.

Brian Duffy Obviously we took some very good moves in the area of pre-owned when we acquired Analog:Shift in the US. It gave us great expertise and great credibility in that category and really positioned us well for how things then developed, and in particular with the introduction of Rolex CPO. It's a great program, Rolex CPO, it's very well managed by them. We had partnership with them and built up resources to handle the reconditioning of product and the guaranteeing of product. We've invested in training and other areas, so we've been doing a lot to really get behind that business opportunity. But a lot of good things fell in place and, I think in particular, that Analog:Shift acquisition that we did some years ago has really given us a great benefit.

Jon Cox I was just interested in this exponential growth, so I'm just trying to get a handle. By the end of 2025, can we assume maybe your monthly sales of Rolex CPO are actually approaching 20% of group revenue?

Brian Duffy There's a lot of moving parts on it, Jon, that we're having to manage. Obviously the sourcing of products and then the processing of product with partners at Rolex for the reconditioning and guaranteeing those added distribution that's happening, not only with us, but in the market overall. As yet, we don't have branded in-store furniture or in-store presence or particular marketing behind CPO at that point, which obviously should be beneficial, but a lot of moving parts going on. The comments that we've given so far are the best that we could see, but it clearly is a really encouraging area of growth for the benefit of authorised retailers like us. So, great trend and better than what we had predicted.

Jon Cox Okay. And then just a last one on the so-called tourist tax. I'm just wondering, do you feel that you're being penalised in terms of international buyers maybe preferring to have a look in Germany and France? Obviously, the Chinese are supposed to be coming back. Do you think you're missing out on some of that business? I wonder if you've had any discussions about that tax being revoked, potentially after another election with the Labour Party at all?

Brian Duffy Thanks for asking, because it is a really important subject for retail overall in the UK and hospitality and other aspects of tourism. It's something that we've been as supportive and active on as we possibly can, to say the UK is hugely missing out as an economy. Tourists have post-COVID, certainly from the US, the Middle East and elsewhere, have come back, but the real concentration of where they've gone to and where they've been spending money has been in the EU countries, France, Portugal, Germany, Italy, all hugely benefiting. And absolutely, the UK missing, has disproportionately impacted luxury within retail, but it's not only luxury.

We're involved in supporting a lot of the lobbying activity and providing data and input and helping where we can in any of the press interests and the category, but I haven't dealt directly with any of the government representatives on it. Our view remains that it's inevitable that it changes. The statistics are becoming more and more evident to everybody.

And it was always our view that when the actuals start to happen, then the differential that there was, and the government's assessment versus the retail industry's assessment would have been reconciled, that everybody would have seen the facts and the impact. So that's clearly happening. There's some really good press attention in the area. We think it's inevitable, but will it need a change the government help for that, if that's what transpires in November? Possibly. But the country really needs growth, as we all know. And here's an area that we're actually doing the opposite, rather than pursuing growth. So we think it's inevitable, but it's very difficult to and in the meantime, we haven't included any change in legislation in any of our projections, including the LRP.

Jon Cox Thank you.

Brian Duffy No problem.

Operator Our next question today comes from Alison Lygo from Deutsche Numis. Your line is now open, please proceed.

Alison Lygo Thanks. Good morning, guys. Thanks for taking my questions. Two quick ones from me. First one, just on inventory and working capital. You've obviously come in ahead of guidance on cash position, so just wondering if you could talk a little bit about where inventory closed this year and whether you're comfortable with the composition of the inventory that you are holding. And then to think about next year, how should we be expecting kind of working capital and inventory to trend? Particularly conscious you're moving more into the jewellery side of the business.

And then second, just how you're thinking about some of the fixed costs profile of the business at this stage. Are you happy with you've got the infrastructure and capabilities in place you need? And just whether there's anything we should be mindful of in terms of investment going in or cost pressures as we think about next year? Thank you.

Anders Romberg Sure. We're happy with our inventory position as we closed the year, as you can see from our cash position. Obviously we've been working to adjust. We bought into more stock in anticipation of a better Christmas, and we've rolled through that, and we're in good shape exiting the year, so no issue on that.

In terms of working capital for FY25, as I've indicated, pre-owned as a segment turns a bit slower than new products, because you have the refurbishment cycle that you need to go through. So working capital is going to hold pretty much where it is. I don't think it's going to deteriorate that much year-on-year, so I don't think it's going to be material as a percentage of our sales.

If you look at the fixed cost, we have a really good and solid infrastructure in the business that we've proven that we can scale up and down, if needed. So, really, not a big deal in terms of necessary investments. We have done an investment in the US where we've gone into new corporate office, which is partially in this year, and it's going to be a little bit of cost coming into next year, but nothing material is essentially ramped. The infrastructure is pretty good, actually.

Alison Lygo Thank you.

Operator Our next question today comes from Edouard Aubin from Morgan Stanley. Your line is now open, please go ahead.

Edouard Aubin Good morning, Brian and Anders. Sorry to come back on the guidance, you had a few questions already, but just to clarify things. If I do the math, if I just take 2022 numbers for Roberto Coin, take 11 months, 20% EBIT margin. Basically your guidance, if my math is correct, implies that the underlying business should post an EBIT margin of about 8.3 to 8.5 versus your guidance for last year of 8.6 to 8.8. So, first of all, is the math more or less correct? Number one. Number two, if it is why again the margin pressure in fiscal 25 versus fiscal 24? In terms of Europe, will lead to increased margin pressure or lower margin pressure? Because will your start-up costs potentially diminish related to that? And then on the guidance for the legacy business, so to speak, underlying business, medium to long term, how do you see things if margin is going to go down in 25? So that's kind of a first and long question.

The second question is much shorter. Just to come back on what you say, Brian. I think during Q3, you talked about a bit of weakness in terms of demand in the UK and maybe in the US on mid-price kind of brands in the $3,000 to $6,000 type of price. Should we understand that demand is now a bit stronger or was a bit stronger in Q4 versus Q3 for this type of product? Thank you.

Anders Romberg So your question on margin, we haven't broken out by segment, but clearly, as part of our acquisition of Roberto Coin, we're going to revitalise some investment into marketing behind that brand, which I think is going to benefit it on a longer term basis. So, as I said, we haven't been that specific, and using 22 numbers out would be cautious on, because obviously that was the year of restocking, as we pointed out, when we announced the transaction. So, 23 is probably a better base to start from.

And on that basis, we only have 11 months of the business incorporated, and we're going to obviously assess our distribution network and work with our partners and so forth. That could be, and we planned it conservatively, in the sense that there could be a small number of retailers that view ownership as an issue, which we've seen in other acquisitions of brands like Farfetch, and so forth. So we've been relatively conservative, but we also put in some resources behind relaunching the brand in the US to drive its order.

Brian Duffy And along with the industry overall, we've taken a cautious approach to the year, a conservative approach to the year. Hopefully that comes over strongly on we're doing. And in terms of mid-price, I think we've commented, recovery in jewellery and some of the mid-price products as well, showing signs of encouraging trends, as we are as we get into the full summer here. I think inevitably, yes, this is a great space. The regional market in the UK has been forever, was disproportionately impacted by a combination of pricing and cost of living concerns. And, of course, that will settle down. The brands know that they can't really push pricing any further. The Swiss franc situation stabilised as well, so all of the indications are that things will be moving back in positive alignment for that category in the year ahead.

Edouard Aubin Understood. Just a small follow up on fiscal 25 EBIT. In terms of Europe, is it going to be an incremental drag or an incremental positive? Because start-up losses could go down a bit, so fiscal 24 to fiscal 25 in Europe.

Anders Romberg No, we've already taken the decision, so it's been booked in this fiscal year as an exceptional exit cost. And actually, it's going to be accretive going into next year, because with the overhead and support structure that Brian alluded to, that business wasn't particularly profitable. There's actually some slight losses coming through, so it's going to be positive from a margin perspective. Sales wise it's obviously a bit of a decline, it's about 10 million or so. But it's nothing that’s material. But the offset against that is the reintroduction of bonuses and LTIP targets, so it washes sort of its face with the two.

Brian Duffy And positive cash.

Edouard Aubin Thank you.

Operator As a final reminder, if you would like to ask a question, please press star, followed by one on your telephone keypad. And if you have joined us online, please click the Q&A tab and type in your question. Our next question comes from Akshay Gupta from HSBC. Your line is now open, please go ahead.

Akshay Gupta Good morning. Just one follow-up on the pre-owned business. Can you throw some colour on what the margin structure is today for the business? Thank you.

Brian Duffy We've said through this business, as we grow, we expect to have a neutral impact on our profitability. The P&L is a little different, in that the gross margin we realise a wee bit less than our average, but then we spend less overhead on it. So when you get to EBIT level, it's pretty much similar. I think the important thing to recognise, though, is the average selling price that we're selling, which is actually very positive to our average. So the actual profitability by transaction or in terms of space is a positive impact and accretive in that sense, but the percentage is, like I described, a wee bit less margin but bottom line a pretty neutral impact.

Operator That concludes the Q&A session on today's call. I'll now hand back over to Brian Duffy for closing remarks.

Brian Duffy Thanks, Drew, and thanks again, everybody, for joining. The review and guidance that people have picked up on, I think just describes where we’re at, of cautious optimism going into the year. We have some positive trends, we have fantastic projects to look forward to delivering and hopefully exceeding expectations on what we can do with Roberto Coin strong trend that we're enjoying on pre-owned and the megaprojects we've got coming up, like Rolex and Bond Street, like the AP House in Manchester, like the big Rolex boutique we'll opening in Atlanta, Georgia, and a number of other mega projects in the US.

We’ve got an exciting year ahead. It's a great category. We really respect and support the way the industry is responding to the conditions that we're in. And we think the reset is largely behind us, overall. So, I'm cautiously optimistic and I appreciate your interest and support. And a huge thanks again to our colleagues for the amazing jobs that they do in supporting and representing our business and our great brand partners. Thank you.

Operator That concludes today's call. You may now disconnect your lines.