THE WATCHES OF SWITZERLAND GROUP

WATCHES OF SWITZERLAND GROUP PLC
WATCHES OF SWITZERLAND OPERATIONS LIMITED
WATCHES OF SWITZERLAND COMPANY LIMITED

WATCHES OF SWITZERLAND GROUP PLC H1 FY21 RESULTS

THURSDAY 17 DECEMBER 2020

Transcript produced by Global Lingo
London - 020 7870 7100
www.global-lingo.com

CEO UPDATE
BRIAN DUFFY, CHIEF EXECUTIVE OFFICER

Good morning everyone. Thanks for joining us for the presentation of the Watches of Switzerland Group half-year results for the half-year to October 2020. My name is Brian Duffy, I am the CEO of the Group.

AGENDA

Looking at the agenda for the presentation I will do an overview of the Group performance. I will be followed by Craig Bolton who will give an update on the UK performance. David Hurley will then join us from New York to give an update on the US business. Then our CFO, Anders Romberg, will review the financial results in some more detail and also a review of our guidance for the year. After our presentation we will be open to take any questions that you may have.

STRATEGY DELIVERING RESULTS

If you look at the half-year overall we are very happy with what we have achieved. Our strategies are clearly working and we see no reason to change them at all. Our performance overall for the half-year was a reduction in sales year-on-year of 2.6%. That was -7.4% in the UK and a positive 11% in the US. That came from a strong second quarter and you will recall that we updated the market after ten weeks of the second quarter when we were travelling at +20% year-on-year. We actually finished at +21.5% year-on-year in constant currency so the last three weeks were even stronger, particularly in the UK. That +21.5% is achieved by over 14% growth in the UK and over 42% growth in the US. A very, very strong second quarter for us overall.

We clearly have ben impacted by the pandemic. We have been dealing with lockdowns in the UK and US. We have been dealing with hugely subdued international business of tourists and at the airports. Of course we have been dealing with much reduced traffic into our shopping centres. We have achieved these numbers despite all these headwinds. Overall we estimate that we lost something like £80 million of revenue directly as a result of all that we have had to contend with because of Covid-19.

We achieved our good results through our two main areas of focus. One has been activity on digital. Overall the other has just been the great spirit and performance of our teams. In terms of digital activity a big spend in digital marketing, a lot of social media support. Our CRM systems have been hugely valuable and the most recent lockdown in the UK, the click & collect facilities have worked really well. Remote selling appointments taken and a whole variety of different things that we have been doing that we were able to do because of the technology that we have been invested in, the resource and the expertise that we have within our company.

Our cash performance was very, very good. Our debt was down at less than £23 million. Overall it is slightly flattered by the timing of month-end which Anders will talk to in his section but whatever way you look at it, it was a very positive period for cash generation and therefore cash management overall. Very, very proud of the performance of our teams. They really are inspirational both in our support centres and out there in the stores. We were very proud to be able to fulfil our commitment of looking after our teams in terms of maintaining full employment, maintaining full salary and our teams certainly have repaid that favour with a great spirit that they have shown and the performance that they have delivered overall. I am happy with the first half and we think we are very, very well-positioned for future growth.

DELIVERING ON STRATEGIC GOALS

On this slide we are showing you the year-on-year sales performance and the year-on-year profit performance. As mentioned in the previous slide, our sales year-on-year were down 2.6%. We delivered total sales in the first half-year of £414 million. In terms of profits adjusted EBIT for the first-half is a total of £41.5 million. Therefore in terms of profitability we have actually increased our profitability from 7.3% to 10%. Some of the reasons for that are temporary, one-off relating to this year and others are ongoing cost reductions that we have managed to negotiate particularly in areas of rent and occupancy costs.

However, overall looking at what was a strong quarter two, what has been for the first seven weeks a strong quarter three, where we are delivering a year-on-year growth in double-digit. Again, Anders will talk through the detail. Looking at the profitability we achieved in the first half all leads us to review our guidance for the year and to take both our sales up and our profitability up. Anders will go through the detail.

PERFORMANCE DRIVE BY LUXURY WATCHES, DOMESTIC CLIENTELE

Looking at where our sales came from clearly the US becomes a bigger and bigger proportion of our total sales. We see the US in the first half represented 29% of our total. We also want to call out the great performance that we have had in our online business which is all based in the UK at this point. 65% up on prior year and the online share of our total Group sales increasing from 4.3% to 7.3%. Looking at it from a product standpoint then clearly the penetration of luxury watches continues to increase, now representing 87.4% of our total sales. The most remarkable thing to look at here in this chart is the split of clientele. If we look at last year's first half we can see that over 33% of our sales came from international business, be that tourist business land side or airport travel business. This year's first half it was around 7.5% so a huge deficit that we had to overcome which we did by pivoting our business towards our domestic clientele both in the US and particularly in the UK where we can see that domestic client sales from the UK last year making up 40% of our sales, this year making up 63.6% of our sales. A huge pivot and a tremendous job done by our teams.

UK: INCREASED MARKETING SPEND DRIVING DIGITAL AWARENESS AND SALES

I mentioned digital and for an old-fashioned marketeer like me these numbers are just astonishing to look at. What you can achieve in terms of getting messages out through the internet these days and through various digital mechanisms. We can see that our social media activity, Facebook and Instagram allowed us to talk to 42 million people per month. That is an astonishing number. Effectively it is two thirds of the population of the country here in the UK. Our digital campaign impressions, our advertising that we have done and then amplified several times throughout the internet resulted in us talking to a billion people which is an unbelievable number. Of those, 10.7 million people effectively clicking through to our sites and many, many more people go into our stores. There is no question at all our success in digital marketing has been driving a good deal of our great performance that we have done.

US: IMPACTFUL EVENT AND PR ACTIVITY DRIVING AWARENESS AND SALES

In the US our emphasis is different. On marketing where we spend our budget is different. In terms of Watches of Switzerland at least, we are new to the US market and therefore we are following a strategy of really getting our name out, really building an awareness and also building our image. A great deal of our budget and activity goes behind events and collaborations such as you can see here. David will talk about the collaboration that we had with 50 Cent. Amazingly when you look at the PR value of everything that we have done we are looking at a billion people effectively in the half-year hearing about our Group in one way or another in the US market overall.

BREXIT

I am sure there is interest in what Brexit might mean to us. It will mean less to us than it might mean to others. First of all we are pretty confident that there will not be any disruption in our supply chain. Most of our product comes from outside the EU, from Switzerland of course. We have checked with all our major suppliers and we are not expecting any disruption from a supply viewpoint. We have a number of EU citizens within our team of colleagues. We have been working with them for the last year, in fact longer, to make sure that all of their administration documentation and everything is done and complete so that they can remain in the country. We do not expect any problems from that.

The hugely subdued amount of international business that we are doing today means that any exchange rate arbitrage that might result from an exchange rate movement following the implementation of Brexit will mean much less to us because simply we have much less international business currently overall. We have no transactional exposure from a foreign exchange viewpoint. We buy everything for the UK in sterling, everything for the US in terms of luxury watches at least in dollars, so no transactional exposure overall.

Finally the proposed and the planned removal of duty free sales from the UK, firstly I would say I think it is a big mistake overall of the government. We have obviously made representations on this. I personally think it is something that once the reality is experienced could well change in the future. However, in the meantime given the hugely subdued international business that we have we are not expecting that the removal of duty free sales will have a significant impact on our sales going forward.

OUR PEOPLE

Finally, I just love this image here of our teams. This is how they look when you go to their stores, this amount of positivity and happiness. They love what they do. They bring a great positivity to the whole experience with our clients. If there has ever been a down day, and there has not been many that we might have had here, just spending a little time in our stores you come out inspired and invigorated again. How these people have looked after themselves, looked after their colleagues and pretty much looked after the company has been a true inspiration to us all. A great deal of the thanks and appreciation of the good results we are reporting certainly should be enjoyed by this great team. With that I will now pass over to Craig.

UK UPDATE

CRAIG BOLTON, EXECUTIVE DIRECTOR UK

TIMELINE SINCE MARCH 2020 LOCKDOWN

Good morning. My objective in the next few minutes is to update you on the key initiatives we have here in the UK. I will weave in the impact of Covid-19 and our actions to mitigate it. The top of the chart shows you how we have been impacted since March of this year. Certainly our first half-year has either been impacted by full lockdown, restricted trading or country-wide lockdowns as in the most recent case. Headwinds have remained strong throughout, particularly with vastly reduced footfall and a significant reduction in tourism business in London and the airports. We remain focused on the opportunities though, in particular these four key focus areas which I will cover now.

OUR PEOPLE

Throughout this period our focus remained on our people, maintaining 100% of their salaries, looking after their wellbeing, finding new ways to engage with them and encouraging them to stay engaged with the business, completing over 25,000 e-learning modules.

ENSURING CONTINUOUS TRADING

Our focus in parallel was to ensure we maintained a level of continuous trading. Our teams used the very best of our CRM tools to drive sales. Lockdown one and lockdown two both benefitted from our teams pre-selling luxury watches. The only difference in lockdown two was we had manned stores and our clients could use our click & collect facility to collect their watches. Our online business continued its excellent year-on-year growth during the first half. Sales spiked in June lockdowns but also showing significant year-on-year growth even when the stores reopened. We were ambitious too with our product buys meaning we have the best availability of core best sellers and newness in the market. Both our online business and stores were supported by our extra investment in digital marketing. We had two key focus areas. Online focus during lockdown periods, both digital and more traditional channels, plus a full multi-channel campaign during more normal trading periods. We have invested significantly more in digital marketing this year, started earlier and achieving much greater reach.

MULTI-CHANNEL CUSTOMER EXPERIENCE

Like our marketing, our customer experience was enhanced by developments in technology. By Personal Appointment launched in July of this year allowing much greater flexibility for our clients to interact with our business. We now have near 40% of our business managed through this service, achieving higher conversion levels versus traditional walk in business Customer events were largely held in stores pre-Covid. We have now developed these into virtual events, proving to be a huge hit with our clients and very successful in achieving a pipeline of future sales. Most recently this was further supported by the launch of our Luxury Watches Virtual Boutique, allowing clients to speak directly to our experts from online enquiries. It is already showing improved conversion to sales.

INVESTMENT: NEW STORES

Investment in our estate remains a top priority for us. There is no slowdown in our capital programme. If anything we are looking for opportunities to fast track plans. As updated in quarter one review, we had completed these excellent mono brand stores, all trading ahead of expectations.

INVESTMENT: WATCHES OF SWITZERLAND BROADGATE

Most recently we have opened further significant stores. The most significant of which was our new flagship store opening in Broadgate. 6000 square feet across two floors with a Rolex lounge, multiple luxury watch shop-in-shops including Audemars Piguet and Cartier, plus a separate Omega Boutique. The first two weeks trading have been well ahead of expectations

INVESTMENT: WATCHES OF SWITZERLAND KNIGHTSBRIDGE

Watches of Switzerland Knightsbridge expansion and full refit reopened on 2nd December including a new Rolex lounge with visibility on Brompton Road as well as a full refit of both floors and new brands added.

INVESTMENT: BLUEWATER OMEGA AND BREITLING MONO-BRAND BOUTIQUE

Our mono-brand boutiques continue to develop with the relocation and opening of an Omega Boutique and Breitling Boutique in the Bluewater mall, both fantastic expressions of the brands and trading well.

INVESTMENT: CARDIFF BREITLING MONO-BRAND BOUTIQUE

Our last store opening pre-Christmas will be the new Breitling mono brand store in Cardiff, opening later this month.

MONO-BRAND BOUTIQUES

Mono-brand store development remains a key strategic objective for our group. FY21 will see our store numbers reach 26 and we believe there is opportunity to double this number again within the next two years and plans are formulating now for FY22.

FRASER HART STORE DEVELOPMENT

As updated previously, following the purchase of the four Fraser Hart stores, we rebranded them pending full refurbishments. Early FY22 we have planned three of the four ex-Fraser Hart stores to be fully refurbished. In the case of Mappin & Webb Kingston this store has also being expanded. Mappin & Webb York is planned for expansion and relocation and will complete when a suitable location is found. All stores will benefit from full brand finishes and increase in luxury brand portfolio.

NEW GOLDSMITHS LUXURY CONCEPT

One the most exciting projects launching in FY22 is the elevation of the Goldsmiths brand. You can see on the screen the current luxury finish for our Rolex showrooms. To briefly show you the new design, colourways and branding on the slide, we have taken the best of what we know from the UK brands in Watches of Switzerland and Mappin & Webb but also our learnings from the rebranding of our Mayors stores in the United States. The new design will start to roll out early in FY22 with all Rolex stores being fully refurbished within three years, taking opportunities to expand footprints where possible. Our remaining luxury stores will also benefit from the new rebranding as we continue with their refurbishments.

UK DIVISION FOCUS ON OPPORTUNITIES

In summary our people are highly motivated, committed, dedicated and energised. We continue to trade very well and make market share gains. Our teams continue to deliver an excellent customer experience, supported by technical advancements such as By Appointment service. We continue to elevate our estate, expanding where possible and accelerating our programme of refits and new store openings. Thank you.

US UPDATE
DAVID HURLEY, EXECUTIVE VICE PRESIDENT US

KEY PRIORITIES

Good morning. Our focus in the US remains consistent with the overall Group. The health and safety of our colleagues and clients is a priority above all else. Our clients have been reassured by the controls we have put in place and the ability to choose how they interact. Whether it is in person or virtual appointments, researching and shopping online or a combination of. We continue to provide great customer experiences and events, some of which I will go through today. We have maintained our capex programme and as part of that we will have opened eight new mono-brand stores by the end of this calendar year. We began to ramp up our investment in ecommerce, utilising the overall Group campaign across search, display and YouTube with the support of our brand partners. We continue to generate significant press and PR through compelling marketing.

CUSTOMER EXPERIENCE: VIRTUAL

Tudor Black Bay Launch

A few slides on some of those customer experiences and events. The Tudor Black Bay Blue was one of the most successful timepieces released this year and we held an Instagram Live on day of launch with Brian and Nick Sullivan, the Editor of Esquire, to discuss their love of Tudor.

Chef Morimoto Virtual Dinner

We partnered with Grand Seiko and chef Morimoto, know as the Iron Chef, with a virtual dinner for our clients, delivering fresh fish from his restaurant and then having an interactive sushi making demonstration.

Analog Shift Instagram Event

We celebrated the acquisition of Analog Shift with the founder, James Lamdin. We are delighted to have them as the official vintage and pre-owned resource for the Group.

CUSTOMER EXPERIENCE: PHYSICAL

Mayors Café and In-Person Appointments

it was not all virtual. We also held a series of in-person events. We opened Mayors Cafés adjacent to four of our stores and hosted our clients with about 20 days of one-on-one appointments.

Patek Philippe Event

At the start of December we offered our clients the opportunity to see the full breadth of the Patek Philippe assortment. Over 50% of the clients who attended had not purchased a Patek Philippe before and the vast majority of these clients were under 40 years old.

Geneva Watch Days

Nobody from the US was able to go Geneva Watch Days so we brought them to our clients in New York. We were the only destination in the US where watch lovers could get to see all of these new releases in person.

Grand Seiko Nature of Time

The Grand Seiko Nature of Time pop-up store opened in July on Spring Street in Soho. Originally only scheduled to last for three months its performance has exceeded expectations and we have extended it into 2021.

MONO-BOUTIQUE EXPANSION

As I said earlier we will have opened eight mono-brands by the end of the year in partnership with Omega, Breitling and TAG Heuer in high-traffic malls such as King of Prussia and Roosevelt Field.

ECOMMERCE LAUNCH

Our ecommerce launch continues with the support of our brand partners with Cartier being the latest brand to go transactional.

MARKETING: 50 CENT'S DINNER SOHO

In terms of marketing we had a great private event with 50 Cent in our Soho flagship generating over 100 million press and PR impressions.

MARKETING: CONTEMPORARY ARTIST OLIVIA STEELE INSTALLATION

For the holidays we have worked with the Berlin-based artist Olivia Steele to design bespoke neon signage for all of our US Watches of Switzerland stores, creating showstopping windows and certainly something unique in the watch world.

MARKETING: NEW MULTI-BRANDED CAMPAIGN MAYORS JEWELLERY DEBUT

We have also announced a major new jewellery campaign for Mayors in Women's Wear Daily. All of our jewellery partners have participated and we will roll out at the start of January.

MARKETING: CELEBRITY DRESSING FOR MAYORS JEWELLERY – AMERICAN MUSIC AWARDS

We were delighted that the actress and entertainer Taraji Henson wore our Only at Mayors Roberto Coin Collection in four of her eight looks while hosting the American Music Awards.

US MARKET

The US market remains fragmented but we are generating strong momentum and remain focused on the opportunities to drive future growth. We will do that through continuing our refurb programme, through new projects, replicating the success we have enjoyed in ecommerce in the UK and we still believe there are further opportunities for acquisitions within the US market. Thank you.

FINANCIAL REVIEW & OUTLOOK
ANDERS ROMBERG, CHIEF FINANCIAL OFFICER

P&L (PRE-IFRS 16)

We are very pleased with the results of our first half. Sales in the half were impacted by a significant disruption due to store closures, mainly impacting our first quarter. In addition to this traffic at the airports and tourism reduced the weight of these channels from about 33% last year to 7.4% this year. During this entire period our ecommerce business has performed really very well, trading up 65% on last year. In spite of these headwinds we are pleased to report sales being down only 3.4% in the half or 2.6% in constant currency. AS previously reported, our sales in the first quarter were down 27.6% on last year. During the second quarter sales picked up and we closed at +19.8% versus prior year or 21.5% in constant currency.

Our top line performance was driven by strong performance in luxury watches while luxury jewellery has held up better than we had planned. Our product margin was down in the half because of higher penetration of luxury watches and mix within this segment. Continued good leverage on store costs, which came in at 17.4% on sales versus last year's 21.7%. Shifting sales from turnover-based locations like the air side to fixed rent locations in the UK as well as the US improved productivity, has increased the leverage. We also benefitted from the rates holiday in the UK and the furlough support. Overheads were well-controlled but up 2.3% on last year.

Our adjusted EBITDA came in at £52.2 million versus £41.2 million last year or an improvement of 26.5%. Margin improved to 12.6% from last year's 9.6% so excellent. However, we have estimated that our half-year revenues were adversely impacted by the disruptions experienced by about £80 million, which would have put the growth rate pretty much at the run rate that we had when we entered into the pandemic. On that basis we have tried to calculate an illustrative adjusted EBITDA margin and that came out at about 11.1% versus the reported 12.6%. We came to this by taking out any impact of the government support in the first half and adding back the product margin from the lost sales as well as all variable costs associated with this sales increase. Our first half EBIT was £41.5 million versus £31.1 million last year so all in all a very good first half.

BALANCE SHEET (PRE-IFRS 16)

We continue to pursue our strategy to invest for future growth. Some of our planned capital projects have been delayed as a result of the pandemic so in the first half we spent £9 million of capex versus £15.7 in the first half of last year. We expect to catch up our capital plan through the balance of the fiscal year. The increase in goodwill is related to the acquisition of the Fraser Hart stores in March of 2020. These stores have been trading ahead of our expectations since opening up. Our inventory levels in the half were essentially flat versus last year. We successfully reduced our inventory of luxury jewellery as part of the repositioning of the range at Mayors, while increasing our holding of luxury watches.

We have closed our in-house credit programme in the US which has been scaled back over the last year, as previously mentioned. In the half we exited an amount of £1.3 million of recourse from the incumbent provider at a profit of £400,000 versus what we had on the books. Post-closure of the half we also managed to sell off the remaining balance to a third party at no gain loss so today all of our receivables to clients are 100% outsourced. Trade payables were mainly driven by timing of stock intake and increased customer deposits. We closed the first half with a net debt of £22.7 million versus the same period last year at £92 million. At the start of the year our net debt was £129.7 million so quite a good performance during the half.

CASHFLOW

Our free cashflow improved by £72 million versus last year and came in at £116 million. Our free cashflow conversion was 222.6% in the half which we expect to see more normalised during the balance of the year. As a reference, last year the equivalent was 107.1%. Working capital improvement was the main driver of the cashflow benefit in the first half. Last year contains the interest for the final payment of the pre-IPO debt structure. Our expansion capital was below our original plan in the first half but we do expect to catch up on projects through the balance of the year. At the half none of our RCF and ABL facilities were drawn.

NET DEBT AND FINANCING

Our liquidity headroom at the end of the first half was £229.9 million and we closed at a leverage of 0.25x. We are in a very good position to support growth through either expansions and/or acquisitions for the future.

FINANCIAL KPIS

Having a look at our financial KPIs we are very pleased that they are all moving in the right direction. If you look at our return on capital employed measured on an LTM basis, it improved by 140 basis points to 17.2% due to an improved LTM EBIT of 14.8% compared to the increase in average capital employed of 5.1%. Free cash flow improved, as mentioned before, by £72 million so we are very pleased with that and it puts us in a great position for further expansion acquisitions. Our 4-wall EBITDA improvement in both the UK and the US is very encouraging. The most pleasing part has been to see the improved leverage in the US as we drive higher productivity. In the UK the reduced level of leases based on turnover is a great win. Our adjusted EBITDA at £52.2 million were up 26.5% on last year which in times like we experienced is very good.

POSITIVE START TO Q3 FY21

Now to current trading. Our Q3 has had a positive and stronger than anticipated start, albeit the trend has slowed down somewhat versus the second quarter as a result of our stores being closed in England for four weeks. Group revenue for the first seven weeks has been +11.9% in constant currency or 11.2% in reported. We generated higher conversion which more than offset lower traffic across both the UK and the US. UK sales at +7.7% reflecting optimisation of the business through ecommerce, CRM, clientelling, digital channels and a new click & collect service. We also opened up our new flagship in Broadgate and our refurbished store in Knightsbridge. US sales came in at +22.7% for the first seven weeks in constant currency and this is the result of a continued strong momentum in Mayors in Florida and Georgia with a moderated trend in Las Vegas where we can see less tourism than what we have seen in the second quarter.

FY21 GUIDANCE (PRE-IFRS 16, 53-WEEK BASIS)

As the result of our stronger than expected first half performance and a better start to our third quarter, we are upgrading our guidance today. On a pre-IFRS 16 and 53-week basis we are now expecting revenue to come in between £900 million and £925 million for the year with an EBITDA/EBIT margin improvement of 1.5-2.0 points on last year. Depreciation and amortisation is expected to come in between £28.4 and £30.4 million on last year while our tax rate is expected to land between 20% and 21.5%. Net debt at the end of the fiscal year is projected to come in between £60 million and £80 million.

Our guidance assumes that the strong luxury watch market will remain in the UK and in the US but we do not expect any significant change in current footfall trends so we are remaining pretty conservative on that. We do expect to see some further disruption coming through in January/February due to the virus situation that we are all faced with. We do expect the current level of consumer demand to remain throughout the balance of the fiscal year. We are not expecting any improvement in airport traffic or for that matter in tourism in the UK and limited domestic tourism in the US. Our tax rate is expected to come slightly lower because of better utilisation of some carry-forward losses. Our guidance on depreciation has gone up as a result of us reassessing the useful life of some of our store assets, which has triggered a £5.4 million write-off as a one-off this fiscal year. The Group intends to repay the furlough support received from the UK government during FY21 subject to no further significant disruptions.
Now I am going to hand over to Brian for some closing remarks. Thank you.

CLOSING REMARKS
BRIAN DUFFY, CHIEF EXECUTIVE OFFICER

Thank you everybody again for joining us. My thanks to David, Craig and Anders for their presentations. A particular thanks to our team for delivering what I think was a very, very good first half overall. Now we will happily move on to your questions.

Q&A

Edouard Aubin (Morgan Stanley): Good morning guys, congratulations on the results and congratulations for raising this sort of money. Two questions for me. Number one, you are obviously, as you mentioned, Brian, to a certain extent supply constrained so if you could give us an update of what you're expecting from the main brands you sell in terms of supply next year. Also you mentioned that you are opening some mono-brand franchise stores for the likes of Omega and TAG Heuer. With the crisis I guess a number of brand retail stores have turned loss-making so what is the willingness of some of these brands to move to a more capital-light model? How and to what extent can you operate mono-brand stores better than the brands themselves? Thank you.

Brian Duffy: Morning Edouard. Thanks for your question. Obviously as we regularly report to the market, a big part of our business is supply constrained and therefore supply driven. We have good visibility of supply from those constrained brands through to the end of the year and a good indication of where we will be for the remainder of the year. We do not disclose any of the specifics obviously but simply to say that clearly our guidance has taken into account the indications that we have had overall and supply. That is a big influence on how we are calling the year overall.

Mono-brands we really believe in. We have a good formula for mono-brands. We are doing generally smaller stores than might have been the case in the past that gives us the obvious economy there on rent, capex, staffing and so on but also sharing back of house wherever we can do adjacent mono-brands. It gives another efficiency overall. We are ahead in the UK. We have at this stage, Craig, 26 mono-brands in the UK. Even during this period of disruption and lockdown they have continued to perform well, including the new ones that we have just opened in the first quarter. We have now started on that venture in the US literally a couple of weeks open overall. Once again despite reduced traffic we are happy with the initial experience. It is a category we really believe in, to your last point. Obviously, all we do is retail and we have been doing it for a long, long time. It gives us obvious expertise in systems, customer service, recruitment, training, store build and all of that. We can bring all that to bear working with our partners to do what they obviously believe is an efficient retail proposition for them.

Edouard Aubin: Thank you and if I can just have a follow-up on what you said on real estate. Given the retail real estate crisis that we are facing today in the UK and elsewhere, to what extent could you see your rent coming down as a percentage of sales in the medium-term? How material could that be potentially? Thank you.

Brian Duffy: Thank you, Edouard. We have reduced our occupancy costs this year. We have particularly reduced it contrary to what might be happening with other tenants in retail. Our direction was to get out of turnover rents. We generally in the UK had a formula fixed rates plus a reasonably significant top-up on turnover. The success that we have had over the years meant that we were actually paying more in turnover rents than fixed so we had progressively been getting out of or reducing these turnover rents. [Inaudible] the circumstances sat down with all of our big landlords and generally we have got out of all turnover rents. We also have a reduced business at the airport which again is entirely commission or turnover rent based. We have not actually quoted the number in terms of the year-on-year saving but we have reduced our occupancy costs. Obviously, for the future as well as this fiscal year.

Edouard Aubin: Okay, thank you.

Richard Taylor (Barclays):
Morning team. I appreciate a lots to do this year with the existing estate amid a reduced footfall, lockdowns and so on but looking into next year any update please on the pipeline for the US estate in terms of white space but also potential M&A. Then secondly interested in any comments you have on Analog Shift and I realise it is very small at the moment but how you may intend to develop that business and address any opportunities in the pre-owned market. Thank you.

Brian Duffy: Okay. Hi Richard. Obviously the formula or the format we have been using in terms of communication about the US market has been that we point to a lot of growth opportunities that are there. That does include white space, new developments, the potential acquisition, mono-brands and the growth of ecommerce. They are all offering very attractive prospects for growth for us but until we have agreed [inaudible] informing the market yet. We are going to change that position but actually working through we have now had the US market studies in some depth. We can therefore be more specific about where we see the opportunities. As a result we are working our way through a longer-term plan and we will update the market with an overall market share objective that we would have over the next three, four, five years. We will probably do that with our year-end numbers. In the meantime we have obviously not announced anything beyond what you knew of already. The American Dream Project has obviously been a victim from a timing standpoint from the pandemic expectation. In fact, David, do you want to say what the latest expectation is on American Dream?

David Hurley: I can say the latest expectation on the part of American Dream is that they are talking about opening [inaudible] at the end of the calendar year. I will say that the non-luxury component has opened up and only with a limited number of stores to start off. I think about 75 stores in total that opened out of about 100 by the end of this calendar year. The traffic and sales have been very strong so we still very much believe in the project but obviously the luxury section has been delayed because of this virus.

Brian Duffy: Obviously we are working on opportunities constantly in the US market and as and when things become finalised we will look forward to bringing this to the market and communicating. As I say, we will do more of a general target from a market share standpoint in the US and in the UK. There are developments clearly happening in the UK but we start from a much higher base.

Analog Shift we have loved since we met the guys, since we met James Lamdin who is the founder of Analog Shift. They have real expertise on vintage products and are just out-and-out watch lovers. We are delighted to bring them into our fold. it is an important element of building both vintage and the pre-owned business which is disproportionately important on the ecommerce market in the US. We are starting all of this together. As David mentioned in the presentation, we have just brought all the brands online. Cartier have been the latest in the US. We are now spending behind that and driving some good momentum. The plan is to fully utilise Analog Shift's position, reputation and following to gently drive traffic onto our website and then specifically to use it to expand on pre-owned and vintage. A small acquisition overall in terms of value but we think it will make a big contribution going forward to our overall business in the US.

Richard Taylor: Okay, thanks very much.

Greg Lawless (Shore Capital):
Morning guys, well done. I wondered if you could give a little bit of flavour about the regional split in the UK in the first half. Obviously, London footfall down significantly because of the absence of tourists. I wondered if you could provide any colour there. On the business rates and the furlough money, I wondered if you could potentially quantify the benefit there please. Thank you.

Brian Duffy: The way our business clearly has changed significantly is pivoting away from international to domestic. That regionally results in us having a bigger regional increase in business than London because London disproportionately had the international. It just goes to prove, as we have said all along, that we have huge demand out there for a lot of the products that we sell, Rolex in particular. We now have happier customers who have waited a little less to get their hands on a Submariner or a Nautilus or whatever we have had on our waiting list. That is where it has come from and the best measure of it is what we have given to say that our international business last year over 33%, this year more like 7.5%. That is the big shift overall in terms of client mix. We effectively now have 93% domestic UK/US and I think it has been a generally move overall in retail.

Your second question was on the furlough money. Our position on the furlough money is that we were eligible for it, clearly. We have found it a great source of comfort and a great project. When it was announced by the Chancellor we were all very concerned about the future and how long the lockdowns would last. Having the furlough money back in March was a great comfort and it did help us do what we wanted to do which was look after our teams, keep them employed, keep them fully paid. As the year has gone on and in particular as we now look at the start of quarter three, it is quite clear to us that within this year we do not effectively need the furlough money and therefore we are doing we consider to be the right thing in returning it. We have not quoted exactly the number but if you look at the contribution of the furlough in the first half it is there in the detail. It was £3.3 million.

Greg Lawless: Thanks and just on the business rates. You obviously had the benefit this year. Thinking for this year and outwards, what sort of benefit have you had, please?

Anders Romberg: As for business rates, obviously we have taken advantage of that in the first half and we think certainly we are not planning to pay that back. We are non-essential so obviously we have been closed. The intent would not be to refund that and the holiday itself obviously commenced in April of last year and it will end at the end of March, as far as we know. Therefore the Chancellor will [inaudible].

Brian Duffy: The total value in the year?

Anders Romberg: The total value in the year is £11 million.

Brian Duffy: £11 million.

Greg Lawless: Thanks very much. Thanks guys, I appreciate that. Well done and Merry Christmas. Cheers.

Kate Calvert (Investec):
Morning everyone, three from me. The first question is that I know the brands are quite [inaudible] so I would appreciate any thoughts on next year in terms of supply, timing of new product launches given the trade fairs have been cancelled and obviously we had much later launches of new product this year. I do not know if you have got any insight on how that might happen. The other two are more accounting ones. In terms of the £80 million of lost Group sales, could you split that between the UK and the US? The final one is in terms of the £3.9 million of US government PPP. You talk about it being a loan which converts into a grant. Can you tell us how that will pay out and how that is being accounted for?

Brian Duffy: Morning Kate, we heard you perfectly well. Thanks for your questions. We typically would not have the specific visibility on supply from key brands for next year. We actually have meetings in January as usual at which we will learn the first indications about supply. I think it is safe to say that the brands are producing more for next year than last because they are assuming that there will not be a break in production. Obviously there was lockdown in Switzerland impacting March/ April and even in some cases into May. The year-on-year production overall should be higher but on the other hand, what is going to happen with their worldwide sales? Generally the UK and the US markets have done well which is great since those are the markets that we are doing business in. We think they will be well-supported from a supply standpoint. As we go into fiscal year 2022 we will obviously reflect that in the guidance that we give for fiscal year 2022.

New products should be positive overall, to your point. I think the brands have done a great job of introducing new products in the second half of last year, doing it all remotely through Zoom, Instagram and various other digital mechanisms. However, quite a lot was postponed so I think next year you are going to have a full year of what was intended for next year plus a carry forward of this. You even have specific brand situations. For example, with Omega they had new products associated with the Olympics which has clearly now been delayed by a year and the Bond movie which has now been delayed by a year. There are specifics that will positively build into next year's numbers. The fair again has been cancelled so it will not happen as scheduled in Geneva. There will not be a physically watch fair but for sure the brands with the experience that they have had this year will be doing all these presentations remotely and maybe locally they will be doing them directly. All we are saying is we think it is going to be a good year for production overall and it is going to be a good year for new products within that.

Anders Romberg: The breakdown of the £80 million is approximately £55 million UK and £25 million US. That is the split that will come up based on the traffic and so forth that we have seen coming through. Then the second question that you had, Kate, was regarding the PPP in the US. It was a scheme that was put in place by the US government to ensure that grants[?] were paid and indeed people kept their employment. It was conditional in the sense that you had to use any grant that they are branding loans that you will give them to capital cost basis over a certain period of time which was 12 months. We achieved that within the first half so we booked it in the first half and [inaudible].

Kate Calvert: Perfect, thank you. Merry Christmas everyone.

Rogerio Fujimori (Stifel):
Thank you for taking my question. I was wondering if you could talk about recent trends for average selling prices for watches in the UK and in the US with the clientele mix shift to domestic clients and any thoughts on the outlook for price mix in the second half. Thank you.

Brian Duffy: It is a good question. An average selling price has increased quite significantly in the half and overall in the Group on luxury watches we were up 16% in average selling price. In the US we were up more like 5%. In the UK we did have the impact of pricing. There was a Rolex price increase that came in start of January so that specifically flowed through to ASP in the balance of it. Effectively it comes from mix overall but it certainly talks to the overall health of the market that is there. We do not ever assume pricing going forwards. There are lots of things that can influence it, including exchange rate, including costs incurred in Switzerland. For example, the price of gold may have an influence since that has clearly gone up significantly and plays a big part as a precious metal in a lot of what we sell. We will see. We have not assumed any price increase at this stage and we will not probably be assuming certainly any that we do not know about when we give the guidance. However, I think it is fair to say if you have looked at the history of this market then there has been an average increase in average selling price around 3% for more or less the last 20 or 30 years. I think it is safe to assume that that will continue. A good thing to look at is what might be happening to the cost bases in Swiss francs.

Rogerio Fujimori: That is very helpful, thank you. Merry Christmas.

Kate Calvert (Investec):
Hi guys, one on pricing of watches globally. Given we are at sterling/dollar 1.35-1.36 how do watch prices compare in the UK versus Europe and the US at the moment?

Anders Romberg: The pricing in the US is higher on average and that is because when the brands looked at their pricing strategy they look at [inaudible] in Europe and they actually do not include the sales [inaudible] in the US. The pricing is slightly higher in the US.

Brian Duffy: However, the differential is definitely reducing as the dollar comes down and sterling is recovering. Sterling/euro is probably quite comparable. We are less fixated with it Kate, I must say, since international is obviously a much smaller proportion of our business that we have been looking at. The differential we were favourable by a few percentage points versus euro price in January. We are probably a bit closer now and in terms of retail price we would still be cheaper than the US.

Kate Calvert: Perfect, thanks very much.

Brian Duffy: If there are no further questions I will thank everybody for joining us and wish everybody a happy Christmas, happy holidays. I think we all look forward to a better 2021 in the world [inaudible] from 2020 but we always have a couple of tough months to get through before they can look forward to that. in the meantime thank for your support of the business. Thanks for your questions this morning and I hope everybody has a good holiday season. Thank you.