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Transcript

Watches of Switzerland Q2 Trading Update

Tuesday, 07 November 2023

Brian Duffy Good morning, everyone, thanks Bruno. So, Brian Duffy here, also joined in the room here in London with our CFO Anders Romberg, David Hurley, our President of North America and Deputy CEO, and also Caroline Browne, our Group Finance Director. And all of them can help with our questions when we get there. We are keeping you on your toes this morning, we have RNSs both for the Q2 trading update and our Long Range Plan 24 to 28. We are covering the Long Range Plan in much more detail at our event this afternoon, so whilst I will mention the Long Range Plan as I get through these remarks, we would ask that you concentrate your questions on Q2. And we will have plenty of time to talk LRP this afternoon.

So, in regards to Q2, our group sales came in at +5% constant currency, pretty much where we expected it. US was strong at +11%. UK & Europe, year-on-year flat. In both markets, this period of normalisation following exceptional growth continues as expected. That said, our business with Registration of Interest waiting list clients continues to be very strong, net additions during the quarter, and continued good conversion of these clients to transactions. In the US, the balance of the business remained very good, with our impressive level of high-value transactions.

In the UK, we did experience some internal challenges from having an unusually high level of showroom investment projects in high-value stores, including our big stores in Manchester, Birmingham, Liverpool, Glasgow, and Bluewater. And much more than we would typically have had, and therefore a bit more disruption than we would have expected. What we had was pop-up stores, designed to cover the construction period, that did not quite trade as well as we had expected. The good news is that all of these stores are either complete or nearing completion and will incrementally impact in the second half.

Additionally, we exited Q2 strongly in the UK & EU with decent year-on-year growth in October. We are also pleased to confirm the acquisition of 19 luxury showrooms from Ernest Jones, these stores are all complimentary to our portfolio, and all carry a good selection of luxury watches. The LTM sales of these stores is around £45 million. We have full plans to rebrand, remerchandise, implement our systems and processes, and our whole emphasis on these stores is to get them perfect for when we really step on the gas, if you like. And we believe this is going to take us through to Q4, to really be fully ready with these stores, and the real impact therefore will be in the fiscal year 25.

We have confirmed our guidance for the year at 8-11% growth in constant currency and year-on-year flat profitability. This is a backdrop to our performance this year, and the Long Range Plan, where we would remind you all we are way ahead of the previous Long Range Plan that we issued. We have averaged 23% over the last three years, our plan was to average 18%, and we are even further ahead on profitability. We have strong cashflow, and net cash at the end of fiscal 23 and a half-year. We have achieved these growth levels despite a loss of international business following the removal of VAT-free shopping for tourists.

Our US business, fiscal year 23, was 42% of our sales, and we only started in that market five years ago. We spent a great deal of time on the Long Range Plan, and have a number of growth drivers, store investment, ecommerce expansion, launch of Rolex CPO, and Analog:Shift, a major focus on luxury-branded jewellery. And a completely new luxury branded jewellery store concept, the Ernest Jones acquisitions that I just referred to. And a programme of new opportunities and acquisitions in which we project to spend between £350 and £500 million.

It all results in us saying that we can double sales over that LRP period through fiscal year 28, improve profitability, and continue to drive really good cash conversion. As I say, we will have the opportunity of presenting that in more detail, and taking your questions on the LRP, this afternoon. But with that, I will just hand over now to Q&A on the Q2 trading update.

Bruno Ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad, that's star one on your telephone keypad. To withdraw your question press star followed by two, and please remember to unmute your microphone when it is your turn to speak. Okay, we do have our first question, it comes from John Cox from Kepler. John, your line's now open, please go ahead.

Jon Cox Yes, good morning, guys, a couple of questions for you if I can. You talked about five stores being refurbished, and now that's coming to an end. Just remind me, where is your store network in the UK? I think it was 146 as of the end of fiscal… The last fiscal year. So, five of those 146 have been… Are being closed, just to confirm that. I am just wondering whether you can… Where your store network is, also in terms of US stores. I think, again, you were 47 at the end of fiscal… The last fiscal year, just wondering where you are now, that is the first question.

Second question, I think you mentioned £45 million from the 19 Ernest Jones stores. Just wondering, you talk about stepping up the gas, and the impact will be fiscal 2025, would those stores get up to your average sales per store, I think it's about £6 million in the UK? Do you expect that already next year, or is that a bit ambitious?

And then just on the lack of a buyback or dividend announced this morning, and I know that… I get the whole growth part, you'd rather spend on growth. However, clearly existing shareholders are feeling a lot of pain. I'm just wondering what your thoughts are, in terms of what leverage ratio… You are saying your net cash at the moment, would you be prepared to do something like a buyback? And I'm just wondering why you decided not to do anything when maybe a token buyback would have been appreciated by those shareholders this morning. Thank you.

Brian Duffy Okay, I will leave that last question for Anders at the end of this. And in terms of stores in the UK, no big change actually from year end. And although it is just five or six stores, they are really big value stores that we are talking about, that is what slightly caught us out. I mean, we have always had a degree of store renovation, expansion, going on, but we have always had the mix of a negative impact of disruption during the closure period, and then a positive impact as soon as the stores open. So, we have tended always to assume that one offset the other.

Just as it happens, during this quarter, it was all of our big boxes, it was Bullring in Birmingham, it was Trafford in Manchester, it was Metro in Newcastle. We just opened Liverpool ONE, which is a huge, beautiful store in Liverpool obviously. Glasgow, Mappin & Webb, second biggest Mappin & Webb store. So, it just so happened that we had so many stores impacted at once, and as the quarter went on, we could see that the pop-ups just weren't delivering what the stores were doing before, so that slightly caught us out.

But as I say, the big deal is the stores look amazing, they are all opening, they will all be open for Christmas overall. And the US, I think the only change we have made is a couple of monos that we opened, David, do you want to comment on US stores?

David Hurley Yes, I mean, it was monos that we opened, but they were close to the end of the quarter, so they didn't really have much of an effect on the sales for Q2, so the +11% was driven by the core business.

Brian Duffy Oh, and the EJ stores, our whole emphasis on the stores is, look, we want to get these right. Our goal is that we would get up to our level of profitability for the start of fiscal year 25, and we are working on everything we need to do to get there. It involves remerchandising every store. Obviously, a lot of the training for our new colleagues in terms of systems and product. Fundamentally, a lot of work with our brand partners to remerchandise and reorganise, we have clearly got to change all of the facia that's there.

So, it's quite a programme, and we have said the emphasis is, let's get this 100% right so that when we do press on the gas, we are really going to see an impact. So, our goal is to get our level of profitability by the start of '25, and to get our level of productivity probably more like '26, that is the plan. So, Anders, payback…

Anders Romberg Yes, just one additional comment on that. You mentioned £6 million average per store, that includes, obviously, the Rolex flagships and so forth. So, these stores are not of that magnitude, just to put it into context. So, in terms of the buyback, we closed off the quarter with £16 million of cash. Obviously, subsequent we now closed the deal with EJ, so actually we are drawing down on the facility.

So, at the moment we are prioritising growth through investment in our showrooms, new stores, and acquisitions. As always, we are engaged in several of these conversations as you know. And I think the best usage of funds at the moment is to invest it back into the business. And obviously, with cost of capital being what it is, we have always said that we are comfortable with a leverage of about one and a half to two times. Well, cost of capital obviously has gone up a bit, so at the moment if we can avoid going into debt we would. Unless of course we find a good acquisition.

Jon Cox Thanks for that. I wonder if I can just sneak in a couple of follow-ups. Just on the Rolex CPO scheme, which seems to have really done very well in the US particularly. Can you talk a little bit about profitability and pricing? Because there are some reports that prices of Rolex CPO are coming down, there's that… Obviously the stuff on Govberg out there as well, and what that means for your overall group profitability.

And then just a second one, on the exit rate for the UK and Europe, I wonder if you can just push a little bit on a figure. And maybe you could also talk a little bit about H2, and what you think the UK could possibly do. Would it be in line with the exit rate, or do you think we shouldn't get too carried away, and maybe mid-single digit in the UK in H2, and to make your guidance it's all going to be about the US. Thank you.

Brian Duffy So Rolex, and CPO generally, we just emphasise our experience that if you look for the last 18 months prices have been coming down in the secondary market, and that has very much been communicated, and expressed, and understood, by all you folks, so that's been what's going on. During that whole time… And as a result, the secondary market has gone down a bit, because of the reduced prices and reduced values. What we understand is that volume has held up pretty well, but it's not a market that we obviously have been involved in in any way to this point. But during that whole price repositioning we maintained our margin, and in the US, we doubled our sales, and UK are not far behind it.

So we are in a different market, I think we are a different proposition to consumers. Getting a beautiful watch from us, and getting the advice and the reassurance from us, and in our stores in particular or supported by our virtual boutique folks online. Getting that confidence and reassurance allows us to sell at prices that just make sense from a margin standpoint. Our goal has always been that we would not impact on profitability, so neither accretive nor dilutive, that is the goal. It's a lower gross margin, but then it has lower other areas of spend behind it, and our goal has been, yes, like I say, not to impact on our overall profitability. So far so good in all of that.

Slight negative impact initially, in that Rolex are authenticating all of the products. A lot of the stock that we had initially had all been already reconditioned and authenticated, so there's a bit of a double dip from a cost standpoint there. And impact your margin, one or two points maybe. But very confident we will maintain margin, and profitability, and see it as a very significant growth opportunity for us.

Yes, exit rate in the UK, yes. Good in October, mid-single-digit-ish. All I would say about the second half, we obviously… The projects I talked about that disrupted us a wee bit in Q2 are going to be big contributors pretty much as we speak and for the second half, we have got visibility on a lot of projects and supply. We are not anticipating the consumer becoming a lot more positive, I think some possibility that they might with a bit more certainty over interest rates as, at least, less concern that they are going to go up further.

We are very prepared, as we always are, and very enthusiastic about the holiday season, it's about to up come up. But overall, I can't give you any more split of the numbers, we have given our guidance, we are confirming it for the year. We have stuck with it the whole year, and confident we can deliver.

Jon Cox Great, congratulations, thank you.

Brian Duffy Thanks John.

Bruno Our next question comes from Daria Nasledysheva from Bank of America. Daria, your line's now open, please go ahead.

Daria Nasledysheva Good morning, this is Daria from Bank of America, and thank you for taking my questions, I have two. Could I please confirm if your current positive trading commentary refers to year-over-year dynamic, and whether this commentary actually refers to both UK and the US, so just to clarify that. And my second one would be, would you be able to please provide any colour of how much of margin pressure this half is coming from interest-free credit out of the contraction. So just trying to understand contribution of net margin versus OpEx, thank you.

Brian Duffy Okay, yes, morning, thanks for the questions. So, our US business has been very consistently strong as you have seen, it was 11% Q1 and it's 11% Q2, and we are confident that it will continue to be strong. I mean, there is a structural growth opportunity in the US that I think we and others are proving, in terms of investing in the market, and stores, and client service, there is a really positive response.

So, for example we are just, in the next couple of days, we will open our… a really nice store in Orlando, a Rolex boutique. It was a 1,000-foot store that we were in for the best part of ten years. We are now moving into a 3,000-foot beautiful Rolex store, and that clearly will have a positive impact, we have got some other projects of that nature. UK, the project impact is generally bigger in the second half, positively, whereas it was more negative in the first. And I think, as I said earlier, we are not expecting or planning for a change in mood in the UK. We will be enthusiastic about Christmas, but we are expecting the consumer to remain cautious, and that caution to probably remain for quite a lot of calendar 24. IFC, Anders.

Anders Romberg In terms of the profitability for the half, obviously IFC was a headwind as we pointed out when we did our Q1 update. And we haven't specified exactly how much that was, but you can do the maths, about 12% or so of our sales is on credit, and you can take that interest-rate differential and come up with the number if you want a specific... Less leverage than what we normally see, because of lower sales growth. We expect that to improve as we see the annual year-on-year improvement coming through in terms of sales. Because the comps are going to be a bit softer going into the second half, versus what we had in the first half.

Daria Nasledysheva Thank you both, thanks.

Brian Duffy Thank you.

Bruno Our next question comes from Jonathan Pritchard from Peel Hunt. Jonathan, your line's now open, please proceed.

Jonathan Pritchard Thank you very much, and morning all. Just to follow up on IFC, it doesn't really feel as though there is a great deal of correlation between IFC penetration and interest rates. But even having said that, if you think that people's expectations on interest rates are steadying, do you sense that IFC might become even a tailwind in the second half? I know it's annualised, but do you think with interest-rate expectations having stabilised, that the percentage of penetration might actually come down, and actually therefore become a tailwind in the second half? And then just another quickie on the waitlist. I know you mentioned that you'd had good conversion, but just 30 seconds on customer behaviour when they get the phone call.

Brian Duffy IFC, Anders.

Anders Romberg Well, we start off with IFC. I mean, we have been trading through… I've been around for ten years here, so the penetration of IFC has been pretty stable actually over the course of the years. So, I don't think it's going to change the consumer's behaviour, there's always going to be a segment of the consumer that rather would spread their payments over a period of time. So, we haven't seen a real significant change in that, so we don't expect any headwinds or, for that matter, tailwinds coming out of that, so…

Brian Duffy Yes, I mean, I would just add to it that… And we did change the whole application of interest-free credit in the US when we acquired Mayors.

Anders Romberg Yes, as the UK. So, in the US obviously we have seen, actually, credit programmes creep up a little bit in the half, but it's on a less-attractive offer actually, so we manage the cost really well in that marketplace. But again, it's sitting at around 13% in the US at the moment, so no real massive swing, so steady.

Brian Duffy Yes, and like you say, it used to be a bigger deal of the US business. But we generally do not have, obviously, the cost of subsidising credit, so we look to try and minimise it whilst on. And some segments of our business staying competitive, we don't offer subsidised interest on Rolex for example, but we do on jewellery and some other watch brands.

Jonathan Pritchard Okay.

Brian Duffy In regards to waitlist, the response of the consumer hasn't really changed over this calendar year. For the largest proportion of products that customers will show up, in some cases same day, and if not the following day or two. So very quick to come in and do their transaction and get their desired timepiece that they have been waiting for. We have said previously, some products that were only added to the waitlist relatively recently maybe take a call or two. Now some people we call say, I still want it but not right now. And other people might have got their product somewhere else, so we have a small proportion of products where not the first call results in a sale.

But overall, the conversion, we are looking at several years' worth of waiting lists when we look at the number of products that are listed in our annual availability. So, we are looking at several years' worth overall, and it remains clearly a core part of our business. We would love, in the future, for us to have more stock, and more ability to convert walk-in clients. I look forward to that day, but right now things are as they have been for the calendar year.

Jonathan Pritchard Okay, can I just sneak one last question in, it's just a clarification point, the phone went a bit fuzzy when you said it, on the Ernest Jones stores. Is it £45 million, the 19 stores, £45 million, or was it £4-5 million per store?

Brian Duffy It is £45 million in total.

Jonathan Pritchard Lovely, thanks a lot, thanks fellas.

Brian Duffy No problem, Jonathan, thanks.

Bruno Our next question comes from Rogerio Fujimori from Stifel. Rogerio, your line's now open, please go ahead.

Rogerio Fujimori Oh hi, good morning, Brian, Anders. Two questions from me, one on average selling prices, and the other on sequential-trade trends. You called out average selling price as continuing to increase in Q2. Any part of the business standing out in terms of ASP gains, and have you seen any change in contribution from forward numbers of ASP in Q2 versus Q1? And my second question is about sequential trends in Q2 versus Q1, for your non-supply-constrained watch business, and jewellery, in the US and UK. Thank you.

Brian Duffy Anders, you?

Anders Romberg So average selling price, we see it's holding up, and growing, across most of our luxury-watch brands, predominantly due to mix. In some instances, there is a bit of carry-forward of pricing from actions that were taken, but it's predominantly mix within the brands themselves, so we see that as a positive. Volume, ASP, mix between Q1 and Q2, hasn't materially changed, so it's remained in the same sort of mix. Predominantly driven by ASP, and volume being a little bit on the pressure. So that's what we experienced. In terms of jewellery, obviously more exposed to sentiment in the market, so a bit more exposed to impulse in terms of people's behaviour. So that's been trading down in volume a little bit, so that is what we experienced.

Rogerio Fujimori Thank you.

Anders Romberg You're welcome.

Bruno Our next question comes from… Our next question comes from Louise Singlehurst from Goldman Sachs. Louise, your line is now open, please go ahead.

Louise Singlehurst Hi, morning everyone, thank you for taking my questions. I have got two, I will sneak in a third as well. But just on the Ernest Jones acquisition, can you just give us a little bit of background on that, in terms of was that you proactively looking to consolidate further in the UK? Has that been a discussion that's been going on for a little while? And just on the product category exposure, presumably that gives you a little bit more on jewellery? And I just wonder if there is a bit more of an opportunity in that category that you see for the group going forward.

And then secondly, just on Rolex. I have to ask the question, obviously the last time we had an update there was the end of August, with Rolex talking about the acquisition of Bucherer. Is there anything that has come out that you think that we should be aware of in terms of the discussions, any changes in allocation? Just to confirm that for the group. And in terms of the Bond Street store, that is still on track for middle of next year for opening, and I wondered if you could just confirm does that take Rolex distribution away from others? Do you get a bigger lion's share of the Rolex distribution in that area of London?

And then my final question, just in terms of the UK and the US. Anything by brand to call out? I know it is a slower year for product newness a little bit this year versus last year, but is there anything that you can call out between the UK and the US? Or is it the same brands, and if so, is that really Cartier, IWC? How's Breitling doing? Thank you.

Brian Duffy Okay, the EJ deal was, I mean, I think it makes sense for both parties obviously. Ernest Jones is part of the Signet Group, and that group really focus on diamond jewellery, and they have been progressively less present in luxury watches, it has been less of a priority. But they still had this group of stores that… Nice stores with the good brands, very complimentary to our network, so looking at it it seemed an obvious thing for them to move on from, and for us to take on and blend in in our mix. We have had passing conversations, if you like, over the piece.

But when the opportunity to say does this make sense for you guys came along, we were pretty quick in response. And Craig Bolton and the team, I think, have done a great job working with their counterparts in Signet to get this deal organised very quickly. The stores are closed now, the stores closed as of Friday. We are in the process of making all these logistical changes, stock counting, and changing facia, and everything else. It’s obviously a bit of a project, but it’s the kind of thing that we do very well actually, we have got great people executing that kind of deal.

So, I think it's a really good deal for both of us, and we believe we can do a lot with these stores in terms of… We will convert some of them to Mappin & Webb, some to Goldsmiths, mono brands will stay as they are. But we will improve the product content, the depth of products, we will improve their potential online, or web-enabled, or virtual boutique. There are so many things that we do that really benefits the luxury watch category, that we will be able to apply here.

They do have a bit more space historically on jewellery. And interesting, it coincides with us taking a real serious interest in branded jewellery, you will hear about it more this afternoon at the LRP. But we have done a great job with luxury watch brands, we think we can do a great job with luxury jewellery brands. And these stores will help, yes, they will… They are in good locations, and they will help that strategy overall.

With regards to Rolex/Bucherer, we were very clear with the RNS that we submitted when the news came out with the approval of Rolex, confirming that there is no change to how things are operated. The business will be independent, the management team stay there intact, and they will report to a board of non-executive directors that are yet to be appointed. No change in allocation, no change in project approval processes, and we have had it confirmed a few times, and we have had it confirmed locally with the folks we deal with in the UK and the US.

So, I am very confident that there is no change with… We are the biggest, the oldest, retailer of Rolex, we have got the greatest visibility and projects that we have ever had going forward, so we have a very exciting few years ahead overall with Rolex.

Bond Street, there was four retailers in Bond Street, obviously we had the store there, the boutique there, that is now becoming this big store. We also had the store, Mappin & Webb, but there was and Asprey before, so… And of the four it is going down to one. The expectation of course is that the one store, it will be our… It will be a magnificent store, best flagship in Europe, it will do more than what we have done combined before, and obviously that does take allocation of product to make all that happen.

Louise Singlehurst Thank you, and then just in… Anything in terms of the brands, and brand performance or price points, thank you.

Brian Duffy Oh, my apologies, I missed that one. I mean, obviously our Registration of Interest business, or supply-constrained business, whatever way we term it, that is as we have reported. The list stays… They were as healthy as they are in conversions, pretty much as they are. Inevitably there is a bit of moving that goes on with brands, depending upon how much new product impact, or might be impacting, supply and so on.

In terms of a trend, consumer trend, I would probably point towards, I mean, particularly in the US higher value is going very well. We are in great locations for all that of course, places like Vegas, which is a fantastic business for us. But also New York, and the Betteridge stores really have a great business with high-end clients and high-value transactions. Probably a bit more collector type activity going on. We just hosted the GPHG, known as the watch Oscars, with predominantly smaller and independent brands, some of the big guys were there too.

But there is a huge interest in the US in this category of independent brands, where there's… Overall there is more innovation, and interest if you like, at a product level, so definitely that has been a very good category for us. None of the brands individually are huge, but collectively that has become a really nice category for us, and we are picking up traction in that category, actually, here in the UK. So, we see that as a positive mix. Obviously pre-owned has an impact as well, a very positive one. Pre-owned will become a big sector for us, and we have definitely underplayed in that patch forever, up until now, but we are going to give it high-priority attention.

Louise Singlehurst Brilliant, thank you very much.

Brian Duffy Right Louise, thanks.

Bruno As a reminder, if you would like to ask a question, please press star one on your telephone keypads, star one on your telephone keypad. Our next question comes from Terry Coates from Société Générale. Terry, your line is now open, please go ahead.

Thierry Cota Yes, good morning, thank you for taking my question. It's a follow-on question really… Volumes were under pressure, so it seems my assumptions may be wrong on the sales breakdown for Q2. On the UK, I thought that it could be fair to estimate volume as flat, and price mix exactly offset by temporary store closures. And in the US the low-teens growth rate, I thought would be a half-half price mix and volume contribution. So, can you tell me if these make sense, or where would be the mistakes please?

Anders Romberg No, I mean, as I said it's… Predominantly growth has come from higher average selling price, it hasn't really been that much of a volume play in the quarter. And that's valid both for the UK as well as the US, because in these pop-up stores and so forth, that Brian alluded to, of course we are going to sell the Rolexes that are there. So, it's the volume brands that actually tends to underperform a bit when we do these stores.

Thierry Cota Okay, so the US is… The 11% is essentially price mix in fact?

Anders Romberg The vast majority of it is price, yes, because we are selling a lot of high-end, to Brian's earlier point.

Thierry Cota Okay, great. And just the volume under pressure, can you comment around it? Is it related to demand, is it related to product availability? I mean, what would be the colour?

Brian Duffy Yes, there's an acknowledged general softening overall in the market, there's no escaping that. I do think that the world of watches is less affected because of the supply-demand dynamics that are there. The factor, as we have said often, the US market really is underdeveloped. There are a lot of high-end clients, and other clients, that are… That need to see the stores, that need to have the experience, and so on. So, the fact that we are investing, and others, and presenting watches to that market, are clearly stimulating and addressing that underdevelopment overall.

So, what we have said is that the macro situation, if you like, is probably going to remain as it is today through '24, and thereafter improve. But in the meantime, investing in the world of watches we have proven is a very financially smart, and lucrative, thing to do. Our new store investments, we are getting paybacks between two and three years. Our acquisitions have given us great paybacks as well. So, despite the general economic situation that's there, I think there are a lot of good reasons to be optimistic and positive about the potential in the world of watches generally, and for us specifically with the model that we have, and our potential for our market share gain.

Thierry Cota Okay, great, thank you.

Brian Duffy You're welcome.

Bruno Our next question comes from Kate Calvert from Investec. Kate, your line's now open, please go ahead.

Kate Calvert Morning, thanks very much, just two quick ones from me. Can I just probe you on your plans for the 19 Ernest Jones stores? I think you said five were mono. Will all the others sell watches, or do you have plans for some of these to be part of the jewellery-only trial stores? And the second question is, could you talk about the performance of American Dream, please, versus your expectations. Thank you.

Brian Duffy The EJ stores, yes, it's five mono brands, so that will obviously remain as they are. And 14 multi-brands, of which five are becoming Mappin & Webb, and nine will be Goldsmiths. They all sell watches today, they will be a bit more will be productive, more productive I would think overall in watches. So, no huge change in the mix of what they have been selling, and to the extent there is any change it will be in favour of watches versus jewellery.

That said, we are putting a huge emphasis, and we are very confident about our ability to really grow our branded jewellery category, you will hear much more about it this afternoon. And these stores do help, they have great awareness, they have great client database, they have really good store staff that really know jewellery as well as watches, and probably even better in fairness. So, they will contribute, but in principle, when you see these stores as Mappin & Webb and Goldsmiths stores you will recognise them as being in line with everything else that we do with those facias. American Dream, David.

David Hurley Yes, we are really delighted… The start of American Dream. I think that first of all, if you look at the mix of product outside of Rolex, we have started off stronger than we did in both Hudson Yards and Soho. So, we have seen really great sales across all of the brands that we have there. And that mall is still developing as well, so we have got a lot of stores around us yet to open, like Gucci, Balenciaga, etc., that will probably not open until early next year. So really strong start, we have got a great team there as well, and we have had great feedback from our brand partners, both on the design and the team.

Kate Calvert Great, thanks very much.

Brian Duffy All right Kate.

Bruno Our next question comes from Antoine Belge from BNP. Antoine, your line is now open, please go ahead.

Antoine Belge Yes, hello, good morning, two questions on my side. First of all, a broader question about the competitive landscape, especially if we leave aside Rolex. So, I'm thinking more about Cartier, and, etc. Usually when there is a tougher economic period, watch wholesalers tend to destock and be a bit more cautious. So, are you seeing this in terms of your competitors, especially the smaller players? And also, yourself, looking at your current inventory in your stores, how does it look like? Are you seeing a bit more slow movers in your own inventories?

And then my second question, also quite broad. For high-ticket items like watches, sometimes in the past it's about the feel-good factor, not just about money but also how you feel, and then… So, with regards to the event in the Middle East, I mean, do you think that this could potentially impact? Sometimes there is also what people refer to as a guilt factor, when there are things happening in the world maybe consumers are not in a good mood to spend. So, if you could share your thought about that, thank you.

Brian Duffy So on the competitive landscape that you mentioned, we don't know, obviously, what our competition are doing, stocking, or whatever. We do know that we are outperforming the market. We learn enough about overall trends that the brands are having in markets, and we can obviously calibrate our performance with those brands. But we have been consistently outperforming and gaining share, we do have bigger stores, we invest more in client experience, and marketing, and events, and so on.

As I mentioned earlier, we have such a great choice of brands, and one of our great strengths obviously is the choice, and selections, that we give. We have expanded what we offer now, from a lot of the experience we have had. So, bringing in other brands that either create interest or directly increase in business overall. So, we are doing fine with all of these brands, our stock situation is pretty healthy overall. We have caught up in some areas where there was a stock shortage, thinking back a couple of years ago.

But generally speaking, we obviously monitor our open-to-buy, our performance as we have always done and discussed with the brands. We have great analytics on our numbers that we get from SAP, so we can see trends, we can look at stock coverage, weeks coverage, and all that, and we are on it, so we are in a healthy position. We are going into the holiday season, I think, in a healthy position. We are not expecting it to be an unusually great season, probably similar to last year overall. But maybe the mood will be a wee bit better, and if it is we are certainly prepared to take advantage of it. But anyway, overall, no issues on stock.

I take your point that we are all worried about what is happening in the world, whether it's in Ukraine or more recently in the Middle East, and it definitely affects people's mood and confidence. So, when that's undoubtedly the case. But it is in those circumstances that we are doing the numbers that we have just reported. That we are planning ahead with our business and not expecting, geopolitically, the world to change for the good or the better in what we are looking at.

But yes, I mean, I would mention that what we experienced and what we saw, interestingly, from the Deloitte study when they asked about the attitude of watch consumers, people do regard watches as a hedge against inflation. I think it was almost 40% of consumers who are buying watches with investment as part of the criteria. They say that luxury watches are a definite hedge against inflation, and I think that is proven to be the case historically. So as long as inflation is what it's been I think, conversely, watches can even benefit.

Antoine Belge Thank you very much.

Brian Duffy You're welcome.

Bruno Our next question comes from Piral Dadhania from RBC. Piral, your line's now open, please go ahead.

Piral Dadhania Okay, thank you, morning everybody. So, I have two, and apologies if the first one has been asked. But I was just wondering if you could give an update on the performance of the non-supply-constrained brands in Q2. I appreciate in the UK the macro is not particularly supportive. But perhaps for the US, where you have done low-double-digit growth in Q2 again, I just wanted to understand the dynamic, and whether there is any shift there between how the two categories of watch brands are performing.

And then secondly, my question is just on Rolex products, Rolex new-product availability in-store. My understanding is there are some retailers in the US who do have Rolex availability, of new products in-store that customers can walk in off the street and buy. I was just wondering if in any of your locations, either in the US or elsewhere, that situation exists, or whether everything from a supply-constrained brand is going to be still being sold off waiting lists. Thank you.

Brian Duffy Piral, can I just check, when you say a new product available, do you mean new product of any of Rolex, or do you mean the new introductions?

Piral Dadhania Oh, sorry, I mean new as in not CPO, not refurbished.

Brian Duffy Okay, yes. I mean, I think as I said earlier, there is always ups and downs on brand performance, which we look at, and analyse, and get to understand. And year-on-year, there actually is a slight negative year-on-year in terms of the impact on new products in this quarter. It doesn't indicate anything, it's more or less a coincidence. Some brands went through… Obviously they go through the cycle of their product families and update them sequentially. And consequently, some seasons will be big because they will have redone a complete family, and in comparable seasons will be a bit less.

So that doesn't indicate anything with regards to demand or anything else, but you do get an impact depending on the volume of new products that have been introduced, and delivered, for a quarter. So, we have our bit of ups and downs there.

In terms of consumer demand, I've said, I think an interesting trend in both markets is towards the independent and smaller brands overall, which we think is a really healthy interest in horology. Probably coincides with this younger cohort that is definitely bought into our category, hugely influenced by digital activity, by social media, the ability to research watches. And we think that is a hugely health trend, and there's… We can detect that in what is happening in the market, and what we are responding to. Like I mentioned GPHG that we did, the presentation of in New York just a couple of weeks ago was huge in terms of interest, both online and people physically coming to the store, overall.

The availability of product in-store, we would say good luck to anybody that has managed to get into a situation of being able to present product in-store. What we have always done, actually, in the US, is the US Rolex team have always liked there to be some availability of products for and even when supply was off the scale if you like, we always liked to have some product there that just allowed us to have a bit of dynamism in the store. So that might be what you have experienced going on in the US.

David Hurley Yes, I mean, I think in some ways, over the last couple of years, we have almost educated the customer not to expect anything in our cases. And we have worked with our high-demand brand partners in the US so that we randomly put some timepieces into our stores from time to time, it's not a set day or hour or we would have queues outside the door. But it does encourage people to come in and check our stores on a periodic basis.

Piral Dadhania Thank you.

Brian Duffy No problem.

Bruno We currently have no further questions, so I would like to hand back to the management team for closing remarks, over to you.

Brian Duffy Thanks Bruno, thanks everybody for your questions. We will probably see some of you this afternoon at our LRP presentation. But overall, we are happy with the quarter, very happy to confirm our guidance for the year. Happy to have completed our Long Range Plan, it feels like it's been a lifelong exercise, but we are there on it and look forward to presenting it today. Thanks very much to our teams as ever for doing the great job that they do. And that wraps up this session, thank you.