



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

WATCHES OF SWITZERLAND GROUP PLC Q3 FY20 TRADING UPDATE PRESENTATION

BRIAN DUFFY:

Okay, thank you. Good morning, everybody, and thanks for joining our call. I'll also introduce we have here our new director of investor relations, Allegra Perry, and I'm sure many of you know Allegra, and those of you who don't will meet her in the coming weeks.

So you've all got a copy of the statement that we gave out this morning, for our trading for Q3. Just summarising the highlights, overall revenue up 13.4% in constant currency. Overall for Q3, constant currency, year to date, 14.9. Overall online business for the quarter up 20.8. Like for like, 6.8 in total.

Demand continues unabated. The level of demand that we experienced in Q3 is the same as it's been in recent quarters, in recent years, significantly exceeding our ability to supply. So those conditions remain as have been in place.

We continue, obviously, our programme of portfolio elevation. Q3 is a relatively quiet time for new products, obviously with the Christmas and holiday season, but nevertheless we did some activity, refurbishing three UK showrooms, including our big flagship on Regents Street, where we expanded the Rolex presentation, we relocated our Omega boutique in my home city of Glasgow, and we opened a new Goldsmiths showroom in Edinburgh, and a new franchise boutique with FOPE on Bond Street.

So overall, we're very happy with the quarter. Market conditions in the UK, Christmastime, were actually tough, and then you had the election and all the uncertainty of Brexit and so on, so it wasn't a great time overall for the market. Despite that, we performed very well and outperformed the market.

Market conditions in the US were much more positive, generally speaking, as I'm sure you're all well aware, but we believe, again, that we outperformed the market in the US. So very happy with the quarter.

Then, looking ahead for the year, we're confirming our guidance. Overall, that does take into account recent experience of reduced business of Chinese tourists. Overall, a number that we hadn't given that you'd be interesting in knowing, the nine months to date, Chinese business is down at 7.8% of our total group. You'll all recall at fiscal 19 it was around 10%; now, down at 7.8%.

And obviously, it significantly reduced with the Coronavirus from the start of February, but in the market that we're in, with really restricted and constrained supply, then the reduction of one consumer group's pretty much offset by the uptake of another.

So overall, we're confirming our guidance that we gave at the end of the half-year for the full-year. And that's where we stand, so at that point shall we put it over to Q&A?

OPERATOR:

The first question we have is from Greg Lawlass from Shore Capital. Greg, your line is now open.

GREG LAWLASS:

Morning, guys. Just wondered if you could give some colour around what drove the strong online business in the UK, up 21%?

BRIAN DUFFY:

It was a good season. We had, overall, a luxury watch business which disproportionately performed in that number. It was very broad-based. We had really good marketing behind key brands. You know that Rolex are not online, so our big brands online are Cartier, Omega, TAG Heuer and Breitling.

We put some really good marketing behind them in the digital world and we bought into good stock levels in anticipation of an uptick in that business, and it just came through very well. So good to see us in good momentum overall, with a bigger market share online in this market than even bricks-and-mortar, and it continues to grow.

GREG LAWLASS:

Great. And I note the numbers you gave just there on China, is there any more colour you can give on tourist numbers? Has it significantly weakened week on week, or is this where it stands now, that Chinese tourists are only 8% of your business? Is there any colour you can give there, please?

BRIAN DUFFY:

The Chinese business significantly reduced at the start of February. Chinese New Year was pretty much a non-event, so much less travel from Chinese everywhere in the world, as we all know, London included. So none of that is accounted for in the 7.8, by the way, because that was through to the end of January.

We haven't really seen any impact on other tourism overall, really just a significant reduction in the Chinese business. But just emphasising again that obviously the vast majority of our business is domestic in the UK, it's predominantly domestic in the US, it's almost 100% domestic, and we certainly haven't seen any impact on the domestic business. In fact, domestic consumers are benefiting from slightly more availability with the Chinese tourists being less. And other tourist groups, we haven't really seen any impact at all.

GREG LAWLASS:

Thanks very much. All done.

BRIAN DUFFY:

Cheers, Greg.

OPERATOR:

As a reminder, ladies and gentlemen, to ask any further questions, please press star followed by one on your telephone keypad. If you change your mind, please press star followed by two. Our next question comes from Richard Taylor from Barclays. Richard, your line is now open.

RICHARD TAYLOR:

Morning. Obviously in the trade press there's been quite a lot of talk about the price increases in the UK and US on Rolex, so I'm guessing that's going to start to help your like-for-likes this year, but can you just talk through how that affects you at the gross profit level, please?

ANDERS ROMBERG:

Sure, thanks, Richard. Obviously, as you all know, Rolex took their pricing up, effective January, here in the UK, by 7.4%. As part of that pricing, they also aligned the terms that the UK market, not just us by the UK market, had enjoyed, which included a settlement discount, so for us the pricing means that we are generating more cash margin per unit sold than we historically did, but not to the extent that we would have had with the remaining settlement discount.

So from an operating margin perspective, that pricing is going to be neutral for us. It will help drive some like-for-like, and we did have a benefit of the revaluation of stock on hand as a consequence. In the US, pricing went up 3.4% in total on Rolex, and there the terms remain as they were before, so we will have a slight benefit from that.

RICHARD TAYLOR:

Thanks very much.

ANDERS ROMBERG:

You're welcome.

OPERATOR:

Our next question is from Kate Calvert from Investec. Kate, your line is now open.

KATE CALVERT:

Morning, everyone.

ANDERS ROMBERG:

Hi, Kate.

KATE CALVERT:

Just on the UK like-for-like number of 6.1%, obviously you've talked a bit about price but there has been quite a mix shift in terms of watches, towards more precious metal, so was there some underlying volume growth within that number?

ANDERS ROMBERG:

Yes, as Brian pointed out, we went for more broad-based roles this year, and TAG, Omega and Breitling obviously have an average selling price which is slightly lower actually helped drive some volume growth in the quarter, yes.

KATE CALVERT:

Great. And my second question is just on the pipeline of openings you reconfirmed at the first-half results. Has there been any further slippage in things like Battersea and American Dream that you know of at the moment, or the does the pipeline very much stand?

BRIAN DUFFY:

Yes, we have nothing that we're planning to change of what we've indicated before. And some things are happening as we speak, the Rolex boutique in Glasgow is happening as we speak, the expansion on Knightsbridge, if you come along Brompton Road, you would see that.

A lot of good development in Broadgate, that looks like it's happening exactly on time, in fact it looks sort of finished when you see the development, so no concerns about that, no concerns about Terminal 3 and Heathrow. We're calling it a pop-up, it's really what will be a nice store for six months, in T3, before we move what will move what will be our new double-sized store. So that's fine.

American Dream we are scheduling for autumn, as we have done throughout, we're finalising designs now, we're on it, no reason that we're aware of to change that timing. And nothing in Battersea either, so we continue to work on all that. We've got our mono-brand developments happening on the schedule that we presented before, so all seems fine.

KATE CALVERT:

Okay. And just on the delay on the completion to Fraser Hart, is that something to do with the lawyers or anything else [overtalking]?

BRIAN DUFFY:

Yes, it's just technical stuff I think, to do with lawyers, landlords. Just different parties and they're all different landlords for four different stores, so just a bit of running around and swapping of paper and so on. So we don't think it's a particular problem. We'd like it to have been done, we've got teams standing by, waiting to go in and handle the whole transition, so that's a bit inefficient from our standpoint, but it will happen imminently.

KATE CALVERT:

Great, thanks very much.

OPERATOR:

The next question is from the line of Karina Shooter from Goldman Sachs. Karina, your line is now open.

LOUISE:

Hi, there. It's Louise, actually, from Goldman. Just a couple of quick questions from me, if I could. Just talking about any price increases in the period, I know there were discussions around Rolex increasing prices, but if there was any benefit there in the quarter?

And I see now that the Geneva Fair is cancelled, which was announced this morning, the SIHH, which was scheduled. Is there any implications there of ordering, how you expect the brands to showcase their new products, etc., with the cancellation of these. I think Basel is still going ahead at this stage. Thank you.

BRIAN DUFFY:

So do you want to take the first part?

ANDERS ROMBERG:

I'll take the pricing question. In terms of pricing, as we've previously announced, Rolex took their pricing up in the UK, in November 18, which had a roll-forward benefit into our first half in the UK, so approximately 2% of our like-for-likes were impacted by that.

Subsequent to that, obviously when they do that we re-measure our inventory at the new cost, so you get a benefit in margin as a result of that, of whatever you bought at the old wholesale selling at the new retail.

Similarly, again, now prices went up 7.4% in January, that will benefit our sales, obviously, going forward, however margin-wise we won't get the flow through in margin, as I pointed out earlier. We will, however, get the benefit on the inventory when that revaluation took place.

BRIAN DUFFY:

On the watch fairs, we were anticipating, actually, the cancellation of Watches and Wonders that's come through and confirmed today. I'll be honest, I think the whole thing was a bit of a mess, even before Coronavirus, between LV presenting in Dubai and then Swatch Group in Zurich, and then a late timing versus prior calendar for SIHH, and the Basel with fewer participants.

So the whole things was far from ideal, and now obviously thrown into some turmoil with what's gone on. So not ideal. Obviously, we're a major player, globally, and we would expect to see all of what's happening as a priority out there. We're anticipating that the brands will obviously organise local meetings in the big markets. Definitely the UK and the US will both be priorities.

Maybe there'll be other things that will happen online and so on. And certainly we don't anticipate for a second that we won't be hearing about what's happening and be able to make our plans accordingly.

But it's tough for the industry overall, but I think it was tough before Coronavirus and a bit confused. So we hope it does get resolved. And Basel, I don't know what you feel but I think we've got to be questioning whether or not Basel will go ahead too.

KATE CALVERT:

Great, thank you very much. Thank you.

BRIAN DUFFY:

Right, Louise, thanks.

OPERATOR:

As a reminder, ladies and gentlemen, to ask any further questions, please press star followed by one your telephone keypad. If you change your mind, please press star followed by two. It appears we have no further questions on the line, so, Brian, back to you.

BRIAN DUFFY:

Okay, everyone, thank you for coming on the call, and we'll look forward to speaking to you again when we have results at the end of April. Thank you.