Watches of Switzerland Quarter 1 FY24 Trading Update

Wednesday, 10 August 2022

Brian Duffy Good morning, everyone. Welcome to the call. Thank you for joining us. I'm Brian Duffy, the CEO of the group. You'll be hearing from me, and you will also hear from our CFO, Anders Romberg, on our outlook. We will then be happy to take your questions. We also have with us, David Hurley, our president of North America and the Deputy CEO. David will join me in responding to any of your questions about the US market or the US business. We are pleased with a good revenue performance, minus 1% in constant currency, totally in line with the guidance that we gave at the start of the quarter of a modest decline.

The UK and Europe, at minus eight percent, was purely down to product intake timing meaning Q4 last year was very strong, leaving Q1 this year, as we could see, being negative. Demand remains robust and, in the US, performance was very good at plus 10% growth in US stores. Our business overall remains strong and in very good health. We continue to add to our registration of interest lists in the UK and the US at weekly rates that are commensurate with the rates over the last couple of years. Our projects continue to land well and all of our recently opened, new and refurbished stores and new projects are all trading well.

The macroeconomic backdrop remains uncertain and we do not anticipate any material improvement in the economic situation in the balance of our fiscal year. And this is what we have assumed in the guidance that we have given. We continue to really impact on store designs here in the UK with Goldsmiths Luxury and in the US, with Mayors. All of these projects show very good return on investments and capex. W have added to that programme this quarter with a new contemporary design from Mappin & Webb showrooms, which we launched in York in July and since the end of the quarter in Guernsey in August. Early trading and client reaction to the new Mappin & Webb showroom concept has been very positive. We are in advanced stages of the new design for the Betteridge showrooms in the US. All of our showroom designs reflect our strategic principles of luxury, contemporary, welcoming and visible environments. Rolex Certified Pre-Owned, which launched in the US in July, is of to an encouraging start. Logistics, processes, training, etc., have all gone very well. It is, of course, early days. But so far, the business is two thirds new clients, one third existing clients, which we think is a very healthy mix and better than we were projecting. We look forward to further expanding CPO in the US and launching CPO in the UK in September.

In the balance of this fiscal year, our sales comparatives will improve. And this, together with our continued programme of investment in the model, provides us with confidence in maintaining our guidance for the year. I look forward to presenting our new long-term plan to you in the Autumn. And I'll move us over to Anders.

Anders Romberg Thank you, Brian. As you heard, our first quarter came in as expected and our FY24 guidance remains unchanged, with the return to growth in the balance of the year, where, as you heard, our comparisons are a bit lower. Our guidance reflects visibility of supply of key brands and confirmed showrooms refurbishments, openings and closures, but excludes uncommitted capital projects and acquisitions. On a pre-IFRS 16 basis, our revenue is expected to come in between £1.65 and £1.7 billion or plus 8 to 11% in constant currency. Our Adjusted EBIT margin is expected to come in in line with FY23. Our finance costs are projected to come in at £3 million or so. Our underlying tax rate will be between 27 and 28%, reflecting the increase in the UK corporation tax. Capital expenditure is planned between £70 and £80 million and our operating cash conversion is expected to come in at 70%, weighted towards the second half in line with the seasonal pattern. With that, I will hand over to Ellen for questions. And thank you.

Ellen Thank you. We'll now enter our Q&A session. As a reminder, if you'd like to ask a question, please press star followed by one on your telephone keypad. When preparing to ask your question, please ensure that your device is unmuted locally. Our first question comes from Melania Grippo from BNP Paribas. Melania, your line is now open. Please go ahead.

Melania Grippo Good morning, everyone. This is Melania Grippo from BNP Paribas Bank. I've got two questions. The first one is on your Rolex CPO programme. Of course, you shared some information. I was wondering if you could share the qualitative feedback you have had so far in the US. And particularly, do you also sell online? And if you see any difference between online and offline. Or in the UK, when you are going to launch, how many locations do you plan to have this programme? And the second question is on price increases. I was wondering if you could share with us the contribution from pricing in Q1 and if you're seeing any increases lately by brands? Thank you.

Brian Duffy Thanks, Melania. I'll talk about Rolex CPO and then Anders can comment on pricing. It really is early days, more or less three weeks in the US. But as I indicated, I think all of the results so far and the analysis that we've done so far and anecdotal feedback is all positive. We are doing more in-store than online. We think online has great potential in this category. But so far, by far, the majority of the business has been done in-store. Our teams are very well trained, very well prepared and are clearly doing a great job with converting, particularly walk-in clients. It's more in-store.

UK launches on schedule for September. Both in the US and the UK, the doors of our choosing have pretty much been small. The number of doors have been certainly directed by availability of products and expected productivity. We haven't given out the detailed numbers on distribution in US or the UK. We will obviously talk a lot more about it in the LRP, but the headlines are it's been executed very well. It started very well. The one thing we've talked about is a greater than expected proportion of new clients and I think it's a very encouraging thing. And we'll tell you more about it in the calls ahead and definitely during the LRP presentation. Anders, pricing?

Anders Romberg On your question on pricing, Melania, obviously, we had pricing in last year. And we benefitted from that in a rollforward into the quarter. We have given the indication that the full year will be impacted by around 3% from rollforward prices coming out of FY23. So far, we haven't had any indication from the brand so far on their pricing actions at the moment. We haven't included that. The benefit of the pricing is skewed towards the first nine months of the year. That's the answer to that question.

Melania Grippo Thank you very much.

Ellen Thank you. Our next question comes from Jon Cox from Kepler. Jon, your line is now open. Please proceed.

Jon Cox Thank you. And good morning, guys. Congratulations on that very strong number, in the US in particular. On the US, just wonder if you can give us any granularity on underlying demand, say, excluding some of the big reopenings and refurbishments you've had. Just your thoughts on the market. It seems pretty incredible that most other luxury guys are talking about maybe flat at best US in the last quarter or so. And you guys have come out with a plus ten print. And I'm wondering if what's happening in jewellery, down, obviously, double digit, is that probably more of an indication that maybe what is going on in the US?

Second question, just back on the CPO a little bit. Just wondering on the turnaround times you're seeing in terms of product coming in. You may be refurbishing and then sending it to Rolex for the certification, etc., and then getting back into your store. And just a little bit on the profitability as well. You've indicated it should be in line more or less with the group. Just wondering what you're seeing far. I know it's only early days. You probably have upfront costs involved anyway. But just your thoughts on that. Thank you.

Brian Duffy Thanks, Jon. I'll just make a couple comments in the US and David can comment as well. I think as you know, our analysis from the beginning was that the US was, as a market, significantly underdeveloped, particularly in comparison to the UK. And underdeveloped because of underinvestment in retail. That was our big headline conclusions that I think we've proven to be correct. I think we've demonstrated there is clearly structural growth potential in that market. And everything we do in the US, the investments that we have made, refurbishments, new stores, whatever, have all generally exceeded expectations.

We feel very, very good about the market, about what we have done so far and the prospects for growth. You want to add anything, David, on the detail of projects in the quarter?

David Hurley Yes. Again, really delighted to be up plus 10% in FY24, particularly considering that we were up 76% in FY23. To continue to grow off that level is fantastic. The renovations that we have done at Dadeland, obviously it's a huge store. And again, improving our location there. American Dream, off to a really encouraging start and yet to open up Cartier, which will likely open up at the end of the month. And the reality as well, being that we are continuing to mature our client base in a lot of these locations that we've come into. And that takes time. Our New York business in SoHo and Hudson Yards continues to grow year on year.

Average price points going up as well as we mature the business and develop our clients. And we see that for all of the stores that we open up, that it takes a couple of years, two to three years at least, for that to mature. Then we have got an exciting pipeline of projects that are coming down the line. We have got six more mono-brands to open up this quarter. We have got our Rolex boutique in Millennia in Orlando that is going to be doubling in size and opening up before the end of the year. And One Vanderbilt to open up early next year. Plus, on top of that, already started development work for projects that will open up over the next couple of years. We have gone into a new location in Legacy West in Plano, Texas, in advance of opening up in a new store anchored by Rolex in late FY24. We have taken on space in Tampa, International Plaza, where we are moving into a wonderful location in between Louis Vuitton and Tiffany. A huge amount of projects in the pipeline. And very optimistic about our growth over the next few years.

Brian Duffy On CPO, I think if I'm being honest for us sitting here, we have probably expected a bit more difficulty of learning. But they have all gone really well. Turnaround time has been good. And accuracy from us to Rolex and back from Rolex has all been really good. We will comment more on the future and profitability, your comment, that we'd said that the plan is that this would be as profitable as the rest of our business. That still remains the case. And that's what we'll confirm and present in more detail when we talk of long-range plan.

But listen, there's a lot to come and I'm satisfied that Pre-Owned. The in-store presentation at the moment, the products are all in cabinets. There are some nice display cards. There's a nice, new logo. But there's so much more good to come. And then we have brand presentation and brand marketing and window presentation, everything else, none of which is happening at the moment. Given all of that, we are very much encouraged by the early results. We obviously have been selling Rolex CPO, not certified by them, but Rolex Pre-Owned business for many years. We have a very good idea about the merchandising, the placing, the product hierarchy and so on. All of which we're putting into what we're doing. So far, so good.

Jon Cox Thank you.

Ellen Thank you. Our next question comes from Louise Singlehurst from Goldman Sachs. Louise, your line is now open. Please go ahead.

Louise Singlehurst Good morning, everyone. Thanks for taking my question. Just a couple of follow-ups for me, if I can do, please. Just on the back to the pricing point, I know the brand is obviously very good at putting in the new content and probably with the price elevation. Is there any resistance from the customers that you are seeing on the higher priced items? Or, and I suppose if we think about the US and also the UK, are the teams thinking differently about the assorted mix in the stores? Is there anything really to call out on that basis, please? And then the second point, just given the weighting of the new products which came in obviously Q4 and then penalised Q1, is there anything that we should be thinking about?

Presumably the first half margin will be below the second half? Just think about the profitability phasing at first half, second half. Thank you.

Brian Duffy Anders will comment on the profitability. On consumer response, I have got to say that our consumer group does seem to be so strong. And average selling price actually was up slightly shy of 9% overall in the quarter. This being a mix of pricing benefit, the 3% mentioned by Anders earlier, and consumers effectively choosing the higher priced products. We wouldn't point to any negative impact from pricing increases that have been made. And the consumer, as I'm repeating myself, very, very resilient overall. Profitability, Anders?

Anders Romberg In terms of our margin structure for the year, it is going to be that we are going to have some pressure in the first half of the year. Because in the first half of the year, we didn't see the rate increases coming through in our IFC, which was more skewed towards the second half of the year. That is a headwind that we are going to be faced with in the half. In terms of product mix, we do expect jewellery to continue to be a little bit softer. Product mix isn't going to be helpful through the first half. Once we get into the second half of the year, actually, the comparison, in particularly jewellery, is changing quite dramatically.

I expect mix to be a little bit better in the second half. Pressure on profit margin in the first half, with annualising a lot of that cost in the second half.

Louise Singlehurst Thank you. That is very interesting. Thanks very much.

Ellen Thank you. As a final reminder, if you'd like to ask a question, please press star followed by one on your telephone keypad. We'll pause for just a moment to compile any remaining questions. Currently no questions. I would like to hand back to Brian Duffy for any closing remarks.

Brian Duffy Thanks, Ellen. Thanks, everybody, for your questions. Just in summary, again, it’s been a very good quarter, completely in line with what we had indicated at the start of the quarter. Demand remains very good for our products as measured by continually adding to do our registrations of interest, albeit selling prices going up. The market for what we sell remains very strong. What we are doing in the market I think remains very successful. Our projects are all landing really well. All of that, despite the macroeconomic situations, allows us to remain confident about our guidance for the year which we're confirming.

We've talked a bit about CPO and it is exciting. And I think for the years ahead, that could really be meaningful. And it’s off to a good start. We don't think it's going to be a huge impact on this year's numbers, but in the years ahead. And obviously, we'll talk about that in the long-range plan. Our teams, as usual, just surprise us with a dedication and focus. Really just doing a great job. Our thanks to them. And thank you to all of you for joining the call.