THE WATCHES OF SWITZERLAND GROUP

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

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HY FY20 RESULTS PRESENTATION

INTRODUCTION FROM BRIAN DUFFY, CHIEF EXECUTIVE

Welcome everybody, this is our first ever first half report as a public company. I'm delighted to be reporting good results overall and thank you all for coming. I'm going to go through a quick CEO update, Anders will then go into more detail on the numbers, and I'll give you an operational review after that, and then of course we'll have Q&As.

I am delighted that we have delivered such good levels of growth, almost 16% revenue growth on a constant currency basis, and 10% like for like sales growth, and group revenues up 17%. We are particularly delighted with the 10.3% like for like sales growth.

Luxury watches are clearly driving our growth overall. We are still dealing with restricted supply on the major brands. We continue to deal with it as we have done over the last couple of years, but overall demand continues to significantly outstrip supply in all markets globally.

We have delivered a more broad-based set of positive results, so we've had a lot of good growth across a number of brands and across all of our showrooms again both the UK and the US.

We've completed 15 projects, 11 here and 4 across the pond, and pretty much executed to plan, so we'll talk you through the specific projects. We also announced this morning an acquisition of four showrooms in the UK, the Fraser Hart showrooms, which are very complementary to our distribution overall in the UK.

We've improved profitability and we're delighted to have done that, but we're happy to say we've managed margins well and we have leveraged overall costs. At the end of the day we're very, very confident in our IPO strategy, the revenues and profitability are ahead of what we had expected and had led you to expect, so we are updating the guidance that we gave at the time of the IPO and broadly coming in line with market consensus on our results as you would see on our website.

So, sales I've mentioned. We're also thrilled with our cash flow generation and margin improvement, and Anders will go through how we managed to do that, including reducing discount and so on. So, we didn't have that decline in the margin overall and we did get the leverage on cost and therefore improved our profitability.

The improvement on adjusted group EBITDA is a bit less because we have some central incremental overheads particularly associated with our new public status overall, and adjusted EBIT up 23% and EBIT margin level of 7.3, so we are continuing to grow our UK and US combination of projects.

Our key message is the strong broad-based performance ahead of the market, we've gained share overall, we believe, in the UK and in the US, and we've continued to manage the challenges of restricted supply. We are one of a kind and I'm going to talk more about that in the operational review, that we do stand out, there as a one of a kind proposition – our showrooms, our multichannel leadership, the exceptional customer service which has been part of the DNA for this group for many, many decades, our technology, our marketing which gets bolder and bolder as we go on, and obviously the great partnership and support that we have from the key brands that we depend upon.

Our showroom investment continues to work and our track record and confidence continues to grow. I am really delighted that we can declare initial success in the US, there's been a great response to what we have done in US with the consumer level there that we work talk through, but we are delighted with that obviously, and then we are working on these other areas that are growing faster than traditional retail, being travel retail, online and the mono-brand propositions that we have. So, our strategies are working, we are executing what we said at the time of the IPO, there's going to be no change, and we're going to be doing more of the same for the future period.

On the acquisition of Fraser Hart, it's just four stores, but we think four really well-positioned stores in a great market. They all contain Rolex, so it increases our presence overall with Rolex. We expect to complete next month. The purchase price for the four stores was £31.7 million, so it represents an EBITDA multiple around 6.3, which represents good value to us, and I think it represents good value to the owners of Fraser Hart. We will be rebranding the stores as either Watches of Switzerland or Mappin & Webb. We will be upgrading the content of what's there, to include less jewellery and less inexpensive watches, and more luxury in total. We will immediately put all of our systems into the stores, literally within 24-48 hours we'll have the systems converted to what we do, and we'll also integrate the stores into our area and regional management structures.

I don't know if you're familiar with the stores, but Fraser Hart in Stratford is in a hugely successful mall, I think they claim it to be the highest traffic in Europe, the best part of 50 million, so a great mall and one that we have not been in. This is the only Rolex agency in the whole mall. We will convert this store to Watches of Switzerland. That's an initial, relatively rough rendering you can see on the right, but we'll make it Watches of Switzerland, so out will come all jewellery, out will come less expensive watches, the whole presentation will be elevated to luxury watches. We'll do exactly the same at Brent Cross, again it will be the only Rolex agency and it's a great catchment area overall in North London. So there, we will do exactly the same, expand watches, take the jewellery out and less expensive watches out, and it becomes Watches of Switzerland.

In Kingston we're going to keep jewellery, so we'll change the store there to Mappin & Webb, we'll replace Fraser Hart jewellery with Mappin & Webb jewellery, again less expensive watches out and an expansion of luxury watches. Then we are likely to either relocate or expand this store, it's too small for the catchment area. It's the same situation in York, another great town, a great tourist town as well as a wealthy area in the north of England. Again, Mappin & Webb, so we will be changing the jewellery to Mappin & Webb, upgrading the watches, and again we are going to see if we can expand our physical presence in this town.

**ANDERS ROMBERG,
CHIEF FINANCIAL OFFICER**

Thanks Brian. For the first half, as you've heard revenue was up 17.3%, with the like for like sales coming in strong at 10.3%, UK it's 11%, in the US it's 7.5%. Worth to note is that the UK had the benefit of the price increase that Rolex took, so we obviously benefited from that in the first half by around 1.5-2%. So, that annualises in November this year.

UK luxury watch revenue grew by 13.1% in the half, which is obviously the main driver of our growth, and luxury watches now makes up 83.1% of our revenue. In the US again growth of 50.7% in luxury watches, so it's a very consistent message here, it now makes up 91.3% and increased quite substantially versus last year actually, because obviously we opened up more stores in New York.

EBITDA, plus 23.5% up to 41.2m, and EBIT came in 23% ahead of last year, so an improvement by 40 bps, which we're very pleased with. Cash flow generation remained strong and we managed that quite tightly. Our capital rollout programme remains in line with plan.

So just a quick overview of our sales. Total luxury watches for the group was up 21.6% in the half. The split in our business – US now accounts for almost 26% of our business versus 21% for last year, and other category, jewellery, remained relatively flat in the half, but we are obviously selling more branded jewellery and less commodity, which is helpful. Fashion jewellery continues a downward trend, as we pointed out before. Our net volume, which is product volume actually improved opposite to what we guided towards, and we will elaborate on that a little bit later. Overheads should be viewed a little bit in conjunction with other non-trading items. We charged non-exec board and advisory costs below the line as non-trading items last year. They are obviously part of our overheads this year, so I think you should look at in that way, but obviously as Brian pointed out we've had some incremental costs. We also had a front-loaded marketing spend last year of about 1.2 million.

The adjusted EBIT margin improved by 0.4pps. If you look at that by geography, the UK like for like at 11%, and total at 10.6%, that's due to the fact that last year we had a lot of closures of non-core stores which depleted the number that we did this year actually, so we have amongst others offloaded six stores. The contribution from relocations and expansions is in line with historical performance, so we are pleased with that, and obviously in the US marketplace when you look at that our like for like is 7.5%. We took two of our big stores out of the base for like for like, which is Lenox in Atlanta, and Florida so obviously two really big stores on the like for like basis are now included in the relocation expansion. As Brian pointed out, the good news is people do respond to our format in the US, which has been really good.

Another thing that is worthwhile to point out is that our average selling price in the UK luxury watches improved by 12.3% in the half, so it's not really volume driven, it's actually mix driven and we are selling all brands really well, and we've seen an uplift in our average selling price across the board with the great help of tourism in the UK, actually in the first half it was up 6%, so below our average for the UK, so our sales in the regions have remained really buoyant and grown.

In terms of margin, as Brian alluded to, we are obviously selling more luxury watches that attracts a lower initial margin from the brand as such, so we dropped 0.6% in line with what we had predicted, but we managed to offset that through better discount control and reduced credit offerings throughout the portfolio, so we actually got a benefit from product margin in the half.

Penetration of credit across both the UK and the US has actually declined in the half, so we are using that less as an incentive to our consumers.

We have good leverage on cost, productivity per square foot continues to go up, and obviously the

square footage versus last year's cost is similar to this year in the UK, so no real change; obviously this is greater in the US.

On overheads, obviously, we have the traditional cost of becoming a public entity.

In terms of our balance sheet, it's the reflection of the complete refinancing that we did in conjunction with the IPO, so the old bond was replaced by a term loan and our new RCF facilities in the UK.

I just want to point out inventories on this slide, we are up 3.8% in inventory on the sales growth of 17.3%, so obviously that was pretty well managed. I think it's true to say that we would probably like to buy more than what we have of some of our brands, because demand continues to outstrip supply, as Brian alluded to. This is the new finance structure. We replaced our bond which was running at a fairly high premium interest of 8.5% with our UK term loan that runs at about 3.1% effective rate today, so clearly our financing cost has gone down dramatically.

Another thing that is worthwhile to point out in our reported numbers, you will note that there is about 1.7m of interest that goes through the books and that relates to the pre re-financing period when we still carried the bond which didn't take place until June.

In terms of our cash flow, we continue to generate cash, which is good. Working capital was very strong in the quarter, the increase in creditors is the reflection of timing of inventory purchases. Obviously, we bought into a lot of stock pre-Christmas, in particular some of our watch brands which we're emphasising more this Christmas than we historically have done, not ignoring the jewellery obviously. Cash generated from operating activities, so that is £49.6m, so we're happy with that. CapEx in terms of cash is £15.8m.

On tax, we have paid three instalments versus last year because HMRC changed the rules, so not a choice there. And obviously interest of £8.9m and we are closing out the half with a net debt of £92.1m with a leverage of 1.1. So, ahead of what we expected actually from a cash position point.

As a result of the acquisition we come in between £120 to £130 million net debt, but we expect the revenue for this year to increase by about £6 million and £1 million of EBITDA.

BRIAN DUFFY

The strategies that were outlined in the IPO continue to create sustainable growth, by investing in our store network, new opportunities for showrooms, and clearly partnering with our big brands is fundamental to what we do. Customer service is a distinguishing feature for us in how we approach retail, being the best in class and merchandising and marketing and retail operation using our system, using our scale and expanding our leadership position in multi-channel.

Just some of the projects that you'll be aware that we've done. We've opened at Gatwick North last summer, we opened a new service centre in Manchester which you didn't know about but it's a nice new addition to our portfolio, it's got nice potential going forward in the repair and service area, support also for our pre-owned. We relocated our store in Brighton, Goldsmiths Nottingham, a Glasgow boutique where Omega has just reopened last week. We also relocated our jewellery workshop from Hatton Garden to Oxford Street. We've refurbished two Goldsmiths, three Mappin & Webbs, and we just completed a refurb of the ground floor of our flagship store at 155 Regent Street, you should go and see if you haven't done, it looks great, we're getting a great response and doubled the size of Rolex in the process. In terms of new, in the US we opened in Boston and we relocated two major stores – Merrick in Miami and Lenox in Atlanta, and we refurbished another major store in Miami called Miami International.

The pipeline, some of which has been done, and not all of these we had listed. These include Goldsmiths Edinburgh, which we always planned to do and it opened last month. You might have also seen we opened our first ever jewellery mono-brand at the bottom of Old Bond Street last month, we now have in progress four new mono-brand stores that will all open over the Spring and early Summer.

Tudor, I think you all know is a brand that's owned by Rolex, it's doing extraordinarily well and we think it will be great as a mono-brand, so this will be the first one in Europe actually that will open in White City in March/April. The Broadgate project in the City is on schedule for summer. Battersea has been delayed, as you may know, into next Spring. We will be doing a Glasgow conversion of the Watches of Switzerland to a Rolex boutique, we had originally planned to do that pre- Christmas and design challenges meant that we couldn't, but it will be underway right after Christmas, open in April.

A completely new project but a big one for us is an expansion of our presence in Knightsbridge, so the beautiful store that we there already in Brompton Road, we're expanding to take over the store next door and there we'll create really a beautiful Rolex store, and there's a lot happening around Knightsbridge that this store will be a big beneficiary of. So that's a new project, an exciting one.

Terminal 3 is on schedule for opening in summer, will be in a pop-up between now and then, we don't think it will affect Christmas at all.

In the US, American Dream has been delayed, it's open, there are more and more openings happening. Retail starts to open in January but luxury will be the last to open, and we're later in the Summer/Autumn.

We did tell you we were going to look at the mono-brand potential in the US but we had no specific plans in what we presented to you at the IPO, we have now done some really good work with theOmega, Tag and Breitling, and in four locations we'll be opening 11 mono-brands, so three of them will have three adjacent and one of them two adjacent, so that's exciting and that will all happen over the next few months.

On mono-brands in the UK, there are the four that I mentioned, plus we relocated the Omega store, so that's five, and 11 as we've just said in the US, so we now have wonderful partners that you can see there that we continue to add onto as mono-brand partners. And to remind you, we have a great proposition we now have of a new model store concept, generally smaller than was being looked at before, so less expensive on our rent and CapEx, and the arrangements that we have on the margin and CapEx share and so on with the brands make this a really nice financial proposition for us and a big area for development in the UK and US.

On travel retail - we have renewed our contract in Terminal 3, it's a new contract with expanded space for five years, we'll be expanding as I mentioned in the summer with the Rolex Room. We're formally in the tendering process in Terminal 2, we have that beautiful Rolex store you see there bottom left in Terminal 2, we don't have multi-brand, that's what we're tendering for, and we're also very advanced in the tender for Gatwick South following our success in the Gatwick North, so travel is expanding.

I'm always asked about why our stores are so successful, what makes them so different, so I'm going to take the opportunity of just giving you our philosophy, and our approach to stores with some examples about why that works so well.

First of all, we've got our stores in terms of choosing location, we go for visibility rather than necessarily luxury adjacencies. The best example is we moved from Bond Street back in 2014 from a smaller but very prestigious location into Regent Street into a much bigger but arguably less luxury prestige, but obviously huge in terms of visibility and traffic. Environments have to be luxurious, people are spending a lot of money and for special occasions, so they have to sense everything about it is luxurious, the environment they are presented, the customer service that they get.

What is very distinguishing for us is the emphasis that we put on our stores being open, welcoming and inviting. We design the stores to be browsable, you should feel very free to go in and unchaperoned walk around the store, educate yourself, enjoy the watches that are there. You don't always need help in our stores. The definition of our stores is they are non-intimidating, everybody does and feels free to walk in and enjoy our stores.

We don't go for a maximum number of brands, it's really important that whatever brands you have, you give them the presence and the credibility to present what they're all about. We adapt our proposition, we follow the same principles, but we always adapt to the environment that we're in.

We always want to have reasons to be cheerful in our stores, things that are going on, new activity, pop-ups and so on, so our stores are modern, they're contemporary, they're active. The whole store should intrigue you, even if you're only there to buy Omega or Cartier, you will take the opportunity of walking round and seeing everything else that's there because the store invites you to do that from its design. We've put a big emphasis on hospitality. Again, if somebody's spending a lot of money, the least you can do is give them a nice cup of coffee or a glass of champagne, and it's a big change to what we have in the US. We also really believe in this category in the impact of windows.

So, just some examples of what we've done. This is the store we used to have in Bond Street for many, many years, a very prestigious location, it's now the boutique in Bond Street, but we moved from there into 155 Regent Street, so we moved out of less than 2,000 feet into a space of 18,000 feet, and actually we've pretty much the same number of brands overall, but a real revolution in terms of the space and the customer experience. The interior of the store, again it's beautiful, beautiful modern materials, great use of space, and all of the brands beautifully presented so that you are invited to walk around. We did the same with Oxford Street, and then did the same here with Knightsbridge, this was our store in Knightsbridge, as you can see very, very restricted windows, a very long narrow store, and compared to that we moved 100 yards up the street and opened this location in 2016.

In Manchester we moved into St Anne's Square, again very, very high visibility, a great building, and you can see within that from the windows the great salon in the back and then a great room to present the rest of the brands that we have there. In some of the big shopping malls, in the Birmingham Bullring we had this great and very successful store with Goldsmiths, but we wanted to expand so we took over the store next door, created this fabulous Rolex room and then created space in the main store to introduce Cartier, Hublot and IWC, and it's one of our fantastic successes regionally, of which there are many.

Then applying that to the US, this was the store that we took over in Wynn; Wynn used to do watch retailing themselves directly, they're great at running casinos, but they're not great retailers, which they freely admitted, so that's why they asked us to come in. This is probably the best example in many ways because this is the antithesis of what we do. This is non-inviting, you don't know what it's about, we call it a 'bank vault' rather than a shop, so we decided to move from that to across the way and create this store with two entrances. I think you can see it's bright and inviting. This is the main room as you walk in the store, these three pedestals at the front actually work very, very effectively for presenting unusual watches, but you're naturally intrigued to walk in and see everything that's there, or make your way down to the waterfall; we have waterfall at the back of the store, as you do in Vegas!

In terms of adapting to our environment, I think our best example is obviously what we've done in Queen Street in SoHo in New York, a beautiful industrial building, was a textile factory back in the day. Again, a great example of, I think you would see here, all of the brands. There are different sizes of presentation, Rolex and Patek and Cartier have their own shop in shops, but all of the brands have a consistent presentation, you're naturally intrigued to look around all of them, then you're naturally intrigued to go downstairs and see the best example of our hospitality with our cocktail bar. It's very cool in the downstairs area, a great event space and hangout space. Just a bit further north in Manhattan we opened at Hudson Yards, the most visible location in the entire development - Patek to the left, Rolex to the right, and Watches of Switzerland in the middle. A great example here of we used the pop-up area in the entrance, and also this great window, to allow the brands to do different things and to do launches. This is Omega celebrating the 50th anniversary of the moon landing watches.

So, just looking at some of the ways how we've applied that concept to some of the projects that you've heard us do. This was Mayors in Merrick Park, a really old store as you can see with unlit older brand names, really poor presentation of windows; this is what it looks like now. We moved, we literally relocated to next door, we get better frontage as a result, and I think you can see beautiful bright inviting presentation. The interior, again you walk in and you want to see everything that's there, watch and jewellery equally.

This is another Mayors store in Lenox, this store probably as old in terms of refit. You can see the old-fashioned counters and everything that was there, the window was dreadful, the fascia and so on I think pretty dreadful. So we moved to what is we're told the best retail spot in all of Georgia within the same mall, and we've agreed for the brands to do a major presentation of a Rolex boutique, our first ever Audemars boutique you see to the left, and also then the Mayors watch and jewellery presentation to the right hand side.

Then in terms of mono-brands. Top left used to be a

Goldsmiths store but we moved Goldsmiths to a better location in Nottingham, and we were able to open this Tag store in its place. Top right is the new Bristol, that was a new model of a smaller store, but I think, I hope you agree it's a very cool store, it's great branding, great images as well. The whole thing is I think very, very current and appealing. Bottom left is Breitling in Trafford, one of the most successful Breitling stores in the world overall, and then bottom right is the Omega store in the city of Glasgow, we just relocated and they opened last week. So, I think our stores really, really work in a modern and relevant way.

Obviously, we complement that with great customer service. We have great teams who again are very welcoming, very non-judgmental, which is something you've got to make sure happens in the world of luxury. We also represent the brands, we don't just sell the brands, it's really important that we're seen to represent and continually complement our brands. Obviously, expertise is critical. First there's the critical factor of people buying watches, so you immediately trust someone that really knows their stuff, so we put a huge emphasis on learning and development, a huge emphasis on teamwork. It's a big deal in the US because the US traditionally has much more emphasis on the individual person from a commission standpoint and so on, but we think teamwork is critical for the consumer. Clearly, enthusiasm for watches, providing assistance, and really using CRM to effectively drive our business really works well with our sales people.

Our marketing is revolutionised from everything that we're doing. Online we get over 20 million people a year visiting us online, we do podcasts, I host most of them. Our Calibre magazine is now going digital, now they've done a magazine for jewellery as well, it's really well read and very respected publication. Of course, we continue to evolve everything we're doing to support VIPs.

The numbers in digital from a traditional marketing standpoint are just humungous, including the amount of looks that we get from PPC or advertising impressions. On social media we are reaching 8.5 million people a month, with You Tube the fastest growing. We're doing more and more events and really using CRM to drive it. Our CRM database is now over 5 million people, half a million emails going out to our database now, and we're still doing great traditional advertising but doing it again in a way that's very, very visible, mainly through outdoor.

Just for some examples of what we do that you wouldn't expect to find in the world of watches. We did this 'Sneakertime' exhibition in New York and Soho, we collaborated with Stadium Goods, who are the ones who sell these really hard to get sneakers, these sneakers sell for over $5,000 overall for a pair of trainers, overall, so for $30,000 you can get a pair of shoes and a watch if you go into our store in Soho. But it was a great collaboration for us, it's like an exhibition we're doing, we have logically paired watches with these cool sneakers and clearly getting a great audience and a new audience into our store, and when people come into our store in Soho they come back because they really enjoy the experience so much. We got great PR from it as well with the video of the whole thing being played almost now a half million times.

Meanwhile, back here in Blighty we were doing some other cool stuff, and this was a launch with Bremont of limited edition watches the dials of which had been painted by Ronnie Wood. Bremont have their own store, but they wanted to do this launch effectively with us, and it was a great event.

Anyway, great events, but in total we really significantly improved the awareness of our brand quite dramatically, and the brands that have been around for a long, long time. It's worth highlighting that reasonably recently Watches of Switzerland had an awareness of 46% independently as of 2012, and now with high net worth consumers approaching 80%, Mappin & Webb's double, and Goldsmiths are heading towards 100%, so people really know about us and we are top of mind when people are considering buying luxury watches.

Finally, just a couple of words about the US market overall. We're really chuffed at the success that we've had in the US, we were always confident of it but until you've executed it you can't be totally confident, and it's a question that a lot of investors have raised. Our biggest investments in the US are obviously through acquisition, through acquiring Mayors and the rights to retail in the Wynn in Vegas. We've acquired those businesses, we've integrated them in a very smooth way, and we've improved the businesses effectively from day one.

For example, we've got a great head office in Florida at Fort Lauderdale. We've got all of our systems and all of our stores that are there, so all the disciplines and analysis that we have in the UK they now have in the US. We have a huge emphasis on learning and development and have created this major classroom, it's like a training centre that we have at Fort Lauderdale. Obviously, we're doing all the store design and build that I showed earlier, great marketing, and none of these businesses were really doing much marketing at all before.

Probably the biggest challenge we faced was opening two major stores in New York. We know that the market's view was wait till these guys actually experience New York unions and everything else, and we did experience it and it wasn't so easy, but we've accomplished it. We've opened two fabulous stores, I think the best stores in Manhattan, in Soho in Hudson Yards, we recruited completely new teams, with a huge emphasis on L&D again, and obviously our marketing has been really great.

I think when you look at the US market, just to put it in perspective with everything that we've done we are a major player in the market but we're still only at 10% of market share, whereas we're high 30s in the UK. We think first of all the US market is hugely underdeveloped as a market and that we have the potential to gain share in this underdeveloped market, so we think the US really offers us a lot.

In summary, we're very happy with the results that we have delivered, probably happier even to look and see the extent to which what we told you we were going to do at IPO. Our strategy is working in terms of our stores, our marketing, our customer service, our technology. The changes in the half year were that our results are more broad based than they were in recent years and clearly we made some really good progress in profitability that we didn't fully expect. I am really chuffed at our success in the US and the opportunity that we think that now gives us. We've got a lot behind us in the US, a lot of work we've really accomplished. Multi-channel, we're leading multi, we have our biggest share in these faster growing areas of multi-channel, be it monos or online or travel retail. Supply is a challenge, but it has been for the last few years, we continue to manage it overall using our systems, using analysis, making sure we've got the ideal stock, albeit never being enough, but always through investment we're getting more than our fair share of allocation overall.

At the end of the day, what are we, what makes us different? We've a very, very broad appeal. We believe that category we sell in is more aspirational than pure luxury, so we have very broad appeal, everybody's very much welcome in our stores. We appeal to a younger demographic overall, the brands really like what we're doing and they're supporting it, and the landlords really like what we're doing and are giving us the opportunities. So, very happy about our first half year, the confirmation of our strategies going forward.