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Transcript

Watches of Switzerland Q4 FY23 Trading Update

Wednesday, 17 May 2023

Brian Duffy Good morning, everyone. Thank you for joining our call. I'm Brian Duffy, the CEO of Watches of Switzerland Group. I'll be adding some follow-up commentary and colour to the Q4 fiscal year trading announcement that we made this morning. Our CFO, Anders Romberg, will then add some comments on our full year 24 guidance, which we also announced this morning, and then we'll both be happy to take whatever questions you have.

I'm very pleased with our strong revenue performance in Q4 and for the fiscal year. Consistent with Q3, the macro backdrop has continued to be more challenging in Q4, as we expected and forecasted, macroeconomic pressures impacting wider consumer confidence. However, despite these challenges, we delivered sales growth of 22% in Q4, 25% for the full year, both on reported currency and at the higher end of guidance and expectations.

Sales growth in the US remained strong in Q4, plus 27% reported, plus 17% constant. UK/Europe sales are up 18% in the fourth quarter, with the UK business benefiting from timing of deliveries of key brands. Luxury watches for the year grew 28%, and the market information we have shows that we gained share both in the UK and in the US. Growth was driven by the combination of increased average selling price as well as volume.

Regarding our registration of interest lists, there was no change to what we experienced and commented on in Q3. Demand remained strong, outpacing supply, and we continued to add to net registration of interest numbers in both markets.

Luxury jewellery in Q4 was down 17%. That reflected both market trends and our strategy and focus on full price sales. Average selling prices grew double digit as we continued to merchandise the higher price points and reduce discounting in the US.

We further progressed our expansion into Europe with the opening of our first TAG Heuer boutique in Dundrum Town Centre, South of Dublin. Our new stores in Stockholm and Copenhagen are performing well and in line with our expectations. Our teams in those two cities are full of enthusiasm and doing a fantastic job. Consumers in these markets are responding well to elevated showroom experience and client service. The ASP in both markets is really very good, higher than UK and the US averages.

Looking back at fiscal 23, we reflect on what's been an important investment year for the group. Highlights for the year include opening five showrooms at the iconic Battersea Power Station development we developed last autumn. We expanded our presence in Boca Raton, Florida, and trading in these showrooms has been ahead of expectations.

We also continued to roll out our successful Goldsmith luxury format here in the UK. Our programme of elevated customers experience, Xenia, continues to embed in our retail culture and is impacting positively in client relations and sales.

Turning to full year profitability, we expect fiscal year 23 adjusted EBIT to come out between £163 million and £167 million. Prior year margins did benefit from 5 million of UK business rates relief, an impact of around 30 basis points on profitability.

Fiscal year 23 saw another year of margin expansion as we continued to leverage our fixed cost base, despite headwinds from interest-free credit cost increases and a negative impact from product mix.

We're delighted to announce today plans to open our first Audemars Piguet House in the region of the St Anne's area in Manchester. That will be through a joint venture partnership with Audemars Piguet, and it will open or plan to be open in Spring 2024. This joint venture represents a further milestone in the longstanding relationship we have built with Audemars Piguet and further endorsement of the strength of demand for luxury watches across the UK.

The city of Manchester continues to increase its profile as a centre for sports, music, hospitality and as a retail destination for a large North of England catchment area. We love the Manchester market.

We've also announced today our plans to open our fifth TUDOR monobrand boutique in the UK. This new flagship boutique will be in a wonderful location at the corner of Bond Street and Piccadilly in London and promises to elevate the experience for both loyal and new TUDOR clients browsing the brand's iconic timepieces. The news represents the latest step in the continued evolution of our partnership with the TUDOR brand.

These projects will add to our existing pipeline of projects, including our flagship Watches of Switzerland showroom in American Dream, which will open this month, the refurbishment and expansion of Mayors in Dadeland, Florida, which has now just opened in recent days and the relocation of our Rolex boutique in Orlando, Florida.

And with that relocation, we'll move from a 1,000 foot store to a 3,000 square feet store, and that will happen in October. Excuse me. Our Old Bond Street flagship boutique is due to open in the first half of 2024. We're also looking forward to the launch of CPO in Q1, certified pre-owned product from Rolex, that is, in Q1 in the US and Q2 in the UK.

As we close out fiscal 23, we'd like to point out where we stand against the long-range plan that we presented to the market in the summer of 2021. Sales are significantly ahead of that plan, in fact, north of £200 million ahead of the plan, and that excludes the benefit of favourable movements in foreign exchange, which makes the differential even greater.

Our adjusted EBIT margin has improved by more than 100 basis points versus what we had planned, and we're way ahead on cash and return on capital employed. We're very pleased with our progress, our momentum and our prospects for future profitable investment and growth. And with that, I'll now hand over to Anders Romberg, our CFO, to talk through the fiscal 24 guidance.

Anders Romberg Thank you, Brian. I'm delighted to be back and look forward to working with the team again. So as Brian mentioned, we entered FY24 significantly ahead of where we expected to be in our long-range plan, following two years of exceptional performance, notwithstanding the macroeconomic backdrop.

Our guidance for FY24 is on an organic, pre-IFRS 16 basis, assuming the current exchange rate. We are guiding to revenue between 1.65 billion to 1.7 billion, which assumes a revenue growth rate of between 8% and 11% at constant exchange rates. We expect adjusted EBIT margins to be in line with what we experienced in FY23.

FY24 guidance anticipates that the more challenging trading environment of the second half of FY23 will continue into the first half of this fiscal 24, before improving in the second half of the year. Due to product intake timing which supported the growth in Q4 of FY23 and strong prior year comparatives, the group expects a modest sales decline in the first quarter FY24 before normalising in the second quarter.

Our guidance also reflects the current visibility of supply from key brands and confirmed showroom refurbishments, openings and closures but excludes uncommitted capital projects and acquisitions. We expect the underlying tax rate to be between 27% and 28%, reflecting the recent increase in the UK corporation tax. FY24 will be another strong investment year, and we plan to spend between 70 million and 80 million on capital. And with that, I will hand over to the operator to run the Q&A session.

Operator Thank you. As a reminder, if you'd like to ask a question today, please press star followed by one on your telephone keypad to enter the queue. When preparing to ask your question, please ensure your headset is fully plugged in and unmuted locally. That's star followed by one to ask a question today. And our first question is from Melania Grippo from BNP Paribas Exane. Melania, your line is now open. Please go ahead.

Melania Grippo Hi. Good morning, everyone. I have a couple of questions. The first one is on the impact from higher product intake in Q4 23. We estimated it to be around 15 million. Is this correct? Then I would like to ask you an update on Patek Philippe door cut. You are at the end of your negotiations. Is there anything that you can tell us on this?

And finally, on the Rolex CPO programme, we heard the date that you would like to launch the programme in both US and UK, but could you explain to us how does it work? Will you be able to do watches also online in both countries? Can you give us some initial…? Or, sorry, can you give us a little bit of…? Can you explain how does it work? Thank you.

Brian Duffy Hi, Melania. Thanks for your questions. Your question about, I'm sorry, the impact of intake was 23 or 24?

Anders Romberg The last quarter of FY23.

Melania Grippo Yes.

Brian Duffy Oh, I see. I see. Have we said an exact number?

Anders Romberg No, I think what we saw in the quarter was a continuation of what we experienced in our third quarter, where the UK growth rate was sitting at around 7%. And that was the underlying trend that we could read on the Q4 numbers. And obviously, we came in at 18%, so there is a delta which is related to the timing of intake.

Brian Duffy Yes. On the Patek situation, we haven't been public yet with exactly what doors that we're talking about will be door reductions in our group from Patek, both in the UK and in the US. Overall, we think this is completely right for Patek to do. Actually, this is probably overdue. There's huge demand for Patek.

They have been very public in saying that the cap on their production is 70,000 units. I think we all know they could sell that several times over globally. So it does make sense to concentrate the business on fewer locations. We will be expanding our locations that remain, and the critical thing overall is that the intake of product, we are pretty confident, will remain at the levels that it's been in recent years, UK and in US, and I think there will inevitably be an increase in the average selling price.

So we think it's a really good move for Patek. We are delighted with some of the investments that we'll be expanding on with them. It won't negatively impact our business. In fact, we see it as an opportunity in the future. And of course, we then have very high quality, desirable space available and more than enough brand partnership opportunities to take further advantage of that. So overall, we see it as positive.

Rolex certified pre-owned, we have been working with Rolex for months and months on this. We think it's a very exciting programme. They're doing it in a typical Rolex way in terms of being very, very disciplined and detailed on processes and materials and everything else.

We will be able to sell these products online, to answer that specific question, which for us, we think, is again a really nice opportunity. We obviously have a great online presence, UK, and a growing one in the US. We also have our virtual boutique, which is really trained sales people that are able to assist shoppers online. And we think that will be very, very beneficial for certified pre-owned.

We'll also be opening branded presentations of certified pre-owned in agreed locations with Rolex. We'll include a big statement in our new flagship we're opening in Bond Street. So we think it's very exciting, and we think it's going to offer significant growth in the years ahead.

The limiting factor initially will just be logistics and capacity. Obviously, it's taking watchmakers in Rolex to authenticate and refurbish products and watchmakers are a scarce resource in Switzerland. So capacity has been created, but it'll have to be built. And I don't think, initially, it will be at the level necessary to support the demand that will be there.

But we think it's very positive, consumers coming into a Watches of Switzerland store, able to buy Rolex products which will all be 100% as good as new, guaranteed by Rolex, guaranteed by us. I think it's a very, very strong proposition.

Melania Grippo Just a follow-up. The impact from this Rolex CPO, should we assume that it is included in your guidance for April 24?

Brian Duffy Yes, it is included in 24. As I say, that is the start-up year. It's likely to feature more when we present our long-range plan.

Melania Grippo Thank you.

Operator The next question comes from Thierry Cota from Societe Generale. Thierry, your line is now open. Please go ahead.

Thierry Cota Yes, good morning, everyone. Thank you for taking my questions. Three questions from me. First, you expect around 10% growth this year. I was wondering if you could give us a breakdown of that, of price versus mix versus volume. Would price expected to be around half of that 10% be a fair estimate? Secondly, if you could comment on the M&A market in the US. I was wondering whether, at this point, you consider it to be quite active in the opportunities, or is it more calm than usual?

And lastly, on demand currently. I'd like to know a little more what you're seeing or expecting for the year in terms of sales trends of supply-constrained brands versus traffic-dependent business and/or between more entry price versus higher price points. Are there differences that you expect and that you already see materialising? Thank you.

Brian Duffy Thanks, Thierry. Anders, you want to take the first point?

Anders Romberg Sure, and thanks, Thierry. So the pricing impact that we saw come through in FY23 was around 6% weighted for the group. And that is reduced in next year to 3%, because that's the roll-forward impact of the pricing actions that we saw come through. We never include any new pricing in that we don't have visibility in the plan, but obviously we take into consideration the roll-forward impact.

In terms of mix within the portfolio, we do expect jewellery to continue to be challenged as a category, which is more driven by macroeconomic conditions than anything else. And then the rest of the business, obviously, the supply-constrained business we expect to hold up based on supply. And the other piece is up against some pretty tough comps here in the first quarter, and then as we go through the year, those comps are becoming more reasonable.

Brian Duffy On M&A in the US, Thierry, I don't think conditions have really changed. I think there, the logic and the case for a consolidation is pretty obvious, I think, in the US. It remains a market where we expect to see the greatest growth from acquisitions.

We're obviously active, as we've always been, in the market, but it takes time. It's inevitably family businesses. It takes negotiation and discussion with our brand partners. It all takes time. But the market that we… Acquisition in the US remains a key part of our strategy and our growth potential, and we intend to follow through as productively as we can on that.

On demand overall, I think the key thing that we've commented on is that our registrations of interest for our key brands continue to increase overall, despite the fact that we are not accepting everyone for key products. That, we obviously already have very long waiting lists, and despite that, we're adding more people. So demand remains very strong overall in the category in total. Traffic-dependent business, as Anders just commented, we relate that mainly to our jewellery business. There are some other brands that have more of a traffic dependence as well.

But the perspective in the UK, when we commented on concerns about macroeconomic impact on our second half year, it was last October/November. I think the feeling back then was more pessimistic than it is now. Traffic is generally improving. We still have big city traffic numbers to recover, like here in the UK in London and New York in the US, but particularly with people coming back to work and domestic tourism. So traffic is improving overall, and all of that obviously we've considered in the guidance that we've given.

From a pricing standpoint, the move on pricing generally, average selling prices on watches and jewellery, increased during the year, and consumers, I think, are looking on our category in many respects as a sensible one to invest in when inflation is out there and just wonderful products that people love to own. So the move that we've experienced from product mix has been an upwards one on average selling price.

Thierry Cota Right. Thank you very much.

Brian Duffy You're welcome.

Operator The next question comes from Jon Cox from Kepler Cheuvreux. John, your line is open. Please go ahead.

John Cox Thanks very much. Good morning, guys. A couple of questions for you, if I can. Anders, I think you mentioned Q1 sales would be lower. Just can you talk a little bit about that, and what sort of quantum should we expect? And you're talking about the group as a whole there, I understand. What sort of quantum would there be? Because clearly, if you look at least the export data, etc, that is still positive. Just wondering, even if the comp is difficult, the market still seems to be growing overall. That's the first question.

Second one just on the jewellery. You're talking about that category being under pressure. I wonder if you can talk a little bit more about that. Is that mainly in the US or the UK, or the US is the issue there.

Third question just on the Rolex certified, just wondering if the profitability for you will be accretive to the group margin from that programme, anything on whether you're seeing a load of customers basically all running to you and saying, well, we want to sell this, and expressions of interest ahead of time. And I'm just wondering what you think that secondary could become of your overall Rolex business down the line. Is it 10%, 20%, 30% potentially?

And then just the last one, and I know you guys don't like to talk about it too much, but in terms of that growth guidance, this 10%-odd constant currency for this year, just wondering how we should think about it. Is it a couple of points from you, as always, with the renovation programme of a fifth of the network, and you get a 10% uplift or whatever it may be, plus market growth plus maybe a bit of market share gains? I'm just wondering how we should think about that 10% figure. Thank you.

Anders Romberg So your first question, John, on the first quarter, obviously, as we indicated on the previous question/person that asked, our growth rate in the UK in the last quarter of fiscal 23 benefited from the early intake of Rolex. So clearly, the underlying growth was more in line with what we saw coming out of the third quarter. So you have a delta there of around 11% or so that we benefited on sales in the UK. That's going to reverse as we enter into the first quarter, so that has an impact of, give and take, 15 million to 20 million in the quarter.

We're also up against a quarter where we had very strong market conditions in FY23, and the strategic partner brands were, as you can see in our Q1 release, really, really performing exceptionally strong. And those brands have moderated in growth throughout the year as the macroeconomic situation changed. So those are the reasons. What

we said is that we expect a modest sales decline in the first quarter, and we'll stick with that rather than giving a specific number on it.

Brian Duffy Yes. And your question on jewellery, John, it is more traffic-dependent. It's a more competitive market. It's one in which we are less competitively advantaged overall, from a market share standpoint. It's one in which the inclination of competition is to be very promotional as well when chasing volume. So it is more affected by consumer confidence. And just to emphasise, around 7% of our group business is jewellery, to keep it all in perspective. But of all what we sell, it's the one that's most subject to the mood and, as I say, competitive activity.

We love our jewellery brands. We have plans to grow in our jewellery brands. I think we did a really good job of positioning both UK and US, where they're positioning on the quality of the product and higher price points overall. And in the US, we're positioning full price and looking to eliminate discounting, which is much more prevalent in that market. So I think we're absolutely doing the right things, but it is, as I said a couple of times, a category that's most subject to consumer mood.

CPO, the financials will be that the gross margin will be smaller or less than our average, but bottom line will be in line with our average. At this point, we wouldn't see it as being necessarily accretive or dilutive, but overall, we plan to maintain our overall profitability in CPO, with the impact of CPO.

How big could it be? Really honestly, as I said earlier, the restriction or the level of business that we'll do will be about the capacity of watchmakers initially rather than consumer demand. But we think, both in our stores and online, that there's a significant potential, and we'll talk more about it when we present our long-range plan.

In terms of the guidance, I think it's interesting, when you look back at 23, we stuck with our guidance that we gave at the beginning of the year and ultimately achieved what we said we would do, towards the higher end of it, in fact. But obviously, there were a lot of moving parts as the year went on, the change in macroeconomics, exchange rate, saw a lot of moving parts, but we delivered.

And we look at this year with that same mentality. We have, as Anders said, visibility on supply, which we can lock in for the calendar year, and we're conservative in the balance of the year on supply overall. We don't assume any pricing, and I think something probably will happen in January, but maybe less than as what's happened in the previous couple of years. We are making investments. They will deliver increases in sales overall, and again, we've taken that into account.

And our plan is always to gain share. We've done it every year that we've been working on this plan, for the last ten years, and we would always intend to do so as we go forward. So all of that is there, baked in against this expectation of this more negative macroeconomic situation, which we see continuing through the first half of our fiscal and then getting better in the second half.

John Cox I wonder if we can just have a follow-up on the Q1 modest sales decline. I guess that would be mid-single digit. First one. And second one more on Europe and how you could maybe accelerate that process,

because obviously there's a lot of opportunity there. Just wondering what your thoughts are, particularly regarding maybe acquiring some Rolex authorised dealers in Europe maybe over the next 12-18 months or so.

Brian Duffy Yes. We would like to do that, and we're as active in Europe as we are in the US, and it's pretty much the same approach and it's the same situation that we're looking at, a lot of family owned business, some good retailers that are out there but some cities that we would look and see that the potential is greater. So yes, we would like to do that.

Again, we haven't included obviously any acquisition in our guidance that we've given, and what we're able to deliver will be incremental on that, as is always the case. But yes, we would like to do that, and our plan is that over this future period, we will secure some acquisitions in Europe.

John Cox And the modest sales decline, mid-single digit?

Brian Duffy Yes, again, we're not confirming a number, but one man's modesty is another man's… You know.

John Cox Okay. Well, thank you.

Brian Duffy Okay.

Operator The next question comes from Piral Dadhania from Royal Bank of Canada. Piral, your line is open. Please go ahead.

Piral Dadhania Thank you. Morning, everybody. So three from me, please. Number one, could you please give us an update on the performance of the non-supply constrained brands in Q4, and what you're seeing in the beginning of Q1? Obviously, a lot of questions on Rolex and supply constrained, but just wondering whether there's a bit more economic sensitivity to the Omegas, the Cartiers and the non-constrained brands in the portfolio.

The second question is just on the shape of growth relative to the guidance for 24. What gives you confidence that the second half has the potential to accelerate? You're talking about maybe less of a macro headwind in the back half of the year and softer comps, but actually, the Q4 comp is quite high, based on what you've just posted. So just wanted to understand what you're seeing. It could be the supply situation. I'm not sure. But any further colour there would be helpful.

And thirdly, just on interest-free credit. Is there any change in the overall mix for incidence of revenues being generated from credit sales? And how do you expect that to evolve in the next 12 months or so? Thank you.

Brian Duffy Thank you. The, the non-supply constrained brands that you refer to, we refer to them as our strategic partner brands, Omega, Cartier, Breitling, TUDOR, TAG Heuer, are great brands with really strong momentum, great partnerships for us. Their sales continue to be strong.

We've also developed really good partnerships with smaller, more niche brands like MB&F, Moser and so on. They are coming into our future plans too. There's some other great performing brands out there like Vacheron, for example, from Richemont, particularly the US. So the category overall is doing really well, and all of these brands continue to perform well.

Supply with those brands, it's wrong to describe them as non-supply constrained, because there's been a limitation on supply for the category overall, for luxury watches overall, particularly the component manufacturing and the impact that there was of lockdown and a catch-up. Supply with these brands has become better, and new product introduction timings have become more reliable. And all good all round, and we have expansion plans with every one of them.

Our growth, obviously, in the second half, we will be up. We do foresee that the economic conditions are likely to improve, and we'll be up against the second half year comps that are obviously more attractive from a growth standpoint.

We also have a number of projects that we are working on and initiatives that we have with our brand partners, so we do very, very detailed budgeting, by brand, by store, and we do a detailed phasing, which has allowed us to talk about Q1 and allowed us, I think, to feel pretty confident about H1/H2 numbers that we're looking at. So we're pretty confident about the indications that we've given today on guidance. Anders, IFC.

Anders Romberg In terms of credit penetration in the business, it's very stable here in the UK, and in the US, it ticked up slightly. But that's more about us tactically using it as a sales tool than any changing consumer behaviour really. So take that at around 12% of group revenue.

So clearly, we don't expect, and we can manage that by selecting our offerings to the consumer, so we will hold it around that level. And historically, that's where we've been in the UK. It has significantly come down in the US since we entered into that market, so we've taken that out as a subsidy on a lot of parts of our business.

Brian Duffy Yes, and I just emphasise to everybody, we don't take any risk at all on credit. That's all from our financial partner. We cover cost, but we take absolutely no financial risk on it overall. And levels of credit business are actually at, I think, probably all-time lows overall. We don't give any subsidised credit on Rolex or Patek, for example.

Piral Dadhania Perfect. Thank you.

Operator The next question comes from Richard Taylor from Barclays. Richard, your line is open. Please go ahead.

Richard Taylor Yes, morning. It is a question on the margin headwinds that I think you called out for FY23 and how we should think about it in FY24. So the headwinds that you call out are interest-free credit and product mix. Can you help us understand which is the bigger headwind out of those two, please? And on each item, are you able to just

confirm that the participation rate is broadly stable on IFC? So are we right to think that the sensitivity from here is what happens to interest rates and how the phasing of that is, rather than participation?

And on product, should we read the product mix headwinds to be the super high demand watches are selling better than the rest of the portfolio, the other watches and jewellery? Thanks very much.

Anders Romberg Thank you, Richard. I'll answer the question on IFC. Obviously, as we saw base rates climbing up towards the second half of the year, that puts cost pressure on us, because obviously we offer these programmes on 12 to 48-month terms.

And obviously, you can… So four years of 1% cost us quite a lot of money. So clearly, that has had an adverse impact on our margin in FY23, particularly so in the second half. And we expect that to continue to be the case throughout the year, and we have actually included a couple of rate increases when we planned out the budget.

So it is a drag on profitability. It's something we believe is temporary and over time will reverse. We don't think that the base rates are going to stick at these levels long term. So at some point in the future, I think that margin expansion is going to come back actually. So in terms of product mix, Brian, do you want to talk to that?

Brian Duffy Yes. Again, as I say, we do really detailed budgeting by brand, by store, and that's reflected in our expectation for this year. But we're not really anticipating, as a result, a significant change in product mix or impact in product mix on margin. Probably the most significant thing still there is jewellery overall. We're not expecting a big recovery until well into fiscal year. But other than that, product mix, I don't think we're expecting much of a change overall.

Richard Taylor Okay, thanks. And then just one quick follow-up. I think there was some expectation you may have made on your long-range plan. Is that going to happen at the full year results or over the summer? Have you decided on that yet, please?

Brian Duffy We haven't firmed up on a date. Obviously, Anders has only been with us for a couple of weeks. And we did again a very, very detailed five-year plan. He's just getting fully versed in all of that. And once he's totally comfortable with everything that's there and details that what it will be, we can then confirm exactly a date. But we're keen to present it to the market. And as soon as it's all buttoned out and Anders has got his words in line, we'll confirm a date.

Richard Taylor Great. Thank you very much.

Operator The next question comes from Natasha Brilliant from Credit Suisse. Natasha, your line is open. Please go ahead.

Natasha Brilliant Thanks very much for taking my questions. I just wanted to come back on the margin point. So I hear you on the impact and the drag that you're talking about from product mix, jewellery and also interest rates as well. In the absence of that, because you talk about it being temporary and so cyclical, what sort of leverage or what

sort of margin improvement should we be thinking about in a year that you can do 10% top line growth? So how should we think about the operational leverage of the business in a normal point of the cycle?

And then the second question was just on the JV with AP in Manchester. Obviously, a slightly new business model, a new approach for you. So could you just give us a bit more colour on how the economics of that will work and whether we could see similar deals like this with AP or indeed other brands? Do you get a sense that some of the other brands might be thinking about their distribution as well? Thank you.

Anders Romberg So on the operational leverage, Natasha, obviously we're over a percentage point ahead of where we thought we were going to be in our long-range plan, so clearly we've done much better. And that's come through operational leverage and not through product margin expansion.

When we did the long-range plan, we were conscious that we would have some things working in our favour and other things working against us, so we actually didn't, in that plan, reflect any margin improvement. We have achieved it. It's come through operational leverage.

And I would say that obviously, if we wouldn't have had the headwinds of increased credit cost this year, we would have had the benefit of continued operational leverage come through. But again, we had something that went against us. And I can't really comment on specifics in what it could have been and what it will be, because again, as I said, visibility of the interest costs are going to occur in the first six months of the year which is not matched up to last year.

Brian Duffy Yes. And Natasha, every year, we've managed improvement in profitability. Last year, 20 basis points was still an improvement up against some obvious headwinds and, as Anders said, way north of what we had assumed we could achieve in our long-range plan. So that model still works.

We're not going to give the detail of the Audemars Piguet joint venture at this point, but obviously we have a percentage of what we think will be a great investment. We're only doing a percentage of the capital, we're only giving a percentage of the profit back, but they're highly productive stores, highly desirable brand and one that we think is perfect for the market of Manchester.

Will we have an opportunity of doing more with them? We hope so, UK and US. We really enjoy working with the team at Audemars Piguet. They have expanded production a bit. They opened a factory in Le Locle, so more product. And having said that, it's still well below the level of demand that's out there, for sure, for the brand. So yes, we'd like to do more, but let's get this one open. Let's celebrate it and see the success of it. And let's see if there's any further opportunities.

JVs as a model with others, no one else has proposed that as a concept to us and not us to any of the brands. So we think this is something that… And it's been pretty public with Audemars. They do like that format. They clearly have moved to monobrand everywhere, and they love their AP houses with big areas for social interaction and so on. So that's a great format for them. They've been very selective about partners that they do it with, and we are delighted that one of those partners is us.

Natasha Brilliant Perfect. Thank you so much.

Brian Duffy You're welcome.

Operator The next question comes from Louise Singlehurst from Goldman Sachs. Louise, your line is open. Please go ahead.

Louise Singlehurst Hi. Morning, Brian, Anders, and a warm welcome back to Anders, of course, on the call. It's great to hear you again. I've got just a couple of follow-ups, if I can, just firstly on the underlying consumer, Brian, thinking about the comment back in February, just to make it very simplistic for us. Is there any particular change, when we look across the US or UK, in terms of underlying trends?

I know you called out in an earlier question that traffic is actually slightly improving, but anything across price point conversion? Obviously, across luxury, we're hearing a little bit more of a slowdown in the US particularly, and I know you already highlighted that back in February. And then for the UK specifically, are there any differences in behaviours that you're seeing in London versus the other regions?

And my second question, and the final one, just thinking about that growth outlook for 2024, I know we'll get more details later on, but when we think about that 8% to 11% underlying growth, is it safe to assume a third like-for-like and two thirds space and the overall mix component? Thank you.

Brian Duffy Consumer behaviour, Louise, there's no real change that we are perceiving. The consumer has been trading up for the last couple of years and, as we've commented, continues to do so. As I mentioned earlier, the major markets, I think there's a lot more to come out of London, New York, Vegas. Vegas is booming. Florida actually is booming as well and I think markets like Miami. Atlanta is a good market in the US. Then we've talked about Manchester here.

There isn't any difference, on your question, we are perceiving in London versus other. It's pretty much all domestic, because obviously we don't have the benefit of tourism that other markets are enjoying because of the VAT situation, which we think inevitably will change again. We're obviously not assuming that at this point, but when it does, it'll be incremental. So we really are dealing with domestic consumers.

There's actually been an impact with strikes, the rail strikes. That's had an impact, and probably has more influenced London than anywhere else, when there obviously is a local destination for domestic tourism and mainly people coming in by train. So the strikes haven't been helpful all round. But other than that, in terms of demand volumes, interest in products and the behaviour of our clients in the market, we haven't really seen a big difference.

Anders Romberg In terms of our… We don't ever give out our like-for-like, because essentially, in our network, we have quite a few of these Rolex locations, as you're well aware of, and the performance of those stores will be driven by how we allocate the product. So it can be a little bit misleading.

What we do know is that when we invest in these stores, clearly, we don't do that without discussing what incremental volume we would expect to get as a result of that, and as pointed out, the payback on these projects historically has been really good, and they still are.

In terms of new monobrands, yes, that is an expansion, and that is how we gain share in some of these strategic partner brands, by absorbing distribution geographically. So some of those will be incremental. But we, as I said, never have quantified it, and we don't intend to do so.

Louise Singlehurst Thank you. And can I just ask one final one? On the Rolex deliveries in Q4, which obviously you benefited from the timing of the shipment, can I just check, if we're to assume, Q4 and Q1, the total level of Rolex inventories were in line with your original plans? It's just the timing between the two quarters.

Anders Romberg Yes.

Louise Singlehurst Great. Thank you.

Operator The next question comes from Daniel Isaacs from 36ONE. Daniel, your line is open. Please go ahead.

Daniel Isaacs Thank you very much. Thanks for the presentation. I just wanted to ask a couple of questions. The first is, so just on acquisitions, you mentioned earlier that you're always in the process, and it can be a lengthy process. Can you just remind us the capacity of the balance sheet? Could you say what the net cash number is and what sort of leverage you're happy to go to, first of all?

And second of all, just listening to the answers to other questions, it sounds like the main margin headwind would be in the jewellery mix. That's fallen back quite strongly. If we look at some of the other jewellery players in the market, their results have generally been quite resilient. So maybe you can just chat to a bit of what the difference is there. Is it something like branded jewellery taking more share or something to that effect? Thank you.

Anders Romberg So on the question on acquisitions, obviously we just renewed our financing. So we entered into an RCF of 225 million and closed out the year with cash on the balance sheet of 16 million. So we have pretty good headroom. We also have baskets in this facilities that allows us to expand it if needed. So cash is not going to be a restrictor in that sense.

Brian Duffy Yes, and jewellery, over the last couple of years, we've actually been gaining share here in the UK market in what's been a reasonably moribund market, I have to say, in the last couple of years. But we've been very happy with what we've done in terms of what's been a modest market share gain but very much improved profitability and a jewellery strategy that's very compatible with the wonderful watch brands that we represent.

The US, there is a market tendency in the US for negotiation and discount. It's typically been there. When we acquired Mayors some years ago, we fairly quickly got out of the cadence of discounting and special client events and all that sort of thing. We're doing the same with our new friends and colleagues in the Betteridge group.

And we are sacrificing a bit of top line numbers in order to get the strategy, the client relations and margin and profitability correct. And in that sense, in terms of total sales, we lost out a bit on what's been overall good market trends, but very deliberately and for good reasons and, as I said, improve profitability overall.

As I mentioned earlier, we're just not as competitively advantaged in jewellery. We fully intend to be at some point in the future but currently not, so we are subject to whatever trends are happening in the market. And I mentioned again earlier, in the UK market, that trend tends to become promotional, we think unnecessarily, but it tends to, and we really don't participate in that either.

Daniel Isaacs Okay, thank you. So okay, it sounds like it's become quite a promotional environment in that space, and you're not participating.

Brian Duffy Yes.

Daniel Isaacs Thanks for that. Sorry, can I just ask one other question? I was just curious in terms of if the business was looked at as an acquisition, would there be any issues with the relationships you have with your suppliers?

Brian Duffy Well, it's totally speculative. Obviously, the relationship we have with brands is fundamental to our business. They've been built over generations actually. So they are obviously important for the value of the business. But entirely speculative as to what we would be thought of, of any acquisition.

Daniel Isaacs Yes. No, yes, I was just curious. With let's just say someone interested in buying Watches of Switzerland Group, would Rolex say, no, hold on a minute, our relationship is with the business and we're not interested in any changes?

Brian Duffy Under selective distribution, all of the brands have a right to review and a change of control. So it's something that we deal with obviously when we are making acquisitions, but we discuss them all with the brands in advance obviously and they know where we stand. So in principle, yes, but entirely speculative and theoretical.

Operator This does conclude today's Q&A session, so I'll hand back to the management team for any concluding remarks.

Brian Duffy So thanks, everybody, for joining us, again, for your questions. In summary, we are very pleased with our strong performance in FY23. Looking forward, we continue to operate in a category with very strong underlying performance. It gives us great confidence in our fiscal 24 guidance and the ongoing investment in the business that we are committed to through capex and acquisition.

As we've discussed, due to product intake timing, and that's all that it's been, which supported Q4 fiscal 23 and the strong prior year comparators we have in Q1 fiscal 24, the group does expect a modest sales decline in quarter one, before normalising in quarter two. All of it has been clearly considered in our full year guidance that we've given.

We continue to target market share gains in countries in which we operate. We're encouraged by the ongoing dynamism of the category, reflected in particular in the recent Watches and Wonders show in Geneva, which was spectacular, brands showcasing great novelty products, production expansion and great marketing.

So we feel positive about our strategy. We feel confident about the guidance that we've given. And I'd like to thank all of our teams, our colleagues, everybody involved in delivering what we think has been a very, very strong year. And once again, thanks for joining us and for your comments and questions.