

Watches of Switzerland FY22 results

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Transcript

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Q&A

Call Operator: The first question comes from Karina Nugent of Goldman Sachs. Please go ahead.

Karina Nugent: Hi, Brian. Hi, Bill. Thank you very much for a very clear presentation. I have a couple of questions on my side so, thank you very much for the update on current trading and particularly the commentary on the wait list. Clearly there's been a lot of interest from investors and the market alike, just in terms of the weakness in secondary market prices, particularly for some of those supply-constrained brands like Rolex. Is there anything that you would call out in terms of the wait list structure by price point or by product while using that similar dynamic of extension of the wait lists on a broad-base basis?

Karina Nugent: And also, when we look into the less supply-constrained brands, is there any change in customer behaviour that we should be aware of that could be a leading indicator? And then secondly, I just wanted to touch base on the European expansion, and congratulations on opening your new store in Stockholm. Is there any early reads there in terms of the reception that you've had? And when we look forward in terms of the priorities for expansion, is it more bringing other brands to those cities where you will already have a presence like Stockholm, Copenhagen, and Dublin, or are you looking to expand the presence of the brands that you've got in those cities into other regions in Europe? Just trying to think about that. Thank you.

Brian Duffy: Thanks, going to be fairly boring in the answer to these questions, because our experience is that nothing's really changing on the nature of wait lists. We're adding more people than we're able to take off with supply overall. We're actually adding more products effectively to the wait lists. And it really is a situation now that pretty much goes across just about every brand that we supply, we have some degree of a wait list on it. So really no change.

Brian: And to the kind of broader consumer base, again, we're not experiencing any change overall. The dynamics that prevailed throughout last year, a real broadening of the appeal of luxury Swiss watches, an inclination to buy into higher price points within the selected brands, all of those dynamics pretty much continue. We haven't read or experienced any real change at all.

Brian: Stockholm, it's too early to comment. We've just got it open. I would say that our team did an amazing job. It's a beautiful looking store. We've put general management in place for that entire region and we have a great team within the store. I don't know if you know the area, but it's a beautiful street with great architecture and we're confident about it.

Brian: But it's summertime in Stockholm, and you don't have that much of a summer as we know, so they do enjoy it when it happens. But so July and August are always quiet months, which we knew was going to be the case. But we're happy with the opening, delighted with the team, delighted with the store and feel confident about the potential.

Brian: We've always said the Nordics has been our entry into Europe, we would look to do more there. Obviously, we've got the announced openings that are coming additionally in Stockholm and in Copenhagen. We would like to and plan to do more in that region. And at the same time, we are looking at other markets.

Brian: We presented again today our view that we think we could bring something positive to every market in Europe, our approach of big stores and scale, supported with technology and marketing and great client service. We think there's opportunity for but we've got to then turn that into specific store, brand, and possible acquisition opportunity, all of which takes time. But of course, we're working on it all.

Karina Nugent: Yeah, that's really clear.

Brian: Great.

Call Operator: Melania Grippo of Exane BNP Paribas please go ahead.

Melania Grippo: Good morning, everyone. This is Melania Grippo from BNP Paribas. I've got two questions. First I want to know, in terms of price increases, if you would expect any further price increases for the remainder of 2022? And my other question is on the jewellery performance, if you can please expand on what are your expectations for next year? I mean, if you still expect a strength and outperformance probably of the jewellery versus watches into next year? Thank you.

Brian: Hi, Melania. It would be unusual for the brands to have more than one increase in a calendar year. I mean there has been reactions before, when Brexit happened and the pound devalued there was much more pricing activity happened around that. Might we be in similar circumstances with the appreciation of the franc, particularly against the pound and the Euro? I think that's a valid question, but there's nothing that we know to suggest that there is going to be any follow-up pricing within this calendar year.

Brian: But yes, we are aware of obviously the exchange rate differentials that I'm sure brands are looking at. Just to remind you and everyone on the call, we buy in the local currencies. So therefore, the loss of value of sterling is effectively cut by the brand. Dollar has remained strong in the US, we buy in dollars. So we'll see, but our increases announced will be worth between four and 5% overall. And that's all we've baked into our thinking at this point.

Brian: As we've been reporting, we're excited about the prospects of jewellery. We're learning a lot, particularly from the US market of BVLGARI stores, I think exceeded everybody's expectation in Aventura. Clearly, we'd love to do more of that in other places and obviously discussions are underway, everything takes time. But yes, we'd like to do more of that.

Brian: But Betteridge, we're again learning from them on what they do. They have a great track record and reputation and business in jewellery. And we are learning from them. And at the same time looking at other opportunities. I think the strength of the market in the US is there for all to see. We have great momentum by the way, in the UK, and we actually have had for some years. We've got great teams working on it, I think really skilled buying and merch teams working with the supplier base overall. And we were and have been for some years growing in jewellery, but our growth in watches just somewhat overshadowed up until this year.

Brian: So yes, we feel positive about the category and the prospects. We're more excited by it and more focused perhaps on it than we may have been in prior years. And soon as we have more specifics, obviously we'll let you know.

Call Operator: Thank you. As a reminder, to ask a question, please signal by pressing star one. Our next question comes from Kate Calvert from Investec. Please go ahead.

Kate Calvert: Good morning, everyone. Three from me. The first question is on the UK. You are opening mono-brands in the UK at pace, what do you see as the potential for mono-brand in the UK going forward? My second question is on Rolex. Is there any news from Rolex on future capacity increase? And the final question is, could you elaborate more in terms of how you're expanding into the pre-owned market in the UK in particular? Thank you.

Brian: Okay. We are opening mono-brands. And again, we don't announce anything specific until you know all deals are done. But I think it's been a very successful move by us into the mono-brand space. It's a significant elevation of brand presentation. And it's, once again, resulting in positive impacts on the consumer conversion overall. So, as we've announced, it'll be a big day in October when we're opening in Battersea. Because we'll open four mono-brands alongside a multi-brand. Projects that we're working on, we've included the number of mono-brands-

Bill Floyd: 19 mono-brands in the UK and US to open.

Brian: To open, yes. 19, yes, to open. And we've currently at and we announced 31 for UK? So in summary, Kate, there is more potential UK and US in mono-brands. And obviously we continue to work on identifying opportunities and discussing them with the brands. There's no news on Rolex capacity. Again, nothing confirmed from Rolex at all in terms of production. I think they're doing everything they can to respond to demand that's there within the constraints that they have obviously of

maintaining the highest quality of everything that they do. But no news on capacity overall. As I say, UK, we get 38 mono-brands. It's in the presentation, 38 mono-brands at the end of the year.

Brian: Pre-owned, we doubled our business in the UK. But that takes it from 1% to 2%. So it is all still relatively small in terms of our total business. And it's all about sourcing the right quality of product. We have invested in expanding our service center in Manchester, who are handling a lot of the refurbishments and so on that are there. So we have the capability. That's clearly strong response from a consumer viewpoint on us selling pre-owned, for sure. So we have plans to increase sourcing and expand in the area. The bigger business of course that we have, and the bigger market for sure for pre-owned is the US. And we've been investing a lot behind Analog:Shift and we're enjoying some really great market response on that.

Kate Calvert: Brian, could I just come back to you on the UK mono-brands? I mean, could you see potential, for example, to double the number of mono-brands in the UK from here?

Brian: Well, it depends what time period you're looking at. We opened our first Tudor mono-brand, that brand is very, very strong. I think it translates very well to a mono-brand environment in terms of marketing and shop image that's created. So that's additional. We mentioned earlier that we opened the first mono-brand of BVLGARI in the US. We have Grand Seiko in the US. So there are other brand possibilities and there are clearly other market possibilities for the brands that we're so far developing the category with.

Brian: We'll see, we'll announce. We just don't like to get into speculative numbers at all on what might happen. We're following, I think, a strict code of when we have deals that are done fixed, we'll tell you about them.

Kate Calvert: Great. Thanks very much.

Brian: Yep.

Call Operator: Richard Taylor of Barclays, please go ahead.

Richard Taylor: Yeah, hi. Also had a question on the pre-owned business. I see you've invested about £20 million into pre-owned inventory, and I don't know whether that's the total? That's 6% of the stock. So just wondering if it should follow over time, that amount of your earnings could come from the revenue you generate. So just any update into the earnings power from that part of the business?

Richard Taylor: And then secondly, just be keen for an update in terms of the pipeline for acquisitions that you're looking at in the US and Europe? I see you've done another single site in the US, but just thoughts on vendor attitudes

there and what you might expect to achieve over the next 12 months from an M&A perspective? Thank you.

Brian: Yeah. Hi, Richard. We have invested in pre-owned stock, again as I've mentioned in the presentation. And yes, it's turning well. And as I've said too, in the presentation, pre-owned is going to make a much bigger contribution to our business going forward. I think we're quite optimistic about the incremental business that we will do this year from that stock that you're referring to. And the US market for sure is a much more established market overall, in which we've got a great vehicle to participate with Analog:Shift complemented by the credibility and support obviously from our group.

Brian: So yeah, we'd looked to turn that stock and so far so good. And we've really put the investment in terms of the website, advertising, the showroom. I think you've seen actually the showroom in New York. And of course, you've got to then invest in the stock for the consumer to respond.

Brian: Acquisition, honestly, we've got nothing to say further than we obviously work on a pipeline of acquisition, and we always have done for the last few years. And as we've explained often, it does take time. You could do things quicker by overpaying, but we're obviously not going to do that with shareholder money. I don't think there is a change overall in attitude, particularly on the part of those targets that we're talking with. And again, as soon as we have news, like we just done with the store that you're referring to, as soon as it's done, we'll announce similarly to obviously what we did last year with the Firestone acquisitions that we made.

Richard Taylor: Okay. Thanks, Brian.

Call Operator: Thank you all. And it appears we have no further questions in the queue at this time. And we have another question from Daria Nasledysheva from Bank of America. Please go ahead.

Daria Nasledysheva: Hi Brian. Hi, Bill. Thank you very much for the presentation. This is Daria from Bank of America. I actually have a couple of very quick questions. First one, could you please comment on your market share in the UK and the US, would you have any update on this metric? And my second one would actually be, do you believe there's any potential margin compression coming from non supply constrained brands? So similar to a move that Rolex did in the US, taking into account very fast growth in other brand sales price increases, et cetera. Thank you very much.

Brian: We don't quote market share, Daria. We really just don't have reliable enough data in the UK. We have GFK, which is a good source to start with, but we then have to do a lot of work in terms of correcting. That doesn't include, for example, the corporate boutiques of brands and so on. So it's not something that we therefore are in a position to regularly update and be specific on.

Brian: We have a leading market share in the UK. I mean, I think that's a very comfortable statement to make overall. But the specific market share... And we know we're gaining share overall. But that, again, is from our specific activity that we know in regions and shopping centers, where we know we're getting more of a share, more of a presentation that we might have had before.

Brian: US, there's absolutely no data around in the US. I think you're looking at a high single digit type market share there, but it really is a rough estimate to us, there's nothing better around. Once again, we believe that we're gaining share, that we're tracking ahead of the market overall, and that would translate to gaining share. But it's a relatively modest share that we're starting from.

Brian: Margin compression, there's nothing new. We did anticipate in the US, where margins historically were better because productivity was lower, we did anticipate in a long-range plan that the likelihood is of margins would come in line with European margins. And with the move that Rolex made, that's I think largely done. So yeah, nothing further on margin.

Daria Nasledysheva: Thank you very much.

Call Operator: Thank you. And as there are no further questions in the queue at this time, I would like to invite the Watches of Switzerland team to provide the closing remarks.

Brian: Thank you. Thanks everybody for joining. And just a summary is that we are very pleased with the results. We're pleased with the start of the year. We feel good about our LRP. We feel good about a lot of things that our business is doing, including our foundation that we've referred to and the engagement we have from our employees and everybody on that. And the work that we're really helping support our charities put in place is necessary but is really positive to see overall.

Brian: So a big thanks to our team, they're amazing. Our team that I have here with me now, and our team out there in the stores in Leicester in Fort Lauderdale and around, they do a fantastic job and they've delivered these great results. So very much a thank you and appreciation to them. And thanks for joining the call.