THE WATCHES OF SWITZERLAND GROUP

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

WATCHES OF SWITZERLAND GROUP FY20 RESULTS, Q1 FY21 TRADING UPDATE PRESENTATION

CEO UPDATE

Brian Duffy
CEO, Watches of Switzerland Group

WELCOME

Good morning everyone, welcome to our Watches of Switzerland financial presentation. My name is Brian Duffy, I am the CEO of the Group and we are going to be presenting today our final results for fiscal year 2020, our trading update on the first quarter of fiscal year 2021, which has just ended, and then our guidance for the full year fiscal 2021. I am delighted to be joined by three of my colleagues today who will be joining me making this presentation. We first of all have Craig Bolton. Craig is our Executive Director responsible for the UK business. We have David Hurley joining us from the US. David is our Executive Vice President responsible for the US business. Then we have our Chief Financial Officer, who I am sure many of you recognise and know, Anders Romberg who will be taking us through numbers and guidance as we go through.

Before we go to the slides, I will just make a couple of introductory and I think important comments. We are very pleased with our performance for the fiscal year and for the first quarter of this new fiscal year. We are proving what a great category that we are fortunate enough to be in of the world of luxury Swiss watches. It is a very, very resilient category and clearly within that category our model is working well throughout this period. Very importantly our multi-channel approach where we have a great combination of fabulous stores with great teams, which we complement with our online business and support the whole thing with tremendous marketing, particularly digital marketing. We are very happy in these unusual circumstances what we have achieved and I hope you feel the same when we go through our presentation here.

FY20 STRATEGY WORKING

Looking at fiscal year 2020, our strategy obviously is working where we are having a tremendously strong period leading into when lockdown happened in mid-March. It was week 46 of our financial year. Very strong in the UK, gaining share, doing well. We are particularly chuffed about how well we were doing in the US. We have not been there a long time but I think it is a great performance. We were delivering 35% year-on-year growth in the US which really showed the success of our strategy. It was very broad-based. Our acquisitions in Mayors and men[?] are working very well. Our new build in New York working well. The team doing a fantastic job there overall. It is a short time to have this strong momentum in the US. We feel it is a great accomplishment by David and his team over there. Now, we have gained market share, as I will show you, both in the UK and in the US. Our marketing is really working. We have attached to the appendix of our reports some market research information that shows the progress that we have made in awareness in the UK and the amazing awareness that we have established in New York in such a short time. Great stuff but then obviously along came COVID that really influenced all business and all of our lives.

FY20 RECORD REVENUE, PROFIT AND RETURN ON CAPITAL EMPLOYED

Despite that six weeks of lockdown we still actually produced record results overall. Our sale before adjustment were up 5.9% which is comparable. Our EBIT was up 7.8% and we are now reporting a ROCE calculation which year-on-year has showed a progress of 110 basis points. We are very happy that we are performing well in all of those financial KPIs.

GROWING MARKET SHARE IN UK, US AND E-COMMERCE

In terms of market share, in the UK we measure that we made a 200 basis point improvement in our market share taking us up to 37.2%. It is actual an acceleration of market share gain from what we have done on average over the previous five years. E-commerce we were even ahead of that with 330 basis points improvement to give us a share of 43.7%. These numbers are all calendar 2019 but we would add that in the first half of calendar 2020 the e-commerce business actually increased our market share to 48%, so almost half of the market. We believe it has progressed even since then. In the US, our market share went from 6.8%, up 120 basis points to 8%. I will just point out the obvious that we are obviously not present in all of the US. These are national statistics and we enjoy a bigger share where we are in Florida, Georgia, New York and Nevada.

RESILIENT PERFORMANCE AND FLEXIBLE OPERATIONS DURING LOCKDOWN

Lockdown was a totally unprecedented circumstance for us all but I think our teams and our business really responded very, very well to these unusual circumstances. We are very active in clienteling. We have long waiting lists. We have a great database of clients and we were able to reach out to these clients, keep engaged with them and even take pre-orders for when we were reopening. They were very productive and very positive interactions. E-commerce, clearly the market moved in favour of e-commerce and we did not just sit back and accept that. We actually got behind e-commerce, spent more money on marketing and driving our presence and market share there. We stepped up our engagement with our brand partners on who we depend for our business, particularly around new products. There was a lot of activity and new product launches that Craig will mention more in his presentation but we took the opportunity of engaging both on the introduction of new products but also the plans to bring the products to market in the balance of the year.

Digital was obviously key and we have great resources and great experience on digital. It really came into its own as a medium during these unusual circumstances. There was great impact from that. We are doing everything virtually of course, interacting with our teams, interacting with one another but also interacting with the consumer base out there. The image that I have on this slide that you can see is us introducing a new exclusive product and we have on screen there a presentation from London, Tokyo and New York as we presented to a good number of press in the US. Then our teams were really inspirational during this time. We loaded up a lot more training opportunities on our e-learning platform and our teams really just gobbled them up. They were learning everything about what they sell and even learning about brands that they do not sell just to improve their education. We had a great response.

We also had a lot of social interactions with our team, keeping everybody communicating with one another. We had a virtual pub in which we had quiz nights, gigs and all kinds of fun. We kept the team continually up to date with our view of what is happening with the business. From the beginning we said to our team we want to keep everybody employed, we want to keep everybody fully paid and we hope we will be able to do that. We were delighted at the end of lockdown that that is what we did for all of our teams. We were preparing for reopening almost from the day that we closed. We knew it was going to be very different on reopening and we wanted to get ahead of the game. We really were ready to reopen a month before we were eventually allowed to do it.

STRONG Q1 TRADING DESPITE STORE CLOSURES AND REDUCED TRAFFIC

All that preparation and training I think put us in a great position for the reopening when it came. On this chart we are looking at our sales performance for the first quarter. May, as you can see, we were more or less closed and then we started opening progressively end of May and through June. The UK was mid-June and it was July before we got most of our store network open. What we have done, to help you understand the performance, first of all we are showing here our sales by month, UK and US separately. We have also done a calculation of saying had we been opened for all of the hours that we would have recognised as normal opening, what would it have been compared to what we were actually open. In the case of the UK we are saying in June we were only open 34% of the hours that would otherwise have been available and 78% in July. If you look overall in total 10% May, 40% June and 74% in July. Our total Group was effectively open for 38% of the quarter.

Then traffic was down on average probably 50% since reopening so only open 38% of the time with 50% of the traffic. Given those conditions, to be delivering a sales performance that is only 27% down and in fact showing growth for the months of June and July we think is extraordinarily good. Obviously, e-commerce performed well during that time and actually in the month of May when we were fully locked down, 118% and then gradually reducing as the stores opened but for the quarter overall up 79%. Our debt I will mention too, below £100 million, down to £91 million overall and our finance team clearly did a great job of managing cash during this period.

DOMESTIC SALES OFFSETTING SIGNIFICANT REDUCTION IN TOURISM/AIRPORT BUSINESS

This next chart we are comparing the makeup of our sales quarter one 2021 against quarter one 2020 and it is pretty remarkable. Quarter one is when we have most of our tourist business for the year and if you look at quarter one fiscal year 2020 33% of our sales came from the combination of tourism and airport traffic, which had all but disappeared in the last quarter that we are looking at with only 3%. We went from 33% to 3% from those segments but our domestic business effectively filled the balance overall, particularly our domestic business in the UK and particularly our regional domestic business in the UK. It is proving, as we have presented continually, that we are very much in a supply-driven business and demand continues to significantly exceed supply so we are able to move the product around to take advantage.

WOS GROUP IDEALLY POSITIONED FOR ACCELERATED MARKET SHARE GAINS IN FY21

When we look at the balance of fiscal year 2021, we are looking at what we think will be a gradually improving situation through to the end of the year. We do think that our capabilities and position in the market are going to position us well to continue to gain share. First and foremost, we think the situation of demand exceeding supply for key brands, Rolex, Patek and Audemars in particular, will continue throughout this year, in fact for the indefinite future. Digital, marketing and social media are clearly very, very important in these unusual circumstances. I think we are very advanced on how we use that media. Multi-channel is very important, the combination of online and stores overall and increased engagement with our brand partners, particularly on new products, we think is going to set us up well in the balance of the year. Then our technology, our SAP-based system is driving our CRM. We have now adapted them to support remote selling and appointment management. Just having that technology gives us the flexibility and ability to respond. We really think we are well-positioned to, if anything, accelerate the market share gain in the remainder of fiscal 2021.

UK UPDATE

Craig Bolton
Executive Director UK, Watches of Switzerland Group

Good morning everyone. It is my objective in the next few minutes to take you through the key initiatives we have running here in the UK. Firstly, I want to say the UK division is really well-placed for further growth. Our structure here is really well established and very effective, both from a retail standpoint and also from a support centre standpoint. We have transformed our business in the last six years in terms of stores, products and markets and as you have already heard, our luxury watch share continues to grow, as it did last year, up to 37%.

OPTIMISED COMMERCIAL RESPONSE TO LOCKDOWN

I want to cover first one slide on COVID-19 to box that off. We had a real media focus when COVID hit and lockdown happened in mid-March. We wanted to look after our team members and the care and wellbeing of then was really paramount for us initially. We then enhanced our communication, both to our team members and to our clients to keep them engaged throughout that period of time. We instantly turned to adapting our business to what we though was going to be that post-COVID world of retail. We did a great job with that. In parallel to all of that we wanted to maintain sales and profitability where we could. The two key areas for this were our enhance clienteling where our teams used the very best CRM tools they have got to drive and pre-sell luxury watches, that the consumers then picked up post the lockdown. Then of course our online sales motored through that period of lockdown, finishing the quarter at +79%.

DRIVING ONLINE DURING LOCKDOWN

We did not settle down into just the day-to-day running of our online business. We wanted to focus on new initiatives too during that period of time. This slide shows a number of initiatives we had going. One was to increase the luxury brands that were transactional on our website. You can see here six new brands entered our websites during that period of time and the likes of Panerai, JLC and Vacheron are now transacting across all three of our websites. We wanted a new process through our websites to allow consumers to pre-order and also register interest for new products in advance of those products being launched. Again, creating a pipeline of sales prior to that product actually coming out. Then as far as luxury watches are concerned we really wanted to emphasise watches-of-switzerland.co.uk. We entered into a significant digital marketing programme at the beginning of May, driving traffic in conversion to the site. That will form part of a much wider initiative we have for the rest of our fiscal year 2021.

INCREASE IN CONVERSION OFFSETTING TRAFFIC DECLINES

As those started to open you can see the effect on traffic. Probably no great surprise here but Malls, London and Heathrow traffic were significantly down year-on-year, as you have heard. It did not matter as much to our business. Our productivity levels remain very high, conversion was a multiple of what it was prior to lockdown and our teams did an unbelievable job with our CRM systems in terms of driving [inaudible] traffic. The international business was down 92% as measured from Premium Tax refunds in quarter one. We are expecting a similar level in drop in quarter two as we go through the summer period. Our teams will continue to clientele to cover that loss. What we have proven through this period of time is our domestic and regional businesses which are super-strong and can more than cover the loss that we are seeing from that international traffic.

WOS GROUP TECHNOLOGY DRIVING CUSTOMER REACH-OUT

What we are aware of going forward is we will have to do an even better job in driving our own traffic. We believe the technology we have got here in the Watches of Switzerland Group is going to allow us to do that. The teams have great CRM tools to allow them to drive that one-to-one clienteling on a daily basis in the stores. Our web-enabled facility in the stores allows our team members to assist our clients to purchase online. The focus that we have got on digital marketing versus traditional marketing allows us to reach more of our consumers. They are a much more engaged and loyal audience as we have found. We are going to invest further in that channel.

Our latest development, By Personal Appointment, was our new appointment system allowing clients to book in store, telephone and virtual zoom appointments. We launched this on 6th July and already it is forming a significant part of our footfall. Over 40% of the traffic coming to our stores now are pre-booked appointments by our teams.

INCREASED BRAND PARTNERING ON NEW PRODUCT LAUNCHES & EXCLUSIVES

As stated previously by Brian, new products really are the lifeblood of our business and we did think when COVID hit and production was affected for the brands that that would be less impactful in 2020. However, it has proven in 2020 and into 2021 we are confident new products are going to be excellent. We are expecting upwards of 400 new products to be launched here in the UK with these brands. Rolex is going to be very significant for us. Their new product launches on 2nd September or we get to see it on 2nd September. All of these other great luxury brands have either launched or are launching pre-Christmas. They are exceptional new products and much better than we could ever have hoped for.

We are going to put a 360o marketing plan behind all of that through all of our digital channels in terms of marketing. We have created a new e-learning platform for our teams to go on and learn all about this new product and of course we will not be running instore events this calendar year for sure but we are now getting used to running very effective virtual events, as you can see here in the bottom-right when we launched the new Hublot exclusive.

DEVELOPMENT OF ROLEX SHOWROOMS & MONO=BRAND BOUTIQUES

Our estate remains really critical for us and investment in that estate is going to continue into the fiscal year 2021. Our focus remains on our Rolex stores and the expansion of mono-brands. We believe in the high street and we really believe that people still want to come to our luxury showrooms to see this product. Of course with Rolex they have to come to our stores to see the products.

SUCCESSFUL FRASER HART INTEGRATION WITH NEW STORE DEVELOPMENT PLANS

Starting with Fraser Hart first, we only purchased these stores back in February. They actually only traded for two weeks prior to lockdown. We did not have much of an indication then of their trading but since reopening and the support they have had from our Group at least, these stores are all trading well ahead of expectations. They have all fully integrated into our Group systems and the people feel very, very good. We are going to develop and refit all of these stores in the next two years. The Kingston store, our Stratford store and Brent Cross store will all be refitted in the early part of 2021 and Mappin & Webb, York where we will be looking for a relocation will be done at the early part of 2022.

ROLEX MONO-BRAND BOUTIQUE: GLASGOW

Then we have been super-busy the last few weeks opening new stores, as it happens. This great store here is the Glasgow Rolex mono-brand boutique we opened on 27th July. It has only been trading for two weeks but honestly well ahead of any expectations we had for it prior to opening. The store looks absolutely amazing. I would encourage you to go and see it, if you can.

MAPPIN & WEBB: CAMBRIDGE

In the early part of July we developed our Mappin & Webb, Cambridge store. We actually doubled the footprint on this store and built this beautiful Rolex lounge to the left-hand side of the store. It is trading well ahead of expectations.

TAG HEUER MONO-BRAND BOUTIQUES

We continued the advancement in our mono-brand estate. We opened three TAG Heuer stores within three weeks. Firstly, in Oxford here on the left-hand side and then moved into Kingston and Watford. We are very, very committed to the development of mono-brands as we move forward this year and beyond.

WATCHES OF SWITZERLAND: KNIGHTSBRIDGE

Then we are going to be super-busy pre-Christmas still with more openings and more refits. This great store is Knightsbridge. We took the store next door to our Watches of Switzerland store. We are building a beautiful Rolex lounge there which will be visible from Brompton Road. We will be refitting the entire ground floor and first floor with multiple shop-in-shop stores and then a beautiful VIP lounge on the first floor also.

WATCHES OF SWITZERLAND: BROADGATE

Also in November we have got our new flagship store in Broadgate here in the City. It is a 6,000 sq. ft. showroom on two floors. Again, we will have a Rolex lounge, multiple shop-in-shop stores and across an Omega boutique attached to the right-hand side of the store. You can see the level of brands we have acquired for this store. It really is a fantastic array of luxury Swiss brands.

TUDOR MONO-BRAND BOUTIQUE: WESTFIELD LONDON

Moving on to the mono-brands that we are doing. This Tudor mono-brand, which is going to be opening in the Westfield Centre in London here, will be the first Tudor mono-brand in Europe. Tudor also developed a new exclusive product for their mono-brands so we will get that product here in the early part of 2021. This will be the only store in the UK where you will be able to get that product.

EDINBURGH ST JAMES: OMEGA & BRIETLING

In April next year this new development will complete, this new shopping mall in Edinburgh in St James. We are trying a new concept here with the Brietling and Omega mono-brand in the same space with a shared back of house. It is a hugely productive space for us and looks absolutely fantastic, I am sure you will agree.

TAG HEUER MONO-BRAND BOUTIQUE: TRAFFORD CENTRE

Then moving through to Trafford Centre where we are going to be opening this TAG Heuer mono-brand store just before Christmas. We already have a Brietling mono-brand in this centre trading very well and we have the same optimism for this store when it starts trading.

UK DIVISION POISED FOR FURTHER MARKET SHARE GROWTH

To summarise, we believe whilst we have gained market share in the UK, we will continue to do so. There is significant investment we have got planned in capital for our existing estate but also in new stores. We will continue to elevate our store portfolio. Our focus on new products and exclusive products will continue to strengthen our brand partnerships, drive our sales and we will continue to gain share from that. Our continued investment in online and marketing will continue to allow us to adapt to the changing face of retail and obviously reach more of our consumers in the right locations. The CRM tools that our teams have got are really high level and really technically forward-thinking. They will allow us to drive our own traffic going forward and rely less upon what is happening in the high street. All of our initiatives here I have just talked through are all running. We are very confident with them and we feel very confident about fiscal year 2021.

US UPDATE

David Hurley
Executive VP USA, Watches of Switzerland Group

SUCCESSFUL DEVELOPMENT OF US STORE NETWORK AND INFRASTRUCTURE

We are delighted with the progress that we made in the US against our strategic priorities, our results for FY20 and the strength of our business since reopening. I am going to bring you through some of the key highlights since we have entered the US market, what we have accomplished over the last year and a little bit of what is upcoming.

A quick refresher that actually we have only been retailing in the US for less than three years, starting when we acquired Mayors in October 2017 which gave us the concentration of retail in Georgia but also in Florida which is one of the largest luxury markets. It also gave us an experienced, scalable support team which is based in what is now our US Headquarters in Fort Lauderdale. We then took over the exclusive luxury watch retailing in the Wynn Resort in December of 2017. Then we followed that up with our first Watches of Swtizerland New York flagship opening up in Soho in November of 2018 anchored by Rolex and Patek, still I think probably the most spectacular store that we have opened up in our network and continues to go from strength to strength in sales versus prior year and since we reopened again on 22nd June. Last but not least, our Hudson Yards flagship which opened up in March of 2019.

BOLD, IMPACTFUL MARKETING DRIVING BRAND AWARENESS

The success of our New York business and the rest of the US group has been driven by innovative marketing and customer experiences. All of that PR has helped to drive both our overall brand awareness but also expanded our consumer database.

MAYORS LENOX SQUARE, ATLANTA RELOCATION

We have been beyond delighted with the store renovations that we have done with Mayors and there is no better example of that than our store in Lenox in Atlanta. We moved from within the mall to what we consider to be the best location, adjacent to Louis Vuitton and Cartier. We also opened up there our first Audemars Piguet boutique. Lenox is a powerhouse store for us and traffic has been up over 100% since we have moved from our prior location.

MAYORS MERRICK PARK, MIAMI RELOCATION

On this slide you can see our fantastic store in Merrick in Miami. Again, you can see the new store facia which was part of our design as well as the new Mayors logo. You can see the welcoming atmosphere from the other images within the store itself. Traffic here is up over 50% and dwell time has increased for our consumers also.

MAYORS AVALON, ATLANTA RELOCATION

Last but not least, we also opened up in Avalon in Atlanta. We relocated from another mall that is just over six miles away. Again, both traffic and sales have increased as a consequence.

POSITIVE RESPONSE TO RE-OPENING

We continued to clientele while closed. The image on the left is one of our store team doing a hand delivery to one of our clients in Florida. We began reopening our stores again on 7th May starting in Atlanta and our teams were prepared with new operational procedures. The response from our consumers has been fantastic.

GRAND SEIKO X WOSG GLOBAL LAUNCH – 14TH MAY 2020

We continued with our innovative marketing, launching our Grand Seiko exclusive on 14th May to over 80 international journalists. We also utilised AR functionality so our consumers would be able to wear the watch virtually on their wrists at home. The response from both press and PR has been phenomenal.

GREAT PRESS ON LAUNCH

Text

STRATEGIC PARTNER BRANDS: MONO-BRAND BOUTIQUES

In terms of future growth we are going to look to replicate the success that the UK has with mono-brand boutiques. We are going to be opening up the first of a series of mono-brands in November of this year. We are going to continue to refurbish our Mayors stores, building on the success of the refurbishments already done.

AVENTURA, MIAMI REFURBISHMENT FY21

Our next one up is Aventura which is probably our most successful store in Miami currently. We are adding an extra 2,000 sq. ft. to the store and we are also going to be opening up our first Bulgari mono-brand.

AMERICAN DREAM, NEW JERSEY FY22

We will be following that up in fiscal year 2022 with a new location, the American Dream project in New Jersey in [inaudible].

US MARKET WELL-POSITIONED FOR LONG TERM GROWTH

We believe the US market is well-positioned for long term growth. It is still very fragmented. Nobody enjoys the market share that we have in the UK and we are going to continue on the strategy that we have pursued to-date to drive future growth. We are going to continue on our refurbishment programme for the Mayors stores, which has already been very successful. We are going to continue to open up new projects such as expanding mono-brands across the US. The American Dream projects that we are opening up in the next fiscal year. We are going to continue to identify new white space locations like we did with Soho that we turned into a success. We are obviously going to drive e-commerce over the course of the next couple of years and we are going to again take a look at other potential acquisitions where we feel that will make sense.

FY20 FINANCIAL RESULTS AND FY21 OUTLOOK

Anders Romberg
CFO, Watches of Switzerland Group

P&L (PRE-IFRS 16)

We are very pleased to announce that we had yet another record year in the Group. Our sales came in at +4.8% on prior year. Up until the lockdown we were blowing it out of the park, growing by 15.8% and obviously over the last six weeks of the year we had a bit slower growth. In terms of the growth it came predominantly out of luxury watches which was very positive throughout the year. We saw average selling price in the UK grow by 11% and in the US by 9%. We are very pleased with the refurbishment programme in Mayors where we are trading well ahead of where we had expected. Our net margin throughout the year expanded by 0.1% in spite of having a high penetration of luxury watches. That has been offset by less customer incentives throughout the year. Our showroom costs again on a 4-6 weeks trading period still leveraged on prior year. That leverage would probably have been a bit better if we would have traded throughout the year. However, we gained another 0.3% out of this throughout the year.

Our overheads were up throughout the year. We spent another £2.5 million on marketing, predominantly supporting our US business as well as our e-commerce business. In addition to which, we added some structures in to support our business as a public entity. Our opening and closing cost was down year-on-year. Last year, as you recall we opened up our two big flagships in New York so the opening and closing cost last year was somewhat inflated versus what we have experienced over the past few years. Our adjusted EBITDA margin came in at 9.6% which is 0.7% ahead of last year. We are very, very pleased with that, I must say. Our adjusted profit before tax came in at £49.4 million or +86.5% on last year. All in all, a very good year.

BALANCE SHEET (PRE-IFRS 16)

In terms of our balance sheet the goodwill increase relates to the acquisition of Fraser Hart, as you have heard about. In terms of other movements that I want to point to, our inventory went up about £42 million on the year and that related to good intake of high demand products in February and March leading into the lockdown, so not a big problem inventory as such. Our stock turn in the year was 1.9 in total versus 2.0 in prior year and that is in spite of losing six weeks of sales. Obviously, it is somewhat inflated this year as a consequence of that. Our trade payables are mainly a reflection of our intake of inventory and in terms of receivables obviously we focused a lot on cash management as we went into the lockdown and throughout the lockdown. We have scaled back on our inhouse programme throughout the year in the US which is now actually fully terminated. We ware not offering inhouse credit since July this year. Also we did not prepay our rents as previously done in 2019. Obviously, we had a cash benefit as such.

REFINANCING

In terms of financing we did replace our bond as part of the IPO and that was replaced by a much more favourable term loan, an RCF and an ABL. In addition to that we have layered on post-year end an additional facility of £45 million and the reason for that is simply because we wanted to have enough headroom in case the lockdown was going to be extended throughout a very long period of time. It was more of a defensive mechanism that we have not utilised.

CASH FLOW (PRE-IFRS 16)

In terms of our cash flow in the year, our operating cash flow came in at 65.7% and that is slightly down year-on-year. The main driver of that is obviously the increase that we have seen in inventory throughout the year. In terms of capex we spent £28.7 million, slightly below what we guided towards before. Obviously, we did not have any capex expenditure during the lockdown because everything was in standstill. The remainder of our finance structure is a result of our refinancing.

FY21 GUIDANCE (PRE-IFRS 16, 53-WEEK BASIS)

Now, to the guidance, we are looking at this fiscal year with some degree of confidence, I must say. It is going to be on a 53-week basis. The first quarter trading has been very encouraging and we obviously have not been open throughout the whole quarter but still we traded ahead of where initial expectations were. In terms of assumptions that we are building our plan on, it is obviously that there is going to be a continued strong demand in the domestic market, both for luxury watches in the UK as well as in the US. We do not expect any further national lockdowns in the UK or in the US throughout this year. We do not expect any significant reduction in production during the year and obviously no major disruption from Brexit. Most of our products are sourced out of Switzerland so no major impact expected on that. However, we do expect to see further localised disruption as we have seen in the first quarter with Leicester, Atlanta and Georgia being impacted. We think that demand is going to continue to exceed the supply in our domestic markets of the sort after brands. In terms of traffic flow we do expect our airport business and tourism to moderately improve throughout the year but it is going to be slow and gradual. We also had the benefit of the acquisition of Fraser Hart what completed at the back-end of last fiscal year as well as some additional projects, as you have heard earlier in this presentation.

That will take our guidance to sales of about $840-860 million or about 4-6% on this year. We do expect our EBITDA margin to remain flat year-on-year. Our depreciation and amortisation is expected to come in between £21 million and £23 million. Our finance cost is projected to be £5.3-5.8 million. Just as a side note, £1.7 million of finance costs this year was incurred in relations to the old bond. Our tax rate is expected to come in between 21% and 22.5% as we shift more profit into our US businesses that are growing. Obviously, the tax rate there is a bit higher. Capital expenditure is planned to come in between £28 million and £32 million throughout the year and our closing debt is projected to come in between £90 million and £110 million.

SUMMARYOUTLOOK

Brian Duffy
CEO, Watches of Switzerland Group

A couple of final concluding remarks and clearly our strategy is working. We see no reason to change it at all. We are going to carry on investing and maybe counter to what is happening elsewhere in the market we are going to be opening stores. You have heard the formats that we will be doing for stores. We really believe in our format of multi-channel approach overall. We think the market is going to gradually improve slightly but even at the end of the year we will not be back to 2019 levels. We think that is probably calendar 2022 at the earliest before we would see all that coming through. However, we are very well-positioned in this market with our technology, with our positioning and with our market share. We think we will gain share during the balance of fiscal 2021. Finally, just to say that if there ever was a time for a team spirit, focus and commitment to be shown then our team really stepped up during lockdown and since. They take a lot of credit for the great numbers that we are delivering today. Thanks for your attention and with that we will move over to the Q&A.

Q&A

LOUISE SINGLEHURST (GOLDMAN SACHS):
Good morning to you all, thank you very much for all the detail that you have provided there, particularly the run rate during Q1 which was very helpful. I wonder if you can help us think about the US growth and the outlook. Obviously, it is incredibly strong if you saw that number at the back end of the quarter. I suppose it is just trying to contextualise how much you think is the pent up demand but also if you think it is a sign of the branding initiatives being probably ahead of the original plan. Also, for the US market if you can help us think about potential for share coming a little bit sooner given the result of the impact of COVID-19. Then secondly, I wondered and particularly, Brian, if you can help us think about the negotiations with brands for the product. Obviously, it seems you have highlighted that you have got the new launches coming in from Rolex I think 2nd September. Presumably you have a pretty good view of the allocation you are going to get given the guidance that you have given for the full year, but can you help us think about the product that you are getting, not just from Rolex but from the other brands as well. That would be really helpful, thank you.

BRIAN DUFFY:
Okay, Louise, thanks for your questions. Clearly as we reported, we have great momentum in the US market and we are very, very pleased about it. Week 46, as you know, we were running at +35% for the year overall and that was ahead of where we expected to be. Our refurbs in particular that we had done in Mayors exceeded our expectation overall so we are feeling very, very positive about the US market. Clearly, Q1 the US has again been outperforming overall and that is great to see. There is no question that the demand is there. There is no question that our approach to the market and the investments that we are making are stimulating further demand and everything is good. The big question is our ability to get supply to respond to that demand overall. As it is here in the UK. Our situation, to move on to supply overall, remains as we have been reporting. Clearly, we are pushing and using every opportunity we can to justify increased supply into our market. The biggest single thing that we do that does get us additional supply is investment and expansion overall. The projects that we have in place are all on the basis of getting additional support to make them effectively work. These conditions have not changed about our view of the global market is that there has probably been a bigger decline in sell through because of the absence of tourism from the global market than there has been on production overall. Production there was lockdown in Switzerland with production affected anywhere between 13% and 25%. At a global level we think that should translate to there being a wee bit more product around. Do we have any confirmation of that at this stage? Not really but we have as much visibility as we

have ever had. Obviously in the very short-term, the next 6-8 weeks we know where we are and I think overall we are in pretty good shape on supply. However, supply is the biggest constricting factor for growth and our demand overall is greater than we might have predicted it a year ago, particularly because of the dynamic success that we are having in the US.

LOUISE SINGLEHURST:
Great, thank you.

BRIAN DUFFY:
You had asked about the other brands too. The situation remains the same. What I have just said applies to Rolex, Patek and Audemars.

LOUISE SINGLEHURST:
Can I just ask, in terms of the percentage you would consider to be on a wait list in terms of product or how big the Rolex business is now? Thank you.

BRIAN DUFFY:
Overall, we have heard some comments or questions about have we used the waiting list during this time and effectively reduced it but honestly, not really. We have never taken names. We do not want to take names of people that might have to wait two or three years. We want to manage expectations overall. Our wait list remains as buoyant and healthy as it has ever been, UK and US. It is fair to say that in total luxury watches have become a bigger part of our business as you have the numbers there to see that. That trend continues overall. I have talked seven brands, Rolex, Patek, Audemars, Cartier, Omega, Brietling and TAG, those top seven brands have had an even bigger share of our business overall. Within that, yes, Rolex continues to outperform as part of the mix.

LOUISE SINGLEHURST:
Great, thank you for the colour.

GREG LAWLESS (SHORE CAPITAL):
Morning guys, well done on the numbers. Can you talk about the pricing outlook in terms of inflation and could you remind us with the last consumer recession how resilient the business was during a consumer downturn? Thank you.

BRIAN DUFFY:
We have not built into our thinking and planning any price increases. There are price increases affecting this year. There was an increase in Rolex that went through in January, in the UK just over 7% and in the US 3%. There was an increase in Omega that has come through as well. They will impact this year and they are considered in the guidance that we have given. Beyond that we have not considered if there could be further price increases.

Last 2008 the UK market was reasonably resilient in the sense that it did not go down. It has been growing well going into the financial crisis but was effectively flat during that period. It was before our time with the Group but this Group here continued to perform reasonably well during that time and maintained profitability. The conditions today are much more dynamic and buoyant than they were back then. The disparity between supply and demand is much greater today than it was then. Back then the market went down because demand went down because people were not travelling and local financial crisis as well. I think as our numbers are testament to, if that happens today there is more than enough others that are waiting to effectively fill the gap, as we are doing in this quarter. We are way down on international business, as you have seen, and yet we have complete compensation for it from domestic consumers getting the opportunity to buy overall. I think we are looking at different conditions and the supply situation remains a critical factor.

GREG LAWLESS:
Thanks very much.

RUSSEL HIGGINS (BARINGS):
What was the estate growth including M&A? Could you please give us a better sense of like-for-like sales growth in quarter one and FY like-for-like guidance? Thank you.

SPEAKER:
We have actually not guided or for that matter disclosed our like-for-like. Obviously, the estate was closed for six weeks so on and off stores were open. It is really hard actually to gauge what the like-for-like is for this last quarter. As well obviously for the fiscal year of last year when we had the same disruption at the back-end. We have not disclosed that. In terms of the States, obviously we acquired the four Fraser Hart stores at the back-end of last year, as you are well aware of. We also said on our RNS what we think those will contribute in our business over the next 12 months. That is also out there. Those numbers are publicly available. Other areas of estate growth is predominantly within the mono-brand sector where we opened a few mono-brands which we are very pleased with. In addition to that, the big win of the year I think from a capital expenditure point of view has been in the Mayors estate where we obviously completed four refurbishments and relocations, which all have worked out actually ahead of what I was expecting them to. We are very, very pleased with that.

For the coming year if you look at it out in 2021, the major projects that we are doing in this year, obviously were a) we are continuing our expansion within the Mayors. We are doing Aventura as we speak and that is going to be a huge expansion of Rolex within that location. That is going to be a good addition to what we do. We are looking at [Inaudible] at the back-end of the year and we are also expanding in Knightsbridge where we have taken the adjacent unit where we are expanding again with Rolex into a fantastic space so they get their own room with their own frontage. That will be good. Then we obviously had Broadgate that is coming on stream in November of this year. Those are the major projects that we are looking at.

BRIAN DUFFY:
Also Rolex, particularly Glasgow that we just completed. Everybody seems to forget about Glasgow, I do not know why that would be but we have done a beautiful store that we opened on 27th July as a Rolex boutique in Glasgow, the first one in Scotland. It looks amazing and it is performing very well.

RICHARD TAYLOR (BARCLAYS):
Please can you comment on what you expect to happen in the rest of the market in the UK and US. Are you seeing capacity for yet from other less well-financed operators? How would you expect this to change as the year progresses?

BRIAN DUFFY:
A good question, Richard. We have hopefully pointed out in our presentation if we think our position and resources really advantages us during these market conditions. By definition those that do not have the technology of capability you would say would be disadvantaged in this situation. Digital has clearly become a very, very important activity and social media are very, very important. If you see the awareness that we created in New York through some fabulous bold PR events and activity but very much amplified through digital and social mechanisms. That is how you have to operate today. I think multi-channel is hugely important today so going wherever the client wants to be shopping is critical. Whether that is a mono-brand or an airport or online. Wherever it may be, we are responding to those trends that are there. We are investing, we are ambitious, we have scale, we have technology, we have inhouse skills, social media and all that. By definition other players out there you could run through and see whether or not they tick all of those boxes that are there. I do think we are competitively advantaged and that advantage has definitely been accelerated by all of these circumstances. It is a fair thing to say competitively what might happen with the rest of the distribution out there. It is fair to say that anyone who has a good brand portfolio, Rolex in particular, will be doing well too, along with us. We have not specifically heard of any financial problems in the network. It is a COVID network, as we know. It is selective distribution, not largescale. We will see but we are certainly focusing on what are our competitive advantages in these circumstances.

Thanks everybody for joining us. It is obviously an unusual time that we are all dealing in, including how we made this presentation. I hope it has been informative and helpful. Thanks to my colleagues who are here who did most of the work in delivering the numbers and the presentation. We will look forward to hearing from you all again soon. Thanks for joining us.