



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

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# WATCHES OF SWITZERLAND FY20 TRADING & FINANCING UPDATE PRESENTATION

# INTRODUCTION FROM MODERATOR

Hello and welcome to the Watches of Switzerland Trading and Financing Update Call. All participants will be in listen only mode and afterwards there will be a question and answer session and just to remind you this is being recorded. So today I am pleased to present Brian Duffy CEO, Anders Romberg CFO and Allegra Perry, Director of Investor Relations.

## **BRIAN DUFFY**

Thank you Hugh. Good morning everybody. Thanks. Thanks for joining us and we hope everybody's well. Very pleased to be doing our announcement today covering our year end trading update and the news on financing. You'll be pleased to know I'm not going to read through the announcement. I'll just give you some highlights from my perspective and then we'll get on to Q&A. So overall we were trading very well through this forty six weeks of financial year through to the middle of March. We were trading at plus fifteen point eight percent. Our UK business was up nine point four, our U.S. business was up a very impressive thirty six point four. In both markets we were trading above 9 percent like for like for March, now over six years we have averaged 9 percent like for like.

Luxury watches luxury watches driving up performance as it was done over many years of our transformation at plus nineteen point three. On our final fifty two week period we were up five point nine clearly not trading some stores in that last six weeks. We are looking at an EBITDA level of between 75 and 78 which again I think under all these circumstances is pretty incredible. Our retail model is clearly working, a large modern contemporary stores and the best possible line-up of brand partnerships you can have in this business. Again supporting of the stores with digital social marketing and obviously superb customer service delivered throughout the business. Our store upgrades investment programs continue to work very well and now including some very encouraging performance with the major three hubs and relocations that we did in the US and very very positive consumer response sales so that's very encouraging.

The events created before the Fraser Hart stores that we acquired in the period and in Florida fairly shortly we are trading very well and everything about that integration seems to be positive. With lockdown we quickly moved to managing obviously our cash situation and making sure all that was ok. We are optimising revenue. We've been optimising revenue throughout that period and a really strong performance of an ecom business in the month of April of just over 80 percent continues to improve and doing really well. We also engaged in some direct client selling particularly over Rolex and both the U.S.A. and the U.K. and optimise some tax revenues there.

All of our expenditures have been reduced all costs and expenditures have either been cancelled or deferred and we have obviously reoptimised where we are. On that base as a result the closing price that we announced of borrowing of one hundred and thirty one point four million we think is very very good under the circumstances. That doesn't of course include the fact that we paid the Fraser Hart acquisition out of those borrowings and then we've announced a further facility as part of the government's program of 45 million in lending which was a precautionary safeguard against any other major disruption in the market.

So I won't be coming off the economy completely or another lock down later on in the year.

If that doesn't happen, if there is no problem with the shops in the market even recognising that this is subdued a period of trading overall but without that they are precautionary for us. We started opening stores in the U.S. You may be aware the first store will be open in Georgia in Atlanta Georgia where we

opened two last week and we're now opening the stores in Florida. The decisions there are getting made at a county level.

So we're going county by county. I really think by the end of next week we will probably have opened all of the stores and the then networks New York to Vegas will follow later. Here in the UK we're planning for store openings in England in June in accordance with the government's latest indications.

Obviously things can change between now and then but that's effectively what we're planning for. We're really well positioned we think for optimising the business in what will be an unusual period when those stores are open again and the consumers are back in the shopping centres. Our stores are physically big as you all know. Without those stores to facilitate browsing and a larger number of customers overall so clearly our stores are optimal from the point of view of now organising controlled numbers and social distancing.

We have on door security already so again we're experienced in handling people coming in and out of the stores and obviously we'll have a limit on the number of people able to be in every store.

We'll be doing a lot more selling by appointment, a lot more personalised selling and we're equipping our sales guys to be able to conduct remote SEL experiences through Zoom using a CRM system.

We'll be supporting all that with the digital and social marketing as we've been doing. Our whole focus on reopening clearly is the health and safety of everybody affected and particularly our teams.

Our emphasis is going to be to assure what the what new norm will be, nervous clientele out there.

and some nervousness in our teams as well so our whole approach is to go above and beyond what what's the general direction in terms of distancing and hygiene and so on.

We had a tremendous source of information both from the UK, the British Retail Consortium, the government obviously. In addition you know exactly what's happening in all the major malls in the US and major groups and we've even had input from the major malls in Dubai.

It's all just great sources of what people are doing for us so we can see what happens but we'll be going above and beyond in terms of hygiene and PPE.

We are finalising all of our procedures now and we'll then conduct all of our training.

We actually have been setting ourselves up for openings potentially and maybe we never really thought that would happen.

But the whole approach was already for me to been clearly we're ready for anything after that.

We'll anticipating a strong business recovery traffic but we're anticipating higher conversions.

The feedback that we get from the industry is exactly what's happening in China and other places. Here consumers deciding much more planned purchasing and deliberate and coming into the stores to buy.

So a higher conversion overall. We're going to have less privacy obviously in airports and with tourists just to remind everybody that was the case in January, February and into March earlier on this year but in a supply driven category when you have less of any one sector so

if any one sector taken up by another domestic business effectively compensated for that.

In anticipation that being British airports and tourists. And we can expect that will be the case again when they reopen. Our product line practises xxxxxxxx

So you're pretty confident that if somebody wanted to buy a beautiful Cartier back in March when they saw it in the shop they'll still want to do that, and there'll be a pent up demand that they'll take advantage of. Our products are non-seasonal sellers

be a positive response from a customer. Where they have the product the demand is there so there is going to be a lot more creative two things together but we think we are very well equipped to do so. During the lockdown our teams have spent a huge amount of time learning development. They were very well trained previously and they are even much better trained now.

We have also done a great job of keeping contact with all of our teams and giving them business updates on our plans and also had a great deal of social interaction.

We've even had a virtual pub to which everybody's signed on and sing alongs and quizzes and whatever. Hi Scott with our teams both in the U.K. and in the U.S. and we think we're very well prepared for the openings when they come. Okay.

#### **MODERATOR**

Thank you. Ladies and gentlemen if you wish to ask a question please press star and then two on your telephone keypad. That is star and then two and

then I will announce you. Please say your question and there'll be a brief pause while the questions are being registered. Okay we have a question in the queue. So that it's over to Louise Singlehurst at Goldman Sachs. Please go ahead. Louise your line is now open.

**LOUISE SINGLEHURST**

Hi good morning to you all. Thank you very much for taking my questions.

Very useful colour. Thank you. I just wanted to touch on the consumer. Obviously not seeing a lot with the stores physically closed but in terms of the engagement with the sales team online, the appetite from the consumer, putting request in online. Any change in wait list? How do you do the CRM system?

And then my second question was just really talking about particularly with Rolex and the available inventory is there any difference in terms of the dialogue with how the brand particularly Rolex is behaving with the sort of supply as you go into the new financial year. Thank you.

**BRIAN DUFFY**

Thanks Louise. We've been very active with the consumer at various levels. I've been doing Instagram interviews and they get that database for a great audience and that sort of thing.

We've also been there's been a lot of activity recently as you'll know watching one of those new products coming out from small groups, from Breitling and from others and of course we're right on that through getting it out through social media and so on.

We are regularly giving, we've done product launches through our CRM system through Calvert Media. We have actually been hyperactive in all forms of communication with the consumer and then we have the direct clientele.

We do have waiting lists and they are as healthy as they have ever been. It's a very extensive waiting list that we've always had and still do.

We did have some products that we had not seen in our stores yet when lockdown happened so that's enabled us, our sales people to contact their clients and say we've got a product that we've been waiting for. We can't get it to you until our stores are open. But if you want us to reserve it by placing a deposit then we'll very happily do that and that actually works very very well. I think this proves that the level of demand is clearly out there.

People are giving deposits on products that they say

well I'm not going to get them but I expect to be getting from the beginning of June. From the point of view of consumer demand, consumer behaviour that will pick up where they left off.

Overall that's certainly been the experience of the programs that we've had. In the US we also had a delivery of xxxxx of having product that we knew we had a waiting list for. We had to make some direct deliveries. So, all of that generated some nice revenue and generated some continual good relations with the clients. With regards to the production. And obviously in Switzerland there's been a lockdown and a close down of production.

I think overall it's turned out to be a good thing and clearly there's been a reduced sell through in the global market where the changes to this market.

We believe that that will be greater than the impact in production would have been overall so it may on a global basis the ability will at least be as good as we thought it was going into this and potentially even a wee bit better.

Obviously we're interacting with the brands all the time, Rolex in particular. We feel based on that pretty confident about the expectations that we had before and what we have now. The uncertainty is everywhere of course so we're not 100% sure we're going to open in June.

Rolex have only opened up their production this week. They're not ramping it up to the full levels initially. They're going to go gradual. And obviously everybody will be concerned that there's not any problems caused by any sort of breakout of infection or anything anywhere but all of them all of the major brands are producing again. They will have lost some production obviously during the lockdown period. But overall we think the supply situation is going to be at least as it was before the lockdown and it could be a wee bit better.

**LOUISE SINGLEHURST**

Thank you. And just to confirm there's no change in the level of waitlist or any potential cancellation that you've seen. I realise it's very early days at this stage.

**BRIAN DUFFY**

No, I think people won't generally cancel themselves on a wait list. The real life experience that we're having is we're calling people on the waiting list and saying I've got I can get you the xxxx you've been waiting for for a year or whatever that maybe. But it's going to be when the store opens. And if you want to reserve it with a deposit and it's been a very good experience. I think no different confirmation

that we would have got had the store been open. So we think with all of that there's no change.

**LOUISE SINGLEHURST**

That's very clear - thank you.

**MODERATOR**

Okay. If anybody else has any further questions at this stage please do press star then two. And there'll be a further pause any further questions are being registered. Okay the first question is from the line of Michael Brown at Lombard Odier. Please go ahead. Your line is open.

**MICHAEL BROWN**

Hi there. Thanks for taking the question. Brian could you just run through where we are in the working capital cycle. Given the guidance on net debt of a hundred and thirty one million I just wondered how far that had played out. Thanks.

**ANDERS ROMBERG**

Yeah sure. So obviously as you know our average outstanding is around 57 days. So it seems locked down the working capital obviously we're winded down all of our trade payables.

So that was on schedule but it's completely paid. Essentially the inventory so no more drain on cash.

And that's why we quoted 83 million liquidity at the moment in order for you guys to understand that obviously the 131 was somewhat flattered of the fact that we had typically had payment terms that is end of month and as of today that it's 83 million headroom with the inventory fully paid.

So I think that that's how the working capital sort of plays out for us. So we think we're in good shape.

**MICHAEL BROWN**

Thanks.

**MODERATOR**

Our next question is over to the line of Thomas Chauvet at Citi. Please go-ahead Thomas. Your line is now open.

**THOMAS CHAUVET**

Good. morning and thanks for taking my question.

I have two, the first one on new products, could you comment on the way you think the industry is evolving. We're seeing very few new products this year.

Obviously with Basel and the Geneva watch they cancelled, now Basel is talking about the cancellation of next year's edition. Many many major brands have moved to to the former SIHH.

Can you tell us how you think about the way key brands are going to present their new products and take orders going forwards?

And secondly on pricing have you seen, heard from any of your brands discussions about price increases in the U.K, U.S. or if you know in any other markets perhaps that you're not present.

**BRIAN DUFFY**

In terms of new products obviously the first half of the calendar year there won't have been much delivery at all. SIHH or Watches and Wonders as it had become was cancelled and then Basel got cancelled so the brands were unable to present their products.

We were unable to order them. And then we've had this situation with production.

What's happened recently though is we did expect that as a result wasn't going to be a great year at all for new products.

Everything was going to be the same.

But then the Watch and Wonders group, the former SIHH put together this industrial exhibition, organised all the brands.

We've been very actively involved in it because of all of the CEOs have been doing these Instagram interviews and so on. Actually the new products that have been presented by xxxx so far are very encouraging as they are very good products and they have a commercial emphasis on it.

So everybody is making sure that to the extent that they have any new products the ones that have less than the ones that I've got probably the broadest commercial appeal so more steel, more bracelets that sort of thing.

So we're actually really encouraged by the overall trend. We are engaged with all of the brands to coordinate some new product launches for doing the Breitling, that IWC xxxx presented.

I think the whole format of a virtual Watch and Wonders actually worked very very well. I also did an Instagram with Fabienne Lupo, the Chairman of Watch and Wonders and congratulated her on what I felt was a really great film.

So with regard to business and new products for the second half of the calendar year it is actually going to be pretty exciting.

We haven't got confirmation from Rolex and Tudor or xxxx at this point but we know that they will have a new product program and we get to see the detail of it but I think we'll be seeing that over the next few weeks. So I think it could be an exciting half year for new products. So next year I think for luxury

watches. Honestly I think I can't imagine Basel ever making a comeback. And I think that it will have a major event and there will certainly be one next year. Watches and Wonders in Geneva is going to happen in the first two weeks of April. It will be a long affair because also I'll be seeing more brands to get round.

But I think it will be fantastic and I think Geneva is a city, I used to live there, will be able to handle the kind of volume of a major exhibition like that and better reinform us than Basel was able to do. But for us in retail and for the press and other bodies to go one location and have every major brand now present over what might be a 10 day period is really fantastic. It will be a most cost efficient and more relevant and time efficient so we're very pleased with that development.

Your question was on pricing. We've heard nothing about pricing. Obviously the pound has weakened significantly and in any other circumstances it would have led to a review on pricing but I think everybody will probably just wait and see what happens when the economies kick back into motion again and whether or not there was a movement on exchange rate but we're not anticipating any price increases. We haven't heard of any but we are conscious that on international comparison basis sterling prices are now lower than the US or Switzerland. So we'll see.

**THOMAS CHAUVET**

Just as a reminder Rolex took their pricing up in the UK in January of seven point four percent. So quite recent. Thank you very much okay.

**MODERATOR**

At this stage there seem to be no further questions in the queue so may I please pass it back to you for any closing comments at this stage.

**BRIAN DUFFY**

Okay, I want to say thank you everybody for joining us. It has been a strange period to be alive in many ways and certainly a strange period to manage our business but really pleased with what our teams have done.

The level of commitment and energy and creativity that they've shown are they are as well prepared as we possibly can be. We're fortunate to be in this category of Swiss watches, a category overall will do well globally and particularly do well in the UK and US.

So we're making the best of this situation, preparing with a very positive outlook for what's going to come over the next several weeks and I appreciate all of your support.

Thanks to all of our teams for everything that they've been doing and I look forward to a positive experience. Thank you for joining us.

**MODERATOR**

This now concludes the call so thank you all very much for attending. And you can now disconnect. Thank you.