1. Intro

Watches of Switzerland (WoS) is the world's largest authorized dealer (AD) of luxury watches, operating in the UK, US, and – as of FY23 – in Sweden, Germany, Denmark, and Ireland. In the UK it trades under the names Watches of Switzerland, Mappin & Webb, and Goldsmiths, which collectively make up over 40% of the UK market. In the US its brands are Watches of Switzerland, Mayors, and Betteridge, which make up just under 10% of the market. These 4 brands are complemented by a network of monobrand boutiques (monos) where WoS partners with the manufacturer (Rolex, Breitling, etc.) and shares the economics. With a network of 192 showrooms, WoS is on track to generate GBP 1.5b in revenue in FY2023 and GBP 160mm in EBIT. Its aim is to – very simply – have the best locations with the widest range and the best customer service. It is virtually unmatched in all 3.

On a pre-16 FY23 basis, WoS trades at ~12x EV/EBIT, ~9.5x EV/EBITDA, ~15x earnings, and a ~ 6.5% normalized FCF yield.

WoS is in a very awkward position when it comes to which investor base it attracts. Even though it is fundamentally a retailer, its operations differ vastly from what you would generally see, even when compared to jewelry retailers like Signet. For example, ADs do not get volume discounts from suppliers, and in fact the brands take back margin as the AD scales. They are also not allowed to discount inventory, with very strict RRPs. Discount wars are rare and, given the structure of the markets in which WoS operates in, virtually impossible. Because price is not the key driver in consumer purchases, models like Costco's or Borsheims's Scale Economies Shared also do not really work. Likewise, WoS is not at all comparable to Richemont or Swatch Group (or LVMH's "Jewelry and Watch" segment). It is stuck in No Man's Land with the best public comp being The Hour Glass in Singapore (and with whom WoS does not share any markets).

What's more, the business went public relatively recently (2019), and has had its earning power clouded by expensive legacy PE debt. It has since used the public proceeds to refinance to a much cheaper term loan. Net debt now is at just 7.4mm (as of 1H23).

While watches and jewelry are generally grouped together (LVMH, for example, reports them under a single segment), the business models become very different for retailers as you move up the luxury ladder. WoS is not your Ben Bridge or Fink's. In fact, there is just one competitor which I believe is comparable to WoS – the giant Bucherer. Unfortunately, Bucherer is privately held.

The top 8 brands make up ~ 80% of revenue. Rolex alone accounts for ~50%, but this has reduced slightly due to the shortage of Rolex inventory.

The recent softness in the pre-owned luxury watch segment and macro FUD have resulted in a 40% selloff from its peak in December 2021, yet WoS continues to execute, has a waitlist that spans several years (and which has proven to be very resilient), and is virtually guaranteed to materially increase its earning power over the long-term.

2. Background

WoS, originally Aurum Holdings, was created in 2006 during the 10-year takeover mania of Iceland's Jon Asgeir Johannesson. Through his Baugur holdco, Johannesson acquired the three dominant UK dealers (WoS, Mappin & Webb, and Goldsmiths) and integrated them under Aurum. During the GFC crash, Baugur defaulted under the weight of LBO debt and, in a debt-for-equity swap, Aurum came under the control of Baugur's debtor, Landsbanki (with a sizable stake retained by then's management team).

WoS back then was a very different business. It primarily focused on jewelry and has not yet shifted its mix to the premium watch segment. Former CEO Justin Stead, for example, launched the *Goldsmiths.Boutique* concept, an entry-level retailer that sold cheaper, lower quality jewelry. WoS was an active participant in the Fashion & Classic segment (mid-tier, commodity brands) – the division has been entirely phased out by current management. Stead and former Chairman McCarthy envisioned an organization very much similar to Signet – a global jewelry retailer that traded across various banners. They wanted Mappin & Webb (M&W) to "be a global competitor to Tiffany."

Shortly after, Landsbanki was another victim of the 2008 Icelandic crisis. Its stake in Aurum was put up for sale and in 2012 the business received bids from LVMH's L Capital, Signet, Harvey Nichols, and several other parties. In 2013, Apollo emerged as the winner, acquiring WoS for just under $300mm. While Stead (former CEO) remained in the top seat initially, he was quickly replaced with current CEO Brian Duffy.

Since their acquisition, Apollo and Duffy have shifted the mix away from jewelry and towards watches (luxury watches made up ~65% of sales in 2016, now they account for 82% of UK sales and 89.3% of US sales). More importantly. Duffy closed down the Goldsmiths.Boutique, created a separate monobrand division in 2017, and has gone on to build an absolute AD juggernaut. As with Kaspi and Lomtadze, Duffy makes up a large portion of the thesis here.

New management has revamped corporate systems and infrastructure, closed down underperforming stores, relaunched e-commerce and in-house brands, phased all but the best suppliers, and doubled-down on training store employees. Duffy proactively managed the store network, selectively expanding square footage in A+ locations and aggressively refurbishing older stores. In 2011, WoS had 165 stores in the UK, most of which were larger multibrands, and generated 281mm in sales. In FY22, WoS finished with 131 UK stores (137 in 1H23), of which 38 were smaller monos, yet generated 809mm in revenue.

WoS's UK banners enjoy strong local reputations and are deeply ingrained in the culture and history of the region:

- Founded in 1778, Goldsmiths is the very first authorized dealer of Rolex watches in the UK, gaining an agency in 1919.

- Watches of Switzerland (the AD) was formed in 1924. In 1970, it opened the first Rolex boutique on Bond Street, London. Today the dealer also owns the "Golden Triangle" – three premier stores located in central London that (pre-COVID) alone generated over GBP 90mm in annual revenue.

- Mappin & Webb (founded in 1775) has been the holder of the Royal Warrant since 1897. It has been a silversmith of all the UK sovereigns for over a century, and has a legacy of serving the likes of Charles Dickens, Winston Churchill, Harry Houdini, and Marie Antoinette. In 2012, M&W's master craftsman was appointed the Crown Jeweler, a title M&W still holds to this day.

Likewise, the brands Betteridge and Mayors in the US (founded in 1987 and 1910, respectively) have strong reputations and deep local roots. Mayors especially has a long-established relationship in its core markets, Florida and Georgia, where it has been the most dominant retailer for almost a century.

In 2017, management entered the US with the acquisition of Mayors in October and 2 stores in Wynn Resort Las Vegas in December. From a base of 17 stores provided by the two acquisitions, WoS has since scaled to 47 stores (24 multis and 23 monos) and is the largest AD in the US. Since entering the region in FY18, the division has compounded at ~ 47%, developing a 428mm business (FY22) in just 4 years.

As of 3Q FY23, the UK made up 58.5% of sales and the US 41.5%. Consolidated sales mix is 83.5% luxury watches, 10.1% luxury jewelry, and 6.4% tangential services / repairs and insurance fees. Since present management took over in 2014 to FY22, revenue has compounded at over 17%, operating

margins improved from 5% to 12%, and ROE is now in the high 20s (although this figure is messy with all the goodwill and intangibles from M&A). The store base of 192 is broken down into 77 mono boutiques and 115 multis. In 2017, there were just 14 monos.

3. Management & Culture

Born in Castlemilk, Glasgow to a firefighter and a teacher (or nurse, depending on the source), CEO Brian Duffy grew up in the housing schemes in the outskirts of Glasgow. As he himself explains, "council house and state school was my upbringing." After turning 6, Duffy moved around to other housing schemes in Barlanark and Balornock, and had one of his first jobs as a bookkeeper at James Ferguson & Co. Even today, if one listens to any of his speeches or interviews, there is a very clear and thick "working class" Scottish accent.

His recent interview with Social Mobility highlights his background:

"I always had an ambition and a drive to do well. Don't honestly know where it came from. I did grow up with very little, and I aspired to having a lot more."

"I lived in Castlemilk and just about every other housing scheme in the city from Balornock to Ruchill."

"Nothing in my schooling or environment would have ever led you to think about the luxury world."

"[Duffy] grew up with very little, but it was his drive and ambition to achieve more in life that got him to where he is today and believes others can achieve what they want to too."

"I've had to work harder than most to get to where I am."

After graduating from St. Mungo's Academy, a state-run Catholic school, Duffy was advised to pursue an accounting program. At 16, he enrolled in the ICAS CFA program (he was in one of the last cohorts to be able to do so) instead of going to college. He spent 5 years in the KPMG apprenticeship, working for 8 pounds a week. He received his CFA at just 21, and to this day does not have an actual college degree.

Upon graduation, KPMG recommended Duffy for a role as a financial manager of a local Polaroid division, where Duffy spent the next several years. At age 28, he was hired by Playtex as UK CFO. As Duffy explains, "I was clearly such a pain in the neck for them because I was constantly looking for more responsibility. I couldn't figure out why people weren't taking more of a chance on younger, ambitious folk."

Two years later, in 1986, he was bumped up to EU CFO, moving to Paris with his wife and 3 kids. In 1989, Playtex Apparel underwent a management buyout backed by KKR. Duffy had the opportunity, for the first time, to invest in the business, using borrowed money to acquire shares. He became the group CFO and moved to Connecticut.

In 1990, Sara Lee acquired Playtex and management cashed out. Wanting to return to his aging parents, Duffy decided to move back to the UK where he could be the CEO of Playtex's UK and Northern EU division. Now a CEO for the first time, Duffy decided to pursue Wonderbra – a brand that Sara Lee has leased out to a third party. Duffy renegotiated the license and launched the famous "Hello Boys" campaign, which won the prestigious IPA Advertising Effectiveness Award. When Duffy took over Wonderbra, the brand was generating 10mm in revenue. Two years later he turned it into a 220mm business. The division was then picked up by Sara Lee itself to be launched globally.

Duffy next became the CEO of Pretty Polly, another Sara Lee brand. His time at Wonderbra and Pretty Polly brought out a marketing talent he did not know he had. As Campaign Live put it in 1996, "[Duffy has] only been there since March but colleagues at the Sara Lee-owned Pretty Polly are already calling this 'the Brian Duffy era.'"

In the same year, The Irish Times described Duffy as "an accountant by training but a marketing wizard by instinct."

In 1998, after heading two successful divisions, Duffy became the EU President of Sara Lee Hosiery. He has already established himself as a high-profile marketer, even though his background suggested all numbers and no creativity. He used the Hosiery platform to acquire and integrate other brands like Courtaulds, a clothing manufacturer, which he bought for over $230mm. Under his Courtaulds division, he was also involved with Champion Sportswear, Hanesbrands, and Tilodoro. Eventually, Duffy was managing over $1b in sales.

As the 2000s approached, Duffy began to disagree with the decisions of HQ in Chicago, explaining that "[Sara Lee] did not get my business – we did not agree on anything." Fed up, he left Sara Lee to, of all things, go study contemporary music at Guildford. He was in his mid-30s.

While Duffy was playing the guitar, Ralph Lauren was undergoing a period of transition and needed a seasoned executive to head its EU segment. Duffy, still in Guildford, was their pick, joining in 2003. He was responsible for everything RL in the EU, from store expansion to marketing and building out the organization and management team.

As with Sara Lee, he excelled in his new role. He took over when the segment generated GBP 400mm in sales, and 8 years later left behind a 1.5b operation.

Looking at Duffy's RL experience, one can draw a clear line to the strategy he employs today at WoS. He supported stores with the PR strategies he developed while at Sara Lee, while also exclusively going for the best locations in prominent, high-traffic areas. His expansion in Russia, for example, was assisted by an enormous PR effort that produced the most successful store up to that time.

While Sara Lee was predominantly an apparel brand – and one that was not necessarily on the high-end – RL exposed Duffy to pure luxury retailing. Profits during his 10-year tenure grew from 28mm to 300mm. He was eventually given responsibility for the Middle East and Africa regions.

Finally, Duffy moved in March 2013 to Apollo. While he has likely plateaued in the learning curve over the decade with RL, the move was motivated more by a desire for control. He explains:

"I knew the luxury world pretty well, and I was looking to do something in private equity, a company I could both invest in and manage, and this opportunity [WoS] came along. When I looked at it, I liked the product, and I liked the main investor. I liked that it was a UK only, and I wasn't going to be traveling as much as I had been with Ralph. At the end of the day the pearl was still in NY and of course the leadership of the business was with Ralph and his team. I wanted to do something that I could really direct and only be accountable to financial bosses."

He had a clear desire to operate something of his own, and to be able to invest in it too. WoS offered such an opportunity. The business, first under the rampant Baugur and then under the neglect of Landsbanki, has deteriorated dramatically. And as Buffett explains, "you cannot afford to drift in retail."

Duffy echoes the sentiment, explaining that "this is an industry you have to invest in. You have to be doing beautiful stores. You need beautiful stores and you can't get by underinvesting." WoS is Duffy's first role as a CEO of an independent business.

While Duffy is neither the founder nor a substantial shareholder of the business, he – like all greater managers – keeps the interests of the organization at the forefront of everything he does. In many ways, WoS is his own creation, and he is very much in charge of it. Legacy management has completely exited and Apollo has sold its stake.

The Board is completely new (since going public). Duffy is the only one in the executive and board structure that has the weight and influence to truly command the business. He brings a combination of financial savvy, marketing competence, and managerial talent that I do not believe any other executive in his field can match.

Duffy's style is hands-on and demanding. When asked by the Scotsman in 2014 about what makes him angry, he replied simply with "I get impatient with the pace of progress." In fact, employee reviews heavily highlight the intensity of the job:

"Very high demanding job, you are constantly expected to work above and beyond. Achieving targets is not good enough, always want more. Although not a bad paying job for retail, you are not paid enough for the demands expected."

"They are very demanding and you'll have to do hours of training in your own time because they don't put time aside for you at work. Without doing it you can't pass your probation."

"They work you like crazy and complain when your stressed out and need time off."

"Very fast paced so not for everyone however I see this as a pro!"

He likewise has a great deal of trust in his people, and is willing to give them a good amount of autonomy. Going all the way back to interviews in 1996, Duffy was described as "[someone that] likes having familiar faces around him," with former Head of PR at Pretty Polly, Jackie Cooper, explaining, "He has faith in people. He describes himself as a pain in the arse, but he's one of those rare clients that trusts people." Duffy agrees: "During my career I have learned the importance of great team members, and so I also plan on keeping them!"

He has carried this over to WoS. For example, he has brought over Anders Romberg, who has been Duffy's COO and CFO at RL, over as CFO of WoS (Romberg has since retired, but rejoined recently). He also hired David Hurley, now head of the US division, who was previously VP of SAP, VP of Sales, and VP of Logistics at RL. While Romberg has certainly performed well, and was especially crucial in managing the debtload left by Apollo, Hurley has been simply exceptional. He has been tapped as Duffy's successor.

Originally operating as "Business Development Director" (a placeholder title) Hurley (born in Cork, Ireland) has been the head of the NA division since they entered the region in FY18. The work he has done in the US is phenomenal. His refurbishment of the Mayors network, expansion of WoS stores, and development of US brand relationships has been the core reason for the success in the region. He took Duffy's playbook in the UK, iterated on it, and executed fantastically. More specifically, Hurley (with the help of Duffy) developed a systematic approach to customer service and store design, resulting in a consistently spectacular CX that is almost unmatched by competitors. Hurley's model is now being implemented in the UK, with the most recent example being the Goldsmiths Luxury refurbishment program. As a former CEO of Audemars Piguet's NA division said, "David Hurley is a great professional. He's a very hard-working, team-oriented professional. He's not emblematic as Brian Duffy is, but he does a great job in the US, so they've got a good team."

In the UK, Duffy decided to promote from within, lifting Craig Bolton as President of UK and EU. Bolton has been with the business for almost two decades, originally starting in 2004 as a regional manager. The entire management team, since former COO Anthony Broderick left, has been entirely built by Duffy.

Duffy's background colors his management style. He is firm on having a meritocracy, explaining that "we all deserve the right to progress based on our contribution. If you're doing that as an employer, you're doing the right thing."

This is generally true:

"Rewards will always go to the hardest worker!"

"Chilled environment, you can get promoted easily if you work hard and have the right attitude."

"If you put in hard work - you will be able to climb the ladder."

Engagement surveys, carried out every 2 years, underline the organizational cohesion Duffy has managed to establish:

I understand how my work contributes to the success of the Company	96% agree/strongly agree
I feel positive about the future success of the Company	94% agree/strongly agree
I feel committed to the Company's goals	92% agree/strongly agree
I believe the Group leadership team has a clear vision for the future of the company	91% agree/strongly agree
I am proud to work for this Company	90% agree/strongly agree

FY22 Employee Engagement Survey

Programs like *VibE*! and *Brilliance* further reinforce the service-centric approach of the business, operating a points system that recognizes and celebrates the employees that have displayed their buy-in into the organization's values and operating principles. Management also holds Listening Forums, directed by board member Rosa Mockton, that allow employee reps voice complaints and suggestions. This has resulted in the business introducing a Health Cash plan, giving holidays on birthdays, beginning the construction of improved HQ facilities, and establishing holiday purchasing schemes.

During COVID, management took a 25% cut to their salary and deferred the other 75%, all while insisting on paying the full contractual rates to its furloughed base of 1,300 employees. Employees generally recognize this:

"The company really cares about their employees. They go above and beyond to make sure that things are done the right way with the best interest of the employee."

"They really look after their staff. A list of well being options and health care products."

"Good company to work for; they were fantastic during the lockdowns and the team were really helpful and lovely. progression can be done internally."

"I was one of the original 20 people to join the WoS SoHo team, since day 1 it had been nothing but great support, innovation and memorable experiences."

Employees are given generous health benefits, are able to enroll in share save schemes (with almost half of UK and a third of US employees participating), yet are required to buy uniforms out of their own pocket. Management published a bi-monthly internal magazine, Clarity, which updates the organization on news and celebrates monthly award winners.

Duffy demands excellence and drives the stores hard, having a strong emphasis on ambitious individual and store-level KPIs. As he put it:

"You know I think pace is important, the critical element though is executing well, having the right opportunities, and what we've done is very much built our resources in anticipation of growth, which has turned out to be smart." (2021)

"We were very fast in our decision making, and that's been my biggest focus, to make sure we can stay entrepreneurial and focus on decision making." (September 2022)

Most negative reviews and anecdotal evidence is primarily focused on this KPI-driven intensity:

"Targets for everything which can be a bit overwhelming."

"Can sometimes be a bit too KPI heavy."

"The pace is fast moving and dynamic, which requires outstanding performance against the required business KPIs."

"Very demanding on achieving sales targets."

In fact, when the stores as a whole do not achieve their targets, the salespeople do not receive the full commission, even if they hit their own KPIs. Each showroom manager is met with every month or so to cover targets and performance. Those that perform, however, get celebrated at special events, with top performs across each banner being recognized and awarded. Top-performing salespeople are also enrolled in the in-house management track and often get promoted to store managers. Bonus programs cascade down the organization with managers of regions and units receiving bonuses (⅔ cash, ⅓ options) based on local performance and the performance of the relevant business unit (based on unit / division EBIT).

Employees are expected to go above and beyond for customers, an environment that is, of course, not for everyone. You are expected to be available to your customer network during your days off:

"Work here if you don't want a social life at all."

"It won't be for everyone."

"Great Place to work if you want to work hard and can push yourself goals are attainable if you follow through with clients."

"No life at all. You will live breath and eat nothing but your job. So if you want a job that consumes your every minute outside and inside work. Then Mayors is for you."

Duffy has had unusual insight in identifying shifts in trends, both on the consumer and supplier/brand side of the equation. On a global level, he saw the trend toward more hospitality in retail, in the desire of brands to consolidate to their best dealers, the shift to monos, and in the need for an experiential, storytelling-based CX. He has been spot-on in entering the US, and I believe that he displays the same keen foresight in recently entering the other EU regions.

Bringing in a fresh set of eyes, he saw an opportunity to modernize an industry that has historically been very traditional. Here's a quote from 2019:

"I often talk to my team about the philosophy of Wayne Gretsky, one of the greatest ice hockey players of all time. When he was asked about the secrets of his success, he said that the skill is to always be where the puck is going, not where it has been. That is our approach. We will be where the consumer is moving towards. We anticipate it and get ahead of it."

WoS is, as we will see, at the very forefront when it comes to innovation (whether in store design, business systems, or in-store experience). Innovation does not come from following the herd, and Duffy seems to clearly understand this:

"As a senior executive, you are paid for your judgment and views. In important matters, you must find a way of getting those views over, which isn't always easy. Jumping on the bandwagon may seem an attractive alternative, but it can lead to regrets." (Independent, 1993)

Duffy is the recipient of numerous awards. The WatchPro 2019 award reads:

*"The story is about much more than numbers. Mr Duffy has assembled one of the most effective leadership teams of any watch and jewelry retail group on either side of the Atlantic, and set new standards for how watches should be presented and sold in spectacular showrooms. Among a short list of exceptional finalists, **almost half (43%) of the 155 watch brand executives** who voted in this category chose Mr Duffy, demonstrating the esteem in which he is held."*

Approaching 70, Duffy does not have the runway as a manager that one would want him to have, yet he shows no signs of stopping. The Telegraph, in 2022, said that "despite his long tenure at Watches of Switzerland, Duffy is in no rush to leave."

"I don't in any sense feel that I'm going to finish – I really enjoy what I'm doing here. Will this be the last? Possibly." (2022)

"Personally, I am enjoying everything I am doing. I have a great team and they are as motivated as ever." (2020)

Whether due to luck or skill, the evidence is clear – where Duffy goes, success is soon to follow.

Management is paid a fixed salary of GBP 500,00 (CEO) and 380,000 (CFO), with the remainder being paid out in bonuses and options. Bonus payments, capped at 150% of fixed for CFO and 125% for the CFO, are based on an adjusted EBIT target, with ⅔ of the bonus being paid in cash and ⅓ in deferred shares. Options are awarded 80% based on 3-year cumulative Adjusted EPS and 20% based on a 3-year average ROCE, with a vesting period of 3 years and a lockup period of 2 years. Option grants are limited to 200% and 175% of base for the CEO and CFO, respectively.

This means that, assuming all performance targets are reached, Duffy is making around GBP 2.25mm a year. At a 500,000 base, this means that over 75% of total possible compensation is in performance-based payouts. The lockup structure of all share awards means that management has to think about the performance and value of the business at least 5 years out.

The Board is OK. Current Chairman Ian Carter joined in 2020. He has been the President of Hilton Worldwide for over a decade, overseeing expansion into new markets. He has also been on the Board of Burberry Group from 2007 to 2019. The other directors are fine. The recent addition of Chabi Nouri is very welcome. She stands out as a board member with a genuine track record in the luxury space, being an advisor to Richement's CEO and playing a crucial role in the management of Cartier from the late 90s to early 2000s. She has been the CEO of Piaget from 2014 to 2017.

As mentioned, I believe that Duffy is very much in charge and generally does what he wants. The board might place some checks and balances in place but by and large I think Duffy runs the show.

4. The WoS Model

While price is not a crucial factor in customer's decisions (although it certainly is A factor), range and in-store experience is critical. Buying a luxury watch is a "destination purchase." The average customer does not just drift into a store and drop $5,000. Rather, they do a tremendous amount of diligence online, usually know exactly the model or brand they want, and then do a lot of work on which store they buy it from.

It is as much a celebration as it is a purchase, and retailers have to offer a corresponding experience. Consumers want a story, not just an item, and this focus on experience has to be consistent and uniform across all channels. Deloitte's recent survey indicates that 70% of younger buyers are influenced by social media (product promotions and influencers). These are conscious and deliberate purchases with some customers spending weeks researching before deciding on either a brand or a retailer (or both).

Management claims that 80% of purchases start with online research. All of this means that store traffic is generally lower, conversion rates higher, and range and customer relationships are absolutely essential. Breitling's Georges Kern agrees: "We invest nearly 70% of our marketing budget into digital

communication platforms. Why? Because a consumer's decision process is predominantly made online and not offline."

Because buying a watch is a higher diligence-per-dollar purchase, advantages in range, location, reputation, and in-store experience are magnified. A poor customer experience can cost a store tens of thousands in missed revenue, while an excellent experience leads to years of recurring sales. The same goes for brands. The Rolexes and Pateks of the world care primarily about the WAY their brands are presented. Brand equity is their game. It is not just about having a nice location and kind salespeople.

Each brand has its own heritage, story, and identity, and it is imperative that their ADs are able to communicate it well. This means that stores need to be experiential, have thoroughly trained staff, and present each brand in a way that accurately communicates its values and heritage.

Duffy highlights this ad nauseam in his interviews and writings:

"Our ambition is to exceed customer expectations at every level and to combine the very best of interactive retail experience with service levels that can only be delivered face to face by the best retail teams in the business."

"Both locally and nationally customer experience is considered and treated as a major point of difference. In our competitive and non-essential marketplace, the way we make our customers feel is always a primary focus. With an emphasis on local reputation, trust and networking, every customer is treated as a potential loyal client for life by our retail professionals."

"Our goal is to deliver an unrivaled customer experience and our colleagues dedicate themselves to honing their skills and knowledge to become experts in the world of luxury timepieces and jewelry."

In fact, across the 16,000+ reviews on Google of WoS's stores in the US, the average rating is 4.9. Bucherer, WoS's main competitor, averages 4.2, and with much less consistency.

WoS Top 5 Most Rated Stores (US)	Rating	# of Votes
SoHo, 60 Green St, New York	4.9	1,604
Rolex Las Vegas	5	1,484
Rolex Millenia Mall, Orlando Florida	4.9	1,434
Aventura Mall, Aventura, Florida	4.9	1,208
Dadeland Mall, Miami, Florida	4.9	1,036
Bucherer Top 5 Rated Stores (US)		
Bucherer Time Machine, NY	4.2	529
Rolex, Sourh Coast Plaza, Costa Mesa, CA	4.6	324
Rolex Boutiuqe, Meatpacking, New York	4.7	261
Bucherer King of Prussia Plaza, Pennsylvania	3.6	212
Bucherer 3 Bryant Park, New York	4.3	194

Monthly NPS, measured across 1,500 – 2,000 responses, is at 80%. A former Regional Director of TAG Heuer commented:

"I think the player that is doing extremely well is Watches of Switzerland. They really became an important player in the country with very strong stores, very well located in the key cities, in the East Coast in particular, not so much in the West Coast, but in the East Coast. And they're growing and they have very big ambitions to become the undisputed number one in the country … They really look at how can they make the journey of a customer better in their stores than in any other store. So they invest a lot of money in the quality of the stores, the revamp the stores, they make stores bigger. They have huge bars in store. They have a lot of pressure on staff, try to train them a lot with the brand or even internally."

People are even using stores as a background for their wedding photoshoot:

SoHo Store

WoS trains its employees copiously. In FY22, retail employees completed over 45,000+ hours of training, or over 25 hours per retail employee. It has in-house academies that focus on customer experience and brand training, compliance, operations, and specialized jewelry. It also partners with brands to deliver brand and model specific courses, and Rolex flies out select employees to visit its plants in Switzerland. WoS has a specific emphasis on its top brands, and has, for example, launched a Rolex Academy in 2020. This includes 2-3 day offsite summer programs, learning modules, and timepiece training. No competitor, from what I have been able to gather, comes anywhere close to this level of training.

This depth of training also means that WoS can afford to promote from within, with almost every new store being headed or supported by an internal employee. In FY22, the business saw 27 internal promotions in the US and 92 in the UK. For example, directors at the SoHo and Hudson Yards stores – arguably the two main stores in the US – have been promoted from WoS UK and Mayors. Likewise, management of the Las Vegas Rolex Boutique, the largest in the country, is headed by a director from Mayors.

Management has also developed introductory courses to introduce new hires to the WoS framework. During the first 3 months employees work through the induction program, learning about the history of the business and its banners. The program explains products, systems, and procedures, and hosts workshops for employees to learn about specific models they are working with. This is a strong point with the employee base:

"The support shown by management is superb. They actively look to develop skills and push for the best."

"Great in house training for the industry, continuously trying to push boundaries and take more market share, one of the best names in the industry."

"Can be overwhelming in terms of training - there is a lot to learn, but if you take it one day at a time and spend time processing the information you will be fine."

Upon the completion of the 3 month induction program, employees are enrolled in the mentioned Academy. Similar programs exist for management progression and the head / support office. All of this results in a depth of brand and timepiece knowledge that smaller competitors cannot match (or afford):

"Kenny educated me about the watch and what made it so unique. He clearly explained the differences between the original version, the second version and the new third release. You can tell he is a true ambassador for the brand."

"Nick and the rest of the team are extremely professional sales staff who are watch nerds like their customers. This is not your average jewelry store that happens to sell watches."

"Watches of Switzerland not only carries an impressive selection of top quality timepieces, but also the salespeople there are true watch enthusiasts. I stop in often just to talk watches with them, and without exception I've found them to be friendly, engaging, knowledgeable, and patient. I always learn something and leave with a deeper appreciation of watchmaking."

"I thought I was knowledgeable in watches but her wealth of knowledge really impressed me. She knew about a lot of limited pieces and just the brands in general!"

The business has a clear way of retailing. Duffy insists on his salespeople assisting and guiding customers through their purchases rather than selling to them. As he explained to WWD last year:

"Our approach is very open, democratic, and we have a nonjudgmental tone of voice. A lot of the traditional industry has been somewhat elitist, focused on, and maybe selling to, the same people over and over again. We have a much, much broader appeal, to women and younger consumers."

Employees echo this:

“Colleagues are empowered to make every client experience unforgettable, and these memories we are able to create have made us industry leaders in our field and beyond!”

“Consultative sales - getting to know your clients and product, spending time with them and building relationships. Not about fast paced retail sales.”

“Ensuring all stock is well presented and in correct position. Engaging and empathizing with the customers, providing a world class experience for them at all times.”

David Hurley, in building up his team, got Kelly Yoch as the Director of Client Relations, a newly created position. Yoch has been proclaimed the “Priestess of Horology” and “the most important person in the watch world” by GQ. With a background in Tiffany, Patek, Tourneau, and Saks Fifth, her hiring provides a good example of the type of org Duffy and his team are trying to build.

The words “welcoming” and “inviting” appear over and over in interviews and SH materials. I am generally skeptical of such statements. While management may indeed want their stores to be what they claim them to be, the reality is often vastly different (and disappointing). Not with WoS. There are hundreds of customer reviews that suggest that what Duffy claims is precisely what he does:

“I felt like I was not being 'sold' a watch in a rush, but was being cared for and consulted. A very private and friendly place with the MOST courageous professionals to help you guide through one's first or special experience of owning a Rolex.”

“She isn’t pushy and wanted me to buy only what I love. She is my go to for all of my jewelry and watch needs!”

“The first thing that struck me about Natalie is that she was more concerned with finding us the right piece of jewelry, and not just making a sale.”

“She was very attentive to my needs. I wasn’t really sure what I wanted but in the end she made sure I got exactly what I needed. She’s very patient and knows her watches!!”

In fact, WoS generally insists on having each customer accompanied by a sales rep. When I visited the Hudson Yards store in New York, I was asked to wait until a salesperson was available. While this may result in foregone revenue, it ensures superb customer service and good brand representation. Bucherer, to my knowledge, does not do this.

The recent program Xenia is an example of the improvements in customer service that WoS goes for. In order to elevate in-store experience, management held two conferences and dedicated workshops, led by Antonia Hock, the Global Head of The Ritz-Carlton Leadership Centre, in order to review and enhance the end-to-end client journey.

This included adding dedicated Hospitality Teams in showrooms, adding capabilities like tablets and payment devices to support salespeople, and incorporating hospitality executives to develop a training program to be rolled out across the store network. The results, per management, have been outstanding:

- Client Consultation: 65% satisfied pre-Xenia – now 95%
- An exceptional first impression By Appointment: 71% said yes pre-Xenia – now 94%
- Xenia Mystery Shop: The WOW pillar has scored 82%
- Xenia Mystery Shop: Walk in Visits – the welcome and fact finding has scored 93%
- Xenia Mystery Shop: Expertise, confidence and passion demonstrated 90-95% of occasions

And while management has nicely packaged the process to appear like some nuanced program, this is really what Duffy and his team have been doing for the last decade – dogged, systematic improvement of customer service.

As mentioned, WoS only goes for the very best locations, a strategy Duffy brought over from Ralph Lauren. Other than its acquired stores, WoS has exclusively expanded in locations like SoHo, Hudson Yards, Boston Encore, Wynn Las Vegas, and so on. As Duffy put it:

"The common theme in all of our flagship stores, whether that is 155 Regent Street (London), Las Vegas and the most recent opening in SoHo, Manhattan, is that we really want to give space for our big brand partners to express themselves, so the stores need to be physically big. Every element of the store has to catch customers' attention. We want them to look into every corner of each store, so everywhere they look needs to be exciting. We want the environment to be inviting and browseable. We also want to provide hospitality because, when people are spending a lot of money, we want them to have refreshments and entertainment. These are the common elements we want to deliver consistently in every Watches of Switzerland flagship along with, of course, the best selection of luxury watches." (2019)

"Our shared conviction throughout has been that you have to do it right and believe that the consumer will shop for luxury when you give them a fantastic environment and line up of brands. If you don't give them these things, they will not buy. There is not really a choice between dialing up and dialing down investment in luxury."

"The biggest danger in a luxury world is skimping on the environment. The consumer feels it when you are selling very expensive items in a less luxurious store."

Management does not believe in incrementality. Retailing Swiss watches is incredibly hard (which I will touch on later) and you cannot afford to spam openings. Each new site is adjusted to fit its environment and market, and every single one is designed more like a lounge / hospitality area than a retail store. Inventory is tailored where possible to meet local tastes and historical sales patterns of specific stores. For example, the store in SoHo has a bar managed by Death & Co. and a small library. Customers are offered coffee, food, and refreshments, and are encouraged to browse and ask questions. As Hurley said:

"We are not just competing with other luxury jewelry stores. We are competing with luxury holidays and restaurants. We are competing with the luxury experience."

During COVID, management enhanced their "By Personal Appointment" capability, which allows customers to pre-book a meeting with a salesperson. Not only does this help manage traffic and dramatically improve conversion, but it also lets employees prepare for their meetings. Nearly 40% of transactions are now managed through appointments. Here's an example:

"I had the pleasure of dealing with Allan and he hooked it up for us. The attention to detail that the staff displayed was amazing. It was our anniversary and not only did we leave with a nice Rolex they even managed to surprise my wife with some flowers."

Management also developed a Virtual Boutique during the pandemic, further improving conversion. Trained salespeople conduct their service online, and watch valuation experts are also able to virtually assist in pre-owned trade-ins. While originally a response to COVID, Duffy kept this capability and is now even expanding it, growing the dedicated employee base from 31 to over 45 by next year.

5. ADs Are A Relationship Business

Other than centralized marketing, each employee manages their own network of customers, assisted by WoS's SAP CRM infrastructure. If one reads reviews from anywhere (not just WoS), virtually every customer mentions their salesperson by name:

"If I ever need to buy a watch. I will only be coming here because of Anthony."

"Peter is the sole reason I chose to buy my watch here even though I found it cheaper online."

"Not only did she pull a lot of strings to get me the watch but when I came in to pick it up, she made me feel super special. She had me a 60th birthday cake, a glass of scotch and of course my beautiful."

"Jeff was patient as we walked in and out of the store a few times within an hour to keep looking at different watches. When we made the final decision, he was extremely helpful and thoughtful. He sent a very fitting personal note and book to my son on his achievements."

In fact, WoS's in-store experience and customer-relationship is so strong that there is abundance of anecdotal evidence to suggest that customer actually travel out-of-state specifically to visit WoS:

"I appreciated the time he spent on educating me on the subject. He earned my trust and I allowed him to guide me in ultimately making my first purchase. Needless to say, I am absolutely thrilled with my purchase and while I do not live in Nevada, will not consider buying another time piece unless it's from Alex at Watches of Switzerland. I will gladly fly and purchase future pieces from them."

"I cannot say how great the experience is. Their selection is wonderful and Mariam is a wonderful professional. They are very respectful of your time and are quite efficient. I drive 2.5 hours each way and will continue because of their awesome customer service and top quality inventory."

This is an important advantage. Unless you are able to develop a strong local customer network, it is very hard to successfully retail. Because of this, it has been a general industry practice to internally “rank” customers based on their spend. When new or sought-after models come in, WoS can leverage their superior range to develop stronger showroom loyalty. A Reddit Post read:

“This is an area I kind of specialize in lol. So they have a bracket system to purchase Rolex. Spend 10k-20k on other brands that you will take a loss on and you can get allocated a two tone sports Rolex. 20k-50k and you’re getting into steel sports Rolex territory. Now there’s loopholes. Go in a buy a 50k Hublot and you’ll get a steel submariner in a month or two. Basically they know the profit margins on a Rolex flip and you have to spend that on Omegas or JL to make up the difference. Rolex purchases also don’t go towards your spend to get more Rolex … They have a structured allocation policy built around tiers which denote desirability of different pieces. You’ll need more spend to access watches in higher tiers.”

And because WoS, as we will see later, receives allocation by brands that other retailers don’t, being its high-tier customer is far more valuable. Employees build customer profiles in their CRM system, which then they use to both build relationships and drive store traffic.

Stores are also encouraged to host their own events. Flagships are designed to be able host events 3-4 months with separate areas for private banquets and displays. In FY22, the company hosted over 122 in-person events with 5,000+ clients.

And while scale does not offer the same advantages it does in traditional retail, intelligent clustering of stores allows for the sharing of inventory among sites. For example, they have over 9 stores, monos and multis, in the Miami metropolitan area. This means that stores can carry slightly different inventory, and then send over pieces to other stores upon request. Inter-branch transfers made up 25% of UK sales in 2019, and 39% of Rolex watch sales were made through the sourcing of out-of-stock inventory from one store to another. This is enhanced by WoS enabling stores within the same regions to access each other’s inventory database and get items sent over. Because customers usually come in looking for a very specific piece, this is crucial for improving traffic conversion. Inventory turn improved from 1.87 in FY16 to 2.88 in FY22. As WoS builds out density in its main markets of New York, Las Vegas, Florida, and Georgia, this range advantage is only going to increase.

All of this combines for a remarkable formula. In FY21 – the period hardest hit by COVID – UK stores were closed for 26 weeks, yet revenue grew 3.6% thanks to client outreach and a strong online presence. The longer WoS operates in an area, the stronger its relationships and the better the store economics (more consistent, recurring traffic).

Brands like Rolex and Patek clearly see the offering WoS puts up, and are eager to allocate more inventory:

“Only Rolex’s most loyal and successful authorized dealers have a shot at being allocated [a Rolex Rainbow Daytona]. [WoS], in turn, offer them only to their most loyal, spendy VIP clients as a way of saying thank you.” (Barron’s)

"American retailers are frustrated when they have to tell long-standing customers that there are massive waiting lists for unicorn models like Patek Philippe's steel Nautilus, Audemars Piguet's Royal Oaks, and Rolex Submariners, GMT Master IIs and Daytonas, only to hear that these same customers have been able to walk into one of Watches of Switzerland's new stores in New York and Las Vegas and buy the models immediately." (WatchPro)

The former WoS Head of Buying paints a clear picture:

"[Because of superior relationships and operations, WoS] get their unfair share of allocation. And I particularly see this now in my current role where I'm looking after the independent sector as opposed to them being in what we call the multiple sector, where I am struggling to get that same allocation of Rolex at my end, simply because of the bond and the relationship that they have with WoS. They transformed those stores into something much more modern, something more advanced and the likes of Rolex absolutely loved that. And that's why their relationship is so tight. So they get an unfair share of the allocation."

Rolex has its allocation meetings in January of each year, where it tells its ADs how many units they will receive. As Duffy explained in the most recent call:

"In terms of units, for Rolex UK, in the US, we've had those meetings, they take place in January, and those numbers have never missed, in our experience. <u>They only ever go upwards.</u>"

And because customers search for a specific brand or model, having that extra range, even if incremental, is crucial in acquiring traffic:

"I had been searching for the Rolex Yacht Master II for a few years and she was able to secure it within a few weeks."

"Working with Jonathon was great. The Cartier model I wanted was in limited supply yet Jonathon was able to source it quickly and get it to me within days."

"This store should be considered a museum with the number of phenomenal vintage pieces."

"I've always had nothing but outstanding experiences at Watches of Switzerland. There aren't any stores in the city that have the selection they do."

"This place is THE place to find all nice swiss brands under one roof. Period! The collection of watches at this store is second to none, speaking from my personal experience."

And why shouldn't the likes of Rolex allocate more inventory? If you only sponsor very specific events (Formula 1) or individuals (Roger Federer), why would you be careless in perhaps the most important component of the brand – the setting in which it is presented and bought?

WoS has decades-long relationships with its key suppliers: 100+ years with Rolex, 70 years with Cartier and Omega, 50+ with Patek, and so on. The brands know exactly what they are getting with WoS. More importantly, the brands that dominate in the UK are the brands that dominate globally. The strength of supplier relationships carry over into new regions:

"In our case, for example, I didn't know about Watches of Switzerland because first, they were in the UK and I arrived to the US at the same time as they arrived when they purchased Mayors. And my CEO called me and said, 'You have to meet Brian, they're setting up in the U.S., they're super professional, we have to do something with them.' ... [WOSG] know how the brands work. So they understand the needs. They're fast. And so in the U.S., in terms of a multi-brand retailer, they are up there in the U.S. for sure. In the U.K., they're number one for sure."
(Former CEO, Audemars Piguet NA).

"This milestone expansion is a testament to our relationship with the Watches of Switzerland Group, a partner we celebrate 11 franchise boutiques within the United Kingdom and three which will now help strengthen our presence and client experience in key locations in North America, our strongest region worldwide."
(Frédéric Arnault)

"Great partnerships stem from the rich encounters of creative and hardworking business talents. Brian Duffy and the Watches of Switzerland teams have proved this true and we are proud to count them as partners." (François-Henry Bennahmias, CEO of AP)

"The experience that Watches of Switzerland is creating and the amazing timepieces that they will be selling, along with their approach to staffing, training and new systems, will for sure attract even the most sophisticated and discerning customer. We are convinced that the extraordinary experience we have had for many years in the UK will raise the same interest and success in the USA."
(Jean-Claude Biver, TAG Heuer)

"We are thrilled to be a partner of Watches of Switzerland in their new SoHo flagship, in Las Vegas, and in their many other US initiatives. They are a true pioneer in the industry and their expertise and passion for watches, combined with their innovative approach to retail and exceptional customer service is raising the bar."
(Georges Kern, CEO of Breitling)

Some luxury brands also limit their online distribution to their ADs, meaning the brick-and-mortar advantages are carried over into e-commerce. Online is very unlikely to become a truly meaningful part of the industry as long as the likes of Rolex refuse to sell online. Regardless, WoS has been building up its e-commerce capabilities and is the leading marketplace in the UK.

These relationships are not just B2B. Duffy has spent the last decade building personal relationships with brand execs. He hosts them on his Calibre podcast and invites them to showroom openings.

WoS secures agencies before they make any plans for expansions and acquisitions, and here relationships play a crucial role. Brands allocate agencies on a store-by-store basis, and have de facto control over your market share. When WoS acquired Timeless's store in Plano, Texas, the store did not have a Rolex agency. Duffy managed to secure one and, of course, a store with or without a Rolex agency has VASTLY different economics. In almost all of their acquisitions, WoS brings on more brands and builds out wider range depth, a unique M&A advantage that its competitors do not enjoy.

The ability to recently expand their flagship Rolex boutique on Old Bond Street from 900 sqft to 7,200 sqft, and have correspondingly greater inventory allocation, is likewise a byproduct of these relationships. The same goes for their Rolex mono in Las Vegas, which, since being expanded in 2022, is the largest Rolex boutique in the US. WoS goes through each potential store with its brands:

"Looking into each mall, average sales per square foot and the consumer profile allows Watches of Switzerland to provide the brands a short list of potential locations that have promising perspective. Following this, Watches of Switzerland works hand in hand with the brand going over each location's luxury adjacencies, regional demographics, and the current distribution of the brand in order to move forward with the most propitious location." (Professional Watches, 2020).

Another indication of the strength of its relationship with brands is the exclusive pieces WoS gets. TAG Heuer, Breitling, Grand Sieko, MB&F, Hublot, and others have made exclusive pieces for WoS to showcase. Other than Bucherer and a few other retailers, no AD gets such releases.

All of this creates a powerful model. As WoS grows, it is able to deploy more capital into store refurbishments, employee training, and network expansion. It can get better clustering and make themselves even more important to brands. This in turn means that brands are increasingly more willing to allocate their inventory to WoS, improving their range and driving more traffic to stores:

"It continues to be an important subject for all retailers of Rolex, Patek and AP world-wide. What we need to keep doing is investing, expanding and elevating. As you do, you are more likely to get support from these brands. That is the only thing that we have found to be reliable. Overall, the brands are very fair in how they allocate stock." (Duffy)

"My job is to try and continually get more [inventory] and justify more and look for opportunities, and the biggest justification we have for getting more product is the investment that we make." (Duffy)

"It's all about investing: investing in stores, investing in marketing, investing in technology. We have big, beautiful stores and we provide a fabulous customer experience." (Duffy, 2020, NYT)

This is supported by marketing initiatives that Duffy has picked up over his time at Playtex, Sara Lee, and RL.

From using photoshopped angry dogs in its SoHo store opening to establishing a mobile Airstream to showcase brands, WoS is very guerilla-like in its marketing approach. It has leveraged its market position to get events like the Grand Prix D'Horlogerie de Genève showcase where GPHG, for the very first time, displayed its winners with an exhibition in WoS's New York stores. In 2020, management combined watches with rare sneakers, generating enormous PR value at virtually no cost. Customers have never seen these types of events, and brands are happy to leverage WoS's network to gain more exposure for free. It has hosted exclusive events in collaboration with Nas, 50 Cent, Ronnie Wood, and so on in an attempt to secure customer loyalty and build share of mind. Its main competitor, Bucherer, does not have the same marketing capabilities.

WoS has its own magazine, *Calibre*, as well as a podcast that Duffy hosts. And while these are not advantages per se, retail is detail. Such incremental initiatives all help make WoS a more attractive AD to partner with. Again, Bucherer, has neither its own magazine nor its own podcast.

6. Monobrands

The flexibility of their channel is also a major asset. WoS operates 46 monobrand boutiques in the UK, 23 monos in the US, and 5 in the EU. These are smaller stores where WoS partners with an individual brand and handles the operations. Monos are increasingly becoming the preferred channel of distribution of the top brands. They want to offer exclusivity and tailored service, and they want to be able to control and track in-store experience and inventory in a more granular way. No retailer comes anywhere close to WoS's mono network. Bucherer has around 15 monos in the US and several more across their EU network. WoS is unequivocally the go-to operator of monos. This is also seen with the likes of DOXA and Grand Seiko going straight to WoS in order to begin building out their US footprint.

And while some like AP do choose to manage their own monos, that has been the exception rather than the rule. AP produces only about 50,000 units a year. Rolex, for example, produces over 1,000,000, Cartier about 620,000, and Omega 560,000. Trying to move this volume through internal channels is incredibly hard. These larger players might want to own a select few boutiques in the major locations (New York, LA, etc.) where it is more of a marketing / PR operation. For most stores, however, the preferred route is to partner with a strong, seasoned operator.

Monos are very hard to manage. The need for quality locations means high rent costs, and if the store is unable to pull in enough traffic it is very easy for it to operate in the red. The brands do not have the organizational competency needed to run these stores, and most don't want to to begin with:

"Rolex take this view. We're watchmakers and we're bloody good at it. We're good at creating a brand and we're brilliant at marketing it. And what we are not, is retailers. So what their attitude is almost, let's leave the retailing to the retailers and let's leave the manufacturing to the manufacturing."
(Former WoS Head of Buying)

"As long as our retailers are doing a good job, I have no plans to do it [for them]. I prefer to focus on making watches. But as soon as that's no longer the case, I'll open my own stores."
(Thierry Stern, President of Patek Philippe, 2022)

"Some of the partners like TAG Heuer, the DNA of the brand is not retail. The DNA of the brand is wholesale. And once you have your own DNA, it's very difficult to change it overnight. It takes years and years of learning what it is to do retail. It also takes time to get to know the dynamics so oftentimes, the chains, like Watches of Switzerland, there have been many, many years in the market. They know perfectly the ins and outs of negotiating and opening of a store in a mall, while TAG Heuer, we come fresh on the table and try to negotiate with the mall ownership. It's not their job. They don't know how to do that. They are very new at this. So other players, the chains, and the wholesalers, they have been doing that forever. They know exactly how they can make a store profitable, to which extent they can pay to make it profitable? Sometimes, TAG Heuer will learn by watching, so they open a store and then they realize, 'Oh, we're overpaying rent, we're overpaying this, we're overpaying that, and we don't make money.'" (Former TAG Regional Director)

Per the former TAG Heuer RD, an internal presentation said that 20% of brand-operated boutiques in the world were unprofitable:

"They were losing money. So that's why they choose franchises because franchises are great. We don't lose money within franchise. We actually make more money with the franchise than our own operated boutiques."

It also certainly helps that most brands are less commercially oriented. They do not think in terms of quarters or even years, but in terms of decades. This allows them to forego the need to milk FCF and maximize margins. Rather, for them focusing on the LT means focussing on preserving their brand equity.

Economics are generally split 50/50, with in certain cases the brand getting a slightly larger share. Of course, brands cannot overleverage their position because then running the store becomes uneconomical to the retailer.

WoS gets to cluster monos nicely. Because each mono is, by definition, a separate brand, they can afford to have the boutiques literally side by side, with the stores sharing backoffices and systems. This ability to consolidate several boutiques under one roof also allows for enhanced bargaining power with landlords and other scale benefits.

And there is generally no disadvantage in doing boutiques with retailers. Consumers do not know whether the boutique is operated by Rolex or a 3P, so the brands primarily care about in-store experience and store economics. WoS does very well in both areas. As former WoS Head of Buying explained:

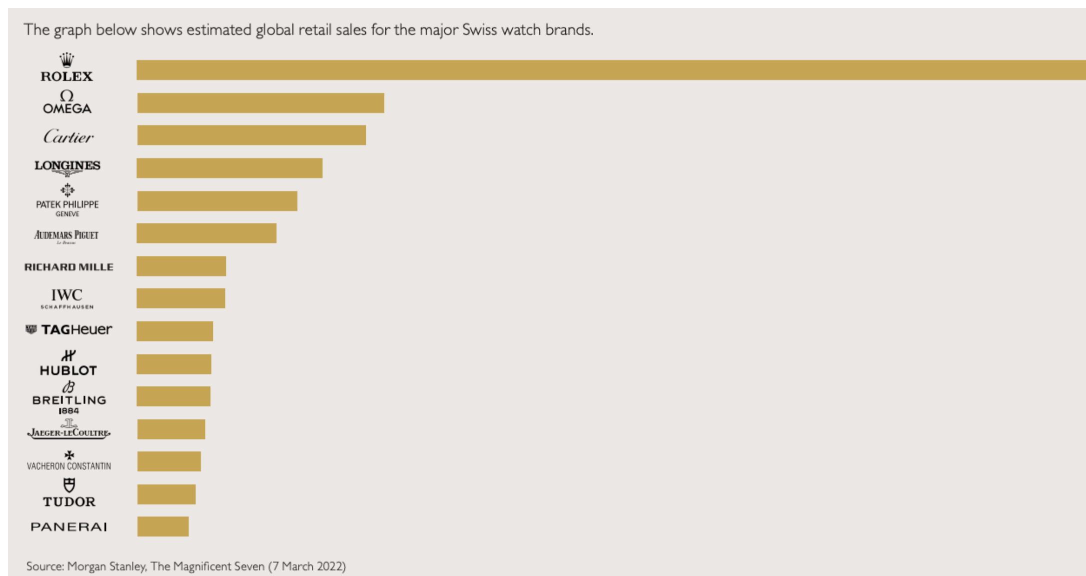
"So for example sake, there's an area in the U.K. around Bristol and Bath, down there the Southwest, where there were four TAG agents. There were four TAG agencies across some of the multiples. And [WoS] ran a trial where they tight-closed all those four agencies and it opened one TAG boutique store. And that boutique store did more sales than the four agencies put together. So The Watches of Switzerland Group are very good at putting that type of information to the brands to go, we believe if we go mono brand, this will work, you should close down these agencies, three of them would have been competitors to The Watches of Switzerland Group."

And don't forget that these are predominantly Switzerland-based brands. They do not have the local expertise needed to operate in the environment. It means knowing the law, the holidays, the best locations, and other nuances. For example, when WoS first entered the US in 2018, it underestimated the seasonality of its SoHo location, and had to adapt over time. WoS is a seasoned operator that has done deep research into the location before entering – imagine what this would be like for someone like Rolex.

7. Swiss Watches Are Hard to Retail

While a swiss watch brand might be one of the greatest assets in the world, retailing the same brand can be a nightmare.

Because of their cultural popularity and tremendous concentration of market share, the top brands (Rolex, Patek, Cartier, Omega, AP, etc.) enjoy strong bargaining power with their retailers. They require very specific training, store location, and in-store design. Rolex, for example, has forced a local AD to give up their agency because their store was too close to a McDonalds. The brands control inventory through selective distribution agreements (SDAs) that are provided store-by-store on a rolling basis.



Each brand has its heritage, and it needs this heritage to be properly communicated to customers. This means specific furniture, flooring, displays, and so on – in other words, more store CAPEX. Given their bargaining power, however, the brands capture more margin on each piece, meaning Swiss watches as a product category have lower gross margins. Combine this with strict RRPs and not being allowed to discount and you have very tough merchandise to sell at good economics. Retailers have to continually invest and in some cases completely redesign their store layout just to get one of their top brands to supply to them.

What's more, as a retailer, you don't get to "buy" a Rolex – you get an allocation that you are FORCED to take on. Each store is required to have a certain volume of merchandise at all times. So even if you might not lose an agency, improperly displaying the brand might mean getting worse allocation than the dealer next door.

Retailers are carefully monitored for selling to the gray market, something the brands hate and are trying really hard to kill. If they discover you are consciously supplying to the gray market, you're done. If they discover you sell outside of your geography (transhipping), you're done. If you fail to pay them on time, you're done. If they don't like how you sell, you're done.

The very top brands – mainly Rolex and Patek – also get to control where exactly you sell them within your store. This means that the smaller (and usually higher margin) brands sometimes feel that their brand is being "downgraded" and withdraw from the site. In fact, the top brands often want separate, adjacent locations to be built to sell their watches. Unless you have already built the store to have the closed-off section, adding Rolex would mean rebuilding the whole store.

All of this makes it incredibly hard to retail watches unless you get to scale. You have to continuously reinvest into training and store refurbishments to keep your brands happy, all the while they take back margin from you as you grow in volume and allocation. I have seen estimates ranging from GBP 60,000 to 100,000 on required investment to get the allocation (purely CAPEX). This has led to numerous retailers cutting ties with Rolex or losing it because of their inability to keep them happy. Signet, Fraser Hart, and Borsheims are among many others.

All of this sounds like a tough business to be in, and it is. Once you get to scale, however, interesting things can happen:

"More than ever, size matters in negotiations between retailers and brands in a market that is being totally reconfigured. Today, in this balance of power, very few brands could afford not to collaborate with retailers such as Watches of Switzerland or Bucherer."
(Oliver R. Müller, Head of LuxeConsult consultancy firm).

"The scale and market share of Aurum Group when it comes to Swiss watches is almost unique in the UK. It gives you the sort of power in the market that is more typically only associated with the mega brands like Rolex. Retailers will do anything they are asked to do to keep Rolex, but the shoe must be somewhat on the other foot with Aurum Group because Rolex needs you just as much if not more than you need Rolex."
(WatchPro, 2017)

Having over 40% of the distribution of Rolexes in the UK and in Mayors's markets, WoS is THE partner in the two regions. Just like WoS needs Rolex, so too does Rolex need WoS. If the business was to go bankrupt tomorrow, Rolex would lose their go-to retailer, and would face the nightmarish challenge of trying to build out their network while not compromising on dealer quality.

Management understands this well:

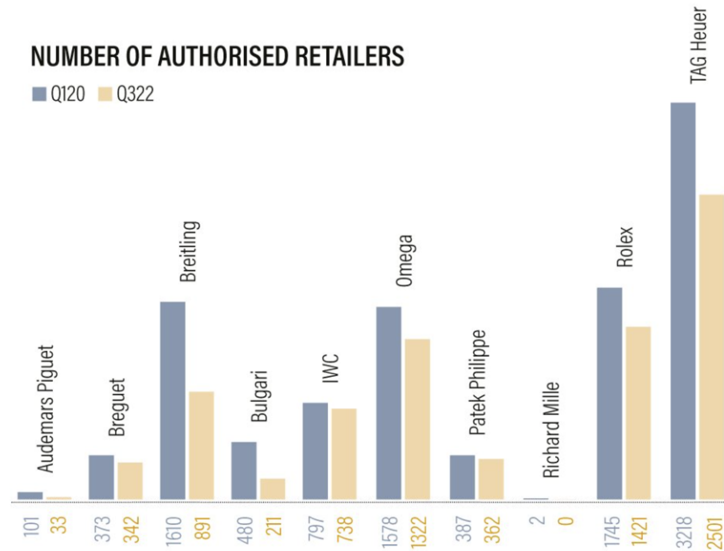
"The trend is clear, and the market is clear: to succeed, you have to be multichannel and digital, and that needs a certain scale. There is a natural preference for actors like us, as we see everything as integrated. Brands have an interest in partnering with actors that can achieve a certain scale. Indeed, I strongly believe that the global category of luxury watches remains underdeveloped. Some key high-quality independent local retailers will be here forever, but there is a trend towards fewer, better, more integrated international retailers." (Duffy, 2022)

"Our scale has helped us forge important relationships with key brands." (Hurley, 2020)

"You can never stand still as a Rolex retailer. The bar is always being raised, and you have to respond." (Duffy)

"Scale also has been crucial to the group's success in a global business environment that favors a combination of bricks-and-mortar retail and a strong digital offering through online sales and social media. That is much harder to do if you are a one-, two- or three-store operation. Scale is clearly important in the way the world is moving and along with resources, that's something we are able to deliver." (Duffy, 2022)

The shift to monos further exacerbates this advantage. All of this means a relentless path to consolidation:



"We have cut our network by half over the past four years. We have maintained longstanding partnerships but have also added leading retailers who invest in their stores and in staff training."
(Patrick Pruniaux, CEO of Girard-Perregaux and Ulysse Nardin.)

"Sometimes [brands] also have boutiques with partners, but they want to have less retailers because they see that less retailers means more margin, means more allocation of product to your own boutiques, means more allocation of product to the best players. And in that context, in this context of consolidation of their distribution, they will keep some preferred partners, given the volumes that they do at this, I would say, in the short, medium to the next 10 years, they will not go completely retail. And they always keep preferred partners, which will give them everything they want. I think it's a huge net positive because when brands are consolidating their distribution and closing doors, they allocate more to their preferred partners like, Watches of Switzerland. Now Watches of Switzerland just has to be careful to provide the right importance to all of its brands, but for the big brands, it's a net positive for them because they will get more allocation."
(Former AP CEO)

It also just makes good economic sense. Because brands get to capture more margin from larger ADs, concentrating in a few A+ dealers means both better brand representation and better economics.

The former Head of Buying at WoS framed this advantage well:

"Okay. So let me try and explain this to you. The Watches of Switzerland Group have an incredibly strong relationship with Rolex. And a lot of it stems from the fact that Rolex are extremely particular about how they want their brand to be positioned and how it wants to be sold and how it wants to be marketed within any marketplace … ***Why the Watches of Switzerland Group does so well is because when Rolex says, jump, The Watches of Switzerland Group goes, how high?*** *And they adhere to everything to the stringent letter. They train their staff immaculately, they make sure that everybody goes through the program through Geneva, where only people in the store that are Rolex trained are allowed to go anywhere near it. The stores will be immaculate."*

But it goes further than that – the brands control and define your M&A.

Many, including Rolex, have a clear outline in their contracts that says that the brand reserves the right to withdraw the agency from a store if it is not happy with the change in ownership:

"OWNERSHIP, MANAGEMENT AND BUSINESS LOCATION. If Jeweler undergoes a change in ownership, ownership structure, management or business location, such changes will be deemed just cause under paragraph 8.3 and this Agreement and Jeweler's status as an ORJ will be subject to termination in accordance with Section 8." (Rolex, SEC)

This means that, when it comes to capturing market share or entering new markets, having the brand relationships and the needed support offers a massive advantage in speed and flexibility.

The former WoS Head of Buying continues:

"And make no doubt and make no mistake about it, The Watches of Switzerland Group will not have gone into the U.S. wouldn't have touched that marketplace, if they didn't have the brands such as Rolex, Patek, Cartier, Audemars Piguet, they hadn't had those brands lined up, they wouldn't have gone nearer …

I think it would be fair to say that Rolex would treat The Watches of Switzerland Group as its blue-eyed boy *and the one that they enjoy working with the most and the one that The Watches of Switzerland Group are keen to move into other markets. And you'll be aware they're looking at Europe at the moment and that they're only really doing that from a watch perspective."*

8. Brand Relationships Unlock M&A Opportunities

When it comes to M&A, management has leveraged its brand relationships and operational know-how to drive returns. With every single acquisition, management pre-arranges new brand agencies and always launches a refurbishment program that elevates the store to their standards. They have a clear playbook that they recycle with every acquisition. WoS chooses to primarily go for family-owned businesses with strong local reputations.

They purchased Mayors for $107.7mm from Birks, paying sub 10x earnings and receiving a strong CRM database. It also adopted Mayors' HQ and infrastructure as its own. Mayors has been partially neglected by Birks. Duffy said in 2019:

"We did extensive research and found there is a lot of affection and recognition for Mayors. The only qualification is that some people felt that Mayors was for a slightly older customer — more a place where their parents shopped for jewelry than a younger consumer. We understand that, which is why we are upgrading to a more contemporary design. [Prior owner Birks] didn't invest at the level that we are investing. So draw your own conclusion from that. They had decided to concentrate on Canada and the Birks brand. So, consequently, the stores and the brand weren't getting the level of investment we feel makes sense."

Management has since refurbished around half of its store base, improved range, relaunched the jewelry collection (enhancing Mayors Bridal and Mayors High Jewelry), improved the e-com website, and continued to build on Mayors' dominant market position. They have, for example, secured an AP agency for their Lenox Square store in Atlanta, the only one in a "200 mile radius" (Duffy). Likewise, they got their first ever Bulgari agency for their Aventura Mall store. The Merrick Park store got Rolex and Cartier anchor agencies with the store refurb, adding two separate 4,700 sqft zones for the brands.

The other interesting dynamic for a business like WoS is the asset-like quality of its inventory. When WoS acquired the Las Vegas agencies, for example, it paid $11.4mm out of the total purchase price of $19.2mm for high quality inventory that it can turn very well (and that has negligent obsoletion risk). And given the supply shortage that defines the market, especially when it comes to brands like Rolex and Patek, I'm sure management is happy to get the inventory (although, of course, not all of it is A+ brands).

In January of 2020, WoS acquired 4 Fraser Hart showrooms after the business decided to cut ties with Rolex. Management paid GBP 31.7mm for stores that, before WoS implemented their systems, refurbished the stores, or added them to their network for the range advantage, generated 5mm in store EBITDA, paying a 6.3x EBITDA multiple. All of the showrooms were refurbished into either Watches of Switzerland or Mappin & Webb banners. Management expanded the luxury range, pulled out low-quality jewelry, and expanded the stores' square footage.

Likewise, their 2021 bucket of 5 stores was a no-nonsense move that played well to WoS's advantages. Management acquired 3 Betteridge stores, 1 Timeless Watch Store, and 1 Ben Bridge store for ~ GBP 48.3mm. These 5 stores collectively generated $100mm in revenue and, most likely, around $9-10mm in after-tax FCF. Around GBP 20.7mm of the purchase price was high-quality inventory.

The Ben Bridge store in Minneapolis already had a Rolex agency, and was quickly refurbished. Per various sources the store has been underperforming, but was in an A+ location (Mall of America). The Timeless store in Plano, Texas is a little more interesting. It had an exclusive license to sell watches in its location, but did not have a Rolex agency. As mentioned previously, WoS pre-negotiated the agency before making a bid.

The three Betteridge stores have all been expanded. Its Greenwich store got an extra 2,500 sqft and its Aspen location added 450 sqft. Betteridge is a seasoned jewelry retailer, and WoS management has used the acquisition as a way of building up organizational competency within this geography (Colorado and Connecticut). Hurley kept the name and added more brands to their range. The Connecticut store is now the biggest store in their US network:

"In many ways the Betteridge acquisition demonstrates our ethos to acquisitions. The fragmentation in the US market gives the Group an opportunity to increase points of distribution for certain luxury watch brands." (Duffy)

9. Organic Capital Allocation

Management has a hurdle rate of 2.5 years for its stores and 3 years for its flagship. As of 2019, per their prospectus, they saw payback on net CAPEX + NWC of 2.2 years. Rather than spamming store openings, WoS chooses to allocate capital primarily to refurbishments. This makes sense – they have a good idea of what store economics look like and what the local market can handle. Refurbishments also have an indirect payoff of unlocking potential for a wider range of inventory from the top brands. Because this is a game of brand allocation, rather than store count, refurbs are both a cheaper and more predictable way of getting access to more inventory. Most refurbished stores see uplifts of 25%+ in their first year, and 50% within three years. As Duffy put it in his 4Q21 call:

"We are literally doing them as quickly as we can. We have the capital, we know the results from them, so we're doing them all as fast as we practically can."

Refurbs are a capital allocation well that does not dry up. Because customer expectations are ever increasing, as are the demands of the brands, WoS can systematically improve their in-store experience and store layout across their existing network, and in the process secure better volume. Refurbs also allow management to bypass the need to hire and train salespeople, and incremental margins on additional store space are obviously higher than building out stores from scratch.

Management has data on store performance and can get a more accurate sense for whether increasing square footage or renovating the store makes sense, vs. having to do DD on a new market and its demographics.

	Payback per type of store (U.K. only)				
	"Golden Triangle"	Airports	Mono-brands	Other	Total
Payback on Net Capital Expenditure and inventory investment					
Total investment (£ in millions)	20.9	8.8	3.5	27.8	**61.0**
Payback period (years)	2.2	1.1	2.9	3.5	**2.2**
Payback on Net Capital Expenditure only					
Net Capital Expenditure (£ in millions)	9.9	3.1	2.0	23.1	**38.2**
Payback period (years)	1.0	0.4	1.5	3.0	**1.2**

	Sales uplift post refurbishment (U.K. only)		
	Year 1	Year 2	Year 3
Sales uplift (%)	26.4	38.6	48.6

Prospectus, 2019

10. The Watch Market

The last couple of years have been defined by ADs chasing supply. And while this has generally been the case for A+ brands, this shortage has now extended to A/A- brands too (Breitling, Omega, Cartier, etc.). I do not expect this to last. While Rolexes will, in my opinion, always sell themselves, I do not think the pull of other brands is as strong. The good thing, of course, is that each brand is laser-focused on generating demand, and WoS gets to ride this collective effort of educating the public about luxury watches.

It is important for readers to understand that this business is not about price – which sounds like an oxymoron given that WoS is a retailer. But the evidence is there – people are willing to pay substantial premiums (sometimes up to 3x) on the secondary market. Of course this does not exactly translate into pricing power for the retailer, but it does mean that the dealer can pass on price increases (in fact, it is required to do so by the brands), and increase their $ margin on each piece. For example, ASP in the UK has increased from GBP 2,832 in 2016 to 5,523 today. Likewise, ASP in the US has increased from GBP 8,223 to 11,476. And while some of this is certainly a mix shift, a good chunk of it is price increases. Rolex has historically done about 3% price increase annually, with WoS obligingly passing these through their inventory and onto customers.

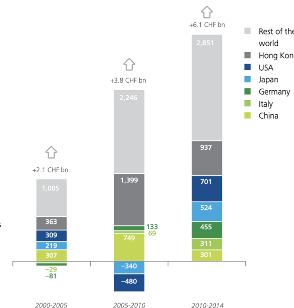
US watch volume has grown from just ~9,000 pieces in 2016 to over 33,000 pieces. For reference, the business has sold over 95,000 in the UK in 2016, and today does over 120,000. As mentioned, this is a function of brand relationships. WoS CANNOT gain volume if the top brands don't want it to. And because of its strong – and often personal – relationships with the brands, WoS gets an ever increasing allocation, is able to open and acquire stores, and is able to get BETTER allocation on a store level. If WoS does right by its customers and presents the brands well, I see no reason why this continued volume share gain should not continue into the future.

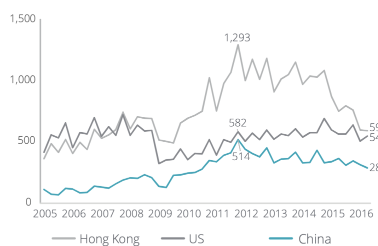
11. A Brief History of Watches

Since its origins in the 1500s, the Swiss watch industry has been defined by complete obsoletion and a phoenix-like resurrection. From the Hugeunots in Switzerland to Daniel Jeanrichard and Hans Wilsdorf, watches were originally a utility product. They were (surprise!) used to tell time. In the 1950s and beyond, however, the utility side of the value offering was wiped out. With the creation of quartz watches, mechanicals were simply inferior. By the 1980s, the industry was reduced to a shadow of its former self until Switch came in with their disposable, automated watches that resurrected interest in mechanicals. Since then, the watch houses have defined their niche as history and legacy – as luxury. Swiss watches today are a cultural product, not an economic one. Rolex has perhaps the greatest brand equity in the world.

Before the rise of luxury consumption in China and HK, the US has been the dominant market. After the 2008 crash, however, the US market has been depressed, and brands have shifted their marketing and distribution efforts to building up presence in Asia.

The 2005-2016 period can be defined as the "China Decade," with the rise in individual wealth producing a boom in spending. In 2005, China received CHF 351.6mm in watch exports. At its peak in 2012, it accounted for CHF 1,647.6b. The US, on the other hand, has been generally neglected post-2008. After its peak of CHF 2,441b exports in 2007, the market essentially went sideways for over a decade. It would cross the 2.4b mark again only in 2021.





In 2013, however, the Chinese government began its crackdown on luxury spending, attempting to cut out political bribery. Wine and spirits were banned first by President Xi, shortly followed by a ban on gifting luxury watches. In fact, the paper "*Swiss Watch Cycles: Evidence of Corruption during Leadership Transition in China*" found that imports of Swiss watches into China tripled during each five-year national political leadership transition, something that did not happen in other countries like Singapore or the United States.

This coincided with protests in HK, where mainlanders often made their purchases (70% of HK watch buyers were Chinese mainlanders), and the 2015 HK stock market crash, producing a dramatic decline in watch exports to China.

With a declining Chinese market, manufacturers reevaluated their focus on Asia and attempted to rebalance their concentration, reestablishing their efforts in the US. This, of course, coincided with WoS's entrance into the region in 2018.

During COVID, the shutdown of manufacturing plants led to a decline in production, but even then WoS continued gaining share. As mentioned, despite having limited inventory inflows and suffering store closures for half of the year, WoS managed to post 4.8% top-line growth in 2020, followed by 17% in FY21. The US segment grew 21.4% in 2020 and 30%+ in 2021.

Q4 FY20		Q1 FY21			Q2 FY21			Q3 FY21	
March	April	May	June	July	August	September	October	November	December
National Lockdown All stores in UK closed			Restricted trading in certain locations				Stores in Wales closed	Lockdown All stores in England, selected stores in Scotland closed	Stores Re-opened England (2 Dec) Scotland (11 Dec)

The US has since regained its footing as the leading export market.

World distribution of Swiss watch exports
February 2023

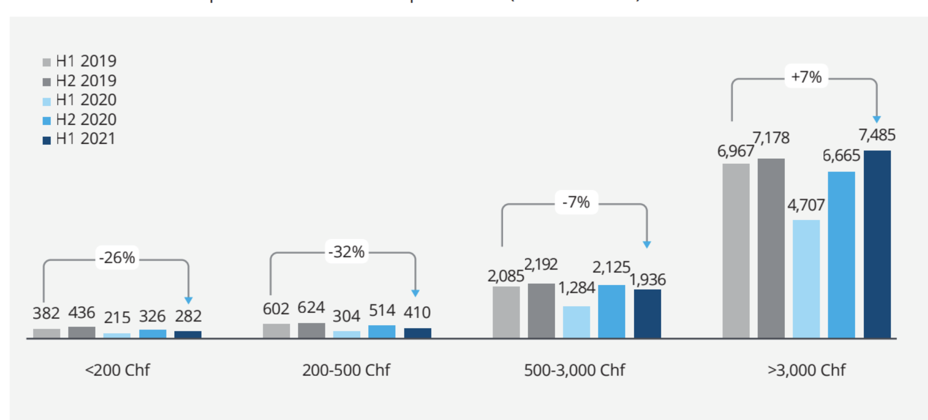
Markets	Mil. of CHF			Variation			
	2023	2022	2021	2023/2022		2023/2021	
				(+)	(-)	(+)	(-)
1. USA	**345.9**	299.5	224.4	+15.5%		+54.2%	
2. China	**253.9**	234.6	191.5	+8.2%		+32.6%	
3. Hong Kong	**213.2**	174.5	155.9	+22.2%		+36.8%	
4. Japan	**147.2**	137.9	115.1	+6.7%		+27.8%	
5. Singapore	**143.1**	121.9	84.9	+17.3%		+68.5%	
6. United Kingdom	**134.6**	120.0	96.1	+12.2%		+40.1%	
7. UAE	**111.0**	96.3	81.6	+15.3%		+36.0%	
8. Germany	**110.6**	97.5	70.9	+13.4%		+55.9%	
9. France	**97.9**	81.3	66.6	+20.3%		+46.9%	
10. Italy	**76.2**	72.6	59.2	+5.0%		+28.7%	
11. South Korea	**57.7**	65.1	54.9		-11.3%	+5.1%	
12. Qatar	**38.9**	8.2	11.6	+375.6%		+236.0%	
13. Spain	**38.1**	38.6	25.0		-1.2%	+52.3%	
14. Saudi Arabia	**37.4**	27.4	31.0	+36.6%		+20.6%	
15. Thailand	**33.0**	16.8	10.0	+96.7%		+228.9%	
16. Taiwan	**32.7**	35.7	24.2		-8.4%	+35.1%	
17. Netherlands	**30.8**	25.2 *	18.5	+22.2%		+66.2%	
18. Australia	**29.8**	26.2	20.9	+14.1%		+42.9%	
19. Canada	**23.7**	21.1	14.4	+11.9%		+64.5%	
20. Mexico	**23.6**	19.7	12.1	+19.5%		+94.2%	
21. Turkey	**22.2**	20.5 *	13.6	+8.5%		+63.1%	
22. Austria	**18.2**	15.4	10.6	+18.0%		+71.1%	
23. India	**15.7**	12.6	12.4	+24.8%		+27.2%	
24. Kuwait	**14.1**	13.4	10.4	+5.2%		+36.1%	
25. Ireland	**13.3**	11.4	12.1	+17.1%		+10.1%	
26. Bahrain	**11.4**	11.1	9.3	+2.6%		+22.6%	
27. Belgium	**10.6**	10.4	7.4	+1.8%		+42.5%	
28. Portugal	**9.8**	10.0	5.4		-1.4%	+81.1%	
29. Israel	**8.5**	7.7	6.3	+11.1%		+34.9%	
30. Greece	**7.8**	7.7	5.1	+1.6%		+53.8%	
Total 30 markets	**2,111.1**	**1,840.2**	**1,461.7**	**+14.7%**		**+44.4%**	
Share in %	**94.3%**	92.2%	91.2%				
Total value	**2,239.8**	**1,996.6**	**1,603.4**	**+12.2%**		**+39.7%**	

The UK has been a dynamic market thanks to Brexit and the weakening of the pound, creating an arbitrage opportunity that brands could not reprice quickly. And while the UK has been historically more reliant on tourists, especially from China, China's lockdown had zero impact on the business, with demand from foreign customers being replaced by domestic ones. Virtually 100% of UK sales, even today, are still made to domestic buyers.

Like I mentioned before, Rolexes sell themselves. WoS does not need to look hard to see who will fill in holes in demand, and the growing waitlists are a continued example of this. The UK also benefits from London's resilience and global pull.

On a price range level, there has generally been a "barbell effect," with cheaper watches being decimated by smart watches, while higher end brands continue thriving. In fact, since the Apple Watch was released in 2015, the CHF 3,000+ segment grew from CHF 13.4b to CHF 18b in 2022. Sub-200 watches, on the other hand, declined from 1.2b to just 680mm today. Just under 20% of export volume now accounts for 80%+ of value. The highest end of CHF 100,000+ watches, a percentage point of total volume, makes up over 10% of export value.

Chart 3. Swiss watch export value for different price levels (in Chf millions)



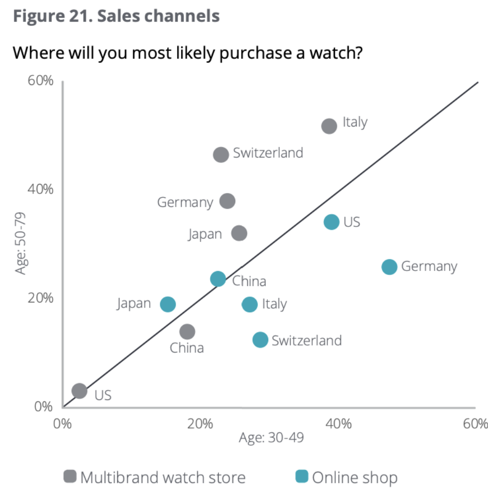
Source: Federation of the Swiss Watch Industry FH, Deloitte research

I am not going to project where the watch market is headed. That would be a waste of time. I do, however, feel reasonably confident that over the long term the industry should do fine, with brands continuing to flex their pricing power and focusing on nurturing their brand equity. Watches have a unique cultural pull, and this is not going to be erased anytime soon.

Due to the lack of a proper retailing network, brands have historically been reluctant to give the attention to the US that it deserves. Tourneau, now owned by Bucherer, was the only nation-wide operator, and their approach was more mid-market that did not fit the presentation demands of brands like Rolex and Patek. With the entrance of Bucherer and WoS, however, the retail network has professionalized, and brands have responded by allocating more to the region:

"Over the last decade there's been a major shift in distribution. It was true for a while that the distribution in the US was OK, but probably not up the level we were expecting as brands. And right now there is a clear step-up, and the experience you can get in stores is very interesting. What's happening is so different compared to what it was in the past. There are great independent retailers in the US, and there are also two chains now playing a role, Bucherer and Watches of Switzerland. Because the business in America is very dynamic, I think they (WoS and Bucherer) have been followed by some local players. I think it's probably one of the best news for the industry." (Patrick Pruniaux (CEO, Ulysse Nardin)

The graphic from Deloitte's 2016 Swiss Watch study is telling of the historic state of the US market. Try and find the gray US datapoint:



As WatchPro put it in 2019:

"Acquisitions of Mayors by The Watches of Switzerland Group and Tourneau and Baron & Leeds by Bucherer have brought a flood of private equity and European money into the market and sparked an era of investment that could reshape the competitive landscape and re-establish the USA as the world's biggest and most vibrant market in the world for Swiss timepieces."

Retailers have professionalized and brands are responding with corresponding marketing efforts. The rise of Hodinkee, the popularity of watches on Tik Tok, and the overall improvement in consumer share of mind are all byproducts of this collective effort. As Duffy explains:

The brands are investing more in product development, in marketing. The retail sector is clearly investing more. We are and others within the market are doing the same. So there is a lot of investment going into the market, a lot of expansion and elevation of presentation of products. So, honestly, we don't think there's anything really short term about it. We think there's real positive momentum and all of our experience pretty much underwrites that overall.

And brands as clearly responding:

The industry is on the cusp of a renaissance. We are in a really good place in terms of the demand. We see a huge interest on the consumer side. Competition has really pushed all of the brands to perform better. (CMO, TAG Heuer)

"The whole industry is building up the demand and appreciation for watches." (Louis De Mechenheim, Chopard)

"A period of systemic change. Growing market and a lot of excitement. Level of education of the consumer is growing. In the 80s and 90s there was an important change in the way Americans would buy luxury cars, and they moved from local brands to international brands. It was quite fast. And I have the impression now, in a different way, that Americans have been buying luxury watches for a while but now it's going to be a completely new scale."
(Patrick Pruniaux, CEO Ulysse Nardin)

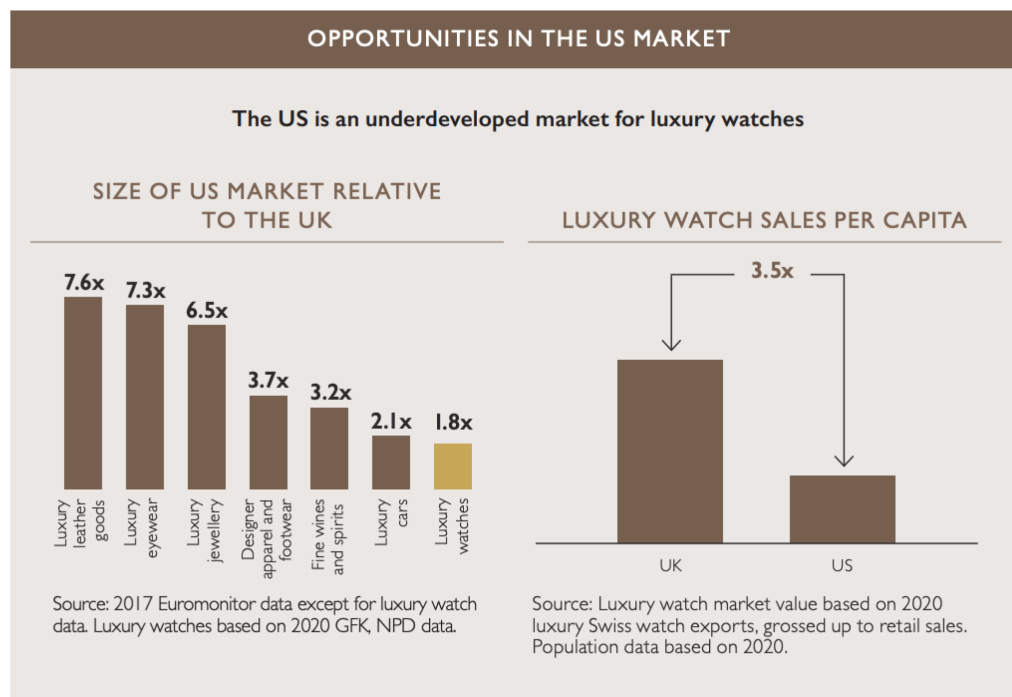
During the recent Watches & Wonders event, George Ciz of TAG made an excellent comparison to the rise of Formula One:

"Formula One is a perfect example. For the last 20 years there was no one in the US who even knew who Schumaher is. Liberty media, Drive to Survive. Boom. Racing is mainstream. It's on fire."

And Hurley frames the underpenetration well:

"Luxury accessories sales in the U.S. is seven times the size of the U.K. business, luxury jewelry is six times the size of the U.K. business, and luxury watches is one-and-a-half times the size of the U.K. business. I'm not saying we're going to turn it into seven times but I do think there is a great opportunity."

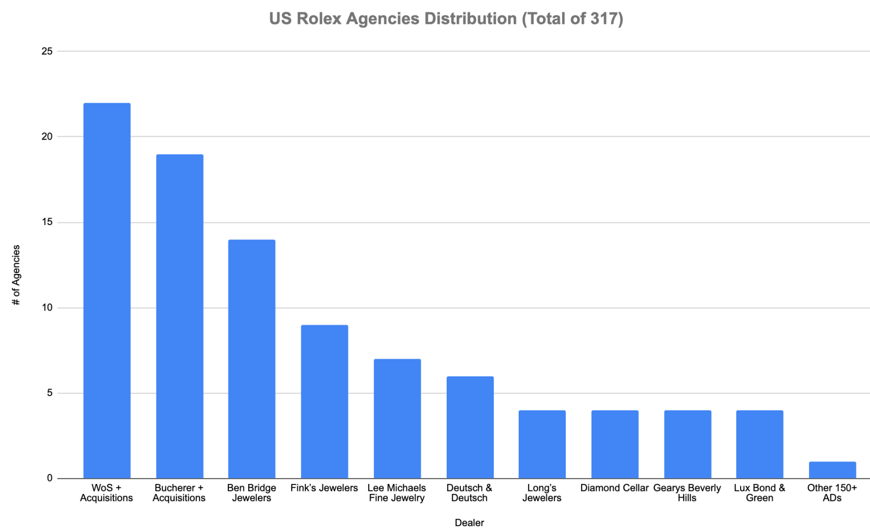
While comparing the US to the UK (where per capita spending on watches is the highest out of all regions) is not exactly fair, the differential is clear. In 2020, the UK spent just under $40 on watches per person. The US spent $12. This gap did not always exist. As mentioned, the US has essentially gone sideways since the GFC, reaching its 2007 peak only in 2021.



And the Former NA CEO of AP echoes this dynamic:

"I would say, especially in the US, the US has always been a little bit of a paradox where it was a market with a huge house being in the market with a huge potential, but the level of the professionalism of the retailers who were buying and selling luxury watches was always very under the potential of the market. And I think that when watches of Switzerland arrived with all the experience it had gained in the U.K. and when they arrived in the US in 2017, they came with a level of professionalism, a level of corporate organization, of digital integration because you would be surprised how many of the U.S. retailers were, of course, until the pandemic, backwards in terms of digitalization, backwards in terms of corporate organization, in managing their stocks."

There are around 317 Rolex agencies in the US. You can actually go to Rolex's website and look at all of their distributors. With the exception of just ~ 10 dealers, all the other ADs have under 3 agencies. Almost all of them are family-owned, local jewelers who are subpar in their presentation. A lot of them have poor, underinvested stores, no e-commerce capability, no social media presence, and are run by 3rd or 4th generation family members who are focused on preserving their family business. Almost all are primarily jewelers, with Rolex being a secondary offering.

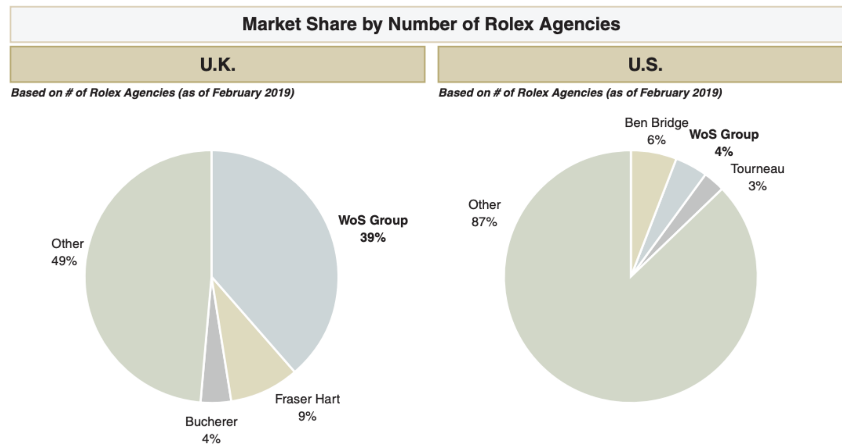


I do not think it is a stretch to say that a lot of them do not offer Rolex the proper representation it demands, but because the brand needs exposure it does business with them anyway.

Even Tourneau has been described by the Former AP exec as a "necessary evil," with brands having a "love-hate relationship with Toruneau in that they knew it was the only game in town."

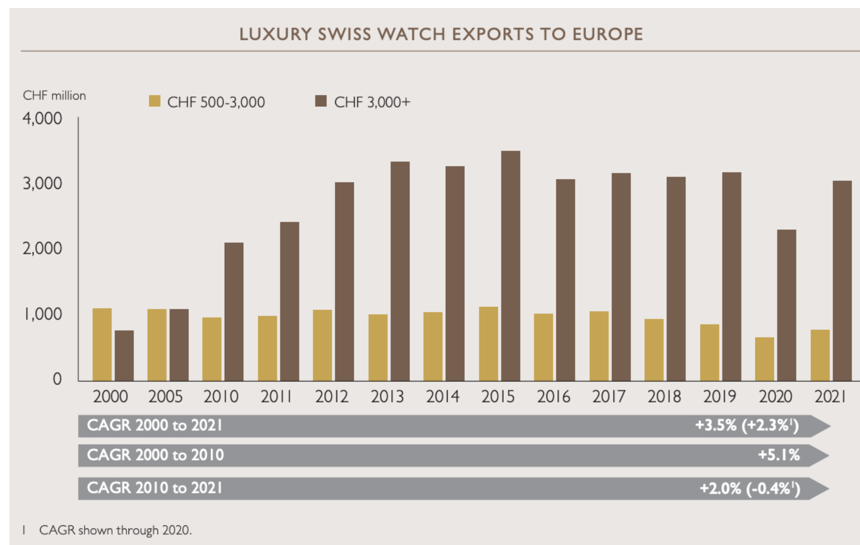
Duffy and his team have so far been spot on in their US thesis. They received criticism in 2018 for entering the US, yet they and Bucherer have shown that, with the right investment, the US certainly has the appetite for watches.

Over 70% of the US market still remains with small independents – it is a very, very fragmented market. And while I do not think that WoS can reach the 40%+ share it has in the UK, its current share of around 10% is virtually guaranteed to increase materially over the long term. On top of that, the US is much more concentrated in Rolex than the other markets, with the brand making up half of sales. WoS's century-long relationship with the brand is a major asset in going out and capturing that market share.



2019 Prospectus

Management is now expanding in the EU, and their thesis is largely the same – fragmented, legacy independent, no strong dealer, and strong consumer appetite for the type of retailing WoS offers.



Brands have also been historically reluctant to increase capacity. Manufacturing a watch is a highly-technical process that requires development of talent. It's not just CAPEX. For example, employees often go through 3 years of education and 2 years of training. Recently, however, brands have made plans on increasing production in a meaningful way. Rolex, for example, has invested in three production facilities, planning on spending $1.1b.

Of course, this is only going to hit the market by 2025, and the major site in Bulle is expected to start operations only in 2029. I've seen estimates that predict production capacity to increase by 20-30%. AP has likewise made plans to boost production last year.

This delayed capacity, however, has produced a dramatic mismatch in supply and demand. WoS and other retailers are now only keeping "exhibition watches" in their stores with the actual products being subject to waitlists that span years.

As of 2022, 75% of sales have been made through waitlists, and these waitlists are growing. Duffy explains:

"We have added to the net registration lists at the same rate as we've done in recent quarters in both the UK and the US. We receive weekly anecdotal feedback from our stores, and they continue to report definitely good conversion levels from the waitlist clients." (Q3 FY23)

"Wait lists, we don't give out specific numbers, but it's not a percentage of annual revenue, it's more like a multiple. They're pretty significant, the depth of the waiting lists … Net-net, we are adding more names to the waiting list than we're able to take off. We are a lot more edited and analytical on the waitlist today than we've been historically, given that it's important. So, we're in more control of it, we're not letting people put their name down for large multiples of products." (Q2 FY23)

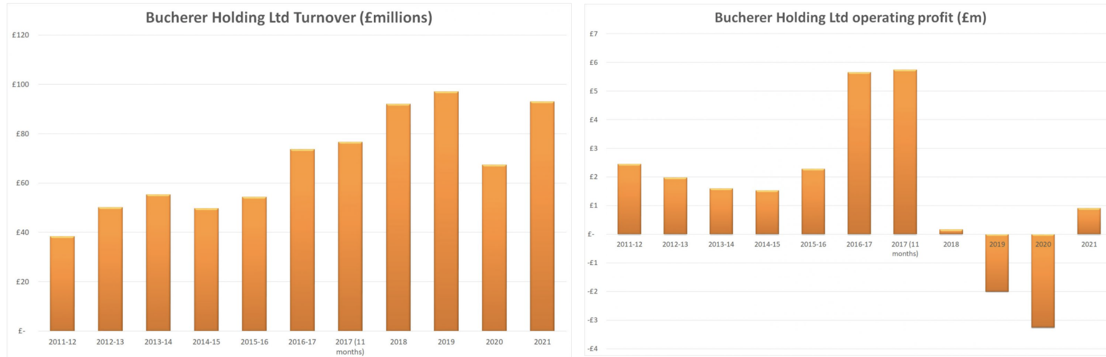
"As we've said, our waiting lists continue to expand. We're actually adding more than we're able to take off of the waiting list by supplying happy customers. So no change … I think as you know, we clearly have a great partnership and relationship with Rolex and Patek and Audemars. And pretty much those brands, we're not selling from stock. We're selling to waiting lists overall. Despite the well-publicized concerns about the macro-environment, demand for our products remains robust with client registration of interest lists continuing to extend." (Q1 FY23)

And while these waitlists will certainly contract (and most likely already have), the waitlists for the top brands are going to remain there, as they always have.

12. Competition

I will not go too much into the UK. WoS is larger than all the other ADs combined in its core market, with Fraser Hart, Boodles, Harrods, Beaverbrooks, Signet, and Bucherer + Watch Gallery (among others) putting up some very mediocre competition.

It has the locations, brand and customer relationships, and scale that make it incredibly hard to compete with. Fraser Hart has cut ties with Rolex, Signet doesn't come anywhere close to WoS's retailing quality, and Bucherer is struggling to scale and generate profit.



The US is a little different. While WoS has operated in the UK for over a century and has an enormous share of mind and heritage, it is a newcomer to the US. Tourneau, the only retailer at scale, has been snatched up by Bucherer around the same time WoS came in and acquired Mayors. Bucherer and WoS are far and away the two most dominant retailers when it comes to watches, with Berkshire's Ben Bridge coming in third (with a greater focus on jewelry than watches).

Bucherer is a very large player, and they are good at what they do. They have over 40 stores in the EU and 34 stores in the US.

There are a couple differences. First, Bucherer is still family owned, originally started in 1888 by Carl F. Bucherer. The Carl F. Bucherer watch brand is likewise owned by the family, making them both a watch manufacturer and a retailer. Jörg G. Bucherer, now the third generation since Carl, owns and runs the business. While being family owned certainly has its advantages, it generally means that the business operates with less speed and urgency.

The other perhaps more important difference is that Bucherer is primarily an M&A vehicle. Mr. Bucherer and his CEO Guido Zumbühl generally only go for acquisitions. They have acquired Klarklund earlier this year, Leeds & Son in 2022, and Tourneau and Baron & Leeds in 2018. And while WoS has made similar acquisitions, they have complimented them with organic store rollouts in other regions like New York. From what I know, Bucherer has essentially not opened a single store in the US other than a few monos and multis, instead opting to rebrand Tourneau under its own banner.

It entered the US with an acquisition of 28 stores in 2018 from Tourneau and Baron & Leeds, and today, counting its mono and rebranded stores, has around 35 stores. WoS, on the other hand, entered with just 17 stores (Mayors + Wynn) and now has around 47.

There are merits to both strategies. I think WoS's ability to expand and introduce its own stores successfully is an indication of a capability and a competency that Bucherer does not possess. The in-store experience, customer feedback, and mono network are further evidence of this. As mentioned, WoS has 23 monos in the US, while Bucherer has around 15.

Bucherer is generally slower. While WoS has gone on to refurbish almost half of their Mayors network, open 8 WoS stores, and build out a robust mono network, Bucher is still in the process of digesting and rebranding the Tourneau stores it has acquired.

I'm not going to argue that rebranding Tourneau is a mistake, but the move can certainly be criticized. The brand has been THE watch dealer since 1900, and has built a fairly strong reputation over this period. Bucherer has chosen to close down this name and introduce an awkward transition period where the brand is first renamed to *Tourneau Bucherer* for a period and then to *Bucherer* entirely (this final transition has not been completed). As JCK wrote in 2021:

"Regardless, it's safe to say that the New York City–based retailer [Tourneau] has a lot more customer awareness in the United States than Bucherer does, not to mention its own storied 121-year heritage. Melnitsky [CEO of Bucherer USA] admits that some initially had a mixed reaction."

This process has been further halted by COVID.

With its acquisition of Tourneau, Bucherer has acquired attractive assets like the Time Machine in Manhattan, probably THE watch store in the US in terms of scale and design. It is an almost 19,000 sqft giant of a store that has in the process generated tremendous PR value for the company. But again, this does indicate what's truly important – the ABILITY to open and successfully introduce such stores. Bucherer bought this store. And although they renovated the store, this is not the same as creating the design and the experience from scratch. Store reviews are also generally inferior compared to WoS's NY stores in HY and SoHo, although certainly still very good. WoS, on the other hand, has a track record of successfully rolling out blockbuster boutiques all on its own.

Bucherer is also stretched out. They have 15 stores in Switzerland, 13 in Germany, 8 in the UK, 3 in Denmark, and 1 in both France and Austria. In the US, they are also more spread out in California, New York, Florida, Hawaii, Pennsylvania, Las Vegas, Chicago, Massachusetts, and Virgina. They are managing a much more global network where they have to juggle 3 (4 with the UK) large markets. WoS has the UK locked up, and can dedicate much of its organizational effort towards winning in the US.

Where Bucherer does impress, however, is in its being the first AD to test-launch Rolex's Certified Pre-Owned (CPO) program, which I will touch on later. Although I might speculate that this is because it is the only AD with such geographic diversity (the CPO is not extended to the US), the point remains. They were Rolex's pick as the dealer to test the program, an indication of a strong relationship with the brand.

Generally speaking, industry execs and journalists echo my view:

"Watches of Switzerland is a bit more innovative and faster-moving than Bucherer, but Bucherer doesn't have to be because they're not publicly traded."
(WatchTime's Editor-in-Chief Roger Reugger, NYT 2021)

"Bucherer has been slow to get its upgrade program motoring, in part because of the complexities of renovating its flagship at the base of Trump Tower in Manhattan (imagine blasting through concrete at the base of a building where the President is in residence), but The Watches of Switzerland Group has wasted no time in opening new stores in New York, Las Vegas and Boston and is now racing through renovations for the Mayors portfolio in Florida and Georgia." (WatchPro, 2019)

"There's only one other big player of the style of Watches of Switzerland, which is Bucherer. But somehow, well, they already had 30 doors in the U.S. But somehow, they don't have the dynamism of Watches of Switzerland." (Former AP NA CEO)

"They're in the transition phase, changing little by little the name of the stores. And it's going to take two, three years to really put, I would say, the brand into the mind of the people because the reality is that the brand is not well known in U.S. except for some well-educated customers that have traveled to Switzerland, or they just know Bucherer as either a jewelry or a watch brand."
(Former TAG Regional Director)

The other formidable US competitor is Ben Bridge, which Buffett acquired in 2000. Like Tourneau, the brand has a strong local reputation, with its two main markets being California and Washington. While the mix is generally more toward jewelry, their luxury watches segment is very strong. Lisa Bridge, a 5th generation family member, is a competent operator and they have a good model going on. Ben Bridge and WoS do not overlap a lot geographically, but their dominance on the west coast certainly puts up an obstacle in expanding in that region. Their watch range has all the rockstar brands – Rolex, Patek, Cartier, Tudor, Breitling, and so on – but they offer a slightly different experience with a smaller emphasis on watch presentation. They have 36 stores and are not as aggressive in expanding, rather being focused on preserving their existing competitive position and earning power. WoS recently acquired their store in Mall of America.

Fink's Jewelers is the third prominent competitor. It has 11 stores and 9 Rolex agencies, with its markets being Virginia and North Carolina (again, these do not overlap with WoS). It is family owned and loses out slightly in range, not having the likes of Patek, Breuget, IWC, and several others.

The other operators like Duetsch & Deutsch, Lee Michaels, Westime, Wempe, London Jewelers, and so on are all very similar. They are almost all family owned with a specific concentration in a certain geography. Almost all are both jewelers and watch dealers, and almost all are more focused on preserving their current operations rather than expanding their business. Out of all the major AD operators in the US, only WoS is not family owned.

And while the strong local operators will likely succeed in defending their franchises, I find it to be a virtually certainty that the vast majority of the 2-3 agency dealers are going to be dramatic share donors to WoS and Bucherer in the years to come. The incentives on both sides of the equation are clearly aligned for this to be the case.

13. Shots on Goal

Jewelry is the more obvious opportunity. With this segment, management always pulls out commodity products and focuses on the top-tier brands like Buglari, Gucci, and so on. WoS, like with watches, tries to build a model where its strength is relationships and in-store experience, and where it does not have to discount and fight the traditional retail battle. At around 10% of revenue, jewelry presents WoS with the opportunity to leverage its retail network to build up relationships like it has with Rolex.

This is already taking place with a FOPE mono in 2020 and now a Bulgari agency in 2022. Mayors also has its own in-house lines. If management makes the right moves, this segment can offer further incremental reinvestment opportunities, although it will unlikely turn into something that truly moves the needle.

The EU is the next opportunity. Management entered Denmark, Sweden, and Ireland in FY23, now having 5 monos (2 in Copenhagen, 3 in Stockholm, and 1 in Dublin). The strategy with the EU is identical – bring in the reputation and relationships of WoS to elevate the market and capture allocation from the best brands. Again, management looks at where brands are underrepresented and where it can professionalize the market and drive the same ecosystem investment they started in the US. Management has so far only done monos, but has made it very clear that they are looking for their Mayors in the region. Both Duffy and his lieutenant Anders have had experience with the Nordics during their time at RL, so this is not a new field for them. In the second half of this fiscal year, management also entered Germany with a mono in Berlin:

"I think Germany is a good market. There are some very good retailers in Germany, but certain brands, brand partners we believe are underrepresented there overall. And so we are quite actively looking for and negotiating specific opportunities that are in the country." (Duffy, 1H23)

Next comes the pre-owned market. Deloitte estimates the pre-owned market to grow to CHF 35b by 2030, making up more than half of the primary market. And while this certainly provides nice tailwinds to the pure-plays like Hodinkee and Chrono24, this dynamic also sets up WoS incredibly well to grow in this segment. The built-out national service centers in the UK and the US also offer a capability advantage that not all online competitors have. This was initially for refurbishments, but of course fits directly into the broader preowned strategy.

As mentioned, Rolex is currently testing out its CPO program with Bucherer and other retailers should be able to begin participating this year, which will only be available to ADs. As Duffy explains:

"We are preparing for, and looking forward to, the introduction of the Rolex CPO programme some time later in this calendar year we're very positive about the principle and the programme, and what Rolex has done to organize, bringing, I think, discipline, control, and confidence to the category by introducing this certified programme, only available to authorized retailers like us. (Q3 FY23)"

As Paul Alteri, CEO of Bob's Watches put it:

"This is earth-shattering. It's like we wake up in the morning and read that the U.S. has bought Canada. Rolex controls 50% or more of the secondhand market. So for them to dive in, it's a big splash."

The CPO program is partially targeted at killing secondhand dealers and gray market sellers, all while flexing its absurd market dominance. WoS, being the accommodating Rolex dealer that it is, is on the good side of this move.

14. Killing the Business

1. Online Kills WoS

Online is a common, and perhaps the primary, threat to everything retail. Fortunately, the nature and structure of the luxury watch industry generally does not lend itself to domination by the likes of Amazon.

To start, selling a watch should be experiential, not just transactional. While those seeking a watch to wear may just grab it online, for most such a high-ticket purchase requires the corresponding service that is generally only available in stores like WoS. Amazon wins on price and range, but they cannot win on service.

Other competitors like Hodinkee, WatchBox, eBay, Chrono24, and WatchFinder (Richemont) are all strong operators, but they are at a structural disadvantage relative to WoS for a few reasons. The main one, of course, is that they are primarily pre-owned. They do not sell the latest releases and operate as marketplaces rather than dealers. I think most consumers prefer a new watch and the recent spike in the pre-owned market has made it a less attractive channel.

The larger disadvantage stems from their lack of relationship with the likes of Rolex. As mentioned, Rolex does not sell online. Hence, only pre-owned pieces are available for sale. More importantly, Rolex's incoming CPO program means that ADs like WoS will now have an edge over pre-owned Rolex retailers, although one that is not substantial.

In the UK, for example, WoS has over 40% of the online market, largely a byproduct of their strong relationships with brands. Management has leveraged its reputation to onboard brands like Cartier and Tudor in 2021. They do not break out sales but Hurley mentioned in an interview that they generated $100mm in the UK alone.

Of course, online will inevitably continue capturing share from brick-and-mortar as a whole. This is a given. However, WoS is not an ordinary B&M retailer – it has best-in-class operations and, on top of that, a thriving e-commerce channel. Per Deloitte's most recent study, 63% of industry excess still think offline sales will dominate over the next 5+ years.

"In our industry [physical retailing] is very important. People love to go and try on a watch. It's part of the fun. It will still be extremely important. You do want to have amazing flagships where you really take people on the journey and make them dream." (George Ciz, CMO TAG Heuer)

WoS's acquisition of Analog Shift in 2020 positions them well in the growing online channel, with James Ladin (CEO of AS before WoS acquired them) now heading the broader ecom initiative. Duffy is leveraging the exposure of WoS's stores to accelerate AS's growth, giving it its own displays in prominent stores and enhancing its overall marketing and distribution capabilities.

The bottom line is that I believe pre-owned offers a slightly different experience and value proposition relative to primary dealers, and is unable to offer the same level of experience or establish the same depth

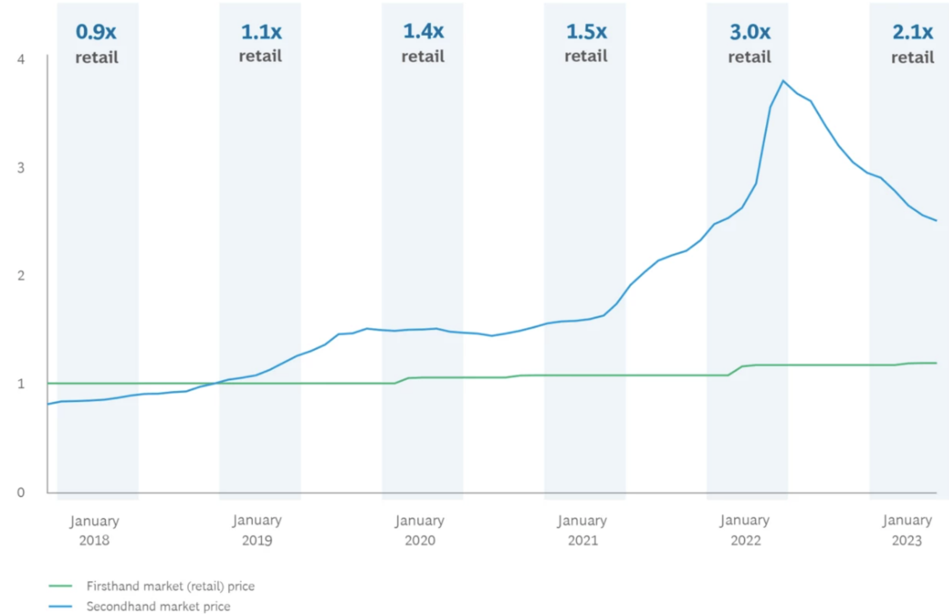
of connection with its customers. What competitors like Hodinkee do succeed in is leveraging their audience, building out their ecosystem, and catering to a younger audience. They certainly put up strong competition, but there will ALWAYS be a prominent brick-and-mortar channel in this industry.

2. The Watch Bubble

We do not have to go too far back in history to see what a pop in a luxury bubble looks like – HK is a great example. ADs were pleading brands to lower prices, to which most of course did not agree to. The crux of the bubble argument, however, is primarily directed at the pre-owned market.

The lack of availability of watches in the primary market meant that buyers were increasingly shifting to the secondary market in search of a desired piece. This pushed prices up dramatically:

Exhibit 5 - Price Premiums on the Secondhand Market Reflect Imbalances Between Demand and Supply

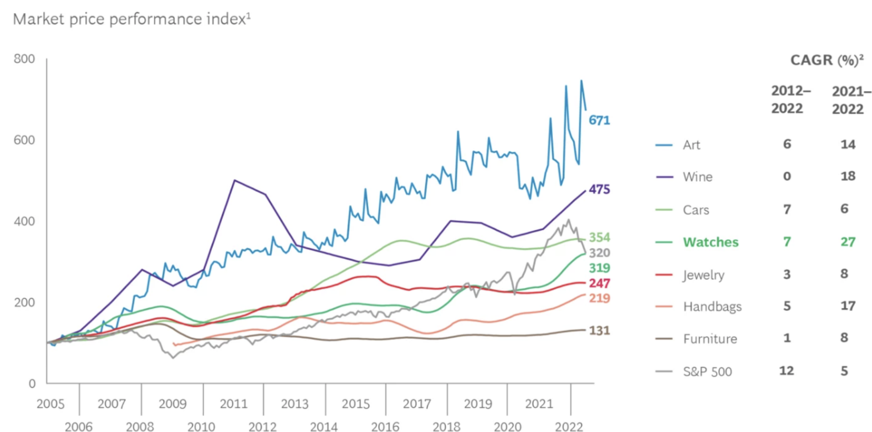


Sources: Internal WatchBox data; FHS; Altagamma; analyst reports; Chrono24; expert interviews, BCG analysis.

Note: Data tracks the average firsthand market (retail) price and the average secondhand market price across the following popular models: Audemars Piguet (selected Royal Oak models), Patek Philippe (Nautilus and Aquanaut), Rolex (Daytona, Submariner, and GMT Master models).

While pre-owned has historically been just that – the ability to buy watches at a cheaper price, it is now functioning as an actual marketplace. And because watch prices appreciate in value over time, there is a clear investment angle to all of this. With interest rates increasing, watches as an investment become less attractive and a lot of the speculation is being phased out.

Exhibit 3 - Among Alternative Asset Categories, Luxury Watches Have Demonstrated Consistent Growth over a Ten-Year Time Horizon



Sources: Art Market Research proprietary indexes; Liv-ex; Yahoo Finance; Credit Suisse, BCG analysis.

¹ Market price data is aggregated from market sentiment for a wide range of art, antiques, and collectibles traded at auction since 1975. Average price performance index for each alternative asset category is indexed to January 2005. Index data for handbags begins in 2009. Index data for wine is tracked by Liv-ex (London International Vintner Exchange – Fine Wine 1000 index).

² Comparisons are for the first half of each year.

If the bubble does pop dramatically, it is the pre-owned players that are primarily going to get hurt. ADs like WoS are at the very top of the demand chain and year-long waitlists mean that even if demand is reduced, they are unlikely to immediately experience its impacts.

Desirable Rolex watches have been trading above MSRP for decades. As a reddit post read:

"Only silly children who misunderstand Rolex talk this way. We see you Bubble Boys all the time, you've been saying the same damned thing for 6 years. And you've been dead wrong. The flaw in your thinking is that you don't understand how scarce these steel Rolex models are, how passionate Rolex enthusiasts are, and how many rich Rolex enthusiasts have money to burn on their hobbies. Pulling the $8K out of the bank to cover the premium on my GMT Pepsi was no different than pulling up to the drive thru and buying a #1 meal at McDonalds for me. Only takes 3,500 of us to buy up every GMT Pepsi Rolex makes every year and there are 57 million millionaires in the world."

And while I do not entirely agree, the argument that watches are facing overwhelmingly artificial demand makes little sense. Deloitte's recent study shows that the overwhelming majority of buyers purchase watches primarily for use – for themselves or as gifts. And while the investment angle will always be there, I do not see WoS materially suffering from pre-owned price declines over the long-term. As Duffy explains:

"The secondary market is raised often. We're actually pleased to see some of the excessive pricing that was there, that seemed really irrational, being adjusted. You're still looking at a huge premium at the end of the day. It's not really a market that we're in. It tends to be a market that's from these trading sites like Chrono24 or whatever."

A combination of a continued supply-demand imbalance and the continuous price increases of brands means that there are structural tailwinds to watch prices. On a broader level, I do not really care if demand in pre-owned pops and demand declines meaningfully over the ST. People are going to continue buying watches and the cumulative investments made in the US to educate consumers is going to do its thing. The "bubble" is more of a byproduct of the dramatic supply shortage, and as I said WoS is the leader in securing supply and allocation from the top brands.

Retail customers do not care if values decline on the secondary market or not. The investment angle might provide them with a sense of comfort, but if you are valuing a watch to wear it, resale value matters little.

During Buffett's AGM, I had a chance to talk to Adirenne Fay of Borsheims, who, when I asked whether the industry was a bubble, replied with a quick NO. She explained that there is real demand being built and that consumers are responding. She said something along the lines of "I could sell all the TAG Heuers I have." Borsheims, of course, lost its Rolex agencies, but Ms. Fay's comments lead me to believe that there are real, structural improvements being made within the industry.

<u>3. Smart Watches (SW)</u>

SWs have decimated the lower-end Swiss watches, but as I mentioned the higher end segment has actually increased since the first Apple Watch was introduced. SWs are a utility product, Swiss watches are a cultural / luxury product. The drive-to-purchase is fundamentally different. One has centuries of heritage, the other is a cheaper way of telling time. The Deloitte study paints a clear picture:

"Millennials and Gen Z are more likely to wear smartwatches. However, if given Chf 5,000 (or local currency equivalent) to spend on a watch, all generations are more likely to choose a luxury mechanical watch (48%) rather than the latest release of a smartwatch (39%) each year for the next 10 years."

And Duffy explains:

"Honestly, there's a lot of hype about it. It's a very, very different product category. You know there are cheaper ways of telling the time than buying a beautiful Rolex. There's been no impact on luxury watches. We've done research that says only 1% regard one as a replacement for the other."

Given that the Apple Watch has been out for 7 years and has had no noticeable impact on the higher-end watch market, I do not foresee smart watches hurting WoS.

4. Macro

Macro is a valid argument. Depressing both the traditional and investment-side of the demand equation, rising rates and a decrease in discretionary spending will without a doubt hurt the market.

Again, I do not really care. My outlook is 5+ years.

WoS customers are more wealthy individuals that are less sensitive to economic conditions. Waitlists continue expanding. Brands are also – very fortunately – not short-term oriented. WoS sells only the very best brands which have limited capacity and enormous consumer appeal. During the GFC, the UK market actually grew slightly.

While this will inevitably hurt profitability and the share price in the short / medium term, macro has zero impact on long-term earning power.

The much greater threat is China sucking in more supply and taking away allocation from WoS's core markets. The reopening of the region means that its proportional allocation is going to resume and likely grow. And while Rolex is increasing capacity, this will only hit the market in several years. The overall growth of the market long-term, combined with WoS skimming off the top of the demand for watches, leaves me more comfortable in the long-term allocation dynamics of the brands, but of course this is a headwind that the regions as a whole will have to deal with.

5. Retailers Opening Their Own Stores

I touched on this before. Brands do not want to go retail – it is more of a necessary evil than a conscious strategic move. They already have a headache with managing capacity and manufacturing – building out the needed organizational capabilities and competencies just doesn't make sense in most cases. HR, finance, real estate, merchandising, store management – these are all competencies that the brands do not have and do not want to spend the time building out.

The much more rational move in agency consolidation – pruning away the mediocre dealers and concentrating on the best operators. This has been a trend for years and it will continue to be the trend for the foreseeable future. Monos make a lot more sense.

Rolex has never retailed and has never shown a desire to retail. They do not need to – their market power allows them to control and command presentation and store design without having to make corresponding investments. They also get to do the training themselves, like with WoS.

15. The Bottom Line

In FY22 management announced a Long Range Plan into FY26. They guide for a cumulative CAPEX spend of GBP 300-340mm, and potential M&A spend of GBP 150-200mm. The LRP projects the UK market to grow 8-10%, with the group outperforming by 2%. The US segment is expected to grow 25-30%. The EU segment (Sweden, Denmark, Ireland) is anticipated to contribute 5-8% of revenue by FY26. They explain:

"The UK market has the highest per capita retail spend by domestic customers on luxury watches; we believe the differential to other markets reflects retail investment, not customer behavior, creating an opportunity to successfully replicate our model in other geographies and building on the success we have delivered in the US to date."

The anticipated growth in the US is a mix of new projects, acquisitions, and a continued expansion of their mono network. The product mix is expected to shift further to luxury watches, which management thinks will make up 90% of group revenue by FY26.

If the projections roughly pan out, this would mean that the US and the UK will represent an equal mix of the business.

Guidance seems a little aggressive. Here is how I think about it:

WoS is not going to do much better than the overall market in the UK, largely because they ARE the market.

The UK market has grown at around 5% since 2016. During the same period, WoS grew its UK segment by 16%. This outperformance will not continue. The math is simple. Conservatively, around 3% price increases and 2-3% in production and allocation growth puts the market at the roughly similar ~ 6% growth rate. WoS can without a doubt continue capturing share if it wanted to, but the already large concentration in the dealer by the likes of Rolex means that brands are unlikely to allow WoS to take on much more agencies. Moves like the Rolex Boutique expansion in London are good, and indicative of the brands' willingness to do more business, but this is something I am not willing to underwrite into the future. If tourism comes back then WoS might see some uplift in overall traffic, as well as a rebound in its airport stores, but again I am not going to assume this. So, for the UK we get around 6%.

The US, of course, is where the growth lies. The segment has grown at 47% since WoS entered the market, with the watch segment growing at ~50%. Again, I do not assume that such growth will continue, but the continued capturing of market share in its core markets, combined with entering new geographies and making intelligent acquisitions, does provide a formula for strong growth over the long-term. I will just assume management's bottom range of 25%. Pre-owned and jewelry monos can also offer some levers for growth, but I am not assuming those.

This gives us about 14-15%. To this you add the EU which management believes can make up as much as 8% of revenue by FY26. I will just add 2% to the core growth rate, and we get around 16% in top-line over the long-term. Of course, in the near term this will probably look more like 9-10%.

We can also look at this another way. Focusing only on watches, ASP in the UK has grown at ~11% and volume has grown at ~4% for the UK since 2016. In the US, ASP has grown ~9% and volume has grown at 39%. Volume growth in the US of course is higher due to starting from a lower base, but I do not see 25% as aggressive given the high single-digit market share and the broader underpenetration of the market as a whole.

At around a 6.5% FCF yield, I like the bottom-range of 14% (excluding EU) very much. Margins are unlikely to expand meaningfully, but I would not underestimate management given that they managed to improve store EBITDA margins from 7.6% to over 14% in the UK.

Of course, it is more important to be directionally right and on getting the business down. I think the inputs – both organization and operational – provide for a fairly good range of future outputs. More importantly, I like Duffy and his team. WoS is no Kaspi (and Duffy is no Lomtadze) but I want to participate in the business in some shape or form.