

# Swiss watch industry outlook / Richemont or Swatch Group?

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# Vontobel Luxury Goods Shop

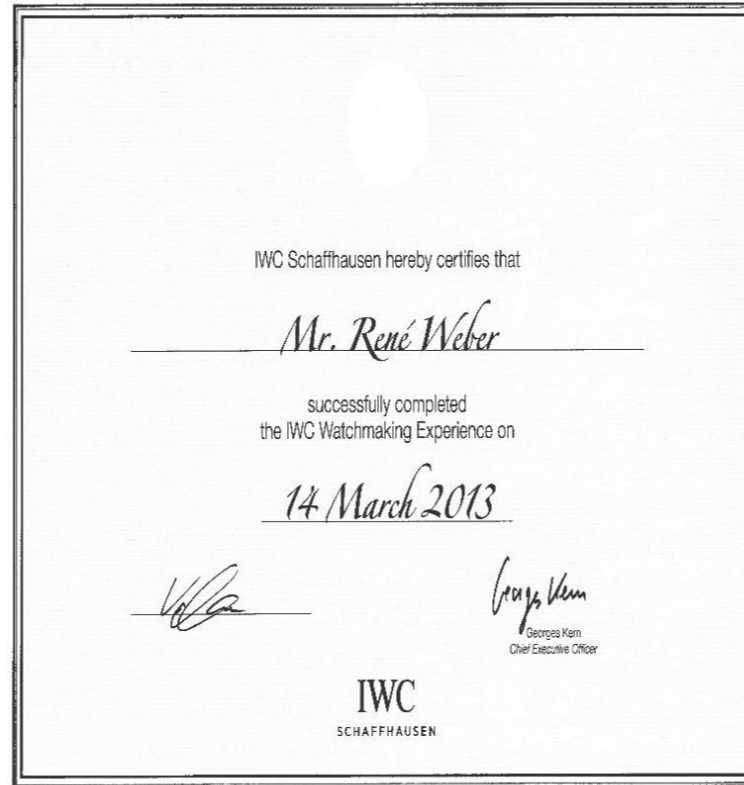
## Overview

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- **Swiss watch industry - Review 2020**
- **Swiss watch industry - Outlook 2021**
- **Swiss watch brands - top 25**
- **Luxury goods companies - business performance 2020**
- **Main difference between Richemont (Buy) / Swatch Group (Hold)**
- **Conclusion**
- **Future of coverage of Luxury goods/Swiss watch industry at Vontobel**

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## Analyst, but with watch maker diplomas...



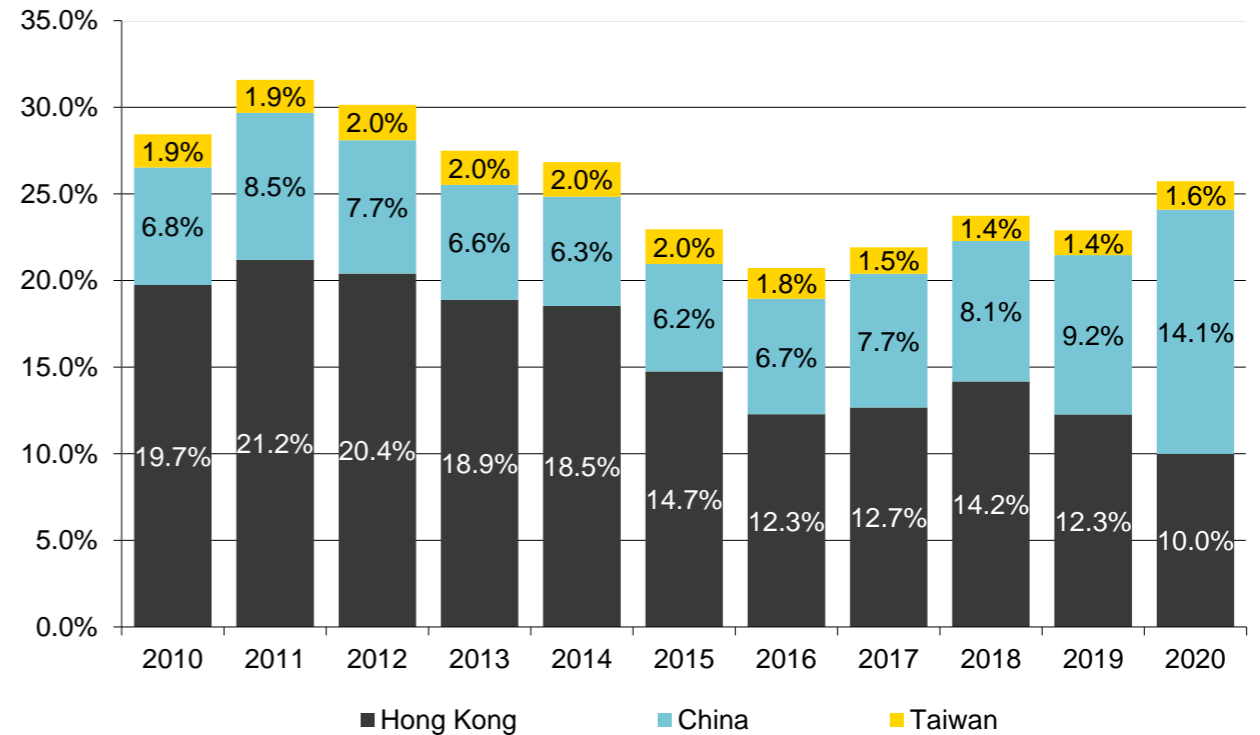
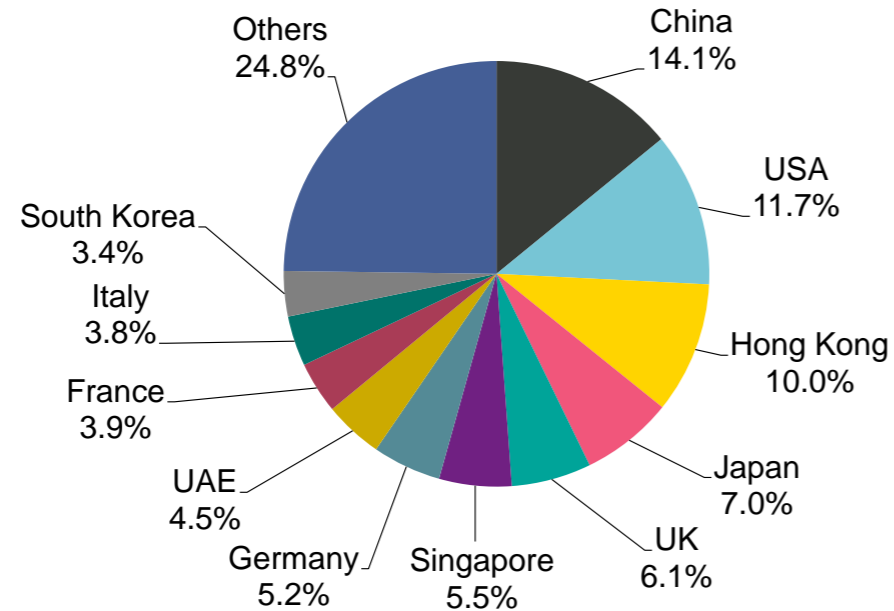
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## Swiss watch exports: by country 2020 / Greater China exposure

Hong Kong 2008-19 no. 1 market – no longer in 2020,  
China is the new no. 1, Hong Kong will continue to lose

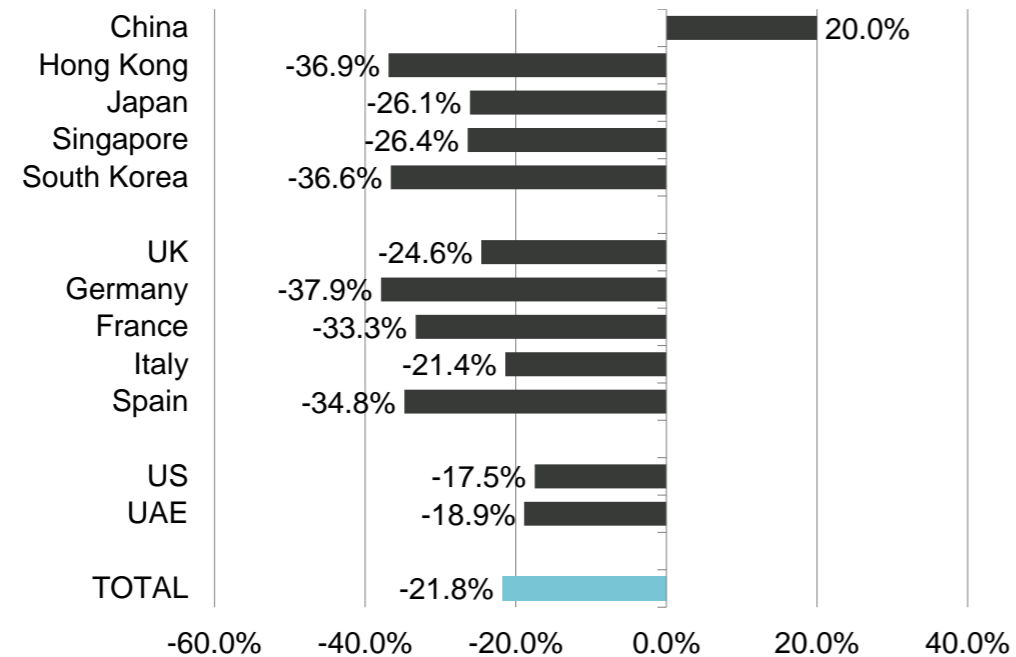
Greater China 26% of exports in 2020, >30% in 2011  
Hong Kong down from 21% (2011) to 10% (2020)



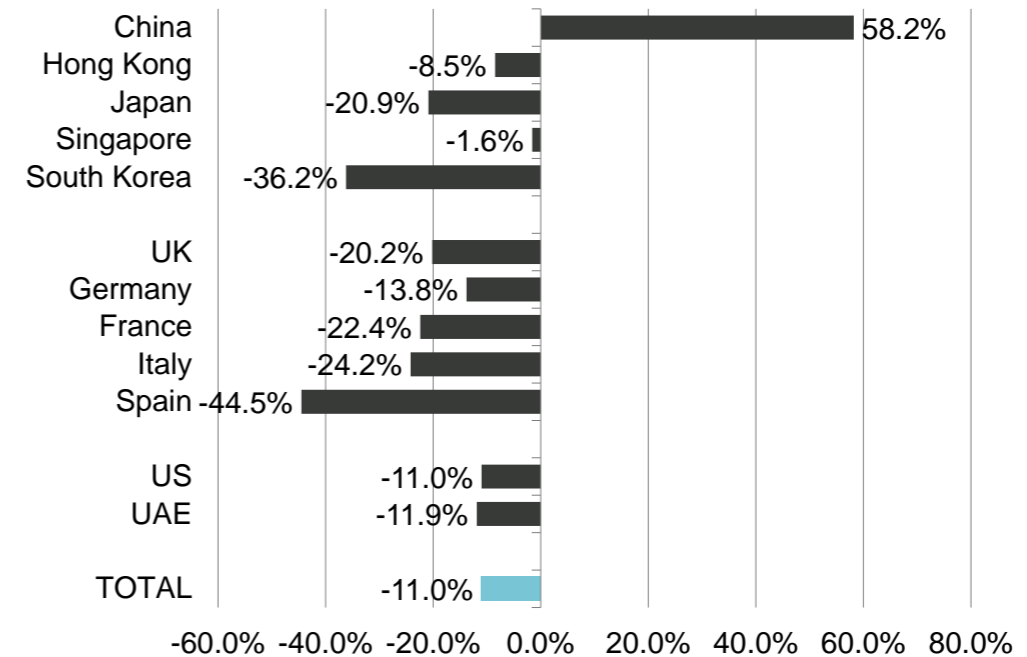
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## Swiss watch exports 2020 / January 2021

Swiss watch exports by country 2020  
(change as %)



Swiss watch exports by country January 2021  
(change as %)

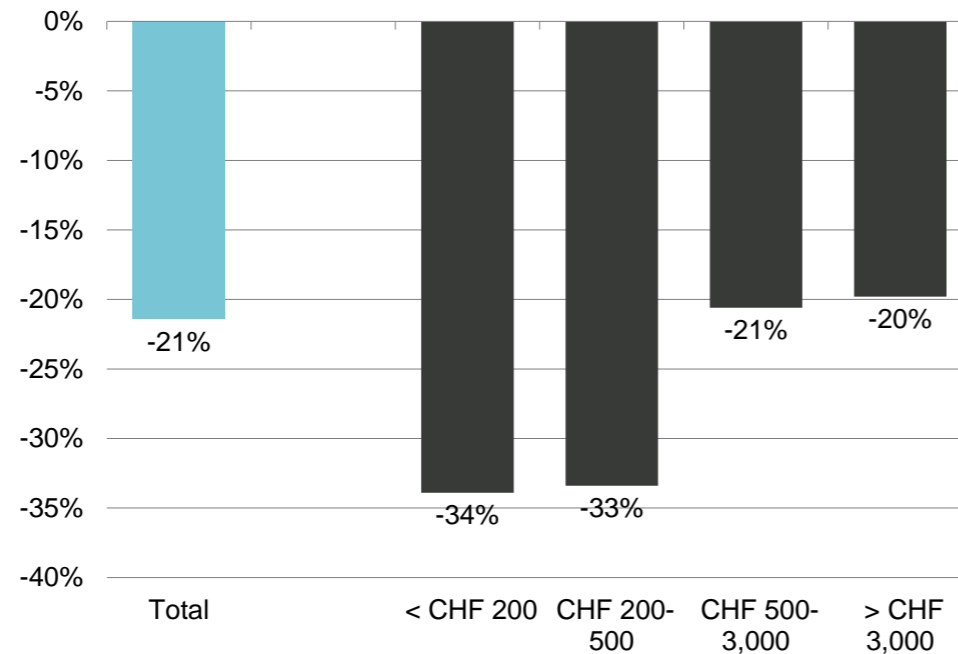


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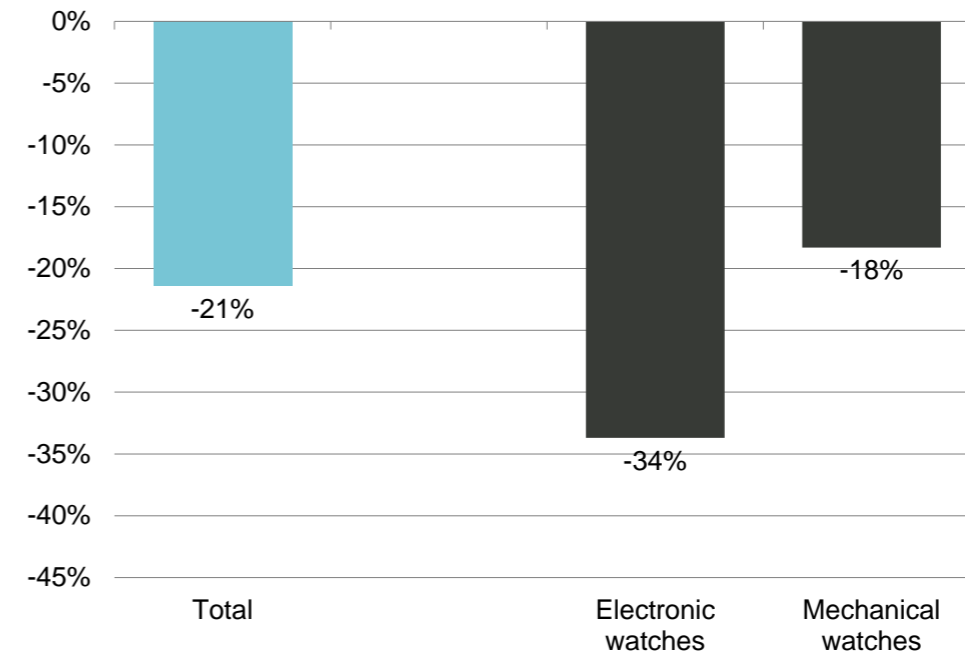
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## Swiss watch exports 2020 – price categories / electr. vs mech. (value)

**Swiss watch exports by price category 2020  
(change as %) – high-end 71% of exports**



**Swiss watch exports by electronic vs mechanical 2020  
(change as %) – mechanical watches 86% of exports**



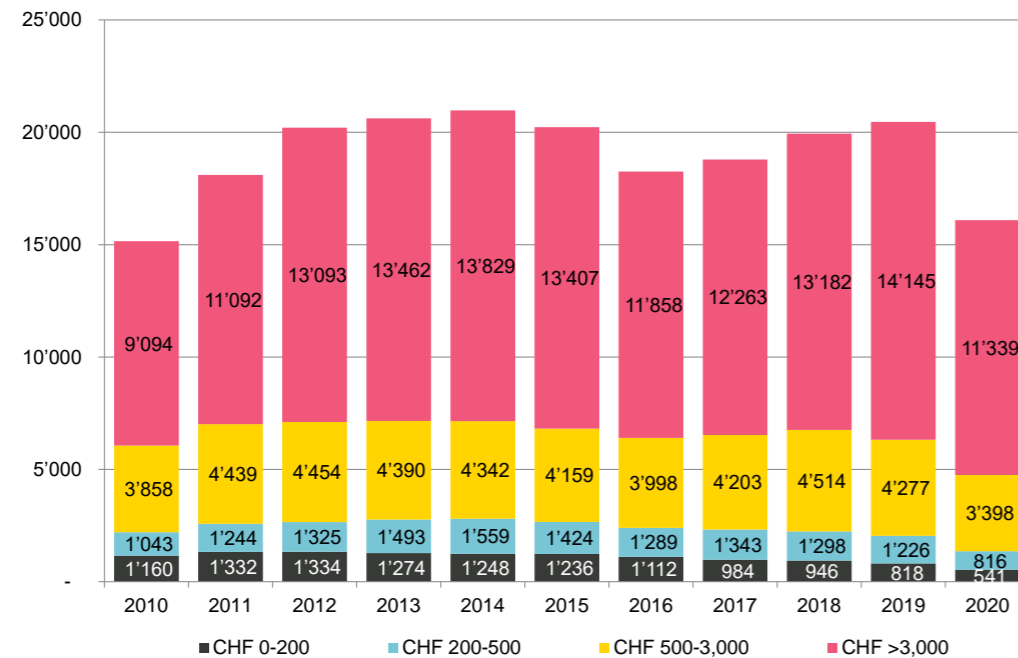
**Mechanical watches average price: CHF 2,532**

**Electronic watches average price: CHF 271**

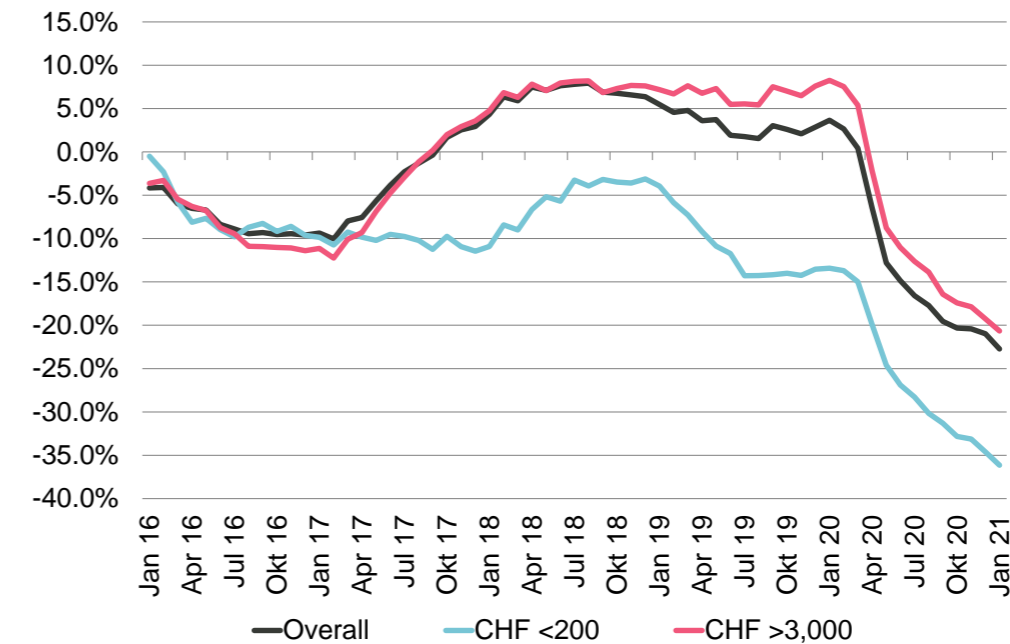
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## Swiss watch industry: breakdown by price point

**Swiss wristwatch exports by price point  
2010-20 (CHF mns)**  
Value growth mainly in CHF >3,000, low-end negative



**Swiss watch exports 2016-2020 (12-month average)  
Growth for low-/high-end and overall (as %)**

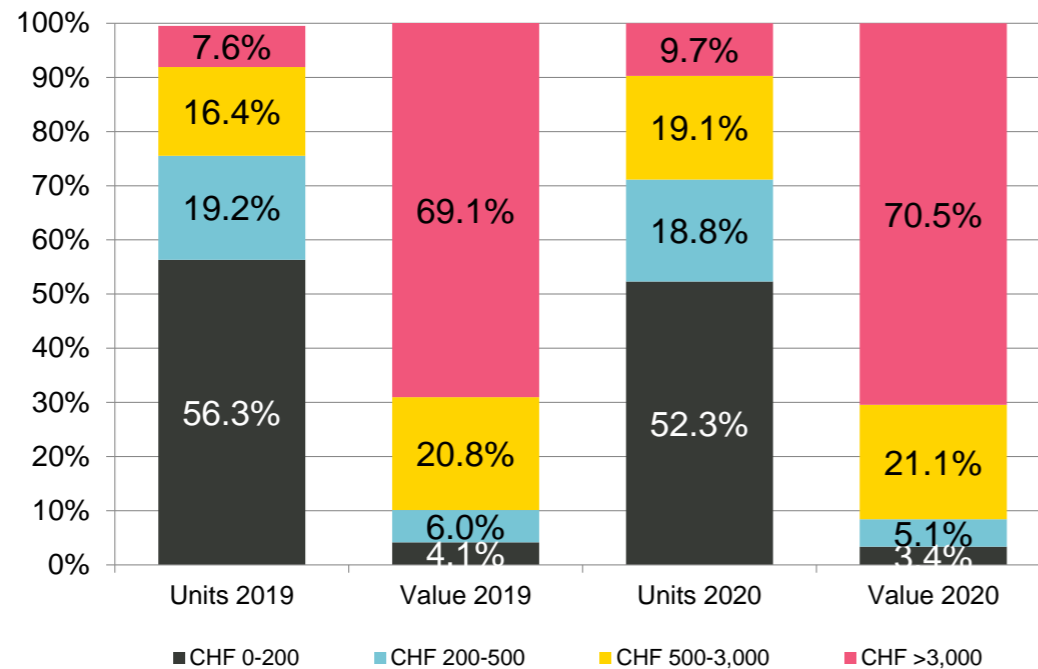


→ High-end (71% of value, just 9.7% of units) - as growth driver since 2000 – low-end on a decline!

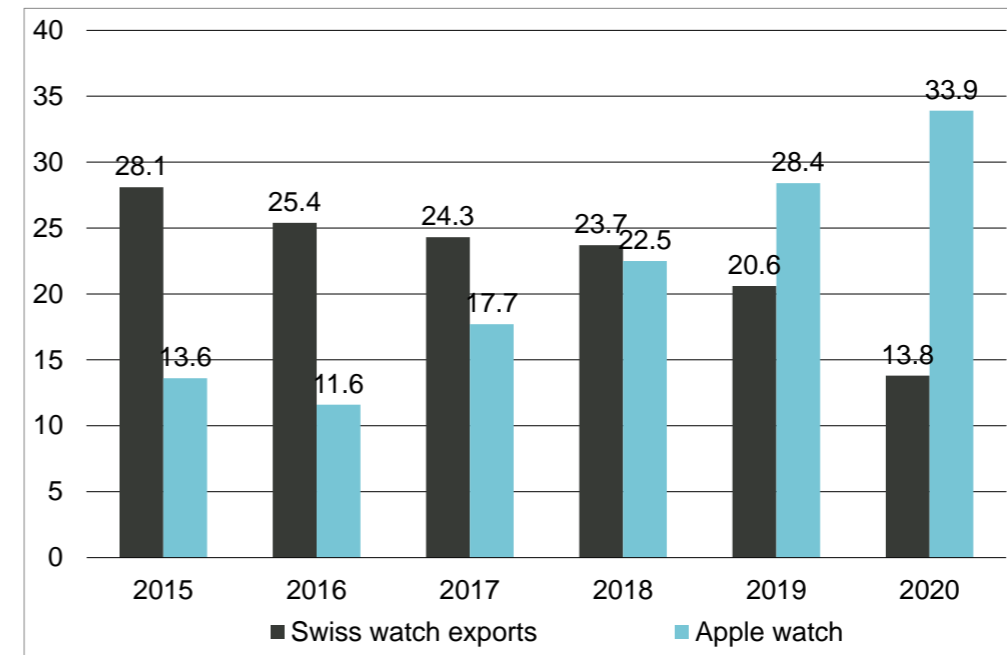
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## Swiss watch industry vs Apple watch

**Swiss wristwatch exports by price point  
2019/20 (in units: 13.8 mn, -33% / value: CHF 16.1 bn)**



**Swiss wristwatch exports vs Apple watch 2015-20  
(units in mns)**



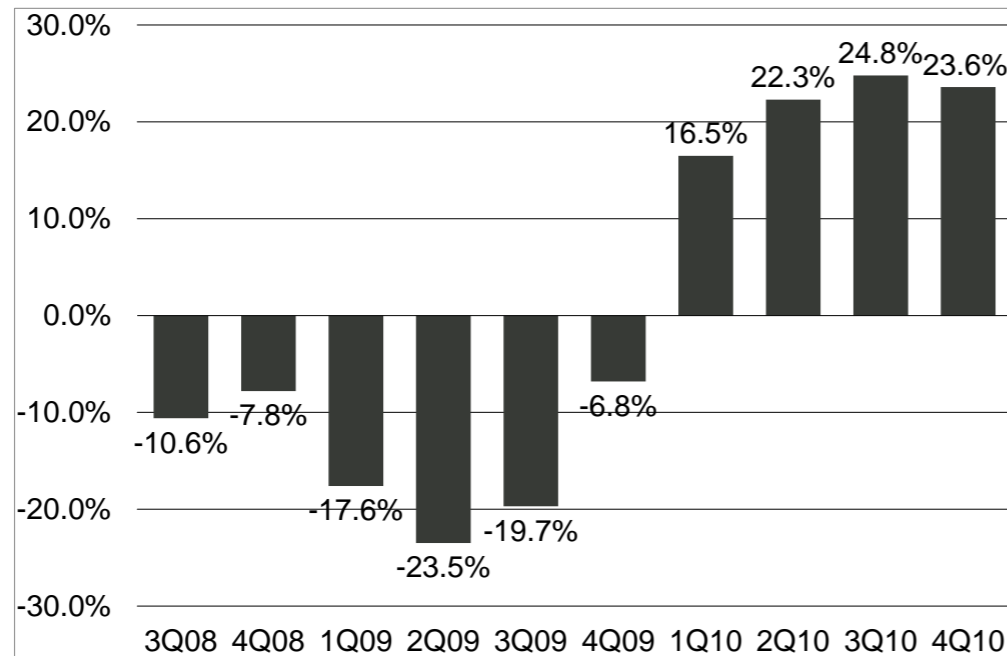
- Apple watch launch in 2015: 50% of Swiss watch exports / 2020: 2.5x
- Swiss watch exports: Low/mid-end 2000: 25.9 mn / 2015: 23.1 mn / 2019: 15.6 mn / 2020: 9.8 mn



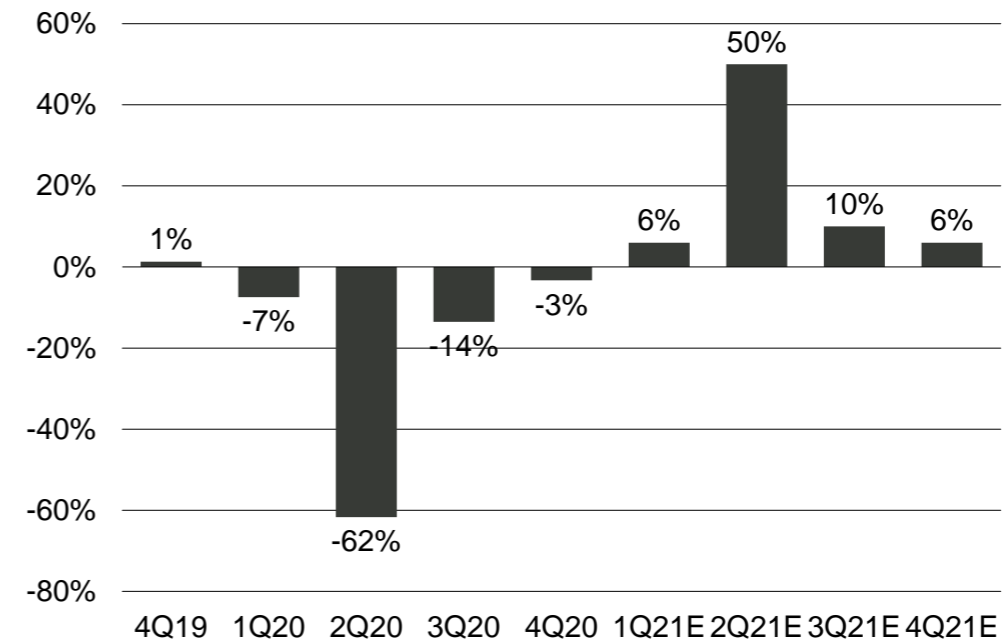
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## Swiss watch exports by quarter 2008-10 / 2019-21 (change %)

Swiss watch exports 3Q08-4Q10 (change as %)  
Financial crisis: 2009: -22%, 2010 +22%



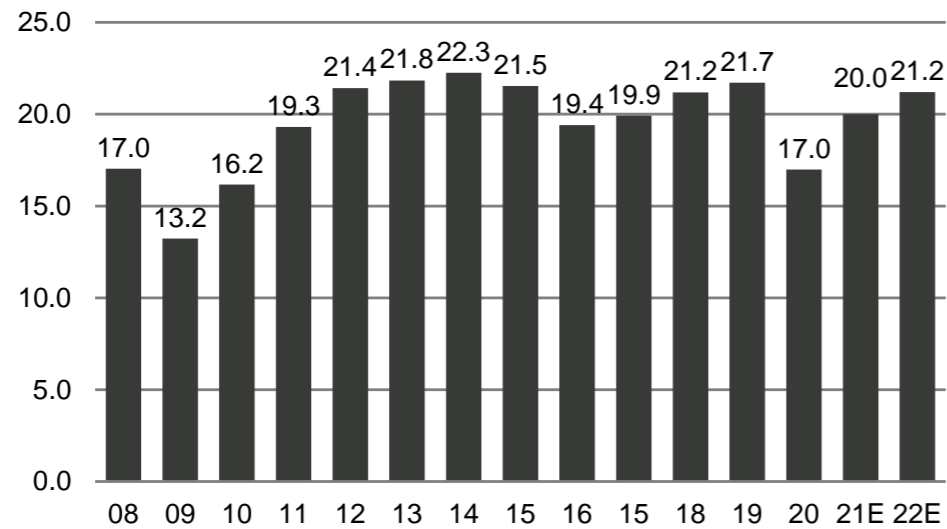
Swiss watch exports 4Q19-4Q21E (change as %)  
Covid-19: 2020: -22%, 2021 with very strong 2Q21



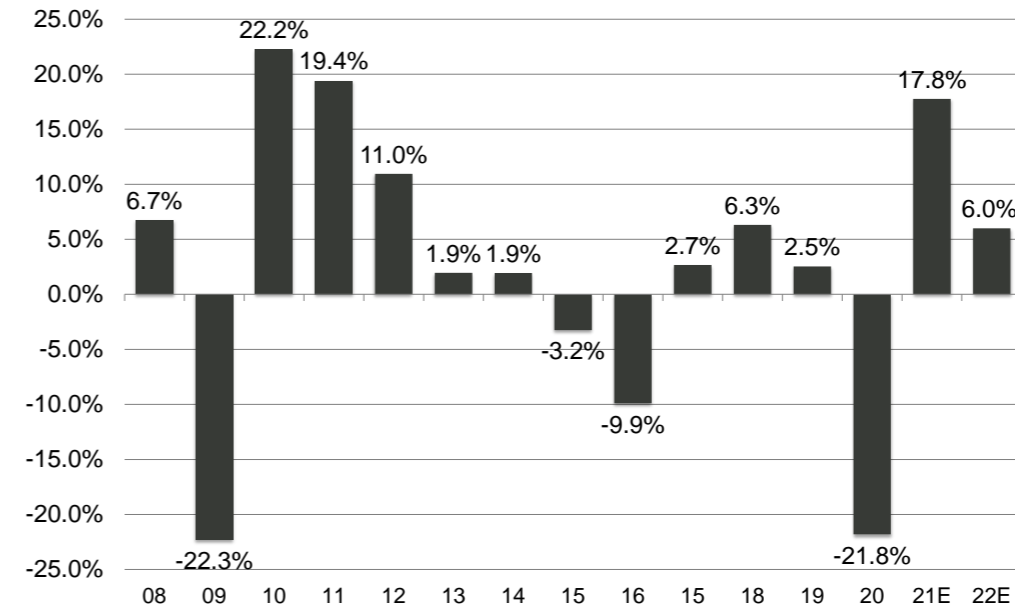
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## Swiss watch exports in CHF and change as % 2008-22E

Swiss watch exports 2008-22E (CHF bns)  
2021 +18% still well below 2019 level

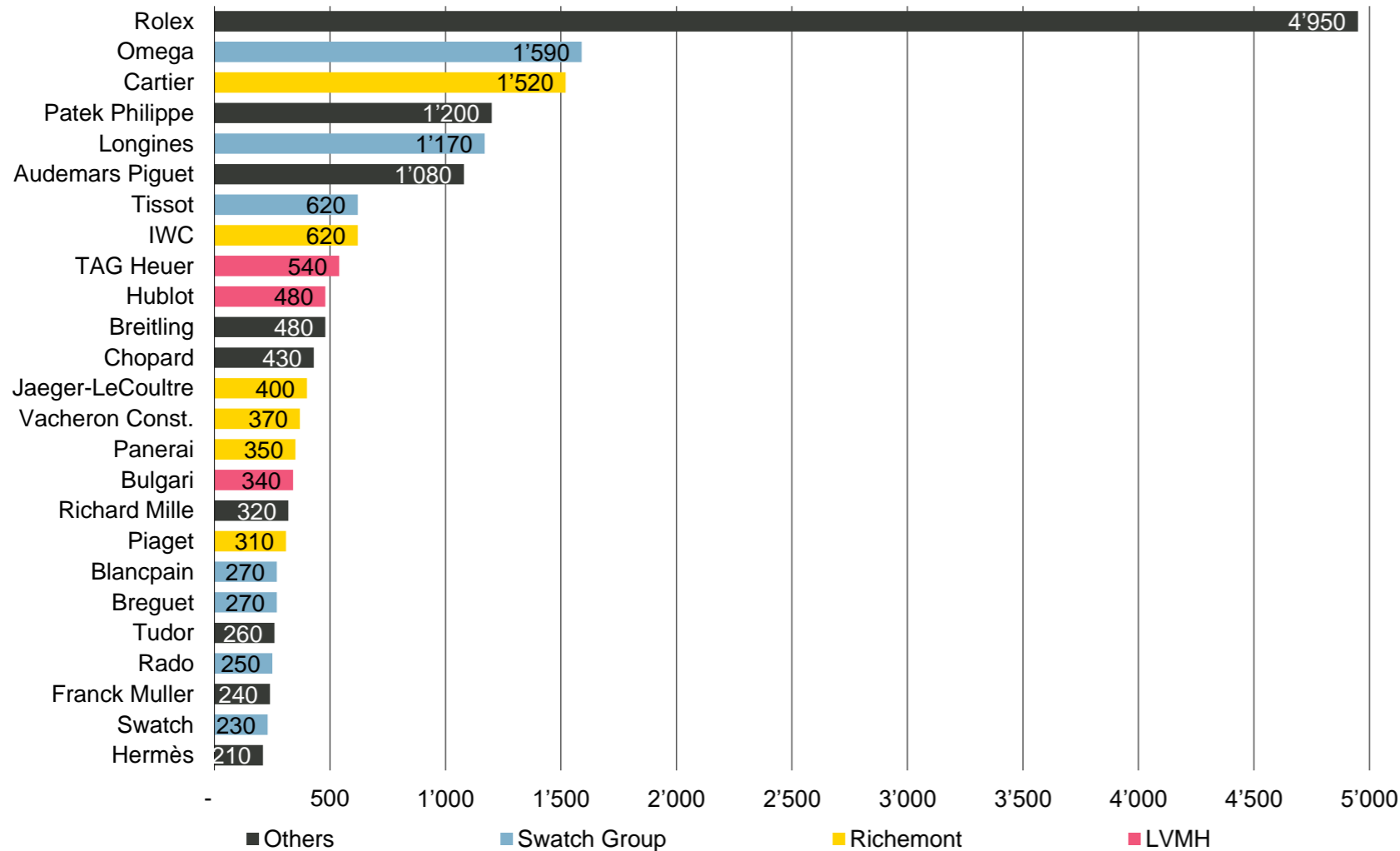


Swiss watch exports 2008-22E (change as %)  
Rebound similar as in 2010 but ongoing smartwatch impact

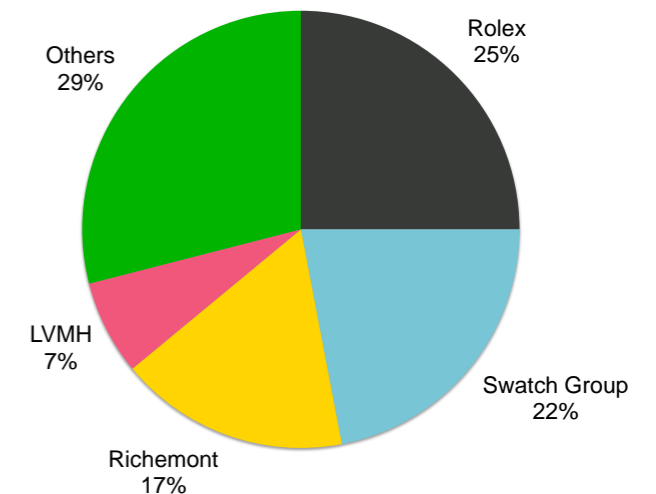


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## Swiss watch brands: top 25 – sales 2020 (CHF mns, Vont E) <sup>1)</sup>



Swiss watch industry:  
Market share 2020 (value)



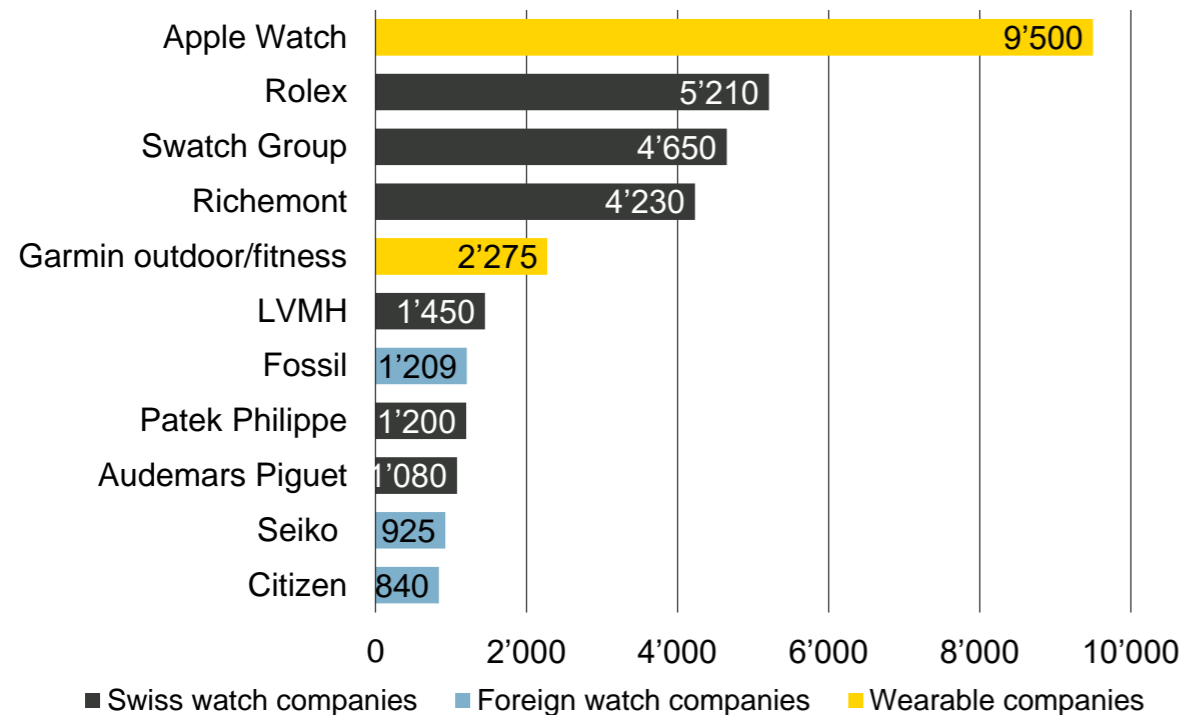
1) Sales not directly comparable as it also includes some own mono-brand store sales

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## Global watch/smartwatch producers (2020)

### Watch sales 2020 (CHF mns)

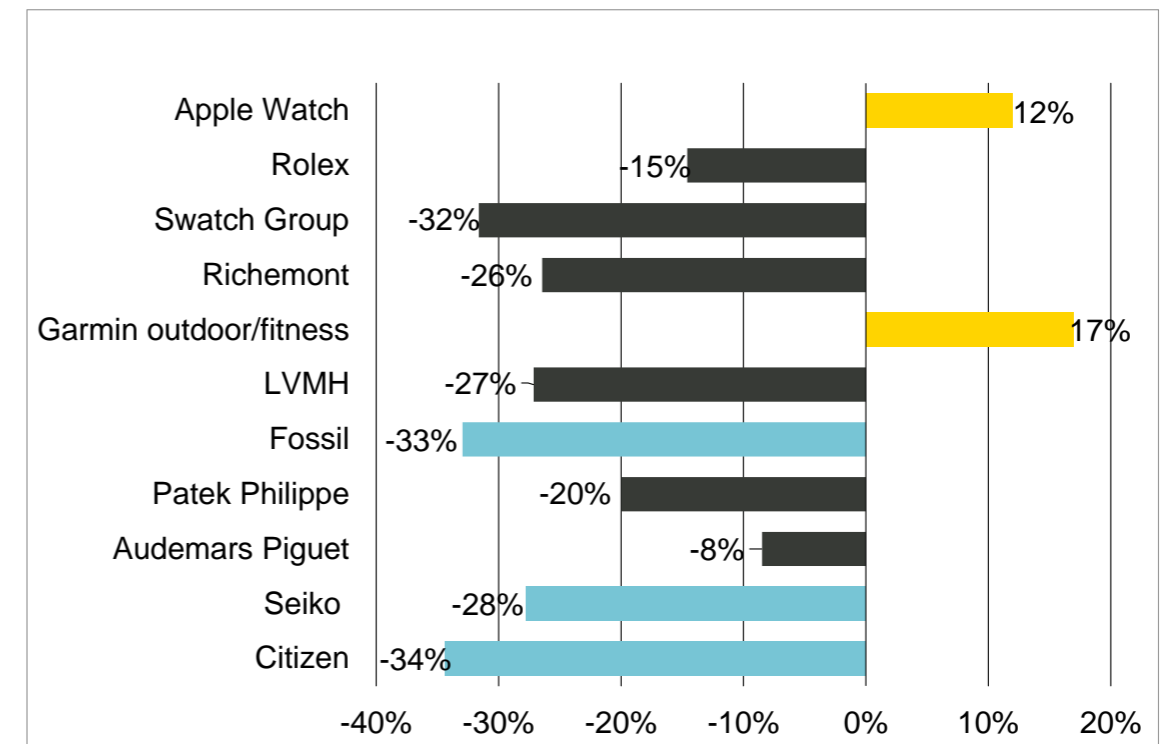
Apple watch sales almost double the Rolex level,  
Garmin up from no. 6 to no. 5



1) Rolex sales not retail – sell to watch retailers

### Watch sales change (2020, in CHF, as %)

Only Apple watch and Garmin with growth  
Swatch Group and foreign companies with sharper declines

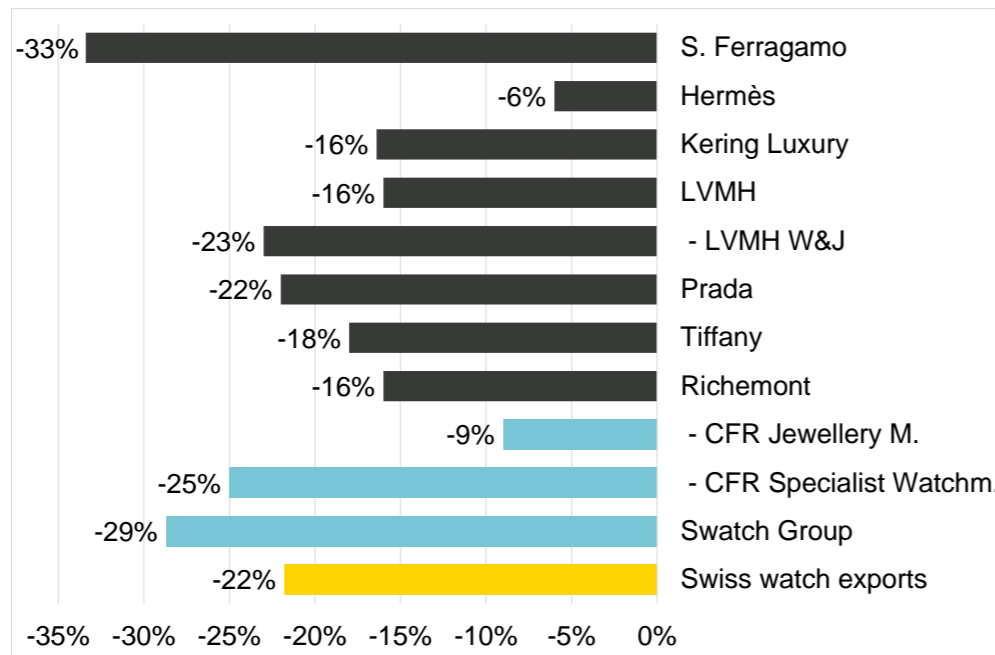


1) Apples watch units: +19% / Garmin outdoor/fitness sales in USD: +24%

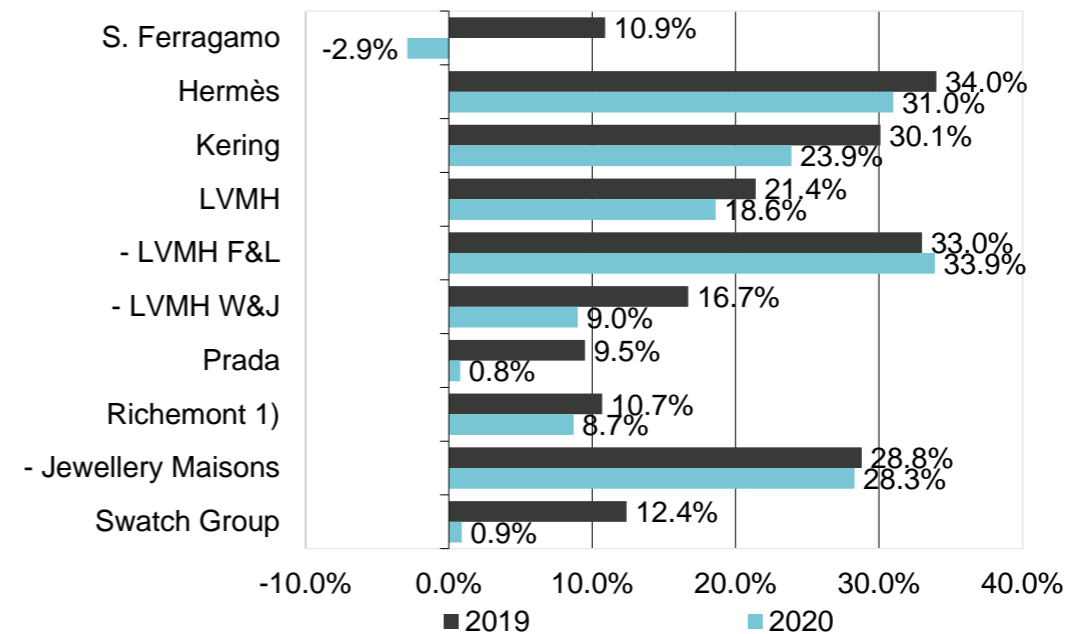
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## Luxury goods companies : FY20 results

**Organic sales growth FY20 (as %)**  
**average: -20% (1H -35%, 2H -5%)**  
**4Q just -1% with Asia ex Japan +19%, Europe -23%**



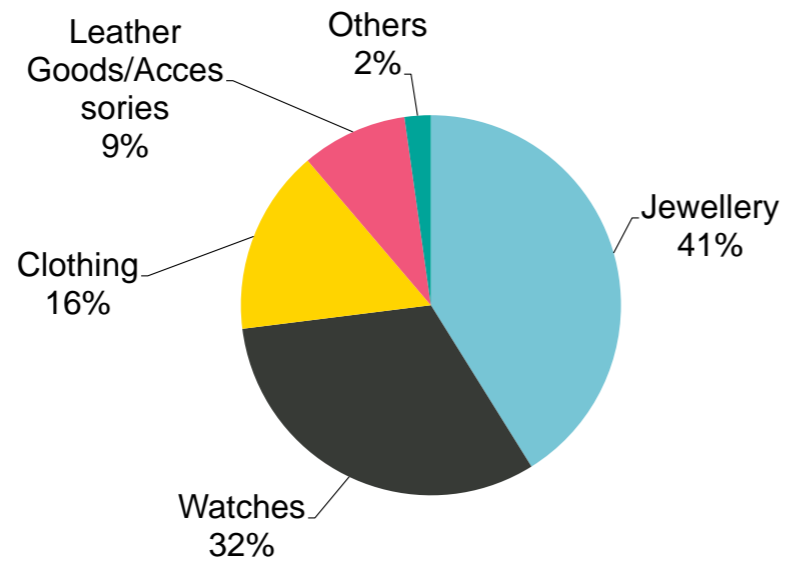
**EBIT margin FY20 vs FY19 (as %)**  
**Hermès still >30%, also Kering/LVMH with small decline**  
**Swatch Group with largest decline**



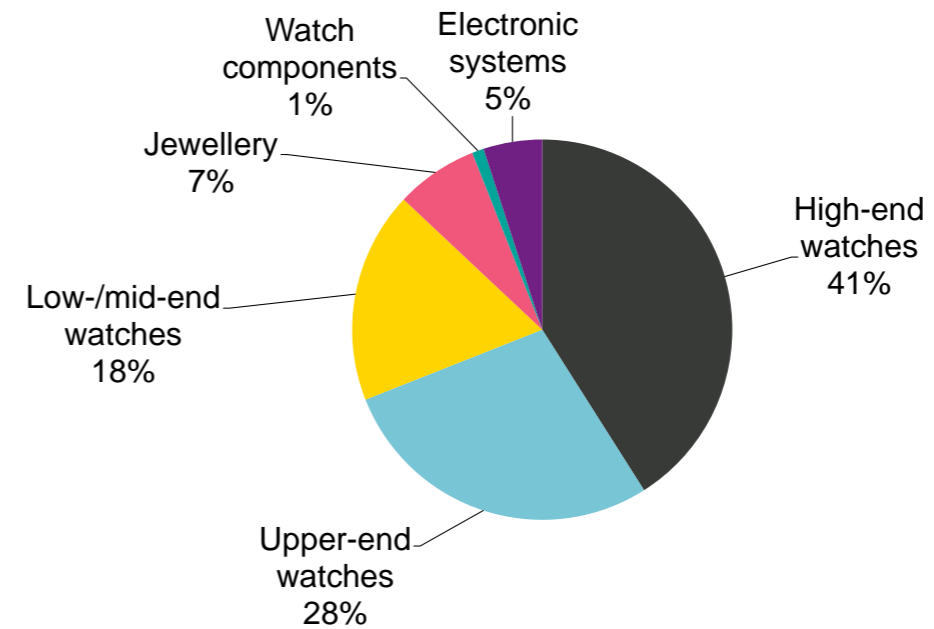
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## Comparison: Richemont vs Swatch Group – sales by product 2020

Richemont: sales by product 1H20/21 (as %)



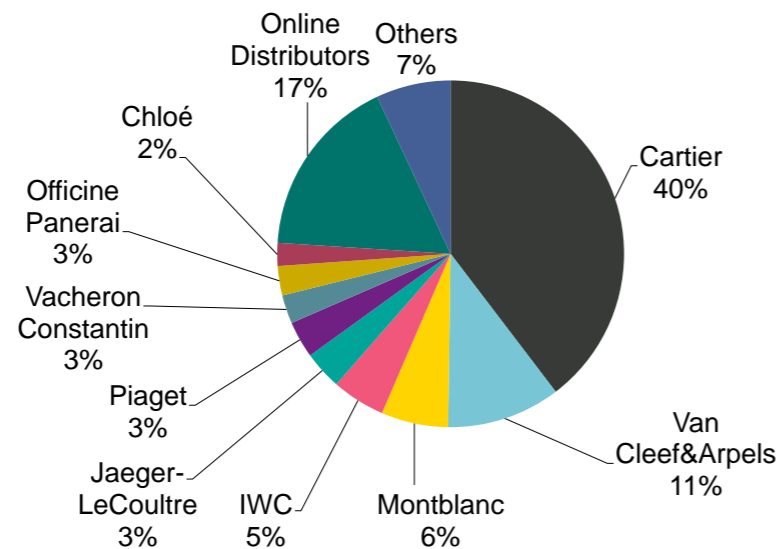
Swatch Group: sales by product 2020 (as %)



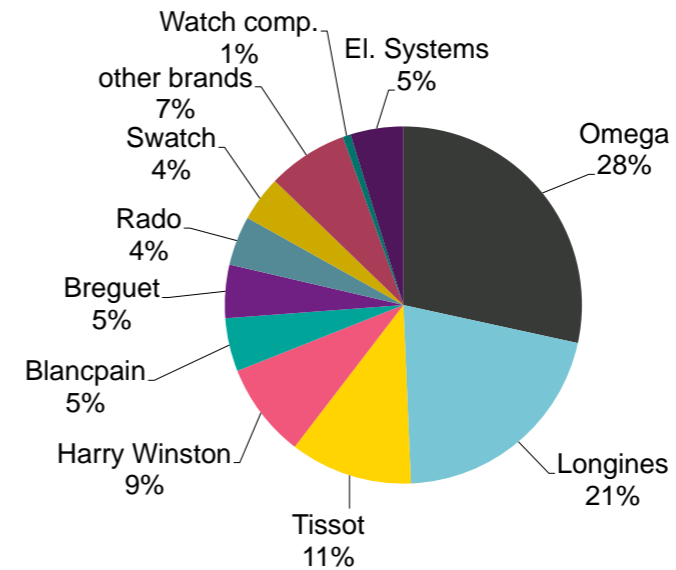
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## Comparison: Richemont vs Swatch Group – sales by brand 2020

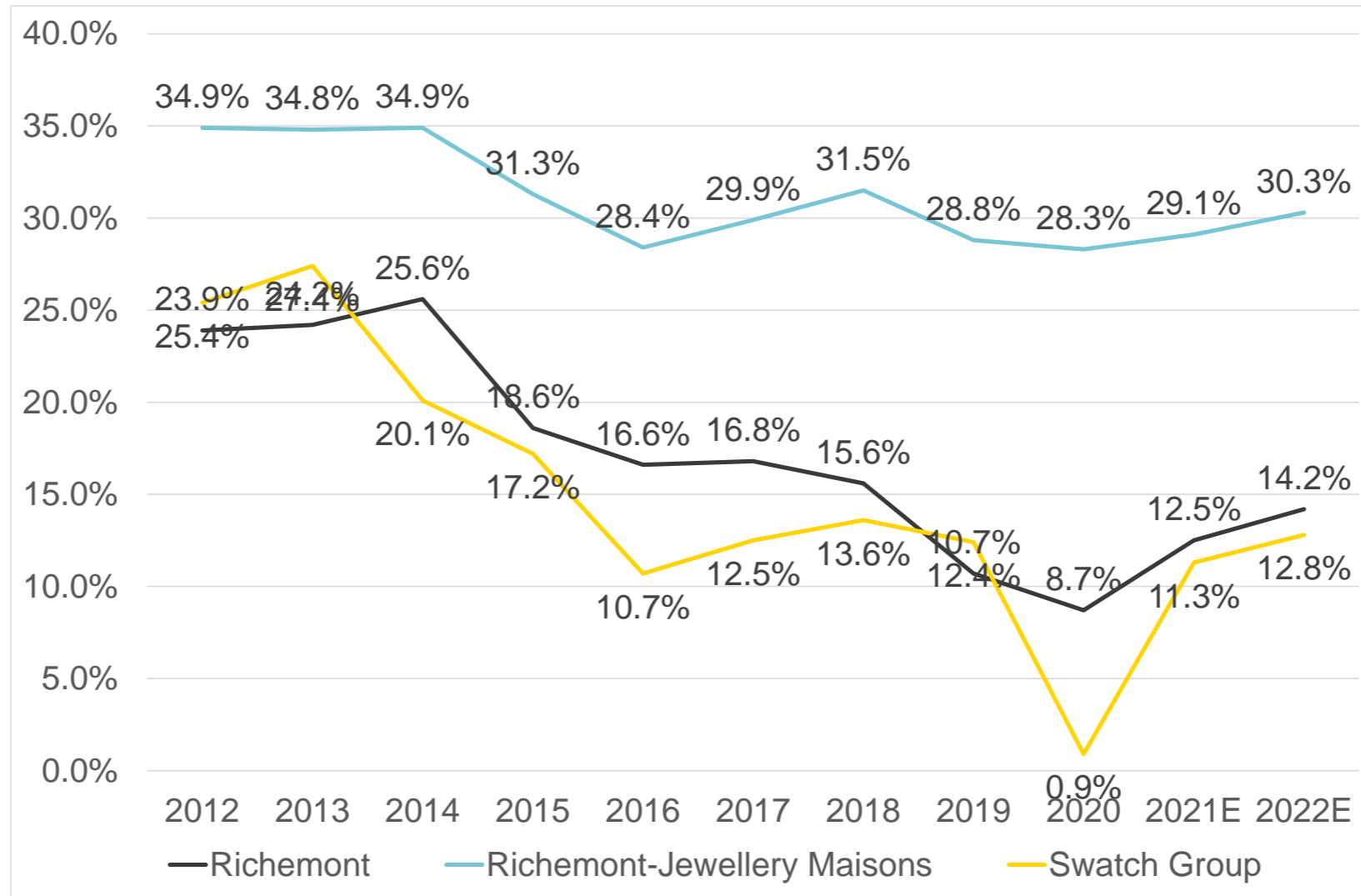
Richemont: sales by brand 2019/20 (as %)



Swatch Group: sales by brand 2020 (as %)



## Vontobel Luxury Goods Shop Comparison: Richemont vs Swatch Group – EBIT margin 2012-22E





## Vontobel Luxury Goods Shop

### Conclusion: Swiss watch industry outlook/Richemont or Swatch Group

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- **Swiss watch industry with rebound in 2021 (+18% after -22% in 2020)**
    - top brands still have waiting lists (Rolex, Patek Philippe, Audemars Piguet) – all outperformers in 2020
    - low-/mid-end will continue to underperform – smartwatch competition
    - Mainland China as main growth driver given that travelling will not be back in 2021 yet – Hainan new top spot
    - Swiss watch exports in 2021 CHF 20.0 bn – still well below 2019 level (CHF 21.7 bn)
  - **Smartwatch makers outperforming traditional watch producers**
    - Apple watch and Garmin with strong double-digit growth in 2020
    - traditional watch producers like Swatch Group, Fossil, Citizen with decline of >-30% in 2020
    - Apple watch in units already 2.5x of total Swiss watch industry
  - **Leather goods and jewelry with much stronger performance than watches in 2020**
    - Hermès (-6%) and LVMH Fashion & Leather Goods (-3%) far ahead of other luxury goods companies
    - Richemont's Jewellery Maisons also only -9% in 2020
    - Swiss watch exports -22% in 2020, but Swatch Group even -32% but also Richemont Specialist Watches -26%
    - EBIT margin with largest decline at Swatch Group, whereas leather goods/jewelry brands still high
  - **Richemont: Buy (PT CHF 100) / Swatch Group: Hold (PT CHF 270)**
    - Richemont with jewelry as core (41% of sales; watches 32%); Jewellery Maisons is a high-margin business; Specialist Watchmakers with turnaround, Online Distribution/Other brands more limited losses
    - Swatch Group with 90% in watches; 20% in low-/mid-end - impacted by smartwatch; further store closures likely
-

## Vontobel Luxury Goods Shop

### Future of luxury goods/Swiss watch industry coverage at Vontobel

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**René Weber: early retirement as of 1 May 2021**



**Jean-Philippe Bertschy:**

- 25 years experience in research
- 11 years experience at Vontobel
- 5 years as Head of Consumer Research Team



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# Investment Idea



**Platforms & Services**  
Pascal Ramseier, MBA

## Investment Idea

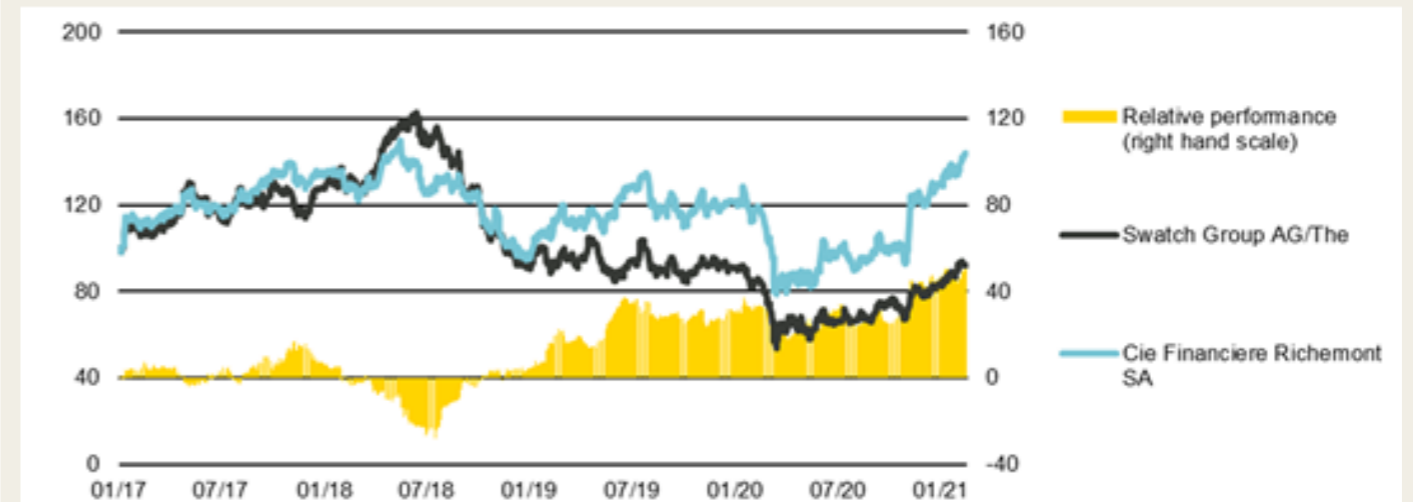

**SWITCH IDEA**
**Swatch – SELL**

Hold PT CHF 270.-

**Richemont – BUY**

Buy PT CHF 100.-

## Performance comparison: Swatch vs. Richemont



Source: Bloomberg, Vontobel, data as of February 16, 2021

## Investment Idea



**Reduce risk Swatch**  
Barrier Reverse Convertible

### Barrier Reverse Convertible

|                 |                                 |
|-----------------|---------------------------------|
| <b>Issuer</b>   | Vontobel                        |
| <b>Currency</b> | CHF                             |
| <b>Tenor</b>    | 6 months                        |
| <b>Strike</b>   | 100%                            |
| <b>Barrier</b>  | 75% (Cont.) // (Fixing)         |
| <b>Delivery</b> | Physical                        |
| <b>Coupon</b>   | <b>7.06% p.a. // 4.17% p.a.</b> |



**Take opportunity Richemont  
with risk buffer**  
Capped Bonus Certificate

### Capped Bonus Certificate

|                 |             |
|-----------------|-------------|
| <b>Issuer</b>   | Vontobel    |
| <b>Currency</b> | CHF         |
| <b>Tenor</b>    | 9 months    |
| <b>Strike</b>   | 100%        |
| <b>Cap</b>      | <b>117%</b> |
| <b>Barrier</b>  | 75% (Cont.) |
| <b>Delivery</b> | Physical    |

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