

SWATCH GROUP: Half-Year Report 2020

- After a strong January with an operating margin of 21.4% in the Watches & Jewelry segment (without Production) and 17.3% for the overall Group, massive decline due to state-ordered closings of at times up to 80% of distribution channels worldwide.
- Group net sales of CHF 2 197 million, -43.4% to the previous year at constant exchange rates, or -46.1% at current rates. The strong Swiss Franc reduced sales by CHF 113 million, or -4.9%.
- Operating loss of CHF -327 million compared to operating profit of CHF 547 million in the previous year.
- Return to a positive operating result in the month of June for the overall Group.
- Net loss of CHF -308 million, compared to net profit of CHF 415 million in the previous year.
- Positive operating cash flow.
- Solid equity base of CHF 10.8 billion, with an equity ratio of 84.6% and a net liquidity¹⁾ of CHF 944 million, 29% or CHF 213 million higher than the previous year.
- Very high customer demand in all price segments in markets which have already overcome the lockdown. Double-digit growth in Mainland China in May and June compared with the previous year.
- Strong second half expected, with a positive operating result for the entire year.

1) Cash and cash equivalents and marketable securities and derivative financial instruments minus current financial debts and derivative financial instruments

HALF-YEAR REPORT

Group Key Figures

(CHF million)	1st half 2020	1st half 2019	Change in %		Total
			at constant rates	currency effect	
Net sales	2 197	4 078	-43.4%	-2.7%	-46.1%
Operating result	-327	547			
- in % of net sales	-14.9%	13.4%			
Net result	-308	415			
- in % of net sales	-14.0%	10.2%			
Investments in non-current assets	139	235			
Equity, 30 June	10 826	11 191			
Market capitalization, 30 June	9 805	15 176			
Basic earnings per share in CHF					
- Registered shares	-1.17	1.56			
- Bearer shares	-5.87	7.82			

Unaudited figures

Highlights of the first half 2020

Promising January

Swatch Group started well in 2020 and in January recorded an operating margin of 21.4% in the Watches & Jewelry segment (without Production) and 17.3% for the entire Group, despite severe weakening in China in the last week of January.

Dramatic decline as a result of country closing measures

Government Covid-19 measures imposed around the globe impacted the Group with full force as of February 2020. Complete lock-downs were introduced in most countries, which led to the forced closing of up to 80% of all retail stores worldwide at times (Group stores and third-party stores). Only e-commerce distribution was partially feasible. Production of watches, jewelry and components was reduced to a minimum, and short-time work was introduced for a significant number of employees. The Covid-19 measures have left deep marks on the half-year figures of the Group, which resulted in a half-year loss for the first time.

Streamlining of the retail network, which had already commenced in the previous year, was accelerated due to the exceptional market situation. In the first half of 2020, approximately 260 stores were definitely closed, which resulted in a significant reduction in employees abroad. The number of employees has decreased since December 2019 by 6.5% to approximately 33 700 persons. The Group achieved significant cost savings in the areas of purchasing, production, marketing, and rents. However, the areas of research and development as well as training continued unchanged.

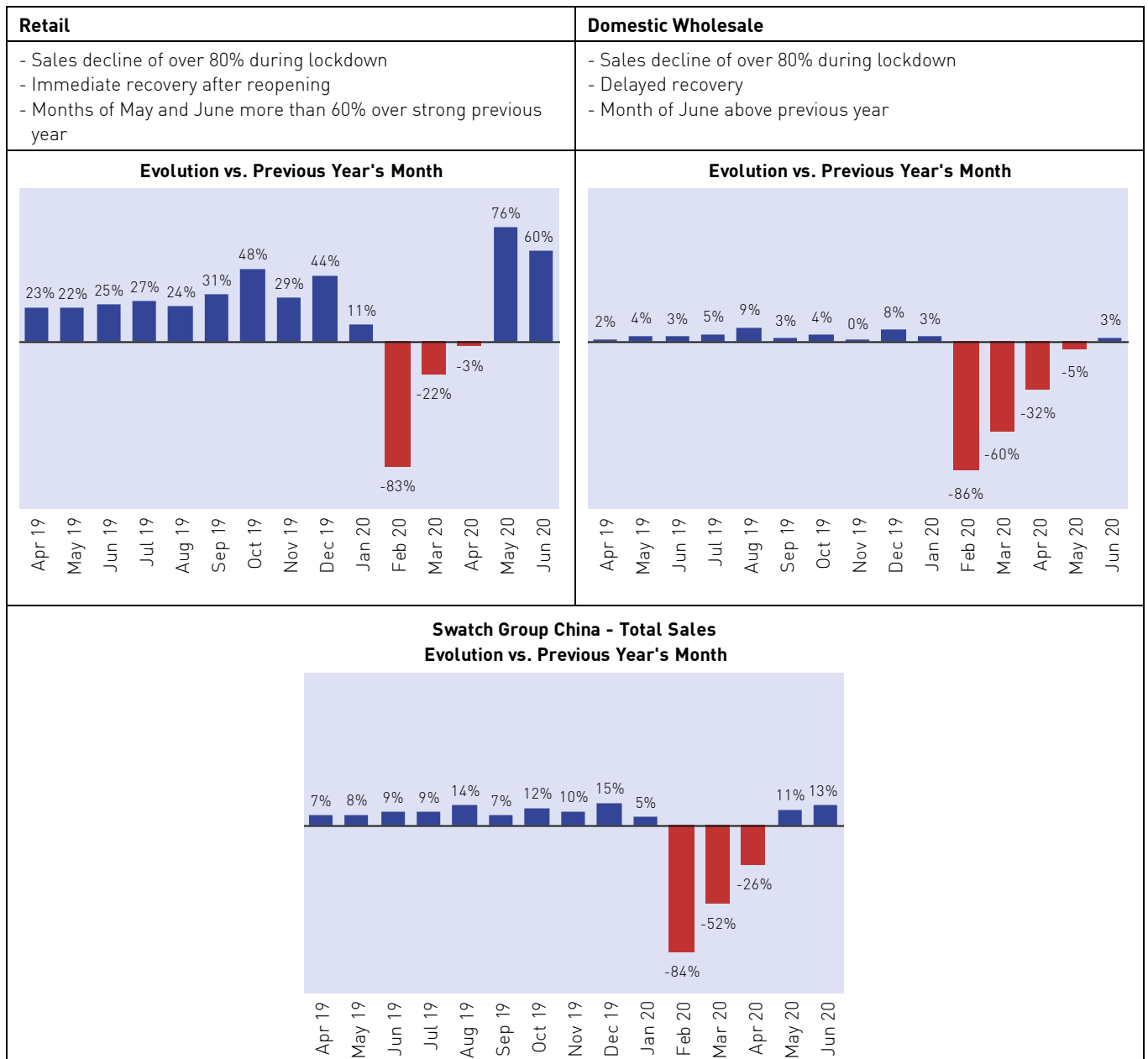
HALF-YEAR REPORT

Ongoing sustained customer demand

Customer demand for Group products continues to be strong, both in the prestige and luxury segment as well as in the middle and lower price segment. However, this demand could not be satisfied since the majority of distribution channels worldwide were forced to close.

The following examples of a market with full lockdown (China) and a country with limited lockdown (Korea) show strong growth after the end of the lockdown period in both cases, first in the Group's retail, followed by a delay in wholesale.

China - full lockdown



HALF-YEAR REPORT

Korea - limited lockdown

Retail	Domestic Wholesale																																																																
<ul style="list-style-type: none"> - Sales decrease approximately 15% after initial measures - Following month already with sales increase versus previous year - Month of June more than 30% over previous year 	<ul style="list-style-type: none"> - Sales slightly minus for one month only - Following month already with double-digit sales increase versus previous year - Month of June more than 30% over previous year 																																																																
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Outlook for the second half of 2020

The Group's management is convinced that the sales and profit situation will improve quickly in the coming months, parallel to the further easing of Covid-19 measures in the countries. The positive outlook is strengthened by the new products which will be launched in the second half of the year, as well as the lower cost base. This will lead to increased production capacity in the third and fourth quarter 2020. A positive operating result is expected for the full year.

HALF-YEAR FINANCIAL STATEMENTS

Consolidated Income Statement

	1st half 2020		1st half 2019	
	CHF million	%	CHF million	%
Net sales	2 197	100.0	4 078	100.0
Other operating income	62	2.8	61	1.5
Changes in inventories	0	0.0	198	4.8
Material purchases	-451	-20.5	-899	-22.0
Personnel expense	-1 020	-46.4	-1 330	-32.6
Depreciation and impairment on property, plant and equipment	-214	-9.7	-218	-5.4
Amortization and impairment on intangible assets	-21	-1.0	-22	-0.5
Other operating expenses	-880	-40.1	-1 321	-32.4
Operating result	-327	-14.9	547	13.4
Other financial income and expense	-12	-0.5	-2	-0.0
Interest expense	-1	-0.0	-5	-0.2
Share of result from associates and joint ventures	-4	-0.2	-1	-0.0
Ordinary result	-344	-15.6	539	13.2
Non-operating result	0	0.0	1	0.0
Result before income taxes	-344	-15.6	540	13.2
Income taxes	36	1.6	-125	-3.0
Net result	-308	-14.0	415	10.2
<i>Attributable to shareholders of The Swatch Group Ltd</i>	<i>-303</i>		<i>404</i>	
<i>Attributable to non-controlling interests</i>	<i>-5</i>		<i>11</i>	
Earnings per share in CHF				
Registered shares				
Basic earnings per share	-1.17		1.56	
Diluted earnings per share	-1.17		1.56	
Bearer shares				
Basic earnings per share	-5.87		7.82	
Diluted earnings per share	-5.87		7.81	

Unaudited figures

HALF-YEAR FINANCIAL STATEMENTS

Consolidated Balance Sheet

Assets	30.06.2020		31.12.2019	
	CHF million	%	CHF million	%
Current assets				
Cash and cash equivalents	958	7.5	1 239	9.0
Marketable securities and derivative financial instruments	174	1.4	230	1.7
Trade receivables	476	3.7	838	6.1
Other current assets	133	1.0	132	1.0
Inventories	6 781	53.0	6 852	50.1
Prepayments and accrued income	276	2.2	264	1.9
Total current assets	8 798	68.8	9 555	69.8
Non-current assets				
Property, plant and equipment	3 058	23.9	3 189	23.3
Intangible assets	143	1.1	150	1.1
Investments in associates and joint ventures	39	0.3	45	0.3
Other non-current assets	307	2.4	325	2.4
Deferred tax assets	446	3.5	428	3.1
Total non-current assets	3 993	31.2	4 137	30.2
Total assets	12 791	100.0	13 692	100.0

Unaudited figures

HALF-YEAR FINANCIAL STATEMENTS

Consolidated Balance Sheet

Equity and liabilities	30.06.2020		31.12.2019	
	CHF million	%	CHF million	%
Current liabilities				
Financial debts and derivative financial instruments	188	1.5	101	0.7
Trade payables	254	2.0	313	2.3
Other liabilities	170	1.3	185	1.4
Provisions	85	0.7	84	0.6
Accrued expenses	502	3.9	678	5.0
Total current liabilities	1 199	9.4	1 361	10.0
Non-current liabilities				
Financial debts	3	0.0	20	0.1
Deferred tax liabilities	496	3.9	546	4.0
Retirement benefit obligations	45	0.4	46	0.3
Provisions	54	0.4	57	0.4
Accrued expenses	168	1.3	169	1.3
Total non-current liabilities	766	6.0	838	6.1
Total liabilities	1 965	15.4	2 199	16.1
Equity				
Share capital	118		118	
Capital reserves	-967		-948	
Treasury shares	-154		-195	
Goodwill recognized	-1 372		-1 372	
Translation differences	-380		-285	
Retained earnings	13 500		14 087	
Equity of The Swatch Group Ltd shareholders	10 745	84.0	11 405	83.3
Non-controlling interests	81	0.6	88	0.6
Total equity	10 826	84.6	11 493	83.9
Total equity and liabilities	12 791	100.0	13 692	100.0

Unaudited figures

HALF-YEAR FINANCIAL STATEMENTS

Consolidated Statement of Cash Flows

(CHF million)	1st half 2020	1st half 2019
Operating activities		
Net result	-308	415
Share of result from associated companies and joint ventures	4	1
Income taxes	-36	125
Depreciation on non-current assets	235	240
Impairment	0	0
Changes in provisions and retirement benefit obligations	1	-5
Gains/losses on sale of non-current assets	-3	1
Other non-cash items	54	-13
Changes in net working capital:		
– Trade receivables	341	54
– Inventories	2	-200
– Other current assets, prepayments and accrued income	5	22
– Trade payables	-36	-95
– Other liabilities and accrued expenses	-88	-19
Dividends received from associated companies and joint ventures	1	1
Income taxes paid	-144	-151
Cash flow from operating activities	28	376
Investing activities		
Investments in property, plant and equipment	-121	-212
Proceeds from sale of property, plant and equipment	3	4
Investments in intangible assets	-17	-16
Proceeds from sale of intangible assets	3	0
Investments in other non-current assets	-1	-7
Proceeds from sale of other non-current assets	8	6
Purchase of marketable securities	-65	-40
Sale of marketable securities	107	79
Cash flow from investing activities	-83	-186
Financing activities		
Dividends paid to shareholders	-284	-413
Dividends paid to non-controlling interests	-1	-14
Repurchase of treasury shares	0	-35
Sale of treasury shares	18	0
Change in non-current financial debts	-1	2
Change in current financial debts	68	230
Cash flow from financing activities	-200	-230
Net impact of foreign exchange rate differences on cash	-27	-9
Change in cash and cash equivalents	-282	-49
Change in cash and cash equivalents		
– Balance at beginning of year	1 148	902
– Balance at 30 June	866	853

Unaudited figures

HALF-YEAR FINANCIAL STATEMENTS

Consolidated Statement of Changes in Equity

Attributable to The Swatch Group Ltd shareholders

(CHF million)	Share capital	Capital reserves	Treasury shares	Goodwill recognized	Translation differences	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2018	125	-961	-1 251	-1 372	-210	14 854	11 185	89	11 274
Net result						404	404	11	415
Currency translation of foreign entities					-42		-42	-1	-43
Dividends paid						-413	-413	-14	-427
Employee stock option plan		7					7		7
Repurchase of treasury shares		0	-35				-35		-35
Balance at 30 June 2019	125	-954	-1 286	-1 372	-252	14 845	11 106	85	11 191
Net result						326	326	7	333
Currency translation of foreign entities					-33		-33	-1	-34
Dividends paid							0	-3	-3
Employee stock option plan		6					6		6
Capital reduction	-7		1 091			-1 084	0		0
Repurchase of treasury shares		1					1		1
Transactions with non-controlling interests		-1					-1		-1
Balance at 31 December 2019	118	-948	-195	-1 372	-285	14 087	11 405	88	11 493
Net result						-303	-303	-5	-308
Currency translation of foreign entities					-95		-95	-1	-96
Dividends paid						-284	-284	-1	-285
Employee stock option plan			5				5		5
Sale of treasury shares		-19	36				17		17
Balance at 30 June 2020	118	-967	-154	-1 372	-380	13 500	10 745	81	10 826

Unaudited figures

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

1. Basis of preparation**a. Basic accounting principles**

These interim financial statements cover the unaudited half-year results for the six months ended 30 June 2020. They have been prepared in accordance with Swiss GAAP FER (Accounting and Reporting Recommendations). The consolidated half-year closing 2020 was prepared in accordance with FER 31 "Complementary recommendation for listed companies". This half-year report does not include all the information and disclosures which are required in the annual report. It should therefore be viewed in connection with the annual report at 31 December 2019.

b. Accounting estimates and judgments

In these interim financial statements, Management has reviewed and, if necessary, adapted accounting estimates and judgements. These are based on historical experience as well as other factors such as expectations and assessments of future events, and mainly impact the following areas:

Inventories. Group products have an extremely long life. They are neither perishable nor are they subject to short term fashion cycles. The exceptional worldwide situation did not lead to a requirement for additional impairment. According to Group policies, inventories with sales risks or insufficient turnover are written down to their net market value in the income statement. This impairment amounted to CHF 28 million (previous year: CHF 20 million).

Taxes. Deferred tax assets for carryforward tax losses are recognized only if it is probable that future taxable profits will be available against which they can be utilized. Various tax rate changes in the first half of 2020 resulted in a one-time deferred tax income of CHF 40 million, of which more than half was due to Swiss tax reforms in the various home cantons of the Group.

2. Segment information

1st half 2020 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
- Third parties	2 068	127	2		2 197
- Group	0	6	2	-8	0
Net sales	2 068	133	4	-8	2 197
Operating result	-260	-4	-63	0	-327
- in % of net sales	-12.6%	-3.0%			-14.9%
1st half 2019 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
- Third parties	3 932	143	3		4 078
- Group	1	8	2	-11	0
Net sales	3 933	151	5	-11	4 078
Operating result	608	3	-64	0	547
- in % of net sales	15.5%	2.0%			13.4%

3. Group structure

At 30 June 2020 the Group consolidation structure comprised 152 legal entities (year end 2019: 153). The decrease was due to a liquidation. In the first half of the year under review as well as the previous year, no companies were acquired or sold and there were no changes in investments in associated companies and joint ventures.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

4. Discontinuing operations

The business unit Calvin Klein will be discontinued by the end of 2021 at the latest, due to the expiration of the license agreement. Key figures for this unit suffered a significant negative impact in the first half of 2020 due to Covid-19.

(CHF million)	1st half 2020	1st half 2019
Net sales	17	59
Operating result	-26	-15

5. Key exchange rates

Currency	Unit	Average rates	Prevailing rates	Average rates	Prevailing rates	Prevailing rates
		01.01.-30.06.2020	30.06.2020	01.01.-30.06.2019	31.12.2019	30.06.2019
CNY	1	0.1373	0.1348	0.1478	0.1392	0.1423
EUR	1	1.0668	1.0700	1.1300	1.0880	1.1125
HKD	1	0.1246	0.1230	0.1275	0.1245	0.1251
JPY	100	0.8976	0.8850	0.9115	0.8925	0.9070
USD	1	0.9672	0.9530	0.9999	0.9700	0.9775

6. Treasury shares

In the first half of 2020, 421 556 registered shares with a market value of CHF 17 million were sold (previous year: none). In the first half of 2019, the Swatch Group repurchased 56 450 bearer shares and 314 433 registered shares with a market value of CHF 35 million (year under review: none).

In addition, in the period under review, the Swatch Group sold treasury shares related to the employee stock option plan in the amount of CHF 1 million (previous year: less than CHF 1 million).

7. Dividend

The Company pays one dividend per fiscal year. For fiscal year 2019, the dividend agreed at the Annual General Meeting on 14 May 2020, with a value date of 20 May 2020, was distributed as follows:

	Dividend per share CHF	Total dividend CHF million
Registered shares	1.10	129
Bearer shares	5.50	159
Total dividend		288
Dividend not paid out on treasury shares		-4
Total dividend paid		284

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

8. Significant events and business transactions

During the period under review, no material events or business transactions occurred that might have an impact on the critical estimates, appraisals and assumptions to be found in the consolidated financial statements as at 31 December 2019. Also, there were no further material events or business transactions that might impact upon other positions in the consolidated financial statements (such as, for example, changes to contingent liabilities and receivables or business transactions involving associated enterprises and persons). The impact of the exceptional worldwide situation caused by Covid-19 on Swatch Group business is outlined on pages 1-4 of this half-year report.

9. Events after the closing date

At the publish date of this press release, the Company is not aware of any significant new event that would affect the half-year financial statements at 30 June 2020.

Original: German
Translations: English, French and Italian

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