

PRESS RELEASE

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SWATCH GROUP: KEY FIGURES 2017

- Group net sales increased 5.8% to CHF 7 989 million at constant exchange rates, and +5.4% to CHF 7 960 million at current exchange rates.
- Sales growth of 7.3% in the Watches & Jewelry segment (excluding Production) at constant exchange rates and 6.9% at current exchange rates.
- Strong acceleration of 12.2% at current exchange rates in the second half of the year and in the 4th quarter even 14.9% in the Watches & Jewelry segment (excluding Production).
- December recorded the second best monthly sales in the history of Swatch Group.
- Dynamic growth in all price segments, with the strongest increase in the prestige and luxury segment.
- Extraordinary performance of Harry Winston and a very strong acceleration of Omega in the second half of the year.
- The basic and middle range price segment, with Flik Flak, Swatch, Calvin Klein, Hamilton, Mido and Tissot, recorded good growth in value, in the second half of the year, as well as in volumes.
- Growth in all regions, the strongest of which was Asia / Pacific, in both wholesale and retail.
- Operating margin in the Watches & Jewelry Segment (excluding Production) increased 27.4%, from 12.8% to 15.3% of net sales, despite a negative currency impact.
- Overall operating result improved by 24.5% to CHF 1 002 million, and was even up by almost 40% in the second half of the year. Operating margin grew from 10.7% in the previous year to 12.6%.
- Net income increased 27.3% to CHF 755 million, with a net margin of 9.5% (previous year: 7.9%).
- Dividend proposal up by 11.1% to CHF 7.50 per bearer share (previous year: CHF 6.75) and CHF 1.50 per registered share (previous year: CHF 1.35), back to the level of 2015.
- Good start into the new year in all segments. Positive outlook for 2018, with numerous new product launches and very good capacity utilization in production, which will further profit from higher volumes.

Group Key Figures

(CHF million)	2017	2016	Change in %		Total
			at constant rates	currency effect	
Net sales	7 960	7 553	+ 5.8%	– 0.4%	+ 5.4%
Operating result	1 002	805			+ 24.5%
– in % of net sales	12.6%	10.7%			
Net income	755	593			+ 27.3%
– in % of net sales	9.5%	7.9%			
Equity	11 289	11 073			+ 2.0%
– as a % of balance sheet total	83.8%	84.5%			
Average return on equity (ROE)	6.8%	5.3%			

Unaudited figures.

Strategy

The very strong performance in the second half of the year once again confirms the validity of the Swatch Group strategy:

- to retain personnel even in difficult times
- to continue investment in innovation and marketing
- to view inventory not as a risk, but as an opportunity

These elements led to massive gains in market share in the second half of the year and will develop further positive impacts in 2018.

Group Overview

The Swatch Group, with its 20 strong brands and its own retail network, including e-commerce and omnichannel distribution, is very well set up worldwide, and generated sales of CHF 7 960 million over the course of the year (+5.4% at current and +5.8% at constant exchange rates).

The Swatch Group also adhered to its consumer-friendly and defensive pricing policy, and did not adjust automatically local sales prices to the overvalued Swiss franc.

Highlights of the financial year 2017

Development in the segments and countries

Particularly the second half of 2017 was marked by highly accelerated sales growth of 12.2% in the Watches & Jewelry segment (excluding Production) at actual rates and with one of the best-ever December turnover. The entire segment (including Production) achieved net sales of CHF 7 702 million. Compared to the previous year, this was an increase of 5.4% at actual and 5.8% at constant exchange rates.

Highly accelerated sales growth was recorded in all price segments, particularly in the basic and middle range segment as well. Flik Flak, Swatch, Calvin Klein, Hamilton, Mido and Tissot achieved impressive growth rates in the second half of 2017, while export figures for the Swiss Watch Industry were clearly negative in these segments. This indicates a massive gain in market share in these segments.

The already strong position of the Swatch Group in Mainland China strengthened further due to marked growth in 2017. Sales in Hong Kong have not only stabilized further during the year, but are on growth track. Japan recorded high single-digit growth during the course of the year. Also in the Middle East, the Swatch Group again recorded accelerated growth. In Europe, particularly sales in Great Britain, Italy, Germany, Austria, Benelux, and also again in Switzerland increased compared to the previous year. Only France and Spain lag behind in this respect. Growth in local currency also accelerated in the North American market during the course of the year.

Production integrated in the Watches & Jewelry segment already recorded good capacity utilization again in the second half of the year. In some areas, capacity constraints are already occurring, for example, in integrated gold production. Third-party brands are still hesitant with orders.

The Electronic Systems segment generated net sales of CHF 267 million, corresponding to a growth of 2.7%. Sales are very sensitive in relation to the strength of the Swiss franc versus USD and JPY, which did not help this industry sector in 2017. The operating result in the Electronic Systems segment closed at CHF 5 million (previous year: CHF 10 million).

Personnel

The strategy of deliberately maintaining jobs proved itself once again in 2017, particularly in the production sector, where capacity utilization improved very quickly during the months in the second half of the year. As a result, the number of employees at the end of December 2017 was approximately 35 400.

Training

The Swatch Group promotes vocational training at all levels. At the end of 2017, more than 700 persons were in training in Switzerland and abroad, either as apprentices learning watchmaker and related technical trades, or as students in the Group's six international customer service watchmaking schools in Miami, Kuala Lumpur, Shanghai, Hong Kong, Pforzheim and Manchester.

Operating result and net income

Driven by steady growth in sales in the Watches & Jewelry segment, capacity utilization in production continued to improve, so that an operating result of CHF 1 002 million was achieved, corresponding to an operating margin of 12.6%. Net income amounted to CHF 755 million or 9.5% of net sales.

Investments

Across all segments, the Swatch Group invested a total of CHF 464 million in non-current assets in 2017. The Group's retail network was further optimized in selective areas. Massive investment continued to be made in production, both in the latest production methods and in innovative production equipment and processes. Significant investment was also made in worldwide customer service.

Research and development

In the product sector, as well as in production processes with the latest materials technology, a large number of developments were completed and significant technological innovations were realized once again in the operating year. The number of patent applications in 2017 was 183 compared to 185 in 2016; this means that on average a new patent application was filed every second day.

Cash flow and net cash position

Operating cash flow increased compared to last year by 25.1%, from CHF 1 010 million to CHF 1 264 million. To keep the cash position low and to avoid negative interest, a three-year share buyback program with a repurchase volume of maximum CHF 1 billion was launched on 5 February 2016. In 2017, treasury shares with a market value of CHF 204 million were repurchased. The total volume repurchased since the beginning of the program amounts to CHF 536 million. The net financial position at the end of the year amounts to CHF 1.6 billion.

Inventories

Inventories are practically unchanged in value from the beginning of the year and amount to approximately CHF 6.3 billion at year end, although the retail network was further optimized, many new products put in the production pipeline, and production was stepped up again in the second half of the year.

Dividend proposal

At the Annual General Meeting on 24 May 2018, the Board of Directors of the Swatch Group will propose a dividend of CHF 7.50 per bearer share and CHF 1.50 per registered share (previous year CHF 6.75 per bearer share and CHF 1.35 per registered share) due to the very good results.

Outlook for 2018

The Swatch Group anticipates further very positive growth in local currencies in 2018, not only from its own distribution channels such as retail and e-commerce, but also from third-party channels. In addition, further growth will utilize the capacities of all production areas.

Once again, Omega, as official timekeeper of the XXIII Winter Games from 9 to 25 February in PyeongChang, South Korea, will deliver daily results and all the athletes' data, and therefore be present in all the media. In addition, Omega will present on site the Seamaster Collection limited series PyongChang 2018 dedicated to the Games. Omega will also celebrate the 70th anniversary of the Seamaster and the 25th anniversary of the Seamaster Diver 300m in 2018, and will market special editions of the collections for these occasions. After the successful launch of the new „Trésor pour femme“ collection in Japan and the USA in December, worldwide market introduction will take place in the first half of 2018.

Blancpain, with its Fifty Fathoms collection and the Blancpain Ocean Commitment, and Breguet, with its new Marine Collection, will cause a sensation and generate further sales growth. The Harry Winston brand further strengthens its market presence with the opening of new sales salons on Rodeo Drive in Beverly Hills, San Francisco, Istanbul, and Zürich, as well as an additional flagship store in Hong Kong Central.

Rado will strengthen its worldwide leadership position in ceramics with the launch of new collections with innovative materials and surface structures. Longines, with its Conquest V.H.P. collection (Very High Precision, extremely precise quartz movement with practically infinite calendar), will not only increase its market presence, but is also well on its way to achieving sales of CHF 2 billion in the medium term. Longines will also be the official timekeeper of important sporting events such as the Commonwealth Games in Australia and the world equestrian and show jumping championships in the USA.

Tissot, one of the exclusive Swiss brands with over CHF 1 billion in sales, will once again be the official sponsor and timekeeper for the Tour de France. The brand will introduce the new Tissot T-Race Cycling, and in doing so, will broaden the already well-known Tissot T-Sport Collection of timepieces which includes the Chrono XL NBA, the North American professional basketball league, and the MotoGP. In addition, the Tissot Chemin des Tourelles GMT, with a Powermatic 80 GMT watch movement with 80 hours power reserve and two time zones, will be launched. Tissot will also further expand its very close and successful partnership with Tmall in China.

Swatch and Tmall held a unique “Swatch Tmall Super Brand Day” on 12 January 2018 at the Swatch Art Peace Hotel in Shanghai, with a combination of on- and offline activities centered on the Swatch brand. Live streaming of this event was followed by over 24 million Tmall users. Karry Wang, as a new Swatch ambassador, also took part in this event. As a singer and actor, Karry Wang is a star and idol for the young generation in China. The special Swatch model which he wore was sold out within hours. In addition, a great many fans immediately crowded the Boutiques.

In the Electronic Systems segment, demand is currently growing rapidly, thanks to groundbreaking developments, which naturally have been patented. Examples are the so-called miniature watch module, which enables production of ultra-precise quartz watch movements with an accuracy 30 times better than previous quartz movements, and the new real-time clock (RTC), which is used to optimize charging cycles for the battery management system in all batteries for hybrid and electric vehicles. Last but not least, a unique interface circuit for accelerometers was developed, which is used for drones, fitness trackers, mobile phones and other electronic devices.

Swatch Group, with its global presence and its unique and diverse distribution channels, including online, will continue to generate very dynamic growth in local currency in 2018. The very good start in January confirms sustained consumption in most regions and countries, not only in the prestige and luxury sector, but also in the basic price segments.

Next publications/events:

14.03.2018	Publication of the annual report 2017 Press conference
24.05.2018	Annual General Meeting, Grenchen
02.08.2018	Publication of 2018 half-year results

Original:	German
Translations:	English, French and Italian

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Consolidated Income Statement

	2017		2016	
	CHF million	%	CHF million	%
Net sales	7 960	100.0	7 553	100.0
Other operating income	116	1.4	249	3.3
Changes in inventories	83	1.0	77	1.0
Material purchases	- 1 735	- 21.8	- 1 642	- 21.7
Personnel expense	- 2 339	- 29.4	- 2 342	- 31.0
Depreciation and impairment on property, plant and equipment	- 433	- 5.4	- 394	- 5.2
Amortization and impairment on intangible assets	- 43	- 0.5	- 43	- 0.6
Other operating expenses	- 2 607	- 32.7	- 2 653	- 35.1
Operating result	1 002	12.6	805	10.7
Other financial income and expense	- 16	- 0.2	- 25	- 0.3
Interest expense	- 3	- 0.0	- 3	- 0.1
Share of result from associates and joint ventures	21	0.2	- 4	- 0.1
Ordinary result	1 004	12.6	773	10.2
Non-operating result	3	0.0	4	0.1
Profit before income taxes	1 007	12.6	777	10.3
Income taxes	- 252	- 3.1	- 184	- 2.4
Net income	755	9.5	593	7.9
Attributable to shareholders of The Swatch Group Ltd	733		574	
Attributable to non-controlling interests	22		19	

Earnings per share (EPS) – expressed in CHF per share:

	2017		2016	
Registered shares				
Basic earnings per share	2.77		2.14	
Diluted earnings per share	2.77		2.14	
Bearer shares				
Basic earnings per share	13.86		10.69	
Diluted earnings per share	13.85		10.68	

Unaudited figures.

Consolidated Balance Sheet

Assets	31.12.2017		31.12.2016	
	CHF million	%	CHF million	%
Current assets				
Cash and cash equivalents	1 291	9.6	1 136	8.7
Marketable securities and derivative financial instruments	340	2.5	326	2.5
Trade receivables	1 076	8.0	903	6.9
Other current assets	178	1.3	141	1.1
Inventories	6 318	46.9	6 259	47.7
Prepayments and accrued income	255	1.9	280	2.1
Total current assets	9 458	70.2	9 045	69.0
Non-current assets				
Property, plant and equipment	3 281	24.3	3 276	25.0
Intangible assets	147	1.1	142	1.1
Investments in associates and joint ventures	57	0.4	59	0.5
Other non-current assets	144	1.1	174	1.3
Deferred tax assets	392	2.9	410	3.1
Total non-current assets	4 021	29.8	4 061	31.0
Total assets	13 479	100.0	13 106	100.0

Unaudited figures.

Consolidated Balance Sheet

Equity and liabilities	31.12.2017		31.12.2016	
	CHF million	%	CHF million	%
Current liabilities				
Financial debts and derivative financial instruments	16	0.1	124	0.9
Trade payables	354	2.6	316	2.4
Other liabilities	209	1.5	166	1.3
Provisions	93	0.7	83	0.6
Accrued expenses	701	5.2	518	4.0
Total current liabilities	1 373	10.1	1 207	9.2
Non-current liabilities				
Financial debts	26	0.2	31	0.2
Deferred tax liabilities	532	4.0	569	4.4
Retirement benefit obligations	43	0.3	39	0.3
Provisions	69	0.5	55	0.4
Accrued expenses	147	1.1	132	1.0
Total non-current liabilities	817	6.1	826	6.3
Total liabilities	2 190	16.2	2 033	15.5
Equity				
Share capital	125		125	
Capital reserves	- 977		- 991	
Treasury shares	- 863		- 660	
Goodwill recognized	- 1 372		- 1 372	
Translation differences	- 115		- 142	
Retained earnings	14 403		14 027	
Equity of The Swatch Group Ltd shareholders	11 201	83.1	10 987	83.8
Non-controlling interests	88	0.7	86	0.7
Total equity	11 289	83.8	11 073	84.5
Total equity and liabilities	13 479	100.0	13 106	100.0

Unaudited figures.

Consolidated Statement of Cash Flows

	2017		2016
	CHF million		CHF million
Operating activities			
Net income	755		593
Reversal of non-cash items	692		645
Changes in working capital and other items included in operating cash flow	- 22		41
Dividends received from associated companies	18		2
Interest received	9		9
Interest paid	- 3		- 3
Income tax paid	- 185		- 277
Cash flow from operating activities	1 264		1 010
Investing activities			
Investments in property, plant and equipment	- 396		- 504
Proceeds from sale of property, plant and equipment	6		21
Investments in intangible assets	- 46		- 35
Proceeds from sale of intangible assets	0		1
Investments in other non-current assets	- 22		- 24
Proceeds from sale of other non-current assets	12		8
Acquisition of subsidiaries – net of cash	-		0
Divestments of businesses	3		3
Purchase of marketable securities	- 112		- 76
Sale of marketable securities	120		122
Cash flow from investing activities	- 435		- 484
Financing activities			
Dividends paid to shareholders	- 357		- 403
Dividends paid to non-controlling interests	- 17		- 36
Repurchase of treasury shares	- 204		- 332
Sale of treasury shares	1		1
Change in non-current financial debts	0		- 5
Change in current financial debts	- 100		108
Sale of non-controlling interests	-		1
Cash flow from financing activities	- 677		- 666
Net impact of foreign exchange rate differences on cash	3		- 4
Change in cash and cash equivalents	155		- 144
Change in cash and cash equivalents			
– At beginning of year	1 136		1 280
– At end of year	1 291	155	1 136
		- 144	

Unaudited figures.

Segment Information

(CHF million)	2017			2016		
	Third parties	Group	Total	Third parties	Group	Total
Net sales						
Watches & Jewelry	7 701	1	7 702	7 304	1	7 305
Electronic Systems	254	13	267	244	16	260
Corporate	5	5	10	5	6	11
Elimination		-19	-19	0	-23	-23
Total	7 960	-	7 960	7 553	-	7 553

(CHF million)	2017		2016	
	Total	% of net sales	Total	% of net sales
Operating result				
Watches & Jewelry	1 104	14.3%	894	12.2%
Electronic Systems	5	1.9%	10	3.8%
Corporate	-107		-99	
Total	1 002	12.6%	805	10.7%

Unaudited figures.

Statistical Information

	2017	2016
	Basic	Basic
Average number of registered shares outstanding	116 755 450	118 672 611
Average number of bearer shares outstanding	29 567 412	29 987 419
Key data per registered share (nom. CHF 0.45) in CHF		
Consolidated net income attributable to shareholders	2.77	2.14
Cash flow from operating activities	4.78	3.76
Consolidated equity	42.67	41.22
Dividend	1.50 ¹⁾	1.35
Price/earnings ratio	26.9	29.1
Key data per bearer share (nom. CHF 2.25) in CHF		
Consolidated net income attributable to shareholders	13.86	10.69
Cash flow from operating activities	23.89	18.80
Consolidated equity	213.33	206.12
Dividend	7.50 ¹⁾	6.75
Price/earnings ratio	28.7	29.6
Share capital in CHF	125 210 250	125 210 250

¹⁾ Board of Directors' proposal.

Unaudited figures.