

Kering SA Winds Down Watchmaking

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Like many subcultures, the world of watch collecting is riddled with nuances that shape how collectors collect, and in turn—how brands engage audiences and capture market share.



F.P. Journe, Only Watch 2021

Independence, heritage, exclusivity, and innovation are just a few cornerstones that characterize the 21st century horological landscape. Increasingly, watch brands that prioritize corporate metrics over collector preferences find themselves struggling to maintain relevancy. Thierry Stern, Patek Philippe CEO, known as of late for shuttering the brand's hottest reference says, "We have several groups of customers... It is up to us to know how to talk to all these people."

As such, we are not surprised to see the disposition of Girard Perregaux and Ulysse Nardin from the Kering family of brands. At pandemic onset, Kering did not hesitate to streamline costs to its watchmaking division, reducing staff by nearly 25% (instead of furloughing like other manufactures). Both nostalgic brands from the 20th century, neither Girard nor Ulysse kept up with trends such as in-house movements, throwback launches, or gray-market appreciation. Instead, aging inventories and waning consumer appeal caused watches from either brand to price at steep discounts to retail in the secondary market. This loss of pricing power belies either brand's place in a portfolio dedicated to the production and sales of luxury goods.

Meanwhile, Watches of Switzerland, a retailer known for its volumes of luxury watch sales last reported record post-pandemic profits—earning nearly \$3 billion in trailing twelve month revenue, up nearly 500% from its 2020 fiscal year end revenue of \$507.6 million.

Nonetheless, we maintain a positive outlook for the Kering group which remains home to some of the world's foremost luxury apparel and accessory brands including Gucci, Balenciaga, Saint Laurent, etc. At Emler Advisors, we maintain conviction in Kering's capacity to grow by acquisition, and view the disposition of Girard Perregaux and Ulysse Nardin as a positive liquidity event that will likely pave the way for further M&A activity.

At the time of publishing, the Emler Global Luxury Goods ETF holds positions in both Kering SA and Watches of Switzerland. Click [here](#) for a full list of fund holdings.

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