Lisbon School of Economics & Management
Universidade de Lisboa

MASTER

ACCOUNTING

MASTER´S FINAL WORK

PROJECT

EQUITY RESEARCH:
SWATCH GROUP

HUGO ALEXANDRE PAIXÃO DOS REIS BORGES

JANUARY- 2026

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SUPERVISION:
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GLOSSARY

CAPEX – Capital expenditures.

CAPM – Capital Asset Pricing Model, used to estimate the cost of equity.

CAGR – Compound annual growth rate.

CNY – Chinese yuan.

DCF – Discounted Cash Flow valuation.

D/E – Debt-to-equity ratio.

EBIT – Earnings before interest and taxes.

EBITDA – Earnings before interest, taxes, depreciation and amortization.

ECB – European Central Bank.

ERP / MRP – Equity (market) risk premium used in CAPM.

ESG – Environmental, Social and Governance factors.

EUR – Euro.

EV – Enterprise value.

EV/EBIT – Enterprise multiple: enterprise value divided by EBIT.

FCFE – Free Cash Flow to Equity.

FCFF – Free Cash Flow to the Firm (cash flows available to all capital providers).

FED – US Federal Reserve.

FHS – Federation of the Swiss Watch Industry (Fédération de l'industrie horlogère suisse).

FX – Foreign exchange (currency) exposure.

IMF – International Monetary Fund.

IS / BS / CF – Income Statement / Balance Sheet / Cash Flow statement.

JEL – Journal of Economic Literature classification codes.

NWC – Net working capital.

P/B – Price-to-book ratio.

P/E – Price-to-earnings ratio.

Rf – Risk-free rate.

ROE – Return on equity.

SARD – Sum of Absolute Rank Differences.

SDG – United Nations Sustainable Development Goals.

USD – US dollar.

WACC – Weighted average cost of capital

ABSTRACT AND KEYWORDS

This Master's Final Work provides an equity research assessment of The Swatch Group, combining fundamental analysis with valuation to estimate the fair value of the company's listed equity. The study evaluates Swatch Group's positioning in the Swiss luxury watch industry, considering its vertically integrated operating model, multi-brand portfolio, and exposure to key geographic markets. Particular attention is given to recent market challenges, including weaker demand in Greater China and a more uncertain macroeconomic environment.

Two valuation approaches are applied. First, an intrinsic valuation is developed using a Discounted Cash Flow model based on Free Cash Flow to Equity (FCFE), reflecting the firm's economically low leverage. The model forecasts performance over 2025–2030 and estimates a terminal value using a perpetual growth approach, with the cost of equity derived from a CAPM framework. Second, a market-based relative valuation is performed using peer multiples sourced from Refinitiv, with peer selection supported by a fundamentals-based approach (SARD) and the use of median trading multiples.

Under the base scenario assumptions, the DCF implies an equity value of CHF 4,668m, corresponding to CHF 162.76 per share, which is broadly in line with the observed market price at year end 2024 (CHF 165). Scenario analysis indicates a valuation range of approximately CHF 98–234 per share, driven mainly by assumptions on long-run profitability and terminal growth. The relative valuation provides a verification of consistency, with EV/EBIT implying CHF 153.37 per share. Overall, the results support a Neutral/Hold conclusion, with limited upside under the base scenario and meaningful downside risk if the recovery in demand and margins disappoints.

KEYWORDS: Swatch Group; Equity valuation; Discounted cash flow; Relative valuation; Luxury watch industry.

RESUMO E PALAVRAS CHAVE

Este Trabalho Final de Mestrado apresenta uma análise de equity research do Swatch Group, combinando análise fundamental com métodos de avaliação financeira para estimar o justo valor das ações do capital próprio da empresa. O estudo avalia o posicionamento estratégico do Swatch Group na indústria suíça de relojoaria de luxo, considerando o seu modelo de integração vertical, o portefólio diversificado de marcas e a exposição a mercados geográficos relevantes, com especial destaque para a China.

Foram aplicadas duas metodologias de avaliação. Em primeiro lugar, foi desenvolvido um modelo de Discounted Cash Flow (DCF) com base no Free Cash Flow to Equity (FCFE), adequado a uma empresa com baixa alavancagem financeira. O modelo projeta o desempenho para o período 2025–2030 e estima o valor terminal através de um modelo de crescimento perpétuo, utilizando uma taxa de desconto obtida via CAPM. Em segundo lugar, foi realizada uma avaliação relativa com base em múltiplos de mercado, utilizando o método SARD (Sum of Absolute Rank Differences) para seleção estruturada de empresas comparáveis.

No cenário base, o modelo DCF implica um valor do capital próprio de CHF 4.668 milhões, correspondente a CHF 162,76 por ação ao portador, valor próximo do preço de mercado observado no final de 2024. A análise de cenários indica um intervalo de valorização entre aproximadamente CHF 98 e CHF 234 por ação. A avaliação relativa, baseada no múltiplo EV/EBIT, sugere um valor de CHF 153,37 por ação. No global, os resultados sustentam uma recomendação Neutral/Hold, refletindo um equilíbrio entre potencial de valorização limitado e risco de deterioração caso a recuperação da procura não se materialize.

Palavras-chave: Swatch Group; Avaliação de empresas; Discounted Cash Flow; Avaliação relativa; Indústria de luxo.

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EQUITY RESEARCH: SWATCH GROUP

By Hugo Borges

This project analyses the Swatch Group's financial performance and their strategic positioning within the luxury watch industry in the year of 2025. Using valuation methodologies such as Discounted Cash Flow (DCF) and Relative Valuation, the study aims to estimate the company's intrinsic value given the current market challenges. By examining the Swatch Group's diverse brand portfolio and adapting strategies, this research provides insights into its growth potential and resilience in this evolving market.

1. INTRODUCTION

The Swiss luxury watch sector remains one of the most resilient segments of the global luxury industry, yet it faces increasing competitive pressure, shifting consumer preferences, and macroeconomic uncertainty. In this context, performing a rigorous equity valuation of Swatch Group is essential for assessing its intrinsic value and long-term growth prospects.

The addressed research question: What is the fair value of Swatch Group's equity, based on a fundamentals-driven valuation framework and the company's expected performance and market conditions over the forecast horizon?

This Master Final Work conducts a comprehensive equity research analysis of Swatch Group, including both Discounted Cash Flow (DCF) and Relative Valuation analysis. The objective is to estimate the company's fair value by combining fundamental cash-flow projections with market-based valuation multiples. The analysis incorporates the company's vertically integrated business model, diversified brand portfolio, and strategic positioning within the global luxury watch industry.

Given the growing relevance of sustainability including the rising influence of Millennials and Gen Z this study also considers non-financial factors that increasingly affect valuation. By combining academic literature, industry reports, and the company's financial disclosures, this research aims to provide an evidence-based investment view on Swatch Group.

The remainder of this report is organised as follows: Section 2 reviews the relevant literature for the valuation choices adopted. Section 3 presents Swatch Group and its strategic positioning, Sections 5 and 6 describe the market context and the peer set used

for comparability. Section 8 details the valuation assumptions and results. Finally, Sections 9 and 10 summarise the main conclusions and limitations of the analysis.

2. LITERATURE REVIEW

In equity research, understanding the intrinsic value of a company is essential, given that it is shaped by multiple factors. According to *Misamore (2017)*, these factors include financial performance, market position, and growth potential, all of which contribute to a company's overall worth. Both tangible assets, such as property and equipment, and intangible assets, including intellectual property and brand reputation, play a crucial role in valuation. The interaction between these elements influences investor perceptions and decision-making, underscoring the importance of a comprehensive approach to asset valuation.

There are various methods available for valuing a company, each with its own assumptions and applications. Damodaran (2012) summarizes several key valuation methods, including the Discounted Cash Flow (DCF) method, Relative Valuation, and Asset Based Valuation, among others. The choice of method depends on the context of the analysis and the nature of the company being evaluated. For this equity research, I will apply the Discounted Cash Flow (DCF) method and the Relative Valuation method.

In the luxury goods sector, DCF and Relative Valuation are commonly used methods specially when the companies analysed have stable and predictable cash flows. According to Damodaran (2009), DCF is well-suited for firms with consistent performance, as it allows for the estimation of intrinsic value based on long-term cash flow projections. This approach is particularly relevant for Swatch Group, who has a vertically integrated model and portfolio of watch well-known brands that enable reliable forecasting.

While there are other valuation methods, DCF and Relative Valuation are still the best suited for the Swatch Group analysis. Asset based valuation is not suitable in this situation because it wouldn't consider the intangible assets such as brands that are central for the Swatch Group value creation (Koller et al., 2020). Although Contingent Claim Valuation method is great for uncertain scenarios, it would not be the best case to be applied given that despite Swatch Group being very innovative they are already very mature, therefor is not in a high uncertainty situation (Fernández, 2002). For these reasons DCF and Relative Valuation are the most appropriate for this valuation allowing comparison with other companies in the same industry, by combining both methods we have a more

comprehensive valuation framework that accounts for fundamental value and market-based perspectives.

2.1. Discounted Cash Flow

Discounted Cash Flow (DCF) method estimates a company's intrinsic value by projecting future cash flows and discounting them to present value using a risk-adjusted rate. As Damodaran (2006) explains, this approach is based on the principle that an asset's worth is determined by its expected future cash flows, adjusted for time and risk. The discount rate, often the weighted average cost of capital (WACC), reflects the risk associated with these cash flows, making DCF a fundamental tool for long-term valuation.

2.2. Relative Valuation

The Relative Valuation method estimates a company's value by comparing it to similar firms using financial multiples. According to Koller et al. (2010), this approach relies on market-based metrics, such as Price-to-Earnings (P/E) and Enterprise Value-to-EBITDA (EV/EBITDA), to assess how comparable companies are valued. By analysing these multiples, investors and analysts can get a view whether a company is overvalued or undervalued relative to its peers.

In relative valuation, a key step is to choose the set of comparable firms also known as peers. Research shows that this choice has a large effect on how precise multiples-based valuations are. Alford (1992) shows that the pricing error of P/E valuations changes substantially depending on how comparable firms are defined, for example by industry, risk or earnings growth. It was found that valuation becomes more accurate when peers are similar to the target company not only in industry, but also in fundamentals such as size, profitability and growth (Bhojraj & Lee, 2002; Cheng & McNamara, 2000). Building on this idea, Knudsen et al. (2017) introduce the Sum of Absolute Rank Differences (SARD) method. SARD ranks all potential peers on a set of value drivers (profitability, growth, risk and size) and selects those with the smallest total rank difference compared with the firm being valued. Their evidence shows that SARD-based peer groups reduce valuation errors compared with traditional peer selection based only on industry or simple regression methods. In line with this fundamentals-based

literature, this thesis applies the SARD method to identify the firms that are most similar to Swatch Group in terms of key value drivers and uses this peer group in the relative valuation.

Recent work on relative valuation supports the importance of multiple selection and peer comparability for valuation reliability, reinforcing the choice of EV-based multiples and the use of a structured peer selection approach (Skočir & Lončarski, 2024).

While EV/EBITDA is widely used in market-based valuation, EBITDA is not a cash-flow measure because it does not capture changes in working capital and omits reinvestment needs (CFA Institute, 2026; Damodaran, 2006). Consistently, evidence on valuation multiples highlights that baseline EV/EBITDA levels vary with capital intensity and that the "depreciation factor" (the gap between EBITDA and EBIT) provides a practical signal of when EBITDA may overstate operating performance relative to the underlying asset base. Therefore, for vertically integrated, manufacturers where depreciation reflects recurring consumption of productive assets, EV/EBIT can be a more informative primary multiple (CFA Institute, 2016; Morgan Stanley, 2024), therefore EV/EBIT is the primary multiple in the equity research.

2.3. Luxury Industry

The luxury watch industry has changed significantly over the past few years. According to McKinsey & Company (2025a) report, the industry saw a 5% compound annual growth rate between 2019 and 2023, driven by the demand that wasn't met for personal luxury goods. However, the sector is now facing a slowdown due to macroeconomic challenges, particularly in key markets like China.

The Covid-19 pandemic represented one of the most severe shocks for the Swiss watch industry in recent decades. In 2020, global store closures, travel restrictions and supply-chain disruptions led to a sharp contraction in demand. Swiss watch exports declined by approximately 21.8% in 2020 compared to the previous year, reflecting both reduced international tourism and weakened consumer spending (Federation of the Swiss Watch Industry FH, 2021).

McKinsey & Company (2021a) insights reveal that the luxury goods sector, including watches and jewellery, contributes significantly to the global economy. The report identifies six seismic shifts that will shape the fine jewellery and premium to ultra-

luxury watches industries through 2025. These changes include shifts in consumer behaviour, such as the increasing influence of Millennials and Gen Z, who prioritize experiences and sustainability. Business models are evolving towards direct-to-consumer and omnichannel strategies, allowing brands to offer personalized experiences and build stronger customer relationships. Product innovation is driven by sustainability and technological advancements, reshaping the luxury watch industry with eco-friendly materials and smartwatches.

Given this shifts luxury brand management has evolved significantly over the past two decades. Okonkwo (2009) discusses the challenges and paradoxes faced by luxury brands due to globalization, digital communications, and new market segments. Kapferer (2017) explores the marketing mix and trends in the luxury goods market, emphasizing the importance of brand perception and consumer behaviour. These studies provide a deeper understanding of the strategies employed by luxury brands to maintain their market position and appeal to diverse consumer bases.

The Swiss watch industry in specific has demonstrated remarkable resilience and adaptability over the past few decades. Donzé (2011) highlighted the strategic measures taken by the Swatch Group to overcome the quartz crisis, including rationalization and globalization of production processes. This approach, coupled with innovative marketing strategies, enabled the Swatch Group to regain its competitiveness on the global stage. Cobigo (2022) further explored the industry's current challenges, particularly in terms of sustainability and non-financial reporting. The paper identified significant barriers to achieving a circular economy, underscoring the need for more transparent and sustainable practices within the industry.

In addition, recent luxury focused research helps contextualise how evolving consumer preferences and sustainability-related considerations can affect demand dynamics and long-term cash-flow sustainability, which is relevant when forming forward-looking assumptions (Lou et al., 2022).

2.3.1. Porter’s Five Forces

Porter Five Forces of porter is a framework to analyse how competitive an industry is, looking at five elements: the threat of new entrants, the bargaining power of suppliers, the bargaining power of buyers, the threat of substitute products and the intensity of

rivalry among existing competitors (Porter, 1980, 2008). Using this framework for the Swiss branded watch industry helps to organise and to understand the competitive pressures that affect the Swatch Group and its long-term profitability therefor giving insights for this equity research.

Threat of new entrants

The market is highly concentrated: recent industry estimates suggest that four major groups (Rolex, Swatch Group, Richemont and Patek Philippe) control more than three quarters of total sales, and these top four brands alone account for over half of industry revenues (Morgan Stanley & LuxeConsult, 2025). In addition, demand for watches is expected to grow only slowly, with McKinsey projecting annual growth of around 1–3% for watches between 2019 and 2025, which makes the companies in this industy more protective of their positions (McKinsey & Company, 2021b). Although digital channels facilitate the entry of small "micro-brands" in niche segments, it remains difficult for new competitors to reach the scale, reputation and price positioning of established Swiss groups, especially in the mid- and high-end segments where Swatch Group operates.

Bargaining power of suppliers

Key inputs in the industry include mechanical movements, components, precious metals, gemstones and specialised labour. Deloitte's Swiss Watch Industry Study reports that both brands and component manufacturers are concerned about a shortage of qualified workers and that around 4,000 additional professionals will need to be recruited and trained by 2026, which increases labour costs and puts pressure on production capacity (Deloitte, 2024). At the same time, data from the Federation of the Swiss Watch Industry show that export values have reached record levels of more than CHF 26 billion in recent years, with a growing share of high-value watches, which exposes brands more strongly to fluctuations in commodity prices (Federation of the Swiss Watch Industry FH, 2025). However, large groups such as Swatch, Richemont and Rolex have invested heavily in in-house movement and component manufacturing, which reduces their dependence on external suppliers compared with smaller independent brands. Overall, suppliers do have some bargaining power, but scale and vertical integration allow the main groups to limit this influence.

Bargaining power of buyers

On the distribution side, Deloitte's 2025 study shows that more than 60% of consumers still buy watches in physical stores and that multi-brand retailers are more important than mono-brand boutiques, which gives key retailers some leverage over mid-priced brands in terms of margins, range and marketing support (Deloitte, 2025). On the consumer side, digital channels, social media and the secondary market have increased transparency on prices and residual values. The rapid growth and professionalisation of the pre-owned luxury watch segment, which allows buyers to compare brands and models more easily and strengthens their negotiating position (McKinsey & Company, 2021b). For entry-level and mid-range products, buyers can also switch to smartwatches or other fashion and luxury items if traditional watch prices become less attractive (Deloitte, 2024). In contrast, customers of high-end mechanical watches are less price sensitive and more brand-loyal, so their bargaining power is more limited. For Swatch Group, this implies relatively high buyer's power in its more affordable brands and more moderate buyer's power in its prestige brands.

Threat of substitutes

From a functional point of view, smartphones make owning a watch unnecessary for basic timekeeping, while smartwatches offer additional health and connectivity functions that are particularly attractive to younger consumers. Industry commentary estimates that Apple sold around 37 million Apple Watches in 2023, more than twice the volume of all Swiss watch exports in that year, which illustrates the strength of this substitute in the mass and mid-price segments (Müller, 2024). At the same time, McKinsey expects that other luxury categories, such as fine jewellery, will grow faster than premium to ultra-luxury watches between 2019 and 2025, which means that high-income consumers can reallocate their discretionary spending away from watches and towards alternative luxury goods and experiences (McKinsey & Company, 2021b). Finally, the expansion of the pre-owned watch market offers buyers access to second-hand models from leading brands as an alternative to buying new watches (Morgan Stanley, 2025). These factors jointly indicate that substitutes exert considerable pressure on Swiss brands, especially in the lower and mid-price ranges where Swatch Group has significant exposure.

Rivalry among existing competitors

Although the market is relatively concentrated, with four large groups accounting for more than 75% of total sales, competition between these players is intense, particularly in overlapping price segments and key export markets(Morgan Stanley & LuxeConsult, 2025). Data from the Federation of the Swiss Watch Industry indicate that after several record years, export values declined by about 2.8% in 2024 to around CHF 26.0 billion, signalling a softer demand environment and stronger competition, particularly in entry-level and mid-range categories (Federation of the Swiss Watch Industry FH, 2025). Mentioning again that McKinsey also forecast a growth of 1–3% per year for watches between 2019 and 2025, which tends to intensify rivalry as firms try to defend or gain market share (McKinsey & Company, 2021b). More recently, higher tariffs on Swiss watches in the United States and weaker demand in China have increased pressure on revenues and profitability, with Swatch Group, for example, reporting a significant drop in sales and net income in 2024 (Financial Times, 2025b; Reuters, 2025b). In line with Porter's framework, these conditions of slow growth, high fixed costs and external shocks support the view that competitive rivalry in the industry is high (Porter, 1980, 2008).

3. COMPANY

3.1. History

Swatch Group is a Swiss company that makes watches and jewellery. It was created in 1983 when two struggling companies, ASUAG and SSIH, merged. This merger helped the Swiss watch industry survive the "quartz crisis," a time when cheaper quartz watches from Asia were taking over the market.

SSIH (Société Suisse pour l'Industrie Horlogère) was formed in 1930 by combining Omega and Tissot. By the late 1970s, SSIH was having a hard time competing with the cheaper quartz watches. ASUAG (Allgemeine Gesellschaft der Schweizerischen Uhrenindustrie), started in 1931, was the biggest producer of watch parts but also faced financial problems in the early 1980s.

In 1985, Nicolas Hayek, with help from Swiss banks and private investors, took control of the company and renamed it Société de Microélectronique et d'Horlogerie (SMH) in 1986. The company was later renamed the Swatch Group Ltd in 1998. The launch of the "Swatch" brand in 1983, led by ETA SA CEO Ernst Thomke, a subsidiary

of the Swatch Group, was a big success, focusing on making watches efficiently and with creative designs.

The Swatch Group didn't just stop at making Swatch watches. They expanded and bought many other famous watch brands. Today, they own brands like Blancpain, Breguet, Certina, ETA, Glashütte Original, Hamilton, Harry Winston, Longines, Mido, Omega, Rado, and Tissot. This makes them the largest watch company in the world (Swatch Group, n.d.; The Kavalier, 2019).

3.2. Current Context

As of 2024, the Swatch Group continues to be a major player in the global watch industry, but it faces several challenges. The company's net sales in 2024 amounted to CHF 6,735 million, a decrease of 12.2% at constant exchange rates compared to the previous year. This decrease in sales was attributed to a challenging market environment, particularly in China and Southeast Asia, where demand for consumer goods has been weak (Swatch Group, 2025i).

Despite these challenges, Swatch Group has seen positive developments in other regions. The company reported record sales and market share gains in the USA, Japan, India, and the Middle East, with strong performances from brands like Omega, Longines, and Tissot. The prestige brands Breguet and Blancpain, however, were particularly affected by the difficult market conditions (Swatch Group, 2025i).

Looking ahead, Swatch Group expects a more positive trend in 2025, driven by new product launches across all price segments and improved market conditions outside of China. The company remains optimistic about its future, leveraging its extensive industrial base and strong brand presence to navigate the evolving market landscape (Swatch Group, 2025).

From a capital-structure perspective, Swatch Group operates with very low financial leverage at the level of the parent company, equity represents 98.5% of total assets as of 31 of December 2024. The share capital totals CHF 117.7 million and is divided into 116,919,500 registered shares with a nominal value of CHF 0.45 and 28,936,000 bearer shares with a nominal value of CHF 2.25. Both share classes carry one vote and grant the same economic rights, as dividends are paid in proportion to their nominal value, meaning that a bearer share receives five times the dividend of a registered share. Swatch Group

also holds a small number of treasury shares in both categories, which are excluded from the average number of shares outstanding and therefore do not receive dividends or participate in earnings per share. As a result, in 2024 only around 115 million registered shares and 28.7 million bearer shares are considered outstanding (143.7 million in total). Since bearer shares are the more freely traded and liquid class on the market, this valuation focuses on the implied value per bearer share (Swatch Group, 2025a).

3.3. Strategy & Differentiation

Swatch Group has developed a comprehensive strategy that focuses on several key areas: innovation, quality, brand diversity, vertical integration, and targeted marketing.

1. Innovation and quality are the main focus of the Swatch Group's strategy. The company invests heavily in research and development (R&D) to create unique technologies and designs that set its brands apart from competitors. This commitment to innovation is evident in the success of the Swatch brand, which revolutionized the watch industry with its affordable, colourful, and stylish watches. This focus on innovation extends across all its brands, from the luxury timepieces of Breguet and Blancpain to the accessible designs of Tissot and Hamilton (Swatch Group, 2025g).

2. The primary differentiators is its brand diversity and market segmentation. The Swatch Group owns a wide range of brands that cater to different market segments, allowing them to target various customer demographics and price points, from luxury brands like Breguet and Blancpain to more affordable options like Swatch and Tissot. Competitors like Rolex and Patek Philippe focus primarily on the high-end luxury market, while brands like Casio and Citizen target more affordable segments.

3. Vertical integration. The company controls the entire production process from manufacturing movements and components to assembling the final product. In contrast, many competitors rely on third-party suppliers for components, which can limit their control over quality and innovation (PitchGrade, 2024).

4. Additionally, the Swatch Group employs targeted marketing strategies to effectively reach its desired audience. Each brand within Swatch Group has a distinct identity and positioning, which helps to attract specific customer segments. For instance, Omega is known for its association with space exploration and the Olympics, while Swatch is recognized for its trendy and youthful designs.

3.3.1. SWOT Analysis

An overview of the company of the strengths, weaknesses, opportunities and threats of the company can enhance our understanding of the company strategy. Therefor:

Strengths:

Swatch Group benefits from a high degree of vertical integration, as it produces almost all the key components required for its watches across the different brands it owns. This industrial structure gives Swatch Group stronger control over costs, quality and supply reliability than competitors that rely more heavily on external suppliers.(Swatch Group, 2025b). In addition, Swatch has a multi-tier portfolio that ranges from entry-level to high-luxury brands, allowing it to serve a broad spectrum of customer segments and price points. This portfolio supports volume, brand visibility and risk diversification across consumer groups. Finally, Swatch Group enjoys robust global demand supported by the long history, credibility and brand recognition of its main brands. Omega, for example, has been the Official Timekeeper of the Olympic Games since 1932, which reinforces Swatch Group's positioning as a trustworthy and prestigious watch manufacturer worldwide (International Olympic Committee, 2024)

Weakness:

Despite these strengths, Swatch Group also faces several weaknesses. First, its sales are highly concentrated in China: according to Swatch Group (2025a), around 27% of total revenue comes from this single market, which increases earnings volatility and makes forecasting more uncertain when local demand conditions shift. Second, Swatch Group shows a degree of cost rigidity. The 2024 results indicate that, despite weaker demand for high-end watches, Swatch decided to maintain production capacity, which contributed to a significantly lower operating result compared with the previous year. This suggests that fixed cost commitments can weigh on profitability in downturns. Third, Swatch Group remains largely focused on the watch segment, with limited diversification into other product categories. This specialisation increases its exposure to sector-specific risks, such as changes in consumer preferences towards alternative devices or categories.

Opportunities:

On the opportunity side, Swatch Group has room to diversify further beyond traditional watches. One avenue is to expand its activities in the Electronic Systems segment or into adjacent businesses that are consistent with its industrial capabilities and brand positioning, thereby reducing its dependence on the watch industry alone. There is also scoped to deepen its presence in markets that are currently performing well: recent results point to growth in the United States, Japan, the Middle East and India, suggesting that additional investment in distribution, marketing and retail in these regions could support future revenue expansion. Furthermore, recent collaborations such as the MoonSwatch project illustrate how strategic partnerships can generate substantial attention, attract new customers to Swatch Group's ecosystem and create cross-selling opportunities for other brands and products within the portfolio.

Threats:

At the same time, Swatch Group is exposed to several external threats. The first relates to trade policy: the recent increase in US tariffs on Swiss goods creates the risk of lower sales volumes, either because higher prices are passed on to consumers or because margins are compressed to preserve competitiveness in one of Swatch Group's key markets (Revill & Poidevin, 2025). A second threat is the rising competition from smartwatches, particularly in the entry and mid-price segments. For younger consumers, smartwatches can substitute for traditional watches by combining timekeeping with connectivity and health-tracking functions, which may erode demand for some of Swatch's brands (Ubrani et al., 2025). Finally, the broader luxury sector is currently experiencing a slowdown, driven by macroeconomic headwinds, high prices for consumers and perceptions of limited creativity in some established brands. According to Bain & Company (2025a), this environment may weigh on growth prospects for luxury watches in the short to medium term, increasing the importance of innovation and

differentiation for Swatch Group.

Figure 1 - SWOT analysis

3.4. Environment, Social and Governance

Environmental, Social and Governance (ESG) factors have become increasingly material for firms in the luxury watch and jewellery industry. The sector is highly exposed to upstream sustainability risks due to its intensive use of metals (especially gold), gemstones and animal-based materials such as leather straps, while consumers, particularly the younger generations, show growing concern for ethical sourcing, human rights and transparency (OECD, 2016; Yan, 2023). For valuation purposes, ESG performance can affect reputation, access to critical raw materials, regulatory risk and ultimately both cash flows and cost of capital.

3.4.1. Environmental

Swatch Group's main environmental exposure stems from its use of gold and leather. Gold mining is associated with high energy use, land disturbance and risks of water and soil contamination, especially in artisanal and small-scale mining (OECD, 2016). Swatch Group reports that it sources primary gold exclusively from certified industrial mines in the United States, Canada and Australia and operates a closed-loop refining system that

recycles production residues, thereby reducing both traceability and environmental risks (Swatch Group, 2024a). Leather straps represent a second material issue: leather is a valuable co-product of livestock production and is therefore indirectly linked to land use, deforestation and greenhouse-gas emissions (Meira et al., 2021; Silva, 2021). Swatch Group's Supplier Code of Conduct restricts the use of exotic leathers to species covered by CITES from controlled farming operations and prohibits sourcing from wild-caught endangered species, as well as requiring compliance with relevant environmental and animal-welfare regulations (Swatch Group, 2022). Overall, Swatch Group's environmental profile remains tied to upstream impacts in mining and leather processing, but these policies seek to mitigate the most material risks (Swatch Group, 2024a).

3.4.2. Social

Social risks and opportunities for Swatch Group arise both in its own workforce and in its global supply chain. Swatch Group employs tens of thousands of people worldwide, emphasising respect, fairness and equal treatment, with particular attention to diversity, gender equality and vocational training for watchmakers and technicians (Swatch Group, 2024a, 2025e). Employee development and health and safety are defined as strategic priorities, and Swatch Group conducts a wage-equality analysis in Switzerland in line with the national Gender Equality Act (Swatch Group, 2025e).

Upstream, the most salient social risks are linked to working conditions in mining and leather-processing supply chains. External reports on artisanal and small-scale mining document widespread problems such as child labour, unsafe underground work and mercury exposure in certain African and Asian countries (Human Rights Watch, 2011, 2013, 2015). Swatch Group responds to these risks by sourcing primary gold exclusively from traceable industrial mines in high-regulation jurisdictions, explicitly excluding artisanal and small-scale mining and other high-risk regions, and by basing its Code of Conduct on the UN Guiding Principles on Business and Human Rights and ILO core labour standards (Office of the High Commissioner for Human Rights, 2012; Swatch Group, 2022, 2024a). Additionally, Swatch Group has published a modern slavery and human-trafficking statement which commits the company to identifying, preventing and mitigating forced labour and exploitation in its operations and supply chains (Swatch Group, 2024a, 2025j).

3.4.3. Governance

In terms of governance, Swatch Group highlights zero tolerance for corruption, child labour and forced labour, and has formalised its sustainability governance through a Sustainability Steering Committee, an updated Supplier Code of Conduct, a modern slavery statement and annual sustainability reporting aligned with international frameworks (Swatch Group, 2022, 2024a, 2025c, 2025j). These structures are intended to embed ESG considerations into strategic and operational decision-making and to increase transparency towards stakeholders. Nevertheless, external stakeholders have raised concerns regarding the concentration of control in the founding Hayek family, limited board independence and long director occupations, which may pressure oversight and reduce responsiveness to minority shareholders (Financial Times, 2025a; Reuters, 2025a). Overall, Swatch Group has a relatively advanced formal ESG framework, but governance structure and legacy controversies indicate that ESG risks are mitigated rather than eliminated.

4. SUSTAINABLE DEVELOPMENT GOAL ADDRESSED

This thesis is aligned with Sustainable Development Goal 12 (Responsible Consumption and Production) and 13 (Climate Action), given the commitment of Swatch Group, integrating environmental responsibility in their practices of production that is vertically integrated in their production processes, prioritizing the use of renewable materials, waste reduction and energy efficiency in manufacturing and at the same time having climate targets such as achieving carbon neutrality for scopes 1 and 2 by 2050. These decisions and commitments are not just ethically significant but increases the value for the investor in the long term, showing the relevance of incorporating sustainability factors into equity valuation (Swatch Group, 2024b, 2025d).

5. MARKET ANALYSIS

All macroeconomic indicators and FX references refer to 2025 projections/levels unless stated otherwise.

In a macro environment view, there has been projections of a slowdown on the spending on luxury goods, especially because of the economic uncertainty and trade tensions (Bain & Company, 2025b; McKinsey & Company, 2025b) and more specifically in the fashion industry because of the uncertainty and at the same time the shift in the consumers preferences, reports say that the market will still grow but it will be more challenging for the brands to navigate this times (McKinsey & Company, 2024). This slowdown can be seen not just in the luxury industry but in a larger scale based on the projection from the International Monetary Fund that the world growth will be lower than last year given not just the uncertainty, but also the geopolitical tension (International Monetary Fund, 2025).

The interest rates have been lowered the ECB at 2.15% and the FED being 4.09%. The Inflation at the Euro area at 2.2% and in the US being at 2.7% (European Central Bank, 2025a, 2025b; Federal Reserve Bank, 2025a, 2025b).

As of September of 2025, the exchange rates are CHF to EUR: 0.9348, CHF to USD: 0.7966, CHD to JPY: 0.5388 and CHF to CNY:11.1815 (Swiss National Bank, 2025). These are very relevant given that the Swatch Group has a high FX exposal, the company reports in CHF and in the annual report of 2024 they have reported a loss of -192 million CHF because of currency impact.

After “the liberation day” the tariffs on goods exported to the US increased, the tariff on the Swiss goods exported to the US is 39% as of September of 2025 (State Secretariat for Economic Affairs SECO, 2025) affecting one of their key markets, because of this the CEO of the Swatch Group held a conference call on the US tariffs, where he explain the plan to mitigate the impact of the tariffs by increasing consumer prices between 5-10% while adjusting the margins to maintain profitability (Swatch Group, 2025b).

6. PEERS ANALYSIS

As peers to be used in the relative valuation, I selected four companies: Compagnie Financiere Richemont SA, LVMG Moet Hennessy Louis Vuitton SE, Citizen Watch Co. and Casio Computer Co. Ltd.

This selection was based on industry relevance, product segmentation, geographic exposure and data comparability. Richemont and LVMH were chosen as they are the two largest luxury conglomerates in Europe, operating in the same industry segment as the Swatch Group (watches & Jewellery segment) (LVMH, 2025; Richemont, 2025). These companies focus on the high-end luxury market, having a similar exposure to global economic conditions and consumer trends, particularly in Asia, which remains a key market for high end watch sales (Mordor Intelligence, 2025).

Citizen and Casio were included in this selection given their focus in the affordable to mid-range prices, there strong exposure to international operations and the vertical integration in watchmaking, making their structure similar to Swatch Group (Casio, 2024; Citizen, 2025).

From a financial comparability perspective, all four peers are publicly listed companies with easily available consolidated financial statements, enabling the gathering of metrics for comparison for the relative valuation. Furthermore, there annual revenue exceeds USD 2 billion, ensuring that they have relevance in terms of market capitalization and operating structure (Casio, 2024; Citizen, 2025; LVMH, 2025; Richemont, 2025)

7. RESULTS EVOLUTION

Swatch Group's revenue comes mostly from the Watches & Jewellery segment (representing 95% of sales in 2024), Swatch Group total revenue declined by CHF -1.1bn (=-14.62% compared with 2023), reflecting the weak demand in Greater China/SE Asia and sustained brand investments.

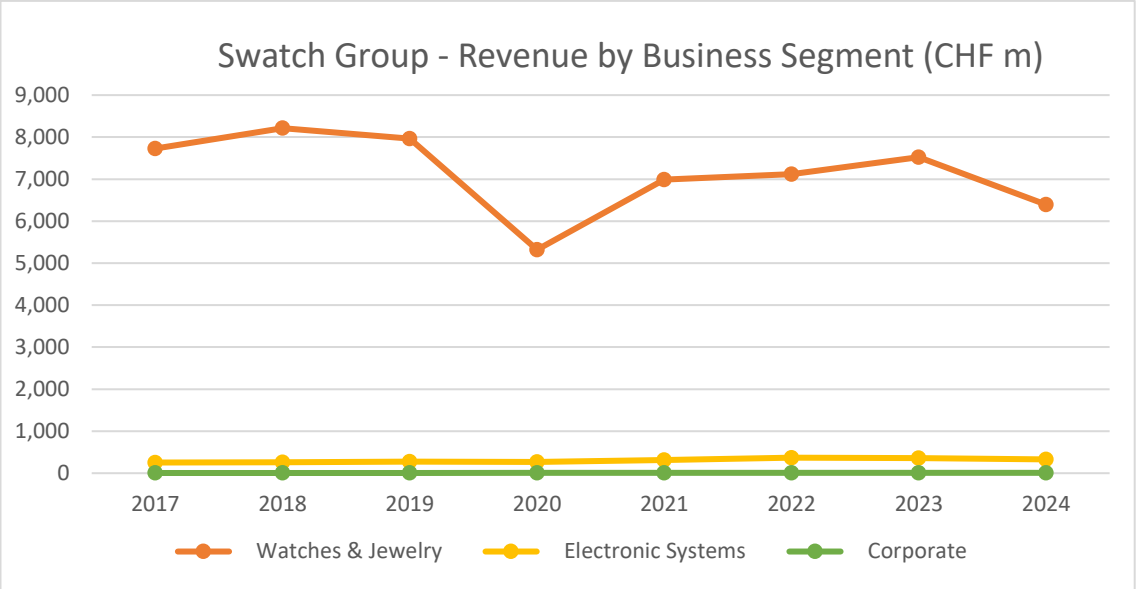

Figure 2 - Revenue by Segment Swatch Group

In terms of geography, Asia is the largest market accounting for CHF 3.6bn (=53% of sales), followed by Europe (CHF 1.8bn; =28%) and the Americas (CHF 1.1bn; =18% of sales). The year's decline of revenue was concentrated mostly in Greater China (–30% compared with 2023).

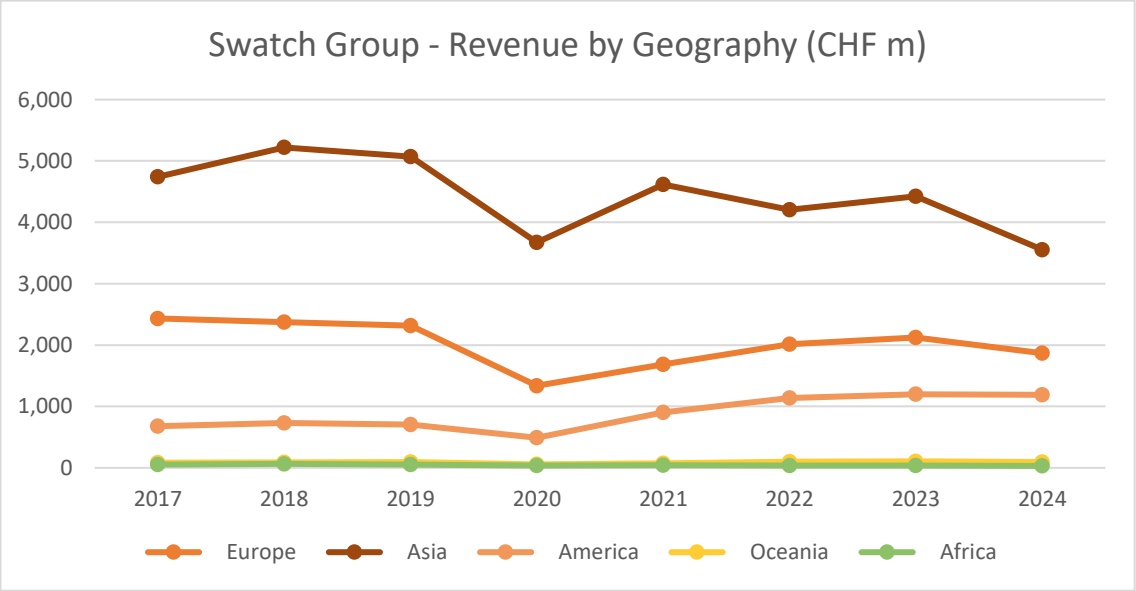

Figure 3 - Revenue by Region Swatch Group

8. RESULTS

This section summarises the valuation results for the Swatch Group. The valuation date is 30 December 2024, corresponding to the last trading day of the year. It presents the key assumptions, the DCF output and the related sensitivity/scenario analysis, and a relative valuation based on peer multiples.

Historical financial statement inputs and segments were collected from Swatch Group's financial disclosures and complemented with market information retrieved from Bloomberg. The Income Statement, Balance Sheet and Cash Flow Statement used as the basis for the projections are presented in Figure 10, Figure 11 and Figure 12, respectively. Peer-market multiples and comparable company data were extracted from Refinitiv, ensuring consistency across firms and reporting periods. All model outputs and adjustments are the author's calculations based on these sources (Bloomberg L.P., 2025a, 2025c, 2025d, 2025e, 2025b; LSEG / Refinitiv, 2025).

8.1. Main Assumptions

Forecast horizon and structure - the valuation is based on an explicit forecast period from 2025 to 2030, built from the latest reported financials and then extended through a terminal value. The model translates operational performance into cash flows by projecting the main value drivers (sales, profitability, reinvestment needs, and working-capital intensity) under a base-case scenario and then discounting those cash flows to present value. This structure ensures that the concluded value reflects both short-term normalization dynamics and a long-term steady-state assumption beyond the explicit forecast period.

Revenue assumptions – the revenue was forecasted using a two-step logic: a short-term adjustment consistent with the most recent reported environment and results, followed by a normalization that converges toward a long-run growth anchor (Grand View Research, 2022; MarkNtel advisors, 2025; Statista, 2024; Swatch Group, 2025f). The short-term revenue adjustment reflects the contraction observed in 2024 (–12.2% at constant FX), followed by a gradual normalization toward a long-run growth rate consistent with industry expectations (approximately 2–3%). Years considered structurally abnormal, particularly 2020 (Covid shock) was not directly extrapolated, as this period reflect exceptional demand compression rather than sustainable trends.

Instead, normalized multi-year averages excluding extreme outliers were used to anchor the medium-term growth profile.

Profitability and operating cost behaviour - profitability was based on Swatch Group's historical operating profile, with gross profitability assumed to remain broadly in line with normalized levels observed over the last cycle. Operating expenses were projected conservatively, avoiding aggressive operating leverage assumptions.

The base-case gross margin assumption of 83.61% reflects a normalized average excluding the extreme volatility observed during the pandemic and immediate recovery years. This approach avoids overstating sustainable profitability based on temporary post Covid demand strength.

Tax rate - the effective tax rate was normalized using a multi-year perspective to avoid distortions from abnormal periods, particularly when one year presents a non-recurring or unusually high/low tax effect. In the base case, the model applies a stable tax rate of approximately 24%, consistent with an average that excludes outliers.

Reinvestment policy - reinvestment assumptions were implemented using stable revenue linked ratios to reflect the recurring capital needs of the business. Depreciation and amortization were projected at a normalized level of roughly 5.63% of revenue. Capital expenditures were forecast at approximately 6.17% of revenue, the relatively small gap between CAPEX and D&A suggests a mature industrial base where reinvestment is largely maintenance driven rather than expansionary, reflecting Swatch's ongoing requirements for manufacturing capacity, retail footprint, and brand-supporting investments.

These percentages were calculated using multi-year historical averages (2017–2024), excluding 2020 due to temporary production disruptions linked to Covid-19. This ensures that reinvestment assumptions reflect steady-state industrial requirements rather than crisis-driven distortions.

Working capital - net working capital was forecasted through its core components: inventories, receivables, and payables. forecasted as a percentage of revenue. The model reflects Swatch's inventory-intensive operating model, with inventories representing a large share of sales on average (around 90.6%), the inventory ratio reflects a normalized multi-year average, excluding 2020 when production and distribution interruptions

distorted working-capital levels, this high inventory is consistent with the luxury watch industry and Swatch Group's vertically integrated model, luxury watches require broad product ranges across brands and price points, long production lead times, and high service/availability standards in boutiques and retailers, as a result, finished goods and components tend to be held in inventory to avoid stock-outs, support product launches, and ensure spare-parts availability, while receivables and payables were kept near their historical levels (roughly 10.3% and 4.1% of revenue, respectively).

Discount rate and terminal growth - cash flows were discounted using a cost of capital derived from a CAPM-based cost of equity. The base case uses Rf = 0.16%, beta = 1.017, and a market risk premium = 8.61%, resulting in a discount rate close to 8.92%. The terminal value was estimated using a perpetual growth model with a conservative long-run growth rate of 2.0%, consistent with a mature business reaching a steady state (Bloomberg L.P., 2025a, 2025c; Trading Economics, 2025).

Shares and per-share presentation - the valuation is presented on a per bearer share basis, using approximately 28.681 million bearer shares as the relevant share count for the per-share value. This choice is consistent with focusing on the more freely traded share class and ensures that the concluded valuation is directly comparable to market pricing for the instrument most relevant to investors (Swatch Group, 2025h).

8.2. DCF model

The DCF was implemented using a free cash flow to equity (FCFE) framework, reflecting the company's very low leverage and limited reliance on debt financing. Forecasts were built for 2025–2030, starting from the 2024 reported baseline and incorporating a short-term revenue contraction followed by a gradual normalization. Operating assumptions were set mainly using historical normalized ratios and a normalized effective tax rate. Cash flows were discounted using a cost of equity (used as the cost of capital given negligible debt), and a terminal value was estimated with a perpetual growth model. Under the base-case assumptions, the DCF implies an equity value of CHF 4,668m, corresponding to an intrinsic value of CHF 162.76 per share.

In Millions of CHF	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F	2028F	2029F	2030F
NI	733.00	845.00	730.00	-51.00	765.00	807.00	869.00	193.00	274	389	512	643	782	930
D&A	476	494	480	463	438	407	390	416	374	392	410	430	450	471
Inventory	6318	6917	6852	6315	6389	6873	7309	7641	7,536	7,890	8,261	8,649	9,056	9,481
Receivables	1076	893	838	685	710	663	672	612	686	718	752	787	824	863
Payables	354	393	313	281	313	298	317	270	270	283	296	310	325	340
Net Working Capital	7040	7417	7377	6719	6786	7238	7664	7983	7,951	8,325	8,716	9,126	9,555	10,004
Changes in NWC	0	377	-40	-658	67	452	426	319	-32	373.7	391.263	410	429	449
Capex	-396	-437	-399	-208	-251	-339	-730	-503	-410	-429	-449	-470	-492	-516
FCF	813	525	851	862	885	423	103	-213	270	-22	82	192	310	436
Discounted FCF									248	-18	63	137	202	261
Terminal Value														3,775
Market Cap														4,668
OS														28.68
Share price														162.76

Figure 4 - DCF (FCFE)

In addition to the equity cash-flow approach, an enterprise DCF was also framed using Free Cash Flow to the Firm (FCFF) to verify the consistency of the valuation. Although FCFF is typically discounted using the WACC, the cost of equity was still applied as the discount rate because Swatch's leverage is economically insignificant and the company holds substantial cash, meaning the WACC is effectively close to the cost of equity in practice. Under this FCFF consistency check, the model yields an enterprise value of CHF 6,137m and an implied value of CHF 213.97 per share.

Although both approaches aim to estimate the share's fair value, the FCFF model first values the operating business and only afterwards converts it into equity value by adjusting for net cash/debt. Since Swatch Group holds significant cash and has relatively low debt, this net cash position increases the equity value when moving from enterprise value to equity value, which helps explain why the FCFF value per share is higher. By contrast, FCFE directly discounts cash flows available to shareholders after accounting for financing and other effects, which can lead to a more conservative equity estimate. Therefore, in a net-cash company like Swatch, it is reasonable that FCFF results in a

In Millions of CHF	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F	2028F	2029F	2030F
EBIT	1002	1154	1023	52	1021	1158	1191	304	398	550	712	885	1,068	1,263
NOPAT	751	883	762	-77	782	870	920	193	302	417	540	671	810	958
D&A	476	494	480	463	438	407	390	416	374	392	410	430	450	471
Capex	-396	-437	-399	-208	-251	-339	-730	-503	-410	-429	-449	-470	-492	-516
Inventory	6318	6917	6852	6315	6389	6873	7309	7641	7,536	7,890	8,261	8,649	9,056	9,481
Receivables	1076	893	838	685	710	663	672	612	686	718	752	787	824	863
Payables	354	393	313	281	313	298	317	270	270	283	296	310	325	340
Net Working Capital	7040	7417	7377	6719	6786	7238	7664	7983	7,951	8,325	8,716	9,126	9,555	10,004
Changes in NWC	0	377	-40	-658	67	452	426	319	-32	373.7	391.26	410	429	449
FCF	831	563	883	836	902	486	154	-213	298	6	110	220	338	464
Discounted FCF									274	5	85	157	221	278
Terminal Value														4,017

Figure 5 - DCF (FCFF)

higher per share value than FCFE, making this report FCFF is used mainly as a robustness check.

8.2.1. Scenario analysis

To reflect uncertainty around Swatch Group's medium-term profitability and long-run outlook, two alternative scenarios (optimistic and pessimistic) were developed on top of the base case. In both scenarios, only two key value drivers were changed: (i) the gross profit margin assumption (as a proxy for pricing power and cost pressure) and (ii) the terminal growth rate (g) used in the perpetuity. All other operating assumptions and the discount rate were kept unchanged to isolate the effect of these drivers. The purpose of this scenario exercise is therefore to frame a valuation range and check consistency, rather than to produce a point forecast.

In the pessimistic scenario, the gross profit margin average is reduced to 81.51% (vs. 83.61% in the base case, i.e., –2.09 p.p.) and the terminal growth rate (g) is lowered to 1.50% (vs. 2.00%, –0.50 p.p.). Under these assumptions, the present value of the terminal value decreases to CHF 2,450.59m, and the implied equity value falls to CHF 2,817.42m, corresponding to an intrinsic value of CHF 98.23 per bearer share (28.68m bearer shares). Relative to the base-case value (CHF 162.76), this represents a downside of roughly –39.6%, illustrating the sensitivity of valuation to profitability and long-run growth.

In the optimistic scenario, the gross profit margin average increases to 85.70% (vs. 83.61%, +2.09 p.p.) and the terminal growth rate (g) is raised to 2.50% (vs. 2.00%, +0.50 p.p.). This leads to a higher present value of the terminal value of CHF 5,305.25m, and an implied equity value of CHF 6,725.18m, which translates into an intrinsic value of CHF 234.48 per bearer share. Compared with the base case, this is an upside of approximately +44.1%, confirming that modest changes in margin sustainability and terminal growth can materially affect intrinsic value.

Assumption / Output	Pessimistic	Base Scenario	Optimistic
Gross profit margin (avg)	81.51%	83.61%	85.70%
Terminal growth (g)	1.50%	2.00%	2.50%
PV of terminal value (CHF m)	2,450.59	3,774.73	5,305.25
Equity value (CHF m)	2,817.42	4,668.11	6,725.18
Value per bearer share (CHF)	98.23	162.76	234.48

Figure 6 - Scenario analysis

Overall, the scenario analysis implies a valuation range of approximately CHF 98–234 per bearer share around the base case scenario (CHF 162.76), with the dispersion largely explained by the terminal value, which represents about 79-87% of total equity value across scenarios.

8.3. Relative Valuation

To complement the intrinsic valuation, a relative valuation was conducted using market multiples from a broad peer universe processed consistently through Refinitiv (319 comparable listed firms). Two multiples were used, an enterprise multiple (EV/EBIT) and an equity multiple (P/E based on net income). EV/EBIT was treated as the primary anchor because it is less affected by cross-firm differences in leverage, tax, and non-operating items, improving comparability when capital structures and cash positions differ. Using the median EV/EBIT multiple and applying it to Swatch Group's EBIT produces an implied value of CHF 153.37 per bearer share, providing a market-based check that is close to the base-case DCF.

Peer selection was supported by the Sum of Absolute Rank Differences (SARD) methodology, following Knudsen et al. (2017). The SARD approach ranks all potential comparable firms across a set of fundamental value drivers and then calculates the absolute difference between each firm's rank and Swatch Group's rank for each metric. The firms with the smallest cumulative absolute rank differences are considered the most comparable.

In this valuation, the selected ranking metrics included: (i) Market Cap (proxy for size), (ii) EBIT margin (proxy for operating profitability), (iii) Net income growth (proxy for growth), (iv) Debt-to-Equity ratio (proxy for risk) and (v) Return on equity (proxy for profitability. Each firm was ranked within the broader universe for each metric, and the absolute distance to Swatch Group's position was calculated. The total SARD score was obtained by summing these rank differences across all selected metrics. The peer group was then formed by selecting the firms with the lowest total SARD scores, ensuring similarity in operational scale, profitability structure, growth trajectory, and capital structure.

This structured selection process reduces arbitrary peer choice and improves valuation reliability compared with selecting peers solely based on industry classification.

Company Name	EV/EBIT	P/E
Swatch Group AG	23.69	45.20
Youngone Corp	3.42	14.10
Guangdong CHJ Industry Co Ltd	10.91	71.45
Orient International Enterprise Ltd	19.53	25.27
Aimer Co Ltd	25.18	40.29
Safilo Group SpA	9.16	40.54
FIYTA Precision Technology Co Ltd	12.43	27.30
Rajesh Exports Ltd	34.10	56.56
Shenzhen Huijie Group Co Ltd	10.78	31.05
Movado Group Inc	3.90	17.39
Handsome Corp	5.62	8.41
TST Group Holding Ltd	29.01	62.31
Shinyoung Wacoal Inc	-6.34	34.60
Median	**10.85**	**32.82**

Figure 7 - Peers Multiples

	Metric	EV	Market Cap	price per share
EBIT	304.00	3,297.81	4,398.81	153.37
NI	107.12	-	3,515.82	122.58

Figure 8 - Multiple base valuation

9.CONCLUSIONS

This equity research combined an intrinsic valuation (DCF) with a market-based (relative valuation) to assess whether Swatch Group's bearer shares were priced fairly given the challenging 2024. Overall, the analysis confirms that Swatch remains structurally supported by its vertically integrated industrial base and multi-brand portfolio, but its short-term and medium-term performance is still highly exposed to demand conditions in Greater China and to margin resilience in a slower luxury environment.

From a valuation perspective the base-case DCF (FCFE) implies an equity value of CHF 4,668m, corresponding to CHF 162.76 per share, while the market price closed at

CHF 165 on 30/12/2024. This suggests the stock was trading broadly in line with the intrinsic base case. The relative valuation provides a more conservative signal: the EV/EBIT consistency check implies CHF 153.37 per share, and the P/E on net income implies CHF 122.58 per share, highlighting that market multiples remain cautious particularly when earnings are affected by cyclical pressures and below-the-line volatility.

Two scenarios were also developed by varying gross profit margin and terminal growth. In the Pessimistic scenario, the valuation falls to CHF 98.23 per share and in the optimistic scenario, the valuation reaches CHF 234.48 per share, confirming that long-run profitability sustainability and terminal assumptions explain most of the dispersion in outcomes. A complementary DCF (FCFF) model was prepared, to verify the consistency of the valuation, and it yields CHF 213.97 per share.

Overall, the results support a Neutral / Hold conclusion: the market price is already close to the intrinsic base scenario estimate, leaving limited upside unless gross margin and long-run growth evolve closer to the optimistic assumptions, while the relative valuation metrics and the pessimistic scenario underline meaningful downside risk if profitability and the recovery trajectory disappoint.

Figure 9 - Price per share by Valuation

10. LIMITATIONS

This equity research is subject to several limitations that should be considered when interpreting the valuation outputs and the final investment view. First, the intrinsic valuation relies on an explicit forecast and a terminal value, and a substantial portion of the total value is explained by the terminal value component. As a result, the estimated fair value is highly sensitive to small changes in the discount rate and the terminal growth assumption.

Second, the forecasts require assumptions about the pace of revenue normalization and margin stabilization following a weak year. Although the base case is supported by historical ratios and industry context, Swatch Group's performance is exposed to macroeconomic conditions, luxury demand cycles, and regional dynamics, particularly in Asia, meaning that realized outcomes may deviate materially from the assumptions used in the model.

Third, the cash-flow projections assume that key operating relationships remain broadly stable over time especially gross margin, investment intensity (capex and depreciation), and working-capital needs. In practice, these drivers can shift due to changes in product mix, pricing power, cost inflation, inventory management, or strategic decisions, and the model may not fully capture structural breaks or non-linear effects during cyclical periods.

Fourth, the relative valuation is highly dependent on the peer selection process. Although the SARD method was used to select comparable companies in a structured way, the outcome still depends on the availability and quality of market data and the fact that "similar" firms under SARD criteria may still differ materially in brand strength, geographic exposure, product mix, and accounting practices. Because multiples are very sensitive to the peer set, small changes in the SARD selection can materially shift the implied value. Therefore, the relative valuation should be interpreted as a supporting consistency check rather than a standalone estimate.

Fifth, the relative valuation is also exposed to accounting and reporting comparability issues across peers. Differences in accounting standards and policies (e.g., IFRS versus Japanese GAAP), depreciation methods and asset lives, lease accounting treatment,

inventory recognition and valuation, and the classification of non-recurring items can materially affect EBIT and enterprise value inputs, even when firms operate in broadly similar segments. As a result, EV/EBIT may not be fully comparable across peers, and the implied per-share value should be interpreted with caution as a market-based consistency check rather than a precise estimate.

Finally, this report does not aim to model all potential exogenous factors and uncertainties such as foreign-exchange movements, geopolitical events, trade restrictions, regulatory changes which may affect both operating performance and investor risk. Therefore, the results should be interpreted as a structured valuation range under stated assumptions rather than as a precise prediction of future share prices.

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APPENDICES

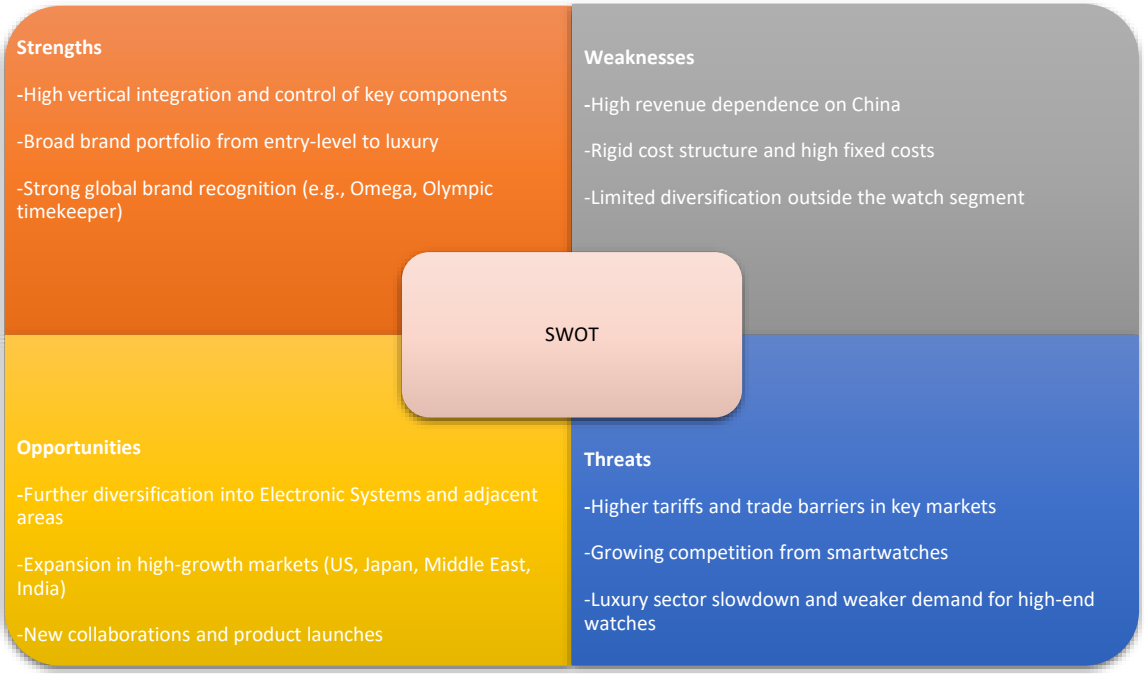

Figure 1 - SWOT analysis

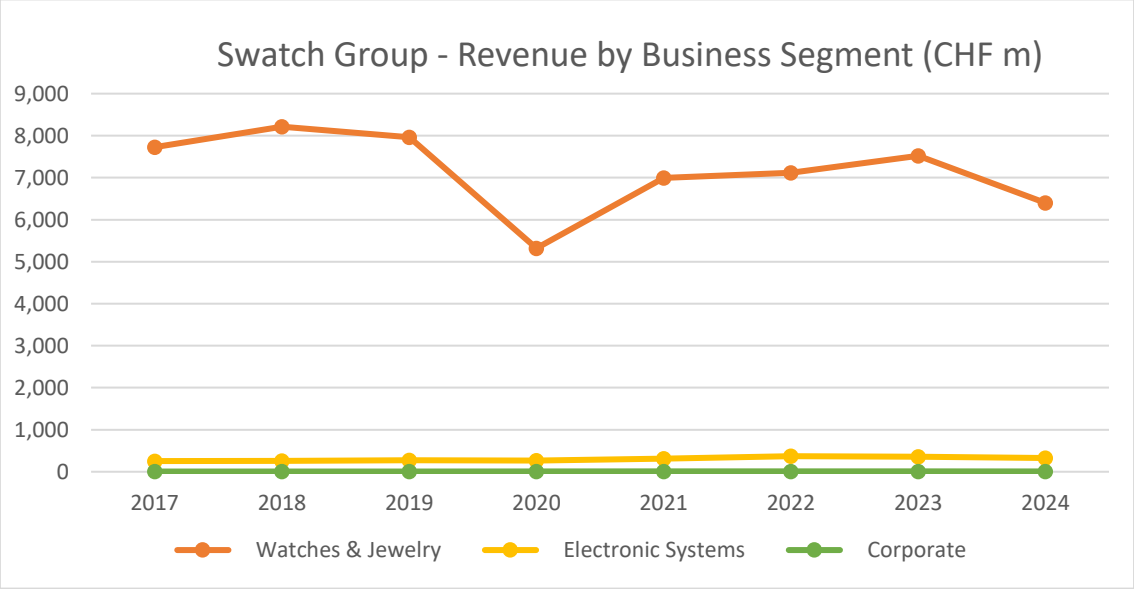

Figure 2 - Revenue by Segment Swatch Group

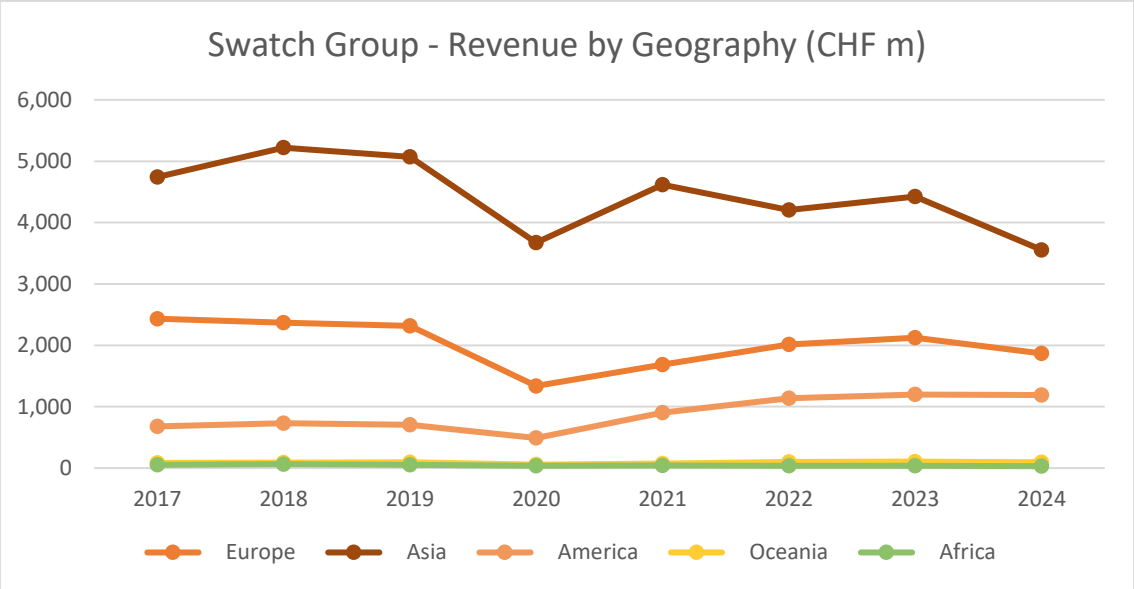

Figure 3 - Revenue by Region Swatch Group

In Millions of CHF	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F	2028F	2029F	2030F
NI	733.00	845.00	730.00	-51.00	765.00	807.00	869.00	193.00	274	389	512	643	782	930
D&A	476	494	480	463	438	407	390	416	374	392	410	430	450	471
Inventory	6318	6917	6852	6315	6389	6873	7309	7641	7,536	7,890	8,261	8,649	9,056	9,481
Receivables	1076	893	838	685	710	663	672	612	686	718	752	787	824	863
Payables	354	393	313	281	313	298	317	270	270	283	296	310	325	340
Net Working Capital	7040	7417	7377	6719	6786	7238	7664	7983	7,951	8,325	8,716	9,126	9,555	10,004
Changes in NWC	0	377	-40	-658	67	452	426	319	-32	373.7	391.263	410	429	449
Capex	-396	-437	-399	-208	-251	-339	-730	-503	-410	-429	-449	-470	-492	-516
FCF	813	525	851	862	885	423	103	-213	270	-22	82	192	310	436
Discounted FCF									248	-18	63	137	202	261
Terminal Value														3,775
Market Cap														4,668
OS														28.68
Share price														162.76

Figure 4 – DCF (FCFE)

In Millions of CHF	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F	2028F	2029F	2030F
EBIT	1002	1154	1023	52	1021	1158	1191	304	398	550	712	885	1,068	1,263
NOPAT	751	883	762	-77	782	870	920	193	302	417	540	671	810	958
D&A	476	494	480	463	438	407	390	416	374	392	410	430	450	471
Capex	-396	-437	-399	-208	-251	-339	-730	-503	-410	-429	-449	-470	-492	-516
Inventory	6318	6917	6852	6315	6389	6873	7309	7641	7,536	7,890	8,261	8,649	9,056	9,481
Receivables	1076	893	838	685	710	663	672	612	686	718	752	787	824	863
Payables	354	393	313	281	313	298	317	270	270	283	296	310	325	340
Net Working Capital	7040	7417	7377	6719	6786	7238	7664	7983	7,951	8,325	8,716	9,126	9,555	10,004
Changes in NWC	0	377	-40	-658	67	452	426	319	-32	373.7	391.26	410	429	449
FCF	831	563	883	836	902	486	154	-213	298	6	110	220	338	464
Discounted FCF									274	5	85	157	221	278
Terminal Value														4,017
Enterprise Value														6,137
OS														28.68
Share price														213.97

Figure 5 – DCF (FCFF)

Assumption / Output	Pessimistic	Base Scenario	Optimistic
Gross profit margin (avg)	81.51%	83.61%	85.70%
Terminal growth (g)	1.50%	2.00%	2.50%
PV of terminal value (CHF m)	2,450.59	3,774.73	5,305.25
Equity value (CHF m)	2,817.42	4,668.11	6,725.18
Value per bearer share (CHF)	98.23	162.76	234.48

Figure 6 - Scenario analysis

Company Name	EV/EBIT	P/E
Swatch Group AG	23.69	45.20
Youngone Corp	3.42	14.10
Guangdong CHJ Industry Co Ltd	10.91	71.45
Orient International Enterprise Ltd	19.53	25.27
Aimer Co Ltd	25.18	40.29
Safilo Group SpA	9.16	40.54
FIYTA Precision Technology Co Ltd	12.43	27.30
Rajesh Exports Ltd	34.10	56.56
Shenzhen Huijie Group Co Ltd	10.78	31.05
Movado Group Inc	3.90	17.39
Handsome Corp	5.62	8.41
TST Group Holding Ltd	29.01	62.31
Shinyoung Wacoal Inc	-6.34	34.60
Median	**10.85**	**32.82**

Figure 7 - Peers Multiples

Metric		EV	Market Cap	price per share
EBIT	304.00	3,297.81	4,398.81	153.37
NI	107.12	-	3,515.82	122.58

Figure 8 - Multiple base valuation

Figure 9 - Price per share by Valuation

In Millions of CHF except Per Share 12 Months Ending	FY 2017 12/31/2017	FY 2018 12/31/2018	FY 2019 12/31/2019	FY 2020 12/31/2020	FY 2021 12/31/2021	FY 2022 12/31/2022	FY 2023 12/31/2023	FY 2024 12/31/2024
Income Statement								
Revenues								
Revenues	7,989.0	8,475.0	8,243.0	5,595.0	7,313.0	7,499.0	7,888.0	6,735.0
Gross Sales	—	—	—	—	—	—	—	—
Total Revenue	**—**	**—**	**8,243.0**	**5,595.0**	**7,313.0**	**7,499.0**	**7,888.0**	**6,735.0**
Operating Expenses								
Salaries Wages and Employee Benefits	2,339.0	2,563.0	2,578.0	1,972.0	2,206.0	2,363.0	2,550.0	2,506.0
Depreciation Expense	—	—	—	—	—	—	—	—
Other Operating Expenses	2,636.0	2,850.0	2,680.0	1,883.0	2,424.0	2,506.0	2,716.0	2,640.0
Other Operating Income	116.0	180.0	134.0	122.0	281.0	244.0	136.0	263.0
Operating Income	1,002.0	1,154.0	1,023.0	52.0	1,021.0	1,158.0	1,191.0	304.0
Amortization of Intangible Assets	43.0	43.0	43.0	43.0	42.0	41.0	44.0	48.0
Changes In Finished And Unfinished Goods	-83.0	-632.0	16.0	364.0	-19.0	-538.0	-687.0	-213.0
Raw Materials And Consumables Used	1,735.0	2,226.0	1,600.0	983.0	1,524.0	1,847.0	1,864.0	1,345.0
Depreciation And Impairment Of Fixed Assets	433.0	451.0	437.0	420.0	396.0	366.0	346.0	368.0
Earnings Before Interest and Taxes	1,002.0	1,154.0	1,023.0	52.0	1,021.0	1,158.0	1,191.0	304.0
Non-Operating Expenses								
Interest Expense	3.0	5.0	8.0	3.0	5.0	3.0	4.0	3.0
Equity In Earnings of Affiliate/Joint Ventures	-21.0	-2.0	9.0	10.0	9.0	21.0	1.0	2.0
Other Non-Operating Income	-3.0	-1.0	-1.0	0.0	0.0	0.0	-2.0	-2.0

Other Non-Operating Expenses	—	—	—	—	—	—	—	—
Income Tax Expense (Benefit)	252.0	266.0	256.0	89.0	237.0	273.0	262.0	126.0
Income Before Income Taxes	1,007.0	1,133.0	1,004.0	36.0	1,011.0	1,096.0	1,152.0	345.0
Total Financial Costs	—	—	—	—	—	—	—	—
Other Financial Losses (Gains)	16.0	19.0	3.0	3.0	-4.0	38.0	36.0	-44.0
Extraordinary Items								
Discontinued Operations								
Loss/(Benefit) - Net Earnings	—	—	—	—	—	—	—	—
Minority/Non Controlling Interest	22.0	22.0	18.0	-2.0	9.0	16.0	21.0	26.0
Basic EPS Before XO Items	13.86	16.14	—	—	—	—	—	—
Basic EPS	13.86	16.14	14.18	-0.99	14.78	15.57	16.76	3.74
Diluted EPS Before XO Items	13.85	16.13	—	—	—	—	—	—
Diluted EPS	13.85	16.13	14.17	-0.99	14.77	15.56	16.75	3.74
Profit After Taxation Before Minority	755.0	867.0	748.0	-53.0	774.0	823.0	890.0	219.0
Dividends Per Share	7.50	8.00	5.50	3.50	5.50	6.00	6.50	4.50
Net Income	**733.0**	**845.0**	**730.0**	**-51.0**	**765.0**	**807.0**	**869.0**	**193.0**

Figure 10 – Income Statement

In Millions of CHF except Per Share 12 Months Ending	FY 2017 12/31/2017	FY 2018 12/31/2018	FY 2019 12/31/2019	FY 2020 12/31/2020	FY 2021 12/31/2021	FY 2022 12/31/2022	FY 2023 12/31/2023	FY 2024 12/31/2024
Balance Sheet								
Current Assets								
Cash and Equivalents	1,291.0	944.0	1,239.0	1,585.0	1,979.0	2,176.0	1,683.0	1,103.0
Marketable Securities	340.0	296.0	230.0	207.0	677.0	372.0	380.0	293.0
Accounts Receivable - Trade	1,076.0	893.0	838.0	685.0	710.0	663.0	672.0	612.0
Inventories	6,318.0	6,917.0	6,852.0	6,315.0	6,389.0	6,873.0	7,309.0	7,641.0
Prepaid Expenses and Other	255.0	249.0	264.0	234.0	216.0	206.0	263.0	250.0
Other Current Assets	178.0	159.0	132.0	212.0	136.0	103.0	195.0	107.0
Allowance For Doubtful Accounts	—	—	—	—	—	—	—	—
Total Assets	13,479.0	13,661.0	13,692.0	12,897.0	13,678.0	13,893.0	14,229.0	13,992.0
Total Current Assets	**9,458.0**	**9,458.0**	**9,555.0**	**9,238.0**	**10,107.0**	**10,393.0**	**10,502.0**	**10,006.0**
Noncurrent Assets								
Property Plant & Equipment - Net	3,281.0	3,245.0	3,189.0	2,929.0	2,771.0	2,706.0	3,029.0	3,162.0
Total Intangible Assets - Net	147.0	146.0	150.0	144.0	144.0	146.0	153.0	151.0
Investment In Affiliates/Joint Ventures	57.0	59.0	45.0	29.0	21.0	19.0	13.0	34.0
Other Noncurrent Assets	144.0	336.0	325.0	106.0	186.0	181.0	84.0	186.0
Deferred Tax Assets (Long-Term)	392.0	417.0	428.0	451.0	449.0	448.0	448.0	453.0
Total Non-Current Assets	4,021.0	4,203.0	4,137.0	3,659.0	3,571.0	3,500.0	3,727.0	3,986.0
Current Liabilities								
Accounts Payable - Trade	354.0	393.0	313.0	281.0	313.0	298.0	317.0	270.0
Accrued Expenses	701.0	637.0	678.0	588.0	596.0	533.0	567.0	424.0
Other Current Liabilities	209.0	222.0	185.0	182.0	258.0	193.0	164.0	213.0
Derivative Liabilities (Short-Term)	16.0	203.0	101.0	92.0	98.0	8.0	75.0	20.0
Short-Term Provisions	93.0	94.0	84.0	69.0	112.0	94.0	97.0	95.0
Total Current Liabilities	**1,373.0**	**1,549.0**	**1,361.0**	**1,212.0**	**1,377.0**	**1,126.0**	**1,220.0**	**1,022.0**
Non Current Liabilities								
Total Noncurrent Liabilities	817.0	838.0	838.0	720.0	696.0	716.0	751.0	753.0
Long Term Debt	26.0	22.0	20.0	3.0	2.0	2.0	2.0	2.0
Pension/Postretirement Liabilities	43.0	43.0	46.0	43.0	42.0	43.0	42.0	44.0
Other Noncurrent Liabilities	—	—	—	—	—	—	—	—
Deferred Tax Liabilities (Long-Term)	532.0	558.0	546.0	465.0	430.0	459.0	516.0	507.0
Accrued Expenses (Long-Term)	147.0	162.0	169.0	158.0	154.0	151.0	127.0	129.0
Other Provisions For Liabilities And Charges	69.0	53.0	57.0	51.0	68.0	61.0	64.0	71.0
Total Liabilities	**2,190.0**	**2,387.0**	**2,199.0**	**1,932.0**	**2,073.0**	**1,842.0**	**1,971.0**	**1,775.0**
Stockholder Equity								

Minority/Non Controlling Int (Stckhldrs Eqty)	88.0	89.0	88.0	68.0	65.0	66.0	61.0	105.0
Common Stock	125.0	125.0	118.0	118.0	118.0	118.0	118.0	118.0
Treasury Stock (Amount)	-863.0	-1,251.0	-195.0	-141.0	-131.0	-123.0	-114.0	-132.0
Retained Earnings (Accumulated Deficit)	14,403.0	14,854.0	14,087.0	13,752.0	14,336.0	14,858.0	15,416.0	15,274.0
Other Equity	-1,372.0	-1,372.0	-1,372.0	-1,372.0	-1,370.0	-1,350.0	-1,352.0	-1,416.0
Total Shareholders Equity	11,289.0	11,274.0	11,493.0	10,965.0	11,605.0	12,051.0	12,258.0	12,217.0
Cumulative Translation Adjustment	-115.0	-210.0	-285.0	-490.0	-442.0	-547.0	-900.0	-754.0
Capital Reserves	-977.0	-961.0	-948.0	-970.0	-971.0	-971.0	-971.0	-978.0
Total Shareholders Equity Excluding Minority	11,201.0	11,185.0	11,405.0	10,897.0	11,540.0	11,985.0	12,197.0	12,112.0
Total Liabilities and Shareholders Equity	**13,479.0**	**13,661.0**	**13,692.0**	**12,897.0**	**13,678.0**	**13,893.0**	**14,229.0**	**13,992.0**

Figure 11 – Balance Sheet

In Millions of CHF except Per Share 12 Months Ending	FY 2017 12/31/2017	FY 2018 12/31/2018	FY 2019 12/31/2019	FY 2020 12/31/2020	FY 2021 12/31/2021	FY 2022 12/31/2022	FY 2023 12/31/2023	FY 2024 12/31/2024
Cash Flow								
Cash From Operating Activities								
Depreciation	433.0	438.0	481.0	463.0	437.0	—	—	—
Depreciation And Amortization - CF	—	—	—	—	—	406.0	390.0	414.0
Stock Based Compensation	—	—	—	—	—	9.0	8.0	7.0
Other Non-Cash Items	—	—	3.0	73.0	-1.0	30.0	81.0	-39.0
Change in Inventories	-83.0	-633.0	21.0	370.0	-19.0	-548.0	-698.0	-220.0
Change in Accounts Payable	15.0	57.0	-91.0	-12.0	27.0	-3.0	25.0	-30.0
Change in Accounts Receivable	-151.0	147.0	42.0	124.0	-19.0	33.0	-72.0	71.0
Change in Other Current Liabilities	179.0	-11.0	-7.0	-45.0	51.0	-88.0	26.0	-60.0
Equity In Earnings Of Affiliates/JV-CF	-7.0	14.0	9.0	10.0	9.0	21.0	1.0	2.0
Net Change In Working Capital	-22.0	-412.0	—	—	—	—	—	—
Impairments	0.0	13.0	-1.0	0.0	1.0	1.0	0.0	2.0
Cash Paid For Taxes	-185.0	-283.0	-246.0	-229.0	-256.0	-277.0	-228.0	-202.0
Pension/Postretirement Benefits	3.0	6.0	—	—	—	—	—	—
Cash Paid For Interest	-3.0	-5.0	—	—	—	—	—	—
Amortization of Intangibles	43.0	43.0	—	—	—	—	—	—
Total Cash Flows From Operations	1,264.0	943.0	1,224.0	819.0	1,298.0	724.0	615.0	333.0
Change In Other Assets And Liabilities	—	—	-2.0	-23.0	54.0	-23.0	16.0	4.0
Change in Other Current Assets and Liabilities	16.0	1.0	—	—	—	—	—	—
Gain (Loss) On Sale of Investments and Mkt Sec	-34.0	12.0	—	—	—	37.0	-12.0	4.0
Interest Received	-10.0	-14.0	—	—	—	—	—	—
Taxes Received	—	—	256.0	89.0	237.0	273.0	262.0	126.0
Gain (Loss) From The Sale Of Fixed Assets	-2.0	-5.0	-9.0	-16.0	2.0	-9.0	-2.0	1.0
Change In Trade Payables & Other Current Liab	—	—	—	—	—	—	—	—
Net Earnings Before Minority Interest	755.0	867.0	748.0	-53.0	774.0	823.0	890.0	219.0
Change In Provisions	11.0	-16.0	—	—	—	—	—	—
Income Tax Expense	252.0	266.0	—	—	—	—	—	—
Interest Expense	3.0	5.0	—	—	—	—	—	—
Interest Income - CF	9.0	14.0	—	—	—	—	—	—
Change In Other Receivable	2.0	27.0	—	—	—	—	—	—
Dividends Received	18.0	0.0	4.0	1.0	1.0	1.0	1.0	2.0
Prepayments And Other Assets	—	—	16.0	67.0	0.0	38.0	-73.0	32.0

Cash From Investing Activities								
Disposal of Fixed Assets	6.0	5.0	26.0	7.0	10.0	5.0	20.0	3.0
Capital Expenditures	-396.0	-437.0	-399.0	-208.0	-251.0	-339.0	-730.0	-503.0
Proceeds From Short-Term Investments	120.0	105.0	138.0	150.0	65.0	1,923.0	443.0	330.0
Purchases of Short-Term Investments	-112.0	-77.0	-60.0	-132.0	-139.0	-1,655.0	-439.0	-241.0
Sales (Purchases) of ST Investments - Net	—	—	—	—	—	—	—	—
Proceeds From Investments	12.0	14.0	11.0	83.0	27.0	10.0	12.0	9.0
Purchases of Investments	-22.0	-222.0	-13.0	-4.0	-8.0	-12.0	-18.0	-19.0
Acquisition of Business	0.0	0.0	—	—	—	—	-2.0	0.0
Other Investing Activities	—	—	—	—	-388.0	—	—	-5.0
Divestiture of Business	3.0	0.0	—	—	—	—	—	—
Purchase of Intangibles	-46.0	-44.0	-47.0	-41.0	-44.0	-48.0	-55.0	-46.0
Sale of Intangibles	0.0	5.0	0.0	19.0	1.0	2.0	1.0	2.0
Proceeds From Sale Of Assocs/Joint Ventures	—	—	—	—	—	—	—	—
Purchase Of Associates/Joint Ventures	—	—	—	—	—	—	—	—
Total Cash Flows From Investing	**-435.0**	**-651.0**	**-344.0**	**-126.0**	**-727.0**	**-114.0**	**-768.0**	**-470.0**
Cash from Financing Activities								
Dividends Paid	-357.0	-394.0	-413.0	-284.0	-181.0	-285.0	-311.0	-335.0
Increase (Decrease) Short-Term Borrowings -Net	-100.0	144.0	-153.0	20.0	-37.0	1.0	0.0	—
Decrease In Long-Term Borrowings	0.0	0.0	—	—	—	—	—	—
Increase (Decrease) Long-Term Borrowings - Net	—	—	2.0	0.0	-12.0	0.0	0.0	—
Repurchase of Common Stock	-204.0	-389.0	-34.0	0.0	-1.0	-2.0	0.0	—
Effect of Exchange Rates On Cash	3.0	-22.0	-19.0	-50.0	10.0	-21.0	-80.0	28.0
Other Financing Activities	0.0	-2.0	-1.0	0.0	0.0	0.0	0.0	-53.0
Net Change In Cash	155.0	-389.0	246.0	392.0	347.0	289.0	-560.0	-519.0
Sale of Treasury Stock	1.0	1.0	1.0	24.0	12.0	1.0	1.0	1.0
Cash and Cash Equivalents (End of Period)	1,291.0	902.0	1,148.0	1,540.0	1,887.0	2,176.0	1,616.0	1,097.0
Cash and Cash Equivalents (Beg of Period)	1,136.0	1,291.0	902.0	1,148.0	1,540.0	1,887.0	2,176.0	1,616.0
Dividends Paid To Outside Equity Interests	-17.0	-19.0	-17.0	-11.0	-15.0	-15.0	-17.0	-23.0

Total Cash Flows From Financing	**-677.0**	**-659.0**	**-615.0**	**-251.0**	**-234.0**	**-300.0**	**-327.0**	**-410.0**

Figure 12 – Cash Flow Statement