UK EQUITIES

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For professional investors only

JEWELS IN THE CROWN

Many of today's quality UK businesses either existed at the last Coronation or were born from themes emerging in the post-war boom. With this in mind, we are reflecting on the nascent trends of 1953 and how these have evolved into some of the UK's **Jewels in the Crown...**

Key takeaways

- **Much has changed since the last Coronation but we still see echoes of that bygone era in today's markets**
- **We explore some of 1953's trends and see how these are echoed in the UK today**
- **We reveal the jewels in the crown of the confectionery, apparel, luxury goods and travel sectors**

It has been 12 months since we wrote to investors in celebration of Queen Elizabeth II's Platinum Jubilee...

Following the sad news of Her Majesty's passing last summer, the UK is now preparing to crown its next monarch, King Charles III. But what's changed since the last coronation in 1953?

On initial inspection – a lot. Inflation was printing a modest 3.1%, well below today's print of 9.2% and indeed the average rate of inflation between then and now, which was 5.25%[1]. £100 in 1953 is worth over £3,500 in today's terms, equivalent to the pound losing 97% of its value over the last 70 years.

Equity markets were lethargic following the bear market of 1952, which saw the prominent index of the time, the FT 30, contract by 28%. But loosening credit terms indicated that a recovery was on the way – a buy now, pay later mentality flourished, particularly amongst the car manufacturers, a concept that remains popular with today's consumer.

Unions continued to grow in popularity. With wage and price controls over and unemployment at 2.9%, the increases in living standards continued to grow and push boundaries. Just two years later, theFT 30 index rebounded forcefully, returning over 140% to investors, triggering the Golden Age of the 1950s.

So, perhaps more similarities exist than first meet the eye. Today, a crippling cost of living crisis has generated peak pessimism but confidence once again appears to be returning to consumers. Cyclical areas of the UK market rebounded strongly in Q1 2023, unemployment remains low, and consumer spending has proved resilient. There is even a possibility of Arsenal FC repeating their title winning feat of 1953...

Many of today's quality UK businesses either existed at the last coronation or were born from themes emerging in the post-war boom. For example, the largest tobacco brand in the UK in 1953 was Wills's Woodbine, a subsidiary of Imperial Brands, which remains one of the largest FMCG businesses globally.

With this in mind, we are reflecting on the trends of 1953 and identifying how these are reflected in some the jewels in the crown of today's UK stock market...

[1]Source: ONS, as at 28/02/2023.

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Confectionery

1953 was a good year for consumers. Not only did it see the de-rationing of petrol, which generated huge tailwinds for domestic travel and the motor industry, but adults and children alike enjoyed a sugar frenzy as sweets and chocolate became freely available after 11 years of rationing.

The end of rationing had a profound impact on the confectionery market, with spending on sweets and chocolate in the first year rising to £250m, an increase of £100m[2], which is over £3.5bn in today's currency.

The UK confectionery market today continues to grow year-on-year, with consumers spending nearly £13bn on confectionery in 2021[3].

Jewel in the Crown – Hotel Chocolat

Hotel Chocolat is a branded chocolatier that is vertically integrated with multiple avenues of growth. We have identified a number of possible growth drivers for the business, including:

- the penetration of its Velvetiser in the UK and internationally
- increased adoption of its 'VIP Me' customer loyalty/rewards strategy
- international success in locations such as Japan, where it is working with a local JV partner.

Chocolate has exhibited steady growth over the decades, a trend that we feel will continue into the future. With Hotel Chocolat's desirable brand, we believe that continued attractive growth and returns are in the company's grasp. Led by a strong management team, we believe that the business can deliver value.

[2]Source: BBC, as at 31/03/2023.

[3]Source: Statista, as at 27/01/2023.

"Adults and children alike enjoyed a sugar frenzy as sweets and chocolate became freely available after 11 years of rationing."

Apparel

Fashion in 1953 was also rapidly changing as a result of de-rationing, with many young women opting for full-skirted dresses often in tweeds and woollens, and three-piece suits commonplace amongst men.

Fashion icons such as Marilyn Monroe hit fame on the big screen. Alongside Queen Elizabeth II, who was also considered a fashion icon of the day, they would go on to shape fashion trends into the 1960s.

Longstanding brands such as Burberry also made their way onto the big screen, and with the iconic trench coat being worn by the likes of Audrey Hepburn and Humphrey Bogart, its brand heritage quickly expanded overseas.

Jewel in the Crown – Burberry

Luxury retailer Burberry is considered the category leader in its trench coat business, where scale and pricing power command generous operating margins. Burberry maintains significant control over its distribution.

This means it retains strong negotiation power with wholesale partners and the business can avoid excessive discounting of its products in store.

Burberry is one of the few independent luxury brands with scale and heritage left in the industry as consolidation by large European fashion houses continues – a long growth runway lies ahead with an ambition to increase online revenue as well as increasing the mix of much higher margin categories such as leather goods.

Although the Burberry brand remains enviable, the business is exposed to consumer cyclicality. However, we believe that the reopening of China will continue to generate tailwinds with some 40% of revenue generated from Chinese consumers, and that growing employment in high-wage sectors will be supportive of the shares.

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Luxury Goods

Wristwatches grew in popularity after the war as soldiers struggled to constantly reach for their pocket watch. With confidence returning into the 1950s, watchmakers capitalised by releasing a series of watches that would go on to define the modern-day industry.

One of the most iconic is the Rolex Submariner. Released in 1953 as a modern diving watch, it has since grown into one of the most popular watches in existence, endorsed by 007 himself in Dr. No. Due to the dominance of brands such as Rolex, Omega, and Cartier, luxury watches are almost synonymous with Switzerland. The luxury watch market has now grown to over EUR50bn worldwide[4].

Jewel in the Crown – Watches of Switzerland

Watches of Switzerland (WOSG) is the UK's largest retailer of luxury watches, with around 60% of group revenues coming from three supply constrained brands: Rolex, Audemar Piguet and Patek Phillipe.

These brands operate a model endowed with high desirability and scarcity, something that has stood the test of time and wider macro events. The business operates a waitlist model for a majority of the product that it sells, providing the company with certain degrees of insulation and also revenue visibility.

The UK is currently WOSG's largest market with luxury watch per capita of around $45 for FY22. This compares with the US at just over $10 and around $25 on average for Europe[5]. This fragmentation and headroom in both the US and European markets provides us with comfort on the long-term growth of WOSG.

Share gains in the above three markets coupled with underlying growth of mid-single digits for Swiss watch exports give us confidence in the shareholder value that the management team can still create.

[4]Source: Statista, as at 15/02/2023.

[5]Source: Watches of Switzerland Annual Report, as at 31/12/2022.

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Travel

The early 1950s delivered the world's first jet airliner – the De Havilland Comet – enabling passengers to travel direct between London and Johannesburg. This was the start of commercial air travel yet extortionate ticket costs excluded much of society bar the ultra-wealthy.

Air travel was heavily regulated at the time with the International Air Transport Association fixing all fares on particular routes. This meant that airlines could compete on service, yet not price. The rise of cheaper tourist and economy class tickets eventually accelerated the growth of package holiday providers, who were unable to undercut the regulated airfare.

Package holidays have since grown in popularity due to their customer protection and the appeal of an all-inclusive budgeting solution. Before 2020, these accounted for 46% of total holidays[6].

Jewel in the Crown – Jet2

Jet2 is now the largest UK package holiday operator as measured by ATOL licences. We believe that the UK tour operator has an opportunity to continue to take market share due to its vertical integration, its strength of offering, and relative competitor weakness.

Its customer-centric approach differentiates the company, resulting in significant brand equity and customer loyalty. Looking ahead, summer bookings are performing well with a higher proportion of package holiday mix versus flight only bookings, and load factors increasing on previous years despite the extra capacity added.

We like the owner/operator profile with management retaining skin in the game, and we believe that the quality of the business is unparalleled in the UK travel & leisure market.

[6]Source: Numis, as at 28/11/2022.

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