Richemont

FY18 Annual Results

Friday 18 May 2018 / 9:30am CET

INTRODUCTION : Sophie Cagnard, Group Corporate Communications Director

Sophie CAGNARD: Good morning, everyone. Nice to see some familiar faces. Burkhart Grund, Chief Finance Officer, and I would like to thank you for coming to Geneva to attend Richemont's 2018 annual results presentation. Welcome also those of you watching the webcast. Joining us today from Richemont, Mr Cyrille Vigneron, Cartier CEO, Mr Nicolas Bos, Van Cleef & Arpels CEO, and Mr Jérôme Lambert, Chief Operating Officer. The presentation and company announcements are already available on Richemont.com. An archive of this webcast will be available today on Richemont's website at 3:00pm Geneva time. So first, Burkhart will take you through the highlights, before reviewing Group sales. Then I will present the Maisons' developments, and thereafter, Burkhart will talk you through the financials and conclude. As usual, the presentation will be followed by a Q&A session, and questions will be taken from the floor. Also, time permitting, from those of you watching the webcast who would have put their questions through the dedicated link on Richemont.com.

Before we begin, could you kindly ensure that your mobile devices are switched off. Thank you. Over to you, Burkhart.

PRESENTATION : Burkhart Grund, Group Chief Finance Officer

Burkhart GRUND: Thank you, Sophie, and good morning, ladies and gentlemen here in the auditorium and those of you watching behind your screens. Thank you for your time today. Today, Richemont is reporting a set of numbers that reflect a generally improved macroeconomic environment, mixed currency movements, solid sales in our main product categories, and the impact of a number of watch inventory measures negatively affecting the wholesale channel. In total, sales increased by 8% at constant exchange rates, and by 3% at actual exchange rates, to finish the year at €10.979 billion. Excluding inventory buy-backs in both financial years 2017 and 2018, Group sales rose by 7% at constant exchange rates. The past twelve months have been characterised by soft wholesale sales and strong retail sales, which were driven by solid jewellery and watch sales. Operating profit reached €1.844 billion, up 5% versus the prior year, reflecting improved gross margin and tight operating expense control. Excluding one-time items totalling €208m in the year under review, and €109 million in the prior year, operating profit increased by 10%. All in, the operating margin was broadly stable versus the prior year at 16.8%.

Profit for the year increased by 1% to €1.221 billion, impacted by a higher effective tax rate. Cash flow from operations was strong, rising by €827 million to €2.723 billion. Let me now walk you through the Group sales performance, first by region, then by network, and finally by product line, with numbers, as always, expressed in constant currencies. I'll start with our sales in Europe, which remains our second-largest region with 27% of Group sales. Full-year sales declined by 2%, adversely impacted by the relative strength of the euro, inventory buy-backs in the fourth quarter of the year, tight inventory control within our wholesale network, and the optimisation of the wholesale distribution network. Sales in France, our fourth-largest market in the world, contracted, and in Switzerland, we're in line with the prior year. The United Kingdom, however, enjoyed continued growth. Sales of all product categories were broadly in line or positive compared to the prior year, with the exception of watches, which were impacted by the initiatives mentioned before. As a result, wholesale sales declined, while retail sales posted modest growth.

Let us now review Asia Pacific, our largest region, accounting for 40% of Group sales. Sales in the region increased by 17%, supported by a weaker Hong Kong dollar, easier compared to figures and a reduced level of buy-backs in the year under review. The double-digit growth was broad-based, led geographically by mainland China, Hong Kong, Korea and Macau, and product-wise, by jewellery and watches. By channel, sales grew by double digits in both retail and wholesale.

Let us now look at the Americas region, which recorded an 8% progress in sales. Lower wholesale sales impacted by watch inventory management initiatives were offset by strong retail sales. Retail performance was driven by jewellery and clothing, with a strong growth of online sales. Retail sales also benefited from the favourable full-year impact of the reopening of the Cartier New York flagship store in the prior year. All in all, the region's contribution to Group sales was in line with the prior year at about 16%. The US remains our largest market, before mainland China and Hong Kong.

Let us now turn to Japan, which represents 9% of Group sales and posted a 6% increase in sales. Japan benefited from softer comparative figures and a favourable currency environment, which positively impacted tourist spending.

Good sales growth in jewellery, watches, as well as the retail channel more than offset the decline in wholesale sales. The year under review also saw the full-year contribution from the prior year's reopening of the Cartier flagship store in Ginza, as well as the positive contribution from the newly opened Piaget and Van Cleef & Arpels flagship stores also in Ginza in Tokyo.

Finally, let us review the Middle East and Africa region, which generated 8% of Group sales and saw sales rise by 2%. Higher tourist spending more than offset the adverse impacts of inventory buy-backs and geopolitical and regional uncertainties. In terms of product categories, jewellery, watches and writing instruments posted moderate growth.

Let us now turn to sales by distribution channel. The contribution of retail sales through the Maisons' online stores and 1,123 directly operated boutiques has increased to 63%, up from 60% a year ago. The 14% increase in retail sales was fuelled primarily by jewellery and watches, with most other product categories enjoying growth. Retail was also supported by a net of six store openings, including the internalisation of external points of sale. From a geographical perspective, all regions excluding Europe recorded double-digit increases. The Group's wholesale business, including sales to franchise partners, reported a 1% decline. Increases in most product categories could not offset the decline in watch wholesale sales, which were impacted by a number of watch inventory management initiatives. Internalisation of points of sale, notably in Saudi Arabia and the United Arab Emirates, also weighed on the wholesale performance. Sales declined in all regions, except in Asia Pacific.

Finally, let us move to the sales breakdown by product line. All major product categories showed growth. Jewellery, which progressed by 15%, enjoyed double-digit growth in most regions. The strong performance was attributable to all Maisons selling jewellery, namely Cartier, Van Cleef & Arpels and Piaget. Jewellery has now become the Group's largest product line, and contributes 41% of total sales. Watch sales achieved a mid-single-digit increase, as strong retail sales more than offset the weakness in wholesale sales. The 4% increase in leather goods was driven by good growth in Europe and Asia Pacific. Writing instruments registered a 3% increase in sales, driven by Montblanc, a notable achievement in a mature market. Clothing posted a more measured performance, with a good contribution from Dunhill and Peter Millar. The category was impacted by the exit of Shanghai Tang on 1 July, and the change of creative directors at Chloé and Dunhill. Sophie will now take you through the Maisons and the segment highlights. Over to you, Sophie.

PRESENTATION : Sophie Cagnard, Group Corporate Communications Director

Sophie CAGNARD: So thank you, Burkhart. Let me start with the segment highlights. So the Jewellery Maisons' operating margin strengthened to almost 30%. The Specialist Watchmakers managed to improve their profitability, while taking inventory management initiatives, and the profitability of our Other businesses was impacted by a number of one-time items. Let us look now at the reported sales and operating results by segment in more detail.

So we'll start with the Jewellery Maisons segment, which accounted for 59% of Group sales. The segment includes the total sales of the Cartier and Van Cleef & Arpels Maisons across all product categories. Sales grew by 9%, driven by high single-digit growth in jewellery, and double-digit growth in watches, and reflected strength in Asia Pacific, the Americas, and in the retail channel. Also, sales partly benefited from the non-recurrence of the prior year watch buy-backs at Cartier. The Jewellery Maisons' operating results improved by 15% to €1.926 billion. This €244 million increase reflects the robust sales just mentioned, good cost control, and the non-recurrence of the €151 million one-time charges in the prior year. Consequently, operating margin improved by 150 basis points to 29.9%.

Let us look at the main developments over the past 12 months. In terms of product lines, jewellery recorded a broad performance, with broad-based growth across unique pieces at the highest price points, and more accessible iconic lines such as *Love* at Cartier and *Alhambra* at Van Cleef & Arpels. Watches reported growth across price points and materials, supported notably by the success of *Poetic Complications* at Van Cleef & Arpels and the relaunched *Panthère* collection at Cartier. Wholesale growth was more measured, reflecting initiatives to tighten sell-in and optimise networks. Strong retail sales benefited not only from the enduring appeal of Cartier and Van Cleef & Arpels' creations, but also from the net opening of two internal boutiques, including in Toronto Yorkdale. There was also the full-year contribution of reopened Cartier flagship stores in New York and Ginza, and the new Van Cleef & Arpels Ginza flagship store. The year saw a number of successful digital initiatives at both Maisons. At Cartier, there was a Panthère prelaunch on Net-A-Porter, and the Juste Un Clou digital campaign. At Van Cleef & Arpels, there was the award-winning nano-website for Le Secret High Jewellery collection, as well as a social media campaign for the Perlée Jewellery collection.

Let us now review our Specialist Watchmakers segment, which consolidates the results of eight watch Maisons. The 6% decline in sales reflects €203 million of inventory buy-backs in the fourth quarter of the year under review. Excluding buy-backs in the year under review and in the prior year, sales would have been broadly in line. Wholesale sales registered a double-digit decline, with Europe, the Middle East and Americas being particularly impacted. Retail sales posted a double-digit increase, and sales in Asia Pacific grew overall. A higher manufacturing capacity utilisation, combined with a larger share of retail, tight cost control and a favourable Swiss franc led to a 16% progression in the operating results to €262 million, notwithstanding the impact of the inventory buy-backs. As a result, the operating margin for the year under review rose by 190 basis points to 9.7%.

Let us look at some of the highlights of the past 12 months. Performance was varied among the Maisons, but wholesale sales were impacted across almost all Maisons by inventory management initiatives. These actions included buy-backs, a strengthened approach to managing sell-in versus sell-out at our multi-brand retail partners, and the optimisation of the wholesale network. By contrast, retail sales were strong across most Maisons. The performance was driven by four main factors. First, a focus on attracting new clients by introducing new aesthetics and broadening the offer within collections, such as the revisited offices at Vacheron Constantin, or the Luminor Due at Officine Panerai, which, with its thinner shape, appealed to new clients. Second, the strength of the jewellery offered at Piaget, which brought more female customers to the store. Third, boutique openings in mainland China and in new markets like Australia and Canada, and fourth, the internalisation of external points of sale for Jaeger-LeCoultre in the UAE. The year under review also saw increased investments in digital, be it in advertising, website rejuvenations at Piaget, IWC and Baume & Mercier, or new partnerships with Mr Porter and Net-A-Porter.

Finally, let us move to the Other segment. This segment includes Montblanc, the Group's Fashion and Accessories businesses, its watch component manufacturing, and real estate activities. Sales were broadly in line with the prior year, with growth in Europe and Asia Pacific, notwithstanding the fact that the period under review only included three months' sales of Shanghai Tang. The operating results, including one-time charges of €37 million, compared to a net gain of €114 million in the prior year. These charges stem from the sale of Shanghai Tang on 30 June 2017, and the write-down of assets at Lancel. Excluding one-time items in both years, operating losses would have been €28 million in the year under review, and €4 million in the prior year. The variance is largely attributable to the costs linked to the retail expansion at several of our Maisons, and the costs linked to the deployment of the Group ERP.

Let us look at the developments of some Maisons. The year saw continued positive sales performances at Montblanc and Peter Millar. Montblanc benefited from solid growth in leather, new products, new technology products such as the Summit smartwatch, and enhancements to its writing instrument pillar, with a notable special edition in collaboration with UNICEF. There was good growth in clothing at Peter Millar, and under the new creative director at Dunhill. At Chloé, the first collection under its new creative director received positive reviews and was introduced in stores this February. Wholesale sales enjoyed growth across most Maisons, driven by a strong partnership with Yoox Net-A-Porter, and new points of sale within the duty-free network. Retail sales were broadly in line with the prior year. The impact of the disposal of Shanghai Tang was mitigated by a variety of retail initiatives. Excluding the exit of Shanghai Tang stores, the network benefited from 16 net new store openings, such as in Paris Galeries Lafayette for Dunhill and in Tokyo Ginza for Chloé.

Dunhill introduced a new floorset approach to better manage its in-store offer, and sales were also helped by the accelerated rollout of new retail concepts at Montblanc, Chloé and Dunhill. E-commerce developments and overall investments in digital have been on the rise. Let me give you two examples: The 'click-and-collect' features on Montblanc and Chloé's websites, and at most Maisons, new brand ambassadors with a large reach on social media to recruit and remain relevant to millennials. This concludes the review of the Maisons. Burkhart, over to you.

PRESENTATION : Burkhart Grund, Group Chief Financial Officer

Burkhart GRUND: Thank you, Sophie. Let me now walk you through the rest of the P&L, starting with gross profit. Gross profit increased by 5%, leading to a gross margin increase of 120 basis points to now 65.1%. The €351 million year-on-year improvement in gross profit reflected higher manufacturing capacity utilisation, larger share of retail, and inventory buy-backs that are below last year's level. These effects altogether overcompensate a 40-basis-point negative currency impact. Charges associated with the watch buy-back programme, which reduced sales by €203 million, lowered gross profit by €135 million.

Let us now look at our operating expenses. There was tight control of operating expenses, which increased by 5% on a reported basis, partially benefitting from a weaker Swiss franc and US dollar-related currencies. Effectively, when you exclude the €178 million real estate gain in the prior year, operating expenses rose by 2% on a reported basis. All in all, they accounted for 48% of sales, with 47% a year ago. Selling and distribution expenses, which accounted for 58% of total OPEX and 28% of sales, increased by 2%. This is largely explained by the strength in retail sales, which led to higher variable rental costs in markets where rentals tend to be indexed to sales, and higher sales commissions. Fixed selling and distribution expenses remained in line with the prior year. Communication expenses declined by 1% and represented 10% of sales, a ratio in line with prior years, and attributable, to a large extent, to cautiousness in spending from the Specialist Watchmakers. Administrative expenses grew by 3%, reflecting increased IT spending linked to ERP deployment, digital and security initiatives. Administrative expenses and other expenses combined increased by €56 million, excluding the prior-year €178 million real estate gain.

This brings us to operating profit. Operating leverage improved. Operating profit progressed by 5%, with a reported 3% sales increase thanks to a higher gross profit and tight cost control. The operating margin now stands at 16.8% of sales. Excluding one-time charges of respectively €208 million this year and €109 million last year, operating profit for the year would have increased by 10%. The current year's one-time charges primarily relate to watch inventory buy-backs and portfolio transactions. Let us now turn to the other P&L items below operating profit.

We start with net finance costs. At €150 million, they were broadly in line with the prior year, with a gain on monetary items and positive movements of the Group currency hedging programme compared to the prior year, partially offset by fair value adjustments on financial instruments. Now let us turn to the profit for the year. Profit for the year rose by 1% to €1.221 billion. The higher operating profit was impacted by a higher effective tax rate of 25.5%, compared to 22.5% a year ago. This increase can be explained primarily by a one-time non-cash tax charge arising from the recently enacted reduction in the US tax rate. Excluding one-off items, the effective tax rate would have been around 21%, in line with the nominal effective tax rate in Switzerland. We anticipate our effective tax rate to remain in the 19-21% range for FY19, always excluding exceptional items.

I would now like to focus on our cash flow from operations. Cash flow generated from operations improved by 44% to €2.723 billion. The €827 million increase was driven by a higher operating profit and favourable working capital movements. Working capital inflows of €234 million, compared to a €29 million absorption in the prior year, partly reflecting lower inventory levels and the issuance of credit notes as part of the watch inventory buy-back programme. The non-recurrence of the prior year's €268 million one-time contribution for the buy-in and transfer of the Group's defined benefit pension plan for UK-based employees also contributed favourably.

Gross inventories of €4.9 billion at year end were €359 million below last year's level, and represented 20.8 months of cost of sales, an improvement of 1.6 months compared to the prior year. This underlines continued discipline in the management of inventories, as well as increased sales. The receivables portfolio remains healthy at about 95% current. Let us now take a look at our capital expenditures. At €487 million, gross capital expenditure was below last year's, representing 4.4% of Group sales against 5.6% a year ago. 53% of the gross expenditure related to point-of-sale investments, including internal and franchised boutiques, and corners within multi-brand retail partners. Investments were focused on store innovations and relocations. Openings included new Van Cleef & Arpels and Chloé stores in Ginza, a new Cartier store in Cannes, and a new Dunhill store in Dubai. Equally worth mentioning are store openings for most of the Specialist Watchmakers and Van Cleef & Arpels in Toronto Yorkdale. Montblanc continued the rollout of the new retail concept, with 41 additional locations in the year just ended, and Dunhill started the implementation of its new retail concept, starting with Jermyn Street in London.

18% of the gross expenditure was related to manufacturing investments. This primarily included capitalisation of research and development expenses, with the sizeable investments in manufacturing now behind us. Notable investments in manufacturing related to Cartier's stamping facility at Gloveliers, and the completion of the new IWC manufacturing site at Merishausen, both in Switzerland. Other investments accounting for the remaining 29% included continued investments in IT infrastructure, with the deployment of our ERP Gemini project and digital initiatives, as well as the ongoing renovation of Richemont's central logistics centre at Villars-sur-Glâne in Switzerland. Let us now discuss free cash flow.

Free cash inflow amounted to €1.090 billion, up by €63 million over the prior year. The 6% improvement can be attributed to the higher cash flow from operations, partly offset by the acquisition of investment properties, as well as a 7.5% investment in Dufry, a leading travel retail specialist listed on the SIX Swiss exchange.

Let us now turn to our balance sheet. Our balance sheet remains strong, with shareholders' equity now representing 57% of total equity and liabilities, compared with 77% in the prior year. The shift is due to the €4 billion bond issue completed in March 2018, which represented an opportunity to secure long-term financing in a low interest rate environment. At 31 March 2018, the Group's net cash position amounted to €5.269 billion. The €522 million decline in net cash is largely explained by the investment in Dufry, the purchase of the previously mentioned investment properties for €213 million, and a higher annual dividend payment. Richemont's net cash position comprises highly liquid, highly rated money market funds, short-term bank deposits and short-duration bond funds. Our overall resources are primarily denominated in Swiss francs, euros and US dollars. Let us now look at our dividend proposal.

Our FY18 dividend proposal, to be confirmed by shareholders in September, is CHF 1.90 per share. This represents an increase of 6% over the prior year in Swiss franc terms. This reflects the cash flow generated, as we just discussed, and our strong cash position.

Before we conclude, let me summarise some of the financial highlights of the year under review. We enjoyed double-digit growth in retail and in Asia Pacific at constant rates, as I said before, led by our main markets of China, Hong Kong, Korea and Macau. Jewellery sales were solid and now represent the Group's largest product line. We have addressed the oversupply of watches in certain external points of sale. These initiatives have weighed on watch wholesale sales, but lay a sound foundation for the specialist Watchmakers to grow from. In our own boutiques and online, watch sales grew at double digits, demonstrating the relevance of our offer to our customers. We have improved our operating leverage through good cost control, and kept to our golden rule, stating that the operating expenses should increase less than sales increases. Last but not least, our cash flow from operations was strong, increasing by 44% versus the prior year. This year, under a renewed board of directors and with a largely new Senior Executive Committee, saw a number of changes which will shape the future of our Group. As you may remember from the interim results announcement last November, our Chairman, Mr Rupert, commented that Richemont has embarked on a transformation journey to address the complex demands of luxury consumers in today's rapidly changing environment. In order to address these challenges, we must develop a robust omnichannel proposition, blending both physical and digital channels to ensure a seamless and unique customer experience. This will require a novel approach to communication, customer engagement and distribution.

The tender offer we launched for Yoox Net-A-Porter is a major milestone in our transformation journey. Yoox Net-A-Porter operates in an attractive area of the market, where there are high barriers to entry. We believe there's a meaningful opportunity to help them grow the business over the long term and further strengthen their leading positioning in online luxury retailing with the long-term financial backing of Richemont. We look forward to helping Yoox Net-A-Porter's management execute their strategy.

Yoox Net-A-Porter is the only digital-native business in our portfolio, or in our future portfolio, and its team is unparalleled in the industry, both in number and in quality. This acquisition strengthens Richemont's digital capabilities, and accelerates our focus on omnichannel and digital marketing, which are key features of the transformation journey we just discussed. As you may have seen in recent company announcements, the offer is progressing quite smoothly and nearing its completion. We are confident that with the remaining steps of sell-out and squeeze-out, we will complete the transaction by this summer. Success of our recent bond issue underscores investors' confidence in the quality of our assets, the strength of our balance sheet, and the Group's long-term development potential. Let me now wrap up this presentation with some concluding comments. As we progress on our transformation journey, we remain focused on ensuring that we have the right mix of skills and expertise to meet the demands of our clients, and to provide long-term value to our shareholders.

Richemont's strong balance sheet provides projection throughout the business cycle, and allows us both to support and invest into our Maisons and seize long-term growth opportunities as they arise. We are well positioned in the industry, with a unique portfolio of some of the world's leading Maisons. We're particularly well placed to capitalise on the growth opportunities in our relevant product lines, first and foremost in jewellery. With our combination of Yoox Net-A-Porter, we believe that we are now strongly positioned to seize the opportunities offered in the digital field. We, therefore, approach our 30th anniversary with a certain degree of confidence in the Group's long-term prospects. I would like to thank everyone at Richemont for their contribution and hard work over this past year. We will now open the floor to questions. Thank you very much, and over to Sophie. I think it's started already.

QUESTIONS AND ANSWERS

Sophie CAGNARD: So, yes, so many hands, I don't know where to start, but just before you start asking your questions, please announce your name and your company's name. So we'll go that way and moving up, because otherwise, it's tough.

Edouard Aubin – Morgan Stanley

Edouard AUBIN: Thank you. Edouard Aubin from Morgan Stanley. On your Jewellery Maisons, I think your EBIT margin, if we look at just the second half of the year, if my calculations are right, your EBIT margin compressed by around 40 basis points on a reported measure, and 200 basis points on an adjusted basis. So if you could just elaborate as to why the margin pressure, and to what extent we can extrapolate that margin pressure in fiscal '19. I know you don't like to talk about guidance, but if we look at consensus for fiscal '19, I think consensus is around €2.4 billion, which would imply something like 16% growth for the Group, while you grew basically less than 10% this year. Is that realistic? Then just on Specialty Watchmakers, a number of your brands can be found on grey market platforms today at substantial discounts. If you could elaborate on the steps you're taking to address this in order to protect your brand equity.

Sophie CAGNARD: Edouard, if I count well, that makes three questions, no? So maybe you can pick only two. Up to you, no? What do you think, Burkhart?

Burkhart GRUND: Yes, those were three questions on my count as well. Let's say the second one I can very easily answer. We don't guide, so you come up with numbers out of your models or consensus numbers, you must understand, we cannot really comment on those. So that leaves two remaining questions. The Jewellery Maisons, I don't really share your view. I think the Jewellery Maisons have had a strong year. The margin is back to close to 30%, as we were saying, 29.9% to be exact, and they are in a process or at a level where, with very high operating margins, we must worry to protect those margins. So both Cartier and Van Cleef are investing into the network and they're investing into communication, and we're very comfortable with the level at which their operating margin stands today. On the Specialist Watchmakers, Jérôme, you want to take that up?

Jérôme LAMBERT: Yes, good morning. When it comes to our Specialist Watchmaker Maisons and your comments about the products available on various platforms, we know that there are alternative distribution networks that exist and tend to develop themselves. We monitor, as well, the rate of discount, and what we see is that's there's tendency of this rate of discount going down. It must be primarily the consequence of our qualitative action when it comes to our distribution network, and for sure, that's the result of the first steps of our buy-backs that took place this year.

Burkhart GRUND: Let me just add to that, we've spoken about it for quite a while now, starting when we did buy-backs in fiscal year 2017, primarily concentrated on Cartier and some of the Specialist Watchmakers. We were quite clear about it, saying that while we do not believe that oversupply at our partners' points of sale is helpful to protect the long-term brand equity, because this oversupply is not being dealt with quickly, well, then our retail partners have a balance sheet problem. In order to address that, we took the decision to buy back, because otherwise these products will find their way into the grey market, and this will impact our long-term brand equity. We took a view, which is probably different from other players in the market, to address that problem by buying back this inventory. Now, we've done it last year at Cartier. We think Cartier is in a very healthy situation and we've seen that this year. We've addressed the overstock situation for our products with the retail partners at the Specialist Watch Maisons this year, and we believe that that is a sound basis now, that they have reached a healthy inventory level with our products. We believe that on that basis, they have a solid foundation to grow from, and we've stated that.

Now, what is the timing of a rebound? I know you're waiting for that. Now, I must say, today, we look at the retail, on the retail sell-out, and that is a very healthy sell-out for our watches, both at Cartier and at the Specialist Watchmakers. So that gives us some hope, and when the inventory equation is right in the wholesale channel, then wholesale sales will grow again.

Patrik Schwendimann *– Zurich Kantonalbank*

Patrik SCHWENDIMANN: Thank you. Patrik Schwendimann, Zurich Kantonalbank. First question, overall on the wholesale channel, what's your best guess here? I mean, you had a clear outperformance in retail last year. For the current year, if you would assume, let's say, mid-single-digit sales growth for the whole group, would you say it's justified to assume a similar performance of retail and wholesale, or would you still assume that retail would clearly outperform wholesale? That's my first question. Secondly, on the EBIT margin, how happy are you with the current EBIT margin? I don't want the guidance for the current year, but what's your long-term view? Would you say it's still possible to have, mid-term, over 20% EBIT margin, as it was the case in the past, or would you say, no, the market has changed?

Burkhart GRUND: Yes, good morning, Patrik. Retail is strong. Wholesale was quite strongly impacted by a number of initiatives we took, so that's where it's standing today. I mean, I can't guide you on that, you know that, but I appreciate you trying. Let's put it this way, there's always a link. Retail sales, which is the true demand we see, are strong, and with a time gap, wholesale follows. Now, is that a formula that will hold true in our case? I simply can't tell you, because as I said, we started updating all of you on that, we have introduced KPIs that we very strictly follow, so that we make sure that sell-in does not exceed sell-out. When you're in an adjustment period where you think, 'Well, we have excess inventory,' okay, we bought back and we monitored, and made sure that sell-in was below sell-out. That, over time, brings you to a point where sell-in and sell-out will normalise again, and that's when we should see the pick-up in wholesale sales, if the business and the retail sales still are strong.

We have a measured degree of hope that the business continues to be strong on the sell-out side, but then again, predictions are entirely difficult to establish, especially when you talk about the future. Today, the data points we have are retail sell-out is strong, watches, jewellery, and double-digit strong, and the wholesale channel, we're working on getting the inventory level right. We did a big step with the buy-backs. There's still work to be done.

Cyrille VIGNERON: I will add one comment, that we have started this two years ago, and what we see is there is a long tail. For markets that have recovered early like mainland China, we see their sell-out trend in wholesale and retail are basically the same. I think it's fine. Other markets that were in distress, and not only because of us, but the entire profession, are still struggling, so to see when will the aggregate wholesale demand or the aggregate wholesale figures match the retail depends on us and on others as well. In markets where we've been down and the market recovered quickly, like China, it's fine, and it's the same.

Burkhart GRUND: Probably to add to that, Cartier buy-backs were done in the first half of fiscal '17. We've seen good business and healthy business, and the comment that we had a few minutes ago that you see many of our products on the grey market, I don't think that holds true anymore for Cartier. So I think some brave measures that Cyrille and his team took last year, we believe they're paying off, and once again, this is about the long-term protection of the brand equity. On the EBIT and the EBIT margin, well, I wouldn't be sitting here or wanting to keep my job if I would say, 'Well, 16.8% is the level that I'm very happy with.' I think what we have to see is that the underlying EBIT, and I understand that we have been talking a lot about one-off effects in fiscal '16, '17 and '18, I can assure you we would not like to continue to do that for the foreseeable future, because it makes the results very hard to read and to understand. So just bear with us for the time being. The underlying EBIT margin is obviously stronger than the one we report on, but that is not an excuse.

So we believe that if we apply what we've been saying, meaning we apply sound inventory management principles, as we're trying to put in place now, if we apply the golden rule I was referring to, saying we have a business evolution, we have a positive growth of the top line, well, if we get the gross margin equation right and if we get the operating expense growth to below sales growth, well, then mechanically we will increase. You must also remember that the high points in the margins were reached before, you know, the shock we've seen on the Swiss franc, so we'll see. We'll see. I'm positive about the future, but then again, I would say that, right?

Sophie CAGNARD: We'll do Mélanie, and then we'll come back. Okay.

***Mélanie Flouquet** – JP Morgan*

Mélanie FLOUQUET: Good morning. Mélanie Flouquet at JP Morgan. I have two questions, please. The first one is regarding your investments in soft lines that have been pretty impressive in Dufry, and in particular in Yoox Net-A-Porter of late, so indirectly through the distribution, but certainly in soft luxury bias. You are stating, apparently, in the press that your ambitions in soft luxury are organic beyond this, so I just wanted to get a confirmation of this, and if this is the case, what does sizing long-term investment with your cash balance mean? That is my first question. The second one, it's a question to Burkhart, sorry. It's regarding operational leverage. Without guiding, clearly, you had said in the past that you wanted to run OPEX at a lower level than sales. If I take out all the one-offs, you've delivered 7% organic sales growth, 10% EBIT growth. Are you satisfied with that level of leverage? I mean, clearly, you've delivered, therefore, lower OPEX than top line, but is this a satisfying level for you, or are you considering that you have two to three years' investments that are a bit heavier than the normalised run rate of OPEX? Thank you.

Burkhart GRUND: Thanks, Mélanie. Yes, okay, to bring a bit of colour to what we were saying to the press this morning, so Dufry, Yoox Net-A-Porter, is that a way of exposing ourselves to the soft luxury side? It's not necessarily the first and foremost ambition we have. We believe that both on the travel retail channel or on the full digital channel with Yoox Net-A-Porter, these are meaningful opportunities for us to, kind of, leapfrog into a new age on the distribution side, fine. Mechanically, if you look at it, today, we have about 1% of our Group sales are in e-commerce or through e-commerce. When we combine with Yoox Net-A-Porter, we jump to 17%, but does that mean we have made a meaningful venture into soft luxury? Not necessarily. Yes, today, Yoox Net-A-Porter is mainly trading on the soft luxury side, but that is not the idea of it. We see that as something that is coming from our customer's side, who want to engage with us where they choose and through which means they choose. In order to quickly advance into that field, we believe, and we said that and we believe that that is one of the best opportunities to do that much quicker for us, and to learn and scale up very quickly.

Dufry, well, if you believe that there are long-term travel patterns that will accelerate, and we believe that, and if you look at the statistics, that seems to be the case, well, then it's probably a good place to be, especially for us, who are very strongly present in DFS, which has a different footprint. As you know, it's more Asia-based, and Dufry is more on the western hemisphere and comparatively less exposed to Asia. So we believe it's a good position to be in to grow business opportunities with them. Now, what we were saying this morning, ambitions to grow more organically, that was referring to an area where we believe there is significant potential for us, which is on the leather goods side. We have some very successful businesses in leather goods today. I cite only Montblanc and Chloé as an example, but Dunhill is also there, Lancel is there, which is a different story, as you know, and let's not forget, Cartier, in the past, had had a very sizeable leather business. As we've been saying for the last 18 months, we try to do first our job on the supply chain and development side, by scaling up the leather hub, as we call it, which was developed by Montblanc, very successfully so, and we're sizing that up, scaling that up so that the other Group brands can utilise this.

It's a totally different skill set on the supply chain and the development side than what we usually have on the hard luxury side. So that job is more or less done, and we can now focus on growing the leather goods business organically by putting forward what we know how to do, meaning developing creative and well-priced products. So that's what I said this morning when I spoke about growing organically. Now, obviously, the question that we've heard and had from many sides, 'Well, does that mean you want to now go out and acquire a target in the leather goods side?' Well, you know better than I that there are not many targets out there, and obviously, that is not our priority. Our priority is clearly growing it organically. For that, we took a bit of time to build the infrastructure, and Serapian, this small acquisition last year, was first and foremost about development and production capacity as well in that area, so that's what the plan is on the organic side.

Am I happy with the leverage? Same answer, well, obviously I would like more leverage, but let's put it this way, there are many moving pieces in this transformation phase in which we are, and that, short-term, affects it, so we're still rolling all the Gemini into Fashion and Accessories Maisons now. We've had transaction expenses, so there are many one-offs, some of them we spell out, some of them we don't spell out, that are linked to this transformation. Now, once you're in a fully normalised business, if that still exists, obviously leverage would be higher, but we're transitioning to something new here.

Sophie CAGNARD: Then Francesca.

***Helen Brand** – UBS*

Helen BRAND: Hi, Helen Brand from UBS. Two questions from me. The first one, I'd just be interested, Mr Rupert talked about Chinese demand a few years ago like dining on top of a volcano. I was just wondering how you're thinking about the sustainability of Chinese demand here, and how perhaps that looks compared to a couple of years ago. Then secondly, I just wanted to follow up on the M&A side, perhaps outside of soft luxury. You've clearly raised the €4 billion bond, despite having significant cash on balance sheet, the dividend's perhaps a bit shy of market expectations, and you're talking about seizing long-term opportunities. Should we think about M&A outside of the soft luxury side as well?

Cyrille VIGNERON: I will take the first one for China, Chinese demand and sustainability. I've seen the Chinese wealth growth and their GDP growth is about 6.5%. It continues, and there is, kind of, a real economic development, not in all regions, but if you see what's happening in Beijing, Shanghai, now in the tech cities, Hanzhou and Shenzhen, it's really massive. So for still a middle-income country, it's moving quite rapidly up, so the number of potential new customers is just enormous, and in a period where the renminbi is also strengthening, the purchasing power is just enormous, both inside mainland China and outside. So we see the same thing as happened in Japan in a country which is ten times bigger. So for probably the next ten, fifteen years, there is really substantial potential for growth. There might be some hiccups depending on what's happening there, but beyond that, there is still a need, and we see moving even more massively towards women, who are increasingly independent and spend on their own. That says no worry for the next coming ten years.

Burkhart GRUND: Okay, so on the dividend and the M&A side, we've always said that the way we viewed dividend, or let's say long-term shareholder return, is exactly that, long term, so we want to grow the dividend, year after year, on a sustainable level. So 6% growth this year, 6% last year, we believe that's a nice and healthy trend going forward. Should we be thinking about M&A activity outside of the soft luxury space? I think that was the question, right, Helen? Would I be able to comment on that here?

Sophie CAGNARD: Okay, so Francesca, John, and then we'll go back to the first row, please.

***Francesca Di Pasquantonio** – Deutsche Bank*

Francesca DI PASQUANTONIO: Good morning. Francesca Di Pasquantonio, Deutsche Bank. I will also ask two questions. The first one is on Yoox Net-A-Porter. I know it might be premature to make any comments, but I think not just I, we would all be interested to understand what your plans and expectations are around the integration of Yoox Net-A-Porter. I'm not asking for really, you know, big details on the strategy, which you will be probably brainstorming about, but just to have an idea on whether you are prepared to invest in the business to make Yoox Net-A-Porter catch up with peers which are more advanced today. It seems to me YNAP has lost a bit of its technology lead, maybe a bit of inspiration on the management side as well, so it would be interesting, you know, to frame this acquisition with your omnichannel, omni-stock strategy, and whatever you can say at this stage would be helpful. My second question, it's a specific question on CAPEX. I know you guide for CAPEX, so can we have CAPEX guidance for next year?

If I may, just a clarification on the watch business. It seems to me that you don't feel you are yet at the point where you're happy with the balance of inventory outstanding in the trade, with the exception of Asia Pacific, but is it correct to assume that when and if the convergence of sell-in and sell-out happens also globally, we could see a similar performance to Asia Pacific? You mentioned a double-digit growth in wholesale in Asia Pacific. Many thanks.

Burkhart GRUND: Good morning, first of all, Francesca. Let me try to tackle the first two questions, and then I'll let my colleagues speak about the watch side of it, even though I have my views on that. On the YNAP or Yoox Net-A-Porter side, okay, you have your views if they've lost their edge or the sparkle. Actually, when we looked at Yoox Net-A-Porter, and obviously we have a view that we have always, being a big shareholder, almost 50% of it, we've almost always treated it a bit at arm's length, for very good reasons because we always wanted to insist that this is an open platform for, so to say, an industry offer, so that the other Maisons who want to trade or who see value in trading through Yoox Net-A-Porter can do so. We believe that has worked very well in the past, and now, as we have reached almost 95%, as you read yesterday, and we'll go through the next steps to get to 100%, we still would like to believe that this is more or less the same proposition, meaning this is an open, neutral platform. The feedback we've had from the Kering side, from some of the other bigger brands who have gone in that direction, who have quite spontaneously come out and said, 'Well, we believe this is still the case. Fine, it's Richemont who will hold the majority, but we still believe it's a very attractive platform for us to trade through.' The world obviously is big, and there are other views, there are other business models out there, which are attractive, and we will see how this plays out over the long term. Once again, for us, Yoox Net-A-Porter, we believe it's a fantastic opportunity for us not only to learn about the business, and when I say about the business, this is what the customer engages with, so we need to learn more quickly about the customer, and we need to meet his expectations. Expectations, obviously, are what we also – in this industry – call the omnichannel challenge or promise, and we believe we are strong in retail, we are working to be stronger in wholesale, and obviously with a strong asset in the digital field, we believe that it's a fantastic proposal that we can build over time.

We looked at the asset, obviously, because when you offer €38 a share, which is a premium to the market, well, then you better take a view. Our view was that it is a very strong management, very strong teams, who are also, size-wise, one of the best, if not the leading assets in the digital arena, and that's why we decided to go a step further and try to control the entire company. We believe, with a long-term view, with a long-term capital deployment, that it is a very interesting proposal, not only for us, but also for the market. As we're in a market space where you need capital, and I'll come to that, and you don't want to manage a business with a long-term view under short-term pressure. So that's why, for many reasons, we came to this conclusion that it would be better to take it private. Capital needs? You know the numbers better than I. Yoox Net-A-Porter, they have been talking about €150-180 million CAPEX, which for them is clearly significant, but then again, let's start thinking about this as a technology-driven business, so what does that mean? What is big, what is a small number?

Probably that's what, going forward, our businesses will need when we talk about building a business model that the customer expects from us.

This will be much more and more technology-driven, and it's not just an ERP deployment, which we've been talking about in the past. It is digital engagement, and that means systems, that means CAPEX or OPEX towards the technology side of the business. So as I said, €150-180 million for them, that's what they guide on. We'll have a look at it. Once again, once we secure, and we expect that to be done by summer, then we'll have a look at it in much greater detail. Once again, we've been at arm's length so far. We have a very good view, but we don't know the details, so we'll have a look at that. If you bring all that together, the Richemont and the Yoox Net-A-Porter CAPEX, I would say we're still in the same range that we've been in the last, let's say, five years, which has been a range between 5-7% of sales, and we're comfortable with that, but I don't give guidance. Hold on, there was another question on the watch business.

Jérôme LAMBERT: Yes, good morning. When it comes to our watch business, maybe in terms of context, there is a word that we like to use, which is 'sustainable', and it's for us very, very important. Given the size, the history and the patrimony of our Maisons, we cannot only consider short term, but we need to project ourselves in the mid term and long term. Cartier was a pioneer in establishing a strong monitoring of its sell-in and sell-out, and we have been extending that expertise, during the last eighteen months, to the other Maisons of the pool of Specialist Watchmakers. It means that today we can say, as Burkhart was saying before, that our sell-out is higher than our sell-in. Now, if you combine that to the buy-backs that have been announced and presented in our accounts, yes, we can say that we have, globally speaking, at global level, now reached a good level of stock. What does it mean geographically, to come back as well to a comment of Burkhart? We do not guide our clients when it comes to say, 'Where do you want to buy?' Of course the volatility of currency has an impact on where the clients want to buy.

It's absolutely impossible to know where, in September and October, will be the global price positioning, because of the currency.

Sophie CAGNARD: John, but two questions, please. Thank you, and afterwards, we'll come to Luca Solca.

***John Guy** – Main First*

John GUY: Two questions, thank you. My first question is around the launch of Baume, which I thought was quite interesting. It's not a premium product. I think in sterling terms, the range is around £430-850. It's a little bit more expensive than your Baume & Mercier Classima. It's designed, I think, in Geneva, but made in the Netherlands? Maybe you can correct me if I'm wrong on that. So I'm just trying to understand really, you launch products the whole time, but this is interesting. I get the point around customisation, around ocean waste, and almost having a sneaker-style customisation opportunity for a younger millennial. I understand all of those points, but it's not Swiss-made. The movement, I think, only costs just over $11-12. I'm trying to understand, is this a shift in trying to capture a greater segment of the market and moving more downscale in some area, or is this just a one-off that you're just trying in a particular market? That's my first question. I guess linked with that, a question for Cyrille on Cartier. We've seen, on a like-for-like pricing, as much as you can look at a like-for-like pricing, we've seen quite a big movement in the last two years on Cartier pricing, minus 5% to maybe plus 5% over the course of the last two years, from what we can see.

I'm just trying to understand, today, given the launches that we've seen, especially the Santos relaunch, how are you seeing customers gravitate towards the Cartier watch offer? Are we seeing still much more stainless steel, less gold? How are you going to position the Cartier watch element going forward? Thank you.

Jérôme LAMBERT: I will start with our new baby. Yes, indeed, I would say we're very happy and glad to see the birth of a new Maison within our portfolio of Maisons when it comes to the watches. You describe, I would say, a part of the production chain of Baume, and indeed it is assembled in the Netherlands, mainly for logistic reasons, as personalisation is one of the key items, and the time to react to have the watch delivered, we had to be capable to establish it very close to a place from which we can ship very quickly. Indeed, we found in the Netherlands a good base for that. I want to say that, again, it goes to sustainability. We definitely want to be capable to continue to recruit new clients for the luxury watch segment, and it is indeed very important for us to nurture the desire step by step, and to continue to get and raise the relevance of watchmaking/fine watchmaking to new and younger generations. We have done it for a while with our communication, our digital communication in many countries, and the style of our communication has been, I would say, rejuvenating itself constantly during the last year.

We go one step further with Baume, and I appreciate that you notice that it's a different approach and positioning. We are very much interested in the clients that are interested in shopping digital, to B2C, to personalisation, and also with an environmental awareness approach.

Burkhart GRUND: Can I just add something to that? I think today, this morning on the Media Call, we said, 'Well, Baume, what is Baume? It's young, it's eco-conscious, it's digital,' and I think that captures the essence of it. I think it's a very interesting proposal. We'll see if that view's shared by our customers, and hopefully many customers in the future. For us, it's almost, I would say, a bit of an edgy proposal, against the backdrop of being in quite a conservative industry, and it was also a project that has been run separately, let's say. It hasn't come out of Baume & Mercier, but it was run separately by a team fully engaged in that, and it's a great dynamic that we've seen around the development of this project. It can probably give us some hints of how, you know, we can use the creativity that's existing within the Group, within our teams, and channel that towards something that is very interesting, with a very quick turnaround. So that was a very interesting experience in many, many aspects, and now we're putting it to the test of the market.

Cyrille VIGNERON: To comment on the question on our pricing and product offer, I said two years ago, and still on the market, there is a bit too much of everything, so meaning it's a buyer's market. In a buyer's market, you have to give a good value proposition on every category. It's not that you have to sell cheap products or expensive ones. In every category, you have to have good pricing. So what we've been doing is we construct the offer with good pricing on every category, from steel and steel & diamond, or gold and gold & jewellery, and we are growing in all categories in there. So as you see for the new Santos, the perceived value for money is really good, and by doing that, counterintuitively, you give better value for money, you encourage customers to trade up, so our average pricing is increasing. Also with that, you have better capacity utilisation, so you also consolidate margins. So by having, in some way, a more aggressive price in each category, we encourage more trading up than trading down, and we encourage margin consolidation. It might look counterintuitive, but our results show.

Sophie CAGNARD: Please, Luca, yes, and then Jon.

Luca Solca – Exane BNP Paribas

Luca SOLCA: Good morning, it's Luca Solca from Exane BNP Paribas. Looking at watches specifically, I understand that the inventory buy-back is focused on the long-term preservation of the brand equity and is appropriate. I also understand that that is driven primarily by the fact that you had, originally, too much product, but also probably the wrong product in the market. When you look at the various brands in the portfolio, maybe starting with Cartier but then going into the Specialist Watchmakers' brands as well, where do you think your current product offer is today? Do you have the right watches out there for the demand you have in front of you, or is this process of adjusting the product range still ongoing, at least in some of the brands?

On digital, more than the Yoox Net-A-Porter side, I would be very interested in getting your view on what digital is going to do to your business, and how is it going to change the way that Cartier or Van Cleef & Arpels, and the other companies within the Group, operate? Is that going to be primarily a function of how you communicate to the market, is that going to have an important function in distributing the product, or what else? Thanks very much.

Jérôme LAMBERT: I will start with the watches. Thanks for the question. Indeed, I would say our Maisons are existing through their products, and the efforts that the Maisons of Richemont did during the last year have been very meaningful. If you see the last SIHH and the creativity of our Maisons, you see the importance of the Polaris line in JLC or Jaeger, you can see the relaunch of the Possession line at Piaget, you see that our Maisons have in their heart to reinforce, develop, focus on their iconic expressions, while they put a large emphasis on their creativity and factor of differentiation. Richemont is lucky to have eight Maisons, or with Baume we could say nine Maisons, in Specialist Watchmakers, and then to that, you have to add Van Cleef & Arpels, Cartier and Montblanc. All these Maisons are very much paying attention to their expression and to offer a wide offer, and then somehow, an offer different from one Maison to the other. How we do the end offer of the evolution? Yes and no. Yes when it comes to say we have drastic problems to address. No because the evolution of the product range is what explains why these Maisons have more than centuries of existence. Like species, we know that there is a continuous search and evolution, but creativity, differentiation and iconisation are definitely the heart of our strategy.

Burkhart GRUND: Probably, I might add, the test is always if this is relevant for the customer, which is a given as a principle, and if we look at the recent - meaning the fiscal year '18 - retail numbers and the retail growth of sell-outs, this seems to confirm that the offer's relevant. Now, it's a journey, as we know, with ups and downs. I think creativity is strong, but there's a constant renewal process that is ongoing, and sometimes we come up with even some surprising offers like Baume today, that we were just referring to.

Cyrille VIGNERON: To comment also on more specific things, you know there has been a major contraction coming from China, and it has two origins, one is anti-corruption and one is renminbi devaluation. Anti-corruption, not only corruption, but also corporate gifting… A big part of state-owned companies were offering gifts, and big parts were watches, and when you offer something that's not on your own money, you can spend whatever you want, and so this part is gone. So there is a market adjustment linked to that, that probably will never come back, so in some way, this had become - everything for that - the wrong offer, because there is no more demand there. When it comes to the rest, the market is picking up in different things, and when brands have an offer which is really linked to their DNA, and the strong brands are weaker than before… When we relaunched the Panthère, very Cartier, it worked tremendously well. Even though there was a kind of consensus that you have to do something novelty, which is round and automatic, but we launched something not new and square, and quartz and it's like a landslide.

So we construct our offer, and we have a long way to go, but we are in good shape to do it, on something where there's basically no demand. We do something which is unnecessary, just for pleasure, so we have to create that demand and make customers want to buy that, meaning nice things full of brand DNA at the right price and fair value, and it works. So we are on the way to reconstruct that. So there are some parts where you have to adjust to market where substantially some demand has changed, because it was not there, and some re-shifting, but basically to what has made the luxury, as before, a creative offer matching something which is not a demand and becomes a demand.

Nicolas BOS: Good morning. If I may answer on the digital part. I think first and foremost, digital is not a, kind of, one-size-fits-all monolithic strategy or reality, and it's been there for quite a long time for most of the brands, so I think that for some of the brands within the Group it's an alternative commercial network, for some of the brands it's a way to express their identity, for some of them it's a way to engage socially. When I look at the way it exists at Van Cleef & Arpels, it's primarily a way to explain what we are about, to talk about craftsmanship, to tell stories that resonate with our collections, and to go with initiatives like L'Ecole, initiatives around education. So it's primarily maybe a communication tool or a set of communication platforms or engagements through social media, and it's been the case for more than ten years. Then, of course, it's also a way to provide additional service that includes online sales. I mean, we have e-commerce that we run ourselves. We have our own online retail in the Americas, in Europe, in Japan, in China, which still represents a limited percentage of sales, as Burkhart was mentioning, but really provides for, you know, complementary service.

What we say is the reality of omnichannel, which is, you know, clients getting informed online, coming to the stores, still enjoying a retail experience and an immersive approach that can be provided through a physical store environment, but then combine that with their online experience. So it's a reality today. It doesn't mean that e-commerce is replacing traditional retail for a brand like Van Cleef & Arpels, but definitely, that combination of digital and physical is a reality, and moving forward, it's going to be more and more the case.

Jon Cox *– Kepler Cheuvreux*

Jon COX: Yes, good morning. Jon Cox, Kepler Cheuvreux. A couple of Group questions, should I say. First of all, a technical question, so maybe for Burkhart.

The one-offs, could you just give us a breakdown exactly where they are, because you mentioned €208 million and then you mentioned €37 million for the others. Is the rest just watches, or is there some other stuff in there we should be aware of, just to help us with our modelling? Again, this quite a technical, very quick question on YNAP. When will you fully consolidate? I guess from 1 April. How much will be the book gain? Because I guess that will be pretty material. Operationally, it looks like you're pretty happy to lose market share in luxury watches, it seems to be what you're saying, you're happy to limit wholesale. You can see Rolex and Swatch Group, LVMH clearly winning market share. I wonder what you think this does medium term? Once you lose share, it's very hard to get it back. Maybe just some comment on that. Just on the Other segment, should we think of a blank zero this year, given the exit of Shanghai Tang and Lancel? While you're here, Nicolas, maybe you can give us a quick comment on Van Cleef and the plan for expansion.

Finally, just a comment, I think previously you've said dividend payment mid-teen - I think that's to probably misquote Mr Rupert, I'm sure he's listening in - two years now, you've had mid-single-digit dividend increase. I think this is probably not what some investors signed on for, as you can see with some of the shareholder reaction this morning, but that's just a comment. Thank you.

Burkhart GRUND: Thanks, Jon. Do you want me to comment on the comment, first? Now, this 15% has been floating around for a long time. I personally haven't found when it started, but we can definitely have another look at that. I still think, and we've been, I think, very clear about that, that over the long term, we view our business and we view the long term and value the long-term relationship with our shareholders. Now, a 6% growth in dividend in today's environment I think still is an honest proposal. Okay, there is a share price reaction, fine, but I think once again, you need to look at the shareholder return over the long term, so that's our view on that. Now, are we happy to lose market share? Would I answer yes? Probably not, but then again, we don't really, and I say that in a very relaxed fashion, we don't really, really look at the short term here. Now, is it one year up, one year down? Fine. The Maisons have existed for many generations, and if you look back at the history of Vacheron Constantin, for example, let me calculate, probably more than ten generations, and I don't think that they built the Maison by looking at market share.

I think over the long term, you can only do what is right for your Maisons. In this case, we have taken a view in the last two years that addressing the unhealthy inventory situation, next to running or doing a good job on product creativity, network quality, etc, is the view that prevailed. I don't want to go again and say, 'Well, because long-term brand equity is of utmost importance for us.' So if that means that, short term, we have fluctuations, volatility in our market share, well, that is a consequence of it, but we don't want to manage it in terms of market share. It is for the long-term health and the strength of the brand equity.

Jérôme LAMBERT: I would give, I would say, two comments on the comment, in this case. First, I don't think that you build market share by sell-in, my first comment. The second point is we are in a cycle industry. Every correction of cycle is, most of the time, very painful, and detracts a lot of value. It is clear for us that the sustainability of our business model is a key criterion, and it is a discipline, because sell-in, sell-out data, and working hard, on long term, with your strategic partners, which are in this case our strategic wholesale partners, demands a lot of energy, a lot of common discipline, but we believe in that strategy.

Cyrille VIGNERON: To be more specific, don't take Swiss watch exports as a proxy for the market share, not in the short term. If you take over three years, probably it matters. In three months, it's just restocking distribution somewhere. If you take brands in fashion that have gone extensively in outlet malls and producing for them, they are decreasing their value badly over time, and the same for watches. So we have to be very strict on where we put things and how we make the market consolidate in a good way. So we're confident to regain market share, but the market share on true demand.

Burkhart GRUND: Okay, and Jon, finally, to not forget that, come back to the one-offs. €208 million, we said it in the release as well - the results announcement - there is €135 million linked to the buy-backs in Specialist Watchmakers, so you'd find that in that segment, obviously. Then we said the rest is linked to portfolio transactions, and as you've seen or heard or read, we exited Shanghai Tang, we're in talks for Lancel, and, okay, we're in the process of securing the 100% majority of Yoox Net-A-Porter, so the rest you will find in the Other segment. Now, don't nail me down on €5 million here and there, but that's the general trend of it. You will find in the notes of our financial statements, first that we have not secured, so to say, the offer; you remember, the tender period finished on 9 May. We put out a press release yesterday saying that we have secured or have exceeded the 90% threshold, which was one of the conditions, and the second condition was the MAC condition that we had explicitly to waive, which we also did with yesterday's press release, so consider it effectively done yesterday or today. Because today, we're going to spend a bit of money by actually putting up the consideration for the shares that have been tendered, which is today. The rest, we expect to finalise by this summer.

Nicolas BOS: I think, you know, it's really one of the fine illustrations of what we talk about Richemont, of this long-term view and long-term commitment. When it entered the portfolio nearly twenty years ago now, it was the ambition to take a very, very highly respected historical, family-run brand, and to give it the time to develop, you know, organically into an international company, with a wide reach and still a very, very clear identity, and I think quite a high level of respect and desirability from customers. This is what has happened slowly but surely in the last two decades, and the plans are really to continue. We operate only through retail. We have about a bit more than 100 stores. We are purely concentrated on jewellery and jewellery watches, and we've seen a very good response to that specific positioning. So we feel that that kind of long-term view and organic base has been quite efficient for Van Cleef & Arpels, and should continue to be in the future.

***Zuzanna Pusz** – Berenberg*

Zuzanna PUSZ: Thank you so much for taking my question. Zuzanna Pusz from Berenberg. So I just have two questions, I'll stick to the rule. First of all on YNAP: Given that there's been, I guess, some deceleration in the performance in Q1, I know that currently, of course, the market doesn't really focus on what's the outlook for YNAP, per se, or not, but when we think of YNAP being consolidated within the Richemont Group, can we assume that whatever targets the management of YNAP had for the growth, which was, I think, 17-20% organic growth, and also certain margins and free cash flow considerations, is this something we can take for granted, or you will review all of that once it's been consolidated, and perhaps, kind of, the grand scheme of things will matter more, so it could be a bit of a drag on your profits, on your free cash flow, but you see it as, let's say, wider support of your Group's digital efforts? With regard to that as well, given that you will soon have YNAP on board, will it prevent you from also working with other platforms? Recently, Farfetch has launched their hard luxury hub, which some of your peers have joined within the watches and jewellery, so can you give us an idea, in a way, if you see there's something preventing you?

Then the second question is, coming back to the comments you've made...Well, that was kind of combined... On the trends observed among the younger generations, you've mentioned you find that the younger people are looking more at the environmental factors, etc. Now, we've seen recently a big rise in the discussion around the second-hand luxury market. You have platforms like The RealReal or TrueFacet in the US growing fast. Is this something you see as a threat, or are you willing to cooperate with them? Do you have any of your own plans in the second-hand market, like some of your peers have recently announced? If you have any colour on that, that would be great. Thank you.

Burkhart GRUND: Okay, thank you for the questions. Now, I suggest I give you my views on the first question and on the third, and I will ask my colleagues to add some colour to that, especially your second question. So on YNAP, I cannot really or I don't want to comment on their results they just put out a few days ago. You have probably heard or read in their announcement, and probably listened in to their call they did on the annual results of last year, that they confirmed guidance, which they gave as a range, that they confirmed that. That, for us today, is the assumption. As I said, you know, we'll look into the business model, in the sense that the fundamentals I think are sound, the management is strong. We expect and we clearly hope that the management will stay on board, because that's the management that has built a great business and, by the way, a profitable business. I think we'll talk about other business models in the space afterwards. It's a profitable business model, so we're happy with that. Their guidance is quite strong. They have confirmed their guidance as well after their three-month earnings announcement, so today, we have no reason to believe that that would be challenged or questioned, even though I think I've read something, right, a bit *Arrivederci*, was that? Punchy line there, Francesca, I like that. So in all honesty, we're looking into the model at the end of the year. We've said, when we formulated the offer, we know the numbers as you do, we know also what they guided on CAPEX spend, €150-180 million. We'll see. If we need to accelerate spend, then we will do that. We will do whatever is healthy for the long-term development of a profitable business together. Now, I'll let my colleagues to the right engage on other business models or engaging with other players. Do you want to take that up, Cyrille?

Cyrille VIGNERON: We have not put any clear view on which players we will play or not, depending on what they really do. So far, we are not with the marketplaces, because marketplaces are not controlled, especially intellectual property, and it's places where you can have counterfeit, partial or total, or you can have some trans-shipping or can have many things happening there. So that's an overall issue. There will be, I guess gradually, and that's why we also have our strong point, what can be a clear need and selective offer on the online, and which parts are just arbitration or places for wrongdoings. So we continuously review, because there are new partners or new people or new offers every day, and many, many, many hybrids. So on that, we see, and those that can be, at some point, serious and can be controlled, and can have a high, I think, intellectual property control also on what they do, directly or indirectly, then can be considered, but currently, we don't see any, at this stage, that have shown up that quite well. So that's why also probably with Yoox Net-A-Porter, we can move forward on something which will be a clear offer we can use and can get standard into the market.

Burkhart GRUND: Probably another word to that. The way we see it is it is probably easy, probably, I say, let's say, to start an e-commerce business, but you need to get the basics and the fundamentals right. You need to understand your customer, you need to have the IT capabilities to actually understand the customer demands, and you need the quality of execution, and that goes with a strong backbone, but that also goes with a customer perception that actually they can trust you. You don't want to be stuck, after you have bought something, with a transaction that doesn't work with a product that doesn't arrive, or if you want to send it back, which in the luxury space, or especially on the soft side, is a given, and you want ease and reassurance on the execution side of it. That's why we believe that there is a very interesting proposition and a great business that has been done and built by the team at Yoox Net-A-Porter, and that's why we believe in it. You were asking about the pre-owned space of the business. It is true there has been a lot of noise around that, let's say, in the last six months, starting at the SIHH, then followed by another, you know, group in the luxury space who said, 'Well, we're working on that,' some other brands have been talking about that.

We think that's an interesting part of the market if you look at it from a customer perspective, because you find in that space customers who are entering into the watch luxury market, we're talking about watch today, and you know, they are building watch expertise on their own, or they're building a collection, or they use that as a way to enter into the market. That is, of course, interesting for everybody in the market, and that's why I think you hear so much noise around it today, and I mean that in a positive way, noise. Because I think the industry is waking up to a market there - space in the overall market that has been overlooked in the past, and we're monitoring the situation as well.

Sophie CAGNARD: So we're running out of time, so there will be time only - yes, you, Hermine, go ahead - and then there is one question on the web which has not been answered.

Hermine De-Bentzmann *– Raymond James*

Hermine DE-BENTZMANN: Good morning, Hermine De-Bentzmann, Raymond James. I have two very quick questions related to inventory buy-backs. The first one, I was wondering if you expected to make such a large amount of buy-backs in Q4 when you started to implement them. My second question is I was wondering as well if we can assume that inventory buy-backs have continued a little in Q1 fiscal '19, and if you could help us to quantify the magnitude, if any. Thank you.

Burkhart GRUND: Did I expect to do this level of inventory buy-backs? Depends on when. After I was told, I fully expected it, but on a more serious note, how did we run through the process? Clearly, you've seen we've had some management changes as well on the CEO or the management team levels of some of the watch Maisons, Specialist Watchmaker Maisons, and their brief was very clear, or the brief given to them was very clear. From the new managers overseeing the Specialist Watchmakers segment, from Jérôme Lambert and Emmanuel Perrin, the brief was very clear, 'You will do what is necessary to bring the inventory to the level that is healthy, or that we consider as being healthy.' It was done on a Maison-by-Maison basis, on a market-by-market basis and on a customer-by-customer basis. Now, I can have my view, which might be right or wrong. In the end, the Maisons came with their proposals, and they have run through a very rigorous process of making sure that, you know, we come to the right level of buy-backs.

Frankly speaking, I don't care if it's €50 million more or less, for the simple reason that we have to get it right. If we come to the right level, well, then that is what it needs to do or that's what it takes, so that's my very simple view on that. Q1, well, it's still very young, haven't done anything in Q1.

Sophie CAGNARD: Okay, thank you. So there's a question, I think for Jérôme, regarding the appointment of Eric Vallat, and whether you can elaborate on what are his new targets or any key initiatives, and also what Fashion and Accessories Maisons. Thank you.

Jérôme LAMBERT: Thank you. Thank you, Sophie. Indeed, we announced this morning the appointment of Eric as the Head of the Fashion and Accessories Maisons. You can see in his appointment, I would say, the mirror decision in organisation that is the one that we decided to put in place with the Specialist Watchmakers a couple of months ago. So indeed there is a willingness to work with the Maisons of Fashion and Accessories in an efficient, proactive and professional way. You can read in the résumé that is in the announcement, it's a short one, it's a few lines on Eric, that he's a great professional, coming 100% from this Fashion and Accessories world, with a large experience in terms of Maisons, and as well in terms of geographic.

Sophie CAGNARD: Thank you. So that concludes this presentation. Many thanks for coming. Thank you for watching, and James and I are at your disposal later on if you have more questions. Thank you. Have a good day.

Burkhart GRUND: Thank you very much.