Richemont

Annual Results FY20

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Alessandro: Ladies and gentlemen, welcome to the financial year 2020 annual results presentation live webcast and conference call for Compagnie Financière Richemont. I am Alessandro, your call operator. The conference must not be recorded for publication or broadcast. At this time, it is my pleasure to hand over to Sophie Cagnard, Group Corporate Communications Director. Please go ahead.

INTRODUCTION: Sophie Cagnard, Group Corporate Communications Director

Sophie CAGNARD: Thank you, Alessandro, and good morning. We hope that you, your families and your colleagues are all well in these difficult times, and while we are disappointed that we cannot host a physical meeting as originally planned, we are pleased that you are able to join the audio webcast of Richemont's 2020 annual results. This is Sophie Cagnard, and joining us today from Richemont, from different parts of the world, are Johann Rupert, Chairman, Jérôme Lambert, CEO, Burkhart Grund, CFO, Cyrille Vigneron, CEO of Cartier, and Nicolas Bos, CEO of Van Cleef & Arpels, as well as James Fraser, IR Executive. Jérôme will begin the presentation with a summary of our response to the Covid-19 pandemic, before taking you through last year's financial highlights and sales. Burkhart will then discuss the Maisons' key developments and Group financials. He will hand back to Jérôme for the conclusion, which will be followed by a review of all the questions that you kindly provided.

Today's presentation and company announcement are available on Richemont.com, and an archive of this audio webcast will be available on our website at 3pm Geneva time today. Before we begin, may I draw your attention to the disclaimer on our presentation and company announcement regarding forward-looking statements as defined in the United States Private Securities Litigation Reform Act of 1995. Thank you. I will now hand over to Jérôme.

COVID-19: Jérôme Lambert, Group Chief Executive Officer

Jérôme LAMBERT: Thank you, Sophie. Good morning, ladies and gentlemen. Thank you for taking the time to participate in today's presentation during this exceptional period for us all. I would like to start by taking you through the actions Richemont has taken in response to the spread of Covid-19. To deal with these unique and challenging times, we have adopted a four-stage approach, health and safety, business continuity, remediation and restart measures. First and foremost, the health, safety and wellbeing of our colleagues, clients, partners, communities have always been our top priority. From the outset, we have taken strict precautions, always in alignment with the World Health Organisation, governmental and local health authorities' guidelines. We have been in regular communication with our colleagues, in addition to providing a 24/7 helpline and wellbeing support. As the pandemic spread from Asia Pacific across Europe and the Middle East and then to the Americas, we temporarily closed many of our boutiques and offices, some of our distribution centres, notably those at our Online Distributors, and most of our production facilities, either fully or partially.

At the end of March, following some reopening in Asia Pacific, close to 45% of our directly operated stores were closed. This figure rose to nearly three-quarters of our distribution when including external points-of-sale, with three regions, namely the Americas, Europe and Middle East, nearly completely closed. Throughout, Richemont has been committed to supporting the communities where we operate. In addition to our early donation to the Red Cross in Wuhan, around 100 support initiatives have been implemented throughout the Group by our Maisons and businesses. There are too many to list them here, but let me name a few. In Italy, our Richemont friends at Serapian have pledged over 1 million masks to medical staff and frontline workers in Italy, in addition to the masks they are providing for our colleagues and their families. YOOX NET-A-PORTER partnered with local charities in London, New York, Hong Kong and Milan to repurpose their delivery fleet and deliver thousands of packages containing food, medicine, additional items and personal protection equipment to those most in need and to hospitals. Cartier has made several donations to organisations and programmes worldwide, including Médecins Sans Frontières, Visiting Nurse Service of New York, the Red Cross Society of China and the Emirates Red Crescent.

The second set of measures we have taken relates to ensuring business continuity. We have kept our operations running at a minimal level, to be ready to gain momentum when the situation improves. A small number of production facilities remained open to serve essential operations and some distribution centres continued to serve our open stores and online customers, always following governmental and public health guidelines. Many of us have also embraced working remotely. The ramp-up from 1'000 to over 10'000 was done in less than 10 days, and our technology team has done an excellent job making this happen as quickly, and as smoothly as possible. Our past investments in digital infrastructure have allowed our teams to maintain direct contact with clients, either through our Maisons' websites, call centres or through social media channels. Our Maisons have swiftly embraced these new digital opportunities and we have therefore been able to generate increased sales via our websites, third-party websites and across multiple digital channels.

Before going through the remediation measures, whose benefits will flow through more in financial year '21 than in financial year '20, let me tell you what we estimate the pandemic impact is for the year under review. We estimate approximately €800 million on sales, around €450 million on operating profit and some €350 million on cash generation. Cash is our fortress. It allows us to stay agile and gives us the freedom to take a long-term view with our Maisons and businesses, keeping employment high and honouring our commitments to stakeholders. To this end, we promptly implemented a range of remediation measures for cash preservation:

- We quickly tailored inventories to end-consumer demand and adjusted our production capacities and corresponding supply chain needs accordingly. These measures are helping to contain working capital requirements.

- We have restricted operating expenditures such as communication and selling & distribution expenses to business-critical spend only, while maintaining our focus on new retail, which is the operating model we are aiming at. It consists of using big data to intimately know our clients and being able to meet their expectations at any time, anywhere and with any device.

- We are renegotiating third-party agreements where we can.

- A hiring and salary freeze has been implemented, while capital expenditure is being reduced by postponing or cancelling projects such as store openings and renovations, and we are limiting spend to only key strategic projects.

Remember, there is always a "lead & lag effect" between initiation of cost-saving and cash preservation measures and the time they show in our financials. In a nutshell, our priority is to protect our people and preserve our ability to benefit from any improvement in the environment.

In light of Covid-19, Richemont's Board of Directors has also decided it is prudent to propose a lower cash dividend.

Let's now look at our restart measures which mainly consist of reopening facilities whenever allowed by authorities, always maintaining strict safety protocols. This is what happened in March in parts of North Asia, including with reduced opening hours and shift arrangements. Restart measures also include focussing on new retail, just discussed, in the USA, and allocating resources and reallocating stock where sales have resumed, such as China and Korea.

Before turning to the numbers, let me remind you that the Group's financial statements for the prior year period ended 31 March 2019 included 11 months of YOOX NET-A-PORTER results and 10 months of Watchfinder's results.

HIGHLIGHTS: Jérôme Lambert, Group Chief Executive Officer

Sales for the year increased by 2% at actual exchange rates and were in line with the prior year at constant exchange rates. Excluding Online Distributors, sales for the year decreased by 1% at actual exchange rates and by 3% at constant rates. Covid-19 had a significant impact on the fourth quarter, where sales declined by 18% at exchange rates and by 19% at constant rates. As a reminder, sales had increased by 8% and 5% respectively in the first nine months of the year under review. Operating profit was down by 22% to €1.528 billion, largely impacted by temporary store closures in the fourth quarter. Profit for the year amounted to €931 million. The magnitude of the decline can be primarily attributed to the non-recurrence of the post-tax non-cash gain of €1.378 billion on the revaluation of YOOX NET-A-PORTER GROUP shares held prior to tender offer, as well as the €245 million foreign exchange loss on monetary items. The net cash position remains strong at €2.395 billion.

Let me now walk you through the Group sales performance: first by region, then by distribution channel and finally by product line. As always, changes versus last year are expressed in constant currencies. Also, Hong Kong refers to Hong Kong SAR, China; Macau refers to Macau SAR, China; and Taiwan refers to Taiwan, China. Finally, China refers to the mainland.

OPERATIONS: Jérôme Lambert, Group Chief Executive Officer

Let us start with sales in Europe, where sales increased by 4% and by 1% when excluding Online Distributors. In the fourth quarter, sales were impacted by Covid-19 and declined by 10%, following an 8% improvement for the nine months ended in December 2019. Performance for the year was varied across the main markets. Sales in the United Kingdom grew by double digits, while sales in France declined, affected by lower tourist and domestic spending following strikes and social unrest. There was mid-single digit sales progression at the Jewellery Maisons, which partly benefited from the consolidation of Buccellati, and a slight decrease at the Specialist Watchmakers. Sales at Online Distributors rose by double digits, partly benefiting from a comparison to the previous year, which included 11 months of sales for YOOX NET-A-PORTER and 10 months for Watchfinder & Co. Retail sales recorded a mid-single digit increase, while wholesale sales contracted, primarily due to optimisation of the watch wholesale network. Online retail sales continued to grow by double digits. With 30% of Group sales, Europe remains our second-largest market.

Let us move now to Asia Pacific, our largest region with 35% of Group sales. Sales for the year decreased by 6% and by 7% excluding Online Distributors. The decline is largely explained by two factors: social unrest in Hong Kong for the largest part of the year, and the outbreak of the Covid-19 pandemic during the fourth quarter, when sales declined by 37%. For the full year, sales in China and Korea rose by double digits. This progression, however, was not enough to offset the 40% sales decline in Hong Kong. Sales grew at the Online Distributors, but contracted in all other business areas. By channel, both retail and wholesale sales were lower than in the previous year.

Let us now look at the Americas, which accounted for 20% of Group sales, with the US remaining our largest market, ahead of China. Sales in the Americas grew by 6% and by 2% excluding Online Distributors. The Online Distributors drove growth by double digit sales progression, while our Jewellery and Fashion & Accessories Maisons posted single digit increases. The decline in wholesale sales was more than offset by a double digit increase in retail, both online and offline.

Let's now turn to Japan, where sales accounting for 8% of the Group's total declined by 1% overall. Excluding Online Distributors, they were in line with the previous year. Covid-19 weighed heavily on domestic and tourist spending in the fourth quarter, with sales retreating by 21% versus the fourth quarter of the previous year. Sales for the year were also negatively impacted by the relative strength of the Japanese yen and the October '19 increase in VAT. It is worth noting, however, that sales at the Jewellery Maisons were stable compared with the previous year, and that most Maisons within the Specialist Watchmakers grew from high single to double digit rates. Wholesale and online retail sales posted growth, while retail sales declined slightly.

Finally, let us review sales in the Middle East and Africa region, which represented 7% of the Group sales. Sales were 3% lower overall and down by 6% excluding Online Distributors. While sales in the first nine months of the year had been stable, they decreased by 12% in the fourth quarter. There was a strong increase in sales at Online Distributors, though not enough to compensate for declines at the Group Maisons, as the outbreak of Covid-19 and an unstable environment impacted strongly the final quarter of the year. From a distribution channel perspective, retail sales were in line with the previous year, wholesale sales declined and online retail sales rose sharply.

Let us now turn to sales by distribution channel, beginning with retail. Sales in our 1,175 directly operated stores decreased by 2%, affected by temporary store closures during the fourth quarter, and following 5% growth in the first nine months of the year. By the end of March, however, most of our stores in China had resumed activity. Sales for the year increased at Online Distributors and were stable at Jewellery Maisons. Europe and the Americas delivered growth, while sales in the Middle East and Africa region were stable, while other regions declined. Retail sales accounted for 51% of Group sales compared to 53% a year ago.

Next let's look at online retail, which posted strong double digit sales growth at Maisons and Online Distributors across almost all regions. Sales benefited from an increasingly digital clientele and from a favourable comparative due to the timing of the Online Distributors' consolidation in the previous year. The contribution of online sales to Group sales grew by 300 basis points to 19%. Finally, wholesale. Sales were 5% lower after decreasing by 1% in the first nine months. In addition to the Covid-19 outbreak, temporary store closures at our franchise partners and multi-brand retail partners due to social unrest in Hong Kong and France weighed on sales. Growth in Japan was more than offset by declines in other regions. Sales declined in all business areas. Specialist Watchmakers were in addition impacted by network optimisation initiatives, which continued into the third quarter of this financial year. Wholesale sales represented 30% of Group sales compared to 31% a year ago.

Finally, let us move to the sales breakdown by product line. Jewellery sales were in line with the prior year, with good sales in Europe and the Americas, mitigated by a slowdown in Asia Pacific. Jewellery was the largest contributor to Group sales, with 36% of total sales.

Lower watch sales reflected wholesale channel optimisation initiatives and continued disruptions in Hong Kong, initially by street protests and thereafter by Covid-19.

There was a slight decline in leather goods sales, while clothing grew strongly. The latter partly benefited from a favourable comparative with the previous year, due to the effect of the Online Distributors' consolidation, as previously mentioned. Burkhart will now take you through the Maison and segment highlights. Over to you, Burkhart.

OPERATIONS (continued): Burkhart Grund, Group Chief Finance Officer

Burkhart GRUND: Thank you, Jérôme. Let me start with the Jewellery Maisons. After rising by 8% in the first nine months of the year, sales rose by 2% for the full year, following the impact of Covid-19 in the fourth quarter. Europe, the Americas and Japan led regional growth and more than compensated for lower sales in Asia. Retail sales increased moderately. Online retail sales grew strongly.

The decline in operating margin was limited to 28.8%. This contraction can be partly attributed to higher gold prices and a muted increase in costs linked to continued investments in retail network renovations and digital communication initiatives. In addition, the outbreak of Covid-19 led to store closures and event cancellation fees. Let us look at the key developments over the past 12 months.

Growth in jewellery was moderate, with notable performances from icons such as *Juste un Clou* at Cartier and *Alhambra* from Van Cleef & Arpels, as well as from the successful launch of *Clash de Cartier* at the beginning of the financial year. The *Clash* collection has continued to gain momentum, with new references in white gold and amazonite recently introduced.

Since its acquisition in September 2019, Buccellati has performed well, notably its emblematic *Macri* collection.

In watches, sales were moderately lower compared to the prior year, particularly impacted by protests in Hong Kong and the Covid-19 outbreak. There was a strong performance from *Panthère* and *Santos* at Cartier and *Alhambra* at Van Cleef & Arpels.

Retail sales growth partly benefited from new store openings, notably in China, the reopening of renovated stores in several locations across Europe, as well as from the integration of Buccellati.

Online retail continued to perform well, with double digit growth. This was aided by the launch of Cartier's flagship store on Alibaba's Tmall Luxury Pavilion in the fourth quarter, which had strong initial take-up.

The decline in wholesale sales reflected several months of street protests and a difficult trading environment in France and Hong Kong.

Let us now review our Specialist Watchmakers business area, where sales declined by 4% in an overall challenging environment, despite increases in Japan and the Americas for the year under review and good growth in China during the first nine months. Retail and wholesale sales as a whole declined for the year, following a stable performance in the first nine months before the impact of Covid-19 in the fourth quarter.

There was strict control both of inventories at our multi-brand retail partners and of costs throughout the year. Cost savings were, however, not sizeable enough to compensate for the combined effect of lower sales, higher gold prices and a stronger Swiss franc impacting the cost base. As a result, operating margin was 220 basis points lower at 10.6%. Let us look at some highlights over the past 12 months.

Sales declined across most Maisons. There was, however, notable growth at Lange & Söhne and Panerai, with a good response to the new *Odysseus* line and various anniversary editions of *Lange 1* at Lange & Söhne, and the launch of the *Submersible Carbotech* at Panerai.

The decrease in retail sales reflected a sharp contraction in Asia Pacific, primarily attributed to Covid-19. All other regions posted growth, with a double digit increase in Japan.

Online retail sales continued to expand, albeit from a low base, with broad-based growth across Maisons and regions.

Lower wholesale sales primarily reflected unrest in Hong Kong and France, and the subsequent effects of Covid-19. Sales were also impacted by the optimisation of the wholesale distribution network, which was completed at the end of the third quarter.

Now let us turn to Online Distributors, where sales increased by 15%. Nearly all regions, led by the Americas, posted double digit growth. This performance was achieved notwithstanding the temporary closure of the Landriano distribution centre in Italy following a storm last summer and the temporary closures of distribution centres in the fourth quarter linked to the Covid-19 outbreak.

On a technical note, let me bring to your attention our decision to reclassify the amortisation of intangible assets and inventory adjustments made on acquisition. Going forward, these costs will no longer appear in the operating results of each business area. We have done this so that operating results better reflect the operational performance of each business area. Prior year figures have been restated to reflect this change, which will primarily apply to Online Distributors.

Online Distributors posted an operating loss of €241 million for the year, compared with a €99 million loss in the prior year. This reflects a number of factors, a highly competitive pricing environment for online fashion, higher fulfilment costs, partly linked to the Landriano storm, increased communication spending and continued investments in IT, mostly linked to MR PORTER's and more recently NET-A-PORTER's platform migration, as well as international expansion costs at Watchfinder & Co. Let us look at some operational developments.

Since April 2019, YOOX NET-A-PORTER GROUP has introduced more than 600 new brands, including Audemars Piguet, and launched more than 300 exclusive capsules, notably with Saint Laurent. Expansion of key categories has continued, notably Hard Luxury and Beauty.

MR PORTER's migration to the new platform has been successfully completed and the process has commenced for NET-A-PORTER .

The FENG MAO joint venture with Alibaba continues to develop favourably. After 6 months of operations, the NET-A-PORTER flagship store on the Tmall Luxury Pavilion now features more than 165 brands, including some Chinese brands.

Among the many digital initiatives introduced this year, I would cite two at YOOX utilising artificial intelligence. YOOXMIRROR enables customers to develop avatars to try on outfits and share the looks. Also at YOOX, a new size and fit tool helps customers identify the right clothing size.

This year saw the launch of YOOX NET-A-PORTER's "Modern Artisan Project", a sustainable luxury capsule collection of men's and womenswear, in partnership with The Prince's Foundation. This complements the NET SUSTAIN platform, which promotes sustainable fashion and now comprises 100 brands in its second season.

Watchfinder & Co. enjoyed strong growth on a full-year comparable basis. Performance was strongly driven by the UK and the business has now expanded into France, Switzerland, Germany, Hong Kong, and more recently the US.

Finally, let us move to 'Other', which primarily includes our Fashion & Accessories Maisons. Sales were 5% lower for the year, following a stable performance for the first nine months. Growth in the Americas was offset by declines in other regions, particularly in Asia Pacific. Sales were lower in the retail and wholesale channels, while online retail showed robust growth.

Operating losses increased by €46 million to €141 million. The deterioration can be explained by lower sales and a €45 million asset impairment at Alaïa, dunhill and Purdey. However, it is worth noting that a tighter capital allocation leading to a reduction in inventory and capex led to a lower cash outflow. Let us look at the developments of the main Maisons.

There were contrasting results across Maisons. Montblanc's growth in the Americas and Peter Millar's globally were not able to offset declines at some of the other Maisons and regions. Montblanc had notably good performances from its tech products and from new categories such as *Trolleys*. Retail sales were lower, impacted by temporary closures, though dunhill and Montblanc showed resilience, with higher sales in most regions.

The decline in wholesale sales was contained by good growth in the Americas.

The strong growth in online retail sales was driven by Montblanc and Peter Millar, which were some of our first Maisons to embrace this channel. Overall, for the Fashion & Accessories Maisons, online sales reached 9% of total sales compared to 5% a year ago.

FINANCIALS: Burkhart Grund, Group Chief Finance Officer

Let me now walk you through the rest of the P&L. Gross profit was broadly in line with the prior year. At 60.5%, gross margin for the Group was down by 130 basis points, mainly due to higher gold prices, lower manufacturing capacity utilisation and a competitive pricing environment in online fashion, in addition to the full-year dilutive effect of the Online Distributors. The Group Maisons' gross margin, however, was strong at 66%. Let us now look at our operating expenses.

Overall, expenses increased by 6%. Selling and distribution expenses increased by 2%. The limited increase reflects early mitigation measures following the Covid-19 outbreak and postponing of non-essential renovation or store openings. It also includes the first-time adoption of IFRS 16 leases. Selling and distribution expenses represented 50% of total operating expenses, compared to 51% in the prior year.

Communication expenses rose by 6%, despite efforts to limit expenditures in the fourth quarter of the year, as some spending was already committed. Effectively, when cancelling a number of campaigns or events, charges were incurred for those with only partly refundable fees. The most notable was the €22 million charge for Watches & Wonders Geneva, which was to take place in April. Excluding this charge, the increase in communication spending was limited to 4%. Communication expenses represented 9.9% of Group sales, slightly more than the 9.6% in the prior year, but accounted for 20% of operating expenses, in line with last year.

Fulfilment expenses, at €352 million, increased by 54% and represented 5% of operating expenses. These costs are related to the fulfilment of online orders at the Online Distributors and the Group Maisons. Almost half of the increase was due to the first-time inclusion of fulfilment costs for Group Maisons that were reported across other expense categories in the prior year. The remaining increase was mostly driven by the full-year effect of the consolidation of the Online Distributors and extra costs due to the storm damage in Italy last summer.

Administrative expenses grew by 10%. The increase can be mostly attributed to the strengthening of the Swiss franc, IT and logistics spending and digital initiatives at Online Distributors and Group's Maisons, as well as the strengthening of some teams, notably in digital.

Other expenses amounted to €254 million. These included €200 million for amortisation of intangible assets on acquisition, primarily related to Online Distributors. Also included were €48 million of non-recurring items, mainly related to impairment charges for the Group's Fashion & Accessories Maisons. The prior year period included one-time expenses of €95 million.

This leads us to operating profit, which was down by 22%, as operating expenses increased at a higher rate than Group sales growth. There was a time lag between the impact of temporary store closures on sales and the effectiveness of cost mitigating measures promptly implemented in the wake of Covid-19 in the fourth quarter of the year under review. Operating margin for the year stood at 10.7% or 14.9% excluding Online Distributors.

Let us now review the P&L items below operating profit, starting with finance costs. Net finance costs for the period amounted to €337 million, compared with €183 million in the prior year. The increase was mainly due to a €233 million increase in net foreign exchange losses on monetary items and new lease interest expense for the first-time adoption of IFRS 16. These were partly offset by a €44 million net gain on hedging activities, that compared with a €112 million loss in the prior year.

Profit for the year decreased to €931 million. This was primarily due to the non-recurrence of the €1.378 billion post-tax non-cash accounting gain on the revaluation of YNAP shares that we held prior to the tender offer. Also contributing to the decline was the reduced operating profit and the higher net finance costs just mentioned. I would now like to focus on our cash flow from operations.

Cash flow generated from operations improved by €466 million to €2.797 billion. This was mainly a result of €724 million in higher depreciation, including €618 million for right-of-use assets under IFRS 16. Lower working capital needs arising from a lower increase in inventories and lower trade receivables, largely due to lower wholesale orders, also contributed to the increased cash flow from operations.

Let us now turn to our gross capital expenditure, which amounted to €735 million. Expenditures were 11% lower than the prior year, as some projects were postponed or cancelled due to Covid-19. 44% of expenditures were focussed on points of sale. These mainly related to boutique openings such as Cartier at Hong Kong K11 and renovations such as Cartier on Old Bond Street in London and Van Cleef & Arpels on Rodeo Drive in Los Angeles. Manufacturing spending amounted to 13% of capital expenditures, mostly related to R&D and machinery, the largest portion being at Cartier. Other investments, at 43% of total spending, included IT expenditures, mainly at YOOX NET-A-PORTER, and to a lesser extent at the Group and the Maisons. Let us now discuss free cash flow.

Free cash inflow amounted to €1.024 billion, a decrease of €122 million. Higher cash flow from operations was more than offset by the inclusion of lease payments under IFRS 16, as well as higher taxes paid. Let us now turn to our balance sheet.

Our balance sheet remains strong, with shareholders' equity representing 57% of total equity and liabilities, compared with 61% a year ago. Net cash of €2.395 billion is €133 million lower than the prior year. The decrease can be partly attributed to the Buccellati acquisition.

Let us now talk about our dividend proposal. In these unprecedented times, without visibility on how the environment will develop, our Board of Directors has decided that it is in the best interests of all stakeholders to preserve maximum liquidity in the short term, and therefore to lower the dividend proposal to CHF 1 per A share. In order to reward loyalty and long-term shareholders, the Board is also evaluating an equity-based shareholder loyalty scheme as a supplementary benefit, to enable shareholders to capture any ultimate improvement in global conditions. The scheme will be announced prior to the publishing of the AGM notice. I will now hand you back to Jérôme, who will conclude the presentation.

CONCLUSION : Jérôme Lambert, Group Chief Executive Officer

Jérôme LAMBERT: Thank you, Burkhart. Before making my closing remarks, I would like to update you on the main digital initiatives that took place this year within the Group. First, the acceleration of the digital agenda of YNAP and our Maisons. At YOOX NET-A-PORTER, MR PORTER's platform migration has been completed successfully and work has started on the replatforming of NET-A-PORTER.

On the Maisons side, with the sudden temporary closure of so many of our stores, our Maisons' digital capabilities have had to develop further, notably for a number of our Specialist Watchmakers. We are also looking to extend the range of services offered and the reach of our Maisons' e-commerce facilities into new markets, by having fully localised websites.

Alaïa, Chloé and dunhill have already joined YOOX's online flagship store platform, and we have started to roll this out for Montblanc before adding other Maisons. The longer term objective is to offer a seamless experience to our clients through greater access to inventory. It will also give our Maisons visibility over inventories across fulfilment centres and stores.

The second element is the increased collaboration with Alibaba through FENG MAO, our JV with Alibaba, which led to the launch of NET-A-PORTER's flagship store on Tmall Luxury Pavilion last fall. The store already retails 165 luxury designer brands in China and its early results are promising. We are working closely with Alibaba to maximise traffic to the store.

The collaboration also extends to the opening of flagship stores on Tmall Luxury Pavilion for a number of our Maisons, starting with Cartier in the fourth quarter of the year under review. Despite launching amid the Covid-19 outbreak, the Cartier flagship has performed ahead of expectations, where we are again working closely with Alibaba to target their vast client base and to extend our reach beyond first and second tier cities. In addition, this partnership recently allowed us to help the Fondation de la Haute Horlogerie host Watches & Wonders on the Cloud, following the cancellation of the physical event in Geneva. The event was hosted virtually from China, with many Richemont Maisons launching new collections online, a unique and innovative way of delivering the experience of this event to the partners and the public.

Third and last element, Watchfinder, our other digital-native business, which is on track with its internationalisation plans, which include locally based showrooms, retail stores and websites in local languages and currencies. Watchfinder expanded in one year in five areas, France, Switzerland, Germany, Hong Kong and the USA.

To conclude, sales, operations and demand have all been strongly impacted by Covid-19, although we have seen some resilience in jewellery and clothing and have also experienced a notable acceleration of online sales at our Maisons. In this context, safeguarding our people, brand equity, assets and partners remains our number one priority.

Beginning in March, in China and Korea, we have seen a gradual and cautious reopening of stores, workshops, manufacturing sites, distribution centres and offices. This is slowly extending to the rest of the world, as governments and local health authorities sanction a loosening of restrictions and these different timescales will require from us a lot of agility.

Our restart measures will follow two axes:

- one is focused on the US and maintaining a good level of activity in parts of Asia where sales have resumed,
- and the second one is digital, what we refer to as "new retail". This crisis, with the new social distancing norm, has undoubtedly accelerated the digitalisation of our world, and this means expanding our services and improving experiences for our clients.

We have the capacity to withstand this crisis thanks to our strong dedicated teams and a robust balance sheet, with over €6 billion in total liquidity. Our collective ability to adapt to the changing aspirations of our clients and to navigate a constantly evolving landscape give me confidence that we will emerge from this crisis even stronger. I would like to thank everyone at Richemont for their hard work and continued commitment. We will now open the floor to questions. Thank you.

QUESTIONS AND ANSWERS

Chairman Johann Rupert, CEO Jérôme Lambert, CFO Burkhart Grund, Cartier CEO Cyrille Vigneron, Van Cleef & Arpels CEO Nicolas Bos, Group Corporate Communications Director Sophie Cagnard

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Sophie CAGNARD: Thank you, Jérôme, and thank you to so many of you for having taken the time to e-mail your most pressing questions and concerns. We really appreciated your reactivity. Many questions were widely shared. I will read them in descending order of prevalence for you. The most frequently asked questions relate, let me look at the list, to the Covid-19 impact, basically what is the impact, and especially the long-term consequences. Do you have any thoughts on if and how consumer spending habits will change in terms of product channels and brands? What implications are there for Richemont's business model? Will there be an even more aggressive focus on digital omnichannel, and consequently, what would be the implications on the store footprint?

Johann RUPERT: It's Johann Rupert here. Yes, obvious we've had a massive impact, like a number of industries. Will consumer spending habits change? It's a very good question. Yes, it will. I suspect that in 10 years' time, you people are going to be asking my successors, 'How's your offline business going?' instead of, 'How is your online business going?' Already when we're in China and we speak to Alibaba, the main discussion is online and then when we get to new retail, we start talking offline. I think that companies that have ignored it and have been resistant to change will find that the catch-up is very, very difficult. So, when you ask about questions on NAP and really any of the online businesses, it should be viewed as new retail and it should be viewed as our clients wishing to have a seamless experience with the product of their choice and with the Maison of their choice. Now, we've seen from FENG MAO, if you look at our joint venture in China, through to Peter Millar in the United States, through to where we've opened stores in Europe, where we've opened in Europe, we have a far higher conversion rate in-store when the customers come to the store, because they've basically made up their mind online and enquired, and in many cases, it's becoming, 'We'll buy and then pick up.'

So, that's a trend that will continue. We have been active in it through investments in NAP, where originally it was fashion but we're bringing in more and more hard luxury onto the platform, not only our own, but competitors. So, it's twofold. Firstly, it's serving the customers, and secondly, it helps us to change fixed costs of leases into variable costs, which is critical, and we will continue to advance down that road. I think in a sense, it helps not to be scared. I mean, some of you are old enough that you remember that I told you that I was the first Apple computer agent in South Africa in the '80s. I mean, Richemont was built on Apple Mac IIs, and it's hilarious today to have to explain that one DJI drone's little SD card has the memory capacity of 1.5 million Apple Mac IIs. We have, from the beginning, embraced technology and how it makes our lives easier, so this is not new, but now we have something where technology makes our clients' lives a lot easier. Instead of worrying about it and bad-mouthing it, we've embraced it. If we can move and continue to move more and more of our sales out of our stores, but online, we will change our operating leverage in the right direction, and that is the real goal with our business model.

Will it accelerate some decisions? I'm not sure. Are we aggressive enough? All I can say is we are embracing new retail. We are learning enormous amounts from our association with Alibaba, and the one thing I requested, even throughout the standstill, was that we would not cut back on the costs of developing new retail in China. So, yes, we are emphasising it, and yes, we're moving ahead. Is that sufficient? Any of my colleagues want to add? The next question is YNAP, how can it become a good investment for shareholders? It is a good investment right now, and returning to profitability or not, they had a disaster with a tornado last December, November, December, where the distribution centre was shut. Obviously we had to shut the distribution centres. It would not have been prudent. We even shut a distribution centre though it was not legally required. We do not regret this NAP buyout. I'm just reading from the next sentence, and maybe, Sophie, you can help, ask our colleagues to add to it.

Sophie CAGNARD: Sure. Jérôme, would you like to add anything? So, maybe I can read the question, because Mr Rupert had it in front of him, but for the benefit of the audio, our investors and analysts listening to us? So basically, the question was whether YNAP was a good investment for shareholders and whether we were regretting doing this 50% buyout, and how can we articulate and what was basically our omnichannel strategy going forward?

Jérôme LAMBERT: Yes, Sophie, just two things to help. Just Johann mentioned some DC closures, indeed, we closed a DC in England, our DC1, which is our main NAP DC, very early in April, to adopt very strict and secure conditions of work for our colleagues at that time. What is also very important to say is that the interconnection between NAP and the global ecosystem of Richemont is progressing well. We have already Chloé, dunhill, Alaïa that are operated through the OFS network and are on their way to adopt New Era, which is the omni-stock model of NAP. Montblanc is moving on the platform this summer and then will be followed by the other Maisons. When it comes to another good example of the ecosystem, it's FENG MAO, Alibaba in China. This year, we have not had Watches & Wonders physically in Geneva, so we had to replace it by a digital event to present the new products, and Richemont, with the other Maisons of SIHH or Watches & Wonders, are among the only ones to have presented their new products this year thanks to a digital platform. The digital platform was presented on Tmall, on FENG MAO. It was the first multi-brand event organised on Tmall, simultaneously on the various brands' Pavilions and on FENG MAO itself. It was having hundreds of millions of impressions. We reached several hundreds of millions of impressions throughout that network presenting the new products, and we have seen a significant impact on our e-commerce in China this year.

What is also very interesting is, as Johann was saying, even after opening, we see a change in attitude and behaviour. E-commerce in China for hard luxury goods was already progressing strongly in January, February, but even now, in this month, in China, we see up to triple digit growth with our e-commerce, despite stores reopening, underlining that it has changed behaviour and that there is a stronger fusion between the offline and the online store.

Sophie CAGNARD: Thank you, Jérôme. The next question relates to dividends and whether we can comment on our dividend policy. I think that's a question for you, Mr Rupert.

Johann RUPERT: Sophie, as I'm responsible for this, I ought to field this and not let poor Burkhart defend my suggestions. We have always believed in protecting our balance sheet. We've always had sufficient dividend cover in order to have enough liquidity at the centre. For years, a lot of investment banks questioned us about, you know, that it's a lazy balance sheet, etc, but having been through this in '87 and in '99, 2000 and in 2008, and it's not being Rupert the Bear or anything, it's just being in the position where we could make our own decisions, where we can safeguard our colleagues' positions and where we're in charge of our own destiny. So, we did that bond issue. It's long term, and we are in a secure cash position to ride out, even if this Covid-19 tragedy extends for longer than we hope, in other words, that it doesn't end as quickly as we hope. Now, until there is a readily available vaccine, and I stress readily available to many, many, many people, then people will live in fear. So, even though China has opened domestically, and yesterday, we learned from a director of a house who has been between

Shanghai and Beijing for the last month and a half, and things are normal again internally. We are seeing the results throughout our stores, but they're not travelling.

Nobody is travelling, and until people feel sufficiently safe, I doubt that we will return to a pre-Covid stage. Now, we have hundreds, at least 100 top institutions working on a vaccine. Then we have similar brains working on tests, easy testing, because testing is as important. We are still, as a society, working through this. I don't think anybody has any idea as to when a vaccine will be available. My friends in the scientific world tell me it's going to be a lot longer than what politicians, especially those who are running for election in November, hope, but that there'll be good news in other fields, not in the vaccine field, in the interim. So, in order to conserve cash, we halved our dividend. I've cut my salary in half, so even though I do give it to charity, I think it's important to set an example. However, I didn't want the loyal 30-year shareholders that have been loyal to us to suffer by having to sell if they need the dividends for cash flow reasons, and to miss a potential uptick if a vaccine or, should I say, when a vaccine is found. So, I suggested to our investment bankers three days ago, is there not a way in which we can give our shareholders, at the dividend date, a warrant, where they can buy Richemont shares at a future date?

It's an option, which is really an option on the ingenuity of man. It's an option in the hope that we will find some kind of a vaccine during the period of that option. Frankly, folks, if we don't, the whole world is going to be in such a mess that whether you own shares or options, it's not going to make a damn difference, because we're all going to be in even deeper trouble. It will reward shareholders for the pain that they're taking now, and we as a management will share that pain. We are going to cut costs, salaries included. We are also looking at all of the CAPEX, so that we as management have a commonality of interests with all of our stakeholders, the shareholders and all of our colleagues. It's with that view that we structured the dividend as we did. I know it's going to lead to more questions, but that was the rationale behind. We have enough cash to ensure our survival. When you look at a number of our Maisons, it's seen the First World War, it's seen the Second World War, it's seen war upon war and problem after problem, and as the guardians of these Maisons, all we have to ensure is that we see through this Covid-19 pandemic. I don't know, it will probably lead to more questions, but Sophie, that's the best I can do for now.

Sophie CAGNARD: Thank you, Mr Rupert. It was very clear. The next set of questions actually relate to jewellery, so really for Cyrille and Nicolas. The one that was most often raised relates to new entrants in jewellery, and notably how do we counter new entrants, the possible ramp-up of Tiffany following LVMH integration, and whether we consider LVMH's acquisition of Tiffany to be a game-changer? How do you see Cartier and Van Cleef in the relative market share gains? Maybe I'll stop here and ask the other jewellery-related questions after.

Johann RUPERT: I will just start by saying that we were obviously offered Tiffany as well, and when you look at the free cash flow of Tiffany, Van Cleef's free cash flow is higher than Tiffany's free cash flow, but I'll leave it over to my colleagues to discuss the potential of new entrants.

Sophie CAGNARD: How do you counter them, basically?

Johann RUPERT: I think if you have a look at the online sales, or sorry, the auction sales at Christie's and Sotheby's, you will invariably find that the items that attract the most demand and desire are Cartier and Van Cleef. Recently, they sold a *Tutti Frutti* bracelet for $1.3 million online, and I would say until we see some of the new entrants having such a demand, it's not countering them, but it's making sure that we carry on doing what we're doing internally. I'll ask Cyrille and Nicolas to expand.

Cyrille VIGNERON: Yes, I will carry on from there and I will pass to Nicolas. For this question, I think there are three parts of the answer. The first one is that Tiffany is not exactly a new entrant. It's been in the jewellery world for quite some time, and of course, when being acquired by a big group, we can expect that to make more effort to be more competitive. As Johann said, it means that we have to be even more creative, on one side, to develop faster our brand equity, but to continue what we have been doing for many years and for the product line being successful also on the vintage market or the auctions. The other side of the question is that the branded jewellery, especially international brands, is continuously gaining share against the non-branded, and probably with this Covid-19, the smaller players will face more difficulty than the big ones. Probably the share of the branded jewellery will increase after this crisis, and on that, the bigger leaders in the market will be best placed. I think in some way, the outbreak will be quite different, but positive to the branded jewellery as a whole. It's both, in some way, a competition and also it helps to support the branded jewellery, as far as we stay true to who we are and having strong identity in design and in DNA, and on the other side, continue to develop the international brand stature.

The third part, in jewellery, what is difficult is to make some identifiable products, because contrary to watches, you don't put the name on it, and so to find strong, recognisable designs is quite a difficult part. Whether both for Van Cleef or for Cartier, we have both strong icons like *Love* or *Juste un Clou* or *Trinity* and the recently launched *Clash*, which has been immediately recognised and linked to the brand, but also in more collective design like *Panthère*, as an overall theme, or like *Tutti Frutti* as an iconic style, not only one single product, Cartier has many. These are the keys to be successful, I think, in the international market, so we're confident that we can ride through that, the biggest issue being the Covid. After the Covid, probably our situation will be stronger. I'll let Nicolas continue.

Nicolas BOS: Thank you, Cyrille. Basically you covered a bit everything. I think that first and foremost, yes, the branded jewellery has been developing in the last decades and will probably continue to develop in the future. There has always been a variety or diversity of players, some more creative, some more local, some more fashion-oriented. There are not so many that have really withstood over time, over generations and over centuries. Cartier and Van Cleef & Arpels are part of that group and we see the long-term value and the long-term appreciation and the way it translates at auction, as the Chairman was mentioning, so we are quite confident there. It's a world with a diversity of players that represent, when they do their job well, a diversity of style, diversity of identity. The stronger the identity, the better the success, and as Cyrille was mentioning, it's always about having a balance between icons, if you're fortunate enough to be a brand with icons, and for Van Cleef & Arpels, it would be the *Alhambra* collection or if we see the *Zip* necklace in high jewellery, and to balance that with creativity like the *Perlée* collection, for instance, that we've been developing very, very successfully over the last few years. New players or acquisitions within that category, we don't consider really that they're going to be a threat to what we do.

Sophie CAGNARD: Thank you, Nicolas. We've got three more questions on jewellery, so let me start with the first one. With high jewellery sales driven by the feel-good factor and by the VIP events, likely to be reduced going forward, do you expect that segment to suffer more than entry or mid-priced jewellery for Cartier and Van Cleef & Arpels in the year ahead? Nicolas, would you like to continue?

Nicolas BOS: Yes, thank you, Sophie, I can. I think that high jewellery has a lot of dimensions. I mean, we're talking mostly about unique, exceptional pieces. They are appreciated as works of art, they're appreciated for their investment value and they're also appreciated sometimes as a beautiful, extraordinary accessory that you're going to wear. In times like that, of course, the investment value, the artistic dimension maybe prevail, and the way we interact with high jewellery collectors and clients, it's true, it's through sometimes very visible, beautiful events, international gatherings, launches, but it's mostly through very personalised, long-term relationships with these clients. These relationships, even in times like these, are kept, are nurtured, are still there. We keep the contact, of course, with these clients and collectors, so there are going to be probably less visible fireworks, fewer beautiful events, but the true relationship and long-term relationship with clients and collectors remains and is probably even stronger than before.

Sophie CAGNARD: Thank you, Nicolas. Cyrille, would you like to add anything?

Cyrille VIGNERON: Yes, I fully agree on that. In this period, and as Johann was mentioning before, people are travelling less, meaning we have to come closer to them. In a period of confinement, it can be, of course, a bit difficult, but as we have the strong customer base and we know them one by one, and we have still a beautiful offer, I think we'll find a way to make it work. For the time being, everyone has to stop and the events have to be cancelled, because there are no public gatherings. It doesn't mean that the interest for the high jewellery will stop, and the one-to-one contact may be even more valid, and that the social occasions, you have things which are more private things, will still be there, but when it's on private, you also still have to express who you are. It's not because there is the confinement that there won't be any more weddings and that there won't be any more social occasions to be together and to appreciate these products, but we have to come closer to the clients on our own.

Sophie CAGNARD: Thank you, Cyrille. The next two questions on jewellery are will price increases be a lever to help offset cost pressures and support suppliers and employees, and if not, is there a need to increase the pace of innovation in jewellery to drive demand and keep up with increasing competition? Maybe the next one might be for Burkhart, not this one, but the following one that I'm going to read, which is given that your two key brands are already posting the highest margin in the industry, will profit growth be driven essentially by top-line growth going forward, rather than margin expansion? The first one relates to the price increases and innovation. Cyrille, do you want to continue?

Cyrille VIGNERON: Yes, if I can start on that. I know I have mentioned that there is a gold price increase, and on that, it will gradually reflect, but to say we have a very large offer which is quite, I think, well-perceived by customers for the value of the design in there, so we don't see it as a big threat for the time being. We have, on the other side, also very, very big movements in currencies, so that we have to adjust in there when the markets are gradually reopening, but it's a normal part of our activity constantly to have the right offer rightly priced for clients. So, currently, we don't see that we have to make massive price increases to face that. It's a normal adjustment, what we have been doing in the past. The most important is to have products which are in desire, and I think we are quite well in there. I had mentioned before about creativity. Yes, of course, we have to develop and to adjust to probably different tastes or aspirations, where things are going to be more subdued and more geared to value for money, but also, again, we have everything in our portfolio. Nicolas, and you?

Nicolas BOS: Yes, hi. I can only concur. I think that as Johann, our Chairman, was mentioning, our customers are not really looking at our jewels for the weight of gold that they represent. They're looking at all jewels for their creative dimension and their meaning, so I think it's even reinforced in periods like that and I don't see either massive price increases becoming necessary in the foreseeable future. Then for creativity, it's quite interesting, in periods like the one that we're going through today, to look at the way houses reacted during wars or very, very deep and strong crises, and there was usually a surge of creativity and a very strong impact of style. If you look, for instance, at the jewellery that was created after the Second World War, it was very much about yellow gold and coloured stones, so pieces that were more discreet, but reflecting a really positive vision of life and an element of luck and celebration of happiness. This is typically the type of value that we're even pushing more in our creations as we speak, trying to reflect also on the evolution of tastes and expectations of our clients when they're facing the drama that surrounds us, and trying to interpret what they will appreciate in the future, in the style and the design. So, this is one way to express creativity and innovation and to adapt to these times.

Cyrille VIGNERON: To continue on that, most of our designs, both for Van Cleef and Cartier, are timeless. I mean, the *Love* was created in 1969 and *Juste un Clou* in 1969, and *Tutti Frutti* in the 1920s and the *Panthère* forever, the part with timeless is that it's contemporary to all generations and basically in all circumstances of their life, so we will ride through that as well.

Sophie CAGNARD: Thank you, Cyrille, thank you, Nicolas. So, the question on jewellery related to profit growth, whether it will be driven essentially by top line or whether we can expect some margin expansion.

Burkhart GRUND: Yes, thank you, Sophie. Just a couple of points that I would like to raise as to this question. Now, if we look at the nature of our, let's say, operating model, it is a model that is today, for the Jewellery Maisons, strongly geared towards our own retail network, which, by the very nature of it, consumes capital, mainly CAPEX for our store network, the inventory that goes with it, and is by nature, I would say, more geared towards a higher fixed cost base and a lower variability of the cost base. That's nothing new, so against that fact, obviously growth is a necessity, and that applies to all the businesses that we have with a big portion of physical retail. So, if we stay fixated on that, that would mean, yes, growth is a necessity going forward. Now, the Chairman spoke about it, or has spoken about it for a very long period of time, that we are going into a new retail environment. One of the underlying fundamentals of the new retail environment or business model is not only serving customers better wherever and however and whenever they wish to be served by our Maisons, but also, and that is what we are experiencing today in China, especially through our partnership with Alibaba, is that it allows your cost model or your cost structure, your economic model to become more variable.

This means that there will, over time, clearly be a shift of resources from fixed resources to more variable resources, which will help us absorb cost pressures better, especially if they're short-term cost pressures as we're experiencing right now, and it will help us. That's clearly our outlook, to assure growth, but also to assure, over time, margin expansion. Now, there's no guidance here. This is a question of how we structurally view the way forward. Sophie?

Sophie CAGNARD: Thank you, Burkhart. The next questions relate to the portfolio of the Group. How do you imagine the scope of the Group in 10 years and your own succession planning? Also, investors would love for Richemont to be only Cartier and Van Cleef & Arpels. Tell us about portfolio construction and if there's anything you would have done differently. Is there a scenario, an opportunity to shrink the Group to its better-performing assets? Conversely, are you looking for possible targets?

Johann RUPERT: The answer is we always look at everything all the time, full stop.

Sophie CAGNARD: Then there's another question on M&A and whether there is a debate at the Board on the opportunity to merge with another industry player.

Johann RUPERT: I think that is best asked from our friend at Bernstein, since I keep on reading that he has information that I don't have access to about various proposals from mergers and acquisitions, etc. We have got no intention of merging or being acquired.

Sophie CAGNARD: Thank you, Mr Rupert. Actually, to be fair to Luca, that came from two other brokers, but the one I'm going to read actually came from Luca.

Johann RUPERT: No, but the one that's always given me the heads-up what we're about to do that I don't know about, it's always been Luca.

Sophie CAGNARD: Okay, so the question from Luca actually relates to our critical mass in F&A, in soft luxury, it will mean fashion and leather goods, and whether we have any strategic plans, basically, to make an acquisition, I would think, looking at the question.

Johann RUPERT: It's a very good question and something we have been discussing, obviously, regularly. Right now, I am extremely glad that we are not very heavily exposed to fast fashion. I think the problems that we had in our supply chain with watches three, four years ago, before, luckily, we cleaned everything up, to the extent that up to 15 January this year, our watch division was really the key leading performer, I just am glad that we are not caught in that horrible situation where the inventories for the fall and winter season are nowhere to be found, they're not in the market, and the stock that is there will be viewed as old stock. So, in a sense, thank God we weren't as successful as some of our competitors. However, I do believe there is going to be a re-look by society at our habits that we've developed of turning what should be consumer durables into consumer disposables. This idea that you just wear a fall season, and then next year, you get another fall season, and you get the new cruise line and you get this and that, I'm not sure that people will not look back in decades ahead, look back and say, 'What were these people thinking, buying and throwing away to such an extent?'

This is across all product categories. I think our habits have been wasteful as a society. As I said earlier on, if you take every human being alive today, every single one of us, and you pack us in like sardines, we will easily fit in one cubic kilometre. Yet we carry on consuming all the raw materials, we carry on as if there is no global warming, we carry on polluting the oceans, cutting down forests, and maybe nature gave us a good pause, so that we can look at some of our habits as human beings. I think that will guide consumers and it's certainly going to guide us at Richemont.

Sophie CAGNARD: Thank you, Mr Rupert. The next question relates more to wholesale, maybe fashion, but I would think also watches, whether we can comment on the situation at our main third-party dealers and share feedback on potential order cancellations, inventory buy-backs, if any, and whether, post-Covid-19, we will need to close down wholesale doors further, following last year's closures. Might be more for Jérôme.

Jérôme LAMBERT: Yes, I am. Just when it comes to inventory, the first fall for the inventory is the one for the watch activities. We introduced, two good years ago, three years ago, our system that is called Booster, that is giving us the opportunity at Richemont to know, every single month, the evolution of our sell-out or to know the evolution of the stock. The supply chain of the Maisons is being adapted to this sell-out and we've transformed our system. It was a long transformation and move from a sell-in logic to a sell-out logic and to a true demand supply chain-driven approach. So, as Johann was saying earlier, that adaptation, that took quite a lot of energy, has given us the opportunity to have an industrial approach, which is what we call internally Follow the Trend, where we, on a weekly basis, adapt our output. Here, the risk is very much under control and the stock level end of March, compared to one year earlier, has not significantly evolved, so that's the biggest and first take-out.

When it comes to soft luxury, we have been as well focussing on the stock evolution for Maisons like Chloé, so Chloé being very much active in having a very strong stock management. You see it in the numbers that Burkhart was underlining, where the Fashion & Accessories Maisons have reduced their consumption of cash, so you can imagine if they could do it internally, they had to have the same level of discipline externally with the other players. There, the process is less organised and systematised than the other one. Finally, when it comes to inventory, again, the new retail dimension is the next challenge for us, because within new retail, we have the omni-stock, and with the omni-stock, it is the full availability of stock in a given time through any device, any location and through any channel, which is our next challenge, which gives us the opportunity, throughout the crisis, to have even more availability on those stocks. Today, we have a good control. What we want to have through the good control is a good availability of our stock anywhere, any time and through any device. Thank you.

Sophie CAGNARD: Yes, thank you. Another question related to gross margin and basically inventory, so I think it's more for Burkhart, whether we've booked any major provisions at the end of March '20 and what measures are we taking to protect gross margin? That was in relation to potential excess inventory in hard luxury at YNAP and the fashion brands.

Burkhart GRUND: Yes. Thank you, Sophie, for the question. Let me just add to or build on what Jérôme just spoke about. If we look at our inventory position, I think, and we've had many of those discussions over the last few weeks, we are extremely happy now that we have, very early on, addressed-, and you remember the heat we took for that over the last few years, when we addressed the inventory situation on the watches side, in the trade, but also in our own inventories. That went all the way through flexibilising the manufacturing side of it, to really reorient all operations towards true demand, true end customer demand. We're very happy that we did that and we're very happy with the inventory position we have in Specialist Watchmakers, because it reflects the business development that we've seen and were able to flexibly adjust towards the end of the year, towards the fourth quarter, which, by the way, was not just the fourth quarter. We started early on, because already in summer, when we saw the significant disruption that we've seen in Hong Kong impact the watch business, we immediately addressed the resulting inventory questions.

On the, let's say, Fashion & Accessories business, and we're exposed to that both directly at our own F&A Maisons and through our Online Distributor, YOOX NET-A-PORTER, there has been very strong inventory discipline. Inventory levels have even come down at YOOX NET-A-PORTER in terms of coverage, so there has been a very strong focus on that. Once again, the mantra that we're talking about is true end customer demand, so we're happy on that. The inventory position is constantly and consistently assessed. Inventory coverage rates are virtually flat compared to the previous year, so I take that as a good sign of good reactivity. No need, at the present time, to worry about that. For us, obviously this is a constant monitoring process. Gross margin was, I would say, more strongly impacted on the Online Distributors side. We've talked about it in the past. There has been a lot of pressure on the commercial margin, due to the very competitive pricing environment. YOOX NET-A-PORTER has suffered from that, but has also taken a stand to not follow through with the same pressure that we've seen from the market side, because the long-term relationships with the brands that are distributed through YOOX NET-A-PORTER's platforms and YOOX NET-A-PORTER's own brands have to be protected. The basis of their success is the healthy relationship with the brands that they distribute. That's why, at a certain point, they took a stand.

So, we've had margin pressure throughout the year for YOOX NET-A-PORTER, and that is the biggest element that has led to a relative dilution in the gross margin. The Group Maisons' gross margin, as we flagged in the investor presentation, has remained strong at 66%. There is a bit of impact from the FX side, obviously, due to the strengthening of the Swiss franc. There's also a bit of effect from the strengthening of some of the raw materials that we use in watches and in jewellery, especially gold. We talked about that. My jewellery colleagues have commented that for the time being, they've been able to absorb that without having to resort to price increases. So, I'd say for the time being, and especially reflecting on the situation in which we are, we are quite content with what we have achieved. Now, obviously we are still in the same situation and the efforts have to continue. Sophie, back to you.

Sophie CAGNARD: Yes, thank you, Burkhart. So, the next questions relate to the clientele, especially Asians. So, are we concerned about less balance in our revenues going forward, with an ever more dominant Asian client base? What are the risks and how do we address them? Another question related to it, more specifically to the spend in China, which tools are we using and what are the prospects, in our views? Thank you. So, who would like to address this? Mr Rupert? I don't know whether it's Cyrille or Mr Rupert.

Johann RUPERT: Let somebody else answer for a change.

Sophie CAGNARD: Cyrille, would you like to answer?

Cyrille VIGNERON: I can comment on this one, yes. So, as I say, there had been, from also the past years, a reduction of price differential, making that we had a rather solid customer base locally in every region, and of course, also a travel retail network. What we see now is that the Chinese are travelling less, so they are buying more in China, because we have a strong presence in China, both in retail and e-commerce presence in there. We see things doing very well with Korean domestic while the Korean duty free is not there, so in some way, we have a broad base, which was already geared to local clientele and supporting them wherever they buy. In some way, we are less exposed compared to those who are only targeting the travelling customers when they are in trouble. We know that some of the brands were having very, very low prices in Europe, just to attract customers to come and buy there, and had a substantial part of business there done with customers coming from abroad.

So, I think we are less exposed than some others, because we can address customers wherever they are, again, with the policies we had to try to develop customer bases wherever they are, and also to treat them wherever they buy, and we continue to do that, adjusting to the new world.

Sophie CAGNARD: Thank you, Cyrille. So, looking at the next questions, let me go down the list, regarding distribution, more specifically for watches, are there more changes to come to positioning and distribution in watches? Jérôme, would you like to reply to this question?

Jérôme LAMBERT: Yes. I think that when it comes to the watch distribution and the watch offer, the first element that we see around the collections is what my colleagues said as well for jewellery, the importance of iconic lines. We see that the iconic lines of the Maisons, Pilot, Reverso, names along the Maisons of Richemont have been stronger and stronger in the last few years and are the ones that will be the ones that benefit the most or are already seeing the best and will show the best resilience over the period. Between the quest for value and the recognition effect that these iconic lines have, they definitely are very strong. These iconic lines are also the lines in which our Maisons are expressing their true DNA, and expressing yourself through your iconic lines can mean as well a lot of creativity and a lot of reinvention. Again, you see Reverso at Jaeger-LeCoultre as being a line continuously reinventing itself decade by decade, and getting more and more value and success.

When it comes to the distribution channel, the watch distribution will probably see, and we have seen it throughout firstly Europe in the last three to five years, a consolidation of the distribution. We see that the big wholesale channels are representing a larger and larger share of the business itself, and the USA is a little bit more fragmented, there are a little bit more doors, but it follows roughly the same trend of consolidation. It offers us, this consolidation, also some opportunities, because it helps us to build strong partnerships. It's important to maintain a strong presence and local anchoring, and that we can do only over the time, and the consolidation that is happening is helping us in doing so, so external partnerships, external boutiques that are being developed with these strong partners are reinventing wholesale. Here, there is no opposition with the model of new retail, because these shops can be very much part of the omni-stock model. Throughout the extension of guarantee of last year, that you probably remember, there is also an opportunity to create with the partners a better service for the end client with them, and to entertain a longer relationship with the client, including them into the cycle of service and value creation. Thank you.

Sophie CAGNARD: Thank you, Jérôme. While we're still on watches, so a bit of a provocative question, how do you explain that only three to four privately owned brands have captured nearly 100% of the industry growth over the past two to three years, and why should it change going forward?

Jérôme LAMBERT: As numbers are not really given on the market, the question is asking to make a comment on numbers that are not published. So, if somebody has a market share presentation, then it would be very interesting. If we speak from demand, there are some indicators that are very valid, that are the number of products that are offered in grey markets, the discount rate on the products. What we have seen over the last years is there's a constant decline on this element, so it means somehow the capability to better capture, a better capability to capture the demand of our end consumer, and again, that's what we want to do and what we aim to do. If you see the development of our Maisons these days, and we speak a lot from China, but we can also, and Cyrille did it, speak from Korea just now, you will see there the presence of our Maisons, their extension. It's not a big secret to say that three to five years ago, a big part of the business done in Europe was not done with the end consumer of Europe. A big part of it was re-exported in other parts of the world.

The decision that we took to stop it and to focus locally in each market and on serving and developing our capacities and presence in the markets where we had a strong development in terms of demand, such as China, has given us the opportunity of capturing a real better part of it. I won't say that three Maisons have captured everything and the other ones have not captured, and I don't know the other ones, but when it comes to Richemont, we have more end clients today than we used to have before.

Sophie CAGNARD: Thank you, Jérôme, and the next question relates to Watchfinder, whether we can comment on the performance of the pre-owned market for watches in the Covid-19 environment, and whether Watchfinder benefited from it.

Jérôme LAMBERT: I may give an answer on that, Sophie. That's an interesting market, and again, it's part of giving more service to the clients of high-end watches. A long, long time ago, clients used to buy one watch, then they started to buy more watches, more than one watch, and therefore comes a dimension and the necessity to have more fluidity in their collections. What Watchfinder is integrating is somehow a reduction of friction in that new ecosystem of owning expensive hard luxury goods like watches. Since the start of COVID, we had the first two weeks, Watchfinder being very present in the UK, so what I would say is it's primarily representing the UK and Europe, we saw first two weeks of decline and then we saw a very strong rebound of demand. Today, in the digital segment, on the digital offer and network, Watchfinder is growing. Somehow the attention to the watches that you are looking for, collectors and lovers of these watches, has not been diminished. Of course, the shops that are closed are not operating, but the e-commerce digital part is very active.

Sophie CAGNARD: Thank you, Jérôme.

Jérôme LAMBERT: Thank you.

Sophie CAGNARD: The next question, I think is for Mr Rupert, basically whether we're satisfied with the progress made thus far, and the fact that we were stating, three years ago, that Richemont needed to be ahead of the curve, whether we think we are ahead of the curve and how is Richemont going to navigate big uncertainties from here?

Johann RUPERT: You know, when we used 'ahead of the curve', I never thought we'd see a Covid-19 and the famous curve, but our curve that we said was that we wanted to find out the true demand. We cleaned up the watch business totally, and we downsized, right-sized our watch business so that our sell-in would be less than our sell-out. This led to a very good period up to around about 15th January, so I'm very happy that our watch business is in a very good position. As for being ahead of the curve, our goal is still to move as much of our fixed cost into variable cost. We have managed to put on very important new leases with no minimums, but we're profit sharing, which I don't think any of us should mind, because it moves the operating leverage in the right direction. We have embraced, and will continue to do so, new retail, and as we said earlier on, I guess in 10 years' time, those of us who are still around here, or those of you that are still around here, will be asked questions, 'How is your offline business going?' So, yes, we are moving in the right direction and we will try and continue. For instance, during the

Chinese lockdown, the one thing we carried on doing was to support our Chinese progression, broadly put, our Chinese new retail business.

Sophie CAGNARD: Thank you. The next question relates to travel retail, and also our stake in Dufry. Basically, what is the stake in Dufry as of mid-May, what is the future of that investment, and how we see the future of travel retail?

Johann RUPERT: Jérôme?

Jérôme LAMBERT: Yes. Johann was referring to the business until 15th of January or 20th of January for the watches, where indeed, we were surprised by what was happening in Wuhan. For travel retail and Dufry, we had the same path. We are growing our business. Our sell-out business was growing over 30% between Dufry and Richemont, so it was a very significant step. We managed to open significant shops with Dufry in China with Cartier and Montblanc, for example. We had a strong development of the presence of Montblanc in travel retail with Dufry, with a strong sell-out performance, again, over 30% of growth. Until end of January, we were progressing well on our roadmap. We all know in between what happened with travel retail. Said that, it may take a little bit of time, but when it comes to aggregation of clients and physical aggregation of clients, we know that airports and new transport ways will continue to be important. A good demonstration or good proof of it is again probably China. In China today, the inside China travel retail is progressing extremely well, extremely quickly. The Sanya Bay Area statistics that we saw a couple of days ago were showing that basically everything was booked for the next 12 or 18 months, and the activities in travel retail there are progressing. Watches & Wonders will have a presence there, but many other luxury Maisons, not from our Group, will be present there and will organise Pavilions and presence. So, there is a new travel retail which knows a new geography that is taking place. We have to further work in time, and for sure, when we speak from reinventing the distribution, it's also true for the way we distribute our products, including watches, and the possibility in future to reinvent our multi-brand shops with Dufry in this point of aggregation of traffic is definitely very important. That's a three-, five-year view when it comes to what we can build together there.

Burkhart GRUND: Yes, Sophie, and on the other element of the question, or the other part of the question, our current stake is 8%. We had acquired 7.5%, and then due to the share buy-back and subsequent cancellation of the shares done by Dufry over the last two years, our stake went slightly up to 8%, and that's where we are standing today. Back to you.

Sophie CAGNARD: Thank you, Burkhart. There's a question from a South African analyst for Mr Rupert. Does Mr Rupert foresee a world with stricter travel restrictions such as visa health certificates of some sort imposed by countries?

Johann RUPERT: Yes, it's a very good question, will we have Covid-19 passports? I think I'm probably the only one old enough to remember that those of us from the so-called colonies, India, etc, South Africa, had to travel with yellow fever certificates. Without going into details, I do believe that, pretty soon, we will have kits available where testing will be quicker and immediate. There are various projects on the go. because I do not believe that airlines can function, and restaurants, etc. That's what I alluded to when I said testing will be critical. I think it already exists. I don't think you'll get into China or New Zealand without some form of proving that you don't have the virus, but how and in which form, I'm not sure.

Sophie CAGNARD: Thank you, Mr Rupert. We don't have so much time left, so looking at the other questions raised, there were quite a number of questions again around e-commerce, and if we can maybe provide an update on, that was partially answered already also during the presentation, but on the transformation of our e-commerce platforms, what we think that we can deliver in the year ahead and any updates on our synergies on e-comm, thank you, including expansion plans in Asia.

Jérôme LAMBERT: I can start to give a first part of the answer, Sophie. So, when it comes to our platform, the first part is the replatforming work at YOOX NET-A-PORTER. MR PORTER was successfully achieved. Now we are working on NET-A-PORTER itself and the team is working on, within that replatforming, to introduce localisation of NET-A-PORTER in new geographies, which with each time will bring another dimension and a direct positive impact on client reach, which was not done before. Yes, confident enough now to add a new dimension to the replatforming, so that's one positive thing. Second one, when it comes to synergies, yes, indeed, we announced it two years ago that making a better use of the technical platform of NET-A-PORTER, namely the OFS one for our Maisons. The OFS one is the one that has covered many Maisons within the luxury industry, and many of them in the Kering environment, so there, we had already three Maisons with dunhill, Chloé, Alaïa. Montblanc will move there before the end of summer. It will give the opportunity to the Maisons to have a much more modern platform and to have a front end much more adapted to client needs and to cover a new geography. Then we follow the steps one after the other, so that's on one hand.

The other hand is the all deployment of distance sales within all our network, and Richemont has a chance to have built now, years ago, a very strong network of call centres. We have hundreds of colleagues working in our call centres, giving a very high level of service, and as said, having an informed force, in particular now in the US, to maintain a high level and qualitative service. So, here as well, we accelerate. All our watchmaking Maisons will be e-commerce active until the end of this fiscal year, which is a major acceleration. So, in a nutshell, we can say that all what we had in the pipe for the next few years, we tried to encapsulate now in less than 18 months. As Johann said, the investment in new retail has not been cut. On the contrary, they've been our primary focus, to maintain and to accelerate the transformation. Thank you, Sophie.

Sophie CAGNARD: Thank you, Jérôme. To continue on that subject, you partially also answered, can you please give us an update on the JV with Alibaba in China, what has worked well and what has proved challenging so far? Could you share your long-term vision for that business from a top-line and profitability standpoint? Thank you.

Jérôme LAMBERT: So, I will stick to what has been done so far, because it has been quite a journey. Johann launched the JV in November one year ago, so that's only 15 months after, or 18 months, 15 months after him shaking the hand of Daniel Zhang to launch the operation. Remember that we launched it six, no, less than nine months after, in September, October. In between, it indeed progressed very well. We have more than 165 Maisons already active on the system. We will have, for fall/winter next season, again, another 20 to 30 Maisons to join, and very significant names. What is very interesting in the case of FENG MAO, because it's genuinely started now, is the bigger presence of hard luxury goods. We are currently at 10% of our business, which is very high, within FENG MAO. The role now and the importance of FENG MAO in the Watches & Wonders launch and all this digital I mentioned is very important for what we can do there. So, it's, yes, indeed, progressing very well, more and more Maisons joining, and a very strong team, to the point that we will make a local buy, a local video, local content production in the next weeks and days to come. We just built a studio for that locally, and with the set-up of the technical partnership, this famous TP, that's a very agile set-up, so it's progressing at the right speed. Even the Covid time that has been somehow freezing the activity during four to six weeks has been completely absorbed, and when we are back on track with events compared to the agenda that we set ourselves. Thank you.

Sophie CAGNARD: Thank you, Jérôme. It's already 11:30, so really no time, unfortunately, to take questions from the phone. Two questions, one is very short. What is the percentage of stores, manufacturing sites and distribution centres that are currently closed across the globe? The next one, and last one, will be whether you can provide an update on new management for the F&A area, and notably, how is Mr Bellini fitting with Chloé, for instance? Thank you.

Jérôme LAMBERT: Sophie, I can start to give some information on the percentage of manufacturing and stores that are open. Today, when it comes to manufacturing and to facility sites, we estimate that we have up to 78% of our facilities that are open. They are not all producing at 100%, but we're at 78%, so our manufacturers are open at 40% when it comes to that. When it comes to the distribution view today in our so-called heatmap, we have today 40% of our distribution that is open, when we take retail and wholesale. Retail is more open, now we are up to 55%. Then if we mix retail and wholesale, we are at 40% of opening.

Sophie CAGNARD: Thank you, Jérôme, and on the F&A question?

Jérôme LAMBERT: So, the F&A question is about the management? Yes, indeed. Yes, we have Riccardo Bellini that just has started in late autumn at Chloé, so that's a good period to well learn and understand your Maison. They are going, like all the other Maisons, in a lot of creativity work, and that's very interesting to see how they're inventing a new way of communication. They have been very active, for example, with voice and sound. They've launched a very active programme called Chloé Voice, for example, where Natacha has been inviting many friends of the brand and they have been interacting with lovers, clients of the brand. The brand is also being very active in supplying goods for the community. They had a very nice initiative providing cover blouses for nurses in France, for the hospitals, and finally, they are launching a very interesting initiative as well with live streaming in China. So, we have been launching already five sequential operations in live streaming, associating shops, live streaming on different digital formats, and client connection and sales transformation. That's again part of this new retail transformation in which the team is very active.

As Burkhart was saying, in the same time, they are working a lot on, like all the brands are as well, their supply chain. They've been, like all the soft luxury, very active with their production in Italy, running after the lost weeks of the closing to maintain a good supply and a good level of presentation of collection. As there are many other players, a big part of this presentation in the weeks to come will be done as well digitally. Thank you, Sophie.

Sophie CAGNARD: Thank you, Jérôme. Well, this is now the end of our full-year '20 results presentation. Thank you again very much for your questions and participation. That was really very much appreciated. Obviously James and I are at your disposal to answer any outstanding questions if you still have any. Have a good day. Speak soon. Bye-bye.