RICHEMONT

FY23 Annual Results

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INTRODUCTION

Sophie Cagnard:

Good morning and welcome to Richemont 2023 full year results presentation. Thank you to those in person for coming to Geneva, and also to those of you watching the webcast. I am Sophie Cagnard and joining today from Richemont are [Johann Rupert, Chairman,] Jérôme Lambert, CEO, Burkhart Grund, CFO, Cyrille Vigneron, Cartier CEO and Nicolas Bos, Van Cleef & Arpels CEO.

As usual, the company announcement and financial presentation can be downloaded from richemont.com and the replay of this video webcast will be available on our website today, from 3:00pm Geneva time. 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 US Private Securities Litigation Reform Act of 1995.

First, Jérôme will take you through the year's financial highlights and sales, and then Burkhart will review our business areas, Group financials and key ESG initiatives. He will then hand back to Jérôme for the conclusion, which will be followed by a Q&A session. I will now hand over to Jérôme.

HIGHLIGHTS

Jérôme Lambert:

Thank you, Sophie. Good morning, ladies and gentlemen. Thank you for joining us today.
I am pleased to report that notwithstanding the ongoing volatile and uncertain environment, our financial results reached several new highs this year. Sales for the year rose by 3.2 billion euros to close to 20 billion euros, having increased by 14% at constant exchange rates and 19% at actual exchange rates.

Operating profit rose by 1.3 billion euros to 5 billion euros, partially benefitting from lower one-time items compared to the prior year. This strong result led to an operating margin of 25.2%, up 280 basis points year on year.

Profit for the year from continuing operations increased by 60% to 3.9 billion euros. Cash flow from operating activities reached 4.5 billion euros and our net cash position increased by 1.8 billion euros from last September to 6.5 billion euros.

The strong results achieved by our Group were broad-based: sales increased across all regions, distribution channels and business areas, with double-digit increases in almost all regions, led by particularly strong growth in Japan and Europe. Retail sales once again showed a marked outperformance with a solid double-digit progression, reflecting continued demand for the high quality craftmanship and excellence of our products. Our direct-to-client share has increased overall to represent 74%, yet another increase versus prior year, highlighting the continued transformation of our business model. And finally, there was significant growth across all business areas. The operating margin improved across all continuing business areas, as Burkhart will detail shortly.

The Group further progressed on its ESG journey. Let me share a few highlights. We have reinforced our ESG framework's foundations and strengthened our commitment to embedding ESG in our operations. This is evidenced by both our Chief Sustainability Officer and Chief People Officer and CEO of Regions joining the Senior Executive Committee.

We have phased out PVC from our products and packaging by our target timeline and reached 97% use of renewable electricity. We have been recognised as an "Employer of excellence" in Switzerland, France and China. Richemont was notably nominated for the third consecutive year as a winner of the 2022 '100 Excellence Employer of China' award as well as the 2022 'Excellence in Diversity & Inclusion' award sponsored by 51job.

SALES

Jérôme Lambert:

Let me now walk you through the Group sales performance: first by region, then by distribution channel. We saw the Group's strongest performances in Japan and across Europe. Japan led the way with a 56% increase in sales at constant exchange rates, with strong double-digit increases across all channels and business areas. Sales in Europe were 31% higher than the prior year, driven by outstanding growth in both the retail and wholesale channels and a solid performance across all business areas with strength in all main locations, led by France, Italy and Switzerland. Sales included strong contributions from locals and benefitted from inbound tourism, mainly from the US and the Middle East.

In Asia Pacific, mainland China and Macau were heavily impacted by health restrictions during the year. Excluding these two locations and Hong Kong, sales in the region rose by over 30% with significant double-digit sales growth seen throughout the year in South Korea and Southeast Asia, most notably in Australia, Singapore and Thailand. Sales in the Middle East & Africa region grew by 13%, driven by solid domestic and inbound tourist spending, predominantly in Dubai and Qatar. The largest absolute contribution to Group sales growth came from Europe and the Americas, with each growing by around 1 billion euros. Sales in the fourth quarter progressed by 22% year on year, with double-digit increases in all regions, on top of what was a very challenging comparative, with the highest growth rate generated by Japan and Asia Pacific. It is worth highlighting that the fourth quarter also showed a significant improvement compared to the third quarter in both the Americas and Asia Pacific, the latter benefitting from a combination of the Chinese New Year holiday and the easing of restrictions in China.

Let us now turn to sales by distribution channel, starting with retail - where directly-operated stores contributed 68% of Group sales, compared with 66% in the prior year. The solid 17% sales increase came on top of a challenging comparative in the prior year. There were double-digit increases across almost all regions, notably in Europe and Japan, led by strong growth at the Jewellery Maisons and the Specialist Watchmakers. Retail sales benefited from 23 net new store openings, mainly in the Asia Pacific region. Fourth quarter sales posted a sharp 24% increase over the prior-year period.

The online retail channel - comprising the Group's online sales directly generated by the Group's Maisons and Watchfinder - contributed 6% of Group sales, broadly in line with the prior year. Sales rose by 6%, with growth led by double-digit increases in the Americas, Japan and Middle East & Africa. Performance in the channel was fuelled by robust growth at the Specialist Watchmakers, which saw increases in all regions. Sales in the fourth quarter were up slightly year on year.
Finally, wholesale sales. Comprising 26% of Group sales, wholesale sales grew by 8%, with strong double-digit increases in all regions except Asia Pacific, driven by most business areas. Fourth quarter sales significantly increased year on year while facing a very challenging comparative in the prior-year period.

The Group's proportion of direct-to-client sales, which includes sales in our directly-operated stores and online retail sales, increased to 74% of Group sales. The Jewellery Maisons continued to have the highest rate of direct-to-client sales, at 83%. The Specialist Watchmakers had the highest progression in their direct-to-client sales, from 51% to 56%, sustained by the development of their retail and online capabilities.
Burkhart will now take you through the year's highlights by business area. Over to you Burkhart.

BUSINESS AREAS

Burkhart Grund:

Thank you Jérôme. Let me review our business areas – with all numbers at actual rates – and starting with the Jewellery Maisons. Sales increased by 21% for the year, with broad-based growth across all regions and channels. Sales were particularly strong in Japan, Europe and in the retail channel. The fourth quarter saw a 27% increase in sales year on year with very strong growth across all regions.

The Jewellery Maisons' operating margin reached almost 35%, a 60-basis point improvement over the prior year. This high margin reflects the good operating leverage, generated by a combination of a sharp sales increase, increased utilisation of manufacturing facilities, and well-controlled costs while continuing to invest in distribution and communication.

Let us look at the main developments during the year. The year saw strong performances across all Jewellery Maisons, all product segments and all price points, especially from our Maisons' iconic product lines. In jewellery, this included Panthère and Trinity at Cartier, Alhambra and Fauna at Van Cleef & Arpels, and Macri and Opera Tulle at Buccellati. In watches, there was notable performance from Panthère and Santos at Cartier and from Extraordinary Objects at Van Cleef & Arpels.
In December, Cartier re-launched the iconic Grain de Café jewellery collection, which was originally introduced in the 1930s by Jeanne Toussaint, with early signs of strong demand. Van Cleef and Arpels has continued to extend its Perlée collection both for jewellery and timepieces.
Our Maisons are increasing their manufacturing capacity in order to support the strong demand they are experiencing, with the opening of a new manufacturing site in Italy for Cartier and the expansion

of two ‘ateliers’ in Italy for Buccellati. Van Cleef & Arpels is currently investing in a new manufacturing facility in Lyon with additional manufacturing sites to be added over the coming years.

Cartier has continued its store upgrade programme, with 51% of stores already under its new concept, a material increase from 38% at the end of the previous year. Recent re-openings included rue de la Paix in Paris, Georges Street in Sydney, and Maison Cheongdam in Seoul. Van Cleef & Arpels, with 11 net new stores, reached out into new territories with a store opening in Auckland, New Zealand and opened in new cities such as San Francisco. The 5 (net) new boutiques at Buccellati included mostly openings in Asia.

There have been several notable ESG initiatives during the year. Cartier’s new manufacturing site in Turin assures environmental best practices. These include solar panels expected to provide 20% of the site’s electrical needs and an investment into a hydroelectric power station that produces energy to power the facility in Turin as well as a new facility being built in Valenza. Van Cleef & Arpels continued its ‘De mains en mains’ initiative to support the transmission of know-how in jewellery. And a few months ago, Buccellati achieved RJC COP certification and should be RJC COC-certified by December 2023.

Let us now review our Specialist Watchmakers, where sales rose by 13%. There were double-digit increases at many Maisons and across almost all regions except Asia Pacific which posted a slight reduction. By channel, both retail and online retail rose by double-digits. Fourth quarter sales also increased by double digits, led by retail sales.

The business area’s operating margin was up 170 basis points to 19%. This 24% increase in operating result outpaced the rate of increase in sales, with this strong operating leverage largely due to the combination of double-digit sales growth, pricing power as well as continued cost discipline.

Let’s now look at some of the key developments over the past year. There was solid performance from both iconic core collections and best sellers including notably the Polo at Piaget, Reverso at Jaeger-LeCoultre, Pilot’s watches at IWC, Overseas at Vacheron Constantin, Luminor at Panerai, and Lange 1 at A. Lange & Söhne.

Continued increase in direct-to-client sales, now at 56%, or 500 basis points higher than the prior year, underlines the successful retail transformation from having a majority of sales in wholesale to a majority of sales directly with end-clients. Including the franchise monobrand boutiques that are accounted for in the wholesale channel, the proportion of sales in a monobrand environment increased to close to three quarters of sales.

There have been several flagship store openings aimed at providing an elevated client experience. Instances include the new IWC Taikoo Hui store in Shanghai, where clients can immerse themselves into distinctively themed environments to discover the various product collections. Vacheron Constantin’s re-opened flagship store in the Dubai Mall offers the opportunity to interact with a watchmaker on-site or browse the Vacheron Constantin’s archives digitally in a large screen format, among other unique features.

The further roll-out of the innovative TimeVallée multi-brand boutique concept included 16 new openings during the year, bringing the total now to 38 boutiques. New openings have taken place in China and also in other key cities such as Doha or Luzern. New formats are being tested such as a new digital boutique in India and a first ever opening on a cruise ship.

This year, the Specialist Watchmakers have strengthened the role of their heads of sustainability either through recruitments or upskilling, making these positions more strategic and embedded in business decisions. All the Maisons went through an ESG skills' development process, including at CEO level.

Finally, let us move to the 'Other 'business area, which primarily includes the Group's Fashion and Accessories Maisons, the Group' s unbranded watch component manufacturing and real estate activities, amongst others. Sales rose by 19% year on year, sustained by a strong performance by the Fashion & Accessories Maisons while Watchfinder sales were negatively impacted by lower demand from the UK domestic clientele and a subdued pre-owned watch market.

The growth in sales was led by very high growth rates in the Americas and Middle East & Africa. There was strength across all channels. Sales in the fourth quarter recorded a double-digit progression, equally led by the Americas and Middle East & Africa.

The negative Watchfinder impact was more than offset by the 94-million-euro profit generated by our Fashion and Accessories Maisons due to higher sales, improved pricing power and strong financial discipline. Overall, including all activities, the segment's operating result reached 59 million euros.

Let us now look at some highlights of the past year. We have seen strong growth from collections such as the Meisterstück writing instruments at Montblanc, Crown Sport clothing at Peter Millar and footwear at G/Fore, and from the Brillant and Tempête leather goods at Delvaux.

Alaïa and Chloé have been acclaimed for their new collections presented during the year, leveraging the momentum gained since the appointment of their creative directors, namely Pieter Mulier and Gabriela Hearst.

Another highlight has been the opening of Montblanc Haus in Hamburg dedicated to the Maison's purpose to inspire writing and showcase the history and heritage of writing instruments.Sales have benefitted from enhancements in the retail network, namely Montblanc's new boutique concept in Paris featuring a new in-store experience, and key refurbishments at Chloé, with improved performance in the refurbished stores. Alaïa and Delvaux have entered new regions with their first boutiques in the US in New York Soho and in the Middle East in Dubai, respectively.

Demonstrating continued progress in ESG, Chloé has introduced the Chloé Vertical initiative to place a unique digital ID on product labels enabling users to trace their items from field to finished piece, and access their ownership certificate as well as care, repair and resale information. Peter Millar has increased the use of recycled fabrics and upcycling unused products while Chloé already used 62% of lower impact materials in its Spring/Summer 2023 ready-to-wear collection.

FINANCIALS

Let me now turn to the Group financials, starting with gross profit which increased significantly, by 23%, to 13.7 billion euros. This resulted in the gross margin rising by 200 basis points to an all-time high of 68.7%. The main drivers of the increase were a combination of more favourable geographical sales and channel mix, price increases and higher manufacturing capacity utilisation which more than offset higher input costs.

Next, let us look at operating expenses, which were 17% higher than the prior year, while Group sales increased by 19%, partly benefitting from lower one-time items. At constant exchange rates, operating expenses rose by 12% versus a 14% sales increase. I will now take you through the expenses by category.

Selling and distribution expenses increased by 19% at actual exchange rates and by 15% at constant exchange rates, accounting for 54% of total operating expenses, compared to 53% in the prior year. Most of the increase related to the development and enhancement of our retail network and the growth in retail sales, notably in Japan and South Korea where many leases have variable terms. As a percentage of sales, selling and distribution expenses represented 23% of Group sales, in line with the prior year.

Communication expenses were 17% higher at actual exchange rates and 12% higher at constant exchange rates to support sales. They represented close to 10% of Group sales in line with our normalised 9-10% range.

At around 1% of sales - now that YNAP is classified under discontinued operations - fulfilment expenses increased by 19% at actual exchange rates and by 13% at constant exchange rates. Administrative expenses rose by 20%, and by 13% at constant exchange rates, mainly due to a stronger Swiss franc and planned investments in IT. At 8.5% of sales, administrative expenses were in line with the prior year.

Other expenses of 103 million euros were 96 million euros lower than the prior year primarily due to lower one-time items in the year under review. As a reminder, prior year numbers included charges related to the suspension of commercial activities in Russia; in the year under review, we incurred one-time charges of 66 million euros net, the main element being 55 million euros of Watchfinder goodwill impairment charges. Net operating expenses as a percentage of Group sales improved from 44.3% a year ago to 43.5%.

Operating profit reached 5 billion euros, a new high for the Group. This represents a 34% increase over the prior year and outpaced the 19% sales increase. As a result, the operating margin rose 280 basis points, to 25.2%, compared with 22.4% in the prior year.

Let us now review the rest of the P&L items below the operating profit line, starting with finance income. Net finance costs improved to 314 million euros compared to 841 million euros in the prior year. This 527-million-euro reduction was primarily related to the following items:

Firstly, there were non-cash fair value adjustments of 54 million euros, compared to 538 million euros in the prior year, a 484-million-euro difference. These charges are linked to investments in a Farfetch convertible note as well as an option over additional shares in Farfetch China, whose values are driven by the variation of the underlying Farfetch share price, in addition to the Group's investments in externally managed bond funds and money market funds.

Secondly, net interest expenses – excluding lease liabilities – improved by 46 million euros compared to the prior year level. Finally, a positive 56-million-euro year-on-year gain on (mark-to-market) adjustment in respect of hedging activities was partly offset by a 43-million-euro increase in foreign exchange non-cash losses on monetary items.

Sales at YNAP – now under discontinued operations - proved resilient given the challenging environment for digital distribution pure players, rising by 4% compared to the prior year. The operating loss, at 3.6 billion euros, was mainly driven by the 3.4 billion euro write down of YNAP net assets. Over the full holding period, the sum of both positive and negative valuation adjustments on acquisition and disposal of N-A-P and YOOX investments amounted to negative 1.3 billion euros.

As of today, there is no change to the timing of the expected closing of the transaction previously communicated to you, this being by the end of calendar 2023.

Let us now turn to the profit for the year. Profit from continuing operations progressed significantly, rising 60% to 3.9 billion euros, with the profit margin increasing by 500 basis points to 19.6%. The increase primarily reflected the higher operating profit and lower net finance costs just mentioned, partly offset by higher taxes. Profit for the year of 301 million euros was impacted by the 3.6-billion-euro loss from discontinued operations. As indicated last November, our effective tax rate for the year for continuing operations was 18%, on the lower side of our envisaged 18 to 21% range, absent any special unforeseen items.

Cash flow generated from operating activities was robust at 4.5 billion euros, reflecting a strong operating profit from continuing operations, offset by increased working capital requirements mainly due to higher inventories to support sales growth and further 'retailisation' of the Group's businesses.

Let us now turn to gross capital expenditure, which amounted to 981 million euros. As a percentage of Group sales, this item reached 4.4% of sales, broadly in line with a year ago. 48% of gross capital expenditure related to point-of-sale investments, including internal and franchise boutiques as well as external points of sales. Most of the spend was allocated to boutique renovations, upgrades and relocations, notably at Cartier. These included renovations on Rue de la Paix in Paris, SKP Mall in Beijing and Fifth Ave in New York. Several additional Maisons opened stores at the Chengdu SKP Mall in China, including Van Cleef & Arpels, Vacheron Constantin and Delvaux, to name just a few.
Other investments, which made up 33% of capex, mainly related to IT spend.

Finally, manufacturing accounted for the remaining 19% of gross capital expenditure, and related primarily to R&D, increased jewellery capacity and machinery, mostly at the Jewellery Maisons.

Let us now turn to free cash flow which amounted to 2.8 billion euros. The 213-million-euro difference mainly reflected marginally lower cash from operating activities, higher capital expenditure and the non-recurrence of the 86-million-euro proceeds from the disposal of investment property in the prior year. These items were partly offset by lower acquisitions of other non-current assets given that last year's numbers included the investment in the China joint venture with Alibaba and Farfetch.

And now, on to our balance sheet, which remains solid, with shareholders' equity accounting for 47% of the total. Net cash amounted to 6.5 billion euros on 31 March 2023, up 1.3 billion euros over the prior year as a result of the items discussed on the previous slide, and notwithstanding an 810-million-euro increase in total dividend cash outflow.

The Board has proposed a total dividend of 3.50 Swiss francs per 1 A share or 10 B shares, made up of an ordinary dividend of 2.50 Swiss francs per 1 A share or 10 B shares, up by 11% over the prior year and a special dividend of 1.00 Swiss francs per 1 A share or 10 B shares, subject to shareholders' approval at the Annual General Meeting on 6 September 2023. This proposed increase of the ordinary dividend and the additional special dividend reflect the Group's strong results, significant cash flow generation and robust net cash position.

CONCLUSION

Burkhart Grund:

Let me now share an update on our ESG progress. In terms of external recognition, Richemont was acknowledged as an industry leader with a AA rating by MSCI for its low exposure and management of ESG risks, notably in terms of responsible sourcing and carbon footprint management. Richemont received a 13.9 risk rating score from the ESG rating agency Sustainalytics for its 'low risk exposure' with 'strong management', positioning the Group among the top 7% of the 20 000 companies rated. The Group was also recognised a one of the World's Best Employers by Forbes for the third consecutive year.

On the Environment pillar of ESG, Richemont has been acknowledged by CDP for its actions in water management, improving to a B score in 2022 for our second-year reporting. This year, for the first time, we disclosed our water withdrawal from surface water and seawater in alignment with GRI Standards.

A member of the RE100 since 2021, we have reached 97% of renewable electricity across all our sites and are well on track to achieve our ambitious goal of 100% renewable electricity for 2025. We have met another key milestone with the complete phase-out of PVC from our products and packaging. In line with our commitment to monitoring resource consumption and reducing waste, waste sent to landfill decreased by 61% in 2022, amounting to a reduction of 870 tonnes. Finally, as part of our strategy to manage greenhouse gas emissions, we have successfully migrated 89% of our servers to the cloud, reducing our energy consumption and optimising our data storage.

In terms of advancing our Social priorities, we value being named one of the Most Attractive Employers in Universum's national rankings for Switzerland, France and China. These accolades affirm Richemont's commitment to offering a strong workplace culture based on trust and creating opportunities for our people. We are notably fully certified gender-equal pay by the EQUAL-SALARY Foundation in Switzerland and France, two of our largest markets in terms of headcount, and are on track to become 100% equal pay certified worldwide by next year. Our Group has a healthy gender balance: the percentage of women reaches 57% of the total workforce, 40% of our Senior Executive Committee and 31% of our Board.

Now turning to Governance, where we initiated comprehensive changes across our Group functions, regions and Maisons to fully integrate ESG principles into our strategic and operational decision-making processes. Reinforcing the importance of this transversal discipline, we appointed Bérangère Ruchat, the Group's Chief Sustainability Officer, to the Senior Executive Committee.
Taking a compliance-driven approach, our ESG reporting is now in accordance with the GRI standards and we have added content to meet new EU and Swiss regulatory requirements, including the new Swiss Conflict Minerals and Child Labour Due Diligence and Transparency Obligations, as well as the EU's Corporate Sustainability Reporting Directive. We have further strengthened our ESG framework's foundations with priorities drawn from an updated double materiality matrix to best identify and assess ESG impacts.

Finally, we upskilled over 250 business leaders, including all the CEOs of our Maisons and regions, with dedicated ESG trainings. We also rolled out a global training on the use of our new Internal Speak Up platform. As a next step, we will extend the platform to external stakeholders to allow them to voice their concerns and contribute to Richemont's ongoing commitment to transparency and ethical conduct. Back to you Jérôme.

Jérôme Lambert:

Before closing, I would like to talk a bit more about some exciting developments happening at our Fashion & Accessories Maisons, which have been trending positively since the end of calendar 2020. In FY22, F&A Maisons rebounded strongly, reaching record annual sales at that time. This growth trajectory has been further confirmed this year with a new sales record for the category, posting solid growth and a profitable result for the first time since FY19. Looking at the F&A Maisons individually, several of them have achieved notable sales performance again this year:
Alaïa - building on its strong momentum since Pieter Mulier's appointment as Creative Director in 2021, Alaïa is growing in both sales and desirability, collection after collection. This is allowing Alaïa to expand its retail footprint selectively, notably with a first opening in the US in the Soho neighbourhood in New York.

Chloé is also on a positive dynamic since the appointment of its Creative Director Gabriela Hearst in late 2020 with new aesthetics across its product offering. Delvaux is enjoying a successful integration into the Group in its first full year as part of Richemont and has achieved very sharp growth since acquisition. Positive reception of its latest collections, including the Lingot line introduced this year, and recent major openings in Dubai and Tokyo Omotesando have contributed to accelerating its strong sales momentum. G/FORE continued its impressive growth, with a blossoming expansion into Asia, notably South Korea. Its parent company Peter Millar has kept abreast with an equally impressive growth since acquisition.

These successes illustrate these Maisons' remarkable journeys, capitalising on their heritage, craftsmanship and creativity combined with the infrastructure and backing of Richemont. We will continue to support all our Maisons to enable them to flourish.

The successes of this year are the first results of an unrelenting focus on the Group's five priorities across all our F&A Maisons:

First to enhance the desirability of our Maisons. To this end, the Creative Directions of our Maisons have been reinforced over the past two years with the notable arrivals of Peter Mulier at Alaïa, Gabriela Hearst at Chloé and Marco Tomasetta at Montblanc. There were already talented creative frameworks in place at Delvaux, Peter Millar and G/FORE. The increased appeal of our F&A Maisons has translated into higher traffic in our stores and websites, and increased pricing power.

Second, to further focus on local clienteles across geographies, enabling the managing of fluctuating trends in international travel, and providing a solid base for future growth. Delvaux has been a prime example of the success of this focus over the past year, consolidating a strong local client base in South Korea and Japan, two major markets for the Maison.

Third, our increased ambition in leather goods, symbolised by the successful acquisition and integration of Delvaux and where we are accelerating our capabilities across all Maisons, from the creative side to product development and manufacturing.

Fourth, promoting direct-to-client engagement, with two elements: first, upgrades of our retail network, with strategic openings this year for Alaïa in New York, Delvaux in Dubai and Tokyo, and a new concept unveiled by Montblanc in its Champs-Elysées boutique in Paris; second, acceleration of our strategy to create the ultimate omnichannel experience for our customers as part of our shift to Luxury New Retail.

Finally, our ability to excel in our operations in order to offer our clients the products they desire in the right places consistently. Over the past year, we have strengthened our teams across the whole organisation, reinforced the agility and flexibility of our operations, accelerated our time-to-market, and managed our inventories effectively.

We will remain focused on these priorities, raising the bar for all of them as we progress on our ambition to drive sustainable and profitable growth in the category.

Now, a few more words to conclude before we move to Q&A. Our strong operational and financial performance was highlighted by sales reaching close to 20 billion euros with double digit increases in all business areas. Operating profit reached 5 billion euros, a strong improvement in profitability, with all business areas generating higher sales and profits. As a result, our cash flow from operating activities was solid, at 4.5 billion euros.

We have significantly advanced our Luxury New Retail journey with the signing of an agreement last August with Farfetch and Alabbar, under which YNAP and our Maisons will adopt Farfetch Platform Solutions. The agreement is subject to a number of conditions, including the receipt of certain merger control approvals. Closing is expected by the end of calendar 2023.

By elevating both our Chief Sustainability Officer and our Chief People Officer and CEO of Regions to the Senior Executive Committee, we have made an increased commitment to embedding ESG in our operations. We have further strengthened the ESG teams at the Maisons and at Richemont and will continue to step up our ambition as a Group in this important area.

We have a strong balance sheet, giving the Group the flexibility and adaptability to nurture our Maisons to reach their full potential in a sustainable and responsible manner, seize opportunities as they may arise, and also weather economic cycles while delivering attractive returns to shareholders.

We are confident both in our resilience and long-term prospects. Our Maisons are strong, well positioned to meet local demand and cater for future growth in tourism, including from a more significant resumption of travel by Chinese customers beyond neighbouring markets. We have flexibility in our manufacturing facilities and newly added capacity at our Jewellery Maisons. This gives us the heightened agility required to navigate today’s uncertain macro-economic environment. We are well positioned to deliver profitable and responsible growth over time. I would like to close this presentation by thanking all our colleagues for their commitment, creativity and resourcefulness over what has been a remarkable year in a volatile and uncertain environment. Together, we craft the future. This concludes our presentation. We will now open the floor to questions. Thank you.

QUESTIONS AND ANSWERS

Zuzanna Pusz, UBS Investment Bank: Thank you for taking my questions. Zuzanna Pusz from UBS. I have 3. So first of all, maybe, would you be able to comment a little bit more about the performance by nationality or region, I guess, just to give us a little bit of color around the Chinese consumer last quarter? Because I presume they started to travel. So it would be interesting to know, also the American cluster, Europeans, just broadly speaking, to know how various clusters are performing given more travel. And also specifically it would be interesting to hear your thoughts about the Americas because, as you've mentioned during the presentation, there was some improvement last quarter versus Q3, which is a stark comparison to your peers. So I would imagine you're clearly doing better. The brands are doing better. You're more higher-end position, but just any thoughts on that would be very helpful.

Johann Rupert: Let's stop there.

Zuzanna Pusz: That was just one question.

Johann Rupert: Because by the time we get to three, we're going to get one. We'll give you two more. Sophie, she can add two more.

Sophie Cagnard: Yes.

Johann Rupert: She will have one and then two and then three.

Zuzanna Pusz: Okay, I promise the two other ones are very short.

Johann Rupert: Okay, let’s do the other ones first.

Burkhart Grund: Are they yes-or-no questions?

Zuzanna Pusz: No. The second one is kind of yes or no. So pricing...

Johann Rupert: Thank you. Well, I think we’ll all answer one. The general resumption of purchasing in the United States was quicker time-wise than in China. You will recall that, I guess it's a year ago. We said that China will take longer to open, which was contrary to the popular belief, well, simply because we had more information and, I would say, better sources. And even highly informed Chinese friends and colleagues and our partners at Alibaba were surprised by the sudden lifting of the restrictions. And apparently this happened because a great number of football fans watched the World Cup. And they heard crowds, but initially it was only focused on the players. And they, when they started seeing people sitting without masks, local disturbances broke out; and they lifted. I actually told some Chinese friends that they would not be able to stop Omicron. They may as well use it to have a type of vaccination for the population because, even if as sufficient as they are they wouldn't stop it. Remember it was first discovered in South Africa. We so we have in a clinic in East London the data, so when I made that prediction it would take longer, it was expected. So the next thing that we've seen, it was very traumatic. The Chinese saved an enormous amount of money during that period, but it was a traumatic experience. It was a total lockdown. And their first expenditure was just human going out for dining, traveling, so it was more spent on services. Yes, we've seen individuals travelling. So individuals have come to Europe and Hong Kong and Macau, et cetera, but not the tourist groups. So yes, the expenditure is rising, but it has not risen as of yet as it did in the United States; a little bit more caution because even though they've spent a lot, they have not gone and crashed their credit cards. It's important to note that their behavior has been more sober, but it's carrying on. Now we know, in terms of travelling, because of the prebooking and the airlines and the hotels, that we shouldn't expect a lot of Chinese tourists to come in groups to Europe before the end of summer. That's just data-driven.

Now in the United States. I'm always surprised that we as humans do not like to predict any discontinuum. Things get better; we always think, are going to get better. And that's why, we got it worse. We think they're always going to get worst, worse and carry on, but in the history of what I've read about economics and finance, we've never had a sustained period of five, eight, ten years where the cost of capital was 0 or close to 0. And this is bound to have an effect. And you will recall, in the past, I've criticized the central banks. And I've also said it's unfair and it would lead to social unrest. Now they contracted, but to move the funds rate by 500 basis points in a year when all the liquidity into the banking and nonbanking, shadow banking business and then to increase interest rates by that much was really quite reckless. And of course, the first people that got caught were the bad executives who didn't learn banking 101, which is match your deposits with your liabilities. Do not, and this was exacerbated by the enormous liquidity that entered the system with lower economic, with lower borrowing demand, so what did these idiots do? Bought long-dated bonds, long-dated securities. And even criminal was that the FDIC, a share price goes down by 60%. As my son said, you'd think that they'd go pay them a visit. I mean, a major bank. I mean, if I had to be a regulator, I see the share price goes down by 60%, I would have been there, but their risk officer was working remotely. A big number of SVB senior executives were in, working remotely. Then they assume moral risk by bailing them out, so now every depositor can go interest shopping, with the hope that they will be bailed out, but the FDIC was not constructed to bail out Harry and Meghan and Oprah Winfrey who had $500 million with SVB. It was to protect smaller. So to answer America, do not look at Richemont or luxury goods. Look at the aim of the Federal Reserve bank which is to restrict, to bring down inflation. And for that, they'll have to restrict credit. The sadness is that, the farmer in the Midwest who wants to borrow money for a tractor, he is going or she is going to be affected because there is already a contraction of credit. So the United States will not be as buoyant as a year ago. Will it return? Yes. Will it be soon? I actually think we're in for a harder landing than we hope for because we do expect it. Will it affect us? Yes. It will affect everybody. However, we're lucky, as we've said a few years ago, we fly on 5 engines. 1 engine has a misfire. We've got four more engines, so at the time that it may slow down, China is picking up. When, for instance, the Covid restrictions really -- but we just redirected some of our high jewellery and stock to Japan, where it boomed. So one must anticipate these things. Will it be a boom year? I suspect that America started slowing down in November. And our results do not look, it says, "Mr. Arnaud. I liked it that Sephora did well." And I didn't speak about the rest, too much. We've also had one Maison that I'm not going to mention. They did, had a very -- a good first quarter, but generally we sense a slowdown in the United States. Is that a fair answer?

Zuzanna Pusz: A very fair answer.

Johann Rupert: Okay. And now the next two are binary questions, you said.

Zuzanna Pusz: On pricing. It is a very simple one. Can you tell us, that's maybe for Burkhart or Cyrille, Nicolas. What's been the pricing you've implemented in April, especially for Cartier and Van Cleef & Arpels?

Johann Rupert: I will answer that one, which is they didn't increase prices by as much as I wanted them to. No, they felt that one has to look over the medium to long term; and that we shouldn't be using shortages, et cetera to raise prices. So we have generally not increased prices as much as our competitors. And Cartier, for instance, only took an increase in April, so don't look at Cartier and think price increases.

Zuzanna Pusz: And I mean, was it high single digit?

Burkhart Grund: Someone wrote 10%, if I recall correctly. That is incorrect.

Johann Rupert: Yes. It's incorrect.

Zuzanna Pusz: But it may have been between 8% to 10% on some items, right?

Johann Rupert: It's in the medium single figures.

Zuzanna Pusz: Okay, perfect.

Johann Rupert: Okay. Thank you.

Zuzanna Pusz: And the last one. And I hope you will like that one because it's a bit more long term, not the classic short term questions we ask. And so maybe if you could tell us a little bit more about what you're doing on production capacity. Because we've seen in a slide you've been investing a little bit more. Obviously, demand is really strong, so it's a nice thing to see that you're seeing growth; and sort of your belief in the business obviously in the long term, as you're investing more. And last thing, Burkhart, I wanted to say: We've noticed the special dividend for a second time in a row. Because I know, last year, no one noticed it. So I just wanted to say that's been appreciated.

Burkhart Grund: Thank you.

Johann Rupert: A propos, the special dividend. We look at our capital requirements over the next 3 to 5 years, and where we feel we have the capacity, we will return the capital. I promised 15% 10 years ago, compounded. And we're around about just above that, Burkhart. I didn't know how bad things were going to get. I should revise that somewhat, but we're also getting another CHF 1 billion in November from the warrants. They've been very profitable for those who kept them, but we looked at that. So in order to pay the dividend, we have to look at our capital commitments and what we need to, and remember the one thing none of you have written about is the bonds that we issued. They, what’s it, it's 11, maturity...

Burkhart Grund: 11.2, yes.

Johann Rupert: 11.2 years maturity, 1.3%. Because we suspected that the easy money would change sooner or later and that interest rates would go up. So we have that capital available as well. And it's really making sure that the next 5 to 10 years -- we got stress tested during Covid. We forget, April three years ago, we lost €438 million in a month, one month. That's when Burkhart and I stopped sleeping. Because me, immediately I extrapolated this by 12. And you start getting panic stricken. Luckily, we actually came through; and this company was stress tested. I really hope we do not go through that again, but it now makes me sleep a lot better, to know that we have the resilience and the flexibility; and that our colleagues, even though some have to be persuaded, should I say, the Anglo-Saxon people took it quicker and more readily than the non-Anglo-Saxons in our company, but everybody got on line. Special dividend is what it is. It's a special dividend. Thank you. And Burkhart, see. Why is it -- make the special dividends...

Sophie Cagnard: There's manufacturing?

Jérôme Lambert: Yes, yes. When it comes to production and manufacturing, maybe today at Richemont, roughly more than every four persons or every four colleagues is working in production and logistics, and it takes time to train. It takes time to develop capacity, so we keep investing in our capacity. Last year, we said it was roughly 1 500 new colleagues that joined us in production. This year, I was checking statistics. We are exactly in the same volume number. And when it comes to facility, same story. We have two or three facilities opening on a yearly basis, mid-size. Because we are not in mega factory. We are in mid-size factory, and this year will not be different. We'll have three to five new facilities that will open either in Switzerland; or in Europe, between Italy, France or Germany.

Sophie Cagnard: Maybe Cyrille and Nicolas, if want to comment further.

Cyrille Vigneron: So you have been following us for quite some time, so you know from our fiscal '20 or basically calendar year 2019 how much we have grown, both Van Cleef and Cartier. And so this requires additional volumes, of course. So we have facilities for Cartier in France and Italy and Switzerland, and of course, we had to expand. So we have just reopened a manufacturer in Torino, but of course, this was in the making for three years. And the other one coming in Valenza was also prepared before. And we need this capacity extension. We also have a network of partner suppliers who we also encourage to also invest. There is this very strong demand in jewellery, especially branded jewellery; and we expect this to continue to grow. So there is competition, but it's also a growing pie, so it requires additional capacity, basically, we control.

Johann Rupert: It actually leads the excess demand. It's actually quite concerning at times, especially in watches where the waiting list on some Langes and some of the watches, Vacheron, some Cartier pieces were up to closer to two years. And I constantly, I have to explain to -- let's use Lange. That in order to make some of the Lange watches, the ones -- the sports, ODYSSEUS, you must have been --

a lady or a gentleman, a watchmaker for at least 15 years, probably 18 years, they say 20 years, to be able to make this watch. Now 20 years ago, there were not too many young people queuing up to be watchmakers in Glashütte. And when we tell them it's actually limited by artisanal skills and hands and eyes and please visit the factory before you're telling us we're creating artificial demand, then they get it, but there are some clients that already own €10 million, €15 million worth of watches that cannot understand it. So it's not creating artificial demand. I did tell them to calm down on the communication, thought, because why do you communicate a watch that you can't get on a waiting list for. So we have to expand, but both in Cartier and in Van Cleef, it's also a question of a culture and the training. It's not just building a plot.

So for instance, Delvaux. We chose to go where there's a culture, where people already have the skills, which is one of the reasons why we're so strongly promoting Homo Faber. A lot of the great artisans of Europe have said to us their children are not really interested. And when you visit them, you find that they're great artisans, but they don't even understand the Internet. So they have a website. Clients cannot find it. That's why, when you go to Milan, our Milanese and Roman friends, they show us things that we didn't know existed. They don't go to Rodeo Drive or Bond Street or Champs Elysées or Montenapoleone. They've got their own people. It's not just press a button and open and manufacture. It's training.

One of my big problems with work from home, which I'm going to have to address this afternoon with a town hall. I expect that it was my son's generation who would all say, "No. I want to work from home. " No. They are being deprived from learning from people who are 45-year old plus. Now why, if we hire a very talented 25-year-old man or woman, should we allow his or her boss to sit at home. When Karlheinz's people go to work, the sales staff go, but us, who are really the overage -- I mean, if you're not in designing or manufacturing or selling, you're overage, in reality, okay? But we have this attitude, "We'll work from home." How are you going to transmit the culture? So your question, that question is -- I mean we can build a plant, but who do we get inside? So there's an inelasticity which is not easily met, but of course, it's very critical to us not to lose those skills, so you will see more of a vertical integration. That is your real answer.

Sophie Cagnard: You can give the microphone to Ashley?

Ashley Wallace, BofA Securities: Ashley Wallace from Bank of America. Congratulations on an outstanding results. I have 2 questions. My first question is on jewellery. Can you help us understand how you think about the midterm demand for jewellery in light of increased competition? And how you plan to prioritise your investment in the brand as a result of that? And then my second question, if it's okay to ask now, is on Specialist Watchmakers saw a nice margin development this year, up to 19%, so I think the highest level in 7 years. But it's still down from the peak of 27% a decade or so ago. I was wondering how we should think about the margin from here. Essentially, is there more room for improvement? And if so, ultimately, where does that come from?

Sophie Cagnard: Thank you Ashley.

Cyrille Vigneron: As I said before, there is a growing demand for jewellery and for the branded jewellery overall. So as far, there is a growth in the world wealth, there is growth for luxury goods, and there is an increasing growth for jewellery. So even if there is more competition, there's much more demand. So there is room for many. And in terms of international brands in jewellery, they are very few, not so many. And so there is room for growth. So as far as we believe that there is room for economic growth in the world, and there will be room for growth, additional in branded jewellery. So that's why we have to be ready for that, but knowing there's also high volatility, as Johann mentioned, and so we can't expect just linear growth. We have to be ready for cases where we can have contractions and cases where we have rebounds, as we have seen in the past now 10 years.

Nicolas Bos: So I can only confirm, I think, as we know, and we repeat it very, very often, it's still a market where non-branded creations are dominant, so there is still room to grow for brands. And there are not new geographies, but if I'm thinking of an example like Thailand, for instance, which is a country with a very, very strong history of jewellery, it was a history of local jewelers and local designers. And in the last few years, we've seen that market really opening up quite strongly to international brands, Cartier, Van Cleef, others. And that's now becoming quite a significant market, which it wasn't for us even five or 10 years ago. And we have many other examples like that. So we're quite confident that it will take time, it will take additional investments. There will be cycles, but there is still a lot of room for growth, yes.

Jérôme Lambert: Maybe when it comes to Specialist Watchmakers, just to keep in mind that in 2017, under the instructions of the Chairman, they called for a big reset of the way we will be in capacity to develop our business in a more sustainable way called true demand, with a strict follow-up of what was the sell out, what was the sell in, in parallel, the Maisons being investing a lot of energy and time, both in focusing on innovating within the icon and in quality. You saw the result. We had some difficult years while we had to readjust the model on the true demand, we absorbed, buy back the stock years ago, the results...

Johann Rupert: Again, the human nature of over extrapolating a trip, watchers were doing that. So we incentivised colleagues on that, never thinking that democracy riots would break out in Hong Kong, and this happened. You can tie it to, because it's the biggest watch market in the world. And like that, we found out excess watches. Everybody, Rolex. Initially, it was us and Rolex who really acted soberly and just cleaned that up. Now we really monitor sell in and sell out.

Jérôme Lambert: And then somehow, in a year like this year, it was very fragmented or had a lot of volatility in the heart of our clientele for the watches, mainly in China. You saw in the result our stress test, and you saw through the Covid as well that despite all that, you had the leverage. Despite all that, you see an increase of further profitability, showing in somehow, if not the strength, at least already the sustainability of the model itself. It’s gradual. It takes time.

Johann Rupert: Yes, but it's also the secondhand watch market needs to come down. The ODYSSEUS, when Wilhelm and his colleagues came and presented that steel watch to me, and they wanted to sell it at €28 000, I said, you're mad. It's too little. So we settled with €34 000. Months later, somebody bought the watch, and then we had quite a discussion with him, put it up for sale at auction, it sold for €89 000. Then another rather, a future non-Lange & Söhne-approved client sold his for €93 000. So now you would say normal economics would say, move the price to €45 000, €50

000, but we look at the input and the costs, and that refers to an early question, we think there's a fair price for a product. Because if you want your clients and their children to be your clients, then you treat people properly. And that also means that there's a residual value for their watches that they don't buy. I mean if you buy a new -- think of Tesla. You go and buy a car for $16 000 or $20 000, and then Mr. Musk decides, now, I'll sell it for $12 000, what do you think the guy paid $16 000 feels like, or the lady? So you've got to treat people long term. So when you talk about margins on watches, it's not just let's take what we can get. It's building a long-term trust with the client, which really does play into the pricing decision. We have a situation where Cartier did a limited addition of the Pebble watch, 150 pieces. And tomorrow, at the Phillips auction, watch number 71, which the lady must have designated the number, because she got her watch before I got my watch. I then asked him, I asked him, please make this watch 150 at buy full price, exactly the same as all of you, okay? So before number 150 gets, she's putting it up for auction tomorrow. So you can imagine a phone call that Cyrille got when I got the Phillips catalog, but there's a craziness in the secondhand watch market and the speculation.

Sophie Cagnard: Louise, please go ahead.

Louise Singlehurst, Goldman Sachs Group, Inc.: It's Louise Singlehurst from Goldman Sachs. Thank you for taking my questions. Just thinking about the longer-term trend. I wonder if we consider that the Jewellery Maisons over the past 10 years, I wonder if I can ask Mr. Rupert in terms of how you did versus your longer-term plans back then? And if we look at the numbers, I mean, you've grown more than two, 2.5 fold.

Johann Rupert: 1976. We paid $7 million. We still have an argument, was it $6 million or $8 million? But we settled on $7 million. 33% of Cartier more. So it's been -- I've said to a friend of mine, he and I have been together that he asked with the last 3 wives, okay? In the '80s, Cartier didn't do very well at all. So it's been up and down, but I would say, Cyrille, what would you say? From about the noughties, 22 000, 2 000. A steady trend has happened. If you do things properly, and you carry on doing things properly, and then Van Cleef, it meets your very lofty expectations.

Louise Singlehurst: And I don't want to overextrapolate trends here, to your earlier comment. But in terms of the next 10 years, I mean, can it be done again? Is it more of a demand or also...

Johann Rupert: Women going to tell men, I don't want that. Please, you answer me.

Louise Singlehurst: I'll take that as a yes.

Johann Rupert: We've just got to keep brand equity high that the teenage daughter says to a dad, like a friend of mine in New York, when he bought her another brand, and the daughter said to him, "What have I done wrong?" Why did -- mentioning her friend, "Why did she get that? What have I done wrong?" He called me, he said, he bought shares immediately after that. It's Philippe. He said, "I have to go and buy shares in exchange." No, you've got to get brand equity and keep it going and keep desirability. You know, Louise, some years ago in a conversation, I said that we need to grow by, let's say, 15% a year. Means we need to grow our cash flow by 15% a year, which means we need, and in the end, we've got to grow our desirability by more than 15% per year and keeping the brand DNA pure. My nightmare is with TikTok and social media. I see every ad lumped on with our colleagues, I see every product. Balenciaga would never ever have occurred at Richemont. And trust me, Bud Light would not have happened. It's not our role to be social adjudicators. We have colleagues, shareholders, commercial partners of all sexes, races, religious beliefs, and we're not as I said, I don't have a dog in that fight. We just want to have stayed true to the culture of Cartier, stay true to the culture for Van Cleef, Lange, all of our products, and not get greedy. Don't pick low-hanging fruit, just grow within yourself and keep the brand's equity top of the mind. So in 10 years' time, yes, I expect Cartier and Van Cleef and -- yes, and hopefully, we'll have then Delvaux, Buccellati, and grow them. We've been able to do it up until now. Van Cleef, we don't want to give you the figures, but Van Cleef has been a phenomenal success. We're seeing first signs at Buccellati. We've seen signs at Delvaux. And they mentioned all of the heros, the designers. We've got a gentleman, Mossimo Giannulli, who is G/FORE. He's a genius. He's an absolute genius, L.A., his third business. They've moved G/FORE. Now Scott not only bought G/FORE. I don't get the credit for that. It was a psychographic, I sent him away with that stuff. I mean, that was green. It's too young for me.

Now it's the only shoes I wear, because you can put them on, walk for 10 miles without getting blisters. He's a genius. But in Korea, they've moved him in the department stores from the sportswear to the luxury goods floor because the turnover and profit per square meter equals that of CHANEL. It’s not me, it’s not any of us. It’s a slightly crazy genious, lovely human being who lives in LA. Our luck was to get him as a partner. So don’t believe all this stuff you hear. A fair measure of it is pure luck. In order to have luck, you have to believe in luck. You’ve got to be ready when luck comes. So hopefully we’ll continue. It was Jacques Arpels who said to be lucky, you have to believe in luck. Correct? The positioning of Cartier, Van Cleef and Buccellati, it's so clear. CHANEL is clear. You look at the successful. It's a very clear position. And my colleagues have successfully managed to maintain that.

Louise Singlehurst: That gives us a very favorable look in terms of growth outlook. I wonder if I can move to Burkhart and just ask about the 35% margins, we're back to actually where we were. I think it was around 35% back in 2013. But obviously, the business and the Jewellery Maison has changed phenomenally in terms of scale and distribution channel. Over the next 10 years, obviously, very good growth prospects. Can we think that the margins, are they mid-30s, is that now--

Johann Rupert: No. No, he's prohibited from making the mistakes that Jan du Plessis made. Alan, when was that? 22 years ago. Alan and I are sitting there, and the next moment, Jan du Plessis starts talking about the projected margins, and Alan and I, no.

Louise Singlehurst: I tried.

Johann Rupert: Okay answer, but I could say we're happy with where we are, as you can imagine, and the second answer would be ask me in 10 years. And then you get a concrete answer. But you tried.

Patrik Schwendimann, Zürcher Kantonalbank: Patrik Schwendimann, Zurcher Kantonalbank. My first question on the growth margin, you have reached a new record level, also strong brand equity.

What do you think here in the mid to long term? Is there any further improvement because of an even stronger brand equity and also scale effect? Or would you say you're now happy with this margin? That's my first question. Second question regarding the Chinese consumer. What was the exposure to the Chinese consumer before Covid, so including tourists? And what is it currently?

Johann Rupert: Obviously, we try to have operating leverage. But you know it's containing costs. And as we've said, if you look at the goodwill that we wrote off in the non-cash charges, you briefly referred to it, our online investment over 20 years was about €1.3 billion. That's the cost that we wrote off. But we've spent in CapEx and leases, what was it, 4.3 billion.

Jérôme Lambert: On the network, yes, on the network.

Johann Rupert: We want to increase the asset turnover per boutique. I think that's the best way of describing online. When a customer, he or she, gets into a boutique, wherever we've done it successfully, the client conversion ratios jump through the roof. Also, you move, your asset turnover will go up if you properly know exactly where all your stock is. So it's visibility, it's data.

We will hopefully get there through better physical stock management based upon better data, not only data looking back but where everything is, what is where, but also being able to predict where it will be needed. And none of you have asked about ChatGPT, where will that fit in. Because trust me, if I were you, I'd seriously worry about ChatGPT. It's going to affect a lot of people that don't quite expect it. Where will it fit into the Farfetch module? I was fortunate to meet Microsoft's head of quant, and that fellow lives in Seattle, and he is an Austrian who studied in Switzerland.

Last September, they just tested it internally to see what are people going to use it for, because they were worried. People are writing novels, and people were writing poetry, and it was loved, it wasn't bad, because we know it's going to get into bad hands. Then you leased it, December, 100 million people. Today, it's 200 million people.

Now when you ask me how the tech advances, I cannot tell you, except we'd better know how to use it when it appears. So in terms of -- what you're really asking is how can we continue to improve efficiency? Is that a fair -- because that will increase the profit -- the operating leverage. I wish I could answer you, except we answer ourselves every day.

Patrik Schwendimann: But also brand equity, right, and already at a high level.

Johann Rupert: Brand equity, today, you go and ask ChatGPT, what do you think of Cartier?

Burkhart Grund: Patrik, just -- let me just be specific on no guidance. And I'm just trying to explain why we also are very reluctant to give guidance, even indications. And that is, if you look at the gross margin specifically, basically, you have four elements in there that influence the way the gross margin goes. Two are in our control and, two are not under our control. So those that are not under our control is exchange rate and it's, let's say, input prices, which is commodities, gold, diamonds, whatever, and it's labour. Both have been volatile in availability and in pricing. So we cannot control that, and that has always been the case. And in recent times, if we think about the volatility of diamonds that we have -- diamond pricing that we've had, or the availability of skilled labour, and it's not just bringing them in, but it's also upskilling them over very long periods of time.

Johann Rupert: But hang on, Russia invades Ukraine, 50% of our business is -- I mean the small diamonds come from Alrosa. I'm saying at that time. We shut our businesses the morning of the invasion. We didn't wait for days for the all the stock to clear. We shut it. We immediately said we're not buying diamonds from Alrosa. Suddenly, I had some very interested colleagues. So we went to another major supplier immediately. Luckily, we had very good relationships with them. They rejigged their business system to help us, so we could act morally.

Now you tell me, please, what's going to happen in the next few years? Then we can have a long lunch, and I can tell you what my answers may be with my colleagues. But every day, Burkhart, we speak obviously all the time, who would have thought of Covid? Who would have thought that the Russian invasion of the Ukraine? We just got to be flexible. And what I'm really happy about, we've got a team of people really working on our IT system now that will give us flexibility and speed and transparency. We can't promise you margins. But what I can promise you is the same questions you ask of us, we ask ourselves. It's better to be invested with people who worry all the time.

Burkhart Grund: Patrik, just to tie it up, the elements that we manage is our pricing, but within the limits of our fair pricing approach and policy, which is geared for the mid to long term, stable client relationships and productivity in our operations. And that is what we worry about, and that's what we focus on. So four elements, two are in our control, sort of, two are not. And that's why making lofty predictions, one way or the other, are difficult to uphold over time. Just the nature of the business.

Patrik Schwendimann: In regarding to Chinese consumers before Covid, what's the exposure roughly in tourists, and what was the...

Johann Rupert: It's very difficult because we don't go Chinese consumers, Japanese consumers. We know where people buy. But if you say ethnic Chinese people, a lot of ethnic Chinese people bought products in Paris, but it varies year by year. A very powerful percentage of our consumers. But let's say for APAC, Europe, United States, that's what you -- that's been for the last 20 years, and then it changes.

Burkhart Grund: I mean, if we focus, we all know the numbers. They’re out there. Their not ours, but let's say across the industry, we were talking about 33% to 36%, more or less.

Johann Rupert: Please, do not get this stuff because we don't know, in a year's time.

Burkhart Grund: No, no, but it's out there. No, that's what I'm saying, pre-Covid, you back-solve, when you look at our financial statements, that our Chinese -- and we call them residents now, or by residency, we're at 24%. But that is a snapshot, let's say, in a balance sheet sort of approach, where you look at a snapshot end of last fiscal year. How it's going to play out, what the weight is going to be in a year's or in five years time, I have no idea.

Johann Rupert: I have an idea, countries that studies STEM, science, technology, engineering, mathematics. And we don't spend all the time debating woke issues on campuses, will be bigger buyers of our products in five to 10 years. My biggest fear is how will the West react to the inevitable growth of China. It's inevitable. The people are smart, they work -- study like you all, and they work like you all. And this, by the way, I said 10 and 15 years ago. Those people tend to get richer. So expect them to get richer.

Burkhart Grund: And share that with us.

Johann Rupert: Yes.

Sophie Cagnard: Patrik, if you can hand over to Edouard. Thank you. And then afterwards, I think Carole and Rogerio and maybe we'll end afterwards.

Edouard Aubin, Morgan Stanley: Edouard Aubin, Morgan Stanley. So sorry to follow up on the China and Chinese nationals. It seems that so far this year, I mean the up-to-date calendar year, that the growth in terms of luxury spend is driven either by high net worth individuals spending rather the middle class participating, so recruitment. Is that what you're observing so far? And also, if you could please tell us, on the 2-year basis, i.e., versus '21, are you seeing an acceleration in terms of the trend in April, May versus the first quarter of the -- calendar quarter of the year? Or are things more or less stable. Just qualitatively, I know you don't quantify.

The second question, I'll do them in order. Flagships, so you spend a lot of time talking about how you've renovated, invested in your network, and indeed, the Rue de la Paix store, Cartier, is very impressive. But some of your friends and peers are investing also massively, and not just in hard luxury a few weeks ago, but also in soft luxury. In their flagship, they're putting restaurants, cafe, museum within the flagship. So do you think there is -- the bar has been raised in terms of flagship, and there's been -- there might be an inflection point to expect from you guys? So that would be my second one.

And then lastly on M&A. Your balance sheet is indeed incredibly strong. You're returning capital to shareholders, you've announced that this morning. But obviously, you have the balance sheet to make acquisition. I know no one knows what you expect over the long term, but what would you say is the probability that you make a material transaction over the next 12 to 24 months? And could it be in fashion and leather goods, if that's the case? Thank you.

Johann Rupert: Okay. I came from M&A. I tend to find in my past that the companies that are easy to buy, the companies that you buy, normally, there's a reason why they're very easy to buy. And you always underestimate the difficulty of fixing it, and the most difficult thing is inevitably the culture. That takes a lot longer than anything else. We have been more successful in buying even smaller companies with great culture, and then empowering them.

If there's a financial meltdown, yes, maybe we'll look at bigger companies that are not performing because of exogenous factors, external factors. And yes, then we look. But at this stage, the terrible thing is the companies that are really nice are not for sale. And that's across the board. To get back to your first question. Sorry.

Edouard Aubin: VIC clients.

Johann Rupert: Yes. I tried to allude to that. Sorry, it was in the press this morning. I said the first sales here are happening, but it is wealthy, I wouldn't say high net worth, wealthy individuals that are traveling. There are no big groups that we've seen or on the horizon, so they've bought in China related, in Singapore, in Macau, in Hainan, and starting in Singapore. But it's initially been high net worth individuals, if you wish to call them that. In terms -- I am skeptic about taking a Maison’s name and getting into food and beverage. You cannot control the quality. You change the chef and hotels -- I owned a hotel, it was the most stupid thing I ever did in my life. They never call to say they had a great time. But boy, let the chef be late or something, you get your -- at Leopard Creek, Southern Sun managed it. They didn't know that. But hotels are particular businesses that should be left to hoteliers. And the Belmont group, I knew the previous owner, he was a genius, okay? It's good. But for us to start the hotels and restaurants, no. We've got enough problems with our own dining facility here. These people eat the most incredibly boring food, the Swiss, here. I mean I...

Burkhart Grund: It's healthy.

Johann Rupert: I know it's healthy, but...

Burkhart Grund: And we have good Cartier champagne.

Johann Rupert: No, I know. But no, food and beverage, no. And yes, they're lifting the bar, but are we going to be opening restaurants and food and beverage at Cartier or Van Cleef? No.

Cyrille Vigneron: And when it comes to flagship, we have renovated most of them. There are still some coming with Rue de la Paix or Fifth Avenue in New York, or Cheongdam in Seoul, Taipei 101, and they've been incredibly well-received. So we don't believe that the luxury jewellery should become a department store. Some believe it, definitely.

Johann Rupert: Don't go that far.

Cyrille Vigneron: We think we have to be exclusive, yes, inviting, and to make us most beautiful as we can, and they have been very, very well received. So I think we have done what was right for us.

Sophie Cagnard: Carole, yes, go ahead.

Carole Madjo, Barclays Bank PLC: Carole Madjo from Barclays. Two questions, please. The first one on the jewellery segment. You mentioned that there is a bit more competition now on the sector. And I was wondering if you're also seeing that in terms of retaining talents. So do you see now a bit more war of competition to attract the talents and to keep them at the headquarters level, stores level, et cetera? That's the first question.

The second one was on the Chinese market and most of all on the island of Hainan, which you also just mentioned before, and which, of course, is becoming a bigger point of focus lately. Can you share a bit more insight on how you view this market? How big is your exposure in Hainan today on your key brands? And how many stores do you expect to open going forward? And last point on that, I think when we think of Hainan, there are still concerns about discounting gray markets or weaker infrastructure. So how do you tackle these challenges in order to avoid brand dilution?

Nicolas Bos: I can try to answer on the first one. Yes, there is increased competition in jewellery, not so much because there are so many new brands. And I think at the end of the day, if you think of major American brands, they've been there for a very, very long time. But of course, now there is major reinvestment into them. And as it was mentioned several times, we are really working in activities where building expertise, building culture takes a lot of time, and probably more time than the speed of development, or the pace of development of that market and that industry in the last few years.

So that calls for, yes, competition over talents in the workshops, in head offices, in design studios everywhere, which is healthy to some extent. And then it forces all of us to be more attractive and to find ways to better train, better return, better motivate our teams across the board, and this is probably something that we're going to see for some time because, once again, it will take years to really train the next generations of craftsman, the next generations of designers, and this is going to be the case, and we deal with it.

Cyrille Vigneron: And so the world of luxury is a rather close world where everyone knows everyone. But if we see the balance of who we have attracted and who has been taken or wanted to have a follow-up in their career is quite balanced. So we don't see that there is a kind of a specific part of imbalance in this kind of talent questions and retention, but also recruitment, training development. I think we need talent, and we recruit them. And some of our colleagues also sometimes prefer to take different direction to their career. And as far as things are as they are now, it's quite fine. But we have to try and develop. Cartier has been for the 20 years, kind of a school where many of the Jewellery Maisons have people coming from Cartier at some point or another. And you can look in the profession, those who at some point were either here or in Van Cleef. We can see it's been there for quite some time. So it's not so different now than before because as Nicolas said, basically, it's the same brands, just have changed hands.

Johann Rupert: Okay. Summary is we have a product committee meeting. And so in Cartier, they'll come regularly, Van Cleef, everybody, and we'll meet. The new products and new campaigns, it's now been going for decades. Whenever anything goes off code, and we know before Cyrille, there were quite a few that I'd sell. Now how do we know it's off code? Because you look at it. But then the clients look at it, and they see this is off code, and then they don't buy it. Now I don't care if you've got a trillion dollars, if you try to imitate that code, the clients are too sophisticated. So when you look at Van Cleef, you know it's Van Cleef. Other people have copied the Alhambra, they try and copy Cartier, the clients know. So the strongest protection against people, I don't care how much money and I don't care the size of their buildings, is that we stick to our DNA and our codes. Because if we sit there, Cyrille and Nicolas, and we know it's slightly off code, the clients, sure as hell, are going to know it. And that's our protection. And it's very difficult. We've tried it, to buy something that is at a lower-price category and a lower category and to lift it up. It's easier to buy a Buccellati and democratise it by making it more accessible than it is to do the reverse. We'll just stick to our knitting. No restaurants.

Sophie Cagnard: And then on Hainan?

Jérôme Lambert: Just on Hainan, first, the number of visitors of Hainan for this year and last year is expected -- since their opening is expected this year to be something like 87 million. It's three to four times Dubai. You know it well. So it's an important place for tourists shopping like many others. There, our Maisons are present with our local partner. As you know well as well, you cannot operate directly there. It's not what it used to be still today, which is fine, and it represents a fraction of our business in China. And you know as well, a big characteristic of Richemont is that our products is numbers, so we can follow our products and we can ensure then that their distribution is done in a qualitative way. So no concern in terms of exposure because it's a fraction of China -- of the rest of China, let's say, and nice recovery. Will it be as big as it used to be a couple of months ago or a quarter ago? Let's see. And you know well as well that Hainan is set to be a more and more resort business, shopping practice, regular or standard business practice. So nice to have. Nothing to worry.

Sophie Cagnard: Rogerio.

Rogerio Fujimori, Stifel, Nicolaus & Company, Incorporated: Rogerio Fujimori from Stifel. Thanks for taking my question. I have one follow-up on the mix dynamics at Jewellery Maisons and a follow-up on watches. I think you've mentioned that you have been less aggressive on pricing than competitors. So out of the balance with a very strong growth in Jewellery Maisons in the last three years, the last 12 months, how mix has been -- how mix has contributed to growth given the success of iconic models and the brand equity getting stronger and stronger? So just interested to see how average selling prices are moving?

And then on watches, as China recovers, the U.S. slows, and the European and Japanese markets seem to be holding up well. Have you seen any divergence in terms of category trends with watches being a little bit more exposed to wholesale and the preowned market, as you've mentioned, cooling a little bit, slowing. I appreciate watches are much more DTC and much more geographic balanced than before.

Jérôme Lambert: Yes. I can start by the watches. Thank you for your question. It's indeed a very interesting one. And in the lines well as well, what was said by the Chairman as well before with the change of business model during the last 10 years and accelerated during the last five. So indeed, the Maison being more and more operating, either in their own shop. And we have seen 56% for Specialist Watchmakers or with our partner. Because ultimately, you're working with good partners all over the world as being behind their development of our Maisons for centuries.

And if you take the external boutique, plus our internal boutique, you have already more than 3/4 of our total sales. So that capability of developing qualitative in time -- for a long-term relationship has been changing our business approach. Therefore, much less exposing us not only to wholesale, I would say, to stock of wholesale, if I may. Because the biggest exposure in this case is not so much that you work with a partner, but that between you and your partners somewhere, there is an imbalance between what you sell him and what he sells out. And then when it reduce speed, you don't have a factor of 1:1 in effect, but a 1:10. And the stress test that we have been through during the last 3 years have been showing us that they're organising our model around true demand was an absolute necessity, if not the only solution.

So for the time being, again, it's not a wholesale exposure that will cause a breakdown of the model. And again, as the Chairman was saying, now the watches, before, it was on -- it was more for the jeweller and the 5 engines, while our watch business was powered with by 1.5 engine. Now the watch is also powered by 5 engines.

Johann Rupert: I also think that we had a change of strategy/philosophy, whereas some of major Maisons would launch a new type of watch like every three to five years and massively push that, whilst the previous massive boost still have stock in wholesale. Guess what happens? You make your own products obsolete by making this new one the watch to have. So we stopped that. Said no, you must concentrate more on classic watches that will not -- no planned obsolescence anymore.

If you look at Audi, Audi resale values, you can't really see when an Audi was made. Porsche 911, you've got to be like Frank Vivier, who's a lunatic, to say that's a 1967 or 1994, but then he doesn't know how many litres is in each car, which was quite astonishing. I mean, what's the size of this engine? Then go ask somebody if you don't really know the question. But some people have managed to contemporise without -- take an Audi A8. Could it be Audi, you don't quite know A6, A8, et cetera, and they don't radically change. So there's a residual value to the cars. If you change all the time, you buy something for your daughter, your wife, yourself. And three years later, they say, you've got last year's model or three years ago's model. So look at, for instance, to give an example, the IWC Pilot’s. My era was Gunter Blumlein, the man who really built. Genius. And there was an IWC Pilot's Watch still made by him that I spotted that came up for sale. And I bought it, and I wear it. An IWC watch, people would say, "Oh, that's interesting." Then they look at it, they didn't know it was done in 1991, but it was recognizable as an IWC Pilot Watch. Say, if you look at IWC Pilot Watches, if it's two years ago's model, the retailer doesn't have to go and discount it at 40% because there's still a demand. So it's an art. So when you ask about Hainan gray markets, what you asked earlier on the watch market, we would design a new watch, pump it, push it, reward the people for selling it, incentivised. Now it's a lot different. And we want to be able to have that residual value with the client. So you won't see a huge launch and then taping down, which were the big basic philosophy behind it. It's a different philosophy. And by the way, as much as we try to add value here, our best sellers were done 30, 40 years ago, and we've just tuned it, the Tank, the Love bracelet, Alhambra. It is very difficult to tell creative people. There was a famous German architect who said the best is always simple, but simple is not always the best. It's hard to tell creative people, do not try to be too creative because you're going to jump off peaks. Now Nicolas, I mean, especially you, Cyrille, to have to tell them, listen, just remember this is Louis Cartier, that's where we have previous management, current management and hopefully future management, and we interact to keep that corporate memory and DNA because that's what the clients want.

Sophie Cagnard: And on the other question, your mix, volume pricing.

Nicolas Bos: Yes. When we're mentioning mix on the commercial margin, I think that you have different type of mix between categories. And I speak for Van Cleef for instance, it has remained quite stable, basically, the growth that we've seen, or the development that we've seen have been in the different categories, from high jewellery to more daily wear jewellery and watches. It's more the mix by network that has tightly evolved, where even though we are a retail company, we also operate some external stores that were basically the sales are wholesale sales at wholesale price. And that channel has not increased at the same pace as internal retail or online sales. So the respective weight of full price retail sales is higher. So this is where you have a mix effect as far as we are concerned.

Cyrille Vigneron: I would say, in our case, we have 3 components. Of course, increase in volumes, but the increase is -- value has been stronger, meaning there have been higher increase for higher price point, not only for high jewellery. For instance, on watches, we have a very high demand for gold-on-gold Panthère, for instance, we have difficulty to supply. So it's meaning shifting the average price point higher, and basically in all regions. And then, of course, price increase is also added. But this part is a minor part. I was saying higher average price point and talk a little bit of price increase. But I say the price increase was mostly to carry on for the inflation that came from gold, from diamond, from Swiss franc that we had to take over. Take into account also currency fluctuation that last year were very strong. So we could not increase some of them in dollar, renminbi was very high, and things shifted again, so we could rebalance in a different way.

Sophie Cagnard: It's already 11:31. So I don't know whether you want us to take questions online, they are -- a lot of them have been answered already. Maybe a very short one, a quick one to answer relating to the A&P rate. Why the 20 basis points reduction from 9.9% represented to 9.7%. I don't know, Burkhart, if you want to reply to that one? And then there's another one, it's on the communications rate.

Burkhart Grund: I can answer that. It's a very quick answer. Don't read anything into it. I mean, 19% sales growth, 17% A&P growth. It's close to 300 million additional communication spend compared to the prior year. Don't read anything into it. No shift in strategy whatsoever behind it.

Sophie Cagnard: And then we have a question on F&A Maisons, whether the group's F&A Maisons are benefiting from the quiet luxury trends. So that's maybe more for Jérôme.

Johann Rupert: Quiet luxury, we've been preaching for five years. You have all heard that we're saying less bling. The Audi example, yes, quiet luxury. We believe in its style, not fashion.

Sophie Cagnard: So I guess this concludes today's presentation. Thank you very much for your participation. And for those of you here, please join us upstairs for some refreshments.