# Richemont

## Annual Results FY19

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Dino: Ladies and gentlemen, welcome to the fiscal year 2019 Annual Results presentation conference call and live webcast for Compagnie Financière Richemont. I'm Dino, your call operator. The conference must not be recorded for publication or broadcast. At this time, it's my pleasure to hand over to the Auditorium in Bellevue.

## INTRODUCTION : Sophie Cagnard, Group Corporate Communications Director

Sophie CAGNARD: Good morning, thank you for coming to Geneva to attend Richemont's2019 Annual Results Presentation. For those of you participating remotely, welcome. This is Sophie Cagnard, and joining us today from Richemont are Jérôme Lambert, Group CEO, Burkhart Grund, Group CFO, Cyrille Vigneron, CEO of Cartier and Nicolas Bos, CEO of Van Cleef & Arpels. Jérôme will begin by taking you through the highlights, before reviewing sales. Burkhart will then present the Maisons' key developments and take you through the financials. Thereafter, Jérôme will conclude. The presentation will be followed by a Q&A session and questions will be taken from the floor and, time permitting, from those of you who would have submitted the questions via our website, Richemont.com. The presentation and company announcement are available on www.richemont.com, while an archive of this webcast will be available today at 15:00 Geneva time. Before we begin, could you kindly switch off your mobile devices. Thank you. Over to you, Jérôme.

## PRESENTATION : Jérôme Lambert, Group CEO

Jérôme LAMBERT: Thank you, Sophie. Good morning, ladies and gentlemen here in the Auditorium and those of you watching behind your screens. Thank you for your time.

Before looking at the numbers, let me remind you that 11 months of YOOX NET-A-PORTER results and 10 months of Watchfinder results have been included in the Group's financial statements at 31 March 2019. They are grouped under 'Online Distributors', which is a newly presented business area. The first-time consolidation of online distribution has had a material impact on sales, operating profit, cash flow and net cash, and we'll have also a newly reported distribution channel, online retail, which re-groups the sales of YOOX NET-A-PORTER as well as the online sales portion of both Watchfinder and the Group's Maisons. Retail now incorporates only sales from the Group's directly operated boutiques. With this now clarified, let's first look at the numbers.

Richemont is reporting a set of numbers that reflects the initial benefits of past decisions regarding monitoring of sell-in and sell-out at the Group's multi-brand watch retailers, the improvement of distribution networks and a generally supportive external environment. The past twelve months have seen growth in most of the regions and across all business areas. The year was also characterised by strong jewellery and watch sales in the Group's directly operated stores.

Sales for the year increased by 27% at both actual and constant exchange rates, to end the year close to €14 billion. Excluding Online Distributors, sales for the year increased by 8% at both actual and constant exchange rates, and increased by 6% when excluding watch inventory buy-backs in fiscal year 2018. Operating profit increased by 5% to €1.943 billion. This €99 million increase reflected higher sales and gross profit, but also, on the one hand, €165 million of amortisation of intangible assets related to the YOOX NET-A-PORTER and Watchfinder acquisitions, and on the other hand, €118 million of one-time charges mostly related to portfolio transactions and the prior year's inventory buy-backs. The operating margin for the year was 13.9%, down from 16.7% in the prior year. Excluding the first-time consolidation impact of the Online Distributors and the other charges just mentioned, the operating margin improved to 19.5%. Profit for the year of €2.787 billion included the post-tax non-cash accounting gain of €1.378 billion on YNAP shares held prior to the voluntary tender offer. The net cash position of €2.528 billion is lower than last year, primarily as a result of the cash settlements for the YOOX NET-A-PORTER and Watchfinder acquisitions.

Let me now walk you through the Group sales performance, first by region, then by distribution channel, and finally by product line, with changes versus last year, as always, expressed in constant currencies.

Let us start with Europe, our second-largest market, with 29% of Group sales. Full-year sales increased by 37% overall, having benefited from the integration of YOOX NET-A-PORTER and Watchfinder, both of whom have a strong sales base in Europe. Excluding Online Distributors, sales increased by 1%, reflecting the impact of the Lancel disposal, the continued optimisation of our wholesale network, continued focus to align inventories with end-client demand and temporary store closures in France. A limited reduction in wholesale sales was more than offset by a moderate increase in retail sales, and in our largest market, the United Kingdom, sales were broadly in line with the prior year. There was growth in Germany, Switzerland and, though more limited, in France, while other markets recorded contrasted performance. Growth was led by Jewellery Maisons and, to a lesser extent, by the Specialist Watchmakers.

Let us move to Asia Pacific, our largest region. Sales increased by 20% overall, accounting for 38% of the Group total. Excluding Online Distributors, sales grew by 14% on top of strong comparative figures in the prior year. The strong growth was broad-based, with double digit increases in all main markets, led by mainland China, and in all distribution channels. Both the retail and wholesale channels benefited from store openings, with 20 internal and 19 franchisee store openings respectively. By business area, both Jewellery Maisons and Specialist Watchmakers grew at double digit rates.

Let us now look at the Americas, where sales grew by 40% overall and by 11% excluding Online Distributors. The significant difference in growth rates reflects the fact that the Americas is a major region for YOOX NET-A-PORTER. There was growth in all distribution channels, including a double digit increase in retail - offline and online - and a high single digit increase in wholesale. Across our business areas, sales expanded at double digits, led by Jewellery Maisons and Peter Millar. The region contributed 18% of Group sales, an increase from 16% a year ago, with the US remaining our largest market ahead of mainland China and Hong Kong.

Let us now turn to Japan, which generated 8% of Group sales and posted a 16% progression in sales overall and an 8% increase excluding Online Distributors. There was double digit growth in wholesale and high single digit growth in retail, sustained by both domestic and tourist spending. Jewellery Maisons showed good momentum, while Specialist Watchmakers had strong growth, particularly in retail.

Finally, Middle East and African region, which represented 7% of Group sales and saw sales rise by 8% overall. Excluding Online Distributors, sales decreased by 2%, reflecting impacts of the wholesale network optimisation and relatively unfavourable currency movements, the latter weighing on tourist spending. Continued growth at the Jewellery and Fashion & Accessories Maisons helped mitigate lower sales at the Specialist Watchmakers.

Let us turn now to sales by distribution channel. First, the retail channel. Sales in our 1’099 directly operated stores increased by 8%, with growth in all regions, led by double digit increases in Asia Pacific and in the Americas. Noteworthy here is the performance of Jewellery Maisons and Specialist Watchmakers, where sales expanded at a double digit rate. There was a net reduction of 24 stores in our retail network, (TC: 00:10:00) reflecting the disposal of Lancel and the selective opening of new stores. Sales benefited from the first-time consolidation of Watchfinder stores, the reopening of several renovated stores and from the full-year impact of the internalisation of external points of sale in the Middle East at the end of calendar year 2017. The overall contribution to Group sales from our directly operated boutiques was reduced from 63% last year to 53%, mainly as a result of the first-time presentation of the new online retail sales channel. Excluding this new channel, the contribution of retail sales would have been in line with last year.

Next, let us look at online retail. This newly reported distribution channel consolidates the sales from YOOX NET-A-PORTER and the online sales portion of both Watchfinder and the Group’s Maisons. YOOX NET-A-PORTER has been consolidated since May 2018 and Watchfinder since June 2018. Online sales in the Group’s Maisons continued to expand, registering double digit growth. Online retail represented 16% of Group sales.

Third, wholesale. This channel includes sales to franchise partners and to multi-brand retail partners. Wholesale sales increased by 7%. Excluding the impact of non-recurrence of the prior year watch inventory buy-backs, they increased by low single digits. Double digit increases in

Asia Pacific and Japan, as well as a high single digit increase in the Americas more than offset declines in the other regions. Wholesale sales were impacted by the continued alignment of sell-in with sell-out and the optimisation of the wholesale watch retailer network. The wholesale channel generated 31% of Group sales, compared with 37% last year, primarily as a result of the new online retail channels and the measures just mentioned.

Finally, let's move to the sales breakdown by product line, focusing on our Maisons. Most product categories posted growth, most notably jewellery and watches which both grew by 10%. Jewellery sales saw progression in all regions and in all channels. Watch sales increased in most regions with double digit growth in retail, reflecting strong end-client demand. They remain the two largest product lines at 36% and 35% of Group sales respectively. Writing instruments registered a 5% increase in sales, which is a noteworthy performance in a mature market. The impact of Online Distributors is mostly evidenced in clothing and in leather goods.

Burkhart will now take you through the Maison and segment highlights. Over to you, Burkhart.

## **PRESENTATION :** Burkhart Grund, Group CFO

Burkhart GRUND: Thank you, Jérôme. As you know, I come from Jewellery Maisons, so I'll start with the Jewellery Maisons which, after the inclusion of Online Distributors, accounted for 51% of Group sales. The business area includes the total sales of Cartier and Van Cleef & Arpels, across all product lines. The Jewellery Maisons generated a solid set of results. Sales grew by 10% to €7.083 billion, with growth in all regions, led by double digit increases in Asia Pacific and the Americas. There was strong growth in retail and good growth in wholesale. The Jewellery Maisons' operating results rose by 16% to €2.229 billion, and operating margin improved 160 basis points to now 31.5%. This €303 million improvement can be attributed to higher sales, manufacturing efficiency gains, a relatively favourable Swiss franc and good cost control, which more than offset investments in retail and communication.

Let us look at the main developments over the past twelve months. There was double digit growth in both watches and jewellery, the two main product lines of the Jewellery Maisons. Growth in watches was broad-based across the collections, benefiting in particular from the successful launch of the rejuvenated *Santos de Cartier* and from *Poetic Complications* at Van Cleef & Arpels. In jewellery, growth was sustained by iconic collections such as *Love* and *Juste un Clou* at Cartier and *Alhambra* and *Perlée* at Van Cleef & Arpels, as well as the introduction of new jewellery creations such as *Galaxies* at Cartier or *Frivole* at Van Cleef & Arpels. The new corporate campaign at Cartier, the 50th anniversary of *Alhambra* at Van Cleef & Arpels and increased presence on social media, for instance, the *Santos de Cartier* digital campaign, all had a positive impact on sales. The strong performance in retail benefited from the reopening of renovated stores under the new retail concept at Cartier and three net new stores at Van Cleef &

Arpels. There was also high growth in online sales, both on the Maisons websites and through the offering of several collections on NET-A-PORTER and MR PORTER. In wholesale, inventory management and distribution network optimisation initiatives that we introduced in late 2016 have had a positive impact on growth.

Let us now review our Specialist Watchmakers business area, which consolidates the results of eight watch Maisons. They have shown good progress. Overall sales increased by 10% to €2.98 billion. There was strong growth in Asia Pacific, Japan and the Americas. In retail, strong end-client demand led to a double digit increase, whilst wholesale growth reflected the non-recurrence of the prior year's watch inventory buy-backs. Excluding the impact of such buy-backs, wholesale sales declined moderately. Operating results rose to €378 million and the operating margin increased for the second consecutive year, reaching 12.7% of sales, a 300-basis-point improvement compared with a year ago. Higher sales, increased manufacturing efficiencies, a relatively favourable Swiss franc, a larger share of retail, the non-recurrence of inventory buy-backs and strong cost control all contributed to the margin improvement. Partly offsetting these positive elements were stock provisions for the physical return of inventory.

Let us look at some highlights of the past 12 months for the specialist watchmaker Maisons. There was growth across almost all Maisons. Successful launches during the year included the *Polaris* at Jaeger-LeCoultre, *Fifty-Six* at Vacheron Constantin, the Jubilee Collection to celebrate IWC's 150th Anniversary, *Excalibur Aventador* at Roger Dubuis, *Possession* at Piaget and the *Datograph Up/Down Lumen* at Lange & Söhne. Retail growth was strong at most Maisons, most notably at Jaeger-LeCoultre, Vacheron Constantin and IWC. Growth was supported by a net increase of 11 directly operated stores, mostly in mainland China, bringing the total to now 295 stores. Sales of watches online continued to progress, albeit from a low base. With the latest introduction of Roger Dubuis, seven of our Specialist Watchmakers now have a presence on MR PORTER and NET-A-PORTER. Wholesale sales were constrained by inventory control and optimisation of the wholesale network. The focus on true end-demand has led to further decreases of retailers' inventories. Wholesale sales also benefited from the non-recurrence of the inventory buy-backs and from the opening of franchise stores, mostly across Asia Pacific.

Now let us talk about Online Distributors, our new business area that Jérôme mentioned, which as you know includes YOOX NET-A-PORTER and Watchfinder. Sales made by YOOX NET-A-PORTER of our Maisons' products are shown under both the Maisons' respective business areas and under Online Distributors. They are subsequently eliminated under inter-segment eliminations. Online Distributors posted double digit sales growth, with sales reaching €2.1 billion or 15% of Group sales. Operating losses amounted to €264 million and included €165 million for the amortisation of intangible assets recognised on acquisition. The result was also impacted by additional investment in communication and IT, primarily linked to THE OUTNET and MR PORTER's global technology and logistics platform migration. On an EBITDA basis, Online Distributors were slightly contributive.

Now let us look at some operational developments for these two distributors. In the 11 months (TC: 00:20:00) that YOOX NET-A-PORTER has been consolidated into Richemont numbers, double digit sales growth was balanced across business lines and regions. Shopping on mobile devices has increased further, to represent more than 50% of sales now. In terms of offering, the Fine Jewellery and Watch Suite at NET-A-PORTER and the Luxury Watch Guide at MR PORTER were launched in spring 2018. Over the past 11 months, as an example, a watch was sold for more than €200'000 on MR PORTER and a piece of jewellery for over €165'000 on NET-A-PORTER. YOOX NET-A-PORTER has also introduced The Vanguard to foster emerging talents in fashion, a kidswear offer and Clean Beauty, in order to meet clients' demands for organic products. Overall, more than 400 new brands and over 135 exclusive capsules and collaborations were launched across the business lines. The joint venture with Alibaba is progressing well.

At Watchfinder, the rate of sales growth was single digit, impacted by Brexit uncertainties and strong comparatives. The team is working on raising its visibility and digital outreach. Building on its reputation of trust and expertise in the pre-owned market, Watchfinder has begun to develop an international presence, starting with France. Already a dedicated French website and a showroom at La Défense, near Paris, are operational. They continued adding new servicing accreditations. In total, the Watchfinder service centre is accredited by 17 leading brands for spare parts and repairs. This represents a clear competitive advantage.

Finally, let us move to 'Other', which includes the Group's Fashion & Accessories Maisons, its unbranded watch component manufacturing and real estate activities. Excluding the impact of the Lancel and Shanghai Tang disposals, sales at the Fashion & Accessories Maisons rose by 5%, with growth in all regions, led by double digit growth in the Americas. Operating losses amounted to €100 million. If we exclude net one-time charges of €58 million in the year under review, primarily related to the disposal of Lancel, and of €37 million in the prior year, the operating loss was €42 million in the year under review and €28 million in the prior year. The variance can be explained by increased investment in communication at some Maisons, as well as costs linked to retail expansion and store renovations.

Let us look at the development of the main Maisons. There was growth across all Maisons, though the rate of growth varied from one Maison to another. Montblanc and Peter Millar registered notable increases. Montblanc benefited from good demand for its new technology products with the second version of its *Summit* smart watch, for its leather offer with its new trolley line and for its writing instrument offer, notably with the *Meisterstück Petit Prince* collection. Alfred Dunhill has recorded good progress in sales, and new offerings at Chloé, notably the new *Chloé C* bag and shoes collection, have shown positive early results.

Retail sales posted growth when excluding the impact of the disposals of Shanghai Tang and Lancel and the first-time presentation of the new online retail sales channel. Retail sales were supported by store openings, notably at Chloé and Montblanc, and by the reopening of stores under new retail concepts. Montblanc reopened its flagship stores in Geneva and Tokyo under its new concept, resulting in increased productivity and visibility.

Online retail sales were strong, with the highest growth coming from Asia Pacific and the Americas, and in particular from Chloé and Azzedine Alaïa. Online retail sales represented 7% of F&A Maisons' sales.

Wholesale sales grew overall, with varied performances by Maison. They were led by Montblanc and Peter Millar, and supported by the net opening of 17 franchise boutiques, 9 of which within the Dufry network. This concludes the review of the Maisons.

Let me now walk you through the rest of the P&L, starting with gross profit. Gross profit increased by 20% overall. The main drivers of this increase were manufacturing efficiency gains, a higher share of retail and online retail, and slightly favourable currencies overall. This resulted in a gross margin of 61.8%, a 340-basis-point decrease from last year. Excluding the integration of YOOX NET-A-PORTER and Watchfinder in the current period's results, gross margin reached an all-time annual high of 66.3%, an increase of 110 basis points compared with last year.

Let us now look at our operating expenses. Overall, expenses increased by 26%. Excluding Online Distributors, the increase was limited to 7%, below the 8% growth in sales of our Maisons. Operating expenses also included one-time expenses of €95 million primarily related to the Lancel disposal, and €165 million of amortisation of intangible assets. Together, these charges amounted to €260 million. I will now walk you through the expenses by category.

Selling and distribution expenses, which account for 51% of total operating expenses, increased by 11%. Excluding Online Distributors, selling and distribution expenses rose by 6%. The growth in expenses reflected the increased renovation of our global distribution network and the opening of 41 directly operated stores.

Communication expenses rose by 21%, mainly due to the first-time integration of Online Distributors, and increased communication initiatives at the Jewellery and Fashion & Accessories Maisons.

A new expense line, "fulfilment expenses", amounting to €229 million, represents the costs related to the fulfilment of online orders at the Online Distributors.

Administrative expenses grew by 36%. This growth mainly reflected the inclusion of Online Distributors and continued investment in technology development and maintenance.

Other expenses amounted to €280 million and included the €260 million charges previously mentioned. Net operating expenses represented 48% of Group sales, broadly in line with a year ago.

This leads us to operating profit, which rose by 5% to €1.943 billion. Excluding one-time net charges of respectively €118 million in the year under review and €208 million in the prior year, as well as this year's first-time consolidation of Online Distributors, operating profit for the year would have increased by 13%. The current year's one-time charges primarily relate to previous year's inventory buy-backs and portfolio transactions. The operating margin of 13.9% compares to 16.7% a year ago. Excluding the consolidation of YOOX NET-A-PORTER and Watchfinder, and the €118 million of one-time items, operating margin increased to 19.5%.

Let us now review the P&L items below operating profit, starting with finance costs. Net finance costs for the period amounted to €183 million, compared with €150 million in the prior year. The €33 million overall increase can be primarily explained by the €69 million interest expenses linked to the €4 billion corporate bond issued in March of last year. There was also a loss on monetary items, compared to a gain in the prior year, due to unfavourable year-end exchange rates when we translate the cash investments at balance sheet closing rates, as well as a negative impact from the currency hedging programme.

Now, let us turn to the profit for the year. Profit for the year rose to €2.787 billion. The strong increase was due to the €1.378 billion post-tax non-cash accounting gain on the revaluation of YNAP shares that we held prior to the tender offer. Excluding this gain, profit for the year increased by 15% to €1.409 billion, as a result of a higher operating profit. The effective tax rate for the year was 21.7%, compared to 25.5% in the prior year and 22.5% two years ago.

I would now like to focus on our cash flow from operations. Cash flow generated from operations decreased by €392 million to €2.331 billion. The reduction (TC: 00:30:00) reflected a working capital absorption of €530 million compared with a €234 million inflow in the prior year. This reversal is mainly due to two factors. First, lower creditors and higher debtors following the use of credit notes that we issued as part of the prior year's watch inventory buy-back programme, and second, high investments in inventories at both our Maisons and Online Distributors. These impacts were partly offset by a stronger operating profit. Gross inventories amounted to €6.2 billion at year-end, an increase of €1.2 billion from the prior year level. They represented 17.7 months of cost of sales, an improvement of 3.1 months compared to the prior year. Excluding Online Distributors, inventories represented 21.1 months of cost of sales, broadly in line with the prior year. The receivables portfolio is healthy at about 95% current.

Let us now turn to our gross capital expenditure, which amounted to €826 million, representing 5.9% of Group sales compared with 4.4% a year ago. The €339 million increase in capital expenditure was mostly related to YOOX NET-A-PORTER. Looking at CAPEX by nature, 40% was related to investments in points of sale, including internal and franchise boutiques and corners. Investments were focused primarily on store renovations and relocations. The most notable projects were the renovations of the Cartier New Bond Street boutique in London, Montblanc's Heritage boutique in Hong Kong, the relocations of Cartier on One Peking Road in Hong Kong, Van Cleef & Arpels in IFC Pudong in Shanghai as well, and IWC and Panerai on

Ginza in Tokyo. The most notable openings were for Cartier, Piaget, Van Cleef & Arpels and Alfred Dunhill at Hudson Yards in New York, for Van Cleef & Arpels in Chadstone in Melbourne and for Piaget in Dubai Mall Fashion Avenue. 9% of the gross expenditure was related to manufacturing investments, primarily for machinery and research and development. Other investments accounted for the remaining 51% and comprised mainly the Villars-sur-Glâne logistics centre in Switzerland and the global technology and logistics platform for YOOX NET-A-PORTER in Italy.

Let us now discuss free cash flow. Free cash inflow amounted to €1.146 billion, an increase of €56 million compared with the prior year. The 6% improvement reflected the lower cash generated from operations and higher capital expenditure, offset by lower spending on investments and investment property.

Let us now turn to our balance sheet. Our balance sheet remained strong, with shareholders' equity rising to 61% of total equity and liabilities, up from 57% a year ago. Net cash, at €2.528 billion, was down by €2.731 billion from the prior year. This was mainly due to the €2.894 billion cash outflow for the acquisitions of YOOX NET-A-PORTER and Watchfinder. Richemont's net cash position comprises highly liquid, highly rated money market funds, short-term bank deposits and short-duration bond funds. Our overall cash resources are primarily denominated in Swiss francs, euros and US dollars.

Let us now look at our dividend proposal. Our FY19 dividend proposal, to be confirmed by shareholders in September, is CHF 2 per share. This represents an increase of 5% over last year in Swiss franc terms and reflects the performance that we have seen during the year and our strong net cash position. I will now hand back to Jérôme, who will conclude our presentation.

## **PRESENTATION :** Jérôme Lambert, Group CEO

Jérôme LAMBERT: Thank you, Burkhart. In closing, allow me to underline again the main highlights of the fiscal year 2019. There was first, I would say, growth across all our businesses and almost all regions. More specifically, there was strong growth in Asia Pacific, led by mainland China, and in the Americas, and, in terms of channels, in our retail network for our Jewellery and Watch Maisons. Jewellery Maisons showed strong performance, and the Specialist Watchmakers, good progress. We are starting to see positive results from a number of decisions taken in the past few years, including the alignment of sell-in with sell-out, the buy-back of watch inventories, the quality improvements of our distribution network and the focus on key accounts, finally the appointment of our Head of Specialist Watchmakers Distribution. Within Other, mostly comprised of Fashion & Accessories Maisons, Montblanc and Peter Millar recorded good growth, while the other Maisons progressed with more varied performances.

We have continued to refine the quality of our products and the environment in which they are sold, while further investing in digital marketing initiatives. Growth in expenses, nevertheless, has been contained below sales growth. Excluding the impact of online distribution and the one-time net charges of €118 million that Burkhart mentioned, Group operating margin increased to 19.5% of sales. We have strengthened our portfolio with YOOX NET-A-PORTER, leader in online luxury retail with strong digital capabilities, and with Watchfinder, which provides access to the important second-hand watch market.

As YOOX NET-A-PORTER's businesses now approach their 20th year, growth is now normalising around a low double digit rate. The joint venture with Alibaba, once operational, is expected to bring new scale for the NET-A-PORTER and MR PORTER brands, opening up the relatively untapped potential in China for online multi-brand luxury shopping. After initial migration challenges at THE OUTNET, now are successfully overcome, we are progressing with the MR PORTER re-platforming, which is expected to be completed this summer. In addition, YOOX NET-A-PORTER has developed a multi-year roadmap for integrating the other Maisons' online services of Richemont with a particular view to offering omnichannel capabilities. These initiatives will benefit YOOX NET-A-PORTER as well as the Group as a whole.

We are pleased with the performance of Watchfinder, given the uncertainties surrounding Brexit. They outperformed the UK watch market and generated healthy profits before amortisation of intangibles. Building on their leading position in the UK, Watchfinder has begun its internationalisation, starting with France this calendar year.

To remain compelling with our clients around the world, we continue to evolve the way we engage with them and the way we distribute our products, favouring direct interaction with end clients, a more upscale retail environment, both online and offline, a greater presence on social media and adapting to local changing needs. To that end, as our Chairman, Mr Rupert, commented, we remain focused on offering products with the highest level of beauty, creativity, heritage and craftsmanship. Quality of our teams, portfolio of assets and balance sheet support us in these ambitions, and here, I would like to thank everyone at Richemont for their hard work and continued dedication. We will now open the floor to questions. Thank you.

Sophie CAGNARD: Thank you, Jérôme. The Q&A will start very shortly, but can I kindly ask you to announce your name and your company's name just before asking the question, and limit yourself to two questions, please. Since all the hands are up, what I suggest is we start from that side and we'll go all the way down, so we'll start with Francesca. Thank you.

## QUESTIONS AND ANSWERS

### *Francesca Di Pasquantonio – Deutsche Bank*

Francesca DI PASQUANTONIO: Yes, hi. Good morning. It's Francesca Di Pasquantonio from Deutsche Bank. I actually have 20 questions, so I will choose two. The first question is a quite open question. If you can give us some granularity on digital strategy. I was actually expecting to see some slides on the presentation, maybe not sharing targets, but sharing a journey and some details of the journey. Maybe you can share with us your considerations about the opportunities for YOOX, for NET-A-PORTER, MR PORTER as individual businesses, the opportunities for the mono-brand businesses (TC: 00:40:00) of the online platforms, how your online strategy will develop into omnichannel, how long the journey will be, how expensive the journey will be in terms of….

Burkhart GRUND: What happened to the notion of two questions?

Francesca DI PASQUANTONIO: A very small question on Q4 and the retail performance. My math may be wrong, but I have calculated a slight deceleration in your Q4 retail performance at constant currency, and I was curious to understand where it is mainly coming from. Thank you.

Jérôme LAMBERT: Thank you for your questions. There were many answers in your questions already. About digital at Richemont, first, I would like to name that digital at Richemont is not only digital distribution. Indeed, we consider that there is a global innovation agenda for all activity from our logistic supply chain to the distribution part of our business. We invest significantly in research and development to the depths in our activity of watchmaking to constantly improve quality. To give you an idea of the magnitude of the investment of R&D that we do, that's the equivalent of one manufacturer per year, so that's a strong proof of our belief that innovation progress towards a better quality and sustainability of our products is important.

Moving to our people, because if we speak from innovation, of course, it means as well that we have constantly, I would say, to invest in learning and in developing our team. In that dimension, Richemont has always been a pioneer, developing its own schools, starting a long, long time ago with Cartier, with their first retail school activities. Then it moved to all Richemont facilities and we opened the first school in China, Shanghai, a couple of years ago. We'll open, this year, another two schools for retail activities in the US and in Hong Kong to tackle the challenge of innovation throughout the root of Richemont.

Finally, when it comes to our development in terms of digital distribution, here, you have seen throughout the acquisitions of this year that we believe in that new dimension. Indeed, we do believe that the investments done are the best preparation for the future. That's a very dynamic roadmap for Richemont. It's very important for our brands, because you mentioned, in your question, omnichannel, but indeed, I would say there is a strong omnichannel agenda for our Maisons and we have engaged, as we are seeing, a very ambitious roadmap between the Maisons of Richemont and YOOX NET-A-PORTER in a global platform, technical platform approach that we mean that will use our advanced technical capability at YOOX NET-A-PORTER for the Maisons of Richemont to promote a very intensive omnichannel activity. Said that, it goes along with the investment and efforts done by Richemont within the last years in terms of having more digital presence in our own shops. We invested already for more than two years in very advanced tools in all our retail networks with the project called 'Dare'.

When it comes to YOOX NET-A-PORTER itself and its dimension, that's, for sure, a very strong opportunity for the Group to create new dynamics. The first one is the geographical dynamic out of the re-platforming and the technical aspect in the omnichannel. As mentioned here, you know that multi-brand luxury shopping is an untapped potential, as written, in one of the first two markets for luxury goods, namely China, and here, we are entering in a world of opportunities. For that, not only has Richemont has been deciding to invest with YOOX NET-A-PORTER and Watchfinder, but has been engaging in a journey of building a strong joint venture with Alibaba. If you combine these two elements, plus a global re-platforming happening at YOOX and NET-A-PORTER, you see that we put a lot of emphasis, a lot of effort in that part of our business, and we do believe that's how we prepare the future at best. We believe that technical improvement in the platform, a new geographical presence and working on synergies between YOOX NET-A-PORTER and the rest of our Group Maisons will create, I would say, a stronger leverage.

Francesca DI PASQUANTONIO: Sorry, if I can follow up, the 19.5% margin that you would have achieved without the online consolidation, so is this a target for the future or do we need to continue to model a similar dilution from online going forward, excluding one-offs? Is this a new normal that we need to consider? This is a very basic question, but it's an important one for deciding.

Burkhart GRUND: Francesca, I'm trying to walk mentally through that question. The 19.5% is what we have achieved as a profitability for the Maisons' business. Going forward, if you say, 'Well, do we have to model that?' well, until we sell, I think the Online Distributors will stay a reality in our Group, because we bought them for a reason. Obviously, what we expect for a growing business, and, you know, it depends on many factors, including the always famous exchange rates, because 50% of our business is tourism-driven, obviously we expect, with the top-line growth that we have, that we produce further leverage out of the business. I think that's a given now. The Online Distributors are a new element. We're speaking a lot about it in our numbers now because we want to help you along this way to understand, because these impacts have been quite material. If we just retreat behind the reported numbers without giving the breakout within or including, excluding, etc, we think that's not a very helpful presentation of our results, so we do that.

Now, if you look at the Online Distributors' business, which is a new experience for you, but also for us, at least in this combination, we look at the roadmap that we inherited, that we have made our own, that we have enriched, and we'll probably talk about that a bit more, with our own initiatives, so that this acquisition makes sense, once again, for our Maisons for the long term. Look on it at the short term, with a short-term view, meaning the roadmap for the next three to four years, it will see and has seen this year already, I mean fiscal '19, significant investments in technology. You probably remember what they were guiding on, on the CAPEX side, about 8% to 10% before the acquisition. This is where we have landed, around 10% CAPEX, meaning tech spend. If you look at it with this in mind and you see there is an EBITDA contributive performance, I'd say as a picture as of 31 March, we're quite satisfied with that, especially we that have insight now on the significant amount of work that is being done by our new colleagues and that we have to appreciate at its true value.

We've had challenges in the migration of THE OUTNET, which are part of a learning curve, which are part also of a re-platforming that not only targets to merge the two businesses, the former YOOX and the former NET-A-PORTER business, but also re-platforming is done first and foremost to increase and enhance the customer experience. So, we've overcome the difficulties with THE OUTNET. The numbers have rebounded, which is a positive sign that the technology is (TC: 00:50:00) contributing positively to it, and now we're taking these learnings and apply them to the MR PORTER migration that is, right now, progressing. We expect it to very positively germinate or finalise in the current fiscal year. In that context, EBITDA positive is what we have and this is what we're targeting. Going forward, life is made of ups and downs, you know that, so I also will not really comment on that, I'm not a big fan of that, to say, 'Well, for Q4, the exit rate, etc.' I'm not a fan of that, you know that, but I appreciate that you try, but let me just give you some elements of context on that. Retail, and no offence to our other colleagues in the Group who are all doing a great job, but we obviously focus first and foremost on the two biggest product categories that we have, and that is Watches and that is Jewellery.

Both of those categories in the Specialist Watchmakers and the Jewellery Maisons, by segment, have had a very strong retail performance throughout the year. Yes, there are ups and downs, as we always have. They have something to do with H2 previous year's comparables, etc. I will not bore you with that, even though you might not be bored, but we depend on a feel-good factor. That is very clear in our business as well. Look at the stock exchange performance at the end of the last calendar year, look at the performance in the first quarter of this calendar year, there is a link, undeniably. There is a link with exchange rates, there is a link, obviously, with, let's say, political discussions between, I would say, a power in the east and a power in the west. All these have an impact. You strip out that, you put all that aside, what remains is very strong, positive performance in the retail channel and in the wholesale channel, meaning mainly the watch wholesale channel, minus the self-inflicted pain that we believe was necessary to qualitatively upgrade our wholesale distribution network. So, we're extremely satisfied with the work that has been done and the results that we've achieved, both in retail and in wholesale.

## *John Guy – MainFirst*

John GUY: Thanks very much. Good morning. It's John Guy from MainFirst. Two questions, please. Jérôme, if I could start with you and just follow on a little bit more on the online strategy, I'm particularly interested in the JV with NET-A-PORTER and MR PORTER and Alibaba. You put out that small press release back in October last year. You said that the talks are progressing seven months down the line, but I'm just trying to get an understanding of why we haven't seen a little bit more today on this. It's potentially a very exciting JV. If we think about the 640-odd million registered users on Tmall, 14 million or so on the Luxury Pavilion, if you can convert, even on a calendar '17 average order or average selling price of just under €670, say 1% of that total registered base, that's over €4 billion in revenue. I'm trying to understand the opportunity here, so can you give us a little bit more around that in terms of timing? Have you got a CEO in place now for this business? Where are we? That would be great.

My second question is for Cyrille. Good morning, Cyrille. Just on Cartier, could you give us a little indication so far as to how the launch of Clash has gone? It looks like you've had a very strong campaign around this accessible jewellery launch, which is, I think, the first in about ten years. What's the potential for the line? Is this a €300 to €500 million potential? Good to see that we have waiting lists at the moment, at least for the Blue Dial Santos, I think six- to eight-week waiting lists. Can you talk a little bit about how the watches offer has improved and where you're seeing some of the best results? Thank you.

Jérôme LAMBERT: Okay, I will answer to the first question. Thank you. Indeed, the Alibaba JV is, I would say, for us, an exciting journey and we are clearly aligned with the agenda that we fixed with Alibaba late last year, meaning what? Meaning we are focusing on this fiscal year. You know that creating a JV, that's not creating just a corporate organisation that's organising, that's recruiting a team. We speak from, I would say, a number of people. We've finalised the top position, we have recruited the CEO of that JV, but we have another couple of high-end positions to recruit there. Of course, we have to create and to set up a logistics system. Of course, we have to create a technical element for that. That's new. There is nothing, I would say, as such existing on Alibaba today, and that's also not only the traditional dimension of a PFS store. That's a wider extension, and to open a Pavilion shop or so-called PFS, it takes you nine months, so here, being capable between November and this fiscal year, to achieve it, I would say that's a remarkable challenge and a remarkable operational challenge, but we're progressing well and we are very confident with the progression we do.

We have also very much advanced in the onboarding of the Maisons, because that's a multi-brand distribution organisation, YOOX NET-A-PORTER. That's a few hundred Maisons that we are taking for that journey and for that trip, so the team of YOOX NET-A-PORTER is very active to do the purchase or to fix the volume of the year. You know that to be capable to sell over this year, you have to organise the buying before, so it means you have to work with every single Maison to identify, for every single Maison, the proper inventory that you will distribute in China in that dimension. So, yes, that's a big journey, and here, we're very happy that we can leverage Richemont, as well, structure, because to create companies or building a logistic network, recruiting obviously a lot of people, here, we can say already that we leverage our local presence. Alibaba is an amazing organisation and the work with them is progressing very well.

Cyrille VIGNERON: I will answer the other questions. Clash is doing super well. It's very promising since a month ago and has been way beyond our expectations. We of course have to be careful. If it's going too well, then we have production issues that we have to adjust later on and have to see also whether this cannibalises or not the rest. So, so far, we're extremely happy, but we'll see, probably with six months or a year, how it goes with the rest of the portfolio. The other launching we have done, so on watches, in three years, the repositioning of the collections are doing super well. Ballon and Panthère continue to do well and Santos is doing well. The Santos for this year is very promising. We just started to release now, and so you already have some waiting lists. Also, we have revamped Baignoire, also doing super well. The leather category we started last autumn with Guirlande is doing also super well and we are short everywhere. These are positive signs.

The question also linked into the one that Francesca had, where can we get some leverage? As far as we can put out lines that are successful and can be durable, because there had been, in the market, an inflation about novelties that were not lasting, if you can have some that can last over time, then you have leverage about your development cost. As far as you can stay in the same production facility and the same retail network, we don't expand our network, we renovate without expansion, then we can have, at the end, some leverage possibility, provided that currencies, that other economic factors and things, and not political tension do not disturb that. Overall, as far as we can do that in the mid-term and as far as key clienteles can be still in demand, like Chinese especially, which are the most promising clienteles of the future, then there are good expectations. Short term depends on whether we can build on top or will it cannibalise, and whether you can follow up in the demand without problems, but so far, Clash is super positive, the fastest launch we ever had on such a launch category.

John GUY: Thank you very much.

Sophie CAGNARD: Thank you, John. Luca?

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## ***Luca Solca*** *– Bernstein*

Luca SOLCA: Good morning. Luca Solca at Bernstein. Two questions, the first one on Specialist Watchmakers. Your organic growth in Specialist Watchmakers, excluding last year's inventory buy-back, is 2%, and your operating (TC: 01:00:00) margin is a fraction of what it used to be. Why would investors be wrong expecting that you engage in a major cost restructuring programme in order to right-size quickly your cost profile to the reduced size of the business, or is it correct to anticipate that the operating margin of this division is going to be structurally lower for years to come? The second question is on the Online Distributors. There was a lot of emphasis in your presentation about getting the technology and then the back office right, as well as potentially integrating this business with the core business in Watches and Jewellery, but when I look at the overlap you currently have between Watches and Jewellery and the Online Distributors, this is probably between 5% and 10% of their sales. What are the specific commercial goals that you have in order to develop, as a standalone business, the activity of YOOX NET-A-PORTER? Could space be there for a concession business model on the side of the wholesale model that you have, and in general, why is the Head of YOOX NET-A-PORTER not with you today to tell us about that? Thank you very much.

Burkhart GRUND: Good morning, Luca, and congratulations on your new job, first and foremost, first things first.

Luca SOLCA: Thank you.

Burkhart GRUND: Let me explore a bit further the Specialist Watchmakers. First, a bit of historical perspective. When you talk about the margin structures and then compared to historical comps, I would say if you refer to the high point about four years back in 2015, that is obviously before we have had an impact of the Swiss franc impact, and let's add another element of context. That was built based on a wholesale business which definitely had run its course very strongly up and had excesses in its business, which actually impacted the top line, but obviously fed through all the way down into the operating margin. That is nice to have, but you have to decide at one point in time in which structure you want to continue to run your business. We came to the conclusion, and we've gone through in the last few years and have explained at length, and for some of you probably ad nauseam, that we were engaging in a phase by deploying a playbook in order to clean up our wholesale distribution from, let's say, business that we do not want to see playing out in the end on the grey market, which is linked to oversupply, which is linked to distribution, which is mainly playing out through unauthorised distribution, which is playing out online with high discounting.

The logic has always been, over the last few years, and it's painful to sit and have investor feedback for three years, to say, 'Well, aren't you destroying value over a period of three years, by buying back €0.5 billion in watches?' Yes, short-term, that is the view. What is the long-term view? The long-term view for us has been, all the way through this process that we care about long-term brand equity, because we believe long-term brand equity will create value and create value over time. That has been our mantra. That is what we have applied first and foremost at Cartier, buy-backs, shut down or optimise the distribution network and basically restrict or eliminate supply that might end up in the grey market. This plays out over two years and then we have seen at Cartier that the market normalises when the market is clean. We've seen that, the first stage now, we've applied exactly the same book with the Specialist Watchmakers. We have done significant efforts that obviously are not reflected today in the numbers, at least not visibly so, but just to give you a hint, if you look at last year's inventory buy-backs that we did, which then physically flowed through our P&L this year, we've done roughly a similar amount of, shall we say, distribution optimisation in the current year.

We decided to take these measures to make sure that there is no further product availability in these grey market channels, so that'll feed through. Once again, we expect if the same playbook applies with Cartier in the same condition or set of conditions today, we would expect, in the current year that the inventory equation normalises. We're happy with the level today. We monitor and we're happy with it. So, if you take that as the context, I think if you look just at the reported numbers, I think that the performance at the Specialist Watchmakers is underappreciated, and let me just dwell on that a bit. A very positive double digit performance in our retail store network, and I've said it before, I've said it last year, that the playbook is keep the cost base and grow your retail sales, because we have installed the retail network already. We have a store count of 295 stores now, so the upfront investment has been done. Now, this network will have to produce leverage. Double digit growth in the retail network.

Then we look at the cost base for the Specialist Watchmakers. There is no cost increase of the underlying cost base of the Specialist Watchmakers this year, and I tip my hat to my colleagues, to our colleagues in the specialist watchmaker Maisons, which have done a fantastic job on that one. No increase of the cost base, both on the communications side, both on the operating expense side. As for margin improvement, because also the retail business that we have had in the last year not only has seen strong growth rates, it has also improved on a qualitative way by reducing discounts in our stores, etc, etc, so having a very healthy and positive relationship with our customers. So I think, in a context where if you strip out all that, all the wholesale self-imposed measures, you come to a very low single digit growth, you see a 300-basis-point increase of the operating contribution, I think that's a very positive, shall we say, step in the journey, where we still expect, going forward, the operating contribution of these Maisons to improve over the mid-term, once again, if, you know, we maintain the course and we benefit from the same positive, I would say, supportive environment in the markets. So, that's what I think we needed to dwell a bit upon to also give justice to the performance that our colleagues produced.

Jérôme LAMBERT: I will now answer to your first question on, well, second question on Online Distributors. I will just add to what Burkhart said about the performance of the Specialist Watchmakers, that it's also correlated with a very strict follow-up of the sell-out at wholesale level, that we are now monitoring over 90% within 30 to 45 days after each month of operation, that we can say again this year that our sell-in is lower than our sell-out in the wholesale network, and that we have, again, significantly reduced the inventory level, this time without buy-backs, at wholesale level. So, that's as well, I would say, for the future, a more aligned correlation between the sell-out of our partners and the numbers that we have in our profit and loss, so a better guarantee, probably, for the future, if you are speaking from where do we go in the future with that activity. Now, on Online Distributors, the first thing, and it's interesting that there is a lot of opposition in appreciation between business model, where we see more and more convergence. In somehow concession wholesale is probably a concept, I would say, (TC: 01:10:00) which is, if not dated, I would say at least speaks from an age that is less and less relevant as we enter more and more through omnichannel and omni-stock in more fusional models.

YOOX NET-A-PORTER has launched their first initiative in omnichannel with new ERA, with a couple of new partners. That system relies on omni-stock. Omni-stocks means that you are selling the stocks that you have purchased, but also if you don't have the stock available, either/or, that you can leverage the stock of your partner. Therefore, I would say there, you don't have a traditional separation between are you in concession, are you in wholesale or are you in a marketplace approach? I do believe that in the near future, that more and more it's this model that we'll see, and the Alibaba JV will be also a source of innovation, for sure, in that dimension.

Luca SOLCA: Thank you very much indeed. It would be great if you had that capital market day on this digital business, which is so potentially exciting and on which you're working quite a lot and invested also quite a bit of money. Thank you very much.

Sophie CAGNARD: Thank you, Luca. Edouard?

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## ***Edouard Aubin** – Morgan Stanley*

Edouard AUBIN: Sorry. Good morning, Edouard Aubin from Morgan Stanley. So just actually, sorry, to follow up, Jérôme, on YNAP, so exactly what you said on the convergence in business models, so am I right, so basically what you're saying is that we could have a situation where the platforms evolve in a 1P, 3P business model, similar to Amazon, so to speak? Am I right in thinking that you're very early days in terms of the omni-inventory that you describe, number one? Just to follow up on YNAP, a question for Burkhart on the IT, what have you seen so far in terms of the rollout, the benefit of the IT platform at THE OUTNET, and could it lead to a reacceleration of your growth for the division as a whole, as you're going to roll it out to MR PORTER this year? You mentioned that the growth was around low double digits in fiscal '19. I know you don't like to give guidance, but could we go back to a scenario where the division goes back to high teens type of top-line growth? On the cost also, if you wouldn't mind, sorry, give us a little bit of colour on, in fiscal '19, what you've expensed through the P&L on IT investment and also capitalising the CAPEX, and what the phasing should be as you make further investment in fiscal '20 and '21, if you wouldn't mind? So, that was my first question, sorry.

Just a small question for Nicolas, because the problem he has is that he delivers so consistently that he never gets any questions, the desirability of your brand is extremely high in China. If I'm right, I think you're under-indexed a little bit in China versus some of your peers. If you could give us your plans in terms of your rollout in China, is that going to be measured or if you're going to accelerate your growth, I would be curious to know. Thank you.

Burkhart GRUND: I can also let Nicolas answer the questions on the Online Distributors. Do you want to start, Nicolas, or do you want me to-, no, I mean, we're flexible. Well, let me just, okay, on the Online Distributors, so there were a couple of questions you asked, and you know, you're pushing for granularity that I'm not 100% willing to give, as you can imagine, but I'll try to help you. You know if I give you granularity on the Online Distributors cost base, then Cyrille will ask that he has the same speaking time when we explain the granularity of Cartier. No, but joke aside, okay, THE OUTNET, we've spoken about it. You know, the impact, negative, obviously, was from the reduced fulfilment capabilities, obviously, that a big tech/logistics migration entails, and that one has happened. I mean, it's gone down and then it's come back very strongly after we have fixed the migration, you know, these glitches on the tech side. So, we've seen a very strong significant rebound, which also has something to do with customer retention or customer reacquisition. So, that's why I think also the management chose to do it not as a big bang across the four or five businesses that YOOX NET-A-PORTER runs, but to start with one business.

We or they have made the necessary experiences, some positive in THE OUTNET migration, most of them impacting the customers, the customer services, linked around that, and the customer retention in the end. That's why sales obviously went down. Once it was fixed, and that's very encouraging, the sales came very strongly back and have normalised and reached growth rates that we are quite proud of or we should be quite proud of. Now, we're now coming to the next step, which is the MR PORTER migration. There, some of the learnings have flown in, into the way we run the project, first and foremost. Once again, not a big bang, switch on the new system, switch off the old system, do it both on the IT end and the logistics side at the same time, but do it step by step. So, we've done the first switchover in a smaller European market, which has done very, very well, so the learnings have been applied and that seems to work out well. The major migration effort is going to be done, let's say, over the summer, all the way up into the fall, and we expect that, with a reasonable optimistic view, to be successful. All of this is done, and then based on that, we'll start working on the NAP in the second half of the year and the first half of next year, so that's more or less the playbook.

Now, we are quite optimistic, but that remains to be proven, that growth rates will increase, because, once again, this is something to do with a technology offer that benefits customers in the mid to long term. That's why we're going through that, through this exercise, and the platform and the technology level that will come out of it is what we believe will further enhance the very strong and leading position that YOOX NET-A-PORTER has in the market. Now, as to granularity as to tech spend, etc, we haven't touched on CAPEX yet, but as I said, a big part of the CAPEX increase compared to last year was driven by YOOX NET-A-PORTER, so we're a good €300 million above the last year in CAPEX. I would say two-thirds of that was driven by YNAP, and when I say YNAP, it's tech and logistics CAPEX, so you get an idea of the dimension. I said before the acquisition, the YOOX management, that is still around, as you might see, has guided on somewhere in the range of 8% to 12% of CAPEX, so we're in the middle of that range. That's a significant effort that impacts, through the amortisation or depreciation charges, our P&L.

Now, we've talked about the intangibles amortisation in our press release, also in our presentation, it's €165 million. This is here to stay for a while, until the amortisation periods run out, and you know how this is, there are different elements in intangible assets that, in the first years, give you a high level of amortisation, and then, over time, it significantly reduces. In this case, to give you a better idea, this is an eleven-month charge, €165 million, so you top that up to a yearly charge for twelve months, you can do the maths. That will stay with us and will reduce, probably over the next, well, now nine years, all the way to half of that amount, and then will drop, you know, after ten years, all the way down to zero. So, there is a charge that is not a one-time charge, as some of you or your colleagues have written. It's an intangibles amortisation linked to the acquisition of those businesses. Now, apart from that, what has happened at YNAP? Marketing spend has increased, linked to THE OUTNET. Once again, I was talking about acquiring or reacquiring customers, so that has increased marketing spend. That has happened. Tech spend, yes, logistics spend, all linked to that, and then, once again CAPEX drives depreciation spend and that is being recycled or going through the P&L right now. (TC: 01:20:00)

Nicolas BOS: Thank you for your question and for giving me the opportunity to say something, and for your comments on the house. I think what we've been doing with Van Cleef & Arpels in China is exactly what we've been doing historically in the rest of the world. We didn't look at this market in a very specific way, although it might sound strange in our world. We believe that time and integrity and consistency were definitely the best elements we could bring. We opened the first store in 2005, it was a very, very small store in Beijing, in China World, with a partner, and since that, we've developed, kind of, consistently, our presence, but we never develop in the opportunistic approach. We never did specific collections. We never did specific communication campaigns. Of course, we use the tools that are available in China and then we try to interact with communities and with the local culture as much as we can, but really trying to explain the brand for what it is and not trying to adapt it to what we think the market is expecting. After nearly fifteen years, we have actually fifteen stores now in China, so we've grown the network cautiously, but still steadily.

We've seen the appreciation of the house really developing also very steadily, but because we brought exactly what we brought in Europe at the beginning of the 20th century or in the US 50, 60 years ago, which is to try to develop an understanding and appreciation for what we are doing, for the patrimony, for the history, for the craftsmanship. For a brand like Van Cleef &

Arpels, this vision is working well or seems to be working well. Today, we see and we feel quite a high appreciation and a real good understanding of the house. Once again, we've kept an exclusive network, and today, we are much more investing in improving our presence, upgrading our presence rather than developing and opening new stores and going into as many cities as we could. Actually, that first store that we opened in China World in 2005, we just opened a new one replacing, which is of a size which is pretty much the size of the store that we have in Place Vendôme and with the same type of atmosphere and display, that actually, I think, answers to the expectations and the reaction that we see from Chinese customers today. So, it's quite a good journey and we feel it's far from being over.

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## ***Patrik Schwendimann** – Zürcher Kantonalbank*

Patrik SCHWENDIMANN: Patrik Schwendimann, Zürcher Kantonalbank. First question, the Chinese luxury consumer demands are still very good last year, so what's your view on the current luxury consumption in China or also with Chinese tourists? Second question, my favourite question for Burkhart, since many years, operating expense has increased plus 7%, excluding the Internet. What's your best guess here for the current year? Thank you.

Sophie CAGNARD: Thank you, Patrik.

Cyrille VIGNERON: For the Chinese and Chinese consumption, it's very steady. It's growing quite well and we don't see any sign that it would reduce. As you say, we have some different views on the part which is from travelling Chinese, because this is much more linked to currencies and fluctuations. The overall consumption, domestic, linked to luxury goods is increasing and the support from the government for that has both made a reduction on duties, which makes things simpler, and also has a serious impact also on the cost of operation in China, and reduction of VAT. Also, really supporting the local consumption compared to overseas is really fuelling the growth. So, we've seen that at a really high double-digit growth last year, that was double digits last year and is still in the recent months. Since the change of VAT in April, we see it stimulated as well, so we have a very good perspective there for the time being.

Patrik SCHWENDIMANN: Chinese tourism?

Cyrille VIGNERON: So, Chinese tourism is growing in number, and of course, then the purchasing power depends on the value of the renminbi compared to the currencies, Hong Kong dollar, Korean won and Japanese yen. We had, the last year, a relative devaluation of the renminbi, so we met pressure in Hong Kong, and since January, it's been increasing, which is reverting the trend. Numbers of Chinese travelling will soon be 150 million to 200 million, dominantly in Asia and also going to the rest of the world, and the appetite to buy even during trips is still there as far as the purchasing power is there. There are then the hiccups like political tension with Korea and restriction on visas, that can have an impact, and other things like natural disasters or things that make safety perceived as a key concern. So, again, same as currency, there might be some other kinds of hiccups or concerns that may have an impact either on the destination or even on the attitudes towards travel.

Patrik SCHWENDIMANN: Thank you, okay.

Burkhart GRUND: Okay, on the expense side, Patrik, I understand you tried to guide me towards guidance, which is, as you know, difficult to do. Predictions are the most difficult when they treat about the future, right? Let me just, as a starting point, give you some guidance on, not guidance, but some better understanding or granularity on what has happened in fiscal year '19. So, I would say if you look at the expense base growth, and, you know, we talk about it and we have talked about it in the past, that if you go through an exercise, let's say a budget exercise in our business or in our part of the industry, the budget exercise is more about cost containment than about cost cutting, right? The nature of our business, if you look at it, is a fixed cost business. We run close to 1'100 stores around the world. If you look at a store, the cost base is more or less fixed. We have a few percentage points that are variable expenses, but I would say the overwhelming proportion of running a retail store is fixed cost.

50% of our cost base, more or less, is linked to staff cost, personnel expenses, and then the big elements following right after are obviously leases, lease commitments. Starting this year, as you all know, we're going to show the IFRS 16 impact on our balance sheet. We're talking somewhere in the ballpark number of €3 billion capitalised lease commitments at the end of fiscal '20 that we're going to show, or even for the half-year. So, lease commitments or leases have a tendency to inflate as well. Then, we have the next biggest category, is the expenses that are linked to running a boutique. Just to give you a better understanding of the granularity of our cost base in general terms. Now, what have been the elements that have driven our cost base higher last year? I would say it's three elements. Some of them are pointed out very clearly, or I'd say most of them are pointed out very clearly in our presentation and also in the press release we published this morning. The three elements, it's an increased spend in some areas of our business. I would point out the Jewellery Maisons and I would point out the Fashion & Accessories Maisons, where we've increased our spend on the retail network. The Fashion & Accessories, it was more about opening those stores, both internal and franchise stores.

The Specialist Watchmakers, as I said, all their cost base is flat, but they have opened stores, eleven stores internal and then I think seventeen external franchise stores will also participate in the capital spend. Then, on the Jewellery Maisons, apart from three openings at Van Cleef, it has been a stable network, even slightly shrinking on the Cartier side, where we have worked or the Cartier colleagues have worked on, you know, major projects upgrading the quality of it. So there's increased, I would say, capital expenditure in the retail network, and obviously, as you know, that gets recycled through the P&L, through the depreciation impact that that generates, so that's the first element. Second element is A&P spend. We have increased communication expenses at the Jewellery Maisons and at the Fashion & Accessories Maisons. Now, if it's any relief, the spend has been budgeted higher and we, throughout the year, have managed it below that (TC: 01:30:00) budgeted level, but nevertheless, it has been an important increase compared to the previous year, for the many good reasons that our Maisons have.

The third cost element is the tech spend. I've spoken about it for YNAP, but we have a big tech operation, which is more the ERP side on our side, meaning the former Richemont Maisons side, where we have actually continued investing, because we're, right now, rolling SAP out in mainland China. As you can imagine, with close to 200 stores, that's quite a significant project that we have also undertaken this year. So, these are, I'd say, the three elements that have driven the cost base expansion. Just from a CFO perspective, I'm very happy with the work that all our colleagues did in the existing like-for-like network, where costs have remained under very good control or cost increase has remained under very good control. That's always a worry when you have quite a big, even highly qualitative retail network, that if your cost base consistently increases for an existing network, so that's a big point of vigilance and that was under very good control.

Patrik SCHWENDIMANN: Thank you, but as a best guess then, we should expect a similar increase or less for the current year? Tell us about, for example, store openings.

Burkhart GRUND: As a best guess, the cost growth ratio would be below the sales growth ratio.

Sophie CAGNARD: Thank you, Patrik. Actually, we're running out of time. We've got a number of questions through the website, so I'll pick three of them. Since you're on guidance, so to speak, could you give some colour, Burkhart, maybe on CAPEX for fiscal year '20 and '21, please? I think the other two questions that maybe could be covered relates to Dunhill. Investors would like management to comment on Dunhill's performance and whether there's a possibility that it may break even and when. The last point I think was more or less covered already by Burkhart, which is whether you can elaborate on how much more downsizes were done as far as the watch multi-brand retail stores are concerned, how much was done in terms of value, which you sort of alluded to, and how much more is to be done in fiscal year '20? I think that will complete the Q&A session. This has been quite long.

Burkhart GRUND: Okay, let's go for the CAPEX, because that is the element that will remain longer in our books, and I'll be consistent with what we've said last year. Once again, a bit of colour, we've had, when we were running through, I would say, investment cycle on the Specialist Watchmakers' side and on the Jewellery Maisons' side, mainly Cartier, when we're running through an investment cycle on the manufacturing side, we have had, for some years, I would say all the way up to 2015, CAPEX at a maximum of about 7% on sales. This has now normalised on the Maisons' side. Last year, we were at a level of 4.4% of sales, which I think personally would be the low end. I'm much more, let's say, comfortable at about a 5% CAPEX spend on sales for the Maisons, and why am I saying there comfortable? You know, when you run a store network and you want to offer the customer experience, then you have to have stores that are not only well built and proper, but that offer the customer experience that customers are looking for in a very competitive world, to be honest.

What we're looking there is we're playing around, it's a bit flippant to say that, but we're playing around on different Maisons on, I would say, novel approaches to be more nimble, more flexible in the CAPEX we spend, so that you could, or can much quicker adapt your boutique environment with less additional spend to more flexible setups, put it that way. So, from a financial perspective, I'm quite happy with a 5% CAPEX spend for the Maisons. On the YNAP, Watchfinder Online Distributors' side, being a tech business, you know, CAPEX spend tends to be higher in periods of intense work around re-platforming, so as I said, we're round about a 10% last year. I think we should stay at that level for a while, probably two to three years into the future, and then if we do things well, that should start to level off or decline as a percentage of sales. So, that all would still fit comfortably in the 5% to 7% range on the overall Group sales that I've quoted before. This fiscal year '19, we've ended at 5.9% on sales, which sits more or less smack in the middle of that range.

Jérôme LAMBERT: I will first address the points related to Dunhill. You all remember that Dunhill, three to two years ago, has been through a massive restructuration plan. That plan was about closing countries and closing retail activities. We engaged a new team roughly eighteen months ago to two years at Dunhill, led by a real expert of that activity, Andrew Maag. Andrew has been rebuilding a complete team, firstly, a complete creative team. With Mark, he has been capable to design very attractive collections, particularly in the ready-to-wear, where we see already a very good result. In that what we call phase two after restructuration, the name of the game for us is like-for-like growth, and it was what was written on the roadmap of Andrew to demonstrate that the company was capable to recreate like-for-like growth. We can say for the last twelve months consecutively, the company has been enjoying like-for-like growth, which is, as we know in our industry, always a tough challenge, particularly after a big restructuration time. So, that's where we are with Dunhill. Their historical territories of Japan, UK are expanding. That's also the case now in China, so that's indeed promising news.

When it comes to our playbook or roadmap for the Specialist Watchmakers, that was the other part of the question, we use, I would say, with the management team, that word of roadmap, of playbook, because in somehow, Specialist Watchmakers are following the roadmap and the playbook that Cartier a few years ago took when it came to cleaning the market, focusing on iconic products and recreating desire and demand and also building the future. So, I would say that when it comes to qualitative improvement of the network, I would say we come slowly to the end of that process, that the agenda with our partners in wholesale is more about partnership and is more about how we can bring together, as the Maisons, in best conditions. Burkhart mentioned that we opened external boutiques, so-called franchisees, so last year, roughly 20 first franchise boutiques were opened, which is a good underlining demonstration of the effort and the positive results of these new partnerships. When you open a franchisee, by definition, you have to be two, so you have to be equally believing in what you are doing, believing in the Maison's future and believing in our capability of our partners to build the future.  We're very happy now that we could turn those two first pages and then we can concentrate on developing a positive momentum along with this partnership.

Let me finish on a positive note in that aspect.  It is that, and Cyrille commented it, about the Chinese clientele.  All the very positive factors this year for the watch were the comeback of growth in local clientele, which is as well, in what we believe when we speak from a sustainability (TC: 01:40:00) of business model very, very important. It explains as well why this capability of opening a franchisee and creating a new partnership, I would say, is built on new blocks, not only the very attractive impact that our collection can have on tourist clientele in only one part in particular, but also now on solid demand.  It's very correlated as well to the effort done by the Maisons in shaping collections that are relevant on a global level and in particular from a local perspective.  Thank you.

Sophie CAGNARD:  Thank you, Jérôme.  So, this concludes our results presentation.  Many thanks for your time, and for the ones who kindly came, refreshments are waiting for you upstairs.  Thank you.

Burkhart GRUND:  Thank you very much.

Jérôme LAMBERT:  Thank you, Sophie.