Richemont

Interim Results FY18

10 November 2017 / 9.30am

Final Transcript by Take Note

Dino: Ladies and gentlemen, good morning or good afternoon. Welcome to the Compagnie Financière Richemont, Fiscal Year 2018 Interim Results Presentation. I'm Dino, the Chorus Call operator. The conference must not be recorded for publication or broadcast. At this time, it's my pleasure to hand over to Mr Burkhart Grund, Richemont Chief Financial Officer, and Ms Sophie Cagnard, Group Corporate Communications Director. Please go ahead.

INTRODUCTION : Ms Sophie Cagnard, Group Corporate Communications Director

Sophie CAGNARD: Thank you, Dino. Good morning. Good morning, everyone. Burkhart Grund, Chief Financial Officer, and I would like to thank you for joining the audio webcast today to review Richemont's results for the six months ended 30 September 2017. We would like to remind you that the press release and financial presentation can be downloaded from Richemont.com, and that the replay of this audio webcast will be available on our website today at 3:00pm, Geneva time. Before we begin, may I draw your attention to the disclaimer on our presentation and press release regarding forward-looking statements, as defined in the United States Private Securities Litigation Reform Act of 1995. First, Burkhart will take you through the highlights, before reviewing Group sales. I will then present the key developments of the Maisons. Thereafter, Burkhart will walk you through the financials and conclude. This presentation will be followed by a Q&A session. I will now hand you over to Burkhart.

PRESENTATION : Mr Burkhart Grund, Group Chief Financial Officer

Burkhart GRUND: Thank you, Sophie. Good morning to everyone listening. Thank you for your time. Today, Richemont is reporting a good set of numbers overall, as pre-announced in October. These figures reflect a generally improved macro environment, as well as easier comparative figures and favourable movements in period-end foreign exchange rates. The past six months have been characterised by growth across all segments, regions and distribution channels, as well as double digit increases in jewellery and watch sales. In total, sales increased by 10% at actual exchange rates and 12% at constant exchange rates. Excluding the inventory buy-backs in the prior year period, Group sales rose by 8% at constant exchange rates. Operating profit grew by 46% to €1.166 billion, reflecting improved sales and gross margin, as well as controlled growth in operating expenses. Excluding one-time items totalling €249 million in the prior year period, operating profit increased by 11%. The operating margin consequently rose to 21% of sales. Benefiting from a reversal in net finance income and from the strengthening of the euro versus the Swiss franc between September 2016 and September 2017, profit for the period increased by 80% to €974 million.

Inventories decreased and cash flow from operations increased to €1.108 billion. Net cash, after the payment of €918 million of dividends this month of September, rose to €4.61 billion. Let me now walk you through the Group sales performance, first by region, then by distribution channel, and then by product line, with numbers, as always, expressed in constant currencies.

I start with our sales in Europe, which remains our second-largest region, with 29% of Group sales. Sales were up by 3%, partly impacted by the strength of the euro. Performance was varied within the region. Sales were stable in France, our fourth-largest market in the world, whilst the UK continued to enjoy double digit growth. Most other major markets posted moderate growth.

Let us now move to Asia Pacific, our largest region, with 39% of Group sales. Sales in the region increased by 25%, driven by double digit progression in most markets, led by mainland China, Hong Kong, Korea and Macau. A weaker Hong Kong dollar and easier comparative figures following the prior year period's inventory buy-backs in that market supported the return to double digit growth of Hong Kong. All product categories posted growth, with jewellery and watches recording particularly strong year-on-year increases.

Let us now look at the Americas region, which recorded a 10% sales increase, driven by the strong performance of jewellery at Cartier, Van Cleef & Arpels and Piaget. Sales benefited from the reopening of the Cartier flagship store in New York in September 2016, and the opening of Van Cleef & Arpels' Miami Design District store in March 2017. Peter Millar also recorded good growth. Overall, the region contributed 16% of Group sales, with the US remaining our largest market, before China, with Hong Kong coming in at number three.

Let us now turn to Japan, where the 7% growth in sales was driven by higher domestic and tourist spending, benefiting from a weaker yen, as well as soft year-on-year comparative figures. Jewellery and watches led the growth in sales. This has been supported by the reopening of the Cartier flagship store in September 2016, and by the new Piaget and Van Cleef & Arpels Ginza flagship stores, opened in November 2016 and April 2017 respectively. The country generated 8% of Group sales.

Finally, let us review the Middle East and Africa region, which represented 8% of Group sales. Impacted by geopolitical uncertainties in the region, sales progressed by 3%. The good performance in watches and writing instruments was partly offset by weak sales in the other product categories.

Let us now review sales by distribution channel. The contribution of retail sales through the Maisons' 1,115 directly operated stores has increased from 58% of Group sales a year ago, to 59% now. All regions posted higher retail sales, with Asia Pacific, Japan and the Americas recording double digit growth rates. Overall, retail sales grew by 13%, led by watches and jewellery. Richemont's wholesale business, which includes sales to franchise partners, increased by 11%, with all major product categories showing growth. Watch and clothing sales registered double digit improvements, benefiting from the non-recurrence of the inventory buy-backs of the prior year period. Excluding these initiatives, wholesale sales would have been broadly in line with the prior year period. Most regions recorded growth, with Asia Pacific enjoying the strongest progression.

Lastly, let us now move to the sales breakdown by product line. All major product categories showed growth, with double digit progression in jewellery and watches, which together account for 82% of Richemont's sales. The jewellery performance was fuelled by Cartier, Van Cleef & Arpels and Piaget. The strong increase in watches was partly supported by the non-recurrence of the prior year period's inventory buy-backs. Clothing posted good growth, and Leather, a more measured performance, with a good contribution from Montblanc. Over to you, Sophie.

PRESENTATION : Ms Sophie Cagnard, Group Corporate Communications Director

Sophie CAGNARD: Thank you, Burkhart. The Jewellery Maisons segment, which includes the total sales of the Cartier and Van Cleef & Arpels Maisons, including Cartier watches and leather, recorded a strong operating margin at 31%. The Specialist Watchmakers segment, which consolidates the results of eight watch Maisons, saw their operating margin improve to 19%. The other businesses returned to profitability.

Let's look at the reported sales and operating results by segment in more detail. We start with the Jewellery Maisons. They represented 56% of Group sales, and 77% of Group contribution before corporate costs. The Jewellery Maisons reported a 15% improvement in sales, with good performance in jewellery and watches, and progression in all regions. The higher sales partly reflected the non-recurrence of the prior year period watch inventory buy-backs at Cartier, and also the enduring appeal of Cartier's and Van Cleef & Arpels' creations. As a result, both Maisons enjoyed double digit sales growth. Overall, the Jewellery Maisons' operating results improved by 30%, and operating margin increased by 360 basis points to 31%. This is a return to the level broadly in line with the prior year period, excluding the previously mentioned initiative.

Let's look at the main developments over the past six months. As usual, we start with Cartier, which reported double digit growth in sales in most regions. Asia Pacific was particularly strong, partly due to the non-recurrence of the prior year period's inventory buy-backs. (TC: 00:10:00) Excluding the impact of such initiatives, Cartier watch sales grew overall, supported by strong retail sales, which benefited from the optimisation of the existing collections, the introduction of new references, and the six-month impact of its renovated flagship stores on New

York's Fifth Avenue and in Tokyo's Ginza district. Of note is the particularly good performance of the Tank, Ballon Bleu and relaunched Panthère collections. The Maison also recorded strong jewellery sales, notably from the Juste un Clou and Love collections. Cartier's new high jewellery collection, Résonance, was unveiled this summer.

Let us now turn to Van Cleef & Arpels. The Maison reported double digit sales growth, with strong progression in most regions. The growth in jewellery was broad-based, from the highest price points with the newly launched Le Secret collection, to more accessible price points with the Perlée, Alhambra, and relaunched Frivole collections. The retail network saw the opening of the new flagship stores in Tokyo, Ginza, and the addition of internal stores in Toronto Yorkdale and Munich.

Let us now move to our Specialist Watchmakers, where sales increased by 6%, with improvements in both the retail and wholesale network, and retail outperforming wholesale. Performance was varied among the Maisons and the regions, led by good growth in Asia Pacific. The performances of Piaget, Roger Dubuis and Officine Panerai were to be noted. Operating results recovered to €294 million, reflecting an improvement in sales, the non-recurrence of inventory buy-backs and fixed cost discipline. Consequently, the operating margin for the period increased to 19%.

Let us start with Piaget, which delivered strong growth across regions, product lines and distribution channels. The Limelight Gala and Polo S watches and Possession jewellery performed well. At Vacheron Constantin, growth was driven by Asia Pacific, as well as by the Patrimony and Overseas collections. Lange & Söhne posted varied regional performance. Lange 1, part of Lange & Söhne's iconic collection, and Saxonia new references met a good response. Roger Dubuis recorded a strong performance in most regions. The Excalibur collection was successfully enriched with the new Excalibur Aventador. At Jaeger-LeCoultre, sales were broadly in line with the prior year period, driven by retail, and supported notably by the performance of the Rendez-vous and Master Ultra Thin collections. At IWC, sales growth was led by Asia Pacific and the successful relaunch of the Da Vinci collection, including references for women. Now Officine Panerai, where sales increased in all regions, led by Asia Pacific. Growth was broad-based across collections, with the Luminor collection performing particularly well.

Finally, Baume & Mercier. The Maison experienced growth in the Middle East, and challenges elsewhere. The Clifton collection was enriched with the addition of an elegant sport line, the Clifton Club.

Now let us move to the Other businesses, which posted a modest 3% increase in sales. The good growth recorded by Asia Pacific and Europe was partly offset by slowdowns in Japan and the Middle East. In addition, the period under review only included three months' sales of Shanghai Tang, which was sold on the 30th of June. The largest contribution, in value terms, to the sales increase was driven once more by Montblanc. Most Maisons showed higher sales, including Alfred Dunhill and Lancel, which grew. Overall, the Other businesses returned to profitability. In the prior year period, the operating results were affected by one-time items of €67 million, stemming from the inventory buy-backs, as well as by the optimisation of certain retail and wholesale locations.

Results among the Maisons were mixed. Let's look in more detail at the developments of some of them. We'll start with Montblanc, which recorded good sales performance, with progress in most regions and product lines. Writing instruments showed muted growth after posting strong growth in the prior year period. Solid momentum in leather goods was maintained with the new Sartorial Jet and 4810 Westside collections. Watches performed well, fuelled by the new Summit smartwatch and rejuvenated TimeWalker collection. The acceleration of the deployment of the retail concept launched last year, now in 56 internal stores, contributed to higher retail sales.

Let us turn to Chloé. Chloé enjoyed good media response to the first show of new Artistic Director Natacha Ramsay-Levi in September. Leather goods, the recently opened store on New Bond Street in London and the online flagship store drove the increase in retail sales. The Maison continued to deploy its new retail concept across its 185 internal and franchise stores.

Finally, Alfred Dunhill. Sales returned to growth, partly favoured by easy comparatives after the inventory buy-backs in H1 of last year. The sales progression was driven by Asia Pacific, clothing and online sales. Under new Creative Director, Mark Weston, the menswear offer was revisited and introduced in stores in September. This concludes the brief review of the Maisons. I'll now hand you back to Burkhart.

PRESENTATION : Mr Burkhart Grund, Group Chief Financial Officer

Burkhart GRUND: Thank you, Sophie. Let me walk you through the rest of the P&L, starting with gross profit.

The 13% progression in gross profit led to a gross margin of 65.4%. The 190-basis point improvement in the gross margin versus the prior year period is largely explained by the non-recurrence of the prior year's inventory buy-backs and improved manufacturing capacity absorption, partly offset by a negative 20 basis point foreign exchange impact.

Let us now look at our operating expenses by category. Selling and distribution expenses, which accounted for 60% of total operating expenses, rose by 3%. On a constant exchange rate basis, S&D expenses rose by 5%. This increase is primarily due to higher variable rental costs, notably in mainland China and other Asian markets, where rentals tend to be indexed to sales. Communication expenses were broadly in line with the prior year period and represented 8.6%

of sales. Administration expenses grew by 5%, or 7% on a constant exchange rate basis. This growth mainly reflected investments in ERP deployment and digital initiatives. As a result, the growth in net operating expenses was contained to 3% at historic rates, and to 5% at constant exchange rates. Net operating expenses accounted for 45% of Group sales, compared to 48% a year ago. This reflects good cost control, given the continued investments in IT. Reported operating profit improved by 46% to €1.166 billion, with an operating margin at 21%. Excluding the €249 million one-time charges relating to inventory buy-backs and distribution channels' optimisation in the prior year period, operating profit for the half-year increased by 11%.

Let us now review the P&L items below operating profit, starting with finance income. For the period, monetary items generated an €84 million gain, thanks to favourable movements in period-end exchange rates. This compared to zero in the prior year period. Our hedging programme recorded a €91 million loss in the prior year period and a €5 million gain for the period under review. This represented a €96 million increase. The combination of these factors led to a positive €181 million swing.

Let us now turn to the profit for the period. It increased by 80% to €974 million, as a result mainly of a higher operating profit and the €181 million positive reversal in net finance result. Our taxation charge rose to €248 million, largely reflecting the growth in operating profit. Our effective tax rate amounted to 20%, a level which we anticipate to hold for the full year. (TC: 00:20:00)

I would like now to focus on our cash flow from operations. Cash flow from operations amounted to €1.108 billion. The €442 million year-on-year improvement, or 66% increase, reflected the previously mentioned operating profit growth and a lower absorption of cash for working capital as a consequence of decreased inventories. An overall inventory decrease of €110 million generated additional cash, compared to an outflow of €31 million in the prior year period.

Gross inventories represented 20 months of cost of sales, an improvement over the 24 months of cost of sales in the prior year period. This underlines the continued discipline of our Maisons in the management of our inventories, as well as increased sales. The receivables portfolio remains healthy at 94% current. The cash settlement of derivative contracts generated an €8 million outflow, compared to a €60 million outflow in the prior year period, leading to a €52 million improvement. As a result, working capital needs amounted to €360 million, €58 million below last year.

Let us now turn to gross capital expenditure, which amounted to €161 million, representing 3% of Group sales, against 5% a year ago. Although this amount is down on the prior year period, the cash outflow for the year as a whole is likely to be similar, in the region of €600 million. Half of the gross expenditure related to point-of-sale investments, including internal and franchise boutiques and corners. Investments were focused primarily on store renovation and relocation. The most notable projects were the Van Cleef & Arpels flagship store in Tokyo Ginza, Cartier store in Cannes, and Chloé store in London New Bond Street. Equally worth mentioning are store openings for most of the Specialist Watchmakers in Toronto Yorkdale. Montblanc continued the roll out of its new retail concept, with eighteen additional locations in the period. 14% of the gross expenditure was related to manufacturing, predominantly reflecting the capitalisation of Research & Development expenses.

Other investments accounted for the remaining 37%. They included the purchase of distribution rights in the Middle East, the ongoing renovation of Richemont's central logistics centre at Villars-sur-Glâne in Switzerland, and continued IT infrastructure investments, with the deployment of our ERP Gemini project and digital initiatives.

Let us now turn to free cash flow. Free cash inflow amounted to €205 million, a level broadly in line with the prior year period, despite the acquisition of a stake in Dufry, a travel retail specialist listed on the SIX Swiss exchange. This achievement reflects a much higher generation of cash from operations and lower cash tax payments.

Now our balance sheet, which remains very strong, with equity accounting for 76% of the total. Net cash rose to €4.61 billion at the end of September 2017, slightly above the level of €4.55 billion at September 2016. Compared to 31 March 2017, the net cash position is €1.181 billion lower, reflecting a cash outflow primarily relating to the annual dividend payment.

Let me wrap up the financial review with some concluding comments. In this morning's statement, our Chairman, Mr Rupert, commented that Richemont has embarked on a transformation journey to address the rapidly changing needs of luxury consumers and stay relevant to customers in a digital world. We are focusing on customers, ensuring seamless experiences across our stores and digital presence, and enhancing product quality, design and creativity. We will continue to selectively invest, particularly in digital initiatives. On that front, we are looking forward to welcoming our new CTO, who will join in January. We are also finalising the integration of certain of our Fashion & Accessories Maisons into the Group's shared services. This should improve consistency, efficiency and leverage over time. For the second half of the financial year, Richemont faces demanding comparative figures and a volatile exchange rate environment. As a reminder, in the second half of last year, operating profit benefited from a €178 million pre-tax real estate gain.

The Group has a leading position in the branded jewellery market, where there is good demand for the quality craftsmanship of our creative collections. Cartier, Van Cleef & Arpels and Piaget are well positioned to capitalise on the growth potential of branded jewellery, whose share is still under-represented within the total fine jewellery market. The luxury watch market, in general, has shown signs of improvement, though the level of inventory in the wholesale channel is not at the level we would like to see it, with implications on the pace of future growth. This being said, our solid balance sheet gives us a competitive advantage. It provides the necessary flexibility to support our Maisons throughout our transformation journey, and allows us to act with the best long-term interests of the Group in mind. Once more, we would like to reiterate our confidence in the long-term prospects of our Maisons, which enjoy distinctive heritage and strong brand equity. Thank you. Sophie and I will now take your questions.

QUESTIONS AND ANSWERS

Dino: The first question is from Zuzanna Pusz from Berenberg. Please go ahead, madam.

Zuzanna Pusz *– Berenberg Bank*

Zuzanna PUSZ: Good morning. I have three questions, please. First of all, on the general environment, I think it was mentioned in the morning, to the press, that you think that the inventory levels are still relatively high in the system. So I was just wondering if you could share with us generally your thoughts on the situation in the market, maybe also specifically by region. Do you feel like other players also continue to work on their inventory levels, or is this something that only Richemont is focusing on? A second thing, so my second question would be about the retail business. Clearly, the environment has substantially improved, and it also looks like in September, you had an acceleration in growth in retail, but I was just wondering if you could maybe share with us the actual underlying sell-out trend. I understand there's been a substantial scope effect that we've seen year to date, so I guess just to give us an idea of what we expect in the second half, when the store openings annualise. Then finally, on Europe-,

Sophie CAGNARD: Zuzanna, I think we're going to try to stick to two questions maximum, please.

Zuzanna PUSZ: Okay. , sorry, then these are my two questions then.

Burkhart GRUND: Okay, thank you for the questions. Let's start with the first question on the watch business. Let me try to give you a bit of a broader perspective on that. We've said in the past that, I mean, if we look at the two channels, the retail channel, for us, clearly is always a leading indicator, and the time lag might differ, depending on the inventory situation in the wholesale channel. We have experienced close to double digit sell-out growth of watches in our own retail channel, which we take as a positive sign as to the creativity, the quality, and also the competitive price positioning of our watches. The situation in the wholesale channel, in our assessment, is different. We still see inventory levels which are above normal for what we would consider as an adequate level. We cannot really comment on what our competitors are doing in the market, because we also focus clearly on the relative performance and positioning of our Maisons. The previous year's period has seen inventory buy-backs, we've talked about that last year and for the full year as well. If you back those out, we have, on the wholesale side, more or less a business trend which is in line with the previous year, broadly in line.

I might remind you that we have said that we focus clearly on normalising the inventory situation in the trade for our brands, and in order to be able to do that, we also focus on sell-in, which has to be below sell-out. With that, the inventory situation will normalise over time. We have seen picked up or increased sell-out also at our wholesale partners, but still, the inventory situation is evident in the market. (TC: 00:30:00) The second question, you were referring to retail and retail sell-out, we have said that overall, jewellery and watch sales performed strongly, and that also translates into high single digit like-for-like sales increases in our own store network. So I think that's, once again, an indication of the strength of demand, both for watches and jewellery, in our own network.

Zuzanna PUSZ: Perfect. Thank you very much. Just one clarification, it's a follow-up, so that we don't count it as my first question, on the inventories then, how much of a long time do you think it will take for the inventory levels to normalise?

Burkhart GRUND: Well, that depends on sell-out, to be clear. That refers, once again, only to the situation of our brands. We cannot comment on the competition.

Zuzanna PUSZ: Okay, perfect. Thank you very much.

Sophie CAGNARD: Thank you, Zuzanna. Next question, please?

Dino: The next question is from Mélanie Flouquet, JP Morgan. Please go ahead.

Burkhart GRUND: Mélanie, go ahead.

Sophie CAGNARD: Hello, Mélanie.

Dino: In that case, we will take the next question from Mr Thomas Chauvet, Citi. Please go ahead.

Thomas Chauvet *– Citi Investment Research*

Thomas CHAUVET: Good morning, Burkhart and Sophie. Two questions, please. The first one, if we are on the operating leverage in the first half, and if we strip out all the one-offs of last year, inventory buy-back, Dunhill, etc, you didn't seem to have much operating leverage in the first half, that's about 11% EBIT growth. I think that's about 120 bps margin improvement underlying. Consensus expectations for the rest of the year and next year suggest a strong improvement in operating leverage, so can you perhaps give us some guidance on gross margin OPEX for the remainder of the year, for next year as well, so we understand how you may be able to achieve this trend, which as I said, is an acceleration in improvement in operating leverage in the second half of the year and next year, in a, as you said, more volatile demand environment and FX is going against you, at least on the top line?

Secondly, with today's appointment of the COO, Jérôme Lambert, and Head of Specialist Watches, Emmanuel Perrin, Mr Rupert said you have the right management team to address industry challenges. Can you perhaps define what you think are still these challenges for the Group in the next, you know, two, three years, and what other adjustments to the business models you need to do, be it maybe more buy-back of inventory, maybe more downsizing of production capacity, or even distribution? Since back in May, you said there was no need to rationalise distribution. That seems a little bit counterintuitive to me, given the subdued demand underlying in watches, excess inventories, etc, and so any comments on further downsizing of the business model would be appreciated. Thank you.

Burkhart GRUND: Okay, Thomas. Thank you for the questions. Well, you know, we don't guide on the full year, and I think we clarified that in the month of May, and my Chairman, who is certainly listening in, will certainly disapprove in no uncertain terms if I start doing that now. Let me then jump to the second question, which is relating to the management changes. I think if you look at the appointments both of Jérôme Lambert as the Chief Operating Officer, and the appointment of Emmanuel Perrin, who will join the Senior Executive Committee, responsible for the Specialist Watchmakers' distribution strategies, I think you see a bit of a sharpening here of the organisation and the general set-up. If you look at it, you now have three senior executives, Mr Lambert, Mr Vigneron and Mr Bos, running or managing the Maisons we have. Mr Lambert will be supported, for the specialist watchmakers, in this task by Mr Perrin, Emmanuel Perrin, and then you have, clearly, three functions, especially human resources and technology, with the new CTO who will join in January, plus finance supporting and guiding the business.

So I think that that clearly is a more sharpened or focused organisation, going forward, to address the challenges. Now, the challenges, and what we've said in the recent past, clearly short term, even mid-term, are, I would say, twofold. So first of all, we are focusing, and that has been made clear through the appointment of Emmanuel Perrin, we're focusing on the distribution model for our Specialist Watchmakers, who, as you might know, traditionally have been wholesale only, and in the last five years, have started to build their own directly operated store network, and are now facing an additional challenge, which is the e-commerce distribution, which is starting to disrupt, for the watch industry as a whole, the business model. So this is a challenge we are working on right now, and that blends into the greater challenge that the industry is facing, which is the omnichannel challenge. You know, the thinking within Richemont is evolving.

If you look at it, the way it has been traditionally done, the focus was looking from the inside out, saying, 'Well, internal, we have a wholesale channel, we have a retail channel, we have an e-commerce channel,' and we tried to manage those separately with resource allocation, especially inventory, to each of those three channels. Now, if you step back and think this through, this probably is a model that is a model of the past, because the customer of today does not share our point of view on that. He or she, mainly she, wants to acquire a product when, where and how she wants, and that means that for a customer, the experience and the road to purchase, so to say, counts, and he or she is not thinking about where they are buying these products. For them, wholesale, retail, e-commerce does not exist as a separate channel, but for them, it's all part of the same experience. It has to be transversal, it has to blend in, so that is, I would say, the much bigger challenge that the industry is facing, and we are no exception to that.

Let me just comment on one point you mentioned on the distribution side. We have said in the past, and I think you were referring to that, that we were not managing actively a store closure programme in the wholesale channel. What we have stated, at the same time, is that we believe the traditional wholesale trade, especially in watches, will, over time, disappear. We added, this is not a new phenomenon. We have seen that happening in other parts of the luxury goods industry. For example in the pen business, the pen specialist business, or in the leather goods business, where we are leather goods specialists, we have seen those trends before, and we think this applies as well, going forward, to the independent retail trade in watches. So that's just as a matter of clarification.

Thomas CHAUVET: Thank you. Just maybe rephrasing my first question then, I understand you won't provide gross margin cost guidance anymore, but are you satisfied with the level of operating leverage you had in the first half, and how should we think about cost inflation? 5% constant FX cost inflation for Richemont, is that the new normal from here? Thank you.

Burkhart GRUND: No, listen, what we said in the past, once again, just as a reminder, we have said that if we look at a new normal sales trend, which can be anywhere between, you know, mid-single digit sustainable growth in a normal year, to high single digit in a good year, to probably zero in a bad year, we have said that expense growth has to respect the golden rule, meaning it has to be below sales growth, so that we're able to produce leverage. (TC: 00:40:00) I think that has been the case. Sales historic rates rose by 10% and expense growth has been 3% or 12% at constant, and 5% for expense growth, so I think we have produced leverage out of that. As a result, adding then the exceptional one-offs we had last year, we have an increase of the operating contribution of 46%, underlying 11%.

Thomas CHAUVET: Thank you, Burkhart.

Sophie CAGNARD: Thank you, Thomas. Next question, please.

Dino: The next question is from Helen Brand, UBS. Please go ahead.

***Helen Brand** – UBS*

Sophie CAGNARD: Hello, Helen.

Helen BRAND: Hi, good morning. Hi, Sophie. Hello, Burkhart.

Burkhart GRUND: Hello. Good morning, Helen.

Helen BRAND: Hi, morning. So just two questions from me then, I'll stick to two. First of all on price mix, which we know had been coming down a little bit over the last couple of years, are you now happy with the pricing architecture of the watch category across your brands, so thinking about a mix perspective there? Secondly, it looks like you may have taken some small price increases in some regions in September, after the recent euro strength. Can you confirm that, and should we expect any more price increases going forward? Secondly, just on the gross margin, you said you benefited from better manufacturing.

Burkhart GRUND: Is that one question?

Helen BRAND: That's one question, yes. My second question, if I can, was just on gross margin. You said you benefited from better manufacturing absorption there. Where are you now on capacity utilisation, relative to the lows, and is there more improvement to go here? Thank you.

Sophie CAGNARD: Thank you, Helen.

Burkhart GRUND: Okay, so I will respond to your three questions. Well, price mix, I mean, we have that question quite often, and let me just repeat what we usually answer, and that applies also for this time around. It does not really make a huge difference for us at which price points we sell, because gross margins or commercial margins, for most of our product categories, are more or less aligned. There are some exceptions that we also pointed out. For example, if you look into the, you know, in one segment of the jewellery market, the bridal business, margins are a tad lower, because you cannot really market the creativity of the brand on a wedding band. A wedding band looks like another wedding band, so that tends to be more, I would say, a commodity approach. So prices are more in line, a bit lower than on the rest of the lines, but it does not really have a significant impact. So price mix, you know, between the different price points does not really make a big difference for us.

We are quite satisfied with the way, for example, if you look at the Jewellery Maisons or if you look at Cartier and Van Cleef, the high price points have been selling and the entry price points have been selling, on different materials, on different collections, so we're quite happy with the overall, you know, spread across our price points. For the margin, mix does not make a big difference, and the positive effect we have had, especially for the Specialist Watchmakers and Cartier, coming out of the mix, which has shifted more to steel watches now, a bit more, we have seen that in the manufacturing cost absorption, which actually has had a positive impact on the gross margin this year. So there is a link between your first and your third question there. The price increases you have seen are part of a regular pricing scheme that we have, which is fair pricing for our customers around the world. Now, if exchange rates move with a certain time lag, we adjust both ways, be it up, be it down, so that we can assure our customers that around the world, they will be able to buy the same product at the same price around the world.

So they are tactical increases and decreases that we regularly do. That is nothing new, that is nothing out of the ordinary.

Helen BRAND: Great. Thank you very much.

Dino: The next question is from Mélanie Flouquet, JP Morgan. Please go ahead.

Mélanie Flouquet *– JPMorgan*

Mélanie FLOUQUET: Yes, sorry. I'm trying again. My apologies. My line got cut.

Burkhart GRUND: What happened? You dropped out, Mélanie.

Mélanie FLOUQUET: They dropped me. They are probably scared of what I'm going to ask about gross margins. No, I'm kidding. I have two questions, and they are not on gross margins. The first one is on your store plans. You know, this year, this first half had a net closure of stores, although some of this was Shanghai Tang. I was wondering whether you can share with us whether there are big projects, either in terms of openings or refurbishments, over the course of the year ahead. Clearly, for instance, even the Ginza and the New York stores, flagships at Cartier had a big swing factor on the numbers in the last two years, so I was wondering whether there are any projects we should be aware of in the next eighteen months, either openings or refurbishments. The other question is on CRM and ERP costs that seem to have ramped up quite meaningfully in the first half. I was wondering whether we should expect this to continue, and notably in the face of you will have very tough comps on this specific line in the second half, given the real estate gain. I wanted to get a better understanding of how we can model this line. Thank you.

Burkhart GRUND: Can you just rephrase the first part of the question? I didn't really get it. It's probably me.

Mélanie FLOUQUET: On the stores. There was a big investment-,

Burkhart GRUND: Yes, not the stores, I got that. On the cost side, yes?

Mélanie FLOUQUET: Okay, so the second question is on CRM, on ERP and the digital costs, which you've put in the Admin cost line, I believe. I was wondering, you know, what we should expect moving forward. There was a big catch-up affecting each one. It was up 5%, you know, we didn't expect that sort of growth, 7% excluding currencies, so I was wondering what is happening, what should we expect out of this line moving forward? Do you have a lot more investments to put through in these projects?

Burkhart GRUND: Okay. Listen, on both lines, what you're trying, in a very elegant way, is to have some guidance, but let me try to help you with what I can give you. The store plans, we pointed out, in the recent past, that especially the Mansion and the Cartier flagship store reopenings as well in Ginza, and now the Van Cleef store in Ginza, Tokyo, as well, those, especially the Mansion, have been big projects, multi-year projects, and we thought it important to break that out. Apart from that, if you look what we said, that we still guide on a CAPEX number for the full year of around €600 million, I think that's part of the explanation. You know, we had a lower CAPEX number in the first half of the year, compared to the previous year, 3% on sales, let's say, only, but for the entire year, we remain more or less in the range of €600 million, so I think that it's more of a timing issue than anything else. I think that is helpful for you.

On the cost side, we spoke about ERP and deployment and digital, there is a big part of that is linked to the deployment of Gemini, of our ERP, that we did for two of our Fashion & Accessories Maisons in the first half of the year. That is a big project that has come and has gone live over summer, so that is an impact you see in there, clearly. Now, for the full year, as you know, we will not guide on that.

Mélanie FLOUQUET: Just to confirm, there are no big projects we should be aware of in the next twelve to eighteen months, of the size of any magnitude like Ginza and Mansion?

Burkhart GRUND: You mean in terms of store network?

Mélanie FLOUQUET: Yes.

Burkhart GRUND: Mélanie, you know we wouldn't put that out there brand by brand, but I don't see anything, no.

Sophie CAGNARD: I can check, Mélanie. I don't think so.

Mélanie FLOUQUET: Thank you.

Sophie CAGNARD: Thank you. Next question, please.

Dino: The next question is from Mr Jon Cox of Kepler. Please go ahead.

***Jon Cox** – Kepler Cheuvreux*

Sophie CAGNARD: Hello, Jon.

Jon COX: Good morning, Sophie.

Burkhart GRUND: Morning, Jon.

Jon COX: Good morning. A couple of questions from my side. Just on the specialist watchmaking division, there was obviously a big jump in the (TC: 00:50:00) operating margin improvement there. I'm just trying to get a handle on how much of that was from buy-backs last year, and I seem to remember there wasn't very much, in the Specialist Watchmakers at least, in H1, and how much is the, as you mentioned, maybe better gross margin gains in terms of capacity for the watchmakers. The second question is actually I saw you told the press that you guys now own 7.5% of Dufry. I think the original announcement was 5%. I wonder if you can just give us a bit more granularity on that, why you've gone to 7.5%, I think originally you said you weren't going to go above 5%, and any, sort of, cooperation deals you may have with Dufry currently, any thoughts on do you need a board seat, that sort of stuff? Thanks very much.

Burkhart GRUND: Okay. First question, Specialist Watchmakers EBIT improvement or operating contribution improvement, you are right. I mean, we've had, in the one-off effects of the first half of last year, we've spoken about buy-backs, which were concentrated on Cartier and, to a very small part, on one of the Fashion & Accessories Maisons. We have had a very, very small part in one of the Specialist Watchmakers, so that is not materially impacting the contribution of the Specialist Watchmakers this year. What we have is, as you've seen, it's quite a moderate sales increase, which was clearly retail-led for the Specialist Watchmakers, so that's a positive, obviously, a positive impact on the commercial margin. We've had inventory provisions and an absorption of manufacturing costs in the first half of last year for the Specialist Watchmakers, which have not been repeated, as such, so that's a positive on the gross margin side. Then the rest is, I would say, good or adequate cost management for the current environment, which leads to quite a significant increase in the contribution to 57% growth.

Dufry, we have disclosed a 5% stake following the regulation of the SIX Swiss exchange, and that stake is at 7.5%. There's not a lot of granularity to give on that one. We increased from 5% to 7.5%, and that's where we stand. We said that, during the roadshow in the months of May and June, that we had no plans to significantly increase the stake. We are at 7.5% now. That's, I'd say, the story that is to it. The more interesting part of the story, for me, is that we have sat with the management of Dufry and our Maisons. We have worked on the business opportunities that we will now realise over the next few years. I think there's a deployment plan that has been worked out with the management, and that is an interesting part attached to that investment.

Jon COX: Just as an add-on to that, would that be mainly in the, sort of, lower-end price points like soft luxury, maybe entry-level luxury watches, or is everything on the table there, in terms of even potentially high-end jewellery, high-end watches?

Burkhart GRUND: No, I would say, if you look at our distribution, we're quite strong with our other partner, DFS. That is predominantly, I would say, in the watch and jewellery segment, and it's much more focused on an Asian footprint, which is their footprint, even though they're branching out into other geographies. Dufry has a different regional footprint, and we think there are more opportunities to be had on the Fashion, Accessories and Leather goods, small leather goods product categories, and that's what we're working on right now with them. That's the predominant part of the expansion that we envision for the future with that partner.

Jon COX: Thank you very much.

Sophie CAGNARD: Thank you, Jon. Next question, please.

Dino: The next question is from Ms Hermine De-Bentzmann from Raymond James. Please go ahead.

***Hermine De-Bentzmann** – Raymond James*

Hermine DE-BENTZMANN: Good morning. Thank you for taking my questions.

Burkhart GRUND: Good morning.

Hermine DE-BENTZMANN: Thank you. The first one is on the month of September. It seems that you have an acceleration in the Americas and Asia Pacific, and a deceleration in Japan. Can you maybe give the reason of this acceleration, and if it's evolving in the same way in October? The next question on the tax rate, can you confirm that you expect 20% tax rate in the full year? Thank you.

Burkhart GRUND: We do not provide any specific guidance on a single month. We have done that in the past, we have stopped it, because we don't think it adds anything to the quality of analysis. One month, in our business, where we might have, from one month to the other, significant one-off effects linked to the sale of, you know, high-priced items, does distort, I think, the mid-term analysis, so we don't do that anymore. So I'm sorry, I cannot comment on the month of September. We said, as we said in the presentation, 20% tax rate, effective tax rate for the half-year, and that is the rate that we project for the full year.

Hermine DE-BENTZMANN: Okay, thank you.

Sophie CAGNARD: Thank you, Hermine. Next question, please.

Dino: The next question is from Rey Wium from Standard Bank. Please go ahead.

Rey Wium – SBG Securities

Rey WIUM: Good morning.

Burkhart GRUND: Good morning.

Rey WIUM: Yes. Just some clarification. I just want to dive into the Other unit. If I reverse the losses and write-backs of last year, the profit actually went back from €27 million to €6 million, so I was just curious about what has, sort of, or where the pain has been, and if you can maybe just elaborate a little bit on that. Then just a quick clarification, obviously the inventory movement has been quite substantial. The way I work it out, we're currently sitting about 460 days. Do you see further scope to reduce the inventory days further? Thank you.

Burkhart GRUND: Okay. The first question is quite straightforward to answer. You know we have, that's what we just said during our comments, we have sold our Shanghai Tang business, and, that's a one-off that we see in that category, if you back that out, then the result is broadly in line with the previous year, when you back out the exceptional charge of last year. So we're roughly on a similar level there. The second, on the inventory side, we have reduced, as you see, from 24-month cost of sales last year to about 20 months this year. This has been obviously helped by, I would say, the healthy growth in watches and jewellery. We believe it's a good level of inventory around that level, and you know, I would not guide on anything different going forward.

Rey WIUM: Just quickly in the cash flow statement, disposal of subsidiaries, there was a payment of €14 million, so does that also relate to Shanghai Tang?

Burkhart GRUND: Broadly speaking, yes.

Rey WIUM: Okay, thank you.

Sophie CAGNARD: Thank you, Rey. Next question, please.

Dino: Next question from Rogerio Fujimori of RBC. Please go ahead.

Rogerio Fujimori – RBC Capital Markets

Rogerio FUJIMORI: Hello.

Burkhart GRUND: Good morning.

Rogerio FUJIMORI: Good morning. Could you please let us know or give us an idea of how much retail accounts out of your total watch business, or please, how much it represents out of Cartier watches or Specialist Watchmakers? This would help us a lot. Given your continued success in jewellery for Cartier and Van Cleef, I was just wondering if you could update us on progress in developing Piaget, your third jewellery pillar? Thank you.

Burkhart GRUND: Okay, on the first one, we don't really break that out. What we've seen over the first half-year is that (TC: 01:00:00) the retail share is 59% of Group sales, slightly up on 58% last year for the same period, and at 60% for the full year of last year. So obviously with the, I'd say, mechanical effect of the inventory buy-backs, both last year and then the rebound, but it's a mechanical rebound, this year on wholesale sales, we're broadly more or less at the same range. We wouldn't break that out for Cartier or for the Specialist Watchmakers individually. Excuse me. What was the second question?

Burkhart GRUND: It was about Piaget. Yes, Piaget, sorry. Piaget has, and we also point out that the strength of jewellery comes from Cartier, Van Cleef & Arpels and Piaget at the same time, so Piaget jewellery sales have, for some years now, increased their share in the sales of the overall sales of Piaget, and have been growing quite healthily, double digit, for this period. So there is strong progress both on the, I would say, entry price or welcoming jewellery collections, as well as high jewellery collections at Piaget.

Rogerio FUJIMORI: Right, thank you.

Sophie CAGNARD: Thank you, Rogerio. Next question, please.

Dino: Next question from Luca Solca, Exane BNP Paribas. Please go ahead. Mr Solca, your line is open.

Sophie CAGNARD: He might have gone, or a problem with connection.

Dino: We will take the next question from Elena Mariani, Morgan Stanley. Please go ahead.

Elena Mariani *– Morgan Stanley*

Elena MARIANI: Hi. Good morning. Two questions from me as well. The first one on your comments to the press with regards to current trading. I think you've mentioned that you've seen strength in jewellery continuing in the recent months. I was wondering whether you could share with us some more details around that, in particular, which product lines within Cartier have performed well, if you can. Linked to this one, still part of the first question, you have written, in your statement, a pretty cautious message on the second half of the year. Can I just confirm that this is just related to the fact that on a reported basis, we're obviously going to see a much smaller growth rate, but it's not related, basically, to the underlying trend, but it's just making reference to reported growth? My second question, going back to your comments around distribution earlier in the call, it's very clear, what you've mentioned about your wholesale partners, and the fact that you don't want to actively manage a store closure programme. Can you comment on how your approach to wholesale distribution is changing, in particular with regards to how you effectively manage your network of third-party partners and your sell-in? If there's anything that you could share on this point, in terms of how your approach is changing, that would be great. Thank you.

Burkhart GRUND: Okay. Yes, jewellery, we've said jewellery, if we look at the bigger picture, jewellery sales, which, you know, predominantly are with Cartier, Van Cleef & Arpels and, as mentioned, Piaget, they are in the context of a jewellery market which, if you look at estimations from industry sources, the market is estimated to grow low single digits currently. It's difficult to say, because it's a market where the unbranded piece is much bigger than the branded piece or the branded share. We would say there is an underlying growth dynamic in the market for the branded part, and I formulate that very cautiously, which, over the long term, seems to be taking 1% of share per year. I'm saying that cautiously, because it's really difficult to come to reliable data on that. There is a fundamental positive dynamic for branded jewellery taking over share from unbranded jewellery, so we benefit from that, especially when we have some of the best names in the industry, you know, in the Group meaning Cartier and Van Cleef.

So if you look at that, there is an underlying strength or growth strength in jewellery sales, both on the very high end, meaning the high jewellery business, and the mid-price and the entry-price segment today for the Jewellery Maisons or for the jewellery part of our sales in the Group, which I must remind you, are 39% of overall sales. That tends to be overlooked at times, with the strong focus on 41% watch share in the Group sales that we have. I would leave it at that. There's an underlying, continued growth dynamic across all the Jewellery Maisons and across the price points. Your second question, yes, we referred to reported growth. We found it was important to point that out, especially because we have had, in the second half of the year, I mean, in the first half of this year, a positive rebound, linked to more a mechanical effect, comparing to the buy-back impact and the exceptional one-off items of €249 million in the first half of last year. Then if we look at the second half of the year, last year, we had the sale of the Paris real estate portfolio, with an exceptional one-off gain, pre-tax gain, of €178 million, and we had a normalising business, which started in the second half of the last year.

So just to point out, reported growth in the first half of last year was much lower, given exceptional one-offs; this year, much higher, in reference also to exceptional one-offs of the previous year's period, and for the second half of the year, we have started to grow again, previous year. So we will be running up into stronger comparables and we have had an exceptional gain as well on real estate sales of the previous year. So yes, that reports the reported growth. On the watch wholesale distribution, well, some elements of context, or referring to your question, well, what has changed and where is our approach changing? I would say if we look at the watch trade and what is happening in the industry, there are two things that we focus on. The first one is there is a consolidation trend in the industry, where we see, as I said before, some of the smaller players exiting the market. Honestly, it's a tough place out there, especially when you're disrupted by the digital side of the business. We see the bigger players consolidating, sometimes with the help of private equity capital which is coming in.

So if we look at our major partners, they are consolidating and trying to expand their share of the overall market. As a consequence, we are in the process of shaping up as well, by putting in place, well, one could say a key account management approach, so that across the brands of the Specialist Watchmakers, plus Cartier, plus Montblanc, we have a more coordinated approach, so that we can better lever the strength of our Maisons with these big wholesale partners. So we're focusing on key account management there, and then I would say the second point of focus is the inventory situation in the market, where we, as a response, clearly focused on managing sell-in so that it's below sell-out, so that over time, watch inventories should trend downward.

Elena MARIANI: Thank you very much. Thank you.

Sophie CAGNARD: Next question, please.

Dino: We will try again with Mr Luca Solca, Exane BNP Paribas. Please go ahead.

Luca SOLCA *– Exane BNP Paribas*

Luca SOLCA: Yes, good morning, Sophie, good morning, Burkhart. Sorry about the technical difficulties.

Burkhart GRUND: Luca, you dropped out there.

Luca SOLCA: No, I was on mute. Anyway, I think you clarified on wholesale distribution. I was just wondering what you see as the priorities for your incoming Chief Digital Officer, and how you see the opportunity for e-commerce, considering that some of the brands, (TC: 01:10:00) especially in the Specialist Watchmakers area, are currently discounted on the Internet? I look at Chrono24, for example, and we see that a number of brands there, including Piaget or Jaeger-LeCoultre, get discounted, presumably by multi-brand watch retailers trying to reduce their inventory position. It does seem that the approach to wholesale and the approach to e-commerce have to go hand-in-hand, so I wonder what your thoughts and what your priorities are on this area. Then secondly, if you see that your position in YOOX Net-A-Porter is-,

Burkhart GRUND: That's already two questions.

Luca SOLCA: Oh I've already had two. Okay, fair enough.

Burkhart GRUND: Yes, I mean, just a clarification, it's not a CDO coming in, it's a CTO coming in, a Chief Technology Officer, which he will, in his portfolio, have the broader scope, meaning if you make it simple, the ERP and the digital, so these two pieces will be in his portfolio. It's important to stress that, because the scope and the function of these two technological arenas are very different. You could say it's the core system and the front end to the customer that he will take over on the technological side here. That goes hand-in-hand with what are the digital opportunities? I think especially with a focus on the Specialist Watchmakers that you were mentioning, I think if you look at the-, I mean, we've been doing e-commerce in the Group by building our capabilities first starting in the Americas, in the US, then moving to Europe and then into Asia, and now pushing out into Southeast Asia, so we're consistently building that up. If we look at the portfolio or if we look at our brands, one could say that there are some leaders and some laggers in terms of taking up this digital or e-commerce opportunity.

I would say the Maisons which have traditionally a very strong retail focus, meaning the Jewellery Maisons and then also, for example, Montblanc, they are much closer to understanding the customer needs. They understood very early that there's an opportunity to connect with their customers also through e-commerce, and that's why they're leading in this field. If you look at, for example, a jewellery brand or Montblanc, and if you take the size of the e-commerce business, for example, in the US, that is probably number four, number five in the network, if you take that as a freestanding boutique. So there's significant potential in there. Montblanc, in most of the markets where it is, it's even higher up. Sometimes the e-commerce boutique is the strongest boutique in the network, obviously also because the price points for Montblanc are more favourable for an e-commerce distribution. So I would say there are some advanced Maisons in there if you look at the e-commerce side.

The watch brands, historically, or let's say in the recent past, have been more of a laggard, which has a very simple reason, that in the last five years, they've have been busy building an internally owned store network, retail boutiques, which already, if you are more coming from a traditional wholesale-oriented business model, has been a challenge. Basically, you have to learn to work directly with your customers, instead of through an intermediary, and they only have recently started to seriously look at the e-commerce part of it. So I would say the opportunities are clear. They lie in the Specialist Watchmakers scaling up on e-commerce.

Luca SOLCA: Thank you very much indeed.

Sophie CAGNARD: Thank you, Luca. Next question, please.

Dino: The next question is from Antoine Belge of HSBC. Please go ahead.

Antoine Belge *– HSBC*

Antoine BELGE: Yes, hi, good morning. It's Antoine at HSBC.

Burkhart GRUND: Morning, Antoine.

Antoine BELGE: Two questions. Actually, I think you made a very interesting comment about that potential disruption, and even more than potential, it seems to be certain now, but more focusing on wholesale, and I'm going to play a bit the devil's advocate there. Is there a risk that, I don't know, you would end up having to close, I don't know, 5% or 10% of your own store network in the next, I don't know, five or 10 years if that disruption is not just linked to wholesale? Then I noticed that in the communication, expenses were flat in H1. Was there any question of, sort of, timing of expenses phasing differently from previous years?

Burkhart GRUND: Okay, thank you, Antoine, for the questions. Digital disruption and retail, that is the question you're asking, right?

Antoine BELGE: Yes.

Burkhart GRUND: I think it is something that we're following quite closely. Obviously, today, I would say the focus is clearly on managing the wholesale business or the watch wholesale business specifically through this difficult phase. As I said before, it's not an easy situation for some of our watch partners out there, who are being seriously disrupted. The outcome is not, and I'm referring to the wholesale channel, the outcome is, today, quite frankly, not clear who is going to survive and who is also, of the players that start to go, today, scaling up themselves the e-commerce capabilities, the picture is quite unclear. There are a lot of initiatives out there. There are the e-commerce pure-players, there are the traditional retailers that built e-commerce capabilities, some better than others, and the final outcome on that side is not clear yet. We're trying to also find our way there, knowing that we already have an e-commerce capability on our own. Now, will that have an impact, over time, on retail? Possibly. We're monitoring that. We don't see it yet, but I would say that that goes into a generalised monitoring of our retail network.

We look at the store profitability, the store productivity, and we see also elements of the, let's say, omnichannel sales experience spilling over into boutiques, meaning a customer who buys online comes to a boutique to have it serviced, a watch, for example. That offers also interesting, let's say, customer relationship perspectives, because we might be able to capture this customer that we have not seen before because he bought on e-commerce, not necessarily with our own store, and we might be able to lever on that opportunity when he comes to the boutique to have his watch serviced. So it's an open question, I would say, but as the build-up of a distribution network of directly operated stores takes time, as I said, the Specialist Watchmakers have been scaling up for five years now, I think we will probably also see trends in both directions going forward that will play out in the mid-term. Short term, we don't see it. Mid-term, who knows? Depends, you know, on what the overall impact on the industry will be.

Sophie CAGNARD: There was a question on A&P, whether it's phasing or not.

Burkhart GRUND: Yes, A&P, it's phasing. We traditionally have a bigger part of spend in the second half of the year. It's phasing, but apart from that, we're quite comfortable with this level.

Antoine BELGE: Yes. Sorry, just to make sure I understand, so when you say you're comfortable, is it with a flat evolution, or more with the, sort of, having a flat ratio as a percentage of sales over the full year compared, maybe, to last year, taking into consideration that maybe a yearly evolution is more meaningful than just a half-year evolution?

Burkhart GRUND: Yes, but a yearly evolution would provide guidance, which I'm not going to give. I'm saying I'm quite comfortable with 8.6% as of 30 September.

Antoine BELGE: Alright, okay. (TC: 01:20:00)

Sophie CAGNARD: Okay, Antoine. Thank you. Next question, please.

Dino: The next question from Mario Ortelli of Bernstein. Please go ahead.

Mario Ortelli *– Sandford C Bernstein*

Mario ORTELLI: Good morning, Sophie, good morning, Burkhart.

Burkhart GRUND: Morning, Mario.

Mario ORTELLI: The first question, if I may, on online. In the markets in which your Maisons have got a significant mass, a significant critical mass online, I think about, for example, Montblanc and Cartier in the US, the profitability of online sales is higher than the ones of the retail shops. Do you think that going forward, where considering the development of the online channel, the profitability of sales online for your brands will be more profitable than in the retail stores? The second question is about leather goods. Nowadays, it's just 7% of the total business of the Group, but you have invested, building up operating facilities in Florence, some of your brands like Montblanc have developed leather goods very successfully, part of the relaunch of Dunhill is focused on leather goods. Should we think that you will invest more in leather goods, and brands like Cartier will try to develop more of the leather goods? Many years ago, it was an important part of the business, then was discontinued or resized down.

Burkhart GRUND: Okay. Mario, the first question, the profitability of the online channel, I'm not going to answer that question, because I think you can answer the question yourself.

Mario ORTELLI: Help me.

Burkhart GRUND: If you have an operation, let's say an e-commerce operation that you embed in an existing distribution centre, you add a call centre and the technology behind, and that is scalable, I think that that is an answer, compared to building a retail network store by store, with fixed-cost commitment in lease and CAPEX depreciation. Does that give enough elements of context to answer that question?

Mario ORTELLI: Let's make, in a different way, the question. In your forecast, in your three-year plan, do you have margin expansion of some brands, given this shift from traditional distribution to online, and can you give us an idea of how much can be relevant?

Burkhart GRUND: Well, if you have the three-year plan, I would be glad to have it, but you know, I don't give guidance for the remainder of the year, how would I give guidance for the three years to come? Let us probably go to the second question, the leather goods. We have not been very good, I would say, on the soft side of business, or the soft side of the business model, meaning Fashion & Accessories Maisons, leather goods, in the past. We've come to the realisation, through a success story that we've had with Montblanc, that there is a supply chain model that is very different from the one in which we excel, which is jewellery and watches. Jewellery and watches are a relatively small number of units, high-value items that, you know, have a specific sourcing and distribution necessity, and we manage that very well. As opposed to that, soft goods, especially leather goods, require a totally different supply chain set-up, and that is not only sourcing or manufacturing, subcontracting, but that is also demand planning, talking about several collections a year for fashion, a larger number of SKUs that change more quickly, etc, etc, etc.

We have traditionally not been very good in that. Montblanc has made it a success, through a leather hub that they built in Florence, where they have integrated all these capabilities and capacities. We have come to the realisation that if we scale that up, we can have a good starting point to explore leather goods opportunities that we have for some of the Maisons of the Group. Montblanc is strong in leather, Chloé is strong in leather already. Dunhill used to be strong in leather in the past. Cartier used to have a significant leather and small leather goods business, you know, gifting and all that, perfect product for that, from which they walked away, in large part also because the success of jewellery and watches has been so strong over the recent decades. Cartier is looking into going back into that part of the business and that part of the market, and for that, we need scalability, we need the development capacities, and that we are actively building right now, by extending the Montblanc leather hub into a Richemont operation that all the other brands can benefit from.

So yes, we think there are significant opportunities in leather goods, but before we really, really lever that up on the product development side, we need to have the supply chain capabilities, and we're building that up now.

Mario ORTELLI: Thank you very much. Very kind of you.

Sophie CAGNARD: Thank you, Mario. Next question.

Dino: The next question is from Mr John Guy of MainFirst. Please go ahead.

John Guy – MainFirst Bank AG

John GUY: Thanks very much. Good morning, Burkhart and Sophie. Two questions, please.

Burkhart GRUND: Morning, John.

John GUY: Thanks. My first one is on Jewellery Maisons. When we look at the underlying margin, having stripped out the buy-backs and so on from last year, it looked like there was an underlying decline of around 70 basis points, so you know, all the leverage has effectively come through from the watchmakers, up around 590 basis points on an underlying basis. Within jewellery, what caused the deleverage? Were there any additional expenses or investments over the half on an underlying basis? That's my first question.

Burkhart GRUND: Okay, let me answer that quickly. There is no deleveraging on the jewellery side. If we strip out the effect, the exceptional impact or effect of last year, we are broadly in line with this year's level.

John GUY: Okay, just on that, it looked like there was as 70-basis points change. I think it was 31.7% last year, but I guess, broadly neutral.

Burkhart GRUND: No, no, no, I mean, neutral.

John GUY: Okay. Okay, great. Thanks for the clarification on that. My second question is just around gross margin. The 190 basis points that we've seen in the first half, the inventory impact, I think, was 150, and you mentioned FX was down 20 basis points for this first half of the year, so is it fair to assume that the bulk has just been around price mix? You mentioned that steel had clearly had a positive impact at the margin in terms of the SKU reductions in some areas, I think within Cartier. Has there been a meaningful impact there, or is there more to come? Thank you.

Burkhart GRUND: No, I would say, once again, on the price mix between different collections, you know, it does not really make a big difference to us. What does make a difference in the short term, apart from what I said, the inventory provisions and the manufacturing cost absorption, which are the bulk of the 190 basis points there, is the geographical mix of our sales, you know, because you have duties and all that. So that, when in the shift from one region to the other, that impacts over the mid-term, clearly, but that, once again, is a minor effect.

John GUY: Okay, great. Thank you very much.

Sophie CAGNARD: Thank you, John.

Burkhart GRUND: Thank you.

Sophie CAGNARD: We've got time to take maybe questions from two more analysts, yes? The next one, please.

Dino: The next question is from Francesca Di Pasquantonio of Deutsche Bank. Please go ahead.

Francesca Di Pasquantonio – Deutsche Bank

Francesca DI PASQUANTONIO: Yes, hi. Good morning.

Burkhart GRUND: Francesca, good morning.

Francesca DI PASQUANTONIO: Yes, good morning. I have two questions. The first is on Cartier. I have seen in the presentation that a few of the new watches have just been launched in September, and I would like clarification, was it a launch across channels, or initially in your own retail network, and the wholesale rollout is going to come in the second (TC: 01:30:00) half. The second question that I have is Piaget, and it's a bit more longer term. As you are developing the jewellery offering for Piaget and, you know, quite successfully, are you planning around an increase in the footprint of Piaget, and maybe of the average size of the stores? Then a third, if I may, I have noticed you have Serapian listed in the Others. When did that happen? Thank you. Bye.

Sophie CAGNARD: That is three questions

Burkhart GRUND: No, Francesca can have three, that will make everybody else jealous. Okay, Cartier, honestly, I'm just a humble finance guy. I don't know about that launch. You're referring to which launch of Cartier?

Francesca DI PASQUANTONIO: To the watch launches, so in your slides, you list the product launches for Cartier, and Ballon Bleu steel and diamonds, Tank Américaine and Française, and Ronde Solo, they are listed as September launches.

Sophie CAGNARD: Yes, that's right. They have not really impacted the numbers yet.

Francesca DI PASQUANTONIO: Okay. That's what I wanted to clarify.

Burkhart GRUND: Okay, good. So that's settled without me giving an answer. Piaget, okay. Just a bit of context, Piaget has been focusing, over the last decade, strongly on building a watch business in Asia, and in recent years, they have started focusing on the jewellery side, because you know, and we've said it for some time now, there are significant growth opportunities for Piaget, who, in the past, has been quite strong in jewellery already. So there's a heritage there, and people clearly recognise that, and I think that, in part, also explains the recent success and the strong growth of the jewellery business in Piaget. The question arises, will there be an increase in footprint or in size of the boutiques? I would say the first step that we're looking at right now, and that the Piaget management is concentrating on, is looking at the store concept, which is clearly, today, probably too watch-oriented, and probably male watch-oriented, for being able to display properly the jewellery part, which is naturally more female-driven. So they're focusing on developing or on upgrading that store concept, which will then be, step by step, being rolled out over the next few years. They're also looking at their geographical footprint, to have that a bit more balanced, because today, they're quite focused on Asia.

That's as far as I would go in comments. Doesn't necessarily mean to increase the store size, but we will have to look at that on a boutique-by-boutique, individual basis.

Francesca DI PASQUANTONIO: Okay, thank you.

Burkhart GRUND: Serapian, that has been an acquisition of manufacturing capacity that we've done in the first half of this year. It is not significant. It is not material, and as I said, that's a complementary piece to scale up our leather goods development capacity, so that we can accelerate. We have some brands of the Group who are lining up to join this joint capability that we have built up in Florence, and Serapian, their development capability helps us to do that much quicker. They have their own product range, which they distribute in a few boutiques, mainly concentrated on Italy, and a bit in wholesale, mainly concentrated on Italy as well.

Sophie CAGNARD: What do you think of this, Francesca?

Francesca DI PASQUANTONIO: Sorry?

Sophie CAGNARD: What do you think of Serapian, Francesca?

Francesca DI PASQUANTONIO: No. Yes, I was actually surprised. It's a very nice brand, pretty exclusive, so I was surprised. Thank you.

Sophie CAGNARD: Okay, thank you. Alright, next question, please, and we will conclude afterwards.

Dino: The next question is from Mr Julian Easthope of Barclays. Please go ahead.

Julian Easthope – Barclays Capital

Julian EASTHOPE: Yes, thank you, and good morning both.

Sophie CAGNARD: Good morning, Julian.

Burkhart GRUND: Good morning.

Julian EASTHOPE: Yes, just two questions on the watch segment, if I may? I think for some time now, your retail watch business has been significantly outperforming the wholesale watch business, and yet if you look at the combined pairing, the watches together, they actually, sort of, match Swiss watch exports. Isn't it just the fact that your retail business, because you sell things better and they look much better in-store, you're just taking market share from the wholesalers, and in that case, that's just going to be a fact of life from this point forward? It's not necessarily destocking, it's just what's happening out there? The second question regards some of the smaller watch companies or the watch retailers that are going under. Are you actually taking stock back from them, or does the stock actually get put into the market, and there's the potential to actually disrupt the market when it goes back in? Is that a big issue, or is it a small issue? Thank you.

Burkhart GRUND: Okay. Well, are we taking market share from watch retailers? That's a difficult question to answer, and probably at the same time, an easy question to answer. I mean, we've been saying that we think the independent watch retailer, as has happened in other segments of the market before, let's say writing instruments or leather distribution, so there's the independent retailer who is slowly exiting the market. You know, in response to that, we have opened, over the last five years, our own retail store network with the Specialist Watchmakers or for the Specialist Watchmakers. Now, what is causing the other? That is difficult to say, obviously. I think there are benefits which go over and above just replacing sales, that we're losing one channel because departments are closing, and that we gain in another channel by running it through our own boutiques, and that is customer proximity, customer understanding. I would say the Specialist Watchmakers are still on a learning curve in that one. So yes, there's probably a shift, but that has more natural causes, because these partners are slowly exiting the market.

That's why, and we've said it before, we don't have a programme where we say we actively close down a great number of independent watch retailers, because we think, for one reason or the other, this is necessary. It is a natural decline, and that will continue for the foreseeable future. Now, you were referring to the mechanics of stock buy-backs. If we look at what we did last year, the intention clearly was, and this is why we executed it, to take excess inventory that was weighing heavily on the balance sheets of our trade partners, to take that out of the market, and to take that out of the market permanently, meaning we buy back, we deconstruct or we destroy, to take that stock permanently off the market. If you buy it back from one partner and you then ship it to another partner, the risk is that you remain with excess inventory in the market, who will find its way into unauthorised distribution channels, where the products, the creations that we have will be discounted, and that will impact brand equity over the long term.

I think we took a brave step there last year, and bought back this inventory and took it permanently out of the market. That is our approach. We cannot comment on what the other competitors in the market are doing or should do.

Julian EASTHOPE: This is specifically, (TC: 01:40:00) if one of your watch retailers goes bankrupt, the stock that they have in stock can actually go on to also disrupt the market. I just wonder whether you buy back that stock?

Burkhart GRUND: Sure, yes. Sure.

Julian EASTHOPE: Yes. So it's basically, let's say, on a bankruptcy, you do buy back stock. Are there many of those bankruptcies taking place?

Burkhart GRUND: No. I mean, last year, what we clearly did, and I mean, the biggest part of the €249 million one-off items we put out there for the first half of last year, that was a voluntary inventory buy-back, and it was mainly concentrated on Cartier, and in the second half of last year, was concentrated on the Specialist Watchmakers. We went partner-by-partner, sat down with them, looked at their inventory situation, and where there was excess inventory that was not turning, and the concentration of that inventory, more than almost two-thirds of those buy-backs happened in Asia, where we had the biggest fallout of, let's say, the over-extension of the gifting business in China, that spilled over into Hong Kong, and when that gifting business ended, we had the biggest overstocks sitting in Asia, sitting in Hong Kong. We went specifically to the dealers and repurchased inventory that we oversold, that they over-bought, admittedly in different circumstances, when the market was still booming.

So that inventory was lying there for two to three years and was not turning, and we helped them repair the balance sheet. So that is not that they went bankrupt, that they went out of business. It was clearly designed to help our trade partners get rid of their excess inventory. If we don't do that, once again, if you don't do that, it goes into unauthorised distribution channels.

Julian EASTHOPE: Okay. Thank you.

Sophie CAGNARD: Thank you. So this concludes our audio webcast. Thank you very much for joining, and we look forward to reading your reports. Bye-bye.

Burkhart GRUND: Thank you very much.

Dino: Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call, and thank you for participating in the conference. You may now disconnect your lines. Goodbye.