
Richemont

Interim Results FY19

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Dino: Ladies and gentlemen, welcome to the fiscal year 2019 interim results presentation conference call and live web test 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 Burkhart Grund, Chief Finance Officer, and 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 Finance Officer, James Fraser, IR Executive 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 2018. We would like to remind you that the company announcement 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 company announcement 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 some key developments of the Maisons and of the Online Distributors. 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 Finance Officer

Burkhart GRUND: Thank you, Sophie. Good morning to everyone listening. Thank you for your time. Before looking at the numbers, let me remind you that the results of newly acquired YOOX NET-A-PORTER and Watchfinder have been included in the Group's financial statements with effect from 1 May and 1 June 2018 respectively. They are grouped under 'Online Distributors', which is a newly formed business area. As you will have seen, the first-time consolidation of Online Distributors has had a material impact on sales, operating profit, cash flow and net cash. Regarding distribution channels, we have a newly reported distribution channel, online retail, which regroups the sales of YNAP 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 us look at the numbers.

Sales for the first half of the current fiscal year increased by 24% at constant exchange rates and by 21% at actual exchange rates. This includes the sales of YOOX NET-A-PORTER and Watchfinder. You will have noticed that the level of online retail sales has jumped from 1% to

14% of Group sales. Excluding the Online Distributors, sales for the period increased by 8% at constant exchange rates and by 6% at actual exchange rates. Most regions and all business areas saw growth, led by double-digit increases in jewellery and in the Group's directly operated boutiques. Here, watch sales expanded by a double-digit rate as well. Operating profit decreased by 3% to €1.13 billion. The €36 million decline versus the first half of last year is more than explained by charges of €159 million comprised of, on the one hand, amortisation of intangible assets, principally related to the acquisition of YNAP and Watchfinder, and on the other hand, one-time acquisition and disposal-related charges mainly linked to the Lancel disposal. Profit for the period increased to €2.253 billion, primarily as a result of a post-tax non-cash gain of €1.378 billion, which I will explain in more detail later. Whilst the gross cash position was higher at €6.3 billion, the net cash position was lower at €1.6 billion, predominantly because of the consideration paid for the settlement of 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 lines, with changes versus last year, as always, expressed in constant currencies. Let us start with Europe, our second-largest region, with 30% of Group sales. First half sales increased by 28% overall, benefiting from the integration of YNAP and Watchfinder, for whom Europe represents the largest region. Excluding these newly acquired businesses, sales posted a 1% increase, having been impacted by the sale of Lancel in June 2018. Performances in the region were varied, with sales in France, our largest market in the region, and Switzerland both showing good growth. The United Kingdom contracted after a strong comparative in the prior year period. Retail sales increased by high single digits on strength from the Jewellery Maisons and Specialist Watchmakers, which more than offset lower wholesale sales. The decline in wholesale sales reflected our continued focus to align inventories with end client demand. With respect to product lines, jewellery continued to outperform with double-digit sales growth, and watch sales were stable compared with the prior year period.

Let us now move to Asia Pacific, where sales increased by 20% overall and accounted for 37% of the Group's total. If we exclude Online Distributors, sales growth was 14%. Within the region, mainland China posted high single-digit growth, and the other main markets increased double digits. Both retail and wholesale channels enjoyed double-digit growth, with particular strength in jewellery and watches.

Let us now look at the Americas region, where sales increased by 42% overall and by 13% excluding Online Distributors. The significant difference in growth rates, 42% including and 13% excluding Online Distributors, reflected the fact that the Americas represented the second-largest region for YNAP. Both retail and wholesale channels grew, with retail strongly outperforming wholesale. Growth was broad-based across product lines and business areas. More specifically, this was driven by double-digit increases in jewellery, clothing, writing instruments, as well as in the Jewellery Maisons, Montblanc and the Fashion & Accessories

Maisons. The region contributed 18% to Group sales, with the USA remaining our largest market, ahead of mainland China and Hong Kong.

Let us now turn to Japan, which represented 8% of Group sales, and increased by 14% overall and by 8% excluding Online Distributors. Sales for the period benefited from higher domestic and tourist spending, driven by a comparatively weaker yen. The high single-digit growth in retail was notably supported by the net opening of five directly operated boutiques. Watch sales registered double-digit increases, with jewellery growth at high single digits.

Finally, Middle East and Africa. The region, which represented 7% of Group sales, saw a 4% increase in sales overall. Excluding Online Distributors, sales declined by 4%, which can be partly explained by lower tourist spending, given the comparative strength of local currencies. Sales have also been negatively impacted by continued regional and geopolitical uncertainties. By product line, it is worth mentioning that there was strong growth in writing instruments and clothing.

Let us now turn to sales by distribution channel. First, the retail channel. The sales in our directly operated boutiques were strong, up by 13% compared with the prior year period. There was growth in all regions, led by double-digit performance in Asia Pacific, the Americas and Middle East and Africa. Retail sales benefited from store openings in the period and from the internalisation of external points of sales in the Middle East at the end of calendar year 2017. Against these openings, the number of directly operated boutiques was reduced by 33 to 1,090, as a consequence of the disposal of Lancel. The contribution to Group sales of our directly operated boutiques was 52% overall. The contribution is lower than a year ago due to the creation of the online retail distribution channel. Excluding this new channel, retail contribution, in fact, was four percentage points above the prior year period at 61%.

Second, online retail. This newly reported distribution channel represents the sales from YNAP and the online sales portion of both Watchfinder and the Group's Maisons. As mentioned earlier, YNAP has been consolidated since May and Watchfinder since June. This distribution channel (TC: 00:10:00) accounted for 14% of Group sales.

Third, wholesale. This channel includes sales to franchise partners and to multi-brand retail partners. Wholesale sales were 1% above the prior year period as a double-digit increase in Asia Pacific, and growth in the Americas and Japan were offset by declines in the other regions. Watch inventory management initiatives and further improvements in the watch wholesale network, as well as the internalisation of points of sale in the Middle East weighed on performance. Jewellery, leather goods, writing instruments and clothing all had solid growth. After the creation of the new online retail channel wholesale sales stood at one-third of Group sales.

Finally, let us move to the sales breakdown by product line. You probably noticed that with the inclusion of YNAP, clothing became the Group's third-largest product line, with a 15%

contribution to sales. Note that for the time being, all YNAP sales have been allocated to clothing. Jewellery and watches remain the Group's largest product lines, but each contributed to less than 40% of Group sales, compared to 39% and 43% respectively a year ago. Jewellery sales rose by 15%, with growth at Cartier, Van Cleef & Arpels and Piaget, and in all regions. Watch sales saw a high single-digit increase overall, with good end client demand leading to strong retail sales. The exceptional growth in clothing reflected the first-time consolidation of YNAP. Excluding YNAP, clothing sales increased double digits nonetheless. Excluding the sale of Lancel, leather goods rose at constant rates compared with the prior year period. Over to you, Sophie.

PRESENTATION : Sophie Cagnard, Group Corporate Communications Director

Sophie CAGNARD: Thank you, Burkhardt. Let me start with the Jewellery Maisons, which include the Cartier and Van Cleef & Arpels Maisons. They reported a 9% increase in sales against strong comparatives with the prior year period. Growth was broad-based across regions, with particular strength in Asia Pacific and the Americas. Retail sales increased double digits, while wholesale sales were slightly down over the prior year period. The Jewellery Maisons operating results improved 19% to €1.17 billion. Higher sales combined with manufacturing efficiency more than offset additional communication initiatives and led to a 33.8% operating margin. This is 280 basis points higher than in the first half of the last year.

Let's look at the main developments over the past six months. The double-digit growth in jewellery was particularly driven by the continued success of the Love and Juste un Clou collections at Cartier, and by the Perlée and Alhambra collections at Van Cleef & Arpels. Watches enjoyed solid contributions from Ballon Bleu, Panthère and the successfully relaunched Santos watch collection at Cartier, as well as from the Poetic Complications at Van Cleef & Arpels. Retail strength across regions included the benefit of eight net new store openings, notably in China, Hong Kong and the USA. The wholesale performance continued to reflect our commitment to improve our third-party retail network, with the ensuing closure of some points of sale. Cartier had strong growth in online sales, granted from a small base, spread across most markets. Cartier also began offering a number of watch collections on Net-A Porter and MR PORTER.

Let us now review our Specialist Watchmakers business area, which consolidates the results of eight watch Maisons. Sales increased by 2%, with strong growth in Asia Pacific, good performance in Japan and stable sales in the Americas. Retail sales representing end client demand increased double digits, more than offsetting lower wholesale sales. Operating margin decreased by 80 basis points to 18.5%, impacted by stock provisions linked to the physical return of inventory buy-backs, which, as you will remember, we reported in May, as they had been

provisioned in the full-year 2018 results. Excluding this impact, operating margin increased by 130 basis points compared to the prior year period. Performance was positive overall, though it was varied across Maisons, regions and channels. Vacheron Constantin, Roger Dubuis, Jaeger LeCoultre, Lange & Söhne and Piaget all outperformed, with good client response to new references within existing collections. Let me give you two examples, the Overseas chronograph at Vacheron Constantin and the Excalibur Spider Pirelli edition at Roger Dubuis. The IWC 150th anniversary collection was equally well received. Retail sales grew across all regions. In wholesale, a high single-digit increase in Asia Pacific mitigated declines in other regions as we continue to control the sell-in to multi-brand retail partners and optimise our wholesale network. Sales of watches online have been progressing well from a small base, with collections from six of our eight Specialist Watchmakers now available on MR PORTER and NET-A-PORTER websites.

Now let us talk about Online Distributors, our new business area, which regroups YOOX NET-A-PORTER and Watchfinder. Sales made by YNAP of Richemont's Maisons' products are shown on both the Maisons' respective business areas and on the Online Distributors. They are subsequently eliminated under inter-segment eliminations. Online Distributors generated sales of €893 million and an operating loss of €115 million, as results were affected by the amortisation of intangible assets recognised on acquisition. Online Distributors accounted for most of the €82 million amortisation charge disclosed in the notes to the accounts.

Let us now look at some developments during the four- to five-month period under review for this new business area. Over the past five months, YOOX NET-A-PORTER has been quite active. It launched an online flagship store for Balmain and one for Azzedine Alaïa. It continued the rollout of omnichannel capabilities for the online flagship stores. NET-A-PORTER introduced The Vanguard programme to promote the up-and-coming fashion designers, thereby underling NET-A-PORTER's expertise in discovering and supporting the brightest new fashion talents. It also introduced a new kidswear offer. Following the launch of a fine jewellery and watch suite on NET-A-PORTER in April, MR PORTER launched the Luxury Watch Guide in June, with the objective to become the ultimate destination for luxury watches. They notably include the following watch and jewellery brands: Cartier, Tag Heuer, Vacheron Constantin and Zenith for watches, Boucheron, De Grisogono and Piaget for jewellery. The Outnet continued its international expansion through the activation of local warehouses in Dubai and Tokyo, in-language customer care, localised websites, apps and offerings priced in local currencies.

It is still early days to comment much on Watchfinder, since it has been consolidated for four months only. Watchfinder has looked to enhance its visibility and reach a wider audience through television ads, sponsorship and digital outreach. Watchfinder is already the most followed luxury watch channel on YouTube.

Finally, let us move to the other businesses, which include Montblanc, the Group's Fashion & Accessories businesses, its unbranded watch component manufacturing and real estate activities. The 1% growth includes the impact of the disposals of Shanghai Tang in July 2017 and Lancel in June of this year. Excluding these disposals, sales increased by mid-single digits, led by Europe and the Americas. The operating loss was €46 million, including one-time charges of €58 million related to the Lancel disposal. Excluding these one-time items, the operating results were positive.

Let us look at the developments of some of the Maisons. Most Maisons and regions posted growth during the period. Montblanc and Peter Millar enjoyed healthy increases in sales, with growth at Montblanc driven by large leather goods and writing instruments, with the success of Meisterstück Le Petit Prince and Fox collections. Higher clothes sales were notably supported by store openings and by the success of shoes, eyewear and fragrances, (TC: 00:20:00) underlining the Maisons' continued desirability. Azzedine Alaïa posted good growth in sales, also benefiting in part from store openings. Excluding the impact of the disposals of Shanghai Tang and Lancel, and reintegrating the sales from the online flagship stores, retail sales showed growth. Wholesale sales increased across most Maisons, driven primarily by Chloé and Peter Millar, growing digital sales across the Maisons reflecting their ongoing digital transformation. Burkhardt, over to you.

PRESENTATION : Burkhardt GRUND, Group Chief Finance Officer

Burkhardt GRUND: Thank you, Sophie. Let me walk you through the rest of the P&L, starting with gross profit. Gross profit increased by 16% overall, resulting in a gross margin of 62.5%, a 300 basis point decrease from last year. Excluding the integration of YNAP and Watchfinder in the current period's results, gross margin was 66.6%, an increase of 110 basis points compared with last year. Improved manufacturing efficiency, a larger share of online and offline retail, and relatively favourable currencies overall were the primary drivers to the improved gross margin.

Let us now look at our operating expenses. The overall expense increase of 24% includes the Online Distributors in the current period. It also reflects one-time items of €77 million, primarily related to the Lancel disposal, and €82 million of amortisation of intangible assets on acquisition. Altogether, these charges amounted to €159 million. Excluding these €159 million charges and excluding Online Distributors as well, the increase in operating expenses was limited to 4% at actual exchange rates. I will now walk you through the expenses by category. Selling and distribution expenses, which accounted for 52% of total operating expenses, rose by 10% at actual exchange rates and by 12% at constant exchange rates. Excluding Online Distributors, selling and distribution expenses rose by 4% at actual exchange rates. This increase is primarily due to strong retail sales and the associated higher variable rental costs, notably in Asia, where we enjoyed strong sales growth. Communication expenses rose by 17% at actual or by 20% at

constant exchange rates, mainly due to the first-time integration of the Online Distributors and communication initiatives at the Jewellery Maisons.

Administration expenses grew by 34%, or 37% at constant exchange rates. This growth mainly reflected the inclusion of the Online Distributors, investments in IT and digital initiatives, fulfilment expenses of €91 million related to the Online Distributors. Other expenses amounted to €163 million and included the €159 million charges previously mentioned. Net operating expenses as a percentage of Group sales increased slightly from 45% a year ago to 46%. This leads us to operating profit. Higher expenses linked to the first-time consolidation of YNAP and Watchfinder and the €159 million of acquisition and disposal-related charges just mentioned, all contributed to the €36 million reduction in operating profit. The overall operating margin now stands at 16.6%, a reduction of 410 basis points compared to the previous year. Excluding Online Distributors, operating profit increased by 7% and operating margin by 40 basis points to 21.1%.

Let us now review the P&L items below operating profit, starting with finance costs. Net finance costs for the period amounted to €47 million compared to a €72 million net finance income in the prior year period. The €119 million reversal related mostly to two factors. First, a €38 million loss was recorded on monetary items compared to an €84 million gain in the prior year period, mainly due to unfavourable movements in period-end exchange rates on our cash position. As a reminder, cash investments are translated at balance sheet closing rates. Second, interest costs in the period included €35 million relating to the €4 billion corporate bond issued in March 2018, with an average maturity of 13 years and a weighted average coupon of 1.469%, to be very precise.

Let us now turn to the profit for the period, which increased to €2.253 billion, reflecting the €1.378 billion post-tax non-cash accounting gain on the revaluation of existing YNAP shares. Excluding this gain, profit for the period was 10% lower at €875 million. This reduction is primarily due to the lower operating profit and the negative reversal of the net finance results just discussed. Our effective tax rate amounted to 22%.

I would now like to focus on cash flow from operations, which amounted to €733 million. The €375 million reduction reflected the higher absorption of cash for working capital as a consequence of high inventories and a reduction in creditors. Inventory increases, both at the Maisons and YNAP, resulted in an outflow of €195 million compared with a net cash inflow of €110 million in the prior year period. The reduction in creditors is primarily linked to the physical returns of inventory from the buy-back programme reported for the year ended March 2018. As a result, working capital needs amounted to €837 million, €477 million higher than the prior year period.

Let us now turn to our gross capital expenditure, which amounted to €279 million, representing 4% of Group sales, compared with 3% in the prior year period. Most of the €118 million

increase in capital expenditure related to YNAP. Looking at CAPEX by nature, 39% of the gross expenditure was related to point-of-sale investments, including internal and franchised boutiques and corners. Investments were focused primarily on store renovation and relocation. The most notable projects were the Van Cleef & Arpels store in Shin Kong Place in Xi'an, the ongoing renovation of the Cartier store on New Bond Street in London, and the relocation of Cartier on Peking Road in Hong Kong and on Post Street in San Francisco, as well as the IWC and Panerai relocated stores on Ginza in Tokyo. Montblanc continued the rollout of its new retail concept, which has now been extended to 78 stores. 7% of the gross expenditure was related to manufacturing investments. This primarily related to research and development facilities in Neuchâtel. Other investments accounted for the remaining 54%. They included the ongoing renovation of Richemont's central logistics centre in Villars-sur-Glâne in Switzerland, as well as investments in IT at YNAP and the rest of the Group.

Let us now turn to free cash flow. Free cash inflow amounted to €308 million. This €134 million increase compared with the prior year period reflected lower cash generated from operations, which was more than offset by lower net investments. Although CAPEX was higher this year, remember that last year saw an investment in Dufry. Now on to our balance sheet, which remains very strong, with shareholders equity accounting for 56% of the total compared with 76% in the prior year. Net cash decreased to €1.58 billion at the end of September 2018, from €5.3 billion at the end of our last fiscal year in March 2018. The €3.69 billion reduction mainly reflected the annual dividend payment, as well as the acquisitions of YNAP and Watchfinder, which overall resulted in a combined cash outflow of €3.75 billion.

This is now time to wrap up the presentation with some concluding comments. Growth in the six months under review was driven by the Jewellery Maisons and the strength of our online and offline stores, including for watches. We have continued to upgrade the quality of our store network and have increased resources allocated to research and innovation. Enhancing the quality and creativity of our products have been key priorities for Richemont. We have kept costs under control, limiting their increase to 4% when excluding Online Distributors and one-time items, abiding by our golden rule that operating expenses should increase less than sales. The first half of fiscal year 2019 (TC: 00:30:00) was also marked by progress on our transformation journey. Enhanced digital initiatives at our Maisons, the acquisitions of YNAP and Watchfinder and the recently announced partnership with Alibaba, are all important steps on this journey. YNAP and Watchfinder, the only digital native businesses in our Group, will accelerate our focus on digital marketing and omni-channel, allowing our clients to engage and buy when, where and how they wish. As our Chairman, Mr Rupert, commented, the strategic partnership recently formed with Alibaba will seek to enable Richemont to become a significant and sustainable online player with the important Chinese clientele, both domestically in China and while travelling abroad.

As the Group navigates through an uncertain economic and geopolitical environment, we will continue to be vigilant, while supporting our Maisons and businesses in their marketing,

communication and distribution initiatives. The €4 billion bond placement secured in March with an average maturity of 13 years gives solidity to adapt and to invest into our Maisons and businesses, to ensure we remain attractive and relevant for our clients, while providing long-term value to our shareholders. Thank you.

Sophie CAGNARD: Thank you, Burkhart. Before we take your questions, please try to limit yourself to two, because we have quite a lot of you who I'm sure would like to ask questions to Burkhart. If you also remember to announce yourself and the company you work for. Thank you. Please go ahead.

QUESTIONS AND ANSWERS

Dino: The first question is from Edouard Aubin, Morgan Stanley. Please go ahead.

Edouard Aubin – Morgan Stanley

Edouard AUBIN: Yes, good morning, guys. Two questions for me. The first one is on exit rate and current trading, so I guess growth came to a halt in September. I think, Burkhart, you were quoted as saying that October rebounded a bit and was in line, so should we understand that October was around 8% growth rate at constant FX? That's number one. Number two on YNAP, if I look at your release, it looks like reported sales for the six months to September were down 1%, so I guess at constant FX, they were maybe slightly up. So how do you explain the very sharp deceleration in the growth rate? I think it's basically the worst applied performance they've posted in years, so if you could provide some colour on why we should be optimistic about the top line going forward.

Burkhart GRUND: Okay, well, that's good. At 10:05am, I'm already quoted, that's quite an achievement. Edouard, you know how we do this. We don't really comment on short-term trading, but I'll just give you a few soundbites so that you have some colour here. September, and I think everybody has done the math, was a slowdown compared to the trading statement that we put out with the five-month August numbers. Some colour here, I would say most of the regions, with the exception of Asia, were more or less in line with the trend of the five months before. The biggest difference was in Asia Pacific, and that was more relating to the travelling or the travel business, which I think was impacted or we think was impacted by two factors. First of all, you must understand that our business is about 50% driven by sales to tourists, and when I say that, that means that it is impacted by the movement of exchange rates. We know that the renminbi has been weakening since this summer, and then you have a lead and lag effect that usually a few months later, this impacts the flow of tourists to one destination or the other. Remember what we said in the full-year results presentation, that's something that happened last year in Europe. When the euro strengthened in May and June, a few weeks later, that demand

migrated east and actually appeared in Hong Kong and Macau. So the renminbi has been weakening, so that, I think, has an impact on tourist business.

Second, in the month of September, we've had some weather conditions where actually we had to shut down, especially in Hong Kong, for a few days, our trading, and I think that has also impacted regional tourism. Second point probably to add is that we've had some quite high comps, especially on the high jewellery side in the previous year. What does that mean for, you know, our current trading conditions, the month of October? If you look at the 6% growth at historic rates over the first six months, that is about the growth rate we've seen in the month of October as well. I would say this is as much visibility as we have today. I tend to say visibility going forward ends with yesterday's sales, right? We know that volatility, not only in our industry, but in other industries and in the equity markets, is a presence today. So that's where we are today in terms of current trading. The YNAP question, now this is a bit tricky for me to answer, because YNAP has been consolidated in our numbers for five months, and on top of that, you start in the month of May and you look at trading over summer. It's a bit difficult to compare to previous years' periods. That being said, what we can say is on a GMV level, there's a double-digit expansion, you know, and I tend to leave my comments at that. Does that answer your question, or at least partially?

Edouard AUBIN: Partially, yes, but again, I mean, as you know, most of the players are growing double digits strongly in the space, so it looks like the performance of YNAP is relatively significantly below the competition, so I was just trying to understand what's driving that underperformance, basically.

Burkhart GRUND: Yes, I understand your concerns.

Edouard AUBIN: Thank you.

Sophie CAGNARD: Next question, please.

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

Helen Brand – UBS

Helen BRAND: Hi, Sophie. Hi, Burkhart. Hi.

Burkhart GRUND: Morning, Helen.

Helen BRAND: Morning. Just to follow up quickly on the last question, can you just confirm whether October, you're seeing 6% growth at constant currency or reported rates? I don't think they're too dissimilar, but just to check. Just within that, can you talk a little bit more around the Chinese consumer overall? So what are they currently doing at home and abroad through

September, October, and how does that maybe compare to, you know, the five-month period? I think just secondly, again on YNAP, it looks like, even excluding one-offs, the business was loss making. Obviously, you've talked about some investments there, but what should we really be expecting in terms of profitability for that business though H2 and mid-term? Should we really be expecting that business back into profit and to their mid-term plan? So if you could just talk a bit about profitability there, that would be great.

Burkhart GRUND: Yes. Sorry, Helen, to disappoint you. I mean, we're not, through the back door, going to reintroduce guidance on short-term trading or in a month. What I'm saying is October is broadly in line with the trends we've seen across the regions in the first half of the year. Now, don't try to nail me on constant or historic rates. I think the message is that, you know, that is the current trading condition, and going forward, your guess is as good as mine as to how volatility, exchange rates and whatever might come onto the horizon from the political side will play out. Remember, luxury goods, we all know that it's based on feel-good factor, right? So on YNAP, well, on the Online Distributors, put it that way, we have a €115 million loss for the first five months of YNAP and the first four months of Watchfinder, the parameter here is a bit complicated to analyse, but let me try it nonetheless. Out of this €115 million (TC: 00:40:00) operating loss, there's a €75 million charge for those two businesses, which relates to the amortisation of intangibles that we have acquired with these businesses.

What are these intangibles? Basically, it's always the same, when you do your purchasing price allocation, you look at the value of the brands that you acquire, you look at the technology stack, you look at the customer list, etc, so you assign, with the experts, values to those, and these intangibles then are amortised over more or less a long period of time, somewhere between three years and twenty years. This is a charge of €75 million for this period of four months for Watchfinder and five for YNAP. We wrote it somewhere in the press release, it's €180 million charge for a full twelve months. This is still provisional, because this is our first take on the allocation of the purchasing price. So if you strip that out, there's about a €40 million loss for that segment. Different elements behind it, a slightly lower gross margin, but I'm trading very carefully here, because as you remember last year round, we were not owners of that business. What we see is there's a bit of a lower gross margin, which obviously comes out of the YNAP side. There are some expenses which relate to higher service levels and logistics fulfilment, and also linked to marketing costs for capturing customers, new customers, and also for recapturing customers after we have fixed, or YNAP has fixed the migration issues they had with The Outnet.

As you remember, they were talking about that, I think, last year in October for the first time, so there are a couple of expenses there that, you know, have weighed on the bottom line. Now going forward, you know that we don't give guidance going forward, and this is now a private company, it's no longer a public company, but once again, we've seen double-digit growth in the first half, and I think that's a good indicator of how we see the business evolving in the future.

Helen BRAND: Okay, thanks very much, and just to follow up on the Chinese consumer, can you just talk a little bit about domestic consumption versus overseas consumption over the last couple of months? Anything that you can talk about would be very helpful.

Burkhart GRUND: Yes, I mean, let me put it this way, the Chinese customer, as we all know, is one of the most important, if not the dominant customer base for the industry, and that applies as well for us. If you look at the market overall, it's about, estimated, it's about an €80 billion market, so a good third of the overall luxury goods market, and there's about one-quarter of that €80 billion in mainland China, so domestically, and about three-quarters of that, so a good €60 billion realised with the travelling Chinese, just to give the dimension of the market. For us, we've had quite a good run, I would say, over the last two years, coming out of the reduction of sales in mainland China when the gifting boom in watches mainly ended. So when climbing out of that hole, we have had, for a good twelve to fifteen months, an expansion at double-digit rates. That's also what we said last year, and I would say that growth has now normalised to high single-digit growth that we've experienced in mainland China and that we've also put in our numbers that we put out today. So we're quite happy with that Chinese, let's say, domestic demand, because it's quite stable and it's expanding, and it's expanding across our different businesses or, let's say, across our different product segments.

Now then we look at the travelling bit. It has been expanding quite significantly as well double-digit growth over the reported period, with the month of September where tourism has been impacted. Like I said, probably the weather, I won't blame it on the weather. It's exchange rates as well. I think that's more the driving factor behind it, and for the six months, we're very happy with the performance. We'll see where it goes in the future. I think the demand is there. The exchange rate drives demand to one place or the other.

Helen BRAND: Perfect. Thanks very much.

Burkhart GRUND: Thanks, Helen.

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

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

Mélanie Flouquet – JP Morgan

Mélanie FLOUQUET: Yes, good morning. So I'll ask two questions, sorry. The first one is on the good surprise which was the Jewellery Maisons' operational leverage. This division offered pretty good operational leverage this semester. Last semester was actually a bit more disappointing on similar growth with no operational leverage. What has changed between the two? The top-line growth was actually pretty similar, but the end result on operational leverage

was very different, so I wondered whether you could share with us what has changed? I remember that at the time, last time, Cyrille Vigneron was saying that he was reinvesting quite heavily in the quality of the products and A&P, so I wondered what has changed this time around. The second question is on your OPEX, which is up 8% excluding online. Does this then include the one-off charges of Lancel, and could we have a clean growth, please? Thank you.

Burkhart GRUND: Good morning, Mélanie. Listen, you're speaking about disappointment about the Jewellery Maisons. I think my answer half a year ago was I was not disappointed with the Jewellery Maisons and that I did not exclude operating leverage or increasing operating leverage coming out of that segment, that business area. So I think both comments still hold true. We clearly have seen a strong business at the Jewellery Maisons, you know, overall sales growth of 9%, right? We've had, I'd say, good margin effects, in the sense that with the increased volume behind it and the manufacturing efficiency that we have, we've seen positive effects coming out of manufacturing, affecting the gross margin, more the product margin. We've seen a good or very strong business in jewellery in retail, which both affect positively the gross margin, and apart from that, we've had good cost control. We have invested in communication, and that's something that we've been speaking about for the last twelve months at least, because once again, these are big businesses, these are important businesses, these are leading businesses, but you need to defend them as well. That's why we said that we will continue to invest in communication.

I'd say it's a mix of, various elements going in the same direction, right? Good sales growth, gross margin growth, good cost control and continued focused investment into communication at both Maisons. So this is where we are today, and if I was happy last year, I'm even happier today. The OPEX, 8% overall growth, if you strip out the Online Distributors. If you strip out the €77 million one-time charges, which basically are twofold, €77 million overall, €58 million for Lancel and then the remainder of €19 million for taxes and fees linked to the acquisitions we did, strip those out, we're actually slightly below 4% for the remainder, or let's say 4% for the remaining expansion of the cost base.

Mélanie FLOUQUET: Thank you.

Burkhart GRUND: Thank you.

Sophie CAGNARD: Merci, Mélanie. Next question, please.

Dino: The next question (TC: 00:50:00) is from Luca Solca, Exane BNP Paribas. Please go ahead.

Luca Solca – Exane BNP Paribas

Luca SOLCA: Yes, good morning, Burkhart. Good morning, Sophie.

Burkhart GRUND: Morning, Luca.

Luca SOLCA: Good morning. Question on YOOX NET-A-PORTER. If I understand correctly, looking at what you illustrated this morning, your focus so far has been on creating synergies between the YOOX NET-A-PORTER distribution platform and the core business within the Richemont Jewellery Maisons and specialty watchmakers, as well as developing YOOX NET-A-PORTER internationally with the joint venture that you announced with Alibaba. Is there a time that you set on your agenda, on the back of how these things pan out, when you would look deeper into the operating functionalities of YOOX NET-A-PORTER and when you would consider changing part of the business in order to make it more successful, both in terms of growth and profitability? The second question is on the second-hand watch market. I wonder what your strategic thinking is on this side. Watchfinder is an excellent player in this field, but there seems to be a leader, Chrono24, which has significant volumes. What role do you anticipate for Watchfinder? Is that going to be your periscope, in a way, in this market, or do you anticipate that with this platform, you can take a leading position in this area? Thank you.

Burkhart GRUND: Thanks, Luca. Listen, YNAP, you're right, and let's just rebase this a bit. I mean, we've acquired the business and took control. Even though from an accounting perspective, we took control on 9 May, delisting was in the second half of June, so basically we have sat the first time with our colleagues, our new colleagues, in the month of July, right? So actually it's just been a few months, a few intense months and very interesting months, because not only are they great and very talented, strong leaders in their field, but it is also enriching, I would say, for both sides to actually give exposure to what our respective business models are. We have had deep insight into their model and that has, you know, influenced our thinking process, and the other way around, where they, our new colleagues, have been able to discover what it is, how you run a hard luxury goods business, which is quite significantly different, at least in the execution and operations side of how you run a soft luxury goods business.

So I think that has been a very intense and very rich and enriching process, and we have, in this first step, clearly, as you also pointed out, focused on two things, which have taken up all our time, which have been focusing on quick wins, meaning we have now, apart from the online flagship stores that they run for Chloé and Dunhill even before now, an Alaïa online flagship store, and we have now Cartier plus six of the eight Specialist Watchmakers trading actually through NET-A-PORTER and MR PORTER, and that has been done, as you've seen, quite quickly. It's quite recent, but quickly done, and this is, you know, part of the business development, short term, that we had in mind with them as well. Then the second major focus point has been to start and go through the discussions with Alibaba, and not only Alibaba. Basically we've been speaking to all of the big players in China, because the mainland Chinese market obviously, with the huge potential it has and with the, at current, low rate of penetration for luxury online sales as compared to other consumer goods' online sales, but nevertheless with

a very big potential, we wanted to crack that nut right in the beginning. We believe that is where there can be a significant upside for the luxury goods industry to trade through a joint venture between Alibaba and YOOX NET-A-PORTER.

So this has taken up, clearly, all of our time and will continue to take up, over time, over probably the next twelve to eighteen months, because now we have announced our intention to form a joint venture, and now we need to build this. When we say we need to build this, this means we have to set up the company, we have to set up the technology stack, because it's not just a copy-paste. This is for a Chinese market, so you need to localise your technology, and then we need to set up the fulfilment capabilities, be it logistics, be it customer service, be it payment fulfilment, etc, and that is, quite simply speaking, not only a joint venture, but also a new venture. This had not been done, as such, in China, and this is what our focus area is definitely going to be over the next twelve to eighteen months. Probably in the background, you know, we are, with our colleagues at YNAP, reviewing constantly and permanently not only our business models and the, let's say, more traditional branded model, the watch and Jewellery Maisons, the Fashion & Accessories Maisons, but we're also looking at the evolution or the necessary evolution of the business model of YNAP for the future.

You know that even before Richemont came fully on board, they were working on expanding and capitalising on the business opportunities on the hard luxury space. They launched, a dedicated watch section, etc, and obviously with us on board, we can expand that, because we have the knowledge on the hard luxury space. Anything else is not something that I can or could put out here, because that would be premature and not qualified at this stage.

Luca SOLCA: Understood.

Sophie CAGNARD: You had a question on Watchfinder strategy.

Burkhart GRUND: The second question, so that was, let's say, the YNAP angle. If we stay with the Online Distributors, Watchfinder actually is a very interesting business. We have fantastic insights today. Actually, we launched, just recently, a pilot with one of our watch Maisons in the UK to actually, on the ground, test future collaboration opportunities between Watchfinder and a watch Maison. It just launched about two weeks ago. We'll monitor the results. It's supposed to run for a number of months, and then we will take the learnings out of that and try to deploy it quickly across the other Maisons. A bit larger, if we open the scope a bit, on the pre-owned watch market, you know, we've been all discussing this in different ways over the past probably twelve to eighteen months. There's a physical part of it, which is there are dedicated physical retailers, there are some international retailers who tried to enter into that market, and if the customer wants that physical offer, then it definitely will be part of it. We believe it will be part of it, because Watchfinder, through its own boutiques, is actually having an important part of their business, roughly 40%, done through physical locations, and the rest, 60%, is done online. So there is an omnichannel model there.

The players in that market, you mentioned one in Germany, the question is what do you define and what do you mean when you say market leader? It's a totally different model that they have had so far, even though very recently, they announced that they would also try to have an offer in the pre-owned space, right? So we believe it's a big market. The most reliable numbers we have is probably a market volume of somewhere between EUR 5 billion and (TC: 01:00:00) EUR 10 billion, but then again, no one really knows. That's a big market and I think the best customer proposal or proposition will, in the end, take a decent market share. We intend to build our business through Watchfinder, because we think with the more than 15 years that they have been building this business, they have made the necessary mistakes and they have weeded that out. They do not engage in grey market. They have deep, deep customer understanding that now benefits our Maisons as well, and we are looking and discussing plans for them to expand into new markets. So for us, it's more than a periscope. It's probably the submarine.

Luca SOLCA: Understood. Thank you very much.

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

Dino: The next question is from Thomas Chauvet of Citi. Please go ahead.

Thomas Chauvet – Citi

Thomas CHAUVET: Good morning, Burkhart and Sophie.

Burkhart GRUND: Morning.

Thomas CHAUVET: Good morning. Two questions, please. Firstly on watches distribution, over the past year, you've been quite vocal about the future distribution model, which you think has to be done through own retail and online rather than traditional wholesale partners. I feel that Rolex and Swatch Group have a different view than you, but you might be right in the end, we'll see. Can you try to be a bit more specific on what the implications are in terms of planned closures of wholesale doors, acceleration in own retail expansion for the specialist watches, but also how to find and train the right salespeople to provide great customer experience, drive conversion, etc? For what it's worth, I've never been overly impressed by the experience in standalone watch boutiques in your own network and at some of your competitors'. Secondly, on leather goods, at the half-year results last year, Mr Rupert was on the line and he highlighted the growth opportunities, resilience offered by leather goods. It's a category where, as we all know, you've historically underperformed, maybe because of underinvestment, maybe you had the wrong portfolio.

Now, with Lancel and Shanghai Tang gone, are you happy to pursue an organic growth strategy with the remaining brands, so Chloé, Montblanc, Dunhill and, I think, small leather goods at

Cartier, or do you think that with the €4 billion bond issuance, you've had now a more flexible balance sheet to participate maybe in the sector consolidation? By the way, why were leather goods so weak in the first half at minus 3%? Thank you.

Burkhart GRUND: Okay. Watch distribution. Now, you mentioned, what our competitors, or the approach that our competitors are taking. You mentioned our approach. I think our competitors, as we all know, are having great brands and are doing, from what we see, a very good business, whilst we are today in a period where we are suffering from self-inflicted pain, I must say, when we tried to deploy our view of how the watch business should be run or should be done and probably will evolve in the future, and what is that? I think our starting point is clearly that we focus and we try to focus our Maisons and our businesses on the end customer. You know, traditionally, the watch business is clearly a wholesale-based model, which had a lot of opportunities in the past and has permitted to grow the watch business overall to a EUR 20 billion-plus business for the entire industry. What we think is the big disruption today affecting not only the watch business, but other businesses, and now very strongly the luxury goods business, is that the customer today is empowered. He's a very well-informed customer, because he does research online, even though the majority of transactions still take place in the physical space, but the product research part is very strong.

The customer knows about the prices. The customer knows exactly which product he wants, and then he wants to trade wherever it's convenient for him, so he wants the choice as well. So we believe that this change in nature of the customer, and that has happened quickly, very quickly, also because the further east you look, the more digitally native or empowered customers you have, that is just the name of the game today. So now, if you want to understand how these customers click, you need to have exposure to them, face-to-face exposure, be it in your offline retail stores, which for example, for the Specialist Watchmakers over the last decade I would say, we've built a network of about 300 stores, and be it online, where you probably even have, on the data collection side, a much quicker and a much broader insight, if you have the capabilities, right? That's why also the addition of Watchfinder helps us in that journey. So that's our view of the world.

Now, what does that mean? How will that play out over time? I've said it before, the retail store network that we have for the Specialist Watchmakers, and if we take that example, as we've built out about 300 stores, you are right, the experience is perfectable, depending on where you go, which brand you see, be it our brands, be it other brands outside of the group, but I think it has something to do with the nature of understanding how to deal with an end customer. I've been in a jewellery business. It is at the heart of how you view the world. If you look at the end customer, your approach to many things, be it product development, be it communication, be it distribution, is skewed differently than when you come from a more traditional wholesale business, where actually you never see your end customer. That plays out, once again, in product development, communication, etc. So we're in the process, and I think the entire watch industry is in the process of shifting towards a more end customer-centric approach, and that

takes time. That takes a lot of training, that takes also a certain mentality or culture that you need to establish in your Maisons, and that doesn't happen overnight.

So the experience you referred to probably comes from that. I think it's improving. It's improving quickly, but it has to be, in the end, in line with what the customer expectations are. Now that applies also to our external wholesale partners, because they also have to adapt to customers or customer expectations, which means they also have to build their retail offer. They have to build their retail online offer, they have to build their communication skills, etc, all the way down to logistics fulfilment capabilities. So if you asked, you know, specifically, numerically how this is going to play out over the next decade, I cannot tell you. What we believe is, retail, we're in a good place today. We need to work on the experience. We'll probably expand a bit left, right and centre, the network, but not massively. Take as a proxy, you know, Cartier, our mature jewellery business. They have not grown the network footprint on the retail side in the last years, because they believe they are where they should be, and now they are working on integrating that with the online retail part. So the Specialist Watchmakers, are slightly behind that point, so they'll probably expand slightly, but not massively the retail footprint over time where it makes sense and where it is a profitable business.

Now, the wholesale channel, I believe, over time, will numerically reduce, but we are not forcing it. We are working with our partners to improve the customer experience. We can help with that, and if the customer experience is something the customer really wants, then he will buy with our trade partners, and then they will have their place. The rest is really up to the customer to decide, not to us. So that's the way I see the world or we view the world going forward. On the leather goods side, the first point here is trading or the expansion or the decrease of the leather goods is in part explained (TC: 01:10:00) by the disposal of Lancel, which happened in the first half of this year and obviously that's where you take out leather goods sales. That has also impacted, by the way, the number of directly operated retail stores that we have. Apart from that, you know, we've seen expansion in the leather goods business in the first half. A Cartier launch is coming. We have, last year, as we said, acquired a small business, but with development and manufacturing capabilities, Serapian, to strengthen our leather hub in Italy. That leather hub is now scaled up and ready to go, working with several of the Group Maisons already, and will also help with the development and now relaunch of the Cartier leather goods offer.

Today, we're focused on organic expansion. We have never excluded acquisitions. We're not hunting for acquisitions today. I would say with the integration of the YNAP and Watchfinder businesses, we have a lot on our plate these days. Does answer your question?

Thomas CHAUVET: Thank you, Burkhart, exactly.

Burkhart GRUND: Okay.

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

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

Antoine Belge – HSBC

Antoine BELGE: Yes, hi, it's Antoine Belge, HSBC.

Burkhart GRUND: Bonjour, Antoine.

Antoine BELGE: Hello. Two questions and one remark. First question is on the evolution of wholesale in the first half, I think up 1% overall, but I think Sophie mentioned that Cartier was negative, so it means that the Specialist Watchmakers were slightly up. I was a bit surprised by this, because the inventory buy-backs at Cartier were now two years ago and I was expecting maybe that after two years of restructuring of wholesale, we could start to see some kind of growth at Cartier, so maybe could you comment on that? Second question relates to the nomination of Group CEO recently, yet yourself, you are not reporting to him, and also the two more senior members of the management team are also not reporting to him. So what is exactly the change in the nature of his function? Then the remark is about your unwillingness to give any guidance on YNAP. I understand that, but please do understand that this will result in a big volatility or discrepancy in the consensus, because we have to assume, to estimate the depreciation charge and the, sort of, investments, and especially there is also no disclosure on the financial implications of the joint venture with Alibaba. So again, if you could make a bit of an exception and maybe provide a bit of guidance in terms of what will be the impact, because otherwise, the consensus will be all over the place.

Burkhart GRUND: So that's the comment, okay.

Burkhart GRUND: Sophie, you said wholesale sales were slightly down, over the prior year period at the Jewellery Maisons, correct?

Sophie CAGNARD: Yes, correct.

Burkhart GRUND: Okay, and the Specialist Watchmaker comments that we made were that we had a very strong retail expansion, double digits, which by deduction means that the wholesale sales were lower, and we also spelled that out. Now, do you want me to qualify that? I mean, wholesale sales, I could even qualify them broadly in line with previous years, yet slightly below. Apart from, let's say, one-off effects which have affected the Jewellery Maisons, meaning Cartier, of internalisation in the Middle East of, you know, an agent business into now a newly founded subsidiary, so basically transforming wholesale sales into retail sales, if you back that out, then Cartier wholesale business is probably slightly expanding. On the Specialist Watchmakers, it clearly reflects our, I would say, unwavering commitment to clamp down and end grey market trading, because we do not want to feed products, directly or indirectly, into the

grey market. That has resulted in the closing down of some accounts. At the same time, we are continuing to deploy what we did with Cartier, because this is now a KPI that we follow every month, that is to monitor the sell-in, which has to be below the sell-out, at least for the current point in time. So that has led to a slightly negative wholesale performance at the Specialist Watchmakers, and that is what it is. Until this is fixed, it will remain as such.

Group CEO? As you've seen and as you just mentioned, Mr Lambert has been nominated as Group CEO recently. We have, for the past, what, eighteen months or so, have had a senior executive committee which has been broadened by bringing in managers to manage actually the Specialist Watchmakers with Emmanuel Perrin, and to manage the Fashion & Accessories Maisons and Montblanc with Eric Vallat, so we have broadened the management focus on managing the businesses. And then we have also Cyrille Vigneron for Cartier and Nicolas Bos for Van Cleef & Arpels, who manage these businesses directly. It was the assessment of the Board that as these businesses are very strong, and strong in many aspects, not only in top-line and in bottom-line contribution, but also in terms of retail business, of customer insight, of being a bit ahead of the curve in terms of digital customer relations, that these two businesses, which are big standalone businesses, should be represented on the Board, and as such, should directly report to the Board.

As to myself, the conclusion of the Board was as well that, it is more important that the CEO and the CFO closely partner and work together, but having both of them independently reporting to the Board. This is the way we at Richemont view checks and balances as well. Does that answer your question?

Antoine BELGE: Yes, thank you.

Burkhart GRUND: Okay, thank you.

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

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

Francesca Di Pasquantonio – Deutsche Bank

Francesca DI PASQUANTONIO: Yes, hi, good morning, everyone.

Burkhart GRUND: Hi, Francesca.

Francesca DI PASQUANTONIO: Hi. I have a couple of remaining questions. The first one is a follow-up on watches and wholesale, and more relating to the release of provisions and how long you expect that to continue, whether it's going to affect also the second-half performance and profitability for the Specialist Watchmakers. The second question is regarding travel retail. I

was wondering whether you have any updated plan in terms of the distribution update with respect also to your relationship with Dufry, whether this is creating more opportunities for your Maisons. Thank you.

Burkhart GRUND: Thank you. Listen, Francesca, first one on the watches... Also, actually, we haven't *released* provisions, we've *built* provisions. I would have loved to release them. And in fact, the level of provisions we built in the first half of the year were inventory provisions related to the buy-backs that we announced at the (TC: 01:20:00) end of the last fiscal year. We announced a EUR 200 million impact on the revenue side and said that we can only build provisions once we physically have the inventory back, right? We said, 'Well, this is going to happen in the first half of this year,' and this is what actually played out in the first half of this year. It's a good EUR 30 million inventory provision that we've built for that, you know, and that's what we said. When we strip out those inventory provisions, actually the operating margin, compared to the previous year, would have increased by 130 basis points. Now that's just stripping out stuff, but basically this is something that is linked to the inventory buy-backs and that was built in the first half of this fiscal year. With that, you know, the inventory buy-backs, with their impact through P&L, are done now, right? So that should not touch on the second half of the year.

What should remain present in the second half of the year is clearly the ongoing focus on managing sell-in compared to sell-out, right? There, the only thing I can say, well, when it normalises, then it normalises. I cannot really give you any guidance on that, but the technical effects of the buy-backs are done in H1.

Francesca DI PASQUANTONIO: Okay, very clear.

Burkhart GRUND: Travel retail? We've had the chance to speak about this in the past. I would say what we've said in the past is that we have sat with Dufry and have defined a three-year expansion plan, which basically is focused on Fashion & Accessories Maisons and Montblanc. That's where we see the biggest upside in terms of numerical extension of the distribution. If I recall correctly, the expansion of points of sale is somewhere projected around 50 or plus, and a good third of that has already happened. It has to go, in many cases, with the renewal of concessions, you know, where space is then renegotiated from their side with the operators on the other side, and so that's why it is a deployment plan over three years. We cannot just walk in there and say, 'Okay, now we'll take this space.' You know, it's linked with the renewal of their concession for the airports mainly. So we're on track for that and it's a three-year expansion plan.

Francesca DI PASQUANTONIO: Okay, thank you.

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

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

Rogério Fujimori – RBC Capital Markets

Sophie CAGNARD: Good morning, Rogério.

Rogério FUJIMORI: Good morning. Thanks for taking my question.

Burkhart GRUND: Good morning, Rogério.

Rogério FUJIMORI: Good morning, Burkhart. Two questions, please. I think you've mentioned that the inventory rotation was up to around 22 months of COGS from 20 last year, and a considerable quota of them by finished goods, so I was just wondering if you could elaborate on what's happening on the inventory front. And then just a follow-up on watches. I think you flag up double digit in retail and maintaining, I think, undersupply of watches to the market. Should we expect sell-in to stay below sell-out for the foreseeable future, just given the need to limit product basically feeding the online grey market, or should we expect the gap to narrow in the next eighteen, 24 months? Thank you.

Burkhart GRUND: Yes. Inventory? Two elements here to consider. One is, obviously, the consolidation of the YOOX NET-A-PORTER and the Watchfinder inventory that we have bought with the company, so that obviously impacts the overall inventory holdings. Overall inventory goes up by a good billion and there is Maison inventory plus the inventory increase, and I'll get to that in a second, and then there is the inventory that we just consolidate into our numbers now on the YOOX and Watchfinder side. As to the Maisons inventory, it is a planned increase. I'm quite relaxed about it. It's a planned increase which actually is slightly below the increase we planned for, and I would say it's split half and half between finished goods - this finished goods increase is mainly on the jewellery side and on the Fashion & Accessories side, to a lesser extent on the watches - and then the other half of the inventory built up is in work in progress, meaning stones and raw materials, and to a lesser extent components. So we are aware of that because it was planned as such, and obviously these components and stones will then be turned into finished goods, and we should see a draw-down of the inventory in the second half of the year.

You know, that's our usual cycle as well. We built it up in the first half, because then we have October, November, the big wholesale months, and December, the big retail month coming up.

Sophie CAGNARD: The sell-in.

Burkhart GRUND: The question about the sell-in, thank you Sophie, it is what I just said to Francesca. I think it'll normalise, that is what we see. It'll normalise when actually there is, hopefully, a slight undersupply in the market, because that will then pull the inventory from our warehouses into our customers' boutiques. And that's what luxury used to be in the past, right,

that there was a slight tension on the inventory, which helps the rarity perception of our products, and that is what luxury is about. Now, we're not doing it for that purpose. We're doing it because we think a slight tension in the inventory cycle or supply will help us really only produce what we sell, and in this case our partners sell to the end customers. So obviously, you know, sell-in cannot remain sell-out forever, because in the end, you'll end up with zero inventory holdings and that's not what we intend to do. So it'll normalise. When it normalises really depends also, to a large extent, on the sell-out on our wholesale customers' side, where as I said earlier, we think we are seeing also a double-digit expansion. I know it doesn't help for your models.

Rogério FUJIMORI: Thank you very much.

Burkhart GRUND: Thanks.

Sophie CAGNARD: Thank you. Next question, please.

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

Jon Cox – Kepler Cheuvreux

Jon COX: Yes, good morning, guys. How are things? Just a couple of questions my side, one just on Santos and the relaunch there, and I'm wondering how it's going. You mentioned it's going pretty well. Just wondering, have you got anything else coming down the pipe, particularly with Cartier watches, where there's still this perception maybe you're losing ground against some of the other brands out there. If you have any sort of granularity on where you think share is or anything like that would be very useful. Then just on YNAP, just on the dynamics there, I think a lot of people say the risk is some of the bigger luxury players want to get off the platform, because you can obviously see exactly how well they're doing. I'm wondering if you've given them any assurances or, you know, if you're seeing anything like that, like a slowdown. Then linked to YNAP, some guys are saying as well that Farfetch has a superior platform, growing very quickly, and that could become the actual luxury platform, at the expense of YNAP. Just wondering what your thoughts are on that and what you think about the competitive landscape there. Thank you.

Burkhart GRUND: Okay. This is easy for me. Let me pitch the question on Santos to Sophie, to my side, and then I'll chip back in afterwards.

Sophie CAGNARD: Alright, so as we say, and it's written in the company announcement, the relaunch of Santos is extremely successful, and so was the Panthère relaunch last year. There have been additional references also with the best-seller of Ballon Bleu, so actually Cartier has

been quite active (TC: 01:30:00) and it has been reflected really in their watch sales, in particular in retail.

Burkhart GRUND: My time again? Okay. Yes, there was a question about market share and Cartier losing market share and ground on the watch side. We changed management at Cartier two-and-a-half years ago, because we had the impression that we had, on the watch side, a sliding market share. The clear mission of Cyrille Vigneron and his team was to bring Cartier probably back to what it was and for what it stands, and we think that the work that the team has done in the last 24 or so months has been fantastic. I mean, we've seen a new Cartier, which resembles more what they stand for not only a jewellery maison with exceptional pieces and a fantastic, high-quality distribution network on the retail side, but also a watch maison which has pivoted back to the female customer and the elegant man, and has slightly stepped back from the high complication, very technical watch business. All these choices were deliberate choices, and what we can see is that that journey that they have taken was a very successful journey.

We're extremely happy with the business development, and I think Mélanie mentioned it earlier, with the leverage coming out of that business now, where actually the Jewellery Maisons category was below 30%, whilst Cartier was restructuring their offer and their communication and their distribution approach, and now, as you can see, a healthy business produces healthy margins or operating margins. That's why we carry and we worry about that, but our focus is on the long term. If that means, and we've had the discussion, I think, when we were discussing, six months ago or eighteen months ago, inventory buy-backs and the question was, 'Well, that means you lose market share?' The answer was always the same, 'Well, if that means that to protect the long-term viability of our business model, we lose short-term market share, then so be it.' We're happy, or not happy, but I mean, we're willing to take that risk, that impact, if it serves the long-term view and vision that we deploy for our businesses. We don't monitor market shares on a day-to-day basis. I'm just saying we're very comfortable with the way Cartier is going.

Now, the second question about YNAP and Farfetch you can understand, by nature, I have a bit more difficulty of talking about the Farfetch model, also because I would probably not be the most qualified person to do that. What we have done, and we've been engaged for many years with YNAP, first on the NET-A-PORTER side for about 15 years, and with YNAP, owning half of it for the last three years and now owning 100% of it. Actually we took this decision over the last eighteen months to go down that road, which has finally resulted in the decision to buy out the remaining or outstanding shares that we didn't own because we still believe it's the leading luxury online retailer, with a significant size, and we believe in the potential of that business. They are very talented teams. They've had some challenges in the last twelve months, not only us coming on board and just sitting in front of these guys who don't understand their business, but also because they've had integration issues for Outnet. They've been very busy, over the last few years, actually bringing the two sides of the business together, and that's a significant focus

point for them. That's a significant workload that they've done in the past, and they still need to continue until the end of that road.

Now we're building with them and Alibaba, not only a joint venture in China, but at the same time, we're also pushing our Maisons onto their platform, and that will continue over the next twelve, eighteen, 24 months. So I think from our side, all signals are on go. We believe it is a winning proposition, if the customer agrees with us, right? Let's not forget the ultimate boss is the customer. If YNAP, through its four brands, remains attractive for the end customer, then it will be an attractive proposition. If Farfetch is attractive for the end customer and remains so, then it will be an attractive player going forward. That's the way we view the world. There has been a lot of hype around Farfetch recently. There was hype around YNAP a few years ago when the merger happened. Let's just see, over time, what the customer thinks. That's probably a bit high-level view we take, but that's the way we view the world. We do this for the customer.

Sophie CAGNARD: Okay, Jon?

Jon COX: Thank you.

Sophie CAGNARD: Thank you. Next question, please.

Dino: The next question is from Louise Singlehurst of Goldman Sachs. Please go ahead.

Louise Singlehurst – Goldman Sachs

Louise SINGLEHURST: Hi, good morning. Hi, Sophie, Burkhart. Thank you very much for my questions. Two from me, and actually the first one is a follow-up on YNAP. The industry is clearly focused on moving much more towards retail, away from wholesale, very clear in your own business. I mean, how are the discussions with the brands? Are they, for example, asking for more retail-based models, moving away from what we would call traditional e-tail to a more concession-based online operating model? Then my second question, if you could just talk to us about the reporting structure across the business. Obviously, a lot has changed across the senior management team and the leadership structure in the last two years, departure of Mr Kern, the Chief Digital Officer as well. Just in terms of the practicalities and who's actually in charge of the YNAP integration process, I presume that's Mr Lambert? Thank you.

Burkhart GRUND: Okay, yes, Louise. I mean, we get confused as well sometimes, but we always figure it out at the end of the day. Now, let me answer the first question. What is the expectation? When you referred to the brands, is that our brands or our Maisons, or the third-party brands trading through YNAP, or both?

Louise SINGLEHURST: More the third party. Obviously, it's pretty clear that a big rationale for you buying in the business is to do your own e-commerce, and it's thinking more about the third parties and if the platform can facilitate, in its existing basis, more retail. Thank you.

Burkhart GRUND: Okay, yes, good. Now, I think that the point is, and I think we made that clear or YNAP has made it clear in the past, and we've recently talked about it when we announced the intended JV with Alibaba, we think the key word is omnichannel, which we've been talking about for a while, but let's say more specifically, DTC or direct-to-consumer, right? Brands, and that is our Maisons, our brands, but that also applies to the brands that trade through YNAP, they are all evolving or have all evolved from opening or trading through YNAP as an additional distribution channel next to the retail channel they have, the retail offer they have. They are all moving, philosophy-wise, but also concretely to linking online and offline retail distribution points of sale, because they all want to understand what the end customer thinks. Today, there are technology solutions that are being deployed that have not existed a few years ago. I'll take two examples. I'll take the example of what YNAP has been starting to do with one of the major Italian-based fashion brands (TC: 01:40:00) that is one of the major brands they trade with. They have put in place their omnichannel or future retail model, which through technology, gives the brand insight into stock holdings across the different distribution channels, mainly their own retail network and the YNAP stores, which permits them to serve their customers in the end.

They've been talking about it, it's with Valentino, so that's their new omnichannel capabilities that they are starting to deploy. When we announced Alibaba-YNAP joint venture intention, there, we also spoke about what Alibaba calls new retail, which is the same approach. Basically saying, through technology, we can tie together online and offline retail flagship stores for the benefit of our customers. So I must say, probably the buzzwords in the years to come will be how do we actually concretely move from a concept of omnichannel to an actual deployment of omnichannel capabilities? I think that is something that the industry is now moving to. We are talking very vocally about it for a while. What is exciting about it is that now we start to see the first technology solutions to actually start to do that. I think there's still a lot of ground to cover or to be conquered in the years going forward, but at least we're coming into a more concrete execution mode now. Does that answer the question?

Louise SINGLEHURST: Great, thank you.

Burkhart GRUND: The second, yes, the reporting structure, in a way, very simple.

Sophie CAGNARD: Who is in charge, yes, of the YNAP integration?

Burkhart GRUND: CEO oversees, in our structure, the Specialist Watchmakers, the Fashion & Accessories Maisons, including Montblanc, the corporate functions, and is the lead or leading the YNAP Watchfinder integration process very clearly. The two jewellery businesses obviously are not operating in their own world. They run their businesses, the CEOs run their businesses.

They report into the Board, but obviously we're all part of the senior executive committee, where we run the business together. I myself, I just tag along, right?

Louise SINGLEHURST: You wish. That's great, thank you very much. Thank you.

Burkhart GRUND: Thank you.

Sophie CAGNARD: Alright, so next question, please.

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

John Guy – MainFirst

Sophie CAGNARD: Good morning, John.

John GUY: Good morning, Burkhart. Good morning, Sophie. Thank you for taking my questions.

Burkhart GRUND: John, nice study there.

John GUY: Yes, thank you for that. I'm looking forward to the deal, so just keep me posted.

Burkhart GRUND: I had a giggle. I had a giggle, but okay.

John GUY: Okay, thanks for that. My first question is on the YNAP and Alibaba JV, and I appreciate it's very early doors, but I don't think anyone is really attributing any value for this yet. Are you able just to provide an initial view in terms of what you think the JV percentage of Tmall active customers could be? I mean, are we talking 1% or is it less than that? I think that's a very interesting angle. My second question is around the agreement that you signed now a while ago with Swatch Group with regards to long-term supply of components of movements. You know, clearly, after 2019, there'll be a change in the pricing dynamic, and I'm wondering what you expect from 2020, from an industry perspective, as to where components and movements pricing goes. That would be very interesting, just to get your thoughts there too. Thank you.

Burkhart GRUND: Okay. Yes, JV, I mean, that's an interesting question you posed there. Obviously, with our future partners of Alibaba, we've run our numbers, we've done a business plan. Obviously, you cannot really put it out here publicly. That would also be against the agreements we have with them. Look at it this way and that's purely our perspective, they're trading with about 600 million-plus customers on Tmall. On Tmall, the Luxury Pavilion, there are about 75 brands today, which compares more or less to what you have at the competitors in terms of number of brands present. Then what is, I must say, quite fascinating about their business is that their ecosystem around it, a big part of it is also the financial ecosystem that they

have and financial through Alipay, and their Alimama marketing capabilities, is built so that traffic or, let's say, customer purchasing patterns are extremely well analysed and understood. I think their capabilities are way beyond ours. Actually the entire machine, I would say, is geared to driving traffic to these different destinations that they have. Luxury Pavilion obviously is a very exclusive part of their entire ecosystem, where the trading with luxury brands between the businesses and the consumers happens today, and we see significant upside there.

Now, it's a bit difficult to catch up with them, because their numbers evolve so quickly in terms of GMV growth, in terms of customer growth, in terms of transactional growth that I would be hard pressed today to say which part of, let's say, the 600 million customers will, over time, be driven towards Luxury Pavilion and towards YNAP. I know it's important to run simulations. I can't really speculate about that.

John GUY: Maybe just on that, sorry, Burkhart, just on that, I mean, we've seen that the 28 or so partner brands that were initially registered saw an average incremental user base of 6.5 million, with the highest-growth brand recruiting over 30 million customers, so I mean, this is a huge opportunity for you.

Burkhart GRUND: Yes. We clearly believe, but let's be clear, I mean, we've announced it, now we need to build it. Obviously, when you speak to Alibaba, for them, it's about technology, speed of execution and fulfilment, because this is, first and foremost, targeting the Chinese market or domestic market, and then the travelling Chinese. There, speed is of the essence, and we fully agree with that. Obviously, if we look at our part of the bargain, we, through YNAP, have, I must still say, quite an industry-leading capability to engage with Maisons, engage with the brands, third-party brands. Ours are a given, but third-party brands, they are considered as being neutral, and that's why we intend to keep it, and they have also programmes to curate and bring newness in terms of brands to customers. That is also something that very much plays out with the Chinese customer. When you have brands that are very strong, very powerful, customers perceive that they also want to have newness coming in, and we believe that with the Vanguard programme that YNAP launched, they have even increased and strengthened their capability to curate these brands, to discover them, to curate them, to bring them to the customer.

I think, once again, that is what we are focusing on, apart from, obviously, building the entire thing, and that's actually where we have had discussions with the brands after we announced. We've had good feedback. They're excited, as we are, about this opportunity, and we hope (TC: 01:50:00) that when we put it in place, that it's going to be a winning proposition for China. Once again, this is not necessarily about targeting a market share of X and being the leading and what have you. It is first and foremost fulfilling the needs of the customer. If we do that, then we'll probably be the leader and we believe that is the opportunity we have, but it is not about targeting specific market shares, but serving the customer.

John GUY: Great, thank you, and just any comment on the components and movements pricing would be fantastic.

Burkhart GRUND: Can't really comment on that. I mean, we have very good and constructive relationships with Swatch, and probably, you should ask that question to them. As we're party of discussions with them, you cannot really project that out to the industry, other than saying we have good constructive relationships over many years already and we intend to keep it that way. I think what we hear from them is they have the same view.

John GUY: Great, thank you very much indeed.

Burkhart GRUND: Thanks, John.

Sophie CAGNARD: Thank you, John. Next question, please. So we'll take, what, two more questions?

Dino: The next question is from Patrik Schwendimann of ZKB. Please go ahead.

Patrik Schwendimann – Zürcher Kantonalbank

Patrik SCHWENDIMANN: Good morning, Burkhart. Good morning, Sophie and James. First question, in H1, you had plus 30% in retail and plus 1% in wholesale. In H2, you have a really low basis in wholesale, so would it be a fair assumption to say that the gap between retail and wholesale will be lower in the second half of the year? That's my first question.

Burkhart GRUND: Yes, fair assumption.

Patrik SCHWENDIMANN: Second question regarding gross margin and OPEX, gross margin was 62.5% in H1 and just the OPEX was up 4% in H1. Would it be a fair assumption to expect similar rates in the full year? Thank you.

Sophie CAGNARD: Isn't it a guidance?

Burkhart GRUND: That sounds like a guidance question, right?

Sophie CAGNARD: Yes, it does to me.

Patrik SCHWENDIMANN: Just a fair assumption, not a guidance.

Burkhart GRUND: I think it's a fair assumption, yes, but as you know, we don't guide.

Patrik SCHWENDIMANN: So for both, for gross margin and OPEX?

Burkhart GRUND: That would be a fair assumption. On the gross margin, you just probably, in your fair assumptions, would have to adjust for eleven months and ten months of trading with YNAP and Watchfinder, so you know, the impact would probably be slightly more, slightly.

Sophie CAGNARD: Okay, Patrik.

Patrik SCHWENDIMANN: For wholesale?

Burkhart GRUND: I would say it's a fair assumption that the gap between the retail expansion and the wholesale expansion will narrow, just simply by the fact that on 31 March, so affecting Q4, we took a EUR 200 million buy-back provision, so obviously you factor that back in, that growth rate mechanically goes back into positive territory for the Specialist Watchmakers.

Patrik SCHWENDIMANN: Okay, great. Thanks a lot.

Sophie CAGNARD: Thank you, Patrik. So that concludes our results presentation. Thank you very much for attending it. If you have any further questions, obviously James or I would be available to answer them, and wishing you a good day.

Burkhart GRUND: Thank you very much for your time.

Sophie CAGNARD: Thank you. Bye-bye.

(TC: 01:54:09)