Richemont

Interim Results FY20

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INTRODUCTION : Ms Sophie Cagnard, Group Corporate Communications Director 3
PRESENTATION : Mr Burkhart Grund, Group Chief Finance Officer 3
PRESENTATION : Ms Sophie Cagnard, Group Corporate Communications Director 6
PRESENTATION : Mr Burkhart Grund, Group Chief Finance Officer 8
QUESTIONS AND ANSWERS 12

Dino: Ladies and gentlemen, welcome to the fiscal year 2020 interim results presentation conference call and live webcast for Compagnie Financière Richemont. I'm Dino, your call operator. The conference must not be recorded for publication or broadcast. At this time, it's my pleasure to hand over to 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. Jérôme Lambert, CEO, Burkhart Grund, CFO, 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 2019. 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 at the Maisons and 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 Online Distributors' results for the prior year period included five months of YOOX NET-A-PORTER GROUP and four months for Watchfinder & Co. With this now clarified, let us look at the numbers.

Sales for the first half of the current fiscal year increased by 9% at actual exchange rates and by 6% at constant exchange rates. Excluding Online Distributors, sales for the period increased by 5% at actual exchange rates and by 2% at constant exchange rates. Overall, we achieved growth across all regions, distribution channels and business areas at actual exchange rates, led by the Jewellery Maisons and Online Distributors. We will comment on each of those in more detail later in the presentation.

Operating profit increased by 3% to €1.17 billion. The increase versus the first half of last year reflected higher sales and gross profit, partly offset by higher costs. There was a positive impact from the adoption of IFRS 16, when taking into account the same perimeter of leases in each period. Excluding Online Distributors, operating margin increased by 70 basis points to 21.8%.

Profit for the period, at €869 million, was broadly stable when excluding the prior year period's post-tax, non-cash gain of €1.378 billion on the revaluation of the YOOX NET-A-PORTER shares held prior to buy-out.

The net cash position was €186 million higher than at September 2018 and now stands at €1.77 billion.

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

Let us start with Europe, our second-largest region, with 30% of Group sales. First-half sales increased by 7% overall. Excluding Online Distributors, sales were in line with the prior period. Growth was led by Online Distributors and the Jewellery Maisons. Performances by market were mixed, with notable strength in the United Kingdom, our largest market in the region. Retail sales increased by mid-single digits, on strength from the Jewellery Maisons and Watchfinder's retail stores. Online retail was strong, partly due to the comparison with last year, where YOOX NET-A-PORTER and Watchfinder were consolidated for five and four months respectively. The decline in wholesale sales reflected our continued efforts in channel inventory management and optimisation of the wholesale network.

Let us now move to Asia Pacific, where sales increased by 5% overall and accounted for 37% of the Group's total. If we exclude Online Distributors, sales growth was 4%. China and Korea both had strong double digit increases, partially offsetting declines in China's special administrative regions of Macau and Hong Kong SAR, China. The latter, with strong double digit sales decline, represented 8% of Group sales, down from 11% a year ago. All distribution channels enjoyed growth, with online retail being particularly notable, albeit from a low base, while retail and wholesale posted single digit growth. By business area, Online Distributors and Jewellery Maisons outperformed, showing strong growth.

Let us now look at the Americas region, where sales overall increased by 6%, supported by strong double digit growth at Online Distributors and high single digit growth at the Fashion & Accessories Maisons. When excluding Online Distributors, sales were stable versus the prior year period. From a distribution channel perspective, online retail posted strong growth and retail sales were in line with the prior year period. The decline in wholesale sales reflected our continued initiatives mentioned earlier. The region contributed 18% to Group sales.

Let us now turn to Japan, which represented 9% of Group sales and increased by 13%, both including and excluding Online Distributors. Sales were positively impacted by advance purchases ahead of the October increase in Japan's VAT. There was double digit growth at the Jewellery Maisons, Specialist Watchmakers and Online Distributors and across all distribution channels.

Finally, Middle East and Africa: Representing 6% of Group sales in the period, overall sales were 1% lower than the prior year period and 5% lower when excluding Online Distributors. Double digit growth at Online Distributors was more than offset by declines in other business areas. Unfavourable currency movements compared to the prior year period and wholesale network optimisation, as well as continued regional and geopolitical uncertainties, weighed on sales.

Let us now turn to sales by distribution channel.

First, the retail channel. Sales in our directly operated boutiques were up by 4% compared with the prior year period. There was growth in almost all regions, led by double digit growth in Japan. Other regions had softer rates of progression, while sales in the Americas were broadly stable. The positive performance was driven by growth at the Jewellery Maisons and Specialist Watchmakers, as well as solid growth from Watchfinder's retail network. Retail sales benefitted from 37 net store openings in the period, mainly concentrated in the Asia Pacific region. The contribution of our directly operated boutiques to Group sales was 52% overall, in line with the prior year period.

Second: Online retail, which represents sales from YOOX NET-A-PORTER and the online sales portion of both Watchfinder and the Group's Maisons. The current period benefitted from a prior year comparison base that included only five months of sales for YOOX NET-A-PORTER and four months of sales for Watchfinder. All regions posted significant growth, in particular in Europe and the Americas. This distribution channel increased its contribution from 14% of Group sales a year ago to 17%.

Third: Wholesale. This channel includes sales to franchise partners and to multi-brand retail partners. Wholesale sales were 1% below the prior year period, as increases in Japan and Asia Pacific were more than offset by declines in the other regions. As we said during our results presentation in May, our watch wholesale network optimisation continued in the first half of this financial year. Wholesale sales stood at 31% of Group sales compared to 33% a year ago.

Finally, let us move to the sales breakdown by product line. Almost all product lines showed growth. Jewellery and watches remained the Group's largest product lines, contributing 36% of Group sales each, broadly in line with a year ago. Jewellery sales rose by 4%, with growth at both Cartier and Van Cleef & Arpels, and in almost all regions. Watch sales equally increased by 4% overall, with increases in most regions and mixed performance by Maisons. Clothing and Leather Goods benefitted from the impact of the Online Distributors. Over to you, Sophie.

PRESENTATION : Ms Sophie Cagnard, Group Corporate Communications Director

Sophie CAGNARD: Thank you, Burkhart.

Let me start with the Jewellery Maisons, which include Cartier and Van Cleef & Arpels and, since 30 September 2019, Buccellati. (TC: 00:10:00) They reported an 8% increase in sales against strong year-on-year comparatives. Growth was broad-based across channels and regions, with particular strength in Asia Pacific and Japan. Strong increases in China and Korea helped offset a decline in Hong Kong SAR, China. Offline and online retail growth was spread across all regions, while wholesale growth was less balanced. The Jewellery Maisons' operating results were 4% up to €1.2 billion. Increased investments in store renovations and communication partially offset higher sales and a stable gross margin, resulting in an operating margin of 32.6%, 120 basis points lower than in the first half of last year.

Let us look at the main developments over the past six months. The successful launch of *Clash* in April 2019, as well as positive developments of iconic collections such as *Love* and *Juste Un Clou* at Cartier, and *Perlée* and *Alhambra* at Van Cleef & Arpels supported a high single digit jewellery sales growth. The low double digit increase in watch sales reflected the appeal of Cartier's existing collections, notably *Panthère* and *Santos*, and of new references for *Baignoire*. Retail growth across regions benefitted from newly renovated stores under the latest retail concept at Cartier, as well as from four net new store openings. Online retail sales were strong across most markets, most notably in the Americas, albeit from a low base. Wholesale sales showed good growth, driven by Asia Pacific and Japan. At the end of the period, we completed the acquisition of Buccellati. €7 million of acquisition-related costs were expensed. Due to the timing of acquisition, Buccellati has not contributed to Group sales or results during the first half.

Let us now review our Specialist Watchmakers business area, which consolidates the results of eight watch Maisons. Sales rose by 1%, with varied performance by region, supported by growth in Japan and, to a lesser degree, in Asia Pacific, where sales were negatively impacted by a double digit decline in Hong Kong SAR, China, which was affected by street protests and a relatively strong currency versus the renminbi. Retail sales increased mid-single digits, more than offsetting slightly lower wholesale sales.

The decrease in operating results was contained to 1%, reflecting good cost control and improved gross margin from efficiency gains and a larger share of retail. Operating margin, as a result, was 40 bps lower at 18.1%.

Most Maisons grew, with notable performances by A. Lange & Söhne, Panerai and Vacheron Constantin. New references within existing collections such as IWC's *Pilot* watches, Panerai's *Submersible* and *Overseas* at Vacheron Constantin have been well received. Retail sales increased across almost all regions, with particularly strong growth in Japan. There was good momentum in online retail, benefiting from sales through our Maisons' own websites and through the MR PORTER and NET-A-PORTER websites. Lower wholesale sales were partly a result of the ongoing prudent channel inventory management and discontinuation of wholesale points of sale.

Now let us talk about Online Distributors, which regroup YOOX NET-A-PORTER and Watchfinder. Sales of Richemont's Maisons' products recorded by YOOX NET-A-PORTER are shown under both the Maisons' respective business areas and Online Distributors. They are subsequently eliminated under intersegment eliminations. As Burkhart mentioned, the prior year's six month period included five months of results for YOOX NET-A-PORTER and four months for Watchfinder. Sales increased 32% to €1.2 billion. On a fully comparable period base, sales increased low double digits, with growth being broad-based across regions.

In line with plans, the operating loss increased to €194 million, reflecting a combination of lower gross margin and higher operating expenses. The lower gross margin reflected increased promotion and shipping costs. The higher expenses related to investments in technology and logistics, mostly for MR PORTER's technology and logistics platform migration, in marketing and commercial structures and in the international expansion of Watchfinder. In addition, the full six months' amortisation of intangible assets resulted in an additional €15 million charge compared with the prior year period.

Let us look at some developments during the six month period under review. At YOOX NET-A-PORTER, over 200 new brands were introduced. In addition, 90 exclusive capsules were launched across all sites, and included Saint Laurent on NET-A-PORTER and Brunello Cucinelli on MR PORTER. The quality of their personal shopping service was strengthened with the addition of more than 100 personal shoppers and client relations managers at NET-A-PORTER and MR PORTER, and with the creation of two more personal shopping and client relation hubs in the US. The NET SUSTAIN platform was created to support innovative sustainable fashion and already features 26 brands. On 30 September 2019, the NET-A-PORTER flagship store was launched on Alibaba's Tmall Luxury Pavilion in China by FENG MAO, the joint venture between

Alibaba and YOOX NET-A-PORTER. At launch, the carefully curated selection amounted to more than 130 designer brands for women and men and 12 Richemont Maisons. Watchfinder's growth has benefitted from international expansion, with new operations in France, Germany and Hong Kong SAR, China.

Finally, let us move on to the Other businesses, which primarily include the Group's Fashion & Accessories businesses and its watch component manufacturing activities. Sales were 1% up, with a moderate increase in Japan and double digit growth in the Americas. The increase was broad-based in online retail and most markets grew in offline retail. The operating results were positive and the improvement was primarily related to the non-recurrence of one-time items in the prior year period. Let us look at the developments of some of the Maisons.

There was mixed performance across the Maisons, with notable growth at Peter Millar. At Montblanc, leather goods sales increased, with good performance of large and medium leather goods, notably the luggage *#MY4810* collection displayed here in the slide.

Higher retail sales were supported by Montblanc and dunhill, which benefitted from new store openings, mainly in Asia Pacific.

Online retail sales showed a solid increase across regions, most notably in the Americas and in Europe, as our Maisons seek to increase their digital presence.

While wholesale sales declined overall, there was double digit growth in the Americas, driven primarily by Peter Millar. I will now hand you back to Burkhart. Burkhart, over to you.

PRESENTATION : Mr Burkhart Grund, Group Chief Finance Officer

Burkhart GRUND: Thank you, Sophie.

Let me walk you through the rest of the P&L, starting with gross profit. Gross profit increased by 8% overall, with currencies being broadly neutral. Gross margin was relatively stable at 62.3%, 20 basis points lower than the prior year period, reflecting the dilutive impact of Online Distributors. Excluding YOOX NET-A-PORTER and Watchfinder, gross margins improved to 67.6%, an increase of 100 basis points compared with the prior year period.

Let us now look at our net operating expenses, which rose by 10% at actual rates to €3.44 billion. They included €95 million of amortisation of intangible assets on acquisitions, most of which relating to YOOX NET-A-PORTER. Excluding Online

Distributors, net operating expenses rose by 6% at actual exchange rates. I will now walk you through the expenses by category.

Selling and distribution expenses, which accounted for 50% of total operating expenses, rose by 6% at actual exchange rates and by 3% at constant exchange rates, (TC: 00:20:00) slightly positively impacted by the adoption of IFRS 16. The increase was primarily due to higher depreciation linked to continuing upgrades to distribution networks and to further enhancement of retail and marketing capabilities.

Communication expenses rose by 20% at actual exchange rates or by 17% at constant exchange rates, mainly due to planned initiatives at the Jewellery Maisons, Specialist Watchmakers and Online Distributors, as well as the full six month period effect for Online Distributors.

Administration expenses grew by 15%, or 13% at constant exchange rates. This growth principally reflected investments in IT, digital initiatives and the inclusion of Online Distributors for the full six month period.

Fulfilment expenses increased by 78%, primarily driven by an acceleration of online retail and the full period effect just mentioned.

Other expenses amounted to €102 million and included the acquisition-related amortisation of intangible assets previously mentioned. Net operating expenses as a percentage of Group sales increased from 45.9% a year ago to 46.6%.

This leads us to operating profit. The 3% increase in operating profit reflected higher sales and gross profit, partially offset by increases in operating expenses, as just discussed. The operating margin, at 15.7%, is down by 90 basis points compared to the prior year period. Excluding Online Distributors, operating profit increased by 9% and operating margin by 70 basis points to 21.8%.

Let us now review the P&L items below operating profit, starting with finance costs. Net finance costs for the period amounted to €110 million compared to €47 million in the prior year period. The €63 million increase can be mostly explained by two items: First, the first-time adoption of IFRS 16 resulted in a lease liability interest expense of €36 million. Second, a €62 million loss was recorded on monetary items, an increase of €24 million compared with 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.

Let us now turn to the profit for the period, which decreased to €869 million, reflecting the €1.378 billion post-tax, non-cash accounting gain on the revaluation of YOOX NET-A-PORTER shares held prior to buy-out. Excluding this gain, profit for the period was broadly in line with the prior year period. Following the Swiss tax reform, our effective tax rate amounted to 19%, reflecting the projected rate for the full year.

Cash flow generated from operations increased by €455 million to €1.188 billion. The increase reflects an increased operating profit, the effect of the adoption of IFRS 16, and the positive impact on working capital relating to the non-recurrence of prior year inventory buy-backs.

Let us now turn to our gross capital expenditure, which amounted to €280 million, in line with the prior year period. As a percentage of Group sales, it decreased slightly to 3.8%, compared with 4.1% in the prior year period.

Looking at Capex by nature, 44% of the gross expenditure was related to points-of-sale investments, including internal and franchise boutiques. Investments were focussed primarily on store openings, renovations and relocations.

Notable projects included the new Van Cleef & Arpels store in Dubai Opera, Panerai at the Dubai Mall of the Emirates, eight stores at China World in Beijing, including Cartier, Panerai and Chloé, A. Lange & Söhne at Deji Plaza in Nanjing, the dunhill store at Lee Gardens in Hong Kong SAR, China and the Roger Dubuis store in London New Bond Street.

Manufacturing investments increased from 7% of the gross capital expenditure to 12%, these being primarily related to research and development activities.

Other investments accounted for the remaining 44%. They primarily reflected investments in information technology at YOOX NET-A-PORTER.

Let us now turn to free cash flow. Free cash inflow amounted to €341 million, an increase of €33 million compared to the prior year period. The increase mainly reflected higher cash generated from operations, which was partly offset by higher taxes paid.

And now on to our balance sheet, which remained very strong, with shareholders' equity accounting for 55% of the total, in line with the prior year period. Net cash decreased to €1.77 billion at 30 September 2019, from €2.53 billion at 31 March 2019. The reduction mainly reflected the annual dividend payment, which amounted to €1.02 billion, and the acquisition of Buccellati.

It is now time to wrap up the presentation by reiterating the highlights of the first six months of our 2020 financial year. The first half of our 2020 financial year was characterised by growth at actual rates across all regions, distribution channels and business areas during these uncertain times, led by our Jewellery Maisons and Online Distributors. More specifically, there was strong growth in China, Korea, Japan and the United Kingdom. The **Jewellery Maisons** delivered a high level of profitability, bearing in mind first the significant decrease in Hong Kong SAR, China, a market heavily exposed to jewellery and watches, and second, investments in marketing and communication to consolidate their leadership positions. The **Specialist Watchmakers**, equally impacted by the events in Hong Kong SAR, China, showed good cost control and limited the reduction in operating margin to 40 basis points. They have transitioned from being supply-led to demand-led and will soon complete their programme of discontinuing relationships with unhealthy multi-brand retailers. Our Fashion & Accessories Maisons, grouped under **Other**, registered limited growth and profitability and strengthened their organisations. **The Online Distributors** continued to invest in IT and communication in order to succeed in their migration to a new technology platform, finance their international expansion and reinforce market leadership. These investments led to increased operating losses, but will support future growth. Overall, our operating profit grew to €1.6 billion, reflecting higher sales and gross profit. Growth in expenses was contained, although slightly exceeded sales growth as a result of the investments just mentioned. Excluding Online Distributors, operating margin progressed from 21.1% of sales to 21.8%. We have continued to transform our business model as our organisation adapts to an increasingly connected world. We have progressed well in our new, direct approach to communication and client engagement, and are now focussed on developing our omnichannel proposition.

The long-term strategic approach we take in everything we do has led us to strengthen our portfolio and expand our reach. First, we acquired Buccellati, the renowned Italian jeweller, to benefit from the major potential of the largely unbranded jewellery market, capitalising on the Group's strengths. Second, we signed a partnership with the talented and acclaimed designer Alber Elbaz to form a start-up named AZfashion. It is too early to share more at this stage, but we are looking forward to seeing this partnership go live. Watchfinder is another long-term investment, with a gradual expansion of both the territories it covers and the services it offers. It now operates in four markets. We aim for it to become the world's easiest and most trusted place to sell or buy pre-owned luxury watches. At Richemont, as our Chairman, Mr Rupert, commented, the agility, creativity and skills of our teams and our strong balance sheet position us well to meet our long-term ambitions. This concludes our presentation. I would like to thank everyone at Richemont for their hard work. We will now open the floor to questions. Thank you.

Sophie CAGNARD: Thank you, Burkhart. We will start the Q&A session shortly. Before raising your questions, please announce your name and your company name, and also do restrict yourself to two questions and not two multi-part questions, please. Thank you. So the floor is now yours.

QUESTIONS AND ANSWERS

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

Jon Cox – Kepler Cheuvreux

Jon COX: Yes, good morning, Sophie. Good morning, Burkhart.

Sophie CAGNARD: Good morning, Jon.

Jon COX: Two questions for you. Yes, just on the online operating loss in H1, (TC: 00:30:00) should we be expecting a similar loss in the second half of the year? I think previously you said you want to break even there over the next few years. I'm just wondering if you can give us an update on that and whether there's anything one-off of nature in H1. Then question on the jewellery product, which seemed to slow down quite materially in Q2. Are you worried about market share losses there in jewellery, or would you say it's really a reflection of what was happening in Hong Kong? Was there anything else going on in that jewellery product in the second part of your first half, in the second quarter? Thank you.

Burkhart GRUND: Yes, Jon, good morning. Burkhart here. Let me try to address your two questions or concerns. First one, Online Distributors, there's nothing one-off in there. What we're doing, and we've said it many times, is they're in the middle of several quite significant projects. They are first and foremost focussed on the re-platforming and that requires investment, and that's what has happened in the first half of this year. Second, you have seen that we have opened the joint venture with Alibaba, FENG MAO, and we have started trading by the end of the first half of this year. And the third project that we're working on is actually preparing the omnichannel proposition, which will enable the Richemont Maisons to transition their operations over to YOOX NET-A-PORTER. So these three are ongoing. This is investment, that is ongoing and that will continue for the foreseeable future, until we're through with that period of intense projects. In addition, they have invested in communication, and in addition, there is also the full-period effect of these two businesses that are now in our six month numbers. On the full year, no guidance, but this is where we stand.

On the Jewellery Maisons, there are two things that you must bear in mind. One, yes, Q2 actually was a strong negative impact from Hong Kong SAR, China, stronger than in Q1, very clearly, and you know why, we all read the news. The second element, that while we're, I'd say, not too worried about the jewellery business, is that there are two elements in the jewellery business, there is the jewellery and then there's the high jewellery business. The jewellery business has continued to motor on as strongly as we've seen in previous years, whereas the seasonal effect of high jewellery will play out more in the second half of this fiscal year. It goes from one year to the other, it materialises earlier or later in the year, so we're not worried about that. The projections there are quite good as well.

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

Dino: Next question from Antoine Belge, HSBC. Please go ahead.

Antoine Belge *– HSBC*

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

Sophie CAGNARD: Good morning, Antoine.

Antoine BELGE: Yes, good morning. So, on Tiffany, I think five or six years ago, Rupert gave me a hard time when I asked if Richemont could afford seeing Tiffany being acquired by a competitor. So, you've been focusing more on smaller acquisitions like Buccellati, so can you just say a few words about the potential emergence of a stronger competitor in your key category? My second question relates to the costs. I think you explained the pockets of investment. Is it possible to say if those investments, I mean there seems to be a structural, not much, just H1, but maybe the communication spend could be, I don't know, more weighted towards H1 this year. Any comments? Also, a bit more comment about the timing of the renovation of stores? Do you think that the bulk of it was done in H1, it seems to be more like a multi-year renovation plan to me, but any insight there? Thank you.

Sophie CAGNARD: Thank you, Antoine.

Burkhart GRUND: Listen, Antoine, if our Chairman has given you a hard time on Tiffany, I could refer you back to him and ask you to ask him that question. Joke aside, what we focus on, clearly, are our Maisons, the names we have in that space, and I think we have three of the best assets, or Maisons, brands, in the jewellery space, who have very strong leadership positions there. Just look at what we did with Van Cleef over the last 15 years. I think they have or we have shown with Van Cleef that we're able to turn a very small Maison into an industry leader, and I think Cartier, the evolution of Cartier over the last 10, 15 years also speaks to that. Buccellati is another very strong asset, by the way, it's something that, or a Maison which, with its distinctive style and heritage, is very complementary to the portfolio we have. We clearly focus on the Maisons that are part of Richemont, that make absolute sense for us because they are luxury Maisons, and we don't want to entertain these thoughts.

Second, you were talking about the timing of expenses. Nothing really to call out here. Online Distributors, the investments we're calling out here are a continued effort. We've always said that mid-term, we want to progress to EBITDA or to EBIT-neutral position. We're on track for that. These investments were planned, these investments were executed as planned, and we're on track to deliver on the technological side, if we talk about the Online Distributors, what we had planned for.

Marketing spend, yes. Okay, this was strong in the first half of the year, but nothing special to call out around that. It depends on the plans of the Maisons and the way they have structured their fiscal year, so nothing I would call out here. This is as planned.

Antoine BELGE: Okay, just maybe on communication, just to make sure I understood, so it was planned, but does it mean that over the full year, we could see a similar increase in the communications-to-sales ratio?

Burkhart GRUND: Well, if you talk from 9.1% to 9.2%, that's a massive increase of the ratio on sales. I would not agree with that, but you know, Antoine, that we don't guide on the full year, so it is what it is.

Antoine BELGE: Okay, thank you.

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

Dino: The next question is from Rogerio Fujimori of RBC. Please go ahead.

Rogerio Fujimori *– RBC*

Rogerio FUJIMORI: Oh hi, Burkhart, hi, Sophie. Two questions, please.

Sophie CAGNARD: Hi, Rogerio.

Rogerio FUJIMORI: Hello. First on Specialist Watchmakers, the division has gone through two years of transition, so how should we think about, I think, wholesale rationalisation, trade stock levels and sell-in versus sell-out in the second half? So this is my first question. The second question on the YNAP-Alibaba JV that just went live, should we expect a material incremental sales contribution in the second half, and what are the next steps for this JV and potential investments required? Thank you.

Sophie CAGNARD: Thank you, Rogerio.

Jérôme LAMBERT: Good morning. Jérôme Lambert speaking. So when it comes to the Specialist Watchmakers, you indeed mentioned that the category has been focussing a lot on true demand. You will remember that we proceeded to important buy-backs a few years ago, primarily with Cartier and then with SWM, since then, and that's since the start of the year, we have been monitoring very closely our sell-in and sell-out. We can say again today that our sell-out is superior to our sell-in, which is showing the commitment and the discipline that the category has in developing that new business model. It's also proven by the growth in retail that the category has been reduced (TC: 00:40:00) during that period. When it comes to the distribution and the quality of the distribution, the category has been reducing the number of wholesale doors quite significantly over the period in certain markets. Surely we come slowly to the end of that reduction.

When it comes to FENG MAO, thank you for your question, indeed a very important part of the agenda. I'm sure you noticed that it was only 12 months ago that Alibaba, YOOX NET-A-PORTER / Richemont launched the project, and you know that we have been trading now for one good month. The results are very promising and I cannot disclose, you can imagine, any direct numbers. I can just refer to the quality of the service. It's already reached a 4.9 out of 5 service rating ratio. Now, the team is fully working on their 11/11 Singles' Day and it will become more and more a real active part of our business. Thank you.

Rogerio FUJIMORI: Thank you.

Sophie CAGNARD: Next question, please.

Dino: The next question is from Edouard Aubin of Morgan Stanley. Please go ahead.

Edouard Aubin *– Morgan Stanley*

Edouard AUBIN: Yes, good morning. Edouard Aubin, Morgan Stanley. Just two questions for me as well. Just to follow up, on Speciality Watchmakers, so we talked about the top line, but just to come back on the bottom line, so I guess if we exclude the impact of the inventory provision you had last year, your profits are down about 10%-11%, I think, year-over-year, in the first half. There have been some talks on the Geneva blogs about some cost-cutting activity initiatives launched by Richemont in the second half. So, I know, Burkhart, you don't give guidance, but just a theoretical sensitivity, if sales were to more or less remain the same in the second half versus the first half, would the deleverage be relatively similar in percentage terms, or would that be offset by some of the proactive initiatives you're taking on cost? My second question relates to IFRS 16. Is it fair to assume that the impact on EBIT in the first half was a positive around €50 million to €60 million, and if so, if you could give us a rough split by division in terms of impact, that would be quite helpful? Thank you.

Sophie CAGNARD: Thank you, Edouard.

Burkhart GRUND: Edouard, good morning. So Specialist Watchmakers, listen, very simple, we wouldn't comment on blogs or on media speculation, because what we do running our businesses, what is internal remains internal and I won't put that out in the public space. What I can say, and I refer to what we have been saying, what I have been saying for quite a while now, is that the Specialist Watchmakers, the operating contribution, the numbers have dipped below 8% or below 9%, and we said we are on a mid-term trend to rebuild operating contribution, to rebuild profitability. This is the plan for this year once again, and now I would not read too much into H1. H1 is a snapshot we take after six months. We don't manage the business for a half-year result or a full-year result and investments are spread out through the year the way they are spread out through the year. We've touched on communication and expenses for the first half for the Group. This has also played out like this at the Specialist Watchmakers, so I would not read too much into it.

What I have said before, what I have said in May is that Specialist Watchmakers' retail sales are expanding. The wholesale sales are still consolidating, because we make them consolidate. As Jérôme mentioned, we are still in the process, and we're winding down, of closing distribution. In the background, we have a focus on margins, on retail margins, we have a focus on tight cost control and that is the plan that has played out very well last year. This is the plan that still is in place for this current fiscal year. IFRS 16, yes, I think you're right with your numbers. I won't comment on the divisions, but if you just look, and I think it's very clear, if you look at the spread out of the assets, or the right-of-use assets, obviously the Jewellery Maisons, followed by Montblanc, followed by YOOX NET-A-PORTER, have the biggest portion of the right-of-use assets, and thus the remaining slightly positive impact on the operating contribution. Then, it's followed by Specialist Watchmakers, F&A Maisons and then the Richemont assets or Richemont structure-related assets and leases. It goes pretty much in line with where we have deployed the capital. It's, on a division-by-division level, not really material if you look at the overall numbers.

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

Edouard AUBIN: Okay, thank you.

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

***Mélanie Flouquet** – JPMorgan*

Mélanie FLOUQUET: Yes, good morning. Thank you for taking my two questions. So the first one is regarding the jewellery product category, not Jewellery Maisons by division, but by product category. If I look back, it sounds like this product category has actually decelerated for 12 months. I know that there is volatility in the high end of jewellery on a quarterly basis and on a monthly basis, but for 12 months, we are now on mid-single digits against strong double digits previously. Can you tell us what is happening to this product category in comparison to other winning product categories in luxury? For instance, we are not seeing this kind of deceleration trend in leather goods, so I was wondering whether you could share with us what you think is happening there in the last 12 months. Actually, as a backup to that, we've also seen, in leather goods, a big gain in market share of the leading brands. This doesn't seem to be the case in jewellery, so what is that attributed to as well, in your view? So that's my first question.

Burkhart GRUND: Oh, that's the first question. That was already two questions, Mélanie.

Mélanie FLOUQUET: It's all about jewellery. The second is much shorter, it's about your release says that your gross margin expanded at the Group level because of a product mix positive impact. I am not seeing this in the gross margin of Jewellery Maisons, which is actually flat, so I was wondering whether you meant a divisional positive impact, or what did you mean by product mix impact? Thank you.

Burkhart GRUND: So, let me walk through your three or four questions here. Well, a) I'm not going to compare jewellery development to leather goods, because I don't really see the bridge here. If you look at our numbers, if you look at the Maisons side, meaning excluding the Online Distributors, right, the jewellery growth is at 7% at actual rates and the leather goods at 2% at actual rates, so I'd say jewellery is still taking a lead here. If you look at the total Group, the picture is slightly different, because you have the trading through the Online Distributors. Now, the Jewellery category, it's a simple one here. The jewellery has continued to expand very strongly and the high jewellery invoicing will happen in the second half of the year, so that's where we see the difference or what you take as a slowdown in the growth rate. So, that is, in a nutshell, the way we view the world. We're pretty happy about the jewellery expansion and we are pretty positive about the high jewellery expansion coming in the second half of the year.

On top of that, yes, we have had, in Q2, clearly much stronger than in Q1, the impact of Hong Kong SAR, China. Hong Kong is a market for us which is very strongly exposed to jewellery and to watches, and that obviously has hit us in Q2 much stronger than in Q1. I think Q1, we flagged out that the market was down by about 10 percentage points, something like that, and then in Q2, the drop was quite severe in a very short period of time.

Sophie CAGNARD: Then (TC: 00:50:00) the gross margin.

Burkhart GRUND: What was the question on the gross margin?

Sophie CAGNARD: The product mix impact, given that gross margin is relatively flat at the Jewellery Maisons.

Burkhart GRUND: Well, I can't go into those details, because that would mean I would call out the development at Cartier and the development at Van Cleef & Arpels. So, I can't really go into that level of detail.

Mélanie FLOUQUET: Well, I'm sorry, I'm trying to understand the release. You talked about the product mix positive impact in your gross margin, which is, on an underlying basis, expanding, yet I don't see it in the Jewellery Maisons. You don't need to expand, it's not visible in the Jewellery Maisons. Something else is happening on the [unintelligible at 00:50:26]. Should that be divisional mix?

Burkhart GRUND: Then it might come from a different division, in this case from the Specialist Watchmakers.

Mélanie FLOUQUET: Is it a product mix or it's rather a divisional mix impact? Indeed, Jewellery Maisons are higher gross margin and expanded faster, so is this just the wording that wasn't quite right, or Specialist Watches had a huge expansion?

Burkhart GRUND: Well, Specialist Watchmakers, by definition, is watches, so that is where the expansion of the gross margin has come from. So, you might call it a product mix or you might call it a business area mix, but in this case, it's the same. It's the Specialist Watchmakers business area, obviously coming from watches.

Mélanie FLOUQUET: Okay, that's useful. Thank you.

Burkhart GRUND: So, if there was a confusion, then I hope it's cleared up now.

Mélanie FLOUQUET: It is, thank you.

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

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

Thomas Chauvet – *Citi*

Sophie CAGNARD: Hello, Thomas.

Thomas CHAUVET: Good morning, Sophie and Burkhart. Two questions for me, please. The first one for Burkhart, were you surprised by the 120 bips margin pressure in the Jewellery Maisons? How much do you attribute to the rising costs of doing business in branded jewellery, it's a competitive segment, versus maybe some exceptional factor this half, the revenue slowdown in high-margin markets like Hong Kong, you mentioned it, the step up in store renovation, the shop increasing events within marketing? Secondly, a question for Jérôme Lambert on the Fashion Accessories Maisons. Many changes there at the same time. You took over the division recently, following the departure of Eric Vallat, the JV with Alber Elbaz, you reorganised manufacturing last year in Italy, relaunched handbags at Cartier, changed the CEO of Chloé, etc, etc. I know it's been the same question for the last 15 years, but do you really believe in your ability to succeed in fashion? What is different this time? Can you generate strong returns with that portfolio of brands in what is under totally an unattractive segment of the luxury market? Thank you.

Burkhart GRUND: Thomas, good morning. Let me start with the Jewellery Maisons. Are we surprised? Yes and no. We're surprised, obviously, by the Hong Kong SAR, China, development, I think as the rest of the industry and even across other industries. Of course, we are surprised about that, and as you know, this is one of our most profitable markets, because demand is very concentrated. We have a good network of boutiques there, but we don't have a huge territory to cover, so from a cost-benefit relationship, that's a very positive and structurally strongly profitable market. That demand is now or has shifted partly to mainland China, to Korea, to other tourist destinations, so yes, that fall and that severity, probably, of the fall has surprised us to a certain degree. The rest, I'd say, of the activities in the Jewellery segment are not surprising for us, because it was planned as such, and we've referred to that in the past.

The Jewellery Maisons generate a very high level of profitability, of operating contribution, and a high level of cash contribution and these are very big businesses, as you know. They are leading brands in their space and we've added what we believe, against the background of its heritage, etc, and its strong designs, can be, in the future, one of the leading brands, we've added the brand Buccellati. We've almost always said, well, these are businesses in which we continue to invest so that we can keep their leadership position. Cartier, as we said, is in a multi-year investment phase into the retail network, so they're in the middle of that. We have, on the Jewellery Maisons side, also invested in communication in the first half of the year, so none of that comes as a surprise to us.

Just another word on that, we don't manage for quarters or half-year results or even full-year results. We try to focus on the long term across business years or business periods, so this is a snapshot at 30 September. We don't manage for 30 September. So investments have been deployed into the Maisons in the Jewellery space in the first half of the year, and over the years, we'll continue to do so, because the contribution is still very high, as you can see.

Jérôme LAMBERT: Yes, thank you for your question for Fashion & Accessories activity, which is embedded into the Other category, and as it is embedded in the Other category, sometimes it doesn't give all the time the capability to read completely the numbers. If I would take the last five years of that category evolution for the Maisons that are still in the portfolio, the growth rate would be at least at the rhythm of the rest of the Group. In terms of absolute performance, maybe not enough, but at least there's not been a source of decreasing the top-line performance of the Group there. A Maison like Chloé has been more than doubling its turnover in less than five years. A Maison like Peter Millar in the US has been very significantly growing over that period and having a very high growth rate during the first semester. So, there are some very interesting successes in that category, as mentioned during the presentation.

The changes that you mentioned are indeed, on top of that, a source of positive evolution of our business and were also meant to be necessary. We have appointed a new CEO for Alaïa with Myriam Serrano, we have a new CEO at Chloé with Riccardo Bellini, Riccardo being a strong professional of the brand. He's been working at Margiela and at Diesel during the last part of the period and we know that having professionals in this Maison is a key element of success. What changed on top of that is that also one good year ago, the link between YNAP and the rest of our activity has been further reinforced. We believe that working closer with YNAP will further help, particularly in the perspective of China, where, with the launch of our JV, FENG MAO, we can build a strong bridge or strong points of success for the future in luxury digital distribution.

Thomas CHAUVET: Thank you.

Sophie CAGNARD: Next question, please.

Dino: The next question is from Luca Solca of Bernstein. Please go ahead.

Luca Solca *– Bernstein*

Sophie CAGNARD: Hello, Luca, good morning to you.

Luca SOLCA: Yes, hello, good morning. A question on strategy. Could you help us understand the strategic goals you have in the second-hand business and how do you see this develop over the next three to five years? Your investment in Watchfinder seems to indicate that you have a toe in the water there and I wonder what the opportunity is and how you would expect to scale this business at the Group level. I have a similar question on the acquisition of Buccellati. I'm not sure whether you stated and sized your ambitions in this case, but if the answer is no, I would like to ask a reserve question, if I may. Thank you.

Jérôme LAMBERT: Yes, thank you for your question on circular economy. Indeed, we do believe that a circular economy is important in the luxury landscape. For Watchfinder itself, you know Watchfinder, being the leader of second-hand watches in the UK, (TC: 01:00:00) excellent in its organisation, excellent in its development, and it's a very already omnichannel organisation with a superb combination between the website, the showrooms and the boutique. Since June, we started the internationalisation of Watchfinder, so we took the company first to France, and then here, we see a real success, so that's largely over our expectation. Then we have opened Hong Kong SAR, China, in August, Germany in October, Switzerland is about to open now in the month of November, and then we'll go to another continent over next year. Then our proof of concept was France, and here, we see it's so far only the digital activity. We have not yet launched the other frames of activity, meaning showrooms and boutiques, to complete that, but already the localised digital activity is very strong. We saw a very interesting development over the business itself, because that's how it develops, through the internationalisation, and we don't see how or why, if it has been so successful in the UK, it cannot be repeated elsewhere.

Then we see as well a very interesting combination with our core watch business, as it extends new services or new potential of services for our Maisons. There as well, we are launching a proof of concept to check and to see how it can combine with the retail activities, but that's indeed very promising. Then we do believe that it is part of, in the future, the so-called watch business.

Luca SOLCA: Understood.

Burkhart GRUND: The question on Buccellati, listen, let me just put it like this, if you look at Cartier, if you look at Van Cleef & Arpels and then if you look at Buccellati, I hope you would agree that is a very natural addition to the other two Jewellery Maisons, because it has a very strong heritage, very strong patrimony and very distinctive style. It's also positioned at the high end of the Jewellery business, so this is something that is very close to our core competence, I would say, and it is something where we see a very clearly delimited playing field in Jewellery, in this Jewellery space, and we're very happy with that acquisition. We have not spelt out any ambitions. In general, we do, but we have not put that to the market, so that means you have a follow-up question.

Luca SOLCA: Wonderful, thank you so much, Burkhart. Yes. Thank you very much for the bonus question. I was curious to get a bit more colour on some of the brands that you haven't mentioned within the Speciality Watchmakers, Jaeger-LeCoultre and the impact of the Polaris new products, or Baume & Mercier. I also noticed that you had one winner in the Grand Prix d'Horlogerie de Genève that was carried out this week, out of 18 awards that were given, and Vacheron Constantin being beat on that. Are you happy with the profile you're having in the watches business or would you want to have a more prominent role in this area in terms of innovation and ability to capture the scene?

Burkhart GRUND: That's a good follow-up question to Buccellati.

Jérôme LAMBERT: Yes. Thank you, Luca. We said, indeed, if you want to extend your collection in terms of watches, there are still a lot of very interesting watches to see right now. You probably saw that A. Lange & Söhne just introduced its first steel watch, which is very, very interesting in terms of offer. You know that in Grand Prix de Genève, Richemont is not present with all the Maisons, and that in the Grand Prix, if I'm not wrong, neither Rolex or Patek are present, for example, so I guess you can draw somehow some conclusion out of there. No, if you see the models that have been launched, with the Spitfire IWC, if you see the new Odysseus at A. Lange & Söhne, if you see the new diving watches in Panerai, they are all showing that the success of these Maisons are being very connected to a recent new lines launch or extension, all of that done in a very reasonable way, because you have also noticed that the assortments are more focussed than before and that the Maisons are very consistent in managing their rhythm of innovation and their carryover collections.

The success of the global, of the watch Maisons, if you read it in, how we say, again, the trend of Hong Kong SAR, China, it's in fact quite strong, because you know well the importance of Hong Kong in terms of absolute business for the watch business, so achieving that kind of performance with that strong headwind means you have very strong success. One of the territories where the Watch Maisons have a huge success these days, is China, mainland China. In mainland China, I would say the growth rate is quicker and is accelerating. Here, we are more than happy with the development of the watch business. Burkhart was mentioning earlier in the talk the improvement of the bottom line that is done in the same time, and I can repeat what I was saying, our sell-out continues to be quicker than our sell-in. For all those elements, the rebuilding of the category to achieve as well stronger and stronger performance is continuing in a very strong way.

Sophie CAGNARD: Okay, thank you. Thank you, Luca.

Luca SOLCA: Thanks very much. This is very helpful. Thank you.

Sophie CAGNARD: Thank you. Next question, 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, Sophie and Burkhart. Thanks for taking my question.

Sophie CAGNARD: Good morning, Francesca.

Burkhart GRUND: Jérôme is here as well, Francesca, please.

Francesca DI PASQUANTONIO: Yes, that's right, good morning as well. I have a couple of remaining questions. The first is about the renovation process of the store footprint at Cartier. It's a multi-year journey, but what I wanted to understand is more, you know, qualitatively how you are seeing the process impacting the performance of Cartier on the positive or on the negative side, and your expectations going forward. The second question is going back to the online, and although we were, I would say, quite prepared to see that this business would continue to require significant investments and step-up in costs, I was a bit surprised by the magnitude. What I wanted to understand is whether you were surprised as well, or whether this was something that you had already envisaged and how we should be thinking about expectations for the future, i.e. is this going to normalise over the next 12, 18 months? Thank you.

Burkhart GRUND: Thank you. Listen, Cartier, I guess you're referring to Cartier, right, because we've been discussing this for, yes, I'd say a number of years, ever since Cyrille Vigneron, with his team, launched this programme. I mean, basically we're talking about a project a week, throughout the year. This is what we're talking about. I'd say in general terms, obviously Capex and depreciation are negative and sales uplifts out of renovated stores are positive, right? Listen, we have to do this. Cartier management is convinced that they have to do this, for the simple reason that if you want to be a (TC: 01:10:00) leading brand or the leading brand in the jewellery space, you have to fulfil your customer expectations. I've said it before, that when Cyrille Vigneron came in as CEO of Cartier, he made a very simple but structured assessment with his teams, and one of the points that came up was that the Cartier boutique network needed a bit of refocussing, which he's done quite quickly in terms of closing some of the stores, because the number has come down step by step over the last three years, and then upgrading the customer experience in some of the stores or in most of the stores, through a new boutique concept, but also focussing on the flagship footprint across the different regions. I'd say this has continued as planned, so nothing is surprising for us in this.

When you renovate a boutique, what you want to have coming out of that, and that's what we have been doing over many decades now, is an uplift in sales, because you re-adapt, you readjust to what your current customer expectations are. So, there is a clear link. We just don't do this for having nicer stores, but they also have to produce the results that justify these investments. Then obviously we have, but for Cartier, and that is more limited, we open new stores whenever there is a new opportunity. For example, now the timing might be off, right, but Hong Kong SAR, China, there is a new development there, K11, where several of our brands have opened with great success. You have Hudson Yards in New York, it's a new development, and we had to shift distribution, which we stayed with Hudson Yards. Cartier has closed the store on 59th Street-Madison and is now focussing on the Maisons on Fifth Avenue and Hudson Yards. So, there's a constant shift in order to adapt, and we've had that in other places of the world as well. We're focussing also not only on the flagship stores, these are of prime importance, but also on renovating the rest of the network. As I said, it's about one project per week, so that's quite a significant and heavy charge also for the teams.

Francesca DI PASQUANTONIO: You wouldn't say that this has created disruptions and negative repercussions on overall top line? There hasn't been anything which has gone differently from your expectations in terms of the execution?

Burkhart GRUND: No. Okay, I mean, you know how it is, when we renovated the Mansion, okay, that's a big store, and then you have the effect of closing the Mansion and then reopening the Mansion, but these are really, I would say, more technical effects. What would be more worrying, and that I cannot confirm at all, is that once you close down a major store for three to six months to renovate it, and then when you reopen, the traffic doesn't come back. You have an increase in traffic, that's what we see in our businesses, when you renovate a store, not the other way around.

Francesca DI PASQUANTONIO: Okay, thank you.

Burkhart GRUND: On the Online Distributors, was it surprising for us? No, it was not surprising for us. It was planned as such. You know, they're going through the three projects or major projects that we called out. The re-platforming, that is progressing, the JV with Alibaba, that has opened, and then the preparation to receive the operations from the Richemont Maisons, so that requires investment. We're not worried, we're not surprised, because it was planned as such and that is the nature of the game. When you're in a business or in a distribution space of the market that is dominated by technology, you have to invest into technology, and not only technology, but also logistics and fulfilment capabilities behind to be able to preserve your leading edge, and that's what's happening there.

Francesca DI PASQUANTONIO: Okay, thank you.

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

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

Sophie CAGNARD: Hello, Louise.

Louise Singlehurst – Goldman Sachs

Louise SINGLEHURST: Good morning to all. I'll obviously start off by saying good morning to Jérôme and Burkhart and Sophie. Thank you for taking my questions. Just two follow-ups from me really.

Burkhart GRUND: You brought the smile back on his face.

Louise SINGLEHURST: Well, sadly, my questions are going to be on YNAP rather than the pure fashion, but just to think about the progress, and I know you've touched on a couple of these comments already, but in the context of the reminder about the long-term objectives for the Group are not really focussed on the quarterly numbers, can you just help us think about how you're balancing the delivery of the top line in the Online Distributors, with the operating profit question? We've obviously had quite a promotional environment in the last few months, and I suppose, just circling back on the gross margin comments, can you give us any colour between the gross profit and the Opex component within the Online Distributors? Then my second question, just following up from that, I'm not after any longer-term guidance, I know we're not going to get it, but in terms of colour on the progress at YNAP in terms of that EBIT evolution, and this obviously follows on from comments on the prior question, but is this year the trough that we should expect, given the fact you've got the benefits of China coming through, but you've obviously also got a little bit more IT spend going through the Opex line? If you can help us understand the shape of the EBIT profile over the medium term, that would be incredibly helpful. Thank you.

Jérôme LAMBERT: Thank you for the questions here. They are describing big time the agenda of the Maisons. First, it's about having YNAP being more global, and that's an important part of the agenda. You remember, a long time ago, we said the announcement of the JV for the Middle East. This one is to come. Last year, we announced the JV in China and this one is happening just now, and we see there very promising success. What we can see already is that the strong level of operation, excellence in execution, excellence in service, so that's where we see one big part of the agenda. A second part of the agenda is enhancing the quality of the service. The technical platforms that we were using before were not making possible localisation. That is why, for example, in Japan today, you still have only YOOX operating in Japan.

With the new technical platform, we'll be capable to have our major digital Maisons to operate in Japan next to the other territories. The new technical platform will also allow a larger spectrum of payment possibilities and much more capability to serve our clients at large and our VIC in particular.

So, all that triggers new conditions of trading or so-called cost of trading, cost of doing business, and that's what our margin evolution is translating, more than any other particular aspects. You know, on top of that, that in YNAP, you have the combination of NAP, Mr P, The Outnet and YOOX, and two of them being active in full price, the other one not only in full price, so you have to read these numbers as well as a combination, as the four factors, more than being, as we say, the translation of a more promotional rhythm of activity. Do we believe in the business? Yes, and what is indeed to be noticed, in 12 months, if you remember, 12 months ago, the question was is that business model relevant or not? Could other formats of business, meaning platforms, being the future in acquiring goods or managing inventory, creation being part of the future? The last 12 months have showed that creation, acquiring goods, managing inventory, offering rare products in a qualitative way has a strong future and has been winning (TC: 01:20:00) over the last 12 months, which is very important if we speak strategy and further development.

Finally, what it's also for, it's very important, and YOOX NET-A-PORTER have been working a lot as well with most of their brand partners, that's developing omnichannel capacities and capabilities. Already one major brand under (ph 01.20.25) Richemont is experiencing a new format, called New Era Light (ph 01.20.31), which are advanced omnichannel capacities and possibilities. We see, in this combination of digital and brick-and-mortar, a very strong source of business development. We do believe that with the evolution that we see of the world of wholesale, and we're experiencing it over the past within the watch business, it's very important to reinvent the relation with the clients. That relation is very digital, is very one-client-focussed, and then in that constellation of what these channels are offering, and that more direct relationship between client and Maison, that we see a bright and very strong source of value between the traditional Maisons of Richemont and the historical partner of YNAP and YNAP itself.

Louise SINGLEHURST: Jérôme, thank you very much.

Jérôme LAMBERT: Thank you.

Sophie CAGNARD: Thank you. Next question, please.

Dino: The next question is from Zuzanna Pusz of UBS. Please go ahead.

Sophie CAGNARD: Hello, good morning.

***Zuzanna Pusz** – UBS*

Zuzanna PUSZ: Thank you for taking my questions.

So, first of all on Online Distributions, I was just wondering if you could share with us your thinking regarding the whole, I guess, luxury online business going forward because I presume it's not only my impression, it has become incredibly promotional and it feels a little bit like it's getting worse and worse because one retailer does 10% off, the next one does 15% and the next one does 20%. Do you have any plans to respond to that? Are you planning to focus more on the top line so we can expect to see more discounting, which will come, obviously, at the expense of your profits, or are you planning to maybe prioritise the profitability of the business going forward? Just even high-level thinking would be interesting, because it does feel a little bit like a race to the bottom. Secondly, on the outlook, now I do understand you don't really guide, but I think it has been commented before that you were expecting Opex to grow slower than sales. Now, I was wondering if this was still your expectation going forward, and especially when it comes to Jewellery Maisons because the reality is that margins have been really impressive, resilient, staying above 30% in the last couple of years, but we are seeing more inflation in the market. Your peers in leather goods are spending more on A&P, and should one of your big competitors become part of a rather large group, I think we could see also bigger A&P spend in jewellery.

So I'm trying to understand if you have any specific targets, meaning you want the profitability in the Jewellery Maisons to stay at at least 30%, or will you be willing to give that up, as this is needed to defend your position in the category? Thank you.

Burkhart GRUND: Zuzanna, Burkhart here. Let me just answer the second question first, because, at my age, you start to forget questions. So, the Jewellery Maisons have a very high level of profitability. It's our area of expertise, we have leading brands. Two things to that. One, we have always said, and we will continue to say that and do that, is that we will continue to invest into these Maisons. As they're retail businesses, as they're worldwide businesses, they have a strong need of capital investment and they have a very high level of capital return. As you can see, that equation really works out very well for us, but it means that we will, and we have done that over decades now, continue to invest into these Maisons and we have built them into industry-leading assets, if I can say it, in financial terms. We will continue to do that in the future, irrespective of what the competitive environment is. We believe that with Buccellati, and now it's not really significant today, but when you reflect back on Van Cleef, it was not really significant when it was acquired by the Group, and it's one of the references in the industry now, and we intend to give all the means for this Buccellati Maison, all the means to Buccellati to be able to grow. So, we will continue to invest also in that space, so we're not too worried about that. We're leading that space with Maisons which are clearly positioned on the luxury side or on the high-end side of that market.

So, second point I wanted to mention, don't read too much into three-month, six month, half-year results or whatever, because we don't manage like that. We don't manage for Q1, Q2. We don't manage for first semester, second semester. We've always spelled out that the view of Richemont is that we want to create long-term value for shareholders through the creation of and the continued investment to create brand equity. Brand equity will then translate into long-term value for the shareholders. So, semester one, semester two, Q1, Q2, these are all valid questions. I understand that there are models behind, but we don't manage the business like that. I don't want to lecture you, I'm just saying this is not the way we manage the business.

Zuzanna PUSZ: Sorry, just to follow up, because I also tend to forget questions at my age, so I mean, maybe to put it differently, would you say that the margins at Jewellery Maisons are probably at their peak and it means that if the environment gets a bit more competitive and if the cycle-, I mean, we are probably going to see some sequential slowdown generally globally, so would you say the margins have peaked at Jewellery Maisons and you are willing to invest, so we could expect a bit more pressure going forward, or can they still go higher? I guess maybe that is a different way of asking the same question.

Burkhart GRUND: To be honest, I would not qualify that at all, because I simply do not know. I simply do not know and we simply do not know how the competitive environment is going to play out. I mean, if you would have asked that question 10 years ago, we probably would have said, 'Yes, they probably have peaked,' and then the boom with the Chinese customers came. It has brought not only our Maisons, but I'd say the entire industry to a different size, so I will not be able to answer that question.

Zuzanna PUSZ: Okay, I understand. Thank you.

Jérôme LAMBERT: If I may, on the digital distribution, you point something which is very interesting, which is the relationship between digital distributors and the products and the clients. So, at YNAP, we see our point of differentiation in three key dimensions. First, YNAP, even more now, with FENG MAO, has the largest number of clients, so we are the best in introducing new Maisons and new capsules. As it was mentioned, we introduced 200 new brands since April within the environment of YOOX NET-A-PORTER, and we launched 90 exclusive capsules, so all that bringing the opportunity to have an exclusive and specific offer. The second one, which is also linked to our position of leader in that dimension, is that we have very strong relationships with our brand partners and we are working with the key players to offer the best product and, how we say, at the right time. We buy the inventory, and thanks to that, we can offer the best inventory in the best time when it comes to that. Along that, we already have a big chance to have very competitive value creation and not to fall into only a promotional business approach, which is for today.

For tomorrow, we do believe, and that's what we experiment with New Era Light, that the one-stock omnichannel solution will create a further competitive advantage. Today, we have a competitive advantage because we have (TC: 01:30:00) more clients, so we can introduce better, in a more efficient way, the Maisons. The team is good in curation, so we can help the Maisons to create and to have the best capsule offers that can meet the best success. Tomorrow, further in the journey of technology, with the omnichannel, we'll be capable to offer as a one-stock solution, and that one-stock solution will offer, I would say, a very strong optimisation of which stock to which client in which geographic dimension. All of this combination is making us very confident in the capability of the business to be timeless [pérenne].

Zuzanna PUSZ: Sorry, just to follow up, because I don't think understood, so this has a positive impact on your ability not to discount more, or it means your profitability will be higher from an operational perspective? I mean, yes, I think, I agree you're one of the stronger players, but you are still discounting, so is it that you're going to be discounting less because you think your position will be getting better, or you think that operationally you'll be more efficient and that will be able to offset probably some pressure at the gross margin level?

Jérôme LAMBERT: I think that the answer is not only into the question itself, because again, being a multibillion company in that field gives you the opportunity to have more and more categories and more and more specific offers. I do believe that the more we expand the categories, our carryover categories, and hard luxury goods is one of them, then you have the chance to have a product with very, very low discount rate. On the other side, the more specific products you have, the better you create, then the less you have to discount. So it takes energy and probably even more intelligence into the business game, but I don't consider discounting and reduction of commercial margin as a fatality for that activity.

Zuzanna PUSZ: Okay, thank you.

Burkhart GRUND: Can I just add one thought to that? There are two ways of looking at the Online Distributors. One is, well, it's a distribution platform and you focus on operational results and margin and discount, and that was the sense of, I think, the discussion you just had with Jérôme. The other point is if you step back and you think about what the future of the luxury distribution will be or could be, if you come to the conclusion, as we have, that we at Richemont have, that the future is all about new retail, meaning the online and offline retail, which will first be linked and then will blend, then you need assets in that space. We have our very strong and very focussed offline retail distribution network around the world, about 1,100 stores, and we have a very, very strong, if not the strongest asset in the luxury online distribution, which is called YOOX NET-A-PORTER. Then we have started a joint venture or a partnership with Alibaba in the online space in one of the biggest, if not the biggest, luxury markets around the world.

Now, if you take all these together, we believe that we have the building blocks to actually create new retail going forward, alone, with partners, with the assets we have, and then the discussion shifts to different areas. This could then mean that, well, having an asset like YOOX NET-A-PORTER is part of doing business, is the cost of doing the business, because it will enable us to build the new retail infrastructure around the world. Now, if you tend to believe that, 'Well, online is just an additional channel and it will remain meaningless or not so relevant for our customers,' then you will focus more on the physical distribution network. We tend to have a belief that new retail is the future and we have backed these beliefs with an acquisition or with several acquisitions. By the way, you have to look at it also that we are financing the investments not only to our Maisons, but also into YOOX NET-A-PORTER through free cash flow that we generate. So, in that aspect, we are actually quite relaxed.

We know it's a business, because it's technology-driven, where we will have to continue to invest in technology and fulfilment capabilities, and we have the unique opportunity to leverage these investments and to hook it up with our physical retail network, because that's where our belief lies.

Sophie CAGNARD: Thank you, Zuzanna. We'll have to jump to the next questions, because time is running out and I would like some other analysts to be given the opportunity to raise questions. Dino, next question.

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

Sophie CAGNARD: Hi, Patrik.

***Patrik Schwendimann** – Zürcher Kantonalbank*

Patrik SCHWENDIMANN: Good morning, Sophie. Good morning, Jérôme. Good morning, Burkhart.

Burkhart GRUND: Morning, Patrik.

Patrik SCHWENDIMANN: What is the situation in Europe? Do you see an improved environment because there is more tourism? That's my first question. Second question maybe for Jérôme, what is your strategy regarding the watch mechanical movements? Will you still order from Swatch Group next year? Thank you.

Jérôme LAMBERT: Okay. Thank you for the questions. I will answer the second part of the question and then I'll leave Burkhart to comment on the development in Europe. You know that Richemont and Swatch Group have been historical partners in terms of industrial supply. Richemont is buying to Swatch Group numerous products. You spoke from the movement, but we also buy spirals or other components for our watches, and we'll continue to buy from Swatch Group various elements. When it comes to specifically the movement, I cannot comment where Swatch Group and the COMCO are, so there I'll leave you to ask them where they are with that dimension. I like your question as well to give me the opportunity to comment where we are globally with the supply chain for our watches. You know that Richemont has been building its industrial base, means its own capacity to develop movements, first within the Maisons that historically have been always building and producing movements. It's the case with Jaeger, for example, it's also the case with Vacheron, that are internally integrated and producing for themselves a movement, but also true now for components and kits of spare parts that are used by various Maisons of the Group.

Today, when it comes to movements, the first supplier of movements for Richemont is Richemont. It gives us, I would say, the way to project ourselves into the future with a lot of serenity in that context and environment. Then like all the industry, we have to see and to hear how Swatch Group will adapt its strategy for the future, given the new regulatory environment, but I said, we have the tools to adapt ourselves to whatever will be the situation next year.

Patrik SCHWENDIMANN: Okay, thank you, Jérôme.

Burkhart GRUND: Patrik, on Europe, listen, I think I've been saying this for a while, with all the things that are being thrown at our industry, but also other industries in Europe, actually we're quite happy with the business. You have Brexit, but it's not only that. Remember what was happening in France. I'd say the political environment in many of the major markets for us in Europe are difficult. Just a trip down memory lane, in the past, we've had a big part of Chinese business or tourist business which was very volatile. Now, we have, since two to three years, focussed very strongly on building, redeveloping our business with local clientele and local clients, and that, year after year after year, is increasing, that sales portion. So, I think that gives more stability to us or to our business in Europe. If we look a bit more into the trends, obviously, (TC: 01:40:00) and probably counterintuitively, the business in the UK has been very strong. It's become our biggest market in Europe now. Other markets have been either slightly up, slightly down.

There is a bit of tourism going on. We know part of it or most of it is linked to exchange rates or exchange rate-driven buying, be it in the UK, from Asians, be it also from Americans. In general terms, jewellery and retail are up across the region, and in general terms, watches and wholesale are down across the region, because there's a link, because we continue to work on all the elements that we already discussed, sell-in lower than sell-out. We're at the end of closing down of wholesale relationships, but it's still visible in the first half of this year. So, I'd say in general terms, we are satisfied with the business given the circumstances, put it that way.

Jérôme LAMBERT: To complete as well the landscape with the strategic view as well here, for us, an investment in YOOX NET-A-PORTER, in Watchfinder, in Buccellati or having even, I would say, the new AZfashion, all these dimensions are also to make Richemont into developing its anti-fragile strategy for the future. Maybe four, five years ago, the importance of tourism was so high in our business in Europe that we were building and developing our business with a high rate of fragility. The development of the locals now, with this new initiative, gives us the opportunity to be more and more local-driven and to have a direct product offer, marketing initiatives that are driven by the local needs, and that varies specifically in the different markets. Again, Richemont has been investing for a long time in service centres. Richemont has more than 26 service centres around the world to take care of the product. You remember that we launched the extension of guarantee earlier this year. Extension of guarantee means that Jaeger has been offering six years of extension of guarantee. This month, we'll have further news of other Maisons of Richemont that will offer extension of guarantee.

We do believe that offering these additional services, offering new initiatives in marketing, new points of contact with the digital is anchoring Richemont deeper with the local clientele and is embedding an anti-fragile element for the future development of the Group and for our Maisons.

Patrik SCHWENDIMANN: Okay, thank you, Jérôme and Burkhart.

Burkhart GRUND: Thank you.

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

Dino: The next question is from Rey Wium of SBG Securities. Please go ahead.

Sophie CAGNARD: Hi, Rey.

Rey Wium *– SBG Securities*

Rey WIUM: Hi. Good day, everyone. Just two quick questions. I'm just curious about the general trend in Chinese spending, where you can measure them around the world. If I look at your organic numbers in Europe and America, it was basically flat, and China, or Asia overall just up 4%. So, is it fair to assume that the spending trends have weakened over the past year, and also considering that the renminbi has weakened in recent times. That's my first question, and then the second one, just on the Online Distributors' side, I mean, you did mention about the gross margin pressure due to promotional spending as well as free delivery. So, is it fair for us to assume that these lower margins will remain in place for the foreseeable future? Thank you.

Burkhart GRUND: Thank you, Rey. I'll take the first question. If you look at our business or if you look at Chinese spend, put it that way, it was, for a long time, about a quarter of the roughly €80 billion market with Chinese customers. About a quarter of that was in mainland China and three-quarters of it outside of mainland China, meaning with the travelling Chinese. So, these numbers are changing, because there is, since about two years, a very strong trend to onshore Chinese purchases onto mainland China. We've said that for quite a while and that's why we see, and not only us, but many other of our peers, the strong and consistent growth of sales in mainland China. The rest of, let's say, the tourism business very much depends on exchange rates or exchange rate-driven purchases. The renminbi has weakened, so that clearly has an impact on the tourist business and we've always called that out, because we just don't know how the exchange rates are going to move. So, a very strong business in China and continued very strong business in China.

Jérôme LAMBERT: On the margin element, I can say again what I said before, we do believe, for the Online Distributors, that there is, mid to long term, a very strong capability to maintain or to develop margin, thanks to a very specific offer, and here, again, it's linked to the number of Maisons we can host within YOOX NET-A-PORTER. If you see what is happening with the JV in China, it's a good example. We have, for example, 15 new brands joining FENG MAO just in this month of November, and that trend will continue at the same rate. We recruited 200 new Maisons on YOOX NET-A-PORTER since the start of the year. That's one aspect. The second aspect is definitely the dynamic of the categories. Some categories are less exposed than others to discount, because they have a high rate of carryover. With a higher rate of carryover within our offer, we'll have a good way and a good solution to approach this potential erosion of margin resulting from the pressure that brick-and-mortar will sell primarily on today's business.

Rey WIUM: Okay, excellent.

Sophie CAGNARD: Thank you, Rey. We are really running out of time. We'll take questions from two more analysts and then we'll close the call. So next question, please.

Dino: The next question is from Charmaine Yap of Redburn. Please go ahead.

Sophie CAGNARD: Hi, Charmaine.

Charmaine Yap *– Redburn*

Charmaine YAP: Hi there. Good morning. I have a question on the retail network, please. If I look at the increase, especially in the franchise stores, there have been a lot of increases in Specialist Watchmakers. I know some of these were in the Middle East, but what is the rationale, or is there a strategy behind these franchise openings? The second question is on Cartier and jewellery in general. Do you think there is enough innovation in the brand? I know you spoke a lot of communication spend, but can you maybe please explain a little bit if there are any changes in your marketing strategy, how much is on digital? Any colour there would be helpful. Thank you.

Jérôme LAMBERT: I will leave to Burkhart to comment the second part on jewellery. I will tackle the subject of external boutiques. First, to be clear, we had a little bit of reclassification and putzing (ph 01.48.24), as you say, in good Swiss German, of our classification of external boutique so that it could be homogen (ph 01.48.33) between the different brands. Nevertheless, that's true and that's part of our strategy to extend the external boutiques. Why do we think that it is important for our Maisons? We think that there is still a future for brick-and-mortar and there is still a future for wholesale and for traditional distributors of watches in relation with our Richemont Maisons, along with a capability to offer superior stock, superior experience. For the stock inventory here, we have been working around the concept of true demand. We monitor the sell-out of more than 90%, 95% of our distribution for all our Maisons, not only, how we say, to manage the risk of overstock, but also to have the right stock at the right place.

We are not only monitoring what is the turnover done. We're monitoring with our partner which watches, so that we can ensure a better assortment in better place. Better place means, most of the time, capability to have more service, and when it comes to more service, it can be along with offering more prominent locations to go shopping, to having direct aftersales service activity in the boutique itself. (TC: 01:50:00) So, that superior service, that superior stock availability, that superior advice capabilities onsite, we do believe that it is with external boutiques that we can do it the best. It has been expanding, for sure, in Europe. It's now moving as well quickly in the US. It will further follow in the rest of Asia, and we do believe that's a big and better way to work together in the future. At the end of the day, that's about aggregation of clients, so here, with these external boutiques in the brick-and-mortar way, we can create with our partner a very efficient way to aggregate the clients.

Burkhart GRUND: If I might step in, on the jewellery side, if I understand, there were two questions, one is about product innovation and my feeling about it, and second, on the nature of marketing spend. Let me just try to qualify what I think about the product innovation. It's the jewellery business, and the nature of the jewellery business is that, the evolution of the collections, meaning the creativity that you're touching upon, is very much linked to a mid- to long-term cycle. If you launch a jewellery collection today and if you look at what our brands, Cartier, Van Cleef, what they have today on offer, these are collections that, in many instances, have been built over 10, 20 years, and some even much longer, because they are of constant appeal to our customers. Why are they of constant appeal to our customers? They are being animated constantly each and every year. Why is it different from fashion? The inventory investment is significantly higher and, you know, you won't go into markdown or discount cycles as you do with fashion products. So the nature of it is very much different.

If you look at what has happened at Cartier under the new management, they've first and foremost focussed, both on the watch and on the jewellery side, on the existing collections, and you know, when I'm saying the new management, meaning when Cyrille Vigneron came back into the Group and took over Cartier as the CEO. They've focussed on relaunching the watch offer, they've focussed on extending the existing jewellery lines. Now, this year, they have come out with a new collection, *Clash*, as Sophie mentioned a little bit earlier in the presentation, that actually has gained, very quickly, a lot of traction, and it's very, very relevant, as are many of the other collections, for today's customers. So yes, we believe there is innovation, there is enough innovation, it's just the cycle's so much longer. This is not a fashion business. This is a business which is mid to long term, also because the jewellery items you acquire or watch items you acquire have the promise of long-term value preservation or long-term value appreciation. Once again, this very much influences my answer to your question.

On the marketing side, the marketing spend, it's been a trend since five years that obviously marketing spend has more and more shifted from the traditional to the more digital media. The mix is somewhere between 30% and 40% digital. We've said it before, it's a trend that is ongoing between the Maisons.

Charmaine YAP: Okay, thank you.

Sophie CAGNARD: Thank you, so that will be the next and the last question.

Dino: The final question for today is from Thierry Cota of Société Générale. Please go ahead.

Sophie CAGNARD: Bonjour, Thierry.

Thierry Cota *– Société Générale*

Thierry COTA: Cheers, good morning. Bonjour.

Burkhart GRUND: Thierry, I was waiting for you.

Thierry COTA: Well, it's going to be actually two very short questions regarding watches. The first question was would you say, when you look at H1, that the sell-out of your retail partners, in terms of growth, was similar to what you've seen in your own retail stores, number one? Number two, in terms of sell-in versus sell-out, my understanding was that as of this summer, the strategic sell-in below sell-out would be finishing. Would you expect now, in the second semester, one would be more or less equal to the other, or given what's happening in the market and monitoring sell-in versus sell-out on a more tactical basis, still sell-in is likely to remain below sell-out until the end of the year?

Jérôme LAMBERT: Thank you for the two questions. The first element about sell-in and sell-out retail, and I had a very interesting question about external retail, so internal retail is growing with the Specialist Watchmakers, which is good news. When it comes to external boutiques, it's also growing. It's even growing quicker than our internal retail, because those are new opportunities that create on the market. Traditional wholesale is below the trend of retail, being internal and external, and there's still a little bit the end of the long tail of qualitative adjustment of our distribution, you know that. That's not the thing, when you have been working a long time, that you do in a night. When it comes to stock management for the months to come, we adjust monthly, so every month, we adjust our volume of production in total, and more than anything, we adjust where we put our inventory, because that's indeed not only very important to have the right level of production in front of the right level of demand, but also to have it in the right location.

Today, it's not a big surprise if I tell you that we are focussing a lot on mainland China, and we are not only focussing a lot on mainland China but also on our digital activation programme. Here, that's a very quick learning phase. There are 12 Maisons of Richemont that are active on FENG MAO, on the joint venture, so it's excellent also in terms of learning and developing best practice when it comes to supply chain, an agile supply chain system to be aligned with the demands and the standards of e-commerce the way Alibaba organises it and makes it happen. These elements make us being very confident in the capability of our Maisons to engage very much in the digital dimension. After reconstructing, which has been a big part of what we did during two years, we are now tackling a more business development approach. External boutique is definitely one. Digital is definitely the second one in our programme.

Sophie CAGNARD: Then when will you align?

Jérôme LAMBERT: The alignment between sell-in, sell-out, yes, is constant. So, today, we are happy with our level of stock. I would say we'll reduce the level of stock because we have less doors, and when we have less doors, we anyhow have less stock in the market. It tends to go down in absolute terms, because there are less doors, and for the partners that we have and the doors where we are, we have stabilised now the level of stock. Saying that, there are a few Maisons of which we have spoken that have quick growth this year. These ones are anyhow not answering the demand of today, so these Maisons are even reducing their stock, because they cannot meet exactly the demand of today. I would say globally speaking, we have still a reduction of stock, but that's more a collateral effect of success of Maisons and then of closure of doors than a geared decision to have a quicker and a stronger rotation, even.

Thierry COTA: The closure of doors, a big step was done until this summer, and if I understand well, it carries on until Christmas, but on a lesser scale, is it correct?

Jérôme LAMBERT: Yes. We are very much at the end of this long tail of activity, very true. Correct.

Thierry COTA: Okay, so basically sell-in, thank you. Thank you very much.

Jérôme LAMBERT: Thank you very much. Bye-bye.

Sophie CAGNARD: Thank you, so this concludes today's call. Many thanks for your participation and all the many questions you raised. If there are some more, James or myself are happy to answer them later on today. In the meantime, we'll look forward to reading your papers. Have a good day.

(TC: 01:59:55)