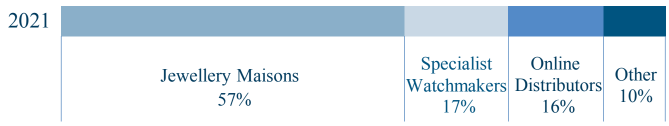
Financial and operating highlights

Group sales (€m)

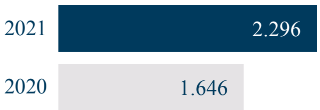
Sales by business area (% of Group)



Operating profit (€m)

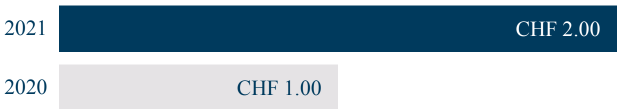
Jewellery Maisons (€m)

Earnings per share, diluted basis (€)



Specialist Watchmakers (€m)

Dividend per share



Online Distributors (€m)

Other Businesses (€m)

- Fourth quarter sales growth of 36% and 30% at constant and actual exchange rates, respectively, containing the decline in full year sales to 5% at constant exchange rates and 8% at actual exchange rates.
- Operating margin improved to 11.2% and profit for the year increased to € 1 289 million, impacted positively by net finance income.
- Significant increase in net cash position to € 3 393 million, supported by strong cash flow from operating activities and strict working capital management.
- Proposed dividend of CHF 2.00 per 1 A share / 10 B shares.

Chairman’s review

Johann Rupert, Chairman

Overview of results

In a year marked by the outbreak of Covid-19 our first concern was the health and safety of our colleagues, clients and partners. Our company acted pro-actively, shutting down offices, factories, distribution centres and boutiques, whilst also helping in the fight against the pandemic by providing material and financial support.

During this unprecedented level of global disruption, all of our colleagues have demonstrated remarkable agility and discipline, adapting rapidly in the face of repeated closures, a halt in international tourism and an overall lack of visibility. As a result, our Maisons and businesses delivered resilient performance and made good progress on Richemont’s transformation agenda.

Following a sharp decline in the first half of the financial year as the health crisis spread across the globe, sales recovered throughout the year and reached € 13 144 million, led by the Jewellery Maisons, online retail and Asia Pacific. Fourth quarter sales increased by 30% and 36% at actual and constant exchange rates, respectively, mitigating the rate of sales decline for the year as a whole to 8% at actual exchange rates and 5% at constant exchange rates. At actual exchange rates, sales in Asia Pacific grew by double-digits, underpinned by strong sales in mainland China due to a strong local presence of our Maisons.

As our Maisons and businesses adapted rapidly to changing levels of demand and the differing ways customers wanted to interact, our transformation accelerated, and we advanced our understanding of the customer journey and client preferences via digital tools. Online, mobile and distant shopping have proven to be key growth drivers, and we have seen a sharp increase in clients favouring those channels. Higher online retail sales, benefiting from triple-digit growth at our Maisons, partially offset lower retail and wholesale sales. Direct engagement with end clients generated around three quarters of Group sales, through offline and online retail channels.

The Jewellery Maisons posted higher sales, exceeding pre-Covid levels, and a solid 31% operating margin underlined the enduring appeal of Cartier, Van Cleef & Arpels and Buccellati. We are pleased with the leadership positions of Cartier and Van Cleef & Arpels as well as with the international expansion of Buccellati which is progressing well. At the Specialist Watchmakers, the double-digit sales increase in Asia Pacific, partly supported by the opening of five flagship stores on Alibaba’s Tmall Luxury Pavilion and participation in Watches & Wonders fairs in Shanghai and Sanya, only partially mitigated contraction in other regions.

Over the past few years we allocated substantial financial and human resources into two areas: we restructured our watch division and we further developed our Group’s online capabilities. These investments are beginning to bear fruit.

Our Specialist Watchmakers division is in a very healthy state. The desirability of our Maisons has been fuelled by the reinforcement of iconic collections with well received new references, and our strongest-ever resonance during Watches & Wonders. The ‘new retail’ initiatives have accelerated direct engagement with the end client, notably through the aforementioned Alibaba’s Tmall Luxury Pavilion flagship stores and numerous remote digital interactions with clients. The quality of the Specialist Watchmakers network has improved, and subsequently 73% of the division sales are now through internal and franchise stores. Sales to our local clientele in our retail network grew by double-digits, which partly mitigated the contraction in inbound tourism. Stock with our multi-brand watch retail partners ended lower than a year ago, with sell-out greater than sell-in for the fourth consecutive year. Operational costs have been streamlined and redirected at transforming the division towards a client-centric ‘new retail’ business model. The division’s recovery has been constantly accelerating from the third quarter of our financial year, with the first four months of the calendar year trading above 2019 levels, when corrected for a significant stock rebalancing.

The Group’s digital transformation has further accelerated, and we are experiencing triple-digit growth in our Maisons’ online retail sales, in all our major markets. The objective of the Group’s ‘Luxury New Retail’ business model is to provide a superior route to market for our Maisons, while delivering much improved economic performance compared to the traditional luxury business model.

Richemont’s strong balance sheet provided ample resources to finance the €253 million investment in convertible notes issued by Farfetch last November, a first step in our partnership with Farfetch and a deepening of our relationship with Alibaba, as we accelerate our journey towards ‘Luxury New Retail’. To date, our partnership with Alibaba has led to eleven flagship stores being operational on Alibaba Tmall Luxury Pavilion: Cartier, Van Cleef & Arpels; IWC Schaffhausen, Jaeger-LeCoultre, Panerai, Piaget and Vacheron Constantin; NET-A-PORTER; Chloé, dunhill and Montblanc.

Despite distribution centre disruption and closures contributing to a sales decline at the Online Distributors, the businesses benefited from positive trends at YOOX and THE OUTNET, as well as the localisation of websites. Watchfinder has deepened its collaboration with our Maisons, with their ‘part exchange’ programme now rolled out in more than 80 Specialist Watchmakers boutiques. The new fiscal year has started at an accelerated pace, with triple-digit growth compared to the previous year, and strong double-digit growth compared to 2019.

We see increasing client demand for more choice, newness, and 'see-now buy-now', accelerated by the penetration of digital and ATAWAD (Any Time, Anywhere, Any Device). However, clients also want a more personalised touch, styling advice, curation, and access to the voices behind the brand, far from the catalogue approach offered by some platforms.

NET-A-PORTER and YOOX are transitioning to hybrid models to complement their wholesale offer, better meet client demands and lessen capital requirements. NET-A-PORTER and MR PORTER have been leaders in digital selective distribution for the past 20 years, based on solid direct relationships with over 1 000 Luxury partner brands. These stores are now evolving towards a model that combines curated inventory ownership and e-concessions with top brands. This preserves the curatorial dimension of NET-A-PORTER and MR PORTER while allowing them to enrich the breadth of their offering with very light additional capital commitment. In parallel, YOOX will see the addition of a marketplace to its existing 1P model in the beginning of calendar year 2022, expanding the current offering from over 14 000 brands to include more choice and new product categories.

The technology supporting this, which also powers the omnichannel of several top brands, is gradually converging towards a 'one Luxury New Retail platform' model for hard and soft luxury. Furthermore, the YNAP joint ventures in China with Alibaba and in the Middle East with Symphony have been particularly successful this year – doubling in China and growing by double-digits in the Middle East thus highlighting the benefits of a local route-to-market for more reach and relevance. YNAP will continue to accelerate its localisation with more than 15 countries planned for this year.

'Luxury New Retail' is propelling our Maisons to new levels, supported by our strategic partnership with Alibaba. Our Maisons and businesses benefit substantially from the exponential customer aggregation of Alibaba's Tmall Luxury Pavilion platform, and are able to offer a superior customer experience through the digital platform's real-time data-rich ecosystem.

In addition, our 'Luxury New Retail' developments in mainland China are providing the Group with the incubator of the future luxury retail model, where customer shopping journeys will benefit from a seamless online/offline experience. Our developments with Alibaba are capturing the exciting new paradigm in luxury customer shopping trends – the digital platform ecosystem and the unique retail format. This is providing fresh impetus to our Maisons to enhance the customer experience, through a combination of online/offline shopping, social media engagement and live-streamed entertainment, also described as 'shoppertainment'.

Furthermore, new innovations such as the Watches & Wonders campaign on Alibaba's Tmall Luxury Pavilion, including the new Super Brand Day concept, are some of the most exciting new aspects of 'Luxury New Retail', offering our Maisons new ways to strengthen brand communication and customer loyalty.

Lower sales at our Fashion & Accessories Maisons grouped under 'Other' reflected declines primarily in the wholesale channel due to a very sharp contraction in travel retail, while online retail sales grew by strong double-digits, reaching 17% of sales. After years of underperformance we expect these Maisons to benefit from an enhanced 'route to market' provided by new digital platforms.

Operating profit amounted to € 1 478 million. The year-on-year reduction was contained to 3% and operating margin improved to 11.2%, with profit for the year increasing to € 1 289 million. At the outset of the pandemic, the Group promptly implemented strict cash preservation measures, which meant that our net cash position increased significantly to € 3 393 million.

Dividend

Given an improving economic environment, solid cash flow generation and attractive long-term prospects for the luxury goods industry, an improvement on last year's dividend seems justified. The Board therefore proposes to pay a cash dividend of CHF 2.00 per 'A' share (and CHF 0.20 per 'B' share), subject to shareholders' approval at the annual general meeting ('AGM') due on 8 September 2021.

Board and Senior Executive changes

While the enlarged SEC structure proved effective in the early stages of our transformation journey and in navigating one of the most trying times in recent history, we must acknowledge that the outstanding development of Cartier and Van Cleef & Arpels, in particular, means that these businesses have now reached a size and scale that require the full attention of their leaders and support of the Group to continue on their remarkable trajectory. As a result, Cyrille Vigneron, President & Chief Executive of Cartier, and Nicolas Bos, President & Chief Executive of Van Cleef & Arpels, will step down from the SEC and will not seek re-election to the Board of Directors at the Group's AGM on 8 September 2021. They will continue to report directly to Johann Rupert, Chairman. In addition, Philippe Fortunato, CEO of Fashion and Accessories Maisons, Emmanuel Perrin, Head of Specialist Watchmakers Distribution, and Frank Vivier, Chief Transformation Officer, will step down from the Senior Executive Committee. They will continue to report to Jérôme Lambert, Group Chief Executive Officer. These executives in charge of our Maisons and businesses will focus exclusively on the sustainable development of their respective entities, ensuring a customer-centric approach and the continued successful implementation of digital initiatives.

Johann Rupert, Jérôme Lambert, Group Chief Executive Officer, and Burkhart Grund, Chief Finance Officer, will remain on the SEC and will stand for re-election to the Board of Directors at the AGM. This group will focus solely on strategic direction, capital allocation, governance, and the provision of central and regional functions for the benefit of our Maisons and businesses.

Alan Quasha has indicated that he will not seek re-election to the Board of Directors at our AGM on 8 September 2021. Alan has served as Non-executive Director of the Company and its predecessor companies since the Group's foundation in 1988 and has made an invaluable contribution over that time. His deep understanding of Richemont and wise counsel will be much missed.

In September 2020, the Board was delighted to welcome Wendy Luhabe as a new non-executive director. Renowned as an entrepreneur and social activist, Ms. Luhabe has also joined the new Governance and Sustainability Committee established on 18 March 2021. Her biographical notes may be found on pages 45 to 49 in the biographical notes on Board members.

The purpose of this new Committee is to assist the Board in reviewing and approving management proposals regarding strategy, policies and monitoring of environmental, social and governance matters, as well as providing direction on best practice and ensuring compliance with all relevant requirements. Its creation reflects the importance of such topics to the Group and represents active engagement from the highest levels of Richemont's organisation.

The Movement for Better Luxury

Richemont has a long-standing commitment to doing business responsibly. Our Maisons have been in existence for hundreds of years and create products designed to be handed down from generation to generation. The Group has been a leading member of the Responsible Jewellery Council ('RJC') from the start, carbon neutral through offsets since 2009, and supported nature and communities through the Peace Parks Foundation since its inception.

In 2019, acknowledging that tougher measures needed to be taken to minimise our impact on the planet and play our part as a good citizen, we stepped up our efforts with the 'Movement for Better Luxury', our transformational CSR strategy. Through this framework, we want to: enable our colleagues to thrive through diversity and empowerment; positively impact the communities we touch; improve sustainability in our supply chain; and reduce our negative environmental impact.

This year, we have made strong progress across our main focus areas in alignment with the UN's Sustainable Development Goals. Today, over 95% of the gold we purchase is RJC Chain-of-Custody certified and comes from recycled origins. We are working to finalise our formal commitment to Science-Based Targets in line with the Paris Agreement. There are many more initiatives, either completed or underway, which we will update you on in our 2021 Sustainability Report in July.

Outlook

Although the pace of vaccination has gathered momentum, volatility and low visibility are likely to prevail until there is herd immunity. There are still concerning Covid-19 developments in parts of the world that could slow down a global recovery, even though underlying demand seems strong with supportive central bank actions, substantial government stimulus packages, and real estate and stock markets at all-time highs. We will need to learn how to live with the virus probably for much longer than we had hoped. Our focus will therefore remain on safeguarding our colleagues, partners and assets while maintaining the necessary agility and flexibility to face uncertainties. We will also continue taking decisive action to transform our business with a focus on digital initiatives, customer-centricity and forging strategic partnerships.

Before concluding this commentary, I would like to pay tribute to our dear friend and colleague Alber Elbaz, who very tragically passed away in April and had just successfully launched AZ Factory. Alber was incredibly sensitive and caring, and, in addition to his genuine empathy, possessed great wit, talent and creativity. His dream of ‘smart fashion that cares’ was inclusive, positive and innovative. He will be hugely missed by all of us who had the good fortune to know him or work with him.

Finally, I would like to thank all my colleagues at Richemont for the strong performance they have delivered with courage, solidarity, creativity and discipline in exceptional circumstances. Together, we will craft the future.

Johann Rupert
Chairman

Compagnie Financière Richemont SA