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WATCHES AND JEWELRY

Cartier owner Richemont H1 sales up 12pc to $10.9B amidst economic, geopolitical uncertainty

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Cartier is the flagship brand of Richemont. Image: Richemont, Cartier

By STAFF REPORTS

In the first six months of the financial year, Richemont reported a strong underlying performance amid continued economic and geopolitical uncertainties and an unfavorable foreign exchange environment.

Disclosing the first-half 2023 results, Johann Rupert, chairman of Bellevue, Switzerland-based Richemont was optimistic for the luxury conglomerate's future as growing Asia Pacific sales and direct-to-client initiatives pay off. Yoox Net-A-Porter, of which Richemont is selling sizable stakes to Farfetch and Alabbar, weighed down results.

The Richemont positive numbers align with growth at LVMH, Prada and Herms, while Gucci owner Kering lagged in the third-quarter 2023 performance. All cited geopolitical and economic uncertainties as concerns, while aiming to bolster domestic sales and reinforcing China strategies.

Richemont is parent to Cartier, Van Cleef & Arpels, Vacheron Constantin, dunhill, Peter Millar, Alaa, Delvaux, Buccellati, A. Lange & Shne and Montblanc brands, among others.

Below are edited excerpts from Mr. Rupert's letter to shareholders outlining the company's performance and outlook for the period ahead.

Sales from continuing operations rose by 12 percent at constant exchange rates (+6 percent at actual exchange rates) to 10.2 billion ($10.9 billion) and operating profit from continuing operations was 2.7 billion ($2.9 billion), up 15 percent at constant exchange rates.

The ongoing focus on enhancing the desirability of our maisons, promoting direct-to-client engagement, nurturing our domestic clienteles and reinforcing the agility and excellence of our operations has strengthened the group and reinforced its resilience.

Compared to the prior-year period, at actual exchange rates, sales increases were recorded across almost all channels and regions excluding Americas, where sales declined by 4 percent.

Growth was led by Asia Pacific, with sales up by 14 percent following the reopening of China, *jewelry maisons* and the retail channel which, together with the online retail channel, contributed 74 percent of group sales.

With 10 percent sales growth overall and ongoing cost discipline delivering a 2.5 billion operating result and a corresponding 35.5 percent operating margin, our *jewelry maisons*, Buccellati, Cartier and Van Cleef & Arpels, have demonstrated their continued leadership of the industry.

We have further invested in their manufacturing capacity and capabilities, distribution and communication to support their strong development.

While demand for iconic collections remained resilient across our watch maisons, our *specialist watchmakers* recorded a 3 percent year-on-year sales decline to 2 billion. This performance overshadowed the high single-digit sales growth in their directly operated stores, now 57 percent of the *specialist watchmakers*' sales, and the continued outperformance of A. Lange & Shne and Vacheron Constantin. Impacted by a strong Swiss franc, operating result amounted to 391 million, generating a 19.7 percent operating margin.

The group's *Other'* business area saw sales decline by 1 percent while sales at our *fashion and accessories maisons* were broadly in line with the prior-year period, with most maisons posting higher sales.

Of particular note are the retail performance and continued outperformance of Alaa, Delvaux and Peter Millar, together with the success of Montblanc's redesigned leather collections.

Overall, the *Other'* business area recorded a 6 million operating loss whilst the *fashion and accessories maisons* generated a 25 million operating profit.

At group level, operating profit from continuing operations was also significantly impacted by negative foreign exchange developments, but nonetheless still delivered a 26 percent operating margin.

Profit for the period from continuing operations increased to 2.2 billion, benefiting from lower net finance costs.

The 0.7 billion loss from discontinued operations reflected the combined result of Yoox Net-A-Porter (YNAP') for the six-month period and the 0.5 billion non-cash write-down on the revaluation of YNAP's net assets, classified as held for sale,' to its fair value.

The total net non-cash write-down since we fully acquired Net-A-Porter in 2010 amounts to 1.8 billion, based on the application of IFRS which has driven a series of write-up(s)/write-down of the net assets carried value.

Importantly, amid the current macro uncertainty, our net cash position remained solid at 5.8 billion on 30 September 2023 (excluding YNAP's net bank overdraft position of 0.7 billion, presented as assets and liabilities of disposal group held for sale).

Strengthening of our operations and portfolio of fashion and accessories maisons
On 28 July 2023, we signed an agreement with Gianvito Rossi to acquire a controlling stake in the eponymous renowned Italian luxury shoemaker. Its exceptional Made in Italy' craftsmanship, timeless elegance and untapped potential will strengthen our portfolio of *fashion and accessories maisons*. The transaction is expected to complete in the first half of calendar year 2024.

On 1 September 2023, the senior executive committee was further strengthened with the appointments of Swen Grundmann, who combines the newly created role of corporate affairs director with company secretary, and of Boet Brinkgreve in the newly created role of CEO of Laboratoire de Haute Parfumerie et Beaut.

These appointments reflect the growing importance of regulatory and reputational matters and highlight the group's ambition to have the maisons involved in fragrance reach their full potential in this dynamic market by levering internal competences.

Our luxury new retail (LNR') partners
The relevant regulatory authorities have now unconditionally cleared the acquisition by Farfetch of a 47.5 percent stake in YNAP in exchange for the issuance of Farfetch Class A' ordinary shares to Richemont.

In exchange, Richemont will receive circa 58.5 million of Farfetch shares, and, on the fifth anniversary of completion, an additional equivalent of $250 million in Farfetch Class A' ordinary shares based on the then-current Farfetch share price.

As part of the transaction, Alabbar will also acquire a 3.2 percent interest in YNAP, leaving Richemont with a 49.3 percent holding, and realizing my longstanding goal of making YNAP a neutral industrywide online platform.

Completion of the transaction remains subject to certain other conditions.

Sustainability compliance-driven approach
In June, we further progressed on our ESG agenda by publishing Richemont's first ESG report fully prepared in accordance with the Global Reporting Initiative's (GRI) Standards, with increased GRI disclosures and 40 quantitative indicators independently assured by PwC.

We have also extended our Speak Up platform to external stakeholders to enable them to voice their concerns, in line with the UN Guiding Principles for Business and Human Rights and the EU Whistleblower Directive.

I am pleased to report that Richemont received a 11.3 risk rating score for its low risk exposure' with a strong management' labelling from the ESG rating agency Sustainalytics. This rating positions the group among the top 4 percent of more than 15 000 companies rated worldwide.

Outlook
The period under review started strongly, beyond our expectations.

However, growth eased in the second quarter as inflationary pressure, slowing economic growth and geopolitical tensions began to affect customer sentiment, compounded by strong comparatives.

Consequently, we have seen a broad-based normalization of market growth expectations across the industry.

The positive news is that a soft-landing scenario seems to be prevailing in major economies with still higher growth expected from China, which should benefit from stimulus measures.

We have further reinforced the breadth and depth of the skillset both on our senior executive committee and the board. Our maisons have continued to enhance their desirability and capabilities and increase proximity with their clients.

Financial discipline has been maintained enabling targeted investments and a further strengthening of our operations.

I would like to thank all the teams at Richemont for their contribution to a strong underlying performance in a volatile environment and ask them to remain agile and focused amid today's global uncertainties.

Our solid balance sheet enables us to manage for the long term, investing in a discerning manner in talent, research and development, production, distribution and sustainability initiatives. I have every confidence in the long-term prospects of our group.

Johann Rupert
Chairman

Sales
Sales from continuing operations for the six months ended 30 September 2023 grew by 6 percent compared to the prior period at actual exchange rates and by 12 percent at constant exchange rates.

Sales in all regions, with the exception of the Americas, rose compared to the prior period at actual exchange rates.

Growth was led by Asia Pacific where sales rose by 14 percent fueled by a 23 percent progression in mainland China, Hong Kong and Macau combined, following the removal of COVID-related restrictions at the start of the year and the related resumption of travel.

Sales in the Americas contracted by 4 percent, particularly impacted by lower wholesale sales and a relatively weak U.S. dollar over the period.

With a 3 percent year-on-year sales increase, growth in Europe remained positive notwithstanding the demanding comparatives (+45 percent).

The 2 percent growth in Japan, which follows a 66 percent sales growth in the prior-year period, reflects the continued return of tourism, notably from mainland Chinese, on the back of a weak yen.

Most channels recorded sales growth, with the group's directly operated store network posting the strongest growth rate at 9 percent and now accounting for 69 percent of total sales.

Although online retail sales, which exclude sales made by YNAP, declined by 7 percent, direct-to-client sales made up close to three quarters of group sales.

Sales in the wholesale channel grew by 1 percent, reflecting the positive performance in Asia Pacific.

Growth was led by the jewelry maisons, where sales increased by 10 percent compared to the prior-year period while sales at the specialist watchmakers were 3 percent lower.

The Other' business area, including Watchfinder, declined by 1 percent while sales at our fashion and accessories maisons were broadly in line with the prior-year period.

Discontinued operations', comprising YNAP, recorded a 13 percent contraction in sales.