

Timeless Luxury

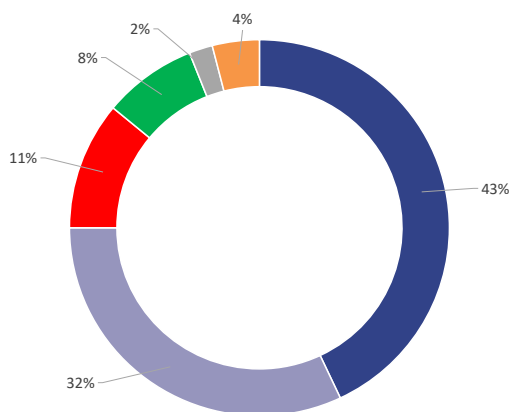
Compagnie Financière Richemont is a Swiss-based luxury goods holding company, with a secondary listing on the JSE that was founded by SA businessman Johann Rupert in 1988. It is the owner of prestigious Maisons (Retail Houses) recognized for their excellence in jewellery, watches, fashion and accessories, distinguished by a long-lasting tradition of style, creativity and craftsmanship. Richemont operates in 4 business areas, namely, Jewellery Maisons, Specialist Watchmakers, Online (comprising Watchfinder and YNAP) and Other. Well-known brands include Cartier and Van Cleef & Arpels jewellery, Piaget and Baume & Mercier watches, Montblanc pens, and Chloe haute couture. Customers can get their hands on Richemont's finery at its 2,297 boutiques scattered across five continents. Upper-income consumers are typically most resilient in times of economic and geopolitical stress. With inflation and interest rates rising rapidly pressurising consumer's wallets, Covid-19 lingering in China and geo-political tensions remaining in Ukraine, this article will look at the current headwinds and tailwinds to ascertain whether buying Richemont shares is as good an investment as its products.



Nick Rogers

Firstly, it is worth stepping back and looking at the psychology behind luxury to understand the core driver of long-term demand. There are many reasons why consumers buy luxury goods but more than anything else, owning and wearing luxury is a statement to the world that an individual is successful. In addition to the traditional elite & upper-class, luxury shoppers are now also defined by youth culture, i.e. Millennials (anyone born between 1981-96) and GenZ (1997 onward). Referred to as HENRY's (High Earners, Not Rich Yet), they

SALES BY PRODUCT



■ Jewellery ■ Watches ■ Clothing ■ Leather Goods ■ Writing Instruments ■ Other

Richemont has brands that have withstood the test of time and are dominated by jewellery & luxury watches

SPEED READ

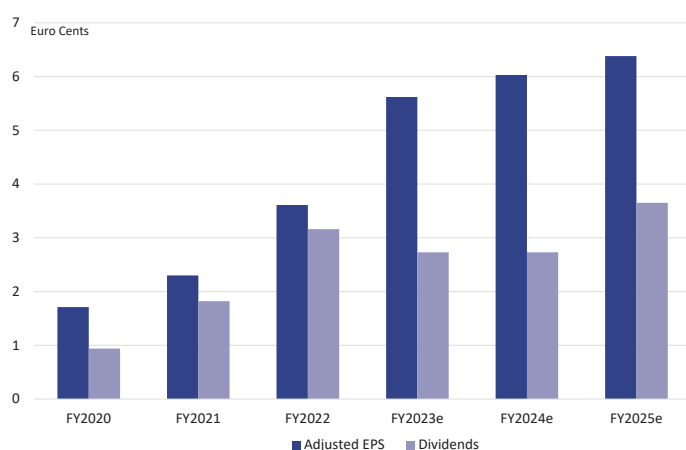
- The luxury market is forecast to reach €360-€380 billion by 2025, up from the current level of €288 billion, according to Bain & Company's "Luxury 2022 Spring" report.
- According to SAKS Luxury Pulse Survey, "76% of shoppers with incomes of \$200,000+ plan to purchase the same or more luxury items in the next 3 months than they did in the past 3 months."
- The sector is currently trading at a 1-year forward PE of 18.3x, a 15% discount to its historical average of 21.5x.
- At 14%, CF Richemont has the 2nd-largest weighting, after Anglo American Plc, in the JSE Top 40 Index

currently account for 35% of the market. This demographic is dominated by Asian shoppers, especially the Chinese, who will account for 50% of global luxury spending by 2025. (Asia accounted for 41% of Richemont's 2022 sales). Many buy luxury goods to differentiate themselves, show off or gain acceptance from others - think Facebook or Instagram 'Likes' which appear instantaneously as a photo is uploaded to be viewed globally. Richemont was quick to adapt to this younger buyer and the company now offers 35 digital boutiques, including 11 stores on China e-commerce giant Alibaba's Tmall Luxury Pavilion. As the world moved online in 2020, people became eager to impress on Zoom/

MS Teams. As office suits went out the window, online retailer The RealReal.com reported a 40% rise in searches for Cartier earrings. Furthermore, Sotheby's set a new online record, selling a 1930s Cartier bracelet for \$1.34 million in May '20. Richemont has done an exceptional job in recognising and continuing to capitalise on the psychological, behavioural and demographic changes of its customer base.

Richemont's results for the year ended March 2022 were strong. Sales increased by 46% to a record €19.2 billion. The Jewellery Maisons recorded a 49% rise in sales growth and an improvement in operating margin – now an impressive 34.3%. Specialist Watchmakers grew by 53%, however margins, which are structurally lower than jewellery, came in at 17.3%. Online Distributors only grew revenue by 27%, coming off a high Covid-19 base. The consumer's willingness to pay high prices for luxury goods enables luxury brands to avoid discounts and pass on higher inflation via price increases, which all help to maintain high margins. Furthermore, the lower-margin wholesale business has shrunk from c50% of sales 5 years ago to c25% today with a shift to higher-margin direct-to-consumer spending rising to 58% of group sales. This all led to a 61% increase in profit underpinned by strong cash flow from operating activities. Consequently, the Board proposed an ordinary dividend of CHF2.25 per 'A' share (+13%) as well as a special dividend of CHF1.00 per 'A' share. Jewellery for the world's elite remains a profitable place to be!

EARNINGS & DIVIDEND HISTORY



For the year ended March 2022, Richemont intends to reward shareholders with both an ordinary and special dividend.

Factors which have supported the above-trend sales growth in luxury goods:

- Consumer confidence has risen via the wealth-effect

thanks to ultra-low interest rates (positive for global equity and housing markets).

- Covid-19 related Government grants have boosted consumer savings rates.
- Covid-19 restrictions prevented consumers from spending on services (travel, hotels, restaurants) thus spending was redirected to other goods, and luxury was a key beneficiary.

Rising risk factors facing the luxury goods sector include:

- Erosion of consumer spending power due to escalating energy and food prices.
 - Consumer confidence reversing as rising interest rates are negative for equity and housing markets in general.
 - Consumer spending habits slowly redirected in a more balanced way between services and products as Covid-19 recedes.

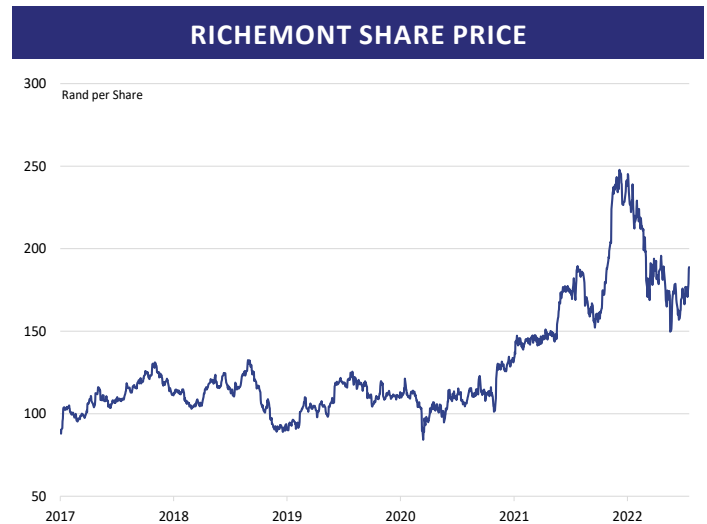
A silver lining to the dark Covid-19 cloud is the return of tourism. Last week, Richemont announced that sales for Q1 '23 increased by double digits - Japan (+83%), Europe (+42%) and the US (+25%), with Europe jumping on "robust domestic demand and a return in tourist (mainly from the US) spending." These gains were offset by weaker sales in China, which fell by 37% due to sporadic lockdowns. Granted, it could be 2024 before global tourism recovers to the levels achieved in 2019, but once back on track, 350 million new tourists could be added by 2030 (according to UNWTO). Richemont has around 1,100 physical locations worldwide in tourist hotspots that include Paris, Monaco, London, Hong Kong and Shanghai where pent-up demand should see foreigners all swiping their VISA and Mastercard furiously at the thousands of duty-free and luxury outlets!



No serious dealmaker wants to sign a multi-million dollar deal with a Bic biro! Richemont's Mont Blanc brand has the answer.

Lastly, there has been \$45 billion of M&A in the luxury-goods market over the last five years. In 2021, Richemont acquired Belgian brand Delvaux, the oldest luxury leather goods Maison in the world. This points to the Group's intent to expand into soft luxury or leather goods, a category which is expected to grow to a \$64 billion segment by 2025. Finally, the latest Bain & Company Luxury 2022 Spring report stated that the personal luxury goods market could still reach €360-380 billion by 2025, from €288 billion currently. This all bodes well for demand over the medium term.

In conclusion, CEO Johan Rupert summed things up by saying, "Even if the worst of Covid is hopefully behind us, we face a global environment which is the most unsettled we have experienced for a number of years. We can, however, take comfort from the strength and enduring appeal of our Maisons as well as their relatively balanced geographic spread." Richemont has brands that have withstood the test of time and with the luxury sector currently trading at a 1-year forward PE of 18.3x, a 15% discount to its historical



Covid-19 lockdowns hit the luxury sector hard, but tourism is returning and the World's elite, as well as the Millennials, are starting to spend again.

average of 21.5x, we are happy to add CF Richemont to portfolios when an opportunity presents itself.



This vintage 1967 Cartier Crash watch, inspired by Salvador Dali sold for a record US\$ 1.65m, proving the enduring worth of unique luxury timepieces. Cartier is a Richemont brand.



Topic: **Topic to be confirmed**

Natal Midlands

Date:	15th September 2022
Venue:	Oasis Conference Centre, 72 Main Road, Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	20 September 2022
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

The next topic for our Insight seminars will be announced in due course.



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Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager.

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