Creditreform Corporate Issuer / Issue Rating

Compagnie Financière Richemont SA

Creditreform Rating

Compagnie Financière Richemont SA	Rating information	
Creditreform ID: FNR0000122030 Incorporation: 1988 Based in: Switzerland Main (Industry): Luxury goods Chairman: Johann Rupert CEO: Jérôme Lambert CFO: Burkhart Grund	Corporate Issuer Rating: A / positive	Type: Update Unsolicited Public rating
	LT LC Senior Unsecured Issues: A / positive	Short-term rating: L1
Rating objects: Long-term Corporate Issuer Rating: Compagnie Financière Richemont SA Long-term Corporate Issuer Rating: Richemont International Holding SA Long-term Local Currency (LT LC) Senior Unsecured Issues of Richemont International Holding SA	Rating date: 8 December 2023 Monitoring until: withdrawal of the rating Rating methodology: CRA "Corporate Ratings" CRA "Non-Financial Corporate Issue Ratings" CRA "Corporate Short-Term Ratings" CRA "Rating Criteria and Definitions" Rating history: www.creditreform-rating.de	

Content

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Summary

Company

Compagnie Financière Richemont SA - hereinafter referred as Richemont, or the Company - established originally in 1988 and headquartered in Bellevue, Switzerland, is one of the world's leading luxury goods Groups (Top 5). The Company's main business segments are jewelry, watches, writing implements and clothing. The brand portfolio includes some of the foremost luxury, iconic and prestigious subsidiaries (called by Richemont "Our Maisons™") in the industry. Overall, Richemont unites a total of 27 famous brands and businesses under one corporate umbrella. The Group generated sales of EUR 19,953m in the 2022/2023 financial year (FY23) (FY22: EUR 16,748m) thus achieving EAT of EUR 301 m (FY22: EUR 2,079m)[1]. The sharp decline in net profit for FY23 is primarily due to depreciation and amortization of discontinued operations in the amount of EUR 3.6bn, which is mainly attributable to YNAP (discontinuing operations).

Rating result

Despite the weak FY23 results, which were due to one-off non-cash asset impairments related to YOOX NET-A-PORTER GROUP (YNAP), we would have confirmed Richemont's rating at A. We were already aware of this negative impact on earnings in the last rating action, and the result of our analysis of the financial ratios has stabilized compared to the previous FY22. Adjusted for this, however, the result for FY23 was very good. Individual balance sheet ratios are still solid and also solid in a peer group comparison with companies in the same sector or rating category. We also assess Richemont's liquidity position as excellent. However, business development in the first half of the year was less dynamic, particularly in the second quarter, and varied widely across the Group, partly due to exchange rate effects and certain declining operating margins. Together with the existing and potential exogenous risks, which could lead to a polycrisis, we are maintaining the unsolicited corporate issuer rating, based on Richemont's still strong fundamentals.

[1] Please note: For reasons of simplicity, we speak here of FY23 for the 2022/2023 financial year and of FY22 respectively FY21 for the 2021/2022 and 2020/2021 financial years, with regular ends on 31 March. The first financial half of the FY24 ended on 30 September 2023 and is designated as HY24. Accordingly, this applies to all years in the same way.

Outlook

The one-year rating outlook remains positive once again due to Richemont's fundamental data. Nevertheless, due to the exogenous headwinds and the inconsistent business development up to the first half of 2024 at the various levels of the Group and the recent decline in margins, we are again postponing an upgrade in the rating for the time being. We are also awaiting the completion of the transaction and deconsolidation of YNAP, as this business is currently also making a negative contribution to group earnings. Nevertheless, as Richemont has proven to be relatively resilient even in times of crisis, and has recovered well from the pandemic despite the Russia-Ukraine conflict, we expect sound performance to continue for the Company in the coming years, despite external challenges.

Relevant rating factors

Reference:

The relevant rating factors (key drivers) mentioned in this section are predominantly based on internal analyses, evaluations from the rating process, the derived valuations of the analysts participating in the rating and, if applicable, other rating committee members. The fundamental external sources used are specified in the sections "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

Table 1: Financials I Source: Richemont I Annual Report and Accounts 2023, standardized by CRA

Compagnie Financière Richemont SA Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.03. (IFRS)	CRA standardized figures[2]	
	2022	2023
Sales (million EUR)	16,748	19,953
EBITDA adj. (million EUR)	5,210	6,266
EBITDA reported (million EUR)	4,742	2,656
EBIT (million EUR)	3,192	1,184
EBT (million EUR)	2,573	1,148
EAT (million EUR)	2,079	301
EAT after transfer (million EUR)	2,074	313
Total assets (million EUR)	37,200	39,491
Equity ratio (%)	46.78	44.95
Capital lock-up period (days)	20.20	13.46
Short-term capital lock-up (%)	49.04	52.72
Net total debt / EBITDA adj. (Factor)	0.63	0.54
Ratio of interest expenses to total debt (%)	3.83	1.64
Return on investment (%)	7.32	0.95

Excerpts from the financial key figures analysis 2023:
+Sales record
+Adjusted EBIT and EBITDA
+Net total debit / EBITDA
+Cash flow
+Liquidity

-Increase in total assets
-Decrease in equity ratio
-Low reported result
-Low return on investments

General rating factors

General rating factors summarize the key issues which – according to the analysts as of the date of the rating – have a fundamental, significant or long-term impact on the rating, whether positive (+) or negative (-).

+ Strong worldwide market position among the Top 5 in the luxury goods industry
+ Proven crisis capability in the long history of the luxury industry, including at Richemont
+ Overall positive short and long-term fundamentals for the luxury goods industry
+ Highly diversified geographical portfolio and strong brand portfolio
+ Sound core business in luxury goods retail, especially jewelry segment
+ Strong ability to generate operating cash flows
+ Loyal and less price-sensitive customers
+ Proven access to capital markets
+ Sound balance sheet structure

[2] For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

- – Dependence on raw material prices and on access to relevant commodities
- – Partly inflexible structural cost block in the form of rental agreements in prime locations
- – Increasing country risks as a result of existing and potential geopolitical conflicts

Current rating factors are the key factors which, in addition to the general rating factors, have an impact on the current rating.

Current rating factors

- \+ Sales record in FY23 well above general price increase, with very solid earnings position after adjustment for non-cash, one-off effects
- \+ Major accounting adjustments to assets should be completed for the time being
- \+ Good business performance in most segments and brands, with often double-digit growth rates in sales and operating results in FY23
- \+ General strong return of international tourism in 2023, which is beneficial for the luxury sector (although reopening boost may have peaked)
- \+ Sufficient rebound in the Chinese retail and travel market, with China representing one of the Group's main markets
- \+ Strong development in sales and earnings in HY24, with sufficient operating cash flows
- \+ Still very strong liquidity position with a comfortable share of cash reserves in relation to upcoming debt maturities

- – High non-recurring effects that negatively impact FY23, dampening Richemont's non-adjusted key figures result for the 2023 financial key figure analysis, which remained stable at the slightly lower level seen in FY22
- – Realization of uncertainties related to the EU's forthcoming sanctions regulations concerning Russian rough diamonds
- – Muted performance of the maison Watchfinder & Co. in FY23
- – Mixed business performance in HY24, albeit at a satisfactory group level, with a continued negative earnings contribution from discontinued operations
- – Unchanged risks due to weak economic data in Europe's core markets, with ongoing higher interest rate level

Prospective rating factors are factors and possible events which – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+), or a weakening or negative effect (-) on future ratings if they occurred. This is not an exhaustive list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors, whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

Prospective rating factors

- \+ Qualitative growth on a broad group basis, without margin losses
- \+ Finalization of the final consolidation of YNAP and a subsequent positive contribution to the investment result; the same applies to the resulting investment in FARFETCH
- \+ Improvement in the result of our financial ratio analysis

- – Manifestation of general increase in geopolitical risks and expansion
- – Prolonged period of high inflation and economic slowdown with fall in demand for luxury goods, with the latter shifting towards second-hand market
- – Decrease of margins, e.g., through raw material prices, thus exerting negative pressure on profitability
- – Deterioration of the result of our financial ratio analysis

ESG-factors

ESG factors are factors related to environment, social issues and governance. For more information, please see the section "Regulatory requirements". CRA generally takes ESG relevant factors into account when assessing the rating object and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or the outlook.

CRA generally takes ESG factors (environment, social and governance) into account within its rating decisions. In the case of Richemont we have not identified any ESG factors with significant influence.

The most significant environmental impact by the luxury industry lies in the sourcing of raw materials, such as leather and animal fur, as well as precious metals and gemstones. Despite efforts, some luxury companies are not able to fully ensure that the raw materials for their products do not come from questionable sources, such as cruel slaughtering processes and illegal extracting activities, partly due to non-transparent disclosure on the part of their suppliers[3]. The primary social risk in the luxury goods industry is human rights violations within the supply chain, in particular child labor, human trafficking, discrimination, and overall poor working conditions. This occurs due to the fact that the fashion supply chain is highly complex, and it is difficult to control each stage of production.

This is also potentially the case for Richemont's key gemstone business. Russia is the world's largest exporter of rough diamonds. It remains to be seen to what extent the sanctions on Russian diamonds by the EU's 12th sanctions package, scheduled for 2024, will have an impact on Richemont's business, which is difficult for us to assess due to the complexity of the international diamond trade. The potential impact, including through the relocation of processing, could be small to significant, particularly as Switzerland has also joined the EU's 11th sanctions pact against Russia. The Group maintains strong partnerships with organizations such as the Responsible Jewelry Council. In the area of diamonds and gemstones, Richemont has established the Stones Supply Chain Committee to increase transparency for these valuable resources by mapping their supply chains.

The Company's handgun production (guns and rifles) remains to be observed; however, its business contribution is small. Although there is much room for improvement, we assume that Richemont follows competitive practices in the industry regarding sustainability. The certificates and assessments from external appraisal with regard to sustainability do not indicate any particular risks. Female board members represent approx. 30% of the board, and 25% of the Senior Executive Committee (SEC). Richemont also has a comparatively high proportion of women at various levels of the Group as a whole.

In this context, Richemont reports that its ESG strategy under the title 'Movement for Better Luxury' contains short, medium and long-term goals, e.g., making progress towards the Responsible Jewelry Council (RJC) Code of Conduct. As far, as can be deduced from the Company's reports, there are serious efforts underway to keep the Company competitive with regard to sustainability. Richemont has been able to demonstrate progress with regard to its defined quantitative and time-related sustainability goals, such as phasing out PVC from products and packaging in December 2022 and reaching 97% use of renewable electricity. On a positive note, Richemont is also involved in foundations that pursue the preservation of natural landscapes and biodiversity, as well as social objectives. We are also not aware of any aspects of corporate governance that could influence the rating. We see the nomination of one person each to the board and the SEC, in relation to sustainability improvement in FY23, as further evidence that Richemont seriously pursues the issues in this regard. We therefore continue to assume that the Group will meet current and future requirements regarding sustainability.

[3] Source: Fashion Transparency Index 2022 Edition. Chloé is the only Richemont subsidiary listed in this index.

It also remains to be seen how demand and public acceptance of luxury goods will develop on long-term as a result of generational change. Young generations are more critical of luxury lifestyles, seeing adverse consequences for the climate (referring to studies e.g. from Oxfam). However, many fashion houses are recognizing the megatrend towards more sustainability and are actively adapting more and more.

We note favorably that Richemont has made progress on its ESG agenda in June 2023 by publishing its first ESG report, fully prepared in accordance with the Global Reporting Initiative's (GRI) Standards. Greenhouse gas (GHG) emissions according to Scope 1 and 3 figures have recently increased, while Scope 2 values have fallen. Scope 1 increase was primarily due to company vehicles' growing usage, which accounts for 56% of Scope 1 emissions. In terms of scope 3 emissions from purchased goods and services are the biggest factor. These increased by 20% y-o-y, which is also due to the expansion of business. We believe a trend reversal is necessary.

Overall, we agree with Richemont's view that the current risks related to climate change are limited, and that the impact on the Company's creditworthiness has so far not been significant.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Best-case scenario: A+

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Although we have not upgraded the rating as anticipated in our last outlook, we continue to see opportunities for a short-term upgrade in line with our outlook. In this scenario, Richemont shows stable and predominantly uniform growth momentum in its business units, and a stabilized to positive margin position in the second HY24. The deconsolidation of the Company's discontinued operations has been completed, the result of our financial ratio analysis for FY24 is also positive by one notch, and no decline is expected for FY25.

Worst-case scenario: A-

Despite a very good liquidity situation, we see the worst-case scenario for one year at A- due to exogenous reasons. In addition to economic risks, we see one of the main risks in an unexpected but possible escalation of various geopolitical and economic tensions. The consequences of such a development are difficult to foresee, but could also be significant for Richemont's pricing, cost structure and business development.

Business development and outlook

In an environment impacted by polycrisis, and characterized by geopolitical volatility, economic uncertainty and high inflation with relatively high interest rates, Richemont has presented solid results based on all-time high sales for FY23 ending March 31, 2023, after adjusting for exceptional/non-recurring effects of EUR 3.6bn, mainly in connection with YNAP online distributors as described above. All segments, regions and distribution channels posted (often double-digit) growth during FY23, partly due to the removal of travel and health restrictions. The strongest sales growth by market was in Japan (+45% y-o-y), ahead of Europe (+30%) and Americas (+27%). The Middle East and Africa (+24%) posted satisfactory figures as well. The Asia Pacific region lagged somewhat behind the Group's other regions, with 6% growth at actual exchange rates[4]. The strongest segment was once again Jewelry, which is the Group's flagship, with sales of EUR 13.4bn (67% of Group sales) and a reported operating result of EUR ~4.7bn. The Group's directly

[4] Growth at constant exchange rates was only +1% in the Asia Pacific region, but with a strong rebound in final quarter.

operated stores also drove growth, with sales up by 22% y-o-y. Online retail sales, now excluding sales made by YNAP, increased by 12%, while wholesale sales were 14% higher over the year.

Despite the significant decline in earnings, which had a very negative impact on the (non-adjusted) figure "return on assets", the result of our financial ratio analysis remained stable at a solid level compared to the previous year. This was largely due to compensation through improvements in other key figures. On the positive side, Richemont managed to increase its gross profit margin by 200 bp, achieved through a combination of price adjustments, a more favourable sales mix, and higher retail sales. This supports our assumption of often loyal and price-insensitive customers. This more than offset the increase in raw materials costs. Additionally, operating expenses grew by 17% over the prior year, below the 19% sales increase. One reason for the still positive reported EAT of EUR 301m in FY23 was the financial result, which returned to normal compared to the previous year, and was satisfactory at EUR -36m.

Table 2: Business development of Richemont I Source: Annual Report and Accounts 2023

Compagnie Financière Richemont SA – reported figures				
In million EUR	**2022**	**2023**	**Δ**	**Δ %**
Sales	16,748	19,953	+3,205	+19.1
Gross margin	66,7%	68,7%	200bp	+3,0
EBITDA (adj.)	5,210	6,966	+1,756	+33.7
EBITDA	4,742	2,656	-2,086	-44.0
EBIT	3,192	1,184	-2,008	-62.9
EBT	2,573	1,148	-1,425	-55,4
EAT	2,079	301	-1,778	-85,5

Despite a further decline to roughly 45%, our analytical equity ratio remained solid. The asset coverage ratio of 253.8% and the current ratio of 249.3% also remained remarkably strong, and showed healthy financial structures even in a horizontal balance sheet comparison. With a net total debt factor of 0.54 and a ratio of cash and cash equivalents to the analytical balance sheet total of 46.4%, they support our view of Richemont's financial fundamentals as solid.

Table 3: Operating performance by segment I Source: Richemont's Annual Report and Accounts 2023)

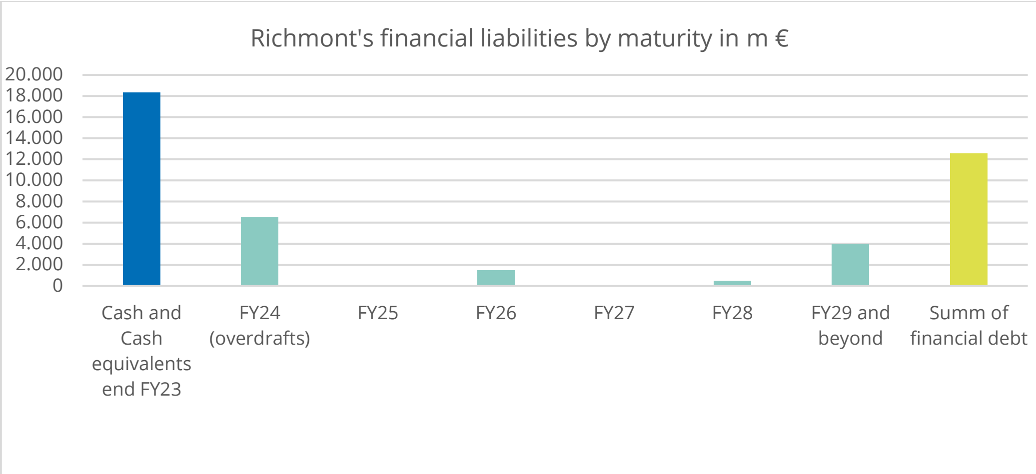
Richemont according to individual corporate divisions / FY23 vs FY22[5]						
in million EUR	**Jewelry**		**Specialist Watchmakers**		**Other**	
	FY22	**FY23**	**FY22**	**FY23**	**FY22**	**FY23**
Sales	11,083	13,427	3,435	3,875	2,230	2,651
Percentage of Group sales	*58%*	*67%*	*18%*	*20%*	*14%*	*13%*
Operating result	3,799	4,684	593	738	-46	59
Operating margin	*34,3%*	*34,9%*	*17,3%*	*19,1%*	*-2,1%*	*+2,2%*

Table 3 shows sales by segments. The profit of FY23 from continuing operations was EUR 3,911m (FY22: EUR 2,449m re-presented). The Group-wide positive development of sales and earnings is a key pillar for the rating. With the reduction in shareholding to below 50%, the online distribution business around YNAP is shown as discontinuing operations. However, Richemont preliminary remains a major shareholder in a cooperation with FARFETCH and Alabbar, with a

[5] YNAP's results for the financial year ending March 31, 2023 are reported as "discontinued operations". Previous comparative figures for the previous year are restated accordingly. Watchfinder & Co. is now reported under Other.

share capital of 49.3%. FARFETCH can subsequently increase its stake in YNAP's share capital to 100% through a specific mechanism. Particularly in the case of such high and, as far as can be seen, one-off valuation losses totaling EUR 3.6bn, we consider a key financial figure analysis adjusted for this. The result of this assessment is noticeably better.

Figure 1: Figures of current financial year I Source: Richemont's Annual Report and Accounts 2023, CRA own illustration[6]



Current financial liabilities at the end of FY23—including from discontinued operations—amounting to EUR 6,570m, consist mainly of drawdowns on credit facilities, which represents the maturity for FY24 in Figure 1. At EUR 4,491m, the operating cash flow was EUR 147m lower than in the previous year due to working capital requirements, and remains solid in our view in terms of debt and the maturity structure on the liabilities side. Richemont remains in a position to finance its business from internal sources, including short-term securities, cash and cash equivalents totaling EUR 18.337m at the end of FY23, and these decreased only slightly to EUR 17.819m as of HY24, which we consider to be still sound. The HY24 operating cash flow of EUR 1,666m remains at a sufficient level as compared to HY23 at EUR 1,540m. Table 4 illustrates the Group's business performance in the first six months to 30 September 2023 (HY24).

Table 4: Figures of current financial year I Source: Half-year report 2024

Compagnie Financière Richemont SA – reported figures				
In m EUR	**HY23**	**HY24**	**Δ**	**Δ %**
Sales	9,676	10,221	+545	+5.6
EBITDA	3,380	3,347	-33	-1.0
EBIT	2,723	2,655	-68	-2.5
EAT from continuing operations	2,105	2,160	+55	+2.6
EAT	-766	1,505	+2,271	+296.0

Richemont's business performance in the first half of 2024 was mixed, and has been slightly less dynamic of late, although sales performance at Group level was sufficient. While the business development in the first quarter was dynamic, the momentum weakened noticeably in the second quarter, which, according to Richemont, was due to various negative exogenous factors and to the comparatively strong prior-year period. Group sales increased by 6%, while gross profit

[6] FY24 overdrafts includes bank overdrafts within liabilities of disposal groups held for sale (EUR 737m)

increased by 5% to EUR 6,973m. Gross margin declined 70 bps to 68.2%. According to Richemont, the quality of operating earnings deteriorated slightly y-o-y, partly due to unfavorable exchange rates. While sales in the Asia-Pacific region rose by 14%, they fell by 4% in the Americas region. These developments, however, should be seen in light of the developments in the previous year, as mentioned above. The jewelry segment continued to develop positively, with sales growth of 10%, but with a gross margin decline of 160bps, while the segment of specialty watchmakers suffered a 3% decline in sales with a decline in gross margin by 510bps. The various sub-segments of the 'Others' segment also developed very differently in terms of sales and earnings, but made a negative contribution in earnings (EUR -6m) overall. We are critical of the fact that operational costs in the period mentioned exceeded sales growth. Nevertheless, the financial result was noticeably better than in the previous year, although this uneven development contradicts the current rating upgrade.

The Fashion division as part of the 'Others' segment is to be expanded with the majority stake in the Italian luxury shoemaker Gianvito Rossi. A negative contribution to earnings of EUR -655m (including further impairments) was made by the YNAP at HY24. On 28 October 2024 the European Commission (EC) has unconditionally cleared the acquisition by FARFETCH of a 47.5% stake in YOOX NET-A-PORTER ("YNAP") in exchange for the issuance of FARFETCH Class A ordinary shares to Richemont. The EC was the last regulatory authority required to provide clearance. As part of the transaction, Alabbar will also acquire a 3.2% interest in YNAP, leaving Richemont with a 49.3% holding. We expect the closing of the transaction to be favorable to Richemont from both an operational and accounting perspective. However, in our opinion, FARFETCH's most recently published business figures are not yet entirely convincing.

In line with the strong liquidity position, we are non-critical of the latest dividend payment in HY24 of over EUR 2bn from a rating perspective, despite the low annual result for 2023. We expect the Company to manage investments and shareholder payments prudently in order to maintain its solid financial strength.

In summary, we believe that Richemont's basic business and financial performance data since the last rating in 2022 further represents a strong credit profile.

Structural risk

Richemont's still strong business model is ensured through its broad portfolio of highly desired and well-known brands, and by its global reach. The Company ranked as one of the Top five players in the luxury goods industry in 2023 (with LVMH as the leader), selling a wide range of products through 27 brands and businesses. Its brand portfolio includes some of the most luxury-oriented, iconic and prestigious subsidiaries (called by Richemont "Our Maisons™") in the industry, including Cartier, Van Cleef & Arpels, Vacheron Constantin, Jaeger-LeCoultre, A. Lange & Söhne, IWC Schaffhausen, Chloé, dunhill and Montblanc. It remains to be seen whether Richemont will be successful in further targeting younger generations, whom we expect will comprise a significant proportion of all luxury purchases in the future. Geographically, with respect to the far east, Richemont has a strong presence in China, as well as in the US, but also in its home market, the European continent. Taken together, these account for the largest share of the global luxury market by value. The Group's 'Other' business area mostly comprises the Fashion & Accessories Maisons, including Watchfinder & Co. The degree of autonomy between the maisons, which seems to be common among larger luxury corporates, is favorable, as it creates a complementary portfolio offering. At the same time, the Group supports its maisons through, e.g., providing service and support through regional and central functions, expertise, greater influencing power through technical support, best practice comparison, various projects and initiatives, as well as higher financing capabilities.

Richemont grew both organically and through acquisitions. We believe it is likely that Richemont will continue to grow further through M&A, in addition to growth from strategic decisions (e.g., strategic joint ventures).

Richemont's product portfolio (without YNAP) is largely focused on jewelry (67% of sales), followed by watches (20%) and others (13%), i.e., fashion, accessories, stationary, and guns and rifles. In order to increase control over the entire value chain and provide greater exclusivity to its customers, Richemont sells primarily through its ~1,300 directly-operated stores, which account for 68% of total sales. From a risk perspective, we see a considerable structural cost risk in this sales channel, especially in increasingly uncertain times. In view of the recently tense relations between the western world on the one hand, and Russia and China, respectively BRICS Countries, on the other hand, this could result in significant medium-term risks for both sales and procurement for Richemont.

Richemont's descriptions suggest that its risk management is functioning; hence, we consider this appropriate and sufficient. As far as we can see, the Company's organizational structure, and process organization described by the Company in connection with their further development concepts, as appropriate to provide stable business development in the long run. We see structural diversification as a stabilizing factor. Overall, we consider the structural risk to be moderate, despite certain country risks.

Business risk

Despite its historical stability, the luxury goods sector also showed noticeable signs of crisis during the most severe phase of the Covid-19 pandemic, exacerbated by contact restrictions and heavily regimented tourism. However, it made a rapid recovery in 2021 and 2022 and is expected to continue its solid development in the coming years. The fundamentals of the industry have been supported by a rapidly growing middle class in emerging markets and an increase in disposable income, as well as the ever stronger connection of younger generations to the value proposition of brands; according to Bain's 2021 Luxury Report, these generations will account for 70% of total luxury goods consumption by 2025. China, which was still under considerable pressure in 2022 as a result of the rigorous measures to combat the pandemic, will be much more dynamic in 2023 and should continue to be an important growth driver. In this respect, the fundamental data for the sector remains promising, not least because the business models of large luxury groups have been or are being affected during the last and current crises, but have never been seriously jeopardized.

Major risks for the luxury goods industry lie in the supply of raw materials and allegations of human rights violations or social inequality. It is a major challenge and responsibility for the industry to ensure that all suppliers comply with national and international social standards, particularly with regard to child labor and appropriate working conditions, and to ensure the sustainable sourcing of leather, animal skins, precious metals and gemstones. The increasing scarcity of raw materials and the current geopolitical instability could also lead to increased price fluctuations and supply disruptions. Nevertheless, we believe the risks that apply to Richemont to be manageable. Various external reviews and certifications suggest that Richemont's business practices are likely to be sound.

Luxury goods manufacturers are highly dependent on the talent of a few creative directors and their ability to anticipate changes in consumer expectations. Therefore, there is a high vulnerability to impairment in the event of a loss of brand equity. In addition, maintaining brand image is crucial in the industry, as any damage to image associated with inappropriate production practices could significantly affect sales and be difficult to reverse.

Business risks have so far arisen for Richemont in its online retail (e-commerce) sales channel, where Richemont has had to make considerable write-downs on its assets. In our opinion, the Company's success in gaining a foothold in this modern sales channel has so far been rather modest. These risks should be relativized by the measures of entering into joint ventures (YNAP), which are likely to be completed soon.

As mentioned in the previous sections, we see relevant risks arising from increasing geopolitical conflicts and the resulting direct (e.g., availability of raw materials) and indirect effects (e.g., economic slowdown, inflation, interest rate levels). Although the impact of these on companies in the luxury goods industry does not yet appear to be significant and is therefore not yet decisive for this rating, we believe there is a possibility that our assessment could change in the short term. Overall, we see Richemont's business risks as moderate, but determined by exogenous developments.

Financial risk

For the purposes of its financial ratio analysis, Creditreform Rating AG (CRA) adjusted the original values in the financial statements. For example, we deducted 50% of the goodwill shown on Richemont's balance sheet from equity—contrary to our normal practice of reducing 100%—suggesting a certain asset recoverability in the event of financial distress.

Richemont's track record shows a stable and balanced capital structure, confirmed by a solid analytical equity ratio of 45% and a solid asset coverage ratio of 253.8% in FY23. Thus, the balance sheet structure is solid from both a vertical and horizontal perspective, with a non-critical maturity structure. At EUR 18.337m, cash and cash equivalents (marketable securities) clearly exceeded the reported financial liabilities of EUR 11.788m plus lease liabilities and other financial liabilities of EUR 3,966m. Together with the operating cash flow, this leads to a very good liquidity position for the Group. This should provide Richemont with a high degree of financial flexibility in times of increased market instability. In our view, the company has pursued a very conservative financial policy since the initial rating, with prudent debt and liquidity management, and predominantly organic growth of its business. The net total debt/EBITDA ratio remained very solid at 0.54x in FY23. In line with the rating, Richemont is thus characterized by an exceptionally strong financial position, which in this case is due to profitable business activities (current adjusted EBIT margin of 24%), followed by an only slightly negative financial result of EUR -36m.

As of March 2023, Richemont's reported total liabilities amounted to EUR 21.9bn (FY22: 20.1bn). Nevertheless, Richemont's higher indebtedness has been accompanied by business growth and stronger (adjusted) earnings results, which has supported stable credit metrics. Recurring EBITDA adjusted according to CRA methods amounted to EUR 6.3bn and thus exceeded the absolute figures of previous years.

Richemont's main external financing sources are bonds (FY23: EUR 5.95bn), followed by bank overdrafts (EUR 5.83bn). In FY23, the Company achieved positive free cash flows even after discounting shareholder payments, a trend that will likely continue with the expected positive operating development in the years ahead. According to Richemont's consolidated statement of cash flows no significant proceeds or repayments of borrowings were made in FY23. Lease payments amounted to EUR 688m.

In a nutshell, we assess Richemont's financial risk profile as very low. The reason for this is the Company's long history of stable business performance, results, its liquidity position and cash flow generation, ensured mainly through its distinctive and highly valued brand portfolio, and by its ample access to capital markets.

Further ratings

In addition to the rating of Compagnie Financière Richemont SA the following Issuer and its issues (see below), has been rated.

- Richemont International Holding SA, Luxembourg

Due to the corporate, strategic, liability, financial, economic and performance-related interdependencies of the aforementioned subsidiary (an 100% effective subsidiary of Compagnie Financière Richemont SA and which have been consolidated into the Group annual accounts) we derive the unsolicited issuer ratings of these subsidiary from the unsolicited issuer rating of Compagnie Financière Richemont SA and set it equal to its rating of A / positive.

Based on the long-term issuer rating, and taking into account our liquidity analysis, the short-term rating of the Compagnie Financière Richemont SA and the above-mentioned subsidiary was set at L1 (exceptional mapping), which corresponds to an extraordinary high level of liquidity for one year.

The rating objects of the issue rating are exclusively long-term senior unsecured issues, denominated in euro, issued by Richemont International Holding SA, Luxembourg, which are included in the list of ECB-eligible marketable assets.

Compagnie Financière Richemont SA is guarantor in respect of the issues that have been issued by the above listed subsidiary, with prospectuses of 2018 and 2020.

We have provided the long-term local currency senior unsecured notes issued by Richemont International Holding SA with an unsolicited rating of A / positive. The rating is based on the (respective) corporate issuer rating.

Long-term local currency senior unsecured notes issued by Compagnie Financière Richemont SA and Richemont International Holding SA, which have similar conditions to the current bond prospectues, denominated in Euro and included in the list of ECB-eligible marketable assets, generally receive the same ratings as the current LT LC senior unsecured notes. Notes issued in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Overview

Table 5: Overview of CRA Ratings I Source: CRA

Rating Category	Details	
	Date	Rating
Compagnie Financière Richemont SA	08.12.2023	A / positive / L1
Richemont International Holding SA (Issuer)	08.12.2023	A / positive / L1
Long-term Local Currency (LC) Senior Unsecured Issues	08.12.2023	A / positive
Other	--	n.r.

Financial ratio analysis

Table 6: Financial key ratios |Source: Richemont's Annual Report and Accounts, structured by CRA

Asset Structure	2020	2021	2022	2023
Fixed asset intensity (%)	38.98	34.69	30.76	22.30
Asset turnover	0.54	0.44	0.48	0.52
Asset coverage ratio (%)	186.52	175.94	192.07	253.84
Liquid funds to total assets (%)	31.90	41.32	44.38	46.43
Capital Structure				
Equity ratio (%)	53.54	47.02	46.78	44.95
Short-term-debt ratio (%)	21.24	25.04	28.24	31.17
Long-term-debt ratio (%)	19.16	14.02	12.30	11.65
Capital lock-up period (in days)	15.38	18.74	20.20	13.46
Trade-accounts-payable ratio (%)	2.17	2.08	2.49	1.86
Short-term capital lock-up (%)	31.39	49.23	49.04	52.72
Gearing	0.27	0.25	0.19	0.19
Leverage	1.80	2.00	2.13	2.18
Financial Stability				
Cash flow margin (%)	17.96	20.67	21.94	8.99
Cash flow ROI (%)	9.24	8.36	9.88	4.54
Total debt / EBITDA adj.	4.65	5.61	3.82	3.47
Net total debt / EBITDA adj.	1.46	1.23	0.63	0.54
ROCE (%)	10.25	13.07	29.92	42.79
Total debt repayment period	2.30	6.76	8.14	-24.76
Profitability				
EBIT interest coverage	4.92	5.26	4.21	3.32
EBITDA interest coverage	10.83	10.46	6.32	7.44
Ratio of personnel costs to total costs (%)	19.80	21.14	18.80	18.07
Ratio of interest expenses to total debt (%)	2.02	1.71	3.83	1.64
Return on investment (%)	3.75	4.04	7.32	0.95
Return on equity (%)	6.31	8.57	12.72	1.71
Net profit margin (%)	6.54	9.81	12.41	1.51
Operating margin (%)	8.94	11.82	19.06	5.93
Liquidity				
Cash ratio (%)	75.95	96.82	94.00	88.85
Quick ratio (%)	166.38	177.85	172.62	187.36
Current ratio (%)	287.32	260.84	245.14	249.31

Appendix

Rating history

The rating history is available under the following link.

Table 7: Corporate Issuer Rating of Compagnie Financière Richemont SA

Event	Rating created	Publication date	Result
Initial rating	21.12.2020	www.creditreform-rating.de	A / stable

Table 8: Corporate Issuer Rating of Richemont International Holding SA

Event	Rating created	Publication date	Result
Initial rating	21.12.2020	www.creditreform-rating.de	A / stable

Table 9: LT LC Senior Unsecured Issues issued by Richemont International Holding SA

Event	Rating created	Publication date	Result
Initial rating	21.12.2020	www.creditreform-rating.de	A / stable

Table 10: Short-term issuer ratings of Compagnie Financière Richemont SA and Richemont International Holding SA

Event	Rating created	Publication date	Result
Initial rating	08.12.2023	www.creditreform-rating.de	L1

Regulatory requirements

The rating[7] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating, that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

A management meeting did not take place within the framework of the rating process.

[7] In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date
Corporate Ratings	2.4	July 2022
Corporate Short-Term Ratings	1.0	June 2023
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Christian Konieczny	Lead-analyst	C.Konieczny@creditreform-rating.de
Natallia Berthold	Analyst	N.Berthold@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Stephan Giebler	PAC	S.Giebler@creditreform-rating.de

On 8 December 2023, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 11 December 2023. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

Creditreform Rating AG ensures that the provision of ancillary services does not present conflicts of interest with its credit rating activities and discloses in the final rating reports any ancillary services provided for the rated entity or any related third party. The following ancillary services were provided for the rating entity or for third parties associated with the rated entity:

No ancillary services in the regulatory sense were carried out for this rating object.

For the complete list of provided rating and credit service ancillaries please refer to the Creditreform Rating AG's website.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report

2. Website

3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating

2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website.

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

Creditreform Rating

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