Press Release

Creditreform Rating

Rating object	Rating incl. outlook / watch
Compagnie Financière Richemont SA	A / positive
Richemont International Holding SA	A / positive
Long Term Local Currency Senior Unsecured Issues Richemont International Holding SA	A / positive

The present update is, in the regulatory sense, a public unsolicited rating.

Date of inception / disclosure to rated entity / maximum validity:

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
Compagnie Financière Richemont SA	10.12.2021	13.12.2021	Until withdrawal of the rating
Richemont International Holding SA	10.12.2021	13.12.2021	Until withdrawal of the rating
Long Term Local Currency Senior Unsecured Issues Richemont International Holding SA	10.12.2021	13.12.2021	Until withdrawal of the rating

There occured no changes after the communication of the rating to the rating object.

Rating summary:

Creditreform Rating (CRA) has affirmed the unsolicited, public corporate issuer rating of Compagnie Financière Richemont SA, hereinafter also referred to as Richemont, as well as the unsolicited corporate issuer and issue ratings of Richemont International Holding SA (RIH) and the long term local currency senior unsecured notes issued by RIH, at A. The outlook has been changed from stable to positive.

The Group was significantly affected by the COVID-19 pandemic in the first half of the 2021 financial year (FY21) with a decrease in sales by 8.0% to EUR 13,144 million and a 0.7% lower gross margin compared to the previous year[1]. This was reportedly driven by lower levels of manufacturing capacity utilisation, the impact of a stronger Swiss franc on costs, higher gold prices and a higher sales mix towards locations with comparatively higher import duties. These effects were overcompensated, mainly in the second half of the year, by natural cost savings, short-time work subsidies, government grants and rent relief, as well as comprehensive cost discipline. The significant recovery in individual markets, especially in China, as well as the healthy development of the jewellery division with sales increasing by +3.3% and the operating result by +11.2% also made significant contributions. Our analytical EBIT FY21 shows a solid development to EUR 1,527 million. After an almost balanced financial result of EUR -12 million, earnings before taxes (EBT) were satisfactory at EUR 1,515 million. This was also driven by a EUR 294 million reversal in net foreign exchange losses on monetary items and a EUR 255 million improvement in fair value of financial instruments, both non-cash effected. This has a dampening effect on our earnings quality assessment.

As a result, Richemont succeeded in achieving an improved annual result of EUR 1,289 million in FY21 compared to the previous business year (EUR 931 million, +38.5%). Our analytical balance sheet increased significantly to EUR 32,496 million (+17.5%), mainly driven by an increase in liabilities, which caused a decline in our analytical equity ratio to 47.0%, compared to 53.5% a year ago. This negative impact was compensated by other financial figures, such as the net total debt / EBITDA adj. of 1.24x (previous year: 1.46x), the ratio of interest expenses to total debt 1.7% (previous year: 2.0%), and a return on investment of 4.0% (previous year 3.8%). Very solid liquidity ratios such as the liquidity funds to total assets of 41.3%, a cash ratio of 96.8% and the stable asset coverage ratio of 188.1% additionally contributed to our assessment of the solid level of Richemont's financial key figures. The company's good financial profile was also underlined by reduced dividends, good cash flow generation from operating activities of EUR 3,218 million (+26.3%) in FY20, and cash protection measures with fewer investments in tangible assets.

Overall, the results of our financial ratio analysis for FY21 show a stable financial development over recent years. The unsolicited corporate issuer rating of A confirms that Richemont maintains a high level of creditworthiness, representing a low risk of default. Our rating assessment is also based on Richemont's leading position in the global luxury market (Top 3 worldwide) and its strong, high-value brand portfolio.

In Richemont's first half-year 2022 (HY22), which ended on 30 September 2021, the Group showed a very strong rebound year-on-year, according to the unaudited figures, even outperforming its pre-crisis levels. This applies to virtually all regions, sales channels and segments. Despite a significant double-digit growth in sales to EUR 1.278 million (+37%) compared to HY21, the 'Online Distributors' segment showed another disappointing operating result of EUR -141 million, due to increased communication investments and - as Richemont has announced - a temporary

[1] For reasons of simplicity, we speak here of FY21 for the 2020/2021 financial year and of FY20 respectively FY19 for the 2019/2020 and 2018/2019 financial years, with regular ends on 31 March of each business year. The first financial half of the FY22 ended on 30 September 2021 and is designated as HY22. Accordingly, this applies to all previous years in the same way.

absorption of Brexit-driven customs duties. At EUR 8,907 million, group sales exceeded the previous half-year's figure (HY21) by 63% and HY20 by 20%. Earnings quality also increased significantly with an operating profit of EUR 1,949 million, after EUR 452 million (+331%) a year ago and EUR 1,165 million (+67%) in HY20. At EUR 1,249 million, EAT also increased significantly compared to previous years (+686% / +44% respectively), also driven by good cost control. While sales in most regions grew in the mid-double-digit range, the Americas market was able to increase sales by 114% to EUR 1,926 million, almost reaching the sales level in Europe (EUR 2,009 million, +63%), which was still subject to strong travel restrictions and thus missed the pre-crisis level by 9%. Asia Pacific (EUR 3,789 million, +48%), Japan (EUR 526 million, +44%) and Middle East and Africa (EUR 657 million, +55%) showed lower but nevertheless strong growth rates in sales compared to the previous half-year (HY21), while Japan – like Europe – stayed 12% below the pre-crisis level (HY20).

The Group's internal financing power has also improved noticeably. While net cash generated from operating activities for the first six months of FY21 amounted to a sufficient EUR 926 million, it already reached EUR 1,781 million in HY22 (+92%). However, after an investment cash flow of EUR 914 million (HY21: EUR 424 million) and before taking into account dividends paid in the amount of EUR 1,041 million (HY21: EUR 529 million), a positive free cash flow of EUR 867 million remained (HY21: EUR 502 million). Cash at bank and on hand, however, remained at a satisfactory level of EUR 8,265 million (HY21: EUR 7,877 million). At present, we consider the Group's financial stability, in conjunction with its solid business model and market position, as well as its excellent access to capital markets, to be largely secure. The developments of balance sheet items and ratios, in our opinion, likewise do not show any critical aspects in the 2022 business year so far. Altogether, these aspects lead to the positive outlook; however, the development of the equity ratio remains worthy of further observation.

The renewed worsening of the pandemic situation with new virus variants, containment measures and lock-downs in Europe, as well as regional supply chain disruptions and a potential surge in commodity prices (cost inflation), limit the rating to A for the time being. The strong decline in sales and results in individual segments such as 'Watch Retail' and "Other" in FY21, as well as the negative result in the segment 'Online Retail' in HY22, and the not-yet-achieved return to pre-crisis levels in sales in Europe and Japan, also contributed to the decision to limit the rating. Business development was also negatively impacted by the travel restrictions of various jurisdictions due to the importance of travel activities for Richemont. Nevertheless, the rating result reflects Richemont's overall solid operating and financial performance during recent years, and the strong rebound in FY22 so far, as well as our expectation that credit metrics will be sustained at healthy levels in the next 12-24 months.

In addition to the unsolicited corporate issuer rating of Compagnie Financière Richemont SA – hereinafter referred also as Guarantor - the following Issuer as Richemont's financing company 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 (which is a 100% subsidiary of Compagnie Financière Richemont SA and which has been consolidated into the group's annual accounts), we derive the unsolicited corporate issuer rating of Richemont International Holding SA - hereinafter referred as RIH - from the unsolicited corporate issuer rating of Compagnie Financière Richemont SA and set it equal to its rating of A / positive.

Based on the unsolicited corporate issuer rating of Richemont International Holding SA (A / positive), CRA has prepared unsolicited corporate issue ratings on issues (ISIN) of RIH. The rating objects considered here are exclusively the EUR-denominated Long-Term Senior Unsecured Issues which are part of the ECB's list of eligible marketable assets and which were issued by RIH SA. The ECB list of eligible marketable assets is available on the website of the European Central Bank. These issues (ISIN) are rated A / positive.

Primary key rating drivers:

+ Strong worldwide market position (among Top 3 market leaders)
+ Highly geographically-diversified, strong brand portfolio
+ Shift towards online-/E-Commerce business (convergence business model)
+ Stable development of our financial key figure analysis for FY21, with strong credit metrics at an upper level, despite the COVID-19 pandemic
+ Very strong and broad rebound in sales and earnings in FY22 so far, with a sufficient operating cash flow in HY22
+ Another proven crisis capability in the long history of the luxury industry
+ Comfortable liquidity position and proven access to debt capital markets

– Continued negative earnings in the Online Distributors segment, and not yet fully recovered in the regions Europe and Japan against pre-crisis levels
– Evidence of a continuation of the positive business development in the second half of FY22, with its expected sustainability in FY23 still pending
– Still high degree of uncertainties due to the course of the COVID-19 pandemic

ESG-criteria:

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

Potential ESG-factors which could affect the company due to Richemont's business model are the environmental effects of raw material extraction and the ethical supply of raw material and jewellery. These can be challenging issues, as Richemont's second-tier suppliers are sometimes beyond its direct control. This applies to both social and environmental issues. 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 Jewellery Council (RJC) Code of Conduct. The Danish-based jeweller Pandora A/S, which is one of the largest jewellery producer in the world by volume and a major market player, committed in May 2021 to halting the use of diamonds sourced from mines for ethical reasons and for reasons of environmental protection, and instead only to process stones produced in a laboratory. It remains to be seen whether and how this will prevail in the industry in general and in the luxury segment in particular, and what impact this will have on Richemont.

In its Sustainability Report 2021, which underwent a comprehensive external review for the first time, Richemont reports on progress made on various sustainability issues, including the establishment of a Governance and Sustainability Committee of the Board, further progress on the implementation of the United Nations SDGs, and a commitment to transparency and traceability in the sourcing of raw materials. Moreover, over 90% of the gold purchased by Richemont is reportedly RJC Chain of Custody certified and comes from recycled sources.

Richemont is committed to sourcing 100% of its electricity by renewables across the Group by 2025. As a further example, Richemont describes in its sustainability report the commitment to reduce absolute Scopes 1 and 2 greenhouse gas emissions (GHG) by 46% by 2030 from 2019 levels. The ktCO_2e of Scopes 1, 2 and 3 were reduced in total from 1,381 in 2019 to 1,114 in 2020. Total energy consumption decreased from 281 GWh in 2019 to 252 GWh in 2020, and the Group's total water consumption dropped by 325,670 m^2 to 660,035 m^2 in 2020. According to the Company, women occupy 35% of the 600 Top Management positions.

Furthermore, Richemont joined with LVMH and Kering, the world's leading luxury goods conglomerates, to focus on the ideas of sustainability, low carbon, and environmental protection at the China International Import Expo in September 2021. In our assessment, we will therefore observe developments in ESG topics over the coming years, but initially assume that Richemont has made and will make progress in sustainability issues, and will follow these aspects with the necessary seriousness. Richemont's publicly available reports support this assumption. What we do not see in the Sustainability Report is a summary table of all relevant key figures that clearly presents the multi-year developments on ESG issues. Handgun production (guns and rifles) also remains to be observed; however, its business contribution is not material.

Overall, we consider Richemont to be well-positioned with regard to ESG factors, and we do not identify any significant influence on the rating so far. In the future, ESG factors may have an impact on our rating assessment, depending on the company's achievement of its targets and on regulatory changes.

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.

Rating scenarios:

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.

Best-case scenario: A+

In our best-case scenario for one year we assume a rating of A+. We believe that an upgrade within a period of one year is likely if Richemont continues its strong operational performance in the current business year and outperforms the business year 2019 regarding sales, earnings and operational cash flow, based on a strong rebound in all segments and markets. The confirmation of this development for the 2023 business year is also apparent in its half-year figures. The results of our financial ratio analysis also improve slightly in this scenario. The decline in the analytical equity ratio is halted. Uncertainties regarding global economic development and the COVID 19 crisis are clearly put into perspective.

Worst-case scenario: A-

In our worst-case scenario for one year, we assume a rating of A-. This could be the case if Richemont's current dynamic business performance slows down, resulting in a downturn, e.g. due to disrupted supply chains, (geo-)political risks, or a re-aggravated pandemic with country-wide and cross-continental containment measures. The results of our financial ratio analysis deteriorate significantly in this scenario.

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Initial rating:

Rating object	Event	Rating created	Publication date	Monitoring until	Result
Corporate Issuer Rating of Compagnie Financière Richemont SA	Initialrating	21.12.2020	23.12.2020	09.12.2021	A / stable
Richemont International Holding SA	Initialrating	21.12.2020	23.12.2020	09.12.2021	A / stable
LT LC Senior Unsecured Issues issued by Richemont International Holding SA	Initialrating	21.12.2020	23.12.2020	09.12.2021	A / stable

Status of solicitation and information basis:

The present rating is, in the regulatory sense, a public **unsolicited** rating. 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

Rating methodology / Version / Date of application:

Rating methodology	Version number	Date
Corporate Ratings	2.3	29.05.2019
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

Regulatory requirements:

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating[2] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

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.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

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:

[2] 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.

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.

Disclaimer

Any rating performed by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct, which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the enterprise or the issue under review.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

We have assumed that the documents and information made available to us by the client are complete and accurate and that the copies provided to us represent the full and unchanged contents of the original documents. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

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