
Compagnie Financière Richemont SA

Rishi Gosalia, ValueX 2016

Best viewed at: <http://bit.ly/richemont-valuex>

Wide Moat Business:

- Owns **iconic** luxury brands hundreds of years old.
- Deeply ingrained in consumers' minds.
- Long-term growth driven by pricing and modest unit volume.

Owner Oriented Management:

- Chairman Rupert's family owns 9% of the Group.
- Rupert's control 50% of voting shares.
- **Long-term protection** to the brand value.

Reasonable Valuation:

- **Fortress balance sheet** with no debt.
- 20% Market Cap in liquid assets.
- Temporarily out of favor due to China slowdown.
- Consistent dividend growth and **high cash flow** generation.

Ticker (Swiss): **CFR**

Price **CHF 58** Dividend per Share **CHF 1.7**

Shares Outstanding **566M** Dividend yield **3%**

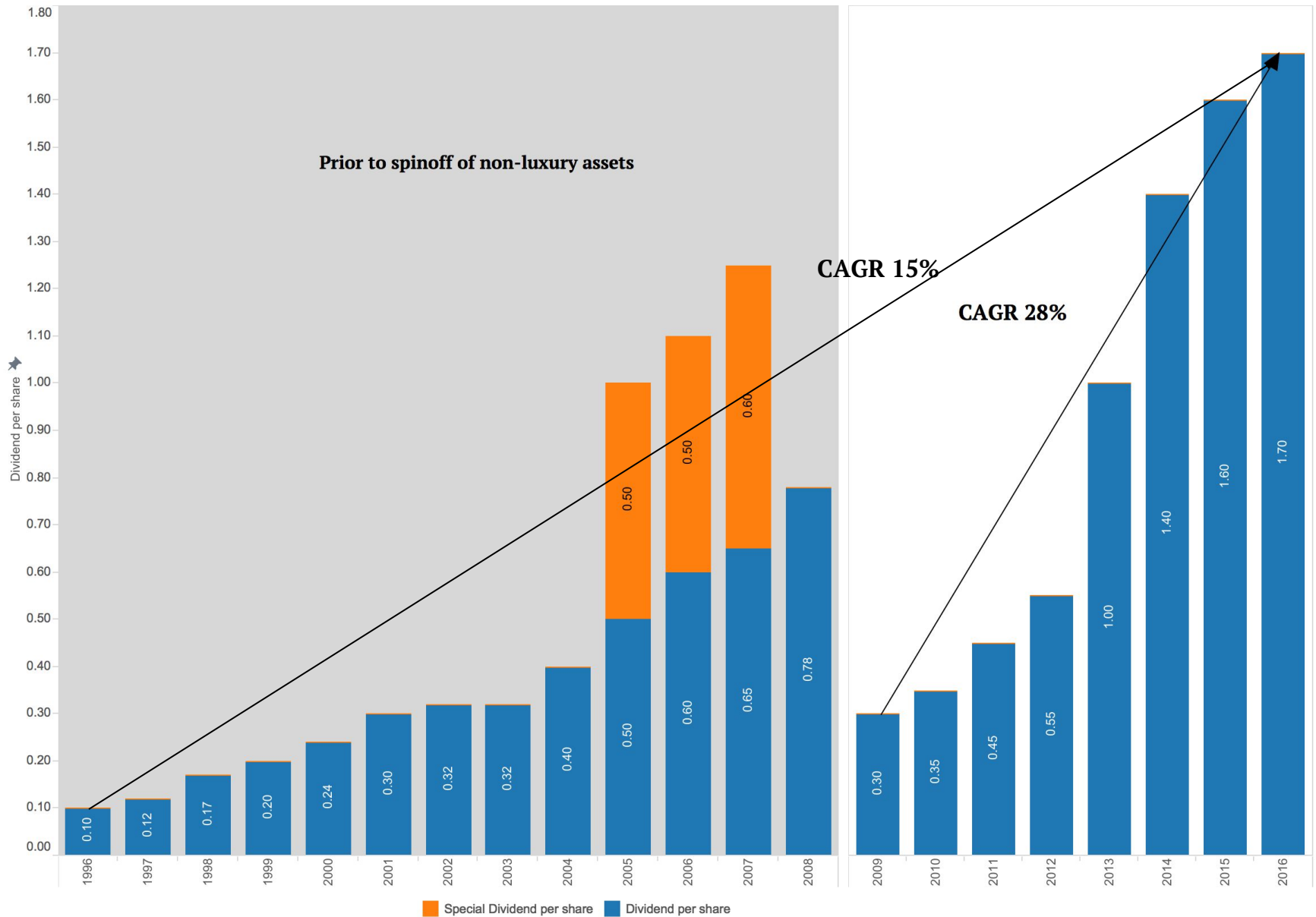
Market Cap **€30B** Enterprise Value **€24B**

2016 EBIT **€2.0B** EV / EBIT **12x**

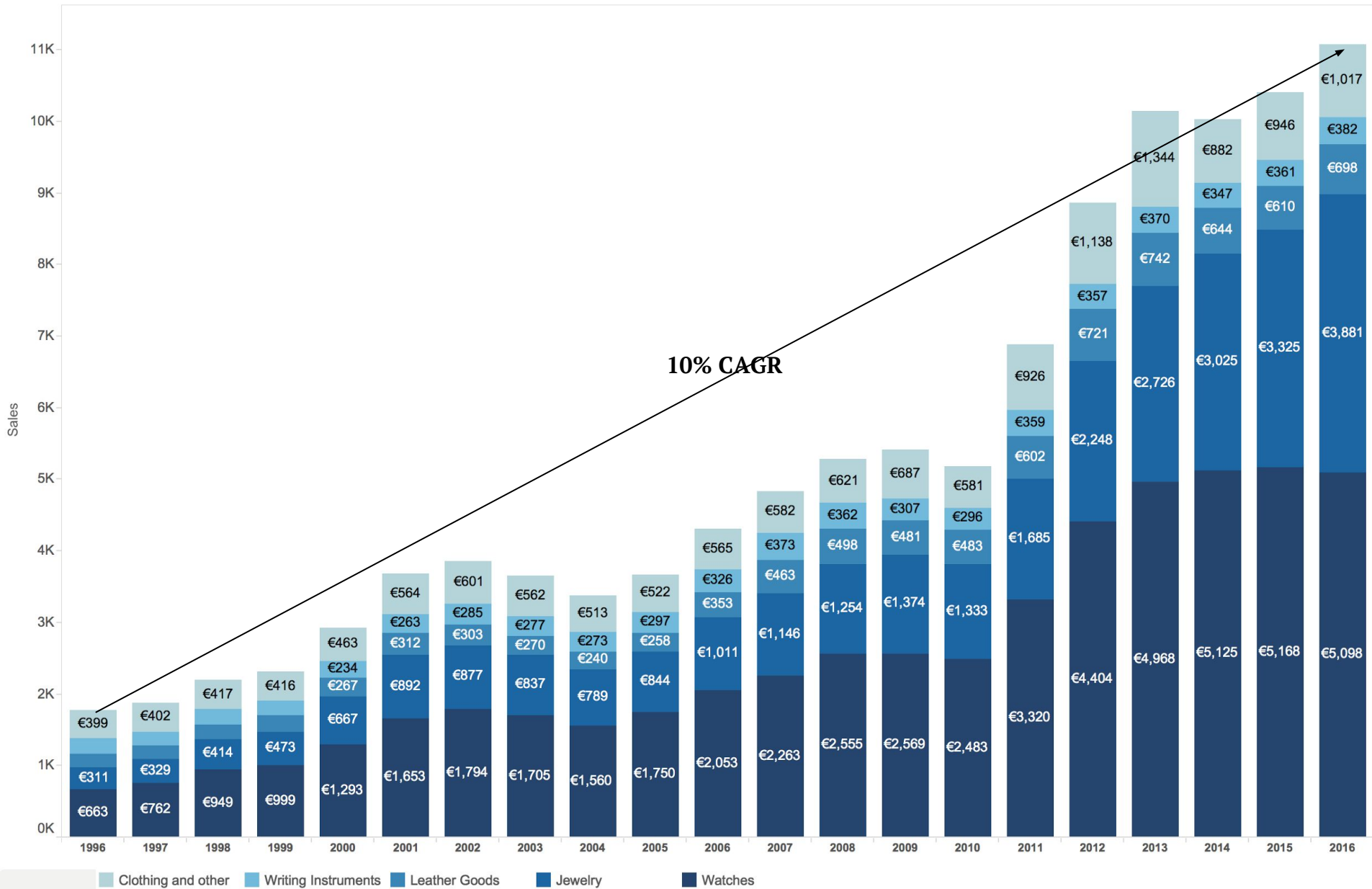
2016 NOPAT **€1.6B** EV / NOPAT **15x**

2016 FCF **€1.3B** EV / FCF **18x**

20 YEAR DIVIDEND HISTORY



20 YEAR REVENUE



MAISONS

- **Jewellery Maisons (60% of Sales, 80% of EBIT)**
 - Cartier
 - Van Cleef & Arpels (VCA)
- **Watchmakers (30% of Sales, 20% of EBIT)**
 - Constantin Vacheron
 - Piaget
 - Jaeger-LeCoultre
 - IWC Schaffhausen
 - Officine Panerai
 - Baume & Mercier
- **Others (10% of Sales, 0% of EBIT)**
 - Leather Goods
 - Writing Instruments
 - Clothing

CARTIER, JEWELLERY MAISON



Cartier, founded in 1847, one of the most established jewellers in the world.

<http://bit.ly/cartier-behind-the-scenes>

CARTIER'S RICH HERITAGE



Queen Elisabeth of the Belgians,
1912



Kate Middleton
Duchess of Cambridge, 2011

“The Jeweller of Kings and King of Jewellers” - King Edward VII, England

<http://bit.ly/cartier-heritage>

CARTIER'S TIMELESS LUXURY



1970 Price: \$250



2016 Price: \$6,600



Most searched for designer
jewellery

Introduced in 1969, the Love Bracelet continues to be Cartier's top selling jewellery. Costs between \$6,600 and \$55,000.

CARTIER'S TIMELESS LUXURY



First launched in 1917, Cartier Tank is Cartier's longest models in production.

Cartier Tank in 2016.

A symbol for Parisian class and elegance for nearly 100 years.

<http://bit.ly/cartier-tank-timeless>

VAN CLEEF & ARPELS, JEWELLERY MAISON



Van Cleef & Arpels
Founded in 1896.
Acquired by Richemont in 1999.



Her Majesty Empress Farah Pahlavi at the 1967
coronation ceremony. Crown designed by Van
Cleef & Arpels.

VAN CLEEF & ARPELS' TIMELESS LUXURY



Vintage Alhambra Necklace

(10 motif, onyx & yellow gold)

Mar 2008	\$4,200
May 2008	\$4,900
Sept 2010	\$5,100
Feb 2011	\$5,200
Jul 2011	\$6,400
Today	\$8,300

Vintage Alhambra Necklace

First introduced in 1968 is the maison's most identifiable emblem.

Making of the Alhambra: <http://bit.ly/vca-alhambra>

SPECIALIST WATCHMAKER MAISONS

MORE THAN 250 YEARS OF UNINTERRUPTED HISTORY

1825. When the world's first railway line was inaugurated in England, Vacheron Constantin was 70 years old.



CONTEMPORARY RETROGRADE
DATE AND DAY PATRIMONY

42.50 mm pink gold case. Caliber 2440/313 187. Manufacture de Genève. Self-winding mechanical movement. Day and date retrograde indicator. Anti-reflective sapphire crystal. Silver opaline dial. Pink gold hour markers. Circular-grooved minute circle. Water-resistant to 30 meters (~100 feet).

66030/000B-9239

VACHERON CONSTANTIN
Manufacture Horlogère, Genève, depuis 1755.

www.vacheron-constantin.com



JAEGER-LECOULTRE

Master Grande Tradition Tourbillon Cylindrique à Quantième Perpétuel Jubilee

Lessons Collection Store Locator Share



PIAGET

PERFECTION IN LIFE

Manhattan, New York.
Piaget Polo® (2009)
The world's thinnest automatic watch with four functions, automatic with moon phase and day indicator.
Piaget, the master of ultra-thin.

piaget.com



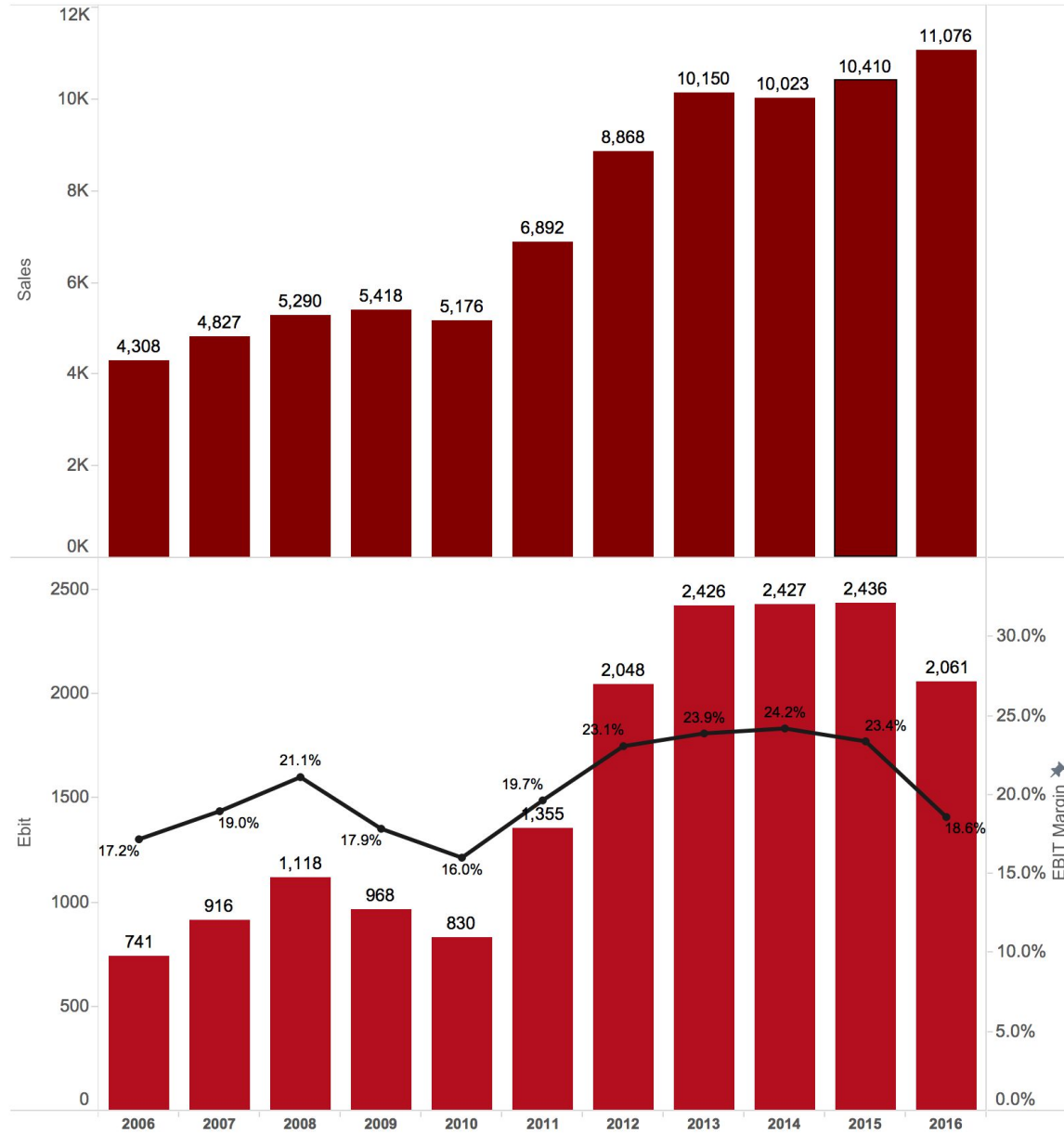
PANERAI
L'OROLOGERIA DI GENOVA

ART AND SCIENCE.

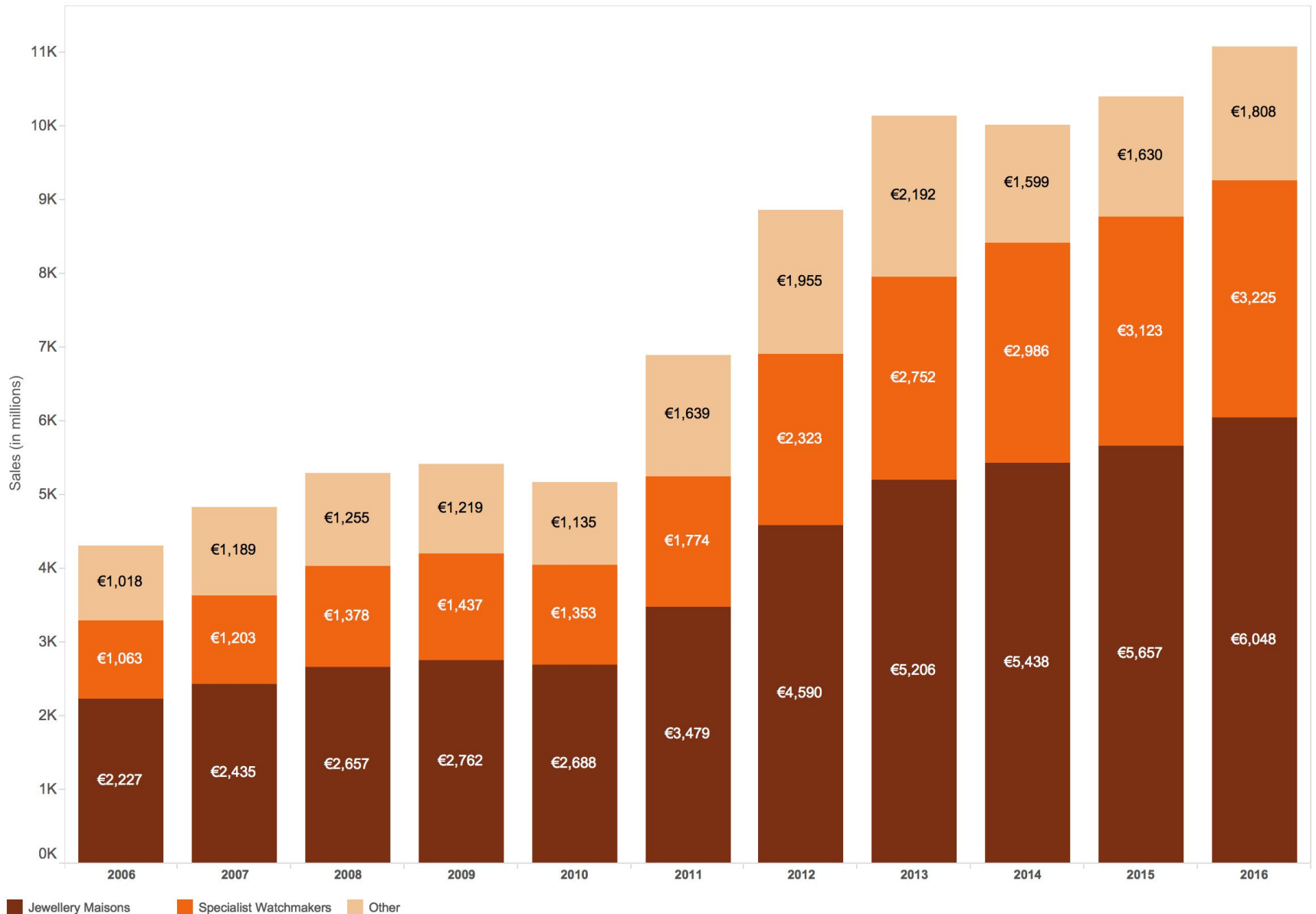
High End Swiss Watchmakers, one of which is the oldest in the world.

<http://bit.ly/vacheron-history>

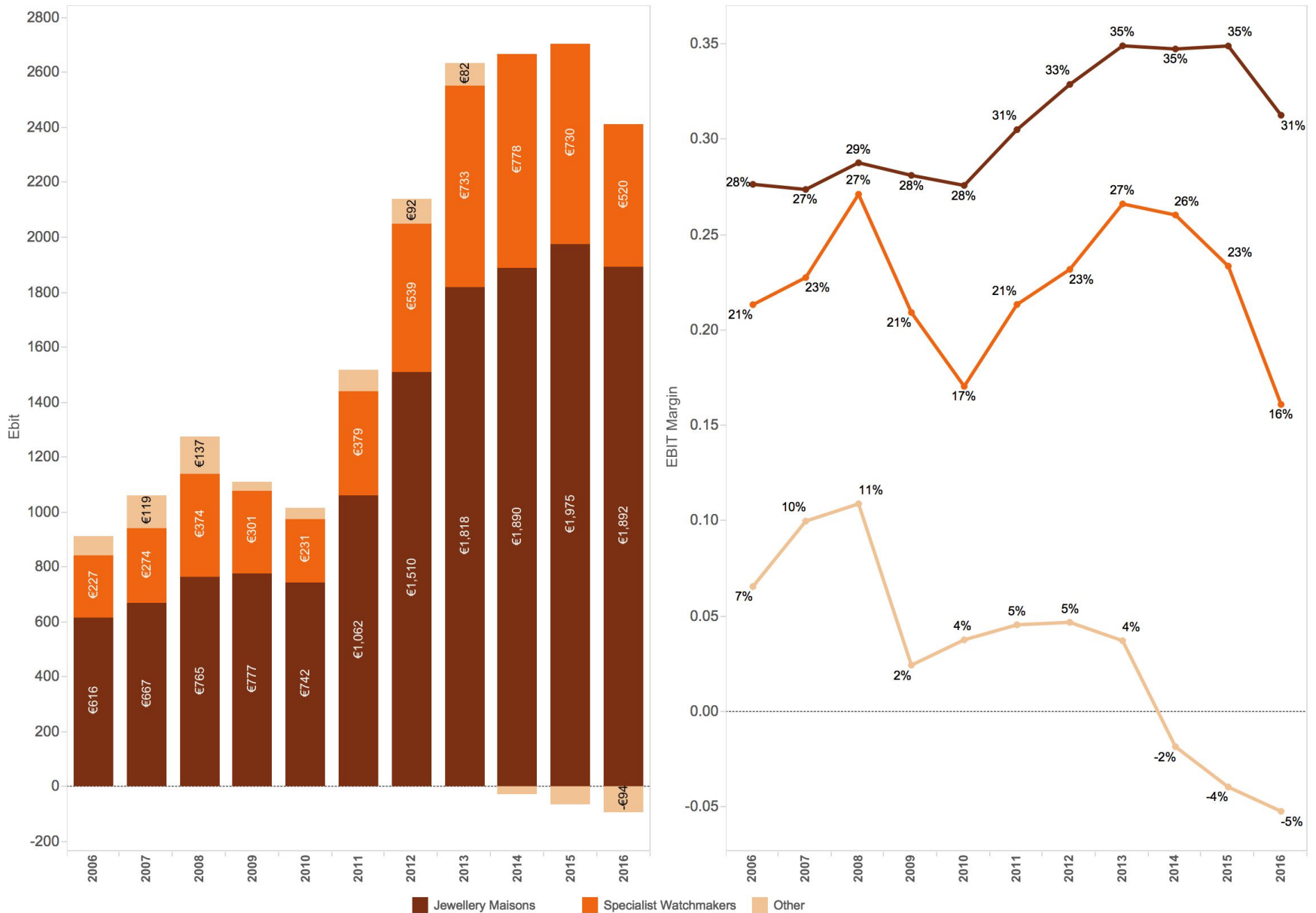
10 YEAR GROUP P&L



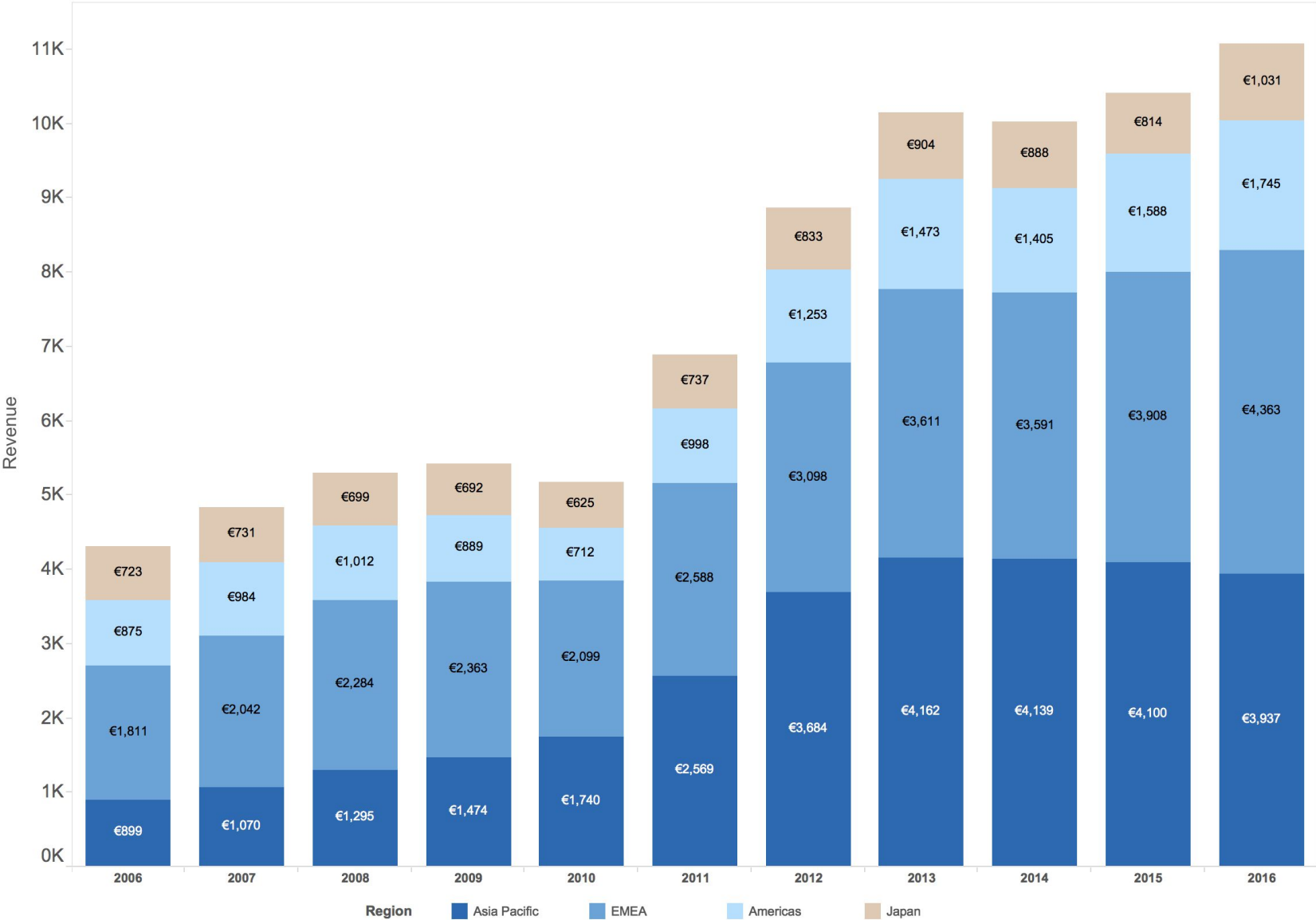
SALES BY MAISON



PROFITABILITY BY MAISON



SALES BY REGION



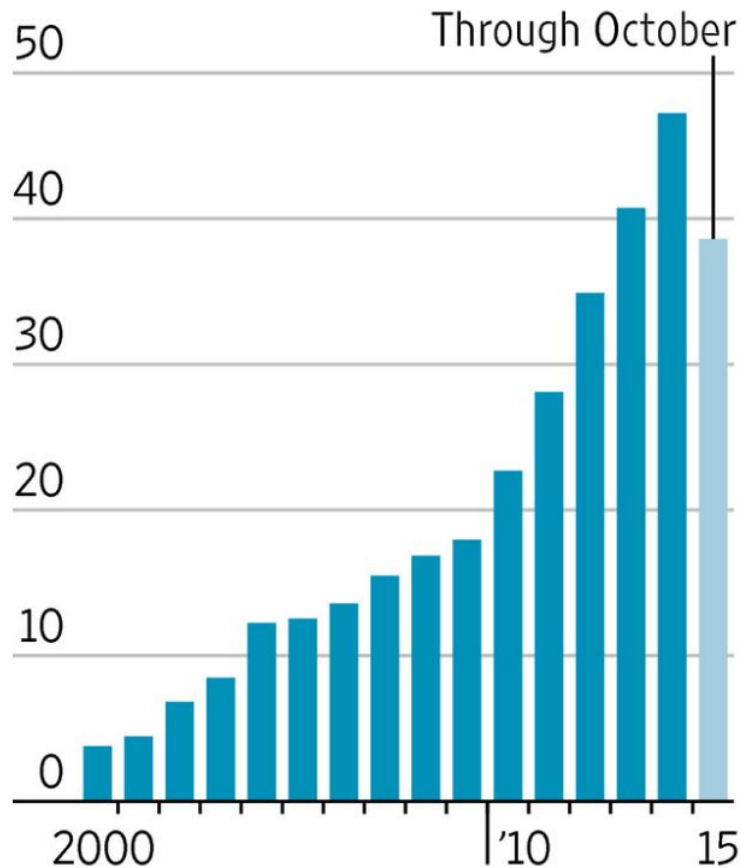
NEAR TERM ISSUES

- **Anti-graft Campaign** started in 2012:
 - Affecting all Swiss Watch sales.
- **Strengthening of HKD** (pegged to USD):
 - Affecting all Luxury sales.
 - Apple reported double digit negative sales in HK.
- **Fall in Mainland China tourists to HK**
 - First time since 2003.
 - HK protests: <http://bit.ly/hk-protests>
 - HK Disney park reported loss first time since '11.
 - Wharf Holdings, HK's largest mall, reported double digit fall in retail sales.

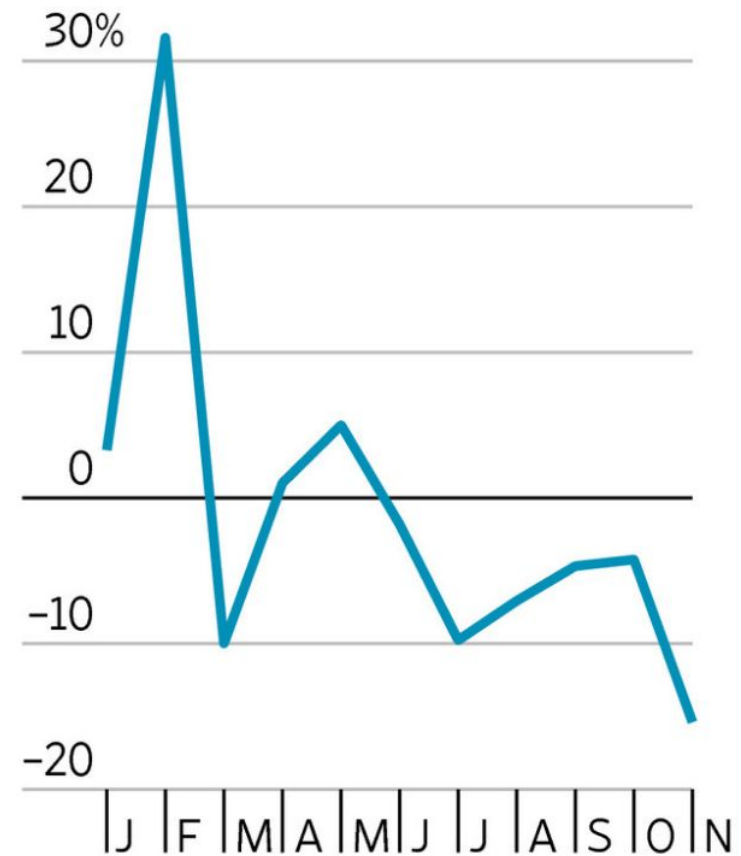
ASIA WEAKNESS LED BY HONG KONG

Chinese tourist arrivals in Hong Kong

In millions of visitors



Change from previous year



Sources: Hong Kong Tourism Board, CEIC; Hong Kong government (November data, change from previous year)

THE WALL STREET JOURNAL.

NEAR TERM ISSUES

- **Euro Slowdown**
 - Terrorist attacks.
 - World's largest OTA, Priceline Group, reported weak results in Europe.
- **Margin weakness**
 - CHF strengthening - unpegging to Euro.
 - Operating deleverage in HK stores
 - Large portion of rent is profit sharing.
 - Leases being negotiated as lease terms are shorter term than US retail.

LONG-TERM OPPORTUNITY

- **Opportunity**
 - Weakness in smaller business - Watchmakers
 - Opportunity to own iconic Jewellery Maisons, Cartier and VCA, cheaply.
 - Long-term brand and pricing power intact.
- **Sales**
 - Street too focused on watch sales.
 - Jewelry sales unaffected by anti-graft campaign.
- **Margin**
 - 80% of Segment Profit from Jewellery Maisons.
 - Profit margin of over 30% for Jewellery Maisons.

FAIR VALUE MULTIPLE

	Worst	Base	Best
ROIC	25%	30%	35%
Growth	5%	6%	7%
Discount Rate	10%	10%	10%
EV/NOPAT	15x	20x	26x

FAIR VALUE MULTIPLE

- Long-term Growth rate of 5%-7% based on pricing power and conservative unit volume growth.
- Trading at EV/NOPAT of 15x, bottom of fair value multiple range. Current earnings yield of 6.5%. Add 5% growth gives expected forward rate of return is 11.5%.
- Expected to **grow dividends over long-term at 15%**.

WISDOM OF JOHANN RUPERT

On short-termism

“So anybody who’s going to ask, so what do you think the next year looks like, why don’t you just not ask the question because we’re not going to answer any. And it’s not because we’re coy or funny. We don’t know.”

“If you look at share buybacks, and at the prices at which companies bought their shares back, they inevitably bought the shares back at very close to the top because that’s when they had a lot of cash. And boy, do they regret it when all hell breaks loose.”

On M&A

“No, no, no, no. I didn’t lose a lot of money when I tried to sell the business. I lost the money when I bought the bloody thing. That’s when you park your money, it’s not when you try to find the bigger idiot than you to take it off your hands.”

“Our job here is to create goodwill and not to pay other people for goodwill.”

“If you talk up your share price, when the price comes down, the folks come looking for you”

WISDOM OF JOHANN RUPERT

On M&A

“There are three stages of an acquisition, which are euphoria, and then disillusionment. And the next thing is looking for somebody to blame.”

On luxury business

“The only way we know how to maintain a sustainable competitive advantage is to grow the brand equity because that brand equity creates demand and will result in pricing power.”

On Governance

“So if you want a perfect governance score, get somebody you don’t know, whom you’ve never met, who knows nothing about your business because he’s never been involved, employ him and give him a nice bonus for sitting on a committee. Then you get all the boxes ticked. And guess what happens? After five years, chaos. There’s a direct, inverse correlation between the best corporate governance box-ticking and medium term performance.”

WISDOM OF JOHANN RUPERT

On Van Cleef's Acquisition

"Van Cleef would be a good example of how our business model works where -- actually it was a Mr. Corrado Fratini of Italy who put the Company together, we had had an interest, I then bought the Company from him over the phone. Eloy was with him but we shook hands over the phone, and one of our large competitors based in Paris, offered him 25% more than what we'd agreed upon over the phone without asking what we'd agreed upon. And Mr. Fratini said sorry, I'm a gentleman, I've agreed. And that's how we got Van Cleef & Arpels and that's more than a decade ago (1999). But slowly doing all the right things, pulling the licenses back, getting the leases, getting the products, going into the archives, getting the artisans back. Today it is a very profitable company, but I remember coming year after year and not only you folks but colleagues of mine at the Board level, say so when exactly are we going to make money? You remember how often. I said when we're ready for it to make money, Board members. Alan, you remember how many years? Finally I took it off the Board table, I said it will make money and we'll let you know. Today it is a very precious part of our Group."

WISDOM OF JOHANN RUPERT

On Protecting the Brand Equity

"I think every manager's goal really is to make a company idiot-proof because sooner or later an idiot will run the company, you've got to know that okay, it doesn't matter what company in the world. So if you had like Mr. Buffett said, you build moats, you build brand equity, you can withstand quite a lot of stupid things that we ourselves do. I'm not worried that somebody who is in another luxury goods company is going to think of something and that's going to kill our business."

"To grow 15% dividends and earnings, you need to have a sustainable competitive advantage and the only way that we know how to maintain a sustainable competitive advantage is to grow the brand equity of the various Maisons, because that brand equity will give you, will create demand and will result in pricing power."

WISDOM OF JOHANN RUPERT

On Conservatism

"Rest assured we will err on the side of caution in terms of assuming further fixed costs. The key is to try and change as much fixed costs into variable costs. So if we do leases the goal will always be to share with the landlord. Yes, if we do incredibly well, give them their share, but the turnover clauses, where it can be negotiated, are preferable to lower fixed, with the potential downside. And Norbert and Richard and I are identical on this. We obviously face constant demands from the heads of the Maisons because everybody would like to have their own store on every major street in every major capital in the world. And when things go well, obviously the three of us are wrong, when things go well. When things go badly, the shareholders suffer. So I think we act as a bit of a shock absorber. And believe me, half of that proves what my poor CEO's got to face. These phone calls from, I mean, everybody wants a store on every major street in every major city in the world and they have rational reasons why they'll make money and we agree they'll all make money. However, when things go wrong, the landlords still make money and we don't."

"You know, we're always very focused on having all of our stores be profitable. The good news is that we only closed seventeen stores, didn't cost us anything."

WISDOM OF JOHANN RUPERT

On Maintaining a Strong Balance Sheet

"We will maintain enough liquidity and fire power inside Richemont to make sure that if things go badly, and real opportunities present themselves within the Luxury Goods sector, that we do have the firepower to act immediately. Unfortunately, life is like that, that when you really need fire power, the banks are not there and the funds are gone. When you don't need money you have an avalanche of cash coming your way. So, we will be cautious."

What is Luxury?

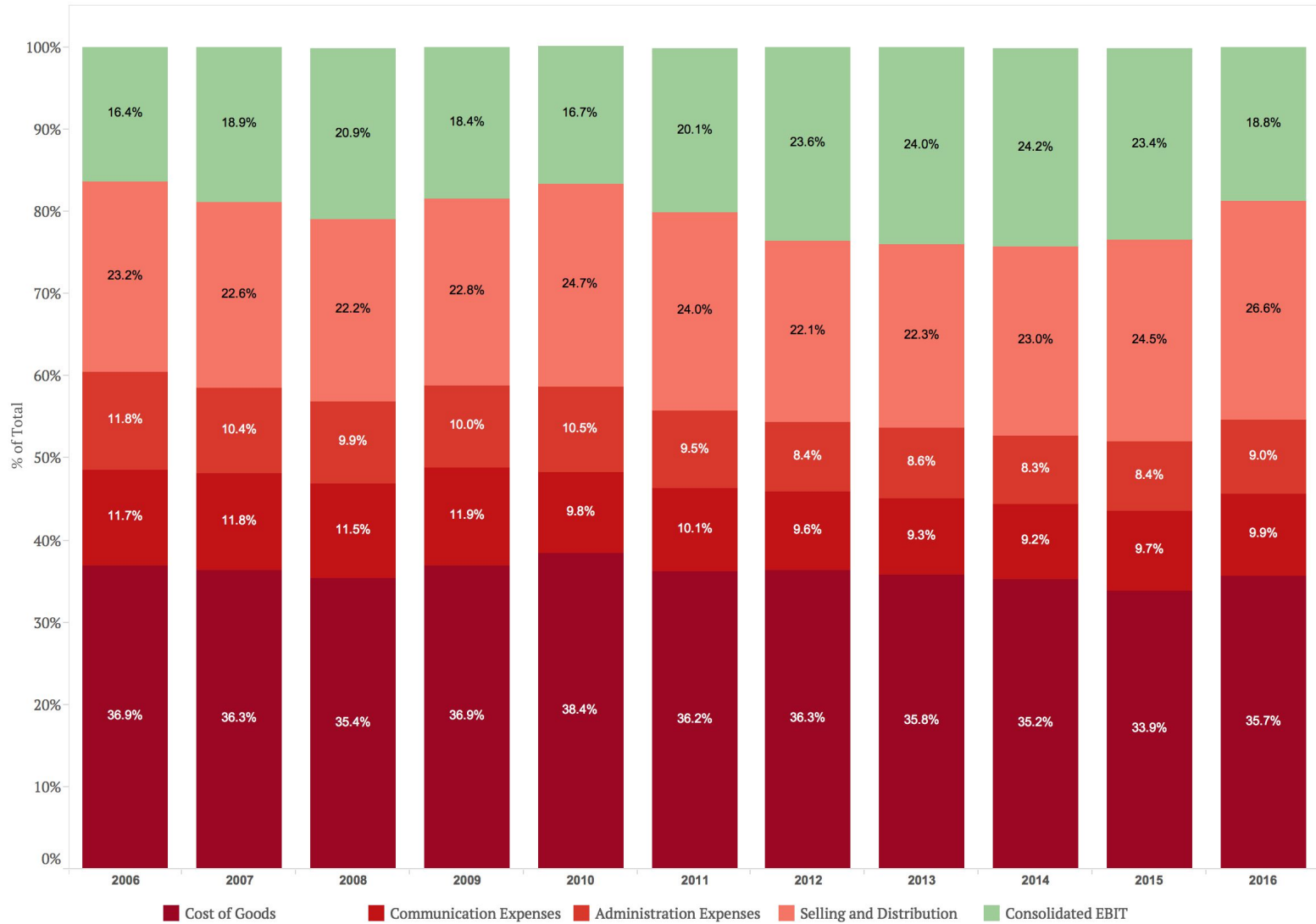
Exclusivity, premium prices, image and status which combine to make them more desirable for reasons other than just function.

LUXURY 101


- Forget about ‘positioning’. Luxury is uniqueness.
- Product excellence is not the goal. Luxury is often hand-crafted.
- Avoid diluting brand value by making it more relevant. Keep non-enthusiasts out.
- Do not respond to rising demand. Identity more important than meeting customer wishes. Production is capped and rarity sells value.
- Protect clients from non-clients.
- Advertise not to sell.
- Presumed price is always higher than the actual price.
- Luxury sets the price, price does not set luxury.
- Raise prices to preserve rarity.
- Luxury stands on its history and culture. Keep celebrities out of promotions.

Appendix

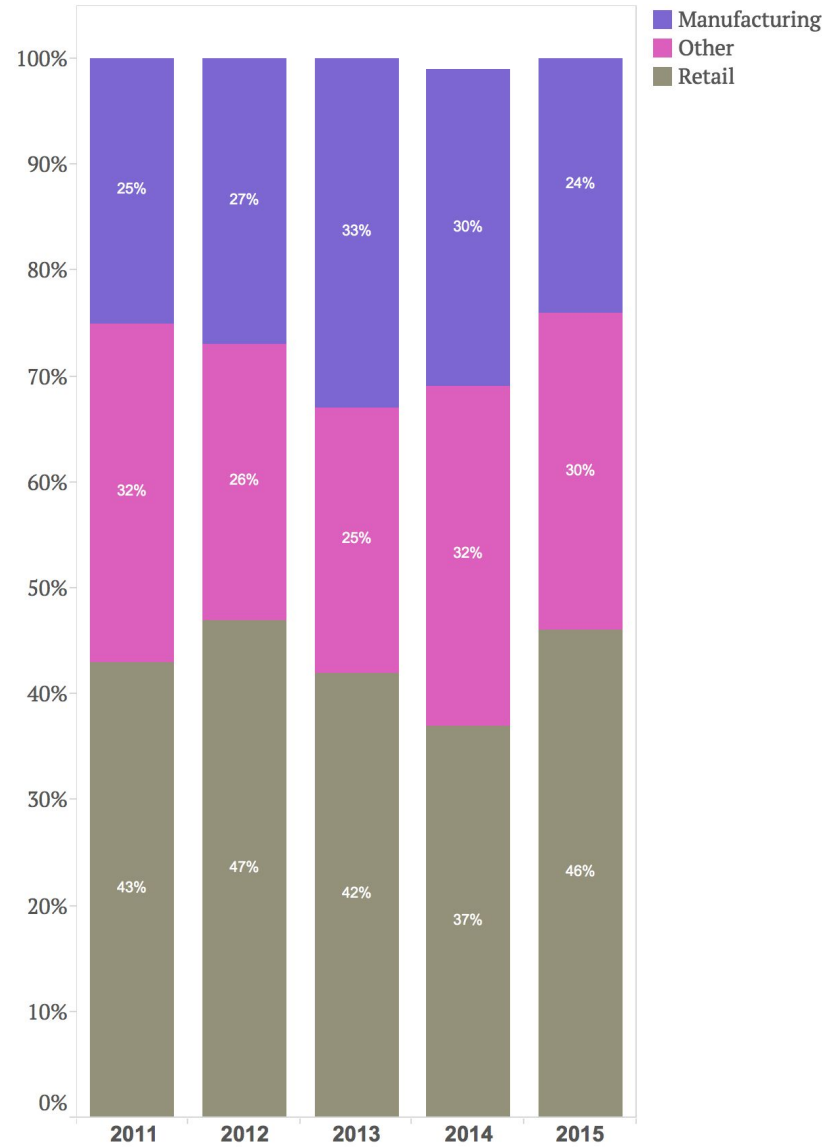
MARGIN ANALYSIS



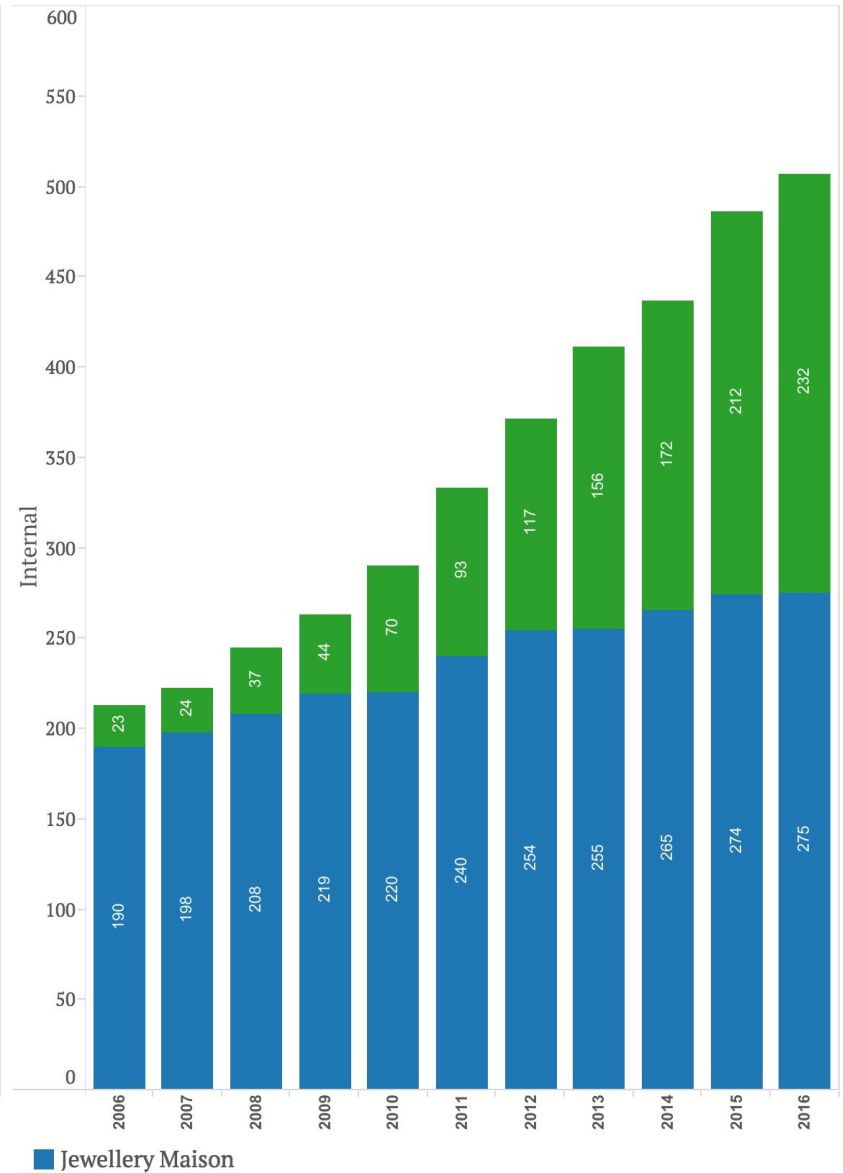
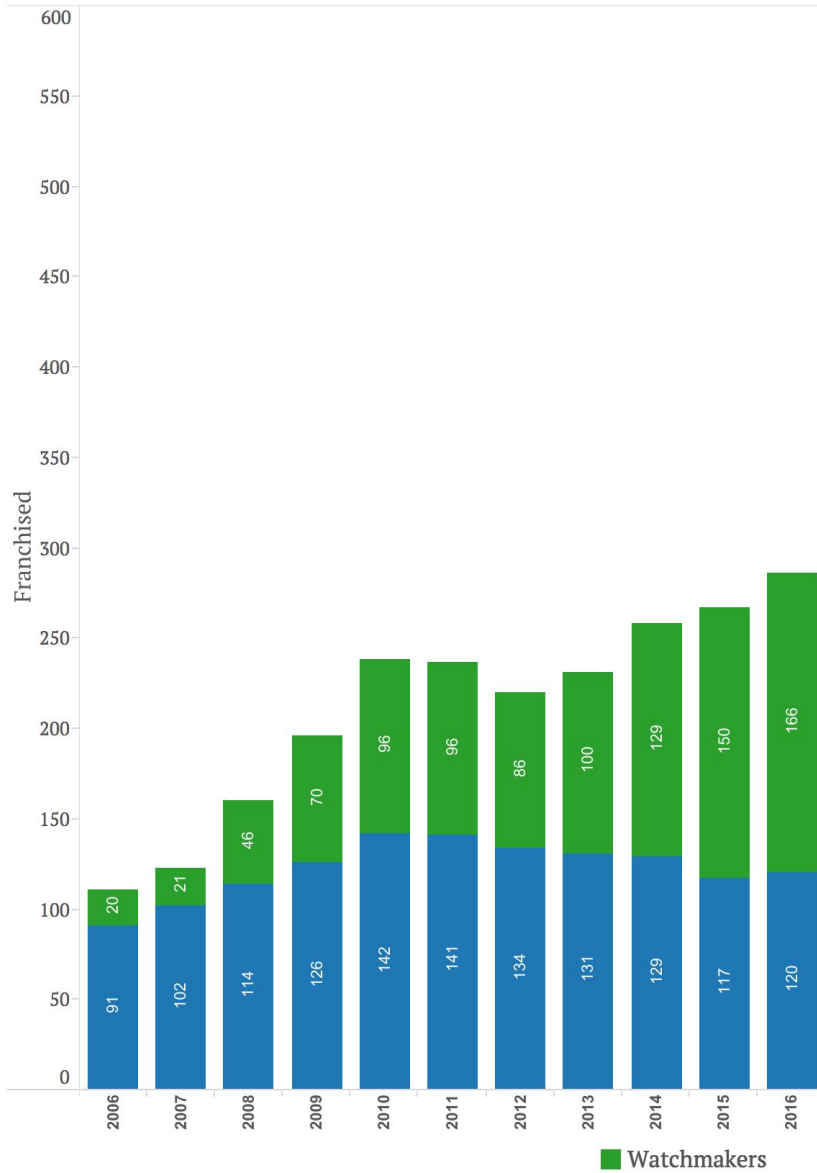
GROUP FCF

	2016	2015	2014	2013	2012	2011	2010	2009	2008
NOPAT	1,615	1,777	2,054	2,065	1,731	1,153	746	772	930
Depreciation, amortization, and other 	620	294	490	456	321	405	314	229	134
Increase in working capital	(171)	(578)	(34)	(938)	(571)	(64)	323	(361)	(267)
Other operating activities	(9)	(23)	(16)	(15)	10	(1)	(5)	36	41
Net acquisition of non-current assets	(719)	(186)	(676)	(648)	(535)	(313)	(114)	(334)	(251)
Free Cash Flow	1,336	1,284	1,818	920	956	1,180	1,264	342	587

CAPEX BREAKDOWN



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