RICHEMONT - TIMELESS LUXURY

Compagnie Financiere Richemont SA (CFR.SWX, Market Capitalisation CHF 32.61B)[1] is a Switzerland-based luxury goods holding company founded in 1988 by South African businessman Johann Rupert. Richemont's Maisons™ encompass several of the most prestigious names in the luxury industry including Cartier, Van Cleef & Arpels, IWC Schaffhausen, Piaget, and Chloe. Richemont specialises in jewellery, watches and writing instruments that represent a long-lasting tradition of style, quality and craftsman ship that must be preserved.

The luxury goods industry, like many others has been hard hit by COVID-19 in 2020 with all industry leaders anticipating a loss of profits caused by the closure of distributors and restrictions on tourism. However, within Richemont are brands that have withstood the test of time. Cartier was established in 1847, Vacheron Constantin first produced watches in 1755, underpinned by Richemont's strong balance sheet the brands are in a unique position within the luxury goods industry that positions the company to flourish once a "new normal" is established.

THE MAISONS

Jewellery: Buccellati, Cartier, Van Cleef & Arpels.
2020 Sales € 7,217 mln, 51% of Group Sales;

Specialist Watchmakers: Vacheron Constantin, Piaget, IWC, A.Lange & Sohne, Panerai, Jaeger-LeCoultre, Roger Dubuis, Baume & Mercier. *2020 Sales € 2,859 mln 21% of Group Sales;*

Online Distributors: WatchFinder&Co, YOOX NET-A-PORTER GROUP. *2020 Sales € 2,427 mln, 15% of Group Sales;*

Other & Clothing Businesses: Chloe, MontBlanc, Dunhill, Purdey, Peter Millar, Alaia. *2020 Sales € 1,785 mln, 13% of Group Sales.*

HISTORY

1988

Richemont was created in 1988 via the spin-off of the international assets owned by Rembrandt Group Limited of South Africa (now Remgro Ltd.). Rembrandt Group owned significant interests in the tobacco, financial services, wines & spirits, gold and the diamond mining industries as well as the luxury goods investments that, along with the investment in Rothmans International would form Richemont. Richemont holds interests in Cartier, dunhill, Montblanc & Chloe.

1993

Separation of Richemont's tobacco & luxury goods operations into Rothmans International NV/PL and Vendome Luxury Group SA/PLC respectively.

1996

Merger of Richemont's tobacco interests with those in South Africa held by Rembrant Group Ltd., Richemont owns 67% interest of the enlarged tobacco group. Acquisition of watchmakers Vacheron Constantin by Vendome Luxury Group.

1998

Buyout of Vendome Luxury Group minority shareholders, Richemont owns 100% of luxury goods interests.

1999

Merger of Rothmans International with British American Tobacco. Richemont holds a 23.3% interest in the enlarged British American Tobacco. Acquisition of a 60% interest in Van Cleef & Arpels.

2000

Reduction in the groups effective interest in British American Tobacco. Disposal of Vivendi interest. Acquisition of Jaeger-LeCoultre, IWC Shaffhausen and A. Lange & Sohne.

2001

Acquires a further 20% interest in Van Cleef & Arpels.

2003

Acquires the remaining 20% interest in Van Cleef & Arpels bringing its stake to 100%. Acquires the final 10% of A. Lange & Sohne.

2012

Richemont acquires 100% of the capital of Varin-Etampage & Varinor SA (VVSA). Richemont acquires Peter Millar LLC, a US-based, international luxury apparel business.

2015

Richemont sells Shanghai Tang, a wholly-owned subsidiary. Richemont acquires Serapian.

2018

Richemont acquires YOOX Net-A-Porter Group and Watchfinder & Co.

2019

Richemont acquires Buccellati

Source: Richemont.com

RICHEMONT - MAISONS™ & SUBSIDIARIES

Cartier
Van Cleef & Arpels
A. LANGE & SÖHNE
GLASHÜTTE I/SA

BAUME & MERCIER
MAISON D'HORLOGERIE GENEVE 1830
IWC
SCHAFFHAUSEN
JAEGER-LECOULTRE

PANERAI
PIAGET
RALPH LAUREN
WATCHES & FINE JEWELRY

ROGER DUBUIS
HORLOGER GENEVOIS
MONT BLANC
VACHERON CONSTANTIN

dunhill
Chloé
Giampiero Bodino

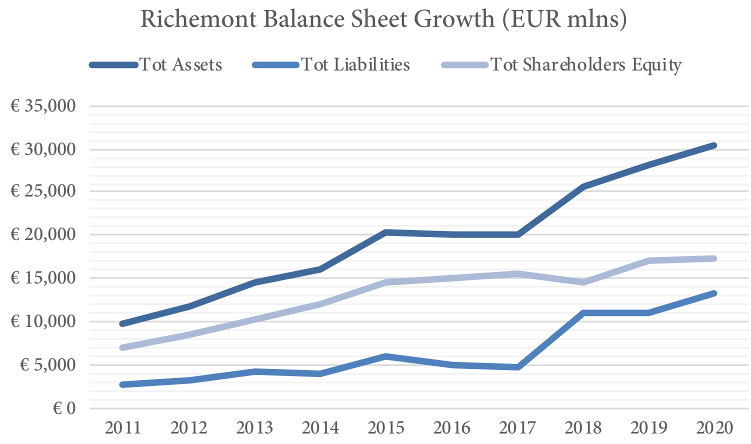
LANCEL
PARIS
THE NET-A-PORTER GROUP
PETER MILLAR

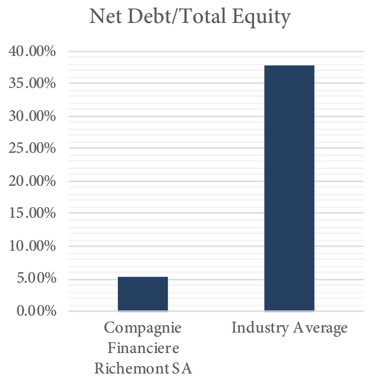
PURDEY
Gun & Rifle Makers
BUCCELLATI
MILANO DAL 1919
SERAPIAN
MILANO

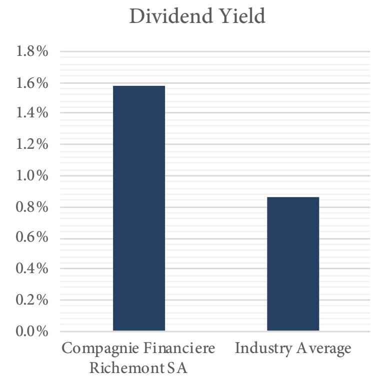
RICHEMONT'S BALANCE SHEET UNDERPINS ITS ENDURING LEGACY

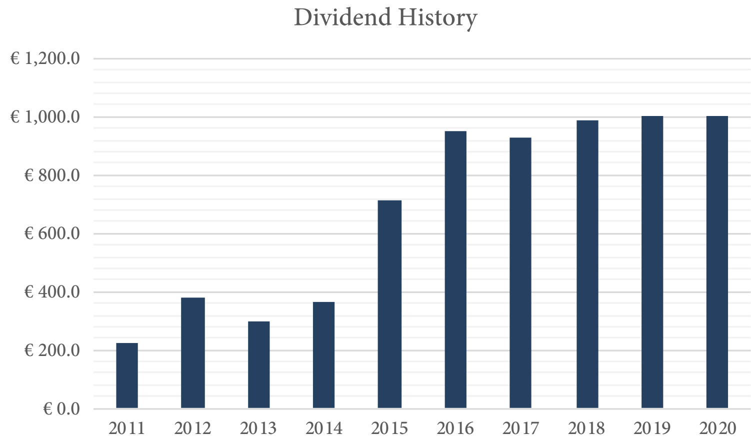
Richemont SA over the past ten financial years has grown its asset base while maintaining conservative debt levels, ensuring that it is not over leveraged, thus generating sustainable growth. Its Net Debt-to-Total Equity ratio of 5.36% compare favourably to the industry average of 37.69% and this provides us with confidence that Richemont will be able to weather the interruption to demand the company is experiencing as a result of COVID-19 and should present the company with opportunities to utilise its superior financial position to acquire new brands to add to its already impressive portfolio. Once tourism is permitted again, and commerce slowly returns toward normality, we believe that the conservative management of its balance sheet that is underpinned by an A+ credit rating assigned by Standard & Poors will position Richemont to potentially bolster its offerings and increase M&A activitiy, which will decrease its dependency on watches/ jewellery and continue to be one of the leading Luxury Fashion Holding Companies. In May 2020, Richemont was able to place bonds with a face value of €2 bln at coupon rates between 0.75% (8-year maturity) and 1.625% (12-year maturity), bolstering the company's cash position. Management believes it will have a long-term cash position sufficient to repay these debentures while providing the company with increased short-term liquidity.

Richemont has been paying a growing dividend since 2010, increasing at an annual rate of +21.94% illustrating managements commitment to returning value to shareholders.









Source: Refinitv Eikon (July 2020), Industry Average[2]

Cash is our fortress. It allows us to stay agile and give us the freedom to take a long-term view with our Maisons and businesses, keeping employment high and honouring our commitments to stakeholders.

- Jérôme Lambert - Compagnie Financière Richemont SA - Group CEO & Executive Director

THE PSYCHOLOGY BEHIND LUXURY DEMAND

There are a handful of reasons why consumers buy luxury. The leather is softer, the suits fit better, but above all else, owning and wearing luxury is a statement to the world that an individual is successful. The phenomenon of consumers wanting to display wealth can be dated back to as early as 1637 when red tulips in the Netherlands were considered a luxury must-have, to own a garden without tulips on display placed individuals 'below' others. They were a status symbol for no reason other than tulips were expensive. It has always been the way of people to actively seek a better life; in the age of consumerism, quality of life for many can be directly associated with the cost/quality of the clothes/accessories they own and wear. People buy and consume luxury to show off or gain acceptance from others and to reward ourselves for success. COVID-19 hasn't yet caused a shift to this mind set. Online meetings has led to people becoming eager to impress on Zoom, The RealReal, in May 2020, reported a 40% rise in search demand for Cartier earrings, and at a Sotheby's auction a new record was set for a jewellery piece sold online, selling a Cartier bracelet from the 1930s for US$ 1.34m[3]. Quality made luxury goods that can last for decades will always be in demand, the exclusivity factor of special releases has a lucrative appeal, as Jordan Peterson would put it, 'the desire to be seen as the top lobster in the socially constructed hierarchy'. Luxury brands have done an exceptional job in recognising this psychological behaviour. Consumers willingness to pay high prices for luxury goods enables luxury brands to avoid discounts, keeping cliental rooted to the idea that wearing luxury goods is a sign of success, and maintains high margins for the companies.

THE FUTURE OF LUXURY

Since 1996, the Global Personal Luxury Goods Market has expanded at an annual growth rate of +5.88%. As global incomes have risen, emerging economies (especially China) have become more affluent, and globalisation of western culture has found itself at the forefront of consumer demand. The industry has always grown and been dependent on consumers willingness to spend. 2020 is going to be different, the loss of foot-traffic and retail spending has placed uncertainty on the future of luxury retail post COVID-19. While we do not pretend to be "future tellers" at Elevation Capital, we do not expect physical retail to disappear. We do however, expect the global pandemic to accentuate the already present cognitive shift toward online purchases as the pandemic has forced more consumers to experience the usefulness of e-commerce (refer our current investments in Farfetch & The RealReal which enables our investors to also invest into this growing phenomenon). Furthermore, companies who are not heavily burdened by debt will be in an advantageous position to capture renewed demand in a more normalised environment. The psychology behind why people buy luxury may change in the short-term as consumers are more mindful with their discretionary spending, but over the long-term the trends that we have outlined above should return as the appeal of buying expensive items - once they can be afforded - will return, which should see growth continue over the long-term as shown in the graph (below). Note the decrease in the Luxury Goods Market from 2008-2009 caused by the GFC, and the rapid recovery that occurred thereafter. It is easy to be plagued by negative short-term thinking during bad times, but long-term trends do not often change without a paradigm shift. Other projected changes to consumer behaviour post-COVID as stated by McKinsey & Co[4] is that companies are anticipating a continued shift away from fast-fashion and toward more sustainably sourced products that champion craftsmanship and heritage.

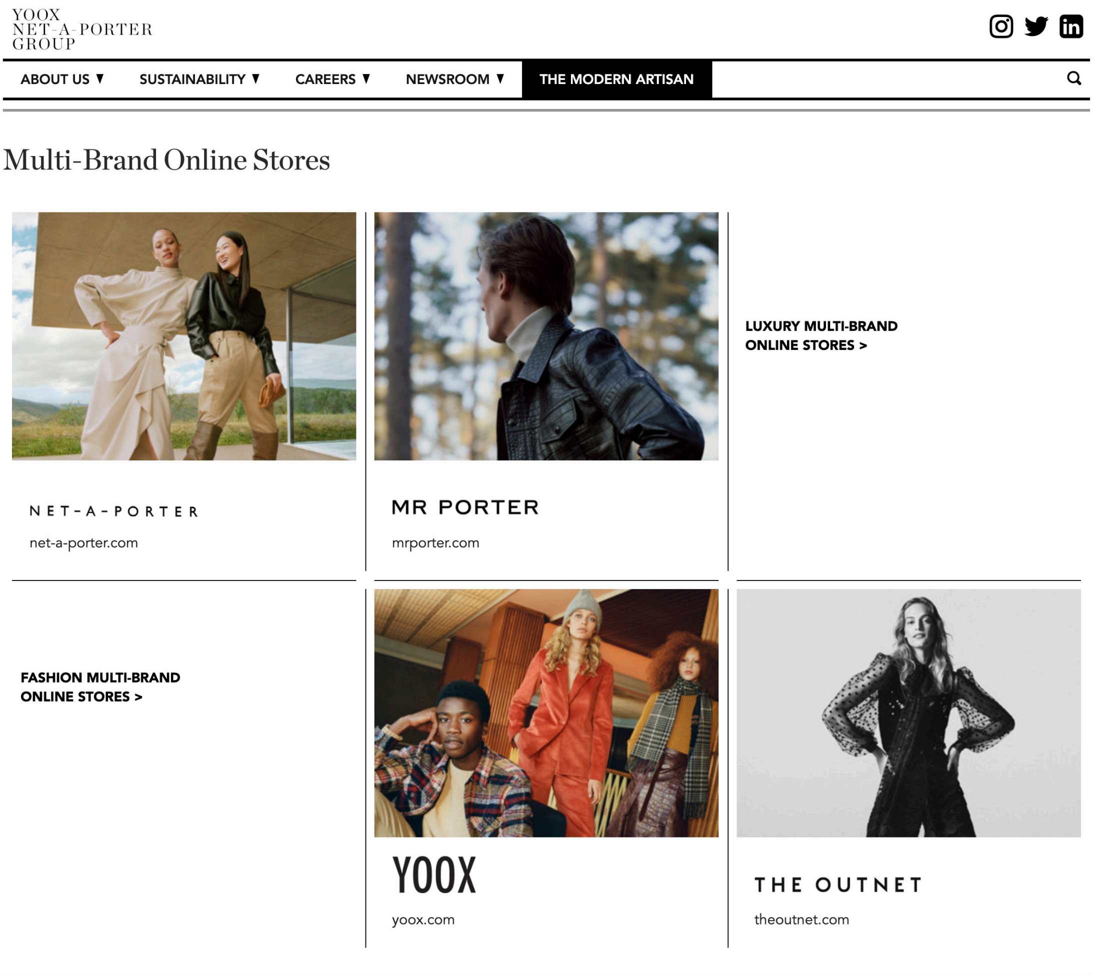
Source: Visual Capitalist

Chinese consumers are expected to nearly double their current luxury consumption to 1.2 trillion yuan (178 billion dollars) by 2025, representing 40 percent of the world's spending.

- McKinsey & Co, 2019

RICHEMONT'S DIGITAL ACCELERATION

Even before the global pandemic, the necessity to have a significant online presence has been a central priority for all major players in the luxury fashion industry. Some critics argue that purchasing luxury online removes one of the main appeals of the industry, the in-store experience which damages affinity with a brand because there are no discount benefits to purchasing online. While there may be some truth to this statement, developing an online presence to compliment the physical presence has proved to be a successful strategy as it improves not only brand awareness but also provides customers more purchasing options. The future of luxury according to Richemont is all about new retail (online and offline), in order to capture this newly forming market, companies must have assets in both worlds. Richemont and its Maisons™ already have around 1,100 physical stores worldwide. To expand its offerings, Richemont recently acquired one of the strongest assets in luxury online distribution, YOOX NET-A-PORTER. YOOX NET-A-PORTER is a unique online ecosystem of four multi-brand online stores (NET-A-PORTER, MR PORTER, YOOX and THE OUTNET), powered by one technology and operations platform serving more than 3 million customers in 180 countries around the world, generating around one billion site visits worldwide. The group designs and manages online flagship stores for leading fashion & luxury brands seeking to take advantage of the digital shift by offering their latest collections online. Richemont have taken a long-term approach to the online space, committing considerable capital to improving its online offerings and digitising the majority of its Maisons™ offering. The group has also partnered with Alibaba Group to enhance the global services of NET-A-PORTER and MR PORTER to the growing Chinese demand for luxury goods.

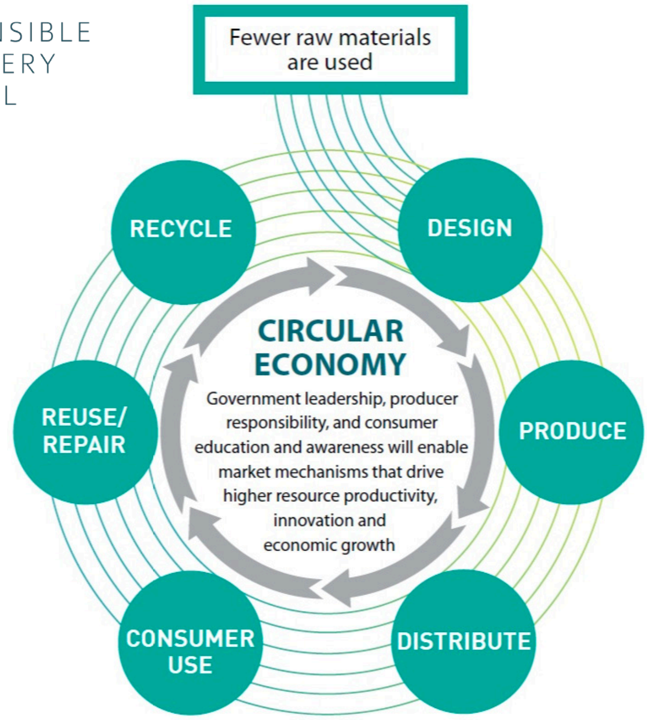


We have the building blocks to actually create new retail going forward. [...] it will enable us to build the new retail infrastructure around the world.

- Burkhard Grunt - Compagnie Financiere Richemont SA - CFO & Executive Director

RICHEMONT'S SHIFT TOWARD A CIRCULAR ECONOMY OF FASHION

RESPONSIBLE JEWELLERY COUNCIL



In its 2020 Annual Report, Richemont outlined its "Transformational CSR (Corporate Social Responsibility) Strategy." Consumers are becoming increasingly dissatisfied with the wastefulness of fast-fashion, instead favouring sustainably sourced, quality made products that are able to be kept for years or resold - contributing to the circular economy of fashion. Richemont's movement for better luxury focuses on four main areas: people, sourcing, environment and communities that all contribute towards better luxury. Top-down expectations are outlined by a framework that helps Richemont's managers, employees & suppliers understand expectations of environmental management. Its Maisons™ experiment with new materials, working towards 100% RJC-certified gold giving preference to gold from recycled sources rather than large-scale mines, mapping supply chains for certified leather and packaging from sustainable sources which includes annually auditing 100-200 suppliers to ensure standards are being met. These practices paired with innovative distribution models promoting a circular model, mean that Richemont is actively working toward a business model that will be viewed positively by consumers who are increasingly demanding sustainablilty to be championed, positioning the company as an industry leader.

A VAST GLOBAL DISTRIBUTION NETWORK

Through its Maisons™, Richemont has around 1,100 physical locations worldwide in tourist hot spots that include Paris, Monaco, London, Hong Kong and Shanghai. Maintaining a physical presence while improving its digital offerings is crucial to maintaining brand equity for Richemont's Maisons™. In FY2020, 44% of gross capital expenditure was related to points-of-sale investments: primarily store openings, renovations and relocations. Maintaining a "luxury" appearance at its stores is clearly a necessity to preserve perception that its Maisons™ truly exhibit an attention to detail that flows from the design process of its products to how they are presented for sale.

BRANDED VS. UNBRANDED

Developing its brand equity has been a priority for Richemont. Branded jewellery, especially international brands, is continuously gaining share against non-branded. With its Maisons Cartier and Van Cleef & Arpels having long-standing traditions of excellence and desirability, can translate into investment opportunities for unique or limited availability pieces (example being the recent sale of a 1930 Cartier Bracelet for US$ 1.3mln). By building a reputation for producing items that are truly works of art, the flow demand for other products should remain strengthening respective Maisons™ brand equity. Furthermore, high-end jewellery has a lot of demand dimensions whether to be worn or acquired as an investment.

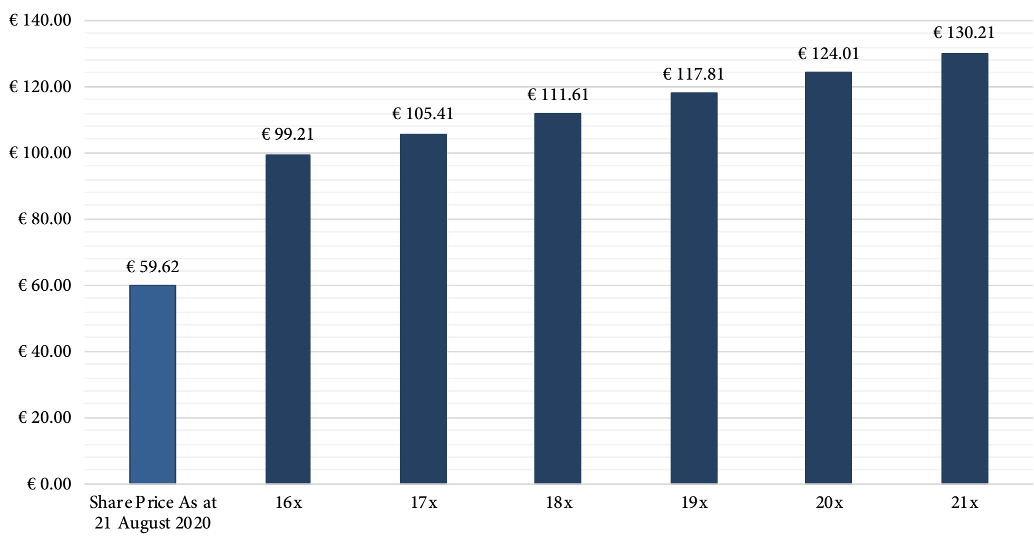
By showcasing its craftsmanship at events, international gatherings and maintaining long-standing personal relationships with clients, Richemont create an air of exclusivity and desirability in its creations that is difficult to replicate - you cannot build a brand with 170+ years of history easily (this fact is reinforced by LVMH paying US$ 16 bln for Tiffany & Co a former long-standing holding of the Fund). By leveraging this history and sticking to its heritage, Richemont's Maisons™ have something many jewellery makers don't, instant brand recognition.

Cartier

VALUATION SUMMARY

In November 2019, LVMH agreed to acquire Tiffany & Co for US$ 16.6 bln[5]. This acquisition was at a multiple of 17x EV/EBITDA. In 2011, LVMH also acquired Bulgari at a EV/EBITDA multiple of 25x. Richemont posesses brands that are more prominent and sought after in our opinion than these two luxury brands. We have conservatively valued Richemont utilising a 16x - 21x multiple of FY2020 EBITDA. This provides a valuation range of €99.21 to €130.21 per share, representing a +66.41% to +118.41% premium to the prevailing share price as at 21 August 2020.

Elevation Capital Richmont Valuation Range



CONCLUSION

Richemont has long intended to be the master of its own destiny by maintaining a solid balance sheet that allows for agile management and the ability to capture new ventures as they arise - enabling the push for a larger share of the online marketplace and the acquisition of Buccellati.

Beneath the balance sheet are brands that have withstood the test of time and should continue to do so in the years to come. A never-ending pursuit of quality both in management and craftsmanship has created an image of luxury and desirability for Richemont and its Maisons™. Despite the reductions to revenues and profits that will be attributable to the company in FY2021 as a result of the global pandemic, we believe that Richemont is well positioned and can leverage its robust financials to weather the current economic downturn affording the company an advantageous position in comparison to other luxury brands which makes the company a valuable long-term holding for the Elevation Capital Global Shares Fund.

Any data not referenced was sourced from Richemont Annual Reports & Earnings Conference Calls.
1 Refinitiv Eikon as at 15 July 2020.
2 Industry Average was calculated using the following companies: CFR.S, UHR.S, PRTP.PA, LVMH.PA, BRBY.L, HRMS.PA, 1913.HK, BOSSn.DE, ELA, MHJ.AX, CPRI.K, TPR, TOD.MI. Note: MHJ.AX was excluded from average dividend yield due to reduce outlier skew.
3 Financial Times. (2020). *The Pandemic is yet to Dampen Demand for Luxury Goods Resales.*
Accessed at the following link: https://ftalphaville.ft.com/2020/05/04/1588605300000/The-pandemic-is-yet-to-dampen-demand-for-luxury-goods-/
4 Mckinsey & Company. (2020). *A Perspective for the Luxury-Goods Industry During - and After - Coronavirus.*
Accessed at the following link: https://www.mckinsey.com/industries/retail/our-insights/a-perspective-for-the-luxury-goods-industry-during-and-after-coronavirus
5 Financial Times. (2019). *Art of a Deal: How LVMH Paid Up for Tiffany.*
Accessed at the following link: https://www.ft.com/content/a233ea50-0f94-11ea-a7e6-62bf4f9e548a

This summary report was written in July/August 2020.

INDEPENDENT THINKING
DISCIPLINED INVESTING

[In-de-pend-ent Think-ing] **indəˈpendənt THiNkiNG** *verb*
Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you're several thousand miles away from Wall Street in a different nation, it's easier to be independent and buy the things that other people are selling, and sell the things that other people are buying.

[Dis-ci-plined In-vest-ing] **disciplinəd invesˈting** *verb*
The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. We also believe that cash is sometimes the most attractive investment.

MORNINGSTAR Awards 2017
MORNINGSTAR INTERNATIONAL EQUITIES CATEGORY FUND MANAGER OF THE YEAR 2017, NEW ZEALAND

MORNINGSTAR Awards 2012 Nominee
NOMINEE - MORNINGSTAR INTERNATIONAL EQUITIES CATEGORY FUND MANAGER OF THE YEAR 2012, NEW ZEALAND

FundSource
NOMINEE - FUNDSOURCE INTERNATIONAL EQUITY SECTOR FUND MANAGER OF THE YEAR 2012, NEW ZEALAND

FundSource
NOMINEE - FUNDSOURCE INTERNATIONAL EQUITY SECTOR FUND MANAGER OF THE YEAR 2013, NEW ZEALAND