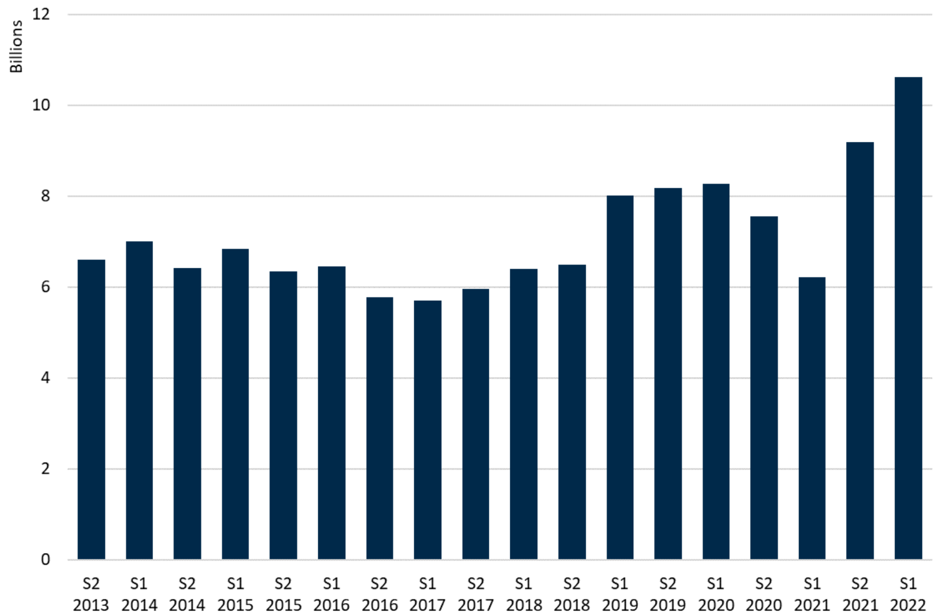
Looking Back: Richemont

Luxury never goes out of fashion.

Richemont emerged out of the 2008 financial crisis unscathed, and it has been the same for the Covid-19 pandemic. Revenue has already surpassed that of 2019 (up 28% from pre-covid levels) and recovery is broad-based across all regions. Richemont has had a fantastic 12 months and is one of the top drivers of performance for the JSE Capped Swix returning 88% for 2021. Once again, just like in the financial crisis, luxury has proved to be resilient.

Figure1: Richemont Revenue (USD)



Source: Richemont Annual Presentation

Starting out

Richemont's beginning dates back to 1988, when Rupert spun out the luxury assets of the old Rembrandt Group (founded by his father, Anton) and listed them as Richemont on the Zurich Stock Exchange and the JSE. The Compagnie Financière Richemont, more commonly known as Richemont, is today the world's second-largest luxury group in terms of turnover, just behind the giant LVMH.

A luxury portfolio was made

Richemont owns a portfolio of leading international businesses known as 'Maison's' which are recognised for their distinctive heritage, craftsmanship and creativity. The Group operates in three segments: Jewelry Maison's, Specialist Watchmakers; and Other. The Company is dominated by hard luxury businesses like Cartier and Panerai and has less exposure to soft luxury such as Mont Blanc and Dunhill.

Figure 2: Richemont Maison's

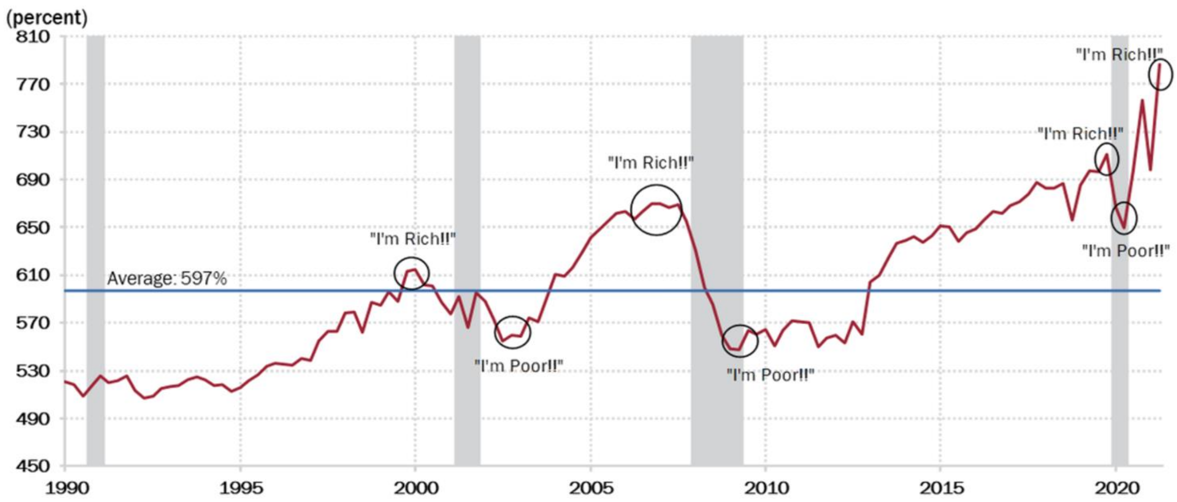
Source: Richemont

Success amidst an Economic Crisis

A logical thought might be that when the world is going through an economic crisis, luxury sales would be the first to plunge into darkness. So why have luxury good sales gone up during a time of economic contraction? Well what benefits companies like Richemont is that luxury purchasing is associated with asset values, and for the last 20 years asset values (fixed income, property) have been going up.

During a financial crisis, many people do lose their jobs or get salary cuts, and this would affect companies such as Grocery stores who need people to earn a monthly income in order to buy products. But for a large part of the population salaries don't mean much, these people rely on their assets, which have continued to go up. Richemont is geared towards asset prices, and this has been in their favour.

Figure 3: Household net worth share of Disposable Personal Income

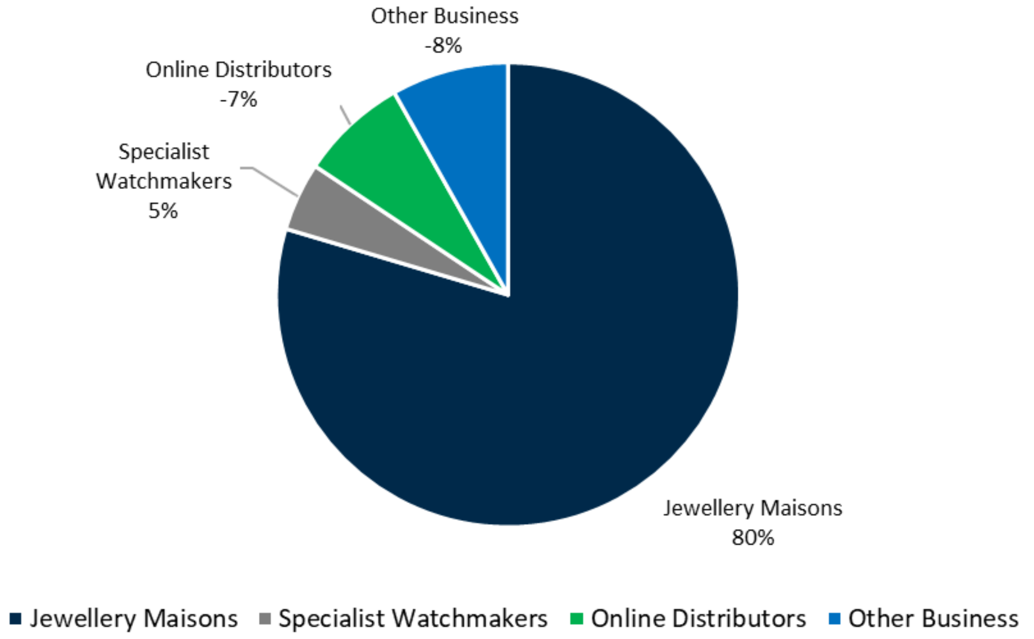


Source: Haver Analytics, Rosenberg Research

As the world emerges from the pandemic, consumers are showing an even greater appetite for jewellery. Richemont's sales growth has been outstanding. Outstripping pre-pandemic levels: sales in the division were up 20% in Q3 2021 compared with Q3 2019.

Richemont Jewellery Maison's is the largest jewellery conglomerate globally. It is by far the dominant contributor, Richemont's money maker, making up 57% of revenue. This represents 20% of the global luxury jewellery market share.

Figure 4: Richemont Operating Profit by Segment FY21



Source: Bloomberg

The luxury jewellery market is very concentrated, with the top 2 players, Richemont and LVMH, controlling more than 40%. Richemont has shown with its stellar performance this past year that it is primed to keep growing and gaining market share.

Local investors, still somewhat restricted with their limitations to invest offshore, have been richly rewarded by being able to invest in this Luxury Empire.