

Rating object	Rating information	
Compagnie Financière Richemont SA Creditreform ID: FNR0000122030 / 9370008430 Incorporation: 1988 Based in: Switzerland Main (Industry): Luxury goods Chairman BoD: Johann Rupert Deputy Chairman: Josua Malherbe CEO: Jérôme Lambert CFO: Burkhart Grund <u>Rating objects:</u> 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	Corporate Issuer Rating: A / stable	Type: Initial rating Unsolicited Public rating
	LT LC Senior Unsecured Issues: A / stable	Other: n.r.
	Rating date: 21 December 2020 Monitoring until: withdrawal of the rating Rating methodology: CRA "Corporate Ratings" CRA "Non-Financial Corporate Issue Ratings" CRA "Rating Criteria and Definitions" Rating history: www.creditreform-rating.de	

Summary

Company

Compagnie Financière Richemont SA - hereinafter referred as Richemont - is one of the world's leading luxury goods groups, established originally in 1988 and headquartered in Bellevue, Switzerland. The main business segments are jewellery, watches, writing implements and clothing. The brand portfolio includes some of the most luxury, iconic and prestigious subsidiaries (called by Richemont "Our Maisons™") in the industry. Overall, Richemont unites a total of 17 famous brands under the corporate umbrella. Richemont also owns online distributors YOOX NET-PORTER GROUP and Watchfinder & Co. On November 5, 2020, Richemont announced that it was entering into a strategic partnership with Alibaba and Farfetch to give luxury brands better access to the Chinese market and drive up its digitization.

With around 35,000 employees, the group generated sales of EUR 14,238 million in the 2019/2020 financial year (FY) (2018/2019: EUR 13,989 million) and thus achieved an EAT of EUR 931 million (2018/2019: EUR 2,787 million)¹. The outbreak of the COVID-19 pandemic also hit in 2020 the luxury goods industry significantly, and with it Richemont as well, especially in the in the fourth quarter of Richemont's 2020 business year. In the current financial year, Richemont, like other well-known companies in the industry, has seen a significant drop in sales and earnings, which affects almost all brands and regions of the group.

Rating result

This unsolicited corporate issuer rating of **A** confirms that Richemont has a high level of creditworthiness, which represents a low risk of default. Our rating is based on Richemont's leading position in the global luxury market (Number 2 worldwide) and its strong, high-value brand portfolio. Even if the group posted a comparatively subdued annual result in the last FY, the results of our analysis of key financial figures have indicated a very stable and solid level over the past few years.

¹ The reduction in the profit to € 931 million, reflecting the non-recurrence of a post-tax non-cash accounting gain of € 1,378 million on the revaluation of YNAP shares held prior to acquisition and net foreign exchange losses on monetary items. For more information, see Richemont's Annual Accounts 2019 and 2020. For reasons of simplicity, we speak here of 2020 for the 2019/2020 financial year and of 2019 for the 2018/2019 financial year, with regular ends on 31 March of each business year.

Despite a noticeable slump in business in the first half of the current financial year 2021, the company's solid qualitative and quantitative fundamentals represent a good starting point for overcoming the challenges and uncertainties that are currently emerging from the COVID-19 pandemic for the luxury goods industry. Nevertheless, the rating level includes the limited headroom based on the financial figures of the 2020 business year. This, in light of Richemont's weaker credit metrics that we expect for the financial year 2021.

Outlook

The one-year outlook is stable. We assume that the bad global pandemic situation will recover slowly in 2021 and that the most important markets for the luxury industry will return to a growth trend. In particular the Chinese market, in which the pandemic began, is already showing satisfactory developments again. Based on these assumptions, we expect Richemont to resume growth in the coming FY 2022 and gradually find its way back to its usual sales and earnings strength. New strategic partnerships regarding innovative sales channels should contribute. We assume that the company will continue to develop positively in the medium to long term thanks to its convincing product structures and solid market position. However, this also involves considerable investments, which, in addition to the expected deterioration in the results of the financial key figure analysis, has a dampening effect. Since we have already taken into account our expectation of worsened credit metrics for the FY 2021 in the rating analysis, this initially leads to a stable outlook.

Reference:

The relevant rating factors (key drivers) mentioned in this section, are predominantly based on internal analyses and evaluations of the rating process and 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 section "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

Excerpts from the financial key figures analysis 2020:

- + Growth in sales
 - + Stable EBITDA
 - + Asset coverage ratio
 - + Liquid funds to total assets
 - + Equity ratio / Gearing
 - + Net total debt / EBITDA adj.
 - + Cash flow
 - + EBITDA / EBIT interest coverage
- Growth in total assets to growth in sales, but driven by IFRS 16
 - Return on investment
 - The gradual deterioration of some key credit metrics over the past few years must be monitored further

Relevant rating factors

Table 1: Financials I Source: Richemont's Annual Report and Accounts 2020, standardized by CRA

Compagnie Financière Richemont SA Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.03. (IFRS, etc.)	CRA standardized figures ²	
	2019	2020
Sales (million EUR)	13,989.0	14,238.0
EBITDA (million EUR)	2,744.0	2,764.0
EBIT (million EUR)	1,936.0	1,276.0
EBT (million EUR)	3,168.0	1,198.0
EAT (million EUR)	2,787.0	931.0
EAT after transfer (million EUR)	2,784.0	933.0
Total assets (million EUR)	25,357.0	27,661.5
Equity ratio (%)	58.03	53.54
Capital lock-up period (days)	19.83	15.38
Short-term capital lock-up (%)	32.87	31.39
Net total debt / EBITDA adj. (Factor)	2.03	3.04
Ratio of interest expenses to total debt (%)	2.65	2.02
Return on investment (%)	11.72	3.75

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.

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

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

Prospective rating factors are factors and possible events that – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+) and a weakening or negative effect (-) on future ratings, if they occurred. This is not a full 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.

General rating factors

- + Proven crisis capability in the long history of the luxury industry
- + Sales potential in growth regions like Asia Pacific
- + Highly diversified geographical portfolio and strong brand portfolio
- + Strong ability to generate strong operating cash flows
- + Proven access to capital markets

- Dependence on raw material price; dependence on access to relevant commodities
- Customary non-cancellable lease arrangements
- Foreign Currencies risk

Current rating factors

- + Despite a slight decrease, ongoing strong credit metrics on an upper level in FY 2020
- + Strong cash position at the end of FY 2020 which was raised as of 30 September 2020
- + Good performance in the key markets Europe, Americas and Japan in 2020
- + Currently solid recovering of the Chinese markets
- + Dividend for the past financial year adapted to the uncertain framework conditions
- + Proven good capital market capability
- + Adjustment of the strategic direction

- High negative COVID-19-impact on business in the 4th quarter of 2020 and also currently
- Decline in sales in the Asia Pacific region in 2020
- Significant decline in the operating result 2020 with advanced negative earnings contribution from the „e-commerce“ and „other“ segments
- Worldwide effects of the pandemic without adequate regional compensation options
- Current slump in air travel and tourism is also a burden on the luxury goods industry
- Business strains from protest movements in France and Hong Kong
- Lock-down measures by governments to contain the pandemic are currently tightened again
- Despite the approval of vaccines, the pandemic and its further consequences remain highly uncertain; especially since new mutations of the virus were found recently

Prospective rating factors

- + Fast global economic recovery
- + Return to sales and earnings strength and credit metrics at pre-crisis level
- + Enhancing the e-commerce and digital footprint of the brands
- + Compensation effect from the increased sales contribution in online trading

- Negative development in relation to the pandemic situation with persistent or recurring lock-downs; longer and more severe global economic recession
- Deterioration of financial key-ratios
- Reputation damage due to adverse developments in ESG factors

ESG-factors

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.

Richemont's indirect suppliers often are beyond its direct control. Therefore, in our opinion, potentially ESG-factors in relation to the business in general and thus the rating of Richemont arise in the area of raw material extraction and the suppliers of jewellery. This applies to both, social and environmental issues. In this context, Richemont reports that the 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. In our assessment, we are therefore waiting for the next years to develop, but initially assume that Richemont is following these aspects with the necessary seriousness. Richemont's publicly available reports support this assumption. The handgun production (guns and rifles) remains to be observed, however, its business contribution is low.

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:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Rating-methodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf>

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 unlikely. This assessment is based on our expectation Richemont will continue to underperform in 2021 against its performance in 2019 due to external factor, especially the COVID-19-Crisis. Additionally, there remains a high degree of uncertainty with regard to global economic development and the COVID-19 crisis.

Worst-case scenario: A-

In our worst-case scenario for one year, we assume a rating of A-. This could be the case if the approval and distribution of a vaccine is delayed or a virus mutation changes the effectiveness of the vaccines developed, what could lead to a wider and deeper global recession. Any other factors, which worsen the results of our financial key figure analysis compared to FY 2020 beyond FY 2021, could also require a downgrade.

ESG factors are factors related to environment, social issues and, governance. For more information, please see the "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.

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.

Business development and outlook

Table 2: The development of business of Richemont I Source: Annual Report and Accounts 2020

Richemont group				
In million EUR	2019	2020	Δ	Δ %
Sales	13,989.0	14,238.0	+249.0	+1.8
EBITDA	2,744.0	2,764.0	+20.0	+0.7
EBIT	1,936.0	1,276.0	-660.0	-34.1
EBT	3,168.0	1,198.0	-1,970.0	-62.2
EAT	2,787.0	931.0	-1,856.0	-66.6

Due to a positive non-standard factor in the FY 2019 and under the special circumstances regarding the COVID-19 crisis and further circumstances, the FY 2020 turned out to be satisfactory. Including the third quarter, which ended on December 31, 2019, sales growth being up significantly and showing a clearly positive value. The business development of Richemont in the 4th quarter of FY 2020 was slowed down abruptly, especially in the Asia Pacific region, due to street protests in Hong Kong and the outbreak of the COVID-19 pandemic. This was more than compensated for by the sales development in Europe, Japan and above all, in America, so that total sales increased by 2% year-on-year to EUR 14,238 million. Exchange rates also contributed to this. Sales growth was driven by Jewellery Maisons and Online Distributors across all business areas.

Also due to higher gold prices, the Group gross margin fell 1.3% to 60.5%. The Group's analytical EBIT of EUR 1,276 million, which we determined, fell significantly by 34.1% compared to the previous year. In accordance with our analytical scheme, we have reclassified the net currency losses on monetary items from the net financial result to other operating expenses, which is why the analytical EBIT differs in comparison to the original value of EUR 1,518 million. Even if it continues to be at a satisfactory level, the EBIT margin shows also a significant deterioration in this original figure (-21.9%). Overall, the company had shown a lower cost efficiency in the productive and administrative departments in FY 2020.

Profit for the year declined by 66.6% to € 931 million, driven by the non-recurrence of last year's EUR 1,378 million post-tax non-cash accounting gain on the revaluation of the YNAP shares held prior to the tender offer. Excluding this amount, profit for the year was down approx. 34%, due to the 34.1% decline in operating profit while the analytical net financial result increased to EUR -78.0 million (2019: EUR -146.0 million).

The Group's total assets increased significantly compared to the previous year, which is attributable in particular to the first-time application of IFRS 16 (Leases). In comparison to the previous year, we do not see a factor that would burden the rating as we have already considered off-balance obligations in our rating system in previous years generally. The € 472 million increase follows the acquisition of the Online Distributors YNAP and Watchfinder&Co. Due to the increase in total assets and only a minor equity-increasing effect from offsetting the EAT + OCI minus dividends, the equity ratio also decreased. In the analytical modification, we correct the equity by various items, in which the deduction of 50% of the goodwill has the highest influence.

The cash flow from operating activities amounted to EUR 2,797 million, EUR 466 million higher than in the previous year. The improvement reflected a reduction in working capital requirements by EUR 327 million, mainly related to lower inventory increases and lower trade receivables due to reduced wholesale orders, particularly in the fourth quarter.

After significantly lower cash outflows from investing activities (EUR 826 million) and a significant negative cash flow from financing activities (EUR 1.923 million), with dividends paid of EUR 1,017.0 million, the gross cash position after currency effects of EUR 4,462.0 million was only slightly lower than in the previous year.

Table 3: Richemont - The contribution of corporate divisions in 2020 | Source: Annual Reports and Account 2020

Richemont group according to individual corporate divisions in 2020 (2019)				
in million EUR	Jewellery	Watchmakers	Online Distributors	Other
External Sales	7,215 (7,082)	2,856 (2,978)	2,427 (2,105)	1,740 (1,824)
Operating results	2,077 (2,229)	304 (381)	-241 (-99)	-141 (-95)
Operating Margin %	28.8 (31.5)	10.6 (12.8)	-9.9 (-4.7)	-7.9 (-5.1)

At 51% of sales, the jewellery segment is the largest and most profitable division of Richemont's business-lines. The online retailers and other segments (e.g. clothing) have remained negative lately. In particular, the innovative and future-oriented e-commerce has not yet proven its profitability. It is significant that all divisions have lost sales and earnings power.

Table 4: Figures of current financial year 2021 | Source: Richemont's Interim Report 2020 as of 30 Sept.

Richemont Interim Report 2020 figures (original parameters of the company)		
in million EUR	Six month to 30 September 2019	Six month to 30 September 2020
Sales	7,397	5,478
EBIT	1,165	452
EBT	1,067	344
EAT	869	159

The current FY 2021 is characterised by a significant slump in business up to and including the 2nd quarter as of September 30, 2020, which we also registered at other well-known industry companies such as LVMH or Hermès on a similar scale. This and a drop in Richemont sales of 47% in the 1st quarter of the FY 2021 (from April 1 to June 30) make it clear, that the luxury goods industry also reacts disproportionately to crisis scenarios. After positive evolution again in the 2nd quarter, the cumulative decline in sales for the half-year was limited to -26%. In particular, the business on the Chinese market and the jewellery segment supported sales and operative results significantly, with jewellery being the only division that made a positive contribution to earnings (EUR 922 million).

Table 5: Richemont - The contribution of corporate divisions as of 30 September 2020 | Source: Interim Report 2020

Richemont group according to individual corporate divisions as of 30 September 2020				
in million EUR	Jewellery	Watchmakers	Online Distributors	Other
Sales (external)	3,060	963	934	521
Operating results	922	-8	-138	-108

In this context, we see the Group recent activities in the direction of e-commerce as positive in the mid- and long term, as these should have a balancing effect on the business against the

background of the lockdowns in various countries and possible similar crisis in the future. With the recently announced global strategic partnership between Richemont, the international luxury E-Commerce Company Farfetch, London and the Chinese online retail giant Alibaba, the sales channel will only gain further importance.

Although the considerable slump in sales and earnings can be explained by exogenous factors, the development has recently remained unsatisfactory. It puts a significant burden on Richemont's unsolicited initial corporate issuer rating. This is all the more so since we expect continued restrained business development in the 3rd and 4th quarter of 2021, due to the persistently high number of infections worldwide (excluding China) and the recently reinvigorated measures by the European governments to contain the pandemic. Despite the first approvals of vaccines, the further pandemic development remains characterised by high uncertainty. The same generally applies to global economic developments, which in the short and medium term can also have an impact on the business of luxury industry companies. Nevertheless, we give Richemont a solid credit rating because of its product portfolio, strategic orientation, market position and solid balance sheet structures. In addition, we rate positively the increased diversification regarding regions and product-portfolio in our assessment. The company was able to place another bond with a volume of EUR 2,000 million, in three long-term tranches, in May 2020. The terms as well as the conditions with an average coupon of 1.31% and an average maturity of 14 years leave no doubt that Richemont can generate sufficient funds through external financing, to be able to bridge the period of crisis. With EUR 7,128 million in cash, the liquidity situation in the first half of 2021 is very convincing.

Despite the weakened operating environment owing to the coronavirus outbreak, we believe that the fundamentals of the luxury industry over the medium term will be resilient and therefore that profit growth for the industry including Richemont should recover in FY 2022. We assume that the pandemic will be relativized as a result of vaccination campaigns and economic recovery trends. Currently we assume the size, market position and solid financial strength and capital market capability of the company as sufficiently stabilising factors.

Structural risk

Richemont unites 17 Maisons under his leadership, whose names are also the brands of the Maisons. In its 2020 annual report, Richemont lists 72 of the most important subsidiaries in 29 countries. As a result of acquisitions, most recently Buccellati, the group was also significantly shaped by inorganic growth. 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). As long as future deals do not significantly affect the solid balance sheet and financing structure, we initially see this as neutral in the rating respectively assume a balanced chances-risks-profile.

The group is represented in around 130 countries around the world and operates a large number of stores and boutiques. As far as is known, these are mostly first-class/primarily locations which are primarily characterised by high investment costs and cost-intensive operation (leasing). We see this block of structural costs as a relevant risk factor, especially during crises. The company also offers its products in countries, which, in our opinion, have increased country risks despite the high purchasing power of their potential customers. However, the high granularity and quality of the location portfolio should create a certain risk compensation.

The respective subsidiaries are run as operative independent units with a unique brand profile and independent collections and market strategies. These are mostly Maisons with decades or centuries of tradition such as Cartier, Van Cleef & Arpels, Piaget, Vacheron Constantin, Jaeger-

LeCoultre, IWC Schaffhausen, A. Lange & Söhne, Montblanc, dunhill, Chloé and further high quality brands.

Richemont divides its business into regions (with sales portion in 2020): Europe (30%), Asia Pacific (35%), Americas (20%), Japan (8%) and Middle East and Africa (7%). In this context, Richemont operates regional and central support functions around the world, to bundle expertise, competences and tools regarding sales and marketing, technology, real estate, industry and customer service as well as human resources to drive further product and business development. Working as business partners with the Maisons, they foster the capturing of synergies and the sharing of best practices, while respecting the specifics of each Maison. The partnership uses the specific know-how and is intended to use the large reach of each company in its markets to bring luxury retail to the next generation through the seamless integration of digital and physical reality.

On the basis of the publicly available information, we assume that the large number of management staff has a sufficient experience and aptitude to be able to lead the company successfully in the future. We assume the same for central administrative functions such as controlling, treasury, risk management, compliance and HR. We did not find any weaknesses with regard to the workforce. With regard to corporate governance aspects, we did not include any rating-relevant factor in the assessment.

As far as can be seen, we assess the organisational structure and process organisation described by the company in connection with their further development concepts (e.g. e-commerce, digitisation, HR) as appropriate to provide a stable business development in the long run. We see structural diversification as a stabilising factor. Overall, we consider the structural risk to be moderate despite certain country risks.

Business risk

As far as we know, Richemont is the world's leading luxury goods company after the French LVMH. As such, it often represents its goods in its own retail stores (retail overall 51% of sales) in all relevant markets and metropolises. Due to the high demands placed on the locations, stores and product presentation as well as their introduction and development, we see certain business risks in an increased and only partially flexible structural cost block, which in particular, together with a considerable staffing level of approx. 35,000 employees can have an adverse effect in times of economic recession or crisis.

According to our interpretation, the company endeavours to counteract this with largely timeless products with the highest demands on design, materials and workmanship, which, in our opinion, has been very successful so far. In doing so, the company has good diversification structures within the framework of its limited industry opportunities, which have a balancing effect on the business. Due to the increasing global prosperity, especially in Asia Pacific and Middle East, as well as stable markets in Europe and America over a period of several years, we see the business prospects as satisfactory to good, regardless of the current crisis situation. In addition to the aforementioned retail trade, Richemont also sells the products as a wholesaler (30% of group sales) and via online retail (e-commerce) (19% of group sales). With revenues of EUR 43 million, the income from royalties is negligible in the analysis.

The acquisitions of the last two years and the latest strategic partnership with Farfetch and Alibaba indicate a focused growth strategy with an increasing focus on digitisation and e-commerce. This could lead to a lower structural cost basis in the long run. The importance of the Asia Pacific region will presumably increase further. The increasing dependence on the Chinese

market could lead to higher country and currency risks in the long term, but also to (geo-)political risks in times of increasing protectionism; although the development and penetration of these markets is essential for many Western companies. We see this orientation as positive in the medium to long term, but it could lead to an increased need for investment in fixed and current assets in the short term.

We see further significant risks with regard to the development of raw material prices, e.g. precious metals and the availability of these in connection with the increasingly tightening regulations. In the EU and some of its nations, for example, there are laws and initiatives that oblige companies to track the intermediate goods or finished products procured abroad in all phases of their supply chain for any production processes that are harmful to the environment or that violate working conditions³. Even if this is to be welcomed for reasons of sustainability, it should also present companies in the luxury goods industry with increasing challenges. Especially if the relevant regulations are not in effect for other countries and regions. The existing competitive situation could in this way be exacerbated by the emergence of new competitors.

Even if we consider the company to be sufficiently well positioned and strategically aligned with regard to the risks mentioned, we see the company's business risks as slightly increased, also against the background of the current crisis situation and its possible further consequences.

Financial risk

Since we carry out for analytical purposes defined adjustments and restructuring in relation to the published annual financial statements of the companies assessed by us and since we have our own calculation methods for key figures, the credit metrics commented here regularly deviate from the original key figures of the companies. Therefore, we will indicate when we refer to the company's original values. We also refer to our key figure tables on pages 2 and 12.

The development of the results of our key financial figure analysis in relation to the Richemont group figures has been very stable at a solid level in the last three financial years. This is a solid basis and supported the rating level. In addition to the equity ratio, this refers e.g. to EBIT interest coverage ratio, the net total debt/EBITDA adj. and the capital structure parameters in a horizontal comparison of the sides of the balance sheet as well as above-average liquidity ratios. Still, some credit metrics have deteriorated in recent years. Above all, the last key figure return on investments of FY 2020 needs improvement in relation to the current rating result.

Due to the crisis and based on the half-year figures for the current financial year, we are assuming that the results of our key financial figure analysis will deteriorate. We see this temporarily compensated for by the fundamentally solid balance sheet and capital structures and by sufficient liquidity which also based on stable cash flow from operating activities. We also positively rate the paid out dividend of EUR 529 million for the past financial year (last FY EUR 1,017 million) which has been adapted to the market framework conditions. From a rating point of view, we see that the group management gives security aspects an adequate priority in the current crisis situation.

³ Recently, Switzerland rejected the so-called "Konzernverantwortungsinitiative" (corporate responsibility initiative) in a referendum. The initiative pursued the goal of obliging Swiss companies worldwide to comply with human and environmental standards. A narrow majority of 50.7 percent of the electorate voted for the proposal. However, a positive vote in a majority of the cantons, was not achieved. As both a majority of votes and the majority of the cantons were required for the initiative proposal, the initiative failed. A weakened counter-draft by Parliament could therefore come into force next year.

With the recent successful placement of a bond for EUR 2 billion in three long-term tranches, Richemont was able to demonstrate its functioning access to the capital market and improve the financing structure in the current overall crisis context, despite the expansion of gross debt, what is usually credit negative in a rating. Corporate bonds as of 30 September 2020 amounts to EUR 5,918 million. Bank liabilities have also increased (approx. +1 billion to EUR 3,463 million).

In light of the COVID-19 crisis and in connection with salary payments for employees, Richemont received government grants on a small scale (EUR 119 million).

Even if we believe that the strategic partnership with Farfetch and Alibaba has considerable business potential in the future, the associated investment contributions, as they are mentioned in public sources, are substantial and rating relevant. Given the company's last reported financial headroom, we consider the risks manageable, at least in the short and mid-term.

On the basis of solid financial indicators and a currently increased liquidity, which was mainly financed by borrowing, we see the financial risks of Richemont as manageable and yet as currently slightly increased. Nevertheless, we rate the current financial and liquidity situation as well as the capital market viability as stabilising factors in the rating for the time being. The stability or a future change in our assessment will largely depend on the further course of the pandemic, the European and global economic development and not least on the further operational business development of the company assessed here.

Issue rating

Further issuer ratings

In addition to the unsolicited corporate issuer rating of Compagnie Financière Richemont SA – hereinafter referred also as Guarantor - the following Issuer and its issues (see below), have 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% subsidiaries of Compagnie Financière Richemont SA and which have been consolidated into the group annual accounts) we derive the unsolicited corporate issuer rating of Richemont International Holding SA - hereinafter referred as RIH SA - from the unsolicited corporate issuer rating of Compagnie Financière Richemont SA and set it equal to its rating of **A / stable**.

According to the underlying prospectuses, Compagnie Financière Richemont SA unconditionally and irrevocably guarantees the proper and timely payment of capital and interest as well as other amounts payable on the bonds.

As a wholly-owned subsidiary and financing vehicle of the Guarantor, RIH SA activities are directly related to the financing needs of the Group, which in turn depend on the development of the operating business and the investments in the Group. Additionally, the business development of RIH SA depends on the ability of the Guarantor to service the payment obligations resulting out of the intercompany loans granted by the subsidiary to the parent and group companies. Overall, the future development of RIH SA will be determined by the business development, strategy and capital and investment needs of the parent company, taking into account its specific and general business risks. In this respect, we consider a consolidated view of the business development and the outlook for the rating assessment of RIH SA as appropriate.

Issue rating details

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in euro, issued by RIH SA and which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB. These issues have been issued under separate prospectuses.

The notes rated here are senior unsecured. The notes are unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor under the Guarantee are direct, unconditional and unsecured obligations of the Guarantor and rank pari passu and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor. Additionally, the notes benefit from a negative pledge provisions.

Result corporate issue rating

In accordance with our rating methodologies, we derive the unsolicited corporate issue ratings of the in euro denominated bonds issued by RIH SA from the unsolicited corporate issuer rating of RIH SA. The ratings of the issues are set equal to the unsolicited corporate issuer rating of RIH SA. The rating result is **A** with **stable** outlook.

Other types of debt instruments or issues denominated in other currencies of the issuer have not been rated by CRA so far. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Overview

Table 6: Overview of CRA Ratings | Source: CRA

Rating object	Details	
	Date	Rating
Compagnie Financière Richemont SA (Issuer)	23.12.2020	A / stable
Richemont International Holding SA (Issuer)	23.12.2020	A / stable
Long-term Local Currency (LC) Senior Unsecured Issues	23.12.2020	A / stable
Other	--	n.r.

Table 7: Overview issue ratings / ISIN | Source: Prospectus dated 26.03.2018 and 20.05.2020, CRA

Issue ratings /ISIN	Details	
	Issue Date	Rating
XS1789759195 XS1789751531 XS1789752182	26 March 2018	A / stable
XS2170736263 XS2178457425 XS2170736180	20 May 2020	A / stable
other	--	n.r.

All future Long-term Local Currency senior unsecured Notes that will be issued by RIH SA and that have similar conditions to the current issued notes of RIH SA as they are listed in Table 7, which are guaranteed by the guarantor, denominated in Euro and included in the list of ECB-eligible marketable assets will, until further notice, receive the same rating as the current rated Long-term Local Currency 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. For the time being, other emission classes or programmes (such as the Commercial Paper Programme) and issues that do not denominate in Euro will not be assessed.

Financial ratio analysis

Table 8: Financial key ratios | Source: Richemont's Annual Report and Accounts 2017 - 2020, structured by CRA

Asset structure	2017	2018	2019	2020
Fixed asset intensity (%)	22,50	19,30	29,73	38,52
Asset turnover	0,56	0,50	0,56	0,54
Asset coverage ratio (%)	341,75	371,30	249,04	174,80
Liquid funds to total assets	23,20	34,28	19,96	16,13
Capital structure				
Equity ratio (%)	75,89	55,09	58,03	53,54
Short-term debt ratio (%)	20,34	26,15	24,86	21,24
Long-term debt ratio (%)	0,99	16,58	16,01	13,80
Capital lock-up period (in days)	13,99	14,25	19,83	15,38
Trade-accounts payable ratio (%)	2,13	1,75	3,00	2,17
Short-term capital lock-up (%)	30,78	46,84	32,87	31,39
Gearing	0,01	0,19	0,38	0,57
Leverage	1,34	1,56	1,77	1,80
Financial stability				
Cash flow margin (%)	13,29	15,53	25,63	17,96
Cash flow ROI (%)	7,38	6,98	14,14	9,24
Total debt / EBITDA adj.	2,15	4,49	3,88	4,65
Net total debt / EBITDA adj.	0,08	1,06	2,03	3,04
ROCE (%)	12,98	14,44	11,61	7,61
Total debt repayment period	3,27	8,83	3,17	2,35
Profitability				
EBIT interest coverage	8,16	6,70	6,87	4,93
EBITDA interest coverage	10,77	8,57	9,73	10,85
Cost income ratio (%)	83,76	82,79	86,16	91,04
Ratio of interest expenses to total debt (%)	4,67	2,60	2,65	2,02
Return on investment (%)	7,06	5,87	11,72	3,75
Return on equity (%)	8,45	8,70	19,75	6,31
Net profit margin (%)	11,36	11,09	19,92	6,54
Operating margin (%)	16,56	17,39	13,84	8,96
Liquidity				
Cash ratio (%)	114,10	131,08	80,28	75,95
Quick ratio (%)	234,13	225,20	170,84	166,38
Current ratio (%)	381,10	308,58	282,69	289,45

Appendix

Rating history

The rating history is available under <https://www.creditreform-rating.de/en/ratings/published-ratings.html>.

Table 9: Corporate Issuer Rating of Compagnie Financière Richemont SA

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	21.12.2020	www.creditreform-rating.de	Withdrawal of the rating	A / stable

Table 10: Corporate Issuer Rating of Richemont International Holding SA

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	21.12.2020	www.creditreform-rating.de	Withdrawal of the rating	A / stable

Table 11: LT LC Senior Unsecured Issues Issued of Richemont International Holding SA

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	21.12.2020	www.creditreform-rating.de	Withdrawal of the rating	A / stable

Regulatory requirements

The rating⁴ 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.

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

⁴ In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG (CRA) in connection to this report. This may concern several companies and their various issues.

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

Rating methodology	Version number	Date	Website
Corporate Ratings	2.3	29.05.2019	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Corporate%20Ratings.pdf
Non-financial Corporate Issue Ratings	1.0	October 2016	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Non-Financial%20Corporate%20Issue%20Ratings.pdf
Rating Criteria and Definitions	1.3	January 2018	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/CRAG%20Rating%20Criteria%20and%20Definitions.pdf

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	Email-Address
Christian Konieczny	Lead analyst	C.Konieczny@creditreform-rating.de
Tim Winkens	Analyst	T.Winkens@creditreform-rating.de

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

Name	Function	Email-Address
Artur Kapica	PAC	A.Kapica@creditreform-rating.de

On 21 December 2020, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 22 December 2020. 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:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Rating-methodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf>

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:

Corporate issuer rating:

1. Annual report and accounts
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: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>.

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