

LUXURY

High Margin: Can Richemont Keep Up Its Winning Streak?

The Cartier owner has been luxury's most dynamic conglomerate in recent years. But tariffs, high gold prices and a softening US market pose challenges. Plus, Burberry's moment of truth and a preview of Paris Photo.



The Van Cleef & Arpels owner has been luxury's most dynamic conglomerate in recent years. But tariffs, high gold prices and a softening US market pose challenges. (Getty Images)

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Hello from Paris, where one of my favourite sidewalk cafes has discretely installed a heating system underneath its banquettes (**don't tell Anne Hidalgo**) and — just as I was getting ready to send this out — **Balmain** named **Antonin Tron** its new designer, succeeding **Olivier Rousteing**.

*In this edition: **Richemont**'s resurgence, **Burberry** earnings, Paris Photo.*

Not so long ago, Richemont might have been described as the awkward Swiss cousin of the big French luxury groups: despite its portfolio of A-list brands like **Cartier**, **Van Cleef** and **Vacheron Constantin**, the group was strategically frustrating (regularly diverting cash and management focus to its non-core e-commerce arm **Yoox Net-a-Porter**) and operationally opaque (succession plans for chairman **Johann Rupert** were unclear, while brand CEOs and his deputies at the group-level were discouraged from speaking to the press).

But in recent years the group — which reports six-month earnings Friday — has been on a roll.

- Shares are up 20 percent year-to-date.
- Shares are up 120 percent over the five years since 2020's coronavirus lockdowns (compared to +38 percent for LVMH or -48 percent for Kering). Its market cap is hovering around €100 billion.
- Sales have continued to climb even as the broader luxury sector entered a downturn over the past two years: up 8 percent at constant currency for FY24, 4 percent in FY25.

Richemont's success has been partly subtractive: sentiment radically improved as a result of getting the heavily loss-making e-commerce division YNAP off its books (though the group is still exposed via its 33 percent stake in MyTheresa, which changed its name to LuxExperience Group after taking over YNAP in April).

There's also been a rebalancing of its category split (and corresponding narrative). Until recently, many people still thought of Richemont as a watch group despite its dominant position in jewellery via Cartier and Van Cleef & Arpels. Its jewellery brands already drove 54 percent of sales in 2015; now they account for over 70 percent of sales. Investors now trust that any challenges in its watch or fashion divisions will be more than balanced out by a) the strong market dynamic for jewellery generally, and b) the consistent brand appeal and operational prowess of Cartier and Van Cleef.

Cartier and Van Cleef (as well as smaller stablemates Buccellati and Vhernier) benefit from several simultaneous market dynamics:

- **Trading up:** Many customers who would have previously bought unbranded jewellery from a local dealer are increasingly drawn to the reassurance and prestige of global brand names. Not to mention that Cartier and Van Cleef have the lion's share of recognisable jewellery designs for conspicuous consumers.

- **Trading over:** Jewellers have been far less aggressive than fashion houses about raising prices since the pandemic. Buyers defected from the core handbag category, seeing more value-for-money and a more durable investment in jewellery.

- **Trading down:** Amid higher interest rates and high levels of economic uncertainty, the market for big-ticket luxuries like vacation homes and yachts has become more niche: focused on ultra-high-net-worth individuals now compared to more broad-based growth in the immediate aftermath of the pandemic. Personal luxuries like jewellery have taken the lead as an alternative indulgence for the slightly-less-wealthy.

On Friday, analysts estimate the group will continue to report healthy growth with **quarterly sales up 9 percent excluding currency shifts** (up 3 percent in reported terms) according to UBS.

That's not to say everything is smooth sailing. Investors will be watching closely to see how the company is handling mounting pressure on a few sides:

- **A strong Swiss franc**, particularly relative to the US dollar, is pinching growth in reported revenues and profits. 1 CHF=\$1.25 presently, up from \$1.10 at the start of the year.
- **A 39 percent tariff** is pounding Swiss companies in the key US market since it went into effect in August.
- Richemont's watches are almost all made in Switzerland. The supply chain for its jewellery is less clearly telegraphed — “made in” transparency is not an area where the industry excels. How badly tariffs are likely to impact the group's crucial Jewellery Maisons division is sure to be a key topic.
- In the US, luxury brands are also annualising pent-up post-election spending at the end of last year, amid weakening consumer confidence. US credit card spending on luxury goods fell in October, after improving July-September.
- **The rising price of gold** also represents a challenge to margins and for the group's more prudent/competitive approach to price hikes. Gold is trading at record highs above \$4100 an ounce — **up 61 percent year-on-year**.

Analysts will want to know how much the company plans to raise prices to offset those headwinds for their bottom line — and whether they can confidently do so without denting demand. They'll also be looking for intel on how the mixed, yet hopeful, signs that China's luxury market has turned a corner are playing out for Richemont's brands.

There could also be some scratching around for signals on longer-term strategy: With a market cap of €100 billion, a cash pile of over €6 billion, and net annual earnings above €3.6 billion, the company is well positioned to take on transformative M&A. This is both exciting and worrying: the company lost billions in its previous foray into multi-brand e-commerce.

And then there's potential disposals. Despite Chloé and Alaïa pointing in the right direction — at least creatively — the group's "Other" division of fashion and writing utensils remains loss-making. Could this be the moment to sell?

Burberry's Moment of Truth



"Absolutely Fabulous" star Jennifer Saunders in Burberry's holiday campaign. (Burberry)

Burberry reports six-month results Thursday morning. The brand has swiftly won back the confidence of markets since CEO Joshua Schulman came in last summer. His plan to roll back recent price increases and reinforce the less fashion-driven (less niche) parts of Burberry's marketing message and product mix signalled the end of various "square peg, round hole" strategies aimed at turning the conservative British outerwear stalwart into a fashion-forward handbag house with prices in line with the best of Italy.

UBS forecasts retail like-for-like sales could return to positive territory, rising 1 percent after seven consecutive quarters of decline. Will that be enough for investors? The bar is higher than usual, as Burberry's share price has roughly doubled since bottoming out in April.

Still, Burberry is less exposed than many competitors to an increasingly gloomy US market, while the upside for the brand is huge should a luxury rebound in China materialise.



Paris Photo opens tonight at the Grand Palais and runs through Sunday. While its footprint is smaller and its programming far less international than the city's art week (now anchored by Art Basel Paris), it's still a key moment for the intersection of fashion and visual culture in the city.

The future of photography in the age of AI is sure to be the main topic of discussion. The release of OpenAI's Sora 2 model has art people in a frenzy, as Marc Spiegler **reported Tuesday**. For photography, the implications are earth-shaking.

Chloé has sponsored an exhibition by Francesca Allen inside the main fair. The topic is Chloé-coded: a competition for girls with really long hair. The exhibition will also be released as a book.

Book signings abound more generally. Perhaps the photography ecosystem is leaning into printed matter as a pretext for physical gatherings as a means of emphasising a part of the job AI can't do. Chanel's 7L publishing arm will host a party for a "A Night at Davé," a collection of Polaroids from the legendary Chinese restaurant that was a favourite haunt of celebrities and fashion people from the 1980s into the 2010s. Sofia Coppola wrote the introduction. Duran Lantink and Mark Borthwick are also releasing a new book, so is Gorka Postigo.

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