Portfolio Watch

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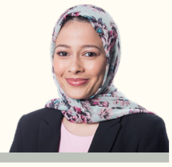
Richemont's Renaissance

TASNEEM SAMODIEN

Research Analyst at Private Clients by Old Mutual



A decade ago, Richemont faced a sharp downturn in luxury watch demand, excess inventory across its wholesale network and a growing grey market. Rather than wait for conditions to improve, management took decisive action. It repurchased excess inventory from wholesalers to protect brand equity and made two strategic decisions that were painful in the short-term but ultimately strengthened the business.

By taking greater control of distribution and increasing its focus on jewellery, Richemont has emerged as one of the strongest performers during the current luxury downturn. While global luxury goods sales have weakened, Richemont has continued to grow.

GOING DIRECT TO CONSUMER

In 2015, sales were split almost evenly between wholesale and retail (direct to consumer) distribution channels. During the luxury downturn, wholesalers offloaded excess inventory at discounted prices to support cash flow. This fuelled grey-market sales and eroded the exclusivity on which luxury brands depend.

Richemont acted swifty by repurchasing excess inventory to preserve its brands. More importantly, management took the longer-term decision to reduce its reliance on wholesalers and build its direct-to-consumer presence through physical stores and online retail.

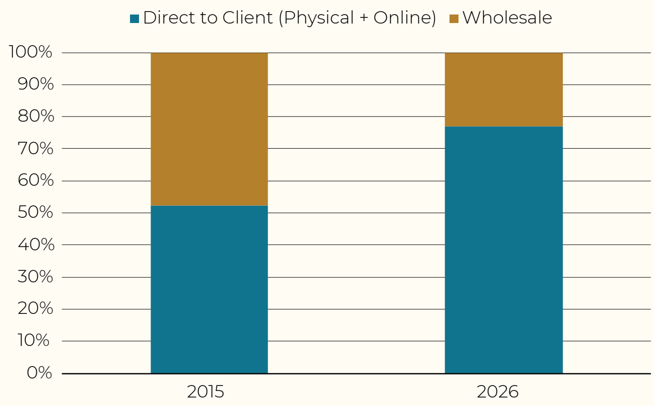
This required significant investment in its own retail network, including securing premium locations for flagship stores. It was a difficult decision to take during a global downturn, but the benefits are now evident. In the 2026 financial year, direct-to-consumer sales contributed 77% of group sales, compared with 52% in 2015. The wholesale channel now contributes only 23%.

Over the past decade, Richemont has built stronger relationships with its customers through its own boutiques and online platforms. This gives the group greater control over inventory, pricing and the overall client experience while providing valuable insights that support product development and pricing decisions.

Graph 1: Richemont's share price appreciation

Source: Refinitiv, Datastream

Graph 2: Richemont's pivot away from wholesale



Source: Private Clients research

BUILDING ON JEWELLERY'S STRENGTH

Most of the inventory Richemont purchased from wholesalers during 2016 and 2017 consisted of luxury watches. Jewellery, particularly Cartier, proved far more resilient during the downturn.

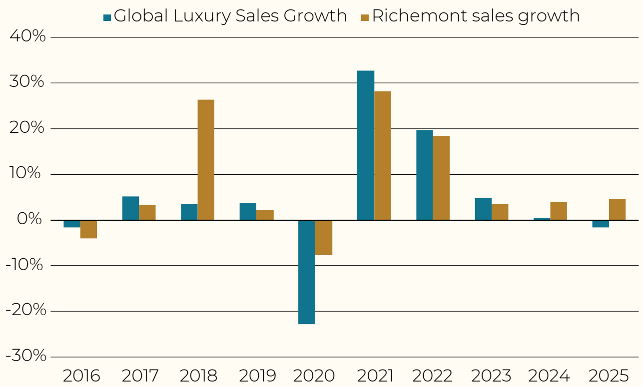
Recognising jewellery's greater resilience, management expanded its jewellery maisons by investing in brand desirability, retail stores and manufacturing capacity. As a result, jewellery's contribution to group sales increased significantly from 55% in 2016 to 74% in 2026. Over the same period, the contribution from specialist watches declined from 29% to 14%.

A MORE RESILIENT BUSINESS MODEL

Greater control over distribution and increased exposure to the more resilient jewellery category have made Richemont a more defensive luxury goods company. The value of the strategic decisions taken during the previous downturn are particularly clear in the current environment.

Despite weaker global luxury demand over the past two years, Richemont has continued to deliver positive sales growth. This outperformance has been rewarded by the market, with Richemont trading at a premium to both its long-term average valuation and the wider European luxury goods sector.

Graph 3: Richemont outperformed the Global Luxury market for two consecutive years



Source: Private Clients research

The near-term challenge is rising input costs, driven by higher precious metal prices and a stronger Swiss Franc. We expect these factors to weigh on margins when the group reports in November. However, Richemont's continued sales outperformance should still support healthy earnings growth and its valuation.

WORTH THE PREMIUM

The decisions Richemont made during the previous luxury downturn were costly in the short term but transformative over the long term. By taking control of distribution and expanding its jewellery division, Richemont has built a more resilient business that is less exposed to the cyclical volatility historically associated with the luxury goods sector.

These strategic investments are now paying off. Richemont continues to grow despite a weaker luxury market, supported by a stronger brand portfolio, a higher-quality revenue mix and greater pricing power. While we acknowledge the short-term pressure on margins, we believe that Richemont's superior business model and long-term growth prospects support its premium valuation.

Private Clients
by Old Mutual

Old Mutual Wealth, Mutualpark, Jan Smuts Drive, Pinelands, 7405 | Tel: +27 (0)21 524 4678 | Email: privateclients@omwealth.co.za