08.08.2022 – 16:24 UNTERNEHMEN / KONSUM

Deutsche Version »

# Richemont chairman: «There is no need to change our board»

Johann Rupert, chairman of Richemont, opposes investor Bluebell Capital's plans and explains how the company is moving forward.

WOLFGANG GAMMA

Johann Rupert: «It is not arrogance but I do not think there will be a job description like mine again.» (Bild: ZVG)

It has been three weeks since the activist investor Bluebell Capital demanded that the Geneva-based luxury goods manufacturer Richemont turns its board of directors upside down. On Monday, Richemont's board rejected the request. In one of his rare interviews, Johann Rupert, Chairman of the Board of Directors, explains why he opposes Bluebell's plans, how the move to a platform-based online-business is developing, why only few know the name of his successor and what Karl Marx was right about.

**Mr Rupert, the luxury good sector is living through a challenging time. And exactly now, Richemont gets to important crossroads with the decision about the future of the online strategy and the various claims set by the activist Bluebell Capital Partners. What is your answer to this attack?**

To my knowledge Bluebell Capital had invested previously in the company and then made money by selling the shares to a higher price. Now they are back. Yes, they bought about one million shares to be able to put items to the agenda of the annual general meeting. But in my opinion, they try to gain visibility and this with investing just a small amount of money. This is not about Corporate Governance, and it is not about performance either.

### About Johann Rupert

Johann Rupert takes his function as chairman of the board of the luxury goods manufacturer Richemont very seriously. The livelihood of 35'000 employees depends on the decisions of the board, which he has headed since 2002 with one sabbatical break. More important to the South African, born in 1950, than business success, however, is that the people in his home country have a future and that future generations can live in a healthy environment. Thus, Rupert, now a grandfather of three, finances the planting of elephant bush (spekbooms in Afrikaans), a type of tree that can absorb a particularly large amount of $CO_2$. He himself and his family live as $CO_2$-negatively as possible. That he sponsors meals for the needy in his father's hometown and scholarships for young talents is a matter of course for Rupert, who hates the word philanthropy. Even before his Richemont days, he was committed to creating jobs. «It fills me with more pride to have created 700'000 jobs than to have helped Richemont become what it is today», he says. He wants to tell his grandchildren about this when they ask him one day: «Opa, so I am called, what have you done in your life?»

**But with regard to the board of directors at Richemont, Bluebell may have a point, because none of the directors is designated to represent the shareholder of the listed A-shares.**

Switzerland has this structure of every class of shareholders has the right to be represented. This was mainly or purely designed for private companies with a minority shareholder to have them protected. In the beginning we designated people. Then, late Maître Jean-Paul Aeschimann, who served as Richemont's Deputy Chairman for 22 years said: No: I do not want two classes of board members. We are all responsible for everything. The discussions in our board meetings always take into consideration the interests of all shareholders, whether they own listed A-shares or non-listed B-shares. We always feel that the shareholders are represented by all our independent board members.

> *«One thing I can assure you. I am not changing our capital structure. I have no legal reason to do so, and, more importantly, I don't have a moral reason to do so.»*

**Richemont's capital structure with multiple voting shares may be an argument though.**
One thing I can assure you. I am not changing our capital structure. I have no legal reason to do so, and, more importantly, I don't have a moral reason to do so because I did not take a penny out of the company. Since 1988, Compagnie Financière Rupert, which is a Swiss commandite partnership, has never received one penny, not one, except dividends pari passu with all the other shareholders. We've never had a fee nor do we take royalties and do not own real estate which we lease to the public company. I have never done a deal with the company. Every shareholder is treated exactly the same. Two examples for that.

**Go ahead.**
Firstly, when I started with Richemont, our family had too many public or listed or holding companies. I said to my father, let us put them all together in one company so I don't have problems as to where to invest and what. We proposed to our shareholders that there would be one international holding company, called Richemont. We put to the vote of all shareholders, except the family, we did not vote. 100% of the shareholders agreed. We then listed the shares in Switzerland. Anybody who bought the shares ever since knew fully about the multiple voting share. I have chosen this structure, because it enables us to plan for the medium and long term. It is also critical to avoid that somebody, a raider, can come in, disturb and destroy the company and the life of all colleagues, and communities. All successful luxury goods companies have family-controlled structures. To be autonomous was my leitmotiv – and we have not done anything I could be embarrassed about.

**And secondly?**
Some years later Jacobs Suchard was bought by Philip Morris, and they paid a premium to the Jacobs family. So, the Swiss Stock Exchange came with the opting-in or opting-out rules. Of course, we decided for the opting-in. Every shareholder gets the same price as I will, if ever we would intend to sell which is absolutely not the case.

**The more important crossroad comes with the decision about Richemont's online business. Richemont has invested a lot of money into it roughly 4,5 billion €, and is still writing losses with the platform YNAP. Your attempts to establish a platform with partners were not successful so far. Is your view still realistic?**
Some companies continuously acquire other companies. This demands paying enormous goodwill. We strive to create goodwill. So yes, we have spent a lot of money – maybe half of it is wasted, but which half? – however our cashflow is much better, the losses at YNAP decreasing. Some years ago my son warned me to move from a linear model to a platform model. I should have acted quicker! We will move to a platform-based model, for sure. The key is to get the technology of Farfetch , then we can implement Luxury New Retail, LNR. Unfortunately, if you look at the capital market and what happened to online businesses, where share prices were decimated, it is more difficult to conclude the deal. The idea of running businesses with negative cashflow ad infinitum is gone.

**That means, the conclusion of the deal is rather a question of valuation or are there any other issues to be solved?**
It is on the route to be solved. We will have clarity within the next two months which way we are going.

**You are still exploring alternatives then, maybe do it on your own.**
No, not on our own. We will do it with Farfetch. Internally, we progressed a long way in understanding their technology which is the best of all the online businesses. In fact, it was Alibaba that has recommended them to us.

**Does the expected deal exclude external partners?**
Not necessarily, but we are not going to wait for them ad infinitum.

**And what are the prospects in terms of earnings?**
Once the platform has started, it will take the model two to three years to kick in into the profit and loss statement.

> *«Everybody focuses on the costs of the online business. They forget that we spend roughly a billion Euro a year on leases or rents.»*

**Not a short period of time…**
Everybody focuses on the costs of the online business. They forget that we spend roughly a billion Euro a year on leases or rents. I would rather move a bigger

percentage of sales online instead of having fixed leases. The more we sell online the less we need boutiques everywhere. To fully kick in, we would have to move 20 to 30% of that amount to online in the next five years, which is very doable. The goal is not to have an online business per se, the goal is to meet the needs of our clients and minimise fixed costs.

**Could you please expand on this?**
Every time when we are in a recession, fixed costs are a drag. You still have to pay rent and this is what pushes companies under. You are able to withstand economic downturns a lot better if you have variable costs. Our mission is to drive fixed costs out of the process and rather invest them in product innovation, design and communication.

**These days the world is at the edge of a recession. Is this outcome inevitable? What are your expectations for the coming months?**
Since I have been involved in the luxury good sector with Cartier in 1976, I have seen many ups and downs. Yes, I am worried about the external factors, and I think that Europe and the USA will find it very hard to avoid recessions. People talk a lot about heating because of gas, but the blow to German industry would be bigger, they cannot do it without gas. We will see more inflation, hopefully we don't have a stagflation. The central banks and governments have been very reckless in their monetary and fiscal policy since 2008. They did socialise the debts in 2009, so Karl Marx, in fact, seemed to have it right in a way. We are still paying the costs. The actual interest rises will not hurt the big companies but the people, the middle-class society and it will make the poor people poorer, which is blatantly unfair. That worries me more than the conjuncture. We will survive the next downturn.

**What are the advantages for Richemont in these turbulent times? How can the group withstand the storm?**
We have prepared for these conditions. The company is in a very good shape with a strong balance sheet. Even though we have been accused several times by analysts who quoted our balance sheet as lazy, like from 2005 to 2007, we have benefitted by being prudent. It is very advantageous to have been conservative during the good times. And do not forget: one of the luxuries of Richemont is to have a family-controlled structure, with that we can plan ahead.

**An important factor is China, a drag for a while now, how long will it take for a comeback, if ever?**
China will recover. But it will take time, probably going through a partial lockdown through another winter.

**Is Covid a game changer with regard to the growth potential the luxury goods industry sees in China?**
No. The demand for 'fine products that last' is unbroken. What still doesn't help the industry yet is the lack of tourists. Travelling is not nearly where it was. We see Americans in Europe, but the Chinese are missing.

**What can we expect in terms of growth in the luxury goods sector globally?**
Have you seen luxury goods industry growth rates in the last eighteen months? Although I am not sure that the extraordinary growth will be maintained at such a rate, I am confident that it is far more resilient than other business sectors.

> *«We try to hire people with curiosity and empathy. Curiosity is the valuable starting point for later success.»*

**A people factor?**
We try to hire people with curiosity and empathy. Curiosity is the valuable starting point for later success. People with empathy are neither homophobic nor racist. Empathy is a mindset. An important characteristic when it comes to take care about the planet and ESG factors (Environmental Social Governance) in general. We are not being good custodians of the planet, that is why we, as mankind, should be embarrassed. ESG should not be a selling factor, it is basically your right to be at the table. If you don't do it, you should not be in the game. Luckily, we have been in there for a while – ecology and conservation have been a concern for many decades, including for my family. This year for example, we spent well over 100 million € to get rid of PVC.

**Richemont has the financial strength to add another culture to its family by the acquisition of a new brand. An option that you ponder?**
When we bought Van Cleef & Arpels we paid just above 300 million €, its turnover and its loss were 60 million €. For the first six years analysts asked me every meeting when the investment will pay off. And our board members, an open and egalitarian board by the way, did the same. We would rather acquire smaller successful brands or Maisons as we call them and then build them up. Today Van Cleef & Arpels is a truly remarkable Maison.

**As you did it recently with the Belgian leather goods company Delvaux?**
Exactly, Delvaux is the Hermès of Belgium. Their products are of a remarkable quality. All in all, we have so much growth potential in our own brands that –

unless it is a very special situation – we stay at the sideline. Buying sales in a large scale for an exaggerated price combined with doing the job the previous owner should have done is not part of our strategy. We try to create goodwill for our shareholders, not give it to the previous shareholders.

**I would like to come back to the board's qualities and the reshuffle suggested by Bluebell Capital. Why would a change be so critical?**
It is an egalitarian board, a collegial and open one. According to the Swiss law it is accepted in the way it is. Why should we change it? There is no need to change it neither legally nor morally. Our board might be slower and more conservative than other boards. But its openness and collegiality are exactly its asset. I am not going to give in to coercion. We have some 35 000 colleagues who rely upon stability. In addition, we have trade partners who don't want a change. I have looked after my colleagues, I have looked after my shareholders, that's my role, not to look after guys who come in and leave in 3 months' time.

**Bluebell also nominated a candidate, Mr Francesco Trapani. What can you comment on that proposal?**

The Board sees more value in that role being performed by an existing independent non-executive director, Ms Wendy Luhabe, who joined the Board in September 2020.

> *«My son is on the board to make sure that my colleagues can rest assured that they are not going to be raided by somebody with a short-term horizon.»*

**By the way: what happened with Third Point, another activist who invested in Richemont last year?**
They never became hostile. As I said in the press, I think Dan Loeb believed me when I said that we are doing better. They have chosen the right moment to invest and made their money.

**You have reached an age, if I may say, that rises speculations about a possible future without Johann Rupert at the helmet of Richemont. Your son Anton was named member of the board in 2017, is it an educated guess to see him in different role in the future?**
My son has never been an executive. He has never drawn a salary or a fee, and we have stated that he will not be an executive. Anton is on the board to make sure that my colleagues can rest assured that they are not going to be raided by

somebody with a short-term horizon. Anton is a mere member of the board who gives continuity and stability. And he is not planning to become an executive.

**But I am sure you have a succession plan.**
Of course, there is one. But the moment you disclose it, the designated person immediately is under scrutiny beforehand. The people on the board who should know, the non-executive directors, they know who that individual is. And these directors are unanimous. It is not about size and power but ultimately it is about empowering the right individuals inside your organisation and supporting them. That is the role. Quite frankly, when I try to take it easy and appoint someone else, then there occurs something unexpected like Covid or now the war in Ukraine. It is not arrogance but I do not think there will be a job description like mine again. All what you really are is the conductor of an orchestra.