SMCP

sandro maje claudie pierlot

Live Event: Growth Strategy

Thursday, 14th June 2018

Welcome

Moderator

Agenda and Participants

Welcome to our new presentation on SMCP. I am very happy to welcome the management of the Group: Daniel Lalonde, Chief Executive Officer; Flavien d'Audiffret, Digital and CRM Director and also Célia D'Everlange, Director, Investor Relations. There will be a short video and a presentation next.

[Video Presentation]

Growth Strategy

Daniel Lalonde

Chief Executive Officer, SMCP

Introductory Remarks

Welcome

Welcome, everyone. My name is Daniel Lalonde, Chief Executive Office of SMCP – Sandro, Maje and Claudie Pierlot – for a little bit over four years; now, happy to share our story with you briefly. I have here our Head of Digital and Innovation and CRM, Flavien d'Audiffret, who will do a section on our digital strategy.

Company Story

I will give you a bit of background, but I promise to be very succinct on our story. I am not going to take you through all the timeline. A couple of messages: the first big message overall in our company is that we are a relatively young company, and we are writing chapters in a long story. I have often said this book will be over a hundred chapters one day, and we are in chapter three. We are in the very early stages of development of growth of our Company.

Chapter 1: Brand creation

There have been three chapters written so far. The first chapter was the creation of the brand, Sandro and Maje – Sandro in 1984 by Evelyne Chetrite on the left. Her sister Judith Milgrom works with her a little while and then creates her own brand in 1998 – very successful brands back then, but they had a different business model. It was in fact 100% wholesale; foundation of the brands, two very creative people selling all over the world but through a wholesale model.

Chapter 2: Wholesale to retail

The second chapter was a chapter that began in the early 2000s, which was the shifting of the business model from wholesale to retail. That was a fundamental shift that happened in 2002/2003, first by developing shop-in-shops and concessions in key department stores in France, Le Printemps for example, Galeries Lafayette. Then later, opening stores in France and a couple of other comex markets outside of France, but very little.

That took place over ten years, and in those ten years we successfully shifted the business model from wholesale to retail. We think we have tremendous advantages of being a retail pure player today.

Chapter 3: International growth and development

The third chapter is the one we started only five to six years ago by beginning our international growth and development. We began first obviously in Europe, then five years ago in North America in the US and then most recently four-and-a-half years ago in an area we call Greater China, with again explosive growth in those regions.

That is the third chapter that we are writing today as a company. It is a very exciting one, and it is one that is going to last a little while and has had a lot of proof of concept and some strong success. We also did an IPO last October, so we are about seven or eight months into our IPO at this stage.

Company At A Glance

Sales growth

To give you a glance of the company, a couple of quick numbers. Three brands: Sandro, Maje, Claudie Pierlot. All brands have women of course, and the only brand that has dual gender is Sandro; we have Sandro Men, a very successful line. We're present in 38 countries today. Last year, we posted sales of €912.4 million. It was a growth in the 16.8% last year. So normally, we should be hitting a big milestone this year at €1 billion.

Digital penetration

Digital penetration: 12%. Flavien will take you through our story. Four years ago when I started, I remember very clearly the penetration was 2.4%. We have ramped very, very quickly on our digital strategy.

In fact, Flavien was the first hire I did when I got there, created the role. I loved his background; he came from Amazon. I looked in the luxury industry, I looked in the accessible luxury industry. However, I think the best talent we could find – I am very happy with it – was Flavien from Amazon. We have gone very quick, not only on digital penetration and e-commerce, but also on investing for omnichannel services and creating our strategy. Our approach is that we are channel agnostic.

Great organic growth

Last year, we had 1,334 stores in the world. Obviously, that is divided by three brands. Our EBITDA margin was 16.8%, and our average price – initial price – is €233, so some quick numbers on the company.

It is clear we are a growth company. We have been growing our sales. Maybe the data point goes to a little while ago – x5 since 2010 – but we have been growing very quickly, very consistently. More importantly for me, the most important thing about our growth is it is qualitative growth; we are growing inside our core business. We have only one product license which is eyewear, just in place this year. All this growth was without product licences – zero – and with a very small footprint in outlet stores – 7% – which is much lower than brands in our space and even lower than a lot of luxury brands. We are growing our core business, so it has been great organic growth. Last year, again, 16% reported growth and 17.5% growth at constant currency.

International percentage indicates performance

The number I like the best here, however, for me is a very good indicator of performance is the percentage of our business – international markets. When I got there at the end of 2013, around 40% of our business was international. Last year, that number was 60% and obviously Q1 and year to date, this number is even higher. We have been able to grow successfully outside of France in very selective markets – so we are very focused as a company – and still growing our business at the same time.

Strong EBITDA growth

EBITDA growth has been strong as well. We have had a CAGR in the past years or 20%. You can see the margin has gone from 15.8% to 16.8% last year, so very good qualitative growth top line and also growing our profitability at the same time, of course.

Unique Business Model

This chart is the insides of the company, what I call our 'unique' – and it is unique, trust me. I've worked 25 years in this industry, worked most of my career at LVMH managing luxury brands, so the start up of a small company called Nespresso for seven years a long time ago. I have never seen a business model as powerful and as unique as the one that we have. I have never seen it.

Brands desirable globally

It has a couple of fundamentals behind it. There are really two ideas. The first one is not really the business model but the first statement is our brands are desirable globally. That does not happen often, not in my experience. You are strong in your local market; you are strong in a Connex market; maybe you are strong in one region, North America but not in Asia, or Asia not in North America. Our brands have proof of concept and desirability in all markets, because we have a meaningful footprint in all markets so we know that it works. That is great, and that is not given to all brands.

Blending the codes of luxury and fast fashion

Our business model: there are two ideas to retain on our business model. The first is we blend what we call the codes of luxury and fast fashion. Here you can think about Gucci as one of the hottest brands here today – a blend between a Gucci and a Zara; imagine that. What we will take from luxury are the following things you have here:

Luxury

The creative process: we are set up exactly like a luxury company. Every brand has an artistic director which is this case is the founder, which is great. Let us talk about Sandro. Evelyne Chetrite is the Artistic Director of Sandro. She has a team of about 35 people working with her on different creative roles: senior stylists, pattern-makers, etc., just like a luxury brand. It looks like, and they get their inspirations, like other artistic directors get, from luxury brands.

We have a high-end image; we use the same photographers, the same models as you see in luxury brands, we have prestigious locations in all the key malls where you'll see luxury. We are not in the role of luxury, but we are not very far from it as well. We believe very much in personalised service as opposed to self-service. These are the codes and some of the values we inspire ourselves with, that emanate from luxury.

Fast fashion

At the same time, however, in parallel we look to be very quick on our time-to-market, unlike luxury in some senses. And here, we have a very fast and agile product cycle. It takes us roughly three to four months from design to display in the stores; that is very quick. For example, luxury would be up to a year, and other competitors in our space would be much longer. That is more or less an inspiration from the fast fashion.

We also have a creation process that is very framed. We have a very strong collection plan at the beginning of each collection based on previous learnings, current trends; it is quite granular. We have newness all the time. This is something that makes us very unique. We launch on average every week 25 new products per brand in every single store in the world. There is this constant pipe of novelty, of newness that comes into our stores that gives reasons, we hope, for customers to come back often.

The last, we can scale pretty quickly our stores. We have roughly an average time of two months to build a store. If I like a store, we can negotiate a lease today; we can start trading in two months.

We combine both. This is how we combine the codes of luxury and fast fashion.

Retail pure player

The second idea behind our business model is more simple. We are a retail pure player. There are very few retail pure players out there. You know or you have met a lot of brands and companies here this week. Most of them have a heavy or interesting part of wholesale; we do not do that. We have some markets that are harder to get to like the Middle East, where we have a partner. However, our partner in the Middle East is really an extension of our business model. They do not buy in Paris, they get the assortments that all their other stores get. We replenish for them within the season as well. It is more an execution model and partner that we look for in some areas like the Middle East.

Being a pure-player also has some tremendous advantages for us: we can capture, we can derive the customer experience; we can control the commercial policy; we can tie all our stores together in our omnichannel strategy, because we know who our customers are and who our store managers are worldwide. It is a big advantage. There are very few brands that are retail pure player today in the luxury space. Obviously where I worked a little while ago at Luis Vuitton, that is the pure retail player; Zara is, but again very few brands.

Business Model Has Powerful Outcomes

Products replenished within season

All this business model has generated some very meaningful and powerful outcomes. We call this business model our engine – our 'Ferrari engine' if you will. It has helped us generate high growth, again consistent quality growth and profitable growth. As I explained earlier, it has helped to replenish also products within season, which is fantastic because you know the bestsellers.

Again, a small example: because I master our retail network, I know the sales of every product every minute, every hour, every day. If I see there is a dress that is launching for Sandro in the worldwide network, I will know in the first week who many I sold; I will know in the first day. If I plan for this dress to sell 200 a week, and I see I have sold a thousand, I know it is a bestseller. I know it is going to full price sales all over the place. We will get behind that product and we can reorder within the season, and it takes roughly five to nine weeks to get back into that product. I can stimulate my full price sale through this way. That is another advantage as well to maintain our gross margins.

Sustainable gross margins

We have strong pricing power. You will see our gross margins have been historically 76% to 77%. It is a question I often get asked: how sustainable are your gross margins? The answer is they are very sustainable due in large part to the business model. If you look at our track record, they have always been there for many years, so we think they are very sustainable.

Newness

We also have full omnichannel capabilities – Flavien will talk about our strategy – and then the newness point that I mentioned: 25 new products per week, per brand in every single store in the world.

We have a business model that is unique but it is proven, we invest in it, we are fine-tuning it and we think it is a big source of competitive advantage versus other players out there.

Attractive Economics

All of this has led to very attractive economics. I mentioned the consistent gross margins: 76%, 77%. I probably would say they are higher than most luxury brands. In fact, we know that they are higher than most luxury brands, so a great place to start.

Productive stores

We have very productive stores as well. Our average productivity worldwide is €14,000 per square metre. That is 40% higher than the average of the accessible luxury market, which is at €10,000 per square metre. We have very high ones at Printemps, for example, and in some key department stores it is much higher than this. This is our global average, and we have a very fast store payback – less than a year. We get our capex back in less than a year in some markets. For example, in Greater China it is less than six months. We have a very quick payback.

Growth Strategy

Where do we go from here?

My last slide is to talk about our growth strategy: where do we go from here? A great result so far, we have very clear, identified growth levers that we have been developing for four years. Our strategy has not changed for four years. I could have presented more or less this chart three-and-a-half years ago. It has been a winning strategy, so we keep investing behind it.

Develop like-for-like growth

It is two parts: the first is what we are doing to develop like-for-like growth, which is fundamental in our business. Here we are doing four things: we keep investing in the core, and the core for us is ready-to-wear, women's and retail excellence; we keep investing every year to have even more desirable collections, provide a greater level of customer experience. In addition to that, we are investing behind three areas:

1. Accessories and mainly shoes and leather goods, which is a smaller part of our business today. It is round about 7% to 8% of our overall business, and we think that there is big potential to grow that part of our business. We have invested in structures and teams, in collections that have worked very well.
2. Men's, we think is a big market. It is more fragmented than the women's market. If you think about the men's business in accessible luxury or even luxury, it is a very regional business often. There are very strong regional players, there are very few global players. We think there is a big opportunity to grow Sandro Man's quickly, and we have been doing that.
3. The last is digital. It has been a big investment of ours for the past four years, but I will let Flavien talk about it in his presentation.

Those are all the drivers, the fuel that we are investing to develop our like-for-like growth. Like-for-like growth last year was 7.8%, the previous year was 7.6%, the previous year was 11%. We have had some good like-for-like numbers in a tough retail market you know better than me.

Develop store network in six strategic markets

The second part of our growth strategy is to invest in developing our store network in very selective markets. We could go much faster, we can go many more markets. We have offers all over the place, but we are very disciplined. We like to do a few things and do them really well.

We have identified six strategic markets outside of France that are getting the majority of our capex – 80% to 85% of our capex are going to these markets. If I look at France as the high watermark – it is also our home market, our historical market – we have, including all brands, 479 points of sale. It includes our digital stores, everything. The thing about France is it is a very profitable market for us, and practically all of these stores are profitable so it is great.

In terms of growth in the future, we are looking at these six markets: Greater China, North America, Spain, UK, Germany, Italy. So these are all markets that are recently that are recently new for us, where our footprint is at the beginning of the development cycle and where we see really tremendous white space. I can take two examples.

Greater China

Greater China: 130 stores since four years, they are also our stores which are the highest in terms of productivity on average, and highest in terms of profitability on average as well. It is a profit-accretive region for us.

What is the high watermark here? We have mapped it out fairly clearly in a three-year roadmap in all locations – what cities, what malls. We worked with some of the key developers like Swire, Sun Hung Kai, Wharf, Hongkong Land etc. We have very granular plans on our growth in Greater China, and here we think we can reach at least the same number of stores there that we have in France today. I have been quoted to say a few times 500, so maybe I round it up a bit. We see at least very clearly, and I must say conservatively, 500 stores in this region.

I know where we want to put them. We have a very granular plan for the next 18 months and then even a bit less granular but very specific on the cities for the years beyond. Today, for example, in Greater China, we are so bullish on this region is because again we have great economics. Today, we are present in Greater China in 21 cities. This is through the end of last year. In fact, now we are in 24 cities; we recently added three new cities. Our economics, and when I say economics our KPIs – we look at productivity and profitability per store, four-wall profit – are as strong in second tier cities as they are in first tier cities. We have stores obviously in Shanghai, Beijing, Chengdu, Shenzhen. The stores we put up recently in Xian, Jinan, Harbin, Wuhan, Kunming have the same economics as the key cities or the top Tier 1 cities in China. That is great.

We know that some competitors in this space have presence in 35, up to 50 cities. We know there are still some cities to add, and we know where we want to go. Obviously, we densify in the current cities as well. For example, if you look at Sandro just for Greater China, or even China. In Mainland China, Sandro has 50 stores. Most luxury brands have more or as many. Their footprint is seven to eight times larger than ours. Our average store size is roughly 110 square metres in that region. They have more square metres, yet our addressable market in this region is much higher. I can give you a lot of examples to demonstrate why we think again we are at the beginning of the growth in this market.

Italy

The second market I can take as an example is Italy. We have 32 stores in Italy, a great market. Like China, our economics there are accretive – high average productivity and four-wall profit margins. There again, we see a lot of room for development, but I am not aiming for 472 stores in Italy. I can tell you that for sure because today, because of Flavien's arrival – our digital strategy – we basically will not penetrate the smaller cities in Italy with physical brick and mortar stores; it will mainly through digital. Here we see at least a third of the store size we see in France due to the advent of digital.

Digital is impacting our footprint in these newer markets, but again in China I think 500 is really the minimum we see. That is all I have to say as an introduction, and I ask Flavien to say a few words on our digital strategy.

Digital Strategy

Flavien d'Audiffret

Director, Digital and CRM

Digital Overview

Strong growth

I am very excited to be here to present the outstanding momentum that we have on our digital business and all the opportunities we still have to capture.

We have been experiencing very strong growth. We have multiplied x9 our digital business in four years, coming from roughly 3% of digital out of our total business to 12% as Daniel mentioned. Obviously, we have some very strong ambition to keep on targeting a 20% digital share.

Key milestones achieving strong momentum

There are three main phases, three key milestones to achieve this strong momentum:

- The first one is that we have invested in redesigning our e-shops using a unique and very powerful technological platform, which is Salesforce Commerce Cloud.
- Secondly, we have strongly accelerated the internationalisation of the business. We went from 25 stores in digital to 87 in four years, opening a lot of e-shops but also relying on third-party, on partners to achieve this growth.
- The third key point to explain this growth is that we have built some very robust and experienced teams in all our geographies in the US, in Europe and in Asia for all the brands.

It has resulted in a transformation of our digital business. Now, international is around 60% of the total business; it used to be 25% in 2013. We have increased the contribution of our own e-shop to 62%, which is great news because it demonstrates the power of our brands and also the control that we can have on our execution. We have moved our business from computer-based business to a mobile-first business.

Strong control on digital execution

We have strong control on our digital execution. We have four different business models: our brand website, our own e-shop; e-concession, so partners – we delegate the sales but it is still our inventory and execution; we have marketplace, like Bloomingdales, like Tmall in Asia; and we have a very small number of pure players, wholesale players that we use to promote our brands in the very high-end markets, meaning that we have 91% of our business in full control. We control the pricing, the inventory, the image.

The good news is that with 62% of our business through our e-shop, we have full control, it demonstrates the power of the brand. However, it is also the most profit-accretive channels that we have, so increasing our brand website is good news for the financial health of the Company.

Four-pillar Strategy to Build on Momentum

What do we do to build on this momentum? We have a very simple strategy to keep growing:

1. The first one is to keep developing our network internationally;
2. Secondly, we work to have a best-in-class, omni-channel experience;
3. Third, we invest in data, artificial intelligence to develop our like-for-like, not only for digital but also for the retail channel;
4. And the last one, we step change. We are in the process of totally transforming our marketing approach to engage more the future generation and especially the Millennials.

1. International expansion

If we zoom on the first pillar, the international expansion, as you can see on this graph, we have some over-penetrated geographies like Germany, the UK, the US. However, we have a lot of geographies under-penetrated like, for example, China we are growing very fast. We are catching up versus the 10%-12% Group average, but we still have a lot of opportunities. Depending on the geographies, we have basically three strategies:

- Drive like-for-like: building a new, better customer experience, enrich the content of the brand;
- Densify: I will come back to that on China, for example;
- Enter some new markets: for example, Canada is a pretty big business in retail. We have no business in digital, so we are going to enter Canada this year in digital.

China

If we zoom on China, when I joined the Company three years ago, that is the first topic I addressed with Daniel. We made the decision to launch China as quick as possible. Two years ago, we launched with Tmall which was the biggest traffic and business driver on the market, so we took this decision to launch our business on Tmall. Six months ago, we launched our own e-shop, because it is important to have. Tmall is a huge growth engine, but we need also to have our brand e-shop to show our execution, our marketing and develop the brand awareness.

We have very recently launched Luxury Pavilion, which is the luxury and premium section of Tmall, because Tmall is a massive platform. We need to always balance between business and brand image, so Luxury Pavilion helps us to position our brand on this market. In the coming months, we are in the process of exploring new partners for China, because we think that we have still a lot of potential to capture.

Something very important in China is also to use WeChat. WeChat is not only a social network, but it is also a CRM tool and many other things. WeChat is really a part of our strategy in China to engage our customers.

2. Omnichannel strategy

The second pillar is our omni-channel strategy. Basically, we have three main services that we want to provide to our customers:

- The first one is to drive traffic in our stores through e-reservation, click-and-collect, store locator.
- The second pillar is to optimise our sales in-store, so we have launched last year and we are in the process of rolling out what we call the store-to-web app, which allows our customers in a store – if a size is missing, the store associate is able to place an order online and get the customer delivery at home or in the store. We optimise the sales in-store through digital.
- The last bucket that we are going launch next year is to optimise all sales online through omnichannel using all our network to avoid out-of-stock. For example, online in Maine, D.C., I am out of stock, but I know for sure that this specific dress is in 200 stores in our network. The idea is to use the network to be able to provide the customer with this specific dress.

Omnichannel allows to optimise all the business and also to provide a better and seamless customer experience for each of our customers.

3. Accelerate data strategy

The third point is to accelerate our data strategy. For that, we have a very simple but straightforward plan:

The first one is to implement a new CRM platform with Salesforce allowing us to better segment, analyse and target our marketing actions. In a couple of months, we are going to have this new platform. It will be a big step for our Company to improve our marketing actions.

The second topic is data and artificial intelligence. We are currently working a lot, partnering with StartApp on this point to personalise our customer journey online, but also offline. We are currently creating an innovation lab to accelerate our test-and-learn strategy and to be able to be more agile in this space.

The third point is to explore new CRM channels. I mentioned WeChat, a well-known social network. Now we are going to replace our whole way of doing CRM in China by WeChat. We used to capture the customer data in the stores via our POA system, we used to send newsletters to our customers. However, that is not the way it works in China. In a couple of weeks, each customer will be able to register in our database through WeChat, thanks to QR code. Then we are going to use WeChat, our preferred communication channels, through our customers. We are going to even be able to manage our customer service between the customers and the stores through WeChat. It is a very important part of our strategy, starting from China but for sure we are going to expand this strategy globally.

4. Engage the Millennials

The last point, our strategy is keep capturing the Millennials to win in the future. Our strategy again is pretty simple, but we want to make it big. We want to win on Instagram and WeChat. The most important media for us should be a social network, which is really a step change compared to our traditional approach. We want to create stories and newness all the time, compared to having just one marketing campaign per season; we need to create more content and newness.

And the last point is really to use the key opinion leaders and user-generated content to amplify and drive more brand-awareness across the world.

So that is it for my part. Thank you very much for your attention, and I will let Daniel conclude.

Outlook

Daniel Lalonde

Chief Executive Officer, SMCP

Guidance 2018

Thank you, Flavien. I think that is it. We just wanted to conclude with the guidance that we provided at the beginning of the year. The guidance for 2018 was a sales growth of 11% to 13% at constant currency, and an adjusted EBITDA margin of 17%. Then for 2020, some similar numbers: 11% to 13% per year at constant currency, the EBITDA margin to grow versus 16% at 100 bps by 2020.

Our leverage: again we intend to finance our high yields, which are due May next year. Dividend: what we have said all along is that we will consider dividends when we have a normalised capital structure, which should be mid-year next year.

Our ambition – *bon* – is really to be the global leader in accessible luxury. We think we are on the right path there, but this is our long-term ambition of the Company.

That is it for our presentation.

Q&A

Moderator: You are managing a portfolio of brands. How are you making sure that brand segregation actually works? It is a quite a delicate exercise.

Looking forward, looking at the portfolio, do you have any ambitions to expand your portfolio of brands? Would it be organically or through acquisitions?

Daniel Lalonde: 1. The first question is brand respect, or respecting the DNA of each brand. The way we are structured is a very modest LVMH philosophy that each brand has their own – they are in separate locations in Paris, for example, so they are not all together. Each brand has their own DNA, their own codes, their own heritage, their own artistic director. They are very separate. That is how we manage them, so they are very, very autonomous.

SMCP has global services that we provide to all brands, but these are all things that the customers do not see: finance, IT, supply chain. That is common, so we benefit from scale, optimisation and investment. However, whatever a consumer is facing is completely separate.

Judith Milgrom has never been and is not allowed to visit her sister's design studio. They have never been; it just does not work that way. They are quite autonomous. The KPI that reinforces this is that only 15% of our customers shop across two or three brands – just a very small penetration, which means essentially that the Sandro woman is not the Maje women, is not the Claudie Pierlot woman. Albeit that we are in the accessible luxury market, the customer proposition, the products, the image is different so that we are attracting a larger part of that market.

2. About M&A, could we see other brands come in the portfolio? I will just say a couple of words. The first is our main strategy continues to grow organically our brand, simply because we have so much runway ahead of us. We do not want to be distracted, so that is our main focus.

Given the IPO and now where we are today, we are pragmatic. If there is an opportunity, a brand where we think we can add value and that could share our business model – because it is our real strength – then we would certainly have a look at it. However, if it is a big wholesaler or something foreign to us, I do not think we can create value. We are pragmatic, but our real focus is still on building our three brands.

Question: A question about the digital strategy, you talked about social network. In terms of the online advertisement, how is a social network different from Google's or any other advertising channel?

Flavien d'Audiffret: For us, we differentiate the classical Google advertising meaning buying key words, putting banners etc., which is an interesting and pragmatic channel that we use for sure. However, for us a social network is more than that, because we can tell stories to our customers and to our communities. That is why really our strategy is to build on content and diffusion of this content through a social network. Both are important, but our strategy is really to reinforce the emotions and the stories we tell to the customers.

Moderator: Thank you very much everyone, thank you for a very interesting presentation.

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