SMCP

sandro maje claudie pierlot

Q1 2018 Sales Call

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Welcome and Disclaimer

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Good morning everyone. Good morning from a sunny Paris. Welcome to SMCP's Q1 2018 Sales Call. I am here with Daniel Lalonde, CEO, and Philippe Gautier, CFO of SMCP. Before we go to the presentation and your questions, I would like you to go to the disclaimer on page two. You are very familiar with it, so I think we can start now and I hand over to Daniel.

Overview

Daniel Lalonde

CEO, SMCP

Alright. Thank you Célia and good morning everyone. Thank you all for joining this morning. I am very happy to present our Q1 sales and invite you to move to page four.

Focus on 2020 key priorities

Before going into the details of the numbers, I would like to start by reiterating our 2020 commitments that you can see on the right part of the chart. These include 11–13% sales growth per year at constant currency, and a cumulative gain of 100 basis points in EBITDA margin by 2020 versus 2016.

On the left part are our main three strategic drivers of growth, which I have mentioned many times. First is pursuing organic growth. Number two is continuing to gain market share in France. Third is developing our footprint in selected strategic markets.

Pursuing organic growth

Let me just go very quickly through each of them as I have already mentioned them many, many times. The first lever is about pursuing organic growth through four powerful levers: building on the core, growing digital, developing Men's and expanding in Accessories. This is what we do every day, delivering results quarter after quarter and I will illustrate this shortly.

The second lever is about gaining market share in France. Q1 2018 is another testimony to our capability to deliver by meaningfully outperforming the French market.

Third is developing our footprint in our strategic markets. I have often described the huge white space potential in Asia and in Europe therefore today I am not going to go over this point in detail. However, I can confirm our plan to continue to open around 80–90 directly-operated stores on average every year. As an example, we recently opened our first corners in Denmark at the Illum department store in Copenhagen for Maje and Sandro. We have also recently opened a new corner at Jelmoli department store in Zurich for Claudie Pierlot. Last, we have opened a new free-standing store at Pacific Place for Sandro in Hong Kong.

Q1 2018: a strong start to the year

Let me move to Q1 on page five and start showing how Q1 delivery illustrates progress in line with these strategic priorities. On page five, before Philippe will go through the Q1 figures in detail, I would just like to highlight that our performance in Q1 has been strong, with sales growing by 15.8% at constant currency alongside 93 net openings over the last 12 months. Total network now stands at 1,334 POS, including 1,069 directly-operated stores.

First, this Q1 performance reflects a double-digit growth across all of our three brands, while displaying a broad-based growth across our geographies. The second point I would like to stress is the strong contribution of international markets. Today, International represents a bit more than 60% of our total sales, with France just below 40%.

This strong performance has been achieved through a solid execution of our plans by continuing to leverage the strong desirability of our three brands through our collections worldwide and our great customer experience. It has also been achieved through the successful marketing and in-store activation initiatives around key events, such as the Maje 20-year anniversary or the Chinese New Year in February. We also have a solid momentum on Digital and Accessories that we continuously enrich with new launches, such as the Sandro Flame sneakers, which have been a big success; the Maje bag M mini, the new eyewear collection and a palette of new omnichannel services.

Celebrating Maje's 20th anniversary

To give you a bit more colour, I have picked a few examples of successful initiatives that we had in Q1 2018. Starting with Maje, on page six, on the left are some pictures of the atrium at Le Printemps Haussmann fully dedicated to Maje for six weeks starting 18th March. As you know, Maje is celebrating its 20th anniversary in 2018 and has chosen to unite with our historical partner, Le Printemps, to celebrate this anniversary. On this occasion, the atrium at Le Printemps Haussmann, usually intended for luxury brands and its five windows have been fully dedicated to Maje. The celebration showcases French savoir-faire, talent and creativity. The objective of this activation is to increase our international visibility, recruiting both international and local customers as well. This is also done through an exclusive capsule collection presented by Ouyang Nana, a Taiwanese celebrity.

The visual concept, as you can see, I hope, from the pictures, is unique and has been conceived in the form of an installation, suspended garden and aerial. To give you an idea of what went into this project, the installation required exactly 7,678 flowers connected to each other and 168 hours of sewing in order to make this happen. It ended up being 11 metres in height and took 9 nights to install.

On the right part of the chart, still linked to the Maje 20th anniversary, a few examples of the strong visibility we have had in terms of press coverage worldwide. I show you here an article that we had in Vogue USA, two pages coming back to Judith's story. I think we can say that this is a great testimony to the strong desirability of our Parisian brand.

I have decided to choose the US example but we have also had much of the same strong visibility in France, Europe and Asia. In fact, Judith was in Beijing two days ago celebrating with Nana Ouyang Maje's 20th anniversary at the famous Unico, where we invited Chinese press and some very important local influencers.

Sandro: accelerating Men and Accessories

Turning to page seven for Sandro, we have two quick illustrations. First, on the left, we have the successful worldwide launch of the Flame sneaker, which is already one of our top five best sellers. We are consistently out of stock due to overwhelming demand. This is part of our strategy to develop accessories, focusing on leather goods and shoes, increasing gradually the offer. We have had some great success last year and the momentum is still there in Q1 2018.

On the right is one of the last French activations we had in Q1 to continue to develop the visibility of Sandro Men, mostly based on a dual-gender strategy, capitalising on our strong position in women. During one month in a pop-up store in Paris Sandro offered a sweatshirt bar offering unisex pieces with exclusive colour and the option to personalise two sweaters or a denim jacket.

Claudie Pierlot travelling to Île de Ré

Finally, moving to Claudie Pierlot on page eight, we have a few visuals of our spring/summer 2018 capsule collection, ensuring newness and a great press visibility. The spring/summer 2018 collection started strongly and we are really pleased with the positive reaction of the market. The objective of this capsule that we show, called Île de Ré, has been communicated on Claudie Pierlot's DNA, values and foundation. L'Île de Ré was one of the favourite places and a source of inspiration for Madame Claudie Pierlot, who even had a house on the island. Communication tools used have been 100% digital, with dedicated shooting and videos.

Summary

So here are three concrete examples and initiatives that we had in Q1 to continue to leverage the great potential of our three Parisian brands. We have a clear strategy of growth with powerful strategic levers and we are fully committed and focused to perfectly execute our roadmap.

I will now leave the floor to Philippe, who will present to you our Q1 financials in more detail.

Financial Results

Philippe Gautier

CFO, SMCP

Q1 2018: strong start to the year

Thank you Daniel, and good morning everyone. As Daniel mentioned, Q1 has been a strong start to the year despite strong headwinds related to unseasonal weather conditions in Europe and to currencies.

This quarter we have once again outperformed the market and even, frankly, our expectations. Our performance reached 15.8% of sales growth at constant currency. This is 11.9% reported with a currency impact of -3.9pts, which is higher than usual. This performance reflects double-digit growth across all our three brands with a very strong contribution of International, at 27.9% at constant currency. At the same time, we have continued to gain market share in France. Overall, we made solid progress on each of our strategic growth levers, we witnessed a strong reception of our spring/summer collection, as well as successful winter sales.

Strong regional dynamics

I am now moving to the regional dynamics on page 11. France and EMEA have shown a very good start, despite wintery weather conditions, with even some snow in March, that did not help the traffic in our stores in Europe. We also saw a bit less Chinese tourism as they travelled more in Asia or domestically.

France

In France we achieved a satisfactory performance with positive growth of 0.7%. This means gaining meaningful market share. You can see that the French market has declined by -3.9pts according to IFM index in the quarter. We have been able to outperform the market thanks to dynamic ecommerce growth as well as our flexible collection planning, with strong transitional products.

EMEA

EMEA posted a strong performance of 13.3% at constant currency. This was driven by all our strategic markets, notably the UK and Germany, supported by a strong ecommerce performance, as well as Italy, which is boosted by successful store expansion.

Americas and APAC

In parallel, Americas and APAC generated an outstanding growth of, respectively, 29.5% and 54.1% at constant currency. This is very much in line with the acceleration that we already saw in Q4 2017.

In Americas, both Sandro and Maje have posted strong growth driven by digital acceleration, successful marketing and instore activations. This includes, for example, initiatives dedicated to Maje's anniversary and the Chinese New Year. All our recent openings, such as our stores in Yorkdale, Canada showed very positive results.

Finally, APAC posted an outstanding growth. This comes from a very strong underlying Chinese demand, driven by the desirability of our three brands. And on the top of it, this has been boosted by strong dynamics around the Chinese New Year. We have achieved successful retail executions, with strong traffic and conversion and strong digital sales supported by the strong appeal of our brands on Tmall. We also benefit from the shift in Chinese tourism from Europe to Asia, be that in the mainland as well as in Hong Kong due to the increase of the euro, and also government initiatives in China to foster domestic consumption.

All brands growing at double digits

I will now move to our performance by brand on page 12. All our brands posted double-digit growth, driven by positive like-for-like and store expansion. Our store count was about stable in the quarter due to an opening plan which is back to a little bit like usual. We also realised several key refurbishments in this quarter, especially for Sandro.

Sandro

Talking about Sandro, performance was 15.9% at constant currency, which comes from the success of our collections, with particular momentum in Men and Accessories, as well as Digital growth. Over the last 12 months, Sandro has opened 45 POS, mostly located in Asia and Europe. As mentioned, we did several key refurbishments, such as Francs Bourgeois and Rue de la Pompe in Paris, as well as stores in Lyon, Bordeaux and London.

Maje

Maje posted 16.0% at constant currency with 37 net openings over the last 12 months, mostly in China. In Q1 2018 openings included, notably, a beautiful store in Carrousel du Louvre, a strategic location in Paris. As mentioned by Daniel, Maje also benefited from many initiatives in terms of in-store activations, marketing and press coverage, as well as continued expansion of Digital.

Claudie Pierlot

Lastly, Claudie Pierlot had 14.1% sales growth at constant currency. It continued to grow its awareness as the youngest brand and developed its network, mainly in Europe, with 15 net openings over the last 12 months. Key openings in Q1 included Palma de Mallorca for example. The brand posted strong gains in Europe. If you remember, 2017 was a key milestone in its expansion, particularly with its market entry in Italy. This quarter has been rich with initiatives, especially in terms of Digital Media and Accessories.

To wrap up and before we pass the floor to Q&A, Daniel will make a few last, concluding remarks regarding the outlook. Thank you for your attention.

Outlook

Daniel Lalonde

CEO, SMCP

2018 guidance confirmed

Okay, thanks Philippe. We are now on page 14. In conclusion, in Q1 very solid progress has been made in line with our growth strategy that we shared previously, on track with our short-term guidance and mid-term commitments. This quarter also illustrates, for us, very solid execution of our plans across all our brands by continuing to activate all of our strategic levers.

Looking forward, Q2 started with a very satisfactory trend. In light of that, we fully confirm our full-year guidance. We remain focused and committed behind our 2020 objectives ensuring sustainable value creation.

Thanks for your attention this morning and I will now turn it over to your questions.

Q&A

Antoine Belge (HSBC): I have three questions, if I may? First of all, regarding the 16% organic sales growth, I think usually you are targeting one-third like-for-like, two-thirds contribution from new stores. It seems that this quarter it was more, maybe, balanced between the two, maybe 8% like-for-like. Could you comment if that is a fair assumption, maybe with some retails by brand and region?

The second question relates to France. I think you mentioned the market was down around 4%; you did close to 1%. Was the performance mostly driven by online and a bit of a slight decline in bricks and mortar?

Finally, a third question about China: I think you mentioned an acceleration of online. Any colour on the Chinese market would be appreciated. Thank you.

Daniel Lalonde: Okay Antoine, I will take a couple of questions and maybe Philippe can add a little bit more colour to your first question. I would just start out, very quickly, by saying the 15.8% at constant currency respects a little bit of our guidance in the past or in terms of growth in the future, where one-third of our growth is mainly coming from like-for-like and two-thirds through expansion.

Number two, the strong performance in France vis-à-vis the market was due to many things. I would say it is not just specifically online, it was the strength, I think, of the collections. Overall, we had great ecommerce performance and we were very happy with our bricks and mortar performance in France as well. It was more an overall performance in a market where, again, as I mentioned earlier, our strategy is to optimise our bricks and mortar network. We were not expanding the number of stores, obviously, in France and we are using all of our strategic levers, our organic levers for growth, to continue to drive this market share gain.

Regarding China, you talked about online. Again, we are very, very happy with the results in China and I would say in Greater China. We are still present in 21 cities in Greater China today, so we have not added any new cities in Q1. We see very strong performance both in bricks and mortar and the online channel as well. We have shops in shops with Tmall that are being very successful. We have also seen some great success with our own e-stores for Sandro and Maje.

So, overall, it has been a very strong performance in China. There have been some small effects, as Philippe was saying, on some of the Chinese customers staying a little bit more local in Q1, rather than travelling; we can see that by their global spend. However, we continue to build our business in China and again, we are just at the beginning of our story in that part of the world. We have roughly 130 stores in Greater China and as we mention often, we see at least 450–500 stores in this part of the world. It is step by step, but we are very, very happy with the Q1 results.

Philippe, did you want to add anything on the first question?

Philippe Gautier: I will maybe add one comment on Greater China. Something which will change as well is Hong Kong. Hong Kong last year was a negative market in general and it has turned very positive so far this year. Part of that has come from the Chinese tourism that we mentioned. There is a little bit less tourism in Europe and it has shifted to Hong Kong. However, as Daniel mentioned, the bulk of the growth for us comes from mainland China.

Antoine Belge: Maybe I can ask two quick follow-ups? You said still one-third like-for-like. However, when I look at just purely the number of stores, 93 over the last 12 months, that is pretty much 6–7% more units. Does it mean that there is a greater contribution from the new stores? Otherwise, I fail a little bit to understand how the like-for-like could be only mid-single-digit. I have noticed that in the quarter you had a net number of stores which was actually slightly negative, –1, with some closing of stores in Americas and I think EMEA. Could you maybe shed some light on those?

Philippe Gautier: Sure, Antoine. On your first question, a comment that we made a little bit last year is that it is not completely mechanical. If you look at the number of stores, what is also important is the type of stores. Last year we have opened very, very meaningful stores, not necessarily in term of size, in terms of square metres but in terms of location. For example, we opened stores on Regent Street in London, Munich and Paseo de Garcia. Barcelona, so three very, very big flagships in the same year, which is kind of exceptional. That is where you have a much higher contribution. The number of stores would reflect a higher contribution in terms of sales impact. Then you also have the impact of ecommerce. That is why the contribution of expansion continues to be roughly about two-thirds.

Daniel Lalonde: Antoine, I will add a couple of points as well. We have had some, obviously, impact of the stores that we have opened in Q4, some very meaningful stores and some great stores as well. We have seen an impact in Q1 of those great openings in Q4.

To address your question on Q1 net store opening, we have overall +2 in Q1. However, we have a very, very strong pipe in Q2, Q3, Q4 this year which will take us at least, at a minimum, to the guidance on DOS that I mentioned, if not more. So we are very happy with the pipe that we have this year. It is loaded a little bit more in Q2, Q3, Q4 with good visibility, as I have mentioned, for 2019 as well.

Marie-Line Fort (Societe Generale): Could you give us a percentage of sales online for Q1 and the increase on constant Forex? Also, looking forward, could you comment on the potential calendar effect on Q2 because, if we well remember last year, France has been impacted by the phasing of the sales. How do you see the potential impact on Q2? Thanks.

Daniel Lalonde: Okay Marie, I will take the first question and I will give the second to Philippe. What can I say about Q1? We will give more colour, I would say, on overall online penetration at the end of H1. However, what I can tell you for Q1 is that we have had strong growth on the online channel in Q1. Our penetration, as you will recall at the end of last year, overall digital penetration on sales was just over 12%. What I can say is that penetration has increased in Q1 because of the very, very strong growth. We will take the longer-view in Q2. We have had strong growth in the online channel in all markets and also, I would say, with a very strong growth in China in particular, as well, in Q1.

Philippe, did you want to mention some points about Forex?

Philippe Gautier: I think you had on the calendar effect for Q2, correct? In 2017 in France we had the shift in the summer sales period, which was later, which impacted H1 and Q2. Basically, if you look this year, the summer sales calendar is going to be pretty similar to last year. We will have a reverse effect, if you will; we are going to stay similar to last year.

Marie-Line Fort: Okay, thank you. Can I add one question? At the end of the year, during the release of annual figures, you mentioned a ForEx effect of roughly 200 basis points and probably 300 basis points for Q1. It is more than 200 basis points; do you expect a bigger Forex impact for the full year?

Philippe Gautier: It is higher in Q1, but that was what we expected. Q2 should be around 3%. So, marginally, for the full year we could be slightly more than 2%, maybe 2.5%.

Marie-Line Fort: For the full year?

Philippe Gautier: Yes.

Marie-Line Fort: Okay, thank you.

Chiara Battistini (JP Morgan): The first one is on your full year guidance, which, given the very strong start of the year, basically implies a slowdown for the rest of the year. This is despite the fact that you have just mentioned the pipeline for stores is more skewed towards the rest of the year. Why should we expect the slowdown? What are the reasons for this, please?

You talked about the successful in-store activation in the US and you have mentioned some activities around the Maje anniversary. Did any of these activation activities also include promotional activity and could you comment on your promotional activity in Q1, year on year, for the overall group, please?

Daniel Lalonde: Thank you Chiara; maybe I will take the two questions. On full year guidance, we have had a quarter of results. As Philippe and I mentioned, we are very happy with the Q1 results, 15.8% growth constant currency. It is early on in the year, we feel good about the year and as I mentioned, a big part of our new stores are coming up. Already we have had ten new stores in April. I think it is just early on and at H1 we will talk, obviously, about the guidance once again.

In terms of the US activation, for Maje in particular we have had some very interesting activations, as I mentioned, around the world. At Printemps we had a capsule collection exclusive for Printemps. That will be diffused after in other markets. We had some Chinese New Year activations throughout the world, not only in China, obviously but in Europe and the US, with red envelopes and some special events with local celebrities and key opinion leaders. Also, for example, in the US a very successful activation with Sandro Homme was the products we made with Bob Marley inspiration. We had some events, we had the great-granddaughter of Bob Marley activating some events in some stores, etc. We have had many events throughout the world building on unique capsule collections. They are product related, which means we generate not only brand image but sales at these events as well throughout all markets.

The second part of your question was around promotional activity. Essentially, promotional activity, if you are talking about discount rates or things like this, was very similar in Q1 to the past Q1. There was nothing different, so the calendar was similar. Again, I think our overall discount rate remains very consistent year on year, Q1 this year for Q1 last year. We are very consistent on that, as we have mentioned several times.

Chiara Battistini: Perfect, thank you very much. May I ask a follow-up question on the calendar impact in Q2? How should we actually be thinking about the earlier timing of Easter in Europe, which I guess had a negative impact in Q1? Should we actually expect a positive impact now from that in Q2, please?

Philippe Gautier: Yes, Chiara. We do not see any significant impact in terms of timing between Q1 and Q2. As I mentioned, Q2 will have no calendar effect versus Q2 last year.

Chiara Battistini: Okay, that is perfect. Thank you very much.

Karine Elias (Barclays): Thanks for taking my question. It is just a follow-up on the promotional environment. It is a broader question, I guess. You mentioned the French market being negatively impacted in the first quarter by the unseasonal weather. Have you noticed, aside from your activity which seems to have been in line with last year, any more aggressive discounting from competitors? You have gained market share, so I am just trying to understand a little bit the dynamics of the French market. Thank you.

Daniel Lalonde: Specifically to France, you are right. I think we have seen a little bit more market-based promotional activity overall. We have seen some brands go a little bit deeper in the promotional cadence, a little bit longer days. We have been consistent for the last year or so. We try to be the less in our peer group and inaccessible. Our goal is always to be the less promotional; we care about our gross margin. It is a very strong gross margin, industry-leading gross margin, so we are very careful with it. We have been very consistent with the same quarter last year. However, I think it is fair to say we have seen a little bit more promotional activity overall in the market in France, I would say, yes.

Karine Elias: Understood, thank you.

Mariana Horn (Berenberg): Hello, just one question from me, please. Can you please break down, or give some more colour, on the like-for-like performance by region, and specifically in France? Also, could you maybe break down the like-for-like performance by channel, so full price versus outlet and how that compares, maybe, to last year? Thank you.

Philippe Gautier: Hi Mariana. Yeah, what we usually do is talk about the like-for-like on a half-year basis. So what we have mentioned is that we have positive like-for-like obviously. Then the like-for-like was particularly strong, as you can guess, internationally and very strong in Asia and in the Americas, to give you some quantitative information. What we have said in the past is that in general we have Digital contributing to about half of our total like-for-like. That is a rule of thumb which has been valid in the past and directionally it is still valid today.

Daniel Lalonde: Maybe, Philippe, just to build on one small part on France, all I would say is overall our strategy in France is what? As has been described a couple of times, here we are into gaining market share. That is really the focus of our market share. We are doing that through implementing all the organic growth drivers. We are looking to optimise our store network in France; this is our strategy. We have a very granular three-year plan to make that happen and we expect the store count in France to decline slightly over time. By slightly, we are talking five or eight stores. That is just by optimising the network, taking two small stores, maybe and converting them to one larger store with a better image and able to provide better services. We are into optimisation in France. I mention that because if you are asking around like-for-like, we will not be increasing our store count in France so most of our activity is already today in like-for-like.

Mariana Horn: Thank you.

Daniel Lalonde: On behalf of Philippe and the team at SMCP, thank you for tuning on this morning. We are obviously available if you have any more questions. I guess I would just summarise Q1 by saying so far, so good. We are very happy with the results of Q1; they are very much in line with our guidance. We feel confident about our guidance for the rest of the year and the ability to continue to execute along our plans and our strategy.

Thanks for being here this morning. I look forward to talking to you soon, or seeing you soon.

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