

# SMCP

sandro maje claudie pierlot

## **Third Quarter 2018 Sales**

Tuesday, 30<sup>th</sup> October 2018

## Overview

Daniel Lalonde

*CEO, SMCP Group*

### **Q3 2018: continued strong momentum**

Good morning, everyone. Thanks for joining us this morning. I am very happy to present our Q3 sales and invite you to move to page 4. I am pleased to announce our sales results for Q3. As you have seen in the press release, Q3 is another solid quarter showing continued strong momentum and a good resilience of our business model. This is especially true in Europe, where the market has been impacted by unseasonable weather conditions. So we have registered a growth of 14% at constant currency, reflecting continued progress on our road map both organically and through store expansion. On the organic side, our performance is in line with our expectations. We have continued to leverage our core business, Ready-to-Wear, through our fall/winter '18 collections, and also through retail excellence programmes such as the launch of our eLearning platform that I will comment on in a few minutes.

In the meantime we have continued the development of our three strategic levers, including menswear, which generated another strong quarter; digital, which continued to increase its penetration; and accessories. Taking the example of Maje for leather goods, this quarter we have continued to capitalise on the M range as an iconic and must-have line through complementary shapes and prices. The M family for Maje has continued to grow with the iconic M bag at its centre, with its highly distinctive coats joining by the M mini, and this winter by the M duo and the M tote.

Regarding shoes, we have continued to offer a creative collection by capitalising on new signature shapes as the new Maje sneaker, W20, or the Sandro's Astra.

Regarding store expansion, we are fully on track with our road map. We had 88 DOS openings over the past 12 months with 20 new openings in Q3 and 58 DOS since the beginning of the year. This pace will be sustained throughout the end of the year and Q4.

Another point I would like to stress is the strong contribution of international markets. International sales have once again been a driver this quarter, with 23.6% of growth at constant currency. It has been a broad growth, well balanced among APAC, Americas, and Europe. As a result, we have deleveraged our exposure to the French market by 500 bps compared to LY, from 41% in Q3 2017 to 36% in Q3 2018, while continuing to gain market share in our home market, France.

### **Key store openings across the world in Q3**

On page 5, I would like to start by spending a few minutes on our key openings in Q3 2018. I will start with a wonderful event, the opening of our Maje flagship store in New York City at Rockefeller Centre. We opened our first Maje store in New York seven years ago and this opening in such a prestigious location is a judge achievement for the brand. With this location, Maje opened its first free-standing store in midtown Manhattan. In addition to being an iconic place, it is also a strong commercial opportunity for us. Rockefeller Centre drives 400,000 foot traffic every day and it increases up to 700,000 during the holidays. We have set up a full communication plan to leverage the opening, enhance brand awareness, as well

as increase traffic in store, all of which remain in the spirit of the celebration of Maje's 20<sup>th</sup> anniversary this year.

For example the Rockefeller train station was covered by more than 100 posters along with taxi tops, and wild posting in 25 locations across Manhattan. The impact was immediate: right after the Rockefeller Centre subway takeover by Maje, in-store traffic increased 80%. The opening event took place on 9<sup>th</sup> October. Judith Milgrom and various celebrities and influencers were all present. The objective for this event was to secure notable press, including Vogue magazine, our partner, and social media coverage for the event via celebrity co-host, Chloe Grace Moretz. The result was impressive, with a total of 40 million editorial views and 20 million social impressions.

### **+32 POS (o/w +20 DOS)**

Moving into page 6 we can take a quick look at our main openings this quarter throughout the world. With 32 POS openings, of which 20 DOS in Q3, we are fully on track to achieve our objective for 2018, which is between 80 to 90 DOS.

A large part of these Q3 openings took place in APAC and Europe, and a smaller part in North America, in line with our road map. So regarding APAC, after entering three new cities, Chongqing, Chongzhou and Guangzhou in Greater China in Q2, we added Urumqi, a tier 2 city, bringing the total to 25 cities in Greater China. With more than three million people, Urumqi is the largest city in North West China, and has seen a huge economic development since the 1990s. And luxury brands have recently begun to appear there in order to catch growing local middle class population. We are happy to take our first foothold in this city with the opening of two stores: Sandro and Maje, in a key location at the MM2 Mall, phase 2.

In parallel, we have also continued to densify our network in key cities, with the opening of three new stores in Beijing. Claudie Pierlot located in the Joy City Chaoyang Mall; this is the first time that Claudie Pierlot has a location on ground floor. And Maje and Sandro at the APM Mall. This is a strategic place as these two stores have external facades facing the famous Wangfujing shopping street. This brings the total number of stores to 24 in Beijing, of which 11 Sandro, 9 Maje, and 4 Claudie Pierlot. Another important opening was Sandro Women in Raffles City Mall in Singapore. This is an important mall in the city centre and we took the best location on the ground floor.

In Europe we have opened 11 new stores in various places including Switzerland and Italy. In the latter we opened a Maje store in the city of Romeo and Juliet, in Verona, on the prestigious Via Giuseppe Mazzini. This is the only street where we have to be present and availabilities are limited so it is great that we landed this spot. We also increased the number of corners with our key partners, such as Debijenkorf in the Netherlands, and El Corte Inglés in Madrid.

And finally the Americas. As I previously mentioned, we had the opening of the Rockefeller Centre store and two other new stores for Sandro and Maje in the heart of downtown Vancouver at the Pacific Center, Vancouver's premiere shopping destination. The mall benefits from high premium traffic, and records the higher productivity per square foot in Canada, driven by a large international and Asian clientele.

**Meaningful white space potential: expand footprint in key international markets**

On slide 7, we conclude on store openings. I would like to spend a few minutes on our strategy to put this all in perspective. As you know, we have identified six strategic markets outside France that are getting the majority of our CAPEX. First, if I look at France as the high watermark, we have including all brands and all channels, 482 points of sale in France. It includes our digital stores in every channel. France is a profitable market for us as you know, and over the mid-term we expect the number of net stores to be flat, maybe slightly down, such as in Q3. Hence our strategy in France is to optimise the network and invest in the quality of the network. This we are confident will contribute to the overall growth, keep us gaining market share, and most importantly improve the overall customer experience.

In terms of growth in the future, we are looking at these six strategic markets above: Greater China, North America, Spain, UK, Germany, Italy. These are all markets that are recently new for us, where our footprint is at the early stages of development and where we see plenty of white space. I can take two examples: Greater China, we are at the early stages of our network expansion in China with 153 POS today. There is still a lot of potential to fill the current white space. We have a clear road map for expansion in Greater China over the next three years with our top landlord partners, which include very granular plans on city, mall and location. Our expansion strategy here is twofold: entering new cities such as Urumqi that I mentioned earlier, which I think is a good illustration. And at the same time, densifying our store network in cities where we are present such as Beijing. And here we think we can easily triple our network, and that is the plan going forward. The desirability of our three brands is huge in China and we are capitalising on that.

The second market I can take as an example is Italy. We have 34 stores in Italy, a great market, and our economics in Italy are favourable with a high level of productivity. There again, we see a lot of room for development, but we are not aiming for 482 physical stores in Italy as we have in France, as we will also leverage our digital strategy. We basically will penetrate the smaller cities in Italy through our digital strategy.

**Continued investment in Digital**

Moving onto slide 8, a few comments on part of our digital strategy that has been a big investment of ours over the past four years, and where we have been experiencing very strong growth. We have multiplied by almost five times our ecommerce penetration in four years from roughly 3% of total business to 14.3% to the end of June. And this has continued to increase over the third quarter. Obviously we have a strong ambition targeting 20% digital share in the midterm.

For Q3, I would like to give you a quick update highlighting three achievements. First, we are now present for the first time on ecommerce in Canada through HBC.com for Sandro and Maje. A special market, as I am Canadian. Canada is also one of those few countries where we did not yet have digital presence, and we also plan to open our own websites shortly. Second, we have integrated WeChat as our CRM platform in China. Now thanks to QR code, each customer is able to register in our database through WeChat in all our stores in China.

And last, we launched our new digital learning platform that will be accessible to all employees throughout the world soon. We will provide access to training all around the world in every POS, nine languages are available. The objective of eLearning is to give all our

employees access to strategic core modules such as strategy and values; brand culture; brand DNA; collections; and the selling ceremony. We expect that strong impact on our business as we aim to enhance the customer experience and ultimately increase our conversion rate through eLearning.

### **Innovative brand collaborations**

Let's move to the next chart on page 9, which highlights a few innovative brand collaborations. First, Sandro collaborated with Kermit, the frog of the Muppets, which resulted in a capsule collection for both women and juniors. And in parallel Claudie Pierlot collaborated with the rising French singer, Juliette Armanet, through a capsule collection called 'Turn up the volume', based on the house's iconic pieces. Through these collaborations our ambition is to generate brand buzz, enhance brand awareness and to drive traffic. Our marketing approach is global and includes local adaptations to each market.

#### *Sandro x The Muppet Show*

On page 10 you will find the highlight of a few of the elements linked to the Muppets capsule for Sandro. On the top of this slide you can see the selection of pictures from the shooting of the campaign. The collection based on 25 products combines humour and the chaotic. Obviously inspired by the spirit of The Muppet Show, with the aesthetic sense of Sandro to create a unique Muppet Show-inspired wardrobe. For the first time in our history this capsule also included kids. Launched on September 25<sup>th</sup> we activated all communication supports across the world, including events such as the launch party we organised in Shanghai on 16<sup>th</sup> October, with the presence of Evelyne Chetrite and some celebrities, such as our brand ambassador for this capsule, Sandra Ma, who has by the way 12 million followers on Weibo. And she is a Chinese movie actress.

The media coverage has been widespread. We recorded a total reach of 42 million impressions. In addition we benefited from social media with many posts from influencers that we selected for Europe, North America and Asia. And also from retail entertainment with pop up stores, for example there was a large pop up stores in Los Angeles, at the South Coast Plaza Mall. And we also did a sort of popup-isation of certain flagship stores, one of which was Fashionwalk in Hong Kong.

#### *Claudie Pierlot x Juliette Armanet*

On page 11, Claudie Pierlot's new capsule 'Turn up the volume' launched at the end September. The brand decided to communicate around the launch of the Claudie Pierlot book, which takes the reader on a journey with the house's founder. It recounts the story of Claudie Pierlot, who during the 1980s contributed to the evolution of the Parisian wardrobe. To celebrate its publication, the 'Turn up the volume' capsule collection was designed based on the house's iconic pieces. The objective of this capsule was to express Claudie Pierlot's DNA in a modern way, ensure brand visibility, develop awareness, and most importantly to accompany the international development of the brand by partnering with local top-tier influencers such as Faye Tsui in China.

So now, I will turn over to Philippe who will take you through the Q3 financial performance in greater detail.

## Financial Performance

Philippe Gautier

*CFO & Operations Director, SMCP Group*

Thank you, Daniel, and good morning everyone. I invite you to move to page 13.

### **Q3 2018: continued strong momentum**

So as Daniel mentioned, we continue to see a strong momentum in Q3. Our performance reached 14% of sales growth at constant currency. This represents 13.8% of growth on a reported basis, with an almost-neutral currency impact. This is an improvement versus H1 where we saw a negative impact of three points.

So our performance is strong given unfavourable weather conditions and a high basis of comp. If you remember, Q3 of last year was boosted by an earlier consumption pattern with a very strong September. So we are posting a 14% sales growth on the top of a very strong performance last year of 20% at currency constant.

Consistently with past quarters, the international growth was robust at 23.6% constant currency, with strong performances across all regions. We have also continued to see a dynamic ecommerce and omnichannel business which is boosting our growth, on the top of solid brick-and-mortar performance.

Regarding the expansion of our network, with 88 net DOS openings over the last 12 months and 56 since the beginning of the year, permanently in line with our road map. We continue to focus primarily on China, Europe outside of France and to some extent on North America. I will now go through our Q3 sales in more detail.

### **Q3 2018: all brands growing at double digits**

So moving to the regional dynamics on page 14, in Europe and including France we achieved a robust performance despite high basis of comps and unfavourable weather conditions. France showed a strong resilience with a stable growth at -0.1% in an exceptionally poor market. Accounting to the IFM index, the French market has declined by -6.5% in Q3, with -16% in September. This means that we continue to gain market share. In the meantime, we have pursued the optimisation of our networks, with targeted closing and qualitative investment in our network.

This relates, for example, to refurbishment of several key stores, such as Sandro Pierre Charron, or Maje Saint Honoré and Saint Antoine stores in Paris.

#### *EMEA*

In EMEA, posted once again a good performance at 13.5% at constant currency, before the impact that I just mentioned. All our strategic markets are growing double digits with the highest gross achieved in Germany and Italy. We have continued to invest in our network with 32 DOS over the last 12 months with a focus on Italy, Spain, and Switzerland. We also benefit from our ecommerce growth both in the highly penetrated markets or in the UK or Germany, where we are well over 25% penetration, or in the countries where penetration is lower – Italy, Spain, Switzerland – which are starting to catch up.

*Americas*

Americas posted outstanding growth supported by low basis of cost this quarter, but more importantly, by the very solid underlying trends. The US market is now reaping the benefits of all the work that has been done over the last couple of years. In terms of marketing activation, retail execution as well as ecommerce, we have exceeded the 25,000 penetration threshold in ecommerce in the US and we are launching ecom in Canada. Over the last 12 months, 12 DOS opened with key locations both in the US and in Canada. Daniel mentioned the Rockefeller Centre. These stores will be quickly followed by Sandro and Maje upcoming openings in Austin, the Domain; Houston, the Galleria; and Las Vegas, Caesar Palace.

*APAC*

Finally, APAC posted a strong growth this quarter, in line with our expectation, still benefiting from a strong momentum, with both like-for-like and expansion contributing to growth. All the initiatives and in-store activations contributed to further increase the awareness and the desirability of all three brands. We continued our expansion with 36 DOS over the last 12 months, including 12 DOS in Q3 in qualitative locations.

**Q3 2018: all brands growing at double digits**

Moving to our performance by brand on page 15. All our brands posted double-digit growth. Our directly operated stores count was up 88 over the last 12 months, with relatively higher DOS growth for Claudie, then Maje, and a little bit less for Sandro. Sandro posted solid performance at 10% growth at constant currency, considering the very high base of counts: last year, Sandro had posted 28.4% of growth at constant currency.

The performance was balanced for both genders, with Sandro men growing a bit more than Sandro woman. Sandro has benefited from a very good ecommerce performance and a high contribution of international markets. Over the last 12 months, Sandro opened 33 DOS, mostly located in Europe and APAC. In Q3, we had several key openings in places such as Pacific Centre in Vancouver, Venetian in Macao, and APM Mall in Beijing.

*Maje*

Maje showed a strong growth at 20.6% at constant currency, with 34 net openings over the last 12 months, mostly in APAC and EMEA. In Q3, Maje showed a good performance of its collection and benefited from the activation around its 20<sup>th</sup> anniversary. The brand benefited from a solid transitional offer in the following triple action, adapted to this warmer weather. Over the quarter, we opened stores in key locations such as the Rockefeller Centre in New York, Verona, and the APM Mall in Beijing.

*Claudie Pierlot*

Lastly, Claudie Pierlot. Claudie Pierlot posted a solid performance at 10.1% sales growth at constant currency, considering lower exposure to international market. For Claudie Pierlot it's a bit over one third of its sales done internationally compared to two thirds for Sandro and Maje. The brand has also continued to progress in digital and accessories. Pursuing its expansion internationally, the brand opened 22 directly operated stores over the last 12 months in Europe, mostly, and APAC. In Q3, Claudie Pierlot has accelerated its expansion in China with the inauguration of key stores in Beijing, Guangzhou, and Nanjing.

## Outlook

Daniel Lalonde

*CEO, SMCP Group*

### Preamble

Thank you, Philippe. Listen, to wrap up on page 17, and before we pass the floor to Q&A, just a few last concluding remarks. The continued growth as you saw, continued strong growth in Q3 reflects our capacity to deliver good performance in a fast-changing world. This in the context of adverse weather conditions in September in Europe, which has continued through October.

### 2018 guidance confirmed

So this leaves us to confirm our guidance for 2018 of at least 13% of sales growth at constant currency and around 17% of adjusted EBITDA margin. We remain focused and committed to continue to ensure sustainable value creation. So thanks for your attention this morning; we are now happy to take your questions.

## Q&A

**Mariana Horn (Berenberg):** I have two questions, please. The first one is on the performance in APAC during Q3. If you could comment on the performance, maybe you could provide some colour on the performance between like-for-like and space in the region. You said that both were good contributors to growth, but if you could give a bit more colour on that.

And also in terms of the performance of the three brands in China, if you could provide some qualitative comments on what you have been seeing over recent weeks, if that is possible.

And then a second question is on France. Given the good performance, at least outperformance versus the market, and the market share gains, I was wondering if you could comment on the level of discounting that you have seen year on year or quarter on quarter in the region? Thank you.

**Daniel Lalonde:** Thank you, Mariana. I will say a few words about your first question in a second and see if Philippe has anything more specific.

So the performance in APAC in Q3, the first thing I would say is for me it is a very strong result and it is basically in line with our performance in Q3 last year as well. In H1 we had some very strong results. There are some exceptional growth levers such as the Maje brand day that we had for the first time on Tmall and a very high activation on Chinese New Year. So listen, we are very, very happy with the strong results in Greater China, let us say in APAC, in Q3.

You asked about the brands in China a little bit. I can give you some qualitative comments. We still see some very strong appeal, strong desirability of our brands in this region. What is new for us this year is, we have begun to roll out Sandro Men's in Greater China. As we began our expansion plan several years ago in these markets, North America, Asia, we started with Maje and Sandro Women. Now we are layering in in these regions Sandro Men and also, for



the first time we have begun to launch Claudie Pierlot collectively in Greater China. So this is what is new I would say this year, and what we will continue to amplify next year.

In terms of France, you asked specifically about the discounting policy. I think it has been relatively stable over the past year. Our aim always is to be as less discounted as possible, so we are not the first movers. Where we can, we remove days and percentage of discounts. We did that last year in the US for example, in North America, in Q3 last year, where we took out several days of promotion in North America. That was very helpful actually, and that is really our aim going forward.

You asked about Asia, Greater China, the percentage split like for like versus space. Maybe Philippe, you can take that?

**Philippe Gautier:** What we think in general for the Group, rule of thumb would be to say two thirds is door extension and one third is like for like. So if you look in general in China, we tend to have high like-for-like, and we tend to have high door growth as well. So result is not very different from what we see in the overall Group. Now, if we talk more about the quarter then I would say something which is slightly different this quarter: Q3 traditionally there is a little bit less ecommerce activation compared to other quarters. You have usually a big ecommerce quarter in Q1 with Chinese New Year and then you had if you remember brand day in Q2.

So Q3 although there is less ecommerce activation, and then some other stuff going on in Q4.

**Mariana Horn:** Okay. Thank you so much. That was very helpful.

**Daniel Lalonde:** Okay. You are welcome.

**Anne-Laure Bismuth (HSBC):** I have three questions on my side. Just to come back on your APAC performance in Q3, I am just wondering what we think about the performance in this region for Q4. My second question is about, you posted a solid performance in France despite warmer weather condition, and I am just wondering if you can comment about the trading in October.

My third question is about the penetration of digital. Is it possible to have an update about the share of digital in Q3 versus H1, please. Thank you very much.

**Daniel Lalonde:** What I would say in general, we do not provide guidance on quarter, so I would not comment particularly on performance on the coming quarter. What I would say, if you look at Q4 in particular, important thing is that around 75% of our sales are in November and December. So we are still very early in the quarter. Then I think if you talk a bit by region, what I would say is, I know I said differences you could see for Q4, you had more ecommerce activation like at the level in Q4 as we had last year.

For France, I think it is a little bit the same thing. We commented on the weather patterns. We see that was factor in Q3 in September it is also a factor in Q4. If we talk penetration of digital, we do not necessarily comment on a quarterly basis but I would say everything we said before remains valid. Digital continues to be a strong factor. We have said about half of our like for like comes from digital contribution, and we have seen progress pretty much across the board both in the markets we are highly penetrated, so like UK, US, Germany or the Netherlands, and the markets which are a little bit lagging behind from the structural

point of view like sales in North Europe. So basically, same kind of trend that you saw before that we commented in H1 we will see in Q3.

**Marion Boucheron (Raymond James):** Good morning, everyone, just two questions from me; one on brand performance and the discrepancies between Maje and the other brands. Do you believe it is only due to comps, or are there other factors that could have affected the performance of the three brands?

Then just looking also digging into the sector sales growth versus base growth performance, would it be fair to say that in the Americas growth was much more driven in Q3 by same-store sales growth for maybe ecommerce versus space, and that it would have been the reverse in EMEA?

**Daniel Lalonde:** I will take the first question and maybe give a little context on our North American growth strategy, because I think it is a little bit related, and I will let Philippe complete the details.

Listen, you asked, the first question was about relative brand performance. I think you answered the question in your question, and that is what I would say as well: Q3, if you look at LY, which I am sure you did, you had Sandro up at constant currency at over 28% and Claudie at 30%, and Maje was about 8%. I think you are just seeing if you add both years, both quarters together, you have something that is much more even. That is likely to happen; I think there are some periods where some brands are a little bit stronger for various reasons, either because of the pace of store counts or some aspects of a collection. So I think that explains really the relative difference between the performances of each brand. We are very happy with the Q3, obviously. What makes me the most happy is that each brand still stays in double digit growth, which has been very, very good for us.

In North America, before Philippe get specific on your question, our strategy, I just wanted to point out, as I mentioned earlier in my remarks, our Asian strategy and Greater China strategy is based on many things: like-for-like growth of course, and adding to the brick-and-mortar network, and increasing our digital presence there. But the brick-and-mortar plays an important role with digital.

In North America, we are mainly digitally led, so our big investments go on our digital platform. As Philippe mentioned in his comments, our digital penetration is above 25% in this market so that is almost best in class, even when you compare it to North American brands.

We are very selective on brick and mortar; you know, we have implemented some very successful stores in Vancouver. We are about to do Las Vegas. We are entering really Texas for the first time with free standing stores. We are very excited about those steps. We are very, very selective. We also have great partnerships with Bloomingdales, Sacks and Nordstrom, where we have a concession model. So we bring all our retail pure player model to bear in this market. Also, we have set on a plan where on the digital side once again, we have platforms with the three department stores on their digital stores, as well.

So that is the overall context for North America. I do not know, Philippe, if you wanted to comment on the like for like versus space growth in this market?

**Philippe Gautier:** A couple of comments. If we compare America and EMEA, in the performance for America you need to consider as well that we had a fairly low base of count

last year Q3; we were up 9%. You had some closure in Florida due to the hurricane last year. So this is a little bit of an impact. Now, you are right, the underlying trend is extremely solid, so ecommerce, as Daniel mentioned, very big factor. But also the stores. So if you look at market conditions which are relatively tough, where traffic is relatively tough, in the US, we saw in our brick-and-mortar stores as well a combination of higher traffic, led by marketing activation, and also higher conversion. So very happy with the performance in America. The like-for-like is high.

If you compare to EMEA, you have a bit more the weather impact that we commented on, so that is the main difference. We continue to be very positive on like-for-like in the EMEA, obviously.

**Marion Boucheron (Raymond James):** Okay. Thank you. If I may, one follow-up: are there any dates you could share with us on succession at the head of Sandro?

**Daniel Lalonde:** Sure. Well, you are talking to the current head of Sandro, as well. Listen, we are making good progress. I can just say that we have some very strong shortlists, and as I mentioned earlier, I think the best way to manage expectations is to say we expect to announce something within Q1 of next year. But very good progress, and I am enjoying very much playing my operational role as well at Sandro. So: Q1. Something in Q1. Just to manage expectations.

[END OF TRANSCRIPT]