SMCP
2018 FY results

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Welcome and Disclaimer

Célia d'Everlange

Head of Investor Relations, SMCP

Célia d'Everlange: Good morning everyone in Paris or connected, thank you for listening to us this morning for the SMCP Full Year Result. First, of all, I would like to thank you Maje and Claudie Pierlot for welcoming us through these beautiful showroom and enw headquarter.

As usual, I would like to invite you to go through the disclaimer and remind you that all definition can be found at the end of the presentation. So now, I will welcome Daniel Lalonde, CEO of SMCP and Philippe Gautier CFO. Daniel, the floor is yours.

Full-Year 2018 Results

Daniel Lalonde

Chief Executive Officer, SMCP

Daniel Lalonde: All right, thank you Célia. Good morning everyone. We are very happy to host you here. This is the Maje Head Office Worldwide. It is a pretty nice place. I would love to work here actually so welcome, and this is the Maje showroom. So in this building we have Maje and we have Claudie Pierlot as well on the top floors. As you know maybe Sandro is in the 8th arrondissement and SMCP head offices is not far off Place des Victoires

So anyways, we are very happy to have you here. And also you know Philippe, I will also like maybe to point out someone from our Comex that is here today. His name is Flavien d'Audiffret. You can stand up Flavien. Flavien is our Global Head of Digital and Innovation. And as I often tell the story he was one of the first person that I recruited when I started five years ago in the role.

So we have Flavien here because if you have any questions on our digital journey and roadmap, I can certainly answer them. But I can give you, Flavien will have more granularity as well. Okay so maybe I will kick this off. You have seen the release this morning. I just have two slides to start and then I will pass it to Philippe to get you into more detail.

And the first thing I wanted to remind everyone again is on our growth journey. We are a growth company. I think you know that. Since 2010, you can see we have had a consistent growth, big growth, qualitative growth. This is the one I underline every time. It is not -- it is been all growth in our core business really strong, strong, strong organic growth, and that is really important to us.

And also as you can see here from 2012, we took that data point, but we have really, really purposely have built our business and our network outside of France for the last five years because we have a very, I would say relatively mature network in France. So we have basically the penetration of our international sales, you see has risen very, very high and it will continue to increase over the next years.

So again we are growth company, qualitative growth and penetrating more in international sales. Here is just a snapshot of the big numbers for last year. As you can see, we ended the year exactly at 1,466 stores. We will talk about it later, but we added 134 stores to our network last year. Sales growth, you have seen already in January 13% at constant currency.

EBITDA margin 16.9% in line with the guidance. Net income of €50.2 million, free cash flow of €50.4 million and our leverage came down from 1.9x to 1.6x at the end of the last year. So those are the big overall numbers. And before I let Philippe take you through some of those numbers in more detail, I just wanted to highlight some of the achievements that we had in 2018.

So the first one is our I would say the continued acceleration of our digital journey in many things, not just e-commerce, but also a lot about services. Omni-channel services, we have really made a big step in implementing our roadmap. Digital sales were around 15%. I think I can say fairly comfortably we are ahead of the curve. Three years ago, I could not say that and certainly not five years ago.

So the idea was to build up, catch up quickly, and then be best-in-class. And I think we are on the path to being best-in-class on our digital journey, overall in retail and fashion.

Globalisation, let us say that is easier. So we grew at over 22% last year and you can see our penetration increased a lot. So it is very, very important for us. We have really earmarked and targeted specific countries, strategic countries where most of our CAPEX investment go and that is worked very well.

As I mentioned earlier we had 134 POS openings. That is more than one store every three days in the world. So that was a very high pace last year, slightly higher than what we have experienced over the past four years. And then I will talk about what we see in terms of store growth for 2019. You will see we will come back to the guidance we have given for the past three years.

In Greater China, an important region to us, a region, which is, basically five years old so it is fairly new. We also increased our presence and penetration to five new cities, which brings us to 26 cities in Greater China today at the end of last year.

We also last year opened up a what I call a very exciting market. I would relatively new markets, Mexico. We had corners with Palacios for many years, but we really developed our footprint in a meaningful way in Mexico last year adding a new partner, our first freestanding stores and with a real interesting roadmap to build our businesses and our brands in that market.

And last, we invested in a lot of infrastructure projects last year, which will continue this year. Some major projects throughout the company on a global basis enable to build the infrastructure for future growth and those examples are PLM, CRM system, the new system and we had a big initiative on launching e-learning which is very, very exciting because we are able to have every person in the company. All our 5,875 people in the company no better at the tip of their fingers, no better that company values, the brand DNA, the collections etc. It is an incredible tool and investment for us so that everyone is on the same page in our company. So those are some of the big achievements that we have accomplished in 2018. And now let me turn it over to Philippe who can take you through the numbers in more detail and I will be back after for the guidance.

Financial Update

Philippe Gautier

Chief Financial Officer, SMCP

Philippe Gautier: Okay thank you Daniel, good morning everyone. So now on the slide eight, you have a summary of the sales for year, we already shared with you. So I would not go too much into details. We had announced already a strong top line performance. Sales growing by 13% at currency constant so that is fully in line with our objective and that 11.5% on a reported basis.

So if you consider that we had upgraded the guidance in the course of the year that we are in a changing market in France certainly. And we also had a unseasonal weather conditions mostly in Europe. I think this is a great achievement. The performance particularly over the last quarter of our Q4 demonstrate how SMCP is built on strong fundamentals and that illustrate the resilience of our business model.

On the organic side, we achieved a like-for-like of 3.7% so a very solid performance. And in the meantime as Daniel mentioned, we opened 134 point of sales of which 102 directly operated stores. So 2018 has been an other milestone in our journey of international expansion.

I would not go into the details of the figure we already announced. What I would like to stress it is the very strong momentum that we saw especially in the Americas 30.4% and APAC of course up 36.0%. As we are building, we continue to build the desirability and the awareness of the brands in those regions. So these should lead us very soon probably in 2019 to have a very balanced footprint where we would have about one-third of the business in France, about one-third in Europe excluding France, and about one-third maybe slightly more in North America and Asia.

Now if I move to page nine to focus on the financial performance. EBITDA generation has been solid up 11.6%. So that result in an adjusted EBITDA margin of 16.9%, which is in line with our guidance. I think that shows the capacity of the group to deliver a profitable growth in a challenging environment as we mentioned, and to respect its commitment.

If I look more on the margin structure and that you had on the right side. If I start with the gross margin, so despite the fact that we had higher discount rate related to primarily the unseasonal weather conditions both in Q1 if you remember as well as in Q4 in Europe. And our yellow vest in France, we have achieved a gross margin of 75.9% so this is within the range that we usually talked about let us say 76% to 77%.

So I think the resilience of our gross margin, it is really a key strengths of our model. And if you have in mind we have today one of the highest gross margin in the industry, not only in accessible luxury even if I take luxury, we are higher than most players. This can be attributed to our global desirability, our pricing power and our retail pure player model.

Second item is store cost. So at 40.2%, the store cost have been very well contained considering the impact of the yellow vest, you had some temporary store closure in Q4 therefore, lower absorption of fixed cost. We also had a lot of openings in the back end of 2018 in Europe, which means quite a lot of stores, which were still in the ramp-up phase. Despite all this, we have stable store cost ratio.

So it means that the negative impact have been compensated by the positives, which are primarily the higher contribution of digital, which is profit accretive as well as Asia, our most profitable region. So as a result, you have a retail margin, which is 35.7% so this is gross margin minus store cost.

Finally SG&A, so the SG&A rate decreased from 20.3% to 18.9% of sales showing a strict control of our cost basis while we are maintaining in the same time the pace of investment to support future growth and brand desirability. What we do is that we are very selective in choosing the right investment where we will have the highest returns in terms of our infrastructure, talents, new tool as Daniel mentioned.

So I think that demonstrates that we are able to deliver and be reactive. We are capable of tightening the belt in case of need and we can accelerate as soon as we see further opportunities. Let us move now to the net income on page 10. So net income stood at €50.2 million in 2018 compared to €6.3 million in 2017. We are very happy to see for the first year P&L, which almost fully benefits from the structure that we put in place post-IPO as well. We do not see the one-off charges that we had in 2017 related to these IPO therefore, the big change in net result.

So to make the comparison a bit easier, I will comment on the valuation between 2017 net income excluding the IPO one-offs and 2018. So you remember we published this net income of €6.3 million, and that included one-off of €38.6 million in 2017. So this is related to one, the IPO charges. Two, you had penalties on the partial reimbursement of the high yield bond. We were reimbursed €270 million of high yield bond at IPO.

And then you had also a non-cash positive tax FX related to the reduction of tax rate in France, future reduction of tax rate in France. So if you still follow me excluding in these elements so the net income would have been last year at €44.9 million as we explained already last year. So if I look on a comparable basis and that is page 11. Net income has increased by 11.8% going from €44.9 million you see on the left to €50.2 million you see on the right.

If I go item-by-item, first thing of course is the economic performance of SMCP. So we had an EBIT gain of €16.7 million so that is an increase of 14%. Coming from SMCP's growth profile with fairly stable D&A charges. Second, you have the LTIP Long-Term Incentive programme charges, which are up €11.5 million.

As you remember so we set up this bonus share allocation plan in Q4 2017 following the IPO. And in 2018 we have the first full year impact, 12-month effect of this plan. Then you have non-recurring expenses so non-recurring was up €7.7 million, so slightly higher than expected. What we did this year we recorded some accruals on three US loss-making stores opened before 2014. So this is clearly one-off. These are among the only stores globally, which are loss making so that is where we are above market rents on the stores.

Financial charges, we showed a strong reduction of €10 million. So going from €29.5 million to €19.4 million of financial charges so that is the result of the continued deleveraging of the group. And last tax charges, so it increased by €2.2 million on a comparable basis. So that implies a corporate income tax of 41.1% so that is excluding the French trade tax CVAE, which is also on this line.

The level of the income tax rate is slightly higher than expected. Two things, first, we had a slightly lower international tax basis for example in the US related to the one-off charges I just commented. Second, you had impact of revaluation of certain deferred tax asset and that is a one-off.

So if you look on a comparable basis, our tax rate has gone down a little bit. We were around 42% in 2017. We are at 41% this year. We expect it to continue to decrease a little bit to be around 38% in 2019. So on the mid-term, we expect to see a continued optimisation of our net result. On the top of EBITDA gains, coming from a lower cost of debt and further reduction in tax rate in France starting from 2020.

What about cash? So let us look at page 14. So we have generated a free cash flow before IPO related cost at €50.4 million so that compares to €47.6 million in 2017. The main driver here is our adjusted EBITDA at €171.5 million. These free cash flow is also a result of our operational working capital that you see on the right.

Here we are a bit on the high side. The ratio stood at 16.8% versus 15.3% of sales in 2017, which was more of a normal situation. So while account receivable and payables are really very stable, the main driver is inventory level. Nothing new and that is something we already commented in H1, end of H1 2018.

So what is important to stress, this is mainly due to higher purchases related to our international business outside of Europe. And then there is a very minimal impact of yellow vest of Q4. But the main thing that really the fact that we have slightly higher lead-time on in our international business. So the inventory level is not satisfactory to us. And we have been working already on new processes in terms of demand planning, stock allocation notably in APAC and Americas.

So we expect this effects to gradually fade away between 2019 and 2020. Something important to stress, overall, our inventories are very, very sound. The old collection that we track are less than 10% of our overall stock and that is a very strong metric. Finally, so free cash flow reflected also our sustained CAPEX policy with CAPEX at €56.3 million. That represent 5.5% slightly higher than last year. Here we have a balanced split between network expansion, refurbishment and relocation as well as the many digital and infrastructure project that Daniel will develop in a moment.

Moving to slide 13, you can see our leverage ratio has been reduced. We have gone down from 1.9 times to 1.6 times this year. So we now have a very sound financial structure reaching just a couple of years driven largely by our overall operational performance as well as by the impact of the IPO.

Just to mention in 2018, we took the opportunity to reimburse a part of our high yield bond. We repaid 10% was €20 million in the month of May last year. And overall, the group has benefited from a significant reduction in interest charges. The cost of debt went down from 5.7% in 2017, which was impacted by the high yield bond to 4.7% in 2018.

At the end of 2018, the gross debt was composed of €180 million of high yield bond and €140 million of grown RCF, leaving us a significant headroom with the net headroom of about €110 million. You certainly have in mind that we have an option where we can reimburse the balance of the high yield bond.

So this is in about 2020 and we have this objective. We want to refinance it to continue to reduce substantially our cost of debt because the high yield bond is quite expensive today. It is 5.87%. So that is an opportunity for us to reduce further our cost of debt.

And just to finish, one word about the IFRS 16 before I say good night to Daniel. So as you know IFRS 16 comes into effect as of January 1st 2019. So it will first impact our financial statement as of June 30th H1, 2019. So there was a lot of work already done by the team on the topic. So as of December 2018, what we would expect is positive impact on the EBITDA of around €100 million.

So if you have in mind that represented a fixed portion of older leases that we have in the company, which is primarily freestanding stores. It could be this building as well so only the fixed portion. So we will add back €100 million in our EBITDA. The impact on our debt will be between €390 million and €440 million corresponding to about four years of rents.

So in total that would add increase the leverage by around one times. We have chosen a prospective method, which means we are not going to restate the past. And what we will do to ensure the comparability and continuity on the long run, we will define a little later on if there is any change needed in our performance indicator. In any case, we will keep you for comparison purpose to reference to the EBITDA with the same calculation of today. Thank you.

Future, present goals & priorities

Daniel Lalonde

Chief Executive Officer, SMCP

Daniel Lalonde: All right, thanks Philippe. Let me turn it over now to now – now, today, tomorrow, this year next year, what is happening and what our priorities are really for 2019. Yeah, so here we go. So here is like I wanted to talk a little bit first about the context.

So it is still – the macroeconomic environment is still relatively volatile out there. That is the backdrop in which we operate. In particular, I do not think I need to describe what is happening in France. I think you had see it on TV or live unfortunately on the Saturdays. There is some Brexit uncertainties, which need to be clarified quite soon.

So we are operating in a relatively uncertain environment, which is, I think quite similar to that of Q4 2018 last year. That is the backdrop. Within that environment, we are continuing to pursue what we think is a very proven and winning strategy. Nothing has changed. Our strategy has not changed, will not change.

And as you know it is based on two levers, doing everything we can and making all the right investments to develop our organic growth, like-for-like growth if you like. So always focusing on the core business, ready-to-wear retail excellence, women's and then accelerating three things: digital, accessories and men's where we think we have a huge opportunity. Those are all the growth levers to build like-for-like.

And we continue I think I will say this for at least five years maybe more. Continued to have huge white space opportunities everywhere unless we have just limited to our strategic markets. We have not talked about Southeast Asia yet. We have not talked about Latin

America, Japan, maybe at last, so there are still a lot of countries and markets, which we have not even mentioned in the white space yet. So there is even more white space beyond this white space.

Here again just FYI, we always, we benchmark against our distribution in France, 482 stores in France, and you see Greater China 173, Italy not even 40 stores yet. Again, we are not going to put 482 stores in Italy, do not get worried. Digital will help us and it is had an impact on what we think is the right brick and mortar footprint in new markets or in markets where we do not have many stores.

But again, I just wanted to stress that we have big still big, big, big white space opportunity. So 2019, the way to look at it is, we will keep building on our strategy, investing behind those two big strategic levers. And we have decided, and I myself, and our executive team have decided to put an additional investment on three areas for 2019, something that for us is incremental.

We want to accelerate because we are convinced and I am convinced the right time to do it and it will build our business stronger in the future, and they are all towards brand desirability. So the first one and I will give a little detail about these. We have some very specific plans to drive and build retail excellence. I will outline that.

Number two area is to continue to pursue our digital journey, but even accelerate it. And the third is to invest around our infrastructure fuel, our platform in particular in Asia and in Greater China. So these are the three areas where we have taken a conscious decision in 2019 to overinvest because we are convinced it is the right time to do it.

So the first one driving retail excellence, what does this overinvest mean? Well essentially three big ideas. The first is having even more memorable stores, the store experience. We want to make it even more memorable than today. Here I will show you a few pictures. We have really worked hard to evolve the store concept to make it even more codified to the DNA, the brands, and to create a more memorable and I think warm environment.

We continue to implement our French roadmap. Our French roadmap is really again about optimising our network. It means that our net number of stores will slightly go down every year and we are doing a lot of things like closing two smaller legacy Sandro stores, maybe one women, one men, and moving them to a better location, a dual gender store at current concept.

So that is really exciting stuff because it helps a lot on the brand desirability that makes us operate more efficiently, and we bring our store network to current concept. There is a lot of examples like that in France not only two for ones, but where we are embellishing our store network so that work continues. I think we have got probably another 18 months left to get to the end of the plan, but that also gives a much more, I would say a much more memorable store experience.

And the last thing that we have done and we are planning to do this year is putting flagship stores in the key cities. But for us a flagship store is 200 square metres. It is not a huge concern. But we have done that even at the end of last year and there are some great plans to do it this year. Second idea behind the retail experience where we are going to overinvest is what we called Unified Commerce.

And I am convinced and I think, I hope you are that today we cannot really separate brick and mortar and digital. We believe that in the past. It is like circles the Venn diagrams, remember that? There was a smaller intersection several years ago. Now they are the same circle. It is complete convergence. It is one channel. When you ask, if you can ask okay, your like-for-like, what is your brick and mortar like-for-like, your digital like-for-like? No, it is one like-for-like going forward. It just is one, it is one channel.

So the steps we are making to enhance this vision is all about unified inventory knowing exactly where each product is at all times. We want to ship from everywhere from our warehouse, from the store. If a customer goes online, wants a certain product, we have it or not in the warehouse. We will look to the store. The store is right beside we would right rather ship from our store to the customer so just one global view of inventory ship it as fast as possible.

And then we still are implementing worldwide our services click and collect that is pretty much gone, e-reservation that is done. Store to web is in process and then soon shipped from store. So this is a big area and we want to be best-in-class. And last investments around what we call retail team efficiency that is just simply to let our people in the store spend more quality time with consumers.

So we are helping them. We have things like real-time, Visual Merge very, very exciting. I will talk about it later, but some great applications My Learning, which is the e-commerce or the e-learning platform I talked about earlier. That is implemented in France, Europe, US, North Americas in a month and Asia right after that. So that is very, very exciting and then some interesting tools on dashboard. So a lot of tools so that our sales teams can spend more time with the customer.

That is first area of investment. The second is we are pursuing of course our digital journey. What does that mean? Three things. The first is we are telling and we are doing this now actually, but more and more digital stories. And we want to tell stories around the launch of our new products. And as you know we launch on average 25 new products per week in all stores in the world for our three brands. So we have really upped the ante and investing in more content, not every week.

We would not have a story every week, but within a season let us say we will have four to five stories that will match the theme of the products coming in the stores. So we are increasing that. We are also increasing our investment in social media and key opinion leaders. In fact, they can even create the content that are part of these stories. And well here is a safe number more than 50% of our marketing spend is digital. I think it is closer to 60%. So this is really important to nourish the content and develop the texture of our communication of our brands.

Number two, we have launched SMCP what we call the SMCP Digital Accelerator. So it is a programme within our company. That is very exciting. That is piloted by Flavien who would love to talk about it I am sure today, about being agile, being entrepreneurial, being smart. And over the past years, we have built the right bricks for our e-commerce platform and omni-channel platforms throughout the world by big investments, big bricks.

Here the idea is about being agile, smart and working with startups in that ecosystem. We have a few examples that are great and then we take these ideas from the startups. We test them on one brand. If we get the results we expect boom. We roll it out throughout the three brands. So it is really creating that ecosystem to be smart, agile, fast. And some examples, which Flavien can talk about one that I would really like is about increasing the fluidity and speed of a transaction through smartphone.

And as you know computers are over. In Asia more than 95% of our digital business is smartphone. That is going to happen very, very soon here. Here I think it is around 40%, but increasing a lot. So it is about a technology that unifies the checkout of different smartphones and we gain fluidity, time, and guess what at the end of the day conversion. So we have higher conversion.

We tested at Claudie Pierlot not too long ago. We loved it. Now it is being implemented in Sandro and very soon Maje. So that is a type of example that falls into this digital accelerator. Another one is Real-Time Visual Merchandising, another application, other startup where our teams with iPads in the store can get real-time instructions from the central visual merchandising teams. Place this here, this one here.

This one sells better if it has a facing this product etc., so we can do real-time visual merchandising. That comes from the digital accelerator. And the last example I put here is about personal onsite navigation, which is a lot about artificial intelligence and being very smart when you go back to the website making propositions to you that are personalised and tailored. So that is an initiative we are launching. We are calling it Digital Accelerator.

We are very modest as well we could have probably presented this a little while ago, but we wanted to make sure it was the right time. So we would rather present it really today. In the last part about pursuing our digital journey, is about data and CRM platform. So now we have real-time customer segmentation. It is not fixed. It evolves. It is dynamic where we have moved to much more personalised customer experience messaging than in the past through these new tools.

And then we have successfully as we mentioned earlier put WeChat as our CRM platform in China and that is very exciting. And then who knows one day if that builds outside of China, but it is really our main tool in this region. Here is an example and I invite you to visit. It is not far, a new store concept for Maje or the evolution of the store concept for Maje in Francs-Bourgeois in Paris.

The store went live 10 days ago. So we love it. I think it is beautiful. It is very warm. It is very codified Maje, and there is a lot of interesting things going on in the store. So this is one example. This one, you cannot talk about because it is just a concept and it is implemented soon in the next two months. An evolution of the store concept for Sandro, again a very warm experience, really represents the DNA of Evelyne. Just like this the Maje store does for Judith.

There are some ceramics here you see so we will have a whole concept around ceramics coming from, inspiration from Morocco, but not necessarily Moroccan ceramics. So that is going to be implemented soon and we have an example I believe of Claudie Pierlot as well – the evolution of the store concept of Claudie Pierlot. So I think the stores are becoming much warmer and more codified to each brand based on their DNA.

And the last part I wanted to share with you today is the last in the third area of investment, additional investment is strengthening our Asia platform. It is very important. It is a big market for us. So here we are scaling our organisation in Mainland China, headquartered out of Shanghai. So we can start moving some of the capabilities, the scale from Hong Kong to Shanghai. We had some resources there in the past, but we are scaling up.

We are also enriching unifying our systems: IT, finance, supply chain for the future growth. E-partnerships, I have been talking about a little while. We will have something I think to announce in the next quarters. And then we are launching websites that we did not have actually in Hong Kong, Macau and Taiwan. So there is a lot of things going on in Greater China to support really our future growth there.

So I will move quickly to guidance so we can talk and get your questions. The guidance for 2019, I am sure, as you read is sales growth at constant currency between 9% and 11 %. As I mentioned earlier, the macro environment conditions are relatively volatile in particular in France and also a little bit with the Brexit. So I think Q1 will be probably more in line with Q4 last year. I think that is fair to say.

Having said that, this is a great range of growth and it is still best-in-class and leading industry growth. So this is the range of sales and EBITDA margin is stable versus 2018, but very important to note that the additional investments I went through are important. We have really decided to make those investments in 2019 because we are convinced that this is the right time and these are great investments to build business sales, but also brand desirability in the mid-term.

So Célia, I think that is where we wanted to stop right now and we will turn it over to your questions if you have any, which I am sure you do.

Q&A

Célia d'Everlange: I think that we have two questions on the line. So maybe we will take the first one on the line.

Operator: First question comes from the line of Chiara Battistini from JP Morgan. Please ask your question.

Chiara Battistini (JP Morgan): Hello, good morning. Thank you very much for taking my questions and for the presentation this morning. Just a couple on your guidance for 2019 please. First of all on, I could not see a number of openings you are targeting for 2019 so possibly you could update us on that. And maybe how to think about this peak between like-for-like and space contribution in 2019 within your 9% to 11% guidance please?

And the second question would be on your target for 2020. Lastly, you actually reiterated the IPO target of 11% to 13% by 2020 and ongoing margin expansion by 2020, so if you could give us some words on that please? And finally also a question on your profitability outlook for 2019. You are guiding for a flat margins effectively. But I guess Asia-Pac and online will continue to be the important contributors to top line, and therefore margins as well. So I was wondering if you could discuss what ideal setting factors for those margin guidance please in 2019? Thank you.

Célia d'Everlange: Good morning Chiara. Sorry, the sound is not very nice. Can you repeat slowly your question-by-question so we will start with the first question only please?

Chiara Battistini: Yeah, so the first question was on the openings plan for 2019. How many openings you are planning and how to split your full year guidance between like-for-like and space contribution?

Daniel Lalonde: Hi Chiara it is Daniel. I think I will take your questions. I think I have the three. Let us start with one. How many stores in 2019? Last year we did as I mentioned 134 stores that was on the higher side if you look at the past three to five years, which was good. This year we are planning more to 80 to 90 directly operated stores, which is what we have said in the past.

And then if I add the partner stores. We will probably do around roughly 20. So if you look at POS, DOS plus partner stores, we will probably be anywhere in the range of 100 to 110 stores planned for 2019, which has been the normal I think the normal cadence. The stores also will be in terms of if you ask where. Still I think 40% ish will be in the Greater China region, about the same percentage in the key markets in Europe and the remaining 20% most likely in North America and some other European markets. So do you want to ask the question?

Célia d'Everlange: Yes Chiara, can you give us the second question please?

Chiara Battistini: Yes, and just also a follow-up on this. So is it fair to assume certain 7% contribution roughly a high-single digit contribution from space still so a low-single digit like-for-like in 2019?

Daniel Lalonde: The answer is yes. I do not know if you all heard that. If you look at our top line guidance, roughly, again that it is fair to assume that the principal two-thirds of the growth will be space, and about a third like-for-like of this range, just like in the past.

Chiara Battistini: Great, then the second question was on your 2020 IPO target. How should we be thinking about those? Should we actually expect an acceleration next year in top line growth and margin expansion as well going back to your target?

Daniel Lalonde: Yes, I got the question. Chiara, here is my response. At IPO, we guided to a mid-term of compound annual growth over three years of between 11% to 13%. Last year we did 13%, and so that was our guidance then. And then as you probably know we guided towards an improvement in EBITDA margin of a 100 basis points. So listen, at this at this point in time, I can just say that we confirm that this is still our objective.

Chiara Battistini: Great and the last question was on the margin drivers. For 2019, as I guess on the positive side, you will have Asia-Pac and online driving margins. So what are the affecting factors to drive to flat margins in 2019?

Daniel Lalonde: Can you repeat that for me Célia?

Célia d'Everlange: Can you repeat the question please Chiara slowly?

Chiara Battistini: Yeah, just that the margins drivers in 2019, as I guess Asia-Pac and online will continue to positively contributing to the profitability in the margins.

Daniel Lalonde: Do you want to take that Philippe?

Philippe Gautier: Yes, well hello Chiara.

Chiara Battistini: Hello.

Philippe Gautier: Just to make simple, as Daniel mentioned we will have a little bit more investment in terms of SG&A. So I would say slightly higher in SG&A compared to what we have seen in 2018. And then we would have slightly higher retail margin so that is the idea, based on the element that you talked about China, higher share of China, higher share of digital.

Célia d'Everlange: Thank you Chiara.

Chiara Battistini: Thank you very much.

Célia d'Everlange: I think we will take another question on the line.

Operator: Thank you. Next question comes from the line of Mariana Horn from Berenberg. Please ask your question.

Célia d'Everlange: Good morning Mariana.

Mariana Horn (Berenberg): Hi, good morning. I am Mariana Horn from Berenberg. I had three questions please. The first one is on the situation which are you seeing in France as Daniel clearly mentioned with the "Gilets Jaune". Could you please quantify like, you did in Q4, at what level of disruption you expect for Q1 in the France region?

And also if you could comment if your 2019 outlook for revenues so this new 9% to 11% guidance if it assumes that the protests in France will persist throughout the whole year. And my second question is around your level of investment for 2019, which as you pointed out will be now focused as well on shipping and inventory optimisation.

Can you tell us if you currently use RFID technology on your products? And if not if this is something that you plan on doing? And lastly just on your tax rate for 2019, if you could tell us what you expect? Thank you.

Célia d'Everlange: So we will take the first question.

Daniel Lalonde: I noted the three. Thank you, Mariana. I will take the first two. The tax one, I am certainly going to leave that to Philippe. So the French situation that is a hard one. I do not know more than all of you. I wish I did. We quantified it for Q4. It was we thought an impact of roughly €4 million on top line. We mentioned that.

And then in Q1, I do not know at this point in time. I know that what we know that is that on Saturdays it is pretty tough out there, particularly, last Saturday. Obviously, our stores in Champs-Élysées, Maje, Champs-Élysées obviously was closed. Pierre Charron etc., so we had a lot of stores closed.

Last Saturday, the interesting thing is on Sundays. Our store doors were open. The Maje store was open and we did our sales target. So it is obviously very focused on the Saturdays. And then how long this persist? I do not, I had rather not guess. I hope not long obviously, like everyone else, and I hope much less violent.

In terms of maybe your question is how much have you integrated that in your 9% to 11%? I think as I would just say that we just – Q1, we expect that there will be an impact in Q1. I do not know how much further it will be at this point in time, but we will clearly give more colour around this at the Q1 announcement, Q1 results.

In terms of outlook for this year, yeah, I think the way to look at some of the additional investments we are proposing. There are around 20bps to 30bps of investments in those three strategic areas, and we are very excited. We are convinced it is great timing to do it.

RFID, very good question. It is in our pipeline. It is on our roadmap. We do not have it now, but it is in our roadmap for the next Flavien?

Flavien d'Audiffret: Actually, it is part of the SMCP accelerator initiative. We are going to test to the technology to ensure it is the right one for us and then roll it out if everything works correctly. And it is also part of the unified commerce initiatives to know exactly where are our inventories.

Daniel Lalonde: So it is definitely in our roadmap. We will get back to you next time with timing on that particular initiative. And I think the last one, Philippe, we had a question on tax.

Philippe Gautier: Yes, Mariana, could you repeat what is your question on tax?

Mariana Horn: I just wanted to know what level of tax you expect for 2019 for the tax rate for 2019 really?

Philippe Gautier: Right. So what you would expect is 38%, which is corporate income tax excluding the CVAE in France, which is roughly €3 million. So slightly down compared to where we are now. And this is assuming that there is no change in the tax rate in France so that the reduction in tax rate is not done in 2019, but it will be done in 2020. So into 2020, we would have a very significant drop in the tax rate. It is about five points in France and then another one in 2021.

Mariana Horn: Okay that is really clear. Thank you very much.

Célia d'Everlange: Thank you, Mariana. Any question in the room? So, yes, we have one question in the room.

Marion Boucheron (Mainfirst): Hi, good morning Marion Boucheron from Mainfirst. Two questions for me please. The first one on the margin so you mentioned all these investments – could you give us some colour on how the sales period went for the first part of the year and if we should have maybe a phasing in margin evolution throughout the year between H1 and H2? And then I was wondering if you could give us a bit of colour on how the CRM evolved this year? I am not talking in terms of initiatives, but like consumer recruitment in some regions in Asia. Last year, you were giving a few indicator so that would be helpful.

Daniel Lalonde: Okay no problem. I will let the second question to Flavien so he can – I will answer the first so he can have 1 minute to think about it. So the sales period yeah, well first of all, I am really happy we are not in sales period anymore that is quite exciting. Also something, I want to maybe to share with you maybe anticipating a question is that our spring summer 2019 collections are off to a great start and that is very, very exciting. That is super exciting.

The sales period last year well ended, it depends on the country. So obviously it ended in France a little one in mid-February. We expect one of our big objectives of this year and we have a lot of efforts around it on the product side, on the commercial cadence, on the discount rates etc. To sell at full price, it is a real big initiative of our company. We have talked about it as every week about all these great initiatives we are doing to make that happen.

So that is by having products perhaps a product collections. Some parts of the products, which are never on sale, specific capsules. We are also trying to reduce the commercial cadence. The number of days, we have removed some last year as well from North America. We are looking at this on a global basis and really creative ways to create more rarity in our products.

So it is a big initiative we have for this year. We have been on it for a little while. And I think we will show some great results in 2019, but it is a really important subject for us to improve and improve our margins. Philippe, did you want to add anything to that?

Philippe Gautier: No, I think maybe you asked that the seasonality of the margin as well right. Just to mention I would say the main difference normally it is pretty stable over the year. Maybe the only difference would be to say in 2019, there will be a little bit more pressure on Q1 as you can expect obviously when we have some store closed it does not help. But apart from that, it should be fairly stable on the full year.

Daniel Lalonde: And Flavien?

Flavien d'Audiffret: Yeah on the CRM, the good news is that we still continue to recruit quite a lot of customers and the evolution of our CRM database is growing faster than our dollar growth. So it is a very positive news to fuel our future growth. And maybe the second comment is around – we discussed a little bit of about WeChat that Daniel mentioned it. In fact, what we experienced that for example in China and in Asia, email is not the right way to communicate to the customer.

That is why we are quite in advance in that project, we decided that WeChat would be the way to interact with customers, but also the way to collect the data instead of asking in the stores or email address to discuss we develop QR codes and thanks to the WeChat app. The customer can just scan the QR code and we receive all the details in the WeChat account and it is directly connected to our global sharing system.

So we are very positive and maybe one word around the new platform we have implemented Salesforce that allow us to be much more agile and to have a better understanding of our customer, and to really target our customer groups.

Célia d'Everlange: Thank you. Any other question in the room? Marie-Line?

Marie-Line Fort (SocieteGenerale): Marie-Line Fort, SocieteGenerale. Could you give to us, share with us the outlook for China? We saw last year deceleration in organic growth in this country. What should we consider for normalised growth for 2019 in China? Is it more Q4 trend?

Daniel Lalonde: I will tell you when we announced the – I will be happy to answer that. That is a good question. Well as much as I can answer it is, is this. So it is a very important region for us as you see we are investing in this region. In Q1, last year, our growth in this region APAC, but essentially it is a big part of it is Greater China. We had 54% growth last year in Q1. It was a big growth.

And what I can say as of yesterday that we have had a – we are very, very happy with the growth so far this year. Very happy, in fact, it is above our expectations in this region. Maybe I said too much. Did I say too much? So yes, we are very happy. So it is been it is been a great, great, a strong start to the year in Greater China.

Philippe Gautier: And maybe just to comment the expectation now we explained in Q4 to say we would expect normally to do over 20% of growth in China. So we are higher than that currently.

Célia d'Everlange: Thank you. We will take a question in the room from Murielle.

Murielle André-Pinard (HSBC): Yes, just to come back on the margin guidance, what assumption do you take to getting gross margin? So I understand SG&A are going to increase. But you said retail margin is going to increase. The improve is driven by gross margin or by opening cost?

Daniel Lalonde: Yeah, I think overall, we are still with Philippe and the whole management team is still confident on our gross margins, which we have always said have been around 76 to 77. It is not a big range actually finally. But we are comfortable that this will continue in the future just like it has in the past. I think more than that and then as I explain the EBITDA margin, we have taken a decision and I will assume it a 100% to take 20 bips to 30 bips investment to drive the three programmes and the three initiatives that that I described. That is a very conscious effort on our behalf to invest for the future.

Célia d'Everlange: Thank you. We will take a question on the line. I think we have another question from BAML.

Operator: Thank you. You have another question from Geoffroy de Mendez from Bank of America. Please ask your question.

Geoffroy de Mendez (Bank of America): Yes, good morning. Thank you for taking my question. I actually have two. So just come back on the impact of the yellow vest in France, I think in Q4 2018 was around €4 million euros. You mentioned that in Q1, you had some openings still on Saturdays and you met your sales target. So should we expect this number to come down? And just a clarification I think the question was already asked, but I am not sure I understood clearly the answer.

In your full year guidance, you were just expecting an impact in Q1 of the year, just to make this clear. And then last question it is about digital. I am not sure I have ever seen one of your brands on a multi-brand platform. Maybe I missed it, but is it something that is possible to buy Sandro and Farfetch on YNAP? And it is not, this is something that you would be looking at? Thank you.

Daniel Lalonde: Okay. Flavien, you will take the third question of course. So, again, hard on the yellow vest. You are right to say as I mentioned earlier, we estimated a €4 million impact in Q4. I do not know what it is going to be in Q1 yet. We will tell you when we meet again for Q1 results. The index for the French that we have used the French market IFM is showing for January, February a decline of 1.4% in the overall textile market in France.

But again, I think it is hard for us to say anymore at this point in time. And it is very again very specific to Saturdays, essentially. Now the second question is the 9 to 11 guidance that we have given top line mainly impacted in Q1. Yes, I think at this point in time as we mentioned several times. Q1 is macroeconomics situation. It not that dissimilar than Q4. That is what we see.

And then Flavien for the last question on our brands on multi-brand platforms?

Flavien d'Audiffret: Yes, in fact, we are already on the multi-brand of platform because we already work with department store. They have online platform and our strategy is to be omni-channel so we have corner and we are also in their own e-shop.

If we look at US for example, Bloomingdale's we are partnering with them. In China, we have a strong partnership with Alibaba, very premium partnership let us say. And of course, we have discussion with platforms like Farfetch or we work also with Net-A-Porter.

Daniel Lalonde: Yeah, we are with Net-A-Porter since more than five years actually on that platform with Maje. Philippe, I think you wanted to mention a couple of things.

Philippe Gautier: Yeah, just technically on the guidance here, we said yellow vest, we expect bulk of the impact to be in Q1. Just to give you an order of magnitude in Q4, end of the day, we did minus 1.9% growth in France. So despite all that, it is still a very, very resilient situation. And I think we benefit from the diversification of our model so just to put things in perspective.

And then when we give the guidance 9 to 11, clearly this is taking into account all the different risk we talked about.

We talked about yellow vest. We talked about Brexit so that is what we had figure out in our guidance. When we talk about uncertainty that is clearly what we are talking about.

Célia d'Everlange: Thank you. So we will take another question on the line from Jefferies this time. Kathryn?

Operator: Thank you. The question comes from the line of Kathryn Parker. Please ask your question.

Kathryn Parker (Jefferies): Good morning everyone. Thank you for taking my question. So obviously, you have discussed the year of incremental investments and what that means for margins. But I wondered if you had any updated guidance on CAPEX and whether you expect it to still be between 4.5-5% of revenue? And then my second question is on omni-channel. On what stage, omni-channel and your apps in different key market?

Daniel Lalonde: Okay thank you. The first one Célia, did you get that?

Célia d'Everlange: No. If we can repeat the question maybe? Kathryn, can you just repeat your first question?

Kathryn Parker: If you had any updated CAPEX guidance for 2019 because of the incremental investment.

Daniel Lalonde: Sure, that is easy. Okay yes, so I think our CAPEX has been in the mid 5.5% of sales. It will be closer to around 6% I think for 2019. Investments are in obviously store development new stores, which is plus again between 50% and 60% of those CAPEX go to building our network in the future. And then the rest is equally split in investments in infrastructure, the ones I mentioned for example the Asia platform and in refurbishing some of our existing stores, more of our legacy stores throughout the world in particular in France as well.

Again, this investment is pretty much in line. In fact, it is lower than a lot of our peers out there. Our peer group, which are growing much less quickly and fast than we are as well. Flavien, did you want to answer the second question on omni-channel implementation?

Flavien d'Audiffret: Yes, on omni-channel, the different level of maturity that we have for sure in Europe, we have most of the services already in place. US, is on the way also to catch-up. And Asia, we are really starting the journey because we had to open our own e-shop to really have this bridge between retail and digital.

But my second comment would be around the Unified Commerce programme. And that is very important to understand that it is just adding some small services. We used to develop the omni-channel services through test and learn, quick and quiet easy services to implement. But our strategy is really to accelerate and to invest a lot in what we call an omni-channel platform, which is kind of omni-channel ERP system that really unified all the services and it is really integrated at the heart of our IT system.

It is just not plug and play services that we are going to open, but it is really a journey. It is actually a two years journey to really rollout this platform. We are about to select it. So I will not disclose it for sure. But it is really about building very strong foundation to be purely 100% omni-channel in all our territories.

Célia d'Everlange: Thank you. Do we have a last question in the room? So thank you very much we look forward to talk to you next time at the end of a April for Q1. Thank you for your attention.

Daniel Lalonde: Yeah, thank you. Have a nice day everyone.

Philippe Gautier: Thank you.

[END OF TRANSCRIPT]