SMCP

SANDRO, MAJE, CLAUDIE PIERLOT

Q1 2019 Sales Conference Call

Monday, 29th April 2019

Introductory Remarks

Célia d'Everlange

Head, Investor Relations, SMCP

Agenda

Operator: Good morning, ladies and gentlemen, and thank you for standing by. Welcome to today's Q1 2019 Sales Conference Call. At this time, all participants are in the listen-only mode. There will be a presentation followed by a question-and-answer session, at which time, if you wish to ask a question, you will need to press star 1 on your telephone and wait for your name to be announced. I must advise you that this conference is being recorded today, on Monday, the 29th April 2019. I'd now like to turn the conference over to your first presenter today, Célia d'Everlange. Please go ahead.

Célia d'Everlange: Thank you. Good morning, everyone. This is Célia d'Everlange, Head of Investor Relations speaking. Thank you for being with us this morning for SMCP Q1 sales conference call. I'm here with Philippe Gautier, CFO of SMCP. As usual, we will go through the presentation, and then we'll have the Q&A session. Before I hand it over to Philippe, I invite you to go through our usual disclaimer on page two. And, I think that now we can start. Philippe, it is your call.

Q1 2019 Sales Overview

Philippe Gautier

Chief Financial Officer and Operations, SMCP

Q1 Sales Growth Acceleration

In line with expectations

Okay. Thank you Célia, good morning everyone. Thank you for being here this morning. So, as you have seen from the press release, Q1, it is, in a nut shell, in line with expectations and shows a good resilience despite a rather challenging environment in France. This is thanks to a strong, double-digits international sales growth, with an outstanding performance in Asia, which further demonstrates the international desirability of our brands.

Sequential growth acceleration

We have also seen a sequential growth acceleration throughout the quarter on the back of a positive welcome of the spring-summer 2019 collections, which reinforces our confidence for the rest of the year. Our performance has reached 9% of sales growth on a reported basis, lifted by a currency impact of 1.8 points, driven by the US dollar and the Chinese renminbi. So, that's 7.2% at constant currency, reaching €274.6 million of sales.

International growth

This performance corresponds to a positive international like-for-like growth, notably driven by APAC, which was at double-digit like-for-like growth, and the continued expansion of the store network with 19 POS in Q1 2019, of which was 8 DOS. This is the result of opening 14 stores internationally, while adjusting our footprint by 6 stores in France. Overall, we made good progress on each of our strategy growth levers, with the reception of spring-summer collection – has resulted in a lower discount rate through a positive mix impact compared to last year.

Key Priorities for 2019

Retail, digital and Asia

As you probably remember, at the full year results, we shared three key priorities for 2019, and I wanted to give you a quick update on this. First on retail excellence, we continue to roll out the e-learning programme in France and in Europe, and we continue to pursue our store network plan in France. We'll comment on that in just a minute. Second, concerning digital, we continue to roll out omnichannel services, and we recorded very strong results on social media, thanks to the efficient and richer contents used over the past few months. Finally, in Asia, we opened our new headquarters in Shanghai, and we signed a new partnership with JD.com.

Q1 Sales Breakdown

Regional dynamics

So, I will now go through our Q1 sales in more detail. So, moving to regional dynamics on page 5. First, some quick comments before we delve further into each region. So, with 7.2% of sales growth – that's constant currency – the quarter benefitted from a strong, double digit-digit international sales growth, driven first by APAC at +28.4% at constant currency; and second by EMEA at +9.9% at constant currency.

Meanwhile, France at- 3.9%, continued to face challenging market conditions related to the 'yellow vests' protest. And Americas recorded a soft start of the year with a +1% at constant currency.

Finally, the last comment that I would like to draw your attention to is our sales weights by region, which shows a continued deleveraging of France to 35% of our total sales, while our exposure to APAC and America is now, for the first time, stronger than France and represents 36% of total sales alongside EMEA at 29%.

Concerning the growth prospect in APAC, we can reasonably expect this region to be bigger than France in a couple of years. It will further strengthen the growth profile of SMCP as Asia, is year after year our fastest growing and most profitable region.

France

So, I will now go through our regional sales in greater detail. So, moving to page 6, in France sales were down by 3.9%, affected by a decrease of traffic and a challenging market. If Q4 18 was impacted by the direct impact of the 'yellow vests' and the store closure, Q1 has seen a stronger indirect impact on the back of a slowdown in tourism, notably Chinese tourism and a lower consumer confidence. For this reason, we will continue to be cautious on the French market for the next three months.

Meanwhile, as part of our priority to drive retail excellence, SMCP pursued its network optimisation plan, coupled with qualitative investment. As you know, we have launched a wide plan of optimization in France at the end of last year. We focused on the top 15 province cities after Paris, representing around 160 stores, one-third of our network.

After mapping our locations versus our main competitors, we made a qualitative and quantitative review according to four criteria: profitability, productivity, quality of the location and store quality. For each of them, we have also completed an in-depth review of the performance in regard to traffic, conversion, and like-for-like. We did identify different solutions to optimise and enhance our footprints in a two-fold approach: one, rationalisation of our numerous stores – for example, merging Sandro Woman and Man separate stores into bigger dual-gender stores and closure of smaller corners; two, qualitative investment in our stores, refurbishments and our implementation of new concepts, opening of key locations, such as Champs Elysees. All in all, this plan will impact a third of the French POS in about three years. At the end of this plan, 70% of our stores should be at new concepts versus 30% today, and 50% of Sandro free-standing store will have a dual-gender store format versus 30% today.

We also perceive 5 to 10 net closings per year. In accordance with this plan, we made six net closings over the quarter, and we invest in key locations including Sandro Lille, Claudie Pierlot Cannes and Maje Francs Bourgeois in Paris –key store in terms of sales contribution. On the right part of this slide, you have an illustration of our beautiful new store in Lille. We'll open a dual-gender store for Sandro, 140 square metres replaced two smaller stores, a Woman and a Man store that were about 70 and 50 square metres respectively.

In parallel, we also continue to roll out our e-learning programme in France and Europe while preparing the launch in North America and Asia. Our teams are also benefitting from our new digital tools in terms of visual merchandising, management and retail dashboards.

EMEA

In EMEA, sales were up 9.9% at constant currency. This solid performance includes a positive like-for-like sales growth at low to mid-single digits in line with expectations, as well as a continued store expansion with 48 DOS over the last twelve months, mainly focused in Spain, Italy, Switzerland and Benelux, and also a new country, Ukraine, for Claudie Pierlot, which is great.

After a very soft start in January in line with Q4, this quarter has benefitted from a sequential growth acceleration in most of its key markets – Germany, Italy, Benelux, Switzerland – notably supported by the positive reception of our 2019 summer collection. We are also satisfied by our performance in the UK, which is posting solid growth, despite the difficult climate related to the Brexit. Meanwhile, digital shows good progress, particularly in the lower penetrated countries such as , Italy, Spain or Switzerland.

Americas

On page 7, you can see that Americas posted a low start to the year performance at plus 1%. It is against a very high basis, of course, especially in February. It is, as well, the market showing soft conditions with lower consumer confidence, and more importantly a slowdown in tourism, especially Chinese tourism. The performance also reflected of cold weather conditions, which led to a late start of the 2019 spring-summer collection. We also had some lack of inventory on our 2018 Fall-Winter collections, following a very strong performance Q4 18.

Looking forward, we remain very confident for the rest of the year and will still expect a general double-digit sales growth for the full year in Americas. Over the last 12 months, we opened 11 DOS and two new Point of Sales on Saks.com for Sandro and Maje.

APAC

Finally, the Group recorded an outstanding sales growth of 28.4% at constant currency in APAC. And this is on top of very high basis of comparison (+54.1% in Q1 2018). So, that reflects the strong start of the 2019 summer collection, as well as the very dynamic trends in Greater China, particularly Mainland China, which has been over 35% of sales growth at constant currency. Sales performance was driven by a double-digit, like-for-like sales growth in APAC, the company's store network expansion and solid progress in digital. As you have seen, we recently announced a new strategy partnership with JD.com, which will lift further our customer reach in Mainland China and which will further diversify our digital sales channel. In addition, we completed our own website with the launch of Claudie Pierlot. Overall, the performance is very balanced between brick and mortar, and digital.

In APAC, the roadmap is clear. We still foresee a lot of white space, as mentioned many, many times by Daniel. We have today some very strong positions in Malls with a strong capacity to negotiate with their landlords to obtain the best commercial location, very often at the centre of the accessible luxury floor.

Recently, we opened some important stores, such as Harbour City-Maje and Claudie Pierlot. And our pipeline for 2019 includes many other beautiful projects, such as opening new Sandro dual-gender store in the IFC in Hong Kong just in front of our existing Maje store, which is among the top five free-standing store in our global ranking. We've continued our expansion with +55 DOS in Asia over the last twelve months, including four corners and four meaningful stores in Chengdu and Tianjin.

Initiatives

Now, I'd like to discuss some Q1 19 initiatives on page 8 that contributed to leveraging our core business, ready-to-wear, and further development accessories. This quarter, we continued to capitalise on the 'M bag' range. As an iconic and must-have line, with the launch of the 'M skin bag.' The objective is to animate the season with new attractive models in style and price; we're actually matching our ready-to-wear offer, while continuing to develop expertise in stores, and qualitative selling ceremony through our training program. The launch has been supported by press day, some dedicated window display, out-of-home campaign, while posting by buses and tour buses in Paris. We have also complemented these efforts with digital and with some gifting to influencers.

The quarter has also been marked by a new test, with the first launch of a shoes corner for our three brands with our historical partner, Le Printemps in 4 locations: Paris-Hausmann, Lille, Parly 2 & Lyon. Several communication devices have been set up with Le Printemps, supporting initiative on digital with the Printemps CRM and social media with a broad activation on retail and French coverage.

Two other examples: for Sandro which sponsored the contemporary artist, KAWS, in Hong Kong at the Art Basel exhibition. To advertise the “Kaws: Along The Way” exhibition, a large advertising campaign was launched with the name (logo) of Sandro in Hong Kong island in March/April alongside a VIP program which offered invitations to our customers and key influencers. A large campaign has been also launched to create buzz for the exhibition and to recruit fans to attend the event with the objective to drive traffic from online into stores.

Second, for Claudie, we launched a capsule in partnership with Unesco organization. Having already supported causes such as the protection of the environment and access to education for disadvantaged children, this year, and for the second time, Claudie has teamed up with Unesco to support the Keystone Foundation, an NGO working for women and the environment in India. On March 12, a capsule collection of 4 cotton Tshirts, made using organic farming techniques was launched. The messages, "Only Human", "Raise Up Your Hands and Love" and "You're my earth you're my soul" were printed on the pieces. The funds raised will benefit 100 women from the Keystone Foundation's "Green Stewards of Nilgiri Biosphere" program, helping them to become more financially independent by diversifying their sources of income and improving their environment.

Performance By Brand

Now, shifting on page 9, looking at the performance by brand. Maje and Claudie Pierlot reported a sales growth of respectively 9.8% and 10.5% at constant currency, while Sandro's performance was at plus 4.3% at constant currency. This performance reflected first a stronger contribution of openings for Maje and CP versus Sandro, keeping in mind that more than half of Sandro's opening are relatively smaller corners, while Maje opened a couple of meaningful stores in terms of productivity such as Regent Street, Munich and Carrousel du Louvre; second, a stronger performance of the 2018 fall-winter sales period in France for Maje and Claudie Pierlot.

Meanwhile, all the brands generated a strong international sales growth, particularly supported by a positive start to the 2019 summer collection in all regions. Over the quarter, SMCP continues to grow, business and digital, particularly where our penetration is lower, such as Southern Europe. The three brands also recorded very positive results in social media, acquiring new followers including +45% for Sandro, +35% for Maje and+42% for Claudie Pierlot.

Finally, on accessories, the Group has made solid progress, mostly driven by shoes for Sandro, including the success of the 'Flame' sneakers; and all categories for Claudie Pierlot, while Maje continued to capitalise on the momentum of the M bag family.

Closing Remarks

So, to wrap up before we hand the floor to Q&A, just a few closing remarks, which are on page 11. So, in Q1, despite challenging market conditions in France, solid progress has been made in line with the growth strategy and our key priorities for 2019. The quarter also illustrated a good resilience and very strong traction of our brands internationally.

Looking forwards, the sequential improvements within Q1, coupled with the positive reaction on summer 19 collections reinforces our confidence, leading us to reconfirm our full year guidance.

So, thank you all for your attention, and we're happy to take your questions.

Q&A

Operator: As a reminder, if you wish to ask a question, please press star on 1 on your telephone keypad and wait for your name to be announced. To cancel your request, please press the hash key. Once again, to ask a question, please press star and 1 on your telephone keypad. And your first question comes from the line of Chiara Battistini from JP Morgan.

Chiara Battistini (JP Morgan): Good morning, hello, thank you for taking my questions. The first one would be if you could expand, please, on the acceleration you're mentioning through Q1, maybe if you could quantify that to some extent. And also, can I just ask if March was actually back to double-digit growth at, say, at Group level?

And the second question on the US, if you could give us some more colour on the current trading and the pace of growth once the weather turned more seasonable, so what kind of growth you're seeing now in the US, please. Thank you.

Philippe Gautier: Sure, hello Chiara. And so, your question, so in terms of the trend within the quarter, I can confirm – you. So, we started January mid, single digit, talking about total currency constant sales. Then February was very in line with the quarter. March was double digits, currency constant, mostly driven by the positive reception of summer '19 collections.

If we talk about US more precisely, so yeah, you heard there's been a low performance as you saw. There are similar elements in terms of the market. We saw that the consumption was a bit lower in the quarter – consumption growth. But then we had a very high basis of comp, so we had plus 29.5% in Q1 last year, and particularly we were at over 45% in February, which is huge. So, what we have seen as well is, compared to other locations, we had a later start of the summer collection in the US as the weather conditions were much tougher than anywhere else. And we had also a – we were a bit short of inventory in terms of full winter '18 collections after strong performance in Q4, so that's the main driver.

Now, February was the weakest, due to the very high comp last year, and we started showing an improvement in March. And that's where we expect – we are confident for the future we're back to double digits going forward in the US.

Chiara Battistini: Thank you. And just to confirm, April is confirming that, the acceleration you've mentioned in March – for March.

Philippe Gautier: Yeah, it was for US. Yeah, this is confirming. Now you know that – yeah, April is more or less in line with March, but you know that for the quarter, this is – we need to look at the performance month by month. We have different products every month, so I would not draw any conclusion at this stage for Q2, but I would say we are satisfied with the start.

Chiara Battistini: Great, thank you very much.

Operator: Your next question comes from the line of David Damaia from CIC. Please ask your question.

David Damaia (CM-CIC): Hello, hi everyone. Thank you for taking my questions. The first one on your like-for-like, I know you don't disclose like-for-like performance on a quarterly basis, but you mentioned a positive international like-for-like growth in the release. So, is it fair to assume your like-for-like were flattish overall in Q1? That's my first question.

The second question on current trading, again, so your annual guidance clearly implies that Q1 should be low point in terms of organic growth. Can you share with us if April trends – April – are already in line with your 2019 objective, meaning between plus 9% and plus 11%? Thank you.

Philippe Gautier: Right, David. Yes, you're right, overall like-for-like is flattish in total. It is positive low to mid-single digit internationally with the higher performances I was mentioning in APAC, which is double-digit, like-for-like.

David Damaia: Okay, thank you.

Philippe Gautier: So, that's in terms of like-for-like. In terms of Q1 and April, what I would say – yeah, I would say April is in line with our expectations; that's what I would say. And that's on the back of positive summer '19 collections. And that's where we feel comfortable about the – about the guidance, but obviously it's performance; we need to look month after month.

David Damaia: Thank you.

Operator: Your next question comes from Anne-Laure Bismuth from HSBC.

Ann-Laura Bismuth: Yes, hi, Ann-Laure Bismuth from HSBC. I have a question regarding the like-for-like improvement in China. Actually, the like-for-like improved, and actually in Q4 there were weak. So, is it possible to know the magnitude of the improvement of the like-for-like in China in Q1, please? Thank you.

Philippe Gautier: Sure, Anne-Laure. So, I would say, yes, so maybe to give you a little bit of colour. So, as I mentioned, it's – for APAC, it's double-digit like-for-like. It's even – it's also double-digit in Mainland China. Mainland China was actually the strongest market. I mentioned over 35% growth currency constant for Mainland China. We are – we continue to be very, very positive on Mainland China. What I would show, definitely you can see this is an acceleration versus Q4. I know we had many questions about Q4. Environment maybe was a little bit tougher in Q4 with a lot of talk about the US-China trade war. It feels like the environment is more favourable in Q1 19, but also our performance is really strong. We have strong feedback from the malls, so I would stress as well, it's very balanced with strong growth across the various countries, and also across brick and mortar, and digital – we have a good – a very good performance in both channels. And obviously, we are also very excited with the new partnership with JD.com. And we see also good progress in terms of social media in China, and we see our number of followers with WeChat and Weibo, which are growing over 100% versus last year. So, very positive about China.

Marion Boucheron (Mainfirst): Hi, good morning everyone. Just two more questions for me, please. One, on EMEA, could you comment, give a bit more colour on the acceleration you've seen through Q1 and how is April is starting. I mean can we expect it to go back to double-digit growth?

That, and the second question was regarding Sandro in Q1 – well, maybe the performance more in Europe. Did you see big discrepancies by category to explain, I mean all the weaker sales, if we just strip out the fact that the stores were a bit smaller – the ones you've opened? And that was the last question.

Philippe Gautier: Okay, sure. So, in terms of EMEA, what I would say – or, in general, yeah, we saw an acceleration versus Q4 and also some acceleration within Q1. This is mostly related to what I mentioned in general, which is a strong performance of summer '19 collections. This is in a relatively tough environment. If you look at Europe – that's information on textiles –

the market in Europe is – has been down in '18, and it's flattish in '19. So, when we are growing 9.9%, we are getting meaningful market share.

And I would say it's pretty broad-based across all the different regions. Even as I mentioned UK, we are relatively satisfied with UK. We are still growing mid-single digits in the UK, which is quite good if you considered all the noise around Brexit in the quarter, so this is rather favourable. And then we continue to make progress in digital.

If I talk about Sandro for a moment, yeah, as you mentioned, relatively to the other brands, you had a smaller impact of new stores. That's due to the number proportionately to the size of Sandro, as well as the fact we opened quite a lot of smaller corners in 2018 with Corte Ingles or Nordstrom– not a lot of very large stores, if you compare with Maje, for example. And then, I would say the other driver is full '18 sales which was softer for Sandro than for the other brand. But then we had a positive start of the summer collections and the '19 collection with Sandro, and it's very solid progress, for example in accessories. So that's to give you a little bit of colour on that.

Marion Boucheron: Okay, thanks. And just to come back on EMEA, on the like-for-like in Q1, is it fair to say that they were just low single digit positives?

Philippe Gautier: Yeah, it's in line with the international like-for-like sales, so it's low to mid-single digit –

Marion Boucheron: Okay.

Philippe Gautier: – which is definitely a strong performance in the current environment.

Marion Boucheron: Perfect, thank you.

Operator: Once again, if you wish to ask a question, please press star and 1 on your telephone keypad. Your next question comes from the line of Katherine Parker from Jefferies.

Kathryn Parker (Jefferies): Morning, everyone. Thank you for taking my questions. So, my first question is on digital in China, and if you could give us any idea of the relative sizing you think the JD.com partnership would be versus Tmall and then your own websites.

And then my second question is on outlets. So, I can see on your 2018 report that you had a greater proportion of sales from outlets, and I just wondered how you see this developing through subsequent years. Thank you.

Philippe Gautier: Sure. Hello, Kathryn. So, maybe to think so, if you look at our digital presence in China, as you know, we have grown very, very fast. We have grown in terms of digital in China. It took us two years to be quite close to the Group average in terms of e-commerce penetration, so that's really impressive. Now, unlike the rest of the regions where we do the vast majority of our sales on our own site, China is a little bit different where, due to the size of the Tmall business – so we do already keep some of our business – e-commerce business with Tmall. So, what we would expect is to have a more balanced proportion between Tmall, JD.com and our own website. Now, it's not going to happen from one day to the other; this is going to be gradual, so I won't give you an exact number. But it's more about – well, continue to grow the penetration of e-commerce in China – and we can expect this will continue to grow – and having a more balanced business.

Your comments on outlet sales. What I would say, it's important to put that in perspective. The big thing is that we have one of the lowest share of physical outlets of any player in our industry, even compared to luxury; we are around 8% of our sales done through factory outlets. You can have luxury players, which are between 10% and 15%, and you have accessible luxury players, which could be 30% to 50% or more. So, what you see is that we were a mid-size distribution in terms of outlets. So, there is a little bit of a catch up, and we can grow a little bit more outlets. Now, it will continue to be a really small level, a small proportion. So, yes, it's growing fast – a bit faster, but it's still a very small share.

Kathryn Parker: Great, thank you, very helpful.

Philippe Gautier: You're welcome.

Operator: We have no further questions at this time. Once again, to ask a question, please press star and one on your telephone keypad. And we now have a question from line of Marianne Boucheron from Mainfirst.

Marion Boucheron: Yes, thanks for the follow-up. Just on Q1, could you come back to where you ended the quarter in terms to – in terms of discounting for the – I mean the end of Fall-winter '18 collections, just to have a rough idea of what we should get, then, for H1 results on the margin side?

And then on outlet, when you have the outlet section online, is it recorded within e-commerce or it's recorded in the outlet part when you disclose in the registration document?

Philippe Gautier: Sure. When you talk – so maybe your second question. When we talk about outlets, I'm talking about factory outlets, so that's physical brick and mortar.

Marion Boucheron: Okay.

Philippe Gautier: And then you could have like digital outlets, which are part of the e-commerce type.

Now, you have a question on discounting. Yes, as you know – remember, we explained that in 2018 we had a bit more discounting than what we had hope. And that's due – well, there are two items. One, there is a market trend which is to go to always higher discounts, so that's one thing. The second thing is you had some one-off effects in France: one in terms of unfavourable seasonal climate aspects in 2018, the second one related to the 'yellow vests.' So, that's where the discount in the market, and for us it was a little bit higher.

It's good to see that in Q1, we have a lower discount compared to last year. We talked, in general for the – on a full-year basis, about the discount around 30% average discount. So, we're a bit lower in Q1, and that's largely driven by the mix, with a higher proportion of summer 19 sales with the good performance of the new collections. So, yeah, we feel this is going in the right direction. It's one of our targets to reduce the share of discounting, and we would expect that to have some favourable impact on the gross margin in '19 compared to '18.

Marion Boucheron: Okay, thank you very much.

Operator: And your next question comes from the line of Sichen Pan.

Speaker: Hello?

Operator: Sichen Pan, please unmute your line.

Philippe Gautier: Hello?

Speaker: Good morning.

Sichen Pan: Good morning, Philippe.

Philippe Gautier: Yes, hello. Please go ahead.

Sichen Pan: Thank you for taking my question. Would you be able to comment on your outstanding debts considering your good results; if you have any plans for refinancing it, or other ways of addressing your capital structure?

Philippe Gautier: Sure, absolutely. If you have in mind, we have – so we have continued to deleverage every single year, and we have reached a leverage of 1.6 times end of 2018. So, that's a debt of about €300 million, and there are two key components in there. One is a high yield bond which is €180 million outstanding, and the rest is financed with the RCF. The high yield bond is quite expensive; it's at 5.875%, whereas the RCF is much cheaper at 2%. We have the possibility, where it's an option, to reimburse the high yield bond as of May, starting in May. So, we are – been discussing with our banking partners to put in place a new financing that would be a corporate-type of financing – banking financing. So, it's still a little bit early to give you the exact details, but we are making good progress on that. And we should inform you pretty soon about the reimbursement of the high yield bond.

Sichen Pan: Thank you very much.

Philippe Gautier: What it will bring is it will bring a very meaningful reduction in our interest rates.

Sichen Pan: Thank you very much for your comments.

Philippe Gautier: You're welcome.

Operator: We have no further questions. Please continue.

Célia d'Everlange: So, thank you very much, thank you for attention. We wish you a nice day, and we will talk to you end of July, now. Thank you very much.

Philippe Gautier: Thank you very much. Have a great day.

Operator: That does conclude our conference for today. Thank you for participating. You

[END OF TRANSCRIPT]