

SMCP

sandro maje claudie pierlot

SMCP – Agreement with a view to acquire De Fursac

Tuesday, 25th June 2019

Operator's Introduction

Operator

Good morning, ladies and gentlemen and thank you for standing by and welcome to today's Acquisition of De Fursac Announcement Conference Call. At this time, all participants are in a 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 and one on your telephone and wait for your name to be announced. I must advise you that this conference is being recorded today, Tuesday, 25th June 2019. I would now like to hand the conference over to your speaker today, Célia d'Everlange. Please go ahead.

Welcome

Célia d'Everlange

Head of Investor Relations, SMCP Group

Good morning everyone. This is Célia d'Everlange, Head of IR. Thank you for being with us this morning for this announcement and for being available at the last minute. I'm here with Daniel Lalonde, our CEO and Philippe Gautier, our CFO. So, I will let you read the disclaimer as usual and I will give the floor to Daniel. Daniel?

Agreement with a view to acquire De Fursac

Daniel Lalonde

CEO, SMCP Group

Alright, thank you Célia and good morning everyone. Thanks for joining us today. I'm going to take you through the presentation that we sent you briefly and as Célia mentioned, we'll be ready for Q&A after that.

Ten years of successful organic growth

So, I'll start with page three, which is the ten years' growth. Here the message we wanted to say is it's been a very, very – we've had a very successful growth period of organic growth over the last ten years. In the meantime, we've built a very, very robust platform across the world in different markets that's ready to integrate a transaction. Over the last ten years, we've built this very robust platform. Our last acquisition dates back to ten years ago, actually, when we bought Claudie Pierlot, so it's been a very strong focus of ours. And as you can see in the percentage of international growth, we've grown the company internationally from 28% of total business in 2012 to 63% last year and obviously more this year. Digital sales have gone from 2% to 15%. So, we feel very comfortable about the – again, the solid platform that we've built over the past ten years.

Contemplated transaction

So now I can skip to page five and talk about this wonderful, wonderful news. We're very excited; it's a big day for us today. The overview of the transaction is we will acquire 100% of De Fursac, which is a French leader in the men's accessible luxury category in France and

poised and primed for global expansion. The rationale of our deal is that this move enables us to accelerate our roadmap. We enter also a new segment in men's accessible luxury, one's that different than the segment occupied by Sandro Homme today. This is very exciting as well and we will, of course, leverage all our international and our digital expertise to accelerate De Fursac's growth strategy. From a key parameters perspective, very quickly, this is a positive impact on our EPS from this year and it's 100% debt finance and we're ready to go.

De Fursac at a glance

So now I can take you to page six, talk a little bit about De Fursac. So, first of all, De Fursac is a beautiful, desirable brand. It's a French leader in men's accessible luxury. A couple of highlights about De Fursac: it was founded in 1973 and acquired by Edmond Cohen in 1990, who currently is the majority owner and also the CEO of the company. The artistic director is Alix Le Naour and she's been at the helm of the artistic direction since 2011, so about eight years and she has a creative team of about ten people. They're doing fantastic work.

Some key economics: so, sales last year, €41.4 million. CAGR over the past years of 10% and a very strong like-for-like growth in a challenging market, as you know: a like-for-like growth over the past years over 5% per year.

Gross margins: well, just like SMCP, above 75% and EBITDA margin – well, this is above SMCP's EBITDA margins. So, a very beautiful brand and very, very strong economics. In terms of locations, prime store locations, well, as I mentioned earlier, it's a leader in French department stores. I look at the rankings every month in all the key department stores in France and it's consistently in the top three, often number one and we've seen strong appetite from De Fursac from tourism recently in the past years, especially the Chinese. And last, in terms of sales breakdown, well, digital is 5% of business, so obviously there's a lot of upside there and international is only 2% of business and obviously that's the big upside and where we bring our expertise.

De Fursac: blending tailoring heritage with style, chic and timelessness

Page seven, if we look at De Fursac's positioning, basically what they've done very successfully is blending – tailoring – they're tailoring heritage with style, chic and timelessness. Very, very strong Parisian DNA roots. The customer, as you can see, is essentially an elegant and style-conscious man. The products are highly qualitative, with most of the sourcing – above 90% of the sourcing coming from Europe and all woven fabrics are 100% made in Italy.

And last, in terms of location, a premium network of locations across free-standing stores and excellent – in fact, a leading position in each department store as well.

Accessible luxury menswear: an attractive segment poised for growth

If you look at page eight, just a little step back at the accessible men's luxury market. So, this is where De Fursac plays today, obviously. We think it's a very, very attractive segment that's positioned for growth. In fact, it's a segment that is much more fragmented, the men's accessible luxury market, than the women's, so this is a very, very strong move for us.

It's a big market, it's a €21 billion market. It's a growing market, expected to grow at 4.4% over the next three years and it's a market that's fairly large and developed in the key

geographies where SMCP has big presence. 40% of the men's accessible luxury market is in Europe, 24% in APAC and 24% in North America.

So what's driving this growth in the market? Well, there's four large trends. The first is, obviously, a growing middle class in Asia, particularly China, that's driving these categories, for both men and women.

From a style perspective, men – more men we see – and even very recently, as you've seen by the luxury brands at their fashion shows, they're blending tailoring and casual clothes into a category that we're calling “modern tailoring”, so this is a big emerging trend.

Number three, men are becoming more style-conscious in their clothes, in their cosmetics and a lot of categories. This has been documented for some time and the growth in the digital channel is a strong enabler for men's shopping experience.

So, there's some – these are four trends that are driving the growth in accessible luxury.

Strategic rationale: entering new dynamic segment in menswear: “modern tailoring”

If you turn to page nine, so our strategic rationale for this wonderful acquisition, the first point I'd like to say is with De Fursac we are entering a new segment in men's accessible luxury, one that's called “modern tailoring”. It's very exciting. So, if you look at the overall men's accessible luxury category there are three segments. The first segment, as you can see by the chart below, is what we call sportswear and you know these brands, from Polo to Lacoste and there's a whole bunch of other brands in this category. Sportswear: number one.

Number two category – and not by any order in particular – is what we call urban-casual and this is where brands have an urban-casual positioning and, from a styling point of view, more trendy, contemporary, going out and fashion forward and here is the segment in which Sandro operates. And the third segment of men's accessible luxury and an emerging one as well is called “modern tailoring” and this is exactly where De Fursac plays.

So, as you can see, our customer – we will be attracting a different customer than Sandro Men. There is a small, small, small overlap but the essence is that we're addressing ourselves, through De Fursac, to a new men's customer.

Strategic rationale: Leveraging SMCP expertise to accelerate De Fursac's successful growth

Page ten – still on our strategic rationale for the deal – is obviously we're going to leverage all of our success story and expertise to make – to bring to De Fursac's growth strategy. So the three main strategic levers for growth that we see, that play to our strengths are – first, it is clearly expand the geographical footprint of De Fursac. As I showed you earlier, it's only 2% of sales international today. We expect in the mid term to get to over 30% of international sales. We're going to start, like we did for Claudie Pierlot and like we did for Sandro Homme, developing in key European markets, primarily, initially, through department stores and online and this will be followed by a launch of De Fursac in Greater China. And then, in more of the mid-to-longer term, we'll explore new markets. So that's the first lever that we'll use for De Fursac.

Secondly, we plan to accelerate the digital business, which is at 5% of sales today. As you know, SMCP, we're closer to 15% of business, so here we clearly see an opportunity in the

mid term to double and to get above 10% of sales online, mainly through developing the organic growth in France and then, obviously, as we move to new markets, making sure we start the launch in new markets, both online and offline.

And last, there's an opportunity also to develop new product categories. Accessories is an opportunity. De Fursac today does not have a leather goods offer and neither shoes, so these are opportunities for the future and we certainly want to build on the very strong success that they've had in branching off to an urban casual line which today represents about 30% of De Fursac's business. So, these are the main parameters for growth in the future and all areas that we have a lot of expertise and success in.

Strategic rationale: SMCP and De Fursac share the same business model

Page 11, if you look at page 11, what's very important for us as well is obviously De Fursac is a brand we know well, and we share the same business model, a business model that's unique and proven and very successful. And it's articulated around the same two parameters as the SMCP business model. First, it blends the codes of luxury and fast fashion, just like we do. And secondly, De Fursac is a retail pure player, just like SMCP. So we get it, we understand their business model very well. We share a business model, which is very, very strong in our partnership together.

Strategic rationale: Perfect match: an encounter between passionate entrepreneurs

Page 12, also this transaction, this acquisition of De Fursac is what we call a perfect match. It's an encounter – we call it an encounter between passionate entrepreneurs. We basically selected each other; there was no process involved here and we share the same values: a very strong entrepreneurial spirit, we're very creative, innovative, there's a strong family heritage to both groups and certainly and above all, a very agile organisation and very ambitious teams to be leaders in our category.

Perfect move for SMCP, aligned with our strategy and generating value

In conclusion, on page 13, this is a perfect move for SMCP. It's unique and it's aligned with our strategy and we are convinced it will generate value for our shareholders. Again, the premise: it's a unique opportunity to acquire a French leader with strong desirability, addressing a new customer segment. SMCP – we are the perfect platform to accelerate De Fursac's growth by using our strengths, which is our digital expertise, our international expansion and last, it's a perfect match for SMCP because we share the same values.

And this we can say very confidently because we have done it before, twice, with Sandro Homme and with Claudie Pierlot. When both Sandro Homme and Claudie Pierlot were at the same sales level at De Fursac today, it took us about five years to get them above the €100 million threshold and this has been – this is a very important part for us in growing De Fursac in the future and clearly we have a roadmap to get to the first €100 million that's ready to go.

Key parameters and next steps

Page 14, just in conclusion, so the next step is the usual regulatory authorities' approval and that should happen shortly, and we expect a closing before the end of Q3. So, before we move to Q&A, I just wanted to share a few comments on 2019. As we said in Q1, we see a sequential acceleration in Q2 versus Q1 and we confirm our 2019 guidance, of course

excluding De Fursac. So I just wanted to mention that before we move to Q&A and I think, Célia, we're ready now to move to questions and answers.

Q&A

Célia d'Everlange: Okay, thank you Daniel. I think that we have a first question.

Operator: Thank you. Ladies and gentlemen, the first question comes from the line of Marion Boucheron from MainFirst. Please ask your question, your line is now open.

Célia d'Everlange: Good morning, Marion.

Marion Boucheron (MainFirst): Hi everyone. Well, the first question would be on the transaction value because if we see some headlines, it says that it was at a competitive price, so I don't know if you can give us a bit more flavour on this? And then could you tell us how the process went to pick the first – you approached them or did they and why did they sell, actually? Thank you.

Daniel Lalonde: Well, thank you Marion. I can tell you a couple of things. Well, first of all, the transaction value – because this is a private transaction, we prefer not to disclose the amount. Suffice to say that it's very competitive in the transaction market today from what we see in transaction multiples but it's a private owner and we wanted to respect his wishes there.

From a process perspective, well listen, it's obviously a brand we've been looking at its performance for a long time because we measure the market shares in the French department stores and we know the trends that are trending up, the brands that are very strong, both in men's and both in women's, so it's obviously a brand that we've looked at quite some time ago in terms of its competitive performance.

What was important is that we both – I'd say we both selected each other. So there was no process involved, there was just a very natural introduction that accelerated to this transaction. The families have known each other for quite some time as well, the Chetrite family and Milgrom family and Edmond Cohen have known each other, I think, for many, many long – for a long, long time but it's only recently that we approached each other, mutually.

Marion Boucheron: Okay and if I can, just one follow-up. Do you have any idea what's the proportion of sales to the international clients or in France, already, for the first half?

Daniel Lalonde: – yeah, you know we have an idea. We don't have – I'd prefer maybe not to give a specific number but what we know is just like Sandro and Maje many years ago, before we launched in China, in Greater China, we had very strong demand from Chinese consumers in the Grands Magasins in France – in Paris at Haussmann, go GL Haussmann, Printemps Haussmann and Le Bon Marché. We saw a lot of Chinese consumers before we launched Sandro and Maje in Greater China. We see the same thing for De Fursac today. So we think it's a meaningful part of their sales from the Haussmann and Le Bon Marché department stores today and that's what led us to conclude that there's a very – that there's a strong appetite from tourists and mainly from Chinese tourists today.

Marion Boucheron: Okay, thank you very much.

Célia d'Everlange: Thank you Marion. Do we have another question?

Operator: Thank you. We have one more question and the next question comes from the line of Rebecca McClellan from Santander. Please ask your question.

Rebecca McClellan (Santander): Yes, good morning. Can you hear me?

Célia d'Everlange: Yes.

Rebecca McClellan: Yes, good morning, so I've got three small questions, please. Firstly, is it entirely wholesale or is there directly-operated stores within the mix for De Fursac? Secondly, has De Fursac had, in the past, any international presence or had any sort of ambitions or attempts to expand internationally? And thirdly, what's the five-year like-for-like average, please?

Daniel Lalonde: What's the...

Célia d'Everlange: Like-for-like average.

Daniel Lalonde: Okay.

Rebecca McClellan: The five-year, for example, or just a bit longer than the 2017/2018.

Daniel Lalonde: Okay. Well, thank you Rebecca, let me – I can answer your quickly your questions. I think I heard your first question: is it wholesale? In fact, De Fursac is a pure retail player, just like SMCP. There is no wholesale. It's in stores.

Rebecca McClellan: Sorry, it's – sorry but you said it's a majority through the department stores.

Daniel Lalonde: Yeah.

Rebecca McClellan: So, sort of standalone versus the department stores then.

Daniel Lalonde: Yeah, so it's all retail, just like SMCP. So, when we're in department stores, which is about – Philippe, about half of the distribution of the 54 points of sale –

Rebecca McClellan: Right.

Daniel Lalonde: – about half of those are department stores, it's all concessions, so it's all pure retail, just like SMCP. We have no wholesale in department stores. We operate the store; it's our inventory, it's our people and it's basically like – and we pay a rent, essentially. So it's exactly like SMCP, they're in charge of all of their points of sale directly, there are no wholesale transactions with De Fursac, just like us.

Rebecca McClellan: Right.

Daniel Lalonde: In terms of international presence, that's where we come in. This is the perfect brand, that has such a desirability in France, great economics, that it's poised for international growth and that's why I think this transaction is so synergistic because we're able to provide all our leverage to grow it and they've waited until this time to be able to find a partner that could take them to the next level of growth, the next chapter of growth and this is the beauty of the transaction today. So, they have not got –

Rebecca McClellan: Okay, so they haven't, in the past, tried to sort of –

Daniel Lalonde: No, no, no, no.

Rebecca McClellan: – be international – no, okay.

Daniel Lalonde: No. We're it.

Rebecca McClellan: Right.

Daniel Lalonde: We're it, so they have not tried. They've waited, and they've built such a beautiful brand. This is the beauty of the transaction, it's that it's just primed to go. It's just ready to go and it's beautiful and it's been attractive to a lot of tourism coming from outside of France, which is perfect. So, it's really a perfect line up and it's very rare, to be honest. I mean we've been approached by a lot of brands in the past year and a half since the IPO and this is really the perfect one.

The like-for-likes – so the like-for-like has been growing in France over the past two years over 5% in like-for-like, so it's been clearly taking some very, very meaningful market share in the men's accessible luxury category in France and as I mentioned –

Rebecca McClellan: I was wondering whether you could give sort of an average like for like over a slightly more extended period than 2017–2018?

Daniel Lalonde: Yeah, I'll let – maybe I'll let Philippe say a few words here.

Philippe Gautier: What I can tell you is that we have communicated a third-person[?] like-for-like, 2017–2018, very steady, around 10% total top-line growth and the 10% has been also pretty consistent over the last five years. So, in terms of like-for-like, qualitatively, that's been pretty consistent over the last years.

Rebecca McClellan: Okay, thank you.

Célia d'Everlange: Do we have another question?

Operator: Thank you. And the next question comes from Laurent Gelebart from Exane. Please ask your question, your line is now open.

Laurent Gelebart (Exane BNP Paribas): Yes, good morning ladies and gentlemen. So, a couple of questions for me. The first one regards the transaction per se. So you mentioned you are entering a direct relationship to buy the asset. My question is: why is Mr Cohen selling today? That's the first question. The second one: I would like to know what is the share of sales of De Fursac on outlets? The third question is do you plan to integrate De Fursac teams within your premises, or you will – it will be separated from the rest? And at the end of the day, who is going to manage De Fursac? Is it still Mr Cohen or not?

Daniel Lalonde: Alright, Laurent, thank you for your four questions. I'll take two of them and I'll let Philippe answer, maybe, the number two and number three. So why is Edmond selling today? Well, I think he has developed such a beautiful brand. He has bought the brand in 1990 and has been the majority shareholder and its CEO since then. I think he's brought the brand to such a beautiful level in France that he realised that the next step of the growth needs to be done by a trusted partner and that's where SMCP comes in.

So it was just a perfect match to say, again, I've built this brand that's market leader in France in men's accessible luxury, I'm looking for a partner who can take it to the next step and this is exactly what we have done over the past five years. So it was a perfect match and this was his intent and it was certainly ours when we started to explore, obviously, this transaction.

In terms of management – so Alix very important to us and they have roughly 200 employees. Alix Le Naour, who's been artistic director for eight years and done a wonderful job is key and obviously she is going to play a big role in the future and Edmond will continue to be involved in the business as well. I want to make sure we use his expertise, his *savoir faire*. He's very strong in purchasing, as well, the quality fabrics from Italy and he's a great brand ambassador. So, we plan to have Edmond Cohen staying in our – in the De Fursac development over the next years.

Philippe, do you want to say something about the second and third question?

Philippe Gautier: Sure, Laurent, hello. So, in terms of sales in outlets, I would say De Fursac is not particularly developed in outlets. The brand has been managed very purely and you have seven outlets in total. These are relatively small outlets and I would add, as well, that the discount rate for De Fursac is quite moderate, it's in the mid twenties, so not too much promotional and very well-managed in a very pure way.

Maybe your question on integration: as Daniel mentioned, we share the same business model with De Fursac, so that's a key advantage. So, we are going to use pretty much the same model that we use for the other brands. Meaning, De Fursac, they are going to continue operating[?] the key brand levers, starting obviously with artistic direction but also the retail network, management, all that will be separate. And then we are going to look at some synergies but in a very pragmatic way, step by step. We are going to share know-how for things like real estate developments internationally in Europe, help them into their digital know-how and then they can benefit from our platform, for example, when we are going to grow in China. This will be very helpful for them, that we have already this developed platform.

Daniel Lalonde: Alright, thank you Philippe.

Laurent Gelebart: Okay.

Daniel Lalonde: And Laurent, maybe just to be a little bit more precise on your question about Edmond's role, so obviously he's very important – a very important asset for us. Edmond will be very active in the transition in the next six months and then, in time, obviously, we want to make sure he's very – he's engaged in the company and he will take on a role of president of De Fursac supervisory board in due time as well. So he's a very important member for us to stay very close and I think he can have a very impactful role over the next years in De Fursac.

Laurent Gelebart: Okay. Thank you very much for your answers.

Daniel Lalonde: Okay.

Operator: Thank you. And the next question comes from Marion Boucheron, MainFirst. Please ask your question, your line is now open.

Marion Boucheron: Hi, yeah, sorry, it was about synergies, but you've answered it already. I'm good.

Operator: Thanks a lot and the next question –

Daniel Lalonde: Was there a question there, did we miss that?

Célia d'Everlange: Marion, do you have a question or not? Do we have another question?

Operator: The next question comes from the line of Marie Fort from SG. Please ask your question.

Marie-Line Fort (Société Générale): Good morning. Could we have an idea about the average age of De Fursac's clients, particularly compared to Sandro Men.

Daniel Lalonde: Sure. Well, I think if you want to contrast the consumer, obviously our brands' consumers are all young-spirited, regardless of age, of course. In terms of stylistic perspective, I think there's a – the biggest difference, I'd say, between Sandro Homme and De Fursac is that De Fursac has – attracts a customer that has an appreciation for, I'd say, tailoring roots and heritage, more than the Sandro Men customer. So, there's a different stylistic appetite, I'd say, in the customer for De Fursac and Sandro Homme. That's the first point but in terms of age – if I looked at age – which I never like to talk too much about the average ages, but I think we're still going to see the bulk of the customers, for both Sandro and De Fursac, in the mid-30-years-old range but again, they're more young-spirited. They're men that could be 55 years old, like me, going down to teenagers as well. So, they'll have about the same curve in age groups but again a very different customer that's looking for different stylistic codes. Again, De Fursac more coming from tailoring and Sandro Homme more urban chic.

Marie-Line Fort: Okay, thank you. And do you think also that De Fursac has growth potential in the US?

Daniel Lalonde: Yes, I do but as you know, we're a very disciplined group and therefore we want to do step by step. I don't want to burn any steps. That's why we feel very comfortable with our growth plan, starting mainly in the key European markets, followed by Greater China. We're going to have a lot of data, a lot of experience, a lot of success and then, yes, I think there is definitely an opportunity in North America, but we see this as a little bit more long term, after we've had these successes in Europe and the success in Greater China.

Marie-Line Fort: Thank you very much.

Célia d'Everlange: Thank you Marie-Line. Next question.

Operator: Thank you. And the next question comes from the line of Melanie Floquet from JP Morgan. Please ask your question.

Melanie Flouquet (JP Morgan): Yes, good morning, can you hear me?

Daniel Lalonde: Yeah.

Célia d'Everlange: Yeah.

Melanie Lacroix: Perfect, so I have three questions, actually. My first one is I was wondering whether, in your view and given your experience of what you did at Sandro Homme and Claudie Pierlot, would you say that De Fursac will be faster to reach €100 million than those examples? Do you think that this is the kind of brand that you can roll out speedily, that the demand is very high already from department stores? I was just curious – and your experience enables you to fast set up[?], so I was wondering that first, so that's the first one.

The second is: in terms of the margin profile, would you expect that the expansion – I know – I appreciate it's early days and my apologies but we're trying to model this already – would

you say that in terms of margin profiles, you would expect a slight dilution, to start with, as you expand internationally? And if you can share with us any of those plans, that would be great. And actually, I'll come back to my third question afterwards. Thank you.

Daniel Lalonde: Okay, so it's two questions, right?

Célia d'Everlange: Yeah.

Daniel Lalonde: Okay. Alright Melanie, well I'll take the first one and maybe I'll let Philippe talk about the margin profile. As we expand – and as you understood, the expansion – the international expansion will come very, very quickly. That's one of our first bricks. That's a very good question, Melanie, on the first €100 million. Do we do it faster than Sandro Homme and then Claudie? As I mentioned earlier, when Sandro Homme and Claudie were at the low €40 million in sales, which was about 2013, it took us about five years to get to the first €100 million.

Listen, I think I'd rather say we feel comfortable about that for De Fursac. We call it the mid term, we call it five years, more in the mid term. That seems very comfortable for me. I think it's too early to make any comments on whether we can go faster or whether we'll take a little bit more time but I think it's a good target. It's certainly a good target for us and clearly the point you're making is we have more experience today and more presence in those markets than we did have back in 2013. So we'll see what happens but we feel confident about getting it to the first €100 million in the mid term.

Philippe, did you want to say something about the margin profile?

Philippe Gautier: Yes, hello Melanie. So, in terms of EBITDA margin, so as you have seen, De Fursac today is a very well-run business. Margin is a bit higher than our group average, it's around 20%. So what we can say, as you mentioned, we are going to invest behind the brand in things like marketing, for example, growing internationally. So, yeah, I think it's fair to say there could be a very slight dilution compared to today's margin but we will remain above the group average margin, so it's favourable in terms of EBITDA margin.

Melanie Flouquet: Perfect. I have my third question now coming, sorry, if I may? I think it is very clear what you are bringing to De Fursac in terms of international expansion and in ecommerce and speeding that up from their standpoint. It's also clear that it's going to be accretive to you, being debt-financed but I was wondering whether there are also some pockets of excellence within De Fursac that you have identified that could help the rest of this entity. Thank you.

Daniel Lalonde: Yes, there are actually. I think we bring a lot to each other. I think one thing that I see, Melanie, in De Fursac and why I'm so impressed with the performance of the company is their sourcing. They source – over 90% of their sourcing comes from Europe and they have 100% of woven fabrics coming from Italy and they have some exclusivity – exclusive partnerships as well. So the quality of the fabrics is – frankly is incredible and it's a very strong value proposition for customers, so I think their sourcing is something they do exceptionally well and frankly, I think the imagery – if you follow – you go online and look at De Fursac and you look at their positioning, their campaigns, it's very, very desirable and very consistent as well. So I think they have a very strong communication and imagery around the brand that's very, very attractive and very, very modern.

So I think those are two – those are two things that I'm pretty impressed on and I think that we can have some benefit at SMCP, though obviously we'll not apply it directly to Sandro Homme but I think there are some things that we can also learn from De Fursac.

Melanie Flouquet: Thank you very much.

Célia d'Everlange: Thank you Melanie.

Operator: Thank you. And the next question comes from the line of Rebecca McClellan, Santander. Please ask your question.

Rebecca McClellan: Yes, hello again. Just in terms of your CAPEX, does – will – what will be the impact on your CAPEX sort of outlook as a result of this acquisition and the expected sort of trajectory of De Fursac over the next few years?

Philippe Gautier: Yes, hello Rebecca.

Rebecca McClellan: Hi.

Philippe Gautier: Yeah, we are going to invest a little bit more to accelerate the growth of De Fursac. If you look over the last few years, they have opened around 3–4 points of sale every year. We expect to open more 5–10 stores a year. So, yeah, we are going to invest a little bit more. Now, if you have in mind our CAPEX average at SMCP is around 6%, so it's not going to change significantly the group average. It's going to be marginal on the group average of 6%.

Rebecca McClellan: Okay, thank you.

Operator: Thank you and the next question comes from the line of Flavio Cereda from Jefferies. Please ask your question, your line is now open.

Flavio Cereda (Jefferies): Yes, hi, morning. I have – I wonder if you could give us a little bit more detail on the – you mentioned the sourcing and the supply chain and 90% of it sourced in Europe. Can you give us any more granularity where in Europe the product is manufactured, first thing?

And secondly, in your slide where you identify attractive product categories which you can develop, you also mentioned shoes and if I go on their website, there's a wonderful video where it looks as if they have a shoe production site in the UK. Would that be correct and so the idea is to expand that further?

Daniel Lalonde: Yes. So, in respect to your first question, like we say, at this point in time it's a mix of countries in Europe. There's Eastern Europe in terms of production, Italy as well and some in Spain as well, so there's various markets in Europe that make up this 90%. Again, the woven fabrics used for the suits, mainly, are all sourced in Italy, including the ties. Eastern Europe, again, also, there's some suits, vests, outerwear and Morocco has some – India and Morocco have some shirts but that's getting a little bit granular. But the quality – the perceived quality of all products at De Fursac is extremely strong.

In terms of shoes, they've just started this partnership that you referred to. It's a category that's meant to be developed, though, because we see an opportunity for sneakers, as well, that are very strong for Sandro, so it's a burgeoning relationship that they have but we see potential in shoes and in leather goods, frankly, which are very, very few leather goods. They have accessories but they're mainly textile-related accessories today in the offer and I think

their accessories represent roughly 7% of their sales today, without really anything meaningful on shoes and leather goods.

Flavio Cereda: Right, thank you.

Operator: Thank you. And the next question comes from the line of Geoffroy de Mendez from Bank of America. Please ask your question, your line is now open.

Geoffroy de Mendez (Bank of America): Hey, good morning, thank you for taking my questions. So, I have three questions. The first one is coming back to your targets, so if I understood correctly, you have €100 million targets for – in the next five years. Two of the targets, i.e. the 30% of international sales and 10% of digital, is it the same horizon, i.e. five years? So that's the first question.

The second one is regarding your slide about the three distinct segments of the menswear accessible luxury. The only one that you don't have at the moment from this slide is sportswear. Is that something you could be looking into?

And the last one is regarding the performance so far into 2019 of De Fursac. So, you've given the growth rate last year. What are you seeing so far into 2019, please?

Daniel Lalonde: Okay, well thank you for those three questions; I'll take the first two, actually, about the famous €100 million that I keep referring to. Suffice to say that we'll see this as the first €100 million in the midterm. I think that's probably the best way to put it. In terms of the three segments, so now we'll be playing actively in two segments. We are not looking to be an actor in the third segment, in the sportswear category. I think it's a different category, requires a different skillset. If you look at some of the leaders in this category, they're often wholesale, they're often companies that have a big part of their business in outlet stores as well.

So, we think that for our skillset and for our ambition in the group to become the global leader in accessible luxury, we're very happy to play very strongly in the modern tailoring and the urban chic is where it makes more sense, where we can create more value.

Philippe, maybe I'll let you take the third question.

Philippe Gautier: Yeah, very simply, in 2019, you get – considered so far the performance has been pretty much similar to what we have seen in the past, when you saw around 10% growth.

Geoffroy de Mendez: Okay, thank you.

Operator: Thank you. And the next question comes from the line of Antoine Belge from HSBC. Please ask your question, your line is –

Antoine Belge (HSBC): Yeah, hi, it's Antoine Belge at HSBC. Three questions, please. First of all, in terms of the management time, especially for you, Daniel and Philippe, I appreciate this acquisition will be one of your focuses and we've had a few management changes recently, so how should we think about the fact that you're managing a fast-growing company and also you're taking on, maybe, M&A a bit earlier than what we expected?

The second question relates to the margin. I think we were all quite surprised to see the high level of margin and you mentioned the retail integration and sourcing. Could you maybe comment a bit about sales productivity and why it must be quite high?

And finally, some technical aspects. Is it possible for you to share the depreciation and amortisation as a percentage of sales and also maybe the – what interest rate we should take in terms of calculating the cost of the debt used for that acquisition? Thank you.

Daniel Lalonde: Alright, Antoine. Listen, I'll take your first question and I'll leave the other two to Philippe. Management time: the first thing I'd say is I have a really, really strong team, an incredibly strong team, although – and you referred to the changes – recently the changes at the leadership from Claudie Pierlot and Sandro but I have CEOs in those roles that have – that are very, very talented and have a proven track record at SMCP.

So, on a global basis, we have an extremely, extremely strong team and also the team coming from De Fursac: Alix and Edmond and his transition skills as well will enable us to capitalise on a very – what I perceive as a very strong team there. My time, Philippe's time, well, listen, I think it will – we'll obviously devote some of our time to helping building De Fursac into a very successful brand. I'm going to use the same model as I have today in our company, which is a model that's a little bit influenced from LVMH, to have a very strong – for each brand to have a very strong artistic director and a very strong artistic director and a very strong *Directeur Général* and CEO. That's critical in making a success of each brand, so that will be a priority for us, for sure.

But in terms of Philippe and my time, I'm talking to our partners in Europe, for example, the heads of department stores, very, very often the heads of department stores in Europe, talking to key developers in Asia, so it's part of my job anyways and I think this will be a very efficient use of my time, to be able to keep focusing, obviously, on the growth potential of our three brands and adding this one.

I think it doesn't come for me, also, Antoine, too early. I think it comes at the perfect time because we're ready and in fact I've waited a long time to make the first acquisition purposely because I wanted to make sure that our platform and our experience base in Europe, in Asia, in North America, Middle East was super strong before we thought about any project like this. So, I think, from a timing perspective, this is really the perfect time and we're very, very much ready to go to make this happen.

Philippe Gautier: Hello Antoine. So, to answer to your other questions, in terms of margin, the answer there, is a quite profitable business, so around 20% EBITDA margin. If you look at the components of this margin, actually it's very similar to ours. It starts with a very high gross margin, over 75%, like us, related to their pricing power, the fact that they manage very well the – they contain the level of discount, so that's one thing. They are pure retail, obviously, they are similar to us, they have high productivity.

And then I would say in France you enter a relatively favourable market. The rents are a bit lower in France. So as we go international, as I mentioned, you could say, okay, it could be slightly dilutive. We're going to invest a little bit more in marketing but nevertheless it will be higher than the group average in terms of EBITDA and will continue to be so.

Now, depreciation, the reference you have – if you look at our depreciation rate, which is 3.6% of sales in 2018, yeah, since we are going to invest a little bit more in terms of CAPEX you could say depreciation is going to be slightly higher than that; it could be around 4%, something like that.

And last point, in terms of investor debt, as you know we have just announced recently that we have refinanced fully the company, so we have put in place new debt, with a level – total level, €465 million, with a maturity of five years, so we are fully financed. We've strong conditions, so total all-in cost is about 2.6%, so you can take these assumptions in terms of the cost of debt for the De Fursac acquisition.

Antoine Belge: So, 2.6% for the – whatever cost of acquisition that we estimate.

Antoine Belge: Maybe a follow-up, I mean you mentioned France and it's a big part of the business. Would you say that De Fursac is mature in France or not really and in that case, how does the 5–10 store openings that you intend to do – how much could be happening in France?

Daniel Lalonde: So, Antoine, I do not think that De Fursac is mature in France. They've been very, very selective about their network. So, they're in department stores; they're in very selective department stores, they're in all the best ones but by no means are they are in all stores and *Galleries*, for example, or *Printemps*. So, I think there's still some very interesting growth to happen in France. Also, again, the French penetration of sales online is only 5%. SMCP's average is closer to the group average of 14.5–14.7%, so there's still some upside, clearly, in France and it's not mature. Having said, the five to – we expect 5–10 new stores a year over the plan and these stores – the big, big, big majority of them, over 95% if you will, will be the expansion of the network outside of France, initially, as I mentioned, in Europe and the key European markets where we have and we see a lot of success today and then followed by – obviously followed by Greater China.

Antoine Belge: Thank you very much.

Célia d'Everlange: Thank you Antoine. I think that we do not have any more questions so I would like to thank you for your time this morning and I wish you a good day. Thank you.

Daniel Lalonde: Alright, thank you everyone.

Philippe Gautier: Thank you.

Operator: Thank you ladies and gentlemen, that does conclude our conference today. Thank you for participating, you may all disconnect.

[END OF TRANSCRIPT]