SMCP

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SMCP - 2019 H1 Results Publication

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Operator: Good morning, ladies and gentlemen. Thank you for standing by, and welcome to the SMCP Conference. At this time, 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 advice you the conference is being recorded today, Thursday, 5th September 2019. And I'd now like to hand the conference over to your host today, Célia d'Everlange and Philippe Gautier, CFO of the Group. Please go ahead.

Welcome

Célia d'Everlange

Head of IR, SMCP SA

Thank you. Good morning, everyone. This is Célia d'Everlange speaking. Thank you for being with us this morning for SMCP half year results. I'm here with Philippe Gautier, CFO of SMCP. As usual, we will go through the presentation and then we will have the Q&A session.

Before I hand it over to Philippe, I invite you, as usual, to go through the disclaimer on page 2. And I also – I would like also to highlight that you will note that, unless otherwise stated, all financial data are disclosed as per IFRS 16 to maintain a relevant economic reading. And I think we can start now, Philippe.

Financial Overview

Philippe Gautier

CFO, SMCP SA

Thank you, Célia. Good morning, everyone. Thank you all for joining us.

As you have seen from the press release, H1 '19 results are in line with expectations. But in July, you saw already our sales number. As a quick reminder, we talked about plus 9.5% of reported growth, which means 8% at constant currency. It has been mainly driven by international sales growth of 14% at constant currency with Mainland China at more than 30%.

In terms of profitability, the adjusted EBITDA was up 3.5% and adjusted EBITDA margin came at 16.1%, which is impacted by a lower store costs absorption related to the soft start of the year in sales, naturally with the events that you know in France in Q1. The net income stood at €20 million in H1 '19 versus €27.4 million in H1 18. Excluding one-off costs related to the refinancing of the Group, our net income Group share was almost stable at €27.8 million in H1 19.

Finally, free cash flow. We generated €20.9 million. This is excluding €1.9 million of IPO-related cash out. By the way, that's the last cash out that we saw that we have, and it's also before tax. I will speak more later on all these KPIs.

So moving on slide 4, I just want to quickly remind you of our sales number. As previously mentioned, Q2 19 showed a sequential acceleration. So we went from plus 7.2% at constant currency in Q1 to 8.9% at constant currency in Q2, in line with what was anticipated. For the

semester, the 8% growth at constant currency was 9.5% growth as reported. And this semester benefited from a strong double-digit international sales growth, which was plus 14%, mainly driven by APAC at plus 26% at constant currency. EMEA registered a robust growth at plus 8.7% constant currency, and Americas generated plus 7.2% with a sharp acceleration in Q2.

In parallel, France was affected, as you know, in Q1 by the difficult market conditions related to the Yellow Vest, which improved in Q2 as the Group return to growth in France. The performance includes a like-for-like of minus 0.7%, which mainly reflects tough market conditions in France, whereas the like-for-like was positive internationally.

Moving to slide 5. Let's focus on our financial performance. So as I mentioned, adjusted EBITDA increased by 3.5% to reach €86.8 million, resulting in an adjusted EBITDA margin of 16.1% and this was impacted by an expected low start to the year in sales.

If I look a bit at the margin structure, which is on the right side, a couple of comments. First, SMCP posted a stable gross margin versus H1 18. So that means that despite changing market conditions, the Group has demonstrated once again its strong ability to maintain a sustained high gross margin at 76.3%. It's also an improvement compared to what we achieved in the full year '18 and in H2 18. So that means that our full-price focus strategy, which resulted in a slight reduction of our discount rate is bearing fruits. So strong achievement in an environment, which has been even more promotional.

In parallel, store costs, as a percentage of sales, increased to 41.2%. So the lower absorption comes from the low start of the year itself, actually Q1. Obviously first quarter was strongly impacted by the Yellow Vest in France with some temporary store closure, as well as lower traffic in stores and lower tourism.

Yes, actually is in H2 '19, alongside the expected sales growth acceleration, and we will have also easier comp. We also had, as usual, quite a lot of story in the ramp-up mode as we have opened 99 DOS over the last 12 months and that amplified increased effort. So as a result, retail margin, which correspond to gross margin minus store costs stood at 35.1%.

Finally, SG&A evolved from 19.6% to 19% of sales, showing a very efficient management of these costs while maintaining in the same time a high level of investments to support future growth, particularly in the areas that we have highlighted earlier this year, such as our platform in Asia, digital and retail excellence. One example of that is Oracle finance that we have successfully implemented in North America and France over the last nine months, which gives us a better visibility of our costs. We have also significantly strengthened our talent in our international hubs that in North America or Asia.

Now if I move to the net income, which is on page 6. This gives you an idea of the main components of the P&L for H1 19. So net income stood at €20 million in H1 19 compared to €27.4 million in H1 18. As you may remember, these figures are impacted by €12.6 million of one-off costs in H1 19 related to the earlier redemption of the high-yield bond. Excluding these one-off costs, the net income is almost stable at €27.8 million.

On the right part, the bridge highlights the main variation, excluding those one-offs to make the comparison more relevant. So this starts with €3.2 million EBITDA gain with a 3.5% adjusted EBITDA growth, as mentioned, and a stable LTIP impact versus last year. D&A

slightly increased by €4.4 million from 3.6% of sales to €4.1 million in H1 '19. This is mainly due to additional investment in infrastructure, IT, as well as the French store renovation plan that we have launched in 2018.

Non-recurring expenses were stable. They notably include some transition costs related to the strengthening of our platform in Asia and some transaction costs linked to the acquisition of De Fursac. The financial charges, including a significant one-off cost of €12.6 million due to the early redemption of the high-yield bond. They increased from €10.6 million in H1 '18 to €21.7 million in H1 '19.

In reality, when you exclude this one-off, SMCP showed a continued optimisation of its cost of debt from 4.8% in H1 '18 to 4.1% in H1 19. This is as we successfully completed the full refinancing of our debt. Now the reduction in financial charges will become very visible from 2020.

Lastly, tax charges stood at €12.3 million. It's a reduction of our corporate income tax from 39.1% in H1 18 to 38% in H1 2019. Excluding the French trade tax, CVAE, tax rate stood at 34.4%.

What about cash? So let's look at page 7. In H1 19, free cash flow generation before IPO-related costs and before tax stood at €20.9 million. This is the result of three drivers. First, EBITDA, adjusted EBITDA, staying up 3.5%. Now Capex has increased by €11.8 million from 4.5% of sales in H1 18 to 6.3% of sales in H1 '19. So that includes the additional investment into infrastructure, IT, the French store renovation plan. Now it's also against a relatively low base of comps in H1 because the H1 Capex represented only 40% of the annual Capex.

Then we had a stable operational working capital versus December '18, so at 16.8% of sales versus 16.8% of sales in 18. So the performance includes, on one side, some early signs of improvement from '19 spring summer collection in terms of stock purchases, and this will have an even bigger effect in H2. This is helped by the new processes of demand planning that we already talked about and that we have implemented. On the other side, you had some timing effect with some higher account receivables from department stores that will normalise in H2.

As mentioned, in March – okay, the inventory level is not yet fully satisfactory. We have been working on new processes in terms of demand planning, stock allocation, notably in APAC and Americas. So we expect to see a continuous improvement in H2, and we target to be back to the 2017 level in terms of working capital by the end of 2020. So free cash flow after tax, which included €21.9 million of tax cash out stood at minus €2.8 million, mainly impacted by the higher cash out in terms of tax and CapEx, as well as the one-off costs I mentioned.

Looking forward, the cash out should be reduced in H2 alongside the decrease of our tax rates and the adjusted EBITDA improvement.

Moving to slide 8. You can see that our leverage ratio is almost below 1.7x in June '19 versus 1.6x end of '18. At the end of June, our net debt stood at €299.9 million, mainly impacted by the higher cash out in terms of tax, CapEx and the one-off related to the refinancing. So in H1, we took the opportunity to reimburse the remaining €180 million of our high-yield bonds and to proceed to the repayments and the cancellation of €110 million amount drawn under our previous €250 million RCF.

So to refinance that, we have signed five years unsecured credit facility totalling €465 million, comprising €265 million term loan and a €200 million RCF. With this new financial structure in place, we've been able to continue to optimise our cost of debt from 4.8% in H1 18 to 4.1% in H1 19. We have been able to extend our debt maturity and to further diversify our financial sources between lenders and various instruments.

By the way, we have also put in place a new commercial paper programme last July. This operation has been very well received. We benefited from extremely low cost of fund around 0.5%. In a couple of years, we have reached a very sound financial structure through our operational performance and the IPO. With the refinancing, we have also significantly optimised our cost of debt, which is now currently at 2.6%, and we have extended our maturity to five years. This also enables us to fully fund the acquisition of De Fursac.

Now on page 9. We have highlighted, on this slide, the main impact of IFRS 16. And this is fully in line with what we expected and what we have anticipated to you at year end. As of June 2019, we recorded an impact of €454 million in terms of these lease commitment and €54 million in terms of integration of the lease charges in EBITDA, and that's mostly the fixed portion of our store leases. IFRS 16 is slightly favourable on EBIT, which will become probably a better indicator of our business going forward.

In terms of guidance, and this is on page 11, I will be very brief as we already reconfirmed our guidance end of July. We expect to see a sales growth acceleration in H2 alongside a mid-year base of count, primarily in Q4, and as you can expect, a higher EBITDA margin in H2 versus H1. The guidance does not take into account the De Fursac acquisition through a decision issued on 23rd August 2019. The French Competition Authority has cleared the transaction without any special condition. So the closing of the transaction will not occur very shortly.

So thank you all for your attention, and I'm now happy to take your questions. Thank you.

Q&A

Operator: Thank you. If you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. Should you wish to cancel your request, please press the hash key. So star and one to ask a question. You have a few questions coming through. And your first question comes from Marie Fort of SG. Please go ahead. Your line is open.

Marie-Line Fort (Société Générale): Good morning. Can you hear me?

Célia d'Everlange: Yes.

Philippe Gautier: Absolutely, Marie.

Marie-Line Fort: Okay. So just first question, could you share with us the last sales trend during the summer and give us more colours of the impact of the social climate in Hong Kong, in particularly, and also the impact of the political context in the UK? This is my first question. My second question is regarding the IFRS 16 impact on your net debt. Shall we consider that at the end of the year, we have to had the same impact than on the first half? And my third question is about De Fursac integration. To help us to factor in our model, probably you will have to just consolidate just one quarter. But do you think that you will have a positive

impact on EBIT, given the potential PPAs that you will have to take into account? Thanks very much.

Philippe Gautier: Okay. Sure. I will be very, very quick on the sales outlook because we are going to talk about that in not very long. And what I would say is that we still have – September is a very clear important month in terms of the new collection. So I would say so far, so good. Reception of the fall winter collection is very positive. And as I mentioned, we're on track with the sequential improvements.

Obviously, if you look at the environment, yeah, you could say environment is still challenging. Now situation is stabilising in France, not as difficult as what we have seen in Q1. That's for sure. And then, yeah, Hong Kong is a factor. So we are going to look – continue to look at what's going on in Hong Kong or what I would highlight, particularly if we compare ourselves to luxury companies, luxury peers, we have a much lower exposure than them in Hong Kong because Hong Kong is about 4% of our total sales in – if we take '18, for example. So still important obviously, but okay.

We'll see what happens with the announcement of yesterday. Maybe there could be a little bit of release. Obviously, in fact, in Hong Kong, yeah, it's difficult to do a business in Hong Kong, few closures in some of the stores, etc., but maybe we could have a little bit of relief.

Now important to say that in the meantime, our business continues to be very strong in China. So somehow the Mainland Chinese system we're not going to open. They continue to shop our stores elsewhere.

And then you had a question on the UK. What I would say, well, we will continue to try to understand what's going on with the Brexit. Operationally, it's important to say that we are very prepared in terms of supply chain. We have been working for that – on that for a while. So we don't expect any issue in terms of supply chain to fulfil our stores in the UK. I would say our biggest impact, we could have that impact of the sterling, so that could have a little impact on our margin.

Have in mind, we have quite nice margin in the UK because we have some markup compared to our French price. Now what happened is when the selling in – is weak, and we have seen that already a couple of times, then you have a very strong tourism in London. And it's very important that the tourism has a big impact on our UK business. So right now, maybe it could sound surprising but we have seen a stronger business in the UK. So we would expect the two effects to offset each other. So we are not too worried about the situation in the UK.

So your second question on IFRS. Yeah, I think what happens in H1, roughly speaking, in terms of the lease commitment, we are talking about four years of rental commitment. So you see what is the amount of the fixed rent, €54 million in H1. I would say you can use that to model it. The only thing is obviously we're adding new stores every day. So it depends on the number of freestanding stores. So you can come here, this will increase as – they increase with the sales. So I know there should be no big surprises here. It's very controlled.

Now De Fursac, yeah, as I mentioned, we should be closing very soon. How soon is that? Well, pretty soon. So yeah, we can consolidate as soon as we are closed basically. So that should be a bit more than end of quarter. So it gives you an idea of the total impact.

And what I just would say is, as I – as we mentioned at the time of the announcement, it's a profitable company. The EBITDA is – EBITDA margin a bit higher than the rest of the Group. So we'll have the occasion to talk more about that in Q3 and give you a little bit more colours about De Fursac.

Marie-Line Fort: Just could you tell us what is the percentage of your sales in the UK just to have an idea?

Philippe Gautier: We are talking about roughly 8% of our sales in the UK.

Marie-Line Fort: Okay. Many thanks.

Philippe Gautier: Welcome.

Operator: Thank you. Your next question comes from the line of Marion Boucheron of Mainfirst. Please go ahead. Your line is open.

Marion Boucheron (Mainfirst): Hi. Good morning, everyone. Three questions for me, please. The first one on the commissions you had in H1. Were they lower or higher than what you had in the past? And if they increased, what drove that increase? Then could you tell us where you ended the semester regarding the discount rate and the proportion of sales that were on discount? And then my last question would be on the share buyback you have announced for 400,000 shares to offset the long-term incentive plan. Should we expect you to do further share buybacks then in the coming years to offset it all or – I mean, what's the plan on this?

Philippe Gautier: Right. Sure. So in terms of your different questions, when I talk about commission, the key element in there was several items, but the key element is the department store commissions. The department store commission, they don't change really significantly because it's a set percentage. And then you have a couple of e-commerce commission that can be slightly higher. But I would say there is no big evolution. What – so they are part of our store costs. And I mentioned slightly lower cost absorption.

In reality, where we have lower cost absorption, that's really on the store rental and the fixed portion of the store rental, but the department store commission are variables. So that's a way to have some flex. And the components in terms of store costs are the staff costs, and here, we can manage that to adjust a little bit.

In terms of the discount rates, as I mentioned, we are really happy to see that we can have an improvement of the gross margin quarterly versus H2. It's quite a significant improvement versus H2. We talked in H2 that we had a target to be less promotional. And that's what we are doing significantly in H1. So we feel quite happy. It's a result of different things. The most important thing is the desirability of our collections. And based on that, we can reduce a little bit and concentrate a bit the promotions, which was our target.

So the discount rate, we are around 30%, as we commented in the past, so slightly improved versus last year. And that means also the share of full price has slightly improved as well. And I would say, it become, let's say, the improvement were partially in Europe and in France, which is not easy in the promotional environment that we are facing.

Your last question, share buyback. Yes, so I think we have announced two things. One is the first tranche of purchasing of shares to cover our LTIP programme. So that's up to 400,000

shares. So it's the first tranche because we need to do that in several steps. And what we have said, as well, is that we intend to cover in priority our LTIP programme, which is in excess of 2 million shares with the share buyback. So obviously, in terms of timing, there is a good timing with – in terms of price to do that as well.

Célia d'Everlange: Thank you, Marion. Maybe the next question.

Operator: Thank you. The next question comes from the line of Geoffroy Michalet of ODDO BHF. Please go ahead. Your line is open.

Geoffroy Michalet (ODDO BHF): Hi hello. Actually I'm sorry all my questions were asked by my colleagues, so no more question on my side.

Operator: Thank you. Your next question comes from the line of Rebecca McClellan of Santander. Please go ahead. Your line is open.

Rebecca McClellan (Santander): Yes, good morning, Célia and Philippe.

Célia d'Everlange: Yes. Rebecca, good morning.

Rebecca McClellan: Most of my questions have been answered, but just one. I think you mentioned that for the current inventory or the inventory position at the end of the first half was still a little bit elevated versus your ambitions. Does that mean that there's a chance of further write-downs in the second half to sort of get realigned the sort of inventory levels?

Philippe Gautier: Right. No, we don't expect that particularly. We take the write-down whenever we need to, not at the time that we would liquidate. What I can say is that, yeah, we could move a little bit more inventory in H2. That's what we expect to do. Just to give you a little bit of perspective on what we explained a bit before just to be very clear. The – so we had a bit too much inventory but that was not problem in terms of sales. That was just as we have over-purchased a little bit as we had to adjust to a big shift in our business as we are moving internationally, which is quite a big evolution in a short amount of time.

So since then and over the last 12 months, basically we have been working hard in terms of demand planning and we see the benefit of that. Clearly in terms of our spring summer '19 collections, we are much, much leaner in terms of inventory. And we feel that's the right way to manage the business. So it goes hand-in-hand with the logic to be less promotional. And two, that's part of the desirability of our product to have too much product on the store.

Rebecca McClellan: Okay.

Philippe Gautier: And as I mentioned, we expect to – so to continue to improve on inventory on the long run, and that's where we would expect the working capital to normalise gradually. So we're at 16.8%. We would target gradually by 2020 to be a bit over 15% would be more our normal situation.

Rebecca McClellan: Okay. Thank you very much.

Célia d'Everlange: Thank you, Rebecca.

Philippe Gautier: You're welcome.

Operator: Thank you. Your next question comes from the line of Murielle Andre of HSBC. Please go ahead. Your line is open.

Murielle Andre-Pinard (HSBC): Yeah, thank you. Good morning. I have two questions. The first one is regarding the guidance – the EBITDA guidance margin. It implies a big step in H2 because it means to do 17.7% EBITDA margin. So I do understand that you expect top line to accelerate, so better cost absorption. But I would like to have more granularity on what could – what makes you feel confident to deliver that, maybe add more colour on gross margin and SG&A evolution? And my second question is on Capex. What kind of Capex intensity we can expect for the full year? Thank you.

Philippe Gautier: Right. Murielle, so yeah, you're right in terms of EBITDA. So we expect to see an improvement in the EBITDA margin in H2. I think looking at the various components – so the gross margin, we expect to continue to be strong in terms of gross margin. And if you remember last year, it was a bit more – slightly more challenged in H2 18. That's based on what we talked about in terms of discount rates, etc.

So the big difference would be in the store costs, we feel that that should be improving. We are also making effort to control them as – in the best possible way. And then I would say, if you look, we already – we have made already some good efforts, strong efforts in terms of our SG&A because you had seen already in H1, we are lower than last year. And it's even lower than the year – also lower than the year before.

So we are going to look in terms of control of costs, travel, in terms of negotiation with our suppliers, our service provider, etc. All that to saving some money there while we continue to invest and we are investing a lot in terms of IT, etc. So we are quite happy with the way we manage the SG&A, and that should continue and be a factor in H2.

And obviously, the big driver will be the top line as well because, yeah, we will have easier comps half yearly – well, this is starting also in September. In Q4, if you remember, we did 8% growth in Q4 last year. So that was – this is much easier. That's what we have done in the first three quarters, so that should help as well.

In terms of Capex, you want to know about the full year Capex. I think we talked about the full year Capex of around 6%. So let's say, not very different from what we saw in H1. So it's not very different from usual, which means that we have a bit over 50% of the Capex, which are on infrastructure and refurbishments. And then we have about 50%, which is on expansion.

So this helps here all the components are increasing; infrastructure, several significant IT projects, in particular, notably to support Asia, digital, etc., some big projects in refurbishment. And then we had some significant new stores, stores like the new Saint Germain-des-Prés store, Claudie Pierlot. IFC, a wonderful story in Hong Kong for Sandro and a couple of flagships in Stockholm for Maje, Harbour City, a new store in Lille. So yeah, some significant new stores.

Célia d'Everlange: Thank you, Murielle.

Murielle Andre-Pinard: Thank you.

Operator: Thank you. Your next question comes from Melanie Flouquet of JP Morgan. Please go ahead. Your line is open.

Melanie Flouquet (JP Morgan): Yes, good morning. Thank you for taking my questions. The first one, sorry, I'm coming back to the commissions levels. The commissions level as a

percentage of sales have improved last year and they seemed to be going back up again. Maybe this is not to believe, as you said, to your e-commerce commissions. But I was wondering, to what extent we should consider this to be now the ongoing trend moving forward? So, will we have also a step-up in percentage of sales in H2 compared to last year? And how we should think about this moving forward? Clearly, potentially compensated by gross margins, excluding commissions, but just to understand the fundamentals of the delta. The second question is on Capex. Sorry, I'm coming back to this year or last year, your Capex as a percentage of sales was 5.5%. So, you're guiding for 6% this year, so a bit higher everywhere. So, am I correct to read though that the biggest increase year-on-year was definitely in H1, that H2 will be a bit more normalised? You had a bit of a phasing in Capex that impacted your cash flow in H1. And how should we think about Capex in 2020? So, projects that you cited, notably in IT, who is going to be a multi years and you could have a Capex again at 6% of sales next year? This is how you think about it? Thank you very much.

Philippe Gautier: Sure. Hi Melanie. So, on your question on the commission, so as I mentioned, it's not increasing in the department stores, which is the main component. We have a couple of things related to the e-commerce, but in reality, it's offset by other aspects because the more we grow e-commerce, the better we are in terms of store costs. So, I will not look at that as a driver of increased store costs.

What is driving store costs? That's mostly the fixed portion. And when we see an improvement in our top line, which is what we see, we are able to better absorb them. So, no issue here.

In terms of the Capex. Yeah, you're right. There is a sizing element, but it's more a sizing of 2018. So, we're – like H1 2018 was lower. So, the 4.5% versus the full year is slightly below 6%. So yeah, we're guiding for 6% this year. Maybe a bit early to talk about 2020, but I would say 6% is probably a – it's a relatively high level. We don't expect to go much further than that. And the investments in terms of IT, they are already infrastructure all relatively significant, so which will continue, but we don't expect a big increase. And we will talk more in the end of the year about our longer-term prospects.

Melanie Flouquet: Perfect. So, if I go back to this – to the dynamics of your P&L and, in fact, we could have commissions going up in percentage of sales. But because this is really – it's reported normally in the gross margin. But in reality, as you say, rightly say is the store cost. When you look at the years of store costs, they will actually go down in percentage of sales because e-commerce dynamic going in. Is that how we should think about it because –

Philippe Gautier: Yeah, exactly.

Melanie Flouquet: Yeah, okay. Perfect. Thank you very much.

Philippe Gautier: Yeah, if we talk about H2, yeah, sure. Yeah, absolutely.

Melanie Flouquet: Thank you.

Operator: Thank you. Your final question comes from the line of Kathryn Parker of Jefferies. Please go ahead. Your line is open.

Kathryn Parker (Jefferies): Morning everyone. Thank you for taking my question. And so I saw that last month here announced a new Sustainability Director. And I wondered if she had

identified kind of any initial areas of focus? And also, what your plan was with ESP disclosure and whether you'll be publishing kind of an annual report on it going forward? Thanks.

Philippe Gautier: Yeah, absolutely. We had the announcement of Nathalie Malavoy as HR Director and being in-charge of sustainability. So, she's part of the Excom. So, she will really drive the initiatives of the Group. There are many initiatives going on. And I would say this is primarily at brand level because it's also very related to the product offer. So I think maybe we'll talk about more in detail about that and it's more interesting to talk that – with that in perspective with the offer evolution and the brand life. So we can talk about that a bit more in Q3.

Our approach is we are really adding sustainability in our core values in the company. We have a lot of people. We describe ourselves as passionate entrepreneur, but we see that people are very, very passionate about sustainability. And we like to do things first before we talk about it. So maybe we'll take a little bit of time with this before we communicate more in detail about that.

Kathryn Parker: Thanks very much.

Operator: Thank you. You have one more question again from Melanie Flouquet of JP Morgan. Please go ahead. Your line is open.

Melanie Flouquet: Yeah. Hi. Sorry, I'm greedy. In the second half of this year, as you rightly set your gross margin, there was a real potential on your adjusted EBITDA comes from notably the gross margin ex-commission compared to last year where the base of comparison was relatively easy. Is there a reason why you couldn't go to pretty – back to pretty close to your H2 17 gross margin excluding commission at around 77%?

Philippe Gautier: Well, I won't – I'm not going to give a guidance item-by-item on the P&L. But what I would say, yeah, in general, the gross margin in H2 18 was a little bit lower that what we would have liked to that was – because the market was extremely promotional, with also some one-off with the Yellow Vest and all this really nice environment that we have faced.

So we have seen the situation normalise, but also, we have done a lot of efforts even in tough market conditions. So this – we feel this will continue. It's a very important objective and this will have an impact on the gross margin. That's what I can tell you.

In general, we expect to be always between 76% and 77%. We don't expect to go beyond 77%, but we feel 76% – between 76% and 77% is the right spot and we are already there.

Melanie Flouquet: Thank you.

Philippe Gautier: You're welcome.

Célia d'Everlange: Thank you, Melanie. I think that we do not have any more questions.

Operator: No further questions coming through on the line.

Célia d'Everlange: Okay. So thank you very much. I wish you a good day and we will talk about Q3 by the end of October.

Philippe Gautier: Thank you very much.

Célia d'Everlange: Thank you for your attention. Bye-bye.

Philippe Gautier: Bye-bye.

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

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