

SMCP

SANDRO, MAJE, CLAUDIE PIERLOT

SMCP Q3 2019 Sales Results

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Welcome

Célia d'Everlange

Head of Investor Relations, SMCP Group

Good morning everyone, this is Célia d'Everlange, Head of Investor Relations speaking. Thanks for being with us this morning for SMCP's Q3 sales conference call. I am here with Phillipe 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 to go through our usual disclaimer on page two.

I think we can start now, Philippe.

Q3 2019 Sales

Philippe Gautier

Chief Financial Officer and Operations Director, SMCP

Okay, thank you Célia. Good morning everyone. Thank you for being here this morning. As you have seen from the press release, Q3 is, in a nutshell, in line with expectations, showing a strong performance, despite a particularly challenging environment, with a continuously sluggish French market, tougher consumption in the US and the impact of the tensions in Hong Kong. We also had some negative timing effects relating to our sell-n with partners that will be offset in Q4.

At constant currency and scope, i.e. excluding De Fursac, the overall performance is strong, at 9%, showing a sequential acceleration versus 8% constant currency and scope in H1 2019. This is at 10.8% reported, i.e. including the positive currency impact of 1.1 points and 0.7 points of sales from De Fursac that we have started to consolidate in the month of September. Importantly, this performance has been achieved on top of high growth of +14% last year.

Throughout the quarter, we have seen an acceleration, both in total sales growth and like for like from July to September, driven by a positive start of fall-winter 2019 collections, particularly with Sandro Women.

We are very satisfied by the overall performance of August and September, which were back to double-digit growth.

Overall, the quarter showed a solid improvement of our fundamentals, with a positive like for like, driven by all international markets: Europe, Americas and APAC. So, these two factors are increasing our confidence for Q4.

In parallel, we pursued our roadmap in terms of opening with 29 POS additions in Q3, which I will comment on in one minute. We have also made good progress on each of our other strategic growth levers: accessories, digital and men.

As far as men is concerned, integration work at De Fursac is already proceeding at a very fast pace with a lot of enthusiasm from both teams.

Q3 2019 openings

I will now go through our Q3 store update in more detail, which is on page four. So, with 29 additional POS in Q3, we are in line with our roadmap for 2019. Most of the updates took place in international markets, with +22 POS in APAC, +12 POS in EMEA +1 in Americas, while France showed six closings, in line with our objective to pursue our optimisation and renovation plan.

To begin with, a quick word on France. We are pursuing our optimisation investments in the quality of our network. However, sometimes we are also able to seize great opportunities, such as our new Claudie Pierlot store on the Champs Elysées.

As you know, Claudie Pierlot is expanding internationally and therefore it is essential to continue to position the brand in iconic touristic areas. We already have a very successful Maje store on the Champs Elysées and this was a great opportunity to close the year with a new concept store of more than 100 square metres. The concept was intended to be more contemporary and modern, while remaining in Claudie's DNA, notably with the navy colour. We removed ceiling mouldings, added urban elements, replaced our usual tables with podium, created a comfortable area, with sofas, just in front of an area exclusively dedicated to accessories. We even added a photo booth to create a more community atmosphere in which every customer can share their experience.

In Europe, we opened 12 new stores in Q3. We continue to expand new markets, such as Lisbon, where we opened some strong-performing stores, like the Sandro dual-gender store, on Avenida Liberdade, opened in 2018. The store will very soon become one of our top-ten stores in Europe; it is currently number 12.

Here we have capitalised on this very successful market entry with our partner el Corte Ingles to open some stores. In parallel, we continue to develop our key markets, such as Italy. Here on the slide we have a picture of Maje in Milan, in the famous Corso Como Street. This is the historical centre of Italian fashion and it stands next to Sandro, which is performing very well and the Italian concept store 10 Corso Como.

In the Americas, we continue to expand our partnership with Bloomingdale's, while we opened our first Sandro US flagship store at 117 Prince Street in New York in September. Sandro intended to standardise its design know-how and offer an experience centred around craftsmanship for a new boutique concept that reflects the heritage and evolution of the founders Evelyne and Ilan Chetrite. Located in the heart of SoHo, the 215-square-metre space has been decorated with natural materials and features unique artisanal elements. When visitors enter the shop, they are greeted by artwork by Brazilian artist Julia Brandão; Inside stands a central column wrapped with a ceramic tile design imagined in collaboration with Marianne Smink. Anchored by the women's and men's collection, the layout highlights ready to wear and accessories.

Finally, APAC, with +22 new stores in Q3. We entered one new city in Greater China, Shijiazhuang, which is the capital and largest city of Hebei Province, about 260 kilometres southwest of Beijing. It is a tier-two city with a population of more than 10 million inhabitants.

We opened Sandro Woman and Maje in Shijiazhuang MixC in July, a new mall that opened in November 2018. Our brands are located on the ground floor, the two shops are visible from

the main atrium and surrounded by affordable luxury brands like Coach, Michael Kors, Weekend by Max Mara and cosmetic brands like Yves Saint Laurent, [inaudible] and Givenchy.

Double-digit international sales growth driven by Europe and APAC; strong performance in France

I will now present the Q3 financial performance in greater detail. So, moving to the regional dynamics on page six, some quick comments before we delve further into each region. So, with 9% of sales growth at constant currency and scope, the quarter benefited from strong double-digit international sales growth driven first by APAC, at +21.5% at constant currency and scope and second by EMEA, which is back to double-digit growth at +12.2%.

Meanwhile, France showed a solid resilience at +0.6%, considering continuously tough market conditions.

Sales growth by region

France

Let us move to the regional breakdown on page seven. In France, sales were up 0.6% at constant scope and up 2.5% on a reported basis, i.e. including De Fursac sales. This performance included a gradual acceleration throughout the quarter, supported by a strong fall/winter 2019 collection, in particular for Sandro. The month of July has been a little bit impacted by the heatwave but total sales and like for like renewed with a good momentum from August onwards, bringing our confidence for Q4.

As we get to the last quarter, we will also benefit from favourable comps as we anniversary the weekends affected by the yellow vests.

Meanwhile, SMCP pursued its network optimisation plan, with -6 net closings over the quarter against qualitative investment in key locations.

EMEA

In EMEA, sales were up 12.2% at constant currency and scope, showing a sharper acceleration versus Q2, reflecting the strong traction of the fall/winter 2019 collections. The sequential acceleration was in all countries, including the UK and was largely driven by like-for-like growth. While July was impacted by the heatwave, like-for-like growth renewed with a strong momentum from August onwards.

Over the last 12 months we have opened 47 DOS, mainly located in our key European countries and including Lisbon, Milan and Copenhagen.

Looking forwards, we are confident that we will pursue the same trend in Q4, alongside a very favourable set of comps.

Americas

On page eight, you can see that in the Americas the group generated a good performance, at +6.3% sales growth at constant currency and scope considering the exceptionally high basis of comparison from last year, we were at +41.8% at constant currency and scope.

This performance mainly reflected a solid underlying trend, with sequential like-for-like sales growth improvement versus H1. In the meantime, the quarter experienced lower contribution

from new stores due to some delay in the opening of our new Sandro flagship. Located on Prince Street in the heart of SoHo, our new flagship has already reached the number one ranking in our American network.

Over the last 12 months, we opened 16 DOS, including ten DOS in Q3 2019, mainly corners with Bloomingdale's.

Moving forward, we remain cautiously optimistic for Q4 and we expect a slight acceleration from Q3. The quarter will benefit from several key updates in terms of free-standing stores. Our base of comps will start to ease slightly, while the market should remain tough, as tourism continues to be low with the strength of the dollar and the trade war.

APAC

Finally, in APAC, the group recorded another very strong quarter with +21.5% of sales growth at constant currency and scope. This is again a very high base of comparison, +31% at constant currency and scope in Q3 2018. This is despite, as you know, the events in Hong Kong.

The group recorded an outstanding performance in mainland China. We were well above expectation, with more than +30% sales growth at constant currency and scope, fuelled by both brick and mortar, as well as digital. This performance was driven by a high-single-digit like-for-like sales growth, a continued store network expansion and solid progress in digital.

Over the quarter, the group launched its WeChat mini e-shop programme, which will contribute to the further diversification of SMCP digital sales by accelerating the development of our own websites.

As part of our strategy to reinforce our presence on social media, we have also launched two other social media platforms. One is on Instagram named "Note of Style" and dedicated to the rest of Asia and one on the Chinese platform Red, for China. The objective is, every week, to push some mix-and-matching looks shown in a lifestyle environment with some sponsored ads to boost the selected post and optimise its reach to a targeted audience.

Over the last 12 months, we continued our expansion with 51 DOS, including several cities in Mainland China such as Qingdao, Shijiazhuang, Chengdu, Hangzhou and Zhengzhou.

Looking forwards, we are confident for Q4 and we expect that Mainland China will continue to offset the negative performance of Hong Kong.

Sales growth by brand

Finally, on page ten, let us look a little bit at the performance by brand. Sandro has seen a clear acceleration, reaching a double-digit growth at +11% at constant currency and scope, driven by the positive start of its fall/winter 2019 collections, as well as the impact of the new commercial organisation implemented by Isabelle Allouch.

Maje continues to generate a very dynamic performance at +8.8% at constant currency and scope. Considering its very high base of comps last year (we were up +20.6% in Q3 2018).

Finally, Claudie Pierlot reported a sales growth at +2.1% at constant currency and scope. This is still impacted by a weaker performance from its dress category in the spring/summer 2019 collection and its lower exposure, as you know, to fast-growing

international markets. While Claudie Pierlot pursued its internationalisation with a strong double-digit sales growth in Europe and APAC, France continued to be a little bit weak.

Overall, SMCP has made solid progress in accessories, with sales up double digit, mostly driven by Maje and Claudie Pierlot, which continued to capitalise on leather goods and shoes. In parallel, digital sales penetration also increased, principally driven by mainland China.

Store openings by brand have been quite balanced over the last 12 months. Sandro record +50 DOS net openings, including Houston Galleria, Kunming Spring City in China and Marbella, La Cãnada Shopping, in Spain.

Maje pursued its development with +45 new DOS including key stores in Stockholm, in Hangzhou Tower Shopping Mall in China and in Fashion Valley, San Diego, in the US.

Finally, Claudie Pierlot increased its international footprint and recorded +15 DOS including Florence and in Beijing China World.

It is a bit too early to talk about De Fursac as we have only consolidated one month of sales. I would just highlight the nomination of Elina Kousourna, the new CEO of De Fursac. She was previously in charge of strategy and development of the group and she will work alongside Edmond Cohen, who will be Chairman of the Supervisory Board of De Fursac. They both share a very strong passion for the brand, as we enter a new, exciting chapter of international expansion.

2019 guidance confirmed

To wrap it up and before we pass the floor to your questions, just a few closing remarks on page 12.

So, as you have seen, despite challenging market conditions and a very high base of comps, Q3 2019 generated a strong performance and relied on sound fundamentals with a positive like-for-like.

Looking forward the sequential improvements seen within Q3, with a strong double-digit exit growth rate recorded in August and September, which was confirmed by the performance of October, coupled with the strong traction of the fall/winter 2019 collection increase our confidence in our ability to post a strong acceleration in Q4 and reach our full-year sales guidance.

In parallel, we continue to make solid progress on working capital, and this should be increasingly visible in H2. On the top of the new processes of demand planning that we put in place, we will also execute a few off-price partner sales on old collections, which will slightly impact our gross margin, while we maintain ability to moderate our promotions in our stores.

This leads us to reconfirm our Ebitda margin guidance. It should benefit from the reacceleration of our sales growth, both in total growth and like-for-like, as well as a strict control of our SG&A cost.

So thank you very much for your attention and we are now happy to take your questions.

Q&A

Marion Boucheron (MainFirst): Hi, good morning everyone. Thanks for the question. The first one will be if you could give us, maybe, some colour from the start of October and the momentum of the Fall/Winter collection, and also if, maybe, you had any impact from the rather okay weather in Europe.

Then the second question is on Claudie Pierlot. So, you were mentioning a drag from the Spring/Summer dress in Q3, but have you seen any improvement since September as well, which is more of a full winter month? Would you mind giving us, maybe, the different trends of Claudie Pierlot, of France versus the other regions? Thank you.

Célia d'Everlange: Okay. Thank you, Marion.

Philippe Gautier: So, yeah. As I commented for October. We are pleased with the performance in October; basically, it is a continuation of what we have seen in August and September. As you mention, in terms of weather the main aspects were July, where we had this impact of the very exceptional heatwave, which was slightly negative and then it has normalised. So, in normal conditions you see that we had a very strong performance in August and September, and this continues in October. Obviously, it is related to the performance of the Fall/Winter 2019 collection and particularly with sandro.

If I talk a bit more about Claudie Pierlot. Yes, I mentioned there were some weaker sales on the dress category, which is an important category for Claudie Pierlot, it is about 60% of their sales at Q3 are in the Summer 2019 collection. Also, dress is an important category in that and in that we have been underperforming. Yeah, we see a good reception so far on the Fall/Winter 2019 collection and, if you look by regions, EMEA is performing well for Claudie Pierlot. So, challenges were a little bit more in France. The fact that Claudie Pierlot is performing really well in Europe is a good sign; as we internationalise the brand it is very, very encouraging, we are quite happy with that.

Célia d'Everlange: As well as in APAC, also –

Philippe Gautier: Yes.

Marion Boucheron: If I may also follow-up, because you said in the press release same store sales growth sales growth was back to positive, driven by international markets, but France also no? if you can help.

Philippe Gautier: Yeah. Maybe to give you some colours on the like-for-like. So, the like-for-like continues to be low single-digit negative for France, but what is really positive – and in France, you know what, basically the consumption continues to be, really, a bit challenging. If you look at the IFM index, continues to be negative in Q3. So, we are in relatively challenging conditions, but we are gaining market share in the quarter in France. What is important is that we were back to positive like-for-like in France in August, so you had a bit of the impact of the heatwave in France. So that is France.

EMEA, we had a positive like-for-like, particularly from August, so it is also going in the right direction. If you look at the Americas also it is positive, which is a very good sign because it was more challenging, particularly in Q1, and strong performance in September. APAC. APAC, you had a little bit of an impact of Hong Kong, obviously, as you would expect, but have in mind Hong Kong is only about 12% of our sales, it is not huge. Then what we are

very happy about is the like-for-like in China. Mainland China is high single-digit, still very, very high. So, we are pleased to see that, overall, the like-for-like is back to positive and very, very positive in the internal slow regions.

Marion Boucheron: Okay, thanks.

Célia d'Everlange: I think we have another question.

Kathryn Parker (Jefferies): Morning everyone. Thank you for taking my questions. So I have got two questions. My first one is on EMEA. Obviously, we saw a nice acceleration and then I was wondering if you could comment just on the different countries within the region and where the acceleration came from? Then my second question is on digital in Asia. So I know you said at the beginning of the year you were planning to launch new websites in Hong Kong, Macau and Taiwan, and I just wanted to check whether these have been launched this year yet. Thank you.

Philippe Gautier: Yeah, sure Kathryn. So maybe, first thing, on EMEA. So, as you saw, fast acceleration, so we went from +8.7% in Q2 to +12% in Q3, so we are very pleased about that. What I would say is that we see, really, an acceleration in all countries; it is very broad-based. Yeah, the acceleration comes mostly from like-for-like. It is both store and ecommerce. If I had to make some differences, maybe it is a little bit, even a bit stronger in Northern Europe, and Southern Europe there was a bit more of a climatic effect, but I would say it is really broad-based. Maybe just to complement, in terms of extension we mention some of the new POS, 47 over the last 12 months; that has been a bit more concentrated in countries like Spain, Switzerland and Italy.

As far as digital in Asia, so what we are opening in terms of Hong Kong, Macau and Taiwan site, this is in 2020. So, as you know, we have made a lot of progress in China; now mainland China is at the same level as the rest of the Group, so we are around 15% penetration in China. Hong Kong, Macau, Taiwan, they are smaller markets in terms of ecommerce, so we are planning to launch them in 2020. Have in mind that we are making a lot of investment in infrastructure in Asia in terms of systems, in terms of teams based in Shanghai, so we go a little bit step-by-step.

Kathryn Parker: Oh, great. Thank you.

Célia d'Everlange: Thank you.

Melanie Flouquet (J.P. Morgan): Yes, good morning. Thank you for taking my questions. I have two, please. The first one is on your like-for-like being positive this quarter. I was wondering whether you can now, first, maybe a bit better understand the contribution of digital to this, how this has evolved, even qualitatively if you can make comments as to if this is where you saw the most acceleration, how this is evolving in your business and by market. Sorry, my second question is just a clarification whether you can repeat what you said about the gross margin dynamics that you are expecting. So, I understand you are expecting to have less markdowns, if I understood well, and maybe some investments in the products, but I wanted to double-check that I understood this correctly. Thank you.

Célia d'Everlange: Thank you, Melanie.

Philippe Gautier: Sure, yeah. Hello Melanie. So, what I would say, yeah, like-for-like is variable in the quarter. I would say it is fairly broad-based and it is balanced between stores

and ecommerce. So, yes, slightly more growth in ecommerce in general, but we are also pleased to see favourable store like-for-like and that is quite important. If you want a bit of colour by region, I would say that in the quarter we increased more in France and in China, as you would expect, so that is where we have developed the most. So, yeah, digital is contributing, but it is pretty balanced.

In terms of the gross margin, there are two different things. The most important one is in terms of the discount policy. So, we continue to look for a moderate commercial quality and commercial pressure, and we have been managing very well our discounts. So, we put to stop the trend of increase that we have seen over the last couple of years. So, the discount rate is stable and that is quite important. The other comment I made on the gross margin is that we make effort to improve our working capital; we have been working a lot, even planning. The other part is also some one-off liquidation of old collections that we do with a partner. It is very well done, separate from our own stores, and this will have a little bit of an impact on the gross margin in Q4, but it will be also offset by the effort we are making in terms of discount management, so a little bit of impact there.

Melanie Flouquet: The impact is on Claudie Pierlot collection or is that broad-based, that liquidation of old stock you are talking about coming?

Philippe Gautier: No. Actually, it is more 2018 –

Melanie Flouquet: Ah, okay.

Philippe Gautier: – stock, so it is older stock, not much to do with Claudie Pierlot.

Melanie Flouquet: So it is [inaudible]?

Philippe Gautier: As I mentioned previously, this was more a question of demand planning, when we were a little bit over-purchase internationally. It is not a question of sales performance; the sales performance is okay.

Melanie Flouquet: So this is, until now, an excess stock from the "Gilet Jaune" this was international excess buying –

Philippe Gautier: Yeah.

Melanie Flouquet: – Thank you.

Célia d'Everlange: So, I think we have no more questions. So, thank you very much for your attention. Now, we will talk end of January, on the 29, for the full-year sales publication. Thank you very much. Bye bye. Have a good day.

Philippe Gautier: Thank you very much.

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