SMCP

SANDRO, MAJE, CLAUDIE PIERLOT

SMCP Trading Update

Friday, 6th December 2019

Operator: Ladies and gentlemen, thank you for standing by and welcome to the SMCP conference call trading update. At this time, all participants are in a listen-only mode. After the speaker presentation there will be a question and answer session. To ask a question during the session, you will need to press star and one on your telephone. I would like to advise you that your conference is being recorded today, Friday, 6th December 2019. I would now like to hand the conference over to your speaker today, Célia d'Everlange. Please go ahead.

Opening Remarks

Célia d'Everlange

Head of Investor Relations, SMCP

Good morning to all. This is Célia d'Everlange speaking, head of IR. Thank you for joining the call this morning. We know it's a bit short notice. I apologise for that. I'm here with Daniel Lalonde, CEO, and Philippe Gautier, CFO Office and CP, and I will now give the floor to Daniel. Daniel?

Trading Update

Daniel Lalonde

CEO, SMCP

All right. Thank you Célia and good morning to everyone. As you've seen, we've issued today a short press release with the intention to give you an update on where we are for the year. And we'd just like to take a few minutes to go through the key messages. Then we can open it up to Q&A.

Throughout the year and in an increasingly volatile and challenging environment, we've pursued our strategic roadmap, leveraging our solid fundamentals and focusing on key priorities, such as like-for-like growth and full price sales through a strict control of our promotional activity, as well as many initiatives to continue to nurture our brands' desirability. First nine months showed a gradual improvement in sales with notably a continuously strong performance in mainland China and Europe, as well as encouraging trends in France. In addition, we were back to positive like-for-like in Q3 and this trend has continued in Q4 to-date, up to yesterday.

However, over the past few months, we've seen market conditions deteriorating quite sharply in Hong Kong. This is triggered by a strong decrease in traffic and some temporary store closures, representing, I believe, last month, up to 20% decline in terms of opening hours in Hong Kong, which is huge. So, this has led to sales drops of up to 40% in this period, in the past couple of months in Hong Kong. So, as you know, Hong Kong is a very profitable area, benefitting from the highest productivity and gross margin level and its deterioration, particularly in the past two months, has been – has had a strong impact on our Group margin. This is amplified by the fact that we've just opened seven new stores in Hong Kong since August. They were planned over a year ago, clearly, and they represent up to 25% of our store network in Hong Kong. So, these new stores are obviously way off their initial sales targets. However, they do generate additional fixed costs.

To a lesser extent, the weaker-than-expected performance of Claudie Pierlot will also add pressure on the Group's margin. As you know, Claudie Pierlot is much less exposed to fast international markets and to Chinese tourism as compared to Sandro and Maje. In addition, we opened seven stores this year for Claudie Pierlot which is about three times less than we have over the past. We've adopted a more qualitative and selective approach to foster highly qualitative locations for Claudie Pierlot.

So, these two cumulative impacts that we won't be able to compensate leads us today to adjust our EBITDA margin to a range of 15.5-16% while we reconfirm our sales objective for the year.

Looking forward, we are closely monitoring the trends in Hong Kong, clearly, and have been for quite some time, and taking all the appropriate measures. For example, we do not project any new store openings, obviously, in 2020 and we've already confirmed two store closures. We've been successfully negotiating rent release, short-term and mid-term with our key landlords. We're optimising our retail staff costs and we've also planned to launch Sandro and Maje websites in Hong Kong, again a project that had been planned for over a year now. So, we plan to launch Sandro and Maje websites in Hong Kong at the end of the year, which should contribute to capture some of the lost sales. In parallel, the Claudie Pierlot's team continues to make progress in its journey to internationalise the brand and we are tweaking the marketing mix and the product collections to cater to a more international customer base, especially in Asia.

Overall, all the teams remain committed and engaged in pursuing fantastic growth opportunities. We have the right business model, we're very convinced, and we continue to leverage our strong, desirable brands with significant growth potential. We're present in 41 countries today. By the way, we added New Zealand two weeks ago. And we have plenty of new projects to continue to develop our brands in regions over the mid-term while accelerating our like-for-like growth.

So, thanks for your attention. I don't think I have much more to say at this time, so I suggest we move to questions and answers.

Q&A

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. As a reminder, if you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. Please stand by while we compile the Q&A queue. This will only take a few moments. If you wish to cancel your request please press the hash key. Once again, please press star and one if you wish to ask a question. And the first question comes from the line of Murielle Andre from HSBC. Please go ahead, your line is now open.

Murielle Andre-Pinard (HSBC): Good morning everybody, you can hear me?

Célia d'Everlange: Yes, perfect.

Daniel Lalonde: Yes.

Murielle Andre-Pinard: Yes. Yes, in fact my question is, you cut your EBITDA margin but you maintain the sales outlook, so it means that you are able to compensate the loss in HK and the weakness of Claudie Pierlot in other area, in other region. So, I would like to see where you are able to compensate. And so if you are able to compensate, why you cut the margin in fact? And in your sales projects and for the year, to what extent you – what is your scenario in France, taking into account the current move and the uncertainty on how it's going to evolve in the coming – in the coming days?

Daniel Lalonde: All right. Let me take that, Murielle, thank you. Well, listen, I think on the sales guidance, we did provide a range obviously, 9-11%. We'll most likely be at the lower end of that range. Hong Kong is very particular because we've had – it's a high gross margin market, clearly, for us. We have – unfortunately, we had planned seven openings since – in fact, it's since August. And in – not necessarily in the right period but those are plans that were done a long time ago. So, these stores are clearly not having the run rate that's expected. Yet, we have some other fixed costs in this market so the drop-down to EBITDA is fairly quick. That's why we feel – again, we had to announce this news today.

In France – listen, I can just say in France, we've had some very encouraging trends. We've just come through the equivalent of Black Friday, which is basically almost everywhere in the world today, with some strong results in France and in Europe. So, we're encouraged by that and I'd say up until yesterday, very encouraging trends on like-for-like. I don't know what will happen in the next – until the end of the year with the manifestations on – in France. We know that it will continue through Monday but again, we don't know how that will impact our business. But I can just say that today, it's – we've been very encouraged by the trends and the results we've had in France over the past weeks.

Philippe, did you want to add anything on the first question?

Philippe Gautier: Yeah, hello Murielle. Just to add, as Daniel was mentioning, if you consider Hong Kong, this is one of the area where we have the highest gross margin. So, due to the violence of the events going on in Hong Kong, there's been a very sharp deterioration in sales. And then there is very little offset in terms of variable costs. We don't have many variable costs in Hong Kong. You have mostly rents, which are fixed, which are relatively high. So, that's why you have the very big drop-through from the deterioration in sales to the deterioration in EBITDA.

Murielle Andre-Pinard: Okay, so if you – yeah, okay.

Célia d'Everlange: do you have another question, Murielle?

Murielle Andre-Pinard: Yes, if we – Hong Kong, gross margin there is no specific impact on gross margin in the other area?

Philippe Gautier: Maybe Murielle, if you recall what we talked a bit during the Q3 sales result, apart from Hong Kong, we had a little bit of pressure on the gross margin which was a technical element. We are doing more – a bit more off-price operation in Q4 and that's related to the liquidation of inventories we had in – with a bit overpurchased in 2018, so there is a bit of technical effect here. But the rest is favourable. Like Daniel mentioned, we have contained the level of discounts. So, I would say two main elements. Hong Kong has a negative impact on the gross margin because we are losing profitable business, and then a bit more off-price operations.

Murielle Andre-Pinard: Okay. Thank you.

Célia d'Everlange: Thank you, Murielle.

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

Marion Boucheron (MainFirst): Hi, good morning everyone. Just following up also on the previous question, I mean, where have you really offset the sales that you're obviously not getting in Hong Kong, given the deterioration? And then the higher gross margin in Hong Kong, is it due to the higher prices there or also that Asia tends to be much less promotional than Europe or the Americas? And then, if we look at next year, where do you think your gross margin can range? I mean, do you think you need to adjust the regular level you were stating in the past?

Daniel Lalonde: Okay. Well, I've noted – thanks Marion, there's three questions. Maybe I'll talk a little about the first two and let Philippe talk about gross margin for next year. So, where did we offset the sales? Well, it's a little difficult for us to offset the sales. We're having – obviously, we've had some great results so far to-date, which is yesterday for me, in China. So, China keeps performing within our expectations and slightly above our expectations. So, that's very solid. But our footprint is still – we're not able to offset some of the sales in other parts of Asia yet. Markets which have seen some positive offsets in that part of the world is Japan, Bangkok, so city of Bangkok, Kuala Lumpur, Singapore where we do have distribution. But we're not present in all these markets yet. Japan is a project for the future and, in fact, Malaysia is geared for next year.

So, we're not able to offset in some of these areas where the Chinese have been travelling instead of travelling to Hong Kong yet. We see them a little bit in France in some of the European markets but the offset is a little bit more difficult for us overall. And again, I just wanted to stress that we're very excited and very happy with the results we've had in China up to date, including 11/11 which we're very happy with those results.

So, the high gross margins in Hong Kong, well, it's a factor of two things. Our pricing. It's the index for Hong Kong is higher than the Euro index. It's slightly lower than the China index. On average we price, Philippe, I think today roughly 30 – yeah, about 30 – the index is about a 1.30 to Europe. We don't increase prices. This is based on a fluctuation. We have very small price increases, as you know, per year in the range of 1.5. So, it varies with the exchange rate. So, that's one thing and it is a less promotional – it is a less promotional market. So, those are the two reasons why we have very strong gross margins in Hong Kong.

Philippe Gautier: Maybe, Marion, on your question on the gross margin next year, I would say we have highlighted the impact for 2019, so talking about Hong Kong, talking about some off-price operations. It's a bit early to go in detail about 2020 and we'll have occasion to talk more about 2020. What I would say, it depends as well on what's going to happen in Hong Kong. So, certainly, there is a question of – here. And then on price operation, we'll continue to have some price operations. We have also a good demand on the outlets, which is with a slightly less margin. So, again, you can see some of the factors we see in 2019 will probably continue in 2020 but it's a bit early to tell. So, we will continue to be a little bit cautious on the gross margin.

Marion Boucheron: Okay. And just one follow-up to the part of offset. So, basically you are not getting really the – well, let's say, Chinese demand elsewhere but since, let's say, 3Q results, the rest of the world has maybe developed better with other clients than to your expectations, then if you're able to maintain the same guidance.

Daniel Lalonde: Yes, that's exactly right. One day when I think we're more penetrated. It's just a matter of time in Asia. We have plans, as I mentioned, in Japan which we can share with you at our Investor Day. We have plans already – a very specific plan to enter Kuala Lumpur next year, which is an exciting market. So, we keep building our presence in Asia but we don't have this – it's part of the journey. And we've seen, I guess, some slight positives with the Chinese customer in some European capitals but, yeah, the offset has been some – I'd say some strong performance in France – in France and in European markets.

I was travelling in the last two weeks across Europe, in Madrid, in different parts of France as well during some of this Black Friday promotions, and I was very excited to see the performance and that the customers were out there. And we were slightly less promotional this year for Black Friday than we were last year. So, again, we were – we started later than other brands. We stuck to our principles and we had less products on promotion than we did last year. So, that's – that was encouraging for me.

Marion Boucheron: Okay, thank you.

Célia d'Everlange: Thank you, Marion.

Operator: Thank you and the next question comes from the line of David da Maia from CIC. Please go ahead, your line is now open.

David da Maia (CM-CIC): Hello, hi everyone. Thank you for taking my questions. So, again, I'm a bit surprised by the magnitude of the adjustment, given the fact that you reconfirm your full-year sales guidance and given the fact that Hong Kong only represents 4% of your sales. So, in this context, are you implying that your EBIT margin target was not achievable with the growth at the bottom of the range of your gross guidance? Or maybe the quality of your sales has deteriorated in the last couple of weeks? Thank you.

Philippe Gautier: Hi David. Yeah, maybe if I take a couple of points. The first thing is, as I mentioned, Hong Kong is a very profitable market. We had among our most important stores in Hong Kong, among the global stores, like IFC, Harbour City, these are like the most productive stores in the world. So, when you see a decline in sales of about 40% or plus and it has been a very, very sharp deterioration, especially in November, it has an immediate impact on EBITDA. So, that is basically a driver and that – it has a big impact on EBITDA. So, that's one thing.

You all still have in mind as well we have opened seven stores, so 25% of our network is new in Hong Kong, open in H2. So, these stores, they had really slow sales and a lot of fixed costs. I think it was a good strategy because obviously timing is difficult. So, that's the key thing. And then in terms of the sales, quality of sales, as Daniel mentioned, we are pursuing the strategy to be less promotional than the competition now. You can see that there is a demand for – from the customer for our prices and we see our outlets business is performing well in terms of some of the off-price operations. So, you have some sales which are with a little bit less margin. So, that's also an impact on the EBITDA.

Célia d'Everlange: David?

David da Maia: Yes. Thank you.

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

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

Daniel Lalonde: Yes.

Célia d'Everlange: Yes.

Philippe Gautier: Yes.

Rebecca McClellan: Good morning. I've got three questions for you, please. Firstly, you talk about, I mean, 2020, the *Opération Nettoyage* and the off-price activity. Is that something that you're engaging[?] in more? Because I was of the impression that the 4Q 2019 off-price was because you wanted to get rid of some 2018 stock. But is it – so, is it a slight shift in your strategy towards more off-price? So, that's my first question.

Secondly, inventory for Hong Kong, is there any sort of major inventories build in Hong Kong or have you managed to move that inventory elsewhere, given the underperformance of the sales?

And my third question is about your rental structure in Hong Kong. How flexible are you in terms of downsizing or shifting that fixed cost down, going forward?

Daniel Lalonde: Okay. Thank you. I can – listen, just a couple of things, Rebecca. It's Daniel, hi. So, I'll take your first and third question and let Philippe add to my points. No, our strategy's not changing at all for shifting to off-price. Of course not. I think as Philippe mentioned earlier, we had a small action now and I think it'll spill over early next year on liquidation. And I think what that – that'll be finished for the adjustments.

So, it's just a matter of timing. There is absolutely no shift. In fact, it's the opposite. Our focus is very, very much still on full price and in season, high sell-throughs. That's the big focus of the company. We did that, as I mentioned, early on in Black Friday. I just mentioned that. And also, we – in 11/11, to repeat myself, we very consciously took a decision to – this year, in China, we didn't participate in the coupons and the vouchers. Almost all other brands in our environment did. We said no because it was – we thought it was too promotional. We put forth our current season collection, so it's Fall/Winter 2019 as the main collection for that – for 11/11. And we had very little discount rates.

Last year we had more of the old collections for 11/11. We had very little of the current season collection and we had vouchers and everything else, like everyone – like all other brands. So, we took a very strong stance this year to have better quality sales. So, yeah, we did have slightly less sales in 11/11 this year than the past year but a much better quality and at a higher gross margin. So, I just wanted to – I just wanted to give you that example because I think it's really important. That's our approach going forward and we're convinced it's the right way but our focus is more on having a larger part of our sales at full price. That's a big – that's a big objective of ours.

And I'll answer your third question –

Rebecca McClellan: But – so that *opération nettoyage* going into 2020 just means that you didn't quite liquidate the inventory that you wanted to in the end of 2019?

Philippe Gautier: Yeah, to be very clear, so, yeah, we're doing a little bit more liquidation, both in Q4 2019 and we will continue a little bit in Q1 2020. And as I mentioned, that's related to 2019 stock so all the – all collections. We'd add as well that this is happening as well in Asia, so that we have a cleaner inventory situation in Asia. So, we had this demand planning topic in 2018 but since then we have made a lot of progress on demand planning, which means that we are able to better manage the inventory, including in Hong Kong.

Rebecca McClellan: Okay.

Daniel Lalonde: Okay, so that's – I think that's the first point. The second point or the third point you're talking about what are we doing in Hong Kong, yeah? So, our current store network is 29 stores in Hong Kong. Again, it's with three brands so you have to divide everything by three. It doesn't sound that large. So, where we're going on the footprint is you will go to 27 stores in Q1. So, there's two stores already earmarked for closure in Causeway Bay. I can't be more specific than that but let's just say it's Causeway Bay area.

And then we're optimising, as I mentioned, our staff costs. We'll be able to get some savings already. We're renegotiating rents. Some have been easier than others, both on rent relief, short-term rent relief, and there are about ten of our – ten of our 29 or let's say 27 stores where we're at lease expiration next year. So, obviously we already have some renewals with a more favourable rent. So, that's been part of it as well. So, we feel by the end – having 27 stores next year, divide by three, so you basically have roughly nine per brand, is a good footprint.

Luxury has – it depends on the brands, but up to six or eight stores per brand, you know. They're big, big, big stores, as you know, for luxury and for us as well. For luxury brands. We feel that's fine. If we need to readjust, we would readjust or close additional stores. We'll evaluate that next year. It wouldn't be many. It would be three or four max because we feel they have a really good distribution. We're in the prominent malls and as Philippe was mentioning, they're among the highest productivity and overall, in euros and sales as well.

So, we're looking at it very closely. We've a very specific plan and we've made some nice wins over the last couple of months in terms of setting rent levels. So, we'll clearly optimise this market and we're staying very, very close to it.

Rebecca McClellan: Okay.

Daniel Lalonde: You had a question on the inventory in Hong Kong. Philippe, if you…

Philippe Gautier: Yeah, as I mentioned, when we talk about off-price operation, that includes as well Asia which allows us to have a clean position in Asia. And we have made a lot of progress in demand planning so we believe we are really tighter stock which enables us to mitigate the situation.

Rebecca McClellan: Okay. Thank you very much.

Daniel Lalonde: Okay.

Operator: Thank you and the next question comes from Kathryn Parker from Jefferies. Please go ahead, your line is now open.

Kathryn Parker (Jefferies): Good morning. Thank you for taking my questions. I was actually wondering if I could ask about Shandong Ruyi. So, I know that the market has been quite concerned about a bond that they have maturing in December. And I just wondered if you could give any comments to reassure on that? And that's actually my only question. The other ones have been asked.

Daniel Lalonde: Okay. Thank you, Kathryn. Maybe I'll let Philippe take this question.

Philippe Gautier: Yeah, sure. Yeah, they're a bit of an issue on Ruyi. Maybe to put that a bit in perspective, they had organised some meetings with debt investors in Hong Kong and Singapore a couple of weeks ago. And that has been well-received by the market. What they have done is that they have reiterated what is well-known in China, maybe a bit less so in Europe, which is that they have strong support from government-related entities. And after the announcement, maybe you saw that Jining City where they are based has entered to be the second main shareholder of Shandong Ruyi Technology. And then they have also announced a plan to reduce their debt level quite significantly and through disposal of certain assets like real estate and releasing of certain assets like LYCRA. So, that's what they have announced and they have been progressing on the different action that they have mentioned.

Kathryn Parker: Okay, thank you.

Operator: Thank you. Next question comes from the line of Aurelie Husson from Kepler. Please ask your question, your line is now open.

Aurelie Husson (Kepler Cheuvreux): Yes, good morning everyone. Two questions from me, please. The first one is, I have done the calculation about the magnitude of the warning. It's actually €17 million on the EBITDA. So, it will be very helpful if you could help us attribute this to Hong Kong and Claudie Pierlot. Is it half and half? Is it more to Hong Kong than to Claude Pierlot? My other calculation is that if you assume that last year it was 4% of sales were roughly – I'm talking about Hong Kong – it was roughly €40 million. So, today Hong Kong shall represent in future, -40%, €24 million, which will represent 2% of sales. How come this 2% of sales generate now a negative EBITDA? I think it would be helpful if you can help us on this.

And my second question is, how can we be sure that this new modern guidance will not be the new normal for the Group? Because Hong Kong is not going to recover magically in 2020. I understand that you are lowering your cost base, but will that be enough? And Claudie Pierlot is not going to become international in one year as well. So, is the new EBITDA guidance for SMCP 15%, which is obviously what the market is currently pricing it, with the -20% drop in the share price today?

Daniel Lalonde: All right. Maybe, I'll let Philippe take the first question. I'll make a couple comments on the second one.

Philippe Gautier: Right, Aurelie. We're not talking about 15% of margin, we are talking about 15.5-16%, so that's not €17 million, it's a bit less than that. As I mentioned, there is a big drop-through Hong Kong this year with sales and that translates to a big gap in EBITDA.

Nevertheless, since Hong Kong was very profitable, it continues to be profitable. If you want to think about the impacts on the adjustment, I would say much more than half comes from Hong Kong and then Claudie Pierlot is a bit less than Hong Kong.

Aurelie Husson: Sorry. Sorry, just to understand, what did you say exactly? It's more than half for Hong Kong?

Philippe Gautier: Yeah.

Aurelie Husson: Okay.

Philippe Gautier: It's more than half for Hong Kong and then the rest is mostly Claudie Pierlot. So, that's the idea. And then in terms of guidance for 2020, it's a little bit early, obviously. Some of the impacts we talked about, they are carrying over to 2020. We continue to be prudent for Hong Kong. It's hard to say exactly what will happen but we could expect the situation to continue, at least in H1, for Hong Kong. And I think Daniel commented already a bit about what are the actions at Claudie Pierlot.

Daniel Lalonde: So, maybe just on that last question. So yeah, who knows when Hong Kong will recover, clearly. We've adjusted very quickly our footprint, our way of working in that market. It still will be an interesting – a big market, I think, in the future. I don't know when the recovery happens. I don't know that it may be as strong as it used to be in the past for brands and the accessible luxury space and the luxury space. And the offset will be as we continue to build business and brands in China, which will be very, very successful, of which we're very happy with the results. And as we further develop our brands and businesses in Asia, as I mentioned earlier, we have planned to enter the Japanese market, Kuala Lumpur is next year. So, I think that we'll be able to capture some of this offset that we will see for some time in Hong Kong in some of these markets.

Claudie Pierlot is on a journey, the same journey as Sandro and Maje were as they became more international brands. As I mentioned earlier, we've had some successes – very recent successes in Europe, as I was travelling through Black Friday. And one of the objectives clearly is to have the level of success that Sandro and Maje have had and have today in China. And that'll take a little while but it's just it has been planned this way. It's part of Claudie Pierlot's journey. We've had some good green shoots[?] I'd say in China, mainline China with Claudie Pierlot with some of the stores we have there. So, it's just part of the journey.

And last point I'd say, we look forward, obviously, to seeing you all at Investor Day to share our vision for the midterm as well as I shared with you – obviously the guidance at this point in time.

Aurelie Hanson: Thank you.

Daniel Lalonde: Okay. Thank you.

Operator: Thank you. And the next question comes from the line of Laurent Gélébart from Exane. Please go ahead, your line is now open.

Laurent Gélébart: Good morning. Laurent speaking from Exane. Just one question coming back on Hong Kong and the action you are taking to mitigate the impact on the rents[?]. So, you are mentioning that ten of your stores are going to see an expiry of their rents next year.

What kind of level of savings do you expect to be able to extract from this? Are we speaking 10% reduction in rent, 20%, 30%? So, is it going to be material or not?

Daniel Lalonde: Well, Laurent, that's a very specific question. I don't want to give my hand out so much right now because these are tough negotiations, obviously, because most of the landlords that we have in Hong Kong are also partners for us in China, in mainland China. So, they look at the region from a holistic point of view. So, without giving a specific number, we expect, I'd say, some meaningful deductions in the rents, simply put, because this is driven largely by the estimated traffic levels that will happen, that's happening now. We've seen traffic in the last couple of months, in our boutiques, traffic is down from 40% to 50%, which is fairly high. If the level of traffic doesn't come back to Hong Kong when Hong Kong normalises – which is a little bit my hypothesis, to be honest, at this point in time. I think it will not come back to the levels it was before, then this is the conversation we're having with the key landlords to adjust the rent levels to the new normal in Hong Kong.

So, we're in the process of doing that. We've had some success, I'd say some good success so far, which is good. Not only on short-term rent relief but also on mid-term, which is what you're talking about, about leases for the next three years.

Philippe Gautier: Laurent, I would just add one comment as well, is when we see situations like that in Hong Kong, obviously at Group level we are also able to be pretty reactive in the way we manage our SG&A. As you saw already in H1, when we had softer number at the start of the year and we have been reactive to manage our SG&A costs, negotiating with suppliers or service providers, etc. So, we are continuing to do that and even more in H2. So, that can be – that can mitigate a little bit this situation.

Laurent Gélébart: Okay, thank you.

Célia d'Everlange: Thank you.

Operator: Thank you. And the next question comes from the line of Melanie Flouquet from JP Morgan. Please ask your question. Your line is now open.

Melanie Flouquet: Yes, hi. Good morning. Thanks, you for taking my questions. Can I go back to Hong Kong and just precisely maybe go back to how much the sales went down in quarter three? And I think you're now mentioning down 40% in your expectations for Q4. Just making sure I had the maths right.

My second question is on a bit of an accent to the presentation and the discussion so far. What are you seeing in the US? If you could comment on that.

And then my last question is on Claudie Pierlot. Are we actually saying that sales deteriorated at Claudie Pierlot in Q4 and how much [inaudible] did it deteriorate by? Thank you. So far, of course. Q4 is not finished.

Daniel Lalonde: Okay. Yeah, thank – yeah, it's not finish. Yes, exactly. To date, I guess you're saying, Melanie.

Melanie Flouquet: Yeah. Yes.

Daniel Lalonde: So, thank you. I think Philippe can take the first question. I can take question two and three.

Philippe Gautier: Yeah. When we talk about the deterioration in Hong Kong, when we talk about the -40, we are talking from the like-for-like point of view, so it's much less, obviously, from a total point of view because you have also new stores. So, they are doing less that expected but they are still contributing, so we're talking like-for-like, not for the total sales.

Melanie Flouquet: Perfect. And if I look at total sales, are you able to maybe to understand the sequential – how things deteriorate? Or actually compared to this line of 40%, where was quarter three? In like-for-like. That's even more interesting. Thank you.

Philippe Gautier: You say what is quarter three in terms of like-for-like?

Melanie Flouquet: Yes.

Philippe Gautier: Both –

Melanie Flouquet: Yeah.

Philippe Gautier: Yeah, basically, what we saw, as we mentioned, we have a situation where it has been deteriorating, where it has been, like, between -10% to -15% in like-for-like in Q3, and then the toughest part has been in October and November when we get more to -40% in terms of like-for-like, as the events have deteriorated in Hong Kong.

Melanie Flouquet: Thank you.

Philippe Gautier: When the – at the start of the year, it was positive in like-for-like, so there has been clearly a very big shift in terms of trend.

Daniel Lalonde: Yeah, and similarly, yeah, we were seeing since June, since this all happened, we've been following it very closely, of course. And we've had some impacts, obviously, already started at the end of June and then July/August we started to see [inaudible] like-for-like some mid-teen – decline in mid-teens. And it's really when we saw the traffic being massively affected in October – that dropped, as we mentioned, to the 40% level, which I think is similar to other brands as well. That's what happened.

In terms of North America or the US, a couple of things, I would say Q4, again, we don't have the whole Q4 and I think it's very important to note today to everyone that December's a very big month, as you know. We have some incredibly strong sales, some big days ahead of us, so it's not finished yet. And that's why we can only obviously talk to the trend to date. But North America has been in line with the trend of Q3, is what I can say. I mentioned already Black Friday, that brick and mortar was a little bit more promotional and challenging but Cyber Monday was very strong. And then the backlog of North America is the comps obviously of last year. The comps were 25% last year at constant currency, so we're – we had some very strong success last year that we're comping. So, in line with Q3.

Claudie Pierlot you mentioned as well. I'd say the trend to date, again with the caveat that we still have a lot to go and some very important days ahead, is slightly in decline, I'd say, vis-à-vis Q3, but – at a marginal – at a very marginal level.

Melanie Flouquet: Thank you.

Daniel Lalonde: Okay. Thanks Melanie.

Operator: Thank you. And the next question comes from the line of Geoffroy de Mendez of Bank of America. Please go ahead. Your line is now open.

Geoffroy de Mendez: Yes, good morning. So, if we look at your new guidance for the EBITDA margin, I think it implies for H2 between 15% and 16% EBITDA margin. You just said that in Q3 in Hong Kong, like-for-like went down 10-15% and in Q4, well, 40%. So, obviously margins in Q4 are going to be way below the one from Q3. And you also said that you were expecting the trend to continue, I guess, at least in H1 2020, so actually the base that we should work on for H1 2020 in terms of margin is actually Q4 and not H2. So, can you give us just a sense of where you think Q4 margin would be?

Philippe Gautier: That's a great question. Yeah, we talked about, like, the toughest part of the crisis has been definitely in November, so that was the toughest month, but not as bad in Q3. So, when we say that we feel the – well, we consider the crisis might [inaudible], it does not mean necessarily it will be as bad as November for the next six months. So, you can consider it will be more in line with what we have seen in H2 in general. So, I would say it makes more sense to look at the margins of H2 rather than the Q4 margins.

And then what I mentioned as well is that, yeah, there are also some other positives. I talked about the work we are doing in terms of SG&A. So, we started already in H1 to adjust our SG&A. We did some progress already compared to previous years. This is continuing in H2 and this is also going to continue in 2020, so we will manage quite carefully our first base.

Daniel Lalonde: And then Geoffroy, maybe just I'll add a couple of points to that in terms of ideas[?]. So, as I mentioned earlier – it's Daniel – there's a lot of actions happening in Hong Kong today and I think they will bear fruit, obviously, in next year. We'll also have – you have to take into account the comps one day that we built in H2 and particularly in Q4, we'll be going after them next year as well, depending upon when the recovery is. So, I mean, we're fairly confident we'll make some very good progress in the next months and we've already had – we've already made progress in adjusting to the new – to the current situation in Hong Kong.

Geoffroy de Mendez: Okay, thank you.

Célia d'Everlange: Thank you.

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

Marion Boucheron: Thanks for the follow up. Just could you give us some colour on the gross margin differentials between Asia and Europe? And then the second question, going back to the – really, the shareholder, how would you read the fact that they asked to withdraw[?] their credit rating last Friday?

Philippe Gautier: Yeah, sure. So, in terms of the gross margin differential, it's been between Asia and our own gross margin. For the Group, what I would say in Asia, we are over 80%, so you have the combination of higher mark-up in China and in Hong Kong as well as lower discount. So, that's the main drivers.

On Shandong Ruyi, I don't have much more to add. I think – so really, they have done this great conference. It was relayed by Bloomberg to give some details for European investors is their plan – they are planning for very significant deleveraging in 2019 and in 2020. So, that's what I would – that[?].

Marion Boucheron: Okay, and as for the gross margin, you were talking about – the one I just referred, the commissions, right?

Philippe Gautier: No, I'm talking about – well, the gross margin, the management gross margin that we are following.

Marion Boucheron: Yeah, exactly.

Philippe Gautier: It's before commission, that's our indicator, really.

Marion Boucheron: Yeah. Yeah, yeah.

Philippe Gautier: One we feel is meaningful.

Marion Boucheron: Okay, thanks.

Philippe Gautier: You're welcome.

Operator: Thank you. And before we take our next question, may I remind you if you wish to ask a question, please press * and 1. And the next question comes from Richard Edwards from Goldman Sachs. Please ask your question. Your line is now open.

Richard Edwards: Yeah, hi. It's a quick question. You've given us your revised EBITDA guidance for the year. To what extent do you expect the other non-recurring income and expenses number to materially change from last year's €12.5 million?

Philippe Gautier: Sorry, I did not quite get your question. What are you talking about?

Richard Edwards: In your P&L, you have – below adjusted EBITDA, you have another non-recurring income and expenses line which was €12.5 million last year. To what extent is that meant – are you expecting that to grow in fairly current year in the light of current events?

Philippe Gautier: Yeah, we expect it to be fairly stable. We are talking, like, our – it will be between €12 million and €15 million basically.

Richard Edwards: Got it. Thank you very much.

Operator: Thank you. And we have a follow up question from Geoffroy Michalet from ODDO. Please ask your question, your line is now open.

Geoffroy Michalet: Yes, hello. My question has to do with Claudie Pierlot. Could you elaborate a bit what is going wrong with the brand? And second question is, did Shandong Ruyi give you the information that it had asked for the suspension of its rating before?

Daniel Lalonde: Yeah, Geoffroy. So, the Claudie Pierlot question. So, I think, as I mentioned earlier at my introduction, there's a few things that are happening with Claudie Pierlot. First of all, it benefits obviously less of the growth in high-growth countries and markets than Sandro and Maje. And here, we're talking mainly about China. There's less of an exposure as well today to the Chinese customer when – even when they come and travel in Europe. And the last part is we're – I've been putting a lot of emphasis, working with the Claudie Pierlot teams, to make some tweaks to the marketing mix to a little bit brand positioning and a little bit of, again, tweaks on the product collections to correspond more the offer and the positioning to an international customer base. So, we're in the process of doing that and in particular, the Asian customer because that's our strong ambition today. Claudie Pierlot is not present in North America today because our focus is on building the brand, solidifying the brand in France, in Europe, which we have seen very strong results during Black Friday, and in particular Asia. That's really on the radar screen for Claudie Pierlot.

So, this is the process, the journey that Claudie's living today. It won't take forever. I mean, I think we've already had some good results from those tweaks that we're making and it's part of the journey, the same journey that Sandro and Maje took five or six years ago when we began to build our brands and business in Asia.

Shandong Ruyi was your second question. I – yeah, we weren't that aware of this news prior to – prior to the talk this morning.

Philippe Gautier: Yeah, maybe one comment is, like, we're in close discussion with Shandong Ruyi. So, we are communicating now. Obviously, it's not our role to speak on behalf of Shandong Ruyi, so they are expressing themselves, they are communicating to the investor base.

Geoffroy Michalet: Okay, thank you.

Célia d'Everlange: Okay, thank you. Thank you very much for your attention and we'll talk next time at the end of January for the sales publication. Thank you very much.

Daniel Lalonde: Okay. Well, thank you everyone. Listen, we look forward to seeing you at our Investor Day to share again our mid-term vision and I wish you all a nice day.

Célia d'Everlange: Thank you.

Philippe Gautier: Thank you. Bye-bye.

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

[END OF TRANSCRIPT]