SMCP

SANDRO, MAJE, CLAUDIE PIERLOT

Full-Year Results 2019

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Welcome

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Head of Investor Relations, SMCP

Good morning everyone, this is Célia d'Everlange, Head of Investor Relations speaking. Thanks for being with us this morning for SMCP's full-year results in this very particular and unprecedented context. Daniel Lalonde, CEO and Philippe Gautier, CFO of SMCP are present on the line. Despite the fact that the three of us have not been able to come together in person at the office, we did our best to organise this call and we hope that the sound will remain clear as our phone connections are not always the best quality. Is one of our lines is not working properly, another one will take the lead, especially during the Q&A session.

As usual, we will go through the presentation and then we will have the Q&A session. Before I had it over to Daniel and Philippe, I invite you to go through our usual disclaimer on page two.

You will note that, unless otherwise stated, all financial data and comments are disclosed pre-IFRS 16, to maintain an economic reading. And I think we can start now, Daniel.

Results Overview

Daniel Lalonde

CEO, SMCP

FY 2019 results: key financial highlights

Yeah, thank you Célia and good morning everyone. Thank you all for joining us. As mentioned by Célia, these last days have been very unusual for all of us, especially for Europeans and Americans, who are now experiencing the same situation that Asia did a little more than a month ago. I would like to let you all know that my thoughts are all with you and your families and I hope that everyone is safe and healthy.

I will begin with a quick overview of 2019. Philippe will detail our financial results and I will conclude by giving you an update of the group situation in relation to the impact of COVID-19.

As you have seen from the press release, 2019 results are roughly in line with the updated guidance. Back in January, you saw our sale numbers. As a reminder, we talked about 11.3% of reported growth and 8.7% in organic growth, i.e. excluding De Fursac and at constant currency. 2019 showed a robust sales growth, considering that we operated in a very challenging environment, with a continuously sluggish French market and the sharp market deterioration in Hong Kong in H2 19.

In terms of profitability, the adjusted EBITDA was up 1.6% and adjusted EBITDA margin came at 15.4%, particularly impacted through the second semester by the sharp deterioration of the market in Hong Kong and the performance of Claudie Pierlot, which has been slightly below what we were expecting, beginning of December. These have led to a lower store cost absorption. The net income stood at €51.6 million in 2019 versus €50.2 million in 2018.

Excluding the refinancing penalties related to the early redemption of our high yield, net income was up 14.1% in 2019. For operated cash flow, we generated €62.4 million in 2019. This is excluding –€1.9 million of IPO-related cash out, the latest cash out of this type, by the way. This is also before tax.

And finally, our leverage stood at 2.2 times EBITDA following the acquisition of De Fursac. This remains sound and manageable.

FY 2019 sales dynamics

Moving to slide five, I wanted to quickly remind you of our sales numbers. As previously mentioned, throughout the year, we have seen an improvement, both in total sales growth and like for like, driven by strong fall/winter collections for Sandro and Maje. On the like-for-like side, the performance is flat for the year but including a sequential improvement to 0.8% in H2 19.

With an 8.7% of sales organic growth, the year benefited from a strong double-digit international sales growth of +14.2% at constant currency, driven first by very strong growth in APAC, at +25.8% at constant currency and second by EMEA, which stood at 9.8% in constant currency. Meanwhile, France showed a relatively good resilience, at –0.7%, considering a continually challenging environment marked by the yellow vests at the beginning of the year and significant strikes in Q4.

Overall, we continue to gain market share in France. According to the IFM index, the French market declined by –1.3% in 2019.

Now let me turn it over to Philippe, who can take you through the numbers in more detail. And Afterwards I will be back for current trading and outlook.

Financial Results

Philippe Gautier

CFO and Operations Director, SMCP

Thank you Daniel and good morning everyone. So, moving to slide seven, let us focus on our financial performance.

Adjusted EBITDA margin of 15.4% in FY 2019

Adjusted EBITDA increased by 1.6% to €174.2 million, resulting in an adjusted EBITDA margin of 15.4%, overall impacted by a bit lower than expected sales performance this year, particularly driven by the sharp deterioration of the market in Hong Kong and by Claudie Pierlot.

Looking at our margin structure on the right side, the gross margin was down 130bps, at 74.5%, mainly impacted by first some pricing market adjustments in the US, where we have decided, in H2 19, to adapt some of our prices to the current market practices. Second, an unfavourable mix led by the significant disruption that we have seen in Hong Kong. As a reminder, Hong Kong generated one of the highest gross margins of the group. And by a higher share of off-price sales as we saw strong performance in most of our outlet centres. The contribution of outlets to the turnover increased from 9% in 18 to 10% of our sales this year. This is also due to the liquidation that we have done in Q4 19, representing circa €5 million of sales, always done in a controlled way and through trusted partners.

In parallel, store costs as a percentage of sales increased to 41.4%. This unfavourable store cost absorption comes from the lower-than-expected sales performance. We also had the impact of the events in Hong Kong, with stores averaging well below capacity. This impact has been amplified by the opening of circa 25% of new stores in Hong Kong in the midst of the crisis.

We have been active on the front of mitigating the costs, particularly negotiating rent relief with our key landlords in Hong Kong, a lever that we will continue to use in 2020. As a result, retail margin, which corresponds to the gross margin minus store costs, stood at 33.4%.

Finally, SG&A rates decreased from 18.9% to 18% of sales, showing an efficient management of these costs, while maintaining the right level of investment to support future growth, particularly in the area that we highlighted this year, such as our Asian platform, digital and retail excellence. Another example is the Oracle finance platform that we have successfully implemented in North America, in our largest European countries, including France and more recently, in China, this year and which gives us an increased visibility on our cost.

We were able, in the same time, to be very reactive, to challenge our discretionary expenses, such as overhead costs, travel or external services, through negotiation with our key service providers.

Net income up 2.8% at €51.6 million

Now, if we move to the net income, which is page eight, it gives you an overview of the main components of the P&L for 2019. Net income stood at €51.6 million in 19, compared to €50.2 million in 2018. These figures include –€12.6 million of one-off costs: refinancing penalties that we occurred in H1 19, related to the early redemption of our high-yield bond. Excluding those one-off costs, net income increased by 14.1% on a comparable basis, from €52.1 million in 2018 to €59.4 million in 2019. The bridge highlights the variation of each item, excluding those one-offs, to make economic analysis more relevant.

I will start with the +€6.1 million of adjusted EBITDA and LTIP gains, which includes €2.7 million of adjusted EBITDA gain, as mentioned and a decrease of €3.4 million of the LTIP charges this year. D&A increased by €9 million from 3.6% of sales in 2018 to 4.4% in 19 on the back of the additional investment that we made in 19 to support the continued expansion in Asia and to ensure that we have the right infrastructure and IT.

Non-recurring expenses were slightly up, by €2.2 million, as anticipated. And notably they included transition costs to a fully-integrated platform in mainland China, some one-off lease fair value adjustment in Hong Kong and De Fursac M&A fees. Financial charges which included the significant one-off cost of €12.6 million due to the early redemption of the high-yield bond. Excluding these one-off costs, financial charges decreased, actually, from €16.9 million to €13.6 million, down €3.3 million, showing a continuing optimisation of the cost of debt from 4.7% in 18 to 2.7% in 19, as we completed the full refinancing of our debt. This reduction in our cost of debt will have a full-year impact in 2020.

Lastly, tax charges stood at €26.5 million. This is a reduction of our corporate income tax rate from 44.3% in 2018 to 33.9% in 2019, including the CVAE, the French trade tax.

Excluding this last item, the tax rate stood at 30.3%. The income tax benefited from the deductibility of LTIP charges for 2.1 points versus last year, following the implementation of a share buy-back programme, as well as some positive one-offs, 3.1 points, linked to the retroactivity of this deductibility. Excluding these one-offs, the normalised rate would have been around 37%.

Operating free cash flow

What about cash? Let us look at page nine. In 2019, operating free cash flow generation before IPO-related costs and tax stood at €62.4 million. This is a result of three drivers: adjusted EBITDA, up by 1.6% to €174.2 million; CAPEX increased by €13.2 million from 5.5% of sales in 2018 to 6.1% of sales in 2019, including additional investment, mostly related to the continued expansion of our footprint in Asia, as well as one-off investments in infrastructure and IT, such as our new finance platform with Oracle and some extended capacities in our European warehouses. Then we have seen a slight improvement of our operational working capital for the first time since 2017. It went from 16.8% of sales in 2018 to 16.6% in 2019. This is mainly due to the implementation of a new process in demand planning, which helps to better control the level of inventories of our international business units. Cash out in change of work cap has been substantially reduced, by €15.8 million versus last year.

Operating free cash flow after tax, which includes €40.9 million of tax cash out, stood at €19.7 million, mainly impacted by the higher cash out in tax and the higher CAPEX, while cash out in non-recurring items has been reduced by €8 million versus last year. Looking forward, cash out in tax and CAPEX will be moderated in 2020.

New financial structure in place with lower cost of debt and extended maturity

Now moving to slide ten, we have put in place, this year, a new financial structure, following the early redemption of the high-yield bond, as well as the acquisition of De Fursac. You can see that our leverage ratio has increased from 1.6 times in 2018 to 2.2 times at the end of 2019. At the end of December, net financial debt stood at €387.4 million, mainly impacted by the acquisition of De Fursac and higher cash out, in terms of tax and financial charges, which included the €12.6 million of payments.

As you know, in H1, we took the opportunity to reimburse the balance of our high-yield bond and to cancel our prior RCF. We have signed, in May 2019, a five-year credit facility, totalling €465 million, comprising a €265 million term loan and a €200 million RCF. With this new financial structure in place, we have optimised our cost of debt from 4.7% in 2018 to 2.7% in 2019 and we have extended our debt maturity. This new structure will provide strong foundations to face the current short-term headwinds.

IFRS 16 impacts on key financial parameters

On slide 11, we have highlighted the main impacts of IFRS 16, which is fully in line with what we expected. As of 31st December 2019, we recorded an impact of €504.3 million in terms of lease commitment and €112.2 million in terms of reintegration of lease charges in our EBITDA. This represents an average remaining length of lease of about 4.5 years. IFRS 16 is almost neutral on EBIT, which will now become a better indicator of our business.

COVID-19 Update

Daniel Lalonde

CEO, SMCP

Overview

Thank you Philippe. Now, if we can turn to slide 13, I would like to give you an update on the impact of COVID-19. We are now near the end of March, so for Q1 we are beginning to have a pretty good assessment of what it means for us.

Since our last communication, the COVID-19 epidemic has continued to spread outside of China, leading most European countries and more recently, North America, to take strict measures in an attempt to contain the spread of the epidemic. In this context, our top priority is to ensure the safety, health and protection of all our employees and our stakeholders, as we put in place a global crisis team since January to manage this situation on a daily basis.

In parallel, we are actively implementing several initiatives to reduce our cost base and we are postponing non-essential investments to partially absorb the impact of this unprecedented crisis. At the same time, liquidity has also been a key priority and we have mobilised, last week, all of our credit lines in order to weather the storm. I will comment on that in just a minute.

And Finally, a few words on sourcing: in China, which represents an important area of sourcing, we have not experienced any important delays in production. Most of the factories resumed mid-February and the few delays that have occurred should be absorbed. Overall, our production for spring/summer 2020 is fully secured, while more than 60% of our fall/winter 2020 production has already been produced.

In the European basin, some of our factories are fully operational, while some others have stopped their production. We are reacting to this by shifting our sourcing to other areas to complete the fall/winter collection, among other initiatives on the collection planning.

Status by region

APAC

On slide 14, a couple of comments on the current status by region, starting in APAC. So, in Greater China, almost all of our physical stores are now opened, compared with up to 70% of stores closed at the peak of the crisis in February. However, a vast majority, above 75% of stores, are still operating on shortened hours. Things are moving in the right direction, however, with traffic showing early signs of improvement, from –80–90% declines in traffic in February to, now, –50–60% in March.

Regarding our ecommerce channel, which represented 15% of our sales in China in 2019, it has been operating normally throughout the crisis. In China, we registered strong results in ecommerce in Q1 2020, with sales growth in excess of 50%. In the meantime, in countries such as South Korea and Australia, where stores are operated by our partners, physical stores remain open but traffic is extremely low.

EMEA

In EMEA, including France, 100% of our physical stores are closed in most European countries since mid-March, including key countries such as France, Italy, Germany, Spain and more recently, the UK.

Finally, in countries operated by our partners, such as the Middle East, physical stores are temporarily closed, with the exception of Dubai. In Russia, they remain open for now.

The European distribution centre is open to ensure exports and ecommerce, which represented 15% of our total sales in 2019. So far in Europe the results are modest but we're at the early stages.

Americas

In the Americas, all of our physical stores in the US, Canada and Mexico have been closed since mid-March. However, our distribution centre remains open to ensure we continue our normal ecommerce operations, which in 2019 represented about 25% of total sales. Just like Europe, results are modest but we're at early stages.

Mitigating 2020 impacts on profitability

So, now let us turn over to slide 15. In these uncertain times, we have also launched a strong action plan addressing the entire group cost structure, aiming at mitigating the impacts of the COVID-19 situation on group profit and cash generation. This plan includes four priorities. First, selecting the essential investment projects, such as our digital roadmap and postponing to H2 2020, or next year, all our other projects, in order to significantly reduce the amount of CAPEX for this year.

In parallel, we have decided to reduce the number of net openings by more than half and select our key openings, notably in China, to balance our investment between future sales growth and cash management. Overall, the CAPEX envelope should be reduced meaningfully by 30–40% versus LY.

Second, we are actively working on optimising our OPEX, notably through rent renegotiations. We have already achieved some rent relief, both in Asia and Europe and we expect to achieve the same in North America. In the meantime, all discretionary spending is reduced to the essentials. Finally, regarding overheads, we are working on several actions, in line with local government stimulus packages and existing local legislation.

Third, we are slightly adjusting our collection plan between spring/summer 2020, fall/winter 2020 and even spring/summer 2021. We have reduced the open to buy for the fall/winter 2020 collections. And last, we continue to centralise our inventories to ensure to have the right product at the right place and at the right time.

Fourth, I would like to mention that all of our distribution centres are fully operational today. This has been a key strength in China during the crisis, as we recorded some very strong results from our ecommerce channel, even if it is still modest in Europe and North America. Last, as I mentioned earlier, we have immediately mobilised our credit lines to ensure that we have sufficient liquidity to face the crisis. We have thus decided to draw the full capacity of our RCF, which was not used. Based on this, we benefit from a strong cash position of more than €200 million.

2020 outlook

Before we conclude, I would like to say a few words on Q1 2020. In this unprecedented context, SMCP sales and profitability are meaningfully impacted. As we have described, the group has taken immediate measures to ensure the health and safety of our teams and stakeholders, as well as to mitigate the economic impact and protect our cash flow. Considering the rapid progression of the outbreak and the uncertainties around its duration, it is impossible to communicate relevant forecasts for full-year 2020, both in terms of sales and profitability. At this stage, we are expecting Q1 2020 sales to be impacted. After a strong start to the year, especially in the APAC region, we have experienced a very sharp decrease in traffic in Greater China in February. If Greater China is today showing some early signs of improvement, the spread of the epidemic is now strongly impacting the economies, both in Europe and North America. So, based on these elements, Q1 2020 sales are expected to be down by slightly more than 20% on a reported basis. We will continue to monitor the situation closely and we will update the market in due course.

Building on fundamentals while weathering the crisis

To conclude, 2020 will be a year dedicated to building on our fundamentals, while weathering the crisis. What remains unchanged is that SMCP's strength is underpinned by a unique business model, a portfolio of strong international brands and a very, very talented team. Importantly, we benefit from a well-balanced business geographically, which should allow us to better navigate in this fast-moving context. Today, the teams are fully operational and focused on preparing the recovery. With our internal digital tools, we are able to maintain our key processes and work efficiently. The leadership team meets daily and we are actively managing the crisis, as well as planning for the recovery.

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

Q&A

Chiara Battistini (JP Morgan): Thank you everyone for taking my questions. The first question I have is on the inventories and the extra stock. I was wondering if you could give us some colour on how you are managing the extra stock and resulting from this situation and also if you could give us any colour on your expected gross margin pressure, especially in H1? I appreciate it is quite early in the situation but any colour on this would be very appreciated. Thank you.

Célia d'Everlange: Okay, thank you. So, Daniel, the first question is related to our inventory excess, to give a bit more colour and to see how we can manage it.

Daniel Lalonde: Okay, thank you Célia. So, thank you Chiara. Listen, I will say a few words and then I will let Philippe maybe complete on the excess part. So, listen, from an inventory and a collections perspective what the teams are doing are a couple of things. On the collections plan, we are seeing there are some capsules, for example, in spring/summer that were supposed to launch later on that we can easily shift to fall/winter 2020 or spring/summer 2021. That is one thing, so there is some room within our collection plans to make some adjustments to account for the crisis.

The second point, I'd say, is on the fall/winter collections. We have reduced meaningfully the open to buy on the fall/winter collections. We will also probably have stronger / more carry-overs from one collection to another of products we think make sense from one season to the other.

So those are a few words and maybe I will let Philippe complete.

Philippe Gautier: Sure, Daniel. Hello Chiara. So, as Daniel mentioned, we have put in place many actions and many actions in terms, as well, of demand planning, which explain the reason why our working capital is now improving. And, this is largely due to the inventory position, where we have an inventory growth which is now on track and in line with our total sales growth. Which is a strong improvement compared to last year, where our inventory growth was twice as much as our sales growth. The situation is on track and we have been very strict in managing our open to buy.

Another thing I would add is, as you have seen, we have done some liquidation as well, end of 19 and we have continued to do so a little bit in Q1 as well. Which means that we start from a sound situation in terms of excess.

In terms of pressure on the gross margin, we already saw some pressure in 2019 related to liquidation that we could say is around 40bps from the evolution that you saw in 2019. So this type of pressure is, yeah, likely to continue a little bit, similar to what we saw in 2019, now. It is still a bit early to tell because obviously it depends how the crisis is going to unfold so I will stop, in terms of our comments here.

Chiara Battistini: Thank you very much.

Célia d'Everlange: Thank you Philippe. Yes, Chiara?

Chiara Battistini: Thank you very much. My second question would be on ecommerce performance in Q1 so far. You have said that ecommerce is growing in excess of 50% in Q1. Would you be able to give more colour by region, maybe, commenting on the evolution of that in China, versus Europe and Americas in the quarter, please?

Daniel Lalonde: Yes, sure. Célia, it is okay, you do not need to repeat, I understood.

Célia d'Everlange: Yes.

Daniel Lalonde: So, Chiara, a couple of quick words on that. The first point is all our ecommerce operations are working today, in all regions. The comment I made about the excess of 50% growth relates only to China. Since the crisis we have seen some meaningful increases in our ecommerce business in China and that is in excess of 50%. In Europe and in North America it is very early to tell, so we are very early into the closures of the physical stores. I would say, at this point in time, it is more modest than the performance that we have seen in China.

Chiara Battistini: Perfect, thank you very much.

Célia d'Everlange: Thank you very much, Chiara.

Chiara Battistini: Thank you.

Célia d'Everlange: Good morning, Richard.

Richard Edwards (Goldman Sachs): Hi, good morning. Could you hear me? It was a quick question on your new credit structure: do you have any covenants attached to that you could share with us?

Célia d'Everlange: Okay, thank you.

Daniel Lalonde: Yeah, so maybe I will let Philippe say a few words about that.

Philippe Gautier: Yes, obviously, our cash position is key, so we have taken the measure and we have drawn fully our RCF, like a couple of days ago. As you know, we are able to control our cash, we can control a lot of discretionary OPEX and CAPEX to generate significant cash. Yeah, we have covenants in place, which are at the level of three-times EBITDA; that is EBITDA excluding IFRS and net debt excluding IFRS. So obviously we are monitoring this situation. What I would say is we have been in very close contact with our banks, they are very supportive throughout the crisis, so we are very confident, in this stage, on our position.

Richard Edwards: Got it, thank you.

Célia d'Everlange: Okay, thank you. Do you have another question, Richard?

Richard Edwards: No, that was it. Thank you.

Rebecca McClellan (Santander): Good morning.

Célia d'Everlange: Hi Rebecca.

Rebecca McClellan: Good morning. Could you give us any sort of granularity about the rent relief, the sort of extent of it and is of immediate effect, please, once negotiated?

Daniel Lalonde: Yeah, so Rebecca, thank you for the question, I can probably take that one. I would say a couple of things. Since we have started earlier on this process in Asia, again, it is not all finalised yet and it takes various forms throughout different landlord partners but for the moment, I'd say, just to give an indication, we are more close to €900,000–1 million worth of rent relief so far in that particular region and in terms of it is not finished yet. In terms of Europe, it is very early. We have just mobilised all our teams and all our key landlords last week, so we are in the process of negotiating some rent relief. I can say, at this point in time, they have acted as strong partners. They have been very receptive to the conversations we are having with them. I would say it is going very well and it is something that we have just begun in North America.

So we do not have all the visibility yet in those markets, in Europe and North America but I can say that the discussions are very productive, at this point, with our partners there and then we have some more meaningful results, or tangible results, I mentioned, earlier in Asia, in Greater China.

Rebecca McClellan: Okay, thank you very much.

Célia d'Everlange: Rebecca, did you have another question?

Rebecca McClellan: No, that's it, thank you Célia. *Merci*.

Célia d'Everlange: Hi Kathryn.

Kathryn Parker (Jefferies): Hi, morning. Can you hear me ok? My first question was on staff costs for, primarily, staff working in your stores. I wondered, have you been able to maybe reduce people's hours or reduce numbers of some of your temporary store in order to mitigate the impact on profitability?

Daniel Lalonde: Do you want me to take that, Célia?

Célia d'Everlange: So your question, Kathryn, was on overhead, your question was to know if we were able to reduce the number of hours and if we have the capacity to optimise costs, right?

Kathryn Parker: Yes, exactly.

Daniel Lalonde: Yeah.

Kathryn Parker: So whether you have been able to cut some temporary staff –

Daniel Lalonde: Yeah.

Célia d'Everlange: Okay.

Kathryn Parker: – and then reduce hours for your full-time staff.

Célia d'Everlange: Okay, thank you.

Daniel Lalonde: Yeah. So, Kathryn, with relation to staff costs, you were mentioning mainly staff costs in the stores. As you know, the majority of our stores are closed today in Europe and North America. So what we have done – and we are working with our global HR teams, with our crisis management teams as well – to work according to the local government mechanisms, that I must say are very different country to country, in terms of what they provide to people who are not working today because, essentially, from the store manager to the sales associates, the stores are closed so they are not working today. So, we are working country by country to find the best solutions to support our teams as best as possible during this crisis. That is about as specific as I could be but essentially, no store associates are working today because the stores are closed. We are looking into the same issue at all our head office teams, etc etc , etc etc , so our principle is to be as fair and supportive with all our teams in these challenging times.

Célia d'Everlange: Thank you Daniel. And, by the way, we are working country by country and the legislation is moving very fast there because all the regulation is not yet complete for this exceptional period of time. That is why it is really a moving task and we are monitoring the situation to support our team. Thank you, Kathryn, do you have another question?

Kathryn Parker: Yes, I had one other, final, question on the interest costs and what your expectations are for this year, just given that you've drawn on the RCF as of mid-March, so I suppose that would mean an increase in interest costs payable.

Célia d'Everlange: Okay, thank you Kathryn. So, Philippe, the question is about the interest costs for 2020, what are our expectations for 2020? and your second question was the position of the RCF; I did not hear that well. What was your second question on the RCF?

Kathryn Parker: Yes –

Philippe Gautier: Maybe I can answer.

Kathryn Parker: Sure.

Daniel Lalonde: Go ahead, Philippe.

Philippe Gautier: Yeah, I think I got the question. Basically you have an interest cost, which we explained, for 2019, roughly at 2.7%, so that is what you could take into consideration, give or take, maybe it will be slightly higher than 2.7% because we will have a bit more cash on hand. So, let us say it will be around 3%; that is the ballpark. Then we will see as the crisis unfolds how we best optimise our interest cost but that should be around 2.7–3%.

Kathryn Parker: Great, thank you very much.

Célia d'Everlange: Good morning Marie-Line

Marie-Line Fort (Société Générale): Good morning, just one additional question about CAPEX. Could you please tell us (can you precise) where the CAPEX will stand at the end of the year? Another question: do you share with your main shareholder, Ruyi, any views on the situation in China and are they trading now also?

Célia d'Everlange: Okay, thank you Marie-Line. So two questions about CAPEX at the end of the year and Shandong Ruyi's view on the situation in China.

Daniel Lalonde: Yeah, so, Célia, I can take that. So Marie-Line, on the CAPEX side, what I can say is on our daily calls with our global teams, we went through all the store CAPEXs; we reviewed them all very recently, last week, throughout the world. As I mentioned, we will be most likely taking the net store openings this year, we will divide by half and focus them on key areas. Notably, more than 50% of those will be in the Greater China region. That is one thing: so we are very selective on the stores and we push back as much as possible on non-priority stores to 2021.

We have also had a keen eye too on the non-store CAPEX, to keep some very strategic projects for us, mainly around our digital roadmap. One project we talked about last year for quite some time is what we call unified commerce: the ability to ship from store and to see every piece of inventory at all times throughout the world. This is a very important project for us. It will be a breakthrough, so we have decided to keep some investments in our digital roadmap and then shift others to 2021.

The end result is, as I mentioned earlier, more than likely our CAPEX will come down / will be optimised this year, only on priorities and will probably be down 30–40% versus 2019.

Your second question, in terms of Ruyi: obviously we had a board meeting yesterday with all our board members, including the people from Ruyi in China. We have been in contact with them you know fairly frequently. So, the view from China: I think we are just all experiencing the same things. Again, the review is that things are opening up, so we share the same view. As I mentioned earlier, the stores are almost all open, with the exception of two stores in Wuhan and two stores in Tianjin so far. The rest of our store network is open. As I mentioned earlier, the traffic is still –50–60% versus last year. However, that is better than February, which was –80–90%. So, I think we share, a bit, the same views on the overall China market, I would say, at this point in time. I do not know if I have answered exactly your question on the views but maybe I will stop there for now.

Célia d'Everlange: Thank you Daniel. Marie-Line?

Marie-Line Fort: Thank you. Thank you very much.

Célia d'Everlange: You're welcome. Hi Murielle.

Gilles Crespel,(IS): Hi, I had a question regarding possible government support. If it has already been asked, feel free, because I could not attend the initial time of the conference, due to the line being very busy. So my question was: SMCP, being a French-based operation with a Chinese majority shareholder, do you feel it will be eligible for government support, being it of debt guarantee or debt relief? And, If you have already had contact with organisations such as BPI, could you give us the colour of those contacts.

Daniel Lalonde: Thanks Gilles. I think I will give that question to Philippe.

Philippe Gautier: Yes. I think, Giles, as you mentioned, there are different types of government support. I would say one of the most meaningful is in terms of the mechanisms that Daniel mentioned in terms of temporary unemployment in France and you have equivalent systems in most of the European countries. It is slightly different in the UK or US but in general you have the possibility to have short term temporary unemployment, which can be a significant relief in terms of short-term cost. That is one thing and there, obviously, we are eligible like anybody else. So I would say, in principle, we are eligible, whatever the shareholders of our group.

What I would say is, as I mentioned, we are very confident in terms of our financial structure due to the action that was explained by Daniel. We are in close contact with our banks so, so far, there is no need. Here what is sure is we have seen the support of our banking relations and we have very important French banks among these ones, who are key partners. Of course there is some kind of influence in the government so that the banks are providing support. So we are benefiting from the support of our key partners, for sure.

Gilles Crespel: Thanks a lot, Philippe. If you allow me a very short follow up on that, because I could not hear Daniel's comment, without going back to the whole thing: did Daniel or you mention anything about covenants on existing long-term debt?

Philippe Gautier: Yeah. As I mentioned, we have covenants of three times EBITDA, so obviously we are monitoring that. It is too early to tell, to say exactly what will be the impact of the crisis but we are very confident, and we benefit from the support of our banking relations.

Célia d'Everlange: Okay, thank you. It is, excluding IFRS 16, three times the EBITDA ratio for the covenant. Thank you, sir.

Hi Murielle.

Murielle Andre-Pinard (HSBC): Hi. Just one question, regarding SG&A: I would like to know what is your flexibility on that if you have an objective in terms of evolution in value for the full year to try to limit the impact of the crisis?

Célia d'Everlange: Okay. Thank you. Philippe, did you hear the question about SG&A?

Philippe Gautier: Yeah, absolutely. What I would say, Murielle, is we have quite significant flexibility on our SG&A. Maybe a way to look at it is if you look at the evolution over two years, from 2017 to 2019, we went from 20.3% SG&A ratio in 2017 to being at 18% in 2019. We have been able to deliver quite a lot of SG&A rate gain over the period, so we can be very proactive.

And I would say we are working on all aspects, so you have discretionary expenses. A good example is travel expenses are going to be very meaningfully down, as you can imagine. We are working on optimising our overhead costs and we talked about some of the mechanisms that can be helpful in this type of short-term crisis, so we are active on that and we obviously control our overheads very closely.

And then, we have been much more active in terms of negotiating our external expenses with all our consultants and suppliers, so I would say that is the key aspect and we can be very flexible on that. So we expect we can continue to improve the SG&A rate, that is what I will say but I would not go much further.

Murielle Andre-Pinard: Okay, thank you.

Célia d'Everlange: Okay, thank you Murielle. Do you have another question?

Murielle Andre-Pinard: No, it is okay for me.

Célia d'Everlange: Okay, thank you Murielle.

Murielle Andre-Pinard: Thank you.

Célia d'Everlange: Hi Geoffroy.

Geoffroy De Mendes: Hi there, hi. Thanks for taking my question; I just have one. I understand you are not going to give guidance for the full year 2020 but given you probably have very good visibility on Q1 already, it is basically the end now, can you just give us a sense of the drop-through in the P&L of a –20% revenue growth from Q1, which is your guidance, just so that we understand the absorption in the P&L?

Célia d'Everlange: Philippe, did you hear the question?

Philippe Gautier: Yeah, sure.

Célia d'Everlange: Yeah.

Philippe Gautier: Hi Geoffroy, yeah, hello. We are not going to give you guidance in terms of EBITDA for Q1 because we usually do not and we do not report our results by quarter, so that is the reason. Maybe what I would comment, to give you a feeling, is that we consider that we have some significant flexibility in our store costs. And, the rule of thumb that we are using is to say that we have about half of our store costs which are variable. The rest is fixed but even the fixed portion can be challenged, and Daniel mentioned the work being done on the rent relief, which can be very meaningful. This could be about, like, not having charged for the months when the stores are fully closed for quite a lot of landlords, so that is an example.

If you look at our store costs in general, we have about one-third of the overall store cost which is commission. This is commission with a department store and this is variable, fully. Then you have one third which is the rental, one third which is the staff cost and we talked about the measure that can be taken on staff costs, so we can have some flexibility there. Then, SG&A, as I mentioned, we have some levers to pull there as well. So that is what I can tell you, to give you some colour.

Geoffroy De Mendes: Alright, thank you.

Célia d'Everlange: Thank you Geoffroy.

Célia d'Everlange: Good morning.

Kelly Goncalves - blue bay: Hi, thank you for your presentation. Sorry if you have answered the question before, I joined a bit late. A lot of your stores now are going to be closed for quite a while; I was wondering how you were planning to manage inventory and whether we should expect a significant inventory haircut because you are not able to sell it? So when you start reopening, whether it is in Europe or the US, all of this will have to be cleared out at a discount. I was wondering if you could comment on that, on your view of this? Thank you.

Célia d'Everlange: Okay, so yeah, Daniel, we already had the question about how we will manage the inventory. Daniel?

Daniel Lalonde: Okay, I will say a few words on that Kelly. There are a few points. The first point is in terms of collections, the collection plan. As you know, today, we are in spring/summer 2020 collections; fall/winter will start later on and we are already starting to work on the design for spring/summer 2021. What we are doing now is we are looking at some capsules and some themes that have not yet launched in the spring/summer collections but we are going to launch later, to move those either to fall/winter or to spring/summer next year. That is one thing. Number two is also there will be, I think, a slightly larger amount of carry-overs that will go from season to season that we have planned already. That is some work that we are doing on collection management.

From the fall/winter collection, today we have bought roughly 60% of the fall/winter collection. On it we have imposed, or I have imposed, some strong open to buy limits on limiting the number of pieces that we buy for fall/winter as well. Those are two initiatives that we are doing in collection management.

Last is we are centralising even more, as we speak, all of our inventories to make sure we have the right product at the right time at the right place. Those are things that we are doing, to mitigate, first of all, to optimise our offer in, the next 12 months but also to mitigate and to optimise the actual inventory.

Philippe, did you want to add anything to that?

Philippe Gautier: Well, I would just say that we are starting from a sound basis, as I commented. At the end of 2019, we had already implemented all the demand planning processes for about one year now, or more than one year. We had done some one-off liquidation operations in the end of 2019, pretty very meaningful, with trusted partners, in a controlled way. We did that again a little bit in Q1 2020, so we are being very active, very proactive on that, to limit the impact.

Célia d'Everlange: Okay, thank you Philippe.

Christian Schmizt: Hello, good morning and thanks for taking the call. I would like to go back to your shareholder that was mentioned earlier, which seems to be in a little bit of financial difficulty itself. I was wondering whether this shareholder, or its representatives on the board, ever discussed with you whether some support could come from SMCP to the Ruyi group, by kind of issuing dividends, or lending money upstairs, or doing anything of that kind?

Célia d'Everlange: Okay. So, Philippe, we have this question about Shandong Ruyi, to know if SMCP could bring some support to our shareholder through a dividend or some other element?

Philippe Gautier: Yeah, hello Christian. The short answer is no, in the sense that there is no like a scrip dividend which would be distributed, or things like that. Maybe a couple of things: the way we are set up, we are fully independent from Ruyi from a management point of view and from an operational point of view because there is no integration anywhere. They are more of a strategic partner. There is absolutely no exchange of financial flows with Ruyi. There is no shareholder recharge, for example. There is no inter-company financing. Our financing is fully independent from Ruyi. We do not have, necessarily, the same banks and in our financial documentation, it prevents us from doing any significant distribution to Ruyi. So there is nothing that could be expected from this front.

Célia d'Everlange: Okay, thank you Philippe.

Christian Schmitz: Okay, thank you.

Célia d'Everlange: I do not think that we have no more questions, so maybe we will stop here. Thank you very much. Sorry, the line was very busy, so some of you have not been able to connect. I would like to remind you that we will have a replay, as well as a transcript, coming in, let us say, 24 hours maximum. The next step will be the Q1 sales publication on 29th April. Thank you very much.

Daniel Lalonde: So, Célia –

Célia d'Everlange: Yeah.

Daniel Lalonde: – I would just like to thank everyone for participating on this call this morning and all your very good questions. I wish you all safety and health in the months to come, so thank you everyone for joining today.

Célia d'Everlange: Thank you. Bye-bye.

Philippe Gautier: Thank you.

[END OF TRANSCRIPT]