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SMCP – Q1 Sales 2020

Wednesday, 29th April 2020

Welcome

Célia d'Everlange

Head of Investor Relations, SMCP Group

Thank you. Good morning, everyone. This is Célia d'Everlange, Head of Investor Relations, speaking. Thanks for being with us today for SMCP Q1 Sales. I am here with – if I can say so – CEO, Daniel Lalonde, and CFO, Philippe Gautier. We are once again meeting under special conditions, as I am sure most of you are probably listening to this call from home. On behalf of all us at SMCP, we wish you well. We hope the technical condition will be okay today, despite the context, and as usual, we will go through the presentation and then we will have the Q&A session. Before I hand it over to Daniel and Philippe, I invite you to go through our usual disclaimer on page 2. I think we can start now, Daniel.

Covid-19 Impact and Initiatives

Daniel Lalonde

CEO, SMCP Group

Yes, thank you Célia and good morning everyone. Thank you very much for being with us this morning. As Célia said, I really hope that you are all safe and your families and loved ones are all well. In these unprecedented times, I will begin with a quick overview of Q1 2020 and an update on Covid-19 situation, then Philippe will detail our sales performance by region.

Q1 2020 sales impacted by Covid-19, in line with expectations

If you go to Slide 4, as you have seen from the press release, Q1 was in line with our expectations, even slightly better, thanks to a better performance than expected in mainland China. SMCP sales were down 16.7% on a reported basis and 20.4% on an organic basis, i.e. where we exclude De Fursac and at constant foreign exchange. This performance reflects the impact of the spread of the Covid-19 pandemic in all regions across the world, following a great start to the year and a gradual improvement in sales and traffic in mainland China since mid-March, showing early signs of recovery, which for us is encouraging. In parallel, for the first time in history, the group closed six DOS in Q1 2020 and this has been driven by first a slowdown of openings in our international markets. Basically, net openings are almost flat outside of France. Q1 is usually a small quarter in terms of openings, but obviously we decided to postpone most of our projects until either the end of this year or next year, and I will come back to that in a minute.

Then second, we made good progress on our French optimisation plan, with six additional closures in the Provence area. As mentioned, on March 25th, the group has decided to take immediate measures to mitigate the economic impact and protect its cashflow. Since then, we have executed our plan and I will detail these remedies in a minute. Finally, considering this very unusual context, we recorded good performance in ecommerce, notably in China, where sales were up 39% in Q1. Since the beginning of the crisis, the teams have been fully mobilised to foster digital sales through several initiatives and one example is our latest operation on T-Mall, on page 5.

E-commerce initiatives in China: T-Mall first live-streaming event

Moving to page 5, we have been selected by T-Mall to launch our first live-streaming event on prime time, which is from 20.00 to 21.30. Following the reopening of our stores, we agreed to participate as we were able to propose the full personalised services in store in parallel. We launched it for Sandro this Monday and for Maje just today on prime time. The concept is a new form of TV shopping with the objective to showcase our collections by leveraging some key celebrities or influencers in China. For this first event, we selected Linda Li for Sandro, a runway model in China, one of the most active Chinese participants in the luxury fashion shows, gathering approximately 4 million followers on Weibo and WeChat, and Yuyu Zhangzou for Maje, a key influencer in China with over 4 million followers on Weibo and WeChat. During the 1.5 hours, they will shop in some of our key stores and present our key looks, introducing new trends and mix-and-matches live on T-Mall apps. On the same screen, customers will be able to shop directly. Through this new form of shopping, reinforcing the omnichannel experience, we will be able to fully leverage the T-Mall traffic and extend our customer base. The first test on T-Mall from April 27th to May 1st is very positive, as the first day for Sandro we reached almost half of our sales objectives with approximately 75,000 viewers just during these 1.5 hours.

Stores and e-commerce network as of April 27th: 82% of DOS closed

On page 6, there are a couple of comments on the current status of our stores and our e-commerce network by region. Starting with our physical stores, 82% of our DOS are closed today. In France, all of our stores have been closed since mid-March and we expect a gradual reopening of our stores from May 11th onwards, based on recent government guidelines. In EMEA, 100% of our 370 DOS stores are closed, except for Scandinavia. Since April 23rd, we have also started to gradually reopen our stores in Germany – approximately 10 stores. In countries operated by our partners, such as the Middle East and Russia, all stores are closed. In the Americas, 100% of our 157 DOS in the US and Canada have been closed since March 18th, while our partner stores in Mexico are also closed. Finally, in APAC, all of our 195 physical DOS in Greater China are now open. They started to gradually reopen at the end of March and meanwhile our partner stores are open in South Korea but partially closed in Australia. In parallel, as you know, all our e-commerce operations function normally, and teams are fully engaged digitally with our customers.

Measures to mitigate impact from Covid-19

Turning to page 7, as mentioned at our Fiscal Year Results, we have decided to launch a strong action plan addressing the entire group cost structure, aiming at mitigating the impacts of Covid-19 on group profit and cash generation. I would like to give you an update on what has been done so far. First on CAPEX, the objective has been to meaningfully reduce it by only keeping our essential projects. A greater focus has been allocated to our digital roadmap, which is more than ever a key driver of growth today and in the future. We have thus, for example, maintained our investments in one of our key projects called Unified Commerce, which is ready to start for Maje in Europe today. We will also comment on that in further detail in Q2. In parallel, we have decided to significantly reduce the number of net openings this year to 20, representing an adjustment of about 75% compared to last year.

On one side, we have selected key openings, notably in China, to balance our investment between future sales growth and cash management, and on the other side we will pursue, even accelerate, our optimisation plan in France. Overall, our CAPEX will decrease by around about 40% this year compared to last year.

Second, on OPEX, we have actively worked on optimising our cost bases, i.e. store cost and SG&A cost. For our store cost, the three most important components are commissions, which are fully variable and represent a bit less than 30% of our store costs last year. Second, personnel costs that represent a bit more than 30% of our store costs in 2019. We have placed our retail teams in temporary unemployment, both in Europe and North America, with the support of the local governments. This action represents a substantial cost reduction, starting in the last week of March and will continue through April and a part of May. Last, rent costs that represent a bit less than 30% of our store costs in 2019. We have reached out to all of our landlords to discuss adjustment of our leases. It is about negotiating rent relief during the period of the lockdown and lower rents for the slow recovery period that we anticipate. We are already quite advanced, starting in Asia, but also now in North America and in Europe. In parallel, we continue to adjust our SG&A costs in 2020 through first strong efforts on overheads, including a fixed compensation freeze, a reduction in the variable compensation, adjustments in the HQ headcounts and a reduction of 30% of the COMEX and board's fixed compensation during the crisis.

Second, some savings on discretionary spending, such as offline A&P in H1, external services and obviously T&E expenses. All in all, we should be able to variabilize around 50% of our group costs.

Third, inventory management. To limit the surplus of inventory at the end of the year, we are adjusting our collection plans between Spring/Summer 2020, Fall/Winter 2020 and Spring/Summer 2021. We have also reduced the Fall/Winter 2021 collection buy and we continue to centralise our inventories to ensure the best allocation by region in order to have the right product at the right place and at the right time.

Fourth, e-commerce. As I mentioned, this is and will be a key driver to our future growth. This was a key strength in China during the peak of the crisis, as we recorded some very strong results in our e-commerce channel, and all the teams today are fully mobilised to engage as much as possible with our customers on digital. Several initiatives have been launched to foster this channel, like the T-Mall live-streaming operation, and of course some specific operations are also planned by our teams in Europe and North America.

In parallel, as I said in March, we drew the full capacity of our RCF and we now benefit from a solid liquidity position to face the cash burn during the crisis and all of our short-term maturity reimbursements. In addition, we are in close contact with our banking partners to look at all options to further strengthen our financial flexibility.

Last, we stand more than ever alongside our employees, partners and all of our stakeholders. The global crisis management team, whose priority was to ensure the safety and health of our teams around the world, is currently working to organise and prepare for the upcoming transition period.

I will pass it to Philippe.

Organic Sales Performance

Philippe Gautier

CFO, SMCP Group

Thank you, Daniel and good morning, everyone.

Organic sales performance in France, EMEA and Americas

Moving to the regional breakdown on page 9, in France and in EMEA, sales were down respectively 19.4% and 11.9% on an organic basis. This performance includes three distinct periods. First, we had a good start of the year, i.e. for the month of January. Second, a sharp decline in tourism from February, especially Chinese tourism, which was down 50%, for example, in February in Europe. And third, a deterioration in March linked to the total closure of our stores in most of our countries except for Scandinavia.

In the meantime, EMEA recorded a good performance in e-commerce, driven by strong trends in Germany, Switzerland and Benelux, which led to a better resilience of some of these markets, with Germany notably being flat in Q1.

In parallel, we made solid progress against our French optimisation plan, with six additional closures versus December 2019, mostly in the Province area, i.e. outside of Paris. Overall, in France we demonstrated a better resilience than the French market, the IFM Index was -22.9% in Q1, versus SMCP at-19.4%.

In the Americas, sales were down 17.4% on an organic basis, also impacted by the Covid-19. Since February, the group has seen a slowdown in tourism and experienced further deterioration in sales in March, following the store closures. The group's distribution centre continues to operate in North America normally, to ensure e-commerce operation. However, e-commerce performance has been soft at this stage.

Organic sales performance in APAC: early signs of recovery in mainland China

Turning now to APAC performance on page 10, sales were down 33.4% on an organic basis for the region. Following a very strong start of the year, sales were significantly impacted in February by the lockdown in most Asian countries, especially mainland China from January 24th. Since then, the group has seen some early signs of recovery in mainland China, alongside a gradual improvement in sales and traffic from March onwards. On the bottom of this slide, you can see the evolution week by week of mainland China sales for our physical stores. With the reopening of our stores from the end of February, the performance has sequentially improved, driven by a slightly better traffic and conversation rate. These encouraging trends are notably observed in the South of China, with a few cities being positive versus LY in April.

Overall, sales decline has been reduced from circa -80% in February to circa -35% in March. This encouraging trend has been confirmed in April.

In parallel, the e-commerce channel, which remained open throughout the crisis, recorded very strong results in mainland China with +39% of sales growth in Q1 2020 – thanks to several initiatives designed to encourage sales on digital, such as the Women's Day at the beginning of March, which will be followed by the live-stream event mentioned by Daniel.

In other regions, traffic remained weak in Hong Kong, as access from the mainland remained closed. On the positive side, Taiwan and South Korea recorded a better resilience in sales.

2020 Outlook

Daniel Lalonde

CEO, SMCP Group

All right. Thank you, Philippe.

In closing on Slide 12, I would like just to say a few words on 2020. In this context, SMCP sales and profitability, as you know, are meaningfully impacted. As we have described, the group has taken immediate measures to mitigate the economic impact and protect our cashflow. In parallel, our teams are fully focused on preparing the post-lockdown period, while ensuring the safety of everyone when stores and headquarters are open. The group has also ordered all the necessary protective equipment, including surgical masks, hydrogel and gloves. We have also adapted our selling ceremony to protect our customers and our teams during this period.

Given the uncertainty around the severity and the duration of the Covid-19, it is not relevant for us at this time to provide specific guidance for our 2020 financial performance.

We will continue to monitor, obviously, the situation closely and will update the market in due course.

SMCP brands mobilise against Covid-19

Finally, on page 13, a few words just to highlight some of the solidarity actions taken by SMCP and our brands. In line with our values and commitments, SMCP and all of our employees wanted to contribute to the collective effort and help others, through fabrication and donation of masks, as well as a couple of other meaningful initiatives.

Thank you for your attention this morning and I think we are happy now to answer your questions.

Q&A

Chiara Battistini (JP Morgan): Hello. Good morning. Can you hear me?

Célia d'Everlange: Yes, very well, Chiara. Good morning.

Chiara Battistini: Perfect, thank you. I have a couple of questions, please. The first one is thinking about your opening plans beyond this year, is the current situation and maybe also a further growth in e-commerce penetration making you rethink your opening plans and how do you see the long term?

Célia d'Everlange: Chiara, we did not hear the end of the question. Your question was the opening plan beyond 2020?

Chiara Battistini: Yes, and if you are actually rethinking about the strategy and your store network for the medium to long term, given the digital channel is becoming more and more of a key channel. And the second question, again on e-commerce: you have mentioned in the press release and in the presentation that e-commerce was softer in North America in Q1. Could you please provide more colour on this? And also, if you could provide the development of e-commerce sales at group level for Q1, please. Thank you.

Célia d'Everlange: Okay. Daniel, I do not know if you heard the question. The first question is about the opening plan beyond 2020.

Daniel Lalonde: Yes.

Célia d'Everlange: Okay. You heard it. Okay.

Daniel Lalonde: Yes, and at group level. Listen, thank you Chiara for your question. So, on your first one, on I guess the physical brick and mortar store openings beyond 2020, just a couple of words. The first is the target we have in net openings that we mentioned for 2020 is 20, roughly speaking. So, that is very much as a result of Covid-19. But beyond that, beyond 2020, clearly one of the big vectors of growth in investment for us will be on the digital and omnichannel segment, and also driving more initiatives to drive like-for-like growth. So, these will be – and they were at the beginning of the year – our major objectives for this year, and they will be beyond. The question is, what does that mean in terms of new store opening in the future? Well, again, 20 is as a result of this year, but I can say simply that it will be less net new store openings than we have had in the past. And as you know, we have got it in the past roughly to 80 to 90 DOS openings per year, which is something that we have done. So, you can expect, or we certainly expect, that number to be reduced, not to 20 – 20 is for this year – but it will be reduced in the future, with a greater focus and investment on developing like-for-like through again digital and omnichannel. Sustainability is a really big investment that we have also in the future, so there will be new drivers for the future. In terms of e-commerce, the second question, in North America, yes, it has been a little bit softer, as we mentioned. I mean, we have had some interesting weeks in the last couple of weeks in North America, but we have seen overall, as you have seen, we have had some very strong results in China – double digit – which continue through today, which is good. Europe also, we are in a double-digit growth mode on the e-commerce channel for April, but it has been a little softer in North America. Why? I think there are many reasons. I think the customers perhaps are not there, are not shopping as much in this market. It is the market that is the most affected today, but we expect this to change. We have just seen a much slower growth than in Europe and in China today.

Daniel Lalonde: Chiara, you had a question – at group level, e-commerce?

Chiara Battistini: Yes.

Daniel Lalonde: Yes. What was your specific question, Chiara, on that?

Chiara Battistini: If you could give us the rate of growth or development year-on-year in Q1 for e-commerce at group level.

Daniel Lalonde: Yes. Philippe, did you want to take that specific question?

Philippe Gautier: Yes, sure. Yes. Hold on one second. Yes. At group level, we are basically flat in e-commerce for Q1. As Daniel mentioned, there are different situations in the regions, so APAC really growing very fast, like almost 40%, and then a reduction in Americas, and very variable in EMEA – France almost flat. In EMEA, you have certain countries where there is a very strong correlation and for example, it is Germany where the penetration is already very high – we are close to 50% penetration in e-commerce in Germany for the full quarter. So, we are benefiting from these countries in the North – they are benefiting from the stronger penetration of e-commerce.

Daniel Lalonde: Maybe just to conclude on that point, Chiara, so we do expect – and we saw in the first quarter and in the future as well, that the e-commerce penetration rate will increase. And I think what we are seeing today is I think it will probably even accelerate versus maybe the original plans we had, which were fairly optimistic and aggressive. I think this moment will even enable us, and I think just the industry in general, to accelerate the e-commerce penetration in our business. It is certain what we have seen in Q1 and I expect that to continue throughout the year.

Chiara Battistini: Understood. Thank you very much.

Daniel Lalonde: Okay.

Célia d'Everlange: Thank you, Chiara. I think we have a next question.

David Da Maia (CM-CIC) : Hello. Good morning. Can you hear me?

Célia d'Everlange: Yes, very well, David. Good morning.

David Da Maia: Okay, thank you. Three questions for me, please, the first one on like-for-like. I know you do not provide like-for-like on a quarterly basis, so I will ask the question differently. Is it fair to assume a mid-single-digit positive contribution from this space, as you only closed six DOS in Q1? That is the first question. The second question, on breakeven or cash burn, we already know that Q2 will be the worst quarter of the year. In this context, do you think you will be able to generate a positive adjusted EBITDA, with like-for-like sales down probably by- 40% in H1? It will be very helpful if you can give us some indication on the breakeven point before or maybe after the cost-cutting measures you are currently implementing. And the third one is on the liquidity risk. Can you please give us an update on your current negotiation with the banks? What are the different options you have today? Are you going to ask a term loan facility guaranteed by the French state in order to secure the cashflow and better prepare the recovery? Thank you.

Célia d'Everlange: Okay. Thank you, David. Philippe, do you want to take the three questions?

Philippe Gautier: Sure. Sure. So, the like-for-like: as you can imagine, the trend in the like-for-like is not very different from the overall trend, so we are talking about a reduction which is a bit over 20% across the board, with some nuances that we explained also in terms of our geographical performance. So, this is not very surprising. If I talk a bit about the cash burn and breakeven point. I am not going to provide you guidance on the quarter. Like we explained, we do not feel it makes too much sense. What I can tell you is that clearly we have been acting a lot on our cost base and, as Daniel mentioned, we are able to make variable about 50% of our store costs or our SG&A. We have been very active and a lot of these reductions are touching the Q2.. Also from a cash point of view. The first step we have done is to connect with all our landlords in Europe to delay the payment of the Q2 rents and this has been done in agreement with the landlord and almost 90% of the landlords have agreed with that. And then we have been in negotiation and we are quite advanced in terms of the pending savings. So, there is an offset here. There is an offset in temporary unemployment, because like we will reduce our store staff costs in Europe and North America, and then we have significant savings in SG&A. So, what I would say is that we are able to reduce significantly our fixed costs during that period, to reduce the cash burn in April and May. Maybe your question on the liquidity. So, as Daniel mentioned, we have taken all the actions to work both in terms of mitigation actions that we have just described, as well as in terms of financing. First step we took was to draw the full capacity of our €200 million RCF. That is where we had at the end of Q1 a cash position over €200 million. And the idea is that this is sufficient to face on one side the maturity that we have on our commercial paper programme, and on the other side a cash burn that we expect during the lockdown period. So, that is the first thing. So, we have sufficient cash. Now, we have been in close contact with our banks to further strengthen our flexibility. And what we mean by that – there are two aspects. One is the covenants. We have, as you know, a long-term credit facility for five years of €465 million, on which we have covenants of three times Ebitda. So, we have initiated the discussion with our banks to obtain a covenant holiday. And I mean, our bank, they are very supportive, and they understand that this level of covenants cannot be really maintained in such an exceptional period. So, that is one thing. Then, as you mentioned, we are looking at a French facility guaranteed by French state, so called PGE in France. That is an option which is available to us that we are willing to look at as a precaution to provide us more headroom in case there would be further risks. So, we feel that makes sense and we have started a discussion with our banks on this topic and they are certainly open to that.

Célia d’Everlange: Thank you, Philippe. Thank you, David. Could we have a next question?

Aurelie Husson-Dumoutier: Hello. Can you hear me?

Célia d’Everlange: Good morning, Aurelie [?].

Aurelie Husson-Dumoutier: Yes, can you hear me? Yes, good morning, everyone. I have several questions, please. Can you tell us about the stores in Germany that have just reopened? I know it is a fairly early stage, but are you seeing normal traffic? What is the level of space? It is just to have an idea how can sales could react in France after 11th May. My second question is still on France. Can you remind us what is the percentage of your stores in France that are in malls and in malls of above 400,000 square metres? And could you – maybe you have given it earlier in the call, I am sorry if I ask you to repeat that, but can you give us an idea of the CAPEX for 2020 and 2021? Thank you very much.

Célia d’Everlange: Okay. Thank you, Aurelie. Maybe Daniel, do you want to take the first question, about Germany opening – how is the traffic, sales trends and how many stores, etc?

Daniel Lalonde: Sure, Célia. I can even touch upon the other ones quickly and maybe let Philippe complete the last. So, Germany – it is very early days in Germany. We opened roughly 10 stores last week. And listen, traffic was obviously meaningfully down, but in some of the stores that we have opened among our three brands, we saw I would say some decent results, some good sales days, made up with I would say higher average basket with fewer customers, but I would qualify them as good sales days but with traffic being down. So, it is still early to tell and at this stage I do not want to use necessarily – we are following it very closely, but I do not think it still represents potentially what could happen in other markets at this point in time. I think it is just too early. But I would say it has been a good level of sales, as expected during this period, in those stores in Germany. Going to France, very little of our distribution is in malls. I will let Philippe maybe comment on that. You mentioned malls above 400,000 square metres. I think there is very, very few stores that we have in those malls. One of the key channels we have in France is department stores, so with strong partnerships with Le Bon Marché, Galeries Lafayette and Printemps, of course. Freestanding stores are a big part of our business as well, and they are mainly outside rather than in malls. And then we have an outlet business on the brick and mortar side. On the CAPEX 2020, as we mentioned earlier, where it is basically -40% vs. LY, so we have done some meaningful adjustments, pushing other projects to next year. And I think for 2021, it is still a little bit early to tell at this point in time where we are going to set the CAPEX level, but obviously we will be very selective on the length on where we open, particularly the store CAPEX. On the non-store CAPEX, we will continue to accelerate all of our digital roadmap next year as well. Philippe, did you want to complete anything on that?

Philippe Gautier: No, maybe just to complement. So that means if you remember the CAPEX was a bit shy of €70 million in 2019, so that would be around €40 million in 2020.

Aurelie Husson-Dumoutier: Okay. Thank you. Maybe just a follow-up on my second question, on the malls. Do you have any idea if the department stores like Galeries Lafayette or Bon Marché are supposed to be reopened on 11th May? Where is the decision in the hands of? Is it the Prefet of Paris? Is it the Mayor of Paris? Is it the Minister? Who decides whether Galeries Lafayette reopens?

Daniel Lalonde: Well, I think – again, I will not supplement myself for giving the answers for all of those partners, but obviously we are in touch – I am in touch with them fairly regularly. Their plan at this point in time is to open on 11th May. There are certain constraints, on security, on safety, on counting the number of people in the stores as well. Those are the big issues – how to protect, how to have enough masks for everyone, which we will have, gel, etc, and then limiting the number of people, of the density. There are some guidelines being reviewed at this point in time in terms of density, to be able to open. So, I think there is still – it is not I think the intent, I could say, at this point their intent is to open, but I think there is still some "chemin" to go. And it is different per country. As you know, Germany is not allowing any openings of stores larger than 800 square metres at this point in time. That might change. So, I think the rules and guidelines are different per country and I think it is still a work in process in the French department stores, but their intention is to try to open on 11th May.

Aurelie Husson-Dumoutier: Thank you very much.

Daniel Lalonde: Okay.

Célia d'Everlange: Thank you, Daniel. Do we have a next question?

Kathryn Parker (Jefferies): Good morning. Can you hear me okay?

Célia d'Everlange: Yes, very well, Kathryn. Thank you.

Katryn Parker: Great. So, my first question was actually a clarification. So, on your initial comments on the presentation on SG&A, what proportion of costs did you say could be made variable? And then my second question is on the gross margin. I was wondering if you anticipate any write-downs of inventory or if you just expect to increase your sales throughout that, and what you think the balance of impact might be between H1 and H2.

And then my third question was on digital, specifically in mainland China, and whether the penetration in Q1 was above 40% of sales, and also what the penetration of T-Mall was within digital sales. Thanks.

Célia d'Everlange: Okay. Thank you for your question. Philippe, maybe, do you want to take the question regarding the breakdown of costs?

Philippe Gautier: Sure. So, what we meant is that what we can make, about 50% of our SG&A variable, as we do for the stores. So, that is either you have some expenses which are already variable, like logistics, freight, for example, or that cut that we are reducing, so this is talking about the compensation freeze, reduction of variable pay, adjustment in organization, and as well reduction in discretionary spend, as Daniel mentioned, onT&E and negotiation with a lot of different service providers and suppliers. The gross margin, yes, in general there will be some pressure on the gross margin, because you could expect the market to be a little bit more promotional when it will restart more significantly. We have done many actions on our inventory, with the shifts in the collection planning between Spring and Winter. We have also adjusted very, very meaningfully our buys for H2 and for the Winter 2020 collection. So, with this, we feel we are going to manage the bulk of the topic of inventory. So, now there could be a little bit of timing where we will have a bit higher inventory in the end of H1, and then it should normalise towards H2. So, we are very active on all that, looking at the option of liquidation as well.

Daniel Lalonde: And then, maybe on the China question, on digital and mainland China, so I will give you a couple of contextual points. So, we have for our brands today three sites – T-Mall, JD.com and our own sites in mainland China. At this point in time, the big traffic driver still is T-Mall, which does a meaningful part of the traffic and sales for us. Our own site is developing well and JD is still – we are in the early stages of development with JD. So, T-Mall is still the big traffic driver for us. The penetration, as you can imagine, during the lockdown of the stores did increase. Last year, FYI, we were at about close to a 15% penetration in our e-commerce sales in China, as part of total sales. So, obviously that has shot up for the first quarter, but I think the number is not as meaningful. I think we have to look at it when the stores are open at the same time. But the trend is that we expect it to grow – to continue to grow faster than the brick and mortar sales, and hence the penetration will likely increase from the point of departure last year of 15%.

Kathryn Parker: Great, thank you.

Célia d'Everlange: Do we have a next question?

Murielle André-Pinard (HSBC): Hello. You hear me?

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

Murielle André-Pinard (HSBC): Good morning. Just one question. A first question on China. In April, you gave some trends regarding stores. Can we consider that with e-commerce, sales are up in China in April?

Daniel Lalonde: So, listen, Murielle, I think if you look at the page 10, we gave some very specific numbers on mainland China in total sales. So, the trend or the growth in January was plus 10% – we had started very, very, very strong – February, minus 18%, March, minus 35%. What I can say for April is that the trend continues to improve, so we have a solid improvement in the trend for April. Our conversion rates are increasing, which is good – people coming in the stores. And on the e-commerce channel, I would say the same comment – is the trend that you have seen for Q1 basically is continuing. We are seeing that continuing, that level of growth in April. We also see, as Philippe pointed out, there are some cities where we have seen some positive comps versus LY in China, in April. Not all, but some cities, like Kunming, like Nanning, Changsha, for example. And we have seen a difference in performance between I would say the southern part of China and northern, where the southern part is showing stronger trends, because some of the cities are still in slight confinement mode in the north of China. But again, overall, the big picture is we see a meaningful improvement or a solid improvement in the trend coming from February, March and April is better.

Murielle André-Pinard (HSBC): Okay, but not yet positive?

Daniel Lalonde: Oh, I do not think I can comment on that. It is a little early.

Murielle André-Pinard (HSBC): Okay.

Daniel Lalonde: We have the T-Mall going on now, as you know, so we have Sandro live-stream Monday – which was very successful, by the way, we have just got the results yesterday – and Maje is today. So, there are still a lot of things happening in April. But we have seen, as I mentioned, some cities turn positive in April, which is encouraging for us.

Murielle André-Pinard (HSBC) Okay. And regarding your working capital, what kind of trend can [inaudible] for the full year, considering what you are doing on inventory? What is your level of confidence to contain working capital?

Daniel Lalonde: Oh, I see, working capital. Maybe Philippe, I will let you take that.

Philippe Gautier: Yes. What I would say is that we are extremely active in terms of working capital. The main item obviously is inventory. As we mentioned, we have adjusted immediately our purchases and very meaningfully, versus last year. So, that is for sure. So, inventory will still show some deterioration as a percentage of sales, but we will mitigate a lot of the negative impacts, so we feel quite confident about that. For the rest, in terms of account receivables, everything is going very well so far, so nothing special and the rest is fairly technical. So yes, there will be some pressure on the working capital, but we are working a lot to mitigate that and we will continue to work a lot on that, so we feel we can manage.

Murielle André-Pinard (HSBC): Okay. And maybe one last question regarding e-commerce in the US. Do you know how it is for your competitors? It is the same situation or…?

Daniel Lalonde: Well, listen, I think it is, I think it is. I think it is a little complicated situation in North America for e-commerce at this time. I had a chat last night with our Head of North America and specifically on this issue. So, we have a lot of very robust I would say roadmap on digital for North America. We have seen some good results just even as of last week. But I think it has been in our peer group and overall, if I look at the performance in the segment of accessible luxury, even of luxury throughout the world, throughout regions, I think we have seen all a little bit this trend in North America, I would say. So yes, it is something that is shared by, I would say, our peer group on average.

Murielle André-Pinard (HSBC): Okay, thank you.

Daniel Lalonde: Okay.

Célia d'Everlange: Thank you. We have a next question, operator?

Geoffroy Michalet (Oddo) : Hello. I hope you can hear me well. I had two questions, the first one on liquidity. Just if you could elaborate a bit, or maybe you already did, but on how did you cope with the closing of the commercial paper market. And the second one was on inventories. Sorry to come back to that. Just to know if you could give us some indications on the magnitude or to quantify a bit the kind of effect on inventories that you expect for H1. Thank you.

Célia d'Everlange: Okay, thank you Geoffroy. Philippe, do you want to take the two questions?

Philippe Gautier: Sure. So, yes, as I mentioned, so if I take the end of Q1 as a reference, we had over €200 million cash. And so this cash is used for two things. One is for the amortisation of the outstanding commercial paper and the rest is to manage our cash burn. So they are really the two things that we are managing. And what I would say is that we have what we need to manage these two aspects. So, we are taking a cautious approach, which is to say that we consider [?] the commercial paper market will be closed for now, then we will see if there is some opportunity later on. But we are not planning to use the commercial paper market for the moment and we know that it is working with this reimbursement. In terms of inventory, well, I am not going to give you a guidance on inventory, so as I mentioned, we will have inventory a bit higher in June, so we have taken an assumption which I think is a bit also cautious. With that, everything is working. We are able to face that in terms of working capital, in terms of liquidity. And then, we expect the situation to normalise at the end of the year, meaning that we would have inventory which could be slightly up or similar to last year. That is the idea, for the end of 2020.

Geoffroy Michalet: Thank you very much.

Célia d'Everlange: Thank you. Operator, do we have some other questions? Okay. So, thank you very much for your attention today. The next time we will talk will be for the H1 sales communication at the end of July, on 29th. So, I wish you a good day, even we are in a very specific context. Daniel, I do not know if you want to say a few words?

Daniel Lalonde: No, just the same, Célia. I think, listen, thanks for all the great questions this morning and listen, we wish you all very well. So, thanks for joining us this morning and we wish you a very nice day.

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

Daniel Lalonde: Thank you, everyone. Bye-bye.

Philippe Gautier: Thank you all.

[END OF TRANSCRIPT]