SMCP

sandro · maje · claudie pierlot · de fursac

Q2 Sales

Wednesday, 29th July 2020

Transcript produced by Global Lingo
London – 020 7870 7100
www.global-lingo.com

Q2 Sales

Operator: Hello and welcome to the SMCP Q2 Sales publication conference call. My name is Molly and I'll be a coordinator for today's event. Please note that this call is being recorded and for the duration, your lines will be unlisted only. However, there will be an opportunity to ask questions. And this can be done by pressing star one on your telephone keypad to register your question.

If you require assistance at any time, please press star zero and you will be connected to an operator. I would now like to hand the call over to Célia d'Everlange to begin today's conference. Thank you.

Célia d'Everlange: Thank you. Good morning, everyone. This is Célia d'Everlange, Head of IR, speaking. Thank you for being with us today for SMCP Q2 sales publication. I'm here with CEO Daniel Lalonde and CFO, Philippe Gautier.

As usual, we will go through the presentation, and then we'll 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.

And I think we can start now. Daniel.

Daniel Lalonde: Alright. Thank you, Célia. And good morning, everyone. Thank you for being with us this morning. I'll begin with a quick overview of Q2 2020 and an update on COVID-19 situation and Philippe will detail our sales performance by region.

As you've seen from the press release, Q2 2020 sales have been, as anticipated, strongly impacted by the COVID-19 pandemic. However, the performance is overall in line with our expectations; even slightly better. In Q2 2020, SMCP sales were down 45.8% on a reported basis and down 47% on an organic basis, i.e., excluding De Fursac and at constant foreign exchange.

This performance includes a gradual improvement throughout the quarter on the back of store reopenings ; the continued recovery in mainland China which returned to growth – positive growth- in June; and last a strong acceleration in e-commerce with 32% of sales growth, starting from a high base of 15% penetration at the end of last year.

All of these elements are obviously encouraging. Business trends are moving in the right direction. However, we remain cautious as the recovery continues to be slow and gradual. While our conversion rates in brick and mortar were higher than last year, traffic remained weak, notably penalised by a halt in tourism. In parallel, the group opened eight DOS in Q2 , in line with our ambition to be particularly selective this year and focus on Asia.

On page 5, a couple of comments on the current status of our store network and cost mitigation plan to date.

So first on stores:

- Throughout the quarter, we benefited from the gradual reopening of our stores from 20% of stores open at the end of April to 97% at the end of June. The UK, the US and Singapore remained closed for most of the quarter.

-Overall, 99% of our directly operated stores are now open, with few stores still closed in the Americas.

-This is good news, even if – even if there exists a risk of further local shutdowns.

On sales, the combination of e-commerce and store reopenings has resulted in a gradual improvement in sales over the period from minus 70% in April to minus – round about minus 30% in June. However, the lack of tourism continued to weigh on our performance. As you know, we've also decided to launch a strong action plan addressing our cost structure, aiming to mitigate the impacts of COVID-19. I'd like to give you an update on where we stand at the end of H1.

-So first on CAPEX, we have reduced it meaningfully, according to our plan. We have also prioritised essential projects such as digital which is, and will be, a key driver of growth for the future. We've also reduced the pace of openings from roundabout 35 DOS last year in H1 to only plus 2 DOS in H1 this year.

-Second, on OPEX, we have optimised our costs by reducing – optimising personnel costs, commercial leases and reducing discretionary spending to a minimum. On rent relief, we've made good progress for the first part of the year and we're now having discussions with our landlords to find solutions for the recovery phase. All in all, in H1, we were able to variabilize 50% of our cost base.

-Inventories: we reduced purchases in Fall/Winter 2020 collections by more than 30% and applied several adjustments to the mix of the collections.

-We have also further secured our cash position through the obtention of a French state guaranteed loan amounting to €140 million and additional flexibility on our financial covenants for 2020 and for 2021.

-And last but not least, our key priority remains ensuring the safety and health of our teams, our customers and all of our partners.

So strong progress on costs. We have already secured a big part of our plan. However, we also continue to innovate and launch new initiatives to enhance the desirability of our brands.

On page 6, a couple of initiatives that have been undertaken in line with our roadmap.

So first on digital, we achieved a strong e-commerce performance across the globe. This is the result of successful initiatives to support sales.

One example is in China, where we posted excellent results for the 6/18 T-Mall event: sales were up 40% versus LY and we reached more than two million visitors and boosted Claudie Pierlot's visibility, leveraging key influencers on live streaming.

In parallel, we pursued our omnichannel roadmap with the launch of Unified Commerce. Our ambition is to offer a seamless customer experience and complete our omnichannel services with the ship from store and the 2 hours delivery option. We have just started with Maje France, by mutualising global inventories and developing the first ship from store service. So far the results are promising.

Second, on sustainability, a key priority for this year and beyond. We will present our strategy in a couple of months at our Investor Day. It is based on three pillars: Products, Planet and People. Circular economy is definitely one of the levers that we want to activate by leveraging the expertise of second hand platforms. On the right part of the slide, one illustration is with Maje. Since its programme First Stone last year, the brand has continued to commit to an eco-responsible approach. For Fall Winter 20 Maje is looking to address the subject of product circularity in all aspects. A collaboration with Vestiaire Collective was initiated a year ago, and the brand continued this partnership and an even stronger form by making it part of its campaign message.

And thirdly on page 7, our Q2 openings:

As you can see, we have opened fewer stores than last year (only + two DOS in H1, including several closures in France, versus plus 35 DOS last year in H1).

Our approach today is more selective and based on:

- optimising and enhancing our French network,

- and opening selectively in international markets, mostly in Asia, as we are prioritising and focusing on like for like growth.

Here, three exciting projects that launched in Q2:

-A Maje flagship store in Saint Honoré in Paris, which is featuring a new store concept using less furniture and more vintage furniture to promote a more responsible consumption.

-**A Sandro dual gender store in Beijing**. Our new concept green store, using natural materials, stone plaster wall finishes, some natural stone and of course, LED lighting.

- **And Sandro Shanghai**, our first travel retail store in domestic airport of Shanghai Hongqiao airport. First results are very promising. This was a perfect timing to open it as government actions to foster local consumption are significantly supporting domestic travel retail channels.

Philippe Gautier: Thank you Daniel and good morning everyone. I will now comment on our original performance on page 9.

In France and EMEA, sales were down respectively, 49.6% and 55.1%, and on an organic basis, in line with the Group average. The performance reflects a gradual improvement throughout the quarter in line with store reopenings even if tourism flows remain absent throughout the quarter.

In Europe, the performance was actually contrasted from one country to the other reflecting various degrees of global shutdowns and level of exposure to tourism.

- Among top performers, we can note Germany at around minus 10%, the Netherlands and Switzerland.
- Among bottom performers we included Italy, UK and Spain, which posted a decline of more than 70% in the quarter.
- In France, trends improved throughout the quarter even if June was impacted by some negative calendar effects as the summer sales were postponed by three weeks to July 15th.

In parallel, tourism remained totally absent, which notably explained the outperformance of the "province" area compared to Paris.

In parallel, Digital in Europe recorded a strong performance in Q2 with + 39.7% of sales growth.

Finally, we continued to make good progress on our French optimisation plan with four closures in H1, two relocations (Strasbourg and La Vallée Village) and one closure in Poitiers.

In the Americas, sales were down 69.8% on an organic basis, showing a greater impact from the crisis as a lot of stores remained closed until the end June, notably in the New York area, which is key for us. The situation there remains difficult as the region is still fighting the pandemic. That could result in some potential store closures such as recent decisions in Florida and in California, to close some stores in their malls.

In parallel, e-commerce displayed as strong acceleration vs Q1 in North America at +21.4%; as we solved some of the operational issues we have seen in Q1 and saw more online demand.

Turning now to APAC performance on page 10. Sales were down 19.1% on an organic basis, showing a sequential improvement throughout the quarter. This performance reflected a good resilience in mainland China (-3.4% in Q2 20), and some contrasted trends in the rest of Asia.

In mainland China, they recorded a gradual improvement throughout the quarter returning to growth in June with a positive like for like growth. These early signs of recovery are encouraging even if the performance remains contrasted by cities.

While the South of mainland China already benefits from positive trends in many cities, the North remains challenging as some cities are still facing risks of local shutdowns.

In the North, the performance was double-digit negative in June. Beijing, which represents a big part of Northern China was down double-digit in June as the city was back under lockdown with strict measures imposed. However, for a couple of days now, situation is improving and all our stores are now back open in Beijing.

In the South, the situation is completely different. The performance was double-digit positive in June with certain cities out of 15 being positive.

In parallel, mainland China benefited from a strong performance in e-commerce (+17.2% mostly driven by successful operations on T-Mall, as mentioned by Daniel.

For the rest of Asia, SMCP recorded contrasted trends, including good resilience in South Korea, and Taiwan, which was positive in Q2, and tougher markets in Hong Kong and Singapore. In Hong Kong the government announced the extension of certain measures. Several new challenges were reported, and borders remained closed to tourism. In Singapore, the situation improved recently with the reopening of our stores.

So thank you for your attention. And we're now happy to answer to your questions.

Questions and Answers

Célia d'Everlange: Thank you, Philippe. Operator, I think that we have some questions.

Operator: Thank you. If you'd like to ask a question, please press star one on your telephone keypad. Please ensure that your line is unmuted locally. You'll then be advised when to go ahead with your question.

The first question comes from the line of Antoine Belge from HSBC; please go ahead.

Antoine Belge (HSBC): Yes, Hi, good morning everyone it's Antoine at HSBC.

Three questions please:

- First of all: you gave a bit of commentary about the exit rate by region. Is it possible maybe to be a bit more precise and maybe give the global exit rate for the month of June and if you've seen a further improvement so far in July.

-Second question relates to the operating loss we could expect for H1; is it possible maybe to give a range and with maybe some detail about the gross margin decline in inventory depreciation, etc.?

-And finally maybe on De Fursac, even if you are still not on a like for like base but it is possible to have some kind of a comparable store roles on a pro forma basis and maybe is it possible to have an update on this acquisition and what you've been doing and to what extent COVID-19 is postponing, maybe, some of the initiatives you had planned for the acquisition? Thank you very much.

Daniel Lalonde: Okay. Thank you Antoine. Listen, I'll take very briefly question one and three, if you like, and I'll give the second one to Philippe. So you mentioned more detail on the global exit rate; I think I mentioned it earlier in the call. So our global exit rate in June was around minus 30 coming from minus 70 in April, so you know, in the right direction, and as we pointed out, it was positive in China, mainland China, and even positive on a LFL basis in mainland China.

So that's – you know, the trends are going in the right directions.

For July obviously, I can't say too much, I can just say you know that the trends from June keep slightly improving. But – but I remain cautious obviously, on what can happen here until the end of the year.

On De Fursac, I'd say a comment to start more broadly on what we've seen in the men's markets in general: We've seen that men are a little bit less out there shopping than women even when the store reopened. So I think there's a slight difference in performance by category (men versus women) on a global basis and particularly in Europe where it's been slightly weaker.

Has this affected our plan for De Fursac? Yes, of course it has because part of our plan for De Fursac was obvious. It's a beautiful brand, as a market leader in France in men's accessible luxury, what we wanted to do is obviously expand it geographically. And as you know, we had to take a little bit of a pause in the store, new store growth. But we have a roadmap that we feel very comfortable with in terms of expanding in new markets, we already have secured some locations. So we're very happy about that. But there's been a slight delay.

In terms of what we're doing with the brand as well is, you know, we're using the – I'd say the tailoring routes, but to inject them much more into an urban casual wardrobe for men. And that's been something we've been working on since day one. So to develop a much more compelling and larger urban casual offer, which I think corresponds to the market today, but still with the tailoring roots, and that business has been improving.

And then in terms of integration etc., within SMCP our approach has always been to have a very light touch; we want to keep – I want to keep what's made De Fursac successful is letting them this independence, autonomy, as a small start-up, let's say and obviously where the group can help in terms of business development, in terms of maybe store build out, etc., we're doing that, but I'm not seeking to completely integrate it in. I want to keep its spirit alive.

So that's been the approach so far. And like I said, overall, we've had a slight delay in the opening plan because of COVID. But we've been able to secure some great locations for the future. Philippe, you might want to take some words on question two; whatever you can say.

Philippe Gautier: Yes, hello Antoine. So we are not going to comment too much from now on the EBITDA. As you know that’s the focus of the call on 4th September. So we can give you a little bit of colour on your question on the gross margin. I think we can say that we are not dissimilar to the overall market. To me the logic has been much more promotional during the lockdown and just after the lockdown and then you have the impact on the inventory. So that results clearly on some pressure on the gross margin, be that in terms of higher discounts or some inventory differentiation.

So that's an impact on the EBITDA. I will say the other element is in terms of costs. So earlier this year we have talked about our action plan in terms of cost reduction, and we have, you know, been completely on track with that. And the indication we have given is to say that we can now variabilize more than half of our cost be that store cost or in SG&A. That's the action that we have been mentioning particularly rent relief temporarily and finance and optimisation of our structure. So I would say that's an indication that we can provide you today.

Antoine Belge: Okay, so on the gross margin, I mean, we've seen quite different outcomes. So for different players and depending on the product makes and you know, sort of percentage of seasonal products. No way you can guide slightly?

Philippe Gautier: Well, what I can tell you is that we have an impact and then we have explained also what the mitigation actions are we are putting in place. So yeah, there is an impact, but we have also some ways to manage part of it.

Antoine Belge: Okay. Thanks for your answers.

Célia d’Everlange: Thank you Antoine. Do we have another question?

Operator: Yes, we do. The next question comes from the line of David Da Maia calling from CIC. Please go ahead.

Célia d’Everlange: Good morning, David.

David Da Maia (CM-CIC): Hi, good morning. So my questions have already been asked by Antoine. So maybe a quick one on e-commerce: your online sales grew by less than 20% in H1 on my calculation, which is significantly lower than some of your peers. How can you explain this underperformance? Because we saw some bigger increase in e-commerce sales from some of your peers in H1.

Célia d’Everlange: How much have you said sorry for H1?

David Da Maia: Yeah, less than 20% in H1 for e-commerce sales growth?

Daniel Lalonde: So 32% is Q2

David Da Maia: because I – if I remember correctly in Q1 it was flattish.

Daniel Lalonde: Yes, exactly. Yeah. So I think a couple of things:

First of all, we're very satisfied with the performance of e-commerce. I think you really have to look at the base – the base as well, right? Our base – our penetration last year, e-commerce sales was 15%. So depends what your starting point is. It's very important to take that into account when you look at performance in H1. And listen, we're very happy with the performance in e-commerce. We think, you know, we have a very robust plan. We know it's an accelerator for the future. This is what I think COVID has taught us all: it was very important before, now it's going to accelerate. And our plan overall is articulated around three – three building blocks.

The first is e-commerce itself, which is mainly done through our websites, a big part of our business, more than 50%, is done through our sites. The remaining is done with partners, with departments store partners and pure players. We have been investing a lot and wisely so, I think, on omni channel services; as I mentioned earlier, we just launched Unified Commerce, which is a service that not many companies have today. It's been a two-year journey, and we're very happy to launch it.

And the last part of our roadmap is to visualise our processes by:

- visual merchandising

-and e-Learning.

So listen, I'd say overall, I'm very happy with the performance of e-commerce in H1 and in particular in light of the 15% penetration as of last year.

David Da Maia: And understood, but what is the share of e-commerce now in your total sales in H1 2020?

Daniel Lalonde: Yeah, I mean, I can give it to you. But I don't think it's a very relevant number because you're looking at an e-commerce penetration when a lot of stores – physical stores were closed. So I think it's not a normal rate at this point in time to give; I think it's misleading– it's obviously very high.

David Da Maia: Irrelevant. Yeah.

Daniel Lalonde: Yeah, I think so. Just because most stores were closed, so probably in H2, I'll give you a number at the end of H2, for sure. Which will be a more fair based, but obviously, it's very high. But it's not sustainable at this point in time.

David Da Maia: Okay, understood. Thank you.

Daniel Lalonde: Okay. You're welcome.

Célia d'Everlange: Do we have another question?

Operator: Yes. The next question comes from the line of Christian Schmitz calling from Carlyle. Please go ahead.

Christian Schmitz: Hello, it's Christian well, first thank you for taking the question.

I have a quick question. Could you maybe comment a little bit on your liquidity position right now and then how you see it develop over the second half of the year? And in particular, I'd be curious to understand what your current thinking is about the maturities of your CP and cannot believe – you think you can refinance those? And if not, what's the alternative for that? Thank you.

Philippe Gautier: Sure, thank you for the question Christian. So as you know once negotiated successfully, a guaranteed loan of so called PGE in French and standard €140 million. In the same time, we have also negotiated the covenants, we have a covenant holiday for 2020. And we have an easing of the financial covenants for 202, which I think, is a great outcome.

So, and in the meantime – so it means that we have this new liquidity which is provided by the PGE. And in the meantime, we have reimbursed our all our NEU CP, and we have this new PGE in place. Based on that our cash position is over €200 million which is I think, it's really comfortable to take any potential risk in H2. So I think we are in a good position, as you know – may know the logic of these State guaranteed loan, was to provide some headroom and further flexibility as we exit the crisis.

So I would say we are in a good spot thanks to this negotiation.

Célia d'Everlange: Thank you.

Christian Schmitz: When you say – sorry, when you say you were – sorry, one question, when you say you were above €200 million in liquidity, you had €200 million liquidity at the end of the first quarter. Does that mean you burned the entire €140 million of the state loan already?

Philippe Gautier: No, no, no, not at all. If you remember, we had a situation of €200 million in March, where we had drawn already all the RCF as well as having a large portion of NEU CP outstanding which is kind of an unusual situation. So what has happened is that in the meantime, we have basically reimbursed NEU CP, and we have this new line of PGE in place.

Christian Schmitz: So you have repaid all of your commercial paper?

Philippe Gautier: Yeah, exactly. We repaid all our commercial paper and we have this new PGE line in place. Which is the reason why we stay with a negative cash position on the €200 million.

Christian Schmitz: No, that makes sense. That's obviously much more positive. Can I ask one more question? I guess there's been a little bit of news about your shareholder. I was just wondering what the level of discussion and communication is between you and your shareholder and whether you have any comment on – you know, on what was going on there.

Daniel Lalonde: Yeah, so in terms of our shareholder obviously, you're talking about Ruyi. Yeah, we have – I think we have frequent conversations, one this week for example, with them as is normal in a relationship, clearly. Listen, I can just say that, you know, they're – they're busy. They're busy with their core business on production and also on their financial situation. I certainly can't talk for them, but I know that they're, you know, responsibly trying to reimburse their debts that are outstanding. So that's basically all I can say at this point in time. They've been a strategic shareholder to us. Very – you know, good relationship since 2016, I'd say as normal as can be between the strategic share shareholder and us.

Célia d'Everlange: Thank you. Operator, do we have another question?

Daniel Lalonde: Okay.

Operator: The next question comes from the line of Kathryn Parker calling from Jefferies. Please go ahead.

Kathryn Parker (Jefferies): Good morning. Just checking you can hear me okay.

Célia d'Everlange: Yes. Very well; good morning Kathryn.

Kathryn Parker: Good morning. Great. So my first question is on the level of discounting. Whether you can give any more comments on how that's trended year on year and perhaps if there are major differences in your different regions?

And then my second questions, refer to the article in WWD this morning from Daniel. And the first one is on the physical store network and the opening pipeline, where I think it was said that you now expect to do half the number of physical stores versus your previous expectation. And I wondered if you could give some more clarity on that and whether it applies to the rationalisation programme in France stepping up, or whether it's just a reduction in the number of openings and which markets that would apply to.

And then my third question is also from this article: so, you're interested in speeding up the production time, and I wondered if you could give some more details on that, and whether you would consider internalising some of your production or how you're looking to achieve the faster replenishment. Thank you.

Daniel Lalonde: Okay, well, thank you, Kathryn. Thanks for reading the article. You’re well briefed. I'll try to answer your questions. I think you need to maybe take a little bit more specifically the discounts question. Maybe I'll start with that just by a quick context. So obviously, when our stores started reopening primarily in Europe and North America, our stores reopened in an environment where we were already in traditional midseason sales already, and then followed pre-sales in most markets. And then as Philippe mentioned earlier, the real sales started in France anyway, in mid-July.

So my point is, when we reopened, we started already in a promotional period overall in most markets. So that's kind of the backdrop to that question, and I'll let Philippe answer in more detail.

Okay, so your first question on, maybe, the store network? Maybe I'll answer that a bit more broadly. What I was trying to mention, you know, again, and to go forward – without being very specific because we'll be much more specific at Investor Day – is that – you know, what's changed? What's changed in this crisis? I don't think there's been some things that we're not aware of. It's just that some factors such as digital, purpose, brand purpose, sustainability have all accelerated in that incredibly meaningful way. If you weren't there before it's going to be hard to get there.

I think, you know, we've been planning these things for a very, very long time, and I think they will accelerate, which means that, you know, we can see in the future, since we built our network, our physical network, throughout the countries, you know, we have a decent amount of coverage, I would say, overall; there's still some white spaces left in key markets. China is one, as I mentioned, but more and more we'll be focusing on, you know, developing our digital platforms. I mentioned the three-pronged approach to our digital roadmap; we're going to be accelerating that and we have been for some time.

And it will have a slight impact on the number of physical stores that will develop in the future. Simply put. So we had a cadence in the past of 80 to 90. I don't certainly want to give a guidance today because we'll get more specific at Investor Day, but wanted to say that we anticipate less stores than 80 to 90 potentially in the future because we're accelerating digital.

Now does that touch upon the France optimisation plan? Yes, it does a little bit as well because as you know, we've launched about a year ago, a plan to optimise our store – physical store network already and we've been optimising, I'd say, on that basis, maybe five to ten stores a year. Simply because when we entered – and French is our – is our original market, back then digital was very small part of our business. So we, I'd say, introduce our brands into smaller cities, through physical stores. That is not the way forward. So that's why we've been optimising our French network. And we'll continue to do so this year and next year as well.

So that has an implication in terms of less stores. But not only that: overall, we're being more selective in our physical stores. And with a greater focus of those stores in Asia, particularly China.

And last in terms of production, I think I was misquoted because I don't want to reduce the time to create the collections. You know, we need – we have a very strong creation process just like luxury brands do. And that's important and that takes three or four months and we want our creative teams to, you know, to feel energised, and to not force the process. However, my goal is to reduce the time it takes to replenish and that's a key success factor: we can replenish them already pretty fast, from five to nine weeks to replenish products within a season. That – I'm very interested in, in minimising that, because it means that we can become more agile. And that's a big project that we have in the company to become more agile and maybe have less initial buys? and chase the best sellers and that's been a – that's a very important part of our plan going forward. So reducing the replenishment time but not the creative time.

And Philippe, I don't know if you want to say a few words on discount.

Philippe Gautier: Sure. So if you recall, last year, we talked a bit about our discount policy, which is in general to be lower in discount that in the overall market. We have been successful doing that. And that has resulted roughly in a discount rate of about 30% on average. So, this year there is still more promotional pressure on the market. So we have been a little bit more tactical, and that's where the discount rate has increased a bit, but that doesn't change the overall strategy. So that's what we can say. In terms of the situation by region on discount rate it’s naturally different from what you would expect or what we have seen in the past. Meaning that the most promotional market continues to be the US. And the less promotional market is Asia, Europe and France being somewhere in the middle, so nothing really changed there.

Kathryn Parker: Thanks very much.

Célia d’Everlange: Thank you Kathryn. Do we have another question, Operator?

Operator: Yes, before we take the next question please be reminded if you'd like to ask a question, please press star one. The next question comes from the line of Chiara Battistini calling from J.P. Morgan. Please go ahead.

Chiara Battistini (J.P. Morgan): Good morning. Hello, thank you for taking my questions. The first one would be on North America; I just would expand a bit more on what you're seeing there because it's the market that is underperforming versus the others.

I was just wondering whether you're seeing anything, just any – any weakness in your brand and perception with the consumers if there is anything brand specific, or it's just really the environment being particularly fast. And also, if you could remind us of how much of your sales in North America are to usually tourists. So last year, of course, before – before COVID.

And then the second question and I appreciate it's very, very, very early, but I was wondering whether you've already started planning in terms of supply for next year, for 2021. Anything you can share already, in terms of how you're thinking about next year, whether you're thinking a full recovery could be done next year, or it's going to be more gradual. I appreciate that's very, very early to think about that but any colour on that would be super. Thank you.

Daniel Lalonde: Well, thank you, Chiara. Listen, I missed the first part of your question. What market – you were talking about North America? Is that correct?

Chiara Battistini: Yes, North America.

Daniel Lalonde: I see. Okay, I get it. I'm just going to say few words and I'll let Philippe complete as well. Listen, I think right out, said North America is no, not at all. I think our brands – our brands remain – we just have Sandro and Maje in North America. I see it through the benchmarking in some department stores where we rank and even up through last year and the numbers I've had this year in some key department stores within a panel of roughly 20 brands and accessible luxury, we're very consistently in every store in the top three, maybe top four sometimes and often number one. So there's a very strong brand appeal of Sandro and Maje in North America. What we're seeing today, in my view, is clearly a market – a market environment.

Again, you know: have stores reopened prematurely? Probably. Yes. And that's been a government-led decision, as I mentioned, as well, there's a lot of issues in North America on COVID. And stores have reopened, closed again in Florida and California. So I think the market environment that you know very well is extremely complicated in North America. For me, it's much (it's almost 100%) of a market issue as opposed to a brand issue, because I know our brands are very desirable and have a relative good performance in North America. Philippe, I don't know if you wanted to add anything?

Philippe Gautier: Yeah. Chiara, maybe just to put in perspective, it's important to recall that during the quarter we had our stores in North America closed down up to two months and half on average. We still had about half of our stores closed in the middle of June and then started opening very gradually. Still had 17% of the stores closed end of June. Obviously, New York was the latest market, last market to reopen and you know that the traffic in New York is really extremely, extremely low.

At this point in time we have about 4% of our North American stores which are closed as some stores were closed in Florida and California; we will continue to monitor the situation. Now on your question on tourism. If we talk specifically about Chinese tourism, once we got 15% of the overall – around 15% of the overall store sales in the US. Now we have also other nationalities as well. And then you could have also Asian Americans depending whether the people are travelling or if they're living in the US. So these different categories are expected so – so clearly there is a really big shock, external shock on the North American markets, and we will continue to monitor that closely.

Daniel Lalonde: Did you have a – Chiara, did you have a question on supply? I didn't – I don't know if we answered your third question.

Chiara Battistini: Yeah, no, it was more how are you thinking about next year, if you already started planning for next year. If you are at the moment thinking about next year as a full recovery or a gradual recovery versus this year. Appreciate it's early.

Daniel Lalonde: Yeah. Listen, I think it's a departure point. I think I'm – we're not looking – as I mentioned in my WWD article I guess this morning – not looking to replicate or to get back to the situation of 2018 and 2019. That's not an objective for us. The objective is to accelerate our business model on purpose, on sustainability, on digital – digital roadmap, among other things, and those are really the important things going forward.

Now, do we see – you know, how do we see 2021? Well, obviously, that's a big question. I think the market has been – if you read what's out in the market, I think, you know, the big factor I'd say is, you know, tourism. Tourism will be a key driver. And you know, depends when all the tourism flows continue.

We've been able to though, Chiara, in the past six years, build a very balanced business by brand, but also on a geographical perspective. And that's been a big strength of the Group, as well, because we have a meaningful footprint in Asia, in China, in Europe obviously, and in North America, so that even if the consumer stays at home or stays local, we're able to capture that in the local markets and not benefit from obviously the tourism flows.

But I think next year will be challenging as well. I think, you know, we see – it's hard to say there's just simply uncertainty built into the model as we see stores reopen in California then they close. So I think we're living in a very uncertain environment, but we feel very confident that we have the right formula, the right strategy for the future. That's not necessarily going to be exactly as it was in the past because of these things I just mentioned and we're really accelerating, again, purpose, sustainability and in our digital roadmap going forward. But I expect that there will be some uncertainty for a little bit of time, like other groups have reported, as well.

Chiara Battistini: Thank you very much.

Daniel Lalonde: You're welcome.

Célia d'Everlange: Thank you Chiara. Do we have some question Operator? I don't think so.

Operator: We have no further questions in the queue.

Célia d'Everlange: Okay. So thank you. Thank you very much. We look forward to speaking to you on September the 4th for our H1 results. And in the meantime, we wish you a nice summer.

Daniel Lalonde: Thank you, everyone.

Philippe Gautier: Thank you.

Célia d'Everlange: Bye-bye.

Operator: Thank you for joining today's call. You may now disconnect your lines. Host please stay connected.

[END OF TRANSCRIPT]