SMCP

sandro · maje · claudie pierlot · de fursac

2020 H1 Results

Press Release – Paris, September 4th, 2020

H1 2020 results impacted by Covid-19

Strong cost-saving measures to mitigate effects of an unprecedented crisis

- Sales down -31.0% as reported to €372.8 million; -33.5% on an organic[1] basis
- Mainland China sales continued to gradually improve throughout Q2 2020, returning to sales growth in June
- Solid execution of Covid-19 action plan to mitigate impact of crisis: more than 50% of OPEX[2] variabilized, i.e. more than €60m of cost savings
- Adj. Ebitda down from €141.0m in H1 19 to €55.1m in H1 20; Adj. EBIT down from €66.5m in H1 19 to -€29.7m in H1 20
- Net income was down from €17.2m in H1 19 to -€88.5m in H1 20, including an impairment of €42.6m on "Other Brands"[3] Goodwill, impacted by the current pandemic
- Net financial debt/Adj. EBITDA[4] ratio at June 30, 2020: 5.5x
- Solid cash position at June 30, 2020: €219m

Commenting on the report, Daniel Lalonde, SMCP's Chief Executive Officer, stated: *"Our results were strongly impacted by the Covid-19 pandemic. Nevertheless, we have implemented strong measures to mitigate the impacts of the crisis, reducing operational costs and investments, securing cash position and adjusting collections. The Group is well equipped to face this challenging period as its fundamentals remain solid: we benefit from a geographically well-balanced portfolio of international brands, a strong position in e-commerce and an agile organization. In H2, we will further pursue our Covid-19 action plan while continuing to deliver on our key priorities: enhance brands desirability, create one unified channel between e-commerce and physical stores to build a seamless and innovative experience for customers, and accelerate sustainable fashion. We will detail all of these actions during our Strategic update on October 27th."*

[1] *All references in this document to the organic sales performance refer to the performance of the Group at constant currency and scope, i.e. excluding the acquisition of De Fursac*
[2] *Excluding De Fursac and IFRS 16*
[3] *Claudie Pierlot and De Fursac brands*
[4] *Last twelve months adjusted EBITDA (excl. IFRS 16)*

Unless otherwise stated, all results reported in this document are reported for H1 2019 and H1 2020 under IFRS 16.

KEY FIGURES – IFRS 16	H1 2019	H1 2020	*Change as reported*
Sales (€m)	540.3	372.8	*-31.0%*
Adjusted EBITDA (€m)	141.0	55.1	*-60.9%*
Adjusted EBIT (€m)	66.5	-29.7	*n.a.*
Net Income Group Share (€m)	17.2	-88.5	*n.a.*
EPS[5] (€)	0.23	-1.20	*n.a.*
Diluted EPS[6] (€)	0.22	-1.20	*n.a.*
Pre-tax operating FCF	19.0	-49.4	*n.a.*

H1 2020 CONSOLIDATED RESULTS

Consolidated sales reached €372.8 million, down -33.5% on an organic basis. Reported sales were down -31.0%, including a positive currency impact of +0.3% and De Fursac's contribution of +2.2%. This performance reflects the impact of lockdown measures in most countries (particularly in the first quarter of 2020 in Asia and the second quarter in Europe and North America) and a halt in tourism flows across regions. Over the semester, while traffic in stores remained weak, the Group recorded solid conversion rates. Furthermore, SMCP partially offset the impact of the crisis through a strong performance in e-commerce[7] (+15.0% of sales growth).

Adjusted EBITDA decreased from €141.0 million in H1 2019 to €55.1 million in H1 2020, in an unprecedented health crisis context. This resulted from the drop in sales combined with a reduction of -4.8pts to gross margin (71.5%) due to increased promotional activity and, to a lesser extent, inventory depreciation. This was partially offset by strong cost-saving measures which generated more than €60m[8] and enabled SMCP to rapidly variabilize more than 50% of its operating costs[8], on the back of the renegotiation of commercial leases, the use of temporary employment measures, a strict optimization of working hours and SG&A optimization (overhead costs, discretionary spending…).

Consequently, Adjusted EBIT decreased from €66.5 million in H1 2019 to -€29.7 million in H1 2020.

Other non-recurring expenses increased from -€4.1 million in H1 2019 to -€46.0 million in H1 2020 which included -€42.6 million of asset impairment losses resulting from the current Covid-19 crisis. The amortization recorded this year related to the Goodwill value of "Other brands" division which includes Claudie Pierlot and the recent acquisition of De Fursac.

Financial charges strongly decreased from -€28.0 million in H1 2019 to -€14,0 million in H1 2020. Excluding the cost of debt under "lease contracts" (IFRS 16) of -€7.5 million in H1 2020 (versus -€6.3 million H1 2019), SMCP has significantly reduced the cost of its debt from -€21.7 million in H1 2019 (which included -€12.6 million of

[5] *Net Income Group Share divided by the average number of ordinary shares in H1 20 minus existing treasury shares held by the Group.*
[6] *Net Income Group Share divided by the average number of common shares in H1 20, minus the treasury shares held by the company, plus the common shares that may be issued in the future. They include the conversion of the Class G preferred shares (4 129 169 ordinary shares) and the performance bonus shares – LTIP (780 979 shares) which are prorated according to the performance criteria reached as of June 30, 2020.*
[7] *Excluding De Fursac*
[8] *Excluding De Fursac and IFRS 16*

refinancing penalties) to -€6.5 million in H1 2020. The Group continued to optimize its cost of debt from 4.1% in H1 2019 to 1.8% in H1 2020.

Income tax amounted to a gain of €6.3 million in H1 2020 versus -€10.5 million in H1 2019. Net income - Group share stood at -€88.5 million in H1 2020 (vs. €17.2 million in H1 2019).

H1 2020 OPERATING FCF AND NET FINANCIAL DEBT

Pre-tax operating FCF stood at -€49.4 million in H1 2020 compared to €19.0 million in H1 2019. This performance reflects the decrease of the adj. Ebit in a context marked by the Covid-19 pandemic. In parallel, SMCP reduced its capex from €33.9 million in H1 2019 to €29.1 million in H1 2020 to protect its cash position and displayed a change in working capital of -€9.3 million, in line with its expectations. After-tax operating FCF stood at -€49.8 million in H1 2020.

Net financial debt increased from €387.4 million on December 31, 2019 to €445.1 million on June 30, 2020. Consequently, Net financial debt/adjusted EBITDA[9] ratio was up to 5.5x on June 30, 2020.

FINANCIAL FLEXIBILITY

In June 2020, SMCP announced the signature of a state-guaranteed loan of 140 million euros and the suspension of its financial covenants for fiscal year 2020 (Holiday covenant) and easing of its financial covenants for fiscal year 2021.

[9] *Last twelve months adjusted EBITDA (excl. IFRS 16)*

FINANCIAL INDICATORS NOT DEFINED IN IFRS

The Group uses certain key financial and non-financial measures to analyse the performance of its business. The principal performance indicators used include the number of its points of sale, like-for-like sales growth, Adjusted EBITDA and Adjusted EBITDA margin.

Number of points of sale

The number of the Group's points of sale comprises total retail points of sale open at the relevant date, which includes (i) directly-operated stores, including free-standing stores, concessions in department stores, affiliate-operated stores, factory outlets and online stores, and (ii) partnered retail points of sale.

Like-for-like sales growth

Like-for-like sales growth corresponds to retail sales from directly operated points of sale on a like-for-like basis in a given period compared with the same period in the previous year, expressed as a percentage change between the two periods. Like-for-like points of sale for a given period include all of the Group's points of sale that were open at the beginning of the previous period and exclude points of sale closed during the period, including points of sale closed for renovation for more than one month, as well as points of sale that changed their activity (for example, Sandro points of sale changing from Sandro Femme to Sandro Homme or to a mixed Sandro Femme and Sandro Homme store).

Like-for-like sales growth percentage is presented at constant exchange rates (sales for year N and year N-1 in foreign currencies are converted at the average N-1 rate, as presented in the annexes to the Group's consolidated financial statements as at December 31 for the year N in question).

Adjusted EBITDA and adjusted EBITDA margin

Adjusted EBITDA is defined by the Group as operating income before depreciation, amortization, provisions and charges related to share-based long-term incentive plans (LTIP). Consequently, Adjusted EBITDA corresponds to EBITDA before charges related to LTIP.

Adjusted EBITDA is not a standardized accounting measure that meets a single generally accepted definition. It must not be considered as a substitute for operating income, net income, cash flow from operating activities, or as a measure of liquidity.

Adjusted EBITDA margin corresponds to adjusted EBITDA divided by net sales.

Adjusted EBIT and adjusted EBIT margin

Adjusted EBIT is defined by the Group as earning before interests and taxes and charges related to share-based long-term incentive plans (LTIP). Consequently, Adjusted EBIT corresponds to EBIT before charges related to LTIP.

Adjusted EBIT margin corresponds to Adjusted EBIT divided by net sales.

Management Gross margin

Management gross margin corresponds to the sales after deducting rebates and cost of sales only. The accounting gross margin (as appearing in the accounts) corresponds to the sales after deducting the rebates, the cost of sales and the commissions paid to the department stores and affiliates.

Retail Margin

Retail margin corresponds to the management gross margin after taking into account the points of sale's direct expenses such as rent, personnel costs, commissions paid to the department stores and other operating costs.

The table below summarizes the reconciliation of the management gross margin and the retail margin with the accounting gross margin as included in the Group's financial statements for the following periods:

(€m) – excluding IFRS 16	H1 2019	H1 2020
Gross margin (as appearing in the account)	342.8	230.0
Readjustment of the commissions and other adjustments	69.5	36.6
Management Gross margin	412.3	266.6
Direct costs of point of sales	-222.6	-179.1
Retail margin	189.7	87.5

After-tax operating Free cash-flow

After-tax Free cash-flow is defined as adjusted EBITDA after taking into account changes in working capital requirements, non-current items paid, income tax paid and net cash flows from investing activities excluding acquisition.

Net financial debt

Net financial debt represents the net financial debt portion bearing interest. It corresponds to current and non-current financial debt, net of cash and cash equivalents net of current bank overdrafts.

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METHODOLOGY NOTE

Unless otherwise indicated, amounts are expressed in millions of euros and rounded to the nearest million. In general, figures presented in this press release are rounded to the nearest full unit. As a result, the sum of rounded amounts may show non-material differences with the total as reported. Note that ratios and differences are calculated based on underlying amounts and not on the basis of rounded amounts.

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DISCLAIMER: FORWARD-LOOKING STATEMENTS

Certain information contained in this document includes projections and forecasts. These projections and forecasts are based on SMCP management's current views and assumptions. Such forward-looking statements are not guarantees of future performance of the Group. Actual results or performances may differ materially from those in such projections and forecasts as a result of numerous factors, risks and uncertainties. These risks and uncertainties include those discussed or identified under Chapter 3 “Risk factors” of the Company’s Universal Registration Document filed with the French Financial Markets Authority (Autorité des Marchés Financiers - AMF) on 30 April 2020 and available on SMCP's website (www.smcp.com).
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A conference call to investors and analysts will be held today by Daniel Lalonde, CEO and Philippe Gautier, CFO and Operations Director from 9.00 a.m. (Paris time).

Related slides will also be available on the website (www.smcp.com), in the Finance section.

INCOME STATEMENT (€m) – IFRS 16	H1 2019	H1 2020
Sales	540.3	372.8
Adjusted EBITDA	141.0	55.1
D&A	-74.4	-84.8
Adjusted EBIT	**66.5**	**-29.7**
Allocation of LTIP	-6.7	-5.0
EBIT	**59.8**	**-34.7**
Other non-recurring income and expenses	-4.1	-46.0
Operating profit	**55.7**	**-80.7**
Financial result	-28.0	-14.0
Profit before tax	**27.7**	**-94.8**
Income tax	-10.5	6.3
Net income Group share	**17.2**	**-88.5**

CASH FLOW STATEMENT (€m) – IFRS 16	H1 2019	H1 2020
Adjusted EBIT	66.5	-29.7
D&A	74.4	84.8
Changes in working capital	-28.9	-9.3
Non-recurring expenses	-5.0	-4.8
Income tax expense	-21.9	-0.3
Net cash flow from operating activities	**85.3**	**40.6**
Capital expenditure	-33.9	-29.1
Net cash flow from investing activities	**-33.9**	**-29.1**
Net interests paid	-13.0	-4.9
Other financial income and expenses	-3.4	-1.6
Reimbursement of rent lease	-54.2	-61.3
Issuance and repayment of borrowings	13.7	226.2
Exchange rate and change accounting principles	0.2	-0.4
Net cash flow from financing activities	**-56.6**	**157.9**
Change in net cash	**-5.3**	**169.5**

OPERATING FCF (€m) – IFRS 16	H1-2019	H1-2020
Adjusted EBIT	66.5	-29.7
D&A	74.4	84.8
Change in working capital	-28.9	-9.3
Non-recurring expenses	-5.0	-4.8
Capital expenditure	-33.9	-29.1
Income tax	-21.9	-0.3
Reimbursement rent lease	-54.2	-61.3
After-tax operating Free cash-flow	-2.8	-49.8
Income tax	-21.9	-0.3
Pre-tax operating Free cash-flow	19.0	-49.4

BALANCE SHEET - ASSETS (€m) – IFRS 16	As of Dec. 31, 2019	As of June 30, 2020
Goodwill	683.2	631.3
Intangible & right-of-use assets	1 284.2	1 260.3
Property, plant and equipment	93.9	90.2
Non-current financial assets	22.1	21.5
Deferred tax assets	43.9	39.4
Non-current assets	2 127.2	2 042.9
Inventories and work in progress	247.9	262.3
Accounts receivables	58.4	38.8
Other receivables	63.4	72.5
Cash and cash equivalents	52.3	273.5
Current assets	422.1	647.1
Total assets	2 549.3	2 690.0

BALANCE SHEET - EQUITY & LIABILITIES (€m) – IFRS 16	As of Dec. 31, 2019	As of June 30, 2020
Total Equity	1 189.8	1 107.2
Non-current lease liabilities	402.5	389.5
Non-current financial debt	436.5	623.9
Other financial liabilities	0.2	0.2
Provisions and other non-current liabilities	3.8	9.2
Net employee defined benefit liabilities	3.9	4.4
Deferred tax liabilities	183.0	185.3
Non-current liabilities	1 029.9	1 212.5
Trade and other payables	144.0	92.9
Current lease liabilities	101.8	103.0
Bank overdrafts and short-term financial borrowings and debt	3.0	94.4
Short-term provisions	0.7	0.6
Other current liabilities	80.1	79.5
Current liabilities	329.6	370.4
Total Liabilities	2 549.3	2 690.0

NET FINANCIAL DEBT (€m)	As of Dec. 31, 2019	As of June 30, 2020
Non-current financial debt & other financial liabilities	-436.8	-624.2
Bank overdrafts and short-term financial liability	-3.0	-94.4
Cash and cash equivalents	52.3	273.5
Net financial debt	-387.4	-445.1
LTM adjusted EBITDA (excl. IFRS 16)	*174.2*	*81.2*
Net financial debt / adjusted EBITDA	2.2x	5.5x

ABOUT SMCP

SMCP is a global leader in the accessible luxury market with four unique Parisian brands: Sandro, Maje, Claudie Pierlot and De Fursac. Present in 41 countries, SMCP is a fast-growing company which reached the milestone of €1bn in sales in 2018. The Group comprises a network of over 1,500 stores globally plus a strong digital presence in all its key markets. Evelyne Chetrite and Judith Milgrom founded Sandro and Maje in Paris, in 1984 and 1998 respectively, and continue to provide creative direction for the brands. Claudie Pierlot and De Fursac were respectively acquired by SMCP in 2009 and 2019. SMCP is listed on the Euronext Paris regulated market (compartment A, ISIN Code FR0013214145, ticker: SMCP).

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