SMCP Q4 2020 Sales Update

Friday, 29th January 2021

SMCP Q4 2020 Sales Update

Operator: Hello, and welcome to the SMCP Q4 Sales Call. My name is Jess, and I'll be your coordinator for today's event. For the duration of the call, your lines will be on listen-only. However, there will be opportunity to ask questions. This can be done by pressing star one to register your question at any time. If at any point you require assistance, please press star zero on your telephone keypad and you will be connected to an operator.

I will now hand you over to your host, Célia d'Everlange to begin today's call. Thank you.

Célia d'Everlange: Thank you. Good morning, everyone. This is Célia d'Everlange, Head of Investor Relations speaking. Thanks for being with us today for SMCP Q4 Sales. I'm here with CEO, Daniel Lalonde, and our new CFO, Patricia Huyghues Despointes, who I would like to welcome for this first conference call with SMCP.

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 Patricia, I invite you to go through our usual disclaimer on page two. And I think that we can start now, Daniel. Thank you.

Daniel Lalonde: All right. Thank you. Thank you, Célia, and good morning, everyone. Thanks for being here this morning. As you've seen from the press release, 2020 has been impacted by the pandemic, including in Q4, with further imposed lockdown measures reaching a peak in November, leading to roughly as 50% of our stores being closed.

So overall, in 2020, sales were down 23.9% on an organic basis at €873 million, i.e., minus €22.9 million on a reported basis, including De Fursac. Like-for-like sales performance was down minus 28.6%. And as said at the beginning of the year, we continued our selective approach on our brick and mortar openings with a plus 12 net openings versus 90 last year, last year meaning 2019. And those openings were mainly in China.

However, throughout the year, we've also been able to partially offset these headwinds both on the top and bottom line. This is, thanks to the recovery of mainland China since June. with 24.5% of growth in H2, we ended the year with a positive sales growth at 3.4%. This is excluded the positive one-offs from last year around €5 million in exceptional off-price sales.

Also, thanks to a strong digital growth of 28%, reaching 26% of sales penetration in digital on the back of several new initiatives to boost our performance. And last, a very tight control of costs, inventories and cash.

On page five. On an organic basis, including for the first time De Fursac, the overall performance in Q4 was at minus 19.4%, reflecting the strong impact of the pandemic. Following some relief in Q3, we faced some new lockdown measures, as you know, in France and a few other European markets, alongside some restrictive measures that weighed on our traffic. Fortunately, we were able to, once again, rely on our solid e-commerce platform and mainland China to mitigate the impact.

China continues to deliver a strong double-digit performance, plus 21% excluding 2019 one-off. I am also very proud by the great job of our teams who were very effective in maintaining a very strong focus in China on full-price sales, despite an increasingly promotional market. Consequently, our discount rate has been strongly reduced in China versus last year.

Regarding e-commerce, we recorded our best performance of the year with a 43.1% growth in sales. Beyond our efficient platform, our teams have also showed a great agility to innovate by testing new ideas to foster this channel. I will comment on this in a minute.

Over the quarter, our expansion strategy was in line with our objective and we remain extremely selective in our choices. We recorded four net openings, including two in China and one closure in France.

One final word is on Accessories, where we recorded the highest penetration ever of 11.4% of sales. This has been driven by all three brands and particularly in the leather goods category.

On page six and on the following slide, I wanted to highlight a few initiatives that have been undertaken in line with our road map. As presented, in October, our strategic road map for 2025 is structured around four pillars. One, enhancing brand as our ability by leveraging sharper and reinforced DNA; creating one journey to offer seamless customer experience; strengthening our business model through a new global demand planning organisation. And last, accelerating and sustainability in contributing to responsible fashion.

With the exception of the marketing investments increase that will be effective as soon as it is appropriate to invest more, this plan is live since October and we've made some very solid progress.

If we look to page seven on brand desirability. Our objective is to win on social media, on Instagram of course, but also on WeChat and other medias to engage directly with our customers and acquire new ones, including millennials, Gen-Z and the Chinese cluster. We have also exceeded the threshold of one million followers on Instagram for Sandro and Maje, thanks to all the work which has been done to fuel our brand stories, and more importantly, to ensure that our followers actively participate.

Here are just two examples. As you can see, the last initiative by Maje in December recruited 75K new followers in less than three weeks before Christmas. And the collaboration of Sandro with Clara Luciani in October generated results that exceeded expectation in terms of viewers and engagement rate.

In parallel, we continued to build new formats, such as live streaming in China with some very strong results, a total of 1.3 million unique visitors for Sandro and Maje during 11.11. And this convinced us to continue on this path.

On page eight, we developed several initiatives in line with our second and third pillars. First, one journey. We have now rolled out our OMS platform to create one inventory in France for Sandro and Maje. Consequently, our new services ship-from-store is now live. If you remember, the ambition is to never miss a sale. So thanks to this, we have already generated 10% of incremental orders from our own websites in Q4 and we are now rolling this out in other markets in all our brands.

In parallel, as I've just said, with the re-lockdown of our stores in Europe in November, the teams continue to innovate and test new formats to boost the digital channels such as virtual shopping and Call & Collect in Europe. The principle is simple. Book an appointment on our website, visit the store with the sales manager on mobile, pay by link and have the order delivered in a couple of hours or pick up in stores, with no carbon footprint by using Stuart, our bicycle logistics provider.

Second on business model. One of our critical projects is the implementation of demand planning, moving from a regional buying to a centralised global demanding planning organisation. There are multiple benefits including having the right product at the right time at the right place, buying better and buying less, which has an impact – a positive impact on like-for-like full-price sales and working capital.

As the first results are promising – are very promising. And it's a bit early to disclose all of the details. Of course, you'll have to wait until we talk again in March. But so far I'm very pleased to see that we are able to stabilise our level of inventories compared to last year despite the challenging market.

Finally, on page nine, a few words about our fourth pillar, sustainability. In Q4, Maje launched its first upcycled capsule collection, featuring pieces made from previous collection fabrics. This is a first step towards our ambition to developing a desirable and responsible offer. We believe new models such as rental, resale, upcycling are very relevant for the future and we are very proactively engaging in these new models.

In parallel, we made progress towards our ambition to source more than 60% of our collections from sustainable materials and products by 2025. The three brands are fully focused on this objective – actually the four brands are. And we will have a 100% of the ready-to-wear collection certified Gold LWG, Leather Working Group, by Fall Winter '21. This is already the case for Maje and Claudie from Spring Summer '21.

On page 10 and 11, a last word on openings. In Q4, we launched our brand, Sandro and Maje, in a new country, Vietnam. Very promising market that will probably generate some of the highest economic growth this year. We have chosen locations at Diamond Plaza and Saigon Centre in Ho Chi Minh City, which is the economic, cultural and technological hub of the country and relies on a young population. So far a very, very promising start.

Finally, on page 11. As said, we opened four stores in Q4. They were mostly located in mainland China. We have already shared with you our ambition to leverage the domestic travel retail channel in China. So following the success of openings at Sandro Shanghai Hongqiao Airport, we've also recently opened two additional stores, Maje at Shanghai Hongqiao Airport and Sandro at Hangzhou Xiaoshan Airport in December with our partner Lagardère Travel Retail.

These two airports are part of the top 10 domestic airports in China. And Maje and Sandro are enabling a couple of brands with accessible luxury and luxury such as Sandro, Jimmy Choo, Tory Burch and Hermes. So we're in good company. The first results are also far ahead of our expectations.

So now I will turn it over to Patricia, who will take you through the Q4 financial performance in greater detail.

Patricia Huyghues Despointes: Thank you, Daniel. And good morning, everyone. So moving into the regional breakdown on page 13.

In France, sales were down minus 18.6% impacted by one month of lockdown in November, as well as a continuous low traffic in December affected by further restrictive measures, such as curfew. In the meantime, e-commerce recorded an outstanding performance at plus 78.4% supported by a solid activity during Black Friday and some exceptional off-price sales on old collections. Network-wide, over the quarter, the Group pursued its optimisation plan with a one additional net closure.

In EMEA, sales were down almost 33.3% organic, impacted by several stores closed due to the lockdown of key countries including the UK, Germany and the Netherlands. The drop in tourism in Europe, including France, also continued to weigh on our performance. Looking at the deep picture by country, we continued to record some contrasted trends while Switzerland and Germany showed a better resilience. Italy, the UK and Spain remained the market most affected by the pandemic.

In parallel, the Group recorded a strong double-digit growth in e-commerce at plus 26.4%. Regarding the recent brick and mortar opening, Sandro, Maje and Claudie Pierlot opened in Porto, Portugal, while De Fursac opened in Luxembourg.

In Americas, sales were down minus 27% organic, impacted by further restrictive measures in stores. In Canada, in Toronto, where the only option was the curbside pick up, and in some key US regions, such as California, where in-store capacity limitation does not ensure a normal level of strategy. Meanwhile e-commerce has played a strong double-digit growth at plus 39.6% showing a significant acceleration versus Q3.

Finally, in APAC, sales were still very encouraging at plus 9.2% excluding the positive one-off in Q4 ’19 related to exceptional off-price sales. Mainland China showed another strong quarter with sales up plus 21% organic excluding the one-off and plus 14% taking into account this one-off.

The overall performance was mostly fuelled by the brick and mortar channels and included plus 12.6% of like-for-like sales growth. Meanwhile, digital was stable reflecting a strong discount rate reduction of circa 4 points decided by the Group despite an increasingly promotional market, especially during the 11.11 and 12.12 events from Tmall. In the rest of Asia, SMCP continued to record contrasted trends. The region was impacted by restrictive measures in December in several countries such as South Korea, Singapore and Australia. Hong Kong and Macau remains challenging as well as restrictive measures continues to weigh on tourism.

On the brighter side, Taiwan continues to generate a strong performance, which is good news, as we intend to increase our exposure to this market in the coming year. Thank you for your attention.

Daniel Lalonde: All right. Thanks, Patricia. So last slide. Overall, 2020 has been particularly challenging as we’ve had to navigate the crisis while shaping SMCP into the new world. In 2020, we’ve been able to partially offset the impact of the pandemic by leveraging a strong recovery in our Chinese business in the second part of the year and our digital platform.

We also strongly managed our costs, inventories and cash. Overall, we should be able to close the year with a stable net debt compared to the previous year, which is a key achievement in this context. In the meantime, we’ve set up foundations to deliver 2025 with good progress on our 2025 strategic plan, articulate on the four priorities – enhancing brand desirability; creating one journey; strengthening our business model and accelerating in sustainability.

Very confident that our plan will shape SMCP to the new world and we are very well equipped to take advantage of this, all thanks to a strong exposure to the Chinese customer over 30%

of our global sales, a world class digital platform, the excellent traction of our brand with Gen-z and millennials and our talented and passionate teams.

So thanks for your attention. And now we are happy to take your questions.

Célia d'Everlange: Thank you, Daniel.

Questions and Answers

Operator: If you would like to ask a question, please press star one on your telephone keypads. Please ensure your line is unmuted locally as you will be advised when to ask your question. So once again that's star one if you would like to ask a question. And the first question comes from the line of David Da Maia from CIC. Please go ahead.

David Da Maia (CM-CIC): Hello. Good morning. I have two questions please. The first one on e-commerce –

Célia d'Everlange: Hi David. Excuse me, David. Can you speak a bit louder please?

David Da Maia: Is it better now?

Célia d'Everlange: Yes.

David Da Maia: Can you hear me? Okay. So the first question on e-commerce in France. So can you quantify the positive impact of your off-price sales on old stocks? Is it the main reason for the gap between your performance in France and the rest of Europe? That's the first question. And then second one on China. You have maintained double digit like-for-like growth in Q4 on tough comps, which is clearly a strong achievement for me. But can you give us some colour on the current situation in China with this new restrictive measures to contain the virus before the Chinese New Year? Have you seen some changes in trends more instantly in this market? Thank you.

Daniel Lalonde: Yeah. Thank you, David. Listen, so for your two questions, the first one on e-com France that you said. I think a couple of things happened in France. In the last quarter, there was some calendar changes, as you know, with Black Friday being a little bit later, etc., etc. So we had some small calendar effects that impacted the digital sales, but it was a mix of both – good mix of both full-price and off-price similar to the previous year.

So there was just a calendar – more of a calendar change due to Black Friday being a little bit later. In China, so the double digit sales – we were very pleased with those at the end of – in Q4, both in brick and mortar and in digital. We took a very, as I mentioned a little bit in my talk this morning, we've taken a position also in China to be – to focus on full-price retail. Full-price retail and full-price sales online and offline.

We purposely, also in Q4, decided to be less promotional on online as well. So we had more products than the previous year that were not discounted. And the discount rate on those products for Tmall, for example, were meaningfully less than the previous year. So we took a very voluntary stance not to follow the promotional nature in the Chinese market.

Célia d'Everlange: Thank you, Daniel. Do we have some other questions, operator?

Operator: There are currently no questions in the queue. So as another reminder, please press star one if you would like to ask a question.

Célia d'Everlange: Yeah. We will wait a couple of minutes because I think that we had some – you had some technical issues regarding the connections to the call. So let's wait a couple of minutes. Operator, I think we have another question.

Operator: Yes. So the next question comes from the line of Goeffroy de Mendez from Bank of America. Please go ahead.

Speaker: Hi. Good morning everyone. Thank you for taking my question. I just have one please. I think, Daniel, you just said that the net debt at the end of the year should be close to where it was at the end of last year. Can you explain the moving parts here, because I think at the end of H1, it was slightly higher. So that would be helpful. Thank you.

Daniel Lalonde: Yeah. I did mention it. Obviously, stay tuned for much more detail in March on that. But we just wanted to give you kind of some good news is for us it's a key achievement. So maybe I'll let Patricia say a few words on it. But essentially what we're saying is the – yeah, the net debt situation at the end of 2020 is very stable to that of 2019, which I think was – we see as a very strong positive in our performance for last year. Patricia, I don't know if you wanted to say a few words about it?

Patricia Huyghues Despointes: Yeah. Thank you, Daniel. Yes, in fact, actually we should learn that stable level of net debt at the end of 2020 compared to 2019, which means significant improvement compared to the end of H1, and which reflects all the efforts that have been made to indicate the situation on several aspects, CapEx-wise, OpEx-wise and in terms of the working capital. So all these three combined, we should learn that stable level and we are quite pleased about this achievement, which gives us some flexibility in terms of cash.

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

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

Kathryn Parker (Jefferies): Good morning, everyone. So just two questions from me. So firstly, I wanted to follow-up on your majority stockholder Ruyi and on the press release about the capital threshold crossing declaration. I know it says that the Board of Directors are meeting to examine the consequence. And I wondered if you had any comments to make on that topic? And then secondly, I just wondered if you could talk about trends by ethnic cluster in Q4?

Daniel Lalonde: Hi Kathryn. Can you repeat the second question, trends by –

Kathryn Parker: Trends by cluster, so like there's a Chinese ethnic group and how they performed versus, say, Europeans and Americans?

Daniel Lalonde: Okay. All right. So let me take your first question. So not an unexpected question. So the only thing I could say at this point in time is I would refer you to a press release on European TopSoho on 18th January, where there – according to the press release which I have in front of me is saying basically there was a settlement agreement reached prior to the date of the notice of the potential default. So they've cured – according to the press release the situation has been cured. So that's an official press release again done on 18th January.

I know that there are some conversations between – from the counsels of both parties, bondholders and our majority shareholder at this point in time. That's about all I could say at this point in time. But again, I would refer you to the press release on 18th January, where Shandong Ruyi says or states that there was – that both situations have been cured in this situation.

In terms of trends by cluster, I don't have a lot of detail maybe at this point in time on it. I can just say that Chinese cluster has grown. It's over 30% of our business. It's the second cluster. I think the French cluster is the first globally than the Chinese. That's increased. And obviously it's increased by local consumption in China. We didn't really see them travelling very much.

And I expect, as I mentioned at the Capital Markets Day, I – as part of our plan in a big way is I think that the Chinese cluster will reach close to 50% by 2025. So it's a big part of our growth for the future, both in China and outside of China when they can travel. So it's a real strong focus, not only in China but also developing techniques to – techniques and welcome processes to see them all over the world. So that's probably the big movement that will happen. And we've already seen it beginning to shape in 2020.

Kathryn Parker: Okay. Thanks, Daniel.

Operator: The next question comes from the line of Gil Kosbel[?] from IS[?]. Please go ahead.

Speaker: Good morning, everybody. Over the last years, you used to give us, over the sales call, a guidance on what the actual learning for their results would be. I understand it won't be the case this year. Could you however give us some colour on – I do understand that results will be published in March. Could you however give us some colour on the learning for the gross margin and, well, the overall results that you would expect? You mentioned some cost controls that had been well performed. Thank you very much.

Daniel Lalonde: Yeah. Sure. Thanks, Gil. I appreciate your question but unfortunately I'm going to ask you, you have to wait a few months on that because we – it's too early to simply put and we want to make sure that we do the full disclosure on 24th March.

To give you – I think what we've done today is we've mentioned a few points or top line you have. But I think the key points that we're a little bit ahead of ourselves today, frankly, is inventory, which we said – again I said in my talk this morning that our inventories are stable also from the previous year, which is very strong. And as Patricia described, our net debt is stable 2020 compared to 2019.

So those are really two – I think two strong elements that we're happy to deliver, let's say, today. We'll have more detail of course on both those items on 24th March. I mentioned also in the China market that our discount rate was less in Q4 than the previous year. So I guess I just wanted to give you an example that we're really implementing executing into our plan where that's one of the big parameters, a big focus on like-for-like growth on selling more at full retail by all of the things that we're doing, stronger brand DNA, communication engagement and social media, better buying as well. We're buying less but we're buying better and we're making sure the products arriving at the right time at the right place to the right customer.

And OMS is a big, big, big initiative of ours. As I mentioned, we tied all our inventories. We attached, we consolidated our store and our warehouse inventories in France, which is good.

So we find the right product for the customer whether it's in the store, we shipped from store, whether it's at the central warehouse and we're deploying that growth line. So I think we're on right path for all those things. Those are just indications I'd say more than anything about maybe gross margin and the P&L, which we'll be very happy to detail on 24th March.

Speaker: Clear. Thank you.

Célia d'Everlange: Thank you, Gil.

Operator: The next question comes from the line of Laurent Gélébart from Exane. Please go ahead.

Laurent Gélébart (Exane BNP Paribas): Good morning, Daniel. Good morning, Patricia. Two questions on my side. The first one regarding the financial position of the company. I know that you are not going to disclose the number today. But can you give us a flavour on your liquidity position at the end of the fiscal year? And if you have – if the market of commercial paper has been reopened? That's the first question.

The second question regarding your strategy mid-term, which is to basically close stores that [inaudible] in France. I would like to know how is the execution plan going on that side?

Daniel Lalonde: Okay. Laurent, thank you. Listen, I'll take maybe the second question and I'll let Patricia take the first. So strategy mid-term, you were talking more about the French market about Suite 341. So some of you might not even know what Suite 341 is. It was, I'd say, an old concept that we had, a multi-brand concept in smaller villages, towns I'd say in France, before the age of digital. And we were selling the best of, let's say, Sandro, best of Maje and Claudie Pierlot in one multi-brand store. That no longer makes sense. It's not part of our strategy. And clearly with the advent of digital, we're able to reach a customer base in a very efficient way. So decided last year to close it, close the concept. And Laurent were probably, I'd say by summer this year, will have probably close almost all of the stores as well. We had some contractual points to respect. So it's moving completely as planned with a lot of closures happening in February and the remaining ones, the major ones I'd say in this summer. So really according to plan.

We're also using the opportunity to, as we mentioned in our French plan a little while ago, to not only concerning Suite 341 but we looked at every single store in France. We've done the original mapping to say if we had to start today what would the distribution look like taking into account our digital ambition as well. So there's also other optimisation in France from some legacy stores as well. So it's very exciting because our objective remains in France to generate like-for-like growth of course and to sell[?] more at full retail. So that's really our objective, and to gain market share.

And this is important market, still a very important market for us. It will probably become our second market in a few years. China will be number one. But it's still a very strategic and historical market for us. So all good, so far so good on the implementation of our French plan. Patricia?

Patricia Huyghues Despointes: Yes. Regarding your first question, Laurent, about the cash position. So without giving too precise figures today, as it will be more developed in March, what I can tell you is that we had enough cash. We have both cash on hand at the end of the year and also the ability to draw on some facilities available. So it's not a topic today and we have enough cash.

Regarding your question about commercial papers market, we have a bit of commercial papers. It's not very active market currently but in any case as we have some flexibility, it's not an issue.

Laurent Gélébart: Thank you. Maybe one last question, Daniel, maybe on the competitive landscape. Do you see some competitors facing larger difficulties than you, and can we expect a kind of pressure as well of your competition mid-term or do you believe everybody will stay where they are today?

Daniel Lalonde: Yeah. Well, that's a good question. I would never say anything bad about any competitors, of course, Laurent, but – and I'm not going to give you any names. I can just say – let me say I would answer with a slightly different cut. I think that any competitors in the accessible luxury space that don't have a strong business and healthy business in Asia and/mainly China, I think that's a bit – that would be a big concern to me.

I think that is a big part of our business, where we're clearly the number one and number two brands in accessible luxury in China. I have the results by every month and every mall, the rankings of top 20. So we have a very, very strong position. And I'd say any brands that were, Laurent, on the digital journey much before the pandemic, I think, is – will be more – will be much, much more vulnerable.

So I think the global – brands that are global is a massive strength and brands which are already an investment in digital and a certain penetration in digital is super important. It's a race that's on, on the digital side. OMS, we talk about OMS tying the inventories from the stores to our warehouses, etc. Those are real, real big issues I find. And the companies that will be successful in the future need to be there today or very quickly there.

So I think maybe brands overall, I'd say general brands I think maybe are not global. I don't have a business in China and that are not very advanced on digital and let's say sustainability too, I think we'll be much, much more vulnerable. And I think, yeah, there will be a shakeout in our sector. Don't know which brands yet, but I think brands will have those components that I mentioned will be the winners in the future.

Laurent Gélébart: Thank you, Daniel. Operator, I think we have another question.

Operator: Yes. So the next question comes from the line of Christian Schmidt from Carlyle. Please go ahead.

Speaker: Yeah. Good morning, and thanks for taking the call. I just have a very quick question on brand by brand performance. And apologies if you touched on it already. But I noticed that in the first nine months for the year, all the major brands did more or less the same sales like-for-like development, whereas in Q4 there was a bit of dispersion between Sandro and Maje. So if you could comment on that a little bit what it was, that would be very helpful.

Daniel Lalonde: Okay. Yes, Christian. Well, you're right. You're right to point that out. We had a relatively stronger performance in Maje in Q4. What happens if I look at the performance, Christian, over the last year or the last two years cumulative, what we often see is there are seasons where strong – Sandro would outperform Maje. And then what happens up into the next season it's the opposite. So there's been that – it's more stable if you look at it, I think, with some time and it's been the case for the last seven years, sometimes stronger Sandro, sometimes Maje. And this time you're right. I think we've had a stronger result in Maje versus the other brands in the portfolio at minus 16% versus minus 25% – minus 20%.

So I'd say it's nothing particular. It's nothing – it's not a concern at all. And it will probably be a slightly different trend next year. Maje has been very strong lately. I think they've done – I can maybe highlight a few things that they've done particularly well. The – on the accessories side, the M bag has become super iconic and we keep building on that franchise.

So the accessories part is relatively strong I'd say for Maje. And I think they've had a good level of engagement in social media due to the nature of some of the recent campaigns, which engage consumers and they participate in it. Product has been very strong as well. But I think there's been a couple other little points of difference I'd say at this point in time. But it's again – my answer is more it's a season to season look and it's been – it alternates from season to season on the performance.

Christian Smith: Okay. Thank you.

Daniel Lalonde: Okay.

Célia d'Everlange: Operator?

Operator: There are no further questions in the queue, so I'll hand the call back to your hosts for any closing remarks.

Célia d'Everlange: Okay. Thank you.

Daniel Lalonde: Yeah. No, I think my closing remarks, thank you very much. I wish you a nice day, a nice weekend. And we look forward to answering your more specific questions on 24th March. All right. Thank you everyone.

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

Patricia Huyghues Despointes: Thank you.

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

[END OF TRANSCRIPT]