SMCP 2020 Full Year Results

Operator: Hello, and welcome to the SMCP 2020 Full Year Results 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 the 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. Thank you for being with us today for SMCP's Full Year Results. I'm here with CEO, Daniel Lalonde, and CFO, Patricia Huyghues Despointes.

As usual, we'll 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 you will note that all financial data and comments are disclosed post IFRS 16. And I think, Daniel, that we can start now.

Daniel Lalonde: All right. Thank you, Célia, and good morning, everyone. Thanks. Thanks for joining us. I'll begin with a quick overview of 2020. And Patricia will detail our financial results, and then I will conclude.

So, as you've seen from the press release, 2020 results were meaningfully impacted by the COVID pandemic. However, the operational performance was slightly above our expectations, thanks to a strong impact from our optimisation plan on costs, on inventories and on cash.

We presented our sales figures in January, showing a minus 22.9% of reported growth and minus 23.9% in organic growth, that is excluding De Fursac and at constant currency. This performance included a strong recovery in mainland China in H2 and a strong digital growth of 28%, reaching 26% of sales penetration.

In terms of profitability, the Adjusted EBITDA stood at €179.6 million, i.e., 20.6% of margin, while Adjusted EBIT came in at €7 million, which is the result of the drop in sales, combined with the reduction of gross margin. This was partially offset by a strong cost optimisation measures, which generated more than €100 million of savings versus the previous year.

Our net income stood at minus €39.6 million in 2020, excluding the goodwill impairment on Other Brands division recorded in H1, and some rights of use depreciation. These two elements, of course, are non-cash.

Free cash flow came in at €8 million in 2020, improving versus €0.2 million in 2019. So, this showed solid progress despite this very tough context. And finally, net financial debt stood at €382.8 million, slightly below 2019, and representing a leverage ratio of 7.1x excluding IFRS 16.

Importantly, we benefited from a solid liquidity headroom, including the undrawn RCF of €200 million, and we remain comfortable with our financial covenants for 2021.

So, moving to page five, slide five. Just a quick reminder of our fiscal year sales numbers again by region. In France and in EMEA, sales were down, respectively, minus 23.1% and minus 30.1% on an organic basis, in line with the Group average. This performance reflects the impact of lockdown measures throughout the year, particularly in the second quarter and at the end of the year, and a sharp decrease in tourism across regions.

Meanwhile, e-commerce showed a strong acceleration and respectively a growth of 42.3% and 23.9%. In the Americas, sales were particularly affected at minus 36.8% on an organic basis, while most of the stores remained closed until the end of June. This situation remained difficult in the second half of the year as SMCP is mainly positioned in the states which were most affected by the pandemic. In parallel, e-commerce was up close to 8% over the year, of which 20% in H2.

And finally, in APAC, sales were down minus 9.5% on an organic basis, and renewed with growth in the second part of the year. This has been mainly driven by the sharp recovery observed in mainland China. We recorded a growth of 24.5% in H2 in mainland China. China is, as you know, one of our key priorities in the plan and we will continue to leverage our success and win in this region.

On page six, sustainability. As part of our ambition for 2025, our brands are accelerating in sustainability in order to contribute to more ethical and responsible fashion. Our brands have already done an incredible job over the last years and we will now accelerate and go further. Our strategy is articulated around three pillars: product, planet and people, fully in line with the 10 UN' Sustainable Development Goals, SDGs, where we recently joined the UN Global Compact.

Our product and vision includes an increase of the contribution of eco-responsible materials to more than 60% by 2025. A strengthening of our supplier audits to ensure qualitative and ethical sourcing and actions to encourage the circular economy.

This approach on sourcing, combined with rethinking transportation flows, developing green stores and limiting single use inputs, will contribute to lowering our carbon footprint by minimum 20% by 2025.

SMCP is also aiming to engage and develop all its passionate entrepreneurs in those efforts, while fostering internal mobility and placing exclusiveness and diversity of the centre of our culture and our values. All these initiatives will be measured through strong commitments towards 2025.

On page seven, you will see a couple of initiatives in line with our sustainability road map. In 2020, we have made solid progress.

First on products. We reached 26% of sustainable materials and products compared to 5% in 2019. In parallel, we've accelerated on the circular economy with several initiatives such as a dedicated capsule to upcycling at Maje; a first partnership in rental in the US with Rent the Runway, that will be followed in Europe by others in 2021; and several operations on second-hand with one of our key partners, Vestiaire Collective.

Second on planet. Based on our analysis, we know that 75% of our carbon footprint is linked to our first pillar, product. Developing sustainable product will be the key driver to reducing it. The second big area is related to transport, and we are currently rethinking all of our transportation flows. Obviously, less air, more boats, more bicycle, more train.

2020 was a special year, where our results in a significant drop in air transport from 65% overall to 45%. And this will continue in the future.

The last part of our carbon footprint concerns the energy consumed by our stores and buildings, such as the amount of electricity used. We are working on it, improving the way we measure it and we expect to report some good results in 2021. In 2020 however, 80% of our store openings and renovations were considered green.

Last but not least, our people. We have 5,700 passionate entrepreneurs across the world. Here, our objective is to reinforce the development of our employees to internal promotions and mobility, as well as providing access to learning and training for all. In 2020, 82% of our employees have participated in these digital sessions through our e-learning programme which has been deployed throughout the year.

Finally, one word on diversity and inclusion. There's a still long way to go, but this is a key priority in all aspects of our business, both externally and internally. As an organisation with over 100 nationalities worldwide and more than 50% of our women at the ExCom level and Board level, we've made some progress. But we are committed to go further. We've created a Head of Diversity and Inclusion role within our teams to ensure that we continue to move forward on this objective.

And now let me turn it over to Patricia, who can take you through the numbers in more detail.

Patricia Huyghues Despointes: Thank you, Daniel, and good morning, everyone. So moving onto page nine, let's have a look at our operational performance.

Adjusted EBITDA decreased from €286.4 million in 2019 to €179.6 million in 2020, i.e., a margin of 20.6% in 2020. This performance shows a sharp improvement in the second semester to €124.5 million, more than doubling versus H1, and reflects, on the one hand, the drop in sales with a significant negative volume effect, combined with a reduction of 3.8 points of the gross margin ratio at 70.8% due to additional promotions in some price operations in all collections, to reduce the level of our inventories.

On the other hand, we managed to partially offset these impacts through strong cost savings measures, which generated more than €100 million of OpEx savings. Here, as a reminder, we are talking about our operating cost basis, excluding the effects of IFRS. These savings include three main categories, the first one about lease costs at large, with both renegotiations of commercial leases and a drop in concessions to department stores.

The second one is on savings and overhead costs, including temporary unemployment measures. And the third one, productivity gains and other SG&A optimisation and discretionary spending, such as T&E or marketing costs.

Consequently, with minus 23.9% of organic sales decrease and a reduction of minus 15.8% of our operational cost basis (store costs and SG&A), we have been able to variabilise more than 65% of our total cost this year, which is better than what we were expecting.

Now if you move to the Net Income, the page 10 gives you an overview of the main components of P&L for 2020 versus 2019. I will start with the D&A, which increased from €154.8 million in 2019 to €172.6 million in 2020. Excluding the impact of IFRS 16, this variance reflects: additional investments in infrastructure (in IT, digital with the OMS development, finance with the deployment of Oracle), some additional stores renovations in Europe and full-year effect of 2019 openings and the integration of De Fursac on a full year basis.

Consequently, the Adjusted EBIT stood at €7 million, reflecting the significant impact of the pandemic. However, this is above our expectations.

Our non-recurring expenses were recorded €79.3 million of charges compared to €14.6 million in 2019. This has mainly been impacted by two items with no cash effect. The €42.6 million of asset impairment loss on the division, Other Brands, that we recorded in H1 and IFRS 16 rights of use depreciations.

Financial charges were down – from minus €40 million in 2019 to around minus €27 million in 2020. In the previous year, we included payments linked to the early redemption of the high yield bonds. Despite that, in 2020, we continued to optimise our cost of debt from 2.7% in 2019 to 2% in 2020.

Our current income tax is standing at €6.5 million. Net income stands at minus €102 million in 2020, i.e., minus €39.6 million excluding the goodwill and rights of use depreciations, which once again are non-cash effect.

Regarding cash on page 11. In 2020, free cash flow stood at €8 million versus €0.2 million in 2019 and includes a strong improvement in the second semester at €64.7 million. This is the result of two main drivers. First, a significant improvement of the working capital from €181.4 million to €153.7 million, thanks to all the work done by the brands and inventories and the implementation of the new demand-planning process.

As said during the Capital Markets Day, work cap is a key priority for the Group. It will lead to a virtuous circle from inventories to like-for-like and full price sales. All in all, our inventory decreased by 10% versus 2019.

Second impact, a decrease in CapEx from €69.5 million to €56.1 million broadly in line with the decrease of sales.

Moving onto slide 12, a few comments on debt, with the detail of net debt on the left. You can see also that our leverage ratio increased from 2.2x in 2019 to 7.1x at the end of 2020. This being only the result of the decrease of adjusted EBITDA. However, our financial debt stabilised and even decreased compared to the previous year to €382.8 million.

As you know, this year we strengthened our cash position and increased our financial flexibility with the negotiation of the state-guaranteed loan of €140 million, the suspension of our 2020 covenants and the easing of financial covenants for 2021.

With this financial structure in place, we are today comfortable with our cash level, and we can count on a strong liquidity headroom, which includes €200 million of undrawn revolving credit facility.

Daniel Lalonde: So thank you, Patricia. To conclude on page 14, 2020 has been particularly challenging as we've had to face an unprecedent crisis. I'm convinced that our new strategic plan global, sustainable and phygital brands will shape SMCP to the new world and that we are very well equipped to succeed and to win.

COVID has simply accelerated very meaningful consumer trends, the most relevant being a big shift to online shopping with an increasingly phygital mindset. The increasing contribution of the Chinese customer that will account, in my view, for 50% of the global market in 2025. I also believe that the new generations, the millennials and the Gen-Zs will represent more than 60% of the market by 2025.

A heightened environment and social consciousness, which is in the mindset of all customers, not just millennials and Gen-Zs, but all customers. And finally, COVID taught us that retail and digital pure players, like SMCP, demonstrated a greater resilience, thanks to the strong outlook control that we have over our business.

In this changing world, we are convinced that we are well equipped to take advantage of all these changes. Why? Because we have a strong presence in digital with 26% of our sales in 2020 and we can rely on a strong and agile platform to support our omnichannel ambition. Two, we have a strong exposure to Chinese customers, which represent more than 30% of our overall sales today.

Three, we can see the wonderful traction that we have with the new generation. As of today, they represent more than 50% of our customer base. Four, we also have a solid commitment and action plans towards sustainable fashion. And finally, we will continue to leverage our very powerful engine, our unique business model which combines the codes of luxury with those of fast fashion. And more importantly, we are pure retail and digital player.

Last, the global economy continues to be impacted by the COVID pandemic, as restriction measures are still implemented in several regions, notably, in France as of last week. As of today, 33% of our DOS stores network are temporarily closed worldwide. Meanwhile, mainland China pursues its recovery.

Given the high level of uncertainty, it is still not relevant to provide a guidance for full year 2021 at this time. For 2021, we've set five priorities. First, to win in China, where we will overweight our investment to grab all the growth opportunities. Two, accelerate in digital and pursue our One Journey ambition with the development of our omnichannel services such as ship from store.

Three, enhance the client experience with an increasingly personalised approach and new concepts like gamification to engage our young customers. And four, we will also execute a new store opening road map, being very selective, focused on Asia and always with a phygital mindset and approach.

In parallel, we will maintain a tight control, like last year, over costs, cash and inventories, leveraging the recent new demand-planning process that we've put in place.

SMCP is on track towards its 2025 strategic plan and we remain fully focused on its execution. It is supported by four strategic pillars. One, a stronger focus on brands' attractiveness. Two, a phygital strategy to offer seamless customer experience. Three, a strengthening of our business platform. And four, an acceleration in sustainability. Above all, a talented and agile team and organisation.

So thanks for your attention. We're now happy to take your questions.

Questions and Answers

Célia d'Everlange: Thank you, Daniel. Operator, I think that we have one question.

Operator: Yes, thank you. So as a reminder, if you would like to ask a question, please press star one on your telephone keypads. And the first question comes from the line of David Da Maia from CIC. Please go ahead.

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

Célia d'Everlange: Hi David. How are you?

David Da Maia: I'm okay. Thank you. Hi. Two questions for me, please. The first one on current trading and the second one your strategic road map and financial targets. So the first one is current trading. So you said mainland China is pursuing its recovery. But should we assume your sales level in Q1 this year would be clearly above 2019 levels, as it was the case in H2 2020? And in Europe, what are the markets currently the most impacted by the restriction measure? Is the situation actually worse than in Q4 last year? And in the US, are you seeing a recovery in this market, thanks to, I would say, a better trading conditions due to less restrictive measures and maybe a better macro environment compared to Europe? So that's the first question on current trading.

And the second one on your mid-term financial targets. I understand you don't want to give us forecast for 2021, given the lack of visibility. But can you confirm that all your mid-term financial targets you have announced during the Investor Day are still valid today? Thank you.

Célia d'Everlange: Thank you, David.

Daniel Lalonde: Okay. David, so let me answer both questions, I think, as a matter of fact. I'll paint a picture also. I think what we're going to see in 2021 is a bit of a tale of two halves, I think, with more impacted markets, particularly Europe in H1, and overall recovery in all regions in H2. So I feel fairly optimistic about that.

Number one. So you talked about China. So that's a very good question you asked. And the answer is simply we're seeing a very, very strong growth in China on a year-to-date basis versus 2019. So it's – without giving you the exact number, let's call it high double-digit growth in mainland China versus 2019. So we're very, very pleased with that and we're growing obviously in digital and brick-and-mortar. So that's – and that's probably one of the only markets or regions that is comparable if you look at '21 year-to-date versus '19, it's one of the only regions that's comparable.

In Europe, I can just tell you with Q1 is sequentially better than Q4. There are some markets. Well, now with France, we're finding a little bit last week, I think there are many markets. It's a movable feast at this point in time, little bit harder on visibility. So we have a bit more of a limited visibility in Europe, but we know that's been sequentially improving over the fourth quarter. And we begin to see some very favourable base comparisons from March, of course, compared to last year, but the real comparison is vis-à-vis 2019, as you mentioned.

The US. We felt that the US and Canada, so North American market. Yeah, we're seeing some sequential improvements in this market. I think from an overall market perspective, there's – I think we're heading towards a recovery as well. So we're feeling fairly optimistic, I'd say, about this market.

What else can I say about current trading. I can probably say as well the continued trend in digital versus last year. So if you look at last year's number that I mentioned earlier, we see the same trend continuing throughout this year, which is very, very positive. So that's all I can really give you in terms of visibility for Q1.

In terms of your second question, mid-term objectives, yes, they're very – they're still very much intact, absolutely.

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

Operator: Yes. So the next question comes from the line of Geoffroy Michalet from ODDO BHF. Please go ahead.

Geoffroy Michalet (ODDO BHF): Hello. Good morning, everyone. Thank you for taking my question. Thank you very much for disclosing the gross margin impact from volume and from value. My question has to do with that. And let's say the pricing power you still have or you have by region. Do you see any erosion on the value and the pricing of the value that you're able to pass to your clients at this moment? What are the – what is the current situation in terms of promotional activity and all this link with the stock level, inventory level that you expect to have next year? Thank you.

Daniel Lalonde: Well, big questions. Maybe I'll answer a few of those and see if Patricia wants to add anything. I strongly believe that we still have the same pricing power that we've had in the past. As you know, gross margins is always an important part of our business. We were caught obviously with the pandemic in an environment with closures, reopenings, etc., etc., with some promotional pressure certainly.

We wanted to make sure that we did very well in inventory, and as Patricia mentioned earlier, we had a minus 10% in inventories from 2020 December to – compared to the previous year, which I was very happy with. But yeah, we've had a little bit of short-term promotional pressure, overall, principally in Europe and also a little bit in North America and not necessarily in Asia.

I think that the – this will – we will have – part of our strategy is to sell more at full retail. That's been engrained for the last two years. We've had a tough environment in the last year to achieve that, but it's definitely on the – we're on the path towards that. And I think we'll see some very good things beginning with H2.

Stock levels, maybe I'll let Patricia talk about that. Also maybe one last word is on the in-season discount rate, which could be a question. So it was slightly above 30% last year, a little bit higher than the previous year. Nonetheless, in China, it was lower. So our discount rate was lower last year than the previous year in China and we want to obviously continue this trend.

Patricia, did I say everything or do you want to add anything?

Patricia Huyghues Despointes: I think, Daniel, you said the most important elements. Just a few words to complement. I would add that we decided to foster our volumes to better absorb our fixed cost and to clean the level of inventories, as we underlined during the presentation, which led to a 10% decrease in the level of inventories and which we are very happy with. So we decided to increase a bit the discount rate. That's a limited part of the sales, staying in line with market practices.

As Daniel said, it was mainly concentrated in the western world as China reduced the discount. And final element I would add that the increase of discount rates in the second semester versus the previous year was lower than the increase that we had recorded in the first one.

Geoffroy Michalet: That's very clear.

Célia d'Everlange: 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 and thank you very much for taking my questions. So my first question is on your rollout of omnichannel across Europe. And I wondered if you had anything to mention on which countries are being transitioned and when? And also how your experience of the omnichannel improvements in France? How you think that's influenced your level of online sales? And then, I guess, circling back on the question regarding current trading. I mean, we're now almost at the end of Q1. And I wondered – like you've been helpful in terms of the percentage of store closures now, but I wondered if you could give some more clarity on a month-by-month basis? And maybe where you think your overall sales will land versus either 2020 or 2019? Thank you.

Daniel Lalonde: Kathryn. Thank you, Kathryn. Well, you're asking me to give you the sales number for Q1 versus last year. Listen, I'll start with that one. I think I can say sequentially better month-to-month, Jan, Feb, March. March, as you know, we have some easy comps versus LY, so it's a little easier.

So overall, we're feeling there's been a sequential improvement month-by-month. I can't really say much more than I've said – I think I've given you a lot of details that Célia has just allowed me to say, thank you, about China, etc. And again, as I mentioned, China is the only market that really you can compare versus '19, and that's been again very strong double-digit performance I'd say.

Omnichannel, it's been – we're in the process of rolling out. I won't take you through the store-to-web, the click & collect and e-reservations because they're services that we rolled out practically everywhere in the past. The new one and the most exciting one, one that's taken us the longest time, is what we called in our internally unified commerce, which enables us to do ship from store.

Basically as you know, it's tying the inventories in real-time between our stores and our warehouses. So we can ship – we can find the product anywhere in our network if it exists for customers. So we've rolled out in France. It represents about 10% of online sales today, which is very good, because those were sales we might have lost in the past. So it's a definite addition.

And we're rolling out some key countries in Europe, as we speak, in the next months. And I have a meeting tomorrow with my team on the rollout plans for North America and China, which we'll probably get to, I'd say, by the end of the year.

So it's very exciting. It's to mutualise all our inventories. And that's really the name of the game, because when we do that between our stores and our warehouses, we can produce less, because we can buy better, buy less, centralise stocks and use one central stock for all our needs, brick-and-mortar or digital. So it's wonderful because it's also very sustainable.

So we're in the rollout of this road map on the – let's call, it ship from store or unified commerce, Europe in the next couple of months, key European countries, and then most likely North America and Asia by the end of the year.

Célia d'Everlange: Thank you, Kathryn. Operator, we will take the last question.

Operator: The next question comes from the line of Gil Kristal from Alysse. Please go ahead.

Speaker: Hi. Thanks for taking my question. I had actually two, if you allow me. The first one would be on the guidance for net openings – net new openings. If I'm correct, you gave us range of 30 to 50 stores each year over the period to 2025. Will these targets be met in '21? That's my first question. And the second one would be, could you give us an idea about the contribution of government aids for the mitigation of the EBITDA reduction in 2020? Thank you very much.

Daniel Lalonde: Sure. So Gil, I can – I'll refer a little bit to the Investor Day presentation, and I'll give you the 2021 a little bit more how I see this unfolding. From 2022 and to 2025, I think we're good on the guidance. For 2021, what's probably going to shape out is we'll probably close a bit more stores than we had indicated at Capital Markets Day in France. So we're really – I'm going to finish. We will finish our French optimisation plan this year. I wanted to accelerate it this year and we'll close on the net basis probably more than 55 stores this year in France.

However, most of those stores are a concept that we stop called Suite 341, which were again very small stores, 30, 40 square metres and small cities in France. And that will probably – that will have no impact on our business. In fact, it will help our like-for-like because that demand will shift to our branded free-standing stores and department stores in corners in those regions.

And then we've also – so we're closing namely very, very small stores. And again, in France, I expect a very positive impact on like-for-like.

On an international basis, probably close to – and on a net basis probably 15 stores this year, might be a little bit more, but around 15 stores. And with the bulk of them being in China, where we still have tremendous opportunity to grow. We're in 30 cities in mainland China. We'll plan to add three cities again this year, where luxury already is. So we continue to invest in our store development, mainly in China, and in other regions as well.

And again, we now come back to France. When we close these stores, they're smaller stores. We're still opening some stores as well. So it's a market that we're investing in. We have a beautiful flagship store for Sandro opening soon in Saint Honoré. Three of our brands are opening up at beautiful project in Paris, La Samaritaine, which is opening soon. So we're still investing in France, but we're just eliminating, I'd say, low impact stores that were more born from a strategy in the past.

So hope that clarifies a little bit 2021. And then, Patricia, I don't know if you wanted to take the question on government aids.

Patricia Huyghues Despointes: Regarding the government's aid, thank you for the questions. It's not easy to give you precise figures, because it's very different from one country to another. I would say that the main government's aid that we have is, of course, the temporary unemployment measures financed by the government. Some other aids were possible to get in some countries and we continue to investigate those.

I would say that we mentioned several buckets of savings, renegotiation of leases, commissions. Those overhead and people cost, and the rest of discretionary measures. I would say that those four buckets are, let's say, in comparable sight in terms of magnitude of savings.

Daniel Lalonde: And then maybe just on the second part, Patricia, I believe that the "chômage partiel" last year or whatever you want to call in English. It was close to €20 million for last year. And as you know, most governments – well, it depends on the country, – have still a "dispositif" that's is very much alive in France and in some other markets as well, when stores are closed of course.

Patricia Huyghues Despointes: So taking into account this "chômage partiel" and other various aids, let's say, it's one-fourth of the total targeted savings.

Célia d'Everlange: Thank you very much. I think we are done with the questions. So I wish you a nice day. The next publication will happen at the end of April for Q1 sales. Thank you very much.

Daniel Lalonde: Thank you everyone. Listen, I wish you nice day. Certainly beautiful in Paris. Have a nice day. Thank you.

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

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