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SMCP Q1 2021 Sales

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Operator: Hello, and welcome to the SMCP 2021 Q1 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 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, Mathilde Magnan, to begin today's call. Thank you.

Mathilde Magnan: Thank you, Jess. Good morning, everyone. This is Mathilde Magnan, Head of Investor Relations speaking. Thanks for being with us today for SMCP's Q1 sales. I'm here with CEO, Daniel Lalonde, and CFO, Patricia Huyghues Despointes.

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. I think we can start now.

Daniel Lalonde: All right. Thank you, Mathilde, and good morning, everyone. And thanks for joining us this morning. I'll begin with a quick overview of Q1 2021 sales, then Patricia will detail our sales performance by region. And I will briefly conclude.

So if you turn over to the first slide, as you've seen from the press release this morning, in the first quarter we achieved €223.9 million sales, down -0.6% on an organic basis and minus 18% versus 2019.

Let me share with you some key messages on the quarter. First, in APAC, a very good momentum, driven by a strong performance in mainland China at plus 92.6% versus LY, a performance not only versus last year but also versus Q1 2019 at a growth of 26%. This thanks primarily to an excellent performance on our brick-and-mortar channel.

There are early signs of consumption in traffic rebound in the Americas, while Europe was still impacted in Q1 by lockdown. On digital the sales – the Group achieved a strong digital growth in Q1 at 38.9%, representing 30% of total sales. This includes a positive like-for-like growth in all regions, in particular, the Americas, France and EMEA. APAC had also a positive like-for-like growth despite the high base of comps.

As planned, in Q1, we made solid progress on our brick-and-mortar network optimisation plan, primarily in France. On a global level, we had 33 net closings, all of them being in France, mainly very small stores located in small cities and not reflecting our new concept. This includes 13 closures of Suite 341 stores, which as you know, are no longer strategic for the company.

Finally, over the quarter, our teams continue to be fully committed to maintain a strong focus on tight cost and cash management, just like we did in 2020.

Slide five, a few highlights. We have recently presented our strategic plan, as you know, at our Investor Day in October 2020, a new chapter for SMCP called "One Journey". Today, I'd like to share some highlights of the first pillar of our plan, enhance brand desirability. Here, you will see a few innovative and creative collaborations done in Q1 by our brands. Sandro with Jason Glasser, an American artist and musician, and also with Yuko Nishikawa, a Japanese artist based in New York. Maje x Cobalto Studio, who designed the capsule and also with Jing

Tian, a Chinese artist in China who adapted Maje's campaign to the Chinese market. She has over 300,000 followers on Instagram.

The idea is to give an opportunity to artists from the new generation whose style and value resonates with our brands. These types of initiatives add desirability to the collections and enable us to speak to our audience in a more intimate way, giving the opportunity to surprise and seduce our community and to enhance customer experience.

Image-wise, they offer us an opportunity to boost visibility while preserving rarity. And when it comes to figures, these are key enablers for full price conversion, to improve like-for-like performance.

On slide six, in Q1, Claudie Pierlot launched its new and exciting brand platform, reflecting a younger brand, committed, with a stronger offer, more digital, and a new marketing strategy, back to the founder's DNA of free spirit, travel memories and folie douce.

De Fursac, in January we announced the appointment of Gauthier Borsarello as Brand Creative Director. The appointment of Gauthier, a leading expert in vintage clothing, marks the start of a new chapter at De Fursac. A mainstay in French style, the brand will now be developing its range further under the watchful eye of its new creative director.

Our ambition is for De Fursac to become a truly international brand that offers a unique French style, an identity that pays tribute to others made so successful in France for almost 40 years. We are confident that Gauthier creative vision, profound knowledge of men's wear and retail will help us achieve this. Gauthier will be presenting his first collection for Spring Summer 2022.

On slide seven, we show a few examples of how we reached our Chinese customers as well as the new generations globally. These include : marketing specific capsule products for local events and celebrations as for the Chinese New Year. Here, you'll see a capsule of 10 products for Maje. We also have exclusive product offer to our Chinese customers, which are more impactful and more focused, as well as casting Asian models using Asian key opinion leaders or influencers like Jin Chen, almost 12 million followers on WeChat, Lorenda Ho and Grace Chan which each have more than 600,000 followers on Instagram each.

Sandro and Maje have also joined the gamification marketing platform A.D.A., a luxury fashion game in China. Launched in February, the successful game displays the Sandro and Maje wardrobe of ready-to-wear and accessories with 27 products by brand, including Fall Winter and Spring Summer references. This is a new way of engaging millennials and Gen Z by socially connected funding and a new traffic lever for us as well.

So now I will turn it over to Patricia, who will take you through the Q1 performance by geography in greater detail.

Patricia Huyghues Despointes: Thank you, Daniel, and good morning, everyone. So moving on to the regional breakdown on page nine. In France, sales were down minus 8.3% on an organic basis, impacted by restricted measures from January curfew at 18.00 and shopping centre closures, low traffic and weak tourism. And in March, the country faced new lockdowns in key regions like Paris.

Overall, we considered that the impact of restricted measures and revenue is meaningful more than twice stronger than last year. With an excellent performance of online, we managed to

compensate a significant portion of the loss in brick-and-mortar, leading to a decrease of sales as a limited minus 8%.

Digital sales indeed displayed a strong double-digit growth at plus 55.5%, driven by our strategic plan and the execution of our "One Journey". Over the quarter, we finalised the Ship-from-Store rollout in France. As Daniel presented earlier, in Q1, we made solid progress on our brick-and-mortar network optimisation plan. However, Q1 network is much representing a peak of the year. We have a phasing effect. So all in all we can say that we are in line with our 2021 plans.

In EMEA, sales were down minus 32.5% on an organic basis, in line with the trends observed at the end of last year. The region has been impacted by longer store closures and lockdowns from key countries from January, including a total lockdown in the UK and in Ireland over the period; long lasting closures in countries such as Germany, The Netherlands, Portugal and Switzerland as well as the continued sharp drop in tourism.

Overall, the impact of store restrictions in Q1 '21 compared to Q1 '20 followed the same trends as in France, more than quite stronger than last year. In the meantime, the Group recorded a strong double-digit sales growth in e-comm at plus 30.5%.

On slide 10, our other markets and notably the most dynamic, APAC. Sales were up plus 64.6% on an organic basis. This very good performance was mainly driven by mainland China at plus 92.6%, including a solid like-for-like growth. For sure this high figure is partly due to an easier base of comparison in February and March, but compared to Q1 '19 a substantial growth has also been recorded at plus 26%.

This APAC performance was mostly driven by brick-and-mortar channel. Mainland China was the most dynamic region, despite North cities have experienced some COVID-19 outbreaks, including temporary transportation restrictions and weaker traffic in these regions. Our brand initiatives on new generations and Chinese customers as presented by Daniel earlier, combined with the global traffic rise, have resulted in this great performance over the quarter.

Meanwhile, digital sales were stable reflecting a high base of comparison in Q1 2020. We also saw a strong performance in markets such as Taiwan, Macau and South Korea.

Finally, this performance is combined with a tight control of increase in discount rates, which is slightly lower than last year, both in digital and brick-and-mortar.

In the Americas, sales were stable with a slight growth of +0.4% on an organic basis, still impacted by some restrictive store measures, mainly in Canada. The performance gradually improved from February, supported by the rebound in US consumer spending due to the US fast vaccine rollout. This quarter trend was also driven by a constant drive in brick-and-mortar traffic from January, which is very positive.

In the meantime, e-commerce displayed very strong double-digit growth at plus 62.8%.

I'll now hand over to Daniel for the conclusion.

Daniel Lalonde: All right. So in conclusion, our global teams are focused on the execution of our "One Journey" strategic plan, presented again in October 2020, supported by strong and global desirable brands.

APAC continues to perform very well, particularly in mainland China, while the Americas is showing early signs of rebound. Our European teams are fully mobilised to prepare the post-lockdown period and to emerge stronger from this crisis. The perspective of a gradual market reopening in Europe, particularly in France, gives us good reason to be cautiously optimistic about H2 2021, not only in Europe but in all markets.

So thank you for your attention. And we will now turn it over to questions and answers.

Questions and Answers

Operator: If you would like to ask a question, please press star one on your telephone keypad. Please ensure your line is unmuted locally as you will be advised to 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): Good morning. Question from me please. The first one on the US. So you observed early signs of recovery in traffic and demand in this market from February if I understood correctly. So is this gradual improvement still ongoing or even accelerating in April, thanks to, I would say, better trading conditions in the US? And my first question on the outlook. I understand that you don't provide a full year guidance at this stage given the lack of visibility. But can you maybe share your thoughts on the current consensus? Do you think full year '21 sales likely above €1 billion is a realistic assumption, given your cautiously optimistic view on H2? Thank you.

Daniel Lalonde: Yes. Well, thank you, David. Listen, I'll take the first question on a little bit outlook and maybe Patricia can give some comments about, I believe, your question on the US traffic if it's improving sequential in April or if the market is in general. So listen, the outlook, as we said, there's still too much uncertainty today to provide a specific outlook and guidance.

I won't necessarily comment on your – is it a €1 billion or more. Simply just remain cautiously optimistic, given the recovery that we're expected to see. What I can say is a few things though, a little bit what we're seeing today in current trading, yeah. So I can – we can tell you that APAC in particularly China continues on track, the trends we've seen in Q1. We've seen that through April so far. So very strong. The markets are super strong. And we're very excited about that.

France, as you know, the stores are still closed. We have – over 470 stores closed. I don't know when they'll open. I expect from my involvement in the French community sometime around mid-May. This is all we know at this point in time. So we're very excited for the reopening of the stores in France, which should happen in the next three weeks we believe.

North America, as you posed the question, we continue – the recovery continues sequentially even in April. However, Canada, that's the US – Canada is still a more difficult market. As you probably know, the stores were all closed in Ontario, which is the biggest – where the biggest stores are involved. So Canada, still more than half the stores are closed.

And listen, in Europe, there's been a gradual recovery we've seen. It's very recent in the markets like the UK and Spain. All I can say at this point in time is that the recovery, which is

again a few weeks is slightly ahead of our plan, our objectives. Italy is still a very, very tough market.

And last, the digital trend also continues from Q1. So I got to provide a little bit of current trading trends I think that's more prudent than comment necessarily about the full year at this time. Patricia, I don't – I think we're fine. I think I captured all the questions.

Mathilde Magnan: Thank you, Daniel. Operator, do we have another question?

Operator: Yes. So the next question comes from the line of Marie-Line Fort from Société Générale. Please go ahead.

Marie-Line Fort (Société Générale): Yes, good morning. I would like to come back on your store closures in France. Could you give us more granularities? Are they located in department stores or in city centres? Do you think you will record new penalties on your P&L? And also could you help us to modelise the impact on your sales over the full year? And what kind of sales that they do represent? That's my first question.

My second question is about China, mainland China. Are you able to measure the impact of your collaboration for your capsule on your Q1 '21? And also do you see different momentum between your two main brands between Maje and Claudie Pierlot?

And lastly, how do you explain that your other brands are still down much more than Maje and Sandro, have you any explanation? Is it more De Fursac or Claudie, if you can also give us more granularity on that topic? Thank you very much.

Daniel Lalonde: Sure. Marie-Line, thank you. Listen, I'll take – I think I can take your three questions. The first one about the French network. So a couple of things. So we closed on a net basis 33 stores in Q1. There's a small phasing store closures this year but the important point to retain is this is all part of the plan that I put in place two years ago. We called it the French optimisation plan, simply because we realised as a Group that our distribution in France was too dense. It was a result of a historical distribution where we had some very small, I'm talking 30 square metres to 40 square metres, stores in very, very small cities in France. It's not something we would do today. So we began a path to optimise our store network. It will finish this year in France. So we're closing essentially very, very small stores, again, 30 to 40 square metres in very small cities, which we can serve much better through online today through digital sales and through bigger more in-concept stores, very, very close to these small villages in France. So that's the first thing. So it's a very deliberate plan.

Number two, there's also been some other factors like Printemps, who has closed I think five stores in France. We certainly – and we were part of some of the stores as well. So that goes away. But in many of those cities, where Printemps closed the department stores, we had freestanding stores there too. So we're able to capture the demand.

And listen, I think in terms of the impact on sales, it's – for me, it's going to be a positive impact on sales simply because that demand from those stores we will pick it up either online or through a proximity store, which is at concept. And overall, I believe it contributes – we believe it contributes to like-for-like growth, because we'll have less stores in France but bigger stores and probably a positive impact on profits. So I think it's a profit-accretive exercise that we're doing. This plan, the French plan was put in place two years ago. And it will essentially be completed this year, probably in the first nine months of this year.

Second question on China. I didn't really understand your question on capsule, but Maje – you asked mainly the performance by brand. I think it depends on the – I will say it depends on the season. Both brands, Sandro and Maje are market leaders in China. We get the results of the performance vis-à-vis a peer group in almost all the malls in China on a monthly basis. I can tell you in the accessible luxury category, Sandro and Maje are the market leaders in China today.

Then the performance depends by season. Some season strong – Sandro is stronger. Some season Maje is stronger. I think more recently in the Q1 season, we saw a slight overperformance for – of Maje versus Sandro. But I got the question a year ago why is Sandro stronger than Maje? So they're very close on. If you look at an average over the last two years, the performance is fairly identical but they're both market leaders in France.

Claudie Pierlot has a smaller distribution – I'm sorry, in China. Claudie Pierlot has a smaller distribution in China. Again, we're just selecting key stores in key cities. Things are going very well, but it's – and we haven't scaled up Claudie Pierlot yet but we're in the process of building that plan.

And the last question on other brands, yeah, other brands in Q1, the key and explanation is simply put is Claudie Pierlot, and in particular De Fursac have a strong percentage of their sales based in France. De Fursac is almost 95% of their sales are in France. So clearly, they don't benefit from the very positive momentum as we've seen in China. We've had – as we mentioned, as Patricia mentioned earlier, China had a plus 90% growth versus the same quarter last year.

De Fursac doesn't benefit from that, neither does Claudie Pierlot, because it's very small in the region. So that's the main reason. Those two brands are – De Fursac is mainly French and Claudie Pierlot is a high proportion of their sales in France. So we should see a nice rebound when the markets open.

Mathilde Magnan: Thank you, Daniel. Operator, I think we have another question.

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

Kathryn Parker (Jefferies): Good morning, and thank you for taking my questions. So my first question is on accessories, and whether you could give an update on the penetration within your sales and the growth rate. And maybe a comment on bags versus shoes?

And then my second question is on the collaboration or capsule collections that you are doing. And I wondered the frequency that you're targeting for the years going forward, maybe a contribution to sales. And also if the average selling price of items within the capsule is higher than the mainline collection. I was interested on your point that you're doing well versus your peers in China. And I just wondered if you could give some names of other brands that you think you're competing against it in the Chinese market? And if these are [inaudible] that you would compete against in, say, France, Europe and the US? Thank you.

Daniel Lalonde: Okay. Well, thank you, Kathryn. Well, those are very specific questions. But let me do my best and I'll see Patricia can add anything to it. Listen, on the accessories side, it's only a quarter, so it's hard to give you more data. But if I look at Q1, our penetration is roughly the same as it was last year. It's around 9% overall, just above 9%.

The brands have done some very good accessory ranges, the Sandro, the M Bag – I’m sorry, the Maje M Bag continues to do very well. Sandro is very strong also in foot – in shoes. Claudie Pierlot is a little bit more successful in different categories. So we continue our development of accessories, but it’s been roughly at the same – slightly above last year in terms of penetration but just over 9%.

In the collaborations, they are small. I don’t have specific numbers to give you, but I can give you some feelings. There’s small collaborations in terms of number of products involved. In terms of price points, they’re roughly in line with the average price points that we have of the ranges. And they’re – some of these collaborations we also try to do them in an ephemeral basis, i.e., you want to make them fairly limited and there’s a big boost primarily to image. It’s another reason for us to communicate with our customers to impact on brand desirability.

So that’s really the objective in mind of the collaborations we’ve done in Q1. It’s not always the case. Sometimes they’re more based on volume and a meaningful part of sales, but the ones we described earlier are more contribution to image, reason to talk and to give something – surprise our customers I’d say in a good way.

And the last question, well, I don’t want to name any names but our peer group in China that I’ve been following for six years – I used to go to China every month and a half. It’s a very important market for us, as you know. I can say that the peer group that we have benchmarked ourselves against in China are twofold. First of all, there’s let’s call more western brands. Here, we see some American brands. Theory might be one for example that does pretty well in the region. There are very few European brands in our space in accessible luxury space that are present in China or in a meaningful way or have a meaningful footprint. So much less the European accessible luxury players.

And what I see more and more are some local brands as well, some local Chinese brands, which are merchandised in a different way – of most actually. They’ll have western brands in one wing and Chinese ones in another ones. But there’s more and more over the past years that we’ve seen. So the space in China is still more fragmented with the stronger representation and conclusion I’d say from American brands, to a lesser extent European brands, maybe Max Mara Group is one that I will cite. And then more Chinese brands.

We’re very – however, we are the market leaders in this market. The Chinese consumer loves our brand. You can see by the results as well. So we plan to – our strategic plan – we talked about “One Journey”. We are investing meaningfully in this region as well, not only from CapEx but OpEx to continue to develop our market leadership.

Mathilde Magnan: Thank you, Daniel. I think we have another question.

Operator: The next question comes from the line of Gilles from Alizée. Please go ahead.

Speaker: Good morning. Thanks for taking my question. I had actually one. Coming back to the temporary closures in Q1, I understand that those have been rather heterogenous worldwide. Could you give us an idea of the average temporary closure you had of your stores or communication per region or on the major countries such as UK and Germany?

Patricia Huyghues Despointes: Yes. Thank you, Gilles, for your questions. As you mentioned, it’s quite heterogenous area by area and it’s not easy to give you a straight answer because the closures take many forms. It can be a full closure. It can be two hours per day.

It can be open with a restrictive attendance in the stores. So it's very difficult to give you a precise figure.

Let's say that – we estimate that the main impacts, of course, is in France and Europe, and it's basically the same trends in France than Europe. We can estimate that roughly half of our sales were impacted by store restrictive measures in Q1 2021.

In Asia, it was open all quarter long. And in America, it was a bit in the middle with Canada sometimes open, sometimes closed. Currently, a significant portion of our stores in Canada are closed. In the US, it was mostly open but with still a few restrictions in terms of number of people to stores.

Mathilde Magnan: Thank you, Patricia. I think we have another question.

Operator: The next question comes from the line of Geoffrey Michalet from ODDO BHF. Please go ahead.

Geoffroy Michalet (ODDO BHF): Hello. Good morning, everyone. Thank you for taking the question. I have two. The first one is, could you give us some colour on the discount or promotional rate of Q1 maybe against Q4 last year?

And then the second question is on the cost base. Could you remind us what is still embedded from the savings that you have done last year? And what can be expected for this year? Thank you.

Patricia Huyghues Despointes: Well, I think I will take this question. Thank you, Geoffroy. In terms of the discount, I would say that we are in a normalisation and stabilisation phase of our discount rates, let's say, it's in the mid-30. We see some improvements, especially in Asia, which is a very good news.

In terms of the cost base, as you remember when we commented the yearly results, we insisted on the fact that most of the savings were temporary negotiations or temporary measures such as partial unemployment or rent release during closures. So basically we are still running the same actions to variabilise as much as possible our cost. So we continue negotiating our rents. We continue optimising our staff cost, just like we did in 2020. Of course, it's more centred on France and Europe currently since the stores were closed mainly in those areas.

Mathilde Magnan: Thank you, Patricia. Operator, we will take the last question please.

Operator: The next question comes from the line of Chiara Battistini from JP Morgan. Please go ahead.

Chiara Battistini (JP Morgan): Hi. Thank you very much for taking my questions. I have two quick ones. First one, I was wondering, and given your comments on current trading, I guess you might not be seeing this. But I was wondering whether you could give any colour on what you're seeing in terms of potential retaliation against western brands around the Xinjiang cotton. Are you seeing anything yourself or for your peers, your western peers in China at the moment, please?

And then finally, if you could give us any colour or update on the current situation with Shandong Ruyi at the moment, please? Thank you very much.

Daniel Lalonde: Sure. Hi, Chiara. It's nice to hear you. Listen, on your first question, I don't have enough specific details. I know there is a lot of light on the subject on the Xinjiang region.

We've made our position very clear. We have very strong supplier code of conduct and respect all the human rights throughout the world. We do audits, etc., etc. So we're very sensitive on our sourcing strategy and we don't produce in this region etc., etc.

So it's a sensitive subject. I agree with you. I haven't seen any major retaliation in either region at this point in time, but we'll just follow. So I agree. It's an interesting subject to put the light on and we're all trying to do the best of it and source responsibly as we have anyways for many, many years.

On the Shandong Ruyi situation, I don't think there's that many updates. I don't have very specific updates. We're still – they're still our majority shareholder. I don't if you have any more specific question, Chiara, around Shandong Ruyi. Maybe I'll ask you if you have a more specific question on Shandong Ruyi that I can help answer.

Chiara Battistini: No, I was just wondering whether there has been update on the bond situation and anything from a shareholding point of view.

Daniel Lalonde: Yeah. No, I'd say not at this time, Chiara. I think factually, and you all know this, there's an exchangeable bond from Shandong Ruyi that's due in September. But for – I think that's probably the only fact and I think they're in a mindset to reimburse this in September. Other than that, I don't have any very specific update.

Mathilde Magnan: Thank you, Daniel. I think we are done with the questions. So I wish you a nice day. Next publication will happen at the end of July for H1 update. Thank you very much.

Daniel Lalonde: All right. And thank you very much.

Patricia Huyghues Despointes: Thank you.

Daniel Lalonde: Wish you nice day to all.

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

[END OF TRANSCRIPT]