SMCP H1 2021 Results

Friday, 3rd September 2021

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

SMCP H1 2021 Results

Operator: Hello, and welcome to the SMCP H1 2021 Results Call. My name is Rosie, and I'll be your coordinator for today's event. Please note, this call is being recorded, and for the duration, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end. This can be done by pressing star one on your telephone keypad to register your question at any time. If you require assistance, please press star zero and you'll be connected to an operator.

I will now hand you over to Mathilde Magnan, Head of Investor Relations, to begin today's conference. Thank you.

Mathilde Magnan: Thank you. Good morning, everyone. This is Mathilde Magnan, Head of Investor Relations speaking. Thanks for being with us today for SMCP H1 Results. I'm here with Isabelle Guichot, Daniel Lalonde, and Patricia Huyghues Despointes.

As usual, we will go through the presentation and then we'll have the Q&A session. Before I hand it over to Daniel, I invite you to go through our usual disclaimer on page two. And I think we can start now.

Daniel Lalonde: All right. Thank you, Mathilde. Good morning, everyone, and thanks for joining us this morning. I'm here today with Patricia Huyghues Despointes, who is our CFO, and Isabelle Guichot, our new CEO since 2nd August.

So, before I give you a quick overview of our H1 2021 results, I'd like to say a few words about Isabelle. Isabelle joined SMCP as CEO of Maje four years ago, after more than 25 years of a highly successful and recognised career in the luxury sector within Kering and Richemont. Before joining SMCP, she was notably CEO of Balenciaga for nine years after being CEO of Sergio Rossi. Prior to Kering, Isabelle also evolved within the regional group as CEO of Van Cleef & Arpels and Lancel after starting her career with Cartier, where she spent 13 years in different management positions.

She has successfully developed many global brands and brings this rich experience to the Group. Isabelle and I have worked closely together over the past four years, and I've been impressed by her passion for retail, digital, fashion and her fine knowledge of the SMCP environment and platform, as well as her international expertise in the luxury sector.

So, I'm very confident that with all these assets, she will fit perfectly her new role as CEO of the Group and will enable SMCP to further grow in the coming years and become a global leader in accessible luxury.

So, let's move to a quick overview of the first semester. On slide four, page four, as you've seen from the press release, we're very happy to announce that our H1 2021 results are back to positive. The operational performance was above our expectations, thanks to a strong impact from our optimisation plan on costs, inventories and cash.

We presented our sales figures in July, showing a plus 23% growth in organic growth and plus 21.6% of reported growth versus 2020. This performance included a strong double-digit growth in mainland China, a confirmed momentum in the US going from strength to strength, a very successful store opening in France since 19th May and a strong EMEA performance despite store closures and low tourism.

In terms of profitability, the adjusted EBIT stood at €25.2 million in H1, i.e., 5.6% of margin, which is the result of slightly higher gross margin combined with the strong gains on store costs and SG&A. Our net income stood at plus €600,000. Free cash flow came in at €20 million in H1, a continued big improvement versus H1 2020 in December of last year despite a challenging market.

And last, net financial debt stood at €365 million, below 2020 and representing a leverage ratio of 3.6, excluding IFRS 16, versus 7.1 in December 2020. We continue to benefit from a solid and healthy liquidity headroom, including an undrawn RCF of €150 million, and we remain comfortable with our financial covenants for 2021.

Moving to page five. I just wanted to quickly remind you of our H1 sales numbers by region. In France and EMEA, sales were up respectively 6.7% and 7.1% on an organic basis versus LY. A very solid performance considering the restrictive measures as we have faced in the first semester much more important than H1 2020, especially in France, where we consider an average 50% of closing impact in H1 2021 versus only 30% in H1 2020.

The performance reflects a gradual improvement throughout the second quarter in line with the store reopening, even if tourism flows remain very limited. In APAC, sales were up 48.1% versus LY, driven by a strong like-for-like growth and a strong performance in mainland China both in brick and mortar and digital, plus 55% versus LY and plus 24% reported versus H1 2019. A very good performance despite some pandemic headwinds in key cities.

And finally, in the Americas, sales were up 67.2% versus LY, while Canada was still impacted by store closures and restricted measures to contain the pandemic, the momentum observed in the first quarter in United States has been confirmed in Q2 going from strength-to-strength. Sales exceeding pre-pandemic level reaching in Q2, +11.3% growth on an organic basis versus 2019.

On a global basis, our sales growth was up 23.3% versus LY driven by like-for-like growth of 17%; and minus 16% versus 2019, as reported, to reach €453.3 million. This was driven by a sequential improvement in all regions, despite store closures and restrictions, especially in Europe, low traffic and tourism as well. E-commerce sales reached almost 28% of total sales over the first semester.

Now if we look at the breakdown by region. France and APAC represent each 31% of sales. EMEA 25% and the Americas 13%. This is the first semester in the history of the Group where APAC is above 30% of total sales penetration.

And now, let me turn over to Isabelle, who will present some highlights on the Group's strategy, our One Journey Plan.

Isabelle Guichot: Thank you, Daniel. I'm extremely happy to join this first conversation call to highlight our strategic ambition. As you know, last October we presented our strategic plan for the coming years based on a new roadmap adapted to the new world and a new consumer trend.

SMCP has opened a new chapter in its history entitled One Journey for more global, responsible and phygital brands. In our last publications, you may have seen some of the key initiatives implemented by our brand. I won't come back in detail, but I would like to remind you our key priorities on four pillars.

First one being to enhance brand desirability by leveraging sharper and reinforced Brand D&A. we started by adjusting our collection to increase full-price sales, simplifying and decomplexifying, optimising the collection structure to optimise sell-through and full price, cultivating a sense of scarcity: no season, see now, buy now, wear now, Capsules and limited editions, collaboration with brands and KOLs, and also a differentiated offer by brand.

This means also enhancing in-store experience, developing a new selling ceremony for a more emotional in-store experience and more engagements with the consumers. To reach this, we are doubling marketing investments on an average from 2-4% of sales to be more disruptive and attract more and more new generations and Chinese consumers, innovative digital approaches, gaming, like shopping, KOLs, and new platforms and media formats.

Second pillar is consolidating our phygital network. To offer seamless customer experience with an optimised network with more welcoming and engaging stores and increasing the digital penetration to reach at least 25% in the near-term. Our phygital strategy is based on a 360° customer knowledge, an optimised and consolidated inventory with a unified inventory between stores and warehouses, and the rollout of omnichannel services across brand and geographies.

SMCP intends to pursue this approach in each region by adopting a full vision investing in priority in APAC, in particular in China, to benefit from the fastest growing region of the group, through further digital boost and brick and mortar extension in key new Chinese cities. By 2025, APAC should contribute to 50% of the Group growth and will represent a meaningful part of our sales.

This means also finalising the optimisation and renovation plan in France that was started last year and Suite 341 conversion, to revitalise like-for-like in order to continue to get market share and grow organic digital sales. These plans will be largely completed at the end of the year.

North America, we’ve been pursuing our strategy consistently for many years, which is digital first and stabilise brick and mortar network in the key cities we’re in today. We expect a stable physical store base with more desirable stores.

In Europe, our customers approach to digital expansion will not be similar in all markets. We’ll complete our existing physical network and strengthen our presence in the regions like Portugal for instance, Germany and now reach Poland and Austria. We’ll continue our omnichannel development and plan to open more than 30 DOS per year between ’22 and ’25.

Let me come now to the third pillar, which is to strengthen the specific core business model keeping agility, speed and efficiency as key mantra for the Group. By enabling the implementation of a centralised global demand planning policy that leads to an optimisation of our inventories and an increase of full price sales. In other words, buy less, buy better. And get the right product in the right place at the right time and the right price. By also leveraging and agile and robust supply chain as well as strengthened IT platform relying on the best of breed softwares.

Fourth pillar now is accelerating sustainability and contributing to ethical and responsible fashion, with a strong engagement on product, on planet and on people. SMCP product: developing an even more desirable and responsible offer and more and more eco-responsible products granting and sourcing 100% ethical and intensifying the circular economy initiative of all our brands. This means also developing reliable traceability tools that we'll be implementing very soon.

Regarding the planet, preserving our planet and its natural resources, reducing our environmental footprint, minimising air transport flows and implementing our green store concepts will be key in this roadmap.

Now, let me come to a very important element, the people: unveiling the potential of our customers and entrepreneurs in order to strengthen our wellbeing and professional development, encouraging e-channel mobility and promotions and prioritising diversity and inclusion.

As a conclusion, I would say that our teams are today fully committed in the execution of this plan, which will I'm sure enable SMCP to reach our targets.

Now let me turn it over to Patricia, who will be running through this H1 financial performances in more detail.

Patricia Huyghues Despointes: Thank you, Isabelle. Good morning, everyone. So, moving on to slide nine. Let's focus on our financial performance.

We are very happy to present an adjusted EBIT back to positive, increasing from circa minus €30 million in H1 '20 to plus €25 million in H1 '21, resulting in a margin of 5.6%. A great improvement with all main lines contributing to profitability increase.

So, looking at our margin structure. The gross margin ratio was up plus 11 bp at 71.6%. From aside, as part of the One Journey strategic plan, the Group made solid progress on the strategy to improve full price sales. This way we managed to decrease the discount rates in all regions by minus 4 points from H1 for in-season products, leading to 2 points increase in gross margin ratios.

On the other side, we have an offset by liquidation initiatives, especially at the beginning of the year, but to be noted that an encouraging improvement of gross margin ratio took place in Q2 '21, which we expect to continue in H2.

In parallel, store costs as a percentage of sales decreased from 48% to 41%, so back to 2019 level, reflecting a continued strong cost management combined with a better absorption leading to the return to growth.

As a result, retail margins corresponding to gross margin minus store costs stood at 30.7%. SG&A decreased from 25.1% to 21.6% of sales, showing an efficient management of those costs. While maintaining the right level of investment to support the strategy, particularly in the key topics that we highlighted earlier, such as marketing that we decided to boost, reaching 3.5% of sales and more to come in H2 to support store reopening with a focus on APAC and digital. We were able at the same time to be very reactive to challenge our discretionary expenses.

Finally, D&A decreased from 7.1% of sales in H1 '20 to 5.9% in H1 '21 stable in absolute value and better absorbed, thanks to increase in sales.

Thanks to all those improvements, nearly all the additional management gross margin versus H1 2020 has been converted in additional EBIT.

Now, if we move to the net income in page 10, you will have an overview of the main components of the P&L in comparison with H1 2020. Net income stands at €0.6 million in H1 ’21 compared to minus €88.5 million in H1 ’20, which highlights the variance of each mainline, plus €58 million of management gross margin, an increase in marketing expenses fully in line with the strategy and strong gains in store costs and SG&A, as mentioned earlier.

Non-recurring expenses decreased by more than €40 million in 2021 to reach below €5 million in asset value as no additional impairments was recorded this semester. Financial charges, rather stable versus H1 ’20 standing at €15 million with an average cost of debt standing at 2.2% in H1 ’21.

Lastly, tax charges stood at minus €0.3 million, increasing versus last year but simply reflecting the return to a positive income.

Regarding cash, in H1 ’21, we continued to improve our free cash flow standing at €20.2 million this year versus minus €56.7 million in H1 ’20. This is a very strong performance considering that, one, we are back to the level of H1 2019, which was roughly €21 million generation, and two, that 80% of the adjusted EBIT has been converted in cash this semester.

Apart from the increase in EBITDA, this is a result of two other main drivers. First, a significant improvement of the working capital at €134 million at the end of H1 ’21, illustrating all the works done by the brand on inventory, decreasing by 20% versus one year ago and by 6% versus December ’20, thanks to the execution of our strategy and the efficiency of the demand planning process implemented last year.

Working capital continues to remain a key priority for the Group, leading to virtual circle from inventories to like-for-like and full price sales. Second, a focus maintained on CapEx management, in line with the strategy, this stands at 4.6% of sales, i.e., circa €21 million to be noted that’s reflecting higher spending in absolute value in H2.

Now moving onto slide 12 on net financial debt. We managed to diminished the net financial debt by €17 million versus December ’20 leading to a leverage ratio decreasing from 7.1 at the end of 2020 to 3.6 at the end of H1 ’21. The Group benefits from a solid and healthy liquidity headroom, quite stable versus the end of 2020. This is the result of strong cost and efficient working cap management.

To be noted, as we decided to optimise our cash position by supplementing the state-guaranteed loan that had been concluded in 2020 for €53 million which provides us with a liquidity at a very limited cost. Also, to be mentioned that all the reimbursement of debt of this semester were made on due date in line with the contract scheduled.

With this financial structure in place, we are fully comfortable with our cash level. And finally, please note also that early July we reimbursed the €50 million drawing of revolving cash facility.

I will now hand over to Daniel and Isabelle for a brief summary.

Daniel Lalonde: All right. So, thank you, Patricia. Listen, to summarise, I will say a few things. We have recorded solid sales performance in H1 2021, reaching plus 23.3% on an organic basis despite store closures and restrictions, low traffic and lack of tourism.

EBIT and net income are back to positive. And finally, the focus on CapEx and working capital was maintained, leading to an excellent free cash flow generation.

I warmly thank you for your attention and your presence over the past years. It's been a pleasure to exchange with you since the IPO in October 2017. I also enjoyed your questions (which are often one question, 4 parts) and your continued interest in our Group. While I hand it over to Isabelle, I remain confident and very optimistic for the future of the SMCP Group.

Isabelle Guichot: Thank you, Daniel. All the teams and I are committed to the execution of our One Journey roadmap for the SMCP Group. And now I think we are now happy to take your questions.

Mathilde Magnan: Thank you, Isabelle. Rosie, I think we have one question.

Questions and Answers

Operator: We do. So just before we go to that question, as a remainder, if you do have a question you would like to ask, please press star one on your telephone keypad. Should you wish to withdraw your question, you can press star two and you will be advised when to go ahead. So, the first question comes from the line of David Da Maia from CIC. Please go ahead.

David Da Maia (CM-CIC): Hi, everyone. Good morning. Two questions for me, please. The first one on gross margin. I'm a bit surprised to see that your gross margin is basically flat despite the significant reduction of your markdown rates to around 30%, if I remember correctly. You mentioned 200 basis points positive impact. So, is it fair to assume that the decrease of your markdown rates has been largely compensated by an increase in the volume of your promotional sales due to some one-off liquidation initiatives? So that's the first question.

And the second one on current trading trends during summer in your two most important markets, France and China. In France, we saw a sequential improvement during Q2, thanks to kind of ramp-up of the local demand after the reopening. So, I was wondering if these improving trends have continued during the summer. And in China, have you recently recorded a temporary slowdown in your growth trajectory in the context of new restrictive measures in some regions to control the spread of the Delta variant? Thank you.

Daniel Lalonde: Yeah. Thank you for that, David. Listen, I think the first question is clearly for Patricia, and Isabelle could talk about your second question.

Patricia Huyghues Despointes: Hello, David. Thank you for your questions. So maybe I can come back to gross margin ratio. As I mentioned during the call, the positive impact is certain and is really on in-season products, so seasonal collections. And this – we are very happy about that because it's all regions and in all channels, be it digital or brick and mortar. So, the minus effect was very localised on liquidations on COVID collections. So, it's now over and this is why we are very confident for H2.

Isabelle Guichot: Regarding current trading – sorry. Now regarding current trading, I will start with France. France is progressively catching up versus '19 driven by brick and mortar. We see the phenomenon where customers are really happy to be back in stores. Touristic flows are not yet back except for a few intra-European touristic flows.

As far as China is concerned, we remain really confident in China in terms of strong versus '19. As you mentioned, there's been some local resurgences of COVID and some weather – extra weather factor that have impacted traffic, but overall, remain confident for the next quarter on which we have high comps, if you remember, correctly last year.

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

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

Kathryn Parker (Jefferies): Good morning, everybody, and thank you for taking my question. So, my first question is on the One Journey strategic roadmap. Obviously, this was presented last year by Daniel. And I wondered, Isabelle, are there any changes in maybe the priority of strategic initiatives or the guidance that you'd like to comment on?

And then my second question is on the shareholder, given the upcoming maturity of the bond. And I just wondered if there is any more information you could share on that topic?

Isabelle Guichot: Thank you, Kathryn. Maybe I will take the first question and then hand it over to Daniel for the second one. One Journey is really the key mantra of the Group. It's all the teams, all the brands on the regional full speed, developing the omnichannel, ship from store initiatives. There is no – I mean, it's really the key ambition of the Group and there are no changes in our – in the direction in that respect and we see the – we see that plan delivering results month by month.

Daniel Lalonde: All right. And Kathryn, as well just a point on that is Isabelle was obviously a key proponent with me and the ComEx developing the One Journey plan. So, I think we're all – we've been all aligned on it for quite some time. So that's very good.

Listen, on our shareholder, I can't – Kathryn, there's no information I could provide at this point in time. It's obviously not for us to comment on a question. They remain a strategic shareholder, as always, but I have no comment to add to the – to your question that you raised.

Mathilde Magnan: Thank you, Isabelle and Daniel. Rosie, do we have another question, please?

Operator: Yes, 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. Just a question of – about inventories. Do you consider the level of inventories is normative today or can we expect additional liquidity measure over the second half? If not, shall we expect a rebound in gross margin rate as soon as H2?

Patricia Huyghues Despointes: Hello, Marie-Line. Thank you for your question. Yes, we are very pleased with the level of inventories that we have reached at the end of the semester. So, as I said earlier, those liquidation one-offs are behind us and we expect nothing special about that in the second semester, which should, of course, help increase the gross margin ratios.

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

Operator: Thank you. So, this question comes from the line of Giles Crespel from Alizée. Please go ahead.

Speaker: Good morning. Thank you for taking my question. Along Daniel's suggestion, I will keep it – I'll stick to one question, which is I understood that your marketing expenses would double. Could you highlight whether this will be more digital or physical? And will it have an impact on the operating margin?

Daniel Lalonde: Isabelle will take the first question.

Isabelle Guichot: Obviously, this doubling of spending in marketing would be mainly dedicated to producing content for digital and then diffusing – being able to diffuse them on the global media worldwide with, of course, also a special focus on the Chinese consumer. So, it's an effort that will be across brand and you have now more formats to deal with in terms of marketing, whether it's social media, whether it's the usual media that we're working with. I was also mentioning for instance the gaming platforms. So, it's a new environment.

We've been adapting our contents to those new formats and with a special attention to the Asian inclusion in that respect. That's all I can say. And it's something that we've been anticipating for the budget process and for all brands.

Daniel Lalonde: Yeah. And I would just add maybe to Isabelle's comment is that this investment that we've decided to make altogether is obviously to – with the objective of increasing the desirability of our brands on a world basis and the more brands are desirable and leaders, again the more we can sell it full – at full price and then improve gross margins, etc., etc. So, it's really related to sell more at full price and make our brands even more desirable on a worldwide basis.

Speaker: So, I can understand that it should be operating margin neutral?

Isabelle Guichot: Yes.

Speaker: Thank you.

Daniel Lalonde: Yeah.

Mathilde Magnan: Thank you very much. I think we are done with the questions. The next publication is scheduled on 27th October for our Q3 sales. Thank you very much. We wish you a very nice day.

Daniel Lalonde: All right. Thank you. Thank you all.

Isabelle Guichot: Thank you.

Patricia Huyghues Despointes: Thank you.

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

[END OF TRANSCRIPT]