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# **SMCP 2021 Q3 Sales Call**

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## SMCP 2021 Q3 Sales Call

**Operator:** Hello and welcome to the presentation 21Q3 Sales Call. My name's Kevin, I'll be your coordinator for today's event. Please note this conference is being recorded and for the duration of the call your lines will be on listen-only. However, you will have the opportunity to ask questions at the end of the presentation and this can be done by pressing star one on your telephone keypad to register your question at any time. If at any point you need assistance please press star zero and you'll be connected to an operator. I would now like to hand over to our host, Mathilde Magnan, Head of Investor Relations, to begin today's conference. Thank you.

**Mathilde Magnan:** Thank you, Kevin. Good morning everyone. This is Mathilde Magnan, Head of Investor Relations, speaking. Thanks for being with us today for SMCP Q3 Sales. I'm here with Isabelle Guichot, our CEO, and Patricia Huyghues Despointes, our CFO. As usual, we will go through the presentation and then we'll have the Q&A session. Before I hand it over to Isabelle and Patricia I'd invite you to go through our usual disclaimer on page two. And I think we can start now.

**Isabelle Guichot:** Thank you Mathilde. Good morning everyone. Thank you all for joining this morning this call. I'll begin with a quick overview of Q3 2021 and then I'll hand it over to Patricia, our CFO. She will detail our sales performance by region and then I will make a brief conclusion. Let's move to the page number four of the presentation.

As you've seen in the press release we're very happy to announce that our Q3 sales are almost at par with 2019. In the third quarter, we achieved €271.7 million sales, down -1% in reported versus 2019, -3% on an organic basis and up 8.4% versus 2020.

Let me show you some of the key messages on this quarter performance. First, on a global basis we see a progressive catch-up versus 2019 since the beginning of the year with Q3 low-single-digit negative on an organic basis and nearly back on track as per the reported figure. In Mainland China the performance remains strongly positive versus 2019, reaching 15.8% despite some pandemic resurgences impacting mobility and store traffic.

Americas has turned positive on 2019 for the first time since the beginning of the pandemic, with the US still outperforming and accelerating, reaching +15% versus 2019, thanks to a very high demand.

France and EMEA are progressively catching up 2019 levels, both supported by strong local consumption. As you know, tourism is not yet back unfortunately in France and in Europe.

Versus 2020 the overall performance of +8% is driven by like-for-like growth.

Our teams are still fully committed to execute our *One Journey* strategy plan which is our key ambition. In this context the Group continued to make steady progress on its strategy to improve full-price sales, notably by deliberately reducing the promotional sales share, especially in digital. As such we managed to decrease the discount rate in all regions, both in brick & mortar and digital with a -5.5 points in Q3 versus last year. This is the result of improved inventory management enabling us to reduce the quantity and duration of liquidation operations.

Regarding network, as planned, we continued our brick & mortar network optimisation plan with -38 DOS in nine months. In France we closed -45 DOS, mainly very small stores located in small cities and not at the right concept, including -27 stores of Suite 341 (no longer strategic for the company). After a wave of closures in Q3 we are nearly on target. On the other hand, we continued our expansion in APAC with +19 new DOS over the semester, of which +14 were in China.

On digital the Group achieved a penetration of 24% of sales in nine months, normalising in percentage of sales due to the complete reopening of physical stores and impacted by our full-price strategy limiting the sales growth.

To conclude, all regions contributed to this continued sequential growth over the quarter. These are very encouraging results considering the Covid resurgences in APAC, low tourism and less promotional sales.

Let's start with Sandro on the next slide. This quarter Sandro has deepened its partnership with a leading local e-commerce pipeline. Sandro unveiled a launch party for its winter collection in Shanghai with TMall. A fierce step far beyond the digital arena, this featured its China ambassadors as Sunnee (a singer with more than 22 million followers on Weibo).

This momentum in Mainland market has come from dedication and innovation, leveraging omni-channel marketing with livestreaming and a "store-loft" feature, to emphasise the new Hope campaign which is the fall/winter campaign and to engage new young shoppers. You see the pictures on the left side of the chart.

A very successful event, with more than 300 physical attendees in Shanghai and more than half a million viewers online, generating traffic on TMall multiplied by 35, new followers (tens of thousands more followers) and ranking Sandro as its top 1 in Woman accessible luxury industry for the period.

Now turning to Maje, riding on the success from latest collaborations, Maje continued to collaborate with the celebrity Jian Tian to kick off the launch of its new fall/winter collection. Jian Tian, Chinese actress, followed by more than 24 million followers on Weibo, has confirmed her commitment to the brand by accepting to be once again the brand ambassador of Maje in Greater China. A local shooting with images and videos has been produced to be displayed across all digital platforms including TMall flagship in China. The pictures of that special shooting you can see in the middle of the slide. A very efficient collaboration boosting traffic on our maje TMall flagship website (by almost two times more unique visits).

Claudie Pierlot now: to strengthen brand awareness and to promote its new campaign, Claudie has decided to collaborate with five KOLs through social media platforms.

Overall our brand's dedication to digital transformation and their agility in the local market has demonstrated their advanced brand desirability among today's young generations and consolidated the relevance to Chinese customers, seeking elevated and uncompromising accessible luxury.

Moving to page six, let's talk about digital now, which you know is at the core of our ambition. In Q3 we continued to extend our digital presence with two new virtual stores. First we are delighted to announce a new key partnership. After Sandro, Maje is now available on FARFETCH since mid-September. FARFETCH is now one of the undisputed global reference in the luxury fashion world and we are happy to reinforce our partnership with this e-commerce platform. This is on a drop-ship model, basically a marketplace, and it enables us to use their front-end and to pick from our shared inventory located in Paris. It's a very efficient model for us.

Let's go to APAC now and more precisely to Hong Kong where we opened Claudie Pierlot's first e-shop which is another milestone for Asia digital business development and also a key step for Claudie Pierlot to engage with customers via digital.

Moving on to page seven, a little snapshot of the – our retail expansion. Here you can see our APAC network continued expansion with some meaningful examples of store openings we did during the quarter. China Taikoo Hui, Shanghai Taikoo Li, an Outlet in Shanghai Village, and another opening in Taiwan.

Over the nine months of – the first nine months of 2021 we opened 19 stores of – out of which, 14 in China. APAC remains the fastest-growing region of the Group.

Moving on to page eight, let's have a look at – on our partnerships. As you know, in some countries (that we call non-directly operated), we're distributed by partners. It's about – it's about 10% of our sales. Thanks to strong partnership in key strategic countries we are conquering new territories.

What happened in that – in those territories in Q3 let's discover some openings. Mexico, for instance, where we opened a new store a luxury outdoor mall called Antara Fashion Hall, considered one of the most exclusive shopping destinations in Mexico. And we launched several digital stores. This is a new digital extension thanks to those – these partnerships. South Korea, where we reinforced our presence with the opening of 11 stores for Sandro and Maje, of which two outlets. And we opened also two new digital stores in the United Arab Emirates with Bloomingdales.

These partnerships strengthen our brand exposure all around the world and highlight the appeal of our brands to worldwide consumers.

Moving to page nine, as you know, as part of our *One Journey* strategy plan, we decided to boost our marketing investment to enhance brand desirability. From – this boost is from 2-4% of our sales. Among the key initiatives we implemented this year, our collaboration with KOLs is significant and emphasises a strong brand desirability. We want also to highlight that organically our brands attract more and more new KOLs of celebrities and I urge you to see the very nice picture of Amanda Gorman wearing a maje dress during a Jimmy Fallon show or Emma Roberts with a Sandro Hope sweatshirt. Their authentic artistic careers and vivacious personalities allow the brands to extend Parisian elegance to broader audiences all over the world, thanks to the halo effect.

So now I will turn it over to Patricia, our CFO, who will take you through the Q3 performance by region/geographic in greater detail.

**Patricia Huyghues Despointes:** Thank you Isabelle, good morning everyone.

So moving on to slide 11 to get an overview of our solid Q3.

The Group performance highlights a progressive catch-up versus 2019, a trend confirmed since the beginning of the year, as you can see on the graph on the left, with a major improvement in Q3 both in absolute value and in terms of evolution versus pre-pandemic levels. Indeed, our sales are almost back to 2019 which is €271.7 million, down 3% on an organic basis. These are solid results considering Covid resurgences in APAC, low tourism and less promotional sales across all brands, regions and channels. Now, on the right in nine months our sales have reached €725 million, -13% versus 2019 and +17% versus 2020. By region on a nine-month basis France and APAC remained the most important areas with respectively 32% and 28% of sales. It should be noted that Europe, as a whole, loses five points of penetration versus pre-Covid levels due to market evolution and the special situation this year with the impact of lockdowns in Europe in H1.

Now slide 12, let me highlight some key messages on Q3 performance by region. In France sales are gradually catching up to 2019 levels, down 10% versus 2019 organic. A solid performance supported by local demand. If we compare with 2020, sales are nearly stable, -1%, which is very satisfying considering our ongoing full-price strategy. Indeed, we managed to reduce our in-season discount rate by seven points in Q3 and we registered a positive like-for-like growth. Finally, we continued to deliver our brick-and-mortar network optimisation plan with -45 DOS in nine months, of which 27 were Suite 341 and we are completely in line with our 2021 annual strategy.

In EMEA we delivered a strong performance, catching up progressively versus 2019, reaching -9% organic despite the lack of tourism. Versus 2020 sales were up +16% organic driven by brick & mortar like-for-like growth. A solid performance considering also the decrease of the in-season discount rate by almost ten points over the quarter versus last year. To conclude on these two regions and considering the low tourism level and our full-price strategy, we consider that we delivered a solid performance.

Now moving on to slide 13, in APAC we delivered very solid growth of +7% versus 2019 organic driven by Mainland China reaching +16% versus 2019. A strong performance despite new Covid resurgences and some major weather events in key cities, both impacting mobility and traffic. If we compare with 2020, APAC sales were down -5.7% organic, a trend explained by high comparison basis as Q3 2020, as you may remember, benefitted from a strong consumption wave post stores reopening. The rest of Asia remained solid despite Covid cases and the very low tourism driven by dynamic regions such as South Korea continuing to be very strong. Finally, over the first nine months, we continued our network extension with +19 DOS of which 14 were in Mainland China.

Now Americas turning positive versus 2019 for the first quarter since the beginning of the pandemic. The US are still outperforming and even accelerating, reaching +15% versus 2019

on an organic basis. A continued growth over the quarter across all channels from strength to strength driven by a very strong brick & mortar like-for-like growth.

Sales were up +62.9% organic versus 2020, a strong performance considering the in-season discount rate decreased by more than ten points.

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

**Isabelle Guichot:** Thank you Patricia. Just to summarise Q3 sales are almost on par with 2019. Americas had strong positive versus 2019 for the first time since the beginning of the pandemic and US are still outperforming driven by a very high demand. France and EMEA are closing the gap versus 2019 supported by local consumption. Solid growth in APAC driven by strong Mainland China despite local resurgences and some major weather events impacting mobility and traffic. We pursued the execution on our *One Journey* strategic roadmap, focusing on our key pillars. Including this quarter, a steady and solid progress in full-price strategy leading to a drop in the in-season discount rate by 5.5 points and our network optimisation plan delivery.

Looking forward, after seeing a positive dynamic across all markets in the first weeks of October, we are confident in our capacity to reach €1 billion in full-year 2021 sales and we confirm the mid-term guidance presented during our Investor Day in October 2020. Thank you for your attention. We are now happy to take your questions.

## Questions and Answers

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

**Operator:** Thank you very much. Yes, so just as a reminder to everybody, if you would like to ask a question, please press star one on your telephone keypad. We do have some questions coming in now and the first question comes from the line of David Da Maia from CIC so please go ahead, David.

**David Da Maia:** Hi good morning, thank you for taking my questions. Actually, I have three, one on current trading, one on gross margin and one on shareholding. So the first one on current trading, so you said you have observed a positive dynamic across all your markets in October but could you be more specific about trends by region? For example, are you still closing the gap with 2019 levels in Europe and are you still recording double-digit growth in – versus 2019 as well in the US and China? Second question on gross margin, you have significantly improved the quality of your sales this quarter. Should we expect further progress on your full-price strategy in Q4? And in this context is it fair to assume that your gross margin in H2 could be clearly higher than in H1 despite the, I would say the ongoing inflation on your – on your costs? And finally on shareholding, can you give us an update on the situation? Do you have – do you have a better view on the identity or the profile of the bondholders representing – represented, sorry, by the trustees? I don't know, have you had direct contact with them since the enforcement of the pledge? Thank you for giving us an update on that. Thank you.

**Isabelle Guichot:** Thank you David. I will take the first question and maybe the last one and I'll hand over to Patricia for the second one. Current trading overall what we – what I just said is that we've seen acceleration October versus 2019 in all regions. They're all above 2019 in October so far. If I go a bit more granular by region, APAC and particularly China continued to deliver a strong double-digit growth versus 2019. Americas, good result driven by the US – the US and digital. France and EMEA are performing very well, early signs of tourism coming back. It's early signs but we took it as a positive – as a positive sign. And digitals are performing both very well versus 2020 and 2019.

**David Da Maia:** Okay, so you are above 2019 level in Europe as well.

**Isabelle Guichot:** In all regions, yes.

**David Da Maia:** In all regions. Okay, thank you.

**Patricia Huyghues Despointes:** Yes. Regarding your second question, David, about gross margin, yes, I confirm to you that we anticipate to improve gross margin and by the way all our P&L metrics in H2 compared to H1, and gross margin is one of them. Mainly thanks to our full-price strategy. As you have heard from the call, the decrease in discount rate is quite significant so it will enable us to improve our gross margin ratio. Yes, we see some inflation in the cost of goods, that's true. And that's true for everyone. Now, we need to get this by this full-price policy and also by our geographical supply policy. As you know, we have a majority of supply coming from the European basin so we can mitigate a little bit this so just to confirm we will improve our gross margin ration throughout H2.

**Isabelle Guichot:** As far as your third question's concerned, regarding our shareholder structure, is – there is – what we can say at this moment is not much more than what you have probably read in the press and in different notices that have been made public. So we've been informed that European Top Soho failed to redeem its bond – exchangeable into a SMCP shares at their maturity date in September, back on 21<sup>st</sup> September. And then, you know, following this default, GLAS, acting as Trustee in relation to exchangeable bond, indicated on 5<sup>th</sup> October that it's considering a temporary taking of possession of part of the underlying SMCP shares up to 29% of the share capital. This is what – you know, it's public today and there is not much we can say on top of that regarding the bondholders names and identity. You've also read what – what has been publicly said and written in all the different – in the papers so there is not much we can say about it except what you've probably read. But the important message that we wanted to reiterate today is that the situation does not affect our financing and operations. Value creation for all of the Group stakeholders (which are shareholders, employees and other partners), is at the heart of the company's strategy. SMCP remains fully committed to the implementation of our strategic ambition, *One Journey* plan for 2025.

**Mathilde Magnan:** Thank you David for your question. Kevin, do we have another question?

**Operator:** We do indeed, thank you. Our next question comes from the line of Geoffroy Michalet from Oddo BHF. Please go ahead.

**Geoffroy Michalet:** Hi, thank you for taking my question. I just have one. It has to do with the discount rate. I just wanted to know what kind of headroom do you still have when it comes to pricing and actually, yeah, how does the current level compare versus 2019? Thank you.

**Patricia Huyghues Despointes:** You mean the current level of discount versus 2019?

**Geoffroy Michalet:** Yes, exactly. I mean, the – let's say the – the pricing strategy, how is it compared to 2019?

**Patricia Huyghues Despointes:** Okay, so both discount rate and pricing strategy. In terms of discount rate we have already reduced it quite significantly. I think we still have a few points more that we can gain. In terms of comparison versus 2019 the discount rate had increased in 2020. We have caught up a big part of it in 2021 and maybe a little bit more to come.

**Isabelle Guichot:** And if your question is about pricing strategy, obviously we're working on it and we'll take a – we are taking as we speak all the necessary steps to protect our gross margin. We're working on price increases obviously and we continue to absorb part of this through cost management as we already did in the past months. That's all we can say. And also better demand planning policy which is absolutely key in that – in that prospect.

**Geoffroy Michalet:** Thank you very much, that's very clear.

**Mathilde Magnan:** Thank you, Geoffroy. Kevin, do we have another question?

**Operator:** Yes, thank you. We now have a question from the line of Kathryn Parker from Jefferies. So please go ahead, Kathryn.

**Kathryn Parker:** Morning everyone. So I have three questions. My first question I'm afraid is on the discount rate again and its impact on the gross margin. So from a slightly different angle, so would you – would you say the improvements in the in-season and off-season discount rate means that the gross margin in H2 could perhaps be back at 2019 levels? So that is my first question. And then my second question is just an update on the inventory situation, given global shipping difficulties. So would you say you have enough product availability in each of your global markets kind of coming into the busy Christmas season? And then my final question is on activewear. So we've seen the maje Varley capsule collection launched last week and I wondered, how do you see this opportunity developing and whether perhaps other brands within the Group would also consider launching activewear? Thank you.

**Patricia Huyghues Despointes:** Thank you Kathryn. Regarding your first question, well, you know that today is – is a sales call so we will have the opportunity to really discuss gross margin later in the year. But yes, I would say that we are anticipate H2 gross margin to be in the area of H2 2019, so probably not very different from H2 2019 ratio.

**Isabelle Guichot:** Regarding your second question Kathryn, yes we see some – there are some delays in the transportation and sourcing but for the time being it's something that we've really been growing over the past months so we've been really working in anticipation of those issues. Nothing had a significant impact on our business so far and we've covered for the – for the months to come. It's also that the timing of our buying waves allows us to reduce the risk of a large quantity being lost and really jeopardising the business for the year-end. And also, as I mentioned earlier, our demand planning policy that we implemented over the last 12 months allows us really to reforecast dramatically our sales and to readjust our supply chain. Don't forget also that 60% of our sourcing is made – is in the Euromed region which reduces the freight delay and also, we have a very agile production and supply chain with the ability to turn around and manage if necessary. And also we've been covering a lot with a raw material buffers to be able to relaunch – to relaunch production if needed.

And as far as your last question on activewear, I mean, I thank you for noticing the Maje launch of the collaboration with Varley. It's an area that we always investigating a little bit in terms of extension of our core lines. Sandro did it last year with also a capsule of jogging in at leisure. This is more a visible collaboration with Maje today. For us it becomes a little bit, an obvious organic addition to ready to wear so it's something that we will venture in sporadically whenever we can and whenever we feel it's relevant.

**Mathilde Magnan:** Thank you, Katryn. Kevin, we will take the last question.

**Operator:** Thank you. Thank you very much so our last question comes from the line of Floris Dijkstra from Aperture. Please go ahead.

**Speaker:** Hi, good morning, thank you for taking my question today. Just two quick questions from my side. The first is we've seen a bit of a crackdown in China on the luxury segment, so it'd be interesting to get your views on how this might impact SMCP. And then the second question has also got to do with I guess the shareholder structure now. Can you confirm if there's been a discussion between I guess the management team and the bondholder group? Thanks very much.

**Speaker:** Can you repeat your question.

**Speaker:** Question one we didn't hear very well.

**Speaker:** Sorry. I – we've been reading that there's a bit of a crackdown on luxury goods.

**Speaker:** No, no, the second one.

**Speaker:** Sorry, the second one was on the shareholder structure. Just trying to understand if there's been any like type of contact between the bondholder group that might collect on the shares and the management team.

**Isabelle Guichot:** Regarding your first question, it's too early to tell definitely but – and especially difficult to know if it will have an impact on general climate of consumption. But as far as we're concerned, for SMCP, considering our positioning which is – which is accessible luxury, we do not expect any direct material impact on the consumption. And also we have a much larger client base than the luxury players. So far it's not really a threat that we – that we factored in.

Regarding your second question, we won't comment on that beyond our – it's not – it's definitely not our radar, I would say.

**Speaker:** Okay, that's understood. Thanks very much.

**Mathilde Magnan:** Thank you very much. I think we are done with the questions, so I wish you a nice day. Thank you.

**Isabelle Guichot:** Thank you very much, bye.

**Patricia Huyghues Despointes:** Thank you.

**Operator:** Thank you very much everybody for joining today's conference call. You may now disconnect your line.

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