SMCP H1 2022 Results

Monday, 1st August 2022

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

SMCP H1 2022 Results

Operator: Hello, and welcome to the SMCP 2022 H1 Results. 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 on your telephone keypad to register your question at any time. If at any point, you require assistance, please press star zero and you will be connected to an operator.

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

Mathilde Magnan: Thank you, Jess. Good evening, everyone. This is Mathilde Magnan, Head of Investor Relations speaking. Thanks for being with us today for the publication of SMCP's half year results. 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 invite you to go through our usual disclaimer on page two. And I think we can start now.

Isabelle Guichot: Thank you, Mathilde. Good evening, everyone. Thank you all for joining us today. It's the first time we publish our semester figures on that date, sales and profit at the same time, and we thank you for all being here with us today, 1st August, rather than enjoying vacation. However, as we bring quite good news, we hope you will forgive us.

So now let's see the key highlights of this semester both on key figures and business initiatives. Then Patricia will deep dive in our performance, and I will briefly conclude.

Moving on to slide four and five. As you've seen from the press release, we are very happy to announce the strong H1 sales growth of plus 24.7%, led by Europe and America combined with a sharp adjusted EBIT improvement, thanks to good execution of the strategy. A strong performance despite the significant impact of COVID restrictions in APAC, including long store closures in key cities, distribution affected by the complete shutdown of our brick-and-mortar and digital warehouses and a massive traffic drop.

On an organic basis, sales were up plus 21.4% versus last year, fully driven by like-for-like growth. Adjusted EBIT jumped by plus 76% to stand at €45 million, resulting from the rise in sales combined with an increase of the gross margin reaching 74.4% and the continued – continuing strict cost management.

Net income rose very sharply to stand at €21 million in H1 '22 versus €1 million last year. Financial structure remains healthy, and we have showed our continued efforts in decreasing the leverage ratio from 2.5 times as of December '21 to 2.1 times adjusted EBITDA as at the end of June.

Finally, our teams have demonstrated once again their capacity to deliver our strategic pillars including an increased brand desirability and pricing power, the full-price strategy continuation with strong discount breakdown by 6 percentage point versus H1 '21; the finalisation of our network optimisation plan in France early this year and the current normalisation of our digital penetration reaching 22%.

On page six now, as you can see, we are very proud to announce an all-time H1 sales record of €565.4 million, a strong achievement in this difficult environment. I think a trend that you can see in this graph is really self-explanatory.

Moving on very quickly to page seven. You will find here the performance by region, mainly driven by Americas and EMEA and a breakdown of sales in H1. Patricia will get back in more detail later in the presentation on this chart.

Page eight now. Let me present some relevant brand initiatives implemented at local level during Q2. Starting with the first pillar of our strategy, brand desirability, with our successful local marketing strategy carried out all around geographies.

For instance to enhance the promotion of Summer Paradise capsule collection, Maje announced the opening of a pop-up store in one of the most desirable locations in the Hamptons, the Montauk, Surf Lodge. The space highlighted the newest capsule and offered a vibrant shopping experience for luxury customers.

To promote this exciting event, Maje invited for a few days international influencers and key opinion leaders to join a unique experience. The programme included enjoying a night out in New York and then heading to Montauk for the festivities including a beach cruiser by takeover, a pilates class, a surf lesson and beach stays, and of course, dinners. Complete 360 worldwide communication plan, Maje decorated also its store windows and its key cities across – in key cities across North America, obviously, Europe and also APAC.

Moving on to page nine on other local initiatives. Let's move to the Middle East, Dubai. Sandro and Maje designed capsule collection for the Ramadan holidays, filled with bright colours and shiny finishers. These two capsules were all about elegance and feminine dresses without being too excessive. In this month of festivities, this collection has struck the right balance between style and celebration.

Moving on to Paris now for another exciting news. Fursac collaboration with l'Orchestre de Paris, the Paris orchestra. Since April 2022, the musicians have been performing in their new outfit designed by Fursac drawing on its first-hand experience of the musician, Gauthier Borsarello, the artistic director of Fursac designer, black shawl collar tuxedo, white shirt, and a silk cummerbund bringing touches of excellence – of elegance, sorry, to the chic and solemn orchestra outfit. He set out to strike the right balance between comfort, elegance, and tradition.

As we mentioned, Fursac – moving on to page 10, we are really proud to announce that Fursac has been in the spotlight. And for the first time since its creation, the brand was named as a new entrant of the Paris Fashion calendar and – Paris Fashion Week calendar and unveiled its Spring/Summer ’23 collection at Le Palais de Chaillot in Paris.

The collection designed by Gauthier draws on the codes he holds dearest and sees Fursac’s need for speed and warmth come to the surface reinterpreting outfit normally reserved for racing drivers and offshore pilots. The stripped back environment speaks out for the Fursac men impertinent and elegant, his natural panache and the obvious pleasure he takes in dressing both for himself and the delight of others. To quote fashion source Women's Wear Daily: call it an aspirational wardrobe in the best sense.

Page 11, as we presented last semester, some pretty collaborations have been unveiled by the brands and we are especially excited about. Let's start with Sandro for which art is central, both as a source of inspiration and as an endless core expression. For this new season, Evelyne et Ilan Chetrite have invited a French multi-disciplinary artist, the architect and designer, Garance Vallée. She imagined a set of modules and architectures as many ways of inhabiting the specific space of store windows, a place for both inside and outside, in dialogue with the new collection. For Evelyne et Ilan, giving the key to their windows is a manifesto of their support for emerging artist and part of Sandro's committed dialogue between fashion and the contemporary creation.

Now turning to Maje. In an exclusive partnership with the Sailor Moon, the iconic figure of Japanese manga animation and ultimate symbol of girl power, Maje invite the heroine a for limited edition collection with kawaii inspiration.

Love, boldness and femininity, are values that Maje and Sailor Moon share, speaking to young women around the world for several years. In this capsule, Maje revisits Sailor Moon feminine and assertive style.

These initiatives add desirability to the collections and enable us to speak to our audiences in a more intimate way, thanks to a 360 phygital communication plan, giving the opportunity to surprise and seduce our community and to enhance customer experience. And the results are very promising boosting sales, driving traffic, and attracting new customers.

Moving on to page 12. As part of our strategic plan and among the key initiatives we implemented this semester, our collaboration with key opinion leaders is significant and emphasises a strong brand desirability. And we wanted to highlight that organically our brands attract more and more new KOLs and celebrities. We have here example of Lady Gaga or Lupita Nyongo. 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.

Now let's move to a very important pillar, a key pillar of our strategy, sustainability, on page 13. I'm very proud to announce the last SMCP's carbon footprint measure, highlighting a decrease of minus 8% since the latest study dating from '18. These results in line with our strategic plan, is all the more remarkable, given that it includes two additional key activities impacting carbon emission which were not included in the 2018 report.

Season after season, our brands are committed to a more sustainable and responsible fashion to various initiatives first – such are their key partnership with Fairly Made in terms of traceability. A few months ago, our brands began one of the first accessible luxury brand to offer their customers detailed and transparent information on the traceability of its product.

By 2025, SMCP intends to attach a QR code to all products sold by the Group's four brands allowing full traceability of each product. This QR code provides a quick, simple, transparent, and centralised access to all information relating to the traceability of each product such as the country of origin of each material, the number of kilometres travelled, the location of the manufacturer, etc., etc.

I'm delighted to announce that we tripled for this winter season, which is now entering the stores, the number of references having a QR code some 40 SKU last season to 120 references by brand. Our teams stay fully committed in the execution of these plan, which will I'm sure enable SMCP to meet targets and potentially go above and beyond.

Let's move now to page 14. Here, you can see some examples of our network expansions in Europe with some meaningful additions in Q2 such as Sandro opening in Ibiza after Maje which opened last year. And Fursac opening in the nice city of Deauville in France.

Moving now to page 15, other openings in Asia, this time in Greater China with a store opening during the quarter in Wuhan and Fuzhou.

Page 16. Let's now talk about digital. In Q2, we continued to expand our digital presence. In Canada, after almost four successful years on the Hudson Bay and to develop our digital business, Sandro and Maje opened their first own website. And in Korea, where we opened two new digital stores of Sandro and Maje and Claudie Pierlot in the country, thanks to a key partnership with our local partners.

These openings strengthened our brand exposure all around the world and highlights the appeal of our brands to worldwide consumers.

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

Patricia Huyghues Despointes: Thank you, Isabelle, and good evening, everyone. So moving on to slide 18, let me highlight some key messages on our sales performance by region.

Europe as a whole, France and other EMEA countries experienced a very steady performance this semester, and we are very pleased of the figures for all brands, channels, and countries. In France, we recorded a sharp improvement over the semester, which includes 41% organic, fully driven by like-for-like and leading to a level of sales exceeding 2019. Since the beginning of the year, SMCP outperformed the market and gained market shares, thanks to the success of our collections. Q2 was strong with plus 8% organic above 2019.

We continue to observe a discount rate reduction which is quite impressive, more than 10 points. All brands and channels benefited from these trends. We have also finalised our network optimisation coming mainly from the Suite 341 end of concept mostly in Q1. Some great openings are coming to an end. We look forward to telling you more next time in October.

Most of our comments regarding France are also valid for EMEA. In this region, H1 performance was strong reaching plus 50% organic, driven by both local demand and progressive recovery of tourism coming from other European countries, Americas, and Middle East.

Seen as in France, Q2 was excellent exceeding 2019 by 11% organic. And the decrease of average discount rates was material, we gained 6 points.

Now let's move on to slide 19. In APAC, the intensifying COVID restrictions, first in Hong Kong and later in mainland China had a sharp impact on sales, leading to a minus 24% decrease organic. In mainland China, we recorded long store closures peaking from March to May with the closure of an average of 25% of our physical stores during more than two months, mainly large stores located in tier one cities, thus having a heavy impact on revenue. This situation also caused important drop in footfall in the other stores that remained open.

On top of that, Mainland China distribution was also affected, especially during the lockdown of our warehouses, which slowed the business, immobilising inventory and impacting both digital orders and other stores replenishments. Hong Kong and Macau also suffered from the restrictions, leading to a fall of traffic and tourism. During progressive reopening was encouraging, the appeal of our brands is intact. We recorded an excellent Tmall 6.18 event with both Sandro and Maje ranking in the top 3 positions of Accessible Luxury brands. However, traffic is not back yet in store, leading to June sales still below last year but reducing the gap.

In Americas, sales grew by plus 28% organic, a substantial growth versus ‘21, but also versus 2019. The main features of sales figures this semester includes the strong performance in all our distribution channels, fully driven by like-for-like, and in-season discount rate reduction above our expectations during the semester, reduction of 10 points coming from digital and brick-and-mortar. Both US and Canada had an excellent semester driven by high demand.

As you may remember, H2 last year was very high in Americas. So comparison base should become a bit more challenging going forward.

On page 20, before going into the details of our P&L, we wanted to give you a quick overview of how we managed the current challenges of today's environment. First on inflation. SMCP has implemented an agile pricing policy to protect margins. We believe that this policy yields strong results as we continue to decrease our discount rate, validating the relevance of this policy and the strength of our pricing power.

In the meantime, we try to limit the impact of inflation on consumers working thoroughly on our collections plan and including entry prices in all product categories. Regarding P&L, we, of course, managed the semester with cautiousness having a disciplined approach on cost management.

Second on sourcing and inventory. To mitigate the current supply chain tensions of our industry, we rely on our diversified sourcing with the major parts coming from Euro-Mediterranean basin, limiting our exposure to sourcing in Asia. We also continue to be agile on freight, switching or combining transportation modes, or increasingly using rail for example.

And finally, our inventory management enables us to maximise sales while controlling the level of inventories. We have several product ways to inject novelty but progressively over the season. We have also implemented a centralised global demand planning system to fine-tune our forecasts and inventory needs.

And finally, within the framework of this demand planning policy, in the sourcing context that you all know, we have taken the opportunity to secure some inventories of raw materials and carryovers as enablers of future growth.

Now page 21. Let's focus on the P&L performance. We are very happy about the improvements on – of our gross margin ratio increasing by nearly 3 points, reaching 74.4%, demonstrating our brand pricing power and also sustained by a continued solid progress on full-price strategy resulting in an in-season discount rate decrease of more than 6 points. Discount rate dropping in season below 25%.

In parallel, store costs, as a percentage of sales, slightly increased by 1 point compared to last year, mainly attributable to 2 factors. First, channel mix, including a higher share of brick-and-mortar this year due to the store closures in Europe in H1 ’21; and second, and to a lesser extent, to the sharp restrictions in China. As already mentioned, we, of course continue to adopt a disciplined management of our expenses. As a result, our retail margin corresponds to gross margin minus store costs stood at 32.6%.

Moving on to page 22 with the SG&A, which slightly decreased compared to last year in percentage of sales, reflecting a better absorption of all main expenses and the continuing discipline on cost management. All those factors enabled us to reach a sharp growth of adjusted EBIT of plus 76%, three times faster than sales growth of plus 25%, leading to an EBIT margin of 8% of sales, gaining 2.3 points versus last year.

Now, let's have a look on page 23 to underline the main variances of the net profit, which stands at circa €21 million in 2022 compared to €1 million in 2021. The main source of change comes, of course, from the additional revenue generating operating income, but other lines of the P&L also compare positively, for example, non-recurring expenses, which are very low, smaller amount than last year, and same for financial results benefiting from a decrease of average debt this semester compared to last year. All this additional pre-tax revenue leads to higher income tax, but our net profit increases materially. At circa €21 million, it's comparable to 2019 H1 net profits, and not far from full year 2021 net profits.

On slide 24, highlighting working cap and CapEx. The Group maintained a strict control of its investments throughout the semester, amounting to circa €19 million, representing 3.3% of sales, slightly lower than last year, due to a phasing effect, as you know, project scheduling can be different from one semester to another.

Working capital increased in absolute value from €134 million to €160 million from inventory, as we mentioned earlier, but it remains stable versus last year in percentage of sales. This evolution is meant to accompany growth and ensure H2 sales. This amount of working cap is expected to stabilise in H2. As a result, we recorded a free cash flow generation of €5 million, moderate but pretty strict despite working cap evolution, and despite external environments, including Asian restrictions.

Finally, on page 25, a few words about financial structure. We continued to decrease our leverage ratio from 2.5 times at year-end '21 to 2.1 times at the end of the semester. As you remember, we intend to get back to a ratio of 2 times at the end of this year, which means that 80% of the expected progress is already achieved in one semester.

Net financial debt lands at €314 million, slightly down compared to last December. We repaid about €70 million of financial debt this semester, part term loan and part state-guaranteed loan. During the semester, the €200 million revolving credit facility was undrawn, which means that our financial headroom continues to be very comfortable.

I will now hand over to Isabelle for final words.

Mathilde Magnan: Isabelle, the floor is yours.

Isabelle Guichot: I was on mute, sorry. A few words on our financial outlook on page 27. Thank you, Patricia. The strong results of SMCP in the first half of '22, despite adverse external factors demonstrates once again the resilience of the Group and the strength and desirability of its brands portfolio. Based on this performance, and provided the geopolitical situation, macro-economic context and sanitary conditions do not further deteriorate for the rest of the year, SMCP confirms its 2022 full-year guidance.

Thank you all for your attention. We're happy now to take all your questions.

Mathilde Magnan: Thank you, Isabelle. Jess, do we have any questions?

Questions and Answers

Operator: Thank you. So, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. And please ensure your line is unmuted locally, as you will be advised when to ask your question. So once again, that's star one if you'd like to ask a question. The first question comes from the line of Kathryn Parker from Jefferies. Please go ahead.

Kathryn Parker (Jefferies): Good evening, everybody. Thank you for taking my questions. So I have three. My first question is just on the exit rates of the quarter, or like any update you can give on July trading that you've seen across the different regions.

And then my second question is on pricing. And I wondered if you could give us an update on what the average selling price and increase was like in the first half year-on-year, and just what your expectations are for pricing in the second half.

And then my third question is on like retail KPIs. And I wondered if you could share a figure for the sales density, or any other metrics that we could use to track your progress and improving the productivity of the retail network over time. Thank you.

Isabelle Guichot: Okay. Thank you, Kathryn. I will take the first and second question, and I will hand it over for the third questions to Patricia. If I understood well, your first question was on current trading in July. Am I correct?

Kathryn Parker: Yes, that’s correct.

Isabelle Guichot: I mean, July for the time being, we – there is no much difference between Q2 and July. It’s still – we're still seeing a double-digit growth versus last year, overall, driven both by brick-and-mortar and digital. Growth versus last year in France, which we consider good performance since July last year has benefited from the postponement of public sale, which is not the case this year.

EMEA is strong double-digit reported versus last year, excellent momentum continued in all our European markets and APAC still impacted by the drop of traffic and continuing restrictions governing access to stores. We learned this morning that we have two additional stores that have closed in Chengdu due to some resurgences. So it’s kind of ongoing question mark about the about China, and the impact of COVID restrictions. And America still a solid growth versus last year despite high comps. This is the probably the answer to my – to your first question.

Second question is our pricing power. As you know, we price the collection usually a few months before they enter the store, but we have also the capability to adjust our carryovers. We have factored in additional increase of raw materials, increase of energy costs, increase of freight costs. And so we're able really to register an important material increase of our cost in store, which translated into an increase of our average selling prices.

And at the same time, what is quite remarkable is we managed to decrease also – we've managed to decrease also our discount rates, which means – which is the proof, the ultimate proof that our pricing power exists, and that is very strong as long as the collections are aspirational. Patricia?

Patricia Huyghues Despointes: And maybe, yes, I will take the third question about retail KPIs. I would say, Kathryn, that most of the KPIs are in the green area average transaction value, average selling price, number of transactions. We are in normalisation state with most of the markets in the western world, back to full operations. So, of course, everything normalises. So I think that the growth is quite organic with not only inflation on the prices but really coming from an increasing number of transactions, which is, of course, quite sound.

I think you talked about sales per square metre, which is, of course, a very important KPI to analyse our performance, which is what is dedicated that during 2020 and 2021, with the long-lasting closures. And still this year with the closures in Asia, it's very difficult to have a reference here for sales per square metre.

So while we normalise in France, Europe, and America, it's still not a normal year in this respect for Asia; but for sure this is a KPI that we follow closely and all our initiatives tend to make this KPI a progress since, of course, the source of the increasing profitability of our brands.

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

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

Marie-Line Fort (Société Générale): Yes, good evening. Thank you for taking my questions. I've got first question is about your OpEx evolution, which increased by 31-34%. Could you tell us –

Isabelle Guichot: Sorry, I didn't get that. What? I didn't get the –

Marie-Line Fort: The OpEx.

Isabelle Guichot: OpEx, okay.

Marie-Line Fort: Operating charges.

Isabelle Guichot: Yeah.

Marie-Line Fort: Which increased by 34% roughly. Are there some phasing effect on this increase, meaning that last year part of your stores were closed? So I suppose that you've got more OpEx naturally this year compared to last year. I just want to measure what kind of increase we should expect for second half?

My second question is about your purchases. So you mentioned that most of your purchase are in euro. Are you intending to decrease further for 2023, part of your purchase in dollar in order to protect from the rise in the dollar? Thank you very much.

Isabelle Guichot: I will hand Patricia those questions.

Patricia Huyghues Despointes: Yeah. First question about OpEx. As you mentioned, Marie-Line, the OpEx increase in percentage is a bit higher than the increase of sales, which comes from several impacts. The first one is that last year OpEx were sometimes in the western world quite relieved in Europe and the US from furlough or rent relief, that was diminishing the amount of OpEx. This year, we don't have that in the – neither in France or EMEA or America.

In Asia, we have some stores closed, as we mentioned, but it seems that there is no longer really a sharing of the constraints. And we do not have as many impacts of relief as we could have last year in Europe and America. So I think these are the main impacts, explaining the OpEx growth.

Second about the purchasing, be it in dollar or in other currencies. As we mentioned, we have increased our inventories, part of the increase is explained by dollar evolution, but it's only part of it. It's also an increase coming from our growth in volumes done in the first semester and expected in the second semester.

So we expect this phenomenon, which is surely linked to this semester to study live. We had registered two years of very strict control of our inventories in 2020 and 2021 in strong COVID context. Now returning to growth requires some accompanying efforts on our side to foster this growth, but we don't see any material impact on dollar or euro purchasing.

Mathilde Magnan: Thank you, Marie-Line.

Marie-Line Fort: And just to come back on one question. Do you expect OpEx to evolve in the same impact on the first half or shall we be less –

Patricia Huyghues Despointes: Sorry, Marie-Line, I had forgotten this one. Yes, you're right. No, second half of the year, I would say it will depend if China operates normally in stores or not. So I wish I could tell you in a very positive world with stores open and operations working as usual, this increase should normalise.

Mathilde Magnan: Thank you, Marie-Line. Jess, do we have any other questions?

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

Mathilde Magnan: Okay. I think we're done with the question. So thank you so much. Sorry, did we have another final one?

Isabelle Guichot: The final one.

Operator: Yes, we do have another question in the queue. This comes from the line of David Da Maia from CIC. Please go ahead.

David Da Maia (CIC): Yes. Hi, good evening. I was late, sorry. Just a question on your gross margin. So we've seen a strong improvement in H1. Can you just give out the kind of guidance for the whole year? Do you expect a strong improvement in gross margin in H2 as well related to this very strong discount rate discipline? Thank you.

Patricia Huyghues Despointes: Thank you, David. Regarding gross margin ratio, yes, we are quite happy about this level of 74.4%. It's not far – it's nearly exactly the same level as a full year 2019. So for us, it's quite a good level. You mentioned the discount rate decrease. It was particularly impressive in H1 this year and it was already in H2 last year.

The progress we can expect in the coming months or semesters, there can be some but which will be more marginal as we have reached a level, which is very, very satisfying. So we maybe optimise to align the channels, or together or to align the areas or the country at the same level, but it will be more marginal. So I think that this level that we experienced this semester, we consider it quite a good level, maybe a little bit optimisable with discount rates but most of the job is now done.

Mathilde Magnan: Thank you, David. Jess, I think we are done with the questions?

Operator: Yes. There are no further questions in the queue.

Mathilde Magnan: Okay. So thank you so much, everyone. We wish you a very nice evening and good holidays.

Isabelle Guichot: Thank you, everyone.

Patricia Huyghues Despointes: Thank you everyone.

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

[END OF TRANSCRIPT]