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SMCP Q3 2022 Results

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Operator: Hello, and welcome to the presentation of SMCP Third Quarter Sales Call. My name is Laura, and I will be your coordinator for today's event. Please note this call 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 call. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

I will now hand you over to your host, Amélie Dornis, Investor Relations Officer, to begin today's conference. Thank you.

Amélie Dornis: Thank you, Laura. Good morning, everyone. This is Amélie Dornis speaking, in charge of Investor Relations. Thanks for being with us today for the publication of SMCP's Q3 2022 sales. I'm here with our CEO, Isabelle Guichot, and our CFO, 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 Isabel and Patricia, I invite you to go through our usual disclaimer on page two. I think we can start now.

Isabelle Guichot: Thank you, Amélie. Good morning, everyone. Thank you all for joining us today. We will first have a look at the key figures of this quarterly and YTD sales and share an overview of main business initiatives. Then Patricia would deep dive in our performance by area and I will briefly conclude.

Let's move on to slide four. We are very happy about the figures at the end of September with the total year-to-date sales of €874 million, of which Q3 sales of €308 million, an all-time high record Q3 after a record level in H1. Year-to-date sales are up 17% on an organic basis, driven by like-for-like, and Q3 sales are up 9.4% organic worldwide and solid double-digit organic, excluding China, which is a very good level given the base of comparison, which is stronger than in H1.

In a nutshell, the key messages from this quarter's performance are the following. First, on a global basis, the strong performance resulting in a solid level of growth both versus last year and versus pre-pandemic level and quite homogeneous throughout the quarter and for all the brands.

The continuing momentum in America and EMEA, thanks to a high local demand and also confirmation of the return of tourism from all nationalities, excluding Mainland Chinese obviously. In APAC, the store closures and footfall drop linked to COVID restrictions continue in Mainland China, but the trend is improving compared to H1. For all brands, we continue to reduce our average discount price in season, minus 5 percentage points year-to-date versus last year, not very different from what we had achieved in H1, which means that Q3 registered another positive trend despite tougher comps.

Digital keep being strong, we focus on controlled and qualitative e-channels, our own websites and retail partners. Sales are growing mid-single digit year-to-date despite high basis comparison last year. And digital penetration remains high at 21%, normalising in context of strong reduction of digital off-price.

To conclude, SMCP posted a strong third quarter, enabling us to increase our market share in those markets.

Let's move on to page five quickly. You will find there the performance by region, mainly driven by America and Europe and the breakdown of year-to-date sales. No big change in the split by brand as all brands of the portfolio enjoyed a significant level of growth. By region, you see that the weight of America is progressing, reflecting a rebalancing of our geographies. Patricia will get back in more detail later in the presentation about these figures.

Page six. Let's have a look at our main initiatives and starting with CSR. We continue to progress on our Traceability strategy by increasing the number of SKUs included in the programmes that we developed with Fairly Made. Now, we have more than 100 SKUs per brand fully traceable for the Fall Winter Collection. We also continue to develop circular economy initiatives with the progressive rollout of second-hand at Sandro. And I'm happy to tell you that Maje will be unveiling its second-hand site in France today. Germany is now live and other countries will come in the coming months for Sandro as well as for other brands.

CSR is at the heart of our strategy. Let's move to page seven. SMCP also fully takes part in the efforts aiming at reducing energy consumption. We have implemented several measures in this respect, in particular in our French and European network in terms of the lighting and air conditioning restrictions. In terms of lighting, for example, we go beyond the requirements. All our European stores will have lighting starting at the opening of the stores and turned off depending on the store at store closing or no later anyway than 10pm.

This was about initiatives leads to the impact on environment, but more generally, we work on all aspects of CSR. This quarter several initiatives were launched in terms of inclusiveness. This is more and more visible in our campaign in our conception of products with, for instance, very nice body positive visuals at Sandro, like the one you see on the right hand of this chart.

But of course, this has to be reflected in product offer. In this respect, for example, Claudie Pierlot increases the size offer with more and more pieces available in size 44.

Let's move on to page eight with a bit of an update about brand network. This quarter has seen the opening of a major flagship for Sandro on the mythical Avenue des Champs-Élysées in Paris. That was just a few months ago, very well located near the most prestigious brands. This store displays men's and women's collection on three floors and is an introspection at the same time of Sandro's artistic vision, and of the brand's commitment to the environment with the use of new durable and certified materials.

Customer experience is at the heart of this unique store with exclusive products, gifts, omnichannel options and special attentions. More than a flagship, This space is designed to be an immersive experience in the brand. And we are extremely happy with the results so far.

Page nine. Some other store openings on the quarter in Europe. For example, Maje opened a store in London, Covent Garden, and Fursac continued its development both in France with opening for example in Marseille, as you can see here in the middle, and renovations, for example, at Galeries Lafayette with the enlarged and very impressive corner that was just unveiled mid-September.

Fursac also continues to grow outside France with a new country for the brand, which is Germany.

Now, moving on to page 10. We will conclude our panorama of EMEA with digital and retail partners, with a focus on Middle-East this quarter. Sandro and Maje launched their first digital

stores in the United Arab Emirates. Sandro also relocated and extended its flagship to Dubai Mall with a special event a few weeks ago, and some openings also in Saudi Arabia, as you can see on this slide.

Let's move on page 11 to Asia, with a very nice opening for all brands with examples shown in this slide in Beijing, for instance, Shanghai, and Taipei.

Look – let's have a look on page 12, our digital expansion in Asia. Sandro announced in July the launch of the brand's official Douyin account. Being one of the first international brands in accessible/agile luxury to open its official flagship on the current fastest growing e-commerce platform, which is Douyin.

This store brings a free-spirited world and unlocks the infinite possibility of modern looks. This space makes a statement on independence and avant-garde attitude towards life and creates a French fashion fairyland that features sophistication and a modern vibe.

In South-East Asia, we accelerate our digital development with Zalora, a major online marketplace specialised in fashion, luxury, beauty and lifestyle combining several areas of expertise: a brand story-telling approach, a strong fulfilment capability and a diversified and elevated brand environment. Singapore and Malaysia are now live for Maje on Zalora.

Page 13, then we present some key brand highlights from the quarter in terms of campaign and collaborations. Let's start with Sandro with the new campaign called Believe. A very strong statement inviting Sandro's customer to dare to follow their beliefs and hold on their conviction. But actually it's not just a campaign. It is also a gaming initiative and a charity commitment since the launch of this campaign was accompanied by a game offered to Sandro's community. Conceived with a charitable purpose and as a collective action, this "Believe - the game" represents the sense of community lying at the heart of Sandro. The points scored by all participants were converted by Sandro's fund "Together for the future" in a €100,000 donation to the organisation "Pencils of Promise" which aims at creating a better world through education. You can see on the left part of the chart, the game that was within the campaign.

Let's move on to page 14, the new campaign of Maje featuring Taylor Hill, the famous American model and social network superstar with more than 21 million followers on Instagram. The idea was to be a copycat of a street side paparazzi campaign to display brand's products in a very playful manner and follow Taylor Hill in her day-to-day activities in the street of Paris where she's been followed, filmed and interviewed by a paparazzi. An amused eye on our hectic days! And more seriously, this campaign that showcases our product in a very qualitative way and that resonates with a whole generation of customers.

Claudie Pierlot on page 15 for the fall winter collection the brand reaffirms its Parisian style and Paris becomes "Paris by Claudie". Essential, iconic pieces of the Claudie wardrobe turning to fashion accessories. This Parisian take is also reflected on store windows with drawing from the French Marion Poujade illustrating parisian symbols. Among the iconic pieces of Claudie Pierlot, its Anouck bag is turning 5. For this anniversary, this line is celebrated in the brand's stores and communication.

Now, last but not least, Fursac on page 16. Fursac resumed its collaborations celebrating French craftsmanship and savoir-faire with world renowned bicycle maker Alex Singer. Established since over 80 years, this company has dreamed up a new racing bike for Fursac with all modern technical features. The bicycle toured several Fursac stores according to the different stages of

the Tour de France throughout the month of July (Fursac Lille, Annecy, Passy, Richelieu). A limited edition T-shirt was also available in coordination with that collaboration.

Now after this panorama of initiatives, I will let Patricia get back to sales figure by area in more details. Back to you, Patricia.

Patricia Huyghues-Despointes: Thank you, Isabel, and good morning, everyone. So moving on to slide 18, you will find some key messages on our sales performance by region. After a strong H1, Europe as a whole, France and other EMEA countries, continue to benefit from a steady performance in Q3 and we are very pleased of the figures for our brands.

In France, we recorded close to €100 million sales this quarter, increasing by 13.5% organic versus Q3 21. And given the higher basis of comparison in Q3 last year, this is a very robust figure with a strong performance of all the brands, supported by both local customers and tourists from many nationalities, excluding Chinese.

With those figures, we continue to outperform the market. The reduction of discount rate by 8 points this year from all brands and channels demonstrates the desirability of our brands. The same comments are also valid for EMEA. In this region, Q3 performance was excellent at +20% organic for the quarter and reaching an impressive +51% like-for-like growth YTD, both brick-and-mortar and e-commerce are growing.

The decrease of average discount rate is significant and gained 5 points this year. And finally, we have a slight increase of the network in Q3 in EMEA.

Now let's move on to slide 19. In APAC, COVID restrictions continue. They are now mostly located in China. And though the results in a much lower number of stores closed, they keep on impacting traffic quite heavily. However, we can see that the trend is improving. The -24% organic decrease in H1 in Asia Pacific has been reduced by half and is now -12% in Q3, and this decrease is coming only from Greater China and fully explained by traffic drop. Other Asian countries such as Singapore, Malaysia, Korea and Australia has a pretty good performance.

In North America, sales continue to grow double-digit in Q3, which is a strong performance given the fact that Q3 21 was already pretty good. Actually, the trend versus last year in Q3 is not far from that of Q2. This is a very strong trend coming from like-for-like, because it is both in brick-and-mortar and in digital and with a lower discount rate, down by 8 points this year compared to 2021 on the YTD basis.

I will now hand over to Isabelle for a few words of conclusion.

Isabelle Guichot: Thank you, Patricia. Let's move on to the conclusion. We're proud of SMCP Q3 figures. They show how strong our business model is and how attractive our brands are. Achieving a quality organic growth of more than 9% compared to Q3 last year, which was really good, with no significant COVID impact is an excellent performance, all the more impressive in a macro context which has never been so uncertain and troubled.

It is also a great satisfaction to see that this performance was homogeneous, both in terms of brands, with other brands recording quite similar growth rates, and in terms of geographics excluding China, of course, where we open and get traffic we perform very well.

Now that being said, we are, of course, very cautious about the coming months. Be it on the geopolitical side and the social and economic side or regarding sanitary constraints, we see that

exogenous constraints continue to be very high. This leads us to be always more agile more resilient. Despite all these constraints, our performance during the nine first month of the year enables us to confirm our full year financial guidance, of course, provided no further deterioration happens.

I thank you for your attention. We'll be happy to share with you our full year figures at the beginning of March 2023. And now we will take our questions.

Questions and Answers

Amélie Denis: Thank you, Isabelle. Laura, I think we have one question.

Operator: Yes, thank you. Once again, as a reminder, ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. We'll now take our first question of Geoffroy of ODDO. Your line is open. Please go ahead.

Geoffroy Michalet (ODDO): Hello. Thank you for taking my questions. Two questions for me. Many brands in the apparel sectors have mentioned inventories as being a concern for Q3 and the coming quarters. What is your position on that? So I know that you don't report inventories at this level of the year.

And second question, if we could have some information on the sequencing of the Q3 month by month, if you see any trend and concerns about inflation? Thank you.

Patricia Huyghues-Despointes: Hello, Geoffroy. Thank you very much for your questions. On the first one about the inventories, as you precise – we don't give precise comments for quarterly sales presentation. And of course, we'll talk about that into more detail early months with our full year set of figures.

Now, that being said, there are, of course, some market impacts on inventories this year, some inflation, a significant sales growth, which leads us to fuel this trend, of course. Also high competition with suppliers and months of tension behind us in trades which have led all actors to stock maybe a little bit earlier to make sure that all inventories needed was secured.

Now, of course, we monitor this very closely in order to keep a healthy ratio of working cap over sales, while continuing to fuel the growth. We also continue to rely on our demand planning systems to allocate as best as we can the inventory in our geographies and to be as efficient as possible.

In terms of the sales per month and sequencing, we did not see material differences from one month to another.

Isabelle Guichot: It was very linear quarter.

Geoffroy Michalet: Thank you very much.

Amélie Denis: Thank you. Laura, do we have another question?

Operator: Yes, we do. We will move on to our next question from Kathryn of Jefferies. Your line is open. Please go ahead.

Kathryn Parker (Jefferies): Good morning, everyone. Thank you for taking my questions. So there are three from me. Firstly, on your very strong European performance, I was wondering if you could give a separation between the performance of the local cluster versus the impact from tourism, which also would have had a strong contribution?

And then my second question is on the reduction in the discount rate in the quarter of 2.5 percentage points. And I wondered if you think that the gross margin could continue to improve in H2 versus the prior year, or are there other headwinds which could offset the improvement in the discount rate?

And finally, on guidance. So you've obviously reaffirmed the guidance for this year. And one of the points of the guidance was that the EBIT margin adjusted would be in line with the prior year. But you did have a nice improvement in H1. And I wondered if that means that your expectations for the second half adjusted EBIT margin that it could be lower than the previous year, or are you just being mostly conservative with your guidance, given the macro picture? Thank you.

Isabelle Guichot: Okay, on your first question, Kathryn, European performance is a balance between all the local work that we've done over the past years and months on the local clientele, and all the revamping of the network. And over the years, the adjustment of the network, omni channel capabilities that we developed also, and it clearly pays off in the number.

And it's true that the cherry on the cake was also the tourism flow that we experienced during the summer in Europe (France, Italy and the UK). Definitely the strong dollar helped a lot. And we saw a lot of our clients from North America, from the Middle East, even from some Asian countries like Thailand, for instance. And that adds up to a very nice flow of traffic in our store and in a very good performance.

Patricia Huyghues-Despointes: About the reduction of discount rate. So as Isabelle mentioned, we gained 2.5 percentage points over the quarter. It's really a pretty good performance since the basis of comparison was already quite good. You know that we have initiated this very strong improvements in the reduction of discount rates in H2 last year. We had already gained more than 5 points last year.

So now the basis of comparison is getting tougher and tougher. So improvements will be, I would say, more marginal than in the past two halves, so H2 2021 and H1 2022. So in terms of gross margin, we'll comment of course more into detail during full year results. I would say that you remember that, in H1, we had a gross margin ratio of 74.4%. Probably H2 will not be very different from that, which basically is back to historical levels of SMCP, quite high and attainable, which is very satisfactory for us.

In terms of guidance, well, honestly, we are very proud today to confirm it. And we think it's already a good performance since we issued this guidance prior to many of the adverse impacts that occurred this year. So we look at the end of the year with vigilance of course. And we are focused on achieving this guidance that we are happy to confirm today.

Amélie Denis: Thank you. Laura, do we have another question?

Operator: Yes, we will move on to our next question from David of CIC. Your line is open. Please go ahead.

David Da Maia (CIC): Thank you. Good morning. Thank you for taking my questions. I have two. The first one on China. Can you give us an update what is the most recent feedback you have from your local team in this market? Do you think that the gradual improvement seen in Q3 can continue until the end of the year?

And the second question on the French market. It seems that you have clearly outperformed your market in Q3, which is clearly encouraging. Q3 was obviously boosted by touristic demand. Do you think you can still be above 2019 levels like in the previous quarter in Q4? Thank you.

Isabelle Guichot: Thank you, David, for your questions. I will answer to the first one. And maybe we'll talk a bit about the French market afterwards. China, it's a bit early to say. So far the trend in China is not very different from what we've seen in Q3. All eyes were on the Congress that just closed a few days ago. But obviously we don't see a major change in the political ending of the COVID restrictions or in this stimulus of the economy.

It's only to say what's going to be the impact on the traffic in stores. We need to add traffic in our stores to resume growth in China. That's very clear, but at the same time what we can say is that contrarily to some other brands in the industry, we have a very solid local team there that we liaise with on a daily basis that remains there, that is totally committed preparing all the important events that are 11/11, 12/12, both digital and in brick-and-mortar. So we're actively working on securing the Q4 in China, even though we know that traffic is not going back to normal levels tomorrow.

But really they are with our team and preparing in terms of a product offer inventory, and all assets are needed to really prepare the Q4 in China. That's basically what I can say. We still have a few store closure here and there. It's dependent, five there, 10 there, depending on days. But we now are agile and we lived with it and we manage it.

About trends in Q4. We still see in the streets of Paris and Italy, for instance, an important tourism flow. That is important. You know also that, as I mentioned for China in November, we have important promotional activities that usually drag a lot of traffic in stores. So the two coming months are going to be really important for our Q4 performance.

Amélie Denis: Thank you. Laura, we will take the last question.

Operator: Sure. We'll take our last question from Marie-Line of SG. Your line is open. Please go ahead.

Marie-Line Fort (Société Générale): Yes, good morning. I've got two questions from my side. Could you comment, among the other brands, the performance between Fursac and Claudie Pierlot? Do you see an improvement in Claudie Pierlot performance?

And the second questions is about costs. During the first half, you had some sharp increase in SG&A due to the under-absorptions in China. Do you see the same trend in H2, given the difficulty momentum in China ? Thank you.

Isabelle Guichot: I will take the first question. And I will hand it over to Patricia for the second one. We don't comment specifically with granularity on Fursac, versus Claudie Pierlot. But the only thing I could say is that the two brands are enjoying homogeneous growth. And you've probably seen the last campaign of Claudie Pierlot and the fact that we've been realigning the brand quite successfully so far.

Patricia Huyghues-Despointes: In terms of costs, I would say that the situation is relatively the same in H2 versus H1. So, of course, there are some inflation impacts in rents, in wages. We monitor this very closely. You know that we passed on some price increases which have been quite well received since we continued to decrease our discount rates. So we have the geography of our P&L between gross margin, discount and Opex, which is a little bit different from last year, but all in all, we are quite successful in investing on our price increases to mitigate inflation.

Amélie Denis: Thank you. So I think we are done with the question. So I wish you a nice day.

Isabelle Guichot: Thank you, everyone. Have a nice day.

Patricia Huyghues-Despointes: Thank you.

Operator: Thank you all. Ladies and gentlemen, this concludes today's call. Thank you for joining. Stay safe. You may now disconnect.