SMCP
2022 Annual Results

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SMCP - 2022 Annual Results

Operator: Hello, and welcome to the SMCP 2022 Annual Results. My name is Caroline, and I'll 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 mode. 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 questions. If you require assistance at any point, please press star zero, and you will be connected to an operator.

I will now hand over the call to your host, Amélie Dernis, Head of Investor Relations to begin today's conference. Thank you.

Amélie Dernis: Thank you. Good morning, everyone. This is Amélie Dernis, in charge of Investor Relations speaking. Thanks for being with us today for the publication of SMCP full year results.

I'm here with our CEO, Isabelle Guichot, and our CFO, Patricia Huyghues Despointes. As usual, we'll go through the presentation, and then we'll have the Q&A session. Apologies, we have an issue on our website, so I sent you the presentation by email.

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, Amélie. Good morning, everyone. Thank you all for joining us today to talk about 2022 with first the key highlights on results and business initiatives. Then Patricia will detail our performance and I will also take the opportunity of this presentation of our annuals to provide you with a refresh of our guidance for 2023 and for the mid-term.

Let's move to page four and five. As we've seen from the press release, we have strong results for '22, and we are very happy about our performance. It was an unusual year with twist and turns within the business but we managed to reach our guidance. This is a huge satisfaction for everyone in the company. If you remember all that happened after we announced the guidance one year ago with China under COVID restrictions all year long, inflation lasting longer than expected and geopolitical tensions.

This solid performance results from the desirability of the brands and the success of the collection, the full price strategy that we successfully delivered, the thorough execution of our investments and a good control of our costs.

I'm very proud of the job done by all the teams and I wanted to thank all of them, the 6,000 employees for their involvement. A record level of sales at €1.2 billion, up by 13% on an organic basis versus last year, led by like-for-like growth. The full-year performance is higher than pre-pandemic level for the first time since COVID crisis.

Obviously, the growth is driven by all the markets in Europe, Americas and Asia, excluding China. Excluding China, the Group achieved a strong double-digit of 23% versus last year. As mentioned, we successfully delivered the full price strategy. We have continued to reduce the average discount rate in season, minus 4 points versus last year and minus 9 points in two years.

After the end of the rationalisation plan, the network is back to growth in the last quarter with 13 net openings. As we will see later in the presentation, this is all about a reasonable and geographically balanced growth.

Moving on to page five. As you can see, we managed to deliver strong results and reached the guidance in very challenging macroeconomic context. The management gross margin improved versus last year to reach 74.4%. Adjusted EBIT represents 9.2% of sales and reaches €111 million, improving by 15% versus 2021.

Net profit exceeds €50 million, doubling versus last year. And the Group continued to improve the leverage ratio to reach a satisfactory level of 1.9 times EBITDA.

On page six, let's focus on sales. 2022 is a record year in terms of sales despite the strong constraints in China due to sanitary situation. Actually, each quarter was at the record level. Q4 reaches €332 million of sales and the second semester is up 7% versus last year. Our brands demonstrated a strong pricing power with another year of meaningful decrease of discount rate across all four quarters.

The growth rate versus last year making less significant in H2 than it was in H1, but it is only explained by a softer basis comparison in H1 from COVID lockdowns in Europe and Americas in ’21, as you can see from the red line on the graph. Finally, versus ’19, as you can see the growth is visible for each quarter.

Let's now move on to page seven. You will find the performance by region, driven by Europe and Americas with strong double-digit growth. Patricia will get back in more detail by region later in the presentation.

The split by region shows that the weight of America has reached 15%, plus 1.5 percentage point versus last year. No big change in the split by brand as all the brands are growing. Retail part continues to progress and exceeds 90% in line with our strategy of being a retail pure player.

Finally, digital penetration is strong and stabilises at 21%, slightly decreasing versus ’21 but more and more qualitative, strongly managed and controlled in the context of reduction of digital off price.

Moving on to page eight. Let me present a few brand initiatives implemented during Q4, starting with the first pillar of our strategy, brand desirability, with innovative and creative collaboration. Let's start with Sandro, who unveiled its Hot Stuff capsule, The Little Devil born in the US with a mischievous personality seeks to do good around them. This iconic comic book character is worked through patches on jackets, sweatshirts, cardigan and even on a cap. Hot Stuff is represented in its original 1960s version, and aesthetic that echoes the brand’s vintage universe.

Maje continues the campaign with Taylor Hill after the paparazzi campaign of spring summer collection now comes the “Party Time” capsule in the second half of the season. A Sharp and trendy selection of evening outfits for sleepless nights, meant to dress women in a femme fatale style with perfect outfits.

Let's focus on Claudie Pierlot with two highlights. The fifth anniversary of the iconic Anouck bag. Claudie Pierlot pays tribute to the line of iconic back in the stores and through its communication. Endearing, Charming, elegant, recognisable this bag has been carried out by thousands of women since its launch. To mark the presentation of the spring summer '23 collection, Claudie Pierlot, for the first time invited friends of the brand to L'Epi d'Or an iconic Parisian Brasserie, 100% Parisian establishment, where we welcome journalists, influencers and other opinion leaders in a warm and authentic setting for the day.

The concept was called Café Claudie that we rolled out later in the public space in Galeries Lafayette Haussmann in November and then to our new store, Rue Pierre Charron.

Finally, Fursac with a look back at the launch of the capsule collection designed by painter De Rrusie in the Parisian of Fursac Rue de Richelieu. This 12 piece collection is De Rrusie's first experiment in fashion and includes a black wool suite, printed T shirts or shirts in shape that remind the artist's creative universe.

Our collaboration with key opinion leaders is helping us emphasize the brand's desirability and visibility over the world. There are some examples of celebrity wearing our brands, Paris Hilton, Jean Dujardin, even Queen Letizia of Spain.

Moving on to page 11, you will see a selection of our key achievements in terms of sustainability. I would say that 2022 was really a step up in terms of sustainability for the whole Group. In Q4, we launched SMCP Retail Lab, a certification school for the sales advisor of tomorrow. It's offering an innovative and certifying omnichannel training course that will take place over a year in the form of a work study programme offered within our four brands. The programme has been designed around a tripartite organisation with SMCP, the famous Institut Français de la Mode, and EMA SUP, a renowned training school.

The first event started in school just a few days ago. We are very proud of this initiative; first because it addresses the topic of hiring and retaining talent in retail, which is a key issue for our industry, and also because our first group of students is an amazing mix of different profiles and personalities. But all having one common point: a desire to learn and the passion of fashion.

We continue our initiatives in circular economy, a key to create a more responsible fashion together. Maje launched its second-hand service and extended its rental service in the US. Sandro launched its rental service and extended its second-hand that was initially launched in France, now in Germany and in the US. So, we're really moving on in that direction.

Third point in this slide, we're proud that SMCP obtained a B score on the Carbon Disclosure Project questionnaire. With this rating, the Group was recognized for its transparency and performance on climate change. These results encourage us to continue and double down on our efforts to reduce the carbon footprint of our activities.

On traceability, I think we are really pioneered in that segment. We accelerate the implementation of the project by increasing the number of SKUs to reach 250 SKUs per brand that are fully traceable in Spring/Summer '23. You can scan the QR code on this page to see the information available for the client, and on the wonderful Maje dress.

Moving on to page 12 about brands network. This quarter has seen the opening of a very nice flagship for Sandro. As part of that strategy to fusion, previously a woman and men in one and unique flagship, and that's at the corner in 70 rue de Passy.

In the meantime, the Group continues further selective development in Europe. Fursac opened a corner in Madrid in the last quarter, adding Spain to the portfolio of new countries. We also have a new partner in Malta and the Czech Republic for Sandro and Maje.

Not to forget about China, China network continued its selective expansion to fuel future growth and seize market opportunities and adapt to a new Chinese reality. Here you can see some openings in Chengdu and Wuhan for Sandro and Maje.

To continue with key highlights, we have just integrated as of January 1st, our Australia and New Zealand partner to our network of direct retail. Formerly, those two countries were operated in a wholesale mode with a local partner. This market is around 40 points of sale is an opportunity for the Group to consolidate its presence in this area and capitalise on the rebound of Asia and Asian tourism at large.

I will now hand it over to Patricia to present our '22 figures in more detail.

Patricia Huyghues Despointes: Thank you, Isabelle. Good morning, everyone. So moving on to slide 16. Let's go in a bit more detail on our sales performance by region starting by France and the EMEA that we can comment all together with quite consistent trends.

It was an excellent year for all our brands, resulting in a full year at plus 23% in France, and plus 31% in the EMEA, and exceeding 2019 levels. Q4 was very strong with France at plus 9% and the EMEA at plus 16% despite high basis of comparison. Growth is mainly driven by like-for-like, and notably in brick and mortar in Paris with the locals and the tourists and in all our big European markets.

This is also supported by a strong console of discount rate with more than 5 points gaining trends in '22 and 3 points in EMEA. Digital is in line with '21 in France with more qualitative sales due to fewer discounted operations and growing in EMEA.

Finally, as already mentioned, store count is back to growth now with a Q4 at plus 13 POS in the total of those two regions.

On page 17, a contrasted situation in APAC and in America. Asia Pacific was a combination of two very different situations with, on the one hand China still under a lot of constraints in Q4, and we are no different from the market, and the other markets, which performed very well, for example, in Korea, a very big market for us, or in Singapore.

In China, the situation in Q4 looked like a mix of Q2 and Q3: Q4 started as Q3 had looked like (the network nearly all open, but still hit by very low traffic) and, after the lifting of sanitary constraints, continued with a trend more comparable to that of Q2 (with a big part of our network closed due to a high number of cases and very little traffic in the rest of the network). The beginning of the year shows an encouraging improvement in the traffic, and we are confident that the situation will normalize. This is also why we continue to invest in this country to seize the opportunities of recovery.

In America, the whole year was very successful, and it's quite explanatory in the graph on the right, where you can see a regular growth of the turnover quarter after quarter. America is now over 15% of the sales of the Group, gaining 1.5 points in the mix. Both brick and mortar and digital performed very well. The reduction of discount rate is quite massive, 5 points gained in '22 after the year '21, which was already quite impressive in this respect.

Now on page 18, let's focus on the P&L performance. One general remark I would do about the P&L comment. You will see several times that 2021 P&L figures have been restated. This is due to a change of method under IAS 38, linked to the accounting of SaaS projects, which means IT cloud projects, now accounted for in OPEx, whereas it was CAPEx before. We have started applying this methodology in 2022 and we have restated 2021 for a better comparability. The difference in bottom line is not material, but it changes a bit the view line by line.

I close this accounting parenthesis and go back to a more business comment. Gross margin ratio was quite homogeneous between H1 and H2, back to a level which we consider quite normative. We finish the year at 74.4%, improving versus ’21. As always, the variance of this ratio is the result of several pluses and minuses, but in a nutshell, the price increases that were passed were well accepted and enabled to offset the increase of the cost of goods. We can also underline that the continued decrease of discount rate in Europe and America supported the trend and enabled to adverse impact in China.

Let's go to OPEX now on page 19. The total weight of store costs and SG&A increases by 0.8 points, with many pluses and minuses. The main two minus being the impact of inflation on wages and rents, and an under-absorption of stores OPEX in China. But SG&A were globally better absorbed as you can see on the bottom, which partly compensates.

As you can see from the arrow on the graph, there was an analytical reclassification of traffic marketing, SEM, SEO, Retargeting from SG&A to store costs, pure reclassification.

In the slide 20, we analyse the evolution of profitability in terms of EBIT margin to show you that the underlying business has gained 0.8 points of profitability, coming mostly from gross margin and amplified by a better absorption of D&A, and that the impact offsetting this in only linked to IFRS 16, i.e., a technical accounting impact which is less favourable in 2022 than it was in 2021.

On the right, you can also see that H1/H2 operating margin at 8% in H1 and a bit more than 10% in H2.

I will go very quickly through the page 21, which is the evolution of net profit between ’21 and ’22. We have already talked about adjusted EBIT. Below that non-recurring is much lower in 2022. Financial results is also improving by €3 million from a lower average debt resulting in more controlled interest expenses. Income tax expenses radically increases, and the result is a net profit exceeding €50 million.

On page 22, on balance sheet and cash lines, starting with working capital. The absolute value of working cap is increasing to €178 million coming mostly from inventories. This increase of inventories comes from several factors: a context of expected growth, some inflation also, and a restocking in China given the sanitary situation in 2022. That being said, the quality of the inventory is good, composed of recent merchandise aimed at fostering growth.

And in percentage of the activity, the weight of working cap increases a bit versus ’21, which was particularly tight on inventories but remains completely consistent with historical levels. CAPEX were stable versus the previous years, and thus a bit better absorbed, and free cash flow ends at a generation of €34 million mostly concentrated in the second half of the year with an H2 at a satisfying level of €29 million free cash flow generated. Which leads us to resulting in a decrease of net financial debt on page 23, landing below €300 million and leading to a very sound leverage ratio of 1.9 times.

We have repaid in 2022 circa €70 million of debt without needing to draw on the revolving credit facility, which means that we continue to benefit from a very healthy liquidity headroom.

I will now hand over to Isabelle.

Isabelle Guichot: Thank you, Patricia. Let's move on now to go 2023 outlook. Our strong 2022 enables us to be confident for ’23. For full year ’23, SMCP anticipates a mid-to high-single-digit sales growth versus ’22 at constant exchange rate from both like-for-like and network expansion. This will be a bit different from what we experienced in the past few years, where the growth was merely only driven by like-for-like. ’23 will be back to a mix of both effects with our existing network expected to continue to perform, but also positive impact of openings as we have projects in the pipe.

Regarding profitability, the Group expects an adjusted EBIT margin (as a percentage of sales) in progress in ’23. The visibility on inflation continues to be quite limited, so we won't be more precise at that stage but we will try to be a bit more granular as the quarters go by.

Now, as mentioned in the introduction by Amélie, on top of the perspective for ’23, we would like also to take some time to talk about the midterm. It's been quite a while since we last did it. If you remember, it was in 2020, and so many things happened in the market in the meantime.

Actually, our strategic priorities have not really changed, we have just rephrase them and precised them a little bit.

As you can see them on the slide 27. The first one is a singularity and complementarity of our brand to foster desirability. The second one is to create a sustainable wardrobe. It was already in our pillars explained in 2020 but it is now in the top two. The third and fourth pillar are to develop new touchpoints for our clients and reinforce infrastructure capabilities.

Let's move to pillar number one: the singularity and complementarity of our brands. I will not explain the DNA of each brand. You know them and they haven’t changed. But I ensure on a daily basis, in all the actions that we take in terms of product, retail or communication that each brand totally expresses the specificity of their history and particularity.

Moving now to page 29, some examples of campaigns that illustrate the creative universe of each of our four brands.

Second pillar, and I will be a little bit more vocal about it. As you know, our ambition around sustainability is structured around the three pillars: Product, Planet and People. We already presented our ambition in the past in this respect. On this slide, you will see our updated targets which are even more ambitious than the previous that we had shared.

The first pillar, Product is about developing a desirable and responsible offer by increasing up to 75% in ’27, the share of sustainable materials and products in our collections; to continue to accelerate our development in circular economy with the geographical rollout of the initiative that we launched and extend it to the other brands; ensure the full traceability of our collection by reaching 100% of SKUs, fully traceable with a QR code by 2025. This full traceability is something that goes way beyond the legal requirements.

Second pillar is to preserve our planet and its natural resources by reducing by 20% our environmental footprint in ’27 compared to ’18. Here we talk about a reduction in absolute value and not in intensity. It's a bold move for a group which grows quite fast.

Rethink logistic flows to use less transportation and develop more responsible store concept based on seven criterias that I won't detail today but that we could forward to you.

The last one is people, to develop passionate entrepreneurs. Many initiatives could be mentioned, among which, I would like to underline once again the SMCP Retail Lab. And the topic of diversity and inclusiveness; on that topic we are currently building a worldwide strategy, with the outputs of a internal survey that we just conducted.

More generally about corporate and social responsibility, such an important pillar that we are considering the creation of a dedicated committee within the Board of Directors.

Moving on to the next slide, the client touchpoints evolve and widen our horizon. The lines between brick and mortar and digital are becoming more and more blurred with new omnichannel services developed. Client experience can start on the website and end in a store with the click and collect or e-reservation. Or start in the store with the Store to web or Ship from store services. Addressing customer needs becomes a puzzle of situations with more and more pieces added each year.

In parallel, we enhanced the experience in store with a tailored approached by region. Be more centered on Retail excellence and customer experience with clientelling, social platforms, live streaming and travel retail to create an ecosystem around our brands.

To reinforce infrastructure capabilities to support the business needs, that’s our fourth pillar. Restructural projects such as a new ERP retail that we're implementing as I speak with the first two pilots that have successfully been implemented in France this week, and that will deliver thus more functionalities in store and more omnichannel pieces. We also work on the future of core ERP that will interconnect more and more flows and stages of the life of a product and some projects that can appear quite technical, but which are crucial to an efficient supply chain such as the warehouse management system, for instance.

And also obviously, infrastructure including RFID project, new client billing tools, which are essential for the effectiveness of our business and our agility. In the meantime, we also don't forget to reinforce our infrastructure in terms of quantity and cybersecurity.

Let's move on now to the update of mid-term and key financial ambitions. So when it comes to figures, what can we anticipate in the coming years?

In terms of sales, moving on to page 34, I told you a few slides ago that for ’23 we anticipate a mid- to high-single-digit growth in ’23. This is actually the yearly target that we set until ’26, followed by a mid-single-digit growth afterwards.

In terms of drivers, it will come from a mix of like-for-like and expansion and will be supported by a growth for all our brands slightly higher obviously for the smaller brands, with a lower comparison basis like Claudie Pierlot and Fursac. We will also continue to grow the share of sales outside Europe with both Asia and America growing in the mix, and grow also the share of Men and Accessories.

As we mentioned before, on the next slide, after a phase of rationalisation of the network, we now re-enter a phase of network development. Reasonable and selective, of course, which could lead, let's say, to about 60 net openings in average per year, meaning 5,000 square meter of surface each year additional selling surface.

I am talking about selling surface because many people regularly ask me how many stores is the good target. I think it is no longer the only KPI. Total selling surface is more important for me than number of stores.

On the right, you will see an example of this for Maje in Paris where we used to have two stores quite close from one to each other in the same district and very small and not operationally efficient. We've closed both, reopened another one, more visible, bigger, where we can display the entire collection, provide all the omnichannel services and provide a much better customer-centric service.

We can also organise events for instance, and we have used this store as a pop-up for the launch of Maje rental services. This is a typical example on why square meter can matter more than the number of DOS.

Geographies now on page 36. I won't go through all the comments that you can see on this slide, but my main messages would be the following.

In Europe, we will continue to leverage the post COVID context with strong local customers and a progressive return of tourists, to focus on stock productivity. We will of course continue to optimize the quality of our network through relocations also ensuring we have flagships in all key fashion cities. We will capitalize on some areas with very strong momentum. You can see for example the new Sandro store recently opened at Dubai Mall, which is in the top ranks of our network.

In Asia Pacific, many markets will continue to be developed. China, of course, is the number one, focus on new channels including travel retail, you can see the example of Hainan at the bottom of this slide. But other markets are also strong and promising: Korea is a big market for us, Singapore and Malaysia are booming, and Australia is now internalized. And there are still some markets where we are not distributed that could be addressed going forward, either directly or through cross border online activities, Japan for instance.

Finally America, this is a market that we have significantly rationalized during COVID, not only by closing some stores but also by renegotiating some rents. There is clearly room to grow for our brands in some states where we don't have stores for the moment. You can see the example of Arizona, for instance, where we will open Sandro and Maje in ’23. A lot of white space in America with Claudie Pierlot and Fursac not yet in the market, and also in Latin America, where we could launch some partnerships.

I will hand it over to Patricia on the figures.

Patricia Huyghues Despointes: Thank you. Let's move to Topline. Profitability-wise, we intend to increase our EBIT margin, gaining on all three main lines with gross margin targeted to be above 75%, thanks to our pricing power, and our continuous efforts to optimize inventories.

Store costs from an expected continuous improvements of sales per square meter. And finally, SG&A. In this respect, we will continue our investments in two lines: marketing and innovation, but other SG&A will increase at a lower pace and should be better absorbed. All in all, we expect to be at least 12% of EBIT margin by 2026 and gain circa 0.5 points per year afterwards.

On page 38, a few words about how we will use the cash generated. In terms of CAPEX, we will continue to dedicate 4% to 5% of sales to CAPEX. In the network that we serve a more balanced development with more CAPEX allocated to America and inside Asia, a better balance between all the markets.

On page 39, after taking into account operational investments, so what will be our financial policies? We still have more than one year before the maturity of our term loan, so we have time, but we will work on a refinancing of our debts before that date. In terms of leverage ratio being at below times 2 at year-end 2022, we consider that we are already at a very sound level. So we won't guide on a level in the midterm, we will just aim at maintaining a sound financial structure.

Depending on the context and the opportunities, we could use our free cash flow in the future either to do a bit of M&A, focusing on segments that could add strategic value to our Group in terms of diversification of products or channels, and/or to start shareholder return.

Isabelle Guichot: Thank you, Patricia. Let's move on to the conclusion. We strongly believe that our performance, combined with our strategy, put us in a perfect position to seize the opportunities and continue to deliver profitable growth.

In terms of brand portfolio with the demonstrated success that has transformed SMCP into a unique actor of accessible luxury. In terms of distribution with a more and more balanced network that enables us to capture growth in good days and navigate crisis when they happen with agility.

In terms of CSR, we have powerful initiatives already in place and strong ambitions for the future to accelerate. In terms of structure with a unique platform that drives efficiency.

And finally, in terms of financial performance, marked by a best-in-class gross margin, and a disciplined expense management leading to a structurally cash generating business model.

Amélie Dernis: Thank you, Isabelle. I think we can take your questions now.

Questions and Answers

Operator: Sure, thank you. We will take the first question from line David Da Maia from CIC. The line is open now. Please go ahead.

David Da Maia (CIC): Good morning. Three questions for me, please. The first on China. And the second one on free cash flow. And the third one on shareholding. So the first one China, can you share a more precise figure of the performance in Q4, and give us an update on the current trend in this key market? Are you already recording a significant rebound in sales in the beginning of the year? That’s the first question. The second question on free cash flow: So, this has been quite low last year due to the sharp increase in inventories. So are you expecting a kind of normalisation this year on your working capital requirements? And should we expect any destocking, especially in China? And if so, is there any negative impact to anticipate on your gross margin? And the thrid one on shareholding. So the sales process for the pledged shares has been officially launched yesterday. Are you aware of any new developments that could have triggered this process? For example, a news from the unpledged shares that are still owned by your former majority shareholder.

Isabelle Guichot: We are in line with a trend described by our peers with the decrease between 20% and 30% versus ’21 in Greater China in Q4.

About current trading, we've seen improvement in January versus December ’22. It's a gradual improvement in the first month of ’23, still complicated in January with a lot of cases and the traffic a bit low. The traffic is improving in February and we expect a gradual consolidation of the situation in Q2. Your third question was difficult to hear. What we understand and I was trying to read between the lines, we acknowledged the fact that the bondholders have mentioned that they now put their stake for sale. And this is something that was bound to happen. So we now have a date and starting point for the process that we are happy to be to be following and encouraging to find a new stability in our shareholding situation. Then I could not hear the other part of your question.

David Da Maia: So I was mentioning if you have any news from the unpledged shares that are still owned by majority shareholder? Because maybe this has triggered something in this process, so I was wondering with the timing.

Patricia Huyghues Despointes: No, we have no additional information on the 16%. So, nothing to say about that. The only update that we have from a notice published by Glass with a link to judgment in Luxembourg. So from which we understand that the Luxembourg judge has ruled out in favour of the petition of the bondholders requesting the liquidation of the European TopSoho. But this is the only update that we have, nothing about the 16% which are unpledged.

And about your question on free cash flow, the 2023 should be better in terms of free cash flow. 2022 I would say, if you look at historical figures, it was not that bad. And it compared to 2021, which was unusually high with a conjunction of several positive factors. We had put inventories under huge constraints in periods of COVID, etc. So, we had maximised the cash generation in 2021.

It was even higher than the net profit. In 2022, it's a lower amount but it's not negligible. 2023 should be in between with a situation of inventories normalising, so it should be in between ’21 and ’22.

Operator: We will take the next question from line Kathryn Parker from Jefferies. The line is open now. Please go ahead.

Kathryn Parker: My first question is on the store network. So I wondered if the 60 directly operated store openings also applies to 2023. And I also wanted to check how many stores the Australia internalisation applies to? And whether this would be included within the 60? And how many remaining Sandro stores you plan to convert to the dual gender format?

But my second question is on the guidance for EBIT margin. So obviously, you're looking for the progression to the 12% EBIT margin. But do you think this will be kind of front-loaded in 2023, as you have the return of the China business and support there?

And then my final question is on the gross margin and getting back to the 75%. And I wondered what the main drivers of this are. Is it prices going up? Or do you think you can make further progress on your discount rate? Thank you.

Isabelle Guichot: I will answer on the first question about the store network. When we talk about 60 stores, it's DOS not POS. It is an average per year. In 2023, we will be around +40/50 DOS. Those figures are excluding Australia impact.

Australia was already counted in our number of points of sales in general, but now they will just move to DOS. But at the same time, don't forget also that we've closed our stores in Russia at the end of the February. So we will lose stores on that part. So that has an impact also on our number of stores.

But as I mentioned in my speech, I would say that more and more, we look at the number of square meters, which is for us really interesting metrics about it.

And then on your question what is the number of Sandro store that we still need to convert to unisex, this I have to get back to you with the precise number. But we've done already, I would say, a good part of the job.

Patricia Huyghues Despointes: Thank you, Isabelle. Kathryn, on your question about guidance. So for 2023, I think it has already been answered by Isabelle saying that we aim at improving the EBIT margin. To be honest with you, it's a bit early to say by how much. Of course, the logic is to have a consistent and harmonious growth, and that leads us year after year to this 12% that we aim at achieving by 2026.

In terms of gross margin, we target at or above 75%. We are already at 0.5 point from this target, which is not that far. You mentioned price and discounts. So yes, those will be the drivers a bit equally.

In terms of discounts, we are already at a very satisfactory level that we know we can gain a little bit on some markets in the US or in Asia, which has been quite constrained in 2022 and also in digital, which continues to improve in terms of gross margin.

Kathryn Parker: Okay. Thanks very much.

Operator: Thank you. We will take the next question from Gilles Crespel. The line is open now. Please go ahead.

Gilles Crespel: Thank you very much, Patricia, Isabelle for the outlook. And I had, if you allow me, two questions. One is on the Asia, the performance in the last quarter and in the previous quarters seems quite subdued a bit underperformance against market indicators. Obviously, we understand the sanitary situation, the closed stores. However, if we look at what indicators we follow on the Chinese market, we have seen a somewhat better performance, which would give SMCP some – almost 20% below what we look at. And I wondered if you could give us some colour on what might explain this performance.

And the second question I would have is you outlined the importance not only of the store number, but also of the store surface, which we fully concur. And I wondered, I don't think SMCP publishes its total store surface. So if you could give us some colour on the evolution over the last years, and what you see in terms of total store surface? Thank you very much.

Isabelle Guichot: I will take the first question about China. I understand your point that at the same time, it's very difficult to find a peer that has the same kind of activity, the same kind of exposure in China and the same kind of number of stores that we have. We have a business which is dominantly ready to wear, which is very different from accessories business when you don't need to go in store and try the pieces.

We also have a business where we have a very homogeneous price point and very homogeneous transaction level, which means that we're fully dependent on the traffic, where luxury actors have a reservoir of VIP clients that they can trigger to generate high ticket sales that are going to make a top line that looks fantastic.

So it's true that we have a very different cabin of business models that we need regular flows of traffic, confidence to get back into more, confidence to enter our store, try the pieces. So we need really a gradual normalisation of the traffic to come back to our business usual levels. So we're confident that it is going to happen. It's happening gradually.

But you cannot compare us with people that are selling accessories that can be – that don't need to be tried on, that can be – it can be easy click and collect and you can with high ticket transaction and make for us the lack of traffic in our store. So we have hard time really finding an exact peer that has the similar business model that we have, and that could be a benchmark in China.

So I think what we see and what we monitor is clearly the reality in China. We know well that to perform in China we have to come back to a very normalised level of traffic in department stores, in malls, in shopping centres. I don't know if it answers your question.

Gilles Crespel: It did. Thank you very much. Maybe if you can give us a little of colour on how the start of the year was and how the Chinese New Year performed with SMCP?

Isabelle Guichot: I did answer to David Maia previously that we see gradual improvement of the situation since the beginning of the year.

Patricia Huyghues Despointes: About the selling surfaces and your question about this topic. So as you can see on the slide 35, we gave some indication on total surfaces, so we will cross the threshold of a 100,000 square meter for our direct network in 2023. This is something we were not used to communicate in the past, but for the reasons explained by Isabelle, we will now probably more focus on this KPI.

In terms of the surface by store, it's different from one brand to another. The average varies from a 70/80 square meter to 150 for bigger Sandro stores and dual gender, so it really depends on the situation of the brands. You have some details on this topic in the URD each year, but this is the average figure. The average per store should not vary that much, maybe increase a little bit from typically the example you have on the right of some small stores that we closed to replace by a bigger one. But on the whole this average of 80 square meters to 150 should remain valid with a total of 100k square metre in 2023, which will increase by 5k per year.

Gilles Crespel: Thank you very much.

Operator: Thank you. We will take the next question from Marie-Line Fort from SG. The line is up now. Please go ahead.

Marie-Line Fort (Société Générale): Good morning. I hope my line is quite clear. I just would like to know, what is your CAPEX envelop for 2023. And my second question is about Europe. Do you see Europe normalisation now, or do you expect further improvements in 2023, thanks to the recovery in tourism.

Isabelle Guichot: I will take your second question and hand it over to Patricia on the CAPEX. Yes, we see normalisation in Europe. Yes, we expect a return of tourism, American tourism, intra-European tourism, and maybe later on at the end of the year or early ’24 Chinese tourism. So definitely, this is something that is contributing to the performance of Europe.

The only country that is still a little bit more impacted than the other might be the UK, where we have a contrasted situation due to the tax free regulation which is in place, but we're very confident on the European fulfilment and on the fact that we will be coming back to be a normalisation and at the same time, all the work that has been done on the local clientele is really paying off. So we're confident, very confident in Europe.

Patricia Huyghues Despointes: Regarding your question, Marie-Line on the CAPEX for 2023, we mentioned the guidance, so 4 to 5% of sales in the coming years on 2023 will be in line with that, probably in the top of this range. As you know, we are in a process of quite big investments in some important IT systems, just like Isabelle talked about in terms of ERP, etc. So I will say that, for 2023, it will be in the high range.

Amélie Dernis: Thank you, Patricia. So I think we are done with the question now. I wish you all a very nice day.

Isabelle Guichot: Thank you, everyone.

Patricia Huyghues Despointes: Thank you very much.

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

[END OF TRANSCRIPT]