SMCP 2023 H1 Results

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SMCP 2023 H1 Results Call

Operator: Good day and welcome to the SMCP 2023 H1 Results Call. Today's call is being recorded. Your lines will be on listen-only. However, you will have the opportunity to ask questions at the end. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you'll be connected to an operator.

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

Amelie Dernis: Thank you. Good evening everyone. This is Amelie Dernis, in charge of Investor Relations, speaking. Thanks for being with us today for the publication of SMCP actual 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. Before I hand it over to Isabelle and Patricia, I invite you to go through our usual disclaimers on page two. And I think we can start now.

Isabelle Guichot: Thank you Amelie. Good evening everyone. Thank you all for joining us today to talk about 2023 half year results with first, the key highlights on results and business initiatives, and then Patricia will detail our financial performance.

Let's move on to page four with key highlights of the semester. In the challenging environment, the group delivered a dynamic sales performance with a record level of revenue and a resilient profitability. Sales at the level of €610 million, up 8% on an organic basis and growing 9% at constant foreign exchange rate, driven both by like-for-like, plus 5%, and network expansion.

The network continued to grow in Q2 with 23 net opening of POS, reasonable and selective openings in key area to fuel future growth. The adjusted EBIT at €36 million represents 6% of net sales and is two points below H1 2022, impacted by inflation, off-season liquidation plan, Maje under-performance and higher weight of IT projects in H1. However, net profit remains positive at €14 million.

Page five, you can see the evolution of the first semester sales since 2019. H1 2023 level of sales reached an historic level with plus 8% organic growth, in line with the guidance after a double-digit growth two years in a row. Globally, at Group level, the discount rate in H1 is stable for the current season, with some progress in Asia and digital, which compensates an increase in North America. I've already said we're satisfied by the level we reached for in-season discounts. Digital sales grows slightly faster than the rest, resulting in a slight increase of digital sales shares.

Page six, now. The Group growth is driven by APAC with a 43% increase in Q2, resulting in a global H1 growth of 19%, and Europe with 5% in France and 9% in EMEA. After two years of double-digit growth, America is slightly decreasing in H1 in a very challenging and promotional environment, which is a good performance for our brands compared to market trends. Canada is explaining the major parts of the slight decrease, US being more resilient.

It is key also to highlight the double-digit growth of Sandro and also of our other brands, Claudie Pierlot and Fursac, in H1. The good performance of APAC leads to an increase of two points for this area in the mix of sales by brand. Other brands also make progress in the mix, obviously. Finally, the split retail wholesale remains quite stable at circa 90% retail and 10% wholesale.

Let's talk now about sustainability on page seven. I'm proud to announce some key achievements of the first semester. First on the product side, we increased from 50% in full year 2022 to 56% today, the share of sustainable materials and products in our collection. As a reminder, we communicated on the full traceability project in Q1 publication, with 33% of spring/summer 2023 fully traceable.

Then on the planet side, we continue to preserve our planet and its natural resources with the objective to have more responsible stores. For that, we have switched the stores of eight countries to green energy – France, Germany, Spain, UK and Italy, to name but a few, and more to come.

On people's side, we're very proud to announce that we've been certified by ChooseMyCompany as a Happy at Work place.

I will now present you the most recent key initiatives of our different brands to highlight all the work that we're doing on desirability. First Sandro on page eight. We invite the French artist and designer Louis Barthelemy to express his universe in a Capsule collection. Louis Barthelemy is an illustrator and textile designer, who likes to travel between Paris, Egypt and Morocco. He places at the heart of his practise, a deep commitment to the preservation and revival of traditional crafts. The love of Morocco and the intimate attachment with craftsmanship are the points of encounter with Evelyne Chetrite, who grew up in Morocco.

Let's move on to Maje. We highlighted the collaboration with key opinion leaders to emphasise the brand desirability. Mahe has a great exposure on social media over the world. For example, you can see in the middle of the slide, page nine, the very influential Sofia Richie wearing a dress and a bag from the Maje new collection.

Page 10. Let's move on to Claudie Pierlot for the spring/summer 2023 collection. Claudie Pierlot invites customers to a pool party, from photo shoot in the streets of Paris to the iconic store Rue Pierre Charron, and through a corner of La Samaritaine. The dress code is timeless white and shades of blue, summer in the city, cool and casual.

Fursac, page 11, made a very elegant first appearance at the red carpet in Cannes Festival, where the brand expressed its amazing offer of new evening wear. But Fursac also dresses celebrities in a more casual occasion that you can see on the right, and to name but a few Remi Malek, with a very nice jacket, casual jacket from Fursac. In Q2, Fursac presented the spring/summer collection at Paris Fashion Week. The items from the new collection are expressive, yet more accessible. It is the perfect embodiment of the Fursac philosophy, clothes are made to last and age gracefully before becoming the coverted vintage of future generations.

Page 12, the group continues its expansion with some very nice openings in the second quarter. Two examples of important openings in China, one in Nanjing Deji, which is one of the top malls in the city of China. And one in Shenzhen, which is, as you know, one of the most dynamic cities in the south of China. As you can see also on the slide, Fursac continues to open beautiful stores. Here we have example of the newly opened store of Toulouse.

We continue, of course, our expansion – page 13 – through partners in Turkey, Mexico. You can see the example of the new Maje store in Istinye Park in Istanbul which is already a big success. And also we continue to expand our digital presence. After Sandro and Maje, we now have Claudie Pierlot and Fursac live on Farfetch. This is a very important partner for the group, delivering worldwide, so we are very happy to have now our four brands offered on the Farfetch platform.

Thank you everyone for listening to me and now I let Patricia comment the financial results.

Patricia Huyghues Despointes: Thank you Isabelle. Good evening everyone. So let's start with a bit more granularity on the sales performance on slide 15. Starting with France, with sales of €204 million, plus 5% versus last year. The environment was quite difficult in Q2, especially on the social side, strikes impacting customers' morale and touristic flows, and calendar effects with notably the official sales period pushed by one week compared to last year.

That being said, many good points can be underlined in the performance of our brands for the first semester. By brand, with good figures for Sandro and other brands, positive in France, both in Q1 and Q2. By channel, with a strong progression of digital space, positive in Q1 and Q2, and in terms of like-for-like, positive both in brick and mortar and in digital. Openings of this semester took place mostly in Q2 with seven new stores.

EMEA, now with sales at €189 million, progressing 9% organic and 7% like-for-like. So once again, a very strong semester in this area, and except in the UK, most of the big markets performed really well. In retail, Spain, Germany, Italy, the coast of Portugal, grew double or strong double-digit during the semester. Regarding partner markets, Middle East is extremely strong in all the countries of the area. Openings also contributes with 15 additions in Q2.

On slide 16 in America, €80 million sales for the semester, slightly negative versus last year at minus 4% organic after two years in a row of outstanding performance, and €80 million is way higher than pre-COVID. Just like in Q1, the decrease in the first semester is mainly due to Canada. US sales are resilient, low single-digit negative versus last year. The market was more promotional than last year, but the performance of Sandro was pretty good, with a positive like-for-like in the US this semester.

In Asia, H1 posts a plus 19% organic growth with a much better trend versus last year in Q2 versus Q1, plus 3% in Q1 and plus 43% in Q2. Continental China is plus 53% organic versus last year in the second quarter. Other markets performed also very well. Some are listed on this slide, Hong Kong, Macau, Singapore, and Malaysia. Strong like-for-like performance was more than 13% for the region this semester. And finally, the performance is also sustained by the integration of Australia.

Now let's go to P&L on slide 17. Management gross margin came from 74% to 73% in H1. Retail gross margin in season remained quite stable for the current collection. In-season discount rates remain in line with last year for most of the brands except Maje, and for most of the areas except America. The total gross margin was affected by a bigger share of off-season with some liquidation operation in China related to 2022 collections, which were pretty hit, as you remember, by COVID restrictions, and also in Claudie Pierlot for the spring/summer 2022 collection. We'll see later in the presentation that those liquidations, which were a bit higher than anticipated, also helped us to decrease more than anticipated, the level of inventory.

As far as OPEX are concerned, we lose one point of absorption, mostly in staff cost and also in relation with IT investments. The weight of D&A remains quite stable all in all, EBIT margin comes from 8% in 2022 to 6% in 2023. We expect a very different profitability profile between

H1 and H2. First, our Maje SS collection underperformed versus last year and versus expectations, leading to an under-absorption of costs. We know that this should change very quickly as the reception of the fall/winter collection, which is more commercial, is very good in our stores. And second, some one-off effects, not significant one by one but not helping when you add them. For example, the "aide aux loyers" that had been received in H1 last year. And some phasing of marketing expenses.

On slide 18, I won't go into too much detail in the bridge between 2022 net income and 2023 net income, nothing really special to mention. We have already talked about EBIT. Nothing special in non-recurring nor in financial results. Slightly lower income tax expense leads us to €14 million revenue net, which is lower than in 2022, but remains very positive.

On slide 19, a few details on inventories and CAPEX. After a year 2022 of significant increase in inventories, the level goes down by 5% in H1, despite the increase of revenue of plus 8%. And this is something very important for us and we are happy about this change, and it was important to reverse the trend, especially in China. CAPEX amount of €24 million for our operating investments, i.e. 3.9% of sales, completely in line with our target and not very different from last year. So a good control on those two very important aspects.

Net debt, now on page 20. The amount of net financial debt remains quite stable at €306 million. We have negotiated an extension of our core financing for additional years, as you can see in the chart on the right. As you may remember, we have three main lines of financing. A term loan issued in 2019, the maturity of which was in May 2024. A revolving facility has also the same maturity. We have extended this total facility loan plus RCF by two additional years until 2026.

Second, a state guaranteed loan issued in 2020, June 2026 isn't changed. And third, another one issued in 2021, which was due to mature in 2024 has also been extended and has now a maturity in June 2027. Consequently, our liquidity significantly improved.

We are very happy about this extension which demonstrates the commitment and support of our pool of banks, which unanimously approved this extension, and we are fully secured in terms of liquidity for our future development in the coming years.

Moving on to slide 21, the first semester was marked by a challenging environment. Despite that, we are 100% focused on achieving our targets. In this respect, we have built a solid action plan to deliver the performance we expect and thus we expect more operating leverage in H2 than in H1. Two main pillars in this action plan, one about topline levers and one about securing profitability. In terms of topline, we anticipate a more homogeneous performance by brand. As already expressed in this presentation, all corrective measures have been taken at Maje to ensure the success of the fall winter collection and make the underperformance of spring summer nothing but a parenthesis in the history of this brand, which remains highly profitable (actually the most profitable of the Group).

We also count on our international footprint. It's obvious that the road is always bumpy in one region. It has been true over the past four years and navigating through several continents is extremely helpful to maximise sales and mitigate risk. H2 last year was marked by a very complex environment in Greater China, which is now normalising, and this will help both sales and profits for this area.

We will, of course, continue our full price strategy, and for example, we expect Claudie Pierlotto improve in this respect as the collections and performances get a strong attraction. Finally, most of the opening plan of the year is concentrated in H2, meaning that perimeter effects will be more visible in the second semester. This was for topline. Bottomline wise, we have already activated a savings plan on all discretionary costs. We also prioritize our investments both in marketing and IT. And finally, all the leadership team is fully focused on productivity, to better absorb our costs. In particular we work on optimizing staff allocation and planning in stores to increase productivity.

Isabelle Guichot: Thank you Patricia. I think this latest slide you presented is really important, and I can only confirm that we are completely concentrated on delivering performance. The good sales performance of H1 demonstrates once again the strength of our brands, and we managed to keep a resilient profitability despite a very challenging environment. Thanks to the action plan that you just saw, we strongly believe that we can achieve and confirm our 2023 ambitions. Our next update will be at the end of October for Q3 sales.

Before we move on to the Q&A, I just wanted to answer before you ask it, obviously the usual questions about shareholding. There is no update to share on this topic as of now, and the sale process initiated by the Receivers of GLAS in March is still in progress. You will understand that we cannot share or comment more about this topic.

I think now we can move to the Q&A.

Questions and Answers

Amelie Dernis: Thank you, Isabelle. Operator, I think we have one question.

Operator: Yes, thank you. As a reminder, if you would like to ask a question, please press star one on your telephone keypad. A voice prompt on the phone line will indicate when your line is open. Please state your name before posing your question.

Please go ahead.

Aya: Hello, it's Aya from Oddo BHF, I have two questions from my side. The first one is about the lower level of gross margin, how much of this is due to the destocking? And the second one is about the €6.1 million in the Others in the cash flow statements in page 11 under the investment expenses. So could you please give us some colour on that? Thank you.

Patricia Huyghues: So I can take care of both questions. So I will start with the second one, which is a very easy one to answer. It corresponds to the acquisition of the Australian and New Zealand network that we did on January 1st 2023, and you will see more details in the Interim financial report that will be issued very shortly. And on the first question on gross margin ratio, so the one point you can consider that half is linked to discount rate increase from liquidation of all collections, there is a little bit of mixed channel impact. We mentioned quite a stable ratio, retail, we'll say, but, there is a little bit of more wholesaler versus retailer. And the rest are various impacts, including the slightly higher rate of outlet sales on the semester.

Amelie Dernis: Thank you. I think we have another question.

Operator: Thank you. Yes, we do. Please go ahead.

Marie-Line Fort: Okay. Now, okay, so first question is about China, how things are going on the start of Q3. Do you see any improvement in terms of momentum because we know that consumption is probably not as high as expected?

The second question is about your OPEX that increased significantly in H1, plus 11%. Could you tell us what is it linked to, and also mention what the amount of the savings plans that you intend to put for the second half? Thanks.

Isabelle Guichot: I take on China, Marie-Line. What our views on H2 in China, as I see, it's going to be a bit like H1, very contrasted set of trends between Q3 and Q4. Remember that last year, Q4 was almost a frozen quarter in China. Not only in China, in China and Hong Kong, Macau, Taiwan with the big wave of COVID and stores being closed and traffic being almost zero. So it's true that definitely Q3 and Q4 will have a very different profile, and what we can see also and what we will clearly monitor in the coming weeks is that the recent announce of the government to start looking at what can be done to boost consumption in China. So we would be carefully watching each and any measures. I know that they really suffer with real estate, for instance, and we'll be extremely careful to look at that in Q3, and hoping that Q4, which mechanically is going to be much easier to do than last year, hoping that the whole curve will accelerate on the semester.

And just because it's important that we give some qualitative comments, we have a very strong action plan. I'm going again in China in September. We have a lot of marketing initiatives that are all targeted at driving top line; live streaming and communication expenses very – with LOI intention, digital merchandising actions to trigger desirability and excitement in store.

Patricia Huyghues: On the other questions regarding the OPEX, maybe I can answer on the weight of OPEX at this stage. You can consider, Marie-Line, that the increase is roughly equally spread between infrastructure investment and staff costs. In terms of staff costs, let's say that one-third is linked to inflation, high pay rises, just like everyone. A bit of the perimeter effect with the integration of Australia and the 40 stores, which is quite a lot of people, and the rest is investment in staff to support the sales growth. I would say that the weight of all this increases, also because we have this collection at Maje that underperformed in H1, but in terms of absolute value, the amount of OPEX is completely in line with our expectations.

Regarding the savings plan, let's say that we have secured between €5 million and €10 million to make sure that we achieve our target.

Marie-Line Fort: And the saving cost plan, is it staff? Is it brand support? What is it related on?

Patricia Huyghues: Well, you can see it on the presentation, so it's a mix of several actions. Of course, the discretionary actions, T&E, etc. It's also about being quite cautious on the cost of marketing. So not cancelling marketing, but making it less expensive in terms of the cost of each shooting, etc. Prioritising infrastructure projects, this is something that we can do and roll out at a slightly different pace. And in terms of staff productivity, yes, we have plans from savings and especially in terms of hiring.

Marie-Line Fort: And just one question, last question on Maje. What makes you such confident that H2 will be better than H1? I suspect that the first feedback from the winter collection are still small at this stage of the year.

Isabelle Guichot: What makes us confident is our expertise on the market and our fashion expertise. We know, and we can see, and we have also the feedback from our franchise partners in the Middle East, in Korea, and all those places that have seen the collection, that have been praising the collection balance and the commercial aspect of the collection. I would say that H1 was a kind of bump on the road, the perfect storm of misalignment of meeting position and some management issues that we deal with, as you know, at the end of last year, knowing somehow that we will have a tougher season and that the results and the way the company was managed was not to our standard. And so we now see that the fall/winter collection, as expected, is starting to deliver in stores and we know that the waves coming in store are going to be successful and we have no doubts about it.

Marie-Line Fort: Okay, many thanks.

Amelie Dernis: Thank you very much. I think we are done with the questions now, so I wish you a good evening.

Isabelle Guichot: And a good summer for those of you who are taking well-deserved summer break.

Amelie Dernis: Thank you.

Patricia Huyghues: Thank you.

Isabelle Guichot: Thank you.

Operator: That concludes today's event. Thank you for your participation. You may now disconnect.

[END OF TRANSCRIPT]