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SMCP Q3 2023 Results

Thursday, 26th October 2023

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Operator: Hello, and welcome to the SMCP 2023 quarter three revenue. 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'll have an 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'll be connected to an operator.

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

Amélie Dernis: Thank you. Good morning, everyone. Thanks for being with us today for the publication of SMCP Q3 2023 sales. I'm here with our CEO, Isabelle Guichot, and our CFO, Patricia Despointes. 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 2. And I think we can start now.

Isabelle Guichot: Thank you, Amélie. Good morning, everyone. Thank you all for joining us this morning. We'll have first a look at the key figures of this quarterly sales and share an overview of the main business initiatives, then I'll hand it over to Patricia, who will deep dive in our performance by area, and I will briefly conclude.

On page 4, you can see that our Q3 sales came in completely in line with the trading update that we released in September at the level of €295 million, a decrease by 1% at constant foreign exchange rate and 2% organic, explained by the consumption slowdown in Europe and America and the slow recovery of China's economy. To be noted also that we're fighting against very high comps, as Q3 last year was the highest level ever in the history of SMCP. At the end of September, year-to-date sales stand at €905 million, up 4% on an organic basis and growing 5% at constant exchange rate. Like-for-like growth is up 2%.

Here are the key messages from this quarter. First one is the trend is homogeneous across the brand. Two, the pursuit of full-price strategy with a stable discount rate despite high comps and a challenging environment is a key milestone of our strategy. Three, digital sales are progressing at circa the same pace as bricks and mortar. Digital share remains at satisfactory level, above 20%. And four, as we had announced, the network expansion this year is concentrated on the second semester, which materialised in Q3 with 46 net POS opening this quarter. To be noted that a significant part, more than half of it, are done with our retail partners during this trimester.

Moving on to page 5, you will find here the performance by region. Patricia will get back in more detail later in the presentation, but I just would like to comment a few highlights. By brand, as I mentioned, a homogeneous performance across all brands during the quarter, with full winter collections well received by our clients, who express positive feedbacks. By region, APAC gains 1 point versus last year, resulting from 2022 impacted by COVID restrictions, and symmetrically, America decreased by 1 point resulting from 2023 more challenging economic environment. By channel, no change, with 92% of our business coming from our retail network.

Moving now on page 6, let me present some of the key initiatives in terms of marketing and creative to foster our brand's desirability. Starting with Sandro, a very nice capsule collaboration with Wrangler, the denim brand. This capsule is intended to be versatile for both men and women. This fluidity of gender and style porosity is the very essence of Sandro, where the women and men's studio take pleasure in creating pieces that can be worn indifferently by all genders. For Wrangler and Sandro, it was essential to incorporate sustainable design choices in each piece. For example, the Tobacco jacket-trousers ensemble was developed using 50% recycled material, promoting a circular production process and limiting environmental impact.

Page 7, an important launch for the Group this quarter, the new Miss M bag launched by Maje. The bag received a very strong response from the clients that it really embodies the cool spirit of the brand and twists classic details of our famous M Bag, which is the main vocabulary of the brand in accessories. While being clearly identified as belonging to the same family as its bigger sister, the M Bag, it's also completely different and unique. The launch of this new line was supported by the full winter campaign showcasing Lila Moss in London, but there has also been a wide coverage all around the world for impressive outdoor visuals from Paris to New York and even Wuhan in China, and for windows animation in the main flagship of the brand, as you can see from the picture.

Page 8, initiatives from our other brands, Claudie Pierlot and Fursac. Claudie Pierlot continues to reaffirm its Parisian style. This fall, the brand launches a new Claudie Pierlot monogram, largely displayed in all the communication and products, such as, for example, the Cinemax series that you can see on the left side. Regarding Fursac, let's have a look at this very nice pop-up from Galeries Lafayette Haussmann, an exclusive display to showcase the brand's full winter collection that was inspired by the Alps region – a kind of a chalet ambience. The pop-up was designed to combine tradition and contemporary, blending the codes of chalets with the look of a penthouse.

Page 9, a few pictures as we usually feature of our collaboration with key opinion leaders. And this obviously is an ongoing work that we do to foster the brand's desirability and visibility over the world. You can see impressive names in this list, for example, Chiara Ferragni at Sandro, or Rami Malek at Fursac, just to name a few of them.

Page 10. A few highlights of our development strategy. You can see interesting openings for Fursac in Madrid, on Claudio Coello street and one in Berlin in Kudamm avenue. This is part of the strategy for the brand to develop both key flagships in key cities mixed with a network of corner opening in department stores.

America, as we mentioned earlier, our thought to expand the network in the US starts to bear fruit, so we can see a nice opening of Sandro in Georgetown, Washington. And we have other openings planned for Q4 in America.

Q3 in APAC, two examples of some openings. We mentioned earlier the importance of the Hainan region, and so you can see our store in Sandro and Maje in Sanya Haitang Bay in Hainan. And also, another opening in the Londoner in Macau, which is benefiting from the reopening of the city.

Page 13, a few pictures of our openings with partners, as I mentioned that in Q3, there were very important contributors to the network opening. Three important countries, we just opened

in Egypt with a partner. We opened an important store, Galataport for Maje in Turkey and Vietnam.

I'll hand it over to Patricia now to do a deep dive on the different regions and channels.

Patricia Huyghues Despointes: Thank you, Isabelle. Good morning, everyone. So, with more detail by region on page 15.

After a quite robust performance in H1, Europe as a whole, both France and EMEA countries, saw a slight decrease in Q3. The period was impacted by low traffic due to general inflation, so mechanical consumption slowed down and low tourist flows, especially in France, the UK and Italy. In France, however, the Group outperformed key market indicators such as IFM or Banque de France, consolidating its competitive position. Digital sales signed a positive like-for-like growth. In EMEA, to be noted that, in the Middle East, the trend remained positive. The network expands with 20 net openings in Q3 in Egypt, as Isabelle mentioned, in the country, Turkey via partners, adding to some other openings in key and near retail markets in bricks and mortar and digital.

On page 16, in America, after a very strong year 2022, third quarter sales went down by minus 7%, with a contrasted performance by country. While the activity in Canada was still heavily impacted by the retail market environment and the lack of tourism, sales in the US were more resilient despite a complex economic context. The Group, with positive results in key cities such as Miami and Houston, is well positioned compared to market trends. The network regained growth momentum with nine net openings.

In APAC, Q3 is up plus 1% on an organic basis and plus 5% at constant FX. In the context of slow China economic recovery, sales in greater China are slightly positive, while the trend in other markets such as Singapore and Malaysia was more positive. The region benefited also from the integration of Australia and New Zealand in our own retail network, which explains the difference between organic and constant FX. The network continues to extend with 17 openings, particularly in South Korea, greater China and Vietnam.

On page 17, in this tough environment, we have launched a savings plan that we explained during the latest publication at the end of July. This savings plan bears its fruits in line with expectations. It will trigger some savings in both quarters of H2, with more or less similar impacts in Q3 and Q4, depending on the lines and depending on the seasonality of the different natures of expenses. This action plan enables us to contain more than in H1 the evolution of the operating expenses.

Moving on to page 18. Aside from OPEX control, the top focus is paid to managing inventories and preserving cash. Regarding inventories, we have launched an action plan based on several initiatives that you can see on this slide. Spring/summer '24 purchases are sized to match exact needs but avoid unnecessary buffers, and we continue to liquidate, including Chinese collections impacted by COVID constraints last year.

Considering this action plan, we are confident we can maintain the value of inventories at year-end 2023 compared to year-end 2022. The direct consequences on cash and the debt, as you know, cash generation for us is always higher in H2 than in H1. As a reminder also, we have secured our liquidity until 2026 and 2027 for our main sources of financing, term loans, state

guarantee loans and revolving credit facility. We estimate that year-end debt should land somewhere between year-end 2022 and June 2023 levels, so at circa €300 million.

I leave it to Isabelle to conclude.

Isabelle Guichot: Thank you, Patricia. I can only confirm that the management team at SMCP is completely focused on delivering performance, controlling costs, managing inventories and preserving cash. Thanks to the solid progress on the action plan and the consolidation of these actions in Q4, we confirm the adjusted targets. I thank you for your attention. We'll be happy to share with you our full-year figures at the end of February 2024. And now we'll take on your questions.

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

Questions and Answers

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. 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): Hi. Good morning. Thank you for taking my question. The first one on current trading. So you have mentioned a consumption slowdown in Western markets during Q3. I was wondering if this demand weakening has continued in, I would say, most recent weeks or whether you are starting to see some sign of, I don't know, stabilisation or even improvement in October with the – with the rollout of your fall winter collections. Actually, the same one on China. You are talking about a slow and weak economic recovery there, but we also heard about improving trends recently in this market, so have you seen any signs of improvement in store traffic more recently?

And the second one on your action plan. So you expect an increasing impact in Q4. Can you tell us which lever, which pillar, will have the biggest impact in Q4? Will it be cost savings or scope effect?

And related to that, how many – how many DOS do you plan to open in Q4, just to understand the scope effect to anticipate in Q4? Thank you.

Isabelle Guichot: Thank you. I will take the first question on current trading. To be honest, the beginning of October was in line with September trend, but the second half of the month shows some good signs, especially in Europe, so that's all we can say at that time.

We know also that for China, we're just at the eve of important commercial operation and activities like 11.11, so it's too early to say. And at the same time, Q4 in China, compared to last year, will benefit from a very low comparables because the network started to be really impacted by COVID. So we'll see, but that's all we can say at that time of the year. On the action plan, I will leave it to Patricia.

Patricia Huyghues Despointes: Yeah. So on the action plan, as a reminder, and maybe we can get back to slide 17, four main families of the initiative. The first one is on discretionary costs, the T&E, events, consulting etc; the second one is on marketing; third one is on IT infrastructure project; and the fourth is about staff productivity.

As we mentioned on slide 17, we are basically at the middle of it, so it's in line with expectations. It just depends on the seasonality of expenses. For example, marketing is heavier traditionally in Q4 than in Q3, so the effect will be more visible in Q4 than in Q3.

For the rest, everything is progressing as expected. We reorganised the timeline of our projects. We also tried to scope a bit differently or roll out a bit differently. In terms of productivity, we did some progress in stores, also in HQ. And you were also mentioning the scope effect; for sure, it will be more visible in Q4 than in Q3. And the difference, actually, between like-for-like and organic is not so big in Q3. It's one point something percent. Why? Because most of the openings of the quarter – there were many openings, but most of them were in September, explaining a relatively low impact on perimeter, and the rest being on wholesale, so not impacting monthly sales.

Isabelle Guichot: And you have the last question of the number of the openings in Q4. It's always a bit of a rush, and a lot of them are in December, so then again it won't have a huge impact on Q4, but it's between 12 and 15 openings.

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

Operator: We will take the next question from Adam Gildea from Bank of America. The line is open now. Please go ahead.

Adam Gilles: Hi, thank you so much for taking my question. I just had one. On trading in Europe, you called out UK, Italy and France with specific trends, but I was wondering if you could provide any colour on trends in Germany, just because there's been some reports from other companies recently that maybe the consumer is under particular pressure in Germany and the overall DAC region. Thanks.

Isabelle Guichot: No, we don't see any major difference between Europe and Germany. Don't forget also that Germany for us is, a physical retail country, but also an important digital country. And there again we don't see any major impact.

Adam Gilles: Okay, thank you.

Isabelle Guichot: And it's not a major market for us in Europe. It's a contributing market, but it's not our number-one market in Europe, obviously.

Adam Gilles: Thanks.

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. We will take the next question from line Geoffroy Michalet from ODDO. The line is open now. Please go ahead.

Geoffroy Michalet (ODDO): Hello. Thank you for taking the questions. Just a remark on slide 18, coming back to inventories, you are speaking in amount of inventories in absolute euro, not in days of inventories, just to clarify.

Isabelle Guichot: Yeah, in value, yes.

Geoffroy Michalet: In value. And so you also had a comment on net debt at year-end. So what does it imply in terms of margin, and let's say promotional activities for Q4? What's your view on that?

Patricia Huyghues Despointes: I think for the time being, we have planned a similar level of activity, promotion and commercial pressure as last year, especially in Europe, because China was very specific. So we haven't planned to end our promotional pressure in the Q4 to protect the margin and also because we don't need it.

Geoffroy Michalet: Okay. Last question. Still no update from the shareholder situation, by any chance?

Isabelle Guichot: No, the answer is no.

Geoffroy Michalet: Just to clarify and to make it clear on the call that I think the market believes it is penalising the stock.

Isabelle Guichot: We fully agree.

Geoffroy Michalet: Okay, that was it for me. Thank you.

Operator: Thank you. There is no further question. Thank you.

Isabelle Guichot: Thank you. We wish you a good day.

Patricia Huyghues Despointes: Thank you.

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

[END OF TRANSCRIPT]