SMCP 2023 Full Year Results

Wednesday, 28th February 2024

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

SMCP – 2023 Full Year Results

Melissa: Hello and welcome to the SMCP 2023 Full Year Results. My name is Melissa and I will be your coordinator for today's event. Please note this conference is being recorded and for the duration of the call your lines will be in a listen-only mode, however you will have the opportunity to ask questions at the end of the presentation, 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'll now turn the call over to Amelie Demis, Head of Investor Relations. Please go ahead.

Amelie Demis: Thank you. Good evening everyone. This is Amelie Demis, in charge of Investor Relations speaking. Thanks for being with us today for the publication of SMCP Full Year Results, I am 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 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 Amelie. Good evening everyone. Thank you all for joining us today to talk about the 2023 full year results, with first the key highlights on results and then business initiatives. Then I will hand it over to Patricia and she will detail our performance. And finally I will go through our main initiatives of 2024 and coming years.

Moving onto page 4 of the presentation, you can see that our full year sales came out at €1,231 million, an increase by 4% at constant exchange rate and 3% organic. Second semester is nearly stable despite a challenging environment with conception slowdown and a persistent inflation. Here are the key messages from full year sales. Sandro and the other brands performed well with a mid-single digit growth and Maje remains stable versus last year. The pursuit of full price strategy, which is a key pillar of the group strategy, with a nearly stable discount rate in season despite good comps and a challenging environment. Our digital share remains at a satisfactory level at 22% and gains one point versus '22. The network increased by 47 net openings which means the result of the openings minus closing in key areas.

Page five now, you will find here the performance by region. Patricia will get into more granular detail during the presentation. Just a few highlights, by region APAC gains two points versus last year, resulting from '22 impacted by COVID restrictions, and symmetrically, America and France decreased by 1% each from '23, with more challenging economic environment. By brand, a homogenous performance between Sandro and the other brands during the year, Maje slightly below, especially in H1, while H2 trend was similar between brands. By channel, no change, you know that we have mainly dominantly retail business. 92% of our business is coming from our retail network and 8% coming from wholesale, mainly from partners and a few outside players.

Page 6 now, a few highlights on our Q4 sales at the level of 326 million that remains stable at constant exchange rate versus '22, decrease of 1% organic, explained by a consumption slowdown in Europe and particularly in France. And the quarter in China, less dynamic than expected. US are more resilient and remain positive at constant foreign exchange rate. The trend is homogeneous across Sandro and Maje, other brands are more exposed to France. The network is growing by 26 point of sales net openings during the quarter.

Page 7 now, some key P&L figures now. Management gross margin, which remains at a satisfactory level with a strong improvement in the second semester and there was a common goal for the different brands to achieve this. Profitability has been impacted by the complex environment. The adjusted EBIT lands at 6.5% of sales as we released and anticipated during our information at the end of January. Financial strength has been maintained with a good cash flow generation in the second semester, enabling us to improve net debt compared to year end ’22.

Page 8, we are proud to share with you some 2023 major achievement in terms of sustainability. We strongly improved our Sustanalytics rating. As a reminder, Sustainalytics is a leading independent ESG firm involving corporate governance research, ratings and analytics. They analyse more than 50,000 companies with a grade of 13.9. We came out in the top 10% in terms of rating and we gained 20 ranks versus ’22.

Now let me guide you on our three pillars that you’re all aware of, in terms of products, 59% of our winter collection have been made with more sustainable materials and products. I remind everyone that it means that they’ve been produced with more than 50% of their components being more sustainable, which is a strong improvement versus Fall/Winter’22 which was at 45%. As far as planet is concerned, we are really proud to have obtained for our carbon footprint strategy, two very good results from external agencies. First, we strongly improve our CDP scoring rating from B, in ’22, to A- in ’23. On top of that, our strategy for carbon trajectory has been validated by SBTI, the Science Based Target Initiative, meaning that our carbon strategy is in line with the *Accord de Paris* and is based on strong, reliable assumptions.

Finally, regarding people, we standardised and deployed our diversity and inclusion strategy across the world, for example under this new strategy, parenting policy is now aligned in all the countries where we operate on the most favourable countries. Clearly these ’23 achievements in CSR mark a milestone for SMCP. The three external ratings and recognitions we have received from CDP, Sustainalytics and SBTi are very strong and put us in the upper category of the not so many companies having achieved very good progress recently.

Now let’s move onto brand desirability, which as you know is the key pillar of our group strategy, and we’re constantly reinforcing that brand desirability. For Sandro and Maje, a few examples of creative windows, For Sandro, Harrods windows takeover, Maje celebrating its 25th anniversary with a dedicated capsule and specially designed windows to celebrate that.

If I move on page 10, a very nice shooting for a master after-ski capsule for Claudie Pierlot, and for Fursac more and more key opinions leaders wearing the brand, Ami Malek on the left side, for instance.

Our key openings in Q4, as I mentioned earlier, the Group expands the network in key areas. We opened stores in America with two stores in Meatpacking district, in Manhattan, and we also opened in a very beautiful Californian mall, in Topanga. We opened two stores.

For APAC, which means in this case Malaysia and Australia that we took over last year. Some nice openings with two new stores in Malaysia, and two in Australia, in Melbourne. APAC region has been one of the best performing regions for the group in ’23.

We kept on also expanding in new countries with partners, a few examples that you can see on the slide. We opened new stores in Saudi Arabia, in Riyadh Park where we’re already present in the country but we expanded our presence. In Mexico, where we're already present, and we opened some new corners at Mexico Palacio de Hierro. And in Malta, where we kept on opening stores. So it's a good performance, it's always a very interesting activity for us to keep opening those partners, and as you know, and I will speak about it later, we have a major milestone with the opening of India in 2024.

Finally, we continue to expand our digital presence with both our own website and through marketplaces. As regards our own channel, Sandro second hand is now live in Germany, Spain and Netherlands, combining digital presence and circular economic development. Fursac accelerates digital European expansion on its own website, now serving customers outside of France, and on marketplace we have added three brands of our portfolios, Sandro, Maje and Claudie Pierlot on Zalando in Spain and Italy and our El Corte Ingles partner, we're operating on marketplace on their website, and we've also joined 24S on the marketplace with our brand.

As I just mentioned earlier, future opportunities, and among them, a few words on our development that we announced at the end of '23, with exciting opportunity entering India, thanks to a partnership between SMCP and the number one Indian distributor, Reliance Brand Limited. India is a remarkable country, not only in terms of culture and population or size, but more specifically for its vibrant relationship with garments, colour, materials, craftmanship, style and fashion at large. It's a very educated market and we are very optimistic and confident in our potential. Our collaboration with Reliance would be crucial to enter this market and we have a profound respect for the expertise and excellence in the execution. Openings are scheduled in H2, in Mumbai and New Delhi for Sandro and Maje and we are drawing the plans as we speak.

I will now let Patricia present you 2023 figures in more detail, before coming back for conclusion and action plan for the coming years.

Patricia Huyghues Despointes: Thank you Isabelle. Good evening everyone, so let's start with the sales on slide 17. With France first, with sales of €413 million, flat versus previous year with a high basis of comparison in 2022. The second semester has been impacted by a slowdown in traffic, especially in December. We can however underline some positive features of our brands for '23, by brand, good figures for Sandro and the other brands, positive in France in full year, and by channel with a solid progression of digital sales with a high-single digit growth. 12 openings during the year, mostly in digital, on our website or via market places as Isabelle just explained earlier.

EMEA now with a sales at 389 million, progressing +3% organic driven by like for like network explaining half of the growth. Which is quite a resilient annual performance made up of a strong first semester and the second semester more impacted by persistent inflation, leading to traffic slowing down. Several EMEA markets performed well, like Germany, Spain, the Middle East, while the year was tougher in the UK and in Switzerland with lower touristic flows. The network remains nearly stable with one net addition, the openings being offset by the final closure of the point of sales of the former partner in Russia.

In America on page 18, sales of €173 million for the year are slightly negative versus previous year at minus 3% organic. But it's important to remind that this follows an outstanding performance of two years in a row. US sales are quite resilient and show a sequential improvement in the second semester, with a Q3 performance above H1, and Q4 better trend than Q3. This quarter having a positive organic growth both in bricks and mortar and in digital. To be noted also that Canada is back to growth in Q4. Network increased by 17 net additions, with nice openings in strategic spots such as California.

In Asia, sales stood at €255 million for the year, +13% organic with nearly all markets above 2022. Growth was mainly driven by Mainland China, with a double-digit growth from 2022, from a quite low basis of comparison, but we have also good performance in Hong Kong, Macau, Singapore and Malaysia. All South-East Asia benefits from good local dynamism but also touristic flows within the region. And as a reminder, Asia Pacific benefits also in 2023 from the integration in retail of the Australia and New Zealand partners. In Asia, the network increased by 17 POS and you saw some in the previous slide.

Now let's move onto the P&L on slide 19 and we'll start with management gross margin which is at 73.8% of sales in 2023. The main point we want to underline on this topic is the improvement in the second half of the year from 73.1% in H1 to 74.5% in H2. So in line with previous years in the second half, supported by continuing strict discount policy. The in-season discount rate has remained at a very sound level despite very competitive and promotional environment, it remains under 25% in season.

Now let's talk about operating expenses on slide 20. You had seen the figures in H1 and you remember that our goal, considering the complexity of the environment, was at that time to limit as much as possible the growth of Opex in the second half. This is what we did, and the graphs that you can see on this slide show a strong deceleration of the trend in H2 compared to H1 both in store costs and in SG&A. The increase in store cost, despite inflation of rent and staff cost was divided by two in the second half, and as far as SG&A are concerned, we managed to maintain them stable in H2, versus a plus 9% in H1, thanks to a savings action plan that went much further than what we had initially planned.

On slide 21, this led to an adjusted EBIT margin improvement in H2 by one point, 7% in H2 and 6.5% in total year.

Slide 22, as far as the net result is concerned, the evolution versus '22 mostly derives from the decrease of EBIT, of course. It's accentuated by some higher interest expenses. This is partially compensated by a lower income tax charge. We have also some impairment entries, in the context of inflation in the P&L of the stores, and also in the context of higher interest rates that reduce the value of some intangible assets. So we booked €14 million more impairment compared to 2022, as you can see in the graph. In net-net, the net result is 11 million but stands at 37 million before those non-cash, non-recurring bookings.

On page 23, some figures about balance sheet and cash. First inventories which have significantly increased in 2022 were reduced by 10 millions in 2023, this helps us control the variance of working capital which does not significantly change compared to previous year, whereas the increase in '22 versus '21 had been much more significant. As far as Capex are concerned, the level of investment is in line with usual percentage over sales at 4.5% of revenue. Free cash flow generation, after a first semester with a -€9million consumption of cash is positive in H2, with a generation of 23 millions.

This cash generation enables us to reduce our net financial debt on page 24, by 20 millions in the second semester, landing at 286 millions with a strong improvement of the trend in the second semester. On the right, you can see the usual split by line of financing. No big difference compared to what we shared during the half year publication, as all the reimbursement of debt are performed in H1, and as we had already shared the debt extension, with all big lines; state guaranteed loan and some loan and RCF now ending in ’26 or ’27. The ratio net debt divided by EBITDA is just above 2.5 at 2.54 something, this slight deviation has of course been shared and authorised by our lenders. We will pay the highest attention to the level of net financial debt throughout 2024, and this point is a very important one in our action plan for ’24 and onwards, that Isabelle will now present.

Isabelle Guichot: Thank you, Patricia. Let’s move on now to the action plan. After a tough ’23, SMCP will accelerate its mid-term action plan to foster growth and protect profitability with the four key priorities. Our action plan is articulated as follows. We can follow it on slide 26. First action would be to reignite growth and gain market shares, because you can keep on gaining market share even in a tough environment. To mitigate risk across geographies, improve its efficiency, which means not only cutting our spending but spending more efficiently and having expenses that are more contributing to the business improvement, and protect profit, cash and liquidity. I will present you the three first priorities, and Patricia will explain the last one.

Moving onto slide 27, first in challenging market conditions with a lot of uncertainty, SMCP has many assets to reignite growth and gain market shares. On brand desirability and constant brand relevance and positioning, the priority is to voice out louder and clearer the specificity of our brands to foster their desirability by

- sharpening further brand singularity and personality and make it resonate to relevant audiences.
- Adapting product architecture and merchandising, which may increase the share of carry over and updated products to reduce fashion risks and leverage novelty to animate collections, and also reinforce accessories and men contribution.
- Developing qualitative marketing investments with more local diffusion by localizing content creation, while ensuring global consistent message, increase share of diffusion and focus on digital support, obviously.

Second point would be to maximise our product offer by becoming an accessory destination, especially in Europe, would be a key growth driver for the group, mainly for Sandro, Maje and Claudie Pierlot, obviously. For example, we boosted bag, belt, footwear and small leather goods launches and marketing support. The recent launch of the new Miss M bag at Maje is the perfect example of the winning formula. We also want to boost the men business by several initiatives, for example leverage gender fluidity in collections and communication, expand internationally and adapt the network to take into account local specificities, for example, being on the right floors of the mall for men activities.

We will continue to enrich our product offer with new categories, like for example Sandro teams have a true passion for lifestyle and home products and they are contemplating new product addition and new interesting launches.

As regards the boost of digital opportunities, we are determined to take advantage of the global re-platforming we are rolling out as I speak on our digital site, and which will start in March. This will enable us to fully exploit Omni channel capabilities and mobile function. We also keep on working on international development such as cross border, which will help us to serve underpenetrated countries by shipping from adjacent countries. We will also continue to address local specificities like in China for example, which has it's own digital ecosystem and take advantage of livestreaming capabilities on Chinese platforms, such as Douyin and The Little Red Book, and that's only one of the examples of the many options that we have in the digital Chinese ecosystem.

We will finish the slide with initiatives to enrich our business model. In the same time we will enrich our business model and seize new retail opportunities offered by retail partners and travel retail operators for example in European and American airports. And of course, we will continue to integrate organically sustainability in our business model with the acceleration of traceable certified responsible collection and also circular business acceleration that we've already started with most of our brands.

Moving onto slide 28, geography now. The main message on this slide is about rebalancing. We have to seize opportunities everywhere and avoid depending too much on some markets. We have had strong focus on China over the past few years, with an extensive development in more than 40 cities, and while we continue to believe in the huge potential of this market, we also have the capacity to rebalance our geographical footprint by shifting focus to other potential development areas that I mentioned before, while enhancing partner centric expansion in key markets. After more than 10 years of fast-paced expansion in China with more than 200 stores, this is now the time to optimize our exposure on this market, in order to adapt to new market conditions. After a complete review, we have decided to resize the network by closing the less profitable point of sales, circa 30 in '24, approximately 15% of the network, to focus on the most profitable stores. Of course we will keep the capability to rebound in China, when the market will be back to solid growth rates.

Globally, we have the agility to rethink our presence and to challenge the business model in areas where the cost of operations and the complexity are not in line with the expected profitability. In this case we have three options, better mutualized between brands, switch to partner operation or close, as we do in China. In parallel, we are accelerating opportunities in geographies with obvious potential, via local partners for example, in Middle East, India, as I mentioned before, or South America that we're exploring as I speak.

We will also address new countries with cross border and digital, as I already mentioned, in order to test the market before going into either a partner format or a direct format. And as far as travel retail is concerned, we are also working on a roll out in Europe, after a good proof of concept in some airports in Asia.

Third priority is about efficiency, as you can understand in this slide this is not all about cutting, it's also about optimising, allocating or reallocating and challenging. It will encompass several aspects, Processes first. We are already a group with a lot of mutualization in many functions, and this has been part of the success story of SMCP. We will go a step further and we're currently looking into how we can accelerate in this respect. This will of course have a favourable impact on the cost side, and we are currently conducting a very thorough review of all categories of spending to investigate and negotiate all possible improvements of conditions with our partners. Second inventories, we have developed tools and policy in the past to enhance inventory management and we have made a lot of progress, but we know that we can go deeper in the efficiency by optimising the number and productivity of references, and by relying even more on planning, forecasting and better clustering in our very important network. Third Capex. We will challenge our design, project roadmap and conduct of projects, be it in stores or in information systems to save money, of course, and gain in agility thanks to fine-tuning of the dimension and scope of our projects.

Patricia Huyghues-Despointes: All the previously mentioned actions are focused on an essential goal which is to protect profit and cash generation, as indicated on slide 30. We will continue the strict monitoring of Opex that we have initiated some months ago. Now our goal is to ensure that year over year we manage to maintain such savings, not only by one-off cuts, but also by making sure that we identify the correct way of working, enabling us to secure that savings will last.

We will give priority to the most productive investments, especially in stores, for example in 2024, we will over weigh in our store project the opening in corners in department stores, which are at the same time lighter in terms of Capex and also safer in terms of variable costs. We have also engaged an important reflection on how we can adapt the business model of smaller brands to accelerate their growth and profitability. In the way we work, our goal is to keep supporting them, thanks to our central teams, but being more agile, for example, in their participation or not, to group transversal projects. In the way we develop them, we will adapt the business model and they will benefit from the initiatives we described earlier, on retail and non-retail development, with partners, but also with a bit of wholesale. Ultimately this will serve cash generation with a goal to continue to reduce the net debt of the group.

Isabelle Guichot: Thank you Patricia, I confirm that the underlying principle is to secure the return to continuous path of profitable growth. I know that you will ask for figures about this plan but it's a major plan with a lot of topics with organisational impact and network adjustment, meaning that we are still in the process of quantifying the various options that we have identified, and will be more granular during Q1 publication at the end of April. As far as '24 is concerned, what we can see so far is that the market conditions are quite similar to Q4 '23, meaning that '24 will once again be a year of two different stories, with still a tough H1 and an expected improvement in H2. We lack visibility on economic perspective, so we won't give a guidance of '24. I thank you for your attention and now we will take your questions.

Questions and Answers

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

Operator: Thank you. As a reminder, if you'd like to ask a question on today's call, please press star one on your telephone keypad to register your question. If you'd like to withdraw your question for any reason, you may press star two. You will be advised when to ask your question.

Our first question is from Marie-Line Fort for Société Générale, please go ahead.

Marie (SG): Yes, good evening, thank you for taking my questions. First question is about India. What kind of contribution can we expect from your new partnership? And how is the GLA structure? Will you consolidate turnover?

The second one is about the write-off, you passed on 2023 full year earnings, I suspect that it corresponds to the closure of China stores. Will you need to anticipate another impact for 2024? I would like to know also how was the sales period? Because I know that January was pretty difficult, at least in France and probably in Europe. Do you expect some impact on your growth margin?

And last questions, just in terms of figures for our model, is it possible to get the personal expenses for 2023? Thank you very much.

Isabelle Guichot: India, I mean it's not going to be extremely material in '24, we are going to open four stores, and we're really excited about the development and the way it's going to roll out. We have other openings that are planned for end of '24, and annually '25, so we think it's going to be only the beginning of the story, and we think that it can be among, you know, the three or four important partners that we have with Korea and the Middle East. So we have a strong expectation about India. The other point I could answer is about the sales, usually, you know, Q1 has a strong weight of end of season sales of winter, which means that beginning of the year remains in the same trend as December. As you mentioned, January has been a complicated month, you wanted to know the impact on the growth margin. What we can say is that what we see in February is a good take of our spring/summer collections which are now more rebalancing the full winter end of season sales in our stores, so it's a very encouraging sign. And for the time being we see, since mid-February, a good takeover, I would say, of the spring/summer collection, that's all we can say at this stage.

Patricia Huyghues Despointes: I will take the two other points. Good evening Marie-Line. Regarding the write-off, I guess you are talking about the non-recurring expenses, it's not about the closures in China, actually. Regarding the closures in China, we will close the stores at the end of the leases, and it's quite easy in China because the leases are short, so the stores are amortised, so the cost is very limited. What you have below the EBIT, is more the application of the testing of the stores in general, and culminate an intangible asset of the stores and this results from the usual exercise that we do each year, for example in 2022, I think we had 12 millions depreciation on that. It's a bit higher in '23, mostly from the fact that the increase of interest rates, the WACC is also higher, hence the value of the assets is lower. So, to talk about 2024 is really difficult, it will depend on the evolution of interest rates, which are, it's not me speaking, but just reading the press, expected to stabilise or even decrease a little bit, so let's hope so. And for staff expenses, you have the total on page 37, it's plus seven point something percent, compared to full year '22, and it benefited, just like the rest of the Opex, of a pace of growth which was more contained in H2 compared to H1.

Amélie Dernis: Thank you. Operator, do we have another question?

Operator: We do. Our next question is from Gilles Crespel. Please go ahead.

Gilles Crespel: Good evening, Patricia, good evening, Isabelle. Thank you for the presentation, thank you for taking my question. I will have two if I may. Could you give us an idea about the ecommerce side, what was the total sales amount for the year, or for Q4? Just to have an idea, you used to communicate on that.

And second point is, on the Opex for 2023. There was a strong impact, strong increase of those Opex, and you mentioned it was mitigated in the second half of the year, could you give us an idea how rents versus staff evolved? What was the largest impact? And what will be the actions taken to mitigate further growth in 2024 on rent or staff costs?

Patricia Huyghues Despointes: Maybe I can just answer on the figures, and I will let Isabelle elaborate more. As we mentioned, digital is 22% of sales, so it's about 258 millions. There's no reason why it should change in certain quarter versus others, just it can evolve depending on the timing of some ecommerce operations or commercial operations, but no significant difference between quarters. And in terms of rent and staff, the average increase on staff costs per head was something, let's say, depending on functions from 3 to 4% in 2023. And the rent, it depends on where you consider it, but to give you an example which is a big one, in France, there is a public index which was +6% in 2023, impacting the rents on our free-standing stores. And it's about the same steam in Europe.

Isabelle Guichot: Mitigation of those expenses is obviously the plan that I mentioned earlier which is about spending better, readjusting the network and finding some way of reducing the network where we have some dilutive effect, and definitely also finding a way to operate better and using the strength of the group to be able to mutualize and optimize some costs. And the review obviously of all our contracts that Patricia mentioned earlier, the ability to really review all our contracts from logistics to traffic building, you know, all the contracts or store construction. So, it's that ongoing work that we're doing to be able to mitigate those effects.

Amélie Dernis: Thank you. I think we are done now with the questions so I wish you a very nice evening.

[END OF TRANSCRIPT]