

Transcription
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Presentation

Operator

Ladies and gentlemen, welcome to the Fnac Darty 2019 Third Quarter Revenues Presentation. I would like now to hand over to Jean-Brieuc Le Tinier, Group CFO. Sir, please go ahead.

Jean-Brieuc Le Tinier

Thank you. Good afternoon to you all. Thank you for attending our third quarter sales conference call. As usual, our press release is now available both in French and in English on our corporate website. Stéphanie Constand, Head of Financing and Investor Relations, is here with me. We'll start the call with some comments on the third quarter revenue and then we'll be happy to answer your questions.

Let me highlight the main achievements of the quarter. Firstly, Fnac Darty delivered growth in Q3 of plus 1.7% like-for-like with international operations recording solid performance despite a challenging competitive environment. France-Switzerland grew by 0.4% on a like-for-like basis.

Secondly, our e-commerce platforms delivered double-digit growth. Digital revenue represents 19% of Group sales, up compared to the same period last year. The third key achievement in Q3 was the rapid integration of Nature & Découvertes with the first shop-in-shop opening in France in September and a dynamic roadmap with four additional openings before year-end, including the first shop-in-shop in Spain.

Fourthly, excluding Nature & Découvertes, the gross margin rate declined in this quarter with the same magnitude as the first half of 2019. Finally, in October, we launched a new key project called Darty Max, which is a warranty subscription programme. This offering will transform the business model of the services category.

Now let me go into more detail regarding Group performance in Q3. First, at Group level, sales showed good momentum, up plus 3.7% on a reported basis and plus 1.7% on a like-for-like basis in an environment, which remains highly competitive. The France-Switzerland segment was up plus 0.4% on a like-for-like basis despite the continued impact of yellow vest protests in September and the lacklustre consumption environment in France. Internationally, like-for-like sales are increasing in Iberia by plus 1.1% and Benelux showed a strong like-for-like growth of plus 9.5%.

In Q3, the beginning of the quarter showed good growth while end of August and September were more mixed. Regarding performance by category, white goods grew, thanks to the good momentum in large domestic appliances and gains in market share while small domestic appliances suffered from a intense competitive environment due to a low point in the innovation cycle. Consumer electronics recorded growth from the Sound, IT and television categories where the Group gained market share.

Telephony was impacted by less positive product launch phasing and the photography segments continued to suffer from a lacklustre trend. Editorial products reported solid growth driven by good dynamic in the Book category. Diversification categories posted a strong growth driven by Urban Mobility, Toys & Games, as well as continued development of the Kitchen business. The consolidation of part of Nature & Découvertes revenue also contributed to the growth.

Finally, services are experiencing a slow down this quarter due to the ramp up of new telephone insurance offerings and the standardisation of commissions as announced in the first half of the year. In parallel, the Group is currently working on the launch of a new service offering, Darty Max, as I mentioned in my introduction.

If we now look at the continued development of our omni-channel capabilities, the Group's online sales performed well with double-digit growth. Online sales represent 19% of total Group sales in Q3 versus a bit less than 18% during the same period last year. Marketplaces continued to deliver sustained growth at Group level in line with the trend posted in H1. In France, both Darty and Fnac reported strong growth. All international marketplaces also grew sharply. In keeping with international focus, the Group maintains a steady pace of expansion this quarter with 14 store openings, six Darty stores, three Fnac Connect and one traditional Fnac in France, all franchises, and the four Fnac store in Iberia, three integrated and one in Franchise.

The Group target is around 60 store openings for '19. The Group will still continue to expand its offering of cross-banner products and services this quarter with two Fnac stores of Fnac Darty space and four Darty stores opening Fnac spaces, bringing the total number of stores to 90 at the end of September.

Finally, the kitchen offering showed a good dynamic and its development continued with the opening of six point of sales this quarter and bringing the total number of point of sales to more than 150 at the end of September '19.

Now let me comment on our sales performance region-by-region. As already mentioned, France-Switzerland reported growth of plus 0.4% on a like-for-like basis despite the continued impact of the yellow vest protests in September and the gloomy consumption environment in France, as reflected in the Banque de France figures released on Tuesday this week. The performance of white goods was contrasted during the quarter, with good growth from large domestic appliances, while small domestic appliances continued to be impacted by competitive pressure related to a low point in innovation cycle.

Consumer electronics benefitted from the good momentum of Sound, IT and television, while telephony was impacted by less positive products launched phasing and lack of available suppliers' inventories. Editorial products reported growth, thanks to the better dynamic of the Book category, which benefitted from a very good autumn literary season and the success of the extension of the click&collect delivery offer to editorial products.

Finally, diversification categories continued to grow strongly driven by growth in the Urban Mobility, Toys & Games and the kitchen segment, as well as the integration of Nature & Découvertes. Services reported a slow down due to ramp up of new telephony insurance offers and the standardisation of commissions already highlighted during the first half of the year.

Moving on to the Iberian Peninsula. In Q3, sales were up 1.1% on a like-for-like basis in the region, thanks to good commercial execution. Portugal posted strong growth sales, mainly driven by services and editorial products. Spain posted a double-digit growth in online sales and good performance in Sound, IT and Telephony despite a still lacklustre macroeconomic environment and a tough competitive landscape.

In Benelux, sales were up plus 9.5% on a like-for-like basis. This strong growth reflects the success of the integration of Wehkamp in Netherlands. In Belgium, sales showed resilience, thanks to the performance of domestic appliances despite increased competition. The Netherlands reported strong growth driven in particular by the success of the partnership with Wehkamp and the continued strong performance of online sales.

Let's move on now to the trend in the gross margin rate. Excluding Nature & Découvertes, which accounting consolidation is still in progress, the gross margin rate declined in the third quarter of '19 by the same magnitude as the first half of the year. This decline is still due to a technical dilutive effect of perimeter impact franchises in Wehkamp, a negative product and mix effect – product and service mix effect, particularly related to small domestic appliances and the stronger slowdown in telephone insurance sales. This effect is expected to continue in the fourth quarter. The accounting consolidation of Nature & Découvertes will be completed in the fourth quarter and should have an accretive impact on the gross margin rate and a dilutive impact on the operating expenses ratio compared to the Group's revenue.

Let me now focus on the strategic update we've made since the beginning of the year. As I mentioned in the introduction, the Group finalised the acquisition of Nature & Découvertes, a leader in the omni-channel distribution of natural products and wellness. A new governance has been put in place and the integration have already started with the opening of the first shop-in-shop at Fnac La Rochelle in France in September, and four other shop-in-shops are expected to open by the end of the year with a first one in Spain.

This acquisition enables the Group to accelerate its diversification, strengthening its product offering around the segment of well-being and committed natural product consumption. The partnership with Wehkamp is reflected in strong continued strong momentum of Netherlands growth during the quarter. The Group continued the integration of WeFix with the opening of six new point of sales during the quarter bringing a total number to 85 at the end of September. The Group continued its investments to develop the brand's capacities, strengthening its commitment to increase product sustainability. For instance, a new screen-protection technology named XForce developed by WeFix was rolled out within the Fnac store network and 66 stores already offer this new technology as at the end of September.

Moreover, the Group, through its subsidiary, France Billet, acquired BilletReduc.com and its operational consolidation is now complete. We are also currently finalising the acquisition of minority stake in France Billet by CTS Eventim Group.

Finally, in October, the Group launched a new project called Darty Max, which is a new warranty subscription programme for large domestic appliances. This new offer is in line with the Group's commitment to the circular economy and we transformed the business model of the services category, in particular by increasing the share of recurring revenue. It will also reinforce the Fnac Darty's clients' ecosystem and loyalty.

To conclude, as at the end of September, Fnac Darty is growing at plus 2.3% like-for-like which is higher than its markets. In Q4, we will stay focused on the operational excellence, which should help us to outperform the market and tap into the growth opportunity related to Black Friday and the Christmas period. Cost control will remain the top priority. We also continue the expansion process and should open around 60 stores, mainly under franchise. In parallel, the technical consolidation effect of recent acquisitions and the Wehkamp partnership should add around plus €200 million of sales in '19 compared to '18.

2019 is a year of key investments and strategic initiatives. This will enable the Group to accelerate its transformation and achieve its medium-term objective of higher growth and market and operating margin between 4.5% and 5%.

Thank you very much for your attention. Stéphanie and I are now ready to answer any question you may have.

Question and Answer

Operator

Thank you. Ladies and gentlemen, if you wish to ask a question, please dial 01 on your telephone keypad. We have a first question from Nicolas Langlet from Exane. Sir, please go ahead.

Jean-Brieuc Le Tinier

Nicolas?

Operator

One second please. We have just little technical issue.

Jean-Brieuc Le Tinier

Okay, so.

Operator

Just a second. My apologies.

Jean-Brieuc Le Tinier

That's okay. Or if it doesn't open for Nicolas, maybe you take another one. Nicolas will come back later.

Nicolas Langlet

Can you hear me?

Jean-Brieuc Le Tinier

Yes, please go ahead.

Stéphanie Constand

Yeah.

Nicolas Langlet

Okay. Hello, good afternoon, everyone. Three question for me. The first one on Nature & Découvertes. Can you help us estimate the contribution on [inaudible] in terms of H2?

Jean-Brieuc Le Tinier

Sorry, Nicolas, we lost you at contribution.

Nicolas Langlet

Contribution in terms of sales from Nature & Découvertes in Q4 and the adjusted EBIT contribution we should expect for H2 related to Nature & Découvertes? Second question on the gross margin. Do you expect some improvement if we exclude Nature & Découvertes in Q4, or is it better to extrapolate the trend we have seen in the nine months? And finally, on the Black Friday, you had a pretty strong performance last year. Given what you will offer your promotion, etc., do you think you can at least replicate what you did last year or actually the comparison will be too challenging?

Jean-Brieuc Le Tinier

Okay, thanks. So first question about Nature & Découvertes. I won't just say that the total parameter impact will be plus €200 million for the full year for the perimeter impact. The majority of that will come from Nature & Découvertes. I won't commit on total figures, Nicolas. I don't know the sales. I won't guide – I won't give you any hints about the adjusted EBIT because we don't know yet the seasonality. We are currently in the process of integration of Nature & Découvertes and there are accounting systems, so we know the sales. But the breakdown of margin cost during the H1, H2 and the full year is still under progress. So I can't give you any hint about it. Sorry for that.

Nicolas Langlet

Okay.

Jean-Brieuc Le Tinier

Gross margin. Well, actually what you can expect for the second, the Q4 let's say, is that we'll still have a negative impact from the franchise business and we comprise well, a bit less because we started to integrate Wehkamp in October last year. We had a ramp-up effect from this year so we do better sales. We'll probably do better sales in Q4 than – '19 than they were in Q4 '18 so there will still be a negative impact due to both.

Services probably will be down in terms of – will drive the margin down for Q4, both because we have a commission, the impact which we mentioned during the first half and there is no reason why you should change for the end of the year. And secondly because yet to punctuate our EBITDA on Q2[?], stronger than we expected. And this – probably you can expect it to be down for the – in Q4 as well.

Regarding the mix, just also keep in mind that the weight of services is lower in Q4 than in the other quarters due to Black Friday and the promotion period, during which we attach less services than the normal quarter. And the mix effect on the margin will depend on the sales of December and Black Friday. So I can't – that's going to be your job to estimate it.

Nicolas Langlet

Okay. And just Nature & Découvertes impact on gross margin. What's the rough level of gross margin from Nature & Découvertes?

Jean-Brieuc Le Tinier

It's better than the average margin of Fnac and there are higher cost ratio as well.

Nicolas Langlet

Okay. But when you say better than Fnac, it's 10 points above or it's still the same?

Jean-Brieuc Le Tinier

You're talking about EBIT margin or?

Nicolas Langlet

Gross margin.

Jean-Brieuc Le Tinier

It's more than 2 points above.

Nicolas Langlet

More than 10 points.

Jean-Brieuc Le Tinier

You said 2 or 10?

Nicolas Langlet

10, one-zero.

Jean-Brieuc Le Tinier

Yeah, it's more than 10.

Nicolas Langlet

Okay.

Jean-Brieuc Le Tinier

But I can't tell you the exact figures today.

Nicolas Langlet

Okay.

Jean-Brieuc Le Tinier

It's not that I don't want to, it's just that we are just adjusting our accounts which used to be done in the France GAAP into our standards and we may – we classify that differently the logistic cost, that margin and so on. So it's quite complicated to give you any precise figures. We probably do that at your end but now it's a bit too early to assess that. It's more than 10%, both on cost and on margin.

Nicolas Langlet

Okay.

Jean-Brieuc Le Tinier

And Black Friday, was really the good Black Friday last year. We hope to do better. Normally we don't play to lose.

Nicolas Langlet

Yeah, no, but I mean, last year you had such a good performance. So I guess your comp base is pretty difficult and I don't know what is the competition prepared and what you have in plan as well. But well, it will be good if you can grow.

Jean-Brieuc Le Tinier

We'll see. It depends. We have good offers. I can tell you we have very good offers. It's very likely that the competition which we keep one-year level will probably replicate but we have good offer. Just keep in mind that given the size of the company and the percentage of integrated sales compared to our main competitors, which are more operating in marketplace, we have a much – we are in much, much better condition to negotiate with suppliers, larger volumes than anyone can do in France. But normally we have good offers and we hope we can do better but we'll see.

Nicolas Langlet

Yeah, okay, thank you.

Jean-Brieuc Le Tinier

Thanks.

Operator

Ladies and gentlemen, apologies for the technical issue. Please dial 01 on your telephone keypad once again to enter the queue for the questions and answer session. We have a following question from Geoffroy Michalet from ODDO BHF. Sir, please go ahead.

Geoffroy Michalet

Hello. Thank you for taking my questions. I have four questions. The first one is, could you remind us the level of digital sales in Q3 2018 because you gave us the number for '19. I just wanted to check how high it was. Second question has to do with the impact of the yellow vest in France you mentioned in September. I just wanted to know if you could quantify it because I had a feeling that it was not that important in this September. Then the third question would be on Darty Max. Is it an offer you have – you're working on alone or do you have kind of a partnership with another company helping you setting up that offer? And my fourth question would be with ceconomy and your views even though I know it's hard for you to comment on the rumours of the potential change of management. Thank you.

Jean-Brieuc Le Tinier

Okay, thanks. So first question about the digital sales in '19, 19%. One year ago, it was 17.7%. Okay, that's up. Yellow Vest, it was not as important in September as it used to be in December last year but still it impacted more Fnac than Darty. It was more pregnant in the city centres than outside but impact in the Parisian stores in September was visible during – especially during Saturday. So we hope this will come down but we had one or two weekends which were pretty poor in Paris in September especially at Fnac.

Darty Max, it's an offer we do alone because we can do – we are the only one in France able to put to – propose the channel for alone. And with the capabilities of repairing and offering the repair to the end consumer with our own team and our own people. So that's something we'll do alone. It's something which will be the part of the Fnac Darty ecosystem and that's what we call the Nouveau Contract de Confiance [?]. That can be a very, very important move in terms of services at Darty level, very important.

And ceconomy, well, you answered the question. I can't comment on anything about what's happening at ceconomy because I have probably no more information than you do.

Geoffroy Michalet

Okay. Thank you very much.

Operator

Thank you. Our next question is from Aurélie Husson Du Moutier from Kepler Cheuvreux. Please go ahead.

Aurélie Husson Du Moutier

Good afternoon everyone. I have several questions that are more technical than I would say strategic but it might help us to do our modelling. Can you tell us what is the Wehkamp impact in Q3 and in nine months? That's my first question. I have a follow-up questions on the services. I understand that it's not as big in Q4 that it is over nine months. But can you tell us what it was the, in percentage of sales for 2018, for example the services? Is it more than 10%? And finally, gross margin. Could you help us in quantifying more or less each effect that has impacted the gross margin in H1? So I guess the trend is the same in Q3. So that would help us over nine months between the franchises, Wehkamp, the telephone insurance, the mix. So rough idea of what proportion each of the factor has represented in the decline. Thank you very much.

Jean-Brieuc Le Tinier

Okay. So I guess the question one and three just regroup. Wehkamp impact, if you look at the gross margin rate decline in H1 which was 70 basis points, half of that is Wehkamp and franchise and roughly half-half, not really exactly but roughly you can take half-half and it's going to be a good mix.

And the rest of the margin is due to the small domestic appliance margin and mix, which is down and the services due to the commission of insurance telephony. I won't give you the breakdown –

Aurélie Husson Du Moutier

Half and half for both as well?

Jean-Brieuc Le Tinier

Not necessarily but I won't give you any breakdown – precisely the breakdown but it's not 10% on one side and 90% on the other side. Okay?

Aurélie Husson Du Moutier

Okay.

Jean-Brieuc Le Tinier

It's a bit more than that, okay. And services, we don't give the figures but a bit less than the average contribution of the full year in Q4.

Aurélie Husson Du Moutier

I was not asking for Q4. I was asking for full year last year.

Stéphanie Constand

Yeah, in fact, when you keep in mind that if you look at the breakdown by category, so we put the services division with the diversification and other, this represents roughly 10%. At the end of September, it is roughly the same level excluding Nature & Découvertes. If we focus on services specifically, we have perimeter effect with WeFix. So if your underlying question is are you declining in services on a like-for-like basis in Q3, the answer is yes, obviously according to the fact that we have a lower level of commission in the form of insurances.

Jean-Brieuc Le Tinier

Yeah, it's up in total but like-for-like its down.

Aurélie Husson Du Moutier

Okay. And for the sales – additional sales brought by Wehkamp in Q3, do you disclose that?

Stéphanie Constand

Yes, we said that Wehkamp represents roughly 8 million per month and you have the full impact in Q3 in 2019 compared to 2018 which will not be the case in Q4 because we started the consolidation in November.

Aurélie Husson Du Moutier

Okay. And while I'm still with very low number, sorry for that, I did not catch your answer to Nicolas about the contribution sales of Nature & Découvertes in Q4 this year, rough number I guess?

Jean-Brieuc Le Tinier

We don't give the rough number. What I answered Nicolas is that the total perimeter effect is about €200 million and majority of that is Nature & Découvertes for the five months during which to be consolidated.

Aurélie Husson Du Moutier

Okay.

Stéphanie Constand

To be really clear on that, in the press release, we have put the number on the full year basis €200 million and we have also mentioned the contribution of Nature & Découvertes in Q3 for roughly €25 million. So then you can get the perimeter effect of Nature & Découvertes and Wehkamp and other.

Aurélie Husson Du Moutier

Yeah, so we have 10 months of Wehkamp at €88 million, so that's 80, so I guess Nature & Découvertes is €120 million, right?

Stéphanie Constand

Roughly, yes.

Aurélie Husson Du Moutier

Okay.

Jean-Brieuc Le Tinier

That was bit of WeFix and BilletReduc. So it's a less money than the other ones.

Aurélie Husson Du Moutier

Okay.

Jean-Brieuc Le Tinier

And it also depend on the sales of Nature & Découvertes but our best guess is that that's going to be €200 million for the whole perimeter effect for this year. That should help us – help you model the P&L for the year.

Aurélie Husson Du Moutier

Thank you.

Operator

We have a next question from Steve Levy from MainFirst. Please go ahead.

Steve Levy

Good evening, everyone. Three questions, if I may. The first one is on the new stores, the 60 new stores for 2019. Just to make sure that I understand well, these 60 new stores will be in Spain and this will be for Nature & Découvertes or that's for the Group as a whole? And can you give us an idea about size just in order to model for 2020? Second question is on the working capital. Why is – after H1, the inventories was momentarily high due to the amount of the system between Fnac and Darty? Just wanted to check whether or not it's of around and everything happened well? And the third question is about the consumption in France and your feeling about the price environment. You said that Q3 was a bit gloomy and competitive. Just wanted to check because all the macro indicators are pretty well oriented and to confirm that the economy in France is going pretty well compared to other economy. Just wanted to get your view on that.

Jean-Brieuc Le Tinier

Okay. So the first question is the 60 new stores will be in France – will be for the Group, the total group for '19, mostly in franchise. That does not – this doesn't include the 87 Nature & Découvertes stores which are now consolidated. That's new stores. And the average size, just keep in mind, it's mostly in franchise and mostly Darty. So that's smaller size stores. Much smaller than the average integrated ones.

Working capital, it was up in June because we had the strategic [?] programme in place was down and went down during the summer and now it's up because we are preparing Black Friday and Christmas, so we're starting to increase inventory for the year-end sales.

Steve Levy

But as it is on a usual basis, you're not overstock. You not increase more than usually, I would say, because the system is running – is up and running now.

Jean-Brieuc Le Tinier

No, it's running now. We are managing the inventory for the two big commercial event of the year and that's going to be the control.

Steve Levy

Okay.

Jean-Brieuc Le Tinier

And consumption in France, yes, [inaudible] that everything is fine but consumption is down, especially for the Q3. But what I can tell you more on that. If you look at the Bank of France[?] figures you'd see that the retail figures for the first nine months is flat. It's flattish in France, is 0.1. September was down 2% and the Q3 quite sluggish and full year is flattish. So you may have some growth in France. You may have some purchasing power increase in France but still consumption is down and the saving rate is very high in France today. It hasn't decreased.

Steve Levy

So you're not seeing yet the transfer from savings to consumption?

Jean-Brieuc Le Tinier

What we see is that the consumption is quite down with much better than Bank of France figures. We're gaining market share. That's our commitment.

Steve Levy

Okay. Thank you.

Operator

Okay. Thank you. We have no other questions for the moment. Ladies and gentlemen, once again if you wish to ask a question, please dial 01 on your telephone keypads. Thank you. Okay. We have no further questions for the moment.

Jean-Brieuc Le Tinier

Okay. No more questions?

Operator

There are no more questions sir.

Jean-Brieuc Le Tinier

Okay. So I guess we should then end the call now then.

Operator

Okay. Ladies and gentlemen, this concludes today's web conference. Thank you all for your participation. You may now disconnect.