fnac

Ivry, July 30, 2014

Sales growth in France and increase in free cash flow generation

- Group revenues stabilize in the second quarter: -0.3% on a same-store basis, thanks to sales growth in France of +0.8% on a same-store basis
- Revenues in the 1st half decline by -1.1%, compared with a decrease of -5.2% in the first half of 2013 (at constant exchange rates and comparable scope of consolidation)
- The new product families exceed 10% of sales in the second quarter, thanks notably to the successful launch of the telephony offer in France
- Current operating income down by €7 million, hit by pressure on gross margin (-60 bp) related to commercial investments and the negative impact of category mix
- Free cash flow improves by €19 million in the first-half, resulting in an increase in net cash of €69 million as of June 30, 2014 compared to June 30, 2013
- Extension of the maturity of the revolving credit facility to July 2017

Alexandre Bompard, Chairman and Chief Executive of Groupe Fnac: *"The results achieved in the first half of 2014 reaffirm the general progress the company is making in highly promotional and still declining markets. Accordingly, after several years of declining revenues in France, Fnac has returned to revenue growth in the second quarter and gained further market share, benefiting from its dynamic growth levers and a successful omnichannel strategy. At the same time, cash generation is accelerating, demonstrating Fnac's recovery and the solidity of its financial model."*

KEY FIGURES

(€ millions)	H1 2013	H1 2014	Change
Revenues	**1,669**	**1,639**	**-1.8%**
Chg. at comparable scope of consolidation and constant exchange rates	-	-	*-1.1%*
Current operating income (COI)	**-12.4**	**-19.7**	**-58.9%**
Net income (1)	-30.6	-37.0	-19.4%
Net current income (1) (2)	**-22.9**	**-29.7**	**-29.7%**
Free cash flow from operations	**-292**	**-273**	**+6.6%**
Net cash	**127**	**196**	**+54.2%**

(1) continuing operations, Group share - (2) excluding non-current items

Note: Performance in the first half of the year was affected by the seasonal nature of the Group's business. The first half usually makes only a small contribution to the full-year results. The change in free cash flow reflects the traditional steep increase in the working capital requirement at the beginning of the year.

SECOND QUARTER 2014 REVENUES

Positive momentum in Group sales continued in the second quarter.

At constant exchange rates and comparable scope of consolidation, Group revenues stabilized in the second quarter (- 0.6%), compared to a decline of -1.5% in the first quarter of 2014 and -3.1% for full year 2013.

The Group's consolidated revenues amounted to €800 million in the second quarter, a decrease of -1.1% compared with the same period of 2013.
There was a negative -0.6% exchange rate impact, which was primarily due to the depreciation of the Brazilian real against the euro. The acquisition of Datasport, which was completed in late December 2013, had a positive impact of +0.1%.

The consumer environment changed little in the second quarter compared to the first quarter in the Group's major countries. Household consumption remained sluggish in France. The economic recovery is progressing slowly in the Iberian Peninsula, particularly in Spain.
In this context, the Group's markets continued to decline substantially, with increased competitive pressure.

Growth in France
The sequential improvement in sales is mainly driven by France, which recorded same-store sales growth of +0.8% in the second quarter, after declining -0.7% in the first quarter. Half-year sales were stable after taking into account the impact of store closures. The company continued to gain market share, both in consumer electronics and publishing products.

International business continues to improve
The Iberian Peninsula confirms the stabilization of its sales (-0.6%), which was driven by the good performance of Fnac Portugal, where sales are growing. Fnac Spain continued to be hurt by adverse market conditions in the second quarter, but maintained its market share.

Fnac Brazil sales were down -2.2% (at constant exchange rates), business in June having been affected by the significant drop in traffic from the start of the World Cup.

Sales in the Other Countries area, which includes Switzerland and Belgium, declined by -4.8% (at constant exchange rates), an improvement compared to the first quarter (-7.1%), in markets that remain highly competitive.

The Group continued to benefit from the stepping up of its strategic initiatives and its offensive marketing policy.

Growth drivers: success of new product families and new store formats
Growth in revenues generated by the new product families accelerated in the second quarter, driven by their rollout over the last twelve months and solid business performance. They represented 10.1% of total revenues in the second quarter against 8.2% in the first quarter.
In France, the telephony sections rolled out across the entire network of stores in February and March, delivered very good results and contributed significantly to the growth of the business in the second quarter. Thanks to significant commercial investments, the Group has become a major player in this category, on which it should assume its natural leadership position in a few months.

Development of new initiatives continued in the second quarter with the deployment of nearly 25 stationery areas in France and the opening of a flagship store on the Champs-Elysées that is dedicated to connected products, smartphones and their accessories.
The development of new store formats continued with the opening of two proximity stores in France (Boulogne-sur-Mer and Le Puy-en-Velay) and the opening of a retail travel store in the Guarulhos International Airport in Sao Paolo, Brazil.

Further growth in the omnichannel
Internet sales growth was sustained in France and the Iberian Peninsula, driven primarily by higher omnichannel sales and the further development of the Marketplaces. Fueled in particular by new features (click & collect – payment and pick-up in stores), the share of omni-channel sales (i.e. internet sales related to stores) continued to grow, with sales representing 31% of all internet sales for the two areas in the first half of the year.

Innovative new services
The Group has launched two new services in France: Pass Location (exclusive rental of technical products) and Fnac Express+ (subscription to a service offering unlimited delivery within one business day of all products available on Fnac.com). Along with the launch of Fnac Jukebox (an online music streaming service) in March, the Group further demonstrates its ability to provide innovative responses to new consumer habits.

2014 FIRST-HALF RESULTS

The Group's consolidated revenues amounted to €1,639 million in the first half of 2014, a decrease of -1.8% compared with the first half of 2013.
There was a negative -0.8% exchange rate impact, which was primarily due to the depreciation of the Brazilian real against the euro. The acquisition of Datasport, which was completed in late December 2013, had a positive impact of 0.1%.
Consolidated revenues decreased by -1.1% at constant exchange rates and comparable scope of consolidation.

The Group reported a current operating loss of -€19.7 million as of June 30, 2014, a decrease of -€7 million compared with the first half of 2013.

The gross margin rate was 29.8%, compared with 30.4% in the first half of 2013. The decline in the gross margin is the result of commercial investments associated primarily with the launching of the new telephony category in France, and the effect of an unfavorable product mix. In addition, the Group maintained an offensive marketing policy in the most competitive markets.

The Group continued to successfully pursue its policy of cost savings and organizational efficiency.

Other non-current operating income and expenses constituted a net expense of -€7.6 million in the first half of 2014, in line with its level of the first half of 2013 (- €7.8 million). This mainly includes restructuring costs.

The Group share of the net loss from continuing operations amounted to -€37.0 million in the first half of 2014, a decline of -€6 million compared with the first half of 2013.
Adjusted for non-recurring items, the Group share of net income from continuing operations is a negative -€29.7 million compared to a loss of -€22.9 million in the first half of 2013.

FREE CASH FLOW

The Group continued to improve its cash flow generation.
Free cash flow from operations improved by +€19 million compared to the first half of 2013 and amounted to negative -€273 million, compared with -€292 million in the first half of 2013.
Given the seasonal nature of the Group's business, cash flow is traditionally negative in the first half.

Investments amounted to €16 million, in line with the Group's annual objectives.
The Group continued its initiatives to optimize working capital requirements, which enabled a decrease in inventories of -4.5% at the end of June 2014 compared with their level of end of June 2013.

FINANCIAL STRUCTURE

Strong growth in net cash
Net cash amounted to €196 million as of June 30, 2014, an increase of €69 million compared with its level on June 30, 2013.
Shareholders' equity amounted to €510 million as of June 30, 2014 (compared to €490 million as of June 30, 2013).

As of June 30, 2014, the covenants of the credit facility were complied with.

Amendment to the credit facility
On July 24, the Group signed with the syndicate of lenders an amendment to the €250 million revolving credit facility concluded on April 19, 2013.
The principal terms of this amendment, which attest to the strengthening of the Group's financial profile, include the maturity of the loan and the mandatory repayment clause, should there be any changes in Artémis's stake in the capital of Groupe Fnac.
The maturity of the credit facility was extended to July 24, 2017 (versus April 18, 2016 initially). The mandatory repayment clause, should Artémis's stake in the capital of Groupe Fnac fall below 38.8% before April 18, 2015, and 25% before April 18, 2016, is maintained in its original form without extension until the new maturity of the credit facility.

CONCLUSION AND OUTLOOK

The first-half results confirm the gradual improvement in the sales performance of the Group that began in 2013 and the strengthening of its financial profile.

This performance, which was achieved in a difficult consumer environment, with declining and highly competitive retail markets, reflects the solid execution of the Fnac 2015 plan and the continuation of an offensive commercial strategy.

Market conditions are expected to remain unchanged for the rest of the year. The Group intends to continue to gain market share by stepping up the redesign of its business model, which is mainly based on the continued rollout of new product categories, ongoing establishment of the omni-channel strategy and accelerated expansion of new formats in France and abroad.

The Group intends to limit the adverse effects on gross margin in the second half of the year, particularly through commercial action plans launched in the second quarter and a less unfavorable category mix.

It will also continue its policy of cost-cutting and organizational efficiency policy. The Group is confident that it will be able to exceed its 2013-2014 objective of €80 million cost savings (full-year effect).

The Group will continue its efforts to maximize cash generation during the fiscal year.

The Statutory Auditors reviewed the condensed consolidated financial statements for the 1st half of 2014, as approved by the Board of Directors Meeting of July 30, 2014.

Summary income statement

(€ millions)	H1 2013	H1 2014	Change
Revenues	**1,669**	**1,639**	**-1.8%**
Gross margin	**508**	**489**	**-3.7%**
As a % of revenues	*30.4%*	*29.8%*	
Total costs	**-520**	**-509**	**+2.1%**
As a % of revenues	*31.1%*	*31.0%*	
Current operating income	**-12.4**	**-19.7**	**-58.9%**
As a % of revenues	*-0.7%*	*-1.2%*	
Other non-current operating income and expenses	-7.8	-7.6	+2.6%
Operating income	**-20.2**	**-27.3**	**-35.1%**
Net financial expenses	-4.1	-4.8	-17.1%
Income tax	-6.3	-4.8	+23.8%
Net income from continuing operations	**-30.6**	**-36.9**	**-20.9%**
of which attributable to owners of the company	**-30.6**	**-37.0**	**-20.6%**
Net income from discontinued operations	-0.4		-
Consolidated net income	**-31.0**	**-36.9**	**-19.0%**
of which attributable to owners of the company	**-31.0**	**-37.0**	**-19.4%**
Net current income from continuing operations	**-22.9**	**-29.7**	**-29.7%**
EBITDA	**20.6**	**16.4**	**-20.4%**
As a % of revenues	*1.2%*	*1.0%*	

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2014 FIRST HALF RESULTS

Matthew Malige, Chief Financial Officer, will host a conference call for investors and analysts on Wednesday, July 30, 2014, at 6:15 p.m. (Continental time); 5:15 p.m. (UK); 12:15 p.m. (East Coast USA)

Conference call dial-in:
France: + 33 1 70 77 09 38
UK: +44 203 367 9459
US: +1 855 402 7763

Replay dial-in (until Friday, August 15, 2014)
France: +33 1 72 00 15 00
UK: +44 203 367 9460
US: +1 877 642 3018
Replay access code: 287979#

NEXT PUBLICATION

Groupe Fnac will publish its revenues for the 3rd quarter on Wednesday, October 22, 2014, after the close of trading.

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APPENDICES

Current operating Income by operating segment

(in € millions)	H1 2013	As a % of revenues	H1 2014	As a % of revenues	Change
France	-16.1	-1.4%	-21.3	-1.8%	-32%
Iberian Peninsula	7.1	2.5%	4.7	1.6%	-34%
Brazil	-2.4	-2.6%	-2.6	-3.4%	-8%
Other countries	-1.0	-0.8%	-0.5	-0.4%	50%
Group	**-12.4**	**-0.7%**	**-19.7**	**-1.2%**	**-59%**

2nd quarter revenues by operating segment

(in € millions)	Q2 2014	Change compared with Q2 2013		
		published	at comparable scope of consolidation and constant exchange rates	same-store basis*
France	568	0.1%	-0.1%	0.8%
Iberian Peninsula	133	-0.6%	-0.6%	-1.8%
Brazil	39	-13.5%	-2.2%	-2.5%
Other countries	60	-4.4%	-4.8%	-4.8%
Group	**800**	**-1.1%**	**-0.6%**	**-0.3%**

* At constant exchange rates and comparable scope of consolidation

1st half revenues by operating segment

(in € millions)	H1 2014	Change compared with H1 2013		
		published	at comparable scope of consolidation and constant exchange rates	same-store basis*
France	1 153	-0.7%	-0.8%	-0.1%
Iberian Peninsula	286	0.0%	0.0%	-1.0%
Brazil	77	-15.8%	-0.6%	-0.8%
Other countries	123	-5.8%	-6.0%	-6.0%
Group	**1 639**	**-1.8%**	**-1.1%**	**-0.8%**

* At constant exchange rates and comparable scope of consolidation

Store network

	At December 31, 2013			At 30 Jun 2014		
	Wholly owned	Franchised	Total	Wholly owned	Franchised	Total
France	87	21*	108	85	23*	108
Iberian Peninsula	44	0	44	44	0	44
Brazil	11	0	11	12	0	12
Other countries	13	0	13	13	0	13
Group	**155**	**21**	**176**	**154**	**23**	**177**

**including the store in Morocco*