



Event: Fnac Darty Conference Call

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Speakers: Jean-Brieuc Le Tinier and Stéphanie Constand-Atellian

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Operator: Ladies and gentlemen, welcome to the Fnac Darty 2019 first quarter sales conference call. I now hand over to Mr Jean-Brieuc Le Tinier, CFO. Sir, please go ahead.

Jean-Brieuc Le Tinier: Thanks. Good afternoon to all of you, thank you for attending our first 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, and we will give you an overview of the Group's performances over the past few months. We will start the call with some comments on the first quarter revenue, and then we'll be pleased to answer your questions.

Let me highlight the four main achievements of the quarter: firstly, Fnac Darty delivered growth in Q1 higher than its market, mainly driven by the effectiveness and relevance of our Confiance+ plan, and we are very satisfied with the performance of this quarter; secondly, with the exception of the editorial products, all our categories performed well, and our e-commerce platforms delivered strong growth in the quarter; thirdly, in France, Fnac Darty performances are solid with a plus 1.1% like-for-like sales, which highlights the Group's ability to gain market share, despite a lacklustre consumer environment; finally, the Group continued to reinforce its multi-specialist profile. The partnership with Wehkamp in progress, we integrated WeFix, and we finalised the acquisition of Billetreduc in Q1. Fnac Darty also announced on Tuesday the project for the acquisition of Nature & Découvertes. This important strategic move shows our commitment to promote an educated choice to customers, as well as a more circular and responsible economy.

Before going into more details about our performances, let me also highlight the fact that during the quarter, Fnac Darty further reinforced its financial structure. As a reminder, the Group signed a credit agreement of €100 million with the European Investment Bank at very attractive conditions. Moreover, in March '19, Standard & Poor upgraded Fnac Darty's rating by one notch to BB+ with a stable outlook. To complete this rating, the Group received a BBB- rating from European agency Scope Ratings. We are really pleased with those initiatives, which highlight the solid approach on performances of our Group.

Now, let me go into more details regarding the Group's performances in Q1. Sales have shown good dynamic, standing at plus 1.7%, both on a reported and like-for-like basis. Sales were impacted by a negative calendar effect. However, all markets combined, the Group is gaining market share in Q1. As a result, the France-Switzerland segment is up plus 1.1% on a like-for-like basis. Internationally, like-for-like sales are slightly decreasing in Iberian Peninsula with minus 1.2%, while Benelux showed a strong like-for-like growth up plus 7.3%. During the quarter, January and February showed good growth in all regions, while March was impacted by lower traffic in stores due to the continued social movement in France. The shift in the Easter holidays, and the unfavourable effect of the promotional periods starting later in '19, had also negative impacts.

If we look at the performance by category, white goods grew with a strong growth, for instance from integrated appliances such as refrigerators and washing appliances, as well as built-in cooking appliances. Technical products recorded good growth from sound and telephony and benefitted from an enriched line-up in hardware this quarter, despite a still lacklustre trend of the photography segment. Editorial products are down, still suffering from the structural decline of audio and video categories. Book sales were down due to a less favourable line-up, and the store traffic impacted by continued social movement in France, which affected impulse purchases. Finally, the Group's gross margin rate is slightly declining in Q1 due to the dilutive impact from franchises and Wehkamp integration, as well as a negative product mix, notably with a decrease of editorial products.

Let me now say a word on our operational progress and the deployment of Confiance+. The quarter has seen the rollout of our strategic plan, the Confiance+. Let me start with the omnichannel capabilities development. The Group's online sales performed well for international operations in the first quarter. Our marketplace also developed rapidly. In France, online sales benefitted from good growth, from technical products and diversification product categories. In keeping with its omnichannel focus, the Group opened nine stores during the quarter: six Darty, two Travel Fnac franchise as well as one integrated Fnac store in Portugal. The Group has an objective of around 16 new stores in '19.

We have reinforced the omnichannel client experience. As you know, we started deploying[?] in '19; in '18, the test of reservation for editorial products, with the first focus on gaming. In the first quarter, we expanded this offer to the book, CD and DVD categories, allowing customers to pick up their purchase within one hour in most of our Fnac integrated stores in France by a direct access to the store inventory. We also continued digitalisation of our stores in the first quarter, and close to our 35% of our store network is now digitalised.

Diversification also continued its development with double-digit growth from Toys & Games, and Home and Design. We expanded our kitchen offer with two additional kitchen corners this quarter. Fnac Darty set a new record for kitchen sales in March, demonstrating the relevance of the model.

Our ecosystem of partnerships continues to be deployed with a partnership with Google, which should accelerate with new, large integrated corner openings throughout the rest of '19. Wehkamp in the Netherlands is now integrated, and the test of two Darty shop-in-shops in Carrefour hypermarkets continues.

Regarding services, the successful integration of our recent acquisition WeFix improved the offer. We opened eight additional points of sales, of which four are operated with a Fnac or a Darty store, bringing the total number to 65 mainly corners and shopping malls. As you know, we also acquired a majority stake in Billetreduc.com, a cultural and leisure ticketing specialist, which allows the Group to enlarge and diversify its offer with a complementary last-minute offer. The impact on Q1 is completely non-material.

Lastly, we announced on Tuesday a project for the acquisition of Nature & Découvertes, a leading omnichannel retailer in the natural and well-being sector. This acquisition will allow the Group to further diversify its product offering and to capitalise on the strong brand recognition of Nature & Découvertes. The objective will be to accelerate their development through shop-in-shops in Fnac stores in France, to expand their network abroad and to leverage their digital platform.

Now, let me comment – our sales performance region by region. As already mentioned, France and Switzerland delivered a solid growth with a plus 1.1% on a like-for-like basis with negative calendar effects and in the context of continued 'yellow vest' movement. White goods delivered good growth, mainly driven by large domestic appliances. Technical products reported growth, thanks to the telephony and sound segment. Digital products were down, with a declining performance in the books category, mainly due to a less favourable line-up than last year, and the continued social movement in France impacting store traffic and driving down impulse purchases. Finally, Toys & Games, Home & Design as well as Urban Mobility categories continued to offer strong, double-digit growth over the quarter. E-commerce and services performed well.

Let's move to the Iberian Peninsula. In Q1, first sales were slightly down, minus 1.2% on a like-for-like basis in the region, mainly driven by postponement of promotional periods and a sluggish consumer environment. Nevertheless, digital platforms experienced solid growth in the quarter, and services once again recorded double-digit growth.

In Portugal, sales of editorial products were impacted by negative external effects as a result of a late Easter and abnormally warm weather conditions. In Spain, consumer electronics showed good resilience, whereas editorial products were in decline. Fnac Home continued its strong momentum during the quarter. In Benelux, sales are up plus 7.3% on a like-for-like basis. This strong growth reflects the success of the integration of Wehkamp in the Netherlands.

In Belgium, sales suffered from a high comparison basis, particularly in the domestic appliances segment. Technical and editorial products decreased in the context of the weak dynamic of the market. However, online sales performed well in the quarter. The transformation plan has been implemented in the country under the Fnac banner in order to improve in-store agility. In the Netherlands, competition remained fierce, but the Group is gaining market share; online sales performed strongly.

To conclude, Fnac Darty delivered growth higher than its market, mainly driven by the effectiveness of its Confiance+ plan. Q1 showed a good sales growth, despite an unfavourable calendar effect and a still lacklustre consumption environment. The Group has once again demonstrated a solid commercial execution over the quarter with continued market share gains.

In '19, we will stay focused on operational excellence and on cost control, we will continue to expand our strong network with the opening of around 60 new stores, mainly in franchise. We confirm our mid-term objective of higher growth than our markets and an operating margin between 4.5% and 5%.

Thank you very much for your attention. We are now ready to answer your questions.

Operator: Ladies and gentlemen, if you wish to ask a question, please press 0 and 1 on your telephone keypad. Ladies and gentlemen, if you wish to ask a question, please press 0 and 1 on your telephone keypad. We have our first question from Nicolas Langlet from Exane. Sir, please go ahead.

Nicolas Langlet: Hello, good afternoon everyone. I've got three questions please. The first one on the calendar impact in Q1, are you able to quantify it, and do you expect the negative impact to fully reverse in Q2 or not?

The second question, you mentioned the strong online growth in Q1. Are you able to give us a figure at Group level? And if you can comment also the growth in the marketplace, it would be great.

And the third question on the Darty corners at Carrefour, do you have any feedback to share with us? And do you now have evidence – is showing the concept work and could be potentially deployed towards the hypermarkets? Thank you.

Jean-Brieuc Le Tinier: Okay, thank you Nicolas. To answer your question about the calendar in Q1, it's quite straightforward. In March, we lost the first day compared to last year and gained the Sunday, which you can imagine is the same. So, the impact is a bit less than minus 1% at Group level for the quarter, so it's about 20 – yes, it's pretty important. And, of course, it should reverse in Q2 even at this level.

Nicolas Langlet: Okay.

Jean-Brieuc Le Tinier: Secondly, about the online growth, yeah, at Group level like internationally we're double-digit growth; yeah, so we had strong growth in the quarter from the online at Group level, which, in total, is double-digit growth at Group level, but it's most internationally than in France.

Nicolas Langlet: Okay.

Jean-Brieuc Le Tinier: And about the third question about the Darty corners, the test continues for the moment. We are pretty satisfied with what we see, but I think we need another week to make a decision whether – and actually it's not completely our decision whether we want to expand these pilots or not; it's a combined decision between us and Carrefour, and we need a bit more time from now.

Nicolas Langlet: Okay, perfect. And just on the marketplace, did you see the same growth trend as in H2 last year?

Jean-Brieuc Le Tinier: We've seen good growth in marketplace; I won't qualify the growth, but it's good growth.

Nicolas Langlet: Okay.

Jean-Brieuc Le Tinier: Okay, thank you.

Operator: Thank you. The next question from Steve Levy from MainFirst. Sir, please go ahead.

Steve Levy: Hi, good afternoon, thank you for taking my question – three questions, if I may. On editorial products, I thought CDs and DVDs were stabilising at a low level. Does that mean the decrease is becoming more and more, is back on a really negative trend?

The second question is about trade in white goods. Can you give us more details about large appliance and small appliance?

And the third question is about acquisition of Nature & Découvertes. Do you have an idea what could be the pace to open new stores going forward? And in term of gross margin impact, what can we expect, what we should expect in 2020 in term of gross margin impact? I know that it's more profitable, so the question is on that point. Thank you.

Jean-Brieuc Le Tinier: Okay, thanks. So yeah, CD and DVDs are declining; they've been declining for the past years, and they will probably keep on declining. Depending on quarters, it can be single-digit or double-digit decline, but it's a market which is strongly declining, and that has not changed especially for this quarter. But that's the normal pace of business. The difference this quarter between the previous ones is the impact on books, especially from the Fnac downturn, which were impacted by the 'gilets jaunes' – the 'yellow vests.'

Secondly, on your second question, we don't give the breakdown of tendencies between small domestic and large domestic appliances.

Steve Levy: But they are both positive, right?

Jean-Brieuc Le Tinier: Yeah, they were both up.

Steve Levy: Okay.

Jean-Brieuc Le Tinier: But I don't qualify the growth. But Nature & Découvertes, normally we should integrate them end of H1, beginning of H2 depending on the external factors – let's say it that way. And we would like to test the first corners into Fnac within the end of this year.

Your last question was about the gross margin. In terms of gross margin, yes, it will be relative at Group level, but you can do the maths; they have a higher margin than us, but they're just – they have realised only €200 million of sales, so you can imagine it is not going to be that material at Group level.

Steve Levy: But it cannot – it will partially offset the franchisee negative impact.

Jean-Brieuc Le Tinier: You can do the maths, but I will certainly not comment on something which will happen in 2020.

Steve Levy: Okay, thank you very much.

Jean-Brieuc Le Tinier: Okay.

Operator: Thank you. We don't have any more questions for the moment. Ladies and gentlemen, if you wish to ask a question, please press 0 and 1 on your telephone keypad; that's 0 and 1 on your telephone keypad. Ladies and gentlemen, if you wish to ask a question, please press 0 and 1 on your telephone keypad. We've a new question from Mr Nicolas Langlet from Exane. Sir, please go ahead.

Nicolas Langlet: Hello, hi again. I've got a couple of additional question, the first one regarding the European Retail Alliance with Ceconomy. Since the new management at Ceconomy is in place, have you renewed discussion regarding this alliance?

Second one, can you tell us a bit more regarding the deployment of the WeFix corners and notably the objective at the end of 2019?

And finally, in the Q1 growth, what was the contribution from M&A – WeFix and Billetreduc? And what impact should we expect for the full year, excluding Nature & Découvertes? Thank you.

Jean-Brieuc Le Tinier: Okay, thanks Nicolas. About the ERA and the purchasing agreement with Ceconomy. As you know, it's been put on hold end of last year due to the change of management at Ceconomy level. The new management joined the company during 2nd – in the beginning of March, so I think the priority for now is just to understand the business and prepare the strategic move – I don't know – the strategy they'll have in middle of May. If some discussions were to be started again, they will probably take place in H2, in the second semester, okay? For the moment, we have not started discussing the ERA again with them; it's a bit too early in the process. And for them, we can understand that it may not be a top priority for the first month of their new job, so that's something which probably will happen, but not in H1.

Nicolas Langlet: Okay.

Jean-Brieuc Le Tinier: WeFix corners, we don't give a target; we'll open as much as we can, provided they are profitable. We opened four corners in three months; we can probably do better than that. But there is a lot of external factors, and we must have discussion with landlords and some market studies. Just be sure that if we can do it fast, we'll do it fast, because it's a fantastic complementary offer to a Fnac of a Darty store, so.

And as for the last question about M&A contribution, M&A contribution is almost nothing; it's non-material at Group level, because WeFix is, for now, a pretty small company. And the net sales which we've accounted for in in Q1, we're talking about a few million euros, which is not material at Group level. And we started integrating WeFix beginning of March, so just one month. And just keep in mind that the sales, which we consolidate into our accounts regarding Billetreduc, it's only the commission.

Nicolas Langlet: Yeah.

Jean-Brieuc Le Tinier: It's not the selling price on the ticket; it's only commission. So, the total level of sales of the company is quite limited.

Nicolas Langlet: Okay.

Jean-Brieuc Le Tinier: So, total impact at Group level for the full year will not be that material.

Nicolas Langlet: Okay, but 40, 50 basis points is still visible.

Jean-Brieuc Le Tinier: Sorry?

Nicolas Langlet: 40 to 50 basis points at Group level for the full year looks fair?

Stéphanie Constand-Atellian: Not for Billetreduc.

Nicolas Langlet: No, for both WeFix and Belletreduc.

Stéphanie Constand-Atellian: For both acquisition, right.

Nicolas Langlet: Yes.

Stéphanie Constand: But not for Billetreduc.com.

Nicolas Langlet: Yes, for both. Okay, thank you.

Jean-Brieuc Le Tinier: Okay, thanks.

Operator: Thank you. Next question from Nicolas Champ from Barclays. Sir, please go ahead.

Nicolas Champ: Yes, good afternoon and thanks for taking my questions – three for me. Regarding Nature & Découvertes acquisition, I guess that you will provide more details later regarding the impact on the balance sheet and so on, but at least should we conclude that this acquisition means that you will probably not pay a dividend next year based on the 2019 results?

The second question is about the evolution of your gross margin, so a slight decline in Q1. Do you feel still comfortable to offset the negative impact on your operating margins through cost savings, but unsure[?]? I mean, especially in Q1, were you able to offset this at the operating margins through cost optimisation?

And the third question is about the evolution of your performance in the Netherlands. Given your dynamic like-for-like sales in the region and in Q1, should we also conclude that the operating performance in the region – is the country also – evolve favourably during the period? Thank you.

Jean-Brieuc Le Tinier: Thanks. So, the first question about Nature & Découvertes acquisition, of course we will probably – maybe – give more details when we close the deal and probably give more colour about the impact on P&L and balance sheet, but not for now.

Pay a dividend, you're right, we said that we would pay a dividend, provided we don't do any major M&A. Nature & Découvertes is a company, which we purchased for an amount which is less important than our free cash flow, clearly. Still, we'll see next year what happens with the cash flow, and what kind of return we could think of concerning shareholders. Okay? If we have good cash flow maybe, but clearly, we're not – it may postpone by one year the decision of paying a dividend. But, as you know, it's not my own decision; it's a general meeting shareholder decision.

Nicolas Champ: Okay.

Jean-Brieuc Le Tinier: Okay? Gross margin in Q1 is down, as I mentioned, mostly due to the impact of a mix effect and the book evolution. I will not comment on the profit evolution for Q1 or for Q2 as you may imagine. Just keep in mind that at Group level, the target which we are set is to offset the impact of the inflation on the cost and keep the cost flat on a like-for-like basis. Okay? And just keep that in mind that's very important for us. We'll see how our margin evolve in the coming months. We try our best, of course – compensate what we can with the cost savings, but our main target is to offset the inflation on the cost on a like-for-like basis.

Talking about Netherlands, we'll do that more in more detail, of course, during the half-year presentation. As for now, as you've seen, the dynamic of sales is good; it is driven by the Wehkamp integration, but also by the online development of the company. The only thing I will say is that from now, the company is on track with the general plan – the only comment I will make on the profitability of the balance for the moment.

Nicolas Champ: Okay.

Jean-Brieuc Le Tinier: But they are only honestly doing a very good job, and it's a very committed team.

Nicolas Champ: Okay, thank you.



Operator: Thank you. We don't have any more questions at the moment. Ladies and gentlemen, if you wish to ask a question, please press 0 and 1 on your telephone keypad, that's 0 and 1 on your telephone keypad. We don't have any more questions. Back to you for the conclusion, sir.

Jean-Brieuc Le Tinier: Okay, well done. Thank you for all the attention and have a nice evening, bye-bye.

Operator: This concludes this conference call. Ladies and gentlemen, thank you for your participation. You may now disconnect.

