

# Fnac-Darty Conference

## 16 January 2020

### **Telephone Operator**

Good evening, ladies and gentlemen and welcome to this conference.

### **Enrique MARTINEZ, Chief Executive Officer, Fnac Darty**

Thank you and good evening. I would like to thank you for your availability and for attending this conference call. To be transparent, I have decided to comment on our performance estimates in light of the exceptional context we have been working in for the past few weeks.

For the second consecutive year, the distribution sector has been impacted by social movements in the month of December, which is the most critical time for our industry. As you know, the end of the year is key for our Group, both in terms of revenue and profit. Fnac is a popular brand store for Christmas gifts, with a strong presence in city centres and particularly central Paris. While we were all expecting growing Christmas sales this year, in line with 2019 and also because of favourable base and calendar effects, we have seen the opposite effect with a significant drop in activity over the Christmas period in France. We estimate the loss of revenue, due to social movements of about EUR 70 million.

The transport issues have made it extremely complex to steer some of the operations, starting with the extreme difficulty for some of our teams to move around. I would like to pay tribute to the huge efforts made by some of our fellow employees, who have managed to serve their customers with determination, and I would say with a kind of courage. Despite of good cost controls and the positive contribution of the acquired companies, for an amount estimated to be a bit more than EUR 20 million, the exceptional impact of social movements on our activity will have a negative impact on the current operational result for the activities pursued in 2019. This should be around EUR 293 million and our current operational margin should reach 4%.

Before giving the floor to Jean-Brieuc, so that he can give you more specific comments about the estimated performances, I would like to tell you that I have decided to initiate a strategic review of our Dutch subsidiary, BCC. As many of you know, it is a subsidiary of Keyser Electricals, which was then put inside the Darty scope. The activity turned out to be structurally in deficit and we have therefore taken some action to reduce the losses and redress the activity, notably through the partnership made in 2018, with Wehkamp. These actions have been fruitful but not sufficient to reach a critical size and seize the best market opportunities. Consequently, we have decided to launch an active process in order to search for a partner that can provide a future for BCC. At this stage, no timeline has been communicated and we will communicate on the progress of that process in due course.

I give the floor to Jean-Brieuc.

**Jean-Briec Le TINIER, Group Chief Financial Officer, Fnac Darty**

Thank you, Enrique. I am going to talk about the estimated performance of the activities pursued in 2019. We are not talking about pre-publishing our yearly accounts, which have not been enclosed or validated by our Board of Directors. We are sharing here estimated performances for 2019 which takes into account the estimated loss in revenue in December because of the strikes in France. The figures given in the press release and that are being communicated during the conference call, have not been audited and are not final. In those estimates, the activities in the Netherlands will be accounted for in non-pursued activities in accordance with application of standard IFRS 5.

To help you to better understand the implementation of the application of that standard, you will find in the press release on page three, the profit and loss account for 2018 as it was published last year. There is then an estimate of its pro forma equivalent reprocessed with the deconsolidation of BCC to make it comparable. As you can see the 2018 turnover for BCC was about EUR 343 million, with only two months of Wehkamp and the current operational revenue was negative by EUR 8 million.

The Group revenue of the continuing activities, with the exception of the Netherlands, would be about EUR 7 340 million, showing a growth of about +0.7% on a like for like basis. The revenue of the acquired companies, including Nature & Découvertes, WeFix and Billetreduc, would be about EUR 150 million in 2019. In October, we communicated a scope-related effect of about EUR 200 million that would include Wehkamp. The Netherlands are no longer being consolidated and the additional revenue that would be connected to that scope would be around EUR 150 million in 2019 in continuing activities.

Coming back to December, the loss of revenue is estimated to be about EUR 70 million because of the strikes in France. To evaluate this figure, we have restated store by store the atypical drop in traffic in December. In-store traffic was heavily penalised, mainly in Paris and particularly for the Fnac banner. For example, traffic in the Group's Parisian stores was down 16% compared with 2018, compared with an average normative decline of between 2% and 3%. Not only has the loss of revenue because of the Yellow Vests movement in 2018 not been compensated for, but on top of it sales have declined by about EUR 35 million during the 2019 Christmas period. At the end of the day, the turnover for the fourth quarter in France should be about stable in like-for-like, notably thanks to a good performance during Black Friday. The stores are also showing a clear decline in their sales despite a comparison basis and a calendar effect which were both very favourable.

As far as the growth margin rate is concerned for continuing activities, we consider that there should be 30.4% of the revenue, down by about 20 basis points versus 2018. This slight decrease comes from three main factors.

- First is the loss in volume of Christmas sales due to the strikes as well as the negative impact on the mix related to editorial products, estimated at about -15 basis points on the yearly growth margin rate.
- Second, the technical dilutive effect of the development of some franchises, estimated to be -15 basis points.
- Third, the product and service mix effect is slightly positive. In fact, the margin rate for small electrical appliances is down, but it eased in the fourth quarter. In addition, the negative impact of the introduction of the new telephone insurance offers remains in line

with expectations. These negative mix effects would be offset by the positive impact of the Nature & Découvertes integration which is estimated at around +50 basis points on the annual gross margin rate.

Regarding costs, thanks to good control and good execution of performance plans, the Group would be able to maintain its operating costs stable at constant scope of consolidation, which is in line with the objective of our annual performance plans. Costs would also be stable as a percentage of total revenues after the integration of Nature & Découvertes. As a result, recurring operating income from continuing operations would reach approximately 293 million euros. It would include a contribution from acquired companies of slightly more than 20 million euros in 2019. The operating margin from continuing operations would thus reach 4%.

Concerning Free Cash Flow, the Group's good execution and the contribution of acquisitions should enable it to generate Free Cash Flow excluding the impact of IFRS16 of approximately 170 million euros, an increase compared to 2018, despite unpredictable and significant revenue losses related to the December strikes.

I turn the floor back to Enrique to talk about the future.

### **Enrique MARTINEZ**

I would like to conclude briefly by saying that these estimated performances, which reflect the impact of exceptional social movements, are for me proof of the strong resilience of our Group, its agility and the unfailing commitment of its teams. If we look ahead to 2020 with the necessary caution and the expectation of an end to the disruptions linked to social movements, which have been impacting us for several weeks now, our ambition is to continue the successful implementation of our Confiance+ strategic plan, and to continue to grow our market share in all our segments.

We remain confident in our ability to generate growth in services, particularly from the anniversary date in May of our new telephony insurance partnership, and through the roll-out of our new Darty Max service. Finally, the contribution of acquisitions would be slightly lower in 2020 on our current operating income, due to the technical effects of seasonality.

In the medium term, the strengthening of our commercial leadership, our capacity for innovation, the excellence of our banners and brands, and our investment capacity enable us to confirm our objective to deliver a growth of our revenue higher than our markets and a current operating margin of 4.5% to 5%.

Thank you for your attention. Jean-Brieuc and I are now ready to answer your questions.

## **Questions and Answers**

### **Steve LEVY, MainFirst**

Good evening, everybody. Thank you for letting me ask the first question, which is about the working capital requirements. What will be the impact of deconsolidation of the Netherlands on the working capital requirements? Second, on the objectives for 2020, does the slight growth in

turnover and the current operational result imply an increase in the free cash flow for 2020? Could you please give us an idea of the growth in Belgium, so we can have an idea of what the deconsolidated turnover would be for 2019?

### **Participant**

Thank you, Steve. As far as the free cash flow is concerned, the EUR 170 million does not include the impact of the BCC free cash flow. We will give you the exact impact of the BCC free cash flow when we publish the accounts but when you look at the impact of the deconsolidation of BCC on last year's free cash flow, we can see that it is quite marginal, a bit less than EUR 10 million. We will give you the exact figure for BCC in 2019 when we publish the accounts, at the moment BCC is not included. We do not gain on the free cash flow in 2020. We should have a slight increase in the current operational income, but it is too early to say whether we will have an increase. Somebody said that there should be an increase. I assume the question was about the Netherlands and not about Belgium? One or the other. The idea is to recover the organic and underlying growth in Benelux in 2019. We will give you all the exact figures when we publish the accounts. We are closing the accounts and at this stage we are not giving you the turnover per quarter in detail. Everything will be available when the accounts have been audited and published. We will give you all the details at the end of February, but you have the BCC impact for last year, so it is not that complicated to make a quick calculation.

### **Steve LEVY**

One last question. Could you please quantify the impact of Darty MAX on the growth margin in the fourth quarter?

### **Participant**

I think it has contributed to a good performance of the service. It is too early to tell you about the impact and the performance of Darty MAX, but it is not significant for the results.

To come back to BCC, Steve, overall the turnover was about EUR 400 million for BCC, but we will give you the exact figures at the end of February.

### **Steve LEVY**

Thank you very much.

### **Geoffroy MICHALET, BHF**

Good evening, thank you for taking my question. My question is related to free cash flow of EUR 170 million, which is quite a lot higher than the estimate despite the adverse side-effects of the strike. Could you tell us why you are confident that free cash flow is so positive despite the context?

### **Participant**

There are a few elements, but I would like to repeat that it is an estimate. We have not closed all the accounts yet and all the debt. We suffered from declining sales in December with a loss of EUR

70 million in turnover and the free cash flow is also due to the acquisitions, with inclusion of Nature & Découvertes brings in some additional cash flow. Free cash flow should be slightly higher and you have heard about the current operational revenues and a lot of work has been done on the stocks and mostly on the rear margin cashing, which has been done very well. We should have a very good quality free cash flow given the economic context.

### **Alexandre CAZES, Cazes Associés**

I have a question about Nature & Découvertes. Unless I am mistaken, there is a lot of information missing; the acquisition price, yearly performances, long-term performances.

### **Participant**

We are at the beginning of the integration, so it is difficult to assess this.

### **Alexandre CAZES**

Could you please give us this information now, or are you going to come back to these exact acquisition terms for Nature & Découvertes, the past results and the results during the first months? The second question is about the Netherlands and BCC. When we look at the sector, we see that there are 49 stores making about EUR 1.5 billion, about five times what BCC is doing. Have you approached CECONOMY, or do you intend to? Or did you feel that the BCC and the other format are not the same and therefore you are looking for another partner? Third, on the loss of turnover. I know that you never want to come back to the Fnac and Darty format, but about the loss of the estimated revenue, logically it would affect the Fnac more than Darty. Could you please assess whether the ratio would be 40:60, 40% for Darty and 60% for the Fnac? Please could you give us an idea of the breakdown on that loss of revenue? Since we do not have the revenues per country it is difficult to assess the situation and I have other questions about Spain.

### **Participant**

We are going to try to answer the three questions. On the first question, we do not have the information about the acquisition of Nature & Découvertes at this stage because we thought there were more immediate things to share with you. We will give you the information when we publish the results, but Nature & Découvertes was also affected by the social movements in the same way as Fnac and Darty, because they have a strong presence in city centres. As a result, we have said that the loss was greater for Fnac than for Darty, at about two-thirds to one-third. The main reason for that is that Fnac has a much stronger presence in city centres than Darty, especially in Paris and the main Parisian stores have been badly affected. Also, by definition in France the Fnac is a very popular brand store for Christmas gifts and that is where the impact of the strikes is the greatest.

On the third question about BCC, as you said, since we decided on a continuation of the activity, we are looking at possible partners. We have started a very transparent and open process and I believe that [inaudible] was also contacted and informed but it is too early to give information at this stage. I think it would be logical to say that there is a possible candidate who might be interested.

**Steve LEVY**

There are not that many questions, so I would like to ask another about the dividend policy. Is it going to change in 2020? Would it be on a longer-term basis? I also have a question about the organic growth. Except for the franchises, will it be positive until Q3?

**Participant**

On the dividends, first of all we have to close the accounts and have a discussion with the Board of Directors in the next few weeks. At the moment, we are just making that preliminary statement about the results. A door could be opened in 2019 in view of the positive and negative elements of our acquisitions. However, we need to talk to the Board about resource allocation before we make any announcement, to anticipate any dividend policy. We are not going to give that indicator today, Steve.

**Steve LEVY**

Okay. Too bad.

**Steve CHARLOT, Sycamore**

I have two questions about the number of visitors in December. You said it was impacted by about -16%, was that compensated for by Internet sales? It does not seem to be the case according to the figures that were shared. Could you please give us the information? What about the guidance in 2020 about slight growth, is it organic growth?

**Participant**

On the first question, there was a very strong impact on store visitors, mostly in Paris. The Internet activity resisted but did not benefit from that loss of sales in the stores. The e-commerce performance overall was quite disappointing for all players. We do not have the data, you know market consolidation and all the different activities, but the first indicators seem to highlight that e-commerce has resisted but not benefited from the loss of sales in physical stores.

**Adam COKERS, Rob Cook Investments**

I just wanted to confirm the numbers for revenue, what is included and what is not. That 7 340 excludes BCC and I may have missed it, but I think you said how much BCC was. I just wanted to get the revenue numbers with and without the discontinued operation.

**Participant**

We did not hear you very well. If I understood the, EUR 7.3 billion excludes the BCC sales and all the figures we published today in the press release or during the conference call, exclude the figures from BCC. BCC would have represented something like EUR 400 million of sales if we were to consolidate it, but we will not.

**Enrique MARTINEZ**

Thank you very much. We will meet again in February for a complete report on our 2019 results.  
Thank you very much.