Fnac Darty Q3 2020 Results

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London – 020 7870 7100
www.global-lingo.com

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Operator: During your call, you will be on listen-only, but we will give you the opportunity to ask your questions at the end. You can do this by pressing star one to record your question. You can also write in your questions on the webcast. If you're listening on a phone, please press star and you will be put through to an operator.

I would like to give the floor to Mr Enrique Martinez, CEO, for the rest of the conference.

Enrique Martinez: Thank you very much, and good evening, everyone. Thank you for being with us live. We're going to be sharing with you our Q3 revenue. I'm with my colleague, Stéphanie Laval, who just joined us as the Head of Investor Relations for the Group. I'd like to wish her a warm welcome.

Before I give the floor to Jean-Brieuc to get into the regional performance and to answer your questions, I would like to give you some of the key highlights so that you can understand our performance over Q3.

First of all, this quarter, we operated at sufficient levels, given the current public health crisis. Despite the ongoing public health crisis, we have been able to maintain retail and services to help our clients in this period of upheaval. We remain fully on board to manage this crisis, as we have shown ourselves capable of since March.

Our teams and our clients are our priority during this period. We have reorganised to this end to better support our staff, and we have implemented a number of measures to face the challenges brought about by the current context. We are satisfied with our current operation, especially in its digital components, services and retail, with the commitment from our teams.

More concretely, I would like to underline that today we are presenting a solid growth of our revenue with +7.3% like-for-like for the quarter. This is driven by retail performance and also our online performance, which is up 30%. We're continuing to gain online market share and Click & Collect was very popular this quarter, with the Click & Collect share up this quarter Group-wide.

This shows the relevance of our omni-channel approach and e-commerce platforms. Unfortunately, we are still seeing a delta between the Northern Europe sectors and the Southern European sectors. We've seen strong growth in France and Belgium. However, the Iberian Peninsula is still sluggish with less growth and is being driven down by restriction measures that keep people out of retail space. And unfortunately, this has been damaging for Fnac.

We were not able to offset the loss of foot traffic. The performance for this quarter has enabled us to limit the drop in revenue to less than €5 million dated end of September, a drop of 4% for our turnover like-for-like over the nine first months of the year.

Despite these issues, we have continued our strategic rollouts and our innovations, striving towards our goals with the launch of our new Fnac+ card. This card will enable us to increase the number of loyalty subscribers and to cross-fertilise between Fnac and Darty. We have more than 9 million subscribers, 7 million of whom are in France.

We have also strengthened our partnership network with our Swiss partners. We will be deploying four test shops in our premium spaces in Switzerland. These partnerships could be rolled out further in the Spring 2021, which would enable the Group to significantly strengthen our position on the Swiss market and continue to develop our Click & Collect offering.

This quarter we have also announced that we entered exclusive negotiations with Mirage[?] Retail Group for management of our – of 5% of our Netherlands business. In January 2020, we announced to this end, and this once again shows the speed of execution that we can have. They have excellent experience in business management in the Netherlands and should help us fully seize opportunities in that market.

And finally, we have continued supporting our clients and informing their purchase decisions. We launched our third version of the After-Sales Barometer to better inform our clients about the lifespan of their products. And furthermore, we have broadened our range of products available in our Darty stores, and have strengthened our position on the leasing market, which is a strong growth market, by opening the Darty leasing offering to all of our white goods at Darty.

We also have new Darty Max clients this quarter, which is our repair service. We strongly believe in the subscription model and it has become a go-to service for us.

As said, I would like to give the floor to Jean-Brieuc to run down the performance. And then we'll be here together to answer your questions after that.

Jean-Brieuc Le Tinier: Thank you, Enrique. Good evening everyone. First of all, Group level, quarterly sales saw a good momentum up 8.5%, up 7.3% like-for-like. In an unusual environment, due to unprecedent situation, revenue at €1.859 million, around €12 million relating to Nature & Découvertes integration. I'd remind you that we have integrated them since 1st August 2019.

We're adding[?] July to have like-for-like. During the quarter, we were somewhat hit by shift in the sales season versus previous year. August-September saw renewed back-to-school purchases and good sales momentum.

Category performance. White goods saw a good momentum for large and small appliances. And the heat wave also had an impact. The Group continued increasing market share in the area of large appliances. And now consumer electronics continues to grow due to remote work and also telephones and television saw a growth, down somewhat. And photography, for structural[?] reasons, saw a drop due to reduced travel during the health crisis.

In addition, editorial books up, thanks to Click & Collect in all of our stores. Audio and video continues seeing flat growth. Online games somewhat problematic due to some – some releases we did[?] last[?] September[?]. We saw strong growth elsewhere in games and toys design, and we saw continued kitchen sales.

We see some growth in the quarter. We saw gradual[?] normalisation of sales, services in stores and continued winning of new customers through Darty Max. Henceforth, it's possible to take out this product offering via the internet. Ticket sales were still hard hit by the health crisis. Price[?] activities will continue to be down into the second half of 2021.

Now, let's talk about our omni-channel growth, which continues. We saw strong growth here, around 30%, representing over 12%[?] of total Group sales in Q3 versus 18% online sales during the same period last year. We see good momentum, new web clients during the quarter.

Omni-channel reaching 40% of online sales during September. 50% online sales in Q3 alone, up around 1 point compared to Q3 of 2019. And again, the context has been a drop in the store footfall. And we have full alignment on our omni-channels in our geographies.

In line with our omni-channel strategy, we've continued our expansion in the quarter. We saw store openings wholly owned as well as franchises. Franchises saw a good performance since the end of lockdown. The Group will continue store openings selectively in Q4, mainly in that format.

Integration [inaudible] continued in the quarter, opening six new corners[?], total point of sales at 106 as at the end of September.

Lastly, kitchen offering, good momentum, strong development with new external franchise holders, seven additional points of sales in the quarter. Total points of sale are some 125 as of September.

Now, to talk about regional sales in Q3. As we already said, we saw strong growth, up 10.1%, cumulative +9% like-for-like, driven by online sales to around 30% and a resumption of in-store sales. Important to realise, in-store traffic is still down in large shopping malls and this continued working from home.

Conversion rates generally up, consumers still determined to make purchases. Consumption patterns, Bank of France published figures recently. White goods saw strong growth in almost all segments, large and small appliances. Performance of technical products continues to be good, driven by televisions, telephones and remote working items, whereas photography and sound are down.

Furthermore, the quarter saw good resumption in book selling, driven by the internet. Diversification saw strong growth, due to urban mobility, toys, design, kitchens and so forth. Nature & Découvertes saw good online sales and good performance in books and decoration.

Lastly, services saw slight quarterly growth, boosted by more store footfall. But there was quite a decline in ticket sales.

Now, the Iberian Peninsula. Q3, sales down 3.7% published and 6.1% on a like-for-like, in spite of strong growth in online sales and consumers very much – highly interested in Click & Collected, but they're highly exposed to [inaudible] stores, many of which were closed for health reasons in Q3. For instance, in last week of September, we saw a drop in tourism and in-store sales.

We saw local lockdowns and restrictions, particularly in Madrid and Barcelona, that impacted Spain, which did see increased sales in TVs and IT. Portugal hard hit by restrictions enacted in the various cities such as Lisbon, having impact on shopping centres' footfall.

France and Luxembourg see an increase in sales by 7.9%, as is reported, and up 6.6% like-for-like, driven mainly by continued growth in online sales, good momentum in appliances, even though there is still substantial competition in the segment.

Now, let's talk about the change in gross margin. Q3, gross margin rate down –50 basis points versus last year. This drop is mainly due to the negative effect due to a drop in ticket sales, two-thirds of the impact, and dilution to the strong growth in franchise business – it's about a third of the impact.

Product services mix slightly negative, offset by positive impact as the Nature & Découvertes integration in July.

Furthermore, I may have questions on renegotiating rent with landlords. These continue and they're interesting and material. We will disclose actual figures when we give the annual results.

I will hand it back over to Enrique, who will talk briefly about the outlook.

Enrique Martinez: Thank you very much. I hope that you've gathered from that that we do have strong dynamics and put in a solid quarter. We're quite happy with that. And I'd like to commend all of our teams and everyone who trusted us over this time.

Generally Q4 is very important for business and its upcoming, so we need to remain vigilant going forward. Of course, there will be digital and logistics issues, but I believe that we are set up to cautiously be able to be confident in the quarter to meet the needs of our customers.

Cash flow, costs and investments will remain a priority for us. We remain concentrated on our operational and sales performance and we'll continue to launch new exclusive products between now and the end of the year. As you know, we have important launches in phones and computers starting from Friday. That will be the launch of the new iPhone.

And all of this should enable us to explore new heights of growth. And then we have the strong business periods of Black Friday. We have good relationships with our suppliers and the entire ecosystem, which should enable us to solidify our position as market leaders.

Furthermore, to prepare for the upcoming months, we will be 100% digital for our annual retail conversion. I would like to congratulate the teams for the results they have shown, but we want to go above and beyond. Our retail teams and our sales teams will be able to come together around these innovative products and services. A number of our suppliers have also signed up to our pact. And we are going to need all of our energy going into the end of year period.

So, there you go, in a nutshell, what we had for you this evening. Mr Brieuc and myself are available to answer any of your questions now.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question over the phone, please press star one on your handset. Make sure that your phone is not muted before you ask your question. I will then contact you directly. I will take your name and then I will alert you when it's time to ask your question. Once again, star one to ask a question. Our first question is from Kepler.

Aurélie Husson-Dumoutier (Kepler Cheuvreux): Good evening, everyone. I have two questions. The first question, I know that we're always asking for more, but could we maybe get more information on the October trends? Are we looking at a continuation of September? Is the French curfew likely to affect business? Could maybe you reassure us about October and show us that it's in line with the trends?

Secondly, my question on ticketing. I imagine that ticketing has been down since the beginning of the year. You've only just brought it up now in its impact on gross margins. Why did you decide to bring it up now? And is it simply to temper expectations for the entire year for 2020? Thank you.

Enrique Martinez: Thank you, Aurélie. I can answer your first question. October has just started and October is significant for the quarter, so we will refrain from comment for the time being. As you know, the quarter really plays out from 15th November onwards. So, for the time being, I would like to not feed speculation about the quarter.

We have fully prepared for this quarter with all of the measures at our disposal. However, the public health situation remains uncertain in every country. So, I would like to refrain from informing you on guidance for Q4 at this time.

On ticketing, the ticketing situation has, of course, been difficult for a while. The drop in margins has been there since the beginning of the lockdown, a little bit less visible at the very beginning because it was drowned by other margin drop effects.

Ticketing was one of the effects that we felt at the beginning of the year. As you've seen, we have been able to rectify the trends for margins. We've just maintained our legacy business for ticketing. And for the time being, we can't really talk about this quarter. We would, however, like to signal that ticketing business is likely to be difficult all the way into second quarter of 2021.

Operator: Thank you. Next question from Clément Genelot.

Clément Genelot (Bryan Garnier): Good evening, everyone. Two questions. What are your figures on consumption from July to September? Do you believe that households have been reallocating funds away from travel towards home, or do you believe that people are already pre-purchasing for the Christmas period?

And my second question is on Q4. What is your opinion on Amazon's new tactic to implement sales outside of Black Friday throughout October? Do you feel that Amazon is disrupting the sales pattern of the fourth quarter?

Speaker: Okay. Thank you for that question. On the first one, we have not done any in-depth study on purchasing behaviour, but I do not believe people are already purchasing for Christmas before time.

As you just heard, a lot of our sales are coming from categories where people typically purchase for themselves, television for themselves, a computer for themselves for remote working, white goods, etc. These are things that people buy for their own use rather than seizing sales opportunities to buy for Christmas.

I think people are catching up on purchases that they didn't make during the lockdown. And I think people also looking to invest in their homes. They're spending more time at home. They're spending less money going out to restaurants, for example. So they're investing in the tools they have at their disposal at home, as we're seeing in our figures.

So, yes, I think that the purchases have been seen throughout the period, but it's mainly for self-use. On the topic of sales, as we have seen, it's been an atypical year, especially for players such as us. We're not seeing any promotional pressure this year. The changes in dates for the sales have changed our outlook may be a little bit, but we are not feeling any particular heat from competition.

And on the topic of Amazon that you mentioned, I think that customers are smart enough to see that may be jumping on an early sale is not the best idea and maybe it's just a way to get some purchases out of the way before Black Friday. People have been trying to set up sales in July and people have never really bought into it.

But Black Friday, its impact, we can say that there isn't growing sales in Black Friday in the last five years. We've got to also consider this in terms of digital. Black Friday is a promotion that began online and then spread to brick-and-mortar stores. But it's still got a real digital presence.

You've got more and more customers who are active on the digital platforms, darty.com, and that's broadened the base for Black Friday. But unconscious to the degree that the overall contact is highly unusual in this epidemic, which is having an impact.

Clément Genelot: Okay. Well, then thank you. Thank you for that follow-up question.

Operator: We have a question. If you would like to ask a question with your telephone, please press star one if you'd like to become part of the queue. A participant has recorded their question. Please wait a moment.

Thank you for waiting. Next question on the line.

Speaker: Yes, good evening, everyone. [Inaudible]. I had a question. Could you tell us about cash generation in Q3?

And then second question, are you expecting – you give a plan if there's a second lockdown in upcoming weeks, would you be more prepared than previously? In terms of base effects on the various scenarios you have, are you expecting negative growth? And even if there's a renewed lockdown last[?] year[?], does[?] the labour movement pick[?] off some €70 million in revenue? So, I was wondering what your thinking is in terms of these various scenarios?

Enrique Martinez: Well, as in March during the lockdown, in a few hours' time we shut our stores, shifted 100% to digital. If we have to do it again, we would. We certainly hope we won't have to, but if we had to, regionally or the whole country, in any country, we're certainly prepared to shift as we did previously, just as we were prepared to do so. And undo things and reopen stores, we were able to do this on the appropriate schedule as lockdowns were eased. But certainly operationally, we're ready for any and all scenarios.

In terms of projections, base effects and so forth, I won't comment until the Q4 projections. I can just say that last year, we did see some labour movements that impacted France, especially Paris.

We've had a stable situation, a normal situation I would say to you. You're right, the effect of the epidemic maybe this, maybe that, but I'd like to not give a specific comment.

Now, on to cash, Jean-Brieuc.

Jean-Brieuc Le Tinier: We never comment on cash flow during the year. All we can say is since April, we didn't use the guaranteed loan facility.

Operator: Next question, [inaudible], you have the floor.

Speaker: Good evening. Thank you for fielding my question. I was wondering, could you talk about new web customers? You gained over a million during lockdown, and if I recall right, this was [inaudible] momentum in the previous quarter. Is this continuing at the same pace in Q3, or was there a slowdown in new web customers?

Secondly, online sales; sales driven by new customers or online sales mainly to existing – pre-existing customers? Thank you.

Enrique Martinez: Thank you for the question. Yes, we've still got very good momentum in terms of getting new web customers going well beyond figures pre-lockdown. We'll wait till the end of the year to give a specific figure on this, but we can say the overall momentum is very good in terms of new online customers.

Growth, 30% in digital business, firstly through thanks to the new customers. So, partially thanks to new customers. But whilst we're talking about loyal customers, often many in-store sales; there's a blend of in-store and web sales to existing customers. All this has boosted online sales further.

Speaker: All right. Thank you for answering that question.

Operator: Our next question from Geoffroy Michalet from ODDO BHF. You have the floor.

Geoffroy Michalet (ODDO BHF): Good evening. Thanks for my questions. I've got two. Firstly, on gross margin. I'm wondering, could you quantify the scale of the impact of Nature & Découvertes on your gross margin on the products and services?

Next question, OPEX. I know that you don't give specific figures, but qualitatively speaking, can we say that considering the strong resumption in Q3, have you adjusted your initial plan of adjusting this to use some leverage? Might there be a readjustment?

Speaker: As you said yourself, we don't give guidance on OPEX. Let me just say much of the OPEX is variable OPEX. In other words, when you're growing your business, lines of OPEX grow. Sometimes they adjust upward. Some cost, operating costs, logistics deliveries and so forth grow at the top line growth.

We've got a quarterly OPEX plan, which we adjusted to the business levels. I won't give specific figures, but I can say we're satisfied that we managed in the quarter and overall economic performance. Gross margin for Nature & Découvertes, we don't give specifics there, probably not really material. The impact much more similar to the franchise effect.

Geoffroy Michalet: Thank you.

Operator: Thank you. The next question, Marie-Line Fort from Société Générale. You have the floor.

Marie-Line Fort (Société Générale): Good evening. Could you please tell me, after negotiations with Mirage Group, can we expect new provisions on sale of the subsidiary, BCC[?]? Other question, where do you stand in terms of your dispute with franchise holders?

Jean-Brieuc Le Tinier: Onto your first question, if you look at the financial as of 30th June, you can see we're [inaudible] net asset €38 million in our financials. Some of it was booked. There's probably an equivalent amount. Not as a provision, but as an impairment under IFRS 5 in the financials. No cash effect. No impact on net income nor earnings.

Enrique Martinez: So, regarding the franchisees, we are delighted to see the business for the franchise holders is very dynamic at the moment, especially in France. All of these stores are operational. And they have been putting in growth above that of the integrated retail space. I hope that we can find an agreement quickly, so we can turn the page on all of this.

To move on from the last month, relationships are good, that's the important thing and we're working on an agreement. We haven't found the agreement yet, but I hope we will soon.

Speaker: Thank you. We now have a question from the webcast. Three questions from Mr Pierre Dene[?]. The first question, is it possible to have a reminder of online sales for Q3 and last nine months?

Speaker: That is +30%, overall +7% because online sales were up 30%. Does that answer your question?

Speaker: Second question, ticketing, the share of ticketing.

Speaker: That was included in services, it was a small part of the services business for the Group. Nowadays, it's an even smaller part of services because as we discussed, it's been heavily driven down. I think it was about 10% of the overall, and then even smaller part of services. So, it doesn't have a significant impact on margin rate, because we mainly look at margin rate rather than revenue.

That's exactly it. As a follow-up, we look at the profit made on each ticket rather than the face value of each ticket, which is therefore much lower. Therefore, the margin rate for the ticketing business is quite high.

Speaker: Thank you. Third question. Amazon's Prime Day being shifted to October, did that drive down to your online sales and did it affect your website traffic over that period?

Enrique Martinez: So, we're not commenting on the October Prime Day. I'm sorry, we'll get back to it at the beginning of next year, is the answer. Sorry, that may have been a little bit on the nose, but we've said we're not commenting. We won't comment until we announce the annual results.

Operator: We now have questions from the English line.

Speaker: And we have a question from the English webcast. The question is, can you talk about market share and how your long-established Click & Collect infrastructure positions you versus both Adam Crocker, Amazon and also these smaller brick-and-mortar players? Does this online/offline flexibility amid the virus improve your relative long-term positioning? And that question comes from Adam Crocker[?].

Enrique Martinez: Okay. We don't have anything for you on market share. I think if you look at the Banque de France data that was published and our own figures, I think you can see that the changes are pretty evident. That's all we're saying for the time being.

As to Click & Collect, I'm not sure I fully understood the question because we're being compared to Amazon here that doesn't use Click & Collect. I assume the question is whether we have pushed Click & Collect to face Amazon's model with a different model. The answer would be yes, with an increase in activity. And that's one of the strengths of our sales model, in fact, the combination of brick-and-mortar and online. We're seeing a strong uptick in Click & Collect for our cultural offering with items such as books being opened up to Click & Collect, which has helped the stores get part of the revenue being siphoned through the online platform.

If I haven't fully answered your question, feel free to ask for follow-up.

Operator: We have no further questions on the webcast or the audio line. Therefore, I would like to give the floor back to our hosts to wrap up.

Enrique Martinez: Okay, I hope we answered your questions. In any case, we would like to thank you for your attention and your virtual attendance and we will see you in February for the annual results. In the meantime, stay healthy, keep the virus away and have a good evening. Thank you.

Operator: Thank you for your participation in tonight's conference. You can now hang up.

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