

**FNAC DARTY**



# **Fnac Darty Q3 2022 Results**

Thursday, 20<sup>th</sup> October 2022

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Transcript produced by Global Lingo  
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## Fnac Darty Q3 2022

**Operator:** Welcome to this presentation of Third Quarter 2022 revenues for Fnac Darty. My name is Diana, and I will be the coordinator for today's event. During the call, you will be listening in listening mode only, but there will be a Q&A session after the call. You may ask a question by pressing star one on your device. This will record your question. If at any help you – if at any time you need help, please press star zero. This will connect you to an operator.

And now I will hand over to Mr Jean-Brieuc Le Tinier, who is the Group's Chief Financial Officer. This conference may begin.

**Jean-Brieuc Le Tinier:** Good evening, everyone. I'd like to thank you for taking part in this Fnac Darty third quarter revenue call 2022. As is customary, the press release and the presentation are available on our website. I'm assisted by Stéphanie and Marina from the Investor Relations team. We're beginning our call by commenting on Q3 revenue and then talking about outlook. Afterwards we'll field your questions.

Let's begin with slide two. We're very pleased again to report our sales during this quarter, which are stable in our reported data, €1.849 million – billion. This year sales began one week earlier than last year, making for a negative 60 basis points. Offsetting the calendar effect, Q3 sales grow by 0.03%. If we compare this to the pre-crisis level, quarterly sales continue to be well above those of Q3 2019 by up 7.2% like-for-like, boosted by the overall rise in the purchase basket.

Good performance in the stores is the reason for this good resilience and e-commerce is starting to normalise. E-commerce still continues to be very high, representing 21% of total quarterly sales, up 3 points versus the pre-crisis level. It's a good fit, our stores and digital platforms. The complementarity demonstrated yet again in this quarter. Click & Collect portion in online sales is 47%, very near the normative rate of 50%, which we've always observed.

Lastly, let me briefly comment on gross margin trends, stable this quarter compared to Q3 2021. If we exclude the dilutive technical impact of developing franchises, which has an impact of around minus 20 basis points, the product mix in the quarter impacted by strong performance in telephones, with the launch of iPhone 14 in September and normalisation of large appliance sales, offset though by good momentum in services and books.

All in all, in the first nine months of the year, the Group is still displaying a growth in gross margin of 70 basis points, which is 90 – up 90 basis points, excluding the franchise effect.

Slide three now. Let's look at sales performance by region and product category during the quarter. The first zone, France, Switzerland shows good resistance of sales, minus 1.8% like-for-like data, driven by good performance in stores.

In Q3, the Group opened 8 stores in France, three Fnac's and five Darty's, all in the franchise format. Furthermore, performance of the zone is bolstered by good momentum in small appliances and books, thanks to the literary season and the positive impact of the Pass Culture. Services continued to grow well, thanks to new subscribers to Darty Max inter alia.

Now, Belgium and Luxembourg, stability of sales with comparable data in the quarter in spite of strong inflation and very strong competition.

Lastly, the Iberian Peninsula sees growing sales in the quarter, up 2.5% like-for-like, driven mainly by Portugal. Spain seeing a great deal of competition. In spite of this, nevertheless, thanks to excellent business execution and gradual uptick in store footfall, we're seeing good growth, which more than offsets the normalisation of digital sales, which we're going to see in both countries.

Now let's look more specifically at performance by product category.

Appliances. Volumes sold are down since the beginning of the year, particularly when it comes to entry level products, whereas average prices of the category grow. The strong competition. After two years of growth, large appliance sales continue to stabilise, normalise, whereas small appliances remain stable. However, sales in this category remain above those of the pre-crisis level in 2019.

Consumer electronics showed good resistance in this quarter, driven by strong growth booked in telephones with the launch of iPhone 14, which led to a very high level of pre-ordering. Furthermore, photography and audio have grown nicely to some degree offsetting the slowdown in IT and TV, with an eye to the World Soccer Cup taking place 20<sup>th</sup> November to 18<sup>th</sup> December.

Editorial products continued to show good momentum, driven by various things such as vinyl records, which are very enthusiastic about, as well as books and the extension of the Pass Culture to middle class students. Since its launched, the Pass Culture has now got two million young members versus gaming, where we're seeing the market is somewhat down due to the lack in availability of the PS 5 since its launch in 2020.

Lastly, in the quarter, services saw growth in number of subscribers to Darty Max, resumption in ticketing, as well as good consumer lending business, good momentum there.

Let's look at slide four. As a leader in specialised retailing in its various markets, Fnac Darty is endeavouring to meet the expectations of consumers and also continue rolling out its everyday strategy plan. Thanks to our strong business execution, the Group is providing good availability for a wide range of products at prices that are adapted to everyone's needs. Therefore, to meet the consumers' request for the greatest news items, Fnac Darty has a relationship based on trust with its suppliers to be able to provide innovative products, high-end products exclusively, such as our top position in France has meant that we got early availability of iPhone 14. We have significant numbers of pre-orders booked as from the launch in September.

The Group has been able to really meet demand that consumers have for the new generation of foldable phone such as the latest Samsung Galaxy Z. For that, Fnac Darty has a good overall set of stores organising lots of sales events. The Group has been focusing, for instance, on bundles of IT products for students and remote workers. The Group is also organising strong sales events for the launch of novelties, new releases. Think of the Fnac literary award, the back to season awards and new literary season awards, the gaming tour for the new release of FIFA 23 game.

Fnac Darty adjusted sales policy realising that consumers are feeling a dip in purchasing power due to inflation, and we've got budget-friendly products labelled as such. The Group is also continuing initiatives to find alternatives to buying new products. There are actions as second life products, for instance, particularly for consumer electronics and appliances.

The Group is continuing to provide customers with well informed choices, giving them information on product reliability and repairability. On that point, the fifth edition of the After-Sales Service Barometer was published last September. This information tool is a real benchmark for the public at large. Henceforth, it includes, in addition to various criteria such as reliability and repairability, also includes price of spare parts.

This provides information to the consumers that can compare all the product categories with the various brands and move towards a more sustainable products. We're continuing the rollout of Darty Max being available now in Fnac stores, so that it's possible to promote repair versus systematic replacement. Now we've got more than 1.9 million products, which have been repaired since the beginning of the year.

And on that point, to support the ramp up of Darty Max and the recruiting of 500 additional technicians by 2025, to that end, we opened our own apprentice training centre to train repair technicians. After their training, these repair technicians get a service technician's diploma for connected appliances, and we give them a job contract after that.

Next, we're very proud of our commitments in CSR. And we once again were rated by Moody's ESG Solutions. The Group in – is part of the top category for the first time called Advanced A1+ with a score of 61 out of 100, up 7 points over the one-year period, up 17 points over a three-year period. All the components, E, S and G grew this year very significantly so for the social component, up 9 points in a one-year period.

Fnac Darty is in the top five in the area of specialised retail companies and top 5% worldwide. This recognition demonstrates the environmental, social and ethics as well as governance considerations are considered part and parcel of the Fnac Darty business model and in line with our everyday plan.

Lastly, a few brief words to talk to you about the current situation year-to-date and the outlook for this Group.

Slide five. We are very satisfied to outperform the markets once again as of end of August in a context, where we're seeing high inflation and pressure on purchasing power. This performance should be confirmed again tomorrow when there's publication of the September data by the Bank of France. This strong momentum is a reflection of the success during the back-to-school period, and also thanks to good management of the supply chain. We've got stable inventory rotation over a one-year period. Therefore, we continue to be confident in the success of our end of year events, which are particularly important for us, assuming the overall social environment in France doesn't disturb our activities.

In this context, the Group continues to be focused, first of all, on solid business execution to ensure success of the major sales events such as Black Friday and Christmas. For the first time, there'll also be, in Q4, the World Soccer Cup. We've got a good level of products availability in all of the categories that are especially popular during these main events at the end of the year, such as TVs, where we're leaders in sales for TVs in France.

Secondly, we are keeping an eye on our gross margin level, even though the mix towards the end of year tends to be less favourable in this area. We've demonstrated over nine months. We continue passing on price hikes, all the while providing a very broad range of products and

services. We're also further bolstering our cost discipline, continuing with our performance plan to offset the impact of inflation even better in the second half.

On this point, wage increases should be somewhat more significant in the second half with the full effect of the annual pay increases versus the four months affecting the first half, plus a sectorial agreement entering into force 1<sup>st</sup> October in France, which increases wages for around two-thirds of Group employees. The impact is a few million euros.

Furthermore, as announced last July, we're still targeting an overall amount of operating investments for 2022 in the neighbourhood of something just under €140 million.

Lastly, the Group is continuing the execution of its everyday strategy plan with an eye to having cumulative free cash flow of €500 million over the period 2021 and 2023 and at least €240 million at an annual pace starting in 2025.

Thank you for your attention. All three of us would be happy to answer any questions you might have now.

## Questions and Answers

**Operator:** You may ask questions. We remind you to press star one on your device to record your question. Once again, to ask a question, press star one. Question number one from Marie-Line Fort, Société Générale.

**Marie-Line Fort (Société Générale):** Good evening. I hope you can hear me well.

**Speaker:** Yes, we can. Go ahead.

**Marie-Line Fort:** First, I had a question for revenue, T3, question on variations of revenue. Could you go back on Q3 2021 revenue? Have there been any corrections made?

Then my second question has to do with services. What was the trend over Q3? Also a word about Nature & Découvertes. Has the return of customers in store actually translated to more sales in Nature & Découvertes?

**Stéphanie Laval:** Good evening, Marie-Line. Stéphanie here. Concerning Q3 revenue for 2021, €1.854 billion – million – 1,854 million, €1.854 billion. So no change. In the variations indicated by Jean-Brieuc, there's a like-for-like effect, also sales – seasonal sales effect. This year, summer sales started one week earlier than the previous year. And so we told you about the effect, minus 70 bps that was definitely an impact but no change in Q3 2021 revenue.

And services, yes, good performance over Q3, thanks to the increase in the number of Darty Max subscribers. We can't give you the number now, but we will with the annual results, but definitely more than on 1<sup>st</sup> January.

Ticketing also was on the uptick first quarter with the impact of the public not fully returning to theatres, etc., but things have been on the up and up since then. As for Nature & Découvertes, yes, customers are returning to stores, revenues are doing better than last year. But remember that last year, most stores were closed. The rate of closure was higher than Group average.

Nature & Découvertes were located in the biggest shopping malls and were not deemed as essential shops. So we are very slowly getting back to pre-crisis levels. It's taking some time.

**Operator:** We have no more questions in the pipeline. And we will remind you that if you do have a question, please press star one. No more questions at this stage on the waiting list. Star one if you have questions. No questions for the moment. Please press star one if you want to ask a question. We have another question from Marie-Line Fort, Société Générale.

**Marie-Line Fort:** Thank you. I'll ask some more questions. The gross margin rate, slower growth over nine months in comparison with H1. What was the impact in terms of basis points over Q3, 100 – minus 100 basis points?

**Speaker:** No, that's not it. We have flat margins with our franchise and with franchise minus 20 basis points. So the margin is – has been stable over Q3.

Over the first quarter, we had a margin mix, which was more positive because people were coming back into stores that had been shut in 2021. And so we had a channel mix that had a more positive effect more favourable than in Q3 and more favourable than Q4. Q4, we're absolutely comparable with last year because no closures Q4 last year. Also ticketing had an impact. We were comparing ourselves last year to S1, where ticketing was closed or big restrictions. And for S2, we're comparing our figures with second half last year with numbers that are practically back to normal.

**Marie-Line Fort:** Another question. How do you envision the end of the year in terms of the big sales and commercial events you were talking about? You mentioned the World Football Cup. Will there be any innovations that might sustain operations and revenue?

**Speaker:** So in terms of our events line up, we don't have anything special coming in. iPhone 14 was launched in September. So we're expecting lots of sales over Q4. That's something significant. Then we have the Christmas, Black Friday cycle and then something new this year, unprecedented, World Soccer Cup over Q4. And so that's going to keep us busy and keep numbers sustained over the entire quarter.

**Marie-Line Fort:** And do you think the impact will be the same? There are lots of people who decided they would not watch the games. So what do you expect in terms of impact?

**Speaker:** Well, time will tell. It's a little bit early to predict consumer behaviour. What we've always seen is that world football cups always translate into more TV sales in the two or three weeks leading up to the event, so early November, let's say. I'd be quite surprised if football fans decided really not to watch a single game.

**Marie-Line Fort:** Thank you very much.

**Operator:** So no more questions in the queue. We'll remind you that if you do want to ask a question, press star one on your device keyboard. There's a question from Emmanuelle Vigneron, HSBC.

**Emmanuelle Vigneron (HSBC):** Hello. I hope you can hear me.

**Speaker:** Yes, please go ahead.

**Emmanuelle Vigneron:** A short question. Could you please recall the differences in gross margins between consumer electronics, editorial and appliances?

**Speaker:** Well, we don't have specific gross margins, but we can definitely give you a ranking. So services, big gross margins by definition. They come first. And then we have editorial

products, that's books, largish margins, and then large appliances. Those generate a lot of gross margin.

And then we have the consumer electronics with smaller gross margins as a category. However, there's a lot of services sold with those products. So that's more or less the ranking in terms of gross margin rates. In some case, it's 40% and higher and down to 10% but per category. So there's quite a big range for a difference.

But once again, consumer electronics, low gross margins, but they are often sold with a big service component generating high margins.

**Operator:** No more questions in the queue. So once more, please press star one if you want to ask a question. No further questions. Yes, we do have a new question from Fabienne Caron from Kepler Cheuvreux.

**Fabienne Caron (Kepler Cheuvreux):** Yes. Good evening. Sorry, I had a little connection problem. I had a question about your product. There's second – previously owned products and your budget-friendly products. Could you talk to us about number of SKUs or volumes? And what's the growth for these product categories?

**Stéphanie Laval:** Hello. This is Stephanie answering. Well, we can say that now consumers have varying expectations. So we've got an offer both highly innovative products to meet things of consumers who are very enthusiastic about innovation, regardless of price almost. We've also targeted various daily products, products that some people need on a daily basis.

Think of the IT bundles for students and for people here in back-to-school season. These are bundles, computers, and printers, for instance. We won't give you specific numbers sold, but no doubt about it, this does help address that type of demand in a situation when there are some people who need this type of product. And maybe having a little hard time here.

These are often entry-level products for the budget friendly wins. We've got a share of premium sales, which is still preponderant. But nevertheless, we want to cover the whole of market needs and consumers' expectations.

**Fabienne Caron:** I understand full well continues the question, but could you tell us how many SKUs we're talking about? How many different products are under the budget-friendly category and the previously owned ones? What are the quantities, the numbers here? You talk about sales, what about supply or products on offer?

**Jean-Brieuc Le Tinier:** We can just talk about the category, not specific SKUs. We can just talk about product categories.

**Fabienne Caron:** What about the pre-owned products is the follow-up to the question? Are you seeing other tailwinds for the pre-owned products?

**Speaker:** On the pre-owned product, yes, think of large appliances. It's possible to cut water consumption, energy consumption, these are consumer expectations. Previously owned, absolutely, there are strong expectations here. We're meeting with expectations, particularly for appliances and consumer electronics. This is doing well.

For the time being though, we're mainly focusing on premium product sales. We've got a great positioning there, and we continue to be well-positioned there.

**Fabienne Caron:** Thank you.

**Operator:** A reminder, if you'd like to ask a question, please press star one on your keypad. A question from Clément Genelot from Bryan Garnier & Co. Go ahead. Clément, can you hear us? If you'd like to ask a question, please press star one. Someone is asking. Can you hear us? We have a question from Fabienne Caron from Kepler Cheuvreux.

**Fabienne Caron:** First of all, yes, we hear you. We hear very well. No connection problem. I believe Clément may have had a little bit of a connection problem. A question of detail. Can you compare availability of the PlayStation 5 at Fnac Darty versus your competitors and also availability of iPhone 14. PlayStation 5.

**Speaker:** Unfortunately, the sound is cutting out. We could not hear. We think we're doing pretty well with the PlayStation 5, whereas iPhone 14, hard to be entirely sure, but all in all, we can say from what we hear and we observe, we think we've been served very well in terms of numbers of iPhone 14 made available to us.

**Fabienne Caron:** Okay. Well, thank you for that.

**Operator:** To repeat, if you'd like to ask a question, please press star one. The question by Marie-Line Fort, Société Générale. Marie-Line, if you hear us? Over to you.

**Marie-Line Fort:** Sorry. Thank you. One last question on premium versus budget products. GFK for the end of the year expects a drop in premium products benefiting low-priced products, whereas I feel that what you're saying, aside from a special offering, you feel that demand is moving upwards in the range towards more premium products, and that's where you are garnering bigger market shares.

**Speaker:** Well, in IT, we still see a big share of premium products. We saw that with the iPhone 14 €1,400 tax inclusive. That's definitely a premium product. Now in large appliances, we see stabilisation of premium sales. Customers are seeing average prices go up and they tend to invest in more durable products because it's a real investment.

Now it's hard to tell for the entire year. The year isn't out, but that's what we're seeing in terms of trend up until now.

**Marie-Line Fort:** And what about the small appliances, where you can find some premium products, how do you see things?

**Speaker:** Sales are stable. We're not seeing consumers move down in terms of price point.

**Marie-Line Fort:** Thank you very much.

**Operator:** If you wish to ask a question, please press star one. A question from Clément Genelot by Bryan Garnier & Co.

**Clément Genelot (Bryan Garnier):** Good evening, everyone. Two questions. The first has to do with your gross margin. We've seen quite a slowdown probably because you now normalised ticket sales. I think that the – my question is whether the gross margin trend over Q3 can be extrapolated to Q4 or on the – or rather opposite, customers will have to end up making trade-offs, and this may have an impact on inventory, you're going to have inventory on our hands? And you have to sell them at cut prices. And then I don't need a number, I would like to comment. What is the impact of strikes in France and the increase in fuel prices? Is that affecting traffic in store.



**Speaker:** Well, you talked about a slowdown in our margins. It's really a normalisation. We're moving from Q3 into Q4 with equivalent product mixes and mix in offerings, both on our web platforms and others. So our gross margin is, I would say, evening out, coming back to more normal rates. As for Q4, we don't want to extrapolate. We have the same number of stores open. Ticket sales are working well. Promotional sales in Q4, the normal thing, promotional sales. We have Black Friday, the World Soccer Cup. Black Friday has a big impact, of course. But most big retailers are looking to preserving their margins and passing on cost increases to their customers rather than taking a hit, a further hit on their gross margin. And I don't see why that would change. Although, as I said, we can't predict what's going to happen on Q4.

Now as for the shortage of fuel and so on. For the moment, we haven't felt a hit. It's quite a recent development all in all. And the problem with fuel supply is impacting the Greater Paris area rather than the rest of the country. So we don't see an impact from at the moment on our sales. However, if this situation should become protracted, we may have a different impact. But for the moment, no impact.

**Operator:** Now one last question from Fabienne Caron from Kepler Cheuvreux.

**Jean-Briec Le Tinier:** Fabienne, are you on the line?

**Fabienne Caron:** Yes, I am. Do you see different customer behaviours in different geographical areas or are behaviours more or less uniform? Of course, French consumers seem to be a little more protected than in other regions. So what do you see?

**Speaker:** In terms of behaviour, well, France is the European country with the lowest inflation. So as you say, consumers are most protected here, namely from increases in energy prices. So things are pretty good. In Belgium, inflation is very high, in excess of 10%, but we've also seen salary increases there. They call it indexation. So mandatory salary increases because they're indexed on inflation. So inflation is very high in Belgium, but their salary increase as well. And things are not too bad there.

In Spain, there's always been high competition. There's higher inflation and lower savings than in the rest of Europe, and as I said, harsh competition. And there consumer behaviour is different. Customers are holding back from consumption, although it's not too bad.

In Portugal, things are good, good revenue, mostly thanks to editorial product sales. And so customer behaviour is patchy different because it's highly dependent on the economic environment in each country, but no big difficulties.

**Fabienne Caron:** And so no countries outside of France, where you see customers shifting downwards to more entry level products?

**Speaker:** No, not at all. Nothing dangerous.

**Fabienne Caron:** Thank you very much.

**Operator:** We have no more questions. And so we can now hear from the CFO for a concluding comment.

**Jean-Briec Le Tinier:** Thank you. Thank you very much for your attention for attending today, and we wish you a very good evening. Thank you.

**Operator:** Thank you for taking part in this conference call. You may now hang up.

[END OF TRANSCRIPT]