Fnac Darty – Presentation of Half Year 2023 revenue

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List of MAIN speakers	Company	Job title
Enrique Martinez	Fnac Darty	CEO
Jean-Brieuc Le Tinier	Fnac Darty	CFO

2023 Half-year Results
Fnac Darty

Operator

Welcome to the conference for the presentation of the half-year results of Fnac Darty. Enrique Martinez, Director General, and Jean-Brieuc Le Tinier, CFO, will be speaking during this call. Gentlemen, the floor is yours.

Enrique Martínez
CEO

Hello. Thank you, everyone. Thank you for being with us for the presentation of our half-year results. I know that the week was tough, so I'll skip to the essentials. I want to first express my support to the stores that had to face riots and the consequences. Most of our stores have reopened; only one is still closed. We have three reasons for satisfaction: we've been resilient in our sales, in spite of the market and the context; we've improved our gross margin, thanks to our multi-channel strategy, and based on value-creation and service.

Agenda

Can I have the second slide? Activities during this semester and then Jean-Brieuc will tell us about the financial aspect, and then we'll have time for questions after a conclusion.

H1 2023 Highlights

As you know, household confidence has dropped after the energy crisis, and we’ve had a drop of consumer activity. Thanks to our operational resilience, we've managed to overcome this difficulty and we've got a reinforced service area, and during the first semester we've also resized our partnership in Switzerland and bought MediaMarkt in Portugal, and this will complete our offer. On that package, we have a plan which worked out successfully for 2023.

Fnac Darty’s solid performance in H1 2023 despite a challenging Q2 2023

As regards retail in France, it's a sector that is under a lot of pressure. The first trimester, we had a drop, and the drop increased in the second semester. That has reached minus 2.5%. Thanks to our resilience and our multi-channel approach, we've been able to make up for this.

H1 2023 Gross margin increasing despite lower revenue

In France, with the sluggish consumption and negative calendar effect, we observe this at the European level, and the €3.344 billion revenue. Of course, there's a calendar effect for the drop in the second semester, which represents about 1.5%, and this is because May was full of Bank holidays and the sales week was postponed to July. Even without this, the second term was characterised by a drop, and we were able however to have one good news, that the gross margin stayed at a level of 21%. If you revise the impact of franchises, it really means an improvement of 35%, and that confirms the model we went for: sustainable quality and good quality service.

Thanks to our unique positioning

Number 7: we've presented the key indicators to follow the financial indicators and evolution of the strategic plan: multi-channel with 79% of in-store revenue. Our objective, as you know, is to reach 30% of mail orders or Internet orders, and this corresponds to a multi-channel model with 49% of people using click-and-collect: they buy online, and they come and pick up their goods, which is the opportunity for some window shopping and a complete in-store experience.

Then, we have a wide range of products and services that shows the diversity of our offer in domestic appliances, technical products, editorial product services. This is important for us because it includes diversification, and it represents 15% of our activity.

Update on our energy efficiency plan

And now, let's concentrate on the energy aspect. We are very committed to going green and reducing gas emissions. It's part of our 2030 objectives, the search-based target, and we have a vast remodelling programme for our stores with installing LEDs everywhere. In the first semester, we should be investing part of the €20 million which is planned for the coming years for changing the lighting system and the electricals. We have a partnership with Valeco to increase the share of our green energy, and this has been working since April 2023.

Retailink: A retail media leader

Before I conclude on this first part I think it's important to share with you some of our ideas which have really marked our development. We want to be in keeping with our digital approach. Logically, we have included our customer base, but also all our new customers, trying to create a favourable environment for communication. And it's a 360-degree approach, which connects the digital approach and the in-store approach with two-figure growth, which is one of the best retail results in France. We started this campaign since 2021, and we’re looking further into 2024. We think that this is going to go on improving, and we’re in a really good place for the development of the choice offerings that our Group can bring. This is what I wanted to say as an introduction.

Revenue and gross margin

Jean-Brieuc Le Tinier
CFO

Now, I want to talk about some of the operational results by geographical zone. To start with the revenue and the gross margin. As was said, the Group has had a first term in ‘23 with over €3 billion, a slight drop, but the drop is comparable with other years, and it's based on the loss of purchasing power and people postponing their decision to buy things which are not essential, and there's also the bad context of May and June being full of Bank holidays and the sales not at a good place. So, this explains a drop of 1.5. As our team already said, we are multi-channel, and that's one of our strong points, and that keeps us at a high level with 49% of click-and-collect sales, and it shows our resilience in the long term. By category, we have quite a drop in the second trimester compared to the first one. There's gaming, which is going very well, record activity, and we were able to stock up on some of the games which were missing for a long time. In many regions, we are still developing Darty Max, and ticket sales compared to the ’22 equivalent semester, we’re doing much better, and the sale of hardware has dropped because it had a favourable context last year, with people equipping themselves for home offices. The area of small appliances has not progressed either.

Let’s see the operational performances by geographic zones: France and Switzerland dropped by 2.5%, and in France, when you look at the data published last year, Darty is still above average in the global market. However, we had to close ten shops in Alemannic Switzerland in ‘23 and some shops in France in ’22. In the Iberian Peninsula, a drop of 4.3%, with Portugal being in growth and Spain dropping because of the pressure on consumer behaviour of a very competitive environment.

Let me remind you that, pending the last administrative authorisation, we've bought MediaMarkt Portugal. Closing should happen in September ’23.

Then, in Luxembourg and Belgium, the only region where sales have gone up - + 1.7% - and this is thanks to the salary increases which have improved the purchasing power of people, and a new shop has opened in ‘22 and services have increased. Repairs, Darty Max and other services have gone up.

Gross margin improved by +35 BPs

For the gross margin, Darty has maintained its gross margin thanks to its positioning in premium goods, which means that it's easier to get the customers to pay the difference. Progression has been + 35 base points, and 25 for the mix, thanks to in-store sales which have been very good, particularly for editorial goods, and + 10% in ticket sales, thanks to good programming. Comparing is difficult because the first trimester of last year was still affected by COVID restrictions.

Cost inflation mostly offset by our efficiency programme

Operational costs: Inflation has been offset mainly by our efficiency programme because we managed to save with this programme and with an investment of 4 million compared to what we had before. If you don't count energy, the operational costs have increased only by €13 million thanks highly to the performance plan set up by management. As a percentage of turnover, it's gone up by only 1.4%. The result year-by-year appears here, and you note the effects of the rise in energy costs not entirely offset by the performance plan.

H1 Group financial results

There's the provision for ADLC, net income from continuing operations, and that's how we get to minus €134 million, with a rise of 26 million, thanks to the non-recurring financial expenses and selling Daphni Purple. The Group invested 1.6 million in this investment fund, and until '22 the participation was reassessed at its real value, and after the first trimester we decided to sell this off because of the market output. The investment we had made gave us a sales benefit of several million euros. So, we end up with a minus 163. At the end of June, this is what we've got: a free cash flow, which we have results which are above those of the similar dates last year, and apart from the 68 million of last year, we have a cash flow requirement which is in keeping with the normalisation of the Group, which we have started at the beginning of '23, and the operational investment for 63 million, and 8 million for improvement in energy management.

Financial structure

So, the financial structure of the Group is healthy with nearly 1.4 million in shareholders equity the net financial debt traditionally is higher at the end of the exercise due to the seasonality of activity. So, on the 30th of June 2023 net debt outside IFRS 16 is €674 million. We also have €470 available at the end of June to which to be added €500 million, which can be called upon.

In March 2027 to March 2028, the option was subscribed at 98.5% of our bank commitments. Therefore, we have a line of €500 million up until March 2027, and then 492 up until March 2028. And lastly, for the third consecutive year, the Group has proposed paying out dividends of €1.4 per share in our General Assembly last May. It was paid on the 6th of July and represents a distribution rate of 38% of net result group share for the activities. For the first time, our shareholders have the option of receiving their dividends paid in shares, and this was the case for 44%, showing that there's a lot of trust. 535 million new shares were created as of the 6th of July. At the end of June, the net ratio over 12 months shows that the leverage is at 2%, which is in keeping with our strategic plan.

Debt maturity

As you can see on slide 17, the next reimbursement will happen in 2024, and as we've commented in the results presentation 2022, we wish to secure the next deadline of €300 million, which will arrive to maturity in May 2024. We have set up an additional credit line, which has not been drawn upon yet, and a delayed bond loan of €300 million, which could be drawn upon only once, but only to reinforce the bond debts of 2024. We started three years in case of a drawdown and would be extended by two years and thanks to this the Group can continue its credit line to maturity benefiting to the low rates of 1175 and secure our level of financial security.

And then, from S&P we received a grade of BB+2; Scope and Moodys, BBB and BA2, both being stable, and this shows that they believe that our omni- channel approach is sound, as well as our financial discipline and now I'll give the floor back to Enrique to conclude our presentation.

Conclusion
Closing Remarks

Enrique Martinez
CEO

Thank you very much. On slide 19, the second half contracted strongly compared to the first half, but actions were undertaken and they bore fruit: we've won market shares, we've improved our gross margins, we've also maintained strict control over our costs and operational activities. We're aware of what's ahead of us, but we know our strengths as well. There are encouraging signs, even though there's a lot of uncertainty. The level of inflation is stabilising. There's increased household purchasing power. And lastly, the second half is usually more dynamic because there's a back-to-school, there's also Black Friday, Christmas, and the Rugby World Cup, which will be happening this year in France. We know very well that when there's an event of this type, it brings people together. And we hope that this will have a positive impact on the sales of technical products, especially on televisions.

Short- and medium-term objectives confirmed

To conclude, we confirm our 2023 objective to reach current operating income of about €200 million. For 2022 up until 2024, we are aiming for about €500 million in cumulative free cash flow from operations, and then 2025 at least 240 million in free clash cash flow. This will entail very strict management of our inventory. We have to maximise €120 million per year, and as Jean-Brieuc already said, we will be finalising our acquisitions in Portugal, and there may be other opportunities for development.

I have finished my presentation. Thank you very much for your attention, and we are now here to answer any questions you may have.

QUESTIONS AND ANSWERS

Operator: Ladies and gentlemen, if you wish to ask your question, please hit *1 on your telephone pad. We have a first question from Jean-Michel du Chalet [ph 00:0021:00]. You have the floor.

Jean-Michel du Chalet (Unnamed): Hello. Thank you very much for taking my question. I have a question in reaction to the last comment on your M&A. Could you tell us what your viewpoint is of Synovia and the discount because there have been rumours people have said that some of their activities could tie in very nicely with yours and this could allow you to have to gain lots of market share.

Enrique Martínez (Fnac Darty): Thank you very much. People may have imagined that the acquisition had already taken place, given what was said in the press. I don't want to comment on this too much in detail. As you saw, we're looking for opportunities in Portugal, where our model is relevant. It all depends on the quality of the asset and also our capacity to generate synergies. Currently on the market, as we had anticipated, there are more opportunities than over the past two years because business is difficult for everybody.

I will not comment on what we're looking at currently, but so far the situation is very stable. And currently, we're already a major player, and I think in the digital market, we have developed our market share very strongly, and also *Nature* and *Découvertes*, for example, they're a very important presence. And today, we wanted to show that we are a major player, and currently we have a capacity to develop organically. But if there are acquisitions which we find attractive, then we will study them on a case-by-case basis. Thank you very much.

Operator: A question now from Emmanuelle Vigneron of HSBC. Over to you.

Emmanuelle Vigneron (HSBC): Yes, thank you. I would like to have more information on retail media, especially in terms of its contribution to turnover. And then, what are your expectations for BFR for the year? And then, lastly, for your gross margins, should one expect a similar increase for the second-half? Thank you.

Enrique Martínez (Fnac Darty): For BFR, as announced, it's being normalised, it's stabilising. We've made a lot of efforts to come back to a normal level despite results in June, which was a difficult month. For the year, as you all know, everything depends on sales in December. But things have returned to normal. I'm not going to be commenting on that performance today, but things are back to normal. For the gross margin, generally, in absolute terms, the second half is usually lower than the first half. Given the weight of Black Friday, for example, we sell a lot more technical equipment than in the first half. Generally speaking, we have a particular focus on maintaining our margins. We will continue the efforts that we started in the first half. We will continue those in the second-half, but I can't quantify that today for you.

And now on BFR, [? 00:26:07] something we said, and this isn't the case everywhere. The quality of our inventory is highly satisfactory. Our teams have made a lot of efforts to adjust our offer to demand and to make sure that the products are available, despite an inflationary context. We have a satisfactory level of inventory right now, and we hope that this will lead to a satisfactory cash generation by the end of the year.

We've decided to show our hand, and we see that we have to be a little bit more explicit in our communication, especially of the yearly results, and perhaps a fuller report. But what we can say is that there are more opportunities in technology. We've developed an entire network of communicators, and then also events in our stores. If you go to the Champs Élysées, for example, you'll see what we're talking about. And this is quite unique because the stores can connect to a network which has one of the highest levels of digital traffic. And currently in the rankings, we are one of the sites that generates the most traffic in France, compared to the Americans – I'm sure we're actually not far from number 2.

Emmanuelle Vigneron (HSBC): Thank you very much.

Operator: The next question by Clément Genelot from Bryan, Garnier. Over to you.

Clément Genelot (Bryan, Garnier and Company): Yes, I have three questions. First of all, on guidance, and what this entails for the second half. And also, do you think things will pick up in H2? But inflation remains high in France. And then, energy costs for households will start going up as soon as the end of August. And then, to come back to inventory, you said that you were very comfortable with your levels of inventory, but what about risks for your competition, and especially how about appetite for large appliances. And then, also, for the rugby World Cup, what boost do you expect from the World Cup, bearing in mind that during the World Cup for football, that didn't have an enormous impact? Thank you very much.

Enrique Martínez (Fnac Darty): Thank you for your questions. As for guidance, we had anticipated that the first half would be depressed. With hindsight, this probably was the social unrest, and also the fact that the sales were postponed. And also, some people were waiting for those sales to happen. And there's also certainly tension on people's buying power. And then, when there are sales we can see that sales are more fluid. When we promote certain products, we can see that this does have an effect. So, we'll be doing much more of that during the second half.

And then, it's true that energy prices will be increasing, but salaries have also gone up. What we're seeing in Belgium is that they adjusted much more quickly in terms of buying power, and consumption is reacting in a stronger manner. So, all of this is just forecasts, and producers around us are betting that at the end of the year, people will be investing more and that consumption will be strong for everyone. And December wasn't particularly satisfactory, historically-speaking, but I think in December maybe we could do better, especially in the last weeks.

For inventory, yes, we are satisfied. I don't think that people are having difficulties with sourcing. Of course, there's a lot of tension around cash. That's true for everybody. I haven't seen any other publications yet, but I think that troubles with inventory are behind us. On appliances, but also on computer equipment, all of this is returning to normal.

And then to finish, the World Cup, it's true that World Championships usually don't have much of an impact on the sales of televisions, but the fact that the championship is in France, we're hoping that it will nonetheless have a positive impact. We don't have any figures, but we hope that it will increase sales of televisions. And the World Cup wasn't particularly dynamic, but it did have an impact, especially at the end of the third quarter and the beginning of the fourth, where there was a pick-up, especially in large-screen televisions. So, we're confident, we're prepared for an uptake and we will be launching a campaign next week around the World Cup rugby. None of these factors are very important separately, but taken together they might have a good influence.

Operator: The next question is from Florence Pen [ph 00:32:47] from TP ICAP.

Florence Pen [ph] (TP ICAP): Hello. I'm referring to Clément's question about the second semester OpEx and what we can expect as regards the impact on the yearly result, with the million point two and other elements which indicate that more inflation should be taken into account or salary effects, which can explain your confidence.

Enrique Martínez (Fnac Darty): On costs, we've had inflation on the first trimester which was high, and we've had between 5% and 6%, and we managed to master this and only have a rise in our cost of 1.6%. Second term, we're still going to have inflation costs to offset. There's good and bad news. The bad news is that there are difficulties, but the good news is that we're going to go on with our performance plans, and the cost of energy is not quite as much as we thought it would be. For the second semester, we'll probably have a fairly normal cost of energy, higher than last year, but something under control, and the energy saving plans are a great help.

Then, we're going to have the effects on the salary costs. We're going to have to improve productivity to offset that and master our expenses in other stores and for the inventory. And SSP2, we're not sure if we'll have the same level of results, but we're working on it. And as regards energy saving and the impact on the internal OPEC, I think we can count on maintaining the present level, and when you change a store to LED you save 20% of energy costs, and this offsets the increase in energy prices. And in 2022, that's when we started, and we're deploying this till '24, so the real results will appear at the end of '24. And you talked about a bad month of June, which is not what some other players consider to be true. So, what about July? We're going to have certainly to feel the impact of the riots and destruction. I don't know who had a good month of June. As far as I know, because everyone in sales has had a problem and the manufacturers as well have been in difficulty for the non-food sector in France, and in Europe there was a low in France. Last year, we had a good two weeks of sales in June, and that was good, and this year the sales were postponed, and since we've had bad weekends then we had the later sales, and that explains that the June and July activity was not so good. And the government then gave an extra week, which we probably won't manage to catch up entirely. And the explanation being that we're in a global market, and of all the phenomena and moving the sales it probably interacts with the purchasing retention. And so, compared to the trends in the market, France and the Western countries have not done well generally for non-food.

Last question about the free cash flow objective and the exceptional elements that we've been through for the first semester. Free cash flow of 500 million that we gave ourselves over four years, but it's not for regular expenditure, ADLC would lock me inside this.

Operator: If you have a question, you can press * one on your phone. Gentlemen, if there are no more questions.

Enrique Martínez (Fnac Darty): There are no more questions, so we're going to call it a day and remind you that you've all deserved some good holidays. Take care.

Operator: Ladies and gentlemen, this is the conclusion of today's phone conference. Thank you for participating, and you may now disconnect.