FNAC DARTY

Fnac Darty 2023 Q3 Earnings Presentation

26 October 2023

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

2023 THIRD QUARTER REVENUE

Operator

Hello. Welcome to the conference call. Fnac Darty will be presenting its financial performance for Q3 2023. We have with us Enrique Martinez, CEO of Fnac Darty; and Jean-Brieuc Le Tinier, CFO. They will be hosting this conference. Mr Martinez, you have the floor.

2023 THIRD QUARTER REVENUE

Enrique Martinez
CEO

Thank you very much. Good evening. Many thanks for attending our conference call. We are presenting our Q3 2023 results. Our press release, as well as the presentation that we will be commenting on during the call are already available on our website as usual. This quarter demonstrates the very strong resilience of the Fnac Darty model in an environment that remains challenging, with stable sales on a like-for-like basis, which is a clear improvement on the second quarter and our gross margin continues to grow.

This quarter also demonstrates our strategic agility and capacity for initiative.. We have announced an agreement with CEVA Logistics. I'll get back to that in the course of my presentation. And on September 28th, as expected, we finalised the acquisition of 100% of MediaMarkt in Portugal.

I am quite satisfied with the work accomplished by our teams during this quarter. Our model Everyday, based on services, digital, and the in-store experience, demonstrates its power and relevance in serving our customers.

STRATEGIC HIGHLIGHTS

In a little while, Jean-Brieuc will give you a detailed account of our financial performance, but I would like you to take note of four highlights for the third quarter.

€130 million. That is the positive cash impact of the favourable outcome of our litigation concerning the sale of Comet and the victory that should enable us to close this chapter. And I would like to take this opportunity to pay tribute to our teams for their tenacity over this matter.

€140 million. That is the additional sales we will generate in Portugal with the acquisition of MediaMarkt. With this deal, we will consolidate our number two position in the buoyant Portuguese market.

1 million. That's how many Darty Max subscribers we have. We passed that threshold in Q3. We are well on the way to achieving our target of 2 million subscribers by 2025. This unique repair offer is a

real success, and it reflects our determination to be a pioneering player in the circular economy and also strengthens our position as France's leading repair provider.

And lastly, €200 million. That's the sales that we're targeting over the next five years for Weavenn, a JV that we've just announced with CEVA logistics.

WEAVENN: A STRATEGIC JV ADDRESSING THE EUROPEAN MARKET

Talking about CEVA logistics, as you well know, that is a subsidiary of the CMA CGM Group, and together with CEVA logistics, we're going to create Weavenn, a joint venture dedicated to e-commerce logistics and a software as a service marketplace. So Weavenn aims to address the European market worth about €80 billion, with growth estimated at over 10% a year. Weavenn will propose a unique, fully-integrated offering, combining the best marketplace technology solutions and high-performance logistics for multi-channel distribution.

This market first offering will meet all the needs of e-commerce players, including complete management marketplaces, direct to consumer sales and omnichannel delivery, and Weavenn will draw on the leading expertise of Fnac Darty and CEVA Logistics. We bring together the reputation of our two brands, our network of nearly 1,000 stores, our proven omnichannel model with 24 million unique monthly visitors to our websites and our expertise in last mile delivery.

As far as logistics is concerned, well, it's a world leader in logistics. It covers over 170 countries with over 10 million m² in warehousing space, more than 22 million tons of goods transported every year, and a globally-recognised integrated quality service from order to final delivery.

This company will be up and running by 2024, and together we're aiming for sales of €200 million over the next five years with a double-digit operating margin.

Now, I'd like to hand over to Jean-Brieuc, our CFO, who will detail our performance in Q3.

REVENUE RESILIENCE DESPITE A CHALLENGING ENVIRONMENT

Jean-Brieuc Le Tinier
CFO

Thank you, Enrique. Hello, everyone. Fnac Darty reported very resilient sales in Q3. They were stable on a reported and like-for-like basis and better than the consensus forecast of a 1% decline. This performance is a result of solid in-store sales despite an inflationary environment. Our stores are attractive because of their layout and their product offering, and also the quality and guidance of our sales staff, as well as the events that take place there. Online sales remained at a high level of 21%, which is still three points better than the 2019 level.

Lastly, click and collect, which is a key indicator of web performance, continued to grow, accounting for 50% of online sales in the first nine months of the year. And this figure confirms our choice of an omnichannel model to meet the expectations of our customers, not all of whom have the desire, the need, or the possibility of home delivery.

Let's now take a closer look at the group's third-quarter performance by region. The France and Switzerland region reported resilient sales, up 0.4% like for like, and this performance was driven by buoyant in-store sales and the extra week of sales last July. On the Iberian Peninsula, sales were down by 5.7% like for like with a contrasting effect between stable Portugal and Spain. Spain was down given the strong pressure on consumer purchasing power due to inflation and also higher monthly mortgage payments in that country. Lastly, the Belgium Luxembourg region is still on an upward trend with like-for-like sales up 1.4% over the quarter, although competitive pressure remains high.

With our sales being stable, our gross margin for the quarter rose by 70 basis points adjusted for the dilutive effect of the franchise. It was mainly driven by the positive impact of services with the continued rollout of Darty Max and a more favourable product mix.

In conclusion, the stability of our sales in Q3 that I've just described does not make up for the poor performance observed in Q2 and commented on last July. Sales for the first nine months of the year therefore amounted to €5.184 billion, down 1.5% on a like-for-like basis, but with gross margin up 40 basis points to 30.4%, excluding the dilutive effect of the franchise.

STILL OUTPERFORMING THE MARKET

Slide five now. This slide illustrates the strength of the Fnac Darty model. Let's take the French market as an example and our sales growth over nine months. The group has continued to outperform the market according to the end of September figures published last week by the Banque de France, both over the quarter and since the beginning of the year. So we have outperformed the market in all three of our main product categories.

Editorial products are still growing, driven mostly by books and gaming. This category is doing extremely well thanks to the end of the shortage of Sony's latest generation console and also the launch of Zelda in May and EA sports, formerly called FIFA. And we clearly benefit from an attractive, well-positioned offering. Consumer electronics has good momentum in telephony- and leisure-related products such as audio and photography. However, the category as a whole is declining, with hardware sales continuing to decline, particularly for computers – a segment that saw an increase in household ownership during the health crisis in connection with remote working and online education.

Lastly, sales volumes of household appliances are down sharply, mainly in the large appliance segments. Against the backdrop of constrained purchasing power and after a period of significant renewal in recent years, consumers are more cautious. They postpone spending decisions for non-essential products. We are benefiting from our positioning in the premium and durable equipment segments, and from the recognised quality of our advice and service, at a time when the decline in market volumes is mainly concentrated in the entry-level segments for large electrical appliances.

Lastly, services. We are up 5%. There's no market data for this segment. We are clearly the leader and innovator and this is an important focus of our development. Let's not forget that we have reached an important milestone with over 1 million subscribers to our Darty Max program. I'll now hand over to Enrique, who will conclude this presentation.

OUTLOOK

Enrique Martinez
CEO

Thank you, Jean-Brieuc. To conclude on slide six, we are operating in a market that remains challenging with volatility in consumer purchasing decisions. At the start of the year, we anticipated a consumer rebound in the second half. Today, we are more cautious, even though we remain confident in our ability to achieve a good Q4, particularly at the time of Black Friday and Christmas shopping. Against this backdrop, we remain extremely focussed on our operating efficiency and are counting on a current operating income in the second half of 2024, similar to that of the second half of last year. This would mechanically lead us to a current operating income for the 2023 financial year of around €180 million, which is slightly below our initial target of €200 million. And this would still be a very good performance in the current context. And this does not call into question our strategy or our ambition to serve our customers, as well as their expectations for more responsible and sustainable consumption.

Considering current market conditions, the Board has decided to implement the authorisation given at our Annual General Meeting on May 24th to buy back our own shares and allocate them to future bonus share grants. So, long-term incentives. We have entrusted this mandate to Natixis for a maximum amount of €20 million, and this decision reflects our confidence in the Group's operating performance, free cash flow generation and outlook.

Finally, thanks to our stringent management, particularly with regard to cash generation, we are reaffirming our medium-term objectives. We seek to achieve cumulative free cash flow from operations of around €500 million over the 2021/2024 period. We seek to achieve a free cash flow from operations of at least €240 million on an annual basis from 2025 onwards.

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

QUESTIONS AND ANSWERS

Operator: If you would like to ask questions, please press the asterisk button and then one on your phone. The first question is from Clément Genelot from Bryan, Garnier.

Clément Genelot (Bryan, Garnier & Co): Yes. Hello. Thank you very much. I have three questions. The first one is on Weavenn. Who will consolidate the business, you or AGM? And what of the losses for this joint venture in 2024/2025? The second question is more current. What about October? And for the EBIT guidance for 2023, 80 million. This 180 million, will it be boosted by what's going on in Portugal because the asset was at a slight loss in 2022. So will there be a small negative impact in Q4 with the consolidation?

Enrique Martinez: Thank you, Clément. I'll take the first one on Weavenn. The consolidation elements are still being reviewed with antitrust players. It should be consolidated. We should be doing the consolidation. But of course, we need the validation of the antitrust authority. In 2025, there will be slight losses, but very negligible at the scale of the Group. And October current trading, our answer is that we don't comment current trading on the EBIT. MediaMarkt Portugal is going to be insignificant in terms of integration. We're still taking over them. So we consider the impact is almost neutral on Q4 this year in terms of current operating income.

Jean-Brieuc Le Tinier: We're not starting from zero. The investment efforts were supported by assets that already exist. So to launch this activity, we didn't have to do huge efforts, whether in terms of cost or CapEx. If there are any losses, they won't be very significant. And even in terms of capital expenditure, it will be very limited because we're developing assets that already exist within the Group on the logistics side, CEVA and IT Tech through our own staff.

Operator: If you want to ask a question, you can press *1 on the number pad of your phone. To ask a question, you can press *1 on your phone. The next question is by Florent Thy-tine from TPICAP. You have the floor.

Florent Thy-tine (TPICAP): Yes. Good evening, Florent from TPICAP. Just to continue to talk about Weavenn. Do you aim to outsource the logistics of Fnac Darty to a player like CEVA? And to better understand, will the customers be only the customers of the Fnac marketplace for the joint venture or will there be other clients? If that's the case, what does the joint venture offer versus a player like Amazon? Do you have any comment about what's going on with the capital of [inaudible 00:15:27]?

Enrique Martinez: On Weavenn, we're not looking to outsource our logistics capacity. It's quite the opposite. It's how the logistics of our Group, especially towards our stores, can be put in service of sales for marketplaces. So we're going to do this capacity investment and our teams in our stores and our sites will lend these services to the marketplace player. First, we will give these services to our vendors. We have 3,000 vendors in the platform. And we'll propose our fulfilment and delivery services to them first and foremost, but the mission of the partnership goes beyond that.

We aim to propose in France, in our countries and elsewhere, in every ecosystem where we can propose both tech and logistics capacities, and that will be in 2024, through our vendors but it will quickly extend to others.

What's going to be better or worse than our competition? First of all, you mustn't forget that it's a market that still isn't mature. There's a lot of potential. Competition will always be good. And in France, especially, what we can propose that others don't have, is access to the delivery of large projects through our stores. So for the French market, the offer is much more relevant and rich, and for other markets, I'm sure we'll also find venues for development. And we're just at the beginning of this adventure.

That said, this morning we discovered we were informed of a change in the structure of our shareholders. It's very recent. We don't have any comments to make on that. It's still very recent. We haven't taken contact with the shareholders, those who hold the titles of Indexia, so I can't give you any more information today about that. Thank you.

Operator: The next question comes from Stephane Benhamou from BNP Bank.

Stephane Benhamou (BNP Bank): Hello? Can you hear me?

Enrique Martinez: Yes, we hear you perfectly well.

Stephane Benhamou (BNP Bank): Hello. I have a question concerning the catalysts for Q4. You identify Christmas and Black Friday as catalysts for Q4. These events were already present last year, so how could that trend be more favourable this year? And could we have an idea and approximate idea of what is the volume that is generated during these events. And are these events that contribute to margin, or are these events that contribute to sales and that allow you to absorb fixed costs?

Enrique Martinez: Well, you know that Christmas has been happening every year for 2,000 years, but this year as well. Last year Christmas was not very dynamic. So it's an opportunity to have a better Christmas celebration this year. We're also looking at a year where consumption is actually lagging behind and so there could be a catch-up with these activities, but we've built this quarter with this in mind with powerful offers for quality products. I'm not going to reveal anything right now, but the group has prepared the necessary strategy for this rather dynamic period.

And these are offers. We’re not going to give the amounts yet, but you can see how important this activity peak is in November. And this de-risks some of our December activity; it’s quite important, especially in categories like electronics. So these are offers that contribute to our overall sales.

In terms of margin, it's within the average of our activities and that's how these offers are built, designed to build up sales while maintaining a decent level of profitability. That's what we've been doing for years and years, and this year we've built our offer this way once more.

Stephane Benhamou (BNP Bank): Thank you very much. And off the top of my head, this year you have an impact considering the price of energy. Efforts are being made to reduce that impact. Because energy costs are going down, could there be a positive effect next year compared to 2023?

Enrique Martinez: Of course we've taken significant steps to reduce energy consumption in the stores with best practices, but also with large investments to redo lighting and the technical management of the building, such as air conditioning and heating. So we spent more money, we've trained our staff and consumption has gone down significantly. That's very positive. The impact on next year? Well, we're not done with 2023 yet, so we're going to look at that before we look at 2024. We'll see what it looks like. It will be a mix between price evolutions, and we'll see how prices will behave tomorrow and combine to consumption changes which will remain in the future. And we're very happy with those changes so far. So we'll talk a bit more about that when we have the results of 2023 in February.

Stephane Benhamou (BNP Bank): Thank you. Very clear answer. Thank you very much.

Operator: The next question is from Emmanuelle Vigneron from HSBC. You have the floor.

Emmanuelle Vigneron (HSBC): Yes. Good evening. I have two questions. The first one concerns the operating margin. Could you give us the components of the improvements for the 70 basis points on Q3? What should we expect for Q4? And concerning the Nature et Découvertes brand, could you give us the performance on Q3?

Enrique Martinez: For gross margin, we've progressed significantly. There are several drivers. We'll not talk about the impact of the drivers. The first one is services, and we don't give the P&L for services, but it's significant for the progression. The other element is, of course, the mix that's produced. There are stores that are going well with some that are normalising. And some that are three points above in terms of penetration for 2019. And in terms of gross margin for web, we have more technical products, we have more consumer electronics, and in the stores we have more editorial products. The impact of the franchise is 10 to 15 basis points, like every quarter for a few years now.

And Nature et Découvertes. That brand is continuing its activity. You have to keep in mind that the most important moment for them starts now. It's the fourth quarter. It's even more important than at Fnac. So you can only really appreciate how well they've done over the entire year, not only over the first three quarters.

Operator: The next question is from Alessandro Cuglietta.

Alessandro Cuglietta (Kepler Cheuvreux): Good evening. Can you hear me?

Enrique Martinez: Yes, we can.

Alessandro Cuglietta (Kepler Cheuvreux): Great. I have a couple of questions. Recently you launched the Fnac equivalent of Darty Max. Any feedback? Any preliminary feedback from end users? What is your take on that new service you've just launched? And in connection with that first question, do you find that from a macroeconomic perspective, services are harder to sell today than they used to be? And one last question, regarding your litigation. What can we expect in terms of information on that front? Thank you.

Enrique Martinez: Yes. We do have a new services offering. It's not exactly the same as Darty, because it's about protecting digital users. So it's a different kind of service, but it's the same subscription-based rationale. The launch has been very successful. We will clarify our ambition when we discuss our annual performance. But I don't see why things should be terribly different than for Darty Max. We have the same level of ambition, and clearly, we're trying to meet the expectations of our customers at a time when sales of services are rather sluggish. We try to match expectations of customers. Darty Max customers, for example, have expectations when it comes to repairs. It's an opportunity to generate savings.

I believe that we have put together a whole catalogue of services that is growing well and which matches all economic circumstances, whether or not there's growth. So we have subscription-based services that used to be entirely disconnected from transactions. And that has changed.

When it comes to Solvay, discussions are underway and I hope we will find a resolution soon. I hope that the resolution that we come up with will be satisfying on all fronts. Thank you.

Operator: Next question. A bonus question from Stephane Benhamou from BNP. Go ahead.

Stephane Benhamou (BNP Bank): I have a question regarding free cash flow. If we look at consensus expectations before the adjustment to the EBIT guidance, €240 million on an aggregate basis in terms of free cash flow at the end of 2023. Do you confirm that guidance? The guidance of €500 million by the end of 2024? This would mean you would need to generate close to €250 million next year, so I assume you expect a recovery in business. So how do you achieve that guidance? How did you come about this guidance considering the environment?

Jean-Brieuc Le Tinier: We're maintaining our guidance. You've got to bear in mind that the missing current operating income to the tune of €20 million, that's not free cash flow. We have taxes to pay. We have a lot of things happening between COI and free cash flow. So in terms of free cash, the cash impact is closer to €70 million. So, €10–15 million, which is not really significant when you look at the entire envelope, which is €500 million. So we're not going to give you next year's guidance today.

This year's free cash flow will depend very much on the Christmas season and weeks. And also, free cash flow is partly determined by WCR, which will return to normal hopefully. And also, CapEx is slightly under last year's level. That's what determines our guidance, and we are pretty confident in our ability to achieve an aggregate of €500 million.

Stephane Benhamou (BNP Bank): And this would mean that next year, you will need to fast track free cash flow generation. Are we agreed?

Enrique Martinez: Same as this year. No, there is no guidance when it comes to free cash flow this year. So clearly, we will need to do the math when it comes to the 2021/2022/2023 aggregate number and the guidance for this year and next year. But we'll save that exercise for February 2024.

Stephane Benhamou (BNP Bank): That's very clear. Thank you.

Operator: If you'd like to register and ask a question, please press *1 on your keypad. Mr Martinez, Mr Le Tinier, there are no further questions at this time.

Enrique Martinez: Very well. Thank you all for attending this conference call. Thank you for your attention. We're looking forward to seeing you again by the end of the year, if not sooner. Our websites and our stores are available to you if you'd like to go shopping for Black Friday or for Christmas or the New Year. Enjoy the evening.

Operator: Ladies and gentlemen, this concludes the conference call. Thank you for attending. Please hang up.