Transcript: Fnac Darty H1 2024 results conference call July 24, 2024

OPERATOR

Good evening, ladies and gentlemen, welcome to the H1 2024 results for FNAC Darty. Mr Enrique Martinez, Chief Executive Officer, the floor is yours.

Enrique Martinez
Chief Executive Officer

Thank you very much. Good evening, everybody. I'm delighted to be with you today, following last week's announcement of our plan to make the strategic acquisition of Unieuro in Italy. This evening, we will first outline the details of our half year results and then go back to the structural operation for our group.

AGENDA

We're looking at the agenda, now the plan. I'm going to start off with the main lessons learnt from each one and then go back to the key aspects of our strategic plan to acquire Unieuro. Then Jean-Brieuc Le Tinier, our CFO, will present our financial results. And afterwards, of course, we'll take any questions after my conclusion.

H1 2024 KEY MESSAGE

Now moving on to slide 4, if I had to summarize this half year, go-to words for me: resilience and rigorous implementation of our strategy.

Our H1 results reflect the resilience of our business model in an uncertain geopolitical and economic environment, which remains less than promising for the retail sector. Despite this, the group's performance is on a par with expectations. All our geographies return to growth in Q2, proof that our business model is holding up well.

On the offering side, technical products have benefited from the appeal of new products, incorporating artificial intelligence, and are therefore enjoying a good dynamic. Our brands, with a strong focus on innovation and technology, are an advantage.

H1 also enabled us to progress in implementing our strategic plan, while keeping a firm grip on costs.

We are therefore confirming our 2024 guidance.

Furthermore, our group has also pursued rigorously its ESG commitment and we have improved our ratings.

Finally, the envisaged Unieuro acquisition represents a unique strategic opportunity to strengthen our European leading position in specialized retail and further enhance the efficiency of our business model.

ENVISAGED UNIEURO ACQUISITION/TRANSACTION RATIONALE

Now slide 6, I'd like to go back to the key points of the Unieuro acquisition project in detail. It is a very important, strategic and major operation for our group for the coming years.

I want to share with you again my enthusiasm for this project, which will significantly change the face of FNAC Darty and make it possible to get into Italy. In integrating Unieuro, our new group would have a turnover of over 10 billion euros, 30,000 employees, and would operate over 1,500 stores.

This project would confirm our position as Europe's leading specialist retailer and a key player in market consolidation. Beyond the figures, this transaction fits in perfectly with FNAC Darty strategy and is perfectly in line, or coherent with, our everyday plan. Furthermore, the FNAC Darty group has already demonstrated its ability to integrate European companies, while respecting and enhancing the specific characteristics of local markets.

We therefore anticipate that this transaction will create value for all stakeholders and I will come back to this later.

TRANSACTION HIGHLIGHTS

Moving on to slide 7, in concrete terms, we plan to launch a mixed takeover bid through an investment vehicle 51% controlled by the FNAC Darty group, which would thus consolidate it in its accounts and jointly owned with 49% by Ruby Equity Investment, a sister company of VESA Equity Investment.

Each Unieuro share would be valued at approximately 12 euros per share, 9 euros in cash and 0.1 FNAC Darty shares, with a premium of 34% on the volume weighted average share price over the last three months at 15th of July.

This represents approximately 249 million euros for 100% of Unieuro's share capital.
This transaction therefore presents a limited financial risk and preserves our financial flexibility to pursue our capital allocation policy.

2023 COMBINED VIEW

On slide 8, I'd like to show you what the integration would mean in terms of combined financial data with Unieuro's integration.

This operation is based on a strong complementarity. FNAC Darty and Unieuro share the same vision of omnichannel and service-oriented retail. We have strong brands that are recognized and appreciated by our customers. The turnover of the new FNAC Darty group would increase by more than 30% and exceed 10 billion euros. Our current operating income would be close to 230 million euros, with a stable operating margin of 2.2% after synergies. The combination of our teams would bring our total workforce to around 30,000 employees. Finally, our network would increase by half to more than 1,500 stores, enabling us to offer our customers and supply partners extended geographical coverage.

This operation represents a major strategic step forward for FNAC Darty and Unieuro. Together, we are well positioned to capitalize on our combined strengths, optimize operations and pursue our sustainable growth objectives.

This transaction will also enable Unieuro to accelerate its digital transformation, which is already underway, and to strengthen its position in the sale of services benefiting from the undisputed expertise of Fnac Darty.

MIXED CASH AND SHARES OFFER

Slide nine gives us a good look at how we're going to finance this offer.

The acquisition of Unieuro would be financed, as I already indicated, by an investment vehicle jointly owned by FNAC Darty group and Ruby Equity Investment.

There would be two kinds of financing. Firstly, a cash component for approximately 75%, two thirds contributed by Ruby Equity Investment, ie around 122 million euros, and one third contributed by FNAC Darty, ie about 67 million euros. In fact, we will pay only 56 million euros because we already have a 4.4% stake in Unieuro.The impact on our financial leverage will therefore be very limited. Secondly, a component in FNAC Darty shares for around 25%. This will be financed by a dedicated capital increase for an amount estimated at 60 million euros, ie some two million FNAC Darty shares.

The dilution of FNAC Darty shareholders would therefore be very limited, at around 6.6% of capital after the operation.

INDICATIVE TRANSACTION TIMELINE

Now on slide 10, to talk about the timing, I'd like to remind you that the launch of the takeover bid is subject to the usual regulatory approvals.

With regard to the Italian ones, we will file our offer at the end of July, beginning of August, to obtain the necessary approvals for the launch of the transaction at the end of August, beginning of September. We plan to open this offer during the antitrust review.

The operation should therefore be finalized in Q4, 2024.

I would now like to hand over to Jean-Brieuc, who will describe our results for the first half of this year.

Jean-Brieuc Le Tinier
Chief Financial Officer

Thank you, Enrique. Good evening, everybody.

H1 2024 FINANCIAL RESULTS/KEY FINANCIALS

Let's look on slide 12, the financial highlights for H1.

Our results, which I will detail in a moment, are in line with our expectations.

In a persistently uncertain economic and geopolitical environment, we are very satisfied with the group performance. This is particularly true for the second quarter, which shows signs of improvement as all our geographies are returning to growth. The same applies to all our product categories, except as expected, for gaming and large domestic appliances.

Once again, the group outperformed the French market, which remained in negative territory in Q2 at minus 2.3%, whereas we posted a growth rate of plus 0.7% on a reported basis.

H1 2024 REVENUE AND GROSS MARGIN

Moving on to slide 13, with the details of trends in revenue and gross margin.

The group, in the first half of 2024, posted revenue of 3.4 billion euros, up by 1.4% on a reported basis and stable on a like for like basis.

Firstly, by channel, which is one of FNAC Darty's strengths, the proportion of online sales remains high at 21%. Click and collect accounted for 51% of online sales at the end of June, a 1.9-point increase compared to H1 2023, which shows, once again, the relevance and stability of the omnichannel model over the long term.

Moving on now to **performance by category**, trends are similar across all geographies covered.

Editorial products went down, impacted as expected by particularly high comparison base in **gaming**, which, as you will recall, enjoyed record sales last year, partly due to the return to normalized supply of the latest Sony generation console, and also due to the worldwide launch of the Zelda game. Conversely, the performance of **book** remains very strong, driven mainly by the appeal of new reading trends.

Services continue to grow in all geographies with the ongoing development of our offering, and in particular the rollout of Darty Max.

Technical products returned to growth in H1, thanks to a particularly dynamic second quarter. TV benefited fully from customers' appetite for large, high-tech models during the Euro 2024. Telephones and computers performed well, thanks to new products incorporating AI features. The whole category should fully benefit from the new cycle of innovation in the second half of the year.
Sales of **domestic appliances** were virtually stable, benefiting from the excellent momentum of small domestic appliances, while sales of large domestic appliances continued to suffer from very low volumes, closely linked to the downturn in the real estate market.
Finally, the **diversification** category turned into a solid performance, especially games and stationery, with double digit growth over the period.
Looking now at performance by geographic region. Before commenting on performance in detail, I'd like to emphasize that all our geographies returned to growth in the second quarter.
The **France & Switzerland** region posted like for like sales growth of +0.1% in the first half, including +0.7 in the second quarter alone. Based on Banque de France data published earlier this week, FNAC Darty continues to outperform the overall market. In addition, the scope effect in the second quarter corresponds mainly to the closure of three stores in non-French speaking Switzerland in the first half of 2024.

Moving on to the **Iberian Peninsula**.

Sales return to growth in the second quarter, up +2.2% on a like for like basis, enabling us to achieve a virtually stable first half. In Spain, the return to growth seen in March is continuing, as it would continue in the future.

In Portugal, the momentum is very good and the integration of MediaMarkt activities, which generated sales of 51 million euros in the first half, is proceeding in line with our expectations.
Finally, the **Belgium Luxembourg** region reported like for like sales growth of +1.4% in the second quarter and stable sales for the first half. Sales benefited from significant growth in services.
Let's now move on to the **gross margin**.

The gross margin rate for the period was impacted by the diluted technical effect from franchise and MediaMarkt integration, which had a negative effect of -20 bps for both.
Restated from this impact, our position, which is more focused on premium products and growth in our service activities, in particular in Darty Max, enabled us to increase our growth margin rate with a net improvement of +10 bps.

TIGHT COST CONTROL

Moving on to our operating costs, which amounted to 1,086 million euros in H1 2024, up 11 million over the first half of 2023.

Excluding the integration of MediaMarkt in Portugal, costs improved by 3 million euros. They also fell slightly as a percentage of sales.

The embedded effect of higher rents (+7.5% compared with H1 2023), the full year impact of April 2023 mandatory salary talks (+4.6%, compared to H1 2023) and inflation on other cost lines were offset by lower energy costs and the effectiveness of the performance plans rolled out across all the group's divisions.

H1 2024 GROUP FINANCIAL RESULTS

Let's talk about other items in the **P&L** on slide 15.

The **current operating income** stands at -36 million, stable compared with the end of June 2023, reflecting the tight control of operating costs that I have just described. Excluding the integration of MediaMarkt and startup costs of Weavenn, they would have slightly improve.

Non-current items amounted to negative 27 million euros, mainly involving restructuring costs of around 11 million euros, of which almost half at Nature and Découvertes, and the fair value adjustment of IT projects for around 15 million. As a reminder, last year, they included a provision for some 85 million euros for the non-recurring expense anticipated in connection with the ADLC litigation.

Operating loss from the first half year was therefore 63 million.

Financial expenses stood at -37 million euros, an improvement of 7 million compared to last year. This can be analysed on the one hand by the cost of net financial debt, which rose by 3 million, and the IFRS 16 charges, which rose by some 7 million because of higher interest rates. The balance is due to the impact of the recognition in the first half of 23 of the impairment and disposal of the investment in the Daphni Purple fund.

After taking into account tax income of +27 million, **net income from continuing operations – Group share** for the first half of the year amounted to negative 75 million, improving on the 116 million figure for the first half of 2023.

H1 FREE CASH FLOW FROM OPERATIONS

Now let's move on to free cash flow from operations on slide 16.

As of 30 June 24, our EBITDA was stable.

Working capital requirements are slightly up, due to the seasonal nature of our business and the impact of integrating MediaMarkt in Portugal.

Net Operating Investment was positive at plus 38 million, due to asset disposals, particularly a logistics warehouse in the Paris region. This is a classic asset arbitrage operation, resulting in a consolidating sale and leaseback, which has no impact on our financial leverage. It was also carried out at a cap rate that compares favourably with the group's current debt.

Overall, **free cash flow from operations, excluding IFRS 16**, stood at -673 million, restated for the integration of MediaMarkt activities in Portugal, it would have been stable compared to 30 June 2023.

SOUND FINANCIAL STRUCTURE

A few words about our financial structure on slide 17.

The group's **financial position** is sound and solid, with shareholder equity of almost 1.5 billion euros.

At the end of the first half, the group's **net financial debt** is traditionally higher than at the end of the financial year, due to the seasonal nature of our business. At 30 June 24, the group's net debt, excluding IFRS 16, stood at 496 million euros.

At the end of June, **leverage ratio** ie net debt on EBITDA, excluding IFRS 16, calculated over a rolling 12-month period, was 1.8 times in line with the maximum leverage target of 2x, set by the group as a part of its everyday strategy plan.

In March, we successfully completed a bond issue for 550 million euros, maturing in April 2029 and bearing a fixed annual interest rate of 6%.

We took advantage of a favourable market environment to refinance two bond issues in advance. This transaction was well received by a diversified base of institutional investors, both in France and internationally, and was oversubscribed several times.

Lastly, we have 583 million euros in **cash and cash equivalents**, plus a RCF credit line and a DDTL for 600 million euros undrawn to date.

We therefore benefit from a maturity profile and solid long-term liquidity.

The group's ratings by leading agency Standard & Poor's, BB+ and negative outlook, Fitch Ratings and Scope ratings, BB+ and BBB respectively, both with stable outlooks, reflect their confidence in the relevance of the group's omnichannel model and its operating performance. Fitch and S&P confirmed their ratings following the announcement of the envisaged acquisition of Unieuro.

Finally, for the fourth year in a row, the group proposed the payment of a dividend of 0.45 euro per share at its annual general meeting in May, representing a payout ratio of 39% of the adjusted net profit from continuing operations group share adjusted. This dividend was paid in cash on the fifth of July for a total amount of 12. 5 million euros.

I will now hand over to Enrique, who will bring this presentation to a close.

Enrique Martinez
Chief Executive Officer

Thank you, Jean-Brieuc.

A UNIQUE & TRANSFORMING OPPPORTUNITY

To conclude with slide 19, the envisaged acquisition of Unieuro is a unique opportunity to strengthen our position as European leader in specialized distribution and to establish our number one and number two positions in our main markets. Following this integration, we would be number one in Western and Southern Europe.

This consolidation would create value, particularly because we could aim to generate at least 20 million euros in synergies before tax on a full year basis starting in 2025, but also because our retail model, based on services and omnichannel capabilities, would be strengthened to serve our customers and suppliers.

This transaction also confirms the support of our largest shareholder for our long-term development plans. It involves a limited financial risk, which preserves our financial flexibility to pursue our capital allocation policy.

Together with all our employees, we would be proud to promote our group throughout Europe and to share our vision of a retail sector committed to sustainable consumption.

CLOSING REMARKS

On slide number 20, as Jean-Brieuc explained, we have had a very satisfactory first half year in a rather stagnant market.

Our performance was solid, despite the continuing slowdown in consumer spending.

All our regions returned to growth in the second quarter, which is a good sign. Our gross margin rate rose by 10 basis points, excluding the dilutive impact of the franchise and changes in the scope of consolidation, were able to keep our costs under control.

Admittedly, the geopolitical and economic context remains uncertain, but we see a new cycle of product innovation and re-equipment in technical products, which gives us confidence. We are very focused on the successful execution of the two major events in the second half of the year, back to school and the end of year's festivities, launched by Black Friday. FNAC will be celebrating its 70th anniversary and the “contrat de confiance” continues to celebrate its 50th anniversary, which will ensure that our brands have good visibility.

I am therefore looking forward to the second half of the year with confidence and determination, satisfied with the work accomplished at the start of the year.

OUTLOOK CONFIRMED

Finally, we would also like to salute the good progress made in our ESG rating, which places us second in the European retail sector, just behind Inditex.

To conclude, against the backdrop of slowing inflation and falling interest rates, we have the facts to suggest that growth should be coming back in 2024.

We confirm our financial results, which are on a comparable basis, excluding the acquisition of Unieuro.

The current operating income in 2024 will be at least equal to that of 2023 which was 171 million euros.

We are counting on cumulative operating cash flow at around 500 million euros over the period 21-24. This corresponds to a level of 180 million euros in 2024.

In conclusion, because it is now more topical than ever, we are delighted to see the culmination of our partnership around the Paris 2024 Olympic Games. After the success of the ticketing and the nine million tickets sold, which is a record that's broken we can be proud of, our after sales technicians will remain mobilized during the whole of the games in each of the Olympic venues, and our sales staff will be stationed in our FNAC area in the Olympic Village. I'm proud to see the strong commitment of all the groups' teams to this unique project.

Thank you so much. We've concluded our presentation.

We're available to answer any questions you may have at this point.

Q&A

Operator: Ladies and gentlemen, if you wish to ask a question, please press *1 on your telephone. The first question comes from Alessandro Cuglietta from KeplerCheuvreux. Please go ahead.

Allesandro Cuglietta (Kepler Cheuvreux): Thank you for taking my question. I wanted to go back to the point dealing with growth this year, at the beginning of 2024, because we had echoes of other players in logistics or retail which are talking about a slowdown in June or a stoppage in June because of the dissolution of the French National Assembly. Do you have a similar trend in your company? Are you still confident ? Could you comment on this point?.

Enrique Martinez (FNAC Darty): You see our results. If we had a catastrophic month, we wouldn't have been able to do those results. Political considerations might have a very short effect, but as you can see, we've returned to growth, and what's interesting is that certain categories are very dynamic. PT in particular, buoyed by sporting events and the computer innovation cycle, despite a "hot" summer - as you know, white goods and small electrical goods are very much linked to the heat. The weather was not good, but in spite of all that, we're very satisfied with our very good quarter.

Allesandro Cuglietta (Kepler Cheuvreux): A quick parallel, are you gaining market share thanks to your position in services, compared to other players impacted over the same period.

Enrique Martinez (FNAC Darty): Too early to say, because there's always a slight discrepancy in the figures, but in good form, probably better than the sector.

Allesandro Cuglietta (Kepler Cheuvreux): OK, thank you, very clear.

Operator: The next question will be in English from Charlie Rothbach from HSBC. Please go ahead

Charlie Rothbach (HSBC): Good afternoon, thank you very much indeed for taking my question. Apologies it's in English. You mentioned the impact of AI technology coming through and I wondered if you could talk about your expectations for that and what you're seeing going through the market. Thank you.

Enrique Martinez (FNAC Darty) : I'm going to reply in French, because that's how it is. We're starting to see a whole series of innovations that will take up a good part of the assortment in Q3 and Q4. It's starting to be material, but we're not giving any guidance, probably later in the year but it's probably going to accelerate the renewal cycle and probably boost PVM because there are more advanced features (battery, performance) and where we've historically had higher market shares, especially at the beginning of the innovation cycle. So we're very reassured, and we'll be more consistent in H2 2024 and H1 2025.

Charlie Rothbach (HSBC): Understood. Thank you very much indeed.

Operator: I'd like to remind you that if you wish to ask a question, just dial *1 on your phone. A quick reminder, just dial star one on your phone. The next question will be in French. The next question will be in French from Florent Thy-tine, from TP ICAP.

Operator: Apologies, he has quit the conference. If you wish to ask a question, just dial *1. There are no more questions, gentlemen.

Enrique Martinez (FNAC Darty): OK, that was very clear. Thank you very much. The announcements made last week made things a little easier to understand. So thank you very much to all of you for attending. We hope you have a good summer and see you soon for the remainder of the adventure. Thank you.

Operator: Ladies and gentlemen, this concludes our conference call today. Thank you for attending. You can now sign out.