SMCP

sandro · maje · claudie pierlot · de fursac

2019 FY Results

Press Release – Paris, March 25th, 2020

Robust sales growth in 2019 with 15.4% of adj. Ebitda margin

Net income up +14.1%, excluding refinancing penalties

(Excluding IFRS 16 impacts)

- FY 2019 sales up +11.3% as reported to €1,131.9 million (+8.7% at ccs.[1])
- +14.2% of international sales growth at ccs.; solid resilience in France in a tough market
- Adj. EBITDA up +1.6% at €174.2 million, with margin reaching 15.4%
- Net income up + 14.1% at €59.4 million excluding refinancing penalties
- Net financial debt/Adj. EBITDA[2] ratio at 2.2x in Dec.19 (vs. 1.6x in Dec.18) resulting from De Fursac's acquisition
- Update on Covid-19 virus:
    - Creation of a global crisis team to manage the situation daily since January
    - Immediate action plan put in place to mitigate the impacts on SMCP's business
    - Liquidity already secured to face the crisis
    - Q1 2020 sales expected to be down by slightly more than 20%, as reported

Commenting on the report, Daniel Lalonde, SMCP's Chief Executive Officer, stated: *"In 2019, SMCP delivered a robust growth despite challenging market conditions particularly in Hong-Kong and in the Paris region over Q4. Throughout the year, we delivered on our key priorities such as driving retail excellence, expanding our store network and accelerating our digital journey. We also completed the acquisition of De Fursac, a perfect move for the Group, as it strengthens its footprint in the fast-growing menswear accessible luxury market.*
The start of 2020 is very challenging as the outbreak of Covid-19 is having a material negative impact on worldwide consumption. At the end of January, we put in place a global crisis team with the priority of protecting the safety health and well-being of our employees and stakeholders. They have been managing the situation daily, since then, we have also launched a mitigation plan to adapt the cost structure and have postponed non-essential investments. At the same time, liquidity has been already secured to weather the storm. Beyond these very challenging times, I remain fully confident in the strength of our unique business model which relies on a portfolio of strong international brands, well-balanced geographically. Finally, I would like to thank all our teams across the world for their intense efforts and commitment in this exceptional time."

[1] *All references to "ccs." in this press release correspond to sales growth at constant currency & scope*
[2] *Last twelve months adjusted EBITDA (excl. IFRS 16)*

SMCP has applied IFRS 16 – Leases, replacing IAS 17 – Leases, for the first time to its 2019 consolidated financial statements. This new standard has a significant effect on the Group's financial statements, due to the size of its network of directly operated stores. Almost all the Group's leases are property rentals (free standing stores, outlets, headquarters and warehouses). These are managed dynamically, in direct relation to the brands' activities and their distribution and development strategies.
When a lease with fixed payments is entered into, the standard requires the recording of a liability in the statement of financial position corresponding to discounted future payments, as a balancing entry to right-of-use assets amortized over the term of the lease.
The Group has applied the "modified retrospective" transition approach, which provides for the recognition of a liability on the transition date equal to only residual discounted lease payments, as a balancing entry to an adjusted right of use of the amount of lease payments made in advance or registered as a charge to pay.
In order to maintain an economic reading of the financial data for 2018 and 2019 presented below, the Group has decided to present two types of data for 2019 in its business report: the 2019 results including and excluding the impact of the new IFRS 16 standard, highlighting the effects of this standard.

KEY FIGURES	2018	2019 excl. IFRS 16	*Change as reported*	2019 incl. IFRS 16	*IFRS 16 impacts*
Sales (€m)	1017.1	1131.9	*+11.3%*	1131.9	-
Adjusted EBITDA (€m)	171.5	174.2	*+1.6%*	286.4	*+112.2*
Adjusted EBITDA margin (%)	16.9%	15.4%	*-1.5pt*	25.3%	*+9.9 pts*
Net Income Group Share (€m)	50.2	51.6	*+2.8%*	43.7	*-8.0*
Net Income Group Share excl. one-off refi. costs	52.1	59.4	*+14.1%*	51.5	*-8.0*
EPS[3] (€)	0.69	0.70	*+2.5%*	0.60	*-0.1*
Diluted EPS[4] (€)	0.64	0.65	*+2.6%*	0.55	*-0.1*
Operating FCF before tax excl. IPO-related items [5]	63.1	62.4	-	-	-

FY 2019 CONSOLIDATED RESULTS (excl. IFRS 16)

Consolidated sales reached €1,131.9 million, up +8.7% at constant currency, mainly driven by an international sales growth of +14.2% (with mainland China at more than +30% at constant currency). This performance reflected a stable (-0.1%) like-for-like sales growth, with a sequential acceleration in H2 2019 (+0.8%), as well as a continued expansion of the stores network, in line with the Group's roadmap. Overall, reported sales were up +11.3%, including a positive currency impact of +1.3% and De Fursac's contribution of +1.2% since September 2019. Over the year, SMCP benefited from the successful development of its accessories (+18.4% of sales growth) as well as some progress in digital (+20bps to 14.9% of total sales).

Adjusted EBITDA increased by +1.6% from €171.5 million in 2018 to €174.2 million in 2019. **Adjusted EBITDA margin** stood at 15.4% in 2019, impacted by decline of the **Gross margin**[6] to 74.5% mainly due to a negative mix (significant disruptions in Hong-Kong and higher contribution from off-price sales) and some pricing mark-up

[3] *Net Income Group Share divided by the average number of ordinary shares 2019 minus existing treasury shares held by the Group.*
[4] *Net Income Group Share divided by the average number of common shares in 2019, minus the treasury shares held by the company, plus the common shares that may be issued in the future. They include the conversion of the Class G preferred shares (4 696 861 ordinary shares) and the performance bonus shares – LTIP (779 401 shares) which are prorated according to the performance criteria reached as of Dec. 31, 2019.*
[5] *Before tax and one-off cost related to IPO (-€1.9m in 2019) and excluding acquisition of De Fursac*
[6] *Management gross margin*

adjustments in the US. In parallel, the Group showed a lower store costs absorption linked to a lower than expected sales performance and simultaneously several openings in the second part of the year. In parallel, the Group continued to efficiently manage its SG&A costs (-0.90pt to 18.0% of sales), while maintaining the right pace of investments to support future growth.

Amortization, depreciation and provisions amounted to -€45.2 million (4.0% of sales) in 2019, compared with -€36.1 million in 2018 (3.6% of sales) mostly driven by additional investments linked to the continued expansion in Asia and some one-off investments in infrastructures & IT.

Other non-recurring income & expenses increased from -€12.5 million in 2018 to -€14.6 million in 2019 and mainly included costs related to the transition to a fully integrated platform in mainland China, some lease fair value adjustments in Hong-Kong and De Fursac M&A fees.

Financial results which included, in 2019, -€12.6 million of costs related to the refinancing of the Group, decreased from -€19.4 million in 2018 to -€26.2 million in 2019. Excluding these refinancing penalties costs, SMCP showed a continued optimization of its cost of debt from 4.7% in 2018 to 2.7% in 2019.

Income tax amounted to -€26.5 million in 2019 versus -€39.9 million in 2018, representing a Corporate Income Tax (CIT) of 33.9% (versus 44.3% in 2018), i.e. 30.3% excluding the French trade Tax (CVAE). Income tax benefited from the deductibility of the LTIP charges, including some positive one-off, following the implementation of the Group's share buyback program.

Net income - Group share stood at €51.6 million in 2019 (vs. €50.2 million in 2018), up +2.8%. Excluding refinancing penalties, net income Group share was up 14.1% at €59.4 million in 2019.

2019 OPERATING FREE CASH FLOW AND NET FINANCIAL DEBT (excl. IFRS 16)

Operating Free Cash Flow before tax excl. IPO-related costs[7] stood at €62.4 million in 2019 compared to €63.1 million in 2018. This performance includes an increase of capex to -€69.5 million (6.1% of sales in 2019 vs. 5.5% in 2018) linked to additional investments mostly related to the continued expansion in Asia and some one-off in infrastructure & IT. In parallel, change in working capital excl. IPO-related costs stood at -€31.7 million (versus -€47.5 million in 2018) benefitting from the implementation of new processes of demand planning. Operating Free Cash Flow after tax stood at €19.7 million in 2019, including -€1.9 million of one-off costs related to the IPO.

A new financial structure was put in place last May, following the refinancing of SMCP's existing debt and as part of the acquisition of De Fursac. Net financial debt increased from €274.0 million on December 31, 2018 to €387.4 million on December 31, 2019. Consequently, Net financial debt/adjusted EBITDA[8] ratio was up to 2.2x on December 31, 2019 versus 1.6x on December 31, 2018, following the acquisition of De Fursac. With this new financial structure in place, SMCP benefits from a lower cost of debt and an extended maturity of 5 years. This new structure provides some headroom to face short-term headwinds.

[7] *In 2019, one-off IPO-related costs amounted to -€1.9m.*
[8] *Last twelve months adjusted EBITDA*

UPDATE ON COVID-19 OUTBREAK AND 2020 OUTLOOK

Since SMCP's last communication, the Covid-19 epidemic has continued to spread outside China, leading most European countries and more recently North America to take stringent measures in an attempt to contain the propagation of the epidemic. SMCP has had a global crisis team in place since January to manage the situation on a daily basis, with the objective of prioritizing the health and safety of its employees and stakeholders across the world.

Status to date:

- In APAC, almost all physical stores have re-opened in Greater China, compared to 70% of physical stores temporarily closed at the peak. However, traffic in malls remains extremely limited despite some early signs of improvement over the past few days. In the meantime, the region's distribution centre has continued to operate normally throughout the crisis. The Group registered strong results in e-commerce in Q1 2020. Likewise, in countries such as South Korea and Australia where stores are operated by partners, physical stores remain open, but traffic is extremely low.
- In EMEA including France, all physical stores in most European countries have been closed since mid-March. In countries operated by partners in the Middle East, all physical stores are temporarily closed, except for Dubai. In Russia, physical stores remain open for now. In parallel, the European distribution centre remains open to ensure exports and e-Commerce.
- Finally, in Americas, SMCP decided to temporarily close all its physical stores from mid-March, in line with its competitors. However, the Group's distribution centre continues to operate normally to ensure the e-commerce operations.

In this context, SMCP's sales and profitability are meaningfully impacted. The Group has taken immediate measures to mitigate the economic impact and protect its cash-flow, such as reducing its operating expenses, postponing non-essential investments, adjusting its level of inventories and collections and maintaining the e-commerce channel which represented c. 15% of Group sales in 2019.

Additionally, the Group has decided to immediately draw the full capacity of its Revolving Credit Facility (RCF) to reinforce its cash position. As of March 17, the Group has more than €200 million in available cash and cash equivalent to weather the storm.

Considering the rapid progression of the outbreak and the uncertainties around its duration, it is impossible to communicate relevant forecasts for the full-Year 2020, both in sales and profitability. At this stage, SMCP is expecting Q1 2020 sales to be down by slightly more than 20%, on a reported basis. The Group will continue to monitor the situation closely and will update the market in due course.

The Group remains confident in its business model and the attractiveness of its brands. The dedication of its teams towards ensuring a strict control of its costs will contribute to mitigate the impact of COVID-19. SMCP's financial structure and level of liquidity put the Group in a solid position to face these exceptional circumstances.

FINANCIAL INDICATORS NOT DEFINED IN IFRS

The Group uses certain key financial and non-financial measures to analyse the performance of its business. The principal performance indicators used include the number of its points of sale, like-for-like sales growth, Adjusted EBITDA and Adjusted EBITDA margin.

Number of points of sale

The number of the Group's points of sale comprises total retail points of sale open at the relevant date, which includes (i) directly-operated stores, including free-standing stores, concessions in department stores, affiliate-operated stores, factory outlets and online stores, and (ii) partnered retail points of sale.

Like-for-like sales growth

Like-for-like sales growth corresponds to retail sales from directly operated points of sale on a like-for-like basis in a given period compared with the same period in the previous year, expressed as a percentage change between the two periods. Like-for-like points of sale for a given period include all of the Group's points of sale that were open at the beginning of the previous period and exclude points of sale closed during the period, including points of sale closed for renovation for more than one month, as well as points of sale that changed their activity (for example, Sandro points of sale changing from Sandro Femme to Sandro Homme or to a mixed Sandro Femme and Sandro Homme store).

Like-for-like sales growth percentage is presented at constant exchange rates (sales for year N and year N-1 in foreign currencies are converted at the average N-1 rate, as presented in the annexes to the Group's consolidated financial statements as at December 31 for the year N in question).

Adjusted EBITDA and adjusted EBITDA margin

Adjusted EBITDA is defined by the Group as operating income before depreciation, amortization, provisions and charges related to share-based long-term incentive plans (LTIP). Consequently, Adjusted EBITDA corresponds to EBITDA before charges related to LTIP.

Adjusted EBITDA is not a standardized accounting measure that meets a single generally accepted definition. It must not be considered as a substitute for operating income, net income, cash flow from operating activities, or as a measure of liquidity.

Adjusted EBITDA margin corresponds to adjusted EBITDA divided by net sales.

Adjusted EBIT and adjusted EBIT margin

Adjusted EBIT is defined by the Group as earning before interests and taxes and charges related to share-based long-term incentive plans (LTIP). Consequently, Adjusted EBIT corresponds to EBIT before charges related to LTIP.
Adjusted EBIT margin corresponds to Adjusted EBIT divided by net sales.

Management Gross margin

Management gross margin corresponds to the sales after deducting rebates and cost of sales only. The accounting gross margin (as appearing in the accounts) corresponds to the sales after deducting the rebates, the cost of sales and the commissions paid to the department stores and affiliates.

Retail Margin

Retail margin corresponds to the management gross margin after taking into account the points of sale's direct expenses such as rent, personnel costs, commissions paid to the department stores and other operating costs.

The table below summarizes the reconciliation of the management gross margin and the retail margin with the accounting gross margin as included in the Group's financial statements for the following periods:

(€m)	FY 2018	FY 2019
Gross margin (as appearing in the account)	649.3	713.2
Readjustment of the commissions and other adjustments	122.4	130.2
Management Gross margin	771.7	843.6
Direct costs of point of sales	-408.5	-465.9
Retail margin	363.3	377.6

Operating Free cash-flow after tax

Free cash-flow after tax is defined as adjusted EBITDA after taking into account changes in working capital requirements, non-current items paid, income tax paid and net cash flows from investing activities excluding acquisition.

Net financial debt

Net financial debt represents the net debt portion bearing interest. It corresponds to current and non-current financial debt, net of cash and cash equivalents net of current bank overdrafts.

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METHODOLOGY NOTE

Unless otherwise indicated, amounts are expressed in millions of euros and rounded to the nearest million. In general, figures presented in this press release are rounded to the nearest full unit. As a result, the sum of rounded amounts may show non-material differences with the total as reported. Note that ratios and differences are calculated based on underlying amounts and not on the basis of rounded amounts.

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DISCLAIMER: FORWARD-LOOKING STATEMENTS

Certain information contained in this press release include projections and forecasts. These projections and forecasts are based on SMCP management's current views and assumptions. Such forward-looking statements are not guarantees of future performance of the Group. Actual results or performances may differ materially from those in such projections and forecasts as a result of numerous factors, risks and uncertainties, including the impact of the current COVID 19 outbreak.

These risks and uncertainties include those discussed or identified under Chapter 4 “Risk factors” of the Company’s registration document filed with the French Financial Markets Authority (Autorité des Marchés Financiers - AMF) on 26 April 2019 and available on SMCP's website (www.smcp.com).

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A conference call to investors and analysts will be held by Daniel Lalonde, CEO and Philippe Gautier, CFO and Operations Director from 9.00 a.m. (Paris time).

Related slides will also be available on the website (www.smcp.com), in the Finance section.

INCOME STATEMENT (€m)	FY 2018	FY 2019 excl. IFRS 16	FY 2019 incl. IFRS 16	IFRS 16 impacts
Sales	**1017.1**	**1131.9**	**1131.9**	**-**
Adjusted EBITDA	**171.5**	**174.2**	**286.4**	**+112.2**
D&A	-36.1	-45.2	-154.8	-109.6
Adjusted EBIT	**135.3**	**129.0**	**131.5**	**+2.6**
Allocation of LTIP	-13.4	-10.0	-10.0	-
EBIT	**122.0**	**119.0**	**121.5**	**+2.6**
Other non-recurring income and expenses	-12.5	-14.6	-14.6	-
Operating profit	**109.5**	**104.4**	**106.9**	**+2.6**
Financial result	-19.4	-26.2	-39.8	-13.6
Profit before tax	**90.1**	**78.1**	**67.1**	**-11.0**
Income tax	-39.9	-26.5	-23.4	+3.1
Net income Group share	**50.2**	**51.6**	**43.7**	**-8.0**

CASH FLOW STATEMENT (€m)	FY 2018	FY 2019 excl. IFRS 16	FY 2019 incl. IFRS 16	IFRS 16 impacts
Adjusted EBITDA	171.5	174.2	286.4	+112.2
Changes in working capital	-47.5	-31.7	-31.7	-
Non-recurring expenses	-18.7	-12.4	-12.4	-
Income tax expense	-12.7	-40.9	-40.9	-
Net cash flow from operating activities	92.6	89.2	201.4	+112.2
Capital expenditure	-56.3	-69.5	-69.5	-
Acquisition	-	-95.0	-95.0	-
Net cash flow from investing activities	-56.3	-164.5	-164.5	-
Net interests paid	-16.0	-17.8	-17.8	-
Other financial income and expenses	-0.5	-2.5	-2.5	-
Share buy-back program	-	-4.9	-4.9	-
Issuance and repayment of borrowings	-14.8	107.5	107.5	-
Rent payments (IFRS 16)	-	-	-112.2	-112.2
Exchange rate and change accounting principles	0.2	0.8	0.8	-
Net cash flow from financing activities	-31.1	83.2	-29.0	-112.2
Change in net cash	5.2	7.9	7.9	-

FCF (€m)	FY-18	FY-19 excl. IFRS 16
Adjusted EBITDA	171.5	174.2
Change in working capital	-47.5	-31.7
Non-recurring expenses	-18.7	-12.4
Capital expenditure	-56.3	-69.5
Income tax	-12.7	-40.9
Free cash-flow after tax (a)	36.3	-19.7
Cost of share-based payments (b)	-11.3	-
Non-operating expenses incurred during the period (c)	-2.8	-1.9
Free cash-flow after tax and excl. one-off IPO-related items (a)-(b)-(c)	50.4	21.5
Income tax	-12.7	-40.9
Free cash-flow before tax and excl. one-off IPO-related items	63.1	62.4

BALANCE SHEET - ASSETS (€m)	As of Dec. 31, 2018	As of Dec. 31, 2019 excl. IFRS 16	As of Dec. 31, 2019 incl. IFRS 16	IFRS 16 impacts
Goodwill	630.1	683.2	683.2	-
Trademarks	600.0	663.0	663.0	-
Other intangible assets	136.1	147.3	26.8	-120.5
Right of use	-	-	594.4	+594.4
Property, plant and equipment	76.0	93.9	93.9	-
Non-current financial assets	20.0	22.5	22.5	-
Deferred tax assets	33.4	41.3	43.9	+2.6
Non-current assets	1,495.5	1,650.8	2,127.2	+476.5
Inventories and work in progress	221.4	247.9	247.9	-
Trade receivables	51.4	58.4	58.4	-
Other receivables	35.3	54.9	54.9	-
Income Tax receivable	3.9	8.5	8.5	-
Cash and cash equivalents	46.5	52.3	52.3	-
Current assets	358.5	422.1	422.1	-
Total assets	1,854.0	2,072.9	2,549.3	+476.5

BALANCE SHEET - EQUITY & LIABILITIES (€m)	As of Dec. 31, 2018	As of Dec. 31, 2019 excl. IFRS 16	As of Dec. 31, 2019 incl. IFRS 16	IFRS 16 impacts
Total Equity	1,142.2	1,197.9	1,189.8	-8.1
Bond	174.2	-	-	-
Non-current lease liabilities	-	-	402.5	+402.5
Non-current financial debt	-	436.5	436.5	-
Other financial liabilities	0.2	0.2	0.2	-
Provisions and other non-current liabilities	0.2	3.8	3.8	-
Deferred revenue	-0.1	-	-	-
Net employee defined benefit liabilities	3.3	3.9	3.9	-
Deferred tax liabilities	166.5	183.5	183.0	-0.6
Non-current liabilities	344.5	628.0	1029.9	+401.9
Trade and other payables	115.5	144.0	144.0	-
Current lease liabilities	-	-0.0	101.8	+101.8
Bank overdrafts and short-term financial borrowings and debt	146.1	3.0	3.0	-
Short-term provisions	3.2	0.7	0.7	-
Income tax payable	14.9	7.8	7.8	-
Other financial liabilities	87.7	91.4	72.3	-19.1
Current liabilities	367.4	247.0	329.6	+82.6
Total Liabilities	1,854.0	2,072.9	2,549.3	+476.5

NET FINANCIAL DEBT (€m)	As of Dec. 31, 2018	As of Dec. 31, 2019, excl. IFRS 16
Bond & interest-bearing loans and borrowings	-176.4	-
Non-current financial debt & other financial liabilities	-0.2	-436.8
Bank overdrafts and short-term financial liability	-143.9	-3.0
Cash and cash equivalents	46.5	52.3
Net financial debt	-274.0	-387.4
LTM adjusted EBITDA	*171.5*	*174.2*
Net financial debt / adjusted EBITDA	1.6x	2.2x

ABOUT SMCP

SMCP is a global leader in the accessible luxury market with four unique Parisian brands: Sandro, Maje, Claudie Pierlot and De Fursac. Present in 41 countries, SMCP is a fast-growing company which reached the milestone of €1bn in sales in 2018. The Group comprises a network of over 1,500 stores globally plus a strong digital presence in all its key markets. Evelyne Chetrite and Judith Milgrom founded Sandro and Maje in Paris, in 1984 and 1998 respectively, and continue to provide creative direction for the brands. Claudie Pierlot and De Fursac were respectively acquired by SMCP in 2009 and 2019. SMCP is listed on the Euronext Paris regulated market (compartment A, ISIN Code FR0013214145, ticker: SMCP).

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