



Cnova

Full Year 2017 Financial Results Conference Call

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator:

Greetings and welcome to the Cnova Full Year 2017 Financial Results Conference Call. At this time all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad; as a reminder, this conference is being recorded. I would now like to turn the conference over to Emmanuel Wetzel, in charge of IR at Cnova. Thank you, please go ahead.

Emmanuel Wetzel:

Good day everyone. We are holding this call today to go over Cnova's full year 2017 financial results. In addition to myself, we have our CEO Emmanuel Grenier, and CFO, Amandine Lezy on the call as well. The conference call slides can be downloaded from our website, cnova.com. This call is also being auto-webcast and a replay will be available on our website about an hour after we finish here. Please take a moment to read the forward-looking disclaimer on the Slide 2, and with that I now will turn the call over to our CEO, Emmanuel Grenier. Emmanuel?

Emmanuel Grenier:

Thank you, and good day to everybody.

So, in 2017 we launched an ambitious strategic plan, which required significant investments to transform the customer experience. How we do it? First, we have reinforced our offers and services, increasing product assortment and multiplying by three those eligible to Cdiscount-à-volonté and same-day delivery. Second, we have revamped our mobile experience; and third, we have developed the unique multichannel strategy within Géant stores. So we have strongly invested in technology and logistics, and our plan proves its efficiency and the results are here.

First, GMV increased by 10% with an acceleration in the second half of the year, partly driven by the increase in traffic of 12%. So Cdiscount continued to gain market share with close to 1.8 points in the second half and is consolidating its position as a leading French e-merchant. Second, EBITDA improved quarter after quarter, and went back to 2016 level in Q4. Third, net debt improved by €20 million compared to the first half level.

The implementation of the strategic plan is now behind us, and we expect it to continue to bear its fruits in 2018. We are now entering the second phase of our plan that will be focused on the monetization of our marketplace and data, leveraging on our unique traffic growth, customer base, and large marketplace vendor network. And we expect the second phase to improve EBITDA profitability in the mid-term.

In this presentation, we will go into details of our key strategic plan priorities.

We will focus on best combination of offers and services, basic customer experience, monetization as a strategy to bump up our profit, and finally our innovation initiatives.

Slide 8. One of the main ambitions of our strategic plan was to increase the number of SKUs we are offering to our customers. First, the total number of SKUs increased up to 37 million at the end of 2017, against 17 million in 2016.

We reinforced our leading position in technical goods, and we have close to one-third of the online market in France.

We multiplied the number of SKUs and revamped the “look and feel” experience in home category, which is one of our key priorities.

And our commitment now to develop our daily necessity products, pet supplies, organic, personal hygiene, baby products, and offering to our clients a subscription program for these products.

Above all, we have tripled the number of SKUs available for free express delivery. Moreover, the free express delivery remains a great advantage for our Cdiscount-à-volonté members. This is a major step forward in a world where delivery time is now as important as price.

Just to sum it up: an increased offer of SKUs for our clients, free express delivery services and revamped “look and feel” experience.

Slide 9. Cdiscount is now the fast delivery specialist in France, with more than 250,000 SKUs eligible for same day delivery, regardless of the product size. We offer same-day delivery in Paris, Lyon, Lille, Bordeaux, and we are extending the fast delivery to other major cities as well.

Not only we are the first fast delivery specialist, but we are as well the first French market player to offer our clients geolocation of their package delivery. This provides the convenience of being able to know where your package is, and when it will be delivered.

All that was made possible by the opening of new warehouses and cutting-edge technology for storage and order picking called Skypod Exotec. This technology allows us to increase productivity and increase the storage capacity by 5.

Slide 10. As a leader, we constantly meet the new demands of our clients. Thus, we have launched three new customer unique services aiming to better respond to our clients while at the same time increasing our top line and operating margin.

To illustrate the point, I would like to talk about three new services. First, take “coup de pouce” service, which is a unique instant consumer service. This service allows for us to generate revenue, and for the customers to make purchases on credit. This drives GMV volume.

Second, Cdiscount Energie. This service allows a customer in less than five minutes to subscribe our home energy supplier offer. This offer has three advantages: 15% economy, this is the lowest offer on the market; easy online subscription; and no obligation. We are seeing excellent pick-up of this since its launch last October.

Third, Cinstallé service. This offers an installation service allowing our customers to purchase furniture, household appliances, or other items and leave the installation up to Cdiscount. Up to now we have had 60,000 eligible products, which will increase up to more than 200,000 by the end of the year. No one else on the market offers these three services.

Slide 12. Mobile is what will bring our customer experience to a brand new level. It now represents almost 60% of our traffic and 40% of our GMV, and it is in constant acceleration. We are very proud that our mobile site is the second fastest available, and that our mobile app is extremely well rated in the Apple Store.

We have three priorities. First, in order to increase our traffic, we have introduced a new strategy of gamification. Basically, new games bring new customers. Second, in order to increase our conversion rates, new personalized functionalities are being developed. And third to facilitate shopping experience, chatbots and voice command are being developed by internal dedicated teams.

Slide 13. So website and mobile apps are one of the channels we offer to our clients. At the same time, the law of the market today is also that you have to go to the client, not wait for him to come to you. The result of this approach is four Cdiscount showrooms open in Géant hypermarkets in 2017. And we intend to go even further and to add six more showrooms this year. This allows Cdiscount and Casino customers to have better access to Cdiscount's best promotions, including our best-selling hi-tech, and to discover our best home products.

In addition to these in-store showrooms, Cdiscount is also managing Géant commercial policy and technical goods. This gives Cdiscount and Casino customers access to immediate in-store delivery for 4,000 SKUs in more than 100 hypermarkets.

Slide 14. As I mentioned earlier, our customer loyalty program "Cdiscount-à-volonté", or CDAV for short, continues to be a big success with our clients. Our CDAV customers now generate close to one-third of our GMV, and purchase on average three times more than other customers.

In terms of customer relations, we always seek more engagement. Thus, Cdiscount has become a leader on social media engagement, reaching number 1 status in France and number 3 worldwide in 2017. Furthermore we had more than 200,000 interactions on Black Friday alone with our customers, the best performance by far in e-commerce in France, 20 times bigger than our main competitor.

Slide 16. Getting back to our strategic plan, the first step which we had accomplished with success was to expand products and services and to enhance customer experience. This allowed us to drive growth.

Now, our second step is to monetize our traffic. And our strategy relies on two pillars.

I will develop them in the next two slides. On the first slide, I will address services on marketplace. And on the second slide, I will talk about data monetization.

In terms of developing services on the marketplace, our vendors now have access to three categories of value-added strategies. The first service offered to the sellers is about the logistics and transportation. Depending on the seller's needs, we offer either full service—it means logistics and transportation, or transportation only. The full service, which is logistics and transportation, is called Fulfillment by Cdiscount. And this service, which had a lot of success among our sellers, allows them to increase their

turnover and to speed their delivery. As a result, the Fulfillment by Cdiscount service drives up the marketplace GMV. This year, our fulfillment activity has doubled in size.

Now, when it comes to the service limited to transportation only, this new service allows our vendors to keep their logistics in-house, while relying on highly advantageous transport conditions that Cdiscount has negotiated on their behalf.

Second, our marketing services. They allow, on the one hand, to promote vendors' products and increase their turnover; and on the other hand, to generate more margin for us.

And finally, we offer to handle all foreign currency transactions for our international marketplace vendors. It was open to European vendors and we have extended that to Chinese sellers as well. These are financial services.

All of these services are available on a standalone basis or in the bundled packages. These premium packs are experiencing strong commercial success.

Slide 17. Another service which is very profitable for us is to offer our marketplace vendors, our suppliers, our advertising customers, a boost of their sales by promoting their products, their deals or their brands on Cdiscount and beyond.

First, we are able to increase their visibility of their products and brands on Cdiscount, leveraging on our dense traffic, and as well on other sites, thanks to our advertising trading desk.

Second, we allow them to target the right customers in the right place and time, thanks to our base of 40 million e-shopper cookies that target over a thousand different customer categories. This is one of the largest client database in France. This is an important profit driver.

We strongly expect these two initiatives, services on marketplace and data monetization, to improve EBITDA.

Slide 19. Innovation is at the heart of our strategy. We promote the strong culture of innovation at Cdiscount. In 2017, out of 800 start-ups, we selected the 52 best ones, made proof of concept, and built partnerships with two-third of them, allowing us to further improve our customer experience and profitability.

We have also launched our own start-up incubator called the Warehouse. This is a logistic incubator. It is a dedicated space where a number of selected start-ups can take advantage of Cdiscount's experience and expertise to launch their project. For example, Exotec, the robot Skypod solution, is part of this program.

And now, I will let Amandine run you through the 2017 KPIs and financial performance.

Amandine Lezy:

Thank you, Emmanuel. So, on this slide, we have provided you with a summary of our key financial KPIs.

Starting with traffic, this continues to be among our strongest sustainable metrics. Traffic dynamically grew by 12.4% in 2017 and was even stronger in H2 than in H1. Mobile, which now accounts for 60% of overall traffic, was a key driver of this evolution. The strength of our traffic is recognized as we rank second e-commerce site in France, with 18 million unique monthly visitors.

GMV increased by 10% on a yearly basis. Growth accelerated in H2, with historical sales growth in Q3, and a record Black Friday during which GMV was up 80% versus 2016.

Looking at the marketplace, it now represents 32% of our GMV. One of the achievement of this year was the acceleration of our fulfilment service, which contribution to GMV doubled in 2017.

Now, I suggest we move to the next slide to look in more detail at our P&L figures.

In 2017 Cnova posted net sales of €2.1 billion.

Gross margin was 13.6%, in line with 2016 and with an improvement in H2.

EBITDA reached €4 million, impacted by the implementation costs of the strategic plan, albeit with an improved trend in H2 that I will detail in a couple of minutes.

The next slide focuses on net sales and EBITDA.

Net sales were up 9.3% on a like-for-like basis. This is the result of a contrasted year with 5.3% growth in H1 and the strong acceleration in H2 with 13% like-for-like growth. This shows the first benefits of the strategic plan.

On the reported basis, that is including in particular the revenues generated in Casino stores, net sales increased by 14.4% in 2017. And it should also be pointed out that our marketplace commissions were up nearly 20% on the year.

EBITDA was lower year-on-year, impacted by the implementation costs of the strategic plan, with a progressive improvement throughout the year. Another point to note is the decrease in costs at the Cnova holding level. This cost reduction was all the more important if you keep in mind that 2016 accounts included a €5.2 million provision reversal.

Let's move to the next slide that illustrates the sequential improvement we have observed in 2017.

As you can see, not only EBITDA improved quarter after quarter, but also the gap versus 2016 reduced progressively as the strategic plan began to bear fruits. We saw EBITDA swing back into positive territory in the third quarter, while the fourth quarter actually was higher compared to the same period in 2016.

Now let's move to net debt on the next slide.

Overall, 2017 has been very particular in terms of free cash flow.

As a reminder, cash flow in H1 was impacted by the one-off investments to implement strategic plan, with:

First a significant working capital outflow related to SKU expansion; second, the impact on inventories of the multichannel strategy, as we are now managing a large part of the non-food offering of the Casino stores, and third, higher capex focused on technology and logistics to enable our strategic plan.

The trend reversed in H2, with an improvement in net debt versus the situation at end June. In the second half of the year, free cash flow was a positive €31 million, which shows that the initial investments of the strategic plan are now behind us.

Over all, the improvements in the financial situation in H2 demonstrate the relevance of our strategic plan that is expected to underpin our financial performance in 2018. And specifically, we expect our free cash flow to materially improve in 2018 to be close to breakeven.

Now I will turn the call back over to Emmanuel.

Emmanuel Grenier:

Thank you Amandine.

Slide 27. 2017 was a year of transition where we worked to solidify the underlying fundamentals of our business.

In 2018 we plan to focus on four ambitions. First, we plan to further advance our leadership in heavy items, via fast delivery and installation; increase the rate of repurchase by extending our assortments, pushing Cdiscount-à-volonté, and our new subscription program.

Second, we want to further improve our customer experience by pushing personalization and gamification on mobile, and rolling out more same-day delivery to more locations.

Third, we plan to accelerate monetization of our traffic through the ramp-up of our value-added marketplace services, and generating new revenues streams via data-driven advertising.

Fourth, we are becoming a more and more open platform. We want to develop partnerships with innovative start-ups.

So that concludes our slide presentation. We are now ready to turn to the Q&A. Operator, may we have the first question, please?

Operator:

Thank you; ladies and gentlemen, if you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue, and you may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Again that is star, one to ask a question at this time.

We'll hold for one more moment to see if there are any questions; again that is star, one.

It seems that we have no questions—oh I'm sorry, we've just had a question come through from the line of Christian Devismes with CMC. Please go ahead with your questions.

Christian Devismes:

Yes. Good afternoon to all. I have one question about the working capital requirements in 2017. So I understand the increase in inventory due to the new strategy. It's a bit more complicated to understand the design in supplier financing. So could you explain why there is a decline of I think €81 million in supplier financing?

Amandine Lezy:

Sorry, could you clarify your question on the €81 million movement please?

Christian Devismes:

Yes, it is just about the working capital requirement. You have an increase, I would say, by €144 million if I remember well in term of inventories, and you have a decrease in supplier, I think it's around €80 million, and I do not understand why there was a decline in supplier if you increase the inventory?

Amandine Lezy:

Okay, so, on working cap, what we've seen in 2017 is as you said, a significant increase in inventories, which reflects both the strategy to broaden the number of SKUs and the multichannel agreement with Casino, and accounts payables and receivables also impacted by the transaction with Casino, because both of them—well, on accounts payable you find the Casino payables in relation to the sales making stores, and accounts receivables. What we have seen during the year is some improvement in the average payment terms to suppliers.

Christian Devismes:

Okay.

Amandine Lezy:

But clearly the main driver was the increase in inventory.

Operator:

Okay, and do you have any further questions, sir?

Christian Devismes:

No, thank you.

Operator:

Okay. Our next questions come from the line of Pierre Vaurice with Midcap Partners. Please go ahead with your question.

Pierre Vaurice:

Hi. Thank you for taking my question. On Cdiscount Energie, I understand that you had excellent results since its launch. Do you have more figures to communicate, share with us in terms of, for instance, pickup rate or global customer base so far? Thank you.

Emmanuel Grenier:

Well, we are not used to giving a lot of figures about the new services and the new products we are launching. The only thing we can tell you is that we are recruiting several hundreds of new customers every day. It has been big success from the beginning. And the second thing is that it was done without marketing investment, only relying on the traffic coming to Cdiscount, it is between 2 and 4 million people seeing and watching this offer every day.

Pierre Vaurice:

Okay, thank you. Did you have some targets that were communicated before? Or ...

Emmanuel Grenier:

No, we didn't communicate any targets, but we are in our plan.

Pierre Vaurice:

Okay, great. Thank you.

Operator:

Thank you, and we'll pause to see if there are any further questions. Again, that is star, one to ask a question at this time. One moment while we hold to see if there are any questions.

Okay, and it seems that we have no further questions; I would like to turn the call back over to management for any closing comments.

Emmanuel Grenier:

Thank you very much for to everybody to have attended the meeting, and see you in six months. Thank you very much.

Operator:

Thank you ladies and gentlemen. This concludes today's conference. You may disconnect your lines at this time, and thank you for your participation.