



Cnova

Full Year 2018 Financial Results Conference Call

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CORPORATE PARTICIPANTS

Emmanuel Wetzel, *Investor Relations*

Emmanuel Grenier, *Chief Executive Officer*

Gautier Bally, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

PRESENTATION

Operator:

Ladies and gentleman, greetings and welcome to Cnova's Full Year 2018 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 program, please push star, zero on your telephone keypad. As a reminder, this program is being recorded.

It is now my pleasure to introduce your host, Emmanuel Wetzel, in charge of Investor Relations at Cnova. Thank you. You may begin

Emmanuel Wetzel:

Good day, everyone, and welcome to Cnova's Full Year 2018 Earnings Conference Call. My name is Emmanuel Wetzel, and I will be hosting today's call. Our CEO, Emmanuel Grenier, and CFO, Gautier Bally will be making today's presentation. The conference call slides can be downloaded from our website cnova.com. This call is also being audio webcast and a replay will be available on our website about an hour after the conclusion of the call. Please take a moment to read the forward-looking disclaimer on the Slide 2.

With that I now turn the call to our CEO, Emmanuel Grenier.

Emmanuel Grenier:

Thank you, and good day to everybody.

Our strategic plan continued to outperform in 2018 for several reasons. First, our marketplace performance was outstanding; second, our new revenue streams such as Travel, Energy, Home Services are proving successful with our customers and are growing very fast; third, our customer loyalty program membership Cdiscount à Volonté was up 23%; and finally, our data traffic and advertising monetization initiatives were also up to 23%.

All of these combined to push Cdiscount GMV closer to our internal near-term goal of €4 million.

Slide 6. We said that we would keep growing the marketplace share of GMV. Mission accomplished. The marketplace share of GMV is now more than one-third of the total GMV. The number of SKUs that we offer to our customers is close to 50 million, reflecting our efforts to increase that number by more than 35% by year-end. A large part of our 2018 success is due to our laser focus on our customers, making sure that the items and services that we provide exceed their expectations.

Our marketplace growth is also driven by the fact that we offer attractive services to our vendors. Fulfillment by Cdiscount is especially popular as it boosts over vendor sales volume and enhances the Cdiscount customer experience. All of these are driving the solid marketplace GMV growth that I referenced on the previous slide.

Slide 8. At the end of 2018 we had two major promotional events. Our 20-year anniversary in October and of course Black Friday in November. In two weeks, over 1 million of our customers took advantage of our 20-year anniversary. As a reminder, our client base is 9 million.

During Black Friday, we generated a record-breaking day of €57 million GMV, with a peak of 23,000 visits per minute.

Slide 9. at Cdiscount, our philosophy is simple. The customer is queen or king. Today, the customer wants the one-stop shopping experience that Cdiscount offers. All of our customers want to be able to buy a wide range of services from home to leisure.

A year ago we launched Energy services, allowing our clients to buy an affordable electrical home heating solution, and recently we have expanded our offers by more than a hundred services, such as moving, painting, gardening, or installation. We are as well actively developing leisure-time activities such as flight and travel, expanding very fast and ticketing.

These new services encourage customer loyalty, leads to repeat purchase activity and attracts new clients.

Slide 10. We said that one of our priorities is to extend our deliveries across Europe. We are now delivering to over 19 European countries through 36 European marketplace networks and direct deliveries to neighboring countries. This low-fixed cost activity is already operating at breakeven and we anticipate that it will be a significant contributor to our GMV as well as profitability going down the road.

Slide 12. Our customer loyalty program Cdiscount à Volonté or CDAV for short is the backbone of our customer approach. A well-served customer is a repeat customer. CDAV membership was up 23% in 2018, and now accounts for more than one-third of our total GMV. As you know, CDAV allows our customers to benefit from express free delivery for only €29 a year.

We also added two new features in 2018. First, sharing for free, CDAV advantages to friends and family. Second, giving unlimited online access to a wide variety of newspapers and magazines. CDAV has proved to be a key driver in the growth of our repeat business.

Slide 13. Sixty-three percent of our traffic comes from mobile devices and is going to soon account for one-half of our GMV. So, it is imperative that our customers have easy, no stress online experiences when they visit Cdiscount. They are on the go, and mobile access is absolutely vital for them. It is no coincidence that our mobile platform is one of the fastest in the business and just as important, delivery has to be darn near instantaneous. Our customers want their purchases now. Check. They want them delivered in a green way. Check. They want to be able to track the delivery of their order. Check as well.

Slide 15. It has become a fact of life that only online is not enough. Our customers want to be able to feel, touch and see. That is why we have developed offline showrooms where this is possible. We have a high

visibility showroom on the Champs Elysees in Paris, and all in all we have 50 showrooms in Géant stores which are attracting new customers and contributed more than 15% of our GMV growth in 2018.

Slide 17. Monetization of our traffic and data have created new revenue streams over the past several years. This is now starting to make significant contributions to our financial performance and profitability. Our marketing platform grew by 16% in 2018. Commissioned-based revenue from our B2C services platform was up 30%, and last, but certainly not least, our financial services are highly popular with our instant credit offer, up by two-thirds compared to the previous year.

Slide 19. Promotion of innovation is one of the ways we invest in the future. The Cdiscount Warehouse program has been a very successful start-up incubation program. Three of the 2018 start-ups are already live, increasing the productivity and efficiency of our warehouse operations, and we have already promoted five new start-ups in 2019.

At the end of the day, innovation at Cdiscount enhances customer experience, improves working conditions, and increases operational efficiency. In short, a decent return on our innovation investment

Slide 21. We are committed to operating in an environmentally and socially responsible manner. It is core to our DNA. Our delivery packaging is designed to use a minimum of cardboard. By 2019 year-end almost all of our packages will have no empty space. We use only electric-powered delivery for heavy products in Paris and Bordeaux. We were recently awarded the Digital Ad Trust Label by CNIL, the French Data Protection Authority. Data protection is paramount for our clients and us.

With that, I would like now to turn the floor to Gautier, our CFO, who will go over 2018's financial performance.

Gautier Bally:

Thank you. So, most of what we see on Slide 23 has already been pointed out by Emmanuel, but what is worth highlighting again is that we have three main GMV growth drivers on our core e-commerce activity. Each of them enjoying good performance.

Marketplace share was 2 points up at 34%; Loyalty program with CDAV share increasing by 3 points, and the growing prominence of mobile, the GMV share of which raised by 6 points.

On the next slide, 24, we drill down into GMV growth a little bit more. Two ideas; first it is very encouraging to see that we have consistent GMV growth quarter after quarter, and that it is accelerating with a strong dynamic in Q4 sustained by Cdiscount's 20th anniversary and Black Friday successes.

Second, it is important to note that a full 75% of the 2018 GMV growth was driven by three main engines; marketplace, new revenue streams from services and omnichannel sales through off-line showrooms.

Slide 25. In 2018 we were also able to combine strong GMV growth with solid gross margin expansion. We finished the year at 15.5%, up 2 points compared to 2017 representing an increase of more than €60 million. This improvement is again due to first expanding marketplace share, which generates more commissions; second, new revenue streams from services, and finally, optimized pricing and shipping strategies.

Slide 26, Our cost structure was relatively stable year-on-year in terms of G&A, Tech and Content and Fulfillment expenses. Marketing expenses were up by around 60-basis points due to a more aggressive media campaign strategy to boost our brand and to support key commercial events. These led to an overall increase in total SG&A, which came in at 15.8% of sales.

Next slide. As a result of the 2-point improvement of growth margin and the slower increase of costs at the same time, we had a significant turnaround in EBITDA, which went from minus €6 million in 2017 to plus €25 million in 2018. This +€32 million improvement year-on-year accelerated quarter after quarter alongside with marketplace expansion and the ramp up of new revenue streams with low cost associated. A summary of these financial indicators is provided on the next slide.

Let's pass this slide and go directly to Slide 29. On IFRS 15 restatement. As you know IFRS 15 went into effect at the beginning of 2018, with retroactive effect. It impacts how revenue from customers with contracts is treated. In our particular case, certain suppliers' contributions are now recognized as a reduction of the purchase price, which in turn reduces inventory value and the main impact on restated 2017 Cnova accounts is a €10 million reduction of full year EBIT.

Slide 30, perhaps one of the greatest achievements of 2018 for us is the significant turn-around in free cash flow. We went from a negative €336 million cash drain in 2017 to a positive €70 million in-flow in 2018. Beyond the EBITDA increase, the main factor came from a strong positive change in working capital, mostly driven by the optimization plan on inventory and growing share of our marketplace. Our level of investments remained overall stable at the same time.

Taking into account financial expenses and exceptional items, mainly composed of one-off €24 million payment related to the class action settlement, the net final to debt was overall stable in 2018.

The next slide, 31, provides the perspective of free cash flow, capex and net financial debt evolution on a 12-month basis over the last three semesters, highlighting the improvement I mentioned before.

Thank you, and now Emmanuel will go over the outlook for the remainder of the year.

Emmanuel Grenier:

Thank you, Gautier. To summarize, in 2018 our key takeaways are; one; strong GMV growth driven by marketplace services and corners; two, significant EBITDA improvements; and three, solid positive free cash flow.

Now, looking forward to 2019, we plan to continue focusing on our customers and profitable growth. How are we going to do this? We will keep accelerating our marketplace. We will roll out more services. We will grow Cdiscount à Volonté loyalty program and we will further expand our monetization initiatives. We believe these will lead to an acceleration of our GMV growth pace and a strong improvement in EBITDA. Our target is to reach €50 million in 2019.

Slide 34, over the longer term, our vision is to consolidate our leadership position by reinforcing Cdiscount as a customer centric and profitable platform. This is built around four pillars.

The first one is product based; a marketplace of products where our customers can find whatever they want at the best prices.

The second one is service based. Our customers can fulfill their energy and other day-to-day requirements and manage their leisure time as well.

The third pillar is innovation based; innovation combined with partnerships of close to 100 start-ups, provides an even more personalized and fluid customer experience.

The fourth and final pillar is advertising based. We will scale up this revenue by opening our new advertising platform to all our vendors and suppliers. We believe that with innovation, our client centric approach and profitable growth, Cdiscount will further consolidate its leadership position.

That concludes our slide presentation. We are ready to turn to the Q&A.

Operator, may we have the first question please.

Operator:

Thank you. Ladies and gentleman, we will now be conducting our Q&A session. If you would like to ask a question, please push star, one on your telephone keypad now. A confirmation tone will indicate your line is in the question queue. You may push star, two if you would like to remove your question from the queue. For any participant using speaker equipment, it may be necessary to pick up your handset before pushing the star key. One moment while we poll for questions.

Ladies and gentleman, once again, if you'd like to ask any questions, please push star, one on your telephone keypad now.

Gentleman, we have no questions over the phone lines at this time. I'd like to turn the floor back over to you.

Emmanuel Grenier:

Okay, just to conclude, thank you very much. Three messages: the first one is GMV €3.6 billion, plus 9.3%. Second, strong EBITDA improvements, plus €32 million '18 compared to '17, and with a target of €50 million this year, so we target to double EBITDA and third, a strong free cash flow improvement as well with a €70 million free cash flow, plus 400 million compared to last year.

Thank you very much.

Operator:

Thank you, ladies and gentleman. This does conclude our teleconference for today. You may now disconnect your line at this time. Thank you for your participation and have a wonderful day.