



Cnova

Half Year 2019 Financial Results Conference Call

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Fabienne Caron, *KeplerCheuvreux*

PRESENTATION

Operator:

Greetings, and welcome to the Cnova Half Year 2019 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.

It is now my pleasure to introduce your host, Emmanuel Wetzel, Head of Investor Relations. Thank you; you may begin.

Emmanuel Wetzel:

Good day, everyone and welcome to Cnova's 2019 2nd Quarter Activity and 2019 1st Half Financial Performance conference call. My name is Emmanuel Wetzel, and I will be hosting today's call. Our CEO, Emmanuel Grenier, and CFO, Gautier Bailly, 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 later today.

Please take a moment to read the forward-looking disclaimer on the Slide 2. With that, I now turn the call over to our CEO, Emmanuel Grenier.

Emmanuel Grenier:

Thank you, Emmanuel, and hello to our listeners.

The first half of 2019 has been a great success for us. GMV grew by 13% in the second quarter and by 11% over the entire first half. The marketplace share of GMV passed the 40% mark for the first time, increasing by close to 350 basis points in the second quarter. Our new B2C services are really taking off, especially our online travel services, and we are seeing good growth in our monetization revenues. As a

result, our profitability is improving. In fact, our first half performance has paved the way for sustainable profitable growth.

Slide 5: Those strong results are driven by our progressive shift towards a platform model, which is based on three assets: Our Customers, our Partners, our Technology. First, we have a growing and more loyal customer base. Namely, 20 million Unique Monthly Visitors and 2 million Cdiscount à Volonté members. Second, our expanding partner base, with more than 1500 suppliers and 12,000 marketplace sellers. Finally, our technology and logistics platforms are the bridge which allow our partners and sellers to seamlessly offer their products and services to our customers.

This combination of cutting-edge assets allows us not only to grow our marketplace of products at a very fast rate but also to launch and rapidly expand our marketplace of services such as online travel or energy.

Furthermore, we have expanded our product sales outside of France and now cover 25 European countries.

We want to go further monetizing our assets. We have successfully developed our data-based revenue streams. Now, we are working to monetize our logistics and technology assets.

Now, let's drill down into what has made the first half so successful.

Slide 7: Our marketplace is growing at a fast rate and represented for the first time over 40% of GMV, up 3.5 points in Q2 2019 compared to the same period last year. This improvement is driven by: On the one hand, the one third increase of our marketplace product catalogue which totals now 55 million SKUs. On the other hand, the development of our marketplace vendors delivery service, Fulfillment by Cdiscount, which is now shipping more than one quarter of our marketplace orders. More marketplace vendors SKUs are eligible for free next-day delivery for our Cdiscount à Volonté members.

Slide 8: Looking beyond our traditional activity of selling products to our customers, we have developed: finance, daily life and leisure services that are also driving GMV growth.

Since 2016 we have introduced nine new B2C services, from online travel, to consumer credit, mobile phone subscriptions and home energy. These services combined to increase our first half GMV growth by 4 percentage points. And we just introduced Cdiscount Santé which allows our customers to buy health insurance and prescription eyeglasses. We plan to add additional services in the future.

Slide 9: On this next slide, I wanted to show you why we are so excited about the fast growth potential of our expanding services offering. One of our biggest success has been our online travel platform, Cdiscount Voyages, Cdiscount Travel, addressing a 23-billion-euro market in France. We started off by offering online flight reservations. Next we introduced package holidays and our customers can now choose from more than 9,000 offers.

This expanding business already added over 3 points to our second quarter GMV growth, and it is accelerating. Our goal is to have one of the largest online travel offers in France by 2020.

Slide 11: As we all know the customer is king. A well-served customer is a repeat customer. Our customer loyalty program, Cdiscount à volonté, or CDAV for short, is the backbone of our customer approach. CDAV has permanent free next-day delivery for a product selection that has tripled over the last year to cover over one million products, one million SKUs, and we are not stopping there. Free next-day delivery is key for our 2 million CDAV members who end up buying three times more often than non-CDAV members.

Slide 12. Alongside loyalty reinforcement, we are increasing our customer base thanks to the strengthening of our brand awareness. Cdiscount is the second most recognized ecommerce brand in France and is gaining on the market leader. Our brand awareness increased by an impressive 9 points compared to last year. This achievement was driven by two main levers.

First, strong media coverage. Just to give an example, we recently did a TV campaign related to the release of Disney's new movie, Aladdin, that was seen by 29 million viewers.

Second, a very active social media presence. Our fan base is growing rapidly, surpassing 3 million followers. Our most recent success, the Cdiscount Voyages fan base reached close to 100 thousand fans in only a few short weeks.

Slide 14: Our monetization revenue streams continue to increase at a fast pace: these were up by more than 20% in the second quarter alone.

First, our B2B services are mostly driven by premium packs and online advertising service for our marketplace vendors.

Second, as we have already mentioned several times, Cdiscount Voyages is leading the charge of our B2C revenue GMV growth.

Finally, our financial services such as short-term consumer credit and credit card issuance services continue to turn in solid performances.

These services are a key component to our gross margin expansion plans.

Slide 15: Our International strategy is developing along two axis.

First, the traditional way, delivering directly from our extensive French based warehouse network to four neighboring countries, with Belgium leading the way.

Second, a new model based on our platform capabilities, making available our core and marketplace SKUs on European websites. This makes us a "super seller" covering 25 countries with a catalogue of more than 32 million products.

Through this new development, we are able to generate new revenue streams at almost no additional fixed cost.

Slide 17: Promoting innovation is our way to invest in the future.

First with start-up partnerships. The Cdiscount logistics incubator, which we call "the Warehouse", continues to be very successful with the second round already hosting five new start-ups. One example, Agrikolis, a network of farm-based pickup points for the delivery of heavy products to remote locations, is already a big success. We plan to increase the number of pickup points by the end of this year. A start-up from last year, Exotec, now has a fleet of 50 picking robots in our Réau warehouse in Paris, and building now on the success of the Warehouse, we launched "Le Lab", a new incubator dedicated to marketing start-ups.

Second, after start-up partnerships, building in-house innovation initiatives, with a focus on artificial intelligence. One focus, we doubled our AI dedicated staff. And one example, customer journey was enhanced through the development of real-time personalized promotions.

Slide 18: We have long been committed to operating in an environmentally and socially responsible manner. Our delivery packaging is designed to save cardboard usage by 30% and this results in 30% fewer delivery trucks on the road. We were the first in Europe to do so. Starting ten years ago, making us a pioneer in France, we have been promoting the circular economy through the renovation, sale or donation of second-hand products.

And just a reminder. CSR is not only about being Green and about the Environment, but also about social inclusion. So we have launched a program that allows visually impaired customers to be able to use our website with ease.

With that, I would like to turn the call over to Gautier to take you through the numbers. Gautier?

Gautier Bailly:

Thank you, Emmanuel. So as you have seen, our GMV grew quite nicely in the first half. Our underlying growth drivers remain all well-oriented.

First, our marketplace activity is robust and its share of GMV is growing at a fast clip, gaining more than 3 points in the first half.

Second, our customer loyalty program keeps attracting more customers. As previously mentioned by Emmanuel, we now have 2 million CDAV members who end up purchasing three times more often than non-CDAV customers.

Finally, our state-of-the-art mobile platform now generates almost half of our GMV. Our unique monthly visitors on mobile now represents close to 60% of our traffic.

Slide 21: It is encouraging to see that we have consistent GMV growth that is accelerating throughout the first half of the year, reaching plus13% in the second quarter. Approximately one third of this growth came from the marketplace, another one third came from services, especially online travel. And in addition, our Géant showrooms added 3 points to our GMV growth.

Slide 22: The gross margin continues to improve, and finished the half at 17.5%, up almost 3 points. This improvement is due to the usual suspects: expanding marketplace share of GMV, new low-cost revenue streams as well as continued improvement in core business profitability.

Slide 23: SG&A was 18.9%, an increase of 2.2 points over last year for three reasons.

First, our fulfillment costs are slightly down thanks to productivity improvements in processes and automation.

Second, we are investing more on marketing. This is paying off as our brand awareness increased by 9 points during the half and we have the second highest traffic volume among ecommerce players in the French market.

Third, we are currently investing in our technology platform, explaining the Tech & Content expense increase, and to a lesser extent, new businesses impact G&A that also include the effect of last year acquisitions due to last year's acquisitions.

Slide 24: Thanks to our growth and gross margin improvement, we had a significant increase in EBITDA of 12 million euros which went from 6 million euros at the end of June 2018 to 18 million this year. This improvement is again tied to marketplace expansion and the ramp of low-cost new revenue streams. This

12 million euros improvement also includes an impact of plus 2.5 million euros related to IFRS 16 restatement that is detailed on the two next slides.

Slide 25: We adopted IFRS 16 on January 1 of this year with retroactive application.

As a reminder, this norm requires operating leases be treated as an asset which is the right to use the leased item, and the offsetting liability is a financial debt representing the discounted value of future rentals.

As a result, operating lease expense is replaced with two components: first one depreciation expense related to the asset and second one interest expense related to the lease liability.

We provide on this slide key financial figures that were most impacted by IFRS 16 application and to put it very simply, the increase in EBITDA is offset by increasing depreciation and amortization as well as financial expense.

A more comprehensive view of the P&L before and after IFRS 16 is provided on the next slide, page 26. Now let's look at free cash flow on slide 27.

Slide 27: This slide is presented before IFRS 16 in the interests of clarity and transparency, but of course the restated approach being provided in the appendix.

Net cash from continuing activities benefited from strong fundamentals to reach €50 million.

First we had a significantly positive EBITDA of €35m over the last twelve months, up from zero compared to the previous twelve month period.

Second, limited other cash operating expenses down to €10m, representing an improvement of €25 million compared to the previous twelve month period.

Third, a positive change in working capex of €26m thanks to inventory rationalization. At the same time, we keep on investing, net capex amounted to €80 million which remained stable as a percentage of GMV versus last year. This is supporting the strategic shift towards the platform model and monetization initiatives.

At last, our interest expense are under control at 50 million euros on a twelve months basis compared to 49 million euros for our 2018 full year.

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

Emmanuel Grenier:

Thank you, Gautier. In summary, the first half of 2019 has been very dynamic for us.

Going forward, growth priorities are very clear: Marketplace expansion, Acceleration on B2C services mainly online travel, International development.

In terms of profitability: Marketplace commissions are expected to continue to increase, Our current monetization revenue streams are expected to continue to increase. Taking the next step of our monetization strategy, based on our logistics and technological assets.

We believe this will lead to dynamic GMV growth and a strong EBITDA increase on a full year basis.

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. We will now be conducting our question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. 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 key. One moment, please, while we poll for questions.

Thank you. Our first question comes from the line of Fabienne Caron with KeplerCheuvreux. Please proceed with your question.

Fabienne Caron:

Good afternoon, the quality of the line was not that good maybe if you could step a bit away from the mike it would be I suspect easier. I have got two questions.

First if I look at your free cash flow in H1, not on the twelve months, can you explain why we have such a decline in trade payables please because as a result, you had a weaker free cash flow in the first half of the year. This would be the first question.

The second question, you are getting financing through Casino. We could read in the annual report that you got 550 million potential credit line from Casino, you have taken already 421 million, I am just wondering if you got some limitations here and what happen when you use all the 550 million bearing in mind that Casino has some financial pressure at this point in time. And the last question would be, could you quantify the sales of Cdiscount through Géant please. I am thinking here about not only the corners but as you know the rest.

Gautier Bailly:

Gautier Bailly speaking. On your first question concerning trade payables, the answer is quite clear, last year we had a large plan of payment terms harmonization that bear fruits, and this year we just remain stable so we don't have a decrease in payment terms. On working capital more globally, our priority this year is the improvement on inventory that we have started in the H1, that we will continue and go further in the H2. Regarding your second question and the Casino credit line. As you know, we do not have any concern about this. Casino has a strong liquidity position at 2.9 billion and is well on track for what concerns its disposal plan. Moreover, we just had confirmation, and this is written in our semi-annual report Page 25, we have confirmation by Casino that Cnova will continue to benefit from intragroup resources for the next twelve months so we do not have any concern regarding this. And for the corner sales, we have 3 points in our GMV coming from the corner growth. So that is a good trend that will continue for the rest of the year.

Fabienne Caron:

Okay, thanks for that.

Operator:

As a reminder, if you would like to ask a question, press star, one on your telephone keypad. One moment, please, while we re-poll for any additional questions.

Thank you. It appears we have no further questions at this time. I would like to turn the floor back over to Management for closing comments.

Emmanuel Grenier:

A short conclusion about the first half. The first half was very dynamic with 13% growth in Q2 and a solid EBITDA improvement.

Our priorities for the second semester are to continue to grow and to improve profitability and EBITDA. Thank you.

Operator:

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.