

Transcription
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Presentation

Operator

Ladies and gentlemen, welcome to the Cnova webcast. I now hand over to Emmanuel Wetzel, responsible of Investor Relations. Sir, please go ahead.

Emmanuel Wetzel

Good day, everyone, and welcome to Cnova Full Year 2019 Financial Results conference 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. And this call is also being audio-webcast, and a replay will be available on our website later today. All listeners are reminded to read the forward-looking disclaimer on the slide 2.

I now turn the call over to Cnova CEO, Emmanuel Grenier.

Emmanuel Grenier

Hello, everyone.

2019 was another successful year for Cnova, one where Cdiscount enjoyed a fast growth but also generated more profit:

- first, our GMV grew by more than 9%, EBITDA improved by €31 million reaching €79 million
- second, the marketplace share of GMV is pushing up against 40%
- third, our B2C travel service, Cdiscount Voyages, enjoyed a tenfold increase in its activity;
- and finally, Cdiscount à Volonté is very dynamic, its membership base increased to more than 2 million customers. And they can now take advantage of free express delivery on more than 1.2 million products. As a result, Cdiscount has delivered more profitable growth, and we expect this to continue in 2020.

Next slide

Our GMV is close to €4 billion, and its growth is being driven by our marketplace and our B2C services. Our travel activity multiplied by 10 in one year with a very strong brand awareness. We are now the top-of-mind brand, according to the latest studies.

Besides, our home energy offer, Cdiscount Energie, grew by 86%, so we are confident that the marketplace and the ramp-up of B2C services will continue to drive GMV growth. And now let's look at this more closely on the following slides.

Next slide.

Our marketplace is performing very well. It accounts for 38% of our GMV and offers our customers a selection of 64 million products. That's an increase of more than 33% by the way. Above all, the key growth driver is the number of SKUs eligible to express delivery. We have two means in hand: Fulfilment by Cdiscount and Express Seller service.

- First, the Fulfilment by Cdiscount is going very well. Almost one-third of orders are now fulfilled by us with more than 80,000 SKUs.
- Second, we have launched in Q4 our Express Seller service. It allows our best marketplace sellers to directly deliver to the customers. As a result, more than 900,000 additional SKUs are now eligible to our CDAV – Cdiscount à Volonté – program. This assortment is growing very fast, and we are closely monitoring the quality of delivery with the mandatory tracking of each shipment.

To sum up, our marketplace growth is due to its capacity to offer a wider range of products and fast delivery.

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In terms of B2C services, Cdiscount, with its offering, is able to facilitate our customers' daily life: the customers can book their travel arrangements with Cdiscount Voyages, order leisure activities with Cdiscount Billetterie; heat their homes with Cdiscount Energie; subscribe mobile offer with Cdiscount Mobile; and have access to a variety of convenient and fast consumer credit offers. So the expansion of our B2C offers is another particularly effective GMV-growth driver.

Next slide.

On this slide, we drill down into the details of Cdiscount Voyages. To put it simply, the incredible success of this initiative boils down to three things.

- One, we are expanding the offer now having the widest assortment in the market: our customers can choose from over 15,000 offers, and we want to keep it growing.
- Second, we are partnering with the best, and here I mean Disneyland Paris. We have generated thousands of sales in the fourth quarter alone.
- And finally, our brand awareness is growing by leaps and bounds, thanks to traditional and social media campaigns. As said, we are now the top-of-mind brand, according to latest studies. So, more offers and more brand awareness are serving our customers well and generating GMV growth.

The expansion of our marketplace of products and services remains one of the key achievements of 2019, but we also made considerable progress in tightening the bonds with our customers.

Next slide.

So, here I want to draw your attention on two key figures: 36% and 1.2 million. Let me explain.

Our customer loyalty programme, Cdiscount à Volonté, remained the backbone of our customer approach. A well-served customer is a repeat customer. Our over 2 million CDAV customers, growing double digits over the last year, have access to free unlimited next-day delivery on 1.2 million SKUs; a tremendous four-fold increase over last year.

Cdiscount à Volonté customers now account for 36% of our GMV, plus 1.7 points compared to 2018, driving the increase in repeat business. And according to the latest Kantar study, CDAV is in the top of the most effective and value-added loyalty programs in the market.

Next slide.

Another reason we had such a good year is our traffic flowing to our site, as well as the fact that our brand awareness increased at a fast rate.

First, our 20 million unique monthly visitors grew faster on mobile than our main competitors; and second, our brand awareness has risen significantly by 7 points over the year.

This is the result of several important TV campaigns bringing millions of viewers closer to our brand. We keep on building on this offline media success this year.

And on top of that, our social media leadership also reinforced this bond, our fast-expanding communities gathering now close to 3.5 million people.

Next slide.

Offering best-in-class delivery options and multichannel experience is also key to our success, bringing our products offering faster and closer to our customer. As one of the French experts in logistics, we offer same-day delivery in France's six main cities and two more cities to come this week. We remain the only player in the market to offer such a service to the customer.

Our strength is also our capacity to offer convenient delivery options to our customers in rural areas. For example, we partnered with Agrikolis to develop pickup points in France for big products. This is a huge success, which continues to grow way above our initial target.

Furthermore, we continue to deploy our in-store showroom throughout the Casino Group store network, and we added five corners in Franprix stores. And what could be more emblematic than our newly opened French wine cellar in Paris?

Moving onto slide 15, another GMV-growth driver is our international development, which is expanding at a very high rate. Our strategy is to make available our core and marketplace SKUs on hundreds of European websites. These makes us a "super seller", covering 25 countries and already 47 websites connected at the end of 2019. Through this strategy, we are able to generate new profitable revenue streams at almost no additional fixed cost.

Another pillar of our successful strategy in Europe is our International Marketplace Network, reaching 230 million potential customers. Using our exclusive technology, developed by our BeezUp subsidiary, we have already attracted more than 300 sellers.

As a result of these two initiatives, international sales are becoming a significant GMV growth-driver and are expecting to accelerate in 2020.

Moving to slide 17, Cdiscount has long been committed to operating in an environmentally and socially responsible manner. First, our 3D packing machine reduced empty space by 30%, and this results in 30% fewer delivery trucks on the road. Second, 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.

Third, Agrikolis, our rural pickup service for big products, that I already mentioned, remains one of the success stories of 2019, with already 83 farms contributing to the rural economy by bringing extra revenues to farmers, reducing environmental impact and reaching record satisfaction rates among our clients.

All those CSR initiatives, were praised by numerous awards in 2019. Taking care of our world is part of our responsibility, and we are committed to continue to be at the forefront of sustainable development in this coming year. Now, I would like to turn the discussion over to Gautier to comment on our 2019 financial performance.

Gautier Bailly

Thank you, Emmanuel.

So, as you have seen, our GMV grew fast over the year. All our traditional underlying drivers were very well oriented in 2019.

- First, the marketplace share of GMV is now more than 38% of total GMV
- Second, our customer loyalty program has grown and accounts for more than one-third of our total GMV
- And finally, half of our GMV comes now from mobile devices, thanks to our technological edge in this domain.

In short, a strong GMV growth, mainly driven by our marketplace expansion and enhanced by more repeat business and mobility.

Moving to slide 20.

Improvement in our gross margin was remarkable, up 230 basis points to reach 17.8% of net sales at year-end. This is perfectly in line, since it is tied to our marketplace performance, which Emmanuel has already discussed.

It is also due to our expanding commission-based B2C services and dynamic B2B monetization initiatives such as advertising revenues.

Furthermore, improvement in our core business profitability has also contributed to this performance.

Slide 23.

Turning to SG&A, which now represents 17.2% of net sales, and experienced a more moderate increase of 1.5 points compared to last year levels. The main drivers at the two-fold:

- first, as Emmanuel previously mentioned, we are investing more on marketing spending, especially offsite media. This is paying off as on one hand, our brand awareness has increased by 7 points over the year; and on the other hand, Cdiscount has consolidated its number 2 positioning in terms of traffic.
- second, we have significantly invested in our technological platform over the last years, enriching our marketplace of products and services, enhancing and diversifying our monetisation revenues. This resulted in a plus 0.7 point impact on our tech and content expenses.

At the same time, our Fulfilment and Administrative costs remained rather stable, thanks to productivity improvements in logistics processes and discipline on structure costs.

All in all, a higher SG&A spent but focused on stimulating growth and evolving less rapidly than our gross margin.

Slide 22.

As a result of these dynamics, we had a significant increase of EBITDA – of more than €25 million on a pre-IFRS 16 basis. I will go over this in more details on the next slide: including the impact of IFRS 16 on EBITDA, it increased by more than €30 million. It was due to the usual suspects: marketplace growth, traffic monetisation and core profitability improvements. EBITDA, therefore, recorded a second consecutive year of strong growth.

Slide 23.

We adopted IFRS 16 on January 1st of this year with retroactive application. As a reminder, this now requires operating leases be treated as an asset, which is the right to use the leased item; 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: the first one, depreciation expense related to the asset; and the second one, interest expense related to the lease liability.

This slide, together with this morning's press release, both provide tables with 2018 and 2019 key financial figures before and after IFRS 16. The main takeaway: EBITDA increased by €28 million, which is mainly offset by increased D&A expense of €26 million; financial expense was €7 million higher under IFRS 16, representing the interest expense relative to lease liability.

Slide 24.

In this more detailed summary table, we can see the year-on-year evolution of all the key financial indicators. They are all very well oriented in terms of profitability, both before and after IFRS 16. The net result is also improving by €11 million, if we leave aside the exceptional positive €38 million tax impact in 2018.

Moving to slide 25 and free cash flow.

2019 has again proven our capacity to deliver an overall cash generation close to balance. Operating cash flow was up €109 million, relying on strong fundamentals: an EBITDA increase of €31 million and a solid positive change in working capital, notably driven by new inventory optimization. This more than financed our €74 million capital expenditure that remained stable

in 2019, compared to prior year. As a result, free cash flow before financial expenses amounted to €35 million, including net interest expenses and other elements. Net financial debt evolution is limited to minus €23 million.

Thank you. And now, Emmanuel will go over to outlook for 2020.

Emmanuel Grenier

Thank you, Gautier.

In summary, 2019 has been a very dynamic year for us, both in terms of growth and profitability. In 2020, our growth priorities are threefold:

- expand our marketplace of products through the continuous increase of the share of GMV Fulfilled by Cdiscount;
- second, expand our marketplace of B2C services with two clear pillars, travel and energy;
- third, expand our international development, supported by an increase of both connected websites and SKUs available.

In terms of profitability, we will rely on three strong drivers:

- first, the increased share of marketplace and its associated revenues;
- second, the expansion of other commission-based activities like travel, as well as other monetization activities and initiatives, mostly driven by our new advertising platform;
- and third, taking the next step of our platform strategy, which is to monetize further our logistics and technological assets.

We believe this will lead to a sustained growth of our marketplace of products and services and further EBITDA improvement. So that concludes our slide presentation, we are now ready to turn to the Q&A. Operator, may we have the first question, please?

Q&A

Operator

Yes, of course. Ladies and gentlemen, if you wish to ask a question, please press 0 and 1 on your telephone keypad. Then, you can also send your question by the web platform.

So, we have a first question by phone from Alexandre Cassas. Please go ahead, sir.

Alexandre Cassas

Bonjour Alexandre Cassas, chez Cassas Associé. Je vais poser la question en français sachant que vous avez une activité qui est désormais 100% en France et vous êtes cotés uniquement à Paris et que c'est une question complexe.

Donc on vous suit depuis très longtemps et j'ai toujours beaucoup de difficultés à lire vos comptes notamment la partie basse de votre compte de résultat notamment les frais financiers. Et donc j'aimerais que vous nous donniez un petit peu plus de détails, au fond pour une question simple : pourquoi vos frais financiers sont-ils toujours aussi élevés ? Et quel est le lien que vous faites entre les frais financiers qui sont liés à votre activité de refinanceur, de crédit à vos clients, et vos propres frais financiers liés à votre structure. La question qui est liée c'est pourquoi, alors que vous avez une dette de 221 millions d'euros, une dette nette en baisse de 21 millions, pourquoi il y a en face 56 millions de frais financiers, ce qui est supérieur à l'EBITDA. Ça c'est la première question.

La deuxième question c'est sur les perspectives, sachant que vous avez une activité commerciale et un redressement de la rentabilité en tout cas, le milieu du compte de résultat qui s'améliore nettement. A partir de quand on pourra envisager, hors exceptionnel évidemment, un bénéfice net positif de Cnova ? Est-ce possible en 2022, 2023, avant ? Est-ce que vous pouvez nous donner une guidance là-dessus ?

La troisième question est d'actualité, notamment compte-tenu de ce que vient de dire Walmart en conférence il y a deux heures et qui a énormément insisté sur la perturbation du coronavirus et notamment après l'avertissement d'hier soir, je voudrais savoir si vous en tant qu'importateur d'Asie et de Chine, vous êtes perturbés un dans votre activité par le coronavirus et si deux ça trouble même votre activité e-commerce ?

Merci pour vos trois réponses

Gautier Bailly

Bonjour, Gautier Bailly, je vais répondre à la question sur les frais financiers.

Notre méthode de comptabilisation n'a évidemment pas changé. L'essentiel des frais financiers qui sont inscrits sur la ligne financial expense sont liés à notre activité de financement en quatre fois de nos ventes pour nos clients. C'est environ 95% du total.

Alexandre Cassas

Ce qui voudrait dire que dans les 56 millions après IFRS 16 ou les 49 millions avant, les frais financiers liés à votre activité de refinancier c'est 45 millions et vos propres frais financiers liés à votre propre dette nette c'est de 5 à 10 millions d'euros ?

Gautier Bailly

C'est même inférieur à 5 millions d'euros. Le point important c'est que si on met de côté l'impact IFRS16 d'environ 7 millions d'euros, cet agrégat est stable entre 2018 et 2019 malgré la croissance du business et l'augmentation du paiement en quatre fois corrélatif.

Alexandre Cassas

Et le montant de 221 millions de dette nette comment ça se fait qu'on a ce montant-là, qui est anormal par rapport au 56 millions de frais financiers ? Car avec une règle de trois, cela voudrait dire qu'on aurait un taux d'endettement payé extrêmement fort. J'arrive bien à voir qu'il y a 90%-95% lié à l'activité de refinancier mais je n'arrive pas à retrouver ce 221 millions d'euros.

Gautier Bailly

Les clients effectivement payent des frais financiers. Ce que nous mettons dans la ligne frais financiers, c'est le coût du refinancement des créances que nous avons sur les clients qui sont cédées à Banque Casino. Tous ces éléments sont disclosés dans notre rapport annuel, je pourrais vous donner les références si vous le souhaitez. Mais vous avez raison, il n'y a pas de corrélation entre le montant de la dette et les frais financiers. Les frais financiers associés à la dette ne sont que des quelques millions d'euros.

Alexandre Cassas

Hors votre activité de financement, à partir de quand vous allez basculer dans une situation possible qui est par exemple le cas d'Amazon, quand est-ce qu'on pourrait avoir une activité soit avec une absence de dette hors financement des clients, soit une activité ou vous auriez une trésorerie nette positive ?

Gautier Bailly

Notre priorité c'est évidemment d'aller vers cette stabilité, principalement par l'amélioration de l'EBITDA et en complément par l'amélioration de la génération de cash comme nous l'avons fait les deux dernières années.

Alexandre Cassas

Quel est le taux d'intérêt moyen que vous avez payé sur votre propre activité, pas celle refinancée au client ?

Gautier Bailly

Nous sommes principalement financés par compte courant avec Casino Finance, à un taux d'intérêt de 0.5% et pour une partie minoritaire par des crédits court termes ouverts auprès de nos banques partenaires à un taux d'intérêt un peu plus élevé.

Alexandre Cassas

Merci pour ces réponses. Et pour la question deux et la question trois s'il vous plait ?

Emmanuel Grenier

Bonjour, Emmanuel Grenier.

Sur le coronavirus, pour l'instant on n'est pas touché par les sujets d'approvisionnement. Il y a plusieurs choses.

Evidemment si ça touche, ça touchera le marché entier car ça vient de Chine qui est l'usine de production du monde. Maintenant il y a deux sujets : on a à la fois des fournisseurs classiques dans la partie retail et on a des vendeurs dans la marketplace.

Pour les fournisseurs classiques on a des liens très forts avec eux et très proches. On a passé des commandes, on a ensemble pris

des positions sur des commandes et des produits mais la particularité de notre modèle avec une marketplace à 40%, c'est qu'on a des sources d'approvisionnement qui sont multiples en fait. On a 12,000 vendeurs donc on a autant de sources d'approvisionnement que de vendeurs. Ça permet de limiter le risque de l'approvisionnement et en plus comme on fait du Fullfilment très souvent pour plus de 2,000 vendeurs, on a un stock tampon dans nos entrepôts. Pendant une période assez courte, ça nous permet de voir venir et d'amortir. Ce qu'on comprend des derniers échanges avec les bureaux en Chine, c'est que les usines réouvrent et que la grande majorité des usines qui nous concernent sont ré-ouvertes. A priori elles ne tournent pas à plein régime et si l'activité et la production repartent, ça devrait limiter les impacts. Il faut que la tendance de réouverture et de redémarrage de l'économie chinoise se maintiennent.

Alexandre Cassas

La question deux : la possibilité d'un résultat net positif hors exceptionnel, quelle échéance on peut avoir ?

Emmanuel Grenier

L'amélioration va vers l'EBITDA, on ne donne pas de guidance à moyen terme sur l'arrivée à l'équilibre. Le sujet c'est l'amélioration de l'EBITDA comme cette année et il y a deux ans, continuer à l'améliorer cette année pour avoir une trajectoire de cash qui soit stable.

Alexandre Cassas

Merci pour les réponses à ces trois questions.

Operator

So, we have no further question. As a reminder, ladies and gentlemen, if you wish to ask a question by phone, please press 0 and 1 on your telephone keypad, and you can also send your question by the web platform. Thank you.

So, it seems that we have no further questions, gentlemen.

Emmanuel Grenier

So, just to conclude in English, so a very solid performance in 2019 in terms of growth and profitability – plus 9% in growth and plus €31 million in EBITDA, and the strategic KPIs well oriented. So, this is the second successive year that we keep on a very good track record in terms of growth and EBITDA improvement. This confirms the relevance of our strategy, and we are confident that it will bear fruit in the coming years – the key thing is that the strategy is the good one. Thank you very much.

Operator

Ladies and gentlemen, this concludes the webcast. Thank you all for your participation. You may now disconnect.