



**Cnova N.V.**

**First Half 2017 Activity and Financial Results**

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## CORPORATE PARTICIPANTS

**Christopher Welton**, *Investor Relations Officer*

**Emmanuel Grenier**, *Chief Executive Officer*

**Stéphane Brunel**, *Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Fabienne Caron**, *Kepler Capital Markets*

**Rob Joyce**, *Goldman Sachs*

## PRESENTATION

### Operator:

Greetings and welcome to the Cnova's First Half Activity and 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, Christopher Welton, Investor Relations Officer. Thank you, sir. You may begin.

### Christopher Welton:

Thank you, Operator. Good day to everyone. We are holding this call today to go over Cnova's recently announced volume-centric strategic realignment plan, as well as first half 2017 results. In addition to myself, we have our CEO, Emmanuel Grenier, and our CFO, Stéphane Brunel? on the call.

The conf call slides are up on the website. This call is also being audio webcast, and a replay will be available on our website in about an hour after the call is done. Please take a moment to read the forward-looking disclaimer on Slide 2, and without further ado, I will turn this call over to our CEO, Emmanuel Grenier. Emmanuel?

### Emmanuel Grenier:

Yes, thank you Chris, and good day to everybody. As many of you are aware, we announced a set of major new strategic initiatives, and that we began putting in place during the second quarter of this year. The objective of this plan is very simple; to build on our excellent traffic growth performance to take Cdiscount to the next level in terms of GMV and net sales growth.

We plan to do this by concentrating our efforts on four areas: first, multiply by four the product selection of our inventory from 100,000 to 400,000 SKUs; second, constantly reduce the delivery times so that we provide same-day delivery for all SKUs as a first step in Paris and we will even be able to offer immediate delivery in Casino stores; third, continue to build on our technological expertise with the priority being our mobile site and apps; and finally fourth, accelerate and introduce new marketplace revenue streams. For example, our “Fulfillment by Cdiscount” which allows marketplace vendors to offer same-day delivery is growing faster than ever.

Now, let's take a look at each one of these in more detail.

Slide 5, first off, Cdiscount is very good at traffic growth. Cdiscount has 16 million unique monthly visitors. And here we are outpacing the market. We generate 85% of our traffic ourselves, thanks to our SEO expertise. We expect our traffic growth to continue to perform well for the rest of the year.

Next, Slide 6. One of the things that became clear to us is that our conversion rate was being impacted by the limited size of our product selection. So to fix this, we are multiplying by four our inventory size from 100,000 to 400,000 SKUs. We have always been and remain the market leader in the hi-tech and home product categories. We are now duplicating this success in other product categories as well: organic, pet supplies, beauty, DIY, toys and baby products. These are repeat transaction products.

Next, Slide 7. So going to the next slide, it is fairly evident that we are going to need a lot more space to store our expanding inventory. So we are nearly doubling the total floor space of all our distribution centers, what we call our DCs. For light products, items weighing less than 30 kilograms, we are adding more than 100,000 square meters including a new 40,000 square meter DC in Orléans, one hour and a half south of Paris; a new, very large DC south of Paris, and a smaller DC at Bordeaux.

For heavy products that weigh more than 30 kilograms such as ovens, dishwashers, washing machines, and furniture, we are extending both our Saint-Mard DC north of Paris, as well as our DC near Lyon. This is on track to be in place by the end of the first quarter of 2018.

Slide 8, after DC, let's speak about deliveries. We are also moving to consolidate our lead in same-day delivery. We are already number one in terms of same-day delivery for 4,000 large brown and white goods. We are extending this delivery service to 130,000 light SKUs thanks not only to our DC expansion but also to the new high speed rail link between Bordeaux and Paris which only takes two hours now. As such, by October, Cdiscount will be the only commercial player in France to offer same-day delivery in Paris on all products.

Slide 9 now. Here we look at the recent arrangement that we put in place together with Casino. Basically, Cdiscount is now managing not only its own home furnishing and appliance inventory but also that of Géant supercenters and Casino supermarkets in France. This is important for two reasons: first, we can deliver more quickly to our customers. We are moving from same-day to immediate delivery for our bestselling SKUs. Second, we will soon have 340 brick & mortar locations where our customers can actually touch and feel our products.

Slide 10, we are also continuing to build on our mobile technological know-how. One, we have revamped our app interface using cutting-edge React Native technology and we are finalizing the makeover of our mobile site. This positively impacts both the conversion rate and reduces our future development costs. Two, we are developing Progressive Web App technology that automatically creates a Cdiscount icon on Android devices. Three, we will offer a more personalized customer experience: products and promotions will be proposed according to customer type and behavior.

Slide 11. In addition to our marketplace commission revenue stream, we are actively pursuing other sources of revenues, such as fulfillment which is growing very fast. We are introducing new services such as marketing and FX services. We are targeting that these initiatives increase marketplace based revenue by 10% to 15%.

Next slide. So, before I turn the rest of the presentation to Chris and Stéphane who will take you through our first half numbers, I wanted to spend some time going over the customer-centric approach we are taking.

As you know, we have a customer loyalty program called Cdiscount-à-Volonté which we call CDAV, which is a French play on words making reference to all-you-can-eat buffets. So, CDAV is all-you-can-use Cdiscount and CDAV customers benefit from two main advantages: one, they get next-day delivery for free, you already know that; two, and this is new, they get the free next-day delivery as long as their order is at least 10 euros, this used to be 25 euros.

Our CDAV program is at the center of our customer service focus. And we must be doing something right: the number of CDAV subscribers continues to double quarter after quarter, and they are repeat purchasers buying on average four times more often than regular customers.

Slide 14. We have significantly increased our social media profile. This includes 1.5 million Facebook fans and 230,000 Twitter followers. But more important is our very strong commitment level with a high level of likes, shares and comments. We are already a top player in the market and targeting to be number one. But social media has also allowed us to further improve our customer relationship management. Facebook has awarded us its Very Responsive Badge.

Last topic, Slide 15. Cdiscount is well-known for being the market price-leader. Now we are also building our reputation as a specialist supplier of our 17 product categories in four ways: one, thanks to our SKU expansion program, customers will now find a wider selection of products, we talked about that; two, the online presentation has been improved. Customers will find more complete and detailed product descriptions especially on technical goods. And they will also find better and more appealing product presentation for items such as deco, furniture and fashion. Three, customers will get comprehensive buyer guides to help them to select what they purchase. And four, Cdiscount will even come to the customer's residence and assemble couches, beds, TVs, and furniture.

Now, I will let Chris go over our first half KPIs and then Stéphane will take us through the financial performance. Chris?

**Christopher Welton:**

Thank you, Emmanuel. So, on this slide we have provided you with the summary of the following KPIs: traffic, active customers, orders, GMV and our marketplace. So, let's turn quickly to the next two slides which will allow us to drill down a little bit more into each of these.

On this slide, we can see that traffic is our strongest sustainable metric. We see here that traffic grew 11.5% during the first half. In fact, we have the highest progression since January in terms of desktop UMV. And mobile share of traffic is up sharply to 60%, 6-0-percent, thanks in part to our mobile site revamp. We expect our order rate to exceed traffic growth rate thanks to the strategic initiatives that Emmanuel has just described. And last point on this slide, active customers increased by 10%, and more importantly, as Emmanuel already said, our CDAV customer loyalty program doubled yet again.

On the next slide, let's go over GMV and the marketplace a bit. So, year-on-year progression for GMV was 10.5% and we are quite pleased to announce that on the first day of summer sales, our GMV increased by 57%, that's 5-7-percent, a one-day record for Cdiscount. And July started out quite well as well. We are at plus-19%, 1-9-percent, as of the end of the 23 of July. Mobile share of GMV for the half was at 37%.

A key growth driver of GMV is of course our marketplace: our first half marketplace activity now accounts for one-third of total GMV. This is explained by the renewed increase in the number of marketplace sellers and the associated increase in product offerings, which is now at 23 million. We are also seeing a ramp-up of our marketplace fulfillment service, which we expect to increase even further in the coming quarters.

So, now let's turn it over to Stéphane, who will go over the financial results.

**Stéphane Brunel:**

Thank you, Chris. Slide 20 provides us a good summary of the first half performance. The top line is mixed: a difficult first quarter and a better second half of second quarter, but as we move further down the P&L, we see the impacts of the costs associated with the implementation of our strategic plan. I would like to point out that we have a few factors that are polluting the comparison between reported and like-for-like: 2016 was a leap year with an extra day of sales; 2016 numbers also reflect activity from our specialty websites that we have since sold or closed down; and last year also was impacted as well by the shift in France from analog to digital TV which positively impacted the sales of TVs. There is also the fact that the French summer sales started a week later this year and that impacts the comparison by a couple of hundred basis points.

Now, as we take a closer look at net sales, these were up 8% on a like-for-like basis. This is a combination of a fairly strong second quarter, plus 9%, that more than offsets a weak first quarter plus 4%. According the Gfk, Cdiscount gained significant market share in technical goods in May and even more in June.

The gross margin is slightly down, the rather significant weight of the extra costs associated with our strategic plan was somewhat offset by the better performance coming from increased marketplace. Nonetheless, we are seeing an improving trend: after posting a decline in the first quarter, the gross margin improved in the second quarter and continues to do so in the third.

Turning to SG&A, the increase is explained by investments to further improve our customer service and to expand our total DC floor space. We have increased marketing expense as well to raise the visibility of Cdiscount in France, keeping in mind that we generate more than 85% of our traffic ourselves. Finally, we have beefed up the IT Team as we tackle big data and do mobile site revamps.

Of course, all of this is showing up at the EBIT level, minus 8 million euros on an adjusted basis in the first half of 2016, to minus 14 million euros in the first half of 2017.

Our free cash flow during the first half is also a reflection of our new initiatives: working cap swung to a negative 157 million euros, due to our inventory expansion program for an impact of 76 million euros, as well as the purchase by and transfer to Cdiscount of Géant home furnishing and household appliance inventory for 78 million euros.

Now, I will turn the floor back over to Emmanuel.

**Emmanuel Grenier:**

Thank you, Stéphane. In closing, we are working full-speed ahead on a number of projects that we believe will lead to a higher sustainable GMV and net sales growth rates. These are: SKU expansion, multiplying by four from 100,000 to 400,000 SKUs; Reduce delivery times providing same-day delivery for all SKUs first in Paris and to offer immediate delivery in Casino stores; four, continue to build on our mobile technological expertise with the priority being our mobile site and apps; and finally, ramp the rollout of our "Fulfillment by Cdiscount" marketplace service, this is going very fast. And introduce new marketplace revenue streams.

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 a 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 keys. One moment please while we poll for questions.

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

**Fabienne Caron:**

Yes, good afternoon Emmanuel, Chris, and Stéphane. I've got three questions, the first one is regarding the fact that you start the first half of the year with €17 million EBIT loss and you said you started this new plan that you well explained in Q2, do you think it's fair to assume that your EBIT loss will be doubled for the year? Or do you expect gross margin improvement that started in Q2 to offset a bit this trend? This would be my first question. The second question, you explained that you were not happy with the conversion rate on your site despite the high traffic, this is why you are moving to this plan; can you tell us what is your conversion rate and what you believe it should be or what you would be happy with?

And my last question will be with the deal that you've made with Géant and Casino; it looks to me as it will work like a shop-and-shop for Géant and Casino. I just want to understand what will be the financial link, i.e. the sales of the household products being done at Géant? Will it be booked at Cdiscount, and if yes, how much are you paying Géant for the fact that you are using their space in stores? Thank you.

**Stéphane Brunel:**

Thank you, Fabienne. I will take the first one and the third one and I will let Emmanuel answer to your second question. Coming to your first question which is basically about 2017 EBIT outlook, what we can say is that, as we tell you, we see early signs of the very positive impact of the strategic plan Emmanuel has exposed with: strong market share gains in May and even better in June, strong summer sales, and good positive commercial momentum in July.

As such, of course we experienced in the first half the initial costs of this plan, and we tend to think that in the future we will bring the fruit of this plan. To be more specific with respect to your question, in the second half we target to be close to 2016 second half EBIT, which was nil, zero if you want, and therefore you have an idea of about where we think we would be in terms of full-year EBIT. So, minus 17 in the first half, and close to last year's second half EBIT, which was zero in the second half.

**Emmanuel Grenier:**

For the second question on the conversion rate. We are happy with the conversion rate we have so far because we know that this is one of the best all over the world. But, if we want to maintain and consolidate our top position on the French market, we need to improve that.

So this is why and there are four criterias which are key; price, product price and everybody knows that we have the best prices on the market, so this is done. Second way is assortment and selection of SKUs; we are too short on that and this is why we made the decision to multiply by four our SKUs selection. The third one is how fast customers can be delivered, so we launched CDAV two years ago, next-day delivery, now we are same-day delivery, and we'll be the only player in France to deliver same-day all our SKUs and we will propose availability in our stores in some months. Finally, customer expansion of mobile, now more than 60% of our traffic is on the mobile, it will be 70% next year, so we are investing in technology on mobile and this is our first priority. All assortment, delivery and mobile will increase the conversion rate.

**Fabienne Caron:**

Would you be ready to share with us your conversion rate or not?

**Emmanuel Grenier:**

I told you the number was good but it is difficult for me to share this number.

**Fabienne Caron:**

Okay, understand.

**Stéphane Brunel:**

Then the third question, Fabienne, which is about the Géant supercenter multichannel agreement.

**Fabienne Caron:**

Mm-hmm.

**Stéphane Brunel:**

So I won't come back to the strategic aspect and interest for us including what you talked about in terms of shop-in-shop, but I will directly answer to your question with respect to financial terms. So, basically from a Cdiscount perspective, we will therefore manage the product offering, we will manage the supply of the inventory, and as you know we have acquired existing Géant supercenter and supermarket as well inventory. As such, we booked the sales in stores in our own net sales numbers, for sure, and we'll earn from Géant and Casino supermarkets a small fee which makes us convinced that we'll have the adequate return on the capital employed.

**Fabienne Caron:**

Is the fee that Géant and Casino are paying you based on square meters? Is based on sales? How is it based?

**Stéphane Brunel:**

It's based on sales. It's based on sales and everything is described on our semi-annual report, and it's going to be a 1.33% fee on sales.

**Fabienne Caron:**

Okay, so each time someone buy a product on the Cdiscount area, 1.33% will have to be paid by Géant to yourself?

**Stéphane Brunel:**

Yes, and to be extremely precise, Fabienne, as you want to be, the 1.33% is on the purchase price of the goods sold, not on the selling price.

**Fabienne Caron:**

Yes, makes sense. Thanks a lot, it was very clear.

**Operator:**

As a reminder, if you would like to ask a question press star, one on your telephone keypad. Our next question comes from the line of Rob Joyce with Goldman Sachs. Please proceed with your question.

**Rob Joyce:**

Hi, good afternoon. Just one from me, really following up on Fabienne's point. I'm not quite so clear on how the inventory works. Do you own the inventory in the concessions, in the Géant stores, and the super stores?

**Stéphane Brunel:**

Yes, we own this inventory. So the transaction did happen in the very last days of June and our June balance sheet includes these inventories.

**Rob Joyce:**

Okay, and yet you still receive a fee based on the items sold? That bit I don't quite understand.

**Stéphane Brunel:**

I mean, from the Cnova perspective it's quite logical. We invested close to 80 million euros purchasing this inventory that we're going to manage fully with our own resources. So from a Cnova perspective, it's understandable that given the amount of capital employed, we expect to have a return on that, and the mechanism of the return I explained it to Fabienne a few minutes ago. It makes us think that it will be a reasonable and sound return from a Cnova perspective given the amount of capital employed in this transaction from our side.

**Rob Joyce:**

Okay, so you will basically be selling at the same price you bought it, and then receive that small fee on top? Is that correct?

**Stéphane Brunel:**

No. I mean, to be crystal clear, Géant hypermarkets are going to sell these products to, you know, customers at normal level of price, at normal level of prices with normal level of margins. What I just said is that we're going to book the full sales in our P&L, we are going to recognize and to give back to Géant the selling price margins, if I may. So, the difference between the selling price and the purchase price, minus the 1.33% commission that is a remuneration for the fact that we manage the inventory, we manage the product offering, we work on the pricing, we develop joint promotions, we manage the supply and so on and so forth.

**Rob Joyce:**

Okay, I'm still not quite clear but maybe we'll take it offline. Thank you.

**Stéphane Brunel:**

Yes, we welcome to walk you through offline in greater details, if you want.

**Rob Joyce:**

Thank you very much.

**Operator:**

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

**Christopher Welton:**

So, thank you very much for joining us on this call. You can reach Stéphane and myself afterwards, there will be a transcript of this call tomorrow, the replay will be available in about an hour, and again, if you have any questions please let us know. Our semi-annual report will be up, if it's not already up on the website it will be up very shortly, and you can get more information from there as well.

That's all we have. Thank you very much.

**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.