

Transcription

Cnova

Full-year 2021 Results

17.02.2022

Presentation

Operator

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

Emmanuel Wetzel

Good day, everyone, and welcome to Cnova's Full Year 2021 Financial Results Conference Call. Our CEO, Emmanuel Grenier, and CFO, Luc Peligry, 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. All listeners are reminded to read the forward-looking disclaimer on the slide two.

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

Emmanuel Grenier

Thank you, Emmanuel, and hello, everyone. Thank you for your interest in Cnova. Luc and I would like to go over our Full Year 2021 earnings presentation with you, after which we will be pleased to take your questions.

Cnova turned in a solid performance in 2021, thanks to a strong first half and despite a slower second half that was impacted by the high comparison base in 2020 with lockdowns. Over the past two years, all our KPIs are well oriented: first, we have grown our GMV by 8%; second, we have structurally improved our EBITDA, reaching €109 million and growing at 33%, well above that of GMV; third, we have accelerated on our key strategic B2C pillars, Marketplace and Digital Marketing.

And finally, we accelerated on our B2B activities, Octopia and C-Logistics. Our higher margin activities, mainly Marketplace and Digital Marketing, have performed very well over the period, with revenues up 29% and 75%, respectively, since 2019. Our B2B revenue streams are off to a very fast start. Octopia tripled its GMV since 2019 and has signed 12 clients in seven countries in 2021 for its marketplace and merchants as a service offers.

Our highly profitable marketplace, which is at the heart of our B2C strategy, has grown very fast at +22% since 2019, driving up its revenue by +29% to €193 million. This performance was driven by two key levers. First, the increase in our qualitative merchant base by 2,000 in two years, bringing to the customers more choice and better prices. Second, nearly half of our marketplace orders are now express delivered to customers, up from one-third in 2019. This is primarily thanks to 37% of marketplace GMV being fulfilled by Cdiscount, a significant increase of 6 points versus 2019, and the success of our Express Seller program. As you can see, our Marketplace remains one of our key growth drivers and is central to our improved profitability.

We are also very successful in terms of customer satisfaction. Our NPS is a record high at 53 points, up 12 points since 2019. Furthermore, the number of our Cdiscount à Volonté clients continues to grow year after year, and this is increasing the overall repurchase rate as they are buying 3 times more often. These achievements are explained by: first, we continue to deliver orders faster, and we have added more than one million SKUs eligible for express delivery. Second, our "say yes to the client" policy is a success that we are rolling out to the entire client base in 2022. Our focus remains to continually enhance customer experience through faster delivery and high-quality customer care.

Our most profitable business line, Digital Marketing, continues to perform extremely well, growing more than 30% in each of the past two years. Our Cdiscount Ads Retail Solution, or CARS, is growing even faster at +70%. CARS, our in-house ad-tech solution, boosts merchants' and suppliers' sales. Very concretely, CARS drives traffic to their products on Cdiscount site. Artificial intelligence powers everything. It improves relevancy of search results for customers, it boosts ROI for vendors and brands, and it increases revenues for Cdiscount. And we are accelerating our investment in artificial intelligence. Digital Marketing is now our fastest growing and most profitable business.

And now let's talk about our B2B activities. First, Octopia is a turnkey marketplace solution for retailers and e-tailers, which includes marketplace technology, a qualitative base of products and merchants, as well as fulfillment solutions.

- First, our historical product-as-a-service offer passed the €100 million GMV mark in 2021, representing an impressive 400% increase since 2019

- Second, our new Merchants and Marketplace-as-a-Service solutions are accelerating. In 2021, 12 new clients signed. Also, as announced this morning, a partnership was signed with Ocado to integrate Octopia's Marketplace platform into Ocado Smart Platform called OSP and to allow OSP partners around the world to launch their own marketplace offering. This is a major milestone. It is a recognition by a worldwide tech leader of the quality of the Octopia solution and it brings significant growth opportunities.

2022 will record a major step with the first full implementation of Octopia marketplace solutions. In addition, commercial rampup is accelerating with numerous qualified leads. Longer term, Octopia represents a significant value creation proposition for Cnova as it targets a massive market opportunity with worldwide e-commerce growth fuelled by marketplaces.

Another growing source of profitable B2B revenues comes from our third-party supply chain services. We offer a turnkey large parcel transportation service through C Chez Vous and a full service of supply e-commerce operations through C-Logistics.

First, C Chez Vous business accelerated significantly in 2021 with 22 live clients as of today, benefiting from a record-high customer satisfaction. We expect to onboard at least 11 additional clients during the first half of 2022.

Second, C-Logistics, our end-to-end third-party logistics solution for retailers and e-tailers, has gone extremely well with clients such as StokOmani and Adopt' already live.

At Cdiscount, we are extremely proud of our leading position in ESG. First, for logistics, we have been continuously reducing our carbon footprint over many years, and we have launched a new plan of more than 20 actions, including reducing further empty space in trucks, thanks to bulk loading and use of alternative means of transport to further reduce by 7% greenhouse gas emission by 2023.

Our deliveries and returns are already carbon neutral. We are also at the forefront of reducing packaging use. We have eliminated 1.3 million packages in 2021. We are now proposing reusable packaging through our partnership with the start-up Hipli.

Second, we are promoting a more sustainable consumption. First, we are a key player in the circular economy in France, generating more than €100 million of GMV in 2021 consisted of refurbished goods. In fact, a quarter on smartphones sold on Cdiscount.com are refurbished. Second, we are also reinforcing our Made in France position. We are French.

And finally, in terms of HR, Cdiscount was certified in 2021 as a Great Place to Work, and we were ranked fourth in France by the Financial Times as a Diversity Leader for its commitment to promote diversity within the company. We are absolutely committed to promoting equal opportunities for women and men.

Now, I would like to introduce our new CFO, Mr Luc Peligry. We are pleased to welcome Luc to the Cnova family. He has a strong background in finance and management. So please welcome Luc, who will now take us through some numbers.

Luc Peligry

Thank you, Emmanuel and good afternoon, everybody. Overall 2021 GMV is showing a strong performance versus 2019 at +7.9% and resilience versus 2020 exceptional performance. The marketplace GMV share is now reaching 45%, increasing by +1.3% versus last year. Revenues are increasing by 23% versus 2019 and stable versus 2020, despite the introduction of the new VAT law and introduction of higher quality standards.

Direct sales are decreasing as part of our strategic voluntary shift from 1P to 3P, mainly focused on non-technical goods.

B2C services are significantly growing year-on-year, reaching €278 million, +44% versus 2020, mainly driven by Travel, Energy and Mobile.

Other revenues are stable, with a contrasted picture. A sharp increase of Digital Marketing, growing year-on-year by 32%, driven by our in-house ad-tech platform CARS, proposed to our sellers and brands. It is a main lever of our strategy to increase the monetisation of our offer and to reinforce our profitable growth path.

Secondly, a decrease on the Géant Casino corners, which have been affected by the COVID, with the closing of the stores during the pandemic.

On the B2B side, Octopia is accelerating its growth, reaching €109 million of GMV in 2021 with success with the Product-as-a-Service and the Fulfilment-as-a-service offers. The partnership signed with Ocado today and the launch of the Market-as-a-Service tech platform will boost the development of Octopia in 2022.

Gross margin is reaching €480 million in 2021, with a 4.5% increase in margin rate on sales. It's a 25% growth over two years. What are the main reasons of this success? First, the marketplace share is increasing year-on-year with a stable commission rate and the percentage of marketplace GMV fulfilled by Cdiscount is increasing by 6 points to 37%. Then, direct sales margin improvement, mainly thanks to the transfer to marketplace of low-margin products. Finally, Digital Marketing, which is growing fast, as highlighted by Emmanuel. We are now at more than 2% of our product GMV with excellent future growth perspectives.

SG&A before depreciation and amortisation are closing at 17.1% of Net sales, a 3.1% increase over the last 2 years versus a 4.5% improvement of gross margin. The main impact of the increase to be considered is the investment born to support Octopia development, where we had some extra commercial costs with sales team and participation to worldwide events to promote the offer, extra run costs on IT and G&A to support the structuration of the activity. As far as the rest is concerned, we increased our marketing costs to support TV media campaign in H2 2021 to improve our market share and also, as mentioned by Emmanuel, to reinforce our content on the site through live shopping, entertainment, games, etc. and our IT costs to support the digital marketing and reinforce our capabilities in artificial intelligence.

As a result, we achieved a robust performance with a 5% EBITDA margin at €109 million, 33% above 2019, with some major shifts on our three strategic pillars: increasing the 3P versus 1P, accelerating Digital Marketing and supporting our development in the B2B area with Octopia and C-Logistics.

EBIT grew by 25% versus 2019 to €18.4 million. Main variance comes from the increase in depreciation and amortisation by €10 million, reflecting the higher CAPEX engaged to support the development of our B2B activities.

Cash flow from operating activities amounted to €64 million, increasing by 43% versus 2019, showing a structural improvement of cash generation. Considering investments and change in working capital, free cash flow before financial expenses amounted to minus €77 million and has been impacted by two major exceptional triggers.

- First, the change in working capital, with a swing of more than €100 million between 2020 change in working capital and 2021 change in working capital. 2020 was impacted positively by exceptional sales in November and December because of the lockdown, where in 2021, we faced headwinds on the business at the same period and took a cautious view on technical products with some extra strategic inventories to prevent shortages due to the semiconductor crisis. Our target for 2022 is to come back to a more normative position.
- Second, higher CAPEX in 2021 at €94 million versus €71 million in 2020, an increase of €23 million reflecting the high investments in the Octopia Market-as-a-Service platform.

As a conclusion, after integrating the €44 million of financial costs, which mainly come from the 4-instalment payment offer which we have improved versus last year thanks to better risk management, the change in net debt is negative by €126 million.

To close the cash chapter, a status about our financial debt. A quick reminder of the structure, which is made of 2 major sources. Casino lines through a long-term loan and cash pooling for €550 million, a state-guaranteed loan for €120 million and bilateral credit lines for €70 million. This is a total of €740 million. End of December 2021, we were using a gross €343 million.

In terms of schedule of repayment, we will have to repay €60 million in August this year for the state-guaranteed loan and we are already in discussion with our banks.

With that, I pass the floor to Emmanuel.

Emmanuel Grenier

Thank you, Luc. So our long-term objectives remain unchanged. GMV growth, EBITDA improvement and cash generation. Along these lines, Cnova has 3 clear strategic priorities. First, grow the Marketplace, leveraging on fulfilment capacity, as well as merchants' recruitment, leading to more quality and higher customer satisfaction. Second, boost Digital Marketing revenues by developing CARS, our in-house ad-tech platform. And third, accelerate B2B. Develop Octopia by targeting the EMEA market and launching new major clients, and make C-Logistics and C Chez Vous leaders in e-commerce logistics. We will also continue to reinforce our ESG commitments by reducing our carbon footprint and commercial waste, stimulating the circular economy and promoting diversity.

Thank you for your time and attention. We are ready to take your questions. Operator, may we have the first question, please?

Q&A

Operator

Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypad. We have a first question coming from Alexandre Casas. Sir, please go ahead.

Alexandre Casas

Could you please explain Gautier Bailly (ex-CFO) departure in April 2021 and Arnaud Strasser resignation from your Board in December 2021 ?

In April 2021 you were planning to perform an increase in capital. Is this still a strategic option knowing the best period was probably in the second quarter of 2021 ?

Covid has boosted the business in the past months. What does your current trading look like ?

Emmanuel Grenier

I will give an answer in English. Covid has changed the world in the last 2 years and Gautier wanted to give a new direction to his career. We welcomed Luc Péligny, he has a great financial & management background. This is the normal life of a company. Arnaud was not an independent Board member, and he was not executive. He was replaced by Steven Geers. There is no specific signal behind this resignation.

Our re-IPO was deferred due to market conditions. Nothing new to add. We are studying various financing options.

The third quarter 2021 was challenging. All the market went down in the fourth quarter 2021 but we gained market shares. The first quarter 2022 started on the same trend than the fourth quarter 2021 with a very high comparison basis. Until mid-March we will still compare to 2019 which is the last normal year.

Operator

We have another question from Christian Devismes. Please go ahead.

Christian Devismes

Good evening, Emmanuel. Good evening, Luc. Three quick questions for me.

You announced €110 million of EBITDA. The guidance in June was €160 million but excluding Octopia and others. So what is the amount of Octopia and others in 2021 ? And could you please explain the other part of the gap ?

My second question is about your market share. You explained that you gained market share. It's perhaps true on the second half but if you look on page 15, you recorded a growth of 0% compared to last year and a growth of 8% compared to 2019. Obviously, when I compare with the FEVAD figures, I cannot say you are winning market shares. Could you please elaborate a bit about your mix of products, your mix of service and so on ?

My last question is about the IPO and capital increase. You said there is no plan. Does it mean that you are going to postpone Octopia project ? Or you are going to find another way of financing this project ? Thank you.

Emmanuel Grenier

Thank you, Christian. Three good questions about EBITDA. The difference only comes from the very tough H2, Q3 and especially Q4 that the whole market experienced. As stated in Q3 activity release, we had to invest in pricing to maintain our market share. About our market share, I understand what you say. In terms of Médiamétrie UMV in 2021, we are still #2, widening the gap vs. #3. In terms of market share we are following Fox intelligence data which are the ones we are commenting in the Press Release. The other key market share data comes from Kantar that we are still waiting for 2021.

About your third question on IPO, our re-IPO was deferred due to market conditions. Nothing new to add. We already invested €30 million of CAPEX in Octopia in 2021 and we will do the same in 2022. We are sure that C-Logistics and Octopia have high potential value so we will keep investing in these activities. We need to finance their development and we are studying various financing options.

Christian Devismes

Okay. Thank you, Emmanuel.

Emmanuel Grenier

Last thing, Christian. You have seen the press release this morning with Ocado and the partnership ? It is a strong message. Ocado is a recognised leader in the world. And Ocado has signed a partnership with Octopia. This is a recognition for us of the value of Octopia. Ocado will take Octopia on its platform and they love Octopia because they recognise the quality of the technology that is easy to connect. They recognise the value of the access to 13,000 vendors. They recognised fulfilment know-how. So we are very proud of this. We are very happy because there is a legitimacy. And the second is that this is a potential growth worldwide for us. This is important.

Operator

Ladies and gentlemen, as a reminder, if you wish to ask a question, please press 01 on your telephone keypads. Our next question comes from Simon Owen. Sir, please go ahead.

Simon Owen

Good evening, everyone. Could you please just talk a bit about marketing and active customer numbers ? There has been a fairly material increase in marketing expenses on a two-year basis. The number of customers is kind of flat over the year. What happened ? Has the unit cost of recruitment gone up materially ? Or have you seen much higher levels of churn ?

Emmanuel Grenier

Yes, there is an increase in marketing expenses. Obviously, the competition is increasing on the market. But when I look at the figures, I see +8% in the number of active customers versus 2019. Our priority is not only to recruit new customers but to increase our repurchase rate. And that is what we did. We know that when a customer is buying in year two at Cdiscount after buying in year one, it is highly probable that he will buy in years three, four, five and six. Our retention rate between year two and year three is 93%; three to four, 93%; four to five, 93% and so on.

So the key thing is how we increase the retention rate between year one and year two. So far, our retention rate was between 31% and 32%. We are number 2 on the market and we have increased this retention rate between year one and year two from 32% to 36%. And we are still increasing. The priority here is to work on the lifetime value of our customers to be sure that we are going to retain a maximum of our 10 million customers.

So for sure, there is acquisition. For sure, we are improving our algorithm in SEA. For sure, we are improving our position in SEO. If you look at the last external studies, we are number 2 in SEO and we are growing faster than our competitors. Our second priority is the retention of our customers with the improvement of retention between year one and year two.

Simon Owen

Thank you, Emmanuel. Could you just give us some colour as well on category mix, particularly in terms of the decline in some of the old electrical products ? And what kind of progress you are seeing in home and DIY ?

Emmanuel Grenier

The strategy is very different for Tech and non tech-goods. For Tech goods 1P share is key and we progressed a lot with international brands such as Apple in 2021. For non-tech goods marketplace is key standing at 60% even 70% for some categories and grew again in 2021

Simon Owen

Great. Thank you very much.

Operator

Ladies and gentlemen, as a reminder, if you wish to ask a question, please press 01 on your telephone keypad.

Well, it seems that we have no further question by phone.

Emmanuel Grenier

Thank you. As a conclusion, Cnova turned in a solid performance in 2021. We are successfully rolling out our strategic plan based on three pillars: marketplace expansion, digital marketing roll-out for the B2C ecommerce platform and the acceleration of B2B. Thank you very much for the call. Have a good evening.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you all for your participation. You may now disconnect.