Event Transcript

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Presentation

Operator

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

Emmanuel Wetzel

Good day everyone and welcome to Cnova's First half 2022 Financial Results conference call. Our CEO, Emmanuel Grenier, and CFO, Maxime Dubarry, will be making today's presentation. The 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 2. I now turn the call over to Cnova's CEO, Emmanuel Grenier.

Emmanuel Grenier

Thank you, Emmanuel. Hello everyone and thank you for your interest in Cnova. Maxime and I would like to go over our half year 2022 earnings presentation with you, after which we would be pleased to take your questions.

We are glad to announce today that our performance is resilient in spite of a challenging and uncertain market: high inflation, supply chain disruption due to lockdowns in China and war in Ukraine. We all know that, and Cnova posted a resilient performance in this context. -10% GMV decrease in the first half versus 21 but growing vs pre-pandemic level and gaining market share in April and May according to Kantar.

[Slide 4 – Performance & Market] We still remain committed to our 3 strategic pillars: Marketplace, Advertising services and B2B activities which pays off:

- First, Marketplace revenues decreased by -7% vs 21 but are still on a very positive long-term trend with a +25% growth vs. pre-pandemic level in 2019
- Second, Advertising services – which are powered by our C.A.R.S. advertising bidding platform – grew by +15% in the first half, and multiplied by 2 vs. pre-pandemic level
- Third, B2B is accelerating with 11 new contracts for Octopia's Marketplace-as-a-Service solutions and 31 new contracts for C-logistics in the last 6 months

About EBITDA and Cash:

- Positive EBITDA decreasing compared to 21 but stable compared to pre-pandemic level of 19
- Free Cash Flow is improving by more than €100m compared to 21 in the first 6 months

In this context, we have launched an Efficiency plan to swiftly recalibrate our cost structure & CAPEX level to the current volume of activity with a €75m savings target on a full-year basis by the end of 2023.

[Slide 6 – Marketplace 1/2] Marketplace's growth is at the heart of our B2C strategy. This is our first strategic pillar:

- Cdiscount offers a very large range of products. We speak about more than 90 million of products
- And second, Marketplace in general term is a very profitable business

Our Marketplace has increased by +19% vs. pre-pandemic level of 19, +8% annually over the last 6 years, and now represents more than 50% of our product GMV. We confirm our long-term target of above 60% of our GMV.

[Slide 7 – Marketplace 2/2] As we just said, the main driver of Marketplace growth is the size of the assortment. Speed of delivery and quality of user experience are also contributing to growth:

- In 2017 only 15% of products were express delivered. And today, six years later it grew up to more than 50%. This is primarily thanks to 38% of Marketplace GMV being fulfilled by Cdiscount and to the success of our Express Seller program which now brings 13% more additional express GMV delivered to our clients

- And the ramp-up of our express delivery program resulted into the constant client satisfaction for Marketplace orders closing the gap with Direct sales NPS

As you can see, our Marketplace strategy remains one of the key drivers and keeps on a positive trend. And this is, of course, central to our model.

[Slide 8 – Direct Sales] We are convinced that our hybrid model with the right share of Marketplace and Direct Sales for each category has been and remains our win strategy over the past years.

For Technical goods, a powerful Direct Sales offer and strong relationships with brands is one of the key levers to bring value to our customers and be competitive. This strategy has led us to build a win-win relationship with top brands: exclusive offers and marketing contribution for Cdiscount, better awareness and UX enhancement for the brands.

The results are promising: a -9% decrease in Direct sales in the first half for our top 10 brands when, according to Fevad and Kantar, the electronics market was down by -19% in the first quarter.

[Slide 9 – Travel Activity] As you all know, not only we offer products but also a Marketplace of services to meet all our customer needs.

In the first half, travel is growing fast by +67% vs 2021 and by more than +50% compared to pre-pandemic level in 2019. As you know in last 2 years, this market has been heavily impacted by the pandemic.

Flights are up by +51% with 6 destinations trending: Tunisia, Turkey, Spain, Greece, Egypt, and Dominican Republic. Flight packages are also benefiting from new partnerships.

[Slide 10 – CDAV] As you know our loyalty program, Cdiscount à Volonté or CDAV, is at the core of our strategy: CDAV client are buying three times more often.

Our CDAV customer base keeps growing in a receding market.

Three reasons for this success:
- First, we continue to deliver order faster and faster. We have added close to 1 million products eligible to express delivery in 1 year
- Second, we offer them dedicated promotions
- Third, our “yes to the client” policy which has been rolled out to all our clients

Our focus remains to continually enhance customer experience through faster delivery & high-quality customer care.

[Slide 11 - AI] We are committed to enhance our customer centric approach not only for delivery and customer service but also through a seamless experience on our website.

Artificial Intelligence is widely used throughout the customer journey and especially for the search engine and the recommendations:
- For the search engine, the results are very promising, with its GMV share increasing by +4pt in 1 year thanks to the implementation and training of new semantics algorithms leveraging on deep learning
- Another way to improve the customer experience is to display the relevant products to each customer. Thanks to targeted products displayed to our customers, the GMV share of personalization has increased by +2pt

We are very excited about what it will bring next: more search engine relevancy, more recommendations, more accurate credit scoring, targeted promotions and more to come.

[Slide 12 – Advertising Services] Our most profitable business line, advertising services, continues to perform extremely well, growing by more than +15% vs 2021. Our Cdiscount Ads Retail Solution, or CARS, is growing even faster at +73%. CARS, our in-house ad-tech solution, boosts merchants & suppliers’ sales. Concretely, CARS drives traffic to their products on the Cdiscount website and brings profitability to Cdiscount.

Artificial Intelligence powers the CARS platform at 3 levels: it
- Improves relevancy of search results for customers
- Boosts ROI for the vendors, and
- Increases revenues for Cdiscount

Advertising services are now our fastest growing and most profitable business.

[Slide 14 – C-Logistics] And now let's talk about our B2B activities.

Profitable B2B revenues come first from our 3rd party supply chain services. We offer a turnkey large parcel transportation service through C Chez Vous and a full service of supply ecommerce operations through C-logistics.

First, C Chez Vous business accelerated significantly in 2022 with 49 live clients as of today benefiting from price competitiveness and a record-high customer satisfaction. This offer is an amazing success with 30 new clients signed in 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. We have just signed with a major client, a worldwide leader in its market.

[Slide 15 – Octopia] And now let's talk about Octopia: our turnkey Marketplace solution for retailers and e-tailers, which includes Marketplace technology, a qualitative base of products and merchants, as well as fulfillment solutions.

Our new Merchants- and Marketplace-as-a-Service solutions are accelerating. In the first half of 2022, we have signed with 11 new clients for a total of 23 clients such tier-1 ecommerce players like Rakuten, Kingfisher, CDON – the leader in Scandinavian countries. We are now rolling out the solution, with 10 of these clients already implemented.

Our Fulfillment-as-a-Service solution is providing logistic and delivery services to vendors selling on platforms other than Cdiscount.com. And for those vendors, GMV grew by +18% with half a million parcels delivered in the first half and more than a thousand clients.

On the long run, Octopia represents a significant value creation potential for Cnova as it targets a massive market opportunity with worldwide ecommerce growth fueled by Marketplaces.

[Slide 17 - ESG] 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. Greenhouse gas emission per parcel has been reduced by -7% between 2020 and 2021 and our deliveries and returns are already carbon neutral thanks to:
- all the actions undertaken over the past years, especially our unique fleet in Europe of 3D packing machines
- and also, thanks to our long-term partnership with the Endowment Fund "Plantons pour l'Avenir" initiating reforestation actions in France to sequester 100% of their residual GHG emissions

Second, we are promoting eco-products and refurbishment:
- We have launched a "more sustainable" product label on Cdiscount.com that is covering already nearly 40k SKUs
- And we are a leading player on 2nd hand and refurbishment generating more than €100m of GMV in 2021 and still growing by +7% in the first half

Now I will give the floor to our CFO, Mr. Maxime Dubarry.

Maxime Dubarry

Thank you, Emmanuel and good morning, everyone. I'm going to walk you through the financials of the first semester.

[Slide 19 - GMV] We have posted a €1.8bn GMV in the first half of 2022, the GMV has decreased by -10% on a reported basis and -12% in a like for like basis.

If we look into the details per business:

The Marketplace is doing quite well, with its GMV share now reaching close to 50% (+3pt vs last year). GMV decreased by -11% in the 1st half of 2022 but increased by +19% vs. the pre-pandemic level of 2019.

Direct sales are decreasing by -21% due to low market demand and strategic voluntary shift from 1P to 3P.

Advertising services revenues reached €40m in the 1st half of 2022, growing by +15% and doubling vs. the pre-pandemic level of 2019, mainly driven by the continued development of sponsored products.

B2C Services showed good dynamics, especially thanks to a fast-growing activity for Cdiscount Travel.

Other is stable on a like for like basis, our 1H22 actuals benefited from the €45m sale of the cross-canal inventories to Géant.

On the B2B side, Octopia and C-Logistics are seeing good dynamics as already commented by Emmanuel.

[Slide 20 – Gross Margin] Gross margin was €201m in the 1st half of 2022, representing 22.8% of Net sales, a slight decrease of -0.4 point compared to 2021, but still a significant increase of +5.3 points compared to pre-pandemic level (1st half of 2019).

This gross margin increase over the past three years demonstrates the success of the implementation of the strategic plan, with high profitability activities growing. In particular, the Marketplace is growing by +19% compared to the 1st half of 2019 and Advertising services nearly doubling vs. the same pre-pandemic level.

Compared to 2021, Cnova accelerated its shift towards the Marketplace with Direct sales margin negatively impacted by destocking operations in the context of the Efficiency plan. In addition, we have suffered from additional cost in the transportation of goods due to inflation on fuel.

[Slide 21 – SG&A] SG&A before D&A amounted to €(184)m in the 1st half 2022, representing 20.9% of Net sales or a reduction of €(1.4)m in value. During the 2nd quarter, we have launched an Efficiency plan to recalibrate our cost structure to the current level of activity with a significant €30m positive impact in the 2nd half of 2022 and savings of €75m on a full run-rate basis projected in 2023.

We note 2 contrasting impacts:

- The first one is the investment born to support the B2B activities development with commercial, IT and G&A expenses
- The second one is the decrease in value of G&A benefiting from the early results of the Efficiency plan balanced by the structuration of the B2B activities

[Slide 22 – EBITDA & EBIT] As a result, 1st half EBITDA decreased to +€17m compared to last year, representing 1.9% of Net sales. In a context of significant market headwinds and destocking initiatives, EBITDA benefited from a resilient Marketplace performance, increased Advertising services and the first results of the Efficiency plan on SG&A.

EBIT additional variance is coming from the increase in D&A by €5m reflecting the higher CAPEX engaged to support the B2B activities in the last years.

[Slide 23 – Cash Flow] Our Cash flow shows structural seasonality over the year, H1 cash flow is negatively impacted by the cash-out of payables related to the holiday period while H2 is fueled by the high level of GMV in November and December.

Despite the significant market headwinds, we have been able to improve by €82m the FCF of the period. The main drivers for this change are:

- First, €85m actions on inventories with Structural decrease of c. €40m as part of the Efficiency plan and positive one-off impact of c. €45m from the sale of hypermarket Géant inventories to the Casino Group in June 2022
- Second, Net CAPEX decreasing by €26m with a €20m one-off impact related to the sale of assets to FLOA and a €6m reduction in CAPEX related to the Efficiency plan, and
- Third, a €21m increase in financing expense mainly related to increased take rate and cost of sale of receivables of our 4-installment payment program

[Slide 24 – Net Debt] To close the cash chapter, a status about our financial debt.

As a quick reminder, debt comes from 3 major sources:

- Casino lines through a Term loan and a Cash pooling agreement for €700m
- A State guaranteed loan for €120m
- A Bilateral credit lines for c. €70m

We thus reach a total liquidity available of €890m. At the end of June, we were using €470m net.

In terms of schedule of repayment, we will have to repay two terms of the State guaranteed loan in the next 18 months: €60m in August this year and an additional €30m in August 2023.

Emmanuel Grenier

[Slide 26 – Efficiency Plan] As already mentioned, we are committed to recalibrate our cost structure and CAPEX level to the current level of activity. Therefore, we are implementing an Efficiency plan that started in the beginning of Q2:

- €30m savings projected in the 2nd half of 2022
- With a full-year impact of €75m in 2023

In this context, we firmly confirm our strategy to push for more Marketplace, more Advertising services and more B2B activities.

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 zero one on your telephone keypad. We have the first question from Alexander Casas from Casas & Associés.

Alexandre Casas *(in French)*

Hello, do you hear me?

Emmanuel Grenier *(in French)*

Yes, good morning, Alexandre.

Alexandre Casas *(in French)*

I have two questions for you.

Emmanuel Grenier *(in French)*

Yes.

Alexandre Casas *(in French)*

The first one is strategic and is about the long term. Considering the current environment – war in Ukraine, inflation, and supply-chain bottlenecks – Cnova's prospect of posting a net profit is further delayed and may not come before 3-4 years. You also failed at raising capital on the financial markets in mid-2021. Do you thus envisage collaborating or merging with a competitor?

My second question is more technical and concerns the structure of the balance sheet. Considering that accounting legislations can change, is it possible that you may be legally required to raise capital because of the losses you posted and the negative equity of c. €400m at the end of June 2022. Thank you for the opportunity to ask questions Emmanuel.

Emmanuel Grenier *(in French)*
Thank you, Alexandre. I will take the first one and Maxime will take the second one.

The first one is about strategy. We position ourselves as a Marketplace and aim to have 60% of GMV coming from it. But be sure we will do more. Margins are indeed more important than on Direct sales so we will push for it, while preserving Direct sales for technical goods. What it means is that we will be able to go as high as 75%-80% of Marketplace on non-technical goods – and it is our target. The Marketplace is our first strategic pillar, and we are also pushing for more Advertising services and BtoB. You can add to that our €75m Efficiency plan which is reducing our costs – OpEx and CapEx – by almost 15%. So, when you add the two it will allow us to be profitable. And I'm not talking about BtoB here because it might require special financings.

Alexandre Casas *(in French)*
That's why I said 3 to 4 years: the Efficiency plan you are mentioning is for 2023 so it should bear fruits in 2025 or 2026.

Emmanuel Grenier *(in French)*
I think we will be near completion of our objective in 2023 or 2024.

The second subject is BtoB. The activity is indeed very different, so the question of financing is crucial – and we are assessing every possible solutions for both C-Logistics and Octopia.

Now, regarding collaborations my response is twofold. First, for capitalistic collaboration everything is possible. But you have to ask Casino because it is our main shareholder. Second, we have strong operational collaborations in place. We didn't talk much about it the last two years, but we have been collaborating with But and Conforama on purchases with our "Mano" agreement and it's crucial in a world marked by high inflation. It was put on hold after the merger between the two players, but it will start again this year in a more intensive way.

Alexandre Casas *(in French)*
So, you plan to collaborate with the Austrian group which is now behind But and Conforama?

Emmanuel Grenier *(in French)*
On an operational level yes. The collaboration is broad with Conforama, while it is mainly on technical goods for But. Since there is a takeover, we also benefit on a Marketplace level. One concrete example is the plug of Ubaldi on our Marketplace – the relationship is going well, and it strengthens our offer on technical goods. So, the answer is twofold, and I will now let Maxime take the question on the balance sheet.

Maxime Dubarry *(in French)*
Indeed Alexandre, the point you raised deserves an explanation. Our consolidated accounts rightly show a negative equity of €321m. However, it doesn't raise the need for a recapitalization because the social accounts of Cnova NV show a positive equity. The difference between the two comes from the treatment of GPA Brazil. In 2016 we booked the capital reduction at a fair value, and this turned negative Cnova's equity. Because it's a pure consolidated accounting operation there is no obligation to recapitalize.

Alexandre Casas *(in French)*
OK, thanks for the explanation. I have another question that was asked during the webcast of Fnac-Darty: what is your interpretation of the price increase of Amazon Prime subscription? What is your position for CDAV?

Emmanuel Grenier *(in French)*
I don't know Amazon's strategy and can't speak for them. What I can say is that we monitor the situation closely. As you know, our offer is different from Amazon's. We both have express delivery, but our subscription has a better value for money. We want to bring the best value for our clients at a discounted price, which is part of our DNA. If we maintain our current price, clients might come to us because they don't want to pay for services they don't use. So, we don't anticipate raising the price of CDAV, but the situation may evolve, and we are not closing any doors.

Maxime Dubarry
Okay, we have an additional question. It is a written question from Nicolas Verlé that I will read.

"You say that you increased the Term loan with Casino to €300m, but Net debt towards Casino also amounts to €279m. Can you explain the difference?"

So, I will take this question. It's true that our net indebtedness towards Casino is €279m, and it's comprised of two elements. We have the Term loan for €300m and we have cash surplus agreements of €21m. That is an asset in the balance sheet. So, when we net the two, we are at €279m.

Operator
We have no further question at this time. Ladies and gentlemen, I remind you that if you wish to ask a question, please press zero one on the telephone keypad. We have another question from Alexander Casas.

Alexander Casas *(in French)*
I have a last question. The worldwide ecommerce market was disrupted by Covid and continues to be disrupted by inflation, supply chain disruptions and the war in Ukraine. Q2 was therefore disappointing. When will the ecommerce activity return to normal and stabilize? And how do you interpret the evolutions in consumption because one of the main stories was that the consumptions of goods was replaced by a shift towards services – especially for travel and holiday packages. To sum up, what are the main differences between now in mid-2022 and 2018? Thanks Emmanuel.

Emmanuel Grenier *(in French)*
My response will be in several parts. First, the growth of the ecommerce was indeed less than hoped for. ecommerce is nonetheless growing compared to 2018 and 2019 – especially thanks to Marketplaces. These latter are the fuel for growth for two simple reasons: the quality and the depth of the offer. Now, when we dig a little bit deeper, we can see disparities between sectors. In my opinion we will have a Covid counter-cycle on technical goods for at least 6 more months. Consumption was high during Covid so consumers will not need to renew their dishwashers, printers, etc. The money is thus redirected to fashion, travel, and holiday packages. In my opinion, everything will be back to normal in 2023.

Now, the second aspect is the possible global crisis. That's why we decided to be tough and ambitious on cost savings. The US financial markets start to price this possibility so I think we will have 12 to 18 challenging months. Our decision is sound, and we are the first to do so.

Alexandre Casas *(in French)*
Ok.

Emmanuel Grenier *(in French)*
And if the environment is better than excepted, we will be positioned to benefit from it.

Alexandre Casas *(in French)*
Thanks for your answers.

Emmanuel Grenier *(in French)*
I think it's all for the questions.

Operator
We have no further question.

Emmanuel Grenier
Thank you very much and have a nice day.