



# **Q4 Activity and Full Year 2022 Results**

Wednesday, 22nd February 2023

## **Introduction**

Emmanuel Wetzel

*Head of Investor Relations, Cnova*

### **Agenda**

Good day, everyone, and welcome to Cnova's Full-Year 2022 Financial Results conference call. Our CEO, Thomas Métivier, and CFO, Yves Trézières, will be making today's presentation.

The slides can be downloaded from our website, [cnova.com](https://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, Thomas Métivier.

## **Business Highlights and Key Figures**

Thomas Métivier

*CEO, Cnova*

### **Resilient performance in a challenging & uncertain market**

Hello, everyone. Thank you for your interest in Cnova. I am very pleased to be there for the first time, to present with Yves, our full-year 2022 earnings presentation and share my strategic vision for 2023, after which we would be pleased to take your questions.

We are glad to announce today that we are on track with our transformation plan with all three pillars of our platform model performing very well in 2022 in spite of a challenging and uncertain market with high inflation and low consumption, leading to a receding French e-commerce market. As you may know, Fevad estimates that Technical Goods and Home and Deco were down by 19% and 18% in 2022.

In this context, Cnova posted a resilient performance. All three strategic pillars: marketplace, advertising services and B2B activities are very well oriented:

- First, marketplace revenues outperformed the French e-commerce market, decreasing only by -2% versus 2021 and still on a very positive long-term trend, with 28% growth versus pre-pandemic level in 2019.
- Second, advertising services powered by our CARS advertising bidding platform is performing very well. Our revenues grew 5% last year and our ratio over GMV grew from 2.4% to 3.1%.
- Third, B2B activities are accelerating with €19 million of B2B revenues growing 66% over the year. Octopia has won 14 new contracts for its turnkey marketplace solution to reach 26 clients at the end of the year.

In this context, we have achieved a positive EBITDA as a result of a fast implemented Efficiency Plan that was launched as early as Q2. Our free cash flow before financial interests is improving by €94 million compared to 2021. This is mainly due to strong inventory

reduction, the first effects of our Efficiency Plan and disposal of non-strategic assets such as Floa and CchezVous.

## **Resilient Ecommerce Platform**

### **Marketplace long-term trends still dynamic**

Marketplace growth is at the heart of our B2C strategy. This is our first strategic pillar. Thanks to it, Cdiscount offers an extensive range of millions of products to fulfil all of our customer needs. Second, our marketplace is a very profitable business.

Our marketplace has increased by +14% versus pre-pandemic level in 2019, and by +7% annually over the last five years. It now represents more than 50% of our product GMV with peaks at 60% since the beginning of 2023.

### **Marketplace revenues growing four points faster than marketplace GMV over the last five years**

How does the GMV translate into revenue? Over the last years, we have grown our marketplace revenues quicker by four points than our marketplace GMV by reinforcing the value we create for our merchants. As a result, our marketplace revenues of our GMV increased from 14% in 2019 to 16% in 2022.

Our key drivers are clear and well oriented:

- First, an effective sellers' sourcing: Our internal teams are screening more than two million sellers from all over the world to identify and source the best ones. Thanks to that, close to one-third of our marketplace GMV is generated by the sellers recruited in the last 24 months.
- Second, a strong focus on our top 200 merchants who are benefitting from premium account management. Their GMV grew +16% last year, 23 points faster than average. They are the core of our commercial strategy.
- Third, a day-to-day focus on quality with a marketplace NPS above 50 for the first time ever, narrowing the gap with Direct Sales, notably thanks to the growth of our express delivery model, including fulfilment.

### **Dynamic advertising services driven by Cdiscount Ads Retail Solution (CARS)**

Our most profitable business line, advertising services, continues to perform extremely well. Our revenues of our product GMV grew from 2.4% to 3.1% last year.

Our Cdiscount Ads Retail Solution (CARS) is growing even faster at +29%. CARS revenues now represent two-thirds of our advertising revenues. Merchants and brands are super excited by CARS as it makes them able to drive traffic to their products and generate sales with a very efficient monitoring on the performance of their marketing investments.

The growth of our advertising services is leveraging on two key drivers:

- The number of merchants and brands using the platform; we doubled it in just two years.

- The performance of the Artificial Intelligence at the core of our CARS platform. We have improved the relevancy of search results for its users, with an increase of click rates by +50% over the last two years.

### **Direct sales benefiting from top brands performance and enhanced cash profile**

The next slide is about 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 winning strategy for the future.

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.

We offer them a unique opportunity to express their brands and showcase their products, and we benefit from accelerated growth. Those top 20 brands grew eight points above the overall trend of Direct Sales and generated stronger contribution margin, six points above the average margin for Direct Sales.

To optimise the profitability and cash of our direct sales business, we took bold decisions in 2022:

- First, shortened Direct Sales assortment focussing on high rotation and profitable SKUs, relying on our extensive marketplace assortment to cover specific customer needs.
- Second, reduced inventory coverage; at end of 2022, our coverage improved by 20% compared to end 2021.
- Third, in second semester, we restricted our four-installment payment solution to lower-risk customers, reducing the GMV share by four points compared to the first semester. This action already brought €13m cash savings in H2, with full-year impact expected in 2023.

### **Strong rebound of travel activity post COVID slowdown**

As you all know, not only we offer products, but also a marketplace of services to meet all our customer needs.

In the full year, travel is growing fast, +46% versus 2021 and more than +14% compared to pre-pandemic level in 2019. Flights are up +39% with six destinations trending: Tunisia, Turkey, Spain, Greece, Egypt, and Dominican Republic. Flight packages are growing even faster at +63%, benefiting from new partnerships with Totemia and Smily.

### **Improve the customer-centric approach with AI-powered algorithms**

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 to better position our products, in terms of pricing.

For the search engine, the results are really exceptional, with a click rate improving by five points year-on-year, thanks to the implementation and training of new semantics algorithms leveraging on deep learning.

For the pricing positioning, AI enables us to match more than one million SKUs, two times more than last year, and compare their prices with competitors.

We are also very excited about the next generation of AI algorithms such as GPT-3 that we started to experiment in 2022 and their opportunities; more search engine relevancy, more recommendations, more accurate credit scoring, targeted promotions and more to come.

## **B2B Activities**

### **C-Logistics e-commerce supply chain solution gaining traction**

Now, let us talk about our B2B activities.

Profitable B2B revenues come first from our third-party supply chain services. We offer a full service of supply ecommerce operations through C-Logistics.

We have signed three new clients in 2022 – Les Raffineurs, Boardriders, and a luxury global leader – to reach four clients, three of them already launched. Those signatures, including industry leaders, prove the relevancy of our positioning in this market, with key differentiating factors: high B2C service quality, very competitive pricing, CSR commitment, and personalised packaging.

### **Octopia accelerates its commercial development**

Now, let us talk about Octopia, our turnkey marketplace solution for retailers and e-tailers, which includes marketplace technology, a qualitative base of products and merchants, and a fulfilment solution.

Octopia B2B revenues are accelerating, reaching €19m, driven by our turnkey marketplace and fulfilment solutions performance:

- First, our Merchants- and Marketplace-as-a-Service Solutions are accelerating. In the full-year of 2022, we have signed 14 new clients for a total of 26 clients with such tier-1 ecommerce players as Rakuten, Kingfisher, and CDON. More than 50% of our clients are out of France, proving the value of our solution. We are now rolling out the solution with 17 of these clients already live on the platform.
- Second, and also part of our differentiating Octopia offering, our Fulfilment-as-a-Service solution, which is providing logistic and delivery services to vendors selling on platforms other than Cdiscount.com. From these activities, parcels shipped grew by 38% to more than one million parcels delivered over the full year.

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

## **ESG**

### **A more sustainable e-commerce to our B2C and B2B customers**

Cnova maintains its CSR strategy. If we look especially at the climate change stake, Cnova focussed on two priorities: logistics and offers.

Regarding the offer, Cnova has been accelerating its more sustainable programme. This programme includes refurbished products and products recognised by certified labels. At the end of 2022, these products represent 13% of the sales on Cdiscount.com, growing three points versus 2021.

Regarding logistics, 100% of deliveries for Cdiscount.com contribute to carbon-neutrality. It has been achieved thanks to concrete and long-term investments for seven years:

- First, we worked hard to reduce our GHG emissions. As an example, Cnova has a unique fleet in Europe of 3D packaging machines and accelerates low-carbon last-mile deliveries. Between 2020 and 2021, we achieved a 7% reduction of GHG emissions.
- Second, Cnova also sequestrates 100% of its residual emissions through a long-term partnership with the endowment fund '*Plantons pour l'Avenir*', initiating reforestation actions in France.

With these achievements, Cnova is concretely engaged to fight against climate change, but also meets the new clients' expectations of Cdiscount.com and our B2B activities.

### **Recognised achievements**

As you can see on the next slide, Cnova's CSR achievements are well-recognised by stakeholders, whether it be on environmental, social, and societal aspects.

Now, I will give the floor to our CFO, Mr Yves Trézières.

## **2022 Full-Year Financial Performance**

Yves Trézières

*CEO, Cnova*

### **-15% GMV decrease in a receding market, with a strong performance of services B2C, and advertising**

Thank you, Thomas. Good afternoon. We have posted an overall €3.4 billion GMV in 2022. The GMV has decreased by 17% on a reported basis and 15% on a like-for-like basis.

If we look into the details per business, the Marketplace is resilient. The Marketplace GMV decreased by 6% in 2022, but nearly stable at -2% in Q4; 2022 being above pre-pandemic level of 2019 by 28%. Marketplace GMV share is now reaching 52% in 2022, gaining +9 points versus last year, accelerating in Q4 with a share at 54%.

Direct Sales are decreasing by 27% as part of our strategic voluntary shift from Direct Sales to Marketplace, on top of particular international conditions and national context leading to low market demand, all reinforced by an unprecedented period of inflation.

Advertising services GMV continued to grow semester after semester, reaching now €86 million in 2022, growing by 5% and nearly doubling versus 2019. This growth is mainly driven by the continued development of Cdiscount Ads Retail Solution, growing +29% compared to 2021.

B2C services showed good dynamics, especially thanks to a fast-growing activity for Cdiscount Travel (+46% GMV) and Mobile (+56% GMV).

On the B2B side, the expansion is on-track with Octopia B2B reaching €23 million (+66% versus 2021), with 14 new clients in 2022 for its turnkey marketplace solution, to reach 26 clients at year-end. C-Logistics third-party, end-to-end logistics solution is now launched with three active customers to date. One key contract started in February 2023.

### **Sharp increase of gross margin mainly thanks to GMV mix improvement towards marketplace**

Gross margin represented 23.2% of net sales, an increase of 1.3 points compared to 2021 and 5.4 points versus pre-pandemic level of 2019.

This positive rate growth is provided by the acceleration of Cnova's shift towards more platform revenues. Marketplace, its associated services, and Cdiscount advertising, all together brought more than three points in gross margin. Gross margin amounted to €394 million for the full-year 2022, decreasing by 17%.

The direct sales margin was negatively impacted by the destocking operations in the context of the Efficiency Plan focussing on cash. Despite the savings plan, we have suffered from additional shipping costs due to inflation, especially on fuel.

### **SG&A improved by -7.9%, a €29.1 million decrease supported by the Efficiency Plan**

SG&A, before D&A, are closing at €342 million in 2022, a reduction of €29 million compared to 2021. The Efficiency Plan launched in Q2 to recalibrate cost structure to the current level of activity and support our transformation plan has delivered above target. The full plan OPEX and CAPEX delivered €47 million in savings versus 2021, and €17 million versus guidance.

Cnova has maintained the necessary investments to structure the B2B activities and their commercial development to preserve growth potential in the coming years.

### **EBITDA full-year performance: Profitability secured thanks to the Efficiency Plan**

As a result, the EBITDA stands at €52 million, -€51 million compared to last year, representing 3.1% of net sales. In a context of significant market headwinds and destocking initiatives, EBITDA benefited from a resilient marketplace performance, the increase of advertising services, and the first results of the efficiency plan at OPEX level.

### **EBITDA to net result**

EBIT additional variance is coming first from an increase in D&A by €8 million, reflecting the higher CAPEX engaged to support the B2B activities in the last years; and second, from the increase of financial costs by €19 million impacted by the CB4X acceleration in H1.

All in all, net results of this transition year to the new business model ends up at -€125 million.

### **Free cash flow before financial expenses at €15 million, a +€94 million increase compared to 2021**

Despite the significant market headwinds, we have been able to limit the increase of our net financial debt by €46 million, keeping the overall debt at the committed level to our investors and banks.

This performance represents a €79 million improvement compared to 2021, thanks to voluntary inventory reduction, the first effects of the Efficiency Plan, and disposal on non-strategic assets. Before financial interest, the company generated €15 million positive cash flow.

### **Net financial debt analysis**

To close the cash chapter, a status about our financial debt. A quick reminder on the debt structure, which is made of mainly three major sources: casino lines through a term loan and cash pooling for €700 million; state-guaranteed loan remaining for €60 million; and bilateral credit lines with banks for circa €70 million, reaching a total liquidity available of €830 million.

At the end of December, we were using in net €373 million. In terms of schedule of repayments, we will have to repay one term of the state-guaranteed loan in the next 12 months, €30 million in August 2023.

### **Implementing a €75 million Efficiency Plan to recalibrate SG&A and CAPEX by 2023**

As already mentioned, we are committed to recalibrate our OPEX and CAPEX to the current level of activity and to support the transformation.

The Efficiency Plan has overperformed in 2022 with €47 million in savings, +€17 million above the July guidance, thanks to €29 million costs decrease and a €18 million CAPEX decrease versus 2021.

Our transformation team is already engaged in additional actions to permanently adjust the company to the new business model.

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

Thank you.

## **Strategic Outlook**

Thomas Métivier

*CEO, Cnova*

### **Cnova committed towards a profitable platform model**

Thank you, Yves. As you see, despite the challenging market in 2022, we have accelerated the deployment of our strategy. It relies on two complementary pillars: our B2C activity, Cdiscount.com; and our growing B2B activities, Octopia and C-Logistics.

For Cdiscount.com, our priorities are:

- First, reinforce our brand identity, notably on promotions, to strengthen our positioning on the market as it is a strong driver of consumer preference in the current context.
- Second, accelerate our transformation to the platform model. It will improve the profitability of Cdiscount.com, thanks to growing marketplace and digital marketing revenues.



For our B2B activities, which are our main driver of value creation in the mid-term, we are capitalising on the technology, marketplace, and logistics know-how we have built for Cdiscount.com to support French and international ecommerce players. Our priority is to accelerate our commercial development to reach the breakeven in the coming years. Developing our B2C and B2B activities will reinforce existing synergies and strengthen scale effects within the group, creating a positive cycle.

Thank you for your time and attention. We are ready to take your questions.

## Q&A

**Emmanuel Wetzel:** We have four questions from Alexandre Casas from Casas & Associés. Let us switch to French as the questions were asked in French by Alexandre. The first question is What are the priorities of the new CEO Thomas Métivier? *(in French)*

**Thomas Métivier** *(in French)*: The priorities are clear, they are the one we presented at the end of the presentation. First, it's the development of our activity in France through Cdiscount.com with the stake to strengthen our market positioning notably through our promotion intensity and the pursuit of the development of the marketplace model and digital marketing in France : it is our main lever of profitability for this ecommerce activity. And the development of our B2B activity that is our mid-term growth & development main driver. For this activity, the target is to accelerate commercially, notably abroad, we have today more than 50% of our Octopia's clients which are overseas. This is a clear mid-term growth lever that will also strengthen in turn scale effects both in terms of merchants recruitment and logistics to build up strengths for Cnova and Cdiscount.com's markets.

**Emmanuel Wetzel** *(in French)*: Then, the second question. 2022's bad results delayed again the break-even point of Cnova, which will not be profitable (in EBIT) before 2025 at best, when do you foresee the turnaround?

**Thomas Métivier** *(in French)*: Today we have a clear plan to develop both our revenues on Cdiscount.com and on the B2B side together with a performance plan on the cost structure that will enable us to come back to breakeven as soon as possible.

**Emmanuel Wetzel** *(in French)*: Then, the third question. What is the specific economic model for Octopia? Is it related to volume? To its 26 clients as of end-year 2022? To which other factors?

**Thomas Métivier** *(in French)*: Octopia's revenues are linked to three levers: 1) to the number of clients, with a licence fee notably for the marketplace that we are launching 2) to the realized GMV notably through the merchants that are Octopia's merchants and we are then sharing the commission with our client websites 3) to the parcels shipped through our logistic solution

**Emmanuel Wetzel** *(in French)*: Then, the fourth question. Will Cnova need liquidities and for example an increase of capital in 2024?

**Yves Trézières:** Related to the liquidity issue, as you witnessed in 2022, the first priority is the cash, ie to neutralize the estimated cash consumption of the business and, in turn, maintain debt to its current level. We implemented a lot of actions in 2022 to maintain the debt level within a less than €50m range as compared to last year. We will pursue this

strategy to avoid any additional capital needs in 2023. On the other hand, Casino has this year reinforced its financial support through the term loan towards Cdiscount and for now we do not need any capital increase.

**Emmanuel Wetzel** (*in French*): Then, we have another question from Alexandre Casas. The German Zalando just announced yesterday a layoff plan and a difficult beginning of year 2023. How is the beginning of year 2023 for Cnova? and does the company include in its Efficiency Plan any layoffs?

**Thomas Métivier** (*in French*): The market dynamics are in line with our forecasts for the beginning of the year. In fact, we took into consideration various well-known exogenous factors that already impacted 2020: high inflation, lasting international macroeconomic uncertainties that are weighting on French people purchasing power, notably for capital goods. Related to the Efficiency Plan question, we are considering, analyzing and optimizing all our expenses. We do not have a layoffs plan, there was none in 2022 and nothing is planned for 2023, but we are always optimizing our organization by taking advantages of internal leaves or team reallocation.

**Emmanuel Wetzel:** Okay. Thank you, Thomas. Then, we have another question. I will switch back to English. Milos Milovanovic from Oak Hill has two questions, both are EBITDA-related. The first question is, 'Looking at the segments on page 19, i.e., direct sales, marketplace, B2C, and advertising, how much EBITDA is generated per segment? What is B2B's EBITDA?'

Secondly, 'What is reflected in the non-recurring expenses and when do you expect them to stop recurring?'

**Yves Trézières:** The first one, I will go. As usual, Cnova is not providing any figure per segment. Cnova is a whole, at the moment. There is no indication of EBITDA per segment or providing by B2B or B2C.

The second question again, Emmanuel?

**Emmanuel Wetzel:** The second question was about non-recurring expenses and when do you expect them to stop?

**Yves Trézières:** The non-recurring expenses were relatively higher than usual due to the transformation plan. We would have partly some remaining costs for this year, but at a lower level than last year, and we are doing our utmost not to have these non-recurring items. As it was mentioned by Thomas, we have no workforce reduction which generates this kind of extra costs or non-recurring costs. To complement maybe Thomas's answer, we are ready to add a lot of external resources or temporary people in our warehouses. For example, we have, of course, particularly reduced this workforce, but not the internal one.

**Emmanuel Wetzel:** Then, we have two other questions from Milos. The first one is, 'Can you offer any EBITDA guidance for 2023?' The last one, 'How much is maintenance versus growth CAPEX and where do you expect CAPEX to stabilize?'

The first question is about guidance of 2023. The second one is about the breakdown of CAPEX and when do you expect them to stabilize.

**Yves Trézières:** For the guidance, again, we do not provide any guidance for the market at the moment. I think the main reason is that we have still an uncertain market so we are keeping our careful position and we let that continue to adapt the company as fast as possible to the market if we are careful on this way.

The second thing, I think I declared clearly for the cash, we are doing our utmost to come back as soon as possible, the company to a cash neutral. It will not be in 2023. It will be as soon as possible.

For the CAPEX, it is only part of this cash equation. Of course, what we are doing is that we are reinforcing the CAPEX on the development of new activities mainly Octopia's B2B or B2B for C-Logistics. We have to anticipate the start of new logistics services for key customers, and we are doing a kind of rationalization of the use of our CAPEX in the traditional activities but again we are focusing on all projects that can deliver the future growth.

We have here a clear plan not to be at a higher level as it used to be in the past two years to start the development of B2B, but to renormalize where we are almost today with a small decrease, again, this year.

**Emmanuel Wetzel:** Now, if there are not any more questions, I will let the floor to Thomas Métivier for closing remarks.

**Thomas Métivier:** Thank you very much. As you see, we have a clear, strategic way forward for Cnova, both for our B2C activities and for development of our B2B activities. The market has been challenging in 2022. It probably will be in 2023 also. Our ambition is clearly to keep developing those platform revenues, those platform activities in B2B to drive our growth and profitability in the coming months.

**Emmanuel Wetzel:** Thank you, everyone.

**Yves Trézières:** Thank you.

**Thomas Métivier:** Thank you.

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