Cnova

First Half 2023 Activity and Financial Performance

Tuesday, 1st August 2023

Welcome

Emmanuel Wetzel

Head of Investor Relations, Cnova

Thank you. Good day, everyone, and welcome to Cnova's Half-Year 2023 Financial Results Conference Call. Our CEO, Thomas Métivier, and CFO, Yves Trézières, will be making today's presentations. 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 Slide 2. I now turn the call over to the Cnova CEO, Thomas Métivier.

Business Highlights and Key Figures

Thomas Métivier

CEO, Cnova

Hello, everyone. Thank you for your interest in Cnova. I am very pleased to present, with Yves, our half-year 2023 activity and results, after which we will be happy to take your questions.

Strong improvement of profitability in a still challenging market

We are glad to announce today that we are on track with our transformation plan, in spite of the challenging and uncertain market, with high inflation and decreasing trends for high-tech and home appliances, according to [inaudible]. In this difficult market context, coupled with the uncertainty regarding the ongoing conciliation proceedings of Casino Group, our mother company, Cnova [inaudible] transformation plan, focusing on switching towards a profitable business model with a voluntary evolution from direct sales to marketplace revenue.

First, marketplace revenues outperformed the French e-commerce market for white goods and IT products, growing by 2% versus 2022 and still on a very positive long-term trend of 10% growth rates over the last six years.

Second, advertising services, powered by our CARS[?] retail media platform and positive market trend, is performing very well. Our revenues of our product GMV grew by nearly one point from 3% to 3.8%. Long-term trends are even higher in terms of revenues, with a 32% growth rate over the last six years.

Third, Octopia's B2B is accelerating its rollout, with a focus on client's deliverables in the first semester. Six new live clients or marketplace-as-a-service solution, while [inaudible] as a service posted a very high year-on-year growth of +6% in revenues.

About EBITDA and cash, a very strong performance in [inaudible] EBITDA, which more than doubled in just one year, driven by both platform revenue growth and the fast implementation of our Efficiency Plan launched in the second quarter of last year.

As for cash, in a context where Cnova was heavily impacted by the ongoing conciliation proceeding at Casino Group level, and deterioration of straight[?] payables, free cash flow declined by more than €80 million. However, the structural improvement of the cash profile of the company is still very well-oriented[?].

Adjusting for one-off impacts, free cash flow has been growing by more than €25 million compared to 2022, driven by a successful implementation of our transformation.

Marketplace long-term trends remain dynamic in a challenging context

Slide 6. Marketplace long-term trends remain dynamic in a challenging context. Marketplace growth is at the heart of our B2C strategy. This is our first strategic pillar. Cdiscount offers an extensive range of millions of products to fulfil all of our customer needs. Second, marketplace is a very profitable business.

Our marketplace has increased by 15% versus the pre-pandemic level of 2019, +6% annually over the last six years, and now represents close to 60% of our product GMV.

Marketplace revenues growing 4pts faster than marketplace GMV over the last 6 years

Slide 7. How is GMV translating to revenues? Over the last years, we have grown our marketplace revenues quickly, by four points, then our marketplace GMV, by reinforcing the value created for [inaudible]. Our marketplace revenue over GMV increased from 13% in the first semester of 2017 to close to 17% in 2023.

Our key drivers are clear and well-oriented. First, effective sellers sourcing, generating growth and revenues. With a strong international team, we are screening more than 2 million sellers to identify and source the best ones. Thanks to that, the GMV generated by our new sellers in the first half grew 18% compared to last year.

Second, a strong focus on our top 200 merchants who are originating[?] from premium account management. Their GMV grew four points on average in the first semester.

Third, a day-to-day focus on quality, illustrated by our express delivery standards. Express delivery is now covering more than 50% of marketplace GMV. This growth in marketplace revenue is very significant, as we are still facing difficult market conditions and as part of our Efficiency Plan, we have also reduced investment supporting our marketplace. Most notably, marketing investment and [inaudible] payment[?] financial cost, by more than €12 million in the first semester compared to the first half of 2022. This leads to a very strong increase in the profitability of our marketplace operations during this semester.

Dynamic advertising services driven by retail media

Next slide. Our most profitable business line, advertising services, continues to perform extremely well. Our revenues of our product GMV grew by close to one point from 3% to 3.8%. Our retail media revenues are the most lever, growing 16% year-on-year and now representing close to 80% of our total advertising business.

Behind this performance is our in-house advertising platform, Cdiscount Ads Retail Solution, or CARS, which enables our merchants and brands to drive traffic to their products and generate sales with a very efficient monitoring of the performance of their marketing investment.

The growth of our advertising services is leveraging two key drivers in the first half. First, we increased by close to €5, the advertising revenues per 1,000 pages viewed in one year.

Second, continuous innovation in artificial intelligence-powered the CARS platform to improve the relevancy of marketing campaigns on our search engine for sellers and brands.

Direct sales benefiting from strengthened relationship with top brands on technical goods

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 a strong relationship 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, with well-oriented KPIs, in the first half. Those top-ten brands grew eight points over the overall trend, client loyalty is 1.5 times higher than the rest of the 1P, and the advertising services spending is also growing faster than average, at 23%.

A successful launch of the new long-term financing offer for Apple products with Floa Bank in the first half is illustrating the relevancy of this win-win strategy, and we are now rolling out this solution on other brands.

Second, as part of our strategy to drive a profitable [inaudible] business, we have implemented actions to improve this profitability. This has impacted negatively direct sales growth over the past 18 months as we focus on high rotation and profitable categories.

First, we divided by two our direct sales assortments compared to June 2022, focusing on high rotation and profitable SKUs, relying on our extensive marketplace assortments to cover specific customer needs.

Second, we have reduced our inventory turnover by close to 20 days compared to June last year.

Third, in H1 we continued to accelerate our automatic[?] dynamic pricing strategy, powered by artificial intelligence, to improve our conservative[?] margin, with now 30% of our direct sales revenue covered by this solution.

To summarise the result of all this action, we have now a more qualitative and more profitable direct sales offering with better rotation to improve the cash profile.

In a context of strong inflation, travel business has significantly grown

As you all know, not only with our products but also marketplace of services[?] to meet all our customer needs. In the first half of the year, travel is growing fast, +16% versus 2022; nearly double compared to pre-pandemic levels in the first half of 2019. This performance has been driven by recreation parks and holiday packages, both growing at double-digit rates, and the launch of multiple dedicated commercial offers with airline companies, which also demonstrate our position as one of the leading partners of travel e-commerce sales[?] in France.

Improve the customer-centric approach with generative AI-powered algorithms

Next slide. We are committed to enhancing our customer-centric approach, not only for delivering customer service but also through a seamless and qualitative experience on the website[?]. Artificial intelligence is already widely used throughout our customer journey, and we are now accelerating in two main fields[?], thanks to generative AI algorithms, such as GPT and [inaudible].

First, we are considerably enhancing our product content, thanks to generative AI; identification of wrongly categorised SKUS, the improvement of titles to make them more appealing for customers, enrichment of product descriptions. All of these are now fully automated on the scale of millions of SKUs.

Second, we are in the process of rolling out a chatbot powered by generative AI in partnership with iAdvize, and the results are outstanding. The chatbot is fully autonomous to answer more than 40% of clients' requests with the same conversion rate as with physical advisors. We have reached a 70% satisfaction rate – three times more than we had with our previous chatbots.

We are very excited about this new generation of AI algorithms, and we will be accelerating on several other key topics: search[?] engine[?] relevancy[?], recommendations, more accurate credit scoring, and targeted promotions.

B2B Activities

C-Logistics e-commerce supply chain solution gaining traction

Now, on Slide 13, let us talk about our B2B activities.

Profitable B2B revenues come first from our first-party[?] supply chain services. We offer a full service of supply e-commerce operations, through C-Logistics, which has generated €7 million in revenues in the first half, multiplying by six versus last year.

Of the three new clients signed in 2022, all are now live, with Boardriders launched in February, showing very promising results. Already more than 300,000 parcels have been delivered in just four months. In the meantime, we are pursuing the implementation of our [inaudible] client, a luxury worldwide leader, aiming to start live in early 2024 with significant revenue potential.

Octopia accelerates its commercial development

The next slide is on Octopia, our turnkey marketplace solution for retailers and e-tailers, which includes marketplace technology, qualitative[?] [inaudible] of products and merchants, and [inaudible] solutions.

Octopia B2B revenues are accelerating and reaching €9 million, growing 43% versus 2022, driven by our turnkey marketplace and our fulfilment solution platform.

First, our merchants- and marketplace-as-a-service solutions are accelerating. In the first half of 2023, our revenues were multiplied by two, with six clients launched. Twenty clients are now live on the platform. The number of merchants available on the platform – our key differentiating factor – increased by two compared to the end of 2022.

Second, and also part of our [inaudible] Octopia offering, our fulfilment-as-a-service solution, which is providing logistic and delivery services to vendors, [inaudible] platform [inaudible]. And for those vendors, revenue grew by 36%, with more than 0.5 million parcels delivered in six months.

The client base is also growing very fast, with 300 recruited new sellers in the first half, such as Ceva, Too Good to Go, Emma, and BAÏTA. We also launched our first marketplace partnership with Adeo in the first half, to be the fulfilment solution for the marketplace of Leroy Merlin in France, Spain, and Portugal, as well as Bricoman in France.

In the long run, Octopia represents a very significant value creation potential for Cnova as we target a massive market opportunity with the worldwide e-commerce growth fuelled by marketplaces.

ESG

A more sustainable e-commerce to our customers: focus on sustainable products

On slide 16, on our commitment to more sustainable e-commerce and notably on sustainable products. We continue to pursue a [inaudible] policy, in favour of more sustainable consumption, with a strong incentive[?] on second-life products. Today, more sustainable products account for over 15% of our GMV, growing by six points versus 2021 and nearly five points compared to last year, which illustrates both the success of our policy and the change in our consumer behaviour.

As part of this policy, we support the development of second-hand products, thanks to strong partnership.

First, with more than 800 sellers who offer quality refurbished products to our customers, we have gradually opened up several categories of refurbished products: smartphones, tablets, computers, home appliances, baby pushchairs, etc.

Second, by developing our own refurbishment centre for the phones coming back from our customers. We have a dedicated team checking and refurbishing those phones to sell them again on our website.

Third, we keep developing new categories to answer our customer requests for sustainable and economical solutions. This semester, we have joined forces with Envie, our long-standing partner for the processing of returns and a major player in the French circular economy. After receiving the electric scooters returned by [inaudible] customers, Envie's team, made of people in professional reintegration, give them a second life in their warehouse in Pau, before selling them back on [inaudible] marketplace. That is good for the planet, good for our customers, and good for the people working at Envie.

Summary

As you see, this first semester has been a key milestone in our transformation plan, as we have delivered a strong EBITDA improvement, thanks to our clear strategy; profitable direct sales; growing marketplace and advertising revenues, thanks to unique technology and a strong commercial push; cost-effective operations and quickly growing B2B revenues.

We have also been able to keep investing in mid-term projects with strong returns, such as generative AI and ESG.

I now hand over to Yves, our CFO, to present with more detail our financial results.

Half-Year 2023 Financial Performance

Yves Trézières

CFO, Cnova

Thank you, Thomas.

GMV Half-Year Performance

On Slide 18, we have posted an overall €1.4 billion GMV in H1 2023. The GMV has decreased by 23% on a reported basis, and by 14% on a like-for-like basis in a still challenging market environment.

If we look into the details per business, the marketplace is resilient, with marketplace GMV decreasing by 3% in H1 2023. Marketplace GMV share stands at 58% in H1, plus nine points versus last year, accelerating in Q2 2023 with a share at 60%.

Direct sales GMV decreased by 32% versus last year as part of our voluntary strategic shift from direct sales to marketplace, mostly from non-technical goods with low margins, combined with a decrease in marketing intensity, as part of the Efficiency Plan.

Advertising services GMV continued to grow, reaching €42 million in H1 2023, growing by 5% versus H1 2022, or doubling versus H1 2019. The growth is mainly driven by the continued development of retail media, plus 16% versus H1 2022.

B2C services GMV showed a record performance, with 21% versus last year, especially thanks to the continuous recovery of travel activities, with travel GMV increasing by 16%.

On the B2B activities, C-Logistics B2B GMV multiplied[?] by eight versus last year, with one major client launch on an increase in the number of shipped parcels for external clients, multiplied by six.

Octopia B2B GMV increased by 43% versus H1 2022; one, with a six-client launch for marketplace-as-a-service or merchant-as-a-service; second, with an increase in the number of shipped parcels of 30% versus H1 2022 for fulfilment-as-a-service.

Gross margin performance driven by resilient performance of marketplace and advertising

Slide 19, gross margins. The gross margin represented around 30% of net sales, an increase of seven points compared to H1 2022, and 12 points versus pre-pandemic levels. This increase in gross margin rates is mostly driven by the acceleration of Cnova's shift towards more platform revenues. Marketplace brought[?] three points in gross margin rates. Advertising services brought plus-two points in gross margin rates.

Gross margin volume amounted to €182 million in H1 2023, decreasing by 8% versus last year but above the pre-pandemic period. The gross margin was negatively impacted in volume and[?] rate[?] by an additional destocking initiative, focused SKUs with unfavourable inventory turn. The level of inventory is now stabilised. It has been divided by two compared to June 2022.

SG&A (excl. D&A) Half-Year performance with significant impact from Efficiency Plan with €35m savings

Slide 20, we look at SG&A. SG&A, excluded depreciation and amortisation, are closing at €148 million in H1 2023, improving by €35 million compared to H1 2022 and below 2019 levels. The Efficiency Plan launched in Q2 2022 to recalibrate cost structure to the level of activity and to support our transformation plan, has delivered significant savings with specific actions, such as the rationalisation of warehouse capacities, marketing intensity, FTEs, and associated staff costs, like office rent. Cnova is on track to adjust its level of SG&A to business levels while preserving growth potential for the coming years.

EBITDA Half-Year performance: a doubling EBITDA between HY22 and HY23

Slide 21, EBITDA. As a result, EBITDA stands at €34 million, improving by €19 million compared to H1 2022, representing 5% of net sales, above +3.7 points versus last year and versus 2019.

In a still challenging market, EBITDA benefited from the transformation of the business model, with the mix improvement on the significant reduction of SG&A.

EBITDA to Net Loss bridge: a + €22m increase in Profit Before Tax between HY22 and HY23

Slide 22, net loss. Net loss amounted to €69 million, improving by €4 million compared to last year, with positive impact from: one, EBIT improving by €19 million; and second, financial results improving by €16 million, mostly due to the optimisation of CB[?] forex policy, as followed in the transformation plan, and despite higher financial costs of the structural debt.

This, partly offset by, one, the non-cash change in deferred assets related to tax losses for €18[?] million, and second, due to the [inaudible] effect from last year with the Floa transaction in January 2022, generating a negative variation of €30[?] million from other products and charges.

On a comparable basis, the net result is improving by +€22 million.

Structural free cash flows improve by €25 Million, excluding one-offs

Slide 23, free cash flows. Before financial interest and other products and charges, and adjusted from one-offs, mainly [inaudible] effect from 2022, the free cash flows from continuing operations improved by €25 million, with positive impact from EBITDA improvement, by €19 million, and capital expenditure improvement, by €15 million, thanks to the Efficiency Plan and despite the very negative impact of trade payables. Working capital was mostly impacted by guaranteed reductions from credit insurers, offsetting unfortunately the positive inventory reduction.

Net financial debt breakdown and maturity

On Slide 24, net financial debt. To close the cash chapter, we look at the status about our financial debt. A quick reminder of the structure made of three major sources: Groupe Casino lines through a term loan and cash pooling[?] of €700 million; a state guarantee loan of €60 million; and bank overdrafts of €70 million, reaching a total liquidity available of €830 million, excluding other operational working capital financing.

Net financial debt at the end of June 2023 stood at minus €582 million.

€90 million Efficiency Plan launched since 2Q22 to recalibrate SG&A and CAPEX

Slide 26, Efficiency Plan. The Efficiency Plan launched in Q2 2022 to recalibrate our SG&A and CAPEX structure to the level of activity while supporting the transformation, is delivering as planned.

Already €60 million of savings have been secured in H1 2023 versus H1 2021, on track to reach our €90 million Efficiency Plan, composed of €75 million from July 2022 guidance and an additional €15 million savings plan announced in April 2023.

SG&A, excluding D&A[?], improved by €38 million versus 2021. Capital expenditure improved by €22 million versus 2021.

On top, as said[?], we have optimised our financial result by €16[?] million in H1 to deliver between €18 million and €20 million this year. All in all, we have a target of more than €100 million in savings.

In this context, we firmly confirm our strategy to push ahead the profitable sales drivers with a leaner operational cost.

Thomas Métivier: Thank you, Yves. We are now pleased to take your questions.

Q&A

Thomas Métivier: Okay. So, thank you all very much for being with us this morning for our results for this first semester of 2023. Just to wrap up, the key highlight of our first semester is that we have posted our[?] transformation plan, focusing on switching to another[?] profitable model with strong results. Our EBITDA has more than doubled, our structural free cash flow has also strongly improved, and our Efficiency Plan is on track with additional run rate savings to come by the end of the year. Thank you.

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