FNAC DARTY H1 2020 Results

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Operational overview

Operator: H1 2020 Results presentation for FNAC DARTY. I'll be hosting today's event. You'll just be in listening mode but of course you'll be able to ask questions at the end of the presentation. This can be done by pressing star one to record your question. If you need help, please press star zero and you'll be connected to an operator. I'm now allowed to hand over to Mr Enrique Martinez, CEO, to begin today's call.

Enrique Martinez: Thanks very much. Good evening to you all. Thanks for connecting live to today's conference call. I'm with Jean-Brieuc, we're going to present the H1 results that we revealed somewhat during our 17th June release. We decided to provide a business update for the months of April and May and to give you a bit more colour on the impact of the crisis.

So let's begin with slide three of the presentation we sent out to you. We see that we've achieved revenue for the first half of 2.849, down 10% on a like for like basis in a unprecedented [inaudible] with the closure of almost all the stores between 15th March and 10th May, and we had a loss of over €400 million over that period. I'd like to stress that we have good operational performance and the capacity of the digital platforms, the rate of underlying increase to 31% over the half, as compared to the figure of the previous half of 18%. Of course this figure benefited from the store closure during the period but also, as you'll see, the – even with the reopening, online was very dynamic. So we see a very encouraging recovery as of 11th May, the reopening of our stores. Strong sales dynamic that continued into June was very positive actually but also the online business yielded good results. 60% growth in the first half with a peak achieved during the lockdown period of 160%. These, of course, very significant numbers. And online business continued to grow as of 11th May with growth of 85%.

The group was able to attract new customers. We recorded over 1 million new customers during the crisis and this dynamic continued after the reopening of stores. And amongst these new customers for the group we have 190,000 new FNAC Plus members during the first half.

Now, the dynamic is down 110 basis points, impacted by an important product mix effect. Also the performance of services that was very disfavoured by the mix. But there was a positive impact with the integration of Nature et Découvertes and the scope during the first half, so we landed with a level of margin at 29.6. Compared to last year, it remains a high margin level. Very good cost control thanks to our rapid readjustment plan to turn to temporary unemployment in most of the country and that had a positive impact on our cost.

We're posting a strong financial position at the end of H1 2020. A cash level of over 900 million and of course Jean-Brieuc will go into more detail in a moment. We're one of the first companies to enjoy access to the state guaranteed loan and one of the conditions of the loan was that we were able to withdraw the proposal for the dividend that we were due to pay during the AGM in May of €1.50 and we're banned in 2020 from undertaking share buybacks.

Moving to slide four, just to remind you we had three distinct periods during the H1 in succession. At the start of the year, January and February, before lockdown, we achieved a very good start to the year with revenues up 2.8% on a reported basis, on a like for like basis that was similar. And even though the consumer spending context was marked by the transport strikes in France that affected the first days of January and also the beginning of the winter sales period.

Against this backdrop that's when the COVID-19 crisis struck with a phase of stores shut down and mass lockdown during the period that started on 16th March and continued until reopening 11th May, we were able to respond rapid and we take many measures. We saw that the resilience of our omnichannel model, its strength was once again to be able to demonstrate its full relevance and deliver strong performance. The strong brand equity FNAC DARTY, the strong brand awareness in really was deployed its full operational execution and it served the customers who needed our products. And there the quality of our operational execution and the robustness of our IT capability were able to ensure high standards of after-sales services and delivery. We achieved 220,000 after-sales interventions, even during the toughest period of the lockdown. I'd like to thank the teams who responded very professionally and they were very courageous during those very difficult times. If we look at the categories of products that were particularly sought after by our customers, a lot of IT, computers, accessories, gaming, small domestic appliance and white goods.

We were able to benefit from this loan of €500 million on 19th April and a very short space of time were able to meet the crisis with a lot more confidence and if need be, have recourse to additional liquidity. Consequently we supported the network of stores to reopen. Also our network of franchisees to help them overcome the crisis with cash and financing. And to meet requests for state guaranteed loan and we helped them and supported them to – for the recovery period, with very encouraging results.

After 11th May, we must say that we're very pleased with the way the group was able to execute the store reopening. We put in place the highest safety standards to protect both our people and our customers and that continues today because we've always ensure maximum safety in our stores.

9% growth achieved on constant basis with customers returning to our stores, a sign of trust and confidence recalled by the various quality surveys that we conduct.

Looking at June, a more stable month. 21% increase in store activity like for like and across the area it's 25%. Digital dynamics come in at plus 85% e-commerce sales dynamics. We were able to achieve renewed dynamics of click and collect representing the key to the omnichannel model ability to rapidly deliver products. And we return to a level pre-crisis that shows that even with lower level of traffic in shopping centres, click and collect is widely solicited by our customers.

Moving to slide five, which shows some of the main achievements during the half year. We did not stop our diversification business strategy, continuing to invest in new and promising markets with 13 new store openings, mainly under the franchise model, strengthening the group's territorial footprint. We continued to develop our network of franchisees as well as the DARTY Cuisine network with the opening of eight new corners, of which four are exclusively dedicated to the offer. We continued to roll out our WeFix with the opening of five new corners, bringing the total of points to 101 new openings at the end of June.

And as you've heard, a major acceleration in urban mobility with the launch of the Citroen Ami electrical solution vehicle, with a deployment in already 39 Fnac and Darty stores throughout France. This was a high point and has a lot of media impact that was also good sales performance the group has demonstrated even in a new category it was able to showcase all its assets and its know-how and expertise for the distribution of new products. This Citroen

Ami urban won't stop there, it's really a strong symbol that we want to set up a full ecosystem around urban mobility, with electric-assisted bicycles and electric scooters, with the Angel bike, Xiaomi brand that will be coming onstream soon to develop our footprint and also generate considerable sales between now and the end of the year.

And lastly I flag as one of the highlights of the half year the difficulty in selling of services during the lockdown. We saw there's a restart of services since the reopening of stores with our Darty Max offer, which will enable us to capture new customers on our service offering, which refrains the mood from a transactional to a subscription model to secure greater loyalty.

I'll stop there and hand over to Jean-Brieuc, who will detail the financial performance in the first half.

Financial performance

Jean-Brieuc Le Tinier: Thank you Enrique. Let's look in detail at each region before we talk about operational and financial performance of the group as a whole in each one.

Let's move on to page seven, France and Switzerland. Revenue for the area down 9.7% like for like for the half-yearly period due to the loss in stores, due to the closure of all stores during the health crisis. Strong performance of online sales in the half-yearly period plus the good start-up and resumption in store sales after lockdown, helped offset the loss.

Including Science[?] Fnac, as the stores opened in end of May and in June, big growth in revenue in June, up 25%. Good momentum for IT categories due to more remote working and remote learning, home learning. Also freezers did well, air-conditioners as well as gaming and other types of similar categories. But that didn't fully offset the down in books, audio and video, which are highly sensitive to impulse buying and were hard-hit by store closures. Enrique has said that services see a strong drop due to reduction in merchant services since the beginning of lockdown and stop of ticket sales due to governmental measures to stop large gatherings.

Due to the crisis, we adjusted our operating spending, quickly established various measures to cut cost and the initial effects were good but didn't fully offset a drop in revenues and the drop in gross margin. Furthermore, gradual ramp up of insurance after switching partners has continued to have an impact on gross margin in the first three months of the year due to new telephone insurance offers. All of this had negative impact in a significant way on current operating income for the region. Minus €45.6 million, at least €15 million of which related to Nature et Découvertes integration in the first half. I'll come back to that in greater detail in a moment.

On to the next slide, Iberian peninsula. The area was especially hard hit due to a longer lockdown than other regions of the group and a more gradual reopening of stores, just completed at the end of the first week of June. Therefore, revenue down by 20.5% for the first half like for like, in spite of good online sales in both countries and good momentum in IT and gaming segments. Macroeconomic environment and consumer purchasing power deteriorated substantially in both Spain and Portugal due to the health crisis. The macroeconomic situation wasn't buoyant. That had quite an impact on current operating income in the region in spite of good work done by the teams and good cost containment. Minus €12.7 million, which is down compared to the first half of 2019.

Let's look at performance for Belgium and Luxembourg, this is slide number nine. We see strong resistance in revenue, down only 3% like for like for the half-yearly period, thanks to good momentum in IT equipment, small computer equipment, gaming and most kitchen appliances. We saw good online sales and a good resumption of business in the stores as of May. Growth in revenue of 22% in June, which shows a continuation of good in-store momentum since the ending of lockdown. There's strong competition in the period but good operational performance, particularly in white goods, shows current operating period which is positive, plus €0.7 million, slightly down by 0.7 versus the first half of 2019.

Let's move on now to the income statement. This is slide number ten. For the reasons I've just indicated by region, revenue for the group by €2.849 billion, which is down 10% like for like. Revenue is therefore down by €240 million in the half-yearly period compared to the previous year. After positive contribution from Nature et Découvertes of €150 million. Estimated loss of €400 million in revenue due to the two months of store closedown was to some degree offset by very good ecommerce activities, revenue up by around 70% as at end of June, and good resumption of activity since the actual reopening of the brick-and-mortar stores. We observed continued good recovery in June with growth over 21% for the month group-wide. Good momentum for online sales continued since the end of lockdown, up by 85% from 11 May to end of June.

Gross margin €844 million in the first half, which is down by 110 basis points compared to the previous period. This reduction mainly due to profit-services mix, which is unfavourable due to store closures and drop in sales of press products, highly sensitive to the – and a drop in services sales, which are structurally lower through the internet. But we've seen a gradual ramp-up in new insurance offerings after a change in partner in April 2019 that continued to have an impact on gross margin in the first portion of 2020. Positive impact of 60 basis points for gross margin due to the scope inclusion of Nature et Découvertes but it didn't fully offset the other elements.

Since the beginning of the crisis, the group has newly set out cost-cutting plans and partial unemployment, saving around €60 million in costs during the half-yearly period. But logistics and delivery costs of course were impacted by the strong increase in volumes, €11 million in expenses there. Operating costs also include an expense of €55 million due to the inclusion of Nature et Découvertes to the scope. We've just renegotiated with partners a financial agreement amounting to a highly significant group-wide as of the end of June amount of savings of around €3 million for the half-yearly period. Negotiations are ongoing every single day in France and internationally. Momentum is good with our leaseholders – with our owners. They know that we can generate large footfall in a fairly down context for most shopping malls. Most of the savings in rental fees will be in the second half of 2020 or the beginning of 2021.

As per what we announced in mid-June, current operating income, minus €58 million, down €104 million. In the upper level of guidance given. You have to recall the integration of Nature et Découvertes led to a negative technical impact of minus €15 million due to the brand's seasonality. Excluding that impact, current operating income is down €80 million versus H1 2019.

Non-recurring costs €25 million versus €22 million last year. These costs include first of all a technical readjustment due to the depreciation of the Darty brand mainly due to discount rates. This also includes costs of €6 million directly related to the health crisis, setting up safety equipment to comply with social distancing in stores, as well as fitting employees with [inaudible] they needed during the lockdown. Excluding those two elements, non-recurring costs €5 million.

Financial expenses, minus €23 million, strongly down versus the first half of 2019. This includes among other things interest expenses, interest relating to the government guaranteed loan and IFRS impact of €11 million. As a reminder, financial expenses in the first half of 2019 included cost of refinancing of our bond, €27 million. After factoring in non-recurrent elements, financial expenses and tax versus €26 million relating to negative operating income. Net income of continuing operations, minus €80 million, down €46 million compared to the previous year. Having to deal with seeking a partner for the Dutch activity BCC, which we began in the end of the year, the group has already booked a cost of €42 million, which is adjustment of the value of the discontinued operation, which has no cash effect. Consolidated net income group share is minus €180 million for the half-yearly period.

Let's move on to slide 11. This looks in detail at the impact of the IFRS 16 standard on our first half results. A reminder, the main impacts here are on EBITDA, our debt position and our financial costs excluding cash portions. EBITDA €119 million, which is down €87 million compared to the previous year. IFRS 16 had an impact to the tune of €124 million on EBITDA. So excluding IFRS 16, EBITDA would be minus €5 million, down €100 million, which is in line with the drop in current operating income which I alluded to previously. Apply IFRS 16 standard had an impact of €11 million on financial costs booked under the income statement. As of end of June, net debt €1.507 billion. IFRS 16 impact relating to this booked for rental income €549 million. Excluding this portion, net debt adjusted €549 million excluding IFRS 16.

Let's look at free cash flow generation as of end of June. This is page 12. All in all, free cash flow from operations, excluding IFRS 16, minus €503 million, down compared to last year. This reduction is mainly due to three things. First of all, drop of €100 million in EBITDA compared to last year, which I've just mentioned. Plus, there's another effect having to do with payables due to the lockdown and a very positive impact in inventory, because we cautiously managed inventory during the half-yearly period.

Operating investments down by €15 million versus last year, €38 million. The group also paid out €13 million under investments made in 2019, of which [inaudible]. In the second half, we'll see a further drop in CAPEX, expected amount of minus €110 million all in all. Cash effect of tax goes up for this period from minus €15 million, now minus €24 million. The group in 2019 saw the benefit of reduced taxation due to the proportion it paid at end of 2018.

Briefly now, let's talk about financial structure. This is page number 13. We're in a sound cash position, €0.2 billion issued as equity. Excluding IFRS 16 net financial debt minus €135.7 million versus the end of the year. This is an understandable customary change due to the strong seasonal feature in retailing generally and especially at Fnac Darty. This has amplified in the half-year period the negative effect that we talked about previously on WCR.

On WCR as we mentioned with Enrique, during the half year period liquidity has continued to be a group priority. It's strong end of June in spite of the unparalleled crisis. We've readjusted costs to protect our liquidity. We've done an agile inventory management starting at the very beginning of the lockdown period. This strong financial management and good resumption of business and potentially the €500 million taken in loan meant that we could have €900 million cash in hand end of June plus the revolving credit line of €400 million, which is not drawn on. Fnac Darty has around €1.3 billion in cash on hand, which means with confidence we can turn to any uncertainty which may remain in coming months.

At the same time, considering uncertainties due to the health crisis, S&P has downgraded Fnac Darty to BB. But thanks to our good resistance and a very good resumption of activities after lockdown, ratings agencies have left unchanged the outlook, which shows their confidence in the Fnac Darty business model. Furthermore, the group obtained a commitment from the lenders to accept suspension of financial covenants for June to December 2020. But the covenants have all been complied with as of end of June, thus showing yet again our strong ability to adapt. We're nimble, we're able to protect our cash position during an unprecedented crisis.

Thank you very much. I give the floor back to Enrique to talk to us about the outlook.

Outlook

Enrique Martinez: Thank you very much, Jean-Brieuc. Brief conclusion before we move to Q&A. Obviously the backdrop means that we remain prudent regarding the health situation and recovery. The group has displayed an exemplary action, which makes us confident our ability to address new challenges as they arise. As for companies, the second half is critical for delivering our annual results. We've already put in place all the necessary action for – to boost the uptick after the summer break and moving into the end of the year period.

I'd like to thank the teams and our partners and all the teams in the ecosystem that has allowed the group to face this crisis remarkably, with their impact on H1 result making us confident in our ability to address the challenges as we move to the end of the year. As Jean-Brieuc said, we're entering the end of this first cycle of the crisis probably better prepared to address the challenges ahead with a cash position that is far more significant, thanks to obtaining this term loan that makes us confident in our ability to address the crisis.

And we're now ready to take your questions.

Questions and Answers

Operator: Ladies and gentlemen, if you'd like to ask a question press star one on your telephone and please make sure that your line is not muted and I'll indicate when it's time for you to ask your question. So, star one on your keypad. We have questions coming in. The first from Mr Nicolas Lang let from Exane. Over to you.

Nicolas Langlet (Exane): Yeah, hi everyone, I've got three questions. The first, could you tell us how sales have trended since beginning of July? Have you seen continued good dynamics in June, are we beginning to see a normalisation?

Second question, on gross margin. How do you view the trend in 2H? On the one hand we have Nature et Découvertes less positive impact and the service and product mix that could be improved. Taken all in all, the stability of the gross margin, does that seem to you reasonable or is it too optimistic?

The OPEX of minus 69 excluding Nature et Découvertes, how much is linked to the state loan? Do you anticipate further state loans and do you have initiatives for cost-cutting over and above what is normally planned? Thanks.

Enrique Martinez: Thank you Nicolas. Well, we can't really give you too much detail but I say that trading remains good. A trend similar to what we saw in earlier months. That the sales were key last year, they were less impactful this year but over and above that, we're satisfied with the performance in June-July. A bit less in southern Europe. Spain is suffering from further lockdown in Catalunya, impacting traffic, and Portugal has a lockdown exit profile somewhat different to that of France.

Gross margin, maybe Jean-Brieuc can, but for the first half that was linked strongly to the product mix effect and the service effect. This is something that in normal operating conditions with activity that is far more normalised should not happen again. We anticipate the margin in H2 but pretty constant. I mean, we don't expect impacts as seen in H1. And you know that the group's very determined to deliver stable margin performance with a service input at the right level now.

On the OPEX, well on the margin technically, Nature et Découvertes was slightly impacted second half because Nature et Découvertes entered the scope. On 1st August there'll be July's impact on OPEX and margin for marginal amounts but it'll be seen, and in H2 we won't have the impact of the change in the insurance partner that hurt the first half of this year.

On the OPEX front, the bulk of the savings are on personnel costs with the term loan and payroll costs not paid, because salaries weren't paid. We also saved a bit on the other SG&A. We consumed less electricity and other utilities during the lockdown period and we didn't book the first half rental savings. The strict accounting rule, what is not signed at the date of the closing isn't taken into account, so we booked what had been signed with the landlords of €3 million. There'll probably be more significant impacts in H2 or even in 2021, but we're in no hurry. We have good arguments and the strength of the brands on our side.

On H2, to return to OPEX, well, it depends, but today in normal trading conditions we won't have recourse to state funding and those term loans will take their course as normal in the second half.

Jean-Brieuc Le Tinier: Okay, so thanks. Potentially OPEX at normal condition will remain stable. We'll see. At the end of the day it'll also depend on the channel store mix but we're not expecting any big surprises on the OPEX at the end of the year.

Nicolas Langlet: Okay, thanks, that's very clear.

Operator: Next question from Idora Lee[?]. Question from Kepler. Go ahead, madam.

Idora Lee (Kepler): Hello everyone, actually two questions. Firstly on the July comment, you say similar to the previous month, the actual month June. Can we expect July then to be similar to June? Around 25%, which is an exceptional performance? On June specifically, lots of promotion activity was there? I don't think so, but could you confirm whether or not there was a lot of promotional activity?

Question two, your EBIT €10 million above guidance, mid-range. If consensus for the full year will be €10 million above the current level, would you be happy with that?

Last question, recall your CAPEX guidance for 2020 please, if you don't mind. Thank you.

Enrique Martinez: Thank you for the questions. We won't be giving figures. We said we were satisfied with this growth. When I say satisfied, it's that this normalised. We've coped with the period, we've built a good quality month. We won't give you the specifics though, June was a fairly extraordinary month.

CAPEX, on to that point. We said under €100 million, which leaves us up compared to CAPEX last year. We had big strategic projects but things were frozen during the lockdown and expecting a little bit less CAPEX for the remainder of 2020.

End of year landing we don't comment on. It's up to you to do your calculations. We need to remain cautious regarding performance. Things could conceivably change the landing. There are risk factors, we're very cautious, we will not give any specific indications to the market as to full-year landing.

Question on commercial activities. Answer: last year, there was a week of sales end of June, beginning of July. Discount sales, positive results. This year, a lot less. There are some commercial events but not actual promotions as such.

Thank you very much.

Operator: Thank you. Next question, Mr Christian De Ville from CMCICOB[?].

Christian De Ville (CMCIOB): Hi, hope you can hear me.

Enrique Martinez: Yes, thank you.

Christian De Ville: Yes, thanks, I have a brief question. Online sales, I was just doing the maths. 18% of sales of early 2019 and 30%, 530 last year, 830. That's an increase of 35 – 38%. Could you give us the split online / omnichannel sales?

And the follow-up is that you costed the impact of COVID on store closures €400 million of revenue. Last night, Maisons du Monde tried to cost the impact on stores at online sales, we lost €400 million in sales linked to the COVID-19 on stores. Do you have an estimate of the impact on online sales? This kind of excess activity that's not set to last.

Jean-Brieuc Le Tinier: Yeah, online sales went from 18% to 31%. That's a significant increase but on a base that is declining, you need to bear that in mind for the second half or at least Q2.

Then there was a more specific point on that. On COVID impact, it's pretty complicated. We didn't want to risk starting to do the split online sales / store sales, etc. In the order we saw, click and collect, that was down through store closure and then click and collect rate that came back to normal in June. So that's good news.

And overall the impact of COVID on stores of the group, we're not going to start to try and seek out the causes, the impacts, to detail rather the impacts across the stores. What we saw, a reduction in sales of €300 million in the quarter. Well, €300 with a recovery into June of some €100 million compared to what we estimate. What's the portion linked to COVID or to the more sustained business return of customers to stores? Very difficult to see clearly that, but we're not going to risk doing that exercise in detail.

Enrique?

Enrique Martinez: Yes, between the period 15th March – 15th May, 20% of our revenue that was multiplied by a portion of store sales that was transferred to online sales and new customers, because we did create 1 million new accounts when we reopened our stores. During the week, stores were positive and online almost times two, so there's a portion of transfer of recovery of sales that were not done in March and April and then the portion of the normal business. I think it kind of disrupts some of the portion. I mean, click and collect is about 50% but if your stores are closed it becomes zero, so what we see when the stores were closed, pure online business worked very well. We saw very strong growth rates. And as soon as the stores reopened, we returned to a very strong growth profile with a use of click and collect that was as important as before the crisis, with very significant volumes. That's very encouraging. Which indicates that the group has the right tools, the right system, to beat online growth while putting a system to recover store traffic in those stores.

Okay, thanks.

Christian De Ville: We gave you the EBIT of Nature et Découvertes, could you give us the revenue of Nature et Découvertes in H1? I don't have the –

Enrique Martinez: €60 million for Nature et Découvertes.

Christian De Ville: Thanks.

Operator: Thank you. Next question comes from [inaudible] Michelet[?] from Oddo. Go ahead.

Mr Michelet (Oddo): Thank you for taking my questions. I've got two. They have to do with WCR. First of all on inventory reduction in the order of 150 million, approximately this is the extra [inaudible] due 2020 versus 2021. Can we take it then –

Operator: We lost the question.

Enrique Martinez: We didn't hear the end of that question.

Operator: There's a tactical hiccup on the operator's side. She apologises. We move on to the next question then we'll ask the previous questioner to press the keys again to restate the question. Sorry.

Enrique Martinez: Next question please.

Operator: Thank you. Next question we record from Société Générale. Go ahead madam.

Speaker (Société Générale): Hello. First of all, could you give us payroll costs in the first half and rent costs last year on the annual basis. In addition, are you worried that manufacturers' plans may – the product production interruptions to the end of the year, or do you think that there will not be a problem at this time? Lastly, what's the difference versus franchise holders? Could you comment on that and give us further information on that point? Thank you.

Enrique Martinez: Thank you for your questions. We'll take the previous question in a moment. The first one is I believe that in terms of product positioning, we're – things look right. Some things ordered back in H1 will come in H2 and taking some additional product. Lots of launches coming in the pipeline after the lockdown. Good launches in the back to school season as well. So there are some really good launches within the year also, in telephones, multimedia and gaming consoles. The line-up's going to be maintained. We've got product launches for the remainder of the year. No manufacturer to my knowledge has considered shifting launches. I believe everybody's focusing on revenue and it's out of the question to postpone things to a later date.

Now, franchise holders. As I mentioned during my introduction, we supported franchise holders during the lockdown period. Some of them had a cash crunch due to business stoppage and some of them asked for support, and we broadened this to all of them, providing them with loans as a stopgap as well as additional loans to purchases for relaunch of business. Relaunches are good, the franchise holders are seeing good momentum in revenue in June and July.

[Inaudible] complaints having to purchase commissions in 19 pretext being used during lockdown. Without going into detail, of course we don't agree with the comments being made on that. We're very committed to continue to support them throughout the half-year period and I'm sure that there's a good understanding, good agreement, with them. Very quickly we'll see a solution out of court.

It was a very difficult period for everyone including the franchise holders. It's understandable that they're concerned. It's up to us to help continue building relationship and allay losses.

Just to come in on another point. If we talk about the payroll costs in the first half, we give a figure on rental, IFRS 16, that wonderful standard, since then we don't have any rent in the income statement. It's amortisation sent to the financial portion.

Now, savings in rental that we may make due to COVID. We can't put a – IFRS 16 standard comes in to this. Savings in rent can't be spread out over the entire duration of the property but rather can be booked in the income statement. From a cash point of view, rentals around €20 million per month. €210 million in 2018 is the follow-up question. There's a slight increase therefore. In the order of magnitude, we're giving an order of magnitude, absolutely.

Speaker: Thank you for that.

Operator: Okay, once again we have Mr Michelet on the line for his question. Over to you once again. Thanks for your patience.

Mr Michelet (Oddo): Yeah, hi, I hope you can hear me. So, I had a question on WCR and on the portion of tax and special costs that allowed you to be able to shift from H1, H2, that you didn't pay in H1 that you have to pay in H2. What was the amount to try and calculate the changed WCR H1 / H2?

Enrique Martinez: So the first question on inventories – on inventory levels. Inventories are down €85 million over last year. That's good management, because you need to bear in mind that when we generate €100 million in sales, that's €60 million or €70 million in inventories. During that period. So we can't compare the inventory value, inventory decline with direct performance of the top line. It's a slightly more complicated calculation but overall good sales in June but we were also very prudent in supply level, when previously there were defined during the COVID period, so you need to be careful about that.

On the change in the tax costs, I mean, the deferral, we didn't because we had the state loan. We didn't defer very much. it's actually in the other direction, because reimbursement of temporary unemployment were partly booked in July, so for the furlough schemes that we received later and the few costs that we're able to defer, the cash impact is pretty much nil.

Mr Michelet: Okay, that's very clear.

Operator: Next question comes from Mr Clement Genelot of Bryan, Garnier. Over to you.

Clement Genelot (Bryan, Garnier): Good evening, I have three questions. The first few said you had a very prudent on inventory building during the post-lockdown phase. We see that there's good growth in June then it continues into July. Are we to fear shortages in inventories in the back after the summer break? As Maisons du Monde indicated lastly. That's my first question.

My second question concerns the reduction in commission. You're probably going to miss the sales target that you'd planned with certain suppliers. So are we going to expect the negative impact of EBIT? Because of the reductions in discount at the end of the year.

And my last question's more mid-term. You're able to renegotiate rents with your landlords. Are you going to essentially renegotiate the fixed amount of rents or do you also plan to incorporate a variable portion in the rents today as we see in the luxury sector today? Thanks.

Enrique Martinez: Thank you very much for those questions. On supplies, as Jean-Brieuc said, we were very prudent during the lockdown. We didn't know how long it was going to last but we never shut down the logistics. We had regular flows, smaller, to serve the online. As soon as stores reopened, there was a sharp uptick in June and we had time to replace products sold. And so the inventory has been rebuilt, stocks have been replenished, almost at the level of last June. So we have no major supply issues and we project no difficulty for the end of the year. So maybe kind of temporary stock-outs on a particular product or one that sells more rapidly during lockdown, on printers and computers that's very one-off. And today all that is recovering fast.

On the sales discount, there you know that the policy of the group is to constantly generate those savings of the year and at the end of June, we can adjust those sales discounts achieved that we've projected for 2020. We're able to negotiate with the overwhelming number of our suppliers. Adjustment of our targets in light of expected sales. So we don't plan to change those condition levels and the discounts that the group benefits. Only really in small part linked to sales volume. A large part is linked to other performance targets, services in terms of data-sharing, merchandising, the quality of the marketing plan. A small part linked to volume and that was fully secured and locked in for 2020.

On the rental costs, the priority of discussions is of course to guarantee rents during the lockdown. And this year, once we've secured a significant of the rents into the second half, we'll be able to have broader discussions. But once again, it will depend on the mid-term performance. If, as we hope, stores will deliver stable performance on a par with what we're seeing today, that adjustment won't occur or not more than usual, because we regularly revise performance on the basis of the economic conditions of the store. We have three-yearly revision clauses so that we can have intelligent discussions with the landlord. If the sales performance of our stores has deteriorated sharply, then we'll put in place more specific measures in order to defend our rights.

As Jean-Brieuc said, one of the things that makes us confident is that the performance of Fnac Darty in terms of store traffic and online capability is very high and for landlords, that less and less depend on textile stores but more on our types of products, I'm sure we'll have – we'll reach an agreement with our landlords. Thanks.

Operator: Thank you. Next question, Thibault Decré from 2R Capital. Go ahead.

Thibault Decré (2R Capital): Hello, thank you for taking my question. You opened 13 stores in the first half, 27 further in the second half. As stated, in addition there's analysing of stores. In the current context and performance as the industry will continue pandemic expansion plan or the opposite maybe, in going further with expansion plan. Could you just recall for us how you're factoring this into your channel strategy? Thank you.

Enrique Martinez: Thank you for the question. Most of our expansion plans and franchise-holder integrations and independent persons, this necessitates a further rollout of our plan. Not using much CAPEX. Giving the opportunity to independent operating persons as well to go under the umbrella of Fnac Darty. It's our strategy for future use were to continue and possibly step up with this. We know there are other factors and we know that there are various players, independent players and so forth, that often can be supported by being part of a group such as ours for purchasing and sales force. And in 2020 and 2021, we'll continue in this direction and looking for franchise holder candidates.

To a lesser degree, we maintain the roll-out plan for small format and pure kitchen format. We've got [inaudible] in this area. We've got the plan, we're working opening Darty increasing areas, corners in various places, various locations.

Another point which is directly part of our serious strategy, we know well that internet performance is very related to our ability to deliver quality and speed of product. Stores play an important role in this area, therefore digital performance and store performance are equally important. Both very important. Thank you very much.

Operator: Thank you. Next question. Mr Laurent Pékin from MICAP[?]. Go ahead.

Laurent Pékin (MICAP): Hello to everyone. Two questions. Firstly, could you repeat what the competition authority has said about the shop-in-shops at Carrefour? What are your intentions now after their ruling? Two brief questions also. First of all, what about the announcement made in France there's a start-up you're keeping your eye on, Beta? What do you think about the business model? Do you view them as a competitor? Subsequently, last question. SEB announced that they were going to start repair service programme and so forth. Might we see more of this among the various brands? Is this a risk for Darty? Thank you.

Enrique Martinez: Thank you for the questions. Comment, we wanted to have legal certainty regarding Carrefour and aside from the brand concentration that we would have a quicker roll-out and a more secure roll-out. The anti-trust authority didn't want to take us to that extent, now we have two weeks to take note of what's been said about deficiencies and look at Carrefour and the possibilities and possible scale of projects. In all likelihood, we will see some projects and ranging in 2020. At the same time, we've got candidates for franchises in 2021, making it possible for independent players to continue to have reach and capital project if it comes to fruition.

As to the arrival of Beta, we know them well, we've heard from them several times. I think it's a good initiative, making it possible for the market to have innovative products and experiences. To view them as a candidate competitor, everybody's a competitor. But at least we'll see how they make do, we'll see what the future holds. Certainly we admire their innovative model and it's very interesting.

Now, SEB. You know, lots of corporations already have similar programmes offering to some customers support and assistance. Not all retailers like Fnac Darty have their own system, so some brands try to propose things via online sales. Our customers very much prefer to mix with the house services, our repair services. We've got genuine knowhow and we're known for being fast, good and transparent. It's true that the value we provide at Fnac Darty and with Darty Max launch, we believe that this will further make inroads in this market and we're not in any way concerned by other players. We view them as a grand innovation. We've got our own programme, which is very much on a large scale in terms of repair services in France.

Operator: Thanks. No further questions in the queue. If you have a question, press star one on your keypad. Thanks. There are no further questions in the queue. I will therefore hand this over to our hosts for a conclusion.

Enrique Martinez: Yes, thank you. Well, thanks to you all for tuning into this call and I wish you all a good summer holiday. Take care and see you soon.

Operator: Thank you for tuning in today. You can now hang up. The organiser of conference call will remain connected.

[END OF TRANSCRIPT]