Fnac Darty Q1 2020 Results Presentation

Monday, 20th April 2020

Transcript produced by Global Lingo
London – 020 7870 7100
www.global-lingo.com

Fnac Darty Q1 2020 Results Presentation

Enrique Martinez: Good morning to you, one and all. First and foremost, I hope that you are all in good health during this very unusual time that we are experiencing now. We decided to bring forward, by a few days, our revenue call and also to give you some news that came up during the week and that we will be commenting on during this call. We will also talk to you about how the COVID-19 crisis has affected us during this period.

Now, of course, the most important thing for us during this period has been to guarantee some continuity of business, all the while respecting, first and foremost, our number-one priority, that is the health of our employees and our service to our customers. I can tell you that, in spite of the circumstances, much of our activities, especially services, are entirely operational.

Let us go through the presentation that has been sent out to you. We will look at slide number two now. The COVID-19 crisis began with problems in the supply chain. As you know, very quickly, the group tackled this. We have had €80 million earmarked for the supply chain since the beginning, precisely to take into account manufacturing difficulties and shipment difficulties. This is something that was done. Many of the products did arrive to our warehouses. However, then, very quickly, the crisis spread to Europe, with consequences on various things, such as business continuity and there was the closure of our stores, starting on 14th March.

We have been successful to weather this period thanks to excellent social dialogue with labour partners, particularly in the warehouses and services centres. We have entered into agreements with them to enact any and all measures to ensure operational continuation, ensuring safety and security all the while.

Thanks to this, we continue to have operational levels that are very good, particularly in trading and all the while respecting all rules and regulations and health measures. After store closures, throughout the country, we have enacted temporary unemployment measures for about 80% of employees. Many of our store employees are in temporary unemployment, as well as HQ employees and people from other departments who were able to be placed on temporary unemployment. We also set up a large plan of cost readjustment to take into account the fact that stores had been closed and that activity had waned. We needed fewer people in cleaning and other such positions, therefore we could readjust costs.

We also pared down marketing programmes and other such programmes which originally ad been budgeted for the period; we were able to readjust those downward.

We saw a real step up in ecommerce sales and I will comment on that later. Furthermore, we have secured a loan made available at the very beginning of March. This is a long-term term loan facility to ensure sustainability for us. It was announced yesterday: a €500 million term loan facility granted by the French state, which Jean-Brieuc Le Tinier will explain to you in detail later.

We are the first major French corporation to benefit from the government guarantee facility. Things happened very quickly; our filing was very good. We have a great pool of banks at our side on this, we got the quick support from the French government. All of us moved forward together, we were able to craft this loan together; we were pioneers here. We are convinced that this is going to give impetus to even greater trust and confidence in this group, our ecosystem and investors.

Unfortunately we have had to withdraw our proposed dividend of €1.50 for 2019. Of course, we are complying with what the state have called for and the AGM will therefore not be asked to approve a dividend for the year.

Let us move on to page number three to look at revenue in greater detail. Let me say that, since the beginning of the year and in spite of a few disturbances, for instance at the beginning of January there were strikes in transportation and we also saw a downtick in some of the sales periods in February. Nonetheless, our group saw that the first two months of the year, they grew nicely. Revenue looked good in the first two months, the products and services selling well. We should have seen a good first quarter. Unfortunately, March, though, was a significant turnaround in that trend. After the closure of the stores on 14th March, we saw store activities halted and there was a major shift towards online business for us.

We have closed all of our stores in all countries except for the Netherlands and all[?] of them are consolidated in our financials. In the Netherlands, the Dutch government has enacted a different strategy to fight COVID and the stores are continuing to be open. They are seeing good quarterly activities. In all other geographic regions, stores are closed: Spain, France, Switzerland. The last to enact full closure of stores was Portugal and that has therefore impacted the revenues in the Iberian peninsula but it is less of an impact since Portugal closed a bit later. Stores have been shut down and secured. As I said, we then quickly shifted over to ecommerce fully.

To talk to you about online sales, now, the important thing to realise is this isn't the time of the year when, usually, online sales are particularly buoyant. We were able to right-size everything very quickly and really scale up the online platform to contend with much stronger online sales than usually. Remember, we are able to ramp things up during things such as Black Friday and so forth, so we very much know how to do this. We are seeing growth in online sales, we are seeing a twofold increase in many areas and sometimes a seven or tenfold increase in online sales.

This has all been possible thanks to our facilities and our entire system, our processes, our logistics knowhow.

Many of our partners are lacking capacity to absorb some of the flows and that, to some degree, has slowed some of the growth. It took time for the partners, in turn, to be able to organize their operations, to scale them up, so they could contend with increased online business. This has been true especially in France. Think of the post office, that had to keep open some of the post offices. There was no surge in diversified flows[?]. Usually, over half of the products we sell online are distributed through our stores. Unfortunately, this is no longer possible, so we had to move toward other alternatives for product distribution: the post office but also we have entered into an agreement, a major agreement, with express delivery services such as Chronopost. This has enabled us during the period, to have the shortest delivery timelines in all these product categories. This is one of the reasons we have performed so beautifully in March. That performance continues to do well and will continue to step up in future months and April.

We can say that customers are bringing forward some of the purchases. At the beginning of the lockdown, things were somewhat slow but then, after public announcements, people realised the lockdown would be longer and people started buying more and more online. We are talking about a lot of product categories that have been very important in online sales. Initially, people were very focused on buying products they needed for home-work productivity, think of laptops, tablets, telephones, Wi-Fi boosters and so forth, things that people needed to work from home. We also saw that people were buying printer, printer cartridges, scanners, for the same reasons, due to home work. Subsequently, we saw more and more other types of products being sold. People were buying books more and more, games, board games and so forth, to entertain their children at home. After that, we saw a great deal of demand for various appliances, such as refrigerators and freezers. Now we are seeing great interest in many hygiene products and home cleaning products. There was a big uptick in these product categories and this has led to a big overall increase in online sales.

As I mentioned to you, our logistics capacity has been right-sized. We've boosted our logistics teams. Today we are very much able to contend with these big increases in online sales.

You know that we have highly centralised things. We centralised our inventory. That really helps increase our product availability for online products, so during these strong periods we have great product availability. There are a couple of products that are out of stock but basically everything is in inventory. We have set sufficient availabilities throughout the period. Only some products were unavailable due to long delivery lead times originally but that is no longer the case. The logistics chain has been right-sized. We do not deliver to the stores anymore but we have centralised all supply flows. That has been a key point, so that we could get the good delivery times and we could deliver things appropriately, usual prep times and we did not have to start up any ad hoc processes, or what have you, which can sometimes be costly; we did not have to do that. So that was on online sales. We will hear about the next point now.

Jean-Brieuc Le Tinier: So moving to slide five now in the presentation, thank you Enrique. As you will have understood, the initial message focused on the health and safety of our employees and customers, then we took all immediate necessary measures to protect our profitability and lastly, we just strengthened our liquidity with a new credit line put in place of €500 million, which is guaranteed by the French state.

The closure of our stores led to an abrupt drop in our revenue, which, what is more, occurred during the peak treasury need for the group. As you know, specialised retailing involves high seasonality, particularly during April and August.

Furthermore, Fnac Darty is committed to continue a trusted relationship with its long-term partnership and will continue to act responsibly during the crisis, so we have taken two strong and immediate measures. First of all, we mobilised all of our available financial resources on our credit line of €400 million that is available at the end of March, is unused, is undrawn to date. Then we rapidly launched the source of additional funding. Fnac Darty is the first company in France to benefit from a guaranteed loan. This new credit loan of €500 million will be guaranteed 70% by the French state, with a one-year maturity, with an extension option to five additional years through April 2026, all French banks of the Fnac Darty banking pool are committed[?]: BNPP; Crédit Agricole, that acted as coordinator; the Postal Bank, Natixis and lastly, Soc Gen.

This new credit line will allow us to weather the current period and ensure a swift, effective return to normal business post-crisis. We also obtained a pledge of our lenders to accept the suspension of the financial covenants for June and December 2020. This transaction is a new stage in our continuous efforts to strengthen our financial structure and demonstrates the trust and confidence of public players and the banks in the Fnac Darty business model. Once again, we demonstrated our agility, our swiftness and our ability to adapt, allowing us to execute a complex transaction in a very short time and secure long-term financing in a very uncertain market environment.

Let us now move to slide six: the measures pertaining to the dividend and management compensation. In accordance with conditions put in place for a state-guaranteed loan, the board suspended the dividend proposal of €1.50 for 2019 and there will not be a share buyback programme conducted in 2020. Let me remind you that we announced, on 26th February, the launch of a shareholder return policy, of a pay-out ratio of 30–40%. That shareholder return policy is temporarily suspended and will be reviewed later. Assuming our responsibility, group management has taken several decisions on compensation. The total compensation of Enrique paid in 2020 will be reduced by 25% for the entire period during which the group's employees are in technical employment due to the health crisis; the same with the Chairman of Fnac Darty and for the members of the board. Concomitantly, the fixed compensation of members of the executive committee will be reduced by 15% over that same period.

Lastly, Enrique has chosen to reinvest 50% of his variable compensation, 2019, to be paid in 2020, in group shares, once this has been submitted and approved by shareholders at the annual general meeting.

Let us now move to slide seven, the outlook. Revenue achieved in store in April 2019, last year, was around €400 million at group level, 80% in France. This number allows us to assess the loss of store revenue in our stores with the closure of all our stores in April. Furthermore, the gross margin rate estimated in March dropped sharply, taking into account the store closures and that had a significant negative impact on the product-service mix. The attachment rate of our ecommerce is structurally low, with lower sales, warranty extension and insurance on technical products.

Given the significant impact of COVID-19 on its activities, Fnac Darty indicated in a release published on the 17th that it could no longer confirm its 2020 targets, like growth in revenue and current operating income over 2019. The uncertainty linked to the development of a health crisis and its consequences on the global economy make very difficult assessing its impact on Fnac Darty. This will depend on the actual duration of lockdown, ability to continue to home deliveries and the pace of consumption recovery post lockdown. To date, the group does not specifically know the consequences of the crisis on its P&L. Many unknowns remain, notably logistics costs, the coverage of temporary unemployment and the impact on gross margin, so we cannot update the quantum targets for 2020, as well as the mid-term targets.

Fnac Darty will rely on its operational agility and execution quality to adapt as best possible to this unprecedented situation.

Thanks. Enrique and I are ready to take your questions.

Questions and Answers

Steve Levy (Mainfirst): Good morning Enrique and Jean-Brieuc, I hope you are doing well. Three questions, if I may? First of all, to come back to the figures Jean-Brieuc gave us, the €400 million in April 2019. What was the proportion of online sales at that juncture? Could you also tell us if there has been a shift in expenses from online to offline so we can see the cost basis? Furthermore, do you intend to renew French Days this year?

Also, could I get a clarification on the cost basis in terms of temporary unemployment? Is it 80% of French headcount on temporary employment or 80% of group-wide headcount on temporary unemployment?

In post-lockdown period, do you think there will be more click and collect? We have seen this happen elsewhere in Europe. In the run up to 11th May, we are wondering.

On working capital requirements, could you give us an idea of the WCR? Has there been a change in WCR during the period? Could you talk to us about cash consumption? Thank you very much.

Enrique Martinez: We talked about revenue in April. With the lockdown, it is likely that revenue will be fairly similar in the first days of May.

Online, 19% we saw a step up in March. This increase continues in April. So we have seen conversion rates should remain similar in this shift to online.

As to expenses, the considerations are[?]: the closed stores, the wage base, we are talking about 80% of group employees, a similar percentage in all countries, similar unemployment mechanisms for most employees, based on temporary unemployment. Only people who are required for operations stay onboard, plus employees required for ecommerce, they have remained in those positions.

Next, temporary unemployment and post-lockdown and so forth: we do not have any specifics from the various countries. [Inaudible] temporary unemployment could continue until the end of May. In France, for the time being, we do not have detailed information. In all likelihood, we will have to wait a little bit longer to figure out precisely what our options will be in terms of ending the lockdown period. We are currently prepping our stores for the post-lockdown period. We are reducing the amount of people who may walk in the stores, setting up barriers and so forth, as required for employees, etcetera, to the current standards.

We have our plans and we are ready to roll them out at a time when stores are able to open. They are not opening yet. Precisely because we have such a high-powered online ability, we are able to deliver well and quickly. Therefore, since our online processes are so good, we felt it would not be necessary to open the stores for the time being. It is not necessary for the consumers to go to the stores during a period when it is not recommended.

All my speakers today look good and this is the right strategy.

WCR: Jean-Brieuc, could you comment on that?

Jean-Brieuc Le Tinier: Yeah, I will speak to working cap. As I said, our business is highly seasonal in terms of managing WCR. We have a low point in March/April, which are the months during which, in fact, we are going to finish settling all the sales and orders in December, so we are at a low point. Of course, this year the impact is amplified because we are starting from a low point. What is more, in March, April, May we will pay the orders that we booked in January, February, early March, without having the revenue opposite. So we put in place a number of measures to offset that impact on WCR. On suppliers: we have a management of our supplier debt and there we pay quite quickly with a discount and we obviously have significantly reduced supplies and orders but we will see the benefits of that as of June/July, when we will have to move to a comparison where we pay certain orders. So we have reduced CAPEX quite significantly. Overall, the situation today is pretty healthy. Last year we still had €530 million, that is the undrawn plus the treasury bills, so we will have just over €1 billion on the account. We will have enough to weather the post-lockdown period and to attack this new era, the second half, far more confidently.

Enrique Martinez: I didn't answer the question on the French Days. We are talking about this with our partners. You know it is an initiative we have begun with some e-sellers in France. The idea, probably, is to maintain [inaudible] it will depend on openings. We will have to make sure that everything will be possible in the right conditions. We are not disclosing that for the time being; we will be postponing, though. We will be working on various reopening plans and so forth and marketing activities. I am sure there will be marketing activities subsequently, during the post-lockdown. As for the actual French Days, we will be waiting a while for things to stabilise before launching that.

Steve Levy: Thank you for answering our questions.

Nicolas Langlet (Exane): Good morning everyone, a couple of questions. First of all, we have had gross margin for[?] March, what about the full quarter? What will the figures be? Will there be a stronger drop in the second quarter?

Another question: I was wondering, what do you think your OPEX base will be for this year?

You also talked about discussions with lenders. Considering IFRS 16, what have you renegotiated? What will be the impact be on cash and so forth and on P&L?

The last point: the €400 million, you talked about a drop in April. [Inaudible]

Jean-Brieuc Le Tinier: So, on the gross margin, we do not give gross margin trends on the quarter because we are not fully clear on the actual level of gross margin that we will have. On the trend over the year, obviously we do not know, it depends on lockdown, the pace of return to consumers in store, so we remain pretty cautious on that front.

Product margin is pretty good; product mix, we will see what that gives, depending on the return of consumers but on the service front it remains uncertain; there is major uncertainty on gross margin. We do not give a quarter on the trend, it would only be relative, only a couple of weeks and there are only two weeks of impact so we cannot really extrapolate[? 0.30.13]. Our OPEX base will continue to be very determined, very proactive on the OPEX base for the group. As we said in the release today, we are not giving any trend to the end of the year. Between current trading and OPEX, you would be able to get a trend on current operating income. We do not want to do that. There are too many uncertainties, unknowns today to allow us to be able to endorse any model. But on the EPOX[?], obviously there is a scope effect this year, naturally we are covered for five months scope effect on the stores that we opened last year. We will have OPEX, we have OPEX that will grow structurally this year, all other things being equal.

Then, on the COVID crisis part, of course there are staff costs that will fall; temporary unemployment, that will be covered by the state; the rent, while we are fighting on the cash front with IFRS 16, the two months of rent saved will be smoothed over an average bid[?] of 4.5 years, so in the income statement the impact will be very non-significant. However, cash is all important to us, not the income statement and we will not give up on that.

The final point, on the €400 million, in fact what you need to understand is that it was €400 million in April last year, €70–80 million on the web, so even we apply a significant increase of online sales, you can imagine that the loss of revenue in April will be very significant.

Nicolas Langlet: Okay, thanks. And on unemployment, 80% of the variable, on a monthly base, what is the OPEX saving that you are going to generate?

Jean-Brieuc Le Tinier: Well, 80% of employees are temporarily unemployed. We kept the managers, so it will be a base that will be slightly lower than 80%.

Nicolas Langlet: Okay, thanks.

Jean-Brieuc Le Tinier: And on the payroll costs: if you divide by 12, over the year, you will not be too wide of the mark with that metric.

Nicolas Langlet: Okay, thanks.

Clement Genelot (Bryan Garnier) [?]: Good morning. Three questions: first, is constant financing for the credit lines undrawn and constant financing for the loan facility?

Next question: why did you close stores when some competitors have kept some of them open in Portugal? There is no specific rule. When will you consider reopening stores there?

Another question: are you afraid that there will be lots of sales and discounts going on in France, a lot of discounting? We know that a lot of retailers are encountering great difficulties, are you afraid of a return a previous-type period, where there was a lot of discounting? Might that have an impact on gross margins?

Jean-Brieuc Le Tinier: Let me field the first question. The cost of financing of the term loan: there is no major difference in the cost on the state-guaranteed loan, guaranteed by the state, €500 million in the first year; the cost is zero and we will just pay 50 basis points of cost linked to the state guarantee, so it will cost €2.5 million for the next 12 months. Then, if we decide to extend this government loan, it is rather specific. If we decide to extend the facility beyond the first 12 months, in other words an additional five years, then the mechanism for remuneration is twofold. On the one hand, the underlying cost of the loan will be discussed and agreed by the banks and by the state in due course. The finance ministry, has mentioned cost price for banks, without defining that any more. So we have a rendezvous clause to know what a cost price for a bank means. It will probably be a very reasonable cost and then the state guarantee is paid one shot when we extend the loan, so everything will be paid in one fell swoop in April 2021, if we decide to extend that loan. The conditions: well, you know, 100 basis points for the first years and 200 basis points the last, so it is 800 basis points, i.e. 70%[?], the amount due in April 2021.

Enrique Martinez: On the other question, on Portugal, some stores have remained open, that is true. Let me say that our stores saw substantial instore traffic in Portugal. Most of them are located in malls. We felt it made more sense for us to really focus on online selling. We are the major online player in Portugal; we have the firepower there, as we do in France, to really step things up. We have had no delivery hiccups in Portugal, all the online selling has gone very smoothly. There has been a temporary unemployment for employees there to cut costs and we have kept very buoyant online business, though, after store closures, so that is why we made the decision.

Let me say, though, it is entirely true that we might expect that Portugal will be one of the first countries to see store openings, to see the lockdown start to come to end. It remains to be confirmed; it will probably be one of the first. We may well open stores there at that time, we will see. We will have to see how things pan out.

Let me say that we certainly do not know what the post-lockdown period is going to look like, no one knows. People are not going to have infinite investment possibilities and infinite finances; it is possible we will see a lot of discounting in the market but I suspect people will be focusing on cost-cutting versus volume increases, trying to protect their margins. That is my view; we will have to wait and see how the various players react to the post-lockdown period. It is early days, though. It is too early to actually think in terms of the second half.

Christian Devin[?]: Two questions: first on temporary unemployment. Listening to other French groups here, there is still cost to be borne by the employer of 20–25% additional salary, so I am going to put the question to you regarding your employees and the out-of-pocket costs for those who are in unemployment.

Second question: we had, Friday evening, an estimate for 2020 that the impact is a lot heavier than expected because of the gross margin. Could you give us an estimate, to date, of what COVID-19 has inflated in terms of the €750 million? Could we have, say, give or take €10 million to be able to tweak our model? Thanks.

Enrique Martinez: On temporary unemployment, the question is whether it will be a top-up; I think you are asking about any additional payment we would make [inaudible]. I did say that in each country the temporary unemployment system is different: different situations, different regulations in each country and the portions paid out are different. All in all, it is around 70–80% of pay to employees during temporary unemployment. We have met with our labour partners. The group will start certain extra amounts, such as some terms currently being negotiated but the vast bulk of the payments made to employees for temporary unemployment are guaranteed by the state. There can be a little top up and extra amounts for some of the small wages. It will depend and also depend on working times in the post-lockdown period. This is still currently being discussed with partners.

Various projections have been made by others. We cannot give you any more specific figures than we already have and that Jean-Brieuc has already told you. There are lots of uncertainties. We do not know exactly when the lockdown will end with any great or complete certainty, so we cannot give you any specific figures for the time being. It would be over-hasty. We know you want to hear some good news but we just need to wait. We cannot give you specific figures, even broad brush, back of the envelope counts; we do not want to do that. We want to wait until things are clearer, stabilised, actions have been implemented, including the cost-cutting and so forth. We are just going to accept that, in the mean time, there might be some slight margin for error and we cannot give you any specific figures right now.

Speaker: Hello everyone. €500 million is guaranteed by the state; is this the maximum possible? What is the outlook otherwise? What is the sales outlook? Are you expecting a softer environment subsequently, or the opposite? What about competing with Amazon? How is that going to pan out? Now, what about revenues in France, 25% revenue? Perhaps we could have expected a lot more, more than €1 billion?

Enrique Martinez: We look at stress-case scenarios, we work those through carefully, thinking of longer store lockdown periods. These amounts seem to cover activities for the store in the longer term. Even if there were lengthier lockdowns, things would hold up well. This is a theoretical maximum amount. Risks can shift and change. This was the request and it was accepted.

Regarding Amazon, Amazon itself have many difficulties. They do not have the advantages we do. We had very large stores that have been closed and we were able to shift those major capacities to our online business. Amazon are having delivery problems today due to some of their labour issues in warehouses. We do not have these difficulties, which has meant that we have had business as usual, continuity of business. We cannot do any in-store deliveries, though, that help us control cost prices and so forth; we have to deliver to homes. We are preferring[?] Chronopost and our other small parcel deliverers. For the larger deliveries, we are using a whole network of Darty deliverers. They tend to deliver major appliances but they have also begun delivering smaller packages, such as cellphones and laptops so that we have end-to-end control, especially for higher-value items, through the whole delivery chain and quality chain. We have this alternative delivery method that does not go through the stores. Once the stores do reopen, there will be more and more online selling than previously. We know some people might be reluctant to go into the stores, so we will certainly be ensuring their safety in our stores and store sales will continue to be a major point of sale.

Speaker: A follow-up: what is the percentage of end-to-end logistics?

Enrique Martinez: I was just saying, we deliver ourselves. If you buy a cellphone, or a laptop, for €1,500, instead of going to pick it up at a Darty store, it is delivered to your home and we have control over that delivery chain. We have [inaudible]. Other deliverers sometimes just leave the package in front of your door, on your doorstep and customers do not necessarily want that. Other brands have sometimes done this and there have also been delays at other brands. Once our stores do reopen, I suspect a lot of our customers will really like to come to the stores to pick up products.

Speaker: But now you are delivering with your other staff members?

Enrique Martinez: Darty has our deliverers, the Darty network, in France. They usually deliver the large appliances, usually small parcels like laptops and so forth, would be delivered either into our stores or by our partners, such as Chronopost and the post office.

However, during this period of the COVID crisis, since many other networks have been somewhat overwhelmed, the Darty deliverers of ours are also delivering small parcels.

Speaker: Will that continue?

Enrique Martinez: No. It is more expensive to do it this way, plus it is not cost-effective[?]. However, for the time being we are doing it this way. Usually we use Chronopost's parcel delivery service. They can deliver within the day and the cost is lower than when we use our Darty teams. The Darty teams mainly deliver large, bulky items, appliances, in large trucks and so forth.

Speaker: Is Chronopost up? Is the parcel service working now? Are there big delays at Chronopost?

Enrique Martinez: No, delivery times are fairly quick. We have seen a tenfold increase through our deliveries through Chronopost. The post office network has some issues with Colissimo; they have had to deal with very large numbers of parcels but for express deliveries, they are doing a good job of it.

Speaker: Thank you very much.

Speaker (ODDO BHF): Hi, two quick ones from my side. We saw, in Germany, a question of only opening stores smaller than 800 square metres. Have you had talks, or heard about discussions, in France on a limited size of store to be opened post-lockdown?

Second question: if that were to be applied in France, the threshold at 800 square metres, how many stores would that involve, in terms of stores open or closed?

Third question: could you describe in greater detail what is happening in terms of the attachment rate of warranty extension and insurance for online sales? Thank you.

Jean-Brieuc Le Tinier: Well, we do not have any information about that. I am not sure that that is the strategy that is adopted across countries. Yesterday I listened very carefully to what the prime minister had to say at his press conference. He did not mention the store size but we still have a few days before that is fleshed out. Some countries have anticipated the lockdown lifting for small stores but we are waiting on that. The date was given, 11th May, then from that date, 11th May, all stores will be open, or the exception announced, in a country like Germany, the rule is that it will apply across the board on 11th May. Our stores are bigger than 800 square metres; we have a few franchises but the bulk of the stores are bigger than that. We know that in stores we will apply the rules and floor marking to make sure that the physical distancing is applied under good conditions and supermarkets bigger than 800 square metres are open. However, for non-food stuffs, a hypermarket that is selling non-foodstuffs, should operate and that our stores, when they open, be limited to a smaller size: I do not really see the legal basis of that.

On the attachment rate we said. You have two types of services, such as ticketing, today, offline, online, that is totally stopped. Entertainment, shows, all of that has stopped during the crisis. We do not know yet when that is going to resume, so that part of the services is close to zero. Then you have services by subscription. They continue to run, that is that you subscribe to a few months warranty, that will continue to apply, be it online or offline. That is recurring.

As regards new subscriptions, well, the attachment rate to the store is bigger than the internet. It does not mean that we are not doing them online but the rate there is significantly higher in store, so there could be a mix that will deteriorate the relations between products and service; there will be a negative impact on the gross margin. However, then, of course, we are working on strategies: how we can recover the customers who have moved online, to propose, because the bulk are loyal customers, recurring purchasers with us. We hope very soon to be able to offer them subscription models, warranty extensions, such as Darty Max. However, at the end of the service subscription rate is lower.

Speaker: Thank you.

Sunil Sodi[?] (Morgan Stanley): Hi, good morning. The first question was on the maximum size of the government loan. You said the theoretical maximum was €500 million. My understanding was that you can get a loan up to 20% of your French sales. That seems to work out to more than €500 million, maybe closer to €1 billion, so I just wanted to clarify that.

Second is the seniority of this government loan. Is it at the same seniority as the existing bonds, the revolving credit facility and the term loan?

The third question is on what is the cash balance today, excluding the government loan and the undrawn revolver?

Lastly, you mentioned 800 basis points related to the state guarantee. I could not get that, so could you please clarify on the cost of the government loan? Thank you.

Enrique Martinez: I will take that. So, on the first part, the state-guaranteed loan, the maximum we can apply for is 25% of revenue achieved by the French unit. So we could have asked for between €1.2–1.3 billion but we asked for €500 million. We asked for far less than the maximum to which we would have been entitled. That is the first point, so we decided to opt for €500 million. That is a prudent decision.

Then the debt, the second question: the state-guaranteed loan is fully pari-passu versus the term loan and the existing obligations.

On the third question, I am not sure I fully understood you about the balance there. However, today, as I said, we have over €500 million on the account, on our bank account and it does not include the state-guaranteed loan. That will only be paid during the week and it will come over and above the existing cash position to date.

On your last point, on the cost, the cost of the state guarantee for the five years that follow the extension period, if we decide to extend the facility, there is a cost for the state guarantee of 800 basis points for the five years, so it is twice 100 and twice 200; that is in the decree that was published. I mean that is not at all confidential. What you need to know is that that amount, the state portion, the 70% of the guarantee paid, one shot, the day we decide to extend and not paid year after year. It was just that point that needed to be clarified.

Sunil Sodi: Very kind, thank you.

Speaker (Kepler Cheuvreux): I have two questions. First of all, on ecommerce, you have answered much of this already but I was wondering: are you using store inventory to sell online or are you just using your warehouse availability? If you are not using in-store inventory, what still comes of it?

Second question: performance of Darty items in shop-in-shops. Have you seen a big increase in revenues from those types of items? Would you consider extending the size of the aisles during the rest of the lockdown period?

Enrique Martinez: First of all, in-store inventory, an answer on that one: there was some scarcity of items in some of the bigger stores. However, we can tell you that the vast majority of our company's inventory is in central warehouses, to serve both stores and also ecommerce, so this has made it possible for us to fulfil most of our orders, the vast majority of orders, from central inventory. Sometimes if they were lacking items, think of gaming consoles and some laptops and so forth, when they were lacking briefly, we were able to get the inventory from stores. However, we can say that inventory levels[?] are very, very good and we have really focused efforts on logistics, so logistics is high performing and not unduly costly, versus our going-and-picking-things-up-from-store inventory. We don’t need to do it anyway.

As for the shop-in-shops, Darty at Carrefour, these are the top two stores in the network today, the store-in-stores in the supermarkets. We are also seeing increased amount of traffic, initially strong instore traffic. There is a benefit factor for the few stores that are remaining open. We continue selling products there that had available inventory. [Inaudible] square metre, stores are certainly big enough to provide good-quality service to customers, there is enough space. That has been a plus.

Speaker: Thank you very much for answering that.

Speaker: Morning, Enrique, Jean-Brieuc and everyone; I have a question about delivering the small parcels. We talked earlier about what solutions you are using to deliver small packages. Some of the franchises have had click and collect within the store for a few weeks[?]. I was wondering, have there been positive results using that method? Have the results been good? Might you extend this to other stores, with, presumably, other countries? I do not know if you are considering this solution in other countries?

Enrique Martinez: Thank you. Yes, a couple of stores have been asked to open for click and collect. That has been the case for a couple of days, maybe a week now. We have done what it took to establish this and it is being done. Our strategy is going to really focus on online business. That, the real life [inaudible] is the main driver in all of our countries. In some areas we have less available inventory in the warehouses and we will be using in-store inventories, sending the teams to prep packages in the stores. That has been the case in Belgium to some degree. However, we prefer, for the time being, to keep our stores closed and to really focus on delivering to people's homes.

We have a logistics platform that is very strong; we have strong ecommerce business already, so that has helped us go this road.

Speaker: There are no further questions in our queue; we will now answer questions in writing. Two questions in writing. First one: 'Do you think you have maintained your market share during the period?'

Enrique Martinez: We do not have stable figures yet. Things are still shifting in the whole sector. Things look very good. We have very excellent feedback, hearing that we are significantly outperforming the market. However, I cannot specifically state that, as such, for the time being.

Speaker: Last question in writing: 'The possible five-year extension: would there be changes in the terms for the state guarantee? Would you be worried that the company might not be able to repay that new debt in future years, if extended?'

Enrique Martinez: We have a guarantee with respect to the state conditions: a maximum amortisation timeline. We are benefiting from this. As we heard, this mechanism enables us to confirm that amount in 12 months and we will see in 12 months, whether we are extending[?] with a possible amount and what the amortisation would be. Our target, as you can imagine is the guarantee, we obtained it and we intend to optimise everything to keep the debt at the lowest possible level and to have amortisations be relatively in line with our group's [inaudible], which has always been the case.

The terms have to do with weathering the crisis and in post-lockdown. It is 12 months and after 12 months we will see whether or not we maintain and extend.

Speaker: There are no further questions. I will give the floor to your host to conclude today's conference.

Enrique Martinez: Well, thank you for your questions, thanks for your agreeing to attend this conference call this morning. We wish you all the best and an end of the lockdown that is as soon as possible. Stay in good health. We are pleased that we have been able to tap this additional finance and to continue to operate under good conditions in the coming weeks, awaiting further decisions. We will keep you informed as developments unfold. Thank you, have a great day.

[END OF TRANSCRIPT]