

Transcript Fnac Darty Conference call 16 July 2024

OPERATOR

Good evening and welcome to the conference call for Fnac Darty. Mr Enrique Martinez, who is the Chief Executive Officer of Fnac Darty. The floor is yours, sir.

FNAC DARTY AND UNIEURO

Enrique Martinez

Chief Executive Officer

Thank you. Hello, everyone. Today I'm with Jean-Brieuc Le Tinier. I'm very happy to be with you today. Thank you for having connected with a very short notice. We're announcing a major acquisition project for the group, that of Unieuro in Italy. This communication is also an opportunity for us to give you some preliminary results for the first half of the year, and to confirm our guidance for 2024.

The presentation is available on our internet site. I'd like to invite you to open it up at the same time, and I'll give you some indications with each slide.

TRANSACTION RATIONALE

For slide three, before going into the operation in detail, I wanted to share our enthusiasm by emphasising the proposed acquisition of Unieuro which represents a unique strategic opportunity to strengthen our position as European leader in specialized retail and a key player in the consolidation of the European market.

Together, we would form a group with sales of more than €10 billion, 30,000 staff and more than 1,500 shops.

It is also a transaction that will create value for all stakeholders, and we will come back to that during the presentation.

TRANSACTION HIGHLIGHTS

Slide four, transaction highlights. We plan to launch a mixed takeover bid through an investment vehicle jointly owned by Ruby Equity Investment, an affiliate of Vesa Equity Investment. Each Unieuro share would be valued at approximately €12 per share, i.e. €9 in cash and 0.1 Darty shares, at a premium of 34% to the volume-weighted average share price over the last three months. This represents approximately €249 million for 100% of Unieuro's capital.

Obviously, Jean-Brieuc will have more to say about this in a moment.

UNIEURO

Fifth slide. I'm going to quickly present Unieuro to you. I think you all know the company as well.

Unieuro is Italy's leading distributor of Consumer electronics products and Domestic appliances. This leading brand in Italy is recognised for its expertise in the distribution of Consumer electronics products and Domestic appliances, combined with high level advice.

With a 17% market share, the group has a dense network of 523 shops, both integrated and affiliated, spread across the whole of Italy, with a particularly high density in the north and centre of the country, where 71% of the shops are located. The group employs almost 5,000 people who contribute every day to its success and continued growth. They also contribute to the very high customer satisfaction, with an NPS score of 17 points, in growth and above the industry average.

Unieuro generated sales in 2023 of 2.6 billion, 17% of which came from online sales, demonstrating its solid position in the Italian market.

Consumer electronic accounted for 59% of sales, Domestic appliances 29%, and other products and services 12%. In services, Unieuro is in the process of integrating Covercare, a specialist in home repairs and services. This operation confirms the movement of the group to a more service-based and digital model.

The weighted average annual growth was 8% over the period 2016/17 to 2023/24.

Unieuro also achieved adjusted EBIT of €35 million in the 2023/24 financial year, or 1.3% of sales, and generated 300 million in cumulative free cash flow over the last five years with a positive net cash position at the end of February 2024, reflecting solid and strategic management of its financial resources.

ALIGNED STRATEGY

Slide six, on aligned strategy. Looking beyond the figures, this transaction fits perfectly with Fnac Darty's strategy. As you can see, it is based on our shared values and on a strategic vision that is very closely aligned with our Everyday plan.

- Unieuro and Fnac Darty are perfectly aligned to accelerate their digital transformation towards a powerful omnichannel model, integrating physical and digital sales channels to offer a coherent, fluid market customer experience that is among the best in the market.
- Together, we are committed to supporting our customers in their drive towards responsible consumption. We will also be extending our home assistance services. By building on the initiatives already taken by Unieuro, and in particular Covercare, we could offer new innovative services with high added value to Italian consumers.
- Finally, as you know, we are very committed to promoting sustainable behaviour. Our ambition is to develop joint initiatives in this area with Unieuro, which shares our vision and our long-term commitment to sustainability.

Finally, I would like to remind you that the Fnac Darty Group has demonstrated its ability to integrate European companies while respecting and enhancing the specific characteristics of local markets.

We are convinced that sharing expertise will open up new opportunities for our employees to better serve our clients.

SYNERGIES

Slide seven, now. The proposed transaction would be highly value-creating.

We anticipate significant operating synergies, which we have estimated at more than €20 million before tax on a full-year basis.

These synergies would mainly come from:

Economies of scale on purchasing. This would strengthen our relationships with our suppliers who are long-term partners, enabling to offer better quality product range.

- The integration of private label business. This combination would provide an opportunity to develop licenses in order to optimise our product offering to pool expertise around our private label business.
- The Fnac Darty group's expertise in operational efficiency and cost control to drive growth.

Of course, we will look at further opportunities for synergies post-integration. This will free up resources to continue investing and thus support Unieuro's development and growth plans.

Overall, we estimate an accretive impact on earnings per share of more than 10% from 2025, including synergies.

It would also have a positive impact on our recurring operating income and operating cash flow.

This demonstrates that as well as being beneficial to our operations, this transaction is also directly beneficial to our shareholders.

COMBINED VIEW

Now I'd like to move on to slide number eight. If we look at the key figures after the Unieuro integration:

- our sales would increase by over 30% to over €10 billion, reflecting the strength and complementary nature of our businesses.
- Our current operating income would be close to €230 million, stable, with an operating margin of around 2.2%. After synergies, of course.
- Our network would increase by more than half to 1,500 stores, enabling us to offer our customers and suppliers, partners, extended geographical coverage.
- And finally, the combination of our teams would bring our total workforce to around 30,000.

As you can see, this transaction represents a major strategic step forward for Fnac Darty and Unieuro, and we will be well positioned to capitalise on our combined strengths, optimise our operations and continue our sustainable growth objectives.

Whilst this transaction strengthens our position as Europe's leading in specialized retail, we are confident that it will create substantial value for all our stakeholders, including our employees, our customers, our supply partners and our shareholders.

DIVERSIFYING FRENCH EXPOSURE

On to slide nine. We would like to show you how the combined revenues of over 10 billion present an attractive balance by product category and geography.

In terms of categories, first of all, Consumer electronics products would account for 50% of our sales. The other half would be made up of Domestic appliances, 22%; Editorial products, 14%; and other products and services also 14%.

In terms of geography, this would give us a better balance, reducing our exposure to France, which would represent 62% of our sales compared to 83% today. And our remaining exposure to Europe would be 25% in Italy and 13% in the Iberian Peninsula, Belgium and Luxembourg.

DEAL STRUCTURE

Slide ten, now. This transaction would see Unieuro's entire share capital acquired through an investment vehicle jointly owned with Ruby Equity Investment, an affiliate of Vesa Equity Investment, which would ensure a seamless integration, optimisation of resources, guaranteeing the effective implementation of identified synergies.

With 51% of Unieuro held by Fnac Darty and a 49% minority stake held by Ruby Equity Investment, we are providing clear and effective leadership while maintaining close collaboration with our reference shareholder.

Unieuro will be fully consolidated in Fnac Darty's accounts. All our financial indicators will therefore be impacted by 100% of Unieuro's results and at the same time, we will see minority interests increase to the level of Ruby Equity Investment stake, i.e. 49% of Unieuro's results.

I'm now going to hand over to Jean-Brieuc to present the technical and financial details of this operation.

OFFER KEY TERMS

Jean-Brieuc Le Tinier
Chief Financial Officer

Thank you, Enrique. We're moving on to slide 11 now. We are launching a mixed takeover bid in conjunction with Ruby Equity Investment. This offer values each Unieuro share at approximately €12 per share, i.e. around 249 million for 100% of the capital.

Our offer represents a premium of 42% on the volume-weighted average spot share price on 15th of July, and 34% on the volume-weighted average share price over the last three months.

The offer would comprise €9 in cash, and 0.10 Fnac Darty share for each Unieuro share.

It would enable Unieuro shareholders to monetise the value of their shareholding while retaining exposure to the value-creation potential of the combined entity.

MIXED CASH AND SHARES OFFER

Moving on to slide 12, where I'm going to show you how we're going to finance this offer.

The acquisition of Unieuro would be carried out, as Enrique told you, by a joint investment company 49% owned by Ruby Equity Investment, controlled and consolidated by Fnac Darty, which will hold 51%.

Financing would be of two types.

- A cash component of approximately 75%, two thirds provided by Ruby Equity Investment, i.e. approximately €122 million; and one third provided by Fnac Darty, i.e. approximately €67 million. In reality, we will be spending only €56 million of the €67 million, as we already hold 4.4% of Unieuro's capital. The impact on our financial leverage will therefore be very limited.
- A component in Fnac Darty shares for approximately 25%. This will be financed by a dedicated capital increase for an amount estimated at €60 million. In other words, approximately 2 million Fnac Darty shares. The dilution of Fnac Darty shareholders would therefore amount to 6.6% of the share capital after the transaction. We will use

for this the financial authorisation provided for in the 23rd resolution passed at the AGM on the 24th of May, 2023.

TIMELINE

In terms of timing – slide 13 – I'd like to remind you that this takeover bid is subject to usual regulatory approvals.

- With regard to the Italian regulatory approvals, we will fill the offer at the end of July or early August to obtain the necessary approvals for the launch of the transaction at the end of August, early September.
- We plan to open the offer during the merger control review.

And we also expect to finalise this combination in the fourth quarter of 2024. Back to Enrique.

UNIQUE AND TRANSFORMING OPPORTUNITY

Enrique Martinez
Chief Executive Officer

Slide 14. To conclude, and before going on to your questions.

This is a unique and very attractive opportunity to strengthen our European leading position in specialized retail, with sales over 10 billion and a number one or number two position on our main markets.

This combination would create value for all our stakeholders, and we could aim to generate at least 20 million in synergies before tax on a full-year basis.

This transaction also confirms the support of our largest shareholder for a long-term development plan. It presents a limited financial risk, preserving our financial flexibility to pursue our capital allocation policy.

Together with all our employees, we would be proud to promote our group throughout Europe and to share our vision of helping our customers towards responsible and sustainable consumption.

PRELIMINARY H1 2024

Moving on to slide 15. Our full half-year results will be published as planned on 24th of July after market, but today's announcement gives me the opportunity to share with you the preliminary unaudited results for the first half of 2024 – and that's slide 15 – which testified to our resilience and continued performance.

- Our total sales amounted to €3.39 billion, up by 1.4% on a reported basis, with growth of 2.1% in the second quarter, a clear improvement over the first quarter.
- On a like-for-like basis, first half growth was at 0.1%.
- Current operating income, was -€36 million, stable compared to the first half of 2023.

We therefore confirm our target of achieving current operating profit for 2024, at least equal to that of 2023, and cumulative operating cash flow of around €500 million over the period 2021–2024, which equates to a level of €180 million in 2024.

Against the backdrop of sluggish demand in the retail sector, our results are stable, enabling us to approach the second half of the year with confidence and determination, and I know that I can count on the full commitment of my teams, and I'd like to thank them in advance for that.

That concludes our presentation and of course, we are now available to answer any questions you may have. Thank you very much.

QUESTIONS AND ANSWERS

Operator: Ladies and gentlemen. If you wish to ask a question, please press *1 on your telephone keyboard. The first question comes from Clément Genelot from Bryan Garnier. The floor is yours, sir.

Clément Genelot (Bryan, Garnier & Co): Hi everyone. Thanks to everyone. I have two questions. First, about the synergy. I've understood this would come from the private labels, but you also spoke about the global purchase. I had in mind when we had merger operations with consumer electronics, we arrived at negotiating back payments for the markets that the group had. Could you clarify in what area you're able to negotiate discounts back on the European level?

And the second question had to do with synergy, to see whether you have in mind over the long haul to develop concepts that you have in France, in Italy. I'm thinking notably Nature & Découvertes, Darty Cuisine, Darty Max and others. Thank you.

Enrique Martinez: Thank you, Clément. Well, the synergies obviously would have mainly to do with purchasing. We have the experience subsequent to the integration of Fnac Darty to have built synergies on a local level, but also a global level. Unieuro acquisition is significant with respect to our group, so there are opportunities to optimise our overall purchasing conditions subsequent to a better orientation of the offer and specific negotiations and volume effects. We feel very confident to run them.

And the other factor, which is obvious, is the private labels. Fnac Darty has put together expertise which is almost unique in terms of private labels and brands under license, which is extremely value creating. And that's real expertise with resources and skills that the group now has internally in Asia, which makes it possible for us to be fully autonomous in the management of those categories. And that would be a huge asset for Unieuro, so that they can also develop this strategy for their stores in this respect as well. So that will be a synergy in purchasing, in sales and in customer satisfaction. All of those things.

So for an operation of this size, the figures that we're proposing today seem to us to be totally aligned and we're confident that we can deliver this.

Operator: The next question is from Emmanuelle Vigneron from HSBC. The floor is yours, sir.

Emmanuelle Vigneron (HSBC): Hi. Thank you. I have three questions. The first is, what are the integration costs? If we could have an idea of the breakdown in OpEx and CapEx. The second question is what is the positioning in terms of products for Unieuro? Is this premium such as yours? And the last question: Are the Unieuro stores integrated or are they also franchised? Thank you.

Enrique Martinez: For the full integration, it's very limited or insignificant. There are activities that are already well structured, which work well so we do not feel any obligation to engage significant OpEx or CapEx to integrate them. Now in the future, if we have other projects to work together, that might happen. But talking about the integration and synergy, this is insignificant for us.

About positioning of the brand. This is quite similar, in fact. Each market has their own specific nature, but Unieuro is a specialist driven by value, and it's obviously mass market. They're a leader in that market. They have all price segments, but they are well positioned on experience and quality of the products. It's quite close to our own positioning in France and in other countries where we are present.

And the third question is about the stores. Unieuro has 520 stores, as we say. They have roughly 270 integrated and 250 are franchised, with the majority of integrated stores in the north of the country and the franchises in the south of the country.

Emmanuelle Vigneron (HSBC): Great. Thank you.

Operator: The next question is from Florent Thy-tine, from TP ICAP. The floor is yours.

Florent Thy-tine (TP ICAP): Hi. Just to add to the previous question by Clément about synergies. You talked about the merger between Fnac and Darty. Could you give us an idea of what synergies you're able to produce in purchasing during that merger? Regarding logistics, how would that be organised? What is Unieuro organisations? Are there synergies to go after in that respect? And the second question is about the level of margin in Unieuro. It's almost one point below what you published last year. What's the explanation for that? And is there a way of leveraging that to improve it? Thanks.

Enrique Martinez: So about logistics. Today the logistics is organised for the country itself. So there's no short-term project to exchange that. We could see some synergies around products that are coming from Asia. We should be able to benefit from size and volume effects of the group, could be an upside. Today we don't have in mind; that's not in the working plan to change logistics for the moment. It will definitely stay very local because it has to be close to Italian consumers.

In terms of synergies, if memory serves me well, we talked about €130 million and roughly a big half of that was purchasing. There was an overlap and more significant volumes that was significant, we were on the same geographies, there were common product ranges were something like 60% of the offering. This time, matching would be totalled because all of the products that they distribute in Italy are the same that we are distributing in France and in other countries. So there's a total coverage with a volume that would be more limited. And the opportunity, as I said, would be in terms of private labels and licenses, which could lead us to go a bit further.

And I think that we'd forgotten a question that was asked before, would we like to be using other format that we have today? You mentioned Nature & Découvertes and we didn't answer that one. It's too early to say. I think Unieuro was very active in consolidating its markets with acquisitions and external growth, and I think these are projects that we want to support, and we'll see in the future whether there are opportunities to continue adding to that offering in areas that we know very well, such as Furnished kitchen and so forth. And why not? But today, that's not part of the short-term plans that we have in terms of taking out synergies.

Jean-Brieuc Le tinier: The organisation in terms of logistics. Now, Unieuro has logistics that are centralised with a huge warehouse in the north, which distributes to the whole of Italy. So this is the situation. It's an organisation that is self-carrying as it were. And so, we probably won't have much synergy in that respect.

Now, in terms of the margin, they have a margin that is a bit lower than ours. That's been noted. They have services that are a bit lower as well. But they stand alone in the country. Now if you look at their level of Current operating profit post synergies, it's very similar to what we have published last year.

So the size and synergy are levers that are of great interest obviously. The growth and market share could also help them to continue developing Unieuro margin level.

Florent Thy-tine (TP ICAP): Just to add to services: They've made an acquisition last year of significant proportion. Are they the only ones to provide services in Italy or are there other sectors?

Enrique Martinez: Well, they bought Covercare to enter the repair and home assistance market. I think that market is less mature than in France. It's dominated by the manufacturers. Unieuro has demonstrated its desire to take this over, and I think they are becoming with this acquisition, a reference in in this market. Now, this is close to what we are doing in other markets. So it does prove conclusively that they are aligned with our own strategy as well.

Florent Thy-tine (TP ICAP): Possibly a final question. Why do this operation with Ruby? Why didn't you do it on your own?

Enrique Martinez: We decided to have the input of our main shareholder because, as you have noticed, it made it possible to do this deal under good conditions for Unieuro shareholders with a premium that we think is attractive that might prompt them to say yes. It's also without imperilling our ratios and our financials over the medium and short term. We all know that this market has limited visibility. We didn't want to get into regions where we haven't got too much to do and this transaction makes it possible to do this. It's something that we wanted with a limited exposure for the group and, let's say it, with a greater room for manoeuvre for other operations, for capital remuneration or growth opportunities. Because remember, we've been talking about consolidating this market since years. We've been talking about reinforcing global and local players and It isn't over. It's a major project for us, for the group, and it's the biggest – if we exclude the Darty integration – it's the biggest project we've ever had. But having done this, we're not actually spending our cartridges right now. We are available for other opportunities.

Florent Thy-tine (TP ICAP): Thank you.

Operator: The next question is a call in English from Olivier Sorgho of Reuters.

Olivier Sorgho (Reuters): Yes. Hello? Can you hear me? Hello?

Enrique Martinez: Go ahead, please.

Olivier Sorgho (Reuters): Yeah. Sorry. Hi. Can you hear me? This is Olivier Sorgho from Reuters news agency.

Enrique Martinez: Go ahead, please.

Olivier Sorgho (Reuters): Sorry, I just have a question first, about, you know, you mentioned the transaction as a "mixed friendly takeover bid" could you just sort of clarify what does that mean and maybe how whether you have already approached Unieuro or not? Thank you very much.

Enrique Martinez: Thank you very much. We are good friends, but it is not a friendly transaction. We sent an offer today to the board to submit to all the shareholders. This offer is a mixed offer. Cash and equity, as we mentioned, so we don't know what will be the outcome on the response for them. We strongly believe that this is a very attractive offer that is in the interest of the shareholders, but mainly also for the company. So now we wait for their reaction, and there are a few interactions because we know them. We are in the same industry for years and years. But now is the moment of truth. We sent the offer and now we wait for them. They have a couple of weeks to consider and to position individually, and we hope massively they will accept it.

Olivier Sorgho (Reuters): Thank you very much.

Operator: I'd like to remind you that if you wish to ask a question, just press *1 on the keyboard of your phone. The next question is from Dylan Deschamps from Samson Rock. Over to you, sir.

Dylan Deschamps (Samson Rock Capital): Hello. I had a question about the synergies that you talked about. What kind of percentage of capital do you have to secure these synergies? Are we talking 51%? 60%, 70%, 90%?

Enrique Martinez: Well, thank you for that question. One of the conditional aspects of this is, in fact, to have something around about 90%. We're expecting a minimum of 90% of the acceptance of the offering.

Dylan Deschamps (Samson Rock Capital): Yeah, but just a follow up on this, if I can. I imagine that the due diligence you've been doing has been limited to publicly available information. You haven't been able to get into a data room from Unieuro?

Jean-Brieuc Le Tinier: No. Entirely so. If that had been the case, the information would have actually impacted the offer. So that hasn't been the case.

Dylan Deschamps (Samson Rock Capital): Okay. Thank you.

Operator: We want to remind you once again, if you wish to ask a question, just press *1 on your phone. Mr Martinez, there are no more questions. The floor is yours, sir.

Enrique Martinez: Well, thank you very much. Thank you all for attending and with all our teams, of course, we'll be available to carry on discussing things with you, about this thing. And let's meet up next week for more detailed announcements of our half-yearly results. You've already heard the most important parts of what's going to come next week, so thank you very much and have a pleasant evening.