SMCP hurt by coronavirus but underlying trajectory is upwards

By Sandra Halliday - March 25, 2020

French premium fashion giant SMCP released its 2019 full-year results on Wednesday but, as with so many of its fashion retail peers, what everybody really wanted to hear about was what’s happening as far as the coronavirus is concerned.

On that front it had a mix of news. On the plus side, in Asia-Pacific almost all of its shops have reopened in Greater China, compared to the 70% of them that were temporarily closed at the peak of the outbreak there.

That said, traffic in malls remains “extremely limited despite some early signs of improvement over the past few days”. But its distribution centre continued to operate normally throughout the crisis and the company saw strong results in e-commerce during the first quarter of 2020. It's a similar picture in countries such as South Korea and Australia, where its stores are operated by partners. Those shops remain open but traffic is very low.

In EMEA, including France, all of its shops in most European countries have been close since mid-March, and in
countries operated by partners in the Middle East, the shops are closed as well, except for Dubai. Its Russian
shops remain open for now and the European distribution centre is also open to ensure exports and e-commerce.

In the Americas, the company temporarily closed all shops in mid-March but its distribution centre is operational.

Understandably, all of this means "sales and profitability are meaningfully impacted". The company has taken
measures to protect its cash flow, cutting non-essential investments and other costs, as well as adjusting its
inventory levels and collections while making sure it maintains its ability to meet e-commerce orders. While these
orders could rise during this crisis, as other retailers have reported, e-commerce still only represented 15% of its
overall turnover last year and physical shops remain the key channel through which it sells most of its products.

Another issue that's hugely important at the current time is cash flow. The company has decided to immediately
draw the full capacity of its revolving credit facility to reinforce its cash position and therefore said it has more than
€200 million available to it to weather the storm.

But, like other companies, it has no easy visibility of just how the year will pan out. For the first quarter though, it
expects sales to be down by slightly more than 20%.

2019 growth

Moving on to look at how it performed in 2019, the company said its net income rose 14.1% to €59.4 million
(excluding refinancing penalties) and its sales were up 11.3%, or 8.7% on a constant currency basis. Sales rose to
just under €1.32 billion and adjusted EBITDA rose 1.6% to €174.2 million.

Like-for-like sales dipped marginally (by 0.1%) for the year as a whole. But in the second half they rose 0.8%,
which was good news, although that will be tempered by what has happened since. Overall sales growth was
boosted by an expansion in store numbers, as well as a positive currency impact of 1.3% and De Fursac's
contribution of 1.2% since last September.
CEO Daniel Lalonde called the growth "robust", especially in the context of challenging market conditions in the Paris region (which had been hit hard by the yellow jackets protests) and Hong Kong (also impacted by protests) during the fourth quarter.

The company didn't break out individual annual figures for each of its four brands, but in previous results reports had said that the two star labels, Sandro and Maje, have been progressing most strongly. The smaller Claudie Pierlot has been weaker than those two, while De Fursac is still at a very early stage as part of the larger company.

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