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PRESENTATION

Operator

Welcome to the Global Fashion Group Q2 Results 2020. (Operator Instructions) Just to remind you this conference call is being recorded.

Today, I am pleased to present Christoph Barchewitz, Co-CEO. Please begin your meeting.

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
Thank you, operator, and good morning, everyone, and welcome to the presentation of Global Fashion Group's results for Q2 2020. I'm Christoph Barchewitz, Co-CEO of GFG. And I'm joined today by my co-CEO, Patrick Schmidt; and our CFO, Matthew Price.

Before we get into the presentation, I'd like to thank our entire global team for their agility and determination as we work quickly to adapt our business throughout the pandemic. As a result, we have been able to capture the strong customer demand we have seen since the end of April, delivering a very strong quarter despite the slow start. However, the pandemic evolves and whatever measures individual countries adopt, the safety of our team and customers will always remain our priority.

I will start the presentation by discussing how we have executed our strategy through Q2 and then run through our KPIs. Before Matthew will take you through the financial results of the quarter and our guidance for the full year. After that, we'll open it up for Q&A.

Let's look at the highlights of our second quarter. As usual, we are presenting constant currency growth rates today. In Q2, we generated net merchandise value of more than EUR 488 million, up 23% year-on-year, with a standout performance from our marketplace, which increased by 90%.

Active customers were up 22% to 14.6 million, and our customers placed 10.6 million orders in the quarter, up 19% on Q2 last year.

Our gross margin was 42.7%, up a strong 140 basis points year-on-year. Reflecting all of the management actions taken during the quarter, we achieved our second profitable quarter with our highest ever adjusted EBITDA margin of 2.8%, an increase of 370 basis points.

At the end of Q2 we had a pro forma cash balance of EUR 263 million, an increase of $53 million in the quarter, making Q2 our first cash flow positive quarter yet. Overall, a really strong performance that we are pleased with.

Turning now to look at the strategic developments within the business, starting on Slide 4. We managed our response to the pandemic through the lens of our existing strategic framework, which is about building an inspiring and seamless customer experience, being the strategic partner to leading brands and building scalable operations and technology.

As we acquired a record number of new customers through Q2, providing them with that experience was more important than ever despite the operational challenges due to COVID-19. We are convinced that our track record of providing a great customer experience will keep this new cohort on the platform for many years to come. But customers spending a lot more time at home have very different needs, and we have to pivot our inventory intake and assortment very quickly to meet this new demand, which we did. And to support our customers, we evolved our social media messaging as well as our customer communications. We are working with our brand partners during this time to help them expand their own digital ambitions and saw a doubling of the growth rate of our marketplace NMV compared to Q1 this year.

At our Capital Markets Day in March, we communicated a medium-term objective to get to 30% participation. Which is now achieved in justone quarter. This is very much our intention to at least maintain that level going forward. As well as building our marketplace, we've also expanded our fulfillment capabilities while maintaining a safe working environment across all of our fulfillment centers and delivery hubs. While we have seen some bottlenecks in last-mile delivery capability, we have been able to manage our own career networks more efficiently than third parties have. We have also managed customer expectations throughout by removing shorter delivery options rather than disappoint them.

It's also exciting to note that 58% of NMV during the quarter was ordered via one of our apps, indicating further progress toward customers enjoying the greater experience transacting through an app brings.

Turning now to take a closer look at that customer experience. When we last presented, we noted the record customer acquisitions that we've seen in April, and I'm pleased to show you that, that continued through May and June. Over the quarter, we acquired a record 2.5 million new customers, up 56% year-on-year.

More significantly, this Q2 new customer cohort is showing some really exciting purchasing behavior. Their propensity to make a second purchase is 25% higher than the same cohort last year, and they made 9% more orders than the prior year's intake during the quarter. Google calls them the emerging loyals. We believe it is likely that the acceleration of e-commerce due to COVID in our markets will be a medium-term growth driver and not just a short term trend.

As I mentioned a few minutes ago, we were able to keep creating an inspiring and seamless customer experience by rapidly pivoting our category mix to reflect what our customers wanted the most. I'm sharing with you here those categories like loungewear kits, underwear, sleepwear and beauty that outperformed during Q2, while dresses, formal shoes, occasionwear and swimwear under performed. No real surprise there when there weren't many occasions that necessitated a new outfit and people were spending a lot more time at home.

Now looking at our brand relationships. In total, we launched around 3,000 new brands on to marketplace during the quarter, some of which were presented on the slide. Some are filling in where we already work with them in other markets, and we are looking forward to working with each and every one of them.

Marketplace NMV of our top 30 brands tripled year-on-year. Our marketplace is more important than ever for both GFG and our brand partners. Giving brands a number of different ways to reach our customer base and marketplace gives us the opportunity to expand our assortment without taking additional inventory risk.

While we launched a significant number of new Marketplace brands, we increased the Marketplace SKUs on the platform by around 80%. And at the same time, we reduced our planned retail inventory intake by about 50% as we responded to the pandemic, resulting in more demand on the Marketplace product and a very healthy inventory position at quarter end.

It is this flexibility of marketplace that enables us to actively manage our inventory and react swiftly to changes in demand, meeting our customers' needs and helping our brand partners maximize their online opportunities.

Let's look now at our operations. The resilience of our localized infrastructure continued to prove itself through the second quarter, with all our main regional fulfillment centers remaining 100% operational throughout. We've experienced no further closures of smaller FCs to date.

We have now substantially completed the investment into our new Brazilian FC and are in the ramp-up and testing phase of our automation solution. We've already shipped some orders from the new facility during the quarter and are dual running our existing facilities, which has proven to be helpful during the pandemic.

During the first half of the year, we undertook expansions or moves in Argentina, Chile and Colombia, adding over 70% capacity in those markets. We have plans for the second half to complete moves for Indonesia and Philippines FCs, increasing capacity by more than 50% in those markets, which will be done in good time for the significant sales event in the fourth quarter.

Turning now to look at our KPIs. NMV growth in Q2 was 23% having seen a strong recovery from late April with May and June being GFG's strongest two-month period in four years. Marketplace penetration reached 31% over the quarter as a result of 90% growth at NMV level. Growth breaks down to a 19% increase in orders and a 3% increase in AOV. Though you will note on the slide that devaluation of our major currencies resulted in the reported figure falling. Matthew will talk about currency impact in a few minutes.

Taking a closer look at our customer metrics. Our active customer base grew 21.6% year-on-year to reach 14.6 million customers. I spoke a few moments ago about the characteristics of this exciting new cohort. However, reflecting a change of behavior of existing customers while staying at home, we did see a marginal reduction in overall order frequency, also reflected in NMV per active customer. We don't believe that this will become a long-term trend and is merely a temporary development given that people have had fewer reasons to dress up as we saw, are buying less occasionwear, et cetera.

Turning to our regional performance. Our LatAm region, while having the largest customer base, still grew an impressive 24%, driving a 27% increase in NMV. However, NMV per active customer fell as a result of lower basket size. CIS remains our fastest-growing region from an NMV perspective, up 45%, mostly driven by continued expansion of the marketplace model. We delivered strong customer growth of 20% and NMV per active customer increased by 8.5%.

We have split out our former APAC region into SEA and ANZ, giving a more granular reporting view. For another quarter, active customers grew the fastest in SEA, increasing 79%.

As we have said before, SEA has the largest population of all our segments includes countries with some of the lowest online fashion penetration levels. NMV grew 17.5%, with a small 2% drop in NMV per active customer over the quarter.

It is worth noting that our Philippines FC was closed for around 40 days to the end of April, restricting our ability to dispatch orders and therefore, had an impact on NMV.

In ANZ, we saw a 4% increase in active customers, but in the 15% decrease in NMV, driving a marginal fall in NMV per active customer.

I'd like to give some background to our performance in Australia. Historically, the Iconic had the highest share of high fashion categories such as dresses, deals and occasionwear, a strategy that has always worked for us. However, in Q2, demand for these products fell significantly across our markets. The share of lockdown categories within the iconic assortment, such as sports, kids and beauty was a relatively small pre-COVID as we have only recently entered these categories. As a result, we saw a sharper overall decline in NMV due to COVID in Australia than in other regions and a smaller pickup in demand of better performing categories. We've now pivoted into those in demand categories and have cash to redeploy into new trends that appear as academic plays out.

In summary, while we've seen a short-term dip, we have a strong financial position and are well positioned to be agile and capitalized on the recovery.

Overall, this has been a very strong quarter with exceptional new customer growth, great NMV performance and a fundamental shift in marketplace participation. I'd now like to hand over to Matthew.

Operator
Matthew, could you please make sure your line is unmuted at your end.

Matthew Price ***Global Fashion Group S.A. – CFO & Director***

Hi, Does this work?

Operator
Yes. Sorry, we weren't able to hear you before. Please go ahead.

Matthew Price ***Global Fashion Group S.A. – CFO & Director***
Sorry. Good morning, everyone. For the second time. I'll now take you through financial performance on Slide 13. A couple of points before I get going on the slide, as well as this being our second profitable quarter, I'm delighted Q2 was also our first ever quarter of generating positive cash flow.

Then, as you know, we earn virtually no revenues in the euro our reporting currency. This means our reported results are impacted by the devaluation in the quarter of the Russian ruble and Brazilian real of approximately 11% compared to the rates of the end of last year on an NMV weighted basis. The currency translation impacts on our financial statements are summarized on Page 22 of the presentation.

In the first half, we saw a EUR 55 million headwind on our reported revenues versus last year and negative EUR 2 million on our adjusted EBITDA. To give a clear picture of how our businesses have performed, I'll, therefore, focus on constant currency growth rates.

While GFG's reported results are impacted by currency translation, on a transactional basis, the group has strong natural currency hedges that protected to operating businesses.

In 2019, more than 90% of cash flows in our LatAm segment and more than 80% in our other segments were naturally hedged, meaning local currency revenues are matched against a local currency cost base.

So moving on to the slide now. On a constant currency basis, revenue grew by 11.3% to EUR 336 million in the quarter. Our gross profit grew to EUR 144 million, and gross margin increased by 140 basis points to 42.7%. There were two major factors behind this. Firstly, the accelerated delivery of our transformative marketplace share targets added 3 percentage points to gross margins. Secondly, we successfully traded the retail business in the way we set out to -- at our Q1 results. By being a little more promotional early in the season, we drove strong sell-through rates at good margins before physical retailers reopened with deep discounting on their excess inventory. This meant we closed the season with a clean inventory position and have not needed to make significant inventory provisions.

We achieved an adjusted EBITDA profit of EUR 9.5 million, giving a margin of 2.8%, an improvement of 370 basis points, our second ever profitable quarter and highest ever margin. Later in the presentation, I'll talk you through the cost base for H1.

Other than the share-based compensation charge of EUR 2.7 million, there were no other adjustments to adjusted EBITDA in the quarter.

Now turning to Slide 14 to look at our regional performance in more detail. We saw good growth in revenue and improvements in gross margins in most of our regions. LatAm revenue grew by 16.1%, an acceleration from Q1 while gross margins improved by 290 basis points driven by increased marketplace participation, offset by a small retail margin investment and country mix effects.

CIS revenue growth of 27.2% was the highest of our regions and a significant acceleration over Q1. The large delta between revenue and NMV growth reflects the fast growth of marketplace share in the region. Gross margin remained stable year-on-year with investments in retail margin offset by increase in marketplace.

As Christoph said, we split out the former APAC segment into SEA and ANZ. While FCA has a lower gross margin, it's partly mitigated by lower operating costs. For your models, the quarterly track record is given in the financials document available on our website. SEA delivered revenue growth of 12.9%, significantly slower than NMV growth as the region made great progress on its marketplace. Gross margin in SEA was broadly stable at 29.7%.

As we alluded to at Q1 and noted in the ad hoc statement in July, ANZ saw some challenges in Q2. And while revenue contracted by 19.3%, gross margin improved somewhat year-on-year.

Like most e-commerce businesses, we experienced lower return rates during lockdown. As you know, our return rates generally much lower than in developed markets.

In Q2, the return rate reduced by 2 percentage points on last year to just 7%. This benefited our retail revenue by EUR 5 million and retail gross margin by EUR 2 million.

Turning now to the cost base on Slide 15. This slide shows information to H1 as a whole rather than just Q2. We provide fulfillment services over 70% of marketplace items. So as a result of the very big development of the marketplace business, fulfillment costs increased year-on-year by 60 basis points of revenue to 25.3%. We record the total fulfillment costs in our P&L, but only the marketplace commission in our revenue line. This distorts the ratio as marketplace share grows.

Looking at the real productivity of our operations, with the substantial year-on-year increase in scale, fulfillment cost per order fell by 9%. This is in spite of the additional costs incurred to make our FCs safe during COVID. As a percentage of NMV, our fulfillment cost ratio declined by about 2 percentage points.

As we said at the Q1 results, we made rapid and deep cuts to our marketing spend as the scale of the pandemic became clear. Therefore, with record numbers of new customers coming to our sites, we saw significant leverage on the marketing cost income ratio. In H1, marketing costs were 8.6% of revenue, 160 basis points better than last year, and in Q2, our marketing spend was around 7%.

Given the significant opportunity, we are increasing marketing spend in H2.

Tech and admin costs are in line with H1 last year as a percentage of revenue, planned investments in technology offset savings in admin costs, which are lower in euro terms despite the growth of the business. All of this resulted in a 260 basis point improvement in adjusted EBITDA margin to minus 2.2% for H1 as a whole.

Looking at the impact of foreign exchange on this result, the H1 adjusted EBITDA was adversely affected by around EUR 2 million due to foreign exchange translations. And looking out to the full year, if rates remain at current levels, we expect a EUR 7 million headwind as adjusted EBITDA and around EUR 145 million at the revenue line.

At the H1 results, we talked about making EUR 40 million of year-on-year savings in marketing, tech and admin costs for the year. This was against a much more conservative view of the opportunity ahead of us in 2020. And so we are on track to deliver around EUR 10 million of this year-on-year savings.

I'll now turn to look at CapEx investment and our cash position on Slide 16. We invested EUR 29 million of CapEx during the first half, similar to last year. The EUR 18 million spent on PPE is mainly fulfillment centers. We've now substantially completed our investment in the new Brazil facility. And during the half, we also expanded or moved four of our smaller FCs.

We invested a similar amount in our technology intangible assets, some EUR 7 million of additions relate to our in-house technology team. In the first half of the year, we capitalized 34% of our total tech pay roll.

We ended the quarter with EUR 263 million of cash in the business, and in Q2, enjoyed our first quarter of cash generation. Pro-forma cash included EUR 20 million of restricted cash under the terms of our old RCF and around EUR 10 million, which is to local facilities.

We completed the planned changes to our banking arrangements on the 31st of July, replacing our old RCF with a more cost-effective and flexible mix of EUR 20 million of bank guarantee facilities and a EUR 10 million buyer loan facility. These sit alongside EUR 10.5 million of local working capital facilities that further enhance our natural currency hedges. We plan to continue developing further local currency financing arrangements.

Moving to Slide 17 to take a closer look at cash during the quarter and the first half. We had our first cash flow positive quarter, generating EUR 53 million. As a result of the cash preservation measures put in place at the start of the pandemic, we released EUR 47 million of cash from working capital, mainly by reducing intake. This was bolstered by our positive adjusted EBITDA of EUR 10 million, our investment in CapEx and lease costs during the quarter were broadly offset by small FX gains and an equity contribution from our Philippines joint venture partner.

Looking forward to H2, we're intending to build some retail inventory as we exited Q2 a little lighter than is ideal. Therefore, for the full year 2020, we currently expect to see a small year-on-year investment in working capital across the group.

I'll now go through the guidance that we issued this morning. We are still in the middle of a global pandemic and the economic and consumer outlook remains uncertain across our markets. After strong and profitable growth in the second quarter, we are pleased to provide the following guidance for full year 2020. The company expects to grow NMV by around 20% in constant currency terms, delivering around EUR 1.9 billion of NMV at the end of June exchange rates.

On that basis, we expect revenue of around EUR 1.3 billion and we expect to approach breakeven on adjusted EBITDA. CapEx investment will be no more than EUR 45 million. This is the end of our formal presentation. We'll be very pleased to take any questions from the call and then we'll address any questions that come in from the webcast. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

The first question is from the line of Geoff Ruddell of Morgan Stanley.

Geoffrey Frith Ruddell ***Morgan Stanley, Research Division - MD***

It's one for Matthew, please. Could you just give us -- if you meet your guidance for the year, what sort of cash position are you likely to have at the end of the year, please?

Matthew Price ***Global Fashion Group S.A. - CFO & Director***

We will see a little investment into working capital in the second half. So it will come down a bit from where we are at the moment, but I think will remain extremely strong.

Geoffrey Frith Ruddell ***Morgan Stanley, Research Division - MD***

But I mean sort of EUR 10 million, EUR 20 million down as opposed to -- I mean, you'll be well above 200, so will you...

Matthew Price ***Global Fashion Group S.A. - CFO & Director***

That said, I'd certainly expect it to be, yes.

Operator

(Operator Instructions)

The next question is from the line of Michelle Wilson from Berenberg.

Michelle Wilson ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

A couple from me, please. Just firstly, I didn't see a comment in the statement, I might have missed it on current trading. Is there anything you can say in terms of trends that you've seen since the quarter end?

And then secondly, you reinstated the guidance for 2020, but the Capital Markets Day earlier in the year, you talked about being EBITDA profitable by 2021 at the latest. Is that part of the guidance reinstated as well? And can you just talk through the key drivers of how you would get there?

Matthew Price ***Global Fashion Group S.A. – CFO & Director***

So I'll start, Christoph, and you can add. Yes. I mean, taking the guidance piece. Yes, we do still intend to be EBITDA profitable no later than 2021. Sorry, I should have added that on to the slide. The key drivers there are just ongoing growth, retain that marketplace share mix, which helps the margin. And then really use the growth to scale the cost base below, and I think it should come out -- come through very clearly from that.

In terms of current trading, we haven't given an explicit comment on the short period of time after the end of the statement. Really there. We're still -- we're seeing the sort of trends that we saw in the second half of Q2. So we're quite comfortable that we are on a relatively stable course. And then hopefully, the guidance of 20% NMV growth for the full year is helpful as well.

Michelle Wilson ***Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst***

Great. And just a follow-up on that EBITDA margin. In Q2, you mentioned a 3 percentage point gross margin tailwind from Marketplace, but 1.6 percentage point of that reinvested into the retail margin. Should we expect that 3 percentage points to come through over H2? And would you be expecting any reinvestment in H2? Or would that just drop through?

Matthew Price ***Global Fashion Group S.A. – CFO & Director***

So the we certainly intend to keep marketplace share at the kind of levels we're seeing now, therefore, that 3 percentage point benefit should be in the numbers going forward.

In terms of reinvestment, clearly, we're still in an uncertain time, therefore, we probably will have some reinvestment. I wouldn't expect it to be at the levels that we had in Q2 because amongst those things, Q2, we were very cautious about making sure we cleared ahead of physical retail reopening, and we did that very well.

We also went into Q2, having had a good Q1, confidently bought on an assortment that was for the old world, and there was a clearly category and demand shift in there. So we had to trade through, probably not what as a result of COVID wasn't perfect inventory mix. So I think there were lots of things running against us in Q2. I think we did a fantastic job of managing that on the retail side.

Operator
As there are no further questions on here, I will now hand back over to Christoph.

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
I think we had a few questions on the webcast, Adam?

Adam Kay ***Global Fashion Group S.A. - IR Director***
Yes. The first question comes in from José Marco at Belerion who asks, you've already beaten your target of 30% GMV from Marketplace. Where do you see Marketplace share going to?

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
Thanks, Adam.

So clearly, we didn't expect this level of acceleration when we gave the medium-term guidance at the Capital Markets Day in March. And as Matthew said during the presentation, we really want to maintain it at this level. I think it's a bit early to set a new target, but we certainly see that the increased adoption of Marketplace also by our brand partners and the investments that they are making into their own e-commerce capabilities and abilities to sell on third-party marketplaces such as the Global fashion Group platforms is an enabler for the number to go up further. And so we've just seen an acceleration there. And therefore, I think we also see an opportunity that when we now look out for the medium-term to go higher on this number, there's definitely going to be a meaningful part that remains our retail business. But I think over the longer period, we can see quite a balanced mix between marketplace and retail.

Adam Kay ***Global Fashion Group S.A. - IR Director***
The next question comes from Tobias Sittig analyst at MainFirst who asks can you expand on the marketing cost development as a percentage of revenue for Q2 in isolation?

Patrick Schmidt ***Global Fashion Group S.A. - Co-CEO & Director***
Yes. This is Patrick. I can take this one.

So as we have seen a steep drop in demand in March and that expanded a little bit into April, obviously, we have reduced our marketing spend because that was just the right thing to do. We have then increased that marketing spend again in end of April and we've maintained that throughout May and June, it was a little bit lower than our budget and a little bit lower than last year, but we certainly believe that there is an opportunity to acquire more new customers as we have done in Q2 with a record number of 2.5 million new customers, and we will maintain that strategy of cautious, marketing investment but -- probably increasing marketing investment where we see good returns going forward.

Adam Kay ***Global Fashion Group S.A. - IR Director***
Thanks, Patrick. One for Matthew here from Bastian Brach.

Your admin costs are relatively high in comparison to your global competitors. What's the reason for this? And can these costs be reduced with scale?

Matthew Price ***Global Fashion Group S.A. - CFO & Director***
Thanks, Adam. Thanks, Bastian.

Yes, so our admin costs are higher than being a single tree operation and will always be so because we have buying, ranging, merchandising and operations colleagues in most of the countries that we operate in. That's the right way to do it to get the right localised range for us. And it also means that we can deliver absolutely fantastic service levels to the customers in each of the markets.

That said, in H1, we controlled our admin costs, so they were a little bit lower in euro terms. I know we had some benefit from FX in there than they were the year before. So we have the right amount of cost in. It will go slowly. It will probably grow a little bit -- inflation a little bit above that. And really, therefore, as we scale the business, they can drop an awful lot in percentage terms. So we've got the right platform. We just need to grow the scale further on it, and we know that we're delivering to the customers there.

Also, including that line of technology costs, we will continue to invest in our technology because the front-end technology, the customer service technologies are incredibly important ways in which we grow the business and deliver better and better for our customers.

Adam Kay ***Global Fashion Group S.A. - IR Director***
Thanks, Matthew. The last question we've got from the webcast, probably is for Christoph from Frank Ehlers. Could you specify the effect of inflation on your constant currency growth rate? Is it constant currency NMV driven mainly by inflation?

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
Thanks, Adam.

So we provide the constant currency growth numbers really to remove the translational effect given that many of our currencies have quite volatile performance relative to our reporting currency, the Euro. There is certainly also inflation in our market. So that is correct. It's certainly on a weighted basis, nowhere close to our NMV growth rates and because we clearly have also mature markets such as Australia that have a very different inflation level relative to when you look at, for example, Brazil. And I think when you look at our other KPIs around the order metrics, et cetera, there's clearly a lot of real growth happening in the underlying business. So yes, there is inflation included, but we are seeing also underlying growth of the key drivers.

Adam Kay ***Global Fashion Group S.A. - IR Director***
Thanks, Christoph. Sorry, one more has just come in, a follow-up question from Tobias Sittig at MainFirst. Can you expand on the turnaround of The Iconic, when do you expect to be back in positive NMV growth territory?

Patrick Schmidt ***Global Fashion Group S.A. - Co-CEO & Director***
So the Iconic is growing again this quarter. So it's not so much a turnaround as it's just basically that we were exposed to -- for our category mix, which has served really well for almost 10 years. And we were exposed in all territories, but more so in the Iconic. Obviously, going into new categories, launching some new categories, like, for example, beauty, which we already had in other markets, but we haven't had in Australia that takes a bit of time. We've made really great progress on that. July, for example, was launched a couple of weeks ago. There's more coming. So we expect that we are in a positive growth trajectory again in Q3 and overall for the second half and also overall for the overall 2020.

Adam Kay ***Global Fashion Group S.A. - IR Director***
Thanks Patrick. That was the last question from the webcast.

Christoph Barchewitz ***Global Fashion Group S.A. - Co-CEO & Director***
Thank you, Adam, and thanks everyone for joining.

Operator
Thank you. This now concludes today’s call. Thank you all for joining, you may now disconnect your lines.