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PRESENTATION

Christoph Barchewitz - Global Fashion Group S.A. - Co-CEO & Member of Management Board

Good morning, everyone, and welcome to Global Fashion Group's Q3 results presentation. I am Christoph Barchewitz, and I'm joined today by my co-CEO, Patrick Schmidt, and our CFO, Matthew Price. I will update on how we are progressing against our strategic priorities. Matthew will take us through the financial results for the quarter and the outlook for the full year. After that, we'll open it up for Q&A.

To start with, I wanted to touch on a key point of difference between our markets and the markets in Europe or the U.S. We shared this bar chart last -- at Q2. It illustrates the percentage of the population fully vaccinated, updated to the end of September. Vaccination rates are really improving, which is great news. But for most of Q3, Australia, Indonesia and the Philippines were under some form of restrictions. And especially in Lat Am, we are seeing second-order impacts from the pandemic, which is weakening consumer sentiment. As a consequence, some of our largest markets have yet to see the recovery and the balance in fashion and lifestyle spend, which typically follows their reopening. We are seeing this recovery in ANZ, and we are optimistic about this gradually expanding across all our markets.

Before I present these results, I would like to remind you of the exceptionally strong Q3 last year, the quarter where we saw 52% growth in Lat Am, a significant acceleration of our market-based participation and unusually low levels of marketing investments. We have consistently said that these remarkable comparatives would moderate this quarter's reported results.

As usual, we are presenting constant currency growth rates today. We achieved net merchandise value of EUR 572 million, up 12% year-on-year. Marketplace was, again, the strongest driver of NMV. Our active customer base grew by 10% to reach 16.9 million. Orders were up 8% to reach 11.6 million. Order frequency, a key customer measure, increased 11% to 2.8x per year. Gross margin was 46%, up 1.4 percentage points year-on-year, supported by a strong and stable retail margin and growing marketplace share. As planned, we increased our marketing spend to their usual levels. This investment, alongside the performance and investments in the Lat Am region, reduced our adjusted EBITDA margin to minus 2.1%.

Let's now have a look at the progress of our strategic priorities. We have 3 clear strategic priorities, which include: to build the best-in-class customer experience, to be the partner of choice for brands, and to do this while being people and planet positive. These are at the heart of how we choose to operate our business.

Let me walk you through a few updates on how we are executing in line with these priorities, starting with our customers on Slide 6. A key differentiator of our business model is our highly localized approach, which helps to ensure that we can deliver a broad and relevant assortment tailored to the local market and consumer. This is a foundation to our inspiring shopping experience.

In ANZ, our brand teams have identified the gaps in the market and created own brands tailored to the Australian consumer. Our key own brands are Air, created with sustainable credentials; Atmos & Here, for that edgier look; and DAISY, for a stylish, younger, more price-conscious consumer. All 3 brands are included in our top 10 brands in ANZ, and they are growing fast.

A real test of what a good job the teams have done is just how quickly these brands call sell out, reducing the need for discounting and improving gross margin. By putting the customer first, we have differentiated our proposition providing exclusivity to our customers. Growing adjacencies remains a key priority.

In the Beauty category, which is such a complementary purchase to Fashion & Lifestyle, the team has achieved a great deal over the last 12 months. We have expanded to over 200 brands and grown our Beauty NMV and ANZ 5x over the last year.

I will now talk about some of the improvements we have made to our fulfilment proposition on Slide 7. Our customers value a fast and convenient service. We have previously explained that in Lat Am improving the delivery and return experience is a key enabler of higher levels of online penetration across categories and higher order frequency. We have been investing, and we wanted to provide some colour to our initiatives.

Last year, we completed the transition to our new fulfilment centre in Brazil, which is delivering significant efficiencies by improving throughput. We have extended our own last-mile delivery. We now make about 85% of deliveries in Chile using a dedicated fleet, and we are well established in Bogota and Sao Paulo as well.

In the last 12 months, we have doubled the number of orders eligible for our home pickup service with collection directly from a location of the customer's choice. This is now available across every country in the region. In addition, we have quadrupled the number of drop-off points across the region. Together, these initiatives represent meaningful progress to unlocking the potential across this huge market.

Let me now walk you through some of the global and local brand launches across our platforms. Our decentralized model ensures that we are the partner of choice for both local and global brands, and the teams have continued to onboard new brands broadening the assortment for our customers. It is this breadth and localized expertise in supply, which has, so far, allowed us to quite effectively manage the well-reported industry supply chain challenges.

In SEA, we have extended our partnership with H&M Group to include COS and Monki as well as welcoming OLD Navy from Gap Inc. Australian brand, P.E. Nation, has been a longstanding partner in ANZ, and we are delighted that it has now launched in CIS, where we hope to replicate their success. We attract these brands by offering flexible business models to help them grow. Marketplace has been a popular choice, which I will talk about on the next slides.

At the start of the pandemic, as physical stores closed, significant numbers of brands chose to join our Marketplace, which has grown quickly, and we are well on track to achieve our medium-term Marketplace target of 50% of NMV. As expected, this acceleration has moderated, and our Marketplace share of NMV grew 2 percentage points on Q2 of this year. We have delivered this expansion whilst maintaining a focus on customer experience and service levels for the brands. We are now focusing on balancing expanding new categories and an inspiring assortment with brand and SKU productivity, so the work onboarding brands really pays off.

Increasingly, we want our larger brands to adopt a hybrid model, optimizing both our retail and marketplace offerings. This will both broaden our range and improve size availability. We are constantly evolving our fulfilment model to drive efficiencies and improve the customer experience. We are focused on developing our fulfilled by GFG and cross-docking models so that all items in an order are consolidated and delivered together. These services strengthen our position as a trusted partner and improve customer experience.

Let's now turn to look at our sustainability agenda on Slide 11. We continue to advance our people and planet positive agenda. Last quarter, we introduced recyclable packaging and CIS, meaning that customers can now receive sustainable packaging across all our regions. We have a responsibility to influence the fashion ecosystem across our markets. A big step forward is joining the Global Fashion Agenda, the leading industry collaboration on sustainability and fashion, as a strategic partner.

Let's now take a look at our KPIs. Q3 NMV growth of 12.4% was driven by a 7.5% increase in orders and 4.5% increase in AOV. Marketplace penetration was 40%, up 6 percentage points year-on-year, continuing the strong trend we've seen. On a year-to-date basis, we delivered 26% NMV growth with orders increasing by 19% and average order value growing by 6%.

Looking at our key customer metrics, there is a positive improvement in all of them. Our active customer base grew by 9.7% year-on-year or 36% on a 2-year basis to 6.9 million. It is broadly flat quarter-on-quarter due to the extraordinary levels of customer acquisition in quarter 2 last year. The retention rate of this large customer group is stable or better than the historical average. Arithmetically, this results in the higher absolute drop-off, which impacts this 12-month measure. Order frequency grew 10.9% year-on-year to 2.8x per year, and NMV per active customer was up 15.5%.

Turning to our regional performance on Slide 14. Starting with our Lat Am business, the comparative year was exceptional. In addition -- and in addition, key markets across the region are facing some challenges weighing on consumer sentiment. Consequently, quarterly NMV declined. Despite this trading volatility, active customers grew 8.5% and NMV per active customer continued to grow.

Across CIS, NMV grew by 31%, reflecting the success of our premium proposition and customer initiatives. This, alongside the big increase in order frequency and order value, delivered a very strong 29% improvement in NMV per active customer. Our business in Southeast Asia delivered NMV growth of 16%, supported by an acceleration of Marketplace. Active customers grew by 19%.

Finally, as explained, ANZ was under lockdown for much of the quarter. Despite the less favourable trading environment, active customers continued to grow strongly, up 17%, and NMV grew 29%. Our longer-term dynamics remained strong, delivering 51% growth over the last 2 years, and we remained confident in the recovery of fashion and lifestyle across all our markets.

With that, I'd now like to hand over to Matthew.

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

Thanks, Christoph, and good morning, everyone. I'll now take you through our financial performance, starting on Slide 16. We delivered revenue growth and an improved gross margin as anticipated adjusted EBITDA stepped down in the quarter. Revenue grew 8.5% on a constant currency basis to EUR 366 million in the quarter. And again, we see Marketplace scaling up faster than retail growth.

We improved our gross profit to EUR 168 million, a 45.8% margin, building on the very strong gains made in the last year. Marketplace growth and Platform Services delivered the majority of the growth. Our retail margin remained stable with enhanced premium assortment and product mix balanced with weakness in Lat Am and some discounting in ANZ in the face of the unexpected lockdown there.

Adjusted EBITDA for the quarter was a loss of EUR 7.5 million. The margin stepped down by 5 percentage points year-on-year. About half of this is the shape of the 2020 comparative, and the other half is weaker trading and planned investment in our Lat Am business. We had very low customer acquisition costs in Q3 last year, which normalized in Q4. As I've said earlier this year, we're set up to trade with marketing investment similar to 2019 levels as a percent of NMV. This allows us to capture the opportunities across our markets.

Christoph has discussed the additional investments we're making in Lat Am, especially into our delivery and returns proposition to unlock future growth and the trading in that region is under pressure from the second-order impacts of COVID on consumers.

Our share-based compensation charge was EUR 3.3 million, and there were EUR 700,000 of costs excluded from adjusted EBITDA, which were mainly legacy tax charges. And then during the quarter, our NMV weighted basket of currencies remained broadly stable compared to last year.

I'll now take us through our regional performance on Slide 17. Our group retail margin is stable and the growth in Marketplace and Platform Services means we've increased our gross margin by 1.4 percentage points. This is on top of a strong comparative. The margin grew by almost 4 percentage points in the same quarter last year.

The Lat Am performance is impacted by the extraordinary comparative and a weakening sentiment. Together, these factors mean our revenue declined in Q3. We intend to keep investing and trading sensibly there to capture the opportunity. The regional gross margin fell 2.2 percentage points, largely from mix into lower price point products. CIS delivered very strong revenue growth of 24.1%. The gross margin improved by 3.3 percentage points to 51%. The great majority of the margin improvement is stronger retail margin, with some benefit from higher marketplace participation.

SEA experienced the biggest acceleration of marketplace participation, meaning revenue was broadly flat, even though NMV grew by 15.7%. This Marketplace strength and development of Platform Services meant gross margin improved by 6.6 percentage points to 38%. ANZ was able to adapt quickly to the lockdown demand pattern and delivered good revenue growth of 26% in the quarter. The switch in demand meant discounting in some of the going out categories, which reduced the gross margin to a still very strong 44%.

Moving on to the next slide. As you can see, the Q3 result wasn't as good as we wanted, and there have been more headwinds in our markets than we expected when we set guidance at the start of the year. This puts more emphasis than normal on Q4, which is the key selling season for us.

Looking forward, we've set ourselves up for success in Q4. Our inventories at the end of September were around EUR 100 million higher than last year, and this stock is both high quality and importantly, very fresh. We expect ANZ to trade more strongly now that Australia is out of its lockdown.

In October, NMV growth stepped up to 28% on a constant currency basis. November and December are the biggest months of the quarter, and there's always risk around this key sales season, which is accentuated this year by COVID uncertainty. We are satisfied. We've set the business up to trade strongly through the remainder of the year, and so we remain on track to meet the guidance that we shared with you at our Capital Markets Day back in March.

Just to recap. NMV growth of over 25% on a constant currency basis. This amounts to between EUR 2.3 billion to EUR 2.4 billion of NMV at 30th of September exchange rates. Revenue will continue to grow at a slightly lower rate than NMV, reflecting marketplace growth and is expected to deliver EUR 1.5 billion at the same exchange rates.

We continue to expect a modest improvement in our adjusted EBITDA compared to the EUR 16 million we reported for 2020 as we invest in our business and its longer-term opportunity. We expect CapEx of around EUR 60 million. The very large CIS fulfilment centre project is on site and will be fitting out in December, meaning there could be some CapEx movement either side of the year-end.

So, to conclude, we are pleased with our performance, delivering 26% NMV growth year-to-date and reaffirm our guidance and the goals we set for ourselves for the full year.

That's the end of our formal presentation. I'll now hand over to the operator to take any questions on the call. Thank you.

QUESTIONS AND ANSWERS

Operator

Our first question today comes from Michael Benedict of Berenberg.

Michael Benedict, Berenberg, Research Division – Analyst

Q. Two from me, please. First one is on Lat Am and top line, I guess. So I guess, for the macro environment there and competitive environment, presumably not going to change in the next couple of quarters. What are you planning to do to sort of accelerate growth materially from -- on a 2-year basis from what we've seen in Q3? Then the second one, so it would be great to get a bit more colour on the moving parts in the OpEx space. I guess those are very strong gross margins on a 2-year stack, but adjusted EBITDA margin relatively modestly up. So it'd be good to get some more colour there. I guess then subsequent to that, when will the Lat Am investment in delivery and returns drop out?

Christoph Barchewitz - Global Fashion Group S.A. - Co-CEO & Member of Management Board

A. Thank you. I'll take the first one on the LATAM growth, and then Matthew can take the questions on the broader OpEx. So fundamentally, what we're doing in Lat Am is what we've always said we're doing, which is really focusing on our proposition. We're clearly seeing that when the customer sentiment is a bit weaker, that becomes even more important. And so, what we are doing is really doubling down and looking at our assortment, how we can drive exclusivity in the assortment to be a point of differentiation making sure that our customer can find the right products for them. So I'm thinking here about personalization of those topics.

And then as we said in the presentation, the delivery proposition is certainly something that we're taking a very close look at as well. This is speed of delivery, different delivery models, especially also for marketplace orders, so that we can get the customer a really excellent experience across that market.

Obviously, we're in 4 countries. So, the specific actions in each of the countries are slightly different. Also, the macro sentiment, for example, in Chile, is much, much stronger than it is in Brazil. So this doesn't fully apply to the entire region. But in the end, it is really the basics of our business model around assortment, around discoverability, inspiring and seamless customer experience, and we're doubling down on the investment sale. Matthew?

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

A. Sure. Yes. Thanks, Mike. So really what's going on in terms of OpEx. So -- the -- in many ways, there's nothing unusual in our OpEx. It's all about leverage as you go down the P&L. So the gross margin was up a point and a bit. Then when we go down the P&L, clearly, in places like Lat Am and also ANZ, where we had a little bit less trade than we were set up for, we got a bit of deleverage in fulfilment costs, which is temperate that fixed variable piece.

Marketing is the big thing year-on-year. We've set marketing up in line with 2019. As we said, we've delivered that. So that's a bit of deleverage. That's just a Q3 challenge. When you go forward into Q4 that marketing normalized in Q4 last year. So, it's a Q3-only matter.

Overhead is below that. Really, as you would expect, we are -- we've got a little bit of inflation in our main overhead lines, and we're investing in our tech teams as we set out to Capital Markets Day. So it's just that leverage through the trading P&L.

In terms of your point on the timing of the Lat Am investment in fulfilment and returns, I think we've probably got a good 12 months to go through there. So, it's about how we trade.

Operator

We have a follow-up question from Michael Benedict.

Michael Benedict – Joh. Berenberg, Gossler & Co. KG, Research Division – Analyst

Q. I'll take my chance. You mentioned private label in the presentation. I think you might recall it was previously sort of mid-single-digit percentage of your sales. I wondered if there's been any material change there? And are you sort of expecting a material increase in that mix? Or should we not be factoring that into our thoughts?

Patrick Schmidt - Global Fashion Group S.A. - Co-CEO & Member of Management Board

A. Mike, this is Patrick. You're right about the historic numbers. They haven't changed much as a percentage, obviously. They have grown essentially in line with the business. I wouldn't factor in a large expansion of our own brand business as a percentage of the overall business. We're obviously very focused on Marketplace, and we're very pleased with the 40% contribution in Q3. Own brand will always be an important part of the business to fill white spots as Christoph has explained, but it will not play the role of Marketplace, for example, is playing, but it is important from a differentiation and also to some degree from a gross margin point of view. Also important to say that we probably have the strongest own brand business and own brand itself in Australia and New Zealand, and that's why we've highlighted this on the call today.

Operator:

As there are currently no further questions, I would now like to turn the call over to [Rosey.] Please go ahead.

Operator

Thank you, Bettina. We've had a couple of questions come through via the webcast. We'll take our first question, which is, the share price has fallen, has the Board of Management considered a share buyback? The company has liquid funds of EUR 683 million at the end of the first half of the year and is currently valued on the market at only 3x that amount. This seems to be a good opportunity.

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

A. Thanks. I'll pick that up. It's Matthew. So, we - I mean we've set out really uses of cash earlier in the year, particularly in our Capital Markets Day. So, our uses of cash are to accelerate the growth of the business around marketing, invest further in our tech to really create that differentiation for the customer and then also to invest in the fulfilment and returns processes, which, in certain markets, particularly the Lat Am ones, we see as the way to unlock future growth. So that's the focus of what we're doing with our funds.

We also think that we have seen a step-up in penetration and growth prospects in the medium term in our markets. Therefore, we believe that -- at some point, we believe that we'll be able to accelerate growth faster. So therefore, we want to retain some of the funding to do that.

In addition, we talked about how M&A, either to help us expand into other categories, do some -- potentially some infill markets in our existing regions or to acquire tech and other skills could also be things we're doing. So I think we're really clear about what we're doing with the cash, and it's to drive the plan we've set out and then hopefully to accelerate beyond that.

Operator

Our next question is, how well stocked are you for peak? Can you talk the Q4 margin and why you believe you can improve EBITDA year-on-year?

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

A. Of course. So, we are in a really strong inventory position as we go into the big trading season. We have on a constant currency basis because clearly, FX moves around between years. We have 100 million more inventory than we had this time last year, and that's actually 50 million more inventory than we had at the end of Q3 in 2019. Clearly, inventory management was a bit different through 2020.

That means, on a 2-year basis, we've grown our inventory in line with the scale of our retail business. So, we're really confident we've got it. Importantly then, it is current season stock. It's really fresh. Our older than 180 days inventory is just a little bit more than 10% of that. If you were going back to 2019 and earlier, it would quite often be double that level. So, we're really fresh. We've got the right product. We're confident that we've got what we need to sell.

In addition, we've got that big Marketplace business that can also support. So, we're set up. We've got the right margin. The consumer seems to be coming back out of Q3. So, our October numbers were 28% growth. And really, because it's such a key focus on trading, it's then all about getting the leverage through the P&L as the revenue comes in on those key trading moments. That's how our P&L works, at least, this time.

Operator

Our next question is in the previous call after Q2, you alluded to upward pressures on the competitive backdrop from various channels, particularly in Lat Am. How are these evolving? And would you expect to have to promote more heavily over peak?

Christoph Barchewitz - Global Fashion Group S.A. - Co-CEO & Member of Management Board

A. Yes, I'll take that. It's Christoph. So, what we've seen in competition Lat Am is broadly 2 themes. One is that the traditional operators, especially in physical retails, are fully open. Maybe footfall is not quite back to pre-COVID levels, but certainly, they're trading reasonably well in the big department stores, et cetera.

And we've also seen a push online, including from some of the larger Asian cross-border players into the market, which is overall increased competitive intensity especially at that price point that is below us. I mean just to remind you; we operate at a higher price point. 80% of our assortment is above EUR 10. And 50% of our assortment is above EUR 20.

It's not directly competing with the cross-border players or also, for that matter, some of the more domestic general merchandisers, but what we see in a situation where consumer sentiment is weak and maybe some consumers are trading down a little bit in terms of the types of brands, product and price points that they're ready to purchase, that, that lower tier has done better and maybe taking a little bit of share away from that.

So these are dynamics that we've seen for some time now and certainly more strongly in Q3. I think what is important is here, we are a pure-play fashion and lifestyle destination, and we're really doubling down our competencies and our proposition in that regard, especially to further differentiate away from the general merchants.

Operator

A. Our next question. On the supply chain disruptions, what are you currently seeing in terms of delays and availability? What are the ongoing partner conversations, please?

Christoph Barchewitz - Global Fashion Group S.A. - Co-CEO & Member of Management Board

A. It's Christoph, I'll take that as well. So, I think, first of all, what's really important is that about 85% of our product was actually sourced in the end markets. And so we're a little bit less affected directly in terms of having to import a lot and those types of things. So that is generally helpful in just the nature of our business and the setup.

For the current season, so fall/winter in the Northern Hemisphere, spring/summer in the Southern Hemisphere, we are, as you heard from you, well stocked. We had a bit of delays and some intake, but nothing has been dramatic overall. And we're also seeing that intake that is expected for the next season so far is largely predicted to be more or less on plan. There will be some delays and some disruption. And certainly, there's a remaining uncertainty that we don't kindly predict. But I think our decentralized setup, our in-market sourcing, our significant Marketplace share really gives us an opportunity to tap into a very diversified pool of inventory in terms of brands, categories, price points, locations, business models. And that combination, I think, is powerful in dealing with what is an industrywide challenge in -- obviously, on a global level. So, we feel reasonably comfortable that we can adapt to this reality quite well.

Operator

Thank you. Can you talk to supply chain impacts in CIS, ANZ and SEA in the quarter and heading into Q4 and 2022?

Patrick Schmidt - Global Fashion Group S.A. - Co-CEO & Member of Management Board

A. Yes. So, I - this is Patrick. I'll follow on to give a bit more regional nuances on SEA and starting with SEA. So obviously, Southeast Asia is in the heart or very close to most of product where production takes place, like, for example, Vietnam or China. And we're very lucky in the sense that also we have not experienced major delays or cancellations. Cancellations, as a reminder, in fashion are very normal. So we do have a cancellation rate, but this rate is not significantly above the level we have seen last year when there were less COVID disruptions in, for example, Vietnam.

ANZ has seen a bit more disruptions, but nothing to be concerned about. And we have very healthy inventory levels. As Matthew alluded to earlier, we have a very fresh stock. The reason why there's a little bit more disruptions because obviously, Australia is further away and that we see the ships and the containers not being as readily available as we would expect.

And then covering CIS and Lat Am. In Lat Am, we're lucky in the sense that most of the stock we sell, for example, in Brazil, is actually locally produced. And we don't see the same in Brazil. In general, it doesn't see the same disruptions in terms of supply chain and production as many of the Asian countries see. And in CIS, we see some disruptions, especially from the sports brand. But again, talking about the current quarter, nothing to be concerned about. And we're still quite positive, and we've bought obviously quite aggressively for the peak selling period.

Operator

Matthew, can you quickly recap us on the Q4 EBITDA margin? And why you're confident on improving EBITDA year-on-year?

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

A. Yes, sure. Thank you. So, I think going down the P&L, we bought well. We're marketing well. We're set up for the trade. Q4 was all about selling. We have set our stall out well to do that selling.

Assuming the consumer is there, then we have a structurally improved gross margin year-on-year at quite a meaningful level that will help. Going down the P&L, the overheads are obviously largely fixed as you go into a quarter like this. And therefore, we actually are expecting to see a bit of a reverse of what we saw in Q3 in the fulfilment costs. So in the fulfilment costs and some of the other variable costs in Q3, our trade was a little bit weaker than we had wanted. In consequence, we got some deleverage going down the P&L. As we go into Q4, we're set up. If the trade is there, we'll get that leverage bounce back. So, the P&L mechanics are pretty straightforward and should work really, led by that better gross margin.

Operator

Thank you for answering those questions. We have no further questions. I'd like to now hand back to you for any closing remarks.

Christoph Barchewitz - Global Fashion Group S.A. - Co-CEO & Member of Management Board

A. Great. Thank you all for joining today, and we look forward to seeing you on roadshow. If you have any further questions, please reach out to the IR team directly as well. Thank you, and have a great day.