Q1 2024 Global Fashion Group SA Earnings Call Transcript

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CORPORATE PARTICIPANTS

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PRESENTATION

Helen Hickman – Global Fashion Group S.A. – CFO

Good morning, everyone and welcome to Global Fashion Group's Q1 2024 results. I'm Helen Hickman, CFO of GFG. Today, I'll provide an overview of our first quarter results, followed by a Q&A session where our CEO, Christoph Barchewitz, will join us.

Starting with a summary of our Q1 2024 performance. At our Q4 results presentation in March, I shared that for the first two months of 2024, we observed similar top line trends to those seen in Q4 '23. This pattern continued as we closed out the quarter. In Q1, we achieved EUR239 million in Net Merchandise Value, a 16.5% decline year-on-year. We delivered a strong 44% gross margin which is a 3-percentage-point increase year-on-year.

Our Adjusted EBITDA margin also continued to improve, increasing 0.8-percentage-points in the quarter, despite top line pressures. Our results demonstrate how our platform transition strategy and ongoing cost efficiency programme are supporting our main financial priorities to deliver profitability and cash flow improvements over top line growth. We have 8.4 million Active Customers, and in Q1, our customers made 4.1 million Orders with an average Order Frequency of 2.4 times.

Now taking a closer look at the group KPIs. In Q1, our Active Customer base reduced by 18.5% in a similar trend to what we observed over 2023, driven by weak consumer sentiment and intense competition in our markets impacting customer conversion rates and retention. Whilst we maintained a disciplined approach to marketing in this uncertain environment, we continue to review our marketing efficiency and adjust our strategic investments accordingly to generate a healthier customer base throughout the year.

Whilst stable compared to Q4, our Order Frequency of 2.4 times was down 5.7% from Q1 2023. Volumes continued on a downward trend in Q1, with Orders falling 18.1%. This represents the slight easing to the steeper 20% drops we observed in 2023. We are actively implementing strategies to improve traffic and conversion, the key drivers of this decline. Average Order Value increased by 1.9% to EUR58.9, with the majority of inflation impacts offset by lower items per order. Across our markets, we have started to see early signs of inflation softening.

Now looking at our key financial metrics, Revenue declined by 19% to EUR153 million. Gross Margin improved by 3-percentage-points, driven in broadly equal part by stronger Retail margins and increased share of higher-margin Marketplace and Platform Service offerings. Our Adjusted EBITDA margin increased more moderately by 0.8-percentage-point to negative 11.3%. This difference was primarily due to our strategic marketing investments in Q1 to stimulate customer expansion. There was also some impact from fixed cost deleverage, which means the savings from our ongoing cost efficiency programme did not fully offset the declines in volumes.

Now let's turn to our regional performance. All regions delivered increases in Retail margins and Marketplace and Platform Services participation driving Gross Margin expansion in each region, despite top line pressures. This stemmed from our focus on careful inventory management throughout 2023 which positioned us to start 2024 with a healthier inventory profile and drove to improved Retail margins.

In LATAM, despite significant improvements to the user experience and a streamline operating structure in place, the region continues to face headwinds from weak, consumer spending and intense

competition, especially from cross-border players. LATAM's adaptable strategy and further emphasis on cost control are addressing these demand challenges in the region. In SEA, after surpassing the Group's longer-term goal for Marketplace and Platform Services participation in 2023, SEA achieved the greatest improvement in Gross Margin of the regions, increasing 5-percentage-points a year-on-year. In ANZ, NMV decreased by 16.4%. It's worth noting that ANZ has a relatively stronger year-on-year comparison as consumer spending slowdown began later than in LATAM and SEA. ANZ also delivered a strong Gross Margin increase of 3-percentage-points year-on-year thanks to an improved inventory position.

Now, let's move on to our cash flow for the quarter. The Group's liquidity position remains strong with a solid foundation. We remain committed to optimising cash flow as we progress towards our longer-term ambitions.

Looking at the breakdown of our Normalized Free Cash Flow, which is our measure of operational cash invested in the business. In Q1, we had an adjusted EBITDA loss of EUR17 million, delivering a 6 million improvement year-on-year. Our total cost base reduced by EUR16 million, contributing to this achievement, representing a 13% reduction year-over-year on a constant currency basis. This was a result of targeted initiatives across all cost lines, including a total headcount reduction of over 20% year-over-year.

The Adjusted EBITDA cash flow benefit was partially offset by increased working capital outflows that primarily resulted from the favourable renegotiation of payment terms in LATAM last year that saw some trade payables shift from Q4 to Q1.

As is typical for our seasonal fashion business, our Q1 working capital outflow was primarily related to inventory investment to ensure fresh assortment for the new season. We remain committed to managing inventory efficiently and our inventory levels were down EUR52 million or 29% on a constant currency basis compared to Q1 2023. Additionally, we have maintained optimal aged inventory levels, showing year-on-year improvement.

We continue to apply capital allocation discipline, resulting in a broadly flat capex spend at Q1. This included the technology capex impact of capitalising the payroll costs associated with delivering our key project for the year, the rollout of the SEA order and warehouse management system into ANZ. As highlighted in March, this strategic investment will unlock reoccurring productivity-based benefits and cost savings, which we anticipate to start to materialise in the second half of this year.

After adjusting for operating tax and interest payments, we had a Normalised Free Cash Flow of EUR60 million, which is 2 million less than this time last year. It's worth reminding you of our business' seasonal nature with Q1 being the most significant quarter of cash outflow. For example, last year, Q1 2023 made up over 90% of the full year cash outflow.

We closed Q1 with EUR321 million of Pro-forma Cash and EUR136 million of Pro-forma Net Cash. Net cash excludes the convertible bond liability of which had EUR178 million outstanding post repurchases and other smaller loans. The other cash outflow of EUR16 million reflects a mix of reduced LATAM receivable factoring and net repayment of third-party borrowings. As we have done in the past, we continue to look for opportunities to reduce our outstanding convertible bond liability whilst considering our overall cash requirements.

Now looking to the rest of the year, Q1 performance was in line with our expectations following Q4 top-line trends. Our latest trade in April has also aligned with our expectations. Therefore, we are reconfirming our full year guidance as set out in March. Our cost actions implemented in 2023 will continue to deliver benefits throughout the year, supported by incremental initiatives taken in 2024.

Our financial priorities for 2024 remain firmly on building a financially sustainable business. This will pave the way for us to achieve our longer-term ambitions of positive Adjusted EBITDA and breakeven Normalised Free Cash Flow.

We are navigating this dynamic environment with an open mind and remain prepared to explore strategic opportunities that could strengthen our financial position or deliver value to the Group. Whilst we are focused on the near-term factors in our control, we acknowledge the challenges and remain committed delivering value for all stakeholders. We will now open the call to your questions. If you'd like to submit a written question, please click on the speech bubble at the bottom of the screen. Thank you.

QUESTIONS AND ANSWERS

(Operator) We'll now take our first audio question from Matthew Abraham from Berenberg.

Matthew Abraham – Berenberg – Analyst

Good morning all and thank you for taking my questions. First one, just in reference to Active Customer decline, I'm just wondering if you had a sense for which competitors these customers might be shifting towards? And at a higher level, what confidence do you have that you'll be able to win these customers back when you refine your marketing strategy? If and when consumer demand picks back up.

Second question's on margin expansion, which you've provided some helpful colour on. I'm just wondering where you think margins get to if Marketplace NMV reaches the 45% target you've previously outlined and continues to expand from the 41% that it sits at right now. Thank you.

Christoph Barchewitz – Global Fashion Group S.A. – CEO

Yes, thanks, Matt. It's Christoph, I'll take those. And so on the Active Customer side, it's obviously very frustrating for us to see the continued decline. I think fundamentally, as we look into those numbers, we are seeing that the churn rates are slightly elevated and we're losing more customers than we were able to acquire, obviously, but also to reactivate. And I think one thing that's important is over the last few years, we have certainly shifted our marketing approach very much towards customer reactivation and also to CRM driven customer retention, i.e., ensuring that customers do not lapse. And we certainly know that customers who have gone from the first purchase to the second purchases relatively quickly. So let's say within three, six months of the initial purchase, we have a very good chance of retaining.

I think the broader challenge that we're seeing is that when we look at order frequency, we're obviously still quite a way behind where some of our more developed market peers are. And I think that obviously then plays into the Active Customers numbers as well, given that we're still on a relatively low Order Frequency. So our focus is on driving on CRM led customer retention and reactivation as well as overall increasing the frequency and the share of wallet from the customer.

When we look at customer overlap analysis with other players in the market, I think we generally see the most overlap with the brand.com's and with other players that are in similar price points that we are in. But I think we cannot ignore the fact that there's also competition from the low price Asian cross-border players that has taken a lot of share in terms of the customers at the lower end of the price points, and there's definitely some overlap there as well.

So I would attribute some of the share loss in terms of the customer numbers that we've seen towards that to some degree, but also to an overall more crowded online field where many of the historically more offline players have built a more competitive online offering and it's on us to make sure that we are really evolving our proposition of multi-brand, of excellent delivery and overall amazing customer experience in a very app-centric world to be very clearly superior to what is more broadly available in the market. So there's some work on our side to do here as well.

So on the second part of the question, I think we've guided towards on the 45% roughly of an expected on medium-term target around Marketplace share. We are obviously well underway in that direction. We don't necessarily think it's a straight line to always continue growing that share. We don't see it as a metric we're kind of driving hard at in terms of the objective for more trying to balance Retail and Marketplace in the optimal way thinking about margin assortment for the customer partnership with the brands and overall customer experience also around delivery.

So it's much more multi variable I would say in terms of the optimisation. What is important here is that we think that if we were at a 45% of share of Marketplace, we would be somewhere in the 47% area or so on Gross Margin. Obviously, it is not super scientific and depends a bit of the mix by regions of how we get there but I think that's broadly the direction I would give as a full year Gross Margin target for a 45% Marketplace NMV share.

Matthew Abraham – Berenberg – Analyst

Okay. That's helpful. Thank you.

(Operator) We'll now move on to our next question from Volker Bosse from Baader Bank.

Volker Bosse - Baader Bank - Analyst

Thanks. Good morning, Volker Bosse Baader Bank. First question is on current trading, you said April was in line to expectation. What does it mean? Also Q1 was in line to expectation. Does it mean April was on a comparable level as Q1 was with a double-digit decline on NMV in all three regions, if that's true?

And the second question is on your expectations regarding the second half of this year. I mean, as said, NMV was down in all regions so which region do you expect to have seen the troughs first? Or in other words, which regions do you expect to kickstart first to come and show improvement on the top line performance?

And the final question is on EBITDA. I mean, yes, right. Q1 is always due to seasonal pattern, a loss-making EBITDA quarter. However, do you expect an improvement in EBITDA in Q2, Q3 or should it remain negative would be my expectation before in Q4 could be slightly positive again. So an indication on your expectation in regard to EBITDA volatilities throughout the year would be helpful. Thank you.

Helen Hickman – Global Fashion Group S.A. – CFO

Volker thank you, it's Helen here. And so with regards to your first question about April. Yes, April does reflect our sort of Q1 performance. We are seeing double digit declines across all regions. It's worth noting that of course there's some seasonality shifts and things like the timing of Easter and the RAYA festival in our SEA business. But that's the general trend we have been seeing across all of our regions.

With regard to the second half, our view for the Group as a whole is that if you think about our guidance range, we anticipate the consumer pressure to start to ease in the second half. However, we do acknowledge that it is very competitive out there at the moment. We're looking for improvements across all of our regions across the board. So I would say Australia is one where we are anticipating seeing that improved sentiment start to flow through more quickly. But as you're aware, there's a lot of macro issues out there that we need to have to be mindful of.

And I think on your adjusted EBITDA question. So I mean our profile is relatively similar each year where we have historically tended to be loss-making at the start of the year, but then adjusted EBITDA profitable in Q4, which obviously is our largest trading quarter. We expect a similar profile. So when you've seen in the past, actually Q1 and Q3 are usually our most loss-making quarters, Q2 and Q4 are usually Adjusted EBITDA generative. So we expect a similar profile into this year and following our seasonal cycle.

Christoph Barchewitz – Global Fashion Group S.A. – CEO

I'll add just one point on this for Adjusted EBITDA. I mean, clearly, we are dependent on the second half and how the top line plays out there. But I would say with the range we've given right, we are effectively given a EUR13 million to EUR33 million year-on-year improvement on EBITDA. We delivered 6 million of that in Q1 so we feel like we are reasonably well on track, but obviously where within that range we then sit will be determined quite late in the year and depends on how the trading really looks from I would say in September onwards as we're heading into the peak trading of the year. So I think that's where some of the uncertainty is coming from that you hear from Helen's answer as well.

Volker Bosse - Baader Bank - Analyst

Yes, understood. Christoph. Thank you very much and all the best. Thanks.

(Operator) No further questions on audio. Over to you Saori.

Saori McKinnon – Global Fashion Group S.A. – Head of Investor Relations & Communications

As we've not received any further written questions, thank you all for joining today. If you have any additional ones, please reach out to the Investor Relations team.