BRUNSWICK GROUP – SUPERDRY

Moderator: Julian Dunkerton
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OPERATOR: This is conference #4747479.

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Superdry Half Year Pre-Close Statement Call. During the call, all participants will be in a listen-only mode. There'll be a presentation followed by question-and-answer session. If you wish to ask a question during this time, you will need to press star-1 on your telephone keypad. I must advise you, all, that the call is being recorded today, Thursday, the 7th of November 2019.

And I should now hand over to your first speaker, Nick Gresham. Please go ahead.

Nick Gresham: Good morning, all. Thank you for joining us this morning. So this is the pre-close trading statement for the 26-week period through to the 26th of October 2019. And just reading through the announcement that was released this morning, revenue declines of 11.3 percent reflect an expected year of reset and the need to address a number of legacy issues across the business.

Our retail sales decline moderated through the first half pleasingly with the quarter two store revenue down 9.4 percent versus the Q1 performance staying 13.9 percent and this is as key initiatives have been implemented through the first part of the year.

The focus on the full price sales and the reduction in promotional activity impacted revenue as expected but it drove a positive 3.2 percentage point increase in the store gross margin. Underlying that's the full price of sales mix averaged 70 percent in the first half of this year versus 52 percent number in half one in the previous year. Decisive action across the business has been taken and indicators of the future performance underpin our full year expectations.

By channels, we've been working through in our own stores, legacy stock, trading against periods of significant promotional activity in the prior year. We've been focusing on delivering the improved customer experience we previously talked about.

That is driven by more choice, more fixtures, more stock and more options across the store estate and that is part of the improvement that we see in the Q2 performance I referred to just now. As expected, again, the full price stance has resulted in the sales decline, but this has been partially offset by the improvements to the gross margin number.

The sales declines in e-commerce have also slowed, but we have begun executing on our growth plan. And again, as previously mentioned, this includes injection of new products coming in to help improve the choice, making the legacy options previously not available, available online, and delivering greater personalisation and improved shopping experience as well as starting to improve the social media exposure across the business.

In our wholesale channel, we continue to be impacted by the previous retail strategy of heavy discounting and the lower product quality along with an impact in the Q2 performance of aligning deliveries of the forward order product to the requirements of the wholesaler rather than our reporting calendar.

This means that we haven't pushed as much of the invoice or ordered stock out at the backend of this half and we expect that to come through in Q3 of this year. Again, pleasingly, the forward order performance, in terms of the outlook, I was saying we had taken swift and decisive actions to implement the strategic changes as part of the business reset, which is due to take two to three years to gain full control of the production costs. That's in line with our previous commentary.

We're confident in delivering further benefits from the reset initiatives across Superdry in the second half and indeed as we go into next financial year as well. However, we do remain cautious about the challenging current market conditions over the peak trading period.

And so, we are about to open it up to questions either to Julian who's sat next to me or to myself.

Julian Dunkerton: Hi, everyone.

Operator: Thank you very much, sir. Ladies and gentlemen, if you wish to ask a question, please press star-1 on your telephone keypad and wait for your name to be announced. If you find your question has already been answered, you can remove yourself by pressing the hash key. Again, that's star-1 for any questions.

And we'll take our first question from Caroline Gulliver from Jefferies. Please go ahead.

Caroline Gulliver: Good morning, everybody. Hopefully you can hear me.

Nick Gresham: Good morning. Good morning.

Julian Dunkerton: Good morning.

Caroline Gulliver: Good morning. I have three questions if I may. The first one was just on the surplus stock that you've been clearing. I was just wondering if you could tell us sort of how far through that process you are at the moment and the outlook for that and the average discount you've been selling it at. I think you said in the past that you're happy, you're comfortable carrying that above cost, so I just wanted a confirmation of that.

My second question was just on the new product ranges, in particular, the sort of customer reaction to some of the new products for autumn-winter and then perhaps more particularly, which of the spring-summer product has resonated well with wholesalers? Is there any particular discernible trend on either fashion or with style of product in a more Superdry branded or not price point and that sort of thing?

And then my third question was on the increasing mix of third-party online sales. I am just wondering which particular channels are doing well and why you think they might be doing better than the owned online business?

Nick Gresham: OK, thanks, Caroline.

Julian Dunkerton: Yes, it's Jules here. If I answer the stock question, so, in terms of stock, you'll have noticed in the last four years; there's been a massive increasing in inventory. We have halted that. We are now flat with last year and we are now working to reduce that. So we are – for the first time, we're in a great position to the pointing with our – start pointing downwards for the first time in years.

So have we been selling the low cost? No, we are holding our price, so no worries there. So really feeling pretty strong that we will – we will reduce our stock levels as we sort of indicated for the end of the year.

In terms of new products, so quite interestingly, there's a couple of – a couple of things here. In terms of the retail and the progress, you can see, we all know we've been in a – in a – in a sort of reset position. Well, first of all, we had to get the fixes put back in the stores. That has largely happened in the U.K., it's happening in Europe and America.

From a – from a new product position, when we entered this – when Nick and I entered this business, we were probably circa minus 20 percent in terms of options in the store versus last year. This year, we will finally catch up with last year in about two weeks – one week to two weeks' time, which is great, and then we will start to accelerate forward.

So what you're announcing is a product that James and I worked on in the first place and the products that Phil and I worked on starting to land. It's particularly important to note the jacket. And the very first one that landed in the – in the estate has already hit the top five rate of sale, so really, really exciting and important.

In terms of new products, obviously, you will see – a lot of you will come on Friday – or tomorrow and see the new range. We're very excited. I can't pull out any information about what was brought for spring because the wholesale order book has only been partially impacted by my influence.

So, as I said before, we – we've influenced about 15 percent of the product into the stores pre-Christmas. We've affected some of the wholesale lines for spring, but much more as the retail lines for spring. But – so actually, there's more to come, if you like, in the process. And then by autumn, it will be fully aligned. So it's really a reset and a movement from a sort of negative position to a very positive position.

Nick Gresham: The third party on performance within the e-commerce channel, I guess a couple of points within that at the moment. I mean one is we've been pushing forward new accounts within that third-party space. So that is why that is increasing. So that includes the likes of trading with (Next) and (Jog Direct) that we haven't previously been trading with before. That does help us expand the reach of the brand, which we think is positive.

And the third-party business doesn't have the same issue of trading against a strong promotional stance last year as our own site is doing so, so you don't see the negative impact of that albeit you don't see the positive impact on the gross margin rate either.

Caroline Gulliver: That's great. Thank you very much.

Nick Gresham: OK, great. Thanks, Caroline. Should we take another question?

Operator: Yes. Our next question is from Simon Bowler from Numis. Please go ahead.

Simon Bowler: Yes, hi, gents. Just one question from myself. Do you have visibility on your kind of your store footfall and your online traffic trends? And (next), can you talk about how that compared to the revenue trends that you reported so I guess we can think about what you're seeing in terms of conversion and then how you think about that?

Nick Gresham: Yes, yes. I mean we do have full visibility of that across both channels and indeed across the different territories as well. And I think that the simple answer to that is we're seeing a slight decline in footfall and traffic offset by the improvement in conversion that is coming through.

So if you look at the overall sales numbers, I would say traffic will be slightly worse than that, conversion is strong – slightly strong there. And so as we – as we get people into the store, as we get people onto the site, we know that there's some great product there to help that – to help that conversion rate.

And we know part of the ongoing initiative to drive social performance helps improve traffic but it also increases the brand's health and strength as well which in turn will increase both traffic and conversion over the future period.

Simon Bowler: And as kind of new, better products and broader options land, do you look at that and say, OK, well, now is the time to kind of – now is the time to put our foot on the accelerator but the kind of upgrade, the kind of activity you do to drive traffic through to improve the lead driver with greater confidence so the conversion will be better?

Julian Dunkerton: Yes, I mean absolutely. So I mean look the most important thing we've had to do from a whole creative department is get the product right. As we see that start to shift, you will see our social activity start to increase from now. So as we become more and more proud of the product, you will see an acceleration in social activity.

Simon Bowler: OK, that makes sense. Thank you.

Nick Gresham: OK, great, thanks, Simon. Another question, please?

Operator: Yes. The next is from Adam Tomlinson from Liberum. Please go ahead.

Adam Tomlinson: Good morning, all.

Nick Gresham: Good morning.

Julian Dunkerton: Good morning.

Adam Tomlinson: Just a couple of questions for me, please. First of all, I appreciate if any a pre-close at this stage, but any commentary you can give in terms of performance across geography, so U.K. and Europe? And then also internationally, progress with reducing the losses in the U.S. and China. That's the first question.

And then secondly, on personnel, obviously, a big reset at the board level and changes in – operationally, but any key departures or turnover generally that is worth talking about or being aware of? That's the second question. Thanks.

Nick Gresham: OK. So I'll do the first part of that in terms of geography. I think in terms of the U.S., that that probably underperforms these average numbers. And in terms of the U.K. and Europe, I think we would still put that large territory together and (say that) that was trading on balance, the same, clearly different stores are trading differently amongst that large territory but we're pleased with the closer proximity to the U.K. and Europe and the activity that we can drive more locally. But the USA still remains a challenge.

It goes on to the second part of that question though. Again, with reference to the comment we made in the statement about swift and decisive action and we'll be able to talk more about the cost/profit impact of these in the interims in December, but we have physically closed now two of the three warehouses that Julian referred to at the prelim statement back in July, so that's pleasing.

And the third of those, we are still looking to close and would hope to exit that in the very early part of FY21. So that's pleasing. We've also exited from some of our loss-making wholesale contracts across the U.S. and we are looking at the store estate and profitability and negotiations with landlords. So we're comfortable that we are making good progress within the USA against the significant losses that we saw in 2019.

In terms of China, again, we've made some both commercial and operational decisions in taking action to improve the trading performance across the China J.V. That will improve again the losses that we experienced in this – in this four-year period. And there are further actions and activities to go for the remainder of this month.

Julian Dunkerton: Well, and I should point out that Nick and I and John from sourcing are off to China in three days or something to set up a fast response graphics manufacturing process, which is very exciting. So bringing the lead time on graphics down from potential – well, the existing sort of nine, 10 months to initially about eight weeks and then – and then ultimately to four. So that's a very significant change that we're sort of setting up for the Chinese market.

In terms of personnel, we're – we are – we are very, very, very stable and happy here now. We really feel that we've established a great team. We will add to it. Obviously, we are looking for a CIO at the moment and – but we're actually feeling very stable.

And the interesting thing I think people expected myself and Phil Dickinson to not get on – actually, we get on incredibly well and it's a very exciting range that we're bringing to you tomorrow I feel.

Adam Tomlinson: OK, thanks. That's very helpful.

Nick Gresham: OK, thanks, Adam. Another question, please?

Operator: Of course. Just a quick reminder that it's star-1 for any questions. Our next is from Matthew McEachran from N+1 Singer Please go ahead.

Matthew McEachran Hi, guys, this is Matthew from Singers.

Julian Dunkerton: Hi.

Matthew McEachran A few questions from me, please. Yes, just in terms of the phasing of the new product and you mentioned that you're anticipating about 15 percent of your in-store range ...

Julian Dunkerton: Yes.

Matthew McEachran... to be – to be new collections by Christmas.

Julian Dunkerton: Yes.

Matthew McEachran I mean is that going to be a gradual buildup ...

Julian Dunkerton: Yes, yes.

Matthew McEachran): ... from standing start a few weeks ago or is – are there some big drops arriving over the next few weeks?

Julian Dunkerton: So we've got – we've got some amazing jackets arriving this week. Last week, just got into stores, this week, going in the stores, and next week going in the stores. So there's a lot of drops around now.

Matthew McEachran OK. And ...

Julian Dunkerton: So very interestingly, the rate of sale of the first one that dropped in within the top five of the entire company, so it shows that the public responds very quickly to good product which is great.

Matthew McEachran Yes, yes, absolutely, OK, that's great, thank you. And then I just wondered if you could clarify a little bit more around the surplus stock. I think that was the first question on the call and ...

Nick Gresham: Yes.

Julian Dunkerton: So talk about Black Friday and our intent ...

Matthew McEachran Yes, well – yes, that'd be really helpful but also just (the intent but not really) going heavy on the markdowns.

Nick Gresham: Yes.

Matthew McEachran Have you re-priced it? And you're effectively selling it at full price. Is that what you're doing or ...

Julian Dunkerton: So yes, so obviously, there's a lot of bits and bobs of legacy stock around the place hence our ability to shut warehouses and do the product the way it's going to sell, put it online in the first place.

Now, patently, we have the current range and then everything behind that. The everything behind that is very much part of the Black Friday sort of promotional stance while we protect the vast majority of the current store stocks and the current season stocks.

So – and then from a sort of positive point of view, we've got limited edition drops coming in of jackets, which should sort of have a – there are, I'll say, sort of supreme effect on the brand where something becomes very desirable by the fact that it is a very limited production number.

Matthew McEachran Yes.

Julian Dunkerton: So very much doing the two – the two things at Black Friday is therefore moving away from the previous stance of 20 percent of everything which is kind of negligent retailing. This is – this is calculated, OK, how do we best affect the business going forward both from a brand perspective and a stock clearance perspective, which I kind of think is the logical part.

Matthew McEachran: Yes, OK, thanks very much, that's helpful. And what's your view in terms of the election timing around the store? Well, I mean are your customers likely to be affected by that. You've got a lot of new products arriving at a time where there might be some distractions around. Do you (inaudible) difference?

Julian Dunkerton: OK, look, Christmas always comes.

Matthew McEachran Yes.

Julian Dunkerton: The reality is there have been a lot of self-inflicted wounds I think to this – to this business over the Christmas period particularly last year. And I think this is the year of reset but I never worry about – people always buy Christmas presents, people always buy Christmas trees, our job is to make sure that we're making the products that people want for Christmas presents, that's our job, and that's the process we're in.

Matthew McEachran Yes.

Julian Dunkerton: (So I'm not worried) by election.

Matthew McEachran No, that's fair enough. OK. Then just one final one in relation to your wholesale. So I mean there's a period of time between now and your spring-summer order book converting ...

Julian Dunkerton: Yes.

Matthew McEachran... where you're going to experience a decline. Can you give us a sense of the magnitude of decline that are built into your internal expectations for full year for the second half? I mean is it going to look similar to that second quarter or might it actually be worse than that?

Julian Dunkerton: No. I mean in terms of the second half, we would expect a much – a much flatter performance year-on-year. As I alluded to briefly, the Q2 performance is negatively impacted by the fact that what has been happening is a push out of stock in the – in the run up to a close period, so we haven't done that.

We've got visibility of that in season order book for autumn-winter '19 that will come through in Q3 as well as good visibility of the spring-summer order book as we go into next calendar year as well. So we would expect, as I said, certainly a stronger performance in (H2) this year.

Matthew McEachran Yes.

Nick Gresham: And hopefully, it's slightly positive, yes.

Matthew McEachran That's very helpful. Thanks very much, guys, cheers.

Julian Dunkerton: Thank you.

Nick Gresham): Thanks, (Matthew). Any more questions?

Operator: Yes, we have one more question from Georgios Pilakoutas from Numis. Please go ahead.

Georgios Pilakoutas: Good morning, team.

Nick Gresham: Hi.

Georgios Pilakoutas: The first one is just kind of some of the benefit from kind of the new fixtures you've rolled out. Could you speak around kind of phasing through the half and kind of how far you are through kind of rolling out across your store network? And then secondly just clarifying ...

Julian Dunkerton: I missed the – I'm really sorry, I missed – I missed that. What ...

Male: (Inaudible).

Julian Dunkerton: Oh, fixtures, sorry, fixtures, yes.

Male: Yes.

Julian Dunkerton: OK.

Georgios Pilakoutas: Yes. And then the second one just on kind of some of those costs initiative kind of you mentioned specifically selling to U.S., again, just kind of a timing sense on that just from kind of a modeling perspective.

Julian Dunkerton: Yes. So the first wave of fixtures in the U.K. is done. There is a little addition in the U.K. that is currently happening. Europe is happening as we speak and America I think is at the end of – probably about the end of November. So you are seeing the reset by priority obviously driving the market and that is happening.

So we – and in terms of fixtures and products, I can't remember why I said this, but we will overtake last year's option count in about two weeks. So we're obviously tallying up the deliveries and the fixtures at the same time.

Nick Gresham: And Georgios, in terms of costs, yes, I mean I've mentioned a couple of those examples in terms of warehouse space and activity in the U.S. Our first priority as we came into this financial year was to arrest the cost increase, the substantial cost increase we saw that was coming through in last financial year.

So we have done that and we'll start to see the benefits of actually the costs coming out of the P&L in the second half, and then again, into next financial year, new cost out and an annualisation of this year's activity.

So we've got the logistics costs. We've talked about those before. We've got store rent and rates which are ongoing conversations across the state. And then we've got activity across the rest of the P&L looking at contracts and looking at other costs as well. So we're pretty confident that we've got a good handle on that as we go into the second half of the year.

Georgios Pilakoutas: Great, thanks very much.

Nick Gresham: OK. Another question, please?

Operator: Yes. Our next question is from Kate Calvert from Investec. Please go ahead.

Kate Calvert: Good morning, all. Two questions.

Julian Dunkerton: Hi.

Kate Calvert: Hi. Two questions from me. The first one is a point of clarification. In your note to the statement, you talked about full price sales mix and you referred to the portion of sales being from full price stores and Web – and owned Web sites only. Are you excluding your outlets from that?

Julian Dunkerton: Yes, from that number, it is excluded. We tracked that in a much different way.

Kate Calvert: OK. So what's been happening to the gross margin and outlets, then?

Julian Dunkerton: They are – they are up year-on-year.

Kate Calvert: Up, OK. And ...

Julian Dunkerton: Slightly more than full price I believe.

Nick Gresham: Yes.

Kate Calvert: Right, OK. And then can you also give us comments on what's happening to your gross margin in wholesale?

Nick Gresham: Yes, I mean gross margin in wholesale is broadly flat. So we don't have the same I guess benefit coming through in terms of the promotional/non-promotional activity. So what we've been doing is continue to sell through to wholesale and trying to protect those accounts, which has previously been impacted by the – by the owned stores and owned online (stance) of heavy discounting. So those agreements are as the normal, we weren't expecting the margin to increase substantially in wholesale and, in fact, it hasn't.

Kate Calvert: OK, great. Thanks very much.

Nick Gresham: Thank you. Thanks, Kate. Any other questions?

Operator: Yes, we've got another one from Michelle Wilson from Berenberg. Please go ahead.

Michelle Wilson: Hi, good morning.

Julian Dunkerton: Hi.

Nick Gresham: Hello.

Michelle Wilson: Just a – just a quick one for me. Could you just give us an indication of what the volume versus ASP impact is on the retail business?

Nick Gresham: Well, that's one I wasn't expecting.

Julian Dunkerton: That's a tricky one. I don't think anything's radically changed.

Nick Gresham: Yes. There is – we are not seeing a change in the – in the average selling price year-over-year. We've got ...

Julian Dunkerton: (Inaudible) with the full price.

Nick Gresham: Last year.

Julian Dunkerton: More full price, so less discounted obviously. Yes.

Michelle Wilson: Yes. So that's more what I meant. I guess what impact is the lower discounting having on average ASPs?

Nick Gresham: That's not a number I've got off the top of my head, Michelle. In terms of the RRP for the product where if we take it that way, we are not seeing an increase in the average across the RRP. So I guess mathematically, we could work out the 70 percent this year versus the 52 percent last year, but it's not – it's not a number in my head I'm afraid.

Michelle Wilson: OK, no problem, thank you.

Nick Gresham: OK, OK. I think we've got time for one final question. Is there anyone else on the – on the list, (Jodie)?

Operator: Yes, yes. Niraj Amin from UBS, please go ahead.

Niraj Amin: Good morning, gents.

Julian Dunkerton: Good morning.

Nick Gresham: Good morning.

Niraj Amin: Good morning. Yes, just a quick one from me on promotions and the gross margin. So could you share with us the number of days that you're on promotion this year versus last year in the first half? And then when you look into the second half, can you share what your – what the stats might be in terms of planned promotions that you've got for the second half versus what you did last year in the second half?

Julian Dunkerton: The basic principle is trying to halve the length of the promotional periods for this year as a reset and then decreasing further next year. So ultimately, everyone knows my history, if you want to build a brand, you want as little discounting and full price stores as humanly possible. So I – we are ultimately targeting a kind of next stance and then we will go further than that in the future. Is that helpful?

Niraj Amin: Yes, yes, I guess I'm fine, yes.

Julian Dunkerton: So, yes, in basic terms, in the first half, I would say, we pretty much have a promotional – the general sale windows.

Niraj Amin: And in H2, you'd expect a similar kind of movement?

Julian Dunkerton: Yes, I mean obviously, Black Friday exists so we are taking advantage of that as we've spoken about, but we will not be discounting in that period between the Black Friday (bar) so the special Christmas offers and so on. There wouldn't be that sort of blanket discounting that they did last year. So it's very much holding on to that Christmas full price stance which is – which is key for our brand.

Niraj Amin: Cool.

Nick Gresham: Yes. OK? I think that's all the questions. Thank you very much, everyone.

Julian Dunkerton: Thanks, everyone.

Operator: Thank you very much, ladies and gentlemen. That does conclude our conference for today. Thank you, all, for your participation. You may now disconnect.

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