BRUNSWICK GROUP

Moderator: Nick Gresham
10 January 2020
9:00 a.m. GMT

OPERATOR: This is Conference # 2525449

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Superdry Peak Trading Update Conference Call.

At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press "star" "1" on your telephone. I must advise that this conference is being recorded today, Friday, 10 of January 2020.

I would now like to hand the conference over to your first speaker today, Julian Dunkerton, CEO. Thank you. Please go ahead.

Julian Dunkerton: Morning, everyone, and thanks for joining us. I'm here with Nick Gresham, CFO, and I want to take you through our trading update for the 10 weeks to the 4th of January 2020.

After a strong Black Friday, trading in the following 5 weeks, including the start of the January sale has been tougher than we expected. As you know, we're in the midst of our strategic transition to a higher full price sales mix with fewer promotions, which benefits both our margins and the Superdry brand in the long term.

During this period, our proportion of sales and promotion more than halved from over 60 percent to less than 30 percent. However, many of our competitors were doing the opposite. The market pre-Christmas was characterized by unprecedented levels of promotional activity, followed by subdued consumer demand post-Christmas.

Reducing promotions helped our margin, but this wasn't enough to make up for the reduced volumes. As you know, when I returned to the business, I inherited a much larger stockholding than the business required and one of the first actions was to deal with this was to drastically reduce the retail by Autumn/Winter '19, actually 40 percent lower year-on-year to start controlling this problem. And our inventory holding is down by more than 2 million units year-on-year, even with these trading shortfalls.

However, in taking this swift action, we weren't able to adjust the buy to capitalize on best selling product. So we missed out on sales from these best-selling items, our olive bomber. Just to put this into context, the top 36 lines over this period, we lost GBP 11 million in sales. So with the 3 month, the quarterly buying windows and not having the ability to really back what we knew were going to be the winners, but – because you need to reduce stock, has obviously affected us, but it's a huge win for next year.

I'm encouraged by the customer response to the new Autumn/Winter stock. However, sales of this new product has not been enough to offset the weaker sales of the older stock. And you can expect to see the full impact of the new design philosophy and product by Autumn/Winter 2020. Our wholesale performance has also been impacted by certain timing issues during the quarter, but we expect this to largely reverse during the balance of the financial year.

Overall, the benefit of stronger gross margins and cost initiatives will not offset the profit impact of the shortfall in sales. And taking into account our revised sales expectations for the balance of the financial year and the challenging environment that we are operating in, we now expect underlying profits to be between GBP 0 and GBP 10 million before the impact of previously disclosed accounting impacts.

Clearly, Nick and I will be pushing as hard as we can for the remainder of the year to deliver at the top of this range, and we are looking at all mitigations, actions available to us to minimize the profit impact in FY '20, while not jeopardizing the longer term. I want to reiterate, however, that everyone at Superdry continues to work intensively to deliver the turnaround of the business. And while we have always said, it will take time, we continue to make good progress in implementing our strategy. Despite this, our plan to reinvigorate the brand and return Superdry to sustainable long-term growth is on track.

Thank you, and I'll open up the call to questions.

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. As a reminder, if you wish to a question, please press "star" "1" on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the "hash" key. Once again, please press "star" "1" if you wish to ask a question.

Your first question comes from the line of (Michael Benedict).

(Michael Benedict): As we move into December next year, do you think you'll retain a greater degree of promotional flexibility? Or will you sort of stick to this full price stance regardless of what the competition – what approach the competition takes?

Julian Dunkerton: Look, the reality of the loss of sales from – I mean, I've given you the number of 11 million of the top 36. But if you imagine that last year or this year, rather, 2,500 pieces in the range, you can guarantee that 80 percent of your sales will come from the top 200. So stop extrapolating this number to the real 200-plus items, and you come up with a very big number, indeed at full margin.

So the reality is we are dealing with a huge stockholding that we had to reduce. We had to come in with a lower buy because we wouldn't have made any friends by coming out of this with a large stock holding. And going back to the half year buys instead of the quarterly buys, I can't express enough for how much of a difference that will make by not being broken all the way through December on your bestselling lines is really fundamental to this – to the season.

Operator: Your next question comes from the line of (George Pilakoutas).

(George Pilakoutas): Three questions, if that's all right. First one, on the inventory balance, you kind of spoke of the interims around kind of seeing a GBP 30 million year-on-year improvement. I wondered if you could kind of give an update on that, whether that's still the ballpark we're looking at?

Secondly, whether you've kind of suggested that there's a profit range depending on kind of how sales perform through the rest of the year. Could you kind of give us a relative sales range that gets us to that profit outcome? And then thirdly, is just kind of looking – you've kind of mentioned buying was down 40 percent for Autumn/Winter '19. How does that play out for Spring/Summer '20?

Nick Gresham: OK. Well, I'll take the first one.

Julian Dunkerton: I'll do the last one, if you do the first.

Nick Gresham: Yes. So inventory will be a bit higher, we think at year-end. So we were predicting around GBP 30 million, just over GBP 30 million reductions, as you alluded to, I think, George, we expect that to be about GBP 10 million different to previously suggested. In terms of the sales range, what we had said is guided for the second half in the interim back to back in early December, was a low single-digit for the whole of the half across group revenue.

We now believe that's more likely to be high single-digit. And if we achieve that, we would be at the circa GBP 10 million profit range that we've alluded to in the statement. However, the cautious approach suggests that if that retail environment and that performance continues, the slightly lower sales expectation of early double-digit would see us at the new range. So there's about a 4 or 5 percentage point movement between that nill and GBP 10 million range.

Julian Dunkerton: And I'll take the last point. From a buying perspective from now on in, we are blending next autumn's range as soon as possible. The step-up in product quality from next autumn is so massive that we are dragging that forward. So the quantum of the spring range will be mitigated by the fact that we're bringing an autumn forward. And yes, that will start dropping in part from May.

(George Pilakoutas): OK. And just one more, if that's all right with you guys.

Julian Dunkerton: And hope to be fully blended by September 1. Now this year, we didn't fully land until I think it was about the 25th of November or something thereabout. So it's a huge difference in the strategy.

Operator: Your next question comes from the line of (Tony Shiret).

(Tony Shiret): I'm just wondering why it's taking you so long to announce. These are absolutely massive undershoots. And you must have known about this sort of well into the sort of first half of December, I would have thought. So that's the first question. Why haven't you announced before now? So do you want to answer that one first?

Julian Dunkerton: Yes, I'll take that. Yes, I mean, no, we did not know that into the middle of December. What we're saying here is only in terms of this period, the majority of this loss comes between the period after Black Friday in that run up to the Christmas period. So that's the 2 weeks prior to Christmas when the whole business, both stores and online, was at full price for us trading against a very discounted high street. So we've got 2 weeks of sale period pre-Christmas. That was lower than expected.

Our expectation at that point was demand was being held over by the consumer to the start of the sale. We've gone into that sale period just after Christmas. And the first 2 weeks of that sale period have not been as we expected and indeed has not called back some of that lost demand from early December. So it's – at that point, we said we've taken the decision to say, we don't believe those sales are likely to come back, and that's why we've come out today with an announcement earlier than previously suggested, which would have been our Q3 update on the 6th of February.

Tony Shiret: And what do you think the consensus was for PBT before today?

Julian Dunkerton: So on an adjusted basis, again, trying to sort of strip out the noise of onerous lease and impairments, we believe the market consensus would have been just under GBP 20 million with a range of GBP 8 million to GBP 24 million.

Operator: Your next question comes from the line of (Jonathan Pichard).

John Stevenson: It's actually, John Stevenson at Peel Hunt. Cunning disguise from my colleagues there. Yes. Just – I suppose, just understanding sort of the run into this, because I guess, if we go back to June, July, there was no surprises, I guess, you made the point about ranges being weak. But you also – as we came into Christmas, I guess, there was more enthusiasm about potentially rescuing Christmas and potentially – ultimately delivering.

And I suppose the question is, to what extent should we have seen this coming? And then the follow-on from that is, when you look at the ranges that you're inheriting coming into Spring/Summer, I appreciate what you've sort of factored in sort of low expectations within the guidance now. But is there a risk that this continues? And is there damage being done by the sort of heritage product that's in the stores at the moment.

Julian Dunkerton: So most of the numbers come from wholesale in the next quarter. And obviously, they are pre-bought or they are pre-ordered. So that's most of the numbers. And we are dragging forward our Autumn buy, as I said earlier, which will make a huge difference. The autumn product is amazing. We've just done an Italian show called Pitti, and the response was fantastic.

John Stevenson: OK. And when you look at the wholesale, again, obviously, I appreciate it's not just old school wholesalers, there's sort of franchise in there. But I mean, are you confident that you can actually drive wholesale recovery because of the performance of the last 2 Autumn/Winter seasons?

Julian Dunkerton: Well, it's all preordered product. In the next quarter, you may or next year.

John Stevenson: Next year. I mean, I suppose you – OK.

Julian Dunkerton: Our next year is very confident, very confident. We have just had an amazing show, which really felt incredibly positive relative to where I think the business has been in the last 2 years. So yes.

John Stevenson: Are you going to get some of the...

Julian Dunkerton: And in terms of expectation, I mean, the numbers what – I suppose the bit that we really didn't really take on board to quite such a level was the level of discount of the core best products that they did last year. Now if we wanted to flatter our numbers, we would have followed suit. The reality is we didn't because we want to keep this brand growing and being strong. And sometimes you have to take a couple of tough decisions, and we made them. It was the right decision.

Nick Gresham: Yes. And then we will see that. I mean, we haven't published the margin today, John, but we'll continue to see the strength of the margin, as we talked about previously, come through. And as Julian has just said, the protection of that – of the margin, the full price stance and the rebuild of the brand is key to the long-term strategy.

So we have taken that impact in the short term. I think, again, internally, we executed the Black Friday event superbly. We think we have underplayed the January sale event, and we're looking at ourselves in terms of what we could have or should have done better within that, notwithstanding the difficult trading environment that we've alluded to as well.

John Stevenson: OK. And just – I guess, you're in the middle of actually selling Autumn/Winter at the moment. I mean, how is it actually going?

Nick Gresham: It feels good. I mean, the reality is we will get a weekly report of like-for-like sales. But we can't – all we can give you is anecdotal and the fact that the show appeared to go incredibly well. I mean, it was a very positive vibe at the show.

John Stevenson: OK. I mean, I guess – but next time we speak, I guess, you'll have a view on kind of the Autumn/Winter order book and where it sits?

Nick Gresham: Absolutely.

Operator: Your next question comes from the line of (Michael Benedict).

(Michael Benedict): Sorry, just a couple of quick follow-ups. Just to check, I heard the inventory position correctly. Are we saying it's improving by GBP 20 million at year-end now?

Julian Dunkerton: Yes.

(Michael Benedict): Great. And then just one on gross margin guidance. Have you got any update on that?

Nick Gresham: No. I mean, in terms of gross margin, that's still in line with what we said at the half year. So what we've seen is a reduction in terms of the markdown spend because of the lower promotional activity to date. But we do expect to be spending that to support clearing some of the stock. So our expectation for the balance of the year is that, that still equals out. And therefore, guidance is still the same for GM for H2.

(Michael Benedict): And just to check that guidance was adding level with H1, adding back FX and the accounting adjustments. So around...

Nick Gresham: That is correct.

(Michael Benedict): (38.9 percent).

Julian Dunkerton: Correct.

Operator: Once again, if you wish to ask a question, please press "star" "1" on your telephone and wait for your name to be announced. That is "star" "1" if you wish to ask a question.

Your next question comes from the line of (Kate Calvert).

(Kate Calvert): I just had a question on your cash position actually, given you're bringing forward your stock buy. Do you still expect to be net cash at the end of the year?

Nick Gresham: Yes. Yes, I mean, in terms of the impact of that in cash flow, there's not so much from what Julian was saying in terms of what we would have actually paid for by the end of April. So what we're doing is reducing the cash expectation, given the profit expectation. But we would still expect to be a cash positive for the year and probably now more in line with the closing balance from last year of circa GBP 40 million than previous guidance of around GBP 55 million, GBP 60 million.

(Kate Calvert): OK. Are you going to be net cash for the whole of the half?

Nick Gresham: The second half, yes.

Operator: Your next question comes from the line of (Matthew).

(Matthew): I'm assuming that's me, it's Matthew from Singer. Just a quick one in terms of your comments, Julian, about bringing forward some of the ranges into May. Can you just give us a sense of what number of styles you think that business will have out in stores in May? And what kind of the range that might represent? Just sort of kind of broad – kind of broad estimate.

Julian Dunkerton: It's too early to be precise. So we bought our leather range early. We're bringing some jackets in early so we can test. It's a broad mix. I mean, if I give you an exact percentage, I'll come back to you and try and give you one in a, say, week as we're clearer.

(Matthew): OK. Can I just ask it a slightly different way? I mean, there's a concern that your first half is going to be another very difficult period. But I mean, will the contribution or the extent of the range that you're bringing forward represent a significant part of the collection from May onwards? Or is it still going to be a fairly insignificant part of the overall range.

Julian Dunkerton: It will be a building number through May, going through May and June, really. I mean, look, all the way through the summer from May, it will be a build to a complete September 1. So we're – if you think about how the journey started a year ago, it started much more in sort of July and ended in November, so we're starting it in May and ending in September 1, so end of August. So with – the whole group is shifting by 2 months, essentially. So it's reasonably significant.

(Matthew): Yes. OK. And then the other question was just in relation to the certain timing differences that you've commented on in Wholesale. I mean, the – I guess, the magnitude of 5 percent makes the percentage decline look quite big. But could you just go through what the certain timing and phasing differences were?

Julian Dunkerton: Yes. Yes, I'll take that. Yes, so Matthew, so we were saying, again, as we came out of the half year that Q2 had been a significant reduction year-on-year, and we were expecting I think an early bounce back of that to come back in. And we had said around 5 percentage points of the decline in Q2 was due to that timing. That has not yet come through. That was probably a little overeager for forecasting an expectation from us here. And therefore, we're still expecting those orders to be fulfilled as we look to the balance of this trading period.

(Matthew): Is there any fundamental behind the nonappearance of these orders?

Julian Dunkerton: Not fundamental. I mean, there is a bit of an issue that continues around the stock and around the brand and around the amount of the volume of stock that some of those wholesale and franchise partners have. But that is no greater now than it was previously. So the majorities we're alluding to here is around the timing of us being able to complete those orders and push that through.

The other aspect we referred to back in December was that the impact of some of the decisions that we had taken around loss-making accounts is also impacting that order book. And again, we've got trading difficulties from some of our partners, particularly around Hong Kong, as an example, one particular partner there with the troubles that have been going on.

We've received canceled orders and returns to the tune of almost a couple of million pounds worth of sales. So there are some ongoing trading issues across that whole estate, but in terms of timing in terms over the next 2 months, we would expect the majority of that to still be delivered.

Operator: Once again, if you wish to ask a question, please press "star" "1" on your telephone and wait for your name to be announced. That is "star" "1" if you wish to ask a question.

There are no – we have one, and it comes from the line of (Gene Roche).

Julian Dunkerton: Hello. Good morning?

(Gene Roche): Sorry, I've been enthusiastic with the news lately. I just wanted to know what you're seeing in the U.S., and if there's anything you can call out there in particular?

Julian Dunkerton: I will be going out on the 19th of January to meet some landlords to put us in a better long-term position, should we say.

Nick Gresham: From a sort of a retail and a property purpose...

Julian Dunkerton: Yes, yes.

Nick Gresham: And that's been part of our focus in terms of managing the estate and some of the loss-making stores. From a trading perspective, within this set of results, actually, the USA has been doing probably a little bit better than it had been trading previously. Some of the discounts and the promotional activity in the USA is stronger than the U.K. and Europe, and we think that's been helping that overall performance.

(Gene Roche): That's interesting because that's – I had that idea from just some of the Google trends data. And also on China, anything to say about brand strength there? Or anything further to add there?

Nick Gresham: No. I mean, in terms of China, we're continuing to – we're reviewing the proposition. We've alluded previously to taking short-term and very remedial actions to stem the losses that we had been seeing from the previous decisions and previous strategy. So we're still very short-term focused at the moment.

We've taken some positive action around fit and weight of product that will be going into China shortly. And I think the wider strategy of how we operate in China, who we operate with and how big the opportunity is, is still under review. And indeed, the amount of investment that might be needed to get to that. And I think we'll be in a strong position in the prelims in July to talk about that in more detail.

(Gene Roche): OK. I'm sorry, I missed the very beginning of the call. I just heard you talking about GBP 11 million loss of sales of the top 36. Can you just talk...

Nick Gresham: Yes. Yes. So if – I mean, the general rule of retail is that you take 80 percent of your money from about 20 percent of your top 20 lines or top 20 percent. So we just pulled out the top 36 just to explain what that could look like. And when you bear in mind that 36 is probably 1.5 percent rather than the 20 percent, and that is GBP 11 million in lost revenue based on broken sizes to the peak. It's huge.

When we get to a point – when you're buying for 6 months, you do not lose a sale through December or very few, because your plan – you've planned it all the way through to March. So what – the Christmas potential number, which is basically why I had it in the first place because I knew the number would be disastrous for the company. But the prize coming back is absolutely vast when you move to a 6 months because you don't – essentially, you don't have broken sizes through peak, which is the ultimate prize.

Operator: There are no further questions at this time. Please continue, sir.

Julian Dunkerton: Yes. No. Thanks, Bella, I think that's quite a few questions. They seem to be drying up. So we'll say, thank you very much, everyone, for your time and close the call. Shall we?

Nick Gresham: Yes. Thanks, everyone.

Operator: That does conclude our conference today. Thank you for participating. You may all disconnect.

Julian Dunkerton: Thank you.

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