SUPERDRY® 冒険魂

Superdry H1 21 Interim results

Tuesday 19th January 2021

Julian Dunkerton, Chief Executive Officer

Good morning everyone.

I am joined today by our Interim CFO, Benedict Smith, to go through our FY21 Interim Results.

Like all brands, the Covid-19 pandemic has brought challenges to Superdry. Our focus has been looking after our colleagues and customers and ensuring everyone is keeping safe and I'm really proud of how well our team has stepped up.

Against this backdrop, I'm really pleased with the progress we have made with our brand reset, though this has clearly been impacted by the external environment. We were able to fully launch our Autumn/Winter 20 collection in the first half of the year, which is aligned to our four style choices, which I will talk about in more detail later.

We are also seeing the positive effects of our "social-first" brand marketing approach, with campaigns led by Hero Fiennes Tiffin and Zara Larsson resulting in record levels of engagement across our platforms.

And I am hugely excited about our recently announced partnership with Neymar Jr, who will be fronting our organic cotton underwear campaign.

I am pleased about how we are embedding sustainability in every part of the business, with responsibly sourced ranges really at the heart of our AW20 collection. Sustainability is becoming critically important to our customers and I'm committed to Superdry becoming the most sustainable listed fashion brand in the world.

We have also continued to strengthen our leadership team and Silvana Bonello will start as COO in March 2021. She brings with her fantastic experience at global brands.

Looking at the financial performance for the first half of the year, we have maintained our strong liquidity position and have not had to touch our bank facility at any point, remaining net cash positive throughout the pandemic.

Ecommerce continued to outperform the prior year, offsetting some of the lost store sales we have seen because of lockdown.

We have continued with the successful momentum from the full year results on rent negotiations, realising significant permanent reductions through agreed waivers, in addition to the savings from underlying lease renewals.

During this time, we have taken the opportunity to clear excess stock, which had a dilutive effect on gross margin, which has temporarily undone some of the hard work we undertook last year in returning to a full price trading stance. However, we remain committed to returning to a full price stance in the long term.

Moving to the next slide which shows the performance for the 11 weeks to 9 January. As expected, Stores and Wholesale have continued to be significantly impacted by the continuing National and Regional Lockdowns; although there have been some positive green shoots in Wholesale with In Season Orders, which are up year on year, driven by online partners.

Store sales are down 52% year-on-year; with nearly 40% of store days lost to enforced closures this quarter, and a like-for-like decline of 31% as a result of reduced footfall and continued social distancing measures.

With the ongoing lockdowns, particularly in the UK, we now have around 170 stores closed, which is over 70% of our portfolio, which will continue to materially impact trading at a group level.

Ecommerce performance remains strong, with sales up 13% in the quarter to date, driven by our owned sites. There has been significant volatility week on week because of the ever-changing lockdown rules and comparable periods.

As you know, a key part of our turnaround plan has been to reduce the level of discounting in the business. Against the backdrop of the pandemic and with a focus on cash preservation, we have looked to clear old product through mark-downs, while retaining our full price stance on core and current product as part of our brand reset plan.

Over the extended Black Friday promotional period, this resulted in sales being down 10%, but importantly drove an improvement in gross profit and contribution, due to both the product and site mix.

I'll hand over to Benedict now so he can provide more detail on the numbers from the Half Year before I come back to go through the Strategic update.

Benedict Smith, Interim CFO

Thank you Julian - and good morning everyone.

I'll run through a summary of our Interim results for the 26-week period ending October 24th 2020.

Starting with the financial overview, we report total group revenue for the period of £283m, some 23% below last year - reflecting the loss of almost a quarter of available store trading days in the period, due to mandated lockdowns and the continued impact of social distancing on footfall even when stores were open.

Gross margin of 51.7% was 4.6 percentage points down on the prior year predominantly due to increased online promotional activity to clear excess inventory.

The underlying loss before tax was just under £11m, compared to a loss of about £2m in FY20.

After exceptional charges, the statutory loss before tax was £19m compared to a loss of £4m last year.

Our closing net cash position of £34m, which is a £43m positive swing from the prior year's net debt position of £9m, reflects the success of our ongoing focus on managing cash and costs tightly, driven by stock phasing and rent deferrals and the significant reduction in our inventory levels.

On slide 8, we show the year on year percentage change in revenue for our own store estate, ecommerce and wholesale channels over each quarter and the half year.

Retail revenues declined 19% in H1, driven by reduced store sales from enforced temporary closures, as well as suppressed footfall and demand upon reopening.

In Q1 we lost 43% of available store trading days to mandated lockdown closures, while only 3% of store trading days were lost in Q2.

Overall, 23% of available trading days were lost due to lockdowns during the first half.

As a result, total store sales were down 45% year on year, with like-for-like store sales down 30%, reflecting lower high street and shopping centre footfall even outside of the periods of lockdowns.

At the same time, more customers shopped online, benefitting our Ecommerce channel which was also supported by targeted clearance of older stock, leading to revenue growth of almost 50% year on year. This resulted in Ecommerce generating half of all retail sales in the period.

Wholesale revenue declined 29% compared to last year - largely due to our wholesale partners' physical retail network facing this Covid-19 related closures as the rest of the markets we trade in.

Revenue from online-only wholesale customers declined a modest 3% while revenue from franchise and other wholesale customers declined by 33%. Wholesale sales were also impacted year on year by the later phasing of AW20 forward order deliveries - due to widespread supply chain disruption at the start of the pandemic.

On slide 9, we show the year-on-year change in the share of full price sales in the total mix - by sales channel each quarter in Half 1.

This illustrates the impact in Q1 of the prolonged period of store closures, which removed 43% of store trading days across that quarter - resulting in the need for tactical stock clearance activity to drive cash and clear excess stock.

With the launch of AW20 in Q2 and stores largely open we were able to move to a slightly higher full price stance than in the same period in the prior year.

It is this adverse full price sales mix in H1 which drove most of the 4.6 percentage points reduction in gross margin across the half, as shown on slide 10, to which I now turn.

Gross margin for the period was 51.7%, 4.6 percentage points lower than the prior year's 56.3%.

4 percentage points of the reduced percentage gross margin is rate variance, as a result of the need for wider discounting due to the prolonged period of store closures which removed 23% of store trading days as described earlier.

0.6 percentage points of the decline is down to channel mix. Ecommerce sales rose in the mix to 50% of direct to consumer sales this year, compared to 27% in the same period last year.

Slide 11 analyses the year-on-year movement in underlying profit before tax.

The biggest driver of the decline is clearly the reduction in sales due to store closures and lower footfall, and the lower gross margin from the resultant change in full price mix.

More positively, selling, general and administrative expenses, pre-exceptional costs, as a % of revenue improved by 0.3 percentage points to 57.1% of revenue, despite significant store closures.

The £22m reduction in store costs is a result of a mixture of "self-help" actions, such as store payroll efficiencies and reductions and lease negotiations, and various governments' Covid-19 support packages including UK business rates relief and job-retention furlough schemes.

There are a number of non-recurring prior year charges which result in lower reported costs this year, including a £7m reduction in bad debt expense included within Head Office costs, relating to one-off provisions for Norway and China taken in H1 last year, and a reduction in depreciation of £17.5m stemming from the £137m impairment charge booked at the end of FY20.

Given the impact of mandated lockdowns on the business, on slide 12 we set out more details of the main cost actions taken across our store estate, and the extent to which they might endure.

It's noteworthy that while we have received £11.5m of UK business rates and furlough support from various governments, our own actions have driven a further £13.5m of cost savings.

Due to the continued store closures – and as Julian noted earlier, we now have around 170 stores, over 70% of our portfolio, closed due to mandated lockdowns – we expect to continue to receive furlough support.

We also have a programme of lease reviews and expect further savings from both renewals and Covid-19 related waivers across the second half. Although, absent any guidance to the contrary from the UK government, we are modelling a return to UK business rates from April.

Slide 13 shows the movement in cash from our last financial year end in April, resulting in our positive net cash of £34m at the end of the first half.

Within the limited net movement in working capital there are some large underlying swings. An increase in trade and other receivables from last year end is driven mainly from the later phasing of the AW20 forward orders in 2020, while the increase in trade and other payables is primarily a result of about £30m of Covid-19 rent deferrals and ongoing waiver negotiations. Later phasing of stock supports an additional increase in accounts payable.

Since the end of the last financial year, Inventory has increased by £8m; but compared to H1 last year it has in fact reduced by nearly £27m.

And we did not draw on our ABL facility in the period.

The Company's cash position of £34m compares to a net debt position at the last half year end of £9m, despite the first-half being a period of working capital investment as inventories are built in advance of the peak trading period within the third quarter.

Indeed, on slide 14, you can see that at all points through the half we maintained a higher net cash balance than over the same time last year.

Since the outbreak of the pandemic, there has been a significant focus on cash preservation which has ensured we remained cash positive throughout the first half, without having to use any of our available facility.

As at January 9th, our net cash position of £55m, together with our Asset Backed Lending Agreement facility of up to £70m and an uncommitted overdraft of £10m provided us with £135m of liquidity.

Finally, before I hand back to Julian, a few words on how we see the outlook for the rest of the year – slide 15.

The continued uncertainty and disruption caused by Covid-19, including the impact from sudden and protracted store closures across our estate as a result of government restrictions, makes it more difficult than ever to forecast the outturn for the year and we are not providing formal guidance at this time for FY21 or beyond.

That said, in the balance of the year we know that we continue to have further mandated store closures in the UK and internationally. This, and continued subdued footfall in early 2021, will continue negatively to impact revenues.

We would expect these shortfalls to be partially offset through furlough claims and rent waivers.

Given the elevated levels of clearance activity throughout the 2020 calendar year, and as we adopt a more balanced promotional stance in 2021, we expect Ecommerce growth to decelerate in Q4 21.

However, we expect Wholesale revenues to end the year to be broadly in line with current market expectations.

Finally, the Group's liquidity will remain well controlled and through initiatives across the UK and internationally, such as a reduction and rephasing of stock intake, rent deferrals and associated Covid-19 waiver negotiations, rigorous cost control and cash management, we currently expect to remain in a net cash position for the remainder of FY21.

I'll now hand back to Julian to take you through the strategic overview

Julian Dunkerton, Chief Executive Officer

Thank you Benedict. Onto our strategy overview. We are moving ahead with the brand reset and making good progress against our three key priorities. Product, social and sustainability.

When I spoke to you last, I explained how AW20 would be delivered through four distinct style choices and I'll take you through an update on each of these including both the code and performance collections within sport.

First up is Original and Vintage.

In September, we ran our Hero campaign, the first of our influencer-led campaigns, which attracted record levels of engagement across our social media channels.

Our Autumn/Winter 20 padded outerwear jackets were made from 100% recycled materials which, I am very proud to say, used 34 million plastic bottles which would have otherwise have ended up in the ocean or landfill sites.

Leveraging this focus on sustainability, our longline jackets were a key trend for the season, with the most popular options achieving an 80% sell-through.

And capitalising on the demand for loungewear, sales of joggers were up 15% year on year, even with stores closed.

Up next is Superdry X – our mainline collection under the Streetwear and Energy style choice.

In October we launched our first ever TikTok campaigns with Zara Larsson and to support the launch of our Vegan Trainers, both of which allows us to connect with our target audience of 16-24 year olds.

And for this target demographic, a key trend we have seen in Autumn/Winter 20 has been our unisex product offering.

This distinct segmentation by style choice has opened up new wholesale opportunities through more targeted selling – and we are delighted to be selling into Nordstrom for the first time ever, with Superdry X offering them a completely new proposition.

Next let's look at Superdry Studios – our sophisticated and minimal mainline collection.

This distinct collection is aimed at cultured consumers who wear beautiful, simple products and only want subtle branding.

The focus of the product is on quality, using natural materials with lasting character that look incredible and feel just as good, and experimenting with sustainable fabrics.

This collection is a great opportunity for us to re-engage customers, and in FY22 we plan to open a standalone pilot Studios store in Cheltenham to really showcase this distinct collection.

Now let's have a look at Sport Performance – the pinnacle expression of our Sport style, but which itself represents a huge market opportunity.

Supporting this we launched our 'win differently' campaign video Autumn which highlighted our credibility as a performance sports brand, and reminded customers we have a legitimate offering for those looking for more than athleisure wear.

As with Superdry X, the clear product segmentation has opened up wholesale opportunities, including with key partners at Intersport, Kaiser Sport and JD Sports

The mainline collection within our Sport style choice is known as "Code".

This covers the more athleisure product and is targeted at those consumers aged 16-24 years old, and we are currently seeing the biggest demand for this product in the USA.

To date, our Autumn/Winter 20 bestselling style within the Code collection is the 'Sport Puffer' which sold 16,000 units.

As you are all aware, lockdowns have had a material impact on our trading performance in the first half, and this has continued into the second half.

You can see on this slide the impact of the localised November lockdowns in the UK, France and Belgium, followed by a further tightening in January. As at today have we around 170 of our stores closed, the highest proportion since April last year. In the quarter to date we have already lost nearly 40% of trading days to closures.

However, with every challenge comes opportunities. Re-gearing our leases remains a priority of our store strategy, and we have now renegotiated just over 20% of the portfolio, with 29 stores moving to turnover-based agreements.

In addition, we have secured £3.7m of Covid-19 rent waivers in the first half, and expect this to increase in H2 as a consequence of enforced closures, in addition to the underlying rent savings we have already guided.

With the ongoing store closures, we have rolled out fulfil from store to 39 further stores, making a total of 70 that we are able to run 'dark'. This provides us with an even greater opportunity to clear stock and avoid broken lines, maximising sales without having to incur additional cost of moving product back to the DCs.

However, negotiations are only one element of improving the profitability of the stores. The other side is creating an exciting and enticing environment where consumers want to shop time and time again.

And that is why the team have been working hard to re-invigorate our stores, completing 33 store resets in the first half of this year and ensuring they showcase the best expression of our brand for when customers are able to visit us again.

Because I know how eager you must all be to see what the new store layouts look like, we have created a short video to show you, but would encourage you to go and see for yourself once lockdown restrictions end.

One of the key elements of the brand reset which is not impacted by lockdowns is our focus on acting more like a brand, using a brand-focused mindset.

I am not going to go through every figure on this slide, but I have been incredibly encouraged by the early signs that the reset is resonating across all our customers.

Examples of these include: Net Promoter Score for both men and women remaining ahead of the competitor set averages.

Our number of followers across all social media channels has increased by 5% since the start of the financial year, with Instagram followers up nearly 8% since we launched AW20.

The number of active customers, who have made a purchase in the last six months, has increased by 17% and new customers are up 52% this year and not only that, our existing customers are buying 20% more.

And a large part of this success is down to our use of influencers, which is something we hadn't focused on enough before and we have now engaged over 100 influencers across the UK, France, Germany and Sweden who have a combined total reach potential of around 80m followers.

We have seen traffic through our social sites increase 60% this year, and are confident that our latest announcement will continue to accelerate this.

I am incredibly excited about the future of our partnership with Neymar Jr which is a genuine statement of intent for the brand's ambition.

Just to remind you, we have secured a three-year global deal which will focus on championing sustainability through our organic cotton underwear and sleepwear.

Neymar provides us with the ability to communicate with his global audience of 143M social media followers, 39% of which are 18-24 year olds – a key target demographic for us - and with the World Cup in 2022 maximising this exposure, this will drive a step-change in digital marketing activity.

As well as increasing traffic to our sites through this social-led brand investment, we have also been focused on our ongoing journey to improve our ecommerce platform.

Aligned to our AW20 reset moment, we improved the look and feel of the website, segmenting product into the four different style choices and this has been supported by more engaging photography, as well as embedding enhanced search functionality, allowing customers to shop across our collections more easily.

Ahead of peak trading we have also increased option availability and visitor capacity, ensuring that even with significantly increased customer choice and traffic we suffered no slow-down in performance.

We also improved our promotional mechanics, towards basket-building, brand-lead promotions, rather than blunt, retail-mentality discounting.

As I've said before, we're at the start of this journey, but continue to accelerate and prioritise our investment in our ecommerce and digital capabilities to support our fastest growth channel.

Sustainability is in my DNA and in the roots of Superdry, which is why I have made our ambition clear –

To become the most sustainable listed global fashion brand on the planet.

We are embedding sustainability across all our style choices, and it is at the forefront of everything we do.

Consumer demand for responsibly sourced clothing and transparency is only going to increase, which is why I see this as an opportunity and we are well placed to capitalise on going forward.

Already, nearly 40% of AW20 sales were from products which are made from either organic cotton, recyclable or low-impact materials.

And it isn't only product where we have been striving to be more responsible. Currently, 95% of all our packaging has been moved away from single use plastic. In 2020 we launched our new Retail bags which use Forest Stewardship Council certified paper, making it easier for our customers to recycle, and without us compromising on quality.

I am delighted to say that our Carbon Disclosure Project Score has increased to a B in the current year, which is above the retail industry average and we won't stop until we achieve an A grade, and have a clear plan in place to get us there.

But Sustainability reaches beyond Superdry, and we do our best to ensure all our suppliers produce our product in automated and sustainable factories, where people are treated with respect and dignity. This year we partnered with our key suppliers in India to launch a Covid helpline for workers and 8,000 factory workers in India have utilised our training and empowerment programme.

Sustainability will continue to be at the heart of what we do – ensuring we produce the most sustainable product whilst protecting our planet and supporting our people.

So, to wrap up – as you all know, this continues to be an extremely challenging year with the impacts of the pandemic and more recently Brexit being felt across our industry, and far beyond.

However, despite all the uncertainty and disruption I am proud of the positive steps we have taken in the first half:

We have fully launched AW20, aligned to our style choice segmentation, and in SS21 will focus on accentuating this and increasing customer choice through regular drops of limited-edition product.

We signed an exciting partnership deal with Neymar, building on our growing portfolio of influencers - a statement of intent as to the ambition of the brand.

We have continued to prioritise digital investment to support the accelerating channel shift to Ecommerce, recognising this is the future channel of growth for the brand.

And we have achieved all of this with a relentless focus on cash preservation, providing us with sufficient headroom to weather this continued storm, and remaining net cash positive throughout 2020.

Despite the unprecedented challenges that we are facing, I remain more confident than ever that we have the right strategy and people in place to reset the brand and return the business to long-term, sustainable growth.