Transcription

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Presentation

Operator

Hello, and welcome to today's SuperGroup Q2 2017 call. And throughout this, all participants will be in listen-only mode, and afterwards there will be a question and answer session. And just to remind you, this call is being recorded. And today, I'm pleased to present Euan Sutherland, CEO; and Nick Wharton, CFO. Gentlemen, please begin.

Euan Sutherland

Thank you, and good morning, everybody. Thank you for joining us on today's call. As always, I'm joined by Nick, and I'll hand over to him in a few minutes to run through the detail of the statement this morning. He will also cover some of the changes to our onward financial calendar, that we are updating today. After our recent capital markets day, the reset of the focus on the strategy for Superdry, our journey is to create a global digital brand. Our strategy is designed to create long-term, sustainable revenue and earnings growth, and in this context, a half year of strong financial performance, combined with further progress on our strategy, is very pleasing.

So, firstly to our financial performance. The revenue metrics we're reporting on in all of our routes to market are strong, maintaining good trading momentum we've established over the last three years. Our delivery over the long term naturally creates challenging comparatives as we move through quarter by quarter and half by half, which, as an example, last half one were 25% for retail growth in the first half year and 44% in wholesale.

At a brand level, our sales increased by over a quarter year on year, to £756 million. In line with our strategy, our growth continues to be led by our flexible, capital-light channels of e-commerce and wholesale, each reporting growth of over 30%. Both channels are yielding the benefit of consistent investments over the last three years. Our online growth is a function of continued investment and continued improvement, with over 700 individual customer experience enhancements delivered in the past year alone. We have a well-positioned, differentiated proposition, and remain confident of further market share growth in the fastest-growing consumer channel we have.

Our global strategy has continued to diversify our business model across geography, channel and category, in turn, lessening our reliance in any individual market or sector. Specifically, this plan, together with the benefit of our all-year-round continuity ranges, has served to partially protect us from the well-publicised warm period of weather in October and in the immediate run-up to our half year.

Turning now to our recent progress against the four elements of our updated strategy. The brand continues to strengthen. The half year saw two further fully-integrated digital social marketing campaigns; each campaign performed strongly, paying back in its on-air period, and built engagement with new and existing customers based on our typically edgy execution, true to the essence of Superdry, centred in on the stories that our consumers create in the clothes that we create for them. Consistent with our disciplined approach to all investments, having developed a successful approach through trial, we've just launched our second autumn/winter jackets campaign with a significant increased year-on-year investment entered in the UK, Germany and the rest of Europe.

Reflecting our existing global footprint, our strong wholesale and e-commerce growth was complemented by opening a further 50 dedicated Superdry stores in 23 different countries in half one. We're on target to exceed our plan to open 60 franchise stores in the full years, and on plan to open 125,000 square feet of own retail space in primary catchments, where we wish to secure the branch's long-term presence.

Product and innovation are at the heart of Superdry. Each and every year, we upgrade over 5,000 styles, introducing refreshed branding design and quality features for which Superdry is well known. We also introduced more enhancements, including our range of down jackets, starting from less than £100, which deliver great value. Of particular note this autumn so far has been the strength of our jackets, and adding a new varsity range across many of our categories, but the strong core graphics growth across men's and women's is of particular note.

Superdry sport remains a key development focus. The autumn/winter range now totals 500 options, including 60 footwear styles, with technical performance attributes at least as strong as the mainstream sports brands. The range has sold extremely well in the wholesale channel, contributing to its strong growth, and has been added to both our owned and franchise store network, with the first of 12 planned standalone franchise stores opened in Cape Town in October.

Finally, our trading success is underpinned by our continual investment in infrastructure, focused in this period on the continued development of our global distribution capability, enabling us to replicate our sector-leading UK delivery proposition throughout Europe, prior to peak season this year. I'll now hand over to Nick to go through some of the detail with the key numbers, and come back at the end to summarise. Nick?

Nick Wharton

Thank you, Euan, and good morning, everybody. Today's update confirms our trading performance for the first half year, and you'll find in the notes that they are detailed by quarter. As usual, I'll just walk through the announcement, fleshing out the numbers where we believe it will be helpful.

While potentially in the last cycle we will need to do this, as post-Brexit currency rates annualise, the currency benefit to our global revenues in this period is about £11.5 million, and that represents about a sixth of our total growth on average. With currency rates broadly lapping themselves at the end of the first quarter, this compares very logically therefore to the rough third of our growth attributed to currency in the second half of FY17. And finally on currency, just to confirm that in overall profit terms, due primarily to our natural hedge, the absolute level of currency impact remains fairly small on the bottom line. However, as some of our revenues and costs through the P&L will reflect spot rates, this does serve to increase their scale in both revenue and cost terms, and therefore erodes both our gross and operating margins to a degree.

So, to the detail, starting with revenues. As Euan outlined, our first-half sales performance is again positive, with good growth achieved across each of our sales channels. In terms of phasing across the quarters, each were clearly positive, with the performance being far more comparable between the first and second quarters on a constant currency or a volume basis, recognising that the currency benefit was concentrated in the first quarter.

To each channel, and firstly to wholesale. The period has seen the continuing strength in our wholesale division, with sales growth of 34%. There is some timing benefit in here, but changes from pure process improvements are now diminishing, representing only about 5% of this growth, and therefore the growth has been more commercially led, both from sales upside from the expansion of our customer base, including a 20% year-on-year increase in the number of franchise stores, but also significantly increased sales to existing customers, both within our core ranges and our new sportswear range sold into wholesale for the first time this season.

E-commerce growth of 31.6% delivers on our commitment to grow market share in this key consumer growth channel. In geographic terms, our strongest growth was in Europe, and within that it was led by our own websites. Looking forward to the second half, in addition to the lead time benefits from delivery from the EU warehouse that Euan referred to, this development will also materially increase the level of stock that is visible to our online customers from about 35% of our total stock to a number that approaches half of our total stock. We know from our experience when combining the e-commerce and retail stock pools in the UK in 2015, that this improved availability can be a key driver of revenue.

Now to stores. Store sales expanded by 7.6%, driven in this period entirely by new space expansion, which added a net 68,000 square feet of space in the half year. These store investments reflect our new capital investment targets, and initial trading has been positive against these more demanding requirements. Having been positive until the final four weeks, the dampening effect of the warm weather on October volumes led to a marginally negative store like-for-like across the full half, with similar volume profiles across the UK and our European stores.

Turning now to gross margin. We anticipate that gross margin will dilute versus FY17 by about 170 basis points, with the majority of the movement being driven by the structural impact of the ongoing strength of both our wholesale and, to a lesser degree, e-commerce divisions. In addition to a small margin drag from FX, the balance of the dilution reflects the drag from our actions to reduce our underlying stock cover during FY18, offset by us not repeating a series of consumer promotions trialled in the summer of 2016.

In terms of the inventory rebalance, which will be achieved over three sale periods, two in FY18 and one in FY19, we are very much on track. However, it should be noted that the margin guidance with regard to the inventory balance, of an impact of up to 100 basis points of investment, did relate to the full year, and it will be higher in the first half as the sale is a larger portion of revenues in that period.

And finally, to profits, where our guidance for the half is for an underlying PBT of between £25–26 million, which at the midpoint of that profit range would imply a Group-level profit growth roughly in line with our reported revenue growth of 20%.

In terms of the performance of our development businesses, each of the US and China businesses remain on plan, but will have been impacted in the first half by planned investment necessary prior to scaling these operations, such as pre-opening store costs in the US. On a full-year basis, we still expect the rate of progression achieved in the US since acquisition to continue, and our investment losses in China to be at a similar level to FY17. And finally, we can confirm that the distribution centre dual-running, [inaudible] mitigation and migration costs of around £0.5 million, have been completed and fully recognised in the period. As you know, we therefore adjust to give an underlined performance of the core business, reflecting the above factors. This number is naturally pretty[?] sensitive in the first half, due to the relatively low level of absolute profits relative to the full year. Therefore, based on the expected performance in the development businesses, this would suggest a profit growth in our core businesses of around 17–18%.

As you will see from the announcement, we're also confirming today a number of changes to the Superdry financial reporting calendar, to reflect phasing and metrics more appropriate to a global digital brand. From FY19 onward, we will report total revenues for all three channels – wholesale, e-commerce and stores – on a quarter-by-quarter basis, increasing both the frequency and the transparency of this channel performance. However, recognising both that due to the growth of our franchise estates, our reported store like—for-like only comes at about 60% of our total store revenues, and also that the metric is very UK-centric at the moment, we will no longer report this metric, but will provide owned store space movement. And for completeness in terms of timing, our interims in FY18 will remain scheduled in the second week of January, and will include an update of total revenues on all those channels. So, that completes my summary, and I'll hand now back to Euan.

Euan Sutherland

Thank you, Nick. So, in conclusion, the first half has seen further financial and strategy progress, as we develop Superdry as a global digital brand. We've said on many occasions that Superdry is an opportunity-rich brand, and we will maximise this opportunity through a relentless focus on the key drivers of revenue, earnings and brand growth, and this focus is now better reflected in our revised framework outlined in September. Our confidence for the future is therefore based on our clear brand positioning, a disruptive multi-channel approach that will work globally, and on a growing culture of operational excellence across the business. So, thank you for that. Nick and I are very happy now to take any questions that you may have.

Q&A

Operator

Thank you. Ladies and gentlemen, if you wish to ask a question could you please press 0 and then 1 on your phone keypad now in order to enter the queue. And after I announce you, simply ask that question. And if you find that question has been answered before it's your turn to speak, just press 0 and then 2 to cancel. There will be a brief pause while any questions are being registered.

We go to the line of Michelle Wilson at Berenberg. Please go ahead.

Michelle Wilson

Hi, good morning.

Euan Sutherland

Hi, Michelle.

Nick Wharton
Morning.

Michelle Wilson
On the wholesale, clearly a very strong performance in wholesale, with 34% growth; I think previously, you've guided to growth in wholesale in the mid-teens. Can you give a bit of detail of what's driving that growth? And then also, when we think about full-year guidance, I guess why that growth coming so far ahead of guidance hasn't led to an upgrade to PBT?

Euan Sutherland
Okay. Nick, do you want to take those?

Nick Wharton
Yeah. So, you're right that our long-term guidance for wholesale is for mid-teens, both revenue and profit growth. Obviously, having come off the back of strong performances in that channel over the last sort of three reporting periods, we will migrate over time towards that long-term run rate. In the first half, we are still seeing some of the process benefits that Jon Wragg talked about to the capital markets day, and they are still a declining but positively contributing factor to the growth. And also, there is a slightly larger than average FX benefit in the wholesale channel than in the retail channel, recognising the geographic splits of those customers, and each of those will progressively unwind over time. Also, there is, as I said in my notes, a phasing benefit into the first half as well. We are more delivered on our autumn/winter seasons this year than at the equivalent time last year. That's a bit of a double-edged sword, Michelle, in that naturally some of that will unwind into the second half, but being more delivered does give the wholesale team a greater opportunity for in-season sales of autumn/winter products into the second half. So, there's a bit of a balance on that.

In terms of the upgrade point, we are very pleased with the performance we've delivered in the first half, but I think we're very cognisant of the fact that the second half is materially more significant in terms of profit delivery, so against the consensus expectation with – you know, at the midpoint we're at the £25 millions against an expectation which is the best part of £100 million of full-year profit. So, pleased to have the first half under our belt, but actually the vast majority of our earnings are achieved in the second half of the year.

Euan Sutherland
Okay, just to add to that point on our readiness, if you like, for the wholesale season, that has obviously benefited our retail business too, as we were very ready with early deliveries of autumn/winter products across all of our DCs and territories towards the end of the summer, so that operational excellence programme really starting to land in earnest and helping wholesale, clearly, but also helping retail too.

Nick Wharton
And finally, just building on that, we did accelerate our autumn/winter stock deliveries into all channels, to give us the opportunity to take advantage of any early-season sales that there were. That will, however, have an adverse impact in our cash and working capital position over the first half. Naturally an unwind into the second half on that, but we'll make that clear in the interims in terms of the working capital impact of that accelerated strategy, which is naturally the right thing to do.

Michelle Wilson
Great, that's really helpful. Thank you.

Euan Sutherland
Thank you, Michelle.

Nick Wharton
Thank you, Michelle.

Operator
Just to remind all participants that if you wish to ask a question, please do press 0 and then 1 on your phone keypad now. And we go over to the line of Kate Calvert at Investec. Please go ahead, your line is open.

Kate Calvert

Good morning, everyone.

Euan Sutherland

Hi, Kate.

Nick Wharton

Good morning, Kate.

Kate Calvert

Good morning. On wholesale, could you talk through in a bit more detail about growth in number of doors[?] and growth in revenue per customer in both Europe and US?

Nick Wharton

Yeah, I haven't got the exact detailed number of wholesale doors as such. The biggest growth that we've seen is into the like-for-like base, and also into the number of franchise doors that we've opened. So, those were the two biggest drivers. The balance of growth was fairly evenly spread across the whole of the global picture. So, we saw good growth in US, and then good growth in European franchise doors. If you take it down to a product category, then we saw jackets as the lead category, and then into graphics. The add-on, which has helped the growth of wholesale, has been in sport, so we saw a very strong take-up for the new sport range into wholesale, both into multi-brand existing accounts and into the number of standalone franchise stores. So, the combination of those have led to a pretty balanced result across the world, just to give you some flavour of where it is.

Kate Calvert

Great. Thanks so much.

Euan Sutherland

Thank you.

Nick Wharton

Thanks, Kate.

Operator

One final time, if anyone's got any final questions, please do use this opportunity and press 0 and then 1 on your phone keypad now. Okay, we have two that just jumped in. The first is from Richard Chamberlain at RBC. Please go ahead, Richard, your line is open.

Richard Chamberlain

Yeah, thanks, morning guys. Just wondered if I could follow-up on – I think it was Michelle's question on wholesale. I just wondered if you could quantify the timing impact of wholesale sales being brought forward, and also whether the gradual plan to reduce stock cover in the business has also boosted the wholesale sales performance in the first half, whether there was any sort of clearance going on, or re-channel towards wholesale that's helped the wholesale sales performance, or that's not material? Thanks.

Nick Wharton

Yeah, Richard, it's Nick.

Richard Chamberlain

Hi, Nick.

Nick Wharton

The second part of the question around clearance activity from the inventory rebase impacting performance in wholesale: the answer is yes, but it's very immaterial.

Richard Chamberlain
Okay.

Nick Wharton
So, we will use the appropriate channel in order to rebase our inventory, and that will include wholesale where appropriate, but the impact in the first half was relatively small.

Richard Chamberlain
Okay.

Nick Wharton
In terms of the timing impact, the timing impact is mid-single digits in terms of the growth of that. So, we've always talked about the ambition of being 90% delivered, in terms of the season, by the end of our financial half-year, and full-year on the respective seasons. We continue to make good progress on that, but it's probably worth around 4–5% of the growth during this reporting period.

Richard Chamberlain
Got it. Okay, great. Thanks a lot.

Euan Sutherland
Thanks, Richard.

Nick Wharton
Thanks, Richard.

Richard Chamberlain
Thanks.

Operator
Okay, we go back to Michelle Wilson at Berenberg. Please go ahead again.

Michelle Wilson
Hi, guys, just a quick follow-up from me. You mentioned on the wholesale, that there was a more significant FX impact on the wholesale business: could you split the £12 million FX benefit between wholesale and retail for us?

Nick Wharton
Yeah, it's broadly similar, Michelle, but obviously it has a greater impact into the wholesale business, because of their relative magnitudes. It's not quite 50/50, but for ease, that's not a bad assumption to make.

Michelle Wilson
Okay, perfect, thank you.

Nick Wharton
Thanks, Michelle.

Operator
And as that was the final question for today, gentlemen, can I pass it back to you for any closing comments at this stage?

Euan Sutherland
Great, thank you very much, thanks everybody. We won't keep you on the call, we know it's a busy day, but if there are any other follow-up questions, we will be around all day, and we will catch up with you then. Thanks very much, everybody.

Nick Wharton
Thank you all.

Operator
This now concludes the call. Thank you all very much for attending, you can now disconnect.