

Mister Spex SE XTRA:MRX

Q1 2024 Earnings Call Transcripts

Call Participants

EXECUTIVES

Dirk Graber
Founder and CEO

Irina Zhurba
Head of Investor Relations

Stephan Schulz-Gohritz
CFO & Member of Management Board

ANALYSTS

Cédric Rossi
Bryan Garnier & Co Ltd, Research Division

Ralf Marinoni
Quirin PrivatBank AG, Research Division

Presentation

Operator

Good day, and welcome you to the Mister Spex SE First Quarter 2024 results conference call. [Operator Instructions] After the speaker's remarks, there will be a question-and-answer session. [Operator Instructions] Thank you. I'd now like to welcome Irina Zhurba, Head of Investor Relations to begin the conference.

Irina, over to you.

Irina Zhurba

Head of Investor Relations

Thank you. Good morning, everyone, and welcome to our Q1 2024 results call. The presentation as usual will last around 20 to 30 minutes, and then we'll allow another 10 to 15 minutes for the Q&A. As usual, you can find all the presentations, financials, reports, and everything online on the Investor Relations website under reports and presentations.

The speakers today here with me are Dirk and Stephan, who will guide you through today's presentation. That said, let me hand over to Dirk to begin today's call. Thank you.

Dirk Graber

Founder and CEO

Thank you, everyone, for participating in the call. Hello also from my side. My name is Dirk. I will give you an update on the strategic side of our business and Stephan will follow with a financial update, and then we're jointly answering your questions. So, let's have a look at our focus areas in 2024 and spend some time on that, right?

So, 2024, we want to focus on creating significant value for our customers. And because only if we do that, we're able basically to win more customers generate higher AOVs and also followed by higher gross margins. So, what we're doing for that, we significantly extend our assortment, especially when it comes to prescription lenses, and I will give you a few more insights in the following slides.

Second, we're also focusing or sharpening our brand image. We will add significantly more focus on optical expertise, as we mentioned in one of the last calls, which then allows us also to broadening the customer base. So, meaning we want to win significantly more 40 to 60 old buyers in 2024 and the following years.

Second step and second area of focus in 2024 will be the rationalization and optimization of our retail store portfolio. And this requires a number of different measures depending on the store. So clearly, for some stores, it's more in the field of generating more traffic via marketing, but also in other stores, conversion rate optimization, which we do by a lot of training of our people. We also selectively increase the number of head count in the stores. And for others, we really look at optimizing the rent that we are spending.

So, all of that basically gives us a lot of confidence in our store portfolio. And we have this exercise already and now implementing all the measures. That said sometimes and that's very selectively, we also come to the conclusion that some of the stores may not lead to the target margins we're aiming for. And therefore, we also basically close selectively stores. We just decided to close one of the retail stores in Sweden, which will happen in the second quarter of 2024, significantly reducing also our negative EBITDA going forward.

The third aim for 2024 is really to maintain our cost focus or optimizing cost structure. I think we had some really successful initiatives in 2022 and 2023. And what you see is already in our quarter results Q4 and also Q1 that we've been able to maintain that discipline on the personnel and other cost side, selectively also on the marketing side. And that's something which we keep on focusing in the entire organization with a new organizational setup, a process-driven organization in the headquarter functions, but also with our continuous lean improvements across all business areas, meaning operations, retail, but also our headquarter functions.

So overall, if we look at our business, financially, it may look like a sidestep, but strategically and operationally, we are very pleased with the progress that we are seeing and that we are making. So let's look at the strategic progress once again.

We extended our portfolio of frames also a number of collaborations that we launched again in 2024. We also broadened our lens portfolio. And looking at the market in driven business, we basically developed in line with the market and also the large players. So, we grew our prescription and sun business by 4% in the same period where GfK reported 3% for the German market.

Financially, we mentioned it in the full year result presentation, we saw a quite soft start in January, but followed by an acceleration in February and March. March was this year impacted by an early Easter weekend, which resulted in the end in a net sales growth of 2%. For the first 2 months, it was 4%. And we also achieved a significant improvement in cash flow. So it was, in the end, EUR 12 million better on the operating cash flow side versus Q1 last year.

So, now look at what are we doing on the customer focus. On our assortment side, we are launching Ray-Ban Authentic, which is basically, the Ray-Ban prescription -- Ray-Ban sunglasses with original Ray-Ban prescription lenses giving a lot of customers, products that they are asking for. So, creating also a lot of value for customers again.

We are launching the second or extended collection for our Mister Spex EyeD, the custom-made bespoke 3D-printed frames, which are available in all our stores by today, and we're seeing a good traction on this product. And on the branded side, but also on our collaborations, we added Maui Jim to our portfolio lately, obviously, a very, very strong sunglass brand. And we also updated collections with Michalsky, for instance, but also had good [talks] with [indiscernible] famous German musician obviously, which shows good results after launching it a few weeks ago.

So, on lenses side, we -- as I said, this will be a core focus in 2024. We started with rolling out Smart Focus, which is basically a single vision lens with a standard addition, especially for people growing into the presbyopia slightly. So, in the 30s, the easy entry into varifocal glasses, which is a very good success for Mister Spex, a very fast adoption by our consumers with good progress online, but also in our retail stores.

And -- on top of that, we also extended our portfolio of sunglass lenses in terms of additional colors, additional self-tinting colors by transition, for instance, also new polarized lenses. And this allows us in the end to really strengthen our prescription sun business. As you know, this is a very, I would say, strong product, and we have a very strong USP in the market, where we are, in our view, significantly better than all competitors when it comes to branded frames, including prescription sunglasses, lenses.

And the last thing, we also focus more and more on improving our communication towards consumers, so focusing on customer value generated by the lens auction that we are providing. So, a general, I would say, consultation training, we conducted with many of our retail employees and still rolling this out. Same applies to all the auctions that we offer for the lenses. And we also, in Q1, rolled out an eyewear insurance, not only for prescription but also for sun and which is now available in all our retail stores and sees a good pickup as well.

So, summing it up, I would say, you can see we are working step-by-step in all the dimensions, which are important to

create customer value in 2024. You will see more to come in the next quarters. I think we're making, as I said, really good progress on a number of topics, although not all of that is already incorporated in our financials, but that will follow over the next quarters.

And by having said that, I'm handing over to Stefan for our financial update.

Stephan Schulz-Gohritz

CFO & Member of Management Board

Yes. Thanks, Dirk. As presented, we are moving forward with respect to implementing our strategy. On the financials, we can say that in Q1, we have seen moderate improvements despite low consumer confidence. Specifically, January, February, we were growing by 4%, as we pointed out, GfK [numbers at 3%]. So overall, we grew by 2% year-on-year, we closed one store, and we opened up another store. Germany overperformed with a growth rate of 5%.

With respect to free cash flow, we have seen and achieved a significant improvement year-on-year. Overall, first quarter was minus EUR 5 million. That is a EUR 12 million improvement versus Q1 2023. And basically, it's driven by significant improvement on inventory management and also by lower investment grade on new stores. Therefore, we are still equipped with efficient cash and cash equivalents of EUR 106 million.

Now let's have a look at different product categories. We can see that also driven by good weather conditions. We have over proportionately grown in sunglasses, whereas prescription glasses, that's basically driven by the Easter weekend in end of March is at minus 1%. The contact lenses are growing year-on-year by 2%. So, what is ahead of us, specifically in April, we expect to recover from the early Easter holidays and, therefore, specifically prescription glasses should participate from that.

Then let's have a look at the different business segments, Germany and International. As we said before, Germany was contributing over proportionally with a growth rate of 5%, whereas international is down by 8%. We eliminated currency effect minus 7%. And therefore, our key focus of us is this year, further optimization of our international business, where we -- as we are proactively moving forward in Germany developing our business there.

Then let's have a look at our P&L. What we can say is basically that driven by the margin mix development, specifically with the strong growth in sunglasses and slight reduction prescription glasses. We have seen gross margin deterioration by 1.6%. And that basically had an impact on the overall EBITDA on a negative side, whereas we said before, cost management is very important and a key focus of top management. We have achieved an improvement of 0.7% points in personal expenses and 1.7% points with respect to marketing expenses.

And if you look at the personal expenses, then EUR 700k are coming from noncash relevant IFRS change charges. If we eliminate those, then we have an overall improvement by 5% despite the fact that we have opened six new stores versus Q1 2023. So that's a big achievement. With respect to other operational expenses, we have seen price increases specifically on the trade and logistics side with a slight increase in the category of other operating expenses by 0.5%.

Overall, the EBITDA is down by 1.3% points, driven by the gross profit margin, whereas the adjusted EBITDA is flat or a slight improvement with a minor 3.2% versus 3.3% in the previous year. Then let's have a look at the cash flow. And as we presented before, we have achieved a significant improvement here. The cash flow is minus EUR 5 million of minus EUR 16 million in the previous year. And that's basically predominantly driven by the improved net working capital position and reduced CapEx with a reduced investment in new openings of new stores. So, that is a big achievement compared to previous year. And having said that, I would like to open up for the Q&A.

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Cédric Rossi from Bryan Garnier.

Cédric Rossi

Bryan Garnier & Co Ltd, Research Division

I have two questions. The first one is regarding your initiative to broaden your customer base. Can you elaborate a little bit more on that because I know that it's been something that you try to implement with the physical stores and also EyeD. So, I was curious to know whether you are planning for new initiatives on that front? And my second question, just coming back to your -- to the marketing cost which have significantly decreased in Q1. Would you be able to break it down between what were efficiency gains and really a reduction in marketing costs? And do you think that it is sustainable going forward, considering that you are also planning for new marketing initiatives from Q2 onwards?

Dirk Graber

Founder and CEO

Sure. Thank you, Cedric. So, on the customer base, maybe first, there are a number of initiatives that we are planning, but also working on at the moment. So there will be an even further increase in our lens portfolio over the next weeks and months, which then allows us to really, I would say, address even more customers. I don't want to say too much at the moment, but you will see that soon, basically, and the latest, I think, in our next conference call, we will give you more insights into that. So that's one of the things.

Second is that we are also working on the brand positioning, as we said, and you will see also some updated marketing campaigns on that in the second half of 2024, which should address also more 40- to 60-year-old customers. You will see that, as I said, in the second half, we probably give you more insights as well in the next call, probably can even give you some more insights on the campaign that we then launch.

And the other thing is that I think we focus a lot on training in our stores of our staff to increase conversion rate in the stores and also being able to, I would say, better so or a broader range of customers in terms of age groups in our stores. So that's something which we're continuously working on. If you look at, let's say, the overall customer base, what you may see at the moment is that it's hard to break it down because it's really in terms of efficiency gains versus cuts.

We all -- so what we do, as you know, we're optimizing marketing spend always in a way that we are profitable in each country and channel after marketing costs. And therefore, all of the marketing spend that we are doing is efficient, but we obviously want to invest where we can create or generate more high-value customers. Partially, we're also shifting marketing budget to the second half due to the upcoming repositioning of the brand that I just mentioned.

And so therefore, you're right, probably looking at marketing spend in terms of percent of net sales that may increase in the second half, especially with focusing on repositioning our brand to cover basically a broader spectrum of prescription glass customers.

Operator

Your next question comes from the line of Ralf Marinoni of Quirin PrivatBank.

Ralf Marinoni

Quirin PrivatBank AG, Research Division

Thank you. Good morning, everybody. Maybe you can give us trading update on your start to the second quarter. Further question is, you have been able to improve your cash flow from operating activities in the first quarter by EUR 9 million, congratulation to that. Can we expect an increase also on a full year basis? I think your operating cash flow from operating activities amounted to roughly EUR 6 million in the last business year.

Dirk Graber

Founder and CEO

So let me start with the trading update for second quarter. As Stefan already mentioned, we saw, I would say, on the prescription glasses side, a good rebound in April. And so far, the trading basically in April, but also early May is in line with our expectation. We see that also sunglasses at the moment due to the, I would say, good weather performed in line with expectations. So therefore, I would say we are pleased with the development of the revenue so far.

If we look at cash flow, -- you're right, we saw a very positive cash flow from operating activities in 2023. That was, I would say, driven by a significant improvement in the EBITDA that we've seen but also on working capital optimization. So far, we see -- and Stefan just mentioned it, a good improvement on the operating cash flow also in Q1. That was mainly driven this time by the working capital, right? So there will be some changes in working capital throughout the year. But overall, we do expect an improvement in the cash flow from operating activities in total in 2024, also versus 2023.

Stephan Schulz-Gohritz

CFO & Member of Management Board

Just wanted to add specifically as we have seen the prescription glasses were suffering in March, we have seen the rebound now in April with a significant growth rate in April already.

Operator

[Operator Instructions] As there are no further questions, I'd like to hand back to our presenters.

Dirk Graber

Founder and CEO

All right then, thank you, everyone, for participating in this Q1 update call on our earnings. And then also, thank you for your questions, Ralf and Cedric. And if you have any further questions, please reach out to Irina and talk to you soon.

Operator: That does conclude our conference for today. Thank you for participating.