NTT

Transcription

Mister Spex Q1 2023 Results Presentation

{EV00138688} - {30 min}

11 May 2023

PRESENTATION

00:01 Irina Zhurba

Hi. Good morning, everyone, and welcome to our Q1 2023 results call. The presentation will last approximately 20 minutes and will allow another 10 to 15 minutes for the Q&A. As usual, you can find the presentation online on the Investor Relations website under “Reports and presentations”. Our speakers today are Dirk Graber and Mirko Caspar. That said, let me hand over to Dirk to begin today's call. Thank you.

00:28 Dirk Graber

Hello, and welcome also from my side. Thank you for participating. So today, on the agenda, we have a quick looking back at 15 years of the optical retail industry and Mister Spex. I will then give you an update on our strategic initiatives, especially the Lean 4 Leverage program, followed by a financial update for Q1 and our performance. And then, as Irina already indicated, we are moving to Q&A. So Mirko will start with a 15-year review of the industry and Mister Spex, and then we will take it from there. Over to you, Mirko.

01:12 Mirko Caspar

Thank you, Dirk, and also welcome from my side. Well, as you may or may not know, it's our birthday. We have 15 years of Mister Spex. So we think that's a good reason to look back 15 years. And let’s start with the industry.

We see two paradigmatic shifts. One is, obviously, prescription glasses have evolved from being a pure medical device and have become an accessory that not only defines how you see the world, but also how the world sees you. And then the other thing is, the possibilities of the digital solutions have been used also in optical to accelerate the online segment to a level that the industry has not thought would have been possible. And we believe we were no small part in those two paradigmatic shifts in the industry.

So let's quickly look at the last 15 years of Mister Spex. As you all know, we've been growing market share 15 years consecutively, 14 years of those with double-digit growth. And we've not only reinvented or invented the online part of the business; we've also reinvented the optical retail. And the first store in 2016 was already highly awarded due to the idea and the concept behind a really integrated on- and offline. And we're really, really happy and proud that, just in the year of our anniversary, we got awarded again. We are Store of the Year from the German Trade Association for our newest version, the boutique version in Cologne. And I didn't know myself, even, but there were more than 400 participants and concepts that have been evaluated by the German Trade Association. So we're really proud that we, for our boutique environment, could really add something again, and made optical retail a little more exciting. And last but not least – and we mentioned it when we talked about the industry – the advances in face-scanning technology and custom-made frames in recommendations, we've been really driving for 15 years.

Now, looking at the strategic update, we'll quickly look at consumer sentiment, what it does to optical, how we have performed, and then Dirk is going to give you an update on the Lean 4 Leverage program.

And starting with consumers, you will highly likely have seen it: consumer sentiment is still very low. We've seen it at 29%. It would have been a record low had we not had such low levels before. But what it also means is it is a trend that's improving. What did it do to optical? Well, in optical we had a bit of pent-up demand. So what you actually see is that – and we're zooming into Germany now here for prescription glasses – actually, the market grew 5% in units in Germany, in the months January and February for which we have GFK data. If you look at us, we were again able to outgrow the market with 7% unit growth in Germany in prescription in January in February.

But leaning back, one of the pillars of Lean 4 Leverage is that we want to also drive growth and profitability with capturing more value. So we have increased prices, we have reduced discounts, etc. So what did that do if you look at the value side of the business? If you look at January and February, like I said, for which we have data, the prescription market in Germany grew 6% in value. Due to our strategy, for the full quarter we grew 21% in value in prescription. So that clearly shows that our strategy, building on our strong brand equity, to capture more value is working. So, over to Dirk, who's going to tell you a little more about the other pillars of the Lean 4 Leverage.

05:49 Dirk Graber

If we focus, again, on our three core pillars of Lean 4 Leverage, I think we made good progress also in Q1 in the short term. So let's first look at and concentrate on the core. Our retail stores in Q1, again, showed a very strong like-for-like growth, 90%. I think it's notable that all store cohorts contributed basically to this like-for-like growth and did grow. The second thing, which I want to point out, which also sticks out probably in the presentation, is the improvement of the gross margin of 440 basis points in Q1. On the next slide we're going to have a more deep dive on how we managed to achieve that. I think Mirko already mentioned we grew 21% in prescription glasses in Q1 in Germany, and at the same time we reduced our marketing budget or spend by freeing up 320 basis points in percent of sales, which is remarkable, I think in combination.

Number four – and that's more of notice to everybody – we did decide, quite opportunistically to invest in contact lenses inventory and stock up additional 6.5 million. “Why did we do that?” you may ask, especially because contact lenses were reducing in Q1. I think it's a number of topics. One is we want to stay competitive, and especially since our large or all contact lens suppliers announced significant price increases between 6% and 9% in Q1, executed in Q1 as well. We wanted to basically stay competitive in this transition period of the market. We’ve also seen, obviously, a higher return on invested capital versus just the money in the bank. And we only bought fast-moving contact lenses which we can sell within six months. So it is basically an opportunistic approach, but I think with a good return of capital, which you will see basically over the next two quarters being sold off as well and getting to a normal level again.

One more thing. That was more of an outlook to Q2. In April, we even refined our price positioning for our standard 1.5 single-vision lens, which was for free so far. And I'll give you in two slides an update on what we've done with that standard lens. And maybe the last two points: we did already, a few months ago, set up this transformation office. It’s really helped to put Lean 4 Leverage into the entire organization. We’ve even now introduced the lean management philosophy with some external help, and I think with a good traction already over the last weeks and months that we've seen so far. So that is the overview. And now let's go into the details, especially on the margin side first.

440 basis points was Q1 last year and 200 basis points was Q1 2021. So one driver was our continued focus to reduce discount rates, meaning we're doing less campaigns with higher discounts. So we focus on lower discounts or no discounts in our campaigns. And on the other hand, we've been strong on pricing. So we continue to push supplier price increases also to the market and we actively manage lens prices again. Plus, what we've done is we also looked at marketing channels. And here we basically focused on the marketing channels which are less price-sensitive. And in the end, it led to significantly increased average order values for prescription glasses, plus 14% versus Q1 last year, and in sunglasses even 16%. So it not only helps on the gross margin side, but also trickles down to contribution margin two, or three, because the variable costs are typically based on units and not on price. So therefore, this is a significant driver for our overall EBITDA improvement.

So now let's have a look at our change in the standard lens prices. So, historically, the standard free 1.5 lens was a significant part of our USP. As you know, we have grown the brand over the years. We significantly increased our brand awareness, but also our physical presence, with now over 70 stores. What we have also done is we've focused more on independent luxury. Therefore, we decided to actively increase the price from 0 to 19.95 in most of our markets. And we've started that middle of April. And so far, we've basically seen a good, I would say, transition in that pricing, with no significant impact on volumes. So, so far, we are very happy, and everything is in line with our expectations. It should lead, again, to a small further improvement of our gross margin, especially in prescription glasses.

So now let's look at the financial update. I think we will show you a strong development in all key categories, and also in our key region, Germany, and also have a look at how we significantly improved our EBITDA margin in Q1.

Now have a look at the product segments. What you see is the overall 6% in Q1 is driven by prescription glasses. Overall 19% was, as Mirko already mentioned, some pent-up demand, but on the other hand, obviously, a lot of new stores and a good traction of Mister Spex in the core market, Germany. Sunglasses, here, we grew 6%. I would say we've seen quite poor weather conditions in Q1 2023 versus Q1 2022. So, therefore, we see a slower demand pick-up so far until end of March. I think weather significantly improved in Q2, so we don't see a big risk so far for the entire year on sunglasses. Therefore, we are okay with the result in Q1 here.

In contact lenses, I already mentioned it, we've seen a negative development. Here, it's a deliberate decision for margin where we said, okay, we want to improve our overall gross margin. And therefore, we're not going actively in all marketing channels, especially the ones which are very price-aggressive and price-sensitive, where no money is to be made. And the second driver here was the negative impact of the Norwegian and Swedish krona in the market. I think positive, on the other hand, again, in the prescription in sunglasses segment, our focus on the higher value boutique segment, which comprises luxury and own brands, especially increased by 39%, or own brands by 13%. Overall, we added three new stores in Q1 and ending the quarter with 71.

Now when we look at our segments in Germany, which was our focus again in Q1 – it's part of our Lean 4 Leverage strategy – we grew 12%, adding three new stores and showing a good and resilient performance, and also an increase in growth rate versus Q1 last year. Internationally, we really focused our energy resources management attention on the German market because the bang for the buck was significantly higher. And therefore, in combination with the weak Norwegian krona and Swedish krona, we've seen a decline of 8% internationally. That doesn't mean that we don't believe in international markets in the long run. But in our aim to get to cash flow breakeven rather sooner than later, this is a deliberate decision, to focus on the German market.

Now, let's look at the overall financial performance in Q1. What you see, the significant improvement in EBITDA of 7% and adjusted EBITDA of 6.4% is driven by gross margin improvement – we've already seen the 440 basis points – and the reduced marketing expense of 320 basis points. Personal expenses, a slight increase, especially due to the 20 new stores on a year-over-year comparison basis, while operating expenses stayed more or less flat.

So, having looked at that, we do also confirm our guidance for 2023. Q1 was in line with our expectations. So we do expect net revenues for the full year to increase mid to high single digits. And also returning to a positive adjusted EBITA margin again in the low single-digit margin percentage. What you can expect from Q2: we've seen, basically, another positive impact from the lens price change of the 1.5 single vision lens. We opened three additional stores. And we will also see a seasonal pick-up from sunglasses in the second quarter, as normal. So, therefore, the expected improvement in gross margin will be… I would say, we expect an improvement, but not as high as in Q1, that's mainly driven by the broad mix. So, having said that, we're now moving to Q&A, and I hand over to Irina to moderate that.

Q&A

17:40 Irina Zhurba

If you would like to ask a question, please press *11 on your telephone keypad and wait for your name to be announced. If you would like to cancel your request, you can also do so by pressing *11 on your telephone keypad.

The first question comes from the line of Alexander Thiel from Jefferies. Your line is open. Please ask your question.

18:22 Speaker

Good morning, Dirk and Mirko. A couple of points from my side. First, maybe a remark. I believe all analysts would appreciate it if we could get the presentation before the call or even during the call. I just tried to download it. It's still not working.

My first question is on the general business model. Could you shed some light on how much revenue is contributed from the online side versus brick-and-mortar stores and the difference you've seen on the growth rate there? And could you remind me again of your store target for this year, please? The second one is on your profitability guidance for 2023. You're currently below the full year guidance, but obviously against the toughest comp in Q1. So how should we think about the following quarters, especially given the shift in sales mix? I assume gross margin in Q2 will be definitely lower. What will be the impact on profitability going into the second half? Thank you.

19:26 Dirk Graber

Okay. Thank you, Alexander, for the questions. So, first of all, I would say the omni channel split online versus offline, I would say offline is obviously slightly improving versus, in terms of share, the 20 stores. But still online is the larger part of the business and significantly contributing to our revenue mix. So looking at the profitability improvement for the full year, we do expect significant improvements also in the next quarters. When you look at last year, we finished the year with a negative EBITDA of 6.5 million. And we now basically already improved by roughly 3 million EBITDA versus last year. So we do expect to improve in EBITDA on a quarterly basis as well for the full year. So we will see step by step, basically, improvements towards our target in terms of low single-digit EBITDA margin. So that's, I think, in line with the expectation, where we want to go. And in terms of gross margin, you're right. We do expect, obviously, gross margin to be slightly lower in the second quarter. That's naturally because of the product mix. But again, we plan to improve gross margin versus last year and we want to see further improvements in the P&L structure for the next quarters to come.

21:37 Speaker

Okay, that's very clear. Could you remind me again what you're baking in right now on the personal costs over wage inflation? What do you expect there? I think in the first quarter we are now up 5% year over year. And my second would be on your reporting structure. The “Other operating expenses” have been with the Lean 4 Leverage program. It would be, I think, highly beneficial if you could break out marketing, fulfillment, other costs in the “Other operating expenses” so we can basically see where the cost savings are coming from. Thank you.

22:14 Dirk Graber

So, on salary inflation, we have different parts of the business that we manage slightly different. So we have obviously higher salary inflation on the lower end of salary factors. So here, I would say, in entry level salaries, it's more like 7% to 10%, while on higher salaries the increase is more 3% to 5%. On average, I would say that we're probably talking about a 6%-7% salary increase versus prior year.

On the cost and the other operational topics, we understood that. So, we will consider that coming back in the Q2 reporting and also make it, in some sense, easier to understand certain mechanics of P&L management, also in terms of Lean 4 Leverage impact. That's understood.

23:30 Speaker

Okay, that's good. Just a follow-up on the first one, I couldn't hear the number of new stores that you're planning. So the 10 to 20 is still valid? Or is there any change on the opening of new stores?

23:41 Dirk Graber

No, no, sorry. Maybe there was a misunderstanding. So we're planning up to 10 stores. We opened six now. And we'll be opportunistic for the remaining 4 up to 10 in the second half of the year. The focus is really on the existing store network and like-for-like performance of the entire organization, but if there are opportunistic stores available that we can open in interesting locations, which are promising, then we may add a few more, up to 10 for the entire year.

24:30 Operator

A reminder that, if you would like to ask a question, please press *11 on your telephone keypad and wait for your name to be announced.

Okay, next we have a question from one of Cédric Rossi from Bryan Garnier. Your line is open. Please ask your question.

24:54 Cédric Rossi

Good morning, Dirk, Mirko, and Irina. Sorry for the background noise. I have three questions. The first one is regarding the prescription sales up 19%. Could you elaborate a little bit more on the growth by category, whether high end or the entry price outperformed or not, and whether it's own brands or private labels. And the second one is regarding your pricing reactions. So, it's reassuring to see no negative customer reaction so far. How do you attribute that? Is it because some of your peers have also increased prices? Or is it also still your very good value-for-money positioning? And my third question, to bounce back on the previous questions, is what kind of salary inflation have you budgeted for this year? Thank you.

25:45 Dirk Graber

Okay. Mirko, you want to quickly give a few comments on boutique and private label development, and also maybe on the pricing reactions of the consumers? And am I happy, then, to take the rest of them.

26:01 Mirko Caspar

Right, of course, Dirk. So, PG growth, again, is over-proportionately driven by boutique. If you take PG and SG together, boutique grew again 39%. It grew a little slower in PG, but it definitely was the driving force. If you look at own brand, that is slightly losing a bit of share in the first quarter, but we have new SKUs coming in. So we believe that private label is going to be on a similar level as a share as last year, but boutique is the driving force for growth.

On the price increase, well, there's a few factors. One is, partly due to the growth of boutique, we are also entering segments that are less price-sensitive. And that, obviously, allows for price increases with less negative reaction – number one. Number two, yes, the market has increased prices party, but what you have seen is that in the market, at least in Germany, in value development and unit development, there was almost no gap in the market. The large gap came from us, so we were able to over-proportionally increase prices without consumers choosing, then, lower-priced products or purchasing less. And that effect I really attribute to two factors. One is the attractive and still unique positioning for those consumers who like to buy great glasses in an easy, approachable way. And we're still unique in that, for that customer segment. And that is why increasing prices has allowed us to still outgrow the market in units. And the other thing is really, in the past, I think we had a fantastic value for money positioning, and we still have a great one, even after the price increases, that comes on top of the strong brands.

28:54 Dirk Graber

Okay, and then on the last question, salary increases, or HR costs increases – maybe let's split it like that – we expect overall HR costs to increase by 10%. And 6%–7% of that 10% come from increased salaries. And the remaining comes from the additional stores. We’ve tried to reduce headcount in other departments, but overall we do expect a 10% increase.

29:25 Cédric Rossi

Okay, clear. Thank you.