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Capital Markets Update: SpexFocus and Preliminary H1 2024 Results

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CORPORATE SPEAKERS:

Irina Zhurba

Mister Spex SE; Head of Investor Relations

Stephan Schulz-Gohritz

Mister Spex SE; Chief Financial Officer

PRESENTATION:

Operator: Hello, everyone. and welcome to Mister Spex's Capital Markets Update Preliminary First Half Results Conference call. Please note that this call is being recorded. Everyone is on listen mode to avoid any background noise.

I'd now like to hand the call over to Irina Zhurba, Head of Investor Relations. Please go ahead.

Irina Zhurba: Thank you. Well, good afternoon everyone and welcome to our Capital Markets Update. The presentation will last approximately 15 minutes and then we'll allow another 10 to 15 minutes to ask your questions.

As usual, you can find the presentation online on the Investor Relations website under the Reports and Presentation.

The speaker today with me is Stephan, who will guide you through today's presentation.

That said, let me hand over to Stephan to kick it off.

Stephan Schulz-Gohritz: Thanks, Irina. Good afternoon and welcome to our call today and thank you for participating. Yesterday, in the evening, we released in a talk where we announced a fundamental restructuring program and we also announced a guidance modification. And from that perspective, it's a good reason for the call today as we want to inform you personally about the recent developments and we also want to inform you about the H1 preliminary results.

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Just as a quick overview, the market overall in the first half of the year, specifically in Q2, is improving. However, consumer sentiment is still in a negative territory.

Q2 2024, we had a calendar effect and adverse weather conditions. We had late Easter that impacted Q1 and impacted weather conditions, specifically Q2.

The Lean 4 Leverage Program has yielded over the past two years significant results and we have informed you about that we had achieved approximately a EUR9 million uplift last year based on the Lean 4 Leverage. But it is also clear that the uplift that we have realized is not enough and it requires intensification.

Outlook for 2024, in order to achieve a profitability and a significant improvement also on the cash flow side short term, we decided to restructure the business and to fundamentally transform our business model too.

On the short term, the measures that we are taking right now, specifically on the top line, and we are talking, for example, about discount detox program, will have an impact on our top-line this year and also the margin profile and that triggered the necessity to modify our guidance for 2024.

Now let's come to the highlights and insights and the preliminary figures.

First of all, our half-year results, we achieved EUR119 million of net revenues in H1 that equals a 1% growth in H1 and a 1% growth in Q2. The adjusted EBITDA is at minus 0.8 in H1, supported by 0.8 positive in Q2.

In Germany, specifically, we outperformed the market. Our growth was approximately 4% in net revenues and the German business performed at an adjusted EBITDA of EUR1.1 million in H1.

Now, the focus for the remaining year is the restructuring and transformation program, which we called SpexFocus. It's providing more than EUR20 million uplift in EBITDA, including rent. That is expected in 2025 and 2026. We estimate the majority of the savings potential to be realized in 2025.

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The one-off effects of the program account for approximately EUR9 million. The larger part is the rent for the business that we are going to close down and also the compensation for the people leaving the company. And as I said before, the program triggers a guidance adjustment for 2024. The new guidance is EUR210 million to EUR230 million of turnover and an adjusted EBITDA margin of minus 4% up to plus 1%.

On top, we proposed a new government. First of all, our new chairman has been appointed. That is Tobias Krauss. He was already part of the supervisory board and is now taking the position as a chairman.

We are also proposing to decrease the numbers of supervisory board seats this year from seven to five in order to ease decision-making within the supervisory board and management board from seven to five. And therefore, we set up an extraordinary general meeting on September 19th.

So, now looking more into details, what is fundamental or fundamental change with Mister Spex is that we are transitioning from a business model that used to focus primarily on revenue growth to a business that is steering bottom line and also cash flows. We have shown that it can grow over the market over the past year. So, the CAGR is approximately 5% growth over the last four years. However, we were not in a position to show positive profitability nor positive cash flows. And this is something we want to fundamentally change now with a restructuring and transformation program that is ahead of us.

The program has basically two elements, a short-term cost reduction and restructuring part, and then a mid-term transformation of our business model in parallel. So, let's focus on a restructuring part first. We are focusing now on rationalization of our store portfolio, which means that we are going to close down our international stores.

We will maintain our international online business, but we will close the international stores. And we also reviewed our German store portfolio and we are going to close those stores that are not performing and they don't see a chance to get to positive numbers soon. So, we are talking about three to five stores here on the national level.

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The second major change is the adjustment in pricing and discounts. We have intensively been discounting last year and also in the first half of this year. And with the brand relaunch, we are now changing this policy and also with the objective to change our steering model from top-line to bottom-line.

On top of this, we are going to optimize our operations. First of all, in our headquarter, we will make significant drops redundant. We are talking about approximately 60 full-time employees.

Number one, we are also optimizing logistics, supply chain and manufacturing. And the third element, we are working on significantly improving our store performance overall. So, this is basically part of the restructuring program.

The other part, and this is a midterm change in our fundamental positioning in the market, we are going to change our focus towards the customer age between the 40s and 60s with a higher optical need, specifically with multifocal. And with a higher share of multifocal we are going to change our margin profile and also the potential for growth of our business.

We are also positioning ourselves in a premium segment. We will review our portfolio on brands in the second half of the year and specifically eliminate low-end brands which we are going to substitute by private label products.

And what is important is that even though we are restructuring our product and brand offering, we continue to have the widest assortment and the most attractive portfolio and brands in the market.

So, overall, we expect a structural improvement of our business with an increase in EBITDA, including rent, of more than EUR20 million, predominantly impacting 2025, but partly also 2026.

If we look at our business segments, which is the German business and international, it is obvious that the German business has a much higher margin profile and is profitable, whereas our international business is either non-profitable or subscale. And that you

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can easily see on the chart here that in Sweden, for example, our margin profile is negative.

In Austria, it's neutral. In Switzerland, we have a positive profit margin, but the business is absolutely subscale. And that is basically the reason why we have decided to restructure our business and to close down our international stores.

With the program SpexFocus, we intensified the measures that we have already implemented in the Lean 4 Leverage program, and we have added some more topics on top.

First of all, price increases and the reduction of discounts. We enhanced our pricing strategy driving our AOV growth and the premium market positioning. And we are specifically eliminating the number of discount campaigns in the second half of the year from nine that we had last year to three that we are going to plan this year.

Basically, that's the Black Friday campaign, one campaign in between, and a campaign for Christmas. So, that leads to a significant improvement of our margin profile as the discount overall is going to decrease significantly.

On the other hand, we are also working on optimization of our operations. I said already, store performance and profitability is extremely important. We need to generate cash in the stores in order to get in a position to grow more aggressively in the future and to invest in our business. And therefore, the store improvement program is a key element in the whole restructuring process.

And it's all about upselling and right-selling and conversion. Specifically, we are now modifying our customer journey, putting the eye test in the center of the selling process. And what we see in the industry, that is approximately 80% of all in-store eye exams lead to a purchase. And that's why we are changing the consumer experience and putting the eye test in the center.

And the second element is upselling, upselling and right-selling. Specifically, we increased the share of lotus coatings which is pure margin to our business from 50% to now almost 90%.

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We are adding insurances and specifically training our sales personnel for lens upselling. And on top of that, we are going to introduce a premium private label brand for our lens package, too. And the first trials in the stores were very promising here already.

Now, let's come to the profitability improvement blocks or levels that we are now addressing with the restructuring program. First of all, the improvement or core element is the improvement in the stores and lowering the discounts. That's what we have discussed right now.

The second element is the improvement of variable cost. That means, for example, we are investing in customer service automation which provides a big potential for cost saving for us. We have implemented a home trial fee with right now which provides a 2 million uplift overall. And we also are renegotiating with our suppliers the terms and conditions.

The third element is the store portfolio rationalization. We expect approximately EUR3 million savings here coming from the store portfolio. And the remaining part is then right-sizing and cost-cutting, overhead cost reduction. We are optimizing our marketing spend, office right-sizing, and the reduction of other administration costs. And overall, all four elements together amount for over EUR20 million.

Now, there is one-off, as I already mentioned, the one-off account for approximately EUR9 million key elements, as I said before, is the rent for the stores that we are closing down and the payments and compensation for the people leaving Mister Spex.

Additional measures on the cash flow side, we are taking two to improve our inventory structure and also to improve our cash generation cycle also on the payment side. These are measures on top and specifically also the portfolio optimization with the amount of SKUs and the brand optimization will lead to decreased inventory overall. And therefore, we will release additional cash flows here.

Now, let's come to the transformation part of our business. And here, the rebranding is in the center of the program.

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We are going to position ourselves as an optician with a high level of expertise. We are already an optician with high expertise, but we never had a position in our brand and have focused on optical expertise. And this is something that we are now fundamentally going to change.

Specifically, we want to extend our target group with the customers aged 40 to 60 with higher optical needs and very focal, which provides a much higher, by far higher value basket and also a much higher margin profile.

Secondly, we are going to position ourselves stronger in the premium segment. We are pushing for quality products, specifically premium private label lenses, 3D printed frames, and also a premium assortment of brands and products.

What is extremely important as what I said before, we have been an optician already in the past, but we haven't really made use of it in our communication. And that is now going to change fundamentally.

We want to position ourselves as the top optician in the German market. And here, we are now investing significantly in our brand positioning, but also on execution, specifically in the stores with the new customer journey and training all the colleagues that we have in the sales for upselling, right-selling, and to realize higher conversion.

So overall, Mister Spex is going to be positioned high-quality optical expertise with a strong technical advantage in services and shopping experiences as we are the leading omnichannel optician in the market with an exclusive assortment and brand portfolio.

Now, let's have a look at the Q2 sales figures. What we can say is that overall, we grew by approximately 1% from Q2 '23 to Q2 '24. We had in Q2 a significant hit from bad weather conditions, which hit our sunglasses business.

However, we could make up for that on the top line and also in our margin with much higher growth in prescription glasses. Here, we outperformed with 11% in Q2.

Now, let's have a look at the business segments, Germany and International.

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As I said before, the German business is developing quite well and even over market, so the overall (unit) growth is approximately 3%. The market grew by 2%. Specifically, the month of May and June were in a run rate of 10%, so we had accelerated growth in May and June.

On the International side, we see a different picture. Here, we have a reduction or, yes, reduction or deterioration in sales by 7%, and the major hit is coming here also from the sunglasses in the international, unfortunately, we can't really compensate with prescription glasses here.

So, from that perspective, there is a negative development in international, and this is one more reason why we are now closing down the international stores.

Now, let's have a look at our Q2 financial statements.

Gross-profit margin overall was running flat. Also, the personal expenses running flat, respectively slight improvement, and we also have seen an improvement with marketing expenses that we managed by intention as we are now relaunching our brand. We saved our gunpowder for the relaunch and pushed a break in the first and the second quarter on marketing expenses.

In the other operating expenses, we had a negative development, so that's a change of minus 3.1%. That is basically due to all the efforts with rebranding, with lean management, and also with the annual shareholder meeting. So, overall, the adjusted EBITDA is now at 1.2% compared to 3.4% in the previous year.

I said before that the decision upon the restructuring program is now triggering a guidance adjustment, and this we would like to specifically highlight today for you. So, the restructuring program has an uplift of EUR20 million short-term because of the rebranding and specifically the discount detox. We expect negative development on the sales and margin in the second half of the year. Therefore, guidance is adjusted.

Net revenue, EUR210 million to EUR230 million. The adjusted EBITDA, minus 4 to plus 1. And cash and cash equivalent to EUR80 million that contains the one times of EUR9

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million for the original cash and cash equivalent soft guidance was at EUR90 million. Now it's at EUR80 million.

You can also see that we widened the range for the guidance, and the background is that discount detox is very difficult to simulate beforehand. We did some testing, but there's certainly some insecurity regarding the elasticity of demand and the consumer reaction, and therefore there is a wider range now in our guidance to deal with this kind of uncertainty that we have in the second half of the year.

Now looking ahead, the half-year report with all the details will be published on 29th of August. Also now looking ahead into the third quarter, we can say that July is approximately continuing the Q2 trend, where it's in August we have some tailwinds now in the sunglass business coming from the good weather conditions.

What is new, and I think this is very important also from your perspective, that for the next year we are going to change our guidance [QPA] on our financial performance from adjusted EBITDA to EBIT. And here we want to provide more transparency about the true performance of our business to our investors and the capital markets.

So the program is a cut, a hard cut short term, but it is meant to build a strong basis for the long term. And what we would highlight is that we are staying true to our origins. Specifically, we will keep the omnichannel approach and drive technology and innovation in our business.

What we also will continue is that we provide the most attractive and the widest assortment of products and brands in the market. And what comes on top now is that we position ourselves as the optician for life in the German market.

And therefore, we are providing a strong USP, which is not just optical expertise, but a very attractive package of the optician on one hand, attractive portfolio, and the most attractive consumer journey and customer journey in the market.

And this is exactly what we are going to focus on this year. We are focusing on the dimension of optical expertise, and we will also strengthen our storytelling here, which

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we haven't done in the past. And we are working intensively to position ourselves as the optician in the German market.

So that's basically the update for today. I don't know if we have participants for questions, for Q&A.

Operator: Hello, speakers. We don't have any pending or any questions as of right now. We'd now like to hand back over to the presenter for the final remarks.

Stephan Schulz-Gohritz: So, the final remarks. Thank you for participating. It was important for us to inform you personally about the recent development, and we are very much looking forward to seeing you then on 29th of August for the half-year results presentation.

Irina Zhurba: Thank you.

Stephan Schulz-Gohritz: Thank you.