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Mister Spex SE

Q3 2024 Results Call

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PARTICIPANTS:

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PRESENTATION:

Operator^ Good day. And welcome to the Mister Spex SE Third Quarter 2024 Results Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. (Operator Instructions). And finally, I would like to advise all participants that this call is being recorded. Thank you.

I'd now like to welcome Irina Zhurba, Director of Investor Relations, to begin the conference. Irina, over to you.

Irina Zhurba^ Thank you. Well, good morning, everyone and welcome to our Q3 results. The presentation will last, as always, around 30 minutes and will allow another 10 to 15 minutes for the Q&A. As usual, you can find all the presentations online on the Investor Relations website under Reports and Presentations. The speaker today with me here in the room is Stephan, who will guide you through today's presentation.

With that said, let me hand over to Stephan to begin today's call. Thank you.

Stephan Schulz-Gohritz^ Thanks, Irina. Dear investors and analysts, good morning and welcome to our Q3 presentation. The third quarter confronts us with some tough challenges. Why is that? Because it is a quarter of transition.

Starting the restructuring mid of August, we had to digest significant effects from layoffs, from store closures, and discount detox, while the positive effects from restructuring take time to ramp up. However, we also show some very promising progress that might surprise. And we will have a close look at both aspects in Q3.

But one thing is clear. The restructuring transformation program, SpexFocus, we presented to you mid-August, was the right decision to take, and we are on a good way. So now let's have a look at the most important insights into Q3.

Starting with our financial performance in Q3, we can say that overall we achieved net revenues of EUR 58 million. That is representing a decline of 3% year-on-year. However, our core market in Germany was growing by 2 percentage points compared to Q3 last year, and if we look at the on a like-for-like basis, then we grew even 4%, and therefore we grew over the market in Germany. Overall, the adjusted EBITDA is within our expectations at minus EUR 1.2 million.

With respect to SpexFocus, it's a significant step ahead and a real achievement that is also for us kind of a surprise that we achieved in a short period of time of 302 basis points growth margin improvement in a very short period of time. And that shows that all the measures that we are taking with respect to brand repositioning, with respect to the expansion of our product portfolio, and all the other measures that we are taking on the top line and margin are going in the right direction.

With respect to the restructuring, we can say that we are also on a good way. The third store closed already in Q3. The exit agreements with all remaining landlords in Austria and Sweden are in place for year-end completion. And what we also can say, and we are coming to that point in a couple of minutes, we are overall also very much on track with all the measures under SpexFocus.

Now, what has fundamentally changed since the mid of August that we have a completely different focus how to manage our business, and this is what has fundamentally changed.

In the past, we were very much maximizing our top line growth. Now, we are focusing consequently on long-term cash generation and profitability. In the past, we were, with respect to brand positioning, focusing predominantly on the ease and style component and a bit on expertise. And now, we are putting the optical expertise in the focus of our business, but without forgetting ease and style as a differentiating factor in competition.

So, and this is basically a recap why we are doing it, and let's have a quick look at the market. And we are focusing here on our core market, which is Germany. If you look at the total market structure and the total market volume in the relevant market, we can say that 80% of the market volume is in lenses and just 20% is in frames.

If you look at our split based on the year 2023, we can say that approximately 55% of our portfolio was lenses and 45% of our sales were frames. So, on the topic behind is that the margins we can make on lenses are by far higher than on frames on the average.

So now, let's deep dive into the lens market, and here we can say that approximately 60% of the market is single vision and 40% is varifocal. Whereas, looking at our portfolio and sales split, we are at approximately 85% in single vision and 15% in multifocal, and also here, the key point is that the margins in multifocal are by far higher than in single vision.

And that's basically the base for repositioning the brand as optical experts with style and ease. That's our USP with focusing the target groups between 40 and 60 and positioning Mister Spex as a premium brand in the market.

Now, with this fundamental transformation and resetting of our business model, we are also redefining our vision and mission. Our vision is we empower people to see and to be seen. We empower people to see and to be seen. Now, the topic to see goes far beyond the transactional sale of glasses.

It opens up our business in the direction of eye health and maybe later even in the direction of consumer health. The first thing we are going to introduce here is the eye health check next year. And if you think about it more into the future, there's already technologies available where you can basically conclude from the eye scan to your body health and your body state.

So you can see if you are suffering from high blood pressure. You can see if you have a problem with the liver or even the heart. So, and if you think of it more into the future, we could think about additional health services, building up professional networks with doctors, and maybe even going in the direction of health insurances for eye health, for example.

So it opens up our business far beyond the transactional business that we are in today. So that is basically the topic to see. Now, the topic to be seen directly ties into the vision that we have formulated in the past, which was we empower people to wear glasses with joy and confidence.

So, the point here is that we look at a pair of glasses not in the sense of a medical device that basically eliminates a deficiency that you have with your sight. And it goes far beyond that in the sense that it should underline your personality, your individuality, and you should feel confident and also comfortable with the wear of your glasses. So that's basically our vision.

And our mission ties directly into that to be the leading vision as a service provider going beyond traditional and transactional eyewear sales. And here we're talking about, for example, subscription models. We are talking about services and telemedicine and others.

We are committed to novel eye and health solutions tailored to each customer's needs, style, and personality, and that directly ties into our heritage to differentiate ourselves in the market with style and ease. And therefore, we are trusted and lifelong partner in eye care, and that is our brand claim, Optician of Your Life.

And the idea behind that is that we are creating long-lasting customer relationships that go beyond the transactional sale of products, providing additional value to our consumers, and thus optimizing and growing the customer lifetime value.

So we are going now the first steps in the direction that we have discussed. And I would like to highlight some very important elements. The first is that we launched SpexPro, which is our premium private label lens that we developed together with Rodenstock, and that is manufactured and co-branded by Rodenstock.

And the second element is a new private label brand, which is the [sporty] part of our business, and I'm coming to that in a second. So now let's have focus on SpexPro first. Previously, we have offered only white label lenses, standard, comfort, premium, and premium plus. We now introduced SpexPro, and that gives us a completely different positioning in the market.

Number one, you can see that we increased the prices already for the white label products by EUR 10 on average, respectively EUR 30 for the premium plus product line. This is the first step. The second step with the introduction of SpexPro, we increased on average the order value for prescription glasses by EUR 100.

So from that perspective, it's a significant uplift, and you need to know that the price difference between SpexPro and the standard white label product on the purchase price side is very limited. So it's a significant uplift in the market.

That is step two, and step three will happen next year when we are going to implement and introduce the branded products on the lens side, and that gives us a significant advantage because it creates another uplift in our AOV, number one; and number two, it creates potential to improve our product mix in the sense that consumers tend to choose the middle. So that will create an uplift on the SpexPro too. So from that perspective, it's a very important achievement that we were able to deliver SpexPro together with Rodenstock and to convince Rodenstock to give us the co-branding.

And if we look at the first results, we can say that one-third approximately of our consumers offline decide for SpexPro, and even online we have approximately 20% of our consumers and customers that choose SpexPro too, and that's without any marketing support yet. So that shows what potential is in the topic of optical expertise.

SpexPro, maybe going a bit into details here, it provides some additional features like night and day optimization, like high-quality Lotus effect, which improves cleaning properties, anti-static surface, and free-form technology, which optimize the sharpness throughout the entire lens.

The average order value, and that is basically the impact from the shift of 20% of our online consumers and 30% of our offline consumers, is approximately EUR 30 on the average order value, which is a significant margin uplift. And at the same point of time, we see that we increase the share of multifocal with SpexPro from approximately 15% to 20%.

So next topic is that we focus on upselling too, with additional lens options like the Lotus effect, Blue Filter technology, Smart Filter technology, and Tints, and what we see is that we convert approximately 35% of our customers to choose one of those additional options, which gives us overall on average an uplift of EUR 10, respectively EUR 30 euro for the 30% of all orders. So that gives us overall a significant uplift on the margin coming from the lens options too.

Now let's move to the MOOVE. It is our first private label sports brand. It's a collection of approximately 27 SKUs featuring prescription glasses, sunglasses, and accessories. It's a performance-oriented fashion brand which addresses hobby athletes and trend-conscious consumers, and our strategic goal is to create a distinct assortment to fulfill customer needs and to differentiate from our peers in competition.

So that's basically the strategic update. Now let's move to the financial update. In August, we presented our structuring transformation and restructuring program, SpexFocus. I would like to give you a quick update on the progress here.

So overall, we said that the program provides an uplift of more than EUR 20 million, EBITDA predominantly already taking effect in 2025. The one-offs for this program are approximately EUR 9 million.

So how far did we get so far? First of all, with the improvements in store performance and lower discounts and pricing, we can say that our discounts and pricing are done already and implemented, and the store performance program is in progress. This is a program that takes some time. We are fundamentally changing the customer journey in the stores, for example, where we put the eye test in the center of the conversation with the customer.

And what we know is that once the customer did the eye test, the conversion probability is significantly increasing. So that's a fundamental change in the customer journey, and we need to train up the people to make sure that we have the right handover from the eye test to the sell part of the dialogue with the customer, and it requires a lot of training. So from that perspective, we are on a good way, but the impact will take some time here.

Now, with respect to variable cost improvement, inclusive purchasing, we are well in progress. And as to (inaudible), the negotiation with our suppliers are still ongoing, but we are confident that we are delivering the uplift here too.

The store rationalization program is well advanced, and as I said already, the first stores closed, which is Sweden and Switzerland, one in Sweden and Switzerland, and the remaining stores will be closed until end of the year. We already negotiated all the contracts with our landlord.

And the fourth element, the right sizing and cost cutting, is well advanced. We promised with the restructuring and transformation program that we reduce our headcount by approximately 160 employees.

As of today, we achieved 180, and there's 40 more to come. So from that perspective, we are doing more than what we had promised last -- this year in August, and next year, I'm really confident that we will find further potential for reductions.

So overall, we can say that we are on a good way with SpexFocus, and we are very confident to deliver the EUR 20 million EBITDA uplift, and most of that next year in 2025.

Now let's have a look at our business segment. First, Germany, our core market. Here we can say that we grew in Q3 by 2%. Like-for-like 4%, the market was minus 1% in sales, so we can fairly say that we grew more than the market in Q3. If you look at the categories, we have a 5% growth in prescription glasses driven by a double-digit growth in September that comes in connection with the launch of SpexPro.

We also grew 5% on sunglasses, where in line with our strategy, we declined in contact lenses. And basically, the root cause and reason for that is that we did price adjustments here in order to increase our margin. So overall, our German business is moving in the right direction.

Now let's have a look into the international segment, which has a performance topic in the past, and you know that for quite a while, and that's basically the reason why we started the restructuring international.

Overall, we declined in Q3 versus last year by 17%, and the root cause basically is that we closed the stores, or going to close the stores, which has an impact on the performance. And on top as we have also significant online business with contact lenses, the price increases did hit specifically in our international business.

So then let's have a look at our cost structure. As I pointed out already, we achieved a significant margin gain of 302 basis points. Margin is now at 48.8% in Q3. Personal expenses grew by 2.2 percentage points, predominantly driven by layoffs that we had to digest with personal expenses, extraordinary personal expenses in Q3. And of course, we also have wage inflation to digest.

Marketing expenses grew by 1.2 percentage points. Basically, it's an investment in the upper panel in the connection with the brand relaunch. Other operating expenses grew by 5.2%. Basically, higher cost for external services here, specifically also with rebranding and consultancies and external services, and also with respect to the AGM and EGM and related activities.

Overall, the EBITDA is a change of minus 6.8%; the adjustments, approximately 4 percentage points, and therefore the adjusted EBITDA in Q3 at minus 2.9 percentage points, which is in line with our guidance.

Now let's have a look at the cash flow. I quickly want to give you an overview about the most important impacts here. Number one, we do see a decline in the operating cash flow by EUR 6 million. That is basically driven by top line reduction, approximately EUR 2 million, and of course, also extraordinary items with respect to the restructuring.

Number two, we have significant counter-wind from the balance sheet perspective, specifically due to the decline in revenues. We are not as quick in ramping down our inventories, and at the same point of time, we gave a hard stop on reordering, and as a consequence, the payables went down by approximately EUR 4 million. So that is a significant impact coming from the changes in the way we are steering and managing our business, and a part of that will revert later on.

That gives us a cash after operating activities of 88. Cash flow from investing activities is minimum. Here we also pushed a hard break, spending money for CapEx. Approximately 50% of the EUR 1 million is related to intangibles on the IT side, and the other half is investments basically in stores and other equipment that we need, for example, in the plant. So minimum CapEx here in the Q3 as we are pushing the break on cash flow. Cash flow from financing activities minus 5. That is basically payment for all these liabilities. It gives us an overall cash of EUR 82 million at the end of September 2024.

Now, let me conclude our short presentation. First of all, and I think it's very clear that Q3 is marking a phase of transition. On one hand, our core market, Germany, is achieving a 4% like-for-like growth and an overall growth at approximately 8% offline. So our offline business is absolutely moving in the right direction, and that is driven by a growing share of prescription glasses and positive product mix shift, which increased our AOV by approximately 15%.

With respect to SpexFocus, we optimized our lens offering by launching important additions to our portfolio like the SpexPro and the move portfolio and other lens options. SpexPro specifically 20% order share online and 30% unit share in the stores. At the same point of time, all other measures under SpexFocus are well on track.

So then let me give you an outlook with respect to the guidance, with respect to net revenues. We are within the guidance of EUR 210 million and EUR 230 million. The adjusted EBDA margin will be between minus 4% and 1% positive, and cash and cash equivalents will be at EUR 70 million plus minus 5.

Why plus minus 5? It's basically very difficult to anticipate what is specifically the impact on P&L items and also what is specifically the impact of the remaining part of the year on the top line, specifically looking now at the Black Friday and Cyber Monday initiatives and also our capability and that connection to ramp down our inventory. So from that perspective, this is a bit of a volatile situation. Therefore, we have this corridor between 65 and 75.

Now let me look a bit ahead. Current trading October faces again challenges, and basically we are now ramping against significant discounting last year, where we had a 40% loss offering. And of course, that spiked our sales last year, and we are now comparing to the base of 2023. So from that perspective, there will be again headwinds in October.

Commercial initiatives, and I think this is very important, is that we are focusing now on inventory reduction, number one. And number two, we will also significantly reduce our complexity in the business. We will reduce our brand portfolio by approximately 150 today to 100 next year, which results in a significant reduction of SKUs from 20,000 to approximately 12,000. So it's a reduction of 8,000 SKUs, which will reduce our capital tied to inventories, number one, but which even more importantly will help to reduce our complexity and our cost base in the business.

With respect to the international stores, as I said already, we are well on track here, and all international stores will be closed until the end of the year. With respect to the German stores, we said that we are reviewing our store portfolio and we would close approximately three to five. The situation has changed as the store performance program is quite successful. And so from the five stores, we had in mind to close the business case. It's just valid for one anymore, which will be the Franken Center store in Nurenberg. So from that perspective, we also have positive developments here.

So and then, of course, we are getting until the end of the year already, so the hard-close and fast-close processes started already. We are well underway, and next step is that we initiate the asset impairment testing.

So overall, I think that's the most important message for today. We are moving in the right direction with SpexFocus, and we are very much convinced to deliver more than EUR 20 million EBITDA uplift, most of that showing effect already in 2025.

Now looking ahead, just a quick summary of very important dates in our calendar, which is 27th of March, the full year results will be presented here. 8th of May, Q1 results, and 28th of August, half-year one results 2025.

Conferences and roadshows, 25th and 26th of November, the Eigenkapital Forum 2024, and I'm very much looking forward to meet one or the other on the road until the end of the year.

Having said that, I would like to thank you for your kind intention, and we are now open for your questions. Thank you.

Operator^ (Operator Instructions) And your first question comes to the line of Cedric Rossi from Brian Garnier. Your line is open.

Cedric Rossi^ Yes, good morning, Stephan and Irina. I have two questions, please. The first one is coming back to the current trading. So, I read your comment regarding the challenges in October, but if you could just give us a more granularity on the stock performance, especially in Germany, and how the consumer mood is according to you.

And the second question is coming back to the budget for next year. So, I guess it's a bit premature to talk about it, but I was just curious to have your view on what kind of labor inflation you are expecting for next year on a pro forma basis. I heard that you will still continue to reduce the headcounts, but I was curious to how your view on the labor inflation that you are expecting for next year. Thank you.

Stephan Schulz-Gohritz^ Okay, thanks for the questions. First of all, the store performance and account trading rest of the year, basically also Q4 will be a quarter of transition. As you remember that last year we were heavily discounting in Q4, so we are running against that this year. So that will put pressure on us in a year-on-year comparison. So, I think that is very much clear.

With respect to the store performance, we can say that we have already a significant uplift here. We are showing 8% improvement, so we are very well on track with the store. However, of course, the store performance improvement program is just yet started, so there's more potential to come.

With respect to labor inflation, well this is a bit difficult. I'm really happy that we are not tied to labor union contracts. So therefore, we have it quite under control, and we are pushing very much the brake on salary increases and limit salary increases to high performance only. So from that perspective, we have the topic under control. Nevertheless, I would expect for us labor inflation approximately of 2% next year overall, which we will compensate by additional labels.

Cedric Rossi^ Okay. Thank you, Stefan.

Operator^ Your next question comes to the line of Ralf Marinoni from Current Private Bank AG. Your line is open.

Ralf Marinoni^ Yes. Good morning, everybody. I've got a question about your international business. Can you quantify the annual sales volume from the international business after store closures? I mean, you have substantial revenue inflows from e-commerce and so on, but maybe you can give us an idea for total annual sales volume after closures of the stores.

Stephan Schulz-Gohritz^ On store closure. Okay, sorry. So, the overall impact from the store closures is approximately 20% of our international business. As it is today, we want to expand on our international business in the future, adding online of course, yeah and adding additional countries in our online store. So we are trying to compensate for that. But overall, I would say right now we could calculate approximately 20% reduction.

Ralf Marinoni^ Okay. That's clear. And a follow-up question regarding international business. In the third quarter, you adjusted -- EBITDA amounted to minus EUR 1.3 million. Can you quantify contribution from the German business and international business? I guess Germany was positive.

Stephan Schulz-Gohritz^ So, okay. Thanks for the question. The overall impact was minus EUR 1.4 million. So, basically international -- in both international and stores in Germany were negative in Q3, as we had to adjust the impact from store closures.

Ralf Marinoni^ Okay. Thank you.

Operator^ There are no further questions on the phone at this time. I'd like to hand back to Irina Zhurba, Head of Investor Relations.

Irina Zhurba^ Fantastic. Thank you so much. I think this -- one second. I think this concludes our conference call. As usual, if you have any questions, please reach out to Investor Relations or myself directly. And we're looking forward to seeing you on the road later this year or on our future calls for full year results in March next year. Thank you so much and have a great rest of the day.

Stephan Schulz-Gohritz^ Thank you. Bye-bye.

Irina Zhurba^ Thank you.

Operator^ That does conclude our conference for today. Thank you for participating. You may now all disconnect.