Moncler S.p.A

"First Half 2020 Financial Results Conference Call"

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OPERATOR: Good evening. This is the Chorus Call conference operator. Welcome and thank you for joining the Moncler First Half 2020 Financial Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

At this time, I would like to turn the conference over to Ms. Paola Durante, Strategic Planning, Intelligence and Investor Relations Director of Moncler. Please go ahead, madam.

PAOLA DURANTE: Thank you, and good evening, everybody. Thank you for being with us tonight for our first half 2020 financial results conference call. First of all, as usual, let me introduce you to the executive team on today's call, our Chairman and CEO, Mr. Remo Ruffini, Luciano Santel, our Chief Corporate and Supply Officer and Roberto Eggs, our Chief Marketing and Operating Officer.

Before starting the presentation, as always I need to remind you that this presentation may contain certain statements that are neither reported financial results nor other historical information. Any forward-looking statements are based on Moncler's current expectations and projections about future events.

By their nature, forward-looking statements are subject to risks, uncertainties and other factors that could cause results to differ even materially from those expressed in or implied by these statements, many of which are beyond the ability of Moncler to control or to estimate. Let me also highlight that given the nature of our business, interim results can be influenced by seasonal effects and therefore cannot be taken as a proxy for full year trends or results.

An important thing, given the late starting of this call, I anticipate that we would make our best efforts to conclude it within 1 hour. Therefore, I ask all participants to limit to 1 question at time. Of course, if there are more questions, we will take it after, but please limit to 1 the first time you speak. And finally, as usual, there is the press invited in this conference in a listen-only mode.

Let me now hand over to our Chairman and CEO, Mr. Remo Ruffini.

REMO RUFFINI: Good evening and thank you for attending Moncler's first half results conference call.

Tonight, it is a bit later than usual, so I will try to be short and focused, in order to leave all the time you need for questions.

But, given the current situation, it is important and needed to provide you with an update on our strategy.

It is not easy for me commenting on our results. It is the first time since this amazing journey started, that Moncler reports negative results, a direct consequence of the unprecedented situation the world is facing.

In these months we have learned that things might not always be planned, in life and also in business.

We have worked together to redefine our priorities: we have outlined what needed to be done and what could be left for tomorrow.

We understood, once more, that being agile, flexible, being able to evolve continuously and, most importantly, being digital are crucial pillars of our future success.

We are an agile and flexible Company, and I asked my people to push this to the limits in order to cope during this difficult time.

In our path to evolve continuously and to become a digital-oriented Company, I understood that the speed of this evolution needed to be accelerated.

And I felt this had to be now or it could have been never.

I truly believe that over these years, also thanks to the important partnership with YNAP, we have reached many important targets.

Now I feel Moncler has to evolve.

As I already told you crisis can bring progress. But to make that is happening you need the right people and the right organization.

Over these difficult months, in Moncler, we have been working all together to find how the crisis could make us stronger.

So during this time when attitudes to shopping may be changing, and habits may be becoming even more online, I felt we needed not only an evolution but a revolution in our digital culture.

For this we decided to create a new digital organization and to internalise the e-commerce business while working on a new website, that will start to operate next year, based on a completely innovative concept, designed on a totally different and personalized customer journey.

Omnichannel and customers journey are important, fantastic words but I feel in these days maybe sometimes misused.

How can we create a seamless experience for our Moncler clients among all channels, among all touch points? How should it be different and unique? How can we create our own contents, using the same tools but making them very Moncler?

The answers to these critical questions will define the Moncler of tomorrow, will support our success, will make us stronger.

The fact that Moncler launched Moncler Fragment with a livestreaming on Weibo with 32million viewers the first day, a record number in the luxury industry, has made me even more convinced that our house has robust foundations, we need now to build more floors.

I have spent most of my time during these months trying to understand the sector evolution and working to ensure that Moncler can be a leader in it.

This pandemic might change people, might change attitudes, might change consumers' behaviour.

But the desire for beauty and uniqueness will never change. What indeed may change, is how and where people will expect to find this inner beauty. Our clients always have to feel unique when interacting with Moncler in any place they are, in every channel they engage with the brand, in any touch point. Our digital experience has to support it, our innovations capacity has to provide the tools.

Our clienteling has to make all our existing and prospective clients feeling part of a unique experience, of the Moncler world, also being able to use the big data in a smart way.

I know that I demand a lot.

We set challenging targets: we want to double the weight of the online business over the next three years. Challenging, but I feel achievable because we have and we are creating the right team to deliver them.

The next months will not be easy, our 2020 results will be, impacted by the pandemic.

But if I look at Moncler in 2022 I see a Company bigger, stronger and able to create something even more unique.

Let me now leave the floor to Roberto and Luciano for more comments on our results.

ROBERTO EGGS: Thank you, Remo. I'm Roberto Eggs. Let me bring you to the results, the revenue breakdown by region. We will comment further results along the presentation.

This is on Page 5. The result of the first semester of 2020. Globally we reached €403.3 million which is a 29% decrease compared to H1 2019 with a stronger decrease in Q2 linked, as we will see later on, on the fact that we had more than half of our stores closed during the second quarter. Results in the first half have been severally impacted by the measure adopted by the different governments worldwide to limit the COVID-19 pandemic.

Italy recorded a 39% decline, particular in Q2. Retail underperformed due to stores closures and the lack of traffic, especially on the travel retail side. EMEA results were slightly better, revenue decreased by 23% especially with Germany, Scandinavia, and Switzerland that outperformed in Q2.

Asia and Rest of the World reported a 27% decline in H1. In Q2, Japan, Hong Kong and also Macau underperformed compared to the rest of the region, while Mainland China reported a double-digit growth, especially the month of June was very good in China. In Korea, the Group performance remained solid during the quarter and since the beginning of the year. Americas reported a 41% decline with similar results, both in Canada and U.S., and in both channels. Here, also, with strong improvement during the month of June.

Let me bring you to the following chart on Page 6, where we have the revenue breakdown by distribution channel. We passed the mark of €100 million for the wholesale business, which reported a decline of 21% during the first half of the year. Retail declined by 32% during the first semester, with Q2 at minus 57%. This is, of course, as I was mentioning before, the effect of more than half of the network being closed for around 2 months, mainly in April and May. The comp store growth was down 38%, while online outperformed with double-digit growth during the first semester.

Let me bring you to Page 7 with mono-brand stores network evolution. We reached 213 stores at the end of the semester. We started the year with 209. We had 1 closure that was already planned for Italy, our Enfant store in Spiga. This was something that was planned, and as well as the doubling of the space that we have in Rinascente, so compensating the closure of the dedicated store in Spiga. We had also the opening of new country during the first quarter with Kiev, and recently, in early July, we opened a beautiful store in Capri.

Regarding Asia, we had 1 closure in Hong Kong that was also planned. It was the end of the lease that we didn't renew in Lee Garden. While the increase you see in the U.S. is driven by conversions of Holt Renfrew shop-in-the-shops that we have in wholesale that are in our retail stores in Calgary, Vancouver and Toronto, as well as, the opening of one retail store in Valley Fair with Bloomingdale's on the ground floor at the entrance of the department store.

Regarding the rest of the year, we have, in total, 10 openings that are planned. I will just mention 2 that are more important for me than others. One is the opening of a new country with a retail approach in Barcelona. This is meant to be also at the end of the year, probably in December, as well as, our flagship store in Paris on the Champs-Élysées between Vuitton and Dior.

I would like to mention also one relocation that we had early June, which is a relocation in Printemps Haussmann, because it's the first time that we have been able to open a ground floor location in an European department store. This will be followed during the month of August with an opening with the KaDeWe Group in Alsterhaus in Hamburg, here also we will have a beautiful store on the ground floor.

By the way, also KaDeWe is going to be the group, who was one of the last important group department store where we were with a wholesale model that we will transform and convert into concession during the summer. So we plan to have 2 stores opening in Alsterhaus in concession and convert the store we have in KaDeWe Berlin in concession, as well as, an opening and conversion in Oberpollinger Munich.

Regarding wholesale mono-brand, we are now at 63, you see one decrease. This is mainly due to the fact that we had this 4 conversions on the Canadian markets. But in the meantime, we also had some few openings. One is the Airport of Taipei, terminal 2. We opened also with DFS in Cairns, Australia, and an opening of dedicated shop-in-the-shop for the Enfant in Moscow Barvikha.

We move to the following page. I'll let you go through the detailed analysis of the impact of the COVID that we are reporting. I will just go through the main headlines. February, we had 5 stores closed that were all located in China. In March, the number of closures went up to 111, as you see Italy and all Europe were closed as well as Americas, and some selected closures in China and in Hong Kong.

In April, we had 123 closures. Again, Italy was still completely closed, and we started with few re-openings in Europe. Japan and Singapore at the time became closed, as well as, the stores in Americas. May was the month where we had more re-openings, more than 80 stores reopened. In Italy some stores were still closed, but the majority was reopened as well as France. Japan also reopened in the month. Canada and a few stores in the U.S., UK reopened only in the month of June.

At the end of the month, we still have 9 stores closed, 3 in Italy. These were the stores in the airport Fiumicino, Malpensa, that are now open, and a store in Padova. We have 3 other stores in Europe, in Istanbul, in Saint-Germain and in Printemps Louvre in Paris. And the last ones that we were still closed in U.S. were San Francisco Atlanta and Costa Mesa. All the other stores are now open.

Regarding the action that were taken during the last few months, there was a strong effort that was done to refocus digitally in terms of communication and the values of Moncler that we started communicating last year. There was also a fantastic event that Remo just mentioned with Weibo in China, our first phygital event with the launch of one of the collection of Genius, the one with Fragment Hiroshi Fujiwara, that drove more than 32 million views. This is now still the record for luxury brands on Weibo.

And regarding clients, we implemented a project that we call "new locals". This is a way to reactivate or activate travel retailers when they are traveling around the world given that now, with the pandemic, they cannot travel anymore. So we have a strong project mainly in China and in Europe to reactivate or activate these people that were used to buy aboard, to try to convert them and bring them buying into their country of origin.

I think we can move to the next picture. I wanted to mention an opening that took place during the quarter in Wuxi Center in China, in Center 66, part of the Plaza 66 Group in China. Another opening that took place just at the end of June, I cheat a little bit because I think it was early July, but I wanted to show you that the store is really beautiful. This is the smallest, but probably the cutest store that we have and it opened in Capri.

I pass the word to Luciano.

LUCIANO SANTEL: Thank you, Roberto. And good afternoon everybody. Thank you for attending our call today. We are now with Page 12, where we report income statement. Just technical information to start, we report for the first time the full set of results under IFRS 16 only and our stock-based compensation, that we used to report separately in a separate line, are now embedded in each line of the income statement, selling and general respectively. We also report on the side of the chart an explanation and the indication of the amount of both the stock-based compensation this year and last year and the impact on our operating margin of the IFRS 16 application.

So let's start with the business results. Top line was €403 million down 29% already fully explained by Roberto. Gross margin, 69.3%, down against the 76.7% we reported in the first half of last year. The decrease of gross margin is totally due to an extraordinary additional write-downs of inventory for about €30 million. We normally include in our cost of goods sold physiological write-downs that in the first half of this year were about €8 million, but on the top of the €8 million, we provided for additional €30 million mostly allocated to the current Spring/Summer 2020 collection, because, as discussed last time when we met during the lockdown, we immediately took actions to cut our production plan for the Fall/Winter season. But for the Spring/Summer season, the 95% of our production was already completed. And we took actions also to carry over some items from Spring/Summer 2020 to Spring/Summer 2021. A very surgery and complex activity was implemented by our merchandising team, together with product development, supply chain that mitigated significantly the impact of the leftover, but €30 million is the last number that came out and that was included in the cost of goods sold and consequently impacted gross margin.

Selling are lower than last year in our absolute value but the percentage is higher due to the fixed cost portion of our retail business mostly, and mainly rents. On rents, we immediately implemented actions opening discussion tables to renegotiate our rents, our leases with the landlords.

Results are fairly good, also less than what we already planned but discussions has been very tough. At the end we got some good results.

Second important fixed cost is D&A. Depreciation and amortization, that by definition is fixed, this year is even higher than last year due to the important CAPEX we have implemented over the past few years. We didn't say that much on payroll item, because as we said many times, we set as a priority the protection of our people, first from the health point of view during the lockdown, but second also from the economical point of view. In fact, as you may remember, we paid them 100% of their compensation, even during the lockdown, even when the stores were closed. So overall, a fairly good result, considering the situation.

G&A more or less the same story. G&A are lower than last year, but still on a percentage basis higher also because we have invested a lot over the past few years in our organization. And, last but not the least, because this is part of our communication today, in the digital department of our organization also in view of the insourcing of the online business.

Marketing. It is important to highlight that we included in the marketing expenses, if you want inappropriately but this is accounting principle, almost €11 million charity we did for the City of Milan. Without that over €10 charity, marketing would have been more or less in line with the first half of last year. Last year you see in the chart we reported a 7%, for this year we expect a number that will be closer to 6%.

At the end, operating margin EBIT €35 million negative, but let me say that without the €30 plus €10 million, over €40 million extraordinary items, it would have been slightly positive. Financial €11 million for the vast majority due to the lease liabilities. Tax rate of 32% positive, of course, because we take advantage of the tax credit. Net results negative for €31.6 million.

As you may see, we don't report EBITDA. We decided not to report EBITDA any longer because under the new IFRS 16, EBITDA is not a metric we use as a management team, and we don't believe EBITDA is a meaningful metric any longer. But for your information, we reported on Page 19 of the appendix the reconciliation between EBIT reported and EBITDA adjusted before the application of IFRS 16.

We can move now to Page 13, where we report CAPEX of €36.7 million against the €41 million last year, but with a revised plan for the year-end to spend less more than last year, about €91 million. Last year, we spent €121 million. This decision was made after the pandemic problem. We decided to cut our CAPEX of about 30%.

The CAPEX we spent in the first half are more or less equally distributed between retail network and infrastructure, mostly information technology logistics. Lat but not least, the CAPEX in information technology platform spent for our online business the insources of the online business.

Let's go now to Page 14 where we report net working capital, which is fairly good, 6.8% as compared to 5.5% last year, not bad. Credit, pretty good and pretty well under control, inventory much higher if you consider that €267 million are net of the €30 million additional write-downs we talked about before. So the inventory problem is pretty important in this period.

Let's move to Page 15. A net financial position of €595 million positive, excluding lease liabilities, €200 million better than one year ago, in part thanks to the non-distribution of dividends because, as you know, we decided not to distribute dividends this year.

Let's move now to Page 16, balance sheet. Nothing to say, unless you have questions. Cash flow statement on Page 17. We changed a little bit the format of the cash flow statement. We start now as a first-line from EBIT, D&A, other non-cash adjustment that are related to stock-based compensation, the IFRS impact and all the other lines already discussed with the only exception of change in other assets, which is negative, much higher than last year, mostly due to the tax credit we reported in the jurisdictions where we reported a tax loss. Free cash flow of €74 million negative as compared to €71 million positive last year. Net cash flow impact was mitigated by the fact that we didn't distribute dividends this year.

So we are done with the presentation now and we are open to answer your questions. Thank you.

Q&A

OPERATOR: Excuse me. This is the Chorus Call conference operator. We'll now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone, to remove yourself from the question queue, please press "*" and "2." Please pick up the receiver while asking questions. Anyone who has a question may press "*" and "1" at this time.

The first question is from Anne-Laure Bismuth with HSBC. Please go ahead.

ANNE-LAURE BISMUTH: Hi, good evening, everyone. So I will stick to one question. So regarding the performance in retail, which was down 32%, and given the fact that retail like-for-like was down 38%, did you imply a contribution from new space of 6%? Given your new stores in Q1, the contribution should be less significant? Should you just clarify this point and also help us to understand what we should expect in terms of contribution from new space for full year please? Thank you.

LUCIANO SANTEL: Thank you, Anne-Laure, for your question. You're right, more or less, the space contribution was 6% in the first half for a couple of reasons including seasonality not only the breakdown is not a meaningful 100%. For the second half of the year, it should be higher, so we stand with our overall guidance of about 8% for the year-end.

ANNE-LAURE BISMUTH: Thank you.

LUCIANO SANTEL: Welcome.

OPERATOR: The next question is from Elena Mariani with Morgan Stanley. Please go ahead.

ELENA MARIANI: Hi, good evening. Thanks very much for the detailed presentation. I would stick to one question as well. Would it be possible for you to elaborate on your exit rate? And on the trends you have observed in recent weeks globally and perhaps with a stronger focus on Mainland China? I just would like to know how, in your opinion, we should think about Q3 and Q4 and whether it makes sense to assume that your sales will most likely remain in negative territory until the end of the year, given the lack of tourist flows. I know it's difficult to tell, but perhaps your feeling based on how you've seen the business evolving. And if this is a good assessment, also how we should think about the evolution of gross margin and OPEX, taking into account the write-downs you recorded in inventory and also your expectation on the evolution of the cost base? Thank you.

ROBERTO EGGS: Hi, Elena, it's Roberto. You started well, but you ended with 2 questions at the end as usual. But certainly it's one question each between myself and Luciano. As you know, we do not comment results on a monthly basis, but I can give you maybe some flavor on how we have seen the evolution during the Q2. Of course, the worst month in the last quarter was April where most of our stores were closed, and then gradually we reopened. So what we have seen is an improvement of the performance in all regions. Some are more affected than others and some are exiting from the crisis in a faster way.

China, that was locked down in March and it was gradually reopened in April, did well. It saw a double-digit growth, and we have seen an acceleration on the Chinese market. April, May and June were by far the best months with a strong double-digit growth, also helped by the program that we had with, as I was mentioning, the new locals to drive the sales of travellers that are usually buying abroad into the Chinese market.

Korea did well and was never really completely closed, so we have been continuously operating there and despite the fact that one-third of the business now is a duty-free business, we have been registering a positive semester in the Korean market. Japan had also a recovery, but a little bit slower than the Korean market.

Americas, different problems, we started with the lockdown and then we had some riots where we had 9 stores that were closed, 3 of them really damaged and took us 2 to 3 weeks to have them being reopening again. But I must say that the exit of the month of June and the start, and we are now on the same trend, was pretty good, very encouraging, so a faster recovery than what we have been experiencing in Europe.

In Europe, the northern part of Europe with Scandinavia, Switzerland, Germany and Austria to a lesser extent because there is still a strong aspect of travel retail in Austria, has been doing fine. Germany was even positive in the last 2 months. While the southern part of Europe is suffering more, especially the 2 cities that are the most effective are Milano and Paris, heavily dependent from travel retail.

Now to give you a flavor for the end of the year, I think it's really difficult because everything will depend on the recovery of the travel retail that, honestly, for the long haul, we don't expect to have in the course of 2020, but probably more a gradual improvement throughout the beginning of 2021. While we expect probably a little bit of what we call the travellers, but are the local travellers. So the German travelling to Paris, the German travelling to Italy and so on and so, or the Chinese starting to travel to Korea and to Japan is we see more opportunities for this business to restart and everything will be linked to the restart of the travellers.

One thing that you need to bear in mind is that globally, semester 1 for Moncler accounts usually around 34% to 35% so two-third of the result of the year are in front of us. And usually, what we have towards the end of the year, the last quarter, is the predominance of local buyers compared to travellers. So travellers are very strong in Q2 and Q3 to a lesser extent. So we are less relying on travellers in Q4.

LUCIANO SANTEL: Elena, about your question on profitability, on gross margin. Gross margin in first half of the year was heavily impacted by the additional extraordinary €30 million write-downs. Based on the visibility we have now and considering that we took immediate actions to cut our production plan for the current Fall/Winter season, we don't expect now any additional need to write-down inventory in the second half of the year. Having said that and considering that the first half of the year sales represent about one-third of the total, the impact on gross margin for the year-end should be significantly lower and mitigated because the €30 million should not be higher and the sales should be much higher.

About operating margins, as I just said, our sales in the first half represent one-third of the total, but our OPEX represent much more, less than 50% but again, the weight of our organization overall is much higher because it's not variable, it's mostly fixed. Having said that and based again on our current visibility, also operating margins because of the impact of OPEX should be much better in the second half. I can't tell you any number but this is the thinking process in our mind.

ELENA MARIANI: Thank you of you. Have a good evening.

PAOLA DURANTE: Operator. Sorry, I'll just take a question from the web. Julian is asking, can you please explain what are the incremental costs related to the digital internalization, both CAPEX and OPEX? And how will you manage to minimize this disruption risks? So I leave it to Luciano, I think.

LUCIANO SANTEL: I'll take the first part of the question. CAPEX, as said in the past and we confirm, that we are spending for the new online platform about €15 million, excluding the second phase of the project that will be implemented next year that relates to China Mainland because all the world where we have the online business will be under the Salesforce platform. The costs altogether, not only Salesforce, reported in our CAPEX are €15 million.

We started to spend last year, we reported a lot of this €15 million last year, another important portion this year and the last part of this CAPEX next year.

About OPEX. Variable OPEX are consequent to the concession fee we will pay for Salesforce, but the majority of OPEX will relate to the organization we just discussed about before. Because we have been building this organization starting last year, even in 2018 and the cost of this organization is quite important. We never disclosed any number, but it is quite important.

Having said that, of course, we aim and we plan to maintain and to protect the online business profitability we have now. Of course, the most important reason why we insource this business is not to further increase profits that are already very good, but to take advantage of the huge opportunities we see in this channel.

ROBERTO EGGS: The minimization of the disruption risk. We started this project with a pilot on the Korean market already more than 1 year ago because the kickoff of the e-commerce on Korea took place at the beginning of June 2019, based on exactly the same weeks as the website that we are in the other country. I remind you that Korea was not part of the deal we had with YOOX Net-a-Porter so we were free to launch in this market and operated ourselves. So it has been now 1 year of test that we have been doing. We have then been discussing, assessing the possibility to further develop the culture internally and we have been investing both in terms of supply chain, but also in terms of talents that we have recruited. We are putting in place a new digital organization within Moncler that will cover, at the same time, the digital part, the engagement and all the transformation part, so including also the innovation and the CRM part as well as the social media.

We are now pretty confident that we have the setup that is ready. So we have now been working on the plan to internalize the e-commerce part. Basically we have 2 streams that are running in parallel. One is the internalization that we start with the U.S. and Canadian market in October this year. This is the agreement that we have. We will start moving and internalizing the migration with a go-live that is expected to start at the beginning of Q4.

In parallel, we have already started a phase of design of the EMEA market that is by far the more complex because we are in more than 30 countries with different VAT levels, and we want to be able to provide a full omnichannel service from the beginning. Here we have already started and put the team in place for the EMEA, that will be followed by Japan. And at the end, the launch of the Chinese market that is requiring a specific organization that will be locally and located in Shanghai working in strong connection with the HQ.

In parallel, there is another stream that started already at the end of last year, which is the new UX redesigned. The new website we designed wants to bring a little bit of the flavor of the entertainment industry and also give more fluidity in the way you navigate throughout the website. This is running in parallel with the objective to launch this new website by the end of the H1 2021, beginning of H2 2021.

OPERATOR: The next question is from Thomas Chauvet with Citi. Please go ahead.

THOMAS CHAUVET: Okay. I have just a quick follow-up question for Roberto on e-commerce and then a question on Genius. On the press release you made earlier, you said you expect the share of e-commerce to double in 3 years. Do you mean direct e-commerce, which I think is around 5% of your sales or your total online business with the third parties?

ROBERTO EGGS: We mean the full business. This is both what we will be managing directly through our own website, through our own e-commerce and also the one that we have through the e-tailers and the different partnerships with department store and other websites that are selling Moncler. So basically, we want to move from 10% to roughly double the weight, so 20% by 2023.

THOMAS CHAUVET: Okay. And my main question is on Genius. Have you made any major change in recent weeks, months to the timing or the depth of the collaboration plan for the rest of the year? And within your €30 million of inventory write-downs, was this relatively broad-based across Genius and the Moncler collection through the respective share of each business or was there a bigger weight maybe for Genius within that write-downs? Thank you.

ROBERTO EGGS: Now regarding Genius, yes, we had to review the calendar of the different launches linked to the fact that our rhythm is more or less 1 launch per month and at a given point in time we had two-third of our network that was closed, obviously we decided to postpone the launch because the way we leverage Genius is not only online or digitally, but it's always a combination with the omnichannel between the retail store and the online store. So we had a month without launch, and now we have restarted with Fragment also in terms of base of comparison. In the month of June last year, we had a strong launch with Palm Angels that we didn't have any this year. So there will be a little bit more launches in the last 4 months of the year linked to this pandemic issue and the fact that we had the lockdown in most of the country.

There is no more write-downs on Genius than in the past, it is something that is similar. For the launch of Fragment, we haven't seen a difference in terms of weight of the sales also driven by the fact that Japan, China and Korea were back to normal. Of course, a little bit of an impact in Europe because in Europe, when we sell, we sell both to local clients, but also to travellers that were not present.

THOMAS CHAUVET: Thank you.

OPERATOR: The next question is from Susy Tibaldi with UBS. Please go ahead.

SUSY TIBALDI: Hi, good evening. So given that Q3 is your most important quarter for the wholesale channel, I just wanted to check what are your expectations there, given your current quarter visibility. Thank you.

ROBERTO EGGS: Just let me re-explain which quarter is important for which channel. Q3 is usually the quarter where we do the results of the wholesale part because it's when we are shipping the Fall/Winter season. And this is something that has started, that obviously has been a little bit difficult in some of the areas like the U.S. by the fact that the department stores are under pressure, but with most of them we have find an agreement and a coverage that is ensuring that we can continue to have business continuity with them.

Then Q4 is the quarter of the retail. Q3 for the retail is a little bit more important than Q2, more or less at the same magnitude of Q1. So it's important, but not as important of the last quarter where we do 45% of the sales. So the efforts that we have in terms of product launch and so on are really concentrated in the last 4 months of the year regarding Genius. And of course, we have now started to sell the Fall/Winter season. The decision we have been taking in discussion with the wholesale partner that we have and with our region was to extend the presence of the Spring/Summer season a little bit longer to give the opportunity to our consumer to buy because, of course, with the 2 months of closure they didn't really have the time. So we are now in July and we are still selling something very balanced between the Fall/Winter and Spring/Summer, while last year, we were already selling at 70% of Fall/Winter. But this will be back to normal. We have a catch-up in terms of Fall/Winter distribution and by beginning of August, we will be back to comparable figures and numbers compared to 2019.

OPERATOR: The next question is from Luca Solca with Bernstein. Please go ahead.

LUCA SOLCA: Yes, good evening. If I may, I would like to ask you a question on like-for-like, calculated differently. If we are to compare oranges to oranges, we need to consider that many of the stores were actually closed during the first half. What would be the like-for-like growth number if you just took sales of the stores in existence last year for the days that they were opened this year, year-on-year?

LUCIANO SANTEL: Yes. Luca, it's difficult to give you a precise answer. What I can tell you is that the result would have been better. But to be honest with you, after we reopened the stores, if I look at June, it was much better than May, and even better than April but still with a very low traffic in some regions, not in all of them, because China did very well. But, as said before, on an aggregate basis, June was still a negative comp.

ROBERTO EGGS: Luca, let me give you some additional flavor that will not completely answer to your question. The effect of the pandemic is not only, as you know, on the fact that the store is open or not. It is linked to the fact that there is confidence for the consumer to go back and buy. There is also the fact that the travellers are not travelling anymore and they are buying more locally. This is an example. I'll give you 2 examples. In China with very strong month of June, very strong double digit, if we have to calculate the comp sales there, it will be having the positive effect of the pandemic and not having people travelling. So there, we have had the sales density that is higher than last year.

Similar to the Swiss market where the Swiss were also used to go abroad to buy and they are now staying. The results we are currently having on the retail store in the ski resort are really excellent. We are doing figures that are similar to what we do usually in the winter season, and we have to ship more product to the ski resort in this summer. Some others are completely affected by the fact that there is a lack of travellers. And as I was mentioning, if you look at the like-for-like for Paris and for Milano, it's really negative.

LUCA SOLCA: Understood. If you were to break down the like-for-like that you reported, how much would you say is from stores being closed? And how much is because people are not travelling and the feel-good factor has been affected and so on so that we get a good understanding of the real underlying like-for-like?

PAOLA DURANTE: Excuse me, Luca; your question was how much of the comp is due to stores closures?

LUCA SOLCA: Yes. Correct. And how much is because people are not travelling or because the feel-good factor is not there, people are more conservative about their finances, they lost their job, whatever?

PAOLA DURANTE: Okay. The second one is clearly very important. Also, the first one. Remember that most of our stores were closed in Q2 that is from a retail standpoint, a low quarter. But March was important and we started there and also the travellers instead are very important. So we don't have a precise figure. I don't really think it's something that we would even calculate. But of course, remember that the travellers, for sure, and particularly in these months of summer period, in which in EMEA they count a lot. Hong Kong is still a very difficult market because of not the Chinese there, they are counting. So the travellers are, for sure, very important.

ROBERTO EGGS: I'll give you one element, Luca. The performance on the locals. We have seen all the northern part of Europe where the locals are performing better than usual. It's in some cases even a double-digit growth that we have with the northern part of Europe nationality. While in Milano and Italy the performance on the local is still negative and in Paris it's the same.

LUCA SOLCA: Understood. Thank you very much.

OPERATOR: The next question is from Andrea Randone with Intermonte. Please go ahead.

ANDREA RANDONE: Thank you and good evening. Just a quick question about your renegotiation of rents. Can we think your talks are to have a temporary effect or this can be also be a permanent benefit? Thank you.

LUCIANO SANTEL: Andrea, the way we approach the landlords and this problem was to fix the problem now based on the current situation with the mutual agreement to sit with them again, if - hopefully not - the situation should continue in the future. This is for the vast majority of negotiations and the vast majority of rent reductions we got. Some of the leases we renegotiated will have an impact also in 2021, in the years after, because we renegotiated all the leases for all the term of the lease. But the strategy we decided to implement when we opened this negotiation table was to fix the problem now and then we will see in the future. So again, we will have some benefit also for the future, but not so important.

ANDREA RANDONE: Very clear. Thank you.

OPERATOR: The next question is from Flavio Cereda with Jefferies. Please go ahead.

FLAVIO CEREDA: Hi, yes, thank you. Good evening, everybody. So a quick question on the supply chain. So we're seeing that a number of countries in Eastern Europe, including Romania, are unfortunately experiencing significant spikes at this moment in time of COVID-19. So I was wondering what I guess what mitigating action can you take? And is there a backup plan if you have issues even in your own production plant? Thank you.

LUCIANO SANTEL: Flavio, in the supply chain, we are facing problems every day. But having said that, I have to tell you that, crossing fingers, we never stopped our production. Our own factory has never stopped with only 2 out of 1,000 people positive but not serious cases. This is thanks to some luck for sure, but also because we implemented very stringent procedures and protocol. In the rest of our production network, we had and we are still having some problems in the countries you mentioned. But honestly, production is, for the most part for the Fall/Winter season, completed. So we have some delays as compared to last year, but not too much. So I would say that we are in a pretty good shape. I can't anticipate what may happen in the future. But again, so far so good.

The same in our logistic activity located in a very hot region of Italy in Piacenza. Notwithstanding the location, operations in our logistics hub never stopped. And so we could, not only ship out our finished products to our regions and to our customers, but also most importantly, to ship raw materials to our production network, even during the lockdown. So we don't see any material problem on that side.

FLAVIO CEREDA: Thank you, Luciano.

LUCIANO SANTEL: Welcome.

OPERATOR: The next question is from Paola Carboni with Equita SIM. Please go ahead.

PAOLA CARBONI: Yes, hi, good evening, everybody. 2 very quick questions. The first one is on your cost control action, given what you did in H1, should we expect the pace to accelerate in H2 or to slow? I don't know how you look to your cost containment action for the remainder of the year. And secondly, you have commented about June, which was sharply recovering on the previous months. Would you expect this pace of improvement to continue as much as you are seeing in July or to stabilize a little bit, I don't know, just a quick comment, if you can, on the really current trading? Thanks.

ROBERTO EGGS: I'll start maybe, Paola, with the current trading. What we have seen in Asia is something that is solid. Unless there will be second wave that we cannot plan, I think that things there can only improve. We still have the situation in Macau and Singapore. In Macau, we are not closed, but basically 99% of the business is done by Chinese coming to game in the casino and currently, they are not traveling. So, as soon as, this will reopen, it will clearly further improve the result of APAC. We have the situation in Hong Kong, that is a mix of political and COVID situation. So if the COVID will be solved, I think, there also we will see an improvement.

The action that we have started with the new local, the travelers that are not going abroad in China, is continuing and we see improvement in the current market and in the Japanese market. U.S. seems to be also on the right track, but the fact that there is the presidential election may also cause some further discontinuity in the business that we cannot foresee. I think the situation that is more difficult to evaluate is Europe, because we have more than half of the business that is driven by travel retail.

So if travel retail will not be coming back, I don't really see an improvement in the months to come, maybe a little bit more towards the end of the year, because as I was saying before, the last quarter we have the proportion of local in Europe that is inverted. We have more sales to local in the last quarter. It is 60% on locals, 40% on travel. If the travelers will not be there, and if we do a good job with the locals, I think that there is a possibility to catch up a little bit, but all this will depend on elements that are not really in our hands such as the reopening of the borders, the travelers and especially the health situation.

LUCIANO SANTEL: About cost control, Paola, it is part of our culture. To answer your question, in the second half we will implement the same actions with the same attitude and the same approach we had in the first half. Some OPEX are associated with the projects we decided to put on hold, other OPEX are associated with ordinary business activities like travel. We didn't travel during the lockdown, but we hope to start again to travel in the second half of the year with not our sales only, but our organization.

Having said that, we have a very deep culture of cost control. In the second half of the year, our OPEX we will apply the same approach, the same attitude of the first half. It is difficult to give you a precise number, which normally we don't do. But in any event both selling and G&A, selling are for the most part associated with retail expenses. We talked about rent. Of course, a part of the negotiation will produce an important impact in the second half of the year.

And just to clarify what I said before, in the long term the impact is not important, but the impact in the second half of the year will be visible, will be pretty material. Again, we decided, and we still maintain our strategy not to save and to cut expenses on the people side because we consider people an asset more than a cost, but having said that, this is what we aim to do. Marketing, as we said before, is not just a cost control, but more a strategy to reduce the pressure of marketing expenses this year for obvious reasons and to end up by the end of the year in the region of 6 something percent of sales.

PAOLA CARBONI: Okay. Thank you very much.

OPERATOR: The next question is from Melanie Flouquet with JP Morgan. Please go ahead.

MELANIE FLOUQUET: Yes, good evening. Thank you for taking my question. I have 2 sorry. The first one is regarding cost in H1 in selling and marketing, they were down 5% or 4.5%, some of your peers have reported strong double-digit declines on lower decline in sales. So I was wondering whether you can help us maybe understand a bit better, maybe it's your commitment in investments, maybe your fixed cost basis is higher that's how we describe this, compared to your peer group? And my second question is on online and your ambition to double the shares of online as a total business. How much of a game changer and contribution of China is embedded into your assumptions? Thank you.

ROBERTO EGGS: Good evening. Regarding the marketing expenses, as you have seen, we have been investing €44.3 million during the first semester, out of this €44 million, there is roughly €11 million that were exceptional investment that we did for charity. So we should be looking at a figure that is more around €33 million investment compared to the €43 million we had in H1 last year. So there is €10 million less investment that we did, but these investments were already in place and they were invested during January and February for the launch event that we did in Milano, again, very successful just before we had the lockdown. And after that, we kept mainly the investment on the digital part and we cut the investment on especially on traditional media, because having the stores closed was not really making sense for us.

MELANIE FLOUQUET: I was not looking at selling and marketing together, because most companies are reporting them together. So I was looking at selling and actually the bigger part of the selling costs grouped together. So you're right reported minus €5 million, excluding the €11 million, minus €9 million or minus €8.5 million. That's still not the decline that we saw as your peers. So is this because you are in a different investment phase or is it because you have a higher fixed cost base points with senior lines that you could verbalize?

ROBERTO EGGS: Maybe, I think Luciano will complete the answer that I will give. The way we plan, usually in terms of staffing in the store is to have additional people coming to help with the peak that we are experiencing towards the end of the year that we start recruiting usually in August/September to cope with the peak and that are staying with us until January/February. The base that we have for the months between March and August is personnel that is fixed, and we don't have additional recruitment. There, of course, we didn't recruit. We also think that we will be able to manage the end of this year with a reduced number of temporary people, maybe even without temporary people depending on the way the results are going to go on. And we have been working taking leverage on the layoffs whenever it was possible. Currently, for example, in Europe, we are turning with 50% of the personnel that are working one-week and that are on lay-off the week after, because the tourists are missing, and then we will continue with this.

LUCIANO SANTEL: Melanie, if I can add something, we normally say that our OPEX altogether, selling, G&A and marketing are 60% fixed and 40% variable. If you look at the numbers and exclude the €11 million of charity activity, we ended up with exactly 35%-65%. If you consider that this is the first half of the year that seasonally is much lower than the second half is totally consistent with our guidance also considering that in our OPEX in selling mostly, we include D&A, depreciation and amortization, that are higher than last year, not lower, but even higher because of the CAPEX of the past few years.

Also, something important to highlight about productivity, we could be more aggressive on productivity but we prefer, at least for the time being, to be very sensitive with our people, to maintain high their motivation, not only health but also the motivation for the next future. We could be more aggressive, but this is not what we decided to do.

ROBERTO EGGS: Melanie, regarding the growth that we expect to be generated by all our digital activity, it's a blend of different elements that we're going to bring. First of all, a better integration between the digital store and the physical store by an enhanced omnichannel and enhanced omnichannel services also with the one pool inventory that we have not been able to implement while we were working with YNAP. This is one of the key elements of the strategy for 2021. We have also new services that we have started to develop like video messaging, digital appointments, distant sales and phygital events that are also driving sales. On top, we expect that the new concept, the new concept of digital experience that we will be experiencing on the e-commerce side will drive also additional sales. We don't disclose the results of the sales online that we have but let me say that the contribution of China with the online is by far lower than the one that we have with the physical stores. And for us, with also the deployment of dedicated team on the Chinese market, there will be objective to catch up and to have a weight of the Chinese market a little bit more in line with the weight of the retail store that we have.

MELANIE FLOUQUET: Thank you. Does that change your strategy with Tmall and Tencent, maybe what are you planning anyway?

ROBERTO EGGS: As you know, or if you don't remember it Melanie, we had a test that we did with Tmall 2 years ago. It was in September 2018 and I think that both in terms of team and also digital experience, we were not ready. It was a kind of warm up that we had. We have been keeping discussing with them, and I don't see why we shouldn't be entering Tmall one day at the right moment. Now, we are discussing and currently working on the strategy for the Chinese market, assessing if it's better to enter first with our new website, or if it is with Tmall. So these are discussions that are going in parallel. Probably, in a few months, we'll be able to give you a more precise answer on this. We are also keeping discussing with Farfetch. Discussion on the table is open there as they have been improving a lot the services they are providing. So there are discussions going on.

MELANIE FLOUQUET: Thank you.

OPERATOR: The next question is from Louise Singlehurst with Goldman Sachs. Please go ahead.

LOUISE SINGLEHURST: Hi. Good evening, everyone. I shall keep it very brief. Just following on from Melanie's point there on digital, actually. Is there anything else on the product category mix as well, 10% to 20% by 2023 is a very big jump. And I just wonder if there's anything else in terms of the product category mix? In addition to digital, does it change at all your views that the long term kind of store ambitions, obviously, at the moment, there's lots of question marks regarding store footprint I realized that in a normalized environment, the longer term ambitions? And then thirdly, following on from the announcement with Interparfums, I just wonder if I could quickly get a comment on there in terms of your ambitions there as well with perfume? Thank you.

ROBERTO EGGS: Lot of question in one question, Louise. So first of all, regarding the product, we have been doing tremendous efforts to develop new product categories that we call now “new-core” categories within Moncler, so the tricot, the knitwear, the shoes, the leather goods that have been growing in this past 3, 4 years at a pace that was even higher than outerwear. Now we have in the product portfolio, something that is more balanced. We are going to also implement on the website, that is now shut, with a partial adjustment with the product. We will have more total look. So I think that definitively, there is room for improvement and growth high, at a higher speed in this product category that will get more visibility on the website. So clearly, I think that this is one of the lever in terms of growth. We think also that if you want to be serious on the digital channel, you need to start thinking also of dedicated product that you will find on this channel. So it's something that we're working between my digital department and my merchandising team. It is something that will go along and that will further reinforce the performance on the e-commerce. I agree with you. The target is challenging, but in Moncler, we like challenges.

The long term store vision, yes. I think here, I will give you the standard answer on which we believe. We have now 213 stores worldwide, which is less than half of what the big players have. So I think we still have room to grow. We probably will be, maybe not, at 15 doors per year, maybe it would be a little bit less always looking more at the quality of the location rather than the number of openings, but you can count on something that is slightly more than between 10 and 12 openings per year. It will depend also on the fact that travel retail will start or not because we are underpenetrated in terms of stores in airports. We have 22 stores now. So if the travel retail will start, there is a possibility probably to add a few other stores on this channel.

And last one Interparfums. It is a discussion we had with Mr. Ruffini since I joined and from what I've heard, he was having discussions and this idea in his mind even before me joining. It has been now one year that we have been discussing with them, starting the development. It's something where everybody in Moncler, and I think, everybody in Interparfums is believing a lot in the potential. It's a license, though they are going to be the one developing the product with us. But in terms then of communication and so on, I think it's an additional boost that we'll have in terms of visibility for Moncler as a brand. And we want to do something also in the Moncler way. So it's a project that we have started, as we mentioned in the announcement, and we planned for a launch early 2022. We are all very excited. But I don't want to disclose more than that, because we want to keep the surprise for the moment of the launch and not to disclose it too early. But everybody is very excited about this launch and this collaboration.

LOUISE SINGLEHURST: Very clear. Thank you for taking my questions.

PAOLA DURANTE: Okay. So with this last one, we leave you with a little bit of curiosity and we thank you all of you for the participation. Let me say that the next release on Q3 interim management statement will be on October 22nd, and our silent period will start on September 23rd. Thank you very much for all the very interesting questions. Sorry, if we've been little later than what planned. But if you still have any follow-up you still have, Alice and myself remain at your disposal. We wish you all a nice summer break. Thank you. Ciao. Good night.