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PRESENTATION

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

Good morning, everyone, and welcome to Global Fashion Group's Q1 2023 results. I'm Matthew Price, CFO.

Just a few weeks ago, we announced our full year results followed by our Capital Markets Day. There, we outlined our ambition following the sale of the CIS business and updated our progress against our strategic priorities. Today, I'll provide a short summary of our first quarter results and the outlook for the year. After that, I'll open up to Q&A.

Our focus remains exactly the same as we set out a few weeks ago. Our markets are uncertain, and inflation remains elevated. Therefore, we're focused on aspects that we can control. We continue to manage our inventory prudently and grow our marketplace, which carries no balance sheet risk. We maintain focus on cost control, limited capital expenditure and improved marketing efficiency to stay on our path to profitability. These actions are intended to allow us to deliver adjusted EBITDA breakeven in 2024 without relying on growth and the associated cost leverage.

Let's now take a look at our Q1 results. I said in March, our current trade was similar to Q4 trends. This pattern continued as we closed out the quarter, but with an additional percentage point of gross margin investment. We achieved NMV of EUR 303 million, a 7% decline year-on-year. We delivered gross margin of 41%, a 1.7% decline -- percentage point decline year-on-year. This is larger than we saw in Q4 as the ANZ market was more promotional. Our gross margin continued to benefit from both marketplace and platform service expansion. Similar to Q4, our adjusted EBITDA margin was impacted by lower volume and fixed cost deleverage. Together with the lower gross margin, we saw a 5 percentage point decline. We have 11 million active customers. And in Q1, our customers made 5 million orders with an average order frequency of 2.5x.

Let's now take a look at our key metrics. Starting with the group. Active customers reduced 18% to 11 million, a similar trend to Q4. This reflects our decision to reduce marketing investment and the run-through of the large COVID cohort. Our order frequency was 2.5x, up slightly from last year.

In Q1, NMV was down 7%, a 15% increase in average order value largely offset the decline in orders, which follow the active customer trend. About half of the increase in order value is driven by inflation, whilst the remainder is split equally between country mix and category mix, including our shift to more premium products.

Let's now take a look at our key financial metrics. Revenue declined 10%. Our gross margin was impacted by additional price activity, which was partially offset by growing Platform Services and marketplace. Looking at adjusted EBITDA, our margin was negative 12%. Adjusted EBITDA declined more than gross margin as the lower order value resulted in fixed cost deleverage.

Let's now turn to our regional performance.

In Latam, we continue to execute our investment plan. Our focus on marketing efficiency led to active customers and NMV showing similar declines as last quarter. Gross margin saw a 3 percentage point reduction from pricing activity.

In SEA, we continue to manage marketing investment very carefully, resulting in a 21% reduction in active customers and a 7% drop in NMV. Our focus remains on acquiring customers from our core, more affluent customer groups. Gross margin improved 2.7 percentage points to 39.6%, supported by increasing marketplace participation and additional platform service revenue.

In ANZ, our active customers grew despite reduced marketing spend. NMV growth remained flat at minus 0.2%. Gross margin reduced to 42%, with more promotional activity, reflecting the more cautious consumer sentiment.

Now let's move on to our cash flow for the quarter. Our cash flow follows the seasonal pattern of our business. Q1 is our highest cash outflow period, and there were 3 reasons for this. Firstly, Q1 is our lowest trading quarter. This means we have the smallest cash receipts from customers. Secondly, this is when we invest in new season stock as well as paying for part of the large Q4 intake. And thirdly, we pay marketplace sellers for the peak trading season in December. As we grow marketplace share, this pattern becomes more significant.

On the left of the slide is our normalized free cash flow. This is our measure of operational cash invested in the business, excluding funding interest and other nonoperating items like exceptional items and one-off tax payments. In Q1, we spent EUR 24 million to fund our adjusted EBITDA loss. We invested EUR 25 million in working capital. This was mainly driven by increasing our inventory as we prepared for the new season. Excluding currency movements, our inventory was EUR 31 million lower than last year as we continue to reduce intake. Older inventory represented just over 24% of our total balance. We spent EUR 8 million on Capex, which is around 30% less than this time last year. Other cash flows included operating tax payments and interest on working capital facilities. Our normalized free cash flow was negative EUR 65 million for the quarter, a 16% improvement on Q1 last year, with the benefit of our disciplined working capital management and cost control. Our cash position remains strong. We closed the quarter with EUR 490 million of pro forma cash and a net pro forma cash position of EUR 190 million. The net position removes the liability from both the convertible bond as well as some other smaller loans.

Now looking forward to the rest of the year. As expected, Q4 trading trends continued into Q1 with the exception of a higher level of discounting in the ANZ market. Therefore, we are reconfirming the guidance set out in March. The actions taken to set the business up to trade in the current demand environment give us the opportunity to make year-on-year gains in gross margin and adjusted EBITDA margin across H2. We are focused on delivering our cost initiatives.

So to recap, on a constant currency basis, we expect NMV growth between negative 5% and flat year-on-year, which equates to around EUR 1.5billion to EUR 1.6 billion. Revenue is expected to be around EUR 1 billion. We expect to deliver an adjusted EBITDA margin of negative 3% to negative 1% for the year. Capex is expected to be around EUR 35 million, with the majority going to technology.

And looking further ahead, we expect to deliver adjusted EBITDA breakeven in 2024. In the absence of significant growth in the near term, we can deliver this through cost and margin action alone.

To conclude, we've set the business up to operate effectively in a lower demand environment. We continue to invest prudently, especially in the technology to drive our marketplace and platform service businesses so that we're well prepared for future growth when the moment is right.

I'll now open the call up to your questions. If you'd like to submit -- sorry. Thank you.

Operator

Thank you. If you like -- please go ahead, sir. Please go ahead.

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

No, you do (inaudible)

Operator

(Operator Instructions) The first question comes from Nicolas Katsapas from BNP Paribas Exane.

Nicolas Katsapas - BNP Paribas Exane, Research Division - Research Analyst

I have a couple. The first is just on your cash position. So thank you for the explanation about the seasonality in working capital movements. But can you just comment on what this means for Q2? Should we expect there to be a better profile from working cap? And then the second question is just really trying to flesh out your comments on current trading. I know you've generally said it's consistent with what you've been seeing in March. But do you see any bright spots across your regions where online growth is coming back? Or any colour by region would be appreciated.

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

Yes. Thanks, Nicolas. No, that's great. So on the cash, [due to] normally, we would expect to be around about 0, plus or minus sort of plus or minus [10], either way, which is obviously go with by better working capital and actually the trading shape of Q2 is better. So sort of Q1, Q3 are kind of stocking up period, Q2 and Q4 in particular, are the selling periods as you'll appreciate in fashion. On to current trading and looking for bright spots, I mean, we are very much, I think, where we're sitting in April looking similar to March. So Australia remains more promotional than it was in Q4, but is trading Southeast Asia is a real mix of markets with some interesting opportunity in there as well as some which remain quite constrained. Across Lat Am, I'm still seeing it very much is a difficult market for the consumer. So I haven't seen any real change in that at the moment.

Operator

The next question comes from Miriam Josiah from Morgan Stanley.

Miriam Anuoluwapo Adisa - Morgan Stanley, Research Division - Equity Analyst

Just following up there on the comments around current trading and specifically promotions. If you could just talk a bit more about what you're seeing in Australia. Is that coming across the market, many online players or book mortar as well? And then do you think that's just sort of linked to the exit from the pandemic? Or are there other sort of drivers there, macro, et cetera? And what does the promotional activity look like across your other markets at the moment as well? And do you have any expectations for what that will look like across the quarter? And then perhaps just any colour on how you're thinking about gross margins for the rest of the year. And then secondly, just on Brazil, where are you now in terms of sort of the rebuild there and in terms of improving the assortment, are you seeing any improvement in conversion rates? I know you mentioned there that the Latam market is still difficult, but given the investments that you're making there in the assortment, are you seeing any positive internet behaviour?

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

Thanks, Miriam. So looking at the promotional environment in Australia, I think promotions really stepped up compared to Q4. I don't think – we aren't -- we are seeing this across the market. We think it's really being led by the big brick-and-mortar retailers over there with online following, and there's a whole host of reasons for it. I think the macro is currently much more around consumer sentiment, which is tightening. I think that's driving the promotions rather than any post-covid supply or demand side of things. So I think it's just the consumer is looking for a bit more of a bargain, and therefore, the markets on quite promotional. Elsewhere, Southeast Asia has always had a higher promotion share because of affluence than some of the other markets. But I'm not seeing any big change in that. It's continuing to trade. Looking into Latam and Brazil, in particular, yes, it has become more promotional by this become promotional in line with the way we were expecting and the way we were planning. So it isn't really any delta from what we were thinking about and planning before (inaudible) with outlook, et cetera.

So I think the -- in terms of the rest of the year, there is definitely an opportunity for us to have a different shape of gross margin year-on-year on H2 just really because when you look at last year with the comps at the start of opening of last year, markets like Australia, we're still trading robustly and well without any pressure from the consumer and then had consumer sentiment issue in the second half. So really, we see an opportunity to really close the year-on-year gap in the second half of the year, not particularly in Q2 of this year. Brazil is a really interesting one. I think we have from what we see in the results and the investments we've made around assortment, around delivery returns around the customer net promotion scores that we're getting, we're really delighted with what the team there have delivered, and it's very much on track with what we wanted. And indeed, on the technology, with the new app, the product is good. It's largely complete. It's being rolled out. It's being rolled out carefully, as you'd imagine, we would, but we're not seeing that translate into the output measures in terms of customer conversion and sales that we would have expected from all of that improvement yet. And we really think when we look broadly at what's going on in the market, when we look at other retailers' results as well, I think it's just getting incrementally more challenging for the consumer, and that's what's masking the benefits from our investment program there. But we know that we could -- we know when we can see that the benefits are coming through.

Operator

We'll take the next question from Volker Bosse from Baader Bank.

Volker Bosse - Baader-Helvea Equity Research - Co-Head of Equity Research

Yes, Matthew, in general, in regards to fashion merchandise, there is too much inventory in the market that is clear, but could you give us the kind of ranking in regard to your markets, where is the situation in regards to inventory, worse or better than in other markets, get a better understanding here. And second question would be on -- yes, on your -- you mentioned you focus on more premium products. And what does it mean? You're selling more international brands or higher-priced products and -- yes, [as much clarity] there. And what's the [upturn to do so?]

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

That's great. Thanks for your question, Volker. In terms of fashion merchandise inventory in the market, I think -- from our own point of view, we reduced intake, as you know, through the second half of last year and again, reduced it into the first quarter of this year. So our inventories are actually on an FX neutral basis, EUR 31 million lower, which is (inaudible) they were at this time last year. So I think we're managing that. So we are not driving it.

In terms of availability generally in the markets, I think that probably in the Australian market, there's probably still quite a chunk of older merchandise still being discounted more generally. That's probably the main factor. In Southeast Asia, we aren't seeing an oversupply of inventory, particularly, as driving market behaviour as far as we can tell. Looking into Latam, it's a very different market, particularly in Brazil, which is the biggest market for us because it's a producer market and most of the competitors are the magazine, so they are largely producing and selling their own brands plus some other brands. And I'm not -- we're not perceiving that it's an oversupply of merchandise that's driving there. I think it's genuine in terms of the impact of inflation, et cetera, on consumer income that's driving the challenge. Looking -- we did talk about more premium products, and we've been talking about this for a little while. I think it is -- it's really in some of the markets, particularly in Southeast Asia and to a degree in some of the Latam markets. We have -- we are no longer participating to the same degree in competition with the really, really, really low price (inaudible) . We're not trying to cover that. So we're covering much more core products from international brands and good quality regional brands, and we're introducing higher price points from existing brands plus some of the premium and luxury brands as well into the assortment because actually, our core customers are interested in those and are probably doing that. It's probably as much about shopping high and low in the range. We're not trying to become a luxury goods company, but we're making those offers. And, actually, they do really seem to be something which our core customers are taking up willingly and have a lot of interest in. So it's a real [mix]. We put some data and some pictures on there on (inaudible) in the Capital Markets Day deck, if you want to have a look at that.

Operator

(Operator Instructions) We'll take the next question from Michael Benedict from Berenberg.

Michael Benedict - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

I have a couple, please. Firstly, on Latam, could you remind us what sort of the key -- the KPIs you're looking for in that market are before you turn back on marketing in Brazil in particular? And then the second one, it sounds like gross margin has been a bit weaker than expected over the last month or so, but you've reiterated your FY '23 EBITDA guidance. I wondered if you could give us some colour. Are there any other offsetting factors in there or otherwise?

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

Thanks, Michael. So on Latam, look, as I said, we're actually very pleased with what we're seeing in terms of the customer experience, both in terms of the absolute customer experience that we are delivering and we can measure from the metric side. Assortment -- breadth of assortment, delivery returns, site performance, et cetera, and then actually also the -- what that improvement in performance is giving us in terms of customer NPS and customer feedback. So I think probably, in all honesty, if the consumer had been -- had remained robust, we would probably be turning marketing back on now or a quarter or maybe even more ago. So really, our decision about when we try and push back into growth in Brazil, in particular, is actually much more driven by our assessment of consumer readiness. Consumer willingness to buy products, which will drive that ROI.

I mean, our marketing approach is very much driven by return on investment on the sort of (inaudible) customer acquisition cost to short-term lifetime value approach. We constantly monitor that certainly on a monthly basis, we tune it up and down. So as soon as we start to see the propensity to buy, the propensity to increase the spend, then the marketing will go back on, but we're very much waiting for the consumer there. In terms of the -- some colour on the outlook. I mean, really what we saw in Q2, particularly towards -- sorry, Q2, that would be nice. And what we saw in Q1, particularly towards the end really was ANZ becoming a little bit more promotional than we had expected in terms of the impact on gross margin there. We are offsetting that down the P&L. The market because of the approach to marketing, I described earlier, where it's that (inaudible) the marketing automatically just through that plus we've got some cost initiatives as we go down the P&L. So I think very much in terms of shape of the year, we're comfortable around delivering the guidance that we gave before. There'll be a bit more cost action, some changes in intake to compensate for the increased promotional activity, whilst that lasts. I hope that was helpful, Michael.

Operator

If there are no further phone questions, I will hand back over for any web questions.

Saori McKinnon – Global Fashion Group S.A. – Strategy & Investor Relations Manager

First question comes from Phill from Antipodes Partners]. Can you talk about working capital expectations for the full year and how this differs from prior years?

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

Yes. No, that's good. I mean, really, we're just going to have -- we're going to keep this focus on working capital efficiency. So what will we see? We will continue to reduce intake. We have EUR 31 million less inventory, as I said before. At the end of Q1, we will largely be looking to keep that going forward. So a similar kind of trend. It will obviously vary as we see opportunities season by season, but we're going to be very careful and considerate about intake as we go forward. We are working closely with important sellers on our marketplace to expand and grow marketplace alongside the platform services so that we can access their broader stock pools without taking the risk from buying, and we see that as an important way to offset and an important way in which -- if demand surprises a bit on the upside in the market in a seasonal or in a quarter, then we can actually have the marketplace and that availability take up the stack there. So I think marketplace is a really important tool for us now that we've got it at a good scale because it actually both protect us from taking balance sheet risk but also allows us to take the opportunity on the upside. We're also, as you'd expect, and I'm sure most retailers that you talk to will be doing, we're working in partnership with e-supplier around terms, et cetera, which also help in terms of working capital.

Saori McKinnon – Global Fashion Group S.A. – Strategy & Investor Relations Manager

One more question from Phill. What gives you confidence in a second half recovery in gross margin and consumer demand? Are you seeing any signs of this?

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

Yes. I think it's really why we're talking about H2 as being our opportunity to outperform is not because we're seeing something magic happening in consumer demand. We think that the markets are highly uncertain, and we don't have forward visibility much more than anybody else does in terms of what's going to trigger demand to settle and start to grow. So actually, all of what we're talking about is where we see our own initiatives and our own work coming through.

We did a lot in Q3, Q4 and also in Q1, where we've made cost savings, we've changed the way we're working with certain brands between marketplace, wholesale, et cetera, in terms and the way we're thinking about parts of the business. We expect to see those initiatives really start to deliver in H2. So I think that's where the opportunity is, is work that we've already done, really starting to come to fruition and being visible in our numbers. And then also we've got the shape of the year in terms of the comp, which is also important.

Saori McKinnon – Global Fashion Group S.A. – Strategy & Investor Relations Manager

The next question is from Andrew (inaudible) At Redwood Capital. To confirm on the Q2 commentary around cash flow was that overall cash flow or movement in net working capital?

Matthew Price - Global Fashion Group S.A. - CFO & Member of Management Board

No, that's good. Sorry. Sorry, I wasn't clear. That's overall cash flow as defined by our normalized free cash flow measure.

Saori McKinnon – Global Fashion Group S.A. – Strategy & Investor Relations Manager

There are no further questions on the call. Thank you all for joining today. If you have any further questions, please reach out to the Investor Relations team directly.