

GEM Investment Club



Analysis of Fnac Darty



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BUY – OUTPERFORM – HOLD – UNDERPERFORM – WAIT

The current context of health crisis that will push consumers to buy online for Christmas, associated with events like the release of new video game consoles or BlackFriday, bring us to the conclusion that the stock has a great potential : **Strong BUY**



**Investment
summary**



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A low-angle, black and white photograph of several tall skyscrapers reaching towards the sky. The perspective creates a sense of height and scale. The buildings are dark, with some windows reflecting light. The sky is a uniform grey.

01 Company's Overview

What does the company do ?



Fnac Darty is a French company specializing in the distribution of household appliances, electronics and cultural products. The takeover of Darty by Fnac in 2016 gave birth to a European leader in omnichannel distribution.

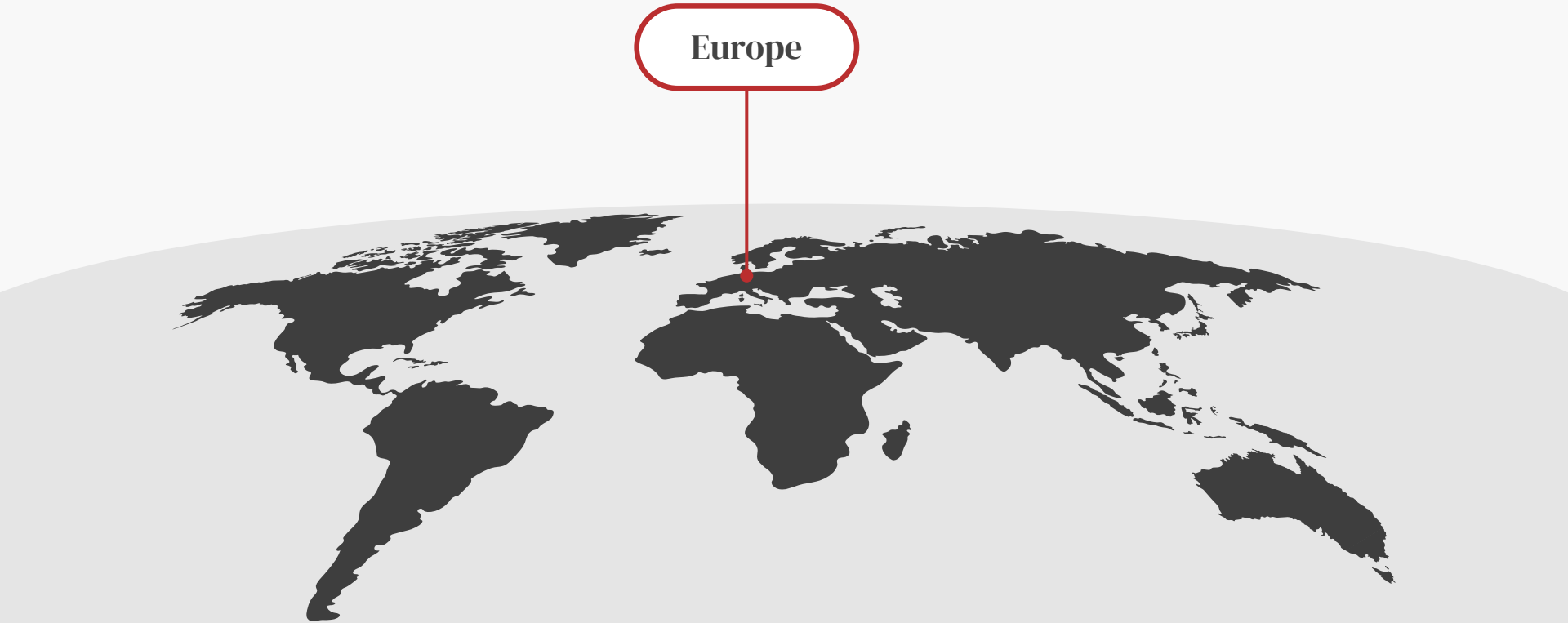
Fnac Darty SA operates as an omnichannel retailer of entertainment and leisure products, consumer electronics, and household appliances. As of September 30, 2020, the company had a total of 894 stores, including 333 franchises. The company was formerly known as Groupe Fnac Société Anonyme. Fnac Darty SA was founded in 1954 and is headquartered in Ivry-sur-Seine, France.

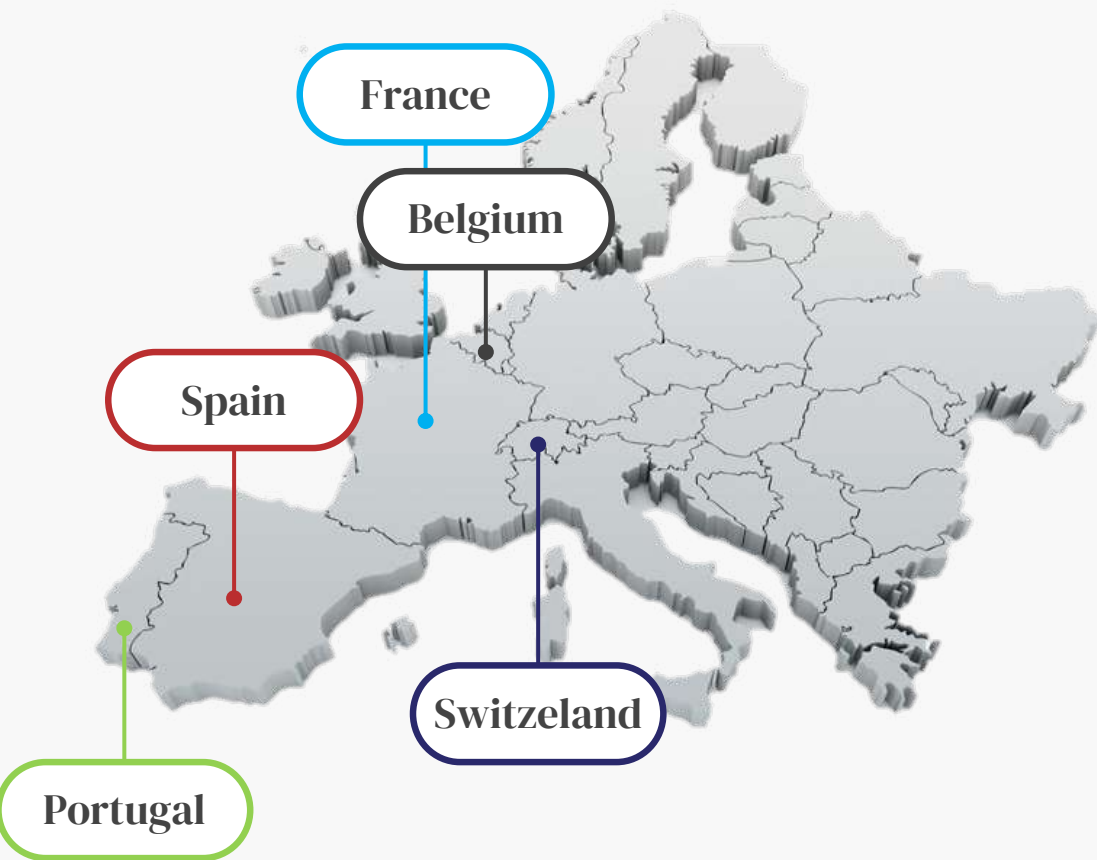


Where the company is doing business

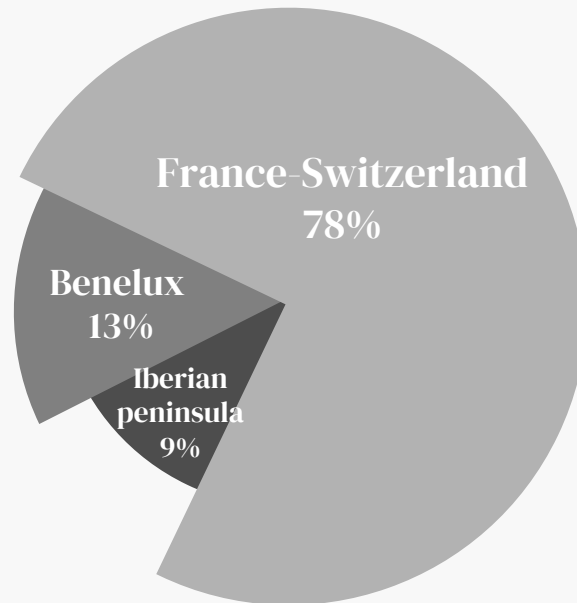


Europe





Darty's Turnover by country



Strategy



A unique shopping experience:

In a distribution sector undergoing profound transformation, Fnac Darty has been moving for more than five years towards an omnichannel model in order to offer its customers a unique shopping experience. By anticipating a new way of consuming in a world where the two sales channels (stores and Web) communicate and interact, the two brands have invested a lot in order to provide a unique proposition to their customers.

Confidence + Fnac-Darty strategic plan:

Confidence + brings Fnac Darty into a new era, that of service platforms. The Group places the customer at the center of all its strategic decisions, to offer them a unique omnichannel shopping experience - always richer, more personalized and innovative.

Strengths



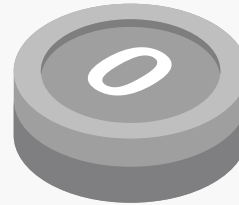
- Doesn't have a key customer neither a key supplier
- One of the European main leaders
- Good relationship with their clients
- Ability to sell products online
- High visibility in Europe

Weaknesses



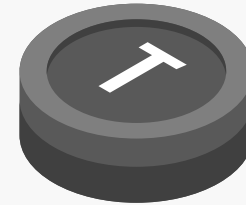
- Competitors can offer similar products quickly
- High transportation costs
- Limited flexibility on pricing
- Low margins
- Cyclical sales

Opportunities



- The 2 lockdowns in France
- A lockdown over Christmas
- Continued expansion on online sales

Threats



- Competition : AMZN, Aliexpress
- Data protection law
- Christmas period dependency
- Frequent issues in France over the last years (Gilets Jaunes, SNCF strike about pension reform, COVID)

A low-angle, black and white photograph of several skyscrapers reaching towards a cloudy sky. The perspective creates a sense of height and scale. A white rectangular frame is superimposed over the center of the image, containing the text.

02 Top Management

Board

**Jacques
Veyrat**



**Independent
Chairman of the
board**

**Founder of Impala
and LDcom**

**Enrique
Martinez**



CEO & Director

**CEO since 2017
Director since 2019**

**Antoine
Grosset-
Granville**



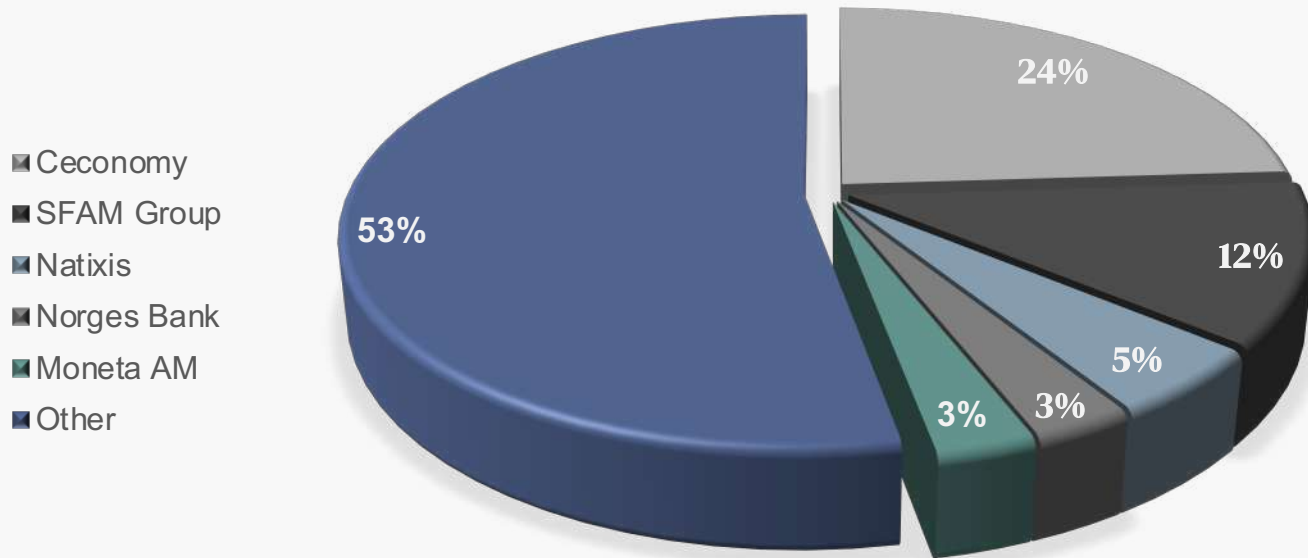
**Independent Vice
Chairman of the board**

**Former Director of AXA
and Schneider Electric**

Stockholders



% Ownership



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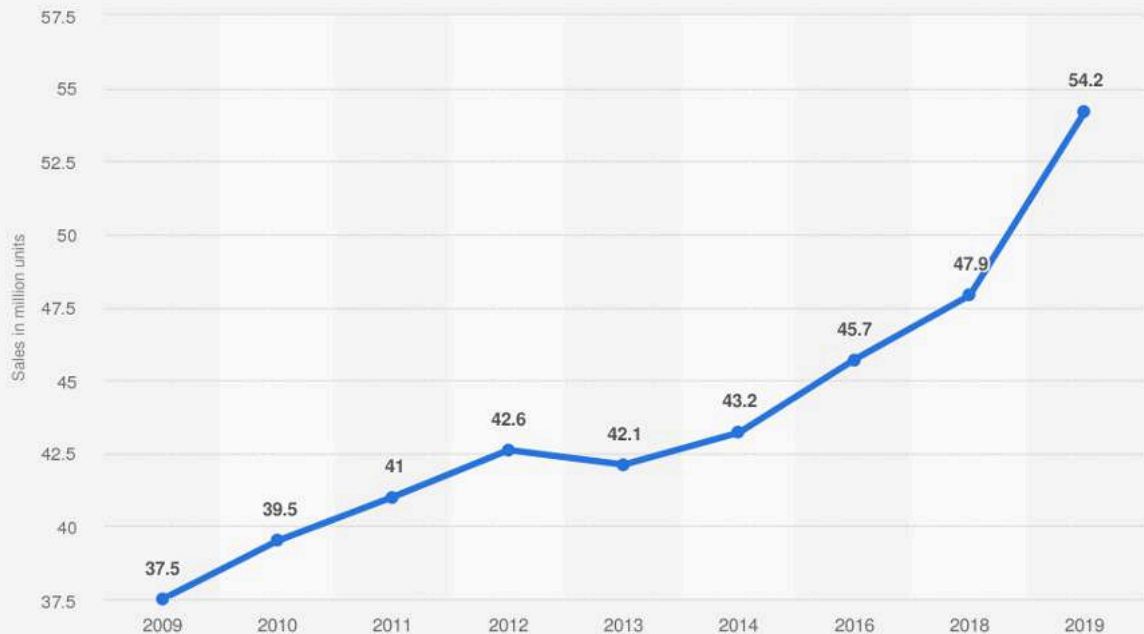
03

Market
Analysis

Analysis of the market



Sales volume of small household appliances in France from 2009 to 2019 (in million units)*



Small household appliance market

Increase of **+16,7** million units sold per/year in 10 years.

Strong increase between 2018 and 2019

Sources
GIFAM; GIK
© Statista 2020

Additional Information:
France; GIFAM; GIK; 2009 to 2019

Analysis of the market



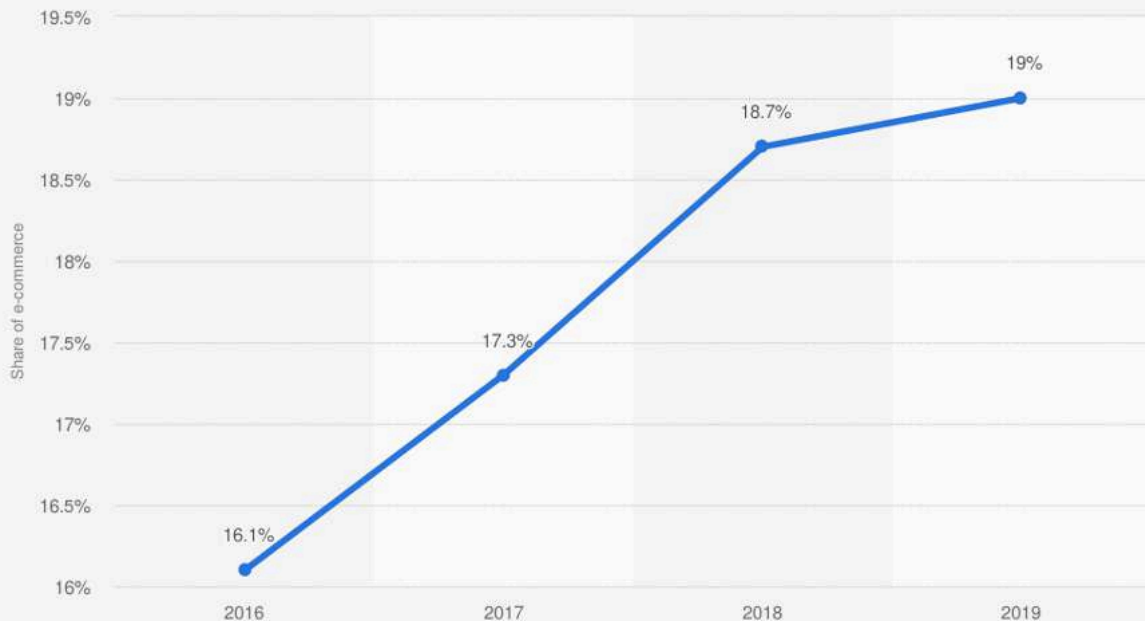
Financial Analysis									
FNAC FP Equity	96 Actions	97 Export	98 Settings						
39) ADJ	Fnac Darty SA	IFRS 16	2	Periods	10	Annuals	Cur	FRC (EUR)	
1) Key Stats	2) I/S	3) B/S	4) C/F	5) Ratios	6) Segments	7) Addl	8) ESG	9) Custom	
11) By Measure	12) By Geography	13) By Segment							
In Millions of EUR except Per Share		2016 Y		2017 Y		2018 Y		2019 Y	
12 Months Ending		12/31/2016		12/31/2017		12/31/2018		12/31/2019	
Revenue		5,369.2	100.0%	7,448.2	100.0%	7,131.9	100.0%	7,348.6	100.0%
Consumer Electronics		2,770.2	51.6%	3,801.9	51.0%	3,595.8	50.4%	3,605.8	49.1%
Household appliances		637.9	11.9%	1,613.0	21.7%	1,520.6	21.3%	1,554.3	21.2%
Editorial Products		1,243.9	23.2%	1,252.7	16.8%	1,249.1	17.5%	1,225.4	16.7%
Services		717.2	13.4%	780.6	10.5%	766.4	10.7%	963.1	13.1%
Revenue by Distribution Channel		—		—		—		—	
Net Sales % Increased at Consta...		—		—		—		—	
Revenue Growth %		—		—		—		—	
Organic Growth		—		—		—		—	
Number of Locations		—		728	100.0%	780	100.0%	880	100.0%
Darty		—		492	67.6%	518	66.4%	484	55.0%
Traditional Fnac		—		137	18.8%	146	18.7%	155	17.6%
Nature & Decouvertes		—		—		—		99	11.3%
Proximity Fnac		—		56	7.7%	67	8.6%	75	8.5%
Travel Fnac		—		21	2.9%	26	3.3%	31	3.5%
Fnac Connect		—		7	1.0%	8	1.0%	18	2.0%
Suburban Fnac		—		14	1.9%	14	1.8%	17	1.9%
Fnac/Darty		—		1	0.1%	1	0.1%	1	0.1%
Retail - Number of Locations O...		—		78	100.0%	66	100.0%	78	100.0%
Retail - Number of Locations Cl...		—		14	100.0%	14	100.0%	11	100.0%

On average household appliances represent around 21% of the company's revenue

Analysis of the market



Percentage of e-commerce sales in the revenue of the Fnac Darty group from 2016 to 2019



Influence of online sales on Darty's revenue

+2,9 points since 2016

Represents **19%** of its revenue in 2019.

Already on the digitalization path before Covid-19 crisis.

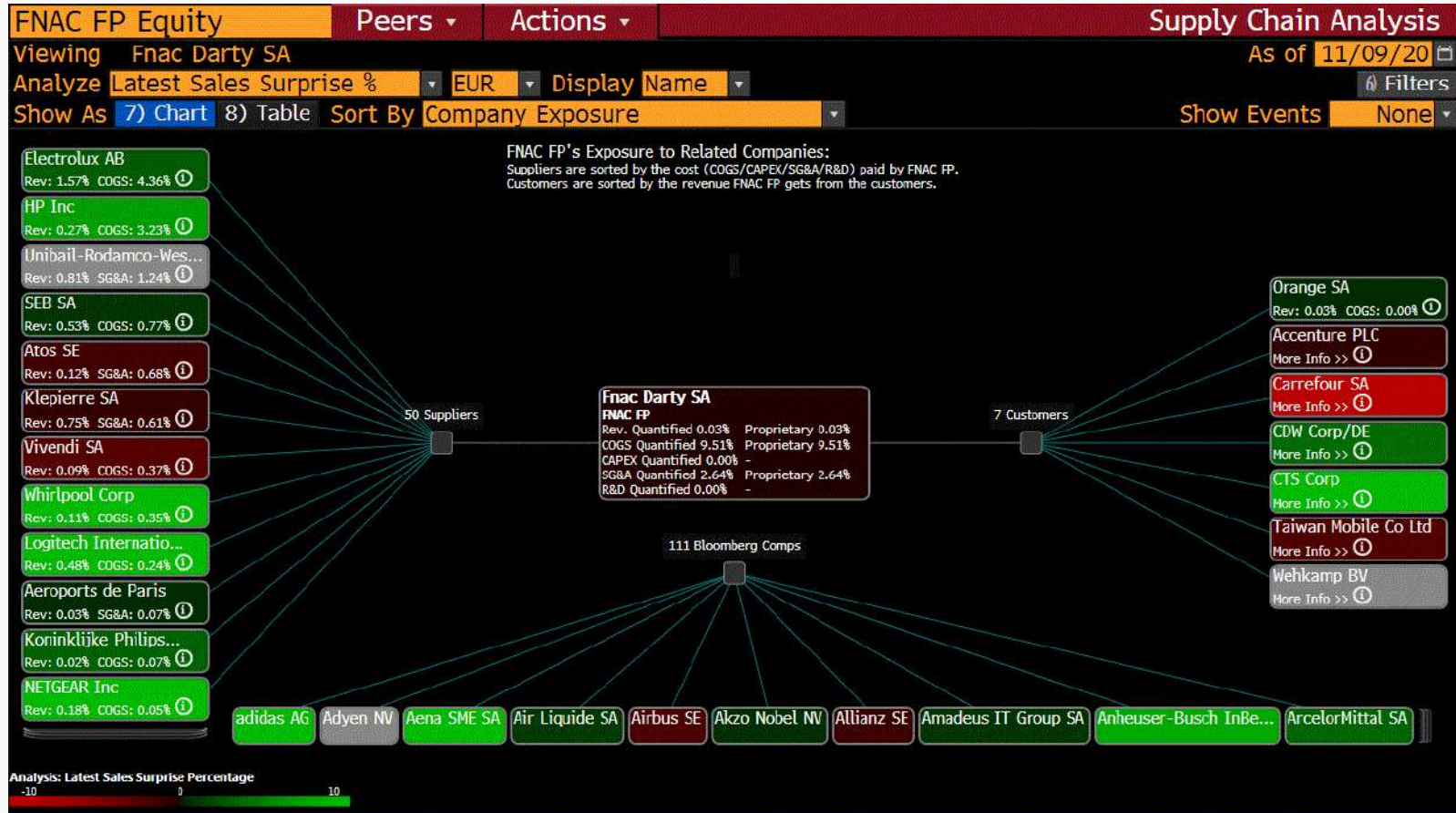
Sources

Fnac Darty; AMF
© Statista 2020

Additional Information:

Belgium; France; Luxembourg; Netherlands; Portugal; Spain; Switzerland; Fnac Darty; 2016 to 2019

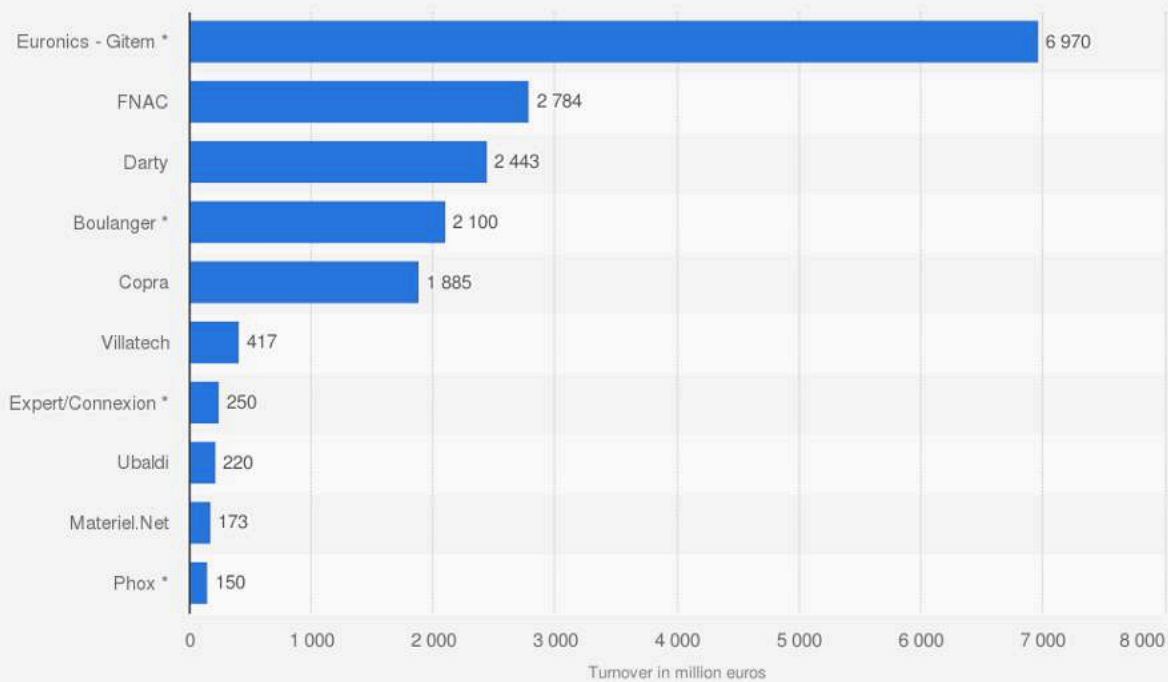
Analysis of the market



Competitors



Leading retailers of consumer electronics in France in 2018, by turnover (in million euros)



Leading retailers of the sector

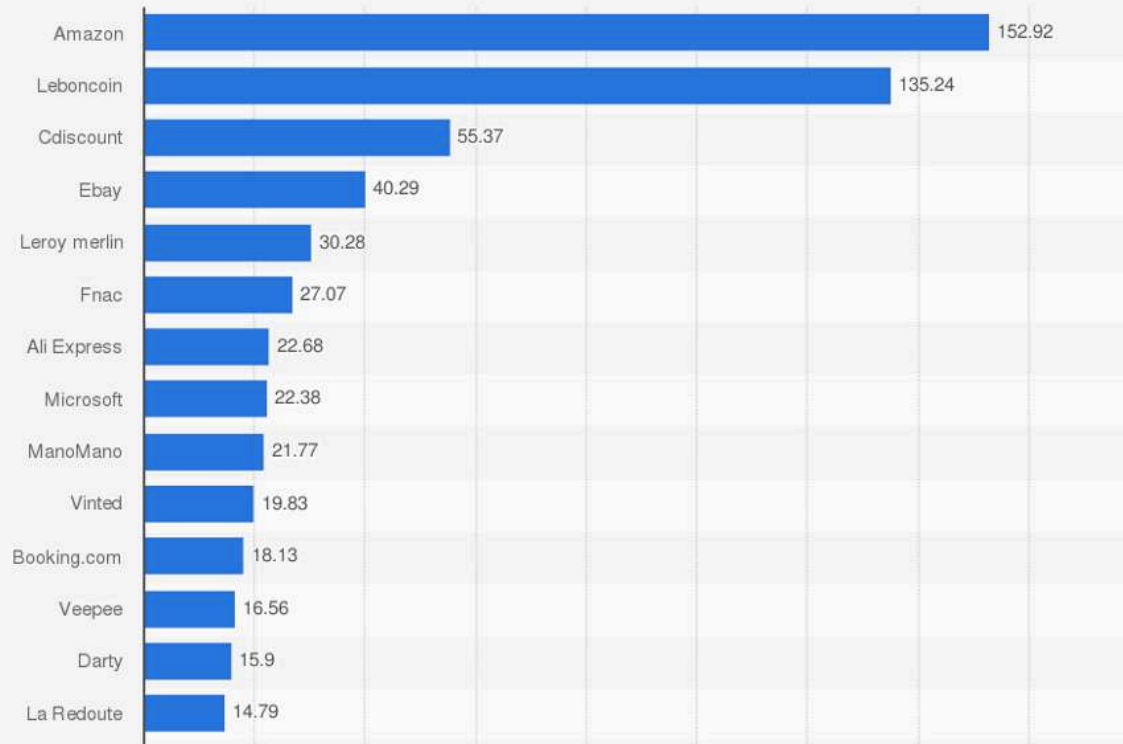
FNAC : **2nd** place, 2 784€ million of turnover.

Darty : **3rd** place, 2 443€ million of turnover.

Competitors



Most-visited e-commerce websites in France in the first semester of 2020, by monthly visits (in millions)



Attractiveness of e-commerce platforms

Fnac : **6th** place,
27,07 million visits
per month

Darty : **13rd** place,
15,9 million visits
per month



Them

Competitors such as Amazon or Cdiscount have **no physical stores**

Often **criticized** for poor conditions of work and tax evasion : bad brand-image

Us

An « **Omnicanal** » model :

- Development of Click and Collect systems
- But : commitment to keep a large number of **physical stores** open

Popularity of Fnac-Darty in France, all-the-more during the **holydays**.



**The eye of the
experts**

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04 News



27/11/2020

Blackfriday

€6 billion spent in a week

November

NextGen gaming consoles to be released within the month

30/10/2020

Lockdown in France, Spain, Switzerland

21/10/2020

Q3 revenue

+30% online sales due to omnichannel strategy

16/01/2020

Loss of €70 million due to strikes on 2019 Q4

Earnings



21/07/2020



2nd Quarter

18/02/2021



4th Quarter

1st Quarter



19/04/2020

3rd Quarter



21/10/2020

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05 Fundamental Analysis

Income Statement












	2017		2018		2019		TTM		Average Growth
Revenue	7 448		7 132		7 349		7 105		
Other revenue									
Total Revenue	7 448,20	100%	7 131,90	100%	7 348,60	100%	7 105,10	100%	
<i>Revenue Growth</i>	/		-4%		3%		-3%		-2%
Cost of sales (COGS)	5 187 70%		4 950 69%		5 113 70%		4 976 70%		
Gross Profit	2 260,90	30%	2 182,40	31%	2 235,40	30%	2 128,80	30%	
SG&A	1 096 15%		1 054 15%		1 096 15%		1 047 15%		
R&D	0%		0%		0%		0%		
D&A	0%		0%		0%		0%		
Other operating expense/(income)	899,6 12%		826 12%		848 12%		893 13%		
Total OPEX	1 995,20	27%	1 880,10	26%	1 943,90	26%	1 940,40	27%	
Operating Income	265,70	4%	302,30	4%	291,50	4%	188,40	3%	
Interest income	0%		0%		0%		0%		
Interest expenses	34 0%		30 0%		46 1%		46 1%		
Other non-operating income/(loss)	-59 -1%		-50 -1%		-60 -1%		-35 0%		
Pretax Income	172,80	2%	222,60	3%	185,60	3%	107,70	2%	
Income tax expense	48 1%		65 1%		72 1%		39 1%		
Profit from continuing operations	124,50	2%	157,60	2%	114,10	2%	68,50	1%	
Earnings of discontinued operations	-87 -1%		-8 0%		-10 0%		-46 -1%		
Net Income to Company	37,50	1%	149,80	2%	103,90	1%	22,40	0%	
Minority interest	-0,3 0%		-0,4 0%		1 0%		3,1 0%		
Net Income	37,20	0%	149,40	2%	104,90	1%	25,50	0%	
<i>Net Income Growth</i>	/		302%		-30%		-76%		65%

In million €

Income Statement

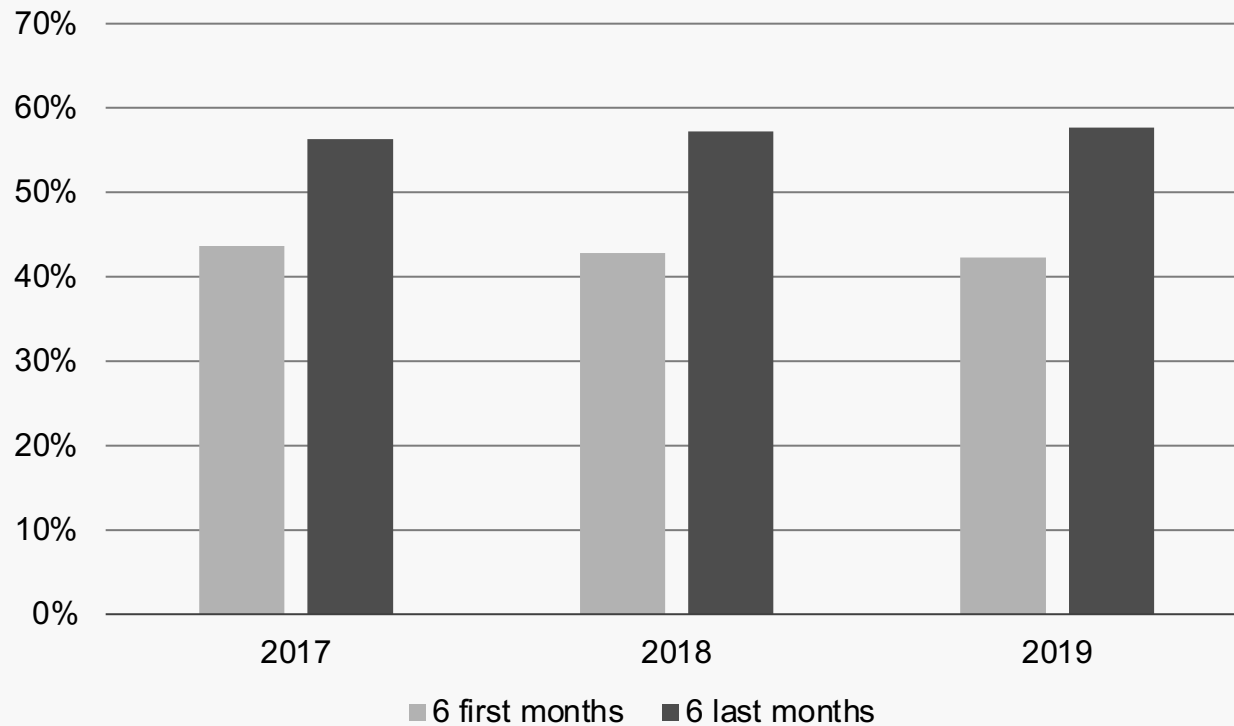


Fiscal Year End	30 Jun 20	31 Dec 19	30 Jun 19	31 Dec 18	30 Jun 18	31 Dec 17	30 Jun 17
Report Type	CQ	IQ	CQ	IQ	CQ	IQ	CQ
Reporting Model	Industrial	Industrial	Industrial	Industrial	Industrial	Industrial	Industrial
Report Currency	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Conversion rate EUR to EUR	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Display Currency (Thousands)	EUR	EUR	EUR	EUR	EUR	EUR	EUR
INCOME STATEMENT	2020	2019	2018	2017			
Period	6 M	6 M	6 M	6 M	6 M	6 M	6 M
Net Sales	 3 080 200	4 480 600	3 284 600	4 275 200	3 199 500	4 151 100	3 215 800
EBITDA	 35 300	521 900	132 600	332 800	35 700	314 700	-74 100
EBIT	 -108 000	237 400	20 800	221 800	35 700	208 700	-74 100
Before Tax Earnings	 -147 000	208 600	-33 200	204 400	10 500	184 100	-98 300
Income Tax	 25 700	-64 900	-6 600	-62 600	-2 400	-43 400	-4 900
Earnings after Tax	 -121 300	143 700	-39 800	141 800	8 100	140 700	-103 200
Other, Minority Interest, Exceptional	 3 000	100	900	-100	-300	-100	-200
Net Income	 -118 300	143 800	-38 900	141 700	7 800	140 600	-103 400
Ordinary Dividends	 0	-39 772	0	0	0	0	0

Income Statement



Turnover by Semester



Balance Sheet



Assets								
	2017		2018		2019		TTM	
-Current Assets	2 546,40	48%	2 743,80	50%	2 934,00	43%	2 537,50	40%
Cash & cash equivalents	774,90	15%	918,60	17%	995,50	14%	908,80	14%
Short term investments	22,30	0%	14,20	0%	11,60	0%	10,10	0%
Accounts receivable	265,10	5%	271,80	5%	274,80	4%	167,80	3%
Other receivable	50,20	1%	41,80	1%	2,80	0%	58,00	1%
Inventory	1 072,80	20%	1 091,80	20%	1 079,40	16%	944,60	15%
Prepaid expenses		0%		0%		0%		0%
Other current assets	361,10	7%	405,60	7%	569,90	8%	448,20	7%
-Long Term Assets	2 723,40	52%	2 766,80	50%	3 938,40	57%	3 824,70	60%
PPE (Gross)	1 834,40	35%	1 918,40	35%		0%		0%
Depreciation	(1 223,20)	-23%	(1 298,20)	-24%		0%		0%
PPE (Net)	611,20	12%	620,20	11%	1 641,20	24%	1 557,80	24%
Goodwill	1 541,40	29%	1 559,50	28%	1 654,10	24%	1 654,30	26%
Other intangible assets	473,00	9%	480,00	9%	511,00	7%	496,60	8%
Investment property		0%		0%		0%		0%
Financial assets		0%		0%		0%		0%
Other long term assets	97,80	2%	107,10	2%	132,10	2%	116,00	2%
Total Assets	5 269,80		5 510,60		6 872,40		6 362,20	

In Million €

Balance Sheet



Liabilities and Equity								
	2017		2018		2019		TTM	
-Current Liabilities	2 745,90	52%	2 851,80	52%	3 167,50	46%	2 864,20	45%
Accounts payable	1 765,60	34%	1 876,70	34%	1 888,70	27%	1 227,00	19%
Short term debt		0%	50,00	1%	50,00	1%	500,00	8%
Cur. portion of LT debt	5,30	0%	5,30	0%	27,00	0%	30,10	0%
Other current liabilities	975,00	19%	919,80	17%	1 201,80	17%	1 107,10	17%
-Long Term Liabilities	1 420,90	27%	1 397,80	25%	2 306,60	34%	2 227,10	35%
Long term provisions		0%		0%		0%		0%
Long term debt	853,80	16%	855,10	16%	1 737,20	25%	1 676,90	26%
Other LT liabilities	567,10	11%	542,70	10%	569,40	8%	550,20	9%
Total Liabilities	4 166,80	79%	4 249,60	77%	5 474,10	80%	5 091,30	80%
-Shareholders' Equity	1 103,00	21%	1 261,00	23%	1 398,30	20%	1 270,90	20%
Common stock	26,70	1%	26,60	0%	26,50	0%	26,60	0%
Preferred stock		0%		0%		0%		0%
Add. paid-in capital		0%		0%		0%		0%
Treasury stock		0%		0%		0%		0%
Retained earnings		0%		0%		0%		0%
Other	1 076,30	20%	1 234,40	22%	1 371,80	20%	1 244,30	20%
Total Liab. & Equity	5 269,80		5 510,60		6 872,40		6 362,20	

Cash Flow Statement

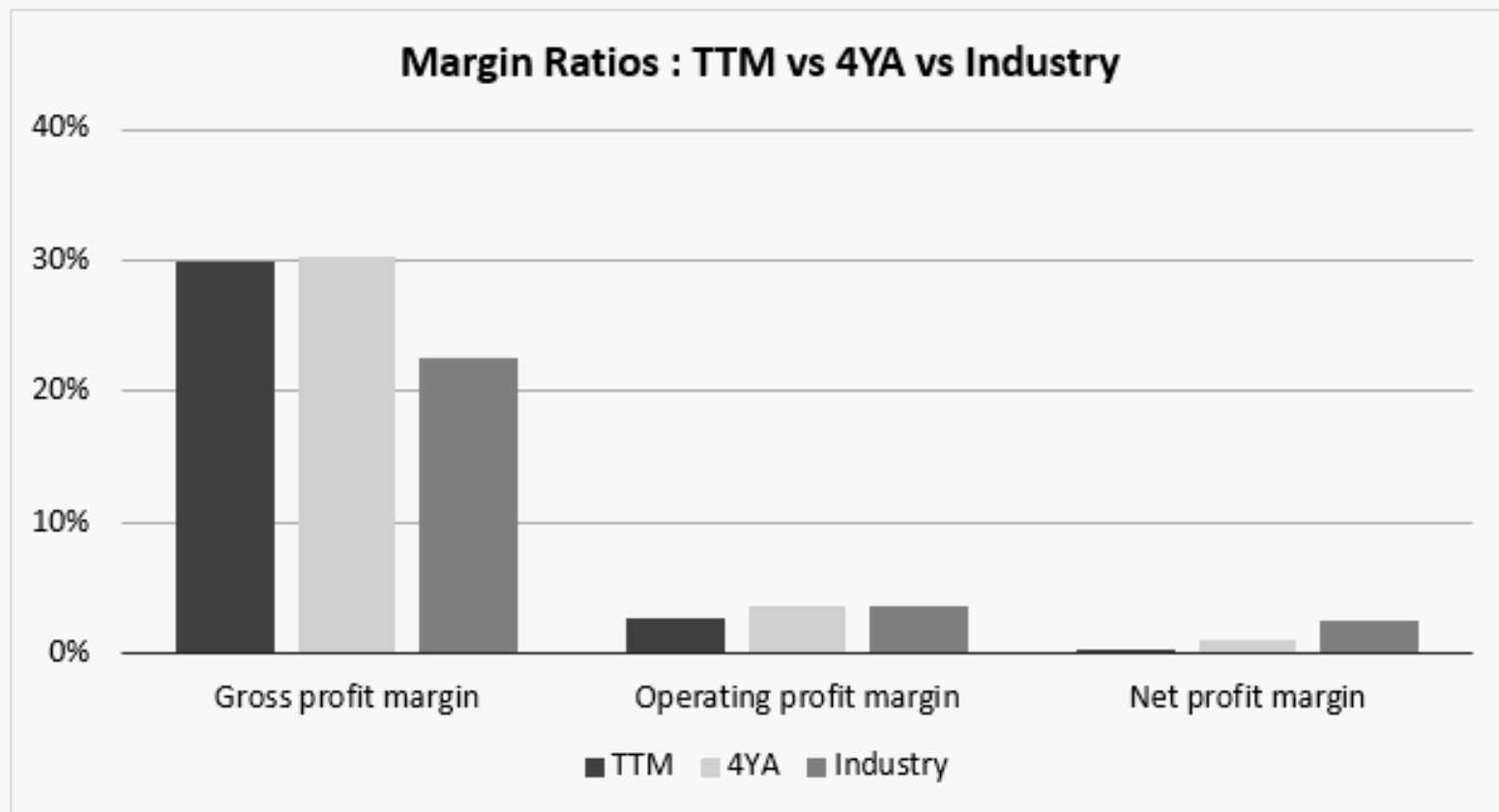


	2017	2018	2019	TTM
Net Income	37,20	149,40	104,90	25,50
D&A	72	75	358	375
Amort of Goodwil & Intangibles	1	1	4	4
Stock based compensation	-56	-7	-28	-13
Other Operating Activities	144	53	34	21
Change in acc. Receivable			33	33
Change in Inventories			-17	-17
Change in acc. Payable			24	24
Change in Unearned Revenue			5	5
Change in other Net Op. Assets	56	-7	7	-47
Cash From Operations	254,90	265,00	524,20	409,40
CAPEX	-114	-114	-147	-149
Cash Acquisitions	0	-11	-93	-63
Divestitures				
Invest. In Securities	-2	-2	-1	0
Net Decrease (Incr.) in loans				
Other Investing Activities	2	0	2	2
Cash From Investing	(113,70)	(127,30)	(238,90)	(209,40)

In Million €

	2017	2018	2019	TTM
ST Debt Issued			650	
LT Debt Issued		50	100	
ST Debt Repaid			-650	
LT Debt Repaid	-3		-223	
Issuance of Com. Stock	16	7	7	7
Repurchase of Com. Stock		-14	-21	-7
Com. Dividends Paid	0			
Special Dividend Paid				
Other Financing Activities	-33	-36	-72	-52
Cash From Financing	(19,90)	6,40	(208,60)	(52,40)
Net Change in Cash	121,30	144,10	76,70	147,60
Free Cash Flow	141,00	150,90	377,20	260,20

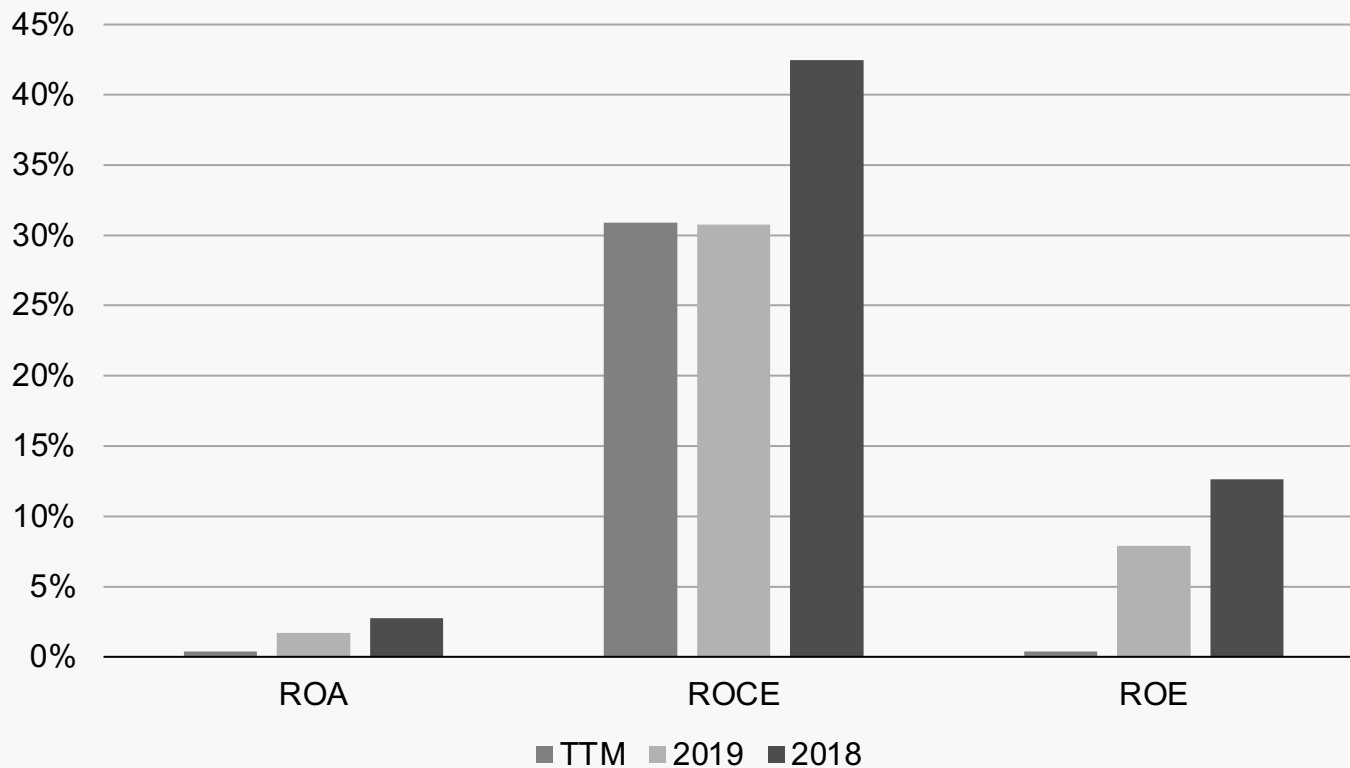
Ratios



Ratios



Profitability Ratios



Ratios

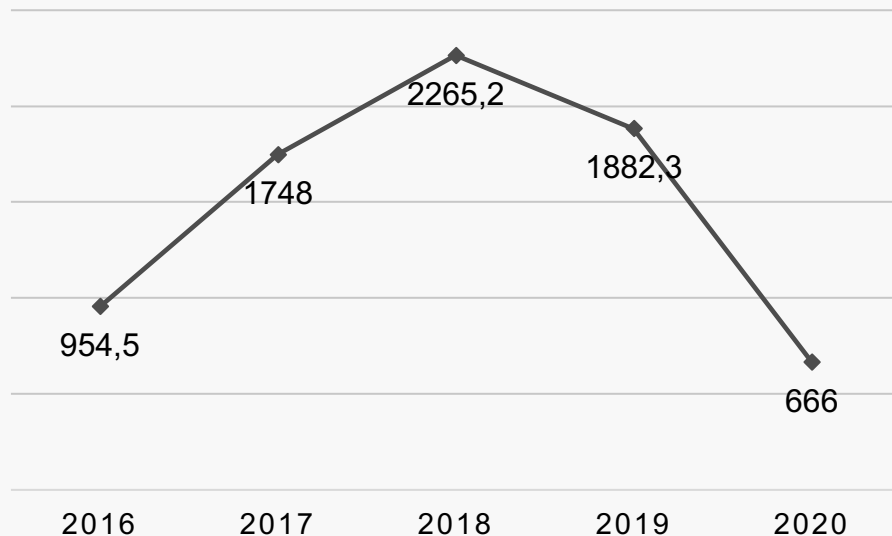


Solvency Ratios	2017	2018	2019	TTM	Trend	
LT Debt to Equity	77,41%	67,81%	124,24%	131,95%	— —	■ ■
Debt to Equity	77,89%	72,20%	129,74%	173,66%	— —	■ ■
Debt to Capital	43,78%	41,93%	56,47%	63,46%	— —	■ ■
Debt to Assets	16,30%	16,52%	26,40%	34,69%	— —	■ ■
Liabilities/Assets	79,07%	77,12%	79,65%	80,02%	■ —	■ ■
Debt to EBITDA	2,54	2,41	4,92	8,86	— —	■ ■

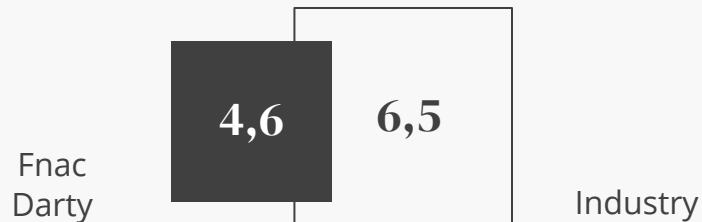
Enterprise valuation



Market cap (in B €)



EV/EBITDA



P/E ratio

Fnac Darty	9,08	14,34	Industry
Amazon	80,06	15,65	Best Buy

A low-angle, black and white photograph of several skyscrapers reaching towards a cloudy sky. The perspective creates a sense of height and scale. A white rectangular frame is superimposed over the center of the image.

06

Chart
Analysis

Chart analysis

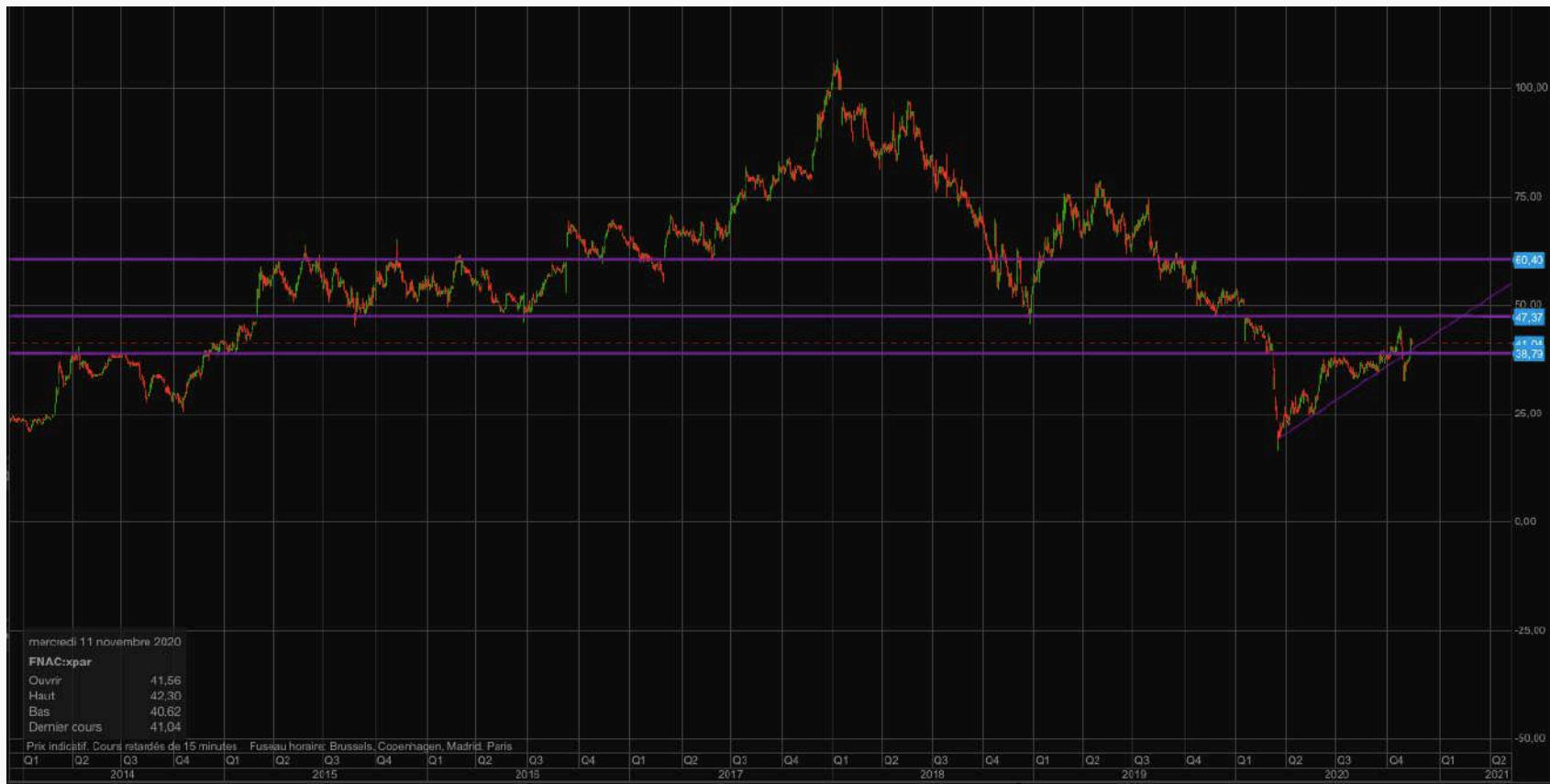


Chart analysis



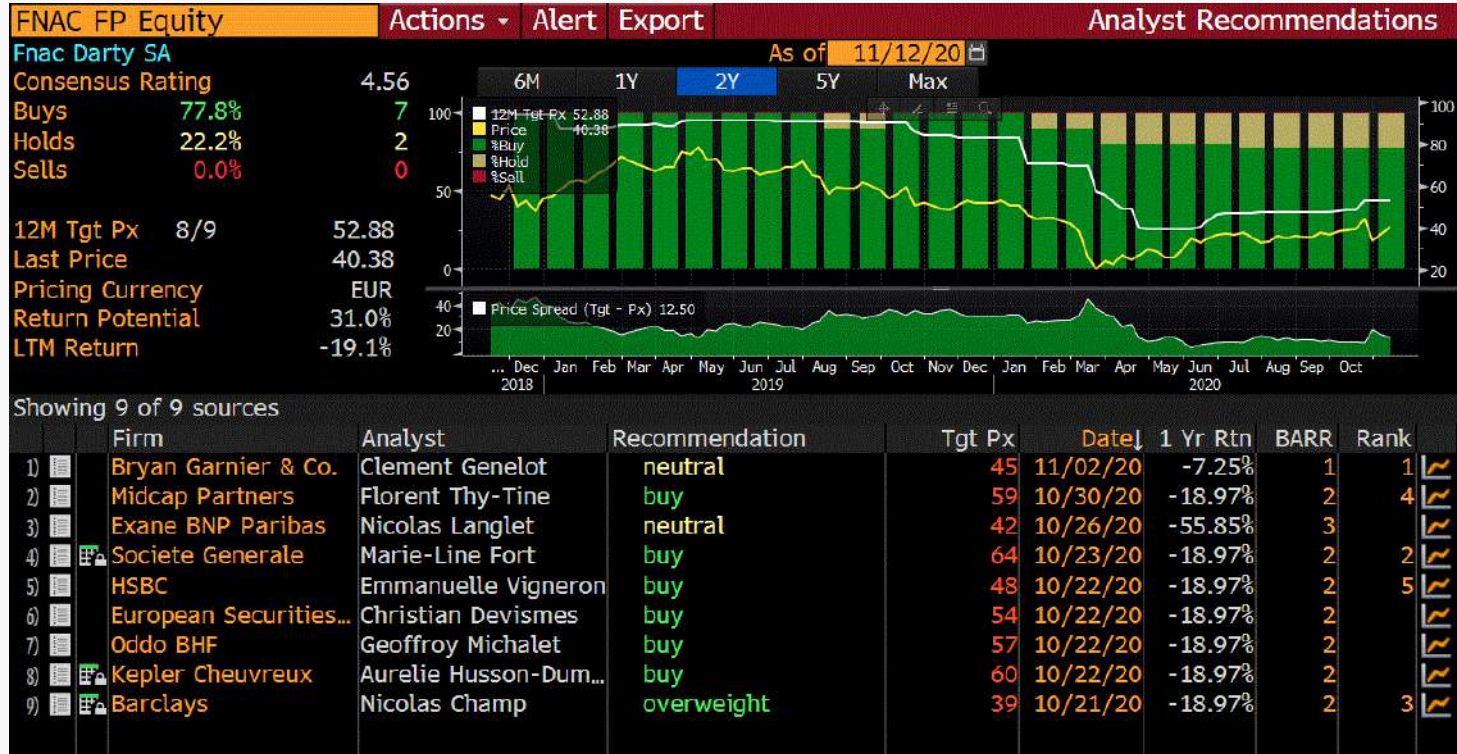
Chart analysis



A low-angle, black and white photograph of several skyscrapers reaching towards a cloudy sky. The perspective creates a sense of height and scale. A white rectangular frame is centered over the image, containing the title text.

07 Consensus Analysis

Consensus analysis



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08 Risks & Opportunities

Opportunities

- The lockdown
- A lockdown over Christmas
- Continued expansion on online sales
- The company reaches its break-even point at the end of the year
- Optimistic technical analysis

Risks

- Competition : AMZN, Ali Express, CDiscount
- Data protection law
- Christmas period dependency
- Frequent issues in France over the last years (Gilets Jaunes, SNCF strike about pension reform, COVID)

Current Price

41,04 €



Take profit

47,47 €

+16,95 %



Stop Loss

38,79 €

-5,03 %





Let's Discuss