11 - 21 - 2024

JD Sports Fashion PLC

JD Sports Fashion plc Q325

JD Sports Fashion PLC

JD Sports Fashion plc Q325

CORPORATE SPEAKERS:

Dominic Platt
JD Sports Fashion Plc; Chief Financial Officer
Regis Schultz
JD Sports Fashion Plc; Chief Executive Officer

Dominic Platt

Good morning everyone and thank you for joining this JD Sports Fashion Plc Quarter Three 2025 Trading Update Call. I'm Dominic Platt, Group CFO and with me on the call is Regis Schultz, our Group CEO.

Hopefully you've had a chance to see our statement earlier this morning. On this call I will give a brief summary of the statement and then we'll hand over to you for questions.

Let me start with a high level overview. It's fair to say that our quarter three trading has been mixed. We had a strong back-to-school period with overall trends across August and September in line with what we saw in Q2 and against similar comparatives. This was then followed by a much softer October. We continue to demonstrate our operating discipline in a highly promotional environment and also to make progress on our strategy. As a result, although the market remains volatile, we are well positioned ahead of our key peak season with respect to ranging in inventory.

Turning now to go through trading in more detail. We delivered organic sales growth of 5.4% with all segments achieving organic sales growth driven by new space growth in JD and complementary concepts and by like-for-like growth in sporting goods and outdoor. Our store opening programme accelerated in Q3 with 58 new JD stores and a further 21 conversions, taking us to 181 new JD stores in the year so far. We're comfortably on track for our target of 200 by the year-end. We continue to monitor the programme against our three-year payback hurdle and actual paybacks are in line with that.

Moving on to like-for-like sales. These are affected by a number of factors including softer consumer demand and trading towards the end of the period, reflecting a number of factors - a more cautious consumer, tightening their purse strings ahead of peak, some distraction in the lead up to the U.S. election, where recent data has shown a decline in general merchandising consumption in the lead up to the presidential election, unseasonably warm weather and an enhanced promotional environment where we exercised our commercial discipline and didn't participate fully, which negatively impacted sales.

One thing I would note is the consumer seems to be ever more event-driven these days. We've typically performed well during these events, including most recent during back to school. But October is a month without any key events and it's increasingly a month where consumers start gearing up for Black Friday and the peak season, which is a notable impact on consumer demand.

Overall, this resulted in like-for-like sales down 0.3% for the quarter. Year-to-date, like-for-like sales were up 0.5%. From a channel and category perspective, we continue to see similar trends that we have talked about previously. Firstly, footwear continues to outperform apparel - apparel is more weather dependent, for example, and in some weeks of October, we saw a 50% increase in the sale of T-shirts. Secondly, we saw stores continue to outperform online. With the greatest discounting being seen online, we've maintained our promotional operating discipline to focus on our long-term commercial strategy. We're a full price business, and we remain focused on protecting the long term rather than driving short-term sales.

You'll see this promotional and operating discipline evidenced through our gross margin rate, which was 48.1%, up 0.3%pts compared to the corresponding period last year, and that's including Hibbett. As I've mentioned previously Hibbett is a lower-margin business. So, excluding this, the group gross margin will actually have been up 0.4%pts on a like-for-like basis.

On the subject of acquisitions, as a reminder, we will give more information on our plans for Hibbett and the U.S. business at the Capital Markets Day in March 2025.

In addition, you may have seen earlier this week, we satisfied the rest of the conditions associated with the Courir transaction, so now all that is left to do is to complete the transaction with the vendors. As a result, we are hopeful we can complete the deal as early as next week.

Finally, turning to our thoughts on the outlook for the rest of the financial year. The trading environment has been volatile through the year and we've seen that particularly through our most recent trading month, October, as I've explained already. The consumer has responded well to key trading events and we have traded well in those events ourselves. While the volatility makes it hard to call in terms of what we can control, we are well positioned for the upcoming key peak trading season in terms of ranging proposition and inventory.

So, in terms of guidance for the past six months, I've said consistently that we expect to be in the bottom half of the guidance range of like-for-like sales growth of 1% to 4%, which then ties to PBT guidance of £955 million to £1.035 billion. We remain on track but following October trading, we can now be more specific and we can say we expect the full year PBT to be in the lower end of that range.

In summary, against the volatile backdrop, we've continued to deliver on our strategy, rolling out new stores to drive organic growth and most importantly, demonstrating consistent approach to operational execution across ranging, stock levels and margin. As a result, we believe we are well positioned as we head into the peak season. That's it for me an introduction. I hope you found this useful. And now I'll hand back to the moderator for any questions that you may have.

William Woods, Bernstein

Are there any signs that you can give on current trading, how you're seeing the customer respond throughout November and anything in the lead up to Black Friday.

Secondly, on Hibbett. You've had the business for a couple of months now. Are there any learnings or any information that you can provide on how Hibbett is performing or how comfortable you are with that acquisition?

Then the third and final is just on the brand mix. Are you seeing any signs of recovery in Nike or any slowdown in Adidas?

Dominic Platt

Thanks, William. In terms of current trading, As we've said consistently through the year, we need to look at quarters in the whole. So, given this is a key peak trading season for us, we will update on November and December when we update in January.

Regis Schultz

On Hibbett, I think that it's performing in line with our expectation. It's a great team and the wider North American team is working well together. We are building the plan and we will have a further update in March when we will do our CMD. It's early days but it's all good.

On the brand mix, no change. There is no material change in Q3 compared to the first half.

Jonathan Pritchard, Peel Hunt

Just on my rough maths, I think you need about 2% like-for-like to get yourselves to the way you're guiding to in profit. The exit rate was obviously a bit lower than that. So, what gives you confidence that things will pick up in the fourth quarter?

Then secondly, the national insurance charge. Can you quantify how much impact will there be and what mitigation you might be able to generate?

Dominic Platt

As we go into Q4, there are a number of things to take into account. We're operating against much softer comparatives. It's minus 1.6% in Q4 where it was around just under 3% for Q3. We're anniversarying the beginning of the sustained promotional activity that we've seen over the last 12 months. It began around peak to Black Friday last year. I think that what we've seen this year, and we've said this before, it's been a volatile year. What do we mean by that? When it's good, it's good, when it's quiet, it's quiet. I think we saw the quietness very much so in October, but things like back to school, summer sale, U.S. tax rebate period have seen good engagement from customers and we've been successful at that. We're now about to enter into the peak trading season, Black Friday and peak trading and we feel that will play well to our strengths. Then from an operational perspective, we feel well set up in terms of our ranging in terms of proposition we have our inventory levels sorted too so in terms of what we can control, we're well positioned going into the peak season.

On national insurance and national minimum wage, I think the overall impact for us is around £30 million on our UK business, about half on national minimum wage and about half on national insurance.

Regis Schultz

We feel good about where we are in terms of stock and we are starting to have cold weather, which is at peak, in the UK.

Warwick Okines, BNP Paribas

Firstly, perhaps you could explain why Europe traded better than the UK and the US? Secondly, is there any reason or logic to slow down your conversion activity in light of the digital market dynamics? And thirdly, perhaps you could just update on working capital guidance - I think at the full year, some time ago, you talked about a £100 million to £200 million outflow. Just wondering if you could give us an update for year end?

Regis Schultz

Europe, I think multiple factors. I think back-to-school is a very big player for us in Europe, bigger than in some of the territory and then we performed very well. France has been doing fantastically well out of the Olympic Games. Don't forget in Europe, we are gaining share, compared to the UK and our mix is less dependent on apparel, so the weather impacts us less. We have also annualised quite a lot of openings in their second year.

There was also no election compared to the US. It's really interesting that we didn't believe that the US election had an impact on consumption, but we have seen some data from Circana that shows almost a double-digit decline for the last two weeks on general merchandise before the election in US.

And on conversion, there is no reason to change our programme. We are disciplined in terms of payback and they are the same. The major programme on conversion is in the US, where we're converting Finish Line to JD, and if anything we are more thinking about accelerating it because JD is performing well and Finish Line has been performing less well. At the beginning of the year, it was a tipping point where JD is now much bigger than Finish Line and I think we see the heat around Finish Line diminishing and the heat on JD increasing.

Dominic Platt

On working capital, I think the guidance I've given is around £100 million to £150 million and I still think that will be right at this point in the year.

Clive Black, Shore Capital

Firstly, just following on from the answer to Warwick's question could you maybe talk a little bit more about your market share position in both the UK and the US? Then secondly, are we seeing a more fundamental change in US market conditions to the extent that the experience of the last quarter may actually characterise what's going to happen in the next nine months before we start annualising again?

Regis Schultz

You're right. We are gaining share in the US. Our market share is around 5%, depending on how you define the market. And in terms of performance, this year has seen the market is performing well at peak periods. When there is nothing, it has performed less well. In the past, the market has been helped in this period by Nike releases and no promotion. That is not happening. Nike has reduced the number in order to recreate the heat around Jordan and has reduced the weekly or biweekly drop of products and that has an impact in terms of creating traffic, creating excitement in the marketplace. So that's something that will continue but now we are starting to annualise that.

Elliott Hill is now on board. We are meeting him, in fact, today in London, I met him two weeks ago. I think he is putting his plan together. All good news in terms of the relationships in terms of the way of thinking, the way of working. We feel really good about what will happen in the US market following the appointment of Elliott.

Clive Black

Can you just remind us also what you think Courir brings to the business in 2025?

Regis Schultz

I think we will close the deal next week. So that's the good news. I think we'll update you in due course. Because of the process and how it works in Europe, we have been focusing on making the deal happen more than looking at the numbers, so that gives us a little bit of time to finalise it and then we'll come back to you.

Anne Critchlow, Berenberg

I'm just wondering if you think the more promotional sports market is the new normal or do you think this is just temporary and linked to the excess inventory that was built up at the end of the pandemic? Then my second question is about sporting goods and outdoor. It performed very well. I just wondered if you wanted to highlight any star concepts or product categories here?

Regis Schultz

On the promotional activity, I think that there are two things in it. There is one thing which has been the push by the previous management of Nike on online B2C. I think that it moved from a genuine push to non-genuine push where you start to buy sales by doing promotions. I think that's something which I'm sure it will be reviewed by the new management. I think that should reset the market. So that's really the big thing around promotion. It has not been driven by excess inventory because after funding in fact, we didn't have inventory. There was no promotion at one point of time. I think the market will go back to a normal promotion activity when the market leader will reset its B2C strategy and online, especially in terms of that element of the mix because it was a push for push. You can see in our numbers, online is suffering more than offline.

Some of the pure online players in Europe, especially in the UK, have been going out of business or have been struggling and using promotion as the last way to create some cash because they are running out of cash.

Turning to sporting goods. We integrated ISRG in Iberia completely last year and since then we have focused on developing the business in Iberia. Before that they were doing too much including trying to make things happen in the Netherlands. We closed the Netherlands. We focused on Iberia and I think it's proved to be the right thing to do. They are performing very well and I think that they're getting a lot of share in the Spanish market, which is what we wanted to do, and this was the reason why we bought the majority of this business.

On Outdoor, we have had quite a lot of rain and every time it's raining it's good news for outdoor because you need waterproof products.

Alison Lygo, DB

What might change your disciplined stance on promotions and whether you see a risk that you might end up with stock, you can't clear? Also, do you need to hit the low end of like-for-like guidance about 1% to deliver on the low end of PBT guidance or whether you've got some levers to pull if like-for-like is a little bit softer across the fourth quarter? Then just finally, whether there's any update in your expectation for CapEx and net debt for the year-end?

Regis Schultz

I'll take the first one, and Dominic will go through the second and third.

Our promotional discipline, as you rightly pointed out, is linked to our stock management discipline because we cannot be disciplined on promotion if we are not on stock. I think we have demonstrated for 12 months to 18 months that - and for the last 10 years - that we are world class in terms of managing our stock and having the right stock at the right time. So, we are not concerned by that. We are doing some promotions though but only at the time that the consumer is expecting it and all the market is expecting it. We are entering a promotion window, which is Black Friday plus after that, you will have the sales. So, I think we will continue like that and we are in a good position. We have the stock to go through this holiday period and this promotional activity. So, we feel really good to be able to continue with our discipline.

I think that if there is one point where we could have been in a question would be October, but we have been able to manage our stock in the way which allow us to not participate in some of the promotion, which was more, I think linked to high sales than to deal with inventory anyway.

I think that the level of inventory in the market is in a good place. I think it was more one or two players trying to make the quarter their quarter number by trying to buy sales by doing minus 20 on Nike. We didn't want to participate.

Dominic Platt

Picking up your second two questions.

The low end would imply around 2% like-for-like in Q4. Clearly, we're operating against a negative 1.6% like-for-like.

Within normal bounds, there are levers of course. We control what we can control. We feel we're well set up for the peak season. In terms of CapEx, between $550 million and $600 million is where we expect to land and that does include Hibbett.

We expect to be around zero net debt on a cash basis, not including leases.

Richard Taylor, Barclays

Whereabouts are you year-on-year in terms of inventory growth and to what extent have you flexed this given October trading? Have you invested ahead of peak or have you been slightly more cautious? And also just on the quality of that inventory, please, as you trade towards peak. Secondly, keen to know to what extent you are rebalancing your store portfolio layouts in response to changing performance by the brands? And finally, can you just remind us of the weighting for Q4 please in terms of both revenue and profit?

Regis Schultz

I think we feel confident that we have the stock that needed for the season. So, that's on your question around stock. In terms of flexing space, we always said we flex space every day. So, our store manager has the ability to flex the space based on return and based on stocks that they have on hand. So, we have no issue whatsoever. Our walls are completely flexible. So, we are flexing based on our buy and based on our sell through. So, this is something that we have as a discipline.

Something that is not well known, we are arranging store by store. We are one of the few retailers in the world that range each store differently based on the consumer and based on the sales through around different products. So, this gives us all this flexibility to adapt to changing trends to products and to make sure that we always have the right stock and the right product in the right store for the right consumer.

So, this is one of the biggest parts of the success of JD. Our ability to range store by store that we have developed over the time and that we continue to do and that gives us a great discipline in terms of stock management and in terms of sales optimisation.

Dominic Platt

Then on the weighting, revenue is around 30%, 35% for the fourth quarter and profit is about 35%, 40%.

Richard Chamberlain, RBC

So, did refraining from promotional activity online have much of a positive margin mix impact during the quarter? Also, Regis, can you give us an update on the warehouse automation and general warehouse developments that are going on? On the Europe side, is the automation still on track to come through early next year?

Regis Schultz

I'll start with the warehouse. I think yes, the warehouse is performing in line with our expectations for peak period. We are working on the automation. The automation will be beginning of next year. So, all on track and all moving right. As you have seen, we have a new leader in supply chain that joined us in July and is making very good progress in terms of making sure that we have the plan in place in order to deliver the full benefit of our European warehouse.

Dominic Platt

And on the mix of margin, you're quite right, Richard, the stores performed better than online through the period. When we talk about promotional activity, it typically tends to hit the online channel more and that's where we take more disciplined action in terms of our pricing and maintaining margin.

Daniel Isaacs, 36One

Just a question on the like-for-like and expenses moving into next year, especially given the budget if we hang around the low single-digit like-for-like level, maybe expenses tracking 4% to 6%. I mean how are you thinking about margin potentially margin contraction moving into next year?

Dominic Platt

We're working through our budgets for next year at the moment. Clearly, we've got some headwinds coming our way with the recent announcement about the national minimum wage and national insurance in the UK. We'll update on that early in the new year.

Regis Schultz

And don't forget the UK is 25%, 30% of our business, so it doesn't impact our full business. It's really a UK story. It doesn't impact the US and it doesn't impact Europe. So that's something you need to keep in mind.

Daniel Isaacs

Sorry, just one more. You mentioned that you are annualising the reduced Jordan drops. Nike is obviously also looking at the Air Force line. Have you noticed any significant change in drops that could affect you from now going forward?

Regis Schultz

No. Not really. We have seen Jordan this time because they want to reduce the number of products put on the market in order to recreate a brand. That has been the major impact we have seen in the quarter.

Anubhav Malhotra, Panmure Liberum

Can you give us an update on the rollout of the loyalty programme? How is that progressing? And also the online proposition improvement that you were doing in Europe?

Regis Schultz

Our STATUS programme continues to work well in the UK, we started to implement in France, we will go to Poland and we'll do the other countries in the coming months after peak. So that's still working well and still progressing very well. We have now more than 2 million people in the UK as part of the programme and it's starting to get to the same level of penetration in France than we have in the UK.

Concerning our ecomm platform, as you know we have decided not to go live before peak. We will go live January in Italy and that will be the starting point of the rollout. So, we are on plan. We didn't want to take any risk for peak.

Kate Calvert, Investec

Was there any material variation in performance across your US brands in October? The second question is that I do know it's quite hard to break out impacts, but in the US, how big an impact do you think the consumer caution was ahead of the election versus the ongoing sort of promotional activity weather issues? And my final question is just a bit of a clarification on your guidance. Can you confirm that the profit and net debt guidance you've given is ex-Courir. And given that the Korea completion is pretty imminent, could you capture say 30% to 40% of typical annual profits before your year end on Courir in your numbers?

Regis Schultz

In the US, the different fascias have been performing the same way so there is no major difference between them. If there is one difference it is that JD has been performing better especially compared to Finish Line. We see that Finish Line is suffering much more than the rest of our fascias which is normal because we have reduced our investment and we are moving towards JD. That's the reason why we should accelerate the programme around conversion.

In terms of the evidence of the different things, it's always difficult to put a number on them. The number we have seen is around general merchandise in the US, which has been around plus 3% and has been minus 9% for the last two weeks of October. After that, it's already difficult to put everything together and to split the different impact, but definitely, that has been a big impact for everyone in the US.

Dominic Platt

Thanks for the question on Courir. The PBT guidance doesn't include Courir. In terms of the net debt guidance, that in my mind did. So yes, that's assuming that we've acquired Courir before the year end.

In terms of capturing 30%, 40%, I don't know. We have been at arm's length because of the competition authorities about where current trading on Courir is. But I think from the information we had pre deal, everything is not quite so skewed to peak as our existing business. But inevitably, we will capture some of the trading through the back end of November, December and January if we complete next week.

Peter Testa, One Investments

I was wondering just on your comments about October and election in the US being unusual. Did you notice, for example, on the communication strategy issues of crowding out, i.e., it was very hard to get communication to drive traffic to drive sales. Then when you look at the UK and US business, can you give us a sense as to what you saw in terms of volatility in traffic versus conversion in the retail business? Then last one is just on retail performance. Maybe if you could give a sense as to what Finish Line is as a percentage of US sales now and whether on a retail basis in the UK and US, you saw on a store base like-for-like was it positive?

Regis Schultz

No. I think we didn't believe in it. We had a certain number, yes two days ago, and we saw that it was significant for everyone. So, I don't think it's about communication. I think it's about people just not thinking about buying a pair of sneakers when thinking about the election.

In fact, everywhere we saw the same thing, which is a lower traffic. I think that's driven partly by the weather, partially by election, budget, whatever. And partly, I think in the US by the no heat launches that we had in the past, which was creating traffic on the weekend that we were launching the product, and we didn't have that type of launch in October. We will be back on the calendar in November and December. So that's coming back, but this was not happening in October.

Finish Line will be on our U.S. business, my guess 20% of our business.

Dominic Platt

Yes. It's about half of our JD business, yes.

And for the quarter, stores were positive, online was negative.

Geoff Lowery, Redburn Atlantic

I'm slightly confused about the messaging around Nike and DTC in the sense that your business grew very strongly across a period where Nike was prioritizing DTC. Now the digital part of Nike is shrinking and yet you seem to be impacted by the shrinking rather than a period when it grew quickly. What am I missing there? Then my second question, over the last couple of years, you appear to be a bit more sensitive to promotions around you as in you're having to make decisions about sales versus gross margin maintenance. Why are you more sensitive do you think as a business to the sort of external promotional environment than you were through history? Is it about geography or product mix?

Regis Schultz

Two things. I think that on DTC, it is a reflection of how Nike is performing in total and it is a significant part of our mix. So, the fact we are not competing with DTC is recognised more and more by Nike that we are providing something to the consumer which is different and which is what the consumer like more because it is a better experience. I think what is impacting is if Nike is on promotion online and that has an impact it impacts the perception of the product by the consumer.

So I think that is where we are on promotion. Why we have been more affected because most of the promotion on the last quarter has been around Nike. When it is promotion on the other brands, we get less exposure because we get less exposure than to Nike. So, that's why promotion impacted us more this time. Nike is a full price business and I think that is what they aim for.

Dominic Platt

Thank you all for joining this morning and listening to our update on the Q3 trading and for all your questions. We're now turning our mind to the peak trading season. We look forward to speaking to you again in January. Thank you.