SMCP secures state-guaranteed loan of 140 million euros

By Olivier Guyot - June 24, 2020

SMCP announced on Tuesday that it has come to an agreement with a banking pool to contract a state-guaranteed loan of 140 million euros, a significant sum which it is hoped will allow the French owner of the Sandro, Maje, Claudie Pierlot and De Fursac brands to deal with the challenges presented by the Covid-19 crisis. Indeed, the current economic landscape looks to be particularly challenging for fashion companies, and SMCP is no exception.

As of the end of March, the company operates 1,632 stores around the world, 522 of which are located in France. From China to the U.S. via Europe, the vast majority of these stores were closed completely for two months as a result of the Covid-19 pandemic. Although the company, which has been listed on the Paris stock exchange since 2017, has not reported figures relating to total lost sales during this period, its first-quarter revenues saw a drop of 16.7% compared to Q1 of the previous year, totalling 228 million euros.

By comparison, SMCP's compatriot Celio, which announced that it has entered into a company voluntary arrangement on Monday, boasts 1,585 stores and lost more than 100 million euros in sales in the March-May period.

The agreement reached by SMCP therefore represents a glimmer of relief in the currently very tense fashion sector. In order to obtain this loan, guaranteed by the French state up to 90%, the company, which is owned by China's Shandong Ruyi, negotiated with a banking pool made up of 12 banks: BNP Paribas, Crédit Agricole CIB, Crédit Agricole IDF, LCL, HSBC, Caisse d'Epargne IDF, Commerzbank, Société Générale, Arkéa Banque, Bank of America, Bred and Crédit du Nord.

According to the group, as part of the agreement securing the one-year maturity loan, which has an extension option of up to five additional years, "SMCP has committed to not distributing any dividend for the years 2020 and 2021." The company further clarified that it "has also obtained a suspension of its financial covenants (Covenant Holiday) for the fiscal year 2020 and an easing of its financial covenants for the fiscal year 2021 (leverage of 4.5x..."
Holiday) for the fiscal year 2020 and an easing of its financial covenants for the fiscal year 2021 (leverage of 4.5x at June 30 and 4x as of December 31) from its banking partners."

This flexibility is important for the company. The loan represents over 10% of SMCP's revenues in 2019, which totalled 1.132 billion euros, while annual net income came to 59.4 million euros. In the same year, the company was indebted to the tune of 387 million euros, with a net financial debt / adjusted EBITDA ratio of 2.2x. Thanks to the company's new arrangement, this leverage will surpass 4x.

The group, which is led by Daniel Lalonde and has now reopened 96% of its stores, had already announced plans to optimise its retail fleet. On Tuesday, SMCP specified that its plan is intended to "reduce its operating expenses, adjust its collection plans and promote the development of its e-commerce sales." Aiming to "accompany the resumption of activity in the best conditions" thanks to its newfound "financial flexibility," the company should be able to navigate the coming months in such a way as to ensure the profitability of its four brands.
able to navigate the coming months in such a way as to ensure the profitability of his real estate.

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Translated by Robin Driver