



SPAFID CONNECT

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Oggetto : PRESS RELEASE 27 MARCH 2020 -
COVID 19 BUSINESS UPDATE

Testo del comunicato

Vedi allegato.

PRESS RELEASE - UPDATE ON BUSINESS PERFORMANCE - IMPACTS OF COVID-19

- **WHEN THE EMERGENCY FIRST BEGAN, THE COMPANY CREATED A GLOBAL TEAM THAT MANAGES THE EVOLUTION OF THE SITUATION ON A DAY-TO-DAY BASIS, COORDINATING ALL ACTIONS AT INTERNATIONAL LEVEL.**
- **THANKS TO ITS SOLID BALANCE SHEET AND FINANCIAL POSITION, THE GROUP HAS SUFFICIENT LIQUIDITY RESOURCES TO MEET THE ADDITIONAL REQUIREMENTS IMPOSED BY THESE TEMPORARY, EXCEPTIONAL CIRCUMSTANCES**
- **THE TEMPORARY CLOSURE OF DIRECTLY OPERATED STORES (DOS) IN ITALY, EUROPE AND NORTH AMERICA WILL LEAD TO AN ESTIMATED REDUCTION IN DIRECT RETAIL SALES OF APPROXIMATELY 20% IN THE FIRST QUARTER OF 2020, COMPARED WITH THE SAME PERIOD LAST YEAR**
- **THE GROUP HAS REACTED QUICKLY, IMPLEMENTING AN IMPORTANT AND AGGRESSIVE PLAN TO MITIGATE THE IMPACTS ON THE BUSINESS**

Biadene di Montebelluna, 27 March 2020 – The Board of Directors of Geox S.p.A, a company listed on the Milan Stock Exchange (GEO.MI), met today to approve the update on business performance regarding the impacts of the global spread of Covid-19, with respect to the information already provided on 5 March¹ and 10 March 2020² and in accordance with the recent recommendations issued by the ESMA³ (European Securities and Markets Authority). These updates will have no effect on the figures reported in the Financial Statements and Consolidated Financial Statements as of 31 December 2019, providing only additional information with respect to the “Significant events after the reporting date” and “Business outlook” sections in light of the fact that these documents will soon be filed for the Shareholders' Meeting convened for 22 April 2020.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Spread of a new coronavirus

The outbreak of a new coronavirus, known as COVID-19, which began in China in January 2020, is having significant economic and social repercussions. The Group is very concerned about this health emergency and is strictly following all guidelines issued by the competent authorities, taking all appropriate precautions to protect the health of its employees, partners, suppliers and consumers, also in order to prevent the virus from spreading further in the regions affected by the contagion. The virus has now spread extensively outside of China and is currently affecting around 175 countries across the world⁴. The global spread of the epidemic led the World Health Organisation to declare a **pandemic** on 11 March 2020.

The containment measures imposed by the authorities in the various countries include, with varying levels of intensity: the closure of schools, government offices and production sites, the banning of sporting and entertainment events, both public and private, and the closure of all non-essential businesses (e.g. other than those supplying basic essentials, working in strategic sectors and providing health and safety services). This has led to orders being issued to temporarily close store networks, in both city centres and shopping malls, in all of our brand's reference markets.

Today, around 90 mono-brand stores (DOS and franchises) remain open, out of a total of 820 (excluding distribution licences). The stores in operation are mainly located in China, Hong Kong, Macau and Japan. However, the populations in these countries are still facing drastically reduced mobility, a huge drop in domestic and international tourism and, inevitably, a strong decline in store footfall. The e-commerce sites managed by the Group in Italy, Europe, North America and Asia, on the other hand, remain fully operational.

¹ <https://www.geox.biz/static/upload/pre/press-release-2019.pdf>

² <https://www.geox.biz/static/upload/pre/press-release-10th-march-2020.pdf>

³ <https://www.esma.europa.eu/about-esma/covid-19>

⁴ Source: Johns Hopkins University, <https://coronavirus.jhu.edu/>

All aspects of the Group nonetheless remain fully operational, also thanks to the investments made in technology that facilitates smart working and online activities, ensuring constant oversight of management activities, customer relationships and customer care.

As of today, it is impossible to predict how long this situation will last and, although shops have only been ordered to close temporarily for a few weeks, this may be extended depending on each country.

Likewise, it is also therefore impossible to assess the effects on this year's results. However, in order to provide comprehensive information, it is appropriate to share some details about current business performance.

Supply of raw materials, finished products and distribution

Geox Group purchases approximately 4% of its finished products from China (mainly apparel) and it uses Chinese suppliers for some of the raw materials used for manufacturing in other areas of the Far East. The authorities forced all manufacturing activities to shut down for the two weeks after Chinese New Year, i.e. until 24th February. After this shutdown, production activities began to gradually recover and all of Geox's suppliers are now operational, albeit not fully due to certain ongoing restrictions on people's mobility.

This week, the contagion has also begun to spread significantly in countries in Southern Asia. As of today, however, only India has imposed the first restrictive measures, by suspending all production activities until 15 April.

In Serbia, home to the manufacturing plant owned by the Group, the precautionary measure has been taken to halt production until 3 April in order to safeguard employees' health and to avoid production inefficiencies linked to potential absenteeism (due to the health risk) and to the fact that goods are not able to cross certain borders.

Based on the information currently available, it is not possible to predict or estimate any significant impacts on supply for the upcoming 2020 autumn-winter collection and on the production of samples for the 2021 spring-summer collection. However, as mentioned above, the situation is constantly evolving and requires a great deal of prudence and care throughout the supply chain; events are being continuously monitored in order to promptly identify any issues which may lead to risks of delays in production and deliveries, and to implement any appropriate actions to mitigate them.

All of the Group's distribution centres throughout the world are currently still in operation, although the one in Italy is only handling e-commerce for the period between 25 March and 3 April.

Retail sales performance

China, Hong Kong and Macau: In 2019, Geox Group recorded retail sales of approximately Euro 26 million in this area (3.2% of total revenues, with 2.1% generated in China alone), through a network of 65 directly operated stores (48 DOS in China alone). Sales performance was positive for the first weeks of January, but around 20 stores (18 in China and 2 in Macau) remained closed for an average of two weeks in February, as per the instructions received from the relative shopping malls.

Performance in February was significantly affected by the aforementioned closures and by the general drop in footfall (-87%), caused by the restrictive measures. Like-for-like performance also suffered as a result (-85%).

To date, performance in March has recorded a slight improvement in footfall and sales, with all stores now being open (approximately -70%). Overall, aggregated like-for-like sales at week XII show a decline of close to -55%.

Italy: In 2019, Geox Group recorded retail sales of approximately Euro 158 million in Italy (19.6% of total revenues), through a network of 272 mono-brand stores (148 DOS).

On 21 February, a coronavirus emergency first emerged in northern Italy (mainly in the regions of Lombardy, Veneto and Emilia Romagna), which then spread in March to the rest of the country, albeit with less intensity.

On 24 February, the Italian authorities introduced precautionary measures, including the closure of 35 directly operated stores in Lombardy during the last weekend of February, and 36 in the first week of March, out of a total of 47.

On 10 March 2020⁵, Geox Group independently took the responsible decision to temporarily suspend all of its direct sales activities, in an effort to contain the spread of the virus.

On 11 March 2020⁶, given the growing number of cases, the Italian government ordered all shops in the country to close with the exception of those providing basic essentials (especially supermarkets and pharmacies). As the situation

⁵ <https://www.geox.biz/static/upload/pre/press-release-10th-march-2020.pdf>

⁶ <https://www.gazzettaufficiale.it/eli/id/2020/03/11/20A01605/sg>

stands today, an additional decree was passed on 22 March 2020⁷ to extend this closure until 3 April 2020 and a regional order has also been passed to keep all shops in Lombardy closed until 14 April⁸.

Like-for-like sales performance was slightly positive in January and became slightly negative in February following the initial closures in Lombardy, before being strongly affected in March by the temporary shutdown, falling to a -75% as of today.

Overall, aggregated like-for-like sales at week XII show a decline in Italy at approximately -15%.

Europe: In 2019, Geox Group recorded retail sales of approximately Euro 179 million in Europe (22.2% of total revenues), through a network of 270 mono-brand stores (159 DOS).

In March, there have been significant cases of the virus spreading throughout Europe. As in Italy, authorities in other European countries have introduced increasingly stricter measures in an attempt to limit the contagion, aimed at restricting people's mobility, encouraging social distancing and forcing non-essential shops and businesses to close. In fact, between 14 and 19 March, these various measures forced or induced the Group⁹ to temporarily close all of its stores. On average, the orders issued to date by the main European governments state that shops will be able to reopen around mid-April, with the exception of France (reopenings planned for 5 May). However, these assumptions may well change given the possibility for the various countries to extend the closures, with governments introducing new measures based on how the contagion evolves.

After a positive start to the year, like-for-like sales performance for directly operated stores has been strongly affected by the spread of the virus and, in March, negative like-for-like performance has been recorded of more than -40%.

Overall, aggregated like-for-like sales at week XII show a decline in Europe of close to -10%.

North America: As in Italy and Europe, the Covid-19 epidemic has also spread quickly in North America during the month of March, leading to restrictive measures in line with those described above. Since 18 March, all shops in the USA and Canada have been temporarily closed and, as of today, it is not clear when exactly they will reopen. As of week XII, overall like-for-like sales recorded a drop of around -20% compared with the end of last year (-40% in March alone).

Rest of the World: All directly operated stores have also been temporarily closed in Eastern Europe. In Russia, stores will be closed from 28 March until 5 April and, as of today, like-for-like sales performance in this country remains positive (approximately +5% since the start of the year).

Direct e-commerce channel: This channel remains in operation and continues to record positive performance (+23% since the start of the year). This resilience has substantially been confirmed across all of the Group's main markets (Italy +33%, Europe +31%, North America +5%), although a reduction in people's propensity to make purchases may be expected with regard to non-essential products.

BUSINESS OUTLOOK

Considering the seriousness of the current situation, linked to the spread of the new coronavirus and uncertainties regarding the duration and the geographical areas that will be affected by the epidemic, it is currently extremely difficult to make predictions about 2020 full-year results.

As of week XII, the Group's directly operated stores have recorded aggregated like-for-like sales performance of close to -15%, being strongly affected by the temporary closures of stores, first in Italy since the end of February and then throughout Europe and North America, due to the spread of the virus in the various countries and the measures progressively introduced by the various governments. Taking into consideration also the network effect, total sales for the direct retail channel are expected to drop by -20% in the first quarter of 2020.

A reduction in sales in the first quarter is also expected for both the wholesale and franchising channels. This is also due to the fact that requests have been received from wholesale clients and franchisees to slow down deliveries, as they too have had to temporarily suspend their activities of receiving and selling goods in March.

⁷ <https://www.gazzettaufficiale.it/eli/id/2020/03/22/20A01807/sg>

⁸ <https://www.regione.lombardia.it/wps/portal/istituzionale/HP/DettaglioRedazionale/servizi-e-informazioni/cittadini/salute-e-prevenzione/Prevenzione-e-benessere/red-coronavirusnuoviaggiornamenti>

⁹ As of today, only the Netherlands and Hungary (included under "Rest of the world" in the Group's geographic breakdown) have not expressly imposed measures to close stores, as measures are in place to restrict people's mobility. In these countries, the Group independently decided to close its stores.

The considerable amount of uncertainty regarding market conditions has drastically reduced visibility of future results. The below information is therefore meant to provide a mere indication of expected trends.

Considerations on sales by channel

- **Wholesale:** Initial order collection for the 2020 spring-summer collection (completed) and the 2020 autumn-winter collection (ongoing) has confirmed the excellent performance and increasingly important role being played by the e-commerce channel, as well as highlighting substantial stability in terms of initial orders. In this new scenario, management expects a negative impact on the completion of initial order collection for the autumn-winter season, a substantial reduction in reorders during the season compared with the previous year, and an increase in cancellations for deliveries scheduled for April, May and June regarding the 2020 spring-summer collection, considering the fact that temporary closures are continuing.
- **Franchising:** This channel was expected to show a continuing tendency towards store network rationalisation, albeit with less intensity compared with the previous year (-5% including a limited number of conversions into DOS). This result would have been accompanied by like-for-like sales performance. In this new scenario, management expects a further network reduction caused by the market difficulties and a reduction in like-for-like sales due to the aforementioned temporary closures, with a resulting increase in provisions for returns compared with the previous year.
- **DOS:** The combined effect of the announced rationalisation plan (50 closures during the year) and a number of selected openings in Russia and in Europe, to complete the network of outlets, was set to result in an overall negative network effect at the end of the year (-5%). Overall sales, on the other hand, were expected to increase, also thanks to positive like-for-like performance. As things currently stand, management acknowledges that the ongoing temporary closures will have a strong impact on like-for-like sales performance. It therefore intends to complete an extremely prudent analysis of the store network and has not excluded the possibility of speeding up and implementing further rationalisation measures, should rental costs not be reduced accordingly, at least temporarily, in line with sales performance. The plan to revamp stores will also be slowed down, whereas projects will continue with regard to new window displays, new assortment strategies and new policies for in-store visuals, aimed at improving performance.
- **Direct e-commerce channel:** The e-commerce channel is expected to continue to grow and may also benefit from a number of advanced CRM tools that have been launched, thanks to the investments made in both infrastructure and internal expertise.

The Group's financial position

Over the course of last year, the Group focused on measures to further strengthen its solid financial position, clearing all debt and reporting a positive net financial position of approximately Euro 6 million (excluding the effects of IFRS 16). This was achieved thanks to the optimisation of working capital, which recorded the best performance in recent years, amounting to 22.7% of sales.

At the end of March 2020, the net financial position is expected to be in line with the figure at March 2019 (excluding the effects of IFRS 16).

The Group's shareholders' equity amounts to Euro 305 million and it has significant lines of credit available, which are considered adequate to manage both normal business seasonality and these exceptional circumstances. Management is also considering increasing and extending these lines of credit.

Plan to mitigate the impacts on the business

Geox's management team believes that it is fundamentally important to react to these changing market conditions by implementing extremely decisive and appropriate measures to mitigate the negative effects of this scenario on the year's results. In particular, management is:

- obtaining and renegotiating substantial rent reductions for stores in the areas affected by the temporary closures and the resulting considerable drop in footfall;
- working towards making HR costs flexible in relation to the opening hours and turnover of each store. In particular, it is accessing the various forms of government aid and the measures to protect workers which

were either already in place in the various countries or have been implemented by the various authorities to address the current exceptional circumstances, such as the “*cassa integrazione*” (fund to supplement earnings) in Italy and the other measures provided for by foreign legal systems;

- postponing non-essential investments until a more favourable moment in time, including investments in advertising aimed at increasing in-store footfall;
- further analysing the profitability of the store network;
- implementing all other strict cost control measures necessary, with a view to significant rationalisation in order to free up resources for investment, and generally preparing to adjust the intensity of the rationalisation plan based on the close monitoring of the situation as it evolves;
- carefully assessing the strategy to release products to the distribution network, in order to reduce future purchases on the basis of the current season's range, given that the latter has effectively not been presented to the market; these products may be partly considered as a transition to move towards the next autumn-winter collection and may be partly re-proposed as part of the 2021 spring-summer collection.

It is also deemed appropriate to confirm the validity of the strategies included in the Business Plan presented in November 2018. Geox is therefore implementing the projects that it believes to be essential for the evolution of its business model, with the aim of perfectly integrating physical and digital stores as well as the warehouses for the various channels. For this reason, the Group has already completed, and shall continue to make, important investments in digital infrastructure, its omnichannel approach, merchandising and buying, business intelligence, consumer insights and retail excellence, with the aim of focusing more on customer centrality and becoming increasingly consumer-oriented. The Group therefore believes that it needs to minimise the impacts of this situation in the short term, whilst remaining very positive about medium-term performance, for both Geox and the industry as a whole.

FOR MORE INFORMATION

INVESTOR RELATIONS

Simone Maggi: tel. +39 0423 282476; ir@geox.com

PRESS OFFICE

Juan Carlos Venti: tel: +39 0423 281914; cell. +39 335 470641; juancarlos.venti@geox.com

GEOX GROUP

Geox Group operates in the classic and casual footwear sector for men, women and children, with a medium/high price level, and in the apparel sector. The success of Geox is due to the constant focus on the application of innovative solutions and technologies on the product that guarantee both impermeability and breathability.

Geox is one of the leading brands in the “International Branded Casual Footwear Market”. Geox technology is protected by 40 different patents and by 25 more recent patent applications.

DISCLAIMER

This document includes forward-looking statements, relative to future events and income and financial operating results of Geox Group. These forecasts, by their nature, include an element of risk and uncertainty, since they depend on the outcome of future events and developments. The actual results may differ even quite significantly from those stated due to a multiplicity of factors.

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