

Consumer, Brands & Retail

25th March 2019

FNAC DARTY

- Consumer, Brands & Retail
- Retail & E-commerce

BUY

Fair Value	EUR94(+37%)
Share price	EUR68.40
EPS 3Y Cagr	9.8%

Fnac Darty is said to be eyeing Nature et Découvertes

Imminent negotiations to acquire Nature et Découvertes

According to Le Figaro, Fnac Darty is about to enter exclusive negotiations with the family owner of Nature et Découvertes to acquire the retailer. According to the accounts filed with the court registry, Nature et Découvertes generated c. EUR207m of sales in 2017 through 95 stores (o/w 81 in France) with a 6.0% EBIT margin (without any franchisee) and 4.4% net margin. With almost no debt, we believe the company could be valued at EUR115-160m (by applying a 0.5-0.7 EV/Sales multiple), which compares with Fnac Darty's EUR919m cash in hand in December 2018.

An integration that would make sense

Nature et Découvertes' offer is complementary to Darty's (i.e. decoration and cooking that can be related to home appliances) and also to Fnac's (i.e. books, CDs and DVDs addressing the well-being theme + toys) with, we assume, a common customer base. Regarding the store network, Nature et Découvertes has strong French city-centre compact locations (330sqm in av.), in line with Fnac Darty's strategy.

Sales synergies to expect from e-commerce and shop-in-shops

Beyond the fact that Nature et Découvertes has already been selling a part of its product range on Fnac's marketplace for more than 2 years, further sales synergies can be expected. Nature et Découvertes shop-in-shops within some Fnac and Darty stores (especially the smaller French cities that Nature et Découvertes wants to enter) as well as Click & Collect points of each banner across the group's network would make sense. Fnac Darty could also leverage its digital know-how to further drive Nature et Découvertes' home delivery sales (c.8% of sales) and above all Click & Collect (only c.3% of sales).

Potentially accretive for growth and EBIT

It is difficult to assess the potential financial impact at such a preliminary stage. The integration could add 10bp to LfL growth and EUR14-15m of EBIT per annum on a full year basis. These metrics take into account cautious assumptions for Nature et Découvertes: no sales or cost synergies, a continued 5% growth pace p.a. (a slightly lower growth level than observed since 2014), stable EBIT margin at 6.0%.

Another step towards sales mix adjustment

This announcement is further proof that management is now focusing on relaunching growth and fuelling operating margin through an adjustment in the sales mix. The adjustment is gradual but the directions are clear: 1/ small home appliances (expansion of store network led by Darty & roll-out of Darty corners in Fnac); 2/ kitchen (ongoing roll-out of Darty Kitchen corners within French Darty stores); 3/ toys (Fnac Darty's rejected takeover offer on La Grande Récréée will not prevent Fnac from pushing the toy segment in its stores by itself); 4/ second-hand market (acquisition of a majority stake in WeFix); 5/ ticketing (acquisition of BilletReduc); 6/ well-being.

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Market Data

Bloomberg / Reuters	FNAC FP/FNAC.PA
Market Cap.	EUR1,817m
E.V.	EUR1.810m
Free Float	65
Avg. Daily volume (6m)	61.50
12m high / low	96.4 / 47.8
Ytd Perf.	19.8%

EURM	12/18	12/19e	12/20e	12/21e
Sales	7,475	7,618	7,704	7,795
% Change		1.9%	1.1%	1.2%
EBITDA	609.0	649.3	672.8	692.4
% Change		6.6%	3.6%	2.9%
EBIT	296.0	330.2	350.1	365.9
% Change		11.6%	6.0%	4.5%
Net Income	169.1	194.8	210.6	223.6
% Change		15.2%	8.1%	6.2%
ROE	NM	NM	NM	NM

	12/18	12/19e	12/20e	12/21e
EV/Sales	0.2x	0.2x	0.2x	0.2x
EV/EBITDA	3.0x	2.5x	2.3x	2.1x
EV/EBIT	6.1x	5.0x	4.4x	3.9x
EPS	6.44	7.43	8.03	8.52
% change		15.3%	8.1%	6.2%
P/E	10.6x	9.2x	8.5x	8.0x
Div Yield	NM	3.1%	3.9%	4.7%

Next Catalyst: Q1 2019 sales in April

Last rating Change:

[2018-4-27, The Contract of Confidence](#)

Last FV Change:

[2019-2-25, Feedback from roadshow with management](#)

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