Farfetch hit by tough conditions in Q1, but upbeat on longer-term prospects

By Sandra Halliday  -  30 May 2022

Q1 figures for Farfetch were more muted than some of its recent results and the company warned about the future impact of the wider macroeconomic backdrop that’s currently hurting fashion businesses at all price levels.

In a conference call, founder, chairman and CEO José Neves, also said there's no certainty that the company will make the long-awaited investment in Richemont's Yoox Net-A-Porter e-commerce unit. Richemont had seen its shares sliding a week ago after saying that talks were still happening but it hadn't reached a deal.

For the first three months of the year -- which pre-dated its recent major beauty launch and other key developments -- Farfetch reported Gross Merchandise Value (GMV) and Digital Platform GMV up 1.7% and 2.5% year-on-year, respectively, to $930.8 million and $809.5 million.

Revenue rose 6.1% to $514.8 million while the gross profit margin dipped to 44.8% from 45.5% and the Digital Platform Order Contribution margin was down to 32.7% from 33%.

That translated into a Q1 adjusted EBITDA loss of $35.8 million (wider than the $19.2 million loss of a year earlier) and net profit of $728.8 million. That was higher than the $516.6 million of the previous year but included a one-off non-cash benefit.

The company said the Q1 Digital Platform GMV growth reflected order growth across the marketplace; an increase in average order values (AOV) from $618 to $632, driven by increases in the full-price item mix and number of items per order; as well as strong growth in the Americas, Middle East and Korea.

But this was offset by softer demand in other key markets, including Russia, where trade was suspended from March with no indication of when trade might resume. China was also tough due to local Covid-19 restrictions that
continue to impact orders from the mainland.

Brand Platform GMV decreased by 11.2% to $99.7 million, due to continued delays in order shipments and resulting cancellations arising from the migration to a new warehouse partner. The transition was completed this month, but it said delayed shipments could negatively impact margins into Q2. The GMV decrease also included a 4.5% decline due to changes in foreign exchange rates.

But in-store GMV increased by 62% to $21.5 million, driven by additional openings of New Guards brands’ stores in the last 12 months, as well as growth from existing stores.

FOCUS ON COSTS

José Neves, said: “Our core business remains very strong, in spite of the macro events in China and ceasing operations in Russia, which impacted our performance and outlook. We are galvanised by the opportunity to focus our efforts in 2022 to further rationalise our business, aligning our fixed-cost profile with lower near-term growth, which I believe will enable us to exit 2022 from a position of strength.”

Outside of these external factors, he added that the business saw strong marketplace growth in the Americas and the Middle East, with its “customer and luxury brand relations going from strength to strength, and we continue to make progress towards our mission of building the global platform for luxury”.

And CFO Elliot Jordan said the results “demonstrate our underlying strength and ability to adapt to the changing macro environment whilst building on the momentum we have achieved over recent years. We have navigated unprecedented challenges, grown Digital Platform GMV 64% on a two-year basis, and continue to operate at scale in the global luxury market.

“In light of the current environment we will be tailoring our resource allocation with an eye towards leveraging the platform model advantage we have to increase market share, while also positioning ourselves to expand our profitability to deliver shareholder value.”

For the full year, the company scaled back its outlook and now expects Digital Platform GMV growth of 5% to 10% and Brand Platform GMV growth of 10% to 15%. The adjusted EBITDA margin will be between 0% and 1%.

It said that “uncertainties resulting from the impact of the pandemic, macroeconomic factors and geopolitical turmoil, including the war in Ukraine, could have material impacts on our future performance and projections”.

Despite the cautious outlook and wider loss, the company’s shares rose after the results were released. Having fallen earlier in the week, investors could have been expecting worse news from the firm and were relieved at the actual figures.

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