INTERIM RESULTS FY 16/17

ESPRIT HOLDINGS LIMITED

ESPRIT

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AGENDA

Business Highlights	Jose Manuel Martínez, Group CEO
Interim Results Review	Thomas Tang, Group CFO
Strategic Update	Jose Manuel Martínez, Group CEO
Q&As	

BUSINESS
HIGHLIGHTS

BUSINESS HIGHLIGHTS

- **Continued improvement of financial results**
  - Net profit of HK$61 million, as compared to a Net loss of –HK$238 million in the same period last year
  - Positive EBIT from underlying operations (excl. exceptional items) of HK$2 million, a significant recovery from LBIT –HK$252 million in the same period last year, driven by two major developments:
    - Downsizing of business (closure of unprofitable stores and loss of low-performing wholesale spaces)
    - Reduction of the level of promotional activities, price markdowns and wholesale discounts
  - As a result, revenue decline -9.9% yoy in LCY, against a -14.3% yoy reduction of total controlled space
  - But gross profit margin was increased by +2.0% pts yoy
  - And regular OPEX was reduced by -11.2% yoy in LCY; hence, fully out-weighing the decline in top line
  - Net cash balance of HK$4.5 billion at 31 December 2016, with zero debt

- **Continued progress in the execution of the Strategic Plan**
  - Progressive rejuvenation of the “Esprit brand”
  - Development of the Vertical & Omnichannel models to improve products and channels performance
  - Ambitious reduction of OPEX to accelerate turnaround

INTERIM RESULTS

REVIEW

INCOME STATEMENT

(in HK$'m)	1H FY16/17	1H FY15/16	YoY change HKD	YoY change LCY
Revenue	8,323	9,315	▼ 10.6%	▼ 9.9%
COGS	(3,952)	(4,615)	▼ 14.4%	▼ 13.5%
Gross profit	4,371	4,700	▼ 7.0%	▼ 6.2%
GP margin	*52.5%*	*50.5%*	▲ *2.0%pts*	▲ *2.0%pts*
Regular OPEX	(4,369)	(4,952)	▼ 11.8%	▼ 11.2%
EBIT/(LBIT)* of underlying operations	2	(252)		
Exceptional items	(15)	5		
(LBIT)*	(13)	(247)		
Interest & Taxation (net credit)	74	9		
Net profit / (loss)	61	(238)		

* *Earnings/loss before interest and tax*

▲/▼ *year-on-year change*

Revenue decline less than reduction in total controlled space of -14.3%

- Space reduction due to closure of the most unprofitable retail stores and loss of non-performing wholesale spaces
- Actions to increase gross profit margins by reducing the level of promotional activities, price markdowns and wholesale discounts
- Additional pressure from unseasonably warm weather in Europe in 1Q

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Significant improvement in overall profitability

- Gross profit margin up by 2% pts despite negative development of Euro exchange rates
- Regular OPEX reduction of 11.2% in LCY

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Small positive EBIT from underlying operations, much improved from LBIT last year

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Exceptional items mainly related to one-off costs for staff reduction

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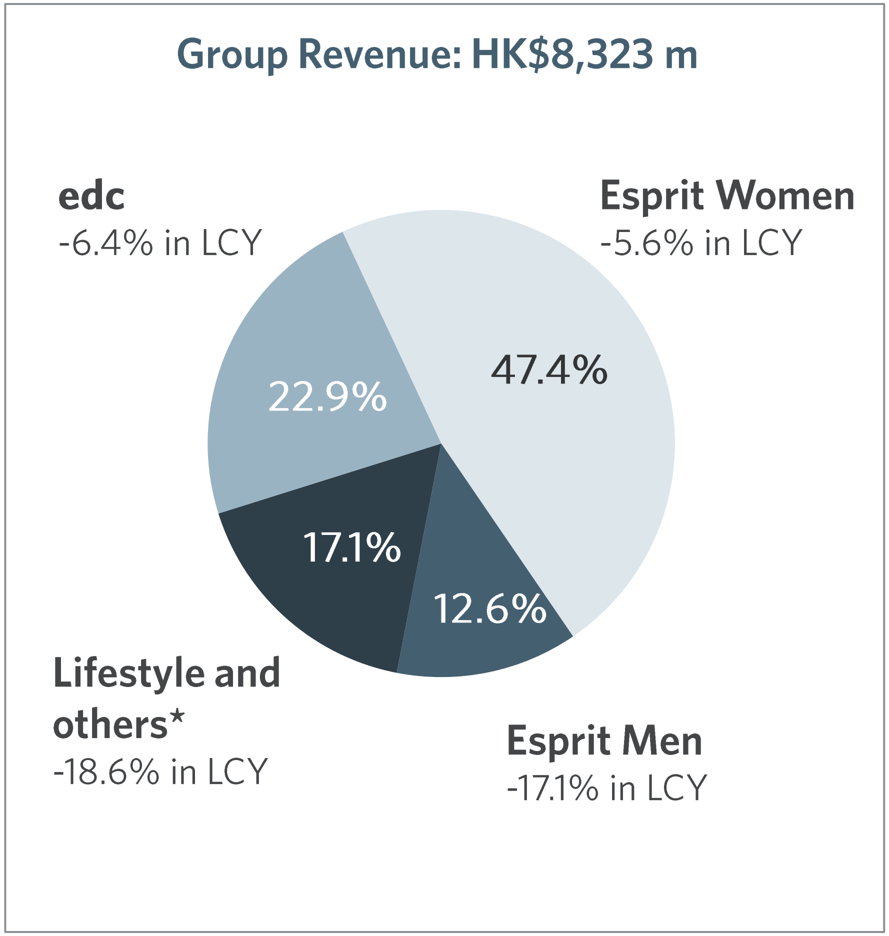
Achieved Net Profit thanks to a release of deferred tax liability no longer required based on recent communication received from the relevant tax authority

As the net profit was very small, the Board has resolved not to declare any interim dividend

REVENUE

REVENUE BY PRODUCT DIVISION



Esprit Women and edc

- Decline in Esprit Women and edc mainly due to space reduction
- Comp-store-sales (incl. eshop) for Esprit Women and edc only declined by -2.6% and -1.4% yoy in LCY

Esprit Men

- Reduced space allocated to Men's products due to sales performance
- Restructured and strengthened management team during 1H FY16/17

Lifestyle and others

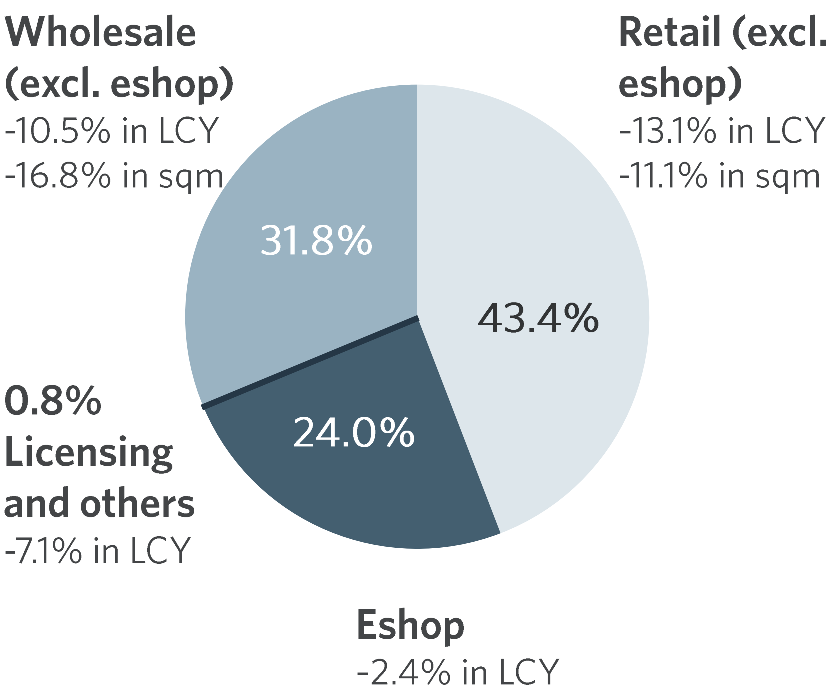
- Largest decline came from the Kids division (-62.8% yoy in LCY) due to its licensing to Groupe Zannier (majority of net sales are now booked by our license partner, while Esprit primarily receives the corresponding royalties)

* *Lifestyle and others mainly include accessories, bodywear, shoes, and the sales and royalty income from licensed products such as kidswear, timewear, eyewear, jewelry, bed & bath, and houseware.*

+ / - yoy change

REVENUE BY CHANNEL

Group Revenue: HK$8,323 m



+ / - yoy change

Directly managed channels:
Retail (excl. eshop) and Eshop:

- Most impacted by the measures to improve gross profit margin
- In Retail (excl. eshop), productivity remained stable in full-price stores (+0.3% sales/sqm in LCY) and all the decline happened in the off-price outlets
- Sales decline of Eshop was mainly due to a drop of online traffic to our Eshop in Europe
- Eshop in APAC grew +58.7% yoy

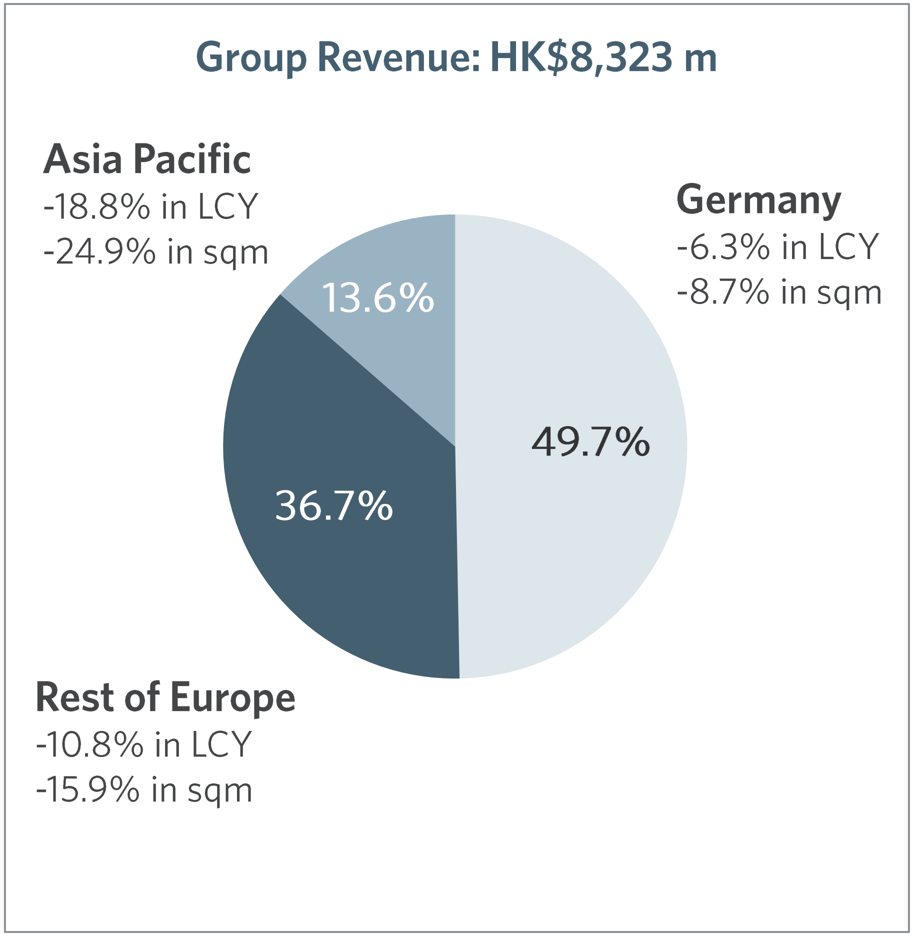
Wholesale (excl. eshop)

- Closure of non performing locations is driving an increase in average sales productivity of the remaining controlled space, driven by improved order intakes from both offline and online partners

REVENUE DEVELOPMENT BY CHANNEL PER QUARTER

	Revenue yoy growth in LCY		
	1Q (Jul'16 – Sep'16)	2Q (Oct '16– Dec'16)	
Retail (excl. eshop)	-15.2% (vs -11.7% sqm)	-11.3% (vs -11.1% sqm)	Decline fully in line with space reduction in 2Q
Eshop	-7.0%	+1.6%	Moderate revenue growth in 2Q
Wholesale (excl. eshop)	-11.4% (vs -16.7% sqm)	-9.2% (vs -16.8% sqm)	Improved revenue development vs sqm in 2Q
Group	-11.8% (vs -14.5% sqm)	-7.8% (vs -14.3% sqm)	Single-digit revenue decline in 2Q, much below space reduction

REVENUE BY REGION



+ / - yoy change

Germany

- Retail impacted by erratic retail market in the country in 1H FY16/17 (incl. unseasonably warm weather in 1Q)
- Retail net sales area only reduced by -1.8% yoy due to longer lease terms than other regions
- Wholesale revenue decline (-6.4% yoy in LCY) compares favorably against space reduction (-12.9% yoy), reflecting improved order intakes

Rest of Europe

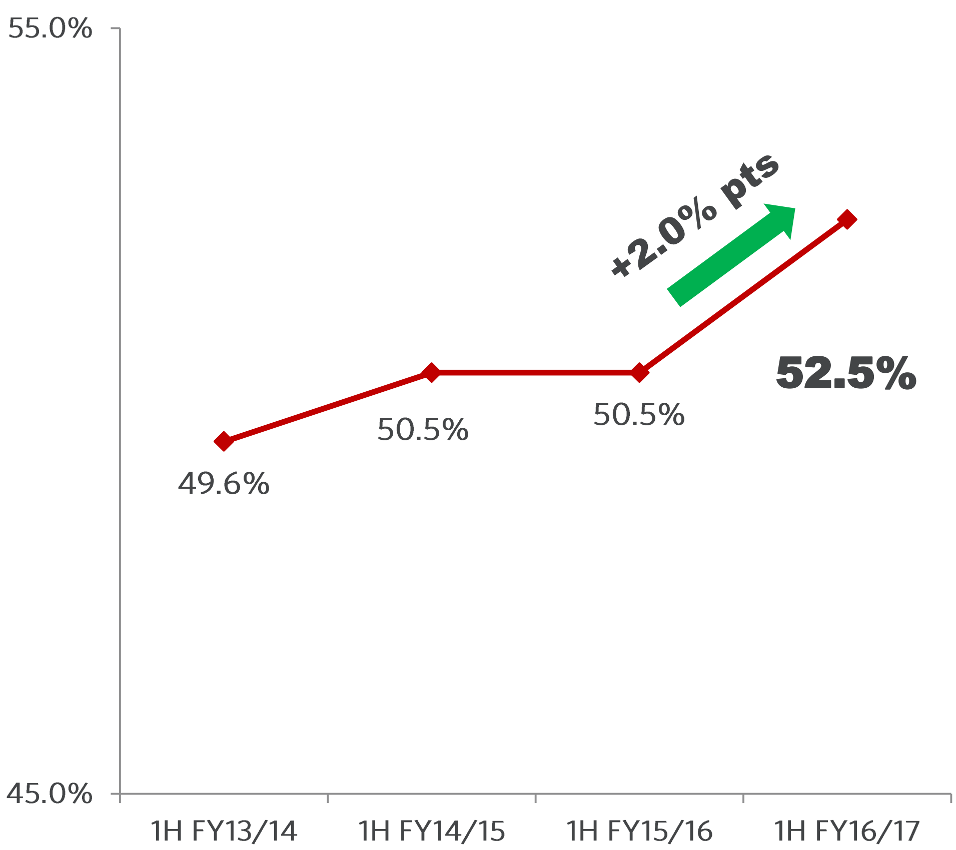
- Closure of unprofitable stores progressing well; retail net sales area down -15.3% yoy
- Slightly positive comp-store-sales growth (+0.1% yoy)
- Wholesale revenue decline (-12.5% in LCY) compares favorably against space reduction (-16.3% yoy), also reflecting improved order intakes

Asia Pacific

- Had the most drastic reduction of promotional activities, which explains the -9.2% yoy decline in comparable Retail sales (excl. eshop)

PROFITABILITY

GROSS PROFIT MARGIN



Improvement in gross profit margin across all channels, regions and key product divisions

Benefited from

+ Decisive actions to reduce the level of promotional activities, price markdowns and wholesale discounts

Offset by negative impact from

- Continued weakness of the Euro

OPERATING EXPENSES

(in HK$'m)	1H FY16/17	1H FY15/16	Change in % LCY
Regular OPEX	**4,369**	**4,952**	▼ 11.2%
Staff costs	1,474	1,574	▼ 5.7%
Occupancy costs	1,276	1,428	▼ 9.9%
Logistics expenses	473	516	▼ 7.6%
Marketing & advertising expenses	402	535	▼ 24.3%
Depreciation	260	302	▼ 13.1%
Other operating costs	484	597	▼ 18.9%
Exceptional expenses / (income)	**15**	**(5)**	
Total OPEX	**4,384**	**4,947**	▼ 10.8%

Successful reduction of Regular OPEX through:

- Accelerated closure of loss-making stores
- Overhead cost restructuring measures
- Lower marketing and advertising expenditure level following the strong push last year

Savings achieved across all key cost lines

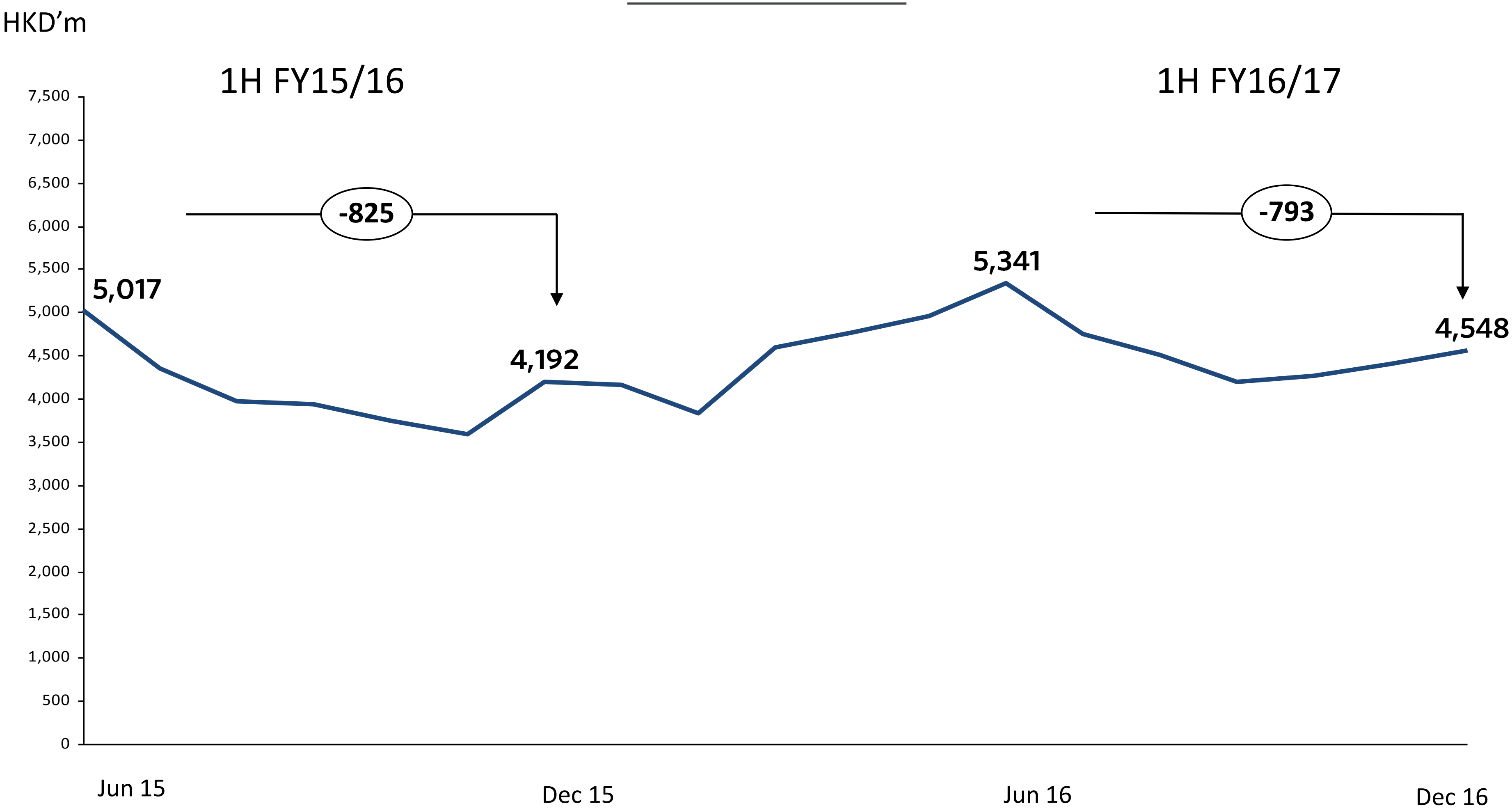
Exceptional items mainly related to one-off costs for staff reduction

The Group is fully on track to achieve our target to reduce OPEX by HK$1 billion (excluding exchange rate impact) over 2 years from FY15/16 level

▲/▼ *year-on-year change*

WORKING
CAPITAL

GROUP CASH DEVELOPMENT– NET CASH

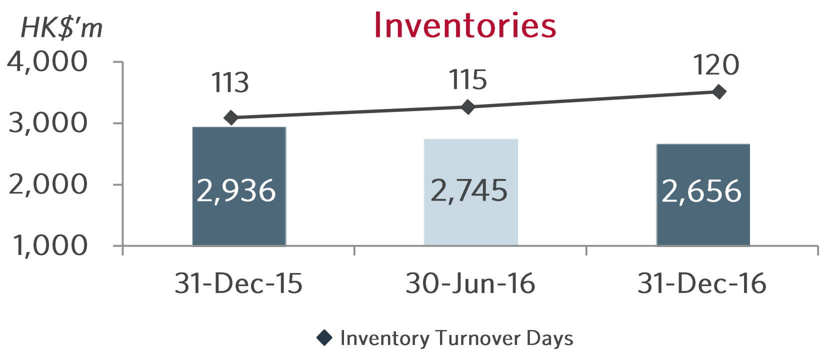


✔ Cash utilization less than the same period last year

✔ Cash balance at end of December is generally lower than at the end of June due to seasonality

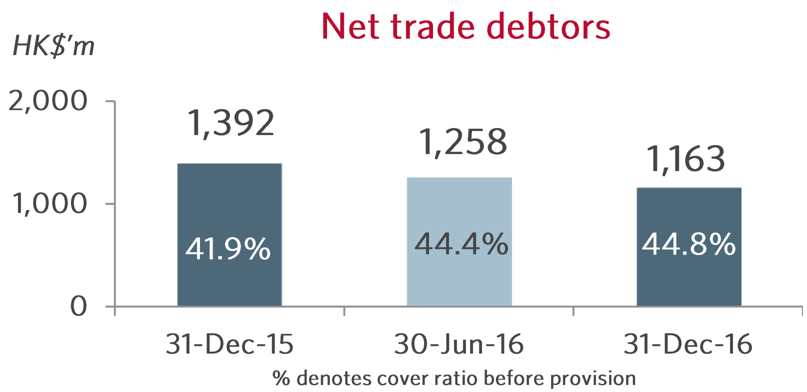
✔ Present cash balance at a healthy level, higher than the same period last year

WORKING CAPITAL



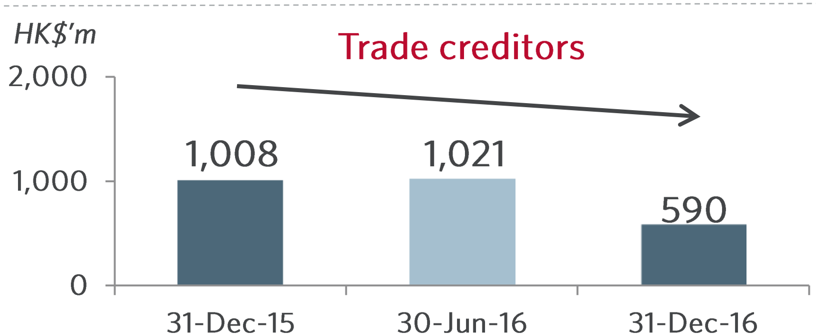
Inventories value ▼ 9.5% yoy due to:

- ▼ -4.0% depreciation in EUR/HKD closing rate yoy
- Inventory turnover days ▲7 days due to higher share of retail business vs wholesale, the leftovers carried over from the previous financial year and the lower revenue in comparable retail stores and eshop



Net trade debtors ▼16.5% yoy:

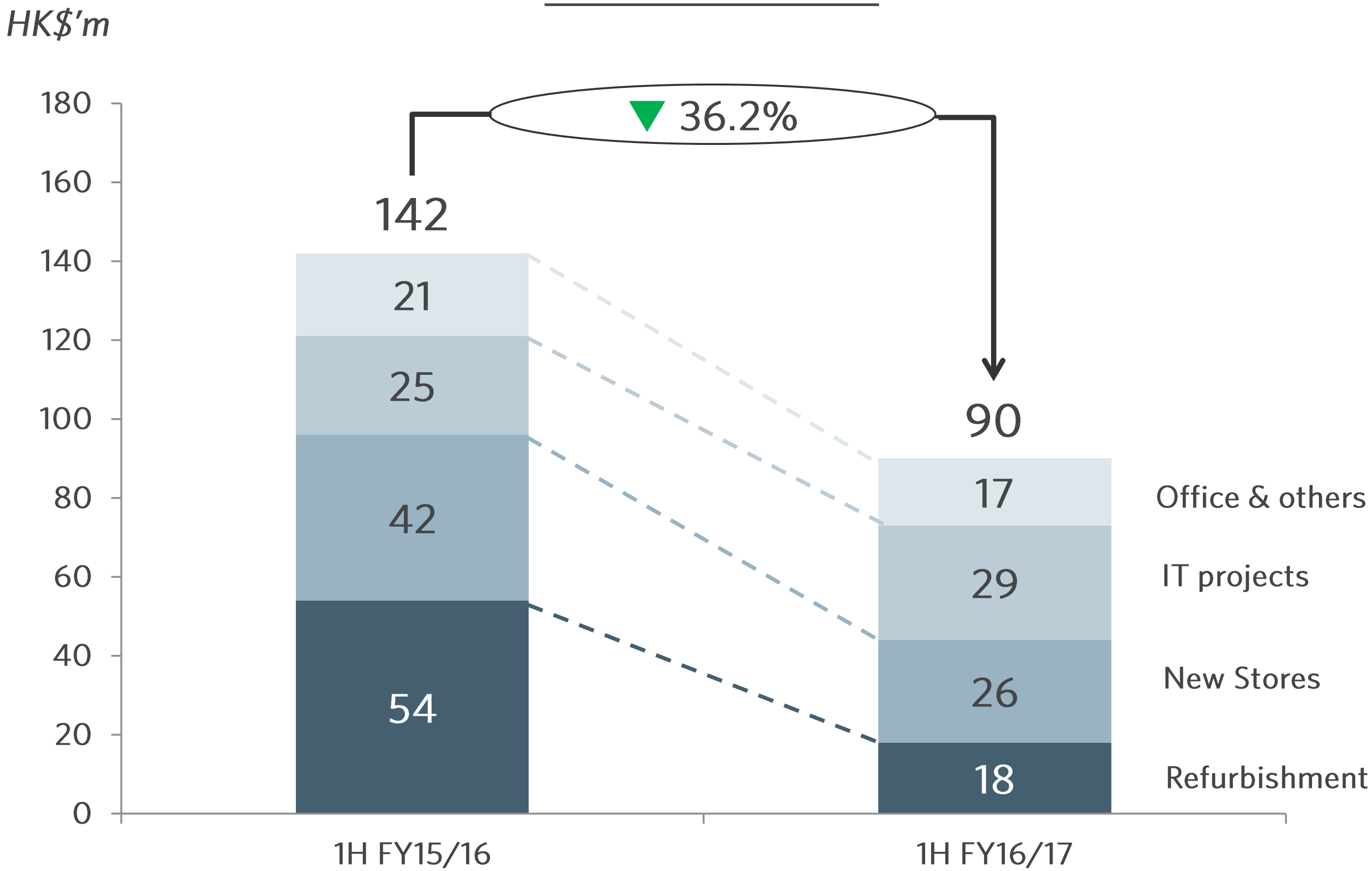
- Lower wholesale revenue
- ▼ -4.0% depreciation in EUR/HKD closing rate yoy
- Cover ratio before provision of 44.8% increased by 2.9%pts yoy



Trade creditors ▼41.4% yoy:

- Quicker payment to take advantage of higher discount from suppliers

CAPITAL EXPENDITURE

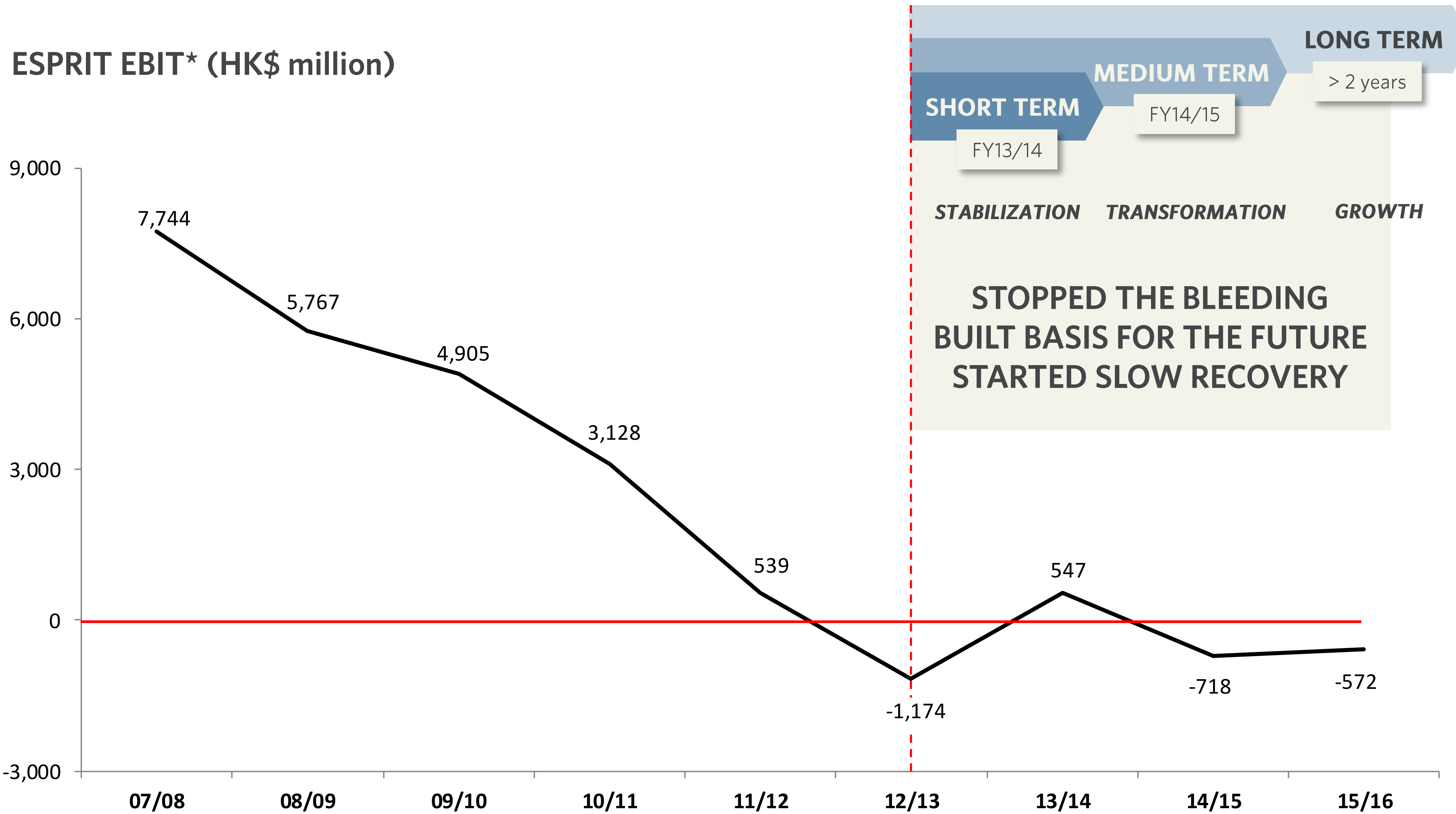


Largest reductions in store openings and refurbishments, as large scale refurbishments are mostly completed

▲/▼ *year-on-year change*

STRATEGY
UPDATE

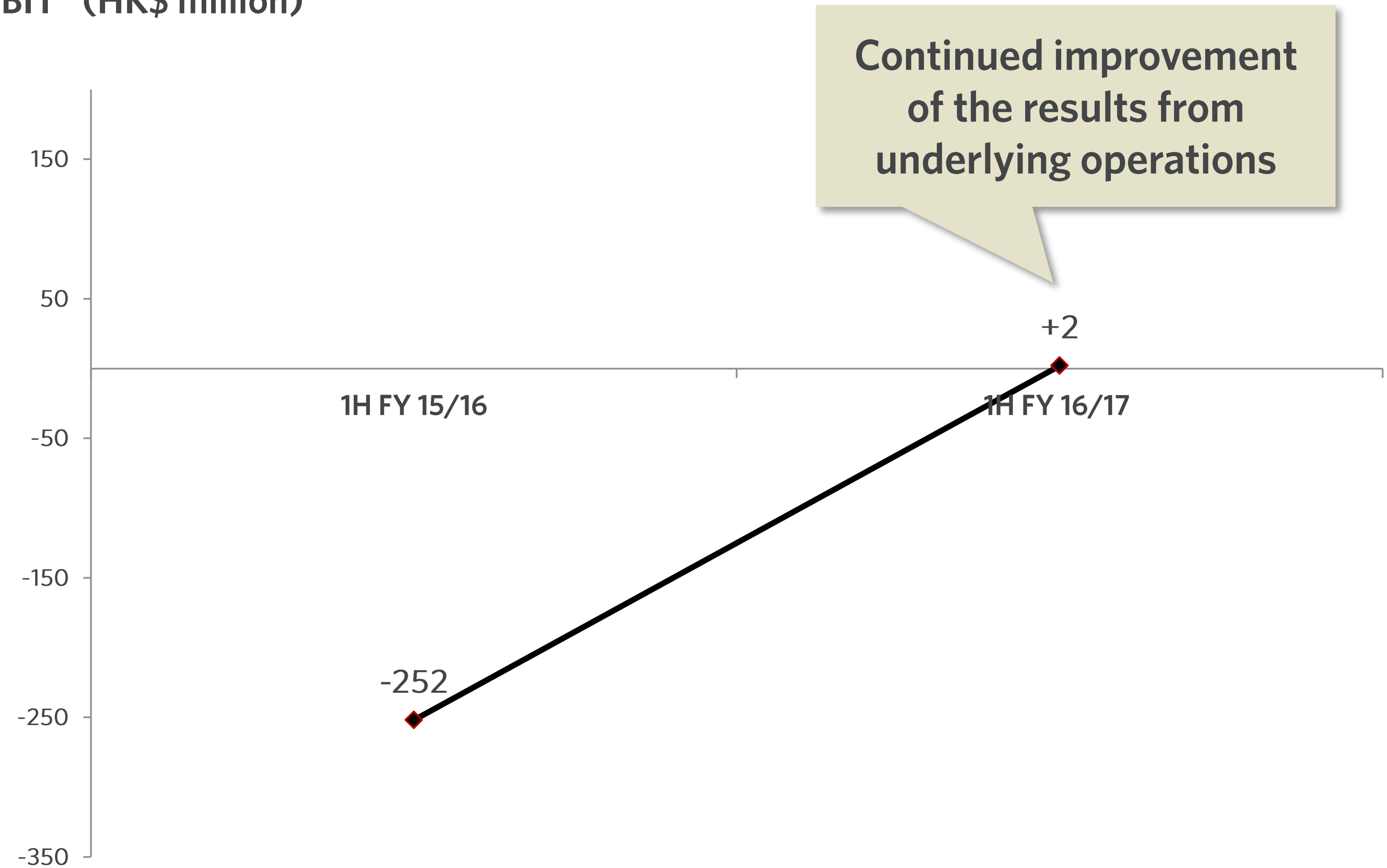
EBIT* DEVELOPMENT UNTIL FY15/16



*EBIT from underlying operations, i.e. excluding exceptional items (e.g. closure of N.A. operations, impairment of China goodwill, sales of HK office space or provisions and impairments for store closures)

EBIT DEVELOPMENT IN 1H FY16/17*

ESPRIT EBIT* (HK$ million)



*EBIT from underlying operations, i.e. excluding exceptional items (One-off costs in relation to staff reduction plan, provisions for store closures and onerous leases, and impairment of fixed assets)

KEY OPPORTUNITES AHEAD

1. **Strategic Plan** – Continue to develop towards excellence in the three core elements of our Business Model:
    - **Brand** – Strengthen and rejuvenate brand image
    - **Product** – Complete the main elements of the **Vertical Model**
    - **Channels** – Keep on developing the **Omnichannel Model**
2. **APAC** – Turnaround business performance through a specific strategic plan for the region (repositioning of our brand and retail footprint)
3. **Wholesale** – Stabilize contribution through specialized solutions for each type of partner
4. **OPEX** – Complete target reduction of HK$1 bn over the next 2 years (complete store closures and reduction of overhead expenses)
5. **Growth** – Reignite top line growth by deploying cash reserves into sales initiatives and expansion

BRAND

REJUVENATE IMAGE

COLLABORATION WITH OPENING CEREMONY

OPENING
CEREMONY

Est. 2002

ESPRIT

OPENING CEREMONY

Opening Ceremony

- Founded by Carol Lim (CEO) and Humberto Leon (Creative Director) in 2002
- Awarded with "Cooper Hewitt National Design Award for Fashion Design" in 2016 by the U.S. White House
- Carol and Humberto are also creative directors at KENZO (part of LVMH), leading the relaunch of the brand
- Carol and Humberto are judges at the LVMH prize alongside Karl Lagerfeld, Marc Jacobs, and more
- Opening Ceremony is one of the most influential fashion houses with locations in New York, Los Angeles & Tokyo
- Strong social media following and community engagement with influencers and opinion leaders in the industry
- Collaborative design has always been a key aspect of their retail philosophy (Chloe Sevigny, Lacoste, Adidas)

ESPRIT by Opening Ceremony

Launched September 11, 2016 at New York Fashion Week

- Unique co-branded collection
- Three seasonal collections between FW 16 and FW 17
- Exclusive and selective distribution by Opening Ceremony
- Below the line marketing activation including influencer seeding, social media and press activation

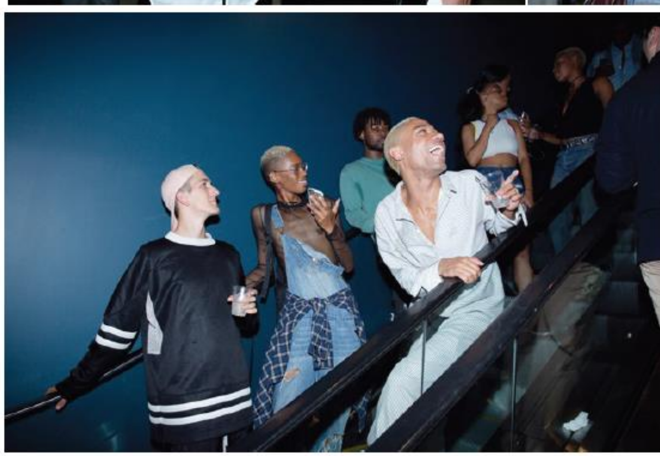
ESPRIT X OPENING CEREMONY

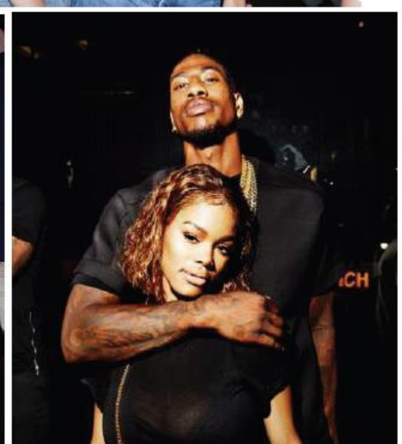
OUR HALO

OPENING CEREMONY

ESPRIT X OPENING CEREMONY– KEY OPINION LEADERS

LAUNCH EVENT





ESPRIT X OPENING CEREMONY - CELEBRITIES

DRAKE

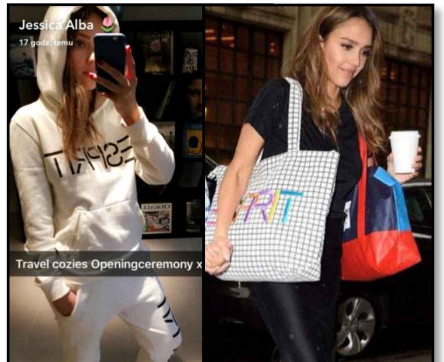
Canadian rapper, singer & producer

IG 32.3 Mio **TW 34.6 Mio**

JESSICA ALBA

American actress, model & business woman

IG 9.7 Mio **TW 9.47 Mio**



KELLY ROWLAND

American (Destiny's Child Lead-) singer

IG 6.4 Mio **TW 7.07 Mio**

KARLIE KLOSS

American (Victoria's Secret Angel) model

IG 6.2 Mio **TW 2.39 Mio**

JOE JONAS

American singer & actor

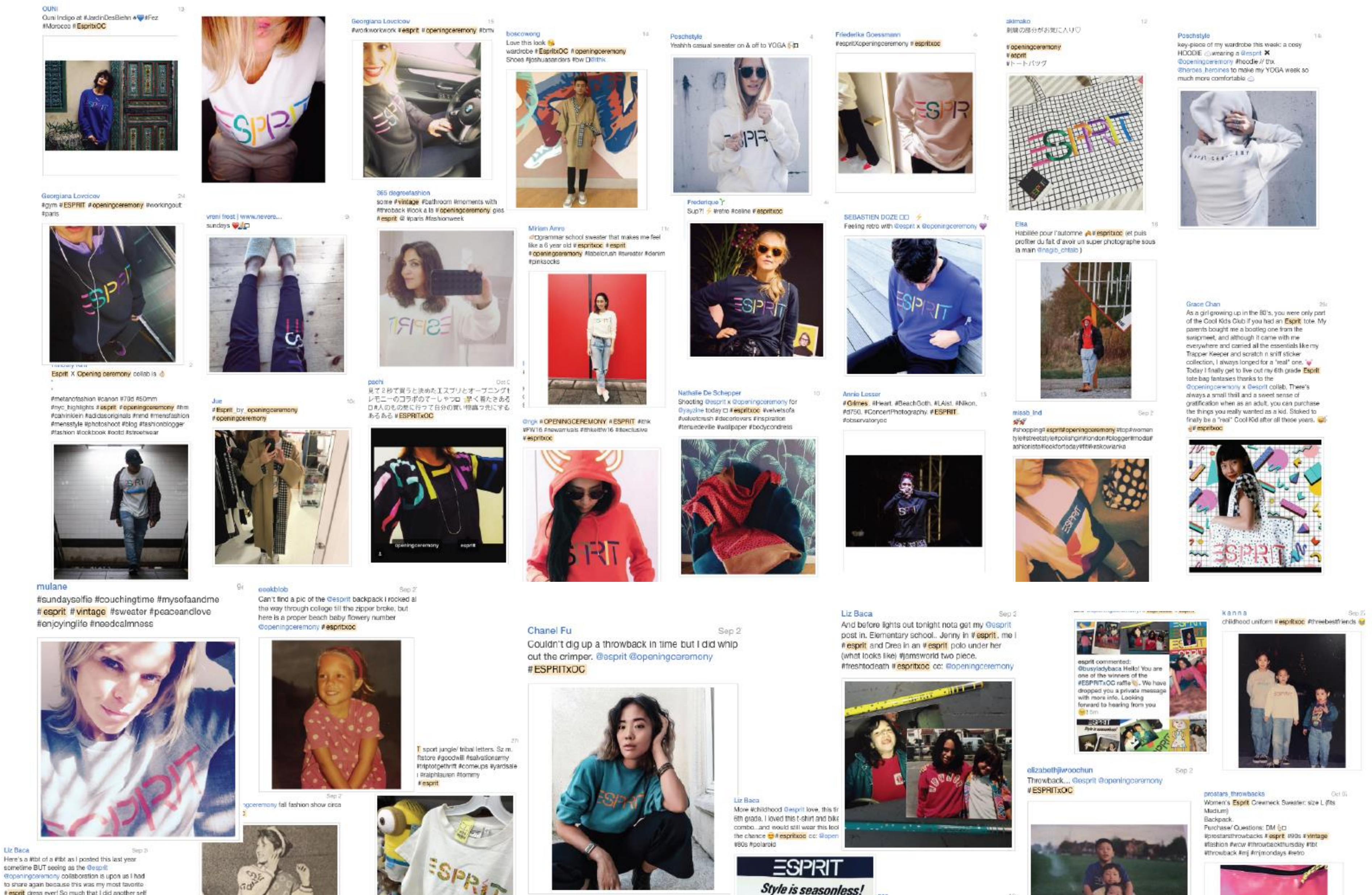
IG 5.4 Mio **TW 8.41 Mio**

HAILEE STEINFELD

American actress, model & singer

IG 4.4 Mio **TW 704 k**

ESPRIT X OPENING CEREMONY – SOCIAL MEDIA



ESPRIT X OPENING CEREMONY – EXCLUSIVE DISTRIBUTION

Presence in key influencer stores globally: Paris (Tom Greyhound), London (Selfridges), Hong Kong (i.T.), NYC (Opening Ceremony and Kith), L.A. (Opening Ceremony), Berlin (KaDeWe)


Paris


New York


Hong Kong


London

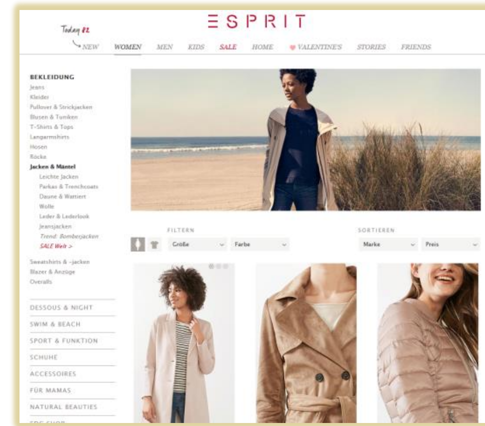
REJUVENATION OF BRAND CAMPAIGNS - SPRING SUMMER

REJUVENATION OF ALL BRAND BUILDING TOUCH POINTS

BRAND MARKETING

PRODUCT

ESHOP



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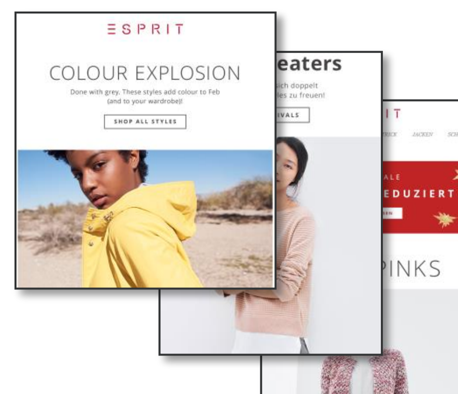
WINDOWS

CRM

STORES



PRODUCT
VERTICAL MODEL

VERTICAL PRODUCTS PERFORMANCE

	FULL PRICE RETAIL	FY15/16 (1H)	FY16/17 (1H)	ACCUM. (1H)
SALES PRODUCTIVITY* yoy GROWTH	TOTAL	+7.3%	+5.0%	+12.6%
	STORES	+2.8%	+0.3%	+3.2%
	ESHOP	+15.9%	-2.4%	+13.1%
GROSS PROFIT PRODUCTIVITY* yoy GROWTH	TOTAL	+3.4%	+7.7%	+11.5%
	STORES	-1.1%	+7.0%	+5.8%
	ESHOP	+10.1%	-5.0%	+4.6%

* Sales and Gross Profit per sqm (except for Eshop) yoy growth excl. FX rate effects

VERTICAL MODEL – NEXT STEPS

VERTICAL

- Product Development
- Merchandising
- Supply Chain
- Distribution
- Store / POS
- Stock

1. **Lean Supply Chain Management –** Accelerate introduction of best sustainability practices ✓
2. **Category Management Teams –** Further integrate all divisions for larger synergies: teams, IT, supply, etc. ✓
3. **New Merchandising Model –** Optimize merchandise management in every store by fine tuning divisional splits and layouts ✓
4. **Seasonal Calendar –** 4 seasons fully consolidated ✓
5. **Product Range –** Continue reduction in all divisions ✓
6. **Fast to Market –** Grow scale of vertical and short lead time products in all channels ✓
7. **Stock Management Optimization** – Develop capacity and capabilities for improved deliveries and store replenishment ◐

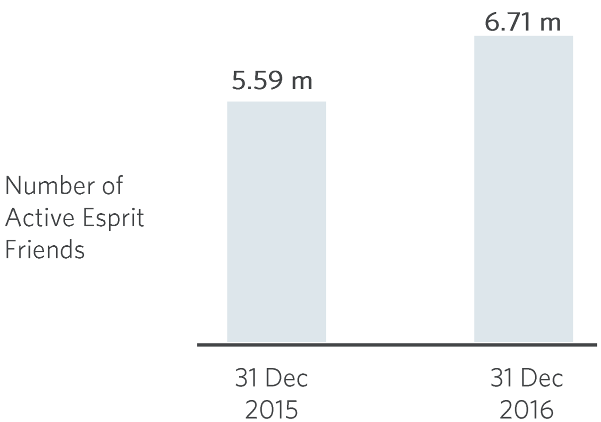
NOTE: Initiative 8. "Vertical Wholesale Model" treated as an independent project in the future

CHANNELS

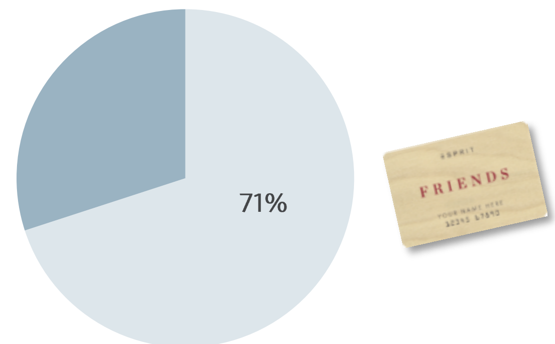
OMNICHANNEL MODEL

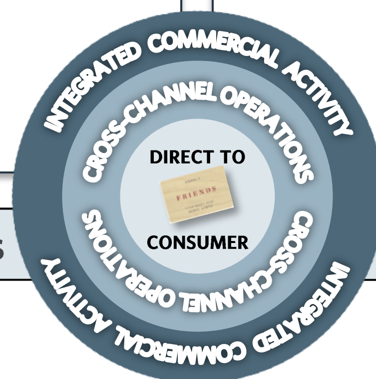
OMNICHANNEL MODEL IN 1H FY 16/17

+20% active Esprit Friends

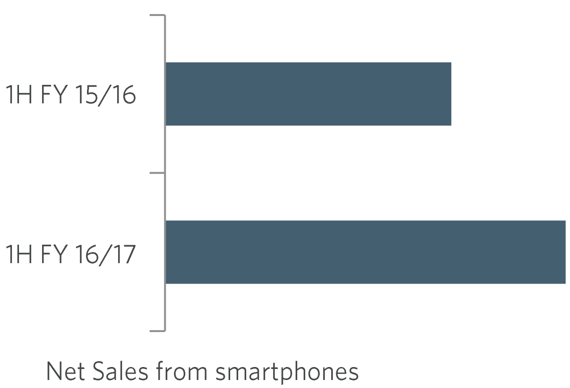


71% share of Esprit Friends in retail sales

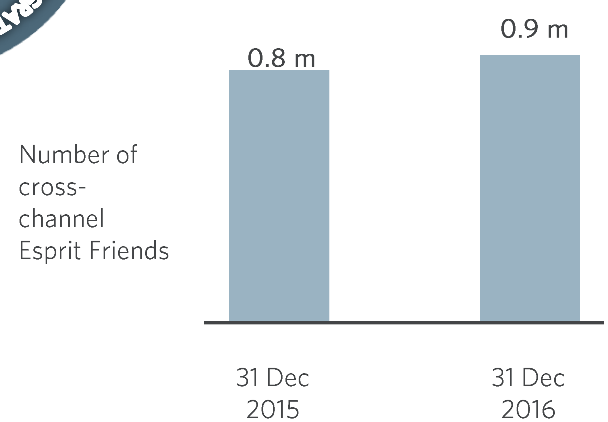




+40% sales from smartphones



+6% cross channel members



OMNICHANNEL MODEL – NEXT STEPS

1. **Direct to Consumer**
    - Integration of Esprit Friends in Tmall (for China): December 2017
    - New Esprit Friends branding concept: December 2017
    - Further Personalization of consumer experience: ongoing
    - New Esprit Friends recruitment and reachability initiatives: ongoing

2. **Cross-Channel Operations**
    - Roll-out completion of online-offline integrated features:
      click & collect - return in store - reserve in store
      (Retail & PSS/Wholesale): June 2017
    - Responsive Webdesign: June 2017
    - Launch full native Esprit App: June 2017
    - Test of digital screens for the Retail stores: December 2017

3. **Integrated Commercial Activity**
    - New Omnichannel theme marketing: just completed
    - Insourcing photo-studio: just completed

APAC
REPOSITIONING

REPOSITIONING OF ESPRIT APAC

Channels

- **Retail** – Reconstruction of the distribution footprint in line with main international brands:
  - **Stand alone** – Downsize large flagships and grow more profitable/smaller format in prime shopping malls
  - **Concessions** – Relocate to "international" floors with a more efficient/larger format for both genders together
  - **Outlets** – Premiumize and downsize network to focus on clearing inventories
- **Wholesale** – Leverage channel for strong partnerships in new large countries
- **Eshop** – Maximization of online growth by strengthening internal capabilities and developing a strategic partnership with the dominant market player

Products

- Global product offer with increased voice of Asia
- Strengthened merchandising for better adaptation of APAC's assortment

Marketing

- Communication of Esprit based on Global brand image and complemented by tactical and modern local initiatives

APAC UPDATE

	yoy growth in LCY	Main drivers
Retail	-3.5% Sales/sqm +5.3% GP/sqm	
Stores (full price)	+1.0% Sales/sqm +11.2% GP/sqm	
Eshop	+58.7% Sales +74.0% GP	
Wholesale	-42.6% Sales -30.7% GP	
APAC	+58.0% EBIT	

Main drivers

- Accelerated reduction of loss-making spaces both in Retail (-18.5% y-o-y) and Wholesale (-44.6% y-o-y)
- Strong focus on gross profit margin recovery by drastically reducing promotional activity & price markdowns
- Improved operations across all retail functions
- Rapid e-commerce sales growth and profitability improvement
- Downsizing of overhead costs

WHOLESALE
SPECIALIZED SOLUTIONS

WHOLESALE UPDATE

Wholesale

yoy growth in LCY

-16.8% sqm (controlled space)

-10.5% Revenue

-7.2% Gross Profit

-29.3% OPEX

+19% EBIT

(463 HK$ million EBIT contribution)

Main drivers

- Closure of unprofitable spaces by wholesale partners
- Improvement of gross profit margin by eliminating excessive discounts to selected partners
- Improved productivity from remaining spaces (better Order Intake trend)
- Downsized infrastructure (closure and merger of different showrooms across Germany, Rest of Europe and APAC)

WHOLESALE SOLUTIONS (WIP)

	Wholesale Revenue in FY15/16	SPECIALIZED	DIGITAL	VERTICAL
PSS	32%	Dedicated PSS showrooms for full store experience	Digital tools for salesforce in the showrooms	Concession model for selected PSS (test phase)
KA*	33%	Dedicated KA central showroom for stronger partnership model	Digital integration of information and operations, e.g. sales, inventory,…	Concession model for selected SiS (study phase) and online partners (test phase)
ML	35%	Dedicated digital showrooms for improved service and information	Digital setup, incl. self-management capabilities (Esprit b-shop)	Fixed budget for vertical support for all other partners (stock risk taken by Esprit)

LEAN (PSS, KA*, ML)

- Service levels adapted to specific needs of each partner
- Centralization of non-commercial functions
- 100% focus on commercial tasks in the markets
- Homogenization and simplification of sales and back-office processes and tools (digital)
- Reduction of sales samples

** Key Accounts represents TOP partners in Europe and APAC*

OPEX
REDUCTION PLAN

OPEX REDUCTION - UPDATE

yoy growth in LCY		
1H FY16/17	▼ -10.8%	OPEX
1H FY15/16*	▲ +5.1%	OPEX
1H FY14/15	▼ -8.9%	OPEX
1H FY13/14	▼ -18.2%	OPEX

* -3.9% if excluding exceptional inventory provision write back and extraordinary marketing expense for the launching of the #ImPerfect brand campaign in AW 2015

Main drivers

- Closure of heaviest loss-making retail stores since 1 July 2015
  - Germany (-11 stores, -7,342 sqm)
  - Rest of Europe (-30 stores, -17,354 sqm)
  - APAC (-44 stores, -15,630 sqm)
- Downsizing of wholesale structures
  - Closure of UK showroom & affiliate
  - Further showroom closures/downsizing in Germany, The Netherlands, Spain, Italy and Finland
  - Merger of all APAC showrooms into one
- Overhead restructuring plans
  - Social Plan in Germany HQs
  - Social Plan in France
  - Streamlining of local European and Asian country organizations

OUTLOOK

SECOND HALF OUTLOOK FOR FY16/17

- Continue to execute our Strategic Plan with primary focus on improving our bottom line

- In the short term, this approach implies:

  - (-) A decline in revenue due to the reduction of unprofitable controlled space

  - (+) Countered by better sales productivity, improved margins and reduced operating expenses

- We expect in the Second Half of this financial year a similar development as observed in the First Half

THANKS AGAIN!

Offices

Product

Showrooms

Stores

Logistics


Q&A