FY16/17 ANNUAL RESULTS PRESENTATION
ESPRIT HOLDINGS LIMITED
20 SEPTEMBER 2017

ESPRIT

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AGENDA

Business Highlights	Jose Manuel Martínez, Group CEO
Annual Results Review	Thomas Tang, Group CFO
Strategy Update	Jose Manuel Martínez, Group CEO
Q&A	

BUSINESS HIGHLIGHTS

➢ **Improvement in profitability**
- Positive net income of +HK$67 million (2016: HK$21 million)
- Results of underlying operations (LBIT excluding exceptional items) improved by HK$386 million to –HK$186 million (2016: -HK$572 million)
- EBITDA, excluding exceptional items, of HK$397 million (2016: HK$90 million)

➢ **Business performance fully in line with guidance**
- Revenue development (-8.7% yoy in LCY) in line with total space reduction (-8.5% yoy)
- GP margin improved by +1.4%pts yoy to 51.6%
- Regular OPEX reduced by -9.9% yoy in LCY

➢ **Strong financial position**
- Net Cash position of HK$5.2 billion
- Zero/debt

STRATEGY HIGHLIGHTS

- **Strategic Plan 2013 – 2017 finalized**
  - Group stabilized financially and operationally
  - New model implemented for product development and supply chain (Vertical)
  - Successful integration of commercial activity for online and offline channels (Omnichannel)

- **Five key initiatives in order to build a stronger foundation for growth, while further restructuring our cost base**
  1. Brand Rejuvenation
  2. Product Elevation
  3. Channels – Next Generation
  4. Markets Rightsizing and Expansion
  5. Cost Reduction

ANNUAL RESULTS

P&L REVIEW

INCOME STATEMENT

(in HK$'m)	FY16/17	FY15/16	YoY change HKD	YoY change LCY
Revenue	15,942	17,788	▼ 10.4%	▼ 8.7%
COGS	(7,712)	(8,859)	▼ 12.9%	▼ 11.3%
Gross profit	8,230	8,929	▼ 7.8%	▼ 6.2%
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Regular OPEX	(8,416)	(9,501)	▼ 11.4%	▼ 9.9%
(LBIT)* of underlying operations	(186)	(572)		
Net exceptional items	84	(24)		
(LBIT)*	(102)	(596)		
Interest & taxation (net credit)	169	617		
Net profit	67	21		

▲/▼ year-on-year change

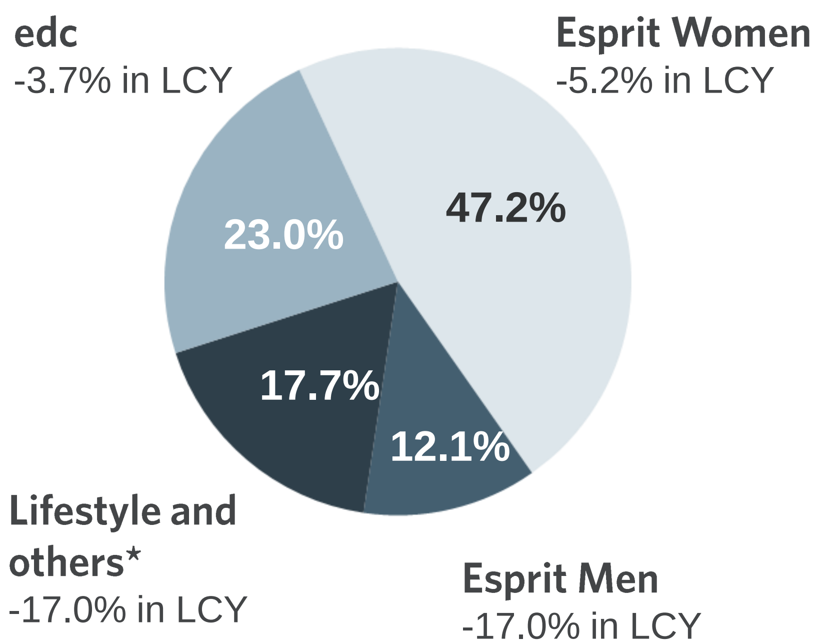
****   Loss before interest and tax***

Revenue decline in line with reduction in total controlled space of -8.5% yoy

- Space reduction mainly due to closure of the most unprofitable retail stores and low performing wholesale spaces
- Actions to increase gross profit margins by reducing the level of promotional activities, price markdowns and wholesale discounts

REVENUE BY PRODUCT DIVISION

Group Revenue: HK$15,942 m



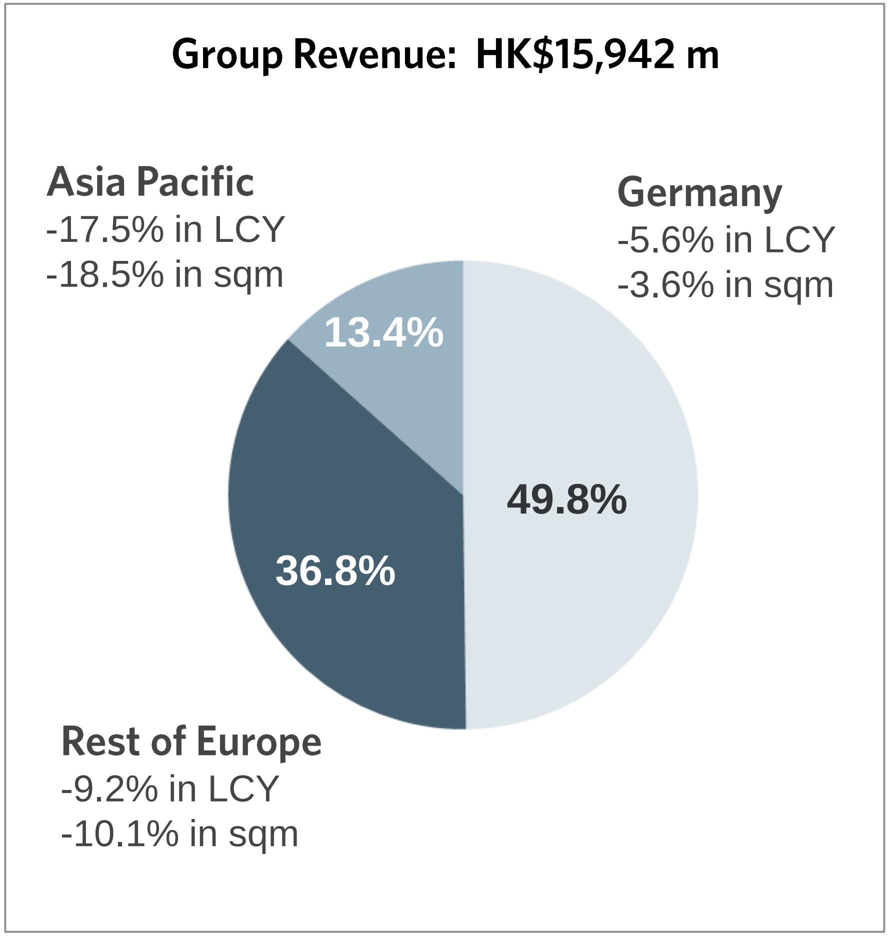
The main divisions, Esprit Women and edc, developed better than controlled space reduction

Still challenges in the performance of the smaller Esprit Men and Lifestyle & others divisions

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

+ / - yoy change

REVENUE BY MARKET



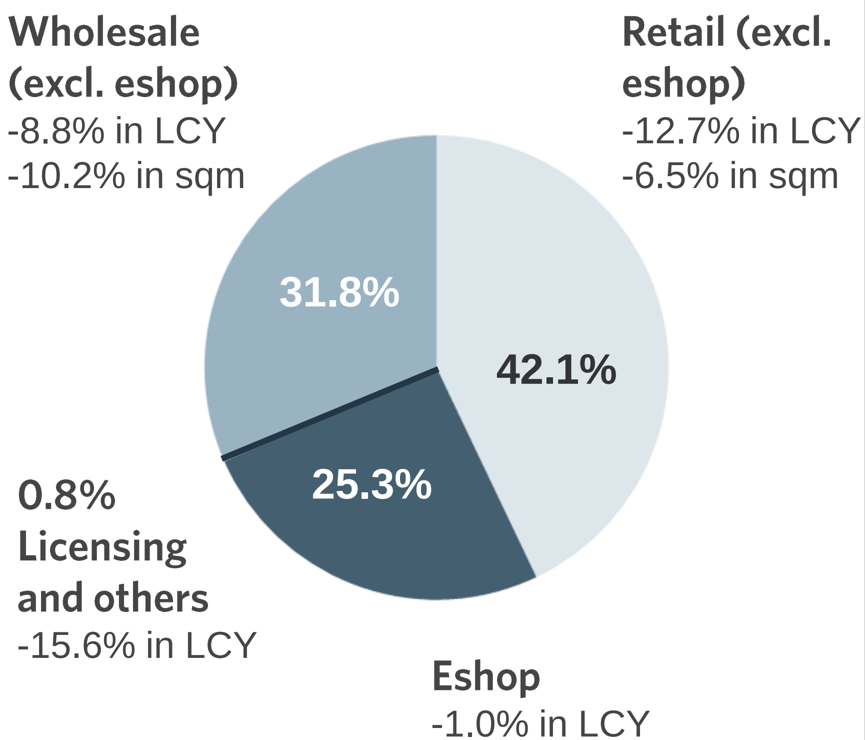
Revenue in all markets largely in line with controlled space reduction

Closure of loss making spaces proving more difficult in Germany due to longer lease terms

+ / - yoy change

REVENUE BY CHANNEL

Group Revenue: HK$15,942 m



+ / - yoy change

Retail (excl. eshop) revenue decline driven by space reduction, gross profit margin protection and decline in Outlets

Stable revenue development of eshop after strong growth last year (+15.3% in LCY) and in wholesale (better than controlled space reduction)

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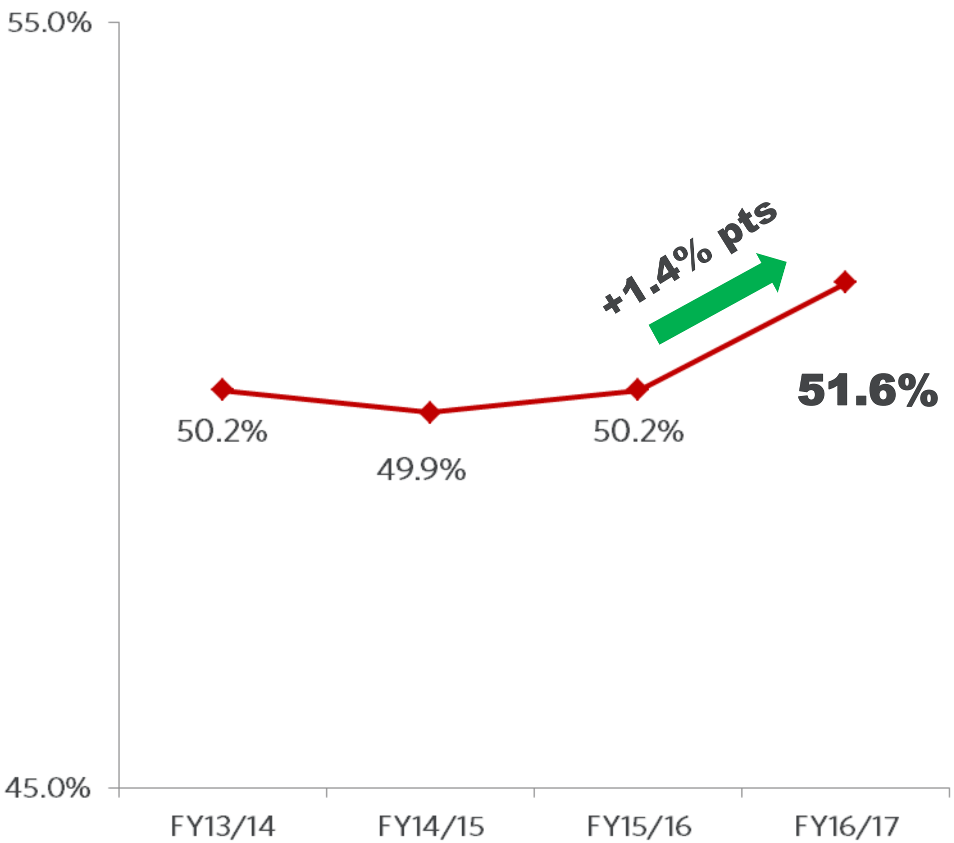
Gross profit margin up by 1.4% pts

- Reduction of promotions, price markdowns and wholesale discounts
- Further improvement of Supply Chain efficiency
- Drag from a lower share of the retail (excl. eshop) over the Group revenue (42.1% in FY16/17 vs. 44.0% in FY15/16)
- Weakness of the Euro for most part of the year

▲/▼ year-on-year change

* ***Loss before interest and tax***

GROSS PROFIT MARGIN



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

Continued positive development in recent years despite weakness in the Euro

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- Regular OPEX reduced by HK$1,085m
- Accelerated closure of loss-making stores
- Overhead cost restructuring measures

▲/▼ year-on-year change

**** Loss before interest and tax***

OPERATING EXPENSES

(in HK$'m)	FY16/17	FY15/16	Change in % LCY
Staff costs	2,851	3,018	▼ 4.1%
Occupancy costs	2,496	2,793	▼ 9.2%
Logistics expenses	957	1,022	▼ 4.6%
Marketing & advertising expenses	814	1,015	▼ 18.1%
Depreciation & Amortization	582	662	▼ 10.7%
Other operating costs	716	991	▼ 26.4%
Regular OPEX	8,416	9,501	▼ 9.9%

Savings achieved across all key cost lines

HK$1 billion cost savings target achieved one year ahead of schedule

▲/▼ *year-on-year change*

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Significant improvement in profitability of underlying operations (+HK$386 million):

- Revenue decline fully offset by
- Improved gross profit margin and
- Reduced OPEX

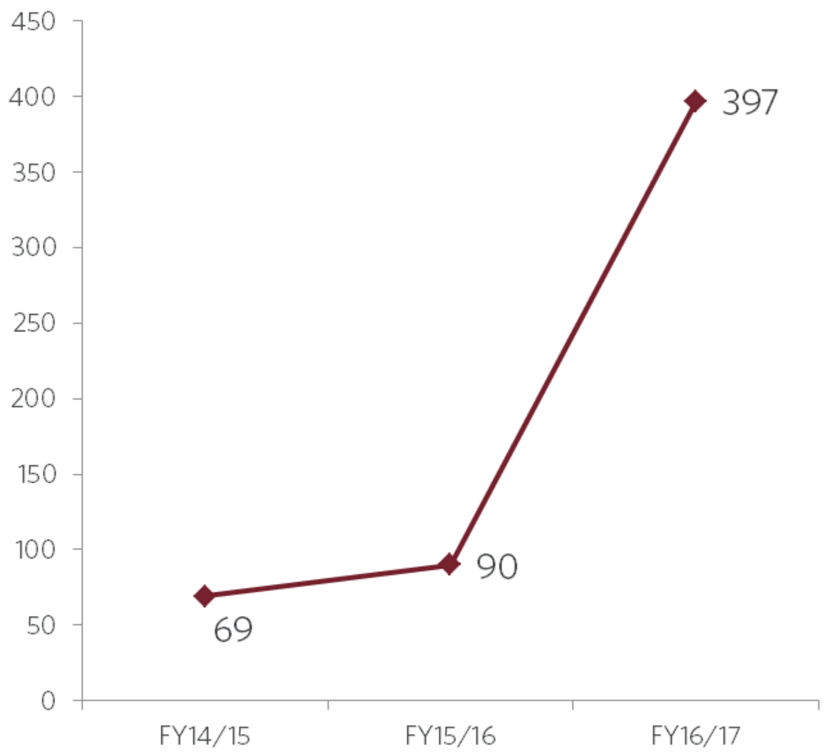
▲/▼ year-on-year change

* ***Loss before interest and tax***

PROFITABILITY OF OPERATIONS

EBITDA **(excl. exceptional items)**

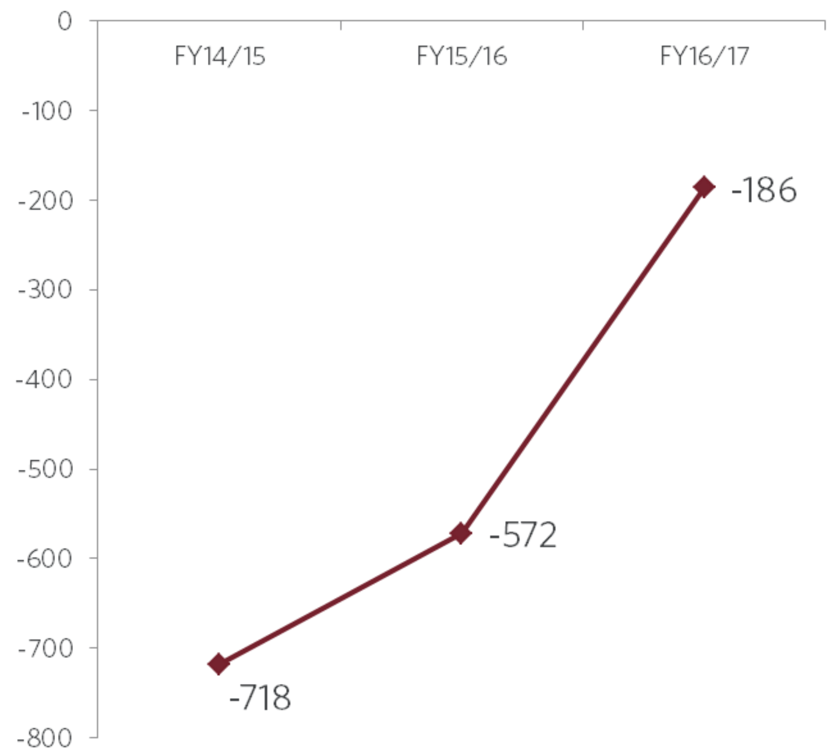
HK$'m



+HK$307 million yoy

LBIT **(excl. exceptional items)**

HK$'m



+HK$386 million yoy

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Exceptional items mainly related to net gain on sale of properties

▲/▼ year-on-year change

* ***Loss before interest and tax***

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HK$494 million improvement of the GROUP LBIT vs FY15/16

▲/▼ year-on-year change

* ***Loss before interest and tax***

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Net tax credit lower than last year but still positive

•Credit from deferred taxation arising from tax losses to offset future potential profits

•Release of deferred tax liability no longer required based on communication received from the relevant tax authority

▲/▼ year-on-year change

* ***Loss before interest and tax***

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▲/▼ *year-on-year change*

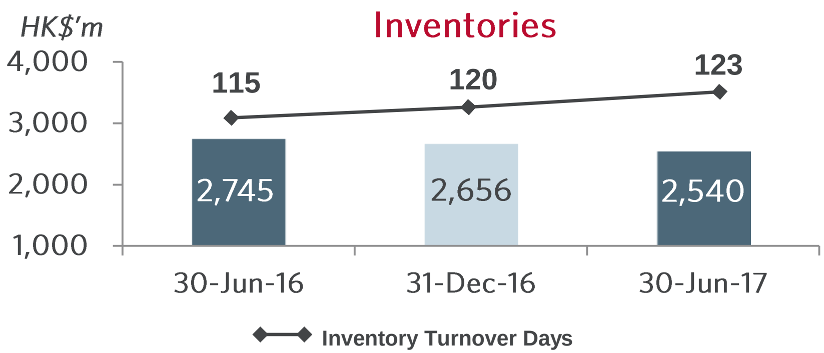
* ***Loss before interest and tax***

Net Profit of HK$67m resulting from increased gross profit margins, leaner costs and net tax credit

In view of the size of the net profit, the Board has not recommended the payment of a final dividend

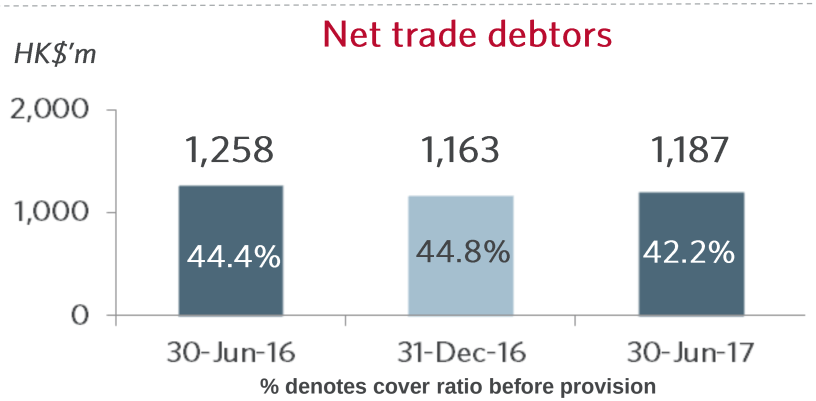
ANNUAL RESULTS
WORKING CAPITAL

WORKING CAPITAL



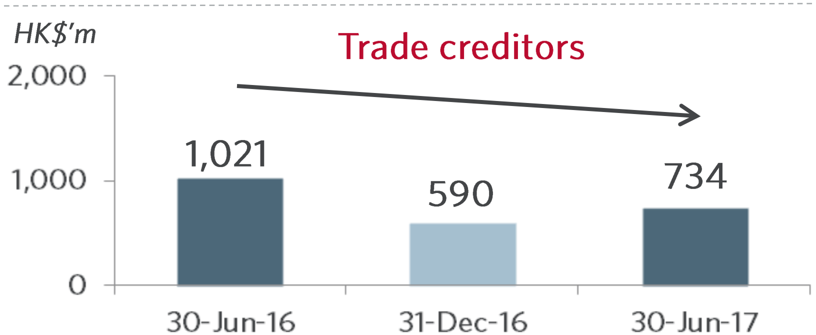
Inventories value ▼ 7.4% yoy:

- Despite ▲ 3.4% appreciation in EUR/HKD closing rate yoy
- Inventory turnover days ▲8 days mainly due to the higher share of retail and eshop, and the lower revenue of the Group



Net trade debtors ▼5.6% yoy:

- Despite ▲ 3.4% appreciation in EUR/HKD closing rate yoy
- Lower wholesale revenue
- Cover ratio before provision of 42.2%, decreased slightly by 2.2%pts yoy



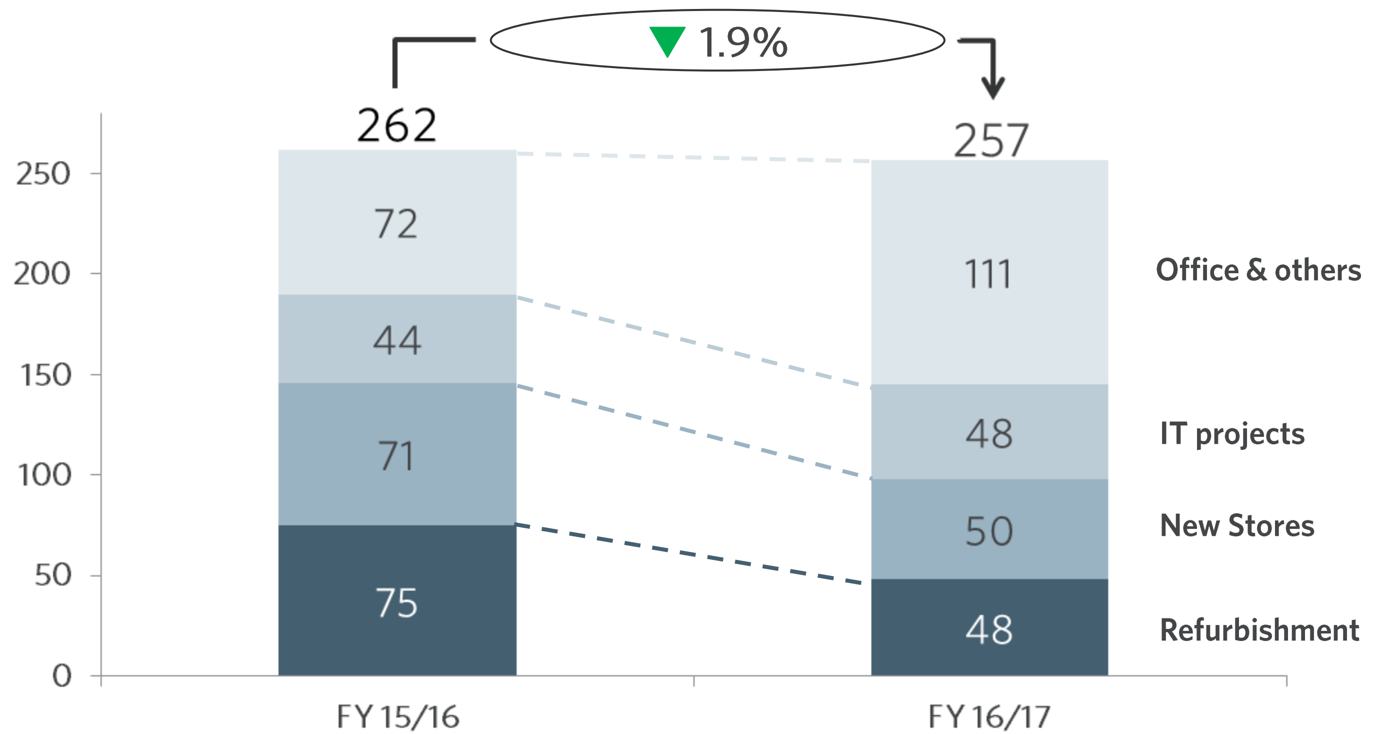
Trade creditors ▼28.0% yoy:

•Despite ▲ 3.4% appreciation in EUR/HKD closing rate yoy

•Quicker payment to take advantage of higher discount from suppliers

CAPITAL EXPENDITURE

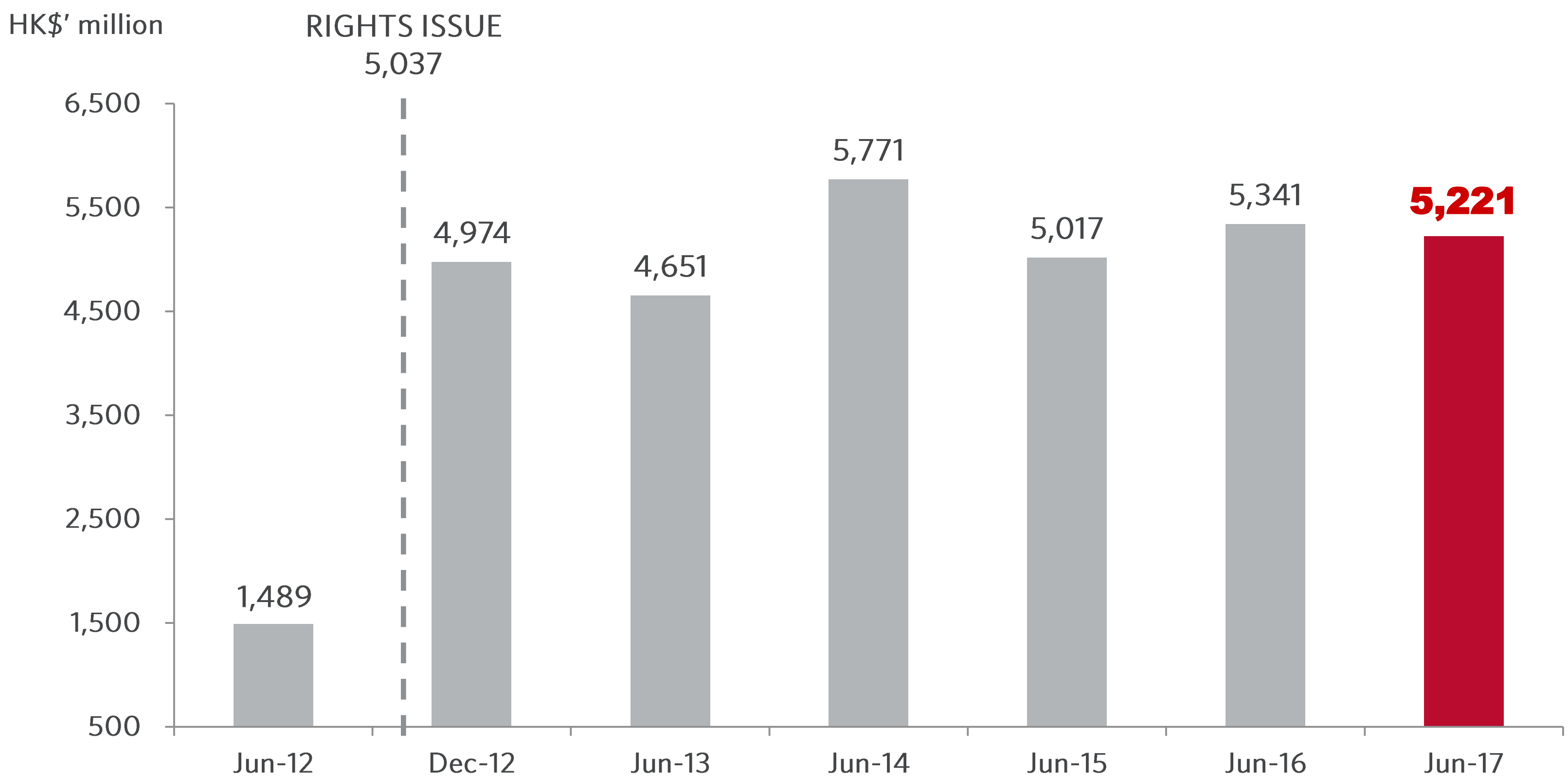
HK$'m



CAPEX remained flat for FY16/17 while largest reductions in store openings and refurbishments, as large scale refurbishments are mostly completed

▲/▼ *year-on-year change*

NET CASH POSITION



Strategic Plan (2013-2017) has been completed without significant consumption of cash

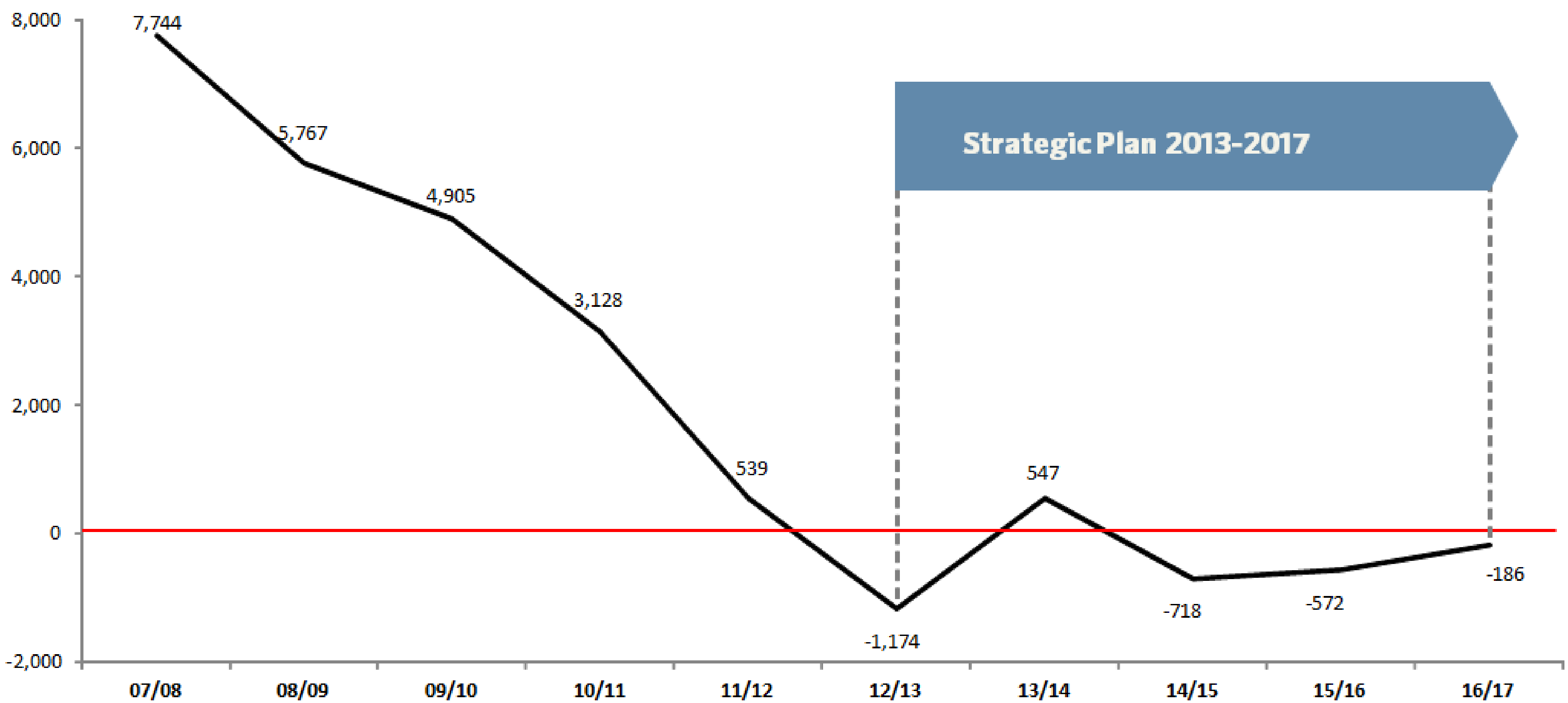
STRATEGY
UPDATE

STRATEGIC PLAN 2013-2017

SHORT TERM	**MEDIUM TERM**	**LONG TERM**
FY13/14	FY14/15	> 2 years
STABILIZATION	***TRANSFORMATION***	***GROWTH***
	UNCERTAINTY SCENARIO IN FY14/15	
Build a sound and healthy platform for the introduction of the structural changes needed to regain competitiveness	Execute the ambitious transformation of our business model (**Vertical Omnichannel**) to enhance speed and efficiency of our product and sales management	Leverage the benefits of the new model to drive sustainable top line growth, and the healthier cost base to increase profitability

STRATEGIC PLAN 2013-2017 - EBIT* DEVELOPMENT

ESPRIT EBIT/LBIT (excl. exceptional items) – HK$ million



*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) and excluding FX rate impacts

STRATEGIC PLAN 2013-2017 - SUMMARY

STOPPED THE BLEEDING

- Reversed fast EBIT decline of 5 previous years
- Returned to small profits after large losses in FY12/13
- Minimized cash consumption
- Maintained a sound financial position (net cash > HK$5 billion, zero debt)

BUILT OPERATIONS FOR THE FUTURE

- Implemented best Vertical practices in:
  - product development
  - supply chain management and logistics
  - merchandise management
  - commercial functions
  - retail operations
- Introduced and keep developing Omnichannel model
- Established a much leaner organization

NOT TRIGGERED GROWTH

- Downsizing of distribution network required and still ongoing
- Product improvement positive but limited by structural issues
- Just initial investment deployed for brand rejuvenation to date

TWO MAJOR GOALS

LONG TERM GROWTH

Create the basis for sustained sales growth and expansion by bringing our brand, product and channels to the next level and to a whole new generation of consumers

ESPRIT

RESTRUCTURING OF COST BASE

Significantly improve operating margins by focusing on the core profitable areas of the business and the highest potential markets, while fully capturing the synergies of a global brand and operations

TOP 5 STRATEGIC INITIATIVES

LONG TERM GROWTH

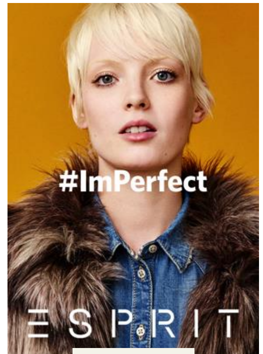
1. Brand Rejuvenation
2. Product Elevation
3. Channels Next Generation
4. Markets Rightsizing & Expansion
5. Cost Reduction

RESTRUCTURING OF COST BASE

BRAND
REJUVENATION

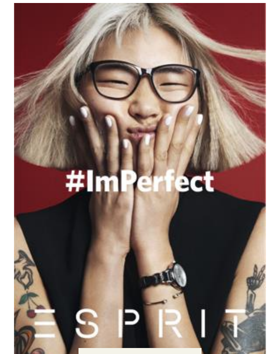
BRAND REJUVENATION SINCE FY15/16

#ImPerfect brand campaigns



AW15

SS16



AW16

SS17

Collaboration with Opening Ceremony

ESPRIT


Collection 1, AW16

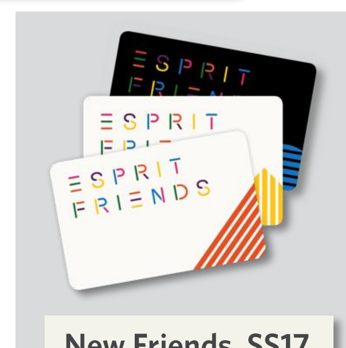

Collection 2, SS17

Others

sprinklr

Sprinklr, 2016


Retro, SS17



New Friends, SS17

ESPRIT X OPENING CEREMONY

JUSTIN BIEBER
Canadian singer

IG 91.6 Mio TW 100 Mio

REESE WHITERSPOON
American actress

IG 10.6 Mio TW 1.98 Mio

SONG HYE-KYO
South Korean actress

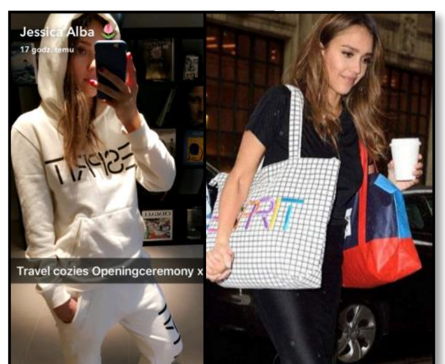
IG 5.6 Mio TW 53.6 K

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



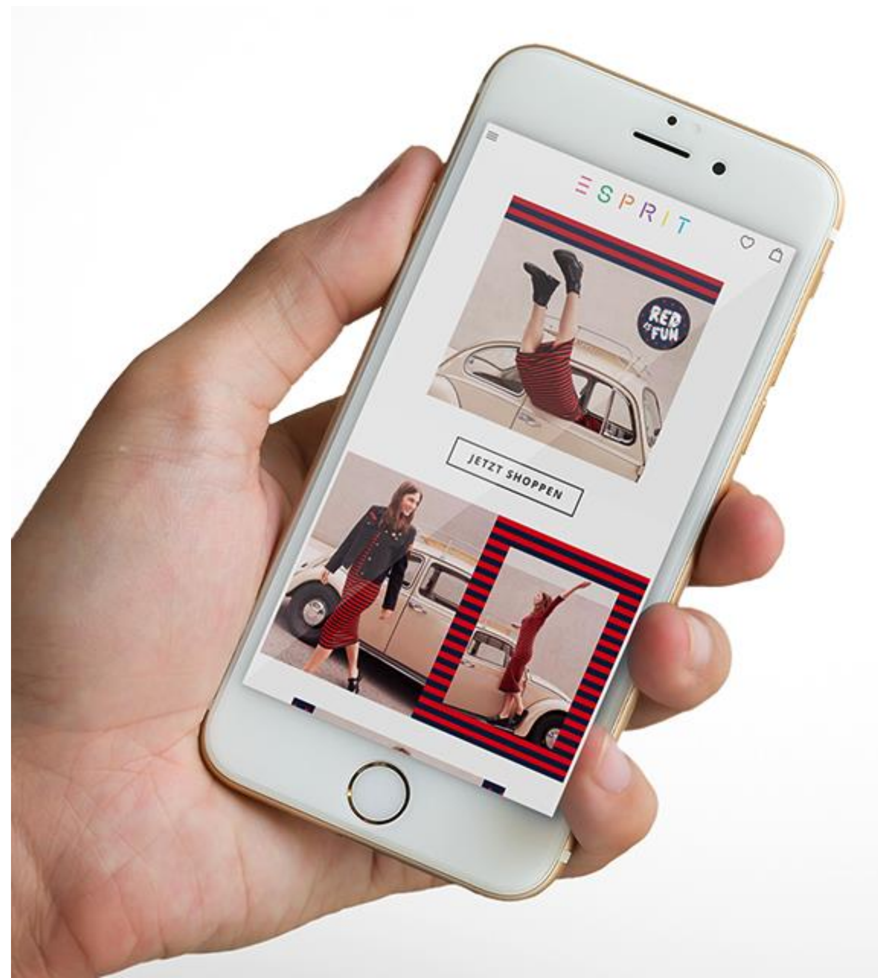
KARLIE KLOSS
American (Victoria's Secret Angel) model

IG 6.2 Mio TW 2.39 Mio

BRAND REJUVENATION – MARKETING 2.0

DIGITAL FIRST

- Everything starts with Digital in mind, esp. mobile
- Drive digital innovations… and actively communicate about them
- Aim to become #1 partner with key industry players in digital & social
- Concentrate efforts on digital in all consumer-facing communication



BRAND REJUVENATION – STRATEGY

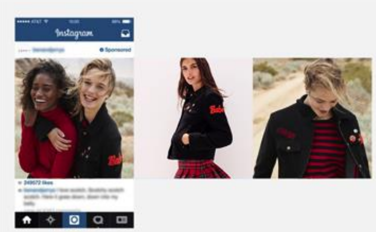
INCREASE TOP OF MIND

BE RELEVANT

ENGAGE

GO BEYOND

MAGAZINE



INSTAGRAM

BOOST VISIBILITY & EXCITEMENT

- Upgrade creative assets
  - Colors
  - Graphics
  - Inspirational faces
  - Positive energy
  - Surprise star products
  - …
- New 360° campaigns

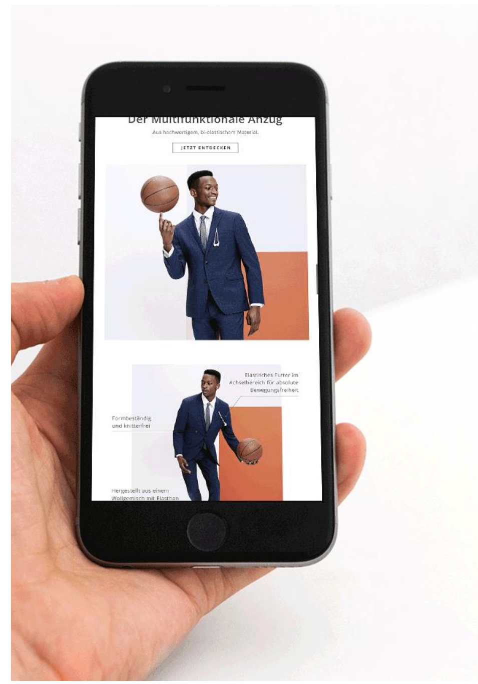
BRAND REJUVENATION – STRATEGY

INCREASE TOP OF MIND

BE RELEVANT

ENGAGE

GO BEYOND



GO BEYOND BRAND & PRODUCT

- Share trends, give styling tips, tutorials, be on You Tube
- Show new, tell stories, use videos, be on Instagram
- Innovate in digital, bring surprises
- Create true experiences and consumer interactions, have events

BRAND REJUVENATION – STRATEGY

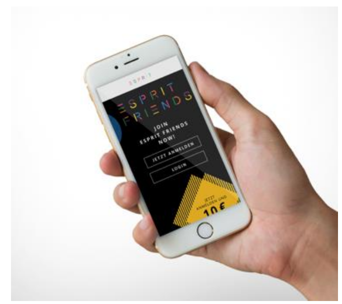
INCREASE TOP OF MIND

BE RELEVANT

ENGAGE

GO BEYOND

ESPRIT FRIENDS



CREATE AUTHENTIC RELATIONSHIPS

- Go beyond pure transactional relationships
- Reinvent Esprit Friends program with more fun outlook and benefits
- Create an online Friends community to meet, exchange, play, enrich, attend events
- Develop partnerships with other brands that are attractive for our consumers

BRAND REJUVENATION – STRATEGY

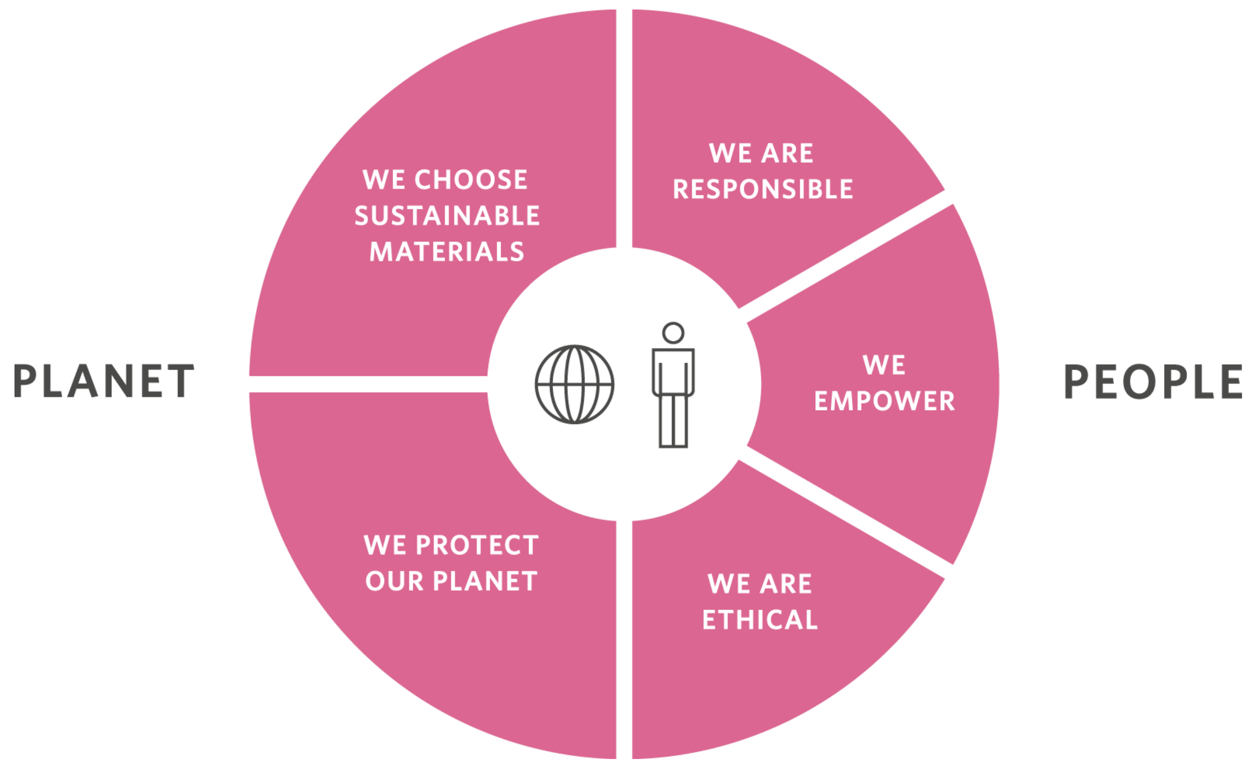
INCREASE TOP OF MIND

BE RELEVANT

ENGAGE

GO BEYOND

KEEP DOING GOOD



- Form strong partnerships with key environmental and social actors
- Share our sustainability program through consumer stories & events

PRODUCT *ELEVATION*

VERTICAL PRODUCTS SINCE FY15/16

	FULL PRICE RETAIL	FY15/16	FY16/17	ACCUM.
SALES PRODUCTIVITY* yoy GROWTH	TOTAL	+11.4%	+3.9%	+15.7%
	STORES	+6.0%	-1.3%	+4.6%
	ESHOP	+15.2%	-0.7%	+14.4%
GROSS PROFIT PRODUCTIVITY* yoy GROWTH	TOTAL	+6.5%	+6.2%	+13.2%
	STORES	+0.2%	+5.4%	+5.7%
	ESHOP	+13.9%	-4.6%	+8.7%

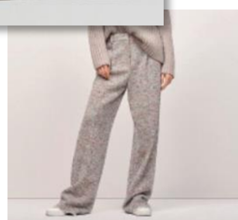
* Sales and Gross Profit per sqm yoy growth excl. FX rate effects (except for Eshop, where total revenue yoy growth excl. FX rate effects is presented)

PRODUCT ELEVATION – NEW PRODUCTS

Details

Color

Trends



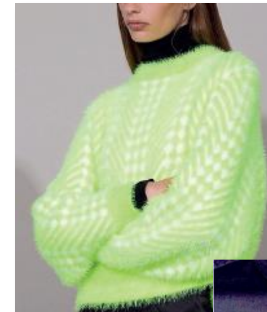
Branding

STRENGTHEN DESIGN IDENTITY

ELEVATE INTRINSIC QUALITY

INCREASE INVESTMENT IN PRODUCTS

INCREASE SHARE OF SUSTAINABLE PRODUCTS



Fabrics

Trims

Finishing

Water

Recycling

Chemicals

* Illustrative examples only

PRODUCT ELEVATION – NEW ORGANIZATION

MAIN LINE

All divisions and product categories under one single head and team

- Better coordination of collections in terms of assortment, pricing and design
- Increased efficiency and synergies in product development and supply chain management
- Increased consistency between the Retail and Wholesale lines
- Reduced size of the product range

FAST-TO-MARKET

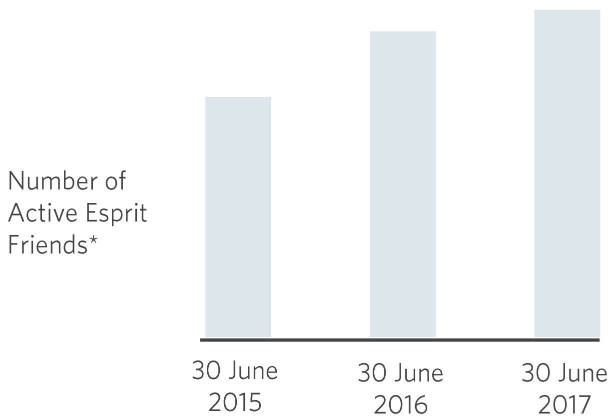
Enlarged specialized team and supply chain for all fast to market product development

- Higher share of fast reaction products
- Faster and more visible introduction of trends
- Special support for the specific needs of our Asian markets
- **Fully dedicated product engine for the specific needs of online**

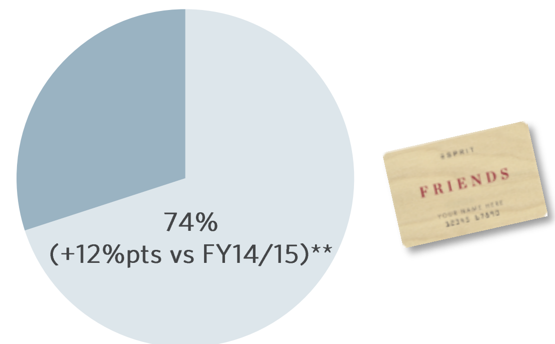
CHANNELS
NEXT GENERATION

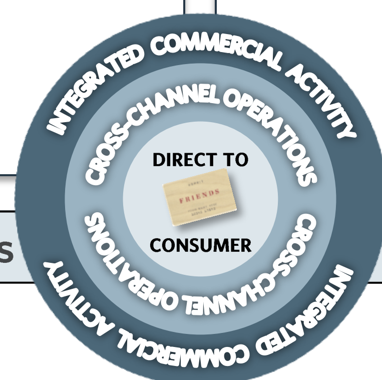
OMNICHANNEL MODEL SINCE FY15/16

+36% active Esprit Friends



74% share of Esprit Friends in retail sales

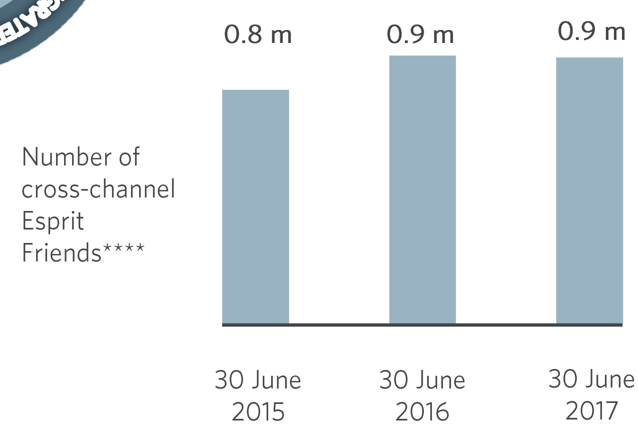




+164% sales from smartphones

Net Sales from smartphones***

+14% cross channel members

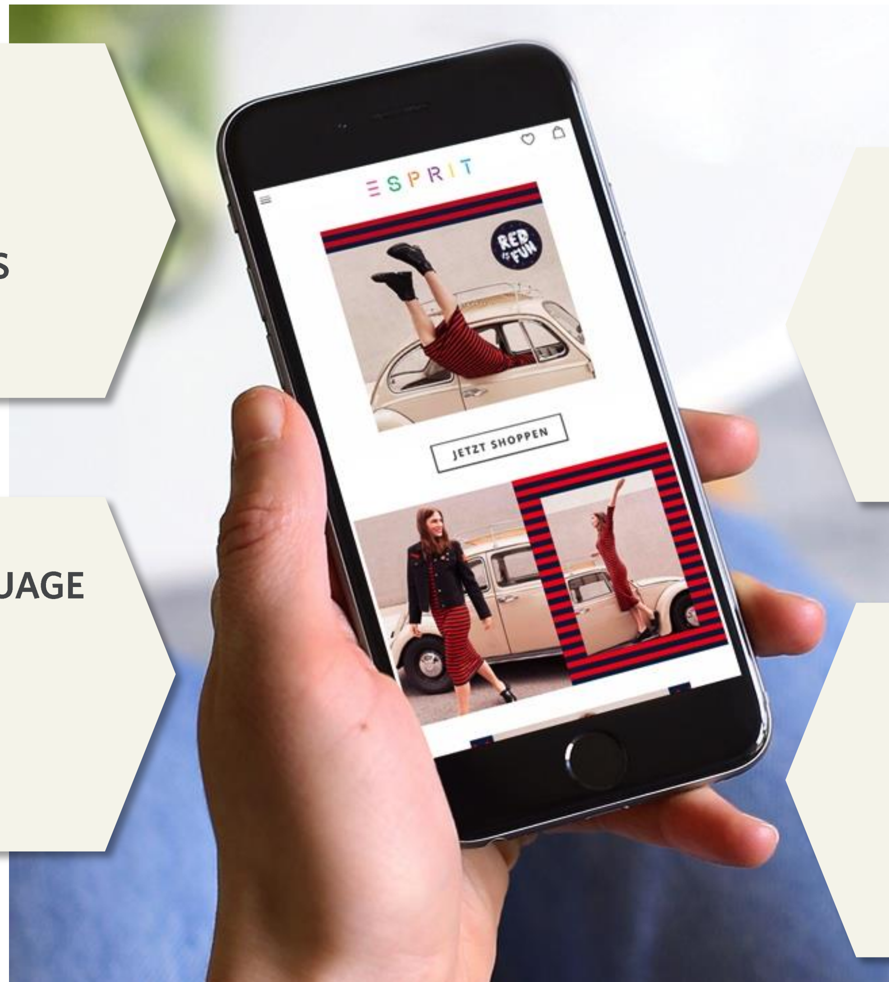


*Esprit friends based on global active members 12 month / **retail sales excl. Tmall sales
***smartphone sales based on global orderintake without marketplaces / ****cross channel members incl. retail, eshop, outlet, PSS

E-SHOP – NEXT GENERATION

MOBILE FIRST

- BRAND CONTENT!
- PERSONALIZATION
- ESPRIT LOVE'S
- INTERACTIVE GUIDES
- …

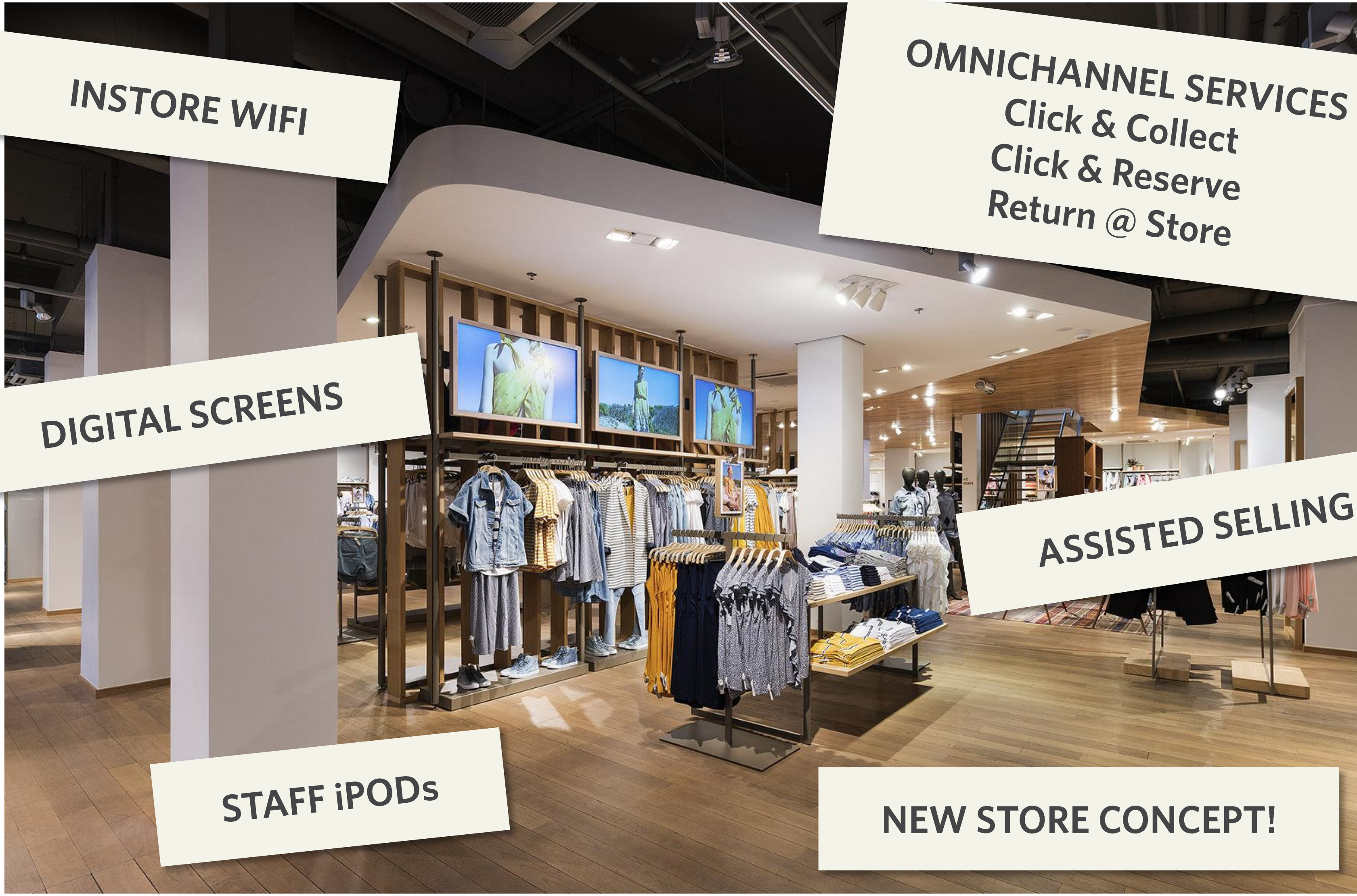


- USER CONTENT!
- SOCIAL MEDIA
- VIDEO PLATFORMS
- INFLUENCERS
- …

- NEW IMAGE & LANGUAGE
- COLLABORATIONS & PARTNERSHIPS
- GAMIFICATION
- …

- MOBILE OPTIMIZATION
- NEW NAVIGATION
- DIGITAL INNOVATION
- OMNICHANNEL
- …

STORES – NEXT GENERATION



MARKETS

RIGHTSIZING & EXPANSION

MARKETS PERFORMANCE IN FY16/17

EBIT contribution by channel and market* (HK$ million)

	EUROPE	APAC	TOTAL
ESHOP	922	(7)	915
RETAIL excl. eshop	(469)	(177)*	(646)
WHOLESALE	848	(5)	843
TOTAL	**1,301**	**(189)**	**1,112**

* Excluding HK$ 100 million gain on disposal of property

LOSS MAKING STORES

EUROPE

60% of losses concentrated in 43 stores (17% of sqm)

- Good locations
- Oversized/over-expensive network

APAC

75% of losses concentrated in 5 stores (6% of sqm)

- Highly loss-making flagships
- Weak/outdated network

GROWTH IN EUROPE

EUROPE

- **EXISTING** – Selective openings to replace loss-making stores in core markets
- **EXPANSION** – France, Spain, Russia, ...

APAC

- **EXISTING** – Acceleration of planned restructuring of store network in key markets
- **EXPANSION** – China, India, ...

OTHER – US, Canada, Mexico, Middle East, ...

COST
REDUCTION

COST REDUCTION SINCE FY13/14

OPEX REDUCTION
(as presented in March 2016 – IR Day)

Reduce OPEX by at least - HK$1.0 billion over the next 2 years, excl. fx rate impacts:

- Closure of the heaviest loss-making stores and deep restructuring of the countries with negative bottom line contributions
- Downsizing of wholesale organizations to adapt to channel development
- Reducing all overhead costs in the affiliates and central headquarters
  - Streamlining internal processes and resources under new business model
  - Maximizing synergies between local and central structures
  - Enforcing ever more radical cost discipline across the organization

OPEX yoy growth in LCY*

FY16/17	▼ -9.9%
FY15/16	▼ -1.9%
FY14/15	▼ -1.2%
FY13/14	▼ -21.4%

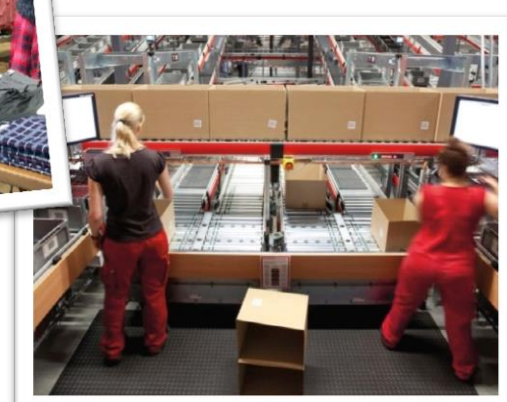
* OPEX excl. exceptional items

OUTLOOK

FY17/18 OUTLOOK

REVENUE	**Modest decline** as pressure from continued closure of most unprofitable stores is expected to be partly alleviated by expansion and space productivity improvements
GP MARGIN	**Slightly higher gross profit margin** as a result of a higher proportion of retail revenue to Group revenue and reduced markdowns and discounts
OPEX	**Continued decrease** as we expect the obvious savings from store closures as well as further opportunities to optimize overhead costs
EBIT	**Similar improvement in EBIT (excluding exceptional items) as experienced in FY16/17**, as improvement in gross profit margin and operating expenses is expected to outweigh the negative impact of revenue decline

THANKS AGAIN!




ESPRIT