

FY 17/18

INTERIM RESULTS

ESPRIT HOLDINGS LIMITED



ESPRIT

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AGENDA

Business and Strategy Highlights

Jose Manuel Martínez, Group CEO

Interim Results Review

Thomas Tang, Group CFO

Strategic Update

Jose Manuel Martínez, Group CEO

Q&As

BUSINESS AND STRATEGY HIGHLIGHTS

- **Revenue declined by -9.6% yoy in LCY in 1H FY17/18**
 - Reduction of controlled space by -7.4% yoy
 - Sales performance below expectations in 2Q FY17/18, especially in brick and mortar retail stores

- **Other key financial metrics developed in line with guidance**
 - Gross profit margin improved by +0.4% pts up to 52.9%
 - Regular OPEX reduced by -5.5% yoy in LCY

- **Result of underlying operations (LBIT excluding exceptional items) was HK\$(136) million, as the improvements in profitability could not offset the impact of revenue decline**

- **Net loss was HK\$(954) million, largely impacted by the HK\$794 million non-cash and non-recurring impairment of China Goodwill and Customer Relationships in China**

- **Financial position remains strong and healthy, with net cash balance of HK\$4.57 billion (flat compared to one year ago despite HK\$186 million spent on share repurchases) and zero debt**

STRATEGY HIGHLIGHTS

- **For the last 4 years, the Group's priority was to improve bottom line performance (EBIT)**
- **Moving forward, the Group will focus on improving sales productivity through five strategic initiatives, as presented previously i.e. Brand Rejuvenation, Product Elevation, Channels Next Generation, Market Rightsizing and Expansion, and Cost Reduction**
- **These initiatives will be adapted to address two different areas of our business:**

Core Business: current product offering serving our core customers in Europe

- Stabilize sales performance through collections focused on our current consumer group
- Maximize profitability by rapidly improving efficiency of existing operations

New Businesses: new product lines (developed under a fully vertical model) to capture opportunities in high potential channels and markets

- Boost sales of our online business
- Win a new generation of consumers, with a special initial focus on China

01 INTERIM RESULTS REVIEW



INCOME STATEMENT

(in HK\$m)	1H FY17/18	1H FY16/17	YoY change	
			HKD	LCY
Revenue	8,039	8,323	▼ 3.4%	▼ 9.6 %
COGS	(3,787)	(3,952)	▼ 4.2%	▼ 10.3 %
Gross profit	4,252	4,371	▼ 2.7%	▼ 8.9 %
<i>GP margin</i>	<i>52.9%</i>	<i>52.5%</i>	▲ 0.4%pt	▲ 0.4%pt
Regular OPEX	(4,388)	(4,369)	▲ 0.4%	▼ 5.5%
(LBIT)* / EBIT of underlying operations	(136)	2		
Net Exceptional items	(822)	(15)		
(LBIT)*	(958)	(13)		
Net (taxation) / taxation credit	(5)	74		
Net (loss) / profit	(954)	61		

Strategic rationalization of our distribution footprint by -7.4% yoy in total controlled space

Weaker than expected sales performance of our brick and mortar retail stores in the 2nd quarter (Winter season)

* Earnings/loss before interest and tax

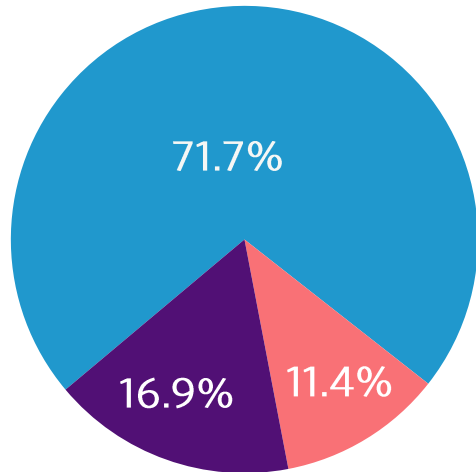
▲/▼ year-on-year change

REVENUE BY PRODUCT DIVISION

Group Revenue: HK\$8,039 m

Esprit Women & edc

-7.8% in LCY



Lifestyle & others*

-10.8% in LCY

Esprit Men

-17.8% in LCY

Women divisions, Esprit Women & edc, developed in line with controlled space reduction

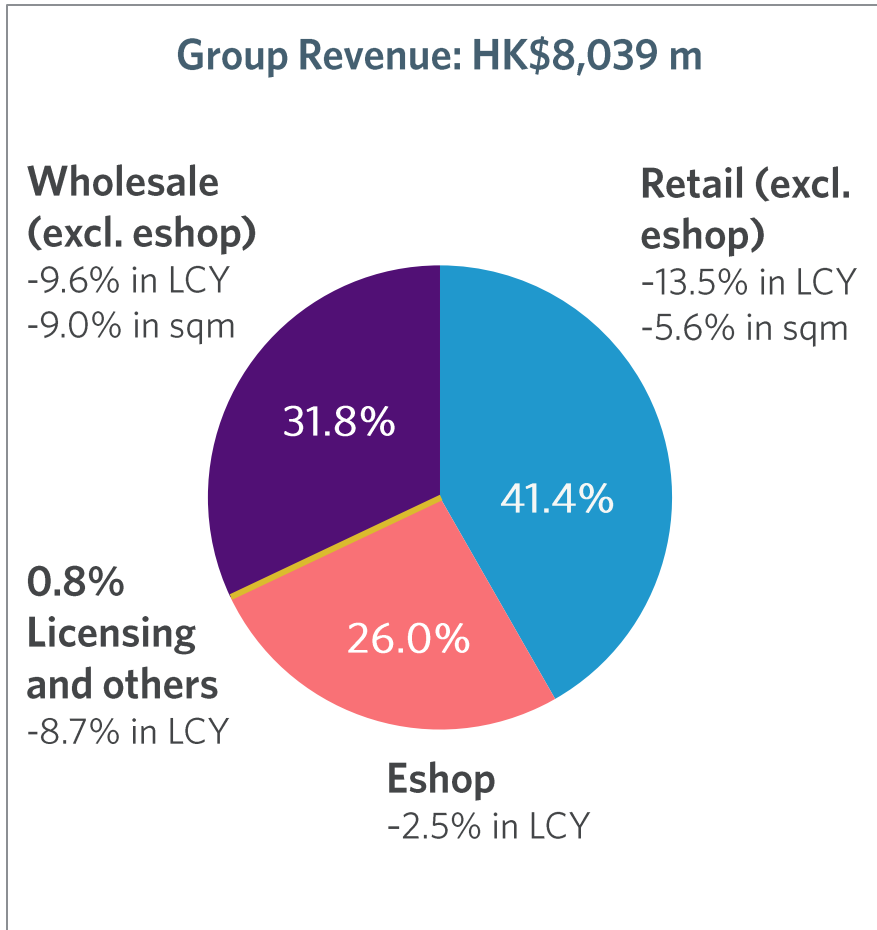
Still serious challenges in the performance of Esprit Men and Lifestyle & others division

Esprit Women and edc have merged under one head hence it is more meaningful to assess their performance jointly

* 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



+ / - yoy change

Wholesale (excl. eshop) developed largely in line with controlled space

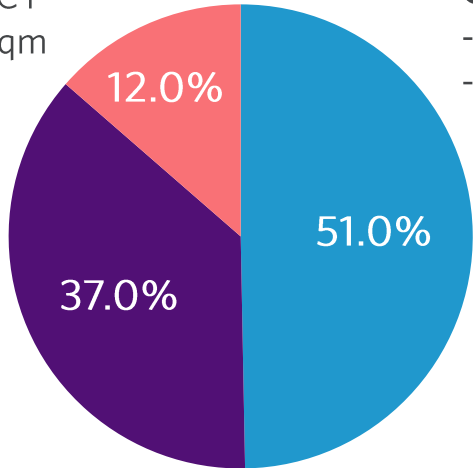
Eshop sales developed slightly negatively but order intakes from consumers in Europe, our largest market, grew by +4.4% yoy

Retail (incl. eshop) was dragged by a weak second quarter (1Q: -5.2% yoy in LCY vs 2Q: -13.1% yoy in LCY)

REVENUE BY MARKET

Group Revenue: HK\$8,039 m

Asia Pacific
-17.0% in LCY
-13.2% in sqm



Germany
-8.2% in LCY
-5.2% in sqm

Rest of Europe
-8.7% in LCY
-7.8% in sqm

All markets adversely impacted by the weak performance in our retail (excl. eshop)

Closure of loss making retail spaces progressing well in all markets, although proving more difficult in Germany due to longer lease terms

+ / - yoy change

INCOME STATEMENT

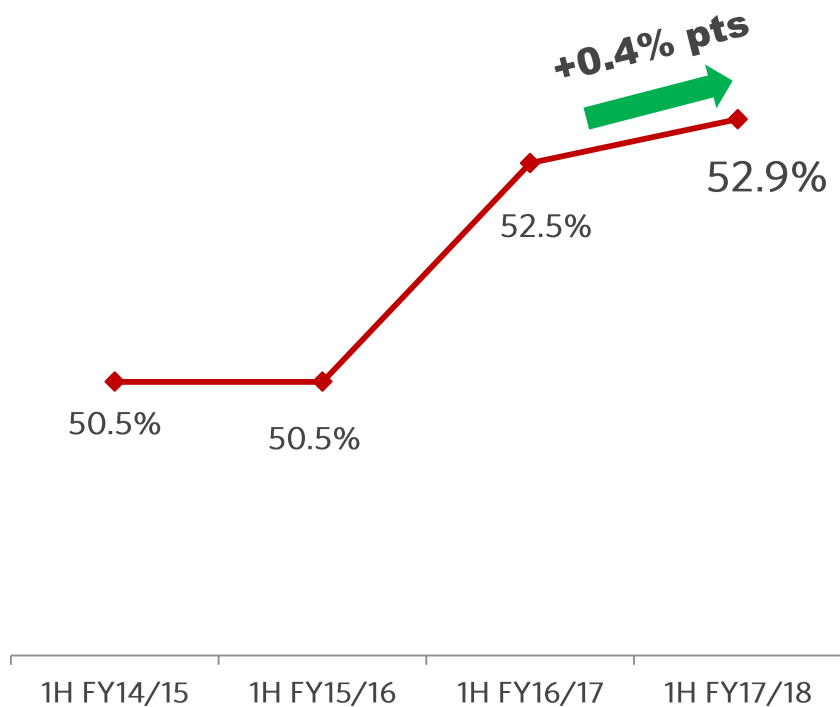
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Further increase in gross profit margin, as expected

* Earnings/loss before interest and tax

▲/▼ year-on-year change

GROSS PROFIT MARGIN



Gross profit margin increased by +0.4% pt yoy, despite lower share* of the retail (excl. Eshop) revenue over the Group revenue

Improvement seen across all markets (excl. eshop)

Continuing upward trend in recent years, despite pressure generated by a weak Euro in last years

*Retail (excl. eshop) revenue over Group revenue: 41.4% in 1H FY 17/18 vs 43.4% in 1H FY16/17

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Regular OPEX further reduced by -5.5% in LCY, albeit the significant reduction last year (-9.9% in LCY)

* Earnings/loss before interest and tax

▲/▼ year-on-year change

OPERATING EXPENSES

(in HK\$m)	1H FY17/18	1H FY16/17	Change in %	
			LCY	
Staff costs	1,482	1,474	▼	5.2%
Occupancy costs	1,278	1,276	▼	5.4%
Logistics expenses	501	473	▼	1.4%
Marketing & advertising expenses	437	402	▲	1.3%
Depreciation	263	260	▼	5.6%
Other operating costs	427	484	▼	16.4%
Regular OPEX	4,388	4,369	▼	5.5%

Savings were achieved across all key cost lines, except a slight increase in marketing expenses to strengthen our customer relationship management (CRM) program

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▲/▼ year-on-year change

Improvements in gross profit margin and operating expenses were not sufficient to outweigh the negative impact from higher than expected decline in revenue

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Large exceptional
expense compared to
last year, mostly from
non-cash items

* Earnings/loss before interest and tax

▲/▼ year-on-year change

EXCEPTIONAL ITEMS

<i>(in HK\$m)</i>	1H FY17/18	1H FY16/17
One-off costs in relation to staff reduction plans	(34)	(17)
Net write-back of provision for store closures and leases	3	4
Impairment of property, plant and equipment	(13)	(2)
Impairment of China Goodwill and Customer Relationships	(794)	-
Net gain on disposal of property in Taiwan	16	-
Exceptional items	(822)	(15)

97% of the amount from exceptional items related to the impairment of the China Goodwill and Customer Relationships in China due to the weak China business development in recent years

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▲/▼ year-on-year change

Net taxation expense of HK\$(5)m against the one-off taxation credit of HK\$74m last year

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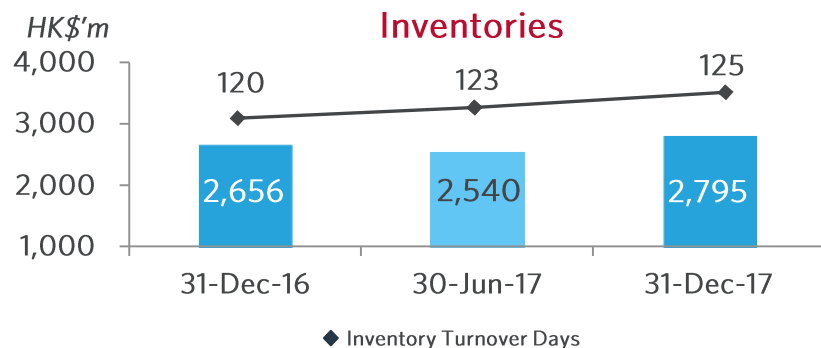
▲ / ▼ year-on-year change

Net Loss of HK\$(954) million

The majority of this loss related to impairment of our China Goodwill and Customer Relationships of HK\$(794) million, which is purely an accounting adjustment, with no impact on our cash and operational performance

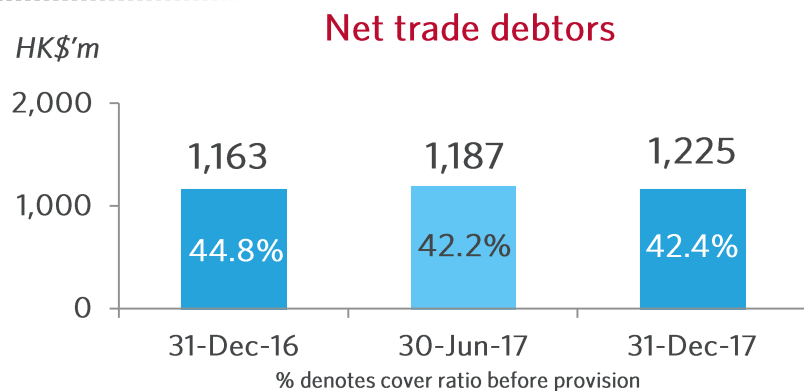
In view of the net loss, the Board has resolved not to declare any interim dividend

WORKING CAPITAL



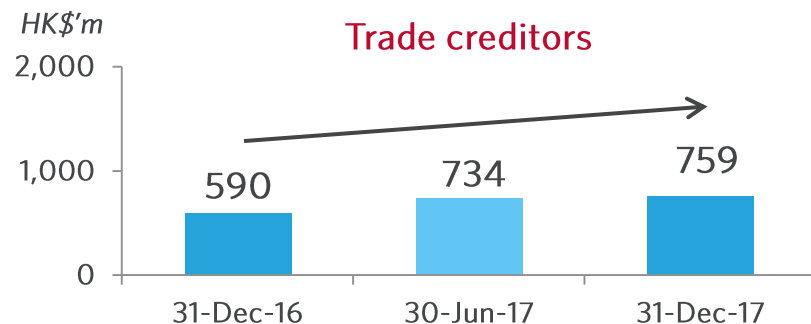
Inventories value ▲ 5.2% yoy due to :

- Appreciation in EUR/HKD closing rate ▲ 14.7% yoy
- Inventory turnover days ▲ 5 days due to weaker than expected sales performance of retail, including eshop
- In terms of unit, the total number of pieces decreased ▼ -3.6% yoy



Net trade debtors ▲ 5.4% yoy due to appreciation in EUR/HKD closing rate ▲ 14.7% yoy

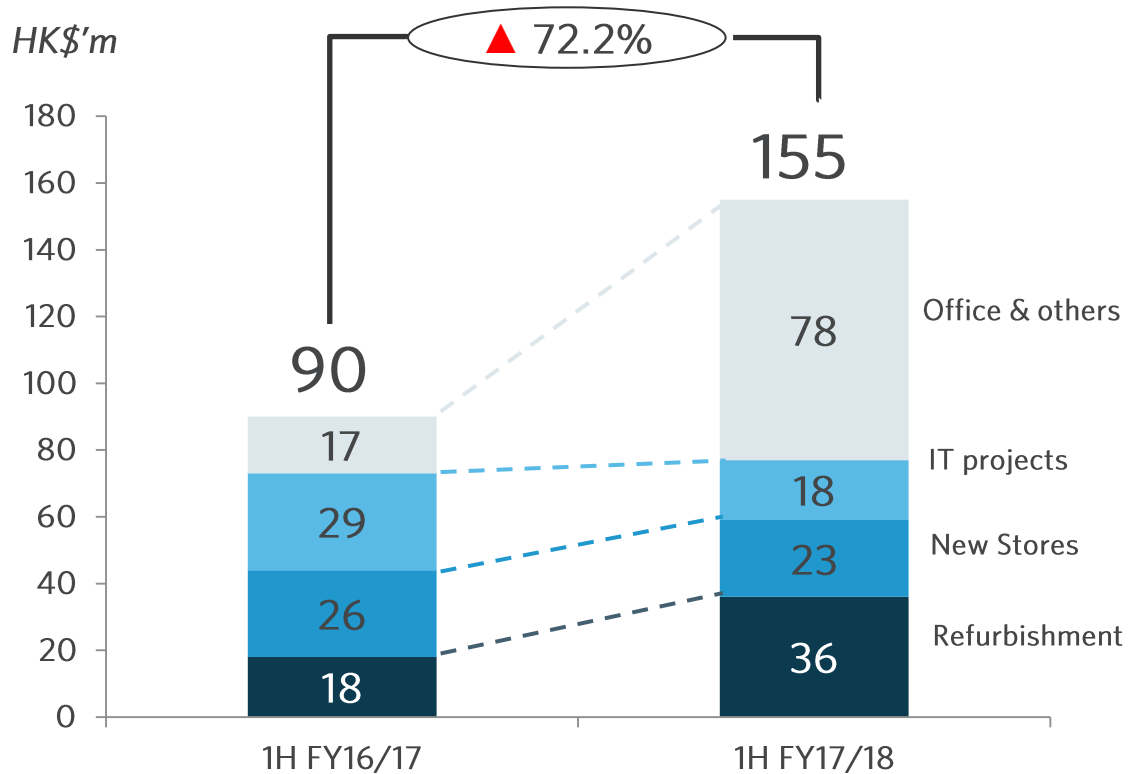
Cover ratio before provision decreased slightly by 2.4%pts yoy to 42.4%



Trade creditors ▲ 28.6% yoy due to:

- Appreciation in EUR/HKD closing rate ▲ 14.7% yoy
- Low base last year due to quicker payment to take advantage of higher discount from suppliers

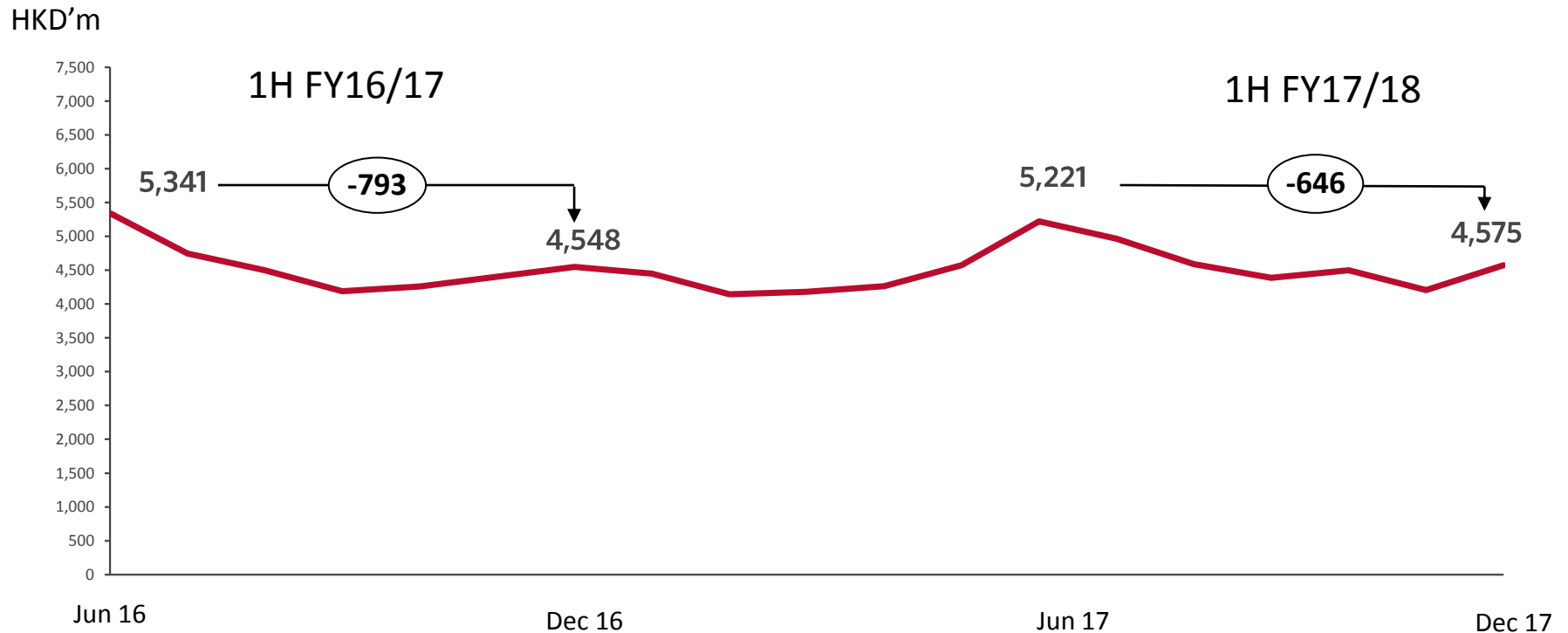
CAPITAL EXPENDITURE



Higher CAPEX yoy primarily due to:

- (i) Investment in the extension of our distribution center in Monchengladbach (1HFY17/18: HK\$45m vs 1HFY16/17: HK\$5m)
- (ii) Omnichannel initiatives (e.g. instore Wifi)
- (iii) Refurbishment of our mock shop
- (iv) Replacing the company's fleet of vehicles at the end of their life cycle

GROUP CASH DEVELOPMENT - NET CASH



Cash balance at a healthy level and flat compared to the same period last year, despite cash consumption of HK\$186 million on share repurchase during 1HFY17/18

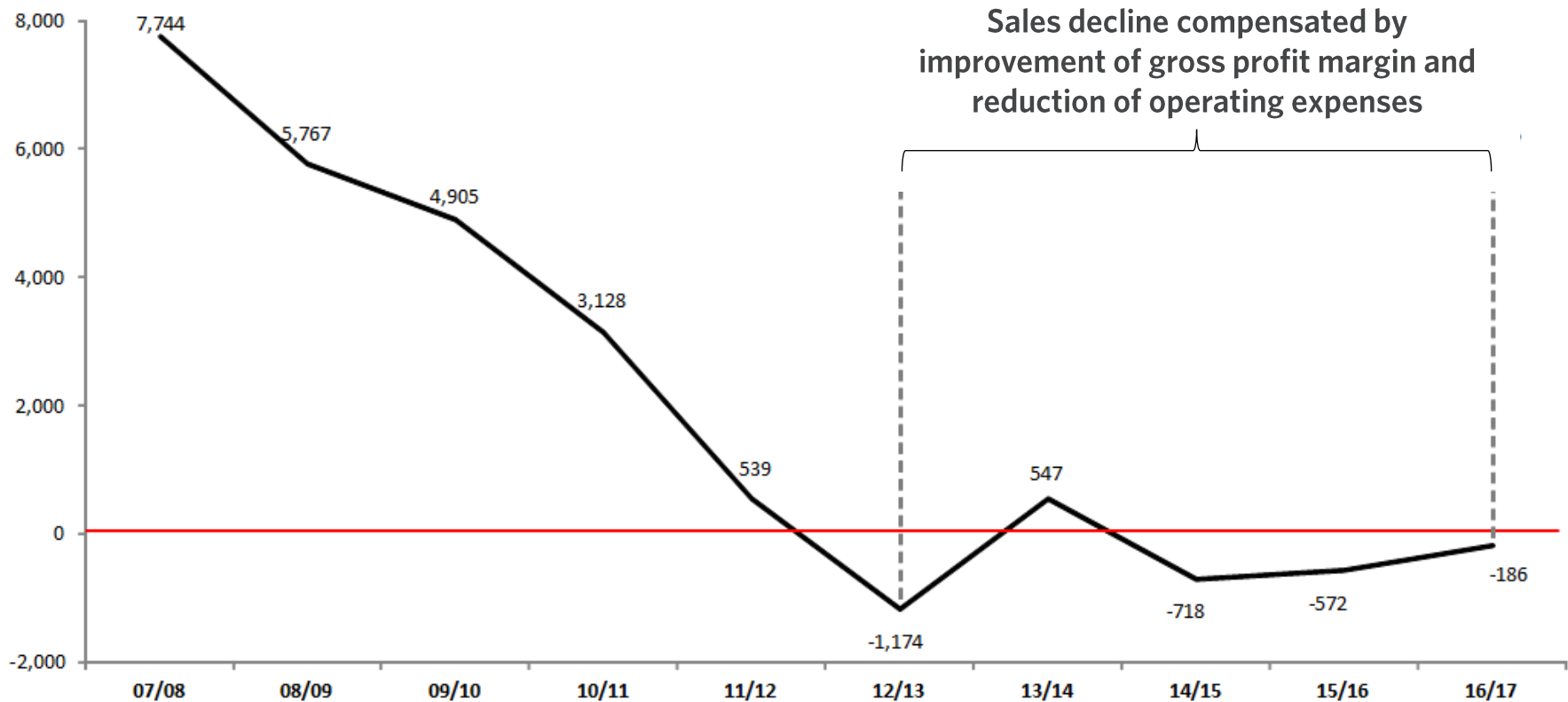
Cash balance at the end of December generally lower than at the end of June due to seasonality

02 STRATEGY UPDATE



RECENT EBIT* DEVELOPMENT

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



Sales decline compensated by improvement of gross profit margin and reduction of operating expenses

*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

FIVE KEY STRATEGIC INITIATIVES

Operational improvements could not offset top line decline in 1H FY17/18

TURNOVER

-9.6% in LCY

GROSS PROFIT %

+ 0.4 percentage points

OPEX

-5.5% in LCY

EBIT*

HK \$ (136) million

Key Strategic Initiatives

- **Brand Rejuvenation**
- **Product Elevation**
- **Channels Next Generation**
- **Markets Rightsizing and Expansion**
- **Cost Reduction**

TWO MAJOR BUSINESS AREAS

CORE

Core customers

Central Europe
35-50 years old

Current core markets

(DACH and BENELUX)

Current business model

(mostly Mainline)

Bottom line performance

(EBITDA)

NEW

New customers

International
25-35 years old

International focus

(initiated from China)

100% vertical model

(mostly Fast-to-Market)

Top line performance

(Net Sales)

BRAND REJUVENATION

CORE

NEW

ESPRIT



Core customers
Central Europe
Mainline collection
Traditional media
Loyalty



New customers
International / China
Fast-to-Market products
Digital and social media
Growth

PRODUCT ELEVATION

CORE

HIGH QUALITY PRODUCTS



Relevant investments in higher quality yarns, lining and trimmings, and sustainable products

NEW

NEW FASHION LINE



Development of a new line, under a Fast-to-Market model, devoted to younger consumers, with special initial focus on China

CHANNELS NEXT GENERATION - OFFLINE

CORE

RETAIL EXPERIENCE UPGRADE



Strengthening of customer service and enhancement of current store concept and visual merchandising

NEW

NEW STORE CONCEPT



Introduction of a new store concept to support the new fashion line (especially in China / Asia)

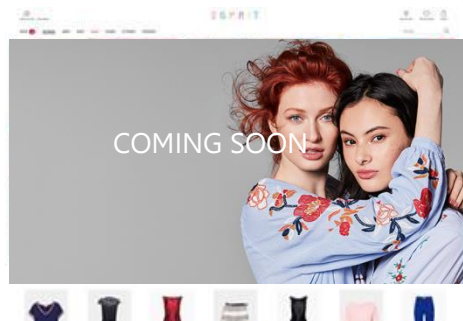
CHANNELS NEXT GENERATION - ONLINE

CORE

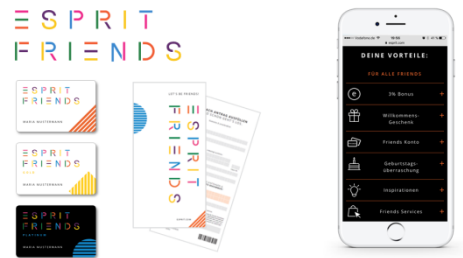
**Exclusive
Online Product
team (F2M)**



**Higher quality
Eshop contents
and look & feel**



**Improved
benefits of
loyalty program**

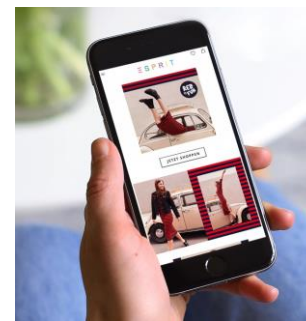


NEW

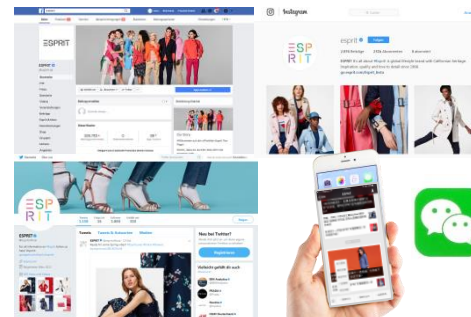
**Online
introduction of
new fashion line**



**Mobile first
Eshop
experience**



**Full focus on
digital and
social media**



MARKETS RIGHTSIZING & EXPANSION

CORE

EUROPE RIGHTSIZING



+40 closures of heavy loss-making stores in core countries
+
Selected openings in Europe (mostly periphery countries)

NEW

CHINA EXPANSION



Ambitious expansion in China (rightsizing in the rest of APAC)

COST REDUCTION

CORE

LEANEST PRODUCT ENGINE



Merger of product divisions
Reduction of collection size
Reduction of suppliers portfolio
Introduction of digital tools
Shortening of current lead times

NEW

GLOBAL INTEGRATION PLAN



Unified IT systems
Unified Logistics
Unified Headquarters

SECOND HALF OUTLOOK FOR FY17/18

REVENUE

Similar rate of decline in controlled space as maintained in previous financial years and in line with 1H FY17/18

Uncertain development of sales productivity (sales per sqm compared to last year's level) given the weakness observed in 1H FY17/18

GP MARGIN

Sustained level of gross profit margin year on year improvement as achieved in 1H FY17/18; potentially higher if sales of the Retail channel (excl. Eshop) develop more stably

OPEX

Continued reduction in most cost lines, although the Group may start to spend and invest more resources into some of the key strategic initiatives to drive future growth

CAPEX

Deploy moderately with similar amount compared to 1H FY17/18, as we stay vigilant in cash flow management and cost control

THANKS AGAIN!



Q&A



ESPRIT