ESPRIT

Annual Results FY18/19

Esprit Holdings Limited
18 September 2019

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AGENDA FOR TODAY

Introduction	Dr. Raymond Or
Overview and Analysis of Annual Results	Thomas Tang
Strategy Update	Anders Kristiansen
Q&As	

OVERVIEW OF ANNUAL RESULTS FOR FY18/19

- During the year, management team had stayed highly focused and began working intensely on the execution of the Strategy Plan announced in the Investor Day in November 2018 to correct the weaknesses of Esprit.
  - Re-cap of Strategy Plan - Bold changes to
    - Build a new model for our business in all channel
    - Build a powerful organization and restructure the cost base
- Strategy Plan is well underway and has already been yielding results contributing to improvement in operational metrics. The performance of underlying operations show a loss of HK$(587) million for the year under review, much improved compared with last financial year (FY17/18: HK$(909) million).
- Positive developments for the first year of implementation have given us encouragement that we are on the right track. Our ability in execution has produced some clear and tangible results, specifically:
  - Rate of revenue decline continued to narrow quarter-on-quarter throughout the financial year
  - Improving trend for gross profit margin in 2H FY18/19 by less discount/markdowns despite investment in quality of products
  - Retail comp-store sales for Europe returned to positive growth yoy in the fourth quarter
  - Regular OPEX reduced by 16.6% yoy in LCY even though relevant measures of the Strategy Plan (e.g. staff reduction and closure/resizing of unprofitable stores) have only started to take effect in the second half of the financial year. Well on track to achieve the announced annualized expense savings target of HK$2 billion over 2 years from FY17/18 level.
- Exceptional items have affected performance and represent one-off non-recurring restructuring costs totaling HK$1,493 million, which are necessary to reduce losses and build a healthier platform for future growth.

Analysis of Annual Results FY18/19

INCOME STATEMENT

(in HK$'m)	FY18/19	FY17/18	YoY change HKD	YoY change LCY
Revenue	12,932	15,455	▼ 16.3%	▼ 12.9%
COGS	(6,431)	(7,534)	▼ 14.6%	▼ 11.1%
Gross profit	6,501	7,921	▼ 17.9%	▼ 14.7%
GP margin	*50.3%*	*51.3%*	▼ *1.0%pts*	▼ *1.1%pts*
Regular OPEX	(7,088)	(8,830)	▼ 19.7%	▼ 16.6%
(LBIT) of underlying operations	(587)	(909)		
Net exceptional items	(1,493)	(1,344)		
(LBIT)	(2,080)	(2,253)		
Net interest income	14	27		
Net (taxation)	(78)	(328)		
Net (loss)	(2,144)	(2,554)		

Revenue

Decreased by -12.9% in LCY, primarily due to:

- Reduction in total controlled space of -14.3% yoy, which is in line with our strategy plan to rationalize our distribution footprint
- First time since FY15/16 where revenue decline is less than the corresponding space reduction

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Gross Profit Margin

Decreased by -1.1% points in LCY:

- Mainly due to clearance of inventory in the 1H FY18/19 as part of the Strategy Plan

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Regular OPEX

Reduced by HK$1,742 million yoy or -16.6% yoy in LCY, mainly driven by bold decisions under the Restructuring Plan :

- Right size the organization including downsizing of corporate offices; and
- Closure/Resizing of unprofitable stores

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LBIT of Underlying Operations

Savings in Regular OPEX have resulted in improvement in LBIT of Underlying Operations of HK$322 million compared to last year

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Net Exceptional Items

In line with amount previously announced in the Interim Period.

- Primarily related to measures under the Restructuring Plan which are necessary to build a healthier platform for future growth

Including the Exceptional items, **LBIT** was HK$(2,080) million for FY18/19

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Net loss

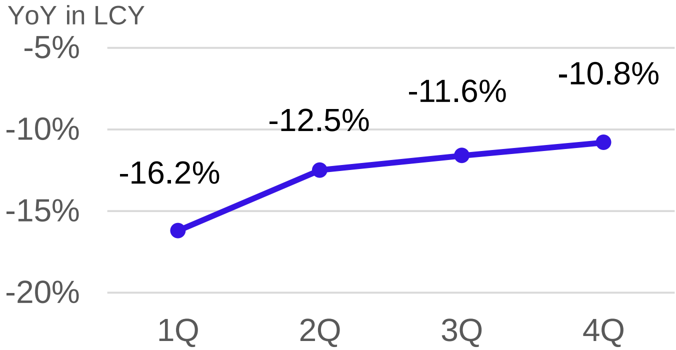
Taking into account the net Interest income of HK$14 million and net Taxation expense of HK$(78) million, Net loss for the year was HK$(2,144) million

The Board has not recommended the payment of a dividend as a net loss was recorded for the year

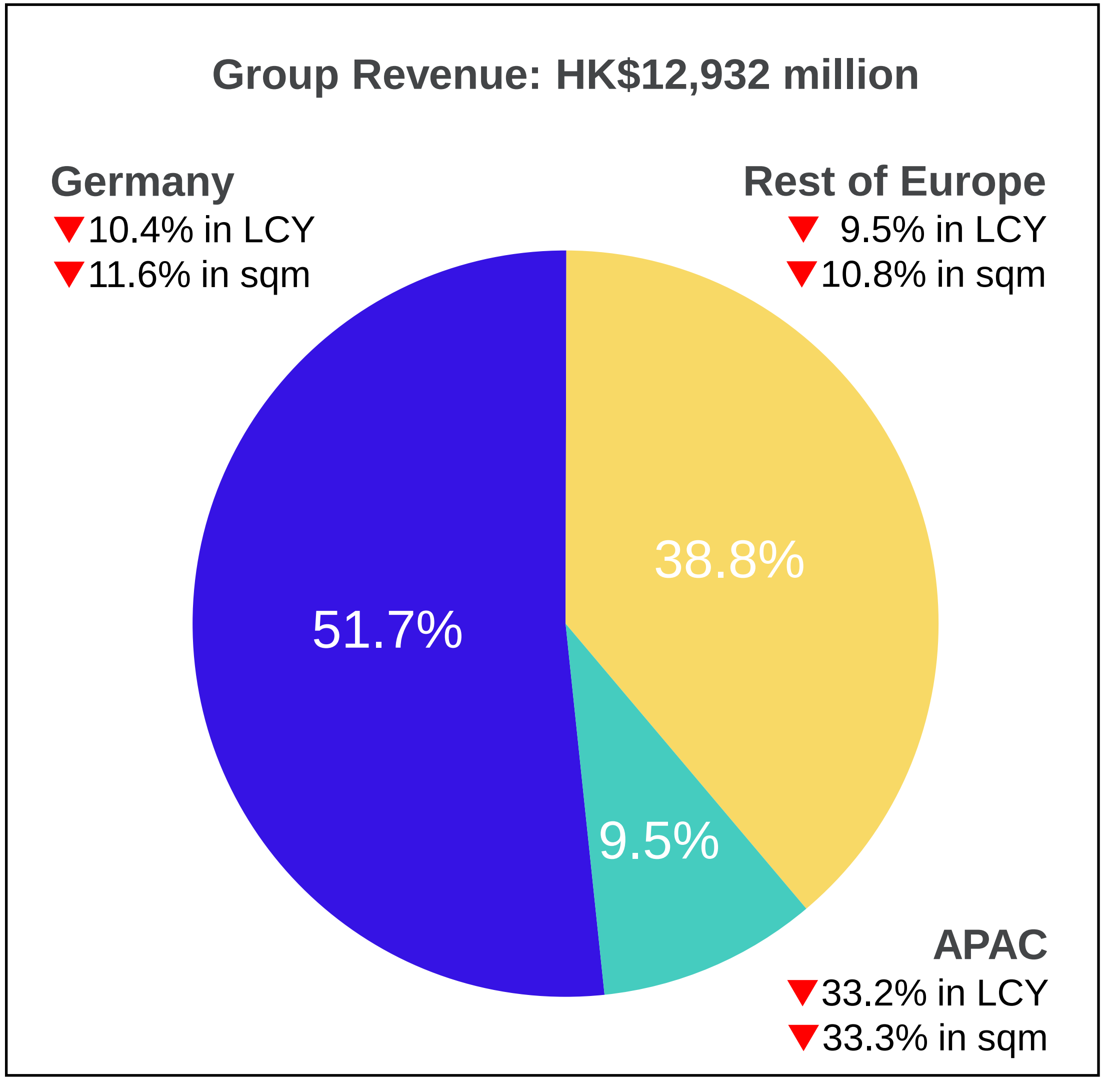
Revenue Analysis

REVENUE BY MARKETS

- **Reduction in space** is in line with the Strategy Plan to close / resize unprofitable stores
- **Revenue development** compares favorably against space reduction in all markets, first time since FY15/16
- **Rate of revenue decline** continued to narrow quarter-on-quarter, mainly driven by Germany our largest market



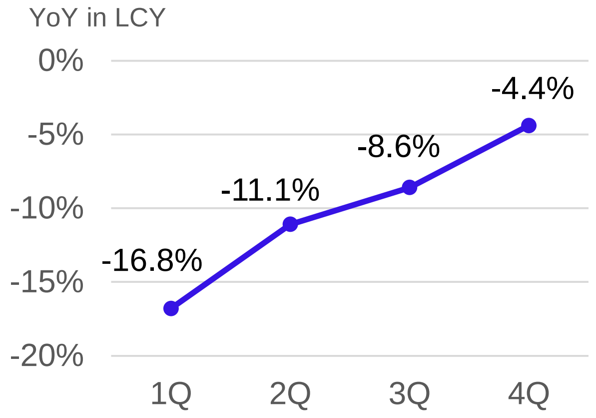
- The improving trend confirms the effectiveness of our Strategy Plan and management team's ability to execute



GERMANY

Revenue shows positive trend of improvement

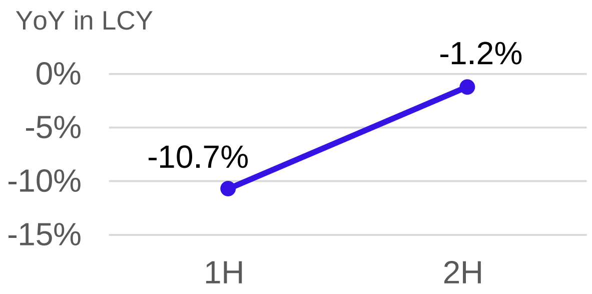
- Rate of revenue decline continued to narrow quarter-on-quarter



Retail (excl. Eshop)

HK$2,226 million (-12.8% in LCY)

- **Revenue** declined less than net sales area (-14.8% in sqm)
- **Comp-store-sales** saw improving trend half-on-half

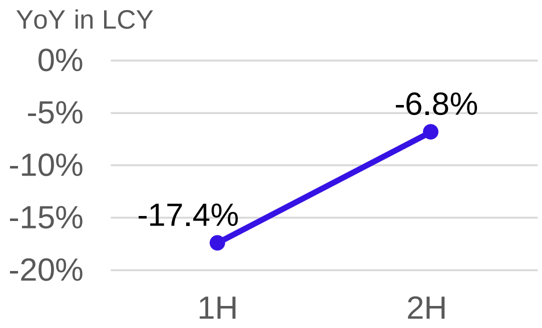


- **June 2019 comp-store-sales grew +4.8%** yoy despite two fewer trading days vs last year

Wholesale (excl. Eshop)

HK$2,200 million (-12.3% in LCY)

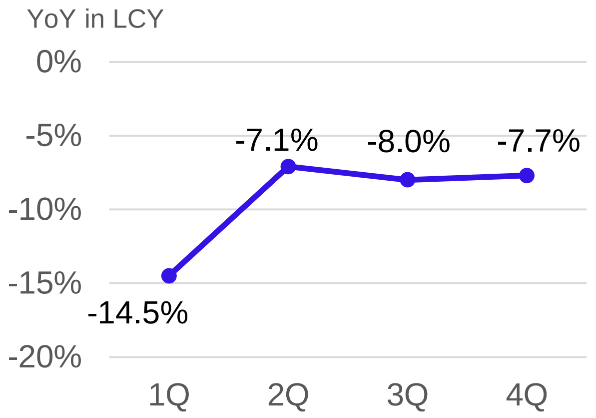
- **Improving trend half-on-half** thanks to many initiatives in progress to build a best in class wholesale model to serve our wholesale partners



REST OF EUROPE

Revenue shows positive trend of improvement

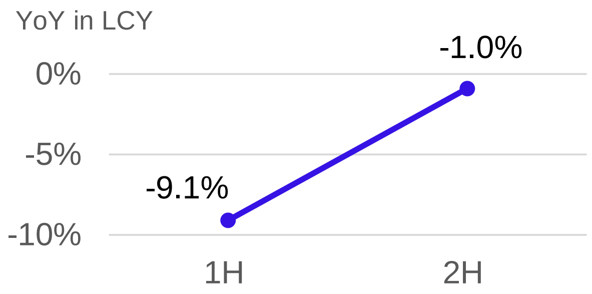
+ Revenue change quarter-by-quarter



Retail (excl. Eshop)

HK$1,805 million (-7.6% in LCY)

+ **Revenue** declined less than net sales area (-8.8% in sqm)
+ **Comp-store-sales** saw improving trend half-on-half

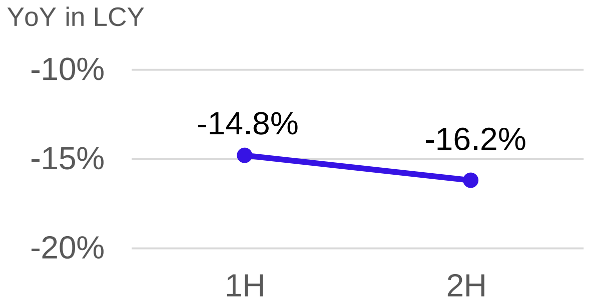


+ **June 2019 comp-store-sales grew +1.9% yoy**

Wholesale (excl. Eshop)

HK$1,754 million (-15.5% in LCY)

- **Revenue change** half-on-half

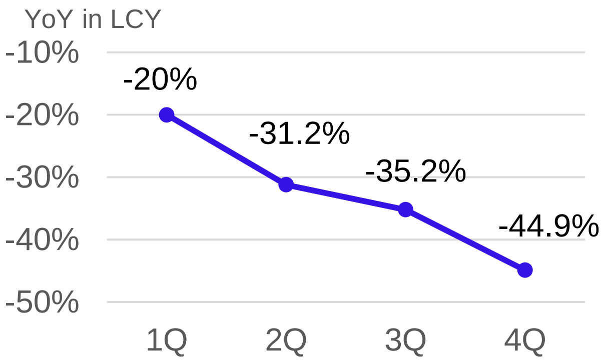


- Due to lost of a few customers in Benelux.

ASIA PACIFIC

Revenue decline mainly due to exit of ANZ since Sept 2018 and closure of concession counters in China/Taiwan as they are brand dilutive

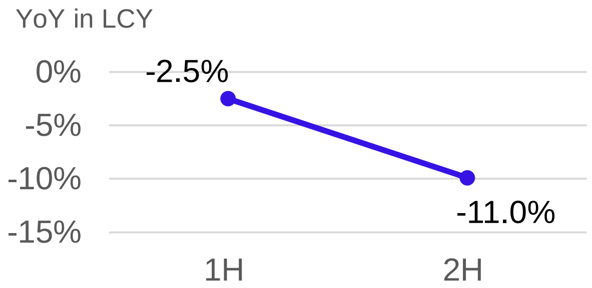
- Revenue change by quarter



Retail (excl. Eshop)

HK$1,003 million (-34.0% in LCY)

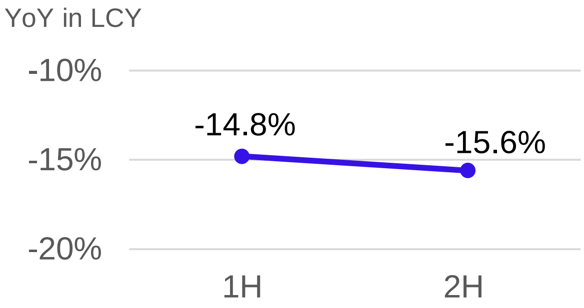
+ **Revenue** developed in line with space (-35.5% in sqm)
+ **Excluding ANZ,** revenue declined (-24.8% in LCY) less than space reduction (-28.4%)
- **Comp-store-sales** trend deteriorated in 2H FY18/19 due to decline in customer traffic



Wholesale (excl. Eshop)

HK$99 million (-12.1% in LCY)

- **Revenue change** half-on-half



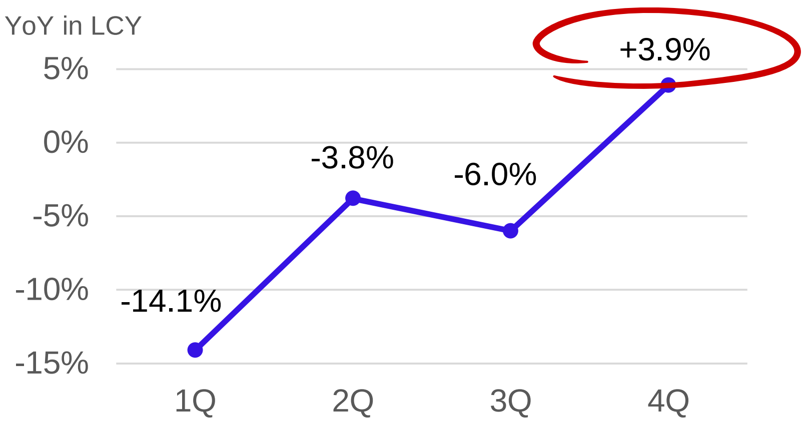
- Due to reduced order intake for some expected store closures

ESHOP

Europe

HK$3,597 million (-4.8% in LCY)

- **96.5% of Global Eshop Revenue**
- Encouraged by **positive growth in 4Q FY18/19**



APAC

HK$131 million (-38.2% in LCY)

- Only 3.5% of Global Eshop revenue
- Decline was mainly due to:
  - Closure of ANZ Eshop in July 2018
  - Decline in consumer traffic to the Eshop in Tmall

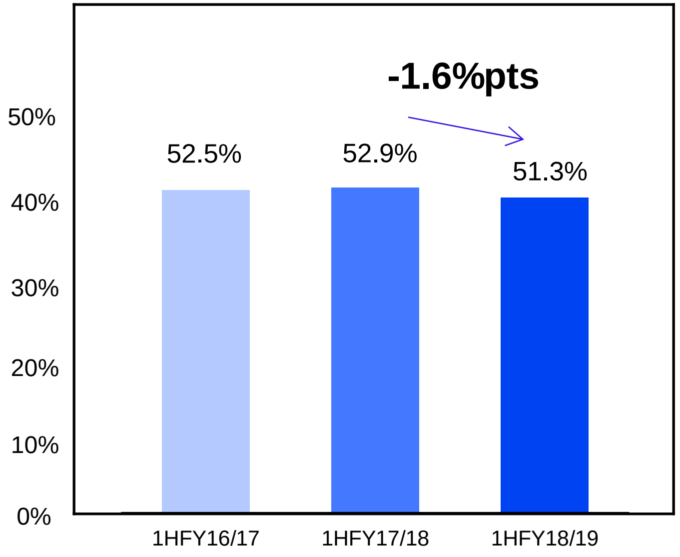
Profitability Analysis

GROSS PROFIT MARGIN

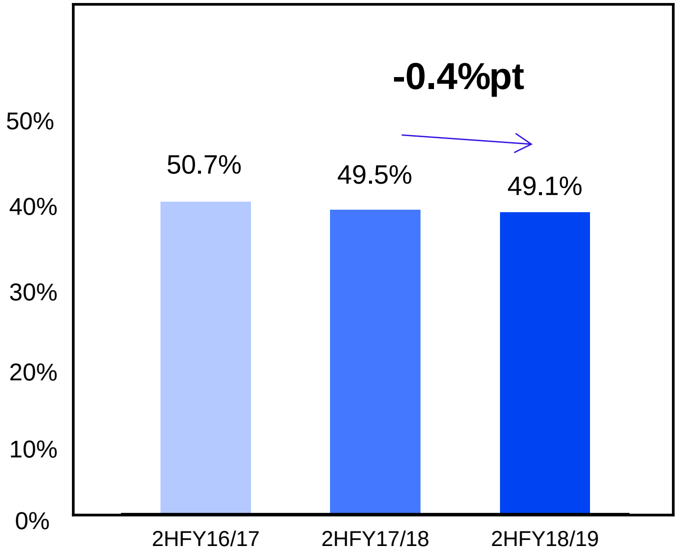
The decline in Gross Profit margin narrowed significantly half-on-half, primarily driven by:

- Less markdowns and discounts for the new products
- Partly offset by investment in product quality

1HFY18/19



2HFY18/19



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REGULAR OPEX

- Benefited from the Restructuring Plan, there were significant reduction in operating expenses, with savings achieved across all the major cost lines
- We now have a much healthier cost base
- Well on track to achieve our annualized expense savings target of HK$2 billion

			Change in %
(in HK$'m)	FY18/19	FY17/18	LCY
Staff costs	2,456	2,968	▼ 13.9%
Occupancy costs	2,088	2,526	▼ 14.2%
Logistic expenses	821	1,029	▼ 17.2%
Marketing and advertising expenses	634	900	▼ 26.7%
Depreciation	455	528	▼ 10.4%
Other operating costs	634	879	▼ 24.9%
Regular OPEX	7,088	8,830	▼ 16.6%

LBIT OF UNDERLYING OPERATIONS

- Relevant measures of the Strategy Plan only started to take effect in the second half of FY18/19, hence 2H FY18/19 is more representative of the beneficial effect of the Strategy Plan:

- LBIT of Underlying Operations improved by HK$518 million yoy for 2H FY18/19 despite seasonality, as compared to a deterioration of HK$(196) million yoy for 1H FY18/19

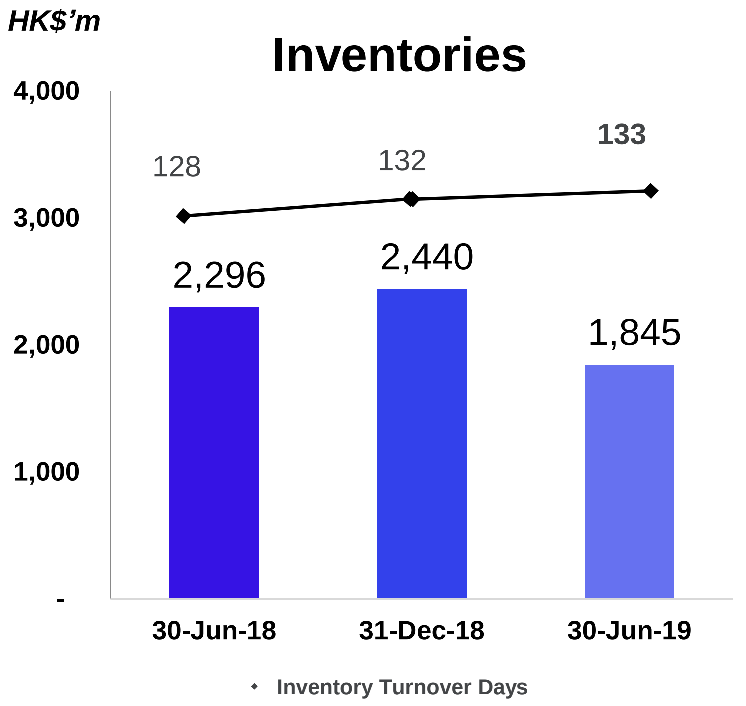
(in HK$'m)	**FY18/19**	**FY17/18**	**YoY Change in HK$'m**
First Half	(332)	(136)	▲(196)
Second Half	(255)	(773)	▼ 518
Full Year	(587)	(909)	▼ 322

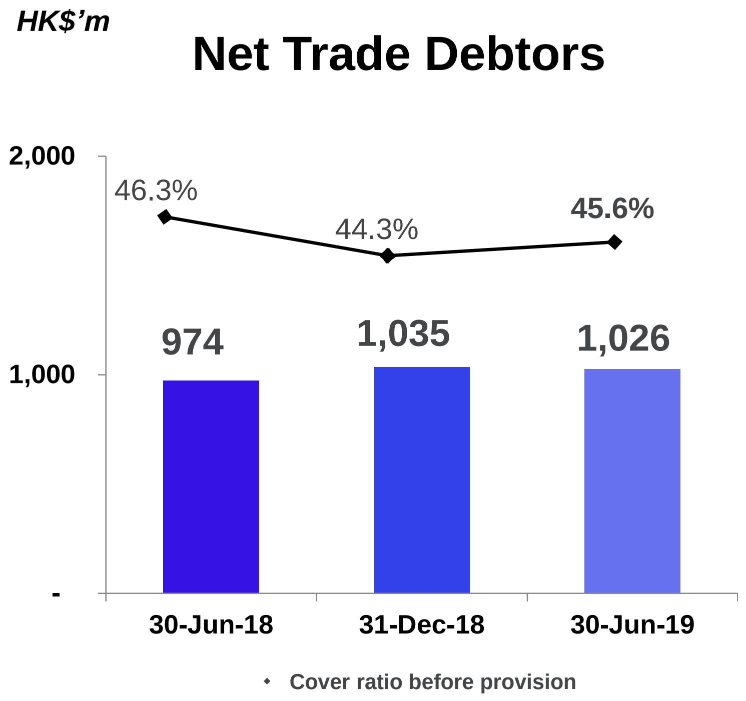
NET EXCEPTIONAL ITEMS

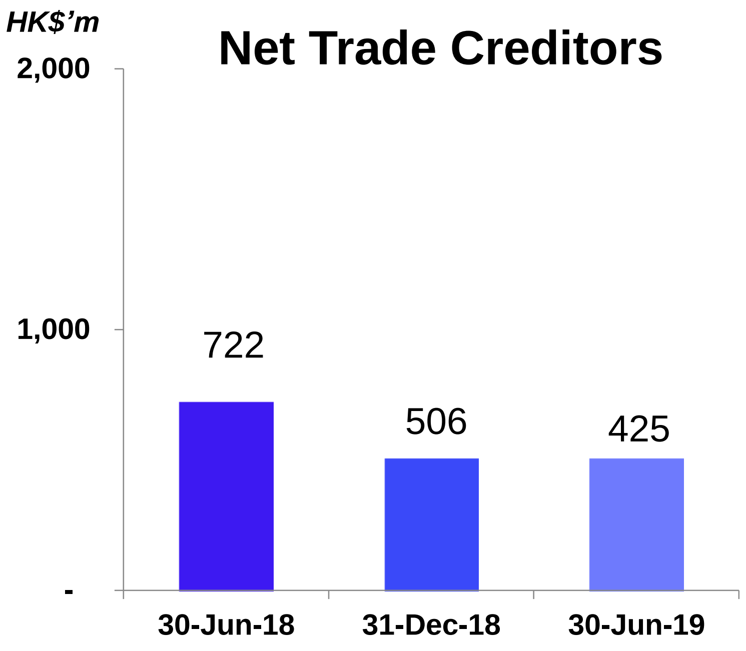
- The Exceptional Items primarily comprise of one-off restructuring costs in connection with the strategic measures to:
  - Eliminate unprofitable stores
  - Becoming a leaner and a more efficient organization
- These are necessary to reduce losses and build a healthy platform for future growth

(in HK$'m)	**FY18/19**
Net Exceptional Items	
Net provision for store closures and onerous leases	(895)
One-off costs in relation to staff reduction plans	(354)
Inventory provision	(159)
Impairment of property, plant and equipment	(110)
Write-back of provision for one-off costs in relation to closure of ANZ operations	25
	(1,493)

WORKING CAPITAL







Inventories value ▼ 19.6% yoy:

- Inventory turnover days ▲5 day
- Including a special write-off of aged inventory

Net trade debtors ▲ 5.4% yoy:

- Due to growth of Europe Eshop sales in the fourth quarter

Trade creditors ▼41.1% yoy:

- Due to timing of payments

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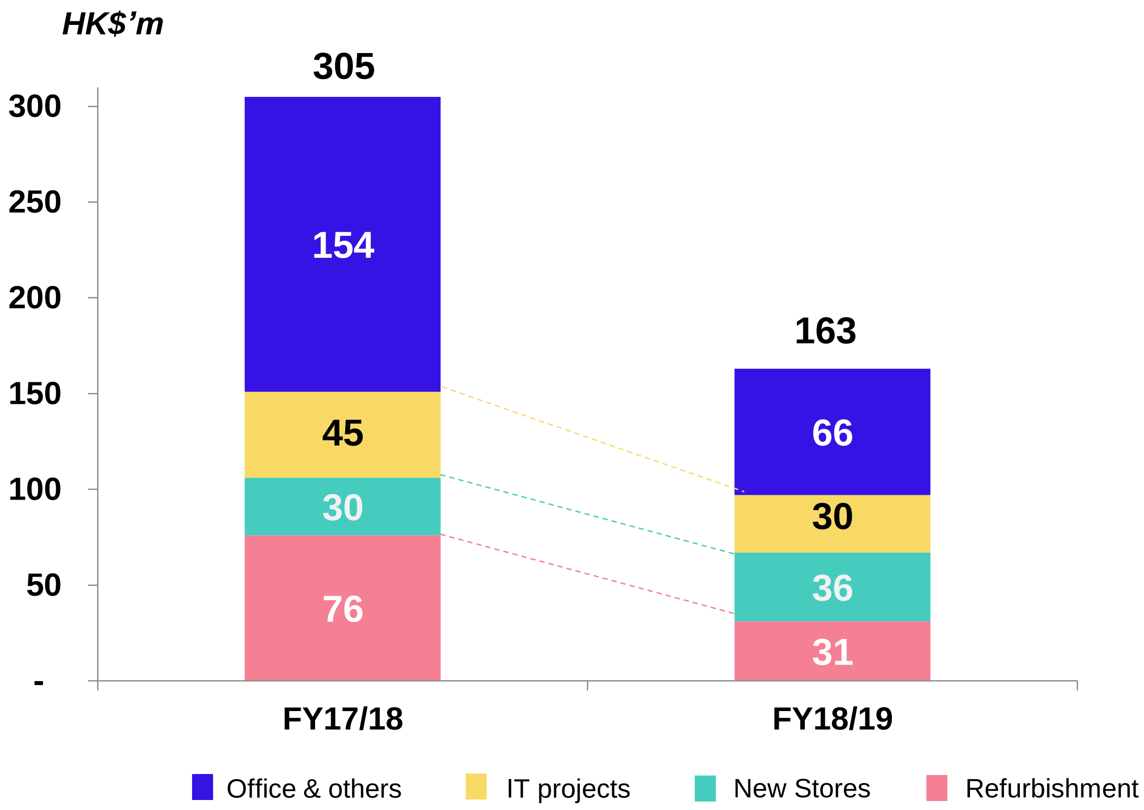
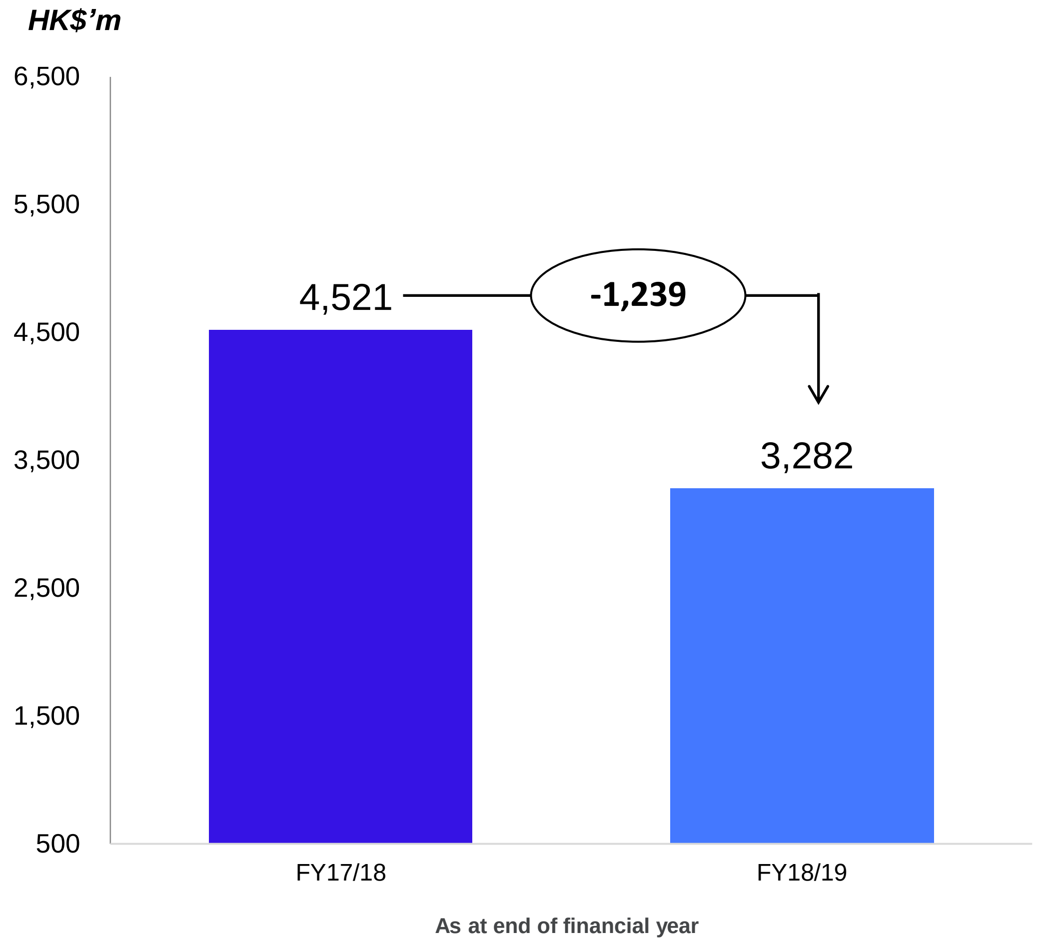
CAPITAL EXPENDITURE

- We stay vigilant in cash flow management and cost control
- Significant decrease in CAPEX due to high base last year attributable to investment in the extension of its distribution center in Mönchengladbach which has been completed



RECENT DEVELOPMENT OF CASH POSITION

- The Group remained debt free with net cash of HK$3,282 million
- Net cash utilization of HK$(1,239) million in FY18/19 mainly due to:
    - Cash used in the Restructuring Plan totaling HK$563 million
    - Decrease in creditors and accrued charges of HK$763 million mainly due to timing of payments



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Strategy Update

THE RETURN TO SUSTAINABLE GROWTH AND PROFITABILITY

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Rebuild
the
iconic brand

&

Build a powerful
organization
and
restructure
the cost base

STRATEGY PLAN – AS PRESENTED LAST NOVEMBER

- **Brand**: sharpen brand identity, know our customers and understand their needs
- **Product**: improve quality and fit, build a more commercial assortment, focus on key product categories
- **Wholesale**: create a best in class wholesale model and put our partners at the centre of our business
- **New powerful organization**: reduce complexity, improve accountability, develop a lean & efficient organization
- **Restructure store portfolio**: eliminate loss-making areas of the business

We said:

Bold changes are needed to return to sustainable growth and profitability

Our Progress

A BRAND WITH A POINT OF VIEW

March

Women‘s rights

UN WOMEN DEUTSCHLAND

May/June

LGBTQ rights

THE ALI FORNEY CENTER

August

Under-privileged kids

surf POP

September

Amazon rainforest

WWF

miss_sunshine78 Im so glad people finally wake up and make actions that can make a positive change ❣️ thank u ! Thats what i call esprit 😉 👌 @esprit

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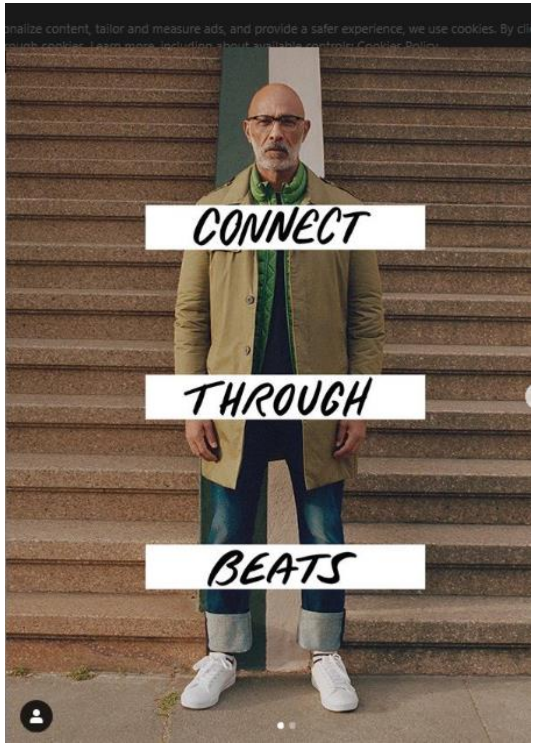
A BRAND WITH A POINT OF VIEW



September/October campaign – This is Esprit

A CLEAR PRODUCT MISSION FROM DAY ONE

Product Handwriting	Core fabrics	Blocks and Fits	Workmanship
Balance strong heritage and modernity	Up to 50% of styles	91 blocks reviewed	Improved buttons, fasteners, tapes

Collection Size	Calendar	Tools	Divisional Strategy
-23%	Development processes remodeled for efficiency	Improved forecasting and stock management	Casual Collection EDC

NEW PROGRESSIVE DIRECTION FOR EDC

- Complete overhaul of EDC
- Urban street wear
- Target Gen Z, those now aged 16 to 24 years
- Already seeing signs of the new direction in the Spring 2020 collections

inspirational


ESPRIT

SUSTAINABILITY IS IN OUR DNA

2
Ranked 2nd in the world in terms of transparency

95%
of suppliers in Bangladesh with improved safety

60%
of suppliers in India improved the gender ratio in management

70%
of our denim is sustainable. 100% by 2021

50%
of our cotton is sustainable. 100% by 2021

15
The number of plastic bottles in one of our new jackets

October
Esprit joins the Fair Labor Association

0
fur. We are very proudly a fur-free retailer

… and much more! See more in our Sustainability Report at Esprit.com

TRUE PARTNERSHIP

- Partner Days to rebuild relationships
- Access to full range of products and to stock promotions
- Higher commission for Friends activation

"Esprit has put wholesale at the center once again. The Partner Days in March were an excellent way to show the new energy the brand has!"

Heiko Ronge
– Franchise Partner Germany

BEST IN CLASS WHOLESALE MODEL

BEST SERVICE

- Much stronger NOOS program
  – core fabrics, simplified processes, better use of data
- State-of-the-art online ordering tool
- Delivery priority

“Esprit is investing in digital ordering which gives our sales people more time for selling. They are really going the extra mile.”

Gereon Kirschbaum
- Franchise partner Germany

PROOF OF SUCCESS!

“We see a strong improvement in marketing: the new Fall Winter brand campaign launch “This Is Esprit” is powerful and aligned with the brand DNA Esprit. Going back to the early eighties inspirations was the best idea to make Esprit great and successful again"

Jacques Vuillermet – Franchise partner France

September 2019

“Our recent figures speak for themselves:
+3% revenue/net sales
-40% less markdowns
-15% cost of sales
We couldn‘t be happier“

Heiko Ronge - Franchise Partner Germany

September 2019

"In the latest collections we see a much sharper design direction. And the colors, patterns and styles reflect one hand-writing across women and men. It’s great to see those iconic styles return!“

Thomas Vockeroth - Franchise partner Germany

September 2019

"Since we started collaborating with ESPRIT, there has been a significant improvement in product quality, from fabrics to finishings and fit. We buy every two months and, in each purchase, we perceive the evolution, especially remarkable in some key categories like fluid fabric blouses".

Juan José Gutiérrez de Arriba
- Buying Director Womenswear, El Corte Ingles, Spain

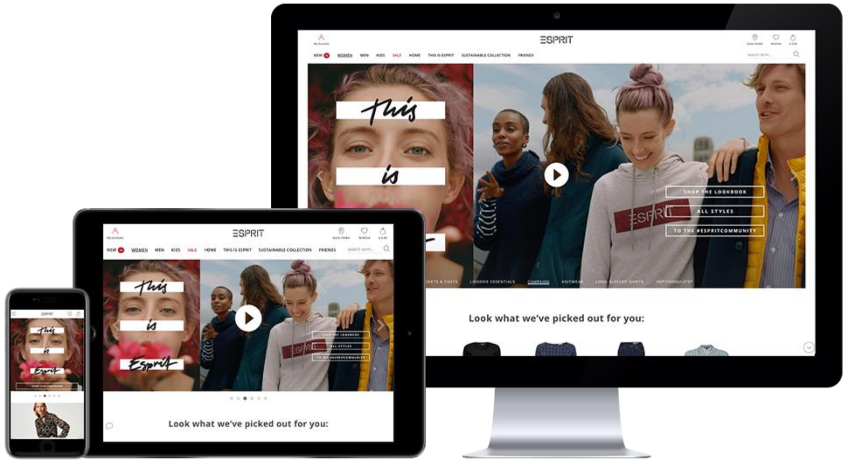
September 2019

“We see a real increase in productivity in the last months. The new products are performing well – a very welcome contribution for our shop floors.”

September 2019

NEW ECOMMERCE PLATFORM

- New project to modernize and improve our web e-shop
- Selected leading global software company Salesforce as partner in the project
- The upgrade will give us greater flexibility and an improved customer experience
- A new digital ordering tool for our wholesale partners will be part of the project
- First markets to launch Spring 2020

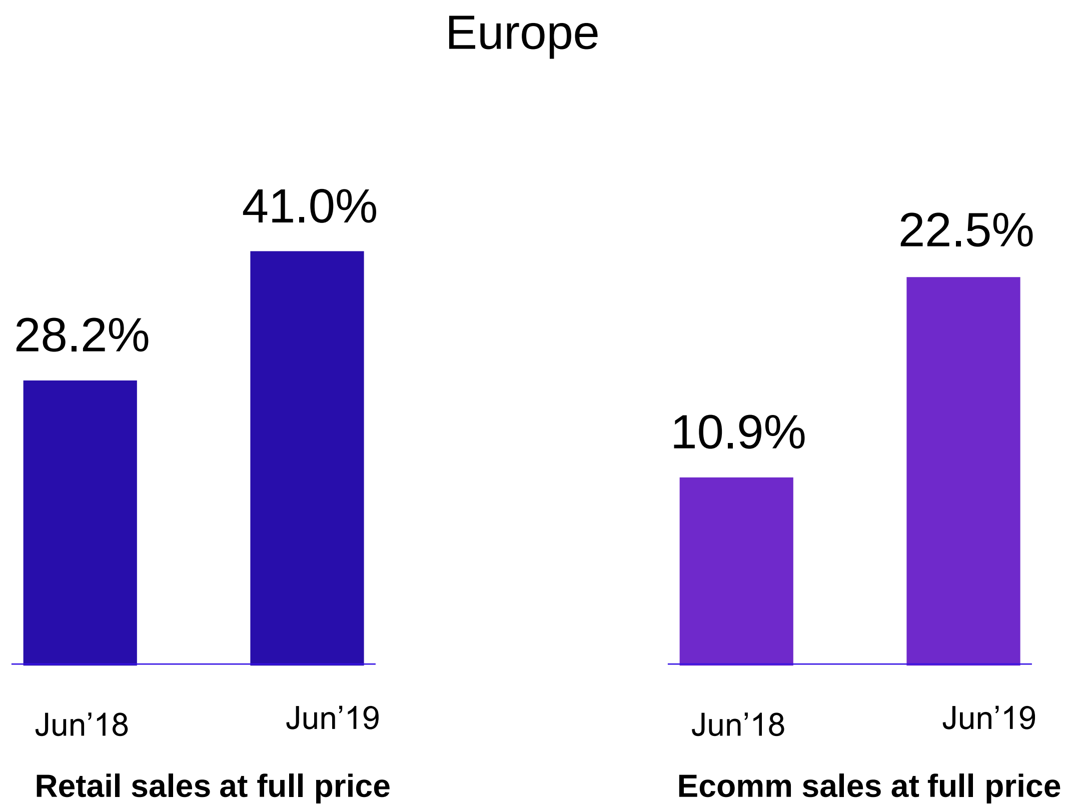


salesforce

ASIA

- New store opened in Beijing on 30 August
- The space showcases our new store concept with its graphic, playful and expressive identity
- Created to inspire, surprise and bring joy to our customers
- Elements of the new store concept are now being tested and tried. Selective roll out to other Esprit spaces is now in planning

ESPRIT IS A FULL PRICE BRAND



Radically changed markdown strategy

Target is to reach 50-60% in the short term

WE ARE INTERESTED IN PROFITABLE SALES

Europe Retail (incl. E-shop)
Q4 FY18/19

	LCY %
Revenue	-3.5%
Gross Profit	+1.0%

We are only interested in profitable sales.

Q4 Europe retail sales including eshop were down -3.5% LCY y-o-y

But retail gross profit was up +1% LCY y-o-y

We believe in minimum 3-5 points of gross profit margin improvement over the next 3 years

COSTS

Cost Savings

Expected Savings
> 2 billion HKD
FY19/20 vs FY17/18

Store Portfolio

Closed 169 stores and on track to close further stores

Simplified Organization

Reduced non-store employee headcount by 31%

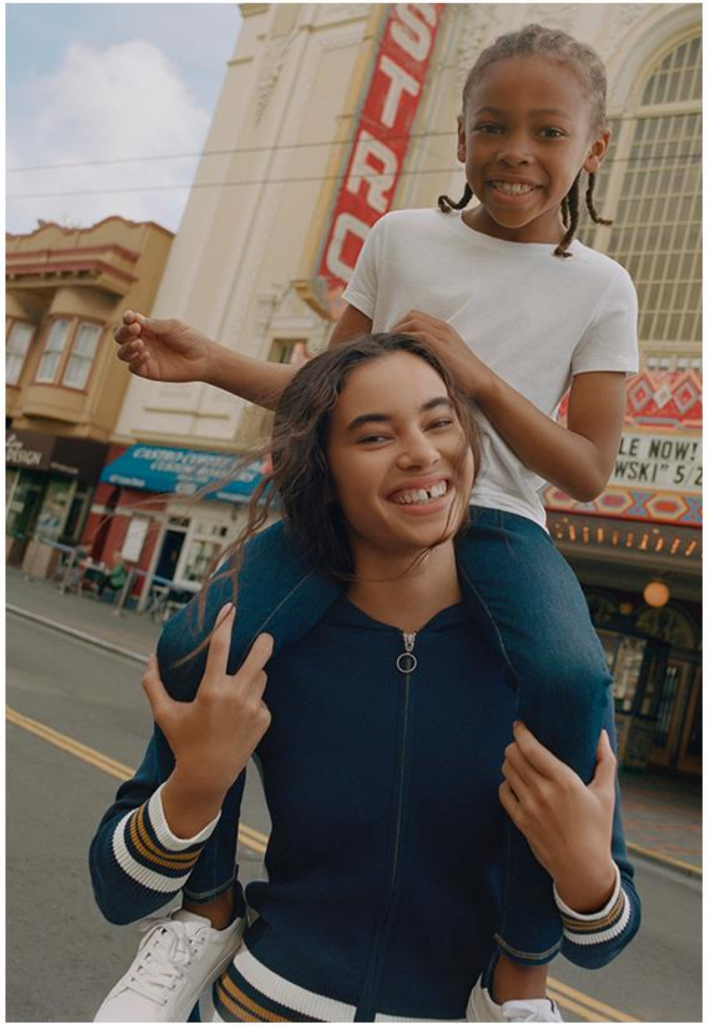
Head Offices

Hong Kong: reduced office cost savings > 75%
Germany: reducing office buildings 5 to 1

ESPRIT PEOPLE

THE FUTURE IS BRIGHT!

- Quality will continue to improve
- New handwriting EDC
- Leading brand in sustainability
- Wholesale partners are happy and more profitable
- New state-of-the-art web platform
- Turning digital on all fronts
- Further reduction of discounts
- 3 to 5 points higher gross profit margin
- Profitability in 2 to 2 and half years – no short cuts



We stand for

Radical Positivity.
Loving Our Customer.
Quality, Always.

-

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OUTLOOK

FY19/20 OUTLOOK

Revenue	**Low-double-digit % decline** as the focus is on healthy and profitable sales
GP Margin	Aim for **a slight improvement yoy** mainly through having less discount while keeping retail price stable
Regular OPEX	**High-single-digit % yoy reduction** mainly driven by (i) full-year effect of cost restructuring done in the past year, and (ii) ongoing store closures, partly offset by necessary spending in certain areas e.g., insourcing of ecommerce, IT, marketing, etc. to facilitate future growth
CAPEX	**Remain selective but will increase yoy** as the Group invests in relevant technology to facilitate a simple, fast and digitalized operating process

Q&As