

ESPRIT

Annual Results Briefing  
Financial Year Ended 30 June 2012

*26 September 2012*



# *Agenda*

- Key Business Highlights
- Annual Financial Results Review
- Update on Transformation Plan 2014/15
- Q&A

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*KEY BUSINESS  
HIGHLIGHTS*

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## *Key business highlights*

### *Transformation Plan is on track*

- Good progress made in first year of Transformation Plan
- Especially on key product initiatives
- Improved EBIT (▲ 69.2%) and Net Profit (▲ 11.1x)
- Despite continued challenging macro economic environment
- Turnover impacted by exiting North America, closing down of unprofitable stores and rationalization of Wholesale channel
- Maintained Net Cash position (▲ 41.2% vs Dec '11)
- Transformation Plan is laying strong foundation for future growth
- Smooth CEO transition to ensure continuity

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*ANNUAL RESULTS*

*FY11/12*

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## *EBIT and EBIT margin improved*

	<b>FY 11/12</b>	<b>FY 10/11</b>	<b>Change</b>
EBIT	HK\$1,171M	HK\$692M	▲ 69.2%
EBIT margin	3.9%	2.0%	▲ 1.9% pts

*EBIT margin well above guidance*

## *Increase in Net Profit*

	<b>FY 11/12</b>	<b>FY 10/11</b>	<b>Change</b>
Net Profit	HK\$873M	HK\$79M	▲ 11.1x
Net Profit margin	2.9%	0.2%	▲ 2.7% pts
EPS	HK\$0.68	HK\$0.06	▲ 11.3x

*Net Profit increased as compared to last year*

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## *Net Cash in Balance Sheet*

	<b>As at 30 June 2012</b>	<b>As at 31 December 2011</b>	<b>Change</b>
Net Cash	HK\$1,489M	HK\$1,055M	▲ 41.2%

***Net Cash of HK\$1.5B***



# *Income Statement FY 11/12*

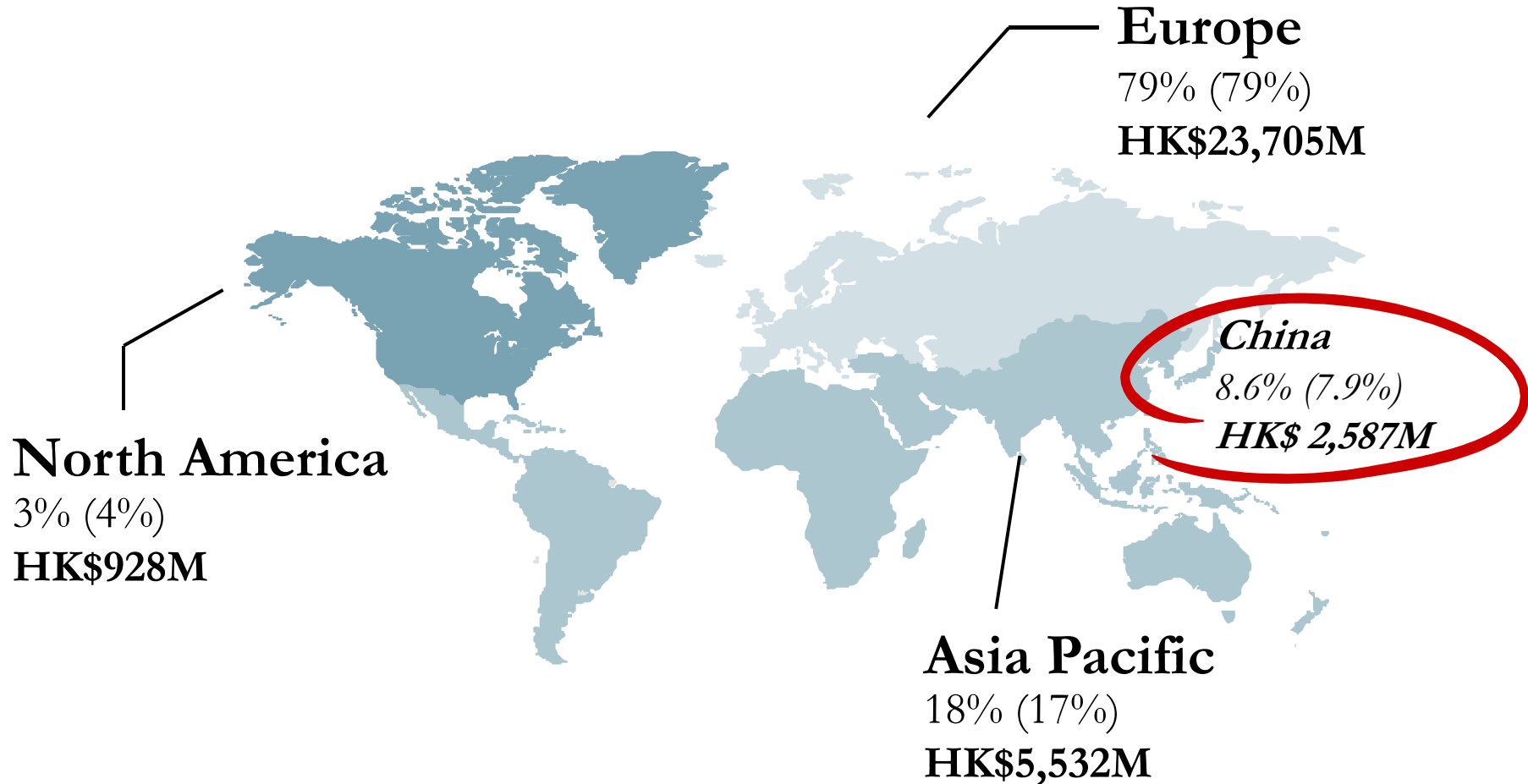
*For the year ended 30 June 2012*

<i>(in HK\$ M)</i>	<b>FY 11/12</b>	<b>FY 10/11</b>	<b>Change</b>
Turnover	30,165	33,767	▼ 10.7%
Gross Profit	15,206	18,198	▼ 16.4%
OPEX	(14,035)	(17,506)	▼ 19.8%
EBIT	1,171	692	▲ 69.2%
Net Profit	873	79	▲ 11.1 x
<i>(in % of Turnover)</i>			
<i>Gross Profit</i>	50.4%	53.9%	▼ 3.5% pts
<i>EBIT</i>	3.9%	2.0%	▲ 1.9% pts
<i>Net Profit</i>	2.9%	0.2%	▲ 2.7% pts

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# Turnover by region

China share grew from 7.9% to 8.6%



Asia Pacific including China  
% to Group turnover (last year)/turnover in HK\$

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# *China is key pillar of Transformation Plan 2014/15*

## **Key drivers**

- Drive footprint expansion through optimized hybrid channel model
- Upgrade organization to ensure capabilities and drive growth
- China Design Hub to add local design influence to Asian stores
- Improve comp store growth with new leadership

## **Targets Transformation Plan**

- Expand presence to ~400 cities from current 191
- Grow to ~1,900 POS from 1,013 as at 30 June 2012
- Maintain attractive profit levels

# *China expansion continues*

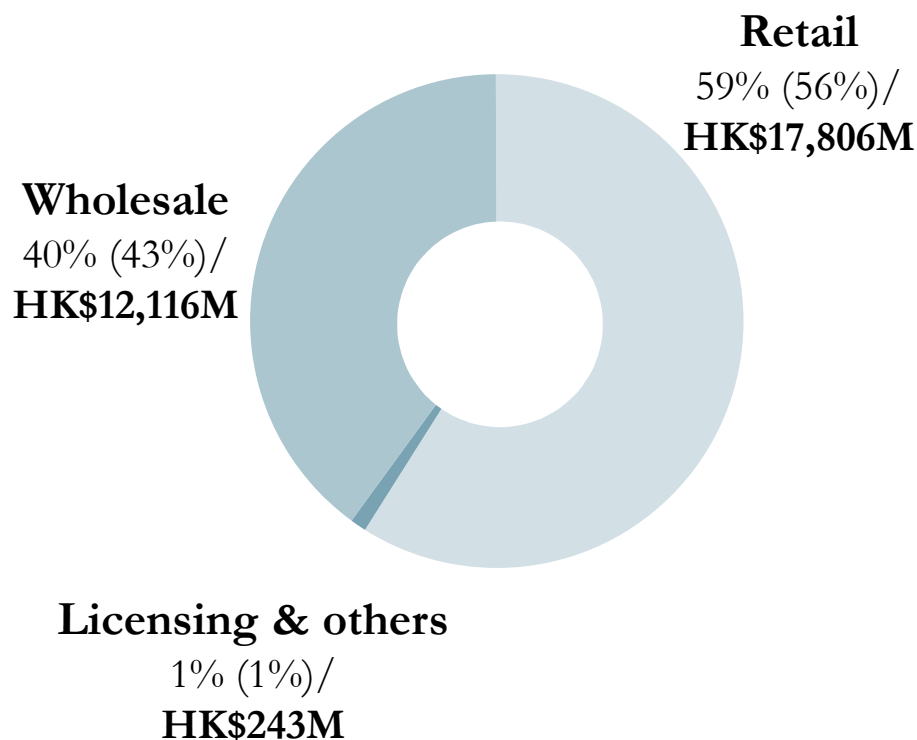
- China now 8.6% of total group turnover (2011: 7.9%)
- New CEO joined February 2012
- Footprint expanded to 191 cities (2011: 185 cities)



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# *Retail space expansion of 6.5%* *Improving trend in WHS order intake is encouraging*

## Turnover by channel



## Retail

- Encouraged by comp store sales improvement in second half
- Net retail space -8.8% due to:
  - Closure of North America Retail
  - Store closure program
- Expansion of 6.5% Retail space (after closures) in line with guidance

## Wholesale

- Net controlled Wholesale space -7% impacted by active rationalization
- Turnover negatively impacted by support measures such as discounts & returns
- Order intake turned positive Season 2 for existing accounts

% to Group turnover (last year)/turnover in HK\$

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## *Successfully divested loss-making North America operations*

- Successful closure of 97 stores
- Headcount reduced by ~1,600
- New York headquarters closed down

*Divestment successfully completed within  
time-frame and provisions*

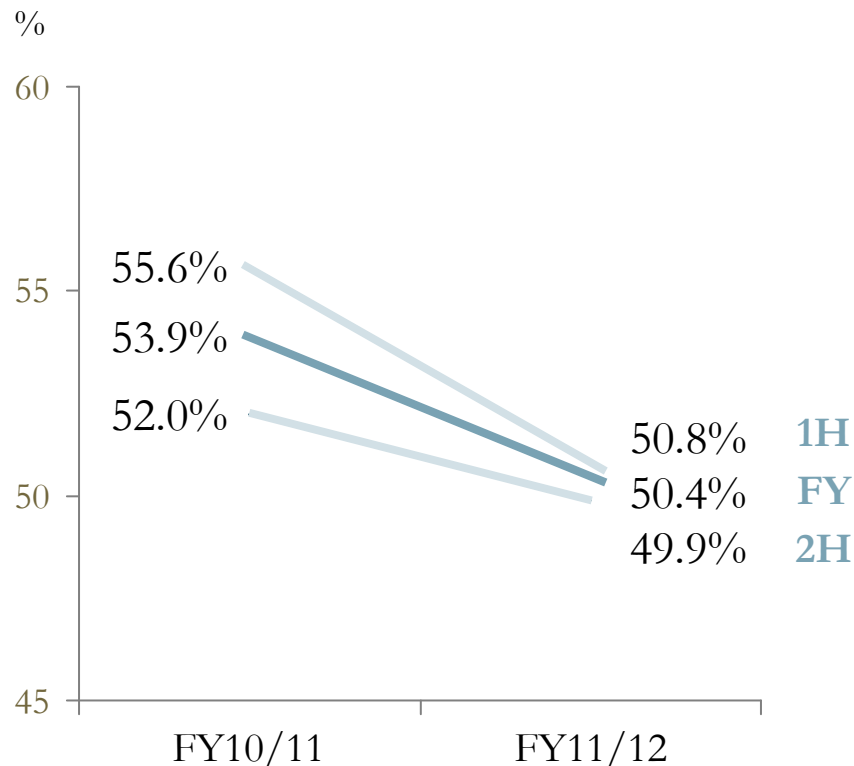
# Store closure program 80% completed

	Countries	Store closures	Achieved or signed closings
Loss making stores	 Germany	24	17
	 Austria	2	1
	 Switzerland	2	2
	 Belgium	2	2
	 Netherlands	7	6
	 France	12	12
	 UK	6	3
	 Singapore	1	-
	 Hong Kong	1	1
	 Australia	13	12
Retail market exit	 Spain	3	3
	 Denmark	6	4
	 Sweden	1	1
	<b>Total</b>	<b>80</b>	<b>64</b>

- 44 stores were closed in FY11/12
- Closure procedures and costs incurred within time frame and provisions

# Gross margin impacted by sourcing cost inflation and Transformation Plan initiatives

## Gross profit margin



## Main drivers

- Investment into higher valued products
- Price points maintained to preserve price-value perception
- Wholesale support measures, e. g. discounts, returns and refurbishment
- Sourcing cost inflation materializing
- Higher discounts as a result of unfavorable weather conditions



## *Operating expenses well under control*

	<b>FY 11/12</b>	<b>FY 10/11</b>	<b>Change</b>
OPEX <sup>1</sup>	HK\$14,731M	HK\$15,077M	▼ 2.3%

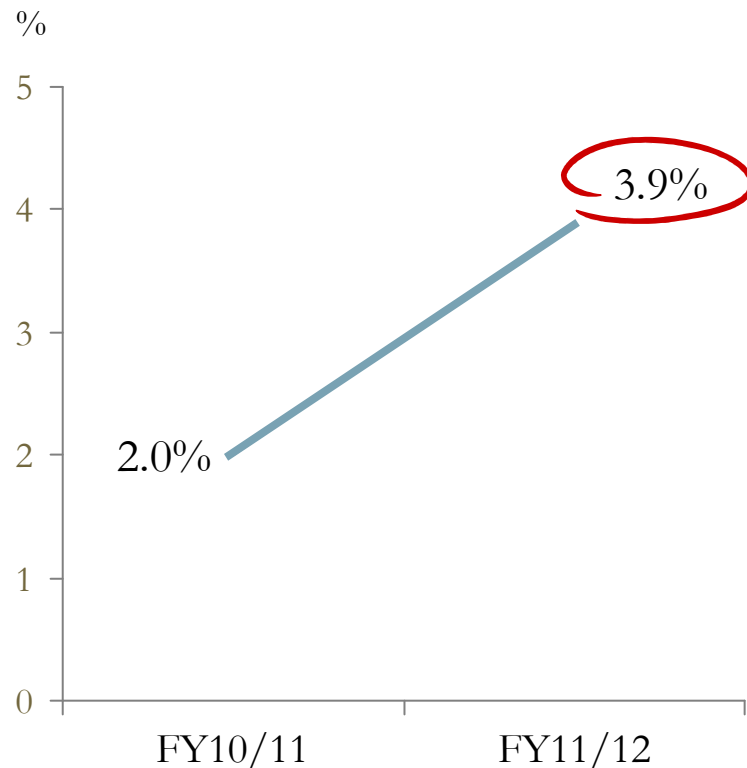
*OPEX reduced despite  
Transformation Plan related expenses*

1. Excluding provisions for store closures, impairment of property, plant and equipment and divestment of North America

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# Improvement in EBIT margin

## EBIT margin



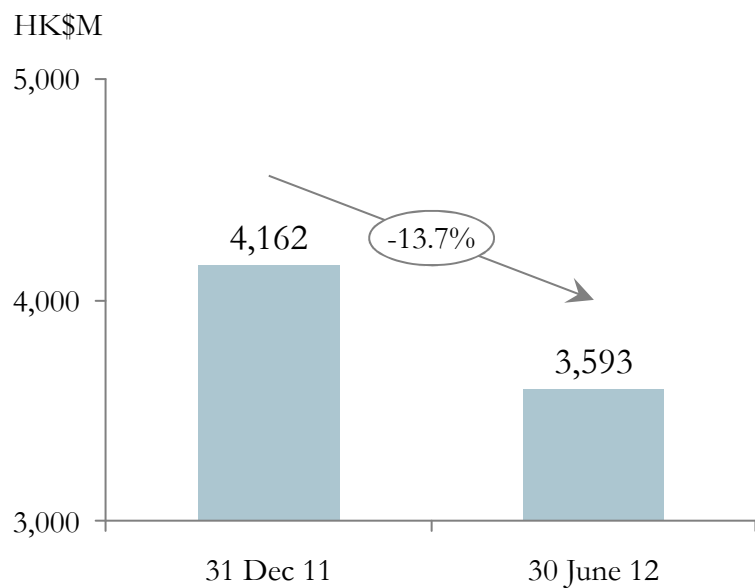
## Main drivers

- Tightened cost control led to significant savings in major cost items
- Net effect of HK\$468M for closure of North America operations
- Despite higher marketing spent as part of Transformation Plan (HK\$1,577M, up HK\$593M yoy)

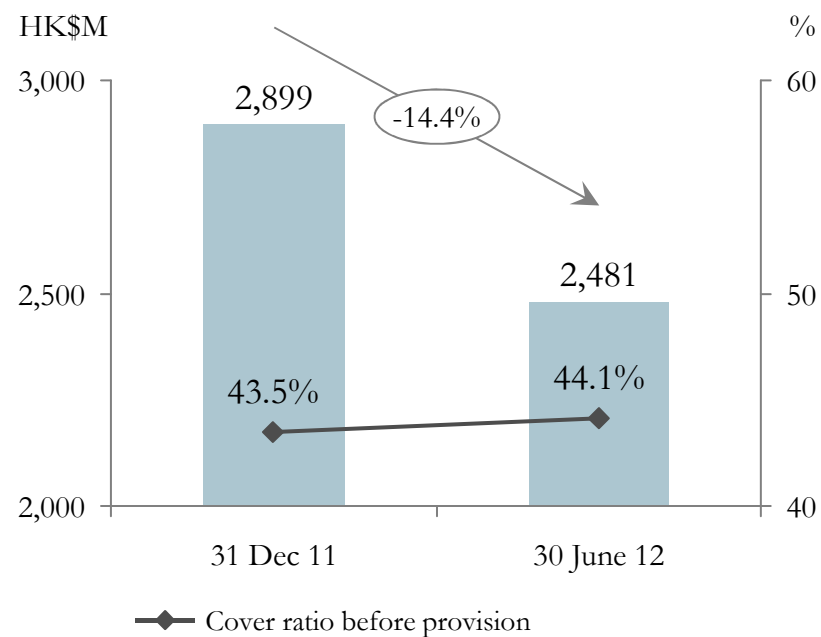
# Working capital improved

Inventory -13.7%; Net trade debtors -14.4%

## Inventory balance



## Net trade debtors balance



## *Net cash of HK\$1.5B*

	<b>As at 30 June 2012</b>	<b>As at 31 December 2011</b>	<b>Change</b>
Cash and bank balances	HK\$3,171M	HK\$3,408M ▼	7.0%
Bank loans	HK\$1,682M	HK\$2,353M ▼	28.5%
<b>Net cash</b>	<b>HK\$1,489M</b>	<b>HK\$1,055M ▲</b>	<b>41.2%</b>

### *Increase in Net Cash*

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## *Dividend maintained at 60% payout ratio*

Basic EPS (HK\$)	0.68
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Dividend payout ratio	60%
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Proposed final dividend per share (HK\$)	0.15
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Add: Interim dividend per share paid (HK\$)	0.26
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<b>Total dividend per share (HK\$) for FY 11/12</b>	<b>0.41</b>
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*UPDATE ON  
TRANSFORMATION PLAN  
2014/15*

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**EVERYTHING WE DO,  
WE DO FOR HER**



*ESPRIT WILL BE  
AN INSPIRING  
FASHION BRAND,*

*WITH A CLEAR IDENTITY  
AND SUSTAINABLE  
PROFITABILITY*





# *Transformation Plan 2014/15*

*Brand*

*Product*

*Channels*

*Supply chain*

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*RE-ESTABLISHING  
ESPRIT AS AN INSPIRING  
FASHION BRAND*

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# Successful media campaigns increase consideration

First year targets achieved



- Campaign seen as modern and stylish
- Delivers on fashion and femininity
- Consideration in Germany up from 50% to 58%
- China with exceptionally positive reaction to campaigns
  - Consideration up from 30% to 59%
  - Strong improvement in brand image:
    - Has latest trends (+17% pts)
    - Offers good quality for money (+14% pts)

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# *Esprit remains a very strong brand in core markets*

## *Germany's favorite brands*

1. Adidas
2. Audi
3. Esprit
4. BMW
5. Volkswagen

## *Esprit #1 in target segment*

- # 1 in age group 30–44 years
- # 1 among German women

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*SNEAK  
PREVIEW AW12 ...*

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*SEPTEMBER/OCTOBER*  
I LOVE MY CITY



*NOVEMBER*  
WELLNESS



*DECEMBER*  
WRAP YOURSELF  
IN LUXURY





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AUTUMN/WINTER COLLECTION 2012

VISIT [ESPRIT.COM](http://ESPRIT.COM)







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AUTUMN/WINTER COLLECTION 2012

VISIT [ESPRIT.COM](http://ESPRIT.COM)



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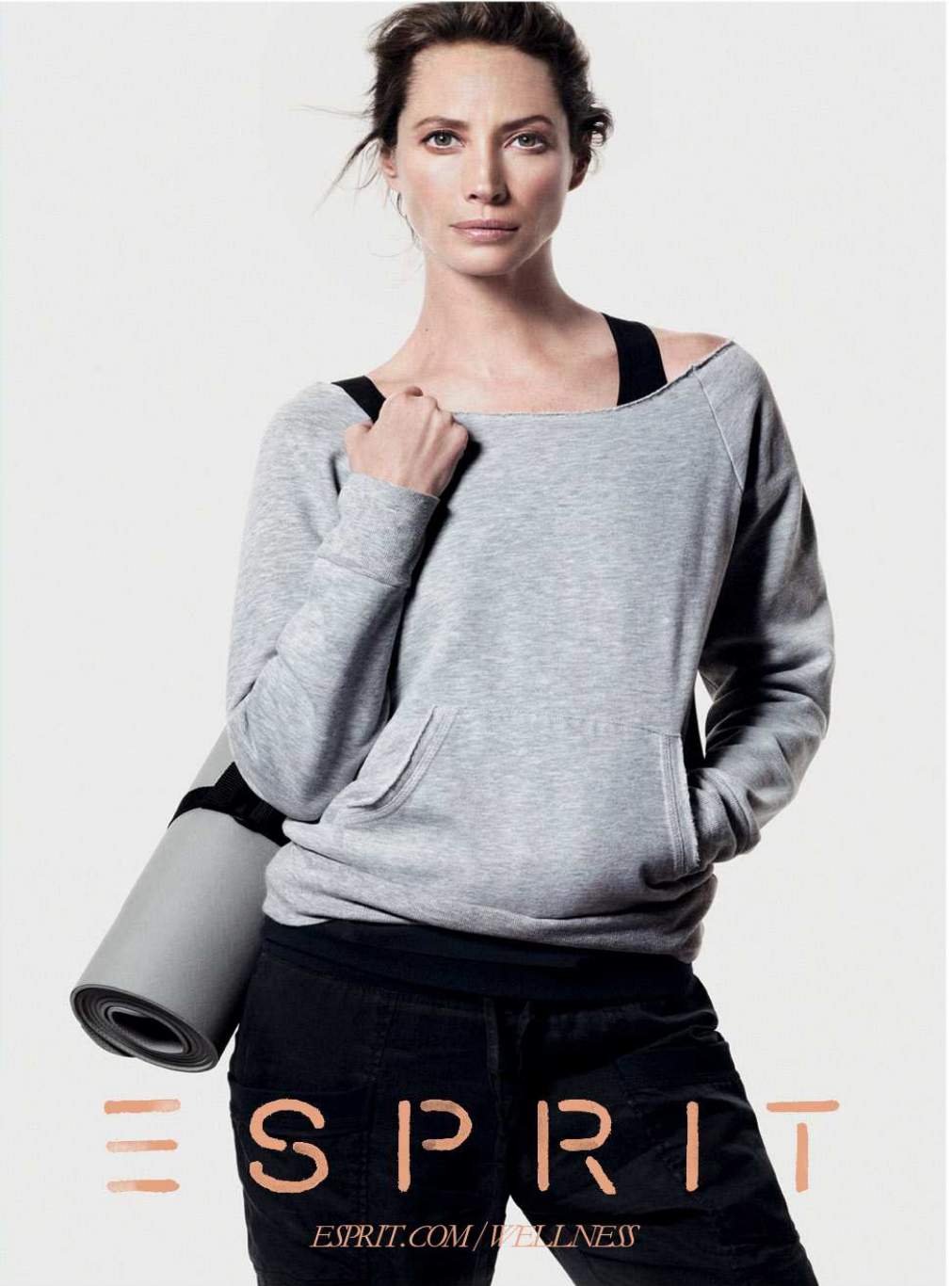
*NOVEMBER*

*INTRODUCING  
WELLNESS ...*

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*CHRISTMAS*

*WRAP YOURSELF  
IN LUXURY*

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WRAP YOURSELF IN LUXURY







## WRAP YOURSELF IN LUXURY

*Winter 2012/13*

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As the days grow colder and the nights get longer, making yourself comfortable is just the most fabulous thing. You snuggle up in cosy clothes and indulge your skin with the touch of beautifully soft, sophisticated fabrics.

To create this blissful feeling of well-being, Esprit has created a new collection under the motto "WRAP YOURSELF IN LUXURY", with love and passion down to the smallest detail. Fine cashmere, smooth satin, delicate lace, cosy wool and genuine Gostwyck merino bring a touch of luxury to your life, making each day a little more special. Fresh colour accents give the classic styles a casual feel. And as these clothes were designed to be your new all-time favourites, they are made of high-quality natural fabrics that you can enjoy for a long time.

One thing is for sure: This new Esprit collection will make you shine - even from within. Because it is just wonderful to delight in a feeling of luxury. And it is even more wonderful to pass it on to others, too.

Wouldn't this be perfect for Christmas?

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# *Transformation Plan 2014/15*

*Brand*

*Product*

*Channels*

*Supply chain*

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*CREATING THE PERFECT  
WARDROBE*

*FASHIONABLE, FEMININE,  
VALUABLE*

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## *New Trend division on 8-12 weeks lead time*



- Complete new product line of fast fashion
- Team located in London
- First collection already in selected European stores since August 2012
- Sell-through more than double that of other collections
- Asia roll-out starting November 2012
- Men's Trend collection as of SS 2013



# *China Design Hub launched*

## *Local design for mainland China*



- China-for-China team in place
- Adapt global designs to suit China consumers (design, colour, fit etc.)
- Add specific styles for China collection
- China-for-China to grow to 15–20% of total styles
- In pilot stores since end of August 2012
- First capsules with promising results

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# Denim division established



- Denim destination in store driving category growth
- Denim experts recruited
- Improved fits and washings as of Fall/Winter 2012
- Creating Denim destinations in stores
  - Up to 30% denim revenue uplift
- Additional shop-in-shop opportunities for Wholesale

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# *Transformation Plan 2014/15*

*Brand*

*Product*

*Channels*

*Supply chain*

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*CREATING AN INSPIRING  
SHOPPING EXPERIENCE*

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# *Successful Lighthouse Stores*

## *Cologne*

Cologne, November 2011



*"This store is fantastic. It makes me feel at home!"*

*"This store invites you to stay longer and enjoy the atmosphere. The atrium is unique."*



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# *Successful Lighthouse Stores*

## *Antwerp*

Antwerp , May 2012

*"You get the impression the store tells a story...  
It's fabulous!"*



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# Successful Lighthouse Stores Düsseldorf

Düsseldorf, June 2012



*“I love how the clothes, shoes, books and accessories are organised – very inspirational for my own closet”*



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# *Creating an inspiring shopping experience*



- 3 Lighthouse stores opened
  - Cologne Nov '11
  - Antwerp May '12
  - Düsseldorf June '12
- Commercial concept developed and rolled out in 12 key locations (including Hong Kong)
- Total 36,800 Retail sqm refurbished
- Total 43,000 Wholesale sqm refurbished
- Achieved refurbishment cost/sqm is 20% below transformation budget

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# *Very positive consumer feedback from both existing and new customers*

**91% of consumers have a positive first impression when entering the store**

"This store is fantastic. It is so cosy and inviting!"

**87% of consumers like the new store experience**

"The store feels much more personal. It is a clear improvement to before."

**96% of customers intend to shop the same or more**

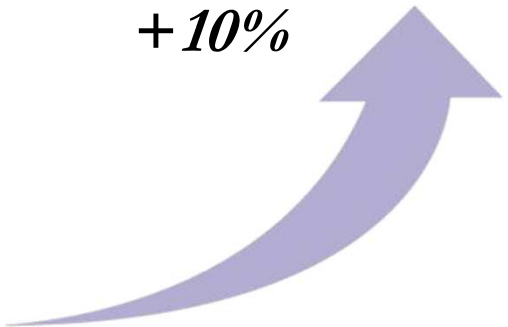
"I was amazed that the product in this shop is actually the same as in the other Esprit shops. It looks so good!"



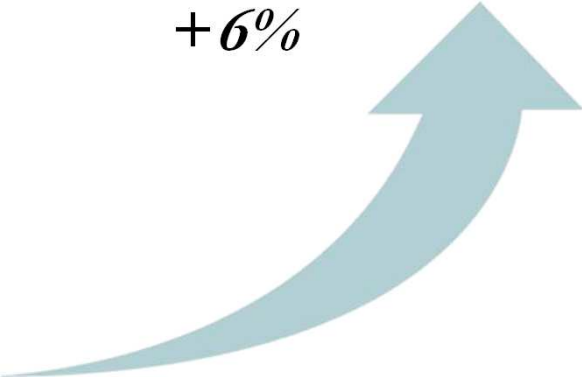
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## *Refurbishment program with promising results*


*Traffic vs comp*  
**+10%**



*APT vs comp*  
**+6%**



*GM vs comp*  
**+3.6% pts**



*Sales of refurbished franchise stores +12% pts vs comp*

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# *Wholesale support program with promising results*



## **Expansion**

- 80 new franchise stores opened in Europe

## **Refurbishment**

- 43,000 sqm of Wholesale selling space in FY11/12, slightly ahead of target

## **Tactical support packages**

- Negotiated with ~400 “Ambassador” accounts in Europe
- Strong uplift in Order Intake of negotiated accounts by more than 10% pts vs others

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# *Transformation Plan 2014/15*

*Brand*

*Product*

*Channels*

*Supply chain*

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## *Sourcing strategy on track*

### *Central Buying organization established*

- Central Buying function key in achieving targeted annual savings of HK\$ 1 B in 2014/15
- Synergies and savings through consolidation of supplier portfolio
  - ✓ Number of suppliers reduced by 21%
  - ✓ Number of factories reduced by 29%
  - ✓ Rejection rate reduced by 50%
- Expand own sourcing footprint to new markets
  - ✓ China, Bangladesh, Indonesia and India (Oct 2012)
  - ✓ Share of sourcing agents reduced by 28%

*Go-live of DC Europe in July 2012 on schedule*  
*Lower costs – better service*



- **46,000 sqm floor space** with throughput capability of 150-200m pieces per year
- Approximately **€10M annual savings** after full ramp-up

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# *Transformation Plan 2014/15 on track*

## *Good progress made in first year*

### BRAND

- ✓ Esprit remains a **very strong brand** in core markets
- ✓ **Consideration rate up** as a result of successful campaigns
- ✓ **Improved brand image** on fashion, femininity & value for money
- ✓ **Successful launch** of three "lighthouse" store concepts in line with brand direction

### PRODUCTS

- ✓ **Trend division launched** with a lead time of 8-12 weeks
- ✓ **China Design Hub** launched to add local design influence
- ✓ **Denim division established** to drive category growth
- ✓ Re-investment of sourcing savings into **higher valued products**

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# *Transformation Plan 2014/15 on track*

## *Good progress made in first year*

### CHANNELS

- ✓ Customers **highly appreciate** the new store concept
- ✓ **80 new franchise stores** opened in Europe
- ✓ Wholesale **support packages** for ‘Ambassador’ partners – driving positive order intake
- ✓ 43,000 sqm of Wholesale **selling space refurbished**
- ✓ Deliberate **rationalization** of un-profitable and brand diluting accounts

### SUPPLY CHAIN

- ✓ **Central buying organization** up and running
- ✓ Go-live of **new DC Europe** in July 2012

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*CELEBRATE*

*THE FIRST YEAR OF TRANSFORMATION*

*ESPRIT BRAND EVENT*

*COLOGNE, 4 SEPTEMBER 2012*

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## *Summary*

- ✓ **The Transformation Plan is on track. Building strong foundation.**
- ✓ **Experienced and committed management team on board.**
- ✓ **The Board of Directors continues to fully support the Plan.**
- ✓ **Smooth CEO transition to ensure continuity.**



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# Q&A

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**REMEMBER ME**



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# *APPENDIX*

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# *Corporate Calendar*

Dispatch of FY11/12 annual report	On or before 26 October 2012
Annual General Meeting	6 December 2012
Last day of trading on a “cum” basis	7 December 2012
Ex-dividend date	10 December 2012
Fixing of dividend reinvestment price	5-11 December 2012
Book close	12 – 14 December 2012
Dispatch of election form	20 December 2012
Election period	20 December 2012 – 9 January 2013
Dividend payment	22 January 2013