ESPRIT

INTERIM RESULTS FY14/15

ESPRIT HOLDINGS LIMITED

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AGENDA

Business Highlights	Jose Manuel Martínez, CEO
Interim Results Review	Thomas Tang, CFO
Strategic Priorities	Jose Manuel Martínez, CEO
Q&A's	

BUSINESS HIGHLIGHTS

- **1H FY14/15 sales performance was well below expectation and adversely impacted by a number of internal and external factors**
  - Reduction in total controlled space in both Retail and Wholesale networks
  - Prolonged unusually warm weather in Europe, which affected sales of Autumn / Winter products and resulted in a highly promotional and discount driven market environment
  - Finalization of the special return agreements with our Wholesale partners in China
  - Unfavorable exchange rate movements, primarily the Euro depreciation against US Dollar
- **Net profit of HK$47 million thanks to continued improvement of our cost base**
  - Turnover decline of -13.2% in local currency compared with -10.0% year-on-year reduction of total controlled space
  - Gross profit margin at 50.5%, slight increase year-on-year of +0.9% pt
  - Continued savings in OPEX with reduction of -11.9% in HK$ term
  - Healthy net cash balance of HK$5.2 billion
- **Rapid progress in all fronts of our Transformation project**
  - On track and recently launched Spring / Summer 15 (SS15) collections in February 2015, first ones under the new model, which have been well received by wholesale customers
  - Retail performance to be assessed by the end of this season
  - Stepping up efforts to establish a vertical business model and a solid platform for best-in-class omni-channel distribution

INTERIM RESULTS REVIEW

INCOME STATEMENT

(in HK$'m)	1H FY14/15	1H FY13/14	YoY change HKD	YoY change LCY
Turnover	10,716	12,810	▼ 16.3%	▼ 13.2%
COGS	(5,309)	(6,462)	▼ 17.8%	▼ 14.8%
Gross profit	5,407	6,348	▼ 14.8%	▼ 11.5%
GP margin	50.5%	49.6%	▲ 0.9% pt	▲ 0.9% pt
OPEX	(5,370)	(6,094)	▼ 11.9%	▼ 8.9%
EBIT	37	254	▼ 85.5%	▼ 73.3%
Taxation	1	(175)	▼ 100.8%	▼ 93.9%
Net profit	47	95	▼ 49.9%	▼ 30.5%

▲/▼ *year-on-year change*

Turnover decline higher than decline in total controlled space of -10.0% yoy

Larger than expected decrease in turnover mainly due to :

(i) Prolonged unusually warm weather in Europe for majority part of the period under review

(ii) Special return agreements in China

Gross profit margin increased slightly due to supply chain savings that also allow us to invest in improving product quality and value for money

Efforts continued in OPEX reduction but at a lower rate than turnover due to substantial cost savings achieved in previous year

A non-recurring tax credit of approximately HK$155 million as a result of a successful claim on deductibility of certain expense items in the United States of America

TURNOVER

BREAKDOWN OF TURNOVER

Regions	% of Group Turnover			
	Channels			Total
	Retail	Wholesale	Licensing & others	
Germany	29.0%	17.8%	0.1%	46.9%
Rest of Europe*	20.1%	17.1%	0.1%	37.3%
Asia Pacific	13.6%	1.6%	0.0%	15.2%
North America	0.0%	0.0%	0.6%	0.6%
Total	62.7%	36.5%	0.8%	100.0%

* *Rest of Europe include all European countries excluding Germany, plus Latin America and the Middle East*

DEVELOPMENT OF TURNOVER BY QUARTERS

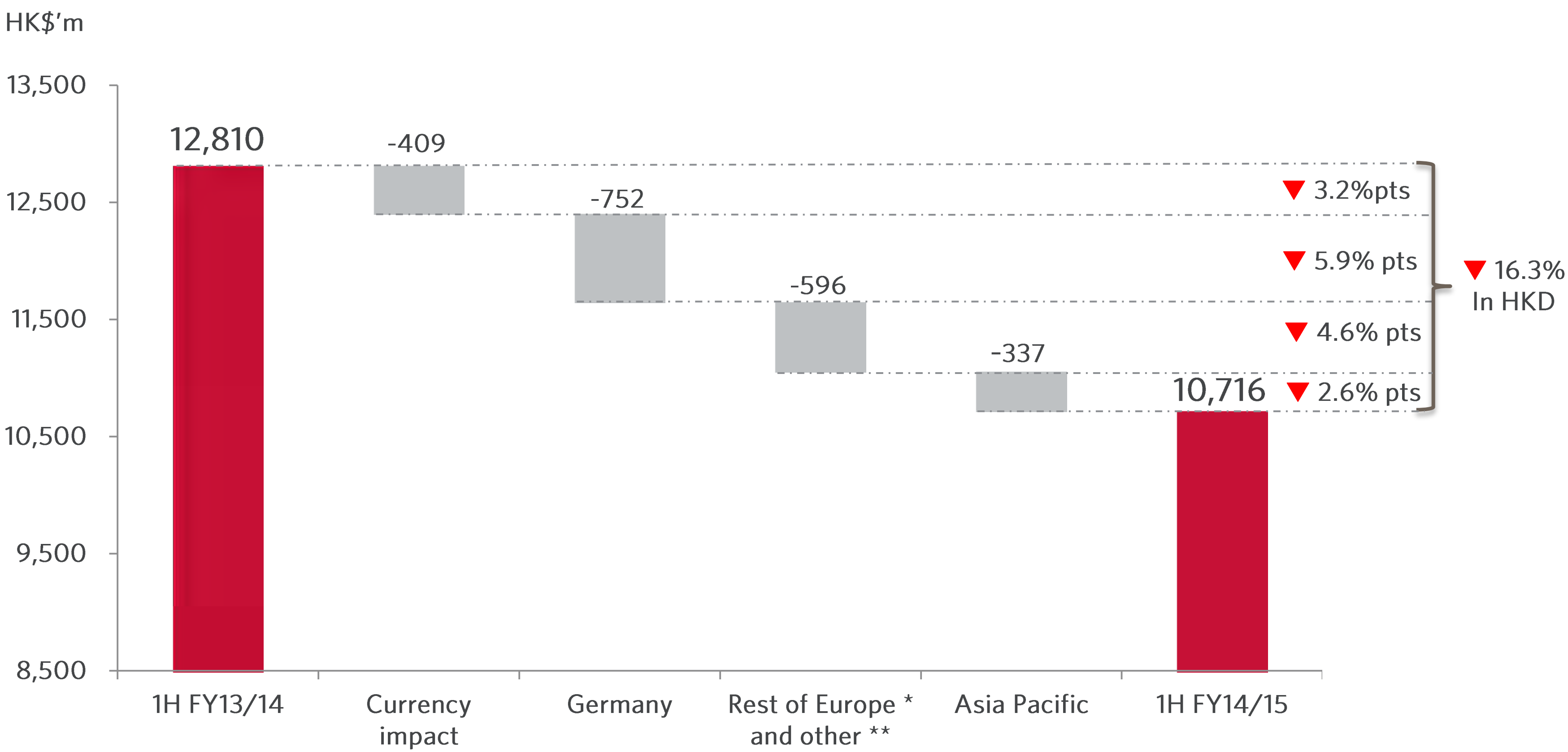
FY14/15	Turnover Change in LCY	SQM Change
1st Quarter	▼ 16.3%	▼ 11.3%
2nd Quarter	▼ 9.9%	▼ 10.0%
First Half	▼ 13.2%	▼ 10.0%

▲/▼ *year-on-year change*

Very weak performance in 1Q primarily due to the damaging combination of unusually warm weather in Europe and special return agreements in China

Decline narrowed to be very much in line with the corresponding reduction of controlled space in 2Q, once we faced a more "normalized" situation in Europe and APAC

DEVELOPMENT OF TURNOVER BY REGIONS



* *Rest of Europe include all European countries excluding Germany, plus Latin America and the Middle East*
** *Other represents North America*

▲/▼ *year-on-year change*

ANALYSIS OF TURNOVER – GERMANY

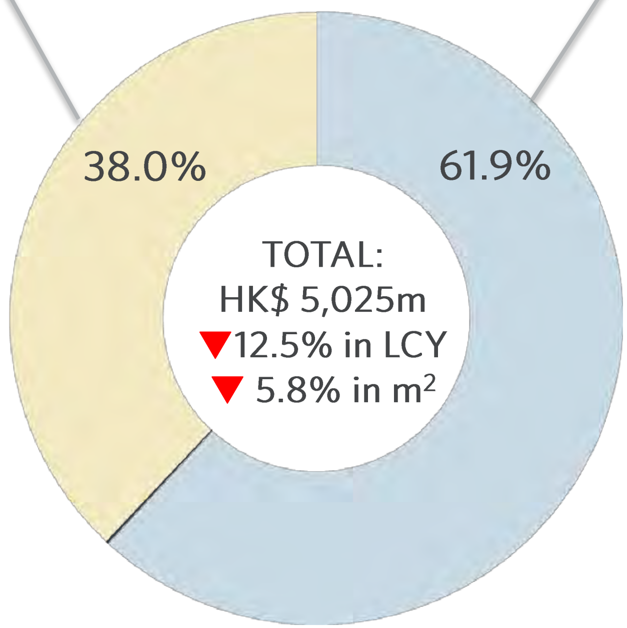
WHOLESALE

HK$1,908m ▼9.1% in LCY
212,221 m^2 ▼7.1%

- Termination of very small wholesale accounts as part of our effort to rationalize wholesale customer base
- Lower order intake of edc products as a result of new planning for collection flow

\+ Stabilization of controlled space productivity (sales/m^2) in 2Q:

1Q: ▼10.2% in LCY vs ▼5.0% in m^2
2Q: ▼7.5% in LCY vs ▼7.1% in m^2



Licensing & Others : 0.1%
▼26.1% in LCY

RETAIL

HK$3,110m ▼14.5% in LCY
124,490 m^2 ▼3.4%

- Closure of 6 stores under store closure and onerous leases in 1H
- Prolonged unusually warm weather conditions
- Discount-driven market and weakened consumer sentiment

Decline narrowed to ▼12.9% in 2Q (1Q ▼16.3%)

\+ Weather turned colder in November and December 2014
\+ Aggressive promotion and mark down in place to drive store traffic and to activate sales

▲/▼ *year-on-year change*

ANALYSIS OF TURNOVER – REST OF EUROPE

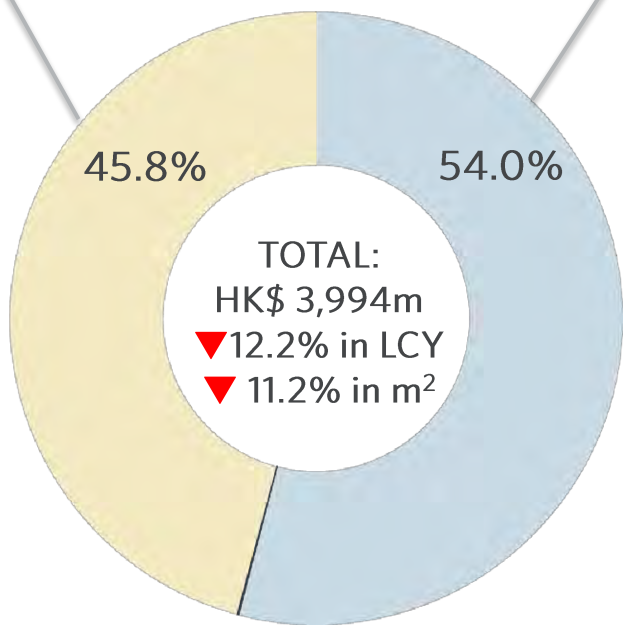
WHOLESALE

HK$1,830m ▼13.8% in LCY
188,871m^2 ▼16.8%

- Conversion of 10 franchise stores in Sweden into retail format
- Exit of partner in Russia
- Reduction in franchise store space in Middle East
- Space loss in France and Belgium driven by negative economic environment

\+ Stabilization of controlled space productivity (sales/m^2) in 2Q:

1Q: ▼16.6% in LCY vs ▼17.9% in m^2
2Q: ▼8.7% in LCY vs ▼16.8% in m^2



Licensing & Others : 0.2%
▼ 5.6% in LCY

RETAIL

HK$2,158m ▼ 11.0% in LCY
107,228 m^2 ▲ 0.6%

- Closure of 3 stores under store closure and onerous leases in 1H
- Prolonged unusually warm weather conditions
- Slower economic growth and weakened consumer sentiment

Decline narrowed to ▼7.1% in 2Q (1Q ▼15.6%)

\+ Conversion of 10 franchise stores in Sweden into retail format
\+ Weather turned colder in December 2014
\+ Aggressive promotion and mark down in place to drive store traffic and to activate sales

▲/▼ *year-on-year change*

ANALYSIS OF TURNOVER – ASIA PACIFIC

WHOLESALE

HK$178m ▼49.3% in LCY
47,650m^2 ▼35.3%

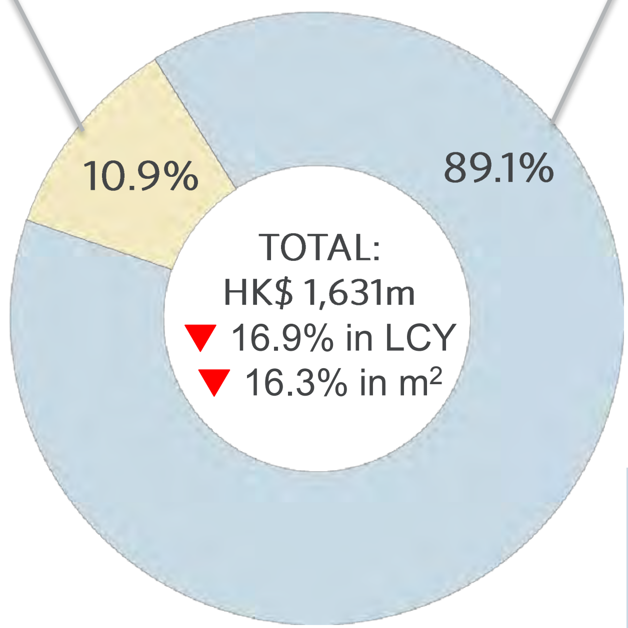
China (73.3% of APAC Wholesale)

▼ 51.5% in LCY
▼ 41.8% in sqm

- \- Loss of controlled space carried on from last year
- \- Special return agreements finalized end of 1Q to address the aged inventory problem
- \+ Stabilization of controlled space productivity in 2Q ▼32.1% in LCY vs ▼35.3% in m^2
- \+ Signed up new franchise partners for the next financial year

Rest of APAC

- \- Closure of Australia wholesale
- \- Lower orders from Thailand



RETAIL

HK$1,453m ▼9.8% in LCY
101,994m^2 ▼ 3.1%

China (43.7% of APAC Retail)

▼ 10.2% in LCY
▼ 2.5% in sqm

- \- Decline in store traffic and weak performance in department store promotions in China
- \+ ▲2.9% comp-store-growth in 2Q

Decline slightly narrowed to ▼9.6% in 2Q (1Q ▼10.9%)

Rest of APAC

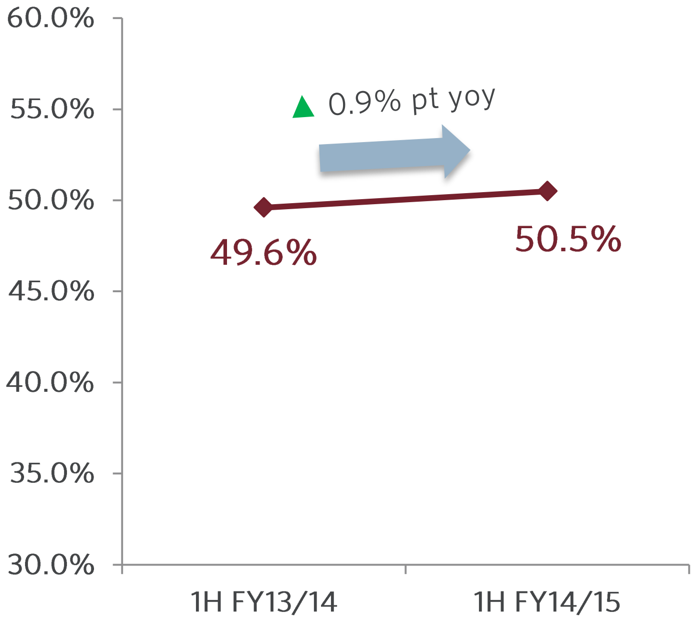
▼ 9.5% in LCY
▼ 3.6% in sqm

- \- Occupy Central Movement in Hong Kong affecting consumer traffic and trading hours

▲/▼ year-on-year change

PROFITABILITY

GROSS PROFIT MARGIN



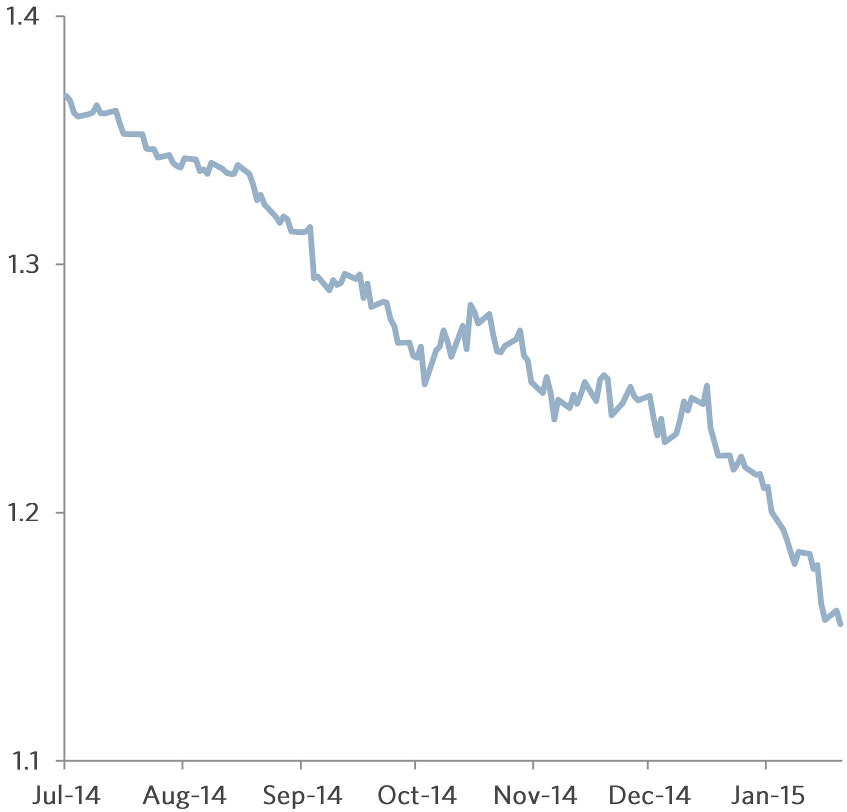
Slight increase in gross profit margin

+ Lean supply chain management is beginning to have positive impact on sourcing costs

- Aggressive promotion and markdown implemented to drive store traffic and to activate sales

FX CHALLENGE

Euro/USD Development (Jul 14 – Jan 15)



- Negative impact on Euro depreciation
  - ➢ Approximately 78% of sales denominated in Euro
  - ➢ Only approximately 15%-20% of finished goods are purchased in Euro
- Sourcing costs for calendar year 2015 (i.e. SS15 and AW15) is fully hedged at a better rate than the current rate - moderate immediate pressure on GP margin
- Excluding working capital requirements, all surplus cash are kept in USD/HKD (represent almost 60% of total cash held by the Group)
- Under continuous review for purchases of merchandise in the calendar year 2016 as well as potential Euro price adjustment, depending on movement in exchange rate

OPERATING EXPENSES

(in HK$ M)	1H FY14/15	1H FY13/14	LCY Change
Staff costs	1,896	1,984	▼ 1.4%
Occupancy costs	1,689	1,819	▼ 4.2%
Logistics expenses	569	670	▼ 11.0%
Depreciation	371	419	▼ 8.2%
Marketing & Advertising expenses	419	371	▲ 19.0%
Others	426	831	▼ 48.4%
Total OPEX	**5,370**	**6,094**	▼ 8.9%

CONTINUING OUR EFFORTS IN COSTS REDUCTION:

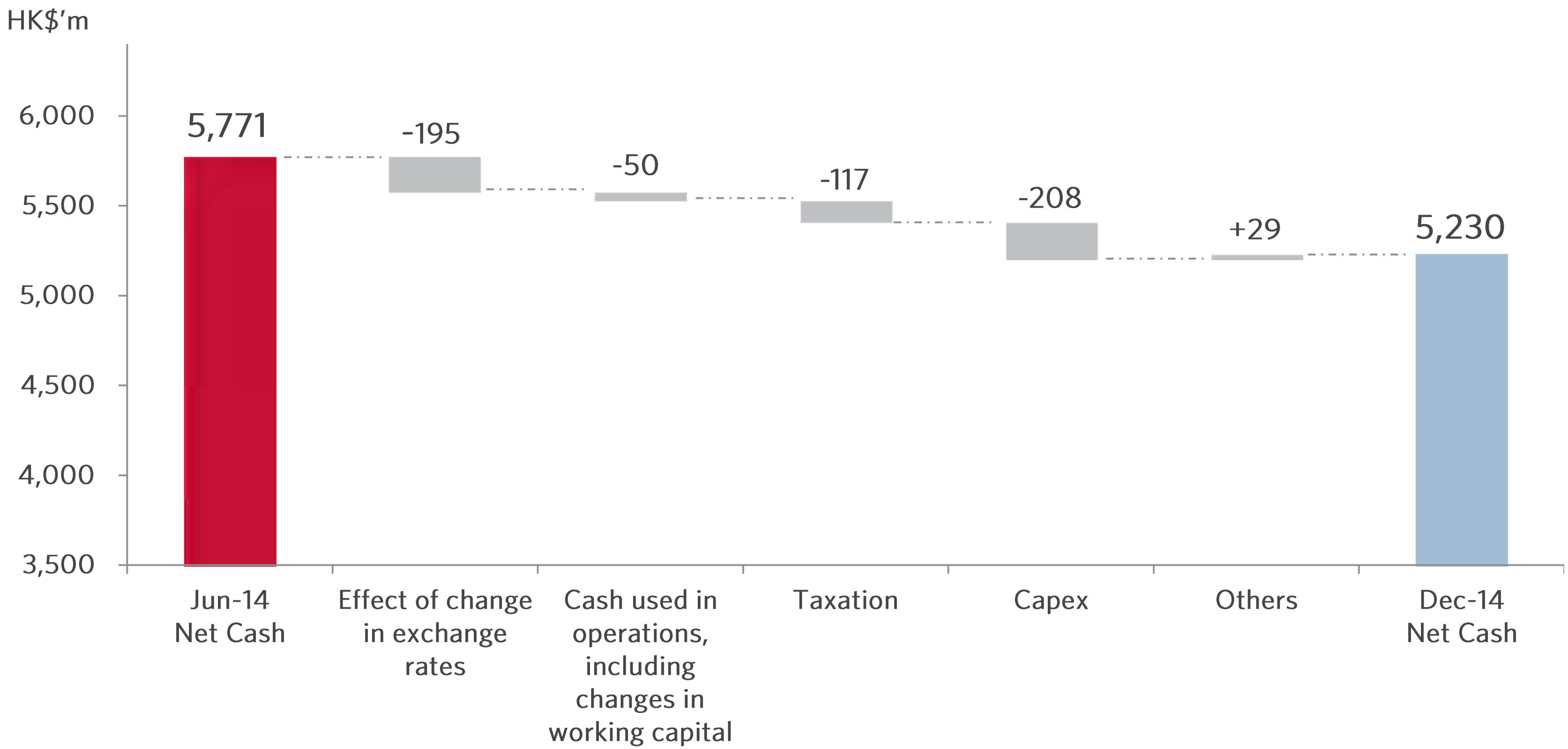
- Occupancy costs → Reflect reduction of ▼ -2.0% in expensive retail space
- Logistics expenses → In line with reduction in business volume
- Marketing & Advertising expenses → Stepping up marketing efforts ahead of roll out of new products at store level
- Others → Benefited from improved stock management (stock provisions)

- Total OPEX savings of HK$724 million, representing a year-on-year reduction of -8.9% in LCY
- Despite 19% LCY increase in Marketing & Advertising expenses mainly for implementation of the new brand strategy to drive consumer attention and store traffic across channels

▲/▼ *yoy change*

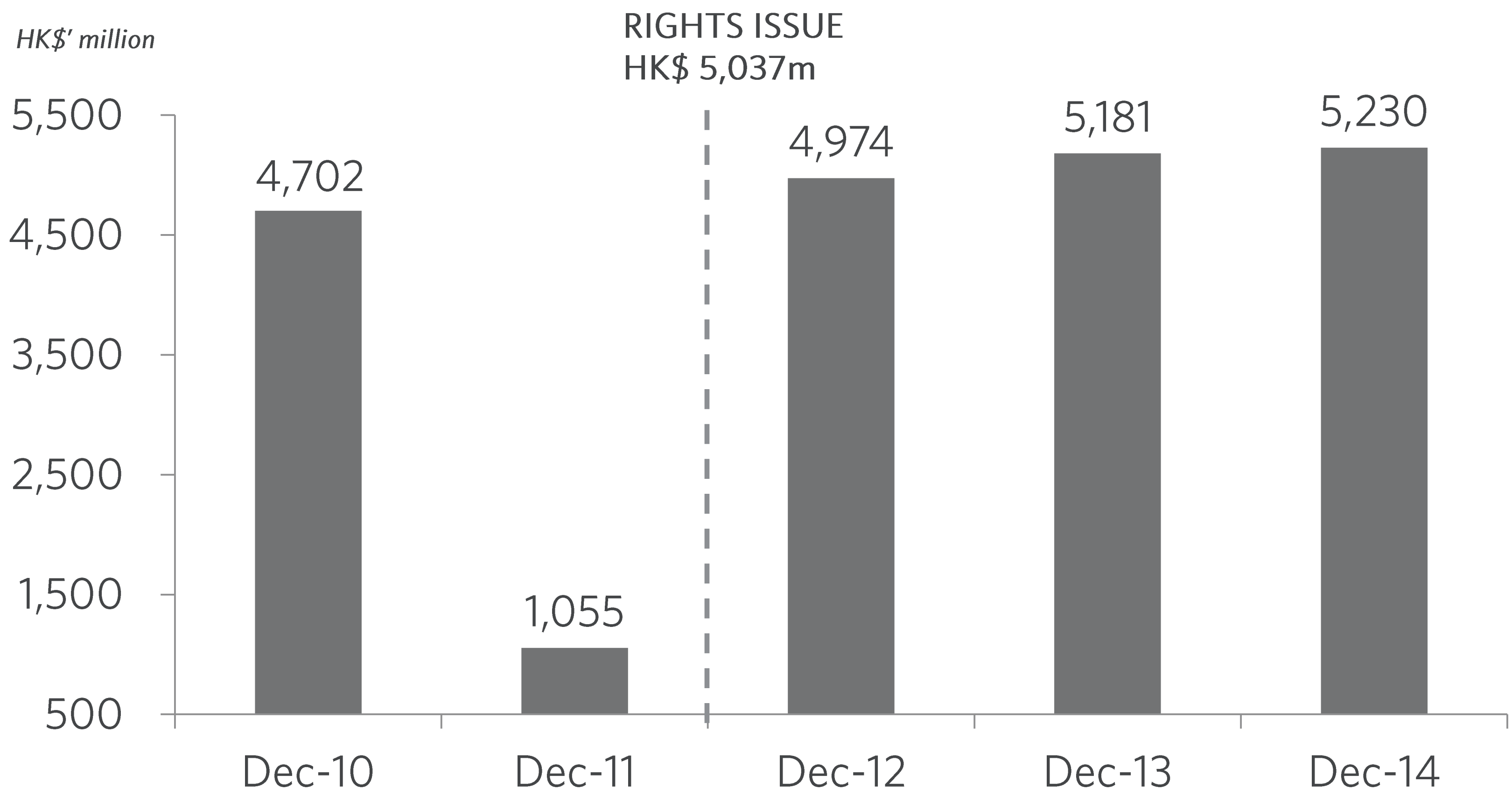
WORKING CAPITAL

FUND FLOW AND NET CASH POSITION



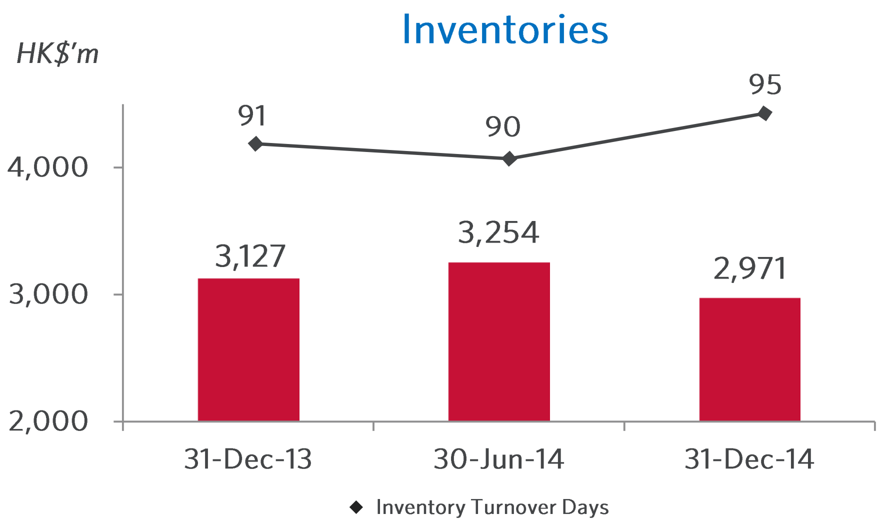
- Net cash consumption of HK$541 million for the Period Under Review
- Maintained a healthy net cash position of HK$5,230 million (HK$5,181 million as of 31 Dec 2013)
- Subsequent to 31 Dec 2014, the last installment (HK$260m) of the bank loan was repaid on 4 Feb 2015, and the Group is now debt free

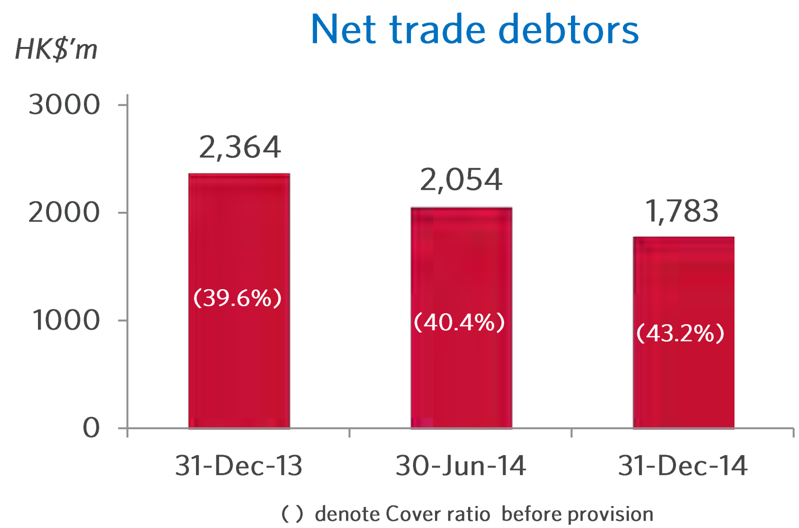
RECENT DEVELOPMENT OF NET CASH POSITION



Cash preservation throughout first phase of Transformation

WORKING CAPITAL - INVENTORIES & NET TRADE DEBTORS





Inventory ▼ 5.0% yoy due to:

- Units of inventory ▼ 14.7% yoy
- ▼ 11.9% depreciation in EUR/HKD closing rate (31 Dec 14: 9.4295; 31 Dec 13: 10.703)
- Write-back of overprovision of merchandises in the outlet channel

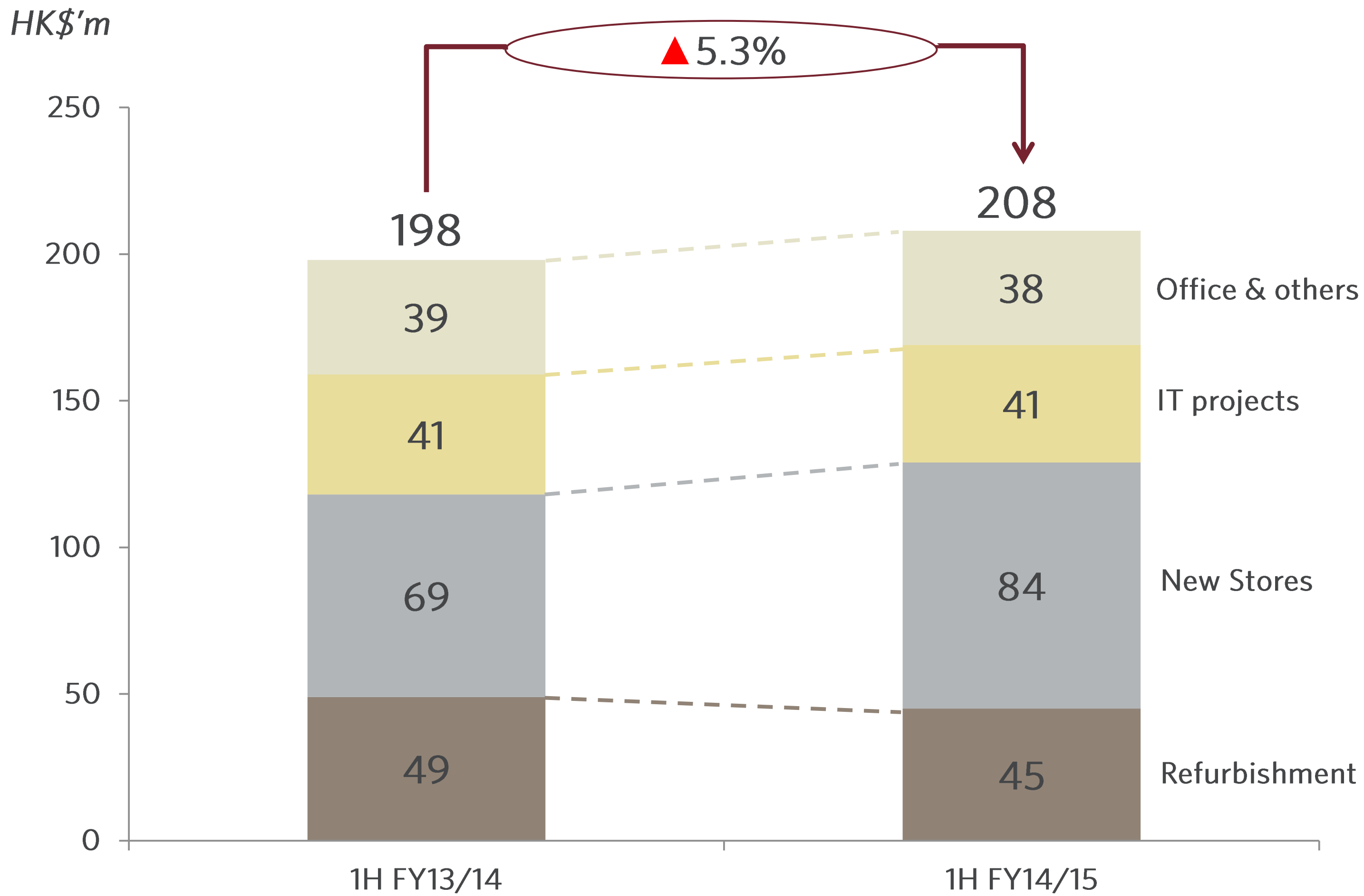
Inventory turnover days increased by 4 days yoy to 95 days as a result of negative sales development

Net trade debtors ▼24.6% yoy due to:

- Lower wholesale turnover
- ▼ 11.9% depreciation in EUR/HKD closing rate (31 Dec 14: 9.4295; 31 Dec 13: 10.703)

Cover ratio before provision increased by ▲2.8% pts as compared to end of Jun 2014

CAPITAL EXPENDITURE



- Similar level of CAPEX
- Remained selective in expansion and moderate in deployment of refurbishment to align with business development

DIVIDEND

Interim Dividend	
Net profit	HK$47m
Basic earnings per share	HK 2 cents
Interim dividend payout ratio	61.5%
Interim dividend per share	HK 1.5 cents

- Declared interim dividend of HK 1.5 cents per share with scrip alternative

- Key calendar dates
  - Ex-dividend date: 11 March 2015
  - Book closure dates: 13 March 2015 to 16 March 2015
  - Payment date: 28 April 2015

STRATEGIC PRIORITIES

STRATEGIC PLAN

REMINDER

SHORT TERM
FY13/14

MEDIUM TERM
FY14/15

LONG TERM
> 2 years

STABILIZATION

Build a sound and healthy platform for the introduction of the structural changes needed to regain competitiveness

TRANSFORMATION

UNCERTAINTY SCENARIO IN FY14/15

Execute the ambitious transformation of our business model (Vertical Omnichannel) to enhance speed and efficiency of our product and sales management

GROWTH

Leverage the benefits of the new model to drive sustainable top line growth, and the healthier cost base to increase profitability

TRANSFORMATION

SHORT TERM

FY13/14

MEDIUM TERM

FY14/15

1H FY14/15
Negative AW14 top line performance due to both internal and external factors not related to new model

STABILIZATION

TRANSFORMATION

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

Jan '15

TRANSFORMATION

SHORT TERM

FY13/14

MEDIUM TERM

FY14/15

STABILIZATION

Build a sound and healthy platform for the introduction of the structural changes needed to regain competitiveness

TRANSFORMATION

UNCERTAINTY SCENARIO IN FY14/15

Execute the ambitious transformation of our business model (Vertical Omnichannel) to enhance speed and efficiency of our product and sales management

Jan '15

1H FY14/15
Negative AW14 top line performance due to both internal and external factors not related to new model

2H FY14/15
Positive development of SS15 in Wholesale, while Retail still unknown

TRANSFORMATION

SHORT TERM

FY13/14

MEDIUM TERM

FY14/15

STABILIZATION

Build a sound and healthy platform for the introduction of the structural changes needed to regain competitiveness

TRANSFORMATION

UNCERTAINTY SCENARIO IN FY14/15

Execute the ambitious transformation of our business model (Vertical Omnichannel) to enhance speed and efficiency of our product and sales management

Jan '15

1H FY14/15
Negative AW14 top line performance due to both internal and external factors not related to new model

2H FY14/15
Positive development of SS15 in Wholesale, while Retail still unknown

New model implementation started on time (July 2014) and positive progress in most fronts of the Transformation

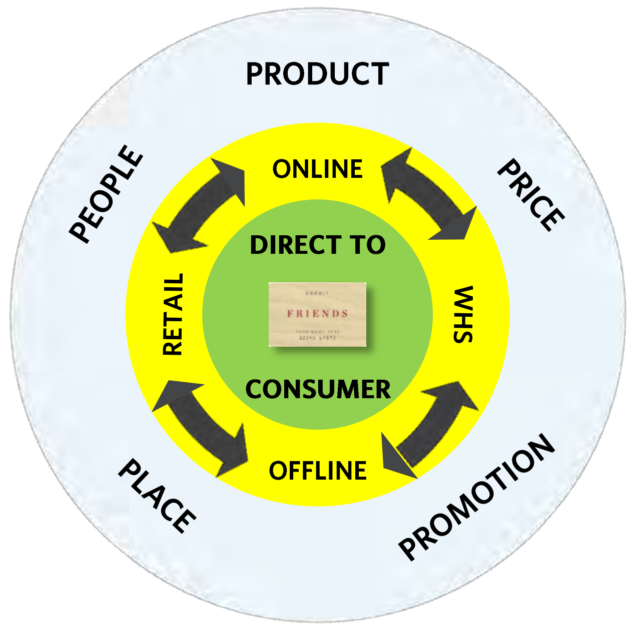
TRANSFORMATION

PRODUCT → CHANNELS

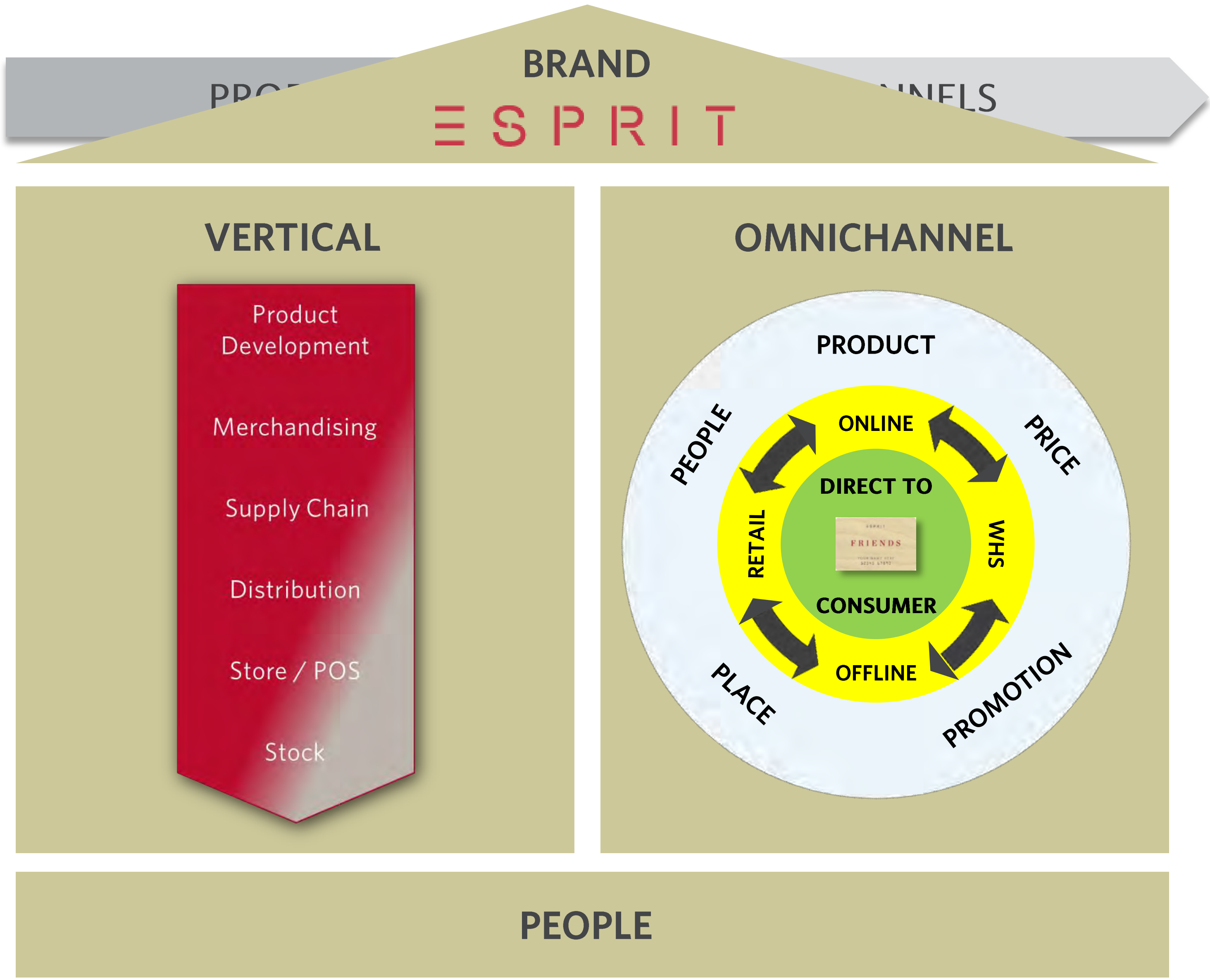
VERTICAL

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

OMNICHANNEL



TRANSFORMATION



BRAND
“ESPRIT DE CORPS”

BRAND MARKETING STRATEGY

SHORT TERM FY13/14

MEDIUM TERM FY14/15

	STABILIZATION	***TRANSFORMATION***
Overall	Company focused on fixing profitability and operational issues	Company focused on improving our product and stores
Brand	**Reduce** total Brand Marketing spend and focus on tactical measures	**Revise** and test final Brand Strategy (revisit original concept in Transformation Plan)

ESPRIT

"Esprit de Corps"

Social Realm

Social values
Group/Relatedness
Freedom
Feelings
Casual/Natural
Relaxed/Positive
Full of life
Real People

FY14/15 CAMPAIGNS – NEW CONCEPT

Autumn / Winter 14

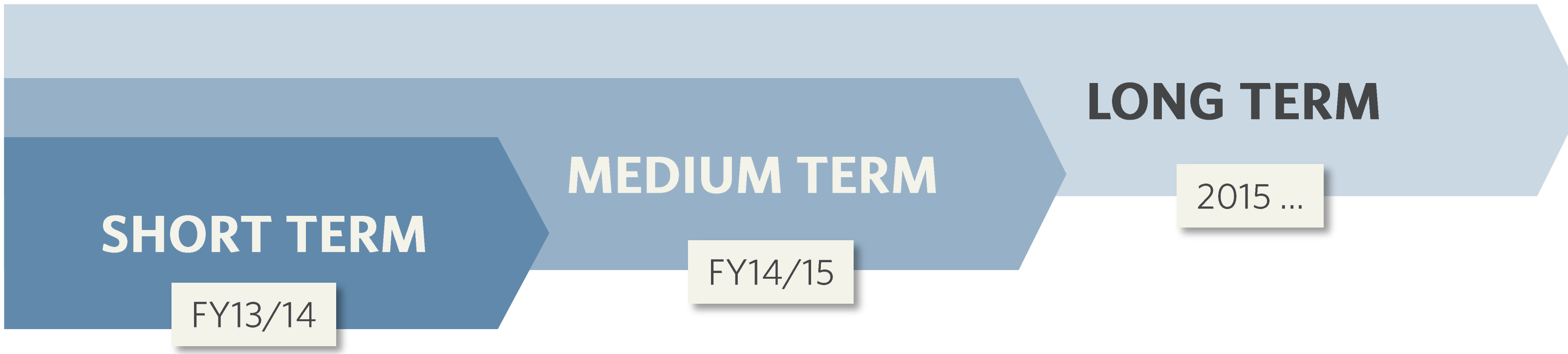
„MUSES“
+ Real people
+ Social values
+ Positive attitude

+

Spring / Summer 15

„COMMUNITY“
+ Togetherness
+ Women & Men
+ Californian spirit

BRAND MARKETING STRATEGY



	STABILIZATION	***TRANSFORMATION***	***GROWTH***
<u>Overall</u>	Company focused on fixing profitability and operational issues	Company focused on improving our product and stores	Company focused on growth on the basis of successful Product and Store concept
<u>Brand</u>	**Reduce** total Brand Marketing spend and focus on tactical measures	**Revise** and test final Brand Strategy (revisit original concept in Transformation Plan)	**More** ambitious activation of Brand communication across markets

PRODUCT “VERTICAL MODEL”

Get Hannah's look now!
DISCOVER HER STORY AT ESPRIT.COM


Find your perfect fit ...

IMPLEMENTATION OF VERTICAL BUSINESS MODEL

VERTICAL

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

1. **Lean SCM -** Fast and efficient product development (vs GTM)
2. **Category Mngmnt. Teams -** End to end product management
3. **New Merchandising Model -** Centralized product and merchandise decisions (vs. Markets/Channels)
4. **Seasonal Calendar -** Flexible flow of product (vs. 12 collections)
5. **Product Range Reduction -** Development for the Stores (vs. Showrooms)
6. **Fast to Market Product Development -** Smaller initial collections and larger OTB (vs. Order Intake)
7. **Stock Management Optimization** – "Last minute" and subsequent allocation – replenishment (vs 100% pre-allocation)
8. **New Pricing Model -** Market pricing (vs. "Cost+" model) with a focus on realized GP Margin (vs. Full Price margins)

HYBRID BUSINESS MODEL FOR ALL CHANNELS

VERTICAL

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

Retail Stores

Retail e-commerce

WHS-PSS

WHS-ML

✓ **NATURAL VERTICAL MODEL**

✓ **NEW VERTICAL PSS MODEL**
- Vertical PSS pilot EU: Learn and improve model—communication, roles, processes, tools
- Fake vertical PSS China: improve processes, build partners' trust, increase assortment control

✓ **ADAPTATION OF WHS MODEL**
- Bi-monthly sell-in
- Vertical assortment planning
- F2M4W via online tool
- Sales force sell-out focus

"PURE" VERTICAL MODEL

"VERTICALISED" WHOLESALE MODEL

CHANNELS “OMNICHANNEL”

KEY INSIGHTS FROM CHANNELS TRENDS

Business Case Retailers

Omni-channel

Direct to Consumer

Key Online Players

E-Payment Companies

Personalization

E-Fulfillment

Specialized Consulting

Digital

On-Line Competition

World Class Vendors

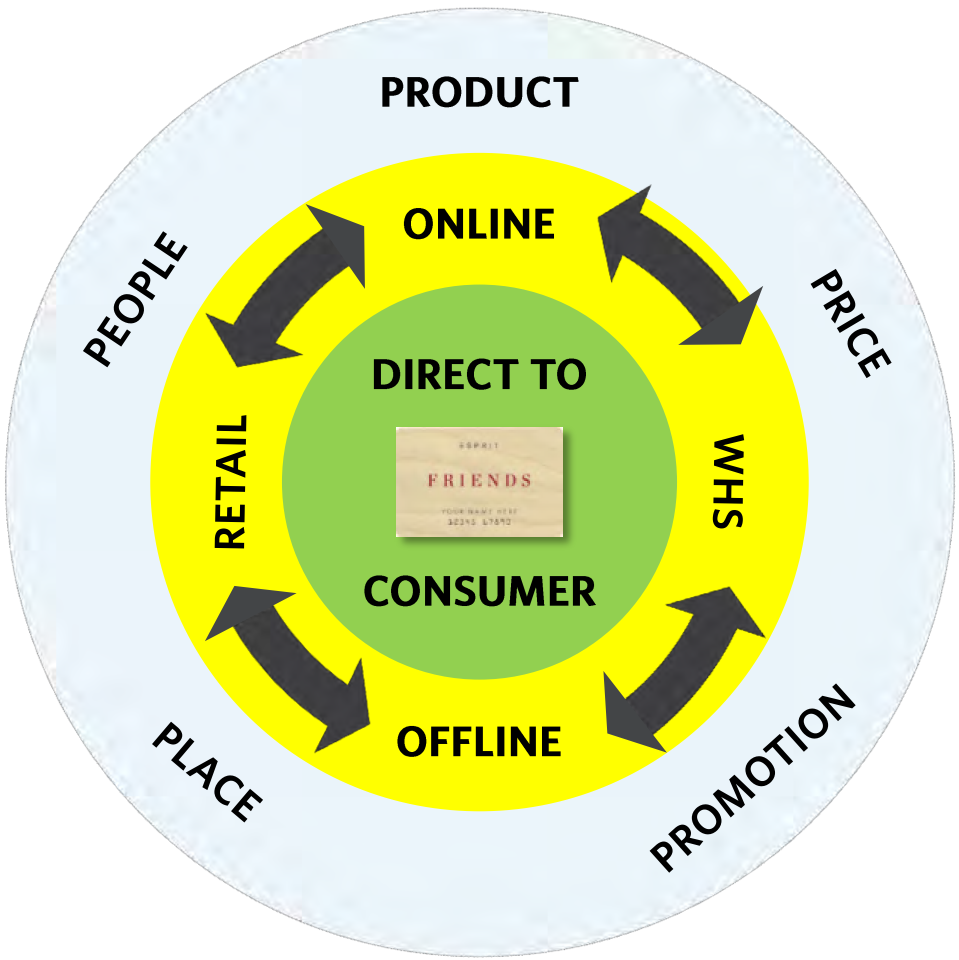
Mobile

Expansion

Digital Media

Top Software Developers

OMNICHANNEL MODEL IN ESPRIT



DIRECT TO CONSUMER

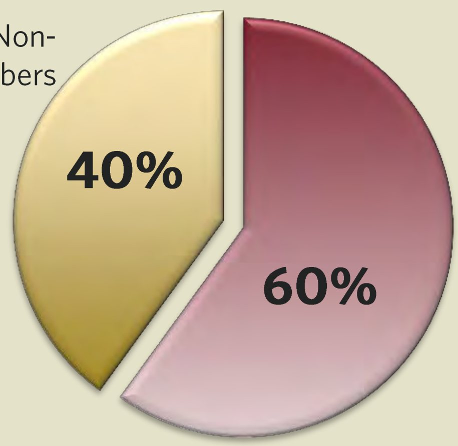
DIRECT TO CONSUMER

Esprit Friends: Best and closest customers to our brand

6.4 Million
Esprit Friends*

Of which ***4.6 Million***
purchased in the last 12 months

Retail Sales



Deep Knowledge

- Deep research (e.g. Focus Groups)
- Quick research (weekly surveys)
- Consumer pulse (monthly surveys)
- Consumers purchase (data analysis)

Continuous Interaction

- Newsletter
- Exclusive Promotions
- Personalization
- Reactivation

** World-wide, purchased in the past 24 months*

DIRECT TO CONSUMER

DIRECT TO CONSUMER

Develop the best loyalty program in fashion apparel

Welcome voucher

% Bonus
with every purchase

Esprit News
(„be the first to know")

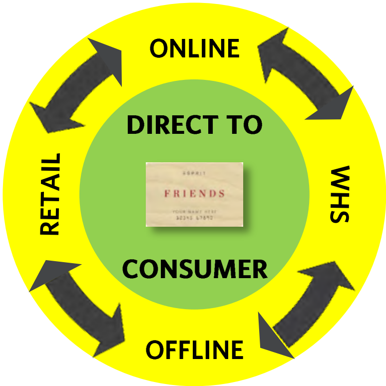
Personalization
(e.g. birthday surprise)

Free service hotline

Free alterations

Exclusive events
(i.e. VIP Days)

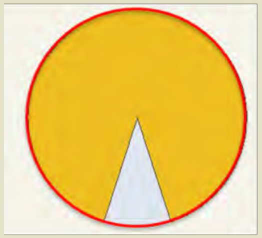
Personal style advice



DIRECT TO CONSUMER

Develop best in class cross-channel integration

CHANNEL INCENTIVES



instore generated sales + service fees

off to on

X%

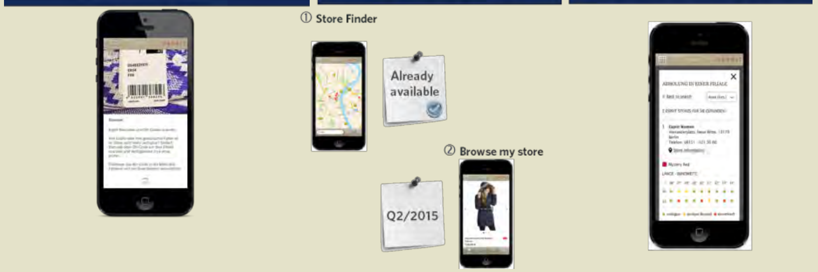
E-profit sharing principle

MOBILE APP

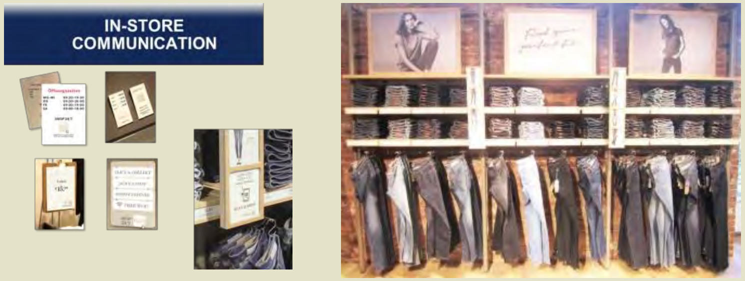
SCAN & SHOP

GENERAL INFORMATION

MERCHANDISE AVAILABILITY CHECK



IN-STORE COMMUNICATION



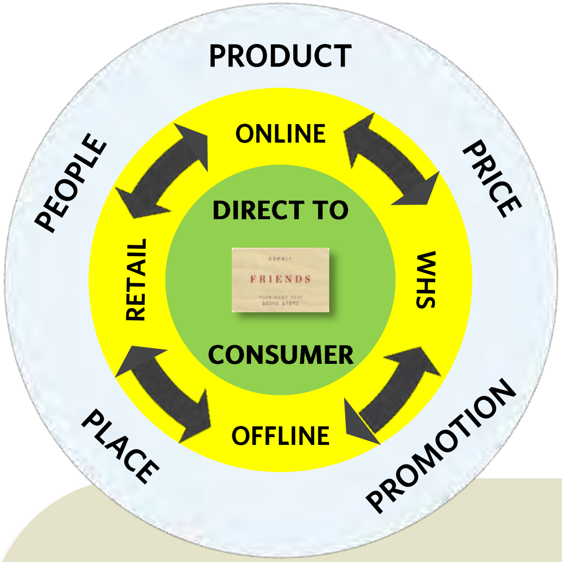
CLICK & COLLECT

CLICK & RESERVE

RETURN @ STORE

OFF-TO-ON

ON-TO-OFF



DIRECT TO CONSUMER

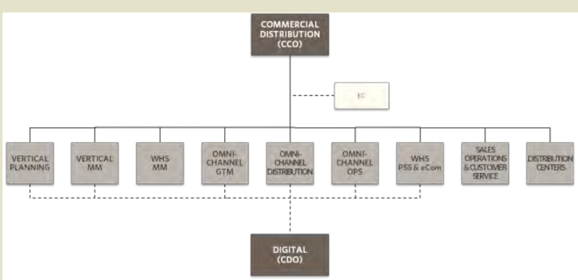
Develop a fully integrated commercial activity

PRODUCT

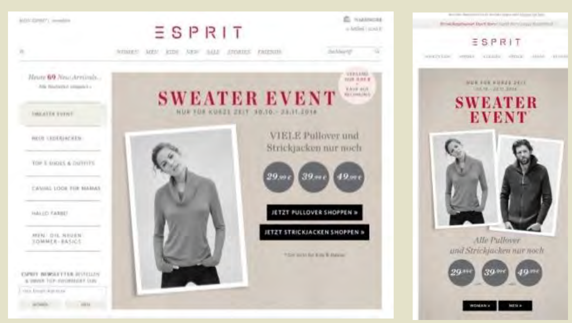
Retail assortment

eShop assortment

PLACE



PEOPLE



PROMOTIONS

PRICE

PEOPLE ORGANIZATION

THANKS AGAIN!

GROWTH

LONG TERM

> 2 years

MEDIUM TERM

FY14/15

SHORT TERM

FY13/14

STABILIZATION

Build a sound and healthy platform for the introduction of the structural changes needed to regain competitiveness

TRANSFORMATION

UNCERTAINTY SCENARIO IN FY14/15

Execute the ambitious transformation of our business model (Vertical Omnichannel) to enhance speed and efficiency of our product and sales management

GROWTH

Leverage the benefits of the new model to drive sustainable top line growth, and the healthier cost base to increase profitability

OUTLOOK

2H FY14/15 OUTLOOK

UNCERTAINTY SCENARIO IN FY14/15

CONTROLLED SPACE	Low single digit decline in retail, as we continue closing loss making stores
TOP LINE	Recovery of space productivity (sales / sqm) with respect to 1H both in retail and wholesale which would result in decline in line with sqm reduction Still expected volatility due to first execution of new model in SS15
GP MARGIN	Continued improvement in local currency terms from savings in supply chain management although the Euro/US Dollar exchange rate development may negatively impact margin in Hong Kong Dollar terms
OPEX	Operating expenses under control although this year we will not benefit from the same one-off special effects as we did in FY13/14
CAPEX	Moderate deployment of announced CAPEX for stores refurbishments and openings


Q&A