ANNUAL RESULTS FY13/14

ESPRIT HOLDINGS LIMITED

ESPRIT

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AGENDA

• Business Highlights	Jose Manuel Martínez, CEO
• Annual Results Review	Thomas Tang, CFO
• Update on Strategic Priorities	Jose Manuel Martínez, CEO
• Q&A's	

BUSINESS HIGHLIGHTS

- **In FY13/14, Esprit has reached two major milestones in our turnaround strategy**
  - The return to profitability and positive cash generation
  - The implementation of a new vertically integrated model in July 2014 for faster and more cost efficient product management processes
- **Positive EBIT of HK$361 million with Net Profit of HK$210 million**
  - Turnover decline of -9.9% in local currency, in line with the reduction of sales space (-10.7% in sqm)
  - Stable Gross Profit Margin at 50.2% (2013: 49.6%)
  - Drastic -32.9% reduction of Operating Expenses in local currency terms (-21.4% if excluding the non-recurring cost items of our previous financial year)
  - Net cash generation of HK$1,120 million
- **New vertical business model in place since July 2014**
  - Detailed solutions for vertical model to serve both our retail and wholesale channels
  - Implementation started on time according to strategic plan timeline
  - Full implementation will involve operational challenges in FY14/15

ANNUAL RESULTS REVIEW

INCOME STATEMENT

(in HK$'m)	FY13/14	FY12/13	HKD Change	LCY Change
Turnover	24,227	25,902	▼ 6.5%	▼ 9.9%
COGS	(12,071)	(13,065)	▼ 7.6%	▼ 11.2%
Gross profit	12,156	12,837	▼ 5.3%	▼ 8.6%
GP margin	50.2%	49.6%	▲ 0.6% pt	▲ 0.7% pt
OPEX	(11,795)	(17,007)	▼ 30.6%	▼ 32.9%
EBIT/(LBIT)	361	(4,170)	▲108.7%	▲107.9%
Net profit / (loss)	210	(4,388)	▲104.8%	▲104.5%

▲/▼ *yoy change*

Turnover decline in line with reduction of controlled selling space (-10.7% in sqm)

Continued stabilization in Europe, our largest market, while challenges remain in the Asia Pacific region

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Stable gross profit margin

▲/▼ *yoy change*

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OPEX reduction on track bringing opex-to-sales ratio to 48.7%

Excluding non-recurring provisions and impairment# in FY12/13, OPEX ▼21.4% in local currency yoy

▲/▼ *yoy change*

Represent impairment of China goodwill (HK$1,996m), provision and impairment for store closures (HK$274m) and provision and impairment for stores with onerous leases (HK$224m) totaling HK$2,494m in FY12/13

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Despite the Group being in downsizing mode, returned back to profitability (EBIT and Net Profit)

▲/▼ *yoy change*

TURNOVER

BREAKDOWN OF TURNOVER

Regions	% of Group Turnover			
	Channels			Total
	Retail	Wholesale	Licensing & others	
Germany	29.5%	17.2%	0.1%	46.8%
Europe and Rest of the World*	20.3%	17.1%	0.6%	38.0%
Asia Pacific	13.0%	2.2%	0.0%	15.2%
Total	62.8%	36.5%	0.7%	100.0%

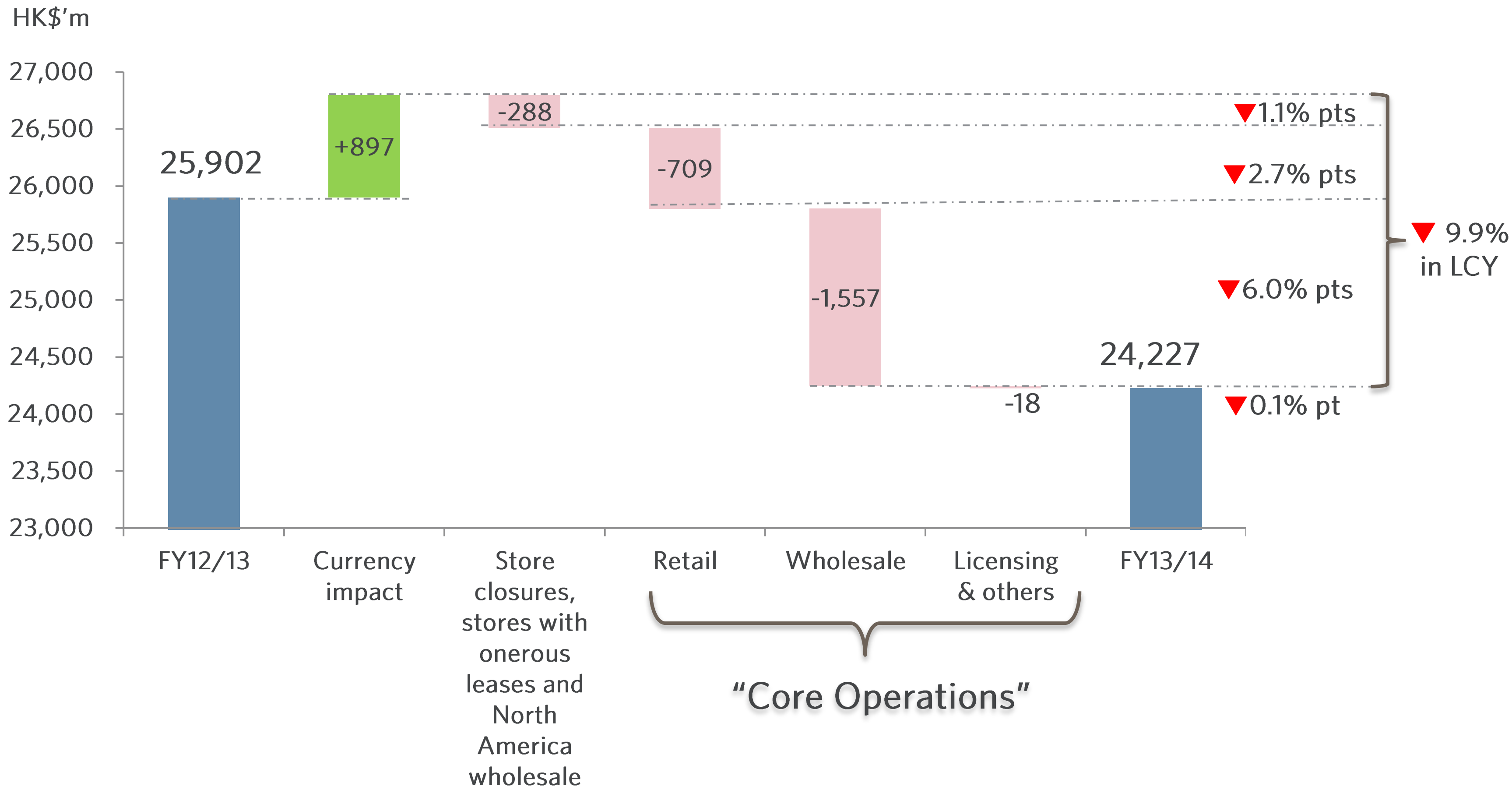
LY: 43.5%

LY: 60.4%

* Excluding Germany and Asia Pacific

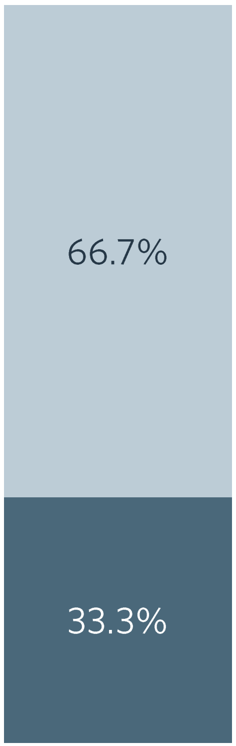
▲/▼ *year-on-year change*

DEVELOPMENT OF TURNOVER



▲/▼ *year-on-year change*

SHORT TERM STABILIZATION – CORE OPERATIONS



Turnover
FY13/14

	Turnover change HKD	Turnover change LCY	SQM change
✓ Europe Retail	▲ 3.2%	▼ 1.5%	▼ 0.9%
✓ Germany Wholesale	▼ 0.1%	▼ 4.7%	▼ 5.6%
✓ Licensing	▼ 1.3%	▼ 2.1%	N/A
✗ Europe & RoW* Wholesale	▼ 14.6%	▼ 18.3%	▼ 15.8%
✗ Asia Pacific	▼ 22.2%	▼ 21.6%	▼ 19.2%

▲/▼ yoy change

Relatively flat top line on the basis of stabilizing space and space productivity (sales per sqm)

Stabilized productivity with sales decline less than space loss

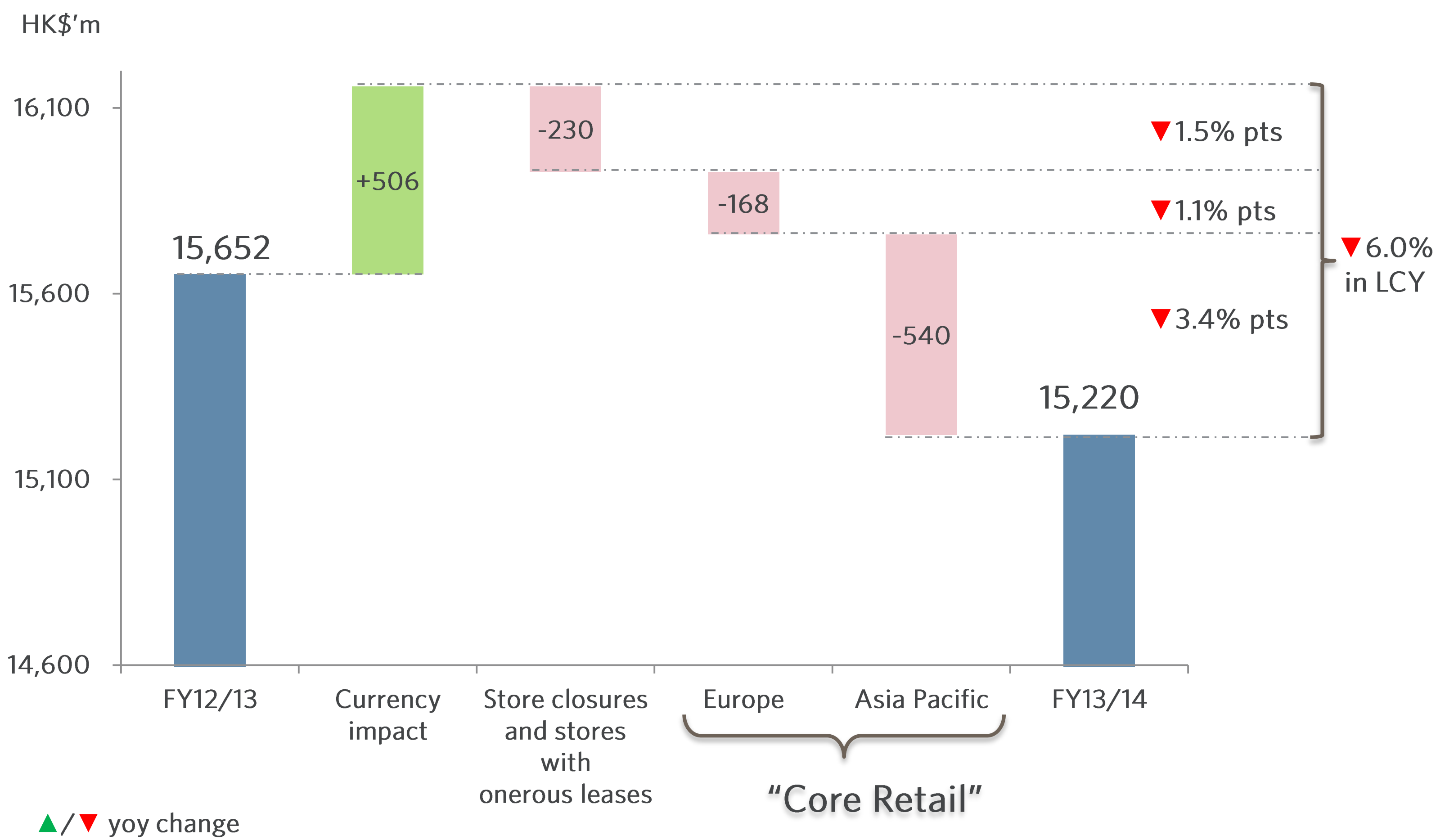
Double-digit decline as challenges persist, especially in Asia

* RoW excludes Germany and Asia Pacific

N/A Not applicable

RETAIL

ANALYSIS OF RETAIL TURNOVER



ANALYSIS OF CORE RETAIL TURNOVER

	Turnover			Net sales area	
	HK$m	HKD change	LCY change	sqm	% change
Europe	11,359	▲3.2%	▼1.5%	200,521	▼0.9%
Asia Pacific	3,159	▼15.6%	▼14.4%	100,520	▼11.0%
Core Retail	14,518	▼1.6%	▼4.8%	301,041	▼4.5%

▲/▼ yoy change

Europe:

- Sales performance in line with the development of net sales area;
- Stabilization of retail sales performance, primarily driven by:
  - Sales activation
  - Better inventory management

APAC:

- Weaker sales performance primarily attributable to:
  - Loss of net sales area mainly due to closure of unprofitable space from the top 2 markets, namely China (-13.3% yoy) and Australia (-29.5% yoy)
  - Stock availability issues
  - Unfavourable shift in product mix towards lower average selling price items

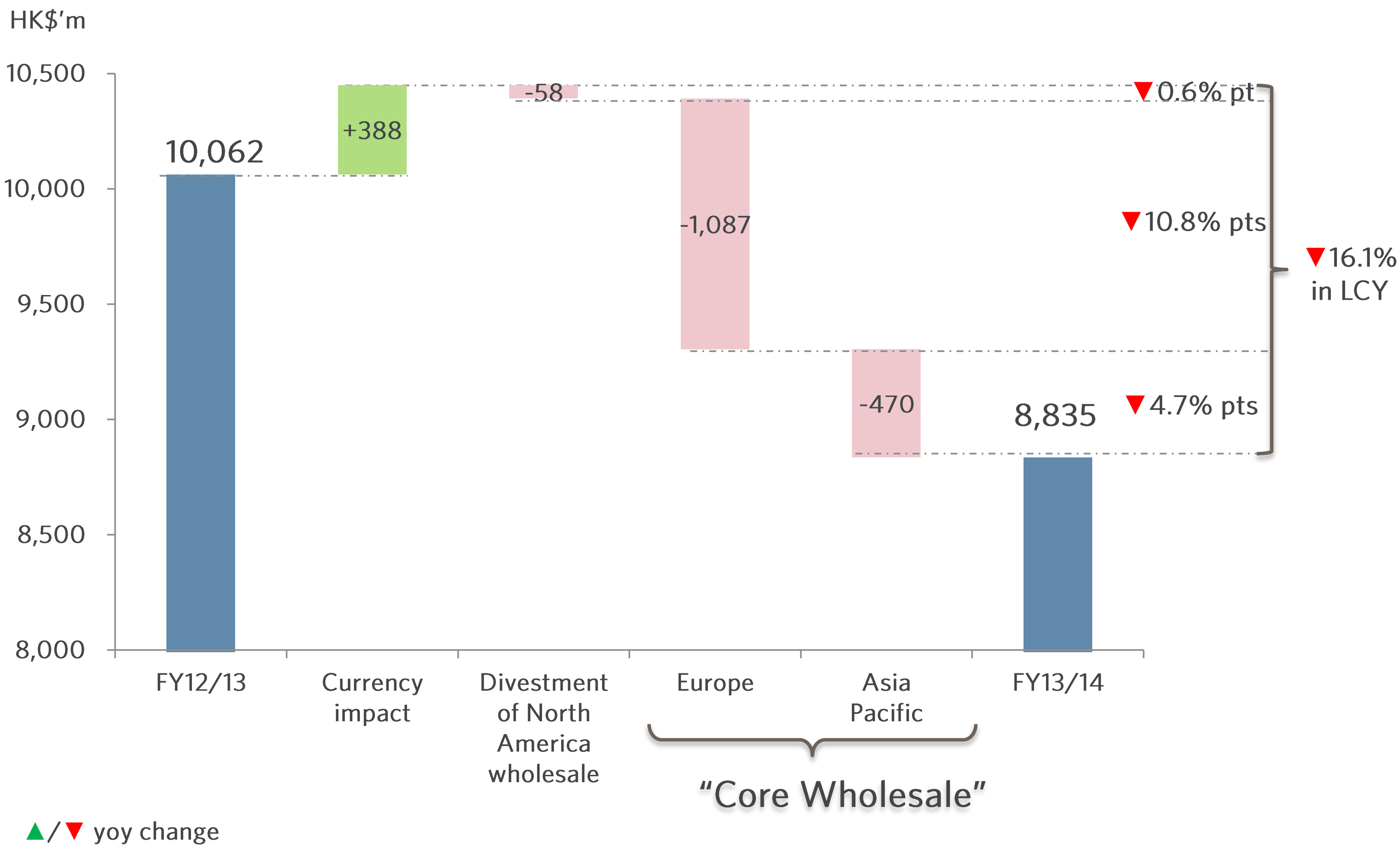
RETAIL POS AND NET SALES AREA BY STORE TYPES

Store types	No. of POS					Net sales area (m^2)				
	As at 30 Jun 14	vs 1 Jul 13 Opened	vs 1 Jul 13 Closed	As at 1 Jul 13	Net change	As at 30 Jun 14	vs 1 Jul 13 Opened	vs 1 Jul 13 Closed	As at 1 Jul 13	Net change (in %)
Stores/ Concession counters	773	40	(152)	885	(112)	261,653	11,521	(28,788)	278,920	-6.2%
Outlets	82	12	(8)	78	4	39,388	3,955	(978)	36,411	+8.2%
Sub-total	855	52	(160)	963	(108)	301,041	15,476	(29,766)	315,331	-4.5%
Store closures and stores with onerous leases	50	-	(11)	61	(11)	29,192	-	(5,780)	34,972	-16.5%
Total	905	52	(171)	1,024	(119)	330,233	15,476	(35,546)	350,303	-5.7%

- Development of POS and net sales area in line with strategy
- Stores/concession counters space ▼6.2% mainly attributable to China and Australia
- Outlet expansion in line with our initiative for better inventory management
- Remain selective in store openings with a strong focus on return on investment

WHOLESALE

ANALYSIS OF WHOLESALE TURNOVER



ANALYSIS OF CORE WHOLESALE TURNOVER

	Turnover				Controlled Space	
	HK$'m	% to Segment turnover	HKD change	LCY change	sqm	% change
Europe	8,311	94.1%	▼7.9%	▼12.0%	428,737	▼10.9%
Asia Pacific	524	5.9%	▼46.5%	▼48.0%	59,533	▼30.0%
Core Wholesale	8,835	100.0%	▼11.7%	▼15.6%	488,270	▼13.8%

▲/▼ yoy change

Europe:

- Turnover decline in line with controlled space development
- Better performance in Germany with turnover decline of -4.7% in LCY against -5.6% decline in controlled space

APAC:

- Higher decline in turnover due to i) rationalization of customer base; ii) the special return agreements to solve long time problems with aged inventory in the channel in China; as well as iii) our decision to close the wholesale operation in Australia
- Both measures in China are necessary to re-establish a healthy distribution in the country and were completed in FY13/14 with the last stock return having taken place in July 2014

CONTROLLED WHOLESALE SPACE BY REGIONS AND POS TYPES

Regions	Controlled wholesale space as at 30 June 2014 (vs 1 July 2013)							
	Franchise stores		Shop-in-stores		Identity corners		Total	
	Net sales area (m^2)	yoy change in net sales area	Net sales area (m^2)	yoy change in net sales area	Net sales area (m^2)	yoy change in net sales area	Net sales area (m^2)	yoy change in net sales area
Europe	222,150	-11.7%	151,132	-7.3%	55,455	-16.4%	428,737	-10.9%
Asia Pacific	59,533	-29.5%	-	-100.0%	-	-	59,533	-30.0%
Total	281,683	-16.2%	151,132	-7.7%	55,455	-16.4%	488,270	-13.8%

Larger space loss in Asia Pacific mainly due to:

- Loss of controlled space in China (-33.7% year-on-year)
- Closure of all wholesale POS in Australia

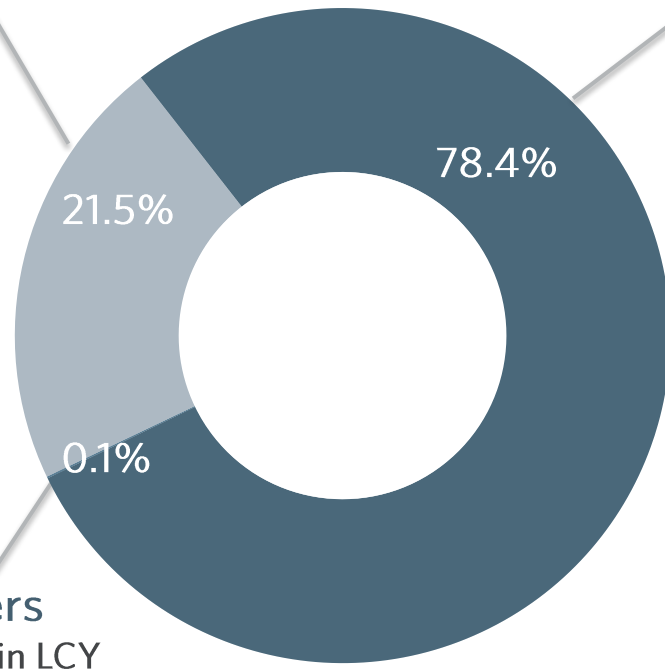
CHINA

CHINA TURNOVER

WHOLESALE

HK$379m ▼52.7% in LCY
305 POS ▼33.7% in SQM

- Challenging macro environment and general weakness in the channel
- Special return agreements to solve aged inventory problem in the channel (completed in July 2014)



RETAIL

HK$1,383m ▼15.8% in LCY
319 POS ▼13.3% in SQM

- Decision to close unprofitable stores upon lease expiry
- Underperformance of department store concessions due to declining customer traffic
- Stock availability issues due to late deliveries

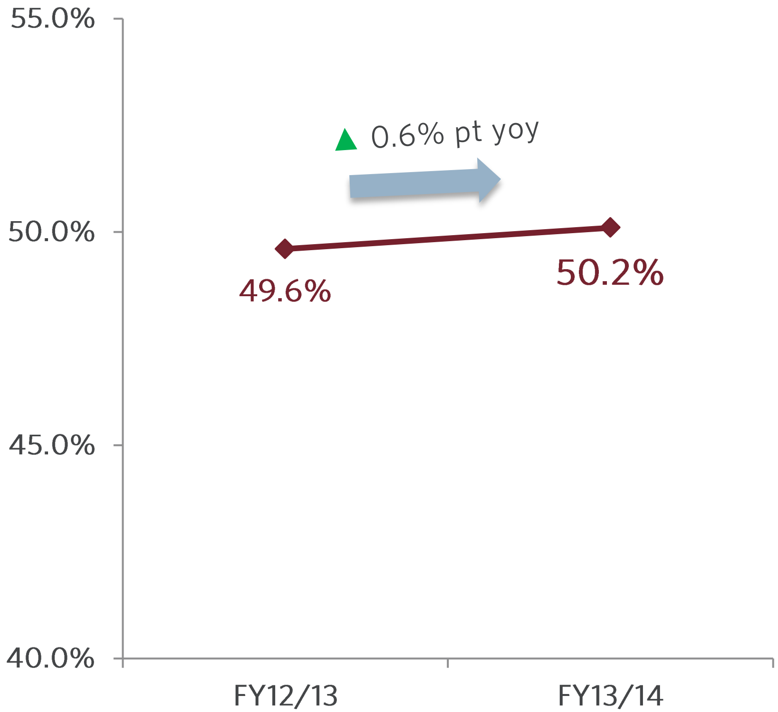
Others
▼89.9% in LCY

▲/▼ yoy change

- New management team in China will refocus on improving conversion rates through better product performance, and developing a stronger distribution network of better operated retail stores, strategic wholesale partnerships and stronger e-commerce platform

PROFITABILITY

GROSS PROFIT MARGIN



A slight improvement in gross profit margin driven by:

= Savings achieved from sourcing initiatives (not yet fully implemented in FY13/14) have been offset by "investments" in improving product quality and value for money

+ Fewer markdowns as a result of improved inventory management

+ Larger share of retail turnover at a higher gross margin (62.8% in Retail vs 60.4% last year)

OPERATING EXPENSES

(in HK$ M)	FY13/14	FY12/13		LCY Change
Staff costs	3,851	4,216		▼ 11.5%
Occupancy costs	3,585	3,726		▼ 6.5%
Logistics expenses	1,317	1,453		▼ 13.4%
Depreciation	833	866		▼ 7.1%
Marketing & Advertising expenses	792	1,027		▼ 26.0%
Impairment of Property, plant and equipment	80	346	*	▼77.6%
Impairment of goodwill	-	1,996	^	▼100.0%
Additional provision for store closures and leases	106	426	#	▼75.5%
Other operating costs	1,231	2,951		▼60.0%
Total OPEX	11,795	17,007		▼32.9%

▲/▼ *yoy change*

Healthier cost base allowing return to profitability in the short term and leverage to improve margins in the medium term

Savings across all lines:

Improved personnel efficiency across all markets and departments

Due to -5.7% decrease in expensive retail net sales area

In line with reduction in business volume

Substantially reduced central marketing expenses by 72.7% in HKD term to HK$112m (2013: HK$411 million)

Noticeable savings across:

- Provisions for inventory (better inventory management)
- Provision for doubtful debt (tightened credit control)
- IT expenses (after implementation of SAP and Europe DC completed in FY12/13)
- Sampling costs (streamlined product range and supplier portfolio)
- Legal and professional fees (through a more preventive approach)
- Traveling expenses, (tightened cost control)

* FY12/13 figure includes impairment of property, plant and equipment for store closures and stores with onerous leases totaling HK$102 million

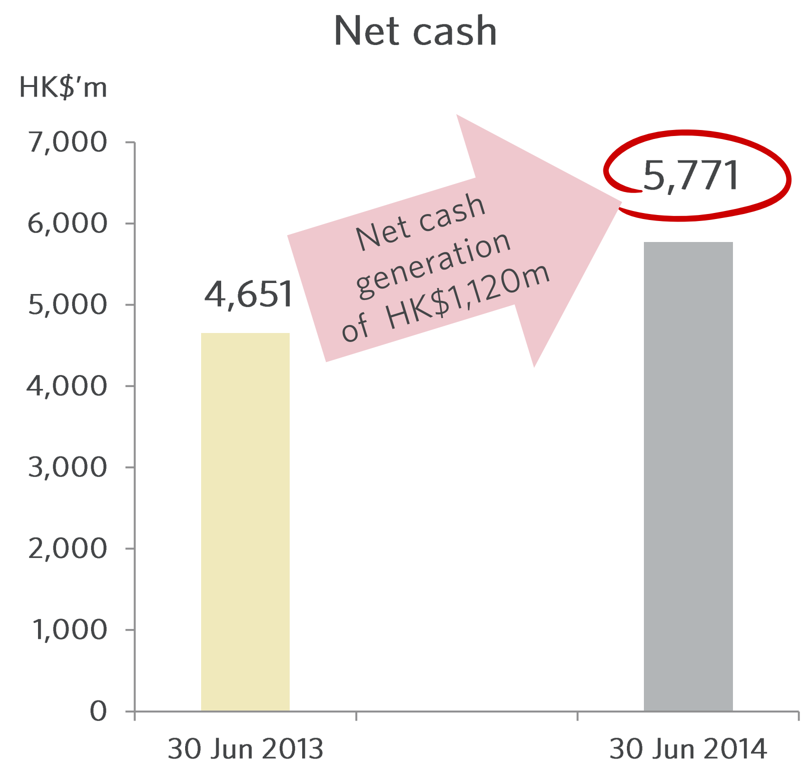
^ FY12/13 figure represents impairment of China goodwill

FY12/13 figure includes provision for store closures and stores with onerous leases announced in FY12/13 totaling HK$396 million

WORKING CAPITAL

FUND FLOW AND NET CASH POSITION

Fund flow (excluding proceeds from rights issue and net of debts)		
HK$'m	FY13/14	FY12/13
Cash generated from / (used in) operations	2,006	(417)
Tax paid, net	(588)	(340)
Net cash used in investing & financing activities	(298)	(1,118)
Net cash generation / (utilization)	1,120	(1,875)
Less: Dividend paid	(56)	(281)
Net cash generation / (utilization) excluding dividend paid	1,176	(1,594)

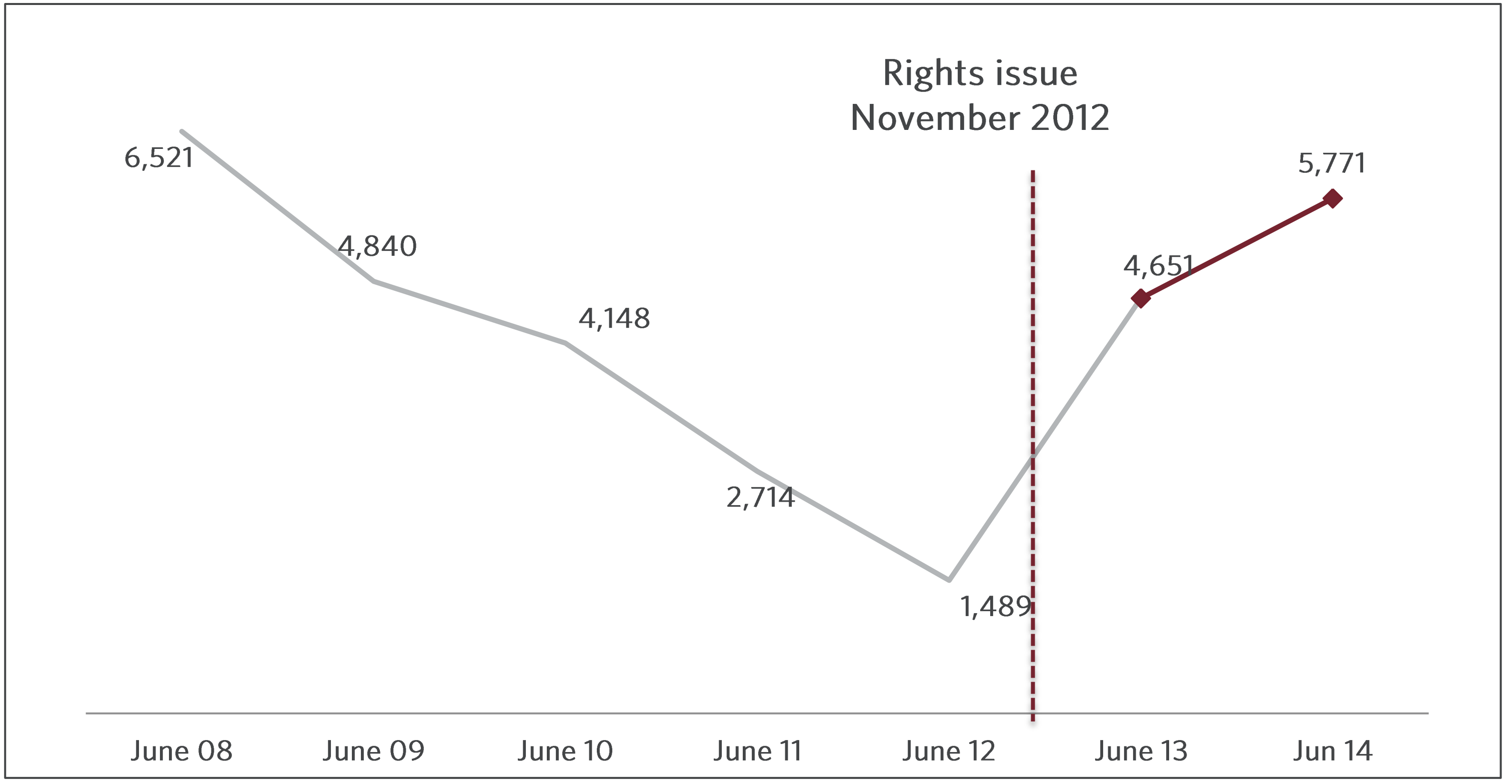


Drivers of positive net cash generation:

- Reduction of cost: 48.7% OPEX-to-sales (FY12/13: 65.7% or 56.0% excluding non-recurring provisions and impairments of HK$2,494 million)
- Improved inventory and net trade debtors
- Scaled down CAPEX by selective expansion and moderate deployment of refurbishment

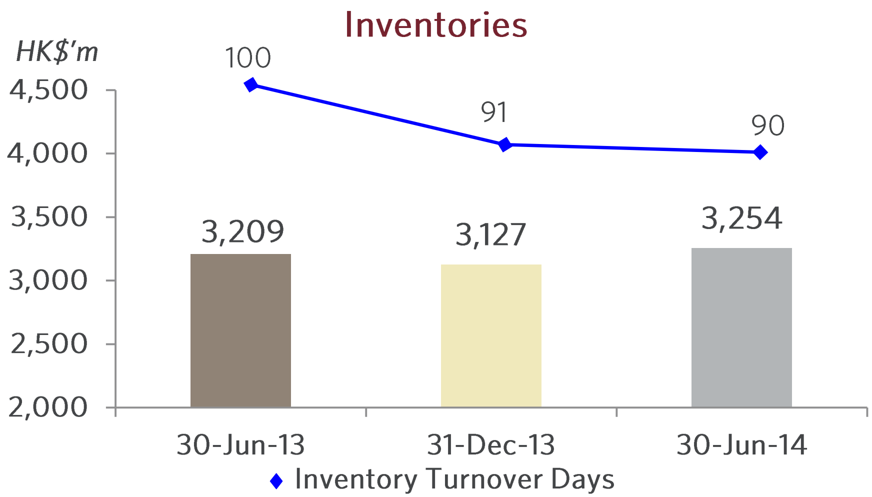
RECENT DEVELOPMENT OF NET CASH POSITION

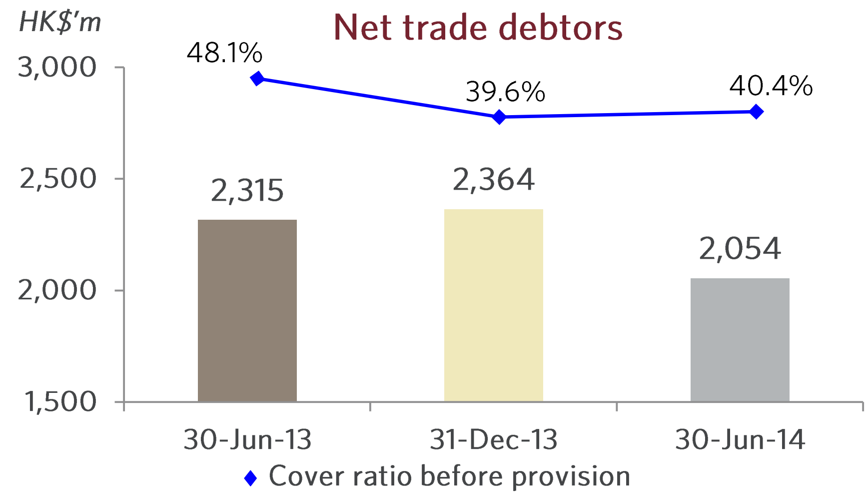
Net Cash Position
(HK$ million)



- Returned to positive cash generation of HK$1.12 billion in FY13/14
- Net cash level advanced to above the funds raised from rights issue in November 2012

WORKING CAPITAL - INVENTORIES & NET TRADE DEBTORS





- Units of inventory ▼ 17.0% yoy
- Inventory turnover days shortened by 10 days yoy to 90 days

Drivers:

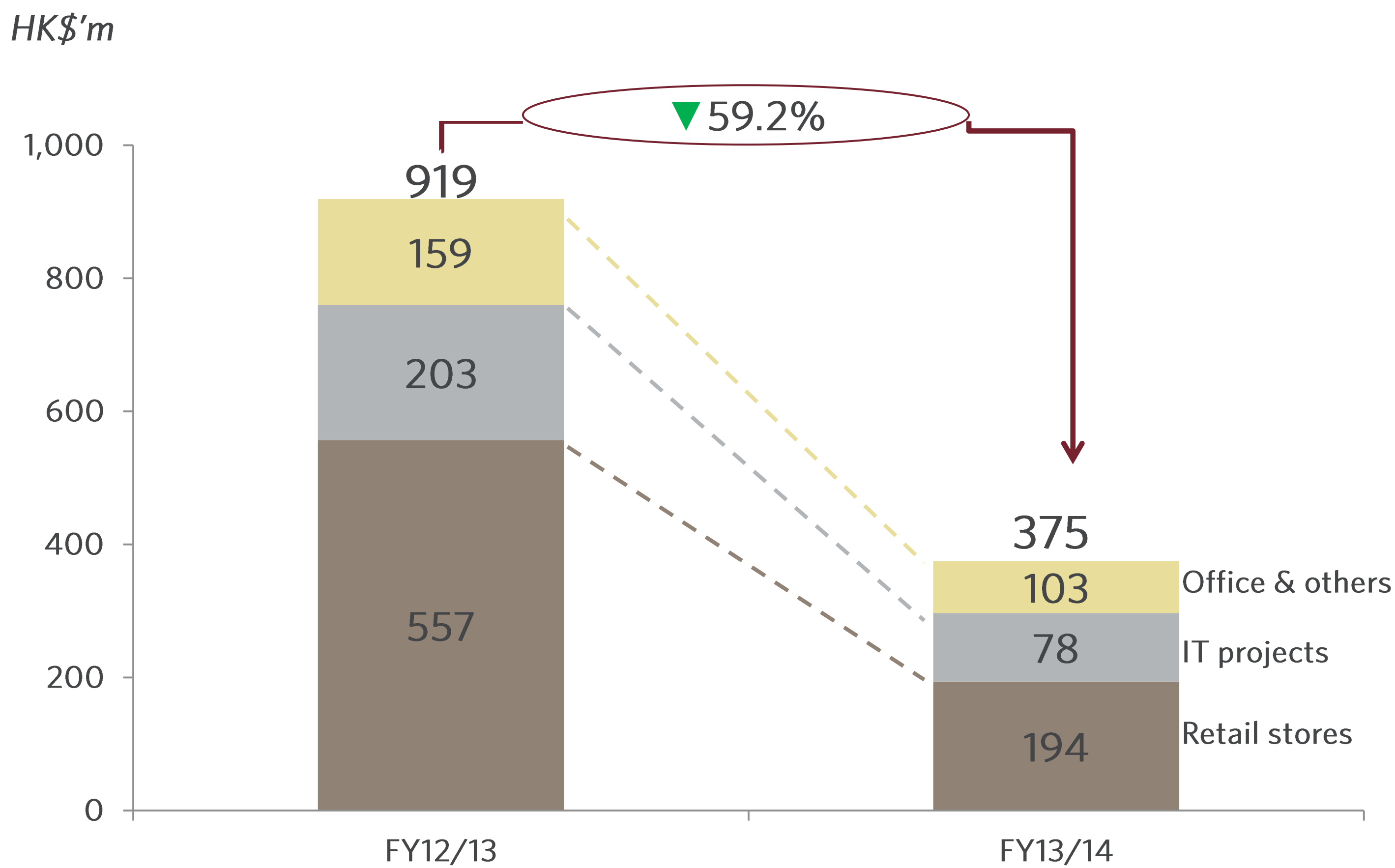
- Bold measures to reduce aged inventory
- Ambitious control of seasonal inventory by tightening of purchases

Nominal value of inventory increased ▲1.4% yoy due to:

- ▲4.4% appreciation in EUR/HKD closing rate (30 Jun 14: 10.580; 30 Jun 13: 10.134)
- Improved inventory aging

- Net trade debtors ▼11.3% yoy notwithstanding ▲4.4% appreciation in EUR/HKD closing rate (30 Jun 14: 10.580; 30 Jun 13: 10.134)
- Cover ratio reduced by ▼ 7.7% pts as compared to end of Jun 2013 due to changes in sales eligible for insurance

CAPITAL EXPENDITURE



Significant reduction in CAPEX of HK$544m mainly due to selective expansion of stores and moderate deployment of refurbishment

MAINTAINED 60% DIVIDEND PAYOUT RATIO

Dividend	
Net profit	HK$210m
Basic earnings per share	HK$0.11
Dividend payout ratio	64.8%
Total regular dividend (per share)	HK 7 cents
Less: Interim dividend paid (per share)	HK 3 cents
Final dividend proposed (per share)	HK 4 cents

- Proposed final dividend of HK 4 cents per share with scrip alternative
- Key calendar dates
  - ➢ Ex-dividend date: 5 December 2014
  - ➢ Book closure dates: 9 December 2014 to 11 December 2014
  - ➢ Payment date: 27 January 2015

UPDATE ON STRATEGIC PRIORITIES

STRATEGIC PLAN

SHORT TERM	MEDIUM TERM	LONG TERM
FY13/14	FY14/15	> 2 years
STABILIZATION	***TRANSFORMATION***	***GROWTH***
	VOLATILE 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 the business model (vertical) to enhance speed and efficiency of our product management	Leverage the benefits of the new model to drive top line growth, and the healthier cost base to increase profitability

STRATEGIC PRIORITIES

SHORT TERM

FY13/14

STABILIZATION

- Sales activation
- OPEX reduction
- Inventory normalization
- Operations stability

FOCUS ON PROFITABILITY

- Downsizing of distribution (retail closures, small accounts)
- Stabilization of sales/sqm in Europe
- Pending stabilization in APAC
- OPEX reduction below 50% of Net Sales
- Inventory reduction to 90 days on hand
- Back to positive cash generation from operations
- Finalization of SAP and new DC launches
- Pending challenges in IT and Logistics

STRATEGIC PRIORITIES

SHORT TERM
FY13/14

MEDIUM TERM
FY14/15

STABILIZATION

- Sales activation
- OPEX reduction
- Inventory normalization
- Operations stability

FOCUS ON PROFITABILITY

TRANSFORMATION

- Brand
- Stores
- Product
- Business Model

FOCUS ON TOP LINE

June '14

✓ **Brand** - Revision of strategy

✓ **Stores** - Improvement of Lighthouse concept

✓ **Product & Business Model** - Implementation of a new vertically integrated model to significantly enhance our product

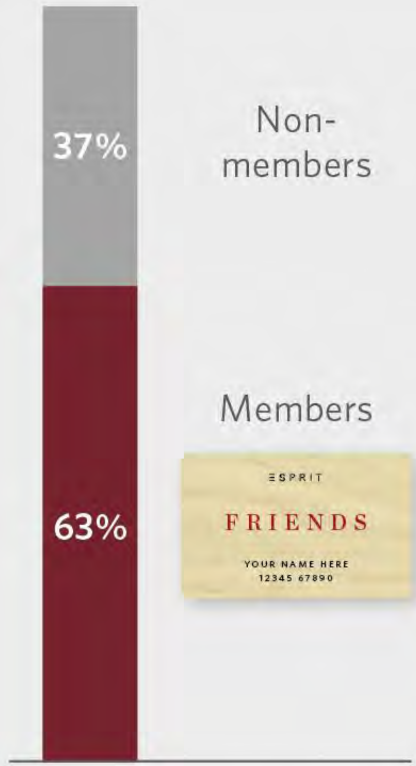
✗ Pending adaptation of the whole operation to the new vertical business model (during FY14/15)

BRAND

BRAND STRATEGY

OUR CONSUMER

"Esprit Friends"
Esprit loyal customers
(current and lost)



Net Sales 12 Months
Retail Europe

5.5 Million Esprit Friends

- ~88% | 37.4 *years old*
- HOUSEHOLD INCOME *2000 – 3000 Euro/month*
- BODY SHAPE
- MAIN REASONS TO BUY AND NOT TO BUY
- DIRECT COMPETITION
- PREFERRED FASHION MAGAZINE

BRAND STRATEGY

OUR CONSUMER

"Esprit Friends"
Esprit loyal customers
(current and lost)

OUR PROMISE

"Make you feel good and look good"
The best of Esprit's product DNA

Casual Fashion

Perfect Quality

Outstanding Value for Money

BRAND STRATEGY

OUR CONSUMER

"Esprit Friends"
Esprit loyal customers (current and lost)

OUR PROMISE

"Make you feel good and look good"
The best of Esprit's product DNA

OUR BRAND

"Esprit Heritage"
All-time Esprit values, new communication (digital)

Togetherness
Real People
Positive
Relaxed
Casual
Fun

Free Spirited
Social
Sustainable
Feelings
Natural

AUTUMN/WINTER CAMPAIGN 2014

EVERYDAY AMAZING

MEET OUR MUSES
REAL WOMEN - REAL MOMENTS - REAL STYLE

Ella Woodward

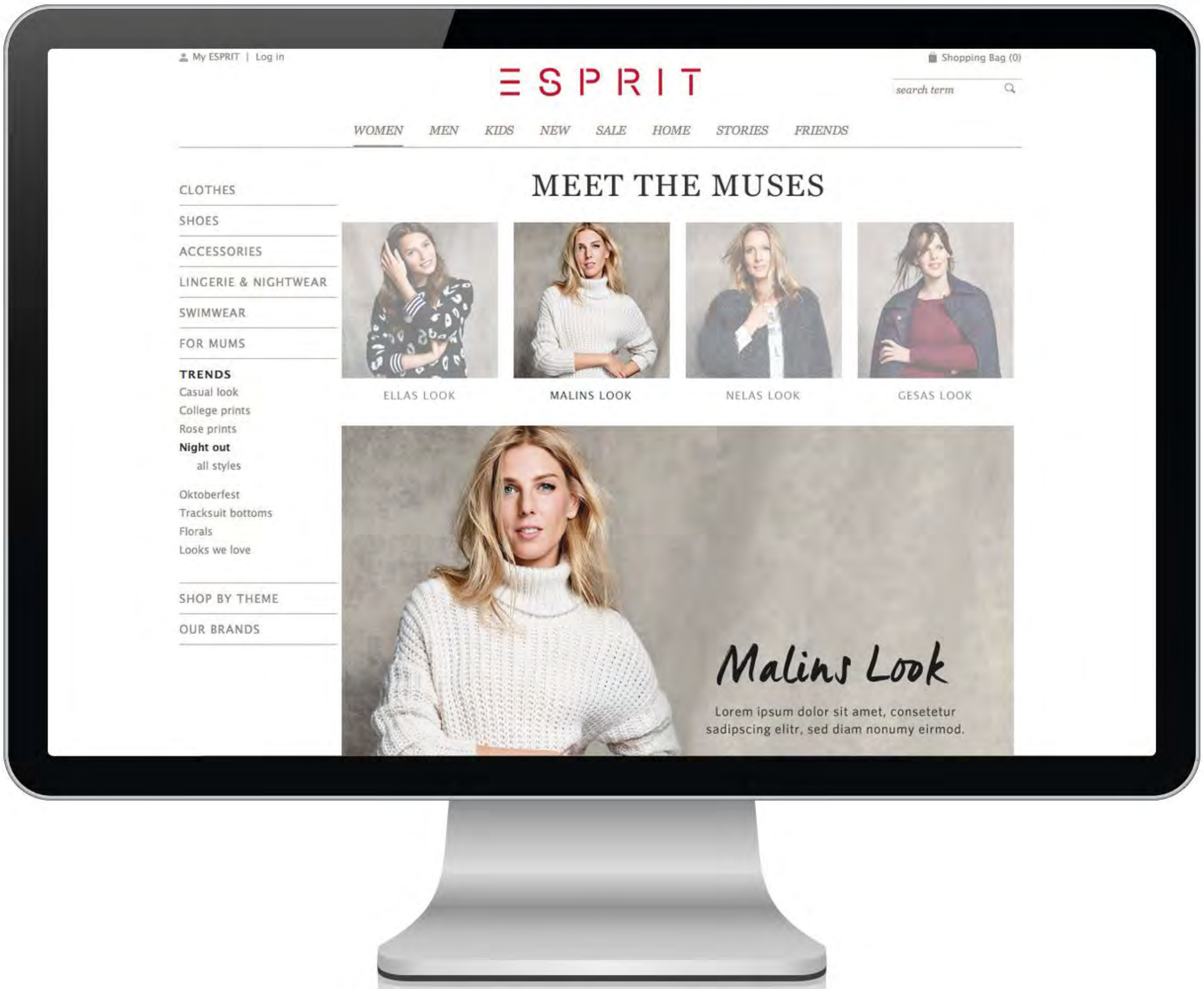
Founder and author of the food blog
„Deliciously Ella“, London

Photographer, Yoga teacher and
mother of two in Berlin.

Founder of bread exchange, baking bread in Berlin and trading it for almost anything except money.

Captivating digital experience

With smooth integration of e-com



Engaging storytelling in social media

ESPRIT
esprit.com

YouTube

Pinterest

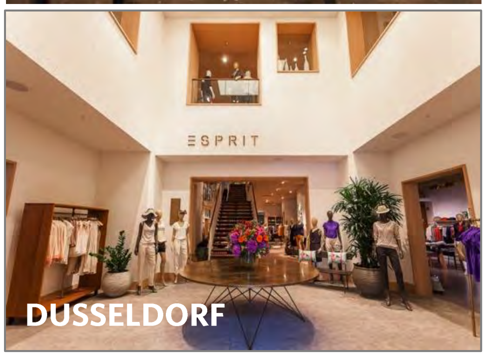
Instagram

STORES

STORE CONCEPT - LIGHTHOUSE

3 Concept Stores (Inspiration)

"San Francisco Loft"



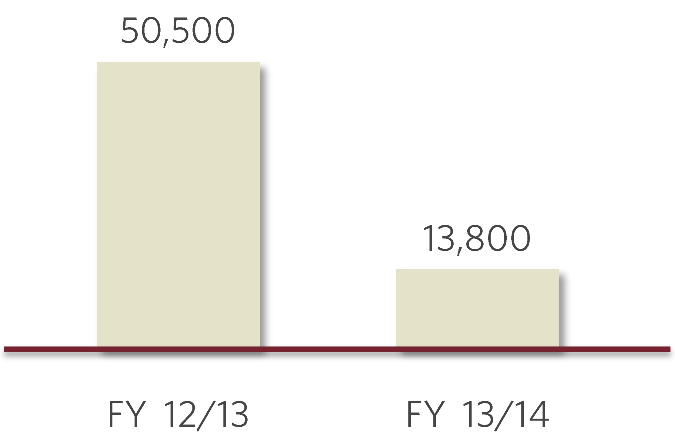
"House in the House"

"Beach House"

Lighthouse (Initial Roll out)

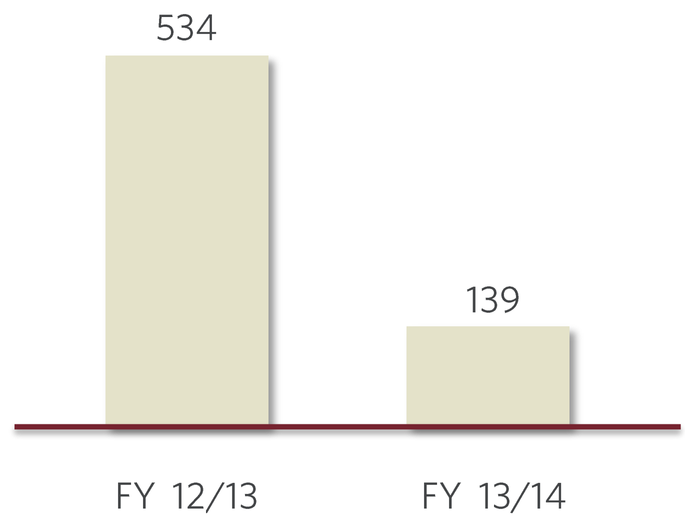
Slow down of roll out due to initial ROI below expectations

New & Refurbished sqm



164 Stores
38% of Retail space
updated

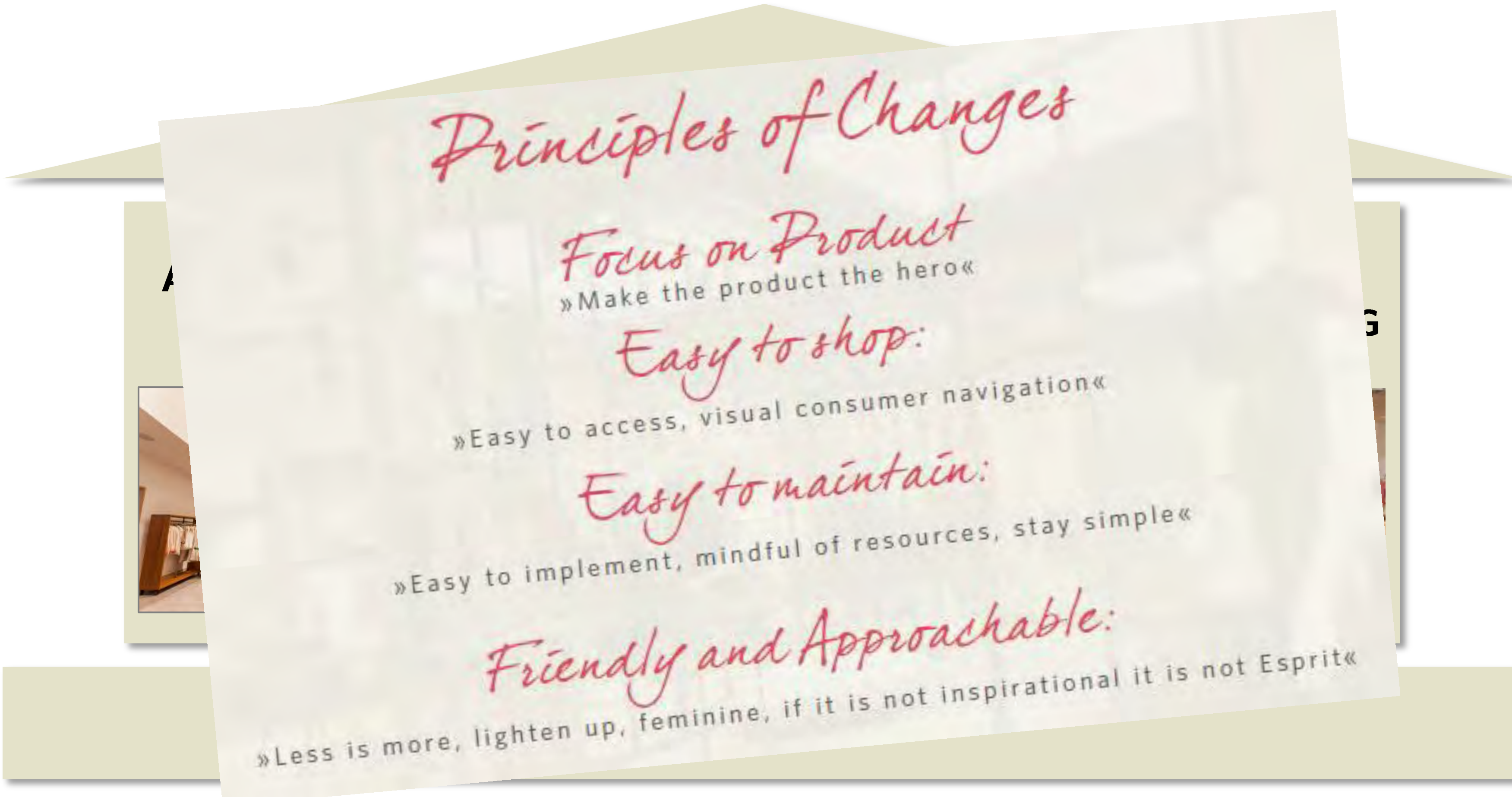
Deployed CAPEX (HKDm.)



74% Reduction
of investments in stores
refurbishing

STORE CONCEPT – COMMERCIAL IMPROVEMENT

Full concept revision with a focus on performance

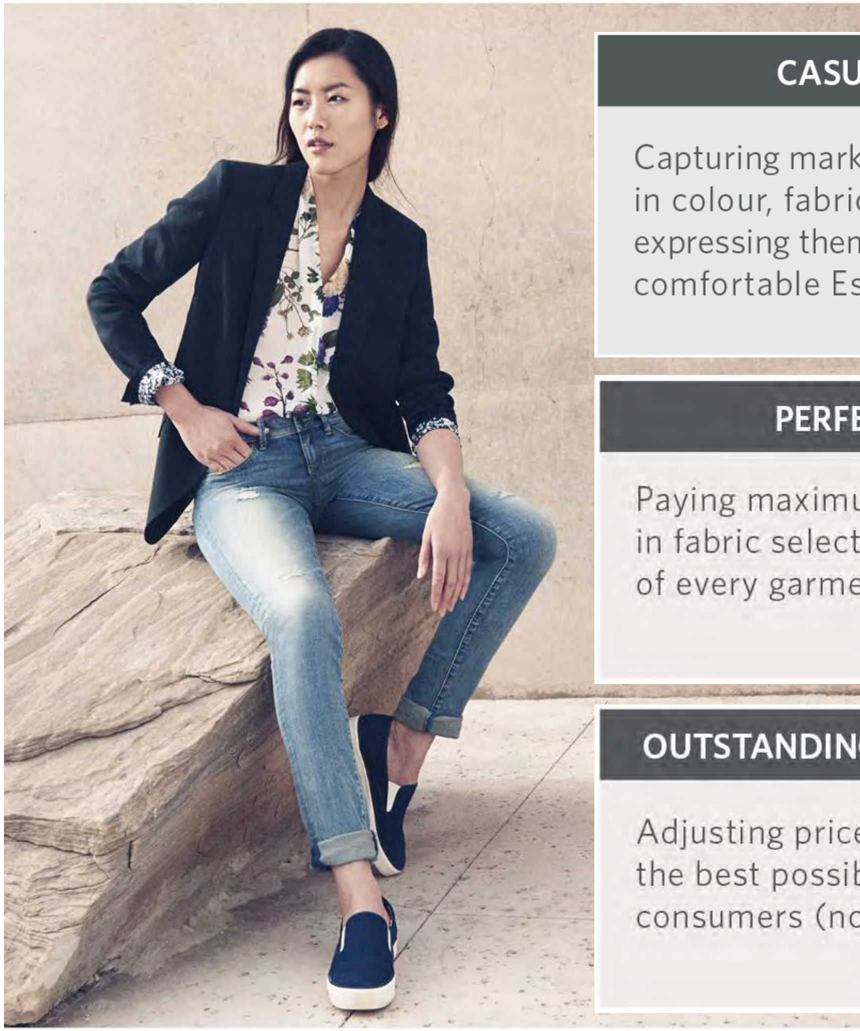


Mock shop for continuous improvement of design and VM

VM integrated in Product Divisions for a perfect fit of the Collections into the Stores

PRODUCT & BUSINESS MODEL

PRODUCT STRATEGY – OUR PROMISE



CASUAL FASHION

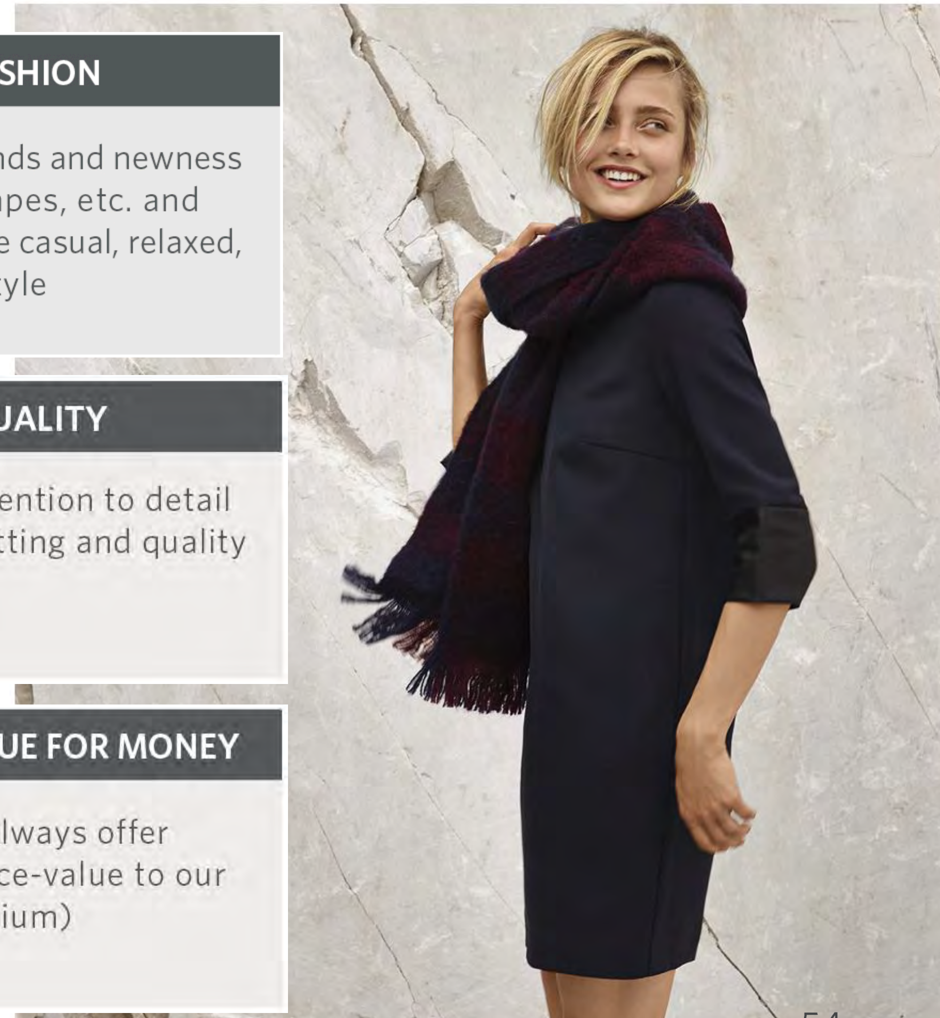
Capturing market trends and newness in colour, fabrics, shapes, etc. and expressing them in the casual, relaxed, comfortable Esprit style

PERFECT QUALITY

Paying maximum attention to detail in fabric selection, fitting and quality of every garment

OUTSTANDING VALUE FOR MONEY

Adjusting prices to always offer the best possible price-value to our consumers (no premium)




ESPRIT


ESPRIT


ESPRIT


ESPRIT

PRODUCT STRATEGY – IMPLICATIONS

PRODUCT STRATEGY

CASUAL FASHION

Capturing market trends and newness in colour, fabrics, shapes, etc. and expressing them in the casual, relaxed, comfortable Esprit style

PERFECT QUALITY

Paying maximum attention to detail in fabric selection, fitting and quality of every garment

OUTSTANDING VALUE FOR MONEY

Adjusting prices to always offer the best possible price-value to our consumers (no premium)

- ✓ Capturing of trends
- ✓ Continued newness
- ✓ Reaction to demand
- ✓ Attention to details
- ✓ Best fabrics
- ✓ Quality manufacturing
- ✓ Competitive pricing
- ✓ Sustainable profitability

SPEED

EFFICIENCY

PREVIOUS BUSINESS MODEL

ESPRIT

- Product Development
- Sell In (Buying)
- Supply Chain Distribution
- Store / POS management
- Stock management

PRODUCT

- ✗ Long lead time (9-11 months)
- ✗ Excess of product (12 collections/# SKUs)

PRICE

- ✗ High COGS (complex supply chain)
- ✗ Rigid pricing (cost+ model)

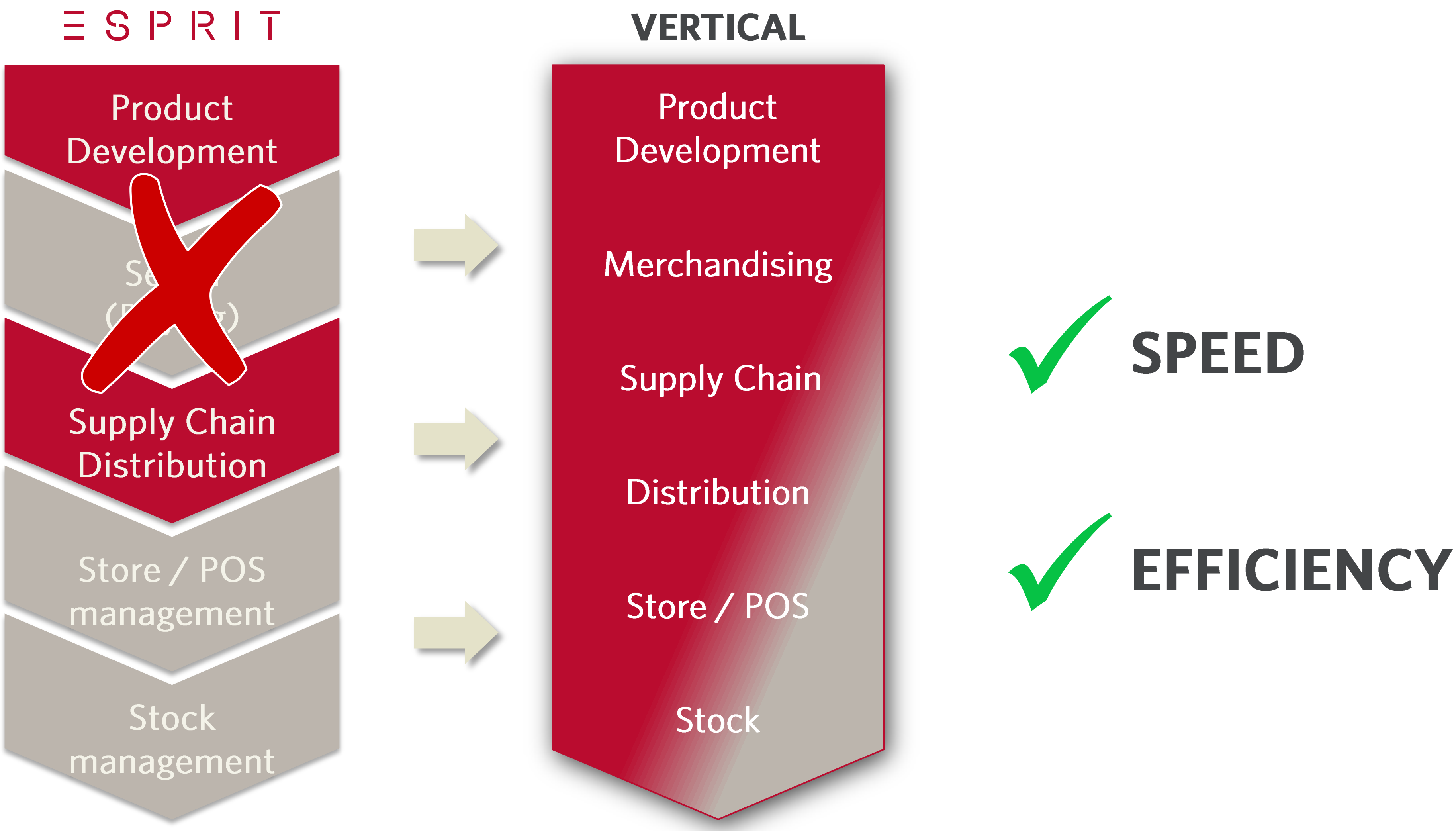
STOCK

- ✗ Ineffective allocation (6 months in advance)
- ✗ No optimization (no replenishment)

✗ **SPEED**

✗ **EFFICIENCY**

VERTICAL BUSINESS MODEL



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)

1. LEAN SUPPLY CHAIN MANAGEMENT

NOT EXHAUSTIVE

End-to-end integration and implementation of state of the art practices along the Supply Chain

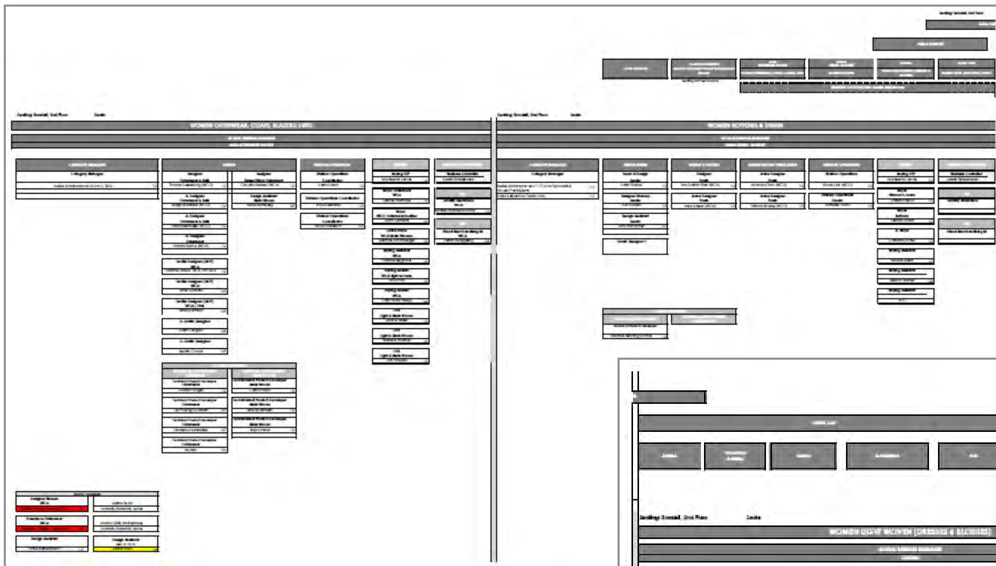
1. Development → **2. Sourcing** → **3. Negotiation** → **4. Production** → **5. Delivery**

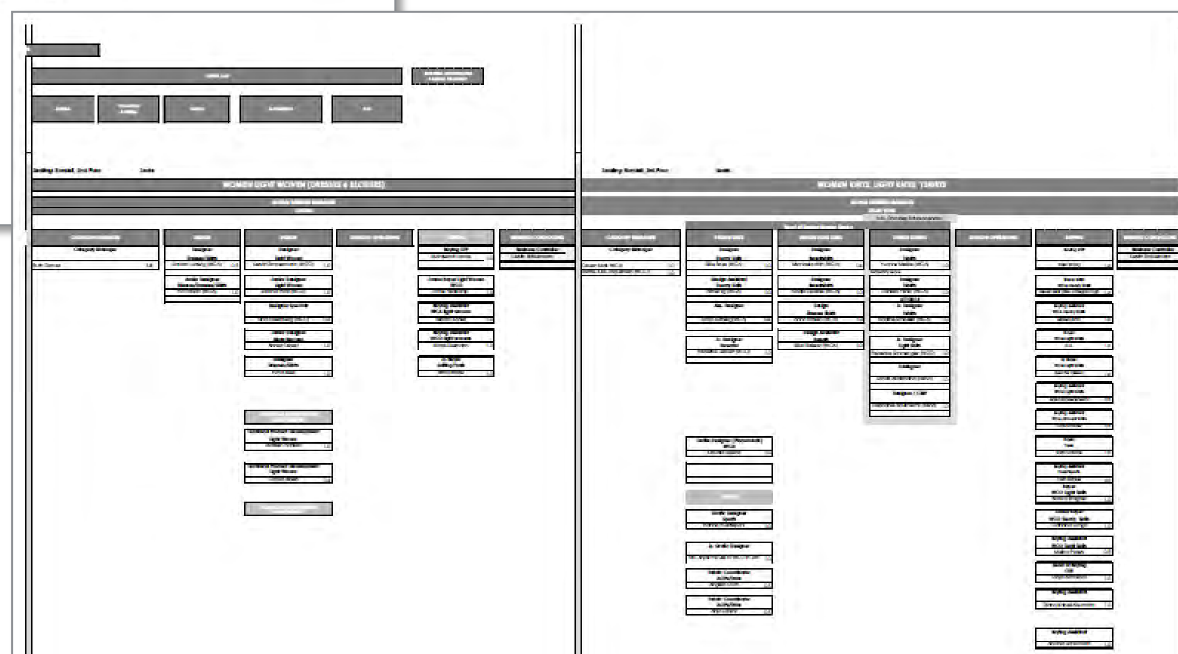
- Introduction of new ways of working for the Product Divisions
- Revision of all core processes and support IT tools
- Redefinition of the roles of Product, Buying and Sourcing teams
- Restructuring of the sourcing countries of origin
- Reduction of the number of suppliers and change of relationship model (partnership)
- Establishing of a new approach to buying
- Integration of QA/QC function into the core of product development and production process
- Revision of the Inbound logistics model (process and service providers)

2. CATEGORY MANAGEMENT TEAMS

NOT EXHAUSTIVE

Integration of all internal functions involved in product management into teams specialized in main product categories





- New organizational charts
- New leadership team
- Redefined roles and responsibilities

- New working dynamics
- New seating arrangements
- Streamlined teams

3. NEW MERCHANDISING MODEL

NOT EXHAUSTIVE

Centralization of merchandise management teams to work seamlessly together with Category Management Teams on product and merchandising decisions

NEW ORGANIZATION

- Centralize all Planning and Merchandising teams from the different markets
- Redefine all positions from divisional to gender-based Merchandising (org. charts, and job descriptions)
- Integrate global Merchandise Management team with Product Management Team
- Create direct link with local teams in stores and countries

NEW PROCESSES

- Switch logic from "Merchandising → Buying" to "Buying → Merchandising"
- Integrate merchandising teams into the product creation process
- Introduce new logic to core merchandising decisions (new structure of collections)
- Train Product and Merchandising teams on brand new capabilities

NEW IT SUPPORT

- Modify key IT tools and develop new solutions for core processes (e.g. allocation)
- Create support to the new Planning and Merchandising processes and tools
- Ensure compatibility and alignment of systems between Europe and APAC

NOT EXHAUSTIVE

4. SEASONAL CALENDAR

Simplification of product flow along a calendar based on 4 seasons (Spring-Summer-Autumn-Winter) and 2 cruise collections

Product

Change timeline and calendar of product development and adapt all back office processes and systems to new management of season codes

Merchandising

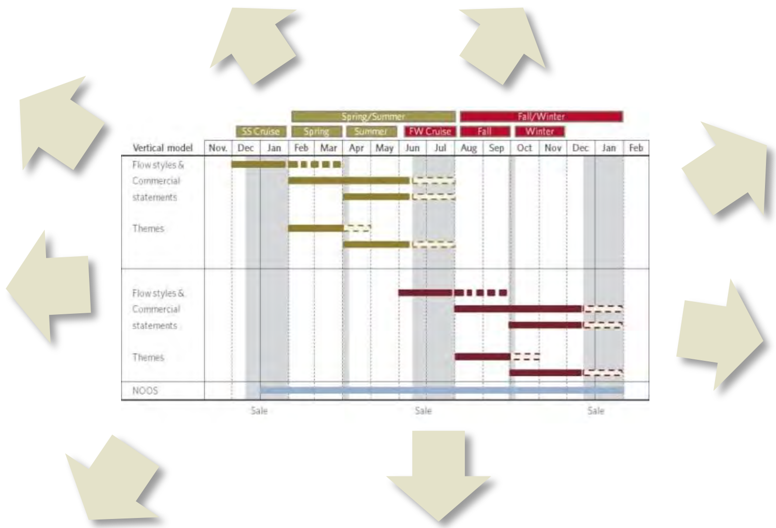
Change assortment selection logic and merchandising processes for Retail and Wholesale

Planning & Allocation

Change budgeting and planning model for Retail and Wholesale

Finance

Change all reporting and tracking systems to adapt to new budget, collections and sell in structures



Global Wholesale

Change budget planning and selling tools for all wholesale customer types (e.g. KA, PSS)

Local Wholesale

Reduce number of sell ins and change selling approach from monthly collections to different product types (train all sales forces on new management approach)

Logistics

Adapt inbound and outbound planning, warehousing capacity, sortation logic and delivery calendar to new product calendar

Local Retail

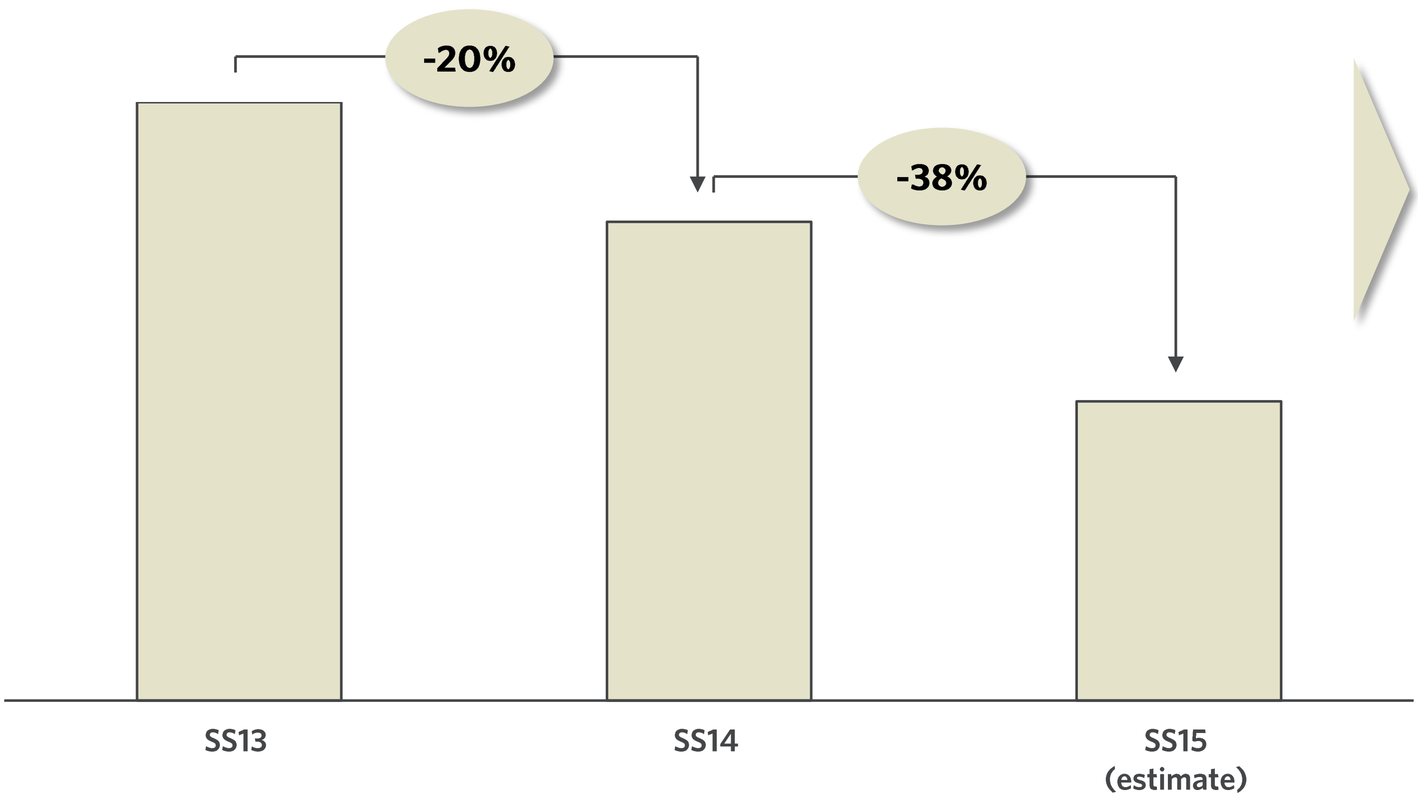
Adapt product and space management in the stores to new product flow and logic

5. PRODUCT RANGE REDUCTION

NOT EXHAUSTIVE

Definition of product range strictly on the basis of selling space and sales potential of our stores

Example: Women Divisions
Wholesale Assortment (number of options)



Operation with less than 50% of the Product range in FY13/14

6. FAST TO MARKET PRODUCT DEVELOPMENT

NOT EXHAUSTIVE

Roll-out of solutions for in-season reaction developed by the Trend Division

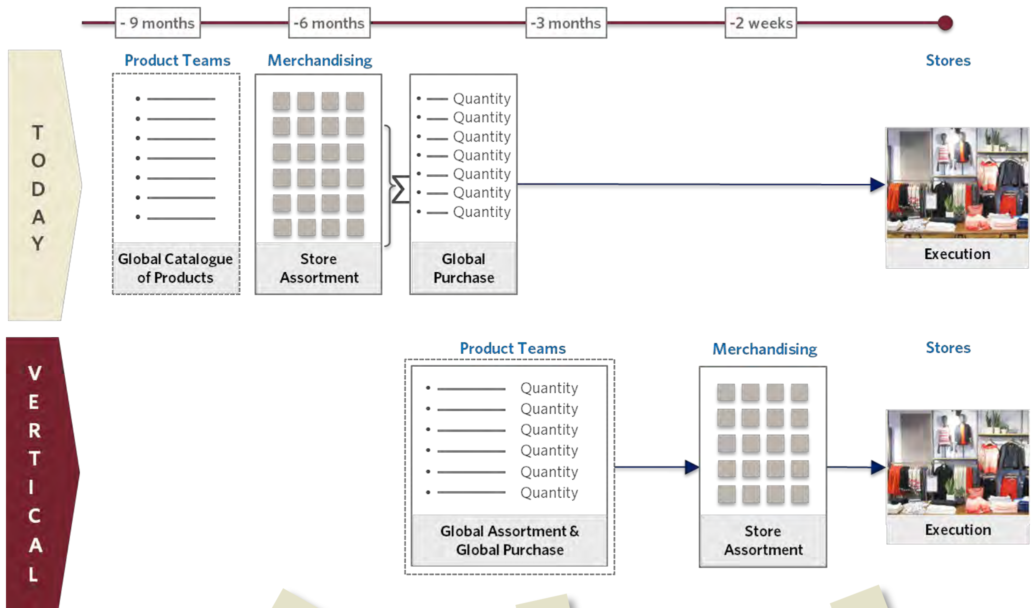
TREND DIVISION	ROLL OUT TO ALL PRODUCT DIVISIONS
➢ **Vertical** business model	• Revision of all internal processes of the Divisions • Adaptation of the model to serve wholesale customers
➢ **Speed** to market	• Specialization of a small team for F2M capsules • Introduction of F2M procedure for in-season reaction: OTB, Repetitions, etc • Development of F2M capabilities into the Supply Chain: sourcing, buying, suppliers, logistics
➢ Stock **Replenishment**	• Improvement of original logic for small scale tests • Development of large scale solution postponed until new logistics capacity is built in main DC

7. STOCK MANAGEMENT OPTIMIZATION

NOT EXHAUSTIVE

Implementation of stock management processes and tools that allow to postpone allocation as much as possible

Separation of Global Purchase, Merchandising and Allocation decisions



REPLENISHMENT ON HOLD

Creation of single stock pools within and across channels

Development of logistics capabilities for replenishment (capacities, IT, processes, etc.)

Redefinition of the Allocation function to manage stock across channels

Adapt inbound strategy with suppliers to maximize flexibility in stock management

Development of logic and IT solutions for optimal allocation and subsequent allocation

Adapt deliveries strategy and store processing operations to allow subsequent allocation

8. NEW PRICING MODEL

Implementation of a pricing strategy based on positioning against competition and focused on net realized gross profit

FROM …	TO …
"Cost+" model aimed at securing entry margins (i.e. Gross Profit Margin at full price)	**"Market"** based pricing aimed at securing competitive prices against best competitors
+	+
Rigid hedging strategies	Adaptable hedging strategies (lower risk)
+	+
High entry margins in order to create buffer for later markdowns	Lower entry margins in order to optimize "value for money" of the product
+	+
Poor sell through at full price (i.e. % of sales) built into the model	Maximized product sell through, which effectively reduces need for markdowns
+	+
"Promotional" strategy very dependable on continuous discounts and off-price business	**"Every Day Low Prices"** strategy to focus on full price performance

NEW BUSINESS MODEL FOR ALL CHANNELS

IMPLEMENTED JULY 14 & SS15

VERTICAL

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

Retail Stores

Retail e-commerce

✓ **NATURAL VERTICAL MODEL**

WHS-PSS

✓ **NEW VERTICAL PSS MODEL**

WHS-ML

✓ **ADAPTATION OF WHS MODEL**

"PURE" VERTICAL MODEL

"VERTICALISED" WHOLESALE MODEL

ESPRIT TEAMS

Product

Logistics

Stores

Offices

Showrooms

STRATEGIC PRIORITIES

SHORT TERM

FY13/14

STABILIZATION

- Sales activation
- OPEX reduction
- Inventory normalization
- Operations stability

FOCUS ON PROFITABILITY

June '14

MEDIUM TERM

FY14/15

TRANSFORMATION

- Brand
- Stores
- Product
- Business Model

FOCUS ON TOP LINE

LONG TERM

> 2 years

GROWTH

- Omni-channel
- edc
- China
- Sustainable growth

FOCUS ON VALUE

OUTLOOK

FY14/15 OUTLOOK

CONTROLLED SPACE	Stabilize controlled space in our own retail and smooth down decline in the wholesale channel
TOP LINE	Maintain space productivity (sales/sqm) at a stable level, which may result in a decline of turnover in accordance with the reduction of controlled space in both retail and wholesale Expected volatility during the year due to the multiple changes in the Transformation phase
GP MARGIN	Increase slightly as savings from improvements in supply chain management and lower markdown rates can contribute beyond the “investments” in improving product quality
OPEX	Maintain OPEX at similar level to last year, in spite of the necessary increases in certain lines to secure a successful transformation
CAPEX	Moderate deployment in line with business development and performance, yet with an increase of investments in stores refurbishments and openings


THANK YOU!
ESPRIT