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AGENDA FOR TODAY

Introduction
Overview and Analysis of Annual Results
Strategy Update
Q&As

Dr. Raymond Or
Thomas Tang
Anders Kristiansen
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

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</tbody>
</table>

**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
## INCOME STATEMENT

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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.

---

**Group Revenue: HK$12,932 million**

- **Germany**
  - ▼ 10.4% in LCY
  - ▼ 11.6% in sqm

- **Rest of Europe**
  - ▼ 9.5% in LCY
  - ▼ 10.8% in sqm

- **APAC**
  - ▼ 33.2% in LCY
  - ▼ 33.3% in sqm
GERMANY

Revenue shows positive trend of improvement

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

![Graph showing revenue trend]

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

![Graph showing comp-store-sales trend]

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

![Graph showing wholesale trend]
**REST OF EUROPE**

**Revenue shows positive trend of improvement**
- Revenue change quarter-by-quarter

![Graph showing revenue changes 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

![Graph showing revenue change half-on-half](#)

- **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
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
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.

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<td>Staff costs</td>
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<td>▼ 13.9%</td>
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<tr>
<td>Occupancy costs</td>
<td>2,088</td>
<td>2,526</td>
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</tr>
<tr>
<td>Logistic expenses</td>
<td>821</td>
<td>1,029</td>
<td>▼ 17.2%</td>
</tr>
<tr>
<td>Marketing and advertising</td>
<td>634</td>
<td>900</td>
<td>▼ 26.7%</td>
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<tr>
<td>Depreciation</td>
<td>455</td>
<td>528</td>
<td>▼ 10.4%</td>
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<tr>
<td>Other operating costs</td>
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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

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<td>First Half</td>
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<td>(255)</td>
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</tbody>
</table>
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

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

WORKING CAPITAL

**Inventories**

- **Value**: $2,296 (30-Jun-18) → $2,440 (31-Dec-18) → $1,845 (30-Jun-19)
- **Percentage Change**: ▼ 19.6% yoy
- **Inventory Turnover Days**: ▲ 5 day
- **Comment**: Due to growth of Europe Eshop sales in the fourth quarter

**Net Trade Debtors**

- **Value**: $974 (30-Jun-18) → $1,035 (31-Dec-18) → $1,026 (30-Jun-19)
- **Percentage Change**: ▲ 5.4% yoy
- **Cover Ratio**: 46.3% (31-Dec-18) → 44.3% (30-Jun-19) → 45.6% (30-Jun-19)
- **Comment**: Due to growth of Europe Eshop sales in the fourth quarter

**Net Trade Creditors**

- **Value**: $722 (30-Jun-18) → $506 (31-Dec-18) → $425 (30-Jun-19)
- **Percentage Change**: ▼ 41.1% yoy
- **Comment**: Due to timing of payments
• 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
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.
Strategy Update
THE RETURN TO SUSTAINABLE GROWTH AND PROFITABILITY

ESPRIT

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

May/June
LGBTQ rights

August
Under-privileged kids

September
Amazon rainforest

ESPRIIT
A BRAND WITH A POINT OF VIEW

September/October campaign – This is Esprit
### A CLEAR PRODUCT MISSION FROM DAY ONE

<table>
<thead>
<tr>
<th>Product Handwriting</th>
<th>Core fabrics</th>
<th>Blocks and Fits</th>
<th>Workmanship</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance strong heritage and modernity</td>
<td>Up to 50% of styles</td>
<td>91 blocks reviewed</td>
<td>Improved buttons, fasteners, tapes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Collection Size</th>
<th>Calendar</th>
<th>Tools</th>
<th>Divisional Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>-23%</td>
<td>Development processes remodeled for efficiency</td>
<td>Improved forecasting and stock management</td>
<td>Casual Collection EDC</td>
</tr>
</tbody>
</table>
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
SUSTAINABILITY IS IN OUR DNA

- 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
BEST IN CLASS WHOLESALE MODEL

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
BEST IN CLASS WHOLESALE MODEL

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
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 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
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.
We stand for

Radical Positivity.
Loving Our Customer.
Quality, Always.
## FY19/20 OUTLOOK

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td><strong>Low-double-digit % decline</strong> as the focus is on healthy and profitable sales</td>
</tr>
<tr>
<td>GP Margin</td>
<td>Aim for <strong>a slight improvement yoy</strong> mainly through having less discount while keeping retail price stable</td>
</tr>
<tr>
<td>Regular OPEX</td>
<td><strong>High-single-digit % yoy reduction</strong> 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</td>
</tr>
<tr>
<td>CAPEX</td>
<td><strong>Remain selective but will increase yoy</strong> as the Group invests in relevant technology to facilitate a simple, fast and digitalized operating process</td>
</tr>
</tbody>
</table>
Q&As