



21 February 2014, Hong Kong

## ESPRIT HOLDINGS LIMITED ANNOUNCES INTERIM RESULTS FOR THE 6 MONTHS ENDED 31 DECEMBER 2013

### **Esprit returned to profitability and on track with its strategic initiatives**

- Short term stabilization on track and performance in line with the full year guidance
- Turnover of HK\$12,810 million, a decline of 5.5% year-on-year in HK dollar term (9.3% in local currency) in line with the reduction in net sales area
- OPEX reduction of over HK\$1 billion, or 15.1% year-on-year in HK dollar term (18.2% in local currency)
- Positive EBIT of HK\$254 million, compared to an EBIT loss of HK\$265 million a year ago
- Inventory value reduction by 21.1% year-on-year (13.1% reduction of units)
- Net cash generation of HK\$530 million - net cash position of HK\$5,181 million
- Interim dividend of HK\$0.03 per share with scrip alternative

ESPRIT HOLDINGS LIMITED (“Esprit”, “the Company” or the “Group”; stock code 00330) today announces its interim financial results for the six months ended 31 December 2013.

### **Short term stabilization**

The Group is beginning to see some signs of stabilization throughout the business and improvement in profitability as a result of management’s efforts to reduce costs, normalize inventory levels and overhaul operations.

The stabilization of top line performance has been in line with net sales area development, which was mainly achieved through efforts to improve the value-for-money proposition of the Group’s products, particularly in the women’s divisions.

On a positive note, the Group’s retail sales performance stabilized in Europe, where positive sales growth of 0.1% year-on-year in local currency was recorded excluding store closures and stores with onerous contracts. Wholesale turnover in our largest market of Germany declined by 4.8% year-on-year in local currency in spite of a decrease of 10.2% of the wholesale



controlled space.

On the other hand, the Group has not yet stabilized top line performance of its wholesale business in the rest of Europe and for the business in the Asia Pacific region.

Net profit has turned positive on the basis of effective concerted efforts to reduce cost. This, combined with an ambitious inventory reduction and a selective approach to investments, has permitted the Group to generate positive cash flow in the first half of FY13/14.

### **Medium term implementation of a high performance product engine**

In order to regain competitiveness in the longer term, the Group continues to work towards adopting a faster and more efficient vertically integrated business model. On this front, the following progress has been made:

1. The appointment of a new Chief Product Officer with significant experience and knowledge of product development within a vertical business model;
2. The restructuring of our sourcing offices in Asia to better mirror the Product Divisions which completes the re-organization of the Category Management Teams necessary to manage a vertical business model;
3. The development of solutions vital to adapt the vertical business model for our wholesale partners, particularly with respect to a new structure and calendar for our collections;
4. The commencement of operations of the Trend Division, in September 2013, as a “laboratory” to develop a fast-to-market supply chain for Esprit and to test a range of strategic alternatives for our concept (e.g. new pricing approach and stock replenishment model); and
5. The successful development of pricing tests at all levels, i.e. country, product category and individual items.

With respect to the Trend Division, the most important lessons we have learned so far confirm that the vertical business model is possible to achieve in Esprit with relatively small changes for retail and a relevant part of wholesale, and that lead times of approximately three to four months are also possible with our current systems, suppliers and logistics. We intend to apply the valuable lessons learned to other product divisions in due course.

Commenting on the results, Mr. Jose Manuel Martínez Gutiérrez (“Mr. Martínez”), the Group Chief Executive Officer of Esprit, said, “... we are pleased to see that our efforts to stabilize the business have shown initial success and that the Group’s profitability has begun to improve. The goals we have set for regaining Esprit’s competitiveness are ambitious and transforming our existing business model into a vertical one is a challenging process; but seeing the results we have achieved so far makes us ever more confident to deliver on our plan through consistent execution.”



## **Reported Earnings**

Group turnover amounted to HK\$12,810 million (1H FY12/13: HK\$13,554 million), representing a decline of 5.5% year-on-year (9.3% in local currency), which was in line with a reduction in retail and wholesale space.

Gross profit margin decreased by 1.4 percentage points year-on-year to 49.6%, mainly due to the Group's continued investments in improving the value of our products for our customers through enhanced product quality and pricing initiatives.

Operating expenses ("OPEX") amounted to HK\$6,094 million (1H FY12/13: HK\$7,175 million) representing a significant reduction of HK\$1,081 million or 15.1% year-on-year (18.2% in local currency), bringing OPEX-to-sales ratio to 47.6% (1H FY12/13: 52.9%).

As a result of our cost reduction initiatives, the Group's profitability improved with a positive EBIT of HK\$254 million, compared to an EBIT loss of HK\$265 million a year ago.

Net cash increased by HK\$530 million to HK\$5,181 million (30 June 2013: HK\$4,651 million), the highest level over the last three years, primarily driven by HK\$920 million cash inflow from operations (1H FY12/13: cash outflow) as well as selective investment in capital expenditure.

The Group's Board of Directors has declared an interim dividend for the six months ended 31 December 2013 of HK\$0.03 per share (1H FY12/13: Nil). This represents an interim dividend payment ratio of 60% of basic earnings per share.

Commenting on the Group's reported earnings, Mr. Thomas Tang, the Group Chief Financial Officer of Esprit, said, "...it is through the combined and committed efforts of the management team to reduce cost that we achieved over HK\$1 billion in savings in the first half of the financial year, which enabled the Group to return to profitability. We will be able to leverage this reduced cost base when the high performance product engine is in place."

## **Outlook**

Management priorities for the remainder of the financial year will continue to focus on stabilizing the Group's business performance, working towards adopting a faster and more efficient vertically integrated business model to regain competitiveness and enhancing the appeal of our products.

In terms of outlook, Esprit's financial performance for the second half of the financial year remains uncertain as the Group undergoes significant changes to its business model and

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particularly in light of the fact that performance in the second half is normally not as good as the first half due to seasonality. Moreover the operating environment continues to be challenging. The Group's FY13/14 full year guidance remains unchanged.

Mr. Raymond Or, Chairman of Esprit, commented: "...the Board is pleased to see improvements in the Group's business and we are in full support of the work carried out by the management. Going forward, we continue to face many challenges and uncertainties but I am confident that with the dedicated and focused efforts of the management, we will be able to regain competitiveness and establish a solid platform for long term growth."



**ESPRIT HOLDINGS LIMITED UNAUDITED CONSOLIDATED FINANCIAL DATA**

(In HK\$ Million)

	For the 6 months ended 31 December 2013	For the 6 months ended 31 December 2012
Turnover	12,810	13,554
Gross Profit	6,348	6,910
Operating Profit/(Loss)	254	(265)
Net Profit/(Loss)	95	(465)
Net Cash Balance	5,181	4,974
Earnings/(Loss) Per Share (HK\$)	0.05	(0.30)
Interim Dividend Per Share (HK\$)	0.03	Nil

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## **About Esprit**

Founded in 1968, Esprit is an international fashion brand that pays homage to its roots and expresses a relaxed, sunny Californian attitude towards life. Esprit creates inspiring collections for women, men and kids made from high-quality materials paying great attention to detail. All of Esprit's products demonstrate the Group's commitment to quality design and execution.

Esprit's collections are available in over 40 countries worldwide, in over 900 self-operated retail stores and through over 8,500 wholesale points of sales including franchise partners, and sales space in department stores. The Group markets its products under two brands, namely the Esprit brand and the edc brand. Listed on the Hong Kong Stock Exchange since 1993, Esprit has headquarters in Germany and Hong Kong.

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### *Forward-Looking Statement*

*This press release contains certain forward-looking statements. Such forward-looking statements are subject to various risks and uncertainties, including without limitation, statements relating to our plans to transform the Company's business, make significant investment in our businesses and achieve sustainable profitability in the future, and other risks and factors identified by us from time to time. Although the Group believes that the anticipations, beliefs, estimates, expectations and/or plan stated in this document are, to the best of its knowledge, true, actual events and/or results could differ materially. The Group cannot assure you that those current anticipations, beliefs, estimates, expectations and/or plan will prove to be correct and you are cautioned not to place undue reliance on such statements. The Group undertakes no obligation to publicly update or revise any forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, except as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or any other applicable laws and regulations. All forward-looking statements contained in this document are expressly qualified by these cautionary statements.*