

# ESPRIT

---

23 September 2015, Hong Kong

## **POSITIVE DEVELOPMENT DESPITE LOSSES FOR THE YEAR ENDED 30 JUNE 2015**

### ***From a financial point of view, FY14/15 was an exceptionally challenging year***

- Decline in turnover (-11.5% in local currency) mostly due to reduction in total controlled space (-8.8%) and the unusually negative market development in Europe
- Gross profit margin and recurring OPEX remained stable
- EBIT Loss (HK\$3,683 million) due to lower sales aggravated by HK\$2,965 million in non-recurring provisions and impairments related to the contraction of the business over the past two years; these provisions and impairments are mostly non cash
- Healthy balance sheet with net cash of HK\$5.0 billion and debt free, thanks to cautious cash management, with special efforts to reduce OPEX and working capital in previous years

### ***From a strategic point of view, FY14/15 was a year of significant achievement***

- Successfully installed the foundation (Vertical Model to enhance product performance and Omnichannel Model to improve channels performance) that is crucial for our turnaround plan
- Observed encouraging sales trend for the first “vertical” collections from February 2015
  - Retail turnover decline consistently narrowed
  - Sales of comparable retail stores increased by +4.1% year-on-year in the last three months of June, July and August 2015 (the “Last Three Months<sup>1</sup>”)
  - Sales of Esprit stores in Germany (our largest country) also outperformed the market in each of the Last Three Months
  - Growth driven by Esprit Women divisions, which recorded the largest positive year-on-year retail sales growth for the Last Three Months
  - Turnover of fast reaction products introduced under the Vertical Model continued to grow and outperform that of long lead-time products

### ***The Company is now entering the “Growth” phase of our strategic plan***

- Excel in product and channel performance to drive sales productivity increase (by completing the implementation of Vertical and Omnichannel Models)
- Support with Brand Marketing campaigns to attract new customers and traffic to the brand
- Complement with Expansion plans to grow presence in current and new markets
- Leverage on cost structure to grow profitability in parallel with top line

---

<sup>1</sup> July and August 2015 figures are based on latest unaudited management information

# ESPRIT

---

ESPRIT HOLDINGS LIMITED (“Esprit”, “the Company” or the “Group”; stock code 00330) today announces its full year financial results for the 12 months ended 30 June 2015 (FY14/15).

FY14/15 was an exceptionally challenging year in which the Group’s financial performance was adversely impacted by internal and external factors. Nevertheless, from a strategic perspective, it has been a year of significant achievement as the Group completed the most vital and demanding phase of our turnaround plan. We have successfully installed the foundation (Vertical and Omnichannel Models) enabling us to enhance our products and optimize sales performance across all channels (online, offline, retail and wholesale). It is encouraging to see the first signs of a positive sales trend for our new “Vertical Products”, which gives us confidence that we are on the right track to restoring the competitiveness of Esprit. With this confidence, we enter the “Growth” phase of our strategic plan.

## **Financial Performance**

The Group’s financial performance for FY14/15 was impacted by a decline in turnover (FY14/15: HK\$19,421 million; -11.5% in local currency or -19.8% in Hong Kong Dollar terms), mostly due to:

- i) the reduction in total controlled space (-8.8% year-on-year);
- ii) the exceptionally warm winter in Europe which placed pressure on sales and prices during the entire Autumn/Winter 2014 season;
- iii) the continuation of negative market development during the second half (e.g. Germany’s apparel market recorded negative growth during 9 out of the 12 months of the financial year under review – according to data published by TextilWirtschaft);
- iv) our weak collections performance until the introduction of the Vertical Products; and
- v) unfavourable exchange rate movements, especially the significant depreciation of the Euro (-11.4% against the Hong Kong Dollar in FY14/15) had a significant impact on the Group’s financial performance during the financial year.

Gross profit margin (2015: 49.9%; 2014: 50.2%) and recurring operating expenses (HK\$10,413 million; down -1.2% in local currency and -10.3% in Hong Kong terms) remained in line with the previous year level, but the lower sales resulted in operating deleverage and led to an operational loss. The bottom line (EBIT Loss: HK\$3,683 million) was further aggravated by provisions and impairments totalling HK\$2,965 million related to the contraction of the business over the past two years (as detailed in the Profit Warning issued in May 2015). These provisions and impairments are primarily non-cash accounting adjustments with no material impact on the Group’s cash flow and operations.

Benefiting from the Group’s previous efforts to cautiously manage cash, especially to reduce OPEX and normalize working capital in the last two financial years, Esprit remains debt free with a healthy net cash position of HK\$5.0 billion as at 30 June 2015.

# ESPRIT

---

Commenting on the Group's financial performance, Mr. Thomas Tang, the Group Chief Financial Officer of Esprit, said, "...Although the challenging market had considerable impact on our turnover, our gross margin remained stable and savings were achieved in most cost lines of our regular operations. With our priority on cash preservation over the past two years, the Group is on a sound financial footing, with a healthy balance sheet that we intend to leverage to decisively execute the strategies that shall drive top line growth in the near future."

## **Product enhancement by introducing our new "Vertical Model"**

The past financial year was devoted to the implementation of the most demanding, yet vital, part of the Group's strategic plan: the "Transformation" phase. During this phase, a vertically integrated business model ("Vertical Model") was introduced within Esprit to enhance the speed and efficiency of our product development and supply chain processes, and thereby significantly improving the design and value for money of our products. More specifically, the following have been implemented:

- Lean supply chain management (from over 350 to below 230 suppliers)
- Category management teams (all Product Divisions transformed)
- New merchandising model (Buying and Merchandising fully centralized)
- Reduction in product range (30% to 40% reduction of options)
- Seasonal product calendar (from 12 monthly collections to 4 seasons)
- Fast-to-market product development (2-3 months lead time in the Trend Division and the fast-reaction capsules in all other Divisions)
- Stock management optimization (pending additional stock replenishment capacity and capabilities in our central Distribution Center)

More importantly, the Group has observed progressively positive developments in terms of product sales performance following the introduction in February 2015 of the Spring/Summer 2015 collections, the first ones developed under the Vertical Model:

- Retail turnover decline has narrowed consistently over each subsequent quarter during FY14/15 (Q1= -15.0%; Q2= -10.3%; Q3= -8.3%; Q4= -6.8%);
- Sales of comparable retail stores recorded positive year-on-year growth of +4.1% in the last three months of June, July and August 2015 (the "Last Three Months") ;
- Sales performance of Germany (our largest country) outperformed the market in each of the Last Three Months - Sales of our brick and mortar full price retail stores in Germany have consistently outperformed the comparable market data according to TextilWirtschaft by +6.3% pts, +10.1% pts and +12.7% pts in The Last Three Months;
- Retail sales of Esprit Women divisions have accumulated positive growth since February 2015 and have recorded +5.3% year-on-year growth for the Last Three Months; and

# ESPRIT

---

- The Trend Division (representing 2.6% of Group turnover), established to develop fast reaction products under the Vertical Model, reported turnover growth of +29.7% in local currency in FY14/15.

## **Improvement of Sales Channels effectiveness by developing our “Omnichannel Model”**

In order to optimize the selling of competitive products from the Vertical Model, Esprit has been developing a customer-centric Omnichannel Model to maximize the joint performance of all our sales channels (offline and online, retail and wholesale). In that respect, during FY14/15, we have been introducing solutions in Esprit (e.g. organization, processes, technology, infrastructures, incentives, etc.) to enable the execution of very specific initiatives that are structured along two major goals:

- growing and optimizing service to our loyal customers “Esprit Friends”** - e.g. strengthening of the program features and benefits led to +13% growth of active “Esprit Friends” members turning around the declining trend in previous years; and
- fully integrating the commercial activity of all sales channels (online and offline, retail and wholesale) for maximized impact** - e.g. introduction of unique incentive systems to fully integrate our wholesale franchise partners into the "Esprit Friends" program, our Commercial Plan and the business of our eshop esprit.com (more than 70% of all potential partners already signed up).

This customer-centric Omnichannel Model leverages some of the major competitive advantages of Esprit, namely:

- **our large loyal customer base:** 5 million Esprit Friends purchased over the last 12 months;
- **our best-in-class customer relationship management (“CRM”) solution:** the Esprit Friends program ranked within the top three best loyalty programs for consumer satisfaction across all industries in Germany by 'Deutsches Institut für Service-Qualität in November 2014;
- **our well established e-commerce platform:** recognized as the “Best Fashion Online Shop 2015” in Germany by ServiceValue in May 2015; and
- **our ability to operate multiple channels** to optimize reach, distribution and service in every market.

Commenting on the results, Mr. Jose Manuel Martínez Gutiérrez (“Mr. Martínez”), the Group Chief Executive Officer of Esprit, said, “...While I do regret that the results have missed the mark, I am convinced that last financial year was fundamental for our future as we successfully completed the most demanding phase of our strategic plan. The foundations of our Vertical and Omnichannel Models are engrained in the organization and the encouraging retail performance in the last three months (June, July and August 2015) leads us to much confidence in our

# ESPRIT

---

product and sales capabilities. With this confidence, we are entering the 'Growth' phase of our plan.”

## **Outlook: Growth with Brand Building and Expansion**

In coming years, we will focus on the growth of our top line. We expect to see increase in productivity of our controlled spaces (sales per square meter) to be driven by enhanced products and channel operations. Additionally we plan to support with more intensive Brand Marketing and Expansion efforts which may place pressure on profitability in the short term. The timing of these actions and their impact will be obviously different.

- **Productivity gains in our controlled spaces:** As we continue to optimize the benefits of the Vertical and Omnichannel Models, we expect to see improved sales per square meter to be driven by enhanced products and channel operations. This is our top priority in the near term and key to restore positive results from our regular operations.
- **New Brand Marketing campaigns to regain relevance:** The Group will engage in more intensive brand marketing efforts to regain the relevance of the Esprit brand with new customers. The campaigns will take a more visible and youthful approach to build on the heritage of the brand and communicate the values that make us distinctive. Esprit's core markets will be the initial focus of the marketing spend, with other regions to follow.
- **Increasingly pursue opportunities for Expansion:** To orderly recover our presence in key strategic markets, the Group intends to selectively pursue expansion opportunities in both existing and new markets, particularly in European countries where Esprit's brand awareness is high but the penetration is presently limited. In Asia Pacific, the Group's emphasis will be on China as the key market for growth, with other potentially attractive apparel markets globally to be evaluated on a case by case basis over the longer term.

Mr. Raymond Or, Chairman of Esprit, commented: "...In FY14/15, the Group maintained a clear focus to execute the most complex and critical phase of our transformation, and made good progress despite a difficult operating environment. The Growth phase that we are now embarking upon is not without its challenges, but there is much hope and excitement across all levels of our organization as we leverage the strong foundation that we have laid over the last two years. Every successful journey takes time, and we believe that we are nearing our final destination – which is to restore the long term competitiveness of our Group.”

- End -



**ESPRIT HOLDINGS LIMITED AUDITED CONSOLIDATED FINANCIAL DATA**

*(In HK\$ Million)*

	For the year ended 30 June 2015	For the year ended 30 June 2014
Turnover	19,421	24,227
Gross Profit	9,695	12,156
Operating Profit /(Loss)	(3,683)	361
Net Profit/(Loss)	(3,696)	210
Net Cash Balance	5,017	5,771
Earnings/(Loss) Per Share (HK\$)	(1.90)	0.11
Interim Dividend Per Share (HK cents)	1.5	3.0
Final Dividend Per Share (HK cents)	Nil	4

**ESPRIT Contacts**

*Hong Kong*  
Joeling Law  
phone: +852 2765 4356  
email: joeling.law@esprit.com

*Germany*  
Mona Schmadl  
phone: +49 2102 123 46176  
email: mona.schmadl@esprit.com

**For media enquiries, please contact:**

*Asia: Artemis Associates*  
Jonathan Yang  
phone: +852 2861 3234  
email: jonathan.yang@artemisassociates.com

*Europe: Hartmut Schultz Kommunikation GmbH*  
Hartmut Schultz  
phone: +49 89 99 24 96 20  
email: hs@schultz-kommunikation.de

**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 make consumers "feel good to look good". The company's "esprit de corps" reflects a positive and caring attitude towards life that embraces community, family and friends – in that casual, laid-back California style, The Esprit style.

Esprit's collections are available in over 40 countries worldwide, in around 900 directly managed retail stores and through over 7,500 wholesale points of sales including franchise stores, 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.

# ESPRIT

---

*The information contained herein is not a public issuance of securities. These materials do not contain or constitute an offer of securities for sale in the United States or to any "U.S. Person" as defined in Regulation S under the United States Securities Act of 1933, as amended (the "Act"). The securities referred to herein have not been and will not be registered under the Act, and may not be offered or sold in the United States absent registration under such Act or an available exemption from it.*

*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.*