

French Connection

HALF YEAR REPORT | 31 JULY 2012



Agenda

- * Results for the period
- * Retail review
- * Trading outlook

Results Summary

- * UK retail performance affected overall Group result
- * Good growth in e-commerce
- * North America & Rest of World improved profits
- * Continued growth in licence income
- * Balance sheet remains strong
- * Initiatives to improve retail underway

Results Summary

	Six months to 31 July 2012	Six months to 31 July 2011*	
* Revenue	£96.0 million	£102.8 million	-6.6%
* Gross margin	47.7%	50.0%	-230bps
* Licence income	£3.3 million	£3.0 million	+10%
* Loss/profit before tax	£(6.3) million	£0.7 million	
* Loss/earnings per share	(6.4) pence	0.6 pence	
* Closing net cash	£21.2 million	£30.9 million	

* Continuing operations

Overview of Results

- * Group revenue declined by 6.6% in difficult market conditions
 - 9.5% decline in world-wide retail revenues (8.8% decline in LFL)
 - 28% growth in US wholesale revenues, mostly offsetting decline in UK/Europe
 - e-commerce revenue continuing strong growth
- * Gross margins affected by discounting in the retail channel
 - higher proportion of discounted sales in retail
 - deeper discounts
- * Continued close cost control
 - UK/Europe French Connection store overheads £1.0 million lower
 - investment in e-commerce marketing and infrastructure
 - Group overheads include costs of retail review
 - further reductions in other areas
- * Licence income 10% higher
 - continuing good performance of brand licensees
 - despite termination of “UK Style” licence



Details by Division

UK/Europe Retail

- * 51% of group revenue
- * Revenue
 - overall like-for-like gross sales down 9.5%
 - French Connection e-commerce growth of 23%
- * Gross margin
 - discounts increased as a reaction to poor revenue
 - leveraged effect of fixed costs
- * Overheads
 - investment in e-commerce businesses
 - underlying costs tightly controlled
 - rent review settlements showing some improvement, but increases remain inherent

	1H13 £m	1H12 £m	var
Revenue	49.0	54.3	-10%
Gross profit	26.8	31.9	-16%
Gross margin	54.7%	58.7%	-4.0%
Overheads	(36.0)	(35.4)	+2%
Contribution	(9.2)	(3.5)	
Stores/concessions	134	128	+6
Space (000 ft²)	264	265	-0.4%

Retail changes in past 12 months

- 4 additional FC concessions
- 2 closed FC stores
- 2 additional outlet stores
- 2 Toast locations

UK/Europe Wholesale

- * 19% of group revenue
- * Revenue
 - subdued in-season business
 - lower forward orders for Autumn 2012
- * Gross margin
 - higher volume of inventory clearance deals
 - consistent underlying margins
- * Overheads
 - tight cost control

	1H13 £m	1H12 £m	var
Revenue	18.1	20.3	-11%
Gross profit	5.4	6.8	-21%
Gross margin	29.8%	33.5%	-3.7%
Overheads	(3.9)	(3.9)	+0%
Contribution	1.5	2.9	-48%

UK/Europe Contribution

- * Total regional contribution
- * Common overheads
 - no significant change
- * Licence income
 - broadly-spread increases

	1H13 £m	1H12 £m
Retail contribution	(9.2)	(3.5)
Wholesale contribution	1.5	2.9
Common overheads	(2.3)	(2.2)
External income	2.6	2.0
Internal income*	0.9	0.8
Divisional operating result	(6.5)	-

* Internal licence income is eliminated in Group consolidated results

North America Retail

- * 10% of group revenue
- * Retail revenue
 - like-for-like sales down 4.7%
 - overall down 9% in local currency
- * Gross margin softer
 - discounting in reaction to sales performance
- * Overheads
 - on-going savings from store closures
 - offset by £0.3 million store closure costs

	1H13 £m	1H12 £m	var
Revenue	9.8	10.7	-8%
Gross profit	5.6	6.5	-14%
Gross margin	57.1%	60.7%	-3.6%
Overheads	(6.7)	(6.9)	-3%
Contribution	(1.1)	(0.4)	
Stores	19	21	-2
Space (000 ft²)	65	74	-13%

Retail changes in past 12 months
 - 2 stores closed in Canada

North America Wholesale

- * 14% of group revenue
- * Wholesale revenue growth 28%
 - momentum continuing with department stores
- * Gross margin
 - higher proportion of full price sales
- * Overheads closely controlled
 - expanded participation at trade shows
- * Strong growth in contribution

	1H13 £m	1H12 £m	var
Revenue	13.1	10.2	+28%
Gross profit	5.4	3.6	+50%
Gross margin	41.2%	35.3%	+5.9%
Overheads	(1.9)	(1.7)	+12%
Contribution	3.5	1.9	

North America Contribution

- * Total regional contribution
- * Common overheads
 - minor increase in local currency
- * Licence income
 - reduction in income from “UK Style” licence

	1H13 £m	1H12 £m
Retail contribution	(1.1)	(0.4)
Wholesale contribution	3.5	1.9
Common overheads	(1.6)	(1.5)
External licence income	0.5	1.1
Divisional operating result	1.3	1.1

Rest of World

- * 6% of group revenue
- * Revenue decrease
 - mostly due to reduced deliveries to Australia licensee
 - offset by increases to Dubai, Vietnam, China, Thailand
- * Gross margin
 - underlying margins consistent
 - change in mix of customers results in higher margin
- * Overheads
 - underlying costs steady
 - new liaison office in Shanghai
- * Solid operating result

	1H13 £m	1H12 £m	var
Revenue	6.0	7.3	-18%
Gross profit	1.1	1.0	+10%
Gross margin	18.3%	13.7%	+4.6%
Overheads	(0.8)	(0.7)	
Contribution	0.3	0.3	
External licensing income	0.3	0.3	
Internal income*	0.5	0.4	
Operating result	1.1	1.0	+10%

* Internal licence income is eliminated in Group consolidated results

Summary of Group Licence Income

- * Good underlying performance of brand licensees
- * Reduced contribution from “UK Style”
- * Increases from eyewear, shoes and suiting
- * Other includes income from former subsidiary for buying office services
- * New licences for shoes, children’s wear and furniture
- * Further opportunities currently under negotiation

	1H13 £m	1H12 £m	var
Brand licences	2.3	2.3	+0%
Country licences	0.9	0.8	+13%
Other/overheads	0.1	(0.1)	
Total external income	3.3	3.0	+10%

Group Result

- * Regional contributions heavily affected by retail trading results
- * Group overheads tightly controlled
 - includes advisory costs in relation to the retail review
- * Share of Joint Ventures
 - good performance in China, 5% like-for-like growth
 - Hong Kong retail market softening resulting in a reduced contribution
- * Dividend
 - no dividend for period

	1H13 £m	1H12 £m
Total regional contributions	(4.1)	2.1
Group management overheads	(2.5)	(1.9)
Operating result before interest	(6.6)	0.2
Net finance income	0.1	0.1
Joint ventures	0.2	0.4
(Loss)/profit before tax	(6.3)	0.7
Taxation charge	-	(0.1)
(Loss)/profit after tax	(6.3)	0.6
(Loss)/earnings per share	(6.4)p	0.6p
Dividend per share	-	0.6p

Cash Flow

- * Closing cash balance £21.2 million
- * Working capital increase
 - increased inventory due to poor sales performance in Autumn 2011 and Spring 2012
- * No further cash from disposal of operations in the period
- * Dividends paid of £1.0 million

	1H13 £m	1H12 £m
Operating result before interest	(6.6)	0.2
Depreciation and disposals	1.5	1.4
Result of discontinued businesses	-	(0.1)
Movement in working capital	(6.3)	(4.8)
Cash flow from operations	(11.4)	(3.3)
Tax and interest	-	-
Investing activities	0.4	0.4
Capital expenditure	(1.0)	(0.4)
Income from disposals	-	1.3
Dividends paid	(1.0)	(1.1)
Movement in cash	(13.0)	(3.1)
Opening net funds	34.2	34.1
Non-cash movements	-	(0.1)
Net cash	21.2	30.9



Retail Review

Retail initiatives

- * Store operations
- * Customer focused product
- * Merchandise management
- * Portfolio management
- * Strengthened management team

Store operations

- * Develop better selling skills and improve customer service to increase basket size and average transaction values
- * Improve efficiency in store by re-engineering processes
- * Optimise effectiveness of labour hours through more flexible labour management

Customer focused product

- * Develop our ranges to better meet the aspirations of our core customers
- * Ensure product pricing matches customers' value perceptions
- * Improve accessories and ancillary product ranges

Merchandise management

- ✱ Implement a more carefully structured approach to buying
- ✱ Improve reaction speed to best selling lines and changing trends
- ✱ Continue to carefully manage gross margin during sale periods

Portfolio management

- * Target the disposal of loss making stores where economically viable
- * External property agents working with landlords and potential tenants

Strengthened management team



New senior management appointments in

- design
- retail
- multi-channel



Outlook

Trading Outlook

- * Economic backdrop will continue to be difficult
 - consumer spending likely to continue to be subdued
- * Wholesale orders
 - growth in wholesale orders in US expected to continue
 - both AW12 and SS13 forward orders showing decline over previous year in UK/Europe
- * Licence revenue
 - “UK Style” licence terminated
 - new furniture, shoe and children’s wear licences agreed
 - other new opportunities being pursued

Longer term

- * Target to restore profitability within two financial years
- * Impact of retail initiatives starting Spring 2013
- * Subsequently growing season-on-season
- * Building on the strengths of the French Connection brand



Appendices

Operating Segments 1H 2013

Six months
31 July 2012

	UK/Europe			North America			Rest of World	Intra Group	Total
	Retail £m	Whole- sale £m	Total £m	Retail £m	Whole- sale £m	Total £m	Whole- sale £m	£m	£m
Revenue	49.0	18.1	67.1	9.8	13.1	22.9	6.0		96.0
Gross profit	26.8	5.4	32.2	5.6	5.4	11.0	1.1	1.5	45.8
<i>Gross margin</i>	<i>54.7%</i>	<i>29.8%</i>	<i>48.0%</i>	<i>57.1%</i>	<i>41.2%</i>	<i>48.0%</i>	<i>18.3%</i>		<i>47.7%</i>
Trading overheads	(36.0)	(3.9)	(39.9)	(6.7)	(1.9)	(8.6)	(0.8)		(49.3)
Operating contribution	(9.2)	1.5	(7.7)	(1.1)	3.5	2.4	0.3	1.5	(3.5)
Common overhead costs			(2.3)			(1.6)	-		(3.9)
Licensing income			3.5			0.5	0.8	(1.5)	3.3
Divisional operating profit/loss			(6.5)			1.3	1.1	-	(4.1)
Central overheads									(2.5)
Share of joint ventures									0.2
Finance income									0.1
Loss before tax									(6.3)

Operating Segments 1H 2012

**Six months
31 July 2011**

**Continuing operations
*Restated****

Revenue
Gross profit
Gross margin
Trading overheads
Operating contribution
Common overhead costs
Licensing income
Divisional operating profit
Central overheads
Share of joint ventures
Finance income
Profit before tax

	UK/Europe			North America			Rest of World	Intra Group	Total
	Retail £m	Whole- sale £m	Total £m	Retail £m	Whole- sale £m	Total £m	Whole- sale £m	£m	£m
Revenue	54.3	20.3	74.6	10.7	10.2	20.9	7.3		102.8
Gross profit	31.9	6.8	38.7	6.5	3.6	10.1	1.0	1.6	51.4
<i>Gross margin</i>	<i>58.7%</i>	<i>33.5%</i>	<i>51.9%</i>	<i>60.7%</i>	<i>35.3%</i>	<i>48.3%</i>	<i>13.7%</i>		<i>50.0%</i>
Trading overheads	(35.4)	(3.9)	(39.3)	(6.9)	(1.7)	(8.6)	(0.7)		(48.6)
Operating contribution	(3.5)	2.9	(0.6)	(0.4)	1.9	1.5	0.3	1.6	2.8
Common overhead costs			(2.2)			(1.5)	-		(3.7)
Licensing income			2.8			1.1	0.7	(1.6)	3.0
Divisional operating profit			-			1.1	1.0	-	2.1
Central overheads									(1.9)
Share of joint ventures									0.4
Finance income									0.1
Profit before tax									0.7

* Restated to reflect changes to intra-Group charges.

Balance Sheet

	July 12 £m	July 11 £m	Jan 12 £m
Intangible assets	2.4	2.4	2.4
Tangible assets	6.6	7.5	7.1
Investments	3.4	3.3	3.5
Deferred tax assets	4.4	4.1	4.4
Total non-current assets	16.8	17.3	17.4
Inventories	47.9	46.7	46.9
Debtors	27.7	27.8	26.5
Cash at bank	21.2	30.9	34.2
Derivative financial instruments	0.2	0.0	0.1
Total current assets	97.0	105.4	107.7
Total assets	113.8	122.7	125.1
Non-current liabilities	(0.9)	(0.9)	(0.9)
Loans and overdrafts	-	-	-
Creditors	(44.8)	(50.3)	(49.1)
Total liabilities	(45.7)	(51.2)	(50.0)
Net assets	68.1	71.5	75.1

Retail Locations

		July 2012		January 2012		July 2011	
		Locations	sq ft	Locations	sq ft	Locations	sq ft
OPERATED LOCATIONS							
UK/Europe							
French Connection	Stores	73	216,571	71	214,468	73	223,858
French Connection/ Great Plains	Concessions	48	34,213	46	32,550	44	29,156
Toast	Stores	11	11,407	9	10,578	9	10,578
YMC	Stores	2	1,355	2	1,355	2	1,355
Total UK/Europe		134	263,546	128	258,951	128	264,947
North America							
French Connection US	Stores	8	33,900	8	37,227	8	37,227
French Connection Canada	Stores	11	31,035	12	33,935	13	36,535
Total North America		19	64,935	20	71,162	21	73,762
TOTAL OPERATED LOCATIONS		153	328,481	148	330,113	149	338,709
FRENCH CONNECTION LICENSED & FRANCHISED							
UK/Europe		11	15,171	11	15,791	11	15,430
North America		1	2,000	1	2,000	1	2,000
Middle East		13	23,842	12	21,797	10	20,331
Australia		92	96,329	85	91,919	86	89,810
Hong Kong		6	7,031	7	9,521	7	9,521
China		19	27,811	18	25,383	19	27,334
India		60	45,126	32	27,645	27	23,993
Other		41	41,771	41	41,416	36	36,116
TOTAL LICENSED AND FRANCHISED LOCATIONS		243	259,081	207	235,472	197	224,535
TOTAL BRANDED LOCATIONS, WORLDWIDE		396	587,562	355	565,585	346	563,244

