

# FRENCH CONNECTION



HALF YEAR RESULTS 31ST JULY 2018

# HIGHLIGHTS

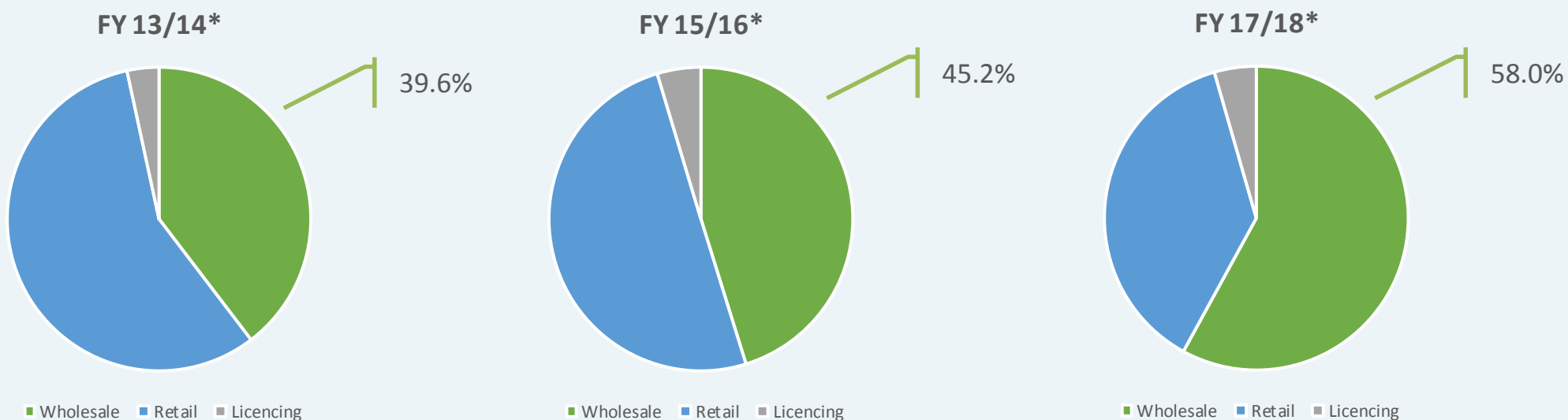
- Group revenue of £58.1m (2017: £59.5m) was down 2.4% (down 0.8% CCY) with continued good growth in wholesale offset by the reduced store portfolio and impact of the widely reported tough retail trading in the UK
- Wholesale revenue up 6.2% (8.9% CCY) across UK/Europe and North America
- Decline in LFL sales in UK/Europe of 7.0% in the half, impacted by the trading conditions (2017: down 4.1%)
- Licensing income flat on last year at £2.6m
- Composite gross margin of 41.5% (2017: 42.9%) due to higher proportion of wholesale sales as growth continues
- Further two non-contributing locations closed during the last six months while one new concession opened; on track to finish the year with 30 UK/Europe stores
- Underlying operating loss before taxation reduced to £5.5m, an improvement of £0.4m (2017: loss of £5.9m)
- Gain on sale of the Toast brand in April with proceeds from the sale of £11.7m, offset by provisions for onerous retail leases and debt impairment
- Closing cash of £12.8m (2017: £6.7m)

# RESULTS SUMMARY

	6 months to 31/07/2018	6 months to 31/07/2017	<i>Variance</i>	<i>Constant currency variance</i>
Revenue	58.1m	59.5m	(2.4%)	(0.8%)
Gross margin	41.5%	42.9%	(140bps)	(150bps)
Operating expenses	31.9m	33.6m	(5.1%)	(3.9%)
Other operating income	2.6m	2.6m	(0.0%)	2.2%
Share of loss from JV's	(0.3)m	(0.4)m		
<b>Underlying Operating Loss</b>	<b>(5.5)m</b>	<b>(5.9)m</b>	<b>6.8%</b>	<b>5.6%</b>
Exceptional items	(0.3)m	0.2m		
<b>Loss for the period</b>	<b>(5.8)m</b>	<b>(5.7)m</b>	<b>(1.8%)</b>	
Closing net cash	12.8m	6.7m		

# STRATEGIC DIRECTION

- Wholesale has increased to 58.0% of revenue from four years ago (2014: 39.6%) as the retail store portfolio reduces and the wholesale channel continues to grow and develop
- Focus on expanding key wholesale customers both in the UK and North America, with targeted growth in department stores and leveraging online presence
- Continued progress with the rationalisation of the store portfolio, with a focus on profitable stores and strategic flagships that best encapsulate the French Connection brand
- Further investment in online platform to enhance the customer experience and increase marketing spend to drive traffic
- Development and extension of licences, with four new North American licences recently secured



\* Excluding Toast

# WHOLESALE

## Revenue

- Total revenue increased 6.2% (up 8.9% CCY)
- Continued growth in the UK with particularly strong men's demand and in the US department stores
- RoW decrease due to lower sales to Australia and Hong Kong/China JVs

## Gross margin

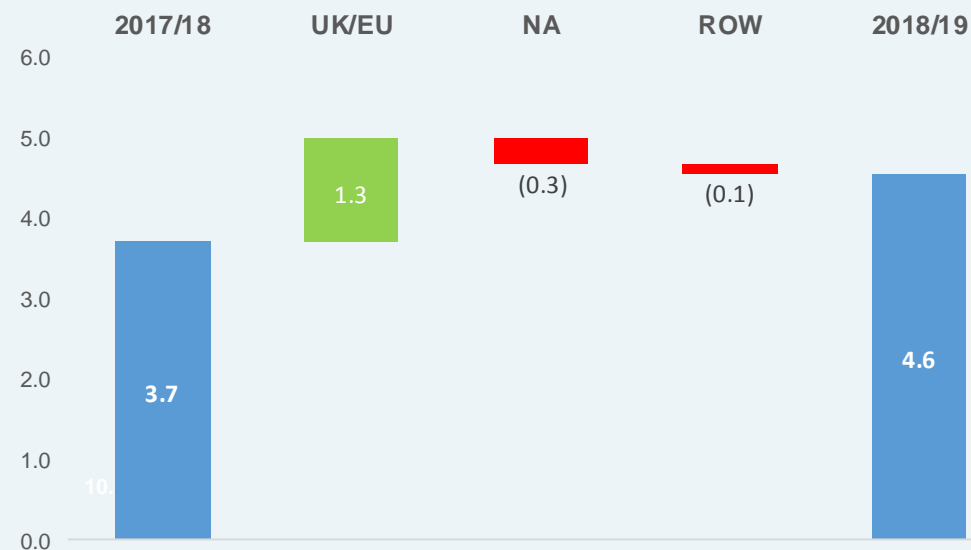
- Gross margin 30.8% (2017: 31.4%) mainly due to the US with a slightly higher proportion of clearance sales

## Selling and distribution expenses

- Costs down 5.9% at constant currency and 9.3% overall due to tight control, particularly in UK/Europe

		18/19 £m	17/18 £m
Revenue	6.2 % ↑	30.8	29.0
Gross Margin		30.8%	31.4%
<b>Underlying Operating Profit</b>		<b>4.6</b>	<b>3.7</b>

## UNDERLYING OPERATING PROFIT



# RETAIL TRADING

## Revenue

- Overall revenue including store closures down 10.5% (10.1% lower CCY)
- UK/EU LFL down 7.0% in the half, impacted by the widely reported difficult trading conditions
- Closure of two non-contributing stores during the last six months with a 7.7% reduction in average Group trading space, but the opening of one new concession

## Gross Margin

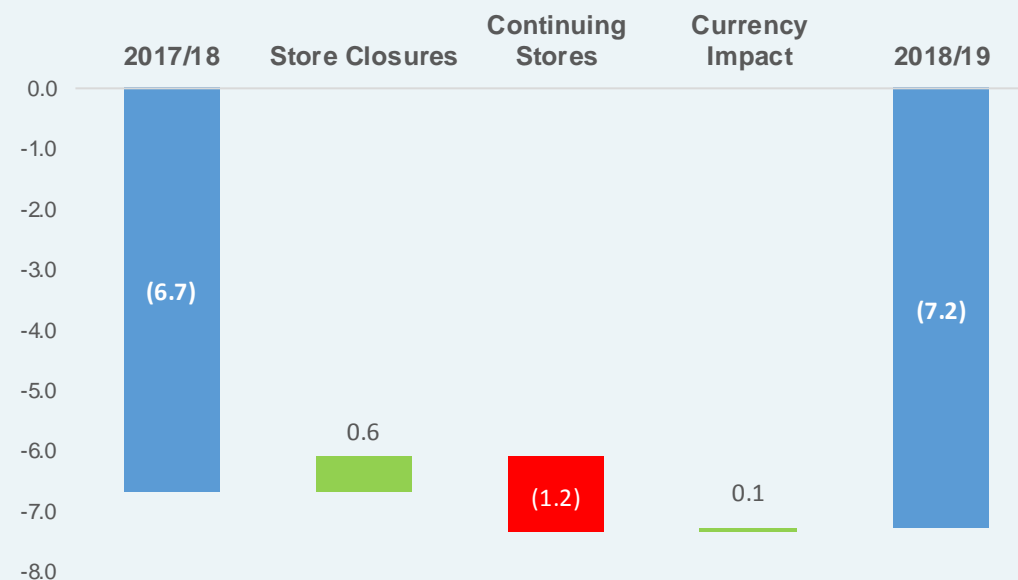
- Margin rate 53.5% (2017: 53.8%) due to higher proportion of sales through outlet stores given the reduction in the number of full price stores

## Selling and distribution expenses

- Overall overheads down 5.6% as continue to rationalise the store portfolio, partially offset by new store and concession openings
- Continuing store costs remained flat overall with rate increases offset by favourable rent renegotiations

		18/19 £m	17/18 £m
Revenue	(10.5) % ↓	27.3	30.5
Gross Margin		53.5%	53.8%
<b>Underlying Operating Loss</b>		<b>(7.2)</b>	<b>(6.7)</b>

## UNDERLYING OPERATING LOSS



# RETAIL OVERVIEW

- Two non-contributing stores closed in the period (one outlet, one Canada store), one new concession was opened in the UK. Six further closures expected by the year end
- Average lease length remaining of the UK/EU retail estate is 2.9 years (Full year: 3.1 years)
- Ongoing management of the retail portfolio essential especially in light of current issues affecting the UK high street with provisions made for onerous lease contracts
- Ecommerce revenue declined 2.4%, but grew as a percentage of retail revenue to 21.5% (2017: 19.7%). Operating contribution was maintained. Site enhancement to be launched in the coming months to improve customer experience and conversion
- Mobile constitutes 54.4% of UK/EU eCommerce traffic (2017: 49.3%) and 39.5% of transactions (2017: 33.8%)
- Our concessions with HOF are currently under review, however there appears to be further opportunities for growth going forward

## Movement in store locations over the past year

	31 July 2018		Change on Jul 17		31st Jan 2019 Expectation	
	Locations	sq ft	Locations	sq ft	Locations	sqft
UK/Europe	36	110,059	(1)	(4,089)	30	81,621
North America	3	11,452	(1)	(2,300)	3	11,452
<b>Total Full Price Stores</b>	<b>39</b>	<b>121,511</b>	<b>(2)</b>	<b>(6,389)</b>	<b>33</b>	<b>93,073</b>
Outlets	10	17,381	(2)	(2,625)	10	17,381
Concessions	52	34,526	0	(1,664)	TBC	TBC
<b>Total French Connection</b>	<b>101</b>	<b>173,418</b>	<b>(4)</b>	<b>(10,678)</b>	<b>TBC</b>	<b>TBC</b>
Toast	0	0	(12)	(13,546)	0	0
YMC	2	1,355	0	0	3	1,355
<b>Total Operated Locations</b>	<b>103</b>	<b>174,773</b>	<b>(16)</b>	<b>(24,224)</b>	<b>TBC</b>	<b>TBC</b>

# LICENCE INCOME

- DFS continues to perform strongly with French Connection its most prominent and successful third party brand
- Interparfums launched new global French Connection fragrance in September. The three new US licencees in underwear, jewellery and homewear secured last year becoming more established
- Offset by continued difficult trading for Australian licensee and reduction in Specsavers sales

	18/19	17/18
	£m	£m

<b>Other Operating Income</b>	0.0 %	<b>2.6</b>	<b>2.6</b>
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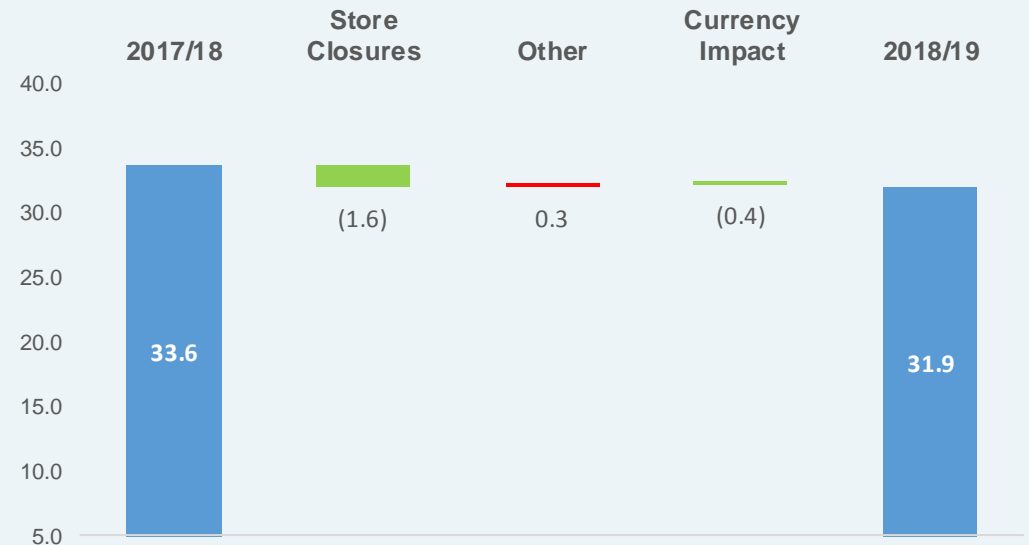


# OPERATING EXPENSES

- Total group overheads reduced by 5.1%, (Reduced by 3.9% CCY)
- £1.6m decrease attributable to store closures during the current and prior year
- Increase in other costs of £0.3m due to new store and concession openings of £0.5m, along with some underlying cost increases from occupancy, living wage and higher pension contributions, partially offset by favourable rent renegotiations

		18/19 £m	17/18 £m
<b>Operating Expenses</b>	5.1 % ↓	<b>31.9</b>	<b>33.6</b>

## OPERATING EXPENSES



# EXCEPTIONAL ITEMS

- Profit on disposal of 75% holding in Toast brand of £9.7m
- Impact in relation to requirements of IFRS 9 with regards to impairment of Indian Licence debt
- Bad debt provision relating to the amounts owing from House of Fraser administration
- Provision for onerous retail lease contracts following further portfolio review

	<b>18/19</b>
	<b>£m</b>
Profit on disposal of Toast	9.7
Indian Licence IFRS 9 Impairment	(2.0)
HOF bad debt provision	(0.8)
Onerous lease contracts	(6.4)
Store closure costs	(0.4)
	<hr/> <b>0.1</b>
Toast operating loss	(0.4)
	<hr/> <b>(0.3)</b>



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# FINANCIAL POSITION

- July month end cash balance £12.8m  
(July 2017: £6.7m)
- Profit on sale of the Toast subsidiary  
£9.7m
- Increase in working capital with  
trade receivables higher reflecting  
the movement to a higher proportion  
of Wholesale revenue
- Overall inventory levels reduced with  
Toast sale but also tighter stock  
management across the remaining  
Group

## CASH FLOW SUMMARY

	Jul 2018 £m	Jul 2017 £m
Underlying operating loss	(5.8)	(5.7)
Depreciation and impairment	0.6	0.6
Share of loss of joint ventures	0.3	0.4
Exceptional items	(0.1)	0.0
Income tax credit	(0.1)	0.0
<b>Operating result before changes in working capital</b>	<b>(5.1)</b>	<b>(4.7)</b>
Movement in working capital	(1.9)	0.4
<b>Cash flows from operations</b>	<b>(7.0)</b>	<b>(4.3)</b>
Investment in joint ventures	(0.0)	(0.3)
Acquisition of property, plant and equipment	(0.3)	(0.7)
Disposal of subsidiary	11.2	0.0
Net costs from store closures	(0.7)	(1.5)
Proceeds from exercise of share options	0.1	0.0
Movement in cash	3.3	(6.8)
<b>Opening net cash</b>	<b>9.5</b>	<b>13.5</b>
Exchange rate fluctuations	0.0	0.0
<b>Closing net cash</b>	<b>12.8</b>	<b>6.7</b>

# OUTLOOK

- Strong W18 forward orders for wholesale supporting continued growth in the second half of the year
- Six further planned store closures in the second half of the year with minimal costs to exit, but with others being identified
- House of Fraser business currently under review pending the property review being undertaken by the new owners, but appears to represent potential opportunities to expand overall
- New global fragrance launched and other US licences becoming more established
- Continued investment in the ecommerce channel with new checkout now live and further enhancements to help provide an improved customer experience
- Continue to improve JV performance with store reductions and return to sales growth in Hong Kong
- On track to return Group to profitability for the full year



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