

A young man with curly hair is captured in mid-air, performing a jump over a dense, colorful cityscape. He is wearing a multi-colored plaid shirt, dark denim jeans with rolled-up cuffs, and brown leather brogue shoes. The background features a hillside with numerous multi-story buildings in various colors (orange, yellow, red) under a cloudy, blue sky. The overall mood is energetic and adventurous.

French Connection

DEADLINE

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Summary

- * Results for the year are very disappointing
- * An in-depth and broad-ranging review was instigated early in 2012
- * Implementation of the resulting initiatives began in autumn 2012
- * Progress to date has been good; improvements in trading are expected to build through 2013
- * Target is to reach at least break-even by January 2015
- * Research shows that the business retains significant brand strength
- * The Group balance sheet remains strong

Results summary

	Year to 31 Jan 2013	Year to 31 Jan 2012
* Revenue	£197.3 million	£215.4 million
* Gross margin	47.9%	48.1%
* Operating expenses	£108.9 million	£109.2 million
* Licence income	£6.5 million	£8.5 million
* Underlying* loss/profit before tax	£(7.2) million	£4.6 million
* Loss/profit for the period	£(10.5) million	£5.3 million
* Closing net cash	£28.5 million	£34.2 million

* Underlying loss excludes impairment of goodwill and loss/gain on disposal of stores.

Overview of results

- * Group revenue declined 8%
 - both retail and wholesale in UK/Europe
 - US wholesale achieved growth of 19%
 - continued growth in global e-commerce business
- * Group gross margin slightly lower
 - slightly deeper retail mark-downs in the first half
- * Continued close cost control
 - underlying £1.4 million, 1.3%, reduction in overheads
 - including continued investment in e-commerce and additional stores
 - one-off cost of retail review
- * Licence income
 - loss of contribution from “UK Style” licence
 - several new licences signed
- * Closing cash £28.5 million
 - minimum during year £10 million

Underlying results by division

Year to January
2013

	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	103.4	34.2	137.6	20.0	29.0	49.0	10.7		197.3
Gross profit	56.7	10.6	67.3	11.2	11.5	22.7	2.0	2.6	94.6
<i>Gross margin</i>	<i>54.8%</i>	<i>31.0%</i>	<i>48.9%</i>	<i>56.0%</i>	<i>39.7%</i>	<i>46.3%</i>	<i>18.7%</i>		<i>47.9%</i>
Trading overheads	(71.6)	(6.7)	(78.3)	(12.6)	(3.7)	(16.3)	(1.5)		(96.1)
Operating contribution	(14.9)	3.9	(11.0)	(1.4)	7.8	6.4	0.5	2.6	(1.5)
Common overhead costs			(4.3)			(3.2)			(7.5)
Other income: licensing			6.8			0.7	1.6	(2.6)	6.5
Divisional operating result			(8.5)			3.9	2.1	-	(2.5)
Group management overheads									(5.3)
Operating loss before financing costs and store disposals									(7.8)

UK/Europe retail

- * 52% of Group revenue
- * Revenue
 - like-for-like sales down 7%
 - little change in average space traded
- * Gross margin
 - core margins -25 bp
 - mix of discounted sales -115 bp
 - mostly first half
- * Overheads
 - investment in e-commerce businesses
 - cost of additional stores
 - underlying costs down £1.8 million

	FY13	FY12	
	£m	£m	var
Revenue	103.4	111.0	-7%
Gross profit	56.7	62.4	-9%
Gross margin	54.8%	56.2%	-1.4%
Overheads	(71.6)	(70.6)	+1%
Contribution	(14.9)	(8.2)	
At period end:			
Stores/concessions	141	128	+10%
Space (000 ft²)	266	259	+3%

Retail changes

- 3 additional clearance outlets
- 2 new Toast stores
- 8 additional concessions

Retail initiatives

- * Creation of more customer focused product
- * Enhanced merchandise management
- * Optimisation of store operations
- * Active portfolio management
- * Strengthen management team

Creation of more customer focused product

- * Revised design framework
 - targeting the aspirations of the French Connection customer
 - five new members of design team, including new head designer
- * Pricing architecture
 - new ranges are more balanced to the appropriate price bands
 - product is designed from the outset to meet target structure
- * Expansion of accessories offer
 - new design team is now in place
 - upgraded ranges will be in-store for winter 2013
- * Initial responses
 - retail and wholesale buyers are both positive about changes
 - buyers are confident we are going forward with the right product

Enhanced merchandise management

- * Reduced inventory, increased flexibility
 - 30% less summer product with no impact on sales volumes
 - lower advance orders and reduced option count
 - more in-season product additions
- * Improved reaction speed
 - increased resources are available to react when necessary
- * Improving gross margin
 - on-going intention to reduce sale periods
 - lower stock levels will enable lower mark-downs

Optimisation of store operations



Revised sales training and incentive programmes

- training builds on existing good service levels
- encompasses a shift in focus towards skills designed to improve customer conversion
- revised staff incentives reward improvements in Units per Transaction and Average Transaction Value



New labour rostering processes

- new staff allocation mapping ensures appropriate staff coverage at all times of the day
- moving towards more flexible staffing structures



Re-engineered in-store processes

- revised back-office administration functions resulting in on-going cost savings

Active portfolio management

* Targeted disposals

- three UK stores already closed in the new year saving £0.8 million per annum
- six concessions in Spain now closed
- two further stores to close during the year
- four other stores with lease terminations will either close or continue with a renegotiated rent

* Further actions

- negotiating further store disposals

Strengthen management team



New senior management appointments

- head of design along with five new designers
- head of retail
- new retail area managers
- new head of multi-channel marketing with experience in both marketing and e-commerce management
- new head of production, previously with French Connection and with experience with other international sourcing operations

UK/Europe retail outlook

- * Over time the combination of initiatives will transform financial performance
 - increased sales volume and revenue
 - higher gross margins
 - reduced cost base
 - fewer loss-making stores
- * Growing impact of changes during the year
 - merchandise management changes resulted in tighter buying for spring 2013
 - effect of store operations review will build through the year
 - reduced discounting for summer sale will affect top-line growth, but support margin
 - autumn ranges are the first to benefit from revised design framework
- * Overall contribution
 - some improvements expected in first half of new year
 - rate of improvement accelerating in second half
- * Short term goals
 - substantially reduce losses as quickly as possible
 - enhance brand positioning in the market

UK/Europe wholesale

- * 17% of Group revenue
- * Revenue
 - low levels of in-season full-price orders
- * Gross margin
 - higher proportion of discounted sales at lower prices
 - consistent core margins
- * Contribution
 - 11% net margin at contribution level
- * Revisions to product ranges
 - have fed into wholesale for autumn 2013
 - looking to 2014 for significant return to growth
- * Forward orders
 - spring forward orders lower than last year
 - autumn forward orders level on last year

	FY13 £m	FY12 £m	var
Revenue	34.2	42.1	-19%
Gross profit	10.6	13.8	-23%
Gross margin	31.0%	32.8%	-1.8%
Overheads	(6.7)	(7.2)	-7%
Contribution	3.9	6.6	

UK/Europe contribution

- * Common overheads
 - reduced advertising spend
- * Licence income
 - continuing to make a significant contribution
 - decrease in Christmas-period sales in UK
 - new licensees for FY2014 including kids' wear, furniture and shoes

	FY13 £m	FY12 £m
Retail contribution	(14.9)	(8.2)
Wholesale contribution	3.9	6.6
Total trading contribution	(11.0)	(1.6)
Common overheads	(4.3)	(4.7)
External licence income	5.3	5.8
Internal licence income*	1.5	1.6
Divisional operating result	(8.5)	1.1

* Internal licence income is eliminated in Group consolidated results.

North America retail

- * 10% of Group revenue
- * Retail revenue
 - like-for-like sales down 4.1%
 - three store closures
- * Gross margin lower
 - discounting in reaction to sales performance
- * Overheads
 - savings from store closures
- * Outlook
 - changes in product ranges will enhance sales
 - three store closures created saving of £0.5 million per annum

	FY13	FY12	
	£m	£m	var
Revenue	20.0	22.2	-10%
Gross profit	11.2	13.2	-15%
Gross margin	56.0%	59.5%	-3.5%
Overheads	(12.6)	(13.7)	-8%
Contribution	(1.4)	(0.5)	
At period end:			
Stores	17	20	-15%
Space (000 ft²)	58	71	-18%

Retail changes

- 3 stores closed

North America wholesale

- * 15% of Group revenue
- * Wholesale revenue
 - 19% year-on-year growth
 - increased sales to department and speciality stores
- * Contribution
 - 27% net margin at contribution level
- * Outlook
 - spring forward orders softer

	FY13 £m	FY12 £m	var
Revenue	29.0	24.3	+19%
Gross profit	11.5	9.3	+24%
Gross margin	39.7%	38.3%	+1.4%
Overheads	(3.7)	(3.6)	+3%
Contribution	7.8	5.7	+37%

North America contribution

- * Licence income
 - loss of contribution from “UK Style” licence
 - new US licences for coats, bags and hosiery for FY2014
- * Divisional contribution
 - profit of £3.9 million

	FY13 £m	FY12 £m
Retail contribution	(1.4)	(0.5)
Wholesale contribution	7.8	5.7
Trading contribution	6.4	5.2
Common overheads	(3.2)	(3.1)
External licence income	0.7	2.0
Divisional operating result	3.9	4.1

Rest of World

- * 5% of Group revenue
- * Revenue decrease
 - mostly due to lower deliveries to Australian licensee
- * Gross margin
 - underlying margins consistent
 - change in mix of customers results in higher margin
- * Other income
 - internal buying office commission from UK, US and Canada
 - external income - commissions and licence royalties
- * Contribution
 - solid operating result

	FY13 £m	FY12 £m	var
Revenue	10.7	15.8	-32%
Gross profit	2.0	2.1	-5%
Gross margin	18.7%	13.3%	+5.4%
Overheads	(1.5)	(1.5)	+0%
Contribution	0.5	0.6	-17%
External other income	0.5	0.7	
Internal income*	1.1	1.2	
Divisional result	2.1	2.5	

* Internal licence income is eliminated in Group consolidated results.

Group result

- * Group management overheads
 - underlying costs reduced
 - includes one-off cost of retail review
- * Store disposals and closures
 - provision for UK closures early in new year
 - cost of three North America stores closed in year
 - comprising reverse premiums and other closure costs
- * Goodwill impairment
 - non-cash impairment of goodwill associated with the acquisition of franchise stores in previous years
- * Finance income
 - continuing low rates of interest on cash balance
 - £0.8 million one-off exchange gain last year
- * Share of Joint Ventures
 - Hong Kong softer as market slows
 - change in make-up of store portfolio
 - China performing consistently, profits level with last year

	FY13 £m	FY12 £m
Total regional contributions	(2.5)	7.7
Store disposals and closures	(1.3)	0.4
Group management overheads	(5.3)	(4.8)
Impairment of goodwill	(2.0)	-
Net finance income	0.2	0.9
Joint ventures	0.4	0.8
Result before impairment, disposals	(7.2)	4.6
Loss/profit before tax	(10.5)	5.0
Tax	-	(0.5)
Discontinued operations	-	0.8
Loss/profit after tax	(10.5)	5.3
Adjusted earnings per share	(7.3)p	4.3p
Earnings per share	(10.7)p	5.5p

Cash flow

- * Operations utilised £4.7 million
- * Decrease in working capital
 - lower levels of closing inventory
- * Investing, financing and taxation activities utilised £1.5 million
- * Dividends paid £1.0 million
- * Closing cash
 - £28.5 million with no debt
 - £10 million minimum in year

	FY13 £m	FY12 £m
Continuing Operations:		
Operating result before finance income & impairments	(9.1)	3.3
Depreciation/disposals	4.4	2.4
Operating result before changes in working capital	(4.7)	5.7
Changes in working capital	1.0	(4.3)
Income tax (paid)/refunded	(0.5)	(0.7)
Interest income	0.1	0.3
Acquisition/disposal of property	(1.9)	(0.9)
Dividends from joint ventures	0.9	0.8
Dividends paid	(1.0)	(1.7)
	(6.1)	(0.8)
Closed and Discontinued Operations:		
Proceeds from disposal of Nicole Farhi	0.4	1.3
Working capital movements	-	(0.3)
	0.4	1.0
Movement in cash	(5.7)	0.2
Opening net cash	34.2	34.1
Non-cash movements	-	(0.1)
Closing net cash	28.5	34.2

Cash flow outlook

* Projected cash flow

- improving trend in trading will utilise less cash
- further release from working capital, particularly inventory through reduced buying
- some expenditure on store closures

* Cash balances

- above £5 million throughout year
- working capital bank facility available
- sufficient funding available throughout turnaround period

Other business developments



Toast

- 14% of UK retail revenue
- additional management resources invested to accelerate growth and develop business
- new season started well



Other brands

- Great Plains a solid performer
- YMC growing well from a small base

Outlook

* FY2014 outlook

- retail recovery accelerating through the year
- working with wholesale customers to increase forward orders
- reduce discounted sales, build brand reputation
- continue to build international distribution network
- licensees remain strong, new products coming on-stream

* Longer term goals

- at least break-even by January 2015
- build on brand strength to drive increased volumes
- protect cash position
- accelerate growth in other brands
- seek out further licensing opportunities

Key strengths

- * Global recognition of French Connection brand
- * Significant international footprint
- * Forty years of producing fashionable ranges
- * Portfolio of developing brands
- * Strong balance sheet
- * Solid foundations for recovery

Appendices

Operating segments FY13

Statutory reporting

Year to January
2013

	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	103.4	34.2	137.6	20.0	29.0	49.0	10.7		197.3
Gross profit	56.7	10.6	67.3	11.2	11.5	22.7	2.0	2.6	94.6
<i>Gross margin</i>	<i>54.8%</i>	<i>31.0%</i>	<i>48.9%</i>	<i>56.0%</i>	<i>39.7%</i>	<i>46.3%</i>	<i>18.7%</i>		<i>47.9%</i>
Trading overheads	(71.6)	(6.7)	(78.3)	(12.6)	(3.7)	(16.3)	(1.5)		(96.1)
Store disposals	(1.1)		(1.1)	(0.2)		(0.2)			(1.3)
Operating contribution	(16.0)	3.9	(12.1)	(1.6)	7.8	6.2	0.5	2.6	(2.8)
Common overhead costs			(4.3)			(3.2)			(7.5)
Other income: licensing			6.8			0.7	1.6	(2.6)	6.5
Divisional operating result			(9.6)			3.7	2.1	-	(3.8)
Group management overheads									(5.3)
Operating loss before financing costs									(9.1)

Operating segments FY12

Continuing operations

Year to January
2012

Continuing
Operations

	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	111.0	42.1	153.1	22.2	24.3	46.5	15.8		215.4
Gross profit	62.4	13.8	76.2	13.2	9.3	22.5	2.1	2.8	103.6
<i>Gross margin</i>	56.2%	32.8%	49.8%	59.5%	38.3%	48.4%	13.3%		48.1%
Trading overheads	(70.6)	(7.2)	(77.8)	(13.7)	(3.6)	(17.3)	(1.5)		(96.6)
Store disposals	0.7		0.7	(0.3)		(0.3)			0.4
Operating contribution	(7.5)	6.6	(0.9)	(0.8)	5.7	4.9	0.6	2.8	7.4
Common overhead costs			(4.7)			(3.1)			(7.8)
Other income: licensing			7.4			2.0	1.9	(2.8)	8.5
Divisional operating result			1.8			3.8	2.5	-	8.1
Group management overheads									(4.8)
Operating profit before financing costs									3.3

Balance Sheet

	Jan 13 £m	Jan 12 £m
Intangible assets	0.4	2.4
Tangible assets	5.7	7.1
Investments	3.0	3.5
Deferred tax assets	4.4	4.4
Total non-current assets	13.5	17.4
Inventories	41.5	46.9
Debtors	23.7	26.5
Cash at bank	28.5	34.2
Derivative financial instruments	0.1	0.1
Total current assets	93.8	107.7
Total assets	107.3	125.1
Non-current liabilities	(0.9)	(0.9)
Creditors	(41.2)	(48.5)
Provisions	(1.7)	(0.6)
Total liabilities	(43.8)	(50.0)
Net assets	63.5	75.1

STORE PORTFOLIO

OPERATED LOCATIONS

UK/Europe

French Connection	Stores
French Connection/Great Plains	Concessions
Toast	Stores
YMC	Stores

Total operated locations, UK/Europe

North America

French Connection US	Stores
French Connection Canada	Stores

Total operated locations, North America

TOTAL OPERATED LOCATIONS

FRENCH CONNECTION LICENSED & FRANCHISED

UK/Europe	10	14,821	11	15,791
North America	1	2,000	1	2,000
Middle East	13	23,842	12	21,797
Australia	92	96,329	85	91,919
Hong Kong	6	7,031	7	9,521
China	21	31,556	18	25,383
India	89	56,129	32	27,645
Other	51	45,240	41	41,416

TOTAL LICENSED AND FRANCHISED LOCATIONS

TOTAL BRANDED LOCATIONS, WORLDWIDE

		January 2013		January 2012	
		Locations	sq ft	Locations	sq ft
		74	218,115	71	214,468
		54	36,134	46	32,550
		11	11,407	9	10,578
		2	1,355	2	1,355
Total operated locations, UK/Europe		141	267,011	128	258,951
		8	33,900	8	37,227
		9	24,325	12	33,935
Total operated locations, North America		17	58,225	20	71,162
TOTAL OPERATED LOCATIONS		158	325,236	148	330,113
		10	14,821	11	15,791
		1	2,000	1	2,000
		13	23,842	12	21,797
		92	96,329	85	91,919
		6	7,031	7	9,521
		21	31,556	18	25,383
		89	56,129	32	27,645
		51	45,240	41	41,416
TOTAL LICENSED AND FRANCHISED LOCATIONS		283	276,948	207	235,472
TOTAL BRANDED LOCATIONS, WORLDWIDE		441	602,184	355	565,585

French Connection RENDEZVOUS

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