

## **Highlights**

- Good growth in wholesale divisions
- Further development in international operations
- \* Significant increase in licence income
- Disappointing UK retail performance
- Detailed review of operations underway, focusing on retail
- \* Balance sheet remains very strong

# **Results Summary**

Core	continuing business*:	Year to 31 Jan 2012	Year to 31 Jan 2011	
*	Revenue	£215.4 million	£205.0 million	+5%
*	Gross margin	48.1%	52.0%	-3.9%
*	Licence income	£8.5 million	£5.8 million	+47%
*	Profit before tax	£5.0 million	£7.3 million	-£2.3m
Total	l Group performance:			
*	Profit/(loss) for the period	£5.3 million	£(2.4) million	
*	Earnings per share	5.5 pence	(2.4) pence	7
*	Closing net cash	£34.2 million	£34.1 million	
*	Total dividend	1.6 pence	1.5 pence	+7%
				1

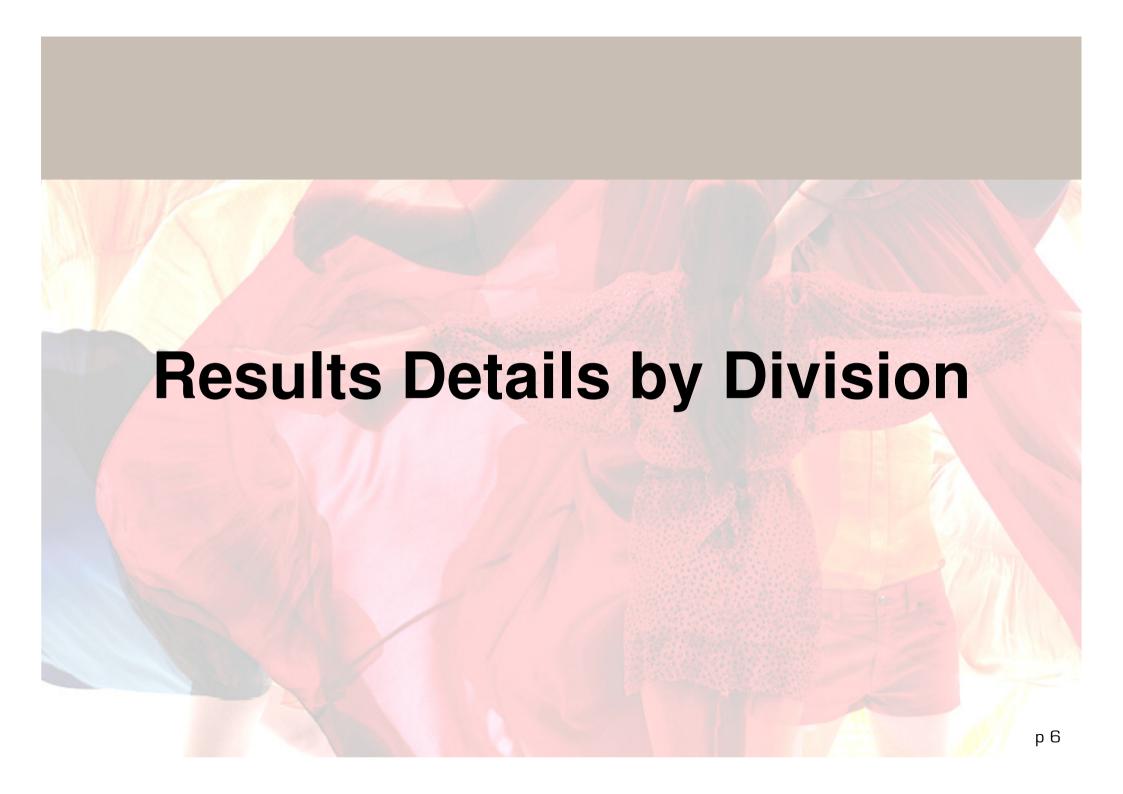
<sup>\*</sup> Core continuing businesses excludes the Nicole Farhi business, sold in July 2010 and the results of US stores closed at the end of January 2011

### **Overview of Results**

- Group revenue grew 5% in spite of difficult economic conditions
  - 16% growth in global wholesale revenues
  - flat retail like-for-like revenues in both UK/Europe and North America
- Group gross margin lower
  - higher volumes of discounted sales
  - input price pressures
  - change in mix towards wholesale and franchise
- Continued close cost control
  - investment in e-commerce infrastructure and operations
  - increased advertising to further support the brand
  - cost increases in salaries and rents
  - offset by
  - further reductions in other areas
  - net income from disposal of two leases

### **Overview of Results**

- Licence income strongly ahead
  - first contribution from "UK Style" licence
  - continuing good performance of other product and territory licensees
- Profit before tax of £5.0 million
  - North America region returned to profit
  - Group performance held back by UK/Europe retail
- Closing cash £34.2 million
  - minimum during year £13 million
- \* Dividend
  - 1.0 pence final dividend proposed
  - total of 1.6 pence per share for the year



## **UK/Europe Retail**

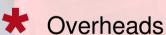
#### \* Revenue

- like-for-like sales flat on last year
- good growth in first half offset by poor second half
- one store closed at end of year

#### **Gross margin**

_	input cost increases	70 bp
_	more discounted sales	260 bp

inventory provisions100 bp



- carefully controlled
- increased infrastructure for e-commerce development
- rate of rent increases slowing, but still increasing



extremely disappointing

	FY12 £m	FY11 £m	var
Revenue	111.0	110.8	+0%
Gross profit	61.7	66.4	-7%
Gross margin	55.6%	59.9%	-4.3%
Overheads	(69.9)	(68.0)	+3%
Contribution	(8.2)	(1.6)	
At period end:			
Stores/concessions	128	128	+0%
Space (000 ft <sup>2</sup> )	259	260	-0%

Retail changes in past 12 months

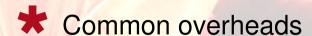
- 1 French Connection store closed at end of year
- 1 French Connection franchise taken on

## **UK/Europe Wholesale**

- Revenue growth 17%
  - on top of 11% last year
  - Winter 2012 forward orders level with last year
- **Gross margin** 
  - core margins 200 bp
  - lower clearance prices280 bp
- **Contribution** 
  - 14% net margin at contribution level

	FY12 £m	FY11 £m	var
Revenue	42.1	36.1	+17%
Gross profit	13.4	13.2	+2%
Gross margin	31.8%	36.6%	-4.8%
Overheads	(7.3)	(7.4)	-1%
Contribution	6.1	5.8	5%

## **UK/Europe Contribution**



- includes additional expenditure on advertising
- offset by savings elsewhere
- \* Licence income
  - toiletries, eyewear, watches, performing well
  - licensed stores in Australia,
    Asia, Middle East
- **Divisional result** 
  - small profit

	FY12 £m	FY11 £m
Retail contribution	(8.2)	(1.6)
Wholesale contribution	6.1	5.8
Total trading contribution	(2.1)	4.2
Common overheads	(4.6)	(4.2)
External licence income	5.8	5.8
Internal licence income*	1.0	1.1
Divisional operating result	0.1	6.9

<sup>\*</sup> Internal licence income is eliminated in Group consolidated results.

### **North America Retail**

#### \* Retail revenue

- small decrease in total revenue
- like-for-like sales flat
- US slightly ahead, Canada softer
- small negative impact from exchange rates

#### Gross margin lower

- increased input costs
- more promotional mark-down in Canada

#### \* Overheads

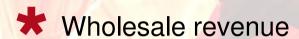
- decrease due to exchange rates
- underlying small cost increase due to disposal cost of one store in Canada

#### \* Contribution

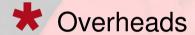
 slightly softer due to weakness in Canada

	FY12 £m	FY11 £m	var
Revenue	22.2	23.2	-4%
Gross profit	12.7	13.6	-7%
Gross margin	57.2%	58.6%	-1.4%
Overheads	(14.0)	(14.2)	-1%
Contribution	(1.3)	(0.6)	
At period end:			
Stores	20	21	-5%
Space (000 ft <sup>2</sup> )	71	77	-8%

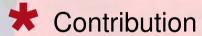
### **North America Wholesale**



- 25% year-on-year growth
- increased sales to department and speciality stores
- some increase in off-price deals



no underlying change



23% net margin at contribution level

	FY12 £m	FY11 £m	var
Revenue	24.3	19.5	+25%
Gross profit	9.3	7.5	+24%
Gross margin	38.3%	38.5%	-0.2%
Overheads	(3.6)	(3.4)	+6%
Contribution	5.7	4.1	+39%

### **North America Contribution**

- \* Common overheads
  - operational savings
- \* Licence income
  - first contribution from "UK Style" licence
  - plus income from world-wide fragrance licence based in US
- **Divisional contribution** 
  - profit of £3.3 million

	FY12 £m	FY11 £m
Retail contribution	(1.3)	(0.6)
Wholesale contribution	5.7	4.1
Trading contribution	4.4	3.5
Common overheads	(3.1)	(3.5)
External licence income	2.0	1
Divisional operating result	3.3	0.0

### **Rest of World**

#### Revenue increase

- increasing volumes to existing and new regional licensees
- 6% increase in local currency

#### Underlying margins consistent

 blended margin reflects differing arrangements with licensees and mix of sales

#### \* Other income

- internal buying office commission from UK, US and Canada
- external income commissions and licence royalties

#### \* Contribution

34% increase in contribution

	FY12 £m	FY11 £m	var
Revenue	15.8	15.4	+3%
Gross profit	3.0	2.8	+7%
Gross margin	19.0%	18.2%	+0.8%
Overheads	(1.5)	(1.3)	+15%
Contribution	1.5	1.5	+0%
External other income	0.7	<b>A</b> -	
Internal income*	2.5	2.0	+25%
Divisional result	4.7	3.5	+34%

## **Summary of Group Licence Income**

- £2.7 million increase in net income
- Strong underlying performance of existing licensees
- First contribution from "UK Style" licence
- Growing contribution from licensees in India, South Africa and others

Other Income	£m	£m
Brand licences	6.3	4.5
Country licences	2.0	1.3
Buying office commissions	0.5	0.2
Overheads	(0.3)	(0.2)
Total external income	8.5	5.8

## **Group Result**

- \* Group management overheads
  - maintained at same cost as last year
- **Finance income** 
  - continuing low rates of interest on cash balance
  - £0.8 million one-off exchange gain
- Share of Joint Ventures
  - good performance in Hong Kong and China
  - last year included £0.5 million one-off benefit
  - changes in Hong Kong portfolio reduced underlying result
- \* Taxation
  - charge on Hong Kong profits
  - minimum taxes in US
- Dividend
  - 0.6 pence paid at Interim
  - further 1.0 pence proposed final

Core Continuing Operations	FY12 £m	FY11 £m
Total regional contributions	8.1	10.4
Group management overheads	(4.8)	(4.8)
Operating result before interest	3.3	5.6
Net finance income	0.9	0.2
Joint ventures	0.8	1.5
Profit before tax	5.0	7.3
Tax	(0.5)	(0.2)
Profit after tax	4.5	7.1
	Te	
Adjusted earnings per share	4.7p	7.5p
Dividend per share	1.6p	1.5p

## **Discontinued and Closed Operations**

### Discontinued operations

- two remaining Nicole Farhi stores disposed of early in the year
- trading losses and loss on disposal
- disposals now complete

#### Income from Nicole Farhi disposal

- further £1.0 million of income generated in the year
- 5% equity interest
- no further deferred consideration following OpenGate disposal to Kelso Place

#### \* Prior year

- operating losses and closure costs of US stores
- provision release
- operating losses and loss on sale of Nicole Farhi business
- currency translation losses

	FY12 £m	FY11 £m
Closed operations:		
Losses in year of closed stores		(1.9)
US closure costs		3.5
		1.6
Discontinued Operations:		
Results in year of discontinued operations	(0.1)	(2.8)
Loss on disposals	(0.1)	(5.7)
Further consideration re disposal	1.0	<b>A-</b> \
Currency translation differences		(2.6)
Total discontinued and closed	0.8	(9.5)

### **Cash flow**

- Core continuing operations cash generative
- Increase in working capital
  - higher levels of closing inventory
- Investing, financing and taxation activities utilised £0.5 million
- Dividends paid £1.7 million
- Nicole Farhi disposal
  - generated £1.2 million cash in year
- Closing cash
  - £34.2 million with no debt
  - £13 million minimum in year

	FY12 £m	FY11 £m
Core Continuing Operations:		
Operating profit before finance income	3.3	5.6
Depreciation/disposals	2.4	2.4
Operating profit before changes in working capital	5.7	8.0
Changes in working capital	(4.3)	(1.8)
Income tax (paid)/refunded	(0.7)	0.3
Interest income	0.3	0.2
Acquisition and sale of property	(0.9)	(0.7)
Dividends from joint ventures	0.8	0.7
Dividends paid	(1.7)	(1.0)
	(8.0)	5.7
Closed and Discontinued Operations:	11	10
Proceeds from disposal of discontinued operations	1.3	
Working capital movements	(0.3)	(3.4)
Cost of closure and disposals	21	(4.2)
	1.0	(7. <mark>6</mark> )
Movement in cash	0.2	(1.9)
Opening net cash	34.1	35.7
Non-cash movements	(0.1)	0.3
Closing net cash	34.2	<mark>34.1</mark>

### **Retail Review**

- W UK retail portfolio underperforming
  - low sales densities
  - gross margin eroded by input costs, change in consumer shopping habits towards discount periods
  - property lease rentals continuing to rise, albeit at slower rate
- Implementing a detailed and broad-ranging review
  - focusing on UK/Europe retail
  - to include review of brand positioning, pricing, product ranges, etc.
  - identify new strategies to improve performance

### **Retail Review**



### \* Existing developments continue

- focus remains on creating exciting, fashion forward clothing ranges
- new premium range exclusive to own stores
- range of home wares for larger stores and e-commerce
- revised shop fit concept in development
- develop e-commerce operations in UK and internationally



### \* Portfolio management

- one loss-making store sold for £0.7 million in year
- one store moved to short term on a low rental
- six UK lease expiries in 2012; closures expected, rent negotiations on others
- in Canada, one store closed, two more to close in new year

### **Retail Review**



### No quick solutions

- review will take time to complete properly
- likely to be an on-going process
- implementation of changes will be undertaken carefully to protect the broader business
- recovery in financial performance likely to be incremental over time

## **Other Business Developments**



#### Wholesale

- maintain sales growth momentum by expanding customer base and driving good sell-through in both UK/Europe and US
- a further US department store group customer added for Winter 2012
- further e-commerce and export opportunities



#### International

 additional stores planned particularly in Hong Kong, China, India



#### Licensing

- existing product licensees continuing to grow
- territory licensees performing well
- further licence opportunities being pursued

## **Other Business Developments**



#### Toast

- continues to generate growth in both retail and mail order
- now available through selected John Lewis stores
- additional management resources to accelerate growth and develop business
- currently c13% of UK retail revenue



#### Other brands

- Great Plains a solid performer with continuing good wholesale orders
- YMC growing well from a very small base on good sell-through

### **Outlook**



#### 2012 Outlook

- retail environment expected to remain subdued and current trading reflects this
- UK/Europe wholesale forward orders for Winter 2012 currently flat on last year
- raw materials and manufacturing cost pressures easing
- additional department store channel for North America wholesale
- continued strong performances from licensees
- new stores in China, India, Hong Kong

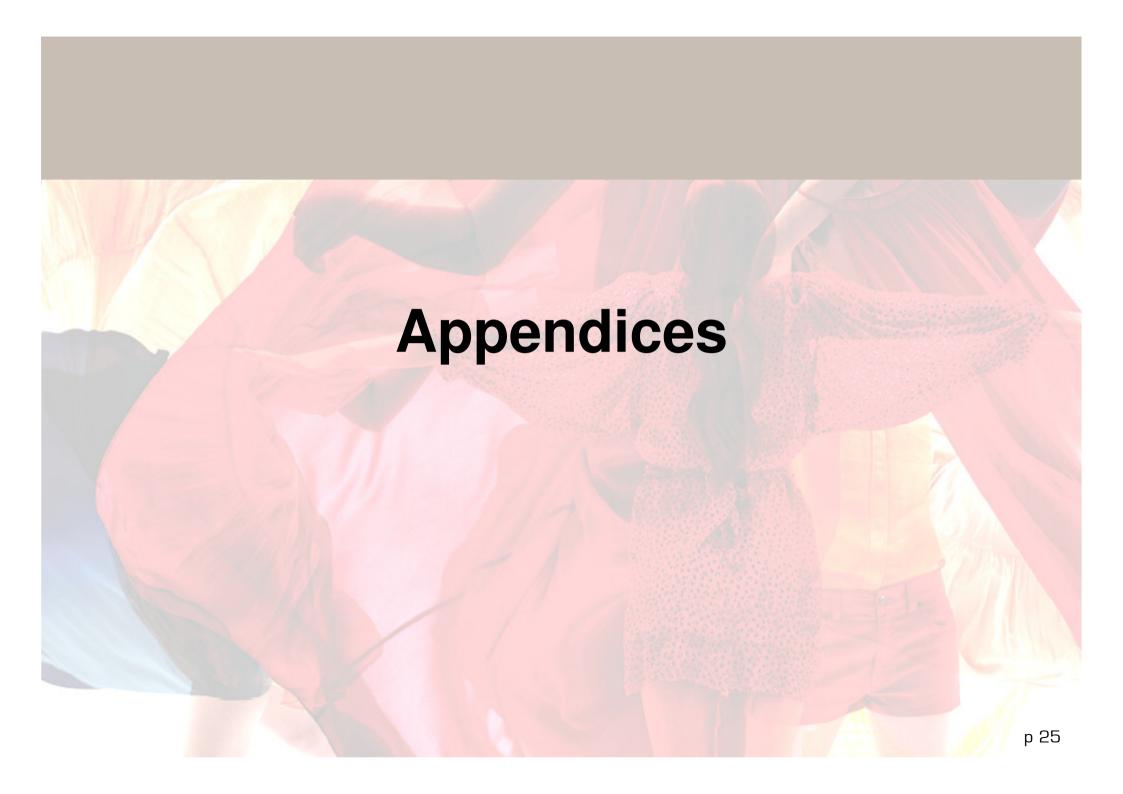
### \*

#### Longer term goals

- improve retail trading performance
- increase wholesale revenue
- closely manage gross margin
- accelerate growth in other brands
- seek out further licensing opportunities

## **Key Strengths**

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



# **Operating Segments FY12**

#### **Core Continuing Operations**

# Year to January 2012

Continuing

**Operations** 

Revenue

Gross profit

Gross margin

Trading overheads

Operating contribution

Common overhead costs

Other income: licensing

Divisional operating result

Group management overheads

Operating profit before financing costs

Net financing income

Share of profits of Joint Ventures

**Profit before taxation** 

UK/Europe			No	rth Ame	rica	Rest of World	Intra Group	Total
	Whole-			Whole-		Whole-		
Retail	sale	Total	Retail	sale	Total	sale		
£m	£m	£m	£m	£m	£m	£m	£m	£m
111.0	42.1	153.1	22.2	24.3	46.5	15.8	and the second	215.4
61.7	13.4	75.1	12.7	9.3	22.0	3.0	3.5	103.6
55.6%	31.8%	49.1%	57.2%	38.3%	47.3%	19.0%		48.1%
(69.9)	(7.3)	(77.2)	(14.0)	(3.6)	(17.6)	(1.5)		(96.3)
(8.2)	6.1	(2.1)	(1.3)	5.7	4.4	1.5	3.5	7.3
7///		(4.6)		4350	(3.1)		/	(7.7)
		6.8	2		2.0	3.2	(3.5)	8.5
		0.1			3.3	4.7		8.1
ads						1	1	(4.8)
an <mark>cing</mark> costs							(e)	3.3

0.9

0.8

5.0

## **Operating Segments FY11**

### **Core Continuing Operations**

Year	to	<b>January</b>
2011		

Continuing

**Operations** 

Revenue

Gross profit

Gross margin

Trading overheads

Operating contribution

Common overhead costs

Other income: licensing

Divisional operating result

Group management overheads

Operating profit before financing costs

Net financing income

Share of profits of Joint Ventures

**Profit before taxation** 

	UK/Europe			No	rth Ame			Intra Group	Total
		Whole-			Whole-		Whole-		
	Retail	sale	Total	Retail	sale	Total	sale		
2	£m	£m	£m	£m	£m	£m	£m	£m	£m
	110.8	36.1	146.9	23.2	19.5	42.7	15.4		205.0
	66.4	13.2	79.6	13.6	7.5	21.1	2.8	3.1	106.6
	59.9%	36.6%	54.2%	58.6%	38.5%	49.4%	18.2%		52.0%
	(68.0)	(7.4)	(75.4)	(14.2)	(3.4)	(17.6)	(1.3)		(94.3)
	(1.6)	5.8	4.2	(0.6)	4.1	3.5	1.5	3.1	12.3
	7/1/		(4.2)			(3.5)		1	(7.7)
			6.9	7			2.0	(3.1)	5.8
			6.9				3.5	= -	10.4
ea	ads		1 1				N. Carlot		(4.8)
ancing costs							5.6		
							0.2		

1.5

7.3

Balance Sheet	Jan 12 £m	Jan 11 £m
Intangible assets	2.4	2.4
Tangible assets	7.1	8.5
Investments	3.5	3.4
Deferred tax assets	4.4	4.1
Total non-current assets	17.4	18.4
Inventories	46.9	40.3
Debtors	26.5	25.6
Cash at bank	34.2	34.1
Derivative financial instruments	0.1	
Total current assets	107.7	100.0
Total assets	125.1	118.4
Non-current liabilities	(0.9)	(0.9)
Creditors	(48.5)	(44.2)
Provisions	(0.6)	(1.5)
Total liabilities	(50.0)	(46.6)
Net assets	75.1	71.8

3251	14				
CORE CONTINUING OPER	Janua	ry 2012	Januar	January 2011	
OPERATED LOCATIONS	Locations	sq ft	Locations	sq ft	
UK/Europe French Connection	Stores	71	014.460	70	001.050
French Connection/Great Plains	Concessions	46	214,468 32,550	72 45	221,858 25,837
Toast	Stores	9	10,578	9	10,578
YMC	Stores	2	1,355	2	1,355
TIVO	Sidies	2	1,555	2	1,555
		128	258,951	128	259,628
Total operated locations, UK/Euro	pe		and the same of th	NOT STATE OF	
		and the same of th	6		Service of the servic
North America	- Constitution of the				
French Connection US	Stores	8	37,227	8	40,862
French Connection Canada	Stores	12	33,935	13	36,535
		20	71,162	21	77,397
Total operated locations, North An					
TOTAL OPERATED LOCATIONS		148	330,113	149	337,025
FRENCH CONNECTION LICENSE	D & FRANCHISED				1
UK/Europe		12	18,094	13	18,460
North America		1	2,000	1	2,000
Middle East		12	21,797	13	25,331
Australia		85	91,919	80	84,800
Hong Kong		7	9,521	9	13,612
China		18	25,383	20	28,562
India		32	27,645	25	21,835
Other		40	39,113	41	42,035
TOTAL LICENSED AND FRANCHIS	SED LOCATIONS	207	235,472	202	236,635
TOTAL BRANDED LOCATIONS, W	ORLDWIDE	355	565,586	351	573,660

