



I am the Collection

French Connection

Annual Results 31 January 2012

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

	Year to 31 Jan 2012	Year to 31 Jan 2011	
Core continuing business*:			
* 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 Group performance:			
* Profit/(loss) for the period	£5.3 million	£(2.4) million	
* Earnings per share	5.5 pence	(2.4) pence	
* Closing net cash	£34.2 million	£34.1 million	
* Total dividend	1.6 pence	1.5 pence	+7%

* 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 rentsoffset 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



Results Details by Division

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 provisions 100 bp

* Overheads

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

* Contribution

- 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 ft²)	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 prices 280 bp
- * Contribution
 - 14% net margin at contribution level

	FY12	FY11	
	£m	£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

- * Common overheads
 - 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

* 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	FY11	
	£m	£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 ft²)	71	77	-8%

North America Wholesale

- * Wholesale revenue
 - 25% year-on-year growth
 - increased sales to department and speciality stores
 - some increase in off-price deals
- * Overheads
 - no underlying change
- * Contribution
 - 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	-
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	-	
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
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	-
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)
	(0.8)	5.7
Closed and Discontinued Operations:		
Proceeds from disposal of discontinued operations	1.3	-
Working capital movements	(0.3)	(3.4)
Cost of closure and disposals	-	(4.2)
	1.0	(7.6)
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	34.1

Retail Review

- * 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

A group of people, likely a dance troupe, are shown in various colorful outfits (red, yellow, blue, and patterned) in a dynamic pose. The word "Appendices" is overlaid in the center in a large, bold, black font. The background is a soft, warm-toned image of the group.

Appendices

Operating Segments FY12

Core 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	61.7	13.4	75.1	12.7	9.3	22.0	3.0	3.5	103.6
<i>Gross margin</i>	55.6%	31.8%	49.1%	57.2%	38.3%	47.3%	19.0%		48.1%
Trading overheads	(69.9)	(7.3)	(77.2)	(14.0)	(3.6)	(17.6)	(1.5)		(96.3)
Operating contribution	(8.2)	6.1	(2.1)	(1.3)	5.7	4.4	1.5	3.5	7.3
Common overhead costs			(4.6)			(3.1)			(7.7)
Other income: licensing			6.8			2.0	3.2	(3.5)	8.5
Divisional operating result			0.1			3.3	4.7	-	8.1
Group management overheads									(4.8)
Operating profit before financing costs									3.3
Net financing income									0.9
Share of profits of Joint Ventures									0.8
Profit before taxation									5.0

Operating Segments FY11

Core Continuing Operations

Year to January
2011

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	110.8	36.1	146.9	23.2	19.5	42.7	15.4		205.0
Gross profit	66.4	13.2	79.6	13.6	7.5	21.1	2.8	3.1	106.6
<i>Gross margin</i>	<i>59.9%</i>	<i>36.6%</i>	<i>54.2%</i>	<i>58.6%</i>	<i>38.5%</i>	<i>49.4%</i>	<i>18.2%</i>		<i>52.0%</i>
Trading overheads	(68.0)	(7.4)	(75.4)	(14.2)	(3.4)	(17.6)	(1.3)		(94.3)
Operating contribution	(1.6)	5.8	4.2	(0.6)	4.1	3.5	1.5	3.1	12.3
Common overhead costs			(4.2)			(3.5)			(7.7)
Other income: licensing			6.9				2.0	(3.1)	5.8
Divisional operating result			6.9			-	3.5	-	10.4
Group management overheads									(4.8)
Operating profit before financing costs									5.6
Net financing income									0.2
Share of profits of Joint Ventures									1.5
Profit before taxation									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

CORE CONTINUING OPERATIONS

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	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 FRANCHISED LOCATIONS

TOTAL BRANDED LOCATIONS, WORLDWIDE

		January 2012		January 2011	
		Locations	sq ft	Locations	sq ft
		71	214,468	72	221,858
		46	32,550	45	25,837
		9	10,578	9	10,578
		2	1,355	2	1,355
		128	258,951	128	259,628
		8	37,227	8	40,862
		12	33,935	13	36,535
		20	71,162	21	77,397
		148	330,113	149	337,025
		12	18,094	13	18,460
		1	2,000	1	2,000
		12	21,797	13	25,331
		85	91,919	80	84,800
		7	9,521	9	13,612
		18	25,383	20	28,562
		32	27,645	25	21,835
		40	39,113	41	42,035
		207	235,472	202	236,635
		355	565,586	351	573,660



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