

HALF-YEAR STATEMENT 31 JULY 2013

French Connection Group PLC

Results summary

- * Overall improvement in performance
- * Retail initiatives communicated last year have started to have a positive impact
- * Reduced UK retail losses
- * Improved UK margin on the back of reduced discounting
- * Lower North America wholesale contribution
- * Reduced licence income due to loss of Sears arrangement
- * Group Overheads have been reduced
- * Improved working capital and cash position

Results summary

	Six months to 31 July 2013	Six months to 31 July 2012
* Revenue	£89.9 million	£96.0 million
* Gross margin	47.3%	47.7%
* Operating expenses	£51.8 million	£55.7 million
* Licence income	£2.8 million	£3.3 million
* Loss before tax	£(6.1) million	£(6.3) million
* Losses per share	(6.4) pence	(6.4) pence
* Closing net cash	£22.3 million	£21.2 million

Underlying results by division

**Six months
31 July 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	46.5	16.3	62.8	9.3	13.1	22.4	4.7		89.9
Gross profit	25.8	4.9	30.7	5.2	4.5	9.7	0.9	1.2	42.5
<i>Gross margin</i>	<i>55.5%</i>	<i>30.1%</i>	<i>48.9%</i>	<i>55.9%</i>	<i>34.4%</i>	<i>43.3%</i>	<i>19.1%</i>		<i>47.3%</i>
Trading overheads	(34.0)	(3.3)	(37.3)	(5.9)	(2.0)	(7.9)	(0.8)		(46.0)
Operating contribution	(8.2)	1.6	(6.6)	(0.7)	2.5	1.8	0.1	1.2	(3.5)
Common overhead costs			(1.8)			(1.6)			(3.4)
Other income: licensing			3.0			0.3	0.7	(1.2)	2.8
Divisional operating (loss)/profit			(5.4)			0.5	0.8	-	(4.1)
Group management overheads									(2.4)
Share of joint ventures									0.3
Finance income									0.1
Loss before tax									(6.1)

UK/Europe retail

- * 52% of group revenue
- * Reduced losses as initiatives gain traction
- * Revenue
 - overall like-for-like sales down 4.5%, of which 2% due to shorter sale period, rest due to lower volumes of sale stock
 - strong e-commerce growth
 - 4 French Connection stores closed in the period, 1 outlet opened
- * Gross margin
 - improved margin due to reduced discounting
- * Overheads
 - 6% reduction due to store closures and £0.8m of underlying savings

	1H14 £m	1H13 £m	var
Revenue	46.5	49.0	-5%
Gross profit	25.8	26.8	-4%
Gross margin	55.5%	54.7%	+0.8%
Overheads	(34.0)	(36.0)	-6%
Contribution	(8.2)	(9.2)	+11%
Stores/concessions	133	134	-1
Space (000 ft²)	258	264	-2%

Update on implementation of Retail initiatives



Store operations

- ✓ Store process re-engineering and enhanced staff scheduling
- ✓ Better training and incentive programmes in place



Customer focused product

- ✓ Winter 13 collection structured around appropriate price architecture
- ✓ Accessories offer significantly improved



Merchandise management

- ✓ Reduced product levels within the business
- ✓ Improved full price sell through

Update on implementation of Retail initiatives



Store portfolio management

- ✓ 4 French Connection stores closed in the period with 3 more in H2
- ✓ Segmented management of the store portfolio



Management team

- ✓ The new team has now been in place for almost a year

UK/Europe wholesale

- * 18% of group revenue
- * Revenue
 - lower forward orders and subdued in-season business
- * Gross margin
 - less off-price sales
- * Overheads
 - tight cost control

	1H14 £m	1H13 £m	var
Revenue	16.3	18.1	-10%
Gross profit	4.9	5.4	-9%
Gross margin	30.1%	29.8%	+0.3%
Overheads	(3.3)	(3.9)	-15%
Contribution	1.6	1.5	+7%

UK/Europe contribution

- * Common overheads
 - tight cost control
- * Licence income
 - loss of NFF buying office revenue

	1H14 £m	1H13 £m
Retail contribution	(8.2)	(9.2)
Wholesale contribution	1.6	1.5
Total trading contribution	(6.6)	(7.7)
Common overheads	(1.8)	(2.3)
External licence income	2.3	2.6
Internal licence income*	0.7	0.9
Divisional operating result	(5.4)	(6.5)

* Internal licence income is eliminated in Group consolidated results

North America retail

- * 10% of group revenue
- * Retail revenue
 - like-for-like sales up 2.4%
 - strong e-commerce performance
 - overall revenue down 7% in local currency due to reduction in store base
- * Gross margin softer
 - increased discounting in a very competitive market
- * Overheads
 - savings due to store closures

	1H14 £m	1H13 £m	var
Revenue	9.3	9.8	-5%
Gross profit	5.2	5.6	-7%
Gross margin	55.9%	57.1%	-1.2%
Overheads	(5.9)	(6.7)	-12%
Contribution	(0.7)	(1.1)	+36%
Stores	16	19	-3
Space (000 ft²)	47	65	-28%

North America wholesale

- * 15% of group revenue
- * Wholesale revenue flat overall (-3% in local currency)
- * Gross margin
 - higher proportion of discount sales
- * Overheads
 - expanded participation at trade shows

	1H14 £m	1H13 £m	var
Revenue	13.1	13.1	+0%
Gross profit	4.5	5.4	-17%
Gross margin	34.4%	41.2%	-6.8%
Overheads	(2.0)	(1.9)	+5%
Contribution	2.5	3.5	-29%

North America contribution

- * Licence income
 - reduction in income from Sears licence

	1H14 £m	1H13 £m
Retail contribution	(0.7)	(1.1)
Wholesale contribution	2.5	3.5
Total trading contribution	1.8	2.4
Common overheads	(1.6)	(1.6)
External licence income	0.3	0.5
Divisional operating result	0.5	1.3

Rest of world

- * 5% of group revenue
- * Revenue decrease
 - mostly due to reduced deliveries to Australian licensee
- * Gross margin
 - underlying margins consistent
 - change in mix of customers results in higher margin
- * Overheads
 - underlying costs steady

	1H14 £m	1H13 £m	var
Revenue	4.7	6.0	-22%
Gross profit	0.9	1.1	-18%
Gross margin	19.1%	18.3%	+0.8%
Overheads	(0.8)	(0.8)	+0%
Contribution	0.1	0.3	
External other income	0.2	0.3	
Internal income*	0.5	0.5	
Operating result	0.8	1.1	-27%

* Internal licence income is eliminated in Group consolidated results

Summary of Group Licence Income

- * Reduced contribution from loss of Sears licence
- * Increases from furniture, children's wear and men's formalwear
- * Discontinued NFF buying office services

	1H14 £m	1H13 £m	var
Brand licences	2.1	2.3	-9%
Country licences	0.8	0.9	-11%
Other/overheads	(0.1)	0.1	
Total external income	2.8	3.3	-15%

Group result

- * Group overheads tightly controlled
- * Share of Joint Ventures
 - good performance in China and Hong Kong: 2 more stores and +6.4% like-for-like growth
- * Dividend
 - no dividend for period

	1H14 £m	1H13 £m
Total regional contributions	(4.1)	(4.1)
Group management overheads	(2.4)	(2.5)
Operating result before interest	(6.5)	(6.6)
Net finance income	0.1	0.1
Joint ventures	0.3	0.2
Loss before tax	(6.1)	(6.3)
Tax	-	-
Loss after tax	(6.1)	(6.3)
Losses per share	(6.4)p	(6.4)p
Dividend per share	-	-

Cash flow

- * Closing cash balance £22.3 million
- * Working capital decrease

	1H14 £m	1H13 £m
Operating result before financing and impairments	(6.5)	(6.6)
Depreciation and disposals	1.1	1.5
Operating result before changes in working capital	(5.4)	(5.1)
Movement in working capital	0.3	(6.3)
Income tax paid	(0.1)	(0.1)
Interest income	0.1	0.1
Capital expenditure	(0.5)	(1.0)
Store disposal costs	(0.9)	-
Dividends from joint ventures	-	0.4
Dividends paid	-	(1.0)
Movement in cash	(6.5)	(13.0)
Opening net cash	28.5	34.2
Non-cash movements	0.3	-
Closing net cash	22.3	21.2



Outlook

Trading outlook

- * UK/Europe Retail
 - Improved full price sales on W13
 - Increasing impact of initiatives throughout the remainder of the year
- * UK/Europe Wholesale orders
 - AW13 forward orders are level with last year
 - SS14 initial forward orders ahead of last year
- * North America Wholesale
 - Continued softness expected with Department stores
- * Licence revenue
 - Increasing contribution from new licences

Continued focus

- * Improve operational leverage and build on the foundations already put in place
- * Maintain focus on cost control
- * Active management of the store portfolio
- * Continue to invest in our multi channel offering
- * Accelerate growth in other brands
- * Maintain strong balance sheet and protect cash position
- * Capitalise on the global strength of the brand by continuing to build the international distribution network



Appendices

Operating segments 1H 2014

Six months
31 July 2013

	UK/Europe			North America			Rest of World	Intra Group	Total
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Revenue	46.5	16.3	62.8	9.3	13.1	22.4	4.7		89.9
Gross profit	25.8	4.9	30.7	5.2	4.5	9.7	0.9	1.2	42.5
<i>Gross margin</i>	<i>55.5%</i>	<i>30.1%</i>	<i>48.9%</i>	<i>55.9%</i>	<i>34.4%</i>	<i>43.3%</i>	<i>19.1%</i>		<i>47.3%</i>
Trading overheads	(34.0)	(3.3)	(37.3)	(5.9)	(2.0)	(7.9)	(0.8)		(46.0)
Operating contribution	(8.2)	1.6	(6.6)	(0.7)	2.5	1.8	0.1	1.2	(3.5)
Common overhead costs			(1.8)			(1.6)			(3.4)
Other income: licensing			3.0			0.3	0.7	(1.2)	2.8
Divisional operating (loss)/profit			(5.4)			0.5	0.8	-	(4.1)
Group management overheads									(2.4)
Share of joint ventures									0.3
Finance income									0.1
Loss before tax									(6.1)

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)
Other income: licensing			3.5			0.5	0.8	(1.5)	3.3
Divisional operating (loss)/profit			(6.5)			1.3	1.1	-	(4.1)
Group management overheads									(2.5)
Share of joint ventures									0.2
Finance income									0.1
Loss before tax									(6.3)

Balance sheet

	July 13 £m	July 12 £m	Jan 13 £m
Intangible assets	0.4	2.4	0.4
Tangible assets	5.2	6.6	5.7
Investments	3.5	3.4	3.0
Deferred tax assets	4.4	4.4	4.4
Total non-current assets	13.5	16.8	13.5
Inventories	38.9	47.9	41.5
Debtors	26.4	27.7	23.7
Cash at bank	22.3	21.2	28.5
Derivative financial instruments	0.1	0.2	0.1
Total current assets	87.7	97.0	93.8
Total assets	101.2	113.8	107.3
Non-current liabilities	(0.9)	(0.9)	(0.9)
Creditors	(41.9)	(44.8)	(42.9)
Total liabilities	(42.8)	(45.7)	(43.8)
Net assets	58.4	68.1	63.5

Store portfolio

	July 2013		January 2013		July 2012		
	Locations	sq ft	Locations	sq ft	Locations	sq ft	
OPERATED LOCATIONS							
UK/Europe							
French Connection	Stores	71	212,126	74	218,115	73	216,571
French Connection/ Great Plains	Concessions	49	33,193	54	36,134	48	34,213
Toast	Stores	11	11,407	11	11,407	11	11,407
YMC	Stores	2	1,355	2	1,355	2	1,355
Total operated locations UK/Europe		133	258,081	141	267,011	134	263,546
North America							
French Connection US	Stores	7	22,395	8	33,900	8	33,900
French Connection Canada	Stores	9	24,325	9	24,325	11	31,035
Total operated locations North America		16	46,720	17	58,225	19	64,935
TOTAL OPERATED LOCATIONS		149	304,801	158	325,236	153	328,481
FRENCH CONNECTION LICENSED & FRANCHISED							
UK/Europe		6	8,561	10	14,821	11	15,171
North America		1	2,000	1	2,000	1	2,000
Middle East		9	17,892	13	23,842	13	23,842
Australia		74	77,260	92	96,329	92	96,329
Hong Kong		6	6,789	6	7,031	6	7,031
China		21	31,057	21	31,556	19	27,811
India		99	60,535	89	56,129	60	45,126
Other		47	40,579	51	45,240	41	41,771
TOTAL LICENSED AND FRANCHISED LOCATIONS		263	244,673	283	276,948	243	259,081
TOTAL BRANDED LOCATIONS, WORLDWIDE		412	549,474	441	602,184	396	587,562

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