FRENCH CONNECTION

Half Year Results to 31st July 2014

Summary of Results

- Third sequential half year of improved financial performance
- Initiatives put in place continue to drive results
- Improved full price sales leading to enhanced margins in UK/EU
- Licensing back to growth
- North America trends stabilising
- Costs under control, underlying 2.4% saving year on year
- Strong balance sheet

Results Summary

	6 months to 31 Jul 2014	6 months to 31 Jul 2013	*Var*
○ Revenue	£84.0 m	£89.9 m	*(6.6)%*
○ Gross margin	47.4 %	47.3%	
○ Operating expenses	£46.7 m	£51.8 m	*(9.8)%*
○ Other operating income	£2.9 m	£2.8 m	*+3.6%*
○ Closing net cash	£19.4 m	£22.3 m	
○ Underlying Group Operating Loss	£(3.9) m	£(6.1) m	*+36.1%*

Retail

Underlying Operating Loss

- £1 m reduction in losses primarily through store estate rationalisation and enhanced margins

Revenue

- Underlying decline at constant rates -9.0% primarily due to the planned closure of non-contributing stores of which 4 were closed in the period (2 UK, 2 NAM)
- Trading impacted in North America, particularly at the beginning of the period by extreme weather conditions

Margin

- Stronger UK/EU gross margin (+200 Bps) due to higher full price sales
- Partially offset by increased discounting in North America

Selling and distribution expenses

- Adjusted for currency and store closures underlying costs broadly flat

Retail		H1 15 £m	H1 14 £m
Revenue	10.6% ↓	49.9	55.8
Gross Margin		57.5%	56.3%
Underlying Operating Loss		**(7.5)**	**(8.5)**

Total Revenue Analysis

UK/EU Retail Trading

- Underlying retail LFL's of +6.0% (+1.1% on a reported basis)
- Summer sale period reduced, lower markdowns and lower volume of sale stock. Removal of mid season sale and withdrawal from discount channel in ecommerce

- Accessories product category is demonstrating strong growth and increasing as a proportion of our business
- A year since launch, the Homeware division delivered profitable growth, with annualised revenue of £1m+
- Strong performance in Outlets due to better stock management
- Positive performance at Toast

Retail Store Estate

	31 July 2014		Change on Jan 14	
	Locations	sq ft	Locations	sq ft
UK/Europe				
Stores	78	207,388	(2)	(12,121)
Concessions	50	33,576	(1)	16
Total UK/Europe	128	240,964	(3)	(12,105)
North America				
Stores	14	41,066	(2)	(6,100)
Total North America	14	41,066	(2)	(6,100)

- Four non-contributing stores closed in the period as store estate continues to be rationalised
- A further 3-4 UK/EU non-contributing stores are planned to close in H2
- The average lease length of the UK/EU retail estate is 5 years, with poorer performing stores lower than this average

- When renewals are made they are for a maximum of 10 years, with a 5 year break
- Store refit of Toast Kings Road took place during the period
- Berlin store expected to open in Q3
- Amsterdam franchise store was taken over following period end
- Two Spanish concessions opened in El Corte Inglès since the end of the period with a third planned to open in Q3

Retail Innovation

- Investing cautiously in growth opportunities, trialling new store formats and developing our international business
- Trial of new format in Old Street: the ‘F Store’ pop-up. To address customer demands for convenience focussed on essentials and Click & Collect
- New store concept being rolled out as we bring on new franchisees and new store openings
- Launch of the ‘Blowbar’ in the Regent Street store utilising mezzanine level for beauty treatments
- Retail academy launched to drive service and sales in store
- 27% of orders are now serviced through Click & Collect (2013: 22%) with a trial of ‘outfitting’ to upsell on web orders collected in store
- Additional ecommerce delivery options will launch in H2
- Enhanced checkout to launch in H2 to drive conversion
- Mobile and tablet sales constitute 41% of UK/Europe ecommerce revenue (2013: 33%)

Wholesale

Underlying Operating Profit

- £1.2 m improvement in profit due to the revenue growth and stronger margins in UK/EU as well as reduced operating expenses across all divisions

Revenue

- At constant currency and adjusting for Rest of World timing differences underlying growth of 5.9% with positive performances in both UK/EU and NAM

Margin

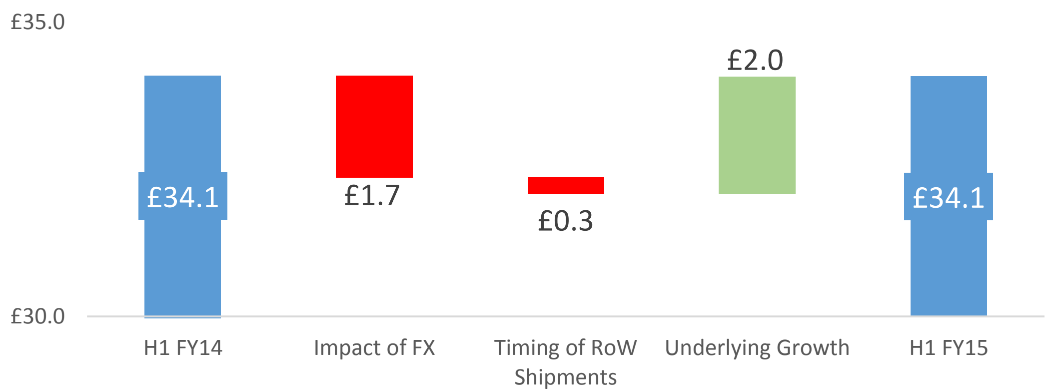
- Improvement in UK/EU margin offset by deeper discounting required in North America

Selling and distribution expenses

- Costs well controlled and reduced by 16% on a constant currency basis

	H1 15	H1 14
Wholesale	**£m**	**£m**
Revenue	34.1	34.1
Gross Margin	32.6%	32.6%
Underlying Operating Profit	**6.2**	**5.0**

Total Revenue Analysis



Licence Income

- Net income received from global licensing was £2.9m, a return to growth of +3.6% (constant currency basis +5.2%)
- Newer licensees performed strongly, particularly shoes and bags
- The new UK licence for furniture also continues to perform well
- The new jewellery licence signed in H1 will start to generate revenue in Spring 15

Other Operating Income		H1 15 £m	H1 14 £m
Licence Income	3.6% ↑	2.9	2.8

Operating Expenses Review

- Continued focus on overheads across the Group
- Total Group Operating Expenses were reduced by 9.8% on a reported basis (8.0% on a constant currency basis)
- After adjusting for currency and store closures underlying savings are 2.4%
- Overheads remain a focus area for the coming financial year as we continue to improve operating efficiency

Financial Position

- A strong cash position throughout the half
- Working capital increased due to normal seasonal trends (Debtors and Creditors)
- The stock benefit in prior period has now normalised

Group Cash Flow	**H1 15**	**H1 14**
	£m	**£m**
Operating Result before financing and impairments	**(3.9)**	**(6.1)**
Finance Income	**(0.1)**	(0.1)
Share of Profit of Joint Ventures		(0.3)
Depreciation and disposals	0.8	1.1
Operating Result before changes in working capital	**(3.2)**	**(5.4)**
Movement in working capital	(4.6)	0.3
Cash flows from operations	**(7.8)**	**(5.1)**
Income tax paid	-	(0.1)
Interest income	0.1	0.1
Capital expenditure	(0.4)	(0.5)
Store disposal costs	(1.0)	(0.9)
Dividends from joint ventures	0.2	-
Proceeds of share options exercised	0.2	-
Movement in Cash	**(8.7)**	**(6.5)**
Opening net cash	28.2	28.5
Non-cash movements	(0.1)	0.3
Closing net cash	**19.4**	**22.3**

Outlook

- Continued financial improvement in both Retail and Wholesale divisions supported by an increase in licence income
- Full price strategy enhancing margin
- Competitive Retail marketplace and tougher LFL's, therefore cautious about H2
- The Wholesale forward order book for Winter 14 is up on last year and the initial Spring 15 orders are strong
- We expect trends in our North America business to further stabilise
- Continued tight cost management with cautious investment in growth opportunities
- Licence income growth expected
- Expected outturn for the full year to be in line with market expectations setting the Group up for further progress as initiatives continue to gain traction

French Connection Group PLC

About French Connection

- French Connection is one of the strongest fashion brands, with recognition extending to global markets generating over £400m+ of branded retail sales worldwide through direct channels, wholesale and licence arrangements

- French Connection designs, produces and distributes branded fashion clothing, accessories and homeware for men, women, and children through its main distribution channels: retail stores, e-commerce, wholesale and licensing

- Our design team is based at the corporate headquarters in London. Manufacture is supervised by local French Connection buying offices in India, Hong Kong and Turkey

- The principal brand is French Connection. Other brands in the Group are Toast, Great Plains and YMC, which account for 14% of Group revenues

- The Group operates from 142 retail locations, split between UK/Europe and North America. A further 258 locations are franchised or licenced spanning Europe, China, Hong Kong, India, Australia and the Middle East

- We service our customers through a strong multichannel offering. Ecommerce represents over 20% of Group retail sales, 27% of online orders are collected in store and 49% of website visits come from tablet or mobile devices

- The product range is available to wholesale customers through the showrooms in London, Manchester, New York, Paris, Dusseldorf, & Hong Kong with wholesale sales to 57 countries giving exposure to key fashion growth markets

- Product licencing arrangements include toiletries, shoes, jewellery, eyewear and furniture with partners including Boots, Specsavers, DFS and Highline