17 March 2015

French Connection Group PLC

Preliminary Results for the year ended 31 January 2015

French Connection Group PLC ("French Connection", "the Group") today announces results for its financial year ended 31 January 2015.

Highlights:

- Continued improvement in financial performance with reduced underlying operating loss* of £(0.8)m (2014: loss £(4.4)m), in line with market expectations, driven by strong performances in wholesale and licensing, the closure of non-contributing stores, continued cost control and some margin progression in our retail operations

- Group revenue of £178.5m, down 5.8% (-4.1% at constant currency) on a reduced retail store portfolio, with 9 non-contributing stores closed during the year. UK/Europe retail LFLs of -3% and 4.6% growth in wholesale revenue (+7.3% at constant currency)

- Composite Gross Margin of 46.7% (2014: 47.6%) reflecting the higher mix of wholesale sales within Group revenue. UK/Europe retail gross margin was up 50 basis points on lower discounting, and UK/Europe wholesale gross margin up 170 basis points

- Cash position remains strong; closing net cash of £23.2m (2014: £28.2m) and no debt

Commenting on the results, Stephen Marks, Chairman and Chief Executive said:

“In spite of difficult retail trading conditions in the second half of the year, these results show that we have made another step towards returning French Connection to profitability.

The performance of our wholesale and licensing operations were both encouraging, supported by the continued strength of the French Connection brand worldwide. We have also maintained a tight control of costs and have continued to close loss-making stores.

Although we are encouraged by forward orders in our wholesale business, trading on the high street remains challenging and we are planning accordingly.”

*excludes loss on store disposals and closures

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CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to report that following the initiatives we put in place to turnaround our trading performance, the Group has delivered another improved financial result this year. In line with market expectations, we have reported an underlying operating loss* for the year of £(0.8)m compared to a loss of £(4.4)m in 2014 and a loss of £(7.2)m in 2013 and have made another step towards returning French Connection to profitability.

This improved performance was driven by a number of factors, notably encouraging performances in both wholesale and licensing, coupled with the exiting of non-contributing retail stores and tight cost controls across the business. This performance was delivered against the backdrop of what has been a difficult year for the high street generally.

Retail

After a good first half, I was disappointed with the second half UK/Europe retail performance. In Q3 and into November, we were trading against stronger prior year comparatives and un-seasonally warm weather. In Q4 we went into the winter sale period with lower stock levels which impacted LFL sales more than expected. Overall UK/Europe LFL retail gross sales were -3% over the full year.

We saw slight margin progression from lower mark down activity on a revenue that reduced by 12.1% to £103.3m (-11% at constant currency). This reduction was primarily the result of the closure of a further 9 non-contributing stores in line with our plan to rationalise our retail store estate which will continue this year, with 3-4 store closures expected. The average lease length of the UK/Europe retail estate is 4.4 years (2014: 4.9 years). Adjusting for currency and store closures, underlying retail selling and distribution expenses were broadly flat.

We opened a store in Berlin during the second half, with sales exceeding expectations. Our Amsterdam franchise store was taken over, delivering improved performance since converting to owned and operated. The year saw 2 new El Corte Inglés concessions open with plans for further openings in the year.

Ecommerce represented 23% of retail revenue with 24% of orders serviced through Click and Collect, and mobile and tablet sales making up 47% of ecommerce revenue.

Despite the difficult trading conditions in the second half of this year, which caused a decline in like-for-like sales, we ended the year with a reduced stock position against the prior year.

Wholesale

We saw a strong performance in Wholesale, with 4.6% growth in revenue (+7.3% at constant currency) and an improvement of 25% in Operating Profit attributable to this division. The revenue growth was achieved across UK/Europe, Rest of World and notably North America which returned to growth in 2015. Gross margins were broadly flat with strong cost control notably in trade-show and promotional expenses.

I am pleased to report the signing of a new country licensee in Mexico which will generate income in the second half of the year. Wholesale orders for Spring 15 show an improvement in year-on-year ordering levels.

Licensing
Licence income of £6.5m was generated during the period, an improvement of 6.6% (+7.4% at constant currency). Newer licensees performed strongly. The shoe licence saw the successful launch during the year of the first standalone store in Nanjing, with 8 locations now open in China. The furniture licence with DFS benefited from the successful launch of new lines, with further launches planned during the year. Within the retail segment, in 2015, homeware delivered over £1m in sales in the first year of operations. Taken together with the furniture licence income, I am pleased to see a new product category emerging for the Group.

After adjusting for currency and store closures, underlying operating expense savings were 3% compared to prior year. We will continue to focus on cost control.

The Group remains debt free and ended the year with a strong cash position of £23.2m (2014: £28.2m). To conserve working capital the Board has decided that no dividend shall be paid for the year (2014: £Nil). The shareholder distribution policy will be kept under close review during the year.

Although we are encouraged by forward orders in our Wholesale business, as in the second half of the year, trading on the high street remains challenging and we are planning accordingly.

It’s been a tough year but I am pleased to say that we have responded accordingly, and I would like to take this opportunity to recognise the hard work of our talented staff across the Group.

Stephen Marks
Chairman and Chief Executive
17 March 2015

*excludes loss on store disposals and closures

FINANCIAL REVIEW

Financial results overview
Following the initiatives put in place two years ago to turnaround trading performance, the Group has delivered a second consecutive year of strengthened financial performance. Each half year reported during this period has shown year on year improvement.

For the full year ended 31 January 2015 underlying Group operating loss was reduced to £(0.8)m (2014: loss of £(4.4)m, 2013: loss of £(7.2)m). After taking into account the cost of store disposals and closures the total loss before tax was £(1.6)m (2014: loss of £(6.1)m).

Revenue overview
Total 2015 revenue was 5.8% lower than 2014 (-4.1% at constant currency) with the growth in wholesale being offset by the impact of store closures and LFLs in Retail.

Gross margin
Composite gross margin was slightly reduced at 46.7% (2014: 47.6%) reflecting the higher mix of wholesale sales within Group revenue. Within this UK/EU retail gross margin was up 50 basis points on lower discounting, and UK/EU wholesale gross margin up 170 basis points.

Retail
Group retail revenues of £103.3m were 12.1% lower than the prior year (-11% at constant currency). The decline in revenue was primarily due to the closure of 9 non-contributing stores and negative LFLs in H2.

In Q3 and into November, UK/Europe retail had been trading against stronger prior year comparatives and un-seasonally warm weather impacting LFL sales, as reported at the November IMS. In Q4 we traded through the sale period with lower stock levels which impacted LFL sales. Overall UK/Europe LFL retail gross sales for the full year were -3% (H1 +1.1%, H2 -6.5%).

The retail gross margin of 57.2% (2014: 56.9%) reflected a good performance in UK/Europe with an improvement in margin of 50 basis points partly offset by higher discounting to clear inventory in North America.

The retail underlying loss of £(11.3)m was an improvement of £0.3m compared to prior year. This improvement was driven out of UK/Europe through the closure of non-contributing stores.

Ecommerce sales represent 23% of total Group retail sales (2014: 20%).

Wholesale
Group wholesale revenues of £75.2m were 4.6% higher than prior year (+7.3% at constant currency), with growth in UK/Europe, North America and Rest of World. The wholesale gross margin of 32.3% was broadly flat reflecting a good performance in UK/Europe with an improvement in margin of 170 basis points offset by higher discounting to clear inventory in North America. Combined with tight cost control, particularly trade show and promotional expenses, overall wholesale underlying operating performance was a £14.6m profit, an increase of £2.9m.

Geographical analysis
The geographical revenue break-down is largely unchanged with UK/Europe representing 72% of Group revenues (2014: 71%). The combination of Retail and Wholesale in UK/Europe led to an improvement of £3.5m in divisional operating contribution with North America delivering an improvement off the back of a recovery in wholesale. Rest of the World wholesale revenues were +2.1% at constant currency and the lower profit from JV's was due to the timing of Chinese New Year and the disruption to retail in Hong Kong during the widely publicised demonstrations.

Other Income
The net income received from Global licensing was £6.5m in the year (2014: £6.1m) with strong growth from furniture and shoes.

Operating expenses
Total Group operating expenses of £90.8m were 10.5% lower than last year. After adjusting for store closures and currency, operating expenses were 3% lower than last year thanks to close monitoring and control. We will continue the focus on costs, and will seek to absorb cost pressure from rent reviews due in the current year.

Balance sheet and cash flow
The Group balance sheet at 31 January 2015 remains strong with £23.2m of cash (2014: £28.2m), no bank borrowings and a minimum cash position during the year of £7.6m (2014: £9.9m).

The trading operations of the Group consumed cash of £3.0m (2014: cash generated £1.6m) with a reduction in trade and other payables due largely to the timing of Chinese New Year, lower stock purchases, and smaller retail store estate. This was compensated for in part by a further decrease in inventory of £3.3m reflecting the continued improvements in the efficiency of merchandising and buying.

Capital expenditure increased to £1.1m (2014: £0.8m) with increased expenditure on new retail locations, website platform investment, and warehouse capabilities. In the year the restructuring costs of closing under-performing stores was £1.4m. We continue to target the closure of non-contributing stores and expect 3-4 more to close in the current year in UK/Europe and we will also review closely our North America store portfolio. Since certain of the non-performing stores are coming to the end of their leases, we expect to spend less in store closure costs going forwards.

Taxation
The tax charge for the year of £Nil (2014: tax credit of £0.1m) represents the net impact of a reduction in the tax potentially payable on deferred capital gains less the tax payable on current profits generated in Hong Kong and the US (as reduced by past losses). The Group has unused tax trading losses with a potential value of £13.8m. As the Group returns to profit, these tax losses should be utilised.

Dividends
The Board of Directors remain of the view that the business is best served by retaining current cash reserves to support the turnaround of the business, and therefore do not recommend the payment of a dividend. The Board intend to keep the shareholder distribution policy under close review during the year.

Going concern
Having reviewed the cash forecasts and the sources of cash funding available to the Group, the Board has concluded that it is appropriate to prepare the Group financial statements on a going concern basis.

By order of the Board

Adam Castleton
Group Finance Director
17 March 2015

Segment revenue and results	**2015 £m**	2014 £m
Revenue		
Retail	**103.3**	117.5
Wholesale	**75.2**	71.9
Group revenue	**178.5**	189.4
Gross profit	**83.4**	90.2
Retail	**57.2%**	56.9%
Wholesale	**32.3%**	32.5%
Group gross margin	**46.7%**	47.6%
Underlying operating (loss)/profit		
Retail	**(11.3)**	(11.6)
Wholesale	**14.6**	11.7
License income	**6.5**	6.1
Common and Group overheads	**(10.7)**	(11.3)
Finance income	**0.1**	0.1
Share of profit from joint ventures	**-**	0.6
Underlying Group operating loss*	**(0.8)**	(4.4)
Underlying operating margin		
Retail	**(10.9)%**	(9.9)%
Wholesale	**19.4%**	16.3%
Underlying Group operating margin	**(0.4)%**	(2.3)%

Geographical information	**2015 £m**	2014 £m
Revenue		
UK/Europe	**72%**	71%
North America	**23%**	24%
Rest of the World	**5%**	5%
Divisional operating (loss)/profit		
UK/Europe	**(0.4)**	(3.9)
North America	**2.5**	2.4
Rest of the World	**0.9**	1.6
Group overheads and finance income	**(3.8)**	(4.5)
Underlying Group operating loss*	**(0.8)**	(4.4)

*excludes net loss on store disposals and closures

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 January 2015

	Note	**2015** **£m**	2014 £m
Revenue	2	**178.5**	189.4
Cost of sales		**(95.1)**	(99.2)
Gross profit	2	**83.4**	90.2
Operating expenses		**(90.8)**	(101.4)
Other operating income	3	**6.5**	6.1
Finance income		**0.1**	0.1
Share of profit of joint ventures, net of tax		**-**	0.6
Underlying operating loss		**(0.8)**	(4.4)
Net loss on store disposals and closures		**(0.8)**	(1.7)
Loss before taxation		**(1.6)**	(6.1)
Taxation		**-**	0.1
Loss for the year		**(1.6)**	(6.0)

The Group's results were entirely from continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year end 31 January 2015
(continued)

	Note	2015 £m	2014 £m
Loss for the year		**(1.6)**	(6.0)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Currency translation differences for overseas operations		**2.0**	0.3
Currency translation differences on foreign currency loans, net of tax		**(0.6)**	(1.0)
Currency translation differences transferred to profit and loss, net of tax		**(0.2)**	-
Effective portion of changes in fair value of cash flow hedges		**0.5**	(0.3)
Other comprehensive income for the year, net of tax		**1.7**	(1.0)
Total comprehensive income for the year		**0.1**	(7.0)
Loss attributable to:			
Equity holders of the Company		**(1.5)**	(6.1)
Non-controlling interests		**(0.1)**	0.1
Loss for the year		**(1.6)**	(6.0)
Total comprehensive income attributable to:			
Equity holders of the Company		**0.2**	(7.1)
Non-controlling interests		**(0.1)**	0.1
Total income and expense recognised for the year		**0.1**	(7.0)
Losses per share			
Basic and diluted losses per share	5	**(1.6)p**	(6.4)p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 January 2015

	2015 £m	2014 £m
Assets		
Non-current assets		
Intangible assets	**0.4**	0.4
Property, plant and equipment	**3.9**	4.5
Investments in joint ventures	**3.1**	3.1
Deferred tax assets	**4.8**	4.8
Total non-current assets	**12.2**	12.8
Current assets		
Inventories	**35.5**	38.5
Trade and other receivables	**23.5**	22.7
Cash and cash equivalents	**23.2**	28.2
Derivative financial instruments	**0.3**	-
Total current assets	**82.5**	89.4
Total assets	**94.7**	102.2
Non-current liabilities		
Deferred tax liabilities	**0.2**	0.5
Total non-current liabilities	**0.2**	0.5
Current liabilities		
Trade and other payables	**36.5**	43.1
Current tax payable	**0.2**	0.2
Provisions	**1.0**	1.7
Derivative financial instruments	**-**	0.2
Total current liabilities	**37.7**	45.2
Total liabilities	**37.9**	45.7
Net assets	**56.8**	56.5
Equity		
Called-up share capital	**1.0**	1.0
Share premium account	**9.6**	9.4
Other reserves	**6.0**	4.3
Retained earnings	**39.4**	40.9
Total equity attributable to equity holders of the Company	**56.0**	55.6
Non-controlling interests	**0.8**	0.9
Total equity	**56.8**	56.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 31 January 2013	**1.0**	**9.4**	**0.1**	**5.2**	**47.0**	**62.7**	**0.8**	**63.5**
Loss for the year ended 31 January 2014					**(6.1)**	**(6.1)**	**0.1**	**(6.0)**
Other comprehensive income								
Currency translation differences for overseas operations				0.3		**0.3**		**0.3**
Currency translation differences on foreign currency loans, net of tax				(1.0)		**(1.0)**		**(1.0)**
Effective portion of changes in fair value of cash flow hedges			(0.3)			**(0.3)**		**(0.3)**
Balance at 31 January 2014	**1.0**	**9.4**	**(0.2)**	**4.5**	**40.9**	**55.6**	**0.9**	**56.5**
Loss for the year ended 31 January 2015					**(1.5)**	**(1.5)**	**(0.1)**	**(1.6)**
Other comprehensive income								
Currency translation differences for overseas operations				2.0		**2.0**		**2.0**
Currency translation differences on foreign currency loans, net of tax				(0.6)		**(0.6)**		**(0.6)**
Currency translation differences transferred to profit and loss, net of tax				(0.2)		**(0.2)**		**(0.2)**
Effective portion of changes in fair value of cash flow hedges			0.5			**0.5**		**0.5**
Transactions with owners recorded directly in equity								
Share options exercised		0.2				**0.2**		**0.2**
Balance at 31 January 2015	**1.0**	**9.6**	**0.3**	**5.7**	**39.4**	**56.0**	**0.8**	**56.8**

Translation reserve

The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of foreign currency loans.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 January 2015

	2015 £m	2014 £m
Operating activities		
Loss for the period	**(1.6)**	(6.0)
Adjustments for:		
Depreciation and impairment	**1.6**	1.9
Finance income	**(0.1)**	(0.1)
Share of profit of joint ventures	**-**	(0.6)
Non-operating loss on store disposals and closures	**0.8**	1.7
Income tax credit	**-**	(0.1)
Operating cash flows before changes in working capital and provisions	**0.7**	(3.2)
Decrease in inventories	**3.3**	2.3
(Increase)/decrease in trade and other receivables	**(0.5)**	0.8
(Decrease)/increase in trade and other payables	**(6.2)**	1.9
Cash flows from operations	**(2.7)**	1.8
Income tax paid	**(0.3)**	(0.2)
Cash flows from operating activities	**(3.0)**	1.6
Investing activities		
Interest received	**0.1**	0.1
Proceeds from investments in joint ventures	**0.2**	0.4
Acquisition of property, plant and equipment	**(1.1)**	(0.8)
Net costs from store closures	**(1.4)**	(1.7)
Cash flows from investing activities	**(2.2)**	(2.0)
Financing activities		
Proceeds from exercise of share options	**0.2**	-
Cash flows from financing activities	**0.2**	-
Net decrease in cash and cash equivalents	**(5.0)**	(0.4)
Cash and cash equivalents at 1 February	**28.2**	28.5
Exchange rate fluctuations on cash held	**-**	0.1
Cash and cash equivalents at 31 January	**23.2**	28.2

NOTES

1 Basis of preparation

Consolidated financial statements and accounting policies
The preliminary announcement for the year ended 31 January 2015 has been prepared in accordance with International Accounting Standards and International Financial Reporting Standards as adopted by the European Union (EU) at 31 January 2015. The annual financial information presented in the preliminary announcement for the year ended 31 January 2015 is based on, and is consistent with, that in the Group's audited Financial Statements for the year ended 31 January 2015, and those Financial Statements will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor's report on those Financial Statements is unqualified and does not contain any statement under Section 498 (2) or (3) of the Companies Act 2006.

These consolidated financial statements have been prepared using the historical cost convention, modified for certain items carried at fair value, as stated in the accounting policies.

Statutory accounts
Information in this preliminary announcement does not constitute statutory accounts of French Connection Group and its subsidiaries ("the Group") within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 January 2014 have been filed with the Registrar of Companies. The auditor's report on those accounts was unqualified and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

The Group's Annual Report for the year ended 31 January 2015 will be made available in due course and will be available for viewing and download from the Group's website at www.frenchconnection.com. The Annual Report will be circulated in printed form to shareholders in the second week of April 2015.

2 Operating segments

Income Statement	**2015 £m**	2014 £m
Revenue		
Retail	**103.3**	117.5
Wholesale	**75.2**	71.9
Group revenue	**178.5**	189.4
Gross profit	**83.4**	90.2
Retail	**57.2%**	56.9%
Wholesale	**32.3%**	32.5%
Group gross margin	**46.7%**	47.6%
Underlying operating (loss)/profit		
Retail	**(11.3)**	(11.6)
Wholesale	**14.6**	11.7
License income	**6.5**	6.1
Common and Group overheads	**(10.7)**	(11.3)
Finance income	**0.1**	0.1
Share of profit from joint ventures	**-**	0.6
Underlying Group operating loss*	**(0.8)**	(4.4)
Underlying operating margin		
Retail	**(10.9)%**	(9.9)%
Wholesale	**19.4%**	16.3%
Underlying Group operating margin	**(0.4)%**	(2.3)%

Geographical information	**2015 £m**	2014 £m
Revenue		
UK/Europe	**72%**	71%
North America	**23%**	24%
Rest of the World	**5%**	5%
Divisional operating (loss)/profit		
UK/Europe	**(0.4)**	(3.9)
North America	**2.5**	2.4
Rest of the World	**0.9**	1.6
Group overheads and finance income	**(3.8)**	(4.5)
Underlying Group operating loss*	**(0.8)**	(4.4)

*excludes loss on store disposals and closures

3 Other operating income

	2015 £m	2014 £m
Licensing income	**6.5**	6.1

4 Dividends - equity

The Board is proposing that no dividend should be paid for the year (2014: £Nil). No dividends were paid during the year to the minority shareholders of a subsidiary undertaking of the Group (2014: £Nil).

5 Losses per share

Basic and diluted losses per share are calculated on 96,119,892 (2014: 95,899,754) shares being the weighted average number of ordinary shares during the year.

Basic and diluted losses per share of (1.6) pence per share (2014: losses of (6.4) pence) is based on losses of £(1.5)m (2014: losses of £(6.1)m) attributable to equity shareholders.

The reconciliation from basic and diluted losses per share to adjusted earnings per share is as follows:

	2015 £m	**2015 pence per share**	2014 £m	2014 pence per share
Loss attributable to equity shareholders	**(1.5)**	**(1.6)p**	(6.1)	(6.4)p
Net loss on store disposals and closures	**0.8**	**0.9p**	1.7	1.8p
Adjusted loss	**(0.7)**	**(0.7)p**	(4.4)	(4.6)p

The adjusted losses per share relates to the underlying operations and in the opinion of the Directors, gives a better measure of the Group's underlying performance than the basic losses per share.

RETAIL LOCATIONS

		31 January 2015		31 January 2014	
		Locations	**sq ft**	Locations	sq ft
Operated locations					
UK/Europe					
French Connection	Stores	**62**	**183,358**	66	202,770
French Connection/Great Plains	Concessions	**55**	**35,363**	51	33,560
Toast	Stores	**11**	**13,425**	12	15,384
YMC	Stores	**2**	**1,355**	2	1,355
		130	**233,501**	131	253,069
North America					
French Connection US	Stores	**6**	**19,719**	7	22,841
French Connection Canada	Stores	**7**	**18,125**	9	24,325
		13	**37,844**	16	47,166
Total operated locations		**143**	**271,345**	147	300,235
French Connection licensed and franchised					
UK/Europe		**7**	**8,527**	7	7,994
North America		**1**	**2,000**	1	2,000
Middle East		**9**	**17,895**	6	9,805
Australia		**74**	**75,544**	72	72,112
Hong Kong		**8**	**12,892**	5	6,062
China		**27**	**31,959**	23	34,960
India		**89**	**47,712**	110	60,782
Other		**35**	**32,347**	48	44,516
Total licensed and franchised locations		**250**	**228,876**	272	238,231
Total branded locations		**393**	**500,221**	419	538,466