

# FRENCH CONNECTION

FULL YEAR RESULTS TO 31ST JANUARY 2015



# SUMMARY OF RESULTS

- / Continued improvement in financial performance
- / After a good first half, second half Retail trading was disappointing
- / Continued growth in Licensing and Wholesale
- / North America trends stabilising
- / Enhanced margins in UK/EU
- / Costs under control, underlying 3.0% saving year on year
- / Strong balance sheet



# RESULTS SUMMARY

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	12 months to 31 January 2015	12 months to 31 January 2014	<i>Variance</i>	<i>Constant currency variance</i>
Revenue	£178.5m	£189.4m	<i>(5.8)%</i>	<i>(4.1)%</i>
Gross margin	46.7%	47.6%		
Operating expenses	£90.8m	£101.4m	<i>(10.5)%</i>	<i>(9.6)%</i>
Other operating income	£6.5m	£6.1m	<i>+6.6%</i>	<i>+7.3%</i>
Underlying Group Operating Loss	£(0.8)m	£(4.4)m		
Closing net cash	£23.2m	£28.2m		

# RETAIL

## Underlying Operating Loss

- £0.3m reduction in losses primarily through store estate rationalisation and also improved margins

## Revenue

- Decline at constant currency -11% from store closures and UK/EU -3% LFL
- Closure of 9 non-contributing stores during the period (6 UK/EU, 3 NAM)

## Margin

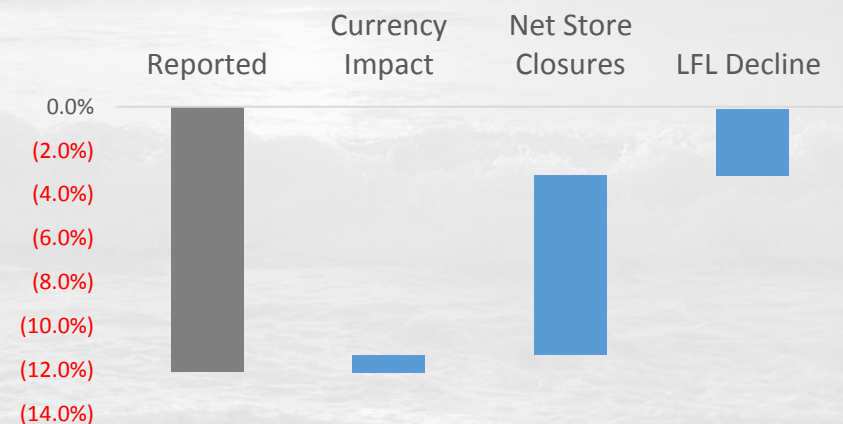
- Stronger UK/EU gross margin (50 bps) due to lower levels of mark down
- Partially offset by increased discounting in North America

## Selling and distribution expenses

- Adjusted for currency and store closures underlying costs broadly flat

		14/15	13/14
Retail		£m	£m
Revenue	12.1% ↓	103.3	117.5
Gross Margin		57.2%	56.9%
<b>Underlying Operating Loss</b>		<b>(11.3)</b>	<b>(11.6)</b>

## Revenue Variance





# RETAIL TRADING



- UK/EU Retail LFL's of -3.0% over the year, +1.1% in H1, -6.5% in H2
- Disappointing H2; un-seasonally warm weather and tougher comps in Q3, whilst Q4 impacted by reduction in stock levels during the Winter sale period
- Accessories product category is demonstrating continued growth and increasing as a proportion of our business
- In its first full year homeware delivered over £1m in sales
- Strong performance in Outlets due to better stock management
- Ecommerce represented 23% of Retail revenue (2014: 20%)
- 24% of UK/Europe orders are now serviced through Click and Collect (2014: 27%)
- Mobile and tablet sales constitute 47% of UK/Europe Ecommerce revenue (2014: 38%)



# RETAIL STORE ESTATE

	31 January 2015		Change on Jan 14	
	Locations	sq ft	Locations	sq ft
<b>UK/Europe</b>				
Stores	75	198,138	(5)	(21,371)
Concessions	55	35,363	4	1,803
<b>Total UK/Europe</b>	<b>130</b>	<b>233,501</b>	<b>(1)</b>	<b>(19,568)</b>
<b>North America</b>				
Stores	13	37,844	(3)	(9,322)
<b>Total North America</b>	<b>13</b>	<b>37,844</b>	<b>(3)</b>	<b>(9,322)</b>
<b>Total Operated Locations</b>	<b>143</b>	<b>271,345</b>	<b>(4)</b>	<b>(28,890)</b>

- Nine non-contributing stores closed in the period as store estate continues to be rationalised
- Berlin store opened in the second half, with sales exceeding expectations
- Amsterdam franchise store was taken over, delivering improved performance since converting to owned and operated
- A further 3-4 UK/EU non-contributing stores are planned to close and further rationalisation of North America through 15/16

- The average lease length of the UK/EU retail estate is 4.4 years (2014: 4.9), with poorer performing stores lower than this average
- The year saw 2 new El Corte Inglés concessions open with plans for further openings in 15/16



Berlin



Amsterdam



# WHOLESALE

## Underlying Operating Profit

- £2.9m improvement in profit due to revenue growth in UK/EU and NAM, with stronger margins in UK/EU and reduced operating expenses

## Revenue

- Growth at constant currency of 7.3% with positive performances across all segments
- Notably NAM wholesale returned to growth in H2 with full year growth of 6.6%
- New franchise opened in Grenoble

## Margin

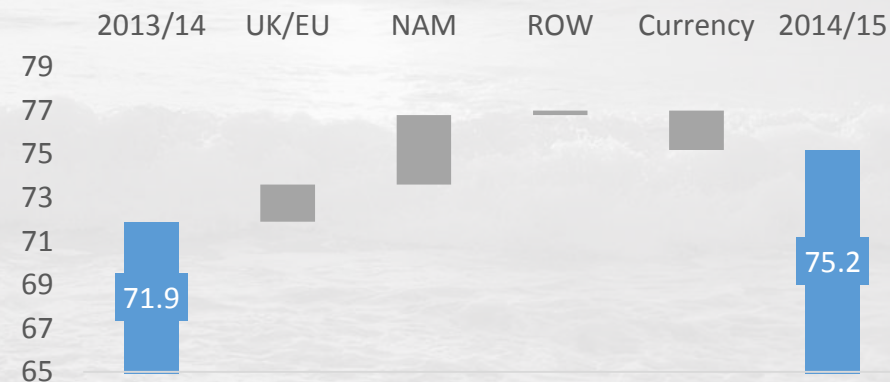
- Improvement in UK/EU margin offset by deeper discounting required in North America

## Selling and distribution expenses

- Costs well controlled and reduced by 15.6% on a constant currency basis with reductions in trade show and promotional expenses

		14/15	13/14
Wholesale		£m	£m
Revenue	4.6% ↑	75.2	71.9
Gross Margin		32.3%	32.5%
<b>Underlying Operating Profit</b>		<b>14.6</b>	<b>11.7</b>

## Revenue Variance



# LICENCE INCOME

- Net income received from global licensing was £6.5m, a return to full year growth of +6.6% (constant currency +7.4%)
- Newer licensees performed strongly, particularly shoes and furniture
- Furniture licence with DFS benefited in the year from the successful launch of a new line, with additional product launching in H1
- Shoe licence saw the successful launch of the first standalone store in Nanjing, China, 8 locations now open
- The new jewellery licence signed in H1 will start to generate revenue in Spring 15
- Signing of a new country licensee in Mexico, generating income from H2 15/16

		14/15	13/14
	Other Operating Income	£m	£m
Licence Income	6.6% ↑	6.5	6.1

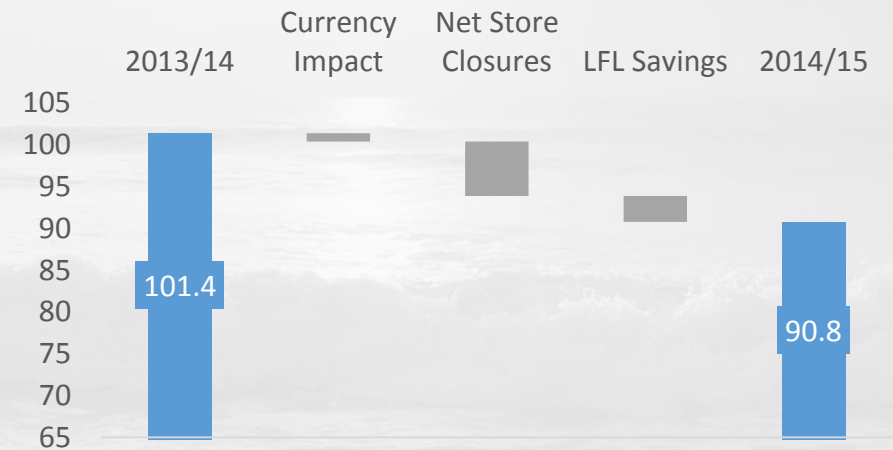




# OPERATING EXPENSE REVIEW

- Continued focus on overheads across the Group
- Total Group Operating Expenses were reduced by 10.5% on a reported basis (9.6% on a constant currency)
- After adjusting for currency and store closures, underlying savings are 3.0%
- Overheads remain a focus area for the coming financial year as we continue to improve operating efficiency

Operating Expenses	14/15 £m	13/14 £m
Total	10.5% ↓ 90.8	101.4



# FINANCIAL POSITION

	14/15 £m	13/14 £m	
<ul style="list-style-type: none"> <li>• A strong cash position throughout the year</li> </ul>			
<ul style="list-style-type: none"> <li>• Reduction in stock levels after lower seasonal buys</li> </ul>			
<ul style="list-style-type: none"> <li>• Increase in receivables due to higher wholesale revenue</li> </ul>			
<ul style="list-style-type: none"> <li>• Decrease in payables due to timing of Chinese New Year, lower stock purchases and fewer stores</li> </ul>			
<ul style="list-style-type: none"> <li>• Capital expenditure increased on new retail locations, website platform investment and warehouse capabilities</li> </ul>			
<ul style="list-style-type: none"> <li>• The Group has unused tax trading losses with a potential value of £13.7m not yet recognised as a deferred tax asset.</li> </ul>			
<ul style="list-style-type: none"> <li>• Shareholder distribution policy will be kept under review during the year</li> </ul>			
	<b>Operating Result before changes in working capital</b>	<b>0.7</b>	<b>(3.2)</b>
	Decrease/(increase) in inventory	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
	Movement in working capital	(3.4)	5.0
	<b>Cash flows from operations</b>	<b>(2.7)</b>	<b>1.8</b>
	Capital expenditure	(1.1)	(0.8)
	Store disposal costs	(1.4)	(1.7)
	Dividends from joint ventures	0.2	0.4
	Income Tax Paid	(0.3)	(0.2)
	Other	0.3	0.2
	<b>Closing net cash</b>	<b>23.2</b>	<b>28.2</b>
	Cash High	23.2	28.2
	Cash Low	7.6	9.9
	Average	13.3	15.4



# OUTLOOK

- / Remain cautious on current retail trading
- / The Wholesale forward order book for Summer 15 is up on last year
- / Income from new licences expected to grow
- / Focus on cost control however opportunities for savings flattening out and pressure from rent reviews due on key London properties
- / Continued investment in Retail and Ecommerce growth opportunities



