



FRENCH CONNECTION

HALF YEAR RESULTS 31ST JULY 2020

AUTUMN WINTER 2020

REPORTED RESULTS

- Group revenue of £23.9m (2019: £51.0m), down 53.1% (down (53.2%) CCY) driven by store closures during lockdown and reduction in demand from Wholesale customers
- Underlying loss of £(12.2)m compared to loss of £(3.6)m in the comparative period
- Permanent closure of 9 non contributing locations during the half year (and 18 locations across 12 months)
- Composite gross margin of 15.1% (2019: 42.7%) with stock provision increase of £3.1m in light of higher stock levels. Gross margin excluding provision 28.1% reflects lost full price sales during closure

Gross margin by channel	20/21 Inc provision	20/21 Exc provision	19/20	Exc provision variance %
Wholesale	12.3%	21.9%	34.2%	(12.3)%
Retail	18.8%	36.6%	52.5%	(15.9)%
Gross margin	15.1%	28.1%	42.7%	(14.6)%

- Closing cash of £5.2m (2019: £10.0m)
- 24 month working capital facility of £15m secured in July

COVID-19 IMPACT

- **Retail** – All Stores and Concessions closed from 23rd March
- **eCommerce** – following an initial deep drop, significant improvement across all territories – up 8.1% to end of July with Casual and Homeware particularly strong
- **Wholesale** – some dispatches still made to online based customers but majority closed
- **Cost** reductions in rent through management actions, together with Government support with Furlough Scheme and Business rates holiday with all discretionary costs eliminated
- **Licensing** – All licensees impacted, but strong recovery from DFS since stores reopened in May. Ahead of last year by early September
- **Revenue** – Revenue impact of £(22.2)m across Wholesale (£13.4m) and Retail (£8.8m)
- **PBT** – Impact of £(9.0)m across the business, principally revenue reduction and £3.1m one off stock provision due to higher residual stock levels

RESULTS SUMMARY

	6 months to 31/07/2020	6 months to 31/07/2019	Variance	Constant currency variance
Revenue	23.9m	51.0m	(53.1%)	(53.2%)
Cost of sales	(20.3)m	(29.2)m		
Gross margin	15.1%	42.7%	(27.6%)	(27.6%)
Underlying operating (loss)/profit	(12.2)m	(3.6)m		

Non-recurring items included within operating (loss)/profit:

Business rates reduction	0.8m
Furlough savings	3.1m
Stock provisions	(3.1)m
Total	0.8m

WHOLESALE

Revenue

- Total revenue reduced 49.3% (down 49.4% CCY)
- UK/Europe and North America down 55.0% and 41.3% respectively
- Some customers reduced orders with bricks and mortar customers more heavily impacted by store closures, but online customers able to continue trading

Gross margin

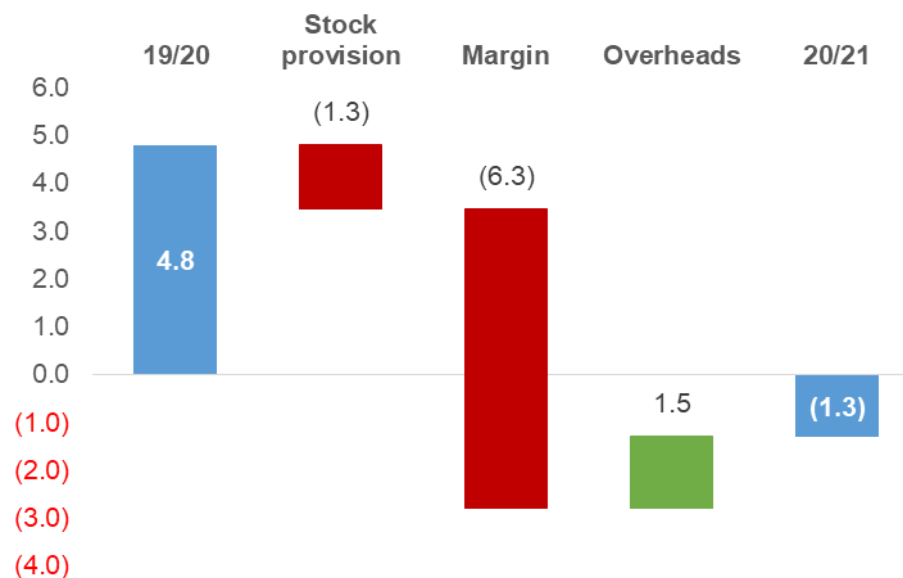
- Gross margin 12.3% (2019: 34.2%) driven by additional stock provision of £1.3m required in light of higher stock levels and increased mix of off price as full price orders not shipped

Selling and distribution expenses

- Costs down 33.3% due to reduced salaries and variable costs during lockdown

		20/21	19/20
		£m	£m
Revenue	(49.3%)	13.8	27.2
Gross margin		1.7	9.3
Gross margin %		12.3%	34.2%
Gross margin % excl stock prov		21.9%	34.2%
Overheads		(3.0)	(4.5)
Operating (loss)/profit		(1.3)	4.8
Operating (loss)/profit excl one offs		0.0	4.8

UNDERLYING OPERATING (LOSS)/PROFIT



RETAIL TRADING

Revenue

- Overall revenue including store closures down 57.6% (57.6% CCY)
- Since re-opening tracking below previous year due to significantly lower footfall
- Closure of 3 stores, 5 concessions and 1 outlet during the half with a reduction of 22.9% in average selling space. Closure of 18 locations over last 12 months

Gross Margin

- Margin rate of 18.8% (2019: 52.5%) due to increase in stock provision of £1.8m in light of higher stock levels and deeper discounting of S20 post re-opening. Margin 36.6% excluding impact of stock provision

Selling and distribution expenses

- Overall overheads down 46.9% due to permanent store closures, furloughing of staff, business rates holiday of £0.8m and rent deals

		20/21	19/20
		£m	£m
Revenue	(57.6%)	10.1	23.8
Gross margin		1.9	12.5
Gross margin %		18.8%	52.5%
Gross margin % excl stock prov		36.6%	52.5%
Overheads		(9.4)	(17.7)
Operating (Loss)		(7.5)	(5.2)
Operating (Loss) excl one offs		(6.5)	(5.2)

UNDERLYING OPERATING LOSS



RETAIL OVERVIEW

- 5 concessions, 3 stores and 1 outlet permanently closed in the half year
- Average lease length remaining of the Group's retail estate is 2.1 years (2019: 2.3 years)
- Rent negotiations have been made on a store by store basis in light of COVID. In the process of finalising March and June quarterly rents with some discounts and deferrals, to be repaid over H2-21. September discussions now underway
- Ecommerce revenue grew by 8.1% and as a percentage of retail revenue increased to 56.4% (2019: 22.3%)
- Mobile now constitutes 66.4% of UK/EU eCommerce traffic (2019: 61.3%) and 54.0% of transactions (2019: 46.6%)

Movement in store locations

	31 July 2020		Change on Jan 20		Change on Jul 19	
	Locations	sq ft	Locations	sq ft	Locations	sq ft
UK/Europe	21	61,002	(2)	(5,428)	(7)	(17,127)
North America	1	6,000	(1)	(3,102)	(1)	(3,102)
Total Full Price Stores	22	67,002	(3)	(8,530)	(8)	(20,229)
Outlets	7	11,238	(1)	(2,100)	(1)	(2,100)
Concessions	40	37,458	(5)	(2,960)	(9)	(5,867)
Total French Connection	69	115,698	(9)	(13,590)	(18)	(28,196)
YMC	3	1,805	0	0	0	0
Total Operated Locations	72	117,503	(9)	(13,590)	(18)	(28,196)

LICENCE INCOME

- Licensing income for the half was £1.5m compared to £2.7m last year, down (44.4%)
- Both UK and US licensees heavily impacted by COVID and reduced consumer demand
- Once stores re-opened with element of pent up demand in Homeware, DFS has performed very strongly but revenue driven by actual deliveries so catch up into Q3
- Closure of a bag licensee in North America contributing to YoY decline

		20/21 £m	19/20 £m
Licensing Income	(44.4%)	1.5	2.7



OPERATING EXPENSES

- Total group underlying overheads reduced by 38.8% (39.2% CCY)
- Permanent store closures contributed 12.0% reduction, excluding store closures reduction of 26.8%
- Government support received with UK furlough and business rates holiday
- Negotiated rent reductions on Mar/Jun quarters
- Reduced all variable cost base during lockdown, particularly T&E, warehousing and marketing
- Continue to look for further cost savings

		20/21 £m	19/20 £m
Underlying operating expenses	38.8%	16.7	27.3

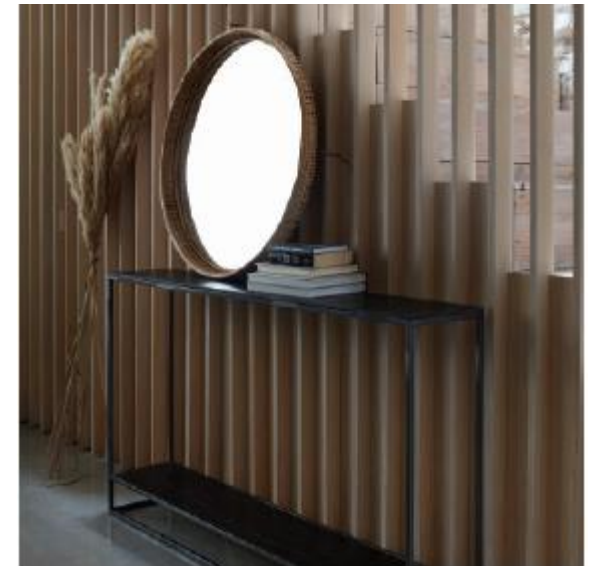
UNDERLYING OPERATING EXPENSES



ADJUSTING ITEMS

- Adjusting items of £1.0m recognised in the period
- £0.5m of transaction fees in relation to securing working capital funding
- £0.4m of store closure costs as part of ongoing management of the store portfolio

	20/21 £m
Transaction fees	0.5
Store closures	0.4
Bad debts	0.1
Total exceptional items	1.0



FINANCIAL POSITION

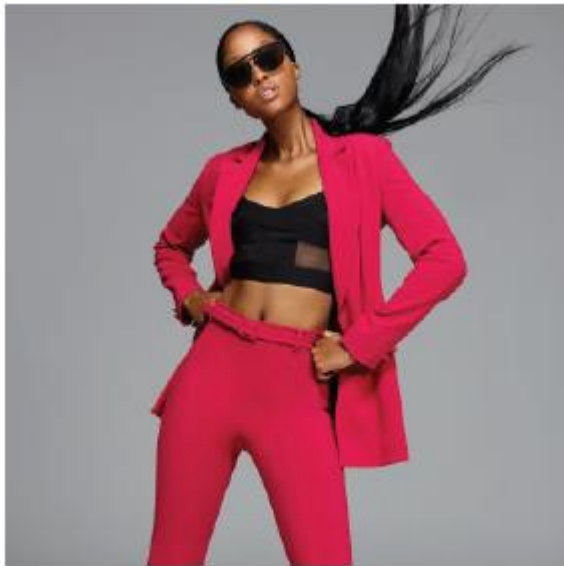
- Closing cash balance £5.2m (2019: £10.0m)
- Cash flow from operating result before working capital movement, loss of £(7.8)m (2019: £1.1m profit)
- Movement in working capital £11.5m (2019 £0.1m) due to:
 - Lower new season stock levels reflecting reduced W20 buy
 - Reduced debtors reflecting later phasing of delivery to customers
 - Deferral of creditor payments (duty, PAYE, rents, product)
- Effective debtor collection and closely working with product suppliers
- Reduced capital expenditure of £0.2m (2019: £0.6m) spent before lockdown
- £0.5m of professional fees in relation to securing additional funding

CASH FLOW SUMMARY

	20/21	19/20
	£m	£m
Underlying operating (loss)/profit	(12.2)	(3.6)
Depreciation	0.6	0.6
IFRS 16 - ROU asset depreciation/finance expense	3.8	4.1
Share of JV loss	0.0	0.0
Operating result before changes in working capital	(7.8)	1.1
Movement in working capital	11.5	0.1
Cash flows from operations	3.7	1.2
Capital expenditure	(0.2)	(0.6)
Store disposal costs	(0.4)	(0.9)
IFRS 16 - payment of lease liabilities	(5.6)	(5.8)
Income tax paid	0.0	(0.1)
Other financing/professional fees	(0.5)	0.0
Movement in cash	(3.0)	(6.2)
Opening net cash	8.1	16.2
Exchange rate fluctuations	0.1	0.0
Closing net cash	5.2	10.0

OUTLOOK

- Trading still uncertain especially given recent revision to government advice which seems to have had some impact on footfall and therefore sales
- Online continues to be strong although promotion driven but good reaction to Winter collection
- Wholesale in the UK performing strongly given the trading landscape but USA remains more subdued
- Financing in place to provide funds going forward
- Financial discipline and liquidity management key in coming months
- Ongoing negotiation with landlords continues while also working closing with all suppliers



FRENCH CONNECTION



FRENCH CONNECTION
HOME



GREAT PLAINS
LONDON

A fashion advertisement for French Connection. The image features a model with her hair pulled back, wearing a voluminous white fur coat over a black leather skirt. She is posing with her hands in her pockets. The background is a plain, light gray. The brand name 'FRENCH CONNECTION' is overlaid in white, spaced-out capital letters across the middle of the image.

FRENCH CONNECTION

AUTUMN WINTER 2020