FRENCH CONNECTION

FULL YEAR RESULTS TO 31ST JANUARY 2017

HIGHLIGHTS

- Group revenue of £153.2m, down 6.7% (2016: £164.2m) on a reduced store portfolio
- Strong LFL performance with UK/Europe up 4.4% over the year (2016: down 6.4%)
- Nine non-contributing stores closed during the period and a reduced average square footage of 11.7%
- Ecommerce revenue grew by 12.7%, representing 27.3% of the retail revenue
- Composite gross margin of 45.8% (2016: 46.3%)
- Underlying loss before taxation of £3.7m (2016: £4.7m)
- Careful control of working capital with inventory down to £31.7m (2016: £36.2m)
- Closing net cash of £13.5m (2016: £14.0m) and no debt

RESULTS SUMMARY

	12 months to 31-Jan-17	12 months to 31-Jan-16	Variance	Constant currency variance
Revenue	£153.2m	£164.2m	*-6.7%*	*-10.1%*
Gross Margin	45.8%	46.3%		
Operating Expenses	£79.3m	£87.6m	*-9.5%*	*-11.9%*
Other Operating Income	£6.3m	£7.3m	*-13.7%*	*-15.5%*
Share of Losses from JV's	£(0.8)m	£(0.4)m		
Underlying Group Operating Loss	£(3.7)m	£(4.7)m	21.3%	
Closing Net Cash	£13.5m	£14.0m		

RETAIL

Revenue

- Overall revenue 4.9% down due to store closures (6.5% lower at constant currency)
- UK/EU LFL up 4.4% as growth from H1 continued into H2
- Closure of nine non-contributing stores during the period (7 UK/EU, 2 NAM) and 11.7% reduction in average trading space

Gross Margin

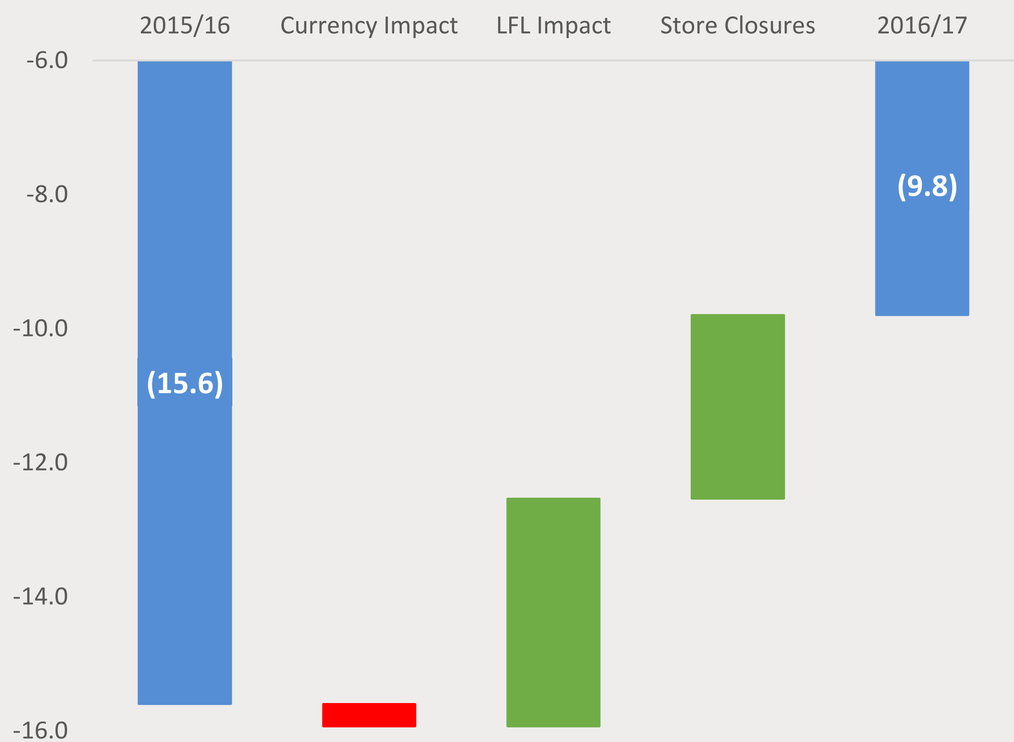
- Margin rate 56.8% (2016: 57.3%). Due to higher proportion of sales through outlet stores as a result of the reduction in number of full price stores

Selling and distribution expenses

- Overall overheads down 12.8% as we continue to rationalise the store portfolio
- Underlying overheads adjusted for store closures and currency down 2.8% reflecting careful control of costs
- Head office restructure actioned following reduction in the number of stores

Retail		**16/17 £m**	**15/16 £m**
Revenue	(4.9) % ↓	87.9	92.4
Gross Margin		56.8%	57.3%
Underlying Operating Loss		**(9.8)**	**(15.6)**

UNDERLYING OPERATING LOSS



RETAIL TRADING

- UK/EU Retail LFL of 4.4% for FY 16/17 reflecting the continued improvements in collections, merchandising and buying
- Ecommerce revenue growth of 12.7%, increasing to 27.3% of retail revenue (2016: 23.0%)
- Mobile constitutes 39.7% of UK/EU Ecommerce traffic (2016: 32.7%) and 26.1% of transactions (2016: 18.9%)
- Online EU revenue growing faster then UK although off a smaller base
- Online Homeware revenue growth of 14.3%

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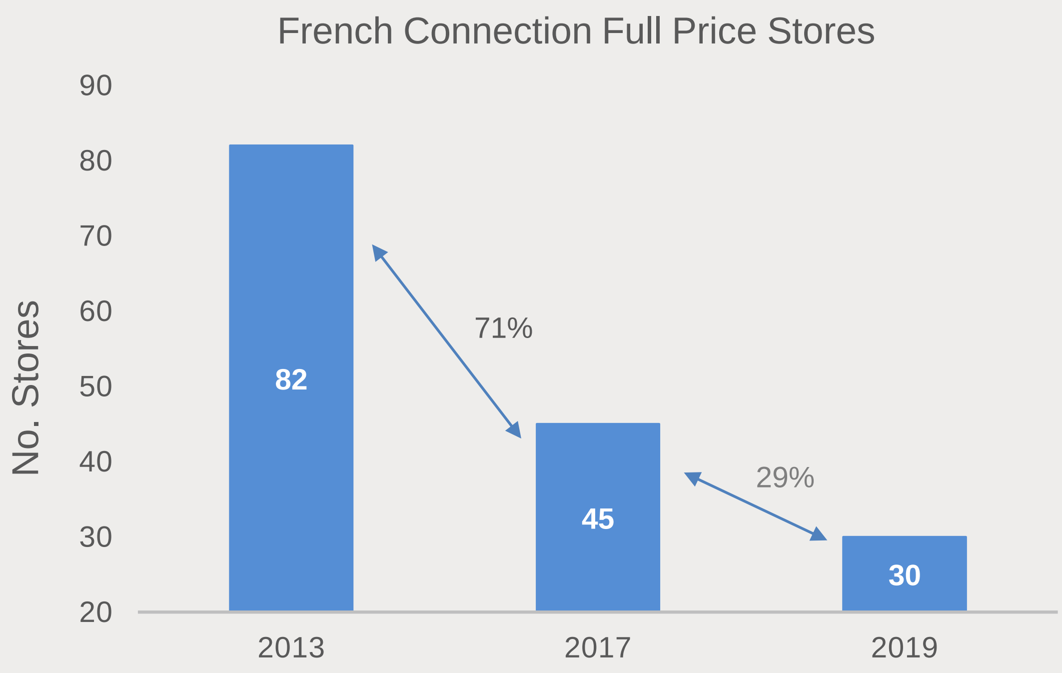
RETAIL STRATEGY

- Store closure programme announced in 2012 expected to complete by January 2019
- Programme is over 70% complete with a further eight stores planned to close before January 2018 of which two have already closed



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RETAIL STORE ESTATE

- Nine non-contributing stores closed in the period. Seven in UK/EU and two in North America
- Average lease length remaining of the UK/EU retail estate 3.2 years (2016: 4.0 years)
- Plan to have 30 full price French Connection stores by January 2019

Movement in store locations since beginning of closure programme

	Start 31 January 2013		Current 31 January 2017		Projected 31 January 2019	
	Locations	**sq ft**	**Locations**	**sq ft**	**Locations**	**sq ft**
FC Full Price Stores						
UK/ Europe	65	204,309	41	126,536	27	66,047
North America	17	58,225	4	13,752	3	11,452
Total Full Price Stores	**82**	**262,534**	**45**	**140,288**	**30**	**77,499**
Outlets	9	13,806	12	20,006	6	9,988
Concessions	54	36,134	53	36,651	49	34,654
Total French Connection	**145**	**312,474**	**110**	**196,945**	**85**	**122,141**
Toast	11	11,407	12	13,546	12	13,546
YMC	2	1,355	2	1,355	2	1,355
Total Operated Locations	**158**	**325,236**	**124**	**211,846**	**99**	**137,042**

WHOLESALE

Wholesale		16/17 £m	15/16 £m
Revenue	(9.1) % ↓	65.3	71.8
Gross Margin		30.9%	32.2%
Operating Profit		**10.0**	**13.3**

Revenue

- Revenue down 9.1% (down 14.7% at constant currency) due to lower sales in H1
- Performance improved in H2 as we saw only a small decline in UK/Europe (-1.5%) due to change in phasing of deliveries to customers, and a small reduction in North America

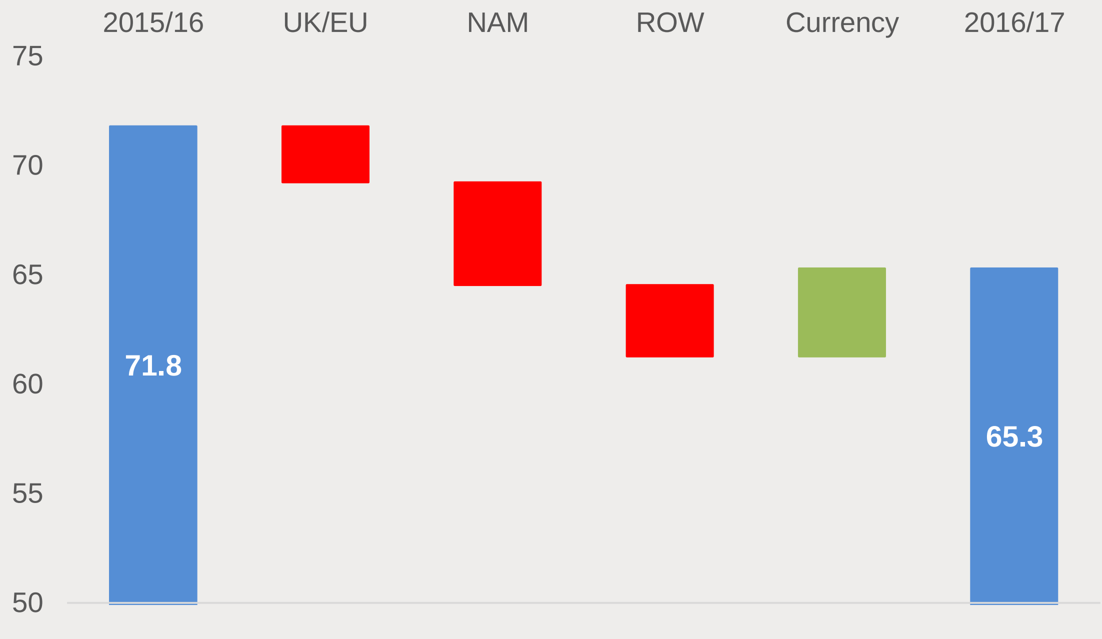
Gross margin

- Gross margin 30.9% (2016: 32.2%) reflecting higher levels of clearance to sell through surplus product during H1

Selling and distribution expenses

- Costs down 1.7% at constant currency through reduction in volume related costs although up 4.1% overall due to currency impact predominantly from North America

REVENUE VARIANCE



LICENCE INCOME

- DFS continues to perform well with an enlarged product range and high levels of marketing
- Movement to our new global fragrance licensee, Interparfums, caused short term disruption but with significant long term potential benefit
- As previously announced, closure of footwear licensee continues to impact income
- New underwear licence for North America recently signed

		16/17 £m	15/16 £m
Other Operating Income	(13.7) % ↓	**6.3**	**7.3**



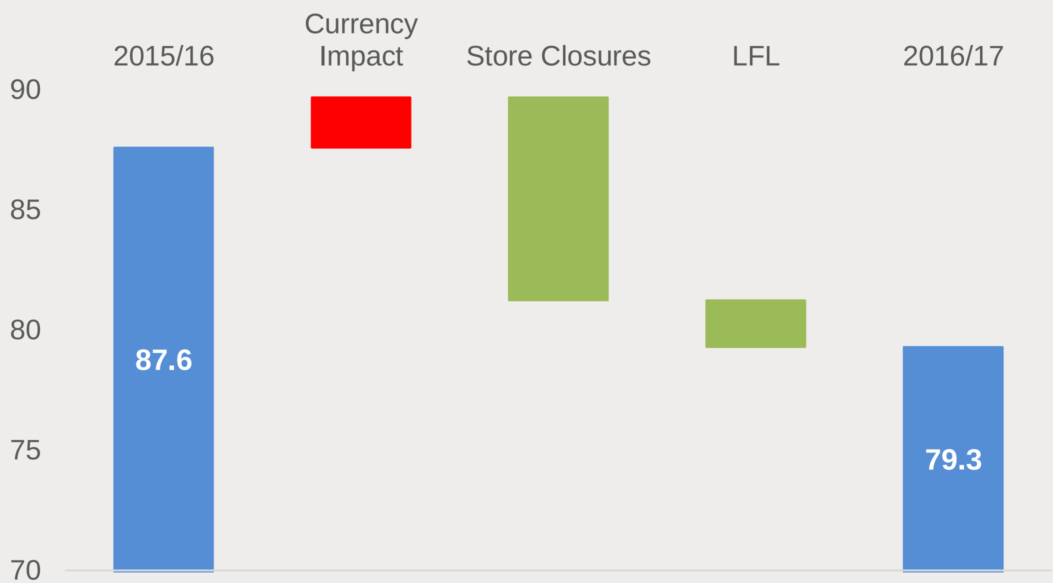

OPERATING EXPENSE REVIEW

- Total group overheads reduced by 9.5% due to a combination of store closures and underlying reduction of 2.6% partially offset by currency movements predominantly from our North America business

- Operating expenses continue to remain a focus as we move towards profitability although we do expect some upwards pressure from rent, rates, living wage and the apprenticeship levy

		16/17 £m	15/16 £m
Operating Expenses	9.5 % ↓	**79.3**	**87.6**

OPERATING EXPENSE VARIANCE



FINANCIAL POSITION

- Year end cash balance £13.5m (2016: £14.0m)
- Working capital improvement driven by a £5.3m reduction in inventory as a result of lower purchases given the reduced store portfolio and liquidation of old stock
- Store disposal proceeds from Regent Street compensation received in H1 offset by store closure costs incurred in the year
- Capital expenditure of £0.7m made up of IT expenditure and shop fits

CASH FLOW SUMMARY

	Jan 2017 £m	Jan 2016 £m
Underlying operating loss	(3.7)	(4.7)
Depreciation and store disposals	1.1	1.4
Share of JV loss	0.8	0.4
Operating Result before changes in working capital	**(1.8)**	**(2.9)**
Movement in working capital	**0.9**	**(4.0)**
Cash flows from operations	**(0.9)**	**(6.9)**
Capital expenditure	(0.7)	(0.8)
Store disposal proceeds/(costs)	1.1	(0.5)
Investment in joint ventures	0.0	(0.5)
Income tax paid	(0.1)	(0.5)
Movement in cash	(0.6)	(9.2)
Opening net cash	**14.0**	**23.2**
Exchange rate fluctuations	0.1	0.0
Closing net cash	**13.5**	**14.0**

OUTLOOK

- Continued strong UK/Europe retail performance in the early part of the new financial year expected to be maintained
- Eight further planned store closures over the next year, two of which have already happened
- Investment in Ecommerce marketing and functionality to build on recent momentum
- Return to growth in Wholesale with strong current order books
- Increased licence income from both UK and US
- Maintain close control of overheads to mitigate inflationary pressures particularly from rents, rates, apprenticeship levy and living wage
- Focus on JV’s to improve performance against background of difficult trading conditions in Hong Kong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