



FRENCH CONNECTION®

FULL YEAR RESULTS TO 31ST JANUARY 2016

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F R E N C H C O N N E C T I O N . C O M

KEY POINTS

- Result for the year disappointing but considerably improved with H2 ahead of last year after a very poor H1
- UK/EU LFLs -6.4% for the year; H2 -2.4% which is a significant improvement on the -10.7% in H1 and reflects a +6.0% LFL increase in full price selling, offset by change in promotional activity
- UK/EU Wholesale growth offset by NAM performance
- Gross Margin rate slightly down due to the change in mix with a higher proportion of wholesale sales but underlying margin has improved
- Continued strong growth in Licensing
- Costs under control, reduction due to store closures. Underlying Operating Expenses flat with savings offset by upward rent reviews
- Changes in design and merchandising put in place in H1 driving an improved performance
- 13 non-contributing stores closed in the year
- First 6 weeks of the new year has seen a continuation of the much improved performance from H2

RESULTS SUMMARY

	12 months to 31 January	12 months to 31 January	Variance	Constant variance
Revenue	£164.2m	£178.5m	(8.0)%	(8.7)%
Gross Margin	46.3%	46.7%		
Operating Expenses	£87.6m	£90.8m	(3.5)%	(3.5)%
Other Operating Income	£7.3m	£6.5m	+12.3%	+11.1%
Underlying Group	£(4.7)m	£(0.8)m		
Closing Net Cash	£14.0m	£23.2m		

RETAIL

Revenue

- 10.0% lower at constant currency from a combination of store closures and negative LFLs
- Closure of 13 non-contributing stores during the period (6 UK/EU, 7 NAM)

Gross Margin

- Overall small margin rate improvement
- H2 margin increased +110bps due to improved input margin, increased full price selling and shorter discounting periods

Selling and Distribution Expenses

- Total trading overheads reduced due to store closures
- Underlying overheads +0.6% with upward pressure from rent reviews offset by ongoing tight management of costs

		15/16	14/15
		£m	£m
Revenue	10.6% ↓	92.4	103.3
Gross Margin		57.3%	57.2%
Underlying Operating Loss		(15.6)	(11.3)

REVENUE VARIANCE



RETAIL TRADING

- UK/EU Retail LFLs of -6.4%, -2.4% in H2 a significant improvement on H1 performance of -10.7%
- Full price LFLs in H2 of +6.0%
- Margin improvement year on year due to higher full price sell through, shorter promotional periods and improved input margin in H2
- Personnel and operational changes made in both design and merchandising in response to poor H1
- Ecommerce represented 23% of Retail revenue, flat on last year
- Mobile and tablet sales constitute 48% of UK/EU Ecommerce revenue (2015: 42%)
- First 6 weeks of the new year has seen a continuation of the much improved performance from H2



RETAIL STORE ESTATE

- 13 non-contributing stores closed in the period as the store estate continues to be rationalised
- 6 stores in UK/EU and 7 stores in North America
- 4 new outlet stores opened
- Net closure of 1 concession in the period
- The average lease length of the UK/EU retail estate is 4.0 years (2015: 4.4 years)

	31 January 2016		Change on Jan 15		Change on Jan 14	
	Locations	sq ft	Locations	sq ft	Locations	sq ft
UK/Europe						
Stores	59	160,569	(6)	(20,901)	(11)	(42,272)
Outlets	14	23,261	4	6,593	4	6,593
Concessions	54	35,491	(1)	128	3	1,931
Total UK/Europe	127	219,321	(3)	(14,180)	(4)	(33,748)
North America						
Stores	6	18,671	(7)	(19,173)	(10)	(28,495)
Total North America	6	18,671	(7)	(19,173)	(10)	(28,495)
Total Operated Locations	133	237,992	(10)	(33,353)	(14)	(62,243)

WHOLESALE

Revenue

- -7.0% lower at constant currency (2015: +7.3% growth)
- Within this UK/EU grew +1.6%
- North America continues to be challenging with the department stores reacting to poor sell through from previous seasons

Gross Margin

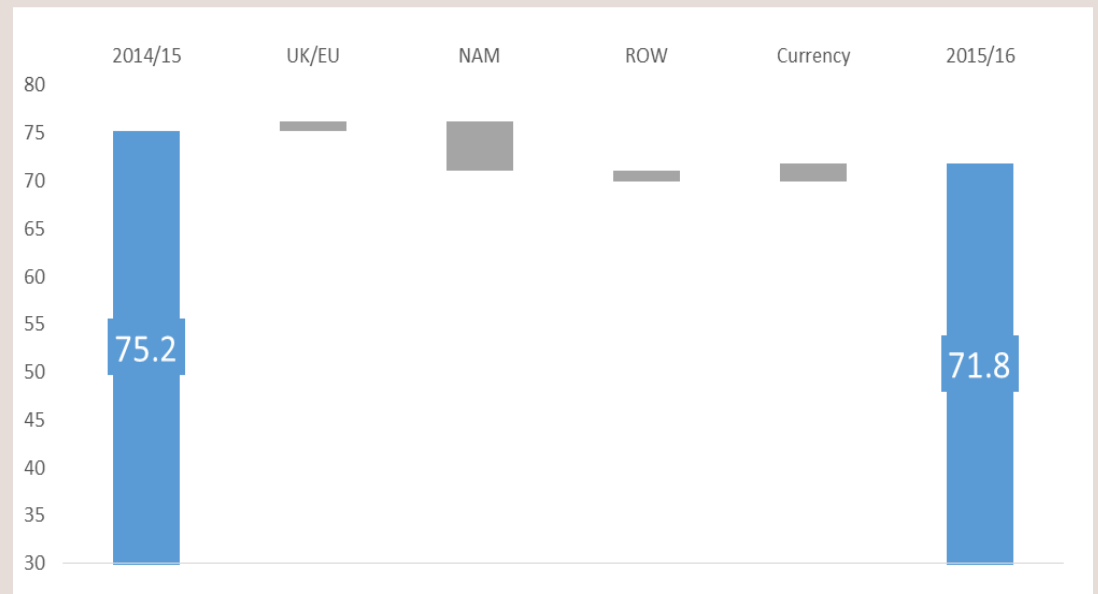
- Gross Margin rate broadly flat

Selling and Distribution Expenses

- Costs well controlled and reduced by 1.3% on a constant currency basis

		15/16	14/15
Wholesale		£m	£m
Revenue	4.5% ↓	71.8	75.2
Gross Margin		32.2%	32.3%
Underlying Operating Profit		13.3	14.6

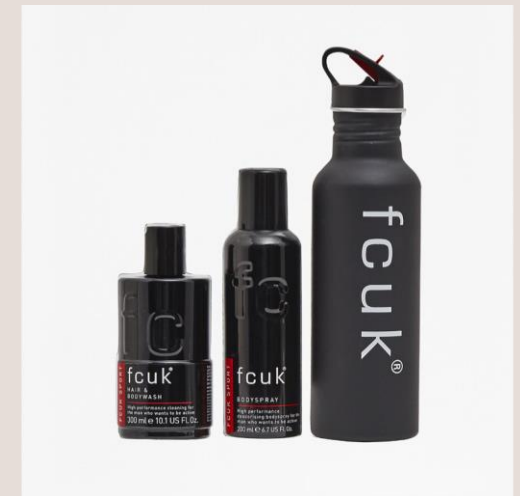
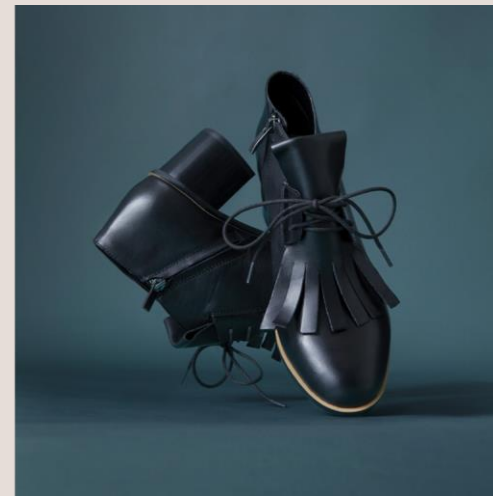
REVENUE VARIANCE



LICENCE INCOME

- Net income received from Licensing was £7.3m, growth of +12.3% (constant currency +11.1%)
- Furniture licence with DFS continues to perform particularly well and has been extended for a further 5 years
- Other newer licensees grew and consistent sales from more mature agreements

Other Operating Income		15/16	14/15
		£m	£m
Licence Income	12.3% ↑	7.3	6.5

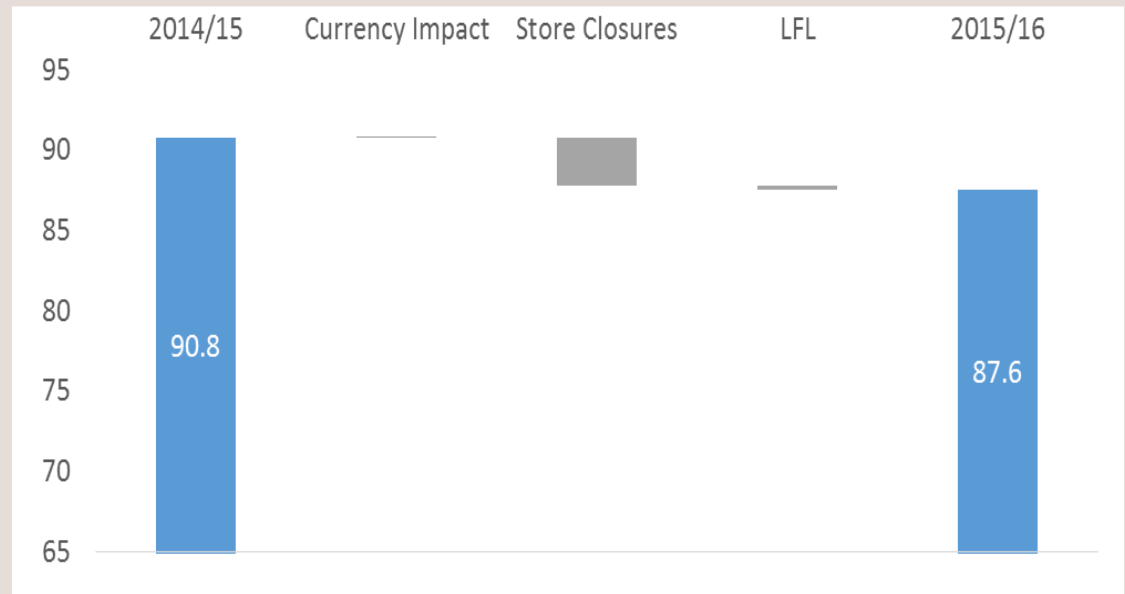


OPERATING EXPENSE REVIEW

- Total Group Operating Expenses were reduced by 3.5%
- Underlying Operating Expenses are slightly down reflecting some savings, offset by rent reviews
- Operating Expenses remain a focus area however rent reviews in key London locations and living wage are putting upward pressure on overheads

		15/16	14/15
		£m	£m
Operating Expenses			
Operating Expenses	3.5% ↓	87.6	90.8

OPERATING EXPENSE VARIANCE



FINANCIAL POSITION

- Positive cash position throughout the year
- Higher level of receivables from wholesale customers
- Cash reinvested in Joint Ventures to fund operations
- Investment in new retail locations and web platform

CASH FLOW SUMMARY

	15/16	14/15
	£m	£m
Underlying Operating Loss	(4.7)	(0.8)
Depreciation & store disposals	1.4	1.6
Share of JV loss	0.4	0.0
Finance income	0.0	(0.1)
Operating Result before changes in working	(2.9)	0.7
Movement in working capital	(4.0)	(3.4)
Cash flows from operations	(6.9)	(2.7)
Capital expenditure	(0.8)	(1.1)
Store disposal costs	(0.5)	(1.4)
Investment in joint ventures	(0.5)	0.2
Income tax paid	(0.5)	(0.3)
Other	0.0	0.3
Movement in Cash	(9.2)	(5.0)
Opening net cash	23.2	28.2
Closing net cash	14.0	23.2
	15/16	14/15
	£m	£m
Cash High	15.0	23.2
Cash Low	6.1	7.6
Average	10.7	13.3

OUTLOOK

- New financial year has seen a continuation of the improved performance seen in H2 of last year
- Impact of the changes made in H1 within design and merchandising to increase in the new financial year
- Wholesale orders for Summer 16 above last year with a good level of in season business taken since the start of the new year and reaction to Winter 16 collection very positive
- License income expected to continue to grow
- 3/4 more non-contributing stores to close during the year
- Maintain tight control of Operating Expenses although some inflationary pressure from rent reviews and living wage

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