



ESPRIT

ANNUAL RESULTS FY14/15
ESPRIT HOLDINGS LIMITED

23 September 2015

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AGENDA

Business Highlights

Jose Manuel Martínez, Group CEO

Annual Results Review

Thomas Tang, Group CFO

Strategic Priorities

Jose Manuel Martínez, Group CEO

Q&A's

BUSINESS HIGHLIGHTS

➤ **Financially, FY14/15 has proven exceptionally challenging**

- Larger than expected decline in turnover (-11.5% in LCY) mostly due to reduction in total controlled space (-8.8%) and unusually negative market development in our core European countries
- Stable gross profit margin and recurring OPEX, but lower turnover led to an operational loss of -HK\$718 million (excluding non-recurring impairment and provisions)
- Bottom line (Net Loss: HK\$3,696 million) aggravated by non-recurring provisions and impairments totaling HK\$2,965 million (mostly non cash items) in relation to contraction of business over the past two years
- Maintained healthy net cash position of HK\$5.0 billion and debt free situation, thanks to very cautious cash management, with special efforts to reduce OPEX and working capital in previous years

➤ **Strategically, we completed the most vital and demanding phase of our turnaround plan**

- Product - activated the Vertical Model in July 2014 without relevant disruption to operations and with encouraging signs in the sales trend of the first collections developed under the new model
- Channels - developed Omnichannel Model to optimize sales performance by focusing on our sizeable loyal customer base “Esprit Friends” and fully integrating the commercial activity of all sales channels - offline and online, retail and wholesale

➤ **Finally, we are entering the last phase of our strategic plan: “Growth”**

- Excel in product (Vertical) and channel (Omnichannel) performance to increase sales productivities
- Support with Brand Marketing campaigns to attract new customers and traffic to the brand
- Complement with Expansion plans to grow our presence in current and new markets
- Leverage cost structure to grow profitability in parallel with top line

ANNUAL RESULTS
REVIEW

INCOME STATEMENT

(in HK\$m)	FY14/15	FY13/14	YoY change	
			HKD	LCY
Turnover	19,421	24,227	▼ 19.8%	▼ 11.5%
COGS	(9,726)	(12,071)	▼ 19.4%	▼ 10.9%
Gross profit	9,695	12,156	▼ 20.3%	▼ 12.0%
GP margin	49.9%	50.2%	▼ 0.3%pt	▼ 0.3% pt
OPEX	(13,378)	(11,795)	▲ 13.4%	▲ 23.1%
(LBIT) / EBIT	(3,683)	361	n.a.	n.a.
Taxation	(29)	(169)	▼ 82.9%	▼ 64.1%
Net (loss) / profit	(3,696)	210	n.a.	n.a.

Turnover decline largely due to:

1. Reduction in controlled space (▼ 8.8%)

2. Extremely challenging market

- Exceptionally warm winter in Europe which placed extreme pressure on sales and prices during the entire Autumn/Winter 2014 season

- Continuation of negative market development during the second half (German market recorded negative growth in 9 out of 12 months of FY14/15)*

3. Weaker than expected product performance until introduction of the Vertical Products

▲/▼ year-on-year change
n.a. Not applicable

* According to data published by TextilWirtschaft

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Relatively stable gross profit margin despite significant depreciation of the Euro, thanks to continued savings in our supply chain and proactive hedging at favorable rates

▲/▼ year-on-year change
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OPEX, excluding non-recurring impairments and provisions totaling HK\$2.97 billion (China goodwill, provision for store closures & onerous lease and impairment of fixed assets), were HK\$10,413m, slightly lower than last year in LCY

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Lower sales led to an operational loss

The loss was further aggravated by the non-recurring impairments and provision mentioned above

As the Group recorded a loss for the full financial year, the Board has not recommended the payment of a final dividend

TURNOVER

BREAKDOWN OF TURNOVER

Regions	% of Group Turnover			
	Retail	Wholesale	Licensing & others	Total
Germany	28.8%	17.3%	0.1%	46.2% (46.8%)
Rest of Europe*	20.3%	16.3%	-	36.6% (37.4%)
Asia Pacific	14.9%	1.6%	-	16.5% (15.2%)
North America [#]	-	-	0.7%	0.7% (0.6%)
Total	64.0% (62.8%)	35.2% (36.5%)	0.8% (0.7%)	100.0%

* Rest of Europe include (i) all European countries excluding Germany; (ii) Latin America and (iii) the Middle East

[#] Represents third party licensing income that mainly comes from in Asia Pacific and Rest of Europe

() Denotes comparative figures for FY13/14

TURNOVER DEVELOPMENT AND DRIVERS

	Turnover YoY Change (LCY)	Turnover Drivers	
		SQM YoY Change	Space Productivity (sales per SQM)
Retail	▼ 10.1%	▼ 0.9%	▼ DOWN
Wholesale	▼ 13.9%	▼ 14.2%	▲ FLAT
Group	▼ 11.5%	▼ 8.8%	▼ DOWN

Retail controlled space stabilized ; while Comp-Store-Sales ▼ 7.0% mainly due to :

- Europe (Comp-Store-Sales ▼ 8.3%): adversely impacted by unusually warm winter and its impact on the entire Autumn/Winter 2014 season, followed by negative market development during 2H
- APAC (Comp-Store-Sales ▲ 0.4%)

Wholesale space productivity slightly improved ; controlled space ▼ 14.2% (▼ 69,245 m²) due to :

- Closure of non-performing locations by wholesale partners
- Conversion of 21 franchise stores in Sweden (10) and Poland (11) into retail format
- Exit of wholesale partner in Russia

TURNOVER DEVELOPMENT BY QUARTER

Retail Turnover (YoY change in LCY)

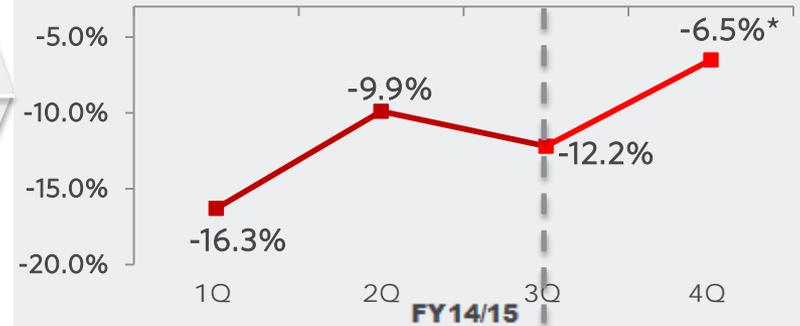
Arrival of Vertical Products



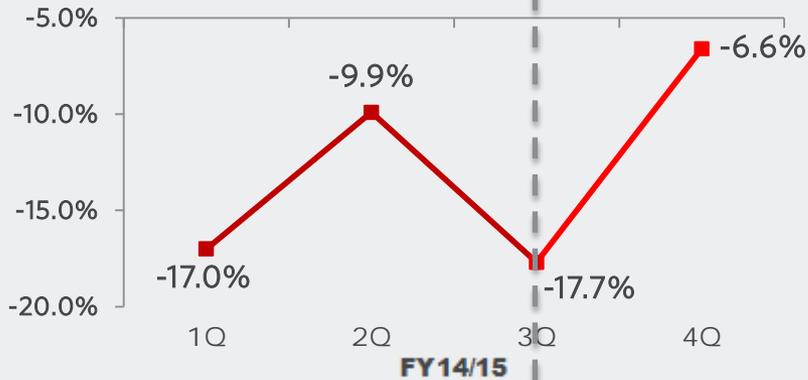
Improved performance since introduction of Vertical Products (specially retail)

Group Turnover (YoY change in LCY)

Arrival of Vertical Products

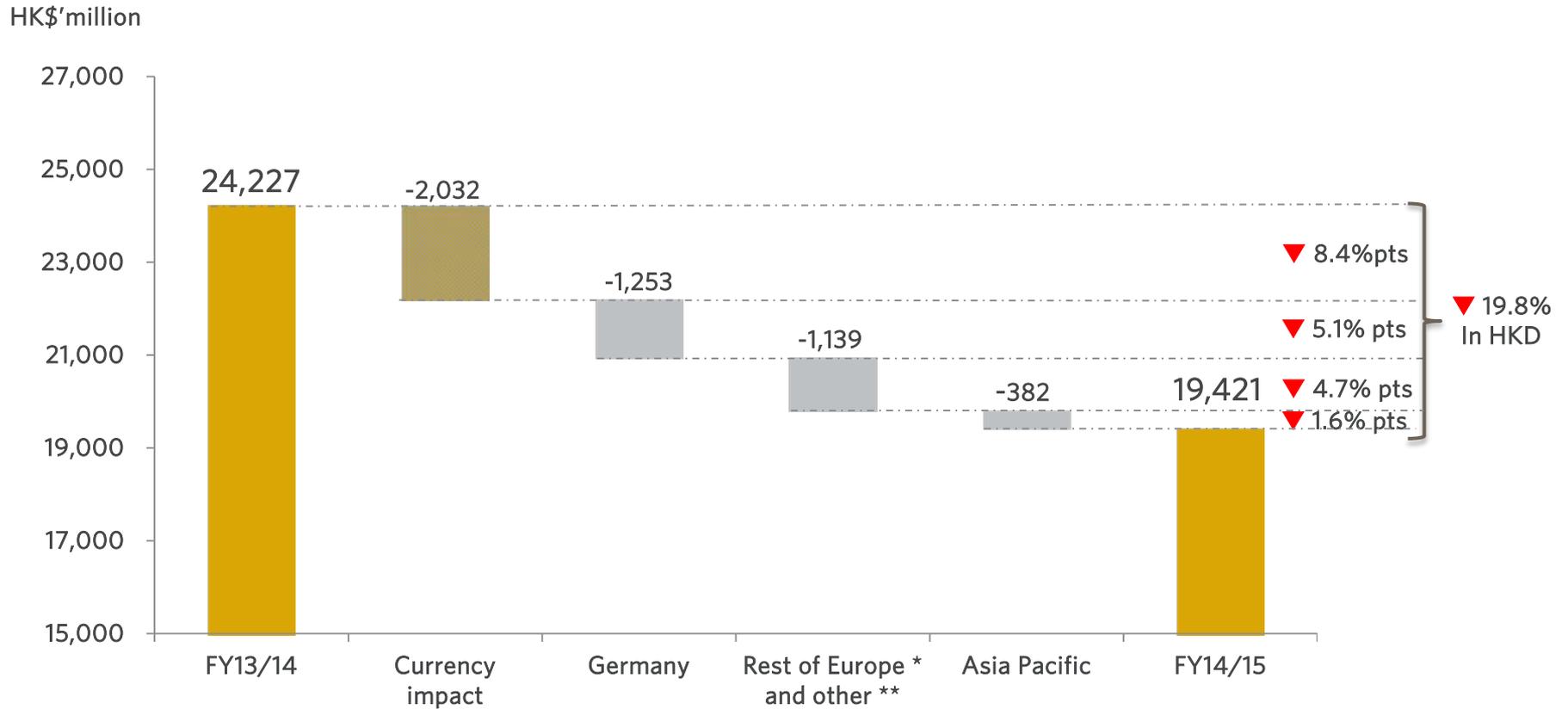


Wholesale Turnover (YoY change in LCY)



* Group Turnover includes retail, wholesale and licensing operations

TURNOVER DEVELOPMENT BY REGIONS



* Rest of Europe include (i) all European countries excluding Germany; (ii) Latin America; and (iii) the Middle East

** Other represents North America

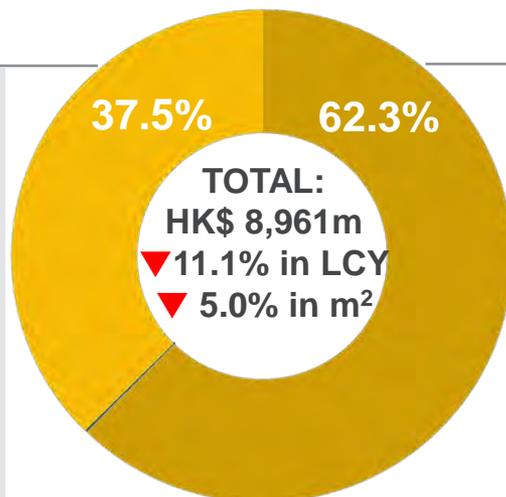
▲/▼ year-on-year change

ANALYSIS OF TURNOVER - GERMANY

WHOLESALE

HK\$3,361m ▼9.7% in LCY

- Selling space ▼6.3%
Closure of non-performing locations by our wholesale partners
- Space productivity dragged by:
One-off special discounts and returns granted to wholesale partners as a support measure due to weak performance in 1H FY14/15 (Autumn/Winter collections)



Licensing & Others : 0.2%
▼20.4% in LCY

RETAIL

HK\$5,586m ▼11.8% in LCY

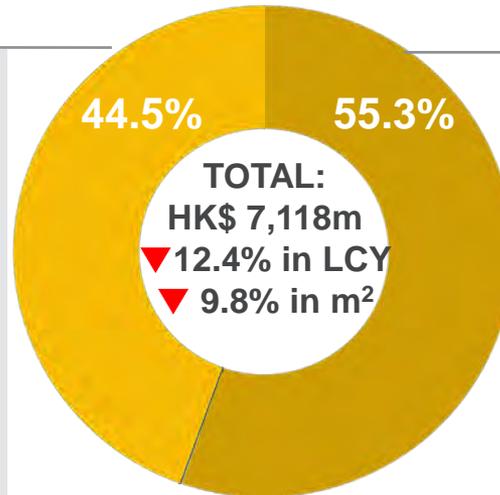
- Selling space ▼2.8%
Closure of 7 stores under store closure and onerous leases
- Comp-Store-Sales ▼8.4% in LCY
Unusually warm winter and its impact on the entire Autumn/Winter 2014 season
- Followed by negative market development also during 2H

ANALYSIS OF TURNOVER – REST OF EUROPE

WHOLESALE

HK\$3,171m ▼15.0% in LCY

- Selling space ▼15.1%
 Closure of non-performing locations by our wholesale partners, mainly in Benelux & the Middle East
 Conversion of 21 franchise stores into retail format (Sweden & Poland)
 Exit of partner in Russia
- + Stabilized space productivity despite special discounts and returns granted to strategic wholesale partners as a support measure



Licensing & Others : 0.2%
 ▲ 15.6% in LCY

RETAIL

HK\$3,936m ▼10.4% in LCY

- + Selling space ▲1.1%
 Conversion of 21 franchise stores into retail format (Sweden & Poland)
- Comp-Store-Sales ▼8.1% in LCY
 Unusually warm winter and its impact on the entire Autumn/Winter 2014 season (similar to market development in Germany)

ANALYSIS OF TURNOVER - ASIA PACIFIC

WHOLESALE

HK\$313m ▼ 38.1% in LCY

China (▼ 39.0% in LCY)

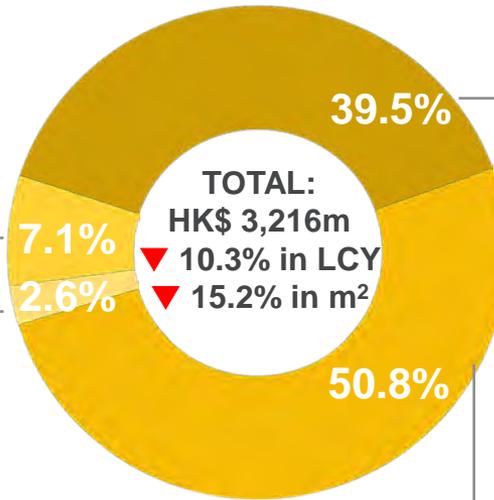
- Selling space ▼ 47.9%

Restructuring mostly completed, and signed up new franchise partners for the next financial year

- Special return agreements to clear very old inventories

+ Improved space productivity in 2H as wholesale partners re-stocking

	YoY Change	
	1H	2H
Turnover (in LCY)	▼ 51.5%	▼ 8.1%
m ²	▼ 41.8%	▼ 47.9%



Rest of APAC Wholesale

RETAIL

HK\$2,903m ▼ 5.7% in LCY

China (▼ 7.3% in LCY)

+ Selling space ▲ 0.4%

Stabilized space with progressive addition of new space over FY14/15

+ Comp-Store-Sales ▲ 1.8% in LCY

- Non Comp-Store-Sales ▼ 16.1% in LCY (Represented 46.1% of China retail sales), mainly due to movements of concession counters in department stores

Rest of APAC (▼ 4.4% in LCY)

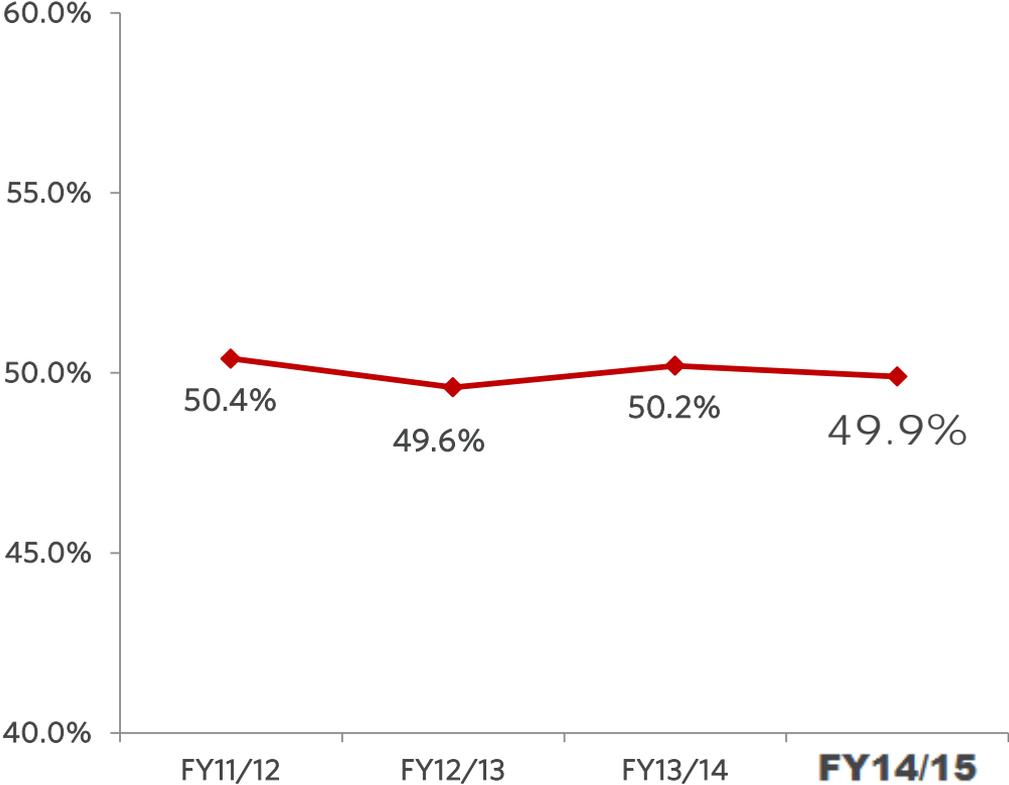
- Selling space ▼ 1.2%

Stabilized space with progressive addition of new space over FY14/15

- Comp-Store-Sales ▼ 0.8% in LCY

PROFITABILITY

GROSS PROFIT MARGIN



Relatively stable Gross profit margin :

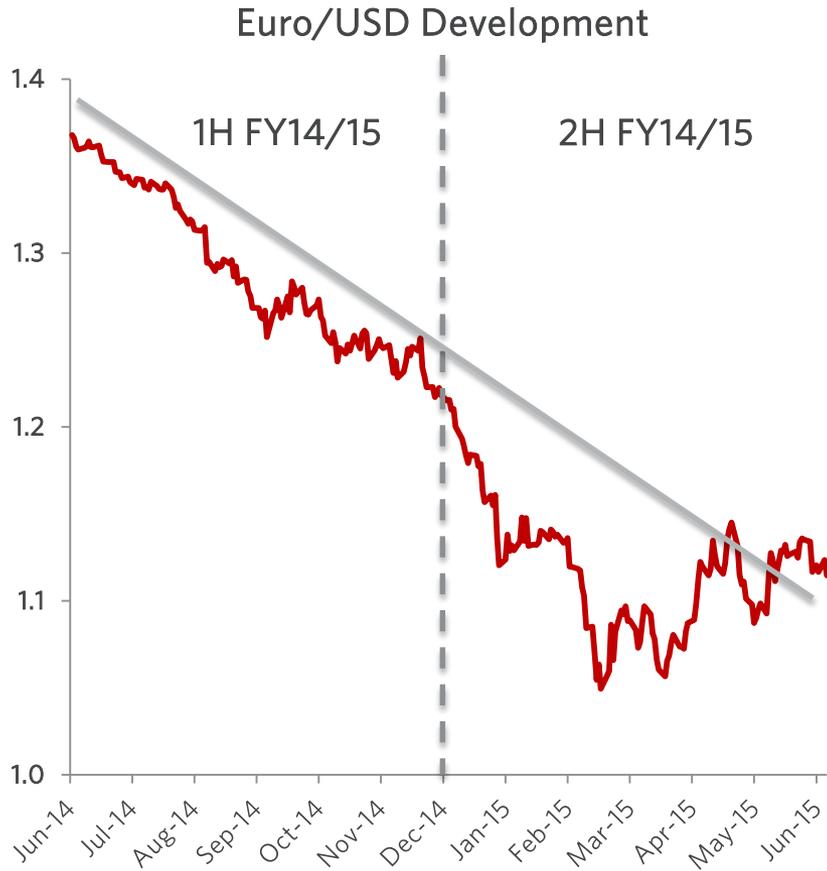
- Pressure from necessary promotions and markdowns to respond to the heavily discount-driven marketplace

Offset by:

+ continuing measures to make our supply chain leaner

No visible impact by the sharp decline of EUR/USD exchange rate because of our anticipated currency hedging

FX CHALLENGE



- YTD average Euro/USD rate depreciated ▼11.4% in FY14/15 year-on-year
- Although purchases of finished goods for FY15/16 are fully hedged at rates better than prevailing market rate, the contracted rates are lower than last year rates and will put pressure on FY15/16 gross profit margin
- Under continuous review for purchases of merchandise for FY16/17 as well as potential Euro price adjustment, depending on movement in exchange rate

OPERATING EXPENSES

(in HK\$ M)	FY14/15	FY13/14	Change in % LCY
Operational OPEX	10,413	11,609	▼ 1.2%
Staff costs	3,562	3,851	▲ 1.3%
Occupancy costs	3,160	3,585	▼ 4.0%
Logistics expenses	1,048	1,317	▼ 10.4%
Marketing & advertising expenses	820	792	▲ 17.3%
Depreciation	713	833	▼ 5.2%
Other operating costs	1,110	1,231	▼ 0.4%
Exceptional Expenses	2,965	186	
Impairment of China goodwill	2,512	-	
Provision for store closures & onerous leases	282	106	
Impairment of fixed assets	171	80	
Total OPEX	13,378	11,795	▲ 23.1%

Remained vigilant in costs control but further savings is limited after the significant reduction last year

Savings were achieved in most cost lines of our operations, except:
Mandatory wage increases in different retail markets

Stepping up marketing efforts to complement the roll-out of Vertical Products and to drive sales and traffic

Include negative impact of exchange loss of HK\$26m this year vs exchange gain last year of HK\$148m due to revaluation of intercompany loans. Excluding this, "Other operating costs" decreased by -13.3% in LCY

EXCEPTIONAL EXPENSES

(in HK\$ M)	FY14/15	FY13/14	Change in %
			LCY
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Non-recurring impairment and provisions totalling HK\$2,965m

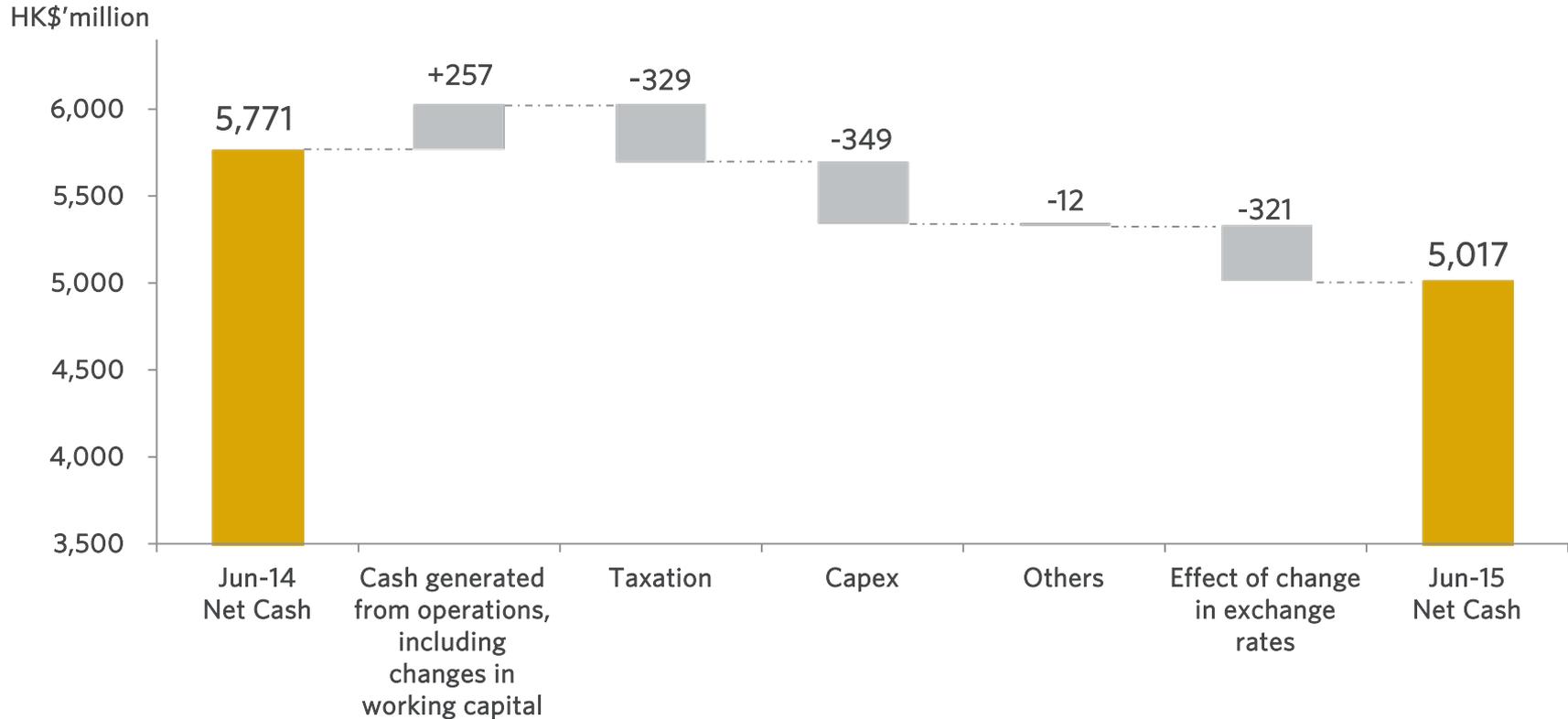
Primarily accounting adjustments, majority of which are non-cash and have no material impact on cash flow and operations

Impairment of China Goodwill

- The impairment is a reflection of the contraction of China business in the past two years
 - Rationalized wholesale customer base
 - Closed unprofitable locations
 - Cleaned up large aged inventories in the wholesale channel
- + Restructuring mostly completed and new management team focused on growth development
 - Identified and signed up new wholesale partners
 - Stabilized retail controlled space (▲0.4% year-on-year)

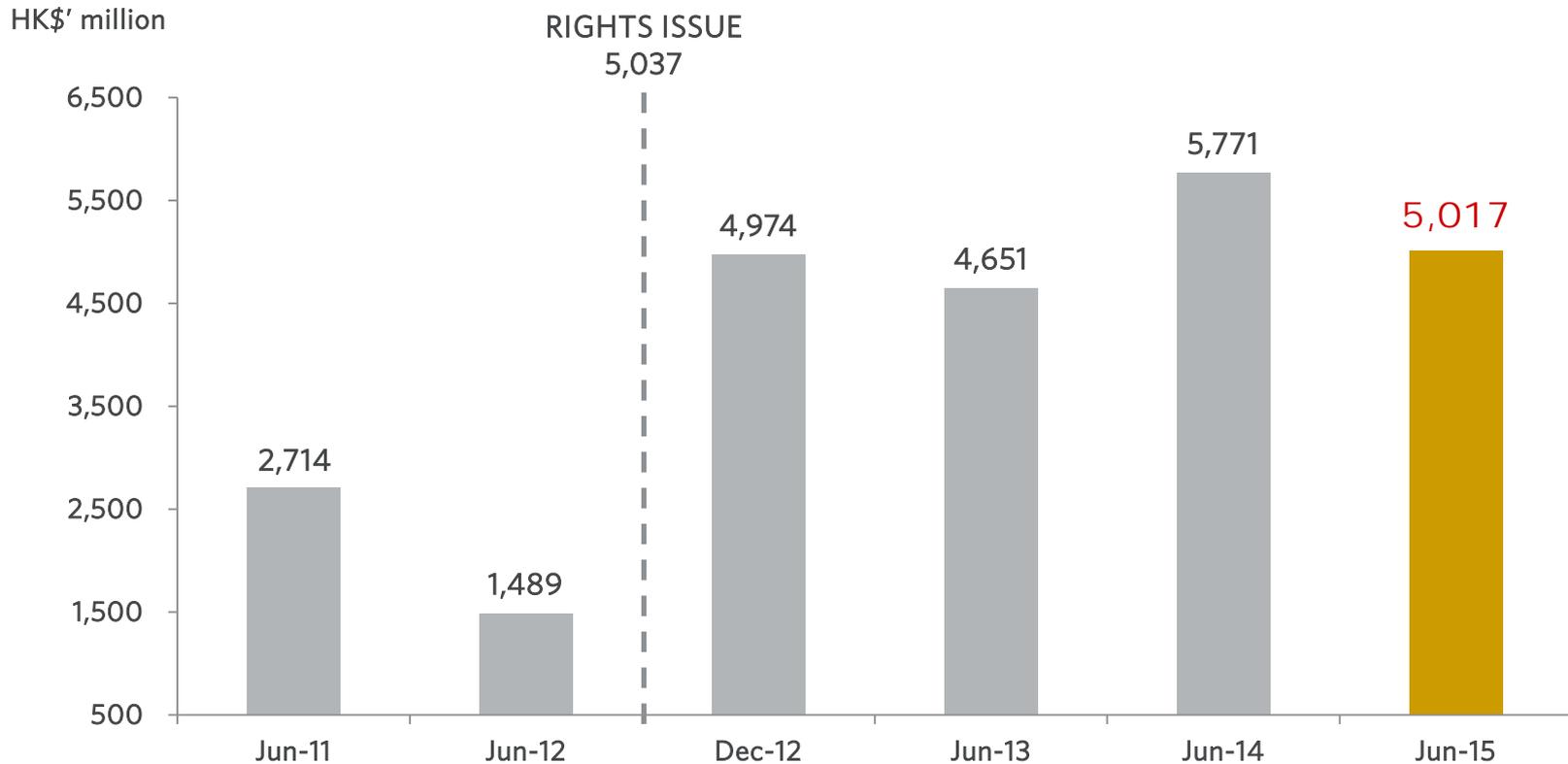
WORKING *CAPITAL*

FUND FLOW AND NET CASH POSITION



- Healthy net cash position of HK\$5,017 million with zero debt
- Reduction of cash impacted by the unfavorable Euro currency exchange rate (-HK\$321m)

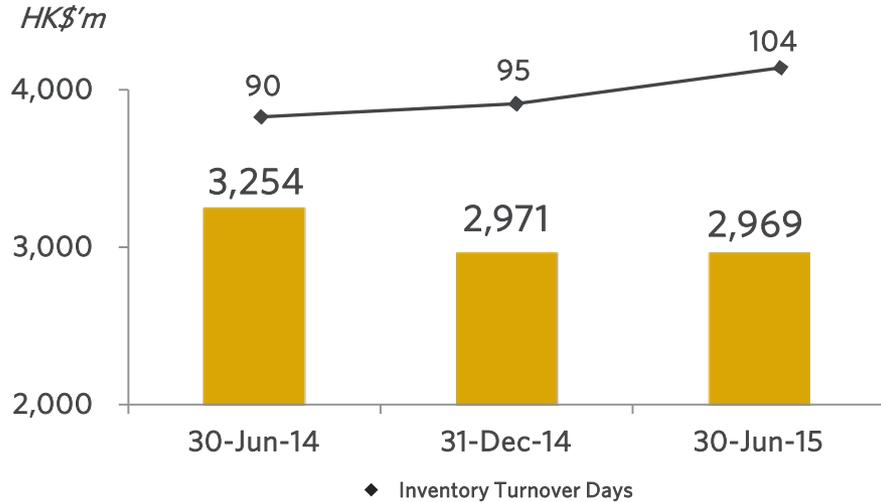
RECENT DEVELOPMENT OF NET CASH POSITION



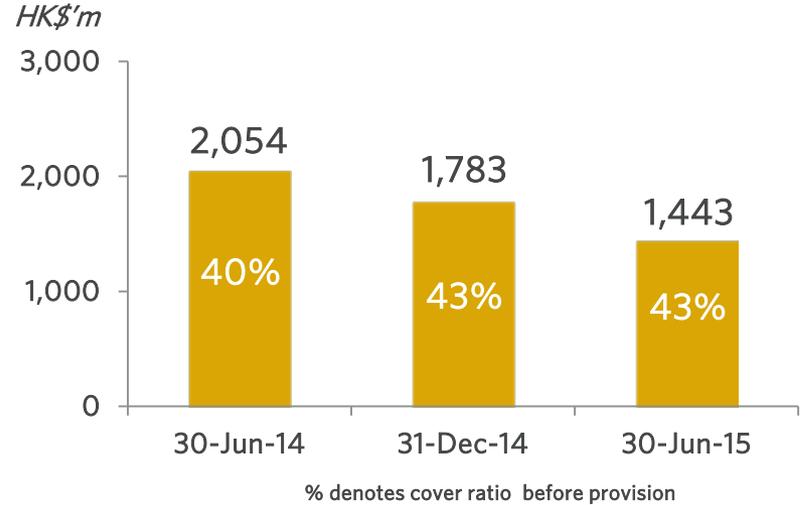
Net cash remained at similar level as compared to the level immediately following the rights issue in Nov 2012

WORKING CAPITAL

Inventories



Net trade debtors



Inventories ▼ 8.8% yoy attributable to:

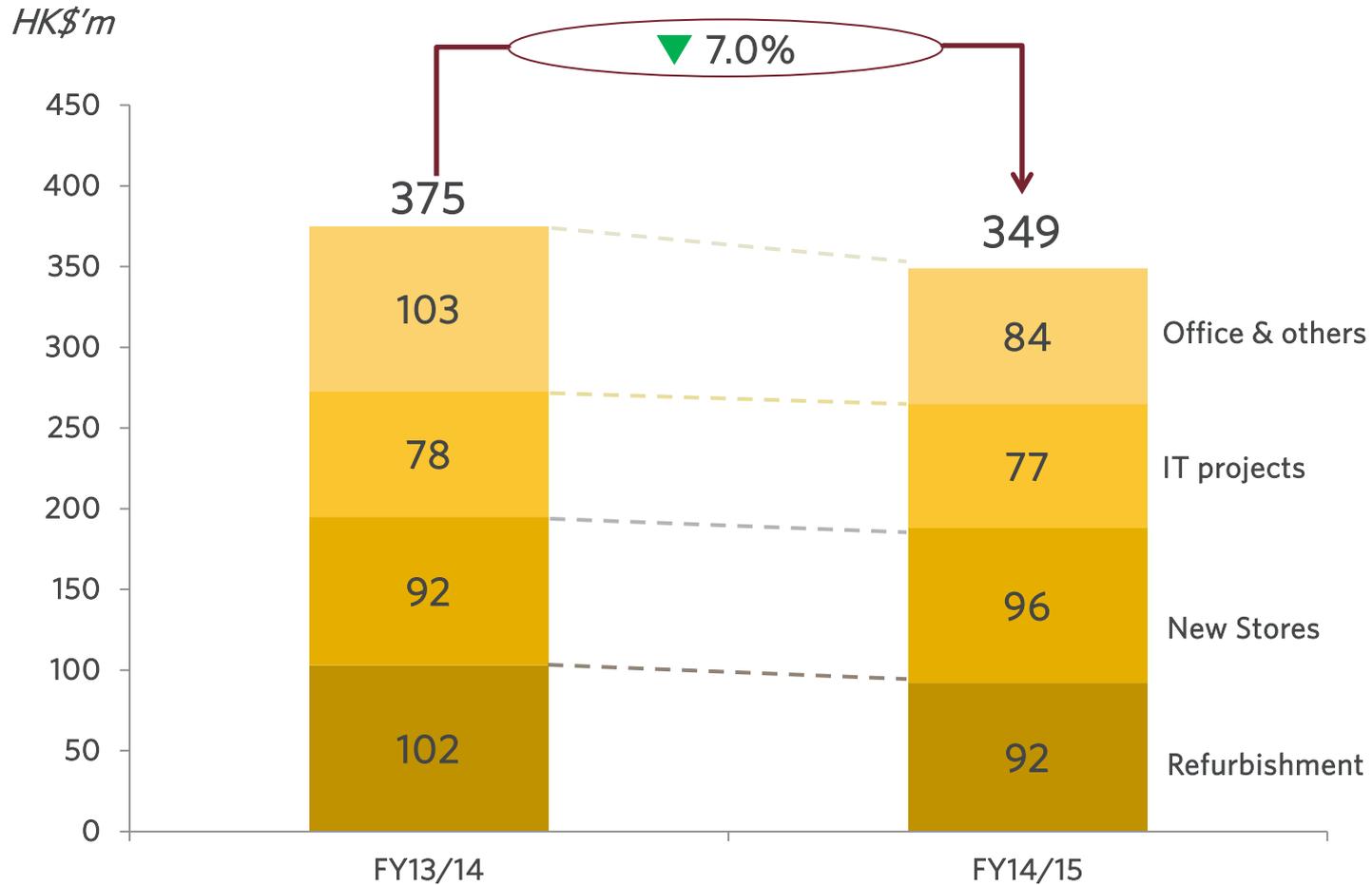
- Units of inventory ▼ 0.2% yoy
- Decrease in inventory provision due to improved aging: proportion of finished goods inventory (in terms of units) aged over 6 months decreased to 18.3% (30 Jun 14: 22.6%)
- Inventory turnover days were 104 days (2014: 90 days), due to decline in turnover

Net trade debtors ▼ 29.8% yoy due to:

- Lower wholesale turnover (▼ 13.9% yoy in LCY)
- ▼ 17.7% depreciation in EUR/HKD closing rate (30 Jun 15: 8.7104; 30 Jun 14: 10.580)

Cover ratio before provision increased by ▲ 2.6% pts as compared to end of Jun 2014

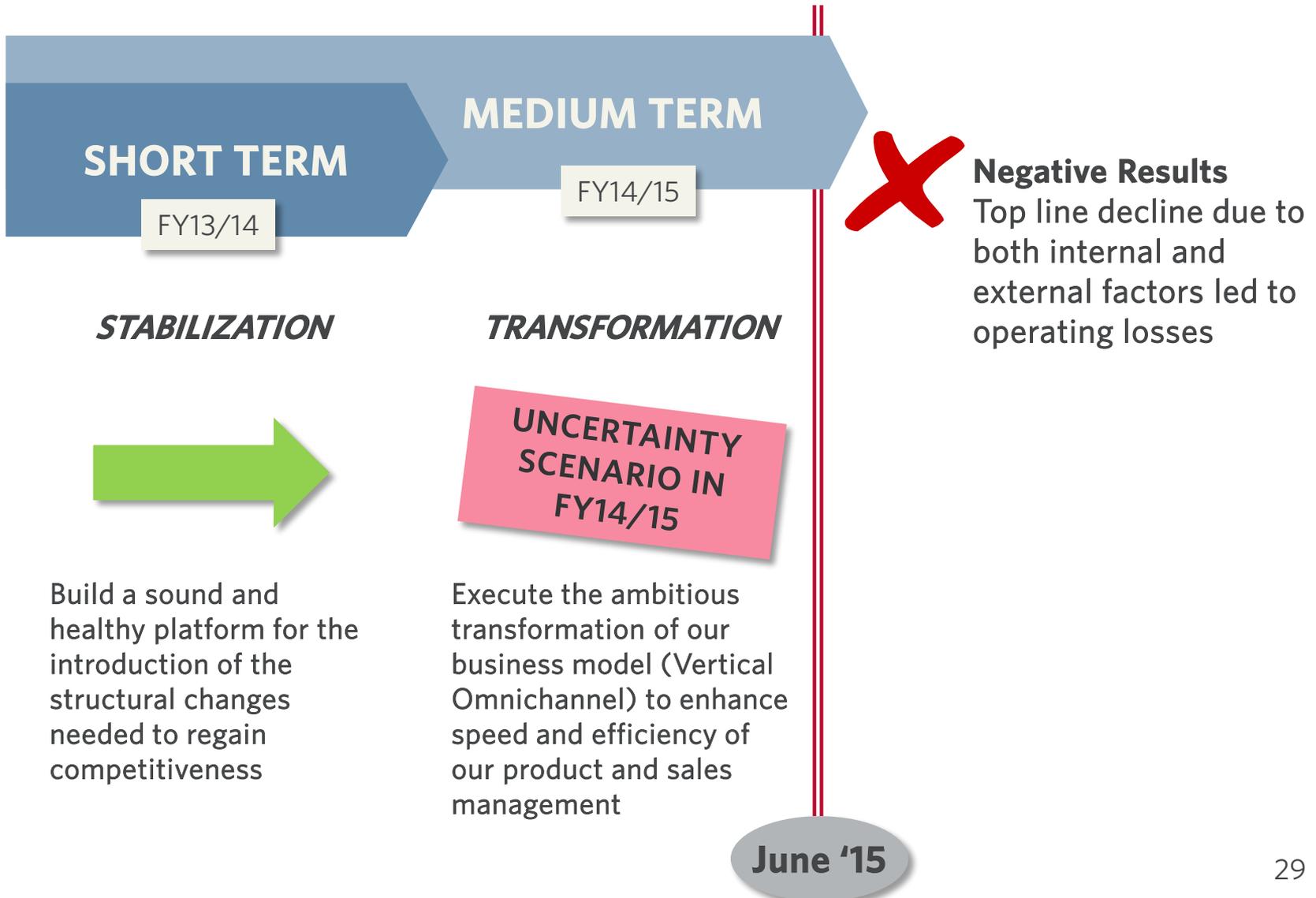
CAPITAL EXPENDITURE



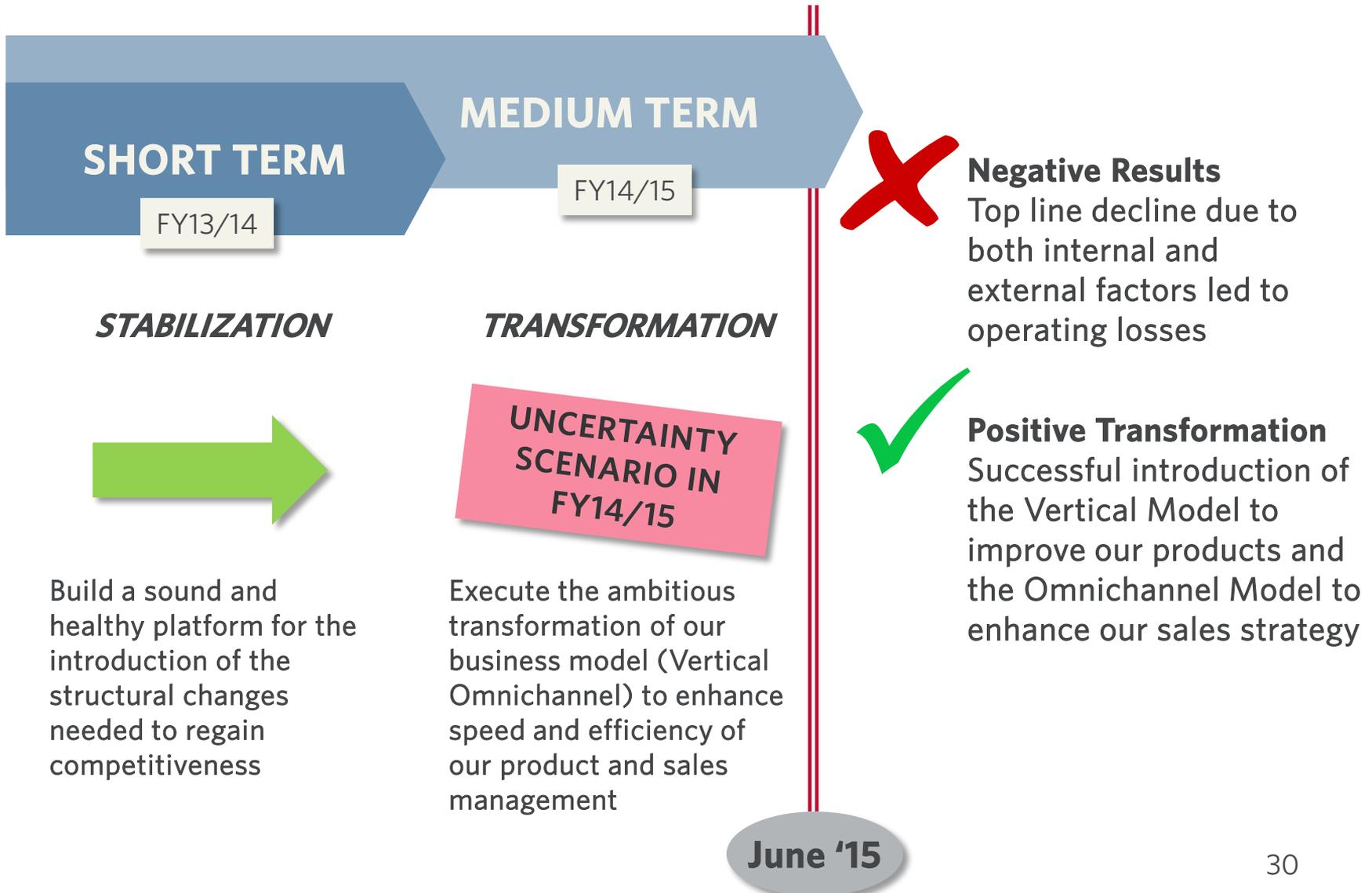
- Remained selective in expansion and moderate in deployment of refurbishment to align with business development
- Slight increase in New Stores CAPEX mainly due to opening of flagship stores in Hong Kong

STRATEGIC
PRIORITIES

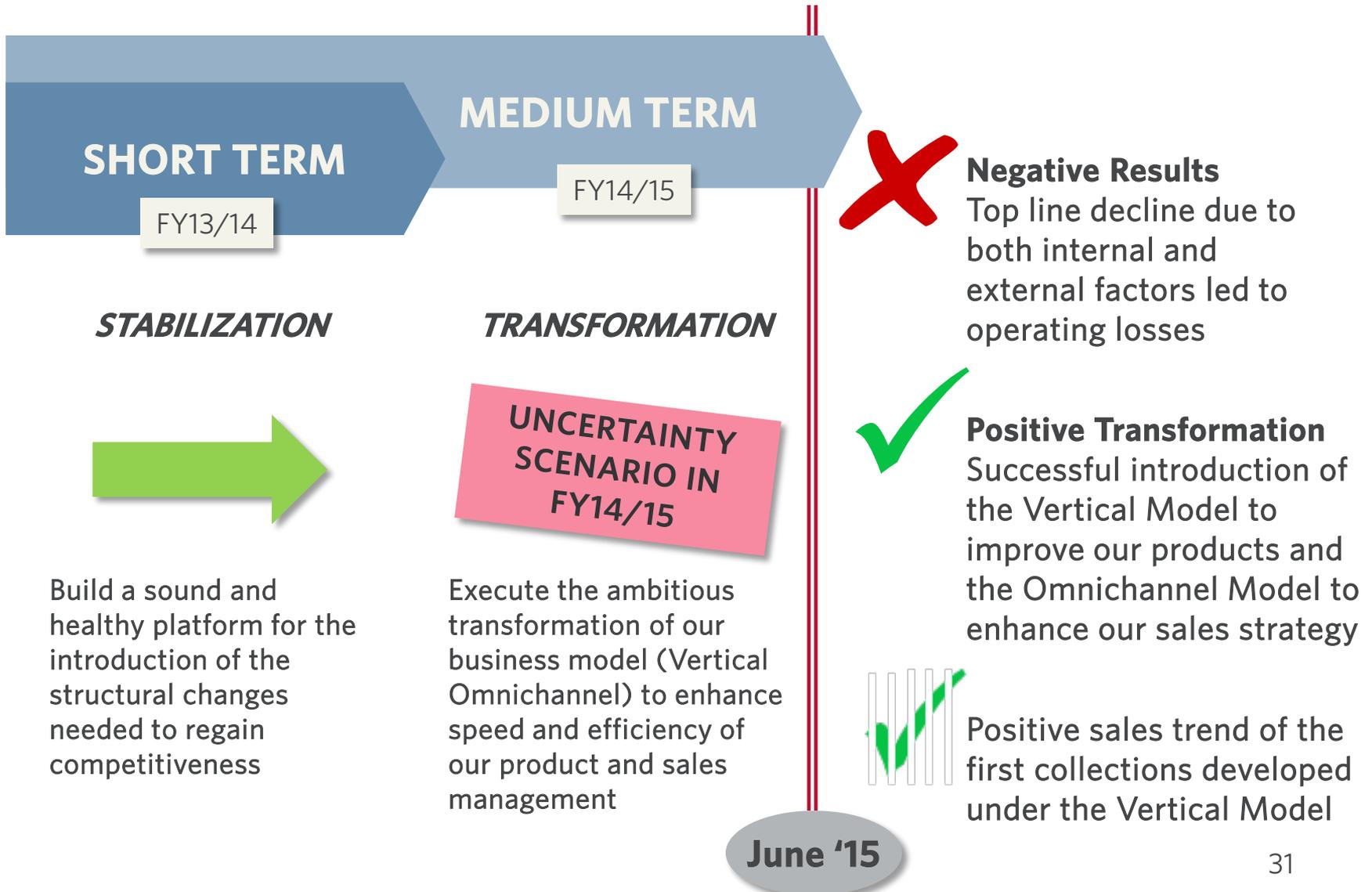
TRANSFORMATION



TRANSFORMATION



TRANSFORMATION



Build a sound and healthy platform for the introduction of the structural changes needed to regain competitiveness

Execute the ambitious transformation of our business model (Vertical Omnichannel) to enhance speed and efficiency of our product and sales management

TRANSFORMATION

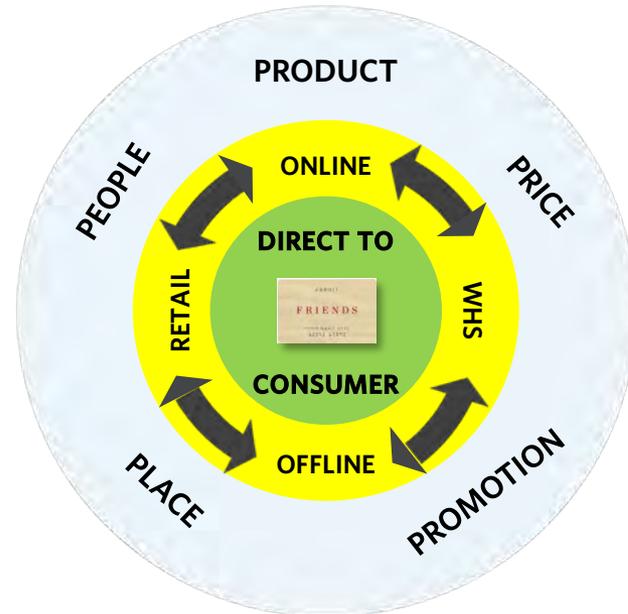
PRODUCT

CHANNELS

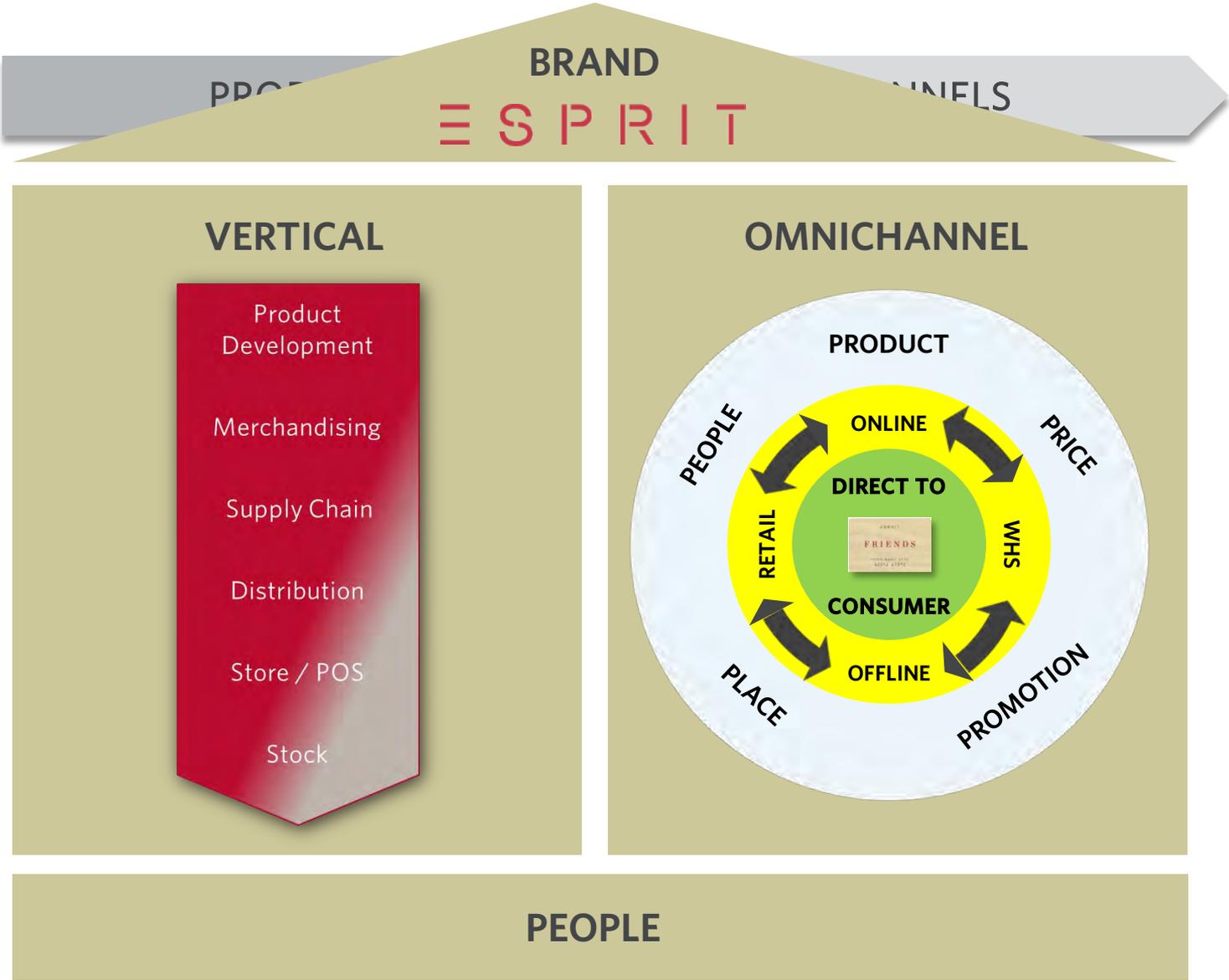
VERTICAL



OMNICHANNEL



TRANSFORMATION



BRAND

“ESPRIT DE CORPS”

BRAND STRATEGY

OUR CONSUMER

"Esprit Friends"

Esprit loyal customers
(current and lost)

OUR PROMISE

"Make you feel good and look good"

The best of Esprit's
product DNA

OUR BRAND

"Esprit Heritage"

All-time Esprit values,
new communication
(digital)

Togetherness

Positive

Real People

Relaxed



Casual

Fun



Social



Sustainable

*Free Spirited
Feelings*

Natural

FY14/15 CAMPAIGNS - NEW CONCEPT

Autumn / Winter 14

Finding balance in life

Rediscover the importance of relationships



Sustainable living



*Mindful living
(healthy food movement)*

„MUSES“

- Real people
- Social values
- Positive attitude

Spring / Summer 15

Moments that matter

Friendship



„COMMUNITY“

- Togetherness
- Women & Men
- Californian spirit

FY15/16 CAMPAIGNS – AMBITIOUS BRAND MARKETING

#ImPerfect

"#ImPerfect" CAMPAIGN



CONCEPT

- Celebration of real people
- Beauty of imperfection
- Social and approachable
- Away from "high fashion"

COMMUNICATION

- New, louder & younger tonality
- Appealing to current and new customers
- Strong for online and social media
- Ambitious share of voice

ESPRIT

"#ImPerfect" CAMPAIGN

Flagship Stores



Website



Windows

00H

"#ImPerfect" CAMPAIGN

Social Media



ASIA - STRENGTHENED BRAND IMAGE

Autumn/Winter 2015



Liu Wen, Top Model

2016-2017



Song Hye-kyo, Top Actress

PRODUCT
“VERTICAL MODEL”

PRODUCT STRATEGY - OUR PROMISE

CASUAL FASHION

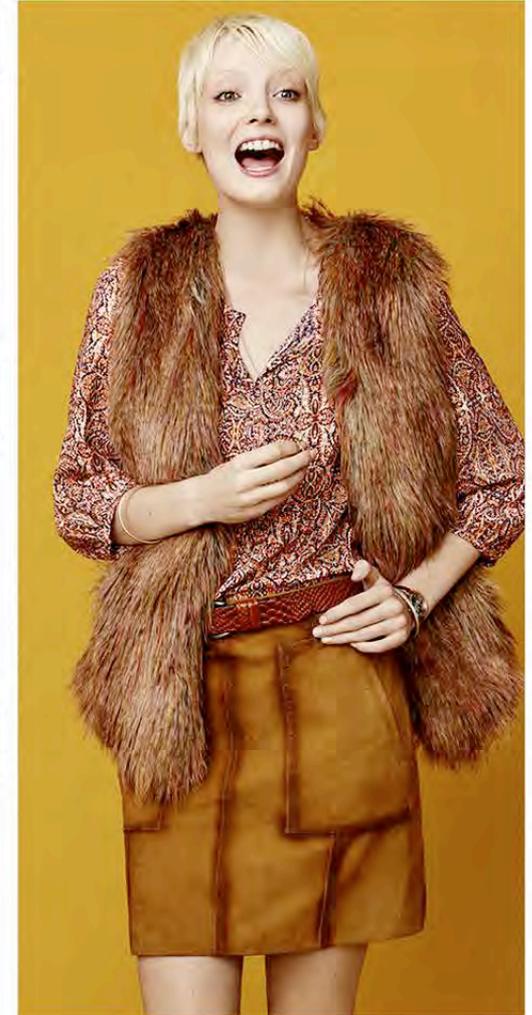
Capturing market trends and newness in colour, fabrics, shapes, etc. and expressing them in the casual, relaxed, comfortable Esprit style

PERFECT QUALITY

Paying maximum attention to detail in fabric selection, fitting and quality of every garment

OUTSTANDING VALUE FOR MONEY

Adjusting prices to always offer the best possible price-value to our consumers (no premium)



PRODUCT STRATEGY - IMPLICATIONS

PRODUCT STRATEGY

CASUAL FASHION

Capturing market trends and newness in colour, fabrics, shapes, etc. and expressing them in the casual, relaxed, comfortable Esprit style



- ✓ Capturing of trends
- ✓ Continued newness
- ✓ Reaction to demand

PERFECT QUALITY

Paying maximum attention to detail in fabric selection, fitting and quality of every garment



- ✓ Attention to details
- ✓ Best fabrics
- ✓ Quality manufacturing

OUTSTANDING VALUE FOR MONEY

Adjusting prices to always offer the best possible price-value to our consumers (no premium)



- ✓ Competitive pricing
- ✓ Sustainable profitability

VERTICAL

Product Development

Merchandising

Supply Chain

Distribution

Store / POS

Stock

S

E

VERTICAL MODEL OF ESPRIT

REVISED*

VERTICAL



1. **Lean SCM** - From 352 to 226 (-36%) suppliers and successful introduction of best SCM practices 
2. **Category Mngmnt. Teams** - All Product Divisions transformed 
3. **New Merchandising Model** - Product, Planning, Buying and Merchandise Management functions fully centralized 
4. **Seasonal Calendar** - 4 seasons vs. 12 monthly collections 
5. **Product Range Reduction** - 30% to 40% less options 
6. **Fast to Market Product Development** - 2-3 months lead time in the Trend Division and fast reaction capsules (>20% in Women) 
7. **Stock Management Optimization** - Replenishment capacity and capabilities pending DC extension 
8. **Vertical Wholesale Model** - Pending solutions to fully undertake stock management from Wholesale partners - WIP 

* "New Pricing Model" has been put on hold as EDLP model is not possible under current Wholesale setup

8. VERTICAL WHOLESAL MODEL

VERTICAL



Retail Stores

Retail e-commerce

WHS-PSS

WHS-ML



NATURAL VERTICAL MODEL



VERTICAL PSS MODEL

- Vertical PSS pilot EU: Learn and improve model for second test
- Vertical PSS China: improve conditions and processes to build partners' trust



ADAPTATION OF WHS MODEL

- Vertical assortment planning
- Increased OTB budgets
- Access to F2M Products via online tool
- Sales force sell-out focus

"PURE" VERTICAL MODEL



"VERTICAL" WHOLESAL MODEL









FIND YOUR
PERFECT FIT



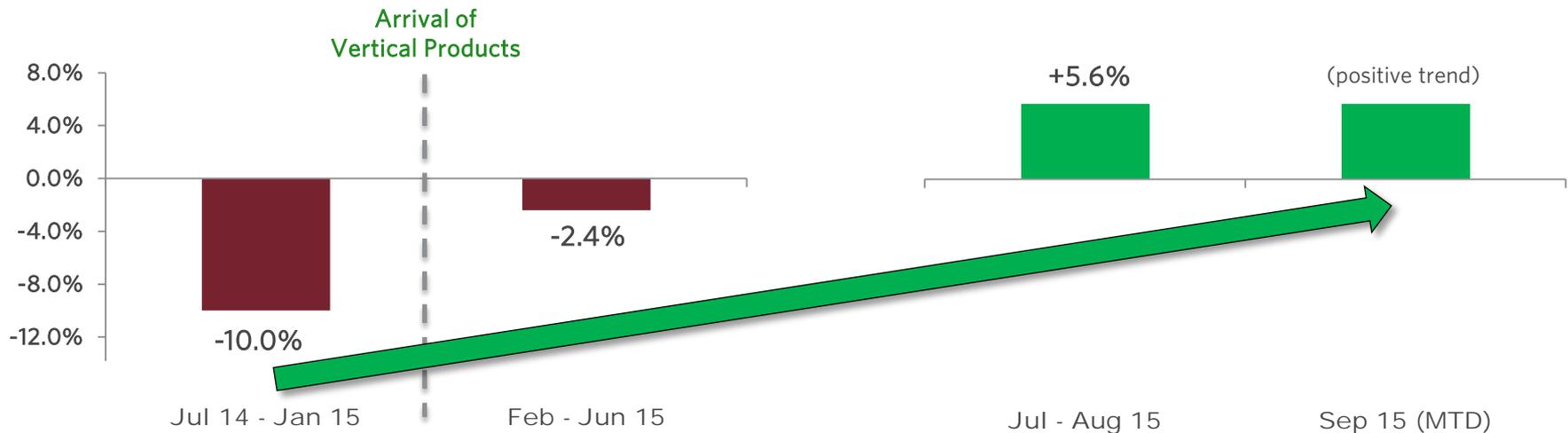


RETAIL PERFORMANCE SINCE INTRODUCTION OF "VERTICAL PRODUCTS"*

Positive development of comparable stores sales
mostly driven by our core Women divisions (44% of Group's turnover)

Improved sales performance since the introduction
of first Vertical Products in Feb 2015 ...

..... continued over the first months of FY15/16
(July, August, September**)



Retail Turnover (YoY change of comparable stores in LCY)

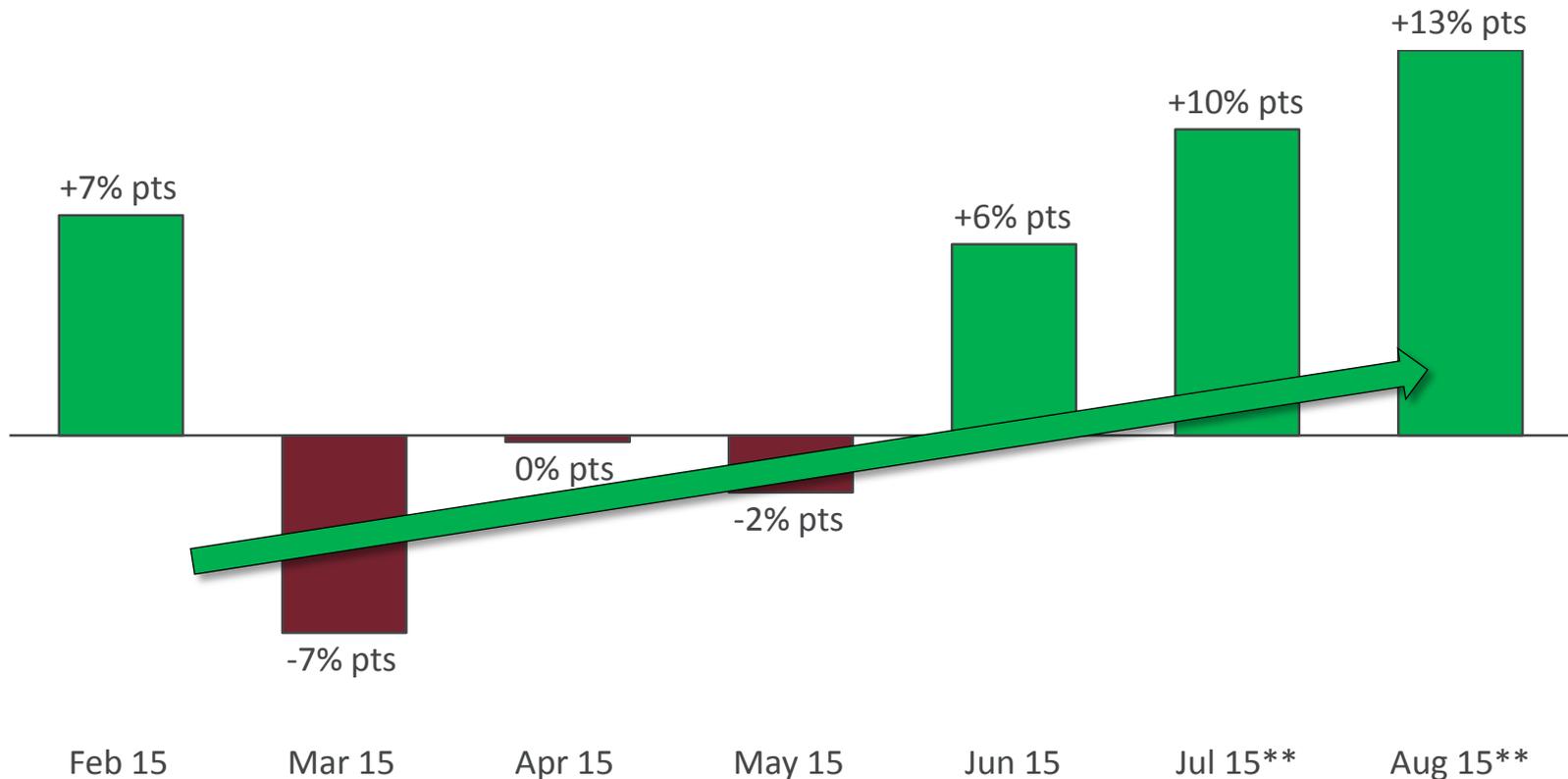
* Collections developed under the new Vertical Model

** July and August 2015 figures are based on latest unaudited management information

RETAIL PERFORMANCE VS. GERMAN MARKET

Positive development of comparable store sales also when compared against market (e.g. Germany, 46% of Group's turnover)

Esprit vs. German apparel market* differential of YoY change in LCY



* Esprit comparable full price brick and mortar stores against comparable market data according to Textilwirtschaft

** July and August 2015 figures are based on latest unaudited management information

CHANNELS
"OMNICHANNEL"

OMNICHANNEL MODEL OF ESPRIT



DIRECT TO CONSUMER



Develop the best loyalty program in fashion apparel



**5 million
"Esprit Friends"
that purchased
in the last 12 months**

(+60% of Retail Sales)

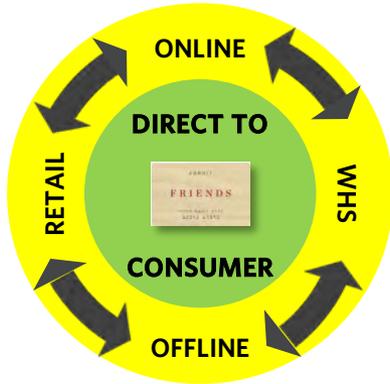
+13%

Active Esprit Friends



- Strengthening of recruitment, retention and reactivation programs led to +13% growth of active "Esprit Friends" members, effectively turning around the decline in previous years
- Improvement of the program, by adding new features and benefits
- Increased investment in the CRM and Big Data platform and capabilities
- Accessibility of "Esprit Friends" program from mobile devices, with the inclusion into the Esprit App and our WeChat account in China
- Introduction of personalization features across all touch points (e.g. eshop, website, mobile, social media, newsletters, digital marketing, etc.)

MULTI CHANNEL



Develop best in class cross-channel integration

CHANNEL INCENTIVES

5%

E-profit sharing with Retail stores and Wholesale partners (PSS)

>70%

of invited partners have signed up

MOBILE APP

- New mobile eshops in 12 countries (incl. China)
- Launch of merged Brand+Friends+e-commerce app
- Adaption of digital content for mobile, etc

+63%

mobile sales

47%

total e-shop traffic

IN-STORE COMMUNICATION



IN-STORE WI-FI



SCAN & SHOP



OFF-TO-ON

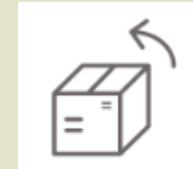
CLICK & COLLECT



CLICK & RESERVE



RETURN @ STORE



MERCHANDISE AVAILABILITY CHECK



ON-TO-OFF



OMNI CHANNEL

Develop a fully integrated commercial activity

Fully integrated product assortments across channels



Retail

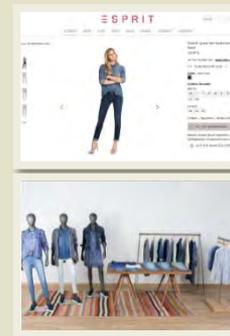


eShop



PRODUCT

PLACE



- Cross allocation of online-offline (even wholesale) inventories
- Installation of a system architecture enabling real time inventories, connection of online and offline system frontends, etc

- Integration of Planning, Buying, Merchandising, Trade Marketing and Operation functions for all channels
- Creation of dedicated teams to develop Omnichannel both in Europe and Asia
- Strengthening of all internal digital functions, including the appointment of Chief Digital Officer fully devoted to project

PEOPLE

Single Commercial Plan for all channels



PROMOTIONS

- Alignment of recommended regular and promotional pricing across all channels
- Establishment of central markdown management tool



PRICE

PEOPLE
ORGANIZATION

THANKS AGAIN!

Offices

Product



Stores

Showrooms

Logistics

GROWTH

STRATEGIC PLAN



STABILIZATION



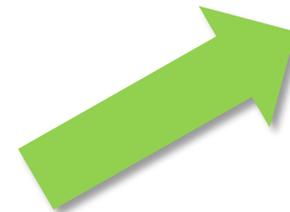
Build a sound and healthy platform for the introduction of the structural changes needed to regain competitiveness

TRANSFORMATION



Execute the ambitious transformation of our business model (Vertical Omnichannel) to enhance speed and efficiency of our product and sales management

GROWTH



Leverage the benefits of the new model to drive sustainable top line growth, and the healthier cost base to increase profitability

GROWTH PLAN OF ESPRIT

ILLUSTRATIVE

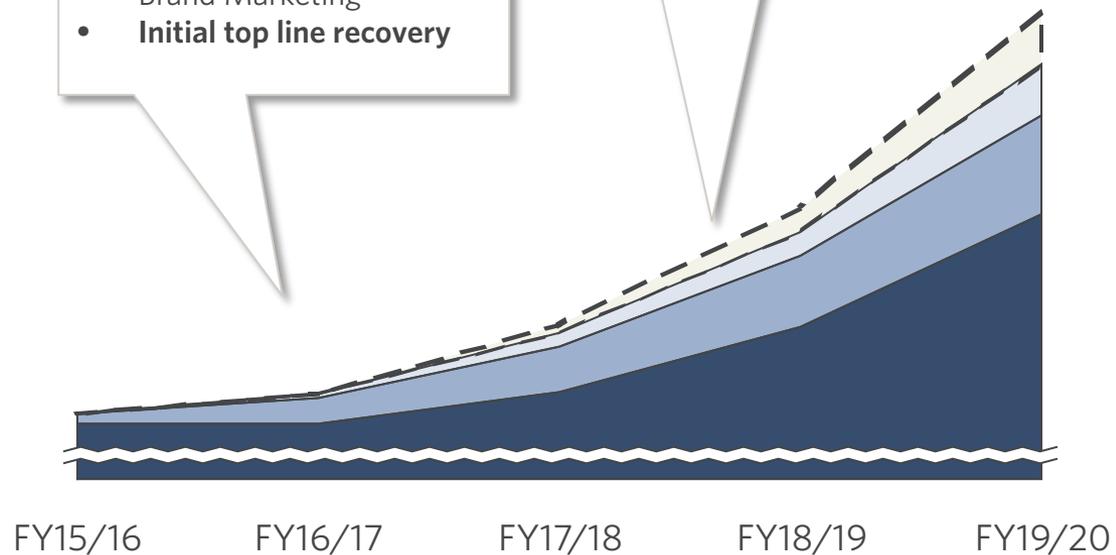
- Aggressive leveraging of costs and invested capital
- SQM growth from Expansion in current and new markets
- New customers and traffic from sales push (Omnichannel Model and Brand Marketing)
- Productivity gains from improved products (Vertical Model)

SHORT TERM

- Productivity gains
- SQM reduction
- "Investment" in Omnichannel and Brand Marketing
- **Initial top line recovery**

MEDIUM TERM

- Continued productivity gains
- SQM growth from Expansion
- Leveraging of OPEX and capital
- **Fast top and bottom line growth**



OUTLOOK

FY15/16 OUTLOOK

CONTROLLED SPACE

Retail - slight decline due to closures or downsizing of unprofitable stores
Wholesale - continued decline but to a smaller degree than FY14/15 due to market pressure on the channel

PRODUCTIVITY (SALES/SQM)

Space reduction to be offset by gain in sales per sqm performance on the basis of i) improving product performance ; ii) improved channel operations; and iii) intensified marketing efforts

GP MARGIN

Stable or slight increase - reduced levels of markdowns due to improved product performance to compensate negative impact from weakness of Euro

OPEX

Reduction of most of the recurring cost lines in line with reduction in retail space and wholesale business volume
Savings offset by i) expected increase in Marketing expenses and ii) Omnichannel related expenses, to support future growth

CAPEX

Anticipated increase due to i) Omnichannel initiatives; ii) acceleration of store refurbishment; and iii) upgrade of warehouses to improve replenishment capabilities



Q & A



THANK YOU!