

2015 Annual Results Presentation

**Analyst Meeting** 



### Highlights

- Turnover resilient and unit volume increased despite deflationary environment and currency depreciation
- 2H operating costs were flat
- Increased focus on core customers and product verticals
- Logistics sustained growth momentum and Vendor Support Services is ahead of plan
- Multi-channel sourcing strategy helping to increase market share
- 2016 will be a challenging year
- Focused on long term and building strong foundation



## Macro & results

### Strong external headwinds continue

## Macro environment

- Global geopolitical disturbances
- Weak currencies in Europe and Asia
- Deflationary environment

# Retail landscape

- E-commerce brings about price transparency
- Highly promotional environment leading to margin squeeze
- High inventory further worsened by warm winter and floods
- Weak demand in general apparel, but athleisure is very strong.
   Also, home categories are strong

### 2015 Annual results highlights

	2014 US\$M	2015 US\$M	Change %
Turnover	19,288	18,831	(2.4%)
Total Margin % of Turnover	2,244 11.6%	2,189 11.6%	(2.5%)
Operating Costs  % of Turnover	1,640 <i>8.5%</i>	1,676 <i>8.9%</i>	+2.2%
Core Operating Profit % of Turnover	604 3.1%	512 2.7%	(15.2%)
Loss from Discontinued Operations	(98)	-	
Profit Attributable to Shareholders	441	421	(4.6%)
% of Turnover	2.3%	2.2%	

- Turnover was resilient despite price deflation and currency depreciation
  - turnover grew with core customers
  - unit volume growth
  - normalized turnover up single digit
- Total margin percentage stable at 11.6%, supported by strong performance of Logistics Network
- Operating costs increased due to logistics business expansion and annualization of strategic investments made in prior year
  - Operating costs remained flat in 2H
- Declared final dividend of 15 HK cents per share, about 60% of COP for the full year

### 2015 Annual results - net profit analysis

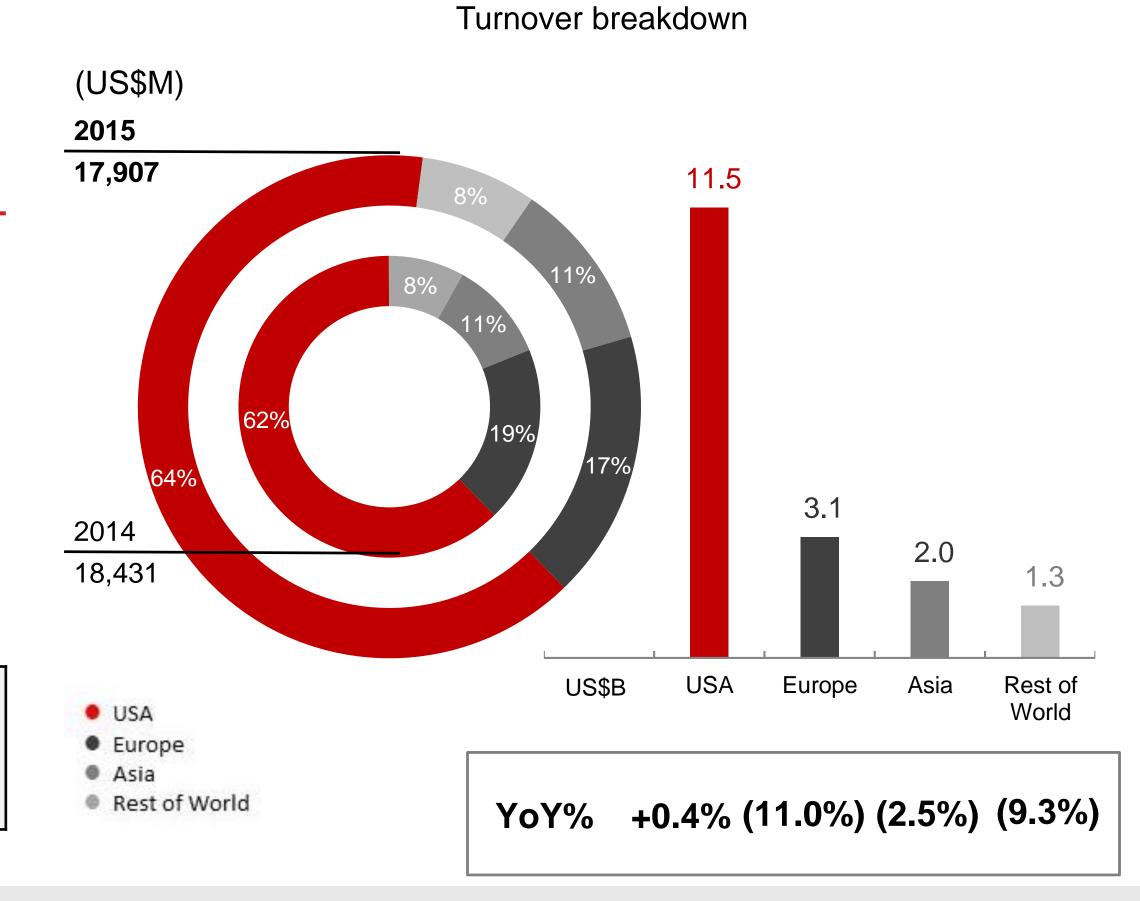
	2014 US\$M	2015 US\$M	Change %
Core Operating Profit	604	512	(15.2%)
Write-back of Acquisition Payable	176	117	
Amortization of Intangible Assets	(35)	(34)	
One-off Reorganization Costs for Spin-off	(20)	-	
Other Non-core Operating Expenses	(1)	-	
Operating Profit	724	595	(17.8%)
Non-cash Interest Expenses	(10)	(7)	
Net Cash Interest Expenses	(88)	(83)	
Share of Profits from Associated Companies	1	2	
Taxation	(59)	(58)	
Distribution to Perpetual Securities	(30)	(30)	
Non-controlling Interests	2	2	
Loss from Discontinued Operations	(98)	-	
Profit Attributable to Shareholders	441	421	(4.6%)
Adjusted Profit Attributable to Shareholders (1)	429	345	

- Write-back of acquisition payable of US\$117m
- Net cash interest expenses and taxation remained stable
- 2014 results included US\$98m of loss from Discontinued Operations which related to the spin-off of Global Brands Group
- Profit attributable to Shareholders of US\$421m, a 4.6% decline from last year

<sup>(1)</sup> Adjusted Profits excluding Discontinued Operations and non-cash M&A items (write-back of acquisition payable, amortization of intangible assets and non-cash interest expenses), as well as one-off reorganization costs for Global Brands spin-off

### Trading network

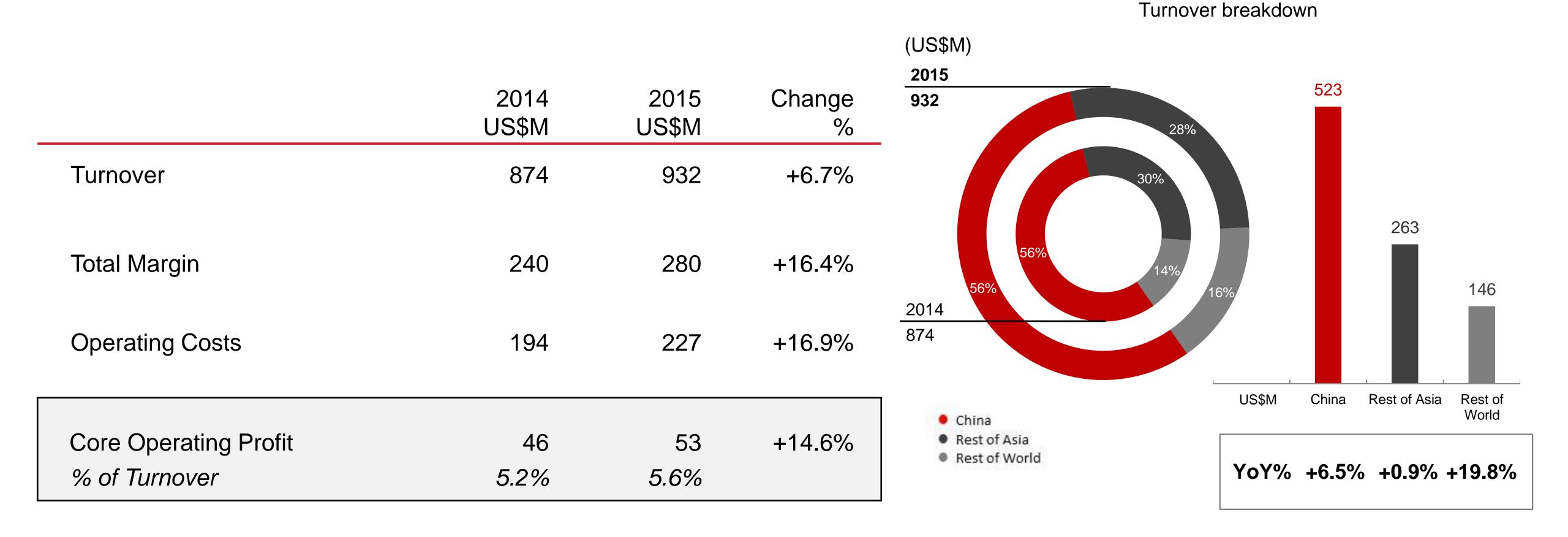
	2014 US\$M	2015 US\$M	Change %
Turnover	18,431	17,907	(2.8%)
Total Margin % of Turnover	2,004 10.9%	1,909 10.7%	(4.7%)
Operating Costs	1,446	1,449	+0.2%
Core Operating Profit % of Turnover	558 3.0%	460 2.6%	(17.6%)



- Turnover resilient despite price deflation, currency depreciation and slowdown in Europe and Asia
- Unit volume increased
- Core customers continued to grow with us

- Total margin decreased as a result of decline in turnover and continued margin pressure on principal business
- Operating costs flat for the year and reduced for 2H due to improved operational efficiencies and productivity, despite annualization of investments

### Logistics network



- In-country business maintained strong organic growth with new customer wins and geographical expansion
- Sustained momentum in gaining market leadership in elogistics

- Global freight business growth muted by unprecedented decline in freight rates
- Gained market share through geographical expansion and successful cross-selling of freight services

### Capital structure

	Dec 2014 US\$M	Dec 2015 US\$M
Bonds	1,254	1,254
Bank loans	180	196
Total debt	1,434	1,450
Cash	539	342
Net debt	896	1,107
Total equity	3,110	3,010
Total capital (1)	4,006	4,118
Gearing ratio (2)	22%	27%

- (1) Sum of net debt and total equity
- (2) Net debt divided by total capital
- (3) Secured committed facilities with extended term in early 2016

- Total debt remained stable
- Cash position of US\$342m after payment of US\$445m in dividends, including 2014 final and special dividends and 2015 interim dividend
- Maintaining healthy gearing ratio and solid investment grade ratings
- Total available bank facilities of US\$1.7bn and undrawn facilities of US\$1.5bn
  - Committed facilities of US\$726m with 3-year tenure due in 2019<sup>(3)</sup>



# Industry changes

## Industry changes

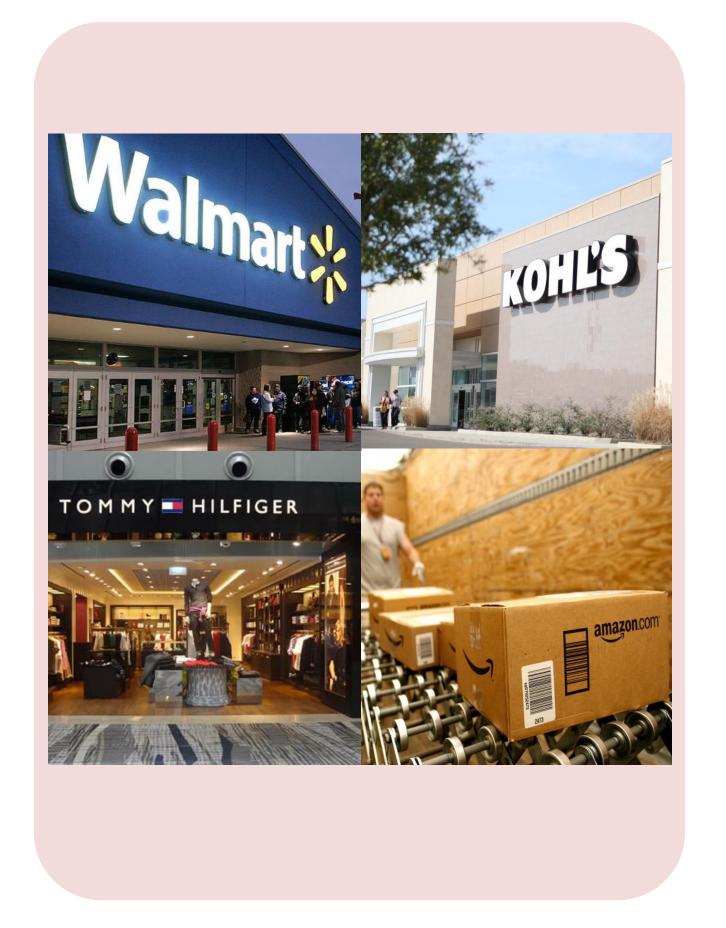
#### **Consumers & Technology**





New Retail Landscape

#### **Retailers & Brands**



## Our responses to changes and headwinds

### Challenges

What is needed

Our responses

1. Low organic growth in the industry

Improve organic growth by increasing market share

Reorganize core customer teams to focus on growing market share by customer

2. Promotional environment; muted gross margin

Product differentiation to enhance margins

Creation of product vertical strategy

3. Global sourcing continues to migrate

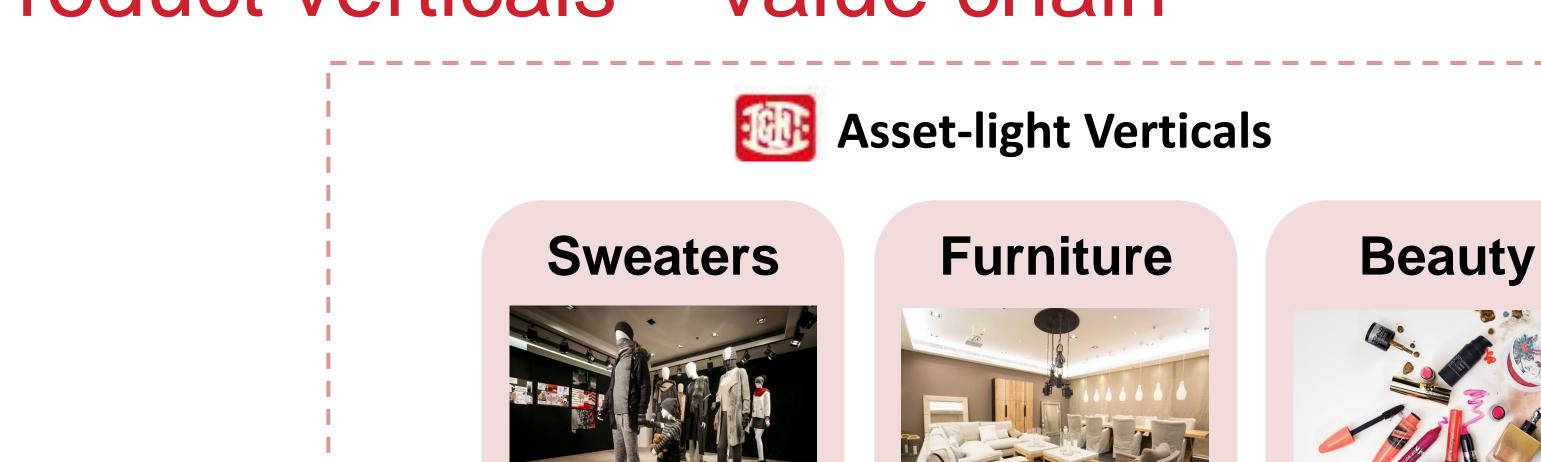
Maintain global network and expand services

Created Vendor Support Services to help vendors climb up the value chain

### Core customer focus

- Customer needs increasingly complex
- Increased focus on core customers to better serve them and help fill in white space for growth
- Opportunity to increase share of wallet
- Corresponds to Three-Year Plan strategic goals
  - Sustainable Enterprise
  - Keeping Things Simple
  - Focus on Organic Growth

### Product verticals – value chain



Legend

Key verticals

Examples of verticals under incubation

**Accessories** 

Performance apparel Footwear

Home textiles

Children's wear



### Raw materials sourcing

- Better prices from scale
- Certified origin tracing
- Explore new raw material technology & substitutes

### Product design & development

- Aggregate internal design resources
- Focused & interactive product development cycle
- Partner with R&D institutions

## Factory sourcing & manufacturing control

 Strategic tie-up and leverage with critical players in value chain

#### Value added services

- Aggregate customer's
   POS info and data
- Data analytics, providing feedback to design & production

Brand management & marketing

Retail /
ement E-Commerce

### Asset-light product verticals

- Customers looking for product differentiation to compete
- Assembling product experts to leverage scale and creation of product verticals
- Applying design and innovation to develop differentiated products
- Help customers differentiate their products and improve margins
- Product expertise requires complex upstream and downstream management
- Partnerships with technology leaders
- Asset-light strategy



# Growth drivers

### Organic growth drivers

# Growth segments

- Logistics In-country, e-logistics, global freight continue multi-year double digit growth
- Vendor Support Services new growth driver
- Home & Furniture area has strong growth

## **Growth** customers

- Ascena accelerated Ann Inc. transfer
- Secured long term business with Hudson Bay & Kaufhof
- Solid growth from various new customers
- Strong pipeline and systematic conversion

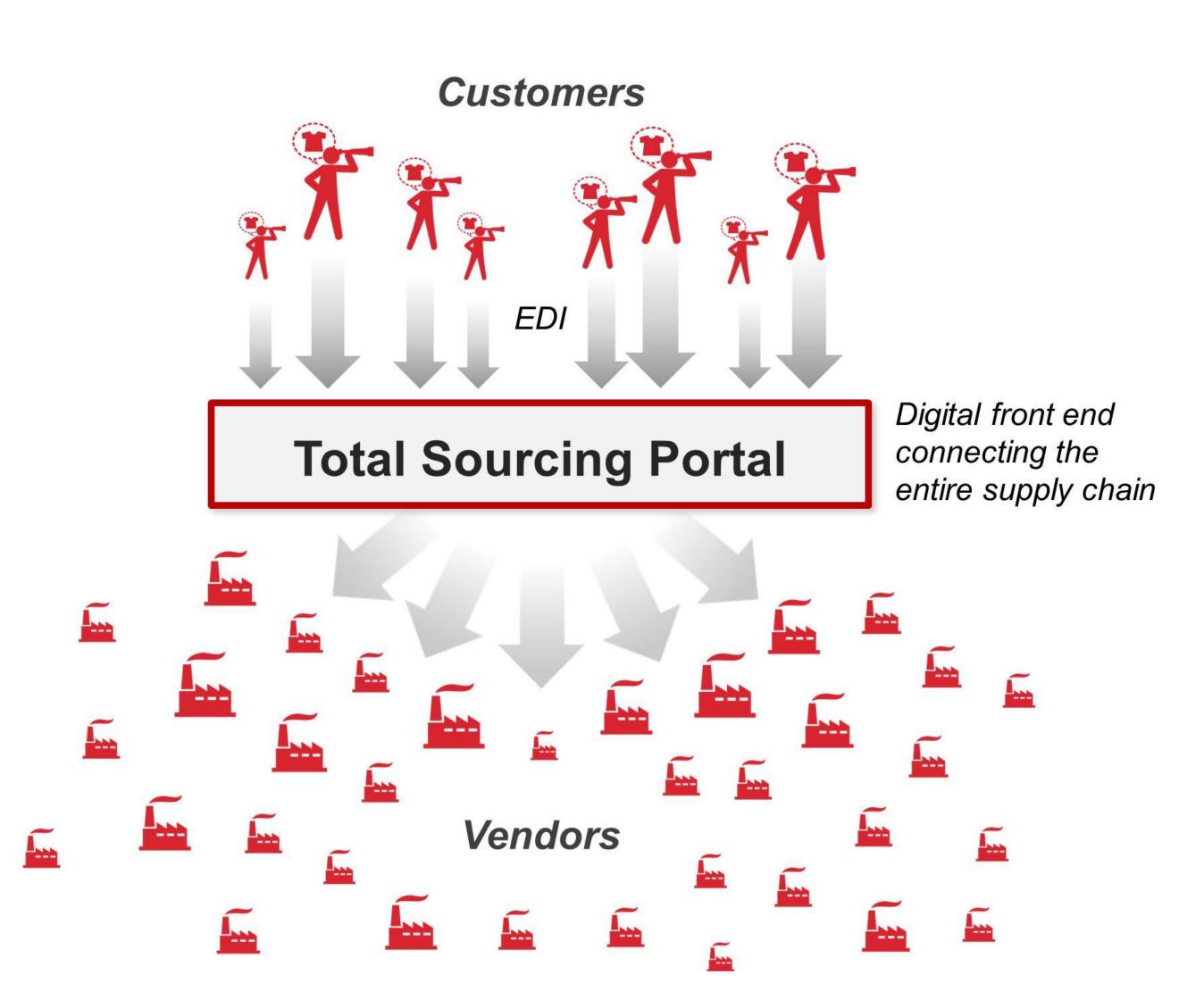
## Vendor Support Services (VSS)

- 15,000+ vendors as our customers
- Helping vendors navigate supply chain complexity and compliance as production migrates
- Improving efficiency across the supply chain

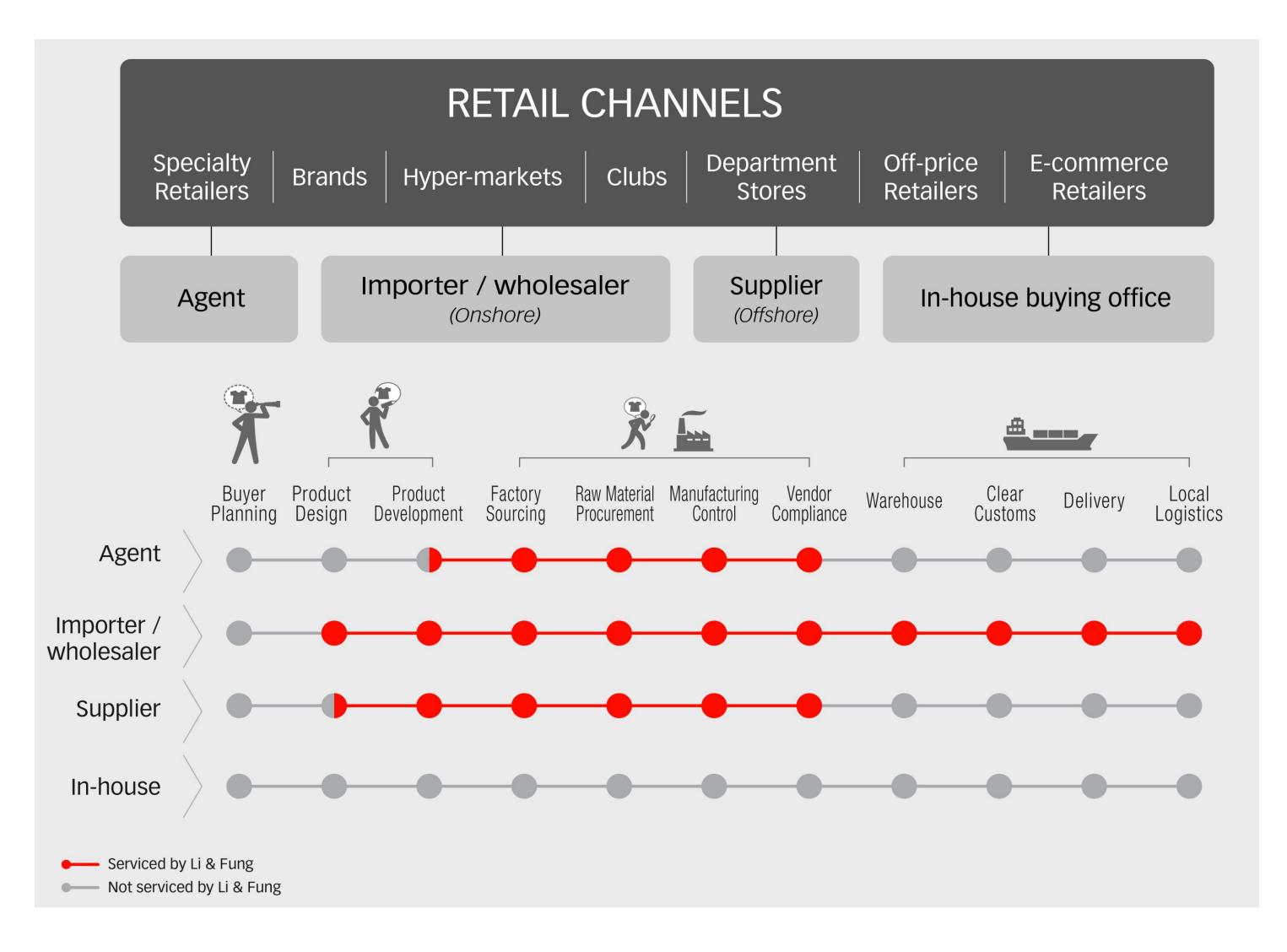
#### 2013 Planning 2014 2015 2016 VSS announcement Strategic planning as Successful pilots in 2015 Continue gradual rollpart of 3YP with positive feedback out Assemble core team Target 5% of 2016 COP Exceeded 2015 target Fully implemented Total Sourcing Portal to connect suppliers 3 key areas: Vendor Supply Chain Services, Trade Credit Services, Vendor Compliance & Sustainability

## Total sourcing portal digitizing the supply chain

- Digital portal connecting customers data platform with our global vendor base
- Digitize paper processes
  - Order processing, monitoring and changes, inspection approvals and shipping
- Orchestrate billing and payment
- Resource center on compliance and sustainability



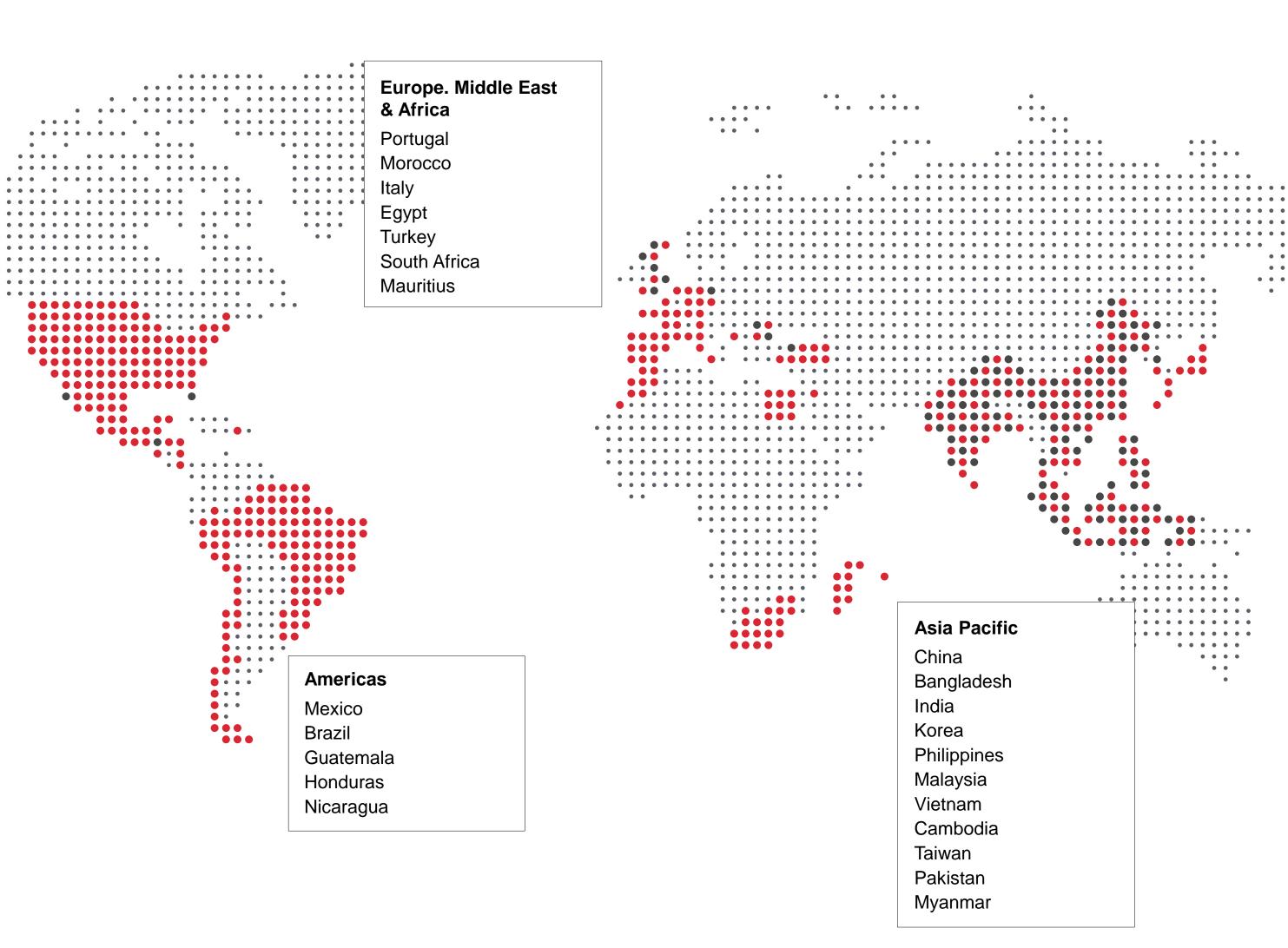
## Core business model – Multi-channel sourcing platform



- Customers are increasingly buying multichannel
- Li & Fung has developed one of the only global multi-channel sourcing platforms
- Flexibility to accommodate customer's changing sourcing strategy
- Allow customers to focus on retailing and branding, while ensuring speed to market and better cost and quality control
- Multi-channel sourcing helping to increase share of wallet
- No matter which sourcing strategy our customer adopts, each step in the chain is required

### Global network of sourcing countries

- Global footprint provides flexibility and diversification
- Strong network of offices and vendors across 40+ economies:
- No. 1 or no. 2 exporter in most countries with 40+ years of history and deep roots
- Increased complexities due to FTAs, geopolitical instability and rising costs
- Extensive network ever more important in evolving sourcing landscape





# Long term values

### Long term values

- Values
  - Family
  - Entrepreneurial
  - Humble
- 110 years of history
- Strong foundation built over years



## Innovation culture

### Creating a culture of innovation

- Established Silicon Valley presence in 3Q15 and starting to explore opportunities in product and business model innovation
- Continue to establish partnerships with leaders in technology
- Continue to digitize value chain and using end-to-end supply chain analytics to leverage largest database
- Using innovative software to automate and improve workflow
- Fastest launch of company-wide open innovation platform to tap ideas from 25,000+ staff
- Experimenting with wearables and IoT products

### Short term challenges & outlook for 2016

- Global economy challenging
- Poor holiday sales and subsequent high inventory leading to lower open-to-buy in 2016
- Consumer sector likely to remain weak
- Factory price deflation to continue
- Continue to focus on gaining market share with core customers
- Start to leverage product verticals
- Build on top of new customer wins
- Focused to continue sales pipeline conversion

### Summary

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