



# 2019 Interim Results



LI & FUNG

August 22, 2019

# Highlights

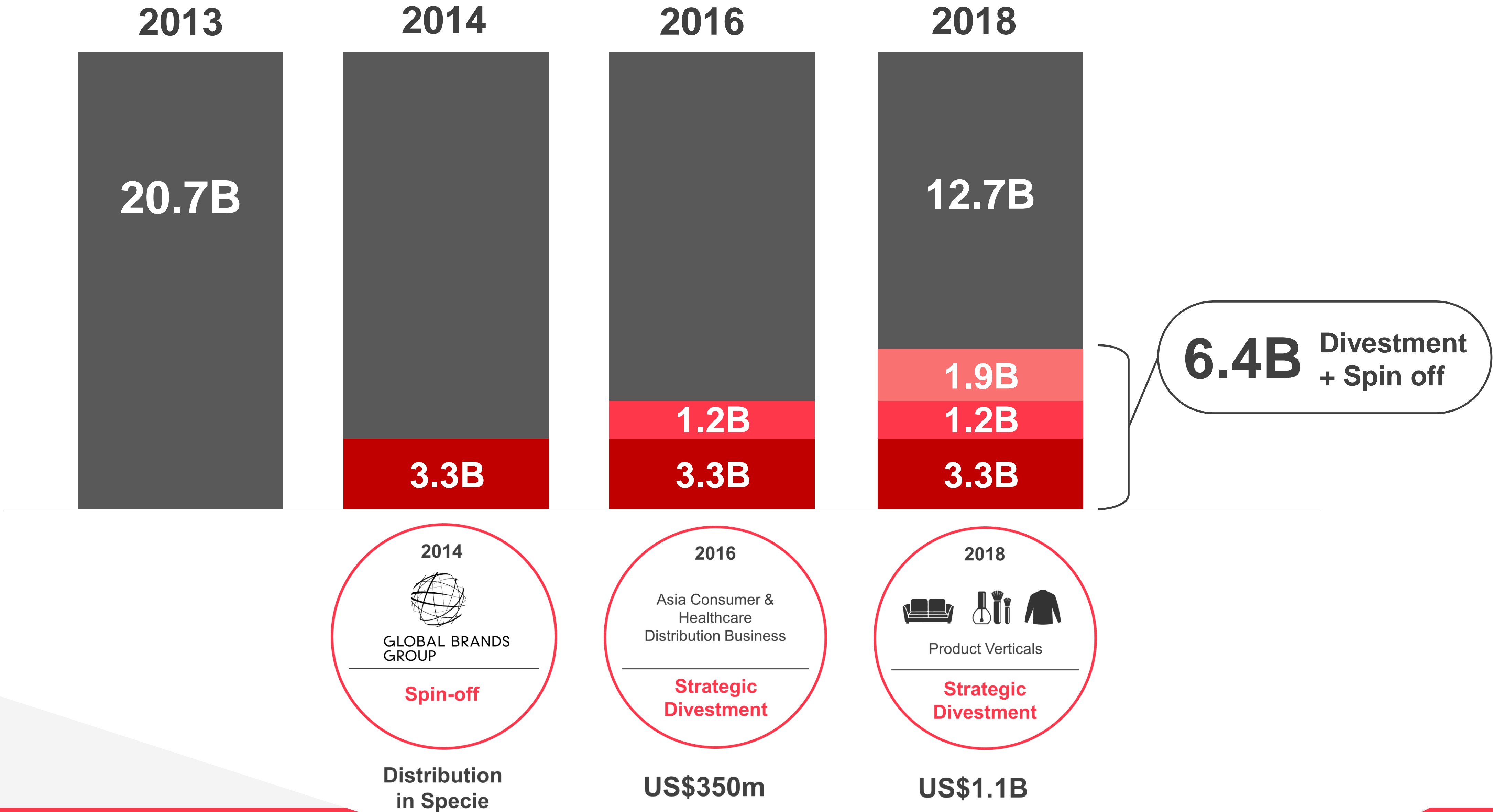
- Temasek's US\$300M investment in LF Logistics at US\$1.4B valuation to accelerate the growth of our logistics business and strengthen capital structure of the Group
- Group turnover declined 8.4% but stabilizing as a result of improvement in operations and customer engagement
- Core Operating Profit at US\$105M; Net profit swung back to positive
- Restructured global sourcing network enabling prompt action to minimize tariffs and business development focus yielding solid customer wins
- 3D virtual design disrupting traditional supply chain and starting to generate revenue
- Complex global trading environment presents the biggest opportunity for Li & Fung's business model in 20 years

# Three-Year Plan 2017-2019

Our goal is to create the **supply chain of the future** to help our customers navigate the digital economy and to improve the lives of **one billion people** in the supply chain.

# Business Simplification & Focus

US\$



# Our 3YP Core Themes



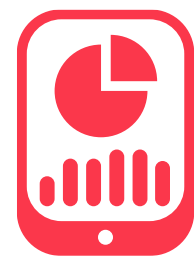
**Speed**



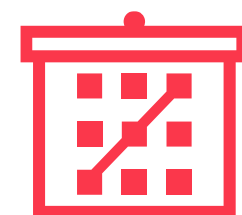
**Innovation**

**1010**

**Digitalization**



**Data Analytics**



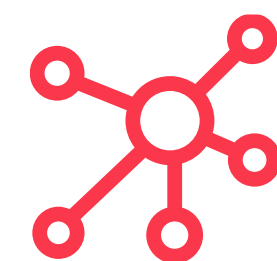
**Productivity**



**Supply Chain  
Solutions**



**Global Business  
Development**



**LF Ecosystem**



# **2019 Interim Financial Results**

# 2019 Interim Results Highlights

	1H 2019 US\$M	1H 2018 US\$M (Restated) <sup>1</sup>	Change %
<b>Turnover</b>	<b>5,356</b>	5,850	(8.4%)
<b>Total Margin</b>	<b>583</b>	614	(5.0%)
<i>As % of Turnover</i>	<b>10.9%</b>	10.5%	
<b>Operating Costs</b>	<b>478</b>	485	(1.4%)
<i>As % of Turnover</i>	<b>8.9%</b>	8.3%	
<b>Core Operating Profit</b>	<b>105</b>	129 <sup>(3)</sup>	(18.6%)
<i>As % of Turnover</i>	<b>2.0%</b>	2.2%	
<b>Profit Attributable to Shareholders<sup>(2)</sup></b>	<b>21</b>	(86)	

- Turnover fell 8.4% but beginning to stabilize
- Total margin percentage improved due to increased Logistics contribution and Onshore Wholesale margin improvement
- Operating costs decreased with productivity gains, offset by digital and logistics investment
- Core Operating Profit (COP) fell by 18.6%

(1) 2018 comparatives restated with adoption of new accounting standard, HKFRS 16

(2) 2018 comparatives include loss from Discontinued Operations, which was divested in April 2018

(3) COP for 1H2018 for SCS, Onshore Wholesale and Logistics are US\$75.3M, US\$13.3M and US\$40.4M respectively



# 2019 Interim Results Net Profit Analysis

	1H2019 US\$M	1H2018 US\$M (Restated) <sup>1</sup>	Change %
<b>Core Operating Profit</b>	<b>105</b>	129	<b>(18.6%)</b>
Write-back of Acquisition Payable	1	-	
One-off Reorganization Costs	(8)	-	
Amortization of Other Intangible Assets	(15)	(15)	
<b>Operating Profit (Continuing Operations)</b>	<b>83</b>	114	
Net Cash Interest Expenses	(30)	(17)	
Non-cash Interest Expenses	(7)	(8)	
Share of Net Profits from Associated Companies & Joint Venture	-	1	
Taxation	(9)	(13)	
<b>Profit for the Period (Continuing Operations)</b>	<b>37</b>	77	<b>(51.7%)</b>
Distribution to Holders of Perpetual Capital Securities	(17)	(29)	
Non-controlling Interests	1	-	
<b><u>Profit Attributable to Shareholders</u></b>			
<b>Continuing Operations</b>	<b>21</b>	48	<b>(57.4%)</b>
Discontinued Operations	-	(134)	
<b>Total</b>	<b>21</b>	(86)	

- Reorganization costs of US\$8M from the company restructuring.
- Net cash interest expenses increased due to higher interest expense and lower interest income
- Perp distribution decreased by US\$12M after redemption of US\$500M perp
- Profit attributable to shareholders US\$21M profit vs US\$86M loss prior year
- Declared interim dividend of 1 HK cent per share

(1) 2018 comparatives restated with adoption of new accounting standard, HKFRS 16

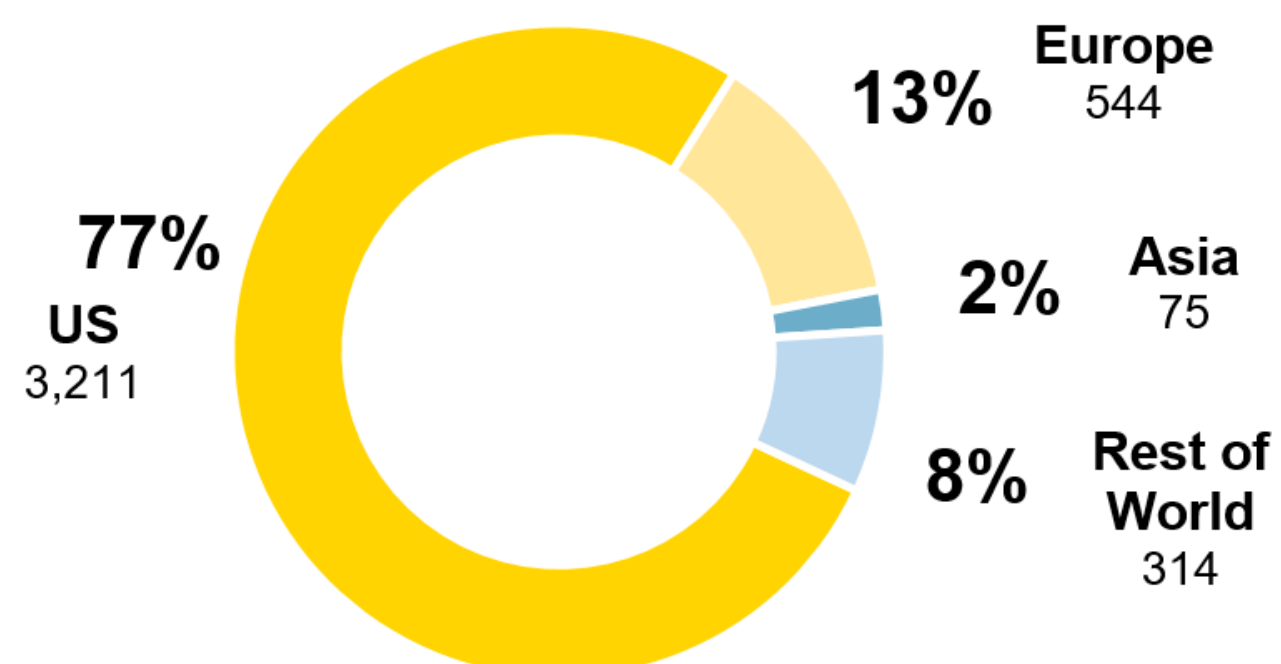


# Supply Chain Solutions (SCS)

	1H 2019 US\$M	1H 2018 US\$M (Restated) <sup>1</sup>	Change %
<b>Turnover</b>	<b>4,144</b>	<b>4,560</b>	<b>(9.1%)</b>
<b>Total Margin</b>	<b>260</b>	<b>297<sup>(2)</sup></b>	<b>(12.3%)</b>
<i>As % of Turnover</i>	<b>6.3%</b>	<b>6.5%</b>	
<b>Operating Costs</b>	<b>212</b>	<b>221<sup>(2)</sup></b>	<b>(4.0%)</b>
<i>As % of Turnover</i>	<b>5.1%</b>	<b>4.9%</b>	
<b>Core Operating Profit</b>	<b>48</b>	<b>75</b>	<b>(36.5%)</b>
<i>As % of Turnover</i>	<b>1.2%</b>	<b>1.7%</b>	

- Turnover fell 9.1% but beginning to stabilize
- Decrease due to customer turnover, destocking, bankruptcies and exiting higher-risk customers
- Offset by new customer wins and increased market share
- Operating costs decreased as US\$27M productivity savings offset by investment in digitalization

**1H 2019 Geographical  
Market Turnover**  
US\$m



(1) 2018 comparatives restated with adoption of new accounting standard, HKFRS16

(2) Total margin and operating costs for 1H2018 are US\$296.6M and US\$221.2M respectively

# SCS Turnover Analysis

- Turnover affected by continued destocking, store closures, and bankruptcies
- Market share loss and exit of high risk and non-strategic customers triggered in 2018 starting to reflect in 1H 2019
- Offset by market share gain due to improved account management and operational KPIs
- New business wins to start reflecting in 2020
- Since restructuring and new management team in place, there has been a net positive gain in market share
- Decrease in turnover is stabilizing and beginning to bottom out in 2020

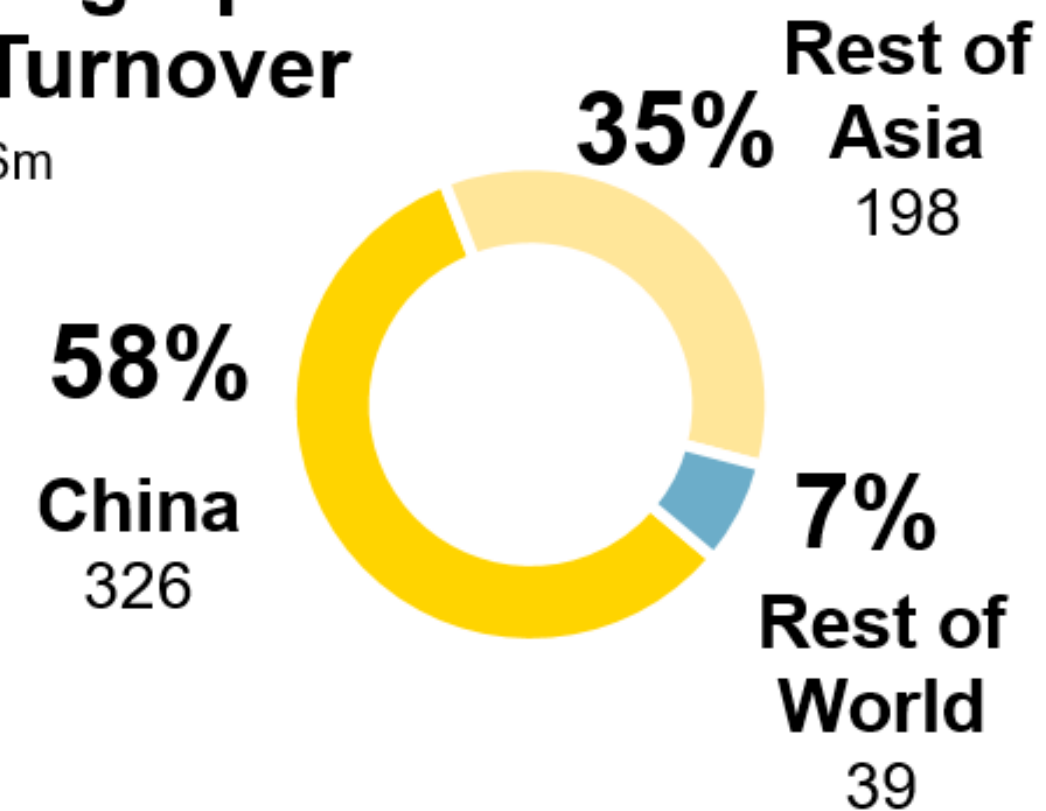
# Logistics

	1H 2019 US\$M	1H 2018 US\$M (Restated) <sup>1</sup>	Change %
<b>Turnover</b>	<b>563</b>	<b>543</b>	<b>+3.8%</b>
<b>Total Margin</b> <i>As % of Turnover</i>	<b>205</b> <b>36.4%</b>	<b>190</b> <b>35.0%</b>	<b>+7.9%</b>
<b>Operating Costs</b> <i>As % of Turnover</i>	<b>162</b> <b>28.8%</b>	<b>150</b> <b>27.6%</b>	<b>+8.4%</b>
<b>Core Operating Profit</b> <i>As % of Turnover</i>	<b>43</b> <b>7.6%</b>	<b>40</b> <b>7.4%</b>	<b>+6.4%</b>

- Turnover increased by 3.8%
  - Increased by 7.9% on a constant currency basis
- e-Logistics and new markets drove In-country Logistics growth
- Global freight management impacted by weak rates and lower volume on China-US route
- COP increased 6.4%
  - Increased by 10.8% on a constant currency basis
  - COP margin improved 0.2 percentage point to 7.6%

## 1H 2019 Geographical Market Turnover

US\$m



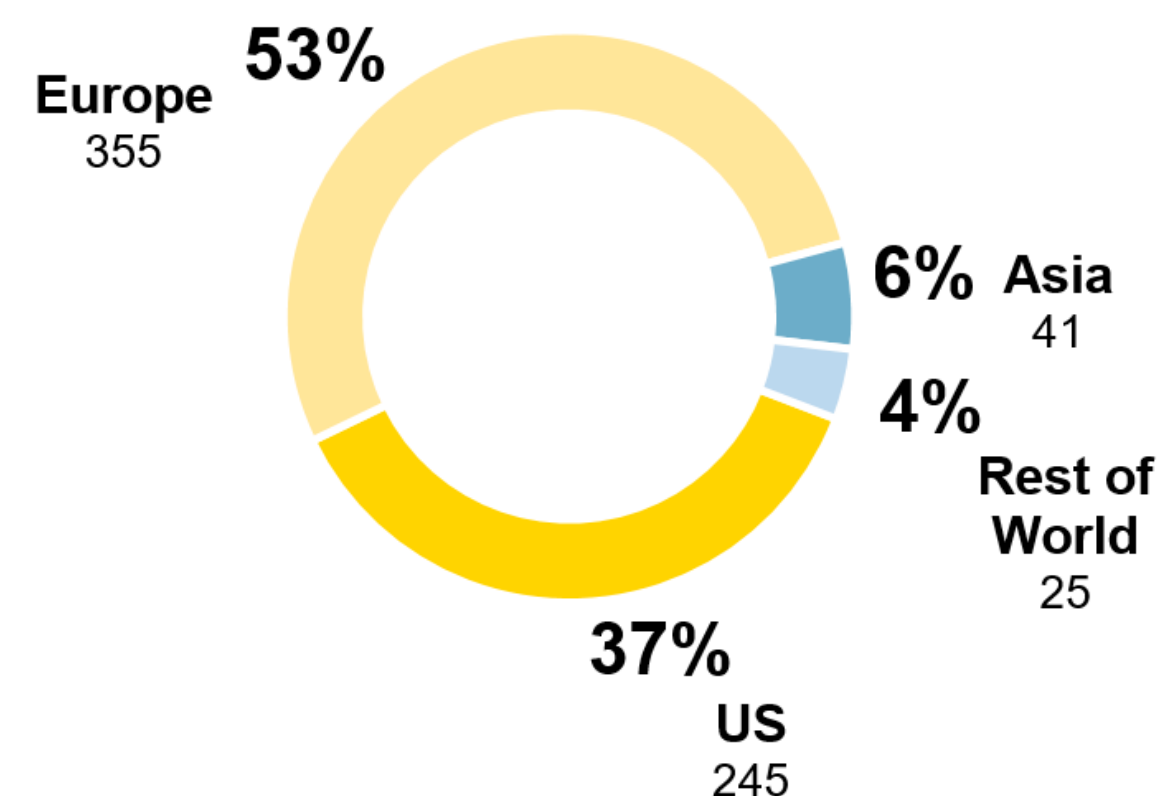
(1) 2018 comparatives restated with adoption of new accounting standard, HKFRS16

# Onshore Wholesale

	1H 2019 US\$M	1H 2018 US\$M (Restated) <sup>1</sup>	Change %
<b>Turnover</b>	<b>666</b>	<b>763</b>	<b>(12.6%)</b>
<b>Total Margin</b>	<b>118 <sup>(2)</sup></b>	<b>127</b>	<b>(7.3%)</b>
<i>As % of Turnover</i>	<b>17.6%</b>	<b>16.6%</b>	
<b>Operating Costs</b>	<b>103 <sup>(2)</sup></b>	<b>114</b>	<b>(9.0%)</b>
<i>As % of Turnover</i>	<b>15.5%</b>	<b>14.9%</b>	
<b>Core Operating Profit</b>	<b>14</b>	<b>13</b>	<b>+6.8%</b>
<i>As % of Turnover</i>	<b>2.1%</b>	<b>1.7%</b>	

1H 2019 Geographical  
Market Turnover

US\$m



- Turnover fell 12.6% affected by weak consumer sentiment particularly in UK and France
- Turnover in the US increased due to strong customer traction
- Total margin percentage expanded by 1 percentage point to 17.6% via product innovation
- Costs savings from rightsizing offset decline in turnover
- COP increased by 6.8% and COP margin expanded by 0.4 percentage point

(1) 2018 comparatives restated with the new accounting standard, HKFRS16

(2) Total margin and operating costs for 1H2019 are US\$117.5M and US\$103.3M respectively



# Capital Structure

US\$M

	Jun 2019 Pro-Forma <sup>3</sup>	US\$300M Temasek Investment	Jun 2019 <sup>4</sup> Reported	Dec 2018 <sup>5</sup> (Restated)
<b><u>Bank Loans</u></b>				
- Current	2	↓ 250	252	273
- Non-Current	300		300	1
<b><u>Bonds</u></b>	<u>751</u>		<u>751</u>	<u>751</u>
<b>Total Debt</b>	<b>1,053</b>		<b>1,303</b>	<b>1,025</b>
<b>Cash</b>	<u>861</u>	↑ 50	<u>811</u>	<u>612</u>
<b>Net Debt</b>	<b>193</b>	↓ 300 <sup>(6)</sup>	<b>493</b>	<b>413</b>
<b>Total Equity</b>	<b>2,128</b>		<b>1,828</b>	<b>1,855</b>
<b>Total Capital<sup>1</sup></b>	<b>2,321</b>		<b>2,321</b>	<b>2,268</b>
<b>Gearing Ratio<sup>2</sup></b>	<b>8%</b>		<b>21%</b>	<b>18%</b>

- Maintained strong balance sheet with US\$861M cash balance on pro-forma basis
- Total available bank facilities was US\$1.85B, of which US\$857M was committed facilities (US\$557M unused)
- Ample liquidity to meet obligations of bond maturing in 2020
- Temasek US\$300m investment in Logistics closed on August 8<sup>th</sup>
  - Bank loans ↓US\$250M
  - Cash ↑US\$50M
- Pro-forma gearing ratio after transaction with Temasek at 8%

1) Sum of net debt and total equity

2) Net debt divided by total capital

3) Pro-Forma as if the Temasek transaction was completed on June 30, 2019, the gross debt, cash and net debt would be US\$1,053.3M, US\$860.5M and US\$192.8M

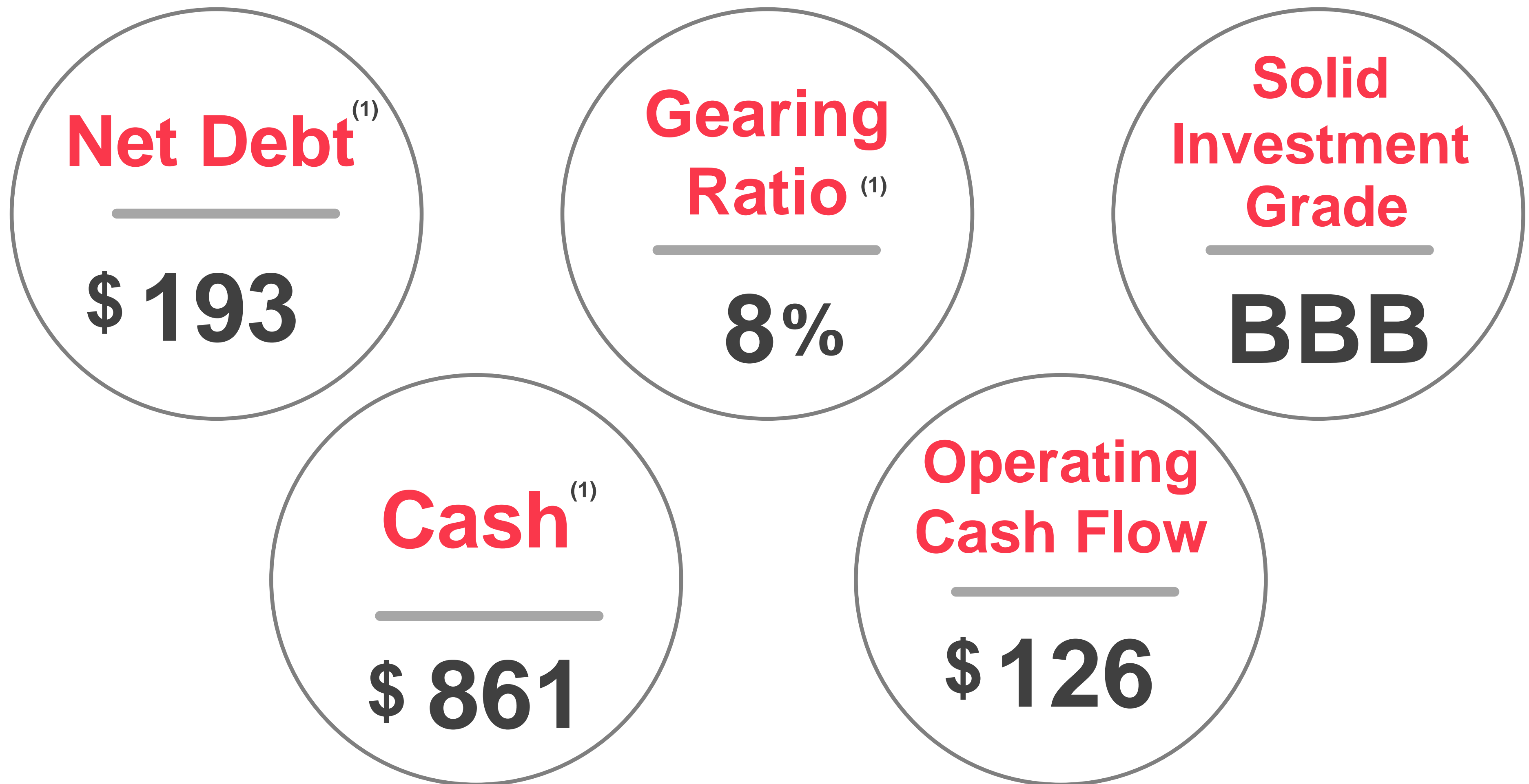
4) The gross debt, cash and net debt for June 19 were US\$1,303.3M, US\$810.5M and US\$492.8M respectively

5) Restated with adoption of new accounting standard, HKFRS 16

6) Excludes deal related transaction expenses

# Solid capital structure and strong operating cash flow

US\$M



(1) Pro-Forma as if the Temasek transaction was completed on June 30, 2019

# Solid Investment Grade Rating

S&P  
RATINGS

AA   A+   A   A-



Investment Grade

BBB+

SONY

NORDSTROM

BBB



BBB-



Non-Investment Grade

BB+   BB   BB-



Lbrands



B+   B   B-



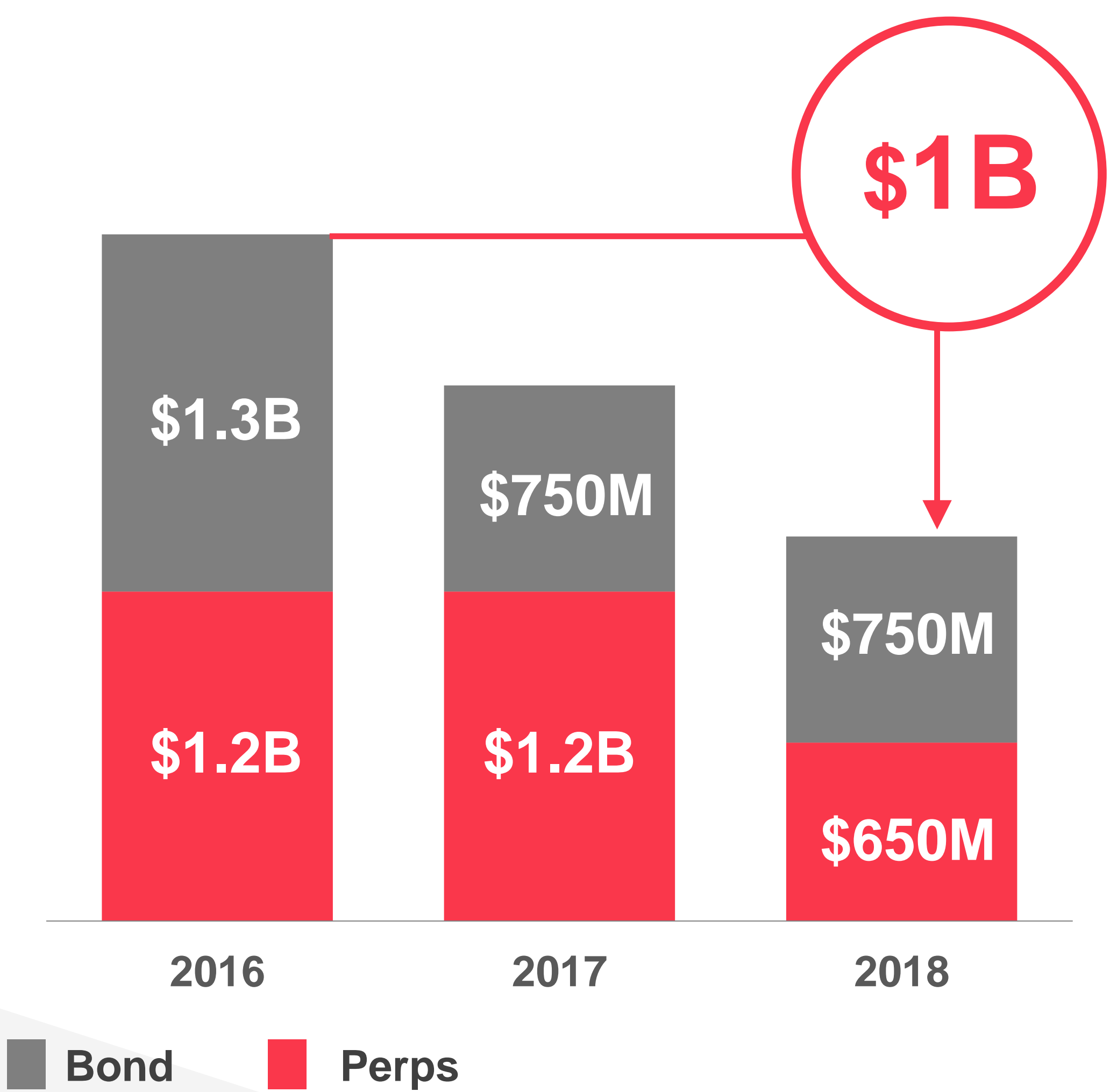
1. BDF Acquisition Corp  
2. Jill Acquisition LLC

Source: Standard & Poor's Ratings

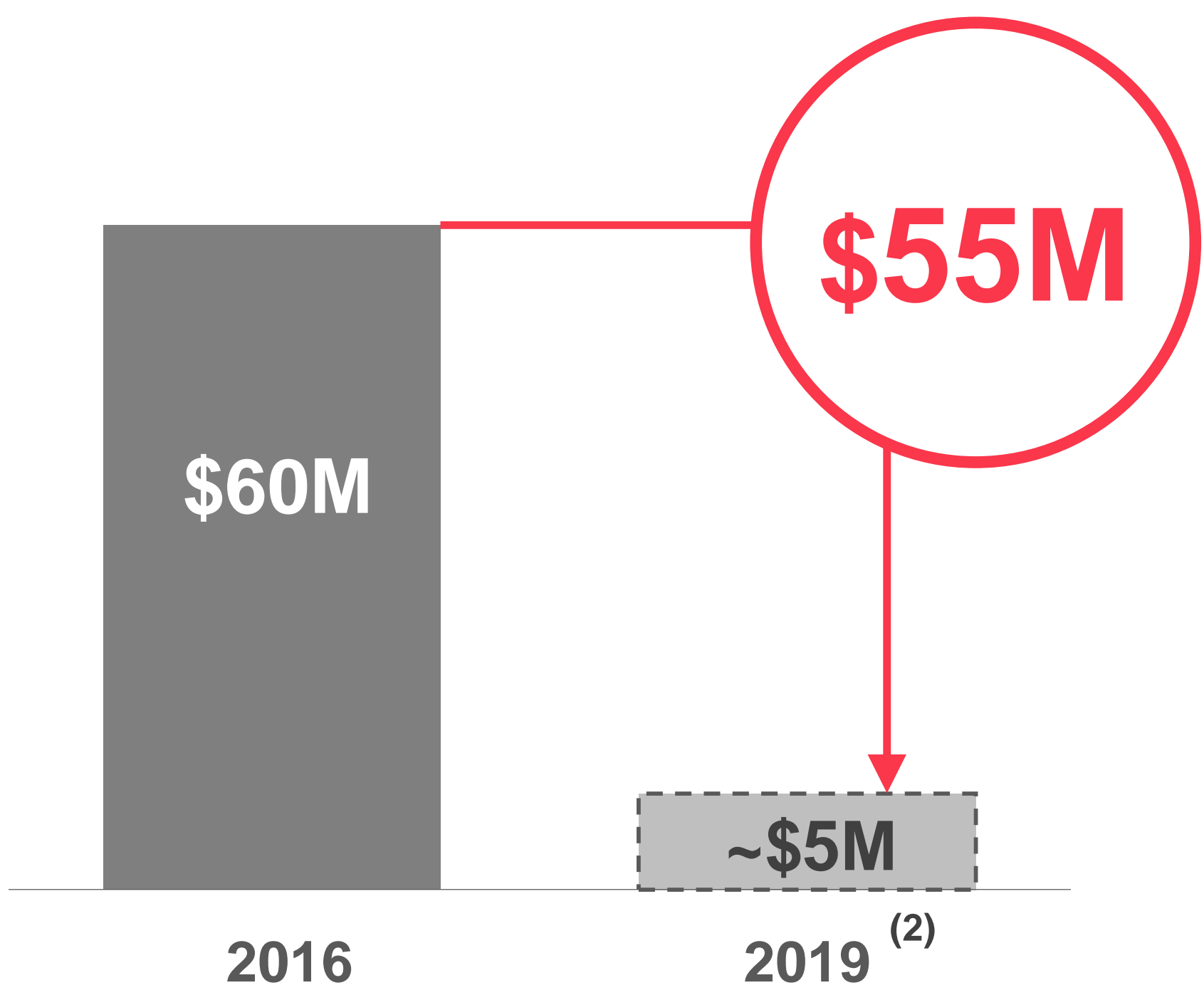


# Capital Structure Deleveraging

US\$M



## Purchase Consideration Payable for Acquisition <sup>(1)</sup>



1) Exclude Purchase Consideration Payable for Acquisition from Discontinued Operation  
2) Estimated year end balance. June 30, 2019 Purchase Consideration Payable for Acquisition is US\$8M



# Macro Environment

# Complex Global Trading Environment

## – A New Normal

- Global trade moving away from the WTO multilateral system
- Trade disputes and bilateral trade agreements are proliferating
- Environment becoming even more complex than the 1974 – 2004 quota era
- A highly complex global trading environment will be a New Normal
- Li & Fung's global diversified network of 50+ economies is well suited to navigate complexity for customers

# Evolution of Global Trade

Economies

**1974 - 2004**

- Multi Fibre Agreement created quota system that made global sourcing complex

**+27**

**2005 - 2018**

- China joined WTO and end of quota era simplified sourcing landscape

**+15**

**2019 - Beyond**

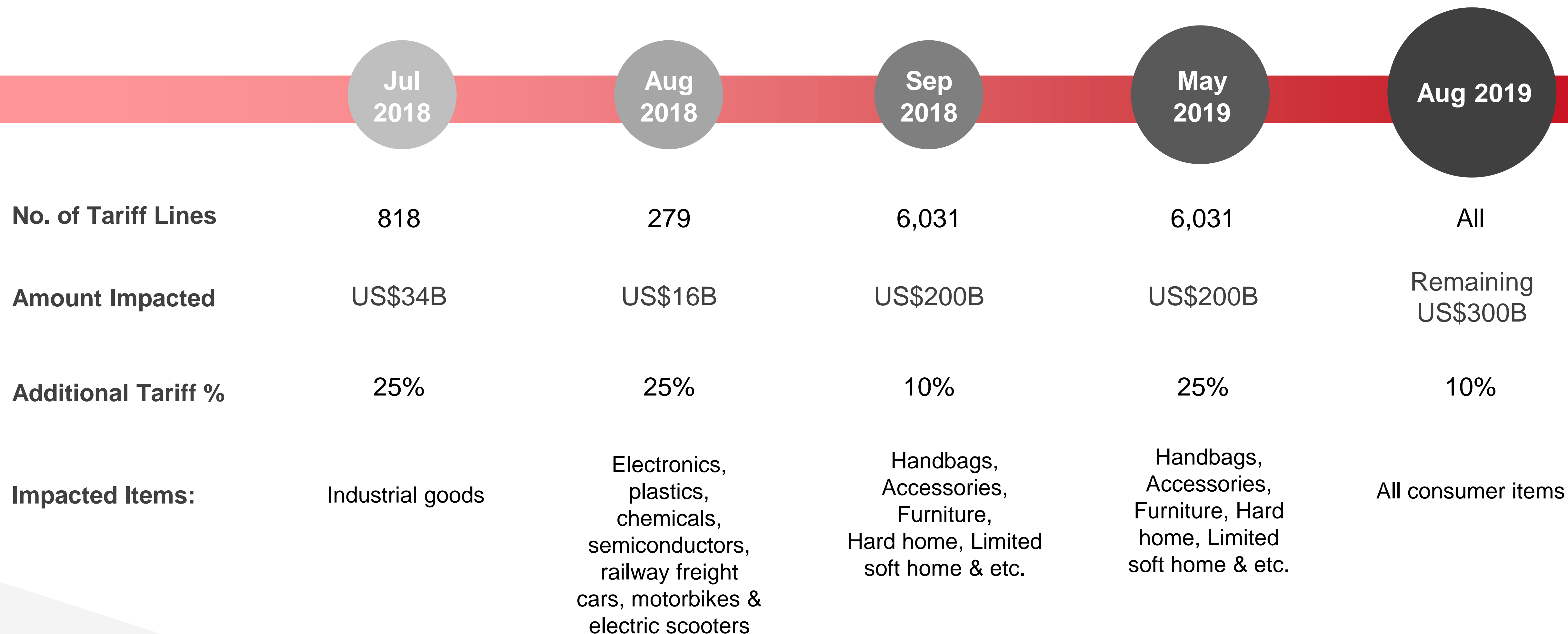
- US Sino relationship disrupts global trade and becoming highly complex

**+++**

# Long-term Value Generation vs Short-term Cost Reduction

- Buying offices and competitors have cut costs by reducing sourcing footprint to 3-5 offices
- This results in a highly rigid, inflexible model and places heavy reliance on a limited number of factories
- Li & Fung, on the contrary, maintains a speed model and flexible strategy, leveraging our 50+ offices globally
- This requires enhanced leadership and capability due to sourcing complexity in less developed economies

# Trade Dispute



# Diversified Sourcing Strategy

Largest network in the industry helping retailers mitigate risks with increased tariffs

- Global network about **50+** production economies

- **20-30** years of deep relationships with local vendors, regulators and business communities

- Proven ability to move quickly among economies of production

- On-going global diversification

- Total Sourcing Business from China: 2016: **54%**  
2017: **53%**  
2018: **51%**



Canada

United States

Mexico

Honduras

Haiti

Guatemala

El Salvador

Nicaragua

Dominican Republic

Peru

Brazil

Paraguay

Chile

United Kingdom

Netherlands

Lithuania

Germany

Ukraine

France

Romania

Spain

Italy

Bulgaria

Turkey

Portugal

Tunisia

Egypt

Jordan

Pakistan

India

Bangladesh

Myanmar

Hong Kong

Taiwan

Macau

Thailand

Vietnam

Cambodia

Malaysia

Singapore

Philippines

Indonesia

Australia

Sri Lanka

Kenya

Lesotho

Madagascar

Mauritius

Korea

Japan



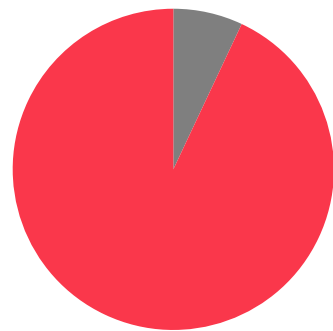
# We have Sizable Production Volume Outside China

FOB volume per geography (US\$)

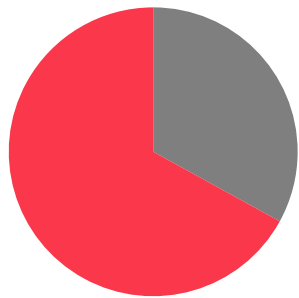
\$1 – 2B



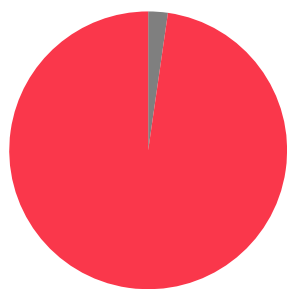
Vietnam



India



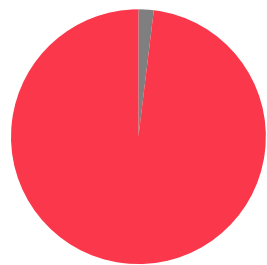
Bangladesh



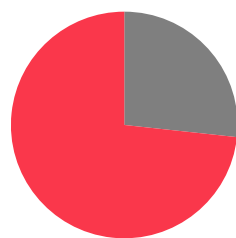
\$250M – 1B



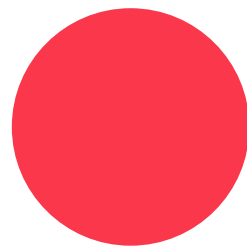
Indonesia



Cambodia



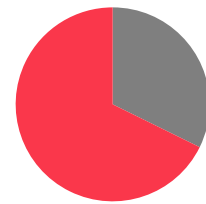
Latin America<sup>(1)</sup>



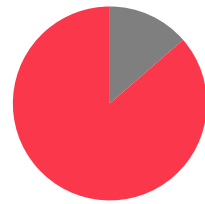
\$100 – 250M



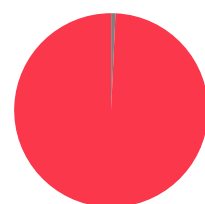
Philippines



Turkey



Sri-Lanka



(1): include Guatemala, Mexico, Nicaragua, Haiti

# Decades of history in each office

India



Office opened in 1995



Years in operation: 24



No. of Staff: 454



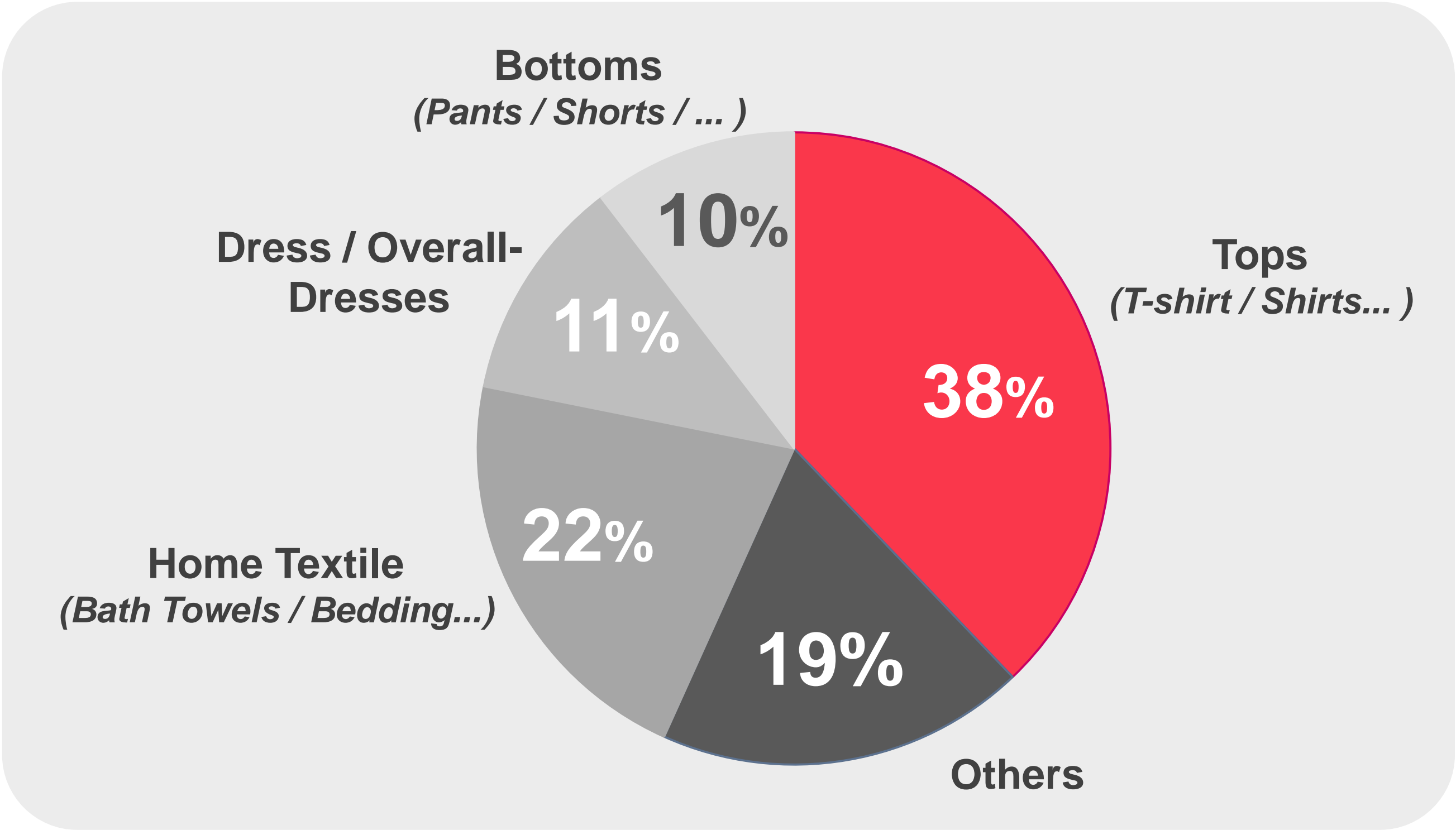
No. of Vendors: 416



No. of Factories: 484

\* It takes at least 2 years to open a new office and stabilize operations and production

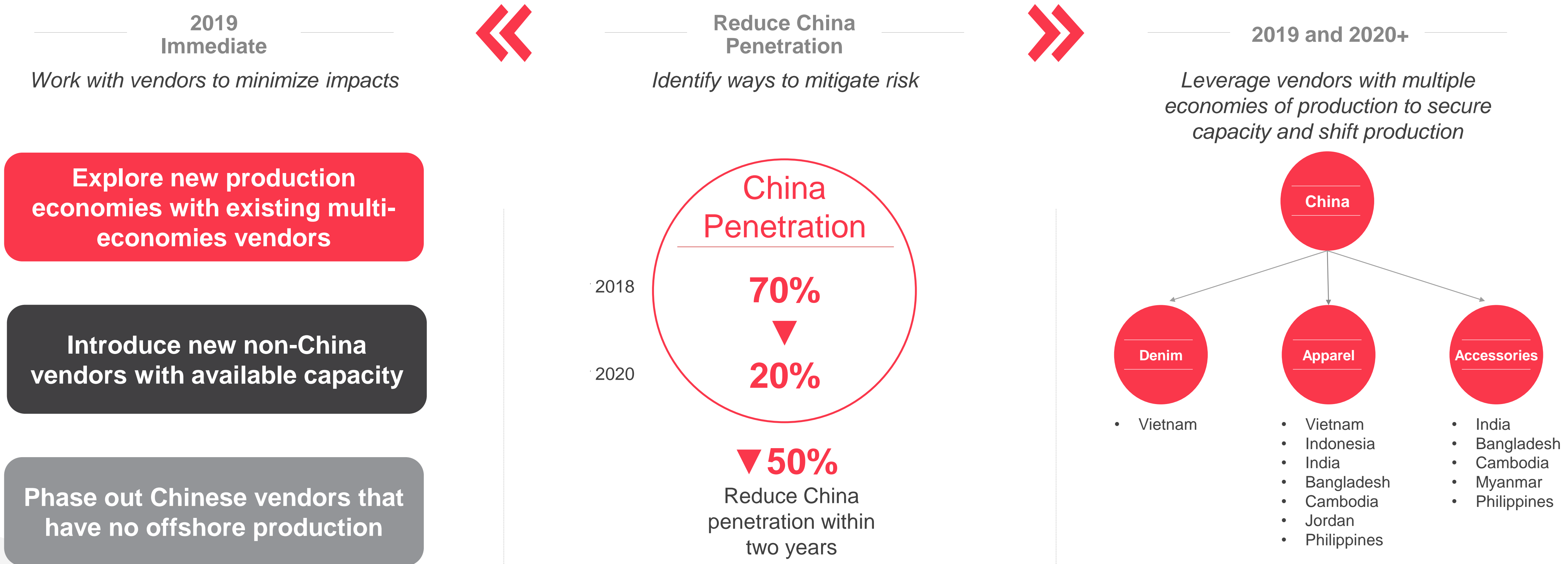
## Key Product Categories:



Key Vendors	Business Volume	Years with Li & Fung
Vendor A	157M (16%)	since 2005
Vendor B	123M (12%)	since 2008
Vendor C	54M (5%)	since 2005
Vendor D	53M (5%)	since 2006
Vendor E	50M (5%)	since 2006

# We are well-positioned to help our customers neutralize the impacts of trade tariffs

## Case Study – US Womenswear Retailer



# Impact to Li & Fung

- Majority of SCS and Onshore Wholesale transact in FOB terms and not subject to tariffs
- Small amount of principal and onshore business is LDP terms and impact of tariffs is only a few million dollars and negligible
- Most categories affected by tariffs being diversified out of China
- We have successfully and quickly eliminated or reduced tariffs for our key customers



# 2019 and Beyond

- Production will further diversify out of China regardless of any trade deal
- Non-China vendors will have the opportunity to absorb a large volume of new orders
- China vendors will have the opportunity to absorb orders from smaller vendors & non-US customers
- Li & Fung is working with Chinese vendors and governments to assist new factories to be set up offshore
- Li & Fung can help with raw material sourcing and LF Logistics can help with freight
- LF global network helping customers quickly neutralize tariffs and attracting new customer opportunities



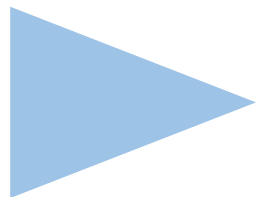




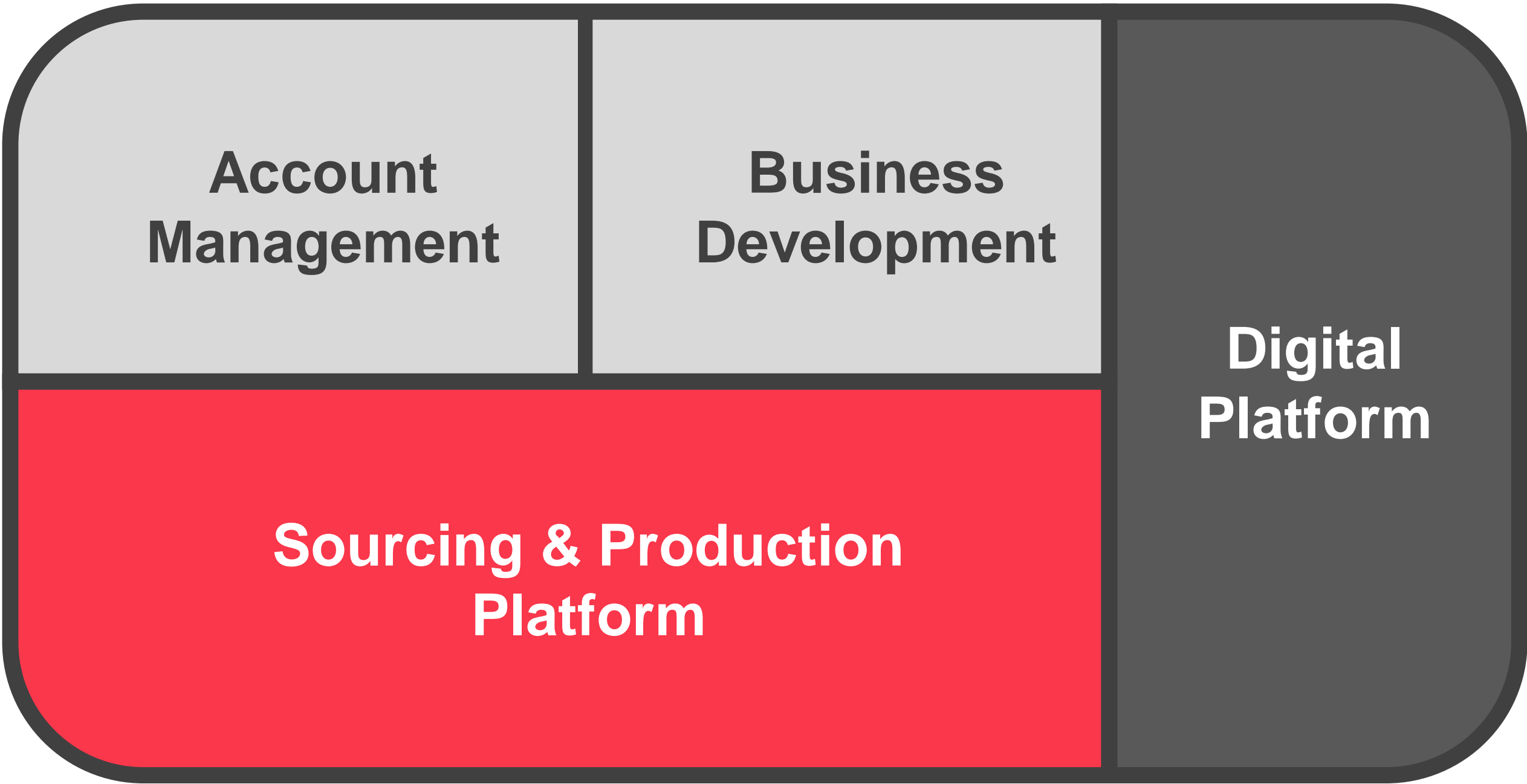
**We are restructuring SCS to sharpen  
focus on customers and performance**

# Supply Chain Solutions Restructuring

## Siloed Teams



## Focused Teams





# New Management Team



**Joseph Phi**, *Group President*

- 20 years with the Fung Group
- 9 years with Li & Fung and Executive Board
- 10+ years of high double-digit organic growth & strong track record



**Wilson Zhu**, *COO*  
*Sourcing & Production Platform*

- 32 years of experience
- Deep knowledge of China and the US
- 15 years as a Li & Fung customer
- Strong track record on execution



**Darren Palfrey**, *CDO*  
*Digital Platform*

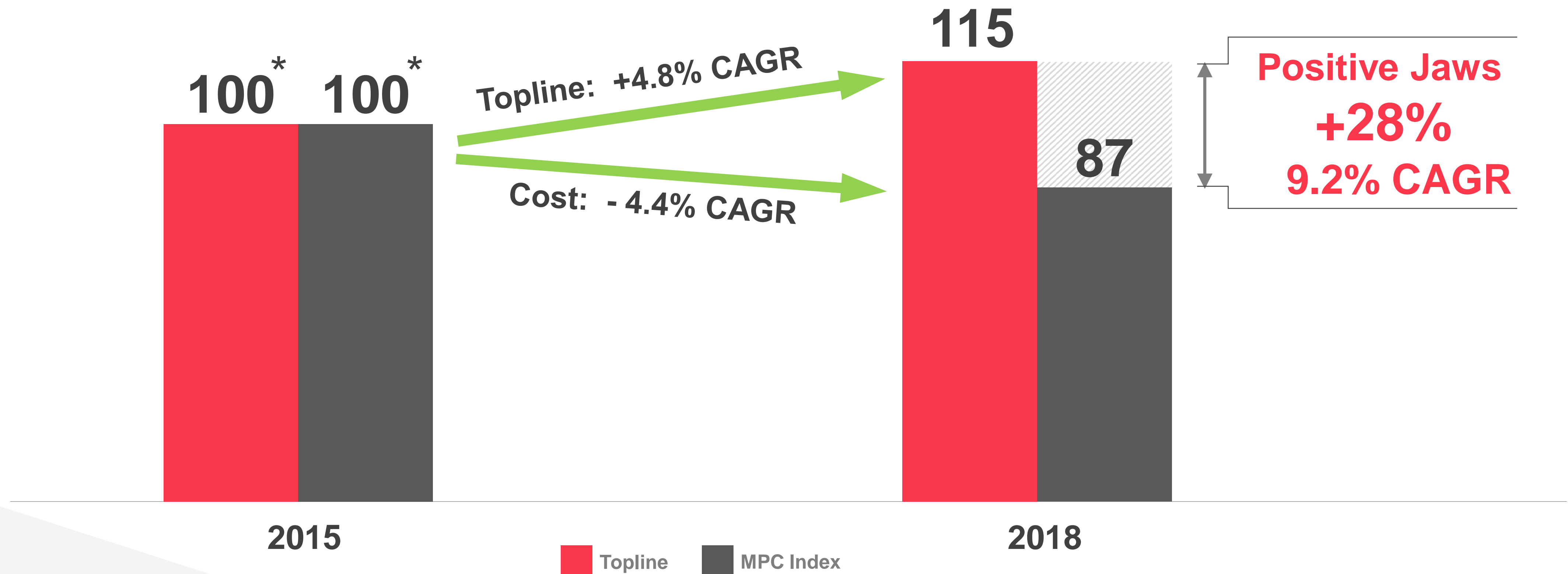
- 20 years of experience in retail and logistics
- Previously started digital supply chain software company

# Impact of our Restructuring

- New management team adding discipline and process to the operations
- Account management brings focus to customer centricity and operational excellence, and improving all KPIs
- Sourcing and production platform allowing true leverage of Li & Fung buying power and improving productivity
- Both customers and suppliers have noticed an immediate difference
- These improvements have allowed us to start gaining market share with our top customers
- As a result of the restructuring, we will incur US\$8M of charge in 1H and will increase for 2H of 2019

# Sourcing and Production Platform Case Study - India

- Bridging the silos allowed multiyear productivity increase that is driving down cost
- Improved and consistent service delivery won many new customers
- Truly leverage the Li & Fung buying power
- Achieved positive jaws of 9.2% CAGR over 3 years



*Both metrics rebased to 100 in 2015 to illustrate progress over 3 years*

# Business Development Acceleration

- Robust pipeline with more sizable targets
- Digital supply chain and global diversified network attracting new prospects
- Conversion rate accelerating
- 2019: 
- Prospects: 
- This pipeline is all from customers moving away from their in-house buying office
- 2019 shaping up to be one of the most successful years in new organic growth



**LF 3D virtual design is disrupting  
traditional supply chains and  
generating revenue**

# LF 3D Virtual Design is Disrupting Traditional Supply Chains

==  
Analog Tasks

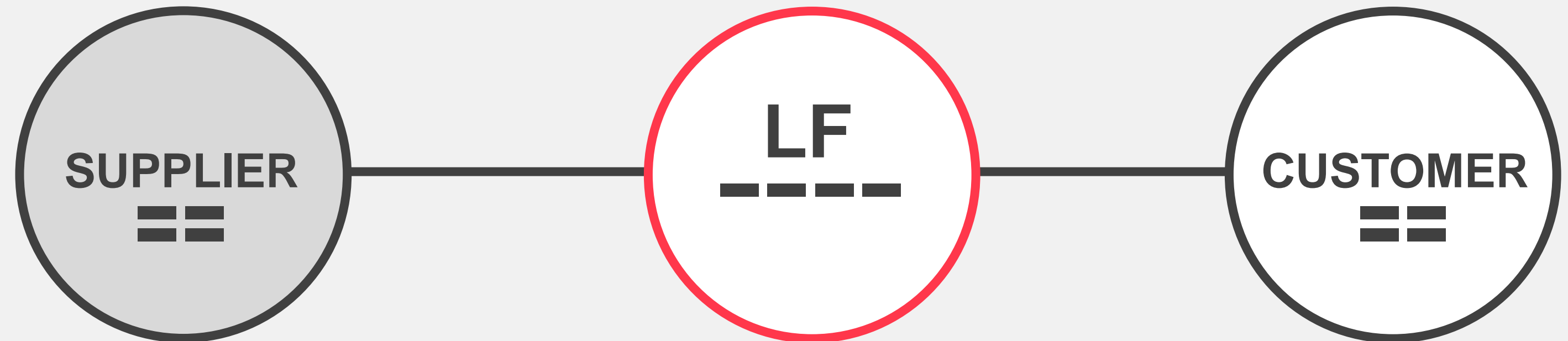
## 1. Intermediary Disruption



## 2. Margin Disruption



## 3. Digital Disruption





# LF 3D Virtual Design is Disrupting Traditional Supply Chains

==  
Analog Tasks

==  
Digital Tasks

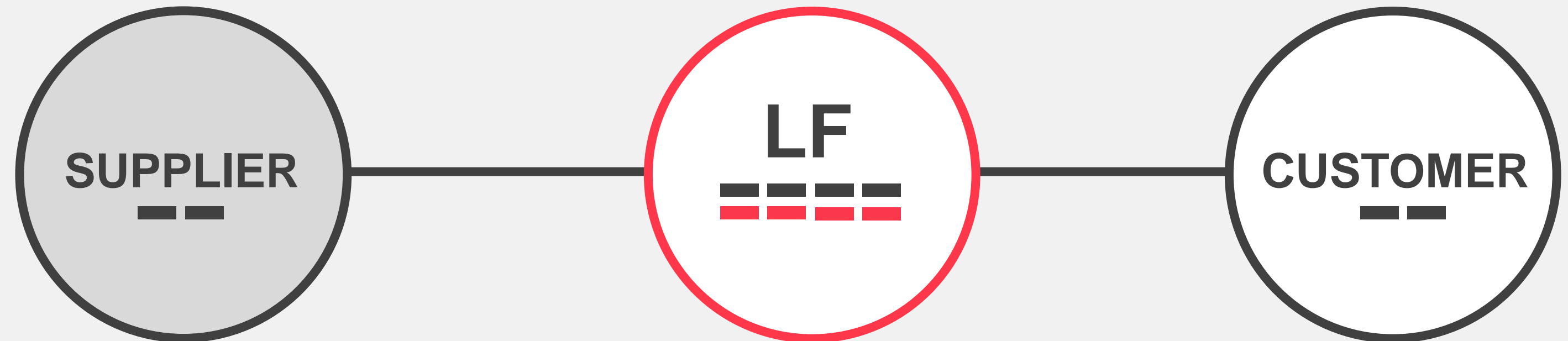
## 1. Intermediary Disruption



## 2. Margin Disruption



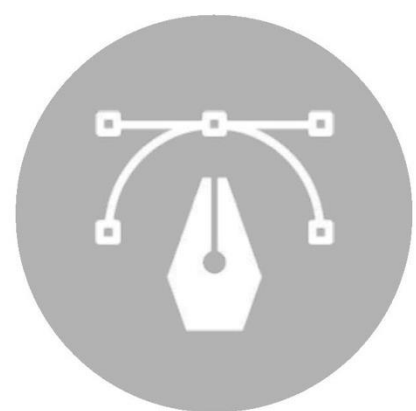
## 3. Digital Disruption



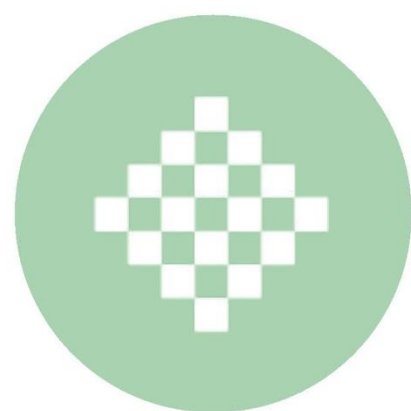
*Helping our customers and suppliers to reduce cost and increase speed*



# LF 3D Virtual Design



**Design &  
Inspiration**



**Blocks & Patterns**



**Product Development  
– Sampling**



**Fitting**



**Digital Catalog**



**Retail & Visual  
Merchandising**

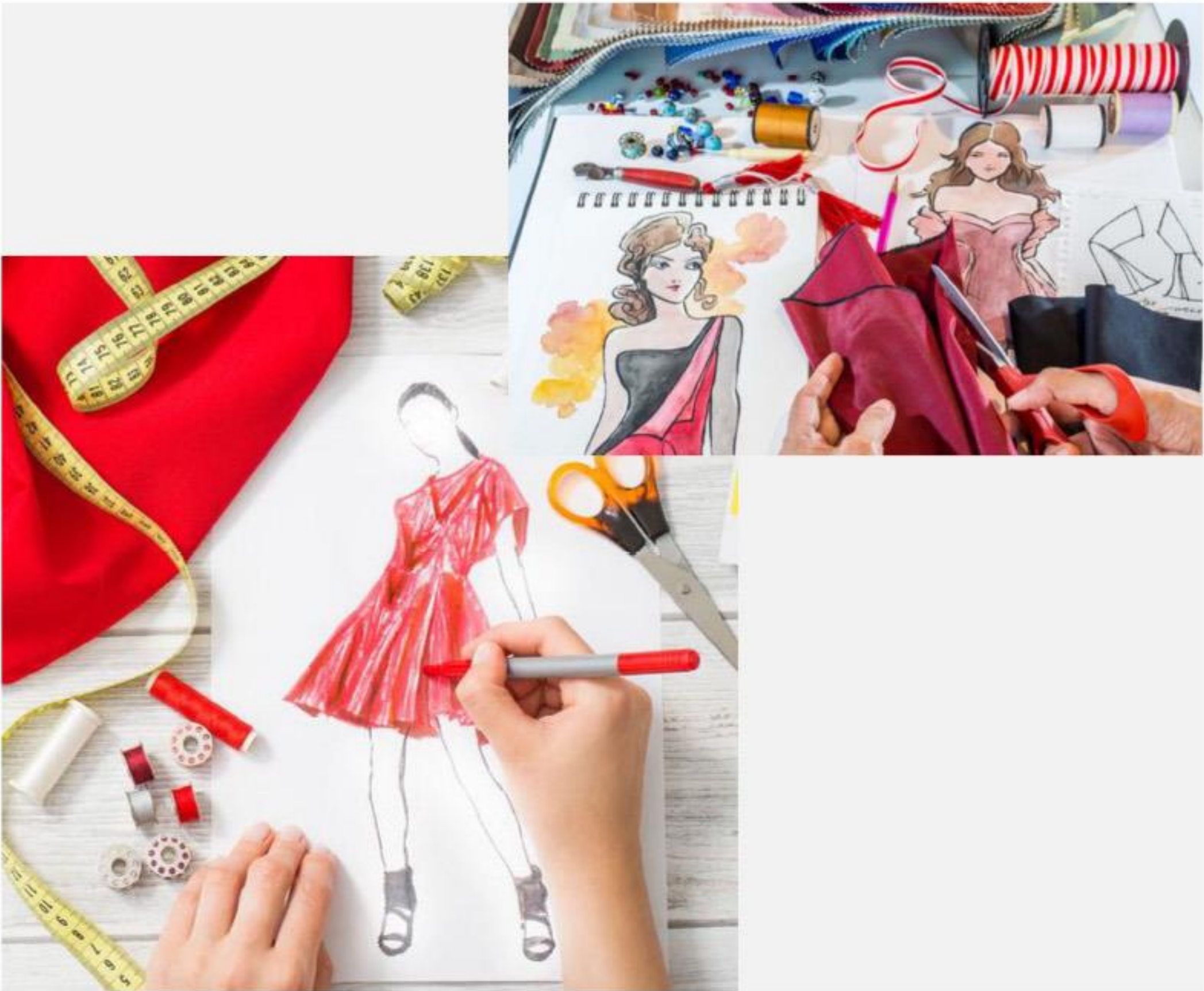
**End-to-end Value Chain**



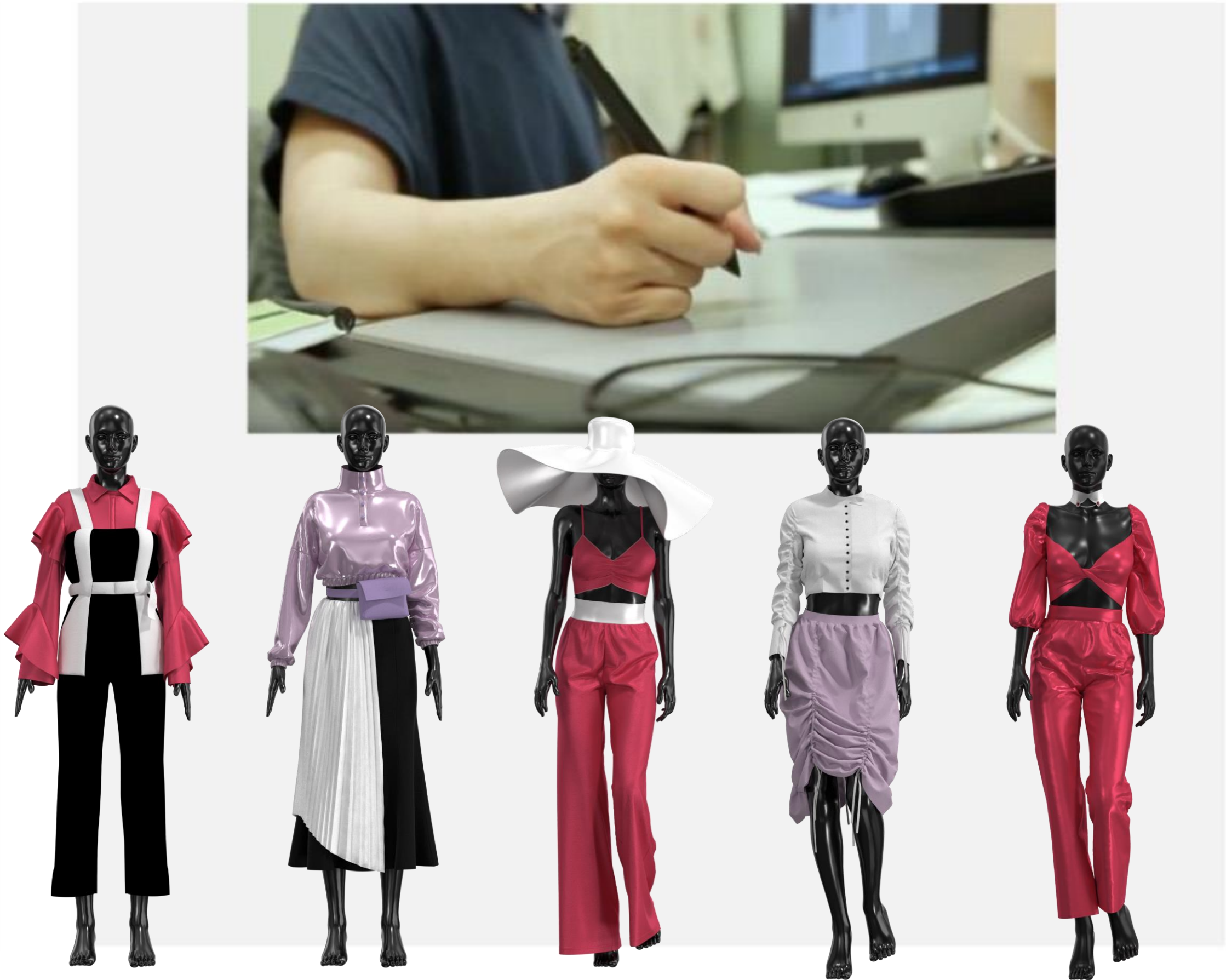
# Design and Inspiration



OLD

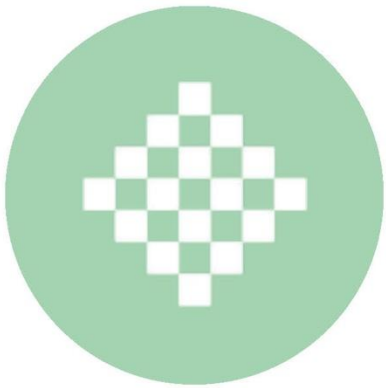


NEW

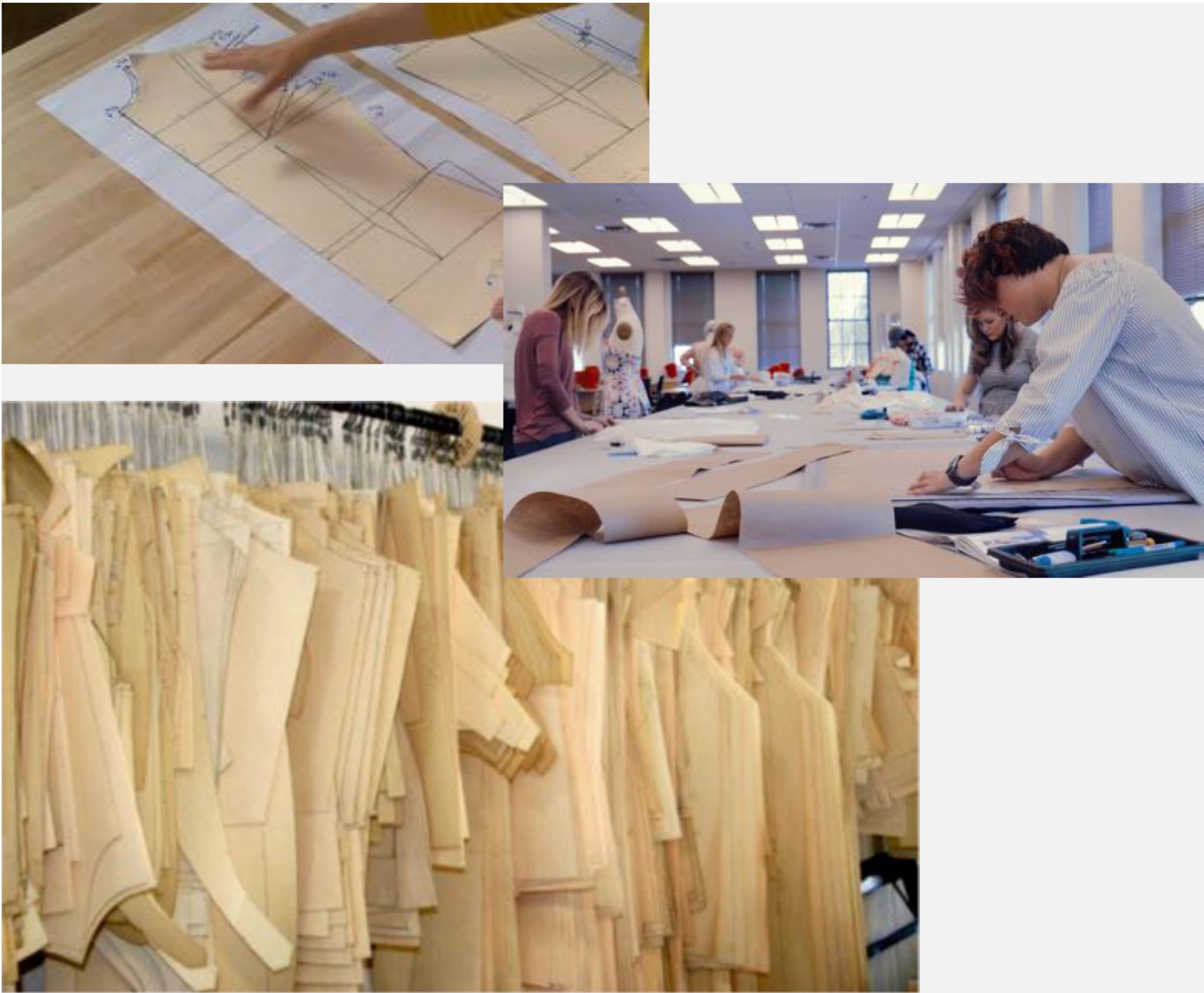




# Blocks and Patterns



OLD

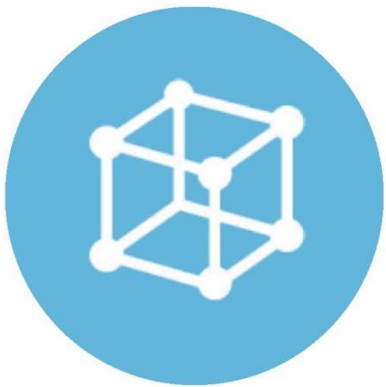


NEW





# Product Development - Sampling



OLD



NEW





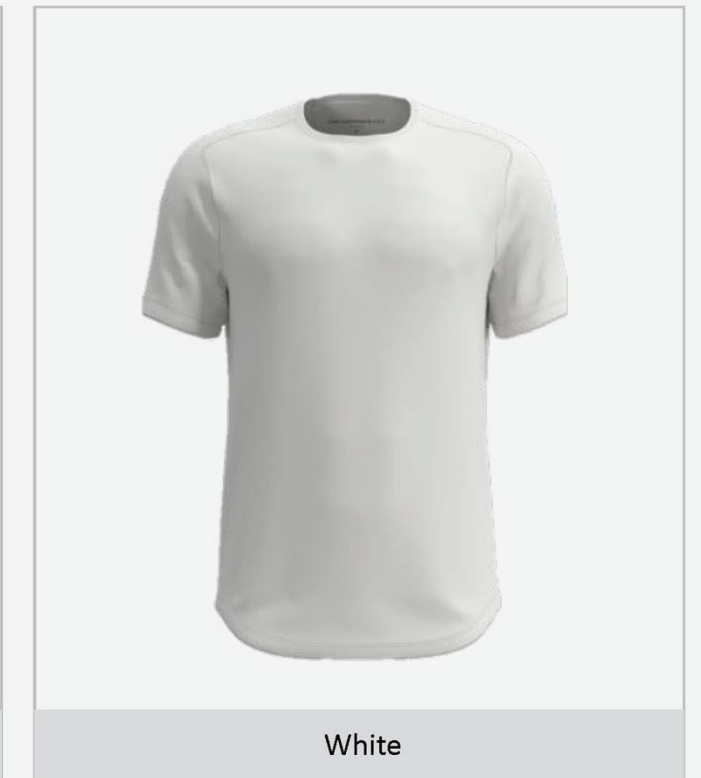
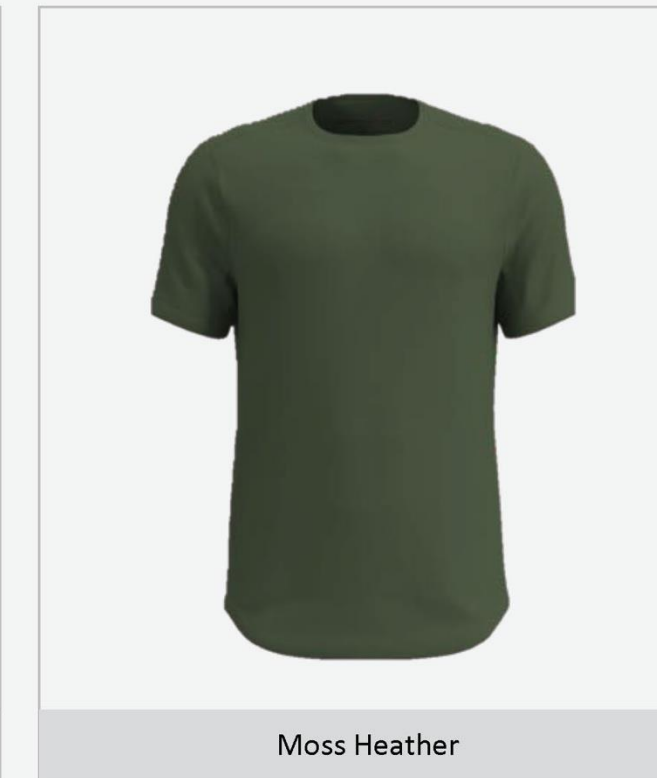
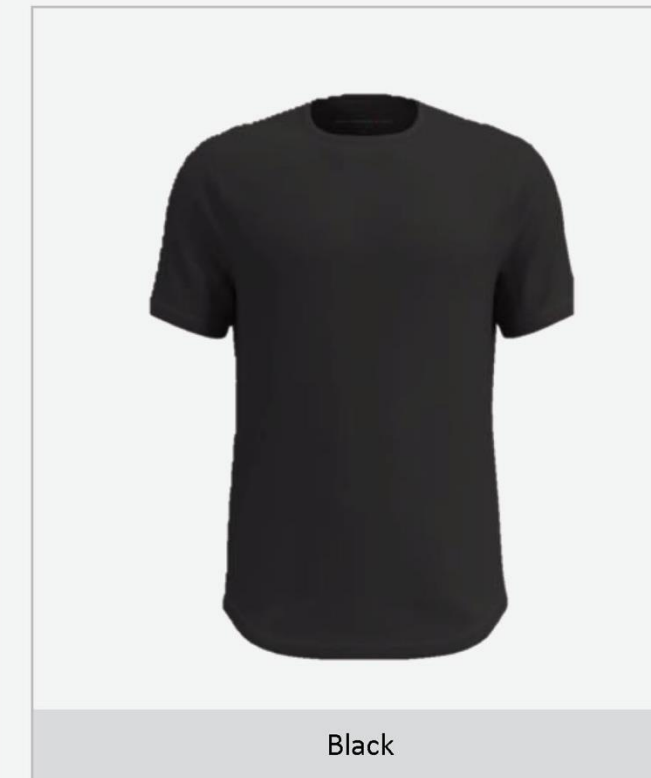
# Fitting



OLD



NEW

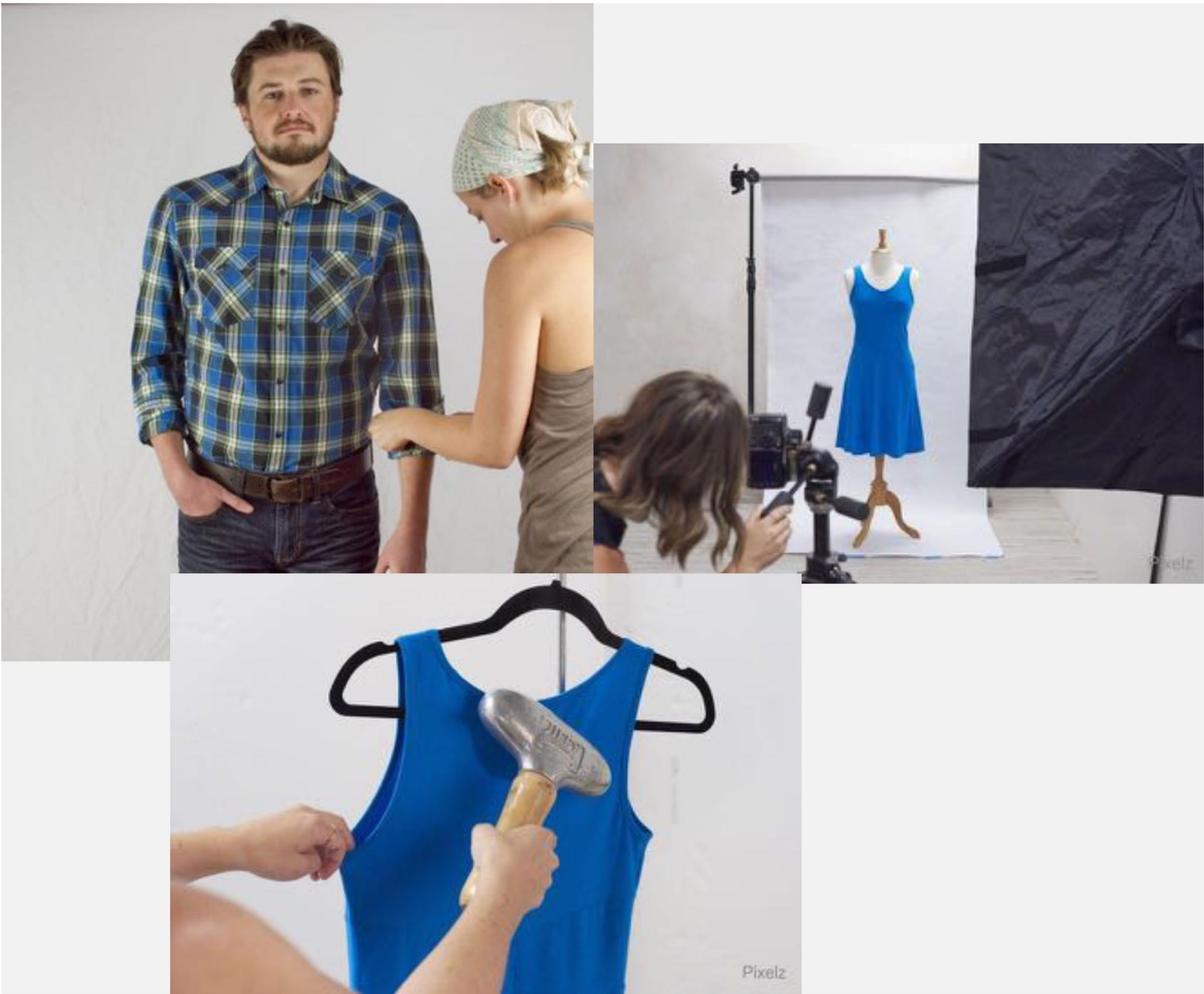




# Digital Catalog



OLD



NEW





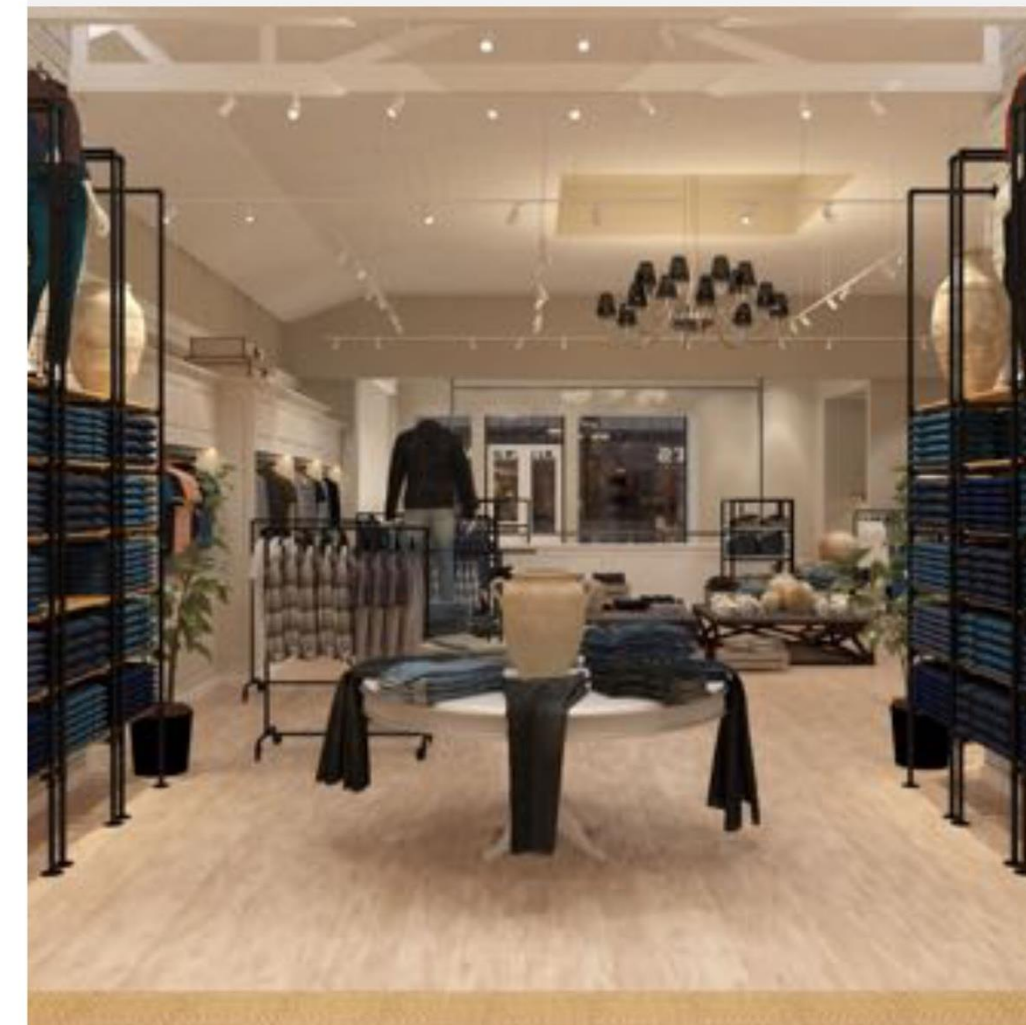
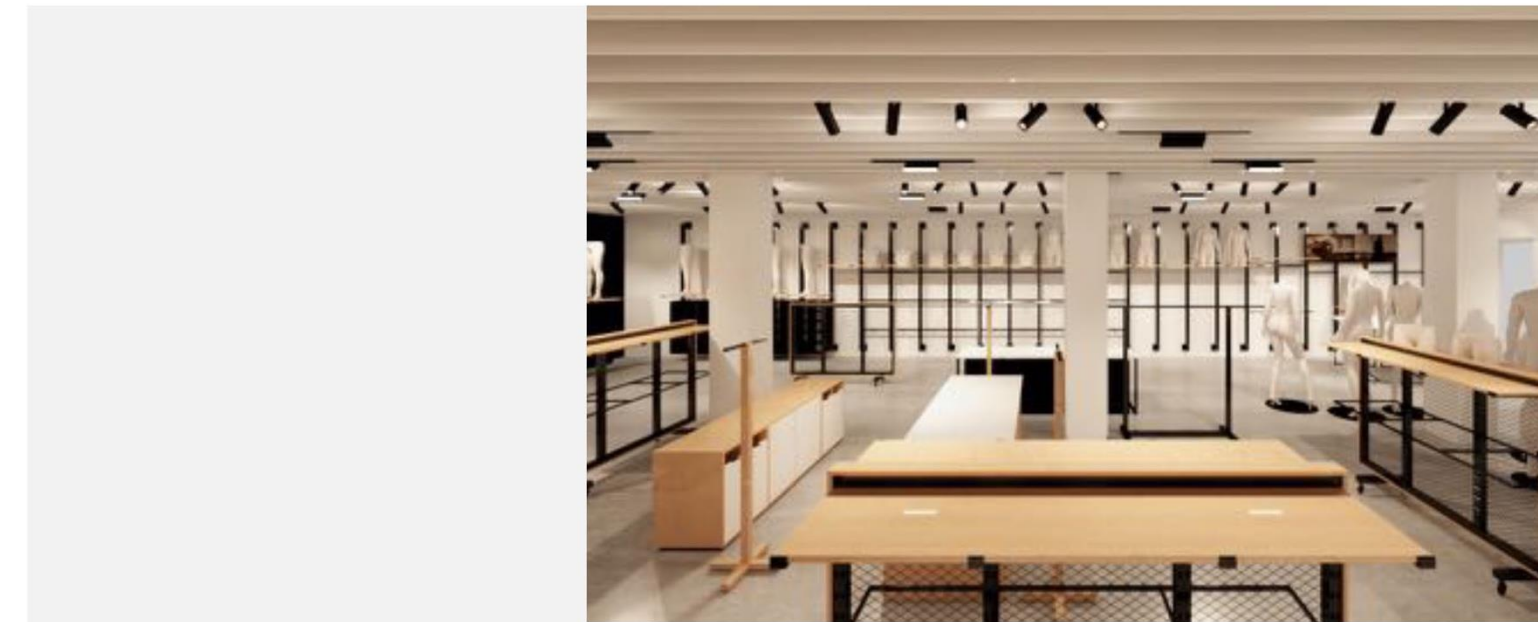
# Retail & Visual Merchandising



OLD



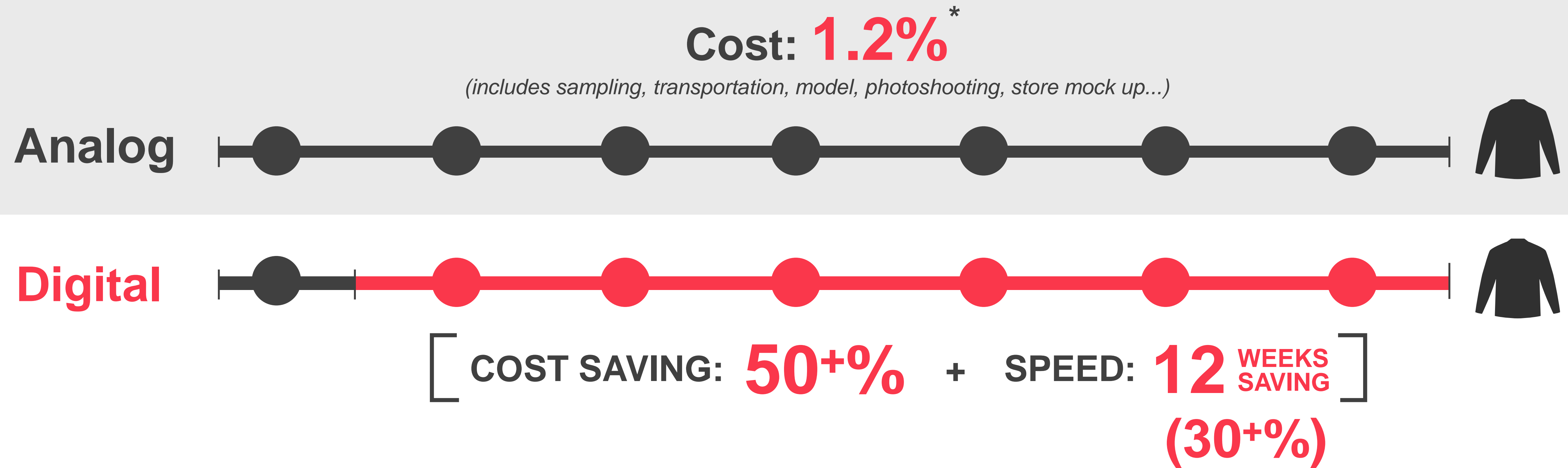
NEW





# 3D Virtual Design

## Analog vs Digital



- Global apparel sales: **\$2.4T**
- 1.2% cost on analog services: **\$30B**
- 50% cost savings: **\$15B**
- Estimated market size is **\$15B** and tapping a new wallet in customer's digital spend

\* Based on management estimate

# LF 3D Virtual Design | Our Evolution

3D Virtual  
Design  
CoE

3YP  
(2017-19)  
Team Kickoff  
Sep 2017



**5x**

Signed up digital-  
only customers

**20X**

Number of current  
customers  
transforming into  
3D

**25%**

SCS customers  
adopting 3D

**25%**

Increase in LF  
designer productivity

**4X**

Adoption rate

**6X**

# of Categories



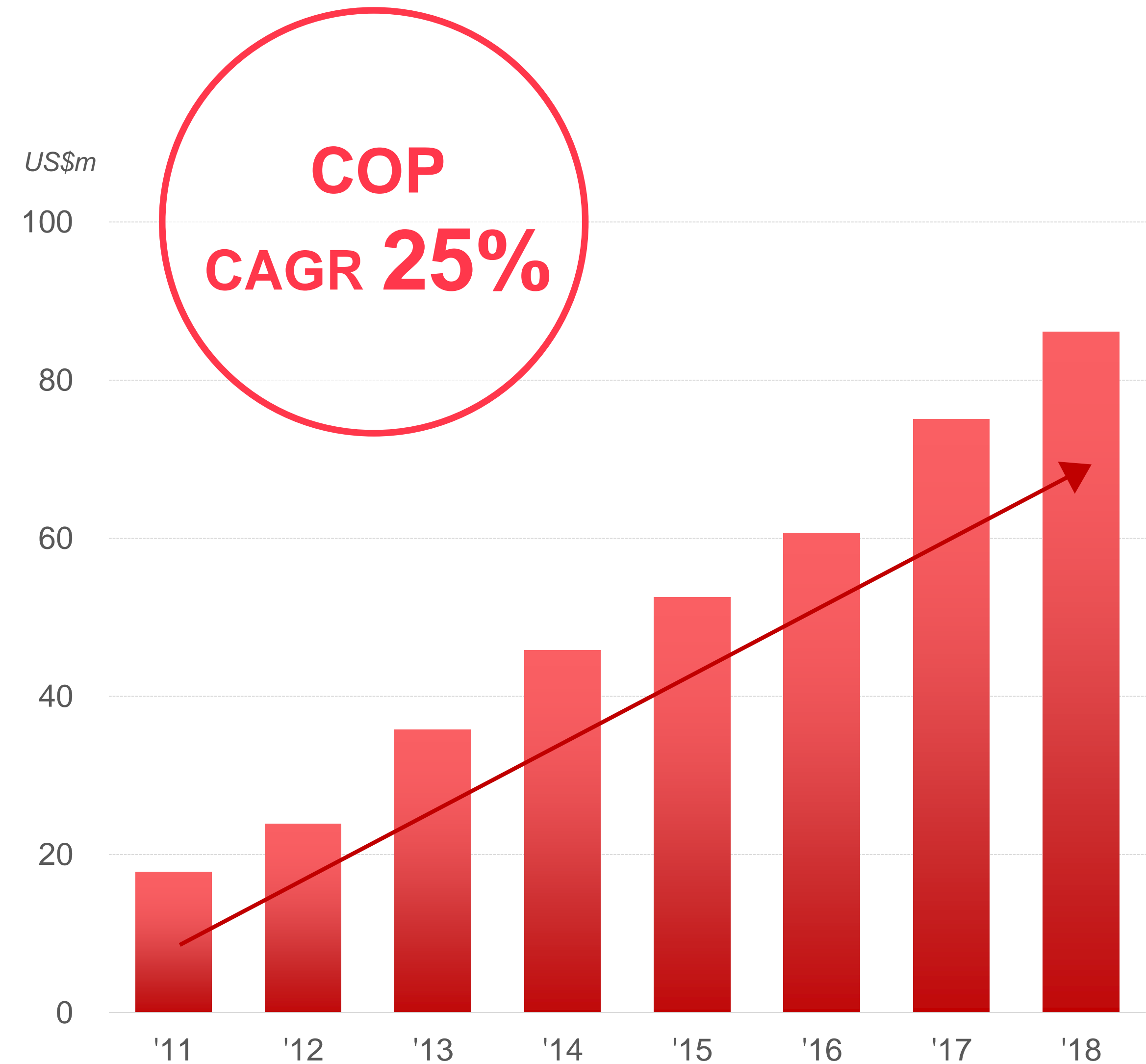
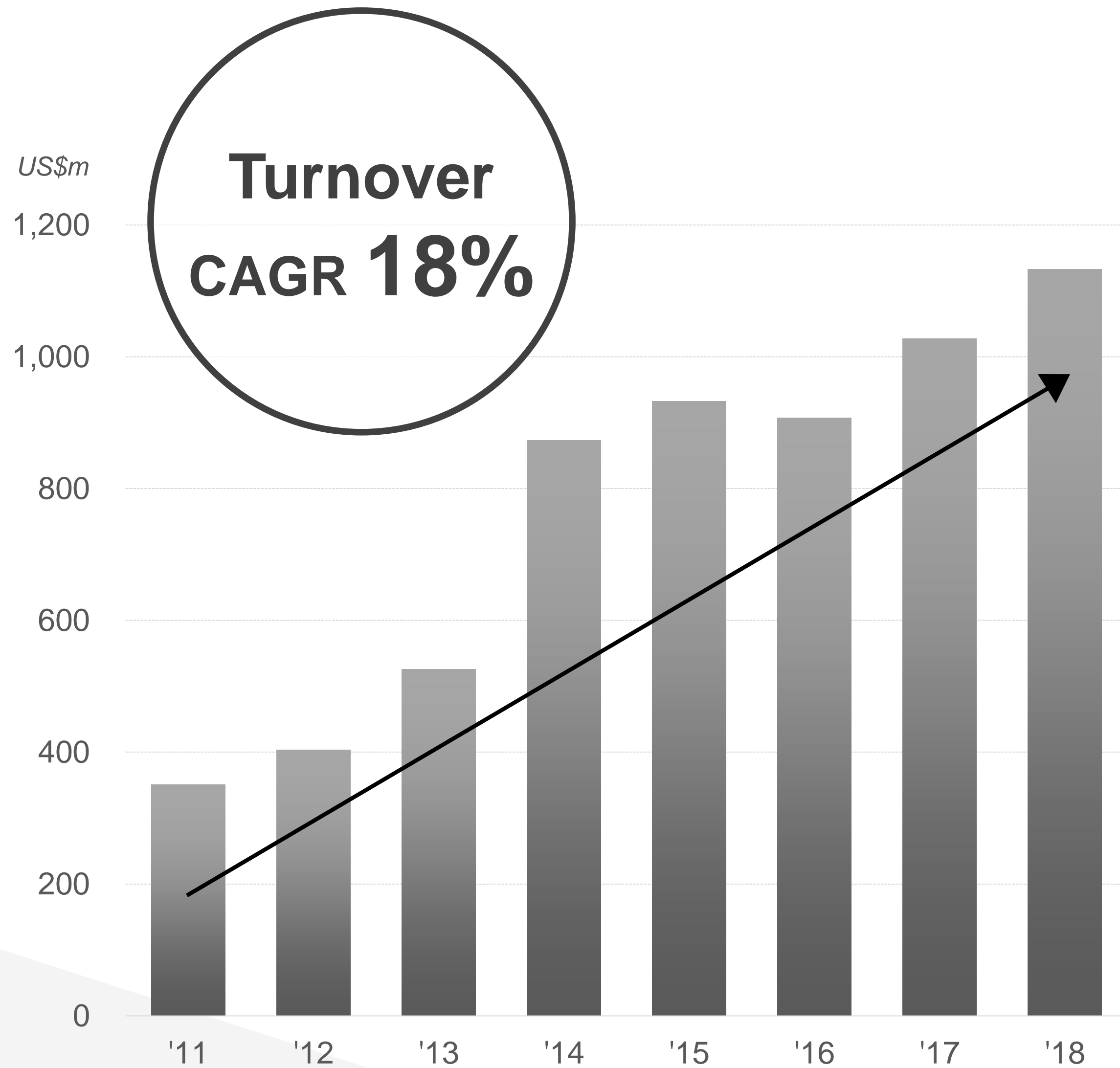
**LF Logistics continues strong momentum  
with multiple growth drivers**

# Our Network

- 17 jurisdictions (incl. US and UK)
- 221 Distribution centers
- ≈ 26 million square feet DC space
- ≈ 500,000 TEUs handled per annum
- >9,000 staff



# Strong Track Record





# Innovation Initiatives: Automation



## Goods to Man Systems

Reduce Travel Time



## Semi-Automated Vehicles

Carton Picking  
Reduce Drive Time and Enable 2<sup>nd</sup> Level Picking



## Drones

Stock Checking and Counting



## Sustainability Systems

Solar and Electricity Savings



## Automated Storage Solutions

Pallet Shuttle Systems, ASRS



## Augmented Reality Systems

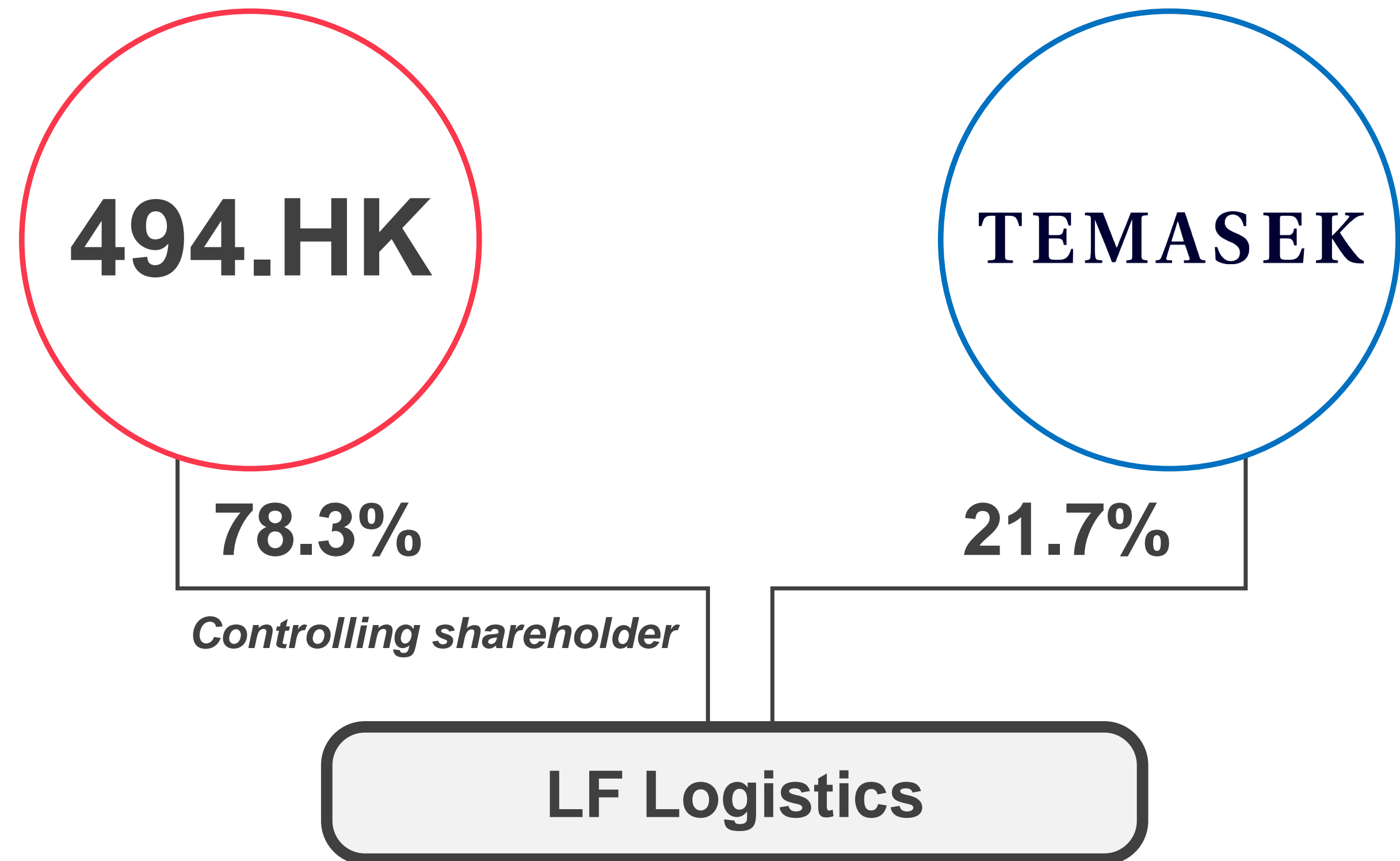
Hands-Free and Ergonomic



# Outlook - LF Logistics

- With a network of five hubbing locations – Singapore, Ho Chi Minh, Shenzhen, Hong Kong and Shanghai, we service the wholesale, retail and e-commerce channels, delivering to Asia and across the globe.
- We will further expand in new geographies of India, Korea, Japan and Indonesia, focusing e-logistics
- Our strength in Hong Kong logistics is complemented by our leadership position in Shenzhen Bonded Logistics to provide our customers with optimal Greater Bay Area solutions
- China continues to show strong growth due to new business despite a slow down in the overall economy.

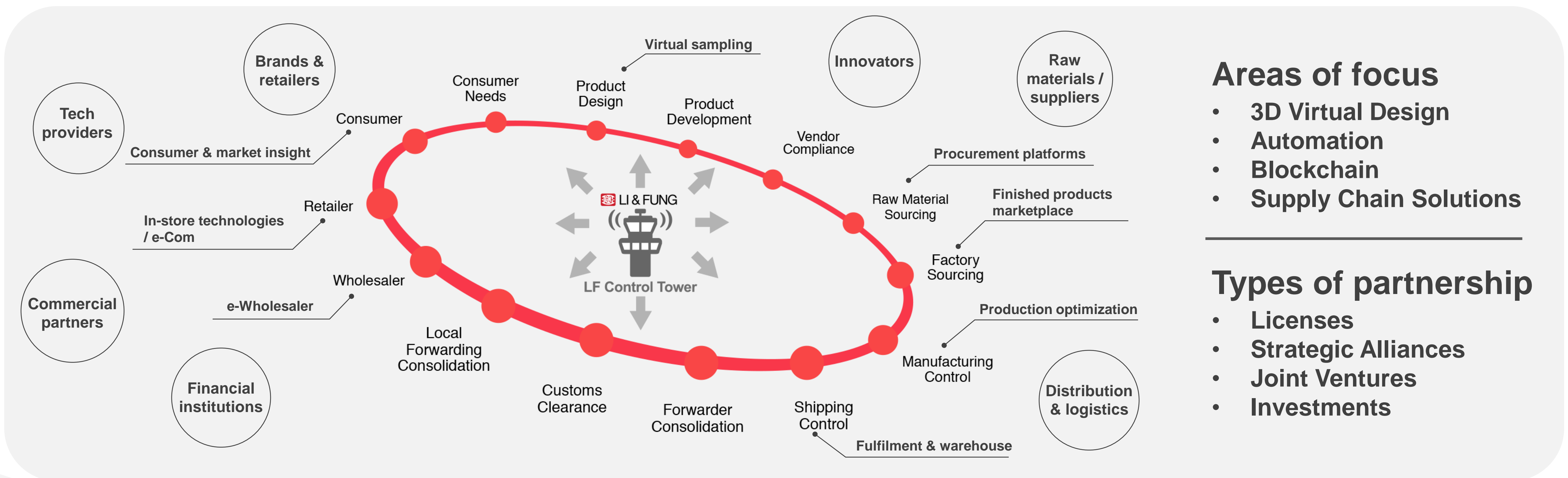
# LF Logistics – Investment by Temasek



- US\$300M investment to further accelerate business growth
- US\$1.4B valuation validates business potential and management track record
- Li & Fung owns 78.3% of LF Logistics and consolidates its results
- Unlock value in Logistics & enhance capital structure of the Group

# LF Ecosystem

- Our ecosystem of partners reaches more than US\$2 Trillion of retail sales
- End-to-end sourcing and logistics services augmented by digital services



## Areas of focus

- 3D Virtual Design
- Automation
- Blockchain
- Supply Chain Solutions

## Types of partnership

- Licenses
- Strategic Alliances
- Joint Ventures
- Investments

# Outlook

- Continued deleveraging and maintain a low gearing ratio
- New management team will continue to drive restructuring in 2H 2019
- Business development efforts accelerating business wins
- 3D Virtual Design will continue to sign new revenue generating contracts
- Total margin affected by exit of high risk business and margin pressure from selected SCS customers
- Complex global trading environment presents the biggest opportunity for Li & Fung's business model in 20 years



# **APPENDIX**

## **Event Subsequent to Interim Results Announcement**

# Bond Refinancing (Sep & Oct 2019)

- Tendered US\$375M of Bond due 2020 (coupon rate: 5.25%)
  - Remaining US\$375M to be repaid at maturity with excess cash
- Raised US\$500M in new Bond due 2024 (coupon rate: 4.375%)
  - Coupon rate 87.5 bps lower than 2020 Bond
  - Raised in two tranches: US\$400M in Sep & US\$100M in Oct
  - Both well-received and oversubscribed
- Deleveraging after repayment of remaining 2020 Bond at maturity (May 2020)
  - Balance sheet deleveraged by \$250M
  - Annualized interest expense savings of \$17.5M <sup>(1)</sup>

(1) Bond 2020 annual interest expense US\$39.4M minus Bond 2024 annual interest expense US\$21.9M after deleveraging.

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