SuperGroup ■ Plc

2015 Full Year Results

9 July 2015

Euan Sutherland – Group Chief Executive Officer

Good morning everybody, thank you for coming, thank you for battling through the tube strike. I think we probably have a few more on the call than we would normally do, so we may well go to questions on the call later on.

So thank you for joining us for our full year results update, we do have a couple of new news stories to feed in as well, and we'll cover that upfront and then clearly take questions on last year and current trading and the China joint venture as well.

I'll just cover a little bit of the overview, ask Nick to come up and talk through the full year results in detail and I'll come back and do a quick update on the strategy that we laid out at the Capital Markets day back in March.

So as a summary and overview of the year, it really was a year of two halves. If you look at the second half we made good progress on cash, on sales and on profit, we established our strategic priorities and our global growth platform. So I'll put some order around the opportunity that we have in front of the organisation. We've also been strengthening the team, and I'll come back specifically to a slide on the management team as we go through the strategy update at the end. A very important slide for us, this marks a big move in our ambition to be a global lifestyle brand with now 55% of our sales outside the home market of the UK.

We've seen good growth in the UK, from 23% of our mix up to 40% and good growth in the rest of the world, from 5% up to 15%, that's driven across offline and online with very strong online growth globally. You'll see that pattern continue as we go through the next five-year period.

Now before we go into the detail of last year, two quick updates on the two new stories of today. We brought forward our quarterly trading update by two weeks, really as an indication of the strength of our first ten weeks total retail sales growth up 34.5% of new space of just over 19% with a like-for-like growth of 20.3%.

Now that like-for-like is against a weaker period last year of minus five, we have however seen, and you've seen some of the product around you today, had a lot of innovation and newness driving a strong summer season for us, better availability in stores as well as the overall process of design to customer begins to kick in, and we've also seen a strong e-commerce platform growth as well, continuing out of last year and into the first ten weeks of this year.

Just a caution on that number, it is only a ten-week number, it is our lowest volume period of the year and therefore our lowest profit contributing period as well, but we are obviously very pleased with the progression and the continual strength in like-for-like. The majority of that like-for-like clearly is still the UK, but Germany and those German stores are starting to kick in to the like-for-like calculation as well.

Very current trading and not even in the pack, if you look at the Budget yesterday it's worth commenting on, I guess, the biggest news for retail is the living wage from the Chancellor. Just a couple of comments on that, that doesn't really impact us, 70% of our colleagues are under the age of 25, we're a very young brand. We do have a tiered wage programme in stores which take colleagues above the new living wage anyway, so you could say that it's in our numbers. So just a comment on that, I'm sure there'll be some questions on that later on.

Secondly, we have been able to pull forward our ambitions in China, we have last night signed a ten year minimum 50:50 joint venture with a very experienced Chinese retail operator, Trendy International Group. The Chinese market for us, a very attractive market, set to be the largest apparel market in the world, overtaking the US to the value of about $350bn. Consumer tastes in China changing a lot, both in local malls and in western malls, a real propensity for western brands, especially British brands. We've carried out some quite detailed market research in China and the view of those consumers is that the Superdry brand is much more British there and we feel that the product, the pricing and the store proposition will fit very well with the Chinese market.

We have some good references around the Asia Pacific region with strong sales in Hong Kong, Taiwan, Korea, and we recently went on to T:Mall as well so we have some direct in-China experience to draw from.

A little bit more detail on that, the operating model, the headline out of this is that it is light touch for the SuperGroup management team and we will have a steady growth profile. The stores will be Superdry stores, just to be very clear and it will look very much like the stores that we have in the UK and Europe.

In terms of governance, I'm pleased to announce that Paula Kerrigan who was previously Kingfisher's strategy director who has lived and worked in China for five years previously and works as part of my team at Kingfisher is joining the SuperGroup exec in September; she will also sit as a Board director on the joint venture. Critically for us we will be appointing the joint venture CFO as well.

In terms of the financials, reasonably light on capital, £18m is the max we believe that needs to be injected into the joint venture, that's 50:50, so £9m from SuperGroup. Critically for us SuperGroup have a call option on the JV after ten years and 12 years, we have a call option on deadlock and we also have a call option on any underperformance in the joint venture too; there is no put option from the other side on this deal, so a sensible structure for us. And any further expansion in the joint venture should be self-funding after two years, so the capital at the top should be the amount that we're putting in to that. There is a small pre-trading loss expected in this year, which is why we believe the consensus guidance is about right, that's already in our numbers, obviously new news to you today, but a very small number that should be accounted for there.

A little bit more detail on just how it works, if I talk to the middle and then to the left, the joint venture will be based in Shanghai, Trendy have operations there, we will have two board directors on the joint venture and Trendy Group will have two board directors there, they will run the retail operation for us, we will be driving the brand guidance, merchandising and range edit and also guidance around the capital deployed for new stores to land into the market.

Trendy Group: just over 3,000 stores, both owned and franchised in greater China, they have nine brands including five of their own local brands. They acquired the global licence for Miss Sixty and are driving that brand across China as well as Europe. Critically for us they have 20 key master franchise partners, that means that they have a reach across all 16 Chinese regions so that we have one point of contact, light touch, and then as we grow the business into franchise then there's opportunity for that to flow through the same structure, so we've tried to keep it as simple as possible.

I'm going to pause for a minute and hand over to Nick who will take you through the financial results in detail and then I'll come back and give you an update on the strategy.

Nick Wharton – Chief Financial Officer

Thank you, Euan, and good morning everybody. Today's financial part of the presentation will break down our performance and highlight the key drivers, and particularly with regard to the dynamics of our cost base. And also as discussed at the Capital Markets day we will cover the metrics that the Board delivers and considers to be our key performance indicators, and we'll also overview the frequency that we'll update the financial markets with regard to these measures.

So firstly by means of an overview, while as Euan has demonstrated, the first and second half year did have differing financial profiles the year as a whole has seen further progress on the majority of our key financial metrics. The full year has seen healthy revenue growth, continued gross margin expansion and an increase in underlying earnings despite the clear trading challenges of the first half. So what I'll do now is I'll go through each of the key elements of the P&L, starting with sales.

So as you can see from this slide, our total revenues increased in the year by about 13%. As our most significant forward value opportunity new store expansion represented the largest single driver of our revenue growth, it contributed about 8% or about two thirds of our total growth.

During the year the Group opened new space equivalent to 13% of its opening portfolio, and with the benefit of prior year openings increased its average trading space by 17% over the whole year. And importantly our investments continue to deliver a very good return on our invested capital.

Looking at like-for-like, like-for-like sales within retail ended the year very strongly. Specifically the fourth quarter saw the brand maintain the level of growth achieved in the third quarter without the benefit of some of the promotional activity introduced pre-Christmas in order to clear some seasonal stock.

Looking at wholesale, performance within wholesale was challenging throughout the whole of the financial year, facing a number of headwinds, including some high residual stock levels within our customers, the failure of a UK key account and indeed, the impact of strengthening sterling. As we outlined at our Strategy Day we see clear opportunities to both simplify our wholesale processes, and also to better integrate it with the balance of the business to access synergies. Encouragingly we saw the initial benefits of this in the second half year where sales growth totalled around 8% in the wholesale channel.

Now to gross margin. Our gross margin increased by 120bps over the whole year. The principle positive drivers of this were the insourcing of margin from the buyouts of agents in previous financial years and also the favourable mix impact of our expanded EU operations where retail price premium relative to the UK deliver higher gross margins. Now these gains were partially offset by the impact of currency headwinds, and also from the third quarter promotional activity that we highlighted previously.

Now turning to currency. With regard to hedging, the business hedges its transactional exposure to both US dollar purchases and euro-denominated sales, and such hedges are achieved via forward contracts, and the chart to the right of this illustrates our minimum and maximum hedge positions over time. In adopting this policy what we see is that entering any year approximately two thirds of our currency exposure is hedged, and what that does is it provides the planning certainty for the business that we are looking to achieve. However, a hedge is naturally only a deferral mechanism and as previously guided, we anticipate a continuing currency headwind into FY16.

Now looking at our costs, and I'm going to start with sales and distribution costs, and this is the slide I'm probably going to spend most time in throughout the presentation in order to explain the dynamics of sales and distribution costs through the year. The first point I'll make, and you'll see from this bridge, is that we've adjusted the prior year to reflect the full year impact of the cost base that we acquired from our agents and distributors on the acquisitions of their business. And adjusting this therefore to a more pro forma basis our total sales and distribution costs increase year-on-year by about 19%.

Within this the single largest <u>absolute</u> change is in store related costs and these increased by 17% which is roughly in line with the average space increase we delivered over the year. Now while smaller in absolute terms our distribution costs have increased year-on-year by about £8m, and that is near 30% in terms of a year-on-year increase, but when considering distribution costs it's important to reflect the logistics impact of our clearance strategy, and that strategy redistributes slower moving inventory across each of our retail channel to markets.

Now, while clearly this maximises full price sales and therefore maximises our margin it also drives some significant logistics costs, in effect a proportion of our distribution costs compensate for the higher gross margins we achieve on clearance. This dynamic is hopefully better illustrated by the three bars on the waterfall chart that relate to distribution, and I'll take each of those in turn from left to right.

So the first year-on-year increase of about £5m relates to the uplifting cost year-on-year from our higher sales volumes but importantly this is calculated in the same sales mix as the prior year.

The second bar of £5.8m reflects the adverse sales mix between FY15 and FY14, and this is from two factors, firstly the impact of higher sales to achieve the same overall sales value, due to the greater level of clearance activity year-on-year and secondly from channel mix, where our fast-growing e-commerce business has a higher unit delivery cost than sales achieved through our physical stores.

The third bar is also important and this highlights the productivity improvements we've delivered year-on-year. And these were envisaged as we moved to our new distribution facility in Burton, but what it says is that year-on-year; our average cost per unit reduction has reduced overall distribution costs by about £2.5m.

So now to central costs: Our central cost profile reflects our strategic focus on strengthening our core people capability, and investing in our central infrastructure, in order to support the envisaged growth from the business, but also to deliver the efficiencies that Euan will talk about later.

Our central costs total around £40m and they increased by 16% year-on-year on an underlying basis, excluding the benefit of reduced annual incentive costs. And the principal driver of this cost mirrors our strategy, with the largest single element being the depreciation, the licence costs and the support costs associated with the significant strengthening of our IT backbone over the past two years, and such costs represent about 70%, at £4.6m, of our total increase year-on-year.

The other key drivers are the strengthening of our central teams, focused in the year particularly on our merchandising capability and strengthening our IT team, and this investment represented about £1.2m year-on-year, and also we get the benefit of those reduced incentive costs, which is around £2.5m.

Now joining all this together in terms of operating margin movement, our overall operating margin in the year decreased by 120bps. The two main factors reducing this operating margin were the gross margin dilution and the operating cost impacts of our increased promotional activity, together with the higher relative cost to serve of our growing EU Retail estate.

Now in total, those two factors reduce operating margin by about 200bps, and then we offset this position marginally by productivity improvements, primarily in logistics, but also in store operations and by cost reductions.

And finally in terms of the P&L, just looking at our exceptional items, where the two largest items you can see on this slide come from the unmatured in the money forward contracts as at the end of the year. And secondly, the exceptional costs associated with the buyout of the US licence. And specifically with regard to the US acquisition, our total exceptional costs of about £15m, and also the envisaged cash element of this, at between £1m and £2m, are broadly in line with the guidance we gave you in March.

Having covered the P&L, we'll now turn to the balance sheet and it's firstly to cash flow and our cash generation.

Our operational cash generation remains very strong and in the year represented about 70% conversion on our EBITDA. However, at the net cash generation level, the increased level investment in the business, specifically through the US acquisition, and some working capital efficiency, which I'll come on to in my next slide, has led to a marginal reduction in our closing cash position, which was at £78m.

So to that working capital position, our closing working capital position provides a clear cash flow inflow opportunity for the current year as we introduce more modern inventory practices and therefore reduced our inventory cover without damaging availability. This is about our stock levels. Our stock levels year-on-year are about 40% higher than the prior year. Now while around half of this increase is driven by our store expansion, and inventory to support that, the take-on on the US stock, which is about £5m, and also the phasing of deliveries, which is balanced in trade payables at the end of the year, the efficiency opportunity remains in the balance of that increase.

Now this balance does reflect in part some remaining carryover of stock from autumn 2014. However, the most significant element reflects stock injections of the start of the current year Spring/Summer season that were materially higher than the ideal levels suggested by the inventory practices that we are now introducing to the business.

Now to capex, and the Group continues to invest confidently across the business. The majority of our investment continues to be focused on opening new stores, but also refurbishing existing stores to our latest design, look and feel. Now as illustrated to the chart on the right of this slide, our investments in new stores continue to deliver attractive returns on our invested capital. Over the past four years, some 70 store openings have delivered an average payback of 22 months, where, importantly, these paybacks are calculated after the impact of cannibalisation on any existing stores, and also they are calculated after tax.

With some higher setup costs and ongoing costs to serve, our EU paybacks are slightly extended versus those achieved in the UK, but we remain confident and committed to achieving a two and a half year payback on all future store investments.

The other half of our investment relates to infrastructure, where the development of infrastructure is a constant in any rapidly expanding business. And over the past two to three years, we've materially improved the functionality and resilience in our core IT platforms across stores, finance and merchandising. However, this expenditure will continue, as we not only upgrade these systems, but also develop them further to better support the business.

Now to guidance for the balance of the current financial year, whereas Euan has already said, overall we remain comfortable with consensus expectation for PBT. And the majority of our guidance points remain very much in line with that given in March. We do, however, now have greater visibility of our new store pipeline and are confident of opening between 120,000 and 130,000 square feet this year. However, it's important to note that the majority of this additional space will be backend weighted and therefore will have limited profit impact on the current financial year.

With regards to margin, consistent with our second-half performance, we expect that gross margins will improve over the year by up to 30bps as we continue to leverage our scale and see benefit from expanded higher margin operations across Europe. And our cost guidance remains exactly consistent from March. Firstly, sales and distribution costs will increase broadly in line with sales, as costs growth from our higher cost to serve territories is offset by productivity gains, both in logistics and stores on an ongoing basis. And while smaller in absolute terms, our central costs will grow ahead of sales as we continue to invest in better capability and, most significantly in FY16, reintroduce to our assumptions an on-target level of annual incentive.

And to complete the picture from a cash flow perspective, in addition to our made and interim dividend to be paid early in 2016, we anticipate capex against our expanded and increased level of store guidance of around £35m, and as we've said previously, we expect some working capital benefit from reduced levels of inventory.

Now referring back to our key performance indicators: Having reviewed the four elements of our strategy, and also the key value creating activities within our medium term plan, this slide covers our revised set of KPIs and the frequency of update.

Now firstly, recognising the volatility of wholesales shipments in any narrow time window, our quarterly updates will focus solely on the Retail performance through measures of total Retail sales, operating and space and like-for-like, similar to the updates that we have given today. We'll also cover any material movement, if there are any, in gross margin, and also our closing cash position.

These measures will be augmented each half-year, with a full selling season view on Wholesale sales performance, together with data that is either forward-looking, such as committed store pipelines or, indeed, is less dynamic in nature, such as store paybacks or e-commerce participation.

So to summarise: FY15 has seen solid progress across the whole year, with stronger trading and financial momentum in the second half.

Our gross margins continue to accrete, benefitting from favourable channel mix and scale economies.

In the year, our margin was strengthened as we internalised margins by buyouts of distributors in prior years, and while these buyouts have increased our central cost base, they have each enhanced our overall operating margin.

It's part of our DNA to retain a close focus on costs, but we do continue to invest confidently across the business in new stores, infrastructure and the enhanced capability of our central support teams, and these investments will continue into the mid-term.

Our cash position remains very healthy, readily funding these planned investments, and the introduction of the ordinary dividend, commencing with the interim in the current financial year.

Thank you and I'll now pass over to Euan who will cover our strategic progress.

Euan Sutherland

Thank you, Nick.

I just want to cover the strategy update, which we will do every six months at Full Year and Half Year.

As you will remember from the Capital Markets day, we set out a four-step plan, four pillars for growth:-

- Embed – which is really driving the brand DNA through everything that we do, every colleague, every store, every day.
- Enable – which drives our investment programme and people and systems and processes and infrastructure.
- Extend – which is all about innovation, and you see that all round the room today and we'll touch on the progress there in 2015 financial year and an outlook for 2016 as well.
- And you wrap all of that together and you Execute it globally across the world to drive the brand presence that we feel is appropriate.

So just touching on these, the profile and setup that we want to do every six months is to update you on what we've achieved and what our near term priorities will be going ahead, to give you some vision into where we'll be focusing next.

Very much in FY15 was the base for Embed, with the understanding through data, our customer, our brand and our DNA, and we've used that to leverage the Autumn/Winter season that we're just about to go into and beyond. And we've significantly increased the multichannel participation of our business, and I think if you remember back to the March presentation, the multichannel customer is significantly more valuable to us than the single channel customer.

In near term priorities, Idris Elba, our premium range, some of which you will see over on the far wall there, we'll launch towards the end of the Autumn/Winter season and that marks a significant step for us in setting out that premium programme. And we'll further improve our customer experience both online and offline. And for the first time we will drive a global colleague engagement programme during the summer and into the autumn to really understand the depth of our DNA reaching across the organisation.

In Enable, the design to customer programme is a huge programme and we said to you back in March that that would take us two to three years to really drive the full benefits out of that. We've made some good progress in the second half of last year with our merchandising system now driving all of our European stores, so we've mapped all of them onto our central merchandising system. And we have a solid Autumn/Winter order book and we'll update you on the Wholesale position every six months, as Nick has outlined.

In near term priorities, after a good trial of iKiosk in the UK, we're planning to role that out to all of our franchises, particularly important for those stores, because many franchise stores are very small, so that allows them to access the total Superdry range for any customer that walks into their stores.

We're also driving our Open to Buy, and that allows us to drop in in-season injections of product, which should translate through to like-for-like, and we're also launching a top 100 highest volume drivers in our retail stores, which again will underpin the availability as we go through the Autumn/Winter season and beyond.

And critically, the first stage of a two-stage process moving to a single stock pool, we put e-commerce and our own retail stores into a single stock pool before peak season this year, which is still on track. The second part of that programme is to add Wholesale, which will take place next autumn.

The management team – apologies for the image, unfortunately our core Exec team doesn't look like this! It doesn't get much better than Nick and I here, so apologies for that! The point of this slide really is the balance and experience that we now have in the Exec team, as Julian and James really focus 100% on product, you see that translating through to the step-up in the stores today. Securing Nick as permanent CFO and Paula as the Transformation Director are two very valuable additions to the Exec team and we're now almost complete in what is a strong line-up; 60:40 male to female also drives good diversity across the Exec thinking.

On Extend, this is all about innovation, so in the latter part of 2015 we landed the capsule ranges for Snow and for Rugby. Albeit small capsule ranges it tested our innovation process, and we're now honing that to drive bigger innovation across whole categories. As we walk into the Autumn/Winter season, a new category approach across women's wear will drive a general improvement – you see some of the Spring/Summer ranges here today – but also on top of IDRIS we've got the launch of a new active sportswear range, some of which we have here today. We're very keen on lots of very good reaction from our wholesale and franchise partners at the global sales conference that we had two weeks' ago. So lots happening in the innovation and product area, that's the core and the heart of our business, so a real focus on that extending through the next 12 months.

On Execute, we are very busy. 24 net new stores opened in eight countries. We secured the US licence, as we've said, and Germany remains our next biggest country after the UK. I want to spend a couple of minutes on Germany and the US. But before I do that, big improvements in online both for our own platform and for our partner programme, which is strategically very important for us.

Continued space growth in Europe, slightly faster than we delivered last year, as Nick has said, 120,000 - 130,000 square feet guidance, catching up a little bit on where we were last year. Global franchises will move forward at the same rate, so slightly ahead of our owned store programme, and the developments that we've outlined in the US, China and Germany.

Just to focus on two of those countries in a little more detail. Headline for the US is that it's on plan. The kind of sub-head on that is that we are working through the hard yards of exiting some very old stock out of our retail stores and out of our wholesale partners. That was always the plan. We're exiting that stock pretty aggressively right now because we switched the US onto our central merchandising system in August and September and that old stock is not recognised by our new system. So that's the kind of hard yards on stock. We're also working through resetting some of the retail team there. Always in part of the plan, but that's just the progress update on that. We're still in close negotiations with some of the store closures and hope to be able to update you at the next half-year update on the process there. All going to plan.

In wholesale we have set our customer priorities and also agreed the distribution agreements in Canada, so that continues to progress on plan and our plan in two years to breakeven and make a small profit remains our goal.

In Germany, ended the year at 22 owned stores with four franchises. We've opened two more franchises already this year. The metrics around the owned stores remain in line with the capital markets' day, and we're seeing a very strong multichannel relationship in Germany. This is actually our Munich store, our biggest store in Germany at the moment, and a lot of new space for the second half of this year is going into Germany with about 50,000 square feet out of our 120,000 square foot guidance landing in the German market.

The global map, just updated really with China, remains our focus on the EU growth, with online global expansion resetting the US and Light Touch in China through the joint venture. So just to reset exactly where everybody is on that.

Just a point on the financial calendar to update you on when and what we'll be updating. Clearly Quarter 1 update we would hope to do late July most years. We won't do a separate Quarter 1 update because clearly we've updated you here. We'll catch up the remaining two weeks in the quarter when we update you in November. Interim results and full year results will be where we update on the strategy, the same focus and format that we've just gone through today. Peak trading update we're bringing forward, which I think historically in the company was early February. We're bringing that forward to mid-January. It makes more sense to give you an update closer to the Christmas peak trading period. But that's our intention on the calendar going forward for now.

So in summary, as we've said at the start I think 2015 was a year of two halves: good exit; good second half; growth in all the right areas; and the strategic opportunities set up in the right way. We still have lots of opportunity in our efficiencies designed to customer process, especially around working capital and process improvement. Strategically it's very, very early days for our four pillars, we're working on all of those, and the management bandwidth is improving to be able to handle the opportunities that we have in front of us. Global growth still is very much within our grasp. With that I think we'll pause at that point and switch over to Q&A.

<u>Question 1</u>

Michelle Wilson – Berenberg

In terms of your self-help do you want to see those stratas of improvement on like-for-likes? Have you very much gone for the easy wins first and should we see the benefits are now starting to tail off?

Euan Sutherland

Let me try and pick that up. No I think there's a natural evolution in where we see the opportunity. I think we still see a huge amount of opportunity in the core operation of our retail stores. In the maximisation of our franchise stores I don't think we're anywhere near optimised. I think if you look at the cost base and the impact of our relatively inefficient processes through the business on the cost base, there is more opportunity there too. It's almost a sense of it's too early to really report back on any of the big strategic pillars because it was March when we set them up. Clearly we've been working on them as a merchandising team and as a store operations team for the last six months, but still very early days. I would hope you would see benefits continuing to flow.

Michelle Wilson

Thank you. And then on the online, you're now at 18% online penetration, where do you think that can get to over the next few years? Is it significantly higher? Is there anything that would offset the increasing cost of the distribution there? I know you talked about a Euro distribution centre and potentially one in the US.

Euan Sutherland

Perhaps if I do the first bit and ask you to pick up the distribution and the offset piece? So it will be higher. It continues to grow. The growth has come as a result of some good investment in the platform, in the proposition. I think critically we still think that the e-commerce proposition can improve further, women's wear especially can become a lot more of an emotional experience and a customer solution experience which we see in some other key competitors. So I think that there is a fairly clear roadmap of investment in e-commerce which we would hope would drive continued growth. The multichannel nature of our business is something that we're pushing very hard on, so that connection between physical store, offline and online. So that the iKiosk where it's a fairly simple concept, I think it's the first of a number of long-term projects that should drive penetration of e-commerce.

Nick Wharton

I guess from a channel profitability perspective you're right, the nature of our expanded geographical delivery primarily from the UK does have an impact in terms of those unit delivery costs. There are two things we will be doing in terms of improving that. Firstly, as we have said, we have a desire to our own in-geography logistics where that geography is material. We are during this year developing our one warehouse model, so we know what an optimum warehouse runs like, and we'll start that with the UK, and that will enable us to then transport that to our new EU model and then into other geographies when they become material.

But actually slightly ahead of that, the other work we're doing is with our global logistics partners, and what we're trying to do is do some UK in-market consolidation and then send it to territories to get some economies from that perspective. So they will improve over time. I guess the slight counter to that is that we are determined that we provide the convenience and flexibility that our customers demand, and also a 'best in class' online experience, and that means there will be continued investment in the platform and in resource to support that platform. We'll be doing as much as we can to get the cost right, but we'll continue to invest in the experience.

Michelle Wilson

Thank you. Just one last one. I know you don't want to update on wholesale performance in the quarter, but are there any new partners that you're working with now, or has the IDRIS range opened you up to any new wholesale partners there?

Euan Sutherland

I think it's a little too early to update on that. I guess the reason behind not updating on wholesale, certainly in my experience of being here eight months now, is that whenever we update on a quarterly basis we're always kind of saying "This is not comparable to that season because the selling window is a bit longer than a quarterly update," so it just makes sense for us to extend that so we can give you the end of season numbers. We're very relaxed about how the wholesale numbers are looking right now, so not updating means there's no news which is okay.

IDRIS is very, very early. We are planning that to be a premium range principally in retail. There will be a few premium wholesale customers, but reasonably commercially sensitive on that just as we've shown the range and we're just in the process of talking through. So certainly be able to update you at the next update.

Question 2

John Stevenson – Peel Hunt

A couple of questions. First off, on working capital. Going to a single stock file I guess is a big opportunity, the Open to Buy stuff is a big opportunity, and you're loaded with stock at the moment can you maybe talk about the working capital efficiencies that sound like they might even come through this year?

Second question, just on wholesale having mapped what you intend to store-wise across Europe I guess that you now know where the wholesale opportunities lie does that mean we should expect more wholesale accounts to come in, certainly in Europe over the next 12-18 months particularly now Julian's getting more involved in that side of it?

Nick Wharton

In terms of working capital efficiencies, there are two things that are going to really help out our stock position without damaging our availability in the relatively near-term. The first one is about the better balanced inflow of stock to support the season. I'll do it overdramatically to illustrate the point but traditionally we've bought an awful lot of our full season requirement in advance of the season, which has a) constrained our flexibility but also put pressure on our infrastructure. Through the processes that Jules and Euan have developed over the past year we've now got a buying profile which is much more flexible. It is slightly later therefore we can commit closer to the season. We'll buy enough to get us started and then we'll have remaining flexibility to top-up on winners during the season. And we didn't have the full ability to have that in place when our inflows were in place for Spring/Summer 15, so therefore what we'll see at the maturity of this year is that we'll have implemented that, therefore we'll have a much more appropriate stock profile going into the season with flexibility as we go through that season. So that'll reduce our stock year-on-year at the end of the year.

John Stevenson

Is that when you're talking about Spring season '16, or will that come in for Autumn/Winter?

Nick Wharton

We'll see some of the benefit for Autumn/Winter. It is a journey, it is an evolution. We're not going to risk anything because actually we're not desperate for the cash in any sense. We want to get an optimal efficient business, better choice and a better availability, so we're not going to risk the farm in terms of changing the process of the business. So we'll see some benefit in Autumn/Winter, more benefit at the maturity of Spring/Summer.

The second benefit, you talk about single stock pool, it does have some working capital benefit in terms of only holding the stock once, but the real benefit for us is availability. So we'll have balanced availability across all of our retail channels, particularly e-commerce where that was more constrained than retail in some our peak trading periods. So yes, small working capital benefit, much bigger benefit for us in terms of balanced availability.

Euan Sutherland

It's a bit of an unwind if you look at the stock that we had last Autumn/Winter was very high. The stock that was inbound for this Spring/Summer was relatively high too. It's a lower value buy so it's less of a problem, and we couldn't stop a lot of that inbound because we had already bought it. So there's a natural unwind. You will see a small event happening in stores in the UK in the first two weeks of August. It's mainly on graphic t-shirts, it's not really a major event, but that'll just clear it through. And with the outlet strategy it will move into next Spring/Summer season, so we're not really concerned on that.

In terms of wholesale accounts in Europe, not only in Europe but in the rest of the world, we would like to see growth. We expect to see growth in both number of customers and also the depth that we drive our ranges into the existing customers. So again premium for IDRIS is very much retail-focused and a few premium wholesale accounts across the UK, USA and Europe. But we have opportunities in Eastern Europe for wholesale, and franchise in particular which hasn't been tapped yet; Middle East in terms of wholesale; and in the USA there is also a big opportunity as we go through into Spring/Summer '16 in wholesale growth there but it will take us until Spring/Summer in the USA to land that because we were after the Autumn/Winter selling season when we agreed the licence transfer.

<u>Question 3</u>

Kate Calvert – Investec

Two questions. How much of your space this year will be open pre-peak? Does it all fall into the fourth quarter, is there much in the third quarter?

Euan Sutherland

There's quite a bit in the third quarter. Clearly we try and open as much as possible before peak season. I haven't got the exact number.

Nick Wharton

It will be the majority but I guess the new space we've just outlined in our guidance will all be pretty much back-end loaded so we'll be well above half but around 60% of the space will be open by end of November.

Kate Calvert

Okay and second question on Slide 15 you've got a comment on the wholesale and the impact on its margin, the decline being due to debt provision, can you give a bit more detail on that? Is it specifically on one account or is a general change in your provision? Can you just give a bit more colour around that?

Nick Wharton

It's a combination of a couple of factors. We did have a little bit more bad debt actual experience than we've had in the previous year, that wasn't in any specific customer or territory, it was slightly more spread. And we have been slightly more cautious in terms of some of our provisioning at year-end, recognising some of our participation across geographies. But it's no one major factor.

Kate Calvert

Okay so it's just a slight step-change in terms of being slightly more cautious. Okay thanks very much.

Question 4

Richard Chamberlain – RBC

A couple more from me. So just wondered if you could touch on the living wage proposals and I guess topical after yesterday, is that going to have any impact at all on SuperGroup, and I guess a lot of employees are under 25 anyway but is there a need to maintain pay differentials etc.? Is it going to have any impact?

Then just going back to Kate's point on new space where would the extra space you're talking about, you've got more visibility on, where is that coming on? Is that in Germany or other parts of Europe?

And would you expect any store closures as well this year or is it all going to be new openings?

Euan Sutherland

Okay good questions. So living wage as we mentioned not really a major issue. I think if you stand right back from it, it feels like the right thing to do ethically. For us it's not the biggest issue, 70% of our colleagues are under 25 so don't come in, they're not caught by that. We already operate a tiered system so when you come in to working in a Superdry store you'll start at a bronze level, move up to silver and gold, with experience. Then you'll go on to the managerial level of supervisor and into management.

We're very keen to retain more of our colleagues, because it's quite a young bunch of people and they're very enthusiastic about the brand that retention is a big objective for us. And as you come up through the mid-point of that tier you go ahead of where George Osborne has set his living wage. So in essence looking at our numbers we'd already budgeted that we would be trying to get people above that. So there isn't really any issue as we look forward and I think if you look at his numbers then it just increases with inflation, it's not the worst thing. Certainly if I'd been in some of my other retail organisations it probably would have been a bigger issue.

Just on countries and then I'll pass over to Nick about the detail in it. Principally Germany and also now Scandinavia are the directions on that. Why are we going there? Well Germany is proving to be a good country with good returns and we're trying to really drive a penetration there where the brand breaks through. Interestingly today on my media calls we've got the first German media now phoning up to understand about Superdry, so clearly I think we're making some progress into the consciousness of the German market.

Scandinavia because colder countries, or those that have distinct seasons, benefit our move between our strength historically in outerwear and also our growing strength in the summer market so we get naturally two bites of the cherry. But in terms of the detail of closures and relocations we've got a couple of those.

Nick Wharton

Yes I mean it's pretty small numbers and it's mostly in relocations so we'll continue to manage the portfolio in order to improve the overall average of our retail space. So there is a little bit of closure and actually more relocation that is in the plan and likely to be executed this year. But small in relation to the overall space growth.

Question 5

Paul Steegers – Bank of America Merrill Lynch

Just maybe three questions. Firstly on distribution, Open to Buy and direct sourcing, can you put a few more numbers on that in terms of where you are there and where you want to go on those two areas over whatever time period please?

Secondly on womenswear and acceptance and what are you seeing there in terms of the different categories and growth rates perhaps within the like-for-likes that you're doing?

And thirdly on pricing are you happy on pricing? Obviously your like-for-likes are very strong at the moment but as you say against easy comps is there anything you need to do on pricing generally and also as you go into the new territories, perhaps China etc.?

Nick Wharton

Yeah the direction of each of those is that our flexibility in terms of Open to Buy within the season and the level of our direct sourcing are both going to increase over time. In order to support the direct sourcing we obviously need our own infrastructure, both in centre and in market in order to support that and one of the things that we've developed over the last six months is a presence in India to support that. So we see both, we see direct sourcing as a real opportunity for us to take our agent's commission and direct to market while maintaining quality.

And in terms of Open to Buy it is still early days in terms of our development of stock flow management processes but certainly going into Autumn/Winter and beyond that into future seasons we'll have a much more flexible, open commitment during the season.

Paul Steegers

Can you give us a number on direct sourcing? How much do you do now that's direct and where would you like it to be roughly?

Nick Wharton

I'm not totally sure where we are now if I'm being honest I'm not sure if you know a number?

Euan Sutherland

Yeah I think it's around high 60%, we'd want to take that up to about 80-ish. So there is a material opportunity there as we cut the agents out and, as Nick said, go into countries like India and manage that ourselves. That really takes shape as we go through the back-end of this year, so there's still a couple of seasons drag on being able to drag that through which is why we've said good design to customer process takes a couple of years really to gain traction just because of the set-up and then affecting the season and then bringing that into the realised margins.

Just on the other questions that you asked Paul just around womenswear we've seen a step up in that, we've seen a good performance in womenswear this Spring/Summer so the penetration of womenswear is starting to move forward. We pulled in a new design team last autumn so the first season that they've had a 100% influence on will be this Autumn/Winter. So strengthened the merchandising team, introduced category management for the first time in womenswear which is providing more of that insight, we now have an insight team as well so that understanding of the customer types. And the design team working with Julian and James has been a real focus of us all to really support womenswear.

So early days. Autumn/Winter will be next big step for us. We haven't got the Autumn/Winter product here but you'd see changes in hem lengths, sleeve lengths, silhouettes, colours in the main range. So all of those things which are, to our female colleagues here, very obvious, that we were missing have been introduced into the range. So I think there's a natural evolution that we're pretty pleased with how that's moving forward.

On pricing we clearly operate differential pricing across the world In China we've still got more work to do but the plan in China is probably about a 30% premium to the UK price. That's not the maximum of where we could go to, so some of our most successful franchise businesses are in the Asia region, and some of their pricing is significantly ahead of that. So Taiwan, for example, one of our most successful franchise markets, significantly ahead of that in terms of price premium.

So I think more work to do, that's part of the work we're going to do in the next nine months in China now we've signed the agreement. Looking at the store locations, the absolute details and price and range construction, there are a little bit of range edit work to do, in China numbers mean something, not just the actual number as you know. And lots of our product carry a number on it so the number 38 for a woman is not a great message, I won't tell you what it means in this room here but it's not something you'd see a lot of in China. The number 4 means death. So 44 is double death! Interesting Lewis Hamilton driving round in a car with that in Formula One. And you don't see many Chinese wearing white either, which is again associated with death. So there are those little tricks that we will edit that will be in the form of a Chinese merchandising team that we're hiring in Shanghai, they're about to come across into the UK, spend six months with our team here. But most of our ranges will go straight in.

The pricing I think should be fairly straightforward, we want it to be a mass kind of premium accessible to everybody and we think that the brand will go well in both local malls and street locations, as well as western malls. And if you go into Tier 1 and Tier 2 cities you see quite a distinction in that. So more work to be done in China-, specific, but clearly across the world we do operate variable pricing.

<u>Question 6</u>

Tushar Jain – Bank of America Merrill Lynch

Just on the pricing issue I mean your gross margin is already very high it's one of the highest in the regional sector and if we look at that how far will you let the gross margin creep up before you think that you need to investigate about pricing especially in Germany you're getting a good traction to bring down the lower payback on the stores and accelerate the sales basically?

Euan Sutherland

Well we're continually investing that back into price points I think you'll see our price pointing get sharper across the world. It's a big part of Julian's role in terms of the commercialisation of the design. Well as we go through the whole design to customer process we naturally have a choice as to how much we reinvest back into pricing and how much we can let drop to the bottom line.

Continually what we're doing is assessing our position competitively in each market. We will continually focus on is that the right price point? So while we give guidance around, you know, China might be 30% higher in individual categories and individual price points that will move based on where we think the right price is for that product and that product category.

So that's a very key part of our buy and the work we do in making the design very commercial. It's that democratic element of the brand – we want everybody to be able to afford it. So it's a process that happens now and happens pretty successfully. We will continue to do that.

Closing remarks – Euan Sutherland

I think that's it. I think you've exhausted the questions on the phones as well as you've gone through so thank you very much for your time this morning and we look forward to seeing you in November. Thank you.