Mulberry

MULBERRY GROUP PLC ("Mulberry" or the "Group")
PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2016

Mulberry Group plc, the English luxury brand, announces its results for the year ended 31 March 2016.

FINANCIAL HIGHLIGHTS

- Profit before tax of £6.2 million (2015: £1.9 million)
- Total revenue up 5% to £155.9 million (2015: £148.7 million)
- Retail sales up 8% to £118.7 million (2015: £109.9 million), with like-for-like sales up 8%
- Wholesale sales £37.2 million (2015: £38.8 million)
- Profit after tax of £2.7 million (2015: loss after tax of £1.4 million)
- Earnings per share of 4.5p (2015: loss per share of 2.3p)
- Proposed dividend of 5.0p per share (2015: 5.0p per share)

OPERATING HIGHLIGHTS

- Continued strength of Digital business with sales up 19% to £21.4 million for the year, accounting for 14% of Group sales (2015: 12%)
- First Mulberry collection from Johnny Coca, Creative Director, presented at London Fashion Week during February 2016
- Production efficiencies generated from UK factories which produce c. 50% of handbags
- License agreement signed to manufacture and co-distribute Mulberry ready-to-wear and shoes from Autumn Winter 2016
- Significant investment in product design, new creative talent and omni-channel

CURRENT TRADING AND OUTLOOK

- Total Retail sales for the 11 weeks to 11 June up 9% (like-for-like up 4%)
- Continued investment planned in product design and omni-channel infrastructure
- New Autumn Winter 2016 collection rollout to Retail and Wholesale channels will be completed by August 2016

THIERRY ANDRETTA, CHIEF EXECUTIVE OFFICER, COMMENTED:

"Mulberry has made significant progress during the last financial year with solid growth achieved in revenues and profit. The first collection introduced by our new Creative Director, Johnny Coca, has been well received by both the UK and international press and partners. Our UK manufacturing base, which produces c. 50% of our bags, has remained a core strength and point of distinction.

We have built a strong foundation for future growth as a result of the investment made in product design and development as well as our omni-channel infrastructure. Looking forward, we will invest further in developing exciting new product, whilst continuing to engage with our core UK and growing international customer base."

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BUSINESS REVIEW

The Group delivered improved results for the year to 31 March 2016. Profit before tax was £6.2 million (2015: £1.9 million), driven by growth in Retail sales.

Revenue

Retail sales were up 8% to £118.7 million for the year (2015: £109.9 million) with like-for-like sales up 8%.

- UK Retail sales (including Digital) were up 9% (like-for-like up 9%) for the year to £97.4 million (2015: £89.2 million);
- International Retail sales (including Digital) were up 3% (like-for-like up 2%) for the year to £21.3 million (2015: £20.7 million);
- Digital sales were up 19% to £21.4 million for the year, accounting for 14% of Group sales (2015: 12%);
- During the year, the Paris flagship store opened, replacing the previous, smaller one in Paris, and three stores were closed in the US (San Francisco, Short Hills, New York Bleecker Street); and
- There were 67 directly-operated stores as of 31 March 2016 (2015: 70 stores).

Wholesale sales for the year were £37.2 million (2015: £38.8 million).

- The Wholesale sales trend reflects challenging local market conditions in Asia, as well as action taken to improve the quality and image of the brand's wholesale distribution network; and
- The franchise store network at the year end had a total of 55 stores in Asia, Europe and the Middle East (2015: 54 stores).

Financial

Gross margin for the year to 31 March 2016 was 62.0% (2015: 60.5%). This reflects positive efficiency improvements achieved in the Group's UK factories, an increased proportion of sales generated through the Retail network (76% vs 74% last year), partially offset by higher product development costs from launching the new collections.

Operating expenses for the year increased by £3.4 million to £92.0 million (2015: £88.6 million). This was primarily due to increased retail costs of £1.8 million, increased product development costs of £1.0 million and increased senior management costs of £0.9 million.

Net exceptional costs totalled £0.6 million. This reflects a profit of £1.0 million relating to the sale of two stores in the US, offset by £1.6 million non-cash impairments relating to three international stores (2015: £2.7 million impairment charge relating to five international stores).

On an adjusted* basis, profit before tax was £6.8 million (2015: £4.5 million). Profit before tax was £6.2 million (2015: £1.9 million).

The Group incurred a tax charge of £3.5 million (2015: £3.3 million) giving a 56.8% effective tax rate for the year. This high effective tax rate is largely due to tax losses in overseas subsidiaries which cannot be offset against UK taxable profits.

The Group generated a profit after tax of £2.7 million (2015: loss after tax of £1.4 million) resulting in earnings per share for the year of 4.5p (2015: loss per share of 2.3p). Adjusted* earnings per share was 5.4p (2015: 2.1p).

Capital and investment expenditure for the period was £5.7 million, of which £3.4 million related to stores and £1.4 million to investment in Digital and IT systems.

Inventories increased to £44.4 million at 31 March 2016 from £39.4 million at the start of the period due to growth of the business. The Group had cash of £14.0 million at 31 March 2016 (2015: £9.9 million) and no debt.

** Adjusted to add back exceptional items as shown in the Group's Consolidated Income Statement below*

Dividend

The Board of Mulberry seeks to balance paying dividends to shareholders with investing in the business. The Board remains confident of the medium term outlook and is recommending the payment of a dividend of 5.0p per ordinary share (2015: 5.0p) which will be paid on 24 November 2016 to shareholders on the register at 28 October 2016.

STRATEGY

The Board's long term objective is to grow Mulberry as a global luxury brand and thereby create shareholder value. The main KPI in the medium term is revenue growth both for the Retail and Wholesale channels. In relation to Retail, this includes both total and like-for-like sales growth, the latter being defined as the year-on-year change in sales from stores which have been trading both during the current and previous periods.

1. Product:

Leather goods currently account for around 90% of sales and will remain the core commercial focus of the Group. The Group plans to reinforce Mulberry as a lifestyle brand by applying the same brand principles to all categories while introducing more seasonal product to drive sales in both the UK and international markets. The style and price point of shoes and ready-to-wear collections have been aligned with bags in order to make those collections more relevant to the Group's core customers. As previously announced, the Group recently signed a license agreement for the manufacture and co-distribution of shoes and ready-to-wear from Autumn Winter 2016. This will enable Mulberry to retain design control over the categories whilst delivering quality product and achieving the target price range.

The Group remains committed to its core £500 - £995 price bracket in bags. A key strategy is to shorten the lead-time between showing new collections and making them available to customers. Product designs produced under the creative direction of Johnny Coca will continue to follow core brand values whilst introducing a greater level of novelty in the range of bags over coming seasons.

2. Brand:

Mulberry will continue to invest in building the brand globally via a dynamic marketing and communication strategy, engaging with new and loyal customers as well as continuing to enhance the understanding of the brand in new and emerging markets. The Group aims to connect with its customers via the increased use of digital and social media. Digital media spend is expected to remain the majority of the total media spend going forward. On a regional basis, marketing activities remain carefully tailored.

The brand's British DNA is emphasised as a point of distinction. The objective is to convey a recognisable brand identity and attitude with a uniquely Mulberry interpretation of British values, humour, pride and lifestyle while embodying a multicultural perspective.

3. Omni-channel:

The Group will continue to strengthen its position in the UK and expand internationally through its omni-channel strategy with well situated stores complemented by a strong digital presence. In coming years, the customer experience will be further enhanced through local fulfilment and omni-channel services in priority international markets.

There has been a significant investment in the Mulberry store network over recent years and approximately 30% of the stores are less than four years old. In the short to medium term, the Group plans to open fewer stores and strategically refine the store network while focusing upon improving the range of omni-channel services to match rapidly evolving customer buying behaviour. Approximately 50% of the Group's Digital sales are now executed on mobile phones and tablets whilst over two thirds of site traffic comes over these devices.

4. Operations:

The Group continues to invest in its operational capability to maintain a high quality, scalable platform for the business.

The Group's two factories in Somerset manufacture approximately 50% of its bags, reinforcing the authenticity of the Mulberry brand and, at a practical level, contributing to the attainment of high product quality standards. Looking forward, the Group is committed to its "Made in England" strategy and intends to maintain its UK production of handbags at approximately 50%. Since the UK factories are already approaching full capacity, this is likely to involve opening further new factories in the UK as the Group's revenues increase.

The Group has followed a sustained strategy of investing in IT and Digital infrastructure in order to drive customer insight and best-in-class service. One of the key areas of development has been CRM which is enabling the Group to understand its main customer segments and create an improved customer experience across all touch points.

CURRENT TRADING AND OUTLOOK

Group sales are expected to continue to grow during the year to 31 March 2017 as the new collection, produced under the creative direction of Johnny Coca, reaches the market. The Digital and omni-channel sales channels are expected to continue to grow in importance within the business.

Current trading

The first 11 weeks' trading of the current financial year covers the end of the Spring Summer 2016 season, during which few products were introduced ahead of the launch of Johnny Coca's first Mulberry collection, Autumn Winter 2016. The rollout of the full Autumn Winter 2016 collection will be complete by August 2016.

Total Retail sales for the 11 weeks to 11 June 2016 were up 9% relative to the same period last year (like-for-like retail sales up 4%).

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This year vs. last year (%)	Retail total sales 26 weeks to 30-Sep-15#	 52 weeks to 31-Mar-16	 11 weeks to 11-Jun-16	Retail like-for-like sales* 26 weeks to 30-Sep-15#	 52 weeks to 31-Mar-16	 11 weeks to 11-Jun-16
UK Retail**	+12%	+9%	+13%	+14%	+9%	+4%
International Retail**	+12%	+3%	-5%	-3%	+2%	+4%
Total Retail	+12%	+8%	+9%	+10%	+8%	+4%

* Like-for-like defined as the year-on-year change in sales from stores which have been trading both during the current and previous periods

** Regional splits include digital sales

Digital sales rose 20% in the 26 weeks to 30 Sep 2015, +19% in the 52 weeks to 31 Mar 2016 and +26% in the 11 weeks to 11 June 2016

\# Retail sales for the 26 weeks to 30 Sep 15 have been previously reported

Outlook

Investment in product will remain a strategic priority for the Group which is expected to enhance opportunities for growth over the medium term. Following the arrival of Johnny Coca, there has been significant investment in building the creative team and in refreshing the collections with new designs. This process will continue and will contribute to an increase in overheads for the year. At the same time, the elevated number of new product introductions during the year is likely to affect factory efficiency.

The Group will focus on improving productivity in existing stores with limited new store openings. The Group is continuing to enhance the systems which underpin the omni-channel offering in the UK as well as rolling out the omni-channel services to key international markets during this financial year. Omni-channel has been rolled out to France, Germany and the Netherlands during April, with plans to launch these services and local fulfilment in the US during summer 2016.

On 29 April 2016, the Group assumed control of the Mulberry store in Sydney, Australia from its long-standing distribution partner, Club 21. As a result, Mulberry now directly manages its sales and limited wholesale operation in Australia. This is an important step in a relatively small but promising international market where Mulberry is well-positioned and has significant growth potential.

The Wholesale business is expected to remain steady during the current financial year.

Capital expenditure for the year to 31 March 2017 is expected to be in the region of £6.0 million (2016: £6.3 million), of which the majority will be on stores.

The Directors have reviewed the financial projections for the future in the light of current trading and considered the capital expenditure commitments and expected cash flows compared to available borrowing facilities. As a consequence, the Directors have a reasonable expectation that the Group will have sufficient financial resources to continue its current operations for the foreseeable future and the Directors have continued to adopt the going concern basis in preparing the financial statements.

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Group income statement
Year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Revenue		155,867	148,680
Cost of sales		(59,300)	(58,745)
Gross profit		96,567	89,935
Other operating expenses		(90,346)	(85,932)
Exceptional operating expenses	3	(1,615)	(2,662)
Operating expenses		(91,961)	(88,594)
Other operating income		426	359
Exceptional operating income		1,078	-
Other operating income		1,504	359
Operating profit		6,110	1,700
Share of results of associate		169	190
Finance income		4	17
Finance expense		(66)	(46)
Profit before tax		6,217	1,861
Tax		(3,532)	(3,253)
Profit/(loss) for the year		2,685	(1,392)
Attributable to:			
Equity holders of the parent		2,685	(1,392)
Basic earnings/(loss) per share	5	4.5p	(2.3p)
Diluted earnings/(loss) per share	5	4.5p	(2.3p)

All activities arise from continuing operations.

Reconciliation of adjusted profit before tax:

	Note	2016 £'000	2015 £'000
Profit before tax		6,217	1,861
Exceptional items:			
Impairment relating to retail assets		1,615	2,662
Profit on disposal of retail stores		(1,078)	-
Adjusted profit before tax – non-GAAP measure		6,754	4,523
Adjusted earnings per share – non-GAAP measure			
Adjusted basic earnings per share	5	5.4p	2.1p
Adjusted diluted earnings per share	5	5.4p	2.1p

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Group statement of comprehensive income
Year ended 31 March 2016

	2016 £'000	2015 £'000
Profit/(loss) for the year	2,685	(1,392)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	1,330	(1,084)
Tax impact arising on above exchange differences	(276)	(137)
Total comprehensive income/(expense) for the year	3,739	(2,613)
Attributable to:		
Equity holders of the parent	3,739	(2,613)

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Group balance sheet
At 31 March 2016

	2016 £'000	2015 £'000
Non-current assets		
Intangible assets	11,088	12,713
Property, plant and equipment	28,143	33,289
Interests in associates	206	93
Deferred tax asset	1,467	1,260
	40,904	47,355
Current assets		
Inventories	44,378	39,379
Trade and other receivables	10,767	13,260
Cash and cash equivalents	14,014	9,900
	69,159	62,539
Total assets	110,063	109,894
Current liabilities		
Trade and other payables	(27,805)	(28,733)
Current tax liabilities	(2,342)	(2,472)
Total liabilities	(30,147)	(31,205)
Net assets	79,916	78,689
Equity		
Share capital	3,000	3,000
Share premium account	11,961	11,961
Own share reserve	(1,474)	(1,601)
Capital redemption reserve	154	154
Special reserve	-	1,467
Foreign exchange reserve	(379)	(1,433)
Retained earnings	66,654	65,141
Total equity	79,916	78,689

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Consolidated statement of changes in equity
Year ended 31 March 2016

	Equity attributable to equity holders of the parent							
	Share Capital £'000	Share premium account £'000	Own share reserve £'000	Capital reserve £'000	Special reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 April 2014	3,000	11,961	(1,676)	154	1,467	(212)	69,264	83,958
Total comprehensive expense for the year	-	-	-	-	-	(1,221)	(1,392)	(2,613)
Charge for employee share-based payments	-	-	-	-	-	-	136	136
Exercise of share options	-	-	-	-	-	-	99	99
Own shares	-	-	75	-	-	-	-	75
Ordinary dividends paid	-	-	-	-	-	-	(2,966)	(2,966)
As at 31 March 2015	**3,000**	**11,961**	**(1,601)**	**154**	**1,467**	**(1,433)**	**65,141**	**78,689**
Total comprehensive income for the year	-	-	-	-	-	1,054	2,685	3,739
Charge for employee share-based payments	-	-	-	-	-	-	478	478
Exercise of share options	-	-	-	-	-	-	(149)	(149)
Own shares	-	-	127	-	-	-	-	127
Ordinary dividends paid	-	-	-	-	-	-	(2,968)	(2,968)
Redemption of reserve	-	-	-	-	(1,467)	-	1,467	-
As at 31 March 2016	**3,000**	**11,961**	**(1,474)**	**154**	**-**	**(379)**	**66,654**	**79,916**

* The special reserve was created as part of a capital restructuring of the Group during 2004. It was released to retained earnings during the year.

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Group cash flow statement
Year ended 31 March 2016

	2016 £'000	2015 £'000
Operating profit for the year	6,110	1,700
Adjustments for:		
Depreciation and impairment of property, plant and equipment	8,442	10,300
Amortisation of intangible assets	1,949	2,028
(Profit)/loss on disposal of property, plant and equipment	(1,316)	8
Effects of foreign exchange	(120)	204
Share-based payments charge	478	155
Operating cash flows before movements in working capital	15,543	14,395
Increase in inventories	(4,485)	(5,595)
Decrease in receivables	2,574	106
(Decrease)/increase in payables	(1,041)	838
Cash generated from operations	12,591	9,744
Corporation taxes paid	(4,145)	(2,103)
Interest paid	(66)	(46)
Net cash inflow from operating activities	8,380	7,595
Investing activities:		
Interest received	4	17
Dividend received from associate	167	-
Purchases of property, plant and equipment	(5,050)	(10,057)
Proceeds from disposal of property, plant and equipment	4,460	157
Acquisition of intangible fixed assets	(855)	(8,130)
Net cash used in investing activities	(1,274)	(18,013)
Financing activities:		
Dividends paid	(2,968)	(2,966)
Settlement of share awards	(24)	(130)
Net cash used in financing activities	(2,992)	(3,096)
Net increase/(decrease) in cash and cash equivalents	4,114	(13,514)
Cash and cash equivalents at beginning of year	9,900	23,414
Cash and cash equivalents at end of year	14,014	9,900

Notes

1. Basis of preparation

The financial information in this announcement, which was approved by the Board of Directors on 15 June 2016, does not constitute the Company's statutory accounts for the years ended 31 March 2016 or 2015, but is derived from those accounts.

Statutory accounts for the year ended 31 March 2015 have been delivered to the Registrar of Companies and those for the year ended 31 March 2016 have been approved and will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditors have reported on those accounts, their reports were unqualified and did not draw attention to any matters by way of emphasis without qualifying their reports and did not contain any statement under section 498 (2) or (3) of the Companies Act 2006.

Whilst the financial information included in this preliminary announcement has been completed in accordance with International Financial Reporting Standards (IFRS), this announcement itself does not contain sufficient information to comply with IFRS.

2. Accounting policies

During the current year there were no new and revised Standards and Interpretations adopted.

At 31 March 2016, the following new and revised Standards, interpretations and amendments which may be relevant to the financial statements and which have not been applied in these financial statements were in issue but not yet effective and in some cases had not yet been adopted by the EU:

- Amendments to IAS 16: Property, Plant and Equipment and IAS 38: Intangible assets;
- IFRS 9: Financial Instruments;
- IFRS 15: Revenue from Contracts with Customers; and
- IFRS 16: Leases.

This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. It replaces IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease. The most significant changes are in relation to lessee accounting. Under the new standard, the concept of assessing a lease contract as either operating or financing is replaced by a single lessee accounting model. Under this new model, substantially all lease contracts will result in a lessee acquiring a right-to-use asset and obtaining financing. The lessee will be required to recognise a corresponding asset and liability. The asset will be depreciated over the term of the lease and the interest on the financing liability will be charged over the same period. The standard is effective for annual periods beginning on or after 1 January 2019, however it is not currently endorsed by the European Union. Adopting this new standard will result in a fundamental change to the Group's balance sheet, with right-to-use assets and accompanying financing liabilities for the Group's retail stores, warehouses and offices being recognised for the first time. The Income Statement will also be impacted, with rent expense relating to operating leases being replaced by a depreciation charge arising from the right-to-use assets and interest charges arising from lease financing. The full impact of these changes will be quantified closer to the date of adoption.

Except for IFRS 16, the Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these Standards until a detailed review has been completed.

3. Exceptional expenses

The exceptional operating expenses for the year include;

- An impairment charge of £1,221,000 relating to the retail assets of two international stores. These stores are relatively new and trading at a loss. They are in developing markets which will benefit from the new creative direction of the Group and in which the omni-channel strategy has not yet been rolled out. In view of the uncertainty over future trading, provision has been made.

- An impairment charge of £394,000 for the contribution towards the opening of the flagship store for a franchise partner in prior years and where the store has now been closed.

The exceptional operating expenses for the prior year included:

- An impairment charge of £2,662,000 relating to the retail assets of five international stores;

4. Dividends

The dividends approved and paid during the year are as follows:

	2016 £'000	2015 £'000
Dividend for the year ended 31 March 2015 of 5p (2014: 5p) per share paid in November 2015	2,968	2,966
Proposed dividend for the year ended 31 March 2016 of 5p per share (2015: 5p)	2,968	2,966

The proposed dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

5. Earnings per share ('EPS')

	2016 Pence	2015 Pence
Basic earnings/(loss) per share	4.5	(2.3)
Diluted earnings/(loss)per share	4.5	(2.3)
Adjusted basic earnings per share	5.4	2.1
Adjusted diluted earnings per share	5.4	2.1

Earnings per share is calculated based on the following data:

	2016 £'000	2015 £'000
Profit/(loss) for the year for basic and diluted earnings per share	2,685	(1,392)
Adjustments to exclude exceptional items:		
Impairment relating to retail assets	1,615	2,662
Profit on disposal of retail stores	(1,078)	-
Adjusted profit for the year for basic and diluted earnings per share	3,222	1,270

	2016 Million	2015 Million
Weighted average number of ordinary shares for the purpose of basic EPS	59.3	59.3
Effect of dilutive potential ordinary shares: share options	0.5	0.6
Weighted average number of ordinary shares for the purpose of diluted EPS	59.8	59.9

The weighted average number of ordinary shares in issue during the year excludes those held by the Mulberry Group Plc Employee Share Trust.

6. Subsequent events

On 29 April 2016 the Group acquired the Mulberry store and related assets in Sydney, Australia from its long-standing distribution partner, Club 21 Australia Pty Limited. The stock was bought at cost (£0.3m), and the lease and employee contracts were transferred to the new subsidiary, Mulberry Company (Australia) Pty Limited.

7. Information

Copies of the Annual Report and financial statements will be posted to shareholders. Further copies can be obtained from Mulberry Group plc's registered office at The Rookery, Chilcompton, Bath, Somerset, BA3 4EH. Copies of this announcement are available for a period of one month from the date hereof from the Company's registered office, and from the Company's nominated adviser, Altium Capital Limited, 1 Southampton Street, London WC2R 0LR.