Mulberry

Mulberry Group plc
Preliminary results for the year ended 31 March 2017

Continued growth, international development and product investment

Mulberry Group plc ("the Group" or "Mulberry"), the British luxury brand, announces results for the year ended 31 March 2017.

FINANCIAL HIGHLIGHTS

- Total revenue up 8% to £168.1 million (2016: £155.9 million)
- Profit before tax up 21% to £7.5 million (2016: £6.2 million)
- Cash of £21.1 million at the end of the period (2016: £14.0 million)
- Inventory reduced to £42.8 million (2016: £44.4 million)

OPERATING HIGHLIGHTS

- Retail sales (including Digital) up 8% to £128.3 million (2016: £118.7 million) with like-for-like up 5%
- Revenue from Digital channels increased by 19% to represent 15% of Group revenue (2016: 14%) with localised mulberry.com sites introduced in China and Korea
- Establishment of Mulberry (Asia) Limited ("Mulberry Asia"), a majority-owned entity, to develop the brand in China, Hong Kong and Taiwan
- New products introduced under the creative direction of Johnny Coca, including the new Zipped Bayswater, continue to gain momentum

CURRENT TRADING

- New Retail stores opened in Shanghai during April 2017 and in Hong Kong during May 2017
- Retail like-for-like sales (including Digital) up 1% for the 10 weeks to 3 June 2017

THIERRY ANDRETTA, CHIEF EXECUTIVE OFFICER, COMMENTED:

"During the year we have made good progress. Our sales and profits are growing, enhancing our strong cash position.

We have advanced our international growth strategy with a new partnership in Asia and the continued expansion of our omni-channel offer in key markets.

We have generated strong creative momentum with new products that are well received by our existing and new customers.

Looking ahead, we will continue to invest in advancing our international development and increasing Mulberry's relevance to our customers' rapidly evolving lifestyle."

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BUSINESS REVIEW

Sales

Total revenue grew by 8% to £168.1 million (2016: £155.9 million). Key elements of this growth have been: 1) Product launches, 2) Retail, Digital and Omni-channel enhancement, and 3) Selective Wholesale.

1) Product launches
During the year, a significant number of new products were launched under the creative direction of Johnny Coca. The Zipped Bayswater bag has become an immediate bestseller since its launch during October 2016 and the family will be further extended in coming seasons. The bag was highlighted during the marketing campaign, "Modern Heritage", which ran during April and May 2017.

2) Retail, Digital and Omni-channel enhancement
Global Digital sales were up 19% to £25.5 million for the period (2016: £21.4 million), accounting for 15% of Group revenue (2016: 14%). Retail sales (including Digital) were up 8% to £128.3 million for the period (2016: £118.7 million) with like-for-like sales up 5%.

A number of services were added to the Group's omni-channel offer during the period and local mulberry.com sites were introduced in China and Korea. In the USA, a local distribution centre has been established in order to facilitate local fulfilment.

There were 67 directly operated stores at the end of the period (2016: 67 stores). The network was refined with two key priorities:

- <u>UK enhancement</u>: relocation of the Covent Garden and Bicester stores; and
- <u>International development</u>: acquisition of the store in Sydney, Australia and through the Mulberry Asia agreement, signed at the end of the financial year, the Group has acquired post year end one store in Hong Kong and in addition will acquire two stores in China, and one concession in Taiwan during the financial year ending March 2018; in North America, two stores were closed, New York (Madison Avenue) and Washington, the digital offer was enhanced and sales commenced to the Nordstrom department store chain.

3) Selective Wholesale
Wholesale revenue, comprising sales to partner stores and selective multi-brand wholesale accounts, increased 7% to £39.8 million (2016: £37.2 million). The franchise store network at the period end had a total of 52 stores in Asia, Europe and the Middle East (2016: 55 stores). As highlighted above, the four stores acquired by Mulberry Asia will join the Group's own Retail store portfolio during the financial year to March 2018.

The Wholesale sales trend reflects a positive reaction to the new collections. Selective new wholesale accounts were opened in Europe, North America and Asia.

	52 weeks to 31-Mar 2016 (£ million)	52 weeks to 31-Mar 2017 (£ million)	Total change (this year vs last year)	Like-for-like** change (this year vs last year)
UK Retail Sales*	97.4	106.8	+10%	+5%
International Retail Sales*	21.3	21.5	+1%	+7%
Group Retail Sales	118.7	128.3	+8%	+5%
Wholesale Sales	37.2	39.8	+7%	n/a
Group Total Sales	155.9	168.1	+8%	n/a

* Regional splits include Digital sales
** LFL is defined as the year-on-year change in sales from stores which have been trading for 12 months after the anniversary of the store opening
Digital sales increased by 19% during the year to 31 March 2017

Financial

Gross margin for the year to 31 March 2017 was 61.6% (2016: 62.0%). After incurring significant production start-up costs due to a large number of new designs introduced during the first six months, production efficiencies returned to normal levels during the second six months of the year. Gross margin reflects a one-off cost of £0.6 million relating to the stock repurchase associated with the North Asia acquisition.

Operating expenses (net) for the year increased to £96.5 million (2016: £90.5 million) primarily due to higher Retail store costs of £3.7 million and increased marketing, advertising and promotion costs of £1.6 million.

Profit before tax was £7.5 million (2016: £6.2 million) after accounting for non-recurring costs relating to activities in North Asia (c. £0.8 million), adverse currency movements (c. £0.5 million) and non-cash store impairments (c. £1.1 million).

The tax charge for the year was £2.5 million (2016: £3.5 million) giving an effective tax rate of 33.8% (2016: 56.8%) following the implementation of a revised transfer pricing policy during the year. The Group expects the effective tax rate to remain at this level in future.

Capital expenditure for the period was £5.3 million, including £3.2 million related to stores (including Digital), £0.9 million in IT systems and £0.6 million in factories.

Inventories decreased to £42.8 million at 31 March 2017 from £44.4 million at 31 March 2016 reflecting an on-going initiative to reduce inventory levels in the business.

The Group generated cash of £7.1 million during the year with cash balances of £21.1 million as at 31 March 2017 (2016: £14.0 million) and has no debt.

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 (2016: 5.0p) which will be paid on 23 November 2017 to shareholders on the register at 27 October 2017.

NORTH ASIA

As previously communicated, the Group has created a new entity, Mulberry (Asia) Limited ("Mulberry Asia") with Challice Limited ("Challice") to operate its business in China, Hong Kong and Taiwan. As a result the existing Distribution Agreement with Club 21 for the Asia-Pacific region has been modified to remove Hong Kong, China and Taiwan from Club 21's distribution territory. Challice, which owns c. 56% of the Group's share capital, is under the same ultimate shareholder control as Mulberry's existing distributor in the region, Club 21. The Group owns 60% of the share capital of Mulberry Asia, with Challice holding the remaining 40%. Mulberry Asia commenced trading in Hong Kong during April 2017. A subsidiary in China and a branch office in Taiwan are being formed and are expected to be operational during 2017, once the relevant business licences for those territories have been received. The total share capital of Mulberry Asia is £3.2 million (HK$32 million), of which the Group has invested £1.9 million (HK$19.2 million).

CURRENT TRADING AND OUTLOOK

Sales

Like-for-like Retail sales (including Digital) were up 1% for the 10 weeks to 3 June 2017. In the UK, like-for-like sales were up 2% and continue to benefit from an increase in tourist spending in London, although domestic demand has been softer. International like-for-like sales show a weakening in non-strategic locations with management continuing to focus on the optimisation of the store network.

	Retail like-for-like sales*			Retail total sales**		
This year vs. last year (%)	26 weeks to 30-Sep 2016	52 weeks to 31-Mar 2017	10 weeks to 3-June 2017	26 weeks to 30-Sep 2016	52 weeks to 31-Mar 2017	10 weeks to 3-June 2017
UK Retail***	+7%	+5%	+2%	+12%	+10%	-3%
International Retail***	+10%	+7%	-3%	+2%	+1%	0%
Group Retail total	+7%	+5%	+1%	+10%	+8%	-3%

* LFL is defined as the year-on-year change in sales from stores which have been trading for 12 months after the anniversary of the store opening
** The decline in total sales reflects the shift in timing of the half-yearly UK friends and family event which occurred during April 2016 but took place during March in 2017
*** Regional splits include Digital sales
Digital sales increased by 19% in the year to 31 March 2017 and increased by 23% in the 10 weeks to 3 June 2017

Wholesale

North Asia (Hong Kong, China, Taiwan) will transition from a wholesale account to a Retail subsidiary during the current financial year will reduce the Group's total Wholesale revenue and increase Retail revenue.

International

The Group will continue to invest in advancing its international development during the current financial year.

Mulberry Asia's Hong Kong activities have been operational since 3 April 2017, with activities in China and Taiwan expected to commence during 2017. Since the end of March 2017, the store in Hong Kong has been relocated to an improved location, a pop-up shop has been opened in a prominent Hong Kong shopping mall and a new store has been opened in Shanghai. The Group also plans to relocate the existing store in Beijing to a better location during Summer 2017.

In Europe and North America, the Group continues to focus on improving productivity in existing stores, with limited new store openings and strategic refinement of the store network, as opportunities arise, coupled with further omni-channel enhancements.

Omni-channel

The Group has introduced further enhancements to the Digital and omni-channel offering and will continue to invest in this area going forward.

In Asia, the mulberry.com sites in China and Korea are expected to be fully translated during Summer 2017.

Capital expenditure

A new design concept for the Group's stores is being developed. This will lead to increased capital expenditure as it is rolled out. This is expected to commence during 2018.

Capital expenditure for the full year ending 31 March 2018 is expected to be in the region of £7.5 million (2017: £5.3 million), of which the majority will be on stores.

STRATEGY

The Board's long term objective is to grow Mulberry as a global luxury brand, offering unique and desirable product at the best value for price, and thereby create shareholder value. The Group considers that revenue growth is the key performance indicator with which this goal can be measured.

Product

Leather goods remain the core commercial focus of the Group. Following the acceleration of new product launches during the financial year ended 31 March 2017, there will continue to be a focus on novelty in coming seasons. This will include the extension of existing bag families into new sizes, as well as the introduction of new bag designs to cover all functions and lifestyles.

Over the longer term, the objective is to reinforce Mulberry as a lifestyle brand by strengthening complementary categories to its core leather goods ranges. The key focus categories are footwear, ready-to-wear, soft accessories and jewellery. As part of the initiative to further develop these relatively new categories, the Group will continue to invest in targeted product development and marketing.

Marketing and Brand

Mulberry continues to invest in building the brand globally via a dynamic marketing and communication strategy, aiming to engage with new and loyal customers, whilst enhancing the understanding of the brand in new and emerging markets. The Group aims to engage with customers across all touch points via an integrated marketing approach coupling traditional events and press formats with extensive use of digital, mobile and social media. Digital continues to take the highest share of all media investment.

To reinforce its customer-centric business strategy and enhance the customer experience, the Group recently announced it is evolving the format of its seasonal collection launches. The Group will hold private previews of its Spring Summer 2018 collection to UK editors in London and international press and buyers in Paris. The collection will be unveiled during London Fashion Week during February 2018 to offer an instantly shoppable, real-time global consumer experience. The shift will enable the Group to continue to drive engagement and increase relevance with its customers.

The Group continues to develop its Somerset-based customer service operations, including further investment in aftercare and call centre operations.

Retail, Digital and 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. The penetration of omni-channel is expected to grow in the UK, Europe and North America, through continued enhancements of the offering. The Group also plans to introduce omni-channel services to newly controlled territories, including Australia, China and Hong Kong.

In the short to medium term, the Group plans to continue to strategically refine and enhance the store network, while focusing upon improving the range of omni-channel services to match rapidly evolving customer buying behaviour.

Operations

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

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%.

As part of the strategic goal of best-in-class service to our customers, the Group will continue to invest in IT and Digital infrastructure and orientate organisational structures around the customer.

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GROUP INCOME STATEMENT
YEAR ENDED 31 MARCH 2017

	Note	2017 £'000	2016 £'000
Revenue		168,121	155,867
Cost of sales		(64,535)	(59,300)
Gross profit		103,586	96,567
Operating expenses		(96,961)	(91,961)
Other operating income		482	1,504
Operating profit		7,107	6,110
Share of results of associates		148	169
Finance income		295	4
Finance expense		(17)	(66)
Profit before tax		7,533	6,217
Tax		(2,543)	(3,532)
Profit for the year		4,990	2,685
Attributable to:			
Equity holders of the parent		5,338	2,685
Non-controlling interests		(348)	-
Profit for the year		4,990	2,685
Basic earnings per share	4	8.4p	4.5p
Diluted earnings per share	4	8.4p	4.5p

All activities arise from continuing operations.

Reconciliation to adjusted profit before tax:

		2017 £'000	2016 £'000
Profit before tax		7,533	6,217
Impairment charge related to retail property , plant and equipment		1,087	1,615
Profit on disposal of retail stores		-	(1,078)
Adjusted Profit before tax – non-GAAP measure		8,620	6,754
Adjusted basic earnings per share	4	10.2p	5.4p
Adjusted diluted earnings per share	4	10.2p	5.4p

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GROUP STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 MARCH 2017

	2017 £'000	2016 £'000
Profit for the year	4,990	2,685
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	1,803	1,330
Losses on a hedge of a net investment taken to equity	(5)	-
Income tax relating to items that may be reclassified subsequently to profit or loss	(361)	(276)
Total comprehensive income for the year	6,427	3,739
Attributable to:		
Equity holders of the parent	6,775	3,739
Non-controlling interests	(348)	-
Total comprehensive income for the year	6,427	3,739

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GROUP BALANCE SHEET
AT 31 MARCH 2017

	2017 £'000	2016 £'000
Non-current assets		
Intangible assets	10,833	11,088
Property, plant and equipment	24,136	28,143
Interests in associates	198	206
Deferred tax asset	1,500	1,467
	36,667	40,904
Current assets		
Inventories	42,822	44,378
Trade and other receivables	14,669	10,767
Cash and cash equivalents	21,093	14,014
	78,584	69,159
Total assets	115,251	110,063
Current liabilities		
Trade and other payables	(28,350)	(27,805)
Current tax liabilities	(1,257)	(2,342)
Total liabilities	(29,607)	(30,147)
Net assets	85,644	79,916
Equity		
Share capital	3,000	3,000
Share premium account	11,961	11,961
Own share reserve	(1,461)	(1,474)
Capital redemption reserve	154	154
Hedging reserve	(5)	-
Foreign exchange reserve	1,063	(379)
Retained earnings	69,957	66,654
Equity attributable to holders of the parent	84,669	79,916
Non-controlling interests	975	-
Total equity	85,644	79,916

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GROUP STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 MARCH 2017

	Share capital £'000	Share premium account £'000	Own share reserve £'000	Capital redemption reserve £'000	Special reserve* £'000	Hedging reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interest £,000	Total equity £'000
As at 1 April 2015	3,000	11,961	(1,601)	154	1,467	-	(1,433)	65,141	78,689	-	78,689
Profit for the year	-	-	-	-	-	-	-	2,685	2,685	-	2,685
Other comprehensive income for the year	-	-	-	-	-	-	1,054	-	1,054	-	1,054
Total comprehensive income for the year	-	-		-	-	-	1,054	2,685	3,739	-	3,739
Charge for employee share-based payments	-	-	-	-	-	-	-	478	478	-	478
Exercise of share options	-	-	-	-	-	-	-	(149)	(149)	-	(149)
Own shares	-	-	127	-	-	-	-	-	127	-	127
Dividends paid	-	-	-	-	-	-	-	(2,968)	(2,968)	-	(2,968)
Redemption of reserve	-	-	-	-	(1,467)	-	-	1,467	-	-	-
Balance at 31 March 2016	3,000	11,961	(1,474)	154	-	-	(379)	66,654	79,916	-	79,916
Profit for the year	-	-	-	-	-	-		4,990	4,990	-	4,996
Other comprehensive income for the year	-	-	-	-	-	(5)	1,442	-	1,437	-	1,437
Total comprehensive income for the year	-	-		-	-	(5)	1,442	4,990	6,427	-	6,427
Charge for employee share-based payments	-	-	-	-	-	-	-	1,086	1,086	-	1,086
Exercise of share options	-	-	-	-	-	-	-	(153)	(153)	-	(153)
Own shares	-	-	13	-	-	-	-	-	13	-	13
Adjustment arising from movement in non-controlling interest	-	-	-	-	-	-	-	348	348	975	1,323
Dividends paid	-	-	-	-	-	-	-	(2,968)	(2,968)	-	(2,968)
Balance at 31 March 2017	3,000	11,961	(1,461)	154	-	(5)	1,063	69,957	84,669	975	85,644

* The special reserve was created as part of a capital restructuring of the Group in 2004. It was released to retained earnings during 2016.

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GROUP CASH FLOW STATEMENT
YEAR ENDED 31 MARCH 2017

	2017 £'000	2016 £'000
Operating profit for the year	7,107	6,110
Adjustments for:		
Depreciation and impairment of property, plant and equipment	8,763	8,442
Amortisation of intangible assets	1,852	1,949
Loss/(profit) on sale of property, plant and equipment	325	(1,316)
Share-based payments charge	1,086	478
Operating cash flows before movements in working capital	19,133	15,663
Decrease/(increase) in inventories	2,344	(4,485)
(Increase)/decrease in receivables	(2,326)	2,574
Increase/(decrease) in payables	168	(1,041)
Cash generated from operations	19,319	12,711
Income taxes paid	(4,021)	(4,145)
Interest paid	(17)	(66)
Net cash inflow from operating activities	15,281	8,500
Investing activities:		
Interest received	232	4
Dividend received from associate	195	167
Purchases of property, plant and equipment	(4,409)	(5,050)
Proceeds from disposal of property, plant and equipment	40	4,460
Acquisition of intangible fixed assets	(962)	(855)
Net cash used in investing activities	(4,904)	(1,274)
Financing activities:		
Dividends paid	(2,968)	(2,968)
Settlement of share awards	(153)	(24)
Net cash used in financing activities	(3,121)	(2,992)
Net increase in cash and cash equivalents	7,256	4,234
Cash and cash equivalents at beginning of year	14,014	9,900
Effect of foreign exchange rate changes	(177)	(120)
Cash and cash equivalents at end of year	21,093	14,014

NOTES

1. BASIS OF PREPARATION

The financial information in this announcement, which was approved by the Board of Directors on 13 June 2017, does not constitute the Company's statutory accounts for the years ended 31 March 2017 or 2016, but is derived from those accounts.

Statutory accounts for the year ended March 2016 have been delivered to the Registrar of Companies and those for the year ended 31 March 2017 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 the following new and revised Standards and Interpretations have been adopted but have not had an impact on the Group:

- Amendments to IAS 16: Property, Plant and Equipment and IAS 38: Intangible assets.

At the date of approval of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 9: Financial Instruments;
- IFRS 15: Revenue from Contracts with Customers; and
- IFRS 16: Leases.
- IFRS 2 (amendments)
- IAS 7 (amendments)
- IAS 12 (amendments)

IFRS 16 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. DIVIDENDS

	2017 £'000	2016 £'000
Dividend for the year ended 31 March 2016 of 5p (2015: 5p) per share paid on 24 November 2016	2,968	2,968
Proposed dividend for the year ended 31 March 2017 of 5p per share (2016: 5p)	2,968	2,968

THIS 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.

4. EARNINGS PER SHARE ('EPS')

	2017 pence	2016 pence
Basic earnings per share	8.4	4.5
Diluted earnings per share	8.4	4.5
Adjusted basic earnings per share	10.2	5.4
Adjusted diluted earnings per share	10.2	5.4

EARNINGS PER SHARE IS CALCULATED BASED ON THE FOLLOWING DATA:

	£'000	£'000
Profit for the year for basic and diluted earnings per share	4,990	2,685
Adjustments to include exceptional items:		
Impairment relating to retail assets	1,087	1,615
Profit on disposal of retail stores	-	(1,078)
Adjusted profit for the year for basic and diluted earnings per share	6,077	3,222

	Million	Million
Weighted average number of ordinary shares for the purpose of basic EPS	59.4	59.3
Effect of dilutive potential ordinary shares : share options	0.1	0.5
Weighted average number of ordinary shares for the purpose of diluted EPS	59.5	59.8

THE WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES IN ISSUE DURING THE YEAR EXCLUDES THOSE HELD BY THE MULBERRY GROUP PLC EMPLOYEE SHARE TRUST