HTL International Holdings Limited

1H 2015 Results Briefing

Raffles Hotel, Singapore

13th August 2015

Agenda

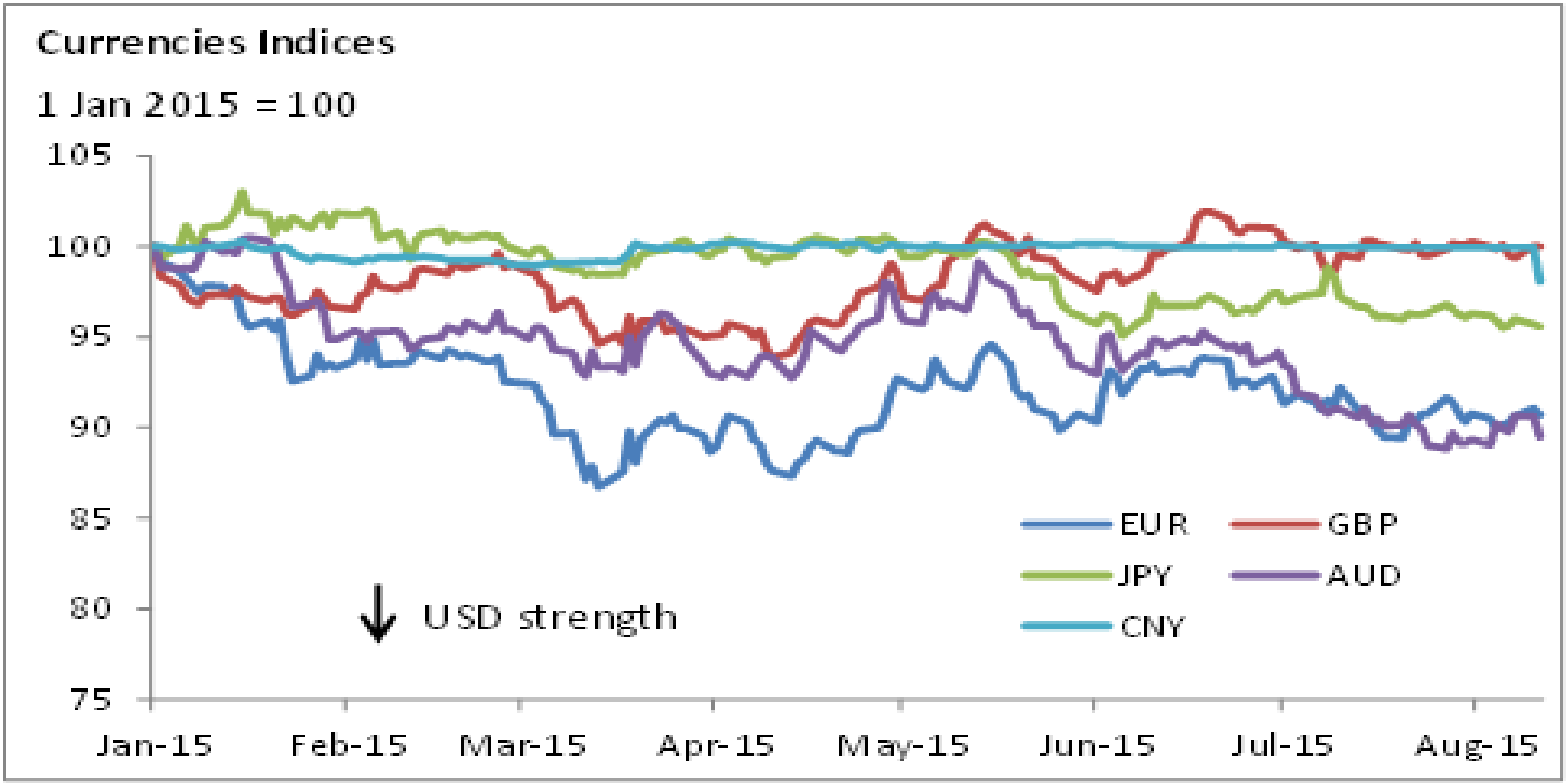
- Business Conditions
- Financial Highlights
- Outlook, Initiatives and Challenges

Business Conditions

Business Conditions – Macro

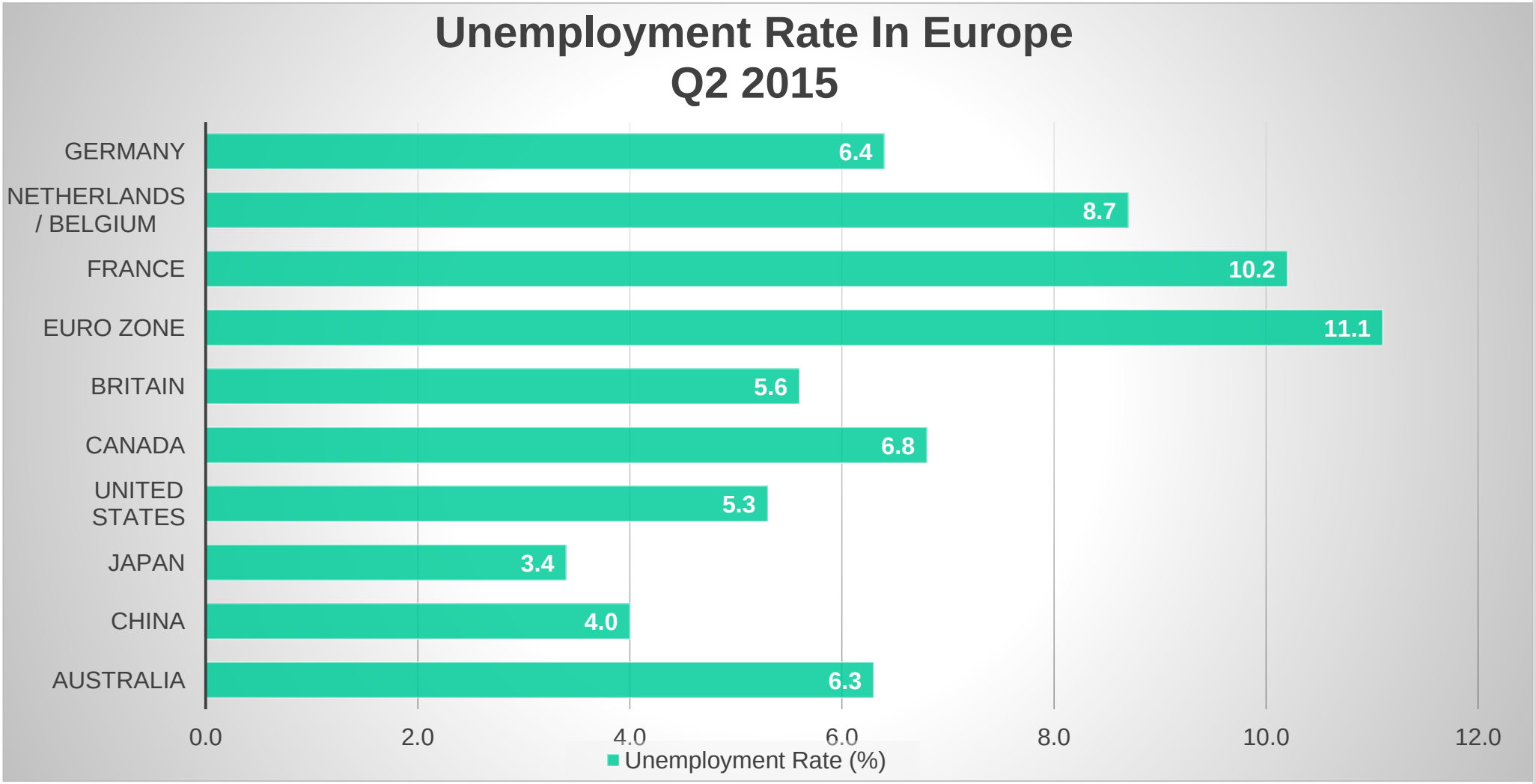
- Uncertain global economic recovery with weaknesses in the major economics of Europe, Asia and Australasia.
- Volatile foreign exchange market with our major sales currencies (notably the Euro, JPY, AUD and GBP) weakened against the USD.
- Persistent high unemployment rate in Europe, our biggest market.
- These prolonged conditions continued to dampen consumer confidence and spending on high value and discretionary goods like our leather sofas.

Business Conditions – Macro (Cont'd)



Source: DBS

Business Conditions – Macro (Cont'd)



Source: www. economist.com

Business Conditions – Micro

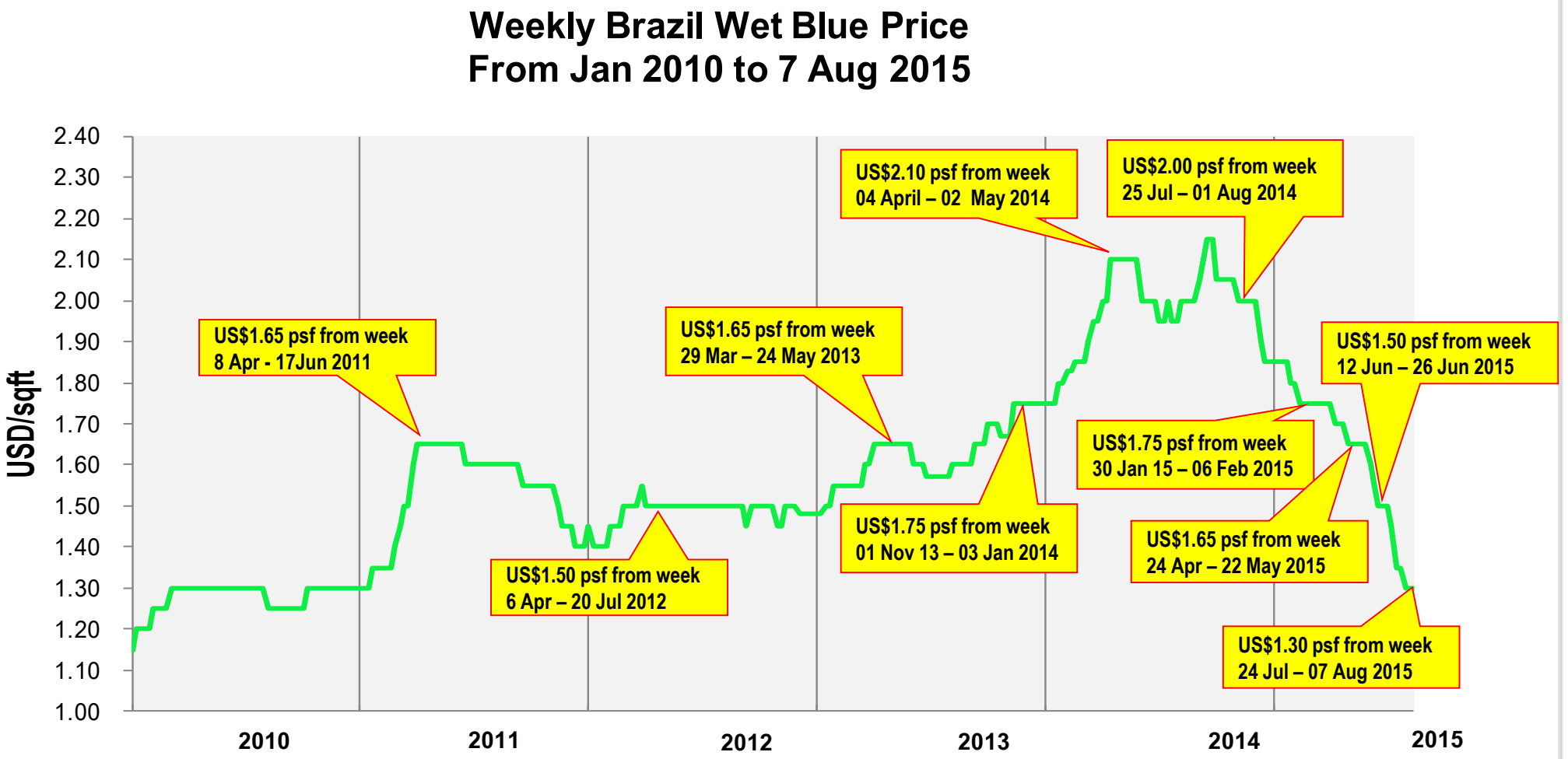
- Despite recent signs of price moderation, our raw leather hide costs continued to stay at near all-time high.

- Basic wage rate in major cities in China rose by a further 10% from November 2014.

  For Yangzhou and Huai An where one of our tannery and sofa plant are located respectively, labour costs increased further from March and June 2015 respectively following an increase in the minimum social security contribution rates by the local authorities.

- To address the additional pressure on profit margins, HTL continued to improve on its operational efficiency and cost effectiveness.

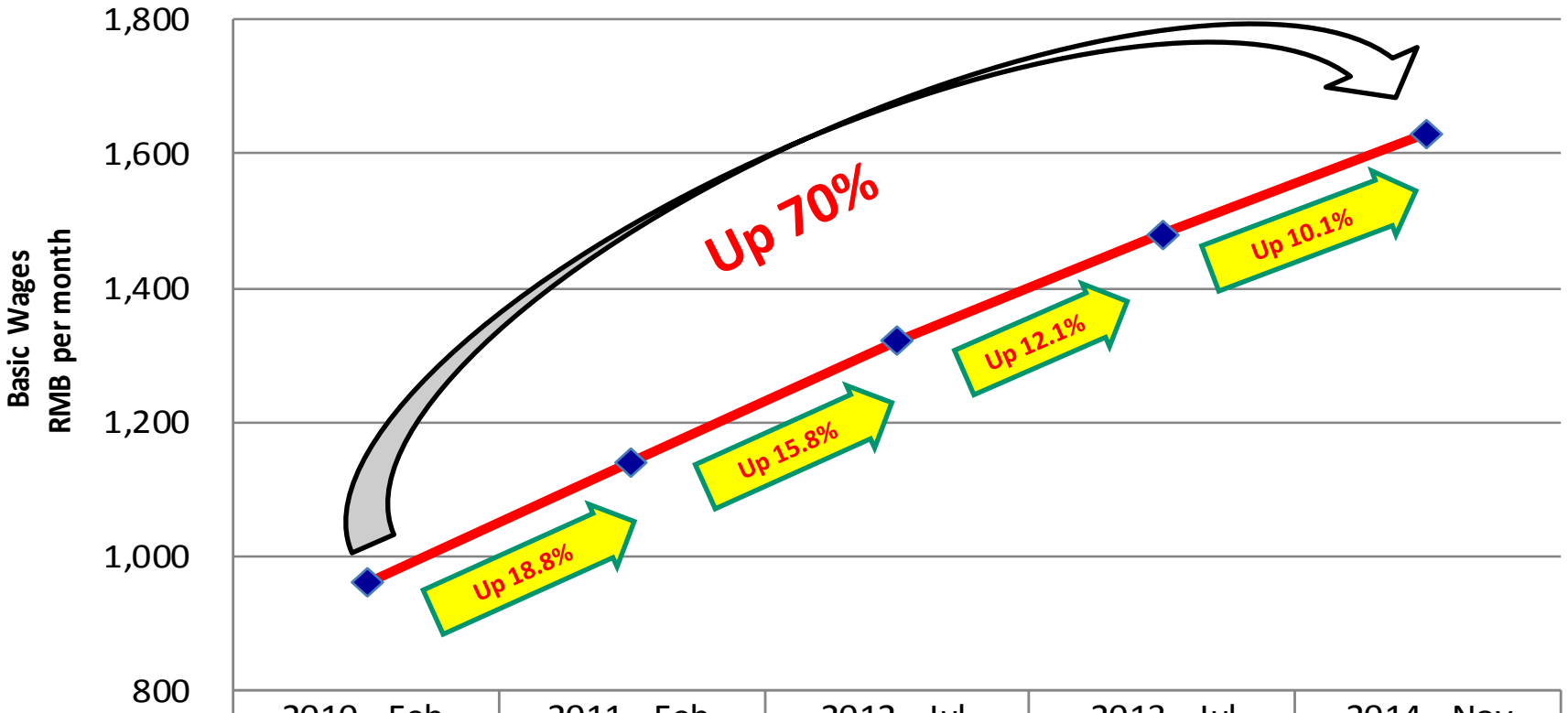
Business Conditions – Micro (Cont'd)



Source: www.hidenet.com

Business Conditions – Micro (Cont'd)

Basic Wage Rate in RMB (2010 to 2014)



	2010 - Feb	2011 - Feb	2012 - Jul	2013 - Jul	2014 - Nov
Basic wages - Jiangsu	960	1,140	1,320	1,480	1,630

Financial Highlights

Financial Highlights

(US$ million)	1H 2015 (a)	1H 2014 (b)	FY 2014	Changes (%) (a-b)/b
Turnover	231.7	265.1	500.6	↓ (12.6)
EBITDA	2.9	18.7	20.2	↓ (84.5)
Operating (loss)/profit before net forex and tax	(6.3)	6.1	(2.4)	NM
(L)/PAT	(2.4)	10.2	5.3	NM
Free Cash Flow	5.5	16.3	32.7	

NM: Not Meaningful

Financial Highlights (Cont'd)

- **Turnover**

  Turnover fell by 12.6% to US$231.7 million in 1H 2015, primarily due to lower sales in all key markets particularly Europe and North America and the weaker Euro, JPY and AUD against the USD.

- **Profitability**

  With lower revenue, gross profit and other operating income, the Group registered an operating loss before net foreign exchange gain and tax of US$6.3 million in 1H 2015, a reversal from an operating profit before net foreign exchange gain and tax of US$6.1 million in 1H 2014.

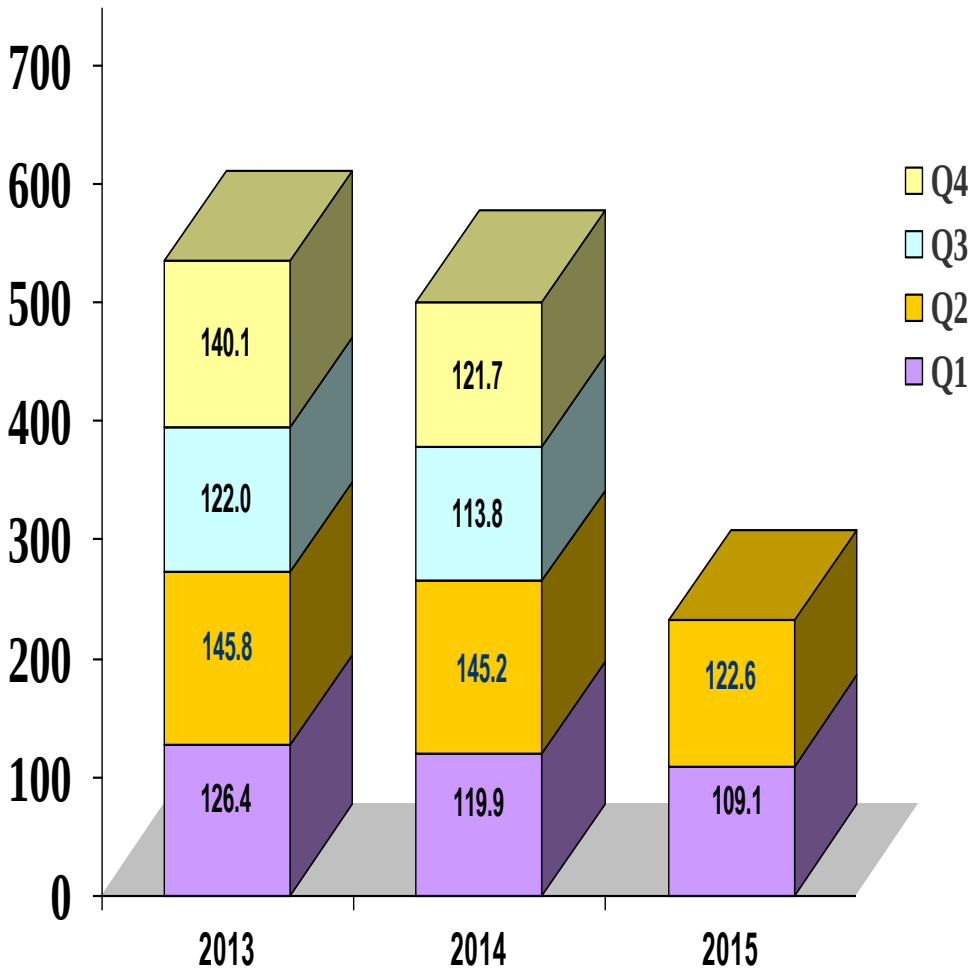
  After accounting for a net forex gain of US$5.1m (1H 2014: a net forex gain of US$7.6m), the Group incurred a net loss after tax of US$2.4 million for 1H 2015, compared to a net profit after tax of US$10.2 million in 1H 2014.

- **Free Cash Flow ("FCF")**

  The Group reported a lower positive free cash flow ("FCF") of US$5.5 million in 1H 2015 (1H 2014: US$16.3 million) as a result of lower profitability and higher capital expenditure in 1H 2015 compared to 1H 2014.

Turnover

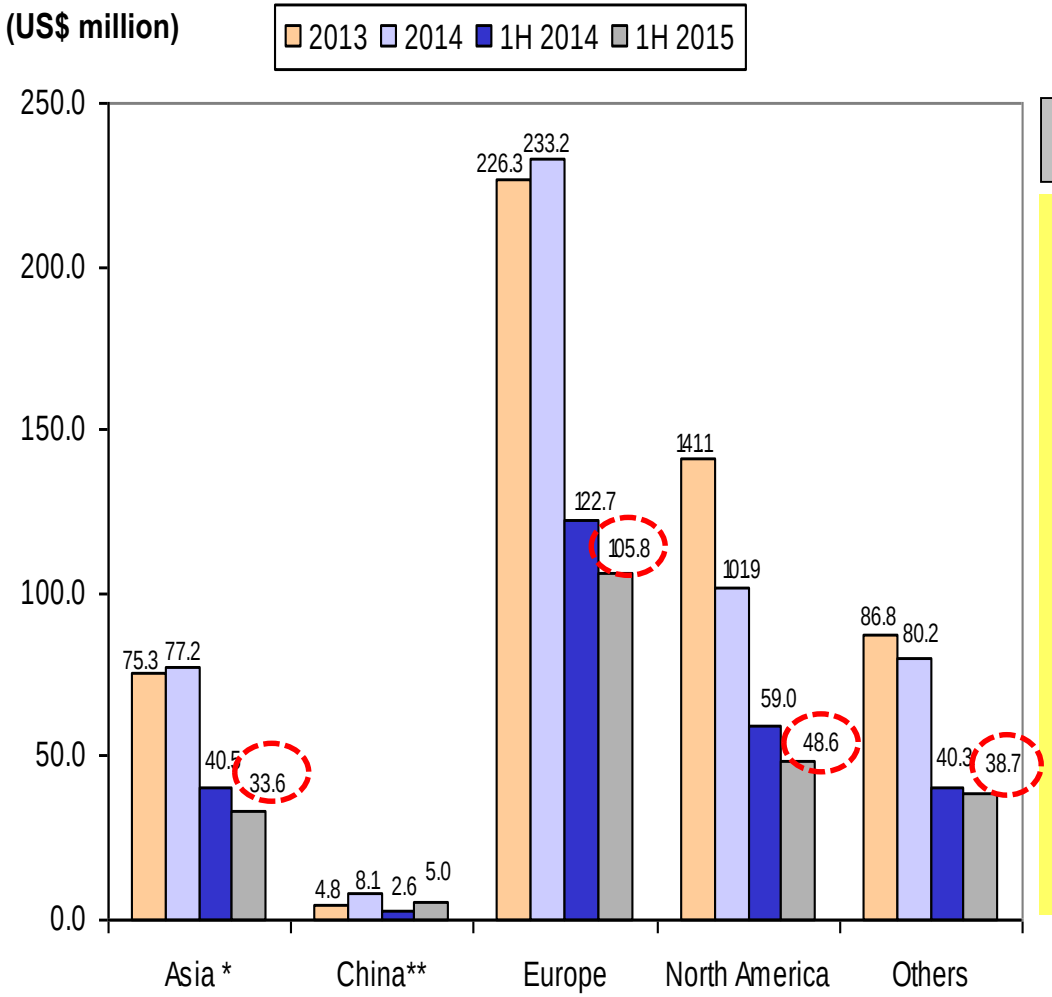
(US$ million)



1H 2015 vs 1H 2014

- Revenue fell by 12.6% to US$231.7 million.
- The decrease was mainly due to:
  - lower sales in Europe and North America; and
  - weaker Euro, JPY and AUD against the USD.
- This was partially offset by higher sales in China.
- Sofa BU still accounted for 96.3% of Group turnover.

TURNOVER BY KEY MARKETS



* *Excluding China*

** *Including Hong Kong*

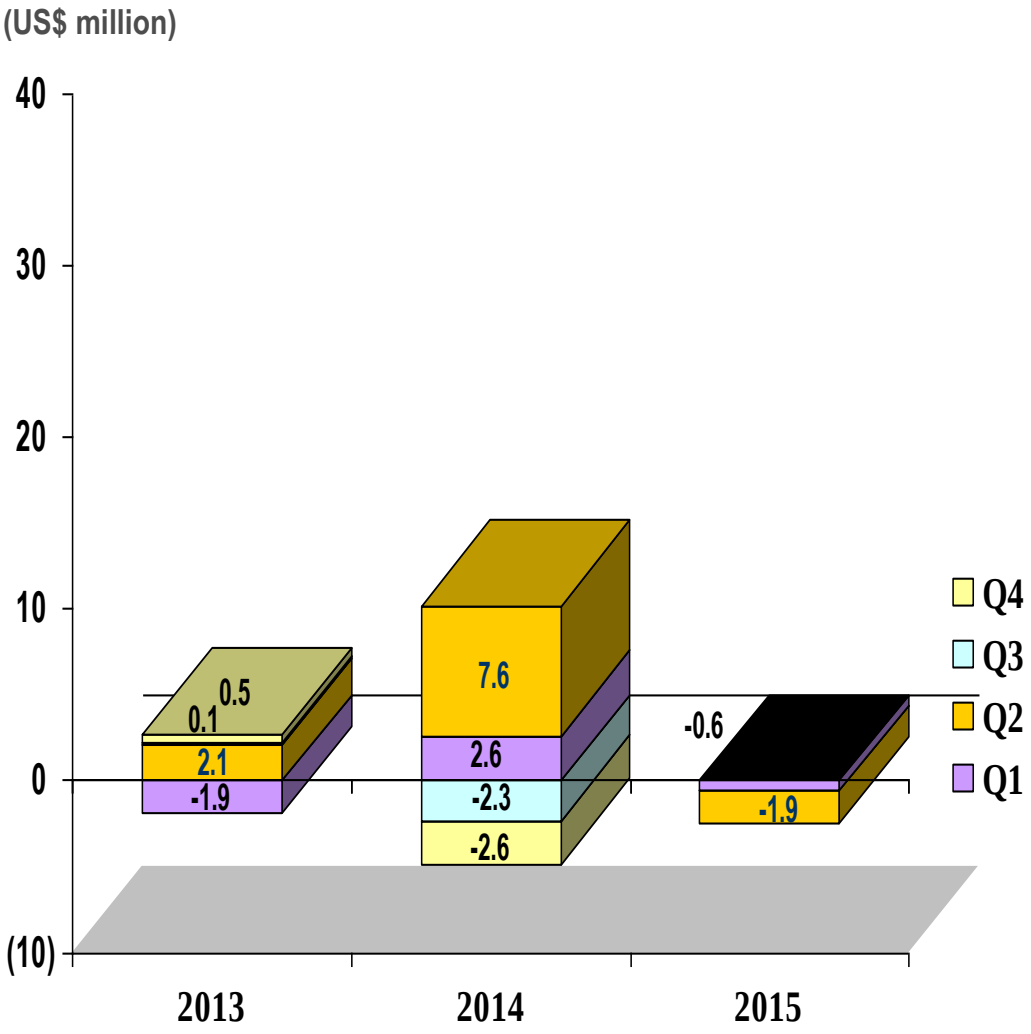
1H 2015 vs 1H 2014

- Lower turnover was primarily led by Europe (down 13.8%), followed by North America (down 17.7%) and Asia notably, Japan (down 17.0%).
- Sales from China almost doubled to US$5.0 million (1H 2014: US$2.6 million).
- Europe remained the Group's single largest market, contributing 45.7% (1H 2014: 46.3%) to the Group's turnover.

TURNOVER BY NOMINAL CURRENCIES

Major invoicing currency	1H 2015		1H 2014		(Reduction)/Growth in source currency 1H 15 vs 14
	In source curr (Million)	Total sales %	In source curr (Million)	Total sales %	
USD	153.5	66.2%	174.0	65.6%	-11.8%
EURO	28.7	14.3%	32.3	16.7%	-11.1%
JPY	2,210.5	8.0%	2,400.0	8.8%	-7.9%
AUD	16.4	5.6%	12.1	4.2%	35.5%

Profitability



- As a result of lower revenue, gross profit and other operating income, the Group registered operating loss before net foreign exchange gain and tax of US$6.3 million in 1H 2015, a reversal from operating profit before net foreign exchange gain and tax of US$6.1 million in 1H 2014.

- With a net forex gain of US$5.1m (1H 2014: net forex gain of US$7.6m), the Group incurred a net loss of US$2.4 million for 1H 2015, compared to a net profit of US$10.2 million in 1H 2014.

PERFORMANCE BY KEY BUSINESS UNITS

(US$ million)

	1H 2015 a	1H 2014 b	FY 2014	% (a-b)/b
Turnover				
Sofa*	225.2	258.7	485.1	(12.9)
Leather*	67.5	68.1	135.1	(0.9)
Home Furnishing Retail*	8.6	8.1	19.2	6.2
Segment Result				
Sofa	1.6	11.3	13.2	(85.8)
Leather	(0.5)	0.7	(0.2)	NM
Home Furnishing Retail	(6.1)	(4.1)	(12.5)	48.8

Note:
** Includes inter segment sales*
NM: Not meaningful

FINANCIAL RATIOS

	1H 2015	1H 2014	FY 2014
Return on Assets ("ROA") (%)	(0.8)	3.1	1.7
Return on Equity ("ROE") (%)	(1.4)	5.6	3.0
Return on Capital Employed ("ROCE") (%)	(0.3)	8.1	7.2
Debtors' Turnover ("DSO") (mths)	1.3	1.5	1.3
Inventory Turnover ("DIO") (mths)	4.9	4.8	5.1

(i) Negative ROA , ROE and ROCE due to net loss in 1H 2015.

(ii) DSO remained stable.

(iii) DIO improved further with less inventory.

INVENTORY– ANALYSIS BY CATEGORY

(US$ million)

	Jun-15	Dec-14
Raw Materials	57.2	65.5
Work In Progress	21.2	23.6
Finished Goods	60.1	58.8
Total	138.5	147.9
DIO (mths)	4.9	5.1

- Approximately 70% (2014: 70%) of the Group's total raw materials comprise principally raw leather hides.
- Raw materials and WIP fell from further reduction in leather inventory.

LEVERAGE AND LIQUIDITY RATIOS

	Jun-15	Mar-15	Dec-14
Leverage Ratio			
Net Gearing (%)	—	5.4	0.1
Liquidity Ratios			
Interest Cover (times)	—	1.2	7.0
Current Ratio (times)	1.9	2.0	1.9
Quick Ratio (times)	0.8	0.8	0.8

- Further improvement in working capital management resulted in a US$4.7 million net cash position as at 30 June 2015, compared to net borrowing position of US$0.2 million as at 31 December 2014.
- Consequently, there was no gearing as at 30 June 2015 compared to 0.1% as at 31 December 2014.
- There was no interest cover as the Group was in a loss making position in 1H 2015.
- Current and quick ratios remained stable.

CASH FLOW STATEMENT

(US$ million)	1H 2015	1H 2014	FY 2014
NET (LOSS)/PROFIT AFTER TAX	**(2.4)**	**10.2**	**5.3**
Add/(Less):			
Depreciation & amortisation	3.4	3.8	7.6
Net fair value loss/(gain) on foreign exchange derivative instruments	3.2	(4.1)	(2.3)
Income taxes paid	(2.8)	(0.8)	(1.5)
Working capital changes	2.8	(0.3)	9.9
Other non-cash items	7.6	9.7	19.1
OPERATING CASH FLOW	**11.8**	**18.5**	**38.1**
Less: CAPEX & Intangible assets	(6.3)	(2.2)	(5.4)
FREE CASH FLOW	**5.5**	**16.3**	**32.7**

1H 2015

- The Group reported lower positive free cash flow ("FCF") of US$5.5 million in 1H 2015 compared to US$16.3 million in 1H 2014, primarily due to lower profitability and higher capital expenditure in 1H 2015 compared to 1H 2014.

Outlook, Initiatives & Challenges

Business Outlook

- Recent threat of “Grexit” and the stock market turmoil and economic slowdown in China have further spooked consumer confidence globally.
- Major trading currencies (notably the Euro, JPY, AUD and RMB) will remain volatile and may weaken further against the USD given the expected rise in US interest rates later this year.
- These external factors will put a further strain on our revenue and profitability.
- However, input costs particularly raw leather hide prices as well as freight rates have been moderating. These will help to ease the pressure on our profit margins.
- Moreover, our retail strategy which is still in its infancy will take time to bear fruit and is expected to increase the Group’s operating costs and would affect profitability in the second half of 2015.

Our Initiatives and Challenges

- Increase selling prices invoiced in Euro, JPY, AUD and GBP.
- Complete the major restructuring of under-performing overseas business units to achieve better cost efficiency.
- Recalibrate capacity at our factories to be more in line with expected demand going forward.
- Continue to reduce leather usage by diversifying more into fabrics.
- Broaden our product range, offering complementary furniture and accessories.
- Expand direct retail and franchise business in China and Singapore/SEA to achieve better economies of scale, and optimise cost effectiveness.

Thank You
Q&A

