HTL International Holdings Limited

2014 Results Briefing

Raffles Hotel, Singapore

25th February 2015

Agenda

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

Business Conditions

Business Conditions – Macro

- Global economic recovery remained uncertain with weakness in the major economies in Europe, Asia and Australasia.
- Volatile global foreign exchange market. Against the USD, JPY and AUD weakened whilst EURO, GBP and RMB strengthened.
- High unemployment rate in Europe persisted.
- These prolonged factors continued to dampen consumer confidence and spending on high value and discretionary goods, including leather sofas.

Business Conditions – Micro (Cont'd)

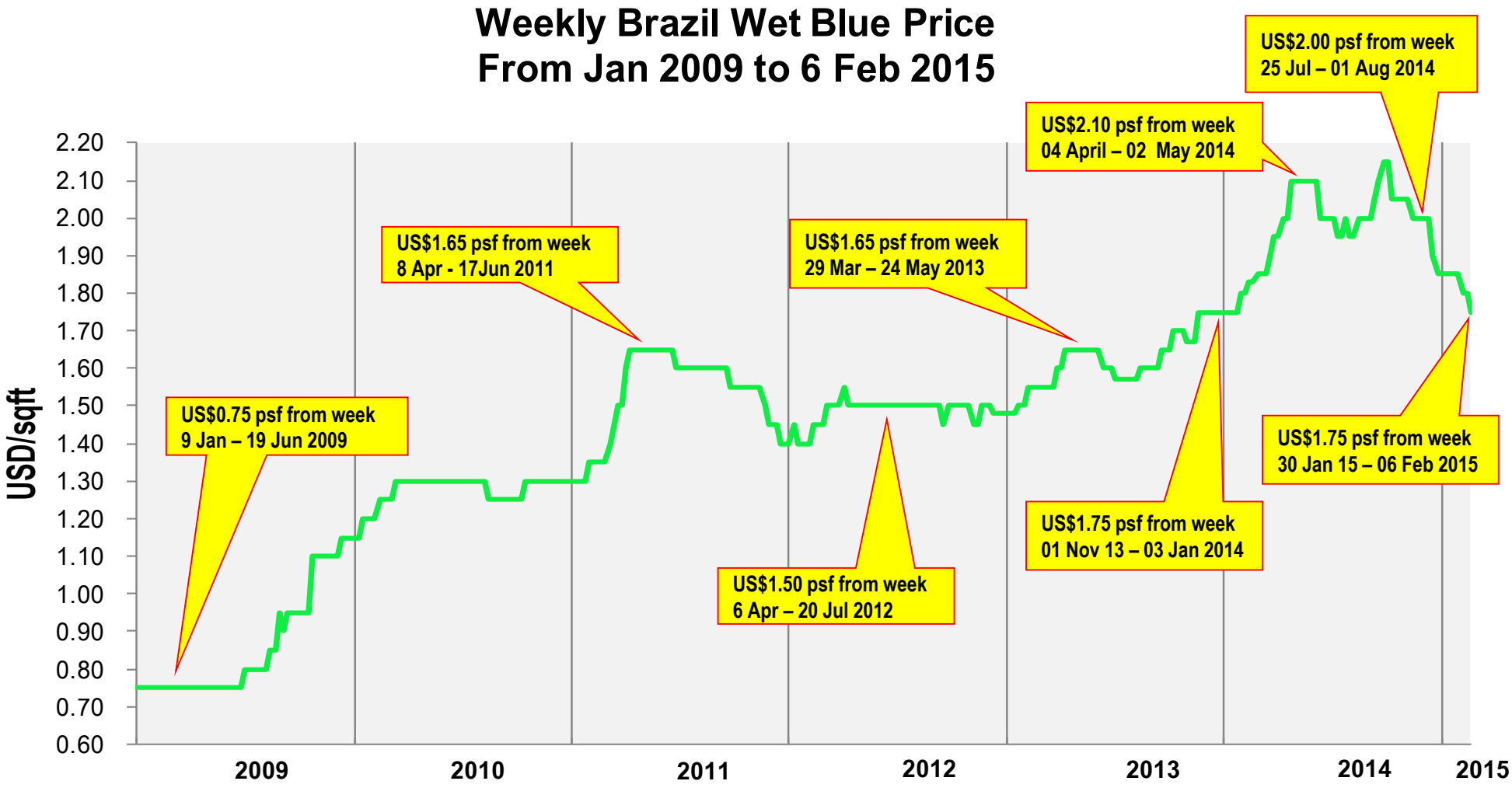
- Raw leather hide prices rose over 23%, to an all-time high.

- Basic wage rate in major cities in China rose by 16% from mid-2013 and another 10% from November 2014.

  For Yangzhou where one of our tannery is located, it increased by another 15.6% from January 2014 following its reclassification from a Tier-2 to a Tier-1 city.

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

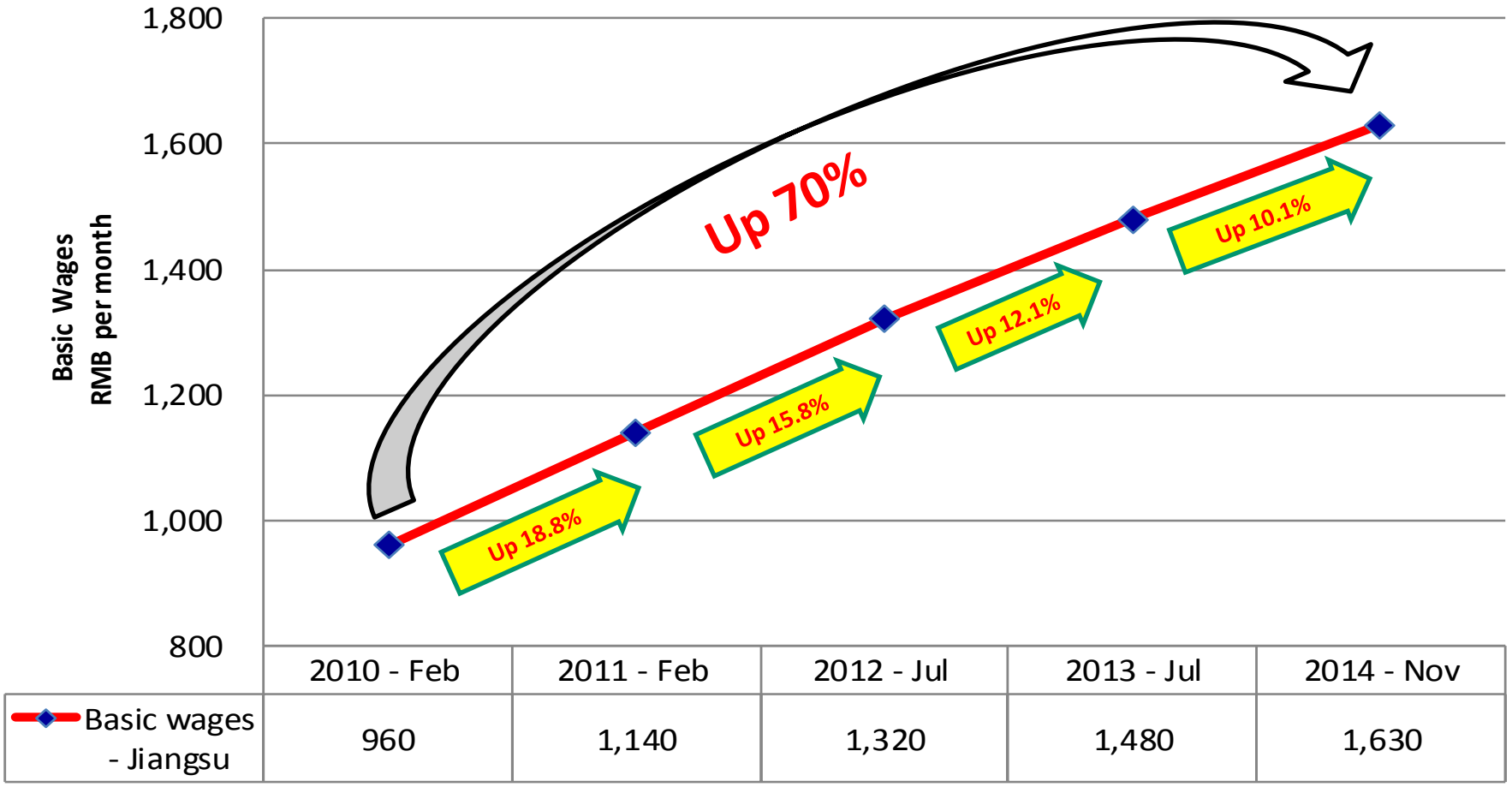
Business Conditions – Micro (Cont'd)



Source: www.hidenet.com

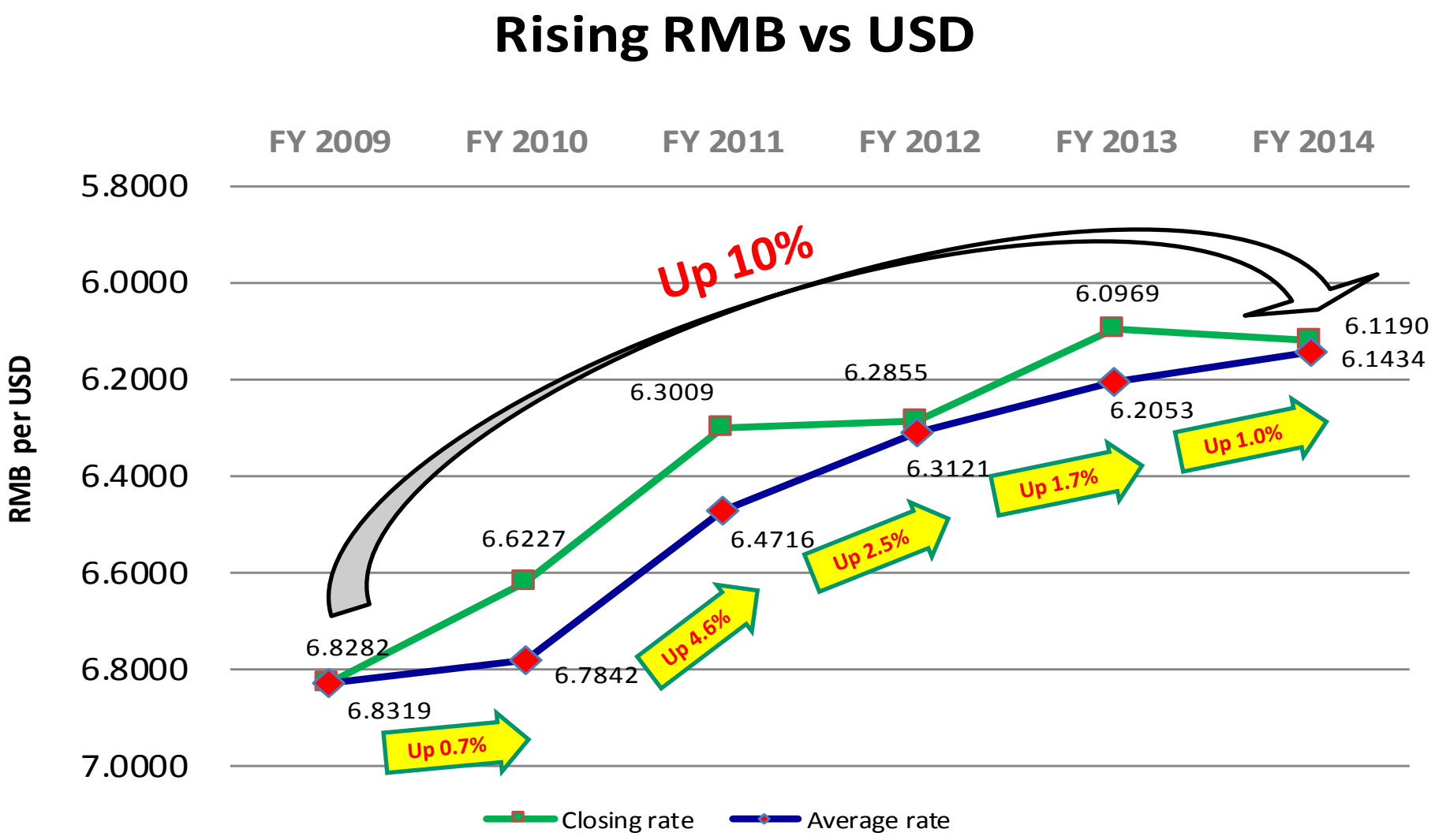
Business Conditions – Micro (Cont'd)

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

Business Conditions – Micro (Cont'd)



Financial Highlights

Financial Highlights

(US$ million)	FY 2014 (a)	FY 2013 (b)	Changes (%) (a-b)/b
Turnover	500.6	534.3	(6.3)
EBITDA	20.2	16.3	23.4
Operating (loss)/profit before net forex and tax	(2.4)	7.1	NM
PAT	5.3	0.8	600.0
Free Cash Flow	32.7	57.4	

NM: Not Meaningful

Financial Highlights (Cont'd)

- **Turnover**

  Turnover fell by 6.3% to US$500.6 million, primarily due to the weaker JPY and AUD against the USD coupled with the weaker sales in North America and ANZ. The impact of these were partially offset by stronger sales in Europe and Asia, increased average selling price as a result of continuing effort to focus on margin management and stronger Euro against the USD.

- **Profitability**

  Lower revenue and higher material and labour costs together with a one-off expense incurred in connection with cessation of a sales marketing agency had depressed operating margin. The Group posted operating loss before net foreign exchange gain and tax of US$2.4m, a reversal from a profit of US$7.1m in 2013.

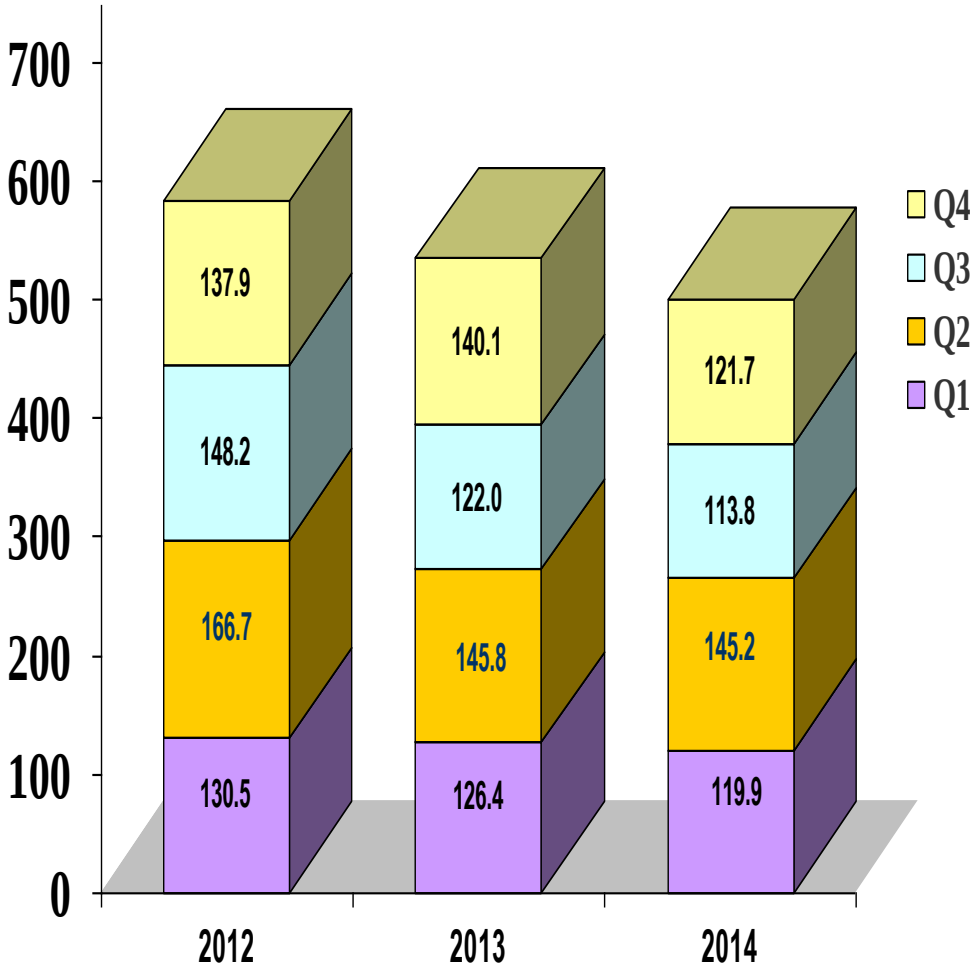
  After accounting for a net forex gain of US$13.2m (2013: a net forex loss of US$2.5m), the Group's net profit rose to US$5.3m in 2014, from US$0.8m in 2013.

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

  With higher profitability and improvement in working capital management, HTL generated US$32.7m of positive FCF in 2014. This was less than the US$57.4m in 2013, mainly due to higher leather procurement activities in 2014.

Turnover

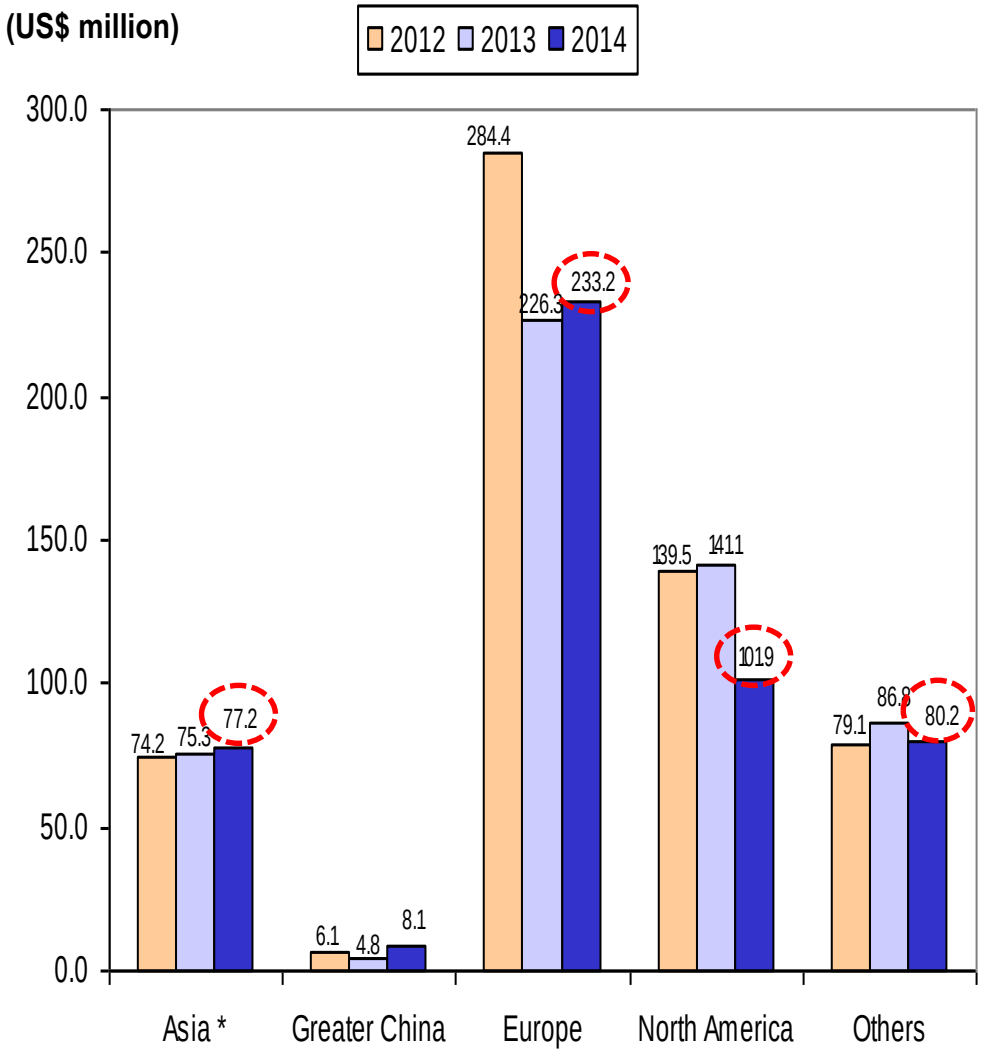
(US$ million)



FY 2014 vs FY 2013

- Turnover fell by 6.3% to US$500.6m.
- The decrease was mainly attributable to the weaker JPY and AUD against the USD and weaker sales in North America and ANZ. This was partly offset by stronger sales in Europe and Asia, increased average selling price and stronger Euro against the USD.
- Sofa BU still accounted for 96.1% of Group turnover.

TURNOVER BY KEY MARKETS



** Excludes Greater China*

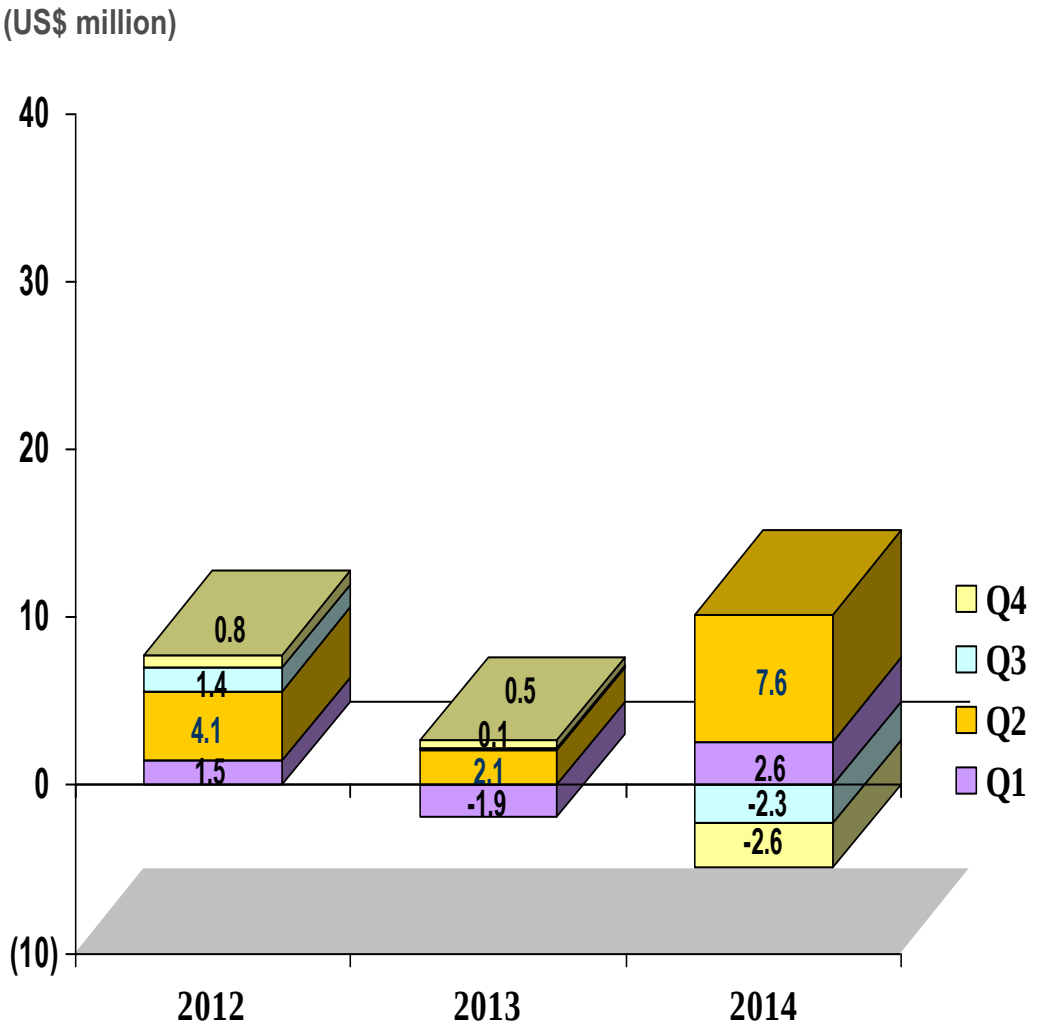
FY 2014 vs FY 2013

- Lower turnover was recorded in North America (down 27.8%), followed by ANZ (down 7.5%).
- Sales in Asia (including Greater China) increased by 6.5% to US$85.3m.
- Revenue from Europe climbed 3.0% to US$233.2m, primarily driven by the higher sales to United Kingdom. This was partially offset by lower revenue from Germany, France and Benelux.
- Europe remained the Group's single largest market, contributing 46.6% (2013: 42.4%) to the Group's turnover.

TURNOVER BY NOMINAL CURRENCIES

Major invoicing currency	FY 2014		FY 2013		Growth in source currency FY 14 vs 13
	In source curr (Million)	Total sales %	In source curr (Million)	Total sales %	
USD	327.4	65.4%	343.2	64.2%	-4.6%
EURO	57.2	15.5%	66.8	16.5%	-14.4%
JPY	4,479.8	8.6%	4,585.4	9.0%	-2.3%
AUD	25.9	4.7%	31.6	5.8%	-18.0%

Profitability



- The Group registered operating loss before net foreign exchange gain and tax of US$2.4 million in 2014 compared to an operating profit of US$7.1 million in 2013. This was mainly due to lower revenue and higher input costs together with a one-off expense incurred in connection with the cessation of a sales marketing agency.

- With a net forex gain of US$13.2m (2013: net forex loss of US$2.5m), the Group's net profit improved from US$0.8 million in 2013 to US$5.3 million in 2014.

PERFORMANCE BY KEY BUSINESS UNITS

(US$ million)

	FY 2014 a	FY 2013 b	% (a-b)/b
Turnover			
Sofa*	488.5	523.9	(6.8)
Leather*	135.1	166.6	(18.9)
Home Furnishing*	19.6	22.5	(12.9)
Segment Result			
Sofa	7.5	9.5	(21.1)
Leather	(0.2)	5.4	NM
Home Furnishing	(6.8)	(3.4)	100.0

Note:

** Includes inter segment sales*

NM: Not meaningful

FINANCIAL RATIOS

	FY 2014	FY 2013
Return on Assets ("ROA") (%)	1.7	0.2
Return on Equity ("ROE") (%)	3.0	0.4
Return on Capital Employed ("ROCE") (%)	7.2	4.6
Debtors' Turnover ("DSO") (mths)	1.3	1.5
Inventory Turnover ("DIO") (mths)	5.1	5.1

(i) ROA , ROE and ROCE increased due to higher net profit in 2014.

(ii) DSO improved due to higher factoring.

(iii) DIO remained constant.

LEVERAGE AND LIQUIDITY RATIOS

	Dec-14	Dec-13
Leverage Ratio		
Net Gearing (%)	0.1	15.6
Liquidity Ratios		
Interest Cover (times)	7.0	2.4
Current Ratio (times)	1.9	1.6
Quick Ratio (times)	0.8	0.8

- Net bank borrowings decreased significantly from US$27.0m as at 31 Dec 2013 to US$0.2m as at 31 Dec 2014.
- The decrease was mainly due to higher profitability and improvement in working capital management.
- Consequently, the net gearing improved substantially from 15.6% to 0.1%.
- Interest cover also improved as a result of higher profitability and lower borrowings.
- Current and quick ratios remained stable.

CASH FLOW STATEMENT

(US$ million)	FY 2014	FY 2013
NET PROFIT AFTER TAX	**5.3**	**0.8**
Add/(Less):		
Depreciation & Amortisation	7.6	8.3
Net fair value (loss)/gain on foreign exchange derivative instruments	(2.3)	0.3
Income taxes paid	(1.5)	(3.7)
Working capital changes	9.9	36.3
Other non-cash items	19.1	19.6
OPERATING CASH FLOW	**38.1**	**61.6**
Less: CAPEX & Intangible assets	(5.4)	(4.2)
FREE CASH FLOW	**32.7**	**57.4**

FY 2014

- With higher profitability and improvement in working capital management, the Group generated positive FCF of US$32.7m in 2014.
- This was less than the US$57.4m in 2013, mainly due to higher leather procurement activities in 2014 compared to 2013.

INVENTORY– ANALYSIS BY CATEGORY

(US$ million)

	Dec-14	Dec-13
Raw Materials	65.5	70.1
Work In Progress	23.6	22.6
Finished Goods	58.9	62.1
Total	147.9	154.8
DIO (mths)	5.1	5.1

- Approximately 70% (2013: 70%) of the Group's total raw materials comprise principally raw leather hides.
- Inventory reduced by US$6.9m to US$147.9m, in tandem with lower revenue.
- DIO remained consistent at 5.1 months.

Outlook, Initiatives & Challenges

Business Outlook

- Weakness in the major economies and currencies of Europe, Japan and Australia with the slowdown in China are likely to persist in 2015.
- Consumer confidence and spending on discretionary and high value goods including sofas and other furniture will remain depressed.
- Input costs particularly raw leather hide prices are expected to moderate but stay at the higher levels.
- Wages at our production plants in China rose by 10% in November 2014 and may rise further in 2015.
- These factors, especially the significantly weaker major sales currencies will exert downward pressure on our profit margins this year.
- In addition, our retail strategy which is in its infancy will take time to bear fruit and is expected to increase the Group's operating costs in 2015.

Our Initiatives and Challenges

- Increase selling prices invoiced in Euro, JPY, AUD and GBP.
- Major restructuring of under-performing overseas trading offices to achieve better cost efficiency.
- Cut factory production capacity in line with uncertain and possibly lower demand.
- Reduce leather usage by diversifying more into fabrics and leather vinyl.
- Broaden our product range, offering complimentary furniture and accessories.
- Expand direct retail and franchise business in China and SEA to achieve better economies of scale, and optimise cost effectiveness.

Thank You
Q&A

