HTL International Holdings Limited

1H 2014 Results Briefing

Raffles Hotel, Singapore

13th August 2014

Agenda

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

Business Conditions

Business Conditions – Macro

- Global economic recovery remained fragile and uncertain.
- Foreign exchange market continued to be volatile. Against the USD, JPY and AUD weakened whilst EURO and RMB strengthened.
- High unemployment in western countries, particularly Europe, persisted.
- These prolonged factors continued to dampen consumer confidence and spending, particularly on high value and discretionary goods including leather sofas.

Business Conditions – Micro (Cont'd)

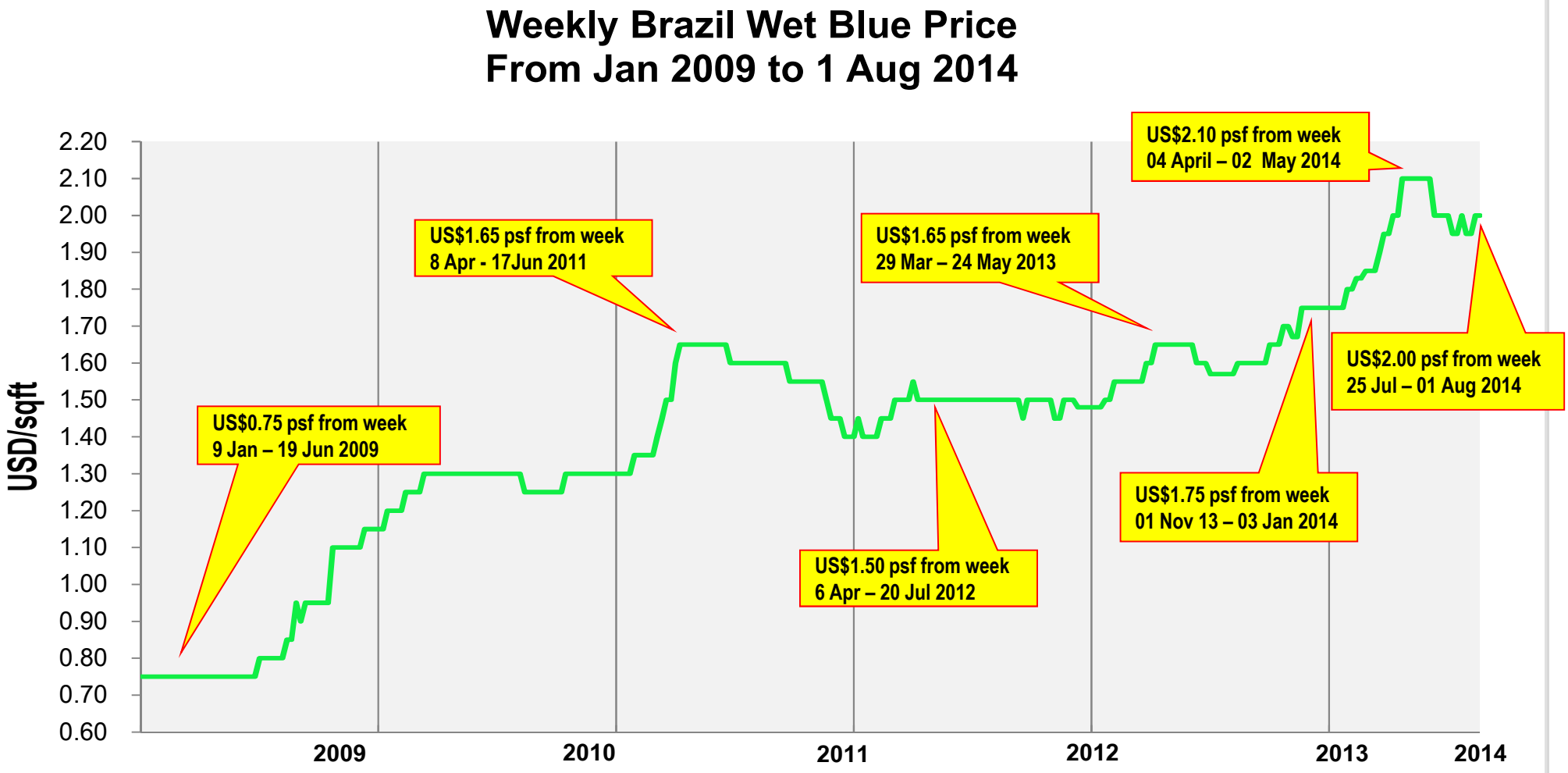
- Raw leather hide prices rose over 32%, to an all-time high.

- Basic wage rate in major cities in China rose by 16% from mid-2013.

  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.

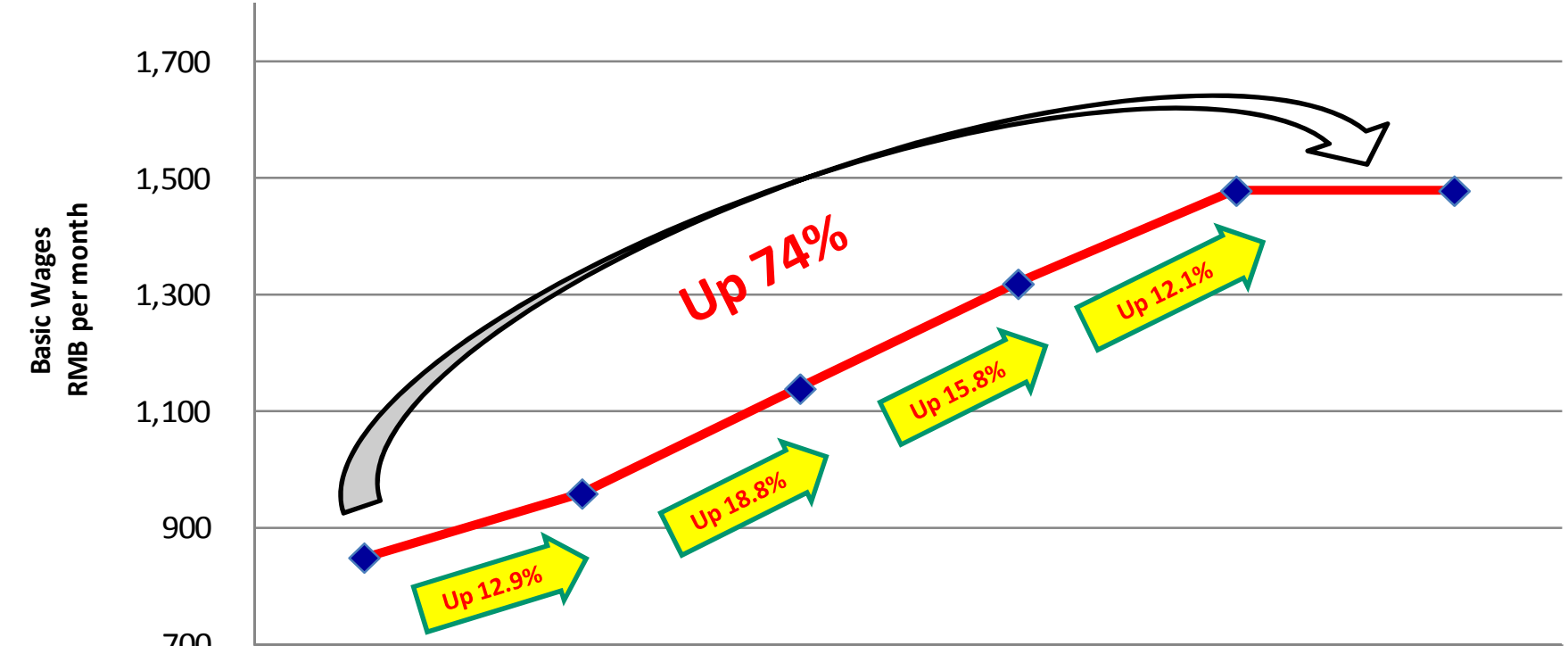
- To address the additional pressure on profit margins, HTL continued to improve on cost and margin management.

Business Conditions – Micro (Cont'd)



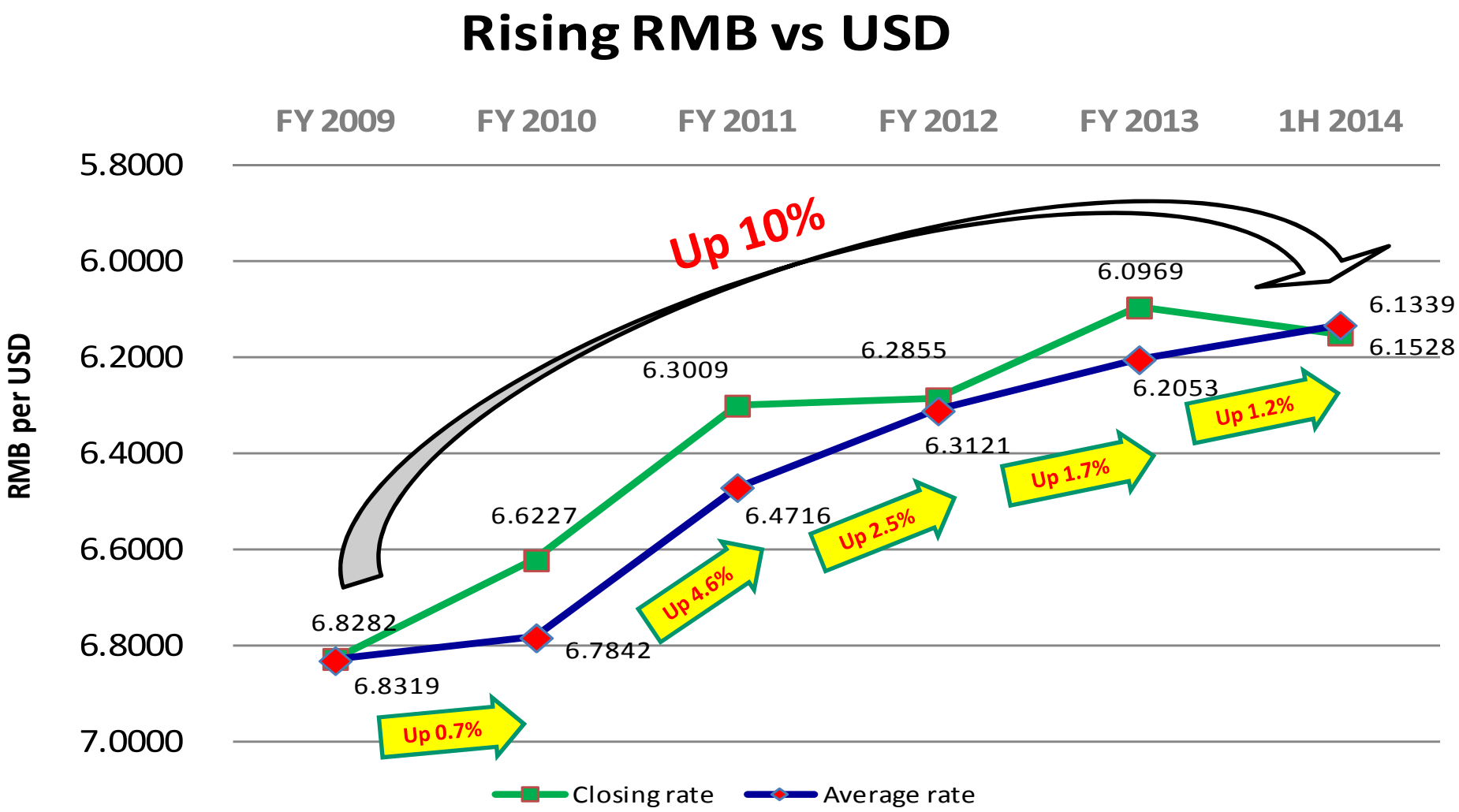
Source: www.hidenet.com

Business Conditions – Micro (Cont'd)



	2009	2010 - Feb	2011 - Feb	2012 - Jul	2013 - Jul	2014 - June
Basic wages - Jiangsu	850	960	1,140	1,320	1,480	1,480

Business Conditions – Micro (Cont'd)



Financial Highlights

Financial Highlights

(US$ million)	1H 2014 (a)	1H 2013 (b)	FY 2013	Changes (%) (a-b)/b
Turnover	265.1	272.2	534.3	↓ (2.6)
EBITDA	18.7	7.6	16.3	↑ 146.1
Operating profit before net forex and tax	6.1	3.4	7.1	↑ 80.7
PAT	10.2	0.2	0.8	↑ 6,534.4
Free Cash Flow	16.3	22.5	57.4	

Financial Highlights (Cont'd)

- **Turnover**

  Turnover fell by 2.6% to US$265.1 million, primarily weighted down by weaker JPY Yen and AUD Dollars against the USD and lower sales in North America. The impact of these were partially offset by higher sales in Asia, stronger Euro against the USD and increase in average selling price.

- **Profitability**

  Despite lower revenue and higher input costs, operating profit before net forex and tax increased by 80.7% to US$6.1m, on the back of selling price increases and lower sales, marketing and administrative expenses following our organisational restructuring and cost-cutting initiatives.

  With a net forex gain of US$7.6m (1H 2013: a net forex loss of US$2.2m), the Group reported a net profit of US$10.2m for 1H 2014, compared to US$0.2m for 1H 2013.

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

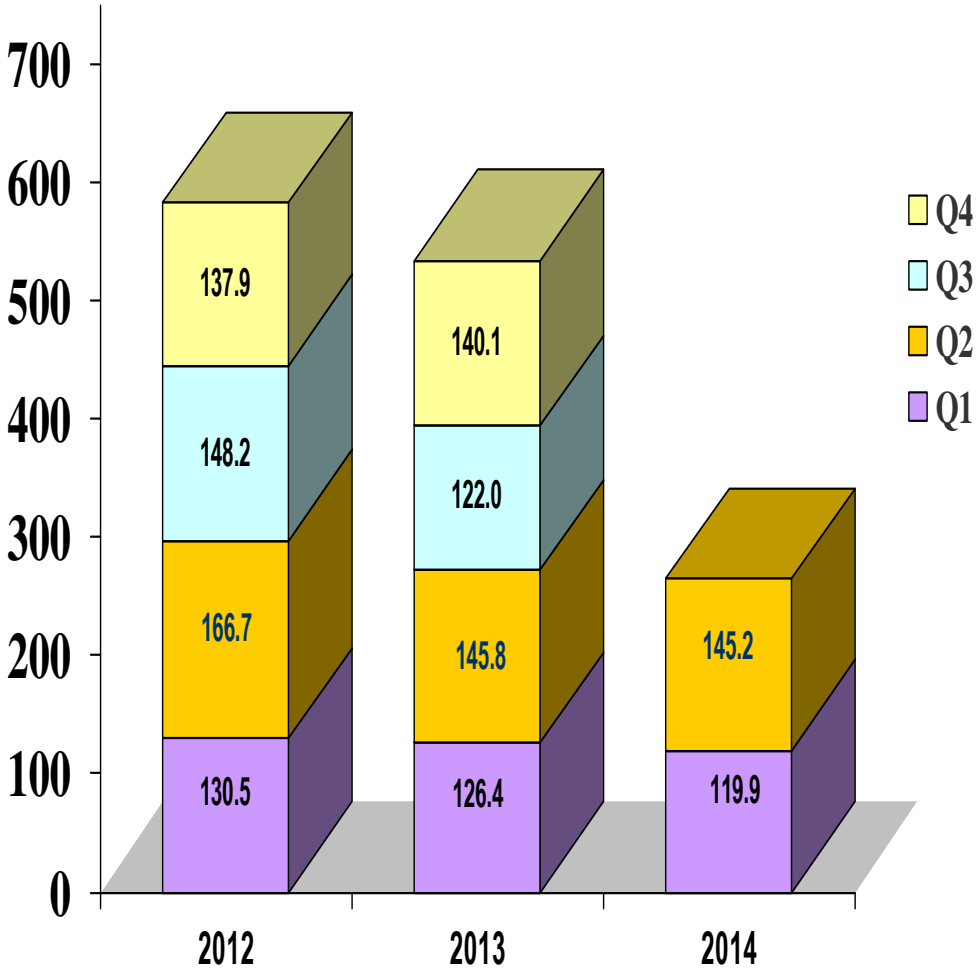
  With higher profitability and further reduction in leather inventory holding, HTL generated US$16.3m of positive FCF in 1H 2014. This was less than the US$22.5m in 1H 2013, mainly due to higher leather procurement activities.

- **Interim Dividend**

  1 Singapore cent per ordinary share, payable in September 2014.

Turnover

(US$ million)

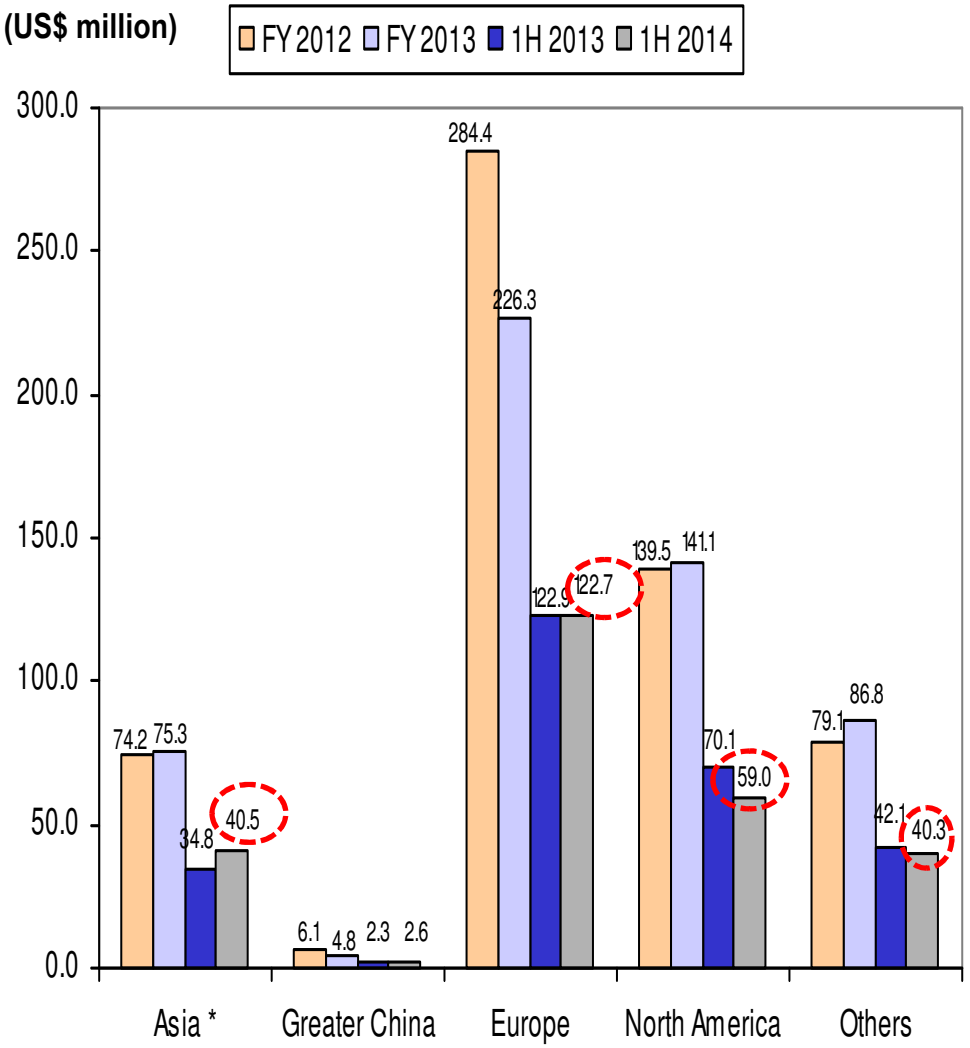


1H 2014 vs 1H 2013

- Turnover decreased marginally by 2.6% to US$265.1m.
- The decrease was primarily due to weaker Japanese Yen and Australian Dollar against USD coupled with lower sales in North America. This was partially offset by increased sales in Asia, selling price increases and stronger Euro against the USD.
- Sofa BU still accounted to 96.0% of Group turnover.

TURNOVER BY KEY MARKETS

(US$ million)



* *Excludes Greater China*

1H 2014 vs 1H 2013

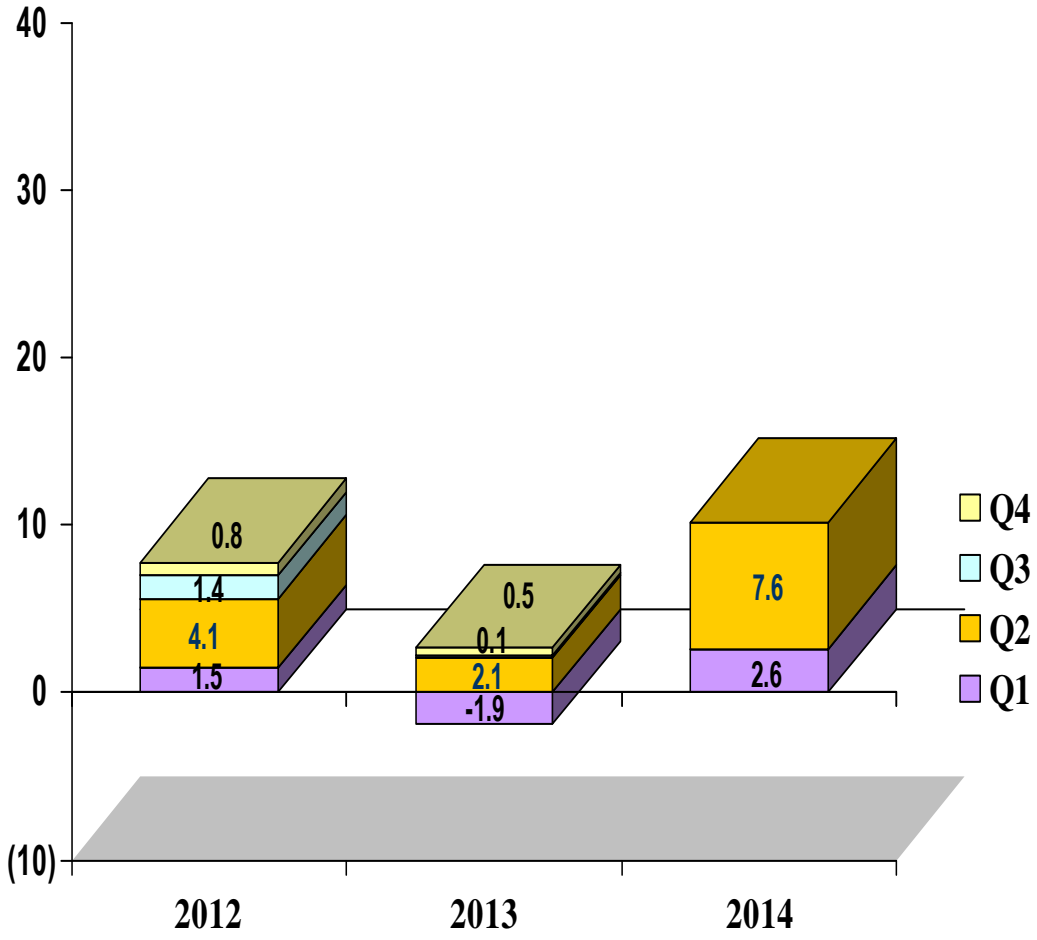
- Sales to North America declined by 15.8% to US$59.0m, predominantly the consequence of continuing effort to focus on margin management.
- Asia (including Greater China) posted 16.1% rise to US$43.1m.
- Turnover from Europe remained stable at US$122m-US$123m level.
- Europe remained HTL's single largest market, contributing 46.3% (1H 2013: 45.2%) to the Group's turnover.

TURNOVER BY NOMINAL CURRENCIES

Major invoicing currency	1H 2014		1H 2013		Growth in source currency 1H 14 vs 1H 13
	In source curr (Million)	Total sales %	In source curr (Million)	Total sales %	
USD	174.0	65.6%	171.5	63.0%	1.5%
EURO	32.3	16.7%	37.9	18.1%	-14.8%
JPY	2,400.0	8.8%	2,116.7	8.4%	13.4%
AUD	12.1	4.2%	16.8	6.4%	-28.0%

Profitability

(US$ million)



- Despite lower revenue and higher input costs, savings from organisational restructuring, cost-cutting initiatives and selling price increases enabled the Group to post higher operating profit before net forex and tax of US$6.1m (1H 2013: US$3.4m).
- With a net forex gain of US$7.6m (1H 2013: net forex loss of US$2.2m), the Group's net profit improved substantially to US$10.2m (1H 2013: US$0.2m).

PERFORMANCE BY KEY BUSINESS UNITS

(US$ million)

	1H 2014 a	1H 2013 b	FY 2013	% (a-b)/b
Turnover				
Sofa*	258.3	266.0	523.9	(2.9)
Leather*	68.1	84.9	166.6	(19.8)
Home Furnishing*	10.9	11.1	22.5	(1.8)
Segment Result				
Sofa	9.3	2.4	9.5	287.5
Leather	0.7	4.1	5.4	(82.9)
Home Furnishing	(2.2)	(0.8)	(3.4)	175.0

Note:

* ***Includes inter segment sales***

FINANCIAL RATIOS

	1H 2014	1H 2013	FY 2013
Return on Assets ("ROA") (%)	3.1	0.04	0.2
Return on Equity ("ROE") (%)	5.6	0.1	0.4
Return on Capital Employed ("ROCE")(%)	8.1	1.8	4.6
Debtors' Turnover ("DSO") (mths)	1.5	1.5	1.5
Inventory Turnover ("DIO") (mths)	4.8	5.6	5.1

(i) ROA , ROE and ROCE increased due to higher net profit in 1H 2014.

(ii) DSO remained constant.

(iii) DIO improved further to 4.8 months from holding lower leather inventory.

LEVERAGE AND LIQUIDITY RATIOS

	Jun-14	Mar-14	Dec-13
Leverage Ratio			
Net Gearing (%)	6.5	14.2	15.6
Liquidity Ratios			
Interest Cover (times)	12.7	6.9	2.4
Current Ratio (times)	1.9	1.7	1.6
Quick Ratio (times)	0.9	0.8	0.8

- Net bank borrowings reduced by US$15.1m from US$27.0m as at 31 Dec 2013 to US$11.9m as at 30 June 2014.
- The reduction was mainly due to higher profitability and improvement in working capital management.
- Consequently, the net gearing improved further from 15.6% to 6.5%.
- Interest cover also improved as a result of higher profitability and lower borrowings.
- Current and quick ratios remained stable.

CASH FLOW STATEMENT

(US$ million)	1H 2014	1H 2013	FY 2013
NET PROFIT AFTER TAX	**10.2**	**0.2**	**0.8**
Add/(Less):			
Depreciation and amortisation	3.8	4.5	8.3
Net fair value (gain)/loss on foreign exchange derivative instruments	(4.1)	(0.2)	0.3
Income taxes paid	(0.8)	(1.9)	(3.7)
Working capital changes	(0.3)	14.3	36.3
Other non-cash items	9.7	8.2	19.6
OPERATING CASH FLOW	**18.5**	**25.1**	**61.6**
Less: CAPEX & Intangible assets	(2.2)	(2.6)	(4.2)
FREE CASH FLOW	**16.3**	**22.5**	**57.4**

1H 2014

- With higher profitability and further reduction in leather inventory holding, the Group generated positive FCF of US$16.3m in 1H 2014.
- This was less than the US$22.5m in 1H 2013, mainly due to higher leather procurement activities in 1H 2014, compared to 1H 2013.

INVENTORY– ANALYSIS BY CATEGORY

(US$ million)

	Jun-14	Dec-13
Raw Materials	65.7	70.1
Work In Progress	17.0	22.6
Finished Goods	63.6	62.1
Total	146.3	154.8
DIO (mths)	4.8	5.1

- Approximately 60% (2013: 70%) of the Group's total raw materials comprise principally raw leather hides.
- Raw materials and WIP fell from further reduction in leather inventory.

Outlook, Initiatives & Challenges

Business Outlook

- Consumer confidence is expected to remain cautious.
- Our major trading currencies, notably the Euro, Japanese Yen, Australian Dollar and Chinese Renminbi will continue to be volatile against the USD, our functional and reporting currency.
- Input costs, particularly raw leather hide prices and wages at our production plants in China, will probably rise further in 2014.
- These factors will put additional pressure on our profit margins.
- The Group expects its operating conditions to remain challenging in the second half of 2014.

Our Initiatives and Challenges

- Continue to focus on optimising cost effectiveness and margin management.
- Diversifying product lines further to use more alternative materials, notably fabric and leather vinyl.
- To better meet consumers' changing needs and buying preferences, we have embarked on broadening our portfolio by offering innovative and complementary products and establishing new distribution channels, particularly in Asia.
- These new investments which are all at the infancy stage will take time to bear fruit and are expected to increase the Group's operating costs and would affect profitability in the second half of 2014.

Thank You
Q&A

