

# **FNG FURTHER ROLLS-OUT ITS GROWTH STRATEGY ONLINE AND OFFLINE**

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**Mechelen, 13 June 2018, 5.40 pm – FNG NV (the “Company” or “FNG”), a strong growing Benelux fashion company listed on Euronext Amsterdam, further rolls out its new concepts online and offline.**

FNG is a fast growing fashion company with activities in mainly in the Benelux, France, Spain and Germany. FNG designs and distributes clothing and shoes for women, children and men through its own concept-stores at top locations in Belgium and the Netherlands and through a network of multi-trademark stores on the domestic markets as well as in foreign countries. FNG’s shares are listed on Euronext Amsterdam. The group has more than 3,000 employees, realizing a turnover of approximately EUR 500,000,000.

The Benelux fashion group has built a strong diversified brand portfolio (“FNG Roots portfolio”) with brands such as Fred & Ginger, CKS, Claudia Sträter, Miss Etam, Espresso, Ginger, Promiss, Baker Bridge, Brantano and Steps.

FNG believes it has a proven track record in buying and (re-)building brands with a strong profile and to underpin their growth with an integrated back office platform with a sharp focus on margin improvement.

In 2016, FNG acquired, next to the FNG Roots Group, the Miss Etam Group and the Brantano Group. End 2016 and 2017, FNG started integrating these acquired assets into the Group. The further envisaged integration process is described in this business update.

FNG believes to be well positioned to benefit from expected growth in the online market, that is expected to grow firmly in both the Netherlands and Belgium. Miss Etam is a leading online single brand retailer and already sells 25% online. FNG has integrated Miss Etam’s years of know-how into a Digital Center of Excellence (DCoE). The DCoE team now guides other FNG brands through their process of rapid online expansion. FNG puts a lot of energy and effort in knowing its customer and managing “big data” by Artificial Intelligence (AI), which results in a better, more relevant and more personal service to the customer.

The combination of bricks and clicks make it possible for FNG to offer solutions to customer whether they prefer to shop in an actual store or online. The coming years FNG will focus on an omni-channel strategy with the roll-out of concept stores, like Brantano Boutik en Brantano Market, in combination with a state-of-the art online platform, both with a local focus, able to compete with international pure players.

With this business update, FNG provides further insight into its medium-to-long term strategy. It should be stressed that the Group in its current form only exists since 2016. As the financial prospects of FNG depend on the prospects of each business unit, they are presented per business unit. This is done by indicating the possible sales, gross profit and OpEx drivers in the medium-to-long term. The required estimated investments are also indicated. The figures presented in this Section concern the ‘full-year comparable’ figures.

# THE BRANTANO GROUP

## KEY FIGURES

### P&L

	<u>2016</u>	<u>2017</u>
<b>Revenue</b>	<b>123,4</b>	<b>126,0</b>
Gross Profit	61,9	62,0
<i>As a % of sales</i>	<i>50,2%</i>	<i>49,3%</i>
Opex	-57,4	-55,1
<b>Adjusted EBITDA</b>	<b>4,5</b>	<b>6,9</b>
<i>As a % of sales</i>	<i>3,6%</i>	<i>5,5%</i>
Depreciations	-3,5	-7,7
<b>EBIT</b>	<b>1,0</b>	<b>-0,8</b>
<i>As a % of sales</i>	<i>0,8%</i>	<i>-0,7%</i>

### SALES MIX

	<u>Total</u>			<u>offline</u>			<u>2017</u>
	<u>2016</u>	<u>2017</u>	<u>var</u>	<u>2016</u>	<u>2016</u>	<u>var</u>	
Brantano	123,4	126,0	2,1%	122,0	124,4	2,0%	1,3

## SALES DRIVERS

### OPENING OF STORES

At the end of 2017, the Brantano Group consisted of 119 stores:

- Brantano Klassik: 104o
- Brantano Boutik: 0
- Brantano Market: 0
- Concept Fashion: 15

Based on a white space analysis , the following store openings could be envisaged in the medium -to- long term:

- Brantano Klassik: 10
- Brantano Boutik: 45 (15 by remodeling Concept Fashion shops)
- Brantano Market: 20

### REMODELING OF STORES

At the end of 2017, 55 of the 104 Brantano Klassik stores had been remodeled. At the end of February 2018, 75 had been remodeled. It is expected that the remaining Brantano Klassik stores will be remodeled in the coming years.

The average sales of a remodeled store typically grew by 22%, 4% from shoe sales and the remainder from fashion.

## **INCREASE OF SALES PER M<sup>2</sup> THROUGH THE ADDITION OF PRODUCT GROUPS (AFTER REMODELING)**

### **Addition of fashion**

Once a Brantano Klassik store is remodeled, a significant part of the store is reserved for fashion. Sales from fashion rise as the number of remodeled stores increases. In 2016, 0.9% of total offline sales and 0.0% of online sales were from fashion. In 2017, these figures were 9.0% of total offline sales and 5.8% of total online sales. The envisaged medium-to-long term goal is to have fashion account for 20% of sales.

### **Online reservations (web to store)**

Currently, 10% of total offline sales are attributable to products reserved online but purchased offline. It is expected that adding the possibility to reserve the Brantano Boutik collection in Brantano Klassik stores and vice versa will lead to additional sales.

### **Styling sessions**

Based on the Suitcase experience, styling sessions will be organized at Brantano stores as well. This is expected to result in additional sales.

## **INCREASE IN ONLINE SALES (WEB TO HOME)**

### **Own web shop**

Online sales of Brantano (exclusive online reservations or web-to-store sales) are currently very limited (EUR 1.6 million). This is due to underinvestment in the e-commerce platform and a lack of know-how at Brantano.

However, as Brantano migrated to a new state-of-the-art online platform in March 2018, the FNG center of excellence department is focusing on Brantano as well. Given that Brantano's online range will be extended by adding the full Brantano Boutik collection as well as online-only items, it is expected that online sales of Brantano will increase significantly.

### **Suitcase**

In 2017, Suitcase realized turnover of EUR 0.8 million via its web shop. A significant increase in online sales is expected to occur in the future due to the center of excellence know-how, additional marketing efforts and improved inventory levels.

### **Alliances**

Currently, Brantano has no sales via alliances such as Wehkamp, Zalando, etc. Based on the Miss Etam experience, Brantano is also starting to work with alliances, but only for its own label products and exclusive products.

# GROSS PROFIT MARGIN DRIVERS

The gross profit margin is expected to grow due to a projected increase in the intake margin and lower markdowns.

## INTAKE MARGIN

The intake margin is expected to grow as a result of economies of scale realized through purchasing via the buying platform and higher purchase volumes due to an expected increase in the number of stores and higher online sales. This effect will be negatively influenced, however, by the fact that external brands (Brantano Boutik collection), which have a lower intake margin than internal brands, are expected to account for a greater share of total purchases. The intake margin is expected to grow as a result of economies of scale realized through purchasing via the buying platform and higher purchase volumes due to an expected increase in the number of stores and higher online sales. This effect will be negatively influenced, however, by the fact that external brands (Brantano Boutik collection), which have a lower intake margin than internal brands, are expected to account for a greater share of total purchases.

## MARKDOWNS

Markdowns (reductions in the sales price) are expected to drop as 2017 was influenced by one-off markdowns in the weeks before a store was remodeled. In addition, recurring markdowns are expected to decrease due to one-to-one marketing efforts rather than mass marketing, sharing of the FNG center of excellence merchandising know-how, and a centralized outlet approach.

# OPEX DRIVERS

In 2017, OpEx dropped to a significantly lower level than in 2016. This was the result of a restructuring in 2016-2017 (fewer stores and transfer of the head office). There is no significant increase in head office or logistics costs expected in the near future as:

- it is the intention to maximize synergies with FNG, whereby FNG will act as a center of excellence and only operational costs will be incurred at the Brantano level;- it is the intention to maximize synergies with FNG, whereby FNG will act as a center of excellence and only operational costs will be incurred at the Brantano level;
- the Brantano Boutik and Brantano Market concepts will be run via the existing Brantano distribution enter and many head office tasks will be shared with Brantano Klassik.

Marketing expenses are expected to grow as the new concept has to be marketed. Costs will also increase as a result of the opening of additional stores and a rise in online sales.

# CAPEX DRIVERS

Maintenance capex is estimated at EUR 1 million per year. The average capex for a new store depends on which type of Brantano store it is: Maintenance capex is estimated at EUR 1 million per year. The average capex for a new store depends on which type of Brantano store it is:

- Brantano Klassik store: EUR 475,000-
- Brantano Boutik store: EUR 562,000-
- Brantano Market store: EUR 1,000,000

A full remodeling of a store is, in terms of capex, equal to opening a new store. For a light remodeling (after 3 to 4 years), capex is approximately 25% of that of a new store. To be able to stay first in class

in terms of ICT and e-commerce, average annual capex of EUR 2.5 million is required (in addition to the ICT investments made by FNG Roots for the group).

# THE MISS ETAM GROUP

## KEY FIGURES

### P&L

	<u>2016</u>	<u>2017</u>
<b>Revenue</b>	<b>98,7</b>	<b>101,9</b>
Gross Profit	55,5	61,4
<i>As a % of sales</i>	<i>56,2%</i>	<i>60,3%</i>
Opex	-52,6	-57,0
<b>Adjusted EBITDA</b>	<b>2,9</b>	<b>4,5</b>
<i>As a % of sales</i>	<i>2,9%</i>	<i>4,4%</i>
Depreciations	-1,6	-2,2
<b>EBIT</b>	<b>1,3</b>	<b>2,3</b>
<i>As a % of sales</i>	<i>1,3%</i>	<i>2,2%</i>

### SALES MIX

	<u>Total</u>			<u>offline</u>			<u>online</u>		
	<u>2016</u>	<u>2017</u>	<u>var</u>	<u>2016</u>	<u>2017</u>	<u>var</u>	<u>2016</u>	<u>2017</u>	
Miss Etam	98,7	101,9	3,2%	75,8	76,7	1,2%	22,9	25,2	1

## SALES DRIVERS

### OPENING OF STORES- OPENING OF STORES

At the end of 2017, the Miss Etam business unit had 105 stores. Based on a white space analysis, an additional 20 store openings can be expected in the medium-to-long term.

### REMODELING OF STORES

At the end of 2017, a test was done in four of the 105 Miss Etam stores by remodeling them. As the results were very satisfactory (+6.3%), it is expected that the remaining Miss Etam stores will be remodeled in the coming years.

## **INCREASE IN SALES PER M<sup>2</sup> THROUGH THE ADDITION OF PRODUCT GROUPS**

### **Addition of shoes**

Currently, Miss Etam does not sell shoes. It is the intention for the remodeled Miss Etam stores to offer a limited selection of shoes on the shop floor. In addition, it will be possible to reserve shoes online for purchase in the shop. The medium-to-long term goal is for 5% of total offline sales to be from shoes.

### **Styling sessions**

Based on the Suitcase experience, styling sessions will be organized at Miss Etam stores as well. This should result in additional sales.

## **INCREASE IN ONLINE SALES (WEB TO HOME)**

### **Own web shop**

Online sales of Miss Etam currently already account for a relatively high percentage of total sales (24.7%). This is due to the very good e-commerce know-how at Miss Etam. A major part of expected online growth should come from adding shoes to the online product range. It is expected that shoes could account for 20% of total online sales. It is not expected that fashion sales will increase significantly. In addition, Miss Etam will migrate to a new state-of-the-art online platform in 2018. This will give access to additional functionalities, which are expected to lead to a rise in sales.

### **Alliances**

Miss Etam already has growing sales via alliances such as Wehkamp, Zalando, etc. Miss Etam still sees opportunities for growth via alliances. Most growth via alliances is expected to come from the extension of the online collection through the addition of shoes.

## **GROSS PROFIT MARGIN DRIVERS**

The gross profit margin increased significantly in 2017 due to use of the FNG buying platform. The lion's share of the positive effect on the intake margin, resulting from economies of scale, has therefore already been realized. Further increase in the gross profit margin are possible in the event of a small increase in the intake margin and better markdown management. The gross profit margin increased significantly in 2017 due to use of the FNG buying platform. The lion's share of the positive effect on the intake margin, resulting from economies of scale, has therefore already been realized. Further increase in the gross profit margin are possible in the event of a small increase in the intake margin and better markdown management.

### **INTAKE MARGIN**

The intake margin could grow in the event of economies of scale realized through purchasing via the buying platform and an increase in purchase volumes due to an expected higher number of stores and more online sales.

### **MARKDOWNS**

In the event of one-to-one marketing efforts rather than mass marketing, sharing of the FNG center of excellence know-how on merchandising, and a centralized outlet approach, markdowns (reductions in the sales price) could decrease.

## **OPEX DRIVERS**

As Miss Etam's OpEx as a percentage of sales is the highest within the Group, an action plan has been prepared with the medium-to-long term target to drive costs down by a total of 5%. This decrease in costs could be achieved through sharing the (fixed) costs of the distribution center with the FNG Roots companies and maximizing synergies with FNG, whereby FNG will act as a center of excellence and only operational costs will have to be incurred at the level of Miss Etam. Marketing costs are expected to grow as the new concept has to be marketed. Costs are also expected to increase as a result of the opening of additional stores and more online sales.

## CAPEX DRIVERS

Maintenance capex is estimated at EUR 0.5 million per year. The average capex for a new store is EUR 300,000. Remodeling of a store is estimated at EUR 125,000 per store. For light remodeling (after 3 to 4 years), the capex is approximately 25% of that of a new store. To be able to stay first in class in term of ICT and e-commerce, average annual capex of EUR 1.5 million is required (in addition to the ICT investments made by FNG Roots for the group).

# THE FNG ROOTS GROUP

## KEY FIGURES

### P&L

	<u>2016</u>	<u>2017</u>
<b>Revenue</b>	<b>237,8</b>	<b>254,5</b>
Gross Profit	128,9	143,6
<i>As a % of sales</i>	<i>54,2%</i>	<i>56,4%</i>
Opex	-98,7	-109,6
<b>Adjusted EBITDA</b>	<b>30,2</b>	<b>34,0</b>
<i>As a % of sales</i>	<i>12,7%</i>	<i>13,4%</i>
Depreciations	-23,6	-8,9
<b>EBIT</b>	<b>6,6</b>	<b>25,2</b>
<i>As a % of sales</i>	<i>2,8%</i>	<i>9,9%</i>

### SALES MIX

	<u>Total</u>			<u>offline</u>			<u>online</u>	
	<u>2016</u>	<u>2017</u>	<u>var</u>	<u>2016</u>	<u>2017</u>	<u>var</u>	<u>2016</u>	<u>2017</u>
FNG Roots	237,8	254,5	6,8%	218,4	222,5	1,9%	19,4	32,0

# SALES DRIVERS

## **OPENING OF STORES**

At the end of 2017, the FNG Roots business unit had 294 stores. Based on a white space analysis, an additional 25 store openings can be expected in the medium-to-long term.

## **INCREASE OF SALES PER M<sup>2</sup> THROUGH THE ADDITION OF PRODUCT GROUPS**

### **Addition of product groups**

The FNG Roots business unit is testing which product groups can add to its sales per m<sup>2</sup>. Men's clothing, bags, pyjamas and home wear are some of the product groups being tested. In addition it is also testing the possibility of grouping more than one brand in a single store. Currently, FNG Roots stores are mono-brand, but grouping two or more brands in a single store could lead to an increase in sales per m<sup>2</sup>.

### **Styling sessions**

Based on the Suitcase experience, styling sessions will be organized at FNG Roots stores as well. This is expected to result in additional sales.

## **INCREASE IN WHOLESALE**

As FNG Roots is a core supplier of Brantano, the possible growth in sales by the latter could also be expected to have a positive impact on it. To increase wholesale, it is the intention to launch additional collections and to explore worldwide sales opportunities.

## **INCREASE IN ONLINE SALES (WEB TO HOME)**

### **Own web shop**

A major part of the expected growth via the own web shop could come from the center of excellence know-how (from Miss Etam) and the migration to a new state-of-the-art online platform in the course of 2018. The extension of the collection through the addition of product groups could also be expected to result in an increase in online sales.

### **Alliances**

FNG Roots has only recently started working with alliances and still sees opportunities for growth via alliances with the existing collection and other product groups.

# GROSS PROFIT MARGIN DRIVERS

An increase in the gross profit margin due to an increase in the intake margin and better markdown management could be expected.

## **INTAKE MARGIN**

The intake margin is expected to grow as a result of economies of scale realized through purchasing via the buying platform and an increase in purchase volumes further to an expected higher number of stores and more online sales for the entire Group.

## **MARKDOWNS**

One-to-one marketing instead of mass marketing, sharing of the FNG center of excellence know-how on merchandising, and a centralized outlet approach could lead to a decrease of markdowns (reductions in the sales prices).

## OPEX DRIVERS

The OpEx of FNG Roots is expected to stay relatively stable as a percentage of sales. This should be achieved through maximizing synergies with FNG (e.g. a single distribution center for Miss Etam and FNG Roots companies). Costs are not expected to decrease as a whole as FNG will act as a center of excellence. All strategic costs and investments will be made at the FNG Roots level. Costs could also be expected to increase as a result of the opening of additional stores and the growth in online sales.

## CAPEX DRIVERS

Maintenance capex is estimated at EUR 1.5 million per year. The average capex for a new store is EUR 200,000. Light remodeling of stores is included in the maintenance capex and therefore should not be accounted for separately. To be able to stay first in class in terms of ICT and e-commerce, average annual capex of EUR 7.5 million is required in 2018 and approximately EUR 5 million per year thereafter. This includes the ICT investments FNG Roots is making, which shall benefit Miss Etam and Brantano as well.