

Future Lifestyle Fashions Investor update

March, 2020



Disclaimer

This report contains forward-looking statements, which may be identified by their use of words like 'plans', 'expects', 'will', 'anticipates', 'believes', 'intends', 'projects', 'estimates', or other words of similar meaning. All statements that address expectations or projections about the future, including but not limited to statements about the Company's strategy for growth, product development, market position, expenditures, and financial results are forward-looking statements. Forward-looking statements are based on certain assumptions and expectations of future events. The Company cannot guarantee that these assumptions and expectations are accurate or will be realized. The Company's actual results, performance or achievements could thus differ materially from those projected in any such forward looking statements. The Company assumes no responsibility to publicly amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events.



Index

1. Blackstone Investment	04
2. Update on strategic planks	06
3. EPS accretion	10
4. Performance, fundraise & utilization in last few years	12
5. Coronavirus Impact	17



Blackstone Investment

VIEW MORE



Funds managed by Blackstone have invested ₹1,750cr in September, 2019

About Blackstone: Blackstone is one of the world's leading investment firms. It seeks to create positive economic impact and long-term value for its investors, the companies in which it invests, and the communities in which it works. They do this by using extraordinary people and flexible capital to help companies solve problems. Our businesses, with \$545 billion in assets under management, include investment vehicles focused on private equity, real estate, public debt and equity, non-investment grade credit, real assets and secondary funds, all on a global basis

6 % equity via secondary
block deal from promoters

Benefit from Blackstone's
portfolio operations team
to create value in FLF
business. Harish Manwani
to act as Advisor.
Blackstone also has one
board seat in FLF

Transaction includes
another Rs. 1,100 cr. at
the holding company
(Ryka)

- Subsequent to Blackstone transaction pledge of FLF stock is reduced to 18% of promoter holding.
- Investment has been utilized to retire/pre-retire all existing financial obligations of Ryka, consolidating FLFL's encumbrances with one long term active investor with no on going servicing requirements
- To fully align with promoter group, Blackstone has ringfenced promoter holding from further dilution .
- As per the new SEBI disclosure regulations, even such a restriction is considered an encumbrance. Hence, the reported pledge is largely on account of restriction on Promoter to sell and not a hard pledge.



Update on Strategic Planks

VIEW MORE



Core business – Central and Brands

- Overall base business has grown by 12%, with Central's sales growth at 12% and Brand Factory's sales growth at 16% in 9M FY20
- Central achieved EBITDA margin of 10.6% in 9M FY20
- Decision finalized to rationalize brands - Lombard and two other sub brands. To be in effect from Q4 FY20

Core Business – Brand Factory

- Brand Factory physical achieved EBITDA margin of 7.5% in 9M FY20
- EBITDA margin expanded by ~30 bps in Q3 despite of lower revenue growth
- Brand Factory online moving steadily towards ramping up digital business with sales of ~ Rs. 9 cr. in Q3.
- Further strengthening of partnerships with third party brands is expected to aid Brand Factory in improving ASPs and deliver steady state SSG

Cost leadership

- ~Rs. 10 cr saving in People cost aligned with formats and HR. The full benefit of the savings to get realized from Q1 FY21
- ~Rs. 10 cr saving in Store operations and overheads aligned with format CEOs and CFOs. The full benefit of the savings to get realized from Q1 FY21
- Sourcing and supply chain is being renegotiated, should translate into savings of Rs. 12-15 cr.
- ~Rs. 15 cr. saving expected from closing of loss making stores

Balance Sheet Strengthening

- Net debt to EBITDA* ratio 1.4
- Debt to Equity ratio 0.5
- Net working capital at 45 days

Capital allocation

- 7 lac pieces of own brand inventory reduced since March '19, the focus is on secondary sales.
- Driven by the external environment, Brand Factory store opening recalibrated to 18 stores. Same to be reviewed on an ongoing basis for any revision
- Closure notice sent for 4 loss-making Brand Factory stores and 2 Central stores. All the stores are of older vintage, 4+ years

Organization design update

- Mr. Kishore Biyani has stepped down from the role of MD, he has been re-designated as Non-Executive Vice-Chairman of the Company by the board. Professional search firm has been appointed to identify candidate for MD position. Overall timeline to complete the process is 3-4 months

Shareholder value creation

- Zero sourcing from FEL effective Jan '20. Overall RPT % of sales to come down to 9% from the current 19%
- Continuing RPT transactions have been validated by big 4 audit firm for arm's length principle
- Funding requirements in the process of getting tied up to simplify all sub-structures below FLF.
- Post the above transactions, the subsidiaries will be 100% owned by FLF, with no minority dilution and better governance structure
- Core businesses are cash flow positive and doesn't require any fund raise for growth and expansion



EPS Accretion

[VIEW MORE](#) 

Particulars	Existing subsidiary structure		
	FY19	FY19	Comment
PAT	189	189	
Less: Dividend to minority shareholder in FSRL (Lee Cooper)	-25	-	Fixed dividend under Ind AS 116 is treated as interest.
Total outstanding shares (# cr.)	20	22	New shares issuance – IFC and Promoters
EPS (Rs.)	8.1	8.8	Expected an increase in EPS by Rs. 0.70*

Potential cash flow saving of ~Rs. 25 cr.

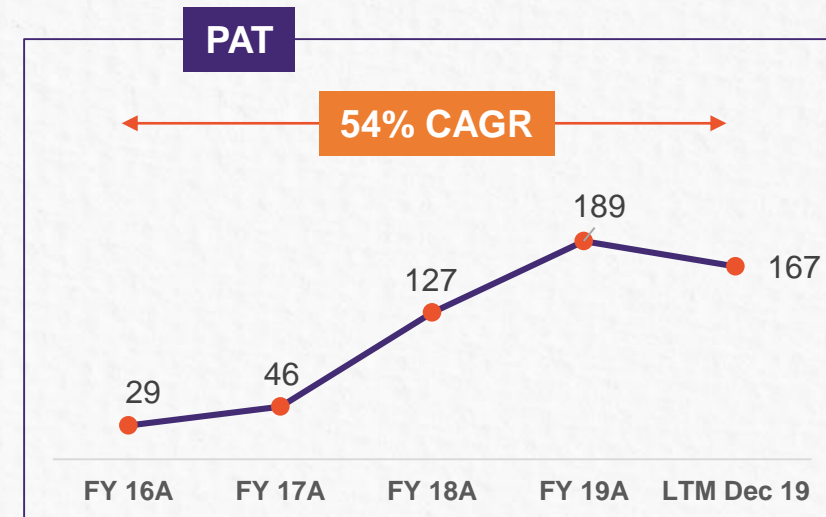
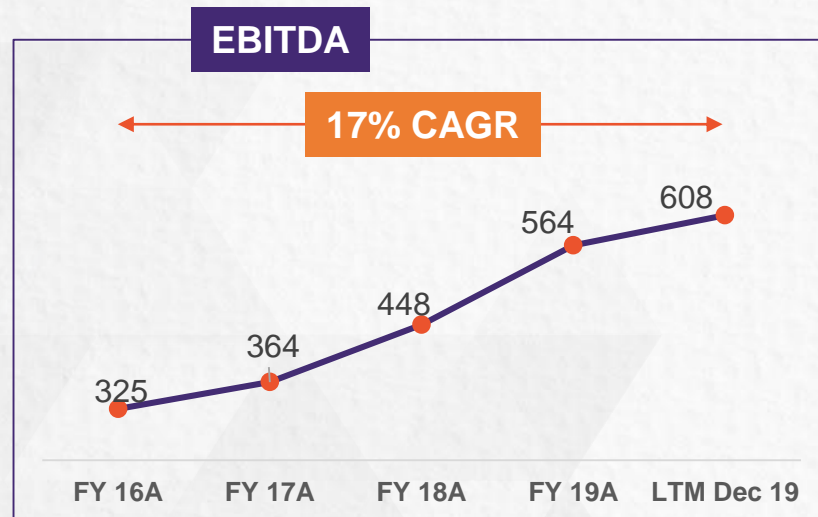
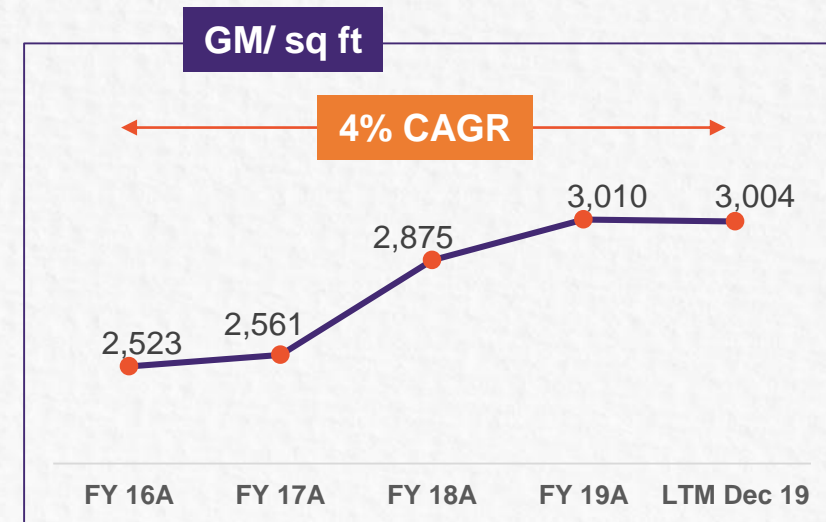
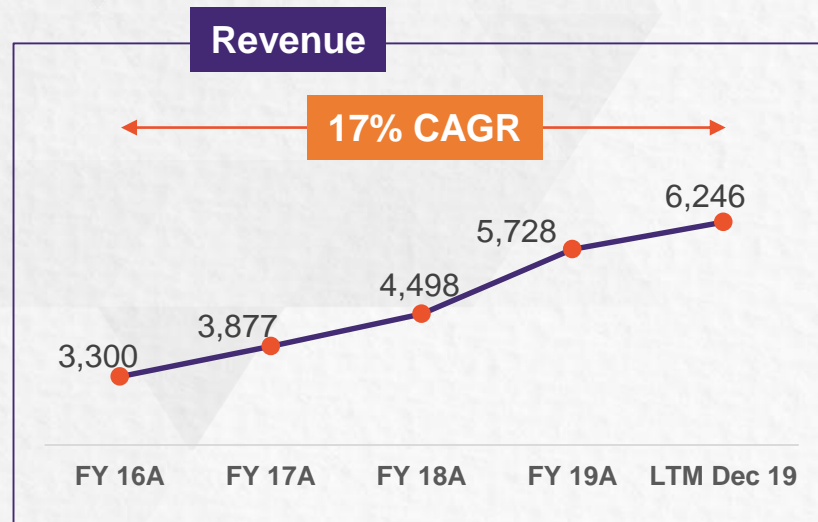


Journey

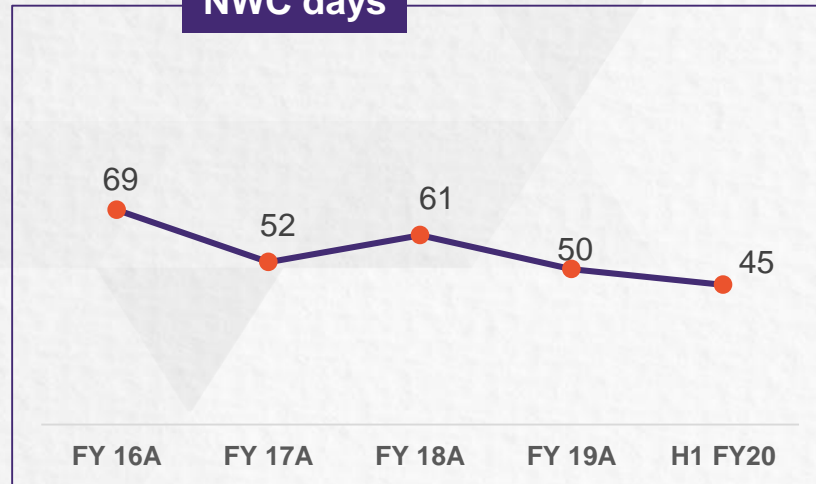
Performance, Fund raise and utilisation in last few years

VIEW MORE

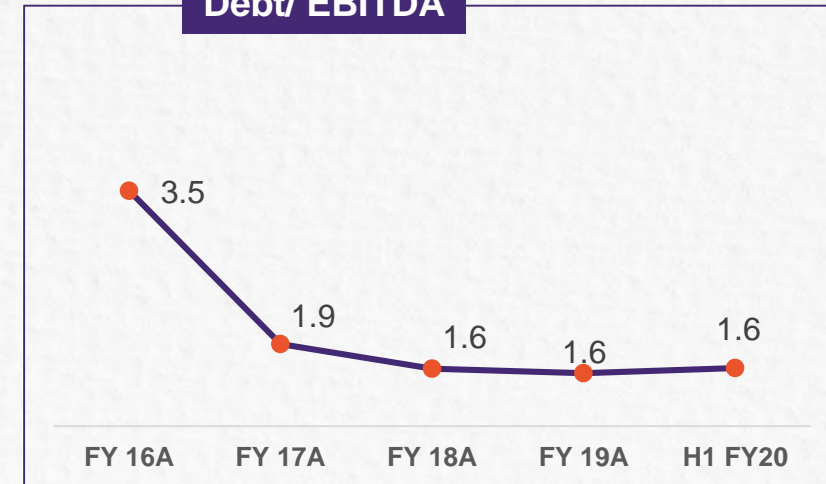




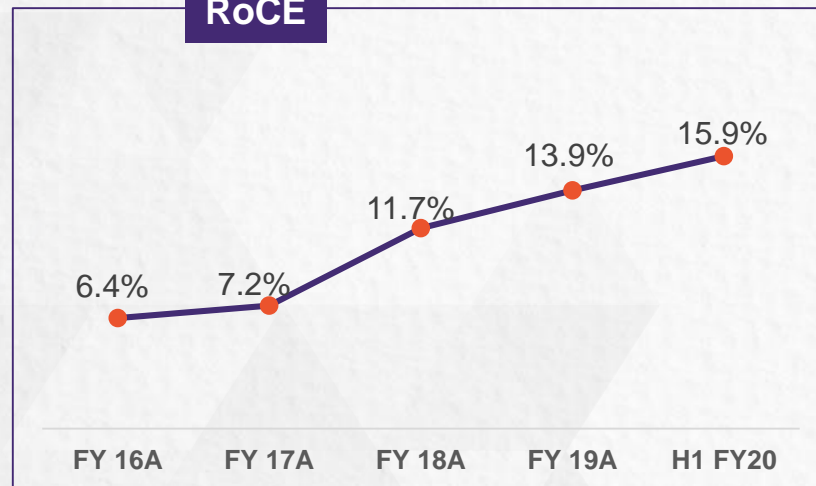
NWC days



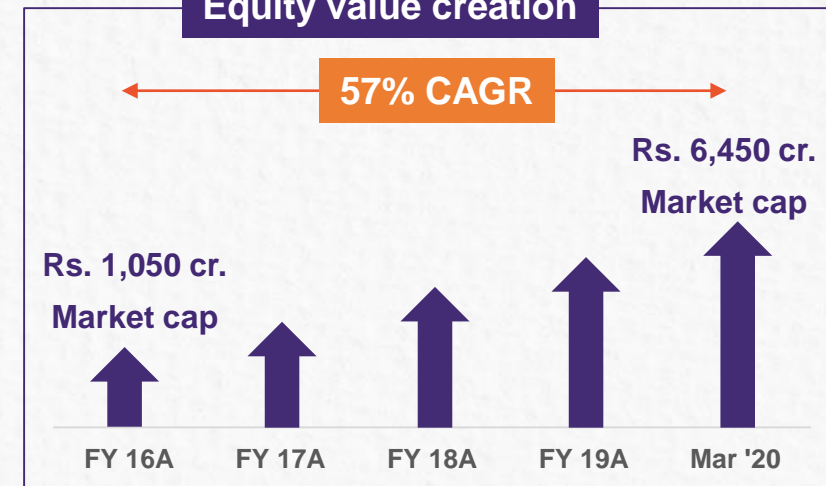
Debt/ EBITDA



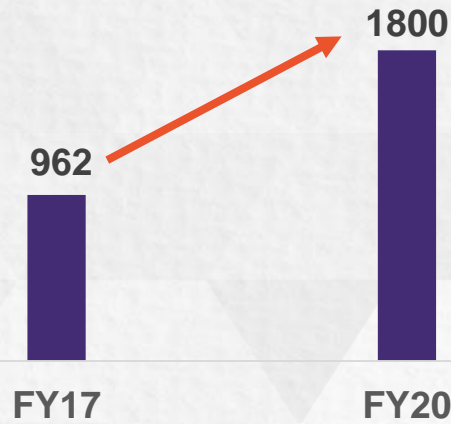
RoCE



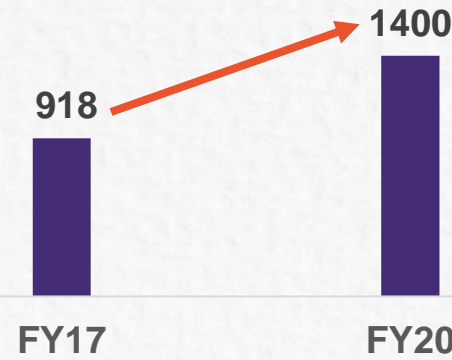
Equity value creation



- ❖ FLF has raised Rs 470 cr. from L Catterton(FY 2019) and Apollo(FY 2020) subscribed at price range of Rs 435 – Rs 460 levels
- ❖ In FY 20 amidst tough macro market conditions, FLF board has approved* fund raise of Rs 600 cr. from IFC and promoters at Rs 414 per share
- ❖ The primary proceeds have been utilized mainly to acquire stake from minority shareholders in subsidiaries (FSRL completed, FLBL under discussion), investment into high growth brands like Clarks, Cover Story and investment into online initiatives
- ❖ In the last 3 years significant value creation has accrued in Lee Cooper and Investee brands
 - ❖ Lee Cooper valuation has increased from Rs. 962 cr. in FY17 to Rs. 1,800 cr. in FY20
 - ❖ Investee brands valuation has increased from Rs. 918 cr. in FY17 to Rs. 1,400 cr. in FY20
- ❖ By executing the buy back in Lee Cooper, FLF has bought back the stake at about Rs 375 cr., leading a value accrual of Rs 95 cr. basis valuation by a big 4 audit firm
- ❖ FLF was OCF positive in FY18 and FY19 and FCF positive in FY19 after core capex.



**FSRL
valuation**



**FLBL
valuation**

- In FY17, 26% equivalent CCPs were issued to minority shareholders for Rs. 250 cr, resulting in EV of Rs. 962 cr. (Valuation by a big 4 audit firm)
- In FY20, as per the latest valuation report by a big 4 audit firm, FSRL is valued at Rs. 1,800 cr.
- While the 26% value is Rs. 470 cr, we have bought back the stake at Rs. 375 cr.

- In FY17, Rs. 450 cr was raised as part stake sale in investee brands, basis EV of Rs. 918 cr. (Valuation by a big 4 audit firm)
- In FY20, FLBL is valued at Rs. 1,400 cr.
- As per the latest valuation report by a big 4 audit firm, FLBL was valued at Rs. 1,200 cr as on March 19

- ❖ In 2017, FLF unlocked value by entering into a step down structure with minority shareholders for Lee Cooper and Investee Brands respectively.
- ❖ This had helped the FLF to reduce the debt and lead to stock re rate
- ❖ Minority shareholder's 26% stake in FSRL (Lee Cooper) has been bought back by FLFL
- ❖ FLF, currently has few options to evaluate for potential stake buy back in Investee brands
- ❖ A combination of buying back of stake in FSRL and FLBL will lead to
 - ❖ Earnings accretion for FLF
 - ❖ Simplified corporate structure
 - ❖ Lighter Balance Sheet



Coronavirus Impact

VIEW MORE



COVID -19

First case reported on 7th Jan in Wuhan - China, since then the virus has spreaded to 60 countries with total 92, 000+ confirmed cases as on 3rd March, 2020

Global challenges and concerns

- China's GDP is expected to decelerate by 1-1.25 percentage point over 2020
- Supply chain disruption while shipping rates have already fallen to record lows. Impact on Oil demand as well (already fallen by 30%)
- China is the world's largest exporter and second largest importing nation, accounting for 13% of world exports and 11% of world imports. The lockdown affecting 500 million people in the country will deeply impact its consumption of goods.

Impact on India

- Extremely high import dependence on China has significant ramifications for Indian industry. Some of the sectors impacted / are likely to be impacted by coronavirus in China include shipping, pharmaceuticals, automobiles, mobiles, electronics, etc.,
- Capital market has seen significant wealth erosion due to low investor confidence expecting adverse impact of the virus

Impact on FLF

- Minimal sourcing from China and neighboring countries
- Mitigation plans are in line to ringfence any adverse impact

Particulars	Apparel	Footwear	Total
Domestic	96%	65%	92%
China	0%	15%	2%
Other countries	4%	20%	6%
Total	100%	100%	100%

- **Exposure on sourcing is only limited to ~ 2%, which is immaterial to impact the business.**



Namaste !