

FRENCH CONNECTION GROUP PLC

Preliminary Results for the year ended 31 January 2021

Year significantly impacted by COVID-19 pandemic but now moving in the right direction once again

French Connection Group PLC ("French Connection" or "the Group") today announces results for its financial year ended 31 January 2021.

Highlights:

- Group revenue of £71.5m (2020: £119.9m), down 40.4% with the COVID-19 pandemic causing store closures and reduced demand from wholesale customers
- Underlying loss of £(11.7)m (2020: £(2.9)m), driven by the significant decline in sales, additional one-off stock provisions, offset by cost reductions across all areas
- Wholesale revenues were £49.0m (2020: £73.2m), down 33.1%, with customers particularly impacted during the first national lockdown, however UK online customers performed strongly in second half
- Retail revenues were £22.5m, down 51.8% (2020: £46.7m), due to the store closures during the three national lockdowns and footfall being impacted by restrictions at other times, although within this, online sales were up 7.1% driven by Homeware and casual clothing
- Gross margins were impacted by both the loss of the full price selling periods during national lockdowns and higher levels of residual stock at the period end
- A strong focus on cost reduction achieved savings across all areas of the business including rent re-negotiations with landlords, business rates relief, use of the furlough scheme and headcount reductions
- Closing net debt of £1.3m (2020 net funds: £8.1m)

Commenting on the results, Stephen Marks, Chairman and Chief Executive said:

"Our key focus for the year has been to navigate our way through the difficult challenges we have faced as a result of the COVID-19 pandemic.

Initially we worked with our key stakeholders to stabilise the business and secure new financing. Trading had been broadly in line with our expectations at the time of the financing but we were then hit by the second and third national lockdowns in the UK. Given the new financing, together with the actions being taken to optimise sales, tightly manage costs and preserve cash, we are confident that the Group is well positioned to navigate any further period of uncertain consumer demand.

Our staff have had to work remotely for long periods of time and considerable numbers have been on furlough. I thank them all for their efforts and patience during these trying times.

Looking ahead I am pleased that the wholesale business in both the UK and USA has bounced back for the Summer and Winter seasons, even with the continued uncertainty and lockdowns. E-commerce sales are growing with the Summer collection selling very well.

With stores having predominantly re-opened in the UK, we are seeing a much better sales performance than we experienced at the end of the first national lockdown although it will take time to see how quickly things develop over the coming months, in our own stores but also for our wholesale customers. Overall though I feel that we are definitely moving in the right direction once again."

Enquiries:	Neil Williams Lee Williams	French Connection	+44 (0) 20 7036 7207
	Tom Buchanan Charlie Codrington	Paternoster Communications	+44 (0) 20 3012 0241

CHAIRMAN'S STATEMENT

Dear Shareholders

As I said in our Interim Statement in October, this year has been the most difficult the business has ever faced. The remedial actions we put in place during the first half of the year have served us well, with the underlying operating result in the second half of the year in line with last year. Given the ongoing challenges we have all faced during this period, it is satisfying to have been able to make some progress, although the overall result for the year is disappointing. As with all non-essential businesses we have had extended periods of closure of our own trading locations and those of our wholesale customers throughout the year as a result of the COVID-19 pandemic. When we have been able to trade, footfall was considerably reduced. The only channel to have benefitted has been e-commerce, with both our own sites and those operated by our customers performing strongly both in the UK and USA.

As previously announced, we took immediate and decisive action to manage the significant pressure on the Group's operations and liquidity as a result of the disruption caused by the COVID-19 pandemic. These involved working with many of the Group's key stakeholders including all suppliers and landlords to actively manage both current and future commitments in order to preserve our cash resources. We also recognised that additional funding would be required to secure the future of the business and so, as announced in July 2020, we secured a £15 million working capital facility for a two-year period to cover the Group's cash requirements over that time. Additionally, in December 2020 we also received a \$6.5m loan from the Main Street Lending Programme to support our USA based operations. During the second half of the year, we implemented a review of our head office and store staffing structures to achieve the reduced levels required for the business going forward. Although net debt was only £1.3m at the end of the year, the facilities will provide the working capital required for the year ahead.

In line with many other retail and wholesale businesses, the overall financial performance is considerably worse than last year given the pandemic situation. Group revenue was £71.5m (2020: £119.9m), with a resulting underlying loss of £(11.7)m compared to £(2.9)m last year. This movement is primarily driven by the significant reduction in revenue and additional one-off stock provisions reflecting the higher residual stock levels in the business, particularly from the Summer season, where the timing of the initial lockdown was too late for us to take significant action regarding the intake of goods. This has been partially offset by cost savings across all areas, with assistance from the furlough scheme and business rates relief.

Wholesale

Revenue for the year was £49.0m (2020: £73.2m). Driven by the pandemic, revenue was down across all territories, although less so in the UK with a higher proportion of customers within the client base with strong ecommerce propositions. In addition new season deliveries to customers were impacted by end of year shipping delays due to reduced capacity, particularly from Asia. Gross margins were 22.4% (2020: 30.2%), impacted by the loss of full price sales within the revenue mix driven by the timing of the closures together with higher levels of stock provision required in the USA. In response to this, costs have been significantly reduced with all non-essential expenditure stopped, the furlough scheme utilised, and fixed head count removed where possible, resulting in a 32.6% reduction (32.7% CCY). Overall, this has resulted in an underlying operating contribution of £5.0m (2020: £13.2m).

The current order banks for Summer 21 and in particular Winter 21 represent a good bounce back to previous levels reflecting the strength of the collections and provides us with a solid start to the new financial year. Underpinning this growth is the strength of the pure play online businesses and the multi-channel operators with an established ecommerce presence. The challenges thrown up by not being able to meet customers in person in order to present product has accelerated the requirement to be able to show collections online remotely, which we have successfully achieved. Although this is a very useful alternative, it is not a long-term replacement.

Retail

Overall revenue fell to £22.5m from £46.7m last year. During the year the store portfolio was predominantly closed for 21 weeks. When the portfolio reopened, trading, particularly in the important Christmas period post the November lockdown, was considerably below last year. In addition, a further 14 locations (seven stores and seven concessions) were permanently closed during the year. As expected though, there has been a number of more favourable rental deals as leases have come to an end. We have been able to remain in some but not all of those locations, on favourable and flexible terms. We are very grateful to a considerable number of our landlords who have assisted us with rent holidays and deferrals while the stores have been closed. In the USA we exited the last remaining two stores at the end of the year. Looking forward we expect another two stores to close in the UK this year but will closely monitor the performance of all stores. The average lease length of the remaining stores is 1.9 years (2020: 2.5 years).

CHAIRMAN'S STATEMENT (continued)

Gross margin was 18.1% down from 51.0% last year. This reflects the significant loss of full price sales when the stores were closed, higher markdowns in the summer sale to assist stock clearance due to the highly promotional nature of the market as well as one-off stock provisions required given the closing inventory levels. In mitigation on the cost side, together with the rent reductions referred to above, we have participated in the furlough scheme, benefitted from the business rates relief, saved variable commission in the concessions and eliminated all discretionary spend. As a result, the underlying loss for the year has only slightly increased by £0.4m to £(10.4)m.

Within this, the ecommerce business grew by 7.1% across the year. There was stronger growth in the first half driven by more promotional activity to match competitor activity. The second half experienced slightly slower growth, albeit with stronger gross margins as lower stock levels required less discounting for clearance. This performance was driven by Homeware and more casual clothing, both of which did particularly well across the year.

Now the stores have re-opened again, we will start to see how footfall and trade develops however the initial performance is much better than we experienced last time. Based on our experience last year we expect to now gradually build, especially in places like central London where there has been a lack of tourists and office workers. Outdoor locations such as outlet malls performed much better after the first lockdown and we are seeing the same again. Ecommerce has started the year very well with growth in both revenue and gross margin, particularly in the last few weeks.

Licensing

License income for the year was £3.9m compared to £5.5m last year. Our licensees have generally seen a similar impact on their business as we have, both in the UK and USA, given the wholesale nature of the channel. Within this though, DFS has performed very well with business strong when their stores have been open, in addition to an excellent online experience, driving sales during lockdown and showing the strength of the brand. We launched some new smaller USA licensees in the year with shoes in particular starting off well given the circumstances.

Operating expenses

As described in the divisions above, we reduced all costs that we could over the year. In addition to the short-term savings achieved we put in place the Head Office and Store staff reductions which will benefit us as we move forward. The focus on managing costs will be maintained as we grow back, to ensure that only essential increases are allowed.

The Group ended the year with net debt of £1.3m compared with £8.1m of cash last year. This movement predominantly reflects the losses that have been generated but also low levels of capital expenditure on IT, financing costs associated with the new credit facilities put in place and costs associated with the reorganisation implemented during the year. The Board have decided that there will be no dividend paid for the year.

In early February we disclosed that we had received two very early stage approaches from third parties which may or may not result in them making an offer for the Company. Following the announcement, a number of other parties showed interest and so we agreed with the UK Takeover Panel that any discussions in relation to an offer for the Company may take place within the context of a formal sale process, in order to enable the conversations with the parties interested in making such a proposal to take place on a confidential basis. These discussions continue although at this point there can be no certainty that an offer will be made for the Company. Further updates will be made as and when appropriate.

Board changes

I would like to thank Robin Piggott, who resigned from the Board in August 2020, for his considerable efforts during his time with us and welcome Neil Page who recently joined as Independent Non-Executive Director in March 2021 and now chairs the Audit Committee and is also a member of the Remuneration Committee.

CHAIRMAN'S STATEMENT (continued)

Summary

Our key focus for the year has been to navigate our way through the difficult challenges we have faced as a result of the COVID-19 pandemic.

Initially we worked with our key stakeholders to stabilise the business and secure new financing. Trading had been broadly in line with our expectations at the time of the financing but we were then hit by the second and third national lockdowns in the UK. Given the new financing, together with the actions being taken to optimise sales, tightly manage costs and preserve cash, we are confident that the Group is well positioned to navigate any further period of uncertain consumer demand.

Significant effort has been made on ensuring appropriate measures are in place to protect the safety and wellbeing of all our colleagues, customers and business partners, to ensure that we can all operate in a safe environment. Our staff have had to work remotely for long periods of time and considerable numbers have been on furlough. I thank them all for their efforts and patience during these trying times.

Looking ahead I am pleased that the wholesale business in both the UK and USA has bounced back for the Summer and Winter seasons, even with the continued uncertainty and lockdowns. E-commerce sales are growing with the Summer collection selling very well.

With stores having predominantly re-opened in the UK, we are seeing a much better sales performance than we experienced at the end of the first national lockdown although it will take time to see how quickly things develop over the coming months, in our own stores but also for our wholesale customers. Overall though I feel that we are definitely moving in the right direction once again.

Stephen Marks
Chairman and Chief Executive
28 April 2021

Notes:

1. Underlying Operating result excludes adjusting items (Note 4) and discontinued operations.
2. LFL or "Like-for-Like" sales growth is defined as the year-on-year sales growth for owned stores and concessions open more than one year, including ecommerce revenues, removing the impact of closed stores and reported in constant currency.
3. Constant Currency (CCY) is calculated by translating the year ending January 2021 at 2020 rates to remove the impact of exchange rate fluctuations.
4. Underlying overheads consist of LFL store overheads.
5. Adjusting items include provisions for bad debts, store and head office restructuring expenditure, dilapidation costs, impairment provisions and other professional fees (Note 4).
6. Continuing operations exclude the discontinued results from the disposed Hong Kong and China joint ventures.

The Directors believe these measures are best reflective of how the business is managed and are informative to shareholders in understanding the performance of the business.

FINANCIAL REVIEW

Overall financial performance

The full year results cover the twelve months for the year-ended 31 January 2021 and were significantly impacted by the COVID-19 pandemic and the related lockdown restrictions imposed during this period, both in the UK and globally. The impact of COVID-19 in the year has affected the results of all of our business channels. Our retail stores were closed from late March to mid-June 2020, through November 2020 and most recently from the start of January 2021 and have only recently reopened in mid-April 2021. Our wholesale customers, in particular, the 'bricks and mortar' customers have been similarly impacted. However, our ecommerce channels, both our own website and our major wholesale 'pure play' customers have continued to trade positively even though we have adopted a reduced promotional stance compared to last year. Our licensing channel has also been impacted although DFS revenues continue to perform well with performance during the 'unlocked' periods making up for the reduced performance during lockdown. Overall, we believe that due to the COVID-19 lockdown we suffered a £39.7m revenue loss and a consequential £10.2m underlying profit impact with poor trading partly offset by reduced costs and Government support. Full details of the operational impact on the business are presented in the 'COVID-19' statement.

Underlying result for the full year to January 2021 was a loss of £(11.7)m compared to an underlying loss of £(2.9)m in the comparative period. The underlying result excludes adjusting items and discontinued operations.

Adjusting items of £8.0m (2020: £4.4m) in the year relate to significant material bad debts, impairment and dilapidation provisions, head office and retail restructuring costs and professional fees relating to the securing of additional funding to facilitate the future trading of the Group. Further information in relation to the adjusting items is provided in Note 4 to the Group accounts.

Discontinued operations in the prior year relate to the cessation of our joint venture operation in Asia. The closure of all of our fourteen joint venture stores in China and Hong Kong was completed in the second half of the prior financial year and generated a total loss of £(0.5)m. The joint venture trading result has been presented within discontinued operations in the comparative year.

The current and prior reporting periods are inclusive of the implementation of IFRS 16 in the prior year which resulted in presentational changes to the Income Statement, Statement of Financial Position and Cash Flow.

Including adjusting items and discontinued operations, the Group reported a total loss for the year of £(19.7)m (2020: £(7.8)m).

As recently announced in our Interim Results in October 2020, the Group secured a two-year £15 million asset based working capital facility with Hilco Capital on 24 July 2020. Furthermore, in December 2020, our US business secured additional funding of \$6.5m through the Government sponsored Main Street Lending Programme. The US loan, through Flushing Bank, Uniondale is for a period of five years with repayments commencing from the end of the third year. The Group believes that these combined working capital facilities are sufficient to cover the Company's foreseeable future cash requirements based on a 'most likely worst case' stress tested forecast scenario.

Revenue

Group revenue from continuing operations of £71.5m (2020: £119.9m) decreased by 40.4% (39.9% at constant currency). Retail sales decreased by 51.8% (51.8% at constant currency) to £22.5m (2020: £46.7m) with both UK/Europe and North America sales significantly impacted by COVID-19 store lockdowns throughout both H1 and H2. The decline in retail revenue was mitigated by year-on-year ecommerce sales growth which constituted 53.8% (2020: 24.2%) of total retail sales. Wholesale revenue reduced by 33.1% (32.3% at constant currency) to £49.0m (2020: £73.2m).

Gross margin

Composite gross margin of 25.7% was significantly lower than the previous year 38.3% reflecting the lost full price selling period during multiple lockdowns, increased clearance sales and additional stock provisioning relating to unsold product at the end of the financial year. These one-off adjustments to stock provisions due to COVID-19 amounted to £3.1m in total, bringing the margin down from 30.1% to that reported of 32.9% retail and 22.4% wholesale (comparative period margins of 51.0% and 30.2% respectively).

Wholesale

Group wholesale revenue from continuing operations of £49.0m was 33.1% (32.3% at constant currency) lower than the prior period (2020: £73.2m). The impact of COVID-19, particularly on our 'bricks and mortar' wholesale customers, has resulted in declines in all geographic revenues with decreases in UK/Europe to £25.8m (2020: £34.7m), North America to £22.2m (2020: £36.8m) and the Rest of World to £1.0m (2020: £1.7m).

FINANCIAL REVIEW (continued)

Group wholesale gross margin deteriorated to 22.4% (2020: 30.2%) due to increased stock provisions in relation to unsold Spring product. The decline in overall wholesale sales and a softer margin resulted in a profitability decrease in underlying wholesale profit for the year to £5.0m (2020: £13.2m).

Retail

Group retail revenue of £22.5m was 51.8% lower than the comparative period (2020: £46.7m) principally due to the multiple Government imposed COVID-19 lockdowns on non-essential retail locations during the financial year. During the year, we closed seven non-contributing stores and seven concessions, including our two remaining North America locations. The total number of operated locations at the year-end was 67 (2020: 81) reflecting a 22% reduction in average selling space. We continue to review the Group retail portfolio and opportunities available to renegotiate or terminate leases.

Retail gross margins of 32.9% (2020: 51.0%) were significantly impacted by increased stock provisioning with regards to residual Spring stock as well as additional online promotional activity to remain competitive and increased Spring product sell through as a result of store lockdown closures.

Ecommerce revenue as a proportion of Group Retail revenue increased to 53.8% (2020: 24.2%) as a direct result of the store closures but also increased sales. Mobile phone transactions as a proportion of ecommerce traffic also increased to 67.4% of all online transactions (2020: 63.7%) reflecting the continued focus and development of our CRM capability and targeted social media advertising.

Underlying retail loss for the year increased to £(10.4)m (2020: £(10.0)m). The fall in revenues has been largely mitigated by a reduction in the retail cost base arising from Government initiatives including employment furlough schemes and the business rates holiday. We have also been in active discussions with landlords regarding rent payment holidays and discounts together with an extension of existing payment terms.

Geographical analysis

The geographical revenue analysis highlights consistent year-on-year proportion of sales across the three primary geographical channels: UK/Europe 64.8% (2020: 64.7%), North America 33.8% (2020: 33.9%) and Rest of World 1.4% (2020: 1.4%).

The impact of COVID-19 has resulted in a reduction in operating profitability in all geographic regions; UK/Europe loss increasing to £(5.8)m (2020: £(1.6)m), North America profit reduction to £1.1m (2020: £5.5m) and the Rest of World contributing a loss of £(0.9)m (2020: £(0.8)m).

Licensing income

Licensing income of £3.9m generated during the year fell by 29.1% (2020: £5.5m) as revenues from the majority of licensees were impacted by COVID-19. However, DFS orders continue to grow year-on-year with branded French Connection furniture sales performing well. Due to increased delivery lead times as a result of delivery challenges and store lockdowns, the strong recovery in DFS income is expected to be carried forward into the next financial year.

Operating expenses

Group underlying operating expenses of £32.7m (2020: £52.8m), excluding adjusting items, were 38.1% lower than the prior period primarily due to store closures during lockdown including negotiated landlord rent discounts as well as local government rates holidays and salary furlough schemes. We continue to focus on cost control and efficiency savings.

Total operating expenses including adjusting items were £40.7m (2020: £57.2m).

Adjusting items and discontinued operations

Adjusting items of £8.0m (2020: £4.4m) have been recognised in the period relating to non-recurring items including wholesale and licensing bad debt provisions of £0.4m, store and head office restructuring costs of £0.9m, dilapidation costs of £1.0m, right of use and fixed asset impairments of £5.1m and £0.6m of refinancing costs in relation to securing the working capital facilities. Discontinued operations in the prior period relate to the closure of our Asian joint venture operation.

Balance sheet

The Group balance sheet at 31 January 2021 includes net assets of £9.5m (2020: £29.1m) inclusive of closing net borrowings of £(1.3)m (2020: net funds of £8.1m).

Inventory levels reduced to £23.7m (2020: £28.8m) largely reflecting increased stock provisioning with regards to excess Summer stock at the end of H1. However, concerted effort has been made to reduce the H2 Winter season buy and to reassign a number of Summer 20 lines to Summer 21 where appropriate.

Trade and other receivables have decreased to £17.9m (2020: £19.5m) due to the contraction of wholesale orders as a direct result of COVID-19 lockdowns. Trade and other payables have remained broadly flat at £21.5m (£21.2m), despite the reduction in Winter '20 and Summer '21 inventories, reflecting close cost management and the extension of payment terms with landlords and product suppliers through active negotiation.

FINANCIAL REVIEW (continued)

The right of use non-current asset, relating to the value-in-use of future lease rentals has reduced to £6.6m (2020: £17.9m) reflective of a contracting store portfolio and a current year impairment of £4.9m (2020: £1.0m) recognised as a direct consequence of the impact of COVID-19 on retail profitability.

Cash flow

Combined UK and US working capital facilities of £20m were secured in the second half of the financial year to support the Group's foreseeable future cash requirements.

The trading operations of the Group only utilised cash of £(2.2)m (2020: cash generation of £5.7m) during the year, despite reduced profitability as a result of the impact of COVID-19, being reflective of tightly managed working capital including negotiated supplier payment extension terms.

Cash outflows from investing activities of £1.3m (2020: £2.2m) include capital expenditure of £0.2m (2020: £1.1m) relating to ecommerce platform improvements and store and head office restructuring costs of £1.1m (2020: £1.1m) relating to the closure of seven stores as well as the targeted reduction in operational and transactional staffing costs as a direct consequence of the impact of COVID-19 on trading and cash resource. Headcount has been reduced by 25% year-on-year. We continue to target the closure of non-contributing stores and expect to close more in the current year.

Cash inflows from financing activities of £0.5m (2020: outflow of £(11.4)m) in the current year is inclusive of £6.5m of working capital facility loans received net of £5.2m (2020: 11.4m) of IFRS 16 lease liability rental payments and interest reflecting the negotiated rent discounts and deferrals achieved during the year. In addition, £0.8m was expensed in the current year with regards to securing the combined working capital facilities and servicing the related debt interest.

Taxation

The total Group tax charge for the year was £Nil (2020: £Nil). The Group has unused tax trading losses with a potential value of £21.0m, of which £16.5m has not been recognised in these financial statements. These tax losses can be utilised when the Group returns to profitability.

Dividends

The Board of Directors remain of the view that the business is best served by retaining current cash reserves to support the turnaround of the business.

Brexit

The Group has implemented some in-house operational and logistical changes in order to adapt to the post-Brexit trading environment, in particular, with regards to the delivery of product to EU wholesale and ecommerce customers. However, it is not anticipated that this will have a significant impact on the Group's future trading, although the changes come with some additional costs.

COVID-19 Coronavirus

The full year results were significantly impacted by COVID-19 and the lockdown restrictions imposed during this period, both in the UK and globally. Further details are presented in the COVID-19 statement.

Going Concern

In the prior year Annual Report for the year ending 31 January 2020, the Directors declared significant doubt about the ability of the Group and parent company to continue as a going concern. This was primarily due to uncertainty over whether funding could be secured before the existing cash resources were eroded due to the uncertainty on when normal trading would resume as a direct result of the COVID-19 pandemic.

The strategic report describes the Group's and parent company's financial position, cash flows and borrowing facilities as well as principal risks and uncertainties facing the Group.

The Group secured a two-year £15 million asset based working capital facility with Hilco Capital on 24 July 2020. Furthermore, in December 2020, our US business secured additional funding of \$6.5m through the government sponsored Main Street Lending Programme. The US loan, through Flushing Bank, Uniondale is for a period of five years with repayments commencing from the end of the third year.

Given the Group and parent company's new liquidity, together with the actions being taken to optimise sales, tightly manage costs and preserve cash, the Board is confident that the Group and parent company are well positioned to navigate an extended period of uncertain consumer demand, which will cover at least 12 months from the date of approval of these financial statements and include the forthcoming renewal of the UK credit facility in July 2022.

Although all scenarios discussed below are within the current working capital facility available, the Directors acknowledge that the UK facility expires in July 2022 and will need to be renewed or alternative similar funding be secured. The Board is confident of securing an extension of existing or similar funding beyond the current expiration date. In assessing the renewal of the credit facility in July 2022, the Directors have considered initial discussions with the current financier; multiple options for financing when initially sought; and the general economic conditions and market's propensity to lend.

FINANCIAL REVIEW (continued)

As part of the Going Concern and Viability Statement review, the Board has prepared and reviewed the FY22 detailed Budget and for outer years FY23-FY26, the Long Range Plan. The FY22 Budget was prepared on a detailed bottom-up basis and for the years FY23-FY26 on a more strategic high-level basis. The plan has been prepared by each respective business channel: wholesale, retail, ecommerce and licensing and by separate geographies: UK, North America and Rest of the World.

A 'Base' Case budget has been prepared representing the scenario management expects most likely to occur. Under this scenario, the maximum borrowing position will be £11m over the next 12 months.

Within the Base Case, there is an assumed level of recovery in FY22 versus FY21 across all revenue streams which is based on management's current view of how we expect both French Connection and the economy to recover once lockdown restrictions are lifted. Where appropriate we have benchmarked FY22 Budget to FY20 levels, noting that the Group's trading position will not reach FY20 levels for some time and reflecting that trading conditions remain significantly below pre-COVID 19 levels for the next 12 months. For UK Retail, we have assumed all stores reopen from April 2021 and do not assume any further lockdowns. In FY22 Wholesale is underpinned by current order books for S21 season and current expectations of W21 order based on initial conversations with customers. Ecommerce has a less pronounced level of recovery as this revenue stream has been the least impacted by the pandemic. For outer years in the LRP from FY23, management have assumed more moderate levels of revenue growth.

The base case budget has been further sensitised under two additional scenarios: 'most likely worst case' and a 'reverse stress test' which is based on a pre-defined outcome of the business being no longer viable in which the borrowing requirements exceed the current maximum facility occurring in November 2022. Sensitivities have been performed on year-on-year turnover growth rate assumptions, targeted gross margin %s, overhead growth/savings and licensing growth. The most likely 'worst' case scenario forecasts a net borrowing requirement that does not exceed the maximum facility available over the five-year long range plan.

Under the 'most likely worst case' scenario, the Board believes that the combined secured £20 million UK and US asset based working capital facilities are expected to be sufficient to cover the Company's foreseeable future cash requirements, which will cover at least 12 months from the date of approval of these financial statements.

The Board is also of the opinion that the current formal sale process of the Company and its resulting outcome will not have any impact on the availability of the existing working capital facilities and therefore does not affect the going concern basis of these financial statements.

Having undertaken a rigorous assessment of the financial forecasts, particularly in the context of COVID-19 and their assessment of high likelihood of renewal of the UK credit facility in July 2022 as discussed above, the Board has therefore concluded that it is appropriate to prepare the Group and parent company financial statements on a going concern basis.

By order of the Board

Lee Williams
Chief Financial Officer
28 April 2021

Notes:

1. Underlying Operating result excludes adjusting items (Note 4) and discontinued operations.
2. LFL or "Like-for-Like" sales growth is defined as the year-on-year sales growth for owned stores and concessions open more than one year, including ecommerce revenues, removing the impact of closed stores and reported in constant currency.
3. Constant Currency (CCY) is calculated by translating the year ending January 2021 and January 2020 at a consistent rate to remove the impact of exchange rate fluctuations.
4. Underlying overheads consist of LFL store overheads.
5. Adjusting items include provisions for bad debts, store and head office restructuring expenditure, dilapidation costs, impairment provisions and other professional fees (Note 4).
6. Continuing operations exclude the discontinued results from the disposed Hong Kong and China joint ventures.

The Directors believe these measures are best reflective of how the business is managed and are informative to shareholders in understanding the performance of the business.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 January 2021

Year ended 31 January 2021				Year ended 31 January 2020			
		Before adjusting items	Adjusting items and discontinued operations*	Total	Before adjusting items	Adjusting items and discontinued operations*	Total
	Note	£m	£m	£m	£m	£m	£m
Continuing operations							
Revenue	2	71.5	-	71.5	119.9	-	119.9
Cost of sales		(53.1)	-	(53.1)	(74.0)	-	(74.0)
Gross profit	2	18.4	-	18.4	45.9	-	45.9
Operating expenses		(32.7)	(8.0)	(40.7)	(52.8)	(4.4)	(57.2)
Other operating income	3	3.9	-	3.9	5.5	-	5.5
Finance expense		(1.3)	-	(1.3)	(1.5)	-	(1.5)
Loss before taxation	4	(11.7)	(8.0)	(19.7)	(2.9)	(4.4)	(7.3)
Taxation		-	-	-	-	-	-
Loss for the year from continuing operations		(11.7)	(8.0)	(19.7)	(2.9)	(4.4)	(7.3)
Discontinued operations							
Loss from discontinued operations, net of tax		-	-	-	-	(0.5)	(0.5)
Loss for the year		(11.7)	(8.0)	(19.7)	(2.9)	(4.9)	(7.8)

* Adjusting items and discontinued operations (Note 4).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 January 2021
(continued)

	Note	2021 £m	2020 £m
Loss for the year		(19.7)	(7.8)
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Currency translation differences for overseas operations		(0.3)	(0.1)
Currency translation differences on foreign currency loans, net of tax		0.4	(0.2)
Recycling of translation differences due to disposal of discontinued operation		-	(0.7)
Other comprehensive income for the year, net of tax		0.1	(1.0)
Total comprehensive income for the year		(19.6)	(8.8)
Loss attributable to:			
Equity holders of the Company		(19.7)	(7.9)
Non-controlling interests		-	0.1
Loss for the year		(19.7)	(7.8)
Total comprehensive income attributable to:			
Equity holders of the Company		(19.6)	(8.9)
Non-controlling interests		-	0.1
Total income and expense recognised for the year		(19.6)	(8.8)
Losses per share			
Basic and diluted losses per share	5	(20.4)p	(8.2)p
Continuing operations			
Basic and diluted losses per share	5	(20.4)p	(7.7)p
Discontinued operations			
Basic and diluted losses per share	5	-	(0.5)p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 January 2021

	Note	2021 £m	2020 £m
Assets			
Non-current assets			
Intangible assets		0.2	0.2
Property, plant and equipment		1.0	2.0
Right-of-use asset		6.6	17.9
Deferred tax assets		4.5	4.5
Total non-current assets		12.3	24.6
Current assets			
Inventories		23.7	28.8
Trade and other receivables		17.9	19.5
Cash and cash equivalents	6	5.2	8.1
Total current assets		46.8	56.4
Total assets		59.1	81.0
Non-current liabilities			
Loans and borrowings	6	6.5	-
Lease liabilities		15.0	20.9
Provisions	7	0.7	0.3
Total non-current liabilities		22.2	21.2
Current liabilities			
Trade and other payables		21.5	21.2
Lease liabilities		5.1	9.1
Provisions	7	0.8	0.4
Total current liabilities		27.4	30.7
Total liabilities		49.6	51.9
Net assets		9.5	29.1
Equity			
Called-up share capital		1.0	1.0
Share premium account		9.8	9.8
Translation reserve		6.5	6.4
Retained (deficit)/earnings		(7.9)	11.8
Total equity attributable to equity holders of the Company		9.4	29.0
Non-controlling interests		0.1	0.1
Total equity		9.5	29.1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital £m	Share premium £m	Translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
Balance at 31 January 2019, as previously reported	1.0	9.8	7.4	28.0	46.2	-	46.2
Impact of change in accounting policy of IFRS 16				(8.3)	(8.3)		(8.3)
Balance at 31 January 2019	1.0	9.8	7.4	19.7	37.9	-	37.9
(Loss)/profit for the year ended 31 January 2020				(7.9)	(7.9)	0.1	(7.8)
Other comprehensive income							
Currency translation differences for overseas operations			(0.1)		(0.1)		(0.1)
Currency translation differences on foreign currency loans, net of tax			(0.2)		(0.2)		(0.2)
Disposal of discontinued operations			(0.7)		(0.7)		(0.7)
Balance at 31 January 2020	1.0	9.8	6.4	11.8	29.0	0.1	29.1
Loss for the year ended 31 January 2021				(19.7)	(19.7)	-	(19.7)
Other comprehensive income							
Currency translation differences for overseas operations			(0.3)		(0.3)		(0.3)
Currency translation differences on foreign currency loans, net of tax			0.4		0.4		0.4
Balance at 31 January 2021	1.0	9.8	6.5	(7.9)	9.4	0.1	9.5

Share capital and premium reserve

Share capital is the nominal value of shares issued. Share premium represents the difference between the amount subscribed for shares and nominal value.

Translation reserve

The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of foreign currency loans. The translation reserve carried forward is net of £0.2m (2020: £0.2m) deferred tax.

Retained earnings

Earnings available for distribution to shareholders under the Companies Act 2006.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 January 2021

	Note	2021 £m	2020 £m
Operating activities			
Loss for the period		(19.7)	(7.8)
Adjustments for:			
Depreciation of property, plant and equipment		1.0	1.2
Depreciation of right-of-use asset		5.5	6.6
Rent concessions		(1.1)	-
Share of loss of joint ventures		-	0.5
Finance expense		1.3	1.5
Adjusting items	4	8.0	4.4
Operating cash flows before changes in working capital and provisions		(5.0)	6.4
Decrease in inventories		2.8	1.6
Decrease in trade and other receivables		1.1	2.7
Decrease in trade and other payables		(1.1)	(5.0)
Cash flows from operations		(2.2)	5.7
Income tax paid		-	(0.1)
Cash flows from operating activities		(2.2)	5.6
Investing activities			
Acquisition of property, plant and equipment		(0.2)	(1.1)
Net costs from store and head office restructuring		(1.1)	(1.1)
Cash flows from investing activities		(1.3)	(2.2)
Financing activities			
Proceeds from working capital facilities and loans	6	6.5	-
Payment of lease liabilities	6	(4.1)	(9.9)
Interest paid on lease liabilities		(1.1)	(1.5)
Interest paid on loans		(0.2)	-
Refinancing costs		(0.6)	-
Cash flows from financing activities		0.5	(11.4)
Net decrease in cash and cash equivalents		(3.0)	(8.0)
Cash and cash equivalents at 1 February		8.1	16.2
Exchange rate fluctuations on cash held		0.1	(0.1)
Cash and cash equivalents at 31 January	6	5.2	8.1
Cash and cash equivalents	6	5.2	8.1
Bank loans	6	(6.5)	-
Net cash and borrowings at 31 January		(1.3)	8.1

NOTES

1 Basis of preparation

Consolidated financial statements and accounting policies

The preliminary announcement for the year ended 31 January 2021 has been prepared in accordance with International Accounting Standards in conformity with the requirements of Companies Act 2006 and they are prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union at 31 January 2021. The annual financial information presented in the preliminary announcement for the year ended 31 January 2021 is based on, and is consistent with, that in the Group's audited Financial Statements for the year ended 31 January 2021, and those Financial Statements will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

These consolidated financial statements have been prepared using the historical cost convention, modified for certain items carried at fair value, as stated in the accounting policies.

Statutory accounts

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 January 2021 or 2020. The financial information for 31 January 2020 is derived from the statutory accounts for 2020 which have been delivered to the Registrar of Companies. The auditor has reported on the 2020 accounts; their report was (i) unqualified and (ii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. However the report did include reference to material uncertainty that may cast doubt on the Group and Parent Company's ability to continue as a going concern due to the impact of COVID-19 on the sector in which the Group operates. The audit opinion was not modified in respect of this matter.

The statutory accounts for 2021 will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies and made available for viewing and download from the Group's website at www.frenchconnection.com in due course. The Annual Report will be circulated in printed form to shareholders in the second week of June 2021.

NOTES

2 Operating segments

Segment revenue and results

Income Statement	2021 £m	2020 £m
Revenue		
Retail	22.5	46.7
Wholesale	49.0	73.2
Group revenue	71.5	119.9
Gross profit	18.4	45.9
Retail	32.9%	51.0%
Wholesale	22.4%	30.2%
Group gross margin	25.7%	38.3%
Underlying operating (loss)/profit		
Retail	(10.4)	(10.0)
Wholesale	5.0	13.2
Licence income	3.9	5.5
Common and Group overheads	(8.9)	(10.1)
Finance expense	(1.3)	(1.5)
Underlying Group operating loss*	(11.7)	(2.9)
Underlying operating margin		
Retail	(46.2)%	(21.4)%
Wholesale	10.2%	18.0%
Underlying Group operating margin	(16.4)%	(2.4)%

Geographical information

	2021 £m	2020 £m
Revenue		
UK/Europe	64.8%	64.7%
North America	33.8%	33.9%
Rest of the World	1.4%	1.4%
Divisional operating (loss)/profit		
UK/Europe	(5.8)	(1.6)
North America	1.1	5.5
Rest of the World	(0.9)	(0.8)
Group overheads and finance income	(6.1)	(6.0)
Underlying Group operating loss*	(11.7)	(2.9)

* excludes adjusting items (Note 4) and discontinued operations

NOTES

3 Other operating income

	2021 £m	2020 £m
Licensing income	3.9	5.5

4 Loss before taxation

	Year ended 31 Jan 2021 £m	Year ended 31 Jan 2020 £m
Reconciliation of loss before tax to underlying operating loss		
Loss before tax	(19.7)	(7.8)
Adjusting items:		
Provisions for bad debts and bad debt write-offs	0.4	1.0
Fixed asset impairments	0.2	0.4
Right of use asset impairment	4.9	1.0
Store and head office restructuring costs	0.9	0.9
Dilapidation costs	1.0	0.7
Other professional fees	0.6	0.4
	8.0	4.4
Discontinued operations	-	0.5
Underlying operating loss	(11.7)	(2.9)

Provisions for bad debts, net of VAT recoverable, of £0.4m (2020: £1.0m) have been expensed in the period relating to unpaid contractual debt due from wholesale export and licensing customers.

Right of use asset impairment of £4.9m (2020: £1.0m) has been expensed relating to UK/Europe stores whereby the future contractual obligation costs exceed the economic benefits forecast to be received. Current year charge of £0.9m (2020: £0.9m) has been expensed in the period relating to store and head office restructuring costs. Provisions for store disposal and dilapidation costs of £1.0m (2020: £0.7m) have been recognised in the period.

Other professional fees in the current year of £0.6m relate to refinancing costs with regards to securing the working capital facility. Prior year fees of £0.4m were in relation to the conclusion of the Group strategic review.

NOTES

5 (Losses)/earnings per share

Basic and diluted (losses)/earnings per share are calculated on 96,612,634 (2020: 96,612,634) shares being the weighted average number of ordinary shares during the year.

Basic and diluted losses per share of (20.4) pence per share (2020: (8.2) pence) is based on losses of £(19.7)m (2020: £(7.9)m) attributable to equity shareholders.

On continuing operations the basic losses per share of (20.4) pence per share (2020: (7.7) pence) is based on losses of £(19.7)m (2020: £(7.4)m) relating to continuing operations.

On discontinued operations the basic losses per share of £Nil pence per share (2020: (0.5) pence) is based on losses of £Nil (2020: £(0.5)m) relating to discontinued operations.

The reconciliation from basic and diluted losses per share to adjusted losses per share is as follows:

	2021 £m	2021 pence per share	2020 £m	2020 pence per share
Loss attributable to equity shareholders	(19.7)	(20.4)p	(7.9)	(8.2)p
Adjusting items (Note 4)	8.0	8.3p	4.4	4.6p
Discontinued operations	-	-	0.5	0.5p
Adjusted loss attributable to equity shareholders	(11.7)	(12.1)p	(3.0)	(3.1)p

The adjusted losses per share relates to the underlying operations and in the opinion of the Directors, gives a better measure of the Group's underlying performance than the basic losses per share

6 Analysis of net debt

2021	1 February £m	Cash flow £m	Non cash changes £m	31 January £m
Cash and cash equivalents	8.1	(3.0)	0.1	5.2
Loans	-	(6.5)	-	(6.5)
Lease liabilities	(30.0)	4.1	5.8	(20.1)
Lease liabilities*	-	-	(3.7)	(3.7)
Net debt	(21.9)	(5.4)	2.2	(25.1)

*lease liabilities of £3.7m are reported within trade payables at the year-end.

On 24 July 2020 the Group arranged a £15m UK working capital facility with Hilco Capital for the next two years which is secured against the assets of the UK business. As at 31 January 2021, the loan drawdown was £1.8m (2020: £Nil) which is all repayable after more than one year. Interest is accrued at 7.5% per annum on the loan repayable and 1.5% per annum on the unutilised facility.

In December 2020, the Group arranged a \$6.5m US credit facility from Flushing Bank via the US federal government 'Main Street' lending program. The loan is repayable over five years and is secured against the assets of the US division. As at 31 January 2021, \$6.5m (£4.7m) was repayable after more than one year. Interest is accrued on the loan repayable at LIBOR plus 300 basis points.

NOTES

7 Provisions

Dilapidations	2021 £m	2020 £m
Balance at 1 February	0.7	0.7
Utilised during the year	(0.2)	(0.7)
Charged during the year	1.0	0.7
Balance at 31 January	1.5	0.7

Current year provision relates to future dilapidation costs with regards to contractual obligations to reinstate stores to their original condition. The associated costs are forecast to be incurred over the remaining lease period of the respective stores. Total charge during the year has been expensed to adjusting items (Note 4) within operating expenses in the income statement. Closing provision of £1.5m (2020: £0.7m) includes non-current liabilities due after more than one year of £0.7m (2020: £0.3m).

In the prior year, provisions were recorded to reflect the estimated committed closure costs of identified underperforming retail stores including onerous leases whereby the future contractual obligations exceeded the forecast economic benefits. Onerous lease provision was reclassified to the right of use asset on IFRS 16 transition.

8 COVID-19

The financial year witnessed extraordinary events caused by the COVID-19 pandemic which has had a substantial impact on businesses and on the fashion retail sector in particular.

On 11 March 2020, the World Health Organization declared COVID-19 a pandemic. In line with Government advice from 18 March all French Connection head office staff were encouraged to work from home where this was possible. Our retail stores were closed on Sunday 22 March 2020 and our concessions were closed on Monday 23 March 2020. These closures were not limited to the UK. All our stores and concessions in Ireland, the Netherlands, Spain, Portugal, France and the USA were closed and our operations in the USA, Hong Kong, India, Turkey and Portugal were all restricted by national government measures to contain the Coronavirus (COVID-19) virus.

These closures and restrictions, together with the squeeze on our wholesale business from customers who were initially in a challenging financial position, led to a drastic reduction in our daily cash income in a dramatically short period of time. The economic impact of this global health crisis on the French Connection Group, at a time when we were focused on doing all we could to return our business to a sustainable level of profitability, required significant action to secure the financial stability of the business.

From 24 March 2020, we asked all store and concession staff to accept the “furloughing” of their employment at a reduced level of pay so that we could sign up to the UK Coronavirus Job Retention Scheme and implemented similar measures in our retail operations around the world.

In addition, from 7 April 2020, we asked those head office staff, both in the UK and globally, who had a significant reduction in their regular work load either due to the nature of their role, or because they were unable to perform their role effectively remotely to accept the “furloughing” of their employment and a reduced level of pay.

Our ecommerce business continued to operate, initially at lower levels to those before the outbreak although subsequently with online sales significantly up. Our wholesale customers, in particular, the ‘bricks and mortar’ customers were in a similar position and revenues significantly declined. However, the impact was mitigated by our large wholesale ‘pure play’ customer base which continued to trade, and in some cases, trade strongly.

We worked hard planning for the stores to reopen, ensuring they did so safely and in line with all Government guidance. The majority of the stores opened from mid-June and we ensured that our customers and colleagues were able to shop and work confidently in a safe and healthy environment. However, when stores did reopen we saw that our smaller stores in more provincial locations performed more strongly than those in the traditionally bustling city centres. Trading at the beginning of the second half of the year was in line with our expectations, however, as a consequence of the subsequent tightening of COVID-19 guidance from September, footfall declined again and conditions became more difficult across the retail channels. This was then compounded by the full closure required during the second lock down in November and the subsequent third lock down at the start of January 2021.

We once again worked hard, planning for our stores to reopen from mid-April 2021.

NOTES

8 COVID-19 (continued)

As a direct consequence of the above, we enacted some of the following to safeguard the continued future of the Company and ensure that the business remains a going concern.

- Furloughing of all global retail staff and a substantial proportion of global head office employees whose workload had been significantly impacted. We registered for applicable national schemes to enable us to recoup employment salaries and taxes where applicable.
- Liaising with our retail, office and warehouse landlords with regards to the attainment of rent payment holidays. We are in continued discussions about the payment arrangements of future rent quarter payments and the settlement profile of these deferred amounts.
- Discussions with suppliers regarding renegotiations of existing payment terms.
- Dialogue with key wholesale customers, including agreement on early payment settlement discounts to ensure continued wholesale revenue cash income.
- Correspondence with the relevant government authorities to defer any local or national taxes due, including business rates, duty, employment and VAT related taxes.

All of the above factors have had a significant impact on the short-term cash income stream of the business. In the light of the Company's cash position and the continued expected weak trading environment, we were in active discussions with a number of potential funding partners. On 24 July the Group put in place a £15 million working capital facility with Hilco Capital for the next 2 years. In addition, our US business, based in New York secured US\$6.5million of additional funding through the government backed Main Street Lending Programme to support our US based operations and employees. The US loan is for a period of 5 years with repayments commencing from the end of the 3rd year. The Directors expect these new funding facilities to be sufficient to cover the Company's cash requirements, based on its current conservative expectations of future trade.

The Company will continue to tightly manage its cost base over the coming months and we await better visibility on the speed of the recovery of demand across the different business channels and territories. Although the stores recently reopened, we can only estimate how quickly and to what extent store footfall and therefore sales will recover. This will also impact the rate of improvement within the wholesale channel, though our forward orders are strong.

Given the Company's new liquidity, together with the actions being taken to optimise sales, tightly manage costs and preserve cash, the Board is confident that the Company is well positioned to continue to navigate an extended period of uncertain consumer demand.

The welfare, health and safety of our stakeholders, and in particular our colleagues and our customers, has been our top priority, while taking decisive actions to protect the business and its long-term financial position.

NOTES

9 Retail locations

		31 January 2021		31 January 2020	
		Locations	sq ft	Locations	sq ft
Operated locations					
UK/Europe					
French Connection	Stores	26	71,385	31	79,768
French Connection/Great Plains	Concessions	38	35,097	45	40,418
YMC	Stores	3	1,805	3	1,805
		67	108,287	79	121,991
North America					
French Connection US	Stores	-	-	2	9,102
Total operated locations		67	108,287	81	131,093
French Connection licensed and franchised					
UK/Europe		1	1,100	2	2,553
North America		1	2,346	1	2,346
Middle East		2	1,614	7	11,678
Australia		146	70,282	148	75,013
Other		11	10,802	15	11,446
Total licensed and franchised locations		161	86,144	173	103,036
Total branded locations		228	194,431	254	234,129