



Stella International Holdings Limited
九興控股有限公司

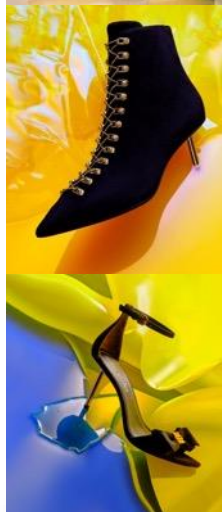
CORPORATE PRESENTATION

Interim Report 2020

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FINANCIAL SUMMARY



Key Highlights

Revenue decreased by 32% yoy due to COVID-19 disruption to global retail

Reported net loss of US\$5.2 million and adjusted net profit* of US\$9.1 million

Cash generated from operations increased by 45% due to credit risk control and working capital management

Solid balance sheet with US\$55 million cash and over US\$180 million undrawn bank facilities despite the pandemic

Continue diversification of production locations and long-term margin improvement with investment in Indonesia

(*) Adjusted net profit (non-GAAP measure) excluded US\$14.3 million of one-off non-recurring items



Impact of COVID-19

Timeline

Feb

**Mid-Mar
onwards**

Apr

May - Jun



- Disruption to factory operations in China
- Europe and US lockdowns affected our customers, leading to shipment postponement and order cancellation
- Philippines and Bangladesh factories temporarily closed for >1 month
- China reopened and retail sales improved
- Slow re-opening of retail stores in Europe and US markets

Group Revenue

**US\$511.5m
(-31.9%)**

Shipment Volume

**20.4m pairs
(-30.8%)**

ASP

**US\$24.7 / pair
(-2.0%)**



Financial Highlights

	<i><u>For the six-months ended 30 June</u></i>		
US\$ mn	2019 (unaudited)	2020 (unaudited)	Change
Revenue	750.6	511.5	-31.9%
Gross Profit/Loss	135.0	84.7	-37.3%
Operating Profit/Loss	45.6	(3.4)	N/A
Net Profit/Loss	38.9	(5.2)	N/A
EPS (US¢)	4.9	(0.7)	N/A
Dividend per share (HK¢)	40	-	
.....			
Excluding one-off non-recurring items in 1H 2020: US\$14.3 million (1H 2019: US\$7.1 million)			
Adjusted Operating Profit	52.7	10.9	-79.3%
Adjusted Net Profit	46.0	9.1	-80.2%



Breakdown of One-Off Non-Recurring Items

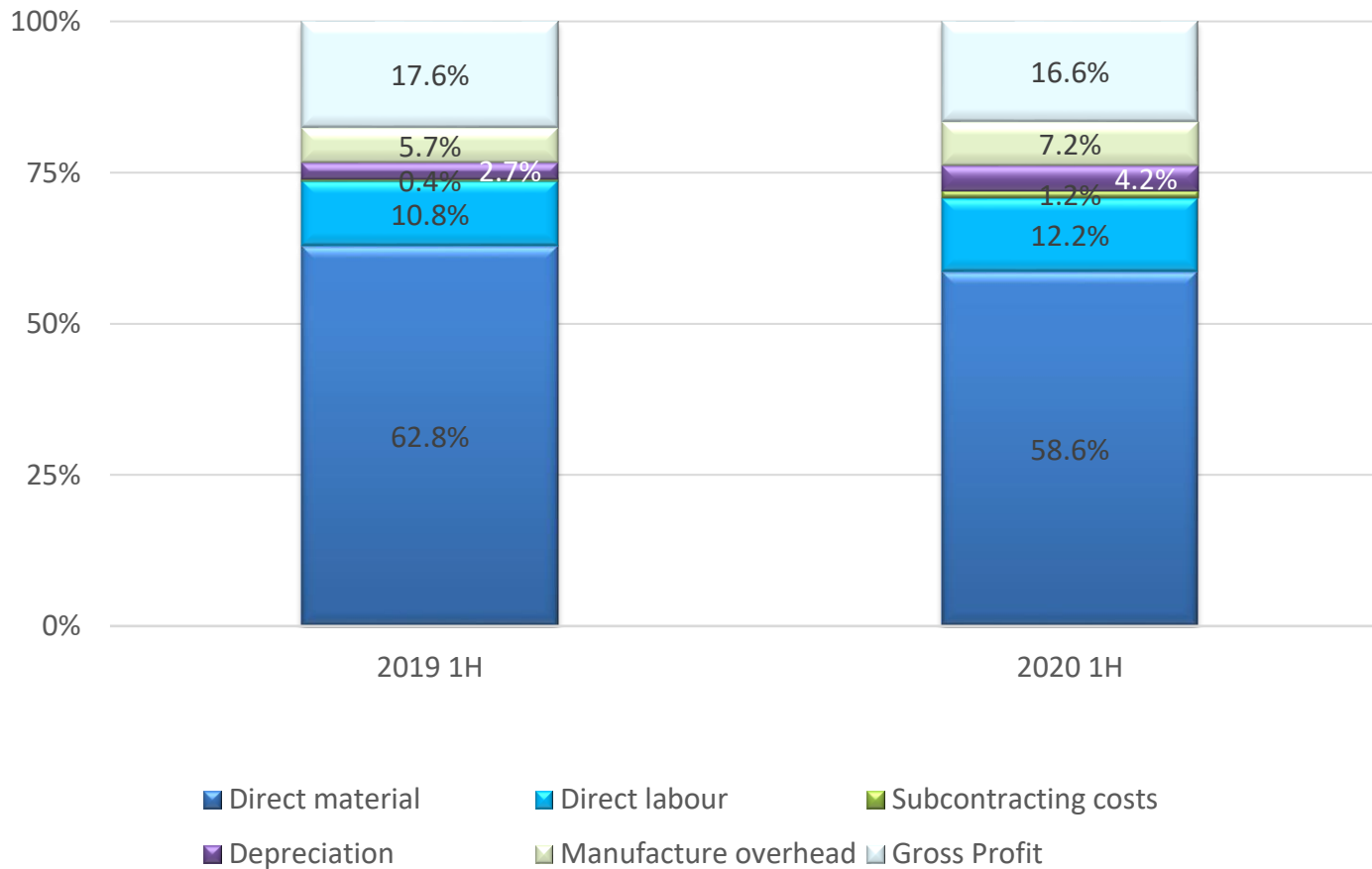
US\$ mn

Reported Operating Loss	(3.4)
Severance payments and other related costs	13.5
Overhead costs related to factory suspensions resulting from COVID-19	2.7
PRC Government subsidies related to COVID-19	(1.9)
Total Net One-off Non-Recurring Items	14.3
Adjusted Operating Profit (non-GAAP)	10.9



Cost Structure Affected by Lower Utilization

**Breakdown of Costs of Sale
(as % of Revenue)**



**Manufacturing only*



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Capex and Cash Flow Summary

US\$ mn	For the six-months ended 30 June		
	2019 (unaudited)	2020 (unaudited)	Change
Cash flows (used in)/ from operating activities	17.4	25.1	44.8%
Profit before Tax	44.8	(3.6)	
Depreciation	21.9	22.7	
Changes in working capital	(45.6)	3.3	
Other operating cash flows	(3.7)	(2.7)	
Cash flows used in investing activities	(34.8)	(40.7)	17.0%
Capital Expenditure	(37.0)	(25.4)	
Others	2.2	(15.3)	
Cash flows from financing activities	23.7	1.4	-94.1%
Dividend paid	(45.6)	(46.1)	
Bank borrowings	71.4	48.6	
Others	(2.1)	(1.1)	
Net (outflow)/inflow of cash	6.3	(14.2)	N/A



Solid Financial Position with Net Cash

	<i>As of 30 June</i>	
US\$ mn	2019 (unaudited)	2020 (unaudited)
Cash and cash equivalents	67.9	54.7
Debt	(136.9)	(52.6)
Net Cash / (Debt)	(69.0)	3.1
Net Gearing	7.3%	-0.3%
Current assets	778.0	616.9
Non-current assets	474.3	486.5
Current liabilities	305.0	196.3
Non-current liabilities	6.9	3.1
Net assets	940.4	904.0
Quick ratio	1.9x	2.2x
Current ratio	2.6x	3.1x



BUSINESS REVIEW

Manufacturing BUSINESS



World's Leading Footwear Brand Customers

Our client base includes well-known global fashion sports, casual and fashion footwear brands

Fashion



Casual



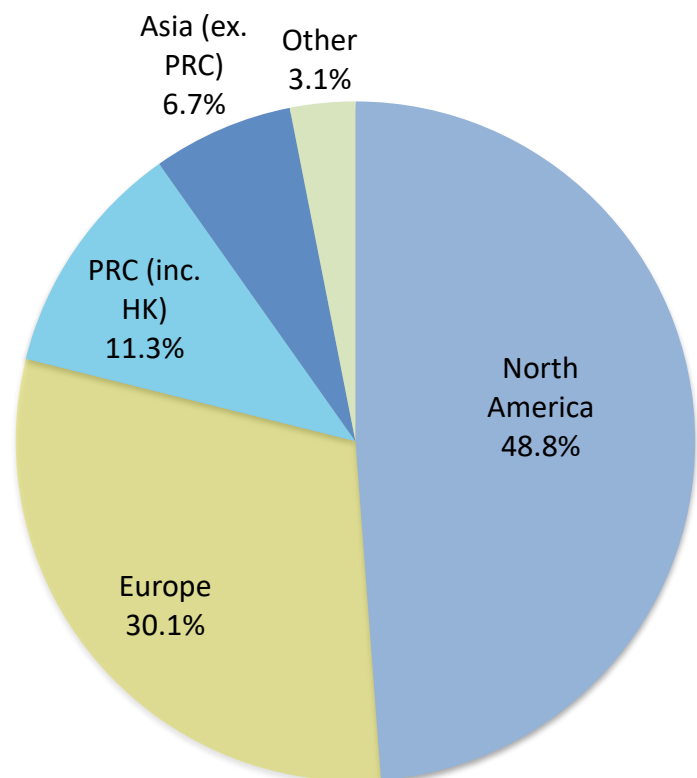
Fashion Sports



Stable Geographic Breakdown for Group Revenue

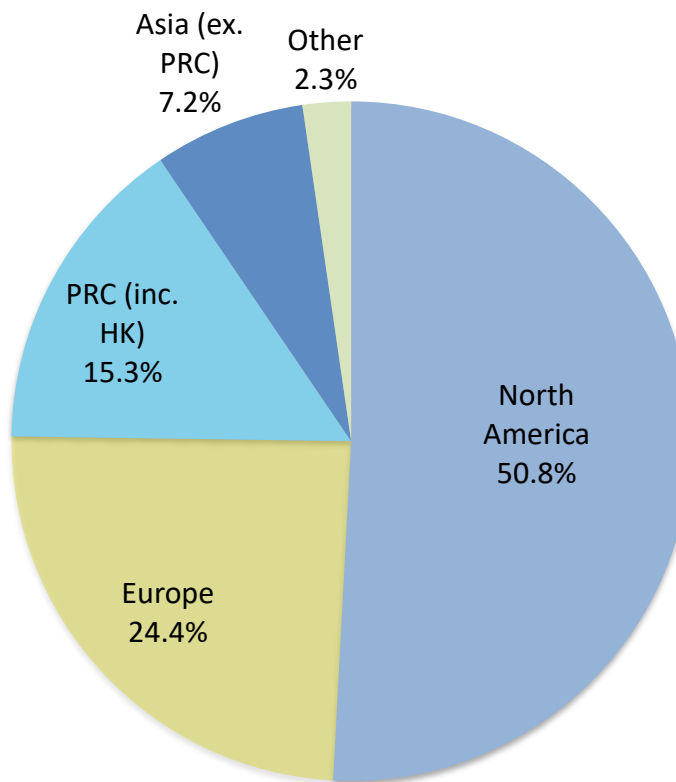
1H 2019 Revenue

US\$750.6 mn



1H 2020 Revenue

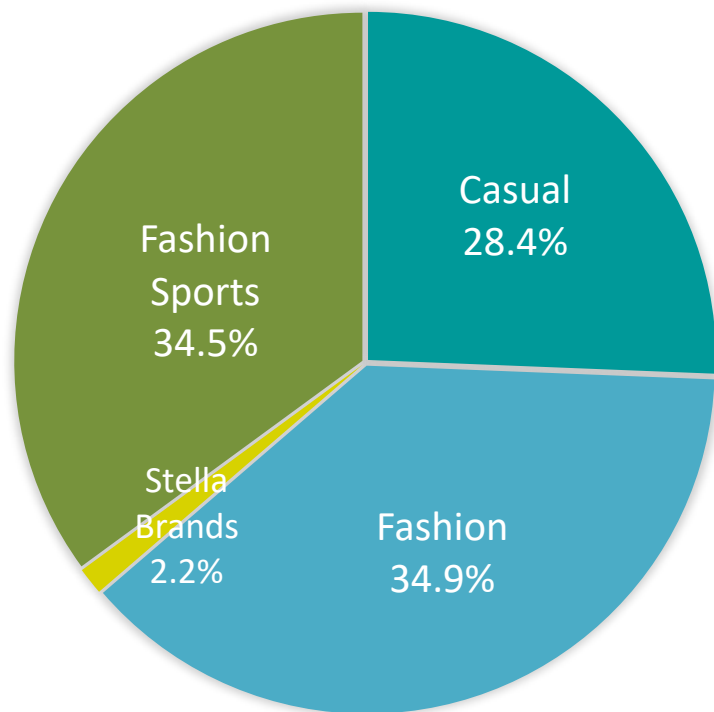
US\$511.5 mn



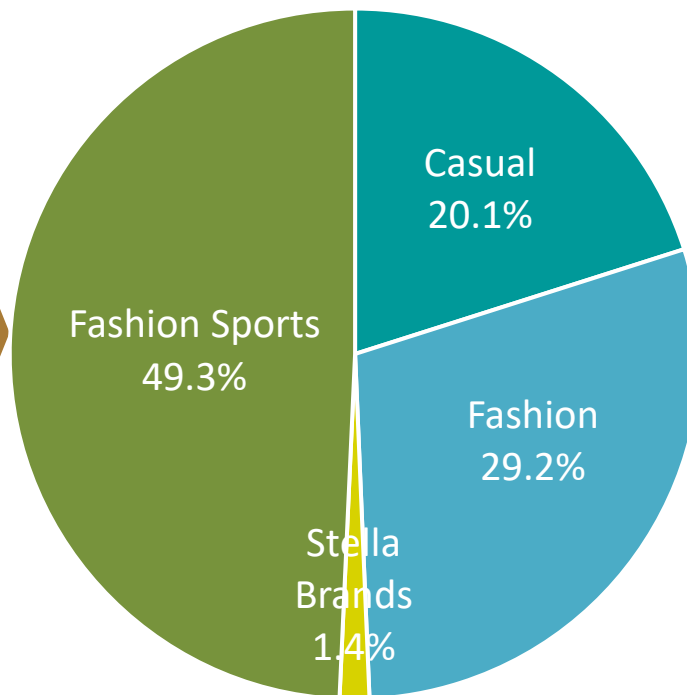
Fashion Sports Category Most Resilient

Breakdown of Revenue by Product Category

1H 2019 Revenue



1H 2020 Revenue

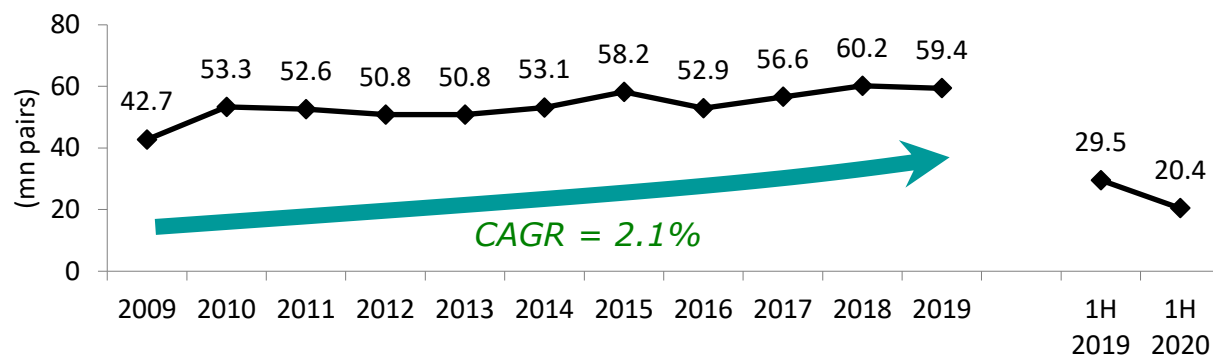


**Manufacturing only*



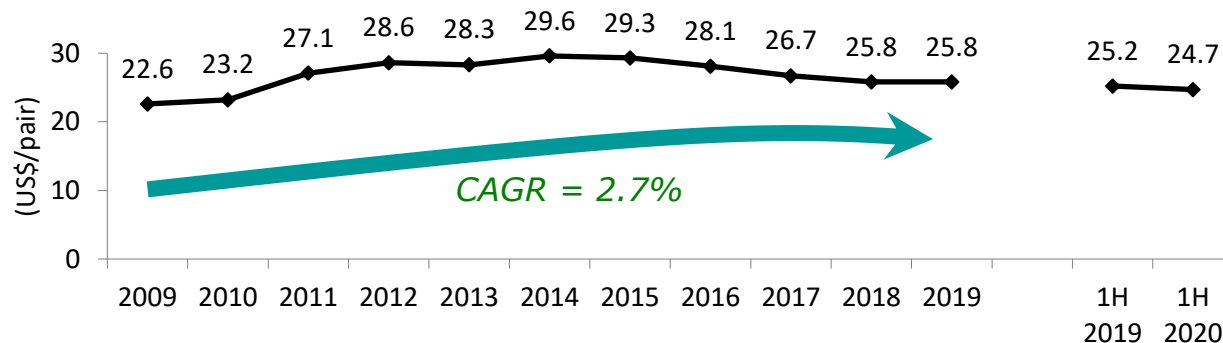
Volume & ASP Trends

Quantity

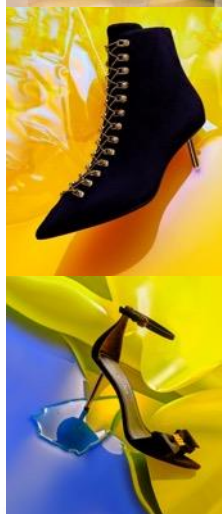


- Fashion sports category most resilient under pandemic although all 3 categories' volume dropped

ASP

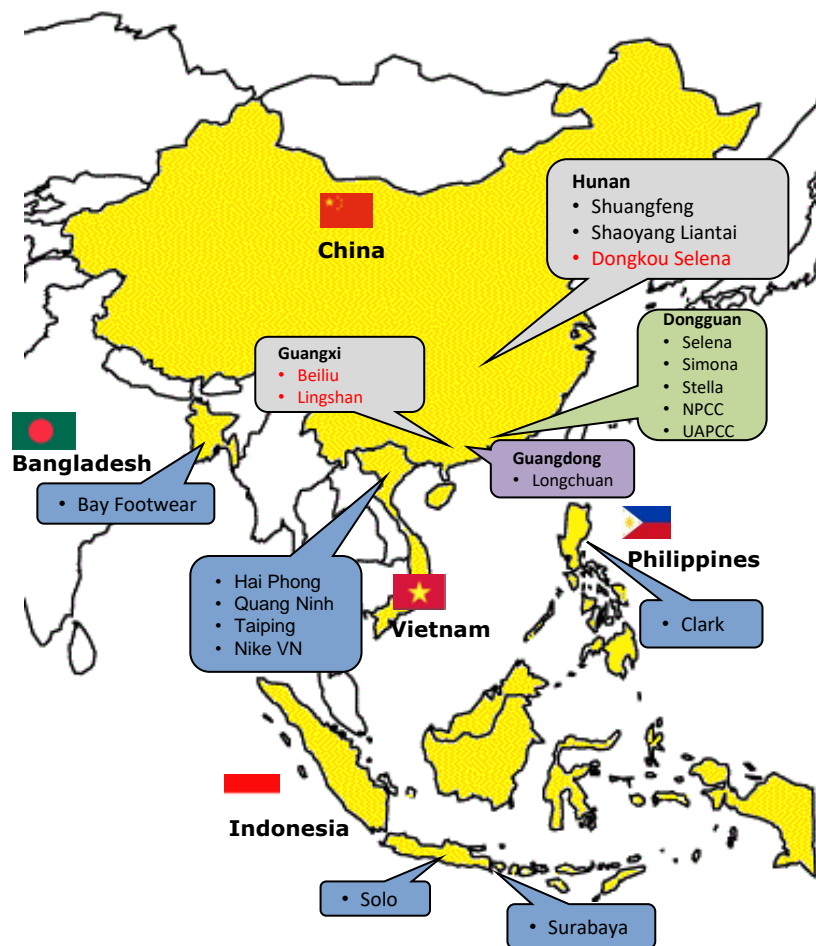


- Slight decrease in ASP due to changes to our product mix and customer mix

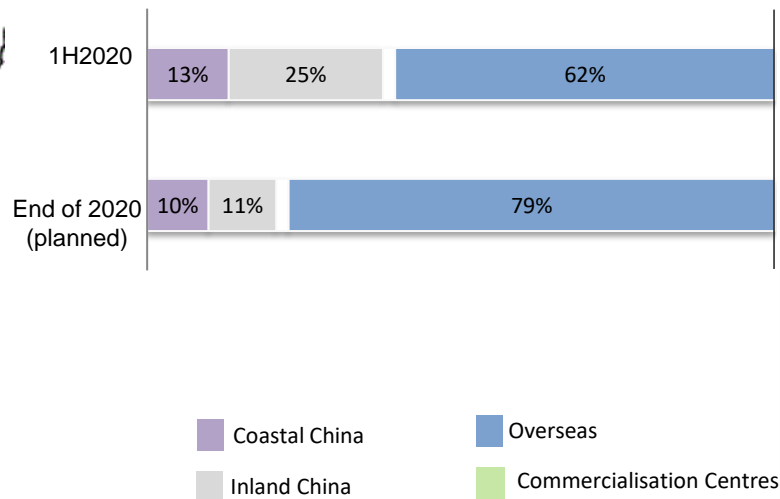


Our Manufacturing Facilities

Facility Locations



Capacity by Locations

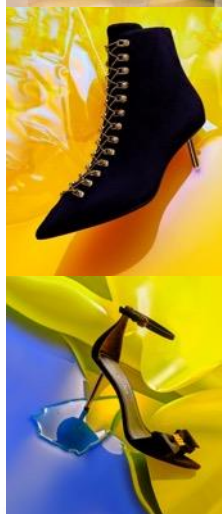
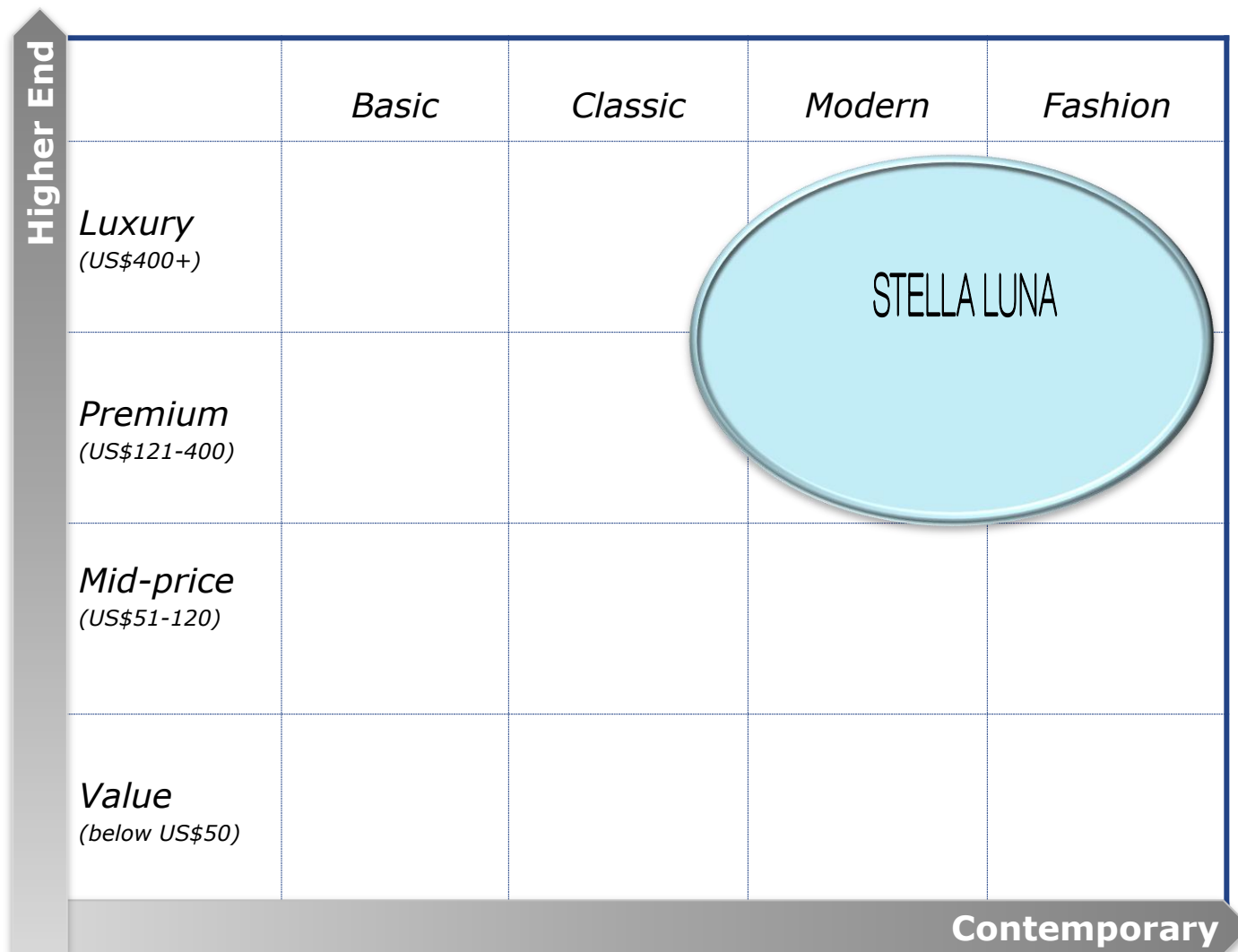


BUSINESS REVIEW

BRANDING BUSINESS



Our Retail Brand Positioning: Affordable Luxury



Brand Building

International Celebrities – MEDIA EXPOSURE



Maggie Lawson, American actress,
attending the Entertainment Weekly
Pre-SAG Celebration



Madison Beer, American singer,
attending the Abyss by Abby Launch



Alexina Graham, British model,
attending Bvlgari B.zero1 Rock
collection event

Brand Building

Asian Celebrities – MEDIA EXPOSURE



Stephy Qi (戚薇),
Chinese actress




Eva Huang (黄圣依),
Chinese actress



Lareina Song (宋祖儿),
Chinese actress

Branding Business Severely Affected by COVID-19

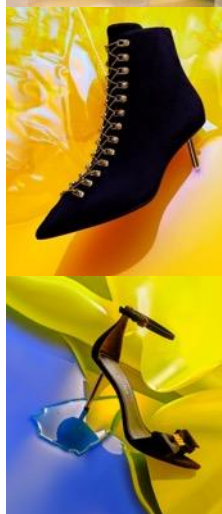


Own brand products demonstrate Stella's high-end craftsmanship, design and commercialization capability

Retail business in Europe severely affected by the pandemic with city lockdowns

Revisiting retail footprint and cost structure

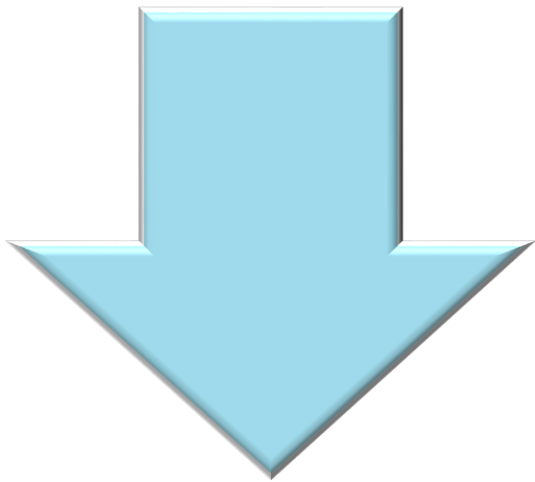
Put focus on cost reduction



OUTLOOK



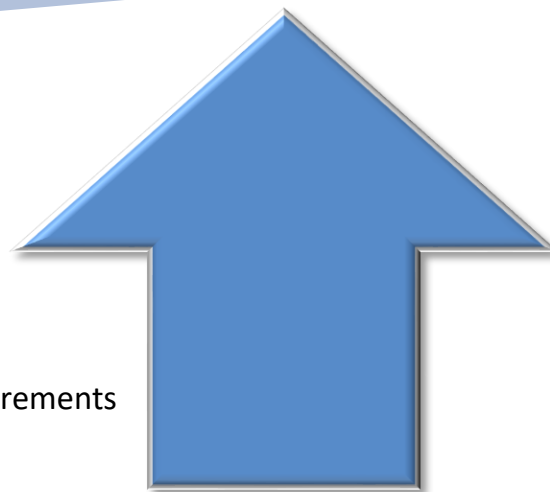
Challenges and Opportunities



- Global outbreak of COVID-19
- Global trade policies (e.g. US–China trade tensions)
- Speed to market – supply chain flexibility
- Direct to Consumer is the new direction → Changes in procurement and ordering
- Ongoing consolidation among footwear brands
- Counter-party risk control and management



- Increased popularity of athleisure
- High fashion brands expanding into athleisure category
- Brands to diversify their supply chain base
- Brands to seek new suppliers to meet different requirements
- Consolidation of footwear manufacturing industry



Outlook

- Visibility remains low, esp Spring 2021 season
- Continue to focus on credit risk and cashflow management
- Improve operational efficiency (i.e. lean working capital management) and resume margin growth in 2021
- Continue to implement long-term strategic initiatives despite pandemic
 - Enhance cost efficiency -- New factory in Indonesia
 - Business growth -- Integration of handbag business
- Explore new customer opportunities



To build stronger fundamentals for future growth



SUPPLEMENTARY INFORMATION



World Premium Footwear Market – Our Target Market

Premium Footwear Manufacturing Industry in Western Europe and Brazil

(2019, million pairs)

'm pairs/ USD	Production	Export price (leather only) (USD per pair)
Italy	106	75
France	30	72
Spain	43	40
Germany	95	40
Portugal	54	33
Netherland	45	33
Belgium	64	32
United Kingdom	28	28
Brazil	18	23
Stella	59	26
STELLA's addressable market size: about 540 million pairs		

Source: i) 2020 Yearbook, Portuguese Footwear, Components and Leather Goods Manufacturers' Association

ii) Sectoral Report 2020, Brazilian Footwear Industries Association, Abicalcados

