



2017

Annual Results



LI-NING

LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with Limited liability)

(Stock Code: 2331)

2017
Annual Report

Disclaimer

This presentation incorporates information contained in the annual results announcement (the “Results Announcement”) for the year ended 31 December 2017 of Li Ning Company Limited (the “Company”). This presentation should be read in conjunction with the Results Announcement and is qualified in its entirety by the more detailed information and financial information contained in the Results Announcement.

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Agenda

Results Highlights

Financial Review

Business Review

Appendix



Results Highlights

2017 Results Highlights

Financial Highlights :

- **Reported net profit of RMB 515 million, margin raised from 4.1% to 5.8%**
 - Revenue up 11% to RMB 8,874 million
 - Gross profit margin expanded 0.9 percentage points
 - Enhanced operating leverage through disciplined cost management
 - Negative impact of RMB 50 million from new business investment
- **Operating cash flow increased approx. 40% to RMB 1,159 million**
- **Significant improvement in working capital continued**
 - Gross working capital improved (reduced) by over 10% while revenue increased
 - Cash conversion cycle further improved (shortened) by 10 days (2016: 59 days / 2017: 49 days)
 - Gross trade receivables improved (reduced) by 14%

Operational Highlights:

- **High-single digit growth for total platform retail sell-through, including online and offline channels**
- **Channel inventory turnover further improved to 6 months**
- **Overall Same-Store-Sales grew mid-single digit**
- **Retail capabilities improvement continued**
 - Sell-out rate up approx. 4 percentage points
 - Discount rate improved over 1 percentage point



韦德全城3

韦德808低帮版

篮球巨星
德维恩·韦德

LI-NING



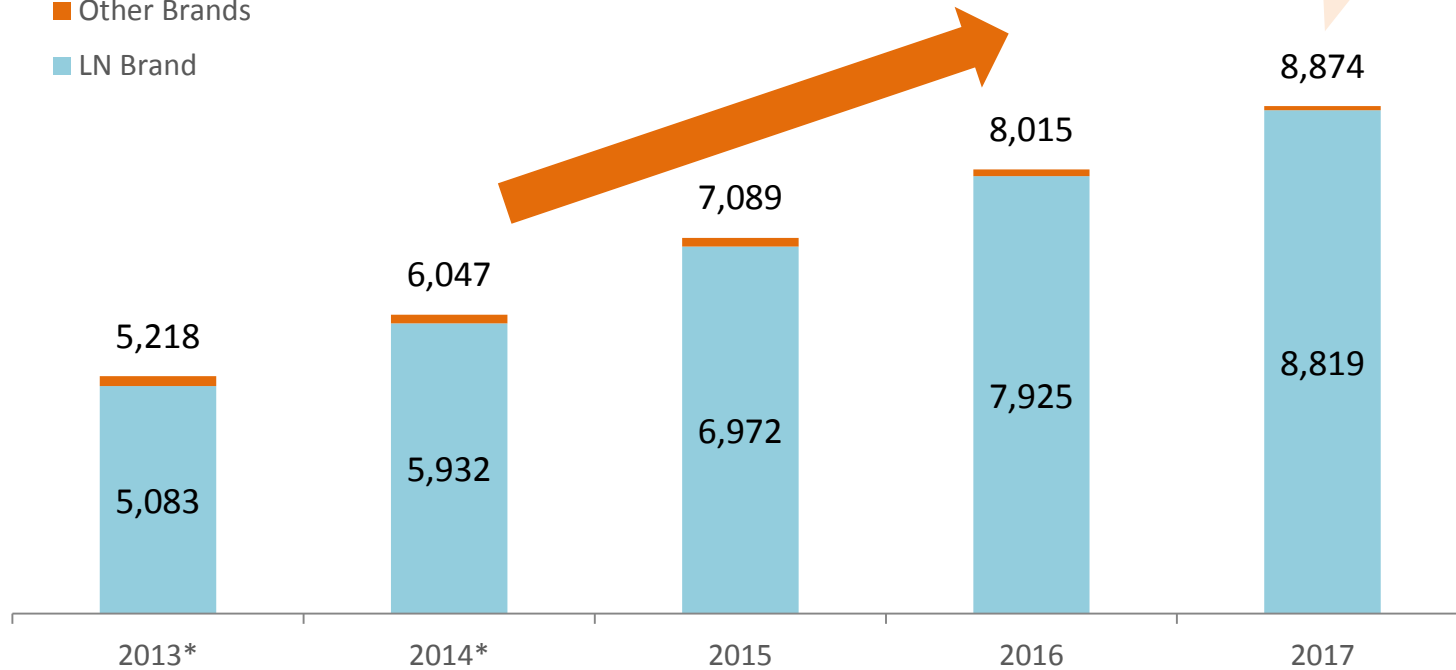
Financial Review

Revenue

Group Total

-RMB Million-

- Other Brands
- LN Brand



YoY Growth

Group: ↑ 11%

LN Brand: ↑ 11%

Growth continued led by Li Ning brand momentum

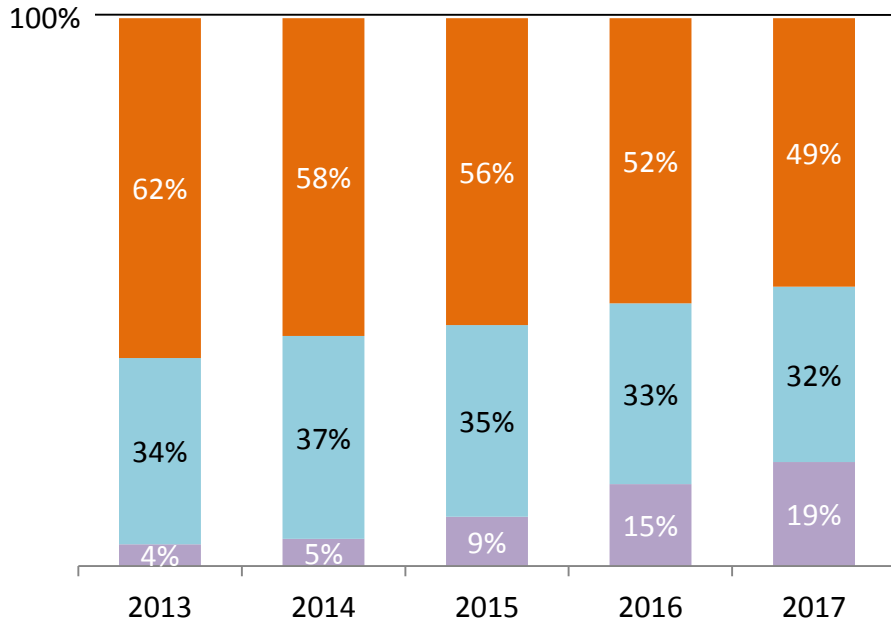
*Excluded Double Happiness

Revenue and Sell-Through Mix

LN Brand, excl. international markets

Company Revenue Mix

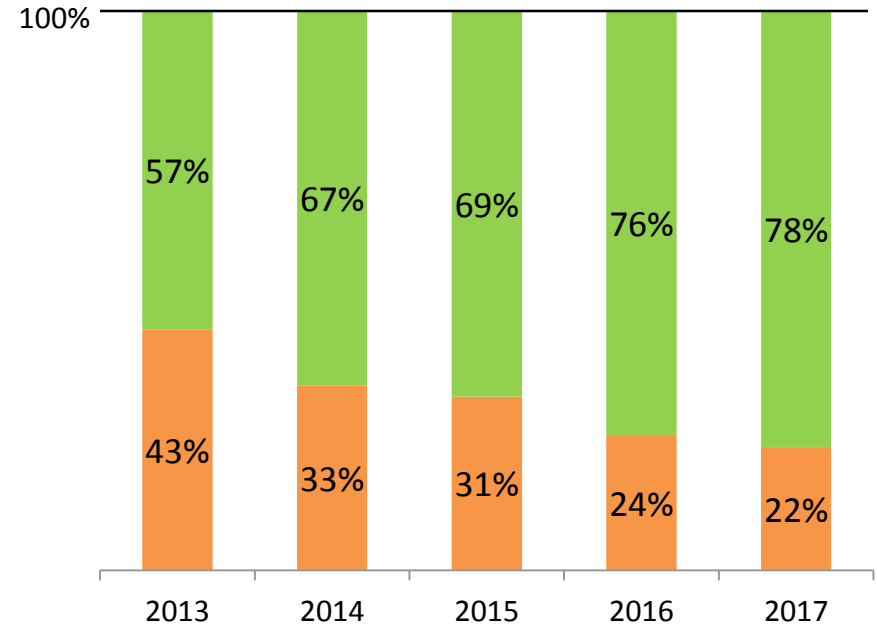
E-commerce Retail Wholesale



Sell-Through Mix

(Incl. Retail, Wholesale and E-commerce)

Old Product New Product (Current and Last Season)



Enhanced profitability driven by further improved business mix

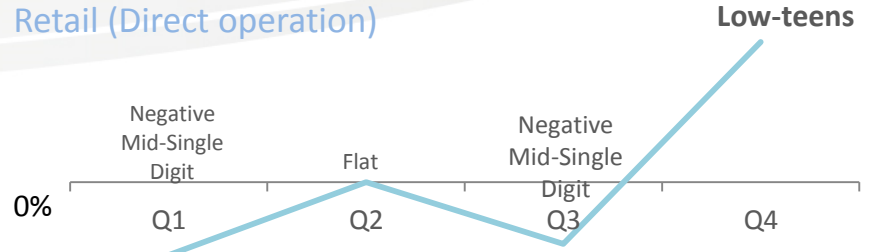
2017 Same Store Sales Growth (SSSG) Rate

LN Brand

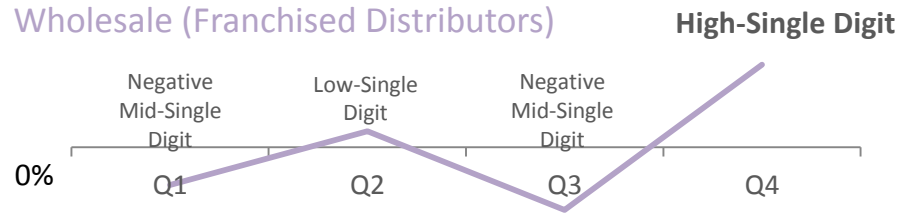
SSSG (Full year 2017)

- Overall
 - Retail
 - Wholesale
 - E-commerce*
- Mid-Single Digit
 - Flat
 - Low-Single Digit
 - Low-Forties

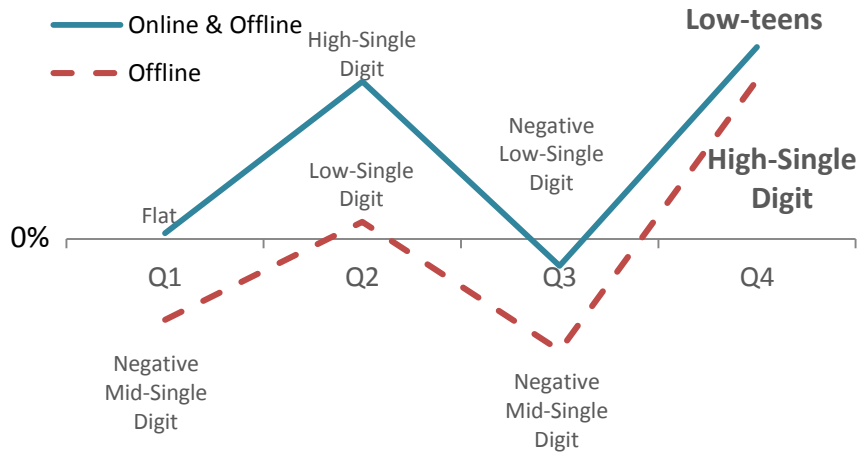
Retail (Direct operation)



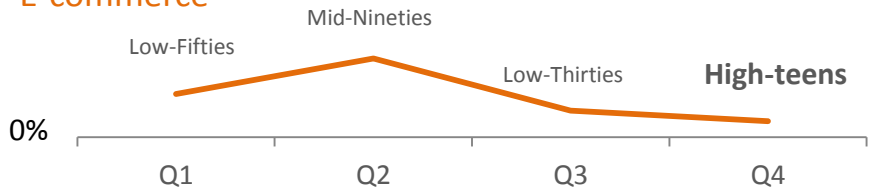
Wholesale (Franchised Distributors)



Overall Platform



E-commerce*

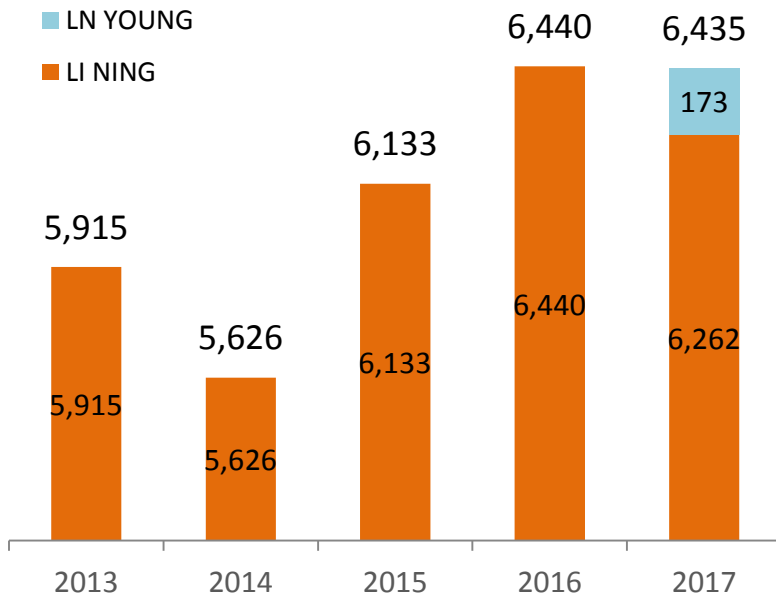


*E-commerce: LN brand sell-through generated from T-mall, JD and Lining.com

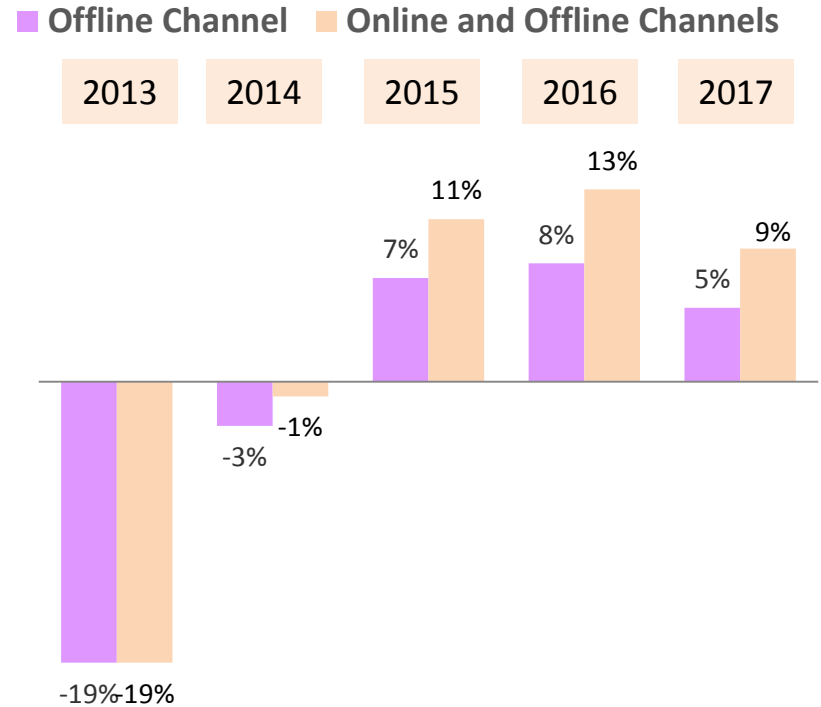
Online and Offline Expansion

LN Brand, excl. international market sales

No. of POS (Period End)



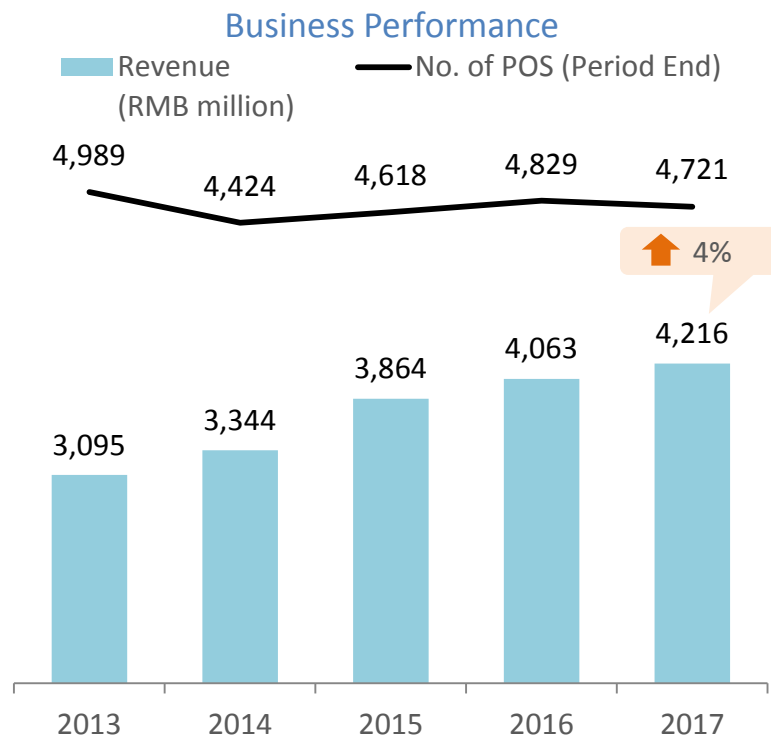
Sell-through growth



Business growth driven by productive expansion

Wholesale Business[^]

LN Brand, excl. international market sales



Wholesale business momentum driven by sustainable trade fair order growth

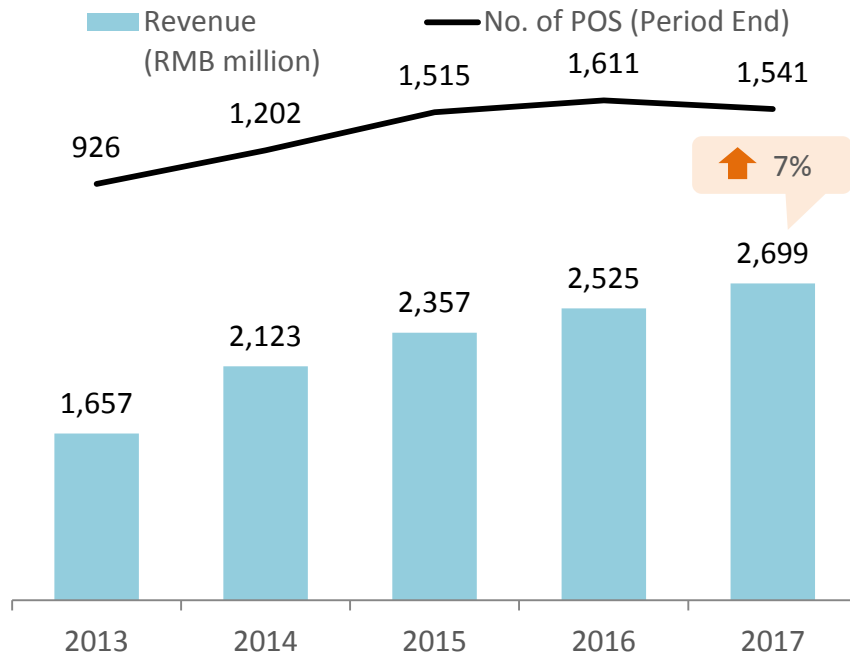
[^] Wholesale business: Including sale of badminton and football categories products to specialty-store channel wholesaler

*Order placed during trade fair (excl. orders from subsidiaries), e.g. 2018Q3 orders were placed about half year ago

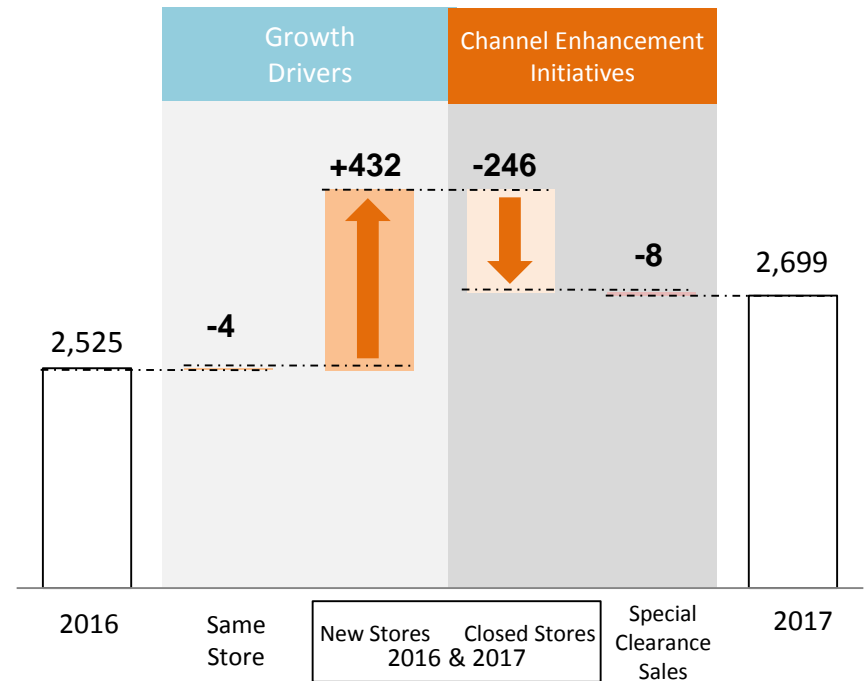
Retail Business[^]

LN Brand

Business Performance



Revenue Growth Analysis

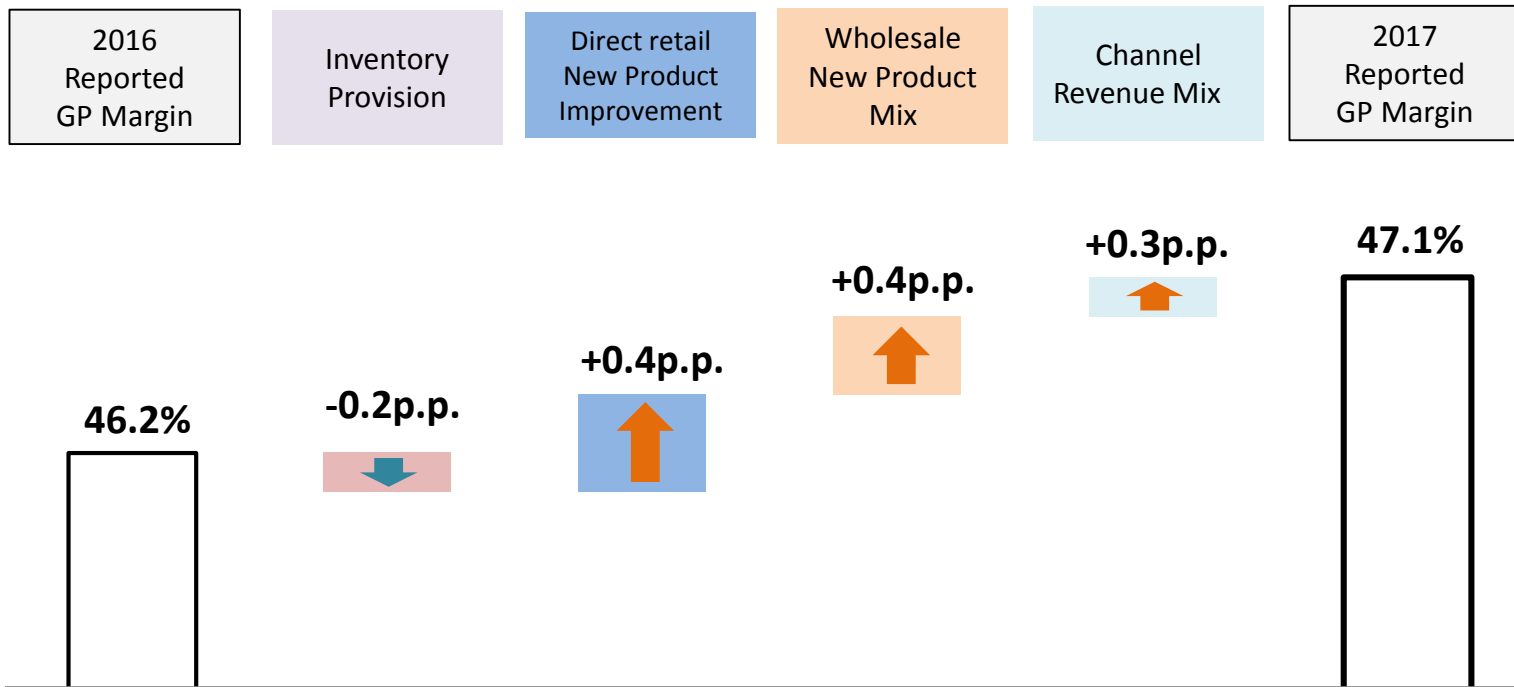


Business growth driven by productive store expansion

[^] Retail business: Refers to direct retail operation
Excluded Blue label concept stores

Gross Profit Margin Analysis – 2017 vs 2016

Net Change in Major Items

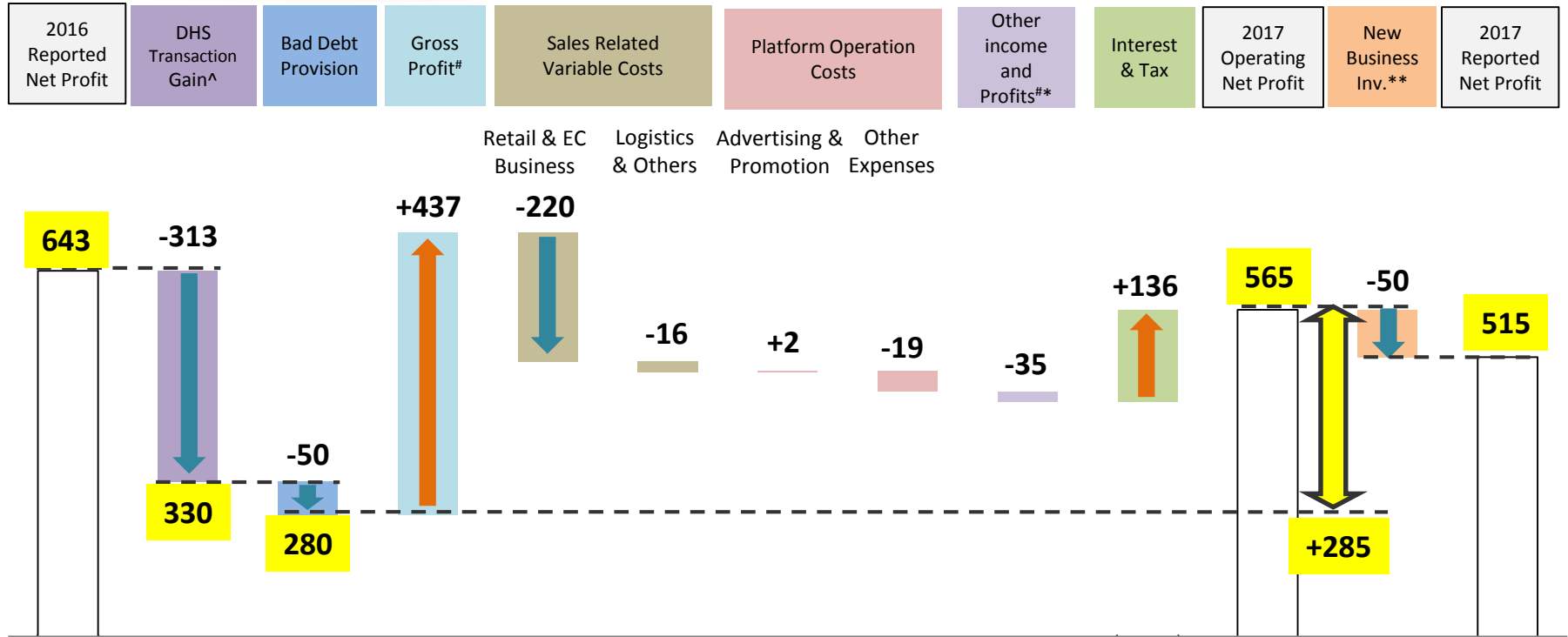


Gross profit margin expansion driven by further enhanced sales mix and product performance

Profitability Analysis – 2017 vs 2016

Net Change of Major P&L Items

-RMB Million-



Enhanced operating leverage through disciplined cost management

^ DHS transaction gain includes the net disposal gain arising from the sale of the 10% equity interest in DHS and a gain on remeasurement of the remaining stake (47.5%)

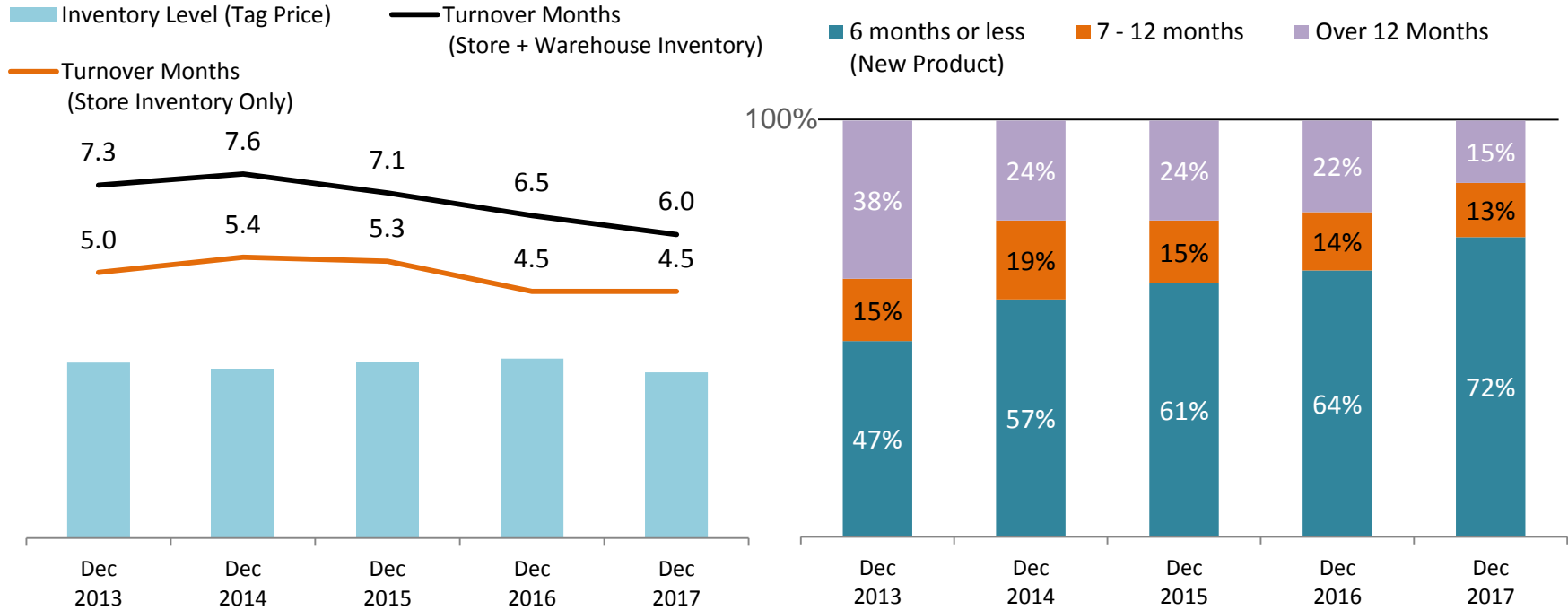
Excluded gross profit generated from new business

*Other income and profits includes (i) Other income and other gains – net (ii) Sharing of profit of investment accounted for using the equity method (iii) Sharing of profit from DHS

**New business investment includes the negative effect on net profit of (i) Danskin, (ii) LN YOUNG and (iii) Blue label

Channel Inventory

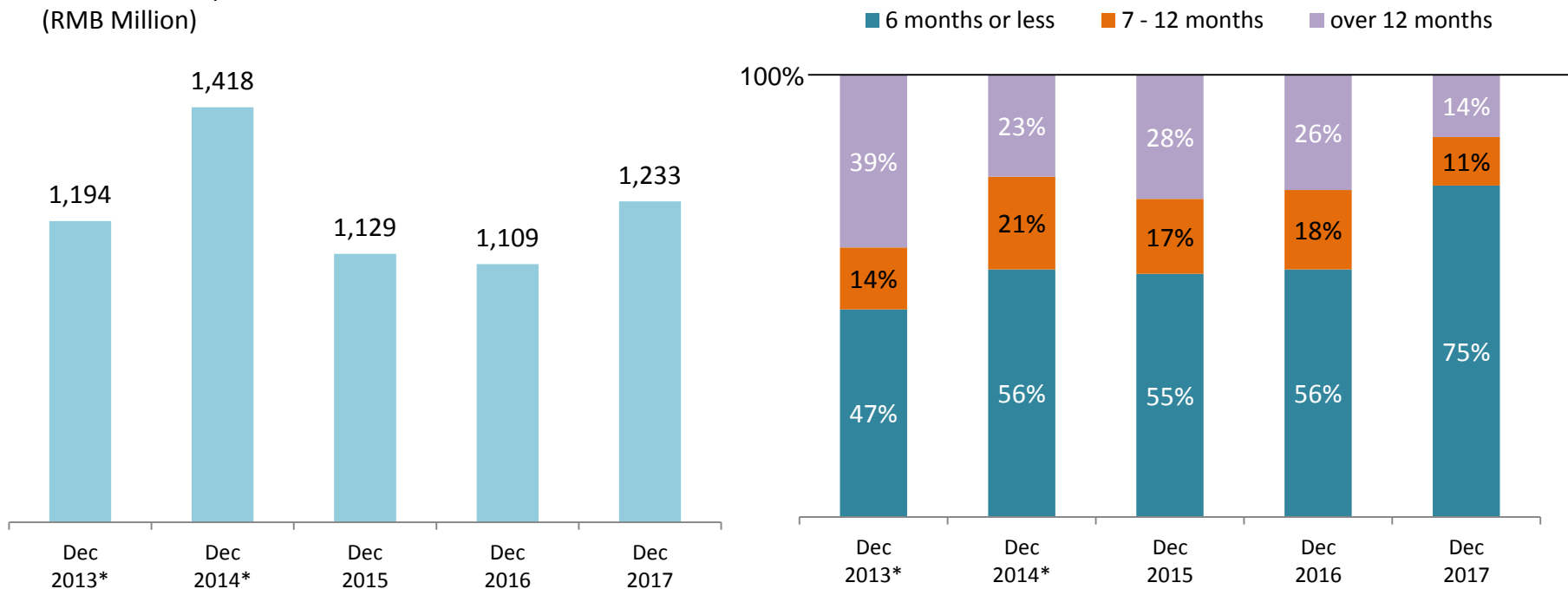
Incl. Retail, Wholesale and E-commerce



Business growth supported by healthy inventory status

Company Inventory

At cost, before provision
(RMB Million)

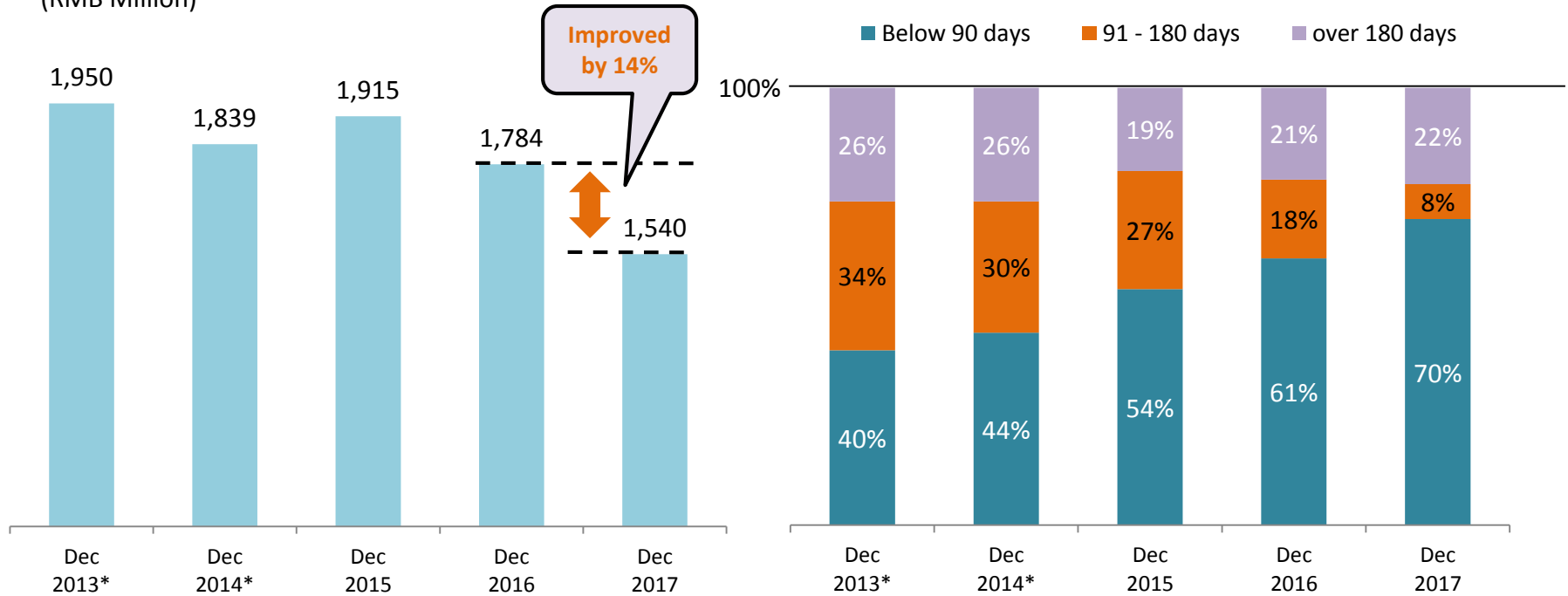


Further optimized inventory established healthy foundation for the multi-business growth

*Excluded Double Happiness

Trade Receivables

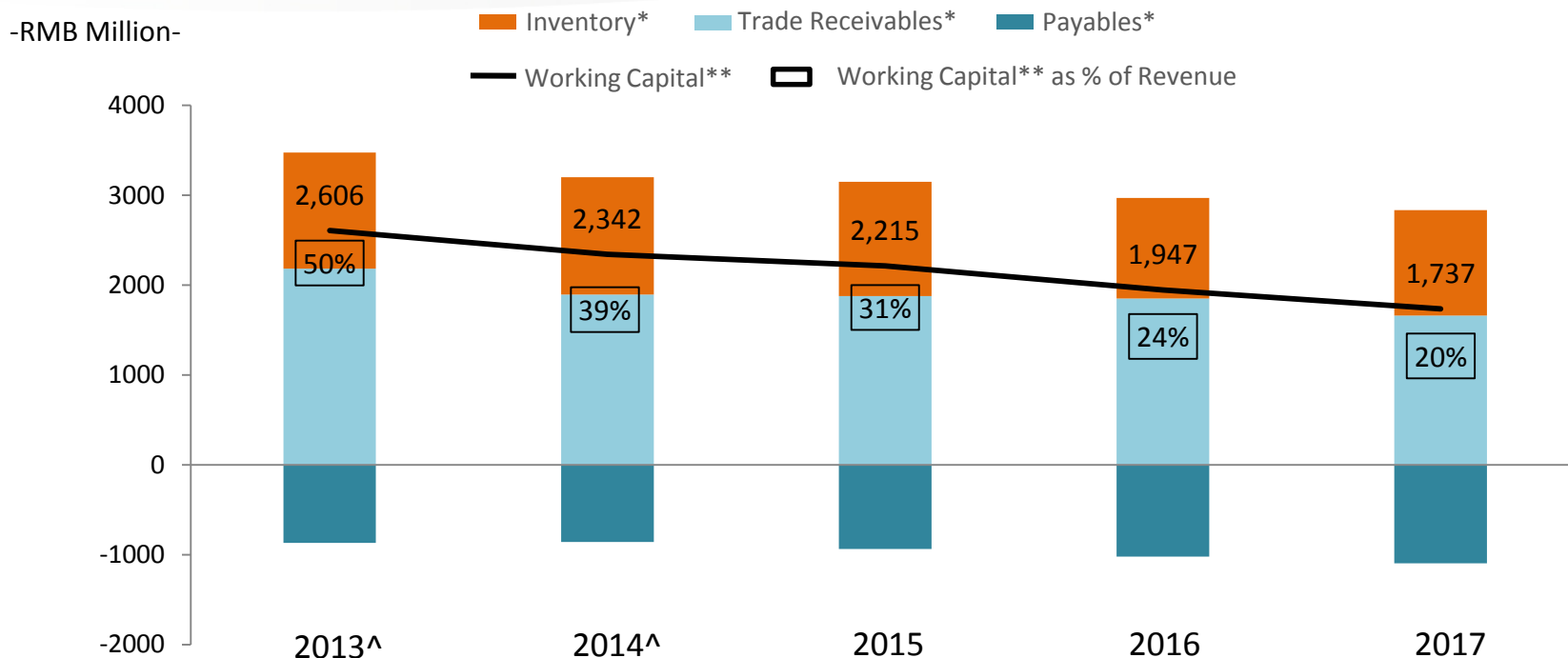
At gross amount, before provision
(RMB Million)



Receivables volume and aging improved simultaneously

*Excluded Double Happiness

Working Capital Efficiency



Further enhanced working capital

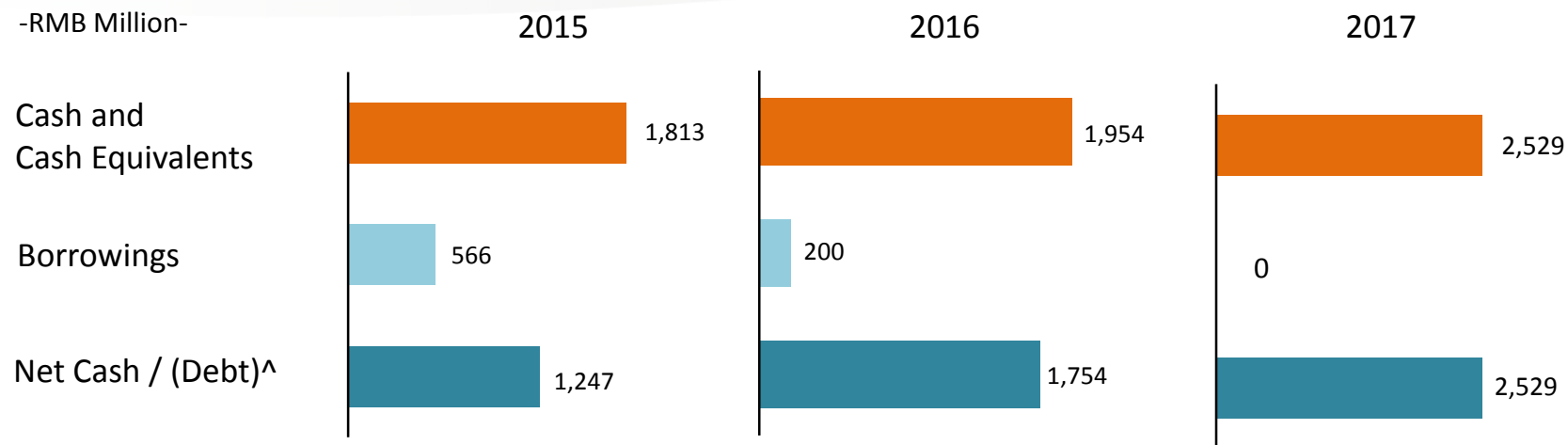
* Simple average between period opening and ending

**Gross Amounts of inventory, trade receivables and payables, without netting off provisions

[^] Excluded Double Happiness

Balance Sheet Summary And Cash Position

-RMB Million-



	2015	2016	2017
Cash Conversion Cycle (Days)	76	59	49

	2015	2016	2017
Current Period Operating Cash Flow*	549	835	1,159

* Excluded Double Happiness

^ Net Cash / (Debt) = Cash and Cash Equivalents – Borrowings



Business Review

Strengthen the LI-LING Brand Value Through Experience, Embrace The Opportunities In Sports Market

Experience through interacting with sports participants, design the products to meet their needs and provide flexible experience according to the different consumption habits.



Sports industry trend in China

- Total retail sales of consumer goods is expected to reach approx. RMB48,000 billion in 2020, with a CAGR of approx. 10%
- Sportswear market is growing at more than 10% and is estimated that the market size would exceed RMB340 billion in 2022



National Policies in favor of industry development

- Implement various policies to foster sports industry development, e.g., “Marathon Sports Industry Development Plan”, “Cycling Sports Industry Development Plan”, “Fencing Sports Industry Development Plan”
- The number of marathons are expected to reach 1,900 races in 2020, while the number of participants of marathon or related races are expected to reach 10 million in 2020
- The market size of marathon sector is expected to reach RMB120 billion in 2020



E-commerce trend

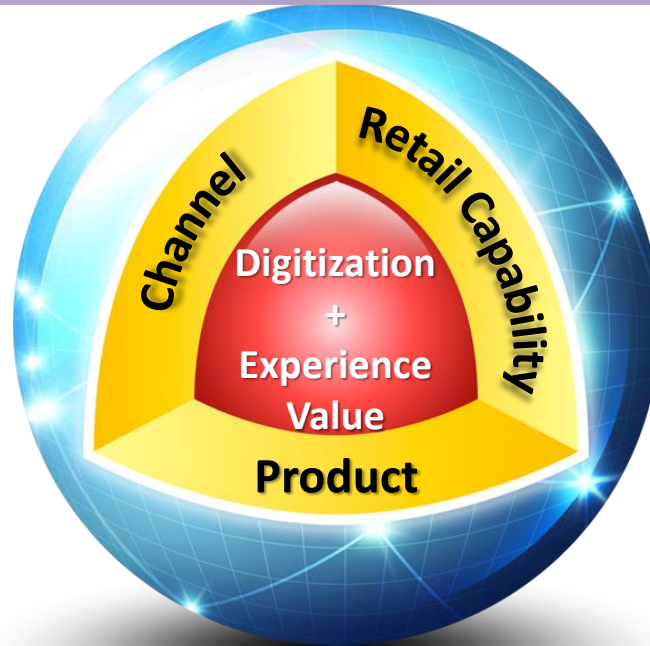
- In 2020, it is expected the transaction amount of e-commerce to reach RMB43.8 trillion with a CAGR of approx. 15%; online retail sales is expected to reach RMB9.6 trillion, with a CAGR of approx. 20%
- Then current e-commerce penetration rate of Li Ning brand is approx. 20% and is expected to further increase



Enhance Experience Value based on the foundation of “Three-Pillar” Strategy and Digitization

- Establish all-rounded experience value through product, channel and retail capability
 - Facilitate a mix of online and offline sales in accordance to data analysis

- Adopt a differentiated operation model based on consumer behavior and preference, to match product planning and assortment
- Implement store differentiated strategy to improve single-store profitability
- Optimize channels to enhance retail sales efficiency, by closing down low productivity and loss-making stores








- Establish retail support and management system based on single-store profitability
- Enhance retail logistics platform to support fast and precision retailing model
- Reinforce the training for frontline salespersons and sports advisors team
- Strengthen membership platform through omni-channel digital marketing



- Enhance product functionality and trendiness in order to meet the differentiated consumer needs
- Improve product life cycle management as well as the variety of product mix

Product: Five Core Categories* Drove Business Growth

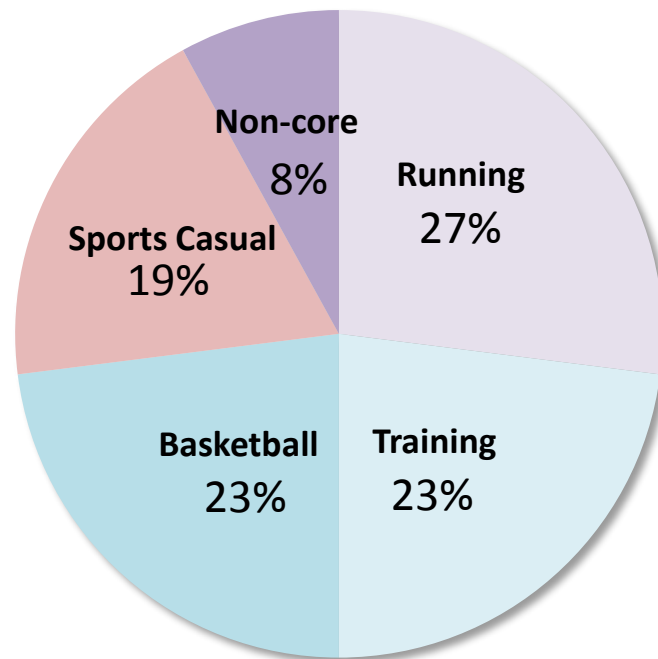
Retail Sell-through

		2017	14-17 CAGR
Overall		↑ 9%	↑ 11%
	Running 	↑ 26%	↑ 34%
	Training 	↑ 17%	↑ 27%
	Basketball 	↑ 7%	↑ 24%
	Sports Casual 	↑ 6%	↓ 3%
	Non-Core	↓ 8%	↓ 19%

Sell-in

	Badminton* 	↑ 11%	↑ 1%
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Retail Sell-through – Mix



*The “Five Core Product Categories” include running, training, basketball, sports casual and badminton
Sales of badminton products are shown with sell-in data for reference as they are mainly distributed via professional channels

Functional Product Series: Running

3 Major SKUs

- Sales volume:

Approx. 2,400,000 pairs

- SO rate (6 months):

Approx. 75%



Super Light Series

- Single-piece knit upper to allow air permeability and enclosure
- Lightweight midsole to enhance comfort and reduce energy loss

LI-Ning Arc

- New shock absorbing technology for the sole
- More comfortable



LI-NING Cloud

- Upgraded Cloud technology provide better cushioning and rebounding
- Soft and lightweight, enhance sports performance



Functional Product Series: Training

Training Footwear Series

- Breathable one-piece knit
- EVA light sole provide flexibility
- Reinforced support provide good protection
- Elastic big sole enhances flexibility

2 Major SKUs



- Sales Volume:
Approx. 260,000 pairs
- SO rate (6 months):
Approx. 80%

Protection :

AT PROOF WIND/ AT-
BACTERIA



Quick-dry :

AT DRY / AT DRY FREEZE



Training Apparel

Top 20% SKUs sales performance

- Sales volume:
Over 7,000,000 units
- SO rate (6 months):
Over 80%
- Account for 77% training apparel sales

Keep Warm :

Far-infrared WARM AT FAR INFRARED



Functional Product Series: Basketball

2 Major Functional Basketball Shoes Series

Professional BB shoes & CBA BB shoes

- “Bounce +” technology provide cushioning and rebounding
- Carbon fiber board provides support and prevents sprains



2017 Sales Performance

- Sales volume:
Approx. 250,000 pairs
- SO rate (6 months):
Approx. 62%



Combination of Function and Fashion; Balance Between Casual and Function

Sports Casual Series

SO rate (6 months): **Over 65%**

Sales volume: **Over 4,000,000 (units/pairs)**



- Multi-color mix & match, break up the boredom
- Classic mix & match
- Comfortable

“WADE” Apparel Series

Sales volume growth **approx. 80% (YoY)** in 2017

Sales volume: **Over 2,000,000 units**

SO rate (6 months): **Over 75%**



- Trendy and stylish sports casual
- Casual and all-match, simple but fashion
- Provide choices of diversified all season products

BAD FIVE

Fully launched in 2017Q1

Sales volume: **Approx. 3,000,000 units**

SO rate (6 months): **Over 70%**



- Focus on street basketball fashion
- Playful design, simple but fashionable
- Trendy and stylish, sporty and energetic

Channel: Online/Offline Integration

Enhanced efficiency and experience

Forecast system based on data analysis

- More accurate product planning and sales forecast
- Coordinate and integrate forecast with supply chain to improve operating efficiency
- Increase customer loyalty through enhancing user experience
- Continuously increase O2O interaction to seek for business opportunities



Well-defined store categories, focused on experience-store, large store with high productivity and category theme store

- ✓ Enhance consumer's experience
- ✓ Optimize and Innovate Stores VI/VM
- ✓ Strengthen product and retail operation



Channel: Optimization based on digitization, membership marketing, individual stores membership management



- Festival holiday promotion
- VIP promotion

Increase conversion rate, units per transaction and average transaction amount through promotions

Increase store and E-commerce sales opportunities by O2O integration

- Brand Wechat account
- Individual store Wechat
- Staff owned marketing in new media

Expand the scope of consumers by Online marketing

Enhance human flow to stimulate transaction volume, by Thematic marketing in-store

- Increase store human flow by collaboration between channels
- O2O experience – Online sales with offline experience and direct delivery to home
- In-store thematic events
- Limited version and meeting events
- IRUN club and training consultancy

Channel: Capitalized on trends, Diversified online experience

Precision Marketing

Content marketing + interaction

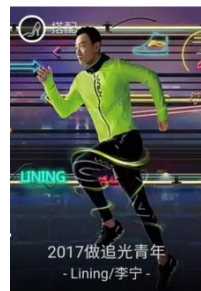


User interaction, increase customer loyalty · establish unique “We Media” of the store

Trendy Crowd



Professional Crowd



Live Streaming



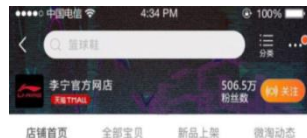
Increase view conversion rate to over **12.8%**



Promotion for pre-launch; Online viewers reached **240,000**



More than **530,000** views since the night walker video has been uploaded for two days



光影念念
比较喜欢李宁绝影全掌气垫,跑鞋采用一体织工艺编织鞋面,鞋头有细密网孔,双脚自由呼吸,减少闷热感,底部有全掌托气垫,高效分解脚部压力,长跑更加省心,而且渐变色彩设计将美学和动感结合在一起,跑起来很拉风。对于体重人来说确实不错,要跑步,要李宁!



#开学福利#来晒成绩单,校花MM等你来哟!



站住!谁准你们健身还要秀恩爱的??!



惊喜来袭!六月宁粉福利月,千元豪礼就宠你!

Channel: Experience store – Building a brand image to improve experience value



2017 Experience Store Performance

Store Count: 23 stores

Average Size: 451 sqmt

Sports Experience participation:

Approx 40,000 people

Sales related to sports experience:

4.35%

Shanghai Daning International Commercial Plaza Experience Store

- Opened in 2016Q1
- Store Size: Over 650 square meters



Tianjin Heping Commercial Building



- Upgraded in 2017Q4
- Store Size: Over 780 square meters

Channel: Larger stores with high store productivity

Efficient operation to generate profit



Xian SAGA International Shopping mall



- Opened in 2016Q4
- Located in the core business district in the most important city in Northwest China
- Store Size: Approx. 400 square meters

Tianjin INBASE LN store

- Opened in 2017Q2
- Store Size: Over 550 square meters



Channel: Well-defined category stores



Category store –Sports Casual store Shanghai Wujiaochang Wanda Plaza



- Opened in 2017Q4
- Store Size:
Approx. 200 Square Meters



Category store – 7th generation store Shandong zaozhuang ji pin xi jie store

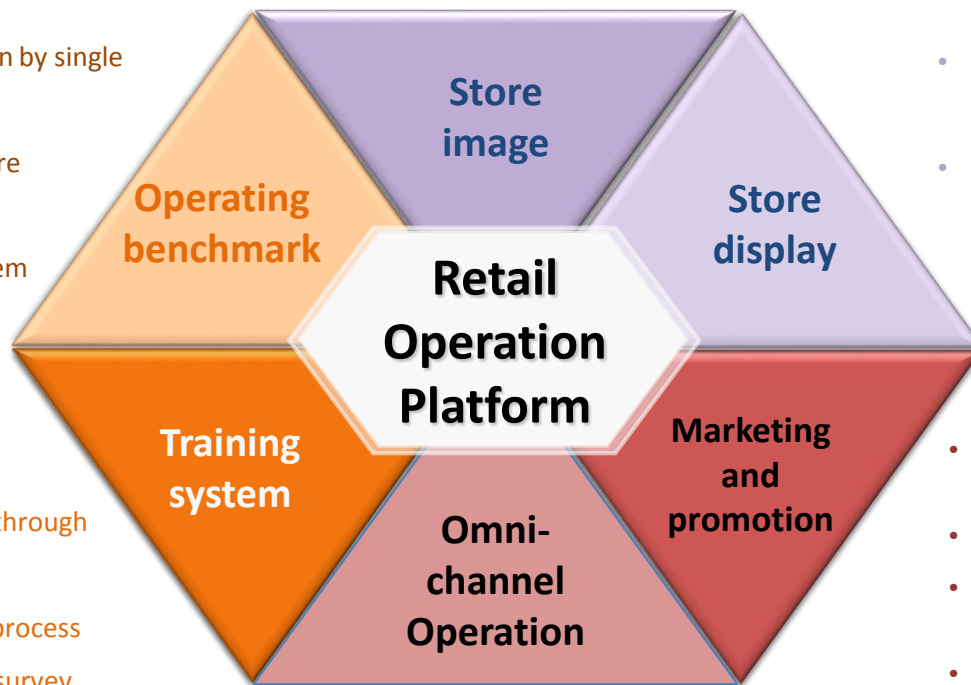


- Upgraded in 2017Q4
- Store Size: Approx. 250 square meters

Retail Capability: Optimizing Retail Operation Platform

- Improve visual display, sports experience and interaction of efficient large store
- Focused showcase of casual products in Sports casual stores to enhance the brand's sports fashion image

- Strengthen retail operation by single store management
- Refined and upgraded store management system
- Enhanced evaluation system



- Increase visual display, such as electronic display
- Enhance shopping experience through branding, promotions and consumer communications

- Continue to strengthen store and online members marketing
- Improve members communication system
- Extend member's interactive in both online and offline channel
- Enhance VIP loyalty
- Use member information data to establish personalized service

- Facilitate O2O all-in-one inventory system
- Further enhance direct to store delivery(2017: 300 stores)

Retail Capability: Strengthened The Retail Operation

“Closed Loop”

Offline Channel Sales Performance

- Sell-through: mid single-digit growth
- Sales Volume: low single-digit growth

News Product Performance

- Contribution to total sales: up 2 p.p.
- Sell-through: increase by approx. 8%

New Product Sell-out Rate

- 6 months: up 4 p.p.
- 3 months: up 4 p.p.



Offline Channel Sales Efficiency

- SSSG: low single-digit decline
- Retail Discount: increased 1.1 p.p.

Over 12 months inventory mix

- Channel: declined (improved) 6 p.p.
- Company: declined (improved) 12 p.p.

Operating Cash Flow

- Cashflow from operating activities: RMB1.16 billion net inflow
- Net Cash: increased by RMB775 million
- Trade receivables before provisions: Amount decreased (Improved) by 14%
- Cash conversion cycle: decreased(improved) by 10 days

New Business: DANSKIN

DANSKIN 

- Product positioned as a women's fashionable sports performance product.
- The product line includes the STUIDO series (sports and fitness), the U-RHYTHM series (fashion trendsetting), and the O-LEISURE series (simple but diversified choices for white collar based on the daily needs in the workplace).
- Digital marketing will be the main channel to deliver brand values
- 2017 opened 2 stores and 2 flash stores, expected to open 15-30 stores in 2018





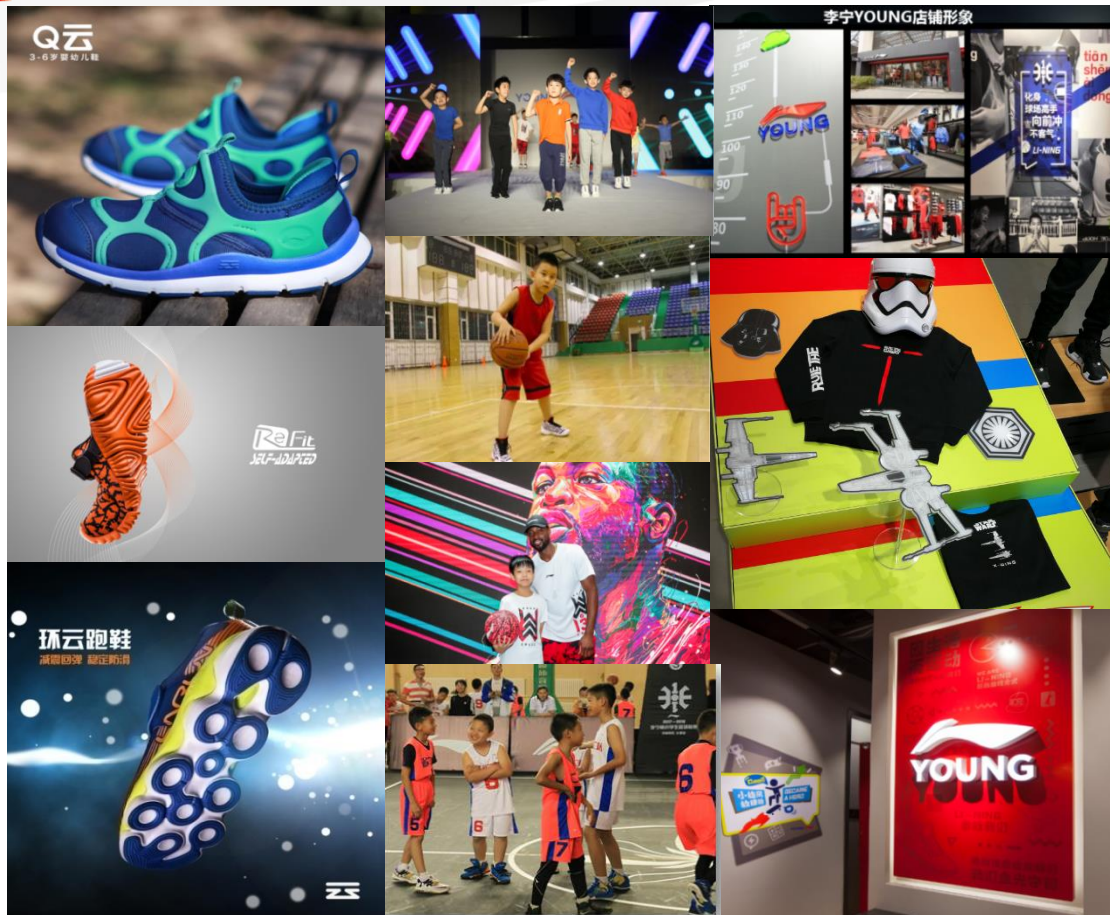
互动 • K11 店内舞蹈课



New Business: LN YOUNG

YOUNG

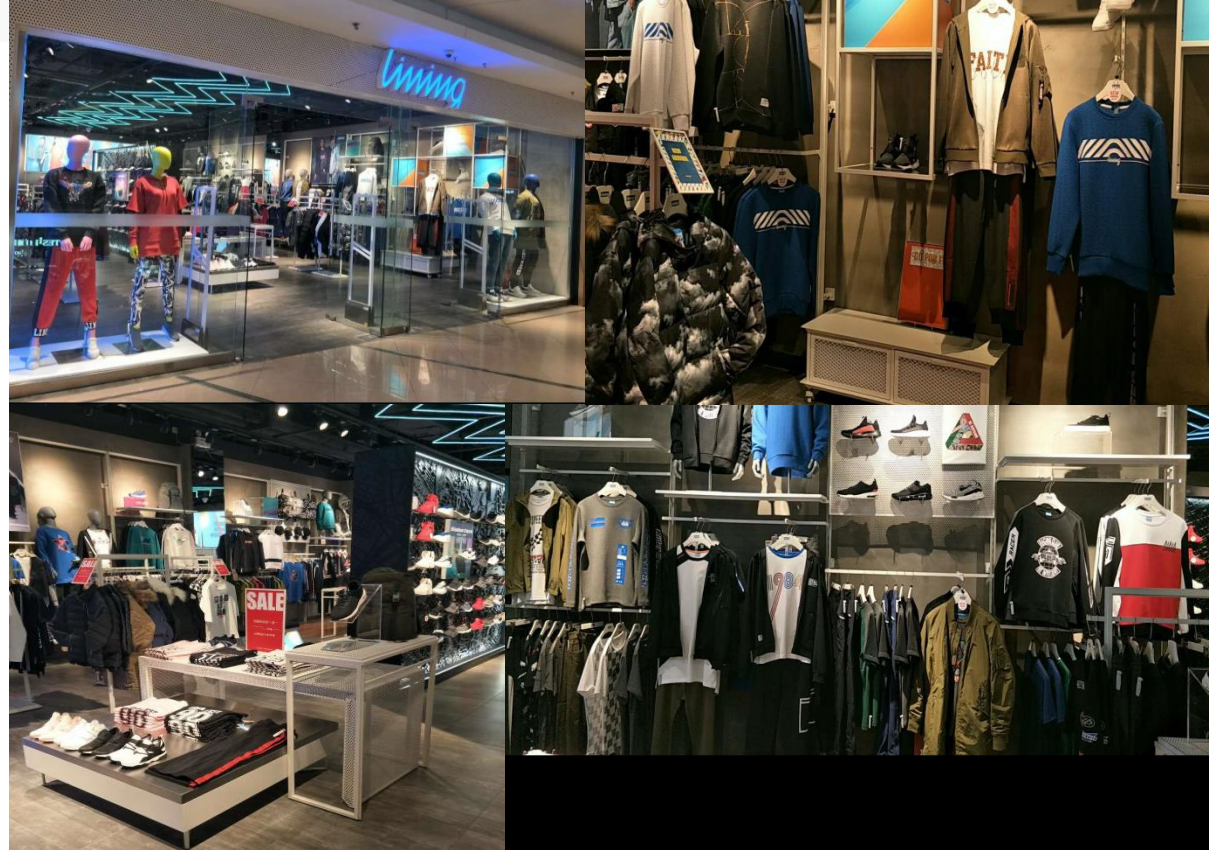
- Prudent expansion, focus on single store profit
- 2017 opened 173 stores, and taken over the distributors (361 stores) from the 3rd party at Jan 1, 2018.
- Channel development based on market demand, LN YOUNG stores **YOUNG**  cover the market of age 3-14; LN KIDS stores **KIDS**  focus on the market of 3-6.
- Develop retail business model based on product and store profitability.
- Planned to open 100-200 stores in 2018



New Business:



- Further refine products and quality based on fashion and creative living style
- Product continued on sports fashion while down to different daily scenes, including travel vacation and “high street” series.
- A more diverse channel development strategy, focus on upgrade store image to enhance brand feature
- As of the end of 2017, the brand has opened 11 sales outlets.
- Planned to open 10-15 stores in 2018 and explore the possibility of development in various channels



New York Fashion Week: Enhance Brand International Reputation

New York Fashion Week

- During the 4 days since product exposure, nearly **10,000 communication briefings** were collected
- **# Li Ning, China #** Weibo topic discussion reading volume reached **78 million**
- Weibo **6,834 articles** in total
 - 144 Weibo accounts have more than 1 million fans
 - **19** WeiXin articles reading more than **100,000**
- The first step for elevate domestic brand to international market and a higher recognition of Chinese culture



New York Fashion Week: Enhance Brand International Reputation



Understand ·Way of Living (悟·道)

The Chinese understands Chinese philosophy and practices it as their way of living.

As the sports brand representing Chinese sportsmanship, LI-NING witnesses the rise of Chinese philosophy and the oriental power.



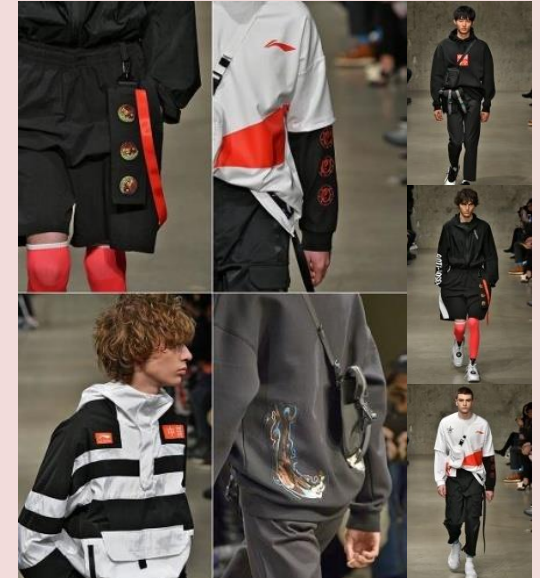
Retro Sports Style



Chinese Style



Practical function
Modern sense of sports



Chinese traditional skills
Suzhou embroidery

New York Fashion Week: Enhance Brand International Reputation



FN

BEST PRODUCT REVIEWS SPY

FN HOME RUNWAY FALL 2018

Li-Ning Delivers Its Take on the Hottest Sneaker Trends for Its NYFW Debut

By Peter Verry / February 7, 2018 4:59PM

f t p +



View Slideshow

A model during Li-Ning's New York Fashion Week debut in New York City.
Rex Shutterstock

WWD

SEE MY OPTIONS

Li-Ning Men's Fall 2018

The brand was founded by an Olympic medal-winning gymnast.


By Jean E. Palmieri on February 7, 2018

f t p +



Tweet

Scott Eastwood & Cameron Dallas Sit Front Row at Li-Ning NYFW Fashion Show!



WED, 07 FEBRUARY 2018 AT 3:29 PM

All Star LI NING center: Strengthen the professional image



NBA 2017/18 All Star Weekend

Professional Brand Image



Training - Dr1ven leads composite training

Products - Accredited Footwear and Apparel for High School training camp and Media Challenge

Resources - 6 NBA players attend the event

Li Ning and Wade Brand relevance



AliExpress official store fans increased over 1700 people after the reported the event site image, products and media coverage

Expand the US And international channels



"Basketball + fashion" got primary approved by 10 trendy shops
Event Site: casual style shoes sold out 54%, WOW 6 sold out 89%

All Star LI NING center: Strengthen the professional image



NBA 2017/18 All Star Weekend

Feb 16

**CJ McCollum and Jawun Evans show up in LA Athletic Club
team up with Dr1ven to guide player training**



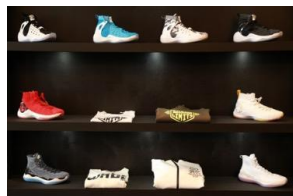
Feb 17

**Dwyane Wade, Tyler Johnson, Michael Carter-Williams
and Udonis Haslem gathered in LA Athletic Club**



All Star LI NING center: Strengthen the professional image

NBA 2017/18 All Star Weekend





CBA 联赛官方战略合作伙伴



闪击时代

闪击时代
Open Forum

Summary of Income Statement and Balance Sheet

(RMB million)	2017	2016	Better/ (Worse)	(RMB Million)	31 Dec 2017	31 Dec 2016	Better/ (Worse)
	Period ended 31 December						
Revenue	8,874	8,015	11%	Cash and Cash Equivalents	2,529	1,954	30%
Gross Profit	4,177	3,705	13%	Borrowings	0	200	N/A
Distribution costs	-3,273	-2,969	(10%)	Convertible Bonds Liabilities	0	568	N/A
Administrative expenses	-501	-424	(18%)	Net Cash*	2,529	1,754	44%
Other income and other gains – net	44	74	(41%)	Current Liabilities	2,128	2,674	20%
Operating Profit	446	386	16%	Current Ratio(times)	2.4	1.7	0.7
EBITDA[#]	889	788	12%	Total Liabilities to	31%	41%	10p.p.
Profit Attributable to Equity Holders[^]	515	330	56%	Total Assets Ratio			
Basic Profit per share(RMB cents)[^]	21.47	14.89	44%				

[#] Adjusted for the contribution from Double Happiness in 2016(Recorded as discontinued operations in 2016, and share of profit using equity method in 2017) for comparison

[^] Excluded the net disposal gain arising from the sale of the 10% equity interest in DHS and a gain on remeasurement of the remaining stake (47.5%)

*Net Cash = Cash and Cash Equivalents – Borrowings

Profit Margins And Key Operating Indicators

	2017	2016	Better/ (Worse)
	Period ended 31 December		
Gross Profit Margin	47.1%	46.2%	0.9p.p.
Operating Profit Margin	5.0%	4.8%	0.2p.p.
EBITDA Margin [#]	10.0%	9.8%	0.2p.p.
Margin of Profit Attributable to Equity Holders [^]	5.8%	4.1%	1.7p.p.
R&D Expenses(as % of revenue)	1.9%	1.6%	(0.3p.p.)
A&P Expenses(as % of revenue)	11.1%	12.3%	1.2p.p.
Staff Costs(as % of revenue)	10.2%	9.7%	(0.5p.p.)

	2017	2016	Better/ (Worse)
	Period ended 31 December		
Inventory Turnover(Days)	80	82	2
Trade Receivables Turnover(Days)	52	64	12
Trade Payables Turnover(Days)	83	87	(4)
Cash Conversion Cycle(Days)	49	59	10
Return on Equity(ROE) [^]	11.4%	9.2%	2.2p.p.
Return on Asset(ROA) [^]	7.3%	4.8%	2.5p.p.
CAPEX(RMB million)	424	433	2%

[#] Adjusted for the contribution from Double Happiness in 2016(Recorded as discontinued operations in 2016, and share of profit using equity method in 2017) for comparison

[^] Excluded the net disposal gain arising from the sale of the 10% equity interest in DHS and a gain on remeasurement of the remaining stake (47.5%)