



LI NING COMPANY LIMITED

李寧有限公司

2014 Annual Results Investor Presentation



Disclaimer

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Agenda

- ▶ Results Highlights
- ▶ Financial Review
- ▶ Operational Review and Strategy
- ▶ Appendix



Results Highlights



2014 Results Highlights

- ✓ **Revenue grew significantly**
 - Full year up 16% to RMB 6,728 million
 - 2014H2 growth accelerated to 23% YoY
- ✓ **Adjusted EBITDA* improved**
 - Full year loss narrowed 48%
 - 2014H2 loss narrowed 82% YoY
- ✓ **Old channel inventory reduced significantly, with higher new product mix**
- ✓ **Channel network stabilized, distributor business started to grow**



Solid foundations in place for next phase of growth

More Improvements Required

- ☐ Control of operating cost and expenses
- ☐ Working capital management
- ☐ Channel profitability
- ☐ Regain mass market share



Operational efficiency to be improved to resume profitability

The background features a complex, abstract design with flowing, wavy lines in shades of blue, orange, and white. Scattered throughout are various geometric shapes, including triangles and polygons in colors like pink, green, yellow, and purple. The overall effect is dynamic and modern.

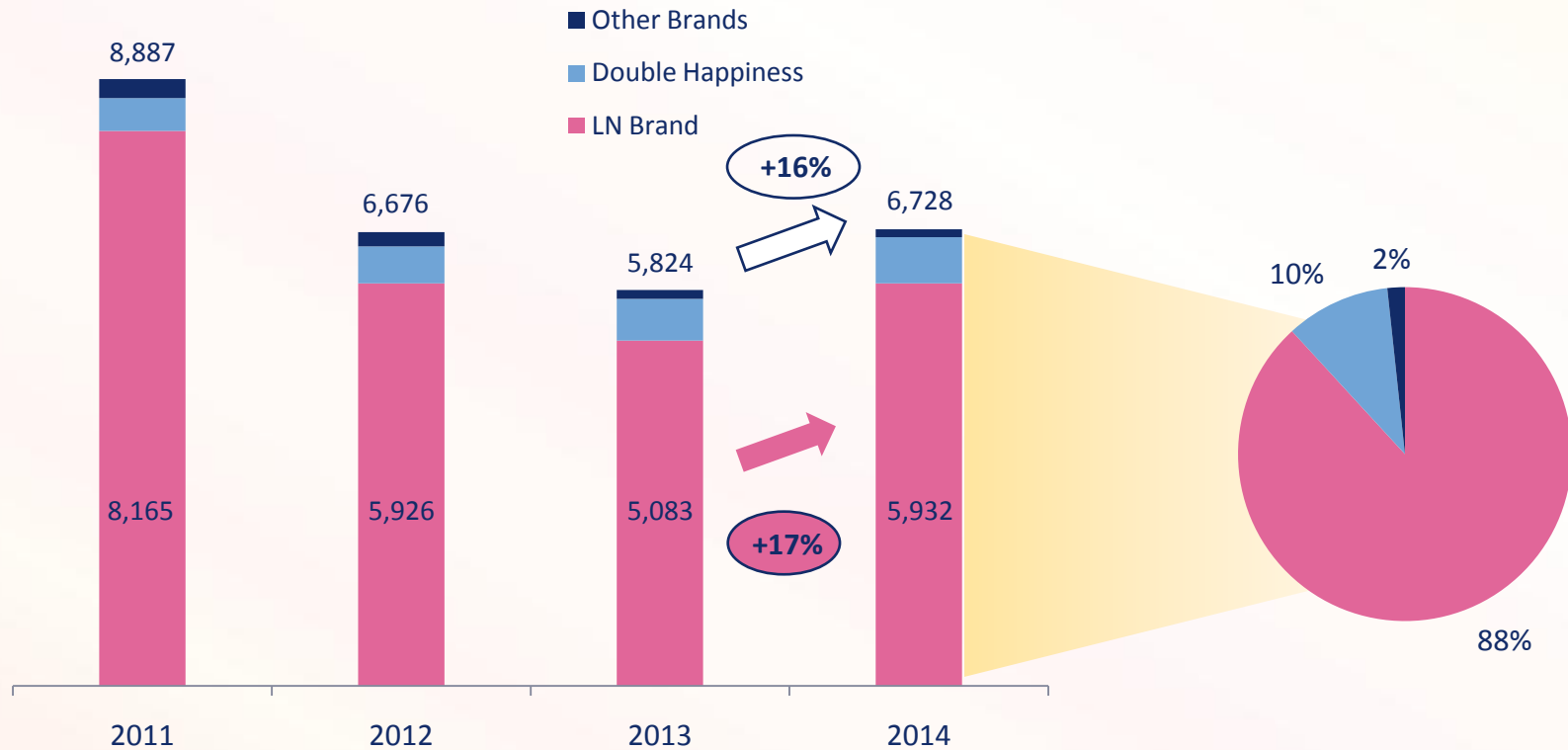
Financial Review

Revenue

(Whole Group)

2014 revenue increased significantly

-RMB Million-

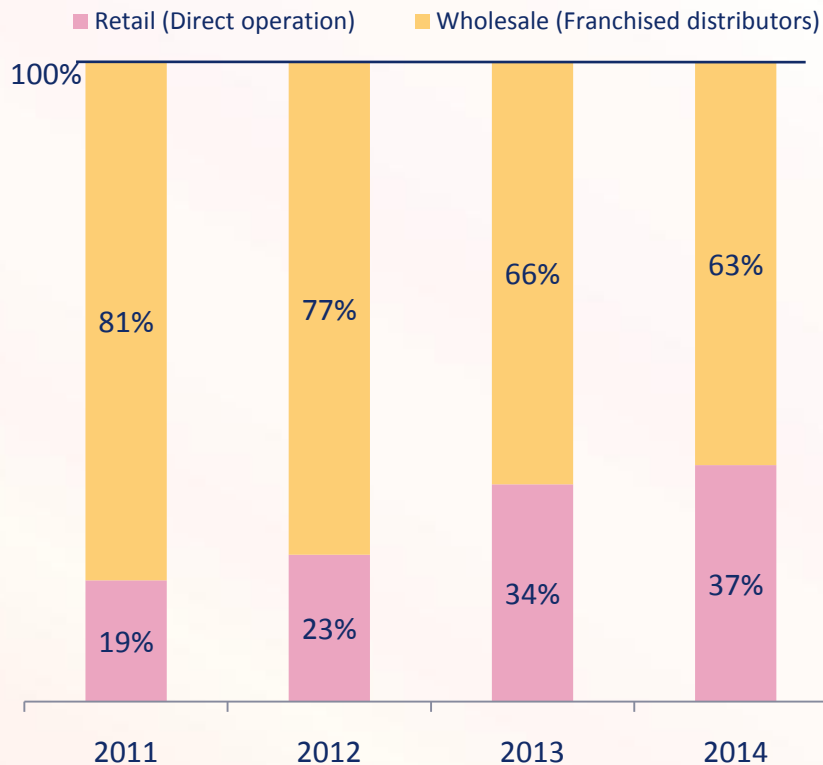


Revenue increased for the first time since 2011

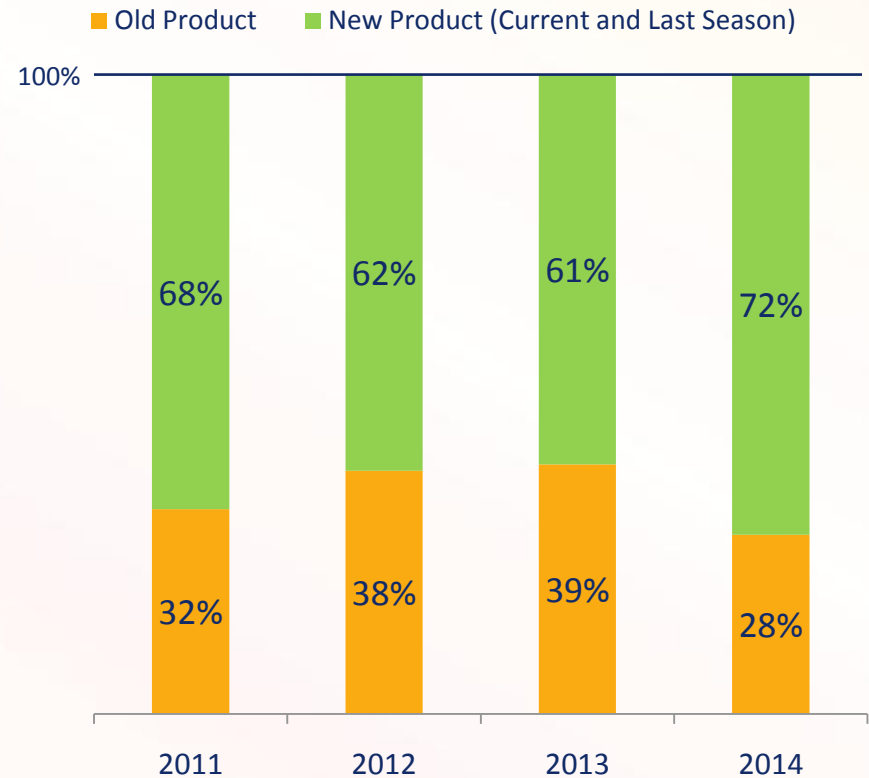
Revenue and Sell-Through Mix

(LN Brand, excl. international market sales)

Company Revenue Mix



Product Retail Sell-Through Mix (All Stores)

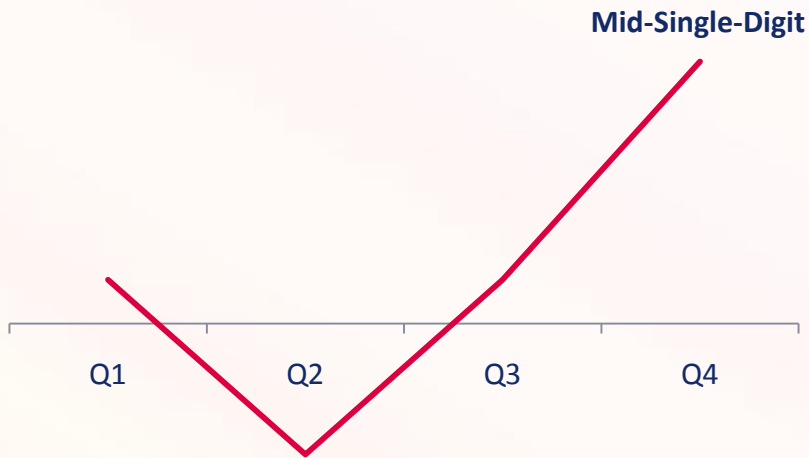


Growth driven by improved new products and retail business expansion

2014 Same Store Sales Growth (SSSG) Rate

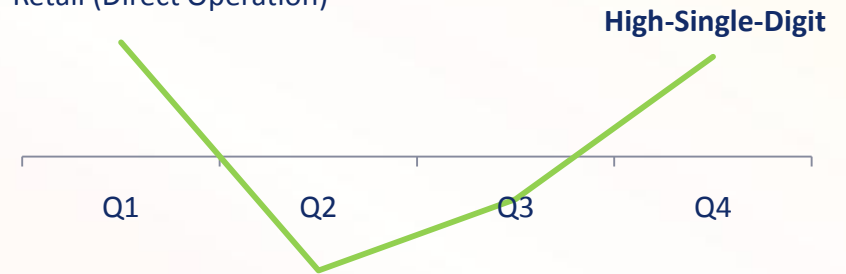
(LN Brand)

Overall Platform

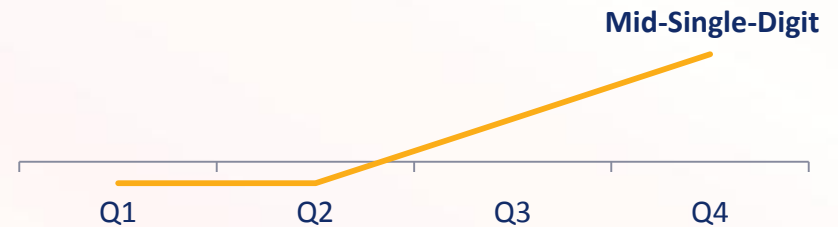


By Channel

Retail (Direct Operation)



Wholesale (Franchised Distributors)

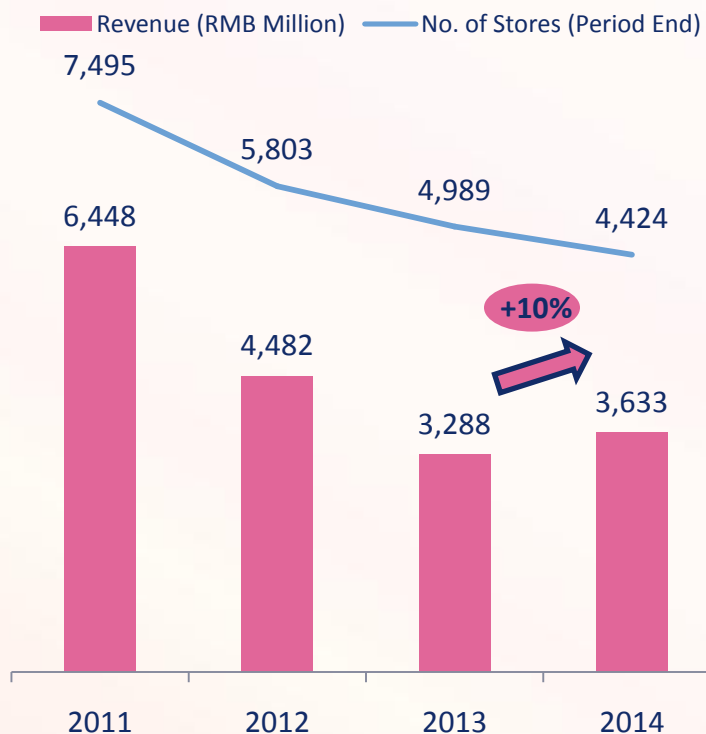


SSSG stabilized and returned to positive in H2

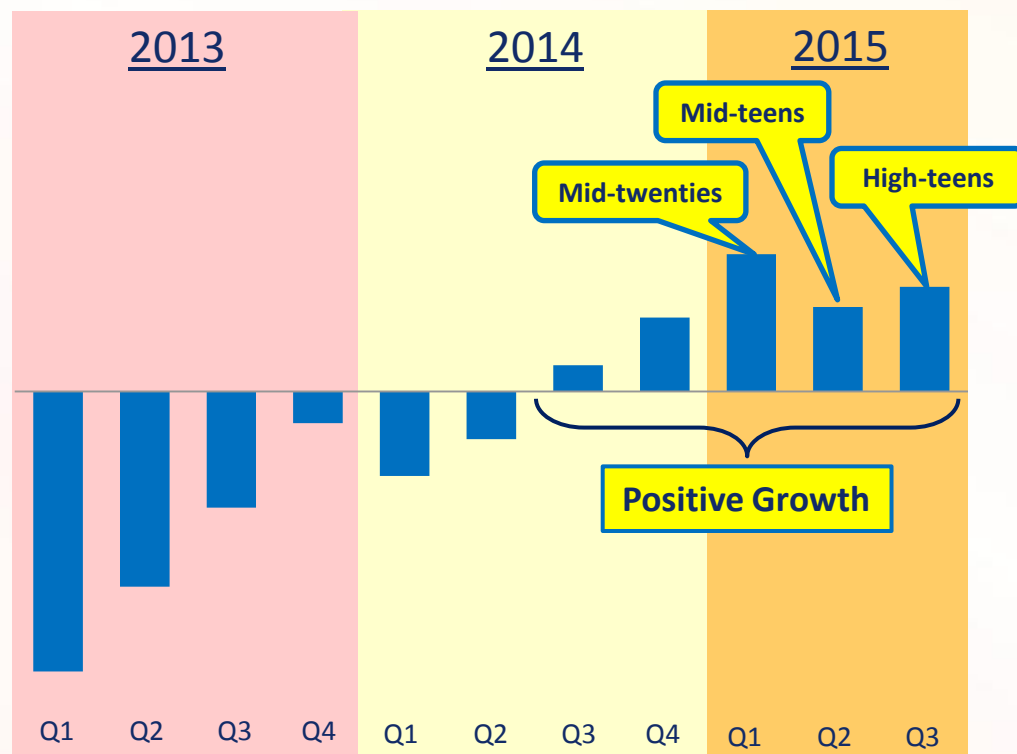
Wholesale^ Business

(LN Brand)

Business Performance



Trade Fair Order* (Tag Price) Growth, % YoY



Healthier platform driving recovery of wholesale business

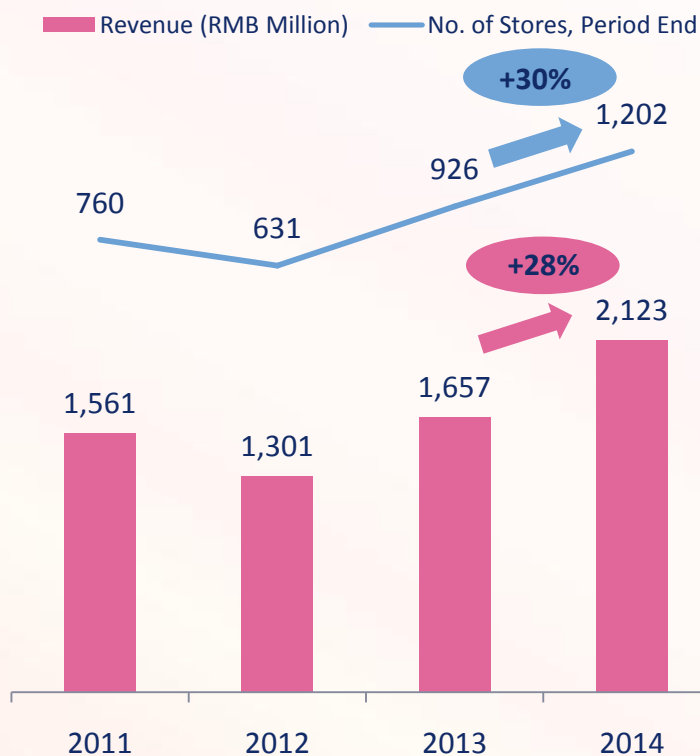
^ Wholesale business: Sales to franchised distributors

*Order placed during trade fair (excl. orders from subsidiaries), e.g. 2015Q2 orders were placed almost one year ago

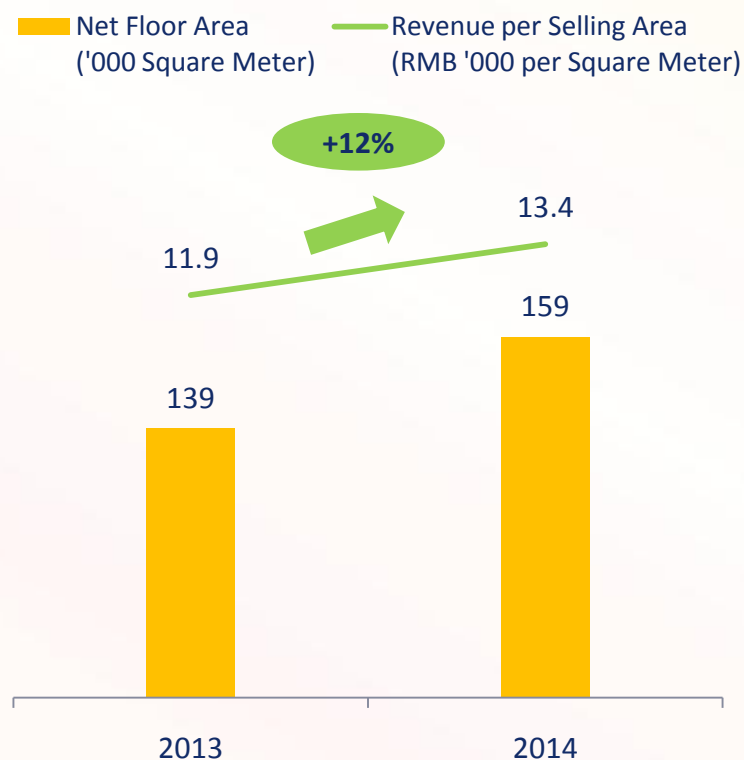
Retail[^] Business

(LN Brand)

Business Performance



Revenue per Selling Area

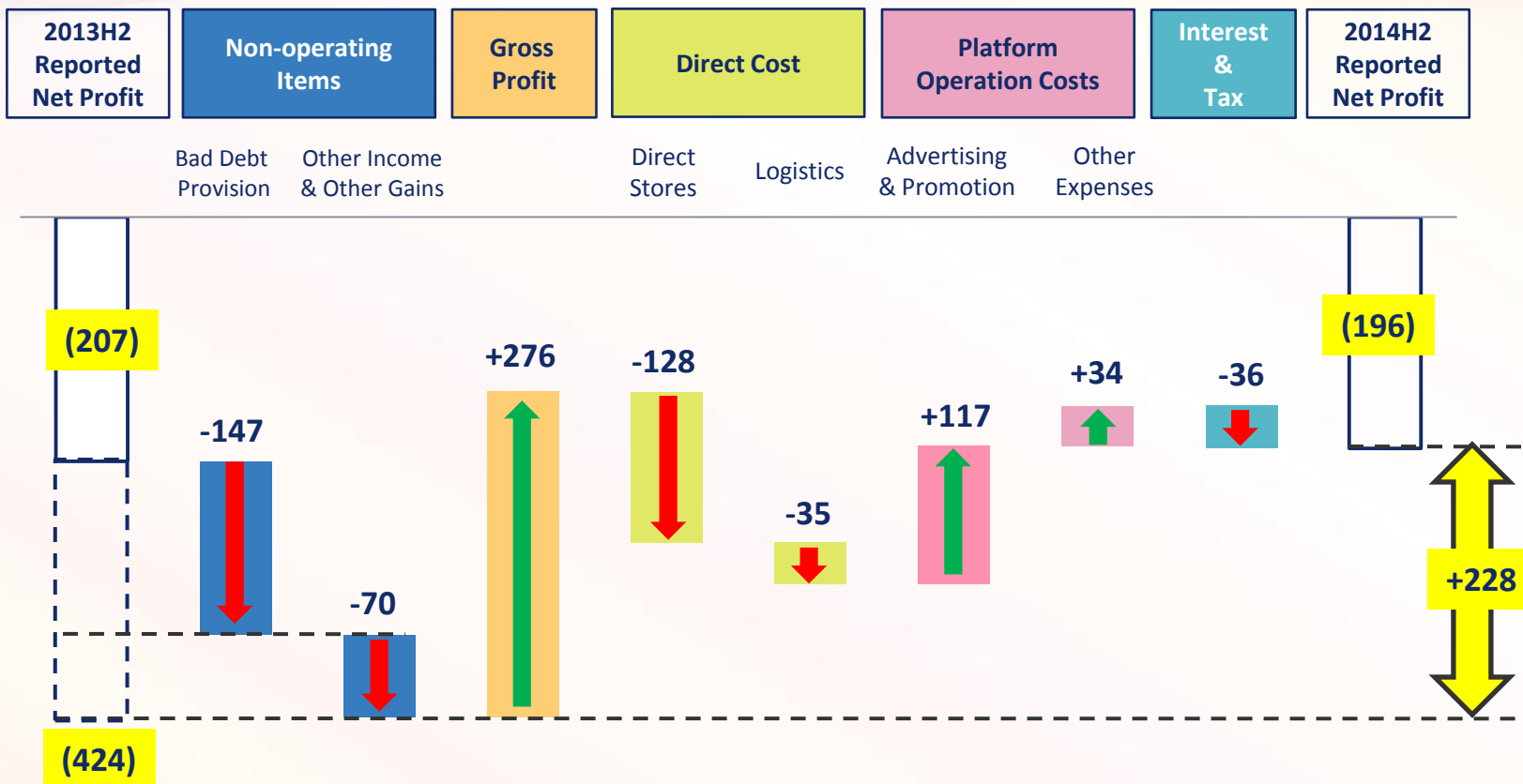


Direct retail business boosted by increased store count and SSSG

Profitability Analysis – H2

(Net Change of Major P&L Items)

-RMB Million-



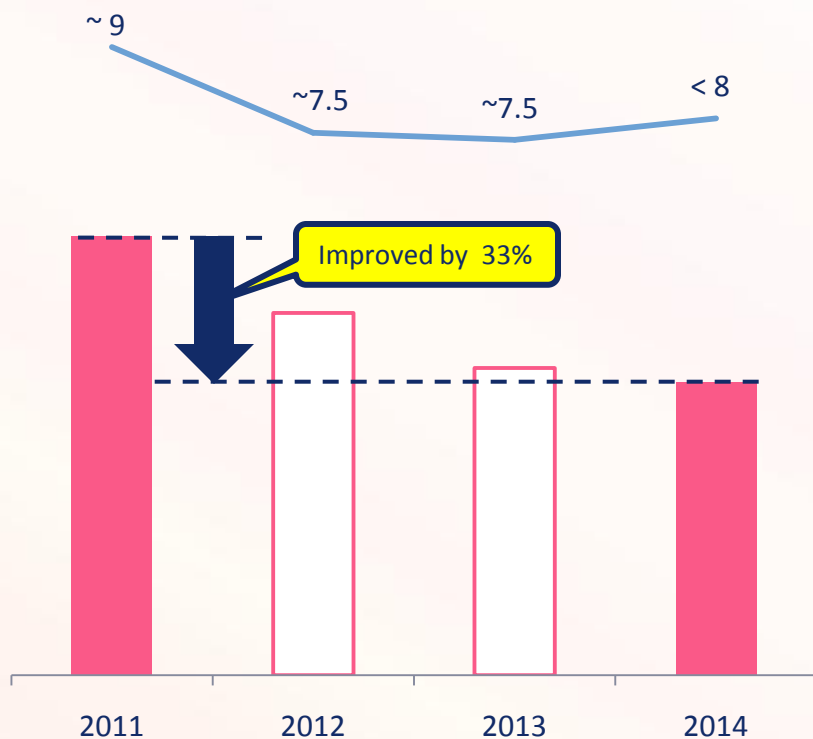
Core loss significantly narrowed

Channel Inventory

Inventory Level

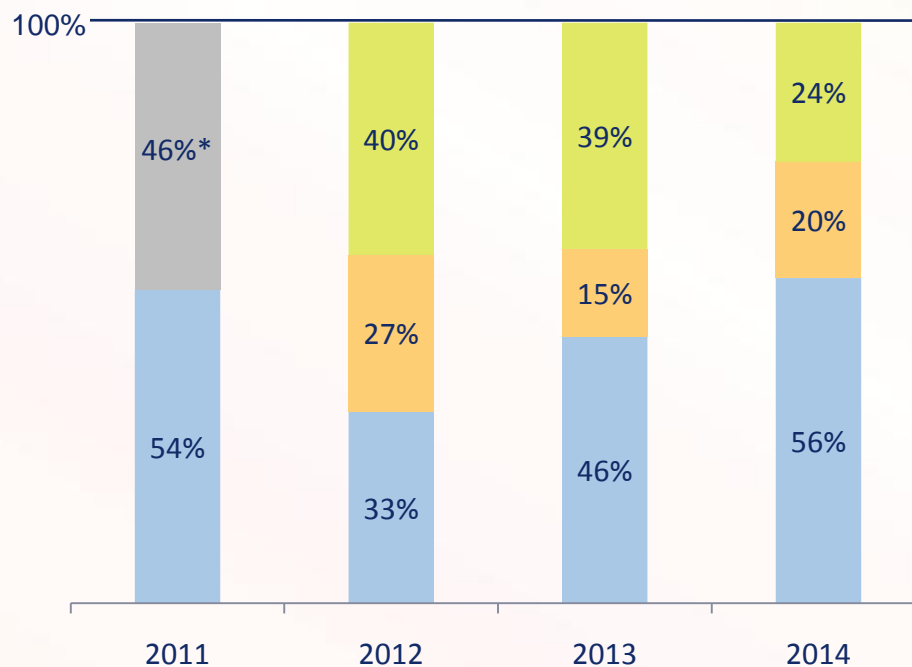
-RMB Million-

Inventory Level (Tag Price) — Turnover Months



Inventory Mix

6 months or less (New Product) 7 - 12 months Over 12 Months



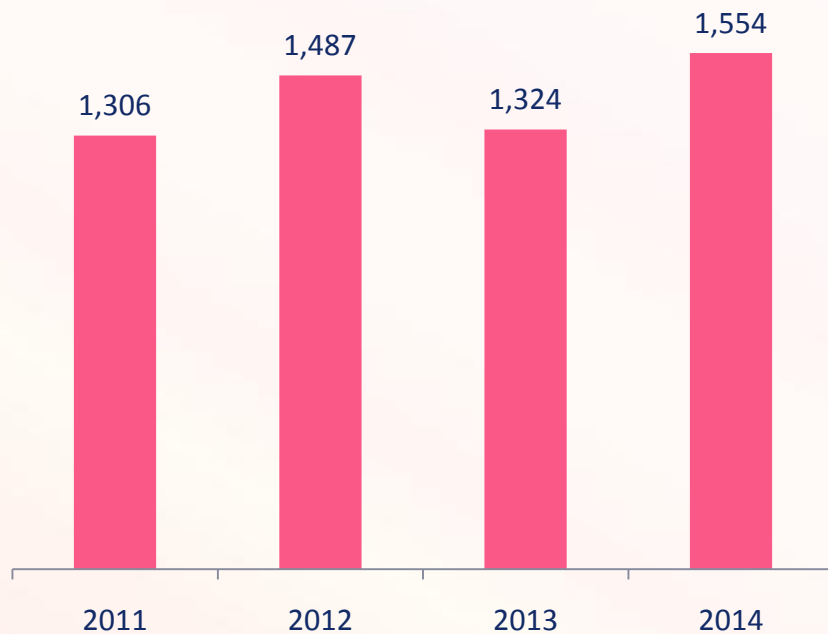
Significant improvement due to channel inventory reduction and higher mix of new products

*Detailed split of inventory more than six months not available for 2011

Company Inventory

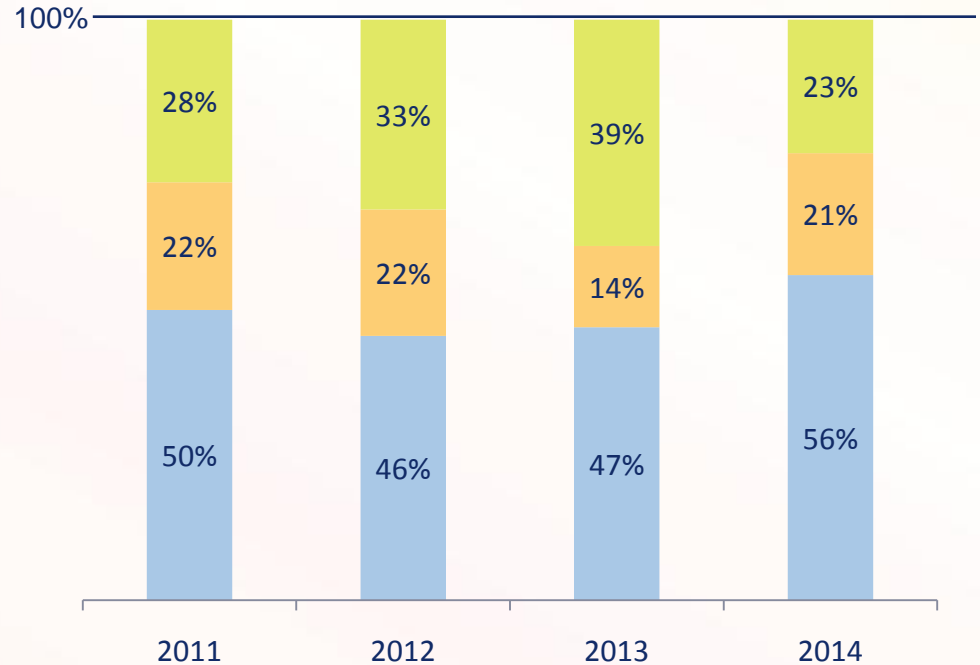
Inventory (Gross Amount)

-RMB Million-



Inventory Mix

6 months or less 7 - 12 months over 12 months

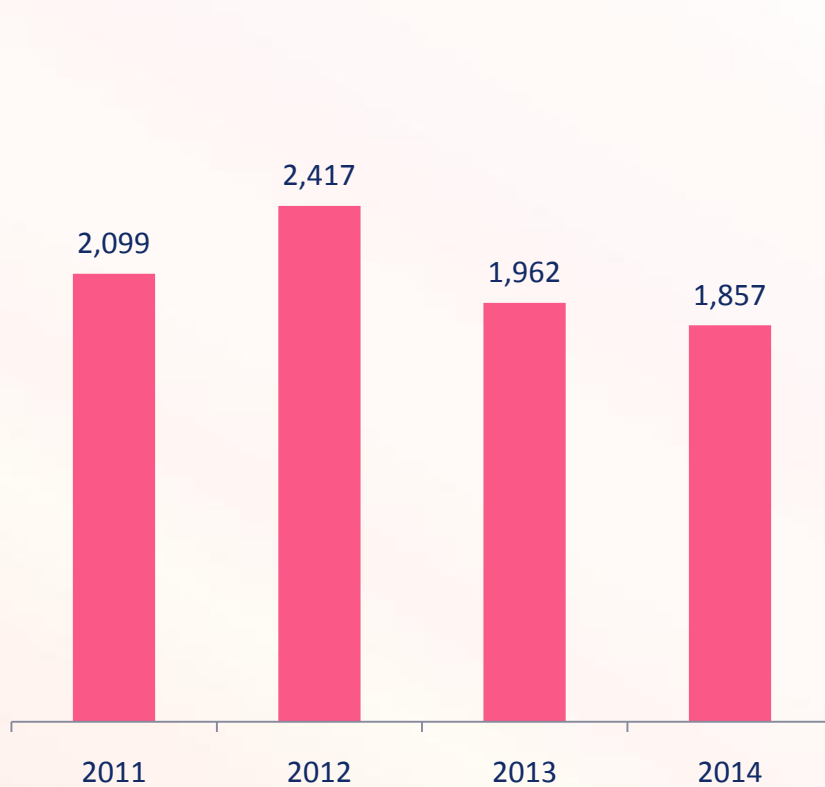


Inventory increased mainly due to direct retail business expansion

Trade Receivables

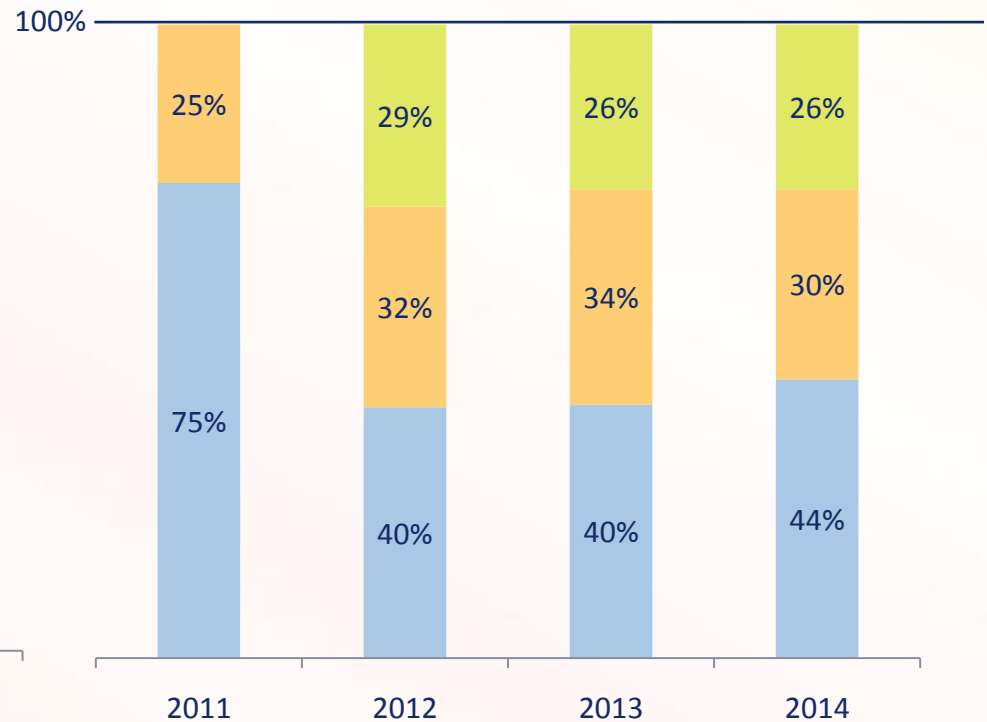
Trade Receivables (Gross Amount)

-RMB Million-



Trade Receivables Mix (Gross Amount)

Below 90 days 91 - 180 days over 180 days

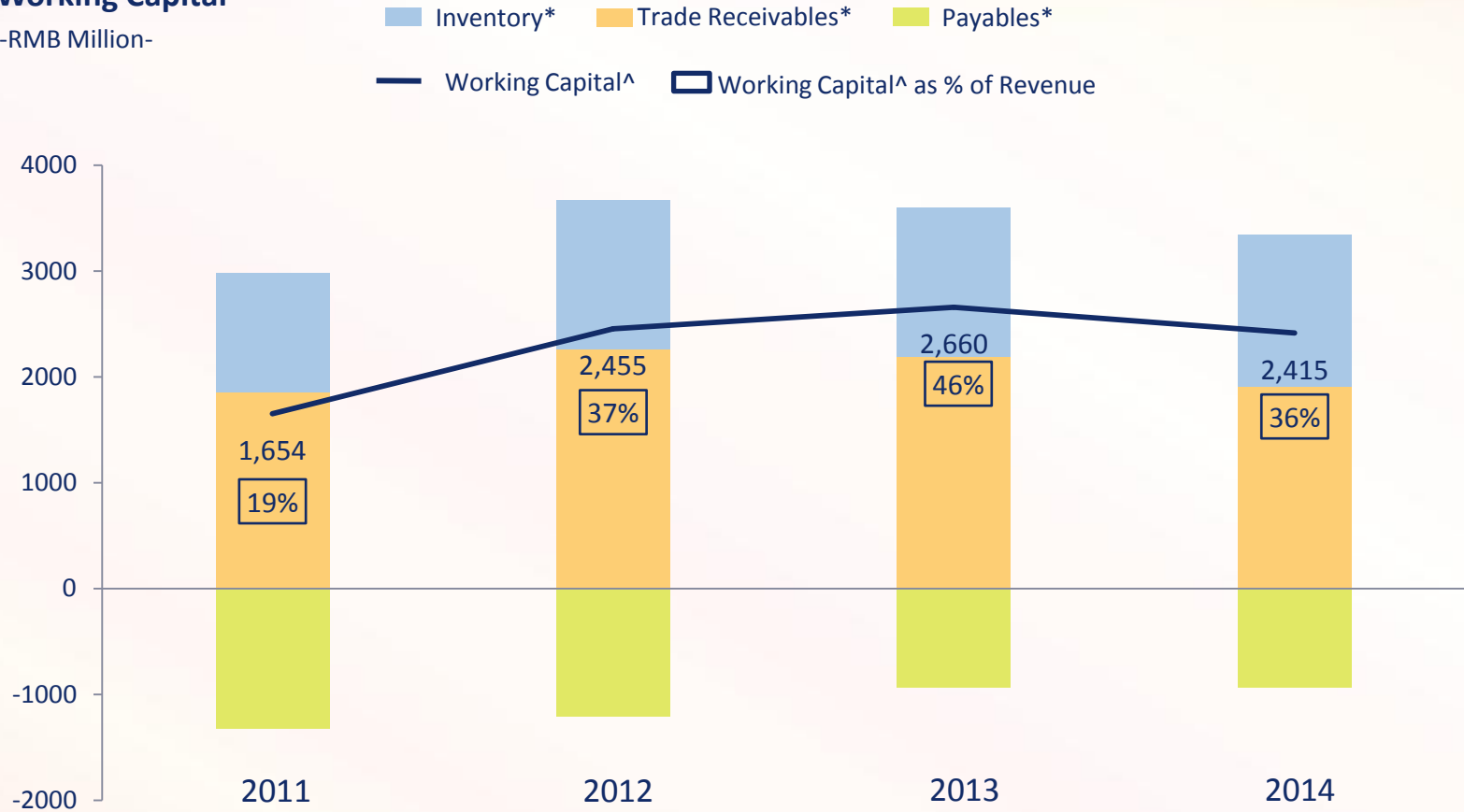


Trade receivables reduced with revenue growth

Working Capital Efficiency

Working Capital

-RMB Million-

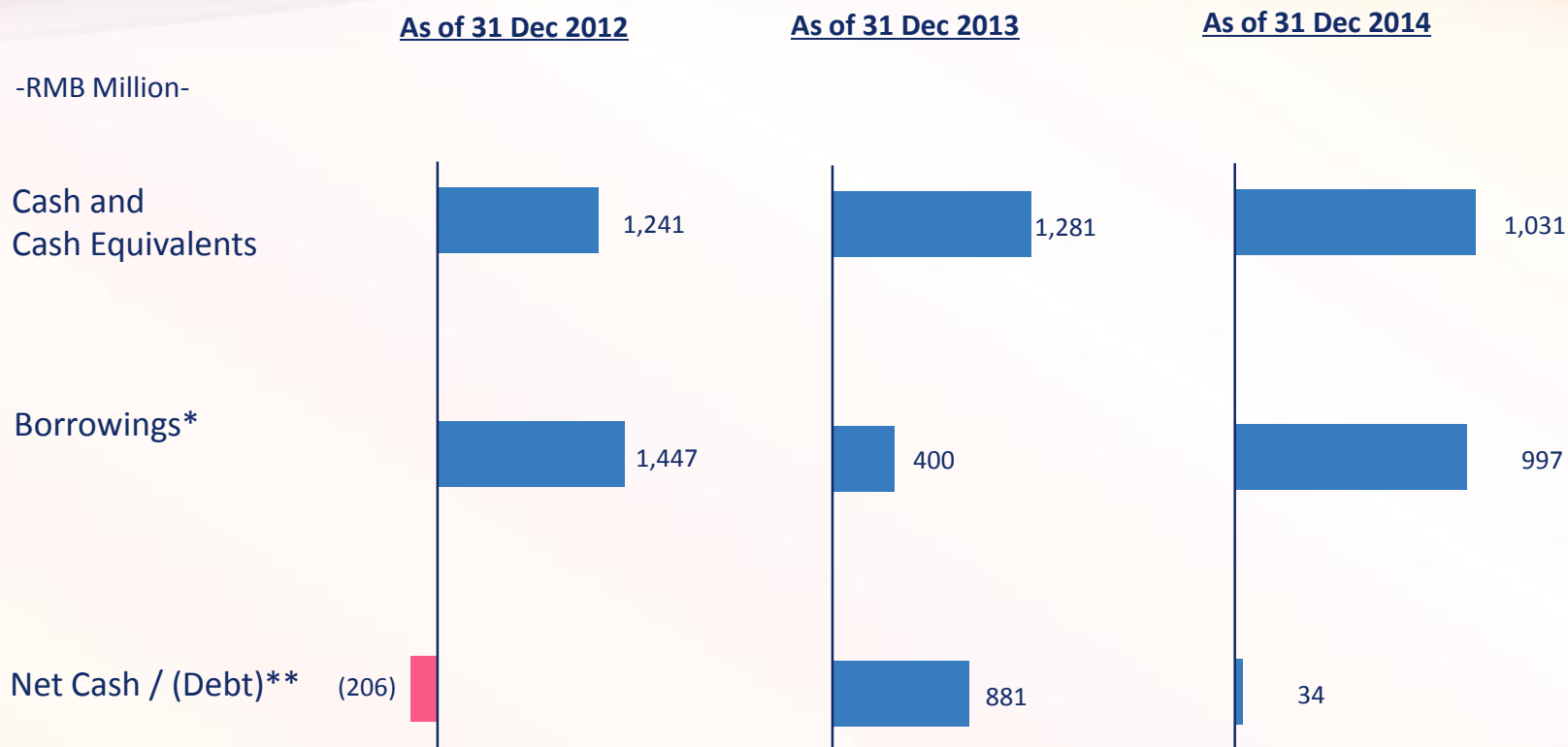


Working capital stabilize but still high and costly to fund growth

* Period average, simple average between period opening and ending

^ Gross Amount

Balance Sheet Summary and Cash Position



Financing needed to improve gearing ratio and provide funding for growth

*Borrowings included Bank Borrowings and Related Parties Loan

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

Performance Review of Past Three Years

		FY12	FY13	FY14
Channel	Inventory Amount YoY % (Tag Price)	◆ ↓ 17%	◆ ↓ 15%	◆ ↓ 5%
	Inventory Mix	◆ New*: Over 30% ◆ Over 12 months: Approx. 40%	◆ New*: Over 45% ◆ Over 12 months: Approx. 40%	◆ New*: Over 55% ◆ Over 12 months: Approx. 25%
Product	New Product* Retail Sales Growth, YoY %	◆ ↓ High-teens	◆ ↓ Low-twenties	◆ ↑ Mid-teens
	New Product* Retail Sell-through Mix, %	◆ 62%	◆ 61%	◆ 72%
Retail Capability	Overall Discount Rate (% of Tag Price)	◆ High-sixties	◆ Mid-sixties	◆ High-sixties
	Full Year New Product* Weighted Average Sell Out Rate^	◆ 3 months: 26% ◆ 6 months: 50%	◆ 3 months: 30% ◆ 6 months: 55%	◆ 3 months: 31% ◆ 6 months: 58%
	Full Year Overall SSSG	◆ ↓ High Single Digit	◆ ↓ Low-teens	◆ ↑ Low Single Digit
Financials	Platform Operating Cost (% of Revenue)	◆ 36%	◆ 39%	◆ 32%
	A&P Expenses (% of Revenue)	◆ 20%	◆ 24%	◆ 19%
	Reported Net Loss (RMB)	◆ RMB 1,979mn Loss	◆ RMB 392 mn Loss	◆ RMB 781 mn Loss
	Adjusted EBITDA# (RMB)	◆ RMB 445 mn Loss	◆ RMB 399 mn Loss	◆ RMB 206 mn Loss
	Net Cash / (Debt) Position (RMB)	◆ Net Debt RMB (206) mn	◆ Net Cash RMB 881 mn	◆ Net Cash RMB 34 mn

Notable progress made, further improvement still needed

*New Product: Current and Last season products

^March data not available yet, 5 months sell-through data used for Q4

#Adjusted EBITDA = EBITDA excluding bad debt provision and one time cost (One time costs include impairment of available-for-sale financial asset, closure of Flagship stores etc)

Operational Review & Strategy



“Three Pillars” Strategy to Support Five Core Categories

Basketball



Running



Badminton



Sports Life



Training



Product



Channel



Retail Capability

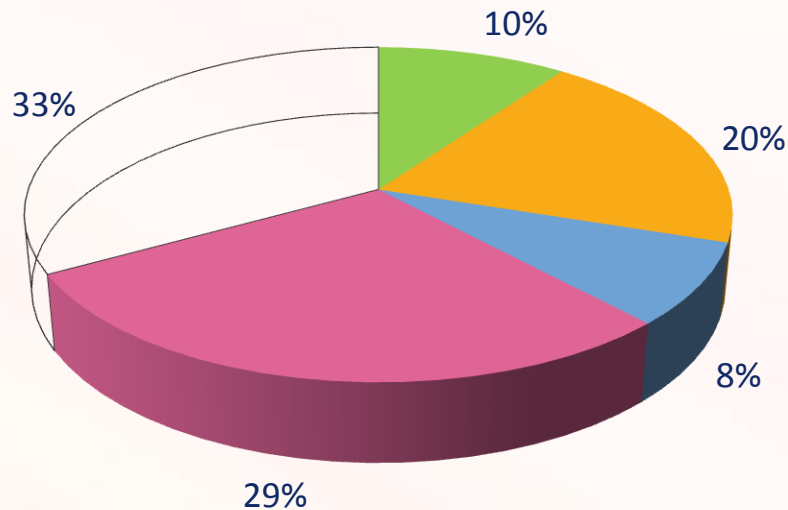


Retail Sell-through Mix of Five Core Products Categories*

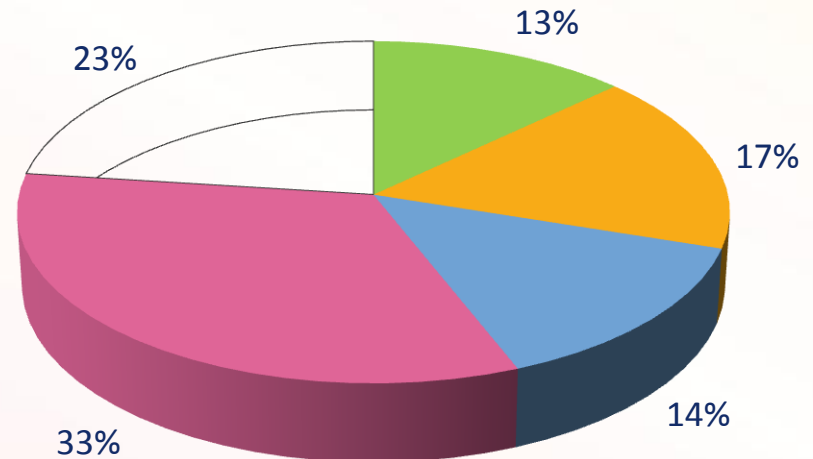
PRODUCT

■ Basketball ■ Running ■ Training ■ Sports Life ■ Others

FY13



FY14


















**In 2014, Core Categories* accounted for 77% of total, increased 10 p.p. yoy
Focus on Five Core Categories for revenue growth**

*Five Core Product Categories are basketball, running, badminton, training and Sports Life
Badminton products are not covered by the above charts as mainly distributed through professional channels

Performance of Five Core Categories

PRODUCT

Categories	Business Performance*	Market Positioning	Best Sellers
Basketball 	<ul style="list-style-type: none"> •Retail Sell-through Growth: 22% •New Product Retail Sell-through Growth: 58% 	<ul style="list-style-type: none"> •Products with professional functionality •Design: To satisfy functional demand •Target Consumers: Sports Enthusiasts Mass Market Consumers 	 CBA drifting sand Low off-court shoes RMB379  Basketball Sweat pants RMB229
Running 	<ul style="list-style-type: none"> •Retail Sell-through Growth: -16%^ •New Product Retail Sell-through Growth: -4%^ 	<ul style="list-style-type: none"> •Products with professional functionality •Design: To satisfy functional demand •Target Consumers: Sports Enthusiasts Mass Market Consumers 	 Cloud GII cushion running shoes RMB469  Running windbreaker RMB379
Training 	<ul style="list-style-type: none"> •Retail Sell-through Growth: 71% •New Product Retail Sell-through Growth: 63% 	<ul style="list-style-type: none"> •Products with professional functionality •Design: To satisfy functional demand •Target Consumers: Sports Enthusiasts 	 Basic multi-functional training shoes RMB269  Training Sweat pants RMB299
Sports Life 	<ul style="list-style-type: none"> •Retail Sell-through Growth: 11% •New Product Retail Sell-through Growth: 38% 	<ul style="list-style-type: none"> •Emphasize on Sports Life •Design: To satisfy the demand of life, sports and casual fashion by urbanites •Target Consumers: Mass Market Consumers 	 Superwave M Heritage shoes RMB299  Sports Life Sweat top RMB379
Badminton 	<ul style="list-style-type: none"> •Sell-in Growth through Professional Channels: 18% 	<ul style="list-style-type: none"> •Products with professional functionality •Design: To satisfy functional demand •Target Consumers: Sports Enthusiasts 	 Hybridminton Badminton training shoes RMB399  Badminton Sweat pants RMB269

*New Product : Current and Last Season Products

^ Decline partially due to reclassification of Jogging into Sports Life in 2014

Market Positioning of Products – Sports Functionality

(Aimed at Sports Enthusiasts)

PRODUCT

**云动力
放开跑**

李宁云二代跑鞋
焕新上市



贴合舒适

莱卡面料致密包裹
贴合脚型

稳定支撑

高密度云材质强韧
稳定支撑

减震回弹

低密度云材质柔韧
强劲减震

李宁韦德之道3“宣告”
LI-NING Way of Wade 3 “Announcement”

设计灵感

李宁韦德之道3 由设计大师
埃德蒙·韦德设计，灵感源于自然
界的蜂巢结构，分形几何（Fractal
Dome）结构，将设计灵感融入鞋中，
让鞋面与鞋底融为一体，成为李宁
品牌成就韦德之道系列史上经典之作。



Bounce
Cushion
CARBON-FIBER PLATE
LI-NING CLOUD

**TURBOCHARGING
能量聚合科技平台**

增强挥拍势能，球速快
提升拍框弹性，反弹强

增加挥拍势能3%，提升球速3.5%

**AIR-STREAM
风动导流科技平台**

风阻低，球速快
涡流少，落点准

风洞结构降低风阻8.2%，提升球速3.1%

**3D BREAK-FREE
立体风刃科技平台**

更快的挥拍速度，球速快
更大的摇摆惯量，扣杀猛

风刃结构降低风阻系数10.5%
加快挥拍速度，球速提升4.8%



Market Positioning of Products – Sports Life

(Aimed at Mass Market Consumers)

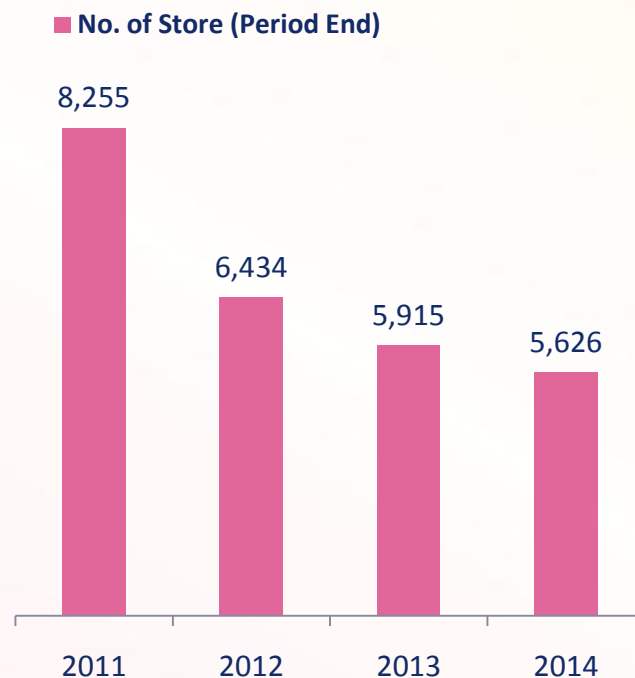
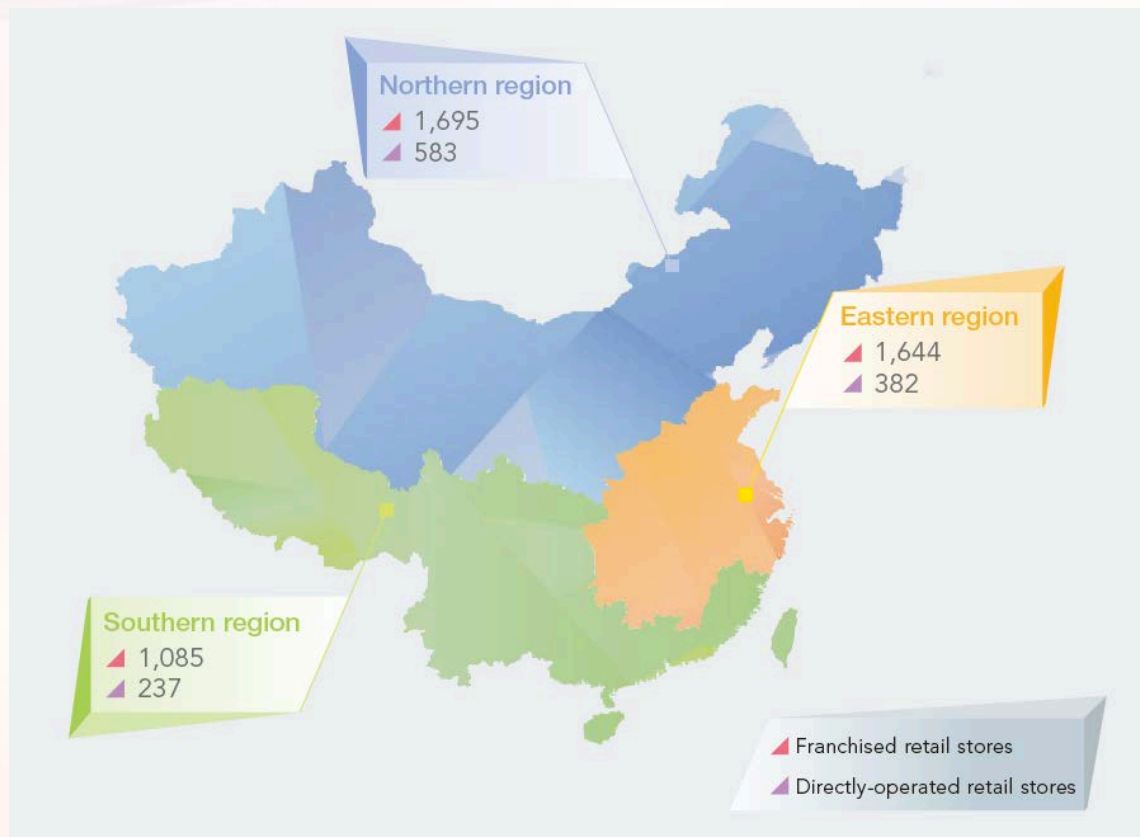
PRODUCT

LI-NING x 
闪耀如星
型自西卡



Channel Development Opportunities

CHANNEL



Re-expanding channel network and targeting low-penetrated markets

Store Remodeling to Enhance Customer Experience

RETAIL CAPABILITY

Tianjin



Shanxi

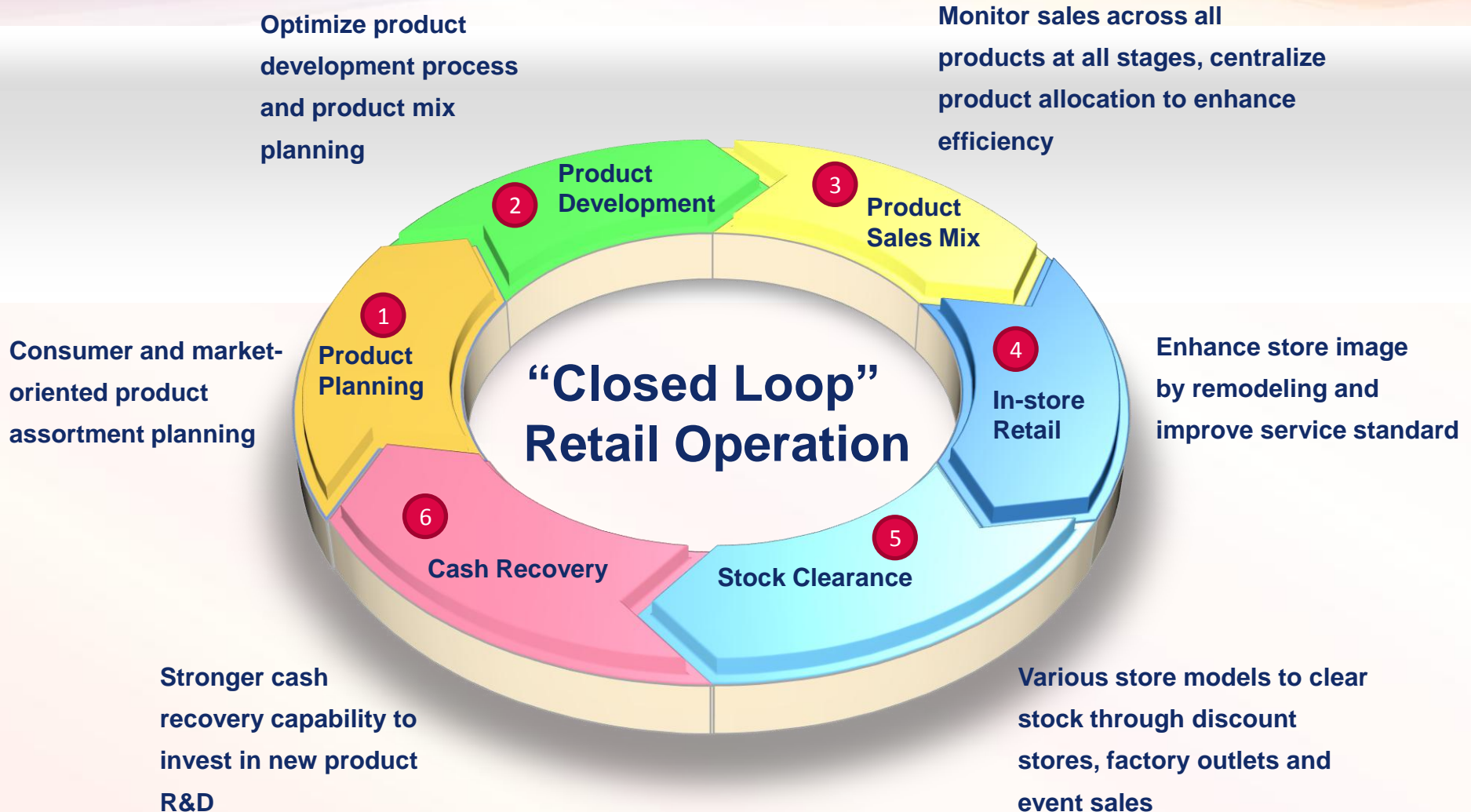


Suzhou No. 10

地址：(Tianjin) 天津萬達店 - 和平區和平路168號萬達商業廣場商鋪2A-2B-2C
(Shanxi) 山西長治店 - 英雄中路與府後西街東北交岔口店
(Suzhou No. 10) 蘇州10店 - 蘇州市觀前街169號

Execution Discipline is Critical for Retail Capability

RETAIL CAPABILITY



Building LI-NING Digitalized Sports Business



MARVEL

LI-NING

Vdian
Store
Manager*

Mobile
Devices

O2O



Innovation to tap into digital world & new consumers ; A new driver for further growth

Ready for Growth

- Notable progress made in 2014, room for further improvement still exists
- Mr. Li Ning appointed as Interim CEO which facilitates business planning and execution of strategies, and is beneficial to the company and shareholders
- Internally reorganized into 3 vertically aligned units, accountable for key business and financial indicators – Basketball & Badminton, Training & Sports Life, and Running
- Further optimize cost structure to improve operating efficiency
- Year 2015 will mark the beginning of a new development stage, and breakthrough is expected in the next three years



The background is an abstract composition of soft, flowing lines in shades of blue, orange, and white. Scattered throughout are various small, semi-transparent geometric shapes, including triangles and polygons in colors like pink, green, and yellow. The overall effect is one of dynamic movement and modern design.

Open Forum

Appendix



Profitability Analysis – Full Year

(Net change of major P&L items)

-RMB Million-



[^]One time costs include impairment of available-for-sale financial assets, closure of Flagship stores etc

Summary of Income Statement

(RMB million)	2014	2013	Better/(Worse)
	31 Dec		
Revenue	6,728	5,824	16%
Gross Profit	3,004	2,594	16%
Distribution costs	-2,864	-2,674	(7%)
Administrative expenses	-703	-236	(198%)
Other income and other gains – net	34	147	(77%)
Operating (Loss) /Profit	-529	-169	(213%)
EBITDA	-323	26	N/A
Loss Attributable to Equity Holders	-781	-392	(99%)
Basic Losses per share(RMB cents)	-49.97	-26.91	(86%)

Profit Margins And Expense Ratios

	2014	2013	Better/(Worse)
	31 Dec		
Gross Profit Margin	44.6%	44.5%	0.1p.p.
Operating Profit Margin	-7.9%	-2.9%	(5.0p.p.)
EBITDA Margin	-4.8%	0.4%	(5.2p.p.)
Margin of (Loss) /Profit Attributable to Equity Holders	-11.6%	-6.7%	(4.9p.p.)
R&D Expenses(as % of revenue)	2.6%	3.0%	0.4p.p.
A&P Expenses(as % of revenue)	19.3%	24.2%	4.9p.p.
Staff Costs(as % of revenue)	12.2%	11.5%	(0.7p.p.)

Key Operational Indicators

	2014	2013	Better/(Worse)
	31 Dec		
Average Inventory Turnover(Days)	109	104	(5)
Average Trade Receivables Turnover(Days)	71	89	18
Average Trade Payables Turnover(Days)	84	104	(20)
Cash Conversion Cycle(Days)	96	89	(7)
Return on Equity(ROE)	-33.7%	-18.2%	(15.5p.p.)
Return on Asset(ROA)	-13.0%	-6.5%	(6.5p.p.)
CAPEX*(RMB million)	326	224	46%

*Excluding the acquisition expenditures

Summary of Balance Sheet

(RMB Million)	2014	2013	Better/(Worse)
	31 Dec		
Cash and Cash Equivalents	1,031	1,281	(20%)
Borrowings*	997	400	(149%)
Convertible Bonds Liabilities	689	658	(5%)
Net Cash**	34	881	(96%)
Current Liabilities	2,679	2,018	(33%)
Current Ratio(times)	1.5x	2.0x	(0.5x)
Total Liabilities to Total Assets Ratio	64.1%	51.9%	(12.2p.p.)

*Borrowings included Bank Borrowings and Related Parties Loan

**Net Cash = Cash and Cash Equivalents – Borrowings