

# pioneering

PARTNERSHIPS

## Q2 FY 2023/24 Earnings Release & Strategic Update

10 November 2023



# CONTENTS

**01** Q2 FY 2023/24 Update

**02** Market Outlook

**03** Project 180°

**04** Social Capital Update





**Q2 FY 2023/24 UPDATE**

# Q2 FY 2023/24 | GROUP FINANCIAL HIGHLIGHTS

---

Revenue

**Rs. 17.2 Bn**

-39.0% y/y



Operating Profit

**Rs. -2.1 Bn**

-267% y/y



Profit After Tax

**Rs. -2.6 Bn**

-623% y/y



# Q2 FY 2023/24 | HIGHLIGHTS

**Operating environment remained volatile in Q2**, with a 31.3% y/y decline in US Dollar revenue, compared to a 26.4% y/y drop in Q4

- **Weak performance among major apparel brands** in the Group's key markets, despite some resilience in overall consumer spending
- **Uncertainty on the timing of a potential recovery** is leading to cautious procurement decisions across the industry due to inventory concerns
- **Exchange rate appreciation accentuated revenue drop** in LKR terms

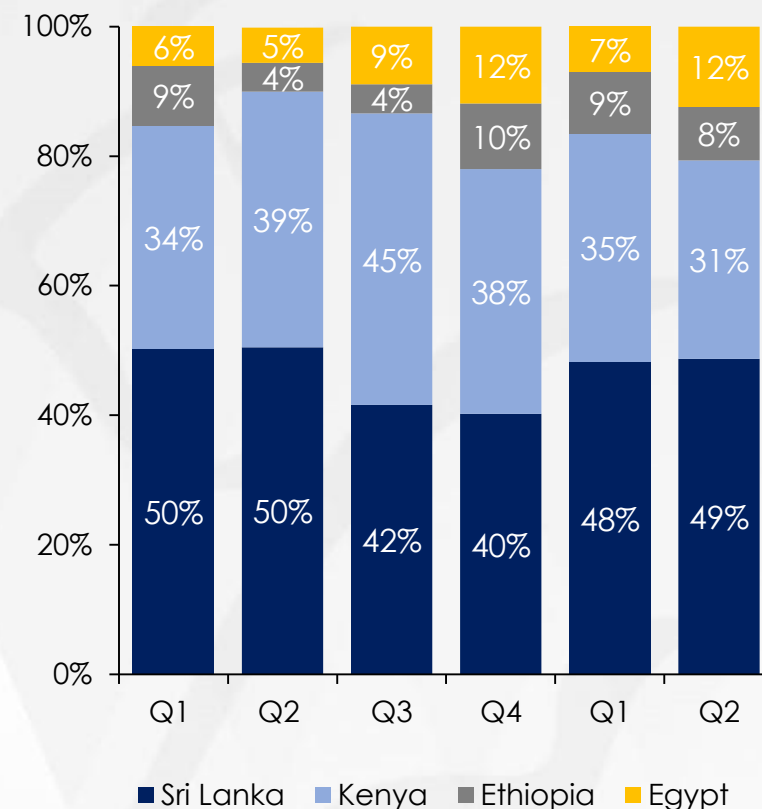
**Profitability has been negatively impacted** due to decline in sales and one-off restructuring costs

- **Capacity utilisation rates increased across the Group's manufacturing facilities**, supporting a limited improvement in gross profit margins in Q2
- **Administration costs rose significantly**, partly as a result of the rupee appreciation and one-off capacity rationalisation costs
- **Elevated finance costs** due to high US Dollar interest rates, contributed to the significant post-tax loss during the quarter

**Gearing has increased as a result of the decrease in retained earnings**, as well as the drawdown of recent long-term financing facilities with key impact investors

- **That said, the short-term debt burden has reduced** and the Group's cash position remains stable in the second quarter.

Revenue by Country of Manufacture  
Q1 FY 23 – Q2 FY24 (% of Group Revenue)



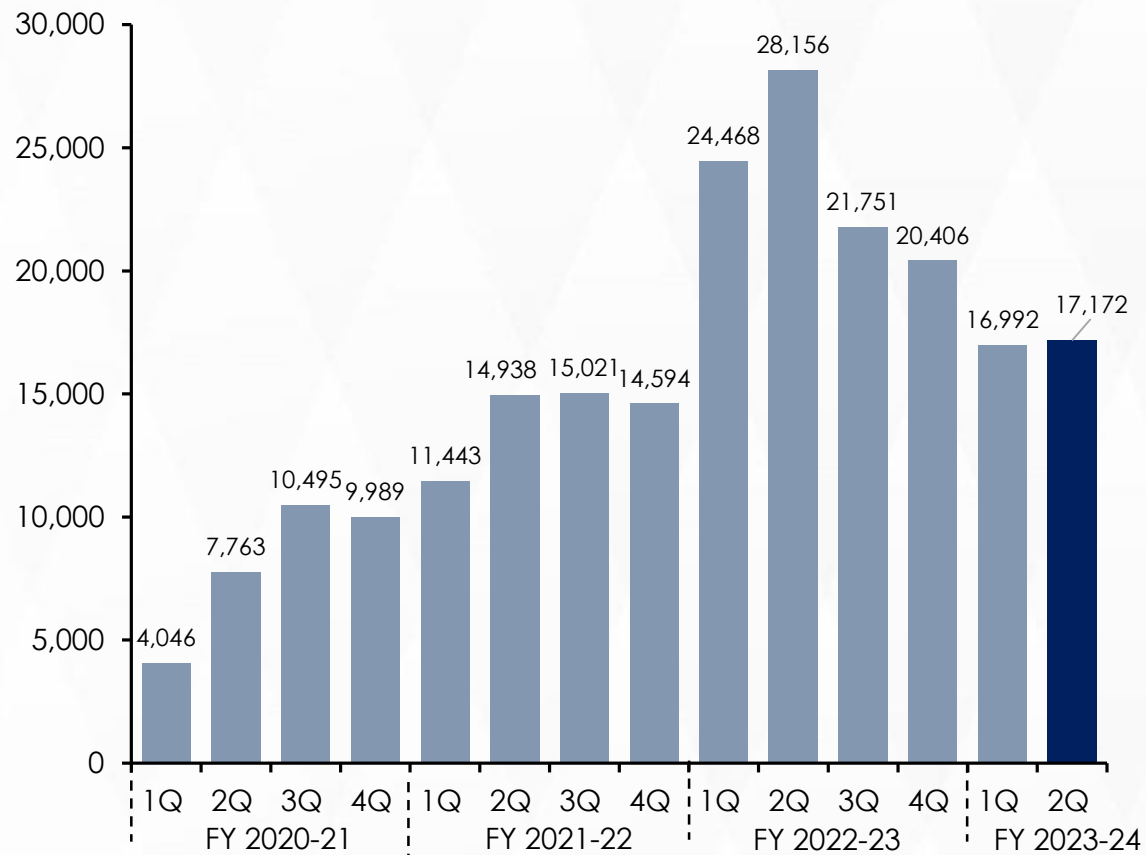
Note: The figures included in the chart above are based on management accounts and are not comparable to the segmental breakdown provided in the financial statements



# Q2 FY 2023/24 | PERFORMANCE UPDATE

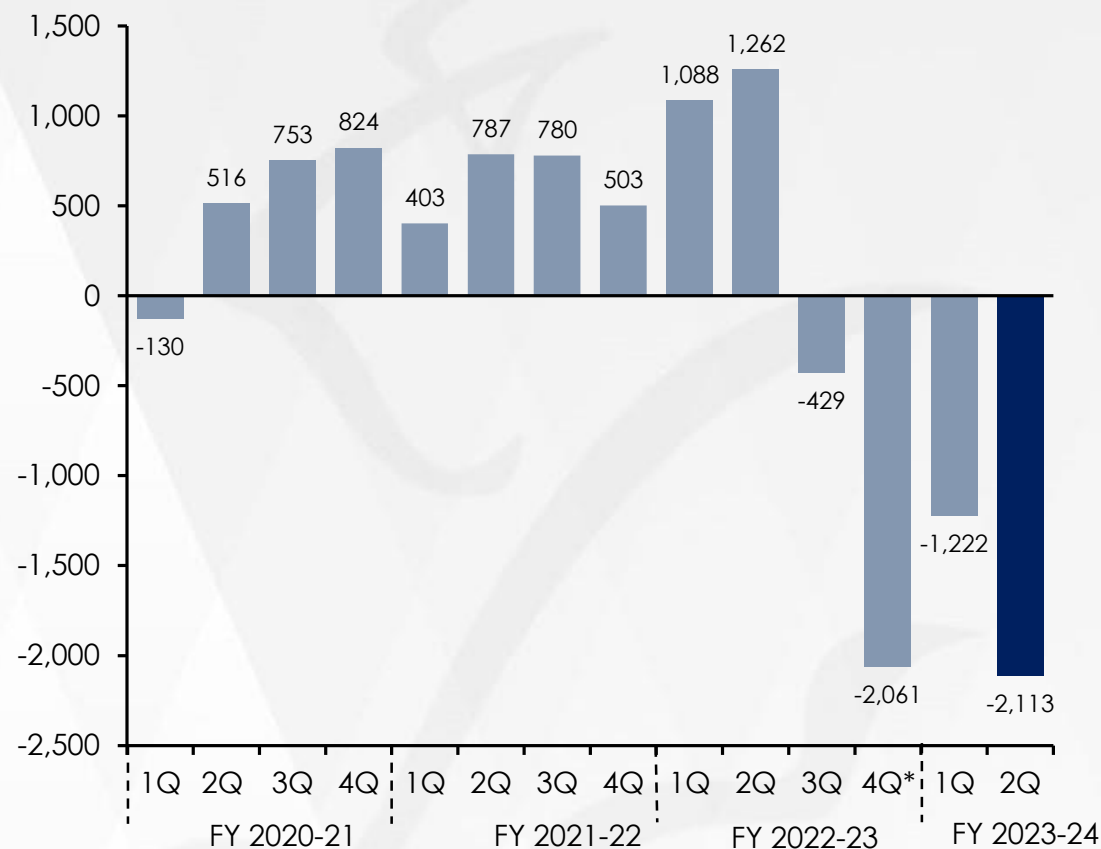
## Group Revenue (Rs. Mn)

Q1 FY 21 – Q2 FY 24



## Operating Profit (Rs. Mn)

Q1 FY 21 – Q2 FY 24



Note: The LKR/USD exchange rate in Q2 FY 23/24 averaged 12% lower than in Q2 FY 22/23; and 1% higher than in Q1 FY 22/23

\*Q4 FY 2022-23 operating profit has been adjusted to incorporate the adjustment included in the FY 2022-23 audited accounts

# Q2 FY 2023/24 | CAPACITY UPDATE



Approximately 20% quarter-on-quarter decrease in standard hour output in Q2 (-45% y/y), driven by declines in Sri Lanka and Kenya

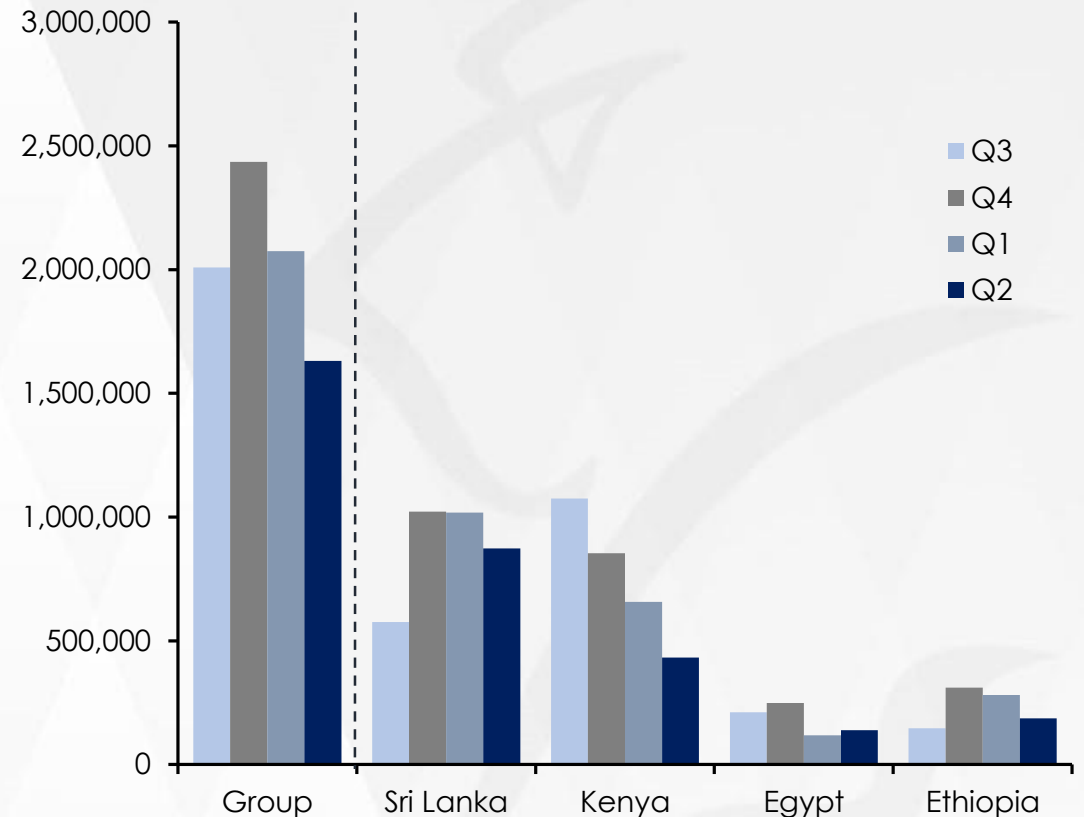


Nonetheless, capacity utilisation rates improved during the quarter (from ~75% to ~80%+) as a result of previous measures to reduce capacity



Sri Lanka continues to show relative resilience from a customer demand perspective, reflecting skew in manufacturing mix towards European supermarkets that have proved more resilient than US brands exposed to wholesale channels

Sold Standard Hours by Country of Manufacture  
Q3 FY 23 – Q2 FY 24



Note: Standard hours is a measure of capacity, which is calculated by multiplying clocked hours (i.e. the total numbers of hours clocked by the company's employees) by the efficiency rate of production.



# MARKET OUTLOOK



# MARKET OUTLOOK | OVERVIEW

---



Tentative signs of a stabilizing demand amidst improving economic outlook, though too early to call a sustained recovery



Results of major apparel brands continue to highlight weakness in consumer demand for apparel, particularly in the US and Europe



Ongoing reduction in inventory levels among major apparel brands, supportive of an eventual recovery

---

## KEY EXTERNAL RISK FACTORS



Further increases in global interest rates, despite expectations that tightening cycles have come to an end



Further downward leg in consumer spending remains possible, as post-pandemic savings are now depleted



Rising geopolitical volatility; conflict in the Middle East, major elections in the US and UK in 2024

# MARKET OUTLOOK | CONSUMER SPENDING



**Consumer demand in Europe and North America has remained more resilient than many expected;** despite the headwinds from high rates of inflation and interest rate hikes

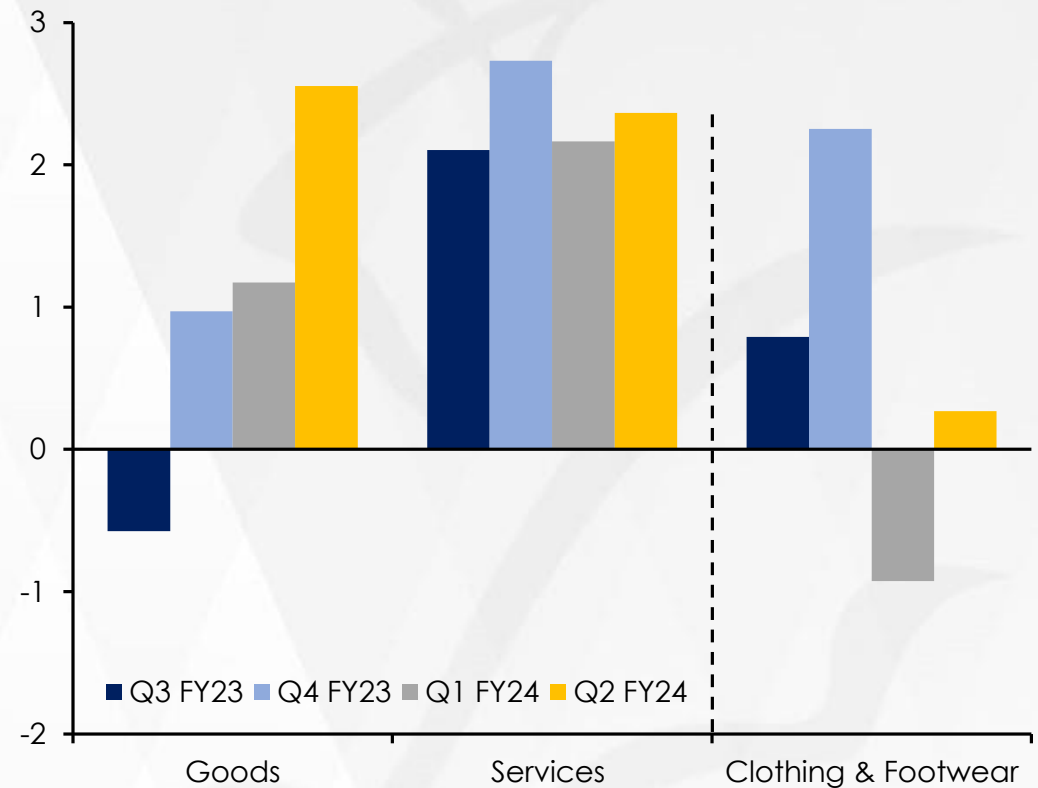


**Nonetheless, the pattern of spending growth is uneven** – a shift in wallet share to services following the end of the pandemic remains evident in consumer spending data



**Spending on apparel products has been particularly weak,** despite improvements in overall consumer spending patterns

US Real Personal Consumption Growth  
Q3 FY 23 – Q2 FY24 (% year-on-year)



# OUTLOOK | DEMAND VISIBILITY



**Current projections suggest approx. 15% q/q increase in loading in Q3** (timing of revenue recognition may differ)

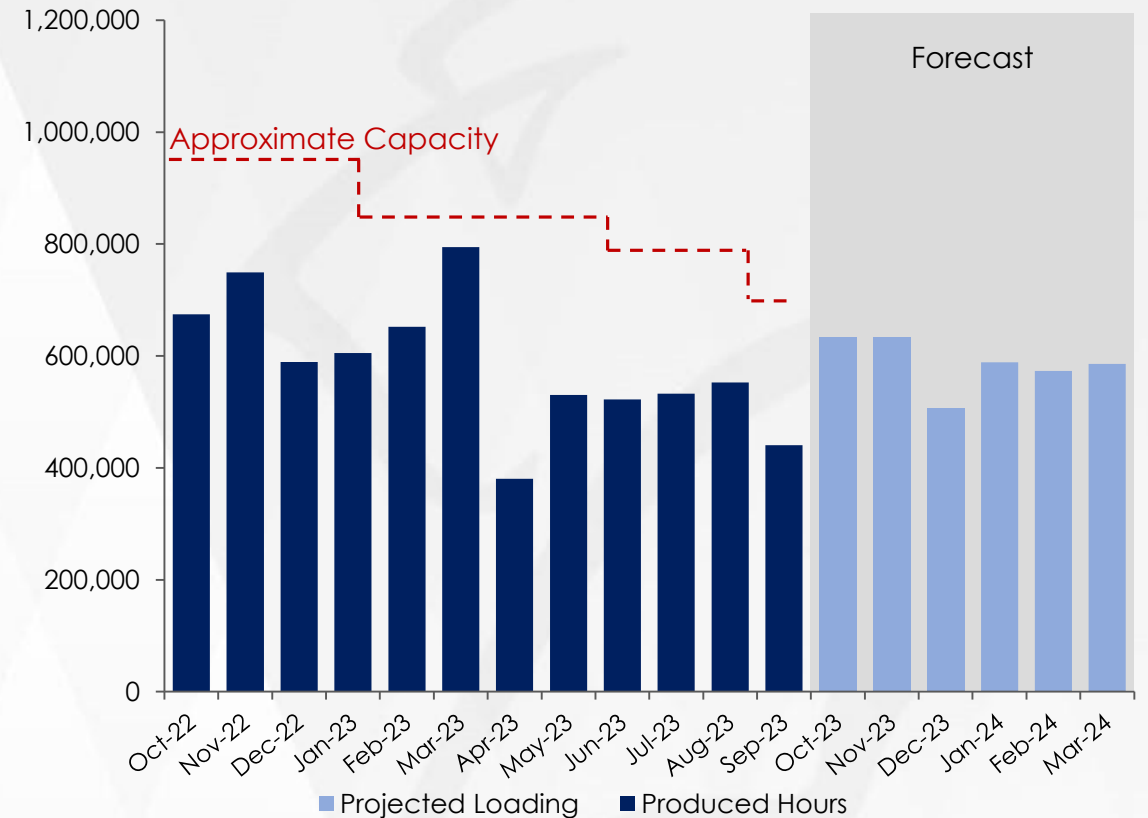


**This would still reflect an approximately 10% y/y reduction in standard**, but is partly offset by the capacity reduction measures taken



**Outlook for subsequent quarters implies greater stability**, though a sustained recovery is not yet evident in the incoming orderbook

Capacity & Loading (Standard Hours)  
Q2 FY 23 – Q2 FY 24



Note: Historical loading is based on produced standard hours. Projected loading is based on a combination of confirmed customer orders and loading forecasts provided by major customers. As such, projected loading is subject to change based on updated information provided by customers.



**PROJECT 180°**

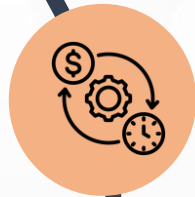
# PROJECT 180° | OVERVIEW

## PROJECT 180°



### (i) COST & CAPACITY RATIONALISATION

*All areas of the business have been assessed for cost optimisation, to ensure the Group's breakeven rate is aligned with the reduced level of demand*



### (ii) OPERATIONAL EXCELLENCE

*Continuing our journey to ensure the highest levels of productivity, supported by our new Digital Core underpinned by SAP S/4HANA*



### (iii) INCOMPARABLE PRODUCT & SERVICES

*Proactively responding to the needs of our customers is a core strength of Hela and remains a critical focus in a challenging market environment*



### (ii) STRATEGIC INVESTMENTS

*Continuing to pursue strategic investments across the apparel value chain, to ensure Hela's long-term position in a rapidly evolving industry*



# PROJECT 180° | COST & CAPACITY RATIONALISATION

## Manufacturing Cost Rationalisation

- Transition of Kenyan manufacturing facility to a single shift (from a double shift operation)
- Continued recruitment freeze across Hela's manufacturing base
- Optimisation of transport, machine rental, and overhead costs

## SG&A Cost Optimisation

- Mandated cost reduction across all functions
- Centralisation and restructuring of staff; removal of certain employee benefits
- Recruitment freeze for executive-cadre, and selective replacement of leavers

**Target** – Reduction of breakeven point to monthly sale of US\$ 18-19 Mn (aligned with current outlook)

### PROGRESS OF PLANNED INITIATIVES

Category	Target Saving* (USD Mn)	Achieved as of End-Oct (%)
Kenya Downsize – Transition from Double to Single Shift	3.3	96%
Manufacturing Cost Optimisation	1.9	58%
SG&A Cost Optimisation	3.0	39%
<b>Total</b>	<b>8.2</b>	<b>72%</b>

Note: Target savings is calculated as the expected saving during the period between August 2023 and March 2023; constituting approximately two thirds of FY 2023/24

# PROJECT 180° | OPERATIONAL EXCELLENCE

Given the impact of operational disruptions in FY 2022/23, **improving the Group's operational performance is a critical pillar of Project 180**

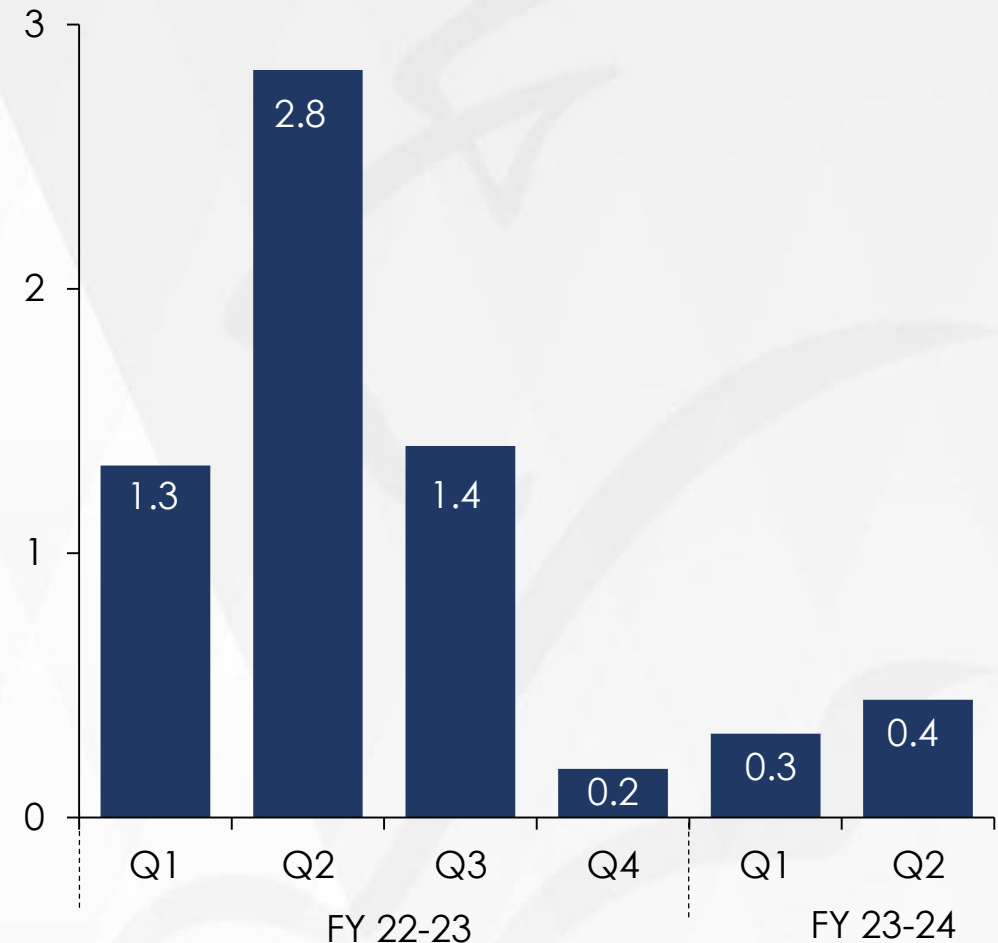
**Significant focus on reducing 'Cost of Failure' has already been realized**, as demonstrated by significant reduction in unplanned air freight expenses

**Higher manufacturing efficiency rates have also been set** as targets to achieve the revised capacity budget, which will ensure the planned operational savings are realized

**Full implementation of new SAP underpinned Digital Core** system is also expected to bring significant process improvements and costs savings over the medium term



Group Air Freight Expense (USD Mn.)  
Q1 FY 23 – Q2 FY 24





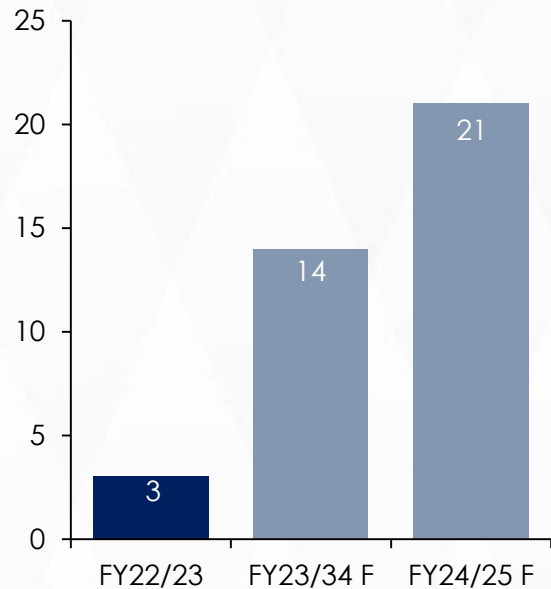
# PROJECT 180° | INCOMPARABLE PRODUCT & SERVICES



**Significant expansion of relationship with Castore** to produce apparel for over 30 teams across a diverse range of sports (including football, cricket, F1, & Nascar)



Expected Revenue (US\$ Mn)

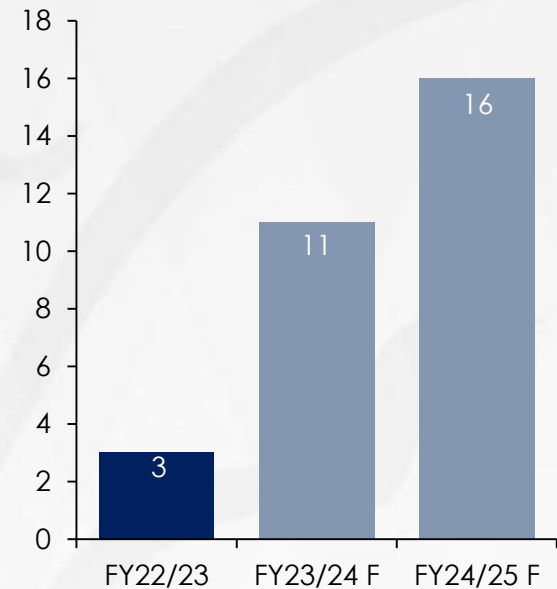


VICTORIA'S SECRET

**Huge potential to expand penetration with Victoria's Secret**; despite it's wider challenges and supported by its focus on increasing African sourcing



Expected Revenue (US\$ Mn)







# PROJECT 180° | INCOMPARABLE PRODUCT & SERVICES

STRONG PIPELINE OF HIGH-VALUE CUSTOMERS

COMMERCIALISED



Initial Production –  
January 2024



Initial Production –  
March 2024

FINAL DISCUSSIONS



**GYMSHARK**

Commercialisation  
expected shortly



# PROJECT 180° | STRATEGIC INVESTMENTS



Hela's long-term strategy continues to focus on expanding across the apparel value chain to capture additional value and demand/supply security



Key focus is now on forward integration; to support demand security and capture greater value



Strategy is strongly supported by Hela's major shareholders; who have extensive experience in brand ownership & management



Backward integration remains within the Group's vision to ensure supply chain security, but will be considered at a later date

## FUTURE VISION FOR HELA APPAREL HOLDINGS



Hela will become a **fully vertically-integrated services provider** for the apparel sector

## ENVISIONED FUTURE OPERATING STRUCTURE OF THE HELA GROUP

### HELA APPAREL HOLDINGS PLC

*For Future Consideration*

**Fabric Manufacturing**

**Original Equipment Manufacturing (OEM)**

*Key Focus*

**Brand Licensing & Ownership**

→ Closer to consumer; greater demand security and market power



# PROJECT 180° | REVISED OUTLOOK

---



**Significant improvement in performance expected in H2**, supported by the cost and capacity rationalisation measures undertaken as part of Project 180°

---



**Apparel market outlook is also improving gradually**, though visibility on the recovery remains limited and there are notable risks

---



**Hela's management team remains vigilant to the uncertain outlook** and stands ready to take further steps to ensure a return to profitability, if required



# SOCIAL CAPITAL UPDATE

# SOCIAL CAPITAL | COMMUNITY EMPOWERMENT



HELA  
DIRILIYA

- 25 Diriliya members were **enrolled to Global Techno Entrepreneur Program conducted by NIBM.**
- **Food Festival conducted by employees from Thihariya manufacturing facility generated more than LKR 450,000**



HELA  
DIRIDARUWO

- NIBM English and IT classes for 150 scholars from the **second batch of Diridaruwo scholarship recipients**
- Collaborated with external entities like **HCL for job opportunities**
- **Career counselling sessions** conducted in Palapathwala and Mawathagama facilities for students



P.A.C.E.  
PROGRAM

- **PVH Corporate Responsibility Team Visit** to Hela Narammala manufacturing facility
- **3,214 employees** completed P.A.C.E. in **9 factories** across **3 countries**

# SOCIAL CAPITAL | ENVIRONMENTAL STEWARDSHIP



Conducted the compliance training for textile processing – MRSL, RSL for subcontractors



Completed staff sustainability training sessions to 6,177 employees across the group



Sustainable product certification training program for Hela business teams



Pitawala Pathana invasive plants cleaning project by Hela Nature Club



Donated school supplies to Mahalakotuwa Sri Sumana Maha Vidyalaya



Sustainable product certification training program for Hela business teams

# SAFE HARBOR STATEMENT

---

*The material in this presentation has been prepared by Hela Apparel Holdings PLC (“Hela”) and provides information about Hela’s activities as at the date of this presentation. This information is given in summary form and does not purport to be complete. Information in this presentation, including forecast financial information, should not be considered as advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling securities or other financial products or instruments and does not take into account your particular investment objectives, financial situation or needs. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant offer document and in particular, you should seek independent financial advice. All securities and financial product or instrument transactions involve risks, which include (among others) the risk of adverse or unanticipated market, financial or political developments and, in international transactions, currency risk.*

*This presentation may contain forward looking statements including statements regarding our intent, belief or current expectations with respect to Hela’s businesses and operations, market conditions, results of operation and financial condition, capital adequacy, specific provisions and risk management practices. Hela does not undertake any obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof to reflect the occurrence of unanticipated events. While due care has been used in the preparation of forecast information, actual results may vary in a materially positive or negative manner. Forecasts and hypothetical examples are subject to uncertainty and contingencies outside Hela’s control. Past performance is not a reliable indication of future performance. Unless otherwise specified all information is for the period ended 30 September 2023.*

Contact Investor Relations

Email: [investors@helaclimbing.com](mailto:investors@helaclimbing.com)

Website: <http://www.helaclimbing.com>

Hela Apparel Holdings PLC  
35, Balapokuna Road,  
Colombo 6, Sri Lanka



THANK YOU