pioneering
PARTNERSHIPS

Q3 FY 2023/24 Earnings Release Update

19 February 2024

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Q3 FY 2023/24 UPDATE

Q3 FY 2023/24 | **GROUP FINANCIAL HIGHLIGHTS**

Revenue

Rs. 14.4 Bn

-16.8% q/q

Operating Profit

Rs. -0.9 Bn

+55.8% q/q

Profit After Tax

Rs. -1.9 Bn

+29.1% q/q

Gross Margin

8.4%

+20bps q/q

EBIT Margin

-6.6%

+580 bps q/q

Q3 FY 2023/24 | **HIGHLIGHTS**

Demand environment remained challenging in Q3 and contributed to a 27.0% y/y decline in US Dollar revenue, compared to a 31.3% y/y drop in Q4

- **Difficult operating environment for major apparel brands continued** in the Group's key markets, despite tentative signs of stablisation
- **October was a particularly challenging month from a sales perspective**, but a notable pick-up in revenue was experienced in November and December
- **Exchange rate appreciation of 10% accentuated revenue drop** in LKR terms

Initial positive impact of the Project 180° strategy supported an improvement in profit margins, partly reflecting actions taken in the preceding quarters

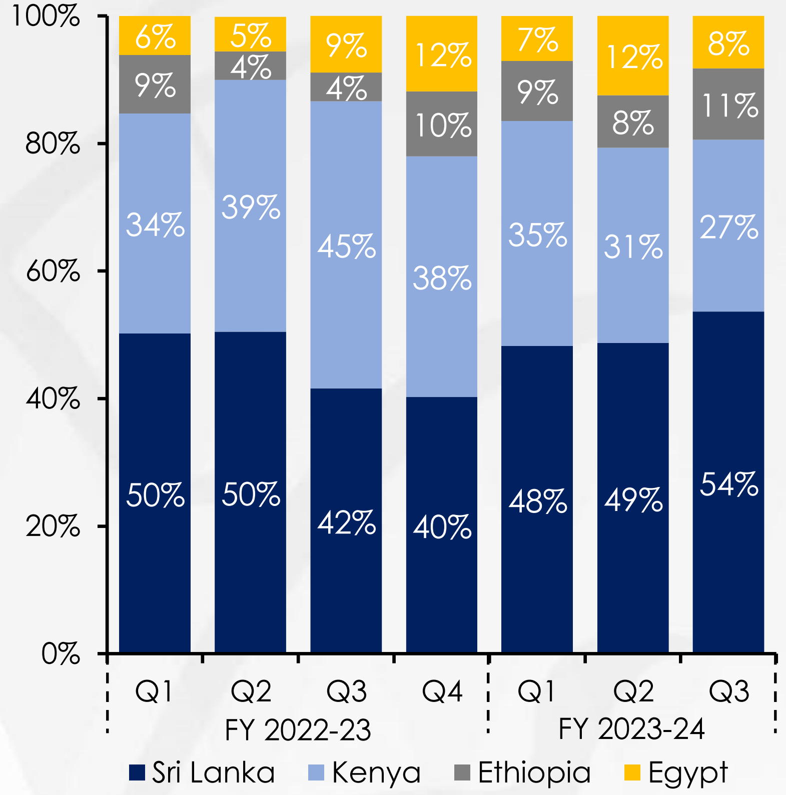
- **Gross Profit margins picked up to the highest level in the current financial year** as previous capacity reduction measure supported capacity utilisation
- **Administration costs reduced by 16.6% y/y**, as a result of the cost management measures undertaken across the Group
- **Distribution costs also declined 72.1% y/y**, as the Group's focus on operational excellence demonstrated results

While the Group continued to record an Operating and Post-Tax loss in Q3, margins improved markedly from the preceding quarter:

- Operating profit margins improved by 580bp compared to the previous quarter, while the post-tax margin improved by 220bp

Revenue by Country of Manufacture

Q1 FY 23 – Q3 FY24 (% of Group Revenue)

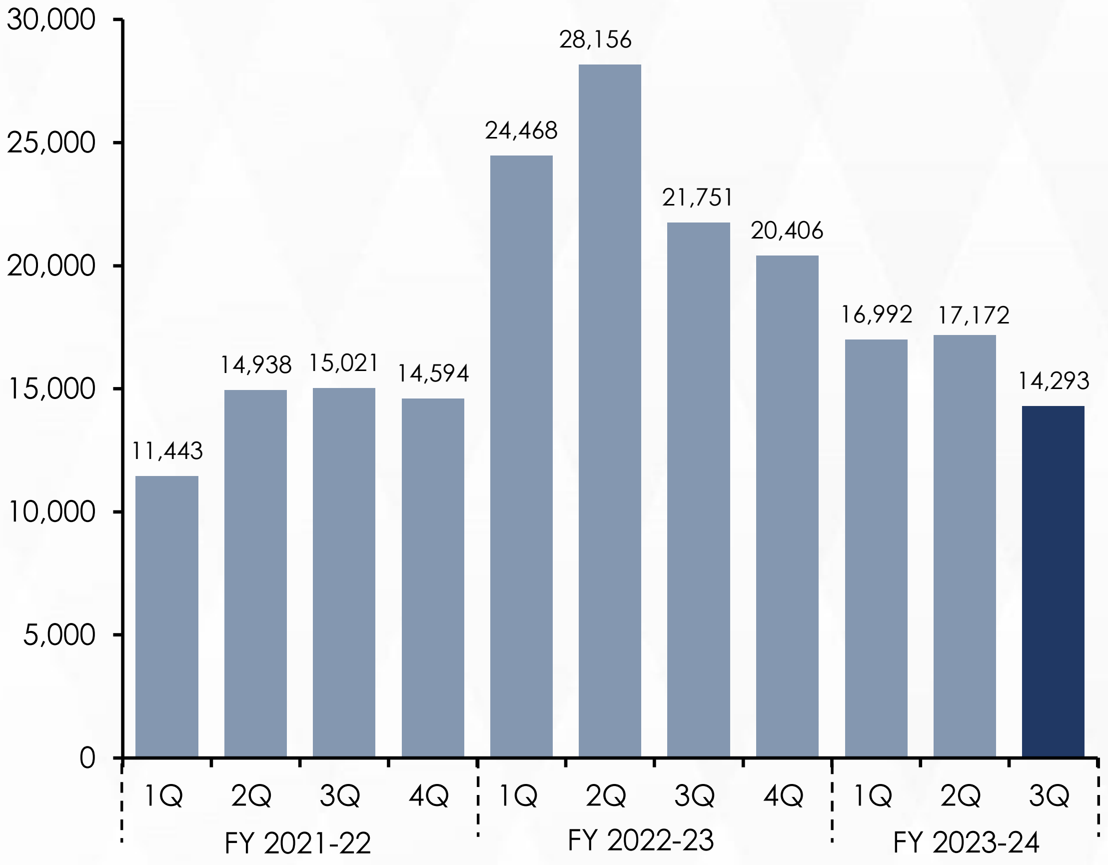


Note: The figures included in the chart above are based on management accounts and are not comparable to the segmental breakdown provided in the financial statements

Q3 FY 2023/24 | **PERFORMANCE UPDATE**

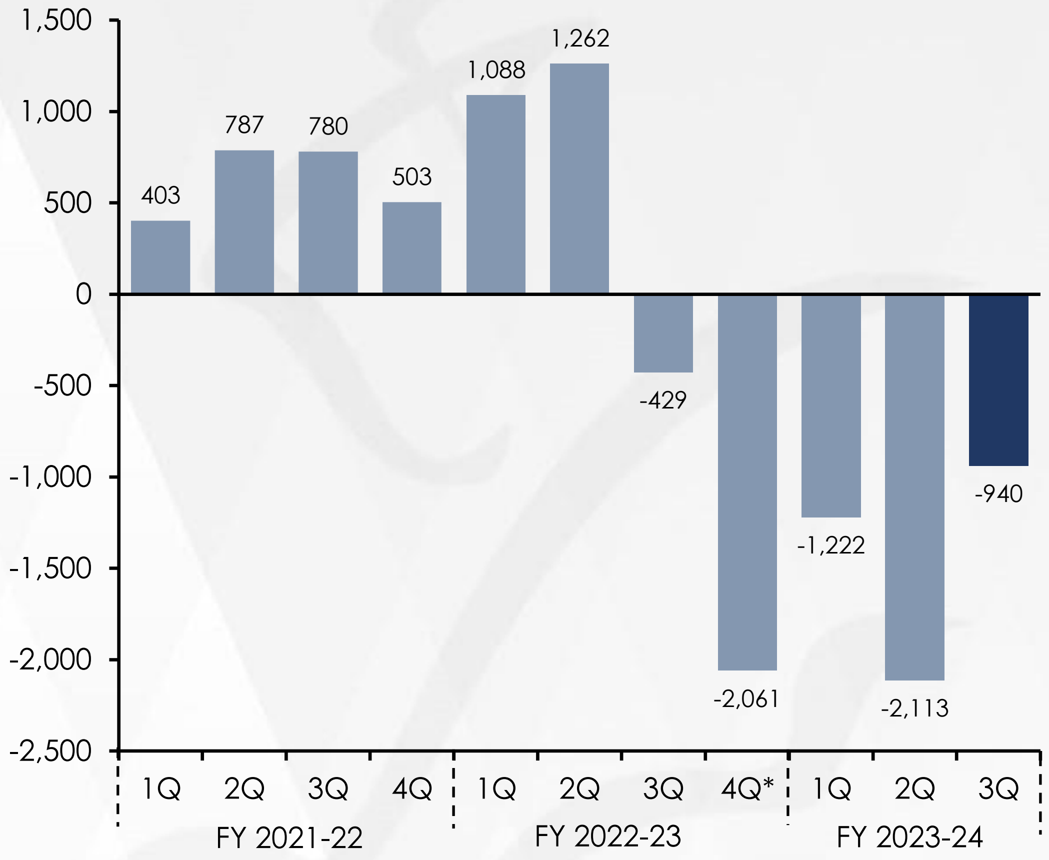
Group Revenue (Rs. Mn)

Q1 FY 22 – Q3 FY 24



Operating Profit (Rs. Mn)

Q1 FY 22 – Q3 FY 24



Note: The LKR/USD exchange rate in Q3 FY 23/24 averaged 10% lower than in Q3 FY 22/23; and 0.8% higher than in Q2 FY 23/24

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

Q3 FY 2023/24 | **CAPACITY UPDATE**

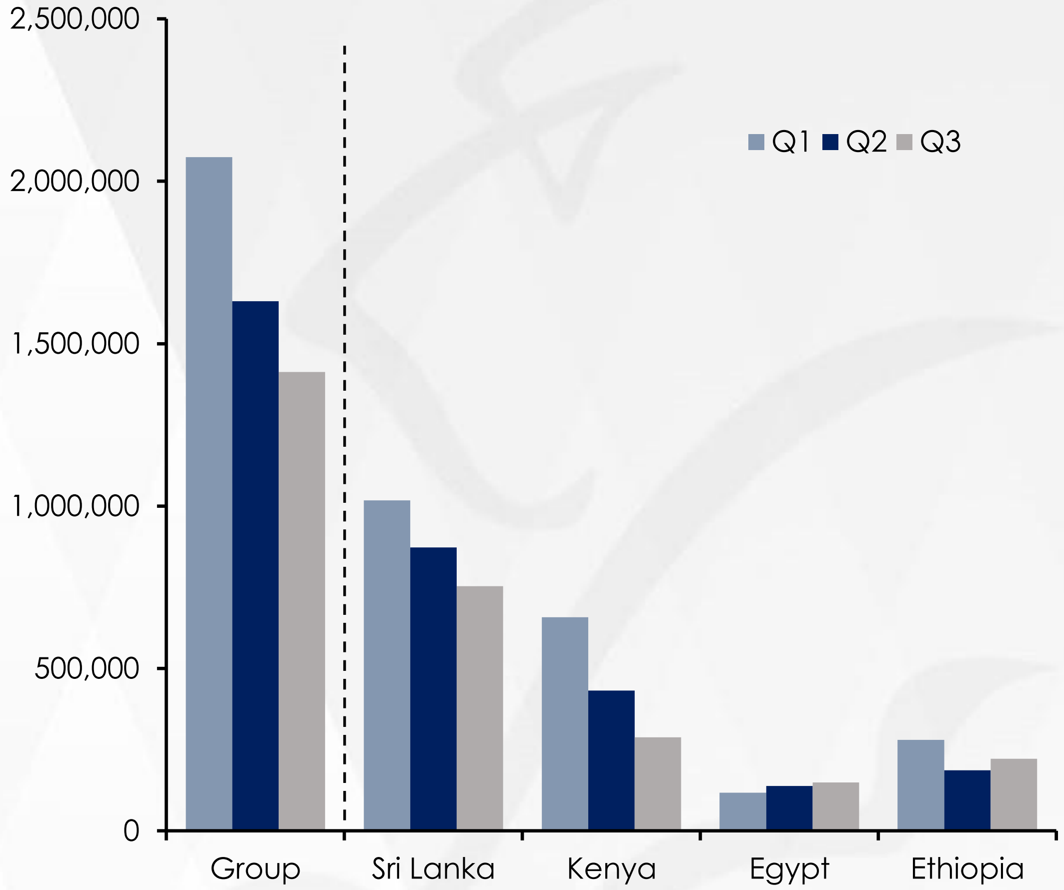
Approximately 13% quarter-on-quarter decrease in standard hour output in Q2 (-30% y/y), driven by declines in Sri Lanka and Kenya

Capacity has also reduced by approximately 30% y/y as results of the capacity rationalization step undertaken – specifically recruitment freezes and the downsizing of the Kenya facility in September 2023

As a result, capacity utilisation rates remained relatively stable (~80%) during the third quarter, compared to Q2, despite the further drop in revenue

Sold Standard Hours by Country of Manufacture

Q1 FY 24 – Q3 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.

Q3 FY 2023/24 | DISTRIBUTION & ADMIN EXPENSES

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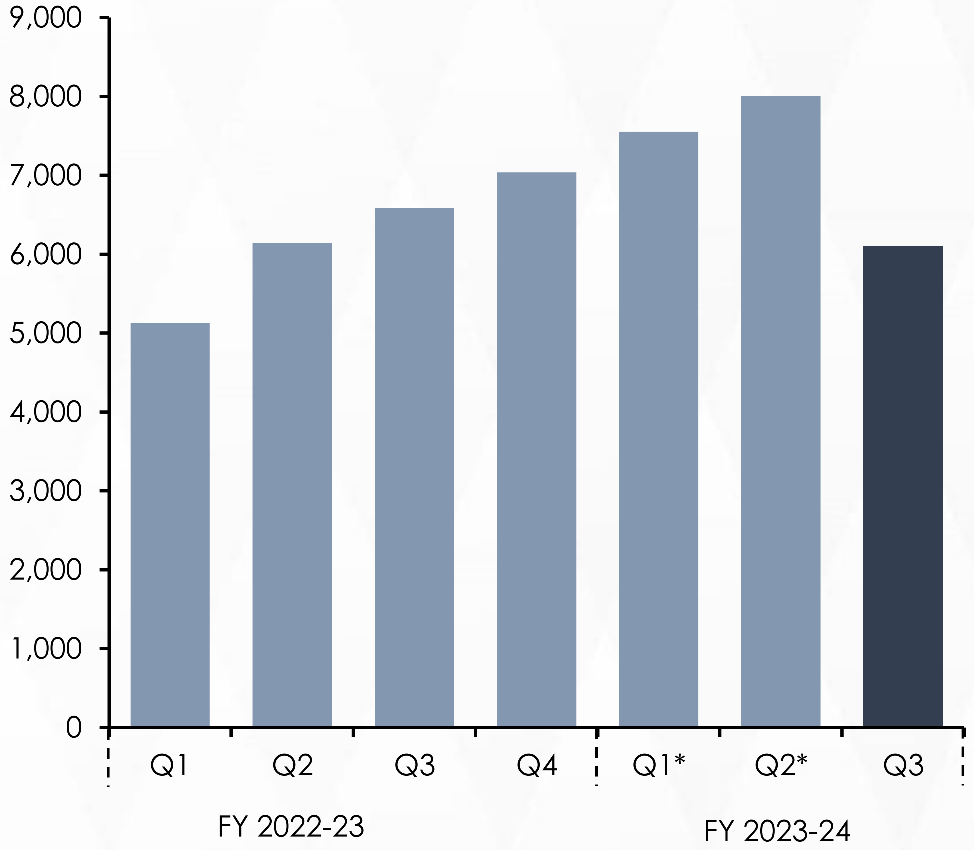
Group Administrative Expenses (USD Thousand)

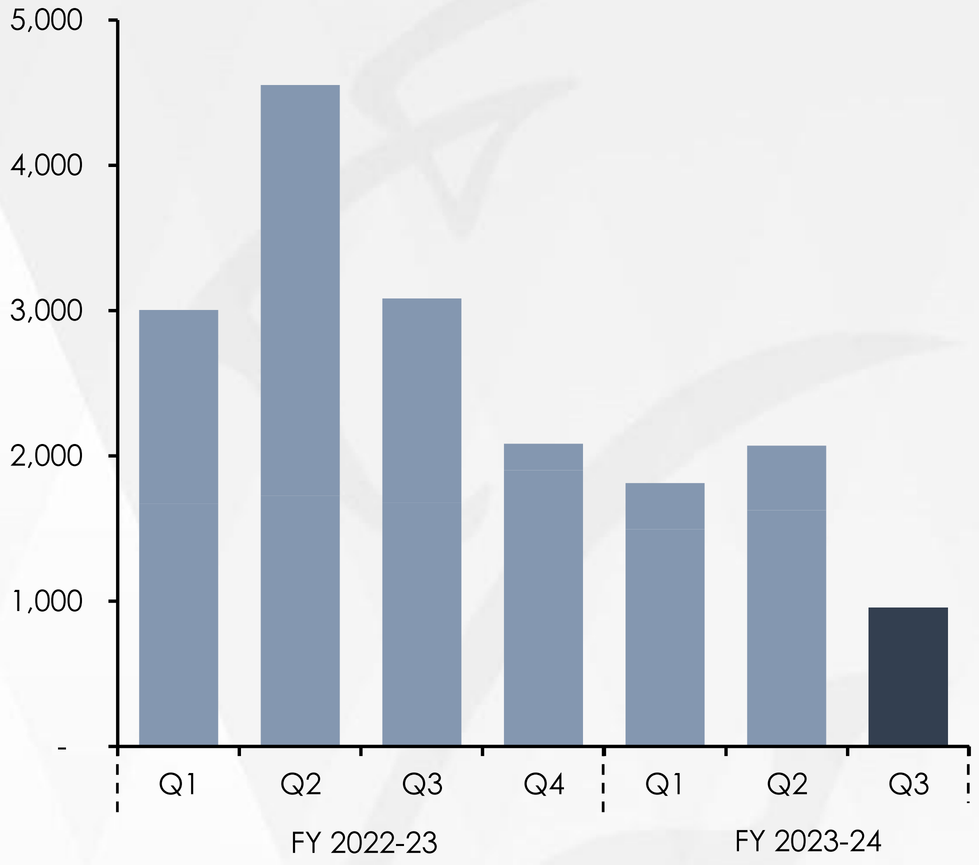
Q1 FY 23 – Q3 FY 24



Marked drop in administrative expenses despite LKR appreciation, due to cost control measures

Group Distribution Expenses (USD Thousand)

Q1 FY 23 – Q3 FY 24



Reduction in unplanned air freight expenses has underpinned decline in distribution costs

Administrative expenses have been normalised to adjust for certain classification change impacts (primarily in Q1 & Q2 of FY24), to ensure a like-for-like comparison across all quarters.

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OUTLOOK

OUTLOOK | **OVERVIEW**

180°

FOCUS BRANDS

Current order book suggests a Q/Q pickup in revenue in Q4, though the timing of a sustained recovery remains uncertain

Further improvement in performance expected in Q4; driven by the continued implementation of Project 180°

Positive impact from acquisition of 100% of Focus Brands in Q4, supporting revenue, profitability and balance sheet strength

KEY EXTERNAL RISK FACTORS

Disruption to shipping via Red Sea has further complicated outlook and contributed to significant increase in global shipping rates

Path for interest rates in major economies uncertain due to mixed inflation data; expectations of rapid rate cuts have reduced

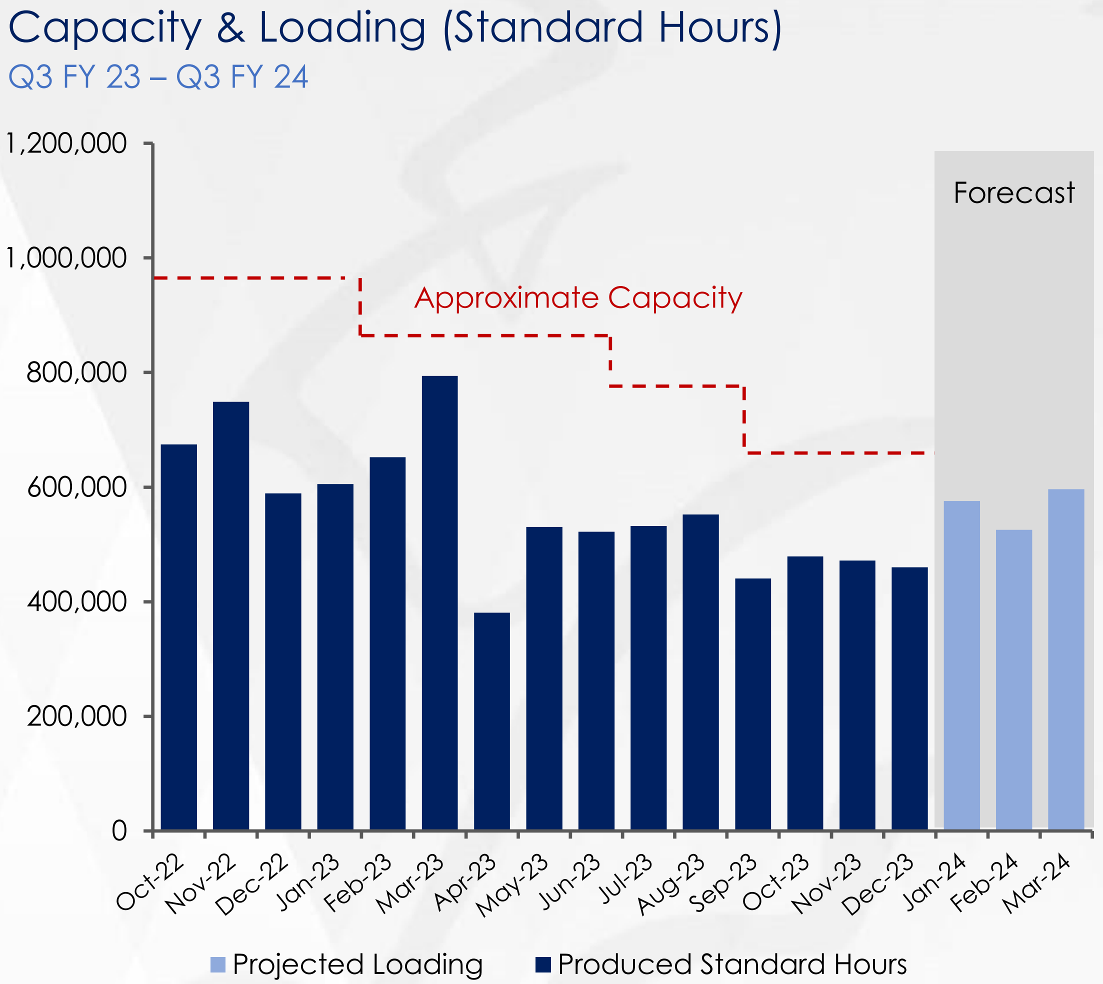
Consumer demand conditions in major economies remain challenging; UK has entered technical recession

OUTLOOK | **DEMAND VISIBILITY**

Current orderbook suggest approx. 20% q/q increase in loading in Q4 (timing of revenue recognition may differ)

This would still reflect an approximately 15% y/y reduction in produced hours, but this is partly offset by the capacity reduction measures undertaken

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



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 and manufacturing performance.

PROJECT 180° | **RECAP**

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

(iv) 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-Jan (%)
Kenya Downsize – Transition from Double to Single Shift	3.3	96%
Manufacturing Cost Optimisation	1.9	62%
SG&A Cost Optimisation	3.0	93%
Total	**8.2**	**90%**

**Note: Target savings is calculated as the expected saving during the period between August 2023 and March 2024; constituting approximately two thirds of FY 2023/24*

PROJECT 180° | INCOMPARABLE PRODUCT & SERVICES

MARKET DIVERSIFICATION

women'secret

Spanish intimatewear brand with strategic interest in African sourcing

First Delivery – Q4 FY 2023/24

NEW STRATEGIC RELATIONSHIPS

PAIR OF THIEVES

Fast-growing men's underwear brand focused on the US market

First Delivery – Q1 FY 2024/25

RELATIONSHIP DEEPENING

NIKE

First order for Nike Jordan men's underwear, adding a new product line

Delivery – Q2 FY 2024/25

PROJECT 180° | STRATEGIC INVESTMENTS

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FOCUS BRANDS

Hela has acquired 100% of Focus Brands Limited – major UK-based apparel brand licensing house

Transaction was completed on 24th January 2023, for a total purchase consideration of GBP 8,000,000, via wholly-owned subsidiary Hela Brands Limited

Focus Brands will form the basis of Hela's new 'Brand License Division', operating independently of the existing business (while seeking to also build synergies)

FINANCIAL CONSOLIDATION IMPACT

- Focus Brands will be fully consolidated into the Group account as of the acquisition date. As such, it will be captured in the Q4 accounts.
- Expected to have a positive impact on revenue, profitability, and key balance sheet metrics (no debt is currently carried by Focus Brands)
- A one-off valuation gain on the acquisition is also expected to be recorded in Q4, further supporting profitability & the balance sheet

FOCUS BRANDS – AT A GLANCE

$100m Approx. USD revenue for 12 months ended 31st Dec. 2023

220 Employees across all locations

11 Licensed & Owned Apparel Brands

8 Global Offices and Showrooms

3 UK & European Distribution Centres

PROJECT 180° | **POST-ACQUISITION OPPORTUNTIES**

CROSS SELLING OPPORTUNITIES

Positive interest from Hela's existing customer network to engage with the Focus Brands portfolio, opening new avenues for growth

POTENTIAL NEW BRAND LICENSES

New brand licenses under exploration via extensive licensor network, to strengthen the Focus Brands portfolio

SOCIAL CAPITAL UPDATE

SOCIAL CAPITAL | **COMMUNITY EMPOWERMENT**

HELA DIRILIYA

- Diriliya is **950+ entrepreneurs** and potential entrepreneurs strong
- Three Dirliya members have opened their **own establishments**
- Diriliya members showcased their products at several external marketplaces, including **Colombo City Center, Galle Face Hotel and Urban Island.**

HELA DIRIDARUWO

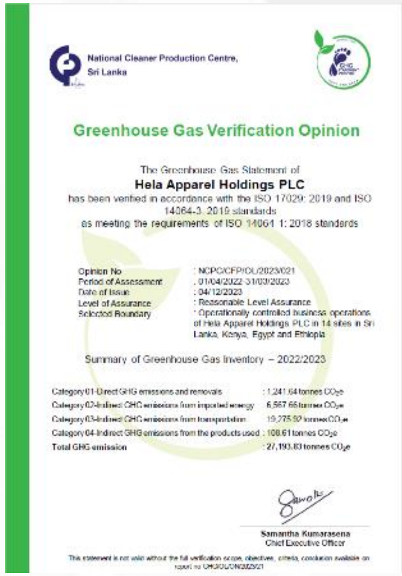
- Extended opportunities for Diridaruwo scholars to visit the **EDEX EXPO Exhibition 2024** at SLECC & KCC.
- Created 25 internal and external **employment opportunities for Diridaruwo scholars**
- **Career counselling sessions** conducted in 4 manufacturing facilities for scholars

P.A.C.E. PROGRAM & RISE PROGRAM

- **4,126 employees** completed the P.A.C.E. program in **9 factories** across **3 countries.**
- **P.A.C.E.** Program is evolving to **RISE – Reimagining Industry to Support Equality** from January 2024 onwards.
- **Two Hela employees have certified as Training Specialists** in January 2024 through the RISE program.

SOCIAL CAPITAL | **ENVIRONMENTAL STEWARDSHIP**

ISO 14064-1 : 2018 certified for the 3rd time - GHG Quantification & Reporting


National Cleaner Production Centre, Sri Lanka

Greenhouse Gas Verification Opinion

The Greenhouse Gas Statement of
Hela Apparel Holdings PLC
has been verified in accordance with the ISO 17029: 2019 and ISO 14064-3: 2019 standards
as meeting the requirements of ISO 14061 1: 2018 standards

Summary of Greenhouse Gas Inventory – 2022/2023

Samantha Kumarasena
Chief Executive Officer

ISO 14001:2015 – Environmental Management System certified for Hela Mawathagama Facility

2nd **Communication on Progress submission has been** published, showing continued support for the 10 principles of UNGC

Completed Programmes:

- UN SDG Ambition
- Climate Ambition
- Business & Human Rights Accelerator

Conducted Internal Training for Sourcing teams – **Road map to Zero discharge of Hazardous Chemicals**

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.

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THANK YOU