



Xtep International Holdings Limited

Incorporated in the Cayman Islands with Limited Liability (HKSE Stock Code: 1368)

Xtep Announces Remarkable 2019 Interim Results Revenue and Profit Attributable to Ordinary Equity Holders Continued to Achieve Double-Digit Growth

Launch of Multi-Brand Business Model Marks New Milestone

Financial Highlights

- Revenue increased by 23% year-on-year to RMB3,357 million, thanks to product enhancement by the Group and the strong growth momentum of sportswear market in Mainland China
- Operating profit increased by 21% to RMB717 million, with operating profit margin at 21.4%
- Profit attributable to ordinary equity holders was up by 23% year-on-year to RMB463 million
- Balance sheet remained healthy, with net cash and cash equivalents of RMB3,618 million, net cash inflow generated from operating activities on sustainable climb to RMB422 million (1H2018: RMB225 million)
- Declared interim dividend of HK12.5 cents per Share (1H2018: HK10.5 cents), equivalent to a 59.3% payout ratio

Operational Highlights

- A total of 6,312 Xtep branded stores in Mainland China and overseas were in operation as at 30 June 2019, representing 82 net openings in 1H2019
- Satisfactory low-teens same store sales growth was recorded in 1H2019
- In 2019, the Group kicked off its multi-brand business model via collaboration with Wolverine Group and the acquisition of K-Swiss Holdings Inc., adding world-recognized brands including Saucony, Merrell, K-Swiss and Palladium into its brand portfolio, marking the advent of a new era of growth
- Appointed Jeremy Lin, a famous Asian professional basketball star to be Xtep's spokesperson and build new basketball business

21 August 2019, Hong Kong – Leading PRC-based professional sportswear enterprise **Xtep International Holdings Limited** (the “Company”, together with its subsidiaries, the “Group”) (Stock code: 1368.HK) today announced its unaudited interim results for the six months ended 30 June 2019 (“1H2019” or “the Period”).

Following its successful three-year strategic transformation, the Group continued to achieve remarkable financial performance in 1H2019. Revenue increased by 23.0% to RMB3,356.9 million (1H2018: RMB2,729.0 million) on the back of product enhancement and the strong growth momentum of the sportswear market in Mainland China. Gross profit margin lifted to 44.6% (1H2018: 43.7%). Profit attributable to ordinary equity holders of the Company grew 23.4% to RMB463.0 million (1H2018: RMB375.2 million). Basic earnings per Share amounted to RMB20.2 cents (1H2018: RMB17.3 cents).

The Board has declared an interim dividend of HK12.5 cents per Share (1H2018: HK10.5 cents), which is equivalent to a payout ratio of 59.3% (1H2018: 54.5%).

Mr. Ding Shui Po, Chairman and Chief Executive Officer of Xtep International Holdings Limited, said, “2019 is an evolving year to us as the kick-off of multi-brand portfolio signifies another milestone of Xtep. The vibrant results we achieved in 1H2019 amid US-China trade tensions and macroeconomic uncertainties proved that our strategies and business model have been effective. On top of fulfilling our mission of becoming ‘Chinese runners’ favorite brand’, with the addition of complimentary new brands that target various market segments and cater for athleisure demands, Xtep will keep striving to grow into a global sportswear player who prides a multi-brand portfolio backed by a solid foundation.”

“Furthermore, we are very excited to have the world famous professional basketball star Jeremy Lin to be our spokesperson. We believe, leveraging his reputation, the new products we are going to launch will be well-received by the public. Looking forward, we will remain focused on product innovation and enhancing store efficiency to drive organic growth. At the same time, we will keep expanding our business footprint in Greater China and overseas, as well as in different market segments and various sports types to seize new opportunities for sustaining growth of our business.”

Business Review

Embark on Multi-brand Operations

Following its successful three-year strategic transformation, the Group started embarking on a new strategic plan to adopt multi-brand operations in 1H2019, aiming to build a diversified product portfolio so as to expand its customer base to include enthusiasts of a wider variety of sports. In March 2019, the Group announced the collaboration with the Wolverine Group to start the development, marketing and distribution of Saucony and Merrell brands footwear, apparel and accessories in Mainland China, Hong Kong and Macau. Saucony perfectly demonstrates the synergies in R&D and marketing as well as harnesses Xtep’s sales network to address to a new group of more sophisticated customers, whereas Merrell will further enrich its product offerings to unleash the potential from outdoor market in Mainland China. The two top-line brands complement the Group’s brand portfolio and will enable the Group to tap the upper market segment. With well-planned branding efforts, Xtep’s retail network and supply chain operations providing crucial support, the first standalone store of Saucony and Merrell are expected to open in the first half and second half of 2020, respectively. Saucony sales on e-commerce channel, however, have already commenced in July 2019.

Capturing the thriving athleisure trend and the growingly popular retro sportswear trend, the Group announced the acquisition of K-Swiss Holdings Inc. in May 2019, bringing into the Xtep family two internationally acclaimed heritage sportswear and lifestyle brands (previously known as E-Land Footwear USA Holdings Inc.) - K-Swiss and Palladium. K-Swiss as an athleisure brand, together with Palladium, one of the best-known global boot brands, allow the Group to target customers in different segment. After the acquisition, K-Swiss and Palladium will undergo a seamless integration with Xtep to maximize operational efficiency and will shift its business focus to Asia-Pacific Region via brand re-positioning and new product designs. Apart from availing its existing resources, Xtep will also foster product innovations especially in apparel design and craftsmanship for the brands to boost their product offerings in the future, while focusing on expanding its own business in the Mainland China market.

Innovating Retail Concepts to Boost Xtep Store Productivity and Customer Experience

As at 30 June 2019, the Group had in operation a total of 6,312 Xtep branded stores in Mainland China and overseas markets, with 82 net openings in the first half of 2019. In Mainland China, the Group continued to penetrate tier II and III cities, with majority of the new store openings located in shopping malls tapping the growing popularity among consumers, which in turn translated into increasing customer traffic. Among the total store count, 80% of them were in new international-style format with tailored design to display full set sportswear collections and boost cross-selling opportunities. Furthermore, the Group continued to expand its footprint to cover the overseas markets including South Asia, Southeast Asia and Middle East through the network of local business partners.

As at 30 June 2019, Xtep had a total of seven Run Clubs that provide runners with one-stop professional service from member events and facilities to other running-related services, and approximately 15,000 runners had taken part in over 400 sports events organized by Xtep. New customer-centric initiatives and features have been gradually implemented in Xtep's Run Clubs and flagship stores, aiming to strengthen customer experience and enable customers to enjoy the convenience of an omni-channel retail environment. Armed with data-driven insight, the Group will continue to carry out detailed analysis of the ever-changing retail landscape together with Alibaba Group and other business partners, to help it make better decisions and strategic moves.

Reinforcing E-commerce and O2O Business

The Group's e-commerce business is on a strong uptrend with a stable year-on-year growth in 1H2019, contributing over 20% of the Group's revenue. With strong brand positioning and a diversified product portfolio, Xtep was once again the top sales products by volume in running footwear on Tmall during the Period. The vast majority of the online inventory was exclusive lifestyle sportswear on the e-commerce platform, which accounted for 60% of the total product of online sales.

As one of the first sportswear brands in Mainland China to initiate O2O with exclusive distributors, the Group fully rolled out the O2O system covering all exclusive distributors in the first half of 2019. More offline products would be gradually available online to maximize profitability and the synergies in branding and promotions of Xtep and its distributors, thereby maintaining the channel inventory turnover at a healthy level.

Uphold the Mission to Become "Chinese Runners' Favorite Brand"

Striving to become "Chinese runners' favorite brand", the Group remained as the sportswear sponsor of the most marathons in Mainland China for the fifth consecutive year, with a total of 21 major marathons and running events drawing over 340,000 participants in 1H2019. The Group continued to be the official partner recognized by the Chinese Athletic Association for "Run China", as well as the title sponsor of "Xtep Penguin Run" hosted by Tencent Sports. Aiming to create an ecosystem around the Xtep brand for runners, the Group has seven Run Clubs set up across China with a total of over 200,000 members as at 30 June 2019.

To reach out to energetic and trendy athletes as well as to increase brand awareness among young consumers, the Group continues to engage in entertainment marketing. Xtep appointed sports celebrities and renowned marathon runners as brand KOLs to solidify the association between the brand and professional athletes. In August 2019, the Group invited Jeremy Lin, a famous Asian professional basketball player, to be its brand spokesperson to promote Xtep's products and to engage in new basketball business, thus helping us maximize brand exposure and grasp more sales opportunities. Furthermore, Xtep became the official designated apparel sponsor of "Street Dance of China" Season 2, giving it a leverage to attract the new generation and emphasize its "Street" lifestyle products. Xtep was also the designated footwear and apparel sponsor for another highly sought-after Chinese talent show "The Coming One" launched by Tencent Video this summer. With the program attracting approximately 3 billion views each episode, it was an effective platform for the Group to attract and retain young customers.

Business Outlook and Strategies

The Group has been evolving in 2019 with the kick-off of its multi-brand business model. Xtep delivered remarkable results in the first half of 2019 with strong competence and on a solid foundation amid China-US trade tensions, thanks to the robust growth of the sportswear market in Mainland China attributable to supportive government policies and growing public enthusiasm towards participatory athletic events.

To achieve sustainable growth in 2020 and beyond, Xtep injected two new impetus through the collaboration with Wolverine Group and the acquisition of K-Swiss Holdings Inc.. These corporate actions are expected to bring strong synergies to the current business of the Group in terms of branding, customer base, product portfolio and operational efficiency. The multi-brand strategy allows the Group to access new customer segments and reinforce Xtep's image as a global multi-brand sportswear player, and will ultimately take the Group into the next stage of development, opening it to a new era of growth.

To strive for organic growth, the Group will forge ahead with enhancing product designs and production technology to exhilarate increasingly sophisticated consumers, as well as revamping and expanding existing stores to maximize store productivity and enhance customer experience. Taking advantage of the fitness boom in Mainland China, the Group will further increase penetration into tier II and III cities to capture the rapidly growing demand for professional sportswear. In addition to strengthening its market leadership in home market, the Group will continue its overseas expansion to capitalize the business potential of other markets.

Looking forward, the Group will strive to maintain our growth momentum and further solidify our foundation by reinforcing our competitiveness in new business areas. In the light of the current macro uncertainties and high base effect from the first half of 2018, we are cautiously optimistic about the business outlook in the remainder of 2019. However, we remain confident in the long-term prospects of Xtep and the sportswear market in Mainland China, given we are well placed to capitalize the opportunities arising from the fitness boom and the trend of healthier lifestyle of the Chinese people. The Group is excited to embrace the next stage of development for a new era of growth in Xtep's history.

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About Xtep International Holdings Limited

Xtep International Holdings Limited (SEHK stock code: 1368) is a leading multi-brand sportswear company listed on the Main Board of the Hong Kong Stock Exchange on 3 June 2008. The Group engages mainly in the design, development, manufacturing, sales, marketing and brand management of sports products, including footwear, apparel and accessories. Established since 2001, its own signature brand "Xtep" is a leading professional sports brand with an extensive distribution network of over 6,300 stores covering 31 provinces, autonomous regions and municipalities across the PRC and overseas. In 2019, the Group has further diversified its brand portfolio which now includes four internationally acclaimed brands, namely K-Swiss, Palladium, Saucony and Merrell.

Xtep is a constituent of the MSCI China Small Cap Index, Hang Seng Composite Index Series and Shenzhen-Hong Kong Stock Connect. For more information, please visit Xtep's corporate website: www.xtep.com.hk or scan the Group's Wechat QR code below (or search by: xtepholdings or 特步控股).



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Appendix



Xtep International Holdings Limited

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2019 Interim Results Highlights

(For the Six Months Ended 30 June)

Financial Highlights (For the Six Months Ended 30 June)			
	2019	2018	Change
Profitability Data (RMB million)			
Revenue	3,356.9	2,729.0	+23.0%
Gross Profit	1,497.3	1,193.1	+25.5%
Operating Profit	717.3	592.0	+21.1%
Profit Attributable to Ordinary Equity Holders	463.0	375.2	+23.4%
Basic Earnings per Share (RMB cents)	20.2	17.3	+16.8%
Profitability Ratios (%)			
Gross Profit Margin	44.6	43.7	+0.9 p.p.
Operating Profit Margin	21.4	21.7	-0.3 p.p.
Net Profit Margin	13.8	13.7	+0.1 p.p.
Dividend Payout Ratio	59.3	54.5	n/a
As at 30 June 2019 vs As at 31 December 2018			
	As at 30 June 2019	As at 31 December 2018	Change
Net cash and cash equivalents	3,618.0	2,437.6	+48.4%
Gearing Ratio (%)	16.7	21.1	n/a

Operational Highlights (For the Six Months Ended 30 June)			
Group Revenue & Gross Profit Margin Breakdown By Product Category			
	2019	2018	Change
Footwear			
Revenue (RMB million)	1,911.9	1,769.2	+8.1%
Gross Profit Margin (%)	44.8	44.8	-
Apparel			
Revenue (RMB million)	1,356.0	901.7	+50.4%
Gross Profit Margin (%)	44.7	42.0	+2.7 p.p.
Accessories			
Revenue (RMB million)	89.0	58.1	+53.2%
Gross Profit Margin (%)	37.9	37.0	+0.9 p.p.